

CROATIAN
NATIONAL
BANK

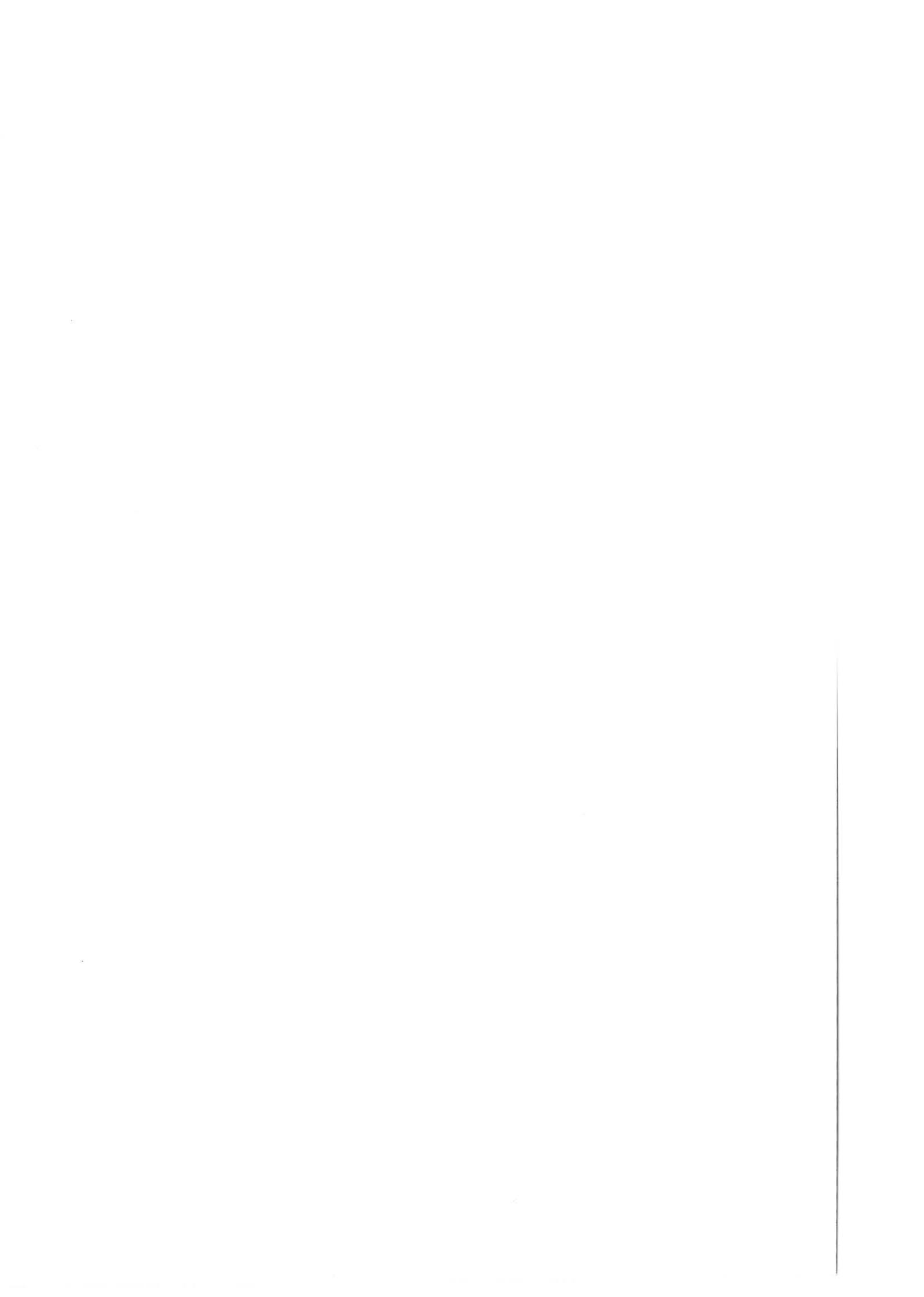
1998



**ANNUAL
REPORT**

CROATIAN NATIONAL BANK

ANNUAL REPORT 1998

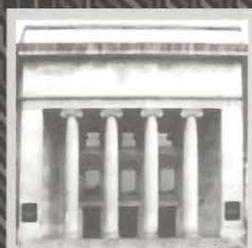


CONTENTS

Foreword to the 1998 Annual Report of the Croatian National Bank	5
I Macroeconomic Developments in 1998	13
1.1 International Environment	15
1.1.1 Slower Growth of the Global Economy	15
1.1.2 Preserving Stability	17
1.1.3 The Global Monetary System and the Financial Crisis in Emerging Markets	18
1.1.4 The Position of the Transition Economies Regarding the Liberalization of Capital and Financial Transactions	19
1.1.5 Introduction of the Euro and its Influence on Croatia	20
1.2 General Characteristics of the Croatian Economy in 1998	23
1.2.1 Economic Activity	25
1.2.2 Money Supply and Foreign Exchange Reserves	31
1.2.3 Exchange Rate and the Aggregate Price Level	35
1.2.4 Interest Rates	38
1.2.5 Balance of Payments	43
1.2.6 Employment and Wages	49
1.2.7 Government Budget	51
1.2.8 Illiquidity	55
II Monetary Policy in 1998	59
2.1 Monetary and Credit Aggregates	61
2.1.1 Total Liquid Assets	61
2.1.2 Credit Aggregates	62
2.2 Relations with Government	64
2.3 Relations with Commercial Banks	64
2.3.1 Daily Loans for Bridging Liquidity Problems	65
2.3.2 Lombard Loans	66
2.3.3 Interventive Loans	66
2.3.4 Pre-rehabilitation Loans	67
2.3.5 Repo Auctions	67
2.3.6 Croatian National Bank Bills	68
2.3.7 Required Reserves	69
2.3.8 Deposits on Foreign Financial Credits, Foreign Exchange Deposits and Guarantees Granted	70
2.4 Croatian National Bank Interest Rates	70
2.5 Intervention on the Foreign Exchange Market and Management of Foreign Exchange Reserves	71
III International Relations	75
3.1 International Monetary Institutions	77
3.1.1 Relations of the Republic of Croatia with the International Monetary Fund (IMF)	77
3.1.2 Relations of the Republic of Croatia with the Bank for International Settlements (BIS)	78
3.2 International Financial Institutions	78
3.3 Cooperation between the Republic of Croatia and other International Institutions	79
3.4 Relations with Foreign Banks	80
3.5 Foreign Payments	81

IV	Banking System	83
4.1	Structure of Banks' Balance Sheets	86
4.1.1	Structure of Banks' Assets	86
4.1.2	Structure of Banks' Liabilities	87
4.2	Banks' Liabile Capital	87
4.3	Analysis of Asset Quality	88
4.4	Limitations Decreasing Risk	88
4.4.1	Large and Maximum Loans	88
4.4.2	Loans Granted to Related Parties	89
4.4.3	Total Amount of Loans, Other Claims and Assumption of Obligations to One Borrower	89
4.5	Limitations on Investment	89
4.6	Banks' Income Statements	90
4.7	Performance of Savings Banks	90
4.7.1	Structure of Savings Banks' Balance Sheets	91
4.7.2	Asset Structure of Savings Banks	91
4.7.3	Liability Structure of Savings Banks	91
4.7.4	Liabile Capital of Savings Banks	92
4.7.5	Analysis of Asset Quality of Savings Banks	92
4.7.6	Limitations Decreasing Risk	92
4.7.7	Limits on Investments	93
4.7.8	Income Statement of Savings Banks	93
4.8	Supervision of Banks and Savings Banks	93
V	Treasury	95
5.1	Trends in Cash	97
5.2	Commemorative Money	97
VI	Organization, Management and Human Resources	99
6.1	The Council of the Croatian National Bank	101
6.2	Internal Audit	101
6.3	Organization and Computerization	102
6.4	Payments Operations	103
6.5	Legal Affairs	104
6.6	Personnel Management	104
6.6.1	Education and Training of Employees	105
6.6.2	Employee Wages	106
6.6.3	Social and Other Features	106
VII	Financial Report: Annual Financial Statement of the CNB	107
7.1	Income Realized	109
7.1.1	Interest Revenue	110
7.1.2	Other Income	111
7.2	Expenditures	111
7.2.1	Interest on Liabilities	112
7.2.2	Costs	113
7.3	The Unspent Portion of Income	115
7.3.1	Fixed Capital	115
7.3.2	The Special Reserve Fund	115
7.4	Surplus of Income over Expenditures	115
	Management and Internal Organization of the Croatian National Bank	117
	List of Banks	121
	Statistical Appendix	131

**FOREWORD TO THE 1998 ANNUAL REPORT
OF THE CROATIAN NATIONAL BANK**



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998

*FOREWORD TO THE ANNUAL REPORT OF THE
CROATIAN NATIONAL BANK FOR 1998 SUBMITTED TO
THE CROATIAN STATE PARLIAMENT*

It is my great honor and special pleasure to present this Annual Report of the Croatian National Bank to the Croatian State Parliament for approval. With this act, the Croatian National Bank fulfills its legal obligation (article 8 of the Law on the Croatian National Bank) to report to the Croatian State Parliament on its activities in the Croatian economy and on its overall work. The Council of the Croatian National Bank ratified this report at its session of May 19, 1999. As has been the practice in recent years, in this foreword I will attempt to identify the most important features of the past year from the point of view of the central bank, and then look to the future.

As Governor of the Croatian National Bank, I consider three groups of events of special importance in 1998: 1) The situation of the banking industry 2) The continuation of macroeconomic stability in new circumstances and 3) The relation between fiscal and monetary policy.

Ad 1) 1998 was not the first year in the history of Croatia as an independent country in which there were problems in the banking industry. Even before monetary independence, the Republic of Croatia had to intervene in the banking sector, for example by freezing the "old" foreign exchange deposits and issuing "big bonds". After monetary independence came a series of bank rehabilitations which began in 1995 (Slavonska Banka) and continued during 1996 (chronologically, Riječka Banka, Split-ska Banka and Privredna Banka). These banks accounted for about 40 percent of the balance-sheet total of the banking system at the time. All of these interventions are still to this day very costly to taxpayers. However, at that time, the public understood that the problems were related to the "socialist inheritance", or were "the price that had to be paid to leave Yugoslavia." That is, it was understood that these actions were necessary to make a break with the past, and were not mistakes made in independent Croatia. It should be emphasized that these banks are now either privatized (Slavonska Banka), or in the process of privatization.

However, the crisis at Dubrovačka Banka, which began in the early spring of 1998, and especially the crisis at Glumina Banka, and unfortunately later problems at some small and medium-sized private banks, have been seen completely differently by the public. These crises inevitably have their contemporary financial-economic and political dimensions. For these reasons, 1998 can be characterized as the year in which there has been the most discussion of banking problems, from various points of view.

The principal causes of the crises in newly formed banks are inappropriate business strategies that called for excessively rapid growth of assets along with excessively high deposit interest rates. In addition, inadequate liquidity reserves and lending to small groups of connected enterprises that did not repay their loans were common characteristics.

The Croatian National Bank has emphasized many times that the large majority of the Croatian banking system is healthy (as much as banks are healthy anywhere in the world). The fact is that most banks have been strengthened by the various measures taken by the government to solve the banking system's inherited problems. The best way to get out of the problems we have been faced with in 1998 and 1999 is to take decisive steps, rather than to wait for a more propitious moment. With this in mind, in 1999 the Croatian National Bank has proposed the opening of bankruptcy

procedures for six depository institutions. These decisions have been made in accordance with the new institutional framework (The Law on Banks, GG 161/98), and have been accepted by the courts. These banks had a total balance sum taken together of about 7 percent of the total balance sum of all Croatian banks at the end of 1998. It is worth emphasizing that not only countries in transition, but also all developed countries are frequently faced with banking problems. Ergo, it is impossible to avoid such problems. However, they should be resolved promptly and decisively. This is the key to the future stability of the banking system.

Ad 2) During 1998, for the fifth consecutive year, internal and external economic stability were maintained. This is an exceptionally important accomplishment.

The most important economic feature of 1997 was the large deficit on the current account of the balance of payments of 12.2 percent of GDP. In 1998, economic policy was oriented above all to decrease this unsustainable deficit. These efforts were successful, and the deficit decreased by five percentage points of GDP, without doubt a very significant adjustment. The deficit in 1998 was 1.5 billion dollars, or 7.3 percent of GDP. The main factor causing this substantial decrease was the slowdown in domestic demand, which had been the main generator of the deficit. It should also be mentioned that in 1998 the means of financing the deficit also changed. Foreign direct investment increased significantly, reaching 763 million USD, three times more than in 1997. However, foreign borrowing, although only half of the 1997 record, remained the main form of financing the current account deficit. 1998 showed that stimulating exports (goods and services), along with greater foreign direct investment is the only way to long-term, sustainable prosperity for the Croatian economy.

In 1998, the stability of the exchange rate of the Croatian currency, the kuna, was maintained. It should be noted that towards the end of the year, there was pressure on the currency, which required more frequent and larger interventions by the central bank on the foreign exchange market (mainly sales of foreign exchange). At the same time, the kuna depreciated relative to the German mark. Depreciation amounted to 6 percent in 1998 (which in any international comparison is a minimal amount), but it must be emphasized that most of the depreciation occurred in the last part of the year. The depreciation of the kuna against the mark continued during the first part of 1999 (by another 4 percent), and was stabilized in March. The CNB was compelled to intervene to prevent excessive depreciation fuelled by psychological factors.

Despite these interventions, the foreign exchange reserves of the CNB (taking into account the net effects of exchange rate changes) increased by 276.5 million USD to 2.8 billion USD at the end of 1998. This is, nota bene, greater than the increase in 1997.

During this year, inflation was 5.7 percent, measured by retail prices. This is somewhat higher than in the 1994 to 1997 period. The increase in the inflation rate was mainly caused by the one-time effects of changes in relative prices due to the introduction of the value-added tax at the beginning of 1998. It must be noted that we have now for five years kept the worthy title of transition country with the lowest inflation.

1998 will be remembered as a year in which the growth rate of gross domestic product slowed. After the 1994 to 1997 period, when GDP grew from 5.9 to 6.8 percent per year (very rapid growth in international comparison), GDP growth fell to 2.7 percent. The growth of GDP came during the first three quarters, while GDP fell during the last quarter.

In 1998, unemployment remained one of the fundamental economic problems, with serious social consequences. Unemployment continued to grow in 1998, with registered unemployment (with all the qualifications that one must place on this figure) breaking the 300 thousand level. However, despite high unemployment, average nominal net wages continue to grow. During 1998, wages were 2,649 kuna, and were on average 13 percent higher than the year before. Keeping in mind the rapid growth in wages since 1994, it would be a good idea to seriously discuss the sustainability of these rates of growth in the near future, as well as their influence on the competitiveness of the Croatian economy.

Monetary developments in 1998 differed from those in the years since monetary independence, and were particularly different from the post-stabilization years. All monetary aggregates grew slower, and some even decreased in nominal terms. The money supply, which grew by 21 percent in 1997 (in 1995 and 1996 by 25 and 38 percent respectively), decreased by 1.5 percent in 1998. Base money, the monetary aggregate over which the central bank has the greatest influence, decreased by 3.8 percent on a December-to-December basis. Only the broadest monetary aggregate, M4, which includes foreign exchange deposits as well as kuna deposits, grew, but at a substantially slower pace than in the past. In 1996 M4 grew by 49 percent, in 1997 by 38 percent, and in 1998 by only 12 percent. At the end of 1998, M4 was 56.6 billion kuna.

It is possible to identify four interconnected reasons for the slower growth of monetary aggregates. First, the repatriation of foreign exchange from abroad to citizens' domestic foreign exchange accounts has definitely ended. Second, the transactions demand for money decreased as a result of the slower growth of economic activity. Third, two periods of depreciation of the kuna lead to decreased demand for domestic currency. Fourth, the illiquidity (blocked accounts for many months) and insolvency of a number of banks was a shock that had a strong effect on the behavior of economic agents.

In 1998, the explosive growth of bank placements, which had been 44 percent in 1997 (loans to households doubled) decreased to a still-high 22 percent. Along with tighter domestic policies, the changed international environment also had a strong effect. The conditions for foreign borrowing were significantly less favorable in 1998 than in 1997. This was mainly due to the spreading effects of the Asian financial crisis, both in Europe (especially Russia) and in Latin America. Investors were more cautious. According to estimates made by the BIS, western banks withdrew about 17 billion dollars from emerging markets after the Russian crisis.

Interest rates did not continue their expected decreasing trend in 1998. High interest rates, along with large differences between lending and borrowing rates, surely present a significant problem for the Croatian economy. It is difficult to say what constitutes a representative interest rates, but we can mention that average lending interest rates of commercial banks varied around 15 percent during 1998.

I would like to make three comments about the level of interest rates. First, the level of interest rates is certainly high, but it is not unusual by world standards. A number of emerging markets have real interest rates nearing or even exceeding 10 percent, like Croatia. In Asia, Korea, Indonesia and Thailand; in Latin America, Argentina, Chile and Mexico; among other transition countries, Poland and Slovakia, and some others. Second, interest rates cannot be decreased through expansionary monetary policy, as is sometimes suggested. The causes of high interest rates are beyond the scope of monetary policy. They lie mainly in the structural problems of the economy, high risk premia including both systemic and credit risk which are included in the price of capital, in banking problems, inadequate bank credit policies,

expensive funding sources, and the segmentation and underdevelopment of financial markets in Croatia. Third, interest is the price of money; this price is freely formed on the credit market. In other words, credit is not a punishment, but a contractual business agreement between two parties that agree on the price of the transaction on the basis of supply and demand.

- Ad 3) Monetary policy cannot be examined separately from economic policy, especially fiscal policy. Frequently, monetary and fiscal policies undertake joint tasks. My exposition of the relationship between monetary and fiscal policy begins with the fact that, in 1998, the CNB granted several short-term loans to the budget. These loans were gradually returned during the year, and were completely returned by the end of the year. During the whole period, the indebtedness of the government with the central bank was substantially lower than the maximum allowed by law.

It is very important for macroeconomic stability that in the last five years, the central government budget has either shown a surplus (1994 and 1998) or very small deficits (1995-1997). During this whole time, extrabudgetary funds had deficits of a structural nature. This problem will have to be faced over a longer time period.

Two fiscal events occurred in 1998. The first was the introduction of the value-added tax, and the second was the rebalance of the budget in June 1998. Revenues from the VAT were larger than expected, and allowed the budget to show a surplus in 1998. However, a negative feature is the high level of government consumption. It grew in 1998 by 30 percent, leading to a very rapid growth of its share in GDP. It must be stressed that the government budget has grown since 1995, and in four years has increased by 57 percent. Since extrabudgetary funds are also growing, the burden of government consumption on the economy is very high. The share of consolidated central government has grown from 41 percent to 50 percent in the last five years. This is a very high level considering the country's level of development. Of course, the Croatian state has faced large and exceptional tasks in recent years. It had to finance independence, war, large numbers of refugees, reconstruction, transition, etc. However, although the question of the level of government consumption is a question of public choice (the Parliament votes on each budget), it is necessary to state here that such high levels of consumption have a negative impact on the whole economy, including the competitiveness of our exports, which is a key to long-term growth.

To this should be added the fact that in 1998, the trend of relations between commercial banks and the central bank (the monetary system) and the government changed. For as long as comparable statistics have existed (since 1993), we have seen a very positive trend: net claims of the monetary sector (that is claims minus obligations to the government — deposits) have continuously decreased. Starting at 19 billion kuna in December 1993, they reached 6.2 billion (one-third) in March 1998. During the next two quarters net claims stagnated, and since September 1998 the trend has reversed. It is true that net indebtedness of the government at the end of 1998 was approximately the same as at the end of 1997 (a little bit above 7 billion), but on a rising trend. This growth continued in 1999, which leads to "crowding-out" of the private sector.

What will the Croatian National Bank devote itself to in the near and distant future? There should be no special surprises. The central bank, by the nature of its tasks, is a conservative institution. Our fundamental tasks are stated in the Constitution and the Law on the Croatian National Bank. Nonetheless, I would like to particularly emphasize here the following aims or policies: 1) strengthening financial stability (especially bank supervision) 2) maintaining macroeconomic stability and 3) as rapid as possible inclusion in worldwide economic integration.

Ad 1) There is no doubt in that in today's world, the question of the financial stability of individual countries, and indeed of the whole world system, is of primary importance. Banking intermediation is only a part, albeit in Croatia the most important part, of total financial intermediation. It has already been noted that banking problems are very expensive both for the budget and in terms of the growth opportunities lost. Because of this every country, realizing that a public good is in question, entrusts banking supervision to a state agency of some sort, trying thereby to increase financial stability. However, this task is not at all easy. Risk is inherent in the market and cannot be completely eliminated. Even if this were possible, it certainly would not be good or efficient. So it is in banking. There is no doubt that we need stronger and more effective supervision of banks to decrease the risk of bank failures in the future. But at the same time, it is important to note that excessive regulation can be detrimental too. Every regulation has its costs. It is impossible to precisely define the balance between decreasing risk and increasing the costs of (excessive) regulation. This balance varies in particular countries and times.

I consider it necessary to emphasize that the question of the stability of banks is very complicated, and contains at least three elements: market discipline, effective management of the enterprises called banks and effective regulation and supervision. If even one of these elements is missing, stability will be undermined. Although the Croatian National Bank accepts its share of responsibility for bank supervision, the limits of its role cannot be ignored. A comparison with driving may provide an analogy. In order to drive an automobile, a person must obtain his driver's license (in our case, a banking license). There are rules, agreed-upon in advance (The Law on Banks and other acts), and it is expected that every driver will follow these rules. There are traffic police who enforce the laws (bank supervision). However, every driver makes certain decisions independently. Every driver holds the wheel in his own hands, and controls the gas and the brakes. In this same way, the management of banks make business decisions independently. Unfortunately, just as on the highways, laws are broken and accidents happen, because of lack of knowledge and lack of attention, and even intentionally. It must be understood that bank supervision can influence honest bank management. Conscious, premeditated theft cannot be prevented. However, to decrease the moral hazard problem (it is difficult to differentiate whether some banks fail because of intentional acts, whether the reason is theft, or simply unfortunate circumstances), the courts must be able to effectively punish those who consciously break the law. Without the whole institutional framework and effective institutions of the rule of law, it is impossible to speak about a stable banking system.

The Croatian National Bank has made great efforts to strengthen the supervisory function, and it should be stated that in the future this will be our primary strategic task. A medium-term plan for the development of supervision has been adopted, but it cannot be realized overnight.

Ad 2) Inflation in essence is nothing other than deception. For this reason, the CNB must continue to limit itself to its fundamental task — maintaining stability. In this context, I would like to especially emphasize the dangers involved in giving monetary policy too many tasks, or of giving it tasks it cannot accomplish. The notion that monetary policy should stimulate economic growth, decrease unemployment, resolve problems of structural adjustment, resolve the problems of slow payments (sometimes called illiquidity), etc. is often heard.

We would like to repeat the well-known thesis that monetary policy's domain is limited, and that global macroeconomic measures cannot resolve structural economic problems. If one desired to misuse monetary policy, the only way would be to print

money and stimulate inflation so as to create a short-lived illusion of nominal growth — growing nominal wages that can buy less and less real goods. However, the price that would be paid in the medium-term would be extremely high.

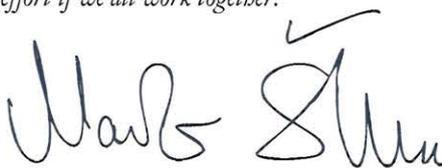
However, macroeconomic stability is affected by factors other than the relations between fiscal and monetary policy. Macroeconomic stability is affected by the regularity with which economic agents discharge their financial obligations (financial discipline) and the struggle against bribery and corruption, behaviors that have a high price for the economy in the sense of economic growth foregone.

- Ad 3) Croatia's economic situation cannot improve without accelerated integration. Unfortunately, we are not members of the World Trade Organization, or of CEFTA, and the timetable for joining the European Union is completely unknown. We do not even have a Cooperation Agreement with the European Union. It is very difficult to increase exports in such circumstances, since we are less competitive than members of these organizations from the very start. Because of this, Croatia is unfortunately one of the few transition countries that has decreased its share on the European Union market since 1993, and merchandise exports in general have remained unchanged during these years. This is the price of non-membership in these associations, and sometimes even creates a negative climate for foreign direct investment in Croatia.

While this situation, which is beyond the control of the central bank and often even beyond the control of Croatia, remains unchanged, we have no alternative: monitor events in our surroundings, adapt to world trends, continue to follow a policy of macroeconomic stability, increase transparency and be patient. Above all, we must be aware that we live in a globalized and interdependent world.

Here is an example. There is no doubt that the introduction of the Euro — the common currency of 11 European Union countries — is the most significant financial event in the last fifty years of financial history. It shows clearly that although all countries use money, there is no reason why a country must use its own money exclusively. Nor is it necessary that every "domestic" producer of money be a monopolist whose money is the only one recognized. In our situation, Croatian money was not only an important instrument of economic policy; but was an important symbol of state sovereignty and independence. It was precisely monetary independence that allowed us to achieve macroeconomic stability. However, the world is dynamic, and standing still can lead to disaster. Because of this, Croatia too will have a positive view of the Euro in the future.

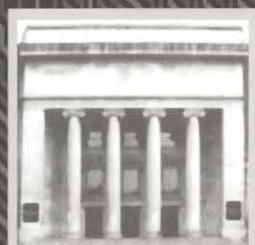
In conclusion, I hope that the esteemed members of the Croatian State Parliament, and all those interested in the activities of the Croatian central bank, will find this Annual Report interesting, and that the report will stimulate them to advance the future economic development of our beautiful country. We can only succeed in this effort if we all work together.



Prof. Dr. Marko Škreb
Governor, Croatian National Bank and
President, Council of the Croatian National Bank
Zagreb, May 31, 1999

1

**MACROECONOMIC
DEVELOPMENTS IN 1998**



HRVATSKA
CROATIAN NATIONAL BANK - ANNUAL REPORT 1998

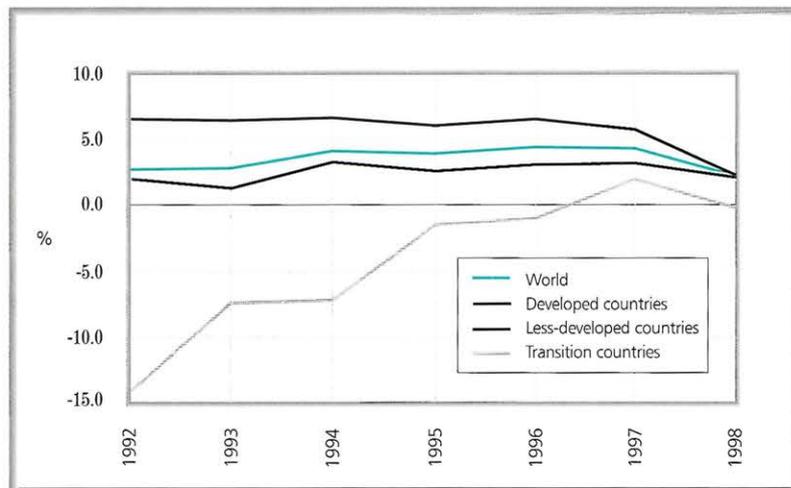


I.1 International Environment

1.1.1 Slower Growth of the Global Economy

The international economic environment did not support faster economic growth during 1998. However, this had differing implications for different segments of the world economy. The expected growth rate for 1998 was corrected downwards several times, and the consensus¹ at the end of the year indicated real growth of approximately two percent for the world economy as a whole. At the beginning of the year, the main factor decreasing world growth was the recession caused by the East Asian financial crisis and its impact on emerging markets. Slower growth continued in Japan under these conditions² (East Asia is a major net importer of Japanese products), despite attempts by policymakers to combat recessionary tendencies by stimulating domestic demand.

Figure I.1
EXPECTED GROWTH RATES OF
REAL GDP IN 1998



Further recessionary pressure was felt in August, when the Russian crisis led to an additional worsening of growth prospects in many emerging markets, and particularly in some of the European transition economies and Latin America. The Russian crisis caused borrowing conditions to become more difficult for these economies on international financial markets, and led to a “flight” of investors from the securities of emerging market economies. The growth in the volume of world trade during 1998 worsened relative to 1997, and the export prices of goods on the world market as a whole decreased further, especially oil and other key export goods of developing economies. Although the consequences varied from case to case, all in all one can speak of a short-term worsening of conditions for emerging market economies.

Despite these unfavorable trends, economic growth in the developed countries (except for Japan) generally continued at satisfactory rates. In the European Union, only the United Kingdom experienced a more pronounced slowdown in growth (from 3.4 percent in 1997 to 2.7 percent in 1998)³, while economic activity in continental Europe continued its accelerating trend from last year. Economic growth in the European Union as a whole was 2.9 percent in 1998. Survey data, as well as

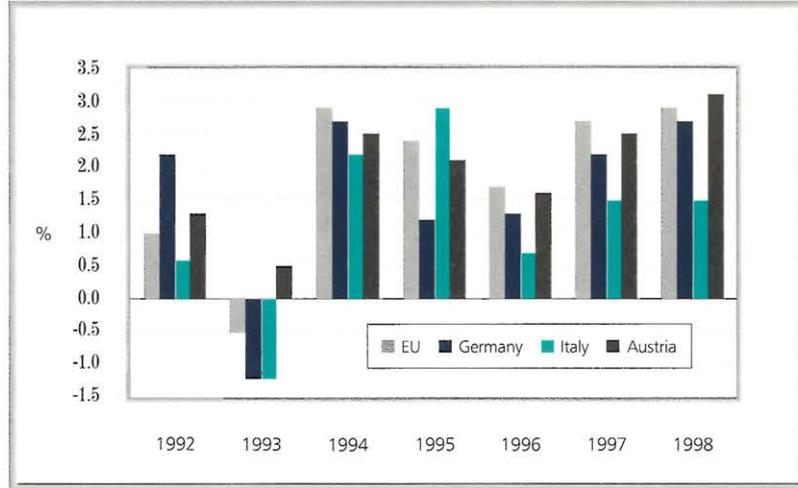
1 World Economic Outlook, October 1998, IMF, Table 2.1, p. 20.

2 Main Economic Indicators, April 1999, OECD, table “Gross Domestic Product” p. 215.

3 Ibid.

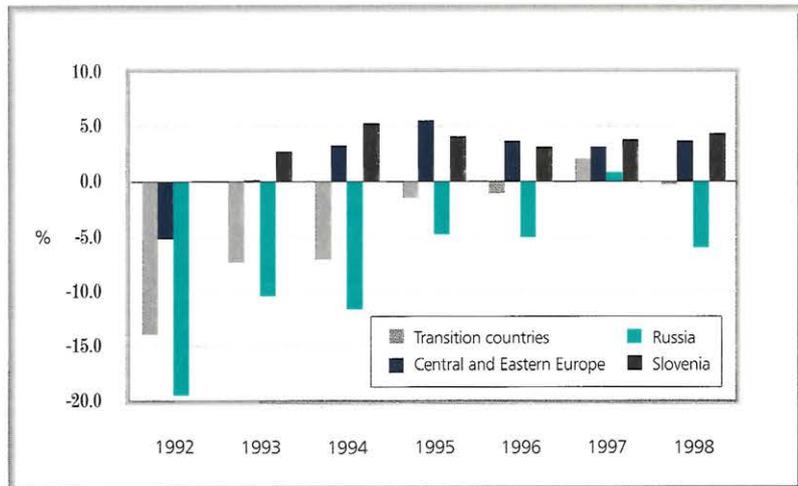
these figures, suggest that growth will continue in the short term. From the point of view of the economic conjuncture in the Republic of Croatia, it is especially important that economic growth accelerated in our main trading partners: growth in Germany was 2.7 percent (2.2 percent in 1997); in Italy it was 1.5 percent (the same as in 1997); and in Austria it was 3.1 percent (2.5 percent in 1997). However, it seems that in the medium term — beginning in 1999 — the negative effects of adjustment of demand in emerging market economies may be felt, leading to somewhat lower real growth in the European economies as well.

Figure I.2
REAL GROWTH RATES OF
GDP IN THE EU



The Russian crisis, because of the relatively large share of the Russian economy in the aggregates, made developments in the other transition countries extremely unclear. In the countries of Central and Eastern Europe (excluding Belarus and the Ukraine), expected growth was 3.7 percent, significantly faster than in the previous year. It is evident that the greater openness of these economies to the EU market has increased their resistance to external shocks, so that the Russian events (Russian GDP is expected to fall 6 percent in 1998) were balanced out by the continuing growth trend in the EU. The most important trading partner of the Republic of Croatia among the transition countries — the Republic of Slovenia — experienced growth of 4.4 percent (3.8 percent in 1997), meaning that the environment for further development of trade between the two countries remains good.

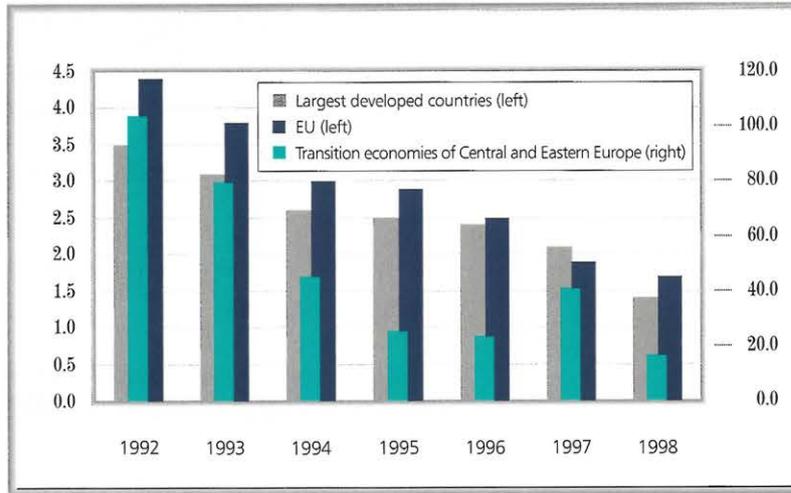
Figure I.3
REAL GDP GROWTH IN
TRANSITION COUNTRIES



1.1.2

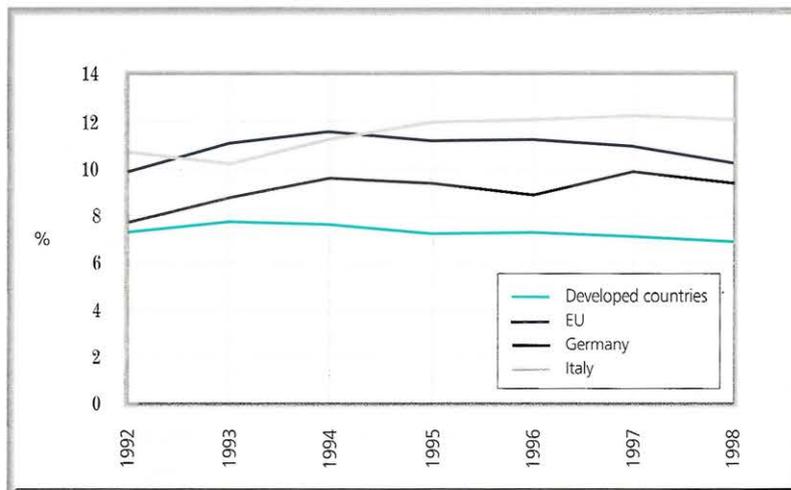
Preserving Stability

Figure 1.4
WORLD INFLATION IN 1998



The continuation of accelerated growth among developed economies during 1998, in the context of falling goods prices on the world market and growing financial instability in some emerging markets, did not lead to increased growth of prices. Furthermore, inflation in the largest developed economies⁴ continued to fall, so that aggregate inflation was 1.4 percent in 1998 (2.1 percent in 1997). A further factor working in this direction was the positive difference between potential and actual gross domestic product among most of the developed economies (except for the USA, where the difference is negative), which actually means that these economies still have room for faster real growth without inflationary consequences. Among the main developed economies, the output gap increased slightly in 1998 compared to 1997 (from 1.1 percent to 1.3 percent of potential output⁵) because of the expected growth of the gap in Japan. It seems that unemployment data also support this conclusion about the possibility of noninflationary growth. The rate of unemployment remained practically unchanged for the group of developed countries, falling very slightly, from 7.1 percent in 1997 to 6.9 percent in 1998.

Figure 1.5
WORLD UNEMPLOYMENT
IN 1998



From a price stability point of view, the EU was at the average of developed economies. Inflation was 1.7 percent, less than in 1997, when inflation was 1.9 percent. The gap between potential and actual gross domestic product decreased in

⁴ The seven largest OECD countries.
⁵ According to WEO, IMF October 1998.

the main European economies that are Croatia's main trading partners, reaching 2.6 percent in Germany (3.1 percent in 1997) and 2.1 percent in Italy (2.3 percent in 1997). Inflation in these economies was below the EU average, and followed the general decreasing trend. In Germany, inflation was 1 percent (1.8 percent in 1997), in Italy it was 1.7 percent (the same as in 1997), and in Austria it was 0.9 percent (1.3 percent in 1997). Similar remarks apply to the standardized rate of unemployment, which fell in Germany during 1998 to 9.4 percent, while it remained basically unchanged in Austria and Italy (4.4 percent and 12.1 percent).⁶

1.1.3

The Global Monetary System and the Financial Crisis in Emerging Markets

The continuation of the financial crisis in East Asia in 1998 (in Indonesia, South Korea, Thailand and Malaysia), mainly slowed down regional growth. Thus countries with close ties to these economies experienced the greatest negative effects on their own growth rates — Hong Kong, China, Taiwan, Singapore, Vietnam and Japan. However, the negative effects were not as great as those seen during the Mexican crisis of 1995. The IMF estimates that during 1998 real gross domestic product fell in the four economies affected by the crisis by about 8.7 percent. The situation in Russia, which in August 1998 became the center of crisis instead of East Asia, shows to some extent "contagion" effects from East Asia. However, the Russian crisis was also the culmination of unfavorable trends in the Russian economy itself. The general assessment is that large and unsustainable public sector deficits, along with reliance on short term capital inflows, and very slow structural reforms were the main causes of the large dimensions of the crisis. Not even the announcement of an arrangement with the IMF on July 20, 1998 was able to convince the international financial markets that the Russian authorities' position was sustainable. The crisis occurred almost immediately after the announcement of this agreement. Estimates of the effects of the Russian crisis on other transition economies depend on the strength of the economic connection between these economies and Russia. The most unfavorable effects were seen in the Ukraine, which has similar structural problems and is very sensitive to changes in the perceptions of international investors. Other transition economies of Central and Eastern Europe, as well as those of the former Soviet Union, experienced temporary pressure on their securities markets and on foreign exchange markets. Interest rate premiums on issues of Eurobonds grew, increasing the degree of "sensitivity" and complicated economic policy making during 1998. Because of the decrease in economic activity in Russia, a process of adjustment of "real" flows of exports and imports is underway, which has further unfavorable consequences for the countries of the former Soviet Union which have not diversified their foreign trade to alternative markets other than Russia.

The continuation of the financial crisis in emerging markets in 1998 increased demands for changes in the architecture of the world monetary system. This presents new challenges for the international institutions whose primary duty is to maintain world monetary stability, the IMF and the World Bank. Although the IMF undertook several initiatives after the outbreak of the Mexican crisis in 1994/95, the financial crisis in East Asia and in Russia clarified the fact that global measures are needed to remedy the potential weaknesses of financial systems and the excessive growth of debt, as well as to insure greater transparency in the activities of the public and private sector.⁷

⁶ The last available data are from the third quarter of 1998: 12.3%. The figures for the first two quarters ranged from 12.1% to 12.3%, so that the changes were not significant.

⁷ IMF Annual Report 1998, p. 48.

The Executive Board of the IMF has indicated five main directions of change to strengthen the international monetary system:

- ❑ Strengthening international and domestic financial systems through strengthening the supervisory and regulatory framework and through the implementation of appropriate standards for banking supervision.
- ❑ Strengthening IMF surveillance (through closer cooperation with the World Bank and the BIS regarding the financial sector, paying closer attention to questions regarding the capital and financial accounts of member nations, through better evaluation of “contagion” risks and market perceptions, and through improving timely communication with member nations).
- ❑ Stimulating greater transparency in publication of data on the economic situation among member nations and in publication of information on economic policy measures implemented by member nations (increasing the coverage of the Special Data Dissemination Standard (SDDS) and the possibility of publishing Press Information Notices (PINs) about discussions about particular member nations in the Executive Board of the IMF).
- ❑ Emphasizing the central role of the IMF in managing financial crises (in coordination with the World Bank and regional financial centers) and
- ❑ Including the private sector in preventing and resolving financial crisis (through closer contacts with private sector representatives, through increased study of the introduction of new regulations in agreements on the emission of sovereign and private securities that can allow the owner of these securities to be represented in any discussions about restructuring the repayment of the securities, and through additional initiatives that guarantee timely information of the private sector on the state of the economy).

1.1.4

The Position of the Transition Economies Regarding the Liberalization of Capital and Financial Transactions

The seriousness of the financial crisis in East Asia and Russia has further emphasized the sensitivity of transition economies to changes in the perceptions of international investors. At the same time, it has exposed the inherent weaknesses in economic policy in these countries and the risks that these countries are exposed to in conditions of very rapid and extensive capital inflows. It seems that the main systematic consequence in 1998 is a reexamination of the liberalization of the capital and financial accounts. Although some have expressed the opinion that a return to capital controls would be desirable, the relevant issues for transition economies are apparently not so simple. It is clear that liberalization of the capital and financial accounts must be in harmony with the general level of a given economy regarding macroeconomic stability and an acceptable degree of structure reform. This especially includes the creation and maintenance of “shock resistant” financial systems. Thus, it is not a question of whether to liberalize or not, but rather a question of how to find an optimal sequence or time path of liberalization given the capabilities of the economic system to adapt to and sustain liberalization.

A correct order of liberalization, or correct sequencing, decreases the chances of inappropriate allocations of productive factors that can occur during liberalization to the extent that the macroeconomic foundations of an economy are exposed. In a prudent liberalization, or liberalization in small steps, market imperfections must be taken into account. The same applies to the asymmetric availability of information and other specific characteristics of particular markets that can lead to unfa-

avorable changes and instability when foreign capital flows are present, especially short-term and speculative flows. At the international level, an attempt will be made to solve these problems through a strengthening of the architecture of the international monetary system and through stimulation of the efforts of national economic authorities to work in this direction.

1.1.5

Introduction of the Euro and its Influence on Croatia

11 countries of the European Union; Germany, France, Italy, Spain, Holland, Belgium, Luxembourg, Portugal, Finland, Austria and Ireland, qualified for entry into the European Economic and Monetary Union (EMU), which began on January 1, 1999. Only Greece was left out of the first group of countries in the EMU for economic reasons, while the United Kingdom, Denmark and Sweden decided not to participate for political reasons from the very beginning.

The establishment of the EMU is divided into three phases. In the first phase, or phase A, which ended at the end of 1998, preparations for the EMU were made, such as introducing laws on the conversion of the national currencies and other association legislation, deciding which countries would participate in the EMU on the basis of the Maastricht criteria, founding the European Central Bank (ECB), which grew out of the European Monetary Institute, founding the European system of central banks, which includes all the central banks of the member countries of the EMU, the beginning of the production of paper money and coins and intensive preparations for the conversion of the currency, especially in the financial and banking sectors. The basic idea in founding the European central bank was to allow it a high degree of independence. This would allow it to be a guarantor of prudent monetary policy in "Euroland", without regard to the political changes and conflicts that may occur. There was a high degree of political consensus in favor of ECB independence. Theory and practice of central bank operations up to now have shown that a high degree of independence of monetary authorities from politics is one of the preconditions for the effective operation of a central bank.

On January 1, 1999, phase B of the project of European economic and monetary union began — the beginning of the EMU and market conversion in the non-cash sphere. This beginning meant:

- The once-and-for-all fixing of the exchange rates of members of the EMU against the Euro, and implicitly between the currencies of the participating countries, as well as the formation of the exchange rate of the Euro with other currencies.
- The introduction of the Euro as accounting money.
- The transfer of responsibility for "Euroland" monetary policy to the European Central Bank (ECB), with the European System of Central Banks (ESCB) beginning to implement all transactions on the money markets and foreign exchange markets in Euro. "Euroland" includes all of the 11 countries that have joined the EMU.
- The beginning of the operation of the Real Time Gross Settlements System (RTGS), under the name TARGET, in Euro, and the offering of conversion facilities in the ECSB system.

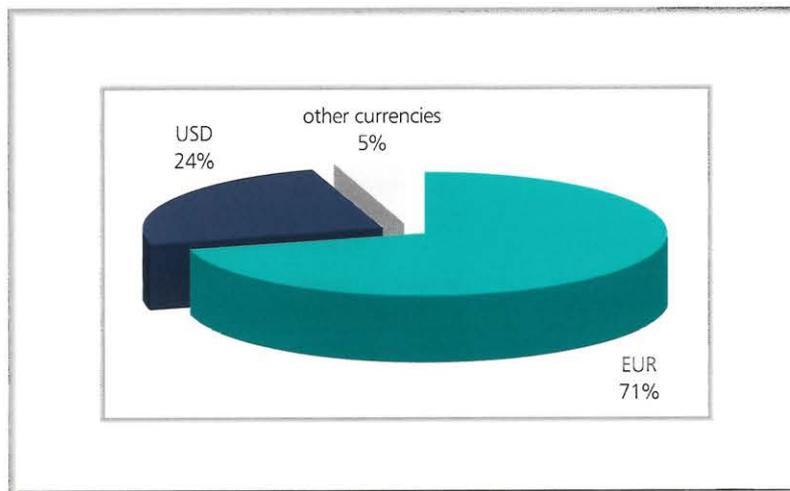
Phase B is limited to three years at the most, that is to January 1, 2002 at the outside. At that time, the third phase (phase C) of implementation of the monetary union will begin. In this phase the conversion of banknotes and coins will be effected. The end of this operation will be the end of the conversion period, for at that time

the banknotes and coins of countries that have entered the EMU will lose the status of legal tender. This phase will last at most six months.

The introduction of a common currency in the European Union is a major step towards creating a unified European economy. In this sense, the plan for creating a unified European economy is now in its next to last phase. It began with the creation of a single market, and continued with the introduction of a common currency. The last step will be the harmonization of fiscal policy, including increasing the common budget for intergovernmental transfers, along with the harmonization of economic legislation.

The effects of introducing a common currency into the single market should be positive. The transaction costs of currency exchange will be removed, along with exchange rate uncertainty (exchange rate risk). The introduction of a common currency will increase the transparency of the market and increase competition on the single market. Given that a very large and very liquid financial market will be created, services will be cheaper (lower interest rates) and more attractive (a wider assortment and greater availability of financial products). Also, to the extent that the Euro takes from the dollar a significant part of the function of international currency, that is, to the extent that the Euro becomes the dominant currency for international financial transactions (except between the USA and Asia, where its prospects are limited), the increase in welfare for Europe could be as much as 0.4 percent of GDP per year.

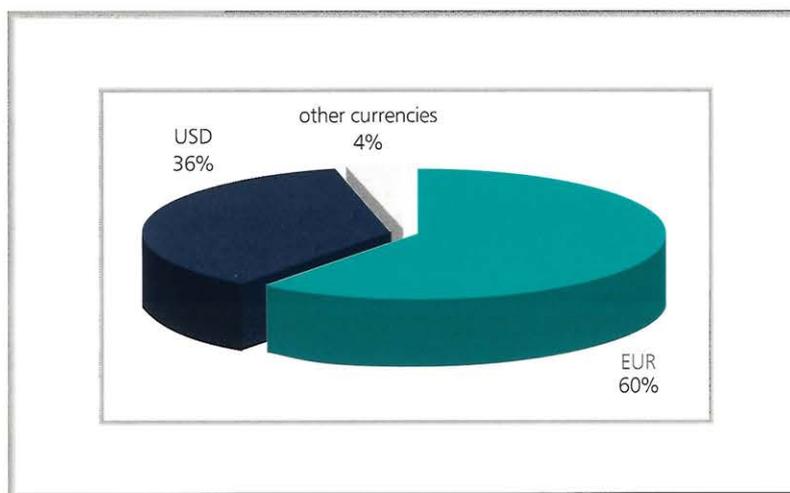
Figure I.6
CURRENCY STRUCTURE OF
MERCHANDISE IMPORTS OF
THE REPUBLIC OF CROATIA,
(January-September 1998)



Source: Central Bureau of Statistics

The creation of a European monetary union, the most important event in international finance since the Bretton Woods agreement, will have a major influence on other countries as well as members of "Euroland." Here we must especially emphasize the influence on the transition countries of Central and Eastern Europe (CEE), including Croatia. The transition countries of CEE can be seen as "pre-in" countries of the EU, with a long waiting period, since they will eventually enter into the European Union and Economic and Monetary Union. Because of this, the EMU will have a greater influence on them than on other countries outside the EMU. The CEE transition countries must take the introduction of the common currency into account, since more than 50 percent of their trade is with EMU countries, and this percentage will rise with the expansion of the EMU. In Croatia, after January 1, 1999, more than two-thirds of foreign trade is denominated in Euros. More than 20 percent more of Croatian exports and 35 percent more of Croatian imports are denominated in Euros than were denominated in German marks. This means that the Euro will be a better reference currency than the mark was.

Figure 1.7
CURRENCY STRUCTURE OF
MERCHANDISE EXPORTS OF
THE REPUBLIC OF CROATIA,
(January-September 1998)



Source: Central Bureau of Statistics

Changes in monetary and exchange rate policy within the EMU, as well as the structural changes that have already taken place and will take place in the European Union, will have an immediate effect on Croatia. Croatia should follow the development of events in the EMU so as to be able to make appropriate adjustments in the economic, legal and technological spheres. The introduction of the Euro means 1) changes in the main currency of Croatian savings 2) changes in the currency of account for the majority of our international trade 3) changes in the currency to which our exchange rate policy and business expectations are tied and 4) changes in the competitive environment in which our enterprises will enter into foreign markets. The beginning of the EMU de facto changes the "acquis communautaire" which the CEE countries, including Croatia, must adjust to if they wish to join the European Union. Because of all of this, the creation of the EMU will have a significant influence on Croatia. This influence will be small at the beginning, but will slowly grow with time.

In the first phase, the most important influence will be on the domestic financial sector and Croatian enterprises that are highly engaged in foreign trade, especially with the European Union. This part of the Croatian economy is making the most extensive preparations for the introduction of the Euro. From the very beginning, the possibility of inclusion in payments systems in Euro and providing Euro-based payments services to their own clients, suppliers and purchasers in the new currency has been of key importance for this sector of the economy.

In the next phase, stronger effects of the introduction of the Euro on Croatian household sector can be expected. These effects will begin before the conversion of physical currency (phase C of the introduction of EMU). Part of the foreign exchange savings of Croatian households is held outside of the financial sector. Since, as of January 1, 2002, the current national currencies of the 11 "Euroland" countries will lose the status of legal tender, savers (who predominantly hold their savings in German marks) will have to enter the financial system to convert their savings into Euros.

The EMU will have a very substantial effect on Croatia's export competitiveness. It is to be expected that the introduction of a common currency will substantially increase competition on the EU market. This means that our exporters will find it even harder to export to this market if they are not able to increase their productivity at the speed that others are increasing their productivity on the "Euroland" market. At the same time, import competition from our main trading partners will

be even stronger. Furthermore, a greater opening of the Croatian market can be expected, along with its entrance into world and regional trade organizations and integration.

In addition to the competitiveness of Croatian international trade, the introduction of the common currency will influence the competitiveness of our other main export sector — tourism. The introduction of the Euro will increase the attractiveness of tourist destinations that use the single currency compared to other destinations for tourists from our main tourist market, “Euroland.” In destinations using the Euro, there will be no conversion and transaction costs for tourists, prices will be transparent, and the increase in transparency and competitive pressure probably will also lead to improved services and decreased prices. In addition, tourist workers in Croatia can take advantage of the positive economic effects that will occur because of decreased costs in planning liquidity, converting currency and making monetary transactions, insuring against exchange rate differences and because of simpler accounting.

The EMU will also create greater incentives for investment in this area. These incentives will be the result of an expanded market and increased liquidity on the one side, and the removal of the risks of exchange rate fluctuations on the other side. A special incentive will be the removal of currency restrictions on the investment of pension funds within the EMU. At the same time, Croatia may be favorably affected by the increased need for diversification by portfolio investors because of the symmetry of business cycles within the EMU. Investors will use other instruments (securitization) and other countries to achieve diversification. The cheapness, efficiency and liquidity of the financial markets of “Euroland” will make it more attractive for transition country enterprises and their governments. Borrowing on this market and issuing Euro-denominated securities will become very attractive for CEE countries. In the long-term, this market will make financing and restructuring easier for transition countries like Croatia, of course under the condition that the countries themselves satisfy the criteria for entering the world financial market.

Since the EMU will increase the competitiveness and attractiveness of the market within “Euroland”, and since “Euroland” is the main foreign partner of Croatia, we may conclude that the EMU will speed up the adjustment and restructuring of the Croatian economy. This will be true to the extent that Croatia hopes to maintain its current position, and especially to the extent that it wishes to increase its share on this market.

Favorable effects will come from increased demand on this market, because of the increased growth of “Euroland”. This will also increase the chances for Croatian exports. The Croatian economy will only be able to use this opportunity if it restructures rapidly and raises productivity. In addition, it must rapidly associate with the European Union. If not, the increased demand of “Euroland” will be used by other countries.

I.2

General Characteristics of the Croatian Economy in 1998

The main characteristics of the Croatian economy in 1998 were slower economic growth in continued conditions of macroeconomic stability, a substantial decrease in the current account deficit, as anticipated in last year’s annual report, a significant increase in budgetary revenues after the introduction of the value added tax,

which after the rebalance of the budget, led to a significant increase in budgetary expenditures, and, finally problems among certain small and medium-sized banks.

In the first three quarters of the year, positive rates of growth of GDP were achieved. But in the last quarter, for the first time in the last five years, the quarterly index of annualized changes in GDP ended up negative. Looking at the demand side, changes in GDP were characterized by decreased domestic demand and the growth of foreign demand, which significantly helped the adjustment of the current account (by 36 percent), as had been foreseen last year.

Goods imports in dollars fell by 7 percent, while exports rose 9.5 percent, thanks to a major growth in ship exports. Current transfers decreased significantly, while the positive balance on services increased by 2.4 percent. Once again, the structure of financing changed substantially. Although increased foreign obligations remained the largest category in 1998, they decreased significantly relative to 1997. Foreign direct investment took a much larger role, increasing by 3.3 times. In this way, Croatia entered into a third phase of financing the current account. In the first phase, the repatriation or return of foreign exchange holdings to the banking system mainly financed the deficit. In the second, foreign borrowing was predominant, and in the third, the largest role was taken by foreign direct investment (mainly from privatization). This element is planned to grow even further in 1999.

The tightening of monetary policy decreased domestic demand and the current account deficit, and halved the rate of growth of lending. Capital controls were introduced in the second quarter of 1998. However, they were partially loosened later, due to the great difficulties domestic agents had in borrowing on international financial markets thanks to the Asian crisis and later the Russian crisis.

The main flow of creation of base money in previous years has been Croatian National Bank interventions on the foreign exchange market. In 1998, however, the direction of intervention of the Croatian National Bank in foreign exchange auctions changed completely. In 1997, base money grew at a monthly rate of 1.3 percent, while during 1998 it decreased at a monthly rate of 0.3 percent.

Inflation was maintained at the level planned by the central bank, excepting the one-time effect of the introduction of the VAT at the beginning of the year. Because of this, retail price inflation was 5.4 percent on a December-to-December basis, and 5.7 percent on a yearly average basis. This was more than the usual range of 3.5 to 4 percent which the CNB has maintained in years past, precisely because of the effects of VAT on services prices. 1998 was the first year in which the currency depreciated significantly since the stabilization program of 1993. Measuring the exchange rate at the end of the year, the kuna depreciated against the German mark, the main reference currency, by 6.5 percent. Depreciation pressures began in the middle of March and were present, with the exception of the summer months, through the rest of the year.

The interest rate trends seen in 1997 did not continue; in fact, they were reversed. Interest rates on the money markets, influenced by the banking crisis and increased segmentation on the market, increased significantly and nearly returned to the levels of the beginning of 1995. The interest rate spread increased because of the increase of bank lending rates and the mild fall in deposit rates, which was aided by the exit of a certain number of banks from the market. The reasons for high real interest rates in Croatia compared to other advanced transition countries remained more or less unchanged. Structural problems in the economy were further aggra-

vated by the growth of arrears, increased risk related to the depreciation of the kuna and increased market segmentation after the appearance of banking sector problems.

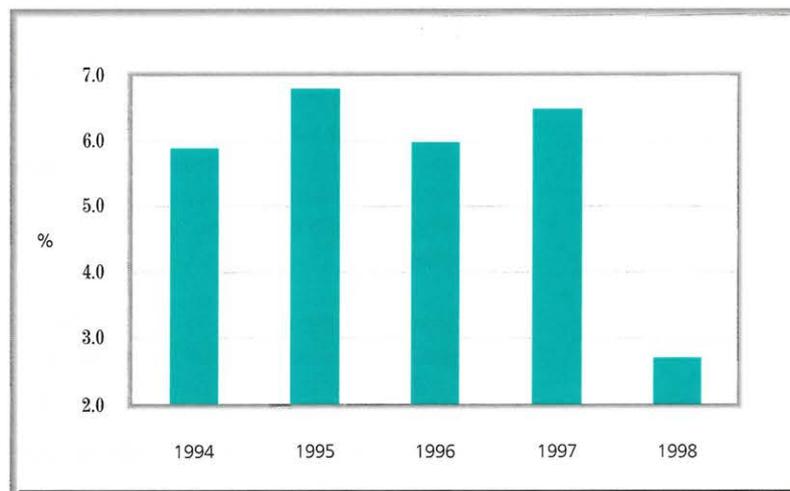
In 1998, the consolidation of small and medium-sized deposit institutions began. The problems in the banking sector began at the beginning of the year in Dubrovačka Banka, at that time the fifth biggest bank by total assets, and continued later in Glumina Banka, the sixth biggest by total assets, as well as some other small and medium-sized banks. The reasons for the problems in the banking sector or beginning of consolidation are many: a very liberal approach to granting licenses that allowed a large number of banks (more than in any other advanced Central and East European transition economy, except for Poland, which is a much larger country), very bad management in certain banks, because of which criminal charges have been brought in a certain number of cases, weaknesses in bank supervision (supervision began functioning in the CNB only in 1993), insufficient distance between banking and politics, as well as an inadequate regulatory framework, which was greatly changed at the end of the year when the new Law on Banks was passed. All of these factors indicate directly the way to resolve the problems of the banking system in the period ahead.

The introduction of the value-added tax at the beginning of the year brought with it much greater revenues than planned for in the 1998 budget. This means that gross domestic product, which is a basis for the projection of the tax base, is underestimated, or that the value added tax increased the total tax burden and reduced tax evasion. The nominal yearly growth of total budgetary revenues of the central government was 29.4 percent. In the middle of the year, the budget was "rebalanced" and expenditures were increased by 14 percent. At the end of the year, the accounts of central and consolidated central government showed surpluses, and the government paid off some of its debt from this surplus. For the first time, the share of domestic financing sources increased relative to foreign sources. The worsening situation on international financial markets contributed to this. A negative aspect of the fiscal situation, which has been repeated year after year, is the continued significant increase in the fiscal "bite" in GDP, as well the continuation of the multi-year negative trend of increased deficits in extra-budgetary funds, which is certainly unsustainable. In this sense, we can only repeat our assessment from last year's annual report: on the one hand, it will be necessary to gradually reduce the share of government in gross domestic product, and, on the other hand, to reform the pension and health insurance system so that their financing is sustainable in the long run.

1.2.1

Figure 1.8
REAL GROSS DOMESTIC
PRODUCT,
annual rate of change

Economic Activity

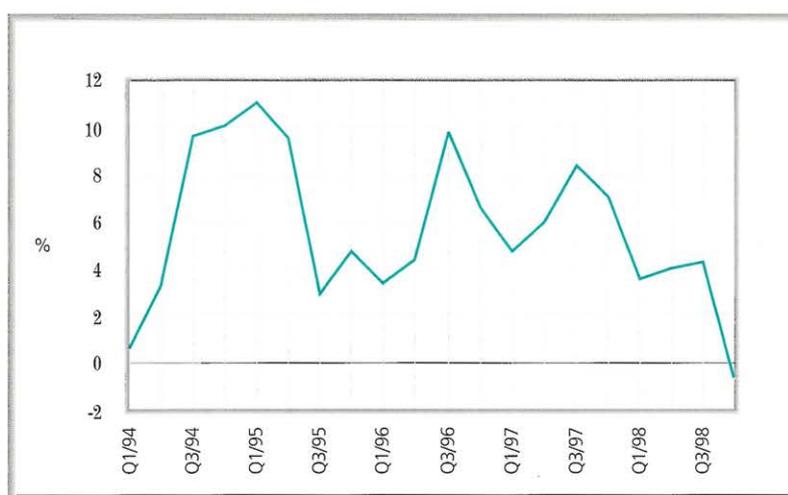


The rate of growth of GDP slowed to 2.7 percent in 1998. This was slower than the growth rates recorded between 1994 and 1997, which ranged between 5.9 and 6.8 percent. The 2.7 percent growth achieved during the year was based on growth of activity during the first three quarters, while recessionary development began in the fourth quarter.

The growth of gross domestic product achieved during 1998 came from growth in the physical volume of industrial production, tourist activity, trade turnover, postal and telephone services and weak growth of construction. On the consumption side, the growth of gross domestic product was aided by growth in foreign demand.

In the first three quarters of 1998, positive rates of growth of GDP were achieved, while in the fourth quarter the rate was negative; -0.8 percent at the annual level. In the first three quarters the same seasonal variations were seen as in the previous two years, with total activity accelerating from the first to the third quarter, but at a slower rate.

Figure 1.9
REAL GROSS DOMESTIC
PRODUCT,
annual quarterly rates
of change



Preliminary data on the expenditure side of gross domestic product in 1998 show that the real growth of 2.7 percent was the result of real decreases in total domestic demand and the growth of foreign demand. Looking at the components of domestic demand, real growth occurred in government consumption and investment, while the fall in household consumption and imports of goods and services determined the direction of change of domestic demand.

During the last quarter of 1998, both domestic and foreign demand moved in the same direction as in the whole year. A year before, the growth of domestic demand had been extremely high, which caused the large current account deficit. This is why economic policy sought to rein in domestic demand. The change in demand in 1998 resulted in an adjustment of the trade balance and current account. Foreign economic balances improved compared to the previous year. Exports of goods and services rose by 4.5 percent, and imports decreased by 6.5 percent, measured in US dollars.

Lower domestic demand in 1998 compared to 1997 was correlated with lower growth of commercial bank lending to the domestic non-government sector. The nominal growth of lending on a December-to-December basis fell from 44.1 percent in 1997 to 22.1 percent in 1998. Lending to households grew 38 percent, and lending to enterprises 14.8 percent. Commercial bank lending to general government in December 1998 was 81.4 percent above its December 1997 level.

These results from the expenditure side of gross domestic product indicate the modest real growth of total investment. Within this, growth in inventory investment decreased as inventories fell, so that what growth there was came from investment in fixed assets. However, indirect indicators on investment do not give a final answer about the total direction of change of this component of consumption. The fact that imports of capital goods fell by 0.4 percent, measured in kuna, suggests that investment may have fallen. Domestic production of capital goods increased by only 1 percent in physical terms, and the more than two-fold increase in exports indicates weak domestic demand for capital goods, or inadequate investment by domestic enterprises. At the same time, capital expenditures of central government grew by 35.1 percent in nominal terms, and that of government funds by 11.4 percent.

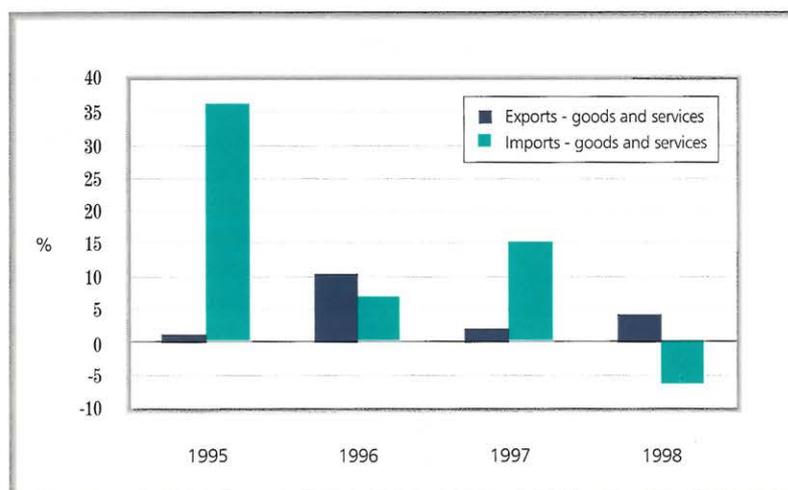
Investment in construction was expressed in the growth of construction activity, especially in the first three quarters, while a large fall in the fourth quarter decreased the annual growth rate to a mere 0.7 percent. The low growth rate in 1998 was the consequence of the extremely high rate of construction activity in 1997, which was stimulated by wartime reconstruction activity. However, housing construction (measured by the number and area of apartments completed) grew even more rapidly in each of the first three quarters. The ability of households to obtain long-term credit in 1997 and 1998 stimulated greater residential investment. The decrease in investment activity in the last quarter was an expression of the decrease in enterprises' internal sources for investment financing, the decreased opportunities for obtaining bank loans and loans from suppliers who were themselves under the pressure of liquidity problems.

The expenditure side of the gross domestic product shows that real consumption of households decreased in absolute terms and as a share in GDP in 1998. This is confirmed by the decrease in retail trade turnover of 0.4 percent in real terms. The relatively rapid rise of household consumption seen in previous years stopped. One explanation of the fall in household consumption is the lower level of employment, which narrowed the circle of regular consumers. Similarly, imports of non-durable consumption goods decreased by 6.8 percent in kuna, while imports of durable consumption goods decreased by 10.9 percent. Household disposable income, which grew 0.5 percent in real terms, also shows that consumption could not have grown much faster. The components of total pay and total pensions grew, while net withdrawals of households from banks decreased in real terms on the annual level. The depreciation of the kuna decreased the purchasing power of earnings over imports of goods and services, and increased the costs of repaying loans linked to foreign exchange, which further decreased consumption.

According to preliminary data on the expenditure side of gross domestic product in 1998, real expenditures of general government for goods and services increased. This category has grown from year to year, and always makes a significant contribution to the growth in demand. However, this did not achieve the priorities of economic policy: fiscal consolidation and the control of public consumption. Consumption of central government alone grew by 4.3 percent in real terms in 1998. Through the rebalance of the central government budget, the item outlays for goods and services was increased by 5.1 percent in nominal terms. Consumption of goods and services by extrabudgetary funds grew by 18.7 percent in real terms.

Net foreign demand for goods and services was negative, but 34.5 percent less than net foreign demand in 1997, measured in US dollars. Exports of goods and services grew by 4.5 percent measured in US dollars, while imports decreased by 6.5 percent. Exports of goods and services covered imports of goods and services 80.3 percent.

Figure I.10
NET FOREIGN DEMAND,
annual rate of change in USD



The most important contribution to the growth of supply came from industrial production. For several years running, this sector has experienced growth, with the highest growth coming in 1997. The physical volume of industrial production grew by 3.7 percent in 1998. During the year, industrial activity grew rapidly in the first three quarters, while in the fourth quarter it fell on a year-to-year level. Its largest component, processing industry, grew by 3.2 percent annually, and the supply of electrical energy, natural gas and water by 8.7 percent, while output of mining and extraction decreased by 2.4 percent. The growth rate of the supply of electrical energy, natural gas and water has grown from year to year. The two largest industries (the production of food and beverages and the production of chemicals and chemical products) decreased production considerably in the second half of the year.

Table I.1

BASIC REAL SECTOR INDICATORS, real indices

	1995 1994	1996 1995	1997 1996	1998 1997
Gross domestic product	106.8	106.0	106.5	102.7
Industrial production	100.3	103.1	106.8	103.7
Mining and extraction	102.5	97.0	99.7	97.6
Processing industry	99.7	101.3	103.9	103.2
Supply of energy, gas and water	104.9	125.4	124.2	108.7
Construction *	...	129.0	124.7	...
Physical volume of construction	...	109.0	116.7	100.7
Transport, warehousing and communications	...	102.8	113.3	...
Passengers transported	102.9	102.4	99.9	93.3
Goods transported	120.2	100.9	101.6	98.8
Trade *	...	117.0	117.3	...
Total turnover	...	...	...	102.2
Retail trade turnover	116.2	103.5	114.7	99.6
Catering and tourism *	...	133.3	119.6	...
Tourist night-stays	64.5	166.5	141.3	103.2
Domestic	98.8	112.3	116.8	94.1
Foreign	54.7	194.3	148.6	105.3

* Nominal index

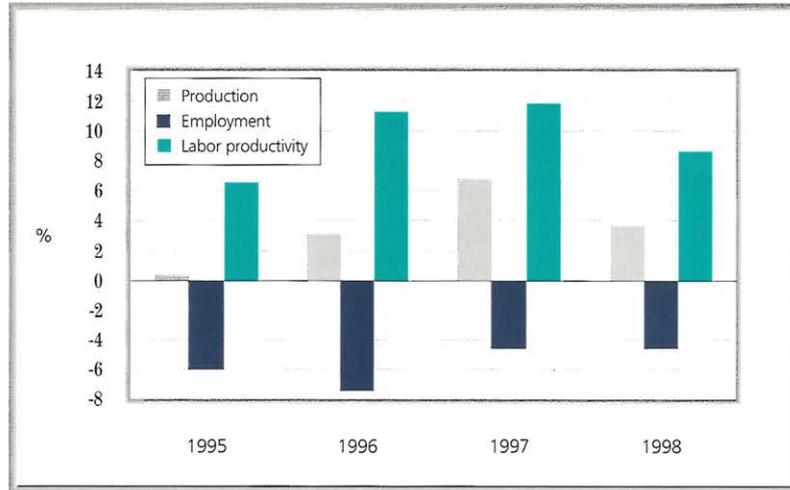
Source: Central Bureau of Statistics

Industrial employment decreased in 1998 by 4.6 percent, and productivity grew by 8.7 percent. Employment only increased in the supply of electrical energy, natural

gas and water, growing 1.4 percent, and in the small sector of office equipment and computers by 14.9 percent.

Industry is, after tourism, the sector of the domestic economy most closely connected with foreign markets. In 1998, it accounted for 97.6 percent of the exports of goods of the Republic of Croatia and 91.6 percent of the imports of goods. In recent years, its sales have mainly been directed to foreign markets because of weak domestic demand. The exports of this sector grew by 13.3 percent, measured in kuna. The value of inventories of final goods in industry grew by 15.7 percent on a December-to-December basis.

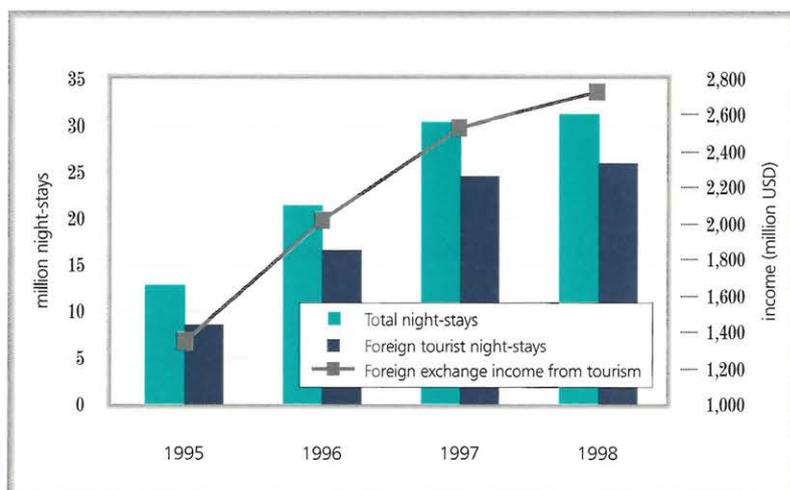
Figure I.11
INDUSTRY,
annual growth rates



In industry, production and exports are quite concentrated in certain of the 28 branches. In the formation of value added, four large branches (the production of food and drink, the supply of electrical energy, natural gas and water, the production of chemicals and chemical products and publishing and printing) account for 45 percent of production, and with another four branches account for 63 percent of value-added in industry. In 1998, five industrial branches accounted for 56 percent of the value of exports.

The number of tourists registered in 1998 was 5.4 million, 5 percent more than in the previous year. These tourists accounted for 31.3 million night-stays or an average of 5.7 nights per visit. Tourist night-stays grew by 3.2 percent annually. The night stays of domestic tourists decreased by 5.9 percent, while the number of foreign tourist night-stays increased by 5.3 percent.

Figure I.12
TOURISM



Tourists from five countries accounted for 77 percent of the night-stays of foreign tourists. By night-stays, tourists from Germany were in first place, (22.8 percent), with tourists from Slovenia in second place (15.5 percent), followed by tourists from Italy (14.1 percent), the Czech Republic (13.6 percent) and Austria (11 percent).

The share of income from tourism in exports of goods and services has increased since 1995, when because of war it was only 18.6 percent, reaching 31.8 percent in 1998.

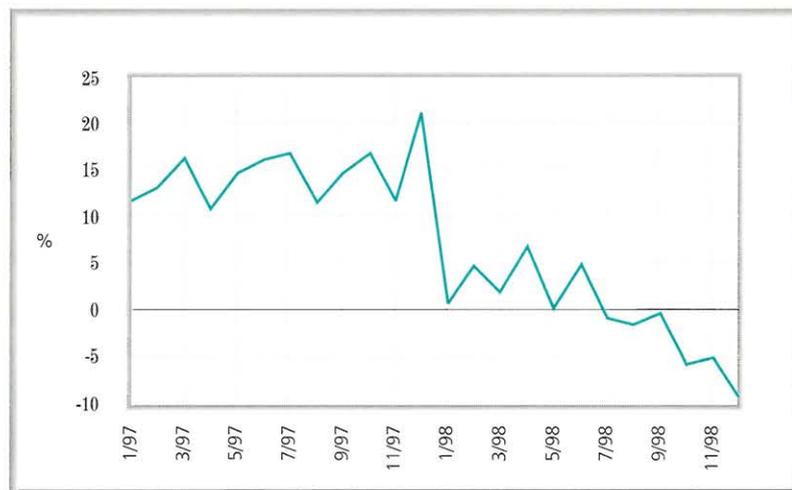
Employment in hotels and restaurants decreased by 6.1 percent in 1998.

Construction, measured by the physical volume of construction works completed, grew by 0.7 percent. In the first three quarters high rates of growth were recorded. However, in the fourth quarter activity fell by 5.7 percent. 53.7 percent of construction hours worked for the whole year were spent on buildings, and the rest on other construction works. 56.1 percent of hours were spent on new construction, and the rest on reconstruction, repairs and maintenance of existing installations. Construction orders in the Republic of Croatia in 1998 were measured by a new methodology starting at the beginning of 1998, and the data are not comparable to previous years. The same is true for the value of construction works completed both in the country and abroad. Comparison of consecutive quarters includes a significant seasonal component.

Housing construction grew significantly in 1996 compared to 1995. In 1997, the number of apartments built and their area were less than in 1996. In 1998, in each of the first three quarters, the number of apartments completed and their area were greater than in the same period of the previous year.

Trade turnover, including retail and wholesale trade, repair of motor vehicles and motorcycles and machines for personal and household use grew by 2.2 percent in real terms in 1998. Looking only at retail trade, turnover trade decreased by 0.4 percent. The number of employees in trade decreased by 3.5 percent.

Figure 1.13
REAL RETAIL TRADE
TURNOVER,
year-on-year monthly
rates of change



The activities of transportation, warehousing and communications realized 6.7 percent less passengers transported and 1.2 percent less transported goods than in 1997. Looking at postal services, letters carried increased (3.7 percent), as did money transfers (2.1 percent), while parcel services decreased (21.8 percent). All forms of telecommunications services grew: telephone services (0.9 percent), the number of mobile phone impulses (5.4 percent), the number of impulses on the CRONET network (137.4 percent) and data transmission (0.4 percent).

1.2.2

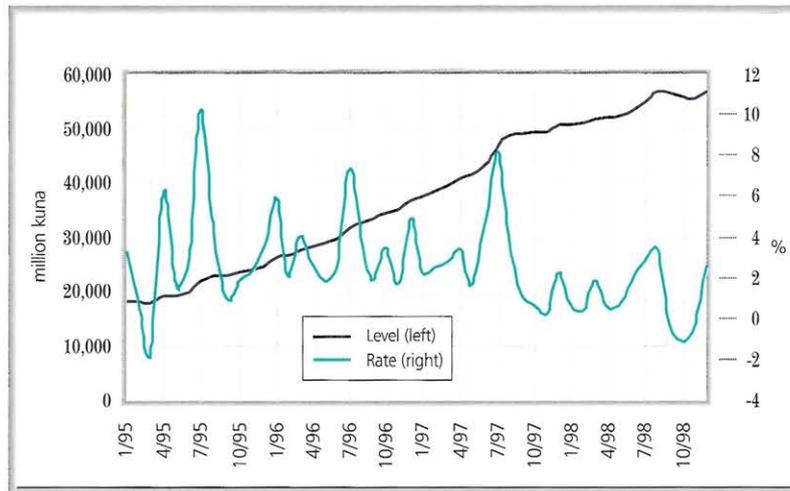
Money Supply and Foreign Exchange Reserves

In conditions of significantly slower economic activity and yearly price increases of 5.7 percent, monetary aggregates grew moderately. The M4 money supply grew three times slower than in the previous year. Total liquid assets, the broadest monetary aggregate, had grown slower in 1997, decreasing its annual growth rate from 49 percent in 1996 to 38 percent, on a December-to-December basis. In 1998, M4 grew 12 percent or 6.2 billion kuna, reaching 56.6 million kuna in December 1998.

There are four elements that interact with each other had a special influence on the money supply in 1998. Above all, there was the final end of the repatriation inflows of foreign exchange from abroad to domestic foreign exchange accounts of households in Croatian banks. Also, there was decreased transactions demand for money because of decreased economic activity. At the same time, the emergence of illiquidity and insolvency in certain banks on what had until then been a stable and attractive banking market shocked depositors. Finally, for the first time in five years, there were two periods of substantial depreciation of the kuna.

Through the financial account of the balance of payments, foreign exchange deposits of households during 1996 and 1997 grew by 1.4 billion and 0.5 billion USD respectively, but in 1998, this inflow was only 4 million USD or about 25 million kuna. The foreign exchange component of total liquid assets, foreign exchange quasi-deposits, increased in 1998 by 6.4 billion kuna or 20.8 percent (42.5 percent in 1997). The largest part of this increase came through the payment of matured principal and interest on "old foreign exchange savings" of about 1.5 billion kuna and through the decision of depositors to continue to save the majority of their free funds in foreign exchange. Faster growth of the foreign exchange deposits of households came from the sudden increase in time deposits intended as collateral for credit, which was characteristic of 1997 when long-term loans granted to households grew by 105 percent, while in 1998 such changes were completely mild.

Figure 1.14
M4,
level and monthly growth rates



The kuna component of M4 slowed the most, achieving a negative growth rate of 0.8 percent on a December-to-December basis or a decrease of 159 million kuna.

Kuna non-monetary deposits, that is kuna sight deposits and kuna time deposits, which grew on a December-to-December basis by 4.1 percent in 1997, increased because of the stability of domestic prices and the attractiveness of high deposit interest rates in, as it later turned out, poorly-managed banks. In 1998, the rate of

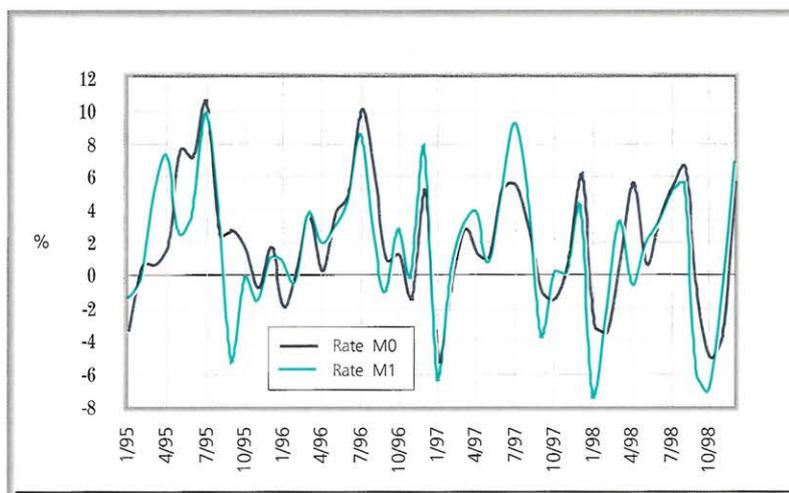
growth was 0.1 percent per month on average because of the conversion of kuna into foreign exchange deposits in the face of the depreciation of the kuna or, more often, conversion into the narrowest monetary aggregate, M1.

The money supply M1 was influenced by decreased transactions demand due to the decrease in economic activity and the depreciation of the exchange rate, and by the decreased total liquidity of the economic system.

The money supply M1 grew in 1997 at an average monthly rate of 1.6 percent, and in 1998 by an average rate of zero. On a December-to-December basis, the money supply M1 decreased by 1.5 percent or 201 million kuna (December 1997/December 1996: increase of 20.9 percent or 2.4 billion kuna), above all because of strong decreases in demand deposits. Demand deposits in the year before increased by 1.4 billion kuna or 20 percent, and in 1998 it decreased by 7.5 percent or 0.6 billion kuna.

These developments were caused by real and financial circumstances. Slower growth of economic activity and the increased velocity of money could not have caused any further increase of money supply. Above all, the loss of liquid funds in the liquidity and solvency crises of particular banks, the collapse and sudden exit from the transaction chain of certain large economic agents, the servicing and financing of foreign obligations that matured during 1997, coupled with decreased capital inflows from abroad, implied slow monetary growth in 1998. Also, the effect of currency depreciation cannot be overlooked, since it increased demand for foreign exchange to insure agents against expected further depreciation.

Figure I.15
MONTHLY GROWTH RATES OF
M0 AND M1



Thus, the classical flows of formation of the money supply M1, such as foreign relations or the conversion of non-monetary deposits only contributed to decreases in the money supply M1, that is, to decreased supply of demand deposits. Currency in circulation, the second component of the money supply, also grew much more slowly in 1998, decreasing its December-to-December growth rate from 22 percent in 1997 to 7.7 percent. The changes in this totally autonomous monetary aggregate did not change the structure of M1, and the currency to deposit ratio fluctuated around 0.65.

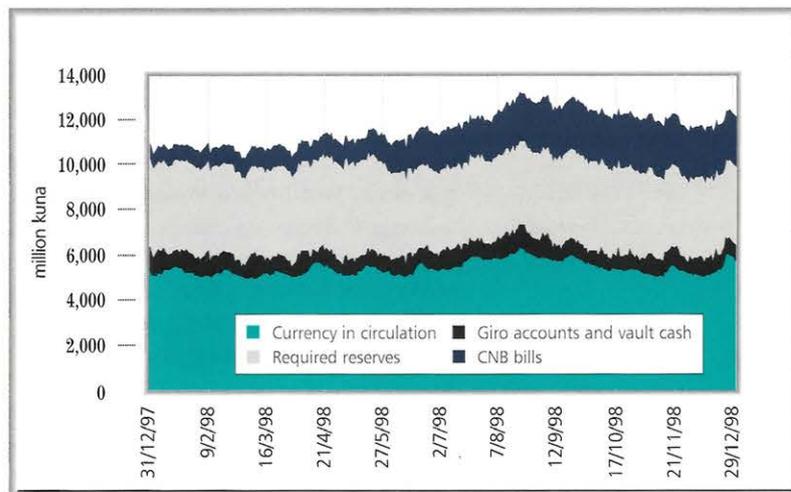
The share of currency in base money M0, the monetary aggregate under the direct control of the central bank, did not go below 50 percent in 1998. Nor did it increase above 60 percent during the summer months when base money grows because of

the expansion of currency in circulation, and because of the ordinary seasonal increase in banks' deposits at the central bank.

Total supply of base money in 1998 was in harmony with changes in the broad monetary aggregates. On a December-to-December basis, the rate of growth of M0 was -3.8 percent, with an absolute decrease of 0.4 billion kuna, while the average monthly growth rate was -0.3 percent. In 1997, base money M0 grew on average 1.3 percent per month. Because of this, the m1 multiplier did not change substantially, ranging from 1.3 at the beginning of the year to 1.37 during the summer, and back to 1.32 at the end of the year.

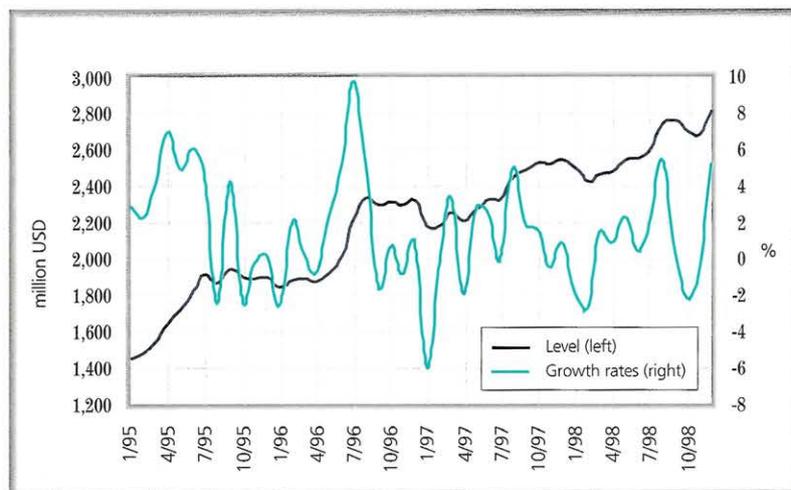
The share of required reserves in base money M0 decreased in 1998 due to decreases in the calculation base (kuna deposits), and decreases in giro accounts, while the share of currency in circulation increased.

Figure 1.16
DAILY AMOUNT AND
COMPOSITION OF BASE MONEY



The stagnation of base money M0, the money of the central bank, and the flows of monetary creation and withdrawal are best illustrated by changes in the monetary base M0 in this year, especially in light of the formation of M0 during 1997 and previous years.

Figure 1.17
FOREIGN EXCHANGE RESERVES
OF THE CNB,
level and monthly growth rates



The main flow of creation of base money in all preceding years has been Croatian National Bank interventions in the foreign exchange market. In 1998, however, there were major changes in the direction of the interventions of the CNB in its for-

eign exchange auctions. Also, there was a complete change in the role of foreign exchange transactions of the central bank and its domestic activities (with central government and banks) in creating and withdrawing base money.

In previous years, the central bank bought foreign exchange and increased its foreign exchange reserves, thereby creating kuna and sterilizing surpluses through other intervention instruments. This was done so that the supply of base money M0 would be optimal and, through the multiplier process and the m1 multiplier, would affect the money supply M1 and balance the demand for money.

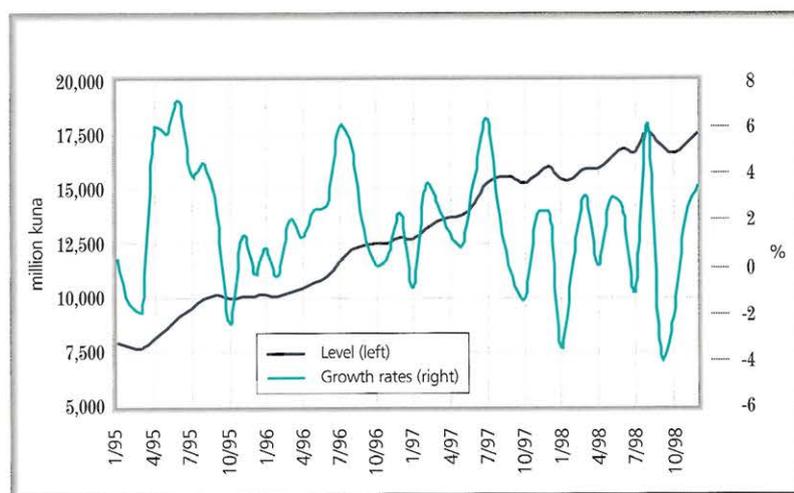
At the beginning of 1998, a continuation of the inflow of foreign loans was noted. The inflow of these loans had accelerated after Croatia received an investment grade credit rating. Through the conversion of foreign exchange loans into kuna, lending activity was stimulated. During the first quarter, this resulted in an expansion of lending of 40 percent on a year-to-year basis. The central bank, through the introduction of capital account restrictions, successfully stopped this foreign borrowing and significantly slowed down banks' lending activity. Along with this, the chances for foreign borrowing were objectively reduced because of changes in the international financial markets.

The main task of the central bank is to defend the exchange rate of the currency from strong pressure and to ensure adequate liquidity for the banking system. In its foreign exchange auctions, it had to offer enough foreign exchange to relieve the pressure for depreciation, but at the same time it maximally exhausted the kuna liquidity of the banking system. Because of this, the central bank activated old and introduced new instruments of monetary policy, using increased domestic lending to ensure banks the necessary liquidity.

During the forty-two auctions held during 1998, beginning in May, and in direct transactions with kuna cash, the foreign exchange reserves of the central bank were decreased by 380.5 million USD. These foreign exchange transactions resulted in the withdrawal of kuna from the giro accounts of banks, with a total negative monetary effect of 2.4 billion kuna.

Through various monetary policy instruments, banks were provided with 1.1 billion kuna at the end of 1998, while central government did not use any credit.

Figure I.18
FOREIGN EXCHANGE RESERVES
OF THE CNB,
level and monthly growth rates



In regulating the supply of base money M0, the central bank must also ensure that foreign exchange reserves remain at an adequate level. In order to ensure this, the Council of the CNB took a decision on the issuance of CNB bills in foreign exchange and a decision on allocating foreign exchange required reserves to special accounts

at the Croatian National Bank. The net effect of these transactions was 493.1 million USD in 1998.

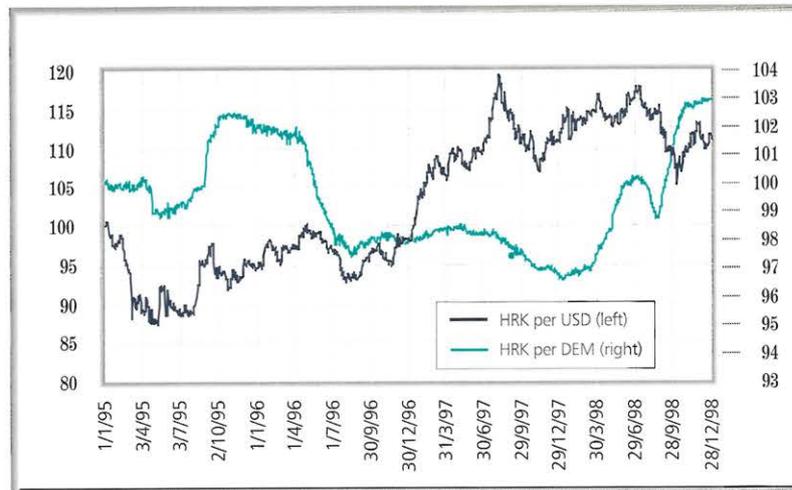
The total increase in foreign exchange reserves of the CNB through foreign exchange transactions of the central bank, management of foreign exchange and the net effects of exchange rate changes in the last year were 276.5 million USD. Because of this, the foreign exchange reserves of the CNB rose to 2,815.5 million US at the end of December 1998.

1.2.3

Exchange Rate and the Aggregate Price Level

In 1998, the exchange rate of the kuna was subject to powerful depreciation pressures. Relatively sudden changes in the exchange rate required the Croatian National Bank to intervene effectively and rapidly, in contrast to previous years when the bank was mainly faced with appreciation pressures on the exchange rate of the kuna with the German mark.

Figure 1.19
INDEX OF THE NOMINAL DAILY
EXCHANGE RATE OF THE KUNA
AGAINST THE DEM AND USD,
January 1, 1995 = 100



The average nominal exchange rate of the German mark during 1998 was 3.6193 kuna, while in 1997 the average exchange rate of the German mark was 3.5559 kuna. The average nominal exchange rate of the kuna depreciated against the mark by 1.78 percent. If we look at the exchange rate at the end of the year, the exchange rate at the end of 1998 was 3.7397 kuna, while the exchange rate at the end of 1997 was 3.5110 kuna, so the year-end rate depreciated by 6.51 percent. The average exchange rate of the US dollar was 6.3623 kuna in 1998, and 6.1570 kuna in 1997, which means that the kuna depreciated by 3.33 percent against the dollar.

The average deviation of the daily exchange rate of the German mark from the annual average in 1998 was 8 lipa, or 2.21 percent, which was four times greater than in 1997 when the average deviation was only 2 lipa or 0.54 percent.

Changes in the nominal exchange rate of the German mark during 1998 can be divided into five periods. The first period saw stability of the exchange rate of the mark, continuing trends from 1997. In the first period, the exchange rate ranged between 3.50 and 3.52 kuna per mark, and the Croatian National Bank did not hold any foreign exchange auctions. The second period began in the middle of March, and ended at the end of June. It was characterized by depreciation of the kuna against the mark. The mark exchange rate ranged from 3.52 to 3.65 kuna. In this period, the kuna depreciated 3.5 percent against the mark, and the Croatian National Bank began foreign exchange auctions in the beginning of May. In the auctions held between the beginning of May and the end of June, the CNB sold foreign exchange and

succeeded in slowing the depreciation. The third period was marked by the beginning of inflows of foreign exchange, thanks to tourism. In the period the kuna appreciated, with the value of the mark falling to 3.58 kuna, or 1.6 percent. The Croatian National Bank used foreign exchange auctions mainly to buy foreign exchange received through tourism. The fourth period began at the end of the tourist season, in the second half of August, when the kuna suddenly depreciated against the mark. The mark reached the value of 3.73 kuna by the end of October, depreciating by 4.1 percent. In this period, the CNB intervened extensively, selling more than 240 million dollars at foreign exchange auctions. However, the exchange rate stabilized in the beginning of November. The fifth period saw a calming-down of the exchange rate, and lasted until the end of the year, with the exchange rate fluctuating between 3.73 and 3.74 kuna. Foreign exchange auctions in November and December were mainly devoted to sales of foreign exchange.

The demand for foreign exchange by commercial banks in 1998 was increased so as to maintain foreign liquidity, and to some extent because of speculation about exchange rate depreciation. Because of the currency crises in Asia and Russia in 1998, access to foreign capital was more difficult for Croatian banks. At the same time, demand on the domestic foreign exchange market was increased because of the continuation of high imports, and because of the need to repay foreign credits.

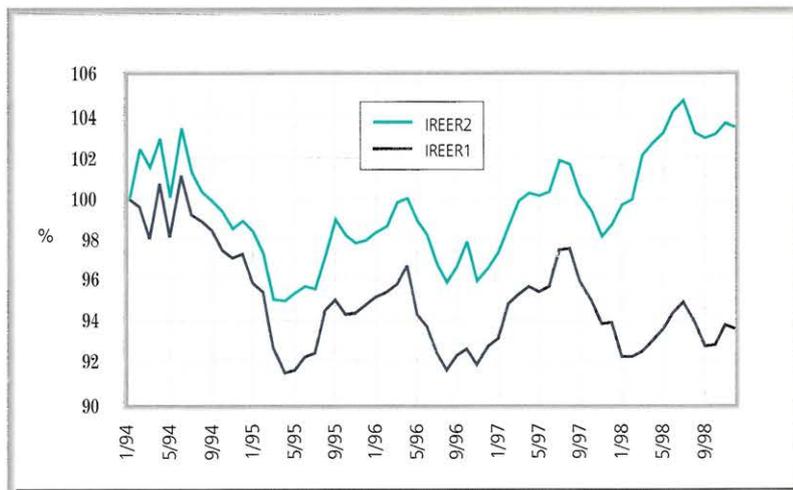
Figure I.20
INDEX OF THE DAILY NOMINAL
EFFECTIVE EXCHANGE RATE*,
1995=100



* A fall in the index indicates appreciation

The index of the nominal effective exchange rate in 1998 shows the nominal depreciation of the effective exchange rate by 3.56 percent, which is significantly less than the depreciation of the kuna against the German mark.

Figure I.21
INDEX OF THE REAL EFFECTIVE
EXCHANGE RATE* DEFLATED
BY RETAIL PRICES (IREER1)
AND PRODUCERS' PRICES
(IREER2),
January 1994=100

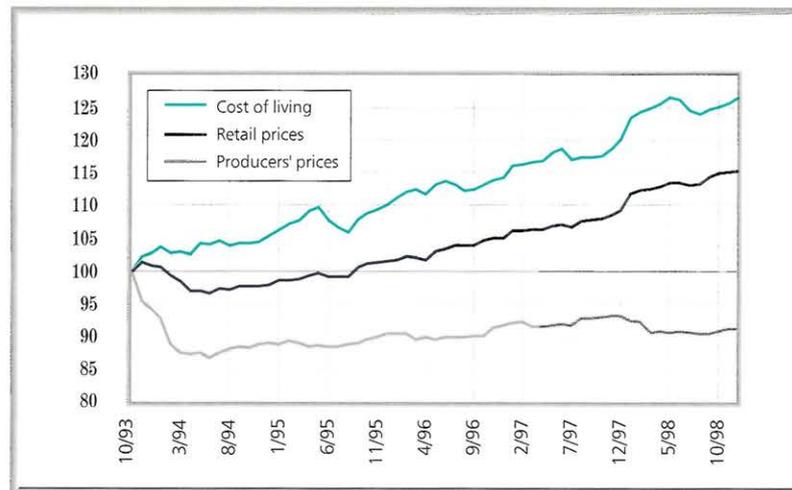


*An increase in the index indicates real depreciation

The index of the real effective exchange rate of the kuna deflated by producers' prices depreciated during 1998 by 4.9 percent. The fall in producers' prices was the main cause of this depreciation, along with the depreciation of the nominal exchange rate. The index of the real effective exchange rate deflated by retail prices appreciated during 1998, since retail prices were affected by the growth of prices of services caused by the introduction of the value-added tax. Prices of services grew faster than the nominal depreciation of the exchange rate, and faster than retail prices in Croatia's main trading partners.

Inflation in 1998 was somewhat higher than it had been in the years since 1994, when yearly inflation had never exceeded four percent. The rate of inflation measured by retail prices was 5.4 percent on a December-to-December basis, and 5.7 percent measured on the basis of yearly averages. The cost of living index grew 5.3 percent on a December-to-December basis, and 6.4 percent on the basis of yearly averages, while the prices of industrial products fell by 2.1 percent and 1.2 percent respectively.

Figure I.22
RETAIL PRICE INDEX,
PRODUCERS' PRICE INDEX AND
COST OF LIVING INDEX,
October 1993 = 100



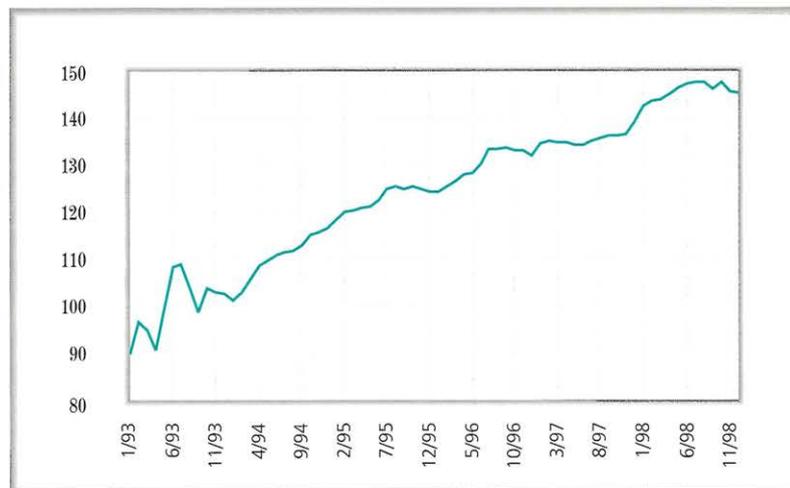
The introduction of the value-added tax was the main reason for the higher growth of retail prices and the cost of living in 1998. The value-added tax had a large impact on the prices of services because the VAT rate was higher than the previous turnover tax on services. Also, some goods prices fell. Because of this, retail prices grew by 2.4 percent in January alone, while the cost of living grew by 2.8 percent. The influence of the value-added tax was exclusively of a one-time character, and during the rest of the year, retail prices grew by less than one percent a month, keeping annual inflation within acceptable limits.

Before the tourist season, retail prices grew at rates between 0.2 and 0.5 percent monthly. The cost of living grew between 0.5 and 0.8 percent. During the tourist season, as usual, price increases stopped, and in July retail prices fell by 0.2 percent, the cost of living by 1.3 percent and industrial prices by 0.3 percent. After the tourist season, in September, prices grew by 0.9 percent, which was the consequence of the nominal depreciation of the kuna. This resulted in price increases for imported products. To the end of the year, the monthly rate of growth of prices decreased each month, which is in part the result of decreased demand.

During 1998, the prices of the services component of retail prices grew by more than twice as fast as the price of goods component. The prices of goods grew by 4.3 percent annually, and the prices of services by 9.2 percent. A similar situation has

been observed in the past four years since the introduction of the stabilization program. It is important to emphasize that the growth of the prices of services was mainly caused by the growth of prices of the services of public enterprises (post office, telecommunications, transportation...) whose prices before the stabilization program were relatively lower than in the prewar period.

Figure 1.23
INDEX OF THE RELATIVE
PRICES OF NON-TRADABLE
GOODS MEASURED AS THE
RATIO BETWEEN THE PRICES
OF SERVICES AND THE PRICES
OF GOODS IN THE RETAIL
PRICE INDEX,
1992 = 100



At the beginning of 1999, after the effects of the price increases caused by the introduction of the value-added tax disappeared, annual retail price changes have fallen to 3.5 percent. This level expresses the continuity of the policy of the Croatian National Bank.

Industrial producers' prices fell during 1998 by 2.1 percent. The fall of industrial producers' prices in the main industrial branches was above all caused by the fall in the price of energy, whose price fell by 8.6 percent in 1998. In addition, the prices of intermediate goods (except for energy) fell by 2.6 percent, while the prices of durable consumption goods fell by 2.1 percent. Prices of capital goods rose by 1.9 percent in 1998, and non-durable consumption goods prices grew by 0.4 percent.

1.2.4

Interest Rates

Interest rates in Croatia remain at a high level. Developments in 1997 can be summarized in three points. First, there was a long-term trend to decrease interest rates on the Zagreb Money Market. Second, there was a decrease in the interest rate "spread", as a result of the fall in lending rates of commercial banks and the stagnation of deposit rates. Third, interest rates on short-term securities of the Croatian National Bank and the Ministry of Finance converged.

In 1998, none of these trends continued. Interest rates on the money market, affected by problems in banks, grew significantly and almost returned to their levels of the beginning of 1995. Interest spreads increased because of the increase in lending rates of commercial banks and the slight fall in deposit rates.

Interest rates on short-term securities rose. The interest rates on Ministry of Finance treasury bills rose significantly, leading to a divergence in interest rates once again.

A new development in 1998 was the enrichment of financial markets with new securities, all short-term. This was a step in the right direction, although a small one for now. The development of financial markets is a necessary condition for the im-

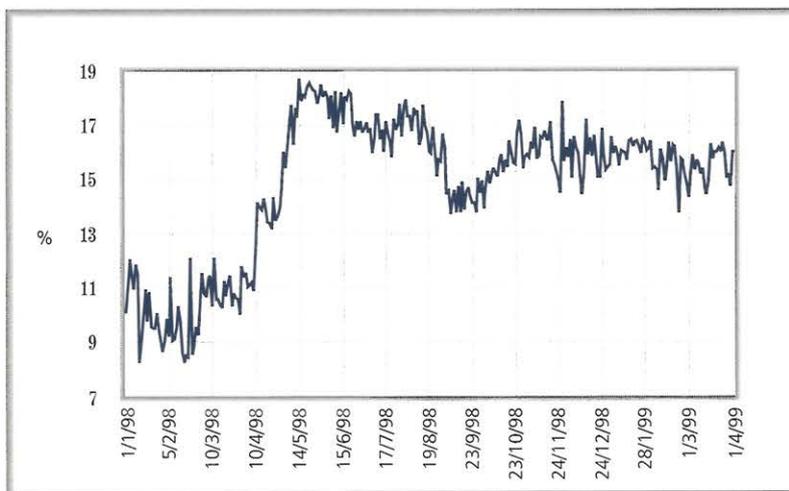
proved functioning of the whole economy, especially now that the problem of arrears is such an actual problem. Another new feature was the acceptance of the new Law on Banks, a law which bankers consider very restrictive and even cruel, but also a law that should bring greater discipline and make the rules of the game in the banking market stricter. The banking system is a very important lever in the functioning of the national economy, especially in Croatia in which other sectors of the financial system are inadequately developed. Every problem in the banking system generates consequences in the whole economic system. The new law is a result of the banking crisis of 1998, and it has a great influence on interest rate developments in our economy.

Why are interest rates still so high, and which factors are preventing a fall in interest rates? Here is a list of the most important ones:

- Structural problems in the economy. More and more enterprises are not paying their bills and more and more enterprises are unable to collect their claims and therefore fall into the circle of general illiquidity and non-payment. The recession that began in the last quarter of 1998 has further complicated this situation.
- High systemic risk premia are included in the price of capital, which are related to the inadequate protection of creditors. This is because instruments of debt collection are weak, and because of the slowness and ineffectiveness of the legal system. In 1999 bills of exchange were introduced as an instrument to ensure payment and as an instrument that should solve or at least diminish the illiquidity problem. However results are yet to be seen. Analysts consider the legal framework weak and business norms inadequately developed.
- High premia for currency/credit risk. 62 percent of the liability side of banks' balance sheets are denominated in foreign exchange. Banks try to transfer exchange rate risk to clients as much as possible through indexation of kuna credits to "hard" currencies. However, this can transform currency risk into credit risk which banks try to compensate for with high lending interest rates.
- The beginnings of the problems in banking sector, which were seen in the first half of 1998 in Dubrovačka Banka and Glumina Banka. After this, in 1999, several other banks experienced significant difficulties.
- Inadequate credit policies of commercial banks and poor risk management, along with poor liquidity management.
- Expensive funding sources. Interest rates on deposits given by Croatian banks are high, and the battle for deposits have lead to deposit interest rates substantially higher than in other advanced transition countries. Also, the reserve requirement is relatively high, 30.5 percent on kuna deposits and 55 percent on foreign deposits and foreign credits under one year. Interest rates on the money market grew by more than 50 percent and are now about 15.5 percent.
- Segmented financial markets and continued low level of competition (despite significant improvements since the beginning of an independent monetary system) in the banking system which prevent decreases in interest rates.
- Underdevelopment of financial markets and a poor assortment of financial instruments. Despite positive signs, a significant improvement has not yet occurred in this field.
- Liberal licensing policy for banks, instead of increasing competition on the banking market has created a large number of banks with relatively high non-interest costs, in part because these banks were too small to take advantages of economies of scale.

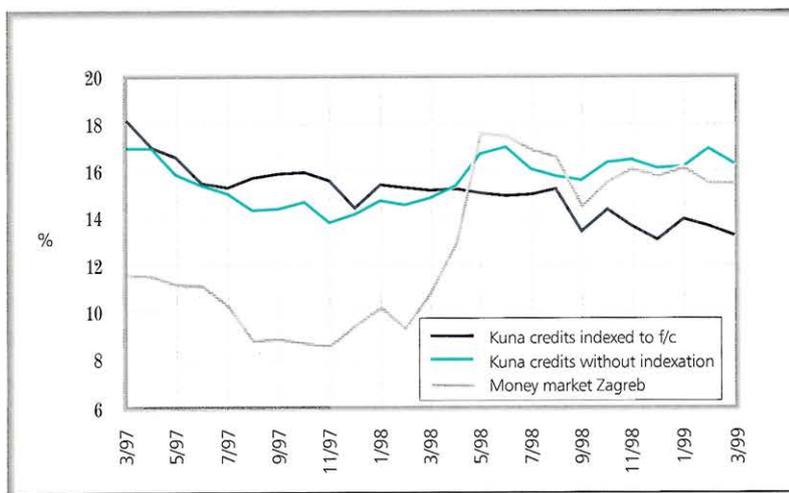
Interest rates on the Zagreb Money Market were about 10 percent at the beginning of 1998. This level had been reached after several years of falling rates, and after the causes of inelastic demand had been removed through the rehabilitation of four big banks. Interest rates remained at this level until the middle of April, when Dubrovačka Banka found itself in insuperable difficulties. Liquidity problems then emerged, and interest rates had reached 18 percent by the end of May.

Figure 1.24
AVERAGE DAILY INTEREST RATES ON THE ZAGREB MONEY MARKET



Improvements in banking sector liquidity during the summer subdued interest rates and lowered them a little. However, during October, liquidity again deteriorated, interest rates rose to about 16 percent and remained there for the rest of the year. It was obvious that demand on the Zagreb Money Market had increased, and supply had substantially decreased. Overnight lending had significantly increased, and it became apparent that several small and medium-sized banks were in trouble. During the first quarter of 1999, the situation calmed down, and interest rates fell a little. The increase in money market interest rates had a substantial influence of commercial bank lending rates.

Figure 1.25
AVERAGE INTEREST RATES OF COMMERCIAL BANKS AND ON THE ZAGREB MONEY MARKET

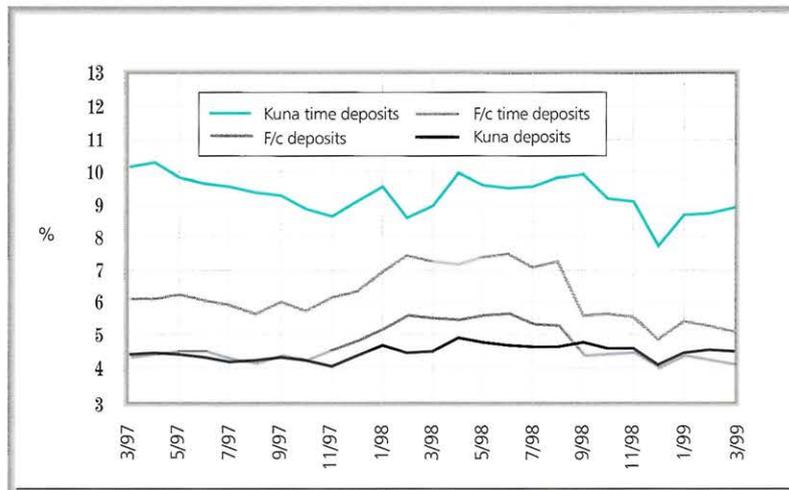


The average lending rates of commercial banks fluctuated mildly during 1998, finishing up at approximately the initial rate of 15 percent. In the first three months of 1999, interest rates grew slightly, by half a percentage point. Real interest rates are about 10 percent, which is still very high relative to other advanced transition countries. In Slovenia, for example, real lending rates are about 6 percent, in the Czech Republic 9 percent, in Hungary 6 percent also. The average interest rate on kuna loans without indexation to foreign currency grew from 14.7 percent at the

beginning of the year to 16 percent at the end of the year, and grew by another percentage point in the first quarter of 1999. The average interest rate on kuna loans with indexation fell during 1998 from 15.4 percent to 13 percent, and then rose a percentage point in the first quarter of 1999.

Why do we monitor interest rates on kuna loans separately like this? The answer lies in maturity. Newly-granted kuna loans without indexation are primarily short-term. More than 90 percent of newly-granted loans of this type are given to enterprises, we presume for liquidity finance (this is the reason for the increase in interest rates on short-term loans). The situation for kuna loans with indexation is different. These are longer-term loans (about 50 percent of newly-granted loans are long-term) that are intended to finance capital investment. The foreign exchange clause is used to shift exchange rate risk to the borrower and to allow a lower price of the loan. However, it is necessary to note that exchange rate risk can turn into credit risk in this situation. The illiquidity problems of the economic system are felt in changes in the structure of loans. First, the fact is that the growth of placements decreased relative to the big credit expansion of 1997. Second, in recent months, along with the decreases in lending to enterprises and households, the structure of lending has changed again. Once again, kuna loans without indexation are dominating newly-granted loans, after a period in which the relation was half and half with kuna loans with indexation. Here, once again, an increase in interest rates is hidden (greater share of more expensive loans without indexation).

Figure I.26
AVERAGE COMMERCIAL BANK
INTEREST RATES

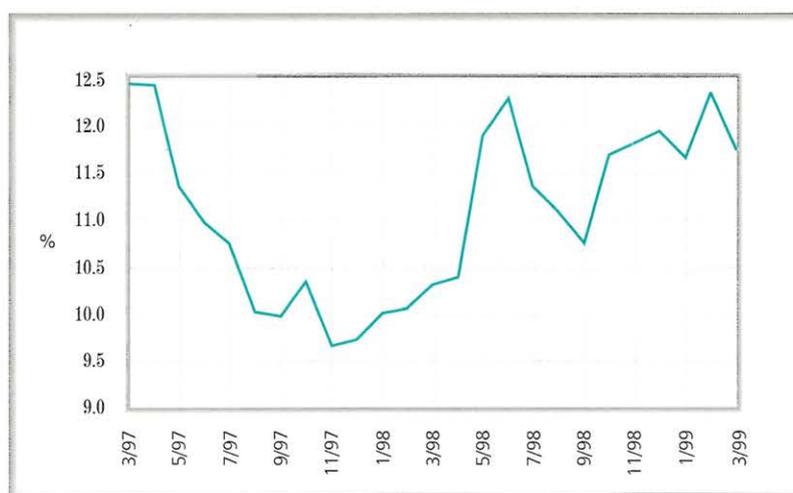


Deposit rates during 1998, with some fluctuations, maintained their previous level. They remained high, and were a significant factor causing high lending rates. At the beginning of 1998, average interest rates on kuna deposits, which are mainly short-term (deposit money, sight deposits) were 4.7 percent, and at the end of the year 4.6 percent. Continued high interest rates on kuna time deposits have not succeeded in attracting households to save in kuna. Depreciation of the kuna during the last quarter of 1998 provided an added impulse to low confidence in saving in kuna. Nor were there any fundamental changes in interest rates on kuna deposits in the first months of this year. The level of interest rates on kuna deposits, which are only 30 percent of total deposits, is not so worrisome. What is worrisome is the high interest rates on foreign exchange deposits. In Croatia, interest rates on foreign exchange deposits are above interest rates on the same kinds of deposits in the home country of these currencies. And Croatian bankers complain about expensive sources of funds! Interest rates on the same kinds of deposits in German marks in Croatia and in Germany show that Croatian banks offers from 2 to 5 percentage points, and in extreme cases 8 to 9 percentage point higher interest rates. This justifies suspicion that banks with such interest rates have, or could have,

significant problems. The average interest rate on foreign exchange deposits during 1998 fell from 5 percent to 4.2 percent. This is the level maintained by the largest Croatian banks, which have the lowest deposit interest rates, and hope to attract customers by emphasizing security and tradition. In the other advanced transition countries, the difference between interest rates on foreign currency deposits and interest rates on the same kinds of deposits in the home countries of these currencies is minimal. In Croatia, not only do households want to save in foreign currency, but also banks fight to gain these savings by offering high deposit interest rates. This necessarily leads to maturity and exchange rate exposures, as well as liquidity problems at Croatian banks. Croatian banks attempt to compensate on the other side of the balance sheet with high lending interest rates.

The best measure of the inefficiency of the banking system is the difference between lending and deposit interest rates. Although during 1997 this difference decreased, the events of 1998 led to an increase in the interest spread and worsened the positive impression from the previous year. Measured by the difference between interest rates on kuna loans and kuna deposits, the spread in 1998 grew from 9.7 percentage points to 12.3 percentage points (an increase of about 27 percent).

Figure 1.27
DIFFERENCE BETWEEN
INTEREST RATES ON KUNA
LOANS AND KUNA DEPOSITS



The biggest news came from the short-term securities market. 1998 began with only two short-term securities in circulation. One was Croatian National Bank bills, which are primarily an instrument for the implementation of monetary policy, but are in fact traded for gain as well, especially in a period of high interest rates. The other security was the treasury bill of the Ministry of Finance, which broadened the market of financial instruments, and also allowed the Ministry to solve short-term liquidity problems. Interest rates on these bills during 1997 converged, but in 1998 they diverged again. Interest rates on both types of bills grew substantially, in keeping with the general increase in interest rates. In April, the Croatian National Bank introduced CNB bills denominated in foreign currency. These were highly sought after among banks, who, because of their high share foreign currency funding sources were able to place their funds without changing the currency composition of their assets and liabilities. This was especially attractive during a period of depreciation. Interest rates were determined relative to reference interest rates abroad for securities in the currencies in question. In their first appearance, CNB bills were denominated in German marks and US dollars, and at the beginning of 1999 the mark bills were replaced by Euro bills. Interest rates generally fell, with bills denominated in marks or Euros falling faster. Another new development was the appearance of commercial paper. The first attempt to issue such paper in 1996 was unsuccessful due to a lack of interest in such investments. This time,

however, the first tranche of commercial bills of Pliva, issued at an interest rate of 12 percent, sold out completely. It is to be hoped that Pliva will not remain alone and that other enterprises will decide to take the same step, which would enrich the modest financial market.

1.2.5

Balance of Payments

In 1998, the current account deficit decreased substantially. The deficit in 1998 was 1,553.8 billion USD, which was 36.2 less than in 1997. As a percentage of GDP, the current account deficit decreased to 7.3 percent of GDP, while in previous years it had been: 6.8 percent of GDP in 1995, 4.3 percent in 1996, 12.2 percent in 1997. The main cause of this decrease was the fall in domestic demand, which had in previous years been the main generator of large deficits. This resulted in a significant decrease in goods imports accompanied by an increase in goods exports. Changes in the current account were followed by changes in the financial account, which was 2,148.8 million USD, 24.6 less than in 1997. In addition, there were significant changes in the structure of financing. Increased foreign obligations remained the most important source of funding in 1998, but fell substantially compared to 1997, while the importance of foreign direct investment increased.

Table 1.2

BALANCE OF PAYMENTS OF THE REPUBLIC OF CROATIA,
million USD, preliminary data

	1995	1996	1997	1998	1998/1997 %
Current transactions	-1,283.8	- 857.8	-2,434.0	-1553.8	63.8
Goods	-3,237.5	-3,651.2	-5,224.4	-4,168.9	79.8
Revenue	4,632.7	4,545.7	4,205.9	4,604.5	109.5
Expenditure	-7,870.2	-8,197.0	-9,430.3	-8,773.4	93.0
Services	1,207.7	1,764.0	2,022.1	2,071.6	102.4
Tourism	929.6	1,499.2	2,007.7	2,126.0	105.9
Income	- 53.9	1.5	- 83.5	- 164.5	197.0
Current transfers	799.9	1,027.8	851.8	708.1	83.1
Government	279.8	154.5	32.8	-9.2	...
Other sectors	520.1	873.3	819.0	717.3	87.6
Financial transactions excl. reserves	1,278.4	1,886.9	2,841.4	2,148.8	75.6
Direct investment	95.7	513.1	231.2	763.1	330.1
Portfolio investment	4.8	27.2	172.7	-54.6	...
Other investment	1,178.0	1,346.7	2,437.5	1,440.4	59.1
Currency and deposits	406.7	788.9	185.5	387.7	209.0
Loans	432.5	404.4	2,250.6	1,066.3	47.4
CNB international reserves	- 490.2	- 418.8	- 225.0	- 276.5	122.9
Net errors and omissions	495.6	- 610.3	- 182.4	- 318.4	- 174.6

Source: CNB

The greatest factor causing the decreased current account deficit was the decrease in the merchandise trade deficit. The deficit was 4,168.9 million USD, 1,055.5 million USD or 21.2 percent less than in 1997. Within this, the greatest change was seen in imports, which in 1998 were 8,773.4 million USD, which was 656.9 million USD or 7 percent less than in 1997. The decrease in domestic demand, which had been the main generator of the deficit in 1997, was the main factor behind the decrease in merchandise imports in 1998. Also, the high levels of inventories, a result of the build-up at the end of 1997 before the introduction of the value-added tax, were a major influence. An additional factor in the decrease in the merchandise

trade deficit was the growth of exports, which in 1998 were 4,604.5 million USD, an increase of 398.4 million USD or 9.5 percent above 1997.

Net service incomes were the largest positive element in the current account of the Republic of Croatia. They were 2,071.6 million USD, increasing by 2.4 percent over the previous year. Net income from tourism was 2,126.0 million kuna, 5.9 percent higher than in the previous year. Income from tourism rose 7.8 percent, and expenditures grew 15.1 percent. The other positive item in the services account, net income from transport, fell for the second year in a row, and was 22.7 million USD, 14.5 percent less than in 1997. Both the income and expenditures sides of transport fell. The third, traditionally negative item in the services account, net income from other services, was -282.1 million USD in 1998, 12.1 percent more than last year. Although decreases in the dollar amount were seen on both sides, a greater fall in income than expenditures on other services resulted in a worsening of net income.

On the income account, the net deficit increased to 164.5 million USD, 97.0 percent more than in 1997. Greater total foreign indebtedness and the increased value of foreign investment in Croatia contributed to this, resulting in increases in interest payments on loans taken and income paid to foreign investors. On the income side, substantial income was earned from deposits of domestic banks at foreign banks. A positive item in the income account is net worker earnings, which continued to grow in 1998.

A fall in net income can be seen on the current transfers account, which amounted to 708.1 million USD in 1998 or 16.9 less than in the previous year. The main cause of the fall in net transfers was the growth of transfers from Croatia to other countries, while greater transfers from the war period ended in 1997. Thus, net transfers of the government for the first time changed sign and became negative at -9.2 million USD. Net transfers of other sectors were 717.3 million USD, falling by 12.4 percent.

Changes on the current account were followed by changes in the financial account, which during 1998 amounted to 2,148.8 million USD, 24.6 less than in 1997. The adjustment of the structure of the financial account, which has been occurring since 1996, continued. While in previous years, the deficit was financed first of all by decreasing the net foreign assets of other sectors (repatriation of households' foreign exchange holdings), this item fell in 1997, and in 1998 completely halted. Because of this, the current account deficit was financed mainly by foreign borrowing of all sectors in 1997. Increased obligations to foreigners remained the main financing source in 1998, accounting for almost 50 percent of total financing. But it was only half as large as in 1997. At the same time, the role of foreign direct investment grew to 35 percent of total financing.

The greatest growth in the financial account came in net foreign direct investment, which in 1998 was 763.1 million USD, almost two and a half times greater than in 1997. Foreign direct investment in Croatia was 854.03 million USD in 1998, 119.9 percent larger than in the previous year, while investment by Croatian economic agents abroad was 90.9 million USD, a 42.1 percent decrease. It is expected that substantial foreign direct investment will continue in the next few years because of the anticipated privatization of telecommunications, banks and the oil industry.

After the financial crises in Asia and Russia in 1998, portfolio investment in Croatia decreased by 54.6 million USD. Portfolio investment is investment in less than 10 percent of the capital of an enterprise, as well as investment in securities of the Republic of Croatia, and is sensitive to crises.

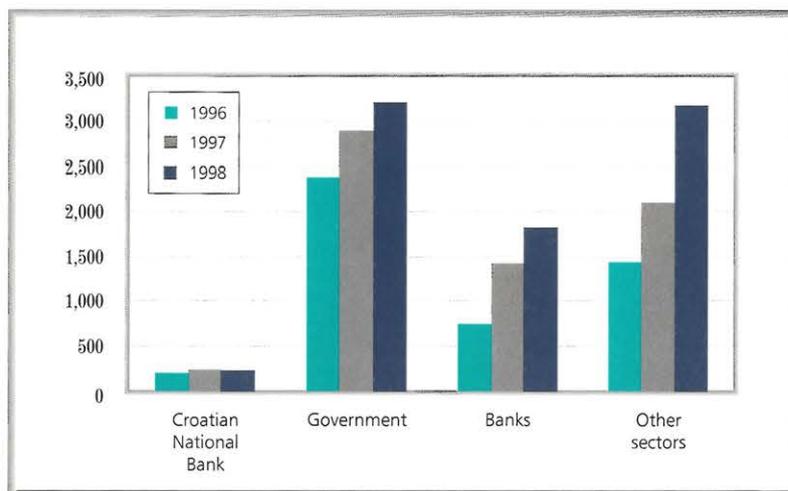
The currency and deposit account, which shows the entry of foreign currency into our banking system, shows the continuation of trends from 1997. The most significant event is the end of the foreign exchange inflows of other sectors in 1998, which is a consequence of the exhaustion of the sources for returning foreign exchange savings to the domestic banking system (foreign exchange deposits abroad or “under the mattress”). In addition, the crisis of some banks and of confidence in the banking system may have helped end this inflow. At the same time, domestic banks, after several years of increasing their deposits in foreign banks, in 1998 withdrew 383.8 million USD of deposits from foreign banks, on the basis of the central bank’s decision to transfer required foreign exchange reserve deposits from overseas to the CNB.

Although foreign indebtedness increased by 1,066.3 million USD in 1998, 52.6 percent less than in the preceding year, it remains the main source of financing for the current account deficit. Looking at the increase of foreign indebtedness as a share of the financial account, it was 50 percent of all financial inflows from abroad, in contrast to 80 percent in 1997. In 1998, other sectors borrowed the most (882.8 million USD), followed by banks (179.3 million USD), then the government (13.1 million USD). The maturity structure of the debt improved in 1998. Newly-granted loans were mainly long-term, amounting to 1,281.5 million USD. At the same time, short-term credit decreased by 215.2 million USD. More than 60 percent of the new foreign borrowing occurred during the last quarter.

Looking by sectors, the government increased its foreign borrowing by only 13.1 million USD, in contrast to 596.6 million USD in 1997. The government repaid 283.9 million USD of long-term and 49.2 million USD of short-term credit (net), and received 346.2 million USD of long-term credit. The main reason for such a small growth in government borrowing was the substantial excess of revenues over planned revenues, due to the VAT. Newly-granted loans were used to pay off loans from the past. An additional benefit for the government was the maintenance of the investment-grade credit rating despite the various financial crises around the world.

Banks increased their foreign borrowing in 1998 by 179.3 million USD, which was 72.2 percent less than in the previous year. They increased their long-term borrowing and decreased their short-term borrowing. Banks took 636.4 million USD of new long-term loans and at the same time repaid 145.7 million USD of long-term and 302.4 million USD of short-term loans (net).

Figure I.28
STRUCTURE OF FOREIGN
DEBT BY SECTORS,
end-year, million current USD



Source: CNB

In 1998, the greatest increase in new foreign borrowing was in other sectors in the amount of 882.8 million USD. This was 9.1 percent less than in 1997. In this manner, other sectors accounted for 83 percent of total new borrowing in 1998. Other sectors in 1998 increased their long-term and short-term debt; long-term by 746.4 million USD, and short-term by 136.4 million USD.

Because of this borrowing, the total foreign debt at the end of 1998 was 8,488.7 million USD, an increase of 27.4 percent or 1,827.1 million USD (including the effects of exchange rate changes). Total foreign borrowing grew from 24.2 percent of GDP in December 1996 and 33.4 percent of GDP in December 1997 to 39.8 percent of GDP in December 1998. The share of short-term debt in total foreign debt decreased from 8.6 percent at the end of 1996 and 8.1 percent at the end of 1997 to 7.0 percent at the end of 1998.

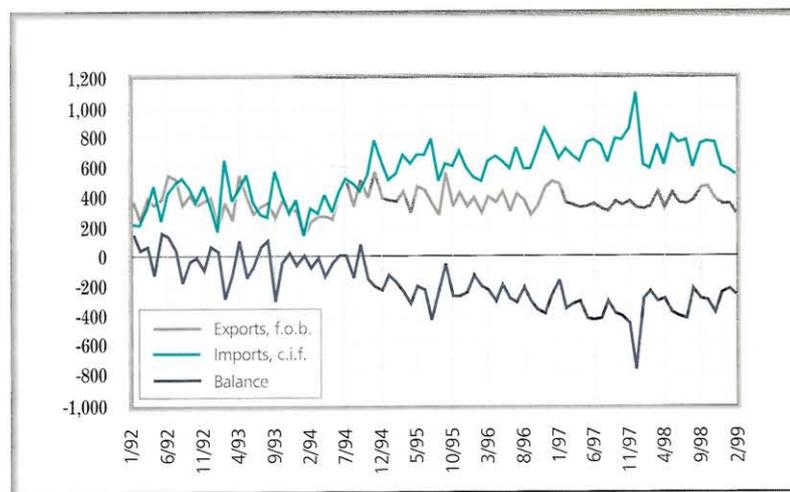
Looked at by sector, at the end of 1998 the foreign debt of government was 3,223.0 million USD, of which short-term debt was less than 2 percent. The share of government debt in the total foreign debt of the Republic of Croatia decreased from 50 percent in 1996 and 44 percent in 1997 to 38 percent at the end of 1998. At the same time, the greatest increase in foreign debt was by other sectors; at the end of 1998, the debt of other sectors was 3,190.0 million USD. The debt of other sectors grew from 30 percent of total foreign debt at the end of 1996 to 38 percent at the end of 1998. Other sectors also had the largest share of short-term debt to total debt, 15 percent. This is a consequence of the share of short-term goods and commercial loans. The foreign debt of banks at the end of 1999 was 1,830.7 million kuna, 22 percent of total foreign debt.

The gross foreign exchange reserves of the Croatian National Bank in 1998 increased by 276.5 million USD (including the effects of exchange rate changes), 22.9 percent more than in 1997. They ended the year at 2,815.6 million USD.

The Structure of Merchandise Trade

Data on merchandise trade published by the Central Bureau of Statistics on the basis of customs declarations, in contrast to the balance of payments, show merchandise imports at c.i.f. prices, and do not include imports via "shopping tourism."

Figure 1.29
MERCHANDISE TRADE OF
THE REPUBLIC OF CROATIA,
million current USD



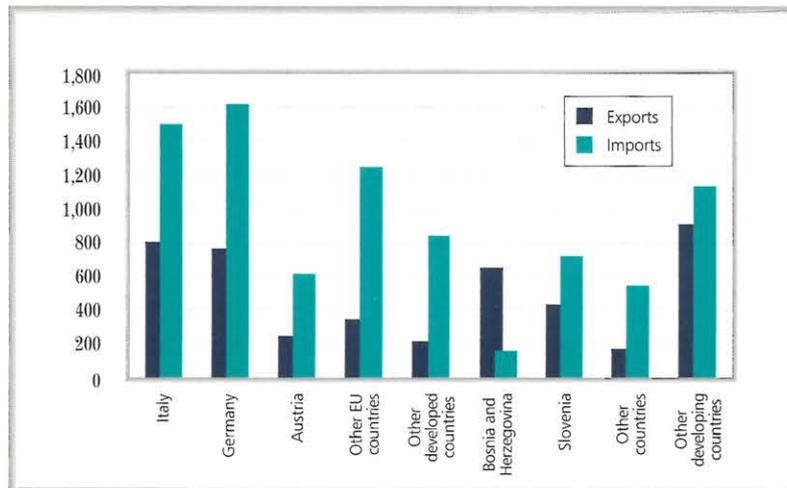
Source: Central Bureau of Statistics

Croatian merchandise trade in 1998 improved compared to the previous year. Merchandise exports f.o.b. grew by 8.9 percent and amounted to 4,541.1 million USD,

while merchandise imports, c.i.f., decreased by 7.9 percent and amounted to 8,383.1 million USD. In kuna, merchandise exports grew 13.2 percent, while imports decreased by 4.9 percent.

Looking at the structure of imports by economic use, it is apparent that the greatest share belongs to intermediate products and energy, which in 1998 accounted for 39.4 percent of the total. This indicates the substantial import dependence of Croatian industry. At the same time, in 1998, 9.4 percent of total imports were imports for processing, while, on the export side, 28.3 percent of exports were products exported after processing. After intermediate goods, capital goods follow with 32 percent share and consumer goods with a 20.2 percent share in total imports.

Figure I.30
GEOGRAPHICAL STRUCTURE
OF CROATIAN MERCHANDISE
TRADE,
million current USD



Source: Central Bureau of Statistics

In the geographical structure of trade, European Union members predominate. In 1998, they accounted for 48 percent of Croatian exports and 59 percent of Croatian imports, which indicates the importance of European integration (and Croatia is still not formally included in integration processes). The most important partners in this group of countries are Italy (18 percent of exports and 18 percent of imports), Germany (17 percent of exports and 19 percent of imports), and Austria (5 percent of exports and 7 percent of imports). 13 percent of exports and 15 percent of imports were with CEFTA countries. Larger exports than imports among Croatia's most important partners in 1998 came only with Bosnia and Herzegovina (14 percent of exports and 2 percent of imports). The growth of exports in 1998 was mainly the consequence of increased exports of ships to countries with strong merchant fleets (Liberia and other developing countries).

In the currency structure of foreign trade, the most important currencies were those of the European Union, accounting for 62 percent of total exports and 74 percent of total imports. Most of this came in currencies that joined the Euro on January 1, 1999. These currencies accounted for 61 percent of total exports and 72 percent of total imports. The larger share of the EU currencies in payments than their share in total merchandise trade can be explained by the tendency to pay for merchandise trade between Croatia and CEFTA countries, as well as Bosnia-Herzegovina, in Euro currencies. After European countries, the American dollar was next in the share of payments, accounting for 36 percent of total exports and 24 percent of total imports. Other currencies accounted for 2 percent of exports and 3 percent of imports.

In the structure of merchandise trade by sectors of the SITC, the largest share in exports was held by exports of machines and transport equipment. This sector accounted for 30 percent of total merchandise exports, and had the fastest growth in

1998, 83.4 percent, thanks to the rapid growth in ship exports. Next were assorted final products (23 percent), products classified according to materials (13 percent), chemical products (12 percent), food and live animals (9 percent), mineral fuels and lubricants (6 percent) and raw materials (5 percent). On the import side, the largest item was machines and transport equipment, with a 35 percent share in total imports. After this came products classified according to materials (17 percent), assorted final products (13 percent), food and live animals (8 percent) and mineral fuels and lubricants (7 percent). In 1998 as well, imports of road vehicles had a great effect on the merchandise trade deficit. These imports amounted to 852.5 million USD, despite a decrease of 10 percent relative to 1997.

Foreign Direct Investment

Table I.3

FOREIGN INVESTMENT IN THE REPUBLIC OF CROATIA FROM 1993 TO 1998 BY COUNTRY OF ORIGIN, million USD, preliminary data

	1993	1994	1995	1996	1997*	1998*	Total	Share
Total	96.3	113.1	101.2	533.4	487.0	873.2	2,204.3	100.0%
United States	4.9	3.0	-15.5	292.7	83.4	503.3	871.7	40.0%
Austria	4.9	47.9	6.5	52.1	270.1	164.6	546.1	25.0%
EBRD	0.0	0.0	0.0	43.1	41.6	10.4	95.1	4.0%
Switzerland	10.0	18.8	13.6	60.3	-15.4	7.2	94.5	4.0%
Sweden	0.2	0.0	37.3	7.8	8.6	18.5	72.5	3.0%
Germany	44.7	8.0	23.3	2.2	-68.9	59.2	68.4	3.0%
United Kingdom	0.7	0.7	0.3	0.2	53.4	0.3	55.5	3.0%
France	0.0	0.0	0.2	5.9	9.4	32.5	48.0	2.0%
Lichtenstein	0.0	11.6	3.8	11.4	12.8	5.2	44.7	2.0%
Slovenia	4.5	0.3	3.5	2.1	9.9	23.8	44.0	2.0%
Australia	0.0	0.0	19.1	9.9	13.1	0.0	42.0	2.0%
Italy	12.0	3.5	4.2	9.9	9.7	-1.5	37.8	2.0%
Other countries	14.5	19.5	4.8	35.7	59.3	49.7	183.7	8.0%

*Data from 1997 and 1998 differ from those shown in the balance of payments because of significant changes in the data base on foreign investment. These changes result from changes in the number of firms required to report to the Croatian National Bank on foreign investments in the current and preceding year.

Source: CNB

Since March 1997, the Croatian National Bank has carried out Surveys on Foreign Direct Investment and Portfolio Investment. From the preliminary data received, it can be seen that total foreign investment in Croatia in the period from 1993 to 1998 amounts to 2,204.3 million USD. It is also apparent that foreign investment in Croatia increased after 1996. In 1998, the value of foreign direct investment in the Republic of Croatia was 873.2 million USD. When looked at by country of origin, the greatest foreign investment comes from the United States (39.5 percent) and Austria (24.8 percent).

The sectors receiving the greatest investment were the pharmaceutical industry (42.9 percent), due to the listing of Pliva on the London Stock Exchange in 1996, its further privatization in 1998 and other financial services (14.5 percent) due to Zagrebačka Banka's listing on the London Stock Exchange, the founding of foreign banks in Croatia, and the purchase of domestic banks by foreign banks. These shares are expected to change significantly in the next few years due to the privatization of telecommunications, banks and the oil industry.

Table I.4

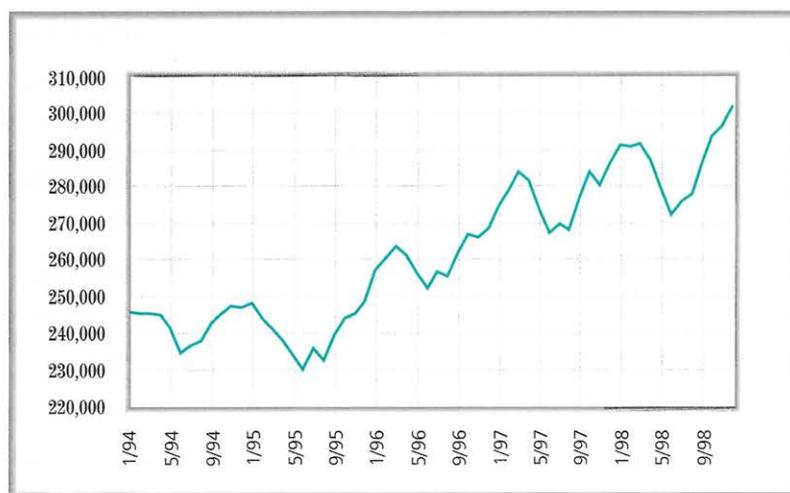
OWNERSHIP INVESTMENT IN THE REPUBLIC OF CROATIA FROM 1993 TO 1998 BY SECTOR, million USD, preliminary data

Activity	1993	1994	1995	1996	1997	1998	Total	%
Total ownership investment	96.5	113.1	101.2	533.4	326.5	585.3	1,670.7	100.0
Pharmaceuticals	0.0	0.0	0.0	286.3	11.8	422.0	717.2	42.9
Other financial intermediation	0.1	9.7	4.1	97.4	98.5	63.9	242.2	14.5
Cement	6.6	13.8	12.3	0.0	54.3	0.0	87.0	5.2
Glass	0.0	34.7	0.1	37.8	0.0	0.0	72.6	4.3
Bricks and roof tiles	0.6	0.1	0.1	46.2	2.9	0.0	50.0	3.0
Beer	0.0	27.4	7.3	11.2	1.0	0.0	46.9	2.8
Radio and television receivers, telephone apparatus etc.	0.0	0.0	37.3	7.1	0.0	0.0	44.4	2.7
Industrial gas	33.8	4.3	1.2	0.0	3.9	0.9	44.1	2.6
Other wholesale trade	2.4	1.3	1.9	1.3	29.4	6.1	40.5	2.4
Sanitary ceramics	0.0	0.0	0.0	0.0	27.3	12.6	39.9	2.4
Measurement instruments	0.0	0.0	9.6	3.9	19.8	0.0	33.4	2.0
Mineral water and soft drinks	6.2	2.8	0.6	9.9	13.1	0.0	32.5	1.9
Hotels and motels with restaurants	0.0	0.0	0.0	12.0	12.3	1.7	26.1	1.6
Other	46.9	19.0	26.7	20.4	52.1	78.1	193.8	11.6

Source: CNB

1.2.6

Employment and Wages

Figure I.31
REGISTERED UNEMPLOYMENT

Source: Monthly Statistical Bulletin, Croatian Employment Bureau, various issues

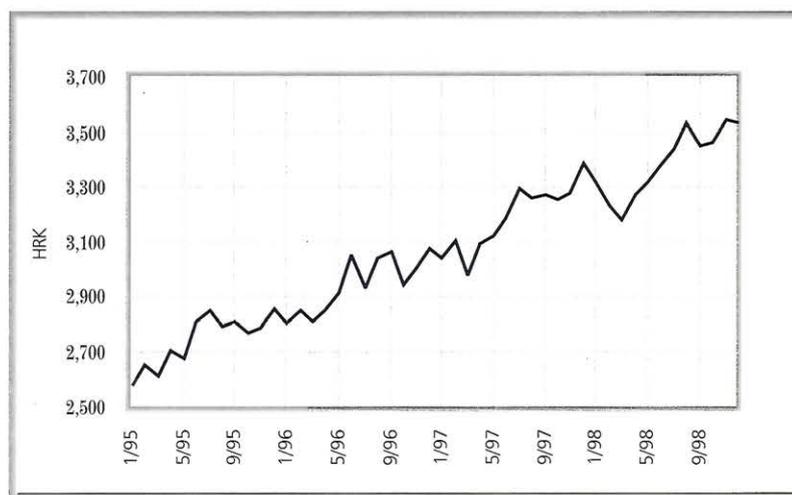
Registered unemployment was 302,731 at the end of 1998. This was 15,611 or 5.4 percent higher than at the end of 1997. This increase in unemployment was somewhat smaller than in 1997 (17,857 or 6.6 percent) and 1996 (20,193 or 8.5 percent). It occurred due to 221,436 new entries into the unemployment register of the Croatian Employment Bureau, of which 154,771 had previously been employed, and 66,665 were seeking work for the first time. According to the Bureau's data, 109,237 people were employed in 1998, significantly less than the 131,498 advertised available jobs. At the same time, 96,588 people were erased from the register for reasons other than employment. These dynamics of inflows and outflows from the register imply an increase in the newly unemployed of 2,256 or 1 percent, while employment increased by 7,334 or 7.2 percent. The large level of fluctuations in employment is good from the point of view of structural change, but the level of new employment is still too low to stop the growth of unemployment and to moderate the problem of long-term unemployment. The average growth of registered unemployment for all of 1998 was somewhat lower than during the year before, amount-

ing to 10,071 or 3.6 percent. The cause of this is the somewhat faster growth in registered unemployment in the second half of the year, which also continued in the beginning of 1999.

According to the semi-annual Labor Force Survey carried out in the first half of 1998, unemployment was 193,545. This number implies a growth in unemployment of 19 thousand compared to the first survey undertaken in November 1996. The difference between registered and survey unemployment measured by an internationally comparable methodology defined by the International Labor Organization, results from differences in the definition of various activity statuses. Unemployment by both the criteria of the survey and administrative sources amounted to 145,984, or 51 percent of registered unemployment in this period. There were 140,075 individuals who were considered by the Bureau to be unemployed, but were not considered unemployed by the survey. These individuals did not satisfy the international criteria on unemployment, which means that they were not actively seeking work, or were employed in the informal sector of the economy. There were 47,560 individuals who stated that they were seeking work, but were not registered with the Bureau. These are mainly students or pensioners who would like to work, but do not satisfy the formal criteria for registration with the Bureau, or simply individuals who do not have the right to receive any benefits by registering and feel that the Bureau cannot help them find work. In order to decrease the second category of unemployed (registered with the Bureau but not satisfying international criteria), and to achieve convergence between registered unemployment and actual unemployment which is presumably represented by the survey, in July 1998 the right to health insurance, one of the main motives for registering with the Bureau, was separated from the formal status of unemployment. However, convergence between these two indicators has not yet occurred.

According to monthly data provided by the Central Bureau of Statistics (CBS), total employment was 1,350,147 in 1998, i.e. 44,637 or 3.2 percent less than in 1997. This figure includes employment in government ministries. Survey employment for the first half of 1998 was 1,538,372. It was 184,000 more than the CBS figure for the same period. The difference between the two numbers is due to the fact that the survey captures employment in the informal sector of the economy that is not captured by administrative sources. Survey employment in the first half of 1998 was 54 thousand less than survey employment in the middle of 1997. Since there is no time series of survey employment, it is impossible to adjust for seasonal variations, and one can only speculate about whether seasonal effects were a factor in this decrease.

Figure 1.32
AVERAGE REAL GROSS WAGES,
in January 1994 prices

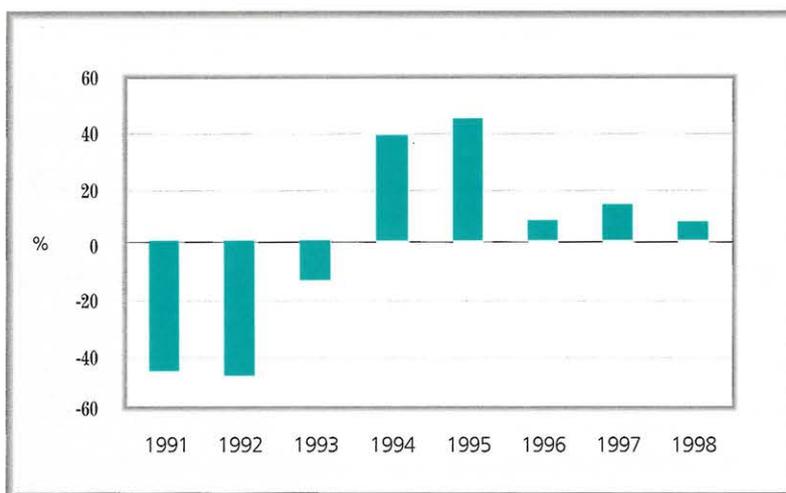


Source: Monthly Statistical Bulletin,
Central Bureau of Statistics,
various issues

In 1998, the active population decreased, independent of the methodology of measurement. Thus the Labor Force Survey shows that the labor force decreased by 36,251 between the two most recent surveys, while according to the data of the CSB and the Croatian Employment Bureau the labor force was 34,566 or 2.1 percent smaller on average in 1998 than in 1997. At the same time, the unemployment rate increased. The Survey rate of unemployment grew from 9.9 percent to 11.2 percent, and the administrative sources speak of an increase from 16.6 percent in 1997 to 17.6 percent in 1998.

Average nominal net wages actually paid in 1998 were 2,649 kuna; 300 kuna or 12.8 percent higher than in 1997. The real growth of average net wages obtained by deflation by the cost of living index was 5.9 percent. Such an increase in net wages implies substantially slower growth than in 1997, when real net wages grew by 12.4 percent. The data of the Payments Institute on the total net wages paid show a similar situation: 11.5 percent nominal and 4.8 percent real growth. Gross wages paid in 1998 grew somewhat faster than net wages, 13.1 percent in nominal terms and 6.3 percent in real terms. This shows, relative to 1997, that the tax and contributions burden on wages increased. Although the nominal growth in gross pay was somewhat greater than the growth in 1997, which was 12.9 percent, real growth was greater in 1997, when it amounted to 8.3 percent.

Figure I.33
RATE OF GROWTH OF
AVERAGE REAL NET WAGES



Source: Monthly Statistical Bulletin,
Central Bureau of Statistics,
various issues

Despite the growth in wages, nominal unit labor costs grew at only 1.5 percent, while real unit labor costs were lower by 5.5 percent. This slowdown and real fall relative to 1997, when nominal unit labor costs grew by 12.1 percent in nominal terms and 10.6 percent in real terms, may be explained by the slower growth of real wages and the growth in the number of workers who did not receive their pay on time (which occurred towards the end of the year), as well as the greater delays in payments of contributions from pay and on pay.

1.2.7

Government Budget

The main characteristics of the 1998 fiscal year were: the introduction of the value-added tax, the rebalance of the budget, increased deficits of the extrabudgetary funds and the excess of revenues over expenditures of the central and consolidated central government. The consolidated accounts of general government for 1998 had not been completed at the time of writing of this report.

The introduction of the value-added tax (VAT) on January 1, 1998 as a replacement for the turnover tax on goods and services characterized the whole fiscal year. The initial uncertainty about the introduction of VAT disappeared in the first few months, when it became clear that the revenues received from VAT would exceed all expectations. Studies undertaken before the introduction of VAT, by both domestic and foreign institutions, suggested that the introduction of a VAT with a unified rate of 22 percent would have mildly positive or neutral effects. Because of the substantially greater than expected revenues from the VAT, and because of the ending of child contributions and water contributions in the middle of the year, the Government of the Republic of Croatia proposed to the Parliament a rebalance of the government budget for 1998. This rebalance was passed by the Parliament in June. In the rebalance, the revenue side was increased by 20.1 percent, and the expenditure side by 14 percent compared to the figures in the original budget for 1998. The relatively greater increase in revenues compared to expenditures allowed the elimination of the expected budget deficit, and in this sense the budget was balanced.

Table 1.5 GOVERNMENT AND EXTRABUDGETARY FUND OUTTURN (unconsolidated), million kuna

	1995 Realized	1996 Realized	1997 Realized	1998 Realized	Nominal indices 1998/1997
Government budget					
Total revenues and grants	27,981	31,367	33,846	43,809	129.4
Tax revenues	26,505	28,530	31,775	40,334	127.3
Non-tax revenues	782	1,714	1,609	1,685	103.6
Capital revenues	594	1,123	461	1,789	388.1
Total expenditures and net borrowing	28,696	31,502	35,006	42,552	121.6
Current expenditures	25,504	25,930	29,580	34,883	117.9
Capital expenditures	2,971	5,043	4,815	6,507	135.1
Loans minus repayments	221	529	611	1,162	190.2
Total deficit/surplus	- 715	- 134	-1,160	1,257	-108.4
Foreign financing	686		2,986	- 9	-0.3
Domestic financing	29		-1,826	-1,248	68.3
Extra-budgetary funds					
Total revenues and grants	20,264	23,556	27,677	31,011	159.0
Total expenditures and net loans	20,433	23,962	28,145	31,398	123.0
Total deficit/surplus	- 169	- 405	- 467	- 387	6.4
Total revenues and grants	48,245	54,924	61,523	74,820	121.6
Total expenditures and net loans	49,129	55,463	63,151	73,950	117.1
Total deficit/surplus	- 884	- 539	- 1,628	870	-53.4

Source: Ministry of Finance

The whole year outcome of the central government budget diverged from the rebalance. Revenues were 788 million kuna too low, with the main reason being lower incomes from privatization and from taxes on international trade. Expenditures were also less than expected, by 2,004 million kuna. Savings were made by decreasing capital expenditures and current expenditures on interest. The result of the actual revenues and expenditures was a budget surplus of central government of 1.26 billion kuna. The outturn diverged from the planned budget (which according to the rebalance should have been 0), so that the financing account was also off target. The budget surplus was completely spent on a net repayment of a part of the domestic debt. In 1998, net foreign borrowing did not increase, but instead decreased slightly in net terms through the repayment of obligations. This is another way in which 1998 differs from preceding fiscal years in which

budget deficits and the repayment of domestic debt were financed through new foreign borrowing.

The nominal annual growth in total revenues of the central government budget was 29.4 percent. The largest contribution to this growth came from tax revenues, which, with their 91 percent share in total revenues have the greatest weight. Through tax revenues, revenues gathered were 27.3 percent larger than in the preceding year. In almost all tax categories revenues rose. The exceptions were revenues from taxes on international trade and other taxes, whose revenues decreased by 9.0 and 6.9 percent respectively. Revenues from other taxes do not have an important share in total tax revenues. However, the share of taxes on international trade do have a significant share, and are near 10 percent. The reason for the shortfall of these revenues is probably to be sought in the liberalization of foreign trade with Slovenia, BIH and Macedonia, and also in decreased imports (imports decreased by 7.0 percent). It was mentioned earlier that the remaining tax categories showed increased revenues. The highest growth rate was in taxes on general sales, total turnover or value-added, and amounted to 46.7 percent. At the same time, it is worth emphasizing that these taxes are the most significant ones, since they account for 55.6 percent of all tax revenue. Such a large growth in revenues from these kinds of taxes is a result of the introduction of the VAT at a rate of 22 percent, as well as the decrease in the room for tax evasion. Revenues from profit taxes grew by 37.9 percent, and revenues from income tax by 19.8 percent. Taxes on property grew by 11.6 percent, and excise taxes by 7.4 percent. Non-tax revenues grew by 3.6 percent. Capital revenues were 288 percent greater than in 1997. This was mainly a result of privatization, that is, the sale of enterprises (above all, Pliva). It should be repeated that despite the relatively large growth in capital income, it fell short of planned levels.

Table I.6

CONSOLIDATED GENERAL GOVERNMENT, million kuna

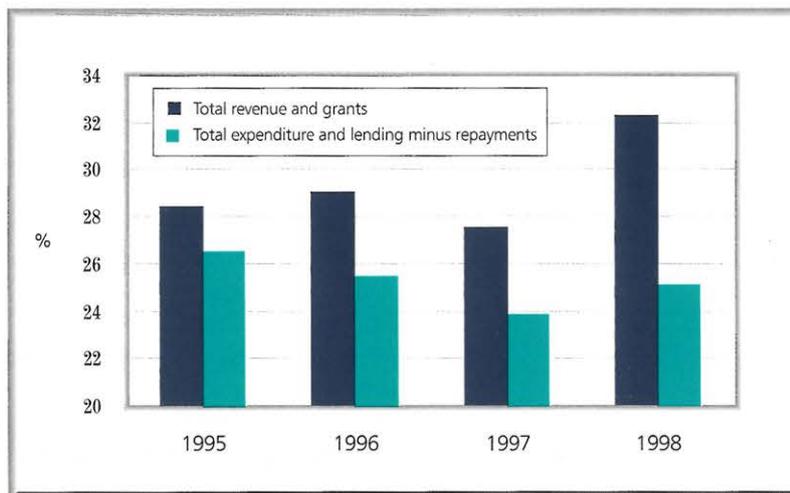
	1995 Realized	1996 Realized	1997 Realized	1998 Realized	Nominal indices 1998/1997
Total revenues and grants	47,651	54,518	60,355	...	...
Government budget	27,981	31,367	33,846	43,809	129.4
Extra-budgetary funds	15,302	17,029	19,499	21,302	109.2
Local government	4,368	6,122	7,009	...	...
Total expenditures and net loan (minus repayments)	48,297	55,000	61,982	...	...
Government budget	26,189	27,592	29,409	34,125	116.0
Extra-budgetary funds	17,977	21,282	25,522	30,103	117.9
Local government	4,131	6,126	7,051	...	...
Total deficit/surplus	- 646	- 482	- 1,628	...	...

Source: Ministry of Finance

Expenditures grew at a nominal rate of 21.6 percent. The growth of current expenditures was 17.9 percent, and capital expenditures grew at 35.1 percent. The relatively larger growth of capital expenditures led to a mild change in the structure of total expenditures. The share of current expenditures in total expenditures decreased by 2.5 percentage points. However, current expenditures still account for the largest share in total expenditures (82.0 percent). Within current expenditures, the most important category is pay and employers' contributions with a share of 37.4 percent, followed by two important categories: subsidies and current transfers (29.5 percent) then purchases of goods and services (27.6 percent). It is interesting that the last two categories changed places compared to 1997. Current government

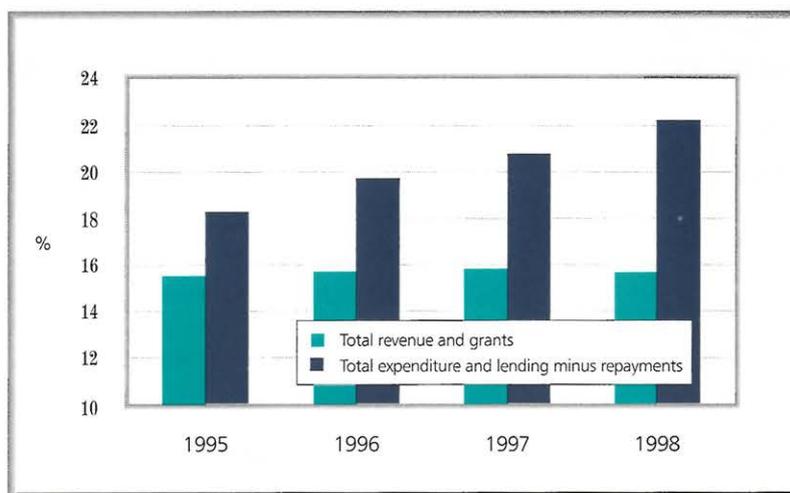
savings in 1998 were 7.1 billion kuna, which is a direct result of the surplus achieved on the central government account, and of the excess of capital expenditures over capital revenues.

Figure I.34
GOVERNMENT BUDGETARY REVENUES AND EXPENDITURES, consolidated, share of GDP



In 1998, for the first time since 1994 a surplus was achieved in the central government and consolidated central government budgets. Thus there was neither a financial deficit nor new government borrowing. The government used the surplus to decrease its debt. The financing account shows for the first time a change from foreign to domestic funding sources. That is, the government had previously financed budget deficits and repaid domestic debt by increasing foreign debt. In 1998, this was not the case, since the foreign debt did not increase, and the domestic debt was decreased by the amount of the surplus achieved. Thus the financing realized deviated from plan. According to the rebalance of the budget, the government had intended to borrow abroad (under the heading of other foreign borrowing) so as to increase net repayments of existing domestic debt. However, because of the worsening situation on international financial markets (the reasons are well-known: the Asian and Russian crises), it did not make sense to borrow abroad. Therefore the government repaid the planned amount of commercial bank debt, but at the same time borrowed from various domestic sectors. The results of this turn of events were a small net reduction of the domestic debt.

Figure I.35
REVENUES AND EXPENDITURES OF EXTRABUDGETARY FUNDS, consolidated, share in GDP

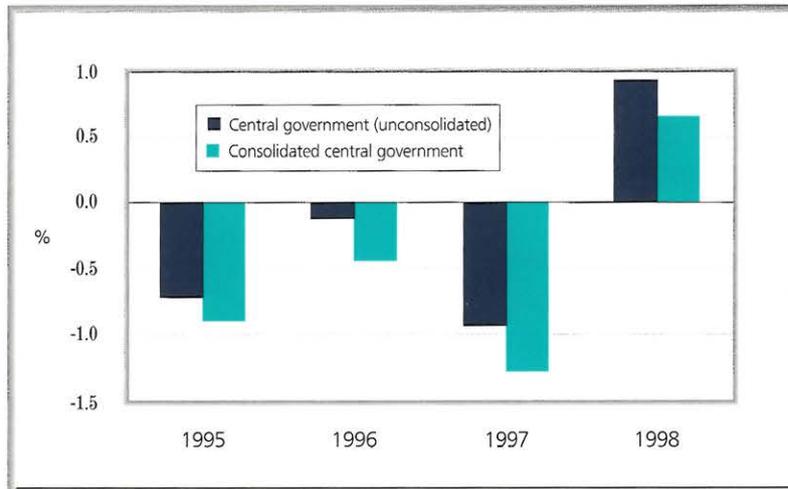


The unfavorable multiple year trend of increasing deficits of the extrabudgetary funds continued this year. The aggregate consolidated deficit of the extrabudgetary funds in 1998 was 8.8 billion kuna, which is an increase of 46.1 percent. It should

be emphasized that the greatest generators of this deficit were the Pension Fund (5.5 billion kuna) and the Health Insurance Fund (2.5 billion kuna). The Child Benefit Fund and Public Water Management Fund together generated deficits somewhat below one billion kuna, while the Employment Bureau was the only extra-budgetary fund with a positive outturn (0.15 billion kuna). However, the consolidated central government showed an 883 million kuna surplus, due to the large surplus of central government.

Final data on local government are not available yet for 1998, so it is not possible to see the final results of consolidated general government. However, available data from preceding years indicate two things quite clearly. The first is that the share of local government in total revenues and expenditures of consolidated general has been slowly increasing. This is in harmony with the process of democratization and decentralization of society and public finances. The second relates to the close balance of local government revenues and expenditures. This suggests the conclusion that local government did not have a negative effect on the balance of consolidated central government last year. In this sense, it is reasonable to expect that the final results for consolidated local government in 1998 will be neutral and will not have an effect on the positive balance of consolidated central government.

Figure 1.36
TOTAL DEFICIT/SURPLUS,
share in GDP



1.2.8

Illiquidity

The problem of enterprise illiquidity has been a serious one in Croatia for a long time. It should be emphasized that this problem is not unknown in other countries. However, in transition countries, and in Croatia as well, it is more severe.

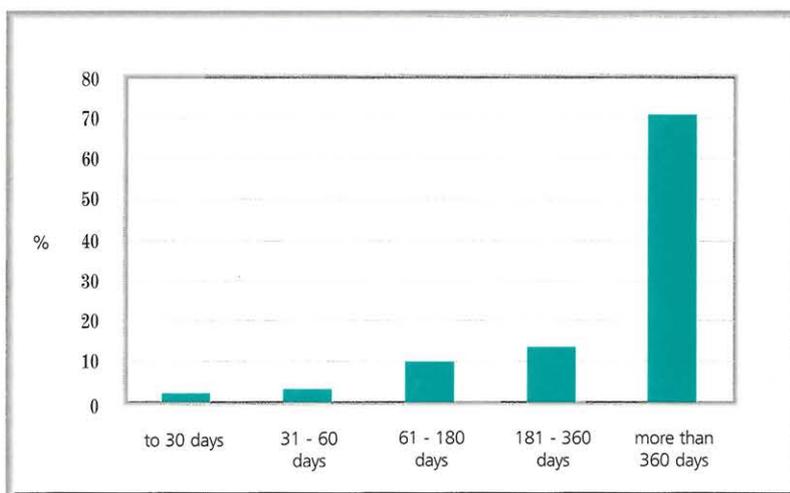
In analyzing illiquidity, the most frequently used indicator is unpaid payment orders registered with the Payments Institute (these will be referred to as UPOs in the following text). This indicator does not show the true level of illiquidity, but instead shows only those UPOs that have been presented to the Payments Institute. In addition, it is also important to keep in mind that UPOs do not include other forms of illiquidity, such as unpaid wages. Regardless of these shortcomings, UPOs can be used for indicative purposes.

The growth of total UPOs in the last three years has not been trivial. At the end of 1995, total UPOs were 6.14 billion kuna, they were 8.43 billion kuna at the end of 1996, 10.82 billion kuna at the end of 1997 and 15.70 billion kuna at the end of 1998. In the last year, UPOs grew by 45 percent, the largest relative growth of any

of the last three years. The causes of this growth in UPOs probably must be sought in changes on the financial markets. In March 1998, when rapid growth of UPOs began, the problems in the banking sector began as well. The growth in lending interest rates and the isolation of bad banks closed credit lines for some enterprises, worsening their liquidity. The impossibility of getting additional credit lines for liquidity, along with increased obligations on the basis of existing debt, forced many enterprises into "blockade." At the end of the year, the illiquidity situation worsened further due to the recession and the announcement that acceptance orders would no longer be used as a means of ensuring payment. This encouraged agents to register acceptance orders that they possessed.

In 1998, the absolute number of insolvent enterprises grew more than in previous years, while in relative terms the fastest growth of the number of insolvent enterprises came in 1996. Employment at insolvent enterprises shows the structural changes within these enterprises. Decreases in employment are visible, signaling layoffs of workers by insolvent enterprises. At the same time, total employment at insolvent enterprises continues to grow, indicating the entry of new insolvent enterprises. After February 1997, employment in insolvent enterprises has risen continuously. In December 1998, 182,301 workers were employed in insolvent enterprises, which is seven employees per enterprise.

Figure I.37
UNPAID OBLIGATIONS
ACCORDING TO THE
DURATION OF BLOCKING
OF ACCOUNTS,
shares of total unpaid payment
orders of legal persons (status
as of December 31, 1998)



Source: Information 12, Payments Institute, February 1999

The best proof that illiquidity is not new in our system is the fact that 71 percent of total UPOs of legal persons at the end of 1998 were more than one year old. This 71 percent of UPOs refers to 57 percent of the insolvent legal persons registered with the Payments Institute. 36 percent of the total number of employees at insolvent enterprises are employed at these enterprises. The fact that 71 percent of enterprises have had their accounts blocked for more than 360 days suggests that the Payments Institute data are not a measure of illiquidity but a measure of insolvency. This means a situation in which an enterprise is not only unable to meet its matured obligations, but in fact a situation in which the enterprises' total liabilities are greater than its total assets. Regardless of whether it is illiquidity or insolvency that is at play, the legal system must enter the picture, by beginning bankruptcy or foreclosure on enterprises that are unable to meet their obligations. In the case of Croatia, not only is the number of enterprises enormous, but in fact the large majority of blocked accounts are those of miniature enterprises. This is confirmed by an analysis made by the Croatian National Bank that shows that 0.4 percent of the enterprises (the largest debtors) account for almost 30 percent of registered UPOs. The structure of the remaining part of the blocked enterprises implies greater costs of bankruptcy proceeding relative to the assets involved.

Because of the great current relevance of the problem and the lack of available data, the Croatian National Bank undertook research on illiquidity on the basis of surveys. The survey posed various questions about the financial state of the enterprises, and emphasis was placed on the problem of illiquidity. Despite some deficiencies of the data received, several conclusions can be drawn from the survey.

Figure I.38
AVERAGE LATENESS OF
PAYMENT DAYS
(UNWEIGHTED)

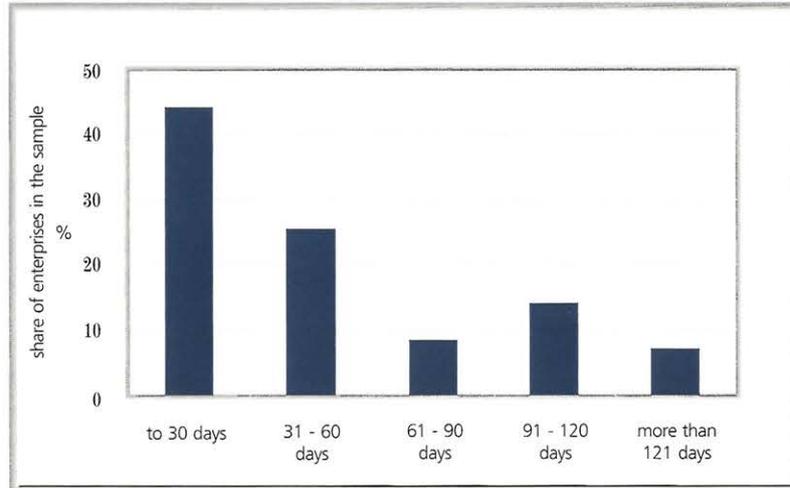
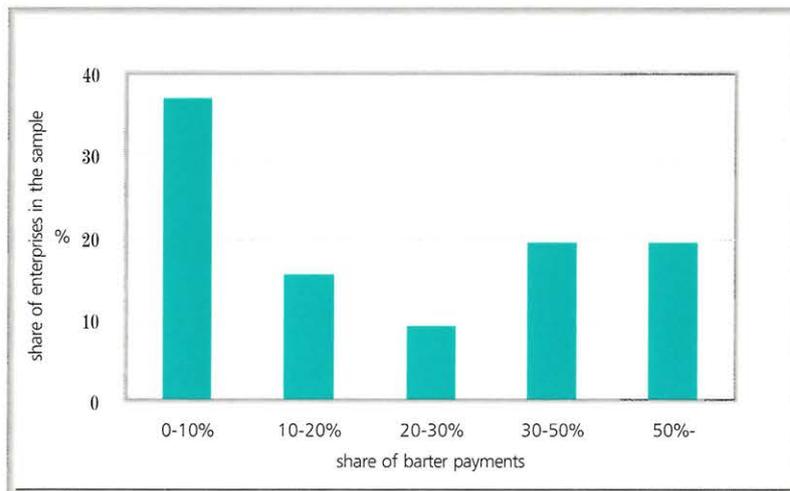


Figure I.39
PAYMENT OF CLAIMS THROUGH
COMPENSATION
(UNWEIGHTED)



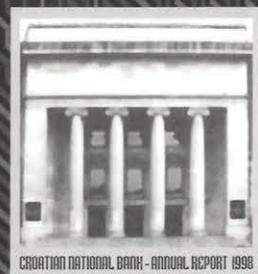
As of the end of 1998, total matured and outstanding claims of enterprises that responded to the survey were 21 percent of their total income for 1998. Thus it is apparent that the inability to collect payments has had a strong effect on the profitability of the enterprises. Suppliers of enterprises in the sample granted an average of 37 days delay of payment, while these enterprises granted their customers an average delay of 41 days. The difference in the delays these enterprises received from their suppliers and granted to their customers flows from the fact that these enterprises are net creditors to the rest of the economy. The period of payment delay between enterprises in Croatia is relatively short compared to developed countries. This period is comparable to payment delays seen in other transition countries in recent years. If the period of delay allowed by enterprises is added to the actual average lateness of payments, which is 61 days, we find an average of 102 days between the completion of a job and receipt of payment. This puts Croatia among the countries with the longest delays between completion and payment. The average lateness which the enterprises experienced in making their own payments was 57 days, so that the average period of making payments was 94 days, or 11 days shorter than the average period of receiving payments.

While enterprises in the survey serviced their debts with an average lateness of 57 days, almost three quarters of the debts of enterprises registered with the Payments Institute had not been repaid with a year. This suggests that there are fundamentally different types of financial difficulties. While for the surveyed enterprises, we can speak of late payment, which means that debts in the future will most likely be repaid, for enterprises registered with the Payments Institute repayment is questionable. Because of this, it is possible to almost completely identify all those with bad debts or bad claims. A significant portion of the unpaid claims of banks and on banks are documented by the Payments Institute, so these data can be taken as a mirror of banking sector problems.

It has been shown that acceptance orders only theoretically protect creditors. Because of the inconsistency in the application of existing law, as well as the slowness and ineffectiveness of the courts, it is difficult for creditors to collect their debts. It is precisely the slowness in undertaking restructuring that is the main cause of illiquidity, both in Croatia and in other transition countries. Therefore, to resolve the illiquidity problem, it is necessary to continue structural reform. The government's attempt to reaffirm bills of exchange is certainly praiseworthy. However, if legal practice does not ensure that bills of exchange are quick and simple to use for the creditor, no results will have been achieved, since in essence there is no difference between bills of exchange and acceptance orders.

2

**MONETARY
POLICY IN 1998**



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998

2.1 Monetary and Credit Aggregates

During 1998, monetary policy continued to follow the basic principles set forth in the stabilization program five years ago. The basic instruments of monetary policy were not changed, but were substantially enriched. One of the main features of monetary policy in 1998 was in fact the frequent enhancement and adaptation of monetary policy measures. Changes in monetary policy instruments were made in an effort to improve the measures and bring them closer to those used in developed countries. In addition, it was important to help banks overcome the worsened liquidity of the Croatian banking system and to allow monetary policy to adapt to the actual changes in the economy and banking industry.

In this area in 1998:

- Real and monetary growth fell relative to 1997;
- The growth of total placements was cut in half and
- The net foreign assets of the banking system decreased

Table II.1

MONETARY AND CREDIT AGGREGATES

	Base money (M0)	Total liquid assets (M4)					Total (M4)	NET DOMESTIC ASSETS (NDA)	NET FOREIGN ASSETS (NFA)
		Money supply (M1)			Savings and time deposits	Foreign exchange deposits			
		Currency in circulation (C)	Deposit money (D)	Total (M1)					
In billion kuna									
Dec. 31, 1994	4.7	2.7	4.0	6.6	2.0	8.8	17.5	16.3	1.1
Dec. 31, 1995	6.7	3.4	4.9	8.3	2.2	14.1	24.5	21.5	3.0
Dec. 31, 1996	8.8	4.4	7.0	11.4	3.4	21.8	36.6	24.9	11.7
Dec. 31, 1997	10.3	5.3	8.5	13.8	5.5	31.0	50.3	33.5	16.9
Dec. 31, 1998	10.0	5.7	7.9	13.6	5.5	37.4	56.6	43.9	12.7
Growth rate									
December-to-December									
1995	43.1	26.6	23.3	24.6	4.7	60.7	40.4	31.6	166.3
1996	30.0	29.8	43.4	37.9	56.5	54.6	49.1	15.7	287.1
1997	17.4	21.8	20.3	20.9	62.2	42.5	37.6	34.5	44.4
1998	-3.4	8.1	-7.5	-1.5	0.6	20.8	12.4	31.0	-25.1
Monthly average									
1995	3.0	2.0	1.8	1.9	0.4	4.0	2.9	2.3	8.5
1996	2.2	2.2	3.1	2.7	3.8	3.7	3.4	1.2	11.9
1997	1.3	1.7	1.6	1.6	4.1	42.5	2.7	2.5	3.1
1998	-0.3	0.7	-0.6	-0.1	0.0	1.6	1.0	2.3	-2.4

2.1.1

Total Liquid Assets

The money supply, which in 1997 grew by 20.9 percent, contracted in 1998 by 1.5 percent (data not seasonally adjusted). Within this, currency in circulation grew 8.1 percent, while deposit money decreased by 7.5 percent. Such divergent developments in currency in circulation and demand deposits are in contrast to 1997, when both components of the money supply grew at approximately the same rate, about 21 percent. In addition, the growth of the money supply held by households and enterprises was sharply different. Enterprise deposits shrank by 15.8 percent

in 1998, while household deposits grew by 11.3 percent. In other words, the share of currency in circulation and household deposits in the money supply grew, although less than in 1997, while demand deposits held by enterprises fell. Such developments show the worsened liquidity position of enterprises, as well as the redistribution of the existing money stock to households. The decrease in the money supply was much more substantial in the second half of 1998, while in fact the money supply remained roughly unchanged during the first half of the year.

The rate of growth of foreign exchange deposits fell in half. In 1997, foreign exchange deposits grew by 42.5 percent, but in 1998 by only 20.8 percent, reaching 37.4 billion kuna at the end of the year. Kuna deposits, which had grown 62.2 percent in 1997, completely stagnated in 1998. They amounted to 5.5 billion kuna at the end of 1998, the same as at the end of 1997. While during 1997 high interest rates on kuna deposits and a stable exchange rate attracted kuna savings, during 1998 economic agents once again adjusted the currency structure of their assets and increased the foreign exchange component. As a result of all these developments, total liquid assets were 56.6 billion kuna at the end of December 1998, 12.4 percent more than at the end of 1997.

Kuna deposits of enterprises were also visibly smaller, decreasing from 1.7 to 1.5 billion kuna (13.3 percent) during 1998. This is in contrast to growth from 1 to 1.7 billion (70 percent) in 1997. Only the foreign exchange deposits of enterprises grew slightly, by 0.2 billion kuna (7.1 percent). Since the share of household foreign exchange deposits in total foreign exchange deposits is 90 percent, changes in the holdings of this sector determine changes in total foreign exchange deposits. And foreign exchange savings of households were the only aggregate that grew substantially during 1998, increasing 22.7 percent, in contrast to the 46.4 percent growth of 1997.

Table II.2 TOTAL LIQUID ASSETS M4, million kuna and %

	AMOUNT			SHARE		
	Dec. 96	Dec. 97	Dec. 98	Dec. 96	Dec. 97	Dec. 98
TOTAL LIQUID ASSETS (M4)	36,595.5	50,342.6	56,558.8	100.0	100.0	100.0
1. Money supply	11,409.3	13,795.2	13,595.0	31.2	27.4	24.0
1.1 Currency in circulation	4,366.2	5,319.6	5,730.1	11.9	10.6	10.1
1.2 Deposit money of other domestic sectors	7,043.1	8,475.6	7,864.9	19.2	16.8	13.9
2. Non-monetary deposits (quasi-money)	25,186.2	36,547.4	42,963.8	68.8	72.6	76.0
2.1 Kuna savings and time deposits *	3,384.2	5,487.8	5,530.5	9.2	10.9	9.8
2.2 Foreign exchange deposits	21,802.0	31,059.6	37,433.3	59.6	61.7	66.2
SECTORAL STRUCTURE OF M4						
Local government	791.5	698.5	719.1	2.2	1.4	1.3
Enterprises	8,456.0	10,901.6	10,019.9	23.1	21.7	17.7
Households	26,339.4	37,604.4	44,451.4	72.0	74.7	78.6
Other banking institutions	55.6	102.4	75.5	0.2	0.2	0.1
Other financial institutions	953.0	1,035.8	1,292.9	2.6	2.1	2.3
TOTAL	36,595.6	50,342.6	56,558.8	100.0	100.0	100.0

2.1.2

Credit Aggregates

Slower growth of credit aggregates was another feature of 1998. The growth rate of total placements was halved from 44.1 percent in 1997 to 22.2 percent in 1998. In December 1998, placements were almost 59 billion kuna; they had been 48.3 billion

in December 1997. The rapid growth of consumer credit seen in 1997 was not repeated in 1998. Loans to households with maturities above one year, which grew by 105 percent in 1997, grew by 37.3 percent in 1998. Lending to enterprises behaved similarly. Loans to enterprises grew by only 14.8 percent, compared to 40.6 percent in 1997.

There were also fundamental changes in the relations between central government and commercial banks during 1998. While during 1997, central government halved its (net) borrowing from commercial banks, during 1998 this item was almost flat. We should remember that in 1997, claims on government fell substantially from 15.9 billion kuna to 9.5 billion, mainly due to decreased claims on central government based on bonds issued to cover frozen household foreign exchange deposits of 1.5 billion kuna and increased foreign exchange deposits to refinance loans of 4.5 billion kuna. During 1998, government regularly serviced its obligations based on household foreign exchange deposits (0.9 billion kuna) and Big Bonds (0.2 billion kuna). However, this was more or less balanced out by increases in other net claims of banks on central government, so that the stock of net bank claims on central government at the end of 1998 was 9.9 billion kuna, 0.4 billion kuna (4.1 percent) more than at the end of 1997. Such an increase in the government's net borrowing from commercial banks did not occur evenly throughout the year. In the first half of the year, the government decreased its financing from commercial banks, but during the second half, and especially during the last quarter, it increased it.

Table II.3

NET DOMESTIC ASSETS, million kuna and %

	AMOUNT			GROWTH RATES		
	Dec. 96	Dec. 97	Dec. 98	Dec. 96	Dec. 97	Dec. 98
NET DOMESTIC ASSETS	24,885.7	33,488.3	43,899.0	15.7	34.6	31.1
Assets						
1. Claims on central government (net)	15,946.3	9,526.1	9,916.1	-2.0	-40.3	4.1
2. Placements	33,488.6	48,264.2	58,959.7	3.1	44.1	22.2
3. Other assets (net)	-24,549.2	-24,302.1	-24,976.8	-9.9	-1.0	2.8
Liabilities						
1. Total liquid assets (M4)	36,595.6	50,342.7	56,558.7	49.1	37.6	12.3
2. Foreign liabilities (net)	-11,709.9	-16,854.4	-12,659.7	287.1	43.9	-24.9

The trend of net foreign assets of the banking system also was substantially different in 1998. Total net foreign assets of the banking system decreased from 16.8 billion to 12.6 billion kuna or 24.9 percent in 1998, in contrast to the growth of 5 billion kuna (43.9 percent) in 1997 (expressed in kuna). The reasons for this are found in the fundamentally different international environment, in changes in banks' policies and changes in the regulations of the Croatian National Bank.

The international environment in 1998 was less favorable for foreign borrowing than it had been in 1997. Risk perceptions of foreign investors for emerging markets increased and Croatia, irrespective of its economic fundamentals, faced more difficult conditions for accessing foreign capital. During 1997, increased foreign borrowing was used to fund the growth of placements to domestic sectors. The slower growth of total placements during 1998 was the result of more cautious bank credit policies and decreases in the availability of foreign financial sources.

At the end of the first quarter of 1998, the Croatian National Bank introduced required deposits on foreign credits, making net foreign borrowing by commercial

banks more expensive. Only loans for conversion into kuna, that is financial credits taken abroad that are to be placed with domestic agents, are taxed. These required deposits in kuna at the CNB affect short-term foreign borrowing (up to 1 year), while long-term borrowing is unaffected.

These measures contributed to a decrease in the growth of banks' foreign borrowing, which was a significant influence in the slower growth of domestic demand. This in turn led to decreased imports and a lower current account deficit. The time structure of foreign liabilities was also "improved" such that maturities were extended, although it should be mentioned that even before the controls were introduced, most foreign liabilities were long-term.

Another new decision that took effect during September 1998 influenced the structure of net foreign assets. A portion of the required reserves on foreign exchange deposits was transferred from foreign banks to the CNB. Previously, banks had been required to keep 55 percent of foreign exchange deposits with maturities less than 3 months in foreign exchange accounts abroad, so as to protect overall liquidity. The requirement only referred to physical persons, that is to household savings, which banks were required to redeposit abroad. However, to a certain extent banks used these redeposited savings as collateral for new foreign borrowing, which they then used to finance domestic credit expansion. It was necessary to break this chain, both on the liability side (capital account restrictions) and on the asset side (returning deposits from abroad to the CNB). This achieved several aims simultaneously: foreign exchange reserves managed by the CNB could no longer be used for further foreign borrowing; the (gross) foreign exchange reserves of the CNB were increased (although at the same time the foreign exchange reserves of commercial banks were decreased); and the reserve requirement on kuna and foreign exchange deposits was equalized. Banks were given until April 1999 to gradually bring their foreign exchange assets in compliance with the new regulations.

2.2

Relations with Government

The Croatian National Bank, in accordance with article 58 of the Law on the Croatian National Bank, granted short-term loans to the central government during 1998 to help bridge temporary imbalances between revenues and budgetary expenditures. During the year, 12 short-term loans were granted. These were gradually returned throughout the year, and by 30 December 1998, they were completely repaid. Thanks to the Ministry of Finance's efforts to cover temporary imbalances between revenues and expenditures in market-conforming ways, that is, through issues of bonds, Treasury bills and bills of exchange, borrowing from the CNB during 1998 was significantly less than the legal limit of 5 percent of the budget.

2.3

Relations with Commercial Banks

The liquidity of the financial system and the stability of the domestic currency during 1998 were maintained by the central bank using previously existing, but modified and reinforced, instruments of monetary policy. The central bank granted daily and Lombard loans. A major feature of 1998 was the increased use of repo auctions of CNB bills and Ministry of Finance Treasury bills, as well as the reactivation of the interventive loan instrument. Another innovation in monetary policy instruments in 1998 was the introduction of the pre-rehabilitation loan.

The Croatian National Bank used auctions of CNB bills and required reserves to sterilize the possible negative effects of monetary creation. It should be noted that during the year, both instruments were broadened. In April, the Croatian National Bank began to issue CNB bills denominated in foreign exchange, and in June, foreign exchange reserve requirements were introduced. In addition, in April, required deposits on foreign financial borrowings, foreign exchange deposits and guarantees granted were introduced.

Table II.4

STOCK OF CROATIAN NATIONAL BANK LOANS, million kuna

	1997	1998			
	Dec	Mar.	June	Sept.	Dec.
CREDITS GRANTED TO BANKS	30.1	311.1	480.9	659.1	1,044.4
Lombard credits	30.0	28.9	145.1	315.3	252.3
Interventive credits	0.0	0.0	15.3	142.9	132.1
Repo arrangements	0.0	0.0	199.6	0.0	459.2
Pre-rehabilitation loans	0.0	281.3	120.0	200.0	0.0
Other credits	0.1	0.9	0.9	0.9	200.9
CREDITS GIVEN TO THE MINISTRY OF FINANCE	0.0	0.0	0.0	617.1	0.0
Long-term credits	0.0	0.0	0.0	0.0	0.0
Short-term credits	0.0	0.0	0.0	617.1	0.0
Foreign exchange credits	0.0	0.0	0.0	0.0	0.0
TOTAL	30.1	311.1	480.9	1,276.2	1,044.4

2.3.1

Daily Loans for Bridging Liquidity Problems

Until September 1998, commercial banks and savings banks were allowed to use daily loans for bridging liquidity problems up to the nominal value of kuna CNB bills offered as collateral. The interest rate on such loans was 17 percent per year. In order to enable banks to manage their liquidity more effectively, the conditions for granting daily loans were changed in September. Interest rates were decreased, and the collateral base was extended to CNB bills in foreign exchange, which the Croatian National Bank had begun to issue in April 1998. Thus, since September 1998, banks and savings banks were able to use daily loans collateralized by Croatian National Bank bills in kuna and/or foreign exchange up to 95 percent of their nominal value with an interest rate of 7 percent annually.

Daily loans in their previous form were abolished in December. That is, daily loans and Lombard loans were united into one loan. The new loan had elements of both types of old loan, but with certain changes. Since the new loan is also called a Lombard, we will discuss it in more detail in the section on Lombard loans.

Daily loans were used by between two and eleven banks per month on average, and the average monthly amount used ranged from 2.4 million to 52.6 million kuna. In the first eight months of 1998, when daily loans carried a 17 percent interest rate, the average monthly amount used was 6.8 million kuna, while in the other four months when interest rates were lower, the average amount used increased to 45.5 million kuna. At the same time, the average number of banks using daily loans increased from three in the first eight months to nine in the remaining four months. Also, in the first eight months banks used daily loans on average 13 days per

month, while from September to the end of the year the average number of days of usage was 26.

2.3.2

Lombard Loans

Banks and savings banks that had Croatian National Bank bills and/or Treasury bills of the Ministry of Finance of the Republic of Croatia in their portfolios were allowed to take Lombard loans up to 50 percent of the nominal value of CNB bills and/or 25 percent of the nominal value of Treasury bills. Lombard loans could be used for 12 working days per month, with an interest rate of 9.5 percent annually. When the Croatian National Bank began to issue CNB bills in foreign exchange in April 1998, banks and savings banks were allowed to use Lombard loans up to 50 percent of the nominal value of these bills. In April, the interest rate on Lombard loans was raised to 11 percent, and in May the period of use was extended to 18 working days per month. Changes in this instrument were the result of attempts to make it easier for banks to manage their liquidity which, because of the banking crises, had significantly deteriorated.

However, the most important change in the Lombard loan instrument came in December when the Lombard and the Daily loan were unified in an effort to make the role and significance of collateral more transparent. The varied treatment of CNB bills as collateral in the two types of loan was assessed to be unnecessary. In addition, discrimination against the Ministry of Finance Treasury bill as opposed to the CNB bill was judged unjustified, considering that both have the same level of risk. Because of this, it was decided in December that Lombard loans will be granted up to 50 percent of the nominal value of Croatian National Bank bills in kuna and foreign exchange, Ministry of Finance Treasury bills and Ministry of Finance bills of exchange. By broadening the portfolio of securities accepted as collateral for the Lombard loan, the Croatian National Bank enriched its instruments and made all the securities mentioned more attractive for banks and savings banks. It can be expected that this will stimulate the market for government securities, and this in turn should stimulate the whole Croatian short-term securities market.

Since the extension of collateral resulted in an increase in the total potential use of Lombard loans, it was decided that use should be controlled by interest rate policy. Banks that use the Lombard loan for only one day pay 7 percent, while banks that use the Lombard loan for more than one day pay 12 percent.

The average use of Lombard loans during the year was 99.3 million kuna. However, this amount was not spread evenly throughout the year. In comparison with the amount granted from May until the end of the year, the amount granted during the first four months was significantly lower. The average amount of Lombard loans used during the first four months was 21.9 million kuna, in contrast to 138 million kuna used during the last eight months. The smallest use of Lombard loans was in February, 11.7 million kuna, while the largest was 230.7 million in September. Banks and savings banks used Lombard loans on average 24 days per month.

2.3.3

Interventive Loans

Because of liquidity shocks after the world financial crisis, and especially after the emergence of banking problems in Croatia, the use of secondary liquidity sources increased. Unable to obtain funds from other sources, some banks and savings banks were forced to turn to interventive loans.

In the first four months of 1998, two interventive loans were granted, both in March, to a bank that used the loans for a total of 2 days. However, from May on the granting of such loans substantially increased both by amount granted and number of days of use. From May until the end of the year, the average monthly amount of interventive loans ranged from 8.1 to 146.4 million kuna. Banks and savings banks in this period used interventive loans of 83.8 million kuna per month on average. During the last eight months of 1998 interventive loans were used (23 days per month on average), and three to six banks and savings banks per month used them.

2.3.4

Pre-rehabilitation Loans

In March 1998, a new loan for bridging liquidity was introduced to allow illiquid banks that due to inadequate business practices do not hold securities acceptable as collateral for CNB loans but are undergoing procedures to establish the economic and financial justification of rehabilitation to solve their liquidity problems. These banks were undergoing study to establish the feasibility of and economic justification for rehabilitation and restructuring. Such loans were named pre-rehabilitation loans. They were introduced exclusively to bolster confidence in the banking system and to prevent the negative effects of bank runs at the target banks and at other banks that suffered the effects of a chain-reaction by depositors.

These loans were granted in amounts determined by the Governor of the Croatian National Bank, with an interest rate of 14 percent. To ensure the return of the loans, banks were required to provide high-quality collateral. The first pre-rehabilitation loan of 500 million kuna was used in March and April and was repaid in May. The second loan of 200 million kuna was granted in June, but was not repaid in the 90-day repayment period, and collection from collateral is now in progress.

2.3.5

Repo Auctions

Of all the monetary policy instruments of the Croatian National Bank, repo auctions of Croatian National Bank bills and Ministry of Finance Treasury bills are the most effective for bridging short-term liquidity problems, and are the most similar to instruments used in developed financial systems. One feature of 1998 was the large growth in the share of repo auctions in the total monetary policy instruments of the Croatian National Bank. From the middle of April, when the first repo auction of the year was held, until the end of the year, 34 repo auctions were held, three times as many as in 1997. 13 banks on average participated in the auctions, and the average weighted interest rate at the auctions was 10.7 percent.

The average yearly emission per auction fluctuated around 310.6 million kuna. Comparing this amount to the average annual use of Lombard loans, which was three times smaller in 1998, it may be concluded that the banks themselves recognized the advantages of this instrument. The high level of participation in repo auctions, and the good reception by banks is an expression of the fact that repo arrangements allow the central bank more effective control of both the amount and timing of liquidity. At the same time, they are a very safe instrument of monetary policy.

Table II.5

SURVEY OF REPO AUCTIONS IN 1998, million kuna

Date of the auction	Total amount accepted	Weighted interest rate (%)
April 17, 1998	222.4	10.7
April 24, 1998	76.1	10.4
April 30, 1998	298.2	10.1
May 4, 1998	314.7	10.2
May 15, 1998	354.6	10.6
May 19, 1998	317.7	10.3
May 22, 1998	279.9	10.1
June 11, 1998	332.4	9.9
June 16, 1998	258.5	9.8
June 23, 1998	317.6	10.1
June 30, 1998	199.6	10.2
July 9, 1998	236.9	10.4
July 10, 1998	186.5	10.1
July 16, 1998	226.1	10.6
July 22, 1998	202.8	10.4
July 24, 1998	201.3	10.5
July 31, 1998	233.0	10.5
October 9, 1998	456.4	10.8
October 16, 1998	459.6	11.0
October 22, 1998	256.5	11.2
October 27, 1998	213.2	11.3
October 30, 1998	389.7	11.1
November 3, 1998	499.3	11.2
November 6, 1998	519.4	11.2
November 18, 1998	271.9	11.2
November 27, 1998	270.0	11.1
December 1, 1998	604.2	11.1
December 4, 1998	534.4	11.3
December 8, 1998	448.1	11.2
December 11, 1998	323.4	11.3
December 15, 1998	263.1	11.3
December 18, 1998	332.8	11.3
December 23, 1998	145.7	11.3
December 29, 1998	313.5	11.3

2.3.6

Croatian National Bank Bills

Given the inadequate development of the market for government securities that could be used for open-market operations, auctions of Croatian National Bank bills continue to be one of the most important instruments of sterilization of liquidity surpluses in the banking system. During 1998, as in previous years, the Croatian National Bank auctioned bills through the multiple-price method with discounts. Croatian National Bank bills in kuna are denominated in amounts beginning with 100,000 kuna. This is the smallest amount that may be purchased. Auctions are held on Wednesday of each week, and banks and savings banks may purchase bills in kuna with maturities of 35, 91 and 182 days. At the end of April, the Croatian National Bank began to issue foreign exchange bills, in German marks and US dollars, with maturities of 63, 91, 182 and 364 days. Foreign exchange bills were also sold at auctions held every Friday, with discounts, but at interest rates set in advance by the Croatian National Bank on the basis of LIBOR.

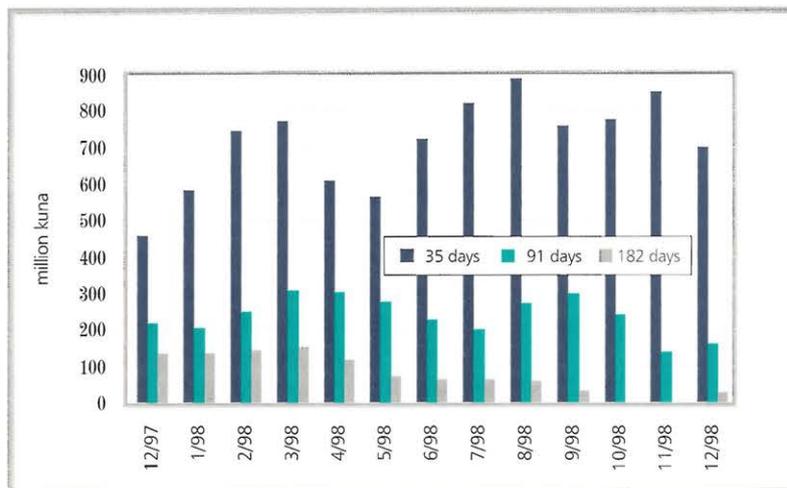
Table II.6

SURVEY OF CROATIAN NATIONAL BANK BILLS PURCHASED BY MATURITY,
nominal value, million kuna

	Maturity in days			Total amount at the end of the month
	35	91	182	
December 1997	458.6	221.5	136.0	816.1
January 1998	582.3	205.5	136.0	923.8
February 1998	744.7	252.5	145.0	1,142.5
March 1998	771.8	310.0	153.0	1,234.8
April 1998	606.8	305.0	117.0	1,028.8
May 1998	564.3	279.0	73.5	916.8
June 1998	720.3	230.5	64.5	1,015.3
July 1998	819.3	199.5	62.5	1,081.3
August 1998	885.8	274.5	57.5	1,217.8
September 1998	757.1	301.8	32.5	1,091.4
October 1998	772.9	241.3	20.5	1,034.7
November 1998	848.9	140.8	19.5	1,009.2
December 1998	700.0	161.1	26.0	887.1

The stock of kuna bills outstanding at the end of the month varied between 900 and 1,200 million kuna in 1998. This was quite similar to the previous year. However, there was great interest among banks and savings banks in foreign exchange bills. The stock of foreign exchange bills outstanding ranged from 500 and 1,400 million kuna countervalue, and was almost always growing. Looking at both kinds of bills together, there is greater demand for shorter maturities, below 91 days, while purchase of longer maturities has been negligible.

Figure II.1
SURVEY OF THE STOCK OF CNB
BILLS OUTSTANDING IN KUNA
BY MATURITY,
nominal value, million kuna



2.3.7

Required Reserves

Although the long-term trend in the monetary policy of the Croatian National Bank is to decrease the importance of the reserve requirement as a monetary policy instrument and to rely more on market-oriented instruments, it was not possible to make significant steps forward in the environment in which monetary policy functioned during 1998. Because of this, reserve requirements, along with CNB bills, continue to play a decisive role in neutralizing the monetary effects of primary emission. Given the expected restrictiveness of monetary policy, the rate of reserve

requirement was decreased only once during the year, to 29.5 percent in May. However, in the same month, other measures were taken to decrease the burden on banks and savings banks caused by relatively high reserve requirements. The percentage of the calculated reserve requirement that may be left in banks' giro accounts and in vault cash was increased from 25 percent to 40 percent. To neutralize the costs that banks incur in gathering deposits, the rate of remuneration was raised from 4.5 percent to 5.9 percent, and in December it was decided that the basis for remuneration would include the portion of the reserve requirement held on average in giro accounts, in addition to the portion held at the Croatian National Bank.

In order to make the reserve requirement more transparent and to unify all the sources of the calculation basis, and in order to improve monetary control and decrease the money multiplier, the Croatian National Bank issued a decision in June 1998 on the formation of required reserves of banks and savings banks on foreign exchange sources. The decision took force in September 1998, and the requirement was at the rate of 55 percent. Furthermore, the rate of remuneration on foreign exchange required reserves is determined based on market interest rates that the Croatian National Bank achieves on its portfolio of foreign exchange received from banks and savings banks for the reserve requirement.

2.3.8

Deposits on Foreign Financial Credits, Foreign Exchange Deposits and Guarantees Granted

In April 1998, mandatory kuna deposits were introduced on the use of foreign financial loans intended for conversion into kuna, on foreign exchange deposits of foreign banks, and on guarantees granted to domestic agents on the basis of the use of financial loans intended for conversion into kuna. These deposits were introduced to slow down the very rapid growth of kuna placements and the decrease of net foreign assets seen in the first quarter of 1998. In addition, they were intended to improve the current account deficit and especially to slow down the rapid growth of consumer goods imports.

During the year, the requirement rates and maturity of the calculation basis were changed. The changes resulted in a decision that all banks authorized to do business abroad, when taking financial loans for conversion in kuna made in their own name and for their own account or in their own name and for the account of others, are required to deposit in a special account at the Croatian National Bank 30 percent of loans received with a maturity of less than one year, 10 percent of the value of guarantees granted for loans for conversion into kuna with a maturity of less than one year, and 15 percent of the average daily amount of foreign exchange deposits of foreign banks with a remaining maturity of less than one year.

2.4

Croatian National Bank Interest Rates

The Croatian National Bank followed interest rate trends on the Croatian financial markets in order to regulate bank borrowing from the central bank. At the same time, to the extent possible in the turbulent environment of world financial crisis and banking crisis in Croatia, the central bank used certain measures to attempt to decrease the growth in the general level of interest rates.

On the asset side, corrections were made in the interest rate on Lombard loans. Rates were raised in April from 9.5 percent to 11 percent, and to 12 percent in December. Rates on daily loans were substantially decreased in September from 17 percent to 7 percent. Generally, the high level of interest rates in Croatian banking caused a growth in interest rates on repo auctions. The average interest rate at repo auctions in 1998 was 10.7 percent, while it had been 8.4 percent in 1997.

On the liability side, interest rates also rose. Interest rates on Croatian National Bank bills in kuna ranged between 8 and 9.5 percent for 35-day bills, between 9 and 10.5 percent for 91 day-bills and between 9.75 percent and 11 percent for 182-day bills. In October, the rate of remuneration for required reserves placed in accounts at the Croatian National Bank was raised from 4.5 percent to 5.9 percent. We believe that, along with the December extension of the basis for remuneration to the part of required reserves banks must hold on average in their giro accounts, this measure provided banks and savings banks with extra room for decreasing interest rates.

2.5

Intervention on the Foreign Exchange Market and Management of Foreign Exchange Reserves

Foreign exchange reserves in 1998 grew by 276.5 million USD (at current exchange rates) and reached 2,815.5 million USD.

Table II.7

FOREIGN EXCHANGE RESERVES ON DECEMBER 31, 1998, million dollars

1. Funds purchased on the domestic f/c market (net reserves)	2,057.9
2. Obligations based on IMF credits (SDR)	233.8
3. Bank purchases of CNB foreign exchange bills	226.0
4. Banks and Savings Banks required reserves in foreign exchange	267.0
5. Funds received through "swap" auctions	30.7
TOTAL	2,815.5

During 1998, foreign exchange reserves grew slower than in 1997. This occurred mainly because of the significantly greater demand for foreign exchange on the domestic market. This was caused by external and internal factors.

These factors were above all the fundamentally changed situation on international financial markets, caused by the Asian and Russian crises, which caused a decrease in investor confidence. Because of this, capital moved to safer markets, and investment in transition countries greatly decreased. This was manifested in decreases in the prices of Croatian Eurobonds, that is, substantially increased spreads relative to comparable bonds, and also noticeably decreased opportunities for foreign borrowing.

Another factor was the fundamentally changed environment in the domestic real sector and banking sector, along with slower foreign exchange inflows from households' foreign exchange savings due to the illiquidity and insolvency of particular banks.

Foreign exchange reserves grew mainly on the basis of purchases of CNB bills and the formation of required foreign exchange reserve requirements at the Croatian

National Bank. That is, during 1998, two new instruments of monetary policy were introduced: CNB bills in foreign exchange and foreign exchange reserve requirements for banks and savings banks.

These instruments increased foreign exchange reserves by 493.1 million USD. The net effect of all other foreign exchange transactions of the central bank resulted in a decrease in foreign exchange reserves of 216.6 million USD. The total net growth of gross reserves was 276.5 million USD.

Table II.8

INFLOWS AND OUTFLOWS OF FOREIGN EXCHANGE RESERVES IN 1998, million USD

	Exchange rate on December 31, 1998	Exchange rate on December 31, 1996
INFLOWS		
1. Purchase of foreign exchange at auctions*	253.6	271.6
2. Purchase of foreign exchange from early withdrawal of CNB bills	27.4	29.1
3. Purchase of foreign exchange from the Ministry of Finance*	294.0	305.5
4. Interest income on foreign exchange deposits	73.2	75.3
5. Interest on SDRs	7.2	7.4
6. Income on securities investments	18.2	19.2
7. Income on "repurchase" agreements	5.2	5.6
8. Sale of kuna cash	30.9	33.2
9. Foreign exchange CNB bills issued	769.8	799.5
10. Inflows of foreign exchange based on required reserves	267.0	273.3
11. Net exchange rate differences	114.5	9.5
TOTAL INFLOWS	1,861.0	1,829.2
OUTFLOWS		
1. Sale of foreign exchange at auctions	622.9	667.1
2. Sale of foreign exchange to Ministry of Finance	295.7	304.9
3. Sale of foreign exchange to Dubrovačka Banka	54.6	57.4
4. Sale of foreign exchange to Slavenska Banka	1.5	1.6
5. Return of funds to the Ministry of Finance based on World Bank loans	25.1	27.0
6. Payment of obligations to the IMF (principal)	9.2	9.4
7. Payment of interest on liabilities and costs to the IMF	14.4	14.7
8. Payment of obligations to international financial institutions (EBRD, IDB)	4.3	4.6
9. Payment of costs (SWIFT, Reuters, Bloomberg)	0.5	0.5
10. Payment of other costs (bank audits, CLPS, subscriptions, tech. assistance)	4.1	4.2
11. Purchase of CNB foreign exchange bills	543.8	567.0
12. Purchase of kuna cash	8.4	9.0
TOTAL OUTFLOWS	1,584.5	1,667.4
NET GROWTH	276.5	161.8

* Including purchases of foreign exchange with which the government, as part of the rehabilitation of Dubrovačka Banka, repaid the central bank for loans granted to Dubrovačka Banka.

Through intervention on the domestic foreign exchange market, the Croatian National Bank bought and sold foreign exchange to domestic banks and the Ministry of Finance, and sold foreign banks kuna currency.

On this basis, the Croatian National Bank sold a total of 961.2 million USD of foreign exchange, and purchased 580.7 million USD. This means that through intervention on the domestic foreign exchange market, foreign exchange reserves decreased by 380.5 million USD.

Table II.9

TOTAL TRADE OF THE CNB ON THE FOREIGN EXCHANGE MARKET IN 1998,
million dollars, exchange rates of the day of intervention

	PURCHASE (1)		SALE (2)		DIFFERENCE (1-2)	
	USD	HRK	USD	HRK	USD	HRK
Auctions	239.5	1,544.8	609.9	3,829.4	- 370.5	2,284.6
Ministry of Finance	288.3	1,818.3	290.2	1,830.3	- 1.9	11.9
Dubrovačka Banka *	-	-	51.3	333.5	- 51.3	333.4
Slavonska Banka **	-	-	1.4	8.9	- 1.4	8.9
Purchases through withdrawal of CNB bills	24.5	152.9	-	-	24.5	- 152.9
Sale of kuna cash	28.4	184.5	8.3	51.7	20.1	- 132.8
TOTAL	580.7	3,700.5	961.2	6,053.7	- 380.5	2,353.2

* Include sales of foreign currency cash

** Only foreign cash sold

The Croatian National Bank, within the framework of monetary policy projections, intervened forty-two times, including nine "swap" auctions. It must be mentioned that the CNB began intervening on the domestic foreign exchange market in May 1998 (sale of foreign exchange on January 7 was in fact the conclusion of a "swap" initiated in 1997).

Table II.10

CNB AUCTIONS ON THE FOREIGN EXCHANGE MARKET,
million USD, exchange rate on the day of auction

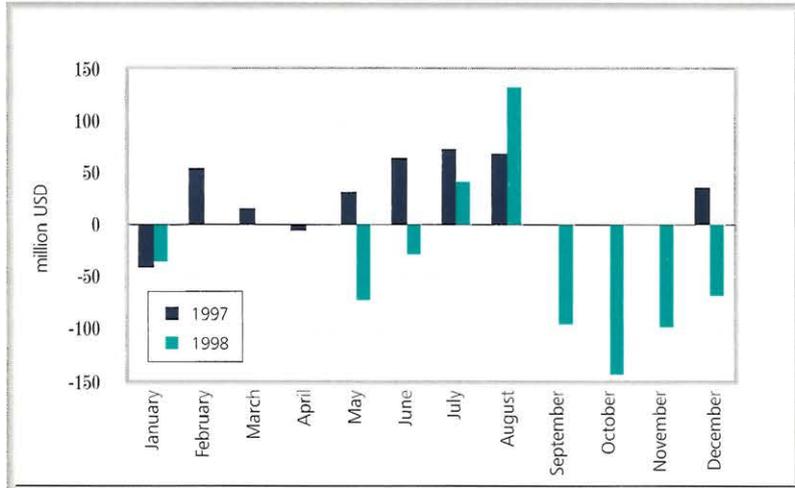
	PURCHASE OF F/C (1)		SALE OF F/C (2)		DIFFERENCE (1-2)	
	1997	1998	1997	1998	1997	1998
January	-	-	41.3	35.9	-41.3	-35.9
February	82.4	-	27.9	-	54.5	-
March	15.9	-	-	-	15.9	-
April	-	-	5.0	-	-5.0	-
May	33.2	1.1	1.2	73.6	31.9	-72.5
June	68.1	17.9	3.3	46.9	64.7	-28.9
July	72.8	55.1	-	13.9	72.8	41.2
August	68.9	133.3	-	-	68.9	133.3
September	-	-	-	96.0	-	-96.0
October	-	-	-	144.3	-	-144.3
November	-	-	-	98.9	-	-98.9
December	35.9	32.1	-	100.5	35.9	-68.4
TOTAL	377.1	239.5	78.7	609.9	298.4	-370.5

The increased demands of banks to purchase foreign exchange were the reason for the more frequent intervention of the CNB in May and June, and especially in September and the last quarter of 1998, in which 18 auctions were held. The tourist season had not even finished when banks began to exert pressure to buy foreign exchange. Thus large sales, unusual for this time of the year, began in September with the sale of 96 million USD and continued to the end of the year. In the last four months of the year alone, total sales of foreign exchange to banks were 440 million USD.

A total of seven "swap" transactions were concluded in December 1998, amounting to 32.1 million USD. These transactions were closed on January 8 of this year.

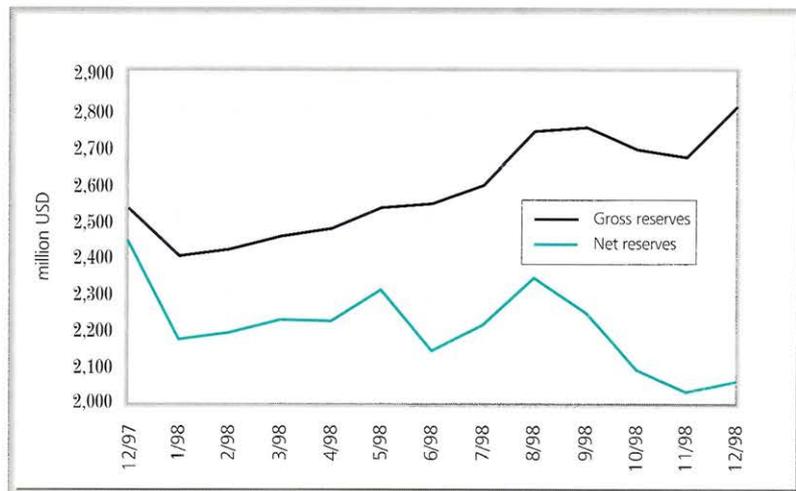
We can say that the main reasons for the decreased supply of foreign exchange on the Croatian foreign exchange market in 1998 were the increased difficulty of borrowing on world markets. This was a result of the financial crisis in Asia and Russia, the flight of capital to safer markets, and the loss of confidence in certain Croatian banks.

Figure II.2
NET PURCHASE OF FOREIGN
EXCHANGE BY CNB,
million USD



The quality of the management of foreign exchange reserves in 1998 was significantly improved over 1997 through changes in the structure of investment and the introduction of new instruments. Time deposits at commercial banks were decreased, and investments in government securities were increased. Good results were achieved from the point of view of profitability. In fact, the results were better than the planned "benchmark."

Figure II.3
MONTHLY CHANGES IN
FOREIGN EXCHANGE RESERVES
OF THE CNB IN 1998,
million USD



Despite the substantial amounts of net sales of foreign exchange on the domestic market, gross foreign exchange reserves grew, and the difference between gross and net reserves grew more and more rapidly, especially between September and the end of the year. This occurred thanks to purchases of foreign exchange CNB bills and the formation of foreign exchange reserve requirements. The share of net reserves in total reserves decreased throughout the year, falling from 96 percent at the beginning of the year to 73 percent at the end of the year.

3

INTERNATIONAL RELATIONS



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998



3.1 International Monetary Institutions

3.1.1 Relations of the Republic of Croatia with the International Monetary Fund (IMF)

Financial Transactions

As fiscal agent of the Republic of Croatia and depositor of the International Monetary Fund, the Croatian National Bank keeps the deposit accounts of the International Monetary Fund and regularly services obligations from the arrangements that the Republic of Croatia has made with the IMF: the Systemic Transformation Facility (STF), approved in 1994, 130.8 million SDR, the Stand-by Arrangement (approved in 1994 for 65.4 million SDR, of which 13.08 million have been withdrawn) and the Extended Fund Facility (EFF) approved in 1997, 353.16 million SDR, of which 28.78 million have been withdrawn. During 1998, 7.96 million SDR of interest was paid on all three arrangements combined. As a member of the Special Drawing Rights Department of the International Monetary Fund, Croatia regularly services its obligations that flow from the inherited obligations from its "allocation" of Special Drawing Rights. During 1998, 1.86 million SDR were paid on this basis.

The Croatian National Bank holds a small amount of its foreign exchange reserves in Special Drawing Rights in a special account at the International Monetary Fund. This is done so as to diversify the currency structure of the foreign exchange reserves and to reduce currency risk, that is, the risks resulting from exchange rate changes.

Table III.1

STATE ON DECEMBER 31, 1998

GENERAL RESOURCES ACCOUNT	million SDR	% quota
Quota	261.60	100.00
IMF holdings in kuna	427.61	163.46
<hr/>		
SDR DEPARTMENT	million SDR	% net cumul. al.
Net cumulative allocation	44.21	100.00
Holdings of Croatia	164.19	371.40
<hr/>		
LIABILITIES PAID IN 1998	million SDR	-
Repayment of principal (Stand by - succession)	6.54	-
Interest payments	7.96	-
Costs of EFF arrangement	0.60	-
SDR Department membership fee	0.01	-
Cost of net cumulative allocation	1.86	-

Since the admission of the Republic of Croatia into membership in the IMF, it has regularly fulfilled all its obligations, in accordance with regulations.

Other Forms of Cooperation

In 1998, the Republic of Croatia gained the right to increase its quota in the IMF by an additional 103.5 million SDR, thanks to the Resolution of the Board of Governors of the IMF on increasing the quotas of member countries — the eleventh general revision (Resolution number 53-2). The legal preconditions for increasing

the quota were fulfilled by the adoption of the Decision on Accepting the Increased Quota of the Republic of Croatia in the International Monetary Fund (GG 163/98). The increase in the quota becomes legally effective after members possessing no less than 85 percent of the total quota of the IMF agree to increase their quotas. With the realization of the increased quota on the basis of the 11th revision, which is expected during 1999, the new Croatian quota will be 365.1 million SDR.

Along with regular annual consultations, which occur on the basis of Article IV of the IMF Articles of Agreement, the Croatian National Bank continued intensive cooperation with IMF experts during 1998 through consultations on macroeconomic policy. Along with this, in order to improve the accounting system of the central bank and the system of banking supervision, the IMF provided extra technical support through the visits of technical missions to Croatia and through extended stays of foreign experts in these areas.

The regular participation of Croatia in the management bodies of the IMF (Constituency, Interim Committee and Board of Governors) continued in 1998. Representatives of the Croatian National Bank participated in the Annual Meeting of the Governing Board of the International Monetary Fund in Washington, holding many successful meetings with representatives of International financial institutions, commercial banks and investment houses.

3.1.2

Relations of the Republic of Croatia with the Bank for International Settlements (BIS)

The Croatian National Bank continued its cooperation with the Bank for International Settlements in 1998, after having gained full membership in the middle of 1997. The Governor of the Croatian National Bank attends the regular monthly meetings as well as the Annual Meeting, making many important contacts with high officials of the BIS and of the other central banks that are members of the BIS.

To improve the flow of information between central banks, and on the basis of cooperation with the BIS, the Croatian National Bank and other relevant institutions have provided information on the Croatian banking system for inclusion in the BIS Handbook of Central Banks in Central and Eastern Europe.

The Croatian National Bank participated in BIS activities aimed at coordinating technical assistance by central banks from the G-10 to central banks in central and Eastern Europe. Many bilateral contacts were opened, and various forms of technical assistance were agreed on in principle.

3.2

International Financial Institutions

The World Bank Group (IBRD), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB)

- a) On the basis of the Law on Accepting Membership of the Republic of Croatia in the International Monetary Fund and other International Financial Organizations on the Basis of Succession (GG 89/92), the Law on Accepting Membership of the Republic of Croatia in the European Bank for Reconstruction and Development (GG

25/93) and the Law on Accepting Membership of the Republic of Croatia in the Inter-American Development Bank (GG 94/93), the Croatian National Bank is depositor, that is manages all deposit accounts in the ownership of international financial organizations, and in the name and for the account of these financial institutions. In addition, it performs all financial transactions with these organizations as fiscal agent of the state — Republic of Croatia. During 1998, the Croatian National Bank regularly executed payments for shares according to the repayment plans accepted by each international financial institution.

Table III.2

PAYMENTS MADE IN 1998 ON THE BASIS OF THE REPUBLIC OF CROATIA'S MEMBERSHIP IN INTERNATIONAL FINANCIAL ORGANIZATIONS

Title	Amount paid and currency		Promissory Notes issued by the Ministry of Finance
1. EBRD	ECU	2,661,000.00	ECU 1,556,000.00
2. IDB	a) HRK	1,167,881.99	USD 880,631.00 (Ordinary Capital)
	b) DEM	27,500.00	DEM 2,416,076.00 (FSO Notes)
	c) USD	32,252.00	(FSO Notes)

- b) The use and repayment of funds on the basis of the Contract on the Enterprise and Financial Sector Adjustment Loan (EFSAL) signed on June 4, 1997 between the Republic of Croatia and the International Bank for Reconstruction and Development, amounting to 160 million USD (published in the Government Gazette, International Agreements number 17, October 22, 1997) has been made through a special account at the Croatian National Bank. Within the framework of this loan, the World Bank has provided technical assistance to the Bank Supervision Department in the introduction and adaptation of a new Risk Management Reporting System.
- c) Representatives of the Croatian National Bank actively participated in the work of the Management bodies of the international financial institutions — World Bank (IBRD) and its affiliates (International Finance Corporation - IFC, Multilateral Investment Guarantee Agency - MIGA), European Bank for Reconstruction and Development (EBRD) and Inter-American Development Bank (IDB), as well as the work of particular missions of these institutions.

In carrying out its regular work with international financial institutions, the Croatian National Bank cooperates with the Government of the Republic of Croatia, the Ministry of Finance and other government bodies.

3.3

Cooperation between the Republic of Croatia and other International Institutions

The Croatian National Bank participated in the work of the Government's Interdepartmental Working Group for Accession of the Republic of Croatia to membership in the World Trade Organization. The central bank was involved in questions relating to banking and the foreign exchange system, as well as macroeconomic policy. Emphasis was placed on adapting the legal regulations of the Republic of Croatia to the principles of the World Trade Organization (the principle of non-discrimination, the principle of Most-Favored Nation status — MFN clause). In order

to adapt to WTO principles, elements relating to the right of non-residents to found banks or bank branches in the Republic of Croatia in the Law on Banks were modified. In addition, some mainly technical questions relating to the liberalization of the financial system are in the process of resolution. The end of the negotiation process is expected during 1999.

The Croatian National Bank cooperated with numerous other international financial institutions. For example, in cooperation with the Croatian National Bank, the Japan Center for International Finance held a seminar in Zagreb in October 1998 on the Japanese financial and banking system, the development finance system and bank supervision. The aim of the seminar was to impart and exchange experiences on questions of potential benefit for transition countries like Croatia. The seminar, the first of its kind in Croatia, was completely sponsored by the Japanese Ministry of Finance.

3.4 Relations with Foreign Banks

The special features of 1998 for international banking were the preparations for the introduction of the Euro, and the consequences of the financial crisis that began at the end of 1997 and continued in 1998 with the crises in Russia, Asia and South America. Also, foreign banks' and institutions' interest in the liquidity problems of particular Croatian banks increased.

Because of the world financial crisis, the activities of the International Banking Department in monitoring the creditworthiness of countries and foreign banks were increased so as to limit credit risk. Special attention was given to monitoring credit ratings from multiple sources (reports of the internationally recognized agencies Standard & Poor's, Moody's and Fitch IBCA, as well as other relevant sources). Reports were prepared for the purposes of managing the foreign exchange reserves of the Croatian National Bank, as well as reports related to the Decision on Required Foreign Exchange Reserves of Banks and Savings Banks.

The Department completed preparatory work relating to the establishment of the Economic and Monetary Union on January 1, 1999, allowing a smooth beginning of financial transactions in Euro. Correspondent relations in Euro were established along with the simultaneous consolidation of existing accounts in EMU member currencies. Along with this, due to changes in work, the Department monitored changes in the international standards relating to the introduction of the Euro (ISO standards, rules of the International Chamber of Trade in Paris).

The Department organized about 150 meetings in 1998. The subjects were questions relating to the Euro and the operational preparations of the Croatian National Bank. In cooperation with the Area of Control and Supervision, a large number of meetings were organized on the theme of the current situation in the Croatian banking system.

It must be emphasized that foreign lenders and investors continue to be interested in Croatia, regardless of current problems. Interest is especially great in the continued privatization of banks and public enterprises. Because of this, many meetings were held to familiarize potential investors with macroeconomic indicators of the Republic of Croatia.

During 1998, further efforts were made to solve questions relating to cooperation between Croatian banks and banks in Bosnia and Herzegovina and banks from the Federal Republic of Yugoslavia. In the latter case, additional problems arose from the reimposition of sanctions on the FRY due to the situation in Kosovo. Work on the question of succession of the former Socialist Federative Republic of Yugoslavia continued (allocation of the foreign exchange reserves of the former NBY to successor states, the problem of the clearing balance, elements of succession from the foreign debt reprogramming packages — Paris and London clubs). In addition, the department actively cooperated in the commission for Research on the Fate of the Property of Victims of Nazi Persecution. This relates to the question of the archives of the CNB, its connection to other succession questions, etc.

Specific activities were related to cooperation with the work of several intergovernmental commissions in the Ministry of Economic Affairs, Ministry of Finance, Ministry of Foreign Affairs and Croatian Chamber of Commerce. Special emphasis should be placed on cooperation through regular membership of a Departmental representative on the Interministerial Council of the Croatian Bank for Reconstruction and Development, which is charged with promoting and providing insurance for Croatian exports. This body began active work in 1998. Expert materials were prepared for this purpose.

Croatia, like other countries, is faced with attempts at fraud and false representation of non-existent Croatian banks abroad. In order to prevent this, timely and regular information was provided to foreign countries, in order to protect the image of Croatia. Close cooperation on this area has been established with the Committee for Preventing Money Laundering of the Ministry of Finance.

In connection with changes in the international ISO standards, during 1998 the existing Instructions on the Use of Abbreviations and Numerical Symbols for Countries and Currency Units in foreign payments were modified.

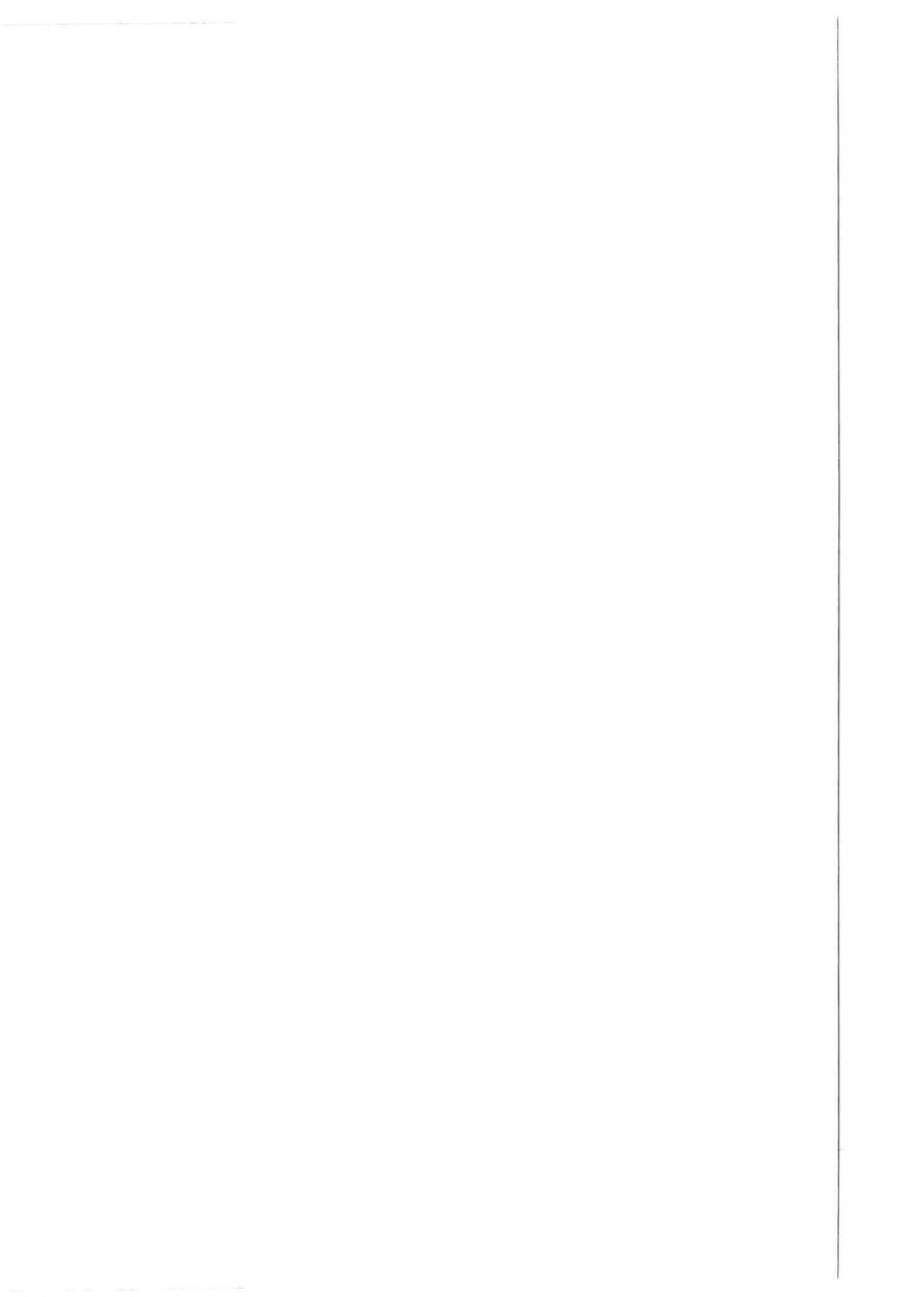
3.5

Foreign Payments

During 1998, work relating to foreign payments increased significantly, both for the needs of the Croatian National Bank and for the needs of the Republic of Croatia (Ministry of Finance).

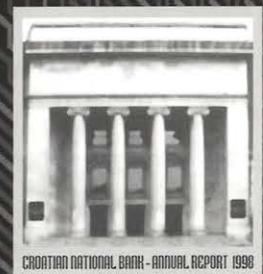
In 1998, the Croatian National Bank began a complete change of old hardware and software for SWIFT and installed new equipment. The new equipment completely supports changes in SWIFT standards made in preparation for the introduction of the Euro, and additional changes are possible to improve the security of financial message processing.

In addition, since the middle of 1998, preparations by SWIFT for the transition to the year 2000 have been monitored and all necessary preparations for the required testing of SWIFT have been made.

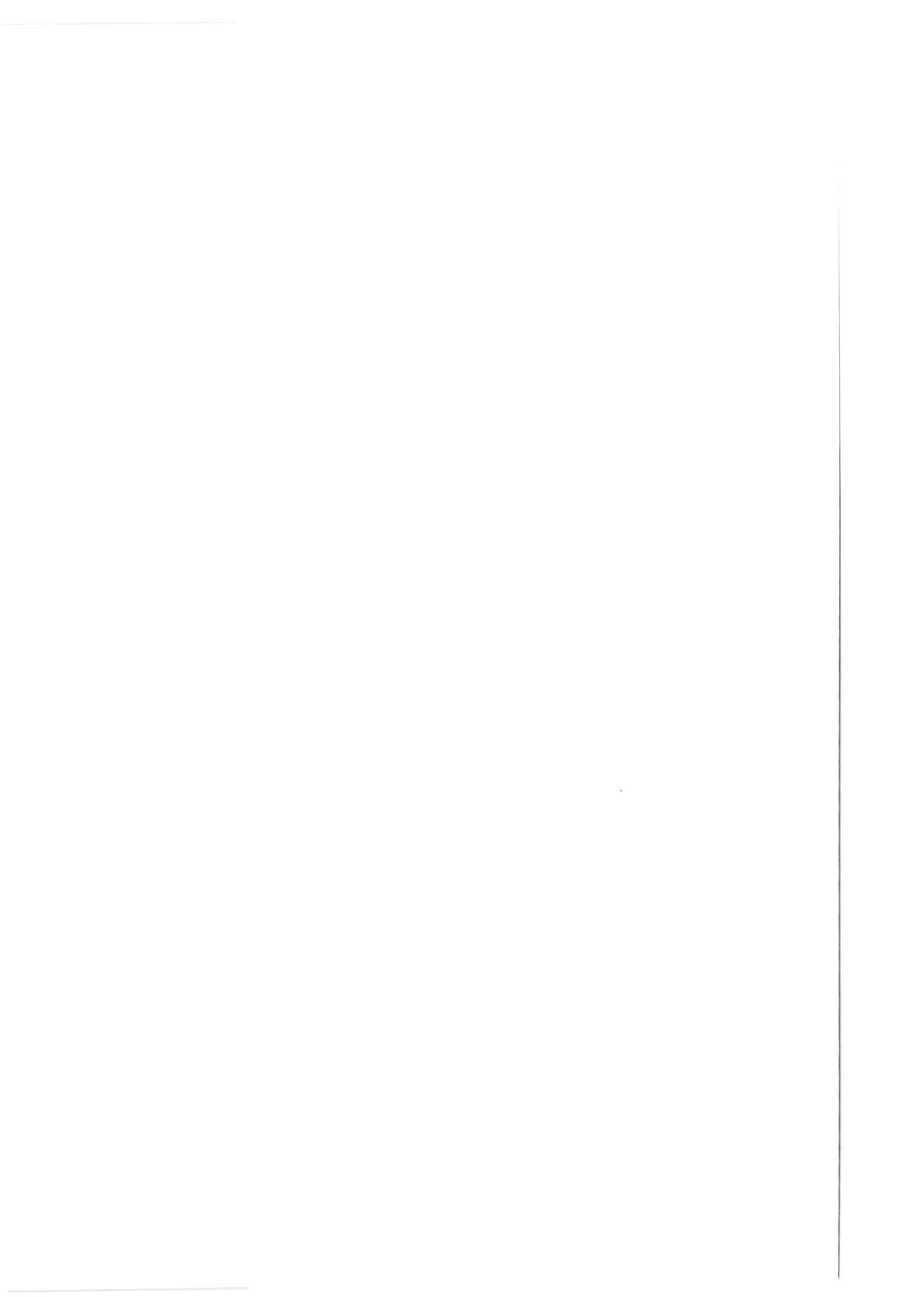


4

**BANKING
SYSTEM**



CHROATIAN NATIONAL BANK - ANNUAL REPORT 1998



The banking system of the Republic of Croatia consisted of 60 banks and 36 savings banks in 1998, including three housing savings banks. Just as in previous years, banks were predominant in number and share of the banking market. Total assets of the banking sector¹ were 105.9 billion kuna, with those of banks amounting to 98.49 percent and those of savings banks 1.51 percent.

The number of banks and savings banks did not grow in 1998, except for the foundation of three housing savings banks early in the year. These banks represent a new feature of our financial system. These banks or savings banks were founded in accordance with the Law on Housing Savings and Government Support for Housing Savings. Housing savings banks are specialized deposit institutions that gather earmarked housing savings deposits in kuna only to finance the construction of family dwellings, the construction and purchase of apartments, and the purchase and equipping of building sites.

The basic characteristics of Croatian banks did not change fundamentally during the year. All banks are of the universal type. 56 are joint-stock companies, and four are limited liability companies. Most of the banks are primarily in private ownership, while four of the five largest banks are still in government ownership. These four banks account for 34.1 percent of total banking assets. 53 banks and one branch of a foreign bank have full licenses, meaning that they fulfill the conditions for making foreign payments and entering into credit arrangements abroad. The banking system remains highly concentrated, with four big banks dominating the system. However, their share in total banking assets has fallen in recent years: in 1996 their share was 59.9 percent, in 1997 it fell to 53.1 percent and it remained at this level in 1998 (53 percent).

The Croatian banking system entered into a crisis that began with the problems in Dubrovačka Banka of Dubrovnik at the beginning of the year. The crisis continued with the appearance of problems in several other small to medium-sized private banks. The key causes of the problems in the Croatian banking systems can be broken into three elements. The first is bad credit policy of certain banks, which is not based on commercial criteria and risk assessment, and results in bad asset quality. The second element is excessively high interest rates. The third element is insufficient experience in the processes of merger, acquisition, bankruptcy and liquidation of banks. This element has an especially important weight in the banking crisis in Croatia. The appearance of crisis situations in particular banks required that efforts be made to prevent the crisis from spreading and to avoid panic, to stop the withdrawal of deposits and to restore confidence in the banking sector. With this in mind, in the middle of 1998 the amount of savings deposits subject to deposit insurance was raised from the previous levels of 30 to 50 thousand kuna to 100 thousand kuna.

Along with this, in 1998 bankruptcy procedures were begun in one savings bank (Gradanska Štedionica, Karlovac) and bankruptcy procedures were proposed in a bank (Illirija Banka, Zagreb).

For three banks the economic justification of rehabilitation was assessed, but only Dubrovačka Banka received a positive assessment. In that bank, as in the four banks rehabilitated in 1996 and 1997, rehabilitation was carried out via an exchange of bad assets for bonds, recapitalization and changing bank management.

¹ All data in this section are preliminary.

It is also important to mention that a decision was made to privatize three of the four rehabilitated banks (Privredna Banka, Splitska Banka and Riječka Banka), as a necessary step to finish the restructuring of these banks and to continue reforms that will increase the efficiency of banking as a whole. The fourth rehabilitated bank, Slavonska Banka, was the first bank to finish the process of rehabilitation and restructuring as a successful private bank.

During 1998 a new (and long-awaited) Law on Banks was passed. The law affirms the universal, multifunctional type of banking based on contemporary world practice, and attempts to fix the weaknesses of the Law on Banks and Savings Banks. It requires savings banks to transform themselves into banks with the minimum license by the end of 2001. The result of this legal regulation is a change in the structure of the banking system from one including banks and savings banks to one including banks and specialized housing savings banks.

4.1 Structure of Banks' Balance Sheets

Total banking assets grew from 94.1 billion kuna in 1997 to 104.3 billion kuna, increasing by 10.8 percent. The growth of total assets in 1997 was 27.5 percent on a December-to-December basis.

Table IV.1 CONSOLIDATED BANKS' BALANCE SHEET, December 31, 1998, million kuna and %

	AMOUNT	SHARE		AMOUNT	SHARE
ASSETS			LIABILITIES		
Money assets	2,619.7	2.51	Sight deposits	23,428.5	22.46
Deposits with the CNB	5,129.7	4.92	Short-term deposits	21,183.5	20.31
Short-term securities	4,257.8	4.08	Short-term loans received	3,741.7	3.59
Short-term loans to financial institutions	979.0	0.94	Short-term securities issued	0.9	0.00
Short-term loans	31,180.1	29.89	Obligations based on interests, fees and other liabilities	3,160.0	3.03
Interests, fees and other assets	4,084.1	3.92	Long-term deposits	14,718.4	14.11
Long-term securities	11,943.6	11.45	Long-term loans received	17,995.4	17.25
Long-term investments in shares and participations	5,236.2	5.02	Long-term securities issued	0.2	0.00
Long-term loans to financial institutions	569.3	0.55	Founders' capital	9,597.0	9.20
Long-term loans	34,579.9	33.15	Supplemental capital	1,184.4	1.14
Purchased claims	46.7	0.04	Reserves	2,002.2	1.92
Material and non-material assets	3,691.5	3.54	Special reserves	9,506.7	9.11
			Profit or loss	-2,201.3	-2.11
TOTAL ASSETS	104,317.6	100	TOTAL LIABILITIES	104,317.6	100

4.1.1 Structure of Banks' Assets

Short-term placements account for 46.3 percent of total bank assets. Within this, the largest element (31.18 billion kuna) is short-term loans and current maturities of long-term loans granted to non-financial institutions. This means the domestic and foreign non-bank sectors.

The largest long-term placements are long-term loans to non-financial institutions and holdings of long-term securities. 53.7 percent of assets are long-term.

The majority of total placements (66.53 percent) are kuna claims, and 33.47 percent are claims in foreign exchange. This structure of banking assets is characteristic of Croatian banks and repeats itself, with minimal changes, from year to year.

4.1.2

Structure of Banks' Liabilities

Short-term liabilities of banks account for 58.5 percent of their total liabilities. The most important source of funds for banks is sight deposits. The second most important source is short-term deposits and maturities of long-term deposits, with a share of 20.31 percent in total bank sources. As much as 84.12 percent of deposits are foreign exchange deposits. This ratio of foreign exchange deposits to domestic currency deposits was established in preceding years.

The largest share of long-term liabilities consists of long-term deposits and obligations based on the use of long-term loans, which together account for 31.36 percent of total bank liabilities.

The founders' capital of banks increased by 4.3 percent in 1998, reaching 9.2 billion kuna. Its share in total liabilities has been decreasing (in 1996 it was 10.3 percent, in 1997 it was 9.7 percent and in 1998 it was 9.2 percent). Supplemental capital of Croatian banks is not a significant category, accounting for only 1.14 percent of total liabilities, almost the same as in 1997 (1.1 percent). The most important element within supplemental capital is general provisions for unidentified losses.

Special provisions for identified losses were 53.7 percent larger than in 1997, and constituted 9.11 percent of total bank liabilities. These provisions are charged as expenditures after asset quality is estimated. Banks are required to form them when placements that cannot be collected are definitively written-off.

In 1998, for the first time since 1993, the banking system as a whole made a loss of 2.2 billion kuna, with loss in the current year amounting to 1.9 billion kuna.

4.2

Banks' Liable Capital

Liable capital consists of founders' capital plus the portion of supplemental capital that does not exceed founders' capital. Banks are required to maintain liable capital at a level that accords with the size of their business so as to ensure that any losses can be covered. At the end of 1998, six banks had negative liable capital as a result of large losses due to bad asset quality. At the level of the banking system as a whole, liable capital was 8.7 billion kuna.

According to the Law on Banks and Savings Banks, during 1998 banks were required to adjust their operations so that liable capital was at least eight percent of total assets and off-balance sheet items, classified and weighted by risk.

The capital adequacy ratio of the whole banking system as of December 31, 1998 was 12.04 percent. A year before it had been 16.6 percent. In both cases, the coefficient met the legal requirement.

4.3

Analysis of Asset Quality

Estimation of the quality of assets is the most important part of the evaluation of the quality of a bank. Particular types of assets carry with them particular levels of risk, so assets are classified into risk and non-risk. Risk assets are all items on which losses may be incurred, while non-risk assets include funds in the giro account, vault cash, some items under "other money assets", gold, gold objects, gold pieces, required reserves with the central bank, Croatian Bank bills and foreign cash. Estimation of asset quality is carried out for risk assets.

Table IV.2

CLASSIFICATION OF RISK ASSETS OF BANKS, million kuna

	A	B	C	D	E	TOTAL
Loans, securities and deposits	72,319.2	4,361.0	3,458.4	1,416.4	3,087.0	84,642.0
Interests	1,284.4	207.2	190.9	159.7	516.8	2,359.0
Fees	108.7	19.6	14.7	19.3	25.2	187.5
Other risk assets	8,538.2	348.0	482.3	85.9	722.7	10,177.1
TOTAL RISK ASSETS	82,250.5	4,935.8	4,146.3	1,681.3	4,351.7	97,365.6
Off-balance sheet risk items	14,813.8	1,132.0	637.8	567.4	755.5	17,906.5
TOTAL	97,064.3	6,067.8	4,784.1	2,248.7	5,107.2	115,272.1

According to the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items of Banks and Savings Banks, banks are required to estimate the level of credit risk of each borrower quarterly. On the basis of this, banks must form provisions for identified potential losses. During the estimation of credit risk, borrowers are classified into risk groups A, B, C, D and E. Placements for which there is minimal risk of non-payment are classified in the A category, while placements with the highest level of risk are placed in the E category. The share of good assets (assets classified in group A) in total assets is 84.5 percent, while the other 15.5 percent relates to bad assets (risk groups B-E). A similar relationship is found among off-balance sheet items. In 1997, the share of good assets was 88.9 percent, while 11.1 percent were bad assets.

Potential losses on risk assets and off-balance sheet items for the banking system as a whole are 9.5 billion kuna or 9.8 percent of total risk assets. In 1997, potential losses were 5.5 billion kuna or 6.4 percent of total risk assets.

4.4

Limitations Decreasing Risk

Concentrations of credit to single borrowers or groups of interconnected borrowers are a great danger to banks, since they prevent a balanced allocation of funds to other profitable activities and burden banks with excessive risks. In order to prevent excessive concentration of credit to single borrowers and other risky investments that affect the quality of banks' assets, three limitations have been enacted.

4.4.1

Large and Maximum Loans

Large loans are individual loans, or other individual claims (or assumption of obligations) on one borrower exceeding 20 percent of liable capital. On December 31, 1998, 15 banks had large loans in a total amount of 1.1 billion kuna. Maximum loans

to a single borrower are loans of 30 percent of the value of liable capital. Maximum loans were granted by nine banks in a total amount of 4.4 billion kuna.

4.4.2 Loans Granted to Related Parties

The total amount of loans given to related parties (shareholders or stake holders possessing more than 5 percent of the total voting shares or stakes of the bank, companies in which these shareholders have a majority holding, members of management, members of the Supervisory Board, procurists and members of their family, and banks which are connected by capital) was 0.51 billion. These loans were granted by a total of 34 banks. Loans to shareholders or stake holders owning more than five percent of voting shares or total stakes must be approved by a unanimous decision of bank management, with the prior consent of the Supervisory Board and on the condition that these funds do not exceed five percent of liable capital.

4.4.3 Total Amount of Loans, Other Claims and Assumption of Obligations to One Borrower

The total amount of loans, other claims and obligations assumed from one borrower may not exceed 30 percent of liable capital. Total claims and obligations assumed to one borrower were registered at 14 banks in 27 individual cases. These claims amounted to 6.8 billion kuna with an average share in liable capital of 77.5 percent. Of this, 5.1 billion kuna in 4 particular cases referred to the assets of one particular bank.

4.5 Limitations on Investment

Along with limitations that reduce credit risk, limitations on investments of banks and savings banks have been established. These limitations are expressed as ratios of liable capital:

- Bank investment in land, buildings, equipment and business space may not exceed 30 percent of the liable capital of the bank. Total investment in material property amounts to 3.3 billion kuna, which is 38.59 percent of liable capital of the whole banking system. Investment in material property above the 30 percent of liable capital limit has been registered at 16 banks.
- Bank investment in land, buildings, equipment and business space plus ownership shares in banks and other companies may not exceed 70 percent of the liable capital of the bank. Total investment above 70 percent of capital is found in nine banks. Total investment of this kind amounted to 6.8 billion kuna, which is 78.32 percent of liable capital. These investments are substantially greater than the limit in certain banks, because banks did not include investments gained through debt-equity swaps. Such swaps were undertaken to avoid losses occurring due to unpaid claims, and were in accordance with the Law on Banks and Savings Banks.

It is essential to emphasize that the fact that banks exceeded the limit does not necessarily mean that the law was violated, since banks may request temporary waivers from the regulation.

4.6

Banks' Income Statements

Banks lost 1.9 billion kuna in 1998, after showing a profit of 1.2 billion kuna in 1997. 15 of 61 banks showed losses of 2.87 billion kuna in total. 53 percent of this referred to one bank. The cause of these large losses lies in increased costs of provisioning for bad loans. At the same time, 43 banks made profits of 987 million kuna in total.

Table IV.3

INCOME STATEMENT FOR 1998, million kuna and %

	AMOUNT	SHARE
Income from interest and related sources	8,650.3	69.6
Fee income	1,707.0	13.7
Income from equity securities	51.0	0.4
Other income and extraordinary income	2,022.5	16.3
TOTAL INCOME	12,430.8	100.0
Cost from income and related sources	4,286.2	30.2
Fee income	366.3	2.6
General administrative costs	3,449.3	24.3
Other costs and extraordinary costs	1,850.7	13.0
Provisions	4,244.7	29.9
TOTAL COSTS	14,197.3	100.0

Total income reached 12.4 billion kuna in 1998, with the largest item being income from interest and similar income (69.6 percent). Income from fees accounted for 13.7 percent, income from equity securities 0.4 percent and other income 16.3 percent of total income. The share of interest income rose from 64.9 in 1997 to 69.6 percent in 1998, while the share of fees decreased from 15.9 in 1997 to 13.7 percent in 1998.

Total costs were 14.2 billion kuna in 1998. Interest costs were 30.2 percent, while fees costs were 2.6 percent, general administrative costs 24.3 percent and other costs 13 percent of total costs. Costs of forming provisions were 29.9 percent of total costs, while in 1997 they had been 11.3 percent of total costs.

4.7

Performance of Savings Banks

The number of savings banks increased in 1998 due to the foundation of housing savings banks. During 1998, the Croatian National Bank requested the initiation of bankruptcy procedures for one savings bank, so that 35 savings banks actively participated in the market.

21 savings banks are limited liability companies, and 15 are joint-stock companies. Almost all savings banks are 100 percent private owned, as they have been in previous years. Savings banks are registered to perform certain banking functions, in accordance with the law and their licenses.

4.7.1 Structure of Savings Banks' Balance Sheets

Table IV.4

CONSOLIDATED BALANCE SHEET OF SAVINGS BANKS, December 31, 1998,
million kuna and %

	AMOUNT	SHARE		AMOUNT	SHARE
ASSETS			LIABILITIES		
Money assets	123.8	7.76	Sight deposits	63.8	4.00
Deposits with the CNB	52.3	3.28	Short-term deposits	533.0	33.39
Short-term securities	68.5	4.29	Short-term loans received	55.0	3.45
Short-term loans to financial institutions	107.4	6.37	Short-term securities issued	4.5	0.28
Short-term loans	535.7	33.56	Obligations based on interests, fees and other liabilities	62.0	3.88
Interests, fees and other assets	158.6	9.94	Long-term deposits	211.1	13.23
Long-term securities	0.2	0.01	Long-term loans received	2.9	0.18
Long-term investments in shares and participations	41.6	2.61	Long-term securities issued	0.0	0.00
Long-term loans to financial institutions	0.6	0.04	Founders' capital	468.6	29.35
Long-term loans	438.6	27.48	Supplemental capital	59.1	3.70
Purchased claims	0.0	0.00	Reserves	35.0	2.19
Material and non-material assets	68.9	4.32	Special reserves	83.2	5.21
			Profit or loss	18.0	1.13
TOTAL ASSETS	1,596.2	100.00	TOTAL LIABILITIES	1,596.2	100.00

4.7.2

Asset Structure of Savings Banks

The total assets of savings banks at the end of 1998 were 1.6 billion kuna, an increase of 51.4 percent over the previous year.

Short-term placements, together with accrued interest, fees and other assets amounted to 1.1 billion kuna or 65.6 percent of total assets. Long-term placements, including material and non-material assets, amounted to 0.5 billion kuna or 34.45 percent of total assets.

Savings banks placed their funds mainly via loans to non-financial institutions (61 percent of assets). Short-term credits to banks and other financial institutions grew 137 percent (in 1997 they grew by 293.3 percent), while short-term credits to other sectors increased 44.5 percent (growth rate in 1997 was 130.6 percent).

4.7.3

Liability Structure of Savings Banks

Short-term and long-term deposits and founders' capital are the most important funding sources of savings banks. Sight deposits, which are banks' most important funding source, are only four percent of the total liabilities of savings banks.

Founders' capital of savings banks was 469 million kuna at the end of 1998, an increase of 42 percent over the previous year. The share of founders' capital in total liabilities was 29.35 percent, in contrast to banks where the share was 9.2 percent. Supplemental capital increased substantially, by 195 percent, and amounts to 59 million kuna. The most important factor in increasing supplemental capital was general provisions, which amounted to 52 million kuna or 88 percent of supplemental capital.

4.7.4

Liabile Capital of Savings Banks

The liable capital of savings banks on December 31, 1998 was 557.4 million kuna. A year earlier, it had been 349.1 million kuna. The reason for this increase was the growth in supplemental capital, which is part of liable capital. During 1998, supplemental capital grew by 195 percent, due to the increase of certain kinds of deposits that figure into supplemental capital.

The capital-adequacy ratio of savings banks was 41.97 percent on December 31, 1998. It had been 44.03 percent a year before. Both coefficients are substantially above the legal minimum. However, the downward trend of the last few years continued this year.

4.7.5

Analysis of Asset Quality of Savings Banks

Estimates of asset quality are made on the basis of risk assets, which include short-term and long-term loans, invested funds (short and long-term), interest, fees and off-balance sheet items.

Table IV. 5

CLASSIFICATION OF SAVINGS BANKS' RISK ASSETS, million kuna

	A	B	C	D	E	TOTAL
Loans, securities and deposits	1,008.5	56.1	31.5	13.4	36.4	1,145.9
Interests	43.6	6.2	3.4	3.3	8.2	64.7
Fees	2.1	0.3	0.0	0.1	0.1	2.6
Other risk assets	137.8	26.5	1.6	0.0	0.0	165.9
TOTAL RISK ASSETS	1,192.0	89.1	36.6	16.6	44.8	1,379.2
Off-balance sheet risk items	10.0	0.0	0.0	0.0	0.0	10.0
TOTAL	1,202.0	89.1	36.6	16.6	44.8	1,389.2

Assets classified in risk group A, or good assets, accounted for 86.5 percent of total risk assets. Bad assets classified in categories B, C, D and E accounted for 13.5 percent. Good assets in 1997 had been 91.7 percent, and bad assets 8.3 percent. All off-balance sheet items were classified in risk group A, which means that they had minimal credit risk. Potential losses on risk assets and off-balance sheet items were 83.2 million kuna for savings banks as a whole.

4.7.6

Limitations Decreasing Risk

Regulatory limitations aimed at decreasing credit risk apply to bank and savings banks, and are related to Large and Maximum Loans as well as the total amount of placements to one borrower.

Large loans were granted by eight savings banks in a total amount of 79.6 million kuna in 1998. Three savings banks granted Maximum loans of 52.8 million kuna. Loans to related parties were granted by 14 savings banks in a total amount of 56.4 million kuna.

Loans, other claims and assumed claims to one borrower in excess of 30 percent of liable capital were registered at four savings banks in the amount of 31.9 million kuna. This represents 5.7 percent of liable capital of these savings banks.

4.7.7

Limits on Investments

Investment in material assets in 1998 was 65.9 million kuna or 11.8 percent of liable capital. Five savings banks exceeded the 30 percent of liable capital limit.

Total investment (investment in material assets and equity investment) amounted to 77.8 million kuna, which was 14 percent of liable capital. Total investment may not exceed 70 percent of liable capital. One savings bank exceeded this limit.

4.7.8

Income Statement of Savings Banks

Savings banks lost 2.3 million kuna in 1998, while in 1997 they made a profit of 19.9 million kuna. Nine savings banks incurred losses in 1998 of a total amount of 38.7 million kuna, while 26 savings banks made profits of a total of 36.4 million kuna.

Table IV.6

INCOME STATEMENT OF SAVINGS BANKS FOR 1998, million kuna and %

	AMOUNT	SHARE
Income from interest and related sources	250.6	77.4
Fee income	29.1	9.0
Income from equity securities	0.2	0.1
Other income and extraordinary income	43.9	13.6
TOTAL INCOME	323.8	100.0
Cost from income and related sources	108.5	33.3
Fee income	5.2	1.6
General administrative costs	109.3	33.5
Other costs and extraordinary costs	47.9	14.7
Provisions	55.0	16.9
TOTAL COSTS	325.9	100.0

The largest share of savings banks' income came from interest (77.4 percent of total income). Income from fees was 9 percent, income from equity securities 0.1 percent and other income 13.6 percent of total income. In comparison to the previous year, the share of interest income rose from 59.6 percent to 77.4 percent, while the share of income from equity securities, which had been 13.8 percent of total income, was negligible.

Interest costs and general administrative costs account for about 33 percent of total costs. After this, the next most important element is provisioning, that is, costs for forming provisions for identified losses, which accounted for 16.9 percent.

4.8

Supervision of Banks and Savings Banks

The Croatian National Bank supervises banks and savings banks in order to preserve the stability and soundness of the banking system. High-quality legal regulations are a fundamental precondition for stability and soundness in banking. The new Law on Banks, which came into effect at the end of 1998, regulates key areas of the banking business, taking into account internationally-accepted principles. Emphasis is placed on bank supervision and establishing the extent of exposure to

risk, among other things. Large exposures of banks to single individuals or groups of related individuals, which involve banks in excessive risks, remain a major negative feature of our banking practice. Because of this, the new law is more restrictive regarding bank exposures to related parties.

The Law also increases the minimum capital adequacy ratio to 10 percent from the current eight percent. The minimum capital adequacy ratio helps ensure that the claims of creditors will be met, and also prevents the uncontrolled growth of a bank without corresponding capital.

Furthermore, under this law, the Croatian National Bank may take a number of actions to remedy the condition of banks found to be in danger of not being able to fulfill their obligations to creditors or functioning in a risky or inappropriate manner. Among other things, the Croatian National Bank may name a commissioner or temporary administrator of the bank, depending on the capital adequacy ratio, level of potential losses and ability of the bank to fulfill its obligations.

Along with this, the Croatian National Bank can issue appropriate regulations relating to the calculation of bank capital, capital adequacy, classification of placements and off-balance sheet items as well as the formation of special provisions for potential losses. At the end of the year, a reexamination of existing regulations in these areas was begun, in accordance with the directives of the Bank for International Settlements and International Accounting Standards. Also, in 1998, a regulation was promulgated on the extent and contents of audit reports. This regulation sets out the minimal requirements for external audits.

Also, the new law creates an appropriate institutional framework for the operation of banks as part of a safe and stable banking system.

Supervision of banks is carried out by the Area of Control and Supervision through on-site examination and analysis of financial reports provided quarterly by banks to the Croatian National Bank ("off-site" supervision).

During 1998, on-site examinations were held in 18 banks and 2 savings banks. Along with this, the Croatian National Bank ordered special audits of 12 banks. These audits had two purposes. First, the CNB intended to get information on the status of the banking system in the shortest possible time period. Second, employees of the Area of Control and Supervision of the Croatian National Bank participated in the audits with the aim of gaining extra knowledge and advancing bank supervision. Two audit firms carried out these special audits.

After examinations are carried out, minutes are written containing the facts established by direct examination of business books and documents. Along with this, Recommendations were given with the aim of remedying improprieties or illegalities in four banks and two savings banks.

Along with this, after examinations of the implementation of monetary and foreign exchange policy during 1998, 32 citations were given to banks and savings banks, citations for violations of foreign exchange regulations in five banks and savings banks and requests for the opening of legal procedures in 29 banks and savings banks.

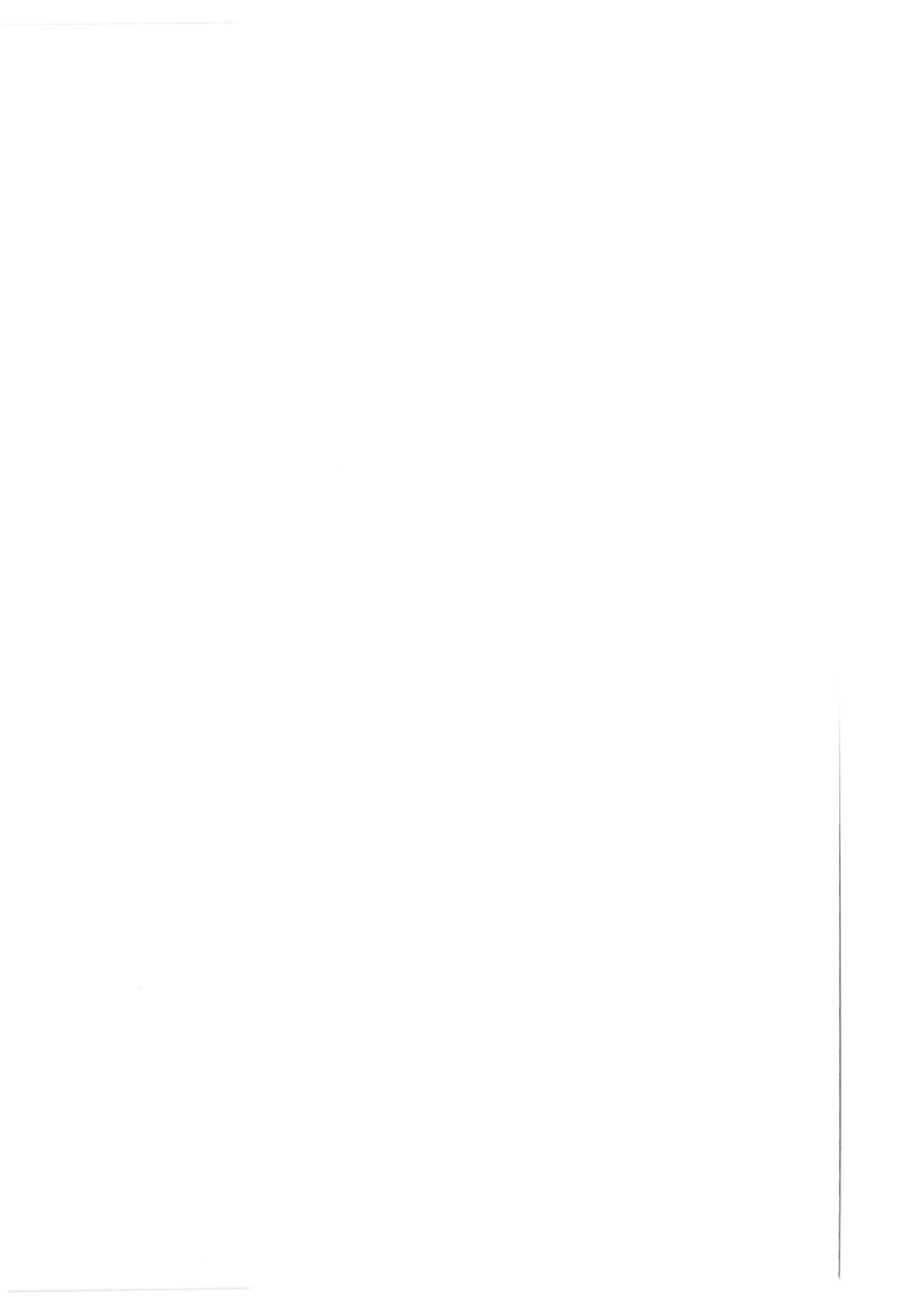
The Area of Control and Supervision also analyzes documents, processes requests and prepares materials for the Licensing Commission for Banks and Savings Banks.

5

TREASURY



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998



The Treasury Department, in the course of the duties it performs to realize the objectives and aims of the Croatian National Bank, took possession of printed cash from the producer, supplied cash to branches of the Payments Institute, distributed coins, removed processed bank notes from circulation and destroyed worn-out bank notes, issued commemorative coins and gave witness in cases of suspicious bank notes.

5.1

Trends in Cash

On December 31, 1998, there were 75.1 million bank notes valued at 5.5 billion kuna outside the treasury of the Croatian National Bank and the Payments Institute. The quantity of bank notes outside the treasury of the Croatian National Bank and Payments Institute increased by 11.2 percent, while the value of the total amount of bank notes outside the treasury increased by 3.7 percent during the year.

538.7 million kuna and lipa coins with a value of 0.2 billion kuna were in circulation outside the treasury of the Croatian National Bank and the Payments Institute on December 31, 1998. The quantity of coins outside the treasury of the Croatian National Bank and the Payments Institute grew by 18.4 percent during the year, and their value grew by 17.7 percent.

In 1998, the Treasury Department received 18.4 million worn-out bank notes worth 676.1 million kuna from the Payments Institute. This shows that during 1998, 24.5 percent of the bank notes in circulation were withdrawn and exchanged. This was done to maintain a high standard of quality of money in circulation.

In order to improve the processing and destruction of worn-out bank notes, during June 1998 a system for sorting bank notes was introduced within the unit for destruction of worn-out bank notes.

The installation of this system was preceded by two years of preparations, including an international tender for the design and installation of the system, as well as normative regulations of the processing and destruction of worn-out bank notes.

The use of the system to sort and destroy bank notes allows a much higher level of efficiency in processing bank notes. In addition it allows the use of clearly defined criteria in identifying worn-out bank notes and solves the problem of destruction completely. The installation of this system places the Croatian National Bank in the group of central banks using the most up-to-date technology for processing bank notes withdrawn from circulation.

5.2

Commemorative Money

In 1998, the Croatian National Bank issued a commemorative 25 kuna coin entitled "EXPO-LISABON, 1998."

The following editions were published from the program of gold and silver money during 1998:

- "100th anniversary of the birth of Cardinal Alojzije Stepinac"; gold 500 kuna and silver 150 kuna

TREASURY

- “150th anniversary of the decision of the Croatian State Parliament on the Croatian language”; silver 150 kuna:
- “500th anniversary of the birth of Juraj Julije Klović”; silver 200 kuna:
- “Ivan Brlić-Mažuranić”; silver 200 kuna.

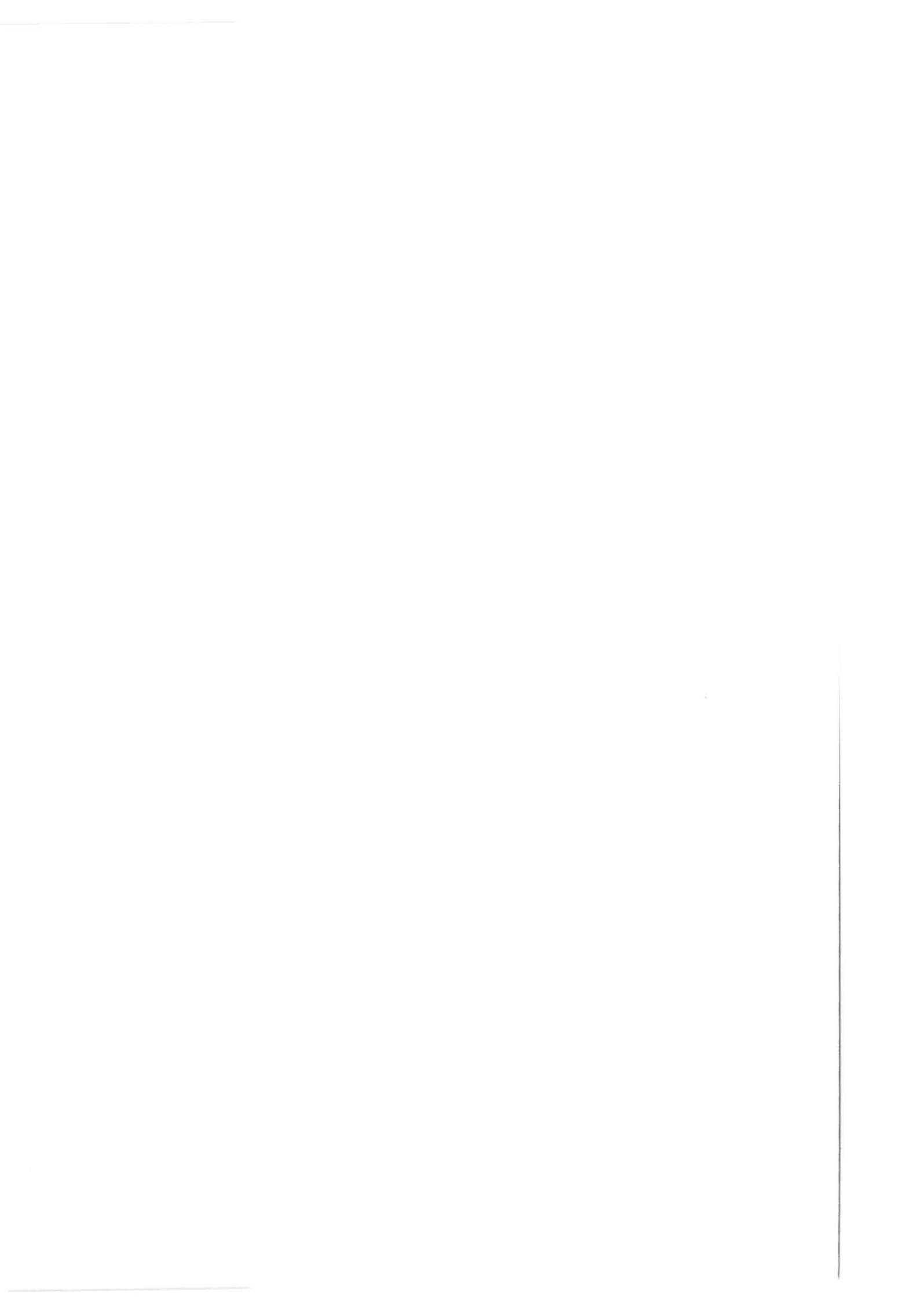
During 1998, the value of identified counterfeit bank notes was 98,970.00 kuna. The value of identified counterfeit money grew by almost eight times compared to 1997. Analysis of samples of counterfeit money shows that they are mainly produced by scanning and printing on a color printer.

6

ORGANIZATION, MANAGEMENT AND HUMAN RESOURCES



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998



6.1 **The Council of the Croatian National Bank**

According to article 65 of the Law on the Croatian National Bank, the Council of the Croatian National Bank and the Governor of the Croatian National Bank comprise the Bank's governing bodies. The Council of the Croatian National Bank is composed of the Governor, Deputy Governor and Vice Governor by virtue of their position, as well as independent experts.

The competency of the Council is determined in article 67 of the Law on the Croatian National Bank. The Council of the Croatian National Bank makes decisions at its meetings, and the Governor of the Croatian National Bank is responsible for implementing these decisions.

The Council makes decisions by a two-thirds majority vote of its members. If the Council does not reach the necessary degree of consensus to make a decision, and the Governor of the Croatian National Bank assesses that he cannot insure the implementation of the tasks of the Croatian National Bank due to the lack of a decision, the Governor may temporarily make a decision about which consensus has not been reached. The Governor must then inform the Parliament of the Republic of Croatia, which makes the final determination on the decision in question.

The President of the Council of the Croatian National Bank is the Governor of the Croatian National Bank. During 1998, 18 meetings of the Council were held. Many important decisions were made, some of which were published in the "Government Gazette", and some of which were of an internal nature. Every meeting includes decisions in the field of current monetary policy. The Council also made numerous decisions in the area of prudential supervision of banks.

As in every year, during 1998 the Council of Croatian National Bank approved the Financial Report of the Croatian National Bank and made a Decision on the Financial Statement for 1997, as well as the Decision on the Financial Plan of the Croatian National Bank for 1998.

During 1998, the Council of the CNB opened procedures for assessing the feasibility and economic justification of rehabilitation of three banks: Dubrovačka Banka, Glumina Banka and Ilirija Banka. Only in the case of Dubrovačka Banka was it found that rehabilitation was feasible and economically justified.

In accordance with the resolutions of the Council of the Croatian National Bank on December 3, 1997 and September 30, 1998, the Council did not grant any new licenses for banks and savings banks in 1998, except for licenses for three housing savings banks: Prva Stambena Štedionica, Zagreb; Wüstenrot Stambena Štedionica, Zagreb and Hrvatska Stambena Štedionica, Varaždin.

In addition, during 1998 the Council made decisions in the area of numismatics, and approved an annual Plan for releasing commemorative coins and numismatic sets.

6.2 **Internal Audit**

Since its foundation in 1995, Internal Audit has functioned as an independent organizational unit, reporting directly to the Governor of the Croatian National Bank. During the last period, the basic task of Internal Audit has been to audit organizational units of the Bank, particular areas where potential risks exist.

In 1998, Internal Audit focused most of its work on examining and evaluating the business activities of the bank, focusing on compliance with legal and internal regulations and procedures. There have been further improvements in precisely

these areas. With the mediation of Internal Audit, internal procedures relating to work with foreign exchange reserves and the treasury have been elaborated. This approach allows Internal Audit to rely on the results and procedures of autonomous systems of internal audits of organizational units, whose control function with the Bank has further improved.

During the year, Internal Audit made 37 inspections based on decisions by the Governor or on the department's own work plan. These inspections show that no irregularities were detected in the works of departments of the Bank, and the legal regulations and internal procedures have been followed faithfully.

As in previous year, Internal Audit focused its work on the highest-risk areas, following the principle that the time spent during the audit must conform to the size of the risk to which the Bank is exposed. With this in mind, special emphasis was placed on the management of foreign exchange reserves of the Bank, through regular monthly audits and occasional targeted audits. In addition, the Treasury Department was audited to ensure timely documentation of business transactions, along with banking supervision and the internal costs of the Bank.

Taking into account the importance of having expert, highly educated internal auditors of the Bank, during 1998 the process of continuing education of members of the Internal Audit Department was continued, including contacts with foreign experts and specialized courses. One result of this approach is further elaboration of the Convention on the Work of Internal Audit within the Bank and the department's own handbook for inspections.

6.3

Organization and Computerization

During 1998, a reorganization within the Area of Legal Affairs and General Services of the Croatian National Bank was undertaken. The reorganization was carried out in the General Services Department. Also, the Area of Control and Supervision was reorganized. Activities in the domain of the Department for Monitoring Compliance with Monetary and Foreign Exchange Regulation were transferred to the On-Site Supervision of Banks and Savings Banks Department.

In order to prepare a system of documentation compatible with ISO 9000 standards, the draft Rulebook on the Management of Documentation was rewritten and extended. Suggested instructions for the processing and preparation of various documents were prepared. On the basis of this approach, and also on the basis of the earlier methodology for business planning, a working version of the "Instructions for Cadre and Employment Planning" was written. The instructions determine the management of relevant resources (people, information equipment, office furniture, space) and the functions, process, activities and documents needed. These documents are the basis for establishing a final text that will be submitted for ratification. The documents have been developed in cooperation with the Personnel Department and the General Services Department.

General Services Department helped prepare the Governor's decisions relating to the redistribution of office space. In this context, a suggested approach to a new organization of the management of office space as a resource of the bank was developed. Along with this, a working version of "Ethical Norms of Conduct of Employees of the Croatian National Bank" was drafted by the Department during 1998.

During 1997, many of the preconditions for high-quality computerization of the business system of the CNB were achieved (new central server, internal network, training for computer personnel). This had a favorable effect on developments in 1998, especially in the building of an integrated information system. Within the information subsystem of organization, computerization and statistics, applications for monitor-

ing loans granted abroad were completed, and work on new applications for monitoring borrowing from abroad were brought to a conclusion. In the information subsystem of Monetary Policy, applications for monitoring CNB bills, repo auctions and Lombard loans were completely changed to adapt to business changes.

After the reorganization of accounts was accepted, including a new chart of accounts, in the second half of 1998 work began on developing a new informational subsystem, Accounting and Finance. By the end of the year, the logical and physical design of the date base had been finished, along with 20 percent of the programs envisioned in the project.

The computerization of the supervisory report was completed in the segment dealing with the receipt and confirmation of data. Because of objective circumstances, work was not continued. Most of the work completed will be used on the so-called prudential report which banks will submit to the CNB during 1999.

Applications for monitoring deposits, repos and cash flow were created for the management of foreign exchange reserves.

Parallel with work on applications, many hardware and software requests were handled:

- The network infrastructure was stabilized, and network and user software was installed on a large number of workstations,
- Hardware and software was purchased and installed, allowing the use of SWIFT services on the basis of new technology,
- Hardware and software was purchased and installed for workstations for the Croatian Large Payments System, and operational procedures were established,
- New personal computers (workstations) and printers were purchased and installed.

Along with the development of applications, more than half of the employees of the Department were engaged in current tasks such as: entry and confirmation of data, data processing, maintaining technical basis, help to users, maintaining the CNB Web page, and most of all maintaining old (located on the old computer system) and new applications. At the end of the year, the introduction of the Euro required many changes in programs, and the new way of calculating the exchange rate required reorganization of applications supporting the exchange rate list.

6.4

Payments Operations

In 1998, the Payments Operations Department worked intensively on the transformation of the domestic payments system, above all on:

- a) The completion of the first phase of the reform of the domestic payments system, the introduction of the Croatian System of Large Payments.
 - b) Preparations for the second phase of the reform of payments, the transfer of payments through client accounts (legal and physical persons) from the Payments Institute to deposit institutions.
- Ad a) The Croatian Large Payments System (CLPS) is a system that allows interbank payment transactions through accounts of banks and savings banks at the Croatian National Bank in real time on the gross settlement principle. This means concretely that every payment transaction is executed individually when it is presented. The CLPS is a production of the Logica UK Limited Company of London, which concluded a contract on establishing the system of February 25, 1998. Dur-

ing the year, all necessary preparations, including test with future participants, were made, and the CLPS system began normal functioning on April 6, 1999. The creation of the CLPS brings the payments system of Croatia close to the payments systems of members of the Economic and Monetary Union of the EU. That is, the basic principles of the system for settlement through bank accounts at the level of countries in the Economic and Monetary Union, the TARGET system, are followed. All necessary changes have been made to allow interbank payments through the accounts of banks and savings banks at the Croatian National Bank, and on April 3, 1999, these payments operations were transferred from the Payments Institute to the CNB (transactions through giro accounts, settlements accounts, required reserve accounts and required deposit accounts) for 54 banks and 5 savings banks.

- Ad b) Preparations were made, within the current legal framework, for the gradual introduction of payments through the accounts of legal persons in banks:
- The contents of a bank request for effecting and documenting payments for the account of legal persons was set,
 - Suggestions for the new construction of accounts at deposit institutions, the contents and manner of managing registers of accounts at institutions authorized to engage in payments, the content and manner of managing the unified register of accounts at the Croatian National Bank and the conditions for and manner of opening accounts by participants in the payments system were agreed upon and confirmed, and
 - Corresponding changes were made in the Law on Domestic Payments, related to the operations of participants in the domestic payments system through accounts opened at various organizations authorized to undertake payments.

During 1998, efforts were made to improve the existing domestic payments system. Changes and additions were made to regulations and the technology used in the current system. In this period, payments were monitored at authorized organizations by direct inspection and constant contacts and cooperation with authorized organizations. Direct inspections were made at 11 branches of the Payments Institute.

6.5

Legal Affairs

As in previous years, the activities of the Legal Department were focused on legal refinements of the decisions of the Council of the Croatian National Bank and sketches of general and particular regulations promulgated by the Croatian National Bank in the legally-specified areas of authority of the Croatian National Bank and its internal organization. With the authorization of the Governor, the Legal Department handled legal cases and represented the Croatian National Bank in the courts and other state departments. The consistent implementation of laws and regulations was monitored. By giving legal advice and council, the Department gave legal help to other organizational units of the Croatian National Bank.

The Legal Department keeps the Register of Banks and Savings Banks and the Register of Representative Offices of Foreign Banks in the Republic of Croatia. During 1998, the Legal Department participated in elaborating the draft Law on Banks and in preparation other regulations.

6.6

Personnel Management

In 1998, the characteristics of the employees of the Croatian National Bank continued to change. There was a small growth in the number of employees, and intensive efforts were made to provide greater education and training and thereby raise

the skill level of employees. The employment of new trainees further decreased the average age of the employed, the average years of work experience and the number of years at the Bank.

The number of employees increased from 540 at the end of 1997 to 549 at the end of 1998. The growth by 9 employees represented a 1.66 percent increase. The growth in the number of employees in 1998 was significantly smaller than the growth in 1997. This was the result of less new hires and a larger number of departures to retirement and to other jobs. Seven employees with the highest expert qualifications stopped working at the CNB at their own request, and one received an extraordinary discharge. In 1998, 26 employees left their jobs, and 36 were employed for a limited time or undetermined time.

The increase in the qualification level was affected by the growth in the number of employees with the highest expert preparation from 250 to 256 (an increase of 2.4 percent), as well as an increase in the employment of Ph.D.'s from 3 to 4. At other levels of expert preparation, there were no significant changes, other than the fact that the number of employees with medium expert preparation increased by four, in part through employment for a limited time.

The average age of employees is a little above 40 years, and the average work experience is a little more than 16 years. However, these numbers have fallen slightly because of the employment of younger people without work experience. The average number of years worked at the Bank is 11 and a half years. There are 134 employees below the age of 30, representing about one-fourth of the total. There are 99 employees above 50, 18 percent of the total. Given the age and work experience of the staff, there will be few natural outflows from employment in the next years.

Table VI.1

THE QUALIFICATION PROFILE OF EMPLOYEES OF THE CNB, end of December, 1998

	PhD	MS	BA	2 yr.	High	Qualified	Unqualif.	Total	Women
NUMBER	4	24	256	47	158	18	42	549	382
SHARE	0.7	4.4	46.6	8.6	28.8	3.3	7.7	100	69.6

The share of the highest expert preparation, including college education, in total employment at the Bank is 51.73 percent. Together with high expert preparation, the rate reaches 60.29 percent, which corresponds to the nature of the work and the high expectations placed upon this institution.

6.6.1

Education and Training of Employees

The successful carrying out of the functions of the central bank in part shows that the Bank possesses expert employees able to handle their work tasks. Through the number of employees, the variety of backgrounds and skills, and forms of specialized education and training, the Croatian National Bank has created the personnel prerequisites for the further development and improvement of work in the majority of the banks' departments.

The personnel basis of the bank is created through the employment of trainees and their training by experienced experts, as well as the intensive supplementary education and training of many of the bank's employees. Although a large team of bank supervisors has been trained, the need is felt to increase the number of experts in this area.

The teaching of foreign languages for trainees continued with two courses in specialized English for work in the central bank. For other employees, individual

learning in foreign language schools and three group classes in German were offered. A group of trainees finished the Croatian Institute for Banking and Insurance Introductory Program "Central Banking." A total of 5 employees received their masters degrees in 1998. The number of participants in seminars and expert meetings in Croatia decreased slightly, while the number of participants in foreign seminars increased.

Table VI.2
NUMBER OF TYPES OF AND
PARTICIPANTS IN SPECIALIZED
EDUCATIONAL PROGRAMS

Title - content of education	Number	Graduates
Post-graduate studies in Croatia (new)	23	23
Post-graduate studies abroad	1	1
Courses in foreign languages	31	64
Seminars in Croatia	59	133
Seminars abroad	61	98
Creating Organizational Change	1	14
Computer training	4	15
Courses in informatics	9	12
TOTAL	189	360

In 1998, the "Accounting Project", held in cooperation with the IMF, was completed. Also, employees were trained in the workings of the Croatian Large Payments System. Regarding foreign programs, we mainly use the Banca d'Italia in Rome, Bank for International Settlements in Basle, Joint Vienna Institute in Vienna, IMF in Washington, Osterreichische Nationalbank in Vienna, Centre for Central Banking Studies in London, Deutsche Bundesbank in Frankfurt and several other institutions. The organizers of these seminars or programs usually cover the majority of the costs. The William Davidson Institute organized a seminar on Creating Organizational Change for the leadership of the bank.

6.6.2

Employee Wages

Employee wages rose in keeping with the wage policy of Croatia. However, we still have cases of expert employees leaving for commercial banks and other institutions because of the level of wages.

6.6.3

Social and Other Features

Loans for employee housing are more and more being used by young employees. This was the main target group of the loans. By this means, it was desired to help employees resolve major life problems and also insure that the Bank will retain necessary expert personnel.

In 1998, 7.65 percent of employees were on sick leave, measured by hours of sick leave. Of this, 2.8 percent of sick leave was at the expense of the Bank, and 4.8 percent at the expense of the Croatian Institute for health insurance. The rate of sick leave is not high compared to other occupations, but did in fact rise by somewhat more than 2 percent. 25 employees received one-time monetary aid for sickness above 90 days, three less than last year. There were eight injuries at work, the same as the previous year.

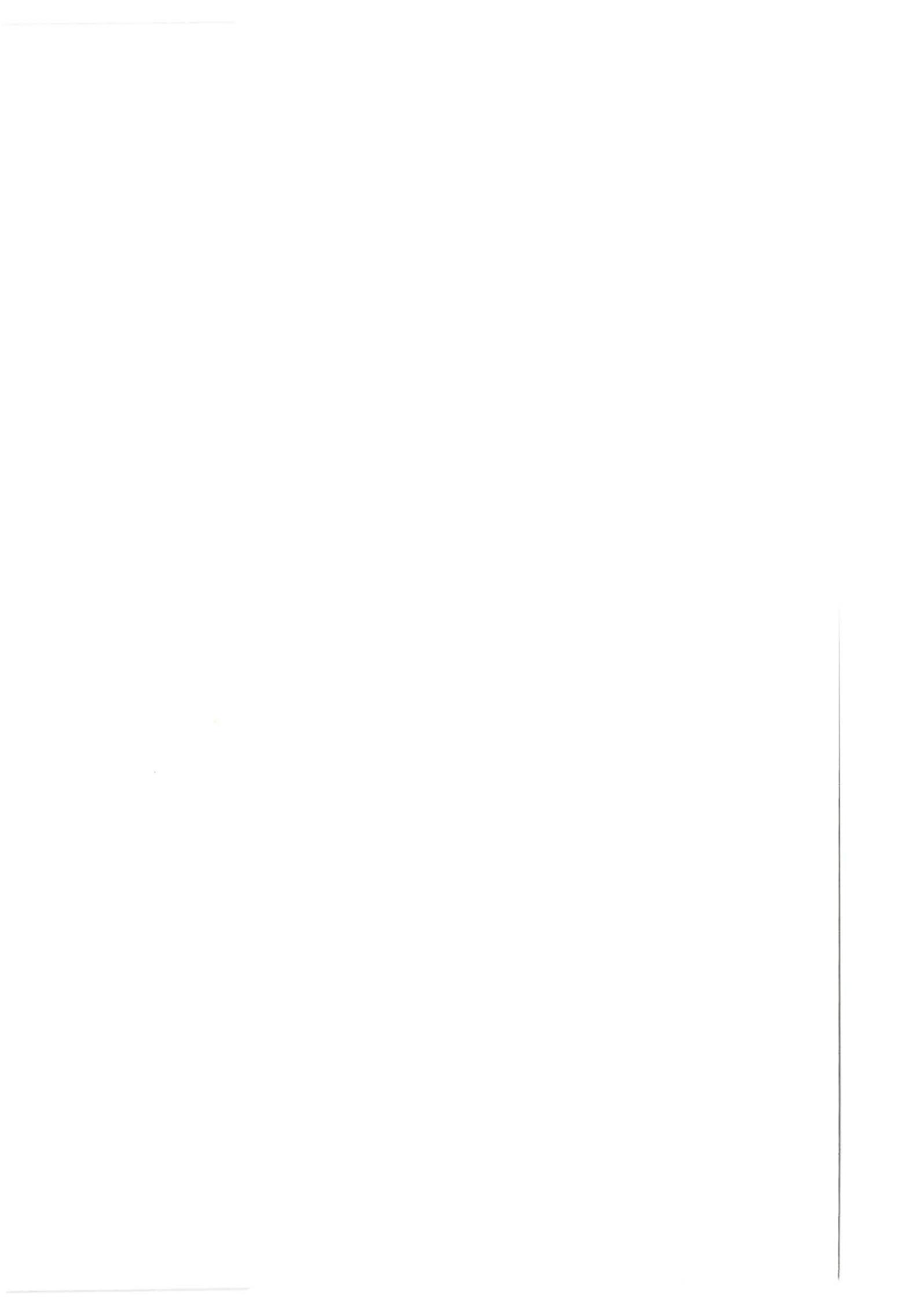
There was no new granting of half-time employment. On three occasions, blood donations were organized, and 106 employees participated — 30 percent more than last year. The CNB received special recognition from the Croatian Red Cross for 50 years of voluntary blood donations. 110 employees of the bank participate in sports programs, and 363 took advantage of special offers on tickets for cultural events.

7

**FINANCIAL REPORT:
ANNUAL FINANCIAL SETTLEMENT OF THE CNB**



CRATIAN NATIONAL BANK - ANNUAL REPORT 1998



According to the Law on Accounting ("Government Gazette, 90/92), which came into force without changes on January 1, 1993, and because of the acceptance of International Accounting Standard 30, the Croatian National Bank compiles a basic financial statement including a balance sheet, income statement and notes. This statement shows the amount of assets and liabilities and the business results achieved in the preceding year. The Law on State Auditing requires that the work of the Croatian National Bank be audited once per year.

Table VII.1

FINANCIAL RESULTS OF THE CROATIAN NATIONAL BANK ACCORDING TO THE FINANCIAL STATEMENT FOR 1998, Income statement, million kuna

	Plan 1998	Outturn 1998	Outturn/plan, %
I. INCOME			
1. Interest revenue	695.0	743.2	106.9
2. Other income	10.0	56.5	565.6
TOTAL INCOME	705.0	799.7	113.4
II. EXPENDITURES			
1. Interest cost	461.3	396.4	85.9
2. Costs	149.3	199.9	133.9
TOTAL COSTS	610.6	596.3	97.7
III. UNSPENT PORTION OF INCOME	94.4	203.4	215.4
1. Fixed capital	30.0	2.2	7.4
2. Special Reserve Fund	-	5.8	-
3. SURPLUS OF INCOME OVER EXPENDITURES	64.4	195.4	303.4

The Croatian National Bank receives incomes, incurs costs and establishes a surplus of income above expenditures. Income and expenditures are forecast by the financial plan adopted by the Council of the Croatian National Bank and approved by the Croatian State Parliament.

The surplus of income over expenditures that the Croatian National Bank creates in its work is income for the government budget. If expenditures are greater than income, the shortfall is covered from the special reserve fund. If this is not sufficient, the shortfall is covered by the government budget.

According to the financial statement for 1998 of the Croatian National Bank, the bank had the following financial results:

- Income was 799.7 million kuna, 13.4 percent larger than planned.
- Expenditures were 596.3 million kuna, or 2.3 percent less than planned.
- The surplus of income over expenditures was 195.4 million kuna, or 203.4 percent more than planned.

7.1

Income realized

The level and structure of income realized by the Croatian National Bank in 1998 in comparison with planned income for 1998 looks like this:

Table VII.2

INCOME OF THE CROATIAN NATIONAL BANK, million kuna

	Plan 1998	Outturn 1998	% share	Outturn/plan, %
1. INTEREST REVENUE				
a) interest on loans and other placements from primary emission	20.0	70.9	8.9	354.5
b) interest and other income on funds deposited abroad	675.0	672.3	84.0	99.6
2. OTHER INCOME				
	10.0	56.5	7.1	565.6
TOTAL INCOME	705.0	799.7	100.0	113.4

The total income of the Croatian National Bank in 1998 was 799.8 million kuna or 13.4 more than planned. The most important element in total income was interest on funds deposited abroad, which accounted for 84 percent of the total and was below planned levels by only 2.7 million kuna.

7.1.1

Interest Revenue

a) Interest on Loans and other Placements from Primary Emission

The income received by the Croatian National Bank from interest on loans and other placements from primary emission was 70.9 million kuna in 1998, which was 254.5 percent higher than planned. Such a substantial increase is the result of increased demand for central bank loans by individual banks and savings banks as well as changes in central bank interest rate policy. Because of the deterioration of the liquidity of banks, and problems of illiquidity and insolvency at some banks, the Croatian National Bank activated the interventive loan instrument in March (it was not used at all in 1997), and introduced the pre-rehabilitation loan. Since a large portion of these loans came due and were not paid, income grew on the basis of penalty interest.

56.5 million kuna of this came from interest income on funds from primary emission placed with banks and savings banks. Of this, the largest portion was realized from repo auctions of Croatian National Bank bills and Treasury bills of Ministry of Finance, 13.1 million kuna or 23.1 percent. Although mainly short-term in character, repo auctions were a significant source of income because of the large degree of participation and large amounts involved, as well as the increase in interest rates. Furthermore, some 34 repo auctions were held in 1998. Interest on interventive and pre-rehabilitation loans (21.8 million kuna) along with penalty interest on matured unpaid loans and penalty interest on matured unpaid interest on loans (9.9 million kuna) amounted to 31.7 million kuna or 56.1 percent of interest income on loans and other placements from primary emission. Interest on Lombard loans amounted to 10.6 million kuna or 18.8 percent, and 1.1 million kuna or 2 percent was interest realized on daily loans.

Because of the illiquidity of parts of the economy, which was caused by banking sector problems, and because of the fall in economic activity at the end of the year, budgetary income began to fall below expectations towards the end of 1998. At the same time, because of the global financial crisis, opportunities for foreign borrowing decreased, and the government used large intramonthly loans at the central bank. In accordance with this, this category of interest, planned at 7 million kuna, turned out at 14.4 million kuna. This represents 20.3 percent of total income realized from interest on loans and other placements from primary emission.

b) Interest and Other Income from Funds Deposited Abroad

Interest realized on foreign exchange deposits abroad is collected and registered in the income of the Croatian National Bank in kuna countervalue. In 1998, income of 672.3 million kuna was realized, only 0.4 percent less than planned. The average interest rates for DEM in 1998 was 3.7 percent, for USD 5.4 percent (83.1 percent of foreign exchange reserves are held in these two currencies).

The interest realized on foreign exchange deposits abroad in the amount of 672.3 accounted for 84 percent of the total income of the Croatian National Bank and was the largest element in realized income.

On the basis of legal regulation, the Croatian National Bank calculates exchange rate differences. Exchange rate differences with the framework of the existing accounting system in the Republic of Croatia are shown in two ways, as accounting exchange rate differences and as exchange rate differences based on the purchase and sale of foreign exchange.

On December 31, 1998, positive accounting monthly exchange rate differences amounted to 1,560.9 million kuna, and negative were 1,069 million kuna. From this, a positive net exchange rate difference effect of 491.9 million kuna was created.

The positive net effect of monthly accounting exchange rate differences of 491.9 million kuna, as well as the positive net effect of realized exchange rate differences on the basis of purchase and sale of foreign exchange of 5.8 million kuna, are transferred to the special reserve fund.

7.1.2

Other Income

Other income amounted to 56.5 million kuna in 1998. It was substantially larger than planned (465.6 percent), and had a share of 7.1 percent in total income.

The largest item with other income was interest income, which was 43.7 million kuna or 77.4 percent of other income. This income derives from the 19 percent annual interest the Croatian National Bank charges to banks and savings banks that do not calculate their obligations correctly, do not hold the legally-required average level of reserves or do not correctly calculate and set aside required reserves to their reserve accounts at the Croatian National Bank.

7.2.

Expenditures

The level and structure of expenditures of the Croatian National Bank in 1998 in comparison with planned expenditures is shown in Table VII.3.

According to the financial statement for 1998, expenditures were 596.3 million kuna, which was 2.3 percent less than planned. The largest part of expenditures (66.5 percent) refers to interest on liabilities, while costs were 33.5 percent. The largest share in total interest on liabilities was interest on required reserves.

Table VII.3

EXPENDITURES OF THE CROATIAN NATIONAL BANK, million kuna

	Plan 1998	Outturn 1998	% share	Outturn/plan, %
I. INTEREST ON LIABILITIES				
1.1 Interest on banks' required reserves	180.0	187.7	31.5	104.3
1.2 Interest on securities	200.0	125.1	21.0	62.6
1.3. Interest on IMF arrangement	81.3	83.6	14.0	102.9
2. COSTS				
2.1 Costs of printing banknotes and minting coins	16.0	11.8	2.0	73.5
2.2 Material and other costs	65.0	125.3	21.0	192.8
2.3 Depreciation	7.0	6.4	1.1	92.2
2.4 Gross wages of employees	61.3	56.4	9.4	91.9
TOTAL COSTS	610.6	596.3	100.0	97.7

7.2.1

Interest on Liabilities

a) Interest on Required Reserves

In 1998, the Croatian National Bank paid 187.7 million kuna of interest on the portion of required reserves held in special accounts at the Bank. This was 4.3 percent more than planned. 178.4 million kuna refer to interest on required reserves in kuna, and 9.3 million kuna refer to interest on required reserves in foreign exchange.

During 1998, the rate of reserve requirement was decreased only once, from 31.85 percent to 29.5 percent. Along with this decrease in the requirement, in October 1998 the interest rate on required reserves was raised from 4.5 percent to 5.9 percent.

In September 1998, reserve requirements on foreign exchange deposits were introduced. However, formation of the reserves was gradual, so that expenditures on this basis were negligible in comparison with expenditures on kuna reserve requirements. The rate of remuneration of required reserves in foreign exchange is determined according to market interest rates that the Croatian National Bank realizes on its portfolio of foreign exchange received from banks and savings banks on the basis of the reserve requirement.

The share of expenditures for paying interest rate on required reserves in total expenditures was 31.5 percent, and represents the largest element in total expenditures.

b) Interest on Securities

Since purchases of CNB bills were below planned levels during 1998, interest expenses for this purpose were significantly lower than expected.

The relative stagnation of purchase of CNB bills in kuna occurred in part because the Croatian National Bank began to offer CNB bills in foreign exchange in April. Banks and savings banks were very interested in these bills. The stock of CNB bills in foreign exchange outstanding has grown almost continuously since then. For both types of bills, demand is greater for short-term bills, with maturities up to 91 days. These bills carry lower interest rates. Demand for longer-term bills is virtu-

ally negligible. Interest rates on CNB bills varied within a range of 1.5 percentage points during the year. At the same time, interest rates on CNB bills in foreign exchange are substantially lower than interest rates on CNB bills in kuna, and fell during the year by 0.5 percentage points.

Thanks to this trend in interest rates on CNB bills in kuna and the simultaneous shortfall in purchases of such bills relative to planned levels, expenditures on interest on this basis were only 99.3 million kuna, only 49.7 percent of the planned 200 million kuna. Interest expenses on CNB bills in foreign exchange added another 25.8 million kuna or 12.9 percent of the planned amount. In the end, the total amount of interest expenditures on securities was 125.1 million kuna, 62.6 percent of planned.

The share of interest on securities in total expenditures was 21 percent.

e) Interest on IMF Arrangements

On the basis of legal regulations governing payment obligations based on the use of loans from the International Monetary Fund and other financial organizations, and also on the basis of the conclusions of representatives of the Croatian National Bank and the Ministry of Finance of the Republic of Croatia, interest obligations on loans from arrangements with the International Monetary Fund are paid at the expense of the Croatian National Bank. Loans are extended in SDR with variable interest rates (the plan for 1998 was made on the basis of the exchange rate of December 31, 1998 of 8.5045 kuna per SDR, with an annual interest rate of 4.6 percent). The exact amount of interest is conveyed by the International Monetary Fund in a coded telex several days before the due date of the payment.

Accrued interest in this basis calculated and paid by the Croatian National Bank for Stand-by, STF and EFF arrangements amounted to 66.1 million kuna. 12.1 million kuna were paid for interest on net cumulative allocations, while costs (operating costs and costs for unused funds) were 5.4 million kuna. This yields a total amount of 83.6 million kuna or 2.9 percent more than the planned amount, with a share in total expenditures of 14 percent.

7.2.2

Costs

a) Costs of Printing Banknotes and Coins

In 1998, the Croatian Monetary Institute minted the whole contracted amount of coins, 38 million pieces in denominations of 5, 2 and 1 kuna and 50, 20, 10, 5, 2 and 1 lipa with a price of minting of 2.8 million kuna.

On the basis of the Contract on Minting and Shipping Commemorative Coins of 25 kuna from 1997, the remaining 139,500 coins were received in 1998. To this amount should be added an additional 300,000 commemorative coins of 25 kuna ("Expo") which were minted on the basis of a decision in 1998 with a printing and minting of 2.6 million kuna.

If we add these amounts to the costs of minting bars of 5.4 million kuna, the costs of import duties of 0.8 million kuna and the costs of producing special tools of 0.2 million kuna, we obtain the total cost of minting coins in 1998. This amounts to

11.8 million kuna or 73.5 percent of the planned sum, with a share in total expenditures of 2 percent.

In 1998, no bank notes were printed, since the existing stock of notes was adequate to ensure the regular circulation of notes, and in fact was large enough even in case of any disturbance on the market.

b) Material and other Costs

Material and other costs amounted to 125.3 million kuna, 92.8 percent more than planned. Within the category of extraordinary costs, unforeseen costs were booked in the amount of 50 million kuna as reserves on the basis of unpaid interest and penalty interest, as well as 2.6 million kuna for the conversion of demand deposits in Yugoslav Dinars for kuna as a result of the reintegration of the Croatian Danube region in the payment system of the Republic of Croatia. In addition to this, a substantial amount (8 million kuna) was paid to foreign audit houses for audits of commercial banks. Without these amounts, material and other costs would be within the planned level for 1998.

Operating costs include: fees for financial services, fees for services of the Payments Institute, fees for contributions on wages, fees for the material rights of employees, material costs (electricity and heating, office materials, fuel, scientific literature etc.), costs of services (investment and maintenance, security, rents, transport of money, insurance premia etc), costs of official travel, representation costs, administrative and other costs.

The share of these costs in the total expenditures of the Croatian National Bank was 21 percent.

c) Depreciation

Using the linear method of calculating depreciation, at rates comparable to or slightly lower than the rates published in the Rulebook on Depreciation (Government Gazette 91/94 to 142/97), the depreciation costs of the Croatian National Bank in 1998 were 6.4 million kuna, or 92.2 percent of planned, since some planned equipment purchases were not made.

The share of depreciation costs in total expenditures was 1.1 percent.

d) Gross Wages of Employees

In the Croatian National Bank in 1998, wages were paid in accordance with the Statute of the Croatian National Bank and the Rulebook on Wages and Other Employee Income of the Croatian National Bank. On the basis of these documents, the Council of the Croatian National Bank determines the level of wages as well as corrections to wages.

Total gross pay in the Croatian National Bank in 1998 was 56.4 million kuna, or 8.1 percent less than planned. This means that the planned amount of wage increases was not paid.

Gross pay of 56.4 million kuna includes the pay of officials (Governor, Deputy Governor and Vice Governors) of 1.1 million kuna, while the remaining 55.3 million kuna were paid to other employees of the Croatian National Bank. In accordance

with the Law on Obligations and Rights of Government Officials ("Government Gazette 101/98 and 135/98), wages were increased beginning in November 1998 for officials named by the Croatian State Parliament and employed by the Croatian National Bank.

A one-time bonus for annual leave, bonus pay for new employees and promotion of employees affected the total amount of pay, along with two corrections of the value of employee points.

7.3 The Unspent Portion of Income

After settling expenditures from income of the Croatian National Bank in 1998, there remained an unspent portion of income amounting to 203.4 million kuna, 115.4 percent more than planned. The unspent portion of income was distributed to fixed capital and the special reserve fund. The remainder after this is the surplus of income over expenditures of the Croatian National Bank.

7.3.1. Fixed capital

The Law on the Croatian National Bank states that the necessary funds must be set aside for purchasing goods and rights constituting fixed capital, or for founding or participating in specialized organizations. The amount of funds required for this purpose, fixed capital, is forecast in the financial plan, and is confirmed in the financial statement of the Croatian National Bank.

From the unspent portion of income confirmed by the financial statement for 1998, 2.2 million kuna were allocated to fixed capital, which was only 7.4 percent of the planned amount.

7.3.2. Special Reserve Fund

According to the financial statement for 1998, a positive balance of realized exchange rate differences of 6.9 million kuna was booked, while on the expenditures side a negative balance of realized exchange rate difference of 1.1 million kuna was realized. As a result of this, a positive net effect of 5.8 million kuna remained, which, in accordance with article 78 of the law was allocated to the special reserve fund of the Croatian National Bank in a separate account.

7.4 Surplus of Income over Expenditures

The surplus of income over expenditures, accordance to article 80 of the Law on the Croatian National Bank, after settlement of expenditures, allocation of funds for fixed capital and the special reserve fund, is income for the government budget.

The realized surplus of income over expenditures of the Croatian National Bank, according to the financial statement for 1998, was 195.4 million kuna or three times more than planned (203.4 percent more). This occurred thanks to the fact that interest on loans from primary emission was higher, and interest paid on CNB bills was lower than planned.

A portion of the surplus of 191.6 million kuna was sent to the government budget in the form of payments during the year, and an amount of 3.8 million kuna was used to compensate for government obligations stemming from the Republic of Croatia's membership in the International Monetary Fund and other international financial organizations. The surplus of income over expenditures was 24.4 percent of the total income of the Croatian National Bank.

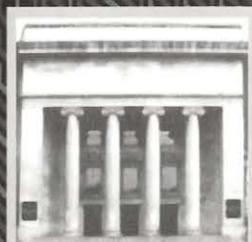
Table VII.4

BALANCE SHEET OF THE CROATIAN NATIONAL BANK,
thousand kuna, December 31, 1998

	1997	1998
ASSETS		
A. BUSINESS ASSETS	112,352,941.4	113,384,224.0
1. Money assets	94,837,230.0	93,762,489.4
2. Claims from business relations and accruals	78,204.8	72,272.9
3. Short-term loans and deposits	30,900.2	1,044,395.3
4. Short-term foreign exchange deposits	14,565,970.3	15,179,053.7
5. Long-term loans and deposits	2,630.2	9,388.2
6. Long-term foreign exchange loans and deposits	0.0	624,750.0
7. Material assets, long-term investment and funds allocated according to special regulations	2,838,005.8	2,691,874.4
TOTAL ASSETS	112,352,941.4	113,384,224.0
Off-balance sheet item - potential assets	8,922,507.4	14,585,557.1
LIABILITIES		
SOURCES OF BUSINESS FUNDS	110,161,391.3	110,687,760.2
1. Long-term sources of business funds	99,650,436.0	97,805,853.8
2. Short-term and long-term sources of business funds	1,864,300.2	8,459,149.3
3. Current obligations from business relations	8,646,655.1	4,422,757.1
B. SPECIAL RESERVES	2,191,550.2	2,696,463.8
TOTAL LIABILITIES	112,352,941.4	113,384,224.0
Off-balance sheet items - potential liabilities	8,922,507.4	14,585,557.1

MANAGEMENT AND INTERNAL ORGANIZATION

OF THE CNB, December 31, 1998



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998



MEMBERS OF THE COUNCIL OF THE CROATIAN NATIONAL BANK

Chairman of the Council

Marko Škreb

Zdravko Rogić

Relja Martić

Pero Jurković

Ivan Milas

Gorazd Nikić

Mate Babić

Vlado Leko

MANAGEMENT OF THE CNB

Marko Škreb, Governor

Zdravko Rogić, Deputy Governor

Relja Martić, Vice Governor

BOARD OF EXECUTIVE DIRECTORS

Research and Statistics Area - **Velimir Šonje**

Area of Central Banking Operations - **Adolf Matejka**

International Financial Relations Area - **Jadranka Granić**

Area of Control and Supervision - **Čedo Maletić**

Accounting, Treasury and Payment Operations Area - **Đurđica Haramija**

Area of Organization Planning and Information Processing - **Petar Ćurković**

Area of Legal Affairs and General Services -

THE COUNCIL OF THE CROATIAN NATIONAL BANK

GOVERNOR
Marko Škreb

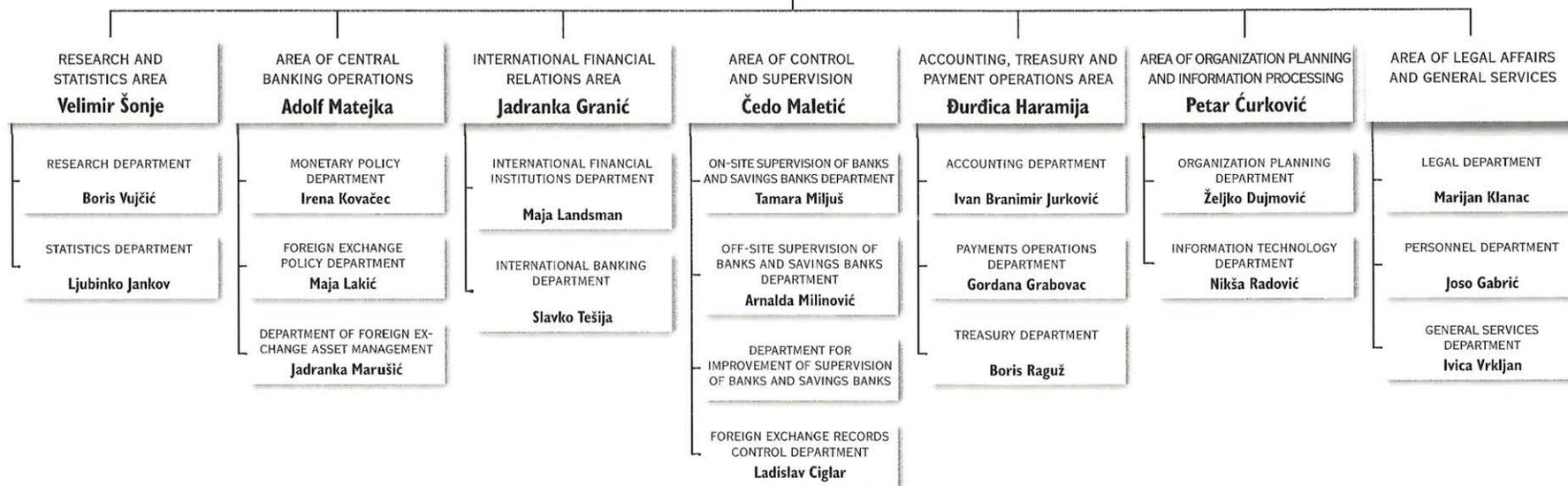
DEPUTY GOVERNOR
Zdravko Rogić

VICE GOVERNOR
Relja Martić

INTERNAL AUDIT: **Ivica Prga**

OFFICE OF THE GOVERNOR: **Lidija Pleadin**

BOARD OF EXECUTIVE DIRECTORS

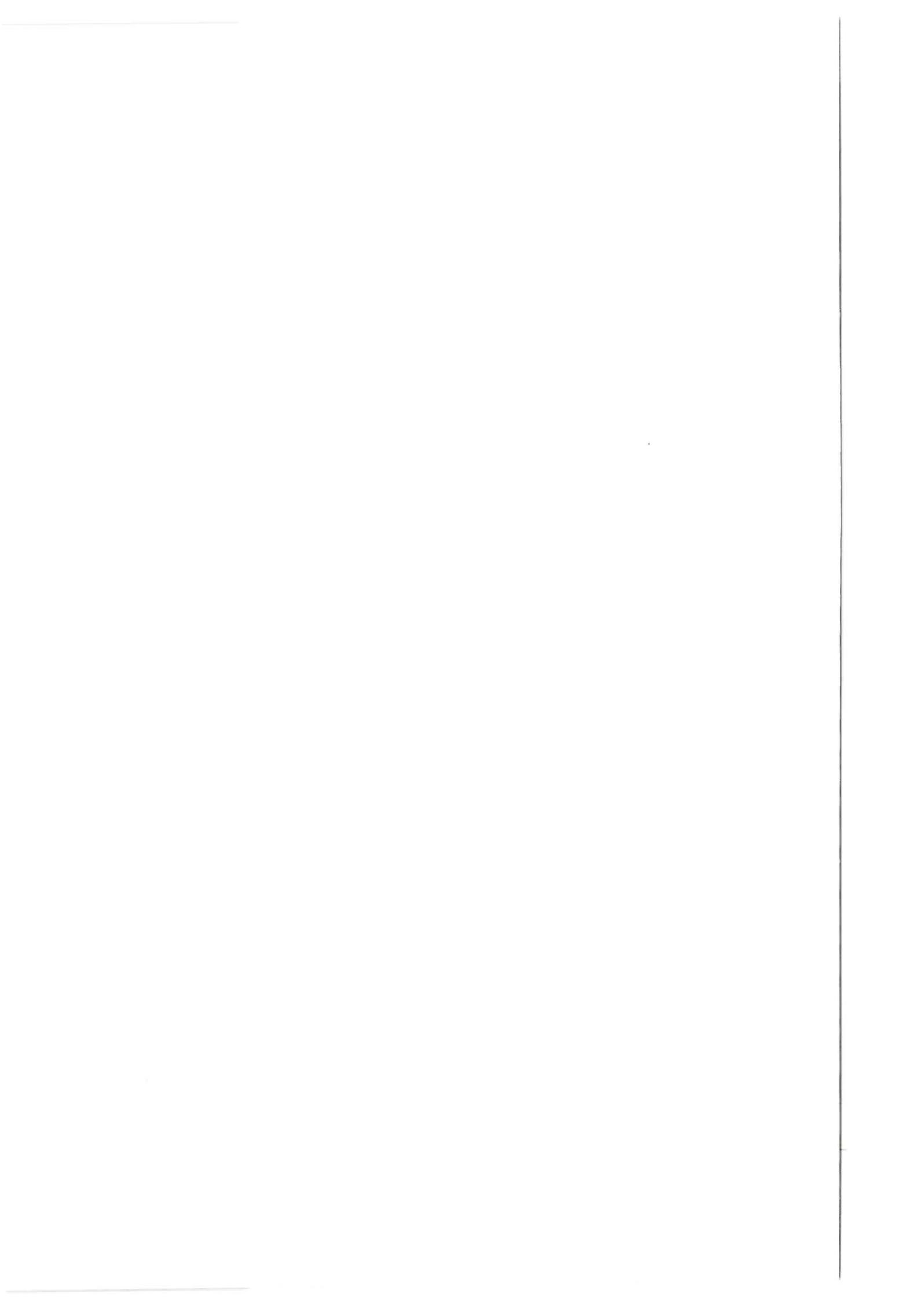


LIST OF BANKS

December 31, 1998.



CROATIAN NATIONAL BANK - ANNUAL REPORT 1998



LICENSED COMMERCIAL BANKS

- * **AGRO-OBRTNIČKA BANKA D.D.**
Amruševa 8
10000 ZAGREB

Tel.: ++385-1/ 4553 069
Fax: ++385-1/ 4817 642
Tlx: 21608
SWIFT: AOBH HR 2X
- * **ALPE JADRAN BANKA D.D.**
Starčevićeva 1
21000 SPLIT

Tel.: ++385-21/ 305 305
Fax: ++385-21/ 305 306
Tlx: 26647 ajbank rh
SWIFT: AJBK HR 2X
- * **BANK AUSTRIA (CROATIA) D.D.**
Jurišićeva 2
10000 ZAGREB

Tel.: ++385-1/ 4800 777
Fax: ++385-1/ 4800 891
SWIFT: BACX HR 22
- * **BJELOVARSKA BANKA D.D.**
Jurja Haulika 19a
43000 BJELOVAR

Tel.: ++385-43/ 275 101, 275 100
Fax: ++385-43/ 241 897
Tlx: 23330 bjelba rh
SWIFT: BJBA HR 2X
- * **BNP - DRESDNER BANK (CROATIA) D.D.**
Andrije Žaje 61
10000 ZAGREB

Tel.: ++385-1/ 3652 777
Fax: ++385-1/ 352 779
Tlx: 21144 bndb hr
SWIFT: BNDB HR 2X
- * **BRODSKO-POSAVSKA BANKA D.D.**
Trg pobjede 29
35000 SLAVONSKI BROD

Tel.: ++385-35/ 445 700, 445 800
Fax: ++385-35/ 445 900
SWIFT : BROD HR 22
- * **CASSA DI RISPARMIO DI TRIESTE BANCA D.D. - ZAGREB / TRŠĆANSKA ŠTEDIONICA - BANKA D.D.**
Smičiklasova 23
10000 ZAGREB

Tel.: ++385-1/ 4614 346, 4614 423
Fax: ++385-1/ 4614 428, 4614 347
SWIFT: TSBZ HR 22
- * **CENTAR BANKA D.D.**
Jurišićeva 3
10000 ZAGREB

Tel.: ++385-1/ 4803 444
Fax: ++385-1/ 4803 441
Tlx: 21707
SWIFT: CBZG HR 2X
- * **CIBALAE BANKA D.D.**
H. D. Genschera 2
32000 VINKOVCI

Tel.: ++385-32/ 331 144, 331 307
Fax: ++385-32/ 331 595, 331 172
Tlx: 28254 cibank rh
SWIFT: VKBK HR 2X
- ** **CONVEST BANKA D.D.**
Gajeva ulica 33
10000 ZAGREB

Tel.: ++385-1/ 4556 633
Fax: ++385-1/ 4819 153
- * **CREDO BANKA D.D.**
Z. Frankopanska 58
21000 SPLIT

Tel.: ++385-21/ 380 655
Fax: ++385-21/ 380 683
SWIFT: CDBS HR 22
- * **CROATIA BANKA D.D.**
Kvaternikov trg 9
10000 ZAGREB

Tel.: ++385-1/ 2338 137, 2331 778
Fax: ++385-1/ 2332 470
SWIFT: CROA HR 2X

LIST OF BANKS

- * **ČAKOVEČKA BANKA D.D.**
Katarine Zrinski 1
40000 ČAKOVEC

Tel.: ++385-40/ 311 434
Fax: ++385-40/ 315 101
SWIFT: CAKB HR 22
- * **HRVATSKA GOSPODARSKA BANKA D.D.**
Metalčeva 5
10000 ZAGREB

Tel.: ++385-1/ 3651 888
Fax: ++385-1/ 3651 891
Tlx: 21664, (ANSWERBAC) HGB RH
SWIFT: HGBK HR 2X
- * **DALMATINSKA BANKA D.D.**
Trg Sv. Stošije 3
23000 ZADAR

Tel.: ++385-23/ 311 311
Fax: ++385-23/ 437 867, 433 145
Tlx: 27224 dbk zd rh
SWIFT: DBZD HR 2X
Reuters: DBZH
- * **HRVATSKA POŠTANSKA BANKA D.D.**
Jurišićeva 4
10000 ZAGREB

Tel.: ++385-1/ 4804 513
Fax: ++385-1/ 4810 700, 4810 773
SWIFT: HPBZ HR 2X
- * **DUBROVAČKA BANKA D.D.**
Put Republike 5
20000 DUBROVNIK

Tel.: ++385-20/ 431 366, 411 924
Fax: ++385-20/ 411 035, 412 814
Tlx: 27540 hrvdubank
27592 hrvdubank
SWIFT: DUBA HR 2X
- * **HYPO BANKA CROATIA D.D.**
Koturaška 47
10000 ZAGREB

Tel.: ++385-1/ 6103 660
Fax: ++385-1/ 6103 555
SWIFT: KLHB HR 22
- * **GLUMINA BANKA D.D.**
Trpinjska 9
10000 ZAGREB

Tel.: ++385-1/ 2394 444
Fax: ++385-1/ 2395 705
SWIFT: GLUM HR 22
- ** **HYPOBANKA D.O.O.**
Vodovodna 20a
10000 ZAGREB

Tel.: ++385-1/ 339 082, 339 573
Fax: ++385-1/ 339 079
Tlx: 21621 hipzg rh
SWIFT: HYZG HR 22 BIC
- * **GOSPODARSKO KREDITNA BANKA D.D.**
Draškovićeva 58
10000 ZAGREB

Tel.: ++385-1/ 4802 555
Fax: ++385-1/ 4802 577
Tlx: 22404 ccb zg hr
SWIFT: CCBZ HR 2X
- ** **ILIRIJA BANKA D.D.**
Avenija Dubrovnik 10
10000 ZAGREB

Tel.: ++385-1/ 6551 115
Fax: ++385-1/ 6551 139, 6551 144
Tlx: 21201 iliri rh
SWIFT: ILIR HR 2X
Reuters: IBZH
- * **GRADSKA BANKA D.D. OSIJEK**
Trg Ante Starčevića 7
31000 OSIJEK

Tel.: ++385-31/ 229 300
Fax: ++385-31/ 283 595
SWIFT: GBOS HR 22 OSI
- * **IMEX BANKA D.O.O.**
Tolstojeva 6
21000 SPLIT

Tel.: ++385-21/ 357 015, 357 025
Fax: ++385-21/ 583 849
Tlx: 26191
SWIFT: IMXX HR 22

- * **ISTARSKA BANKA D.D.**
Dalmatinova 4
52100 PULA
- Tel.: ++385-52/ 527 101, 527 309
Fax: ++385-52/ 527 400, 527 444
Tlx: 24746, 24716 ibpu rh
SWIFT: IBPU HR 2X
- * **ISTARSKA KREDITNA BANKA UMAG D.D.**
Ernesta Miloša 1
52470 UMAG
- Tel.: ++385-52/ 741 622, 741 536
Fax: ++385-52/ 741 275, 741 396
Tlx: 24745 ikb rh
SWIFT: ISKB HR 2X
- * **JADRANSKA BANKA D.D.**
Ante Starčevića 4
22000 ŠIBENIK
- Tel.: ++385-22/ 242 242
Fax: ++385-22/ 335 881, 339 010
Tlx: 27435, 27 346 jbs rh
SWIFT: JADR HR 2X
- * **KAPTOL BANKA D.D.**
Savska 66
10000 ZAGREB
- Tel.: ++385-1/ 6302 999
Fax: ++385-1/ 6302 880
SWIFT: KPZG HR 22
- * **KARLOVAČKA BANKA D.D.**
I. G. Kovačića 1
47000 KARLOVAC
- Tel.: ++385-47/ 614 300, 614 200
Fax: ++385-47/ 614 206
Tlx: 23742 kb ka rh
SWIFT: KALC HR 2X
- * **KOMERCIJALNA BANKA ZAGREB D.D.**
Frankopanska 11
10000 ZAGREB
- Tel.: ++385-1/ 4830 800
Fax: ++385-1/ 4830 537
Tlx: 21595 pbs zg rh
SWIFT: KOBZ HR 22
- * **KRAPINSKO-ZAGORSKA BANKA D.D.**
Magistratska 3
49000 KRAPINA
- Tel.: ++385-49/ 370 770, 370 772
Fax: ++385-49/ 370 771, 370 822
Tlx: 29239
SWIFT: KZBK HR 22
- * **KREDITNA BANKA ZAGREB D.D.**
Ul. grada Vukovara 74
10000 ZAGREB
- Tel.: ++385-1/ 6167 333
Fax: ++385-1/ 6116 466, 6116 468
Tlx: 21197 krez zg rh
SWIFT: KREZ HR 2X
- * **KVARNER BANKA D.D.**
Jadranski trg 4/I
51000 RIJEKA
- Tel.: ++385-51/ 353 555
Fax: ++385-51/ 353 566
Tlx: 24564 kbri hr
SWIFT: KVRB HR 22 BIC
- * **MEĐIMURSKA BANKA D.D.**
Valenta Moradinija 37
40000 ČAKOVEC
- Tel.: ++385-40/ 370 500, 370 600
Fax: ++385-40/ 314 610, 315 065
Tlx: 23251 banka rh
SWIFT: MBCK HR 2X
- ** **NAVA BANKA D.D.**
Tratinska 27
10000 ZAGREB
- Tel.: ++385-1/ 3656 777
Fax: ++385-1/ 3656 700
SWIFT: NAVB HR 22
- ** **NERETVANSKA GOSPODARSKA BANKA D.D.**
Trg kralja Tomislava 23
20840 PLOČE
- Tel.: ++385-20/ 679 222, 679 262
Fax: ++385-20/ 679 838
SWIFT: NGBP HR 22

LIST OF BANKS

- * **PARTNER BANKA D.D.**
 Vončinina 2
10000 ZAGREB

 Tel.: ++385-1/ 460 2222
 Fax: ++385-1/ 460 2280
 Tlx: 21212 parbaz rh
 SWIFT: PAZG HR 2X
- * **RAIFFEISENBANK AUSTRIA D.D.**
 Petrinjska 59
10000 ZAGREB

 Tel.: ++385-1/ 4566 466
 Fax: ++385-1/ 4811 624
 Tlx: 21137 rba zg rh
 SWIFT: RZBH HR 2X
- * **PODRAVSKA BANKA D.D.**
 Opatička 1a
48300 KOPRIVNICA

 Tel.: ++385-48/ 65 50
 Fax: ++385-48/ 622 542
 Tlx: 23368 pod kc rh
 SWIFT: PDKC HR 2X
- * **RIADRIA BANKA D.D.**
 Gjüre Šporera 3
51000 RIJEKA

 Tel.: ++385-51/ 339 111, 339 803
 Fax: ++385-51/ 211 093, 211 013
 Tlx: 24 161
 SWIFT: ADRI HR 2X
- * **POŽEŠKA BANKA D.D.**
 Republike Hrvatske 1b
34 000 POŽEGA

 Tel.: ++385-34/ 254 200
 Fax: ++385-34/ 254 258
 Tlx: 28550 kb slp rh
 SWIFT: POBK HR 2X
- * **RIJEČKA BANKA D.D.**
 Jadranski trg 3a
51000 RIJEKA

 Tel.: ++385-51/ 208 211
 Fax: ++385-51/ 330 525, 331 880
 Tlx: 24 143 bankom rh
 SWIFT: RBRI HR 2X
 Reuters: RBRH
- * **PRIVREDNA BANKA ZAGREB D.D.**
 Račkoga 6 / P.O. Box 1032
10000 ZAGREB

 Tel.: ++385-1/ 4610 401, 4610 447
 Fax: ++385-1/ 4610 429
 Tlx: 21120 pbz rh
 SWIFT: PBZG HR 2X
 Reuters: PBZH
- ** **SAMOBORSKA BANKA D.D.**
 Trg Kralja Tomislava 8
10430 SAMOBOR

 Tel.: ++385-1/ 3362 530
 Fax: ++385-1/ 3361 523
 Tlx: 21811 samba rh
 SWIFT: SMBR HR 22
- * **PROMDEI BANKA D.D.**
 Ivekovićeve 17
10000 ZAGREB

 Tel.: ++385-1/ 4617 925
 Fax: ++385-1/ 4618 199
 Tlx: 21248 promde rh
 SWIFT: PDEI HR 2X
- * **SISAČKA BANKA D.D.**
 Trg Lj. Posavskog 1
44000 SISAČ

 Tel.: ++385-44/ 549 100
 Fax: ++385-44/ 549 101
 Tlx: 23645 sbdd sk rh
 SWIFT: SSKB HR 2X
- ** **RAZVOJNA BANKA "DALMACIJA" D.O.O.**
 Poljička cesta 39
21000 SPLIT

 Tel.: ++385-21/ 365 904, 371 000
 Fax: ++385-21/ 365 904, 371 000
- * **SLATINSKA BANKA D.D.**
 Vladimira Nazora 2
33520 SLATINA

 Tel.: ++385-33/ 551 526, 551 354
 Fax: ++385-33/ 551 566
 Tlx: 28277 slatb rh
 SWIFT: SBSL HR 2X

- * **SLAVONSKA BANKA D.D.**
Kapucinska 29
31000 OSIJEK
- Tel.: ++385-31/ 231 100, 231 115
Fax: ++385-31/ 127 125
Tlx: 28235, 28090 banka rh
SWIFT: SLBO HR 2X
- * **SPLITSKA BANKA D.D.**
Ruđera Boškovića 16
21000 SPLIT
- Tel.: ++385-21/ 370 500, 370 516
Fax: ++385-21/ 370 541
Tlx: 26252 st bank rh
SWIFT: SPLI HR 2X
- * **ŠTEDBANKA D.O.O.**
Slavonska avenija 3
10000 ZAGREB
- Tel.: ++385-1/ 6306 666
Fax: ++385-1/ 6187 015
SWIFT: STED HR 22
- * **TRGOVAČKA BANKA D.D.**
Varšavska 3-5
10000 ZAGREB
- Tel.: ++385-1/ 4561 999
Fax: ++385-1/ 4561 900, 4561 920
Tlx: 22370 tb rh
SWIFT: TRGB HR 2X
- ** **TRGOVAČKO-TURISTIČKA BANKA D.D.**
Kralja Petra Svačića 4
21000 SPLIT
- Tel.: ++385-21/ 361 755, 361 729
Fax: ++385-21/ 362 122
Tlx: 26609
- * **VARAŽDINSKA BANKA D.D.**
P. Preradovića 17
42000 VARAŽDIN
- Tel.: ++385-42/ 10 60, 106 190
Fax: ++385-42/ 106 122
Tlx: 23224 banka rh
SWIFT: VBDD HR 2X
Reuters: VBVH
- * **VOLKSBANK D.D.**
Varšavska 9
10000 ZAGREB
- Tel.: ++385-1/ 4801 300
Fax: ++385-1/ 4801 365
SWIFT: VBCR HR 22
- * **VUKOVARSKA BANKA D.D.
- in bankruptcy**
Trg bana J. Jelačića 1/II
10000 ZAGREB
- Tel.: ++385-1/ 4812 562, 4812 564
Fax: ++385-1/ 4812 563
SWIFT: VUBA HR 2X
- * **ZAGREBAČKA BANKA D.D.**
Paromlinska 2
10000 ZAGREB
- Tel.: ++385-1/ 6104 000, 6110 500
Fax: ++385-1/ 6110 555
Tlx: 21462 zaba rh
SWIFT: ZABA HR 2X
Reuters: ZBZH
- * **ZAGREBAČKA BANKA - POMORSKA
BANKA SPLIT D.D.**
Ivana Gundulića 26
21000 SPLIT
- Tel.: ++385-21/ 352 222
Fax: ++385-21/ 357 079
Tlx: 26333, 26199 zg pbk rh
SWIFT: ZAPO HR 22
- * **ŽUPANJSKA BANKA D.D.**
J. J. Strossmayera 9
56270 ŽUPANJA
- Tel.: ++385-32/ 832 010
Fax: ++385-32/ 832 646
Tlx: 28216 kbz rh
SWIFT: ZUBA HR 2X
- * licensed banks with full authorization
** licensed banks with limited authorization

BRANCHES OF FOREIGN BANKS

* **Branch of
SOCIETE GENERALE D.D. PARIS**
Ul. Alexandera von Humboldta 4
10000 ZAGREB

Tel.: ++385-1/ 6159 206, 6159 198
Fax: ++385-1/ 6159 197
SWIFT : SOGE HR 22

* licensed banks with full authorization
** licensed banks with limited authorization

REPRESENTATIVE OFFICES OF FOREIGN BANKS

**ERSTE BANK DER ÖSTERREICHISCHEN
SPARKASSEN AG, Zagreb**

**STEIERMARKISCHE BANK UND
SPARKASSEN AG, Zagreb**

**LHB INTERNATIONALE HANDELSBANK
AG, Zagreb**

KREDITNA BANKA d.d. TUZLA, Zagreb

MARKET BANKA, Split

PRIVREDNA BANKA BIHAĆ, Zagreb

DEUTSCHE BANK AG, Zagreb

**CASSA DI RISPARMIO DI UDINE E
PORDENONE SPA, Zagreb**

**CREDIT SCHWEIZER BANK d.o.o.
SARAJEVO, Zagreb**

**BANK FÜR KÄRNTEN UND STEIERMARK
AG, Zagreb**

**COMMERZ BANK
AKTIENGESELLSCHAFT, Zagreb**

LICENSED SAVINGS BANKS

ADRIA ŠTEDIONICA d.o.o.
10 000 Zagreb, Poljička 31
Tel.: ++385-1/ 6116 294, 6116 295
Fax: ++385-1/ 6116 296

BANICA Credo ŠTEDIONICA d.o.o.
21 000 Split, Matica hrvatske 1
Tel.: ++385-21/ 314 488
Fax: ++385-21/ 314 488

GOLD ŠTEDIONICA d.o.o.
21 000 Split, Poljička 39
Tel.: ++385-21/ 313 645
Fax: ++385-21/ 313 644

**GOSPODARSKA ŠTEDIONICA ADRIATIC
d.o.o.**
10216 Vrbovec, Stjepana Radića 2
Tel.: ++385-1/ 2792 888
Fax: ++385-1/ 2792 855

* **GRADANSKA ŠTEDIONICA d.o.o.
- in bankruptcy**
47 000 Karlovac, Preradovićeve 5
Tel.: ++385-47/ 228 604
Fax: ++385-47/ 228 604

HIBIS ŠTEDIONICA d.o.o.
10 000 Zagreb, Vlaška 62
Tel.: ++385-1/ 4550 210
Fax: ++385-1/ 620 562

INVEST ŠTEDIONICA d.o.o.
10 000 Zagreb, Savska 41
Tel.: ++385-1/ 6121 495, 6121 494
Fax: ++385-1/ 6121 507

**INVESTICIJSKO-KOMERCIJALNA
ŠTEDIONICA d.d.**
10 000 Zagreb, Pantovčak 192a
Tel.: ++385-1/ 4578 400
Fax: ++385-1/ 4578 075

KRAPINSKA ŠTEDIONICA d.d.
49 230 Krapina, Gajeva 2
Tel.: ++385-49/ 370 627
Fax: ++385-49/ 370 545

MARVIL ŠTEDIONICA d.o.o.
10 000 Zagreb, Ivana Šibla 9
Tel.: ++385-1/ 6601 668, 692 801
Fax: ++385-1/ 672 315

MEĐIMURSKA ŠTEDIONICA d.d.

40 300 Čakovec, Kralja Tomislava 31
Tel.: ++385-40/ 384 377
Fax: ++385-40/ 315 151

NAVA ŠTEDIONICA d.d.

10 000 Zagreb, Tratinska 27
Tel.: ++385-1/ 3656 711
Fax: ++385-1/ 3656 700

PRIMORSKA ŠTEDIONICA d.d.

51 000 Rijeka, Riva 6
Tel.: ++385-51/ 215 222
Fax: ++385-51/ 214 022

*** PRVA OBRTNIČKA ŠTEDIONICA d.o.o.**

10 000 Zagreb, Tkalčićeva 11
Tel.: ++385-1/ 4800 111
Fax: ++385-1/ 4800 144

SLAVONSKA ŠTEDIONICA d.d.

10 000 Zagreb, Medvedgradska 47
Tel.: ++385-1/ 4666 877, 4666 728
Fax: ++385-1/ 4666 877

ŠTEDIONICA BANAK d.o.o.

52 100 Pula, Flanatička 11/I
Tel.: ++385-52/ 501 000
Fax: ++385-52/ 29 665, 500 060

ŠTEDIONICA BROD d.o.o.

35 000 Slavonski Brod, I. pl. Zajca 21
Tel.: ++385-35/ 443 333
Fax: ++385-35/ 447 142

ŠTEDIONICA DORA d.d.

10 000 Zagreb, Nova cesta 89
Tel.: ++385-1/ 3821 344
Fax: ++385-1/ 3821 354

ŠTEDIONICA DUGI POGLED d.o.o.

10 000 Zagreb, Planinska 1
Tel.: ++385-1/ 2304 888
Fax: ++385-1/ 2304 388

ŠTEDIONICA ISTRANOVA d.d.

52 100 Pula, Sergijevaca 3
Tel.: ++385-52/ 212 133
Fax: ++385-52/ 213 752

ŠTEDIONICA KOVANICA d.d.

42 000 Varaždin, Zagrebačka 10
Tel.: ++385-42/ 212 729
Fax: ++385-42/ 212 148

ŠTEDIONICA MEDITERAN d.o.o.

21 000 Split, Poljička cesta 39
Tel.: ++385-21/ 313 645
Fax: ++385-21/ 313 644

ŠTEDIONICA MORE d.o.o.

10 000 Zagreb, Vlaška 67
Tel.: ++385-1/ 4611 133
Fax: ++385-1/ 4550 113

ŠTEDIONICA SA-GA d.o.o.

10 090 Zagreb, Ljubljanska avenija 100
Tel.: ++385-1/ 3880 599
Fax: ++385-1/ 3880 545

*** ŠTEDIONICA SONIC d.d.**

31 000 Osijek, Trg Lj. Gaja 2
Tel.: ++385-31/ 124 785
Fax: ++385-31/ 125 533

*** ŠTEDIONICA SPLITSKO DALMATINSKA d.o.o.**

21 000 Split, Boktulin put bb
Tel.: ++385-21/ 352 444, 352 555
Fax: ++385-21/ 352 500

ŠTEDIONICA ZA RAZVOJ I OBNOVU d.o.o.

10 000 Zagreb, Koturaška 53
Tel.: ++385-1/ 6171 319
Fax: ++385-1/ 6170 652

ŠTEDIONICA ZAGIŠTED d.o.o.

10 000 Zagreb, Hribarov prilaz 6a
Tel.: ++385-1/ 672 101, 681 552
Fax: ++385-1/ 6602 711

ŠTEDIONICA ZLATICA d.o.o.

10 000 Zagreb, Gajeva 28
Tel.: ++385-1/ 4818 282
Fax: ++385-1/ 4558 588

ŠTEDIONICA ZLATNI VRUTAK d.d.

10 000 Zagreb, Maksimirska 39
Tel.: ++385-1/ 2301 949, 2301 951
Fax: ++385-1/ 2301 950

TRGOVAČKA ŠTEDIONICA d.o.o.

10 000 Zagreb, Utješinovićeve 7
Tel.: ++385-1/ 2339 610, 2339 611
Fax: ++385-1/ 2339 716

V i D ŠTEDIONICA d.o.o.

10 000 Zagreb, Ulica grada Vukovara 52b
Tel.: ++385-1/ 6111 330
Fax: ++385-1/ 6111 477

ZAGREBAČKA ŠTEDIONICA d.d.

10 000 Zagreb, Divka Budaka 1d
Tel.: ++385-1/ 2301 333
Fax: ++385-1/ 2300 453

LICENSED HOUSING SAVINGS BANKS

PRVA STAMBENA ŠTEDIONICA d.d.

10 000 Zagreb Jurišićeva 22

Tel.: ++385-1/ 4801 514

Fax: ++385-1/ 4801 571

**WÜSTENROT STAMBENA ŠTEDIONICA
d.d.**

10 000 Zagreb Ilica 14

Tel.: ++385-1/ 4803 788

Fax: ++385-1/ 4803 798

**** HRVATSKA STAMBENA ŠTEDIONICA
d.d.**

42 000 Varaždin Zagrebačka 38

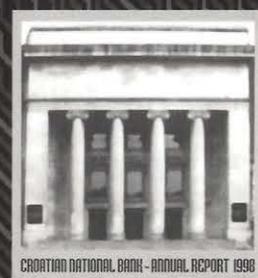
Tel.: ++385-42/ 290 555

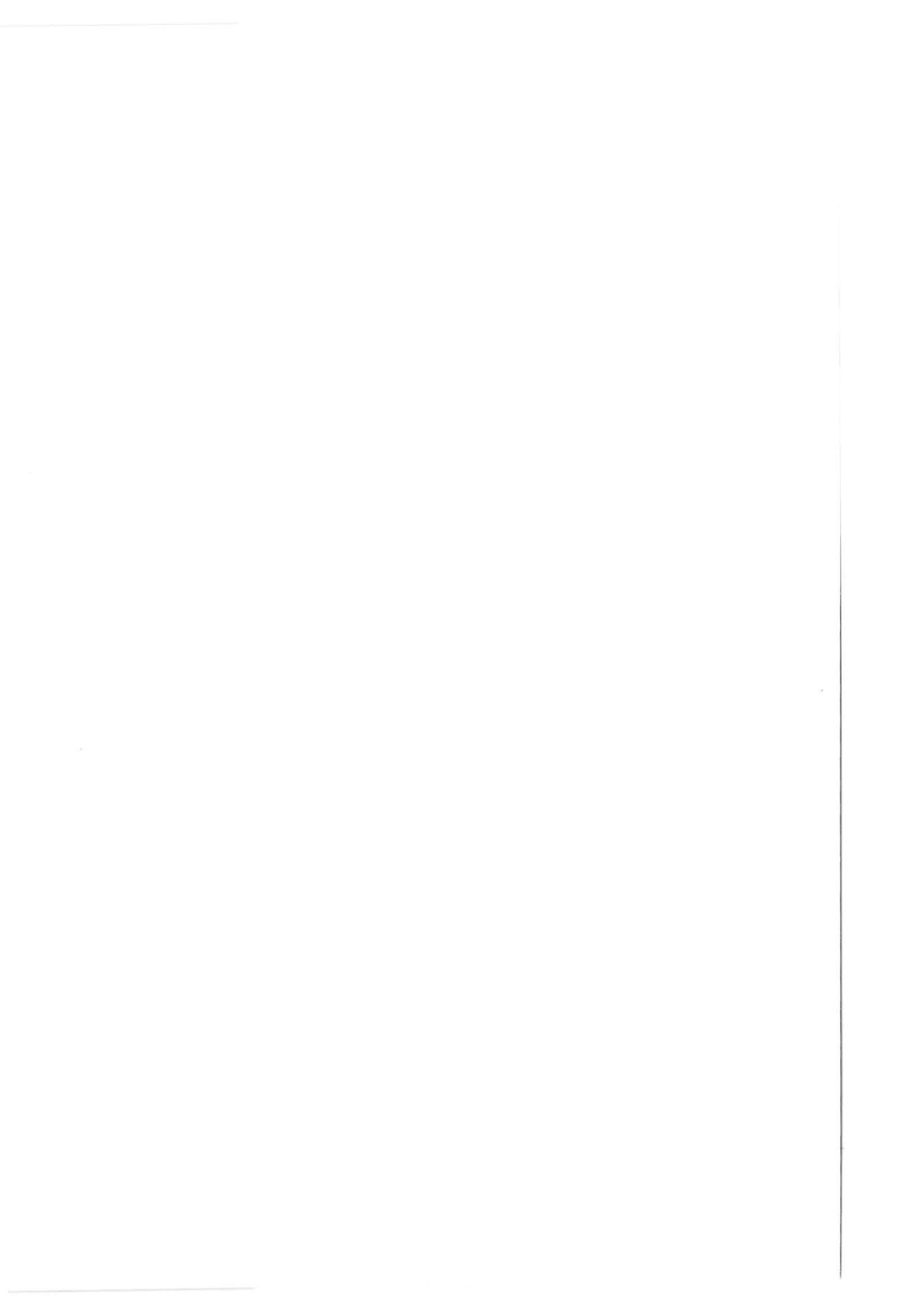
Fax: ++385-42/ 290 533

* Authorization includes raising households' f/c deposits and operating exchange offices.

** Licensed savings bank not yet operative.

STATISTICAL APPENDIX





CONTENTS OF THE STATISTICAL APPENDIX

A. MONETARY AND CREDIT AGGREGATES

Table A1:	Monetary and Credit Aggregates	135
-----------	--------------------------------	-----

B. MONETARY INSTITUTIONS

Table B1:	Monetary Survey	136
Table B2:	Number of Reporting Deposit Money Banks and Savings Banks and their Classification by Size	137

C. MONETARY AUTHORITIES

Table C1:	Monetary Authorities Accounts	138
-----------	-------------------------------	-----

D. DEPOSIT MONEY BANKS

Table D1:	Deposit Money Banks' Accounts	139
Table D2:	Deposit Money Banks' Foreign Assets	140
Table D3:	Deposit Money Banks' Claims on Central Government	141
Table D4:	Deposit Money Banks' Claims on Other Domestic Sectors	142
Table D5:	Distribution of Deposit Money Banks' Loans by Domestic Institutional Sectors	143
Table D6:	Demand Deposits with Deposit Money Banks	144
Table D7:	Time and Savings Deposits with Deposit Money Banks	145
Table D8:	Foreign Currency Deposits with Deposit Money Banks	146
Table D9:	Bonds and Money Market Instruments	147
Table D10:	Deposit Money Banks' Foreign Liabilities	148
Table D11:	Central Government and Funds Deposits with Deposit Money Banks	149
Table D12:	Restricted and Blocked Deposits with Deposit Money Banks	150
Graph D1:	Distribution of Deposit Money Banks' Loans	151
Graph D2:	Distribution of Deposit Money Banks' Deposits	152

E. SAVINGS BANKS

Table E1:	Savings Banks' Accounts	153
-----------	-------------------------	-----

F. MONETARY POLICY INSTRUMENTS AND LIQUIDITY

Table F1:	Credit Rates of Croatian National Bank	154
Table F2:	Deposit Rates of Croatian National Bank	155
Table F3:	Deposit Money Banks' Reserves on Obligatory Basis	156
Table F4:	Deposit Money Banks' Liquidity Indicators	157

G. FINANCIAL MARKETS

Table G1:	Deposit Money Banks' Credit Rates	158
Table G2:	Deposit Money Banks' Deposit Rates	159
Table G3:	Deposit Money Banks' Trade with Foreign Exchange	160

H. INTERNATIONAL ECONOMIC RELATIONS*

Table H1:	Balance of Payments - Summary	161
Table H2:	Balance of Payments - Goods and Services	162
Table H3:	Balance of Payments - Income and Current Transfers	163
Table H4:	Balance of Payments - Other Investments	164
Table H5:	International Reserves and Banks' Foreign Exchange Reserves	165
Table H6:	Midpoint Exchange Rates of Croatian National Bank (period average)	166
Table H7:	Midpoint Exchange Rates of Croatian National Bank (end of period)	167
Table H8:	External Debt	168
Table H9:	Structure of Foreign Debt and Repayment Projection	169

I. GOVERNMENT FINANCE

Table I1:	Consolidated Central Government	170
Table I2:	Budgetary Central Government Operations	171

J. NONFINANCIAL STATISTICS

Table J1:	Retail Prices, Costs of Living and Manufacturing Producers' Prices Indices	172
Table J2:	Average Monthly Net Wages	173

NOTES ON METHODOLOGY	174
-----------------------------	------------

* Data on Balance of Payments of the Republic of Croatia are under review. Tables H1-H4 show preliminary data representing results of the first phase of the revision. Final data for 1998 will be released at the end of the second phase of the revision.

Table A1: Monetary and Credit Aggregates
End of period, millions of kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1993	December	2,248.9	3,133.9	3,758.7	10,060.0	12,022.5	20,287.9	-	-	-	-	-	-
1994	December	4,714.2	6,639.6	6,988.4	17,480.7	16,345.0	27,313.3	11.73	2.12	3.71	1.10	10.51	2.14
1995	December	6,744.1	8,274.8	8,497.4	24,536.9	21,511.6	32,478.1	2.97	0.93	1.54	3.40	0.99	1.85
1996	December	8,770.4	11,409.4	11,489.5	36,595.6	24,885.7	33,488.6	11.35	7.73	7.61	4.84	-5.46	-11.73
1997	September	9,713.4	13,266.7	13,327.5	48,973.9	29,289.1	43,452.0	-1.28	-3.78	-3.95	1.11	2.97	1.09
	October	9,552.1	13,272.8	13,321.7	49,222.5	30,708.3	44,400.1	-1.66	0.05	-0.04	0.51	4.85	2.18
	November	9,592.0	13,271.9	13,325.0	49,305.4	31,915.8	46,006.8	0.42	-0.01	0.03	0.17	3.93	3.62
	December	10,346.1	13,795.2	13,841.8	50,342.7	33,488.3	48,264.2	7.86	3.94	3.88	2.10	4.93	4.91
1998	January	9,947.6	12,768.9	12,821.4	50,593.8	35,086.9	48,980.3	-3.85	-7.44	-7.37	0.50	4.77	1.48
	February	9,465.6	12,438.9	12,451.8	50,769.8	35,667.4	50,420.6	-4.85	-2.58	-2.88	0.35	1.65	2.94
	March	9,520.8	12,835.7	12,831.8	51,656.4	37,087.3	52,019.3	0.58	3.19	3.05	1.75	3.98	3.17
	April	9,982.0	12,749.9	12,781.1	51,875.2	37,689.0	53,067.6	4.84	-0.67	-0.39	0.42	1.62	2.02
	May	9,800.9	12,974.3	13,009.1	52,252.0	37,584.5	54,077.8	-1.81	1.76	1.78	0.73	-0.28	1.90
	June	9,742.1	13,367.6	13,363.7	53,273.6	38,441.4	55,079.8	-0.60	3.03	2.73	1.96	2.28	1.85
	July	10,239.0	14,027.7	14,011.5	54,718.9	39,724.1	55,777.7	5.10	4.94	4.85	2.71	3.34	1.27
	August	10,611.4	14,785.8	14,779.0	56,545.6	39,669.1	55,880.5	3.64	5.40	5.48	3.34	-0.14	0.18
	September	10,373.8	13,929.0	14,106.0	56,222.7	41,021.5	57,049.0	-2.24	-5.79	-4.55	-0.57	3.41	2.09
	October	9,616.5	12,929.8	12,924.8	55,473.3	42,353.9	57,821.4	-7.30	-7.17	-8.37	-1.33	3.25	1.35
	November	9,282.5	12,729.4	12,762.2	55,155.5	42,297.2	58,824.5	-3.47	-1.55	-1.26	-0.57	-0.13	1.73
	December	9,954.2	13,595.0	13,600.4	56,558.7	43,899.0	58,959.7	7.24	6.80	6.57	2.54	3.79	0.23
1999	January	9,547.8	12,712.1	12,736.1	56,371.0	45,054.4	59,583.9	-4.08	-6.49	-6.35	-0.33	2.63	1.06
	February	9,308.3	12,087.4	12,074.5	57,036.9	46,282.9	58,622.6	-2.51	-4.91	-5.19	1.18	2.73	-1.61
	March	8,966.1	12,036.4	12,028.8	55,843.2	45,275.4	59,204.2	-3.68	-0.42	-0.38	-2.09	-2.18	0.99

Table B1: Monetary Survey
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
ASSETS												
1. Foreign assets (net)	-1,962.5	1,135.8	3,025.3	11,709.9	16,854.4	14,569.0	14,832.1	15,201.2	12,659.7	11,316.7	10,754.0	10,567.8
2. Domestic credit	39,357.0	42,937.6	47,633.6	48,121.6	55,596.0	58,248.6	61,477.2	63,567.9	66,090.6	67,696.6	68,752.3	68,265.7
2.1. Claims on central government and funds (net)	19,069.1	15,624.3	15,155.5	14,633.0	7,331.8	6,229.3	6,397.4	6,518.9	7,130.9	8,112.7	10,129.7	9,061.4
2.2. Claims on other domestic sectors	20,262.0	27,221.6	32,346.6	33,311.1	47,950.5	51,700.8	54,731.3	56,586.1	58,592.1	59,198.3	58,238.0	58,831.3
2.3. Claims on other banking institutions	10.2	30.0	30.8	38.4	72.9	77.5	58.1	171.3	180.5	191.7	182.9	185.7
2.4. Claims on other financial institutions	15.7	61.8	100.6	139.1	240.9	241.0	290.4	291.6	187.1	193.8	201.7	187.2
Total (1+2)	37,394.5	44,073.4	50,658.9	59,831.5	72,450.4	72,817.6	76,309.4	78,769.2	78,750.3	79,013.2	79,506.3	78,833.5
LIABILITIES												
1. Money	3,133.9	6,639.6	8,274.8	11,409.4	13,795.2	12,835.7	13,367.6	13,929.0	13,595.0	12,712.1	12,087.4	12,036.4
2. Savings and time deposits	1,465.6	1,866.9	2,037.9	3,254.7	5,350.8	5,581.3	5,241.4	5,620.6	5,389.1	5,388.9	5,353.7	5,075.3
3. Foreign currency deposits	5,412.3	8,775.3	14,099.4	21,802.0	31,059.6	33,113.4	34,552.5	36,552.7	37,433.3	38,129.8	39,468.1	38,608.0
4. Bonds and money market instruments	48.3	199.0	124.8	129.5	137.0	125.9	112.1	120.3	141.4	140.2	127.7	123.5
5. Restricted and blocked deposits	14,262.9	12,122.3	10,711.0	8,301.0	5,950.5	5,189.7	5,067.3	4,536.7	4,313.3	4,220.2	4,254.7	4,596.1
o/w: Households' blocked f/c deposits	13,857.4	11,470.6	9,812.5	7,168.2	4,571.8	4,156.2	3,949.7	3,444.3	3,417.5	3,180.8	3,226.5	3,182.3
6. Other items (net)	13,071.5	14,470.4	15,411.0	14,935.0	16,157.3	15,971.6	17,968.5	18,009.8	17,878.3	18,422.0	18,214.7	18,394.2
Total (1+2+3+4+5+6)	37,394.5	44,073.4	50,658.9	59,831.5	72,450.4	72,817.6	76,309.4	78,769.2	78,750.3	79,013.2	79,506.3	78,833.5

Table B2: Number of Reporting Deposit Money Banks and Savings Banks and their Classification by Size

Year	Month	Total number of reporting DMBs	Reporting DMBs graded according to their total assets						Total number of reporting savings banks	Savings banks graded according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Less than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
1993	December	43	16	12	7	4	2	2	0	0	0	0
1994	December	50	13	21	6	6	2	2	33	22	9	2
1995	December	53	15	20	7	7	2	2	21	7	13	1
1996	December	57	10	26	6	9	4	2	22	10	11	1
1997	September	60	6	28	7	9	8	2	30	11	17	2
	October	60	8	26	7	9	8	2	30	12	15	3
	November	60	5	28	8	9	8	2	31	11	17	3
	December	60	4	28	9	8	9	2	33	12	18	3
1998	January	60	4	29	8	8	9	2	33	11	19	3
	February	60	4	28	8	9	9	2	33	8	22	3
	March	60	4	27	8	10	9	2	33	7	22	4
	April	60	4	27	8	11	8	2	33	9	21	3
	May	60	4	26	9	11	8	2	33	8	21	4
	June	60	4	26	9	11	8	2	33	8	21	4
	July	60	4	27	8	11	8	2	33	8	21	4
	August	60	4	25	10	11	8	2	34	8	22	4
	September	60	4	25	9	12	8	2	34	8	22	4
	October	60	4	25	8	12	9	2	35	6	25	4
	November	60	4	25	8	11	10	2	35	6	25	4
	December	60	3	26	8	11	10	2	36	4	28	4
1999	January	60	4	24	9	12	9	2	36	4	28	4
	February	60	4	24	9	11	10	2	36	4	28	4
	March	60	4	24	9	12	9	2	36	5	27	4

Table C1: Monetary Authorities Accounts (Assets)
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
ASSETS												
1. Foreign assets	4,043.5	7,908.3	10,075.1	12,818.5	16,004.9	15,952.9	16,829.5	17,016.1	17,591.5	16,916.1	16,462.9	17,375.2
1.1. Gold	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Holdings of SDRs	24.4	25.4	743.4	695.5	927.0	914.4	901.5	1,408.5	1,444.4	1,455.7	1,515.9	1,551.3
1.3. Foreign cash in vaults	608.4	87.9	383.8	115.6	313.5	142.9	277.4	332.1	338.2	344.8	357.5	1,025.7
1.4. Demand deposits with foreign banks	7.3	1.4	12.0	50.3	197.1	2.5	28.4	1.7	3.8	3.1	20.5	93.0
1.5. Time deposits with foreign banks	3,403.5	7,793.6	8,381.3	11,009.8	12,169.5	13,190.6	12,985.6	11,630.0	11,696.6	10,531.1	9,983.2	11,043.3
1.6. Securities in f/c	-	-	554.6	947.3	2,396.5	1,701.1	2,635.2	3,642.4	4,107.2	4,580.1	4,584.5	3,660.6
1.7. Nonconvertible foreign exchange	0.0	0.0	0.0	0.0	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
2. Claims on central government and funds	535.1	250.6	390.1	218.8	-	-	-	617.1	-	1,583.7	1,760.9	1,270.0
2.1. Claims in kuna	383.6	180.1	353.1	206.4	-	-	-	617.1	-	1,583.7	1,760.9	1,270.0
Bridging loans	-	-	-	-	-	-	-	617.1	-	1,583.7	1,631.6	1,270.0
Loans under separate decrees	376.7	180.1	353.1	206.4	-	-	-	-	-	-	-	-
Overdue claims	7.0	-	0.1	-	-	-	-	-	-	0.0	129.3	-
2.2. Claims in f/c	151.4	70.5	37.0	12.4	-	-	-	-	-	-	-	-
3. Claims on other domestic sectors	0.3	0.7	0.9	1.1	24.4	0.3	2.3	1.7	1.0	0.8	0.6	0.4
4. Claims on DMBs	191.6	223.8	220.2	213.9	33.5	314.9	487.1	660.8	1,043.7	793.5	1,714.4	1,628.3
4.1. Credits to DMBs	181.6	221.7	122.8	211.4	30.1	310.2	480.0	652.4	833.5	582.9	1,503.1	1,417.0
Refinancing of DMBs	139.8	-	-	-	-	-	-	-	-	-	-	-
Short-term credits against securities portfolio	-	-	25.8	-	-	-	-	-	-	-	-	-
Lombard credits	5.5	24.0	96.6	211.3	30.0	28.9	145.1	315.3	251.9	18.0	498.0	206.0
Short-term liquidity credits	-	-	-	-	-	-	-	-	-	-	870.0	1,035.3
Other credits	36.3	0.4	0.4	0.1	0.1	281.3	135.3	337.1	122.4	118.3	135.1	175.7
CNB bills under repurchase agreement	-	197.3	-	-	-	-	199.6	-	459.2	446.5	-	-
4.2. CNB deposits with DMBs	0.5	1.2	1.3	1.4	2.5	3.8	6.1	7.5	9.3	9.7	10.4	10.6
4.3. Overdue claims	9.5	0.9	96.1	1.0	0.9	1.0	0.9	1.0	200.9	200.9	200.9	200.7
5. Claims on other banking institutions	-	-	-	-	-	-	-	5.9	10.1	10.0	9.4	9.7
Total (1+2+3+4+5)	4,770.5	8,383.4	10,686.3	13,252.3	16,062.8	16,268.1	17,318.8	18,301.5	18,646.2	19,304.1	19,948.1	20,283.6

Table C1: Monetary Authorities Accounts (Liabilities)
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
LIABILITIES												
1. Reserve money	2,248.9	4,714.2	6,744.1	8,770.3	10,346.1	9,520.8	9,742.1	10,373.8	9,954.2	9,547.8	9,308.3	8,966.1
1.1. Currency outside banks	1,367.0	2,658.2	3,365.1	4,366.2	5,319.6	4,994.4	5,258.0	5,590.4	5,730.1	5,418.3	5,278.4	5,041.1
1.2. DMBs' cash in vaults	52.2	133.8	131.5	147.4	204.9	167.3	194.6	211.6	240.2	207.5	202.3	196.2
1.3. DMBs' deposits	821.5	1,901.3	3,199.0	4,210.9	4,750.8	4,268.6	4,211.1	4,474.9	3,901.9	3,844.8	3,753.4	3,664.6
Giro accounts	54.9	116.1	181.2	899.4	849.8	272.6	565.7	506.7	437.6	333.6	345.0	359.9
Statutory reserves	766.6	1,785.2	2,201.8	3,311.5	3,901.0	3,996.0	3,645.4	3,968.2	3,464.3	3,511.2	3,408.4	3,304.7
CNB bills on obligatory basis	-	-	816.0	-	-	-	-	-	-	-	-	-
1.4. Deposits of other banking institutions	0.0	5.9	45.6	45.9	70.8	89.9	68.6	94.7	80.8	76.7	73.5	63.3
1.5. Deposits of other domestic sectors	8.2	15.0	2.8	0.1	0.1	0.7	9.8	2.1	1.3	0.4	0.7	0.8
2. Restricted and blocked deposits	1.4	40.3	212.2	243.2	101.1	108.6	118.1	560.9	1,787.6	2,273.9	2,804.3	3,523.2
2.1. Statutory reserves in f/c	-	-	-	-	-	-	-	435.1	1,668.4	2,138.4	2,673.2	3,381.7
2.2. Restricted deposits	1.4	40.3	54.1	78.7	101.1	108.6	118.1	125.8	119.1	135.4	131.0	141.5
2.3. Escrow deposits	-	-	158.1	164.4	-	-	-	-	-	-	-	-
3. Foreign liabilities	151.7	716.1	1,175.1	1,160.0	1,470.7	1,486.3	1,491.9	1,422.6	1,464.3	1,477.6	1,544.4	1,588.2
3.1. Use of IMF credit	151.3	715.3	1,173.9	1,158.2	1,467.7	1,482.0	1,487.6	1,418.5	1,460.3	1,471.9	1,538.3	1,582.0
3.2. Liabilities to international organizations	0.3	0.8	1.2	1.8	3.0	4.2	4.3	4.0	4.1	5.7	6.1	6.3
4. Central government deposits and funds deposits	0.0	793.8	395.5	557.6	1,032.7	1,618.2	1,339.0	1,024.5	434.8	750.6	644.7	530.5
4.1. Demand deposits	0.0	793.8	395.5	424.6	805.7	1,340.5	1,170.5	955.1	390.2	706.0	610.0	495.8
Central government demand deposits	-	725.5	338.6	342.0	625.7	1,130.4	937.7	842.9	291.0	615.4	554.6	424.7
Central government funds demand deposits	0.0	68.3	56.9	82.6	180.1	210.1	232.8	112.2	99.3	90.6	55.5	71.1
4.2. Central government f/c deposits	-	-	-	-	147.6	-	-	-	-	-	-	-
4.3. CNB bills	-	-	-	133.0	79.4	277.7	168.5	69.4	44.6	44.6	34.7	34.7
5. CNB bills	21.2	375.1	168.3	665.7	722.0	936.5	1,708.7	2,303.4	2,242.9	2,227.4	2,104.7	1,906.4
5.1. CNB bills in kuna	21.2	375.1	168.3	665.7	722.0	936.5	831.4	1,005.8	830.7	778.4	623.2	419.7
5.2. CNB bills in f/c	-	-	-	-	-	-	877.3	1,297.5	1,412.2	1,449.0	1,481.5	1,486.6
6. Capital accounts	2,366.0	2,066.0	2,019.4	1,900.1	2,361.8	2,608.8	2,952.2	2,693.4	2,898.2	3,142.9	3,648.5	3,796.0
7. Other items (net)	-18.7	-322.1	-28.3	-44.6	28.5	-11.2	-33.1	-77.0	-135.8	-116.0	-106.7	-26.7
Total (1+2+3+4+5+6+7)	4,770.5	8,383.4	10,686.3	13,252.3	16,062.8	16,268.1	17,318.8	18,301.5	18,646.2	19,304.1	19,948.1	20,283.6

Table D1: Deposit Money Banks' Accounts
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
ASSETS												
1. Reserves	860.9	2,033.5	3,302.1	4,359.2	4,963.3	4,449.9	4,420.5	5,132.4	5,819.3	6,189.6	6,644.7	7,240.1
1.1. In kuna	860.9	2,033.5	3,302.1	4,359.2	4,963.3	4,449.9	4,420.5	4,697.3	4,150.8	4,051.2	3,971.4	3,858.5
1.2. In f/c	-	-	-	-	-	-	-	435.1	1,668.4	2,138.4	2,673.2	3,381.6
2. Foreign assets	6,212.1	7,078.4	9,273.9	12,518.0	16,126.7	16,371.3	15,410.6	15,511.2	12,701.9	12,252.5	12,564.4	11,679.7
o/w: Claims on former Yugoslavia	969.2	385.9	425.8	247.9	226.2	226.2	231.9	229.4	233.4	238.0	238.4	241.4
3. Claims on central government and funds	19,971.9	17,837.0	17,186.5	16,692.7	15,238.7	14,816.8	15,010.8	14,492.2	14,864.0	14,886.9	16,890.1	16,568.2
3.1. Bonds arising from blocked f/c deposits	14,836.8	11,437.3	10,078.2	8,291.1	6,714.3	6,367.2	6,237.0	5,642.3	5,802.1	5,393.4	5,521.9	5,562.2
3.2. Big bonds	3,635.5	4,971.6	5,060.9	2,438.5	2,291.9	2,182.6	2,186.9	2,125.5	2,103.1	2,101.0	2,108.2	2,088.8
3.3. Other claims	1,499.6	1,428.1	2,047.4	5,963.1	6,232.5	6,267.0	6,586.9	6,724.4	6,958.7	7,392.6	9,260.0	8,917.1
4. Claims on other domestic sectors	20,261.7	27,220.8	32,345.8	33,310.0	47,926.1	51,700.5	54,729.1	56,584.4	58,591.1	59,197.5	58,237.4	58,830.9
4.1. Claims on local government and funds	11.4	112.9	147.1	145.4	308.8	383.0	565.3	570.5	654.0	690.0	732.5	731.9
4.2. Claims on enterprises	18,348.2	23,733.5	27,686.4	26,814.7	35,282.8	37,634.9	39,139.0	39,806.4	40,889.4	41,414.6	40,035.3	40,396.9
4.3. Claims on households	1,902.1	3,374.4	4,512.3	6,349.9	12,334.5	13,682.5	15,024.7	16,207.6	17,047.8	17,093.0	17,469.5	17,702.2
5. Claims on other banking institutions	10.2	30.0	30.8	38.4	72.9	77.5	58.1	165.4	170.5	181.7	173.5	176.1
6. Claims on other financial institutions	15.7	61.8	100.6	139.1	240.9	241.0	290.4	291.6	187.1	193.8	201.7	187.2
Total (1+2+3+4+5+6)	47,332.4	54,261.4	62,239.8	67,057.4	84,568.5	87,656.9	89,919.6	92,177.3	92,333.8	92,902.1	94,711.7	94,682.1
LIABILITIES												
1. Demand deposits	1,758.7	3,960.5	4,861.2	6,997.2	8,404.8	7,750.8	8,031.2	8,241.7	7,782.8	7,216.6	6,734.8	6,931.1
2. Savings and time deposits	1,465.6	1,866.9	2,037.9	3,254.7	5,350.8	5,581.3	5,241.4	5,620.6	5,389.1	5,388.9	5,353.7	5,075.3
3. Foreign currency deposits	5,412.3	8,775.3	14,099.4	21,802.0	31,059.6	33,113.4	34,552.5	36,552.7	37,433.3	38,129.8	39,468.1	38,608.0
4. Bonds and money market instruments	48.3	199.0	124.8	129.5	137.0	125.9	112.1	120.3	141.4	140.2	127.7	123.5
5. Foreign liabilities	12,066.4	13,134.8	15,148.7	12,466.6	13,806.5	16,268.8	15,916.1	15,903.5	16,169.4	16,374.3	16,728.9	16,898.8
o/w: Liabilities to former Yugoslavia	8,177.1	6,777.5	6,713.6	2,801.3	212.4	210.3	184.7	181.7	149.9	143.1	147.6	149.2
6. Central government and funds' deposits	1,437.8	1,669.4	2,025.6	1,720.9	6,874.2	6,969.2	7,274.4	7,565.9	7,298.3	7,607.4	7,876.5	8,246.3
7. Credit from central bank	275.2	224.0	182.6	267.7	33.7	314.2	444.3	660.0	1,043.0	793.0	1,713.8	1,628.0
8. Restricted and blocked deposits	14,261.5	12,081.5	10,656.0	8,219.2	5,849.4	5,081.1	4,949.2	4,410.9	4,194.1	4,084.8	4,123.7	4,454.6
o/w: Households' blocked f/c deposits	13,857.4	11,470.6	9,812.5	7,168.2	4,571.8	4,156.2	3,949.7	3,444.3	3,417.5	3,180.8	3,226.5	3,182.3
9. Capital accounts	11,203.3	13,721.8	15,116.2	15,133.6	16,629.9	17,210.3	18,441.4	18,726.8	19,302.1	20,436.9	18,244.8	18,114.8
10. Other items (net)	-596.6	-1,371.7	-2,012.6	-2,934.0	-3,577.5	-4,758.1	-5,043.1	-5,625.2	-6,419.6	-7,269.9	-5,660.3	-5,398.2
Total (1+2+3+4+5+6+7+8+9+10)	47,332.4	54,261.4	62,239.8	67,057.4	84,568.5	87,656.9	89,919.6	92,177.3	92,333.8	92,902.1	94,711.7	94,682.1

Table D2: Deposit Money Banks' Foreign Assets
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Foreign assets in f/c	5,223.3	6,659.8	8,832.8	12,249.5	15,885.8	16,122.4	15,157.0	15,247.1	12,453.2	11,999.2	12,310.6	11,423.0
1.1. Claims on foreign banks	4,714.1	5,581.1	7,960.5	11,206.8	15,219.8	15,458.0	14,414.1	14,528.6	11,767.2	11,232.7	11,642.6	10,876.1
Foreign currencies	437.0	464.4	569.3	631.9	793.8	607.4	787.5	597.9	526.0	427.7	486.4	692.1
Demand deposits and f/c savings deposits	2,357.0	2,448.7	3,286.2	5,794.5	6,830.1	7,415.1	6,363.0	6,583.0	5,966.5	5,445.1	5,555.7	4,842.7
Pledged deposits	25.2	45.8	27.9	39.6	48.1	47.8	448.3	361.6	200.1	200.5	202.2	200.8
Letters of credit	161.2	145.5	97.5	66.1	44.0	33.3	37.8	50.8	45.5	45.1	45.4	48.7
Time and notice deposits	1,544.7	2,301.3	3,803.8	4,482.7	7,008.9	6,905.2	6,354.4	6,545.4	4,637.1	4,721.3	4,978.6	4,732.5
Securities	51.4	60.3	76.1	72.7	88.4	39.8	73.6	57.1	51.0	50.3	50.0	49.9
Loans and advances	49.2	22.6	19.2	26.6	284.2	292.9	224.3	206.4	213.7	216.5	221.7	207.5
Arrears	-	-	-	15.2	-	-	-	-	-	-	-	-
Shares and participations	88.5	92.4	80.4	77.4	122.2	116.4	125.2	126.3	127.3	126.2	102.6	101.8
1.2. Claims on foreign nonbanks	509.2	1,078.7	872.3	1,042.7	666.0	664.4	742.8	718.5	686.0	766.4	668.0	546.9
Claims on foreign governments	-	-	-	-	-	-	-	-	-	59.9	78.6	78.6
Claims on other nonresidents	552.9	785.6	572.3	750.5	494.4	485.4	558.8	532.6	483.2	468.6	365.8	358.2
Securities	531.2	514.4	536.2	492.5	17.7	18.2	4.0	3.7	3.7	4.1	4.3	4.3
Loans and advances	21.7	271.2	36.1	258.0	476.7	467.2	554.8	528.9	479.5	464.5	361.5	353.8
Arrears	-47.0	-	7.2	10.9	9.9	9.9	10.8	10.8	24.1	60.8	62.8	67.7
Shares and participations	3.4	293.0	292.8	281.3	161.7	169.1	173.2	175.0	178.7	177.2	160.8	42.4
2. Foreign assets in kuna	19.6	32.7	15.3	20.6	14.7	22.6	21.8	34.8	15.3	15.3	15.4	15.3
2.1. Claims on foreign banks	-	-	-	3.3	1.3	1.3	1.3	16.3	-	0.0	-	-
2.2. Claims on foreign nonbanks	19.6	32.7	15.3	17.3	13.4	21.3	20.5	18.4	15.3	15.3	15.4	15.3
Loans and advances	16.5	28.5	15.3	17.3	13.4	21.3	20.5	18.4	15.3	15.3	15.4	15.3
Arrears	3.1	4.1	-	0.0	-	-	-	-	-	-	-	-
3. Claims on former Yugoslavia	969.2	385.9	425.8	247.9	226.2	226.2	231.9	229.4	233.4	238.0	238.4	241.4
3.1. In f/c	968.4	383.0	423.8	244.3	223.0	223.3	228.3	225.8	229.0	233.6	234.0	236.8
Claims on foreign banks	864.7	194.7	198.3	159.3	146.8	145.5	148.9	149.5	152.3	154.8	158.9	159.9
Claims on foreign nonbanks	103.7	188.3	225.5	85.0	76.2	77.8	79.5	76.3	76.7	78.8	75.1	76.9
3.2. In kuna	0.8	2.9	2.1	3.6	3.2	2.9	3.6	3.7	4.4	4.4	4.4	4.6
Total (1+2+3)	6,212.1	7,078.4	9,273.9	12,518.0	16,126.7	16,371.3	15,410.6	15,511.2	12,701.9	12,252.5	12,564.4	11,679.7

Table D3: Deposit Money Banks' Claims on Central Government and Funds
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Bonds (c/part to f/c savings deposits)	14,836.8	11,437.3	10,078.2	8,291.1	6,714.3	6,367.2	6,237.0	5,642.3	5,802.1	5,393.4	5,521.9	5,562.2
2. Big bonds	3,635.5	4,971.6	5,060.9	2,438.5	2,291.9	2,182.6	2,186.9	2,125.5	2,103.1	2,101.0	2,108.2	2,088.8
3. Other claims	1,499.6	1,428.1	2,047.4	5,963.1	6,232.5	6,267.0	6,586.9	6,724.4	6,958.7	7,392.6	9,260.0	8,917.1
3.1. In kuna	532.4	176.3	181.1	4,121.2	4,261.8	4,511.7	4,657.9	4,936.1	5,066.1	5,218.4	7,196.4	7,071.7
3.1.1. Claims on central government	407.4	147.4	166.3	4,100.2	4,191.8	4,312.7	4,333.2	4,459.4	4,614.1	4,853.3	6,842.0	6,740.2
Securities	133.1	144.0	145.6	4,071.6	4,171.7	4,130.6	4,146.9	4,271.3	4,426.9	4,664.7	6,652.6	6,549.9
Loans and advances	10.8	2.5	20.2	11.5	4.6	178.1	181.4	183.4	181.9	183.8	188.1	188.7
Arrears	263.4	0.9	0.4	17.1	15.5	4.0	4.9	4.7	5.3	4.8	1.2	1.6
3.1.2. Claims on central government funds	125.0	28.9	14.9	21.0	70.0	199.1	324.7	476.7	452.0	365.2	354.4	331.5
Securities	-	-	-	21.0	-	-	-	-	-	-	-	-
Loans and advances	124.9	28.7	14.9	0.0	70.0	198.4	323.7	475.9	451.3	364.7	354.4	330.9
Arrears	0.1	0.2	0.0	0.0	0.0	0.6	1.0	0.9	0.7	0.4	0.0	0.5
3.2. In f/c	967.2	1,251.9	1,866.3	1,841.9	1,970.7	1,755.3	1,929.0	1,788.2	1,892.7	2,174.2	2,063.6	1,845.4
3.2.1. Claims on central government	769.3	1,016.6	1,771.2	1,827.8	1,966.6	1,741.8	1,904.2	1,773.7	1,879.5	2,122.5	2,050.2	1,828.1
Bonds	55.1	271.3	704.7	1,396.2	1,172.5	1,048.7	1,139.6	1,148.8	1,182.2	1,483.6	1,310.7	1,145.6
Loans and advances	598.1	529.9	678.8	187.9	678.6	680.4	652.4	610.8	624.5	631.9	732.4	669.4
Postponed interest arrears	-	84.2	150.9	47.5	-	-	-	-	-	-	-	-
Arrears	116.1	131.2	236.8	196.2	115.5	12.7	112.2	14.1	72.8	7.0	7.1	13.2
3.2.2. Claims on central government funds	197.9	235.2	95.1	14.1	4.0	13.5	24.8	14.6	13.2	51.7	13.5	17.3
Securities	-	-	-	11.8	2.8	12.3	24.7	6.4	0.2	38.6	0.0	3.8
Loans and advances	197.9	235.2	95.1	2.3	1.3	1.3	0.1	8.2	13.0	13.1	13.4	13.5
Postponed interest arrears	-	-	-	0.0	-	-	-	-	-	-	-	-
Arrears	-	-	-	0.0	-	-	-	-	-	-	-	-
Total (1+2+3)	19,971.9	17,837.0	17,186.5	16,692.7	15,238.7	14,816.8	15,010.8	14,492.2	14,864.0	14,886.9	16,890.1	16,568.2

Table D4: Deposit Money Banks' Claims on Other Domestic Sectors
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Claims in kuna	10,122.6	17,126.9	21,296.8	25,222.8	39,483.4	42,830.4	45,783.3	47,847.7	49,504.2	49,854.6	49,120.6	49,551.0
1.1. Bills of exchange	1.0	7.8	53.0	19.1	80.4	156.5	150.4	120.4	78.1	107.4	154.2	220.8
1.2. Commercial bills	1,138.7	149.3	23.9	22.9	-	-	-	-	23.6	23.0	21.8	19.2
1.3. Bonds	16.2	8.0	8.0	2.1	1.7	1.4	1.4	1.4	0.7	0.7	0.8	0.8
1.4. Other short-term securities	-	-	-	-	1.1	1.2	0.0	-	-	-	-	-
1.5. Loans and advances	6,618.6	11,536.7	15,749.4	21,203.8	35,034.5	37,859.6	40,686.4	42,708.6	44,339.0	44,516.9	44,352.4	44,475.9
1.6. Arrears	-130.4	161.8	235.6	203.9	282.1	315.2	420.9	521.4	625.0	604.2	652.1	789.0
1.7. Shares and participations	2,478.5	5,263.2	5,227.0	3,770.9	4,083.7	4,496.4	4,524.2	4,495.9	4,437.7	4,602.4	3,939.3	4,045.3
2. Claims in f/c	10,139.2	10,094.0	11,048.9	8,087.3	8,442.7	8,870.1	8,945.8	8,736.8	9,087.0	9,342.9	9,116.7	9,279.9
2.1. Securities	0.5	3.6	3.6	2.9	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
2.2. Loans and advances	10,240.5	9,071.8	9,801.7	7,088.0	8,246.9	8,612.0	8,665.0	8,447.6	8,512.6	8,724.3	8,723.6	8,799.1
2.3. Postponed interest arrears	-	933.2	1,076.1	807.4	20.3	16.1	14.7	10.9	12.4	15.7	16.1	17.0
2.4. Arrears	-101.8	85.3	167.5	189.0	174.9	241.4	265.5	277.6	561.4	602.2	376.3	463.1
Total (1+2)	20,261.7	27,220.8	32,345.8	33,310.0	47,926.1	51,700.5	54,729.1	56,584.4	58,591.1	59,197.5	58,237.4	58,830.9

Table D5: Distribution of Deposit Money Banks' Loans by Domestic Institutional Sectors
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
LOANS IN KUNA												
1. Loans to central government and funds	135.7	31.2	35.1	11.5	74.6	376.5	505.1	659.2	633.2	548.5	542.5	519.7
1.1. Loans to central government	10.8	2.5	20.2	11.5	4.6	178.1	181.4	183.4	181.9	183.8	188.1	188.7
1.2. Loans to central government funds	124.9	28.7	14.9	0.0	70.0	198.4	323.7	475.9	451.3	364.7	354.4	330.9
2. Loans to local government and funds	11.4	93.5	122.5	125.1	293.2	367.6	552.4	559.0	623.4	604.2	644.6	642.0
2.1. Loans to other republic funds	0.9	0.0	-	-	-	-	-	-	-	-	-	-
2.2. Loans to local government and funds	10.5	93.5	122.5	125.1	293.2	367.6	552.4	559.0	623.4	604.2	644.6	642.0
3. Loans to enterprises	4,707.8	8,096.2	11,136.6	14,752.1	22,481.9	23,890.2	25,203.4	26,027.8	26,776.0	26,930.0	26,350.1	26,253.1
4. Loans to households	1,899.4	3,347.1	4,490.3	6,326.6	12,259.4	13,601.8	14,930.5	16,121.8	16,939.5	16,982.8	17,357.7	17,580.8
5. Loans to other banking institutions	10.0	29.8	28.5	30.5	68.1	72.7	53.4	49.4	45.1	55.6	47.4	50.0
6. Loans to other financial institutions	4.1	34.8	61.1	88.4	161.8	155.9	206.7	123.4	109.0	115.8	118.1	102.9
A. Total (1+2+3+4+5+6)	6,768.4	11,632.6	15,874.2	21,334.3	35,339.1	38,464.8	41,451.5	43,540.6	45,126.3	45,236.9	45,060.5	45,148.5
LOANS IN F/C												
1. Loans to central government and funds	796.0	765.2	773.9	190.2	679.9	681.6	652.5	618.9	637.4	645.0	745.8	682.8
1.1. Loans to central government	598.1	529.9	678.8	187.9	678.6	680.4	652.4	610.8	624.5	631.9	732.4	669.4
1.2. Loans to central government funds	197.9	235.2	95.1	2.3	1.3	1.3	0.1	8.2	13.0	13.1	13.4	13.5
2. Loans to local government and funds	-	19.4	21.4	18.9	13.1	13.2	10.7	10.7	30.5	85.8	87.9	88.2
2.1. Loans to other republic funds	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Loans to local government and funds	-	19.4	21.4	18.9	13.1	13.2	10.7	10.7	30.5	85.8	87.9	88.2
3. Loans to enterprises	10,239.6	9,049.3	9,770.0	7,057.9	8,188.5	8,553.5	8,607.8	8,390.1	8,437.3	8,593.3	8,590.8	8,662.6
4. Loans to households	0.9	3.1	10.3	11.2	45.3	45.3	46.5	46.7	44.7	45.2	44.9	48.3
5. Loans to other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-
6. Loans to other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
B. Total (1+2+3+4+5+6)	11,036.4	9,837.0	10,575.6	7,278.2	8,926.7	9,293.6	9,317.6	9,066.6	9,150.0	9,369.3	9,469.4	9,481.9
TOTAL (A+B)	17,804.9	21,469.6	26,449.7	28,612.5	44,265.9	47,758.4	50,769.0	52,607.1	54,276.4	54,606.2	54,529.9	54,630.4

Table D6: Demand Deposits with Deposit Money Banks
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Local governments and funds	142.5	512.8	495.3	683.8	484.2	423.9	703.2	651.0	514.3	441.3	404.1	439.2
1.1. Other republic funds	9.7	9.2	14.6	-	0.0	0.0	0.0	0.0	0.0	-	-	-
1.2. Local governments	132.9	503.6	480.6	683.8	484.2	423.9	703.2	651.0	514.3	441.3	404.1	439.2
2. Enterprises	1,264.7	2,678.2	3,161.9	4,489.1	5,692.8	4,952.5	4,975.8	4,993.5	4,794.2	4,216.3	3,845.6	4,127.9
3. Households	327.3	752.7	1,156.8	1,646.8	2,213.7	2,372.3	2,383.0	2,576.7	2,463.9	2,437.6	2,344.9	2,216.2
4. Other banking institutions	2.8	0.1	0.1	0.7	0.8	0.6	0.4	0.3	0.3	0.2	0.1	0.3
5. Other financial institutions	42.6	47.5	79.6	208.2	203.8	197.3	166.9	216.3	190.0	185.7	164.8	166.3
6. Other transferable deposits	0.6	2.1	3.2	3.5	2.2	0.0	0.1	0.0	1.9	2.0	2.2	0.5
7. Less: Checks of other banks and checks in collection	-21.8	-32.7	-35.5	-35.0	-192.6	-195.8	-198.1	-196.1	-181.8	-66.4	-27.0	-19.2
Total (1+2+3+4+5+6+7)	1,758.7	3,960.5	4,861.2	6,997.2	8,404.8	7,750.8	8,031.2	8,241.7	7,782.8	7,216.6	6,734.8	6,931.1

Table D7: Time and Savings Deposits with Deposit Money Banks
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Savings deposits of households	215.2	389.7	494.6	717.3	1,108.7	1,125.7	1,032.6	1,138.5	1,102.1	1,131.1	1,097.7	1,034.7
2. Time and notice deposits	1,250.3	1,477.1	1,543.2	2,537.4	4,242.1	4,455.7	4,208.8	4,482.1	4,287.0	4,257.8	4,256.0	4,040.5
2.1. Local governments and funds	41.8	119.8	81.2	89.7	102.6	108.6	122.1	181.4	185.3	289.6	291.4	240.9
Other republic funds	5.6	39.7	5.0	1.0	0.0	0.0	0.0	20.0	25.0	25.0	25.0	45.0
Local governments	36.2	80.1	76.2	88.7	102.6	108.6	122.1	161.4	160.3	264.6	266.4	195.9
2.2. Enterprises	680.0	765.0	784.1	1,039.9	1,771.9	1,701.1	1,643.4	1,713.7	1,545.2	1,496.7	1,516.3	1,461.0
2.3. Households	408.1	425.4	475.1	1,007.6	1,731.8	1,975.2	1,774.5	1,839.1	1,738.5	1,731.1	1,663.5	1,552.5
2.4. Other banking institutions	4.1	3.3	5.1	1.5	2.2	2.4	0.3	1.2	5.4	7.3	5.5	5.6
2.5. Other financial institutions	116.3	163.6	197.7	398.6	633.6	668.3	668.4	746.8	812.5	733.2	779.3	780.5
Total (1+2)	1,465.6	1,866.9	2,037.9	3,254.7	5,350.8	5,581.3	5,241.4	5,620.6	5,389.1	5,388.9	5,353.7	5,075.3

Table D8: Foreign Currency Deposits with Deposit Money Banks
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Savings deposits	3,843.4	5,482.8	7,952.1	9,242.7	10,736.9	10,851.9	11,287.3	12,088.4	12,125.6	12,535.8	13,017.6	12,997.6
1.1. Local governments and funds	4.0	2.1	6.0	10.5	111.7	14.7	55.7	45.1	19.5	20.2	21.1	31.5
Other republic funds	2.9	0.8	0.0	0.0	0.0	0.0	-	0.0	0.1	0.1	12.7	2.0
Local governments	1.1	1.4	6.0	10.5	111.7	14.7	55.7	45.1	19.4	20.1	8.3	29.5
1.2. Enterprises	1,302.0	1,460.9	1,498.0	1,762.8	1,969.4	1,939.1	2,155.2	2,244.6	2,091.9	2,000.4	2,045.4	2,098.5
1.3. Households	2,524.3	3,978.2	6,407.3	7,407.8	8,585.8	8,831.2	9,004.0	9,723.0	9,944.9	10,429.4	10,857.2	10,754.1
1.4. Other banking institutions	-	-	0.0	0.0	3.8	8.4	8.1	8.6	8.6	9.9	10.5	11.3
1.5. Other financial institutions	3.6	29.3	28.3	49.5	52.9	49.4	54.7	57.9	52.5	66.4	76.3	95.4
1.6. Other demand deposits	9.4	12.3	12.5	12.1	13.1	9.0	9.6	9.1	8.1	9.6	7.1	6.7
2. Time deposits	1,568.9	3,292.5	6,147.3	12,559.2	20,322.7	22,261.5	23,265.2	24,464.3	25,307.7	25,594.0	26,450.5	25,610.4
2.1. Enterprises	224.6	547.2	743.7	1,160.1	1,457.2	1,388.5	1,354.8	1,344.7	1,579.4	1,554.5	1,686.6	1,609.8
2.2. Households	1,308.0	2,642.7	5,276.4	11,193.7	18,644.8	20,642.1	21,654.3	22,880.6	23,471.8	23,787.5	24,468.7	23,709.1
2.3. Other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-
2.4. Other financial institutions	36.3	102.6	127.2	205.5	220.8	230.9	256.1	239.0	256.5	252.1	295.2	291.5
Total (1+2)	5,412.3	8,775.3	14,099.4	21,802.0	31,059.6	33,113.4	34,552.5	36,552.7	37,433.3	38,129.8	39,468.1	38,608.0

Table D9: Bonds and Money Market Instruments
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Money market instruments (net)	3.3	1.5	0.2	0.9	7.0	7.5	1.0	1.0	0.9	0.1	-7.3	-2.3
2. Bonds (net)	12.8	47.8	42.9	55.6	19.1	18.0	27.8	27.6	24.1	24.2	22.1	22.8
3. Other domestic borrowing	32.2	149.7	81.7	73.0	111.0	100.3	83.3	91.7	116.5	116.0	112.9	103.0
3.1. Local governments and funds	0.8	14.8	9.9	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other republic funds	0.8	14.8	9.9	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-
3.2. Enterprises	3.9	5.6	3.9	4.0	10.3	11.7	12.0	11.5	9.2	8.8	9.0	9.2
3.3. Other banking institutions	1.3	13.4	6.7	6.6	24.7	14.2	9.3	21.0	61.2	62.9	61.8	60.4
3.4. Other financial institutions	26.3	115.8	61.2	55.1	75.9	74.3	61.9	59.2	46.1	44.3	42.1	33.4
Total (1+2+3)	48.3	199.0	124.8	129.5	137.0	125.9	112.1	120.3	141.4	140.2	127.7	123.5

Table D10: Deposit Money Banks' Foreign Liabilities
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Foreign liabilities in f/c	3,860.9	6,329.7	8,397.8	9,583.7	13,332.0	15,716.4	15,428.0	15,423.0	15,729.6	15,951.6	16,338.2	16,542.2
1.1. Liabilities to foreign banks	2,294.5	4,056.9	5,285.9	6,568.4	8,771.8	10,962.5	10,326.0	10,271.6	10,412.3	10,493.1	10,715.8	10,869.6
Current accounts	218.8	105.2	117.0	205.7	292.9	243.6	356.6	313.5	242.0	223.0	269.8	320.0
Time and notice deposits	298.1	371.4	1,152.8	979.6	2,365.5	3,069.7	1,225.7	676.1	411.5	457.5	407.9	439.8
Letters of credit	1.0	2.6	1.9	0.6	8.0	7.0	4.2	0.4	0.4	0.4	0.4	0.4
Loans and advances	1,776.5	2,527.2	2,740.9	3,932.6	6,105.3	7,642.1	8,739.3	9,281.4	9,758.5	9,812.3	10,037.7	10,109.4
Postponed interest arrears	-	1,050.6	1,273.2	1,449.9	0.1	0.1	0.1	0.1	-	-	-	-
1.2. Liabilities to foreign nonbanks	1,566.5	2,272.8	3,111.9	3,015.3	4,560.3	4,753.9	5,102.1	5,151.4	5,317.2	5,458.5	5,622.4	5,672.6
Savings and time deposits	450.5	608.9	1,204.2	1,496.8	2,056.3	2,239.8	2,562.5	2,708.5	2,888.6	3,003.2	3,113.3	3,111.2
Sight deposits	373.6	401.1	654.2	667.6	608.4	622.9	651.2	621.5	620.4	638.9	640.6	654.5
Time and notice deposits	76.9	207.8	549.9	829.2	1,447.8	1,616.9	1,911.2	2,087.0	2,268.2	2,364.4	2,472.7	2,456.8
Loans and advances	1,116.0	1,558.7	1,825.7	1,433.2	2,400.9	2,424.3	2,536.7	2,440.2	2,428.6	2,455.3	2,509.1	2,561.4
Postponed interest arrears	-	105.3	82.1	85.3	103.1	89.7	2.9	2.7	-	-	-	-
2. Foreign liabilities in kuna	28.4	27.6	37.2	81.5	262.1	342.1	303.4	298.8	289.9	279.6	243.1	207.4
2.1. Liabilities to foreign banks	1.0	4.8	7.5	30.0	187.1	218.3	180.6	167.2	156.3	164.7	128.1	93.6
Demand deposits	1.0	4.8	6.4	27.0	52.3	39.9	29.3	44.9	70.5	87.2	48.9	47.2
Time and notice deposits	-	-	1.1	3.0	128.4	149.4	124.7	122.2	85.8	77.5	79.2	46.5
Loans and advances	-	-	-	-	6.4	29.0	26.5	-	-	-	-	-
2.2. Liabilities to foreign nonbanks	27.4	22.8	29.7	51.5	75.0	123.8	122.8	131.6	133.7	114.8	115.0	113.8
Demand deposits	27.1	20.7	29.6	22.1	42.0	34.1	32.0	41.8	41.0	41.9	42.7	41.5
Time and notice deposits	0.2	2.2	0.1	29.4	33.1	89.7	90.8	89.9	92.7	73.0	72.3	72.3
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-
3. Liabilities to former Yugoslavia	8,177.1	6,777.5	6,713.6	2,801.3	212.4	210.3	184.7	181.7	149.9	143.1	147.6	149.2
3.1. In f/c	8,109.5	6,771.2	6,709.8	2,797.0	207.6	205.4	179.6	176.5	144.7	137.8	142.4	143.9
o/w: Loans from foreign banks	8,097.7	6,725.0	6,469.0	2,553.6	170.2	168.0	141.2	138.4	113.1	105.7	109.2	110.3
3.2. In kuna	67.5	6.3	3.8	4.3	4.8	4.8	5.1	5.2	5.2	5.2	5.3	5.3
Total (1+2+3)	12,066.4	13,134.8	15,148.7	12,466.6	13,806.5	16,268.8	15,916.1	15,903.5	16,169.4	16,374.3	16,728.9	16,898.8

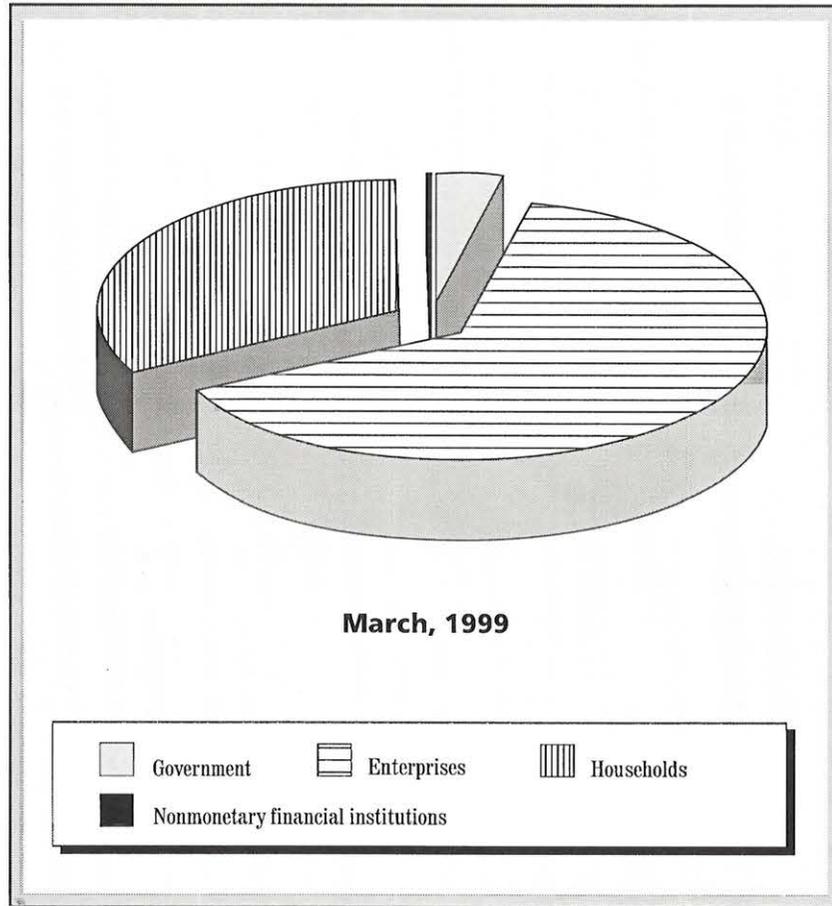
Table D11: Central Government and Funds Deposits with Deposit Money Banks
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. In kuna	1,122.1	1,511.5	1,760.4	1,585.3	2,385.8	2,375.6	2,590.6	2,986.8	3,033.3	3,163.5	3,200.3	3,214.8
1.1. Central government deposits	494.0	178.1	179.3	131.2	82.1	87.3	55.1	248.4	130.1	143.3	133.3	127.4
Demand deposits	445.5	16.9	17.9	23.3	31.7	30.9	10.1	192.4	4.5	6.1	1.8	1.5
Time and notice deposits	32.1	145.5	126.5	77.4	21.7	30.5	19.3	30.4	100.4	112.0	106.2	100.5
Loans and advances	16.3	15.7	34.9	30.5	28.7	25.8	25.8	25.6	25.2	25.2	25.2	25.4
1.2. Central government funds deposits	628.1	1,333.4	1,581.1	1,454.1	2,303.7	2,288.3	2,535.5	2,738.4	2,903.2	3,020.2	3,067.0	3,087.4
Demand deposits	187.4	352.8	253.2	102.8	85.7	55.8	64.4	81.4	83.0	95.1	59.5	55.1
Time and notice deposits	43.3	129.5	200.7	38.0	19.4	21.8	22.8	34.6	33.9	39.9	44.1	37.4
Loans and advances	397.4	851.1	1,127.2	1,313.3	2,198.6	2,210.7	2,448.3	2,622.3	2,786.4	2,885.2	2,963.4	2,994.8
2. In f/c	315.8	157.9	265.2	135.7	4,488.4	4,593.6	4,683.8	4,579.2	4,265.0	4,443.9	4,676.2	5,031.4
2.1. Central government deposits	315.8	118.8	145.4	54.2	4,483.7	4,578.2	4,682.8	4,552.1	4,249.5	4,423.4	4,638.7	4,992.5
Savings deposits	315.8	118.8	134.3	48.8	160.1	167.2	240.1	437.1	83.2	142.8	142.1	321.0
Time and notice deposits	-	-	11.1	5.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Refinanced loans and advances	-	-	-	-	4,323.5	4,410.9	4,442.6	4,114.9	4,166.2	4,280.6	4,496.5	4,671.4
2.2. Central government funds deposits	0.0	39.1	119.8	81.5	4.7	15.4	1.0	27.0	15.5	20.5	37.6	38.9
Savings deposits	0.0	39.1	21.2	58.2	4.7	15.4	1.0	27.0	8.0	6.5	26.4	27.7
Time and notice deposits	-	-	98.6	23.4	-	-	-	-	7.5	14.0	11.2	11.2
Total (1+2)	1,437.8	1,669.4	2,025.6	1,720.9	6,874.2	6,969.2	7,274.4	7,565.9	7,298.3	7,607.4	7,876.5	8,246.3

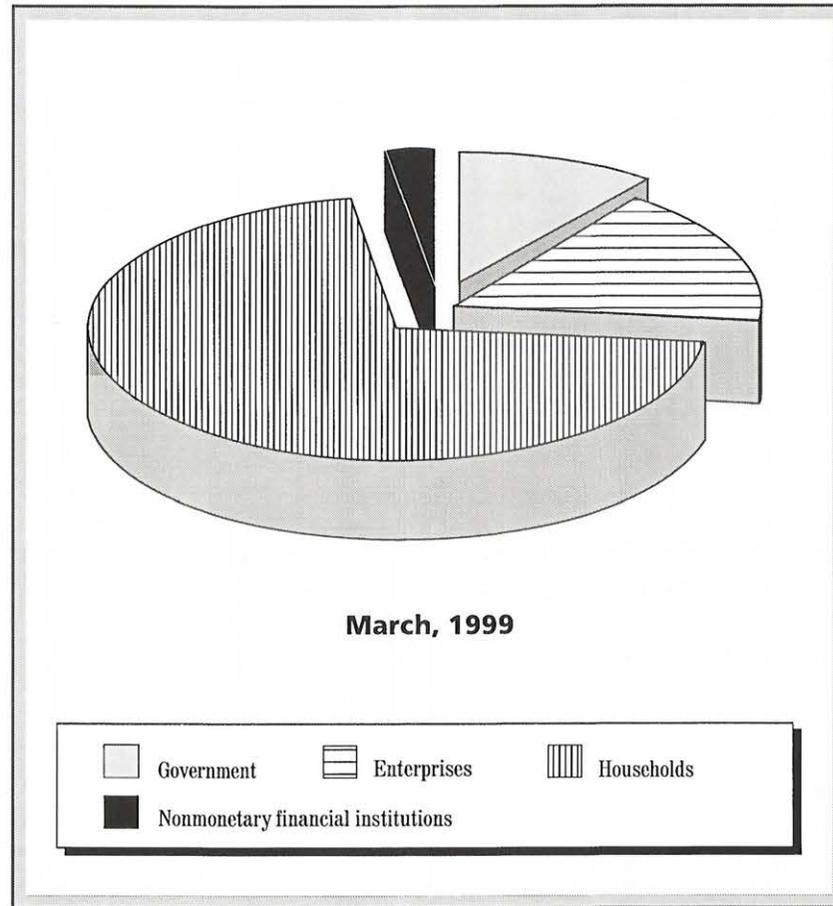
Table D12: Restricted and Blocked Deposits with Deposit Money Banks
End of period, millions of kuna

	1993	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
1. Restricted deposits	404.1	589.7	687.0	889.7	1,198.6	848.4	923.9	895.2	700.3	826.2	816.9	1,189.9
1.1. In kuna	79.6	156.6	271.3	249.0	260.0	258.4	249.4	259.9	202.2	250.0	247.7	239.1
1.2. In f/c	324.5	433.0	415.6	640.8	938.5	590.0	674.6	635.2	498.0	576.3	569.2	950.8
2. Blocked f/c deposits	13,857.4	11,491.8	9,969.0	7,329.4	4,650.8	4,232.6	4,025.3	3,515.7	3,493.8	3,258.6	3,306.8	3,264.7
2.1. Central government	-	19.6	67.9	66.8	69.9	71.3	70.4	69.0	74.0	75.7	78.2	80.3
2.2. Enterprises	-	1.6	88.7	94.5	9.1	5.1	5.1	2.4	2.4	2.0	2.1	2.1
2.3. Households	13,857.4	11,470.6	9,812.5	7,168.2	4,571.8	4,156.2	3,949.7	3,444.3	3,417.5	3,180.8	3,226.5	3,182.3
Total (1+2)	14,261.5	12,081.5	10,656.0	8,219.2	5,849.4	5,081.1	4,949.2	4,410.9	4,194.1	4,084.8	4,123.7	4,454.6

Graph D1: Distribution of Deposit Money Banks' Loans



Graph D2: Distribution of Deposit Money Banks' Deposits



Note:
 Sector "Government" includes central government and funds and local governments and funds.
 Sector "Nonmonetary financial institutions" includes other banking institutions and nonbank financial institutions.

Table E1: Savings Banks' Accounts
End of period, millions of kuna

	1994	1995	1996	1997	1998				1999		
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.
ASSETS											
1. Reserves	6.3	48.1	50.3	82.4	98.5	81.0	104.9	91.3	89.1	85.6	86.8
2. Foreign assets	4.2	22.7	31.7	59.1	54.8	58.2	64.7	61.2	62.9	61.0	61.2
3. Claims on central government and funds	0.2	1.6	0.7	0.1	0.1	0.1	42.0	49.9	51.1	55.5	56.9
4. Claims on other domestic sectors	377.9	372.0	379.8	666.1	815.8	877.8	917.4	1,005.5	1,017.2	1,027.6	1,035.3
4.1. Claims on local government and funds	0.1	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
4.2. Claims on enterprises	249.3	141.0	114.6	204.4	252.2	271.3	285.1	336.1	341.3	347.1	346.0
4.3. Claims on households	128.5	231.0	265.3	461.8	563.7	606.5	632.3	669.5	675.8	680.5	689.3
5. Claims on DMBs	35.8	18.9	24.1	54.2	84.7	65.1	93.3	131.1	133.9	127.6	117.9
6. Claims on other financial institutions	0.3	0.2	1.1	6.0	6.4	5.9	8.8	6.9	7.4	7.6	7.1
Total (1+2+3+4+5+6)	424.6	463.5	487.8	867.9	1,060.4	1,088.1	1,231.1	1,346.0	1,361.5	1,365.0	1,365.2
LIABILITIES											
1. Demand deposits	9.3	8.8	11.0	19.8	21.9	24.0	29.3	26.4	22.2	20.0	19.5
2. Time and savings deposits	182.1	127.4	138.7	261.2	322.7	317.2	326.6	312.0	307.5	305.8	299.9
3. Foreign currency deposits	8.0	-	15.5	223.4	348.0	414.1	502.0	546.2	569.3	582.8	568.9
4. Bonds	68.0	34.9	27.3	72.7	75.9	62.6	64.3	59.9	63.0	61.2	62.2
5. Foreign liabilities	0.1	1.3	0.8	0.5	4.3	4.9	5.9	7.4	8.9	9.4	12.5
6. Central government deposits	5.6	-	-	0.5	0.1	0.1	-	-	-	-	-
7. Credit from central bank	0.6	-	0.0	0.0	0.0	0.1	6.8	6.2	6.5	5.8	5.9
8. Restricted deposits	6.3	6.4	2.1	0.9	0.4	0.9	1.9	1.9	1.9	2.0	2.0
9. Capital accounts	125.7	276.1	307.2	397.1	404.1	393.5	469.8	591.8	601.0	602.7	612.2
10. Other items (net)	19.1	8.6	-14.8	-108.2	-117.0	-129.3	-175.5	-205.8	-218.7	-224.8	-217.9
Total (1+2+3+4+5+6+7+8+9+10)	424.6	463.5	487.8	867.9	1,060.4	1,088.1	1,231.1	1,346.0	1,361.5	1,365.0	1,365.2

154 Table F1: Credit Rates of Croatian National Bank
In percentage, on annual basis

Year	Month	CNB discount rate	Credit rates						
			On lombard credits ¹⁾	On intervention credits	Intra-day refinance facility ¹⁾	On special credits	On advances on the account of statutory reserves ¹⁾	On inaccurately calculated statutory reserves ¹⁾	On arrears
1	2	3	4	5	6	7	8	9	10
1992	December	1,889.39	2,840.09	-	6,881.51	-	4,191.93	6,881.51	4,191.93
1993	December	34.49	46.78	-	289.60	-	101.22	289.60	166.17
1994	December	8.50	18.00	19.00	17.00	14.00	-	19.00	22.00
1995	December	8.50	25.49	19.00	17.00	-	-	19.00	22.00
1996	December	6.50	11.00	19.00	17.00	-	-	19.00	18.00
1997	September	5.90	9.50	19.00	17.00	-	-	19.00	18.00
	October	5.90	9.50	19.00	17.00	-	-	19.00	18.00
	November	5.90	9.50	19.00	17.00	-	-	19.00	18.00
	December	5.90	9.50	19.00	17.00	-	-	19.00	18.00
1998	January	5.90	9.50	19.00	17.00	-	-	19.00	18.00
	February	5.90	9.50	19.00	17.00	-	-	19.00	18.00
	March	5.90	9.50	19.00	17.00	14.00	-	19.00	18.00
	April	5.90	11.00	19.00	17.00	14.00	-	19.00	18.00
	May	5.90	11.00	19.00	17.00	14.00	-	19.00	18.00
	June	5.90	11.00	19.00	17.00	14.00	-	19.00	18.00
	July	5.90	11.00	19.00	17.00	14.00	-	19.00	18.00
	August	5.90	11.00	19.00	17.00	14.00	-	19.00	18.00
	September	5.90	11.00	19.00	7.00	14.00	-	19.00	18.00
	October	5.90	11.00	19.00	7.00	14.00	-	19.00	18.00
	November	5.90	11.00	19.00	7.00	14.00	-	19.00	18.00
	December	5.90	12.00	19.00	7.00	14.00	-	19.00	18.00
1999	January	5.90	12.00	19.00	7.00	14.00	-	19.00	18.00
	February	5.90	12.00	19.00	7.00	14.00	-	19.00	18.00
	March	7.90 ²⁾	13.00 ³⁾	19.00	7.00	14.00	-	19.00	18.00

1) Breaks in the series of data are explained in the Notes on Methodology.
2) Since March 17, 1999.
3) Since March 10, 1999.

Table F2: Deposit Rates of Croatian National Bank
In percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB ¹⁾	Interest rates on CNB bills on obligatory basis	Interest rates on CNB bills on voluntary basis ¹⁾				Interest rates on CNB bills on voluntary basis in f/c		
				Due in 7 days	Due in 35 days	Due in 91 days	Due in 182 days	Due in 62 days	Due in 91 days	Due in 182 days
1	2	3	4	5	6	7	8	9	10	11
1992	December	367.60	556.66	1,057.67	1,889.39	-	-	-	-	-
1993	December	0.00	-	67.84	63.08	97.38	-	-	-	-
1994	December	5.15	-	9.00	12.00	14.00	-	-	-	-
1995	December	5.50	16.50	12.00	25.54	27.00	-	-	-	-
1996	December	5.50	-	-	8.00	9.50	-	-	-	-
1997	September	4.50	-	-	7.94	9.00	9.89	-	-	-
	October	4.50	-	-	8.00	8.97	9.82	-	-	-
	November	4.50	-	-	8.00	9.00	10.00	-	-	-
	December	4.50	-	-	8.00	9.00	10.00	-	-	-
1998	January	4.50	-	-	8.00	9.00	9.75	-	-	-
	February	4.50	-	-	8.48	9.50	10.00	-	-	-
	March	4.50	-	-	8.57	9.68	10.06	-	-	-
	April	4.50	-	-	9.20	10.34	10.40	4.05	3.91	4.63
	May	4.50	-	-	9.49	10.50	11.00	4.14	3.49	5.64
	June	4.50	-	-	9.49	10.50	-	4.13	3.42	-
	July	4.50	-	-	9.49	10.50	11.00	4.43	3.83	-
	August	4.50	-	-	9.50	10.50	11.00	4.36	3.37	-
	September	4.50	-	-	9.50	10.50	11.00	4.29	3.35	-
	October	5.90 ²⁾	-	-	9.50	10.50	11.00	4.52	3.42	-
	November	5.90	-	-	9.50	10.50	11.00	4.37	3.47	-
	December	5.90	-	-	9.50	10.50	11.00	4.60	3.12	3.08
1999	January	5.90	-	-	9.50	10.50	11.00	3.90	2.98	-
	February	5.90	-	-	9.50	10.50	11.50	4.01	2.92	2.87
	March	5.90	-	-	9.71	10.80	11.78	3.81	3.78	-

1) Breaks in the series of data are explained in the Notes on Methodology.
2) Since October 26, 1998.

Table F3: Deposit Money Banks' Reserves on Obligatory Basis
Daily averages and percentages, millions of kuna and %

Year	Month	Reserve requirement (RR)	Weighted average reserve requirement in % of res. base	Statutory reserves deposited with the CNB	Statutory reserves deposited with the CNB in % of RR	Other deposits with the CNB on obligatory basis	Total reserve requirement	Total reserve requirement in % of res. base	Weighted average remuneration in % of total RR	Use of obligatory reserves
1	2	3	4	5	6=[5/3]*100	7	8=3+7	9	10	11
1993	December	894.9	25.32	804.0	89.84	19.8	914.7	25.88	1.97	143.6
1994	December	1,826.0	26.20	1,779.2	97.44	188.3	2,014.3	28.90	5.63	3.5
1995	December	2,431.8	30.90	2,215.9	91.12	826.5	3,258.4	41.40	7.93	45.9
1996	December	3,652.9	35.91	3,312.0	90.67	-	3,652.9	35.91	5.50	0.1
1997	September	4,240.1	31.99	3,802.4	89.68	-	4,240.1	31.99	4.50	0.0
	October	4,284.7	31.99	3,846.8	89.78	-	4,284.7	31.99	4.50	0.0
	November	4,327.8	32.00	3,902.9	90.18	-	4,327.8	32.00	4.50	0.0
	December	4,348.8	32.02	3,914.2	90.01	-	4,348.8	32.02	4.50	0.5
1998	January	4,434.1	32.02	3,983.4	89.84	-	4,434.1	32.02	4.50	0.3
	February	4,361.8	32.00	3,916.7	89.79	-	4,361.8	32.00	4.50	0.5
	March	4,436.3	31.98	3,978.1	89.67	-	4,436.3	31.98	4.50	28.2
	April	4,473.2	32.00	4,005.2	89.54	53.2	4,526.4	32.38	3.98	1.2
	May	4,197.1	30.43	3,715.0	88.51	233.0	4,430.0	32.12	3.77	10.8
	June	3,991.4	29.70	3,494.9	87.56	190.1	4,181.5	31.12	3.76	8.6
	July	4,079.2	29.70	3,579.3	87.74	125.0	4,204.3	30.61	3.83	11.8
	August	4,205.7	29.67	3,698.5	87.94	95.7	4,301.4	30.34	3.87	6.6
	September	4,373.7	29.66	3,862.5	88.31	101.8	4,475.5	30.35	3.88	19.9
	October	4,216.7	29.66	3,734.3	88.56	94.6	4,311.3	30.32	4.13	4.0
	November	4,016.7	29.62	3,526.5	87.80	68.6	4,085.3	30.12	5.09	14.0
	December	3,967.2	29.57	3,469.8	87.46	57.4	4,024.7	30.00	5.28	9.6
1999	January	3,969.1	29.50	3,441.8	86.72	47.9	4,016.9	29.86	5.66	13.6
	February	3,878.5	29.50	3,388.8	87.37	44.7	3,923.2	29.84	5.74	9.2
	March	3,792.7	30.04	3,307.8	87.21	41.0	3,833.7	30.37	5.63	6.4

Table F4: Deposit Money Banks' Liquidity Indicators
Daily averages and percentages, millions of kuna and %

Year	Month	Free reserves	Primary liquidity ratio (in %)	Secondary liquidity sources	CNB bills on voluntary basis in kuna	CNB bills on voluntary basis in f/c
1	2	3	4	5	6	7
1993	December	-18.5	-0.52	188.0	1.9	-
1994	December	119.5	1.72	393.7	210.2	-
1995	December	49.4	0.63	199.4	218.7	-
1996	December	267.9	2.63	98.5	780.9	-
1997	September	206.8	1.56	47.7	808.9	-
	October	134.0	1.00	52.7	775.9	-
	November	235.3	1.74	67.8	795.0	-
	December	396.3	2.92	32.7	728.9	-
1998	January	384.2	2.77	9.8	702.5	-
	February	457.9	3.36	9.3	825.8	-
	March	316.3	2.28	110.0	877.9	-
	April	210.2	1.50	486.5	863.7	5.8
	May	329.9	2.39	576.5	780.9	314.0
	June	370.4	2.76	102.3	798.2	759.2
	July	334.0	2.43	361.0	864.7	904.2
	August	363.8	2.57	391.8	966.5	1,100.0
	September	159.5	1.08	533.3	1,070.5	1,178.7
	October	217.4	1.53	527.3	943.0	1,343.8
	November	254.6	1.88	472.5	890.2	1,428.8
	December	221.9	1.65	445.5	850.4	1,377.4
1999	January	177.3	1.32	406.4	772.5	1,425.1
	February	287.2	2.18	955.9	733.6	1,474.1
	March	150.3	1.19	1,622.0	456.9	1,558.6

Table G1: Deposit Money Banks' Credit Rates
Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Money market interest rates		Interest rates on credits in kuna			Interest rates on credits in kuna indexed to f/c			Interest rates on credits in f/c		
		On daily market	On overnight market	Total average	On short-term credits	On long-term credits	Total average	On short-term credits	On long-term credits	Total average	On short-term credits	On long-term credits
1	2	3	4	5	6	7	8	9	10	11	12	13
1992	December	2,182.26	2,182.26	2,332.92	2,384.89	1,166.29	20.41	9.90	21.41	....	....	....
1993	December	86.90	34.49	59.00	59.00	78.97	21.84	19.00	23.14	....	....	....
1994	December	17.76	8.50	15.39	15.43	13.82	11.99	12.38	11.65	....	....	....
1995	December	27.15	27.26	22.32	22.56	13.48	19.56	21.62	14.33	15.73	16.56	12.27
1996	December	10.41	9.66	18.46	19.35	11.51	18.97	22.56	12.12	19.28	21.11	10.95
1997	September	8.79	7.28	14.29	14.30	14.24	15.82	18.44	13.02	15.25	16.62	8.84
	October	8.62	7.60	14.59	14.70	13.15	15.92	18.45	12.86	18.69	20.96	11.04
	November	8.54	7.57	13.73	13.91	12.04	15.54	17.68	12.62	17.48	17.90	15.14
	December	9.41	8.46	14.06	14.12	13.24	14.40	16.92	12.25	13.56	14.58	10.05
1998	January	10.18	8.98	14.68	14.69	14.40	15.37	17.19	12.90	16.05	16.85	12.67
	February	9.27	8.13	14.50	14.48	14.96	15.23	17.32	12.77	15.52	15.81	13.87
	March	10.79	9.87	14.81	14.84	14.04	15.16	16.90	12.87	14.62	16.26	9.93
	April	12.89	11.75	15.31	15.38	13.40	15.17	16.84	12.81	15.82	16.69	12.12
	May	17.61	13.37	16.67	16.71	14.82	15.05	17.30	12.26	15.05	15.79	13.15
	June	17.51	10.00	16.97	17.03	14.85	14.89	16.92	12.42	14.90	15.43	13.71
	July	16.92	10.00	16.02	16.03	15.66	14.95	16.97	12.65	5.41	4.71	7.24
	August	16.60	10.00	15.74	15.81	14.26	15.22	16.98	12.84	5.82	5.40	6.74
	September	14.49	10.00	15.55	15.61	13.80	13.39	14.76	11.65	7.44	8.50	5.55
	October	15.57	10.00	16.31	16.36	13.81	14.32	15.52	12.13	7.44	8.37	6.04
	November	16.09	10.00	16.41	16.62	13.28	13.60	15.00	11.51	7.05	7.85	5.68
	December	15.81	10.00	16.06	16.22	11.73	13.04	14.28	11.15	6.96	8.29	5.92
1999	January	16.13	10.00	16.13	16.19	11.90	13.90	15.08	11.15	6.91	7.73	6.12
	February	15.50	10.00	16.92	16.98	12.18	13.62	14.91	11.58	6.30	6.99	5.08
	March	15.47	10.00	16.25	16.42	11.62	13.22	14.49	10.73	5.72	6.25	4.79
Relative significance ¹⁾		4.81	37.18	27.71	26.70	1.02	26.73	17.67	9.05	3.57	2.26	1.31

1) These data represent percentages of related credits in total credits included in calculation of weighted averages of monthly interest rates (for the last month included in this table).

Table G2: Deposit Money Banks' Deposit Rates
Weighted average of monthly interest rates in % on annual basis

Year	Month	Interest rates on deposits in kuna			Interest rates on time and savings deposits in kuna indexed to f/c	Interest rates on deposits in f/c		
		Total average	On demand deposits	On time and savings deposits ¹⁾		Total average	On demand deposits	On time and savings deposits ¹⁾
1	2	3	4	5	6	7	8	9
1992	December	434.47	184.69	1,867.18	6.04	....	....	....
1993	December	27.42	18.16	52.16	5.91	....	....	....
1994	December	5.03	3.55	9.65	6.95	....	....	....
1995	December	6.10	3.88	13.65	12.69	4.57	2.82	6.83
1996	December	4.15	2.19	10.19	9.46	5.09	1.44	7.77
1997	September	4.32	2.07	9.25	8.75	4.34	1.64	6.00
	October	4.25	2.11	8.84	6.84	4.21	1.61	5.74
	November	4.07	1.96	8.63	8.82	4.53	1.66	6.14
	December	4.35	2.19	9.10	7.63	4.77	1.75	6.36
1998	January	4.67	2.21	9.54	7.34	5.13	1.76	6.92
	February	4.45	2.23	8.59	7.39	5.55	1.79	7.44
	March	4.51	2.23	8.93	7.69	5.45	1.80	7.23
	April	4.93	2.32	9.94	7.68	5.40	1.72	7.17
	May	4.77	2.39	9.57	9.40	5.55	1.67	7.39
	June	4.68	2.40	9.51	9.63	5.60	1.70	7.49
	July	4.66	2.35	9.55	9.17	5.30	1.68	7.09
	August	4.66	2.34	9.73	9.87	5.25	1.78	7.08
	September	4.80	2.32	9.88	7.36	4.33	1.77	5.60
	October	4.62	2.30	9.16	7.54	4.36	1.75	5.65
	November	4.59	2.33	9.07	7.13	4.42	2.10	5.54
	December	4.11	2.31	7.73	7.47	3.98	2.09	4.89
1999	January	4.48	2.28	8.66	6.49	4.34	2.15	5.41
	February	4.57	2.24	8.73	6.99	4.21	2.05	5.27
	March	4.51	2.23	8.92	7.47	4.05	1.96	5.11

1) From December 1992 through June 1995, data in column 5 represent weighted averages of monthly interest rates on end-of-month outstanding deposits. Since July 1995, data represent weighted averages of monthly interest rates on new deposits in reporting month.

Table G3: Deposit Money Banks' Trade with Foreign Exchange
Millions of EUR, current exchange rate

	1994	1995	1996	1997	1998	1998				1999			
						Mar.	June	Sept.	Dec.	Jan.	(Feb.)	(Mar.)	(Apr.)
A. Purchases of foreign exchange													
1. Legal persons	1,463.0	1,685.2	2,011.2	2,506.4	3,186.0	262.5	271.4	297.4	309.4	172.7	197.2	282.7	242.1
2. Natural persons	1,728.2	1,815.0	2,124.9	2,093.4	2,273.5	151.9	218.4	197.3	160.4	113.4	93.3	137.2	175.6
2.1. Residents	1,284.8	1,487.4	1,749.7	1,695.5	1,854.5	142.8	172.9	155.1	150.7	106.4			
2.2. Non-residents	443.4	327.6	375.2	397.9	419.1	9.1	45.5	42.2	9.7	7.0			
3. Commercial banks	191.7	306.7	392.7	1,002.3	1,138.2	107.8	94.3	95.1	62.6	54.4	47.0	76.1	79.5
4. Croatian National Bank	221.9	170.8	61.4	57.1	582.2	15.1	42.8	85.9	85.5	156.0	162.4	120.0	40.5
Total (1+2+3+4)	3,604.8	3,977.8	4,590.2	5,659.1	7,179.9	537.4	627.0	675.7	617.9	496.5	499.9	616.0	537.7
B. Sales of foreign exchange													
1. Legal persons	1,966.3	2,556.7	3,415.3	4,513.7	4,656.0	433.4	378.7	423.0	379.8	312.3	299.2	369.8	320.1
2. Natural persons	624.7	768.3	797.8	925.9	1,011.8	73.7	86.3	90.8	80.1	77.9	123.2	97.7	53.0
2.1. Residents	624.7	768.3	797.8	925.2	1,011.5	73.7	86.3	90.8	80.1	77.9			
2.2. Non-residents	0.0	0.0	0.0	0.7	0.3	0.1	0.1	0.1	0.0	0.0			
3. Commercial banks	191.7	306.7	391.7	1,002.3	1,138.2	107.8	94.3	95.1	62.6	54.4	47.0	76.1	79.5
4. Croatian National Bank	719.4	339.1	345.7	257.8	217.0	0.0	16.4	0.0	27.4	4.5	0.0	5.6	7.1
Total (1+2+3+4)	3,502.1	3,970.8	4,950.5	6,699.7	7,022.9	614.9	575.8	608.9	549.9	449.1	469.4	549.2	459.7
C. Net purchasing (A-B)													
1. Legal persons	-503.4	-871.5	-1,404.1	-2,007.4	-1,470.1	-170.9	-107.3	-125.6	-70.5	-139.6	-102.0	-87.1	-78.1
2. Natural persons	1,103.5	1,046.7	1,327.2	1,167.5	1,261.7	78.1	132.1	106.5	80.3	35.5	-29.9	39.5	122.7
2.1. Residents	660.1	719.1	952.0	770.3	843.0	69.1	86.7	64.3	70.6	28.5			
2.2. Non-residents	443.4	327.6	375.2	397.3	418.7	9.0	45.5	42.1	9.7	7.0			
3. Croatian National Bank	-497.5	-168.3	-284.3	-200.7	365.2	15.1	26.4	85.9	58.1	151.5	162.4	114.5	33.4
Total (1+2+3)	102.7	6.9	-361.3	-1,040.6	156.8	-77.6	51.2	66.8	68.0	47.4	30.5	66.9	78.0
Memo: Other Croatian National Bank sales													
Purchases of foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	106.5	0.0
Sales of foreign exchange	0.0	0.0	0.0	0.0	171.0	0.0	0.0	0.0	0.0	49.2	0.0	0.0	0.0

Table H1: Balance of Payments - Summary (preliminary data)
Millions of US dollars

	1993	1994	1995	1996	1997	1998	1998			
							Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT (1+6)	600.0	785.7	-1,283.8	-857.8	-2,434.0	-1,553.8	-679.9	-604.6	388.6	-657.9
1. Goods, services, and income (2+5)	173.6	262.6	-2,083.7	-1,885.7	-3,285.8	-2,261.9	-892.2	-782.5	230.5	-817.7
1.1. Credit	6,400.3	7,307.8	7,471.5	8,314.7	8,524.4	8,954.5	1,725.1	2,083.6	3,128.9	2,016.9
1.2. Debit	-6,226.6	-7,045.2	-9,555.2	-10,200.4	-11,810.3	-11,216.4	-2,617.3	-2,866.1	-2,898.4	-2,834.6
2. Goods and services (3+4)	297.5	339.4	-2,029.8	-1,887.2	-3,202.3	-2,097.4	-835.6	-750.5	290.0	-801.2
2.1. Credit	6,271.1	7,158.2	7,252.2	8,023.9	8,199.5	8,565.4	1,630.2	1,984.9	3,020.1	1,930.1
2.2. Debit	-5,973.7	-6,818.8	-9,282.0	-9,911.2	-11,401.8	-10,662.7	-2,465.8	-2,735.4	-2,730.1	-2,731.4
3. Goods	-960.3	-1,322.5	-3,237.5	-3,651.2	-5,224.4	-4,168.9	-889.3	-1,162.8	-1,055.2	-1,061.6
3.1. Credit	3,903.8	4,260.4	4,632.7	4,545.7	4,205.9	4,604.5	1,093.4	1,114.5	1,187.5	1,209.1
3.2. Debit	-4,864.2	-5,582.9	-7,870.2	-8,197.0	-9,430.3	-8,773.4	-1,982.8	-2,277.2	-2,242.7	-2,270.7
4. Services	1,257.8	1,661.9	1,207.7	1,764.0	2,022.1	2,071.6	53.8	412.3	1,345.1	260.4
4.1. Credit	2,367.3	2,897.8	2,619.5	3,478.2	3,993.6	3,960.9	536.8	870.4	1,832.6	721.0
4.2. Debit	-1,109.5	-1,235.9	-1,411.8	-1,714.2	-1,971.5	-1,889.3	-483.0	-458.2	-487.5	-460.6
5. Income	-123.8	-76.8	-53.9	1.5	-83.5	-164.5	-56.6	-32.0	-59.4	-16.4
5.1. Credit	129.2	149.7	219.3	290.8	324.9	389.1	94.9	98.7	108.8	86.7
5.2. Debit	-253.0	-226.4	-273.2	-289.3	-408.4	-553.6	-151.5	-130.7	-168.2	-103.2
6. Current transfers	426.3	523.1	799.9	1,027.8	851.8	708.1	212.3	177.9	158.1	159.8
6.1. Credit	605.2	665.9	968.8	1,178.6	946.5	921.1	249.8	219.9	222.9	228.5
6.2. Debit	-178.9	-142.8	-168.8	-150.8	-94.7	-213.1	-37.5	-42.0	-64.9	-68.7
B. CAPITAL AND FINANCIAL ACCOUNT	-146.2	-257.7	788.2	1,468.1	2,616.4	1,872.2	631.4	558.6	-508.4	1,190.6
B1. Capital account	-	-	-	-	-	-	-	-	-	-
B2. Financial account, excl. reserves	303.2	531.0	1,278.4	1,886.9	2,841.4	2,148.8	550.0	651.0	-301.0	1,248.8
1. Direct investment	77.8	106.3	95.7	513.1	231.2	763.1	50.9	471.1	111.9	129.2
1.1. Abroad	-18.5	-6.8	-5.6	-20.4	-157.2	-90.9	-44.7	-15.5	-18.4	-12.2
1.2. In Croatia	96.3	113.1	101.2	533.4	388.3	854.0	95.6	486.7	130.3	141.4
2. Portfolio investment	-0.1	8.6	4.8	27.2	172.7	-54.6	-10.6	6.5	-22.5	-28.0
2.1. Assets	-0.5	1.0	0.1	6.2	11.1	-0.2	-0.1	0.0	0.0	0.0
2.2. Liabilities	0.4	7.7	4.6	21.0	161.6	-54.5	-10.5	6.5	-22.5	-28.0
3. Other investment	225.5	416.1	1,178.0	1,346.7	2,437.5	1,440.4	509.7	173.4	-390.3	1,147.6
3.1. Assets	74.3	171.9	406.7	788.9	185.5	387.7	239.8	183.5	-500.5	464.9
3.2. Liabilities	151.2	244.2	771.3	557.8	2,252.0	1,052.6	270.0	-10.2	110.2	682.7
B3. Reserve Assets	-449.4	-788.8	-490.2	-418.8	-225.0	-276.5	81.4	-92.4	-207.4	-58.2
C. NET ERRORS AND OMISSIONS	-453.8	-528.0	495.6	-610.3	-182.4	-318.4	48.5	46.0	119.8	-532.7

Table H2: Balance of Payments - Goods and Services (preliminary data)
Millions of US dollars

	1993	1994	1995	1996	1997	1998	1998			
							Q1	Q2	Q3	Q4
1. Goods	-960.3	-1,322.5	-3,237.5	-3,651.2	-5,224.4	-4,168.9	-889.3	-1,162.8	-1,055.2	-1,061.6
1.1. Credit	3,903.8	4,260.4	4,632.7	4,545.7	4,205.9	4,604.5	1,093.4	1,114.5	1,187.5	1,209.1
1.1.1. Exports fob in trade statistics	3,903.8	4,260.4	4,632.7	4,511.8	4,170.7	4,541.1	1,080.4	1,095.3	1,171.9	1,193.5
1.1.2. Adjustments for coverage	-	-	-	33.9	35.2	63.4	13.0	19.2	15.6	15.6
1.2. Debit	-4,864.2	-5,582.9	-7,870.2	-8,197.0	-9,430.3	-8,773.4	-1,982.8	-2,277.2	-2,242.7	-2,270.7
1.2.1. Imports cif in trade statistics	-4,666.4	-5,229.3	-7,509.9	-7,787.9	-9,104.0	-8,383.1	-1,930.5	-2,188.5	-2,126.1	-2,138.0
1.2.2. Adjustments for coverage	-530.6	-727.9	-901.6	-970.7	-977.0	-985.5	-189.4	-244.1	-267.6	-284.5
1.2.3. Adjustments for classification	332.8	374.3	541.3	561.6	650.7	595.2	137.1	155.4	150.9	151.8
2. Services	1,257.8	1,661.9	1,207.7	1,764.0	2,022.1	2,071.6	53.8	412.3	1,345.1	260.4
2.1. Transportation	341.5	317.5	307.6	316.4	266.1	227.6	61.8	55.0	52.9	57.9
2.1.1. Credit	696.2	665.2	707.2	732.1	664.9	565.7	145.4	140.9	136.9	142.5
2.1.2. Debit	-354.7	-347.7	-399.6	-415.7	-398.8	-338.1	-83.6	-86.0	-84.0	-84.6
2.2. Travel	926.1	1,405.4	929.6	1,499.2	2,007.7	2,126.0	78.0	408.4	1,393.7	246.0
2.2.1. Credit	1,300.7	1,801.4	1,350.5	2,014.1	2,529.1	2,726.3	245.1	562.0	1,552.8	366.4
2.2.2. Debit	-374.6	-396.0	-420.9	-514.9	-521.4	-600.3	-167.1	-153.7	-159.1	-120.4
2.3. Other services	-9.8	-61.0	-29.5	-51.6	-251.7	-282.1	-86.0	-51.1	-101.5	-43.5
2.3.1. Credit	370.4	431.2	561.8	732.0	799.6	668.9	146.3	167.5	142.9	212.2
2.3.2. Debit	-380.2	-492.2	-591.3	-783.6	-1,051.3	-951.0	-232.3	-218.6	-244.4	-255.7
Total (1+2)	297.5	339.4	-2,029.8	-1,887.2	-3,202.3	-2,097.4	-835.6	-750.5	290.0	-801.2

Table H3: Balance of Payments - Income and Current Transfers (preliminary data)
Millions of US dollars

	1993	1994	1995	1996	1997	1998	1998			
							Q1	Q2	Q3	Q4
1. Income	-123.8	-76.8	-53.9	1.5	-83.5	-164.5	-56.6	-32.0	-59.4	-16.4
1.1. Compensation of employees	17.1	35.3	38.7	38.9	55.6	69.7	16.0	16.3	19.7	17.7
1.1.1. Credit	17.1	35.3	38.7	46.7	70.2	81.0	18.3	18.8	22.6	21.4
1.1.2. Debit	-	-	-	-7.8	-14.6	-11.4	-2.3	-2.5	-2.9	-3.7
1.2. Direct investment income	0.3	12.3	0.8	10.1	-52.2	-91.2	-3.6	-72.0	-13.4	-2.2
1.2.1. Credit	0.4	13.2	7.0	17.5	14.7	3.7	0.9	1.6	1.1	0.1
1.2.2. Debit	-0.1	-0.9	-6.2	-7.4	-66.9	-94.9	-4.5	-73.7	-14.4	-2.3
1.3. Portfolio investment income	0.0	0.1	-0.1	-2.0	-4.2	-5.4	-2.0	-0.1	-2.0	-1.3
1.3.1. Credit	0.0	0.1	0.2	0.2	2.6	0.2	0.0	0.2	0.0	0.0
1.3.2. Debit	0.0	0.0	-0.3	-2.2	-6.8	-5.6	-2.1	-0.3	-2.1	-1.3
1.4. Other investment income	-141.3	-124.5	-93.3	-45.4	-82.7	-137.6	-67.0	23.8	-63.7	-30.7
1.4.1. Credit	111.6	101.0	173.4	226.5	237.4	304.1	75.7	78.1	85.2	65.2
1.4.2. Debit	-252.9	-225.5	-266.7	-271.9	-320.1	-441.7	-142.7	-54.3	-148.9	-95.9
2. Current transfers	426.3	523.1	799.9	1,027.8	851.8	708.1	212.3	177.9	158.1	159.8
2.1. General government	249.8	235.3	279.8	154.5	32.8	-9.2	3.4	6.9	-11.5	-8.0
2.1.1. Credit	255.7	261.9	309.2	193.4	55.5	77.6	16.8	19.7	19.5	21.6
2.1.2. Debit	-6.0	-26.6	-29.3	-38.9	-22.7	-86.8	-13.5	-12.8	-31.0	-29.6
2.2. Other sectors	176.6	287.8	520.1	873.3	819.0	717.3	208.9	171.0	169.5	167.8
2.2.1. Credit	349.5	404.0	659.6	985.2	891.0	843.5	233.0	200.2	203.4	206.9
2.2.2. Debit	-172.9	-116.2	-139.5	-111.9	-72.0	-126.3	-24.0	-29.2	-33.9	-39.2
Total (1+2)	302.5	446.3	746.0	1,029.4	768.3	543.5	155.7	145.9	98.6	143.3

Table H4: Balance of Payments - Other Investments (preliminary data)
Millions of US dollars

	1993	1994	1995	1996	1997	1998	1998			
							Q1	Q2	Q3	Q4
1. Assets	74.3	171.9	406.7	788.9	185.5	387.7	239.8	183.5	-500.5	464.9
1.1. Currency and deposits	74.3	171.9	406.7	788.9	185.5	387.7	239.8	183.5	-500.5	464.9
1.1.1. Banks	-210.6	-189.5	-467.1	-622.6	-341.1	383.8	-28.8	178.6	-211.0	445.0
1.1.2. Other sectors	284.9	361.4	873.8	1,411.5	526.6	4.0	268.6	4.9	-289.5	20.0
2. Liabilities	151.2	244.2	771.3	557.8	2,252.0	1,052.6	270.0	-10.2	110.2	682.7
2.1. Loans	-118.5	-21.5	432.5	404.4	2,250.6	1,066.3	270.9	-8.9	117.5	686.7
2.1.1. Monetary authorities	-24.0	105.5	97.6	-4.3	37.3	-8.9	-2.2	-2.2	-2.2	-2.3
2.1.1.1. Use of Fund credit and loans	-24.0	105.5	97.6	-4.3	37.3	-8.9	-2.2	-2.2	-2.2	-2.3
2.1.1.1.1. Drawings	-	114.2	103.0	-	39.5	-	-	-	-	-
2.1.1.1.2. Repayments	-24.0	-8.7	-5.4	-4.3	-2.2	-8.9	-2.2	-2.2	-2.2	-2.3
2.1.2. General government	-7.8	-1.8	93.5	309.9	596.6	13.1	106.2	-48.5	-28.8	-15.7
2.1.2.1. Long-term	-7.8	-1.8	-6.5	301.2	596.6	62.3	106.2	-48.5	-28.8	33.4
2.1.2.1.1. Drawings	3.7	10.4	9.4	349.8	706.8	346.2	126.1	3.1	9.4	207.7
2.1.2.1.2. Repayments	-11.5	-12.2	-15.9	-48.6	-110.2	-283.9	-19.9	-51.6	-38.2	-174.2
2.1.2.2. Short-term (net)	-	-	100.0	8.7	-	-49.2	-	-	-	-49.2
2.1.3. Banks	-115.8	-41.7	177.8	-52.6	645.9	179.3	43.5	-91.1	8.7	218.1
2.1.3.1. Long-term	-133.2	-56.7	-92.6	57.1	370.5	481.7	13.2	85.9	127.3	255.2
2.1.3.1.1. Drawings	55.2	69.4	72.0	167.5	621.1	636.4	43.6	102.2	165.0	325.6
2.1.3.1.2. Repayments	-188.4	-126.1	-164.6	-110.4	-250.6	-154.7	-30.4	-16.2	-37.8	-70.4
2.1.3.2. Short-term (net)	17.4	15.0	270.4	-109.7	275.4	-302.4	30.3	-177.0	-118.6	-37.1
2.1.4. Other sectors	29.1	-83.5	63.6	151.5	970.8	882.8	123.5	132.9	139.8	486.6
2.1.4.1. Long-term	-50.7	-78.3	-35.9	79.4	775.9	746.4	89.5	137.1	118.3	401.6
2.1.4.1.1. Drawings	94.7	104.5	233.7	327.0	1,035.8	1,052.6	149.0	168.2	203.7	531.6
2.1.4.1.2. Repayments	-145.4	-182.8	-269.6	-247.6	-260.0	-306.1	-59.6	-31.1	-85.4	-130.0
2.1.4.2. Short-term (net)	79.8	-5.2	99.5	72.1	194.9	136.4	34.0	-4.1	21.5	85.0
2.2. Other liabilities (short-term)	269.7	265.8	338.8	153.4	1.4	-13.6	-1.0	-1.3	-7.3	-4.0
2.2.1. General government	-	-	0.3	13.0	-	-	-	-	-	-
2.2.2. Banks	221.6	165.8	207.5	10.1	1.4	-13.6	-1.0	-1.3	-7.3	-4.0
2.2.3. Other sectors	48.1	100.0	131.0	130.3	-	-	-	-	-	-
Total (1+2)	225.5	416.1	1,178.0	1,346.7	2,437.5	1,440.4	509.7	173.4	-390.3	1,147.6

Table H5: International Reserves and Banks' Foreign Exchange Reserves
End of period, millions of US dollars

Year	Month	International Reserves of the Croatian National Bank						Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Foreign exchange			
					Total	Currency and deposits	Bonds and notes	
1991	December	-	-	-	-	-	-	200.9
1992	December	166.8	-	-	166.8	166.8	-	502.3
1993	December	616.2	3.7	-	612.5	612.5	-	712.9
1994	December	1,405.0	4.5	-	1,400.5	1,400.5	-	902.4
1995	December	1,895.2	139.8	-	1,755.4	1,651.0	104.3	1,369.5
1996	December	2,314.0	125.6	-	2,188.4	2,016.6	171.8	1,992.1
1997	September	2,487.8	150.7	-	2,337.1	1,987.9	349.2	2,601.8
	October	2,527.1	152.7	-	2,374.4	1,996.8	377.6	2,448.3
	November	2,515.6	148.5	-	2,367.1	1,946.6	420.5	2,330.5
	December	2,539.0	147.1	-	2,391.9	2,011.7	380.2	2,333.2
1998	January	2,404.1	143.2	-	2,260.8	1,984.6	276.2	2,284.2
	February	2,424.6	143.5	-	2,281.0	2,031.1	250.0	2,353.9
	March	2,457.6	140.9	-	2,316.7	2,054.6	262.1	2,362.0
	April	2,481.2	139.8	-	2,341.4	2,048.2	293.2	2,311.0
	May	2,538.6	136.5	-	2,402.1	2,078.4	323.6	2,283.0
	June	2,550.0	136.6	-	2,413.4	2,014.1	399.3	2,183.4
	July	2,597.5	223.0	-	2,374.5	1,931.5	443.0	2,257.9
	August	2,745.2	223.4	-	2,521.7	2,059.2	462.6	2,405.8
	September	2,757.3	228.3	-	2,529.1	1,938.8	590.3	2,394.4
	October	2,696.9	231.3	-	2,465.6	1,762.2	703.4	2,219.8
	November	2,674.7	226.6	-	2,448.1	1,771.9	676.1	2,035.2
	December	2,815.6	231.2	-	2,584.4	1,927.0	657.4	1,949.4
1999	January	2,610.1	224.6	-	2,385.5	1,678.7	706.8	1,765.6
	February	2,396.3	220.7	-	2,175.7	1,508.3	667.4	1,660.8
	March	2,450.8	218.8	-	2,232.0	1,715.6	516.4	1,457.8
	April	2,413.1	208.2	-	2,204.9	1,756.7	448.2	1,328.1

Table H6: Midpoint Exchange Rates of Croatian National Bank (period average)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1992		0.340174	0.024304	0.050419	0.020916	0.190597	0.375277	0.264299	0.171018
1993		4.133563	0.305485	0.621058	0.224018	2.433869	5.369428	3.577417	2.155526
1994		7.087400	0.524804	1.079560	0.371475	4.381763	9.166192	5.995300	3.692018
1995		6.757758	0.518734	1.047969	0.321342	4.425311	8.252950	5.229967	3.649342
1996		6.804708	0.513722	1.062735	0.352150	4.404976	8.479850	5.433800	3.614536
1997		6.959708	0.505322	1.056355	0.361942	4.246962	10.081567	6.157050	3.555932
1998		7.136608	0.514421	1.079581	0.366683	4.395149	10.539883	6.362292	3.619321
1997	September	6.954800	0.504038	1.055169	0.363400	4.306829	10.153700	6.344400	3.547000
	October	6.938900	0.502126	1.053162	0.360800	4.272444	10.112700	6.219700	3.533938
	November	6.966400	0.500684	1.052406	0.359600	4.337589	10.285800	6.104100	3.523813
	December	6.962200	0.500366	1.051769	0.359000	4.352233	10.389800	6.247300	3.520600
1998	January	6.938200	0.499611	1.049728	0.357200	4.325183	10.425000	6.369300	3.514890
	February	6.945300	0.500213	1.049903	0.356600	4.362793	10.463600	6.384300	3.519478
	March	6.993300	0.501530	1.052431	0.358400	4.333662	10.681300	6.437600	3.528519
	April	7.052000	0.505785	1.061442	0.360300	4.289143	10.814400	6.465300	3.558486
	May	7.092400	0.511838	1.074074	0.365100	4.322905	10.485700	6.394900	3.601464
	June	7.174400	0.516527	1.083921	0.368800	4.362142	10.729100	6.507300	3.634263
	July	7.181200	0.516752	1.084513	0.368800	4.316893	10.760100	6.541200	3.635587
	August	7.101000	0.512049	1.074598	0.365100	4.309625	10.514600	6.439100	3.602725
	September	7.169900	0.518371	1.087698	0.369200	4.432663	10.437000	6.215500	3.647370
	October	7.316800	0.528057	1.108070	0.375600	4.552158	10.314500	6.082100	3.715203
	November	7.337700	0.530799	1.113558	0.377400	4.540370	10.425000	6.267700	3.734453
	December	7.337100	0.531519	1.115040	0.377700	4.594252	10.428300	6.243200	3.739419
1999	January	7.340488	0.533474	1.118992	0.379103	4.575519	10.430367	6.316871	3.753243
	February	7.482794	0.543796	1.140745	0.386454	4.683296	10.870117	6.673312	3.825892
	March	7.599532	0.552280	1.158541	0.392483	4.767060	11.303258	6.975289	3.885579
	April	7.597745	0.552150	1.158269	0.392391	4.749492	11.410040	7.090183	3.884665

Table H7: Midpoint Exchange Rates of Croatian National Bank (end of period)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1992		0.964508	0.070357	0.145244	0.054153	0.546218	1.206464	0.798188	0.495000
1993		7.262200	0.540504	1.120052	0.381300	4.471653	9.714800	6.561900	3.801812
1994		6.902400	0.516285	1.052510	0.346500	4.288893	8.784200	5.628700	3.632100
1995		6.812200	0.526742	1.085365	0.335800	4.618693	8.234500	5.316100	3.705900
1996		6.863600	0.506253	1.055662	0.362600	4.098835	9.359000	5.539600	3.562200
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.511000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1997	September	6.945200	0.503737	1.055727	0.362300	4.293889	10.075900	6.239000	3.545100
	October	6.934400	0.500960	1.052322	0.359300	4.326325	10.086900	6.060300	3.525900
	November	6.986100	0.501166	1.053767	0.360100	4.364977	10.429300	6.225300	3.527100
	December	6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.514000
1998	January	6.936200	0.499850	1.048998	0.356600	4.362448	10.494000	6.422400	3.517000
	February	6.974000	0.501420	1.052034	0.357700	4.356138	10.511400	6.384800	3.527900
	March	7.035200	0.503495	1.057106	0.359200	4.316791	10.906400	6.490700	3.542200
	April	7.069200	0.508200	1.066631	0.361900	4.298106	10.722800	6.431300	3.575700
	May	7.146000	0.515839	1.082172	0.368400	4.362616	10.531600	6.469800	3.629600
	June	7.203800	0.517596	1.085858	0.369600	4.324013	10.989000	6.599300	3.641400
	July	7.140100	0.515321	1.081260	0.367600	4.329786	10.520300	6.412400	3.625700
	August	7.110800	0.511973	1.074355	0.364600	4.368501	10.673900	6.444000	3.602400
	September	7.246800	0.523592	1.098635	0.372500	4.451521	10.531100	6.170700	3.684000
	October	7.339000	0.530999	1.113926	0.377700	4.588593	10.365000	6.173000	3.735800
	November	7.339000	0.531019	1.114023	0.377400	4.531715	10.521900	6.355300	3.736200
	December	7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999	January	7.387139	0.536844	1.126162	0.381514	4.581811	10.668874	6.480515	3.776984
	February	7.567448	0.549948	1.153650	0.390826	4.769165	10.996704	6.869506	3.869175
	March	7.596698	0.552074	1.158109	0.392337	4.768037	11.455302	7.089117	3.884130
	April	7.591112	0.551668	1.157258	0.392048	4.722115	11.560627	7.158725	3.881274

Table H8: External Debt
Millions of US dollars

	1993	1994	1995	1996	1997	1998				1999
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.
Outstanding debt										
1. Medium and long term credits	2,431.3	2,771.0	3,111.3	4,397.2	6,123.1	6,338.8	6,614.8	7,195.5	7,895.3	7,948.1
1.1. Official creditors	1,041.4	1,187.8	1,318.0	1,889.6	1,867.0	1,848.2	1,834.2	2,020.3	1,988.5	1,964.8
1.1.1. International financial organizations	319.6	404.0	493.7	673.1	851.0	854.5	847.7	933.4	974.5	983.3
1.1.2. Foreign governments	721.8	783.8	824.3	1,216.5	1,016.0	993.7	986.5	1,086.9	1,014.0	981.5
1.2. Private creditors	1,389.9	1,583.2	1,793.3	2,507.6	4,256.1	4,490.6	4,780.6	5,175.2	5,906.8	5,983.3
1.2.1. Foreign banks	1,266.5	1,392.8	1,508.8	2,198.2	3,788.0	4,015.4	4,275.2	4,551.2	5,175.9	5,236.5
o/w: Guaranteed by government agencies	244.9	301.9	297.3	191.8	167.0	188.0	222.5	123.8	199.9	194.5
1.2.2. Foreign nonbanks	123.4	190.4	284.5	309.4	468.1	475.2	505.4	624.0	730.9	746.8
o/w: Guaranteed by government agencies	18.0	29.5	37.5	21.9	17.6	17.4	22.6	24.1	20.3	24.7
2. Short-term credits	54.6	50.5	225.1	411.2	538.5	626.3	652.0	643.2	593.4	593.3
2.1. Foreign banks	10.5	15.7	136.2	278.6	370.1	465.7	467.1	415.0	362.7	367.2
2.2. Foreign nonbanks	44.1	34.8	88.9	132.6	168.4	160.6	184.9	228.2	230.7	226.1
Total (1+2)	2,485.9	2,821.5	3,336.4	4,808.4	6,661.6	6,965.1	7,266.8	7,838.7	8,488.7	8,541.4
o/w: Nonreported principal payments ¹⁾	543.4	753.5	950.5	197.5	241.9	298.6	573.0	590.0	426.3	419.7
Memo: Nonreported interest payments	152.4	245.1	324.5	-	-	-	-	-	-	-

Croatian beneficiaries' outstanding debt.

Data for end 1996, and 1997 include Paris and London Club rescheduling agreements and nonallocated debt.

1) Nonreported principal payments include principals which should have been paid, but there is no statistical information about it.

Table H9: Foreign Debt by Domestic Sectors and Estimated Future Payments
Millions of US dollars

	Outstanding debt Jan. 31, 1999	Nonreported principal payments	Estimated future principal payments of medium and long-term credits										
			1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Other
1. Monetary authorities	226.1												
1.1. Medium and long-term credits	226.1	0.0	29.2	30.0	33.3	36.6	36.5	36.5	14.1	6.6	3.3	0.0	0.0
1.2. Short-term credits	0.0												
2. Central government and funds	3,269.8												
2.1. Medium and long-term credits	3,218.9	1.3	65.3	385.9	383.5	584.7	239.7	413.7	230.3	235.7	159.0	164.4	355.4
2.2. Short-term credits	50.9												
3. Banks	1,799.2												
3.1. Medium and long-term credits	1,761.6	17.6	212.6	519.0	263.6	191.6	204.9	50.7	66.0	53.1	56.7	56.7	69.1
3.2. Short-term credits	37.6												
4. Other domestic sectors	3,246.3												
4.1. Medium and long-term credits	2,741.5	186.0	507.2	512.2	461.8	370.7	182.2	107.2	80.9	84.4	90.8	80.3	77.8
4.2. Short-term credits	504.8												
A. Total medium and long-term credits	7,948.1	204.9	814.3	1,447.1	1,142.2	1,183.6	663.3	608.1	391.3	379.8	309.8	301.4	502.3
B. Total short-term credits	593.3												
C. Total (A+B)	8,541.4												
Memo: estimated future interest payments on medium and long-term credits		62.3	369.9	391.5	311.7	236.4	182.4	143.4	106.8	85.0	63.8	41.9	37.4

Note: When there are no statistical information on actual payments of principals that are due, such amounts are shown as "nonreported principal payments".

170 Table I1: Consolidated Central Government
Millions of kuna

	1994	1995	1996	1997	1998				1999	
					Q1	Q2	Q3	Q4	Jan.	Feb.
TOTAL REVENUE AND GRANTS										
1. Budgetary central government	23,142.6	27,980.8	31,367.5	33,846.1	10,099.4	12,083.2	10,919.2	10,706.8	2,312.2	2,867.9
2. Extrabudgetary funds	13,739.6	15,302.3	17,029.1	19,499.1	5,458.9	5,634.6	4,756.7	5,451.9	1,646.7	1,570.6
2.1. Pension fund	7,165.1	8,720.4	9,584.7	11,022.2	2,965.0	2,811.7	2,260.9	2,675.8	861.5	817.1
2.2. Health insurance fund	3,775.2	4,558.1	5,196.3	5,824.2	1,795.2	2,112.8	2,094.0	2,267.1	653.2	651.2
2.3. Employment fund	556.7	691.2	676.1	638.3	165.4	180.9	182.0	189.9	58.4	57.6
2.4. Child benefit fund	689.4	782.1	878.5	976.7	255.6	274.0	9.9	3.4	0.8	0.6
2.5. Road fund ¹⁾	1,117.5	-	-	-	-	-	-	-	-	-
2.6. Public water management fund	435.7	550.5	693.5	1,037.7	277.7	255.2	209.9	315.7	72.9	44.1
A. Total (1+2)	36,882.3	43,283.1	48,396.6	53,345.3	15,558.3	17,717.7	15,675.9	16,158.7	3,959.0	4,438.5
TOTAL EXPENDITURE AND LENDING (minus repayments)										
3. Budgetary central government	20,732.4	26,189.3	27,591.9	29,409.4	7,875.7	9,363.8	8,908.4	7,977.5	2,124.4	2,423.3
4. Extrabudgetary funds	14,736.9	17,976.8	21,282.1	25,522.5	7,132.0	7,479.2	7,414.4	8,077.5	2,695.4	2,502.4
4.1. Pension fund	6,685.6	8,860.7	10,459.8	13,795.1	3,757.2	4,017.0	3,996.8	4,399.5	1,533.9	1,483.2
4.2. Health insurance fund	5,255.7	7,083.1	8,357.5	8,742.8	2,596.0	2,845.8	2,566.4	2,767.8	907.3	800.7
4.3. Employment fund	416.1	445.9	676.2	714.1	173.7	124.1	128.6	144.8	52.5	56.9
4.4. Child benefit fund	665.2	820.6	853.2	1,003.7	249.1	193.3	333.6	256.2	99.8	86.7
4.5. Road fund ¹⁾	1,207.0	-	-	-	-	-	-	-	-	-
4.6. Public water management fund	507.4	766.6	935.5	1,266.8	356.0	299.2	388.9	509.2	101.9	74.8
B. Total (3+4)	35,469.3	44,166.1	48,874.0	54,931.9	15,007.7	16,843.0	16,322.8	16,055.0	4,819.8	4,925.7
C. Overall surplus/deficit (A-B)	1,413.0	-883.0	-477.4	-1,586.7	550.6	874.7	-646.9	103.6	-860.8	-487.2
5. Budgetary central government (1-3)	2,410.3	1,791.5	3,775.6	4,436.7	2,223.7	2,719.4	2,010.8	2,729.3	187.8	444.6
6. Extrabudgetary funds (2-4)	-997.3	-2,674.6	-4,253.0	-6,023.4	-1,673.0	-1,844.7	-2,657.7	-2,625.7	-1,048.6	-931.8

1) In 1995 included in government budget.

Source: Ministry of Finance.

Table 12: Budgetary Central Government Operations
Millions of kuna

	1992	1993	1994	1995	1996	1997	1998				1999	
							Q1	Q2	Q3	Q4	Jan.	Feb.
1. Total revenue	547.4	8,382.2	23,142.6	27,880.8	31,367.5	33,846.1	10,099.4	12,083.2	10,919.2	10,706.8	2,312.2	2,867.9
1.1. Current revenue	547.0	8,371.2	22,788.9	27,287.1	30,244.3	33,385.0	9,970.1	10,953.1	10,673.0	10,423.3	2,278.2	2,846.0
1.1.1. Tax revenue	502.1	7,891.8	22,377.5	26,505.4	28,530.4	31,338.2	9,412.3	10,247.7	10,340.2	9,899.4	2,236.7	2,725.8
1.1.2. Nontax revenue	45.0	479.3	411.4	781.8	1,713.9	2,046.8	557.7	705.3	332.7	523.9	41.5	120.1
1.2. Capital revenue	0.3	11.0	353.8	593.7	1,123.1	461.1	129.3	1,130.1	246.3	283.5	34.1	21.9
2. Grants	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1. Current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Capital	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Total revenue and grants (1+2)	547.4	8,382.2	23,142.6	27,980.8	31,367.5	33,846.1	10,099.4	12,083.2	10,919.2	10,706.8	2,312.2	2,867.9
3. Total expenditure	564.6	8,403.4	22,282.8	28,475.6	30,972.8	34,395.2	9,435.3	10,986.6	10,239.6	10,729.0	2,936.0	3,259.0
3.1. Current expenditure	519.8	7,738.1	20,360.5	25,495.2	25,930.1	29,579.7	8,638.7	9,404.5	8,349.5	8,490.4	2,885.5	2,685.1
3.2. Capital expenditure	44.5	661.3	1,922.3	2,980.4	5,042.7	4,815.5	796.6	1,582.1	1,890.1	2,238.6	50.5	573.9
4. Lending minus repayments	-9.7	-88.8	316.0	220.6	528.7	611.1	64.4	316.3	821.7	-84.8	25.7	50.5
B. Total expenditure and net lending (3+4)	554.9	8,314.6	22,598.8	28,696.2	31,501.5	35,006.3	9,499.7	11,346.9	11,061.2	10,644.1	2,961.7	3,309.5
5. Current account surplus without grants (1.1.-3.1.)	27.3	633.1	2,428.4	1,791.9	4,314.3	3,805.3	1,331.4	1,548.5	2,323.5	1,933.0	-607.3	160.9
6. Current account surplus with current grants (5+2.1.)	27.3	633.1	2,428.4	1,791.9	4,314.3	3,805.3	1,331.4	1,548.5	2,323.5	1,933.0	-607.3	160.9
7. Gross fixed capital formation ¹⁾	44.2	650.3	1,235.0	1,040.5	1,113.9	1,516.4	186.5	-589.9	391.3	988.2	11.1	383.3
8. Gross capital formation ²⁾	44.2	650.3	1,415.0	1,040.5	1,113.9	1,516.4	186.5	-589.9	391.3	988.2	11.1	383.3
C. Overall surplus/deficit (A-B)	-7.5	67.6	543.9	-715.4	-134.0	-1,160.2	599.7	736.3	-142.0	62.7	-649.5	-441.6
9. Foreign financing	0.0	0.0	47.3	686.0	803.9	2,985.9	519.5	-110.9	-107.8	-309.9	-149.7	203.7
10. Domestic financing	7.5	-67.6	-591.2	29.4	-669.9	-1,825.7	-1,119.2	-625.4	249.8	247.2	799.2	237.9
10.1. From other government	0.0	-18.5	0.0	0.0	0.0	0.0	0.0	0.0	120.0	70.0	0.0	50.0
10.2. From monetary authorities	0.0	67.0	-617.3	396.0	-152.7	-354.8	-540.8	429.2	51.8	172.2	1,107.3	16.8
10.3. From deposit money banks	-4.0	-106.2	-63.8	0.0	-308.4	-1,357.3	-680.2	-1,075.5	122.0	-4.9	-308.1	171.1
10.4. Other domestic financing	11.5	-9.9	89.9	-366.6	-208.8	-113.6	101.8	20.9	-44.0	9.9	0.0	0.0
D. Total financing (9+10)	7.5	-67.6	-543.9	715.4	134.0	1,160.2	-599.7	-736.3	142.0	-62.7	649.5	441.6

1) Net purchase of fixed capital formation. 2) Net purchase of fixed capital formation and net purchase of shares. Source: Ministry of Finance

Table J1: Retail Prices, Costs of Living and Manufacturing Producer's Prices Indices

Year	Month	Chain indices			Monthly year-on-year indices			Cumulative year-on-year indices		
		Retail prices	Costs of living	Manufactur. prod. prices	Retail prices	Costs of living	Manufactur. prod. prices	Retail prices	Costs of living	Manufactur. prod. prices
1992	December	122.4	125.3	129.1	1,053.4	1,026.3	1,120.9	745.4	694.7	846.6
1993	December	99.5	100.6	98.5	1,249.7	1,225.1	1,175.6	1,616.6	1,591.3	1,610.4
1994	December	100.2	100.9	100.2	97.0	102.5	94.5	197.5	207.2	177.7
1995	December	100.2	100.7	100.5	103.7	104.6	101.6	102.0	104.0	100.8
1996	December	100.0	100.4	100.3	103.4	103.7	101.5	103.5	104.3	101.4
1997	September	100.3	100.1	100.0	103.7	104.2	103.3	103.7	104.0	102.3
	October	100.2	100.1	100.1	103.3	103.7	103.3	103.6	104.0	102.4
	November	100.4	101.0	100.3	103.1	104.1	101.9	103.6	104.0	102.3
	December	100.7	101.2	99.9	103.8	104.9	101.6	103.6	104.1	102.3
1998	January	102.4	102.8	99.2	105.3	106.3	99.6	105.3	106.3	99.6
	February	100.4	100.7	99.9	105.7	107.0	99.7	105.5	106.7	99.7
	March	100.2	100.5	98.1	105.8	107.2	99.3	105.6	106.8	99.5
	April	100.3	100.5	100.2	105.9	107.6	99.4	105.7	107.0	99.5
	May	100.5	100.8	99.9	106.0	107.1	99.4	105.7	106.9	99.4
	June	100.0	99.7	100.2	105.8	106.2	99.7	105.7	106.8	99.6
	July	99.8	98.7	99.7	105.8	106.2	99.6	105.7	106.7	99.5
	August	100.1	99.5	99.9	105.2	105.5	97.7	105.6	106.6	99.3
	September	100.9	100.7	99.9	105.8	106.1	97.7	105.6	106.5	99.2
	October	100.5	100.2	100.4	106.1	106.2	97.8	105.7	106.3	99.0
	November	100.2	100.5	100.5	105.9	105.8	97.6	105.8	106.5	98.9
	December	100.2	100.7	100.0	105.4	105.3	97.9	105.7	106.4	98.8
1999	January	100.5	100.9	100.1	103.1	103.3	99.1	103.1	103.3	99.1
	February	100.3	100.6	100.8	103.4	103.2	100.0	103.4	103.2	99.5
	March	100.4	100.5	99.4	103.5	103.3	101.3	103.4	103.3	100.1
	April	100.3	100.4	100.6	103.6	103.2	101.7	103.5	103.2	100.6

Source: Central Bureau of Statistics

Table J2: Average Monthly Net Wages
In current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
1992	December	74.4	120.2	681.7	409.4
1993	December	1,073.2	105.2	1,442.1	1,605.3
1994	December	1,646.0	119.0	153.4	233.2
1995	December	1,883.0	99.4	114.4	145.7
1996	December	2,217.0	104.4	117.7	111.8
1997	September	2,394.0	99.7	118.1	116.9
	October	2,437.0	101.8	117.7	117.0
	November	2,525.0	103.6	118.9	117.1
	December	2,544.0	100.8	114.8	116.9
1998	January	2,501.0	98.3	110.0	110.0
	February	2,475.0	99.0	112.7	111.4
	March	2,548.0	102.9	112.2	111.6
	April	2,592.0	101.8	112.1	111.7
	May	2,626.0	101.3	111.3	111.6
	June	2,699.0	102.8	112.2	111.7
	July	2,756.0	102.1	115.1	112.2
	August	2,720.0	98.7	113.2	112.3
	September	2,729.0	100.4	114.0	112.5
	October	2,793.0	102.3	114.6	112.7
	November	2,806.0	100.5	111.1	112.6
	December	2,935.0	104.6	115.4	112.8
1999	January	2,946.0	100.4	117.8	117.8
	February	2,884.0	97.9	116.5	117.2

Source: Central Bureau of Statistics

CLASSIFICATION AND PRESENTATION OF DATA ON CLAIMS AND LIABILITIES

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes following sub-sectors: monetary authorities (the central bank), deposit money banks (DMBs), other banking institutions and other financial institutions. The central bank is the Croatian National Bank (CNB). Deposit money banks are institutions granted, by the Croatian National Bank, the permission to perform banking business services in accordance with the Law on Banks and Savings Banks. Data on DMBs does not include claims and liabilities of former branches of banks with their headquarters in the former Yugoslavia. Other banking institutions comprise savings banks and housing savings banks. Since July 1995 savings banks have been under auspices, and have operated with the permission of the CNB. Other financial institutions are financial institutions not classified as banks or other banking institutions (insurance companies, investment funds, savings cooperatives etc.)

The central government and funds comprises government institutions including Croatian Roads Authority, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Guarantee Agency, and following central government funds: Croatian Health Insurance Institute, Republic Fund for Pension and Disability Insurance of Workers in Croatia, Croatian Employment Service, Croatian Privatization Fund, Public Water Management Fund and Croatian Bank for Reconstruction and Development. Other domestic sectors are other central government funds (those not classified under the central government and funds sector), local government authorities and local funds, public and private companies and households, including craftsmen and non-profit institutions. In some tables other domestic sectors are divided into following sub-sectors: local governments and funds (including other republic funds, local government authorities and local funds), public and private enterprises, and households (including craftsmen and non-profit institutions).

Foreign sector includes foreign legal entities and individuals.

All data on claims and liabilities refer to balances at the end of the reporting period. Foreign exchange items are reported in their kuna equivalent at the midpoint CNB exchange rate at the end of the reporting period.

Table A1: Monetary and Credit Aggregates

The table shows data on some basic monetary and credit aggregates, including their monthly growth rates.

Reserve money has been taken over in its entirety from the Monetary Authorities Accounts (Table C1).

Money (M1) is defined in the same way as the corresponding item in the Monetary Survey (Table B1). It comprises cash outside banks, deposits with CNB by other banking institutions and other domestic sectors as well as DMBs' demand deposits. Money (M1a) comprises currency outside banks and DMBs' demand deposits, increased by the demand deposits of the central government and funds with DMBs.

Broadest money (M4) comprises Money (M1), savings and time deposits, foreign currency deposits as well as bonds and money market instruments (all above components taken over from the Monetary Survey (Table B1).

Net domestic assets are defined as a difference between total liquid assets and foreign assets (net).

Domestic credit comprises DMBs' claims on other domestic sectors, other banking institutions and other financial institutions.

Table B1: Monetary Survey

The monetary survey shows consolidated data from the Monetary Authorities Accounts (Table C1) and DMB's Accounts (Table D1).

Foreign assets (net) are the difference between total foreign assets and total foreign liabilities of the CNB and DMBs.

Domestic credit is the sum of corresponding items from Monetary Authorities Accounts and DMB's accounts. Claims on central government and funds are reported on the net basis, i.e. decreased by central government and funds' deposits with the CNB and DMBs.

The money is the sum of currency outside banks, deposits by other banking institutions with the CNB, deposits by other domestic sectors with the CNB and DMBs' demand deposits (item Demand deposits in DMB's Accounts, Table D1).

Items Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments are entirely taken over from the DMB's Accounts, while item Restricted and blocked deposits represent the sum of correspondent items from Monetary Authorities Accounts (excluding DMBs blocked deposits with the CNB) and DMBs Accounts. Other items (net) are unclassified liabilities decreased by unclassified assets.

Table B2: Number of Reporting Deposit Money Banks and Savings Banks and Their Classification by Size

The table shows the total number of DMBs and savings banks which report monthly to the CNB. Their operation is shown in the DMBs/savings banks' accounts.

Due to the fact that savings banks were not legally obliged to report their operation to the CNB

until June 1995, the total number of savings banks refers only to those savings banks which reported voluntarily to the CNB. In July 1995, coordination of the registration of savings banks with the Law on Banks and Savings Banks, and reporting to the CNB became compulsory. Since July 1995, total number of savings banks reporting to the CNB has corresponded with the total number of registered savings banks. The table also shows the classification of reporting DMBs and savings banks according to their total assets.

Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities. Foreign assets include the following forms of foreign currency and kuna claims on foreign legal entities and individuals: monetary gold, holdings of special drawing rights, foreign cash in vaults, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits in foreign banks, foreign currency security investments and other claims. Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. Claims in kuna are short-term loans granted for the purpose of overcoming the incoordination between incoming revenues and execution of budgetary expenditures, long-term loans granted by special decrees by the government of the Republic of Croatia, and overdue claims on the State Budget for liabilities to the IMF and foreign banks. Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors.

Claims on DMBs are credit to DMBs, deposits by the CNB with DMBs and overdue claims on DMBs. Credit to DMBs is split according to the type of financial instruments. Refinancing of DMBs include loans granted within general and selective quotas up to the end of 1993, as well as advances to DMBs for performing currency exchanges. Refinancing loans granted within the general and selective quotas were paid back in their entirety by the end of April 1994. In July 1994, they were formally revoked. Lombard credits comprises credits to DMBs for regular maintaining of the day-to-day liquidity, which were replaced by lombard credits in December 1994. Overdue claims on DMBs comprise loans due, giro account overdrafts and banks' indiscipline in allocation and maintenance of statutory reserve requirements.

Reserve money consists of currency outside banks, cash in DMBs' vaults, DMBs' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. DMBs' deposits are: giro account balances, statutory reserves deposited on a special account with the CNB as well as CNB bills on obligatory basis. Deposits by other banking institutions are: giro account balances of savings banks as well as statutory reserves of savings banks' deposited on special accounts with the CNB. Deposits by other domestic sectors are: other domestic

sectors' giro account balances (this refers to accounts opened with the CNB by October 1994, since when they have been in the process of transition into deposits with the DMBs).

Restricted and blocked deposits include required foreign exchange reserves, restricted deposits and blocked foreign exchange deposits. Banks and savings banks are required to place foreign exchange reserve deposits in accounts at the Croatian National Bank on the basis of certain foreign exchange deposits they hold. Blocked deposits are mainly kuna funds set aside on the basis of court order or legal regulation. Blocked foreign exchange deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits and liabilities to international financial institutions.

Central government and funds deposits are demand deposits and foreign currency deposits of the central government and funds with the CNB, and CNB bills voluntary subscribed by the Croatian Bank for Reconstruction and Development and State Agency for Deposit Insurance and Bank Rehabilitation.

CNB bills are CNB bills on voluntary basis excluding in kuna and in f/c excluding CNB bills voluntary subscribed by the Croatian Bank for Reconstruction and Development and State Agency for Deposit Insurance and Bank Rehabilitation.

Capital accounts include reserves, funds, undistributed profit and f/c revaluation adjustment (net).

Other items (net) are unclassified liabilities decreased by unclassified assets of the CNB's accounts.

Table D1: Deposit Money Banks' Accounts

DMBs accounts include data on Croatian DMBs' claims and liabilities. DMBs' mutual claims and liabilities are consolidated.

Required reserves held at the Central Bank include kuna and foreign exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the Central Bank. Foreign exchange reserves include foreign exchange held in accounts at the Central Bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal entities and individuals: foreign cash in vaults, nostro letters of credit and other collaterals with foreign banks, deposits with foreign banks, securities, loans, equities and arrears. Unregulated claims on institutions of former Yugoslavia are shown separately.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities, loans, equities and arrears (including claims for interest charged and due 30 and more days prior to the reporting date). Main forms of claims on the central government are shown separately: bonds issued in accordance with the Decree Law on the Transformation of Household Foreign Exchange Savings Deposits with Banks into the Public Debt of the Republic of Croatia, and bonds issued in accordance

with the Law on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Claims on other domestic sectors include the following claims in kuna and foreign currency: securities, loans (including acceptances), equities and claims due.

Same forms of kuna and foreign currency claims are included in claims on other banking institutions and other financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and other financial institutions.

Demand deposits include giro and current accounts balances and other transferable deposits, decreased by currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are: kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are: foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are: banks' liabilities for securities issued (net) and loans obtained.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal entities and individuals: giro and current accounts, loro letters of credit and other collateral's, savings and time deposits, loans received and liabilities due. Unregulated liabilities to institutions in former Yugoslavia are shown separately within foreign liabilities.

Central government and funds' deposits are all forms of DMBs' kuna and foreign currency liabilities (except restricted and blocked deposits) to the central government and funds.

Credit from central bank comprises loans obtained from the CNB and deposits by the CNB with DMBs. Repurchase of securities is also considered and treated as loan.

Restricted and blocked deposits comprise the following DMBs' liabilities: kuna and foreign currency restricted deposits by other domestic sectors, other banking institutions, other financial institutions, central government and funds as well as foreign legal entities and individuals; households' blocked foreign currency deposits, regulated by the Decree Law on the Transformation of Household Foreign Exchange Savings Deposits with Banks into the Public Debt of the Republic of Croatia and foreign currency deposits by domestic sectors to cover outstanding liabilities due to foreign creditors.

Capital accounts are share capital, reserves, provisions, current profit or loss, undistributed profits and f/c revaluation adjustments (net).

Other items (net) are unclassified liabilities decreased by unclassified assets.

Tables D2 - D12

This group of tables (with the exception of Table D5) represents an elaborate presentation of appropriate items of claims and liabilities of DMBs' Accounts (Table D1).

Table D2: Deposit Money Bank's Foreign Assets

This table shows DMBs' claims on foreign legal entities and individuals.

Foreign assets of the DMBs comprise foreign assets in kuna and foreign currency as well as DMBs' claims on the former Yugoslavia and the adjustment for former branches.

Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency. Within Claims on former Yugoslavia, those in kuna and in foreign currency are shown separately.

Table D3: Deposit Money Banks' Claims on the Central Government and Funds

The table shows kuna and foreign currency DMBs' claims on the central government and funds.

Bonds arising from blocked foreign currency savings deposits are issued in accordance with the Decree Law on the Transformation of Household Foreign Exchange Savings Deposits with Banks into the Public Debt of the Republic of Croatia.

Big bonds are those issued in accordance with the Law on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Other claims are all other DMBs' kuna and foreign currency claims on central government and funds: securities, loans, equities, postponed interest arrears (claims for interest due but not payable before relations with foreign creditors are regulated) and arrears (including claims for interest due 30 and more days prior to the reporting date).

Adjustment for former branch banks refers entirely to other central government's bonds.

Table D4: Deposit Money Bank's Claims on Other Domestic Sectors

The table shows DMBs' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: bills of exchange, commercial bills, bonds, other short-term securities, loans and advances (including acceptances and commodity futures), equities and arrears.

By October 1994, foreign currency loans were granted only when counterparted by DMB's loan abroad, in bank's name and on behalf of the final beneficiary of the loan. Due to the fact that foreign debts are still not entirely regulated, there is an item Postponed interest arrears. It refers to claims on inter-

est due at the original due date, but the obligation to pay is postponed until relations with foreign creditors are regulated.

Table D5: Distribution of Deposit Money Banks' Loans by Domestic Institutional Sectors

The table shows data on kuna and foreign currency loans granted by DMBs to domestic sectors, including acceptances and commodity futures.

Table D6: Demand Deposits with Deposit Money Banks

The table shows demand deposits with deposit money banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other banking institutions' and other financial institutions' giro and current accounts balances, as well as other transferable deposits, decreased by currency in the payment system, i.e. by amount of checks in banks' vaults and checks in collection.

Table D7: Time and Savings Deposits with Deposit Money Banks

The table shows Savings deposits of households in kuna as well as Time and notice deposits in kuna by other domestic sectors, other banking institutions and other financial institutions with DMBs.

Table D8: Foreign Currency Deposits with Deposit Money Banks

The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and other financial institutions with DMBs.

Foreign currency savings deposits are all foreign currency sight deposits, while foreign currency time deposits also include foreign currency notice deposits.

Table D9: Bonds and Money Market Instruments

The table shows DMBs liabilities for securities issued (net) and loans received from other domestic sectors, other banking institutions and other financial institutions.

Money market instruments (net) comprise DMBs net liabilities for CNB bills, bills of exchange (issued and accepted) and other securities issued.

Bonds (net) comprise DMBs net liabilities for kuna and foreign currency bonds issued.

Other domestic borrowings comprises loans received, reported total and classified by institutional sectors.

Table D10: Deposit Money Banks' Foreign Liabilities

The table shows DMBs' total foreign currency and kuna liabilities to foreign legal entities and individuals, with the exception of restricted kuna and foreign currency deposits by foreign legal entities and individuals.

DMBs' foreign liabilities comprise foreign currency liabilities, foreign kuna liabilities and DMBs' liabilities to the former Yugoslavia.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Within liabilities to the former Yugoslavia, liabilities in foreign currency are reported separately from kuna liabilities.

Item Postponed interest arrears on foreign currency loans showing within foreign currency liabilities refers to liabilities for interest due on the original due date, but payable after the regulation of relations with foreign creditors.

Table D11: Central Government and Funds Deposits with Deposit Money Banks

The table reports total DMBs' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with DMBs.

Kuna and foreign currency deposits by Republic of Croatia and republic funds are shown separately. Kuna deposits comprise demand deposits, kuna time and notice deposits, and kuna loans obtained from the central government and funds. Foreign currency deposits comprise foreign currency sight deposits, as well as foreign currency time and notice deposits.

Table D12: Restricted and Blocked Deposits with Deposit Money Banks

The table shows restricted and blocked deposits by the central government and funds, other domestic sectors, other banking institutions, other financial institutions and foreign legal entities and individuals with DMBs.

Restricted and blocked deposits include two categories of deposits: restricted (kuna and foreign currency) deposits and blocked foreign currency deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Decree Law on the Transformation of Household Foreign Exchange Savings Deposits with Banks into the Public Debt of the Republic of Croatia, as well as domestic sectors' deposits regulated by the Decree Law on the Settlement of Arrears to External Creditors.

Table E1: Savings Banks' Accounts

Savings banks' accounts include the data on savings banks' claims and liabilities. Savings banks' mutual claims and liabilities are consolidated.

Reserves are savings banks' kuna cash in vaults and kuna deposits with the CNB.

Foreign assets refer to foreign currency in savings banks' possession within arrangements with DMBs regarding performing currency exchange transactions.

Claims on central government and funds are all kuna and foreign currency claims on the Republic of Croatia and central government funds.

Claims on other domestic sectors are the following forms of kuna and foreign currency claims: securities, loans, equities and claims due. Claims on local governments and funds, enterprises and households, are shown separately within this item.

Claims on DMBs include the following forms of kuna and foreign currency claims on DMBs: savings and time deposits, securities, loans, equities and arrears. Item Claims on other financial institutions comprises the same forms of kuna and foreign currency claims.

Demand deposits comprises other domestic sectors' and other financial institutions' kuna giro and current accounts balances as well as other transferable deposits.

Savings and time deposits are households' savings deposits in kuna as well as time and notice deposits by other domestic sectors, domestic deposit money banks and other financial institutions.

Foreign currency deposits are households' foreign currency savings and time deposits.

Bonds are liabilities by other banking institutions for securities issued (net), as well as loans received from other domestic sectors, domestic DMBs and other financial institutions.

Foreign liabilities are foreign savings and time deposits in foreign currency.

Central government deposits are kuna time and notice deposits by the Republic of Croatia and central government funds.

Credit from central bank comprise kuna loans obtained from the Croatian National Bank.

Capital accounts are: share capital, reserves, provisions, current profit or loss, undistributed profit and f/c revaluation adjustment (net).

Other items (net) are unclassified assets decreased by unclassified liabilities.

Table F1 - Credit Rates of Croatian National Bank

The table shows interest rates used by the CNB to calculate and charge interest on loans and on all other claims.

Lending CNB interest rates are being set by special decrees of the Council of the Croatian National

Bank, on annual basis. Exceptionally, from June 1995 to September 11, 1996 interest rate charged by CNB on lombard credits has been 1.5 percentage point higher than the weighted average interest rate on CNB bills on voluntary basis (which serve as collateral for lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports weighted average interest rate on lombard credits. Interest rate in September 1996 is calculated as weighted average of interest rate applied in first 10 days of September 1996 (according to the regime mentioned above) and fixed interest rate applied since September 11, 1996.

Time series presented in the table contain certain breaches, due to changes in CNB's monetary policy instruments. Consequently, until November 1994, column 4 shows interest rates on regular credits for maintenance of day-to-day liquidity, which were granted based on securities portfolio, and from December 1994 onwards, interest rates on lombard credits.

Furthermore, data shown in column 6 refer, until September 1994, to interest rates on special credits for savings deposits' payments and for payments from households' current accounts, and since October 1994 until September 1997 to interest rates on daily credits for savings deposits and current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In October 1997 this instrument was replaced by daily credits for overcoming short-term liquidity problems which are collateralized by CNB bills. Since December 16, 1998, this credit is incorporated in lombard credit, applying different interest rate for usage within one day.

Data shown in column 7 refer, until December 1994, to interest rate on initial credits, since March 18, 1998 to credits for overcoming illiquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999 to interest rates on short-term liquidity credits.

Interest rates reported in column 8 refer to the use of statutory reserves, which was being used by the banks (in prescribed percentage) to maintain day-to-day liquidity until September 1994. Interest rates paid until September 1994 on the use of statutory reserve funds in amount above prescribed and/or for longer period than allowed are shown in column 9. Since October 1994, interest rates paid on the use of statutory reserve funds are the same as those used for any other form of financial indiscipline, in accordance with the late interest regulations (shown in column 10).

Until June 1994 the same interest rate was applied to funds used above amounts available on giro accounts and to inaccurately calculated or under-appropriated statutory reserves (reported in column 9). From July to September 1994, interest rate applied to the use of those funds was 21 percent, and since October 1994 the same interest rates have been applied as for other forms of financial indiscipline, shown in column 10.

Table F2: Deposit Rates of Croatian National Bank

The table shows interest rates paid by the CNB on funds deposited with the CNB as well as on securities issued.

Interest rates paid by the CNB for appropriated statutory reserve funds are being set by the Council of the CNB. Until 7 October 1993, CNB was setting different exchange rates for statutory reserve funds based on savings and time deposits. Therefore, for that period the table reports weighted average interest rate on appropriated statutory reserve funds (column 3). From 8 October 1993 until the end of February 1994, CNB paid no interest on appropriated statutory reserve funds, and since March 1994, uniform rate has been applied to these funds.

Interest rates on CNB bills on obligatory basis are set by the Council of the CNB.

Until October 1993, interest rates on CNB bills on voluntary basis were also set by the Council of the CNB, while since November 1993, they have been set at CNB bills' auction sales. Congruently, since November 1993, columns 5, 6 and 7 report weighted average interest rates attained in auctions of the CNB bills.

Until October 1994, interest rates on CNB bills on voluntary basis due in 30 and 90 days are reported in columns 6 and 7 respectively.

Since April 1998 column 9, 10 and 11 report weighted average interest rates of the CNB bills on voluntary basis in EUR and USD (until December 1998 in DEM and USD), due in 63, 91, 182 and 365 days attained in CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

Table F3: Deposit Money Banks' Reserves on Obligatory Basis

This table shows data on monthly averages of day-to-day balances of reserves on obligatory basis by DMBs with the CNB.

Reserve requirement (column 3) represents the prescribed amount of funds banks are required to deposit on a special statutory reserve account with the CNB, or to maintain (in average) on their giro accounts or in vaults. This amount corresponds with the statutory reserve instrument of January 1995, while until December 1994 it comprised two instruments: statutory reserves and liquid assets requirement - LAR (except for the part in which banks were conforming to this requirement by registering CNB bills on voluntary basis).

Column 4 shows weighted average reserve requirement ratio as a percentage of the reserve requirement (column 3) in the reserve base.

Column 5 shows the portion of the reserve requirement banks are required to deposit on a special statutory reserves account with the CNB (until December 1994 this amount corresponds with the statutory reserves instrument, while since January 1995 until May 1998 banks have been required to deposit at

least 75% of the total reserve requirement on a special account with the CNB, and since May 1998 at least 60% of that amount).

Column 6 shows the percentage of the statutory reserves deposited with the CNB in the total reserve requirement.

Column 7 shows the total amount of other deposits with the CNB on obligatory basis, which comprises CNB bills on obligatory basis, part of CNB bills on voluntary basis used by the banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves (until July 1995) and statutory reserves on f/c deposits, f/c credits from foreign banks and guaranties and f/c credits from foreign banks.

Column 8 shows the total reserve requirement as a sum of reserve requirement and other deposits with the CNB on obligatory basis. Column 9 shows the percentage of total reserve requirement in the reserve base.

Column 10 shows weighted average remuneration rate for all forms of immobilized funds (i.e. for all components of total reserve requirement).

Column 11 shows the use of obligatory reserves, which includes use of appropriated statutory reserve funds (authorized and unauthorized), inaccurately calculated statutory reserves, non-maintenance of the prescribed minimal liquidity, i.e. (since January 1995) non-maintenance of the minimal average giro account and vault balance (determined in accordance with the calculation of statutory reserves), unregistered amount of the CNB bills on obligatory basis and inaccurately calculated special statutory reserves (until July 1995) and inaccurately calculated statutory reserves on f/c deposits, f/c credits from foreign banks and guaranties and f/c credits from foreign banks.

Table F4: Deposit Money Banks' Liquidity Indicators

The table reports monthly averages of day-to-day balances of some indicators of DMBs' liquidity.

Column 3 shows free reserves, defined as bank's total reserves (on giro accounts and in vaults) decreased by the minimal average giro account and treasury balance, as prescribed by instruments of the CNB (until December 1994 by the requirement for banks' minimal liquidity and since January 1995 by statutory reserve requirement).

Column 4 shows the primary liquidity ratio as a percentage of monthly day-to-day free reserves averages in monthly day-to-day averages of deposits which constitute the reserve base.

Column 5 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources comprise: use of statutory reserves (until October 1994), regular loans for maintenance of day-to-day liquidity (until November 1994), use of funds exceeding those available on the bank's giro account (until October 1994), special credits for overcoming illiquidity problems (initial credits, credits for overcoming illiquidity problems of banks under evaluation for entry into rehabilitation and restructur-

ing procedures), lombard credits (since December 1994), intervention credits for overcoming illiquidity (since October 1994), short-term liquidity credits (since February 1999) as well as outstanding liabilities due to the Croatian National Bank.

Column 6 reports monthly average of day-to-day balances of CNB bills on voluntary basis in kuna (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 7 reports monthly average of day-to-day balances on CNB bills on voluntary basis in foreign currency (EUR and USD).

Table G1: Deposit Money Banks' Credit Rates

The table contains weighted averages of DMBs' monthly interest rates on kuna and foreign currency loans, reported on a yearly basis.

Columns 3 and 4 show interest rates on the interbank daily and overnight money markets, according to information received from Money Market Zagreb.

Data on DMBs' interest rates on kuna and foreign currency credits are based on DMBs' periodic reports. Basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reported month, with the exception of interest rates on giro and current accounts credit lines, for which weighted averages were calculated based on the balance of these loans at the end of the reported month.

Column 5 shows interest rates on total (short-term and long-term) kuna credits not indexed to foreign currency. Interest rates on short-term kuna credits (shown in column 6) also include interest rates on discounted short-term securities (not indexed to foreign currency), weighted based on their face value.

Columns 8, 9, 10 shows interest rates on total (short-term and long-term) kuna credits indexed to foreign currency, including interest rates on discounted short-term securities indexed to foreign currency.

Interest rates on foreign currency credits (columns 11, 12 and 13) refer to credits released in Deutsche Mark or US dollars in a reported month, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Credits released in other currencies are not included in this table.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

Table G2: Deposit Money Banks' Deposit Rates

The table shows weighted averages of monthly DMBs' interest rates on kuna and foreign currency deposits, reported on a yearly basis.

Data on interest rates on DMBs' deposits are obtained from DMBs' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna deposits (sight deposits, savings and time deposits) not indexed to foreign currency. Weighted averages of monthly interest rates on total kuna deposits indexed to foreign currency are reported in column 6.

Interest rates on foreign currency deposits refer to deposits received in Deutsche Mark or US dollars, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Deposits received in other foreign currencies are not included in the data reported in this table.

Basis for calculation of weighted averages are end-of-month balances of deposits. Exceptions are kuna and foreign currency time and savings deposits for which weighted averages are calculated (since July 1995) based on amounts of those deposits received during the reported month. Weighted averages of interest rates on total kuna and foreign currency deposits (columns 3 and 7) are weighted by the end-of-month balances of all categories included in the calculation.

Kuna and foreign currency deposits used as a credit collateral are included, while restricted deposits (deposits used for payment of imports and other restricted deposits) are not included into the calculation of weighted averages.

Table G3: Deposit Money Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between DMBs comprise transactions of purchase and sale of foreign exchange on domestic foreign currency market. The transactions are classified by categories of participants (legal entities or individuals, banks, CNB). Source of data are DMBs' periodic reports on trading with foreign exchange, sent to the CNB on a regular basis. The amounts are stated in Euro (EUR), converted from other foreign currencies using the CNB's mid-point exchange rate (reporting period average). Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of Ministry of Finance.

Table H1 - H4: Balance of Payments

The balance of payments is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports of the Central Bureau of Statistics, the Croatian Health Insurance Institute, the Payments Institute, Commercial banks, enterprises and the Croatian national Bank, as well as research by the Tourism Institute and the Croatian National Bank.

Exports and Imports are shown on an f.o.b. basis. The basic data source for these items is the Report of the Central Bureau of Statistics on merchan-

dise foreign trade of the Republic of Croatia. The data of the State Statistical Agency are modified in accordance with the compilation method of the IMF: merchandise imports, which are shown in the State Statistical Agency's report in c.i.f. terms, are corrected to f.o.b. (corrected for classification) and both imports and exports are corrected so that the coverage includes goods defined as such in the balance of payments methodology but not included in the statistics on merchandise trade.

Regarding imports, the difference between c.i.f. and f.o.b. is estimated on the basis of research studies of the CNB on samples of the largest importers, and the resulting value of f.o.b. imports is adjusted on the basis of foreign payments for repairs of ships as well as supply purchases in foreign ports, as well as estimates of the purchases of individual Croatian citizens abroad, obtained via a research study of the CNB. For the 1993 to 1996 period, merchandise imports from the merchandise trade statistics are modified by estimates of imports in duty-free zones (prepared by the CNB), while from 1997 on, data on these imports are included in the merchandise trade statistics.

Income from transport services is recorded on the basis of research by the Croatian National Bank. This research was based on data provided by Croatian transport enterprises to the CNB. The data from this project are added to data from the statistics on international payments and income from pipelines and road transport, which were not included in the research project.

Expenditures on transport services include part of the difference between c.i.f. and f.o.b. imports, which pertain to services provided by non-residents, as well as estimates of the operating costs of Croatian transport companies in international transport. This estimate was performed by the Croatian National Bank, and amounts to 40% of the income of Croatian transport companies shown in the Croatian National Bank's research.

Income from travel and tourism is calculated as the total value of foreign exchange cash and checks purchased from nonresidents, the purchase of foreign checks from residents, foreign transfers of funds to the accounts of enterprises engaged in tourism, the sale of local currency and travelers checks abroad, health services provided to non-residents, receipts for scholarships and specialized study by non-residents in the Republic of Croatia, estimates of tourist expenditures of non-residents in registered lodging and accommodations and estimates of other forms of tourist expenditures of non-residents. The estimate of tourist expenditure in registered lodging and accommodations is based on research by the Institute of Tourism, and the estimate of other forms of tourist expenditure is based on econometric analysis of the Croatian National Bank. The other categories mentioned are based on data from foreign payments statistics.

Expenditures for travel and tourism are calculated as the total value of outflows for official travel, stipends and specialized study, foreign exchange ex-

penditures of the Croatian Health Insurance Institute, outflows for tourism organized by domestic tourism enterprises and estimates of the foreign tourist expenditures of residents. These estimates are based on research by the CNB, while the other categories mentioned are based on data on foreign payments.

Other services includes data from the foreign payments statistics which related to investment projects abroad, customs clearing services, representation fees, insurance services, postal services and the costs of Croatian representative offices overseas. To this category is added a part of unclassified services which can be explained as a linear trend, as well as estimates of the expenditures of international peacekeeping and humanitarian missions for goods and services in the Republic of Croatia, based on research by the Croatian National Bank.

The income account includes data from the foreign payments statistics on payments on the basis of interest, data from CNB research on income paid from foreign direct and portfolio investment of the private sector, Croatian National Bank data and Payments Institute data on income paid from foreign portfolio investment in the official sector and estimates of the factor income of resident peace-keeping and humanitarian missions in the Republic of Croatia, based on research of the Croatian National Bank. For the period 1993 to 1996, data on foreign direct investment do not include data on retained profit.

Current transfers to the government include data from the foreign payments statistics on the payment of pensions and other social transfers, monetary support and gifts, as well as data from the merchandise trade statistics of the Republic of Croatia on imports and exports of goods without payment obligation.

Income from transfers to other sectors includes data from the foreign payments statistics on the total value of foreign exchange transfers received from abroad. To this is added an estimate for unregistered transfers. This estimate is seen as 15% of the difference between the unexplained foreign exchange inflows and outflows of the household sector.

The foreign exchange receipts of the household sector include the purchase of foreign cash at exchange offices from residents and deposits of foreign cash in foreign exchange accounts of residents at domestic banks. The total inflow is decreased by: estimate of tourist income and estimates of consumption of goods and services by members of peacekeeping and humanitarian missions in the Republic of Croatia.

The foreign exchange expenditures of the household sector include purchases of foreign cash by exchange offices and withdrawals of foreign cash from households' foreign exchange accounts at domestic banks. The total outflow is decreased by: individuals' expenditures for goods abroad and expenditures for foreign tourism by residents.

Expenditures on transfers of other sectors is based on foreign payments data on the total value of foreign exchange transfers abroad.

Foreign direct and portfolio investment includes data on those investments from the research of the CNB and data from the securities register of the official sector (Central bank and central government) at the Croatian National Bank and Payments Institute. In the 1993 to 1996 period, data on foreign direct investment of the private sector (banks and other sectors) include neither direct foreign debt investment, nor retained profit of the investor.

Other investment is classified according to the following institutional sectors: Croatian National Bank, Government, Banks and Other. The Government sector comprises central government, local government and local funds. The Banking Sector comprises commercial banks.

Funds - foreign exchange and deposits - banks shows the change in the total liquid foreign exchange of banks authorized to do business abroad. Funds - foreign exchange and deposits - other sectors includes a part of the net foreign exchange inflows of the household sector which is not classified on the current account, and which amounts to 85% of the unexplained foreign exchange inflows to the household sector.

Data on credits and arrears are obtained from statistics on foreign credit relations of the Croatian National Bank, which are based on concluded credit agreements registered with the Croatian National Bank.

Changes in the operational state of the foreign exchange reserves of the Croatian National Bank are calculated using current exchange rates of the currencies comprising the reserves, and are shown according to the exchange rate of the US dollar on the last day of the reporting period (end of the quarter or year).

Table H5: International Reserves and Banks' Foreign Exchange Reserves

The international reserves of the Croatian National Bank are shown according to the methodology contained in the Balance of Payments Manual (International Monetary Fund, 1993), and include those foreign claims of the Croatian National Bank that can

be used to bridge imbalances in international payments. International reserves include Special Drawing Rights, reserve position in the International Monetary Fund, foreign currency, and deposits at foreign banks, as well as bonds and debt instruments.

The foreign exchange reserves of commercial banks include foreign currency and domestic commercial banks' deposits at foreign banks. These foreign exchange reserves represent an additional source of liquidity for bridging imbalances in international payments.

Table H8: External Debt

The table shows the balance of external debt at the end of the period, in millions of US dollars, according to the CNB's midpoint foreign currency rate at the end of the period.

External debt is defined as total value of following liabilities for foreign credits: outstanding debt (including principal in arrears) and projection of principal payments.

Principle arrears include principle payments which should have been paid, but for which no statistical information regarding payment has been received.

Interest arrears are estimated by using originally agreed interest rates and do not include late interest.

Short-term credits do not include the use of interbank line of credits.

Table H9: Structure of Foreign Debt and Repayment Projection

The table shows the structure of foreign debt by domestic institutional sectors, as well as the debt stock and a repayment projection for medium-term and long-term borrowing. All data are shown at the midpoint exchange rate of the Croatian National Bank at the end of the period.

Also, the tables show interest-payment projections for medium-term and long-term borrowing.

LIST OF ABBREVIATIONS AND SYMBOLS

CNB	- Croatian National Bank
GDP	- gross domestic product
DMB	- deposit money bank
dep.	- deposit
Q	- quarterly
CBS	- Central Bureau of Statistics
manufactur.	- manufacturer
mil	- million
bil	- billion
o.w.	- of which
IMF	- International Monetary Fund
res.	- reserve
SNA	- System of National Accounts
prod.	- producers
RR	- reserve requirement

ABBREVIATIONS FOR CURRENCIES

HRK	- Croatian kuna
ATS	- Austrian schilling
FRF	- French franc
DEM	- German mark
CHF	- Swiss franc
GBP	- British pound
ITL	- Italian lira
USD	- US dollar
SIT	- Slovenian tolar
EUR	- euro

SYMBOLS

-	- no entry
....	- data not available
0	- value is less than 0.5 of the unit of measure being used
Ø	- average
¹⁾	- indicates a note beneath the table
*	- corrected data
()	- incomplete or insufficiently verified data

Published by: Croatian National Bank
Trg burze 3
10000 Zagreb

Tel.: ++385-1/4564 555
Fax: ++385-1/4610 591
Telex: 22569

Design and DTP: Gandalf d.o.o., Zagreb
Printed by: Tipotisak, Zagreb
Printed in 1000 copies.

Those using data from this publication are requested to cite the source.

ISSN 1331-6567

ISSN 1331-6567