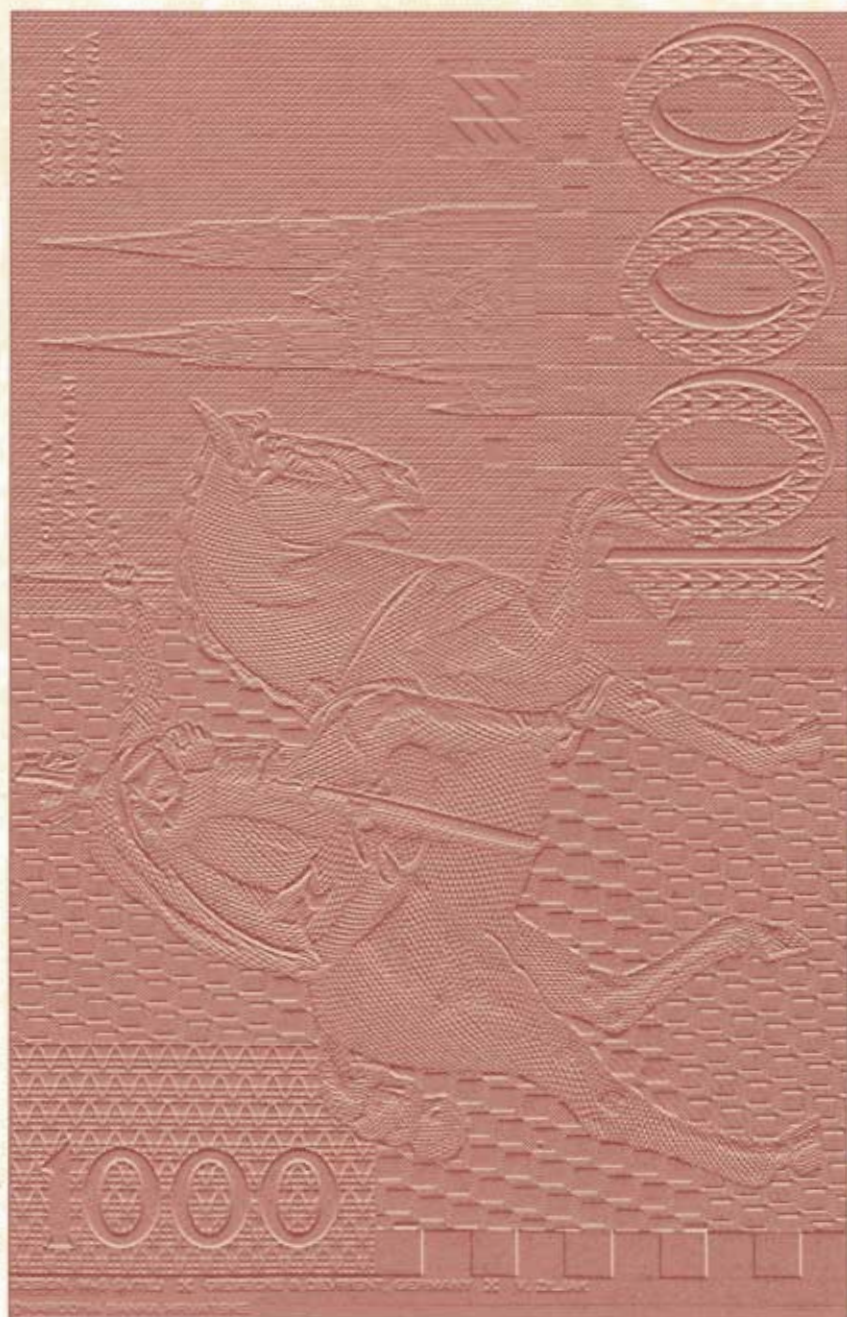


NATIONAL BANK OF CROATIA



BULLETIN

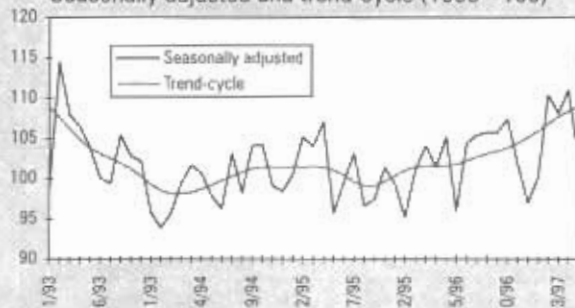
YEAR II
No. 17

JULY 1997

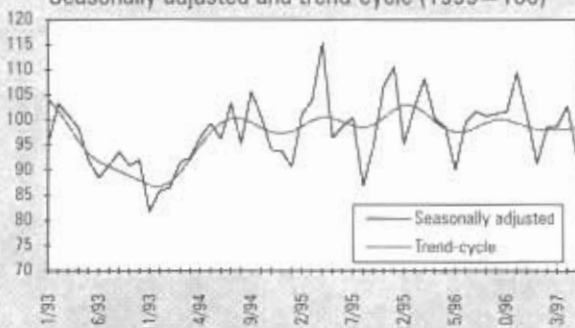
MANUFACTURING

In the period between January and May, industrial production grew at a cumulative interyearly rate of 4.0%. The upward trend continued in May. This growth of industry is not "isolated" but rather joined by the growth of other domestic activities including retail trade turnover, effective hours of work in construction, tourist visits and night stays, transportation and other areas. This provides a basis for acceptable economic growth this year. At the branch level, above-average growth was noted in supply of electric energy, natural gas and water, 24.8%, followed by mining and mineral extraction with a moderate growth of 1.5%, while processing industry production remains at last year's level, preventing stronger total growth. Seasonalized values have grown at an average rate of 1.3% per month this year, and 0.3% last year. The average trend value is greater than last year's by 4.7%, while its value at the end of May was 3.6% greater than at the end of last year. The two largest branches of processing industry continue to contract, and overall growth has been achieved through the growth of smaller, propulsive industries. We mention only those with a weight above 2% that have shown continuous growth: textile production, production of paper products, publishing, production of tires and plastics, metal and machine industry, telecommunications equipment, production of furniture and production of other transportation equipment. This last branch is interesting because within it is "hidden" shipbuilding and vehicles using tracks. These products are not negligible, considering their annual growth at the end of last month of 8.4% and their growth in this month of 4.6%, and the fact they are mainly destined for foreign markets. In April alone, exports of the group of investment goods grew by 113.7%

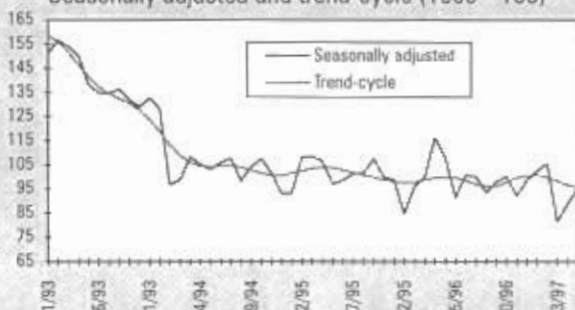
MANUFACTURING PRODUCTION INDEX
Seasonally adjusted and trend-cycle (1995=100)



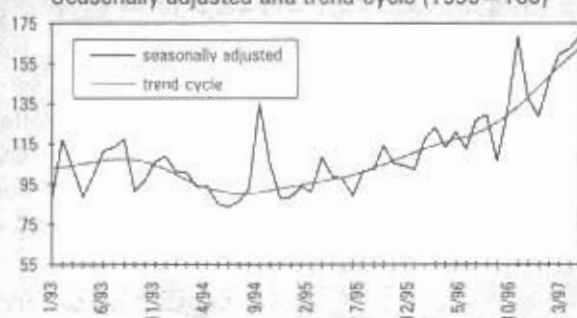
PRODUCTION OF FOOD PRODUCTS AND BEVERAGES
Seasonally adjusted and trend-cycle (1995=100)



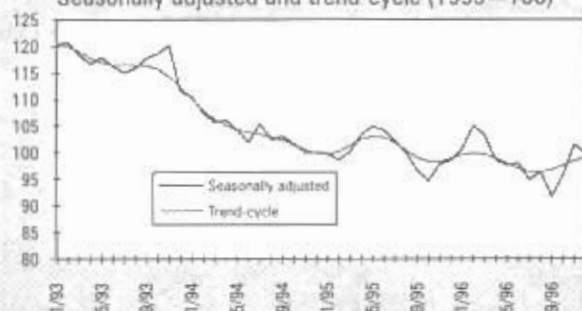
PRODUCTION OF CHEMICALS AND CHEMICAL PRODUCTS
Seasonally adjusted and trend-cycle (1995=100)



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



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



NUMBER OF UNEMPLOYED PERSONS



measured in kuna, while in the first four months they rose by 14.7% at an annual level. Since shipbuilding depends on other domestic industries for inputs, it is of general interest to make sure that shipbuilding is healthy and profitable. The results achieved by domestic industry are not to be underestimated considering that industry still suffers from technological backwardness, reorientation of markets, their own unprofitability, large numbers of unemployed, and lack of investment to begin or finish certain projects. Foreign trade of total industry showed a deficit in the last four months. The kuna value of exports rose 17.2%, and imports rose 26.8%. New bilateral negotiations on free trade among transition countries, the road to CEFTA and the general deregulation of trade, will in the future bring greater trade and more foreign exchange. Inventories of finished products have not been published since the new statistical system was introduced, so we do not know whether producers are freeing themselves from extra costs or if industrial products are meeting the ever-more demanding requirements of consumers.

Unemployment in May was the lowest this year. This could be interpreted as the return of the usual seasonal characteristics, under which unemployment falls at the beginning of the summer with the increase in seasonal branches such as construction, hotels and catering, and tourism. The survey of the State Statistical Agency, following the definitions of the International Labor Office (ILO), shows unemployment to have been at 10% at the end of last year.

TRADE

Trade continues to undergo rapid growth. In the last five months, real retail turnover has grown 25.7% compared to the same

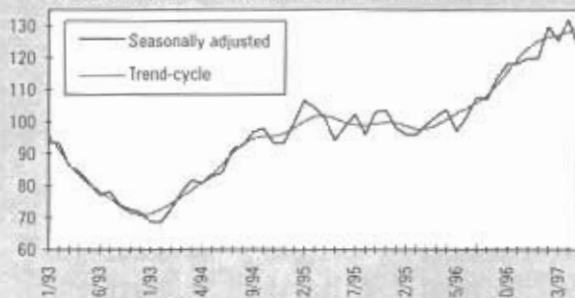
period last year. In May alone, turnover was 26.1% higher at an annual level. Consumers are being exposed to advertisements and offers of attractive credit arrangements. Small banks have been especially active in making it easier to get loans, so it is becoming easier to acquire durable goods. In the period January-May, wholesale trade grew by 9.4% in real terms in comparison to the same period last year. Inventories in retail trade are 4.7% below last year, and 6.4% below in wholesale trade.

CONSTRUCTION, TRANSPORTATION AND TOURISM

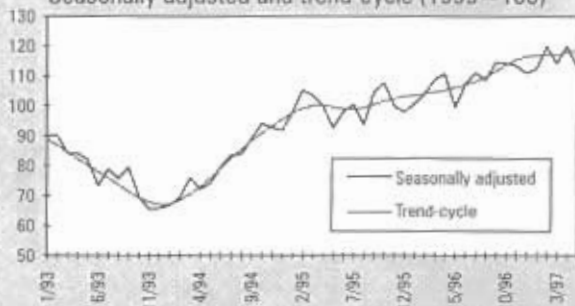
Construction activities continue to make a substantial contribution to the growth of total economic activity. This can be seen in actual hours worked and the value of completed work. Hours worked was 18.3% greater in the first four months of this year than in the same months last year, and the value of completed work was up nominally by 50.9%. In the coming months, along with seasonal effects, these two indicators could show even faster growth, stimulated by wartime reconstruction and the return of the eastern part of the country. Physical indicators of housing construction for the first quarter show that the area of completed apartments was less by about 10%, and apartments in construction were greater by 2.2% compared to the same quarter of last year. Deadlines for construction are generally not met, and only 11% of the expected number of completions were realized in the first quarter.

The number of passengers transported increased by 4.5% in the first four months on a year-to-year basis, and goods transported fell by 0.5%. Within transport of passengers, road transport accounts for the largest share (80.8%), while rail, sea and air transport follow. In

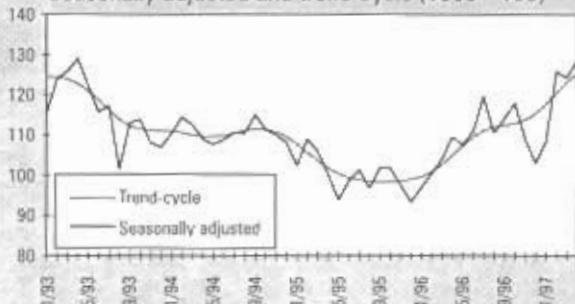
INDEX OF REAL TURNOVER IN RETAIL TRADE
Seasonally adjusted and trend-cycle (1995=100)



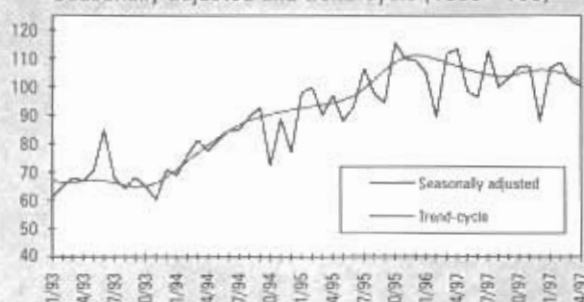
INDEX OF REAL TURNOVER IN WHOLESALE TRADE
Seasonally adjusted and trend-cycle (1995=100)



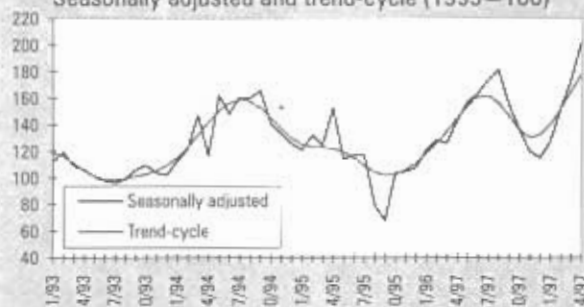
EFFECTIVE WORKING HOURS
IN CONSTRUCTION INDUSTRY
Seasonally adjusted and trend-cycle (1995=100)



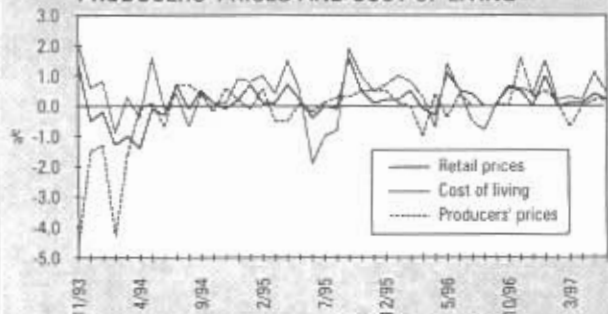
TRANSPORTATION - TRANSPORTED GOODS
Seasonally adjusted and trend-cycle (1995=100)



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



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



transport of cargo, sea is the leader (62.3%), followed by rail (17.5%), while the remainder pertains to other kinds of transport.

The optimistic predictions for tourism have been realized in the first half, even though the summer season has yet to start. By the end of April, we had a growth of night stays of 21.8%, and 560,000 people had visited the country, 15% more than in the same period last year. The largest number of foreign guests came from Italy (25.7%), Germany (15.3%), Austria (14.4%) etc. These results are certainly better than during the war years, but still fall short of the last prewar year, 1990. Revitalization of tourism will help economic activity return, both production and services, in seaside areas, and then in the whole country. Tourist activity will create jobs for the unemployed, at least during the tourist season.

PRICES

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

Retail prices grew 0.2% in June relative to May. Among groups of products, prices of agricultural products including seasonal products grew the fastest, 1.6%, followed by prices of agricultural products excluding seasonal products, which grew 1.0%. The increase in prices of other groups of products was minimal, while tobacco prices stagnated. Services also grew minimally, by 0.2%.

The annual growth of retail prices was moderate. In the first six months of this year, on average retail prices grew 3.8% compared to the same period last year. The prices of goods grew 2.7% on average, while the prices of services grew by 8.6%.

In June, the cost of living grew by 0.4% relative to May. If we examine the structure, we notice that in June the goods component of the

cost of living grew 0.4% in comparison to the same period last year. Among these, the greatest growth was recorded by education, culture and entertainment, 1.4%, then housing and food products, 0.5%. The services component of the cost of living grew 0.3% compared to May.

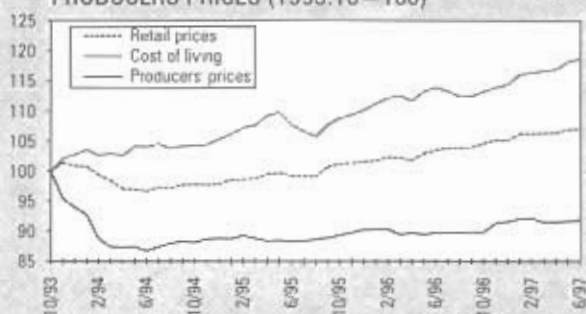
The index of producers prices grew by 0.2% in June relative to May. Producers' prices for consumer goods grew by 0.6%. Producers' prices for intermediate goods fell by a minimal 0.1%, while investment goods stayed at the previous months' level. Regarding individual product groups in June, the largest growth was seen in the price of coal, 14.6%, nonmetal minerals (building materials excluded), 5.8%, and chemical products, 1.9%. In the same period, the price of oil and natural gas fell the most, by 6.1%.

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

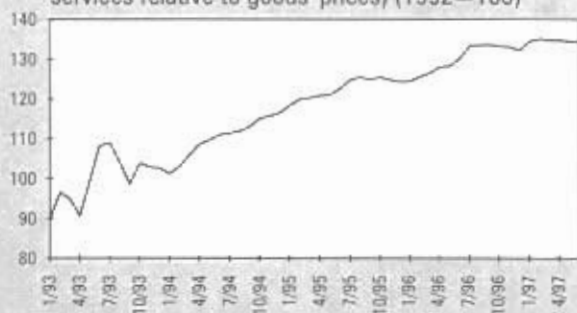
WAGES AND THE EXPENDITURES OF THE GOVERNMENT BUDGET

The average wage paid in April was 1.1% greater than the average wage this year, in real terms, and 13.0% greater than the average wage in the same month last year. In terms of gross wages, the increase was 1.3% and 8.4% respectively. Cumulative growth in net wages was 12.7% while gross wages grew 8.0%. Total payments employers made for wages, compensations, taxes, contributions and social programs were analyzed only for industrial sector. However, the trends in this sector are representative for overall economy. Real growth rate of total expenditures was 18.1% on yearly basis, while the net wages and compensations grew 24%. Such increase in employees' income and different kind of compensations will have positive impact

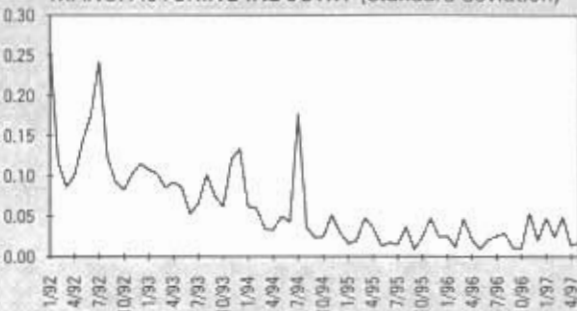
INDEXES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS PRICES (1993:10=100)



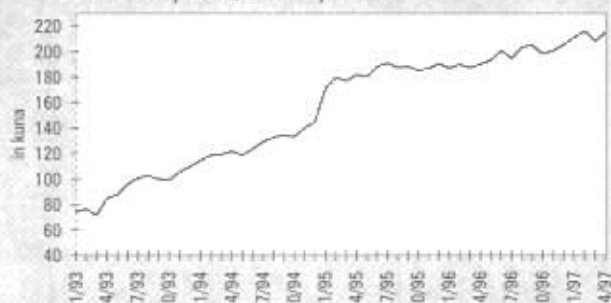
RELATIVE PRICE INDEX FOR NON-TRADABLE GOODS (prices of services relative to goods' prices) (1992=100)



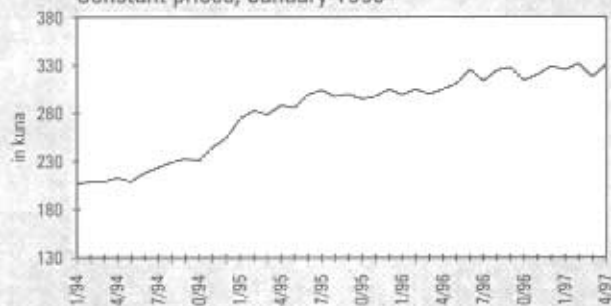
INTER-INDUSTRY RELATIVE PRICE VARIABILITY IN MANUFACTURING INDUSTRY (standard deviation)



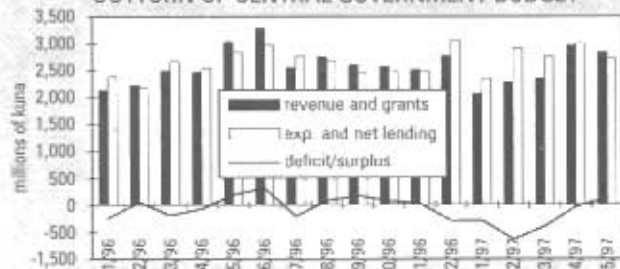
REAL AVERAGE NET WAGE
Constant prices, January 1993



REAL AVERAGE GROSS WAGE
Constant prices, January 1993



OUTTURN OF CENTRAL GOVERNMENT BUDGET



on consumption, demand and total economic activity.

Central government sector had greater expenditures than it had in the same period last year. At the end of May, expenditures increased 9.0% nominally, while the revenues increase was only 1.4%. Although the revenues in the first five months were not large enough to cover the total expenditures, May is the first month in which deficit on overall central government budget moved to surplus. On the expenditure side, government reduced expenditures on goods and services, but extremely increased interest payments. Structure of the tax revenue showed decrease in taxes on individual income, excises and other taxes item. A strong downfall in capital revenue is noticed. Deficit was financed from foreign sources (loans from international financial institutions and sale of state bonds on international market). At the same time, government reduced its liabilities towards domestic sectors, especially the banking sector.

MONETARY DEVELOPMENTS

Growth in monetary aggregates in May represented a continuation of the trends seen in recent months. Currency in circulation grew rapidly, raising its share in the money supply at the expense of deposit money. Kuna deposits grew faster both absolutely and relatively than foreign exchange deposits. Placements, after galloping ahead for two months, slowed down in May. The Government continued to decrease its net debt to the banking system.

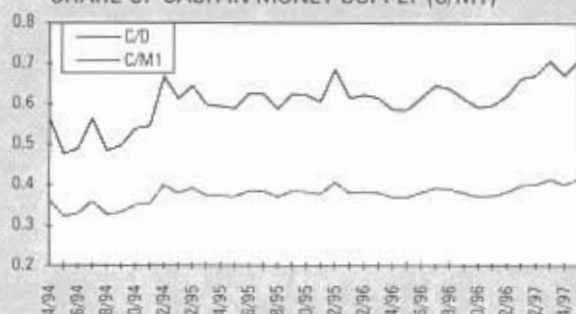
The money supply grew by a mild 67 million kuna in May (0.6%). This was the result of the growth of currency in circulation of 176 million kuna (3.9%) and the fall of deposit money by 110 million kuna (-1.6%). Since the money

supply has stagnated since the end of last year, the most dynamic change has been in the structure of the money supply. Currency in circulation has substantially increased its share. The divergent movements of currency and deposit money in May fit into this trend. Furthermore, this has an influence on the share of individual sectors on the money supply. When currency is added to the deposits of the household sector, we find that that sector held 59% of the money supply at the end of May.

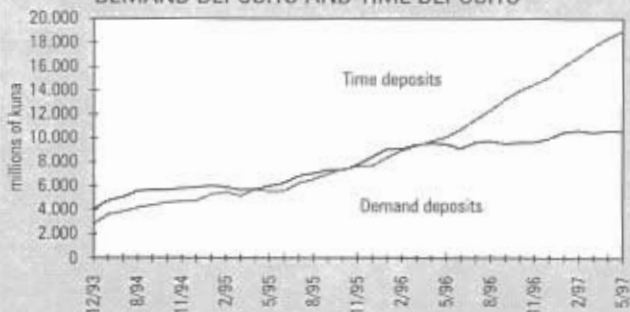
Accelerated growth of kuna deposits has also been present for a while now. In May, these deposits grew by 7% over April, while foreign exchange deposits grew by 1% in the same period. However, it should be emphasized that, in absolute terms, kuna deposits increased by 280 million kuna, and foreign exchange deposits by 265 million kuna. Such an "anomaly" in the currency structure of the growth of savings has not been seen in the last three years. Just as one swallow does not make Spring, it is difficult to say whether we have come to the end of the period of returning foreign exchange holdings of the population to the banking system. All of the increase of deposits in May took place in time deposits (606 million kuna), while sight deposits actually fell slightly (61 million kuna).

After rapid growth in March and April (1.4 and 1.5 billion kuna respectively), the growth of placements fell by half. In May, placements rose 725 million kuna (2%). Looking at the currency structure, kuna credits increased by 890 million kuna, while foreign exchange credits decreased by 83 million kuna. Looking at the sector structure, credits to households grew by a greater absolute amount than credits to enterprises. The growth of credit to households was 378 million kuna, and to enterprises was 307 million kuna.

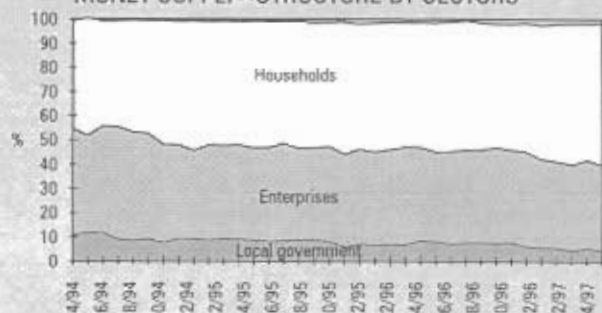
CASH TO DEPOSIT RATIO (C/D) AND SHARE OF CASH IN MONEY SUPPLY (C/M1)



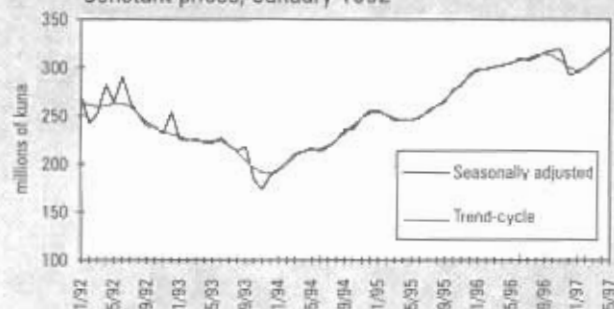
DEMAND DEPOSITS AND TIME DEPOSITS



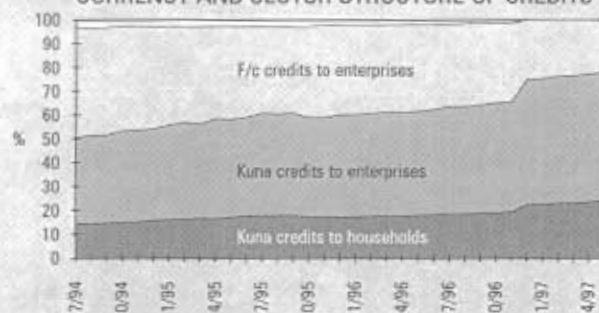
MONEY SUPPLY - STRUCTURE BY SECTORS



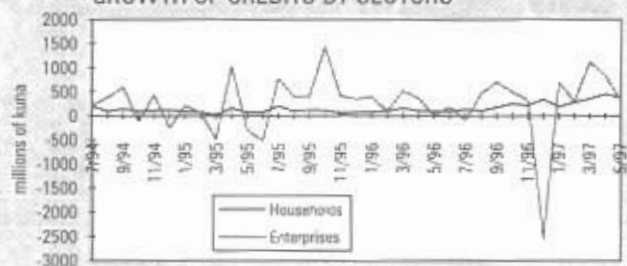
DMB's DOMESTIC CREDITS
Constant prices, January 1992



CURRENCY AND SECTOR STRUCTURE OF CREDITS



GROWTH OF CREDITS BY SECTORS



Rapid growth of credit to households is also an established trend. May's growth is just an addition to the series. However, it is unusual that the absolute growth in credit to households was greater than the growth in credit to enterprises. The fall of interest rates and the growth in real incomes of the population, along with changes in the credit policies of banks have worked together to make the growth in credits to households more and more obvious.

The net claims of the banking system of government also continued to decrease. In May, this decrease amounted to 292 million kuna (2%), and since the beginning of the year, the amount has fallen by 1.6 billion kuna (10%). However, this month government placements were not reduced; instead, government deposits were increased by 304 million kuna. This is the result of a particular transaction, the transfer of refinanced credits from the foreign liabilities of banks to the net relations between the banking system and the central government. With the final definition of debts to the London and Paris Clubs, the repayment schedule for paying the debt due has been set. The government, which has taken over this debt, is now waiting for the clarification of relations with the final users or final domestic debtors. In this context, the government first dealt with those credits for which it was the final user itself. Of the 2.6 billion kuna refinanced at the end of April, the central government's share was 304 million kuna. In May, the government increased its foreign exchange deposits in the banking system by exactly this amount. This transaction affected the basic identity of the monetary statistics in the following manner: $NDA = M4 - NFA$: the increase in net foreign activities (through the decrease in foreign liabilities) caused a decrease in net domestic assets, because net claims of the banking system on the

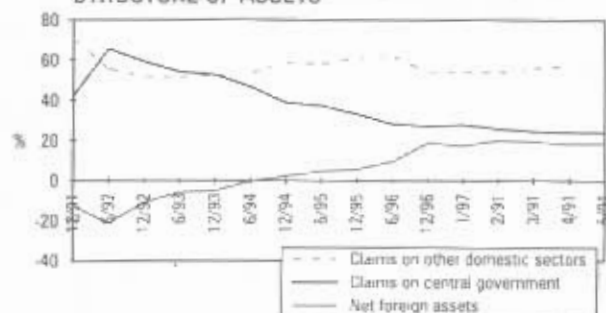
central government were decreased. In any case, the trend of the decrease of net claims on the government, through increases in government deposits or through decreases in credits, continues.

The foreign exchange reserves of the National Bank increased through the purchase of foreign exchange on June 23 in the amount of 68 million USD. This resulted in the creation of yyy million kuna in the banking system. The government borrowing 150 million kuna at the beginning of the month. This will be repaid by the end of the month.

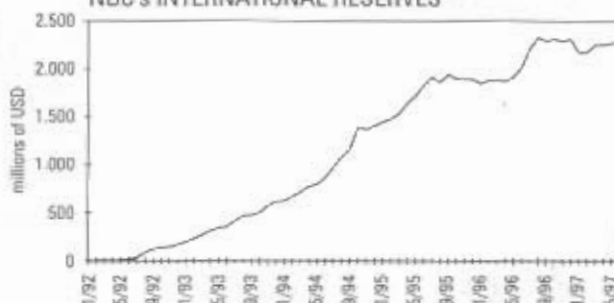
The growth of reserve money in June occurred mainly via increases in currency in circulation, as was planned in the monetary projection. Gyro-accounts were slightly higher than at the end of May, which was the result of a decrease in reserve requirements by one percentage point.

Regarding liquidity management, a trend among commercial banks to decrease free money assets ("free reserves" in the terminology of the IMF) in favor of Treasury bills is evident. Free reserves have an opportunity cost equal to the returns from short-term, liquid securities. Due to this, the absolute value of Treasury bills held by banks was greater than the amount of free reserves. This shows the need for short-term financial instruments as well as the "depth" and liquidity of the market on which these securities can be turned into money without major losses.

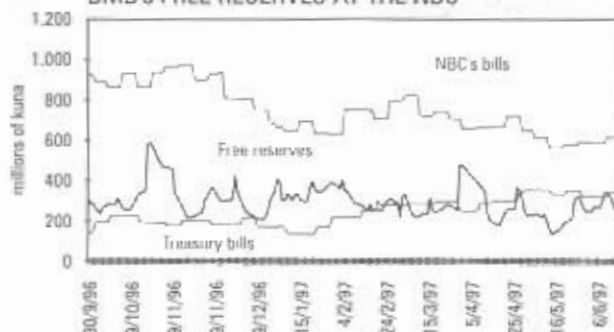
STRUCTURE OF ASSETS



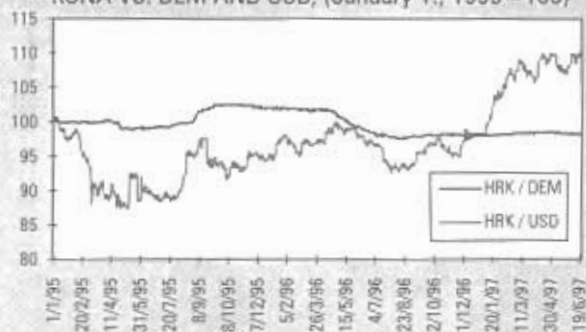
NBC's INTERNATIONAL RESERVES



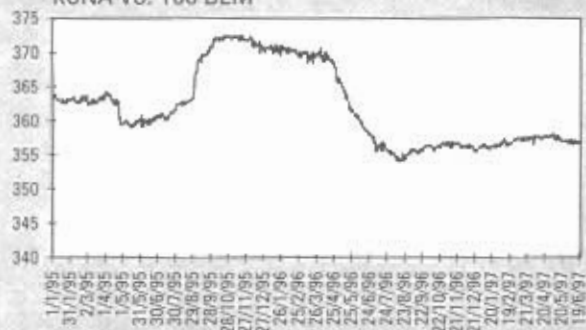
NBC BILLS, TREASURY BILLS OF THE MINISTRY OF FINANCE AND DMB's FREE RESERVES AT THE NBC



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



EXCHANGE RATE

Nominal exchange rate of German mark relative to kuna in June has mildly oscillated around the mean value of 356,8 kunas for 100 German marks. If we consider the whole second trimester of 1997, the very mild nominal appreciation of kuna relative to German mark is observed.

Nominal exchange rate of American dollar in June was very stable as well. The data from the whole of second trimester reveal the tendency of mild nominal depreciation of kuna relative to American dollar. As German mark and American dollar are negatively correlated, such diverging tendencies are logical and expected.

Italian lira has, just like dollar, mildly appreciated relative to kuna in the last 3 months.

In spite of that, the nominal exchange rate is very stable, and all the movements relative to other currencies are minuscule.

In June, 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 0.1%, while the index of the real effective exchange rate measured by retail prices depreciated by 0.08%. The nominal effective exchange rate depreciated by 0.08%.

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 British pound (1.2%), the US dollar (1.04%) and the French franc (0.53%).

BALANCE OF PAYMENTS

The current account deficit in the first two months of 1997 was 448.8 million dollars, which was 285.8% more than in the same period last year. Growth is seen among

financial transactions, which were 489.7 million USD, 414.1% greater than in the first two months of last year. The foreign exchange reserves of the National Bank of Croatia fell by 136.2 million USD in the first two months. Net errors and omissions amounted to -177.2 million USD. Changes in reserves and net errors and omissions can for the most part be explained by the strengthening of the exchange rate of the dollar at the beginning of the year.

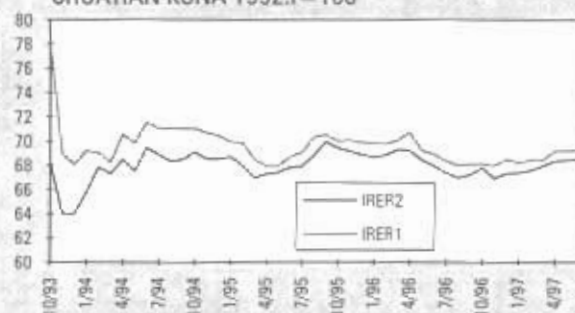
The high rate of growth of the current account deficit is first of all the result of the growth of the trade deficit by 111.1% in the first two months of this year compared to the same period last year. In addition, a decrease in the surplus on the services account in the same period by 72.0% also played a part. For the first four months of the year, the deficit on goods increased by 28.8% in dollar terms.

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

In the first four months of 1997, exports also grew relative to exports in the first four months of 1996. Exports of intermediate goods grew by 9.2%, exports of consumer goods grew by 23.9%, and exports of investment goods grew by 14.7%.

Imports for the first four months of 1997 were also higher than imports in the first four months of 1996. Intermediate goods imports rose by 14.1%, investment goods rose by 56.3%, and consumer goods imports grew by 28.7%.

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



Note: IRER1 - with retail prices
IRER2 - with producers' prices

MERCHANDISE EXPORTS, IMPORTS AND TRADE BALANCE



BALANCE OF PAYMENTS
in millions of USD (preliminary data)

| | I-II 97 | I-II 96 | indices II 97/II 96 |
|--------------------------------|---------|---------|------------------------|
| Current account | -448.8 | -116.3 | 385.8 |
| Capital and financial accounts | 489.7 | 95.3 | 514.1 |
| NBC international reserves | 136.2 | 11.6 | 1174.1 |
| Net errors and omissions | -177.2 | 9.5 | |

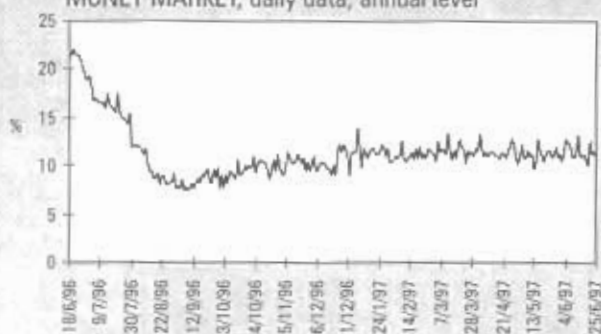
Source: NBC

MERCHANDISE EXPORTS AND IMPORTS
(in millions of USD)

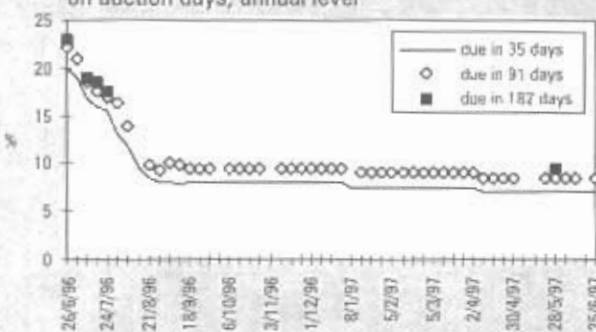
| | Jan-May/97 | Jan-May/96 | May/97 | May/96 |
|---------|------------|------------|--------|--------|
| EXPORTS | 1524.3 | 1435.5 | 328.5 | 353.4 |
| IMPORTS | 2675.7 | 2329.8 | 635.0 | 668.0 |

Source: Bureau of Statistics

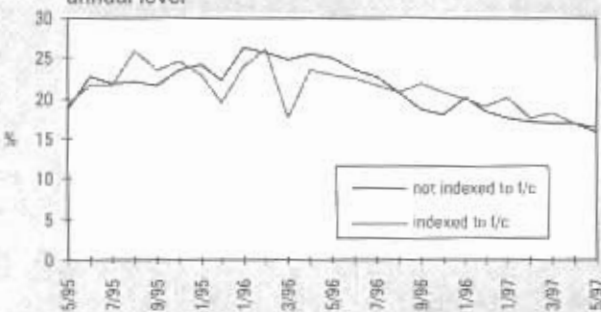
INTEREST RATE ON THE ZAGREB
MONEY MARKET, daily data, annual level



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



DMBs' INTEREST RATES ON CREDITS IN KUNA,
annual level



MONEY MARKET AND INTEREST RATES

The two main features of June on the Zagreb Money Market were the introduction of the ZIBOR and ZIBID, and a slow fall of interest rates, thanks to the influence of very good liquidity of the banking system.

ZIBOR (Zagreb Inter Bank Offer Rate) and ZIBID (Zagreb Inter Bank Bid Rate) are reference supply and demand interest rates on the Money Market. Their establishment is a step towards greater transparency on the Money Market and trading at publicly announced interest rates. These interest rates are calculated on the basis of reference rates provided by at least five and at most ten banks that provide daily information about their ask and bid interest rates.

The liquidity of the banking system has been very good in the last four weeks, and supply has satisfied demand on the Money Market without problem. Problems continue to occur due to differences between the terms offered and asked for, and because of limits on the concentration of loans to particular debtors. High liquidity has caused a mild fall in interest rates, but greater increases were prevented by the increasing preference of participants for longer term loans. The average interest rate on daily loans fell to about 10%. The structure of rates by term is the following: interest rates on loans up to 5 days are between 9 and 10.5%, on loans of 6 to 10 days between 9 and 11%, on loans from 11 to 15 days between 11 and 13%, on loans from 16 to 30 days between 14 and 16%, and on loans from 31 to 365 days between 16 and 18%, and on callable loans about 10%.

Interest rates on NBC bills did not change, although sales of such bills increased significantly over last month. Interest rates are still 7% for 35 day bills and 8.5 for 91 day bills. Ministry of Finance

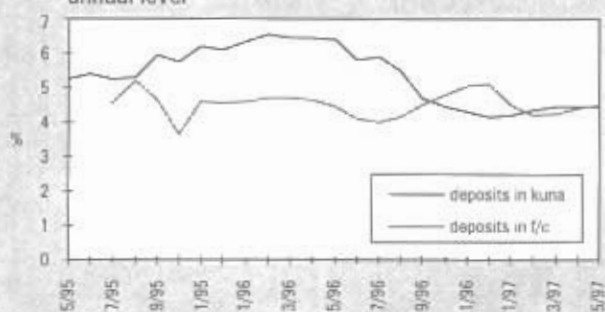
Treasury bills have not lost attractiveness, and the great demand for these bills continues to lower their interest rates. In the auctions in June, interest rates were 10.45% on 91 day and 10.74% on 182 day bills. Of special significance is the fact that investors are very interested in 182 day bills. We believe that this is not only a consequence of attractive interest rates, but also a return of confidence in the domestic financial system and the economy.

According to data for May, as the credit expansion occurred, commercial banks significantly decreased lending rates. This merits special attention. Interest rates of commercial banks for kuna credits fell by 1.1 percentage point to a level of about 15.8%, the lowest level on the last 29 months! Interest rates on kuna credits with the currency clause fell, after a significant decrease in April, by about one-half a percentage point, to a level of about 16.5%. Hidden within this average interest rate are very important decreases in interest rates on long-term credits, and the growth in their share. This is a consequence of good liquidity, lower interest rates on the money market and the gradual economic take-off seen this spring. The range of average interest rates among banks is 9 to 31.3% on kuna credits with the currency clause, and a similar range of 10.8 to 33.1% for kuna credits without the currency clause.

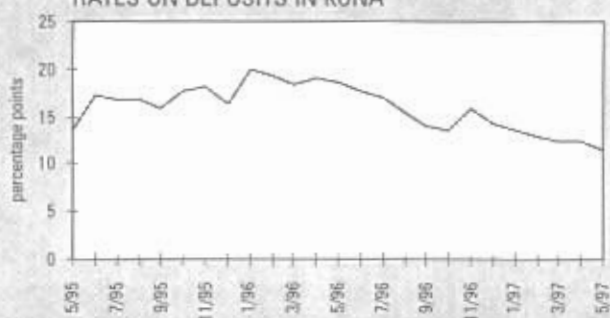
Deposit interest rates are relatively stable. Average interest rates are almost equal, at 4.4% on kuna deposits and 4.5% on foreign exchange deposits, despite the fact that the shares of these categories of deposits are quite different.

These changes in lending and deposit rates of commercial banks have lead to a decrease in the interest "spread", which was 11.4 percentage points in May. It has been falling steadily for the last year and a half. During that time, the "spread" has fallen 8.6 percentage points, a very noticeable change.

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

