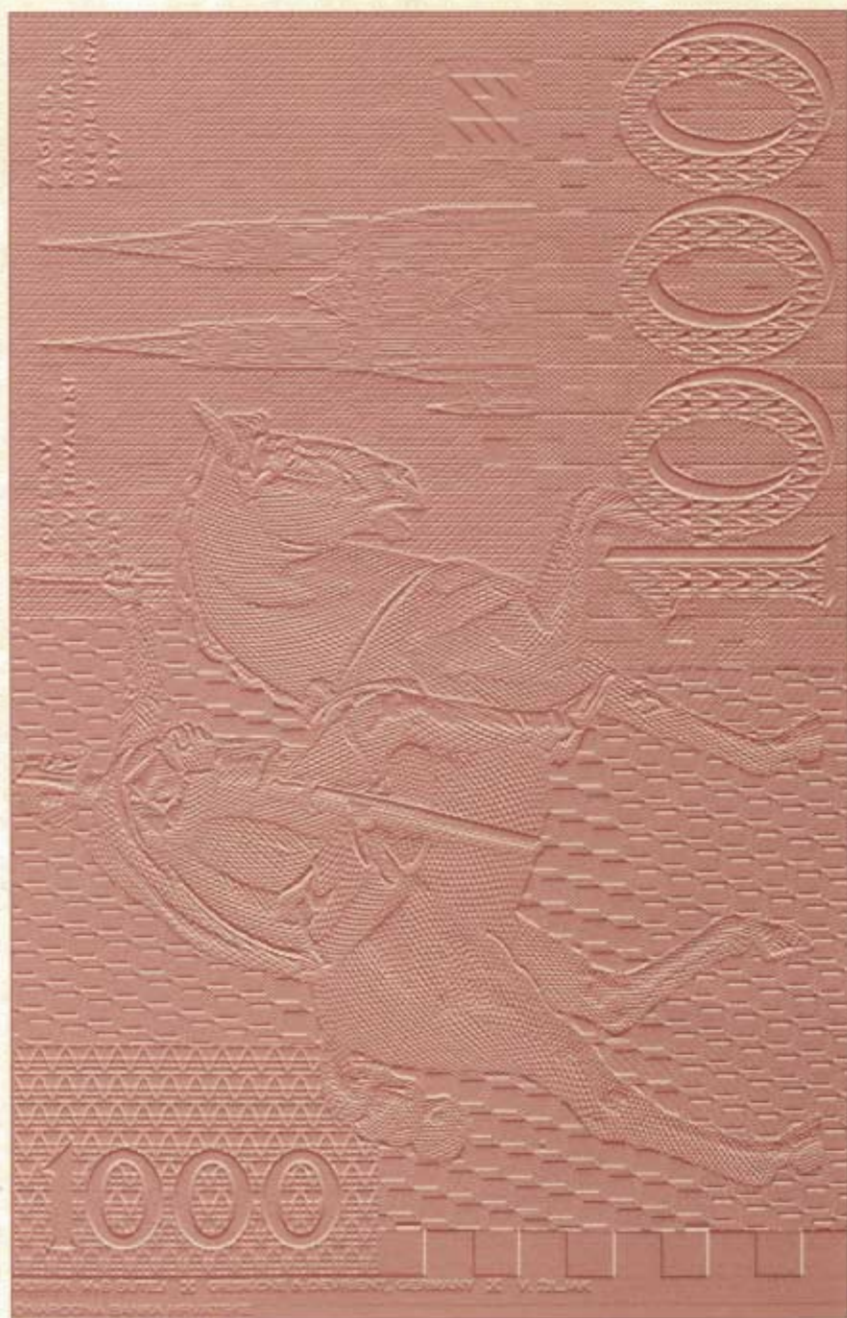


NATIONAL BANK OF CROATIA



BULLETIN

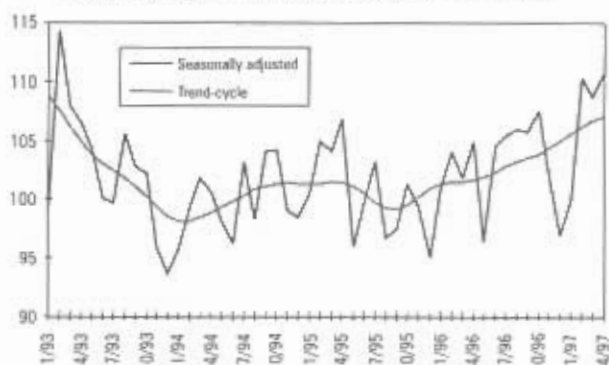
YEAR II
No. 16

JUNE 1997

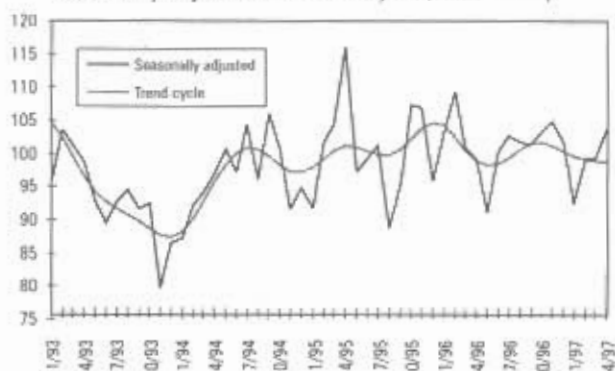
INDUSTRY

The positive interyearly monthly growth rates achieved in all the months of this year (as much as 6.5% in April) contributed to a 3.7 percent cumulative growth in industrial production at the end of April. The graph shows a somewhat sharper rise of the trend-curve. This differs from previously released data, since the revised series dating back to the beginning of 1992 has been used. As more observations are gathered, the war years will fall out of the series, and the exceptionally large irregular component from these years will no longer have an influence. The growth of production was achieved thanks to the production and supply of energy (22.9%), and mineral extraction (1.0%), while processing industry was 0.3% below last year's level. Favorable results this month in the food processing industry softened the industry's cumulative fall, which now stands at 5.8%. The chemical industry is 10.5% below last year. The last two sectors mentioned are having ever-greater problems with the quality and price of competing goods found on domestic and foreign markets. The labor-intensive clothing and leather and footwear industries are lagging behind last year, obviously still lacking the technology and personnel to meet foreign competition. At the same time, the textile industry has slightly recovered, even though imports of these products are growing. Positive growth was noted in the production of wood, cellulose and paper and the production of furniture. Production of various types of machines, computers and office equipment is divided into three sectors. These sectors showed rapid growth after long periods of recovery from the loss of eastern markets and production for the order of designated customers. Judging by the growth of exports of investment goods (14.7%), the majority of these products were sold on

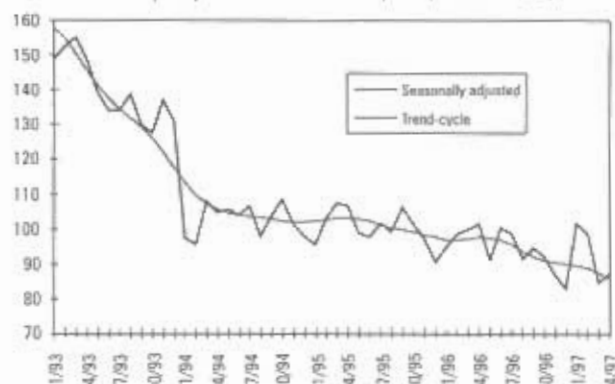
MANUFACTURING PRODUCTION INDEX
Seasonally adjusted and trend-cycle (1995 = 100)



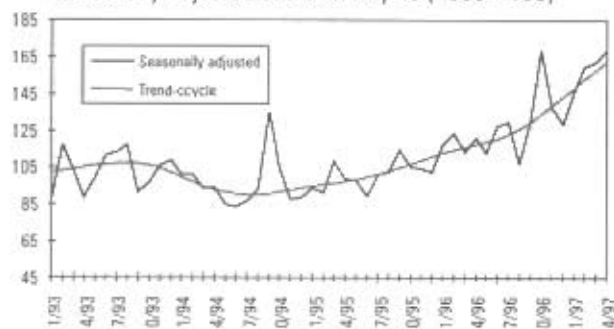
MANUFACTURE OF FOOD PRODUCTS AND BEVERAGES
Seasonally adjusted and trend-cycle (1995 = 100)



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



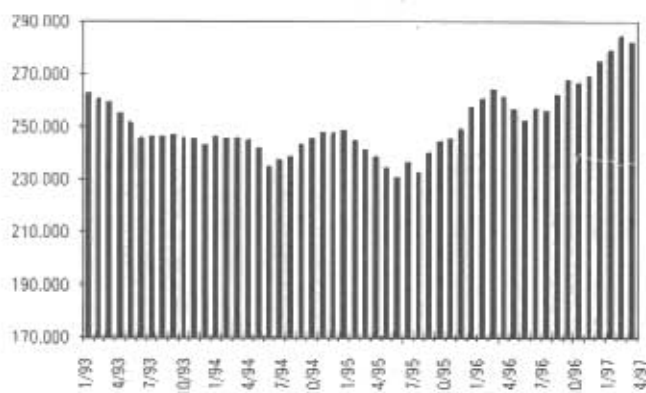
ELECTRICITY, GAS, STEAM, AND HOT WATER SUPPLY
Seasonally adjusted and trend-cycle (1995 = 100)



STOCKS OF FINAL GOODS IN MANUFACTURING SECTOR
Seasonally adjusted and trend-cycle (1995 = 100)



NUMBER OF THE UNEMPLOYED



foreign markets. The production of motor vehicles and transport goods grew significantly, and exports of these products grew by 20%. The growth of total industrial exports in the last four months was 17.2% at an annual rate, expressed in kuna. The growth of imports of all these groups (mainly investment goods) was determined by our producers and consumers need for imports, which depends on their economic activity and disposable income. A conjuncture survey on orders from our largest companies for the first quarter shows that their export orders, or foreign demand, is falling, and domestic orders are growing. In reality, this forecast has a lag of about one quarter.

Employment in industry is 7.5% lower than in the same month a year ago, and is falling faster than total employment. The decrease in employment in industry is not the result of lower production. Rather it has clearly resulted from the growth of productivity. Due to the changeover to a new industrial classification system, as yet we have no data on changes in productivity. In the future, the industrial sector will provide less jobs than before. In developed economies, the tendency is that, as productivity rises faster in industry than in services, people move to the service sector.

The number of registered unemployed in April decreased after several months of growth. Within the figure of 282,072 unemployed there are certainly a large number of people who work in the unofficial economy, yet at the same time register with the Employment Office. The Croatian Government has announced a project which will examine the causes of unemployment as well as new employment possibilities.

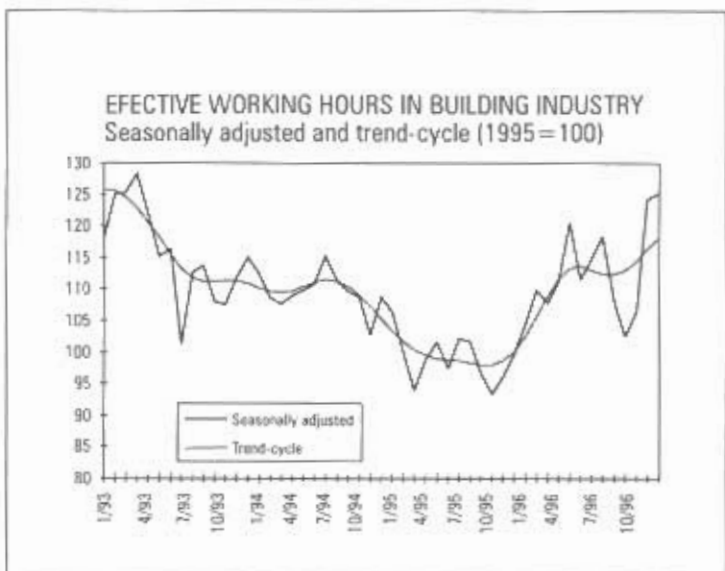
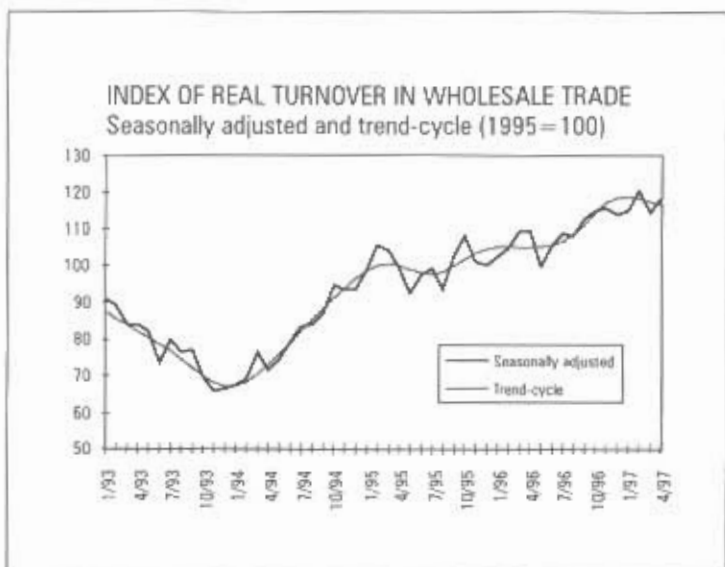
TRADE

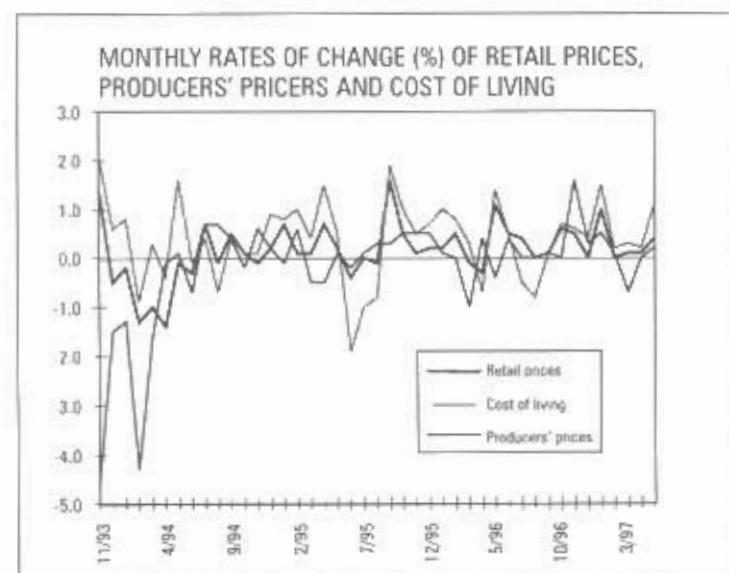
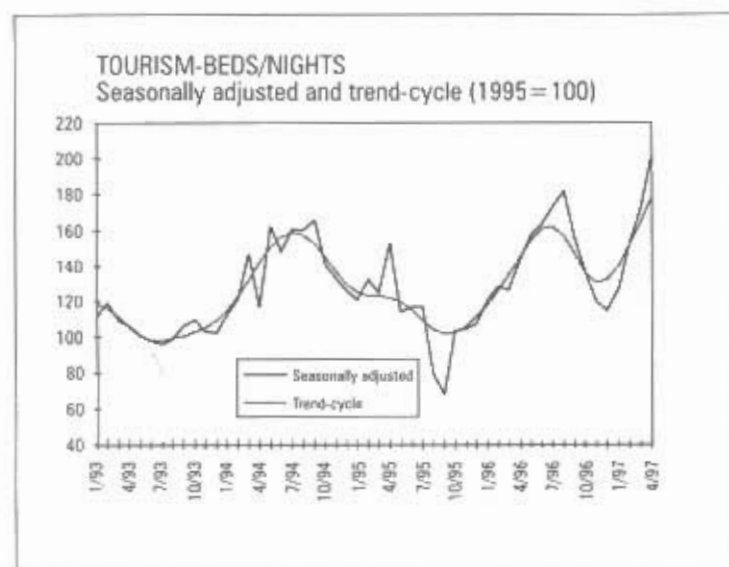
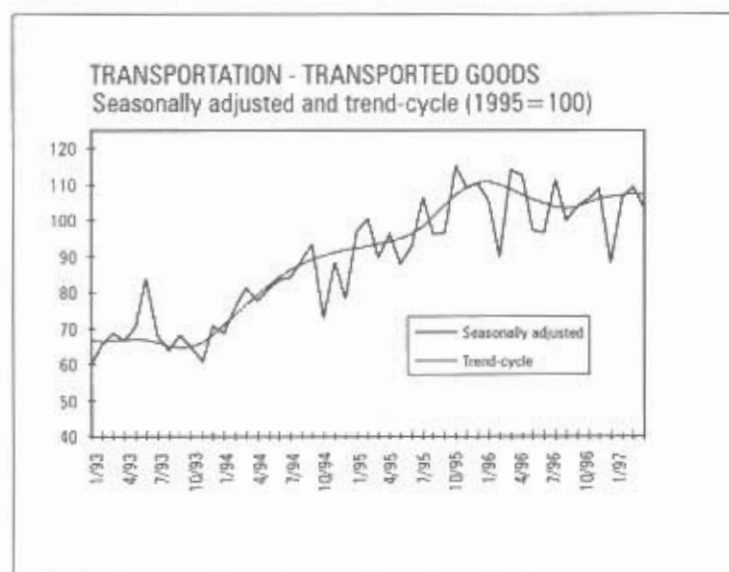
In the first four months of this year, real turnover in retail trade

grew by a very high 25.6% at an annual level. The cause of this increase in turnover can be found in the growth of real net pay of the population, as well as the increased supply of credit cards and other forms of consumer credit. The state of inventories is satisfactory, although it is known that they are 5.9% lower in real terms than they were in the first four months of last year. The conjuncture survey performed by the editors of the business magazine "Privredni Vjesnik" showed that retail traders saw a seasonally-determined fall in orders in this quarter compared to the last one, with prices approximately equal to last quarter's. Trading organizations were optimistic about the coming quarter and half year. There is a surplus of employees, and liquidity is better than in the preceding quarter. Wholesale trade, which speeds up the flow of goods from producer to consumer, showed a smaller, but also high real growth rate of turnover of 9.2%. Their inventories were 6.7% lower than in the corresponding four months of the previous year.

CONSTRUCTION, TRANSPORTATION AND TOURISM

It has been expected that construction would increase its share in output last year and this year. There has been a trend for working hours to increase: they were 18.6% greater in the first three months of this year than in the first three months of last year. A falling number of employees does not mean less output. During the restructuring of construction enterprises, the number of small firms has increased, but employment has not. Construction of roads, railways and the like, as well as the revitalization of real estate construction has brought short-term prosperity for this sector, and for transportation. The





value of completed projects grew by some 57.1% in nominal terms.

Transportation and communications showed a quarterly growth in the number of passengers of 4.9%, and the quantity of goods of 3.4% at annual rates. In our immediate international surroundings, high standards are already in place relating to ground transportation vehicles. This is because of the introduction of new transport technology. In addition, ground transport is tending to go to other means, especially rail, which has advantages in price, speed, environmental impact etc. Due to the decrease in international road transportation, the total quantity of goods transported falls. Thus it is important to be aware of the impact of the international environment in this area.

The tourist sector exceeded last year's number of night stays by 21.8% by the end of April, and it is expected that this will to a great extent improve the current account of the balance of payments this year. This will, of course, depend on the economic health of our neighbors, who are the main source of our tourism. In the first four months of the year, the number of tourist arrivals was 15.0% higher than in the comparable period last year. This year's tourist season does not mainly depend on the political situation as much as it does on the conditions offered and the inclusion of Croatian vacation places in the programs of foreign tour operators.

PRICES

In May, we witnessed a mild growth in all aggregate price indexes.

Retail prices grew 0.4% in May relative to April. Among groups of products, prices of agricultural products excluding seasonal products grew the fastest, 20.6%, followed by

prices of agricultural products including seasonal products, which grew 11.3%. The increase in prices of other groups of products was minimal, while tobacco prices stagnated. Services also grew minimally, by 0.1%.

The annual growth of retail prices was moderate. In the first five months of this year, on average retail prices grew 3.9% compared to the same period last year. The prices of goods grew 2.7% on average, while the prices of services grew by 9.2%.

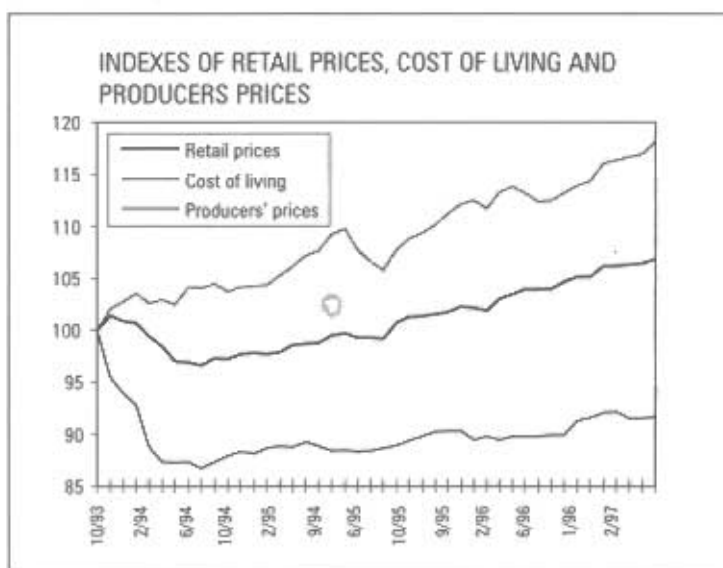
In May, the cost of living grew by 1.1% relative to April. If we examine the structure, we notice that in May the goods component of the cost of living grew 1.4% in comparison to the same period last year. Among these, the greatest growth was recorded by food products, 2.7%, then clothes and footwear, 0.3%. The services component of the cost of living fell 0.2% compared to April.

The index of producers' prices grew by 0.2% in May relative to April. Producers' prices for intermediate goods and consumer goods grew by a minimal 0.1%, while investment goods stayed at the previous months' level. Regarding individual product groups in May, the largest growth was seen in the price of basic chemical products, 2.3%, drinks, 1.7%, and meat products, 1.4%. In the same period, the price of oil and natural gas fell the most, by 5%.

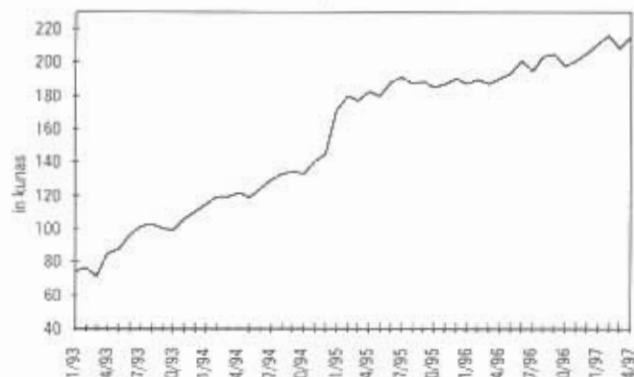
Variations in relative prices remained at a low level, which testifies to the continuation of the period of stable prices.

WAGES AND THE EXPENDITURES OF THE GOVERNMENT BUDGET

The graph of real net pay shows a continuing growth trend. In numbers, this means that wages in April were 3.2% greater than in the previous month, while the average in the



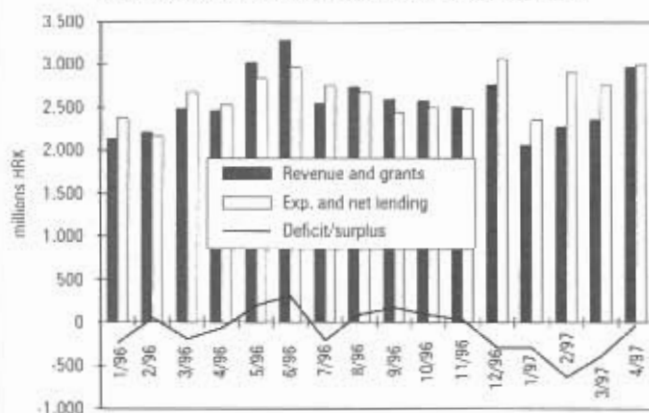
REAL AVERAGE NET WAGE
Constant prices (January 1993 = 100)



REAL AVERAGE GROSS WAGE
Constant prices (January 1993 = 100)



OUTTURN OF CENTRAL GOVERNMENT BUDGET



first four months was 12.7% greater than average wages in the comparable period last year. The growth of the purchasing power of the population is expressed in the growth trend of imports of consumer goods as well as in the strong growth of retail trade. The average gross wages paid this year were greater than those in the corresponding period last year by about 8.0%. The greater growth of net wages than gross wages means that net wages were less burdened with taxes and contributions than they were last year.

The deficit of the central government in the first four months was 1.4 billion kuna, which was 191.1% larger than in the same period last year. This number is explained by the growth of expenditures by 12.9%, while income exceeded that in the corresponding period of last year by only 3.9%. It is necessary to keep in mind that income and expenditures in the first months are not indicators of the trend of the budget, because of strong month-to-month oscillations. The deficit is completely financed by foreign sources, and a part of the debt owed to domestic sectors has been repaid. Within tax income, less income has been collected on income tax and excise taxes, while profit tax grew the most (117.5%) followed by property taxes (21.9%). Greater profit taxes and sales taxes on goods and services suggest that economic activity has grown this year. Non-tax income grew substantially (52.2%), while capital income fell substantially (49.2%). On the expenditure side, expenditures on goods and services decreased by 9.8%, but interest costs rose especially fast (85.2%), as did subsidies (60.2%) and capital expenditures (56.0%).

MONETARY DEVELOPMENTS

The growth in the money supply that began in March, following two

months of stagnation, continued in April. The money supply grew by 411 million kuna (3.7%) in April. This was exclusively on the basis of growth in deposits. Despite dynamic changes during the month, cash ended the month at the level of the end of March, growing only 28 million kuna or 0.6%. The growth in deposit money of 383 million kuna (5.9%) was much more rapid than expected.

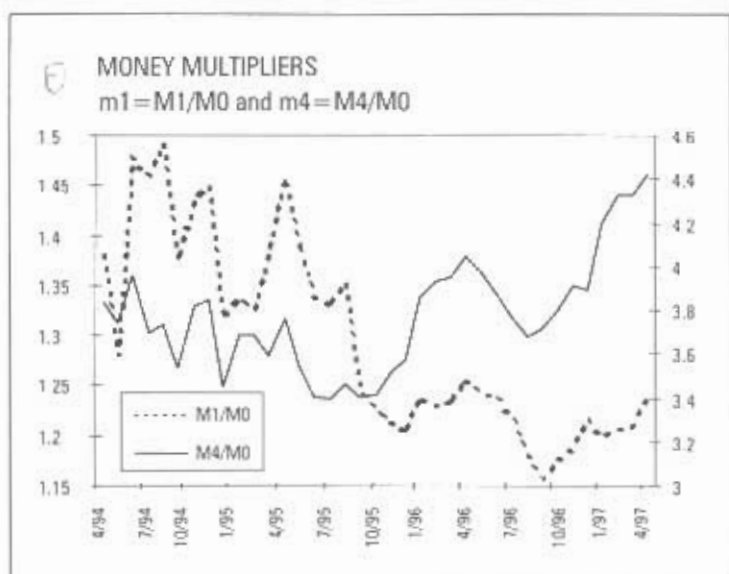
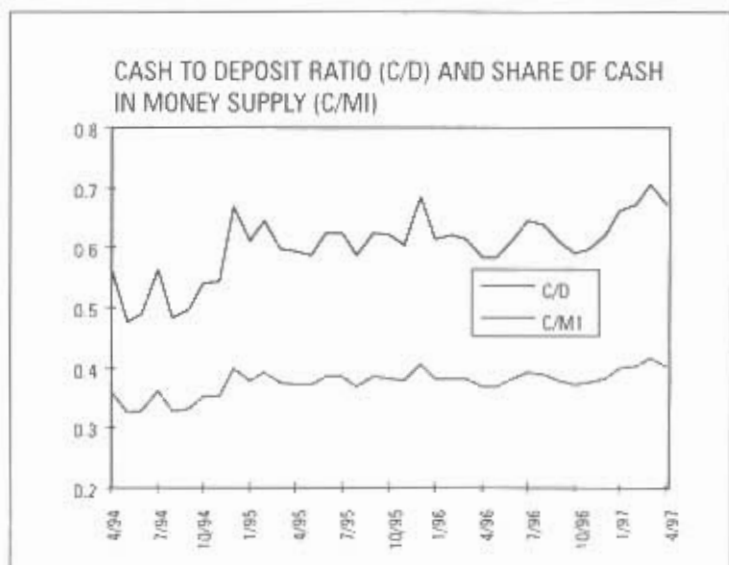
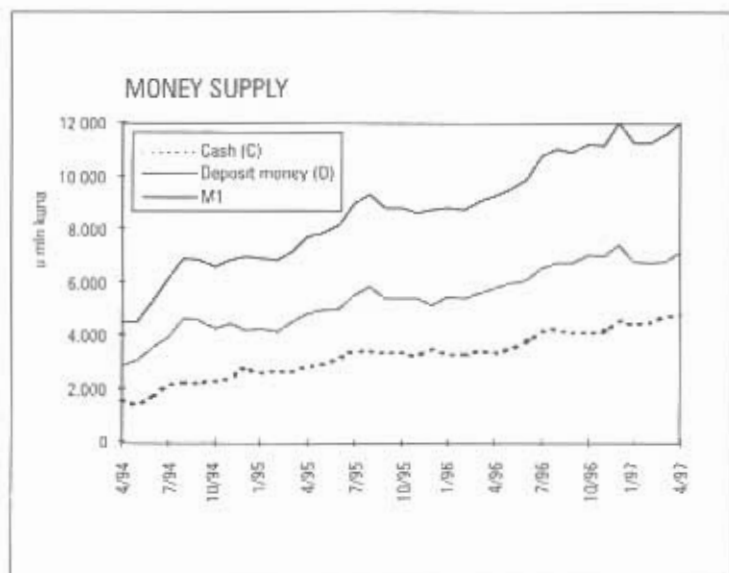
A part of the explanation lies in a more rapid growth of placements and especially credit in March and April, which through the classic mechanism of the credit multiplier "filled up" giro and current accounts of enterprises and citizens. Households, who received some 453 million kuna of net credit in April, clearly were quick to make use of the credit. That can be seen from the fact that the growth of kuna deposits and deposit money of households was only 115 million kuna in April.

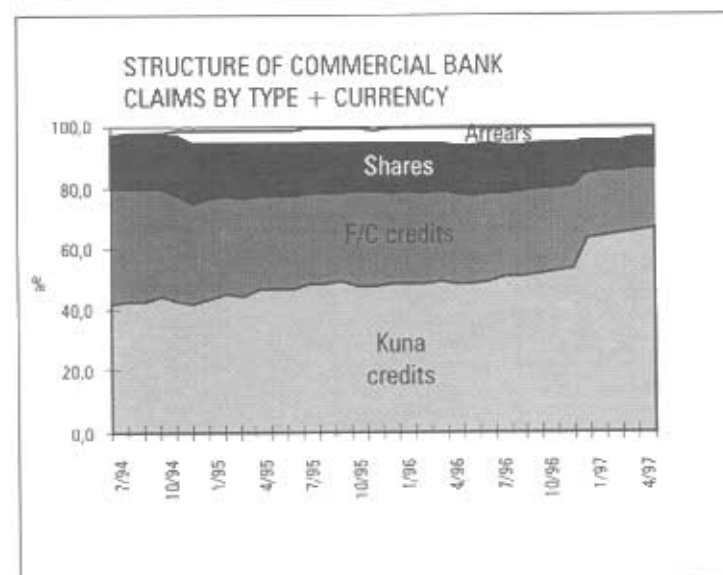
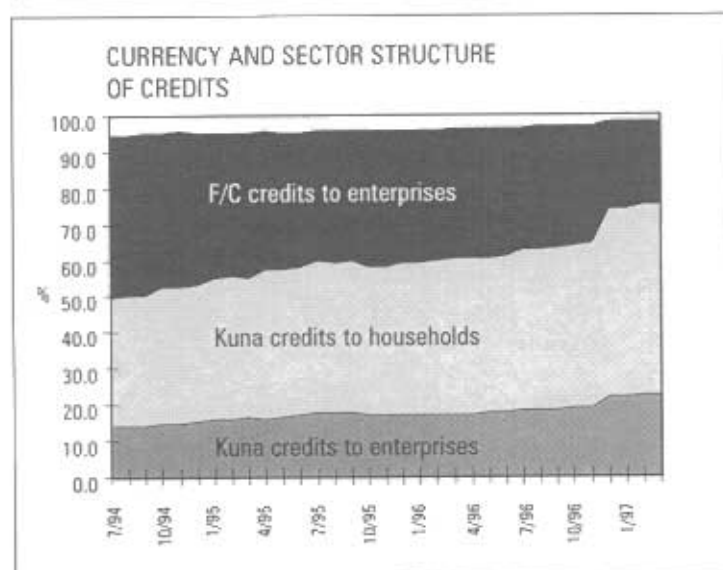
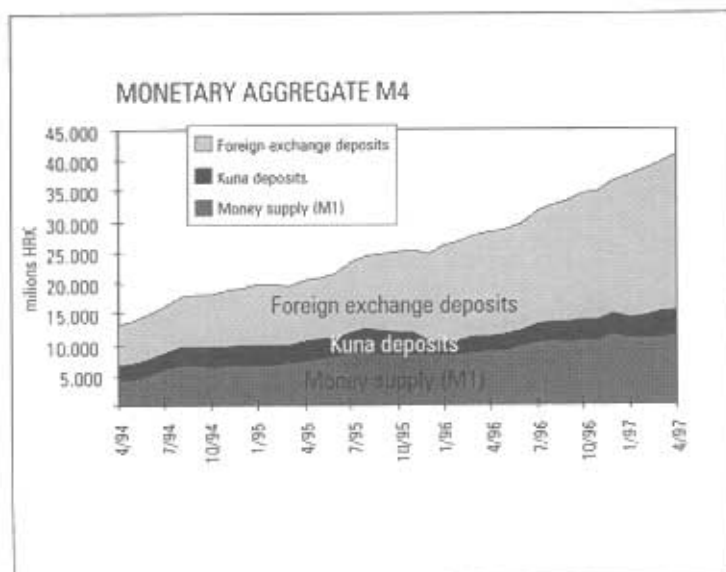
Enterprises were granted 840 million kuna of net credit, while the total kuna deposits of this sector grew by 183 million kuna. Deposit money of local government grew by an exceptionally large 128 million kuna, or as much as 27%.

The remaining growth in liabilities which "closes" the story of the growth of credit was mainly (again) the foreign exchange deposits of households. These deposits, mainly time deposits, grew by 0.8 billion kuna (6.1%).

The broadest monetary aggregate M4 exceeded 40 billion kuna at the end of April. It grew by 4 billion kuna (11%) relative to December. We may cautiously call this a slow-down in growth, since broad money grew 15% in the same period last year.

Certainly the most important development in April was the continuation of the rapid growth of placements which began in March. In March, credits grew by 1.4 billion kuna (4%), while in April they grew





even more, 1.5 billion kuna (4.3%). It is no longer possible to say that this is a special one-month phenomenon. Rather, it seems to be the beginning of a trend of rapid growth of credit. Such developments call for increased vigilance in monitoring credit developments, even though for now there is no sign of any disturbance in overall monetary stability. Quite the opposite. The positive trends in the real sector increase the demand for credit, and the stabilization of the liquidity of the financial system, the beginnings of changes in the term structure of savings, the repayment of government debt and the long-term downward trend of interest rates have logically lead to a growth in credit.

Let us look at the increase in credit in more detail. Eighty percent of the growth in credits in April were accounted for by kuna credits—1.2 billion kuna. Since 87% of the investments of banks are credits, we can focus on this segment. An increase in the kuna component of this aggregate is quite noticeable. These credits are now 77% of total credits, while the proportion was 50:50 in mid-1994. Furthermore, a look at the sectional distribution of credit shows that the share of credit to households has slowly increased, but that that increase has not significantly changed the sectional structure. The share of credit to other sectors (local government, and other banking and financial institutions) has fallen below 2%.

In the context of the growth of credit, it is necessary to mention the growth of placement to 31 legal entities whose growth is limited by the fourth criterion of the EFF agreement. Claims on these legal entities decreased by 127.4 million kuna, while net claims (and this is the criterion of the EFF) decreased by 160 million kuna. This decrease in placements in April, although inadequate to bring these credits within the limits set by the criterion, certainly have a positive effect, since they increase

the credits available to the healthy part of the economy. Also, it should be mentioned that placements to these companies were 12% of total placements in the first four months, while in the last two months, when placements have grown extremely rapidly, placements to these enterprises accounted for only 2.5% of total placements to all sectors.

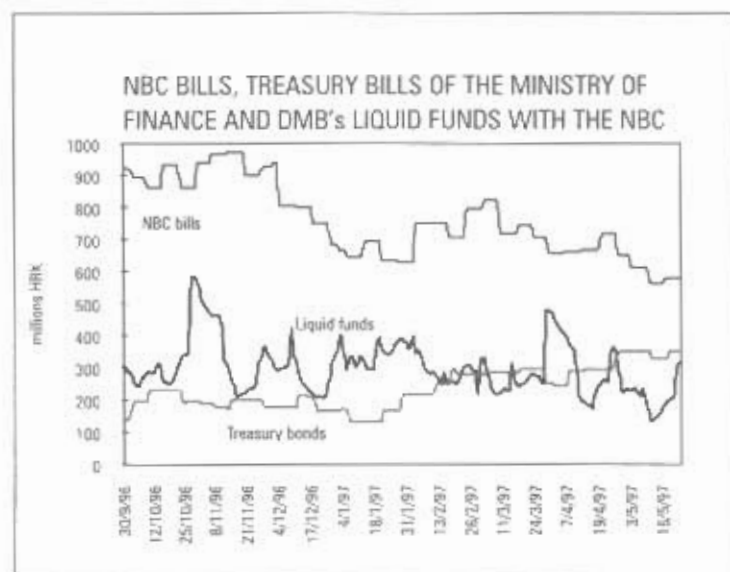
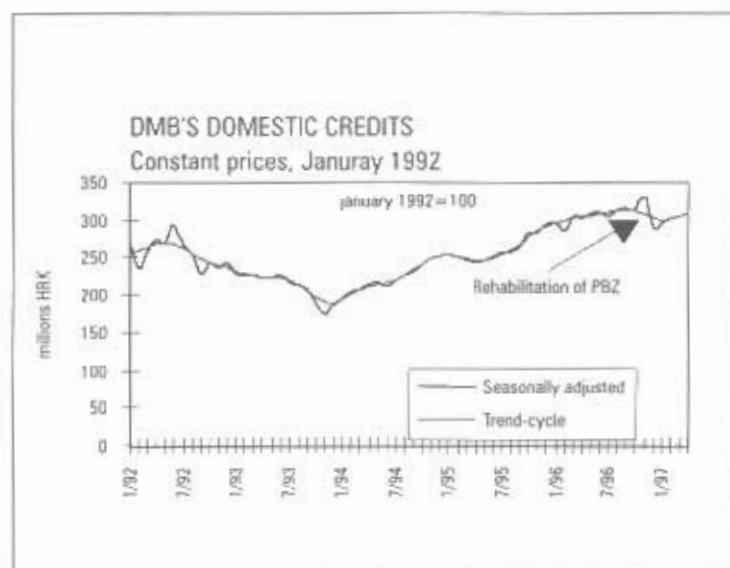
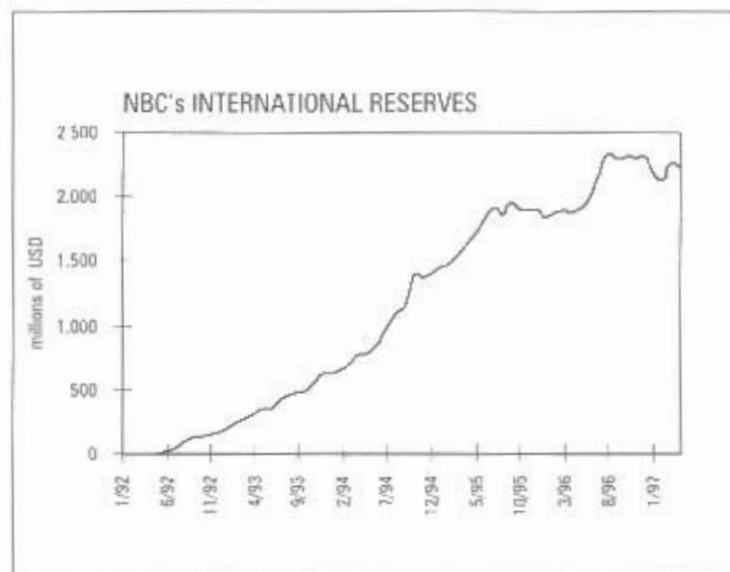
Monetary policy was a bit more dynamic in March than in previous months. Three interventions were made on the foreign exchange market. The net monetary effect of these transactions was 192.9 million kuna, and foreign exchange reserves increased 72 million USD in current dollars. At the end of May, reserves amounted to 2280.1 ml. USD.

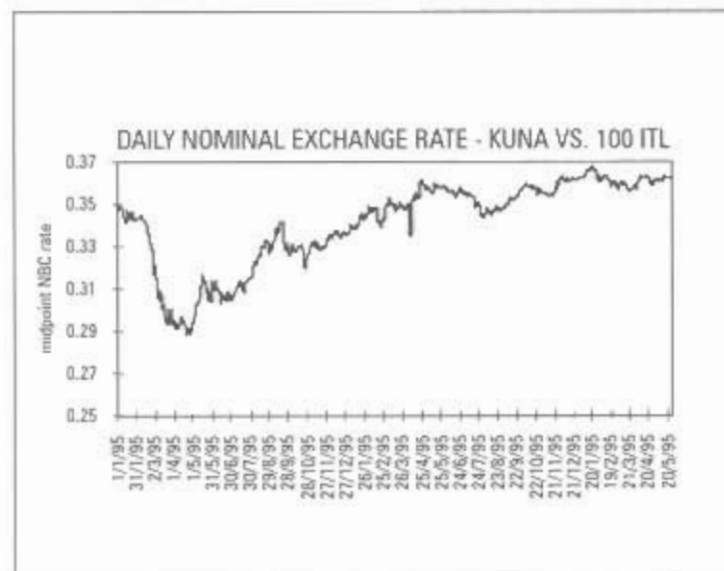
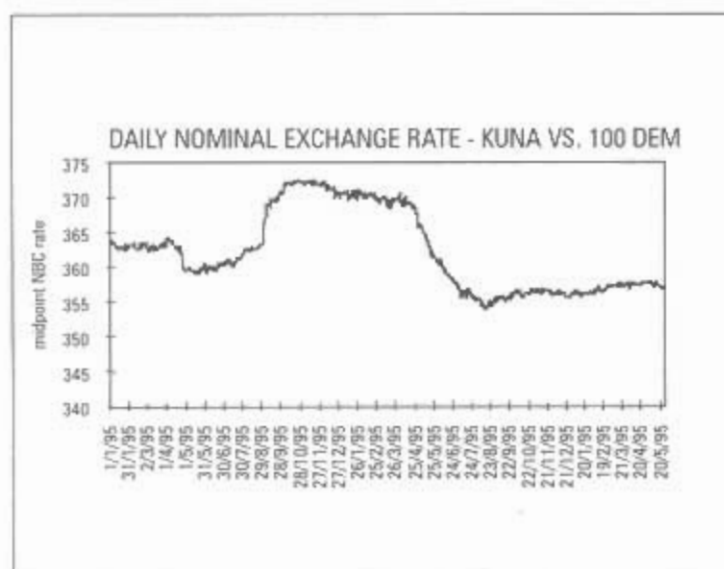
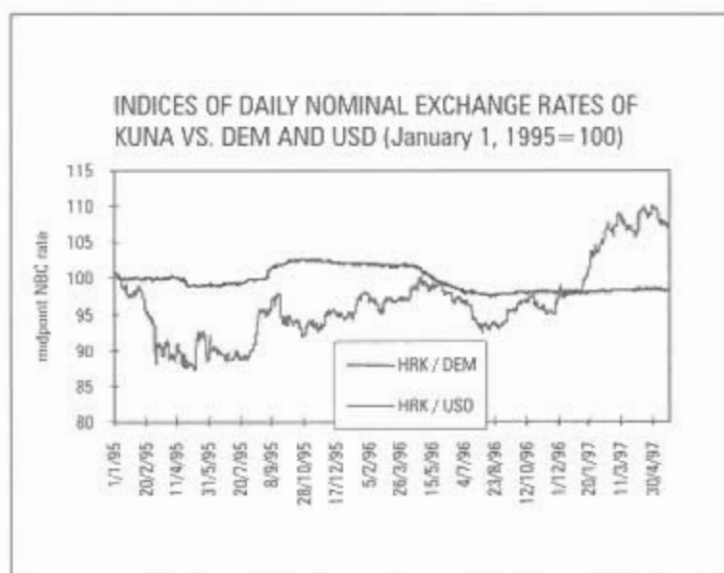
Regarding credit activity, the only loan was a short-term loan to the government of 100 million kuna, which was returned at the end of the month. Lombard credits granted to banks, and daily credits for liquidity used during the course of the month, will be repaid by the end of May.

Reserve money recorded a significant increase of 278 million kuna (3.2%) in May, mainly because of the rapid growth in cash of 219 million kuna (4.8%). Although the liquidity of banks was good (gyro accounts ranged from 350 to 450 million kuna), participation in auctions of NBC bills and Treasury bills was somewhat weaker than in previous months. The stock of total NBC bills held (including those held by banks and the HBOR) was 801 million kuna, at the end of May.

EXCHANGE RATE

Changes in the nominal exchange rate of the German mark relative to the kuna in May can be measured in fractions of a percent, so we are justified in calling it a very stable exchange rate. The American dollar





weakened by 3% relative to the end of April. Such a mild weakening of the dollar is characteristic of its relationship to other currencies as well, and is the result of a stabilization of the value of the dollar after its rapid growth from the beginning of the year. The lira experienced a nominal appreciate of 1% relative to the end of April.

The end of May, immediately before the beginning of the tourist season and the beginning of dynamic, seasonal developments on the foreign exchange market, is a good moment to evaluate changes in the nominal exchange rate since the beginning of the year. In five months, the German mark appreciated by a total of 0.2% relative to the end of December 1996. Only the American dollar, as is well known, appreciated nominally by 8.6% in comparison to December 31, 1996. Thus, on a longer time horizon, changes in the nominal exchange rate have been so small that they have been measured in fractions of a percent.

In May, we recorded a mild depreciation in both the indexes of the real effective exchange rate we follow. The index of real effective exchange rate measured by producers' prices depreciated by 0.11%, while the index of the real effective exchange rate measured by retail prices depreciated by 0.09%. The nominal effective exchange rate depreciated by 0.1%.

The biggest influence on these movements in both indexes of the real effect exchange was the real depreciation of the kuna (measured by retail prices) relative to: the Swiss franc (1.21%), the Slovene tolar (0.54%) and the French franc (0.14%).

BALANCE OF PAYMENTS

In January of 1997, the deficit on the current account was 184.3 million USD. This was 749.0% more than during the previous year. Financial

transactions also grew, amounting to 210.6 million USD, 103.5% more than in January of the previous year. The foreign exchange reserves of the National Bank of Croatia grew by 140.9 million USD, which represented a 170.4% greater increase than the growth in 1995. Net errors and omissions, which were -167.2 million USD in January, which was 24.9% more than in the previous year. The changes in reserves and in net errors and omissions can for the most part be explained by the strengthening of the US dollar at the beginning of the year.

Such a high rate of growth of the current account deficit is above all the result of the growth of the trade deficit of 22.8% in January 1997 relative to January of the previous year, as well as the decrease in the surplus on services of 93% in the same period.

If we look at the kuna amounts of exports and imports, which are more reliable due to the strong oscillations in the dollar exchange rate, we notice that in April, exports and imports fell slightly relative to March. Exports were 2.9% greater in April 1997 than in April 1996, while imports grew by 5.0% in the same period.

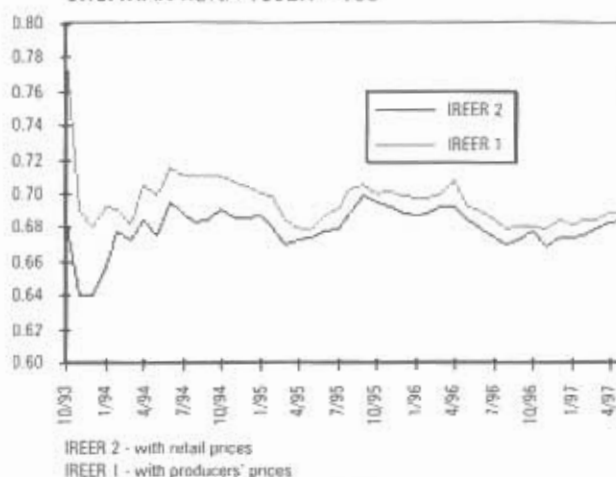
Exports grew in the first four months of 1997 relative to the same period in the previous year. Consumer goods exports grew by 23.9%, and investment goods exports grew 14.7%.

Imports also grew in the first four months of 1997 relative to the same period in the previous year. Intermediate goods imports grew 14.1%, investment goods imports grew 56.3%, and consumer goods imports grew 28.7%.

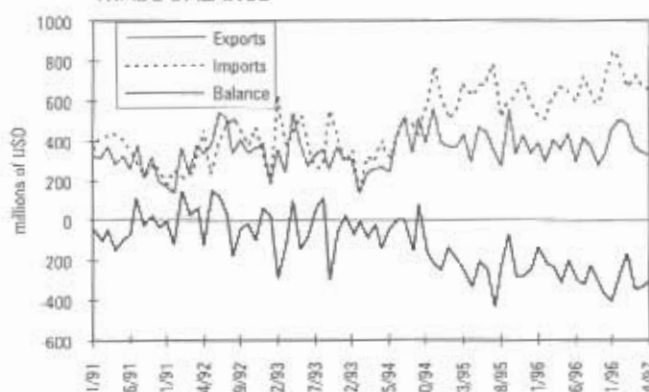
MONEY MARKET AND INTEREST RATES

The Money Market was exceptionally lively in May. Although

INDEX OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA 1992:1 = 100



MERCHANDISE EXPORTS, IMPORTS AND TRADE BALANCE



BALANCE OF PAYMENTS in millions of USD (preliminary data)

	Jan/97.	Jan/96.	indices Jan/97/Jan/96
Current account	-184.3	-21.7	849.0
Capital and financil accounts	210.6	103.5	203.5
NBC international reserves	140.9	52.1	270.4
Net errors and omissions	-167.2	-133.9	124.9

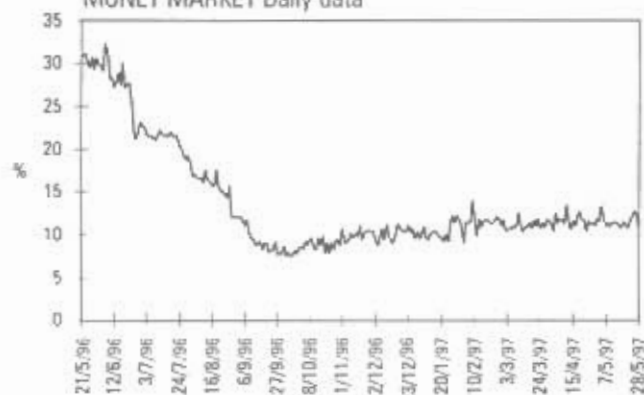
Source: NBH

MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

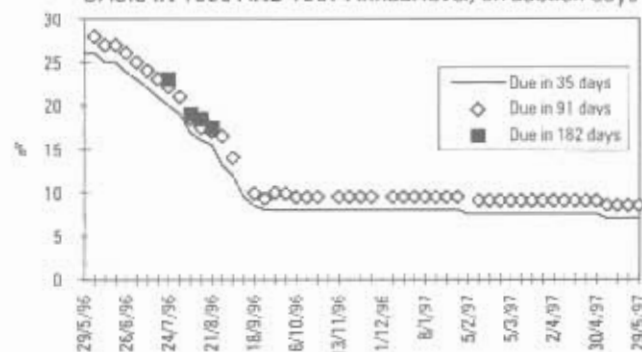
	Jan-April/97.	JAN/96.	April/97.	April/96.
EXPORTS	1524.3	1435.5	328.5	353.4
IMPORTS	2675.7	2329.8	635.0	668.0

Source: DZSRH

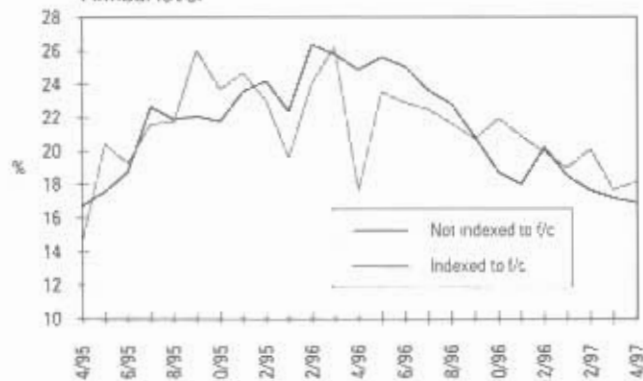
ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET Daily data



INTEREST RATES ON NBC BILLS ON VOLUNTARY BASIS IN 1996 AND 1997 Annual level, on auction days



DMBs' INTEREST RATES ON CREDITS IN KUNA Annual level



commercial banks entered the month with good liquidity, this did not, unfortunately, help them to maintain this situation throughout the month. At the end of April, there were indications of liquidity problems due to the upcoming holidays, as well as the deadline for paying profit taxes for enterprises. Following this came payments of pensions and wages, and liquidity suddenly fell. This not only caused increased activity on the Money Market, but also activity of the National Bank aimed at resolving the problem. REPO auctions of NBC bills and Treasury bills of the Ministry of Finance were employed. Even though demand was greater than supply on the Money Market, because of mismatch between maturities offered and the maturities desired, some bills were not bought. Many creditors did not want to concentrate their loans to particular borrowers. However, non-bank sources did fairly well this time. All these events resulted in large oscillations of daily interest rates, which ranged from 9.7 to 12.7% in these four weeks. Interest rates grew somewhat, and callable loans grew from the normal 10.5% (bank sources) to 11.5%. However, the interventions of the National Bank resolved the liquidity problems, and the excitement on the Money Market was calmed. Therefore, interest rates are expected to stabilize at normal levels, and with normal oscillations, by the end of the month. Since another holiday is ahead of us, we can expect that this too will affect liquidity and interest rates.

Interest rates on voluntary NBC bills did not change. They remain at 7% for 35 day bills and 8.5% for 91 day bills. Purchase of these bonds fell because of decreased bank liquidity. When bank liquidity recovered, purchase of NBC bills improved. One surprise is that after 10 months, 182 day bills are being sold at an interest rate of 9.5%. Related to this, the May

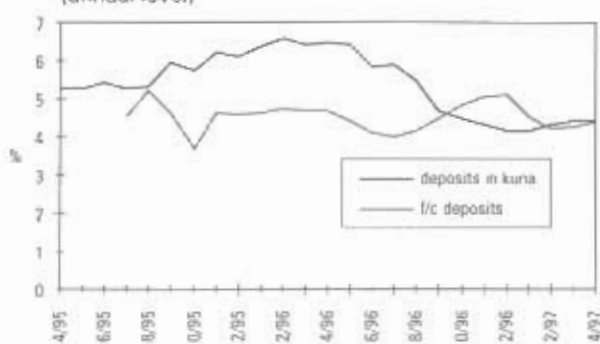
auction of Treasury bills of the Ministry of Finance was successful, bringing an interest rate of 11.25% for 182 day maturity. Interest rates for 42 day maturities continues to fall, at the latest auction, an interest rate of 9.26% was achieved, along with exceptionally large purchases.

Credit interest rates of commercial banks in April did not change substantially from March rates. The average interest rate on kuna credits without the currency clause remained at 16.9% (with a range of 10.2% to 57.2%). Interest rates on short-term credits were 17%, an long-term credits were at 14.5%. The average interest rate on kuna credits with the currency clause fell by more than 1% to about 17%. Short-term interest rates were 19.3%, and long-term rates 12.8%. The range between banks was from 8.0 to 30.8%. We expect further decreases in credit interest rates of commercial banks in May.

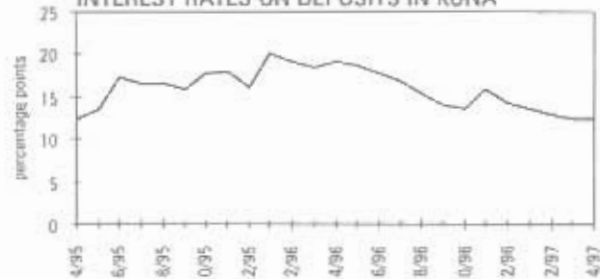
Deposit interest rates of commercial banks were relatively stable. Interest rates on kuna time deposits rose slightly, still aiming to attract kuna savings. Regarding foreign exchange deposits, growth of interest rates is visible in foreign exchange sight deposits. This contributed to an insignificant difference between average interest rates on kuna and foreign exchange deposits.

The interest rate "spread" decreased slightly. More significant decreases are expected towards the end of the year. This is important because this level of interest rate "spreads" is one of the most essential problems worrying financial experts in Croatia.

DMBs' INTEREST RATES ON DEPOSITS
(annual level)



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



INTERENTERPRISE ARREARS REPORTED TO PAYMENTS INSTITUTE

