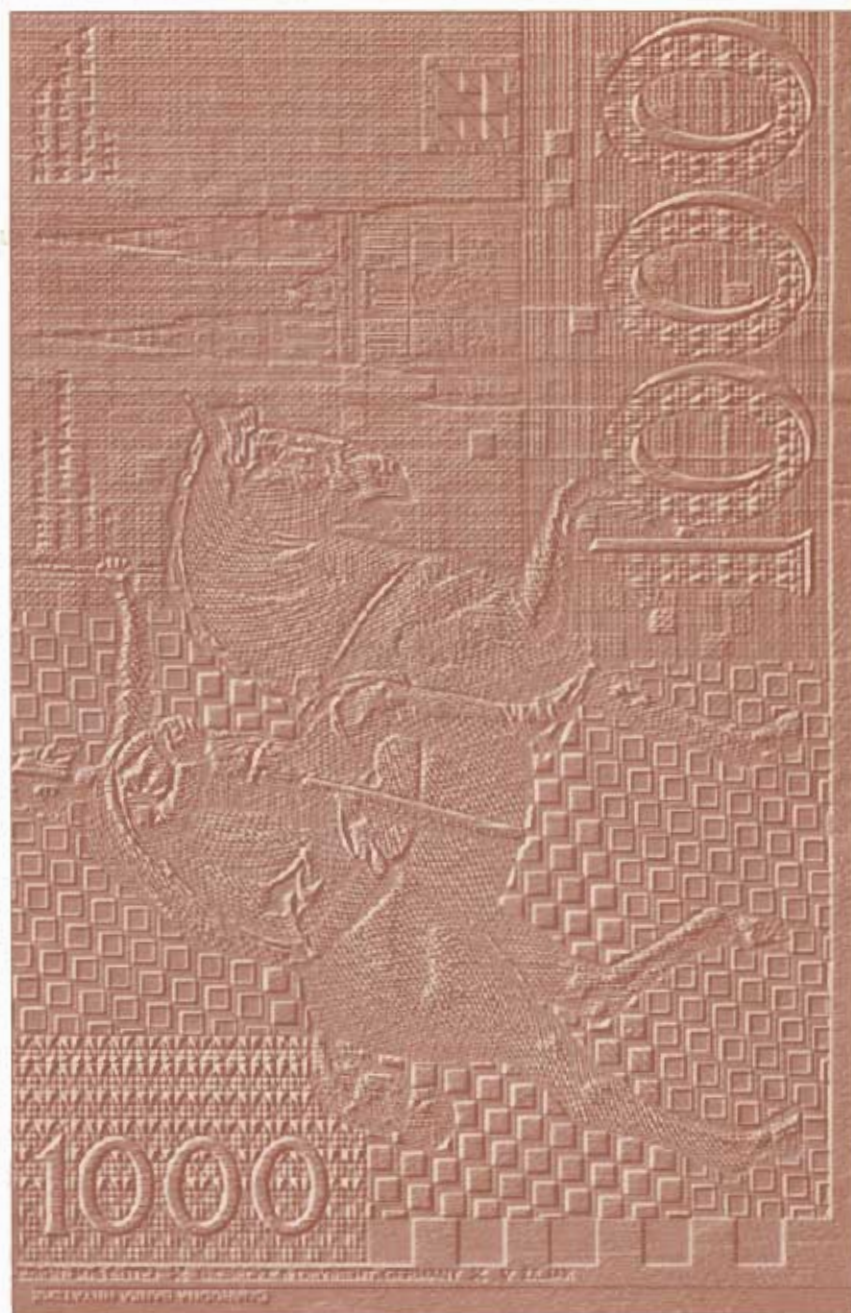


NATIONAL BANK OF CROATIA



BULLETIN

YEAR II
No. 11 JANUARY 1997

MANUFACTURING INDUSTRY

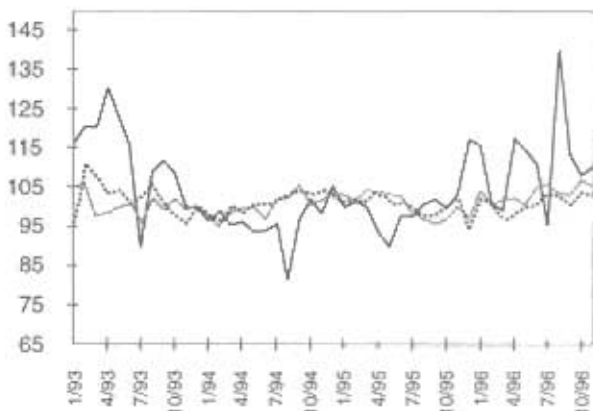
Statistical analysis of industrial production in the first eleven months of the year showed a year-on-year cumulative growth of 3.2% (i.e. monthly growth of 2.3%), while average monthly production in this year exceeded last year's production by 3.6%. After decomposition of the industrial production series, the trend component turns out to have been growing for the last fourteen months at a rate of 0.6%, while the de-seasoned series recorded an average monthly growth of 0.8% throughout this year. The graph clearly shows the random, i.e. unexplained component in January, March and September this year, which means that this component should be counted on in the future, especially when making forecasts. This component originated from the (fairly deceptive) production of capital goods. The picture of developments in the area of manufacturing industry and mining is completed by the data available for the first ten months of the year. According to these data, productivity grew by 11% on an annual level, while individual labor cost in manufacturing industry (roughly estimated as the ratio of total wages and allowances recorded with the Payments Institute to realized production), decreased by 1.1% compared to 1995. Intermediate goods on stock increased by 2.3%, while the consumption of intermediate goods decreased by 6.4%. Consumption of energy and fuel decreased by 2.2% compared to last year, while at the same time energy and fuel on stock increased by 79.9%.

As far as earmarked components are concerned, the most significant growth was recorded in the investment goods industries (12.9%), the intermediate goods industries recorded 3.4% growth, while the lowest growth was recorded in the group of consumer goods industries. Branches which have been recording significant year-on-year

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



INDUSTRIAL PRODUCTION BY GROUPS OF PRODUCTS
Seasonally adjusted (1995 = 100)

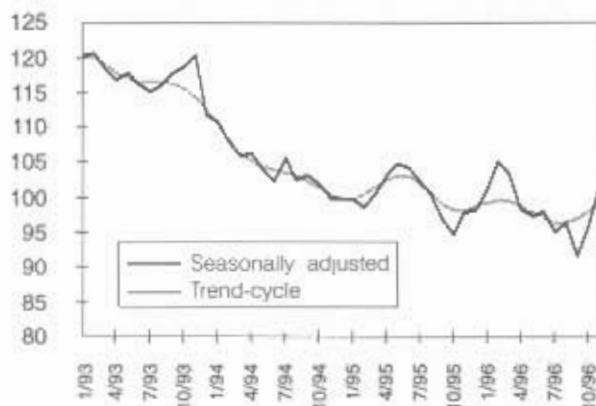


INDUSTRIAL PRODUCTION BY GROUPS OF PRODUCTS
Trend-cycle (1995 = 100)

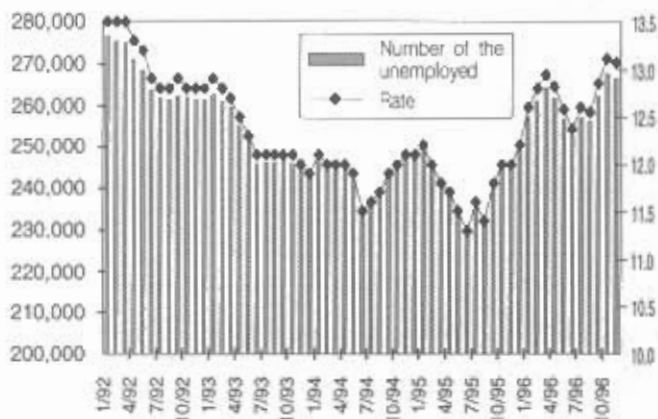


STOCKS OF FINAL GOODS IN MANUFACTURING SECTOR

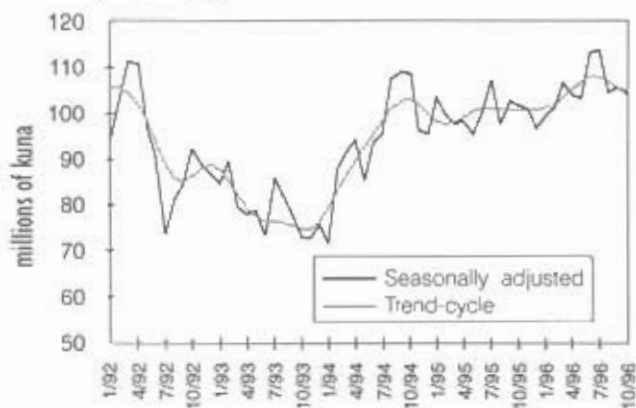
Seasonally adjusted and trend-cycle (1995 = 100)



NUMBER OF UNEMPLOYED PERSONS AND RATE OF UNEMPLOYMENT RELATIVE TO LABOUR FORCE



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



growth, tend to continue the same trend. Major contributors to the increase in aggregate production included the shipbuilding industry (34.4%), electric power industry (25.5%), production of construction materials (29.0%), refining of non-metallic minerals (21.9%), and chemical industry (2.4%). Significant export activity was recorded by the group of investment goods, with its 15.4% year-on-year growth, while exports of intermediate goods and consumer goods decreased compared to last year, by 11.7% and 6.4%, respectively. Branches of manufacturing industry with the largest production of value added continue to record significant annual growth in exports (foodstuffs industries 6.3%, electric power industry 990.9%, electric machines and equipment 7.6%, shipbuilding industry 24.4%).

According to the recently published conjuncture test of the Croatian economy, published in the magazine "Privredni Vjesnik", the end of the third quarter saw an increase in exports in production of electrical machines and equipment thanks to a whole year of favorable development of orders. In the production of food, beverages and tobacco products, and in the production of transportation equipment, positive developments were recorded only in the last quarter of the year. Significant export activity is not expected to occur in any of the rest of manufacturing industries.

Unemployment recorded at the end of November 1996 was 8.5% higher than that recorded for the first eleven months of last year, i.e. 8.6% higher than the level recorded in November last year. Since October this year, the data on employment have been modified to provide wider coverage and more detailed information. The number of 1,701,101 for November included persons employed by major economic subjects (including the Ministry of the

Interior and the Ministry of Defense), those employed by economic subjects with small numbers of employees, those employed in small industries and artisan shops, the free professions and individual farmers. Employment will continue to be followed in this manner on a monthly basis.

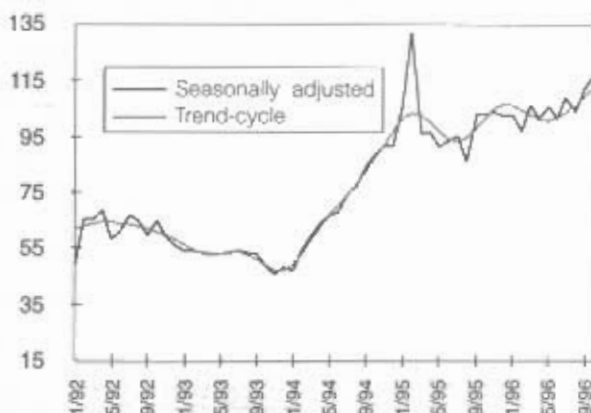
TRADE

The upward trend of realized turnover in retail trade continued. Growth was especially intense in the second half of the year. Compared to the first eleven months of last year, activity in trade increased by 17.2% in real terms, i.e. 34.8% on a monthly level. Real value added exceeded the level recorded in the first ten months of last year by 7.4%. Developments in the turnover in wholesale trade moved in the same direction, with slightly less intensity than in retail trade. In the first eleven months of the year, turnover increased cumulatively by 3.6%, and monthly by 2.7%, compared to last year's comparable figures. In accordance with the expansion of domestic production throughout the year, domestic trade concluded this year with very good results. At the same time, there is no reason for these tendencies not to continue in the coming year.

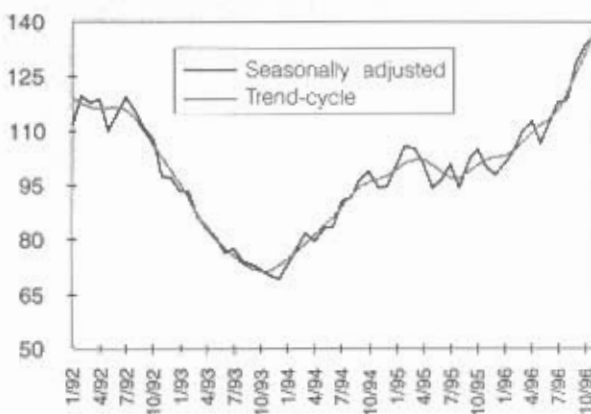
CONSTRUCTION, TRANSPORTATION AND TOURISM

Effective working hours in construction recorded in the first ten months of the year exceeded last year's results, both cumulatively and monthly (by 8.9% and 14.8%, respectively). A positive trend has been present for the last ten months, and growing at 1.5% monthly. The de-seasoned series has been growing throughout the year at an average monthly rate of 2.5%. The number of construction workers present at construction sites exceeded last

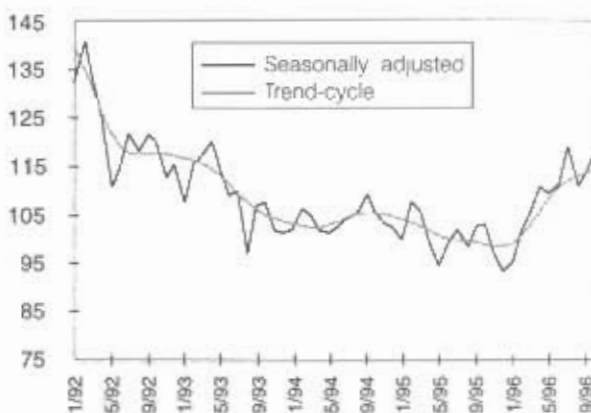
CASH FLOW OF REAL VALUE-ADDED COMPONENTS IN TRADE SECTOR
Seasonally adjusted and trend-cycle (1995 = 100)



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

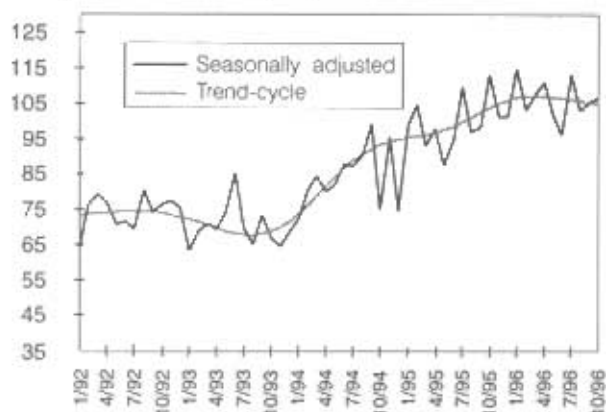


EFFECTIVE WORKING HOURS IN BUILDING INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)

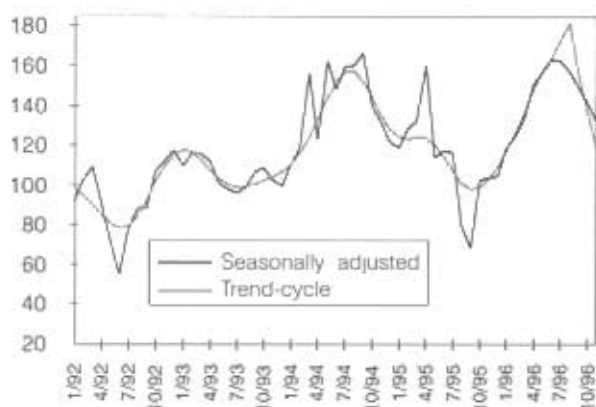


TRANSPORTATION - TRANSPORTED GOODS

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**

year's figure by 5.1% cumulatively, and by 9.0% monthly. The value of construction works executed in the country exceeded the value recorded in 1995 by 55.0% nominally, while the value of construction works contracted recorded a 52.0% increase compared to last year's figure. The above data indicate strong activity in construction, which is likely to continue due to post-war reconstruction works.

The results achieved in transportation in the first ten months of the year indicate that the volume of goods transported exceeded last year's figures by 7.2% cumulatively, while the number of passengers transported exceeded last year's figures by 3.2% cumulatively. By the end of the year, no significant year-on-year growth can be expected due to the ongoing strike in railroad transport, which makes up around 17% of the total transport of passengers and approximately the same percentage of the total transportation of goods. Following a short stagnation, volume of goods transported have been showing a slight downward trend, while the number of passengers, which recorded a period of stagnation in 1995, increased in this year by 6 index points. The cause for such quantitative achievements in the area of transport and communications partly lies in the territorial integration of Croatia, i.e. in the post-war repossession of Croatian transport potential. This also means that higher growth is in part a consequence of a low base taken over from last year.

Results in our tourist industry in the first eleven months of the year, with regard to the number of overnights and tourist arrivals, exceeded last year's. We can say that 1996 was a very successful tourist year, with a 68% increase in the number of overnights and a 62% increase in the number of arrivals. In the structure of overnights, the number of domestic overnights increased by 12.7%, while the number of

foreign overnights increased by 95.4%. The positive effects of high tourist activity in 1996 were reflected in the entire economy.

PRICES

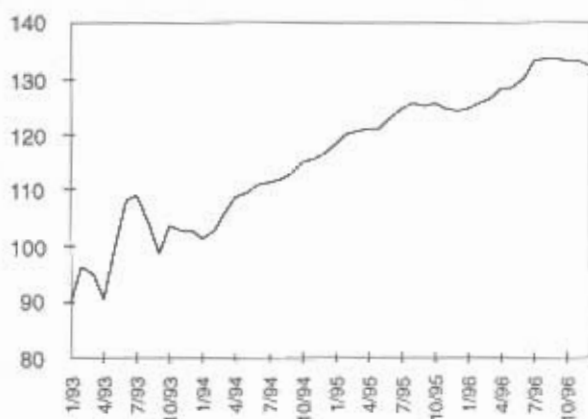
In December, prices stagnated. This means that the increase in prices recorded in October and November was not of a permanent nature, i.e. it was not caused by an increase in demand, but rather by micro-economic reasons.

In December, retail prices remained on the levels recorded in the previous month. The annual inflation rate in 1996, measured by the index of retail prices, amounted to 3.5%. If we look at the structure, we notice that the prices of goods increased in December by 0.2%, while the prices of services decreased by 0.5%. In the twelve month period, the retail price index recorded a 2.4% increase in the prices of goods, and an 8.6% increase in the prices of services. The most significant price increases recorded throughout the year were increases in the prices of tobacco (18.2%), liquor (6.1%) and industrial foodstuffs (4.5%). A decrease in prices was recorded only in agricultural products non-inclusive of seasonal products (2.5% decrease). The above-mentioned 8.6% increase in the prices of services in 1996 was due to the revival of tourism along the coast of Croatia.

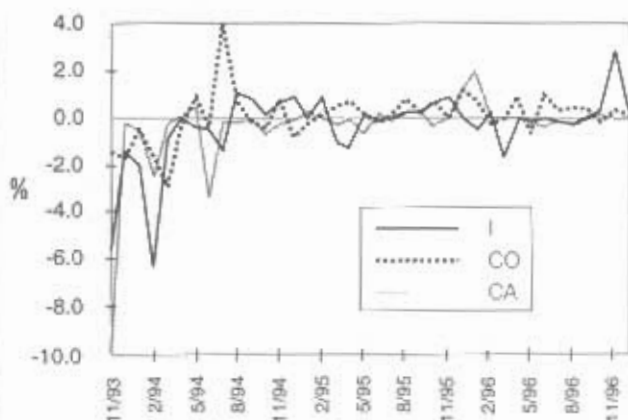
The cost of living was 0.4% higher in December than in November. Analysis of the structure of this increase reveals that in December the cost of living increased by 0.6% in goods, among which the most significant was the increase in prices of foodstuffs (1.3%). Prices of services recorded a 0.8% decrease. In the whole of 1996 compared to 1995, the cost of living increased by an average of 4.3%.

The index of producers' prices of industrial products recorded in December a 0.3% increase compared to No-

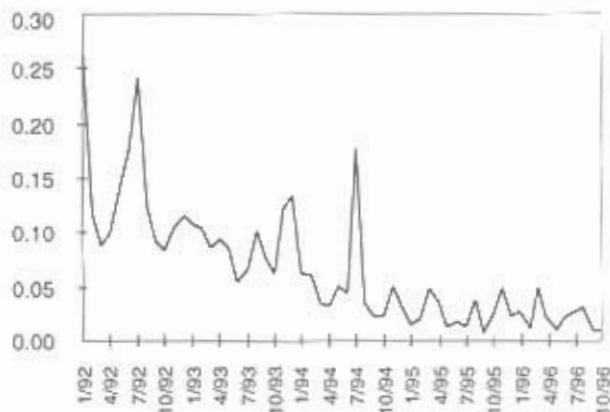
RELATIVE PRICE INDEX FOR NON-TRADABLE GOODS
Prices of services relative to goods' prices (1992 = 100)



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

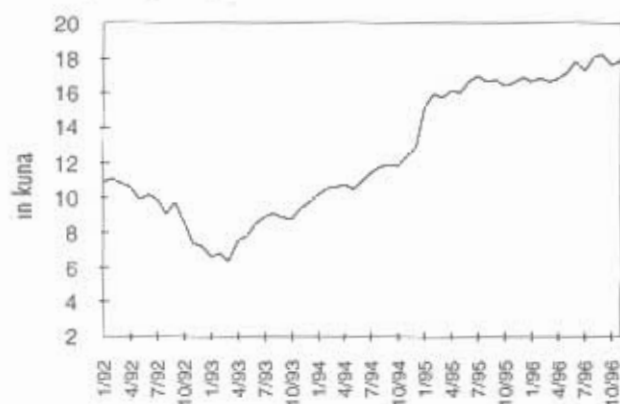


INTER-INDUSTRY RELATIVE PRICE VARIABILITY IN MANUFACTURING INDUSTRY (standard deviation)

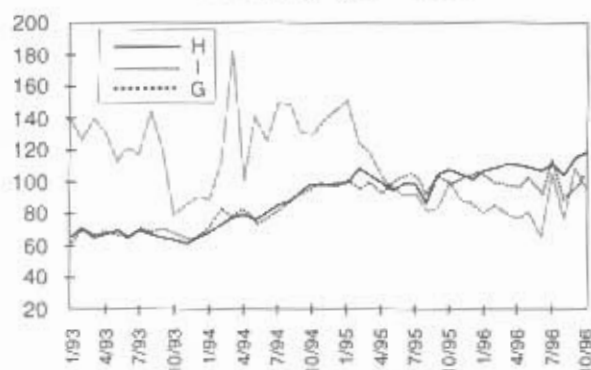


REAL AVERAGE NET WAGE

Constant prices, January 1992

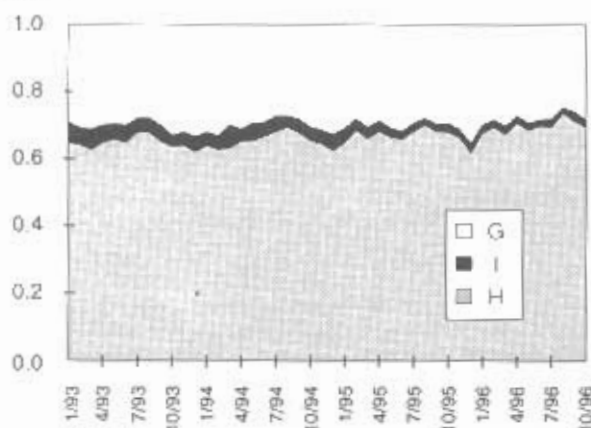


SEASONALLY ADJUSTED REAL EXPENDITURES BY HOUSEHOLDS' SECTOR (H), REAL INVESTMENT EXPENDITURES (I) AND REAL GOVERNMENT'S EXPENDITURES ON GOODS AND SERVICES (G) - (1995 = 100)



Note: definitions H, I and G do not correspond to SNA definitions.

STRUCTURE OF REAL EXPENDITURES



Note: definitions H, I and G do not correspond to SNA definitions.

ember. The most significant increase was recorded in prices of intermediate goods (0.3%), while prices of investment goods and consumer goods increased by 0.1%. Out of the individual groups of products, the most significant increase in December compared to November 1996 was recorded in prices of oil and natural gas (4.3%), coal (3.3%) and petroleum products (2.1%).

The index of producers' prices of industrial products in 1996 recorded an average increase of 1.4% compared to 1995. An increase in prices was recorded in consumer goods (3.9%), and in investment goods (2.0%). A 0.5% decrease was recorded in intermediate goods. The most significant increase in producers' prices in 1996 was recorded in leather goods and footwear (17.7%), tobacco (16.2%), liquor (11.6%) and final wood products (11.0%). In the same period, the most significant decrease was recorded in producers' prices of non-ferrous metals (12.8%) and basic chemical products (9.4%).

WAGES AND AGGREGATE DEMAND

The real net wage paid in November exceeded the wage paid in October by 1.5%, and the average wage paid in 1996 by 2.8%. At the same time, the year-on-year monthly increase amounted to 7.6%, while the cumulative increase amounted to 6.7%. The aggregate cost of labor (measured by the sum of net wages, remuneration and allowances from direct hire and personal service contracts, taxes, surtaxes and contributions from salaries and on salaries, income tax and surtax, payments on the basis of health insurance and solidarity funds paid) recorded a 10.1% increase in real terms in the first ten months of the year compared to the same period last year. The sum of total net wages paid and remuneration and allowances from direct hire and personal services contracts represents the

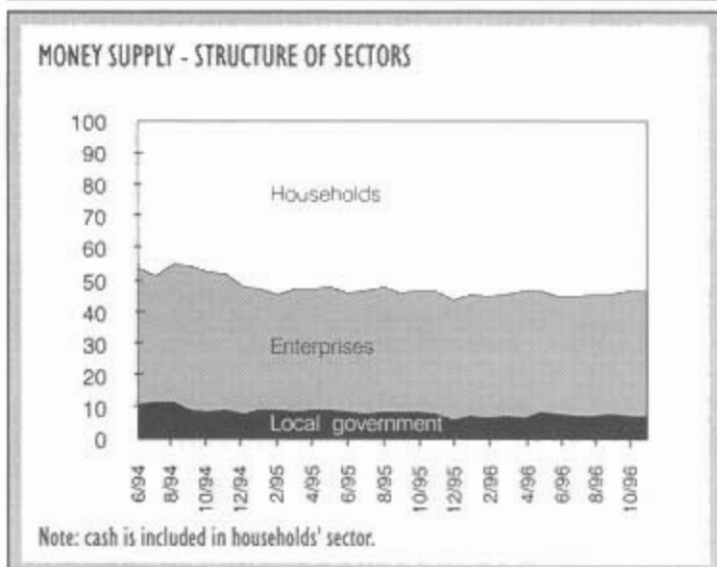
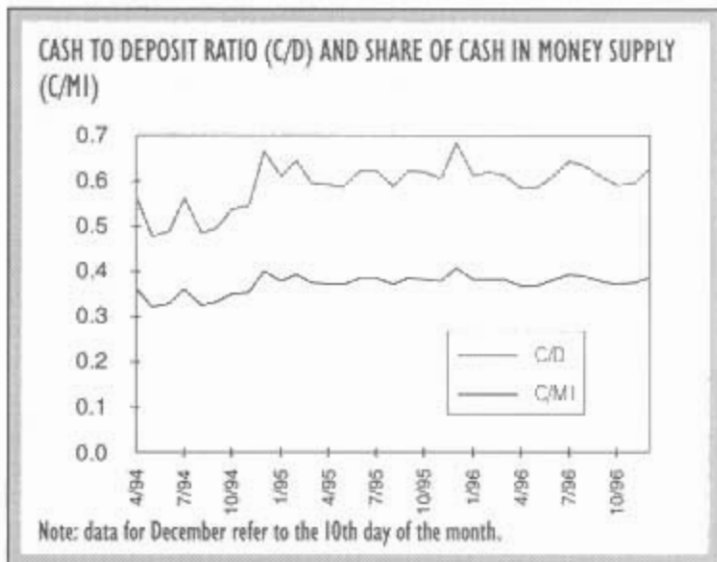
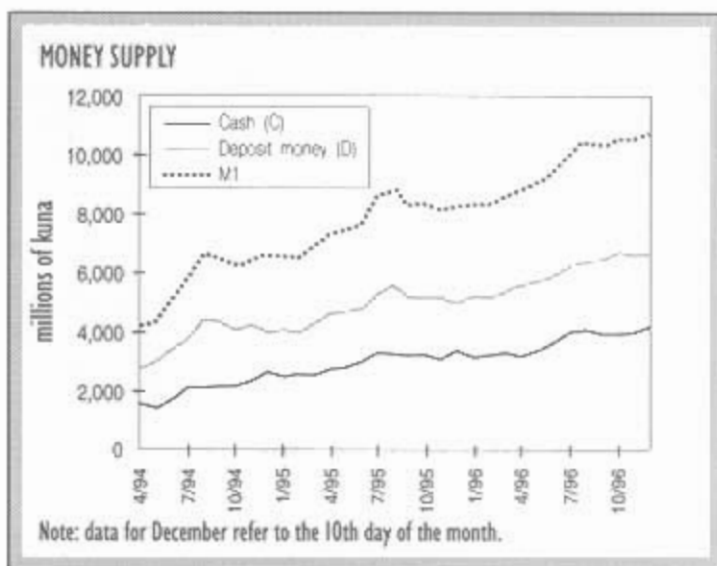
approximate amount of income from regular employment, which exceeded last year's figure by 3.2%. This increase gives room for an increase in demand of the household sector, and consequently in aggregate domestic demand.

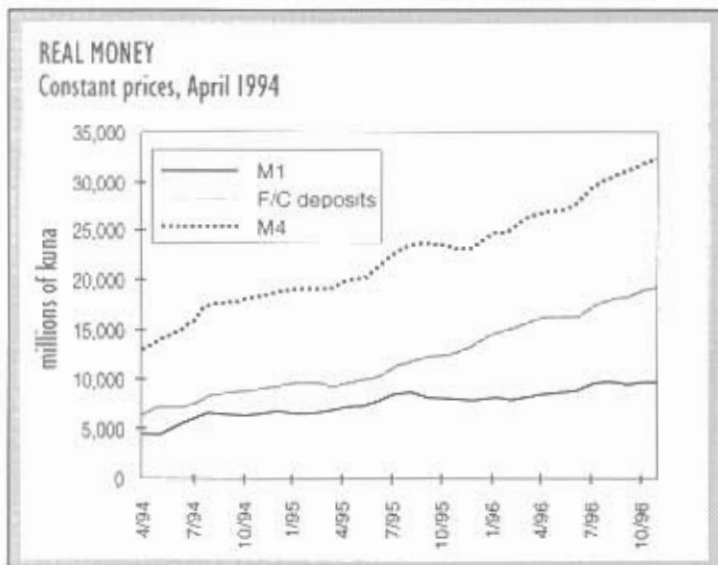
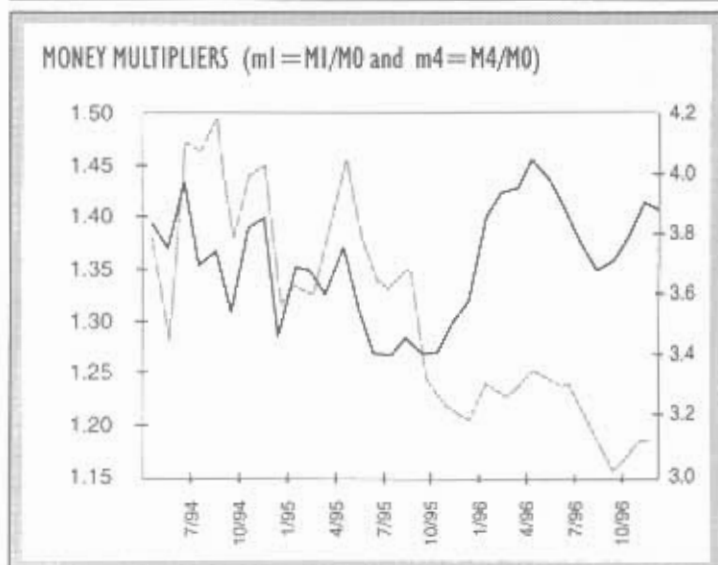
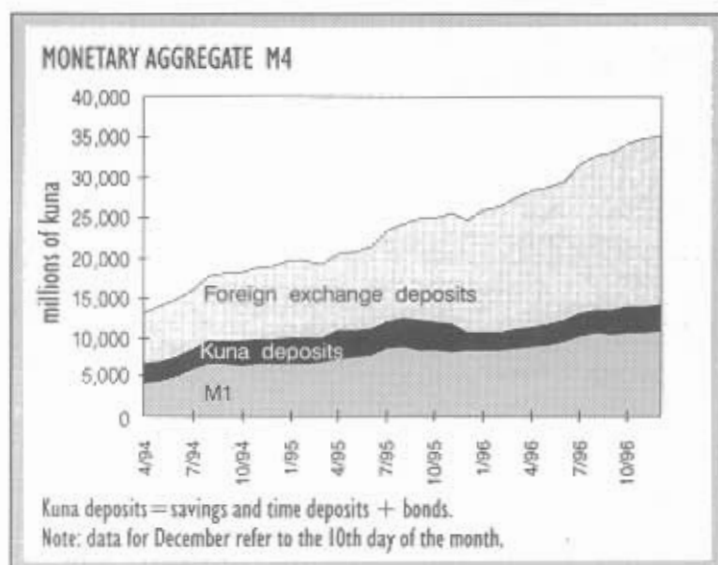
Aggregate domestic demand recorded in the first ten months of the year exceeded the level recorded in the same period last year by 7.3% cumulatively, i.e. by 13.1% monthly. We can expect such a growing demand to give an impulse to domestic production. Household spending on goods and services in the first ten months of the year increased in real terms by 11.1% on an annual level, and 15.4% on a monthly level. Corresponding increases recorded in current government spending amounted to 1.1% and 9.4%. The level of investment activity measured by payments was 17.0% lower than last year. However, certain alternate sources of information speak of investment activity in brighter colors. Imports of investment goods recorded in the first eleven months of the year exceeded the level recorded in the same period last year by 13.4%. Capital expenditures of the state budget were nominally 92.3% higher. It would be desirable to continue to channel privatization revenues to investment purposes.

MONETARY DEVELOPMENTS

November has always been a month of very moderate monetary developments. This November we recorded a decrease in money supply in the amount of 21 mil kuna (-0.2%), based on a mild decrease in deposit money of 34 mil kuna (-0.5%) and an equally mild increase in cash in the amount of 13 mil kuna (0.3%). Following a period of calm in November, monetary developments are expected to intensify in December.

Total liquid assets increased in November by 550.3 mil kuna (1.6%),





mostly based on foreign currency deposits. A promising intensification of growth of kuna deposits in the second half of 1996 of an average of 5% per month, decreased in the last two months to 1.7% on average per month.

On the asset side, developments were slightly more dynamic, although net domestic assets grew in total by a mild 65.3 mil kuna (1.6%). The government sector (finally) fulfilled its obligations in regard to the public debt and became a net creditor to the banking system with 270 mil kuna (net) deposits. Credit grew by 630 mil kuna. Credit issued to the household sector amounted to one third of that increase, while credit granted to enterprises made up more than half of the total increase. December recorded yet another increase in credit granted to the household sector. Such tendencies are expected to continue in the future. For comparison, the average monthly rate of growth of credit to the household sector amounted to 2.1% in the first two quarters of the year, while in the second two quarters it almost doubled, reaching 4.1%. The average monthly growth rate of credit to all sectors amounted to 1.0% in 1996. This means that credit to the household sector has been growing faster than the average and increasing its share in total credit.

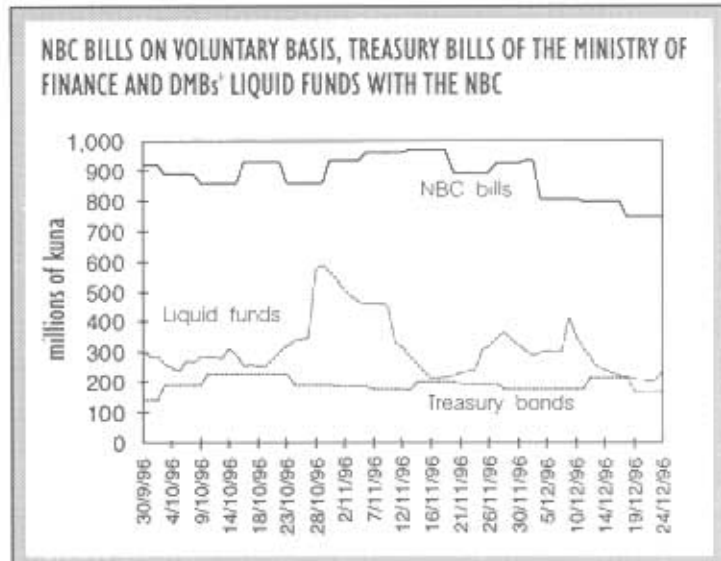
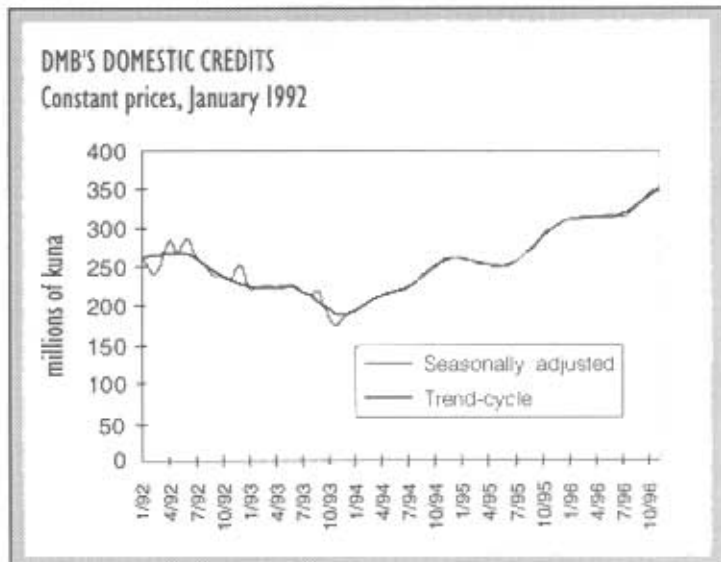
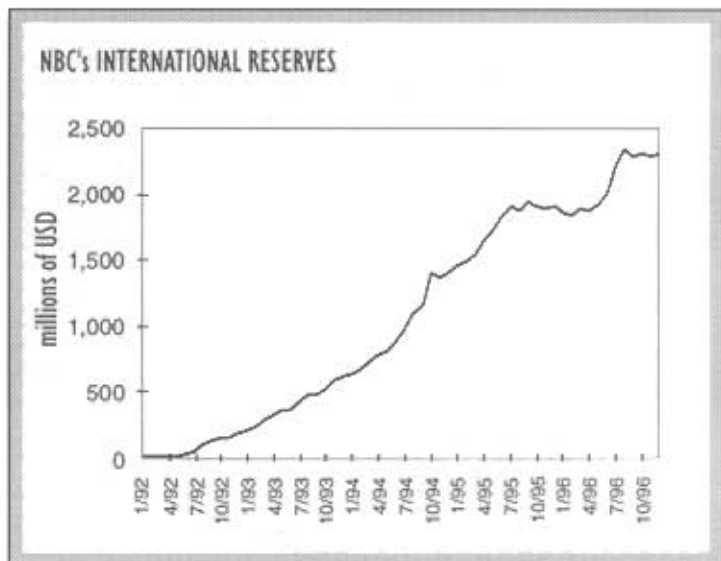
We have already pointed out the tendency of stagnation in foreign currency sight deposits of the household sector and intensive growth in foreign currency time deposits. We would like to stress that in May 1996 foreign currency time deposits exceeded foreign currency sight deposits in absolute amount, while their share in total foreign currency deposits has been growing continuously. The average monthly growth rate of time deposits reached 6% in the last six months, while for sight deposits it reached -0.6%.

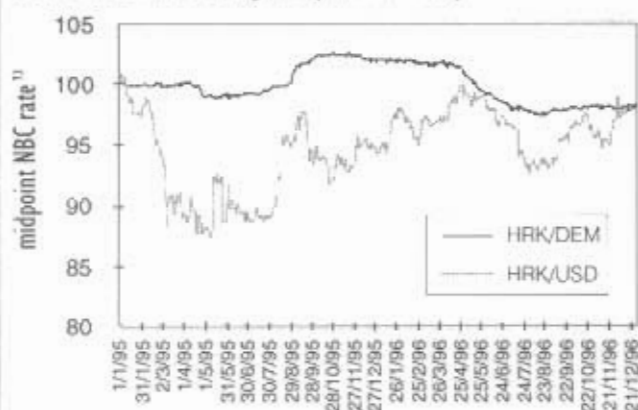
Such developments are considered positive. Only long-term savings can be a quality deposit basis for credit

expansion. The divergent developments in sight and time savings deposits indicate a turn in the structure of savings. On the other hand, the sight deposit level of 7 bil kuna is in its basis a part of M2: this includes expansion of current liquidity of the household sector which can be reached into at any moment, and which is kept in foreign currency only due to a residual distrust in the domestic currency. The "real" savings is this fast growing part of time foreign currency deposits, which is very encouraging.

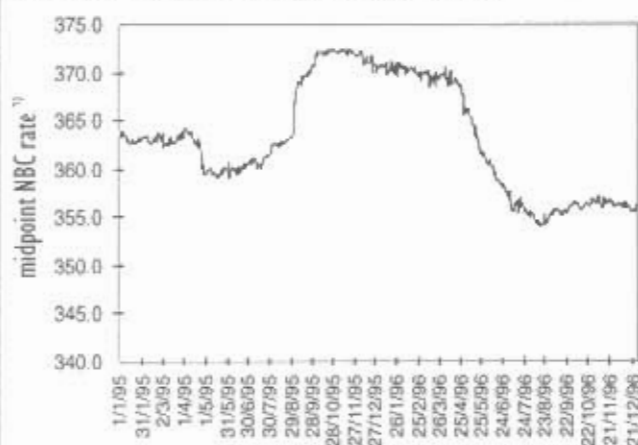
Along with confidence in the entire financial system, such developments are the result of a number of factors: part of the foreign currency time deposits are "compulsory" deposits i.e. down payments for bank loans with the currency clause (in the amount of one third or in some cases even one half of the amount of the loan), part of the total deposits consists of deposits required to obtain the depositor status necessary to be granted a bank loan, while the remaining part of the total deposits resulted from more attractive interest rates on time deposits than on sight deposits. Nevertheless, time deposits (and credit) of shorter periods prevail, so that we still cannot claim to have become a "long-term economy".

Following three months in which the National Bank of Croatia had not been engaged in any interventions on the foreign exchange market, on 18 December we recorded the purchase of USD 28.3 mil from deposit money banks and the monetary effect of that purchase in the amount of 155.7 mil kuna. Anticipating a growing demand for money during the holiday season, the National Bank of Croatia realized this intervention in the form of repurchase due on 7 January 1997. In this way the liquidity of banks was increased during the "critical" period, while monetary policy remained neutral.

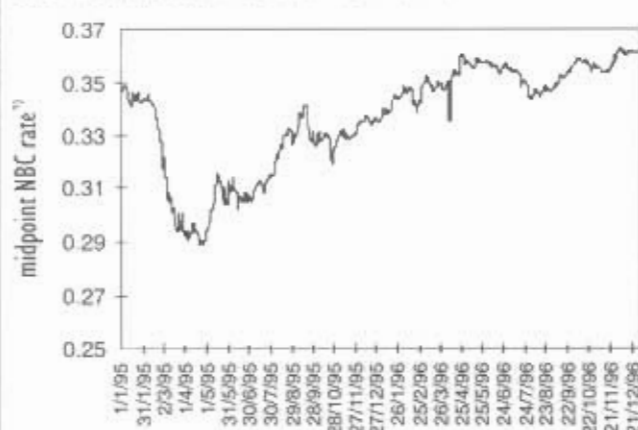


INDICES OF DAILY NOMINAL EXCHANGE RATES OF KUNA VS. DEM AND USD, (January 1, 1995 = 100)


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.

The government took a short-term loan from the NBC at the beginning of the month, in the amount of 100 mil kuna, returning it at the end of the month, together with the long term debt service due.

Increased liquidity requirements were satisfied by a more intensive use of lombard credit. In the last decade of December, the balance of lombard credit granted exceeded 150 mil kuna, and toward the end of the month it exceeded 250 mil kuna.

Giro accounts also grew toward the end of the month - from 400 mil kuna at the beginning the third decade to 600 mil at the end of the third decade i.e. to 900 mil kuna on 31 December 1996. The balance of treasury bills, on the other hand, decreased from 1 bil kuna around the middle of the month to 800 mil kuna at the end of the month. Even the treasury bills of the Ministry of Finance decreased in the third decade to 168 mil kuna, which is their lowest level in the last two months. We can conclude that the banks ensured additional liquidity through all possible ways of creation.

Such developments caused an increase in reserve money in December in excess of planned levels. According to preliminary data on December 31, reserve money amounted to 8,735.1 million kuna, which is 574 million kuna more than planned. The most significant variance from the forecast was represented by the unusually high balance in banks' giro accounts with the National Bank of Croatia.

EXCHANGE RATE

The nominal exchange rate of the kuna to the German mark showed a high degree of stability throughout December. Oscillations between 355.5 and 356.6 kuna for 100 German marks, with mean value of 356.0 kuna for 100 German marks, can truly be described as a constant exchange rate. Compared to the previous month we recorded a slight,

hardly noticeable appreciation of around 0.5 kuna for 100 German marks.

Analyzing the nominal exchange rate in the second half of 1996 we should be reminded of the fact that, following the successfully restrained appreciation earlier this year, the kuna stabilized in August at the average value of slightly over 356 kuna for 100 German marks.

In November we recorded an even and mild depreciation of both indices of real effective exchange rate we have been following. In the real effective exchange rate index based on producers' prices we recorded a 0.44% depreciation, while in the real effective exchange rate index measured by retail prices we recorded a 0.47% depreciation. Very similar developments (i.e. a 0.46% depreciation) were recorded in the nominal effective exchange rate.

This year will be remembered by the stable nominal and real effective exchange rate of the kuna. In the twelve-month period, the index of nominal effective exchange rate recorded an appreciation of approximately 1.5%, while the index of real effective exchange rate recorded an appreciation of approximately 2.7% (measured by producers' prices), i.e. by approximately 2.1% (measured by retail prices).

Let us compare these data with the data for 1996. In 1996 we recorded an appreciation in the nominal effective exchange rate index of around 1%, while in the real effective exchange rate index we recorded a 0.5% depreciation (measured by producers' prices), i.e. an appreciation of approximately 0.7% (measured by retail prices).

BALANCE OF PAYMENTS

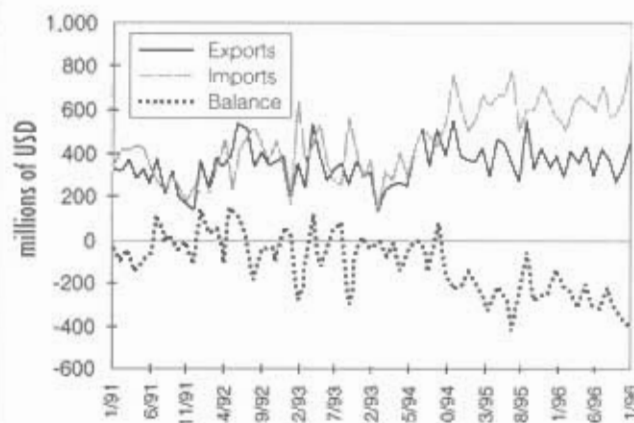
Tendencies recorded in the balance of payments in the first eight months of the year differed to a large extent from tendencies recorded in the same period last year. The current account deficit amounted to USD 601.3 mil in the first eight months of the year, which is approximately 50% less than last year. Similar improvement,

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)

	indices		
	Jan.- Nov. 96	Jan.- Nov. 95	Jan.- Nov. 96/Jan.- Nov. 95
Current account	- 601.3	- 1196.6	50.3
Capital and financial accounts	458.6	640.2	71.6
NBC international reserves	- 435.9	- 458.2	95.1
Net errors and omissions	578.6	1014.6	57.0

source: NBC

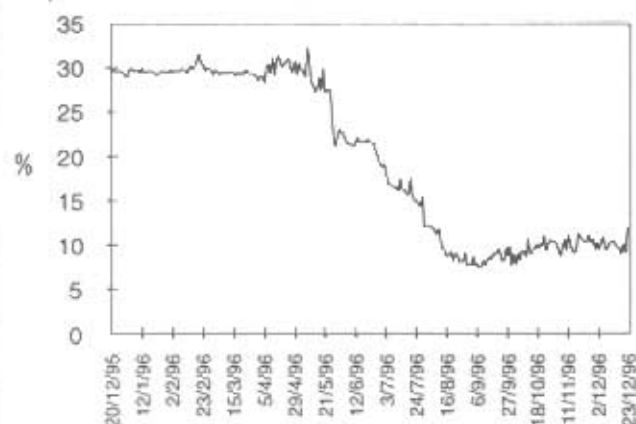
MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

	Jan.- Nov. 1996	Jan.- Nov. 1995	Nov. 1996	Nov. 1995
EXPORTS	4010.7	4297.9	458.2	427.1
IMPORTS	7017.3	6926.3	856.9	702.4

source: Bureau of Statistics

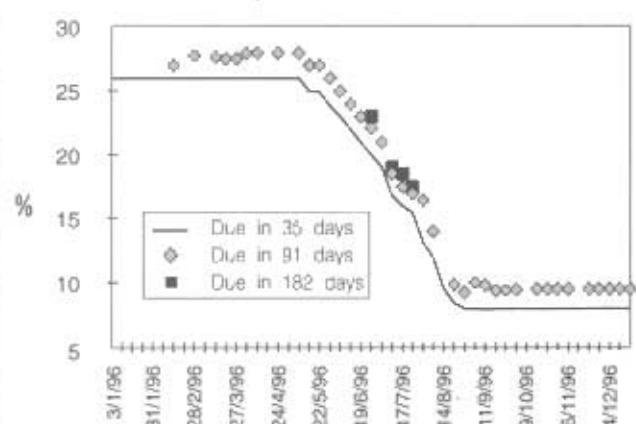
ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



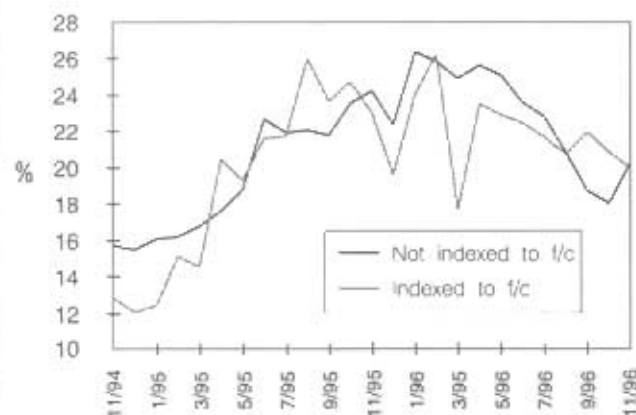
INTEREST RATES ON NBC BILLS ON VOLUNTARY BASIS IN 1996

Annual level, on auction days



DMBs' INTEREST RATES ON CREDITS IN KUNA

Annual level



i.e. decrease was recorded in the item net errors and omissions, which amounted to USD 578.6 mil or approximately 47% less than in the same period last year. Such high rates of decrease in the current account deficit and in the item net errors and omissions resulted from the following: an increase in net tourist revenues in the first eight months of 1996 compared to the same period last year in the amount of USD 270 million or 46%, growth of direct foreign investment in the amount of USD 190 million or 390%, and an increase in net current transfers in the amount of USD 155.4 million or 33.9%.

If we look at the kuna amounts of exports and imports, which are more reliable due to stronger oscillations of the exchange rate of the dollar, we can notice that there was a mild increase in exports and imports in November. Exports were 3.3% lower in the first eleven months of the year than in the same period last year, while imports grew by 5.3% in the same period.

If we look at the structure of exports, we will notice an 8.0% decrease in exports of intermediate goods, and a 3.4% decrease in consumer goods, while in investment goods we can notice an increase in exports of 18.7%. Such a high growth rate of exports of investment products was in major part the consequence of a large increase in exports of transportation equipment of approximately 340 mil kuna or 25.4%.

On the side of imports, in the first eleven months of the year we recorded an increase in imports compared to the same period last year. That increase amounted to 2.3% in imports of intermediate goods, 13.4% in imports of investment goods and 6.4% in imports of consumer goods.

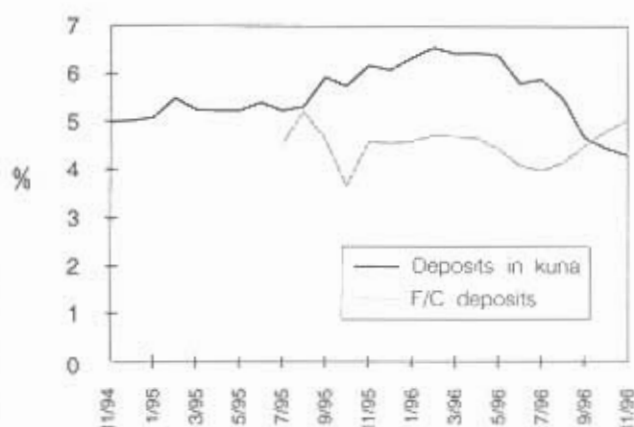
MONEY MARKET AND INTEREST RATES

The tendency of a slight increase in the average daily interest rate on the Money Market Zagreb, first noticed in

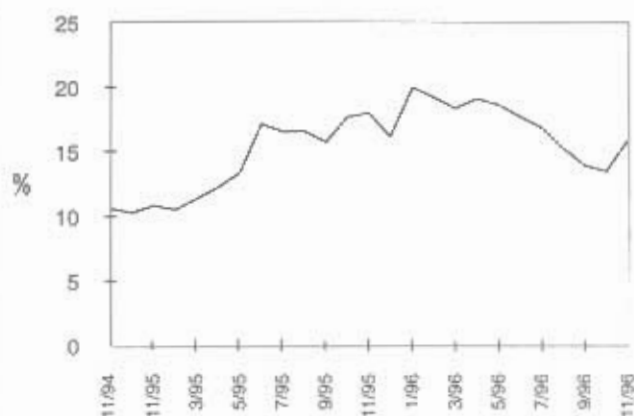
September, continued this month. Tendencies in average monthly interest rates (8.47% in September, 9.55% in October and 10.1% in November) will be continued in December, as indicated by continuously decreasing bank liquidity, as well as a decrease in supply and an increase in demand on the Money Market. In December, the average daily interest rate oscillated between 9% and 12.2% (both lowest and highest levels were reached within the last 7 days). Individual loans were priced at between 9% and 17% per annum. Toward the end of the month even short-term loans (up to ten days with revocation clause) exceeded the price of 10%. December was significant for the fact that with the closing of holiday season, the demand for money kept exceeding supply on the Money Market (some regular suppliers changed sides and became demanders), causing more and more banks to end in the red at the close of the working day. Consequently, banks started turning towards secondary sources of liquidity (lombard loans). Therefore the National Bank of Croatia decided to intervene with a foreign currency purchase in the amount of 155.7 million kuna.

Auctions of treasury bills of the NBC as well as auctions of treasury bills issued by the Ministry of Finance were as unsuccessful as expected, considering the state of liquidity of the banking system. Namely, banks decided to cut down on their investment in treasury bills, because they valued their liquidity more than the safe revenues from these investments. They considered the period of immobilization of their assets in treasury bills unfavorable, so they preferred to invest any excess funds they might have at their disposal through the Money Market. Interest rates payable on treasury bills of the National Bank of Croatia were stable at 8% (35 days) and 9.5% per annum (91 days), as were treasury bills of the Ministry of Finance at 11% (42 days) and 13% per annum (91 days).

DMBs' INTEREST RATES ON DEPOSITS



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



INTERENTERPRISE ARREARS REPORTED TO PAYMENTS INSTITUTE

