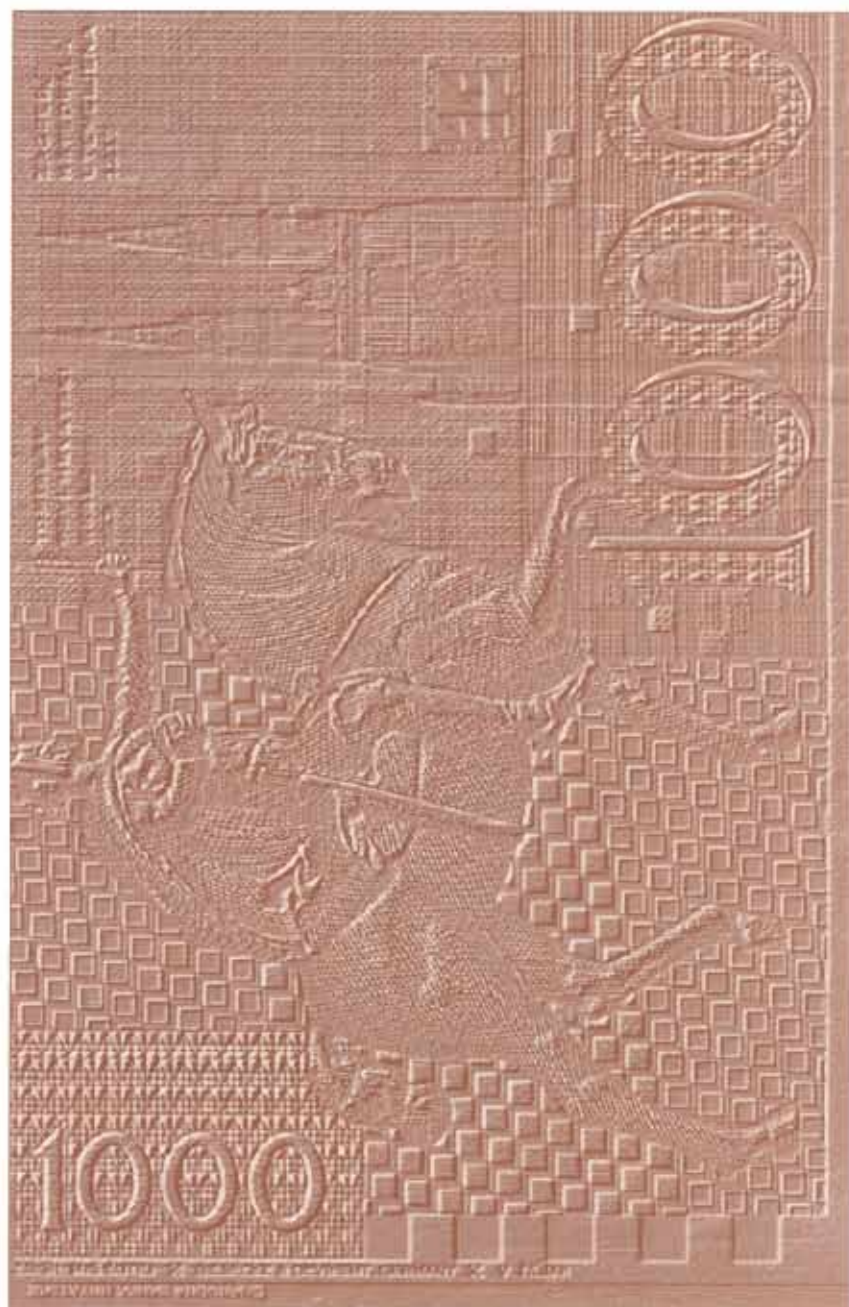


**CROATIAN NATIONAL BANK**



# BULLETIN

YEAR III  
No. 25

MARCH 1998



## INDUSTRY

The upward trend in industrial production continued in January. Compared to January 1997, production recorded a 1.1 percent increase. This growth was accomplished thanks to 5.3 percent growth in power-generation, and a 1.4 percent increase in the processing industry. Production in the mining industry was lower than in January last year. Consequently, total growth in industrial production attained in January was lower than the first two figures.

It is important to remember that industrial production grew at a substantial 6.8 annual rate in 1997.

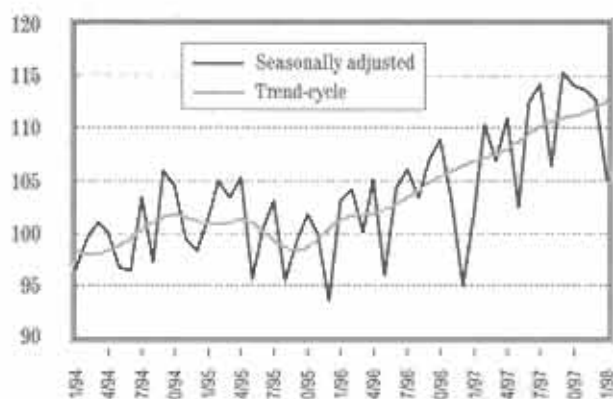
At the beginning of the year, the weights of each sector were changed in accordance with their shares in gross domestic product in 1997. The previous weights referred to 1995. As a result of the introduction of new weights, the share of processing industry in total industrial production decreased by two percentage points, while at the same time the share of the supply of electrical energy, gas and water increased by two percent. The share of mining and extraction remained unchanged. In the absence of official data on Gross Domestic Product for 1997, the calculation of the new structure of sectors was based on the Annual Statistical Report for 1996 issued by the Payments Institute and the Annual Report by Industries for the same year. The structure of sectors was additionally corrected by means of the index of physical volume of industrial production for 1997.

Considering the final destination or use of production, the share of capital goods and durable consumer goods increased at the expense of non-durable consumer goods and intermediate products.

Comparing data on industrial production in the last three months (November 1997 to January 1998) with data on the three months before that, taking into consideration only the trend-component, gives an increase of 0.9 percent. Compared to the same period last year (i.e. with

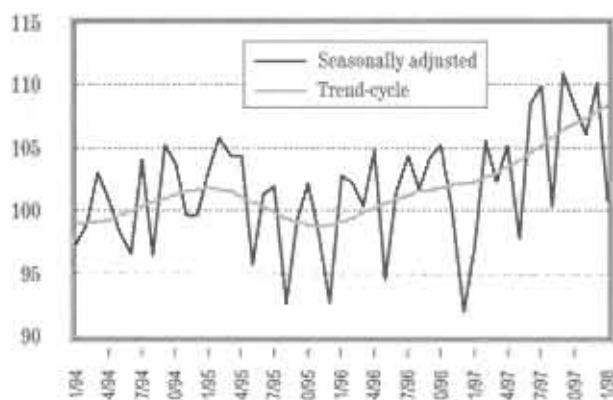
### MANUFACTURING PRODUCTION INDEX

Seasonally adjusted and trend-cycle (1995 = 100)



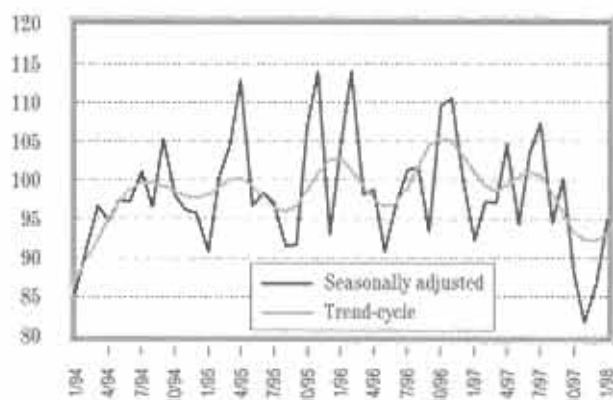
### PROCESSING INDUSTRY

Seasonally adjusted and trend-cycle (1995 = 100)

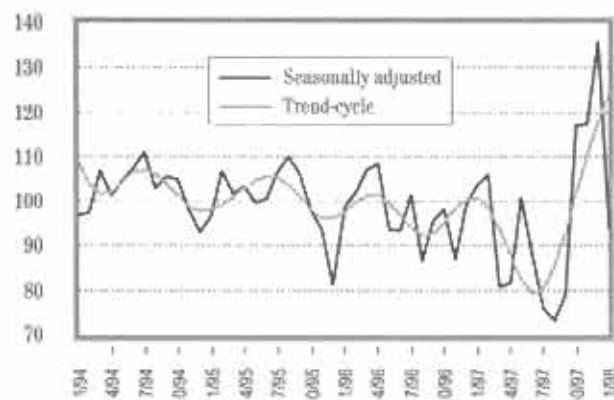


### PRODUCTION OF FOOD AND BEVERAGES

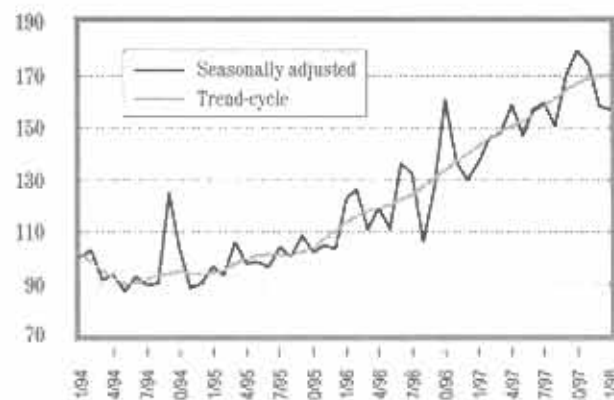
Seasonally adjusted and trend-cycle (1995 = 100)



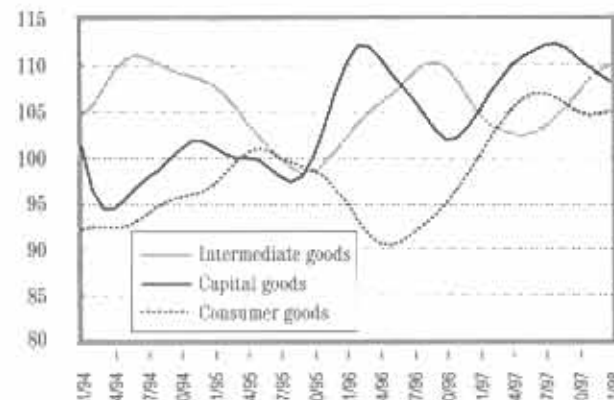
**PRODUCTION OF CHEMICALS AND CHEMICAL PRODUCTS**  
Seasonally adjusted and trend-cycle (1995=100)



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



**INDEX OF PRODUCTION VOLUME IN INDUSTRY BY MAIN INDUSTRIAL GROUPS**  
Trend-cycle (1995=100)



November 1996 to January 1997), the level of industrial production has increased by 7.2 percent.

Developments in a single month cannot significantly change the general impression particular branches of production have made throughout 1997. The branches with the highest growth rates were the production of motor vehicles, publishing and printing industry, production of furniture, metal industry, etc. The most significant decrease was recorded in the production of coke and petroleum products, production of other non-metal mineral products, production of tobacco, production of food and beverages etc.

The branches recording the most significant exports in 1997 were production of clothing, finishing and dyeing of fur, production of chemicals and chemical products, production of food and beverages and production of coke and petroleum products. The exports recorded by the four branches above amounted to over 10 percent of estimated gross domestic product in 1997, while the exports of each individual branch amounted to over 2 percent of estimated gross domestic product.

Looking now at value of imports, five branches of industry had an import share in excess of two percent each in gross domestic product. The largest imports were recorded in the production of machines and equipment, followed by the production of motor vehicles, production of chemicals and chemical products, production of food and beverages, and the metal industry.

The productivity of labor in industry in 1997 increased by 11.9 percent compared to the previous year. The index of consumption of energy and fuel for propulsion and technological purposes indicates an 8.3 percent decrease in consumption at the annual level. The major part of energy consumption referred to water and steam (37%), natural gas (29%), and electrical energy (16%), with smaller shares recorded in other energy products.

## TRADE

Due to seasonal effects, turnover in the retail trade in January recorded a 20 percent decrease relative to December (in real terms), but a 16.9 increase compared to the same month last year. We should mention here that annual real growth in the retail turnover in 1997 amounted to 13.8 percent. The trend component has been continuously growing. January was also the last month in which the turnover was calculated based on the existing sample of traders. Formation of a new sample is in preparation, as well as a new model of tracking developments in trade, based on the Eurostat methodology. It is expected that the new data will give a more real view of developments in that particular activity. The results obtained using the new methodology will not be consistent with the existing series of the value of the turnover. The representative sample is of questionable value in the current methodology, while data on the temporary monthly and the final annual reporting differ significantly.

Turnover in wholesale trade recorded in January a year-on-year monthly growth rate of 9.0 percent, and an annual growth rate for 1997 of 12.9 percent.

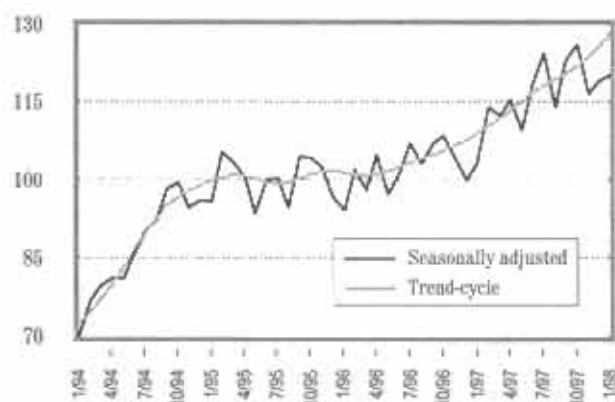
Both retail trade and wholesale trade are having a multitude of serious problems due to payments arrears submitted to the Payments Institute for settlement.

## CONSTRUCTION, TRANSPORTATION AND TOURISM

Construction activity was very lively throughout 1997, although slightly less so at both beginning and the end of the year, due to seasonal factors. The physical indicators of effective working hours executed and the number of workers present on construction sites, showed significant growth rates of 16.9 percent and 17.8 percent, respectively. The value of construction works executed was especially high in December, increasing

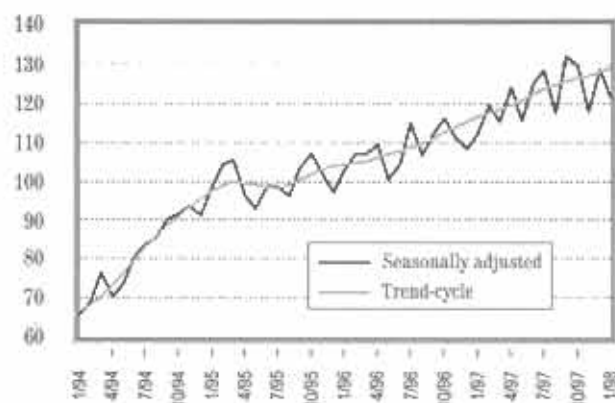
### INDEX OF REAL TURNOVER IN RETAIL TRADE

Seasonally adjusted and trend-cycle (1995 = 100)



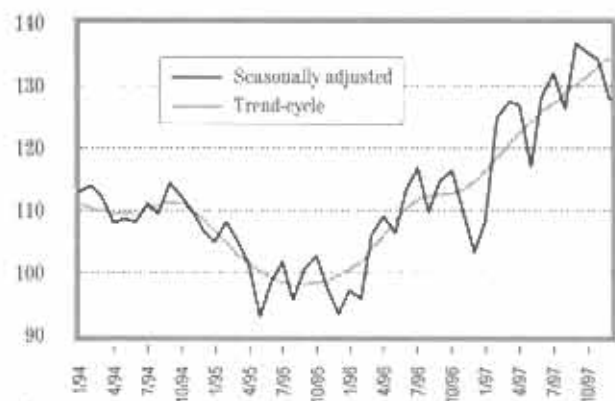
### INDEX OF REAL TURNOVER IN WHOLESALE TRADE

Seasonally adjusted and trend-cycle (1995 = 100)

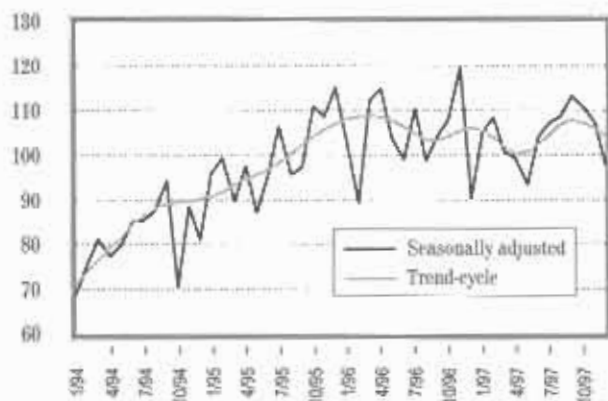


### EFFECTIVE WORKING HOURS IN CONSTRUCTION INDUSTRY

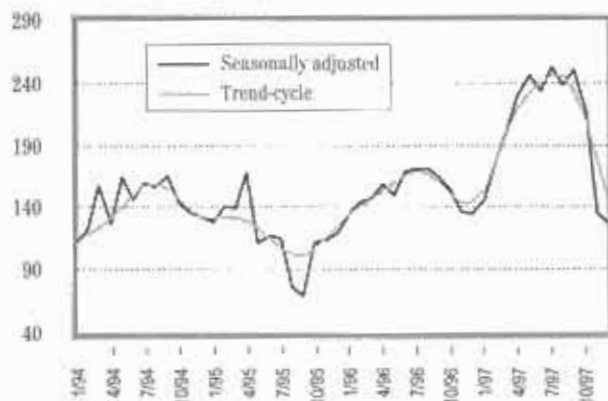
Seasonally adjusted and trend-cycle (1995 = 100)



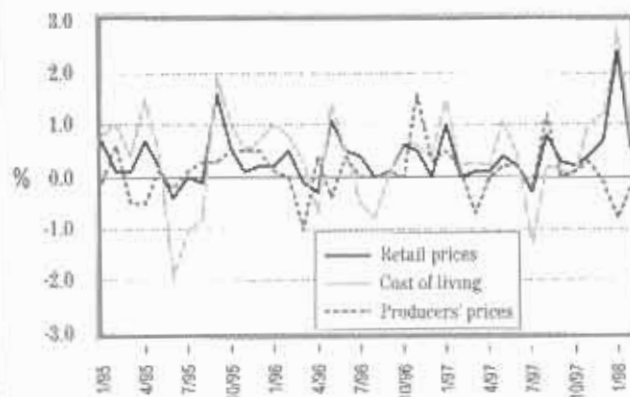
**TRANSPORTATION - TRANSPORTED GOODS**  
Seasonally adjusted and trend-cycle (1995 = 100)



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



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



nominally by 39.6 percent. There is a very low level of reporting discipline in construction companies in general. However, the data on the value of construction works executed is especially unreliable and often confused with the collected value. The beginning of this year also means the beginning of the new statistical methods for following construction activity, methods which are in line with Eurostat methodology.

The index of physical volume of transportation, warehousing and communications for the preceding year is not available at this time. Alternative indicators indicate a very mild increase in passengers and goods transported in all modes of transportation, while subsidiary operations (transshipment of goods, postal and telecommunication services) recorded a very strong growth.

Tourist activity significantly increased in 1997. At the same time, the catering industry achieved satisfactory results. Data on catering turnover for the first three quarters of 1997 indicate a possible year-on-year increase of 22 percent. Turnover comprises the value of catering services provided (service of food and beverages, accommodation and other services offered along with basic catering services). In the above mentioned period, the catering industry recorded a 19 percent increase in the number of employed on the annual level. The number of operating units at the end of the third quarter matched the number recorded in 1996. The leading geographical areas by catering turnover are the County of Istria followed by the County of Primorje and Gorski Kotar, the City of Zagreb and the County of Split and Dalmatia.

## PRICES

Following the intense retail price rise in January, retail prices calmed down in February. The introduction of the value added tax had a one-time effect on retail prices in January. Retail prices grew in February by 0.4 percent, which is significantly lower than the January increase of 2.4 percent. The prices of services

grew, as usual, faster than the prices of goods. This has been the case for the last three years. In February, the prices of services grew by 0.9 percent, while the prices of goods grew by only 0.2 percent. Among the prices of various goods, prices of agricultural products excluding seasonal products recorded the most significant growth in February (6.2%). The prices of agricultural products including seasonal products increased by 5.2 percent. Non-seasonal foodstuffs prices grew by 0.5 percent in February, while foodstuffs, including seasonal products, grew by only 0.3 percent. The prices of industrial foodstuffs decreased by 0.4 percent in February. This was also the case with alcoholic and non-alcoholic beverages, which recorded a 0.1 percent decrease in prices.

The cost of living increased by 0.7 percent in February. Services expenses recorded a 0.8 percent increase, while goods expenses grew at the rate of 0.6 percent. Expenses in connection with education, culture and leisure increased in February by a high 2.2 percent, accommodation grew by 0.5 percent, and nutrition grew by 0.8 percent. Expenses on tobacco products and beverages, and for hygiene and health remained unchanged in February compared to January.

Prices of industrial products decreased for the second consecutive month. Following the 0.8 percent decrease in producers' prices in January, February brought yet another decrease, at the rate of 0.1 percent. The most significant decrease was recorded in energy products. The price of energy products has fallen by 3.6 percent since the beginning of the year. This decrease was in major part caused by the decrease in the price of petroleum products.

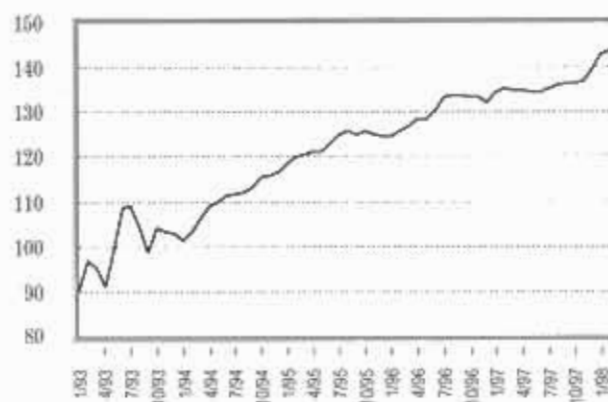
## EMPLOYMENT AND WAGES

During the month of January, registered unemployment grew by 4,694 thus reaching the highest level ever - 291,814 persons. Compared to January of last year, unemployment increased by 16,722 or 6.1 percent.

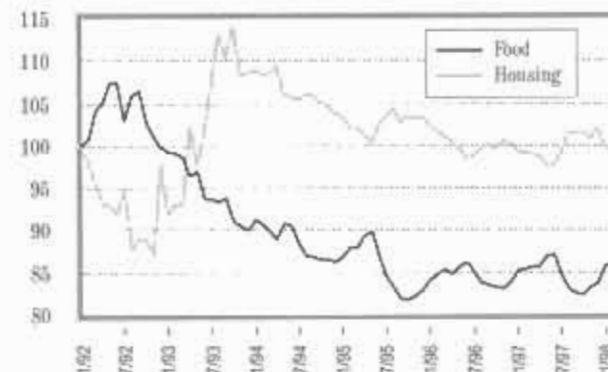
INDICES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS' PRICES  
1993:10=100



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

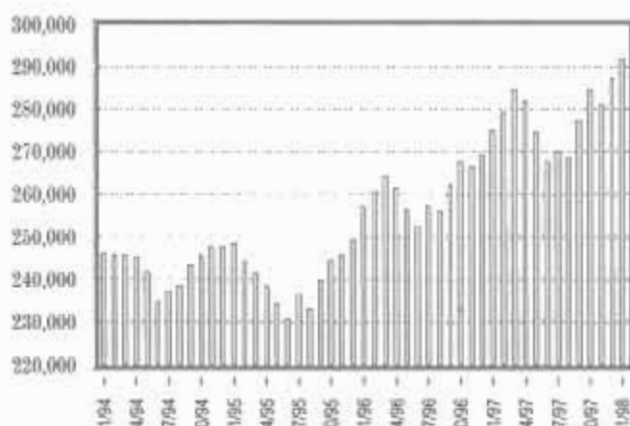
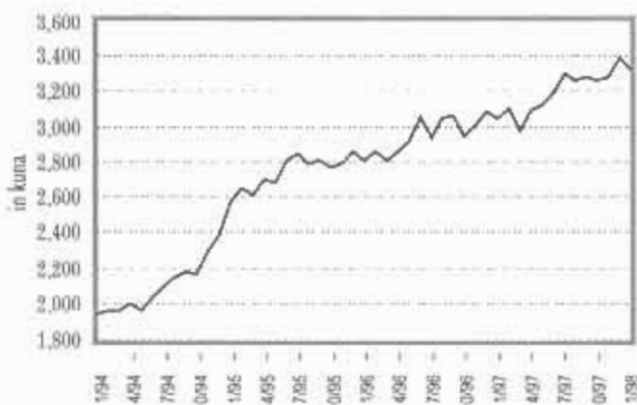


INDICES OF RELATIVE PRICES OF FOOD AND HOUSING  
January 1992=100



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

## NUMBER OF THE UNEMPLOYED

REAL AVERAGE GROSS WAGE  
Constant prices, January 1994REAL AVERAGE NET WAGE  
Constant prices, January 1994

The level of employment has been continually decreasing for the last six months. Following the decrease in January of 6,794 persons, it reached the level of 1,334,942, which is 89,416 or 6.3 percent less than January 1997. The total work force decreased in January by 2,100 persons, while in the last twelve months it has decreased by 72,694 persons or 4.3 percent. The level of unemployment reached a historic high of 17.9 percent, following the 17.6 percent recorded in December and the 16.2 percent recorded in January of last year.

The findings of the periodic questionnaire on the work force for the month of June 1997 show different data. According to the questionnaire, there were 1,593,000 employed and 175,000 unemployed persons, i.e. the total work force amounted to 1,768,000 according to the questionnaire, while the unemployment rate amounted to 9.9 percent (compared to the 16.5 percent recorded by official statistics for the same month). The differences arise from different methodologies, each of which has certain shortcomings.

The average net wage paid in January recorded a nominal increase of 19 kuna or 0.8 percent, while in real terms it decreased by 2 percent. Compared to January last year, the nominal increase in the net wage amounted to 327 kuna or 14.8 percent, while the real growth amounted to 7.8 percent. Gross wages increased in January by 26 kuna or 0.7 percent, which represents a decrease in real terms, at the rate of 2.2 percent. Compared to January of last year, gross wages increased by 547 kuna or 16 percent nominally, while the increase in real terms amounted to 9 percent.

## MONETARY DEVELOPMENTS

The month of January was characterized by - slightly milder than in the previous months *but still significant* - increase in total credits, further decrease in the net foreign assets of commercial banks and continuing stagnation of total liquid assets.

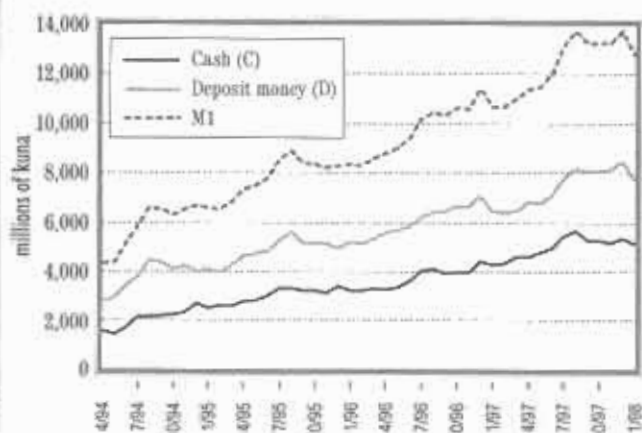


The money supply decreased by 1 billion kuna compared to the end of December by reaching 12.7 billion, the same as around the middle of last year. Currency in circulation decreased by 0.2 billion, while deposit money decreased by 0.8 billion compared to December figures. Demand for money has been almost stagnant since the middle of last year, i.e. it has been growing in proportion with the increase in income and production. In major part, money demand is determined by the dynamics of currency in circulation. Following a period of rapid growth at the beginning of 1997, the growth of currency in circulation calmed down around the middle of the year, corresponding to similar developments in net wages paid. On the side of the supply of money, the Croatian National Bank did not intervene on the foreign exchange market after August of last year until the repurchase in December. The January decrease in M1 was all the more significant in comparison to the seasonally increased December. Seasonally adjusted data indicate a more mild decrease of M1 in January.

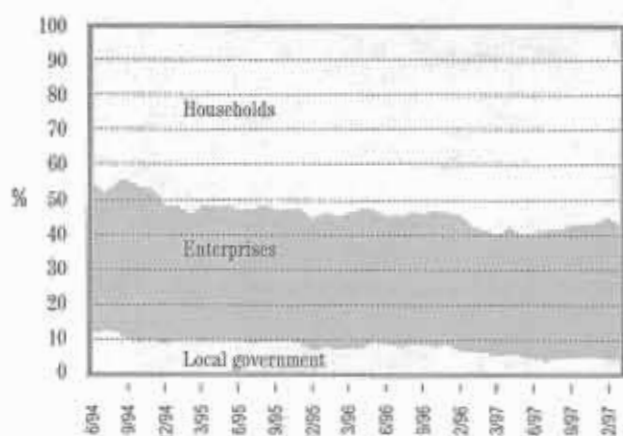
Looking at the sectoral structure, the January decrease in deposit money was exclusively the result of decrease in deposit money in the enterprise sector. Deposit money in other sectors remained at the levels recorded at the end of December 1997. Although it is quite obvious that the decrease in the level of giro accounts was caused by the first payment of the value added tax, it is worth noting that giro accounts decreased by 0.6 million kuna in January 1997 compared to the end of December 1996.

Foreign currency deposits increased by 1.2 billion kuna in January, amounting to 32.3 billion kuna on 31 January. Such a significant increase in foreign currency deposits compared to the preceding months was caused by the unfreezing of part of the principal amount of the "old" savings deposits and the interest entry. It also reflects the seasonal character of the inflow of cash transfers. The January increase in foreign currency deposits has been the same in

### MONEY SUPPLY

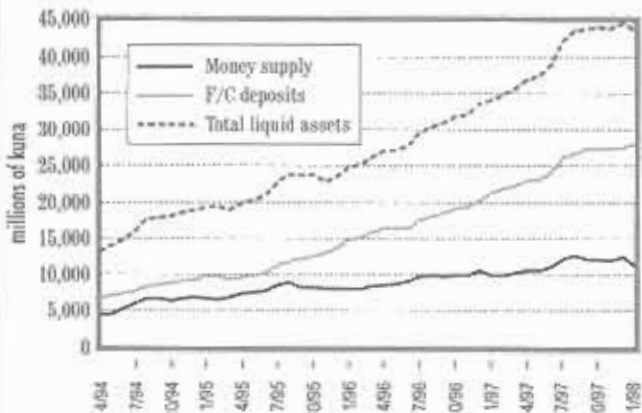


### MONEY SUPPLY - STRUCTURE BY SECTORS

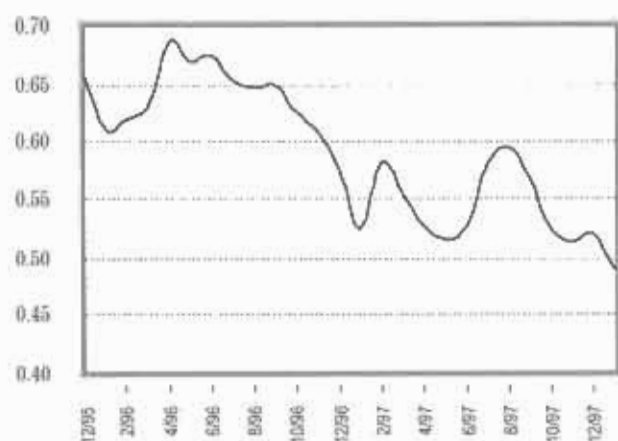
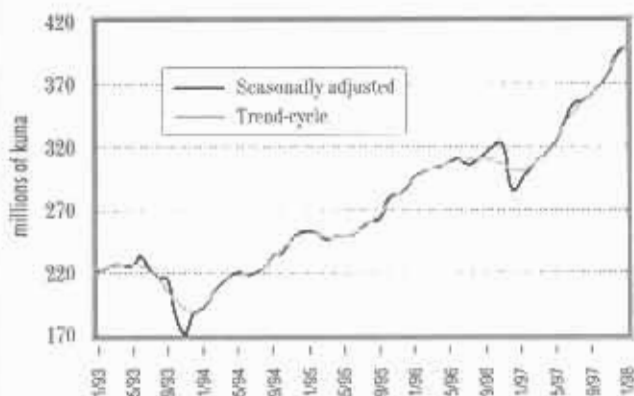


### REAL MONEY

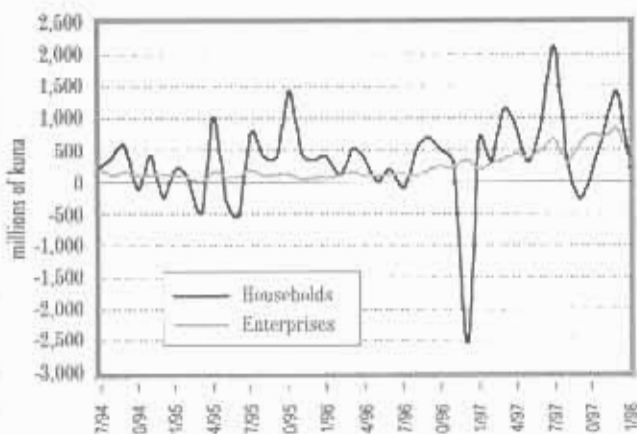
Constant prices, April 1994



RATIO OF COMMERCIAL BANKS' FOREIGN ASSETS TO F/C DEPOSITS

DMB's DOMESTIC CREDITS  
Constant prices, January 1992

GROWTH OF CREDITS BY SECTORS



absolute amount in the last three years.

Net foreign assets of the banking system amounted to 15.5 billion kuna at the end of January. This represents a 1.3 billion kuna decrease in the banking system's net foreign assets compared to December 1997. 0.5 billion refers to the decrease in the net foreign assets of the Croatian National Bank, while 0.8 billion kuna represents a decrease in the net foreign assets of deposit money banks. Out of this amount, 0.4 billion kuna represents a decrease in foreign assets, and 0.4 billion kuna refers to an increase in foreign indebtedness. 0.3 billion kuna out of the total increase in commercial banks' foreign indebtedness refers to the increase in short-term credit received from foreign banks. The decrease of assets by 0.4 billion kuna was the result of the decrease in foreign currency cash, foreign currency current accounts and short-term time deposits, as well as the increase in foreign currency sight deposits.

Banks' total credits grew in January at a slower pace than during 1997. The 0.7 billion kuna (1.5%) increase in January was distributed among sectors as follows: 0.25 billion to the household sector, 0.2 billion to the entrepreneurial sector in the form of credit, 0.2 billion kuna refers to the growth of investment in securities, while the balance refers to total credits in other sectors. Seasonal factors in January decrease the growth of total credits (in the last couple of years, the growth of total credits in January amounted to approximately 0.5 billion). Therefore, it remains to be seen to what degree the above developments represent a turning point toward more moderate growth of total credits, and to what degree it is merely a normal, seasonally quiet January.

A mild decrease in banks' claims on the central government in the amount of 77 million kuna resulted from changes in the structure of claims which occurred in January. Claims from "old savings" bonds decreased by 0.36 billion kuna. At the end of January, they amounted to 6.3 billion kuna. Other net claims on the

central government increased by 0.28 billion kuna.

The activity of the central bank has been very moderate throughout February. It manifested itself solely through granting of credit to commercial banks. The balance of credit to the central government remained at last month's level of 380 million kuna. In addition, there were no foreign exchange transactions recorded in February.

During the first week of February, certain banks used lombard credits of around 13 million kuna. Towards the middle of the month, lombard credits were activated again at the level of approximately 16 million kuna. Lombard credit was used in for a total of 15 days in February (until 24 February), with an average amount of 9.8 million kuna. In February 1997, lombard credit was used 24 days (i.e. every day) in the average amount of 30 million kuna. For the sake of comparison only - considering holdings of CNB bills and Treasury Bills of the Ministry of Finance, banks could in one day draw roughly 0.5 billion kuna in lombard credit.

Like January, February 1998 was also characterized by a satisfactory level of liquidity of the banking sector, with the average giro account balance of deposit money banks at 668 million kuna. This is very similar to the average level of commercial banks' giro accounts in January this year. The second month of the application of the value added tax, in which (according to the theory), the stockpiles of goods have been eliminated and many companies paid VAT for the first time, still had no impact on the level of banks' giro accounts. The average level of banks' giro account recorded in February last year amounted to 456.4 million kuna.

Total treasury bills of the Croatian National Bank amounted to 1.124 billion kuna at the end of February. 946 million kuna of the total amount of CNB bills in February referred to commercial banks, which is more than at the end of January.

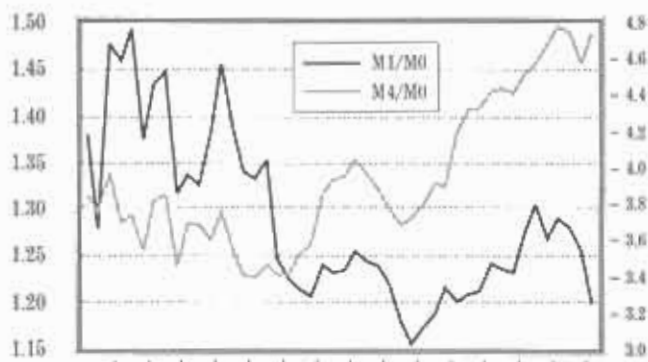
Banks' legal reserve requirements remained at the level from the end of January (3.9 billion kuna).

#### CNB'S FOREIGN EXCHANGE RESERVES

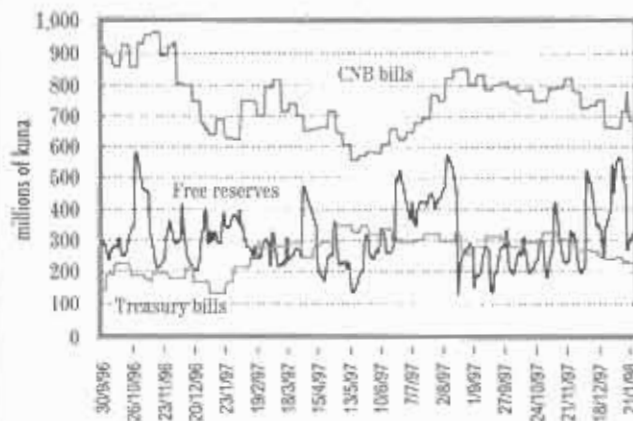


#### MONEY MULTIPLIERS

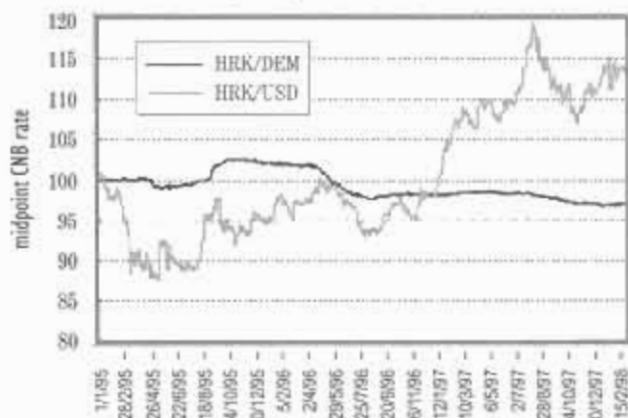
$m1 = M1/M0$  and  $m4 = M4/M0$



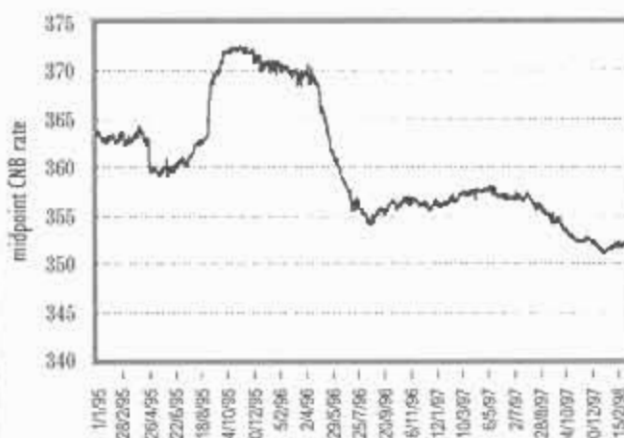
#### CNB BILLS, TREASURY BILLS OF THE MINISTRY OF FINANCE AND AND DMB'S FREE RESERVES AT THE CNB



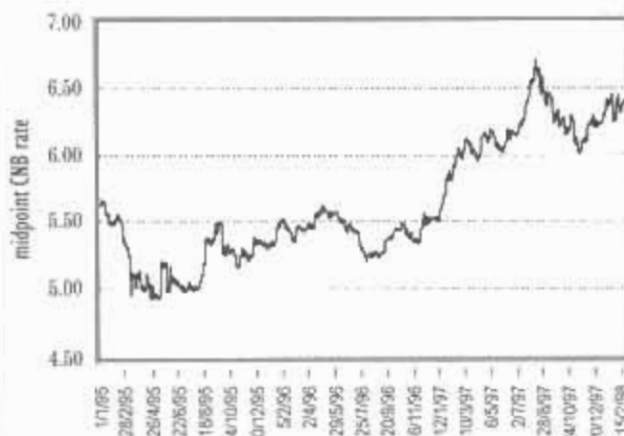
INDICES OF DAILY NOMINAL EXCHANGE RATES OF KUNA VS. DEM AND USD, (January 1, 1995 = 100)



DAILY NOMINAL EXCHANGE RATE - KUNA VS. 100 DEM



DAILY NOMINAL EXCHANGE RATE - KUNA VS. USD



Therefore, the reserve money stagnated at the level of 10.0 billion kuna, attained at the end of January.

## EXCHANGE RATE

The exchange rate of the kuna remained stable throughout February, moving between 3.51 and 3.522 kuna per German mark. The depreciation of the kuna in February was a result of higher-than-expected liquidity on the money market. After the introduction of the VAT, the market expected a low supply of kuna. However, these expectations were not realized. Consequently, the kuna recorded a mild depreciation in both January and February. Compared to the lowest exchange rate in relation to the German mark this year, the kuna depreciated by 0.42 percent (from 3.5087 kuna to 3.5236 kuna for one German mark). The value of the American dollar fell slightly on world markets in February, and this had an indirect impact on the kuna through the German mark. Consequently, the kuna appreciated against the dollar by 1.7 percent in January.

The introduction of the value added tax had an enormous impact on the real effective exchange rate of the kuna. Since the index of retail prices in January increased by 2.4 percent, the value of the deflator decreased (due to the fact that, in Croatia, prices are in the denominator of the deflator). This, aided by the January nominal appreciation of the kuna, caused the appreciation of the real effective exchange rate. The real effective exchange rate (deflated by retail prices) appreciated in January at the rate of 1.76 percent compared to the end of 1997. The index of the real effective exchange rate of the kuna (deflated by the producers' prices) depreciated, due to the fact that prices of industrial products decreased in January by 0.8 percent. Therefore, the index of the effective exchange rate of the kuna deflated by the producers' prices depreciated in January by 1.31 percent. The graph clearly shows the divergence of the real effective exchange rate deflated by retail prices

and the real effective exchange rate deflated by the producers' prices.

## BALANCE OF PAYMENTS

The first phase of the methodological revision of the balance of payments of the Republic of Croatia was finished in February. This revision was carried out in order to decrease the net errors and omissions in the balance of payments, and to bring it into accord with the methodology used by the International Monetary Fund.

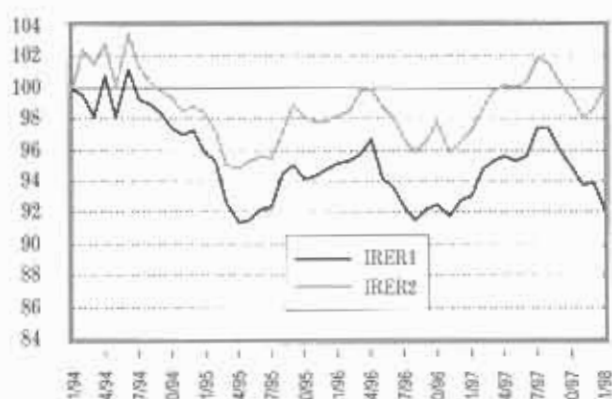
The data acquired by the means of the new methodology include significantly less errors, and indicate a much better situation. For instance, the deficit of the current account of the balance of payments for the first nine months of 1997 amounted to USD 1,086.4 million. The negative items were the merchandise trade (amounting to USD -3,370.2 million) and income (in the amount of USD -124.6 million). The positive items were net earnings from services (in the amount of USD 1,786.1 million) and net current transfers (in the amount of USD 622.3 million).

The financial account of the balance of payments amounted to USD 1,012.5 million in the first nine months of 1997. Direct investment amounted to USD 250.4 million, while portfolio investment amounted to USD 68.0 million. Other investments amounted to USD 695.7 million. Out of this foreign assets decreased by USD 287.6 million, in major part due to the increase in banks' deposits abroad caused by an increase in foreign currency savings.

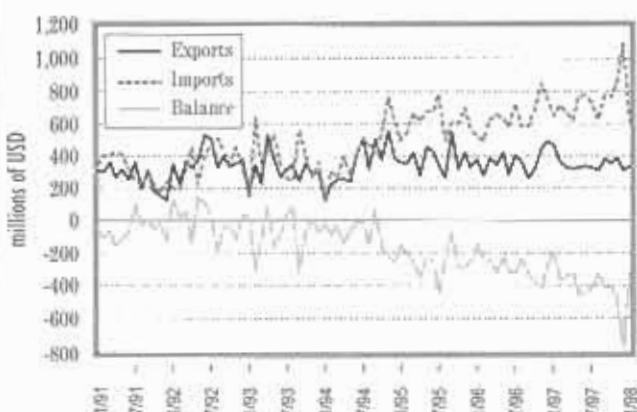
Liabilities increased by USD 983.3 million, out of which USD 860.8 represents increases in foreign credit. The largest debtor was the central government, with debt amounting to USD 531.2 million. The international reserves of the Croatian National Bank increased by USD 173.8 million. Net errors and omissions amounted to USD 247.7 million.

As expected, imports were almost halved in January compared to December, amounting to USD 606.5 million. At the same time, exports amounted to USD 344.7 million. On

INDEX OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA  
(IRER1 - with retail prices, IRER2 - with producers' prices), 1994:1 = 100



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



BALANCE OF PAYMENTS in millions of USD (preliminary data)

	Jan.- Sept. 1997	Jan.- Dec. 1996
Current account	- 1,086.4	- 880.8
Capital and financial account excl. CNB internat. reserves	1,012.5	1,464.2
CNB international reserves	- 173.8	- 418.8
Net errors and omissions	247.7	-583.4

Source: CNB

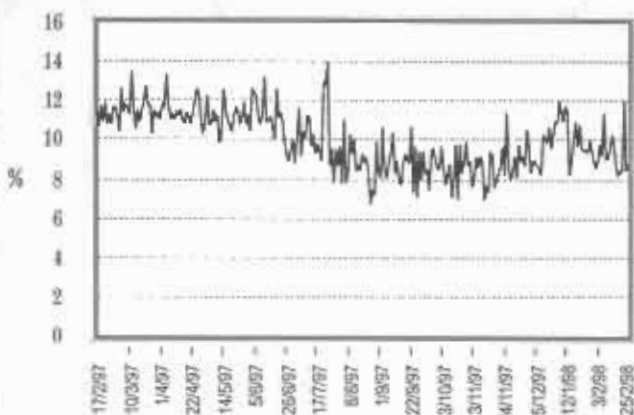
MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan. 1998	Jan. 1997
Exports f.o.b.	344.7	483.8
Imports c.i.f.	606.5	652.5
Balance	-261.8	-168.7

Source: Bureau of Statistics

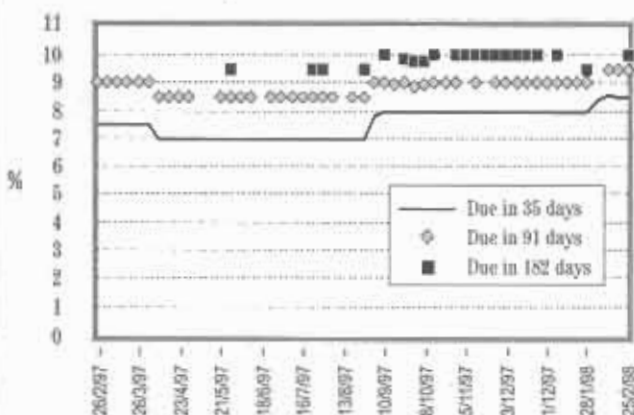
## ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



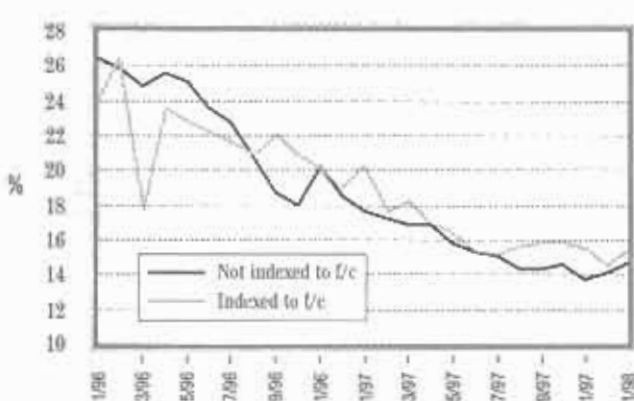
## INTEREST RATES ON CNB BILLS

Annual level, on auction days



## DMBs' INTEREST RATES ON CREDITS IN KUNA

Annual level



the side of the imports, investment goods increased their share in total imports to 28.2 percent. Intermediate goods accounted for 46.1 percent, while the consumer goods accounted for 25.7 percent.

## MONEY MARKET AND INTEREST RATES

There were no significant developments in the average daily interest rates on the Zagreb Money Market. The daily averages oscillated throughout February between 8.2 and 12.0 percent (just like in January), with the mean value of daily averages on the monthly level nearer the lower bound. Interest rates on callable loans continued their downward trend at a significantly lower rate than in January. The interest rates on callable loans amounted to 7 percent at the end of February, which represents a decrease by 0.5 percentage points compared to the beginning of the month (it should be noted here that the decrease in January amounted to 2.5 percentage points). This is undoubtedly due to the imbalance in the daily developments in supply and demand for money, but also to the approaching to the lowest value so far (lower level) of 6 percent, registered in November last year. It should be stressed that there were no significant disturbances in February, although money demand occasionally exceeded supply.

An additional proof of fairly good liquidity is the very low level of use of secondary sources of liquidity, as well as an increased level of purchase of voluntary CNB Bills. The uncertainty which was present in connection with the introduction and payment of the value added tax also failed to disturb the relation between the supply and the demand for money. It is interesting to mention that interest rates on both CNB Bills and Treasury Bills of the Ministry of Finance have been increasing, while at the same time interest rates on the Zagreb Money Market have been slightly decreasing. The monetary authorities' desire to sterilize excess of liquid assets obviously had a short-term impact on the growth of interest

rates on CNB bills. A more substantial yield from assets invested in CNB Bills created certain expectations regarding higher yield from Treasury Bills of the Ministry of Finance, which explains a mild increase in interest rates on Treasury Bills.

CNB Bills, yielding 8.48 percent for 35 days, 9.50 percent for 91 days and 10.00 percent for 182 days, continue to be profitable investments for commercial banks, since they serve as good coverage in case of problems with liquidity. Treasury Bills of the Ministry of Finance achieved in February 8.90 percent interest for 42 days, 9.90 percent for 91 days and 10.40 percent for 182 days.

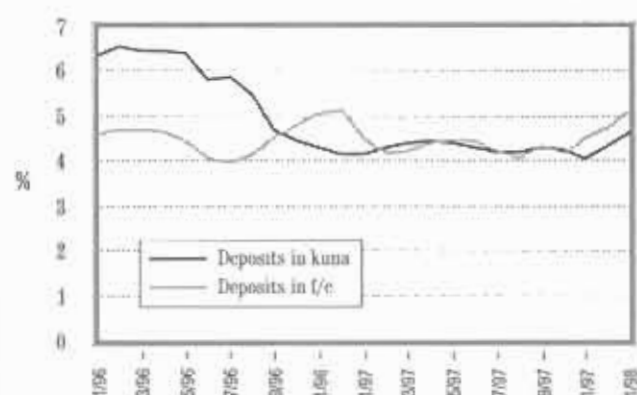
Commercial banks' lending rates recorded an upward trend in January. Most significant, considering its portion in the total credit, the average interest rate on kuna loans without the currency clause increased by 0.6 percentage points, reaching the level of 14.68 percent (short-term loans 14.69%, long-term loans 14.40%). The average interest rate on kuna loans with the currency clause increased by almost a full percentage point, reaching the level of 15.37 percent (short-term loans 17.19%, long-term loans 12.90%). The average interest rate on foreign exchange credit increased by approximately 2.5 percentage points compared to December, reaching the level of 16.05 percent.

Deposit interest rates also increased in January. The average interest rate on kuna deposits increased by 0.3 percentage points, reaching the level of 4.67 percent (caused by the increase in interest rates on time deposits). The average interest rate on foreign currency deposits showed a slightly more intensive increase (0.4 percentage points), reaching 5.13 percent. It should be noted that this increase was also caused in the first place by an increase in interest rates on time deposits).

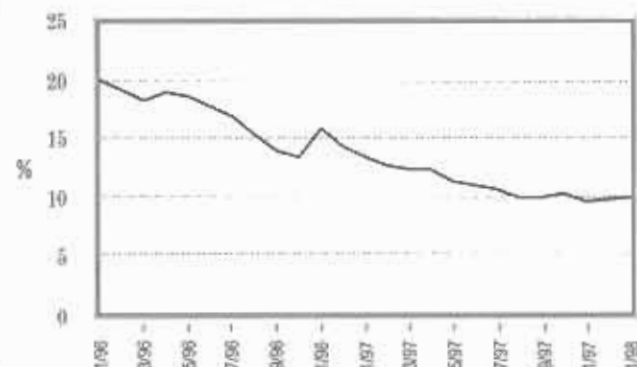
The growth of both lending and deposit interest rates caused an increase of the interest rate spread, which means that the growth of lending interest rates was more significant than the growth of deposit interest rates. The interest rate spread showed a

### DMBs' INTEREST RATES ON DEPOSITS

Annual level

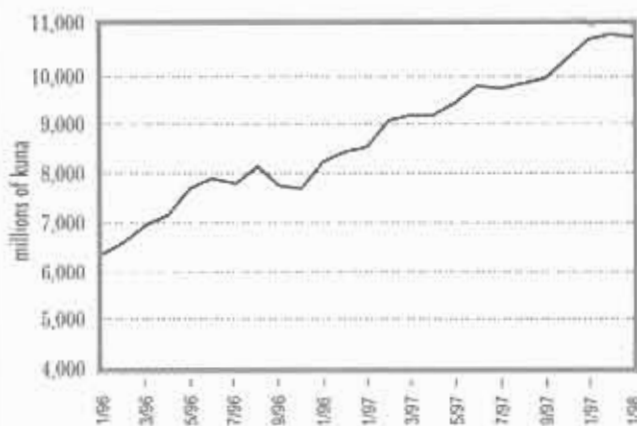


### DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA

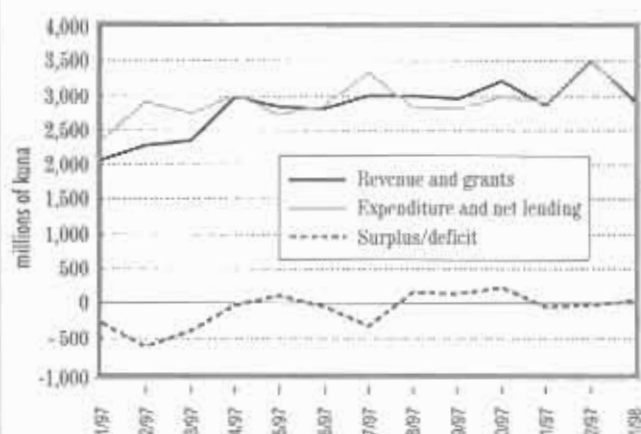


Note: spread is calculated as a difference between interest rates on non-indexed credits in kuna and interest rates on non-indexed deposits in kuna.

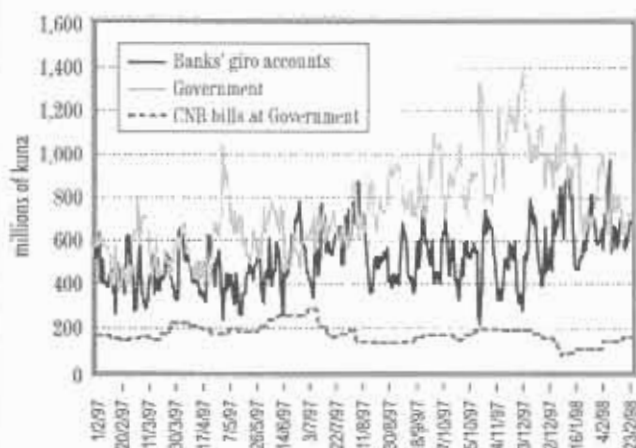
### ARREARS REPORTED TO PAYMENTS INSTITUTE



## OUTTURN OF CENTRAL GOVERNMENT BUDGET



## CENTRAL GOVERNMENT DEPOSITS AT THE CNB AND BANKS' GIRO ACCOUNTS



## FINANCING OF CENTRAL BUDGET DEFICIT

(in millions of kuna)

	Jan. 1998	1998 Budget
<b>TOTAL FINANCING</b>	-53	2,011
<b>DOMESTIC FINANCING</b>	-119	-2,350
From monetary authorities	352	-58
From deposit money banks	-471	-1,921
Other domestic financing	0	-371
<b>FOREIGN FINANCING</b>	66	4,361
From international develop. institut.	164	1,757
From foreign governments	-95	-603
Other foreign financing	-3	3,106

slight increase compared to December. In January, the spread was at the level of 10.01 percentage points.

## GOVERNMENT BUDGET

The first month of the current year exceed the corresponding month of the previous year both by the size of revenues and by the size of expenditures. The year-on-year monthly nominal increase in revenues amounts to 41.5 percent, while the increase in expenditures amounts to 21.8 percent. One twelfth of the revenues was collected in January, which is relatively good for the first month, considering the fact that January is a seasonally "weak" month. The total balance for the first month of the year is positive, and amounts to 53 million kuna.

Very high positive year-on-year monthly rates were attained in all tax items.

According to the annual budget for the current year passed by Parliament, higher amounts are planned for all tax categories compared to the 1997 budget.

The data for January still show the sales tax. This originates from its application to inventories in retail trade generated at the end of the preceding year. High revenues recorded in January correspond to increased imports of goods recorded at the end of 1997. The value generated by this particular tax will decrease and disappear in the coming months.

Non-tax revenues also increased compared to January last year. An especially significant increase was recorded in capital revenues (133.8%). The 1998 budget planned a fivefold increase in capital revenues compared to the preceding year.

All forms of expenditures exceeded the figures recorded in January last year. The most significant increase was recorded in expenditures for interest payments (59%) and purchase of goods and services (32%). In 1998, the government will have a role of an investor. Capital expenditures should increase by 14 percent nominally. Monthly year-on-year growth of 14 percent was already achieved in the first month of the year.