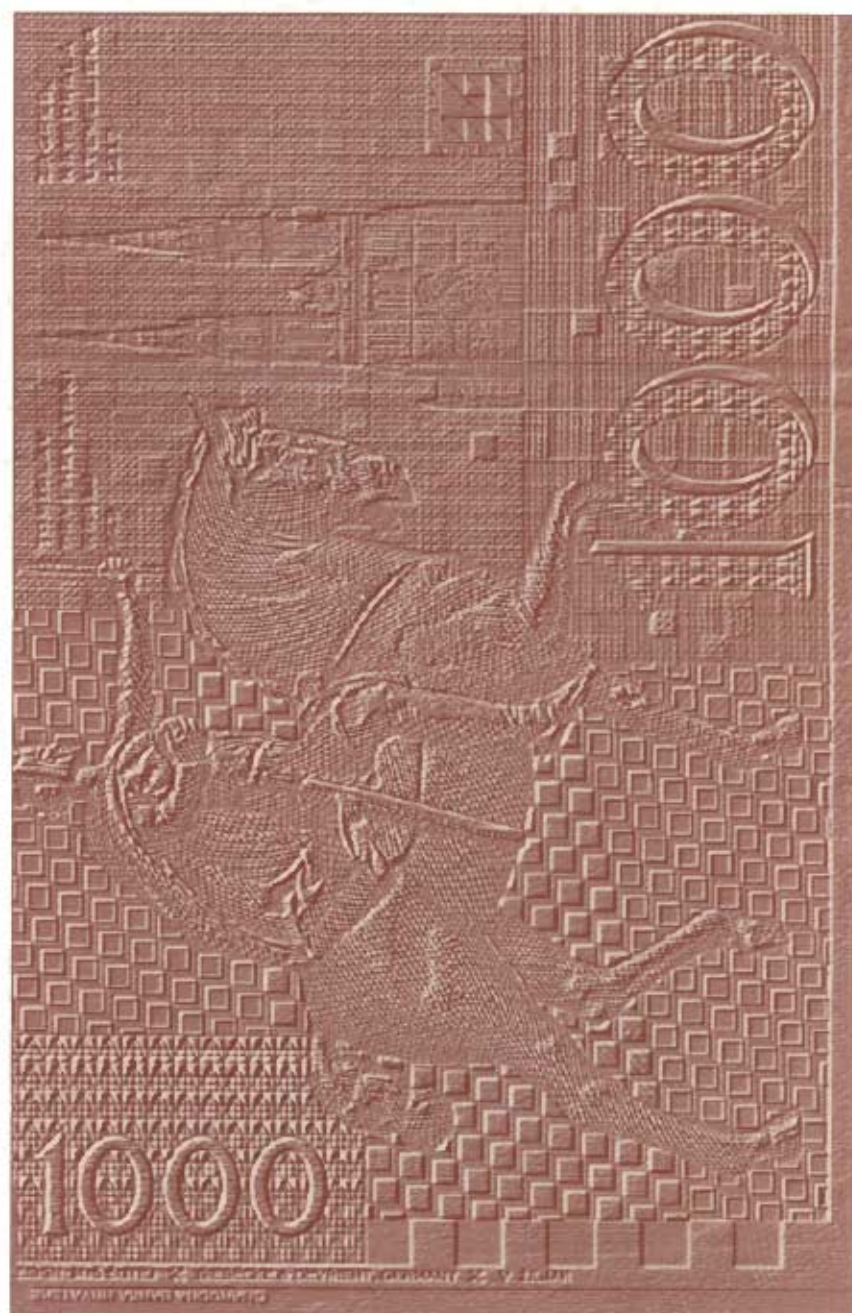


NATIONAL BANK OF CROATIA



BULLETIN

YEAR II
No. 14 APRIL 1997

MANUFACTURING INDUSTRY

The index of physical volume of industrial production has been calculated according to the National Classification of Economic Activities (NKD) for the first time. Thus, the data for the first two months of 1997 finally conform to international statistical standards. Total industrial activity has been divided into sectors, sub-sectors, divisions, groups, classes and subclasses. Hierarchically the broadest classification was divided into mining and extraction, processing industry, and electricity, water and gas supply. In the current monthly report of the National Bureau of Statistics, these data have been published only at the level of the NKD sectors. In the coming months, production statistics will once again be published according to the economic purpose of the product.

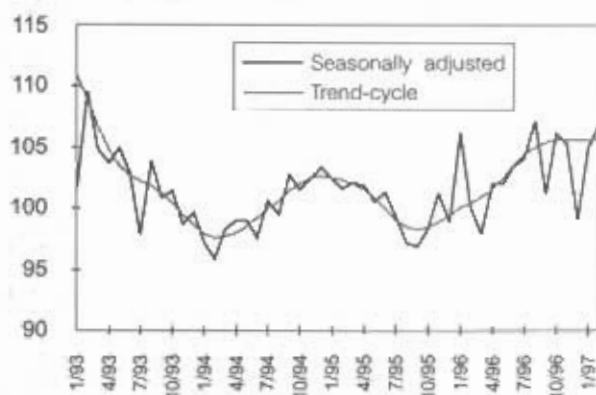
In addition to the introduction of the NKD, the system of weights was changed to one calculated on the basis of gross domestic product in 1995. In the production of value added, the main contribution was made by processing industry (86.95%), followed by electricity, water and gas supply (10.11%), while the least significant contribution was made by mining and extraction (only 2.95%). According to the new classification and the new system of weights within processing industry, sectors are ranked as follows: first comes the production of food and beverages (25.06%), followed by the production of chemicals and chemical products (11.30%), publishing and printing (6.06%), etc.

The production level achieved in the first two months of this year exceeded the results recorded in the corresponding period in 1996 by 1.3%. At the same time, its trend component separated from the original time series stagnated in the last few months, after having been on an upward trend for many months.

The processing industry recorded a year-on-year cumulative decrease of

MANUFACTURING PRODUCTION INDEX

Seasonally adjusted and trend-cycle (1995 = 100)



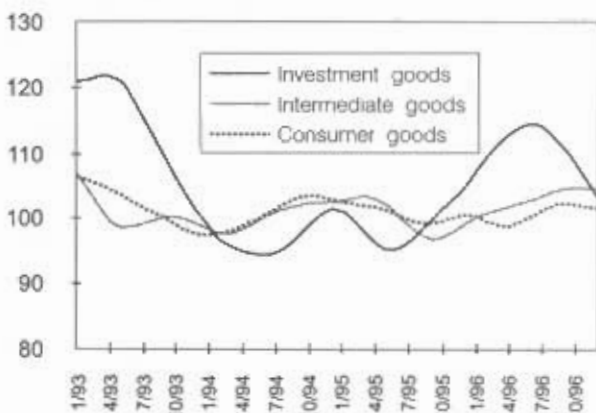
INDUSTRIAL PRODUCTION BY GROUPS OF PRODUCTS

Seasonally adjusted (1995 = 100)



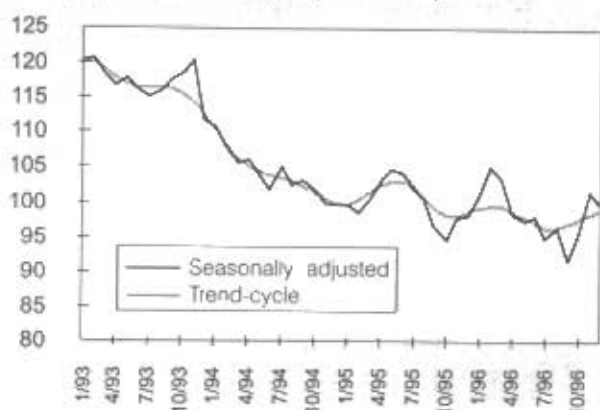
INDUSTRIAL PRODUCTION BY GROUPS OF PRODUCTS

Trend-cycle (1995 = 100)



STOCKS OF FINAL GOODS IN MANUFACTURING SECTOR

Seasonally adjusted and trend-cycle (1995 = 100)

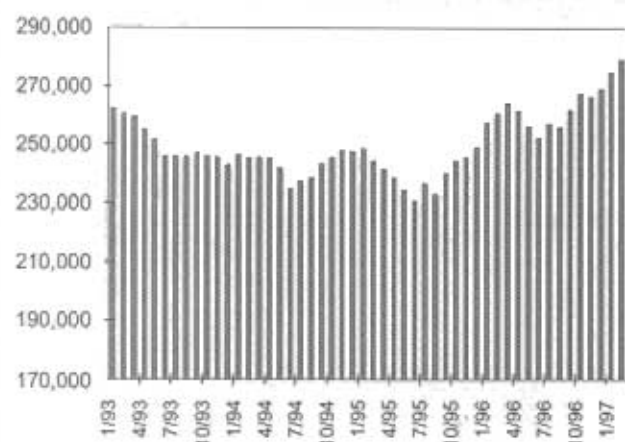


2.1% and a monthly decrease of 1.0%. Evaluation of the second month in relation to both base periods revealed growth in electric energy, gas and water supply by 13.6%, or 15.9%. At the same time, mining and extraction grew cumulatively by 3.1%, monthly by 9.7%.

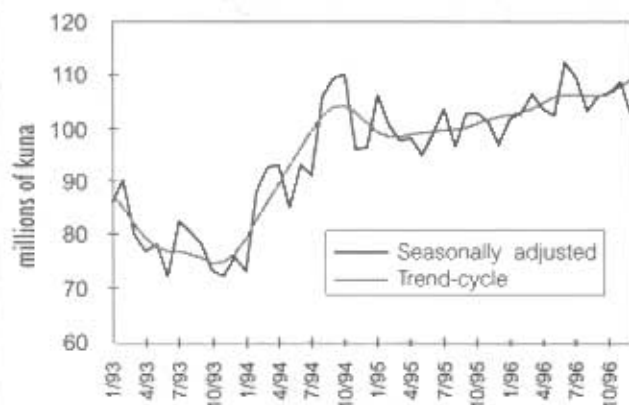
Although foreign trade in industrial products recorded a deficit at the beginning of the year, exports alone managed to record satisfactory results. Aggregate manufacturing industry recorded a 28.0% cumulative year-on-year increase in exports (dollar amount), in which the most significant contribution belonged to the mining and extraction sector with a seven-fold increase in exports, followed by the processing industry with a 25.2% increase. Data on energy supply is not available because it was not recorded in the comparable period in 1996. Following the optimism prevailing in the third quarter of 1996 thanks to the growth of export orders, the fourth quarter of 1996 recorded a decrease in export orders in processing industry. Only the production of electrical and optical equipment had some positive expectations at that time. These results were revealed by the means of a survey of export orders conducted by the editorial staff of "Privredni vjesnik". Demand for industrial products, especially those coming from abroad, could provide justification and stimulus for the growth of domestic economic activity.

Unemployment grew significantly during the first two months of the year, reaching 279,169. A survey conducted by the National Bureau of Statistics at the end of 1996 came up with a much lower unemployment rate than that calculated by the existing methodology (16.2% for January 1997). On this occasion, using a different definition of unemployed persons, unemployment rate is expected to reach approximately 10%. However, the results of this survey should be considered with caution. Final results are to be published at the end of March.

NUMBER OF THE UNEMPLOYED



CASH FLOW OF REAL VALUE ADDED COMPONENTS IN MANUFACTURING SECTOR - (1995 = 100)



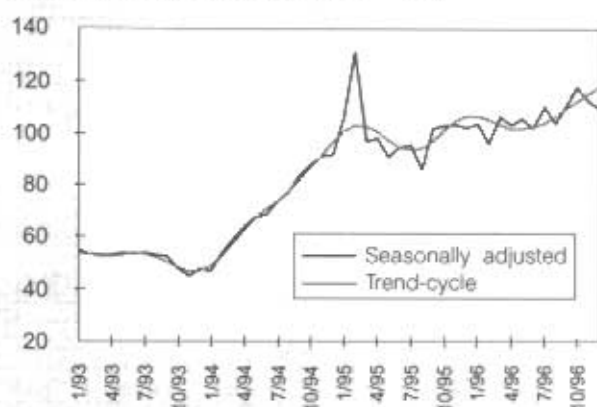
TRADE

Real turnover achieved by subjects in retail trade in the first two months of the current year grew cumulatively by 25.9% on annual level, and by 25.1% on monthly level. The trend curve continued its intensive growth. Inventories of finished products decreased by 8.2% in real terms compared to the first two months in 1996. The forecast of developments in turnover in the next three months, provided by the National Bureau of Statistics, is positive. This means that trade turnover is expected to record an average monthly nominal growth of 4.7%. Turnover in wholesale trade, determined in relation to the same two base periods, was slightly lower than the turnover in retail trade. Expressed in constant prices, it was higher cumulatively by 11.8%, and monthly by 10.2%.

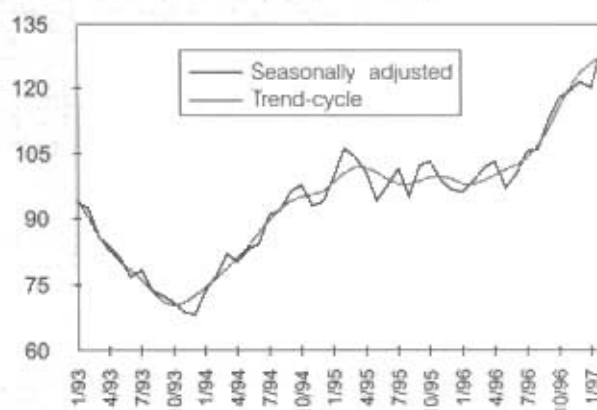
CONSTRUCTION,
TRANSPORTATION AND
TOURISM

The construction industry is expected to be occupied with post-war reconstruction and construction within the country. It is also expected to take part in the international market, judging by the value of contracted construction works. The volume of construction works contracted in 1996 exceeded the 1995 figure by 53%, the number of housing units completed in 1996 exceeded the 1995 figure by 208%, the number of unfinished housing units was 16% higher in 1996 than in 1995, while the total area of housing units completed in 1996 exceeded the corresponding 1995 figure by 289%. Exclusion of the seasonal component characteristic for activities in the construction industry, reveals a decrease in the number of effective working hours in the last two months. The number of working hours in construction remained unchanged in January 1997 compared to January 1996, while the number of workers at construction sites increased by 5.6%. The value of construction works executed recorded a 46.7% monthly growth; thanks to the seasonally "poor" month, that represents only 60.3% of last year's average.

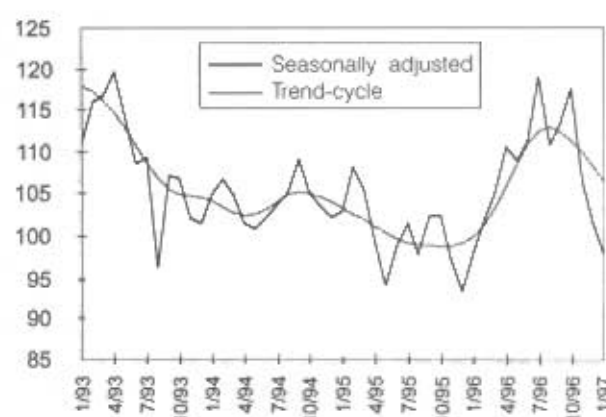
CASH FLOW OF REAL VALUE-ADDED COMPONENTS IN TRADE SECTOR
Seasonally adjusted and trend-cycle (1995 = 100)



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

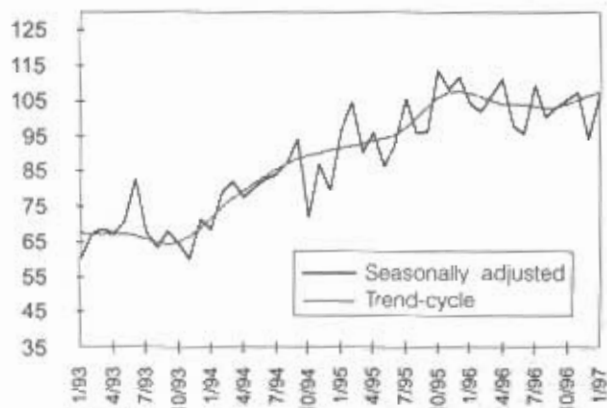


EFFECTIVE WORKING HOURS IN BUILDING INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)

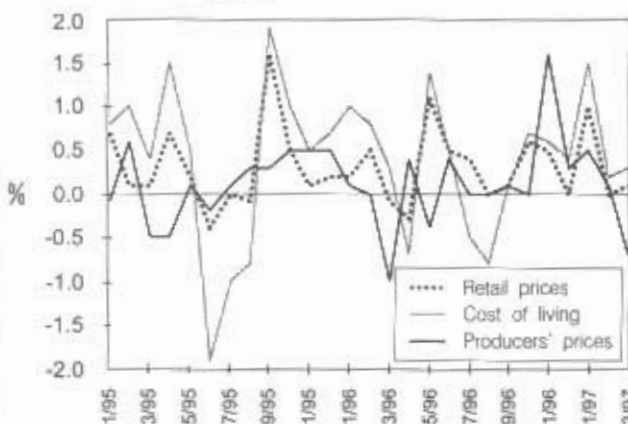


TRANSPORTATION - TRANSPORTED GOODS

Seasonally adjusted and trend-cycle (1995 = 100)

**TOURISM - BEDS/NIGHTS**

Seasonally adjusted and trend-cycle (1995 = 100)

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

Construction companies included in the post-war reconstruction are faced with the practice of certain portion of the value of construction works executed, being paid in shares, in order to alleviate the financial difficulties connected with payment of such substantial amounts. That was, in part, the cause of the increase in the price of construction works.

Transportation of passengers in all transportation categories increased in January 1997 by 9.5% compared to January 1996, while at the same time it was 2.8% lower than last year's average. Nevertheless, the upward trend was continued. Transportation of cargo has been recovering slowly. In January 1997, it exceeded last January's figure by 3.5%. All means of transportation are expected to reach their pre-war levels thanks to growing transportation of goods, as well as to the revitalization of old transportation routes and the construction of new ones. Considering the country's geographic position and upcoming incorporation into the European transportation system, the transportation effect can only increase.

Following 1996, which was the year of the return of tourists and of the ending of the war low tide, and previous years in which the direct and the indirect consequences of the war were much more intensely felt, this year's tourist prognosis is certainly much more optimistic. The number of tourist overnights recorded in the first two months of the year exceeded the corresponding figures from last year by 11.4%, primarily thanks to an increase in the number of domestic overnights, while foreign overnights decreased in the same period. The trend in overnights has been slightly downward. However, the tourist economy is expected to continue increasing its output.

PRICES

March recorded a minimal increase in retail prices, as well as a decrease in producers' prices.

Retail prices recorded a 0.1% increase in March compared to February.

Among various groups of products, the most significant increase was recorded in prices of agricultural products including seasonal products (1.3%), prices of liquor and industrial non-foodstuffs (0.2%). At the same time, the most significant decrease in retail prices was recorded in agricultural products excluding seasonal products (-1.5%). Services recorded a minimal decrease in retail prices of 0.1%.

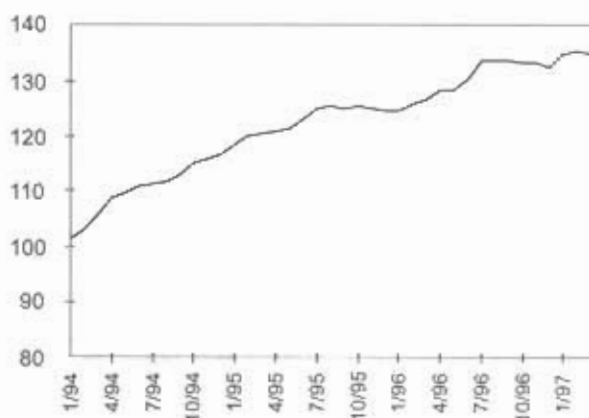
The annual growth of retail prices has been quite moderate. Retail prices grew by 4% in the first three months of 1997 compared to the same period in 1996. Prices of goods increased by an average of 2.5%, while prices of services increased by 10%.

The cost of living increased by 0.3% in March compared to February. A look at the structure of this increase in the cost of living reveals that the major contribution was made by goods, which recorded a 0.4% growth. The most significant increase among goods was recorded in foodstuffs (0.6%), and in clothing and footwear (0.5%). At the same time, transportation and postal services recorded a 1.7% decrease, while services recorded a stagnation of the cost of living compared to February.

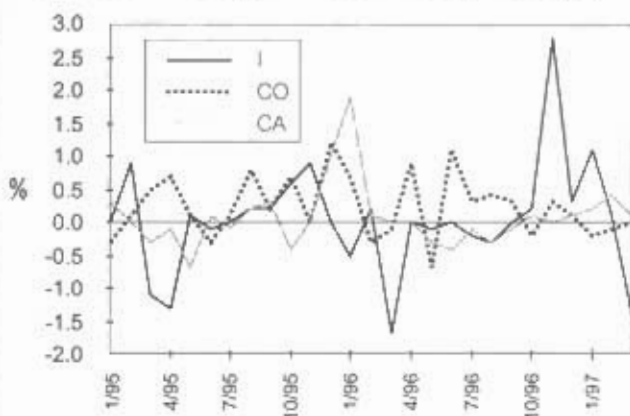
The index of prices of industrial products, measured by producers' prices, recorded a 0.7% decrease in March compared to February this year. Prices of investment goods grew by 0.1%. Prices of intermediate goods decreased by 1.4%, while prices of consumer goods remained at their February levels. Among individual groups of products, the most significant increase in March compared to February 1997 was recorded in the production of non-ferrous metals (3.4%). The most significant decrease in prices was recorded in the electric power industry (-23.3%), caused by the introduction of the so-called "summer rate" in the calculation of electricity consumption.

The indicator of variations in relative producer's prices in manufacturing industry remained on a rather low level, indicating stability in relative of prices. The increase in the standard deviation of price changes to 4.9% in March was due

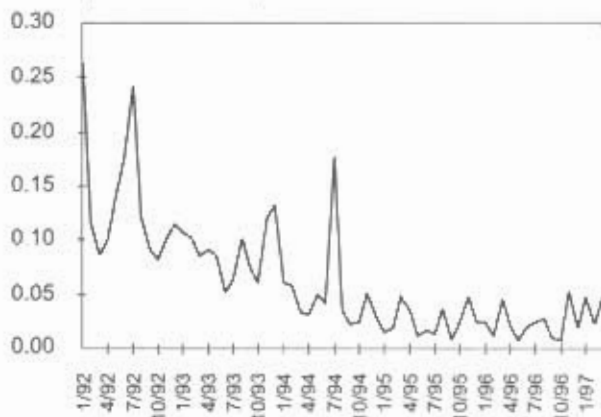
RELATIVE PRICE INDEX FOR NON-TRADABLE GOODS
Prices of services relative to goods' prices (1992 = 100)



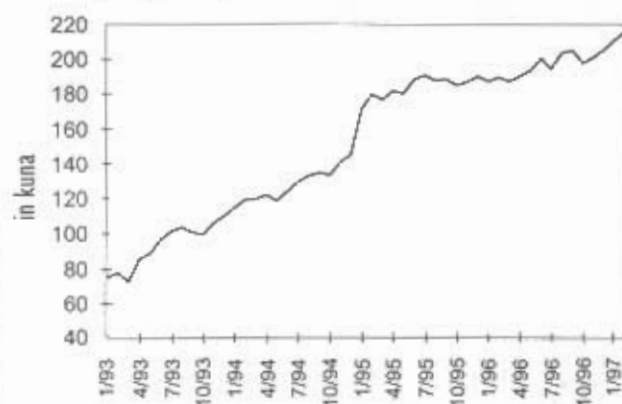
MONTHLY RATES OF INFLATION OF CAPITAL GOODS' PRICES (CA), INTER-MEDIATE GOODS' PRICES (I) AND CONSUMER GOODS' PRICES (CO)



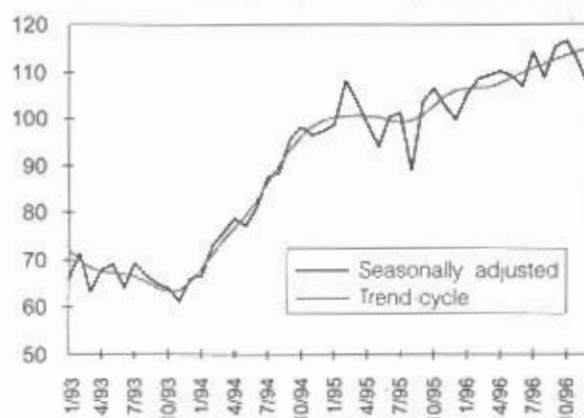
INTER-INDUSTRY RELATIVE PRICE VARIABILITY IN MANUFACTURING INDUSTRY (standard deviation)



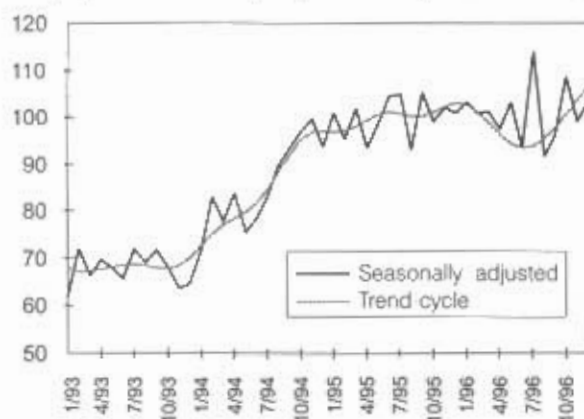
REAL AVERAGE NET WAGE
Constant prices, January 1992



HOUSEHOLDS' EXPENDITURE
Seasonally adjusted and trend-cycle (1995 = 100)



MATERIAL EXPENDITURE OF GOVERNMENT
Seasonally adjusted and trend-cycle (1995 = 100)



to the "downward inclination", i.e. strong decrease in the price of electric energy due to the introduction of the "summer rate".

WAGES AND EXPENDITURES OF THE HOUSEHOLD SECTOR AND THE GOVERNMENT SECTOR

Data on the real wage paid in February revealed continued upward tendencies. The real wage paid in February 1997 was 13.9% higher than the real wage paid in February 1996, and 10.0% higher than last year's average. The double decrease in income tax (namely decrease in the lower rate, from 25% to 20% and the increase in the annual tax free amount per person), ensured an increase in net wages and salaries.

Due to the introduction of the new National Classification of Economic Activities, data on current spending of the household sector and the government sector are not available for the current year. However, we expect these data to be available in the future. Therefore, we intend to use this space to say more about investment activity in 1996. The National Bureau of Statistics currently holds data on investments in long term assets made by enterprises throughout 1995, exclusive of military investments. Their share in the corresponding gross national product amounted to 11.1%. 1996 was analyzed via other, substitute indicators. However, any conclusions would not have the same value as they would have if the data were taken from the basic macro-economic identity. Investment goods imports amounted to 1.5 billion US dollars, which represents 19.4% of total imports in 1996 or around 8% of the estimated gross domestic product. Imports of equipment realized in 1996 exceeded the 1995 figure by 14.9%. The second significant source of financing was direct foreign investment. The amount of direct foreign investment recorded in the first nine months of 1996 was three times the amount of foreign investment recorded in all the 12 months of 1995.

MONETARY DEVELOPMENTS

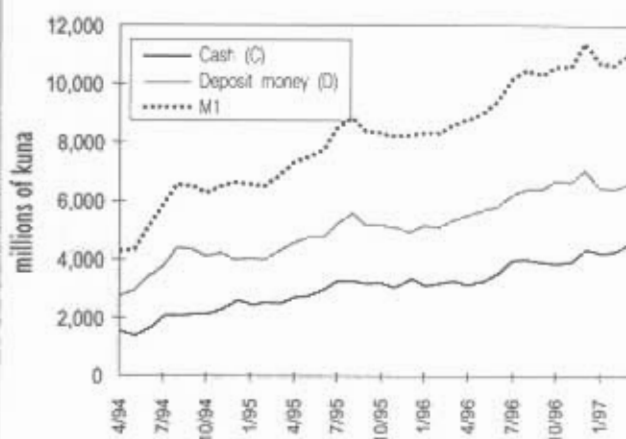
As expected, February brought a complete stand-still in money supply in comparison to January. A mild increase in cash, in the amount of 27 million kuna (i.e. 0.6%) was annulled by an almost equal decrease in deposit money of 31 million kuna (-0.5%). Such "stillness" is a seasonal characteristic of February and represents a prelude to the pre-Easter increase in cash which characterizes the end of March.

Distribution of deposit money by sectors indicates a 120 million kuna increase in deposit money of the household sector, and a decrease in deposit money in all other sectors. (The most significant decrease, in the amount of 93 million kuna, was recorded in the entrepreneurial sector.)

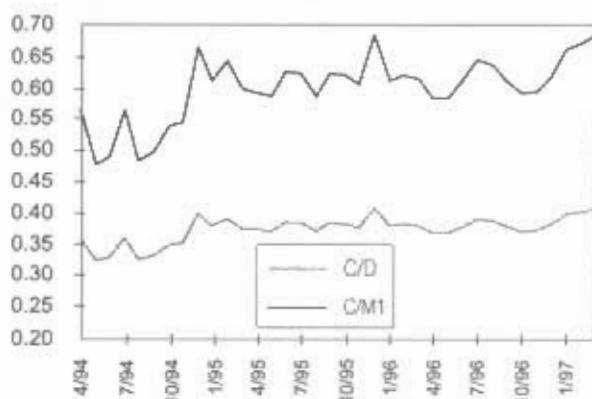
In foreign currency deposits, we recorded a 721 million kuna (i.e. 3.1%) increase. Out of the total increase in foreign currency deposits, 700 million represents the growth of foreign currency time deposits of the household sector, while at the same time foreign currency sight deposits of the household sector increased by mere 142 million kuna. Therefore, we can say that the tendency of rapid growth of time deposits i.e. long term savings, at the expense of sight deposits, which started in the second semester of 1996, continued in 1997. This changed the maturity structure of foreign currency deposits, so that in February 1997 foreign currency time deposits of the household sector amounted to 53% of the total amount of foreign currency deposits, while exactly a year ago time deposits accounted for only 40% of total foreign currency deposits. The share of sight deposits in total foreign currency deposits dropped from 54% in February 1996 to 41% in February 1997.

The growth of kuna deposits continued in 1997 at an accelerated rate. In February, kuna deposits grew by 183 million kuna (i.e. 5.2%), which exceeded last year's average monthly increase of 3.8%. A slow change, similar to the change at hand in foreign currency deposits, could be spotted within this aggregate as well. The increase in kuna

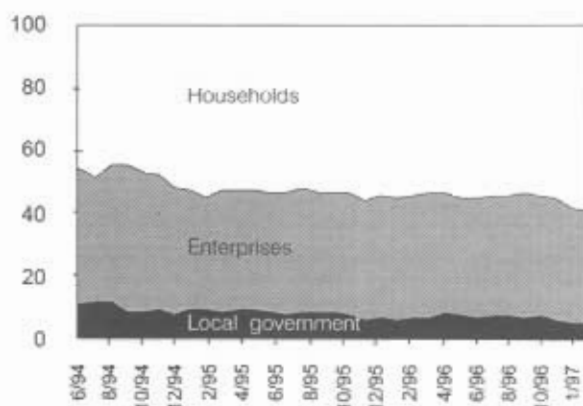
MONEY SUPPLY



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

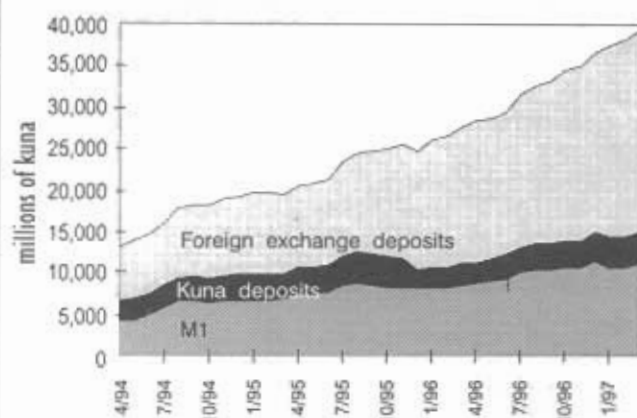


MONEY SUPPLY - STRUCTURE OF SECTORS

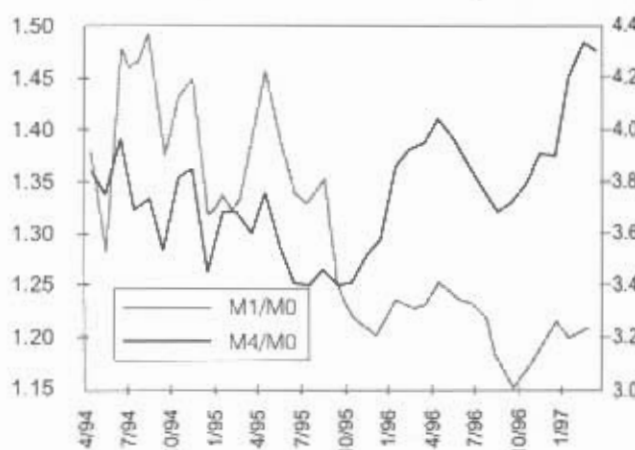


Note: cash is included in households' sector.

MONETARY AGGREGATE M4

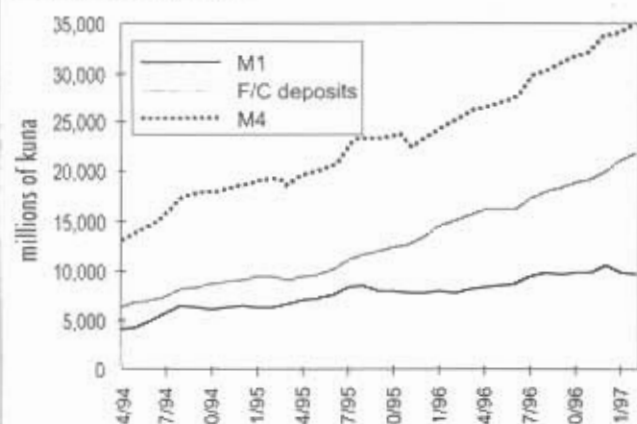


Kuna deposits = savings and time deposits + bonds.

MONEY MULTIPLIERS ($m1 = M1/M0$ and $m4 = M4/M0$)

REAL MONEY

Constant prices, April 1994



deposits in February was caused by a 100 million kuna increase in time deposits of the household sector, and a (mere) 22 million kuna increase in sight deposits of the household sector. Such divergent growth rates also changed the maturity structure of kuna savings. Similar to tendencies in foreign currency deposits, time deposits of the household sector increased their share in total kuna deposits by 25% compared to the same period last year.

Such slow and subtle changes have to be analyzed in the context of aggregate savings as a basis for the credit expansion necessary to start an investment cycle. During the last 3.5 years period of stability in prices and the exchange rate, savings have slowly been changing their short-term character and courageously remaining in the local currency. The currency and maturity structure of domestic savings are as important as their size. Data indicate the existence of certain favorable trends, but in their absolute amount, domestic savings are still too small to carry out the transition growth as well as post-war growth and restructuring.

The most noteworthy development in the balance sheets of our deposit money banks in February was by all means a decrease in the banking system's net claims from the government, in the amount of 1.8 billion kuna. As planned, the government used part of the inflow from Euro-bonds, amounting to USD 300 million, to effect a significant reduction of its (net) liabilities to banks. As some of the most prominent items we should mention the increase in foreign currency deposits of the government with deposit money banks in the amount of 890 million kuna, as well as the decrease in deposit money banks' kuna claims on the government based on bills of exchange, in the value of 254 million kuna, and foreign currency claims based on (other) bonds amounting to further 360 million kuna. Payment of arrears in the amount of 208 million kuna should also be mentioned. The practical meaning of the above is that the government paid out almost all its liabilities due to the banking system. Such tendencies in the relationship be-

tween the government and deposit money banks, along with the usual monthly increase in banks' credit of around 0.7 billion kuna, and a stand-still in the category of other net assets, caused a total decrease in net domestic assets of 1 billion kuna. However, the inflow of government funds into deposit money banks' foreign currency accounts caused growth of banks' foreign assets. The net foreign assets of deposit money banks increased in February by 1.6 billion kuna, as a result of a 1.8 billion kuna increase in DMBs' foreign assets and a 0.2 billion kuna increase in DMBs' foreign liabilities.

Anticipating a significant increase in demand for cash at the end of March (due to the fact that the end of the month, the end of the week and the Easter holidays all come at the same time this year), the National Bank of Croatia intervened on 25 March on the foreign exchange market, repurchasing USD 5 million (i.e. 30.1 million kuna), which came due at the beginning of April. The second change effected in foreign exchange reserves in March was the drawing of the first of the total of thirteen installments of the credit per EFF arrangement in the amount of 28.78 million SDR or 281.8 million kuna. At the same time, foreign liabilities increased by the same amount. Consequently, such transactions have a zero effect on the net foreign assets of the National Bank of Croatia.

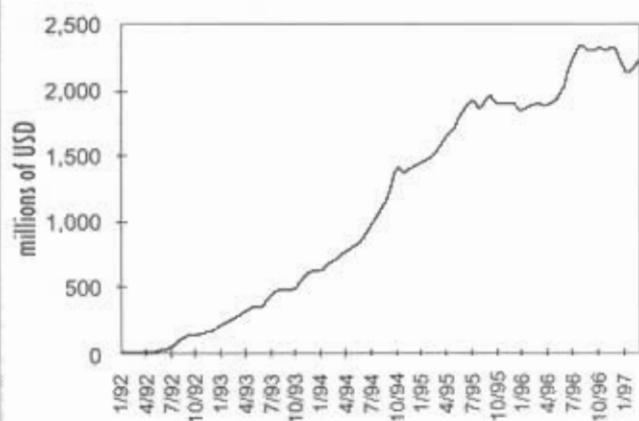
The central government did not take any short-term credit with the National Bank in March, which is quite logical considering the inflow from foreign financing.

The liquidity of the banking system was satisfactory throughout the month. Even giro-accounts and treasury bills remained at "comfortably" high levels toward the end of the month, in spite of the very significant increase in cash in circulation.

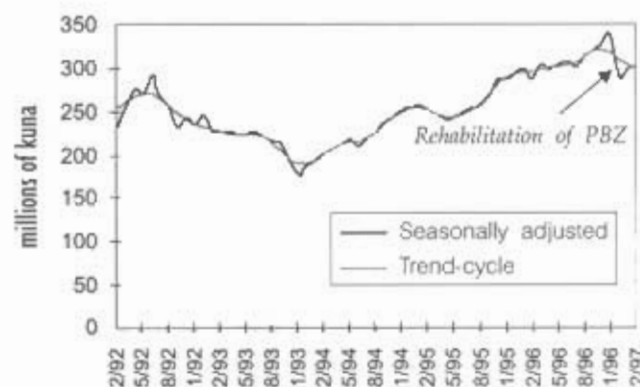
EXCHANGE RATE

Although the nominal exchange rate of the German mark has been very stable, a careful examination of the first quarter of 1997 reveals a nominal depreciation of the kuna at the rate of 0.3%.

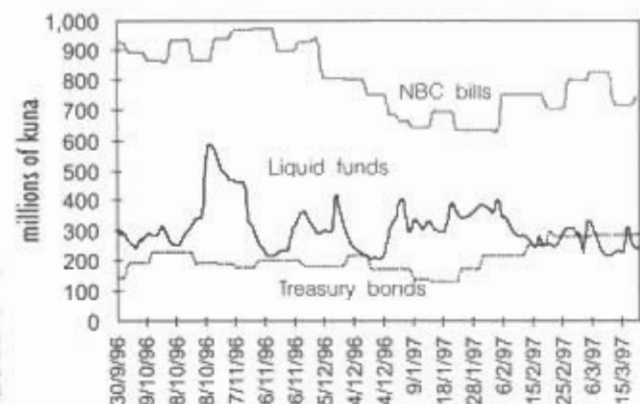
NBC's INTERNATIONAL RESERVES



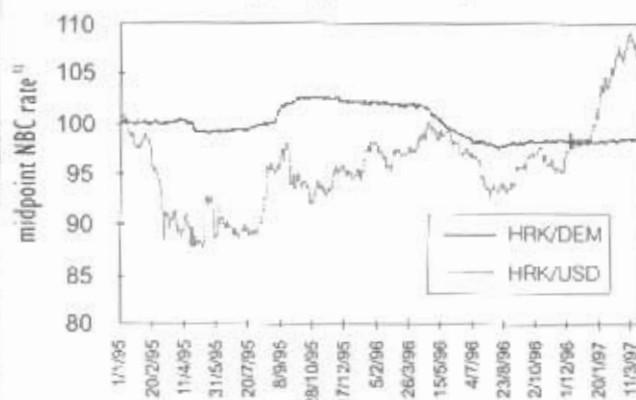
DMB'S DOMESTIC CREDITS Constant prices, January 1992



NBC BILLS ON VOLUNTARY BASIS, TREASURY BILLS OF THE MINISTRY OF FINANCE AND DMBs' LIQUID FUNDS WITH THE NBC

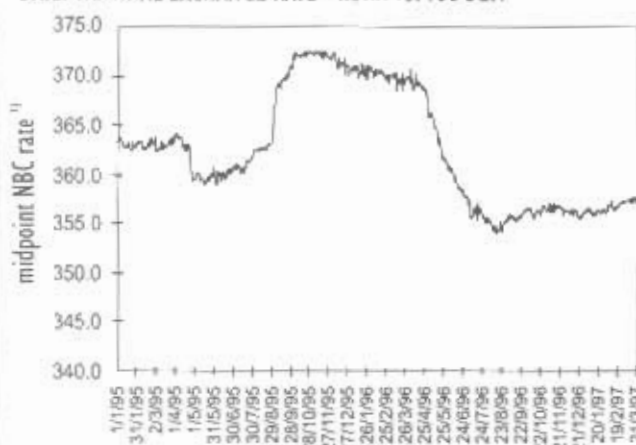


INDICES OF DAILY NOMINAL EXCHANGE RATES OF KUNA VS. DEM AND USD, (January 1, 1995 = 100)



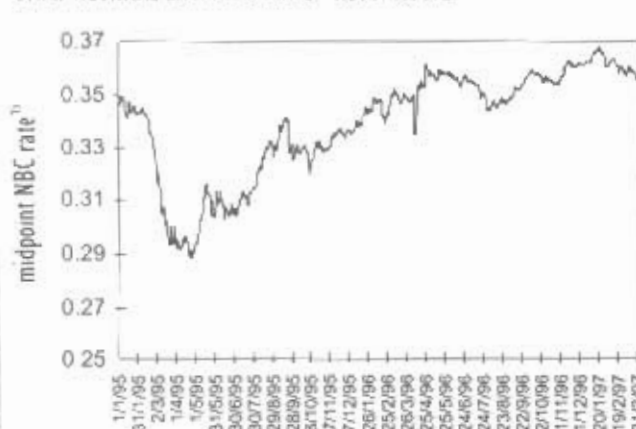
1) Average of asked and bid rates in largest DMBs.

DAILY NOMINAL EXCHANGE RATE - KUNA VS. 100 DEM



1) Average of asked and bid rates in largest DMBs.

DAILY NOMINAL EXCHANGE RATE - KUNA VS. ITL



1) Average of asked and bid rates in largest DMBs.

According to the exchange rate list of the National Bank of Croatia, the German mark was worth more than 357 kuna for 100 German marks throughout the month of March.

This month, the US dollar ended its dizzying rise, and the newly established inter-currency relations remained valid. Analysts agree that such an exchange rate of the dollar represents a real reflection of the strength of the American economy at this particular moment. In other words, we have to get used to paying over 6 kuna for the dollar.

The Italian lira has been appreciating continuously since the middle of the last year, in relation to both the kuna and the German mark. However, in the last couple of months, the lira seemed to be running out of breath against the German mark on the world markets. This is further enhanced by the projection of Italy's budget deficit in 1997, in the amount of 4% of the gross domestic product (1% more than the convergence criteria allow). Consequently, the value of the lira dropped from 970 lira to over 1000 for one German mark in the last couple of months.

Such developments were also reflected in our exchange rate lists, where the lira depreciated slightly in relation to the kuna during the last two months (around 2.8% in total).

In February, we recorded a slight depreciation in both indices of the real effective exchange rate we have been following. The real effective exchange rate index measured by producers' prices recorded a minimal depreciation of 0.09%, while the real effective exchange rate index measured by retail prices recorded a 0.37% depreciation. At the same time, the nominal effective exchange rate index recorded a 0.13% depreciation.

Such developments in both indices of the real effective exchange rate in February were in major part influenced by the real depreciation of the kuna in relation to the US dollar at the (high) rate of 4.9%. Such a high rate of real depreciation of the kuna in relation to the US dollar resulted from the strong growth of the exchange rate of the US dollar to the German mark in February this year.

BALANCE OF PAYMENTS

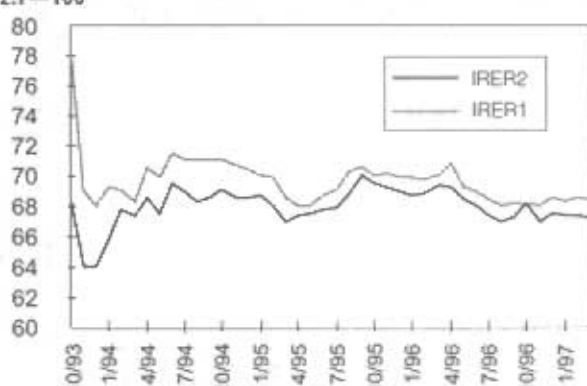
In the first ten months of 1996, the current account deficit amounted to USD 996.6 million, which is approximately 26.6% less than the previous year. A similar improvement, i.e. a decrease was also recorded in the net errors and omissions item. In the first ten months of 1996, net errors and omissions amounted to USD 753.9 million, or approximately 17% less than in the same period in 1995. Such high rates of decrease in the current account deficit, as well as in net errors and omissions, are due to the following: an increase in net tourist revenues (which grew by USD 344.5 million or 47.8% in the first ten months 1996 compared to the same period in 1995), an increase in direct foreign investment (in the amount of USD 199.7 million or 315.7%), and an increase in net current transfers (in the amount of USD 152 million or 29.9%).

If we take a look at the kuna amounts of exports and imports (which are more reliable due to stronger oscillations in the exchange rate of the US dollar), we notice a slight decrease in exports and imports in February compared to January. Exports recorded in February 1997 exceeded the February 1996 figure by 38.5%, while imports increased by 56.9% in the same period.

On the side of exports, in February 1997 compared to February 1996 we recorded a 28.6% increase in intermediate goods, a 34.5% increase in consumer goods, and a 133.3% increase in investment goods. Such a high rate of growth of exports of investment goods resulted primarily from the intensive growth of exports of propulsion engines and metal processing equipment.

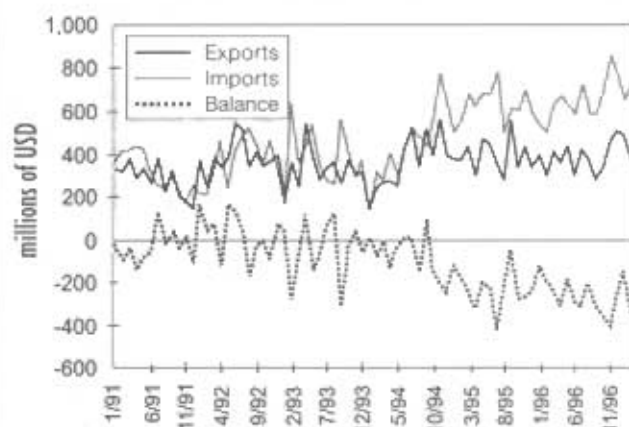
On the side of imports, in February 1997 compared to February 1996, growth was recorded in intermediate goods (51.6%), in investment goods (82.9%), and in consumer goods (50.2%). The most significant growth of imports was recorded in transportation vehicles.

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)

	Jan.- Dec. 96	Jan.- Dec. 95	indices Jan.- Dec. 96/Jan.- Dec. 95
Current account	- 996.6	- 1357.3	73.4
Capital and financial accounts	659.9	814.1	81.1
NBC international reserves	- 417.3	- 492.4	84.7
Net errors and omissions	753.9	1035.6	72.8

source: NBC

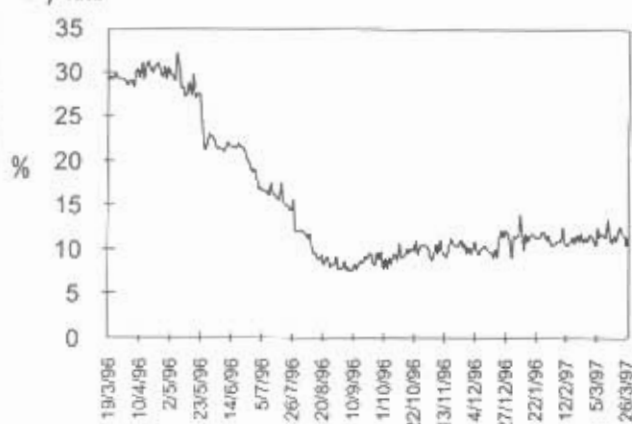
MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan.-Feb. 1997.	Jan.-Feb. 1996.	Feb. 1997.	Feb. 1996.
EXPORTS	856.9	681.3	373.0	291.6
IMPORTS	1,371.8	1,028.9	719.3	501.8

source: Bureau of Statistics

ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



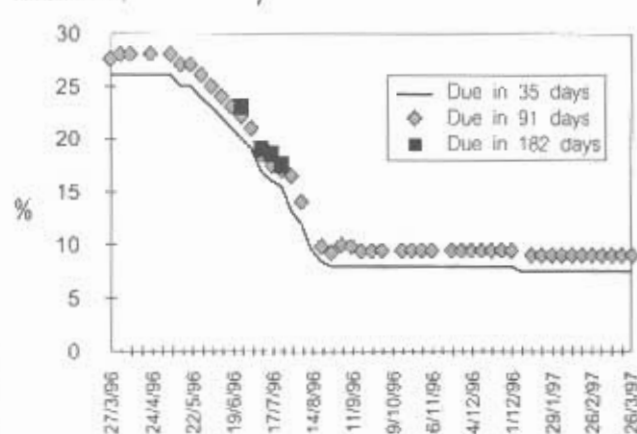
MONEY MARKET AND INTEREST RATES

The average daily interest rate on the Money Market oscillated significantly during the last month (between 10.3% and 13.5%), as a result of certain powerful fluctuations in the liquidity of the banking system in the last four weeks. Supply and demand kept missing one another, depending on liquidity. Therefore, not even the National Bank of Croatia could remain unconcerned, and it intervened through the means of repo auctions. The aim was not merely to maintain liquidity, but also to prevent the growth of interest rates on the Money Market, so that the effect of any such growth would not spread to deposit money banks' credit rates. It is interesting to mention that the average daily interest rate tends to grow towards the end of the week, especially prior to retirement benefits payments and tax advance payments becoming due. Interest rates, according to the maturity and the category of loan, changed very little, remaining between 9% and 11% on callable loans, between 9% and 11% on loans up to five days, between 11% and 16% on 7 - 30 day loans, and between 16% and 18% for loans in excess of 30 days.

Short-term securities have shown relative stability in terms of the yield. Voluntary treasury bills bearing 7.5% for 35 days maturity and 9% for 91 days maturity still represent a useful investment for deposit money banks, because in addition to bringing a secure return, they also represent quality coverage in case of liquidity problems. At the same time, they are fulfilling their primary purpose as a sterilization instrument, which suits the monetary authorities. Treasury bills of the Ministry of Finance represent an equally attractive financial instrument to deposit money banks, as well as to other investors, thanks to their favorable return. However, thanks to this attractiveness, the returns on treasury bills of the Ministry of Finance have been decreasing slightly. Thus, the interest rates attained in auctions throughout March amounted to 10.25% for 42 days maturity and 12% for 91 days maturity.

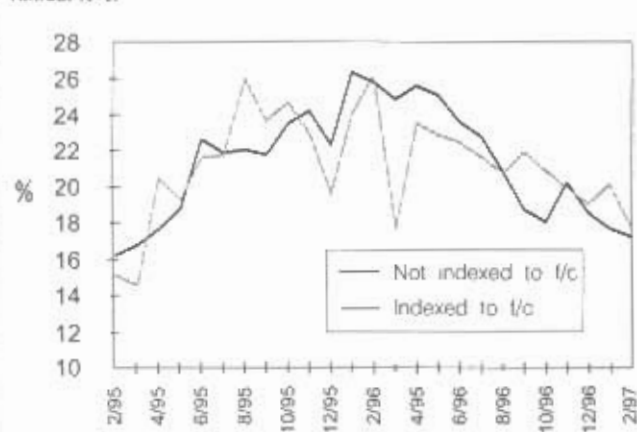
INTEREST RATES ON NBC BILLS ON VOLUNTARY BASIS IN 1996

Annual level, on auction days



DMBS' INTEREST RATES ON CREDITS IN KUNA

Annual level

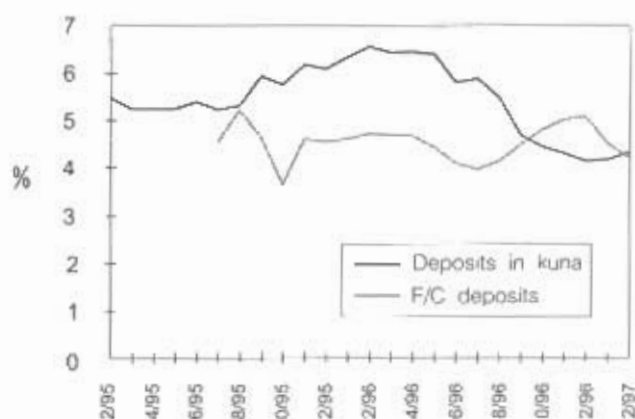


The mechanism of transfer of effects of changes in interest rates on the Money Market to deposit money banks' interest rates can finally be seen. Considering the level of development of our financial system, this effect requires much more time than is usually the case in more developed countries. The average interest rate charged by deposit money banks for newly-granted credit fell to 17.2% (for kuna loans without the currency clause), and to 17.6% (for kuna loans with the currency clause). In order to illustrate the interest rate levels based on different maturity, we should name some representative interest rates. The average short-term interest rate (on kuna loans without the currency clause) has been at 17.3%, while the average long-term interest rate (on kuna loans with the currency clause) has been at 12.6%. The range of credit interest rates in different banks vary between 9.9% and 43.1% on kuna loans without the currency clause, and between 8.3% and 44.2% on kuna loans with the currency clause. Leading Croatian banks have been keeping their credit interest rates below the banking system's average, which holds the hope of a further decrease in interest rates.

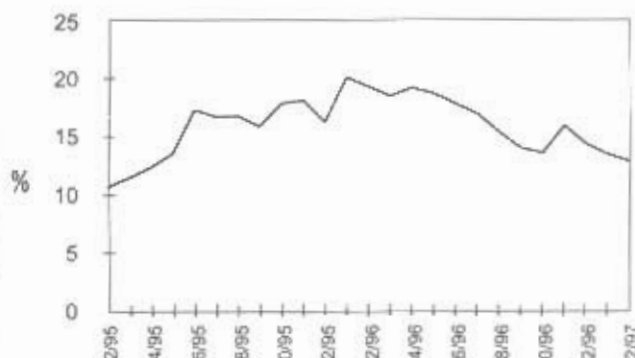
There has been a change in deposit rates also. While the interest rates on kuna deposits were quite stable, interest rates on foreign currency deposits decreased significantly in the first two months of the year. The average interest rate payable decreased by almost one percentage point, due to the decrease in interest rates payable on all sorts and on different maturity of foreign currency deposits. This is probably thanks to extremely high growth of foreign currency savings throughout 1996, while the banking system still requires more of the kuna sources of funds.

The result of such developments in deposit money banks' credit and deposit rates has been the constant decrease of the interest rate "spread" in absolute amount (12.8% percentage points). However, this contains a hidden warning: namely, deposit interest rates have also been decreasing along with the decrease in credit interest rates.

DMBS' INTEREST RATES ON DEPOSITS



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.

INTERENTERPRISE ARREARS REPORTED TO PAYMENTS INSTITUTE

