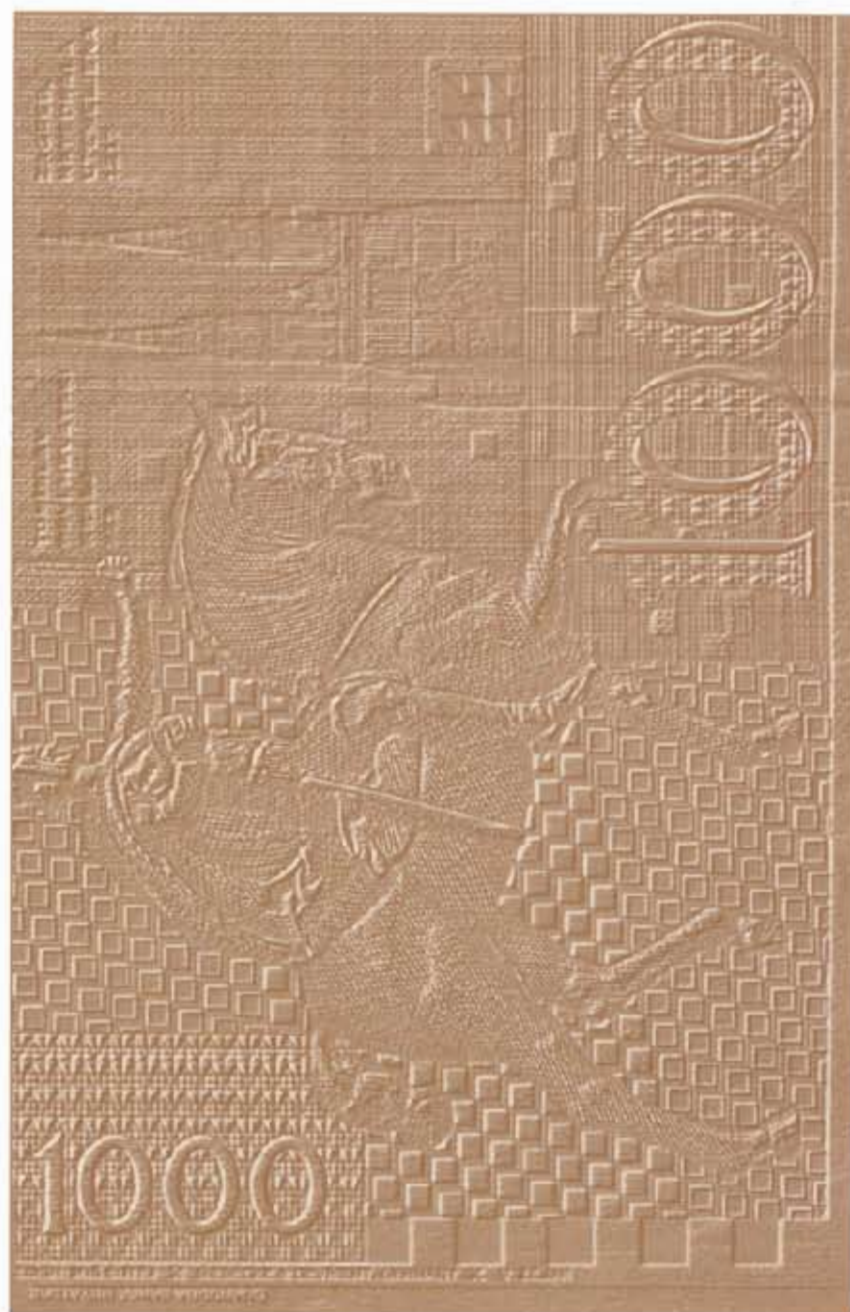


CROATIAN NATIONAL BANK



BULLETIN

YEAR III
No. 31

OCTOBER 1998

REAL SECTOR

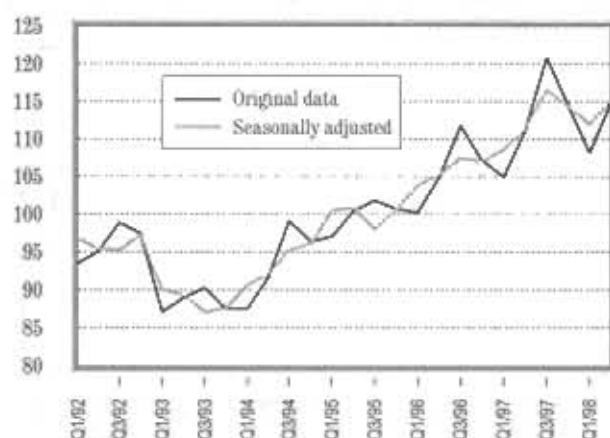
Economic activity increased 3.4 percent in the first half of 1998. The year-on-year growth rate of economic activity amounted to 3.2 percent in the first quarter and 3.5 percent in the second quarter. Industrial activity continues to grow rapidly in 1998. This is confirmed by developments in the year-on-year growth rate. Industrial activity grew 6.3 percent year-on-year in the first quarter and 5.2 percent in the second quarter. Growth in the first half of 1998 was 5.7 percent. In the first eight months of the year, industrial activity increased at a 6.9 percent annual rate. Processing industry production increased by 7.2 percent, supply of electrical energy increased 6.5 percent while mining and extraction decreased slightly compared to last year.

Analyzing by product groups, only the production of durable consumer goods slightly lagged behind last year, while all other groups recorded year-on-year growth. The branches of processing industry that account for the largest share in value added in industry grew the fastest this year. Industries accounting for the largest shares of value added last year that decreased production this year include: production of pulp, paper and paper products, production of radio, television and communication devices and equipment and production of furniture.

On the year-on-year level, total industrial exports grew by 10.4 percent in the first eight months of the year measured in kuna (and 3.9 percent measured in US dollars). The merchandise trade deficit of industry amounted to USD 2,175 billion in the first eight months of the year, an 8.1 percent decrease compared to the deficit in the same period last year.

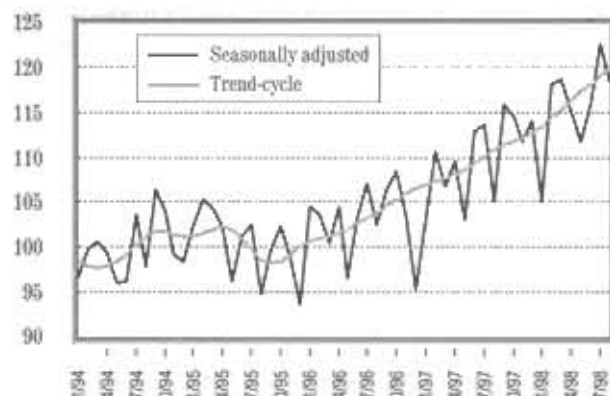
At the beginning of 1998, new indicators of construction industry activity were introduced. These are the new indicators, harmonized with European statistics: physical volume of construction projects and orders of construction projects. Data for the first quarter show that the physical volume of construction projects increased by 6.4 percent com-

REAL GROSS DOMESTIC PRODUCT, 1995=100



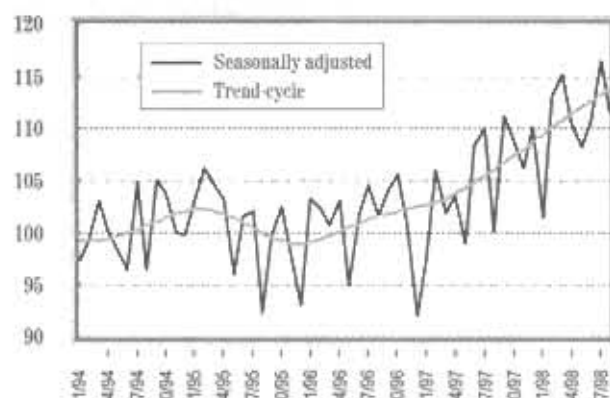
MANUFACTURING PRODUCTION INDEX

Seasonally adjusted and trend-cycle (1995=100)



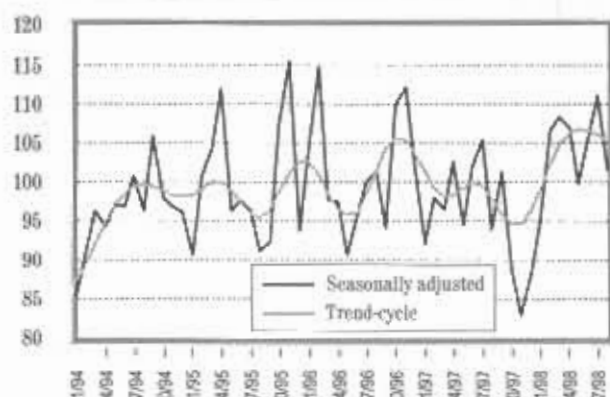
PROCESSING INDUSTRY

Seasonally adjusted and trend-cycle (1995=100)



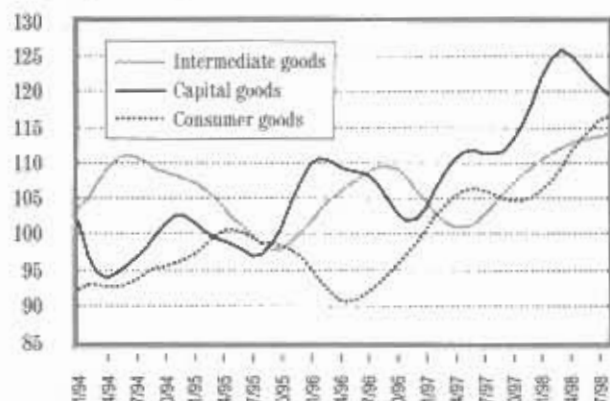
PRODUCTION OF FOOD AND BEVERAGES

Seasonally adjusted and trend-cycle (1995 = 100)



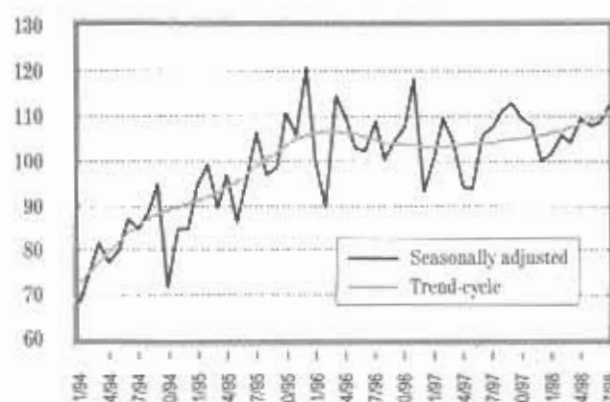
INDEX OF PRODUCTION VOLUME IN INDUSTRY BY MAIN INDUSTRIAL GROUPS

Trend-cycle (1995 = 100)



TRANSPORTATION - GOODS

Seasonally adjusted and trend-cycle (1995 = 100)



pared to the first three months of the preceding year. Orders of construction projects to be performed on the territory of the Republic of Croatia in 1998 increased 8.0 percent in February compared to January. In March 1998, construction orders increased 26.3 percent compared to the preceding month.

Retail trade turnover continued its upward trend, although at a slower pace than in 1997, 1995 or 1994, when it grew very rapidly. In the first half of the year, retail trade turnover grew 3.2 percent in real terms compared to the same period last year. In the first seven months of the year, the retail trade turnover increased at a 2.7 percent annual rate.

Passenger transport has moved in various directions in the last four years: following a slow-down of decline in 1994, mild growth throughout 1995 and 1996 and a period of stagnation recorded in 1997, this year has seen a downward trend in passenger transport. In the first seven months of the year, the number of passengers transported decreased 6.2 percent compared to the same period last year. This decrease reflects the decrease in the number of passengers transported by road. The quantity of goods transported in the first seven months of the year increased by 3.9 percent on the annual level. This increase in goods transport reflects the increase in the quantity of goods transported by railroad and road.

2.9 million tourist arrivals were registered in the period January - July 1998. Compared to the same period last year, the number of tourist arrivals increased by 5.0 percent. At the same time, 15.7 million tourist night-stays were recorded, which represents an annual increase of 4.0 percent. The average number of night-stays per tourist arrival was 5.9. A decrease in tourist visits in the first quarter (when the year-on-year decrease in the number of night-stays amounted to 12.0 percent), a significant increase in tourist visits in the second quarter (with an annual growth rate of 12.3 percent) and a 1.1 percent increase in the number of night-stays recorded in July, resulted in a 4.0 percent increase in the total number of

night-stays. The number of night-stays in 1998 has grown at a significantly slower rate than in the preceding two years. Foreign tourists accounted for 81.1 percent of total night-stays; domestic tourists accounted for the rest. The number of foreign night-stays in the first seven months of the year increased by 5.8 percent compared to the corresponding period last year. Tourists from Germany (21.7 percent), Slovenia (17.6 percent), the Czech Republic (15.0 percent) and Austria (12.4 percent) recorded the most significant number of night-stays. The largest number of night-stays was recorded in hotels, followed by campsites, private accommodation facilities and tourist villages. 57.6 percent of the total number of night-stays were arranged by tourists individually, while 42.4 percent of night-stays were arranged through various organized means and channels.

PRICES

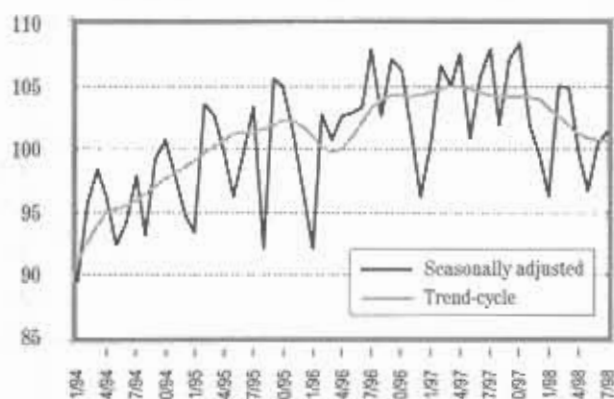
Following the stagnation and decrease recorded in the summer months, retail prices increased by 0.9 percent in September. The absence of seasonal influences is visible from the equality of indicators of growth of retail prices inclusive of seasonal products and those exclusive of seasonal products. Within the consumer basket, the index of goods recorded a 1.1 percent increase in September, while the index of services grew at 0.2 percent.

Retail prices were 5.8 percent higher this September than last September. Both goods (whose prices increased 4.2 percent) and services (whose prices increased by 12.0 percent) contributed to this increase. Comparing the average of the first nine months of this year with the same period last year, the increase in retail prices was 5.6 percent.

The increase in the cost of living in September was slightly lower than the increase in retail prices in the same month, namely 0.7 percent (in which the price index of goods increased by 0.8 percent, while price index of services increased by 0.4 percent.) The only group of expenses that decreased in September were nutrition expenses (-0.2 percent).

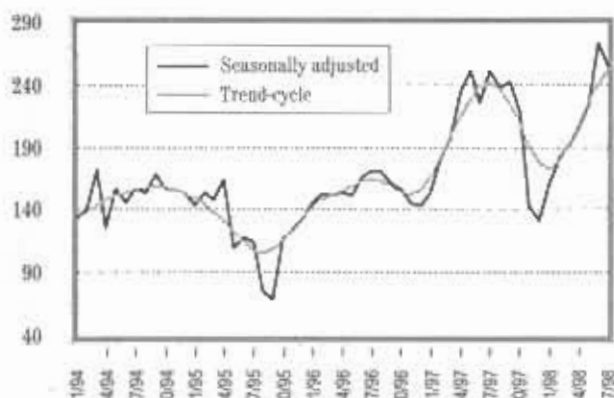
TRANSPORTATION - PASSENGERS

Seasonally adjusted and trend-cycle (1995 = 100)

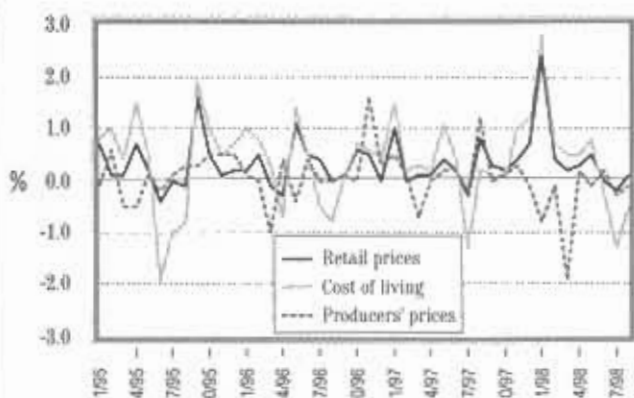


TOURISM - OVERNIGHT STAYS

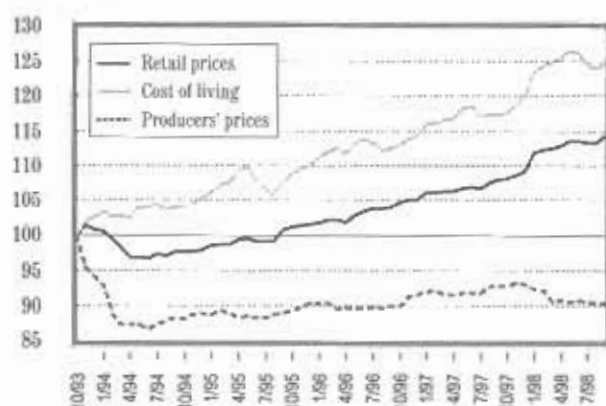
Seasonally adjusted and trend-cycle (1995 = 100)



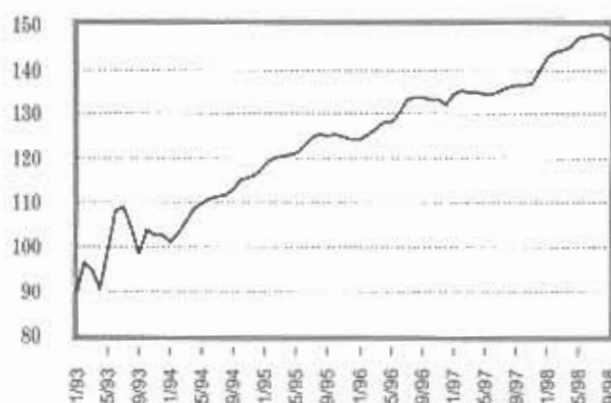
MONTHLY RATES OF CHANGE (%) OF RETAIL PRICES, PRODUCERS' PRICES AND COST OF LIVING



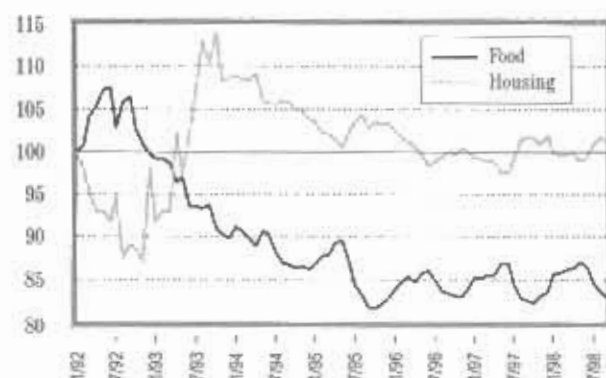
INDICES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS' PRICES
October 1993=100



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



INDICES OF RELATIVE PRICES OF FOOD AND HOUSING
January 1992=100



Note: index is calculated as ratio of food prices and housing prices to total cost of living index.

The most significant increase in September referred to expenses on education, culture and entertainment (8.0 percent). Compared to September last year, the cost of living index increased by 6.1 percent. This is again in excess of the increase in retail prices. The increase in the index of goods, compared to the same month last year, was 4.9 percent, while the increase in the index of services was 13.2 percent. If we compare the average of cost of living indices recorded in the first nine months of the year with the average of cost of living indices recorded in the same period last year, we note an increase of 6.5 percent.

Producers' prices of industrial products continued their decrease throughout September. The September decrease amounted to 0.1 percent maintaining the rate of decrease of producers' prices at 2.3 percent annually.

EMPLOYMENT AND WAGES

August was the second consecutive month in which registered unemployment increased following the usual seasonal minimum in June. In August, registered unemployment increased by 2,115 persons or 0.8 percent, reaching a total of 278,644. Average unemployment between January and August of this year was higher than in the same period last year by 8,502 (i.e. 3.1 percent). This was mainly caused by the high level of registered unemployment at the end of last year. Employment from the register was approximately the same in August 1998 as in August 1997. However, the fact that newly-registered unemployment in August 1998 exceeded that in August 1997 by 2,806 caused the increase in registered unemployment in August (as opposed to the preceding year, when registered unemployment decreased).

Employment in business organizations (a category that covers more than three-fourths of total employment) decreased in August by 250 persons, following seasonal increases in the preceding three months. In August, it amounted to 1,039,788 persons, 31,509 (i.e. 2.9 percent) less than in the same month last year.

The average nominal net wage in August exceeded the average nominal net wage in July by 57 kuna or 2.1 percent, while the real increase amounted to 2.6 percent, due to a decrease in the cost of living index. Compared to the same month last year, net wages increased by 15.1 percent in nominal terms, while in real terms by 8.9 percent.

Gross wages increased to line with the increase in net wages. Nominally, gross wages increased 14.5 percent, while in real terms they increased 8.3 percent compared to the same month last year.

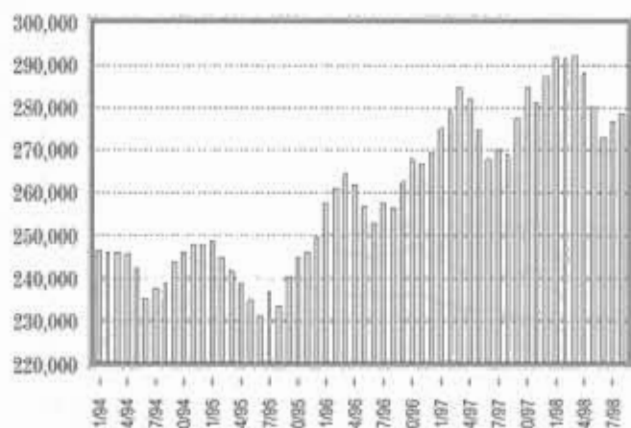
MONETARY DEVELOPMENTS

The growth of credit was definitively contained in August, banks' foreign assets grew significantly, foreign liabilities continued to decrease and banks' claims on central government also decreased.

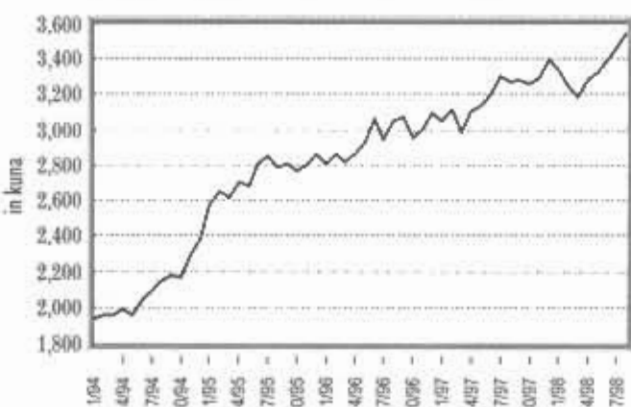
It was only in June and July that total liquid assets grew more substantial growth. At the beginning of the year, they had practically stagnated relative to December 1997. August saw an increase in both components of M4 - the money supply increased by 0.8 billion kuna (5.4 percent) and quasi money by 1 billion kuna (i.e. 2.6 percent). The significant growth of M2¹ is an exception from the tendencies present so far. Deposit money increased by 0.7 billion kuna (i.e. 8.1 percent). Contributing to this increase were increases in deposits by the enterprise of 0.20 billion kuna, by households of 0.26 billion kuna and by local governments of 0.13 billion kuna. The growth of kuna non-monetary deposits was also more prominent than in preceding months - in August, these deposits grew by 0.3 billion kuna (i.e. 6.0 percent).

Foreign currency deposits also grew at a faster pace in August than in preceding months (0.7 billion kuna or 2.1 percent).

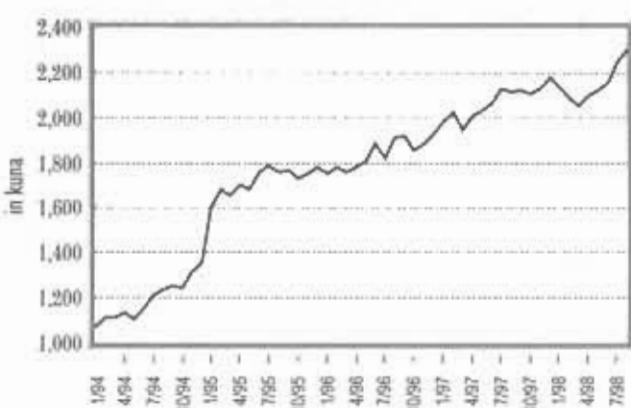
NUMBER OF THE UNEMPLOYED



REAL AVERAGE GROSS WAGE Constant prices, January 1994

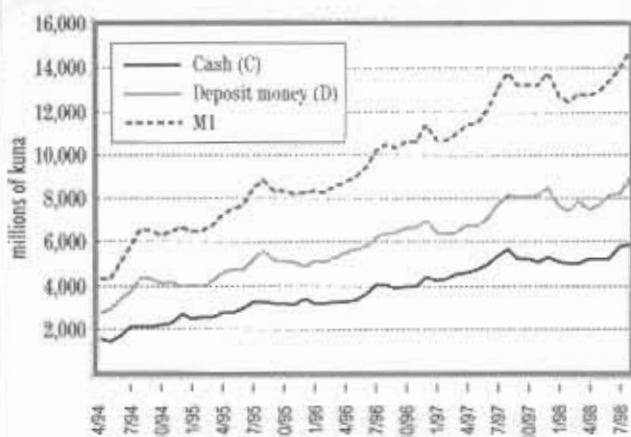


REAL AVERAGE NET WAGE Constant prices, January 1994

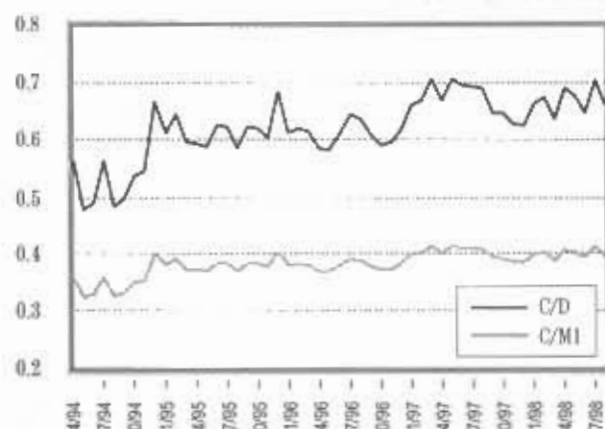


¹ The widest monetary aggregate which incorporates only kuna assets, M1 + non-monetary deposits.

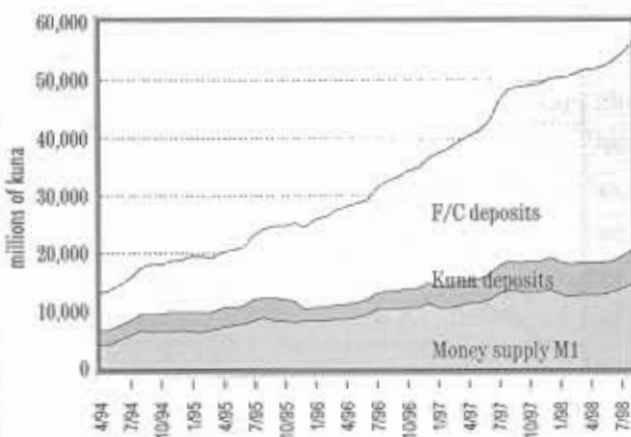
MONEY SUPPLY



CASH TO DEPOSIT RATIO (C/D) AND SHARE OF CASH IN MONEY SUPPLY (C/M1)



MONETARY AGGREGATE M4



The growth of total liquid assets amounted to 1.8 billion kuna (or 3.3 percent). So, at the end of August, M4 amounted to 56 billion kuna.

The slow-down of growth of credit, indicated in the data for the last few months, was definitively confirmed in August. The increase in credit of 0.1 billion kuna (i.e. 0.2 percent) in August is more than modest. In the first seven months of the year the average monthly growth of credit amounted to over 1 billion kuna or 2 percent. Total credit amounted to 55.8 billion kuna at the end of August. The annual growth rate of credit is 30 percent.

If we look at the sectoral structure of bank credit we see a significant slow-down of growth in credit to households. On the annual level², growth of credit to households is 64 percent (it was 94 percent in December 1997 compared to December 1996): while at the same time growth of credit to enterprises was 19 percent. This indicates a slow-down of credit growth, which should also tend to slow down domestic demand.

The recent reversal of the trend in deposit money banks' net foreign assets continued this month. Deposit money banks' foreign assets increased by 0.7 billion kuna, while their foreign liabilities decreased by 0.16 billion kuna.

In the total growth of foreign assets, 0.6 billion kuna refers to the increase in short-term time deposits in foreign banks, while 0.2 billion kuna refers to sight deposits with foreign banks. These two items make up over 80 percent of total foreign exchange assets of deposit money banks held abroad (which currently amount to 16 billion kuna). Therefore, we must conclude that deposit money banks' foreign assets are mainly short-term and liquid. The tourist season and the high level of purchase of foreign exchange from the household sector caused an increase in banks' foreign exchange reserves in August. A relatively small portion of that increase was tendered to the Croatian National Bank for definitive buy-out. This is a result of the fact that a portion of banks' foreign exchange as-

² August 1998 compared to August 1997.

sets will have to be transferred to the Croatian National Bank in the next couple of months anyway, based on the decision to impose reserve requirements for foreign currency savings. Therefore, banks are in no hurry to sell their foreign exchange assets. A slight depreciation of the kuna has also motivated banks to exercise increased caution in transforming their foreign assets into kuna.

Foreign exchange assets of deposit money banks held abroad decreased by 0.16 billion kuna. This decrease is the net result of a further decrease in short-term liabilities by 0.3 billion kuna and an increase in long-term liabilities by 0.14 billion kuna. The time structure of deposit money banks' foreign exchange assets held abroad looks extremely favorable. Of the total of 15.2 billion in foreign liabilities, 11.5 billion are long-term foreign liabilities, while only 3.7 billion are short-term foreign liabilities.

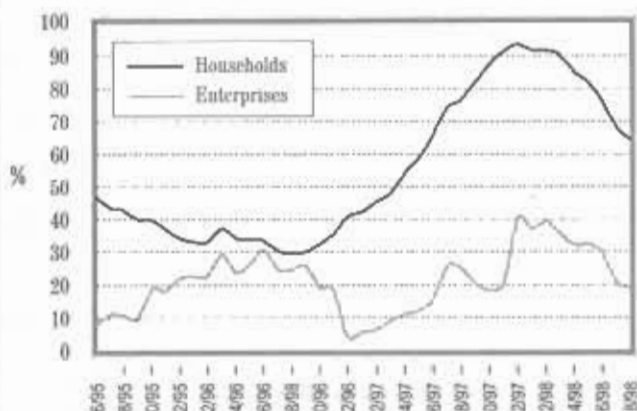
Among the numerous changes in the relationship between the central bank and deposit money banks, we should stress a further decrease in banks' claims on the central government for "old" foreign currency savings. At the end of August that item amounted to 5.8 billion kuna, i.e. less than USD 1 billion. Deposit money banks' total claims on the central government amounted to 8.4 billion kuna, which represents a 0.4 billion decrease compared to July, i.e. a 1.1 billion decrease compared to December 1997.

The activity of the central bank proceeded in September through both foreign exchange and kuna transactions. As in preceding months, creation of money through kuna credit to banks and central government was much more significant than in the same period last year. Consequently, the average amount of Lombard credit in the first eight months of 1997 was 51 million kuna, against 66 million kuna in the first eight months of this year. The average amount of re-purchase of treasury bills (14 million kuna in the first eight months of last year), was 84 million kuna in the first eight months of this year. At the same time, other credit

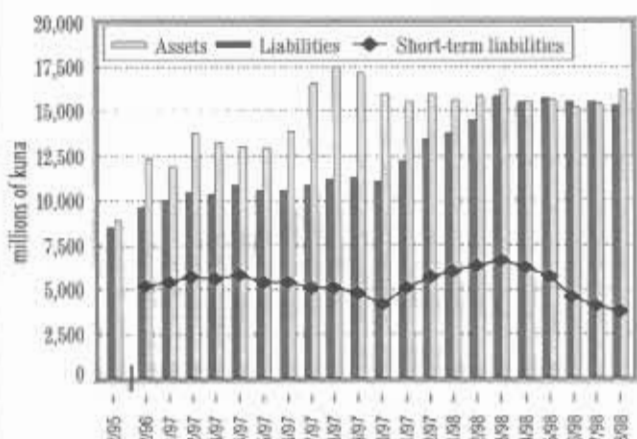
DMB's DOMESTIC CREDITS
Constant prices, January 1993



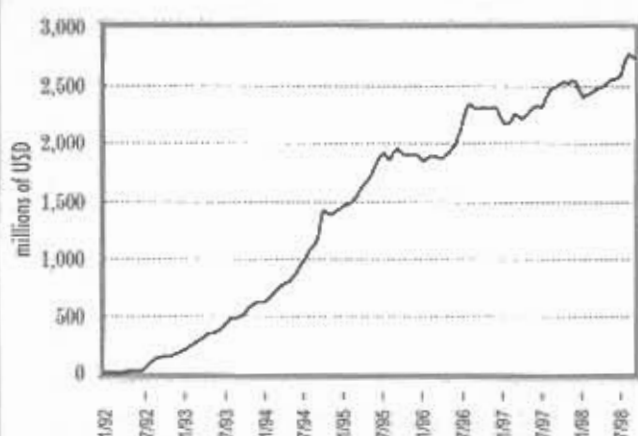
GROWTH RATES OF CREDITS TO HOUSEHOLDS AND ENTERPRISES
Relative to the same month previous year



FOREIGN ASSETS AND LIABILITIES OF COMMERCIAL BANKS

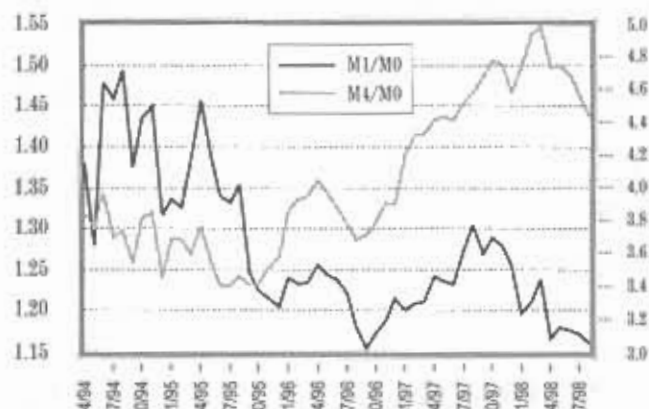


CNB's INTERNATIONAL RESERVES

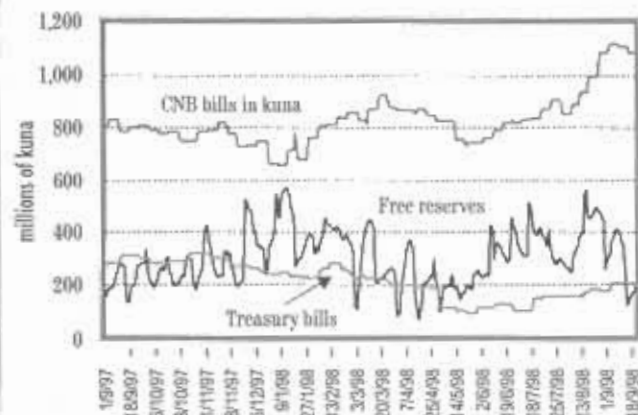


MONEY MULTIPLIERS

$m1 = M1/M0$ (left) and $m4 = M4/M0$ (right)



CNB BILLS, TREASURY BILLS OF THE MINISTRY OF FINANCE AND DMB'S FREE RESERVES AT THE CNB



(which includes liquidity loans to banks under rehabilitation) increased from 1.3 million in 1997 to 185 million in 1998.

September data further emphasizes the kuna component of the assets of the Croatian National Bank. According to data for September 23, 1998, Lombard credit amounts to 401.5 million kuna, while "pre-reconstruction" loans amount to 303 million kuna. Added to the credit to the central government of 621.7 million kuna (used for the purchase of 100 million US dollars), this brings total kuna credit to 1.3 billion kuna. Compared to the end of August this year, this represents an increase in total kuna credit by 0.95 billion kuna.

On the basis of foreign exchange transactions (namely through the sale of 96 million US dollars to deposit money banks), 611 billion kuna was withdrawn from circulation in September. Since the beginning of 1998, 355 million kuna (net) have been withdrawn. In other words, 59 million US dollars worth of foreign currency was sold.

In September, a new instrument appeared in Croatian National Bank's liabilities for the first time: foreign exchange required reserves. Let us reiterate: banks are required to gradually "transfer" required reserves based on short-term foreign currency savings of the household sector from foreign accounts, where these reserves used to be deposited, to deposits with the Croatian National Bank. In September, 435 million kuna was transferred to the Croatian National Bank.

Central government's deposits were much smaller in September than in the preceding months. The average deposit balance of the central government was approximately 1 billion kuna, while in September it decreased to 0.7 billion kuna. The deterioration of the position of the central government, from creditor of the central bank to a neutral position with approximately equal deposits and credit, is the result of the government's liabilities and obligations which will become due in the third quarter.

The balance of treasury bills amounted to 2.3 billion kuna at the end of September with balances of both kuna and foreign exchange treasury bills exceeding 1 billion kuna.

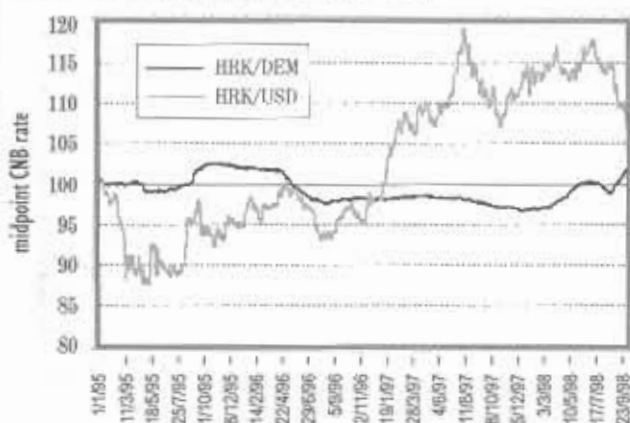
EXCHANGE RATE

In September 1998, the value of the German mark reached its highest level in the last two years. The Croatian National Bank exchange rate of the German mark has reached 3.6737 kuna. This exchange rate is very close to that recorded in April 1996 and at the beginning of 1995. Deposit money banks' selling rate of the German mark for cash reached 3.73 kuna at the end of September. The kuna depreciated against the German mark in September by 1.9 percent and it has depreciated by 4.5 percent since the beginning of the year. The increased supply of kuna in September, as well as the expected increase in demand for foreign currency, forced bankers to increase the price of foreign currency. Another reason for this increase lies in deposit money banks' obligation to repay loans from foreign banks. Capital restrictions introduced by the Croatian National Bank in the first half of the year have also influenced the price of foreign currency, since they made foreign exchange inflow more scarce and more expensive. Banking crises in Russia and East Asia have also contributed to the change in position of transition countries. Transition countries, including Croatia, have been under greater scrutiny since the banking crisis - credit has become much more difficult to get, therefore the inflow of foreign exchange decreased.

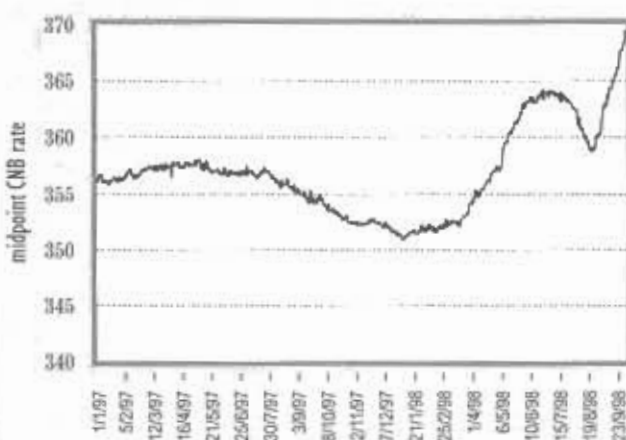
The Croatian National Bank intervened on the domestic foreign exchange market three times in September. Namely, the Croatian National Bank organized three foreign exchange auctions. The Croatian National Bank thus successfully intervened to constrain the depreciation of the kuna.

The real effective exchange rate of the kuna appreciated in August, since the nominal exchange rate also appreciated. The real effective exchange rate of

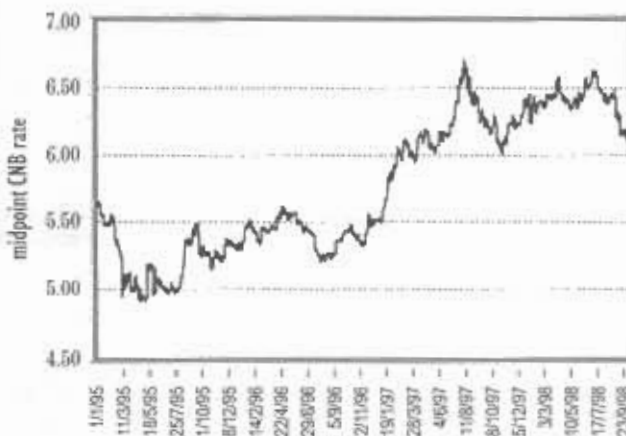
INDICES OF DAILY NOMINAL EXCHANGE RATES OF KUNA VS. DEM AND USD, (January 1, 1995=100)



DAILY NOMINAL EXCHANGE RATE - KUNA VS. 100 DEM

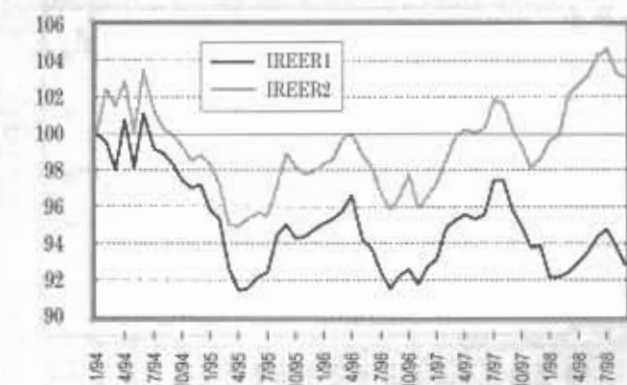


DAILY NOMINAL EXCHANGE RATE - KUNA VS. USD



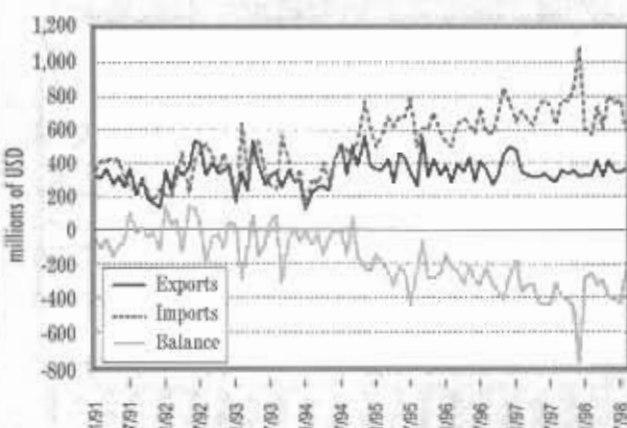
INDEX* OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA

(IREER1 - with retail prices, IREER2 - with producers' prices), January 1994=100



* the fall of index denotes real appreciation

MERCHANDISE EXPORTS (f.o.b.), IMPORTS (c.i.f.) AND TRADE BALANCE



BALANCE OF PAYMENTS in millions of USD (preliminary data)

	Jan. - Jun. 1998	Jan. - Jun. 1997	indices Jan. - Jun. 1998/ Jan. - Jun. 1997
Current account	-1,250.4	-1,360.4	91.9
Capital and financial account	1,083.6	1,136.9	95.3
CNB international reserves	-11.0	-12.6	87.2
Net errors and omissions	177.8	236.1	75.3

Source: CNB

MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan. - Aug. 1998	Jan. - Aug. 1997	Aug. 1998	Aug. 1997
Exports f.o.b.	2,894.1	2,780.3	369.7	296.4
Imports c.i.f.	5,494.8	5,587.4	595.3	629.6
Balance	-2,600.7	-2,807.1	-226.2	-333.2

Source: Bureau of Statistics

the kuna deflated by retail prices appreciated in August by 0.94 percent, while the real effective exchange rate of the kuna deflated by producers' prices appreciated by 1.29 percent.

BALANCE OF PAYMENTS

The current account deficit of the balance of payments amounted to USD 1,250.4 million in the first six months of 1998, an 8.1 percent decrease compared to the same period last year. Such a decrease in the current account deficit was mainly caused by the decrease in the merchandise trade deficit. The merchandise trade deficit amounted to USD -2,207.9 million in the first six months of the year. This is 8.0 percent less than in the same period last year. In the first half of 1998, the financial account amounted to USD 1,083.6 million (i.e. 4.7 percent) less than in the same period last year. The financial account also underwent some significant changes. The sale of Pliva stock caused an increase in direct investment of USD 434.7 million. This represents an increase of 110.4 percent compared to the first half of 1997. The decision to require deposits based on foreign indebtedness, caused a net decrease in foreign indebtedness in the second quarter. Consequently, the increase in net credit liabilities to foreign creditors in the first six months of the year was USD 262.1 million. This is 42.6 percent less than in the first six months of 1997.

The improvement was especially prominent in the second quarter of 1998. The current account deficit of USD 573.7 million in the second quarter of the year was 17.5 percent lower than the deficit in the second quarter of 1997. This represents a significant realignment, which is in accordance with the goals of the country's economic policy for this year.

According to the data provided by the State Bureau of Statistics, merchandise imports c.i.f. in the first eight months of the year amounted to USD 5,494.8 million, a 1.7 percent decrease relative to the same period last year. At the same time, merchandise exports at f.o.b. parity were USD 2,894.1 million, a

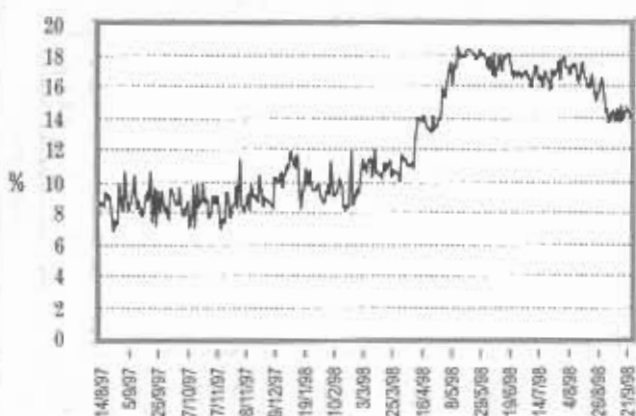
4.1 percent increase on the same period last year. The merchandise trade deficit amounted to USD 2,600.7 million, a 7.4 percent decrease compared to the same period last year. Expressed in kuna, Croatian exports were 18,651.0 million kuna in the first eight months of the year (a 10.7 increase compared to the same period last year), while imports were 35,403.9 million kuna (a 3.6 percent increase compared to the corresponding 1997 figure).

MONEY MARKET AND INTEREST RATES

Prices of money continued to decrease on the Money Market Zagreb throughout September. The decrease in interest rates, which began in July, continued throughout August, while the beginning of September brought with it a significant decrease in daily interest rates. 13.68 percent is the lowest average daily interest rate recorded on the money market in September; it was 15.09 percent in August. The highest, daily average interest rate, recorded at the beginning of September was 16.13 percent, while the highest daily average interest rate recorded in August amounted to 17.95 percent. The mean value of daily averages was slightly nearer the lower bound during the month. The decrease in interest rates on the money market is perfectly in line with the relation between the supply and the demand for money during daily trading on the money market. The supply of money on the money market has mainly been in significant excess of demand; on several occasions supply was twice as high as demand. Throughout the month the interest rates on callable sales agreements decreased to the (extremely low) level of 13.6 percent. The lowest interest rate in August was 15.0 percent, which represents a difference of almost two percentage points. The significant decrease in interest rates expected in August eventually occurred in September. This is due to the fact that the market needed a longer period of time to realize that the price of money should decrease. The reason why the supply of money was so abundant and

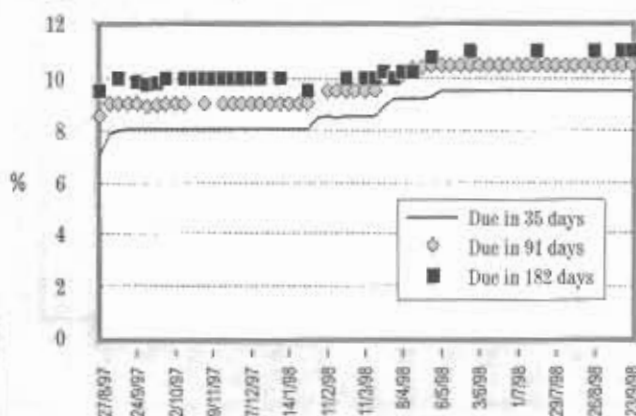
ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



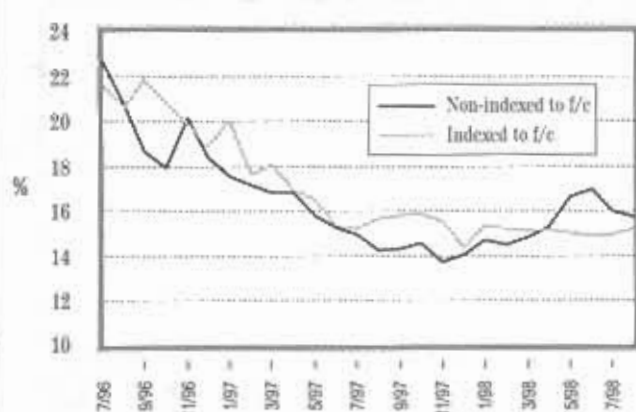
INTEREST RATES ON CNB BILLS

Annual level, on auction days

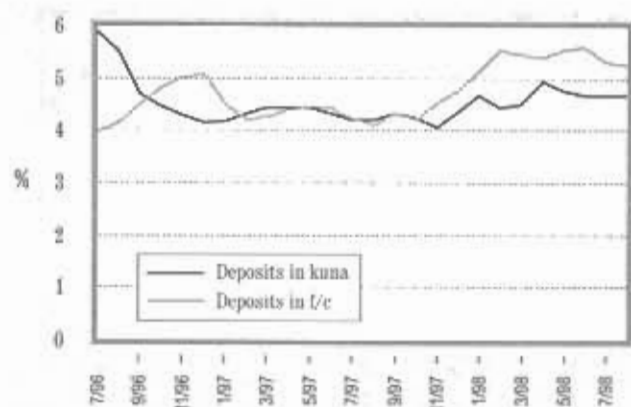


DMBs' AVERAGE INTEREST RATES ON CREDITS IN KUNA

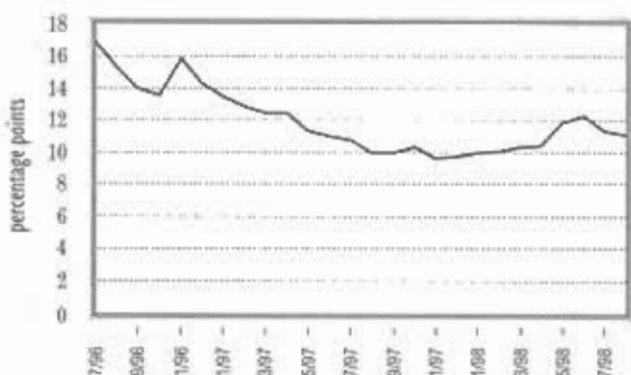
Annual level



DMB's AVERAGE INTEREST RATES ON DEPOSITS
Annual level

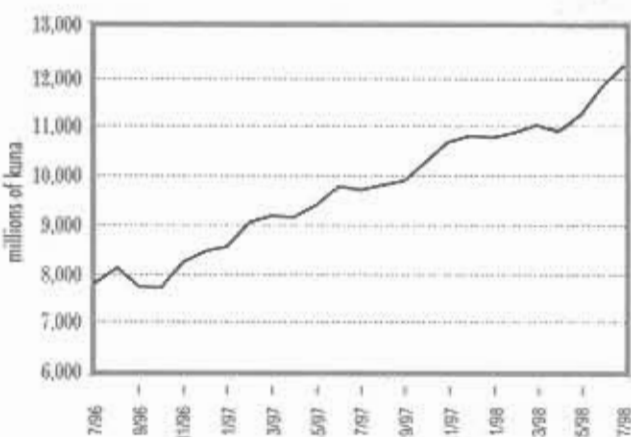


DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA



Note: spread is calculated as a difference between interest rates on non-indexed credits in kuna and interest rates on non-indexed deposits in kuna.

ARREARS REPORTED TO PAYMENTS INSTITUTE



demand was so weak throughout September was that in July and August large amounts of kuna were put into circulation through purchase of foreign currency in tourism.

Auctions of Croatian National Bank bills failed to improve the liquidity situation on the money market. Throughout September, financial institutions had significantly more bills fall due than new bills purchased. Consequently, the net effect of purchases of Croatian National Bank bills was negative (i.e. it amounted to -62.4 million kuna). The balance of Croatian National Bank bills amounted to 1,155.4 million kuna at the end of September. The interest rates on CNB bills of all maturities have been stable for several months, currently yielding: 9.50 percent for 35 days, 10.50 percent for 91 days and 11.00 percent for 182 days. Interest rates on Treasury Bills of the Ministry of Finance are slightly different than a month ago. Treasury Bills of the Ministry of Finance yield 10.25 percent interest for 42 days, 11.00 percent for 91 days and, interestingly, 11.00 percent (also) for 182 days. As opposed to Croatian National Bank bills, Treasury Bills of the Ministry of Finance increased in September by 48.9 million kuna. After the penultimate auction of Treasury Bills of the Ministry of Finance in September, the balance of Treasury Bills outstanding amounted to 465.2 million kuna.

The interest rate spread continued to decrease throughout August. The interest rate spread in August was 2.5 percent lower than in July and 10.9 percent compared to June.

In August, interest rates on kuna loans without the currency clause decreased to 15.74 percent (compared to 16.02 percent in July). Kuna loans with the currency clause recorded a higher average weighed interest rate in August (15.22 percent) than in July (14.95 percent). The average weighed interest rate on kuna deposits without the currency clause remained unchanged (i.e. at the July level of 4.66 percent). The average weighed interest rate on time deposits without the currency clause increased from 9.55 percent in July to 9.80 percent in August. The average weighed interest rate on kuna deposits with the currency

clause increased from 9.17 percent in July, to 9.87 percent in August. The average weighed interest rate on foreign exchange loans increased from 13.18 percent in July, to 15.31 percent in August.

STATE BUDGET

The surplus in the central government account of 1,378 billion kuna at the end of August represents a significant overshooting as well as a deviation from the new budget plan. Obligations to domestic sectors have been discharged as planned (currently 75.6 percent of the plan). However, increase in foreign indebtedness is significantly lower than planned (15.5 percent of the plan).

Revenues collected in the first eight months of the year exceeded the corresponding period last year by 38.9 percent, while expenditures exceeded last year's figure by 23.9 percent.

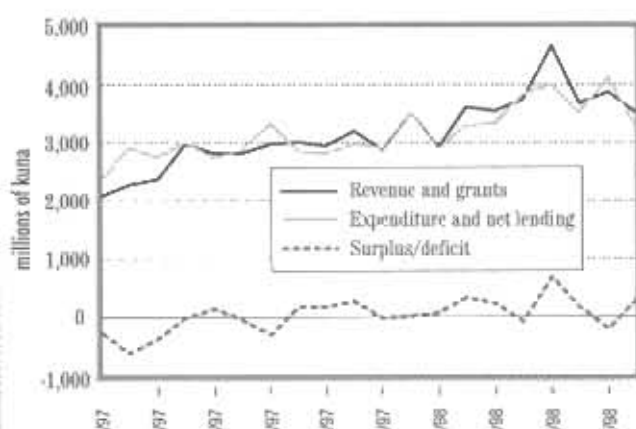
Collection of the largest tax items was as follows: 66.0 percent of planned value added tax revenues were collected, as well as 59.4 percent of estimated excise tax revenues, 57.4 percent of foreign trade taxes, 65.9 percent of income taxes, 89.8 percent of profit taxes and 96.7 percent of estimated goods and services turnover tax revenues.

The year-on-year growth of expenditures is primarily the result of an increase in current expenditures, as well as a significant increase in capital expenditures. All current expenditure items grew by over 11 percent annually. The increase is most significant in subsidies and other current transfers.

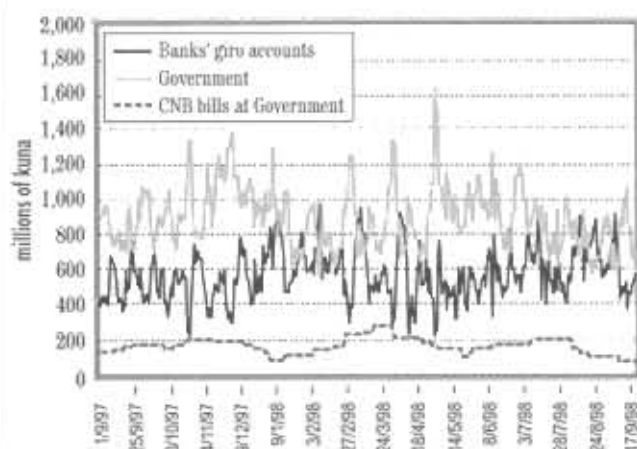
The size of the rebalanced budget of consolidated central government for 1998 amounts to 65.0 billion kuna. The estimated deficit amounts to 113.5 million kuna (or 0.07 percent of the projected gross domestic product). The planned deficit and surplus of the central government will be used to cover the deficit in extrabudgetary funds (amounting to 8.3 billion kuna).

At the end of July, consolidated central government recorded a surplus of 789.7 million kuna, thanks to the surplus of central government, while the funds recorded a deficit of 55.3 percent of the total planned deficit for 1998.

OUTTURN OF CENTRAL GOVERNMENT BUDGET



CENTRAL GOVERNMENT DEPOSITS AT THE CNB AND BANKS' GIRO ACCOUNTS



FINANCING OF CENTRAL BUDGET DEFICIT

(in millions of kuna)

	Jan. - Aug. 1998	1998 Budget
TOTAL FINANCING	-1,378	0
DOMESTIC FINANCING	-1,733	-2,292
From monetary authorities	-233	0
From deposit money banks	-1,636	-1,921
Other domestic financing	136	-371
FOREIGN FINANCING	355	2,292
From international develop. institutions	273	1,102
From foreign governments	-381	-503
Other foreign financing	463	1,693

