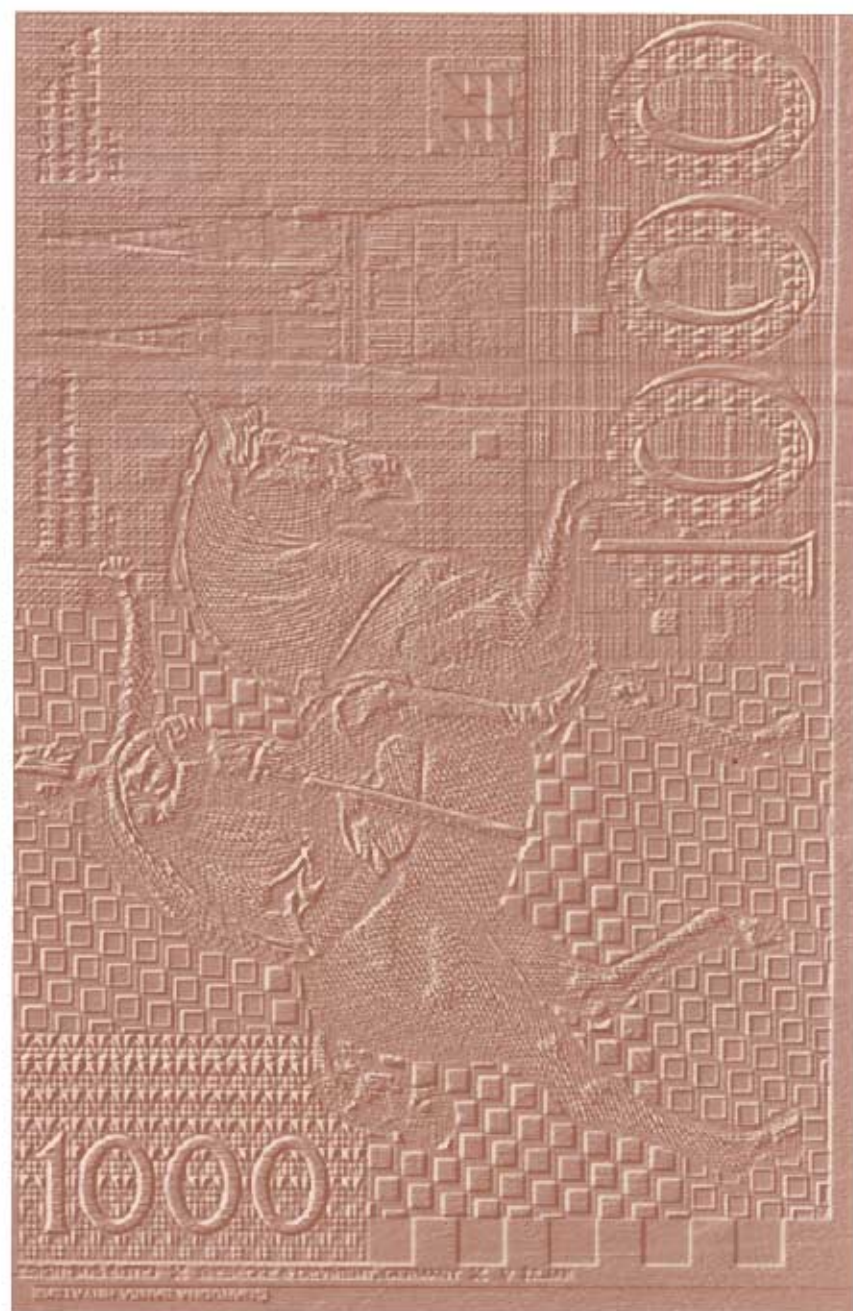


NATIONAL BANK OF CROATIA



BULLETIN

YEAR II
No. 22 DECEMBER 1997

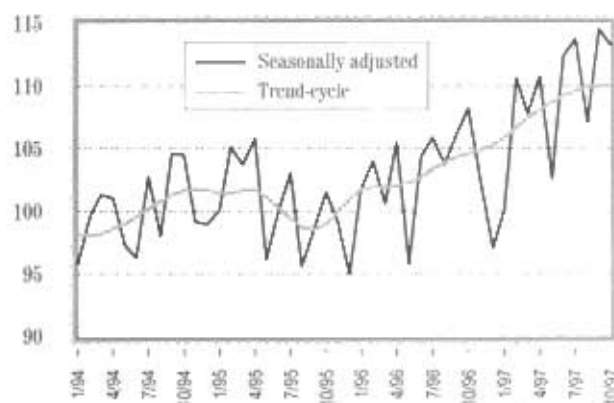
INDUSTRY

The growth rate of industrial production has gradually increased during this year. At the end of October, cumulative annual growth reached its highest level, 5.4 percent. Very high growth rates were recorded in the second (6.7%) and third quarters (6.3%). The favorable growth of industrial activity was in part the result of the growth of total economic activity, which at the end of September had an annual growth rate of 5.2 percent. In the third quarter, gross domestic product grew at a 7.0 percent rate. The trend growth rate of industrial production has continually increased over the last two years; it is 4.6 percent higher than in December of last year. The largest contributors to growth of industrial production were supply of electricity, natural gas and water, which had an annual growth rate of 24.3 percent, along with processing industry, which grew by 2.4 percent. A number of branches experienced rapid interyearly growth rates in October and the graph shows that the irregular and seasonal component is still frequently important.

The recent part of 1997 has been characterized by a high level of domestic demand for consumer goods and investment goods. This can be seen in the growth of imports and in the increase in domestic production of these groups of products. Imports of consumer goods are up by 40.4 percent and imports of capital goods by 46.9 percent in kuna terms. Domestic production of non-durable consumer goods is 11.3 percent greater and of capital goods 1.1 percent greater. A look at exports by product groups shows that export demand has fallen for capital goods only, while export demand for other product groups has risen. Of special interest are orders for the products of processing industry,

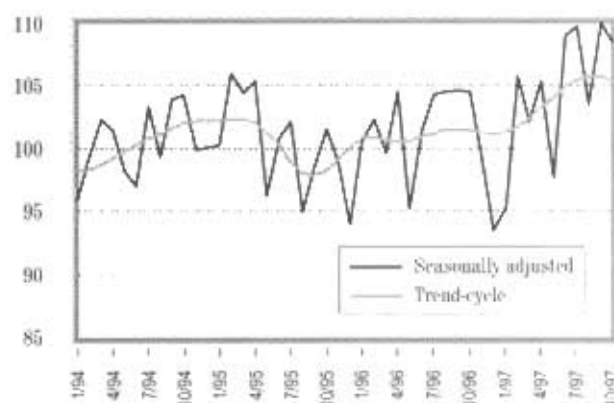
MANUFACTURING PRODUCTION INDEX

Seasonally adjusted and trend-cycle (1995 = 100)



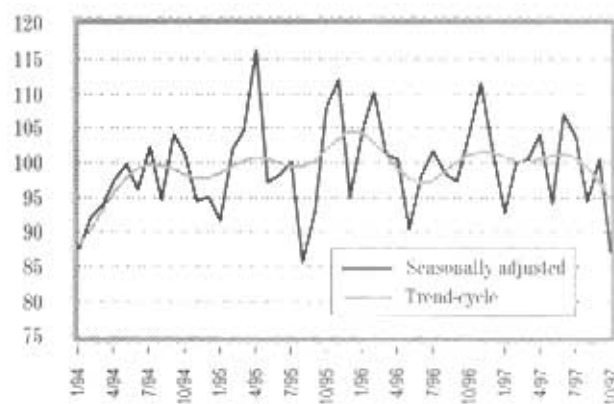
MANUFACTURING

Seasonally adjusted and trend-cycle (1995 = 100)



PRODUCTION OF FOOD AND BEVERAGES

Seasonally adjusted and trend-cycle (1995 = 100)



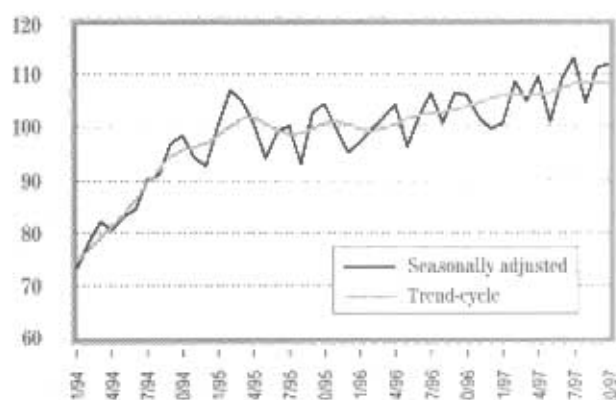
which are a leading indicator of future output. Answers from a survey of the largest producers show that orders were higher in the third quarter than in the previous quarter, with foreign demand falling and domestic demand growing. Processed goods exports were lower than in the same period last year among two groups only (production of chemicals and chemical products and production of other transport equipment), while exports rose among all other groups. Exports of processed goods rose by 14.5 percent at an annual level.

The trend towards decreased employment in industry as a whole continues. However, at the same time, increased production indicates increased efficiency as a result of better organization and/or the introduction of new technology. Within the 10.4 percent annual growth of productivity, it is difficult to separate the effects of the growth of production and the decrease in employment. Problems of insolvency are visible in some parts of the processing industries. Among thirteen branches with the greatest amounts of outstanding payments in the first 10 months of the year, five are industrial branches. The branch with the largest outstanding payments is food and drink production. After having severe payments problems in the first half of 1996, shipbuilding and iron and steel production are in better shape. This improvement is due to the effects of the Law on the Rehabilitation of Specific Enterprises and the decisions taken by the Creditors' Councils in these enterprises turning matured, unpaid debt into equity holdings.

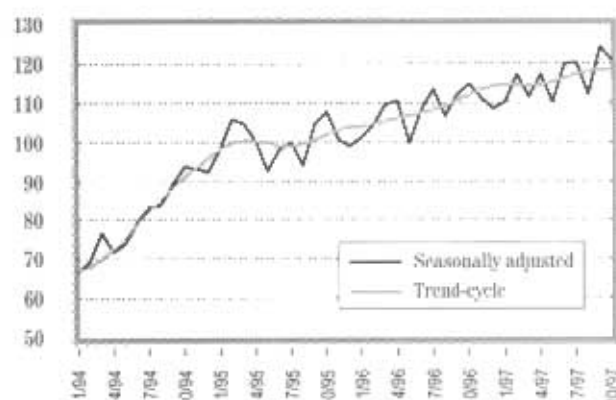
TRADE

According to preliminary data, real retail turnover showed a 5.0 percent annual growth rate at the

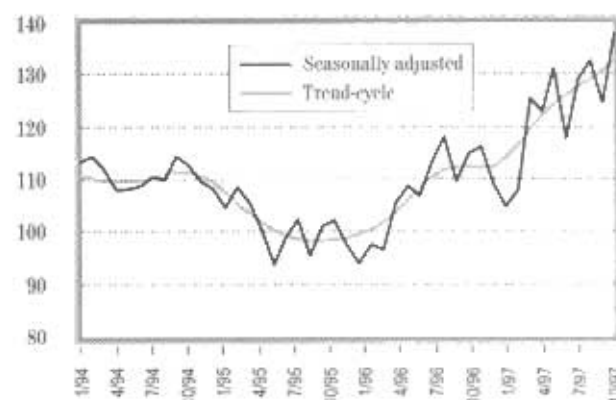
INDEX OF REAL TURNOVER IN RETAIL TRADE
Seasonally adjusted and trend-cycle (1995 = 100)



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

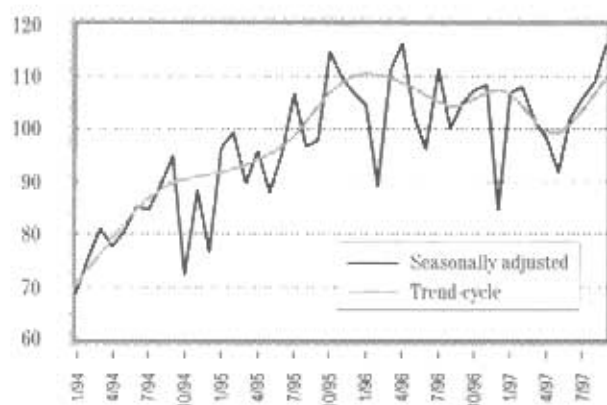


EFFECTIVE WORKING HOURS IN CONSTRUCTION INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)



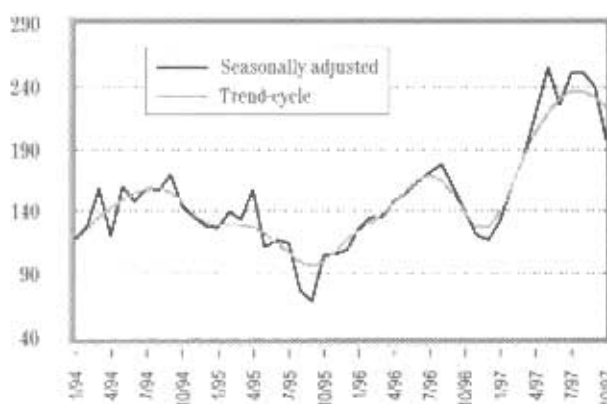
TRANSPORTATION - TRANSPORTED GOODS

Seasonally adjusted and trend-cycle (1995 = 100)

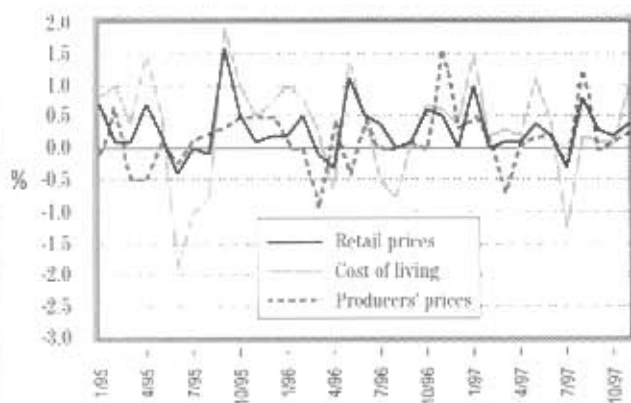


TOURISM - OVERNIGHT STAYS

Seasonally adjusted and trend-cycle (1995 = 100)



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



and airports, cross-border transportation of passengers and goods, postal and telecommunications services) were considerably higher than in the preceding year.

Tourist night-stays have shown a rapidly increasing trend during the whole year. This resulted in an annual growth rate of 42.5 percent at the end of October. There were 49.4 percent more foreign tourists and 18.1 percent more domestic tourists. 29.8 million tourist night-stays have been recorded this year, along with 5 million tourists. Through the end of October, the number of tourists was 36.0 percent greater than last year. Through the end of the year, the tourist industry's activities will slow down. This means less tourist visits and less tourist night-stays in comparison to the summer; thus less employment in the tourist industry and related industries. The share of catering and tourism in gross domestic product grew noticeably in 1997. The real growth rate of this sector amounted to 32 percent. Turnover in catering alone grew by 20.5 percent nominally compared to last year.

PRICES

In November, prices rose by the largest amount in the last three months. Retail prices grew by 0.4 percent monthly. At the same time, the annual change in the retail price index fell to only 3.1 percent, one of its lowest values this year.

The main cause of increased prices in November was increased agricultural prices. On a monthly level, agricultural prices rose between 7 and 10 percent, depending on whether seasonal or non-seasonal products are under discussion. At an annual level, agricultural prices rose by as much as 24 percent. Prices of seasonal food rose by a high one percent. The prices of

services rose by 0.5 percent in November and the annual rate of increase of services prices was 5.3 percent.

In November, the costs of living underwent its largest growth in the second half of the year. The total cost of living index grew by one percent. At an annual level, the index grew 4.1 percent. The main influences were food costs (2.1%) and costs for clothes and shoes (1.1%). At an annual level, food costs rose 4.3 percent, and clothes and shoes 5.5 percent. Costs of services grew by 0.5 percent, which led to an annual growth rate of 4.8 percent.

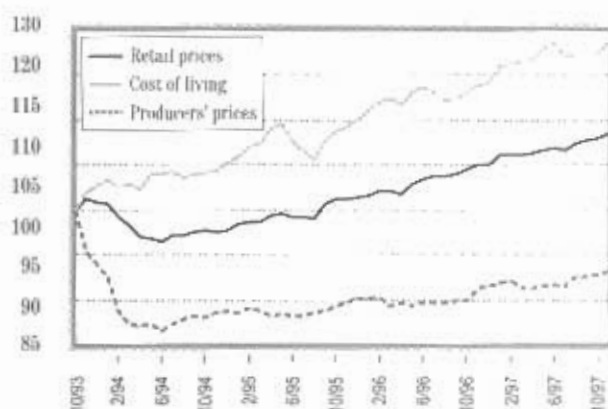
Industrial producers' prices grew by 0.3 percent monthly, or 1.9 percent annually. The electricity sector contributed the most to the total growth of producers' prices. This sector increased its prices by 29.3 percent in November, according to information released by the State Statistical Agency. Prices in chemical processing rose by 0.5 percent in November and prices in food processing grew by 0.4 percent.

EMPLOYMENT AND PAY

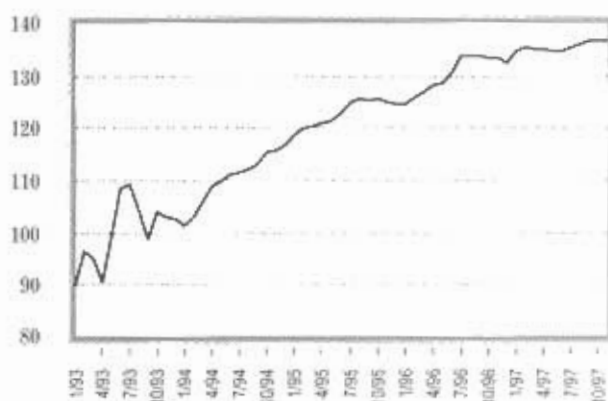
In October, the number of registered unemployed grew by 7,225 or 2.6 percent compared to the previous month. Registered unemployment now stands at 284,562. This development is consistent with previous years, in which unemployment has risen in the fall months. However, the increase in unemployment has been somewhat sharper this year. Unemployment was 6.3 percent higher in October than in the same month last year.

In October, the economically-active population was 1,635,062. That was 3,604 more than in the previous month. Taking into account the increase in unemployment, there were 1,354,121 employed in October, 3,621 less than

INDICES 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

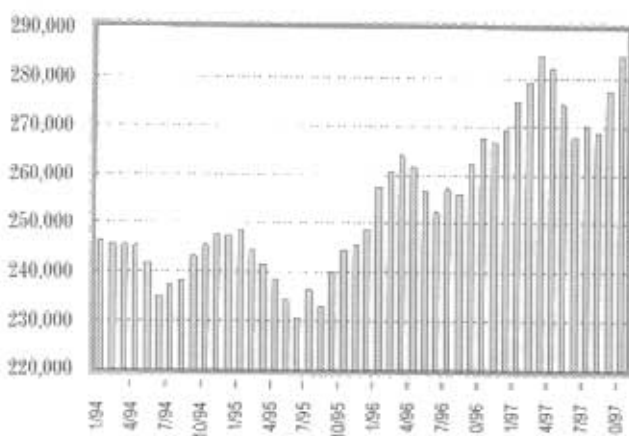


INDICES OF RELATIVE PRICES OF FOOD AND HOUSING
January 1992 = 100



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

NUMBER OF THE UNEMPLOYED

REAL AVERAGE GROSS WAGE
Constant prices, January 1993REAL AVERAGE NET WAGE
Constant prices, January 1993

in September. Such changes in the structure of the active population resulted in an increase in measured unemployment from 17 percent in September to 17.4 percent in October. Within total employment, business enterprises dominated with 1,035,681 employed. Employment in crafts and free professions followed with 119,835 employed and individual farmers who are insured amounted to 120,719.

The increase in supply and decrease in demand on the labor market had an influence on wages, which have been stable for four months now. Average net wages amounted to 2,394 kuna in October. This is 0.4 percent lower in real terms than in September and 0.9 percent lower than average wages in July of this year. Compared to wages in the same month last year, wages are up by 13.7 percent, while wages in October were 2.8 percent above this year's average.

MONETARY DEVELOPMENTS

The main development in October regarding net assets of the banking system was a decrease in net foreign assets by 1 billion kuna and an increase in placements on this basis of 0.95 billion kuna. The growth of total liquid assets was negligible in October, first of all because of a surprising stagnation of foreign exchange deposits.

In October, commercial banks withdrew funds from their accounts abroad. They decreased their sight deposits by the equivalent of 0.95 billion kuna and decreased their time deposits by the equivalent of another 0.7 billion kuna in comparison to September. Despite this, the ratio of foreign assets and foreign exchange deposits remains well above 0.5, confirming the thesis that banks are holding more funds abroad than they are required

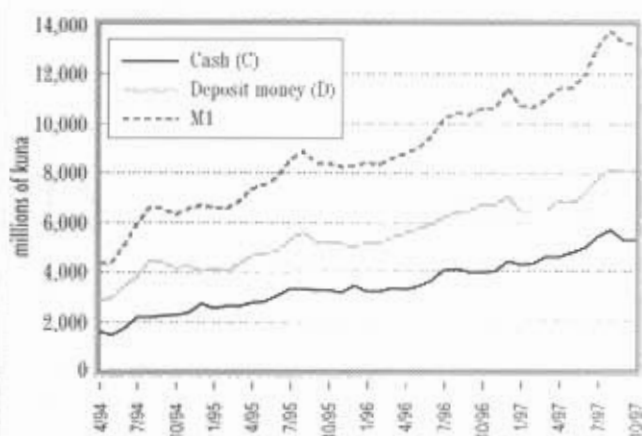
to by law. However, it appears that this relationship will now change.

Funds withdrawn from these accounts were used in a lesser degree to decrease foreign liabilities (0.2 billion kuna) and in a greater degree were exchanged for kuna and directly placed with the private sector. Despite this, the sectoral and term structure of placements is completely in balance with current trends. Credits to households are starting from a very low base and have a very high growth rate. Accordingly, long-term credits to households are growing at a monthly rate of 6 percent this year. At the end of October, they were twice as high as they had been at the end of last year and amounted to 8.3 billion kuna. Short-term credits to households grew at 4 percent monthly and amounted to 2.4 billion kuna at the end of October. Among enterprises, long-term credit is rising faster than short-term (3.5% versus 2% on average per month). Long-term credit amounted to 13.6 billion kuna, compared to 12.6 billion kuna for short-term credit to enterprises.

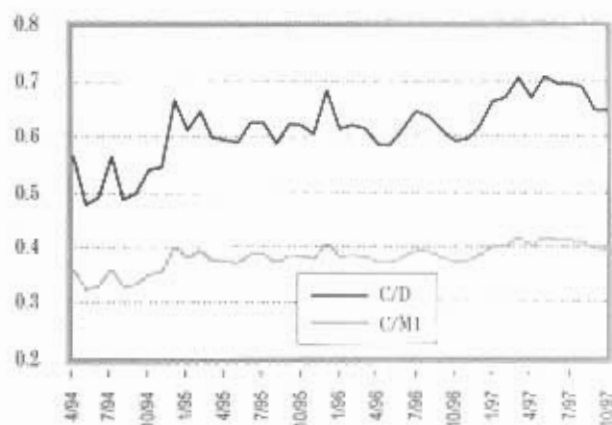
Net claims on central government continued to decrease in October. This time, government increased its kuna deposits in the banking system by 0.2 billion kuna and decreased claims based on bonds for foreign exchange savings of citizens and other claims by 1.6 billion kuna in total. Thanks to this, the ratio of claims on central government to placements to other sectors fell to 0.35, compared to 0.5 at the end of 1996 and 0.57 at the end of 1995.

On the liability side, total liquid deposits grew in October by only 0.25 billion kuna (0.5%). This was both absolutely and relatively the smallest growth of M4 in the post-inflation era. The money supply remained at the same level as at the end of September. Quasi-money

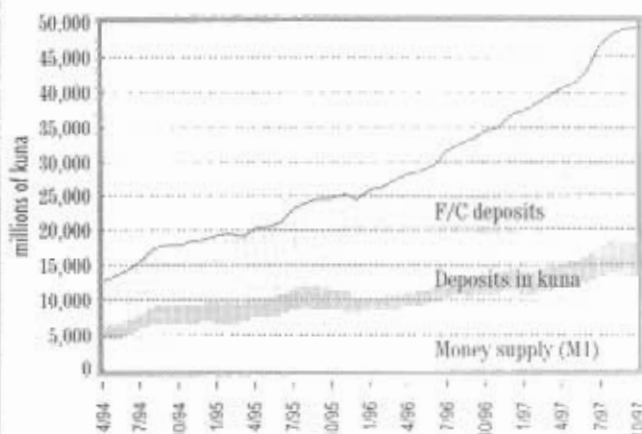
MONEY SUPPLY



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

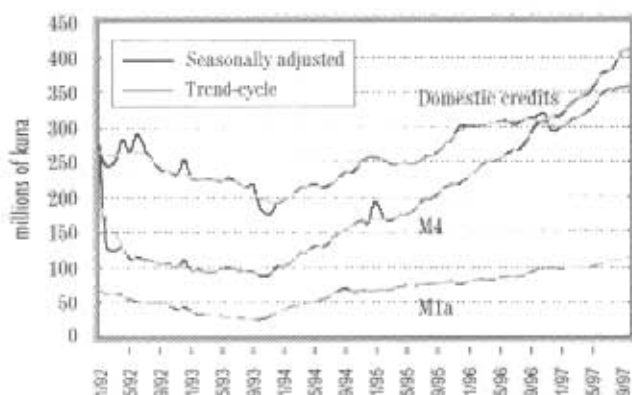


MONETARY AGGREGATE M4

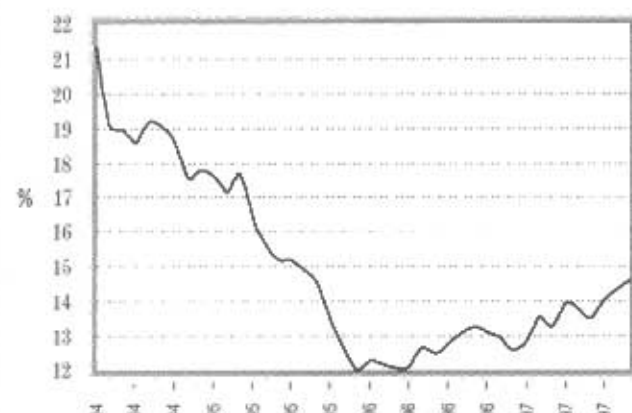


DOMESTIC CREDITS, M4 AND M1a

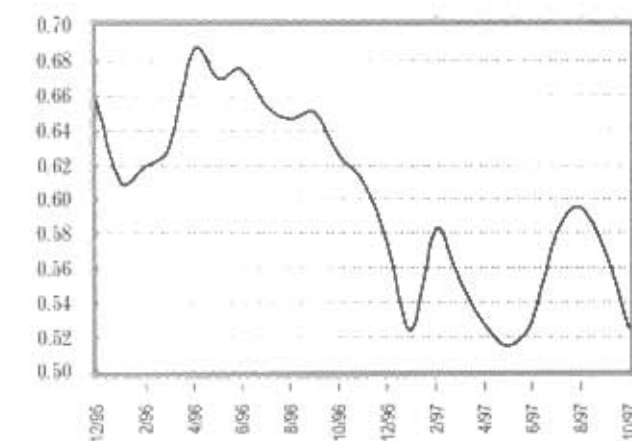
Seasonally adjusted and trend-cycle, deflated with CPI, 1992 = 100



RATIO OF KUNA DEPOSITS TO QUASY-MONEY



RATIO OF COMMERCIAL BANKS' FOREIGN ASSETS TO F/C DEPOSITIS



grew by 0.24 billion kuna. Of this, 0.13 billion kuna came on the basis of increased kuna deposits and only 0.1 billion kuna on the basis of increased foreign exchange deposits.

Both currency in circulation and deposit money of each sector separately remained at their September levels. A possible explanation is the moderation in the growth of net wages of the household sector in September and October, as well as increased purchases abroad by both households and enterprises, due to expectations of the effects of the introduction of VAT.

Even quasi-money did not grow rapidly. Kuna savings of households grew by 0.1 billion kuna and foreign exchange savings grew by 0.6 billion. Enterprises decreased their foreign exchange deposits by 0.5 billion kuna, supporting the hypothesis that the process of accumulating inventories before the introduction of VAT has begun. However, the hypothesis will have to be confirmed by December data. Although the trend to slower growth of foreign exchange deposits began earlier, October put new emphasis on the trend. Foreign exchange deposits grew by 3.4 percent monthly on average in 1997 (as opposed to 1996: 3.7 percent and 1995: 4.0 percent), while in October they grew by only 0.4 percent.

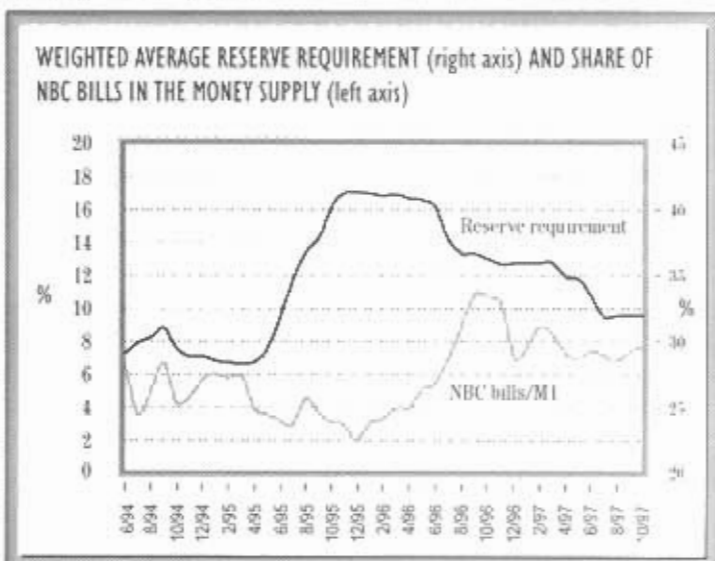
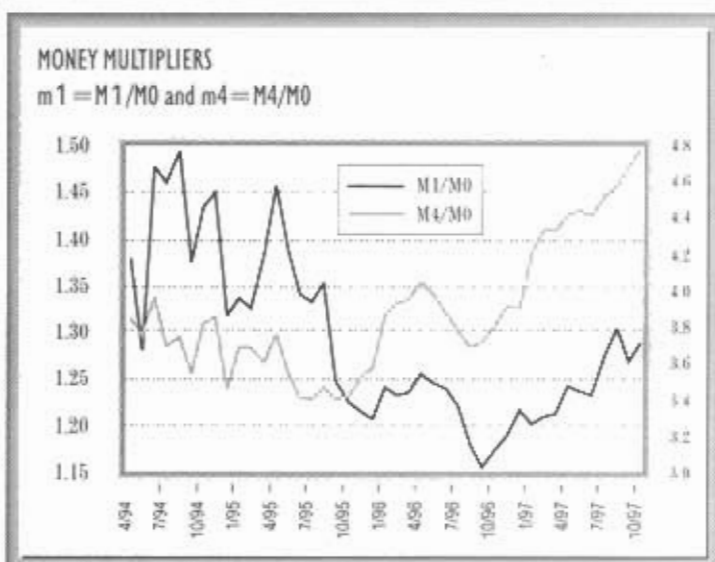
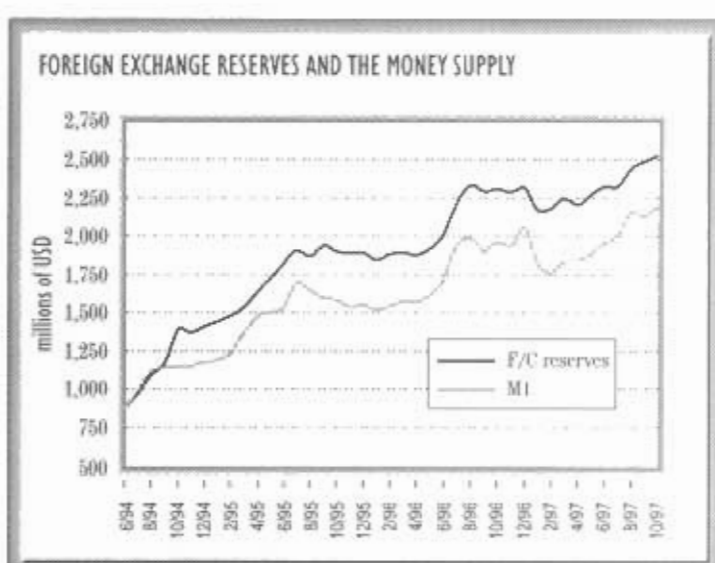
Foreign assets of the central bank stagnated for the third month in a row at 14 billion kuna or 2.5 billion US dollars, oscillation from time to time on the basis of changes in exchange rates on the world market. While foreign exchange transactions of the National Bank of Croatia stagnated, kuna activity was much more lively. During 20 days in October, banks used an average of 65 million kuna of lombard credits, while in the first twenty five days of November, the usage period was shorter (fifteen days). However, within these fif-

teen days, the average use of loan credits was 110 million kuna.

Because of increased use of secondary liquidity sources in these two months, the central bank has repurchased its own bills, so as to rationalize the liquidity management of commercial banks. In October, repos were organized for four days in an amount of 300 million kuna, while in November the amount of the arrangement was half as large (166 million kuna) and lasted three days. However, although this indebtedness of banks might be a sign of liquidity problems, the movements of base money and bank deposits, especially funds on the giro accounts of banks at the central bank and the level of free reserves on these accounts show that the liquidity of the banking system is not in danger. The main reason for the increased use of secondary liquidity sources in October and November was the strong and continual increase in government deposits. These deposits rose from an average of 0.9 billion kuna in the summer months to 1.4 billion kuna at the end of October. In some days in November, they exceeded 1.5 billion kuna. During days of significant withdrawals of liquid funds from their giro accounts, bank used secondary liquidity sources. However, during October and the first twenty days of November, 55 percent of the funds on banks' giro accounts were excess reserves. That is, banks had 0.2 billion kuna more than needed to meet reserve requirements.

EXCHANGE RATE

The appreciation of the kuna relative to the German mark continued in November. The middle exchange rate of the National Bank of Croatia reached its lowest value since the introduction of the stabi-



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



DAILY NOMINAL EXCHANGE RATE - KUNA VS. 100 DEM



DAILY NOMINAL EXCHANGE RATE - KUNA VS. USD



lization program in October 1993. In the middle of November, the mark reached a value of 3.5216 kuna. This was 1.66 percent lower than the highest value of the year, 3.5802 kuna, which was recorded in the middle of May. The kuna's appreciation was the greatest in October, at 0.57 percent, while in November it appreciated 0.24 percent. The rate of appreciation in November was less than half that in October. However, during two days in November, the kuna reached its highest value against the mark (or, to put it the other way around, the mark reached its lowest value against the kuna), indicating continued pressures to appreciation.

The dollar depreciated significantly in the first half of November, while in the second half it rose again (appreciated). The value of the dollar in the first half of November decreased by about two percent. This was caused by the fall in the value of the dollar against the German mark due to instability and the fall of the Dow Jones stock market index. In the second half of November, the dollar appreciated against the kuna by more than two percent, thus regaining its value from the beginning of the month.

The appreciation of the kuna against the three most important currencies entering into the calculation of the real effective exchange rate (DEM, USD, ITL), along with the stagnation of prices in these countries and the mild growth of prices in Croatia, led to an appreciation of the real effective exchange rate of the kuna. The real effective exchange rate in October and November (estimated) appreciated by about 0.9 (PPI) and 0.95 (CPI) percent in each month. In September the largest appreciation of the real effective exchange rate in this year, 1.3 percent, was recorded. This figure agrees with our previous estimates.

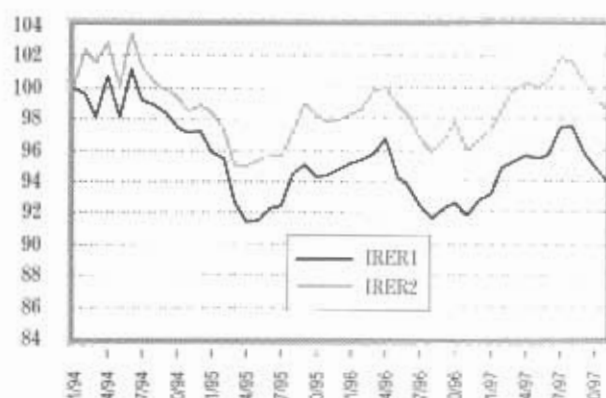
BALANCE OF PAYMENTS

The current account deficit in the first half of 1997 was 1,554.3 billion USD, 134.8 percent more than in the same period last year. An increase in the merchandise trade deficit was the main cause of the increase in the current account deficit. The merchandise trade deficit was 2,022.4 billion USD, 45.3 percent higher than last year. The increase in the exchange rate of the dollar against European currencies and seasonal effects on economic activity decreased net income from services and current transfers. In the summer months, a significant increase in net income from tourism is expected. On the financial transactions section of the capital account, inflows of 883.0 million USD were recorded, 419 percent more than in the same period last year. Foreign direct investment reached 158.2 million USD or 42 percent more than last year. Net foreign credits rose from 71.8 to 446.0 million USD. Within this, government indebtedness rose from 7.7 to 296.2 million USD.

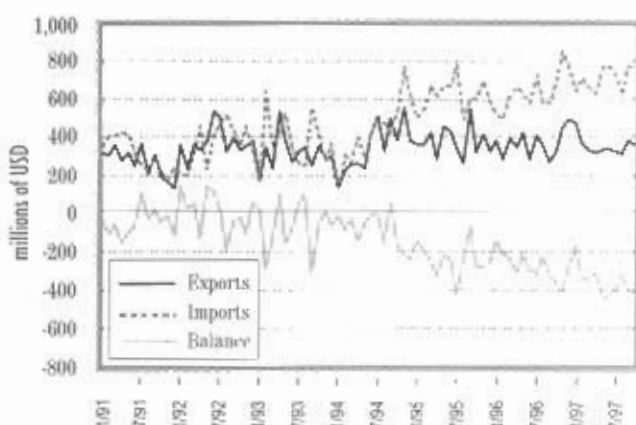
In the first ten months of the year, Croatian exports amounted to 3,621.7 billion USD, or 1.9 percent more than in the same period last year. Imports amounted to 7,166.8 billion USD, an increase of 16.3 percent. The majority of imports are inputs, which amounted to 3,564.7 billion USD and grew at 7.9 percent. Imports of investment goods amounted to 1,490.7 billion USD, 29.6 percent more than last year and consumption goods imports were 2,111.5 USD or 23.6 percent more than last year. The deficit on merchandise trade amounted to 3,545 billion USD, 35.9 percent more than last year.

Croatia's foreign debt amounted to 5,448.4 billion USD on the 31st of October. It grew 680 million USD in the first nine months of

INDEX OF REAL EFFECTIVE EXCHANGE RATE OF CROATIAN KUNA
(IRER1 - with retail prices, IRER2 - with producers' prices), 1994:1 = 100



MERCHANDISE EXPORTS, IMPORTS AND TRADE BALANCE



BALANCE OF PAYMENTS in millions of USD (preliminary data)

	Jan.-Jun. 97	Jan.-Jun. 96	indices Jan.-Jun. 97/Jan.-Jun. 96
Current account	-1,554.7	-662.3	234.8
Capital and financial accounts	895.5	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

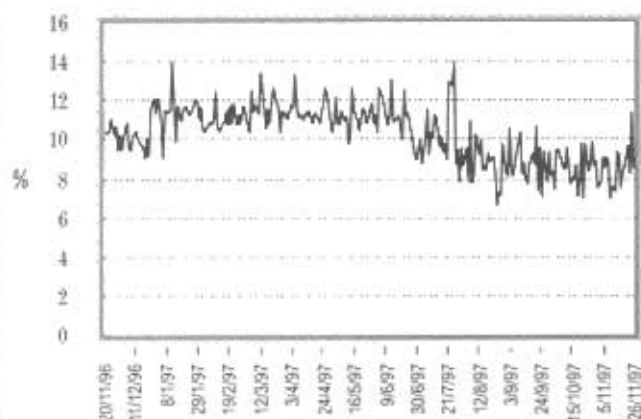
MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan.-Oct. 1997	Jan.-Oct. 1996	Oct. 1997	Oct. 1996
Exports	3,621.8	3,552.6	365.5	331.9
Imports	7,166.8	6,160.4	776.2	698.8
Balance	-3,545.0	-2,607.8	-410.7	-366.9

Source: Bureau of Statistics

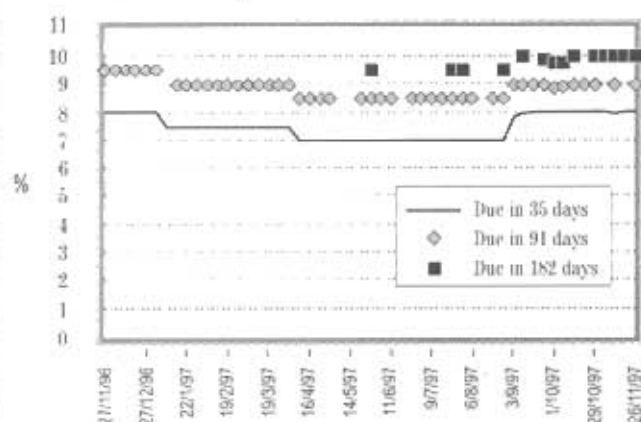
ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



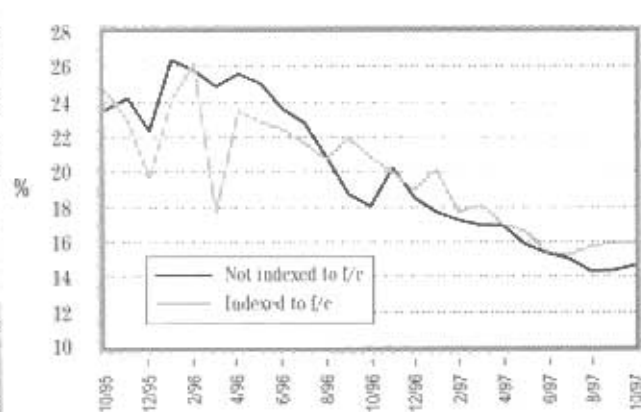
INTEREST RATES ON NBC BILLS IN 1996 AND 1997

Annual level, on auction days



DMB's INTEREST RATES ON CREDITS IN KUNA

Annual level



1997, a 14.1 percent increase. Of this, 93.6 percent is medium and long-term credit, 6.4 percent is short-term credit. Medium term and long-term credit grew by 7.7 percent and short-term by 27.1 percent.

The foreign exchange reserves of the National Bank were 2,527.5 billion USD, 9.3 percent greater than last year, on October 31.

MONEY MARKET AND INTEREST RATES

There were no major changes on the Money Market this month. Average daily interest rates oscillated between 6.9 and 11.5 percent, with average daily interest rates nearer the lower bound. A significant increase was noted in the interest rates on callable funds, which rose to 7 percent. For a long time, the rate on such funds had been 6 percent. Liquidity problems continued in November, so that a certain number of banks took lombard loans at the very beginning of the month. The liquidity situation improved by the end of the first week. However, this improvement was short-lived. Liquidity rapidly deteriorated, due to pension and wage payments, payment of sales tax and profit tax. The National Bank reacted with a repo auction of NBC bills, which improved liquidity for a short time and avoided the threat that banks would lose their rights to use lombard credits. The imbalance between supply and demand on the money market was on the side of demand. The reason for this was the use of daily and overnight loans to meet reserve requirements. In the daily market, borrowers are more and more seeking money for one or two months, so that on average 50 percent of daily turnover is now longer term. Longer term loans are acceptable to banks with surplus funds on their giro accounts, since they afford better earnings (30 day

loans give 12 percent interest, while, for example, 35 day NBC bills yield only 8 percent).

Short-term securities continue to show stable yields. NBC bills yield 8.0 percent for 35 days, 9.0 percent for 91 days and 10.0 percent for 182 days. These bills remain useful investments for commercial banks, since they serve as good liquid assets in case of liquidity problems. Yields on Treasury Bills of the Ministry of Finance in November were 8.55 percent for 42 days, 9.90 percent for 91 days and 10.25 percent for 182 days.

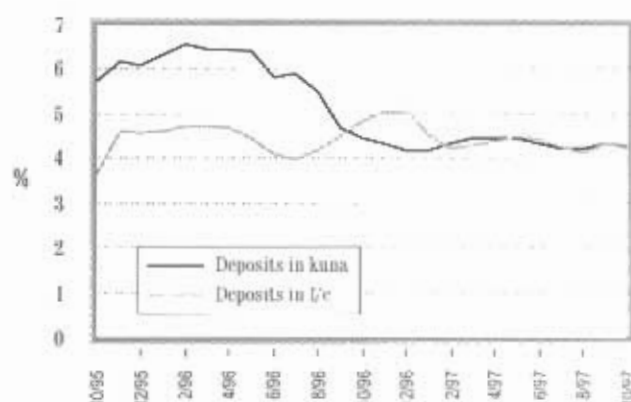
Commercial banks' lending rates rose slightly in October. The average interest rate on kuna credits without indexation increased slightly to 14.59 percent (short-term credits 14.70 percent, long-term 13.15 percent). The average interest rate of kuna credits with indexation to the German mark also rose slightly to 15.92 percent (short-term credits 18.45 percent, long-term 12.86 percent). It is important to mention that the mild increase in lending rates is above all conditioned on increased interest rates on short-term credit. The average interest rate on foreign exchange credit increased by 3.5 percentage points relative to September and is now at the level of 18.69 percent.

The very stable trend in deposit rates of commercial banks continues. Deposit rates fell insignificantly. Also, for quite a while there has been no significant difference between kuna and foreign exchange deposit rates. Thus it is no surprise that average interest rates on total kuna and foreign exchange deposits are the same, 4.2 percent.

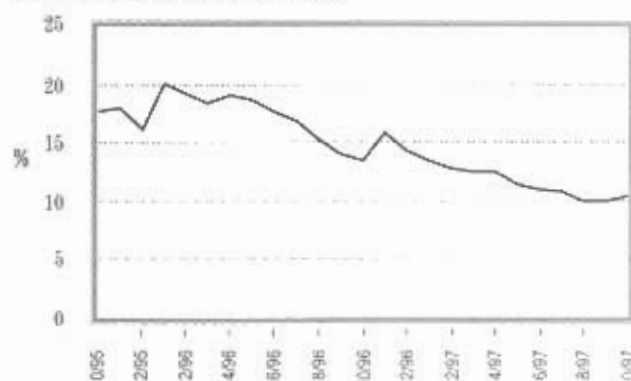
The mild growth of lending rates and insignificant fall of deposit rates resulted in a 0.3 percent increase in the "spread" relative to September. The "spread" was 10.3 percentage points in October.

DMBs' INTEREST RATES ON DEPOSITS

Annual level

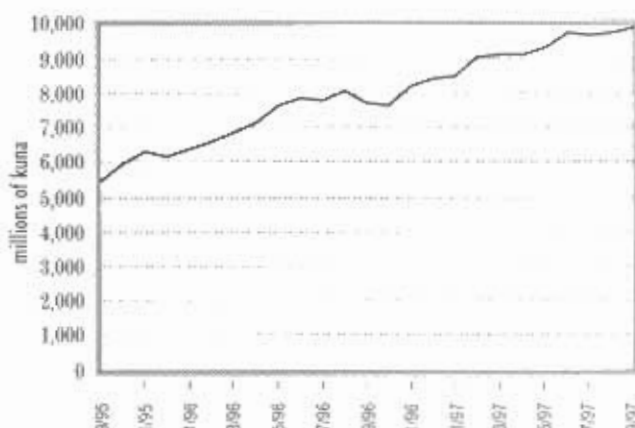


DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA

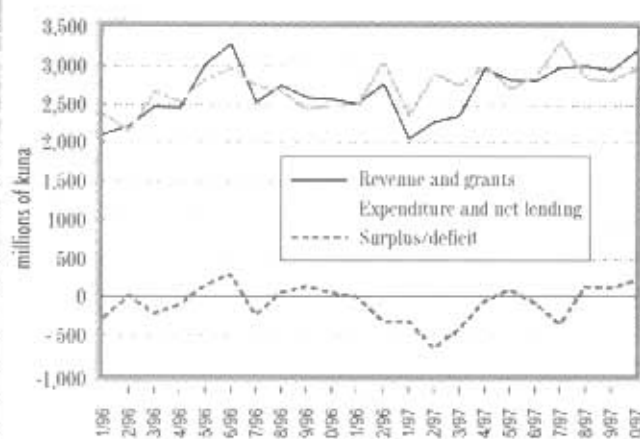


Note: spread is calculated as a difference between interest rates on non-indexed credits in kuna and interest rates on non-indexed deposits in kuna.

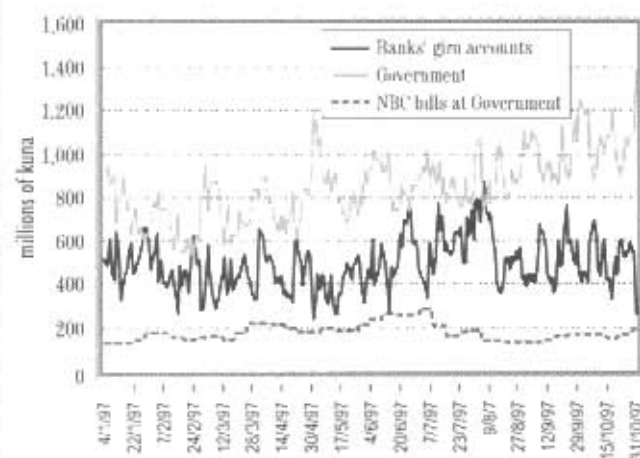
ARREARS REPORTED TO PAYMENTS INSTITUTE



OUTTURN OF CENTRAL GOVERNMENT BUDGET



NBC DEPOSITS IN 1997

FINANCING OF CENTRAL BUDGET DEFICIT
(in millions of kuna)

	Jan.-Sept. 1997	1997 Budget
TOTAL FINANCING	1,335	2,837
DOMESTIC FINANCING	-1,317	-2,276
From other general governments	0	0
From monetary authorities	-340	-209
From deposit money banks	-1,048	-1,863
Other domestic financing	70	-204
FOREIGN FINANCING	2,653	5,113
From international develop. institut.	191	1,107
From foreign governments	-401	-596
Other foreign financing	2,863	4,601

GOVERNMENT BUDGET

The central government budget had a positive balance in October for the third month in a row. The deficit realized in the first ten months has been only 38.7 percent of the planned deficit for this year and amounts to 0.97 percent of planned gross domestic product. Revenues have grown at an annual rate of 5.3 percent and expenditures by 10.1 percent. Detailed data on the financing of the deficit are available for the first nine months. The deficit has been completely financed by foreign funds. The negative sign on net relations with domestic sectors means that the government has cleared up its obligations. The principle of the repaid debt belonged to the commercial banks and this on the basis of the repayment of the principle of the old foreign exchange savings (in January and July). Repayment of obligations to the monetary authorities accounted for about a quarter of total domestic financing. Within domestic financing, the government has additionally increased its debt by selling treasury bills, emitting euro-kuna bonds and short-term loans.

A look at foreign financing shows that the greatest debt came in the form of emission of euro-bonds and short-term debt with a foreign commercial bank. The accounts of relations with international financial institutions show modest borrowing, while our government has only repaid foreign governments and state institutions, and not borrowed from them. In the estimate of the realization of the budget for 1997, indebtedness is less than planned for in the budget, because some loans were not actualized (public sector restructuring, investment stimulation, private sector development) and in some cases realized indebtedness was less than planned.