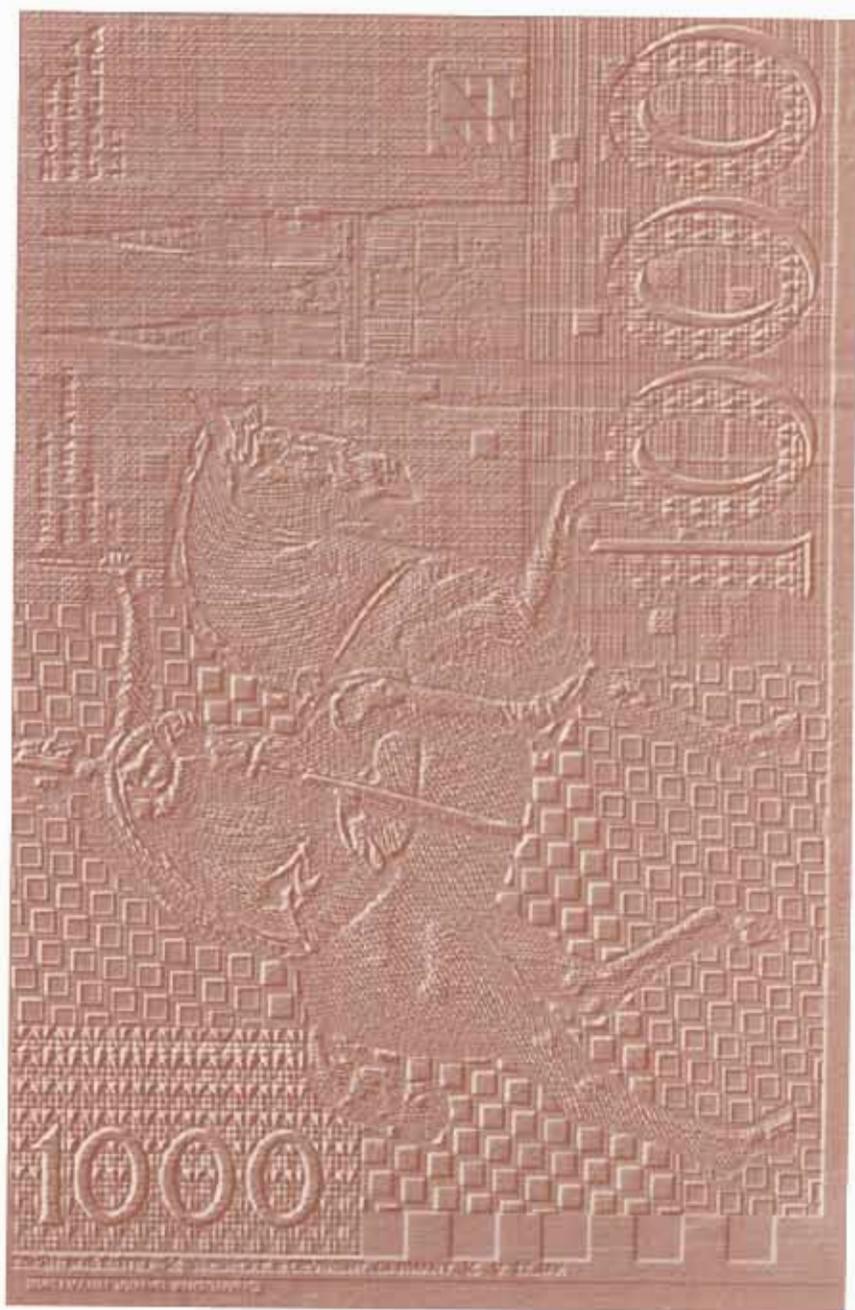


**CROATIAN NATIONAL BANK**



# BULLETIN

YEAR III  
No. 26

APRIL 1998



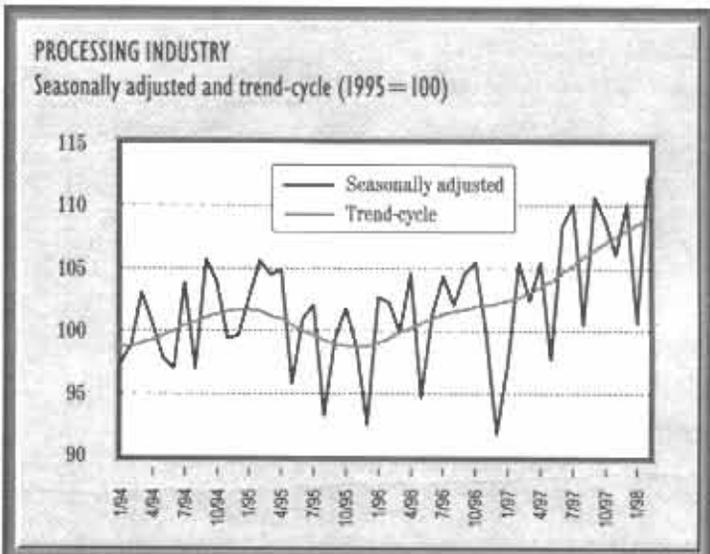
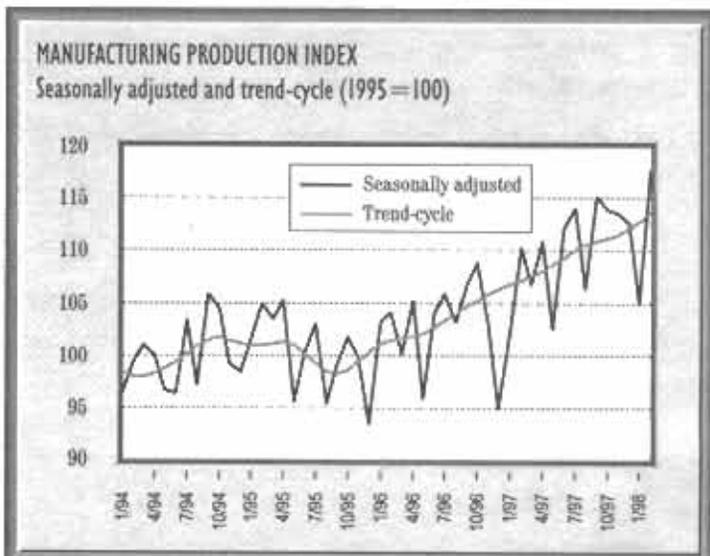
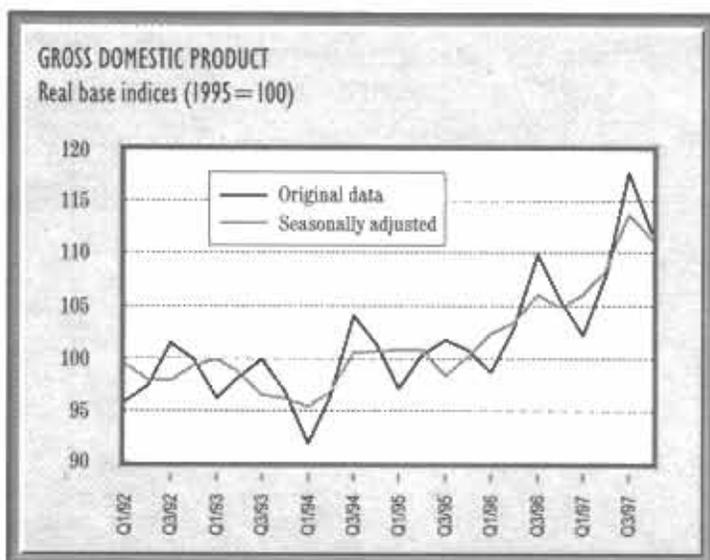


## REAL SECTOR OF ECONOMY

According to the latest report of the National Bureau of Statistics, the real growth of the economy for the year of 1997 amounted to 6.5%. The total activity had been especially intensified during the second half of the year. The increase in activity was additionally confirmed by the cash flow, registered with the Payments Institute. Throughout 1997, trading companies (non-inclusive of commercial banks and savings banks) recorded a 20.6% higher inflow of receipts to their accounts compared to the previous year. In the structure of total receipts, 84.5% referred to earnings from goods and services provided.

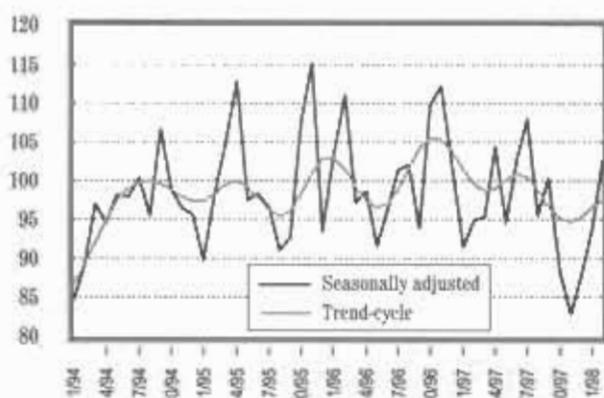
Domestic demand continued its growth throughout 1997. The lacking supply was satiated through imports of goods and services. Consequently, the level of imports recorded in 1997 was significantly higher than that of the exports. Constantly increasing foreign indebtedness, direct foreign investment, transfers and surplus in services exchange, provided the necessary means for financing the aforementioned surplus of imports over exports.

In the lack of statistics on macro-economic accounts on the side of demand, alternate sources were used. Consequently, the quantification of each of the components is approximate. The growth of personal spending was reflected through the increase in the gross income of the household sector (8.3% in real terms), the increase in the retail turnover (13.8% in real terms) and through the increase in imports of consumer goods (40.6% in the kuna equivalent). The completion of questionnaire on spending incurred by the household sector should provide the true illustration of expenditures in this largest sector of the economy. The increase in production of capital goods (6.6%) and their imports (53.9% in the kuna amount), as well as intensification of the activity in the construction sector, all represent an indication of increase in investment activity. The government spend on goods and services recorded in 1997 was lower than in 1996.



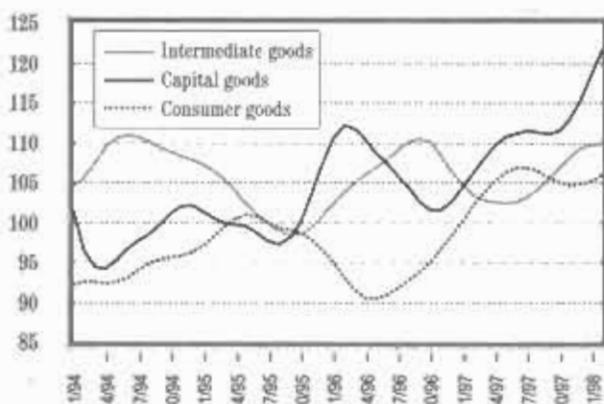
### PRODUCTION OF FOOD AND BEVERAGES

Seasonally adjusted and trend-cycle (1995 = 100)



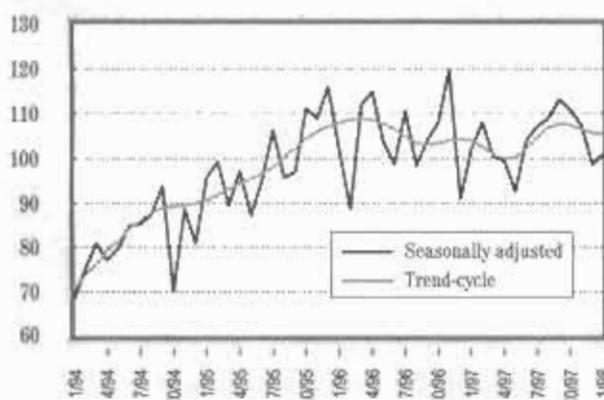
### INDEX OF PRODUCTION VOLUME IN INDUSTRY BY MAIN INDUSTRIAL GROUPS

Trend-cycle (1995 = 100)



### TRANSPORTATION - GOODS

Seasonally adjusted and trend-cycle (1995 = 100)



The index of physical volume of industrial production is currently the only relevant indicator of activity on the supply side, since there are new data in preparation, which shall refer to the activities of trade and construction. A particularly accelerated growth of industrial production, recorded in the last quarter of 1997, was continued throughout the first quarter of the current year. Cumulative year-on-year growth rate of production amounted to 3.9% in the first two months of the year. The above growth was in major part contributed to by industries involved in the production of capital goods. The intensive positive trend in the area of supply of energy, as well as in the area of mining and extraction was continued throughout the first quarter of 1998. The processing industry also recorded a mild growth.

The analysis of production tendencies in the main processing industries has shown the following: a break of the negative trend in foodstuffs industry, further prosperity in publishing industry, a slow-down in recovery of chemical industry (commenced in the last quarter of 1997), a decrease in production of clothes compared to the 1997 figures and a continuation of the positive trend in production of metal products and transportation vehicles.

The increase in the industrial production, recorded in 1997 and the beginning of 1998, was not followed by an adequate increase in employment. Employment in the processing industry decreased in 1997 by 6.6% compared to the preceding year, with the same trend continuing throughout the first couple of months of 1998. In this particular area of industry, the concentration of employed persons is present in only a few compartments. Production of food and beverages, production of clothes and finishing and dyeing of fur employ roughly one quarter of the total number of persons employed in the processing industry. The next five compartments make for the second quarter of the total number of employed persons in the industry. The structure of employed persons in processing industry changed in 1997 compared to 1996 by an increase in the share of compartments with the largest number of employed persons.

The largest value of commodity exports in the last two months was recorded in the chemical industry (second place by the value of exports recorded in 1997), followed by the production of clothes, finishing and dyeing of fur (the

port branch in 1997), production of food and beverages (same rank as in the preceding year), and production of machines and equipment, making for around one half of the total exports of processing industry.

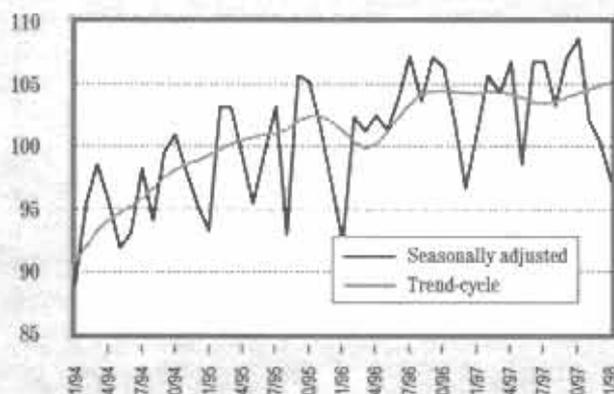
The chemical industry also recorded the biggest commodity imports in the first two months of the year, followed by the production of motor vehicles, trailers and semi-trailers, production of machines and equipment and production of other transportation vehicles. The above mentioned industries made for roughly one half of the total imports of the processing industry. Statistics of the total commodity imports show that the amount of total commodity imports attained in January and February this year was lower compared to the figures recorded in the same months in 1997.

The indicators of development in the economic activity of transportation, warehousing and communications in the first month of the year show a decrease in the number of passengers transported as well as in the quantity of goods transported, compared to January 1997. The number of passengers transported in January 1998 was 3.9% lower than the figure recorded in January last year, and 7.8% lower than the 1997 year average. The quantity of goods transported in January 1998 was 5.1% lower than the figure recorded in January last year, and 5.3% lower than the 1997 year average.

The analysis of data on tourism indicates another step forward taken by the tourist industry in the current year. In the first two months of the year, Croatia was visited by 191 thousand guests, which is 1.5% more than recorded in the first two months of the previous year. The number of night-stays recorded in the first two months of the year amounted to 566 thousand, which is 1.9% more than in the same period last year. The number of tourists and tourist night-stays was lower than recorded during the last couple months of 1997.

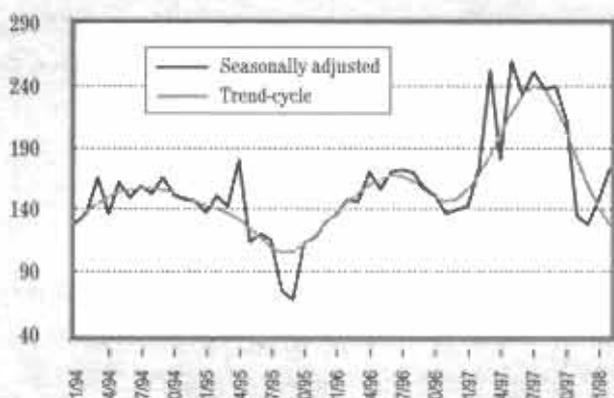
### TRANSPORTATION - PASSENGERS

Seasonally adjusted and trend-cycle (1995 = 100)

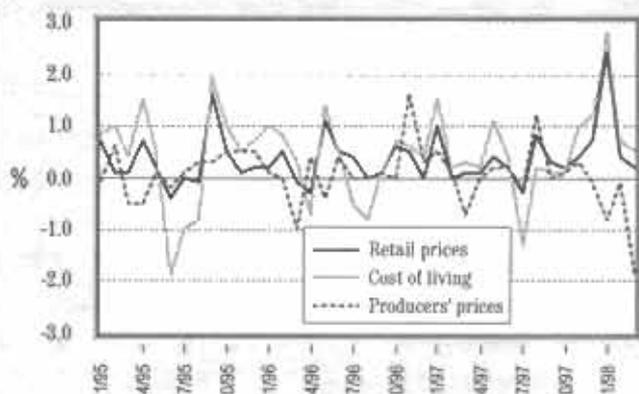


### TOURISM - OVERNIGHT STAYS

Seasonally adjusted and trend-cycle (1995 = 100)

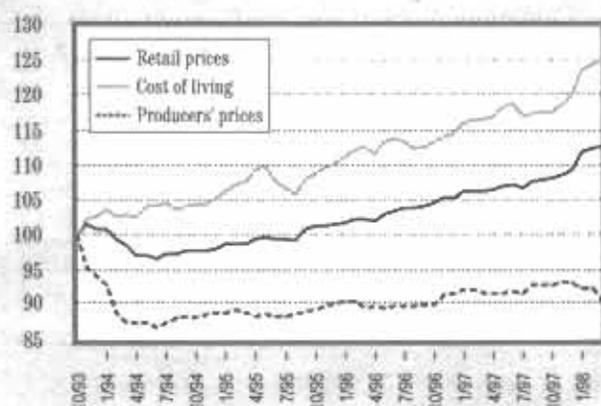


### MONTHLY RATES OF CHANGE (%) OF RETAIL PRICES, PRODUCERS' PRICES AND COST OF LIVING

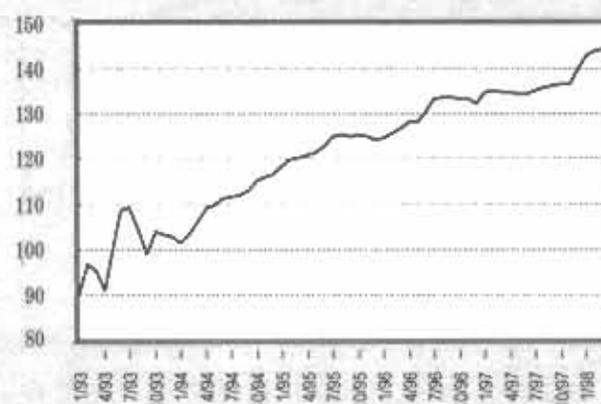


## PRICES

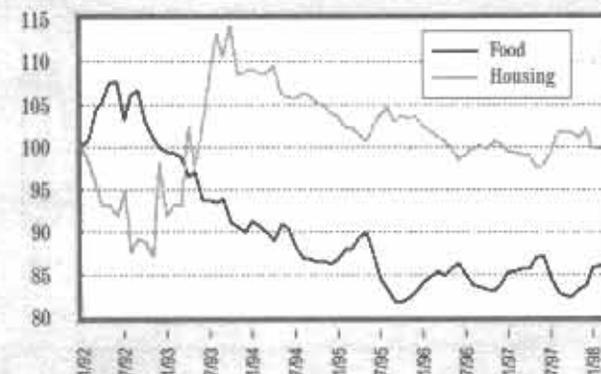
INDICES OF RETAIL PRICES, COST OF LIVING AND PRODUCERS' PRICES  
October 1993 = 100



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.

A slow-down in growth of retail prices continues. The growth of retail prices in March of only 0.2% proves that the increase in retail prices in January, caused by the introduction of the value added tax, was a one-time development. The prices of services slightly outgrew the prices of goods in March, as well as in the preceding months. The prices of services recorded a 0.5% growth, while the prices of goods increased by 0.2%. Among the various prices of goods, the most significant increase in March (3.7%) was recorded in prices of seasonal agricultural products. The prices of agricultural products (non-inclusive of seasonal products) increased by only 0.7%. Seasonal foodstuffs products grew in March by 0.5%, while non-seasonal foodstuffs grew by only 0.1%. The prices of industrial foodstuffs increased in March by only 0.1%. This was also the case with the prices of alcoholic and non-alcoholic beverages.

The cost of living increased in February by 0.5%. The cost of services recorded the same rate of increase as the cost of goods - 0.5%. The most significant increase in March was recorded in the expenses in connection with nutrition, which grew at the rate of 1.0% compared to the February figure. The expenses in connection with accommodation grew at the rate of 0.6%. Expenses in connection with consumption of tobacco products and beverages, clothes and footwear, education, culture and leisure, as well as expenses in connection with transportation means and services and with transportation and postal services remained unchanged in March. Only the expenses in connection with hygiene and health recorded a 0.2% decrease.

The prices of industrial products continued to decrease throughout March. Producers' prices decreased in March by 1.9%, which is definitely the most significant price decrease recorded since the beginning of the year. That was in major part caused by the decrease in prices of energy products. The price of energy products fell by high 7.6% in March compared to February due to introduction of "summer prices" as basis for calculation of electric energy consumption.

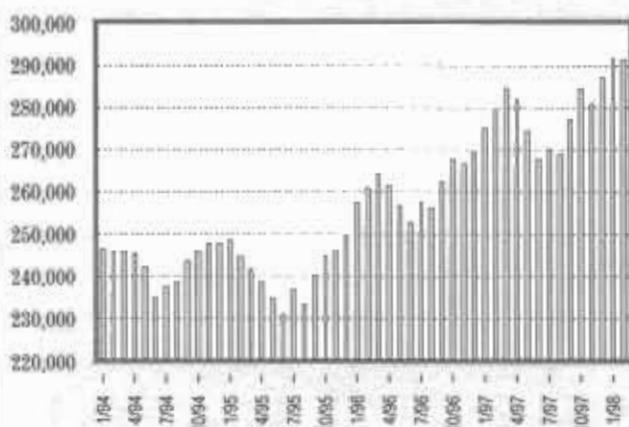
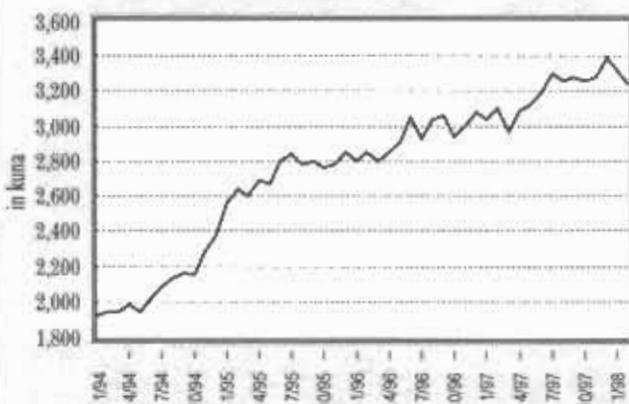
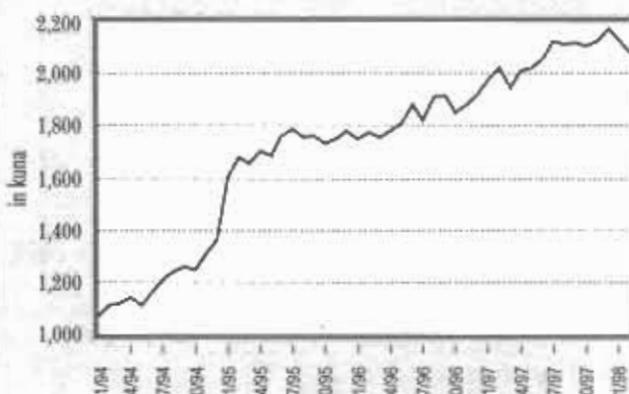
## EMPLOYMENT AND PAY

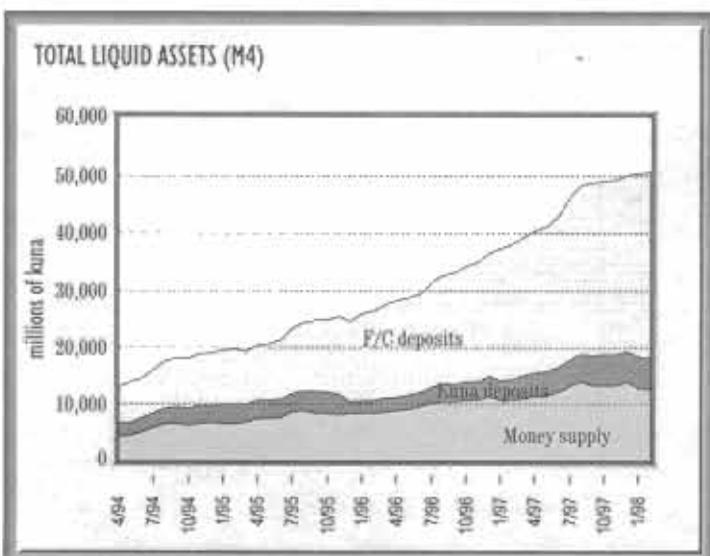
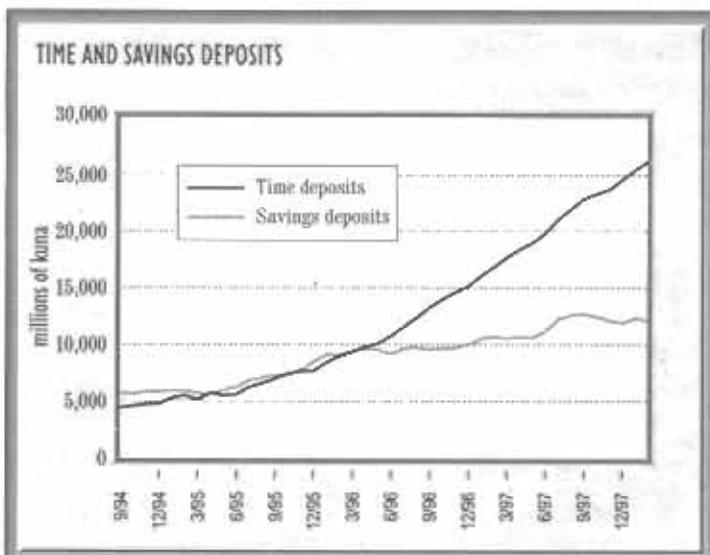
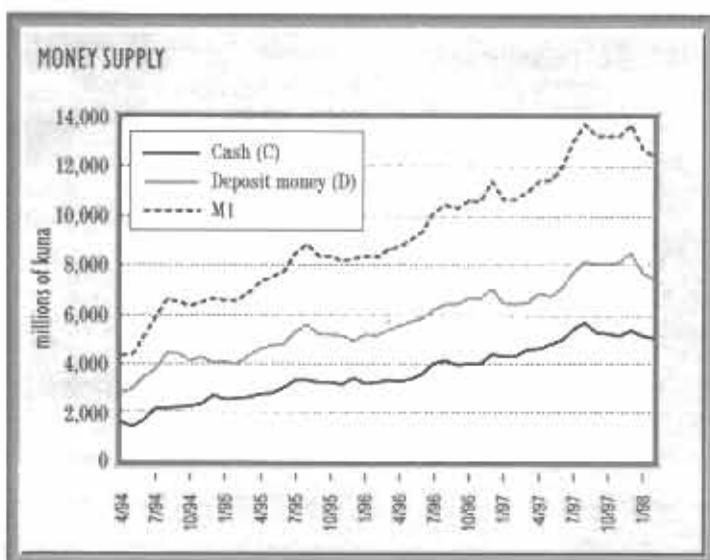
While the registered unemployment in February 1996 and February 1997 used to show a seasonal growth, February 1998 brought a decrease in the number of unemployed by 328 persons. Thus, the total number of unemployed persons at the end of February this year amounted to 291,486 registered unemployed persons. Although it is not in line with negative seasonal tendencies, the registered unemployment was by 12,317 persons higher than in February 1997. The above developments, atypical for this period of the year, were primarily due to a 26.6% higher rate of new jobs as well as to a 13.5% decrease in the number of recorded unemployed. At the same time, the number of persons removed from files for other reasons recorded a 0.5% increase.

During the month of February, employment decreased by 0.7%, coming down to the level of 1,326,258 employed persons, which is 6.5% less compared to the number of employed persons registered in February last year. The total supply of work force decreased by 0.6% in January, thus coming down to the level of 1,617,744 persons. That is 4.7% less than the number registered in February last year. The level of unemployment reached the level of 18% in February, compared to 17.9% registered in January 1998 and to 16.5% registered in February last year.

The average net wage paid in February recorded a nominal decrease in the amount of 43 kuna or 1.7% compared to January, i.e. a nominal increase in the amount of 228 kuna or 10% compared to the average net wage paid in February 1997. In real terms, the decrease in the average net wage paid in February compared to January amounted to 2.4%, while compared to the same month last year, it recorded a 2.9% increase. The average gross wage paid in February decreased by 72 kuna (1.8% nominally, i.e. 2.5% in real terms) compared to January. Compared to February last year, the average net wage was higher by 401 kuna, which represents a 4.3% increase in real terms.

NUMBER OF THE UNEMPLOYED

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



## MONETARY DEVELOPMENTS

The main characteristic of the month of February was a decrease in the money supply, along with an insignificant increase of total liquid assets, high growth of total credits and further increase in commercial banks' foreign indebtedness.

A decrease in the money supply in February compared to the end of January was a result of a decrease in cash in circulation in the amount of 0.08 billion kuna, and a decrease in the deposit money in the amount of 0.2 billion kuna. First of all, it should be noted that the decrease in money supply is a seasonal occurrence characteristic for the month of February. In addition, this year there were a couple of additional factors at hand: payments of the value added tax continued to decrease giro accounts of enterprises throughout February; strict implementation of the new decree on terms of payment in cash by enterprises and private persons engaged in independent economic activity decreased the portion of cash in circulation which used to remain in the sector of enterprises and crafts. The entire decrease in deposit money was recorded in the enterprise sector, while the deposit money of the household sector recorded a mild increase in February compared to January.

The slow-down of growth of quasi-money continued in February. Foreign currency deposits grew in February by modest 0.3 billion kuna (1.0%), reaching the level of 32.6 billion kuna. As a reminder, the average monthly growth of foreign currency deposits throughout 1997 amounted to 0.7 billion kuna (or 3.0%). Nevertheless, even such a slow growth rate reflects the last year's time transformation of deposits toward longer term.

The kuna deposits increased in February by 0.2 billion kuna. The total growth of total liquid assets in February amounted therefore to minimal 0.2 billion kuna, reaching the level of 50.7 billion kuna at the end of February.

This year's total increase in total credits, amounting to 2.15 billion kuna (or 4.5%), was even more intensive compared to the same period last year (1.3 billion kuna or 3.9%). In the total amount of the increase, the increase in

credit granted to the household sector recorded in February amounted to the total of 0.8 billion kuna, while the increase in the credit granted to the enterprise sector amounted to 0.9 billion kuna.

Banking system's net claims from the central government recorded a decrease in the amount of 0.5 billion kuna in February. The largest portion of that decrease refers to the extraordinarily strong growth of deposit money of the government with the Croatian National Bank, due to a steady inflow of tax revenues. After the deduction of that effect from the above mentioned figure, the total net claims are decreased by a moderate 0.1 billion kuna.

In February, the banks increased their foreign indebtedness by a further 0.7 billion kuna, while at the same time increasing their assets by 0.2 billion kuna. At the end of February, foreign assets amounted to 16 billion kuna, while foreign liabilities amounted to 15 billion kuna. Despite a significant decrease in the net foreign assets in the last eight months, they are still at the higher absolute level than recorded at the beginning of 1997 and throughout the entire year of 1996.

In the last twelve month, deposit money banks' foreign liabilities increased by 4.8 billion kuna. At the same time, time structure of foreign liabilities recorded a significant improvement.

#### LIABILITIES *in billion kuna*

	Dec. 96	Feb. 98	Growth	%
Short-term	5.1	6.3	1.2	23.5
Long-term	4.5	8.1	3.6	168.0

As visible from the above table, long-term foreign liabilities grew at a much more significant rate than short-term foreign liabilities, thus increasing their share in commercial banks' total foreign indebtedness.

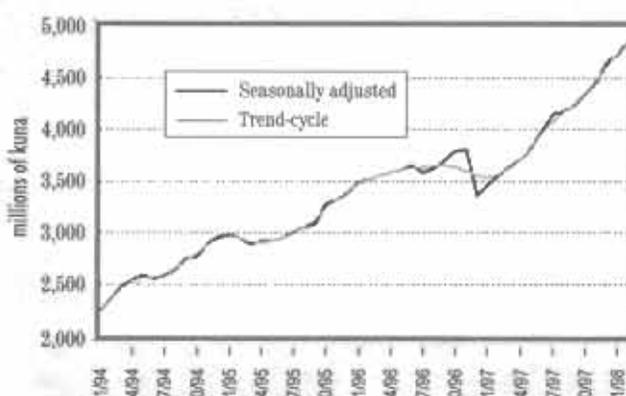
On the other hand, foreign assets are in major part short-term. The share of long-term credits abroad has been kept steadily under 5%.

#### ASSETS *in billion kuna*

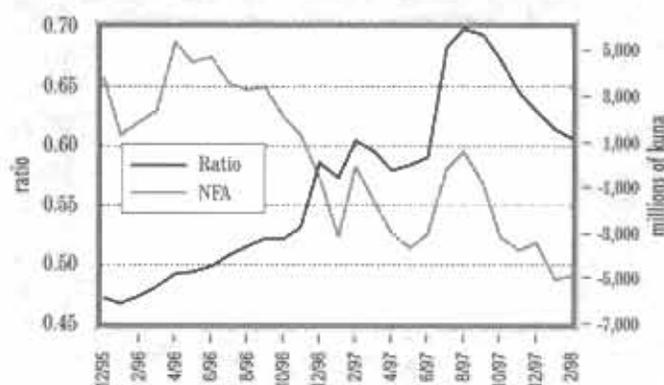
	Dec. 96	Feb. 98	Growth	%
Short-term	11.6	15.2	3.6	31
Long-term	0.6	0.6	0.0	-

It should be stressed here that the above tables refer only to *foreign foreign*

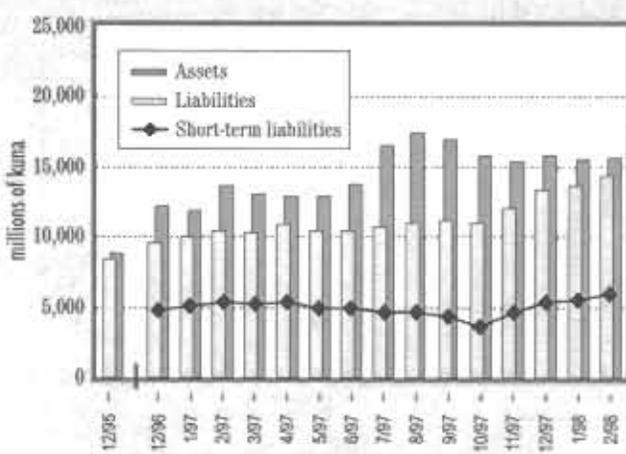
DMB's DOMESTIC CREDITS  
Constant prices, January 1994



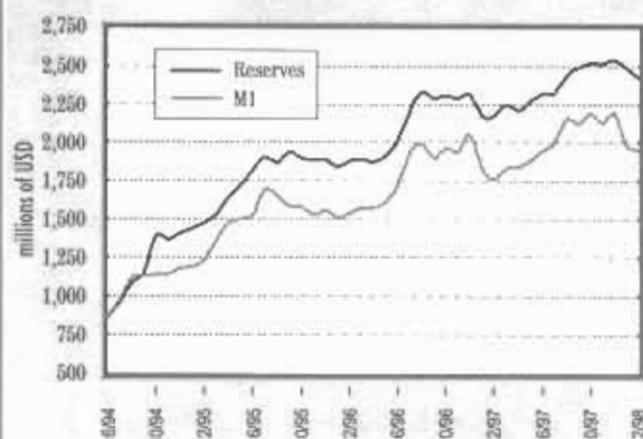
RATIO OF FOREIGN ASSETS OF THE COMMERCIAL BANKS TO F/C DEPOSITS (left) AND TOTAL LEVEL OF NET FOREIGN ASSETS - NFA (right)



FOREIGN ASSETS AND LIABILITIES

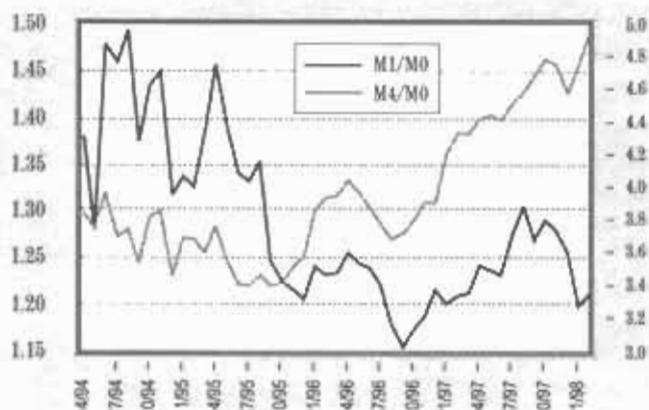


## FOREIGN EXCHANGE RESERVES AND MONEY SUPPLY

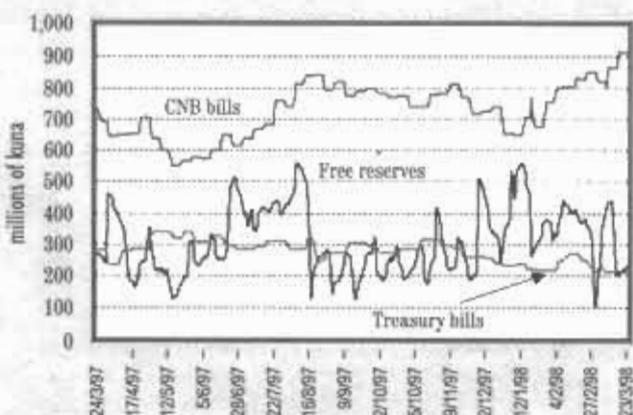


## MONEY MULTIPLIERS

$$m1 = M1/M0 \text{ and } m4 = M4/M0$$



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



currency liabilities and assets. Foreign kuna assets and liabilities have been of negligible value.

The activity of the central bank in March manifested itself through both kuna and foreign currency transactions.

The balance of credit to the central government remained at the last month's level of 380 million kuna throughout the entire month of March. At the end of March, a significant inflow of tax revenues, as well as successful placement of bonds in pesetas, enabled the central government to decrease the financing from the central bank to the usual level of zero. At the same time, and from the same revenues, the central government also managed to repay the foreign exchange credit. The increase in foreign assets of the Croatian National Bank recorded at the end of March, compared to the end of February, totaled (in the kuna amount) to 470 million kuna (380 million kuna of credit and 90 million kuna of exchange rate differentials).

Until March 25, banks were using the lombard credit every day. The average daily usage amounted to 20.1 million kuna. Daily liquidity loans were used on 4 days at the beginning of the month. Around the middle of the month, this instrument was re-activated again, for one day only. At the beginning of the month, we recorded the activation of another rarely used instrument - intervention loan. As a reminder, this instrument is considered the "last sanctuary" for any bank with liquidity problems. The end of the month brought the activation of other loans, in the total amount of 156 million kuna.

Such an intensive use of all the instruments of reserve liquidity with the central bank testifies that the liquidity of the banking system in March was weaker than in the last couple of months. Nevertheless, the average level of commercial banks' giro accounts was persistently high, at the level of 612 million kuna.

The growth of primary money in the first 25 days of March, compared to the end of February, amounts to 0.5 billion kuna.

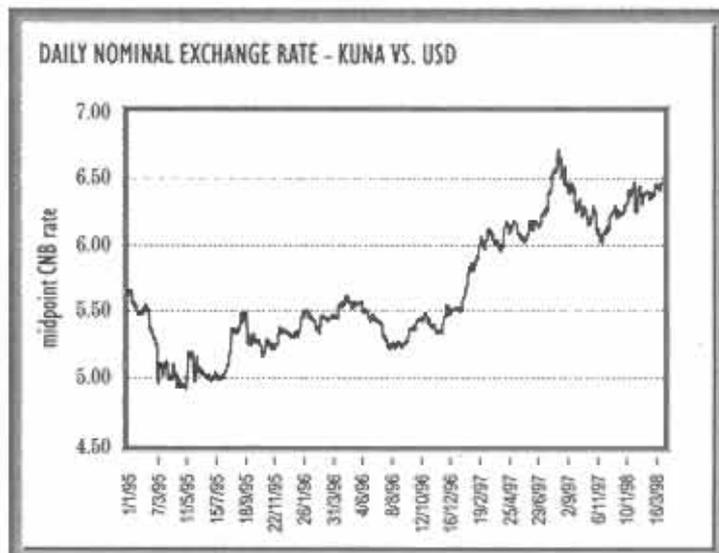
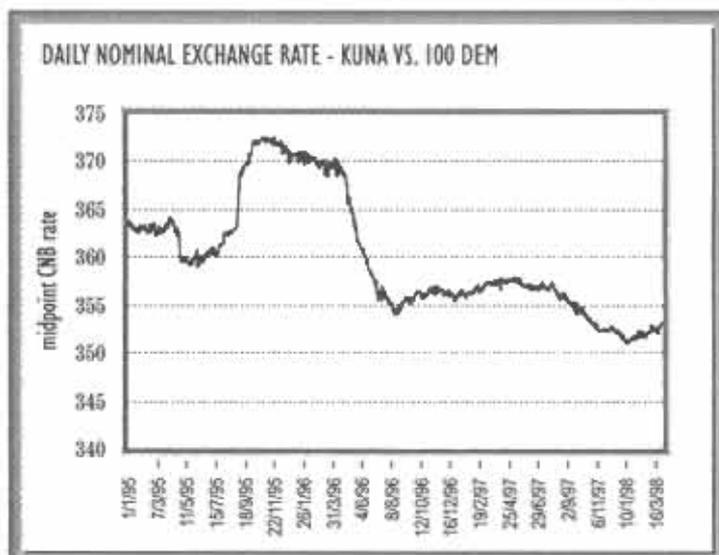
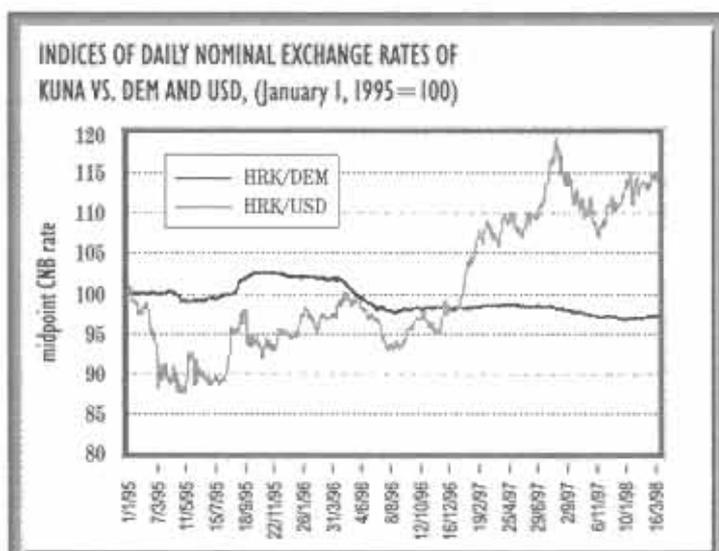
The balance of CNB bills held by banks recorded throughout the month of March was steady at its usual level of 0.9 billion kuna. At the end of the month, the CNB bills amounted to 952 million

kuna, which, together with the 278 million kuna with the Croatian Bank for Reconstruction and Development and Bank Rehabilitation Agency, amounted to the total of 1,230 million kuna in registered treasury bills.

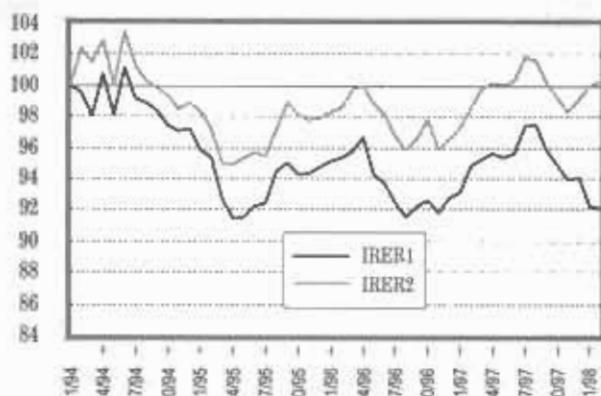
## EXCHANGE RATE

The month of March was characterized by the continuation of the mild depreciation trend of the exchange rate of the kuna in relation to the German mark, from 3.52 kuna to 3.53 kuna for one German mark. There were also some mild oscillations present throughout the month, so that around the middle of the month, the exchange rate was at the end-of-February levels, followed by a more significant depreciation of the kuna in the second half of the month. Such a depreciation is consequent to the state of liquidity on the money market, while the oscillations of the exchange rate have the seasonal character. The kuna depreciated by 0.62% in March, compared to the lowest exchange rate in relation to the German mark recorded this year (from 3.5087 to 3.5303 kuna for one German mark). The value of the American dollar increased slightly on the world markets in March. This had an indirect impact on the kuna through the German mark. Consequently, the trend of depreciation of the kuna to the US dollar, which has been obvious since November 1997, continued throughout March. The maximum value of 6.467 kuna for one US dollar was recorded on March 21, consequent to a major increase of the exchange rate of the dollar on world markets, following the announcement of the changes in the Russian government. Nevertheless, the situation on world markets quickly stabilized, bringing the value of the dollar back to the levels preceding the announcement.

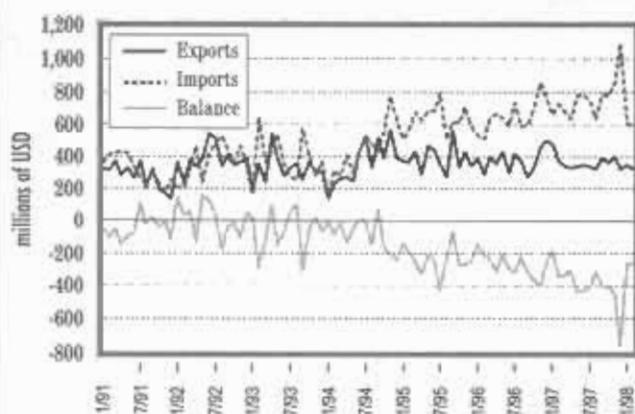
The real effective exchange rate stabilized in February following the shock caused by the increase in retail prices (and the decrease in producers' prices), which was due to the introduction of the value added tax. Therefore, the real effective exchange rate deflated by retail prices appreciated in February by 0.26%, while in January the appreciation amounted to 1.76%. The index



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



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



BALANCE OF PAYMENTS in millions of USD (preliminary data)

	Jan.- Dec. 1997	Jan.- Dec. 1996
Current account	- 2,258.9	- 880.8
Capital and financial account	2,339.5	1,883.1
CNB international reserves	- 225.1	- 418.8
Net errors and omissions	144.5	-583.5

Source: CNB

MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan.-Feb. 1998	Jan.-Feb. 1997	Feb. 1998	Feb. 1997
Exports f.o.b.	664.8	856.8	320.1	373.0
Imports c.i.f.	1187.3	1371.8	580.9	719.3
Balance	-523.5	-515.0	-260.8	-346.3

Source: Bureau of Statistics

of the effective exchange rate of the kuna deflated by producers' prices continued to depreciate at 0.16% in February, following the January depreciation of 1.31%.

## BALANCE OF PAYMENTS

The amount of commodity imports at c.i.f. parity recorded in the first two months of the year reached USD 1,187.3 million, which is 13.4% less than in the same period last year. February recorded the lowest level of imports in the last two years - USD 580.9 million. Such developments are consequent to the introduction of the value added tax, which increased the price of imports and the remainder inventories of products imported at the end of 1997. At the same time, exports (at f.o.b. parity) amounted to USD 664.8 million in the first two months of the year. This is 22.4% less than recorded at the same period last year. The negative foreign trade balance amounted to USD 523.5 million, which represents a 1.7% increase compared to the last year.

Croatia attained the deficit of the current account in the amount of USD 2.26 billion in 1997. In this amount, USD 1.26 billion or 55.8% of the total annual deficit was attained in the last quarter of the year. This is due to the unusually high level of imports in the months prior to the introduction of the value added tax, for the purpose of accumulation of stock. In the total amount of commodity trade deficit of USD 5.07 billion, the last quarter of the year partakes with USD 1.70 billion, or 33.5%.

The preceding year was characterized by the continuation of high growth of net revenues in service trade (14.6% compared to 1996), among which the most significant was (again) the growth of tourism (net tourist revenues increased by 33.9% compared to 1996 figures). Transfers recorded a decrease compared to 1996. However, the decrease is in major part explainable by the increase in the exchange rate of the US dollar in relation to the German mark; consequently, transfers made in German marks translate into lower US dollar amounts.

Even with such a high deficit (estimated at 11.7% of the GDP), international reserves kept growing. Consequently, the financial account (non-inclusive of the reserve account) attained a historical maximum of USD 2.34 bil-

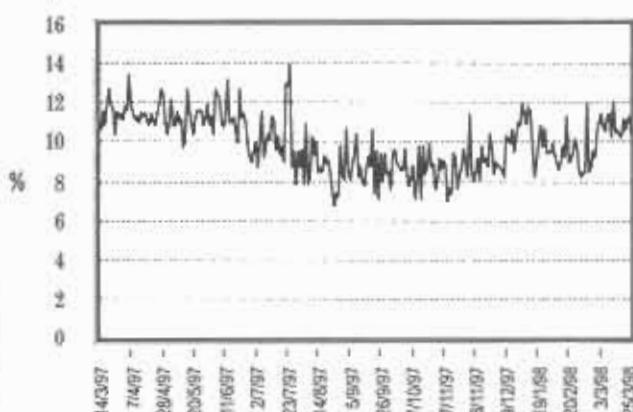
lion. In minor part this was participated to by foreign investment, especially direct foreign investment, which decreased by approximately USD 200 million (depending on whether we choose to look at gross or net amount of investment) compared to 1996. In major part, the above financial account record was due to an increase in long-term and mid-term foreign loans. The inflow of loans quadrupled in 1997 compared to 1995 and 1996 figures, reaching USD 1.65 million net.

## MONEY MARKET AND INTEREST RATES

The growth of the average daily interest rates on the Money Market Zagreb reflects certain difficulties with liquidity in March. The daily averages oscillated throughout March between 10.2 and 12.0 percent, with the mean value of daily averages on the monthly level nearer the lower bound. Perhaps the best indicator of problems with liquidity is the increase in interest rates on callable loans to the level of 10%. It should be stressed here, that the imbalance of supply and demand at the beginning of the month was significantly on the side of the demand. Around the middle of the month, supply and demand slowly returned into balance, while round the end of the month, supply slightly exceeded the demand. Although the balance between the supply and demand for money on the Money Market Zagreb was finally attained around the end of the month, the interest rate on callable loans failed to record a decrease, which only proves for the presence of interest rate rigidity, which we already had a chance to witness in January this year. (II)liquidity of the banking system in the first half of the month is said to have been caused by payments of wages and retirement benefits. Due to unsuccessful maintenance of the necessary average on giro accounts, the demand for money increased, as well as the use of secondary sources of liquidity. An additional proof of unsatisfactory liquidity in that period is the decrease in holdings of CNB bills. It is interesting to note that the interest rates on CNB bills recorded a slight increase, while at the same time the interest rates on Treasury Bills of the Minis-

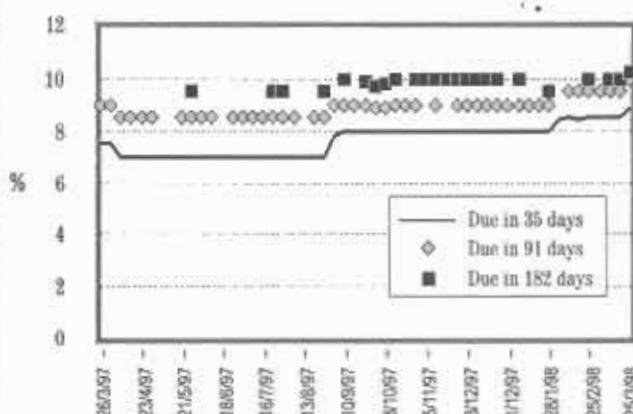
### ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



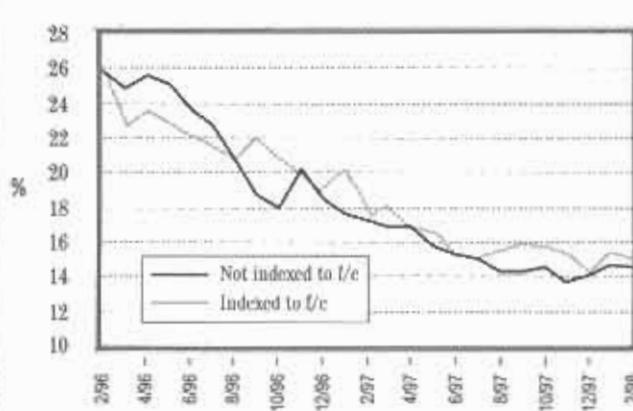
### INTEREST RATES ON CNB BILLS

Annual level, on auction days



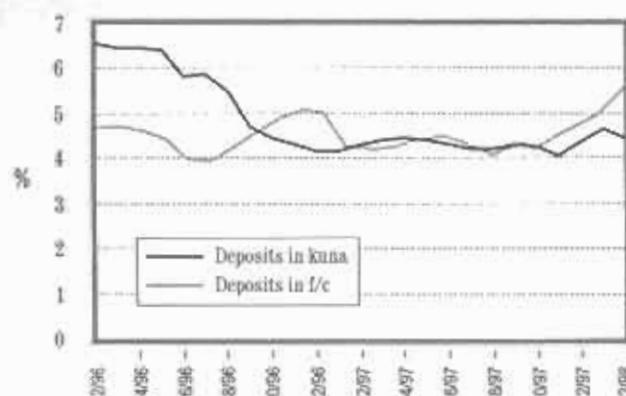
### DMBs' AVERAGE INTEREST RATES ON CREDITS IN KUNA

Annual level

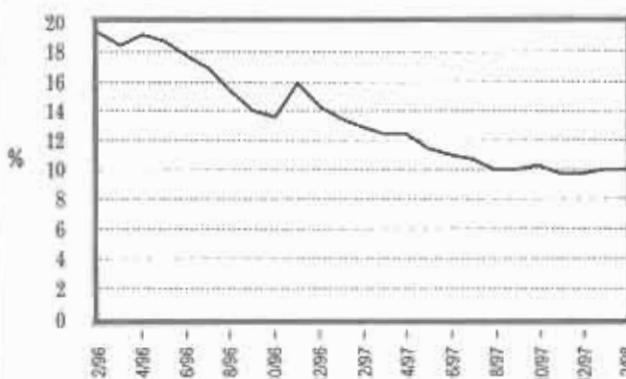


### DMBs' AVERAGE INTEREST RATES ON DEPOSITS

Annual level

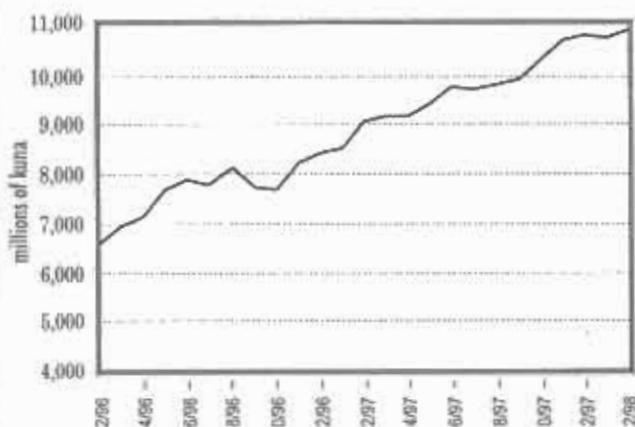


### DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA



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.

### ARREARS REPORTED TO PAYMENTS INSTITUTE



try of Finance stagnated or even recorded a slight decrease. This, of course, contributes to the diminution of competition between the above securities, and provides the means for a better coordination of monetary and fiscal policy.

CNB bills, yielding 8.57% for 35 days, 9.68% for 91 days and 10.06% for 182 days, continue to be profitable investments for commercial banks, since they serve as good collateral in case of problems with liquidity. In February, Treasury Bills of the Ministry of Finance achieved 8.90% interest for 42 days and 9.85% for 91 days.

Commercial banks' lending rates recorded a slight decrease in February. This indicates a stabilization in lending interest rates, following the dysfunction caused by uncertainties in connection with the introduction of the value added tax. The most significant, considering its portion in the total credit, the average interest rate on kuna loans without the currency clause, decreased by 0.2 percentage points, reaching the level of 14.50% (short-term loans 14.48%, long-term loans 14.96%). The average interest rate on kuna loans with the currency clause decreased by 0.1 percentage points, reaching the level of 15.23% (short-term loans 17.32%, long-term loans 12.77%). The average interest rate on foreign exchange credit decreased by approximately 0.5 percentage points, currently holding at the level of 15.52%.

February brought diverse developments in deposit interest rates. The average interest rate on kuna deposits decreased by 0.2 percentage points, now reaching the level of 4.45% (caused by the decrease in interest rates on time deposits). The average interest rate on foreign currency deposits showed an increase (0.4 percentage points), reaching the level of 5.55%. It should be noted that this increase was caused in the first place by an increase in interest rates on time deposits. Considering the developments in interest rates on kuna and foreign currency deposits in 1997, as well as the stabilization of lending interest rates, we expect to see a significant decrease in interest rates on foreign exchange deposits, as well as gradual decrease in interest rates on kuna deposits.

The consequence of developments in lending and deposit interest rates, as described above, is stagnation, i.e. a very

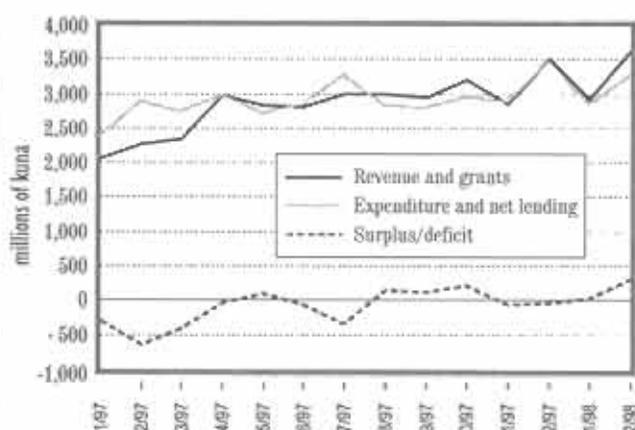
slight increase of the interest rate spread. Indeed, the interest rate spread recorded a slight increase compared to January, reaching the level of 10.05 percentage points in February.

## STATE BUDGET

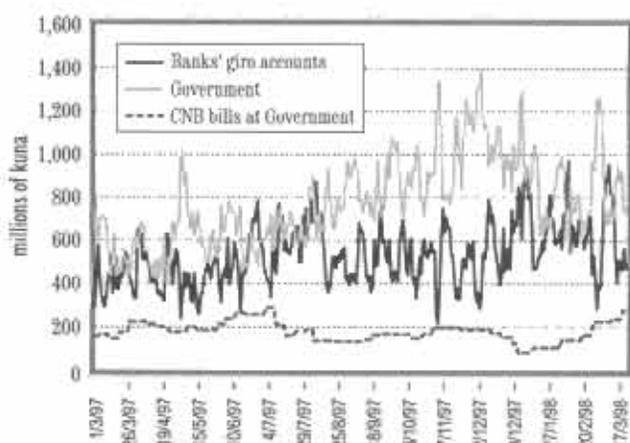
The 319.3 million kuna surplus recorded on the account of the central government in February was higher than any positive monthly balance recorded throughout the preceding year. Added to the surplus attained in January, it comes up to an amount that makes for 0.3% of the expected gross national product for 1998. The total amount of revenues and aids attained in the first two months of the year makes for 17.6% of total estimated revenues for 1998. By their dynamics, revenues do not follow the characteristic seasonal pattern of collecting that was recorded in previous years. The nominal year-on-year increase in revenues, amounting to 51.0% in the first two months, represents an extraordinary efficiency in revenue collecting. The rate of increase in every tax category exceeded 22% on the year-on-year level. The value of revenues collected from the value added tax in the first two months of the year would correspond to the linear distribution of collecting by months. A less significant monthly increase in retail prices in February compared to January figures reinforces the belief that the introduction of the value added tax had a one-time price increasing effect. Capital revenues doubled compared to the period January - February of the previous year.

The tendencies on the expenditure side of the state budget are very similar to the tendencies on the revenue side. However, the intensity of growth is far lower on the expenditure side. Expenditures increased in the first two months of the year by 17.4% at an annual level, with current expenditures recording a slightly higher growth rate than the average, and the capital expenses growing at a slower rate than the average. Government purchase of goods and services increased by 41.8%. Next major increase refers to subsidies and current transfers. Expenditure for government investment projects increased cumulatively by 9.6% at an annual level.

### 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.-Feb. 1998	1998 Budget
<b>TOTAL FINANCING</b>	-372	2,011
<b>DOMESTIC FINANCING</b>	-521	-2,350
From monetary authorities	7	-58
From deposit money banks	-615	-1,921
Other domestic financing	86	-371
<b>FOREIGN FINANCING</b>	149	4,361
From international develop. institut.	168	1,757
From foreign governments	-106	-503
Other foreign financing	86	3,106