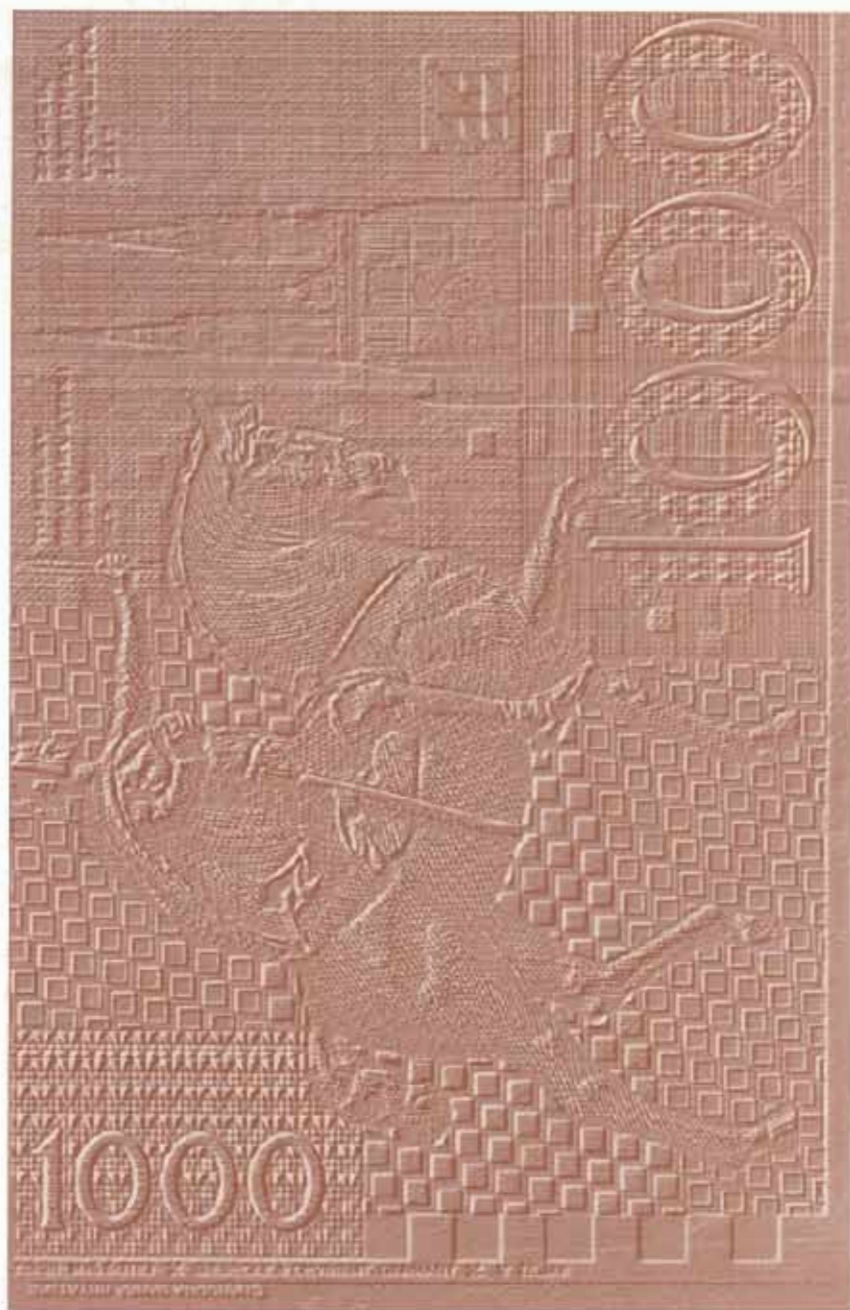


CROATIAN NATIONAL BANK



BULLETIN

YEAR III
No. 24

FEBRUARY 1998

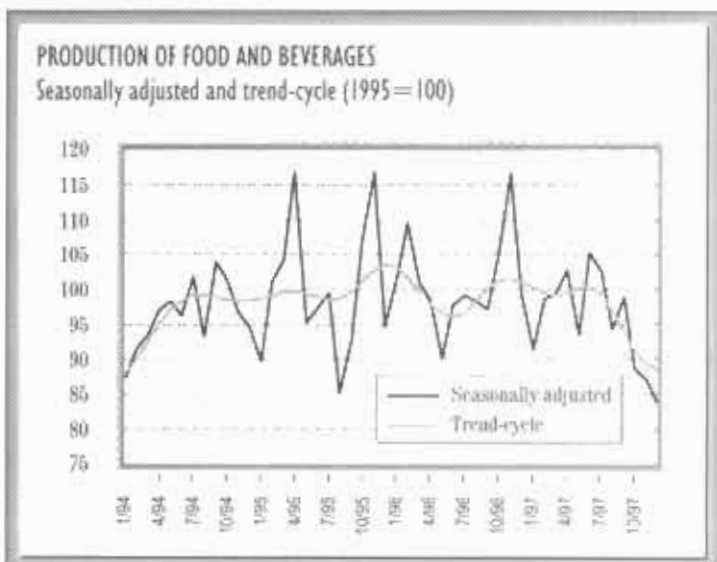
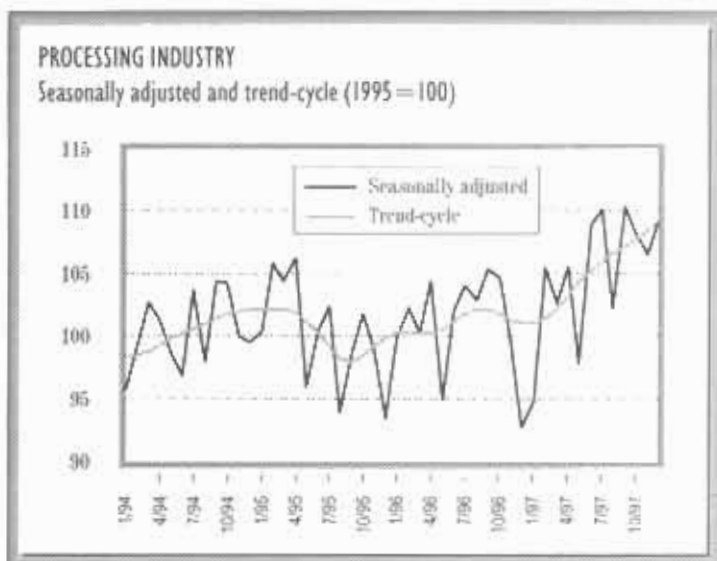
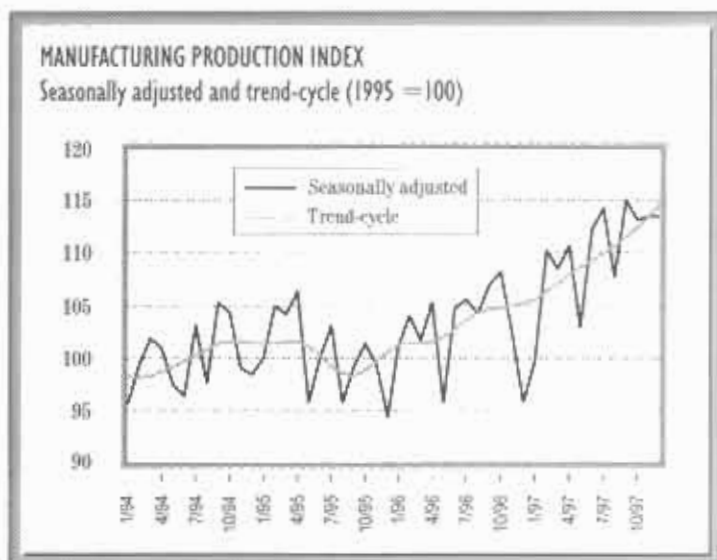
INDUSTRY

The 6.8% increase in industrial production in 1997 was in line with the expectations based on peaceful and stable economic conditions. After having reached the "war bottom" in 1994, industrial production has been slowly recovering for the last couple of years, recording the most intensive growth in 1997.

The rate of growth of industrial production in 1997 was to a great extent influenced by developments in the second half and especially in the last month of the year, in which year-on-year growth amounted to 22.4%. The graph shows the tendency of increase in activity. Since the beginning of 1994, the level of the trend grew by 16.7%, while in 1997 alone it grew by 8.5%. The series of industrial production contains a significant irregular seasonal component and has irregular seasonal characteristics. Although official statistical sources still do not have data on developments in aggregate activity in the country for the entire year, the data on activity in the real sector indicate rapid growth.

The total growth of industrial production is the result of a 3.9% growth in the processing industries and a 24.2% increase in the energy sector. Following a protracted decreasing trend in processing industries, the last two years have brought a change toward the positive, in which the increase recorded in 1997 was especially significant. Supply of electrical energy, gas and water recorded positive tendencies for the third consecutive year. The rates of growth recorded in the last two years were especially high.

In the area of processing industry, an increase in production was recorded in fifteen sectors, among which the most significant were production of motor vehicles, trailers and semi-trailers (89.1%), publishing and printing industry (52.9%), production of furniture (34.9%), metal industry (25.6%) etc. At the same time, decreases in production were recorded in eight sectors, among which the most significant decreases were recorded in the production of



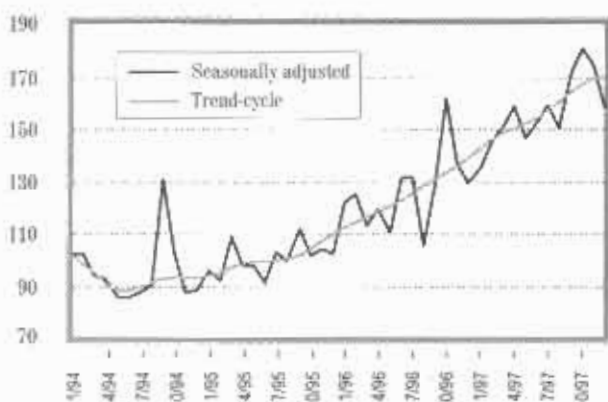
PRODUCTION OF CHEMICALS AND CHEMICAL PRODUCTS

Seasonally adjusted and trend-cycle (1995=100)



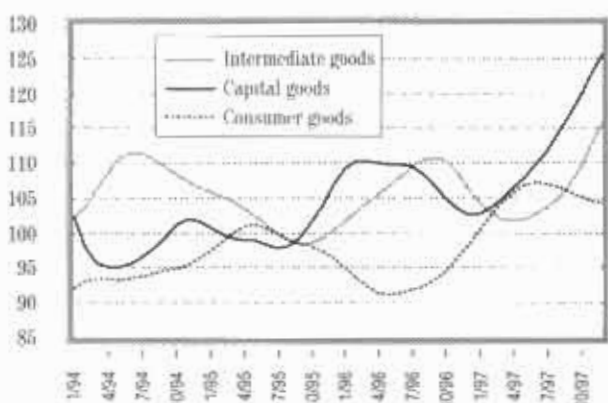
ELECTRICITY, GAS, STEAM AND HOT WATER SUPPLY

Seasonally adjusted and trend-cycle (1995=100)



INDEX OF PRODUCTION VOLUME IN INDUSTRY BY MAIN INDUSTRIAL GROUPS

Trend-cycle (1995=100)



coke, petroleum products and nuclear fuel (-15.3%) and the production of other non-metal mineral products (-11.2%).

The indicator of consumption of energy and fuel for propulsion and technological purposes indicates a decreased level of consumption compared to the last year by 8.8%. It is expected to move in the same direction of change as the level of production. As far as the structure of consumption of energy products in industrial production is concerned, the highest percentage refers to water (37.0%), followed by natural gas (29.3%) and electrical energy (15.7%).

The productivity of labor increased in the last eleven months of 1997 by 10.7% at an annual level. Processing industry recorded a below-average increase in the productivity of labor, while at the same time the supply of energy products recorded an above-average increase in the productivity. Employment in industry as a whole decreased by 4.7%. The structure of employed persons in 1997 shows that 90.5% of the total number employed in industrial production was employed in processing industries, 6.6% in the energy supply sector, while the rest were employed in the sector of mining and extraction.

The production of products classified according to end-use increased in 1997 compared to the previous year in all groups, with the exception of the group of intermediary products.

Processing industry international commodity trade resulted in an annual deficit of USD 3.4 billion. Exports decreased by 4.4% at an annual level, while at the same time the imports recorded a 20.5% increase.

TRADE

Retail trade turnover increased in real terms for the fourth consecutive year. High growth rates were recorded in 1994 and 1995 (11.7% and 14.1%, respectively), while in 1996 growth was significantly lower (2.3%). 1997 brought another acceleration of activity in retail trade, recording an annual increase of 13.8%. With this increase, trade significantly influenced

developments in the total economic activity in the country. When interpreting developments in the inventories of finished products, it is interesting to note the balance of inventories compared to the previous month. In December last year, inventories were 5.3% lower in real terms than in November. The forecast for January 1998, issued by the official statistical agency, estimates the nominal turnover at a 17.8% lower level than in December 1997.

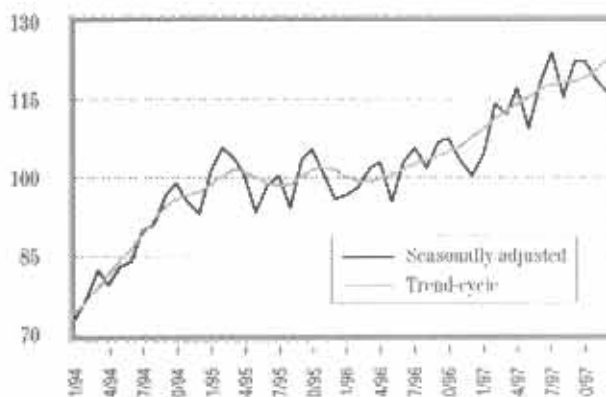
The turnover in wholesale trade grew at a slightly less intensive rate than the turnover in retail trade. Nevertheless, the rate of growth of 12.9% still represents an enviable growth rate. Turnover in the wholesale trade is expected to decrease nominally by 18.3% in January 1998 compared to December 1997 due to the usual seasonal influence.

CONSTRUCTION, TRANSPORTATION AND TOURISM

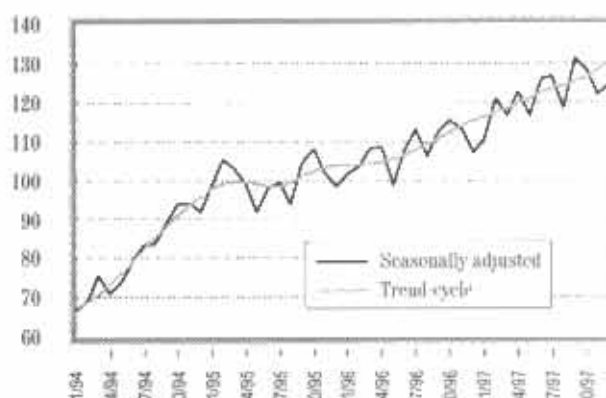
The indicator of the value of construction works completed in the country during showed high growth rates during the war years, while the effective working hours indicator recorded quite different dynamics. At the end of November 1997, the value of construction works was nominally 28.9% higher at an annual level. Effective working hours did not increase significantly until 1996, with a more intensive increase recorded in 1997, when the year-on-year growth in the first eleven months of the year amounted to 16.1%. The number of workers present on construction sites increased by 17.7% compared to the same period of the previous year.

In the area of transportation, warehousing and communications, the indicator of the number of passengers transported in the first eleven months of 1997, indicated an annual growth in the amount of 1.8%. Transportation of goods recorded a 1.4% growth. In passenger transportation, the majority of activities took place in the domestic market (97.0%), while in the transportation of goods, the majority of activity referred to foreign

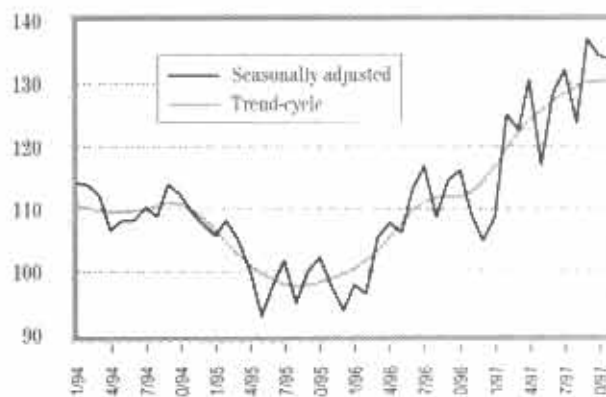
INDEX OF REAL TURNOVER IN RETAIL TRADE
Seasonally adjusted and trend-cycle (1995 = 100)



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

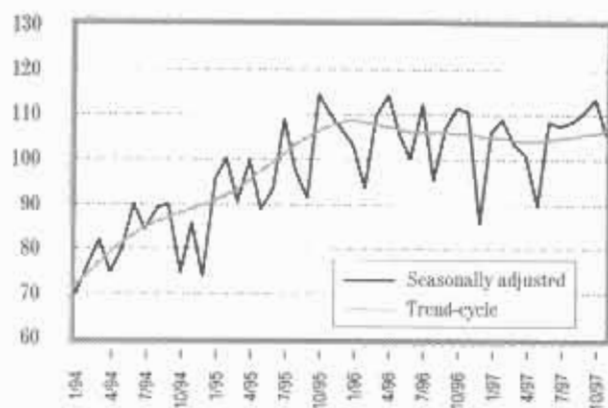


EFFECTIVE WORKING HOURS IN CONSTRUCTION INDUSTRY
Seasonally adjusted and trend-cycle (1995 = 100)



TRANSPORTATION - TRANSPORTED GOODS

Seasonally adjusted and trend-cycle (1995 = 100)



markets (78.8%). An increase in the number of passengers transported compared to last year was recorded in road, maritime and air transport, while the other forms of passenger transportation recorded a decrease in the number of passengers transported compared to the previous year. In the transportation of goods, an increase was recorded only in railroad transportation.

In 1997, 30.3 million tourist night-stays were recorded, which is 41.3% more than in 1996 (the number of tourists visiting Croatia increased by 34%). Following the 1991 decrease in the number of tourist night-stays caused by the war, the next three years saw an increased number of night-stays. The most impressive increase was recorded in 1994. Leaving out 1995, a year marked by two major military actions, we can say that 1996 and 1997 represent the continuation of a positive trend in the number of tourist night-stays. Above-average growth rates were recorded in the number of night-stays by foreign tourists.

The major part of registered tourist night stays referred to hotel accommodations (36.7%), followed by camping sites (26.0%) and private accommodations (18.8%).

By geographical regions, the largest number of tourist night-stays were recorded by the County of Istria (12.3 million), followed by the County of Primorje and Gorska Kotar (8.1 million) and the County of Split and Dalmatia (3.5 million).

PRICES

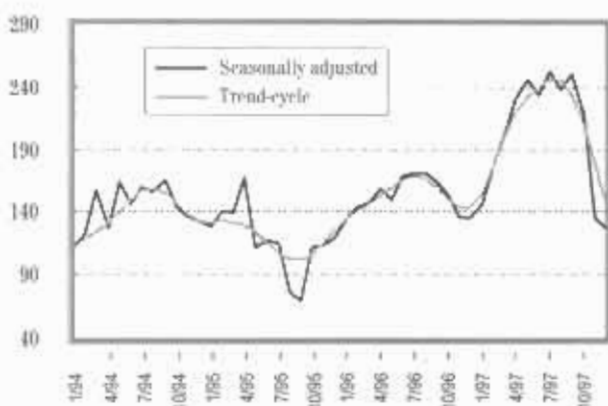
January 1998 recorded the most significant monthly increase in prices since November 1997. Retail prices grew in January at the rate of 2.4% per month, while the cost of living grew by 2.8%, compared to December last year.

The increase in prices was mainly caused by the introduction of the value added tax on January 1, 1998.

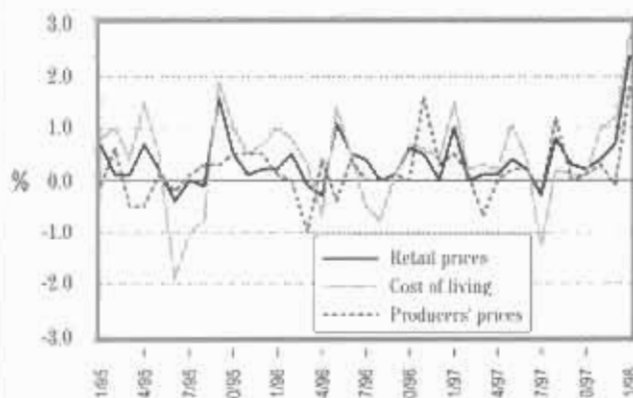
According to information published by the State Bureau of Statistics, the most significant increase in prices was recorded in foodstuffs, which grew by 5.1% per month, followed by services, with a rate of in-

TOURISM - OVERNIGHT STAYS

Seasonally adjusted and trend-cycle (1995 = 100)



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



crease of 4.3% in January 1998. The prices of agricultural products rose by 2.7%. Of all the products mentioned in the Information published by the State Bureau of Statistics, only alcoholic and non-alcoholic beverages recorded a 3.3% decrease in prices.

The portion of the cost of living that refers to food increased by 5.5%, education, culture and leisure increased by 5.1%, hygiene and health by 4.7%, while services increased by 3.4%. The only expenses that recorded a decrease in January were those related to tobacco products and beverages (-1.6%), and those related to clothes and footwear (-0.2%).

The relative price of living quarters decreased due to the fact that introduction of the value added tax had a relatively less significant influence on these prices. On the other hand, the relative prices of foodstuffs increased due to the fact that the introduction of the value added tax had more influence on the growth of prices of foodstuffs than on the growth of total prices.

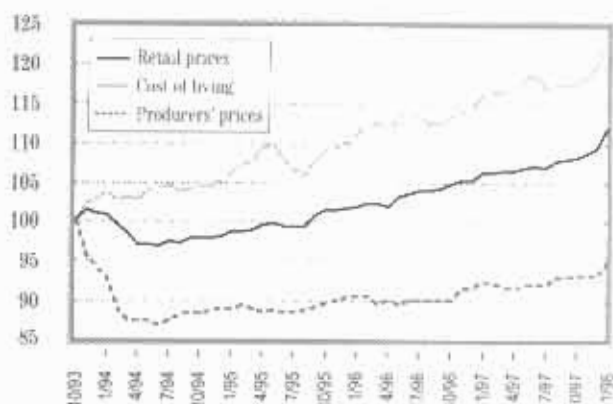
As usual, producers' prices grew at a lower rate than retail prices. The increase in prices of industrial products in January amounted to 1.8%.

The increase in prices in January was the expected consequence of the first phase of introduction of the value added tax. Since the increase in prices in January 1998 compared to January 1997 amounted to (only) 5.3%, and due to the fact that the following months are expected to bring a decrease in prices, we can say that there is a good chance that inflation will be kept at 4% throughout 1998.

EMPLOYMENT AND WAGES

At the end of December 1997, registered unemployment grew by 6,073 persons, reaching the level of 287,120 registered unemployed persons, which is the highest recorded level of unemployment so far. The level of unemployment registered a year earlier was lower by 6.6% or 17,857 persons. 1997 also brought an increase from 32.5% to 33.9% in the share of persons looking for a job for

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

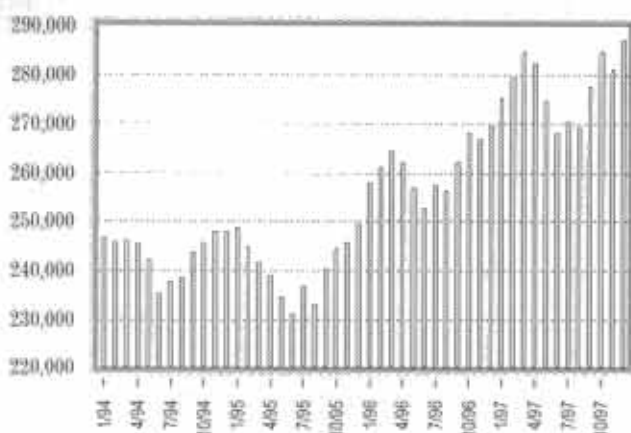
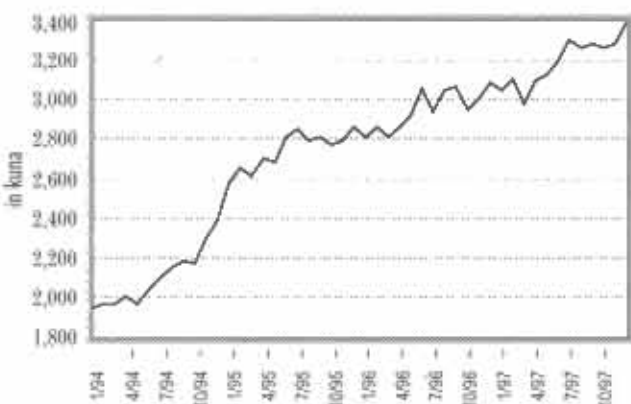


INDICES OF RELATIVE PRICES OF FOOD AND HOUSING
January 1992 = 100



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 1994REAL AVERAGE NET WAGE
Constant prices, January 1994

the first time in the total number of unemployed persons, while the share of unemployed persons due to termination of business activity (which represents one of the approximations of structural unemployment) decreased from 11% to 9.6% of the total number of unemployed.

December 1997 brought a decrease in employment by 0.2% or 2,540 persons, falling back to the number of 1,341,736 employed persons. This represents a decrease of 6.2% or 87,887 persons on the annual level. In December, the influence of newly registered workers on the increase in the level of registered unemployment was stronger than the influence of the decrease in employment, causing the total work force to increase by 3,533 persons i.e. to reach the number of 1,628,856 persons. This is 70,030 persons or 6.6% less on the annual level. Consequently, the rate of unemployment recorded an increase to the level of 17.6%, compared to 17.3% recorded in to the previous month or to 15.8% recorded a year earlier.

Following the stagnation which has been present since July 1997, wages recorded quite a significant increase in December. The average net wage increased compared to November by 88 kuna, which is an increase by 3.6% nominally and 2.4% in real terms. On the annual level, the increase amounts to 345 kuna. This represents a 17.2% nominal increase or a 12.4% increase in real terms. Gross wages recorded similar increases. Nominal growth of gross wages amounted to 4.6% compared to the previous month, 12.9% on the annual level, while increases in real terms amounted to 3.3% (monthly) and 8.3% (annually).

MONETARY DEVELOPMENTS

The major highlights in December 1997 were: invigorated growth of total liquid assets, continuation of growth of banks' foreign liabilities and further intensive growth of total credits.

Following the four-month stagnation of M4, both money supply and

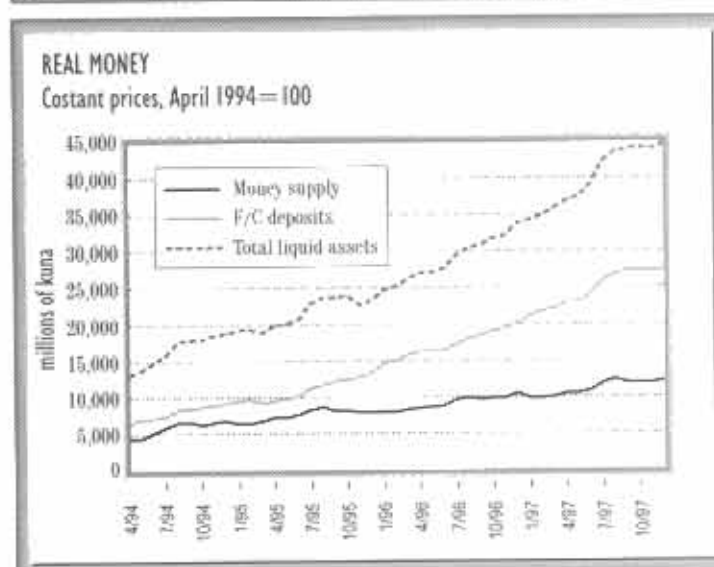
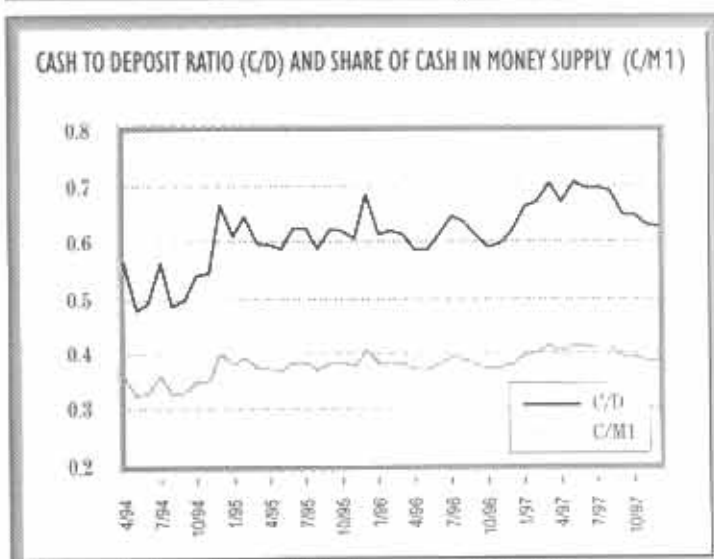
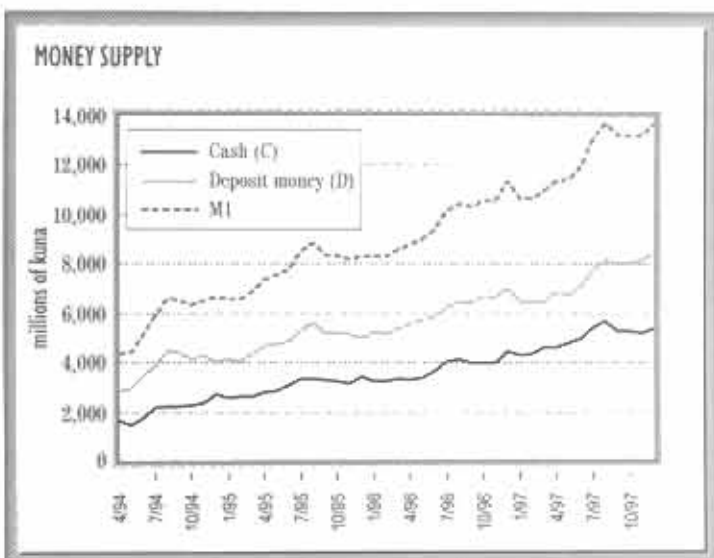
quasi-money increased in December (by 0.5 billion kuna each). This means that December ended in the "usual" seasonal high, with banks in a favorable liquidity position, aided by the repurchase of foreign exchange by the Croatian National Bank.

At the end of December 1997, the money supply reached the level of 13.8 billion kuna (which is approximately the level recorded at the end of August 1997), slightly less than the net foreign exchange reserves of the Croatian National Bank (14.3 billion kuna). Cash increased in December by 0.2 billion kuna, while deposit money (in the entrepreneurial sector) increased by 0.6 billion kuna. Quasi-money increased exclusively on the basis of time deposits of the household sector, by 0.5 billion kuna.

In December, the banks increased foreign liabilities by 1.3 billion kuna. The increase in foreign long-term credit amounted to 0.4 billion kuna, while at the same time foreign short-term credit increased by 0.3 billion kuna compared to November. In addition, short-term deposits by foreign banks increased by 0.4 billion kuna. As opposed to three months of continued decrease of foreign assets, in December the banks increased their foreign assets by 0.4 billion kuna.

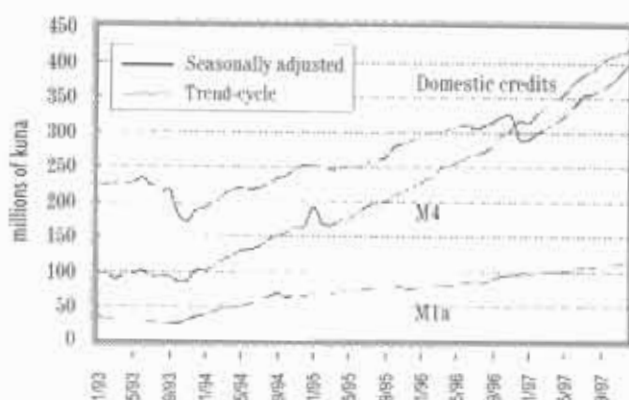
Total credits to non-government sectors grew in December by 2.2 billion kuna (i.e. by 4.9%). The most significant increase was recorded in the item long-term credit to the entrepreneurial sector - 1.1 billion, while long-term credit to the household sector increased by 0.7 billion kuna.

Final data for the end of the year provide the means for the first data comparison on an annual level. 1997 was characterized by a slow-down in growth of monetary aggregates M1 and M4 compared to previous years, although the growth rates of 21% (M1) and 38% (M4) are still considered high. Both cash (22%) and deposit money (20%) slowed down growth rates compared to the previous two years significantly. Cash, which grew intensively at the beginning of 1997, increasing its share in the money supply, stagnated in the

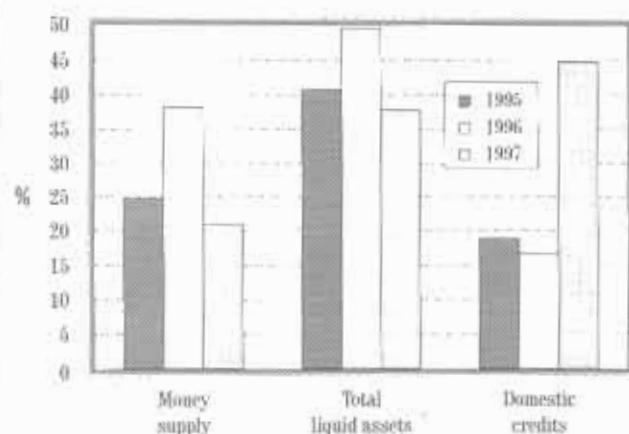


DOMESTIC CREDITS, M4 AND M1a

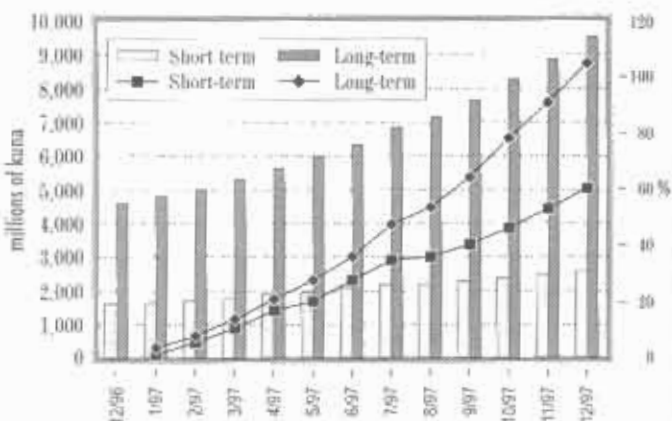
Seasonally adjusted and trend-cycle, deflated with CPI, 1992 = 100



YEARLY RATE OF GROWTH



STOCK (columns) AND CUMULATIVE GROWTH RATES (lines - relative to December 1996) OF LOANS TO HOUSEHOLD SECTOR



second half of the year. At the end of December, cash recorded the same level as it had recorded at the end of July, 5.3 billion kuna. Only kuna savings recorded a significant increase in 1997. However, their share in the M4 is too little to have a significant influence on the dynamics of developments within M4. From mid-97 onwards, foreign currency deposits have definitely been losing the momentum they have had since 1995. The average monthly rate of growth decreased from 4% in 1995 to 3.7% in 1996, to 3.0% in 1997.

As opposed to monetary aggregates, banks' total credits in all domestic sectors with the exception of the central government, doubled in 1997 compared to 1996: they grew by 44% in 1997, compared to 20% in 1996¹. At the end of December 1997, they amounted to 48.2 billion kuna. The most intensive growth was recorded in the credit granted to the household sector (93% compared to December 1996). Even more intensive growth within the same aggregate was recorded in long-term credit to the household sector, which grew by 105% compared to December 1996 - i.e. from 4.6 to 9.5 billion kuna. Those are loans for a period over 12 months, i.e. with the intended purpose of purchase of durable consumer goods and dwellings. Credit to the entrepreneurial sector grew in 1997 by 42%, making up two thirds of the total credit.

With the stabilization of growth of monetary aggregates, deposit money banks have been increasing their foreign indebtedness to finance the credit expansion. This was particularly true for the second half of the year. 1997 was also a crucial year for decrease in the item claims from the central government. In 1997 this item amounted to only 40% of its balance in December 1996.

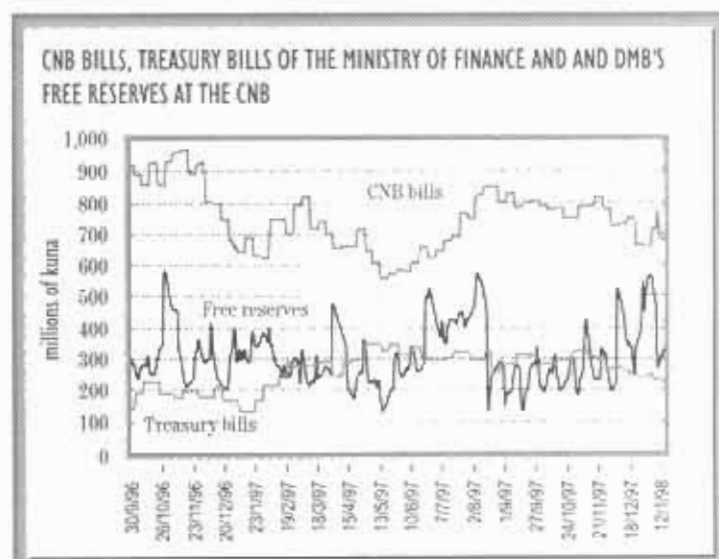
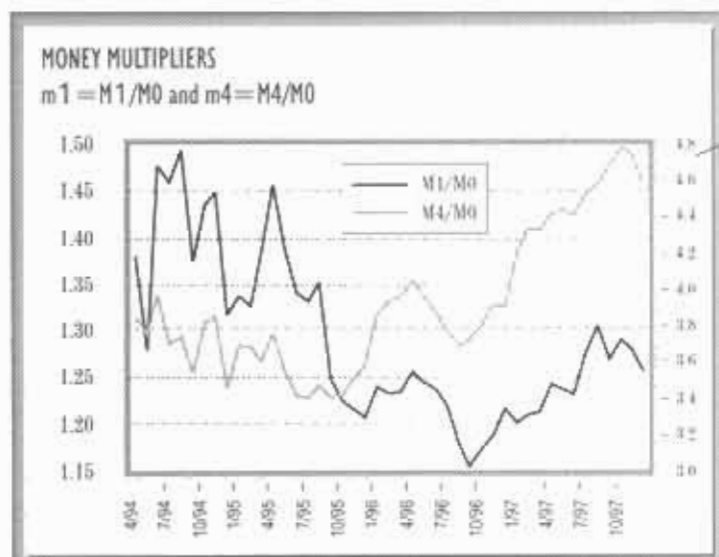
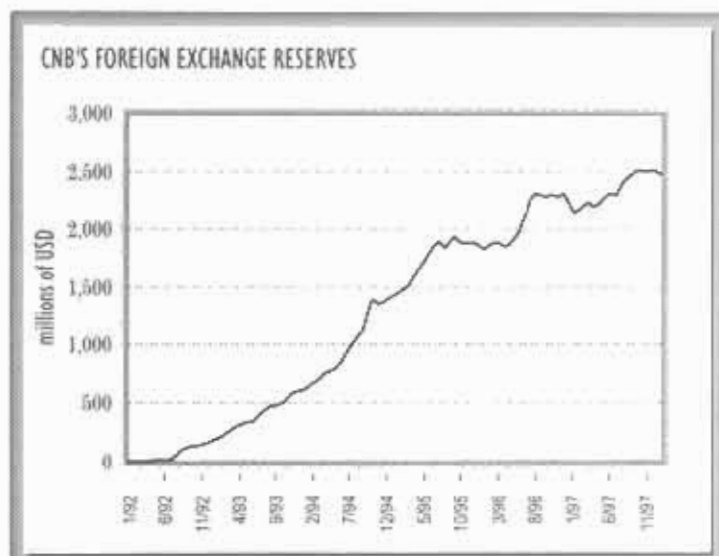
Activity of the central bank in relation to the deposit money banks was moderate throughout January.

¹ The growth rate for 1996 was calculated as Nov 1996/Dec 1995 in order to exclude the influence of the rehabilitation of PBZ, which reduced credits by 4.5 billion kuna.

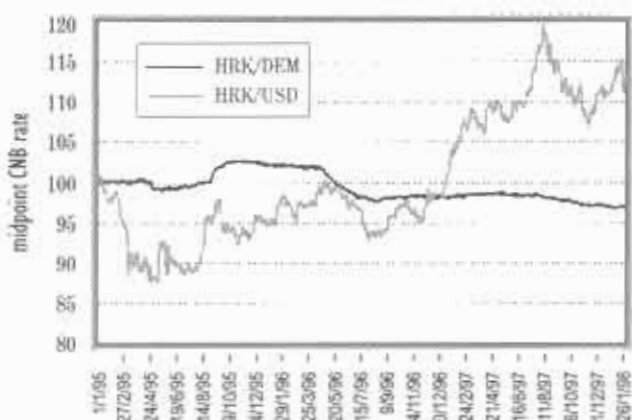
However, it has manifested itself through both kuna and foreign currency transactions. As early as at the beginning of the month, some banks used lombard loans, at an approximate level of 15 million kuna. That level of lombard credit in use did not change significantly throughout the month, not even at the time (7 January) of the termination of the swap transaction from 18 December, in the value of 224 million kuna, nor at the time when the first payments of the value added tax became due to the central government. Moreover, in the total of 17 days of the month of January in which lombard credit was used, the average amount of the credit kept steady at 13 million kuna. In January 1997, the lombard credit was used for 23 days in an average amount of 47 million kuna, while the average deposit money banks' giro account balance with the Croatian National Bank amounted to 0.5 billion kuna.

In conclusion, January 1998 was characterized by a satisfactory level of liquidity of the banking sector, with an average giro account balance of deposit money banks at 676 million kuna. However, a decrease in banks' giro accounts balance was recorded compared to the balance at the end of the last year. This, in addition to (an expected) decrease of cash in circulation in the amount of approximately 0.1 billion kuna, and an increase in the legal reserve requirements for deposit money banks by 0.1 billion kuna, resulted in the January increase in reserve money in the amount of 0.1 billion kuna, or 1.0%.

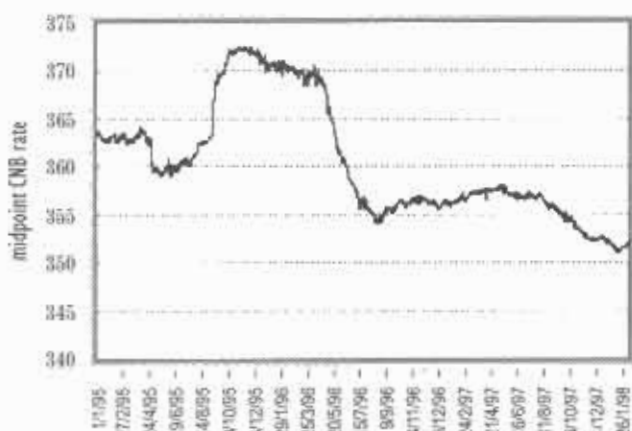
At the end of December 1997, the central government paid off all its obligations toward the central bank, even before their due date. Although the amount of these obligations was not very significant (660 million kuna), the fact that they were paid before time was important as an indication of the position of the central government toward fiscal policy. The government closed the year of 1997 with a balance of net claims toward the central bank reaching 1 billion kuna, which is equal to the amount of foreign currency and kuna deposits of the central government with the



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



Croatian national bank. However, at the end of January, the government was granted a short-term loan for overcoming temporary illiquidity, in the amount of 380 million kuna. The central government used that money to purchase USD 60.8 billion from the Croatian National Bank. These transactions have a neutral effect on the total activity of the central bank in January, and to its Balance of Payments. However, their effect can be seen in the increase of the credit activity toward the central bank and in the decrease of foreign exchange reserves of the Croatian National Bank.

EXCHANGE RATE

The beginning of the year brought another nominal appreciation of the kuna in relation to the German mark. Namely, a few days after the New year, the value of the German mark on the exchange rate list of the Croatian National Bank fell to the level of 3.5087 kuna for one German mark. Having reached the bottom, the value of the German mark started growing. During the last three weeks of January, the value of the German mark grew to the level of 3.5219 kuna for 1 German mark, which is the highest value of the German mark recorded since the middle of December.

Following a number of articles in the daily and weekly press speculating about the possible devaluation of the kuna, nothing significant happened on the foreign exchange market. The value of the kuna relative to the German mark has been within expected parameters.

Developments in other foreign currencies were determined by developments in the world foreign exchange markets. The value of the US dollar experienced a sudden decrease in one day due to speculations connected with American internal political problems. The value of the Italian lira and the British pound decreased at the same time as the US dollar.

The real effective exchange rate depreciated in 1997 at the rate of 1.73% (deflated by retail prices), or 2.04% (deflated by producers' prices).

During the first seven months of last year, the real effective exchange rate depreciated at the cumulative rate of 5.2%. In the period from August until November, the real effective exchange rate of the kuna appreciated at an average of 3%, in major part thanks to the increase in prices in Croatia, as well as to the nominal appreciation of the kuna relative to the German mark.

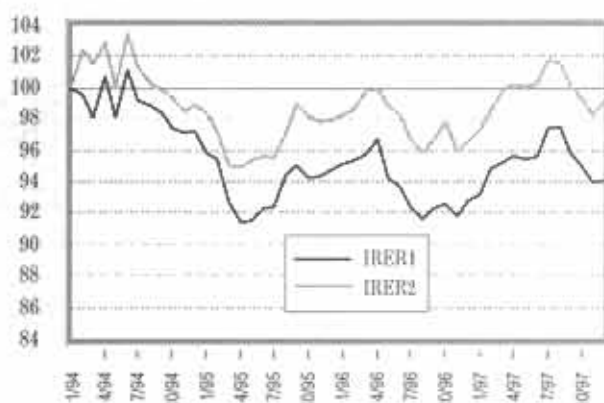
BALANCE OF PAYMENTS

December recorded the highest increase in imports on the monthly level, in the amount of USD 1,099.7 million. This growth represents the culmination of the increase in imports in anticipation of the introduction of the value added tax. From a monthly average of USD 716.7 million, recorded throughout the first 10 months of the year, imports increased to USD 855.9 million in November, and to the 1,099.7 million recorded in December. The beginning of this year is expected to bring a significant decrease in imports, consequent to the increase in inventories, followed by their return to the average monthly balances recorded throughout 1997. The value added tax will also cause a decrease of prices of Croatian products abroad, hence an increase in exports. In December, Croatian exports amounted to USD 322.6 million, while the trade deficit amounted to USD 777.2 million.

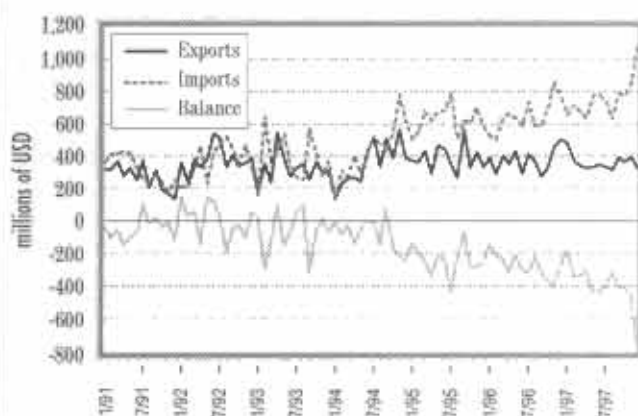
On an annual level, Croatian exports amounted to USD 4,340.9 million in 1997, which is 3.8% less than in the same period in 1996. Imports amounted to USD 9,122.5 million, which is an annual increase of 17.1%. The negative balance of merchandise trade amounted to USD 4,781.6 million, which is an increase of USD 1.5 billion or 46% compared to the preceding year.

The increase in the exchange rate of the US dollar throughout 1997 caused an underestimation of Croatian foreign trade in the US dollar amount, compared to the preceding year. Expressed in kuna equivalent, Croatian exports increased by 8.5% in 1997 compared to the 1996 figure, while imports increased by 32.8%.

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)

| | 1996 | Jan. - Sept. 1997 |
|--|---------|-------------------|
| Current account | - 880.8 | - 1,086.4 |
| Capital and financial account excl. CNB internat. reserves | 1,883.1 | 1,012.5 |
| CNB international reserves | - 418.8 | - 173.8 |
| Net errors and omissions | - 583.5 | 247.7 |

Source: CNB

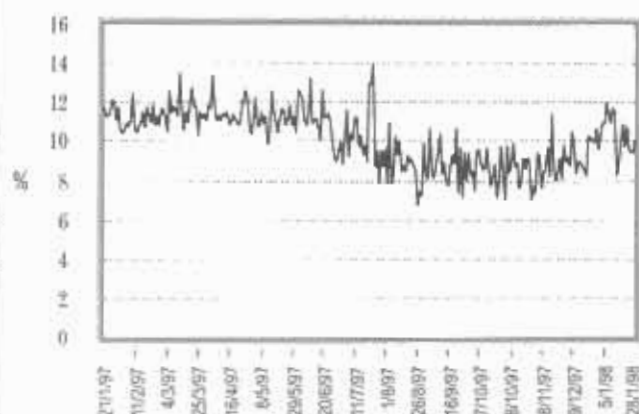
MERCHANDISE EXPORTS AND IMPORTS (in millions of USD)

| | Jan.-Dec. 1997 | Jan.-Dec. 1996 | Dec. 1997 | Dec. 1996 |
|----------------|----------------|----------------|-----------|-----------|
| Exports f.o.b. | 4,340.9 | 4,511.8 | 322.6 | 501.1 |
| Imports c.i.f. | 9,122.5 | 7,287.9 | 1,099.7 | 770.6 |
| Balance | - 4,781.6 | - 3,276.0 | - 777.2 | - 269.5 |

Source: Bureau of Statistics

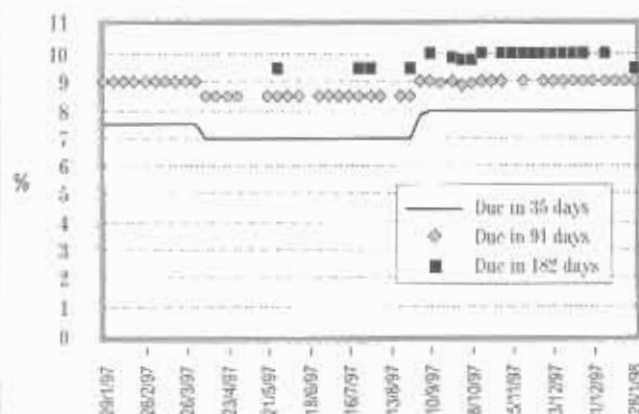
ANNUAL INTEREST RATE ON THE ZAGREB MONEY MARKET

Daily data



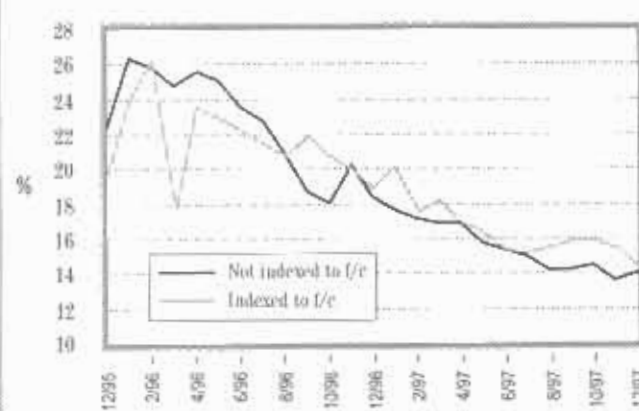
INTEREST RATES ON CNB BILLS IN 1996 AND 1997

Annual level, on auction days



DMBs' INTEREST RATES ON CREDITS IN KUNA

Annual level



The results of the first phase of the methodological revision of balance of payments are published in this issue of the CNB Bulletin. Please pay attention to the revised methodological explanations, tables H1-H4 and the note on page 26.

MONEY MARKET AND INTEREST RATES

Intensive liquidity problems, that began at the end of 1996, also marked the very beginning of January. However, considering the decrease in the average daily interest rates recorded in the second half of the month of January, we can still claim that the situation has calmed. We also expect to see a further decrease in interest rates at the Zagreb Money Market. The daily averages oscillated throughout January between 8.2 and 12.0%, with the mean value of daily averages on the monthly level nearer the lower bound. One of the characteristics of developments at the end of the previous year, an extremely high interest rate on call loans, remained the main characteristic of the first 10 days of January 1998. However, the imbalance between the level of supply and the level of demand, which was at the end of the last year on the side of demand, disappeared at the very beginning of January. Demand was in balance, or even slightly in excess of supply, right at the beginning of the month, surpassing it by far from the middle toward the end of the month. The improved liquidity was reflected in the decrease in interest rates of call loans. The interest rates on call loans oscillated at the level of 10% at the beginning of the month, decreasing to 7.5% at the end of the month. Beside the interest rates on call loans, another good indicator of improved liquidity was the level of use of lombard credit, as well as the level of purchase of voluntary treasury bills. The use of lombard credit was more moderate in January than in December of last year, while the purchase of voluntary bills showed various different tendencies. A decrease in purchases of voluntary bills at the beginning of January was followed by a significant

increase toward the end of the month. It is important to mention that the new dynamics of tax payments, introduced with the introduction of the new value added tax system, will produce effects in February, i.e. only in February will the effect of the new tax payment method/rate be visible in the accounts of deposit money banks.

Voluntary treasury bills, yielding 8.0% for 35 days, 9.0% for 91 days and 10.0% for 182 days, continue to be profitable investments for commercial banks, since they serve as good coverage in case of problems with liquidity. Ministry of Finance's Treasury Bills achieved in January 8.80% interest for 42 days, and 9.90% for 91 days.

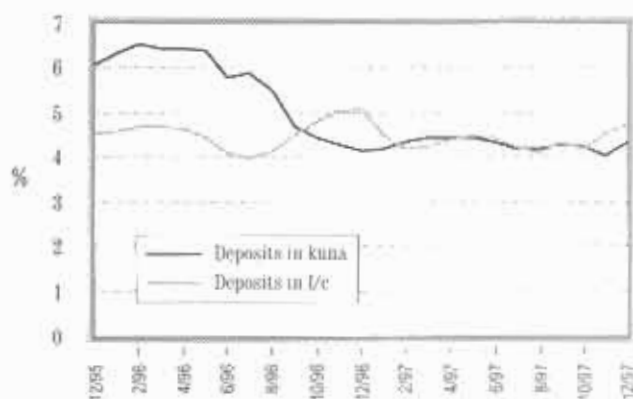
Commercial banks' lending rates recorded different developments throughout December. Certainly the most significant, considering its position in total credits, the average interest rate on kuna loans without a currency clause increased by 0.4 percentage points, reaching 14.06% (short-term loans 14.12%, long-term loans 13.24%). The average interest rate on kuna loans with a currency clause decreased by a little over one percentage point, reaching the level of 14.40% (short-term loans 16.92%, long-term loans 12.25%). The average interest rate on foreign exchange credit decreased by approximately four percentage points compared to September, reaching the level of 13.56%.

An increased demand for credit and deteriorating liquidity in December are the two basic factors that changed the developments in otherwise stable average deposit rates. Deposit interest rates recorded an increase in December. The average interest rate on kuna deposits increased by 0.3 percentage points, now reaching the level of 4.35%. The average interest rate on foreign currency deposits showed a slight increase (0.2%), reaching the level of 4.77%.

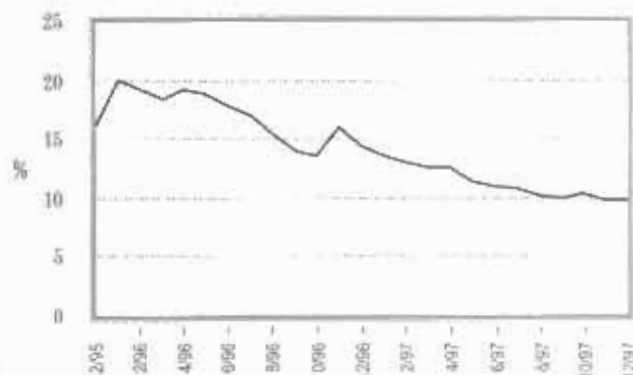
Such developments in lending and deposit interest rates did not cause a significant change in the interest rate spread. Compared to November, the interest rate spread showed a slight increase. In December, the spread was at the level of 9.71 percentage points.

DMB's INTEREST RATES ON DEPOSITS

Annual level

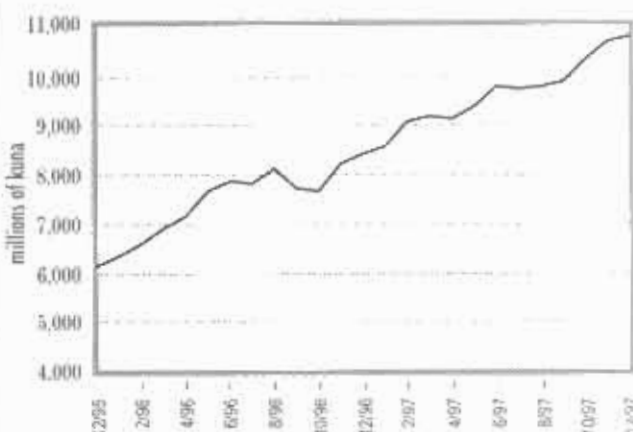


DIFFERENCE BETWEEN INTEREST RATES ON CREDITS IN KUNA AND INTEREST RATES ON DEPOSITS IN KUNA

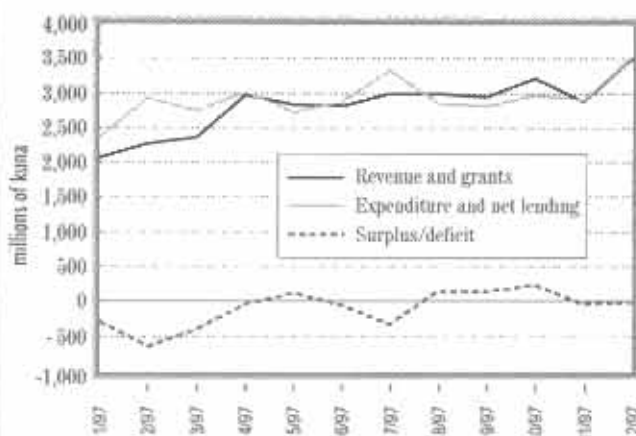


Note: spread is calculated as a difference between interest rates on non-indexed credits in kuna and interest rates on non-indexed deposits in kuna.

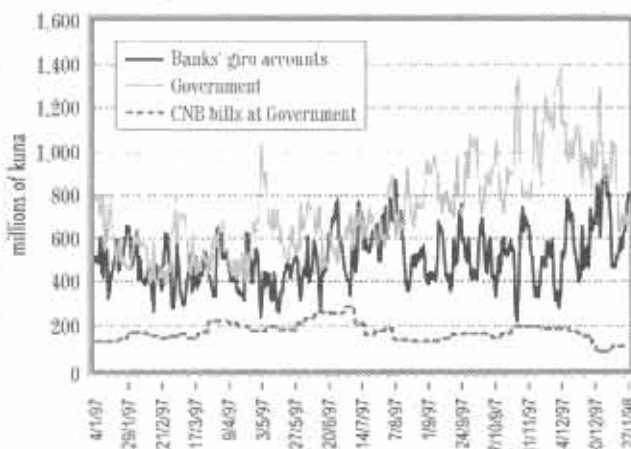
ARREARS REPORTED TO PAYMENTS INSTITUTE



OUTTURN OF CENTRAL GOVERNMENT BUDGET



CNB DEPOSITS IN 1997

FINANCING OF CENTRAL BUDGET DEFICIT
(in millions of kuna)

| | 1997 | 1998 Budget |
|---------------------------------------|--------|-------------|
| TOTAL FINANCING | 1,160 | 2,011 |
| DOMESTIC FINANCING | -1,826 | -2,350 |
| From monetary authorities | -355 | -58 |
| From deposit money banks | -1,357 | -1,921 |
| Other domestic financing | -114 | -371 |
| FOREIGN FINANCING | 2,986 | 4,361 |
| From international develop. institut. | 470 | 1,757 |
| From foreign governments | -503 | -503 |
| Other foreign financing | 3,019 | 3,106 |

STATE BUDGET

The balance of the annual budget of the central government for 1997 shows a deficit of 1.16 billion kuna (1% of the projected gross domestic product). This is less than originally planned at the beginning of the year, thanks mainly to better collection of revenues and savings on the side of expenditures.

The annual nominal increase in revenues amounted to 7.9%, while the increase in expenditures amounted to 11.1%. The major source of revenues was taxes, in particular the sales tax on goods and services (48.3%), excise taxes (17.1%), foreign trade taxes (14.9%), and income tax (13.1%). Current expenditures made up 86.0% of total expenditures, while the rest were capital expenses. The major part of current expenditures referred to wages and benefits payments by employers (37.3%) and the purchase of goods and services (31.2%), followed by subsidies and current transfers (25.6%).

The budget approved for 1998 amounts to 39.1 billion kuna. 37.1 billion kuna will be collected in the form of revenues and subsidies, while the deficit is projected at 2.0 billion kuna. According to the 1998 budget, revenues should increase nominally by 9.7%, which includes the anticipated economic growth and the rate of inflation. In tax revenues there is hardly any increase, non-tax revenues show mild growth in real terms, while the capital revenues should increase fourfold compared to the preceding year. Revenues from the value added tax projected in the 1998 budget correspond to revenues from the sales tax from the preceding year.

Expenditures are expected to grow at an annual level of 11.8%. Above average increases are projected for expenditures on interest rates (48.1%) and capital expenditures (14.0%), while below average increases are expected in expenditures in connection with the purchase of goods and services, as well as those in connection with subsidies and current transfers.