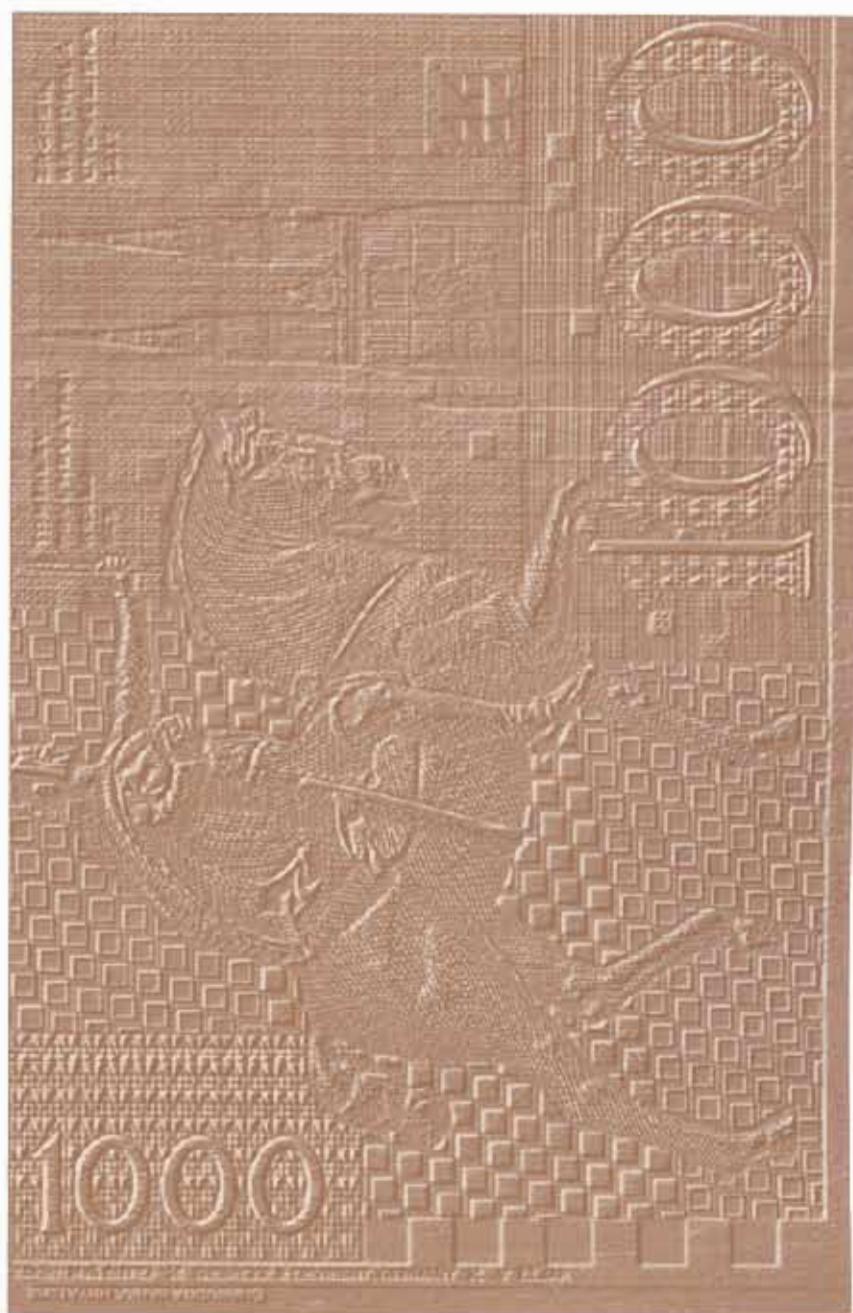


CROATIAN NATIONAL BANK



BULLETIN

YEAR III
No. 30

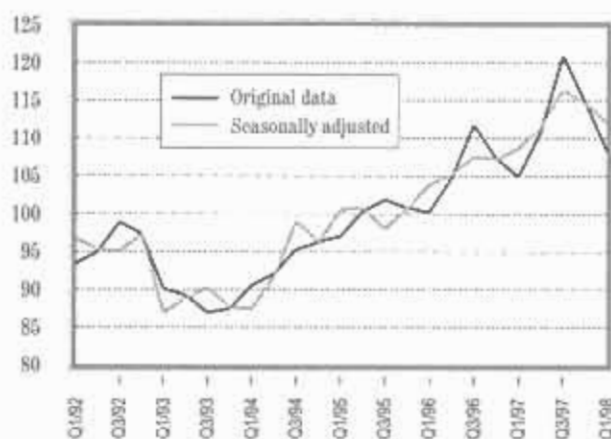
SEPTEMBER 1998

THE REAL SECTOR

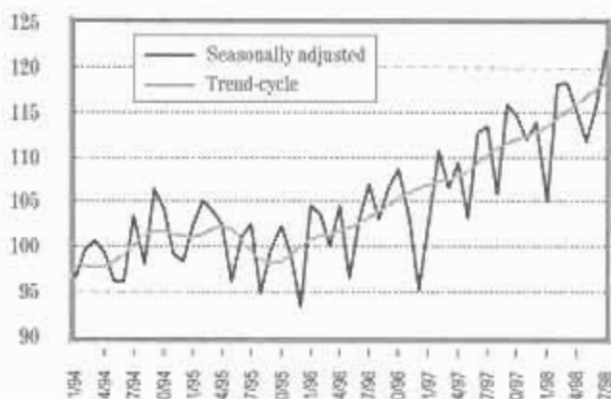
Data on overall economic activity from the first quarter of the year indicate the continuation of the upward trend that began four years ago. With the exception of 1997, industrial production grew faster than total economic activity in all of these years. In 1997, industrial production grew at an above-average rate, and the same trend continued at the beginning of this year. Industrial production grew at a year-on-year rate of 6.3 percent in the first quarter and 5.2 percent in the second quarter. At the same time, the cumulative growth rate at the end of July amounted to 6.1 percent. While in the preceding year the main impulse for growth came from the supply of electrical energy, gas and water, in 1998 processing industry has played the main role. The growth rate of processing industry output, both on the quarterly level and in the first seven months of the year, exceeded the growth rate of total industrial production. Excellent results were recorded in branches with a large share in gross domestic product: production of food and beverages (6.0%), publishing and printing activity (12.0%), production of chemicals and chemical products (7.6%), production of other non-metallic mineral products (19.1%), production of metallic products (11.0%) and the production of other transportation devices (24.5%). Additional confirmation of significant increases in sales of industrial products is provided by inventories of finished products, as well as by figures on sales abroad. Inventories in the first half of the year slightly exceeded inventories in the same period last year, while the level of inventories in July of this year decreased compared to the preceding month. Processing industry exports increased in the first seven months of the year by 10.3 percent on an annual basis measured in kuna and by 2.9 percent measured in US dollars.

The indicator used to track monthly trade activity is total turnover in retail trade, plus sales, maintenance, and repair of motor vehicles, retail trade in motor fuels and lubricants, as well as turnover in those companies in other

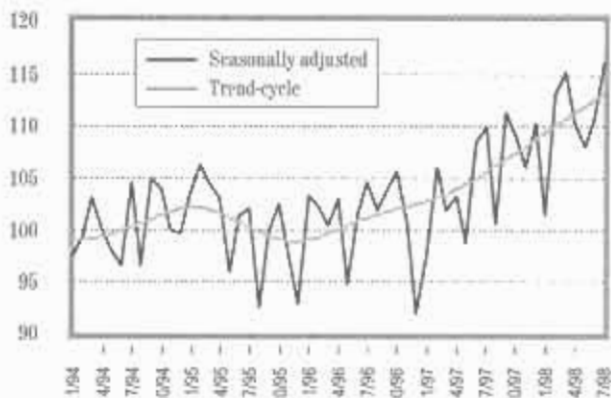
REAL GROSS DOMESTIC PRODUCT, 1995 = 100



MANUFACTURING PRODUCTION INDEX Seasonally adjusted and trend-cycle (1995 = 100)

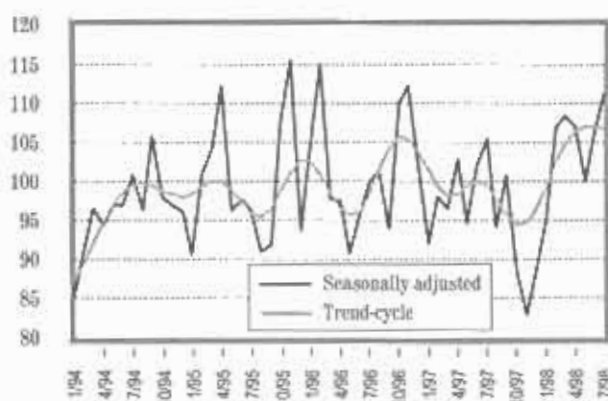


PROCESSING INDUSTRY Seasonally adjusted and trend-cycle (1995 = 100)



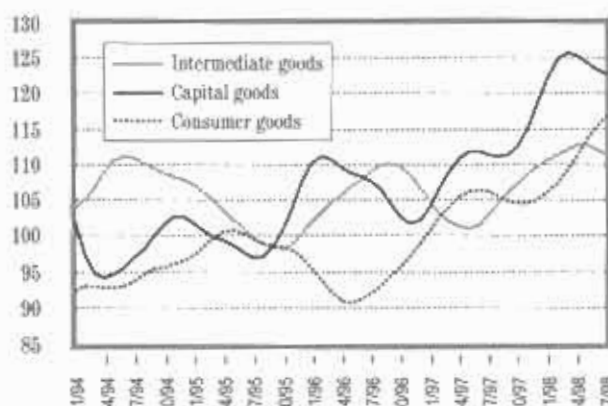
PRODUCTION OF FOOD AND BEVERAGES

Seasonally adjusted and trend-cycle (1995 = 100)



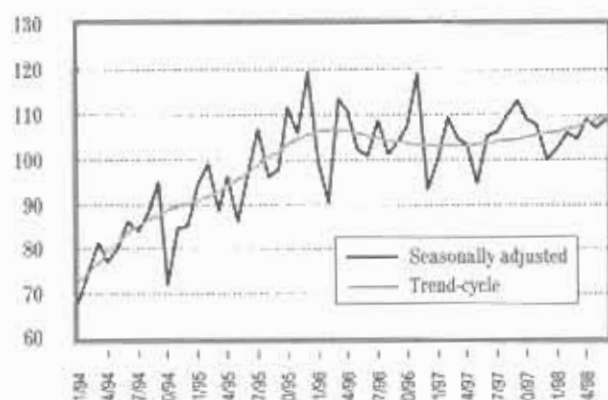
INDEX OF PRODUCTION VOLUME IN INDUSTRY BY MAIN INDUSTRIAL GROUPS

Trend-cycle (1995 = 100)



TRANSPORTATION - GOODS

Seasonally adjusted and trend-cycle (1995 = 100)



economic activities that also engage in these sales activities. This indicator grew by 6.6 percent in real terms in the first half of the year. Employment in these activities grew by 4.2 percent in July 1998 compared to July 1997. Retail trade turnover increased by 3.2 percent in real terms, compared to the first half of last year. In 1997, average retail trade turnover in the second half of the year exceeded the first half of the year. Months with especially high turnover were July, October and December.

In passenger transportation, a year of stagnation has been followed by a decreasing trend starting in November 1997. In the first six months of the year the number of passengers transported decreased 5.8 percent compared to the same period last year. This decrease reflects the decrease in the number of passengers transported by road. This segment holds the largest share in total passenger transportation. The number of passengers transported increased in rail, maritime and air transport compared to the same period last year. Better results were recorded in the transportation of goods which increased by 4.1 percent in the first six months of the year compared to the same period last year. Significant revival in goods transport is due to rail transport (year-on-year growth in the first six months of the year was 12.7% with transport of goods amounting to one-fifth of total rail transport) and road transport (year-on-year growth of goods transported amounted to 36.1% with goods transport accounting for 9.0% of total road transport).

2.9 million tourist arrivals (tourist being defined as a person who spends at least one night in a hotel or any other tourist/catering facility, in a place other than his place of residence) were registered in the period January - July 1998. It should be noted here that the statistics record the number of tourist arrivals and not the number of tourists. Compared to the same period last year, the number of tourist arrivals increased by 0.5 percent. At the same time, 15.7 million tourist night-stays were recorded, which represents an annual increase of 4.0 percent. The average number of night-stays per tourist arrival amounted to 5.9. A

decrease in tourist visits in the first quarter (when the year-on-year decrease in the number of night-stays amounted to 12.0%), a significant increase in tourist visits in the second quarter (with an annual growth rate of 12.3%) and a 1.1 percent increase in the number of night-stays recorded in July, resulted in a 4.0 percent increase in the total number of night-stays. Of total night-stays, 81.1 percent referred to foreign tourists while the rest referred to domestic tourists. The number of foreign night-stays in the first seven months of the year increased by 5.8 percent in comparison to the same period last year. The most significant number of night-stays was recorded by tourists from Germany (21.7%), Slovenia (17.6%), Czech Republic (15.0%) and Austria (12.4%). The largest number of night-stays was in hotels, followed by campsites, private accommodation facilities and tourist villages. 57.6 percent of night-stays were arranged by tourists individually while 42.4 percent of night-stays were arranged through various organized channels.

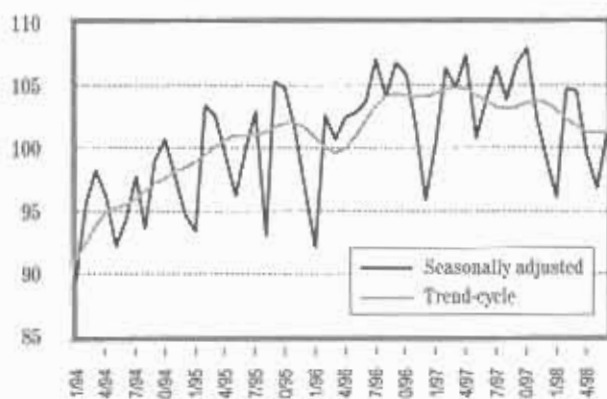
PRICES

Price stability persisted through the summer months. Retail prices were 0.1 percent lower in August than in May. Retail prices decreased in July by 0.2 percent and increased by 0.1 percent in August. This stability, even decrease, in prices can be attributed to seasonal decreases in prices of foodstuffs and agricultural products. The index of prices of agricultural products excluding seasonal products decreased by 4.6 percent during August. At the same time, the prices of agricultural products including seasonal products decreased by 6.6 percent. Among other retail prices, prices of industrial products increased by 0.2 percent in August, while at the same time services prices increased by 0.1 percent.

On an annual basis, i.e. compared to August 1997, retail prices increased by 5.2 percent. Within this, prices of goods increased by 3.3 percent while prices of services increased by 12.3 percent. Retail prices have increased by 3.6 percent since the beginning of the year.

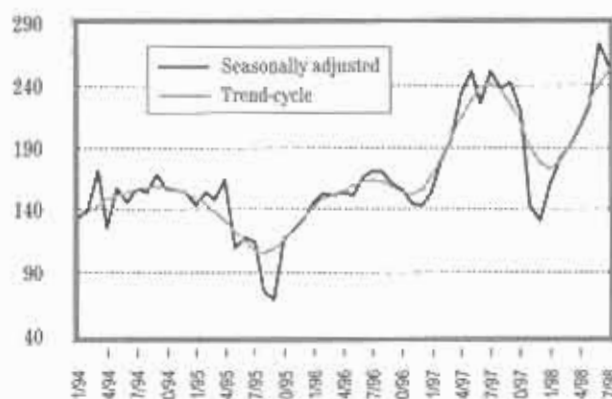
TRANSPORTATION - PASSENGERS

Seasonally adjusted and trend-cycle (1995 = 100)

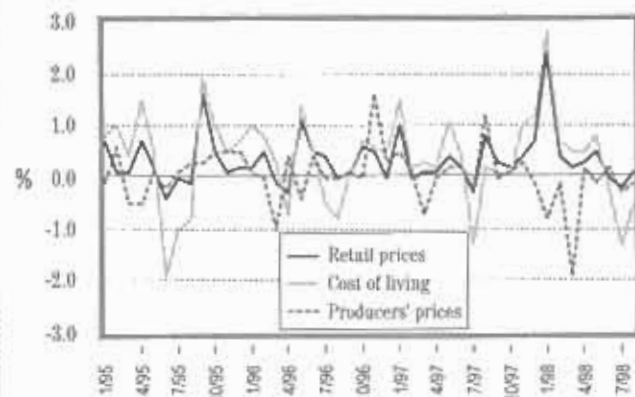


TOURISM - OVERNIGHT STAYS

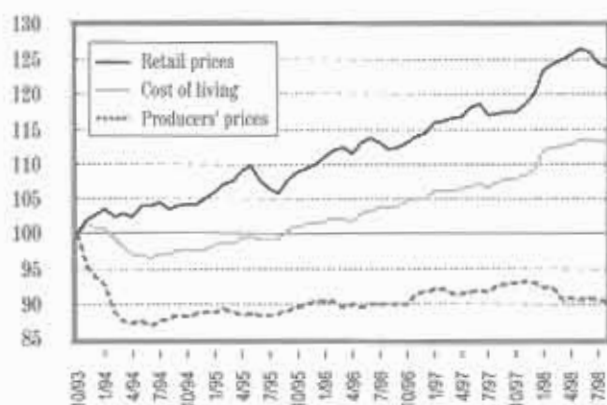
Seasonally adjusted and trend-cycle (1995 = 100)



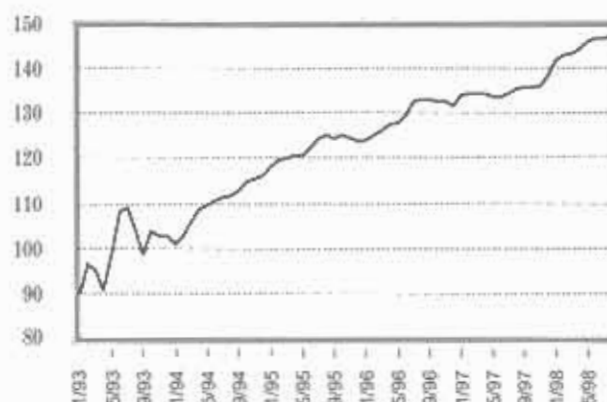
MONTHLY RATES OF CHANGE (%) OF RETAIL PRICES, PRODUCERS' PRICES AND COST OF LIVING



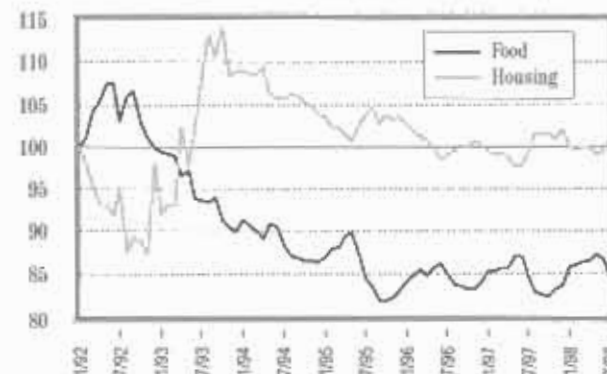
INDICES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS' PRICES
October 1993 = 100



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



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



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

Movements in the cost of living were very similar to those in retail prices. In August, expenses on goods decreased by 0.6 percent while expenses on services increased by 0.2 percent. The most significant decrease in August came in nutrition expenses (-1.5%). The most significant increase in August came in accommodation expenses, as well as in clothes and footwear (0.8%). The annual increase in the cost of living amounted to 5.5 percent.

Producers' prices of industrial products continued to decrease. The index of producers' prices decreased in July by 0.3 percent, followed by another 0.1 percent decrease in August. On an annual basis, producers' prices decreased by 2.3 percent.

EMPLOYMENT AND WAGES

Following a seasonal minimum in June, registered unemployment increased by 3,775 in July reaching 276,529. Compared to July 1997, registered unemployment increased in July 1998 by 6,371, i.e. 2.4 percent. Registered unemployment in the first seven months of this year was 8,502 higher than the average in the comparable period last year. This increase in registered unemployment in the first seven months of the current year, compared to the first seven months of last year, was associated with a 1.1 percent decrease in new inflows and with an 18.3 percent increase in employment, while the number of deletions from registration for other reasons decreased by 31.5 percent.

Employment was 1,359,232 in July, which is 4,907 or 0.4 percent more than in June of this year. Due to the simultaneous increase in both employment and registered unemployment, employment increased in July by 8,682 persons or 0.5 percent. The rate of unemployment increased in July to 16.9 percent (from 16.8% in June), due to the higher relative increase in unemployment.

Nominal net wages have continued to grow, as they have since March of this year. Due to the discontinuation of child support contributions and water

supply tax contributions from wages, net wages paid in July exceeded those paid in June by 73 kuna or 2.8 percent while the increase in real terms amounted to 4.1 percent. Despite the accelerated rate of growth in the last four months and due to a decrease at the beginning of the year, real growth of net wages in the first seven months of the year, compared to the same period last year, amounted to (only) 5.0 percent. The average gross wage paid in July grew at a lower rate than the net wage. Consequently, it exceeded the gross wage paid in June by 24 kuna or 0.6 nominally while in real terms it increased by 1.9 percent. Compared to the same period last year, gross wages increased by 13.4 percent in nominal terms, i.e. by 6.1 percent deflated by the cost of living index.

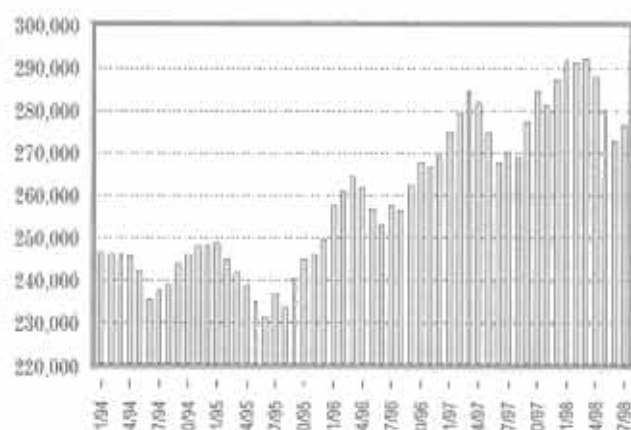
MONETARY DEVELOPMENTS

The month of July was characterized by a significant slow-down of growth of total credit, faster growth of total liquid assets (following the six-month period of stagnation) and an encouraging increase in net foreign assets of commercial banks.

Total liquid assets increased in July primarily due to an increase in foreign currency deposits of 0.7 billion kuna (i.e. 2.0%) and an increase in currency in circulation of 0.5 billion kuna (i.e. 10.2%). The increase in currency in circulation was the result of seasonal influences, following a period of almost total stagnation in currency in circulation recorded in the first six months of the year, compared to December 1997. With a moderate increase in deposit money of 0.1 billion kuna, the money supply (which had stagnated since the beginning of the year) increased by 0.7 billion kuna (i.e. 4.9%) reaching 14 billion kuna. That means that July was a seasonal high in 1998, just like in preceding years.

Foreign currency deposits also grew more rapidly than they had in the preceding months. In July, foreign currency deposits increased by 0.7 billion

NUMBER OF THE UNEMPLOYED



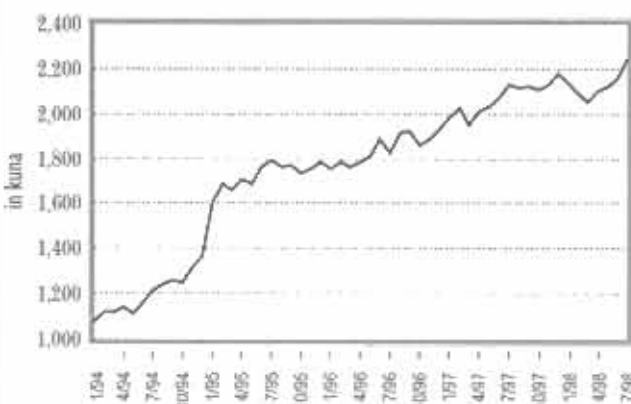
REAL AVERAGE GROSS WAGE

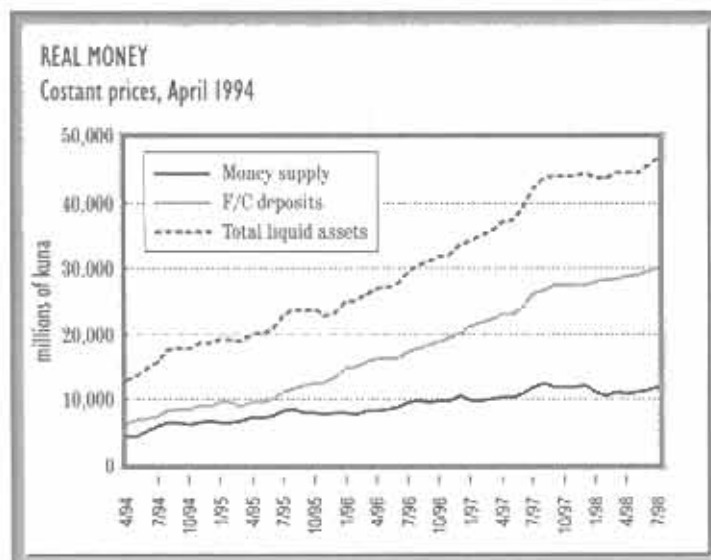
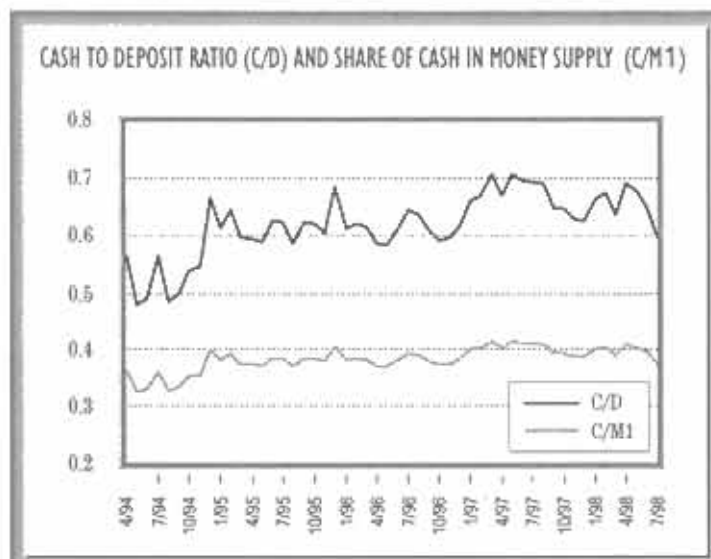
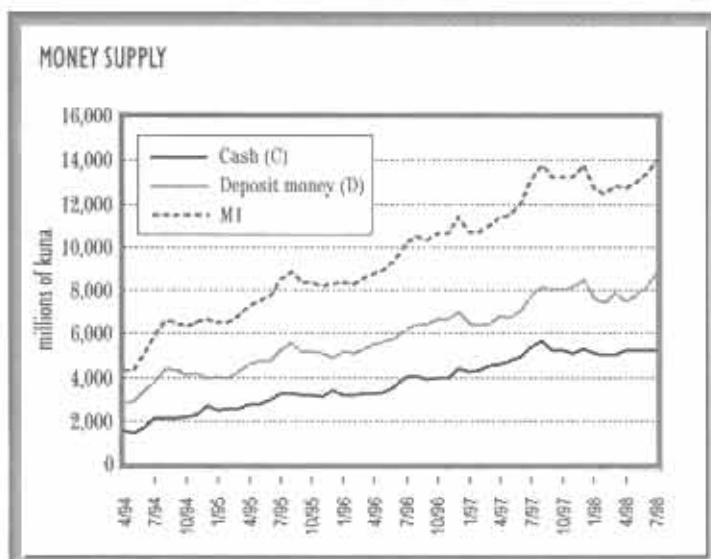
Constant prices, January 1994



REAL AVERAGE NET WAGE

Constant prices, January 1994





kuna; in June and July together by 1.3 billion kuna. Since a portion of "old savings" was "unfrozen" in July, this one-shot increase in foreign currency deposits does not necessarily mean a change in trend. After "escaping" the mild depreciation of the kuna in April and May, kuna deposits stood still in June, only to slightly increase in July. Kuna deposits grew by 0.1 billion kuna (i.e. 1.7%). At the end of July, M4 amounted to 54.7 billion kuna which represents a 1.4 billion kuna (i.e. 2.7%) increase compared to June.

Indications of a slow-down in the growth of credit were seen in the course of the last two months and definitely confirmed in July. Credit had grown rapidly in the fourth quarter of 1997 and the first quarter of 1998. In July, credit grew by a mere 0.7 billion kuna (1.3%) which is, both in absolute and in relative amounts, significantly less than in the preceding months. In contrast to total liquid assets which showed its standard seasonal characteristics in July, credit has not moved in the standard seasonal manner. In previous years (with the exception of 1997), growth of credit was seasonally slower in July. Taking all this into consideration, it seems that the exceedingly rapid growth of credit has been stopped. The rate of growth of credit to the household sector suffered an exceptionally severe decrease: in July it was 68.5 percent (year-on-year rate). We should remind ourselves of the fact that this growth rate was an extremely high 93.8 percent in 1997. Growth of credit to the enterprise sector also slowed down. The rate of growth of credit to enterprises currently amounts to 20.8 percent, compared to 40 percent in 1997.

Absolute indicators indicate that the slow-down of credit has come more at the expense of the enterprise sector, and less at the expense of the household sector. The growth of credit to enterprises in July amounted to 235 million kuna, while at the same time the growth of credit to households amounted to 460 million kuna - twice as much.

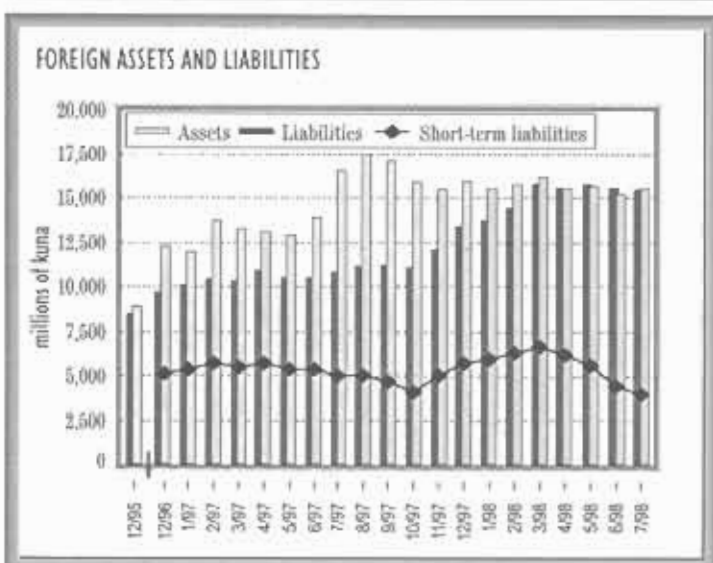
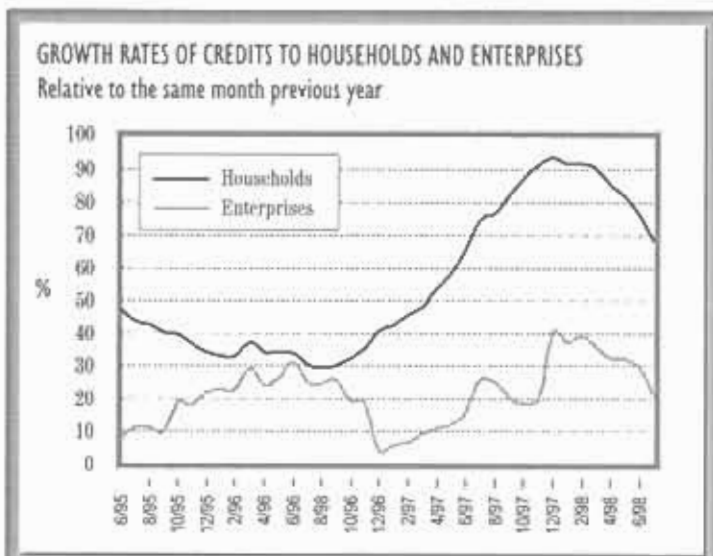
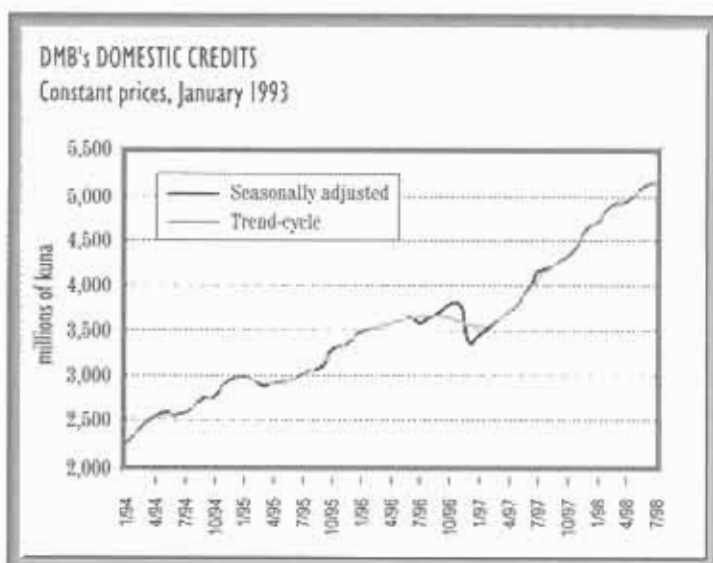
In June and July, the central government redeemed a total of 0.5 billion of kuna bonds for foreign currency sav-

ings of the household sector. Consequently, banks' claims on the central government decreased in July to 5.9 billion kuna. Nevertheless, due to other transactions between commercial banks and the central government (above all due to the withdrawal of 0.5 billion kuna of central government deposits from deposit money banks), commercial banks' net claims on central government remained at the June level (8.8 billion kuna) throughout the month of July.

In July, net foreign assets increased by 0.3 billion kuna compared to the June level. However, the balance is still negative. At the end of July it was -2 billion kuna. This is the result of growth in foreign assets (0.2 billion kuna) and of a mild decrease in foreign indebtedness (0.07 billion kuna). The increase in commercial banks' long-term foreign liabilities remained equivalent to the decrease in short-term liabilities for the third consecutive month. Long-term foreign liabilities increased by 0.4 billion kuna while short-term liabilities decreased by the exact same amount in July. These developments revealed the effects of (the evasion of) mandatory deposits for banks' foreign borrowing, which are more of a burden on short-term than long-term borrowing.

The central bank was very active in August, especially on the foreign exchange market. In a total of seven auctions, the Croatian National Bank purchased USD 133.6 million (i.e. DEM 225.1 million and USD 7.4 million) from commercial banks for a total of 860.8 million kuna. Throughout the month of August, there was no demand for foreign currency from deposit money banks. At the end of the month, the Ministry of Finance bought USD 10.5 million (i.e. 67.9 million kuna), for the purpose of making interest payments due on eurobonds. Through the foreign exchange transactions it carried out in August, the Croatian National Bank purchased USD 123.1 million net, with a positive monetary effect of 793 million kuna, while in July the central bank intervened by selling USD 18 million net.

Total kuna credit to domestic sectors, financed from the primary issue of

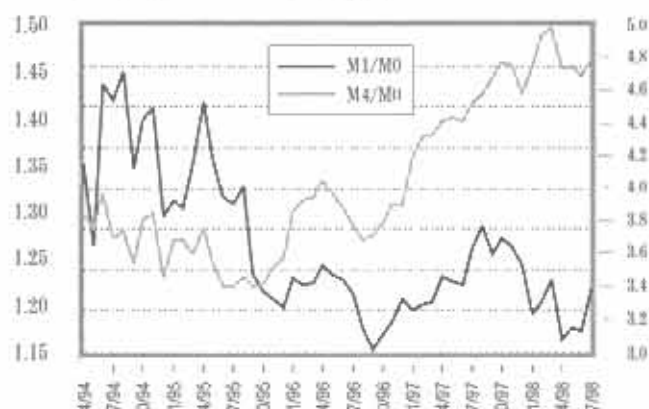


CNB's INTERNATIONAL RESERVES

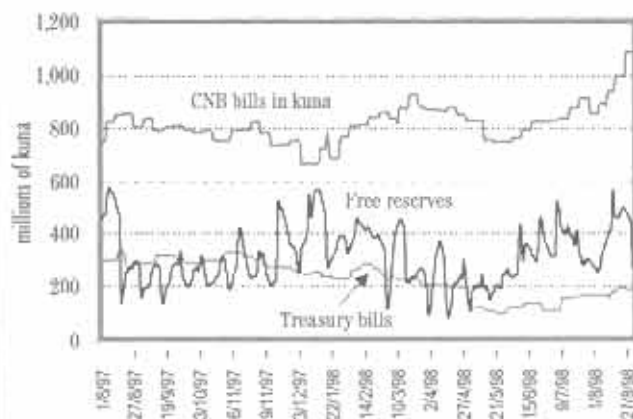


MONEY MULTIPLIERS

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



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



the Croatian National Bank, averaged 580 million kuna in both July and August. But whilst in July the entire use of credit from primary issue referred to commercial banks, in August, the central government used a short-term loan of 200 million kuna for bridging illiquidity. At the same time banks were using an average of up to 418 million kuna daily through the instruments of Lombard loans, repurchase of treasury bills and other forms of credit. Within other forms of credit used by commercial banks in August, three commercial banks and one savings bank used inter-ventive loans. One of these commercial banks has also been using an emergency loan for bridging liquidity problems of 200 million kuna.

Reserve money increased in August by 372 million kuna net: 98 million kuna through autonomous growth of currency in circulation, and 279 million kuna through an increase in banks' deposits. The average balance in banks' giro accounts increased from 606 million to 688 million kuna per day while the balance of banks' required reserves increased from 3.7 billion kuna at the end of July to 3.9 billion kuna at the end of August this year. Due to the increased liquidity of commercial banks in August, Croatian National Bank bills, a liability in the central banks' balance sheet, grew by the exceptionally large amount of 412 million kuna. The average daily balance of Croatian National Bank bills held by commercial banks increased from 1.8 billion kuna in July to 2.1 billion kuna in August. At the same time, such bills held by central government institutions decreased, due to the overall decrease in liquidity of the central government.

EXCHANGE RATE

Summer and tourist season once again contributed to the appreciation of the exchange rate of the kuna against the German mark. Appreciation of the kuna in the summer months has become a usual seasonal occurrence, which can be reliably predicted. The appreciation of the kuna against the

German mark, as well as against other European currencies (like the Italian lira), is mainly caused by the inflow of foreign currency from tourism, as well as by banks' expectations of an appreciation of the kuna. Foreign currency spot auctions by the Croatian National Bank, which were the largest in August, alleviated the appreciation of the kuna. Between the first week in July and the next-to-last week in August, the kuna appreciated against the German mark by 1.5 percent. The amount of foreign currency purchased in August this year exceeded the amount of foreign currency purchased in July by 2.4 times and the amount purchased in June by 7.4 times. However, the end of August brought another slight depreciation of the kuna against the German mark. A decrease in tourist income and increased supply of the kuna caused a depreciation of the kuna against the German mark. At the end of the month, the German mark was worth 3.6024 kuna.

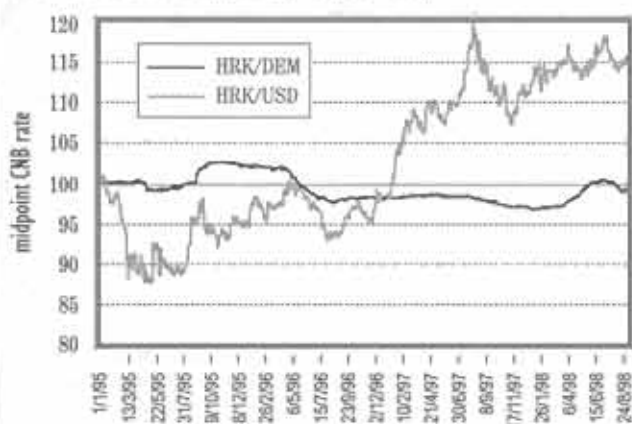
In September, one can expect a further mild depreciation of the kuna toward the German mark for seasonal reasons, above all due to an increased supply of kuna and demand for foreign currency for the purpose of credit payments and savings. It should be noted that, this year, the period of appreciation of the kuna was shorter than in preceding years. Such tendencies indicate an increased level of "nervousness" in foreign exchange markets which could also be a result of changed expectations in connection with the Russian crisis.

The index of the real effective exchange rate depreciated quite rapidly in the first seven months of the year: 6.19 percent (PPI) and 1.0 percent (CPI). This was mainly due to the nominal depreciation of the kuna in the first six months of the year and the decrease in the price index recorded in July.

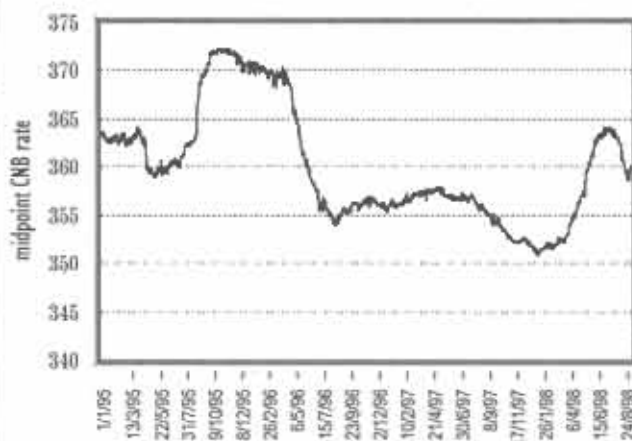
BALANCE OF PAYMENTS

The current account deficit of the Balance of Payments in the first half of 1998 improved compared to the same period last year. The deficit was USD

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



DAILY NOMINAL EXCHANGE RATE - KUNA VS. 100 DEM



DAILY NOMINAL EXCHANGE RATE - KUNA VS. USD

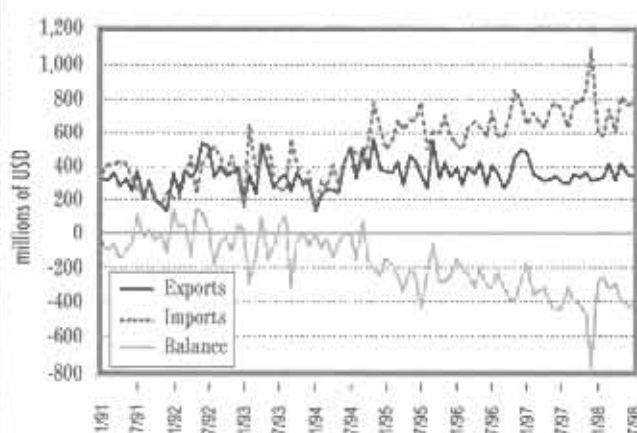


INDEX* OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA
(IREER1 - with retail prices, IREER2 - with producers' prices), January 1994 = 100



* the fall of index denotes real appreciation

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



BALANCE OF PAYMENTS in millions of USD (preliminary data)

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

Source: CNB

MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan. - Jul. 1998	Jan. - Jul. 1997	Jul. 1998	Jul. 1997
Exports f.o.b.	2,525.0	2,483.9	349.3	310.0
Imports c.i.f.	4,899.5	4,957.8	780.5	742.6
Balance	-2,374.5	-2,473.9	-431.2	-432.6

Source: Bureau of Statistics

1,250.4 million in the first six months of the year. This represents an 8.1 percent decrease compared to the same period last year. The decrease was mainly caused by an increase in merchandise exports, as well as a decrease in imports. The decrease in various items of the Balance of Payments was also occasioned by an increase in the exchange rate of the US dollar. In the first half of 1998, the financial account amounted to USD 1,083 million (i.e. 4.7%) less than in the same period last year. The financial account also underwent some significant changes. The sale of Pliva stock caused an increase in direct investment of USD 434.7 million. This is 110.4 percent more than in the first half of 1997. The decision requiring reserve deposits based on foreign borrowing resulted in a net decrease in foreign debt in the second quarter. Thus, in the first six months of the year, the increase in net credit liabilities to foreign creditors amounted to USD 262.1 million. This represents a 42.6 percent decrease compared to the first six months of 1997.

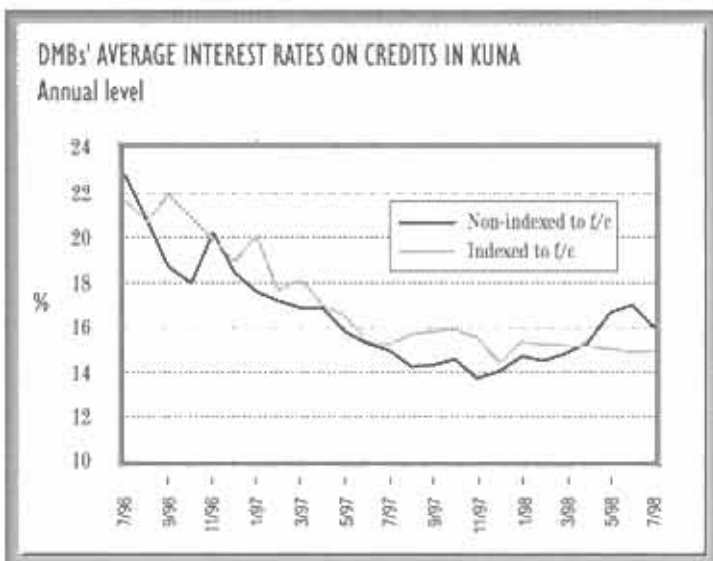
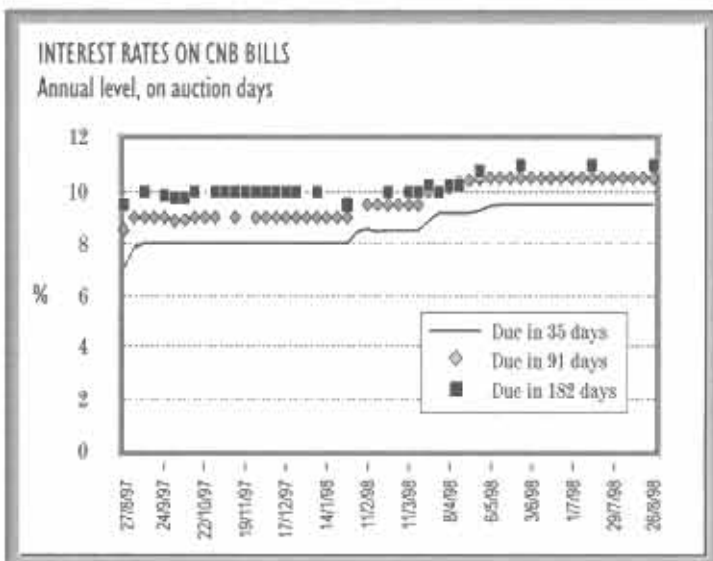
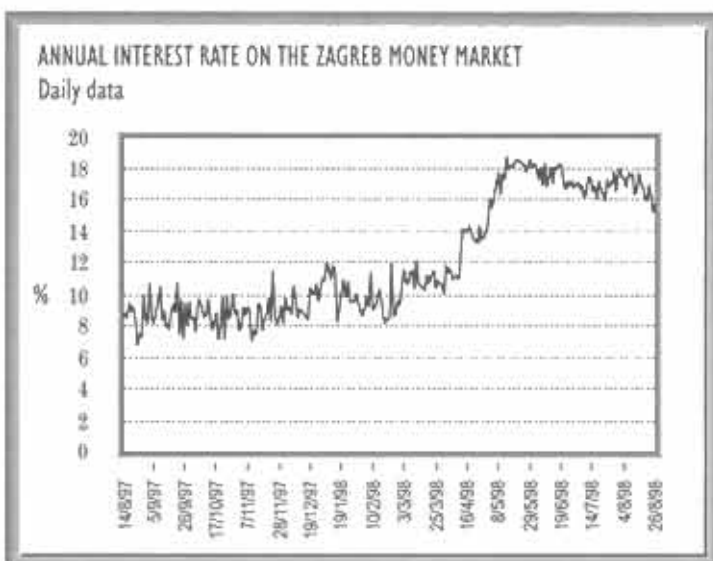
The improvement was especially prominent in the second quarter of 1998. The current account deficit of USD 573.7 million in the second quarter of the year was 18.5 percent lower than the deficit in the second quarter of the preceding year. This represents a significant adjustment, which is in accordance with the goals of the country's economic policy for this year.

According to data released in the Report of the State Bureau of Statistics, merchandise imports on a c.i.f. basis in the first seven months of the year were USD 4,899.5 million; 1.2 percent lower than in the same period last year. At the same time, merchandise exports f.o.b. were USD 2,525.0 million, 1.7 percent more than in the same period last year. The merchandise trade deficit amounted to USD 2,374.5 million, a 4.0 percent decrease compared to the same period last year. Expressed in kuna, Croatian exports amounted to 16,272.4 million kuna in the first seven months of the year (a 9.1 increase compared to the same period last year), while imports amounted to 31,567.1 million kuna (a 5.0 increase compared to 1997).

Regarding the influence of the Russian crisis, we can say that Croatian merchandise trade was not directed towards, and thus not affected by, Russia. In the first six months of the year, the share of merchandise trade with Russia amounted to 4.9 percent of imports and 6.4 percent of exports. The most affected area was exports of machinery and transportation devices, 16 percent of which was directed to Russia.

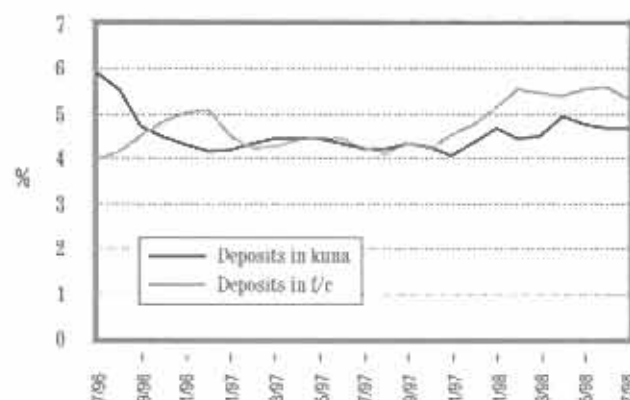
MONEY MARKET AND INTEREST RATES

During the summer months, the pressure to increase the price of money on the Money Market Zagreb was alleviated. A mild decrease in average daily interest rates was first felt in July and continued through August. Nevertheless, daily averages continued to oscillate at high levels throughout August - between 15.09 and 17.9% percent, with the mean value of daily averages on the monthly level slightly nearer the upper bound. Although the interest rate decreased, it is important to note that the amount of that decrease was not in correlation with the relation between supply and demand for money on the Money Market Zagreb. The imbalance of supply and demand for money throughout July and August was almost constantly on the side of supply. During the second half of August, supply was on several occasions many times in excess of the demand. The fact of the matter is that interest rate on callable loans decreased to 15 percent at the end of August. Compared to the July level of 17 percent, this represents a decrease of two full percentage points. Nevertheless, given the available information on the relationship between the supply and the demand for money, a more significant decrease in interest rates on the Money Market Zagreb could have been expected. Additional proof of improved liquidity in the summer months was an increase in purchases of Croatian National Bank bills. The interest rate on kuna bills stabilized, while the interest rate on Treasury Bills of the Ministry of Finance increased slightly. The kuna

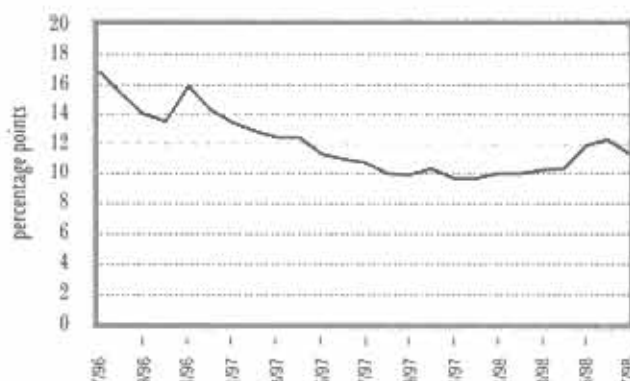


DMBs' AVERAGE INTEREST RATES ON DEPOSITS

Annual level

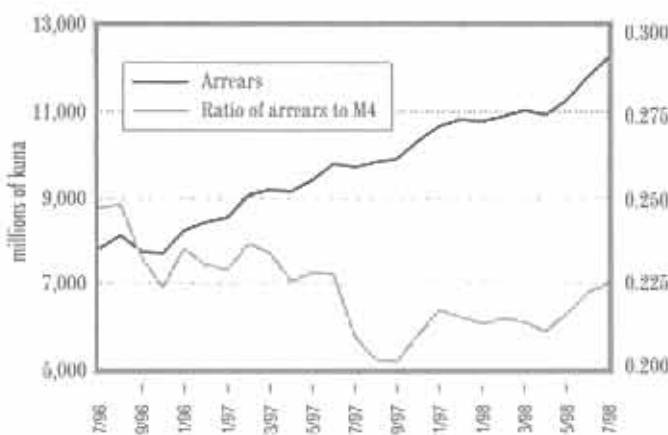


DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA



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

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bills of the Croatian National Bank, yielding 9.50 percent for 35 days, 10.50 percent for 91 days and 11.00 percent for 182 days, continue to be very profitable investments for commercial banks since they serve as good coverage in case of liquidity problems. Treasury Bills of the Ministry of Finance bore 10.25 percent interest for 42 days, 11.00 percent for 91 days, and 11.50 percent for 182 days in August. Foreign exchange treasury bills in German marks yielded 3.33 percent for 63 days, while foreign exchange treasury bills in US dollars yielded 5.57 percent for 63 days in August.

Commercial banks' lending rates decreased in July. The average interest rate on kuna loans without the currency clause decreased almost one percentage point compared to July, reaching 16.02 percent (short-term loans 16.03%, long-term loans 15.66%). The average interest rate on kuna loans with the currency clause stagnated through June and July at 14.95 percent (short-term loans 16.97%, long-term loans 12.65%), a barely noticeable decrease of 0.1 percentage points compared to the May figure. The average interest rate on foreign exchange loans decreased in both June and July. In July, the interest rate on foreign exchange loans averaged 13.18 percent, almost two percentage points below the May level.

The summer months also saw a slight decrease in deposit interest rates. In July, the average interest rate on kuna deposits decreased by 0.1 percentage points compared to May, reaching 4.66 percent. The average interest rate on foreign currency deposits also decreased in July, by 0.25 percentage points, currently holding at the level of 5.30 percent.

Movements in interest rates on kuna loans without the currency clause, and on kuna deposits, recorded in June and July, caused an expansion of the interest rate spread in June and an even more significant contraction of the interest rate spread in July. In July, the interest rate spread held at 11.36 percentage points which represents a contraction of almost half a percentage point compared to May.

GOVERNMENT BUDGET

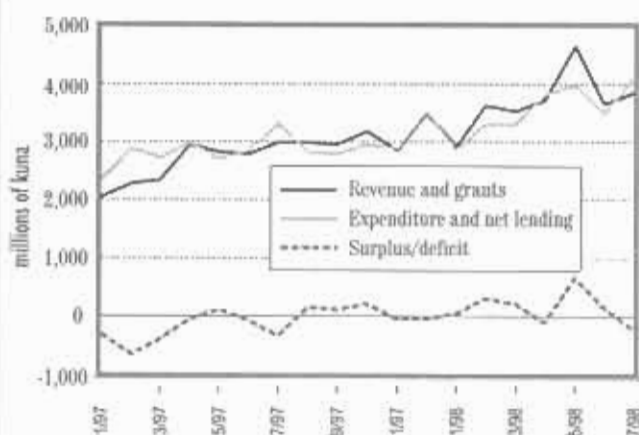
The statistics on the government budget in the first seven months of the year indicate a surplus of 1.1 billion kuna, or 2.5 percent of the total budget. Current revenues collected were 58.5 percent of total revenues planned in the 1998 yearly budget while expenditures were 56.0 percent. Balancing the budget by the end of the year will require faster growth of expenditures than revenues.

The central government surplus, along with smaller government borrowing from other domestic sectors and foreign countries and financial institutions, was used for repayment of public debt of 1.5 billion kuna (mostly liabilities based on "old" foreign currency savings and on government bonds for bank rehabilitation) through deposit money banks.

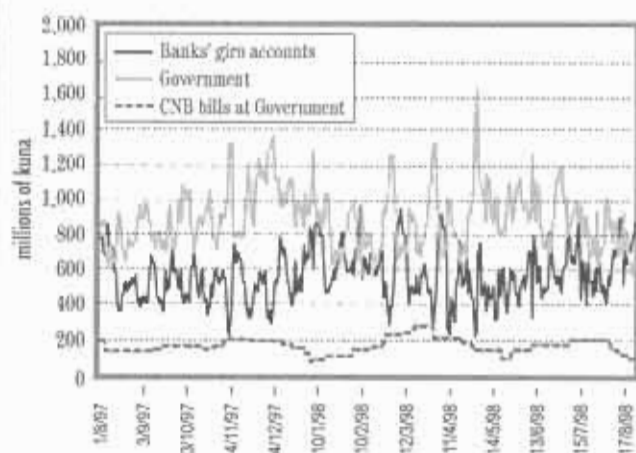
The surplus of revenues over expenditures amounted to 42.4 percent more than in the same period last year. The highest percentage fulfillment of yearly tax projections came in the profit tax; 79.6 percent of total estimated tax collection in 1998 has been collected so far. The year-on-year increase of 34.3 percent indicates increased economic activity in the current year. This is further confirmed by indicators of developments in the real sector. At the same time, 56.8 percent of the planned value added tax was collected. Slightly over 50 percent of estimated excise tax revenues were also collected. Compared to last year's result, excise tax collection has increased by 15.4 percent. Foreign trade tax collections decreased in comparison to last year's collection results. However, the amount collected so far equals half of the planned annual amount of revenue from that tax. Non-tax revenues increased by 21.9 percent, while capital revenues increased sevenfold.

Government budgetary expenditures increased by 25.2 percent compared to expenditures in the first seven months of 1997. Such an increase in expenditures was mainly caused by increased purchases of goods and services, as well as subsidies and current transfers.

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. - July 1998	1998 Budget
TOTAL FINANCING	- 1,097	0
DOMESTIC FINANCING	- 1,350	- 2,292
From monetary authorities	23	0
From deposit money banks	- 1,505	- 1,921
Other domestic financing	132	- 371
FOREIGN FINANCING	253	2,292
From international develop. institutions	173	1,102
From foreign governments	-383	- 503
Other foreign financing	463	1,693

German mark, as well as against other European currencies (like the Italian lira), is mainly caused by the inflow of foreign currency from tourism, as well as by banks' expectations of an appreciation of the kuna. Foreign currency spot auctions by the Croatian National Bank, which were the largest in August, alleviated the appreciation of the kuna. Between the first week in July and the next-to-last week in August, the kuna appreciated against the German mark by 1.5 percent. The amount of foreign currency purchased in August this year exceeded the amount of foreign currency purchased in July by 2.4 times and the amount purchased in June by 7.4 times. However, the end of August brought another slight depreciation of the kuna against the German mark. A decrease in tourist income and increased supply of the kuna caused a depreciation of the kuna against the German mark. At the end of the month, the German mark was worth 3.6024 kuna.

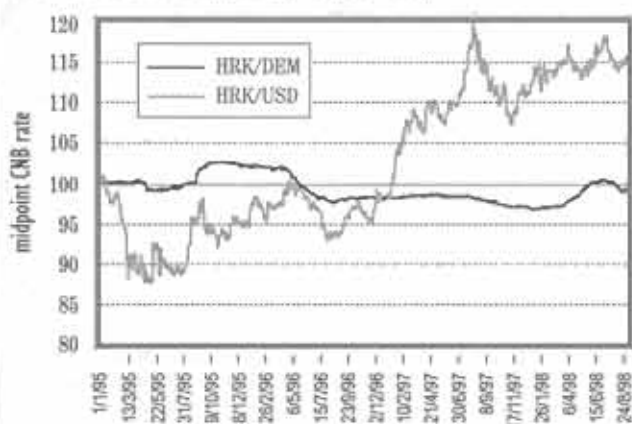
In September, one can expect a further mild depreciation of the kuna toward the German mark for seasonal reasons, above all due to an increased supply of kuna and demand for foreign currency for the purpose of credit payments and savings. It should be noted that, this year, the period of appreciation of the kuna was shorter than in preceding years. Such tendencies indicate an increased level of "nervousness" in foreign exchange markets which could also be a result of changed expectations in connection with the Russian crisis.

The index of the real effective exchange rate depreciated quite rapidly in the first seven months of the year: 6.19 percent (PPI) and 1.0 percent (CPI). This was mainly due to the nominal depreciation of the kuna in the first six months of the year and the decrease in the price index recorded in July.

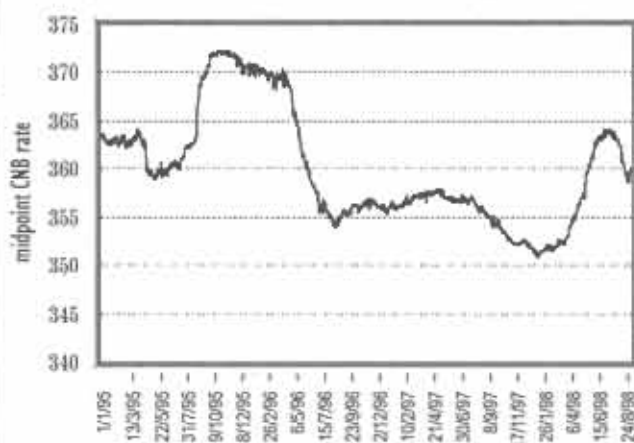
BALANCE OF PAYMENTS

The current account deficit of the Balance of Payments in the first half of 1998 improved compared to the same period last year. The deficit was USD

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

