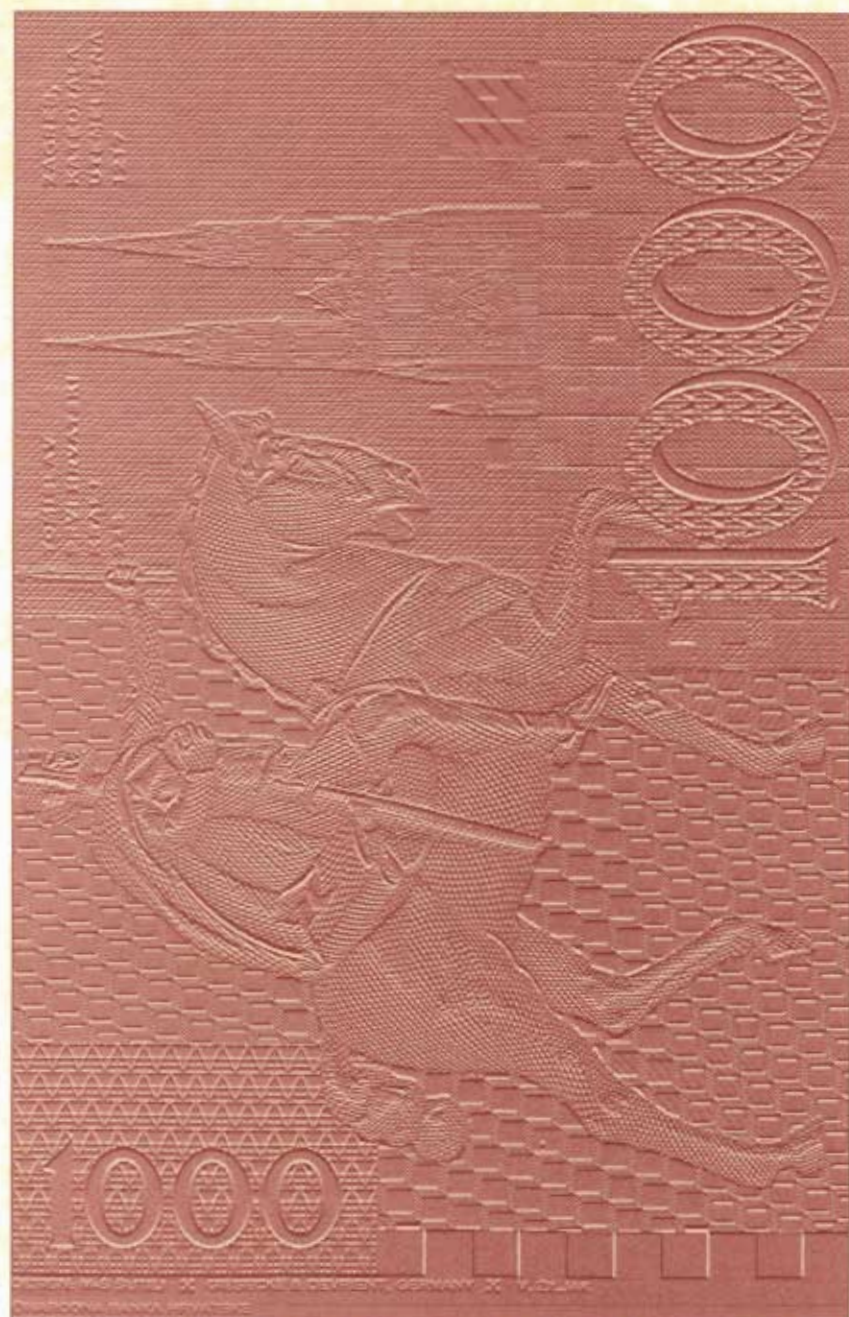


NATIONAL BANK OF CROATIA



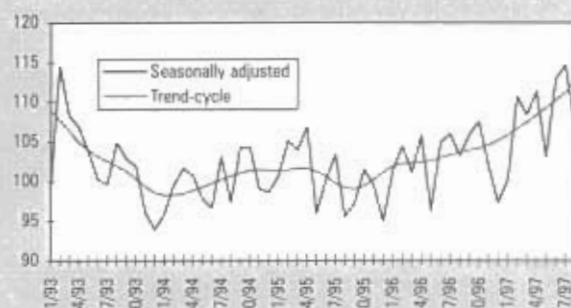
BULLETIN

YEAR II OCTOBER 1997
No. 20

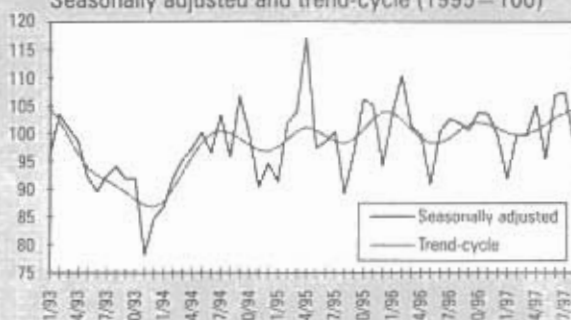
INDUSTRY

With industrial production growing at an annual rate of 4.8% in the first eight months of the year, and indicators in other sectors of the economy also favorable, we can speak of an expansionary economic conjuncture in the second half of the year. The positive growth trend of industrial production of the first half of the year is continuing with even greater intensity in the second half. The usual seasonal slowdown of production in August decreased the growth rates seen at the end of July. The growth achieved through the end of August is the result of exceptionally rapid growth in the energy-producing sector, as well as more moderate growth in processing industries and mining. The tobacco industry, clothing industry, leather and footwear, and oil and chemical industries all lagged far behind last year's results, while food processing was only slightly behind last year's levels. The fact that a few large companies in these branches are doing well does not imply that the whole branch is doing well. The industries mentioned clearly are still unable to overcome the impact of the loss of markets and the necessity of economic restructuring. The cause of poorer results may possibly be found in inadequate investment in fixed capital, information systems or contemporary marketing methods. Economic actors' success depends on their flexibility in adapting to their new environment, on their acceptance of new production processes or on their ability to promote their goods, especially on foreign markets. At the same time, in the textile and wood industries, paper products, printing and publishing, the rubber and plastics industries, metalworking, machine-building and motor vehicles and transportation equipment sectors, impressive growth was recorded. This month is the first time that production

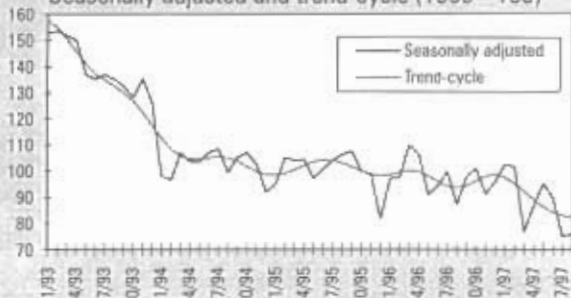
INDEX OF PRODUCTION VOLUME IN INDUSTRY
Seasonally adjusted and trend-cycle (1995=100)



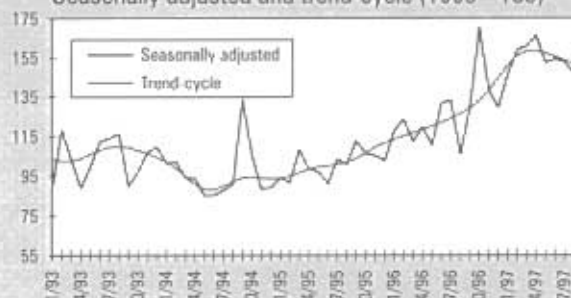
MANUFACTURE OF
FOOD PRODUCTS AND BEVERAGES
Seasonally adjusted and trend-cycle (1995=100)



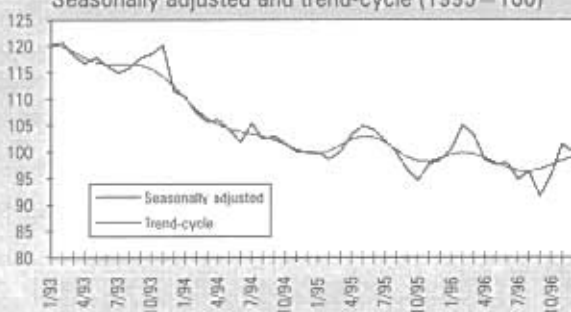
MANUFACTURE OF
CHEMICALS AND CHEMICAL PRODUCTS
Seasonally adjusted and trend-cycle (1995=100)



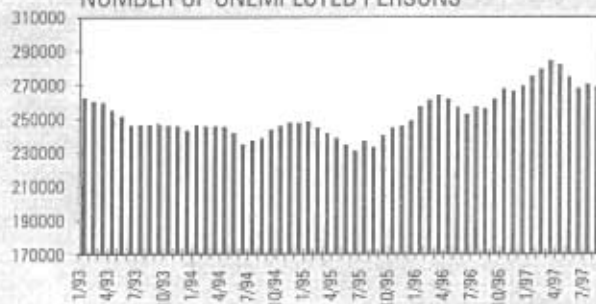
**ELECTRICITY, GAS,
STEAM AND HOT WATER SUPPLY**
Seasonally adjusted and trend-cycle (1995=100)



STOCKS OF FINAL PRODUCTS IN INDUSTRY
Seasonally adjusted and trend-cycle (1995=100)



NUMBER OF UNEMPLOYED PERSONS



data have been released for the main industrial groups. Production is broken into five categories. The largest share goes to non-durable consumer goods (38.6%). Intermediate goods account for 33.7% of production, energy 14.1%, capital goods 8.8%, and consumer durables 2.7%. Intermediate goods production was lower this year than last year. The production of capital goods was at last year's level, while the other three groups experienced high annual growth rates.

Statistics on industry's foreign trade for the first eight months show a deficit of 2.3 billion dollars. Total exports were 1.5% below last year's, and imports grew by 16.2% in dollar terms. This overstates real values, due to the strengthening of the US dollar. Industry accounts for 98% of total goods exports, and thus requires further analysis. Among individual products, tobacco production, clothing and furs, processing of leather and shoes, wood processing and wood products, production of coke and oil derivatives and fuel showed trade surpluses, while all other branches showed deficits. No qualitative progress was made towards the goal of sending more exports to developed countries. Exports to developed countries decreased this year. This is true for the EU and EFTA countries as well. Looking at exports by sector, consumption goods exports grew by 3.0%, intermediate products exports were 2.3% below last year's level, and investment goods exports were 21.2% below last year's level.

TRADE

In the last eight months, domestic trade has risen at an annual rate of 4.7% in real terms. Developments in trade will be followed carefully, considering that trade is in second place in terms of value-added, and its share in value-

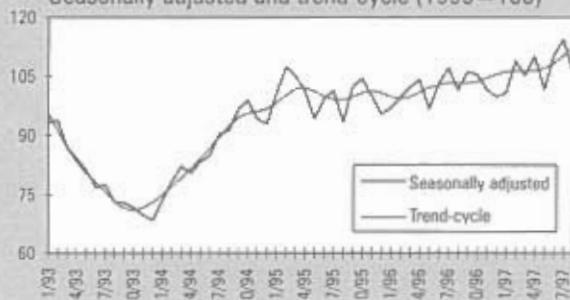
added has grown continuously in recent years. Wholesale trade grew cumulatively by 6.8% annually. It should be noted that data for 1997 are provisional for both retail and wholesale trade. The number of employees in trade in the first seven months of 1997 was 6.5% less than the number in the same period last year.

CONSTRUCTION, TRANSPORT AND TOURISM

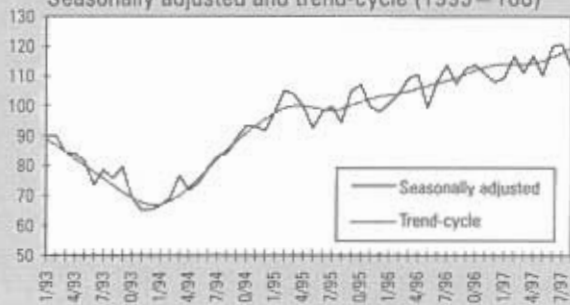
Construction has given a significant impulse to economic growth, as wartime reconstruction and new construction has opened new possibilities to domestic economic actors. In addition to the production of building materials, this sector pulls along other industries such as the wood, metal-processing, equipment production and others. Hours worked in the first seven months exceeded last year's level by 15.2%, while the value of completed projects within Croatia rose by 37.3%. Data on contracts and finished projects abroad for the first half show decreases of 21 and 25% respectively. Housing construction was down in the first half, both in terms of the number of apartments and in terms of the area of finished and unfinished apartments. Employment in construction in the first seven months was down by 5.3% compared to the same period last year.

In the areas of transport and communications, transport of passengers increased by 2.9% over last year. Postal communication (letter-carrying services, package services and money transfers) and telecommunications (telephone calls, CRONET and data transfer) were up as well. Freight transportation was 2.5% behind last year. The number of employees fell by 1.1% in comparison with the

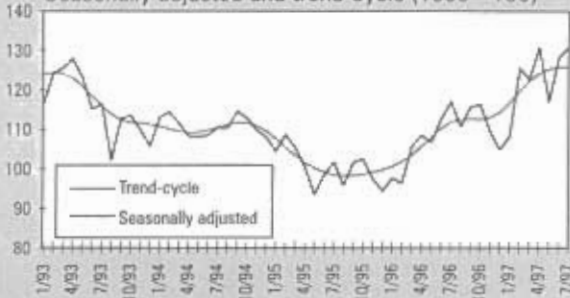
INDEX OF REAL TURNOVER IN RETAIL TRADE
Seasonally adjusted and trend-cycle (1995=100)



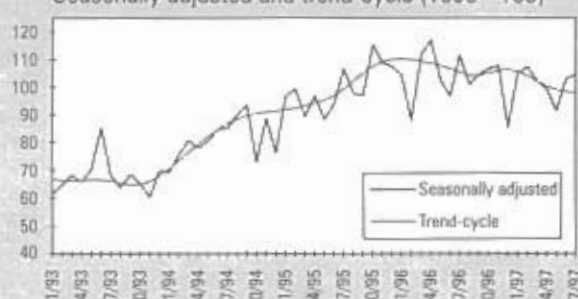
INDEX OF REAL TURNOVER IN WHOLESALE TRADE
Seasonally adjusted and trend-cycle (1995=100)



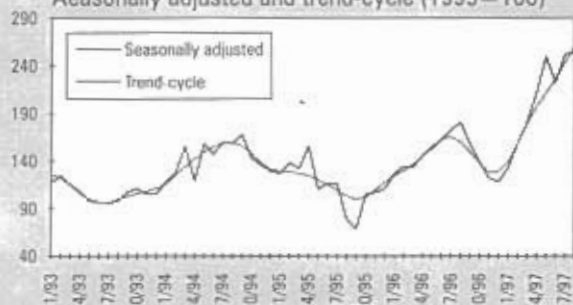
EFFECTIVE WORKING HOURS
IN CONSTRUCTION INDUSTRY
Seasonally adjusted and trend-cycle (1995=100)



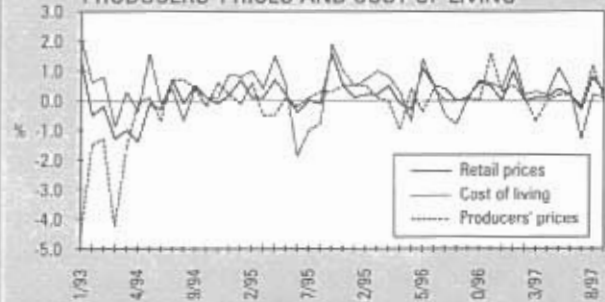
TRANSPORT OF GOODS
Seasonally adjusted and trend-cycle (1995=100)



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



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



corresponding seven months of last year. With a share of 6.4% in total value-added, as well as a strong indirect influence on the development of the whole economy, transport and communications are an exceptionally important sector.

By the end of August, the number of registered tourist night stays was 41.8% above the level of the first eight months of last year. Tourist arrivals were up by 35.9%. Croatia was the host of guests from many countries during the last few months. The main countries were the Czech Republic (16.5%), Slovenia (16.3%), Germany (15.6%), Italy (14.3%), and Austria (13.0%). Various other countries accounted for the remaining 25%. The results of the tourist sector were exceptionally good in comparison to recent years, but still are substantially below the results achieved before the war.

PRICES

After the rapid rise of prices in August of 0.8 percent, September brought with it more moderate growth. Retail prices grew by 0.3 percent in the month, and year-on-year growth increased from 3.5 to 3.7 percent.

Once again, increases in the prices of services had the greatest influence on overall price increases. The price of services grew by 0.5 percent in September. The year-on-year growth rate of the price of services was the highest of all groups except agricultural products, amounting to 5.4 percent.

In addition, the 0.4 percent increase in the prices of processed food products had a major impact on September's price increase.

The cost of living index grew by 0.1 percent in September. Clothing and shoes increased in price by the largest amount, mainly due to increased demand. Despite the mod-

est increase this month, the cost of living has grown faster than retail prices, registering a year-on-year growth of 4.2 percent. The highest year-on-year growth is seen among clothing and shoes, 7.2 percent, followed by education, culture and entertainment at 7 percent, housing at 5.5 percent, and services at 4.7 percent.

Industrial producers' prices stagnated in September, following increases in August. Their growth rate was 1.3 percent in August, and 0.0 in September. Even though the total was zero, two branches showed significant growth. These were the production of oil and natural gas, with a monthly increase of 7.5 percent, and the production of light metals with a growth of 3 percent.

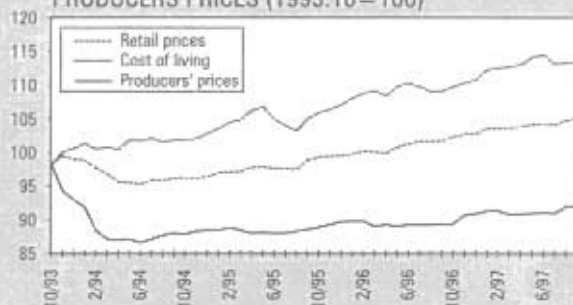
Looking at prices by final use, the price of equipment fell by 0.3 percent in September, while the prices of intermediates and final consumption goods stayed at the same level as in August.

Looking at economic branches, the highest growth in prices was seen among light metals, 36.5 percent, while the prices of oil and natural gas products grew 18.9 percent and the prices of refined oil products grew by 16.5 percent.

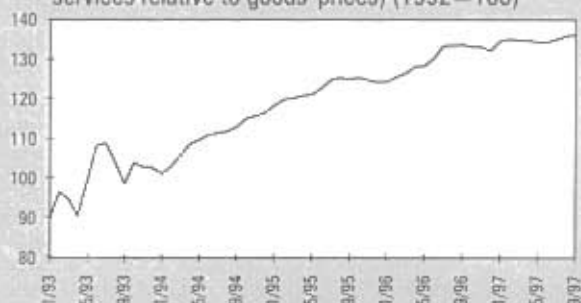
WAGES AND THE GOVERNMENT BUDGET

Average net wages in the first eight months were 12.4% higher in real terms than in the corresponding period last year. In August, pay was 0.7% lower than in July, and 3.8% higher than the average for the year in real terms. Gross pay in August was 1.1% lower than in the previous month, and was 4.0% higher than the average for the year. The total cost of labor registered in industry grew by 17.9% in real terms in the first seven months of the year in comparison with the

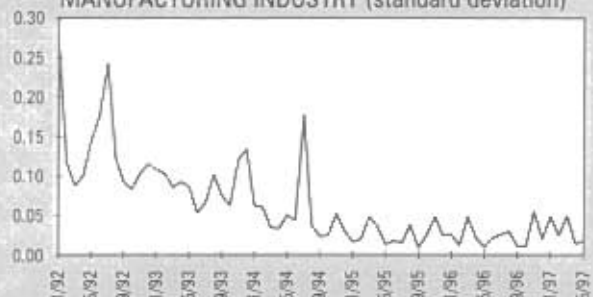
INDEXES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS PRICES (1993:10=100)



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



INTER-INDUSTRY RELATIVE PRICE VARIABILITY IN MANUFACTURING INDUSTRY (standard deviation)



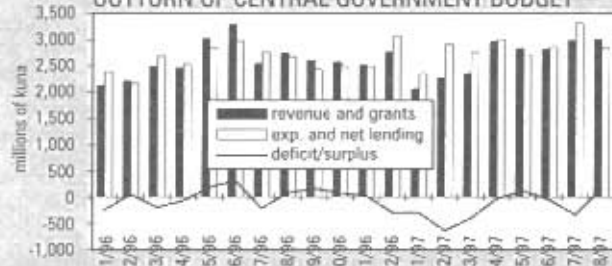
REAL AVERAGE NET WAGE
Constant prices, January 1993



REAL AVERAGE GROSS WAGE
Constant prices, January 1993



OUTTURN OF CENTRAL GOVERNMENT BUDGET



same period last year, confirming the opinion that non-wage costs of labor in Croatia are extremely high.

During the first eight months of the year, the government had positive balances in its accounts twice, and the cumulative deficit amounted to 1.5 billion kuna or 52.1% of the planned deficit for this year. The deficit has been completely covered by foreign sources. 64.7% of planned revenue has been realized, and 63.7% of planned expenditures have been made. Within revenue, the largest sources have been the sales tax, excises, tariffs, etc. The largest expenditures have gone for goods and services, subsidies and transfers, capital expenditures, etc. The revenue side of the budget is larger than last year's by 1.9%. Within this profit taxes have grown the fastest, and capital revenues have decreased the most. The expenditure side is 8.4% greater, within which the greatest increase is shown among subsidies and transfers, and the greatest decrease among goods and services. The deficit this year should not exceed the limit of 2.8% of GDP.

MONETARY DEVELOPMENTS

Monetary aggregates grew moderately in August. Although there was a seasonal influence, in general we can say the last summer month brought a certain calming effect after the dynamic changes seen in June and especially July.

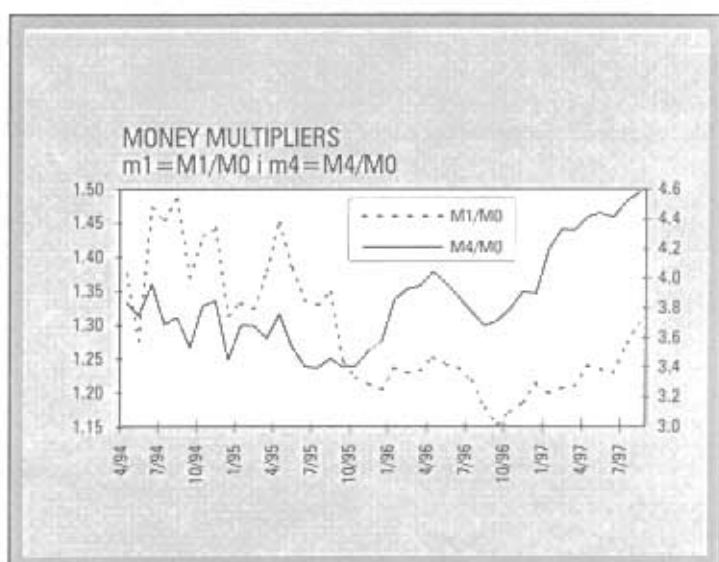
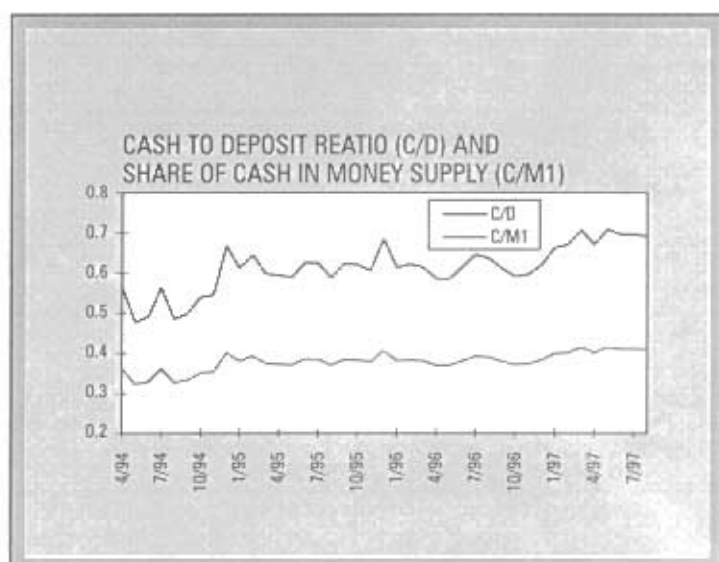
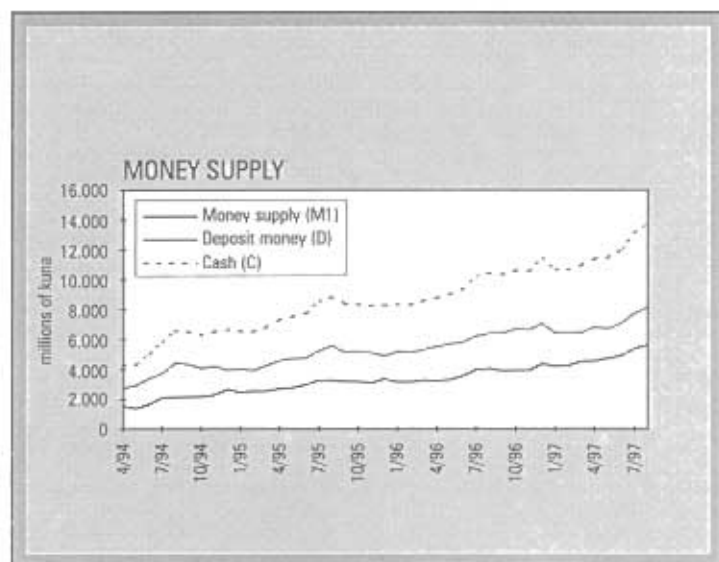
The money supply grew in August by 0.65 billion kuna (5%). This growth came on the basis of a 0.25 billion kuna (4.7%) increase in cash, and a 0.4 billion kuna (5.2%) increase in deposit money. In the first half of the year, cash grew faster than deposits, and the cash-to-deposit ratio increased. In the last few months, deposit money has grown faster than cash.

Kuna deposits, after several months of somewhat slower growth, grew by 0.36 billion kuna in August, which amounts to a very high 7.7% growth. Foreign exchange deposits grew by 0.87 billion kuna or 3%. In this way, August confirmed the trend to faster growth of kuna savings and (relatively) slower growth of foreign exchange savings, which grew by 1.1 billion or 9.3% in July.

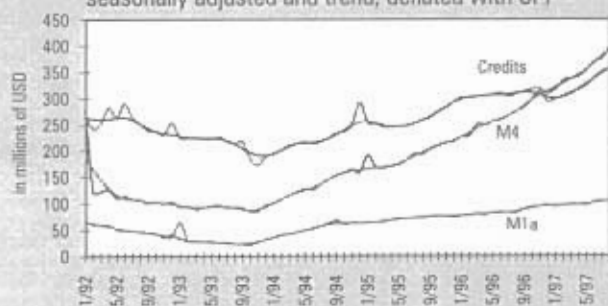
The money multipliers m_0 and m_1 grew slightly this month as well. They have been growing continuously since last September. In other words, the relationship between reserve money, the monetary aggregate that the central bank directly controls, and broader monetary aggregates has been continuously falling. This means that the influence of the monetary authorities on movements in the broader aggregates has been continuously decreasing, and the influence of the autonomous decisions of other sectors, especially households, is ever more decisive. Foreign exchange deposits at the end of August amounted to 62% of total liquid assets, with a trend to continue increasing their share despite relatively slower growth. The high level of foreign exchange savings means that even small relative increases can mean large changes in absolute terms.

The growth of placements also confirms the story that a certain calming down of growth occurred in August relative to the previous two months. The absolute growth in August (0.7 billion kuna) was half of the growth in the previous two months (1.6 and 1.5 billion kuna). The August increase was 1.8%. Broken down by sectors, placements to households increased by 0.3 billion kuna, and placements to enterprises increased by 0.5 billion kuna.

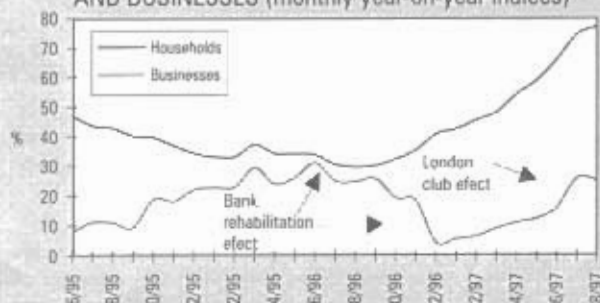
The major determinant of deposits is the demand for credit.



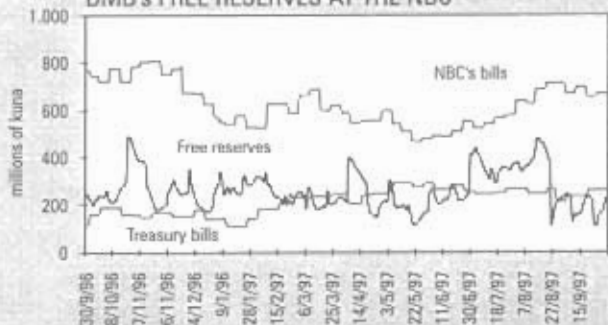
DOMESTIC CREDITS, M4 AND M1a,
seasonally adjusted and trend, deflated with CPI



GROWTH RATES OF LOANS TO HOUSEHOLDS
AND BUSINESSES (monthly year-on-year indices)



NBC BILLS, TREASURY BILLS OF
THE MINISTRY OF FINANCE AND
DMB's FREE RESERVES AT THE NBC



While in 1994 and 1995, deposits grew through the "inertia" of autonomous inflows occurring due to repatriation and remonetization, now deposits are growing through conditional savings. Data show a high correlation between changes in the time structure of deposits and credits. As we have mentioned several times before, time deposits are growing faster than sight deposits and have exceeded the latter in absolute terms. Parallel with this, what had until recently been predominantly short-term credit is now becoming longer and longer-term. Finally, the household sector is taking out more and more long-term credit.

These changes in assets require longer-term sources, both because of the National Bank's decision on harmonizing the term structure of sources and placements, and because of banks' own prudential considerations. By requiring borrowers to make deposits of the same term, banks gather savings of adequate term (which would, at least for now, be lacking) "by force". This also cools down the consumption boom a bit.

Looking at term structure, of the 9 billion kuna credits given to households, 7 billion kuna are long-term, and 2 billion are short-term. Furthermore, long-term credit to households is growing faster than short-term. Compared to December 1996, long-term credits have grown by 54%, and short-term by 36%. Long-term credits are all those credits above one year. The term structure of credits to enterprises shows the same pattern. Long-term credits to enterprises grew by 41.5% in the first 8 months of this year.

After continuous decreases, net claims on the government grew in August by 0.2 billion kuna. While claims on the government continued to fall slightly, the government withdrew 0.3 billion kuna of for-

eign exchange deposits. We should remember that the government had decreased its net obligations to the banking system by 4.4 billion kuna the previous month, and in the last three months together by more than 5 billion kuna. This mild growth in August therefore does not change the continuous and decisive trend to decrease the financing of government by the domestic banking system.

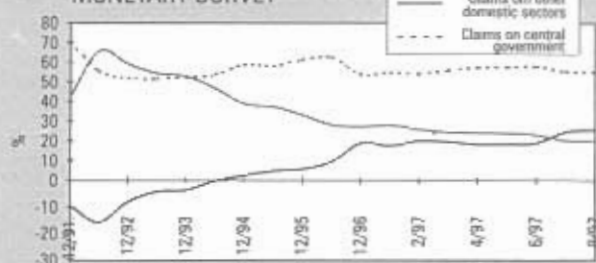
Monetary policy was very quiet in September. There were no auctions of foreign exchange. Foreign exchange reserves were 2449.5 billion dollars at the end of September, in comparison with 2440.6 billion at the end of August. Lombard credits were used more extensively than in previous months. 280.9 million kuna of NBC bills were purchased on 18 September, and banks repurchased them on the 25th of September. The government did not take out any short-term credit from the National Bank this month.

On the liability side, up to the 24th of September, reserve money had grown on the basis of increased deposits, while currency in circulation decreased relative to the end of August. Interest in purchasing NBC bills grew slightly, as expected, and NBC bills outstanding at the end of September were 15 million kuna greater than on the 31st of August.

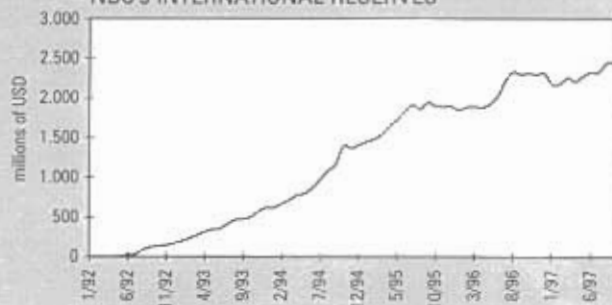
EXCHANGE RATE

In the month of September, the kuna experienced its largest nominal appreciation in the last year relative to the German mark. The exchange rate of the kuna to the mark appreciated by 0.42 percent. The kuna had only appreciated by 0.83 percent in the first eight months of the year. The total effect for the whole year amounts to 1.13 percent nominal appreciation.

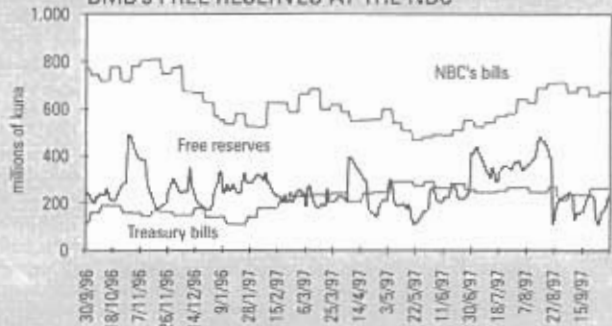
STRUCTURE OF ASSETS OF MONETARY SURVEY



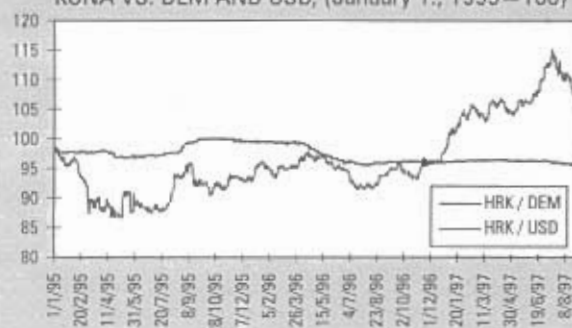
NBC's INTERNATIONAL RESERVES



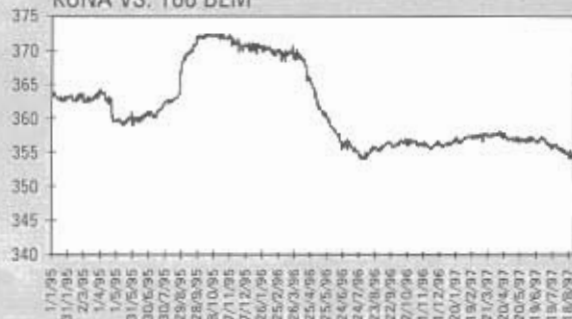
NBC BILLS, TREASURY BILLS OF THE MINISTRY OF FINANCE AND DMB's FREE RESERVES AT THE NBC



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. 100 ITL



This effect can be seen on the first graph, in which the fall of the index of the daily nominal exchange rate of the kuna to the German mark can be seen. The lowest nominal value of the German mark in the last year was 3.5401 HRK. The kuna also appreciated relative to the US dollar. The nominal exchange rate of the kuna to the dollar appreciated by 3.81 percent in September. This was mainly due to the weakening of the dollar on world markets during the month.

The appreciation of the kuna during August and the increase in retail prices (0.8%) and producers prices (1.2%) caused a noticeable real appreciation of the kuna. In August alone, the kuna appreciated in real terms by 1.39% (PPI) and 1.01% (CPI). This resulted in a decrease in the cumulative rate of growth relative to the beginning of the year from 2.66% to 1.24% (PPI) and from 2.08% to 1.05% (CPI). The continuation of the nominal appreciation of the kuna against the German mark and American dollar were certainly result in further real appreciation during September.

BALANCE OF PAYMENTS

The current account deficit was 1,554.3 million USD in the first six months of 1997. This was 134.8% greater than in the same period last year. This increase in the current account deficit was caused by an increased deficit on merchandise trade and decreases in net service income. In the first six months, the merchandise trade deficit grew from 1,392.3 to 2,022.4 million dollars, for an annual increase of 45.3%. Net service income decreased from 368.8 to 190.1 million USD, for an annual decrease of 42.2%. This was mainly caused by increases in service expenditures. Changes in the exchange rate of the

dollar, and seasonality in economic activity are behind these increases. It is expected that income from tourism will increase significantly in July and August. Data for June confirm this, showing that income from tourism was 21.3% higher than in the previous June. Very high net errors and omissions also indicate high growth of tourist revenues. Net income from current transfers decreased by 23.0%, from 427.1 to 362.3 million USD, due to decreases in international aid to the government. This decreased by 85.4%.

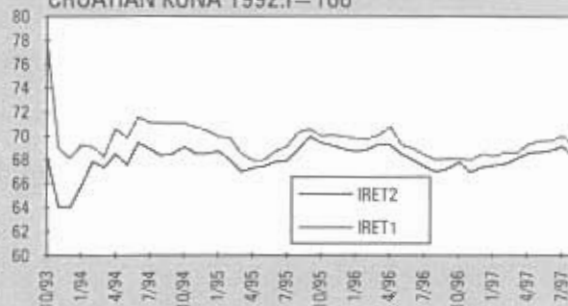
On the capital account, excluding foreign exchange reserves, inflows from abroad amounted to 883 million USD in the first six months. This was 419% greater than in the same period last year. Foreign direct investment reached 158.2 million USD or 42% more than last year. Net foreign credit increased from 71.8 to 446.0 million USD, of which government borrowing rose from 7.7 to 296.2 million USD.

In the first eight months, Croatian exports amounted to 2,886.9 million USD. This was 2.7% less than in the same period last year. Imports were 5,605.9 million USD, 15% above last year. The merchandise trade deficit was 2,739.0 million USD, 42% higher than last year.

MONEY MARKET AND INTEREST RATES

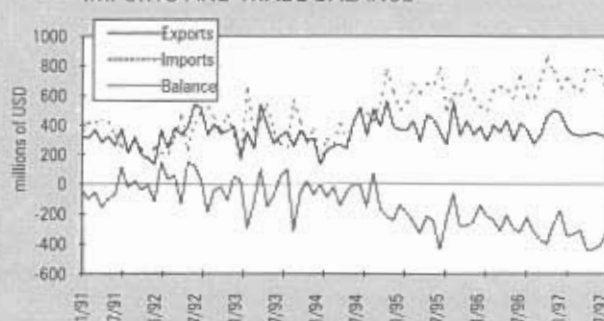
The Money Market was characterized by fluctuations in average daily interest rates in September. Average rates ranged between 7.3 and 10.7%. Liquidity problems caused increases in interest rates in the first and third weeks of the month. The National Bank reacted with a repo auction of NBC bills, prevented Lombard facilities from being completely exhausted and

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



Note: IRET1 - with retail prices
IRET2 - with producers' prices

MERCHANDISE EXPORTS, IMPORTS AND TRADE BALANCE



BALANCE OF PAYMENTS
in millions of USD (preliminary data)

	I-VI 97	I-VI 96	indices I-VI 97/I-VI 96
Current account	-1554.7	-662.3	234.8
Capital and financial accounts	895.7	172.4	519.5
NBC international reserves	-12.5	-123.9	10.1
Net errors and omissions	671.7	613.8	109.4

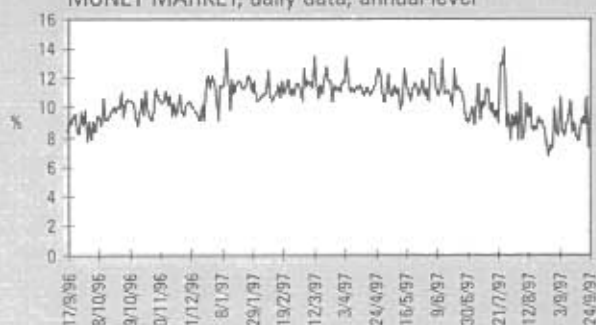
Source: NBC

MERCHANDISE EXPORTS AND IMPORTS
(in millions of USD)

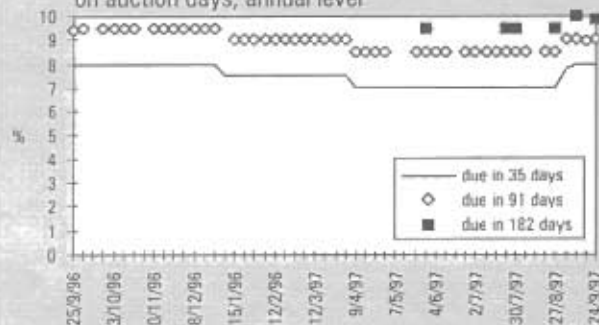
	Jan-Aug/97	Jan-Aug/96	Aug/97	Aug/96
EXPORTS	2,866.9	2,945.5	318.9	369.0
IMPORTS	5,605.9	4,874.1	629.6	587.5

Source: Bureau of Statistics

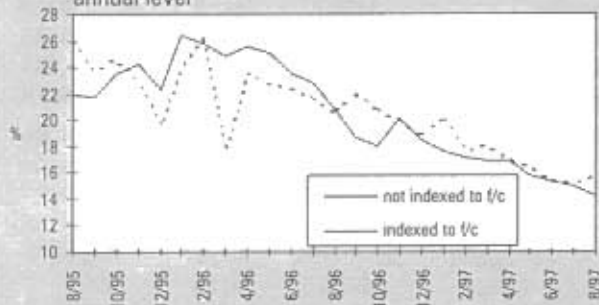
INTEREST RATE ON THE ZAGREB
MONEY MARKET, daily data, annual level



INTEREST RATES ON NBC BILLS,
on auction days, annual level



DMBs' INTEREST RATES ON CREDITS IN KUNA,
annual level



saving banks from the threat of losing their rights to use Lombard credits. At the beginning of the last week the situation calmed down, demand on the Money Market fell, supply rose, and interest rates fell substantially. Above all, it is significant that loans for an unspecified period or subject to call can now be obtained at 6%, the lowest rate yet seen for such loans. Other loans can also be obtained for lower rates than in previous months. When it comes to nonbank sources, the price is even better, since required reserves need not be set aside for such loans. For example, the interest rates on loans from non-bank sources for one month are between 11 and 12%. Two months ago, these loans went for no less than 14%.

On the market for short-term securities (although one must qualify this by mentioning that only NBC bills and T-bills of the Ministry of Finance are traded, and these are mostly traded on the primary market), no significant changes were seen. Interest rates on NBC bills rose slightly, while rates on T-bills were slightly lower than last months, so there was some slight change. Interest rates on NBC bills were 8% for 35-day, 9% for 91 day and 9.5 to 10% for 182 day. T-bills could be obtained at interest rates of 9% for 42 days, 10% for 91 days and 10.25% for 182 days.

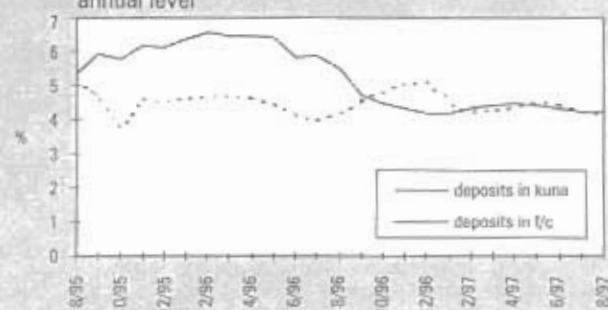
Enterprises still have not issued commercial paper, even though this could allow them to raise working capital more cheaply. This is clearly a step that must be taken in order to develop the market, and the government should help, first of all by creating the necessary legal structure. The current Law on securities does not regulate the issue or trade of short-term securities. There certainly is economic justification for such paper, since enterprises cannot obtain short-term credit at such low rates as they could achieve by issuing commercial paper.

Interest rates on loans in August showed various tendencies. Average interest rates on kuna loans without the currency clause were 0.7 percentage points above the current 14.2% (short-term credits 14.3%, long-term 13.9%). Average interest rates on kuna credits with the currency clause grew by 0.5 percentage points to 15.7% (short-term 18.6%, long-term 12.5%). Foreign exchange credits increased their share, so we should mention that the average interest rate on new credits of this kind fell by 2 percentage points in August and now have reached a level of 13.6%.

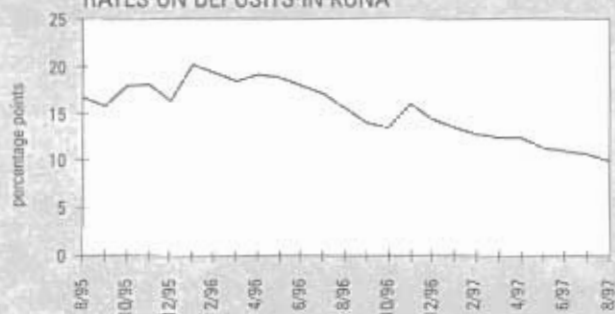
Deposit rates of commercial banks were quite stable in recent months. The average interest rate on total kuna deposits was 4.2%, while the average interest rate on total foreign exchange was slightly lower at 4.1%. The average interest rate on kuna time deposits has fallen slightly and is now at 9.4%, while the average interest rate on foreign exchange time deposits was at 5.7% and also has shown a falling trend.

Because of these trends in lending and deposit rates, the interest rate "spread" of commercial banks continues to fall. By the end of August, it was at the level of 10 percentage points.

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
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