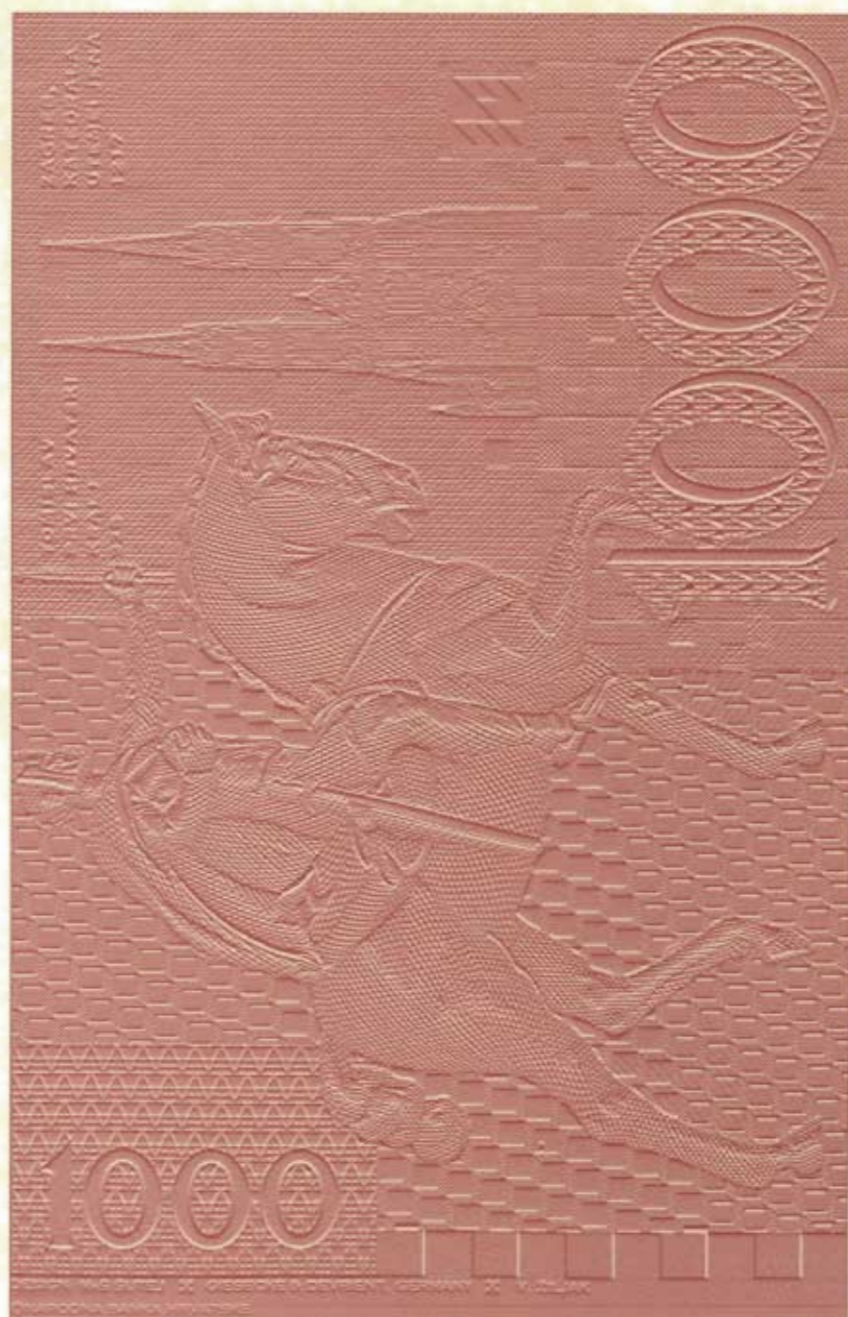


NATIONAL BANK OF CROATIA



BULLETIN

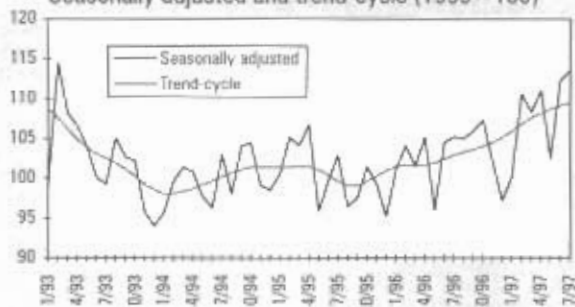
YEAR II
No. 18/19

SEPTEMBER 1997

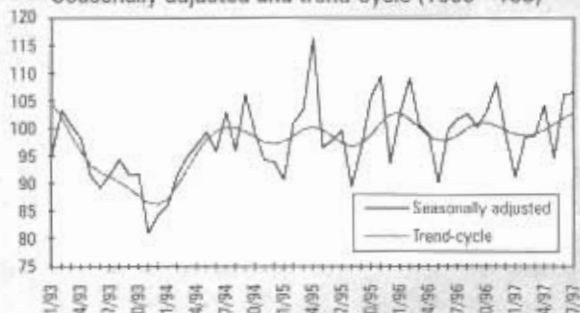
INDUSTRY

Industrial production, which has grown each month this year, grew especially rapidly in the second quarter. By the end of July, production was up by 5.2% for the year. Compared to the same month last year, industrial production was up some 8.4% in June, and 8.0% in July. The trend-cycle has had a positive slope for the last sixteen months, and is now 4.2% higher than it was at the end of last year. When seasonal influences are separated out, the rate of growth this year has been 2.4% per month. If industrial activity continued to grow at the rate of the original series, growth of 6.8% would be achieved by the end of the year. And if it grew at the rate of the seasonally-adjusted series, growth would be 10.8%. The original data show that the growth of total output was the result of growth in the supply of electricity, natural gas and water of 23.0%, growth of processing industries of 2.0%, and growth of mining and extraction of 1.1%. The processing industries continue to draw interest. Their production level reached last year's as early as May, and has now registered growth of 2.0%. Better results were prevented by developments in the chemical industry, which lags 10% behind last year's output levels, the tobacco industry, affected by ever-more visible anti-smoking campaigns, the production of clothes and leather goods, which are not competitive on the market, coal and oil derivatives, which have fallen 23.1%, other non-metal mineral products and precision instruments. The most important sector of processing industry, food and drink, is recovering and is reaching last year's output levels. The saturation of the domestic market is forcing these producers to look to export markets. At this moment, the most important market is Bosnia-Herzegovina, where the bulk of total exports and

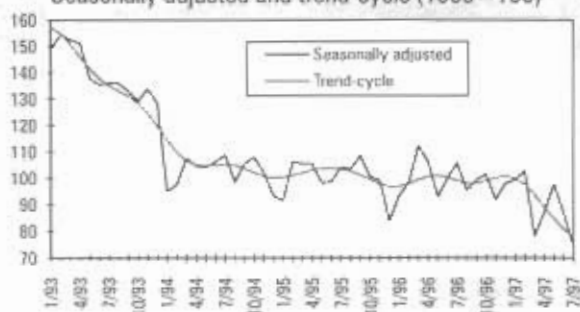
INDEX OF PRODUCTION VOLUME IN INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)



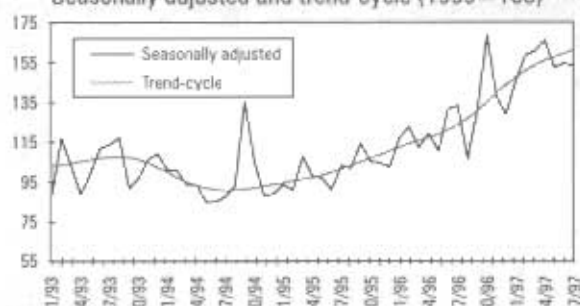
MANUFACTURE OF FOOD PRODUCTS AND BEVERAGES
Seasonally adjusted and trend-cycle (1995 = 100)



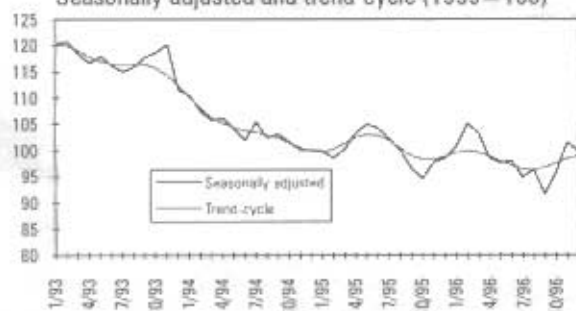
MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS
Seasonally adjusted and trend-cycle (1995 = 100)



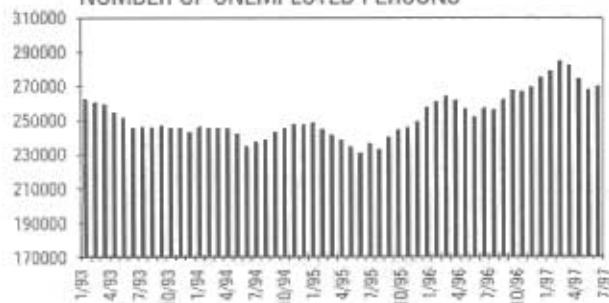
**ELECTRICITY, GAS,
STEAM AND HOT WATER SUPPLY**
Seasonally adjusted and trend-cycle (1995=100)



STOCKS OF FINAL PRODUCTS IN INDUSTRY
Seasonally adjusted and trend-cycle (1995=100)



NUMBER OF UNEMPLOYED PERSONS



especially exports of consumption goods, end up. Exceptional results have been recorded by the publishing industry (growth of 40.2%), textiles (including fabric and cloth, and not including final products), cellulose and paper products, tires and plastics, metal products, machines, communication equipment, transportation equipment and furniture. The furniture industry has now returned to its usual products after being diverted to military products. Its capacities are now included in total industry, and the first effects of privatization are being seen.

Industry's trade deficit grows from month to month. The data for the first seven months show that exports lag behind the first seven months of last year by 1.1% in dollar terms. The largest decrease is among capital goods industries, 11.4%, while exports of inputs are down by 2.2%, and consumption goods exports have grown by 4.2%.

After three months of decrease, unemployment rose to 270,158 in July. This amounts to 16.6% of the labor force. Among the unemployed, 6.8% of those registered have college education or higher degrees, 71.1% are high-school graduates, and 22.1% did not finish high school. Experts believe that less-qualified workers have a harder time than more qualified workers in finding employment at this time. Unemployment in July was higher than last year's average in twelve counties (the greatest increase was in Koprivnica-Križevci County, 36.1%) and lower in the other eight counties (the biggest reduction was in Istria County, 6.5%). 26,720 registered veterans were unemployed, accounting for 9.9% of the total unemployed.

TRADE

Increased trade and increased personal consumption are usual characteristics of the summer

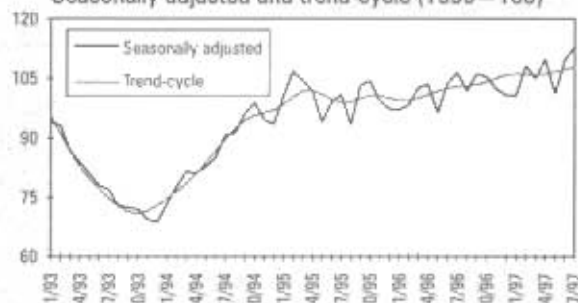
months. Retail turnover in the first seven months increased by 5.2% in real terms. Turnover was 5.9% higher in June, and 7.2% higher in July than in the same month last year. This was the result of the consumption of domestic and foreign tourists. Increased consumption in the period of preparation for the tourist season was partially financed by bonuses. These rates of growth are lower than those published in previous months, because they are based on final data on trade turnover for 1996. In the same period, wholesale trade rose by 10.7% in real terms according to preliminary data

CONSTRUCTION, TRANSPORTATION AND TOURISM

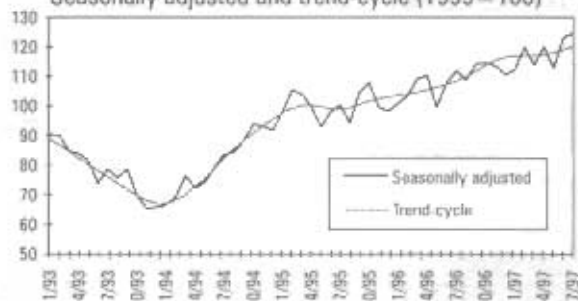
The increase in activity in construction in the first half of this year in comparison to the first half of last year can be seen in the growth of hours worked and in the increase in the value of projects executed. The first indicator grew 15.5% in the first half of the year, and the second indicator grew 40.4%. Bad weather conditions in the summer months will surely prevent better results from being achieved. The information received about gross domestic product indicate growth of 2.4% in 1995 and 28.2% in 1996, resulting in an increase in share of gross domestic product to 3.2%. This strengthening of construction activity has not been correlated with increased production of building materials. It may be assumed that materials are still being provided by sponsors or through imports.

Since data are available through June only, we cannot say what the results of the summer have been in transportation and communications. While transportation of passengers exceeded last year's figures by 3.3%, transportation of goods was 2.3% below that recorded

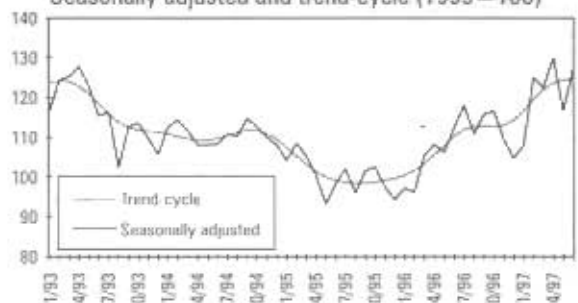
INDEX OF REAL TURNOVER IN RETAIL TRADE
Seasonally adjusted and trend-cycle (1995 = 100)



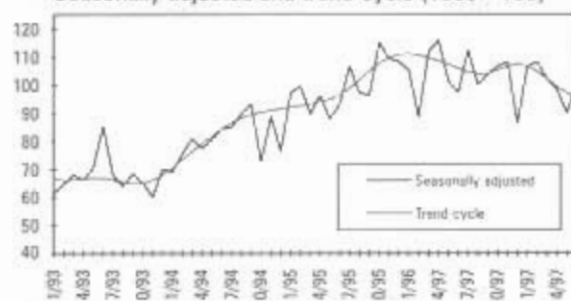
INDEX OF REAL TURNOVER IN WHOLESALE TRADE
Seasonally adjusted and trend-cycle (1995 = 100)



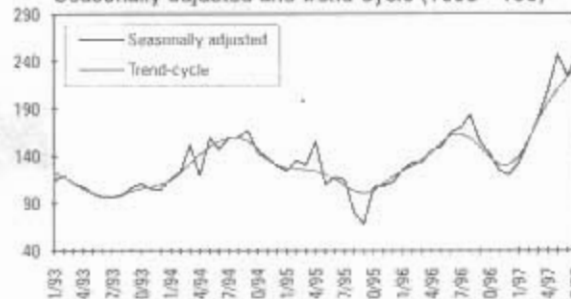
EFFECTIVE WORKING HOURS
IN CONSTRUCTION INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)



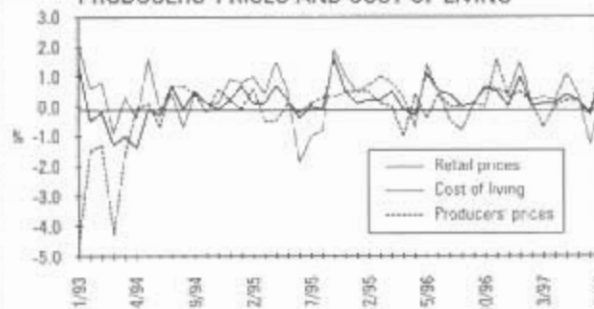
TRANSPORT OF GOODS
Seasonally adjusted and trend-cycle (1995 = 100)



TOURISM - OVERNIGHT STAYS
Seasonally adjusted and trend-cycle (1995 = 100)



**MONTHLY RATES OF CHANGE OF RETAIL PRICES,
PRODUCERS' PRICES AND COST OF LIVING**



in the first half of last year. The greatest number of passengers were transported by road (79%), then railway (16%), and the remainder by other forms of transportation. The largest quantity of goods transported went by sea (62%), followed by railway (18%), pipelines (11%), etc. With the completion of the programs undertaken in road building, air traffic safety, seaport modernization, development of railroads and sea routes, transportation can be expected to increase its output.

Tourism significantly exceeded last year's results in the first six months of this year and in July. The increase in tourist nights in July was 46.4% compared to July of last year, and 42.7% compared to the beginning of this year. Eighty percent of total tourist nights were accounted for by foreigners this year, and 20% by Croatians. Registration of tourist arrivals shows that 34% more tourists arrived in the first seven months of this year than in the same period last year.

PRICES

The mild deflation of 0.3% recorded in July decreased the yearly inflation rate to just 2.7 percent. Seasonal decreases in the prices of food and agricultural products caused the price decrease. For example, the prices of seasonal agricultural products fell by as much as 14.2 percent in July, while prices on seasonal food products fell by 1.5 percent.

The cost of living fell even faster than retail prices in July. They fell by 1.3 percent. The greatest inflation was the fall of food costs (-4%). The remaining elements of the cost of living recorded a mild growth of not more than 0.5%.

Producers' prices also fell in July, recording a decline of 0.2%. The greatest fall was recorded among inputs (-0.6%).

Unfortunately, August saw a new wave of prices increases.

Retail prices rose by 0.8% in relation to July. Due to this, retail price inflation at the annual level rose from 2.7 percent to 3.5 percent. The greatest growth in retail prices came in the service sector, whose prices rose by 1.3 percent, followed by non-food industrial products, whose prices rose 1.2 percent. With this are included energy products, whose prices rose significantly in August. The retail price index would be even higher if there had not been a fall in the prices of seasonal agricultural products by some 7.9 percent.

Further price increases can be expected in the coming period, given the agricultural products will not longer be able to neutralize the growth of other prices to such a great extent.

The cost of living rose in August by 0.2 percent. Within this, the cost of services rose by a high 2 percent.

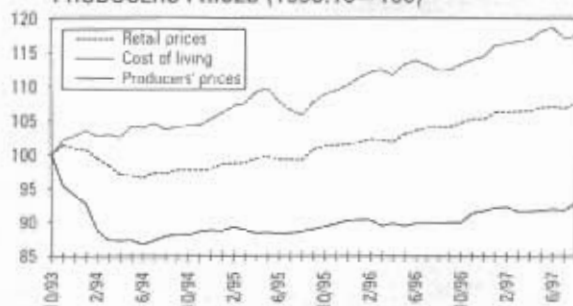
Producers prices rose by 1.2 percent in August. This raised the annual level of producer price inflation from 2 percent in July to 3.4 percent in August. The greatest price increases came among inputs (2.1%). Refined oil products jumped in price by 15.6% in August, and electricity by 3%.

Relative prices in industry were virtually unchanged in the last two months.

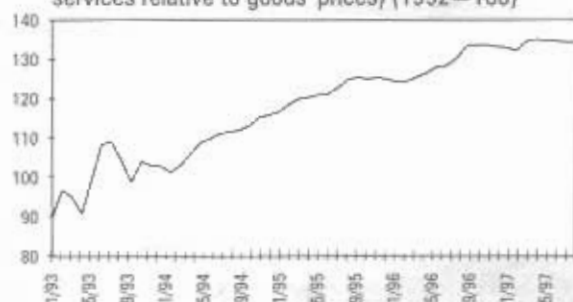
WAGES AND THE EXPENDITURES OF THE GOVERNMENT BUDGET

Wage data for July show the continuation of the growth trend of previous months. Wages were higher than wages in the same month of last year by 16.7% in real terms, and were cumulatively up by 12.7%. They were higher than this year's average by 5.0%. The data are processed according to the unified classification of activities, so they can be broken into the so-called economic and non-economic sectors. In the economic sectors, the

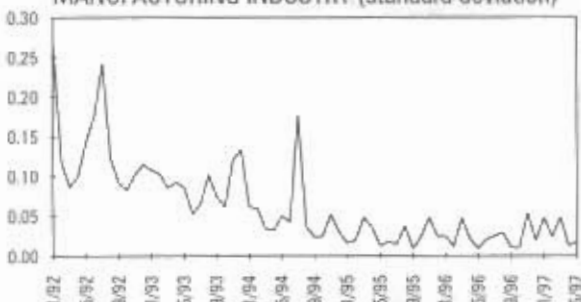
INDEXES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS PRICES (1993:10=100)



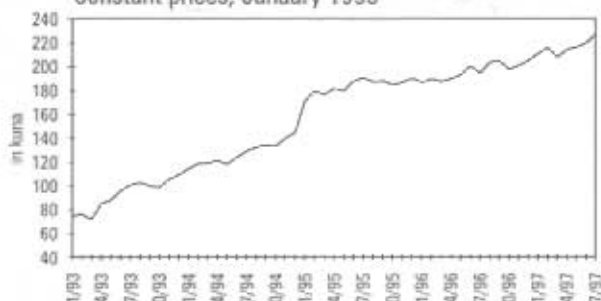
RELATIVE PRICE INDEX FOR NON-TRADABLE GOODS (prices of services relative to goods' prices) (1992=100)



INTER-INDUSTRY RELATIVE PRICE VARIABILITY IN MANUFACTURING INDUSTRY (standard deviation)



REAL AVERAGE NET WAGE
Constant prices, January 1993



REAL AVERAGE GROSS WAGE
Constant prices, January 1993



OUTTURN OF CENTRAL GOVERNMENT BUDGET



interyearly monthly increase was 18.7%, and the cumulative increase was 13.3%. The corresponding numbers for the non-economic sectors were 11.2% and 11.0% respectively.

The realization of the government budget for the first half of the year did not deviate significantly from plan. This was true on both the revenue and expenditure side 46.5% of planned revenue for the year was raised, and 46.4 of planned expenditures were made. The central government deficit amounted to 45.7% of the planned yearly deficit. The policy of planning greater expenditures than income gives an expansive note to fiscal policy. The figures for the first seven months show that the biggest item among expenditures is still purchases of goods and services, which occurs to the detriment of other current and especially capital outlays. Because of this, it is not inappropriate to repeat the need to reduce government expenditures or at least to reapportion them. On the income side, the greatest inflow came from taxes. Within taxes, sales taxes on goods and services were the largest, followed by excise taxes, tariffs, etc. In comparison with last year, expenditures grew in the first seven months by 8.7% in nominal terms, and income by 0.8%.

MONETARY DEVELOPMENTS

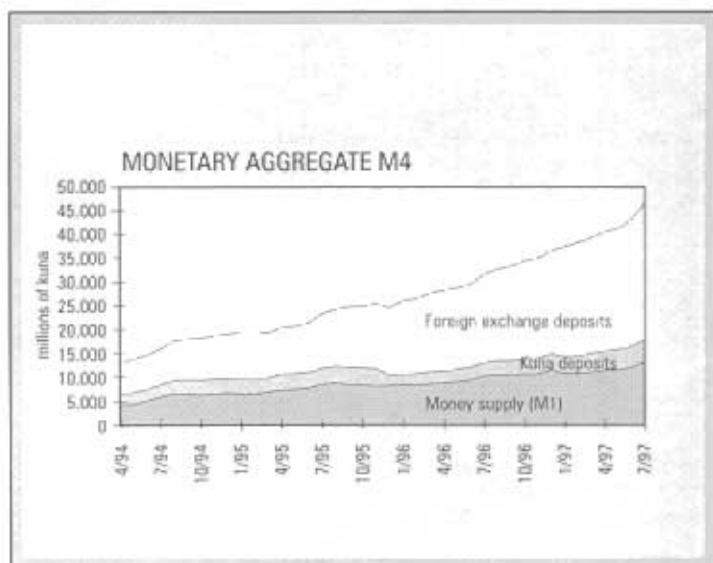
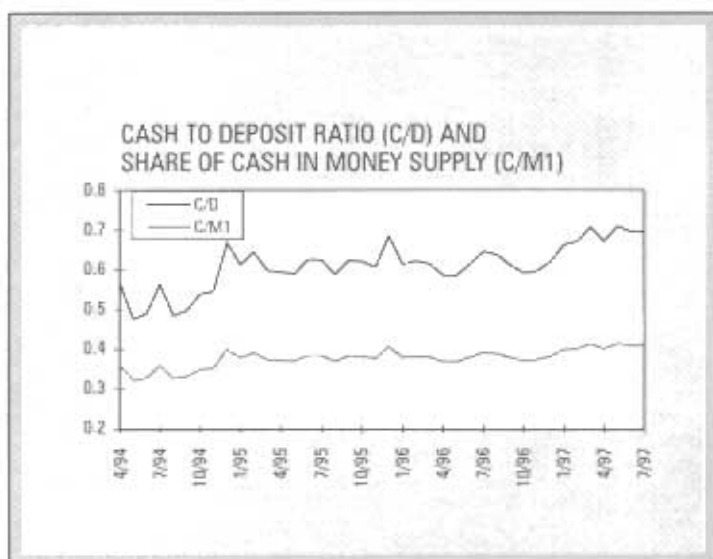
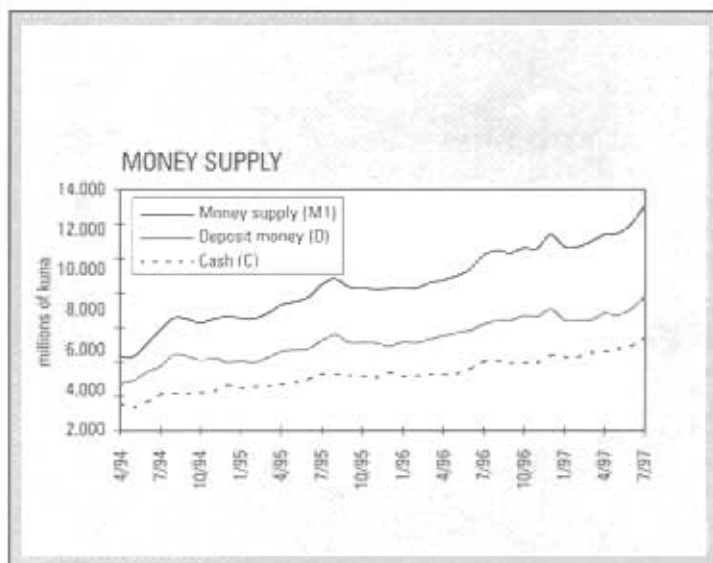
The data on monetary developments in June and July reveal a rapid growth of bank placements and monetary aggregates. This is in accordance with the expectations of the Central Bank. The second characteristic of June and July was the **balance sheet adjustment** by commercial banks. This adjustment is the result of the change in relations between the central government and banks on the basis of the agreement with the London

Club of creditors. The balance-sheet adjustment caused significant changes in the books of monetary institutions that hide underlying monetary developments.

In the summer months, seasonal influence is especially strong. In July, seasonal effects overstate the growth of the money supply by about 8%, and in August by as much as 11%. After stagnating from the beginning of the year through May, the money supply awoke in June, growing 0.5 billion kuna or 4.8%, and grew some 1.1 billion kuna or 9.3% in July. The interyearly monthly growth rate in July was 28.7%, and this index is unchanged from January of this year.

Changes in the structure of the money supply in June and July were different from those in the first five months of the year. At the beginning of the year, currency in circulation grew faster than deposit money, and the share of currency in the money supply increased. In June and July, it was precisely deposit money that "pulled" the money supply into faster growth. In those two months, combined deposits rose by 1 billion kuna (5.5% and 9.3%). In contrast to this, currency in circulation grew by 0.6 billion kuna (3.7% and 9.2%).

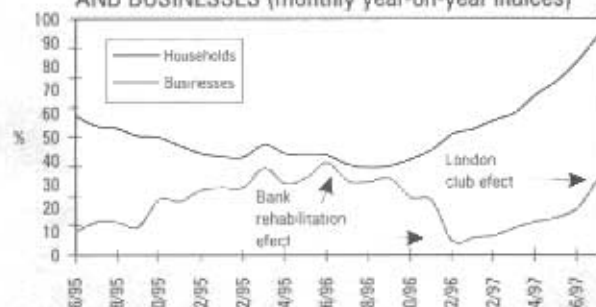
Although in the first half of the year, kuna savings began to catch up to foreign exchange savings, the tourist season in June and July disrupted this trend. Foreign exchange deposits grew by 3.3 billion kuna (4.6% and 8%), and kuna deposits 0.3 billion kuna (3% and 5.2%). 2.2 billion kuna of the increase in foreign exchange deposits was accounted for by households, and 1.5 billion of this were placed in time deposits. The largest part of this increase is the effect of the tourist season and the unfreezing of a part of the principle of the "old" foreign exchange savings, along with the payment of accrued interest, in July.



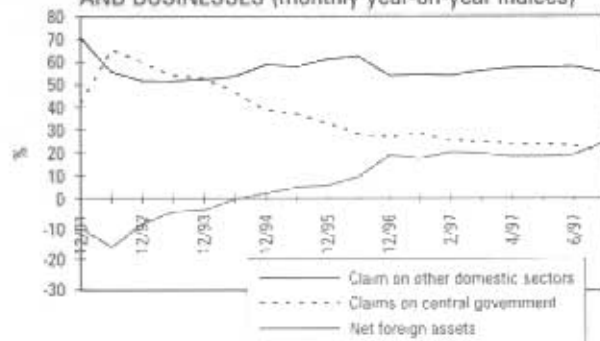
DMB's DOMESTIC CREDITS
Constant prices, January 1992



GROWTH RATES OF LOANS TO HOUSEHOLDS
AND BUSINESSES (monthly year-on-year indices)



GROWTH RATES OF LOANS TO HOUSEHOLDS
AND BUSINESSES (monthly year-on-year indices)



After a pause in May, the growth of placements again intensified in June and July. In June, placements grew 1.6 billion kuna (4.1%), and in July they grew 2.2 billion kuna (5.4%).

Kuna credits to enterprises grew by 1.5 billion kuna in the two months combined, while kuna credits to households grew by 1.2 billion. Although the growth of credits to enterprises was somewhat larger in absolute amount, credits to households made major steps forward, and their share in total placements rose rapidly. Credits to enterprises grew in June and July by 4.5% and 3.7%, while credits to households grew by 6.2% and 7.8%.

Foreign exchange credits, which grew by 1.4 billion kuna or 19.4% in July, show the effects of the balance-sheet readjustment mentioned above.

The Republic of Croatia assumed part of the debt resulting from the New Financial Agreement (NFA) and the Agreement on Trade and Deposit Facility of 1988. Croatian debtors were freed from their obligations to foreign creditors, and the government assumed these obligations. The internal relations between the Republic of Croatia, which assumed the debts, and the Croatian debtors who were the end-users of the credits, are regulated by a separate law.¹ Banks that were debtors under the NFA allocate the debt of the end-users (legal entities/end users of refinanced credits with headquarters in the Republic of Croatia and their legal successors). Because of this, in July, refinanced foreign exchange credits rose by 1.2 billion kuna; 0.6 billion of this went to public enterprises, and 0.6 billion to private enterprises.

The biggest changes created by the London Club agreement occurred

¹ The Law on the Assumption of Part of the Debt based on the New Financial Agreement of 1988 and on the Issuance of Republic of Croatia Bonds To Substitute For These Debts. GG 87/96.

within the government sector itself. The Republic of Croatia was the debtor for some of the refinanced credits, and thus that portion of the total debt resulted in an increase in banking sector claims on central government. Besides this, the obligations of banks to the central government, which had assumed the foreign debt, were the primary source of increase. The foreign exchange liabilities of banks to the central government on this basis were 0.3 billion kuna in May, 0.2 billion kuna in June, and some 3.7 billion kuna in July. Parallel with this, the foreign liabilities of the banks decreased. These obligations had previously been registered under this category.

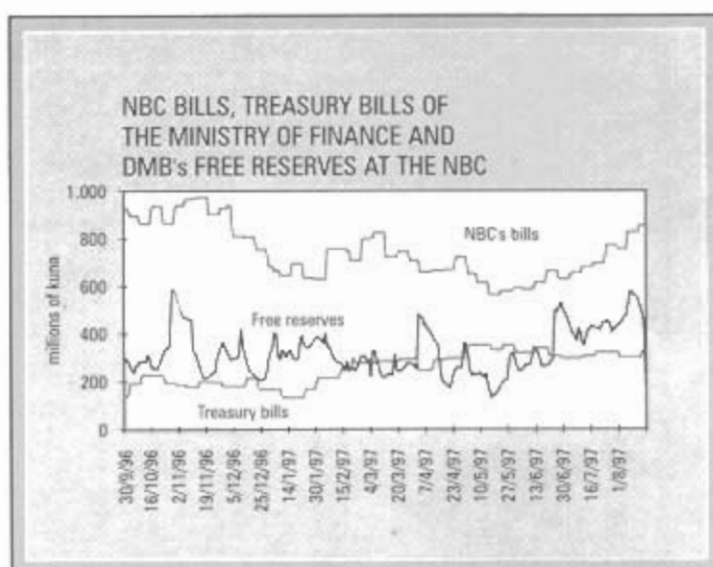
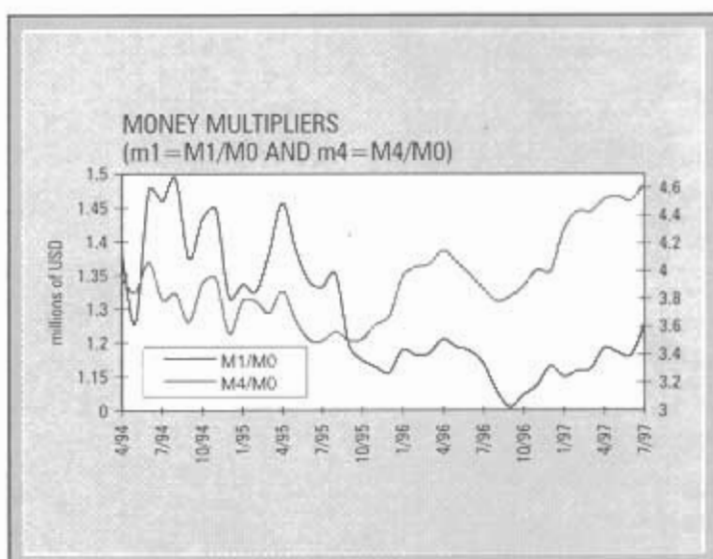
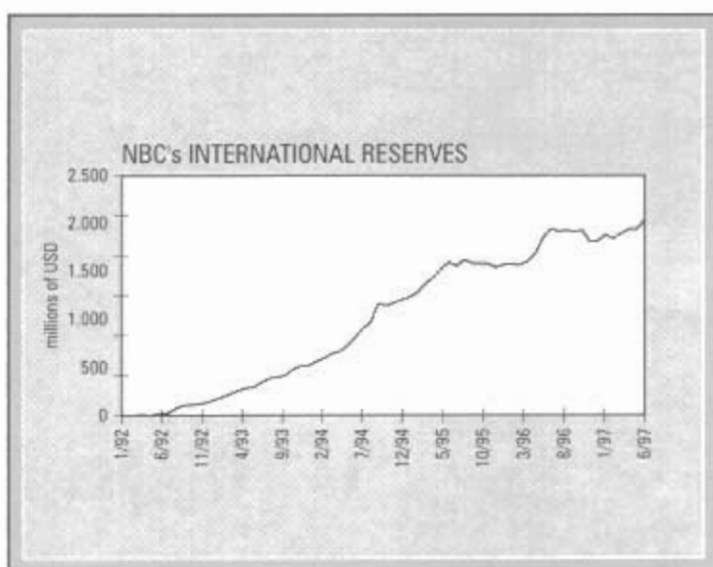
The net result of these changes was a decrease in net claims of the central government from 14 billion kuna in June to 9.6 billion in July, while the foreign liabilities of banks fell from 13.7 billion kuna in June to 11.6 billion in July.

In July and August, monetary policy was conducted with the aim of preventing significant appreciation of the kuna. Two foreign exchange auctions were held in July. On July 9, 72.8 million USD were bought, and on July 30, 69.0 million USD, with a total monetary effect of 905.7 million kuna. The stock of foreign exchange reserves on August 28 was 2,438.7 million USD.

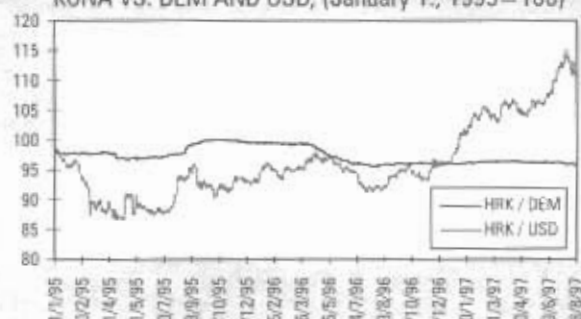
The government used a liquidity credit of 100 million kuna for three weeks in July. Banks used Lombard credits very moderately. In August, the use of these credits intensified, but there was no decrease in currency in circulation through August 20.

Reserve money grew 424 million kuna in July, exclusively on the basis of the growth of currency in circulation (9.2%). In August, the growth of currency in circulation was milder, and reserve money grew on the basis of bank deposits (required reserves) as well.

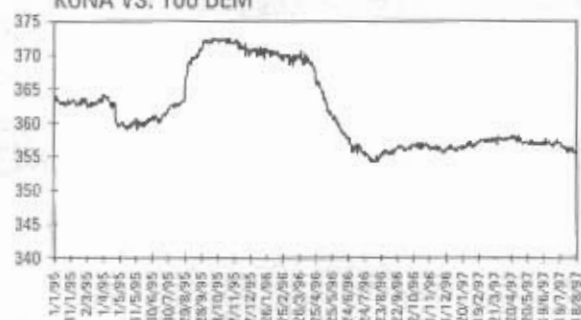
During August, the demand for NBC bills strengthened. From a



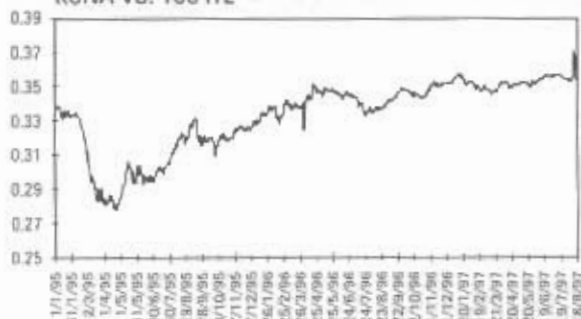
INDICES OF DAILY NOMINAL EXCHANGE RATES OF KUNA VS. DEM AND USD, (January 1., 1995=100)



DAILY NOMINAL EXCHANGE RATE KUNA VS. 100 DEM



DAILY NOMINAL EXCHANGE RATE KUNA VS. 100 ITL



very low level at the end of the first half of the year, they grew to 938 million kuna at the end of August.

EXCHANGE RATE

The index of the nominal daily exchange rate of the kuna against the US dollar showed a marked depreciation of the kuna. This was due to the rise of the dollar on world foreign exchange markets, and the fact that the kuna is very stable in relation to the German mark, which in turn has been negatively correlated to the dollar. The dollar reached its highest value in many years against the German mark in the summer months. The index of the dollar versus the kuna grew by 8.4 percent this summer. However, the last two weeks in August brought a sharp depreciation of the dollar's value.

The index of the nominal exchange rate of the kuna and the German mark showed a slight appreciation of the kuna during the summer months. This was expected, given the good tourist season and the increased demand for kuna that results from this. The German mark fell to its lowest value of this year in the middle of August, 3.5539 kuna for one German mark, and then stayed at this value. However, despite this the exchange rate of the mark in exchange office rose in the last week of August.

The nominal appreciation of the American dollar, and the growth of prices in Croatia's main trading partners, caused a real depreciation of the kuna. The Real Effective Exchange Rate of the Kuna depreciated by 2.56% (PPI) and 2.16% (CPI) in the first seven months of this year. The greatest depreciation came in April, when the Real Effective Exchange Rate depreciated by 1.09% (CPI) and 0.68% (PPI) in one month. Last year, the same period (the first seven months) saw a real appreciation of 2.16% (PPI and CPI), so the value of the index has now returned to the level of the beginning of last year. It should be

taken into consideration that May was the last month for which we have official data on price levels in competitor countries, so that after the adjustment of the data in the coming months, we expect to see even greater real depreciation of the kuna.

BALANCE OF PAYMENTS

The current account deficit in the first five months was 1,224 million USD, which is 147% larger than in the same period last year. This increased deficit was caused by the growth of the trade deficit and the decrease in net income from services. In the first five months, the trade deficit was 1,590 million USD, which represents an annual increase of 45%. Net income from services was 146 million USD, which represents an annual decrease of 52%. Changes in the dollar exchange rate and seasonality play an important role in these changes. Increased income from tourism, which begins in June, will change the picture from the first five months substantially. The great strengthening of the dollar has also influenced the decrease in net income from current transfers by 17%, from 362 to 300 million USD. Of this, transfers to the government decreased by 83%, from 129 to 19 million USD:

On the financial transactions account, inflows of 825 million USD were achieved in the first five months this year. This is 585% greater than in the same period last year. Foreign direct investment amounted to 109 million USD or 13% more than last year. Credits grew from 53 to 374 million USD net. Of this, government indebtedness grew from 6 to 280 million USD. Net inflows of foreign exchange and deposits grew from -168 to 313 million USD. The international reserves of the National Bank of Croatia decreased by 42 million USD, in contrast to last year's increase of 24 million USD:

In the first seven months of 1997, Croatian exports amounted to 2,548

INDEX OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA 1992:I=100



Note: IRER1 - with retail prices
IRER2 - with producers' prices

MERCHANDISE EXPORTS, IMPORTS AND TRADE BALANCE



BALANCE OF PAYMENTS
in millions of USD (preliminary data)

	I-V 97	I-V 96	indices I-V 97/I-V 96
Current account	-1224.5	-496.6	246.5
Capital and financial accounts	824.7	120.4	685.1
NBC international reserves	42.1	-24.0	
Net errors and omissions	357.6	400.3	89.3

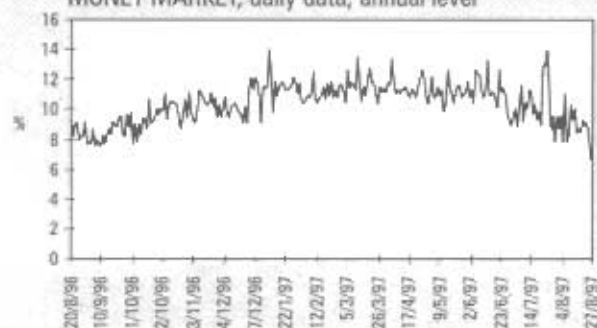
Source: NBC

MERCHANDISE EXPORTS AND IMPORTS
(in millions of USD)

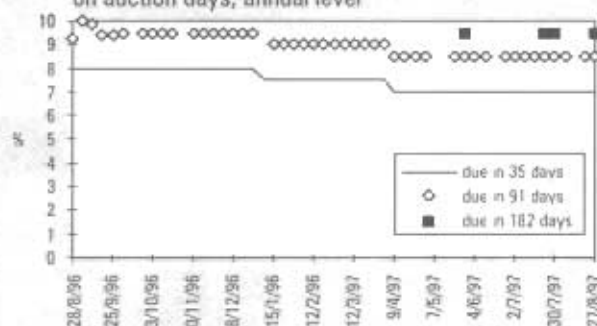
	Jan-Sept/97	Jan-Sept/96	Sept/97	Sept/96
EXPORTS	2 548.1	2 576.5	336.8	414.3
IMPORTS	4 976.2	4 286.2	742.6	731.6
BALANCE	-2 428.2	-1 709.7	-405.8	-317.3

Source: Bureau of Statistics

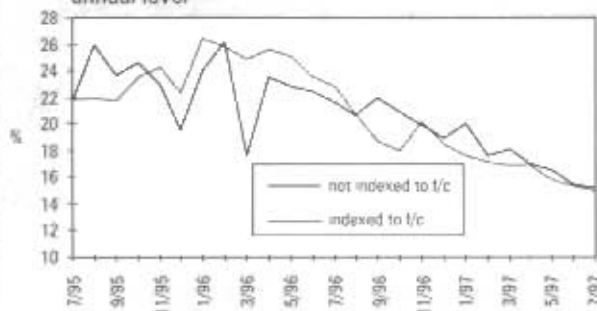
INTEREST RATE ON THE ZAGREB
MONEY MARKET, daily data, annual level



INTEREST RATES ON NBC BILLS,
on auction days, annual level



DMBs' INTEREST RATES ON CREDITS IN KUNA,
annual level



million USD, which was 1.1% less than in the same period last year. Imports amounted to 4,976 USD, which represents a 16.1% increase. The trade deficit amounted to 2,428 million USD, a 42% annual increase.

MONEY MARKET AND INTEREST RATES

In July and August, important changes occurred at the Zagreb Money Market. Last year's scenario of a fall in interest rates on the money market, caused by greatly increased liquidity of the banking system, was repeated. However, this summer, the fall started from much lower average interest rates (from 10 to 11%). Average daily interest rates fell as low as 6.7%, which is the lowest absolute daily average recorded in the history of the Zagreb Money Market. In the last two months, average daily interest rates oscillated between 6.7 and 14.0%. The upper bound was recorded at the end of July, when liquidity suddenly dropped and demand unexpectedly rose on the Money Market. The fall in interest rates has led to the following structure of interest rates: loans up to 5 days can be gotten for 6 to 7%, from 6 to 10 days the interest rate is 7 to 8%, for 11 to 15 days the rate is 8 to 10%, for periods of a month the rate is from 11 to 13%, and for period of two months that rate is from 13 to 15%.

Interest rates on the only short-time security traded at the moment (however, predominantly on the primary market) did not change during July and August. NBC bills can still be bought under the following terms: 35-day bills at 7%, 91 day bills at 8.5% and 182 day bills at 9.5%. Since Treasury Bills of the Ministry of Finance are far more attractive, demand for them gets stronger and stronger. T-Bills can be obtained under the following terms: 42 day bills with 9% income, 91 day bills with 10% income and 182 day bills with 10.5% income. The general characteristic of this market is that Treasury Bills give

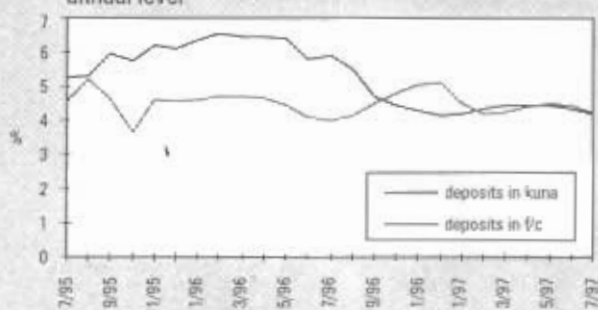
better income and are more attractive investments than NBC bills. Also, it is crucial to mention that 182 day T-bills have been very well received, while the longest-term NBC bills have not.

The credit interest rates of commercial banks have declined to rates seen three years ago. Given the significantly decreased interest rates on the money market, we can confidently expect a continued slow fall of credit interest rates of commercial banks. It would not be unrealistic to expect that they will fall to about 13% by the end of the year. The current level of average interest rates of 15% has been achieved after a fall of 11 percentage points in the last year and half. Kuna credits without foreign exchange clauses (predominantly short-term) were granted in July with an average interest rate of 15.0% (short-term credits 15.2%, and long-term credits 12.5%). The range among banks was from 7 to 39.3%.

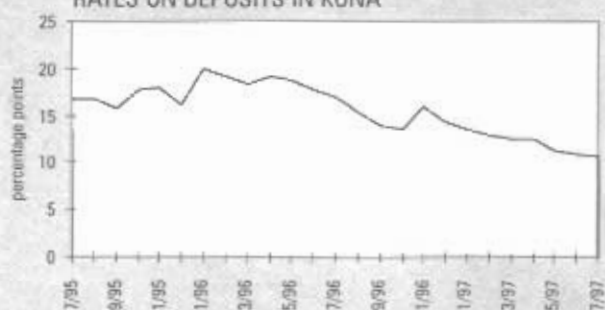
The average interest rate on kuna credits with foreign exchange clauses was 15.2%. These credits are increasing their share in total credits from month to month. In July, newly-issued credits of this types exceed newly issued kuna credits without foreign exchange clauses by 0.9 billion kuna (by 39%). About 40% of these credits are long-term credits which are granted at an average interest rate of 12.0%, while short-term credits are granted with interest rates of 17.6%. The range of average interest rates is 5.3% to 28.6%.

Deposit interest rates are slowly falling (by 0.1 percentage point a month). This is the result of banks' attempts to reduce the cost of their funding sources. Interest rates on kuna time deposits (9.6% average), are still higher than the interest rate on foreign exchange time deposits (5.9% average). This stimulates kuna saving, although this effect has hardly been felt in banks' balance sheets, especially after this summer.

DMBs' INTEREST RATES ON DEPOSITS, annual level



DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA



INTERENTERPRISE ARREARS REPORTED TO PAYMENTS INSTITUTE

