September 1998

IMF Staff Country Report No. 98/90

Republic of Croatia: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix report on the Republic of Croatia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Republic of Croatia or the Executive Board of the IMF.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CROATIA

Selected Issues and Statistical Appendix

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Approved by European I Department

June 25, 1998

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Croatia: Basic Indicators

	1993	1994	1995	1996	1997
Real economy (percentage change)					
Real GDP 1/	-8.0	5.9	6.8	6.0	6.5
Unemployment rate (average; percentage of labor force) 2/	14.8	14.5	14.5	16.4	17.5
Nominal gross wages (period average)	...	...	34.0	12.3	13.1
Consumer prices (Dec./Dec.)	1,149.2	-3.0	3.7	3.4	3.8
Consumer prices (year average)	1,516.6	97.6	2.0	3.5	3.6
Public finance (percent of GDP)					
Consolidated central government balance excluding privatization receipts (accrual basis) 3/	-1.1	1.2	-2.1	-1.3	-3.5
Money and credit (e.o.p.; percentage change)					
Broad money	1,092.6	73.8	40.4	49.1	37.6
Credit to consolidated central government	...	-106.4	1,168.1	-3.5	-49.9
Other credit	...	34.4	18.8	3.1	44.1
Deposit money bank interest rates (e.o.p.; percent)					
Average deposit rate on kuna deposits	27.4	5.0	6.1	4.2	4.4
Average credit rate on loans in kuna	59.0	15.4	22.3	18.5	14.1
Balance of payments					
Trade balance (percent of GDP)	-8.8	-9.1	-17.2	-18.5	-26.9
Current account balance (percent of GDP)	5.5	5.4	-6.8	-4.5	-12.5
Total external debt (percent of GDP; e.o.p.)	27.1	22.5	20.8	23.4	33.0
Official reserves (US$ billion; e.o.p.)	616	1,405	1,895	2,314	2,539
Reserve cover (months of imports of GNFS).	1.2	2.4	2.4	2.8	2.7
Short-term debt in percent of reserves (e.o.p)	8.1	2.6	11.0	15.3	17.4
Geographic, social, and demographic indicators (in 1995)					
Per capita GDP (at market exchange rates)			$3,937		
Land area			56,610 km^2		
Population			4,778,000		
Population density (people per km^2)			85.4		
Population growth (in percent)			0.0		
Life expectancy at birth (years)			73.7		
male			70.0		
female			77.7		
Infant mortality rate (per 1,000 live births)			16.1		
Crude death rate (per 1,000 people)			10.7		

Sources: The authorities, Information Notice System, and staff estimates.

1/ Based on the revised GDP series published in April 1998 by the Central Bureau of Statistics.
2/ Registered unemployment rate. For 1997, data refer to December. According to the new Labor Force Survey, using ILO standards, the unemployment rate was 10 percent and 9.9 percent in 1996 and 1997, respectively.
3/ Includes extrabudgetary funds. Cash deficit adjusted for net change in arrears.

I. CROATIA'S BANKING SECTOR[1]

A. Introduction

1. During the 1990s, Croatia has made significant inroads in establishing a market-oriented banking sector, with the development of a comprehensive legal framework, a shift to indirect instruments of monetary policy, and the cleaning up of the portfolios of several state-owned banks. The financial health of the banking sector during this period has tended to reflect developments in the larger economy, including the rapid inflation, recession, and military conflict that characterized the early part of the decade and, more recently, the resumption of strong growth and restoration of confidence brought about through successful stabilization. Despite the improvement in banking sector performance and the far-reaching changes that have already taken place, further transformation of the banking sector is likely, reflecting enhanced competition (including from foreign sources) and a more stringent regulatory environment.

2. This chapter discusses developments in Croatia's banking sector since independence in 1991, focusing on the effects of independence, war, transition, and the bank rehabilitation process. Changes in market structure, concentration, and ownership, as well as financial performance are highlighted. The chapter also reviews the current legal environment governing banking operations and improvements needed to strengthen the legislative framework. Some forward-looking conclusions are offered in the final section.

B. Early Developments (1991–95)

3. Prior to independence in 1991, the Croatian banking system comprised 26 banks. Of these, only the country's two largest banks operated nation-wide, while seven banks were mid-sized regional banks, whose activities were concentrated in specific geographical areas, and the rest were small banks located in Zagreb. As a result, customers in the various regions of the country were usually served by two banks, while those in Zagreb had access to numerous financial institutions.

4. The confluence of political events in the early 1990s had a deleterious impact on the banking system, from which it has yet to fully recover. Independence, war, and the initiation of the transition process each left a distinct mark on the banking system. Secession from the Socialist Federal Republic of Yugoslavia (SFRY) resulted in Croatian banks no longer having access to the foreign exchange reserves at the central bank in Belgrade which were the counterpart assets to the private sector's foreign currency deposits. These deposits amounted to about US$3 billion at the time. In 1992, the government of Croatia assumed responsibility for these claims against the former SFRY; however, since the fledgling state had little foreign

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[1]Prepared by Rachel van Elkan. This chapter has benefited from helpful comments from colleagues in MAE.

exchange reserves, the government issued to the banks domestic currency-denominated "counterpart bonds." While these bonds were indexed to the deutsche mark, the deposits they backed were denominated in many currencies, thus exposing banks to cross-exchange rate movements. In order to prevent the withdrawal of these deposits from the banking system—which would have precipitated the failure of the banks—these deposits were blocked for a period of three years (until July 1995), and thereafter unfrozen at the minimum rate of 20 semi-annual installments.[2]

5. The regional segmentation of the banking industry left significant portions of the sector particularly vulnerable to the effects of the conflict in parts of the former SFRY. In areas directly affected by hostilities, the fixed assets of banks' customers were either destroyed or inaccessible, and, in at least one instance, the operations of a bank were forced to shut down when the town in which it was located was occupied. In addition, shifting borders implied that many of the banks' customers were no longer residents of Croatia. In other areas of the country, economic activity on which a region was heavily dependent (including tourism and shipbuilding) was adversely affected by the conflict, thereby impacting the performance of the banks' assets.

6. As in other Central and Eastern European countries, banks in Croatia were also affected by the transition process, which rendered large parts of the economy unprofitable. In order to resolve the bad debts of enterprises to the banking sector, in 1991 the government issued to large state-owned companies "big bonds" in an amount equivalent to US$1 billion (6 percent of GDP), which were then used to repay arrears to the banks. However, since these bonds paid no interest and were not traded, they did not provide the banks with any new liquidity. Moreover, since no measures were taken to resolve the underlying difficulties in the enterprise sector, nor to restrict bank lending to their enterprise-owners (see the discussion on ownership structure below), new bad claims on enterprises soon emerged.

C. Bank Rehabilitation (1995–98)

7. Despite the earlier measures designed to improve the condition of banks' balance sheets, a significant proportion of the banking system still faced severe financial difficulties resulting from non-performing loans, regional hostilities, the recession associated with the transition process and, to a lesser extent, illiquidity resulting from the sizable fraction of assets in the form of non-tradeable government debt. Four state-owned banks, which accounted for

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[2]Individuals were, however, permitted to buy back their blocked deposits at a 30 percent discount, or to exchange them for government bonds which could be used to purchase socially-owned apartments or enterprises. These proved to be attractive alternatives and, as a result, frozen foreign currency deposits fell from HRK 13.9 billion at end-1993 to HRK 10.8 billion in June 1995 (prior to the beginning of the regular unblocking process).

46 percent of total banking sector assets at end-1995, were selected into the rehabilitation process under the auspices of the 1994 Law on Bank Rehabilitation and Restructuring.[3]

8. According to the law, banks with actual or potential losses (including on off-balance sheet items) in excess of 50 percent of capital are obliged to submit to the rehabilitation and restructuring process. In addition, a bank can voluntarily submit to this process if its losses are less than the 50 percent threshold. The Croatian National Bank (CNB) is then required to conduct a feasibility study of the bank and to recommend to the government whether rehabilitation is desirable. Approval by the government results in the automatic cancellation (or suspension) of existing shareholders' equity, the termination of the bank's management, and the transfer of all governance authority to the State Agency for Bank Rehabilitation (and Deposit Insurance) (BRA). The entire rehabilitation process encompasses three stages: (i) financial restructuring, which involves the write-down of bad loans against loss provisions and capital and, if these are insufficient, against bonds issued by the BRA. Additional BRA bonds may be issued to provide initial capital for the bank, and liquidity may be provided to the bank through the buy-back of government bonds. The written-off loans are transferred to the BRA for workout; (ii) operational restructuring, which involves the development and implementation of a recovery plan for the bank which specifies, inter alia, the bank's medium-term business strategy, measures to improve operating efficiency and modernize technology, and steps to increase risk assessment capabilities; and (iii) privatization of the state's share to investors who are not also major debtors of the banks.

9. The rehabilitation of Slavonska Banka, the least troubled of the four banks, was initiated in November 1995, when the bank voluntarily entered the rehabilitation process. The BRA purchased 35 percent of the bank's equity, retained the existing management team, but acquired veto power on the bank's supervisory board. The second phase of rehabilitation, which was designed by the bank and approved by the BRA, was completed in 1997, and the BRA is in advanced negotiations with the EBRD and Austria's Hypobank over the sale of the state's share. The two largest regional banks (Riječka Banka and Splitska Banka) were required to enter into rehabilitation in April 1996. The banks' entire capital was eliminated in the process of loan write-down, and the BRA became the sole shareholder in both banks, and new management teams were appointed. Operational restructuring of the banks (including the curtailment of new lending to all but the most-creditworthy clients) is nearly complete. Partial divestment of the state's equity holdings took place in 1997. During the first half of the year, former private-sector shareholders who were not debtors of the banks and who had a good credit history were permitted to purchase—at a concessional price—25 percent of the banks' shares. As a result, the state's share in Riječka Banka was reduced to 75 percent, while its share in Splitska Banka declined to 88 percent since not all former shareholders satisfied the

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[3]Included in the scheme were one national bank and three regional banks.

sale conditions. In addition, in September 1997, about 1 percent of the shares in each bank were sold on the Zagreb stock exchange.[4]

10. Privredna Banka, formerly the country's largest bank, entered rehabilitation in December 1996 on a compulsory basis. Almost all existing capital was written off in the first phase, and following recapitalization through bonds and an injection of liquidity, the BRA had an ownership stake of 90 percent. In addition, the bank's management team was replaced. While work on the operational restructuring phase has commenced, its completion is not expected before late-1999. Privatization of the bank is not expected to commence before 1999, implying a considerable delay relative to initial plans.

11. Rehabilitation of these four banks had a significant effect on total outstanding bank credit and government debt. In 1996, credit to enterprises with a face value of about HRK 2.1 billion was written off in connection with Riječka Banka and Splitska Banka, and a further HRK 4 billion in credits were written off the books of Privredna Banka, equivalent in total to 22 percent of the stock of credit to enterprises at end-1995. Government bonds amounting to HRK 2.9 billion (3.7 percent of 1996 GDP) were issued in support of the banks.[5] Since these bonds were indexed to the deutsche mark, they increased the exposure of the state to exchange rate movements.

12. Some benefits from the rehabilitation process are already apparent. Due to the restructuring of their assets and the injection of cash, the banks have gone from a situation of chronic liquidity shortages to one where they maintain positive balances in their giro accounts with the CNB as well as holdings of treasury bills and CNB bills, which can be used as collateral to obtain liquidity credits from the CNB. As a result, pressures on interbank interest rates have eased markedly, contributing to a decline in economy-wide interest rates. In addition, recent data indicate that growth of the banks' balance sheets has resumed, with an increase in deposit-taking and lending activities, combined with a return to profitability. However, some deterioration in loan portfolios has occurred and new bad loans have emerged, particularly in Slavonska Banka whose clients continue to be affected by the after-effects of the war. Nonetheless, the bank earned a profit in each year since 1995.

13. In April 1998, the Law on Bank Rehabilitation and Restructuring was again invoked, this time to deal with the privately-owned Dubrovačka Banka, the country's fifth largest bank, with 5 percent of banking sector assets. The difficulties in the bank stemmed from its heavy exposure to the depressed regional tourism industry and its rapid expansion in lending activity, financed though a build-up in deposits attracted by high interest yields. When the bank's

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[4]The BRA is planning to dilute its remaining ownership stake, while at the same time augmenting the banks' capital, through a new share issue.

[5]These bonds have a maturity of 10 years and carry an interest rate of 6 percent, with both amortization and interest to be paid every six months.

liquidity problems became apparent in March, the CNB pledged to guarantee all deposits with the bank and, in the process, injected HRK 500 million in temporary credits. A subsequent CNB audit of the bank revealed that the bank was in fact insolvent, with bad loans exceeding loss provisions and liable capital by a factor of 3:2. Based on the regional importance of the bank and its close ties to the tourism industry, the authorities decided to rehabilitate the bank. For this purpose, in April the BRA injected bonds (with terms similar to previous BRA bonds) in the amount of HRK 1 billion (¾ percent of GDP) in order to write off the residual bad debt and to recapitalize the bank.[6] As a result, the bank's previous shareholders lost their equity stakes and the BRA became the sole owner of the bank.

D. Changes in the Structure of the Banking System

14. Despite the financial difficulties affecting a significant portion of the banking sector, conditions improved for the rest of the industry during 1993–97, reflecting improvements in the macroeconomic environment, the liberalization of the legal framework, and profit opportunities created by the problem banks. The success of the 1993 stabilization program and the cessation of hostilities in 1995 encouraged households to repatriate their savings from abroad. As a result, the stock of new foreign currency deposits (i.e., deposits that were placed after 1991 and whose withdrawal was not blocked) increased from US$825 million at end-1993 to US$4.925 billion at end-1997. Persistent liquidity shortages in the problem banks pushed up interbank interest rates (enabling banks to earn interest margins of up to 25 percentage points), while inflows to the banking system from the repatriation of foreign savings enabled banks to take advantage of high interbank rates by providing them with ready liquidity to place in the interbank market. In addition, conditions for entry were relaxed with the introduction in 1993 of the Law on Banks and Savings Banks, which lifted all restrictions on private and foreign ownership of banks. Moreover, new banks had a distinct advantage over existing banks since they were not burdened with a large proportion of their assets tied up in illiquid, below market interest yielding government debt (including big bonds and counterpart bonds).

15. These factors contributed to a rapid expansion in the number of banks and in total banking activity. The number of commercial banks operating in Croatia nearly doubled, from 30 in 1991 to 59 in 1997 (of which seven were foreign owned). Reflecting the potential size of the market and the better economic situation in the capital, most of the new entry was concentrated in Zagreb. Notwithstanding the contraction in banks' balance sheets associated with the rehabilitation process, in real terms the size of the banking sector, measured in terms of inflation-adjusted total assets, increased by about 45 percent during 1994–97, reflecting the rapid remonetization of the economy and the increase in household foreign currency deposits.

16. Despite the number of new entrants and the contraction of problem banks under the rehabilitation process, the banking industry remained highly concentrated. At end-1997, the

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[6] A total of HRK 1.54 billion in bad debts were cleared from the bank's accounts.

two large nation-wide banks controlled 40 percent of total banking assets (down from 54 percent in 1994), while the five largest banks accounted for 58 percent of total assets at end-1997 (compared with 73 percent at end-1994).[7] This implies that the average size of the remaining 54 banks at end-1997 was about ¾ percent of total assets. The continued dominance of the large established national and regional banks was due in part to the limited presence of new banks outside the capital and the reluctance of households to place their savings in banks with no established track record.

17. Nonetheless, the 15 percentage point decline in the market share of the five largest banks during 1994–97, a period when the banking sector as a whole was expanding rapidly, implies that other banks (as a group) were growing at a very brisk pace. Between 1994 and 1997, total assets in nominal terms grew at an average yearly rate of 15.9 percent, while assets of the nine largest banks grew at an annual average rate of 9.7 percent (despite the fact that in 1996 this group as a whole contracted by 1.9 percent due to rehabilitation).[8] This implies that other (small and medium-sized) banks, which tend to encompass most of the newly established banks, expanded at an average annual rate of 37.6 percent. Should these trends continue, the market share of the nine largest banks would fall by a further 3¾ percentage points by the end of 1998 to 65½ percent.

Table 1. Croatia: Growth Rate of Total Assets, 1995–97
(In percent)

	1995	1996	1997	average
All banks	15.1	6.6	26.9	15.9
Nine largest banks	12.0	-1.9	20.2	9.7
Other banks	29.1	39.5	44.7	37.6

Source: CNB and staff calculations.

[7]Until 1996, the three largest regional banks were those included in the rehabilitation process. However, following its rehabilitation, Slavonska Banka was replaced by Dubrovačka Banka as the country's fifth largest bank.

[8]The composition of the group of nine largest banks was not constant over the period reflecting, primarily, the rapid growth of several newer banks which helped to supplant the more established banks in the group.

18. Owing to the relatively minor role of new banks to date, the ownership structure of the banking sector has been influenced primarily by the privatization process. Under the socialist system of the former SFRY, banks were owned by groups of socially-owned enterprises. While banks were not directly involved in the privatization process, their ownership transformation was determined by the extent to which their parent companies were privatized.[9] At end-1996, 48 banks were majority privately owned (i.e., more than half of their shares were held by privately-owned firms), and these banks held 61 percent of banking sector assets. Of these, 12 banks (including the country's largest bank) had been privatized through the privatization of their parent companies, and another 20 banks—each of which had been licensed after 1991—were fully privately owned. No previously publicly-owned bank has yet been completely privatized. The 15 majority publicly-owned banks accounted for 39 percent of banking assets at end-1996.

E. Legal Environment

19. Reflecting its own brand of socialism, the SFRY replaced the monobank system with a two-tier system in the 1950s and 1960s. Subsequent reforms in 1971 and 1989 aimed to promote the development of commercial banking activity by transforming all banks into joint-stock companies whose shareholders were the enterprise-clients that had founded the banks, and allowing private and foreign ownership of banks in the context of joint ventures with Croatian (Yugoslav) legal entities. Croatia's banking system continued to operate in this legislative environment until a new regulatory framework, better suited to the needs of the newly-independent state and to a market economy, was developed and adopted in 1992–94.

20. The 1992 **Law on the National Bank of Croatia** designated the CNB as the regulator and licensor of banks, subject to the provisions of the Law on Banks and Savings Banks (see below). The law authorized the CNB to examine banks and to require banks to submit financial reports to the CNB. In the event of irregularities in the operations of a bank, the CNB was authorized to propose to the bank appropriate remedial action, including increasing capital, ceasing lending activities, and removing the officers of the bank. If the bank failed to adopt the remedial measures, the CNB was empowered, based on the decision of the Governor, to require the bank to accept the remedy. If it did not, the CNB was empowered to suspend all activities of the bank, to appoint an employee of the CNB to supervise the suspension of activities, and to revoke the bank's license.[10]

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[9]The state also holds shares in the banks via the BRA (through the rehabilitation process), and the Pension Fund and the Croatian Privatization Fund (through the privatization process).

[10]The lack of specificity of the law with regard to the type of interventions permitted and the absence of protection from legal claims by banks for compensation for damages arising from the CNB's actions could discourage or delay the central bank from prescribing timely remedial measures.

21. According to the 1993 **Law on Banks and Savings Banks**, a bank is defined as a joint-stock company or limited liability company which is authorized to, inter alia, accept all types of deposits, grant loans, engage in foreign exchange transactions, and effect payments. However, banks may not engage in insurance activities or manufacture or sell goods. The law grants the CNB the power to issue licences, including for branches and subsidiaries of foreign banks. The CNB may also issue a partial licence to a bank (which entails a lower minimum capital requirement) that permits the bank to undertake all the activities of a full bank, with the exception of making international payments and lending. The CNB also licences savings banks, whose activities are limited to the acceptance of deposits from natural persons and the granting of loans to natural persons and small businesses. The Banking Law also provides a detailed list of activities which constitute a violation of the law (including performing unauthorized operations and failing to observe lending limits or maintain solvency). This list is more extensive than the one enumerated in the Central Bank Law and also provides for levying fines against banks and savings banks and their officers.

22. These two laws specify the core responsibilities of banks and savings banks with respect to licensing and prudential requirements, as outlined below.

Licensing requirements

23. Bank licensing is the responsibility of the Sector of Control and Supervision. In order to establish a bank, an investor (or group of investors) must satisfy the following minimum capital requirements: DM 1 million for a savings bank; DM 5 million for a commercial bank with a restricted license; DM 15 million for a fully-licensed commercial bank; and DM 2.5 million for a branch of a foreign bank. Licenses are granted on the basis of evidence that the minimum capital requirement has been met, that the management of the bank possesses adequate experience and expertise, and that an appropriate business strategy will be pursued. The appointment of a president of a bank's management board is subject to the prior approval of the CNB.

Prudential requirements

24. According to the Banking Law, banks are subject to a range of prudential regulations designed to safeguard the stability of the banking system and individual banks. In order to monitor compliance, banks are required to report to the CNB on a regular basis a prescribed set of data.

Capital adequacy ratio

25. Banks are required to maintain their "liable" capital above 8 percent of risk-weighted assets as defined by the BIS,[11] and are obliged to submit to the CNB quarterly reports on this capital ratio. Reported capital adequacy ratios (CARs) are dependent on the accounting standards used to measure profits and the classification rules used to assign assets to the various risk categories. In this regard, implementation guidelines for Croatia's accounting standards do not uniformly conform to international standards, and classification rules are not always consistently applied.

Provisions for bad and doubtful debts

26. Banks are required to make specific provisions to cover identified potential loan losses and to set aside general reserves against potential losses from risky investments and off-balance sheet items. These regulations are consistent with international best practice.

Large credit exposure

27. Total exposure (including loans and other claims) to a single borrower may not exceed 30 percent of liable capital. A bank must notify the CNB if the indebtedness of a single borrower exceeds the prescribed limit, and the CNB will inform all banks of the borrower's total indebtedness and the number of banks to which he is indebted. The sum of all single-borrower exposures in excess of 20 percent of liable capital may not exceed 200 percent of liable capital. All loans in excess of 20 percent of liable capital must be approved unanimously by the bank's management board, and the CNB must be notified of such decisions.

Related party lending

28. A shareholder with more than 5 percent voting rights (10 percent prior to 1996) may be granted loans of up to 5 percent of liable capital only by the unanimous decision of the management board and with the previous consent of the bank's supervisory board. Total lending to shareholders may not exceed 30 percent of liable capital. Lending to members of the management or supervisory boards requires the unanimous approval of the management board and the consent of the supervisory board; however no quantitative limits on loan size exist.

Foreign currency regulations

29. A bank's open foreign exchange position (including forward positions and foreign-currency-indexed assets and liabilities) is restricted to 30 percent of liable capital. In order to

[11]Liable capital is defined as the sum of equity capital and supplemental capital up to the amount of equity capital.

ensure foreign currency-payment liquidity, banks are also required to hold the equivalent of at least 53 percent of their short-term (up to one year) foreign currency denominated liabilities in short-term foreign currency denominated assets.

Acquisition of equity in banks and nonbanks, and limits on real asset holdings

30. A bank must notify the CNB of all shareholders with an individual equity holding exceeding 10 percent of total voting shares. A bank must also notify the CNB of any change in owners' equity. An individual shareholder of a bank may acquire more than 10 percent of total voting rights only with the prior consent of the CNB. Further, a bank must seek approval from the CNB before acquiring or ceding a stake in another bank or company that is greater than 10 percent of the bank's liable capital. A bank must also notify the CNB of any change in its holding in another company. A bank's investments in land, buildings, equipment, and office facilities may not exceed 30 percent of liable capital. The sum of a bank's total investments in land, buildings, plant, office equipment, and owner's equity in banks and other companies may not exceed 70 percent of liable capital.

31. Despite the relatively short period during which the existing Central Bank and Banking Laws have been in effect, major revisions to the legislation are needed to strengthen the current legal framework. First, the enforcement and regulatory powers of the CNB could be increased in a number of areas, including through the introduction of an automatic "correction plan," which stipulates increasingly more stringent measures that banks would need to adopt in the face of a declining CAR. Second, the law should provide for a measured and timely response to failing or insolvent banks by incorporating, for example, the concept of a provisional bank administrator whose role would be to recommend a course of action (including, if appropriate, an exit plan) to the CNB without recourse to government funds, thereby superseding the Bank Rehabilitation Law. Third, the licensing powers of the CNB should be clarified in order to provide a greater degree of certainty for applicants and to ensure that the central bank's decision-making procedures are transparent, consistent and responsive. Fourth, the law should protect the central bank, the Governor, and the board from legal prosecution in circumstances arising from the performance of their official duties. Finally, the Banking Law needs to be updated if it is to conform to European Union requirements. The CNB has prepared a new Banking Law in line with these improvements, which is expected to be approved by parliament during the autumn 1998 session. The CNB also plans to draft a new companion Central Bank Law, which is expected to be approved in 1999.

32. The third piece of legislation governing banks' operations is the 1994 **Law on the State Agency for Savings Deposit Insurance and Bank Rehabilitation**, which established a bank-funded deposit insurance scheme covering the savings deposits of individuals held in Croatian banks and savings banks. Deposits of legal entities are not protected. The state-owned Deposit Insurance Agency (DIA) is responsible for administering the scheme and assessing premiums to be levied on these financial institutions. In the event that a bank enters bankruptcy, the DIA is authorized to pay (in kuna) to insured depositors or, if applicable, to

the purchaser of the failed bank's operations, 100 percent of the first HRK 30,000 (or foreign-currency equivalent) per account-holder on deposit with the bank and 75 percent of deposits between HRK 30,000 and HRK 50,000 (or foreign-currency equivalent).[12] From July 1, 1998 the maximum coverage was raised to HRK 100,000 and the previous graduated system was eliminated. All premiums are paid—and all the Agency's investments are held—in local currency, while about 80 percent of insured deposits are denominated in foreign currencies. At least 20 percent of accumulated premiums must be held in a giro account at the CNB, and the rest may be invested in short-term government or CNB bills only. The size of the deposit insurance fund is capped at 5 percent of insured deposits. The DIA is also authorized to rehabilitate banks by issuing bonds or injecting liquidity into failing banks and, in the process, writing off bad assets and acquiring equity in the bank.

33. The scheme began operation in June 1997. Initial contributions were levied on banks' capital and deposits, and at end-1997, the insurance fund had a balance of HRK 156 million (US$25 million). From 1998, premia are levied only on insured deposits, currently at the flat rate of 0.2 percent of insured deposits per quarter. The first claim on the DIA took place in early 1998 with the liquidation of Vukovarska Banka (a small regional bank), under which the fund was obliged to pay out HRK 10 million. Given the concentration of household deposits in the large banks, the existing system of flat-rate premia places a burden on these banks that may not reflect their likelihood of drawing on the system. For this reason, the authorities are considering moving to a risk-based system of differentiated premia (most likely based on banks' deposits rates and CARs) later in 1998.

F. Banking Sector Performance

34. Based on a range of indicators, banking sector performance is strong and in several areas improved markedly over the past few years reflecting the effects of the rehabilitation program and the improvement in the macroeconomic environment. However, this assessment is based on data provided by the banks, which may overstate the financial health of these institutions (see below).

35. Based on banks' own data, banking sector profits more than doubled between 1995 and 1996, while the return on assets increased from 0.3 percent to 0.9 percent, due primarily to stronger net interest income which grew more rapidly than banking activity. This improvement occurred despite a steady decline in intermediation spreads, due to a decrease in the proportion of nonperforming loans (reflecting to a large degree the write-off of problem loans under the rehabilitation program) and a decline in the share of assets earning a below

[12]Insurance coverage applies to each natural person account-holder of a bank, so that if an individual holds deposits in more than one bank his accounts in *each bank* are insured up to the specified limits.

market yield.[13] The effect of higher income on profitability was, however, muted by an increase in operating expenses, which rose more rapidly than total assets. This most likely reflected the incursion of start-up costs by new banks ahead of the expansion of their banking activities and outweighed the effects of cost-containment measures in existing banks. As a share of total assets, provisioning for bad and doubtful loans remained relatively stable.

36. The CAR for the sector as a whole increased in 1996 to 19.6 percent from 17.7 percent in 1995,[14] well above the minimum rate of 8 percent mandated by the CNB. Due to the recapitalization of the banks under rehabilitation, capital adequacy grew among the group of preexisting state banks. Reflecting their weight in the banking sector, the CAR for the whole sector was mainly influenced by the behavior of these banks. In contrast, new banks, which started from very strong capital positions, experienced declines in their CARs as they expanded their lending activities.

37. Despite the rapid expansion in bank credit to the private sector since 1994, according to bank data the quality of banks' loan portfolios improved during the period. The proportion of loans rated in the highest category increased from 87 percent at end-1994 to 90 percent in June 1997.[15] Similarly, the proportion of nonperforming loans (categories C–E) fell from 8.9 percent to 6.1 percent during the same period. In part, this improvement reflects the cleanup of balance sheets of the banks involved in the rehabilitation program. However, this apparent recovery in loan quality may also reflect the fact that banks engaged in debt-equity swaps with their nonperforming clients, exchanging bad loans for other assets (including equity) used as collateral by their creditors. This view is supported by the fact that the proportion of nonperforming *total assets* (loans and other assets) remained stagnant, indicating that banks substituted bad loans for bad equity in their balance sheets. Off-balance sheet items, which have grown rapidly and stood at 61.7 percent of banks' balance sheets at end-1996, also contributed to a deterioration in the quality of banks' portfolios. The proportion of these items, which include guarantees and unfunded loan commitments, that were classified as nonperforming increased from 6.6 percent in 1995 to 7.1 percent in 1996.

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[13]At end-1996, the share of assets earning a below-market-yield (including counterpart foreign currency bonds, "big bonds," required reserves at the CNB, and required off-shore foreign currency deposits) declined by 4 percentage points from the previous year to 31.5 percent.

[14]Based on banks' own data.

[15]Banks are required to assign an A–E risk grade to all their assets. Assets rated "A" correspond to entities that settle their obligations within 45 days of the due date. Assets rated "B" correspond to claims on entities whose payments are delinquent between 45 and 60 days. Assets rated "C" or below correspond to entities whose obligations are more than 60 days delinquent or have been rescheduled.

Table 2. Croatia: Quality of Banks' Loan Portfolios

(In percent, end of period)

Risk Classification	1994	1995	1996	1997 1/
A	87.3	86.7	88.8	89.6
B	3.8	5.6	4.1	4.4
C	4.2	4.2	4.2	3.4
D	2.8	1.8	1.7	1.1
E	1.9	1.6	1.3	1.6
Nonperforming (C–E)	8.9	7.6	7.1	6.1

Source: Supervision Department of the CNB.

1/ June 1997.

38. These indicators of banking sector performance must be interpreted with caution, however, as they are based for the most part on data provided by banks that have not been verified by the CNB. After analyzing the banks' financial statements, the CNB concluded that in 1996 banks tended to understate the riskiness of their assets by misclassifying loans to the tourism, agriculture, and shipbuilding sectors, and by booking "big bonds" and investments at face value even though the first group of assets had been trading at a 40 percent discount, while much of the equity acquired by banks in the aforementioned sectors had a market value considerably below par.[16] As a result of these and other factors, the CNB estimated that at end-1996 banks were underprovisioned by HRK 2.9 billion (equivalent to 31 percent of liable capital, and more than four times reported 1996 profit). Taking into account this correction to the level of capital (but with no correction for the misclassification of risk-weighted assets), the end-1996 aggregate CAR should be reduced by some 4.3 percentage points to 15.3 percent. While such a ratio remains in the comfort zone for the sector as a whole, both reported CARs and the required downward revision to capital vary considerably across banks, implying the potential need for a capital injection in a number of banks.

G. Conclusion

39. The sectoral outlook over the coming years is somewhat mixed. A continued recovery of the economy and a strengthening of investment demand would signal a greater role for financial intermediation in the domestic economy. However, increasing competition from foreign banks and the drying up of new financing sources following the repatriation of the

[16]Croatian National Bank, "Banks at the Crossroads: A Report on the Banking System in the Republic of Croatia," September 1997.

bulk of foreign savings will place inefficient banks at a distinct disadvantage. Already, evidence of enhanced competition within the industry is apparent, with a narrowing of intermediation spreads and the bidding up of deposit rates by some of the newer banks to abnormally high levels in an attempt to draw clients from established banks (and charging correspondingly high credit rates to cover the cost of funds, thereby raising concerns about the riskiness of their lending). In this increasingly competitive environment, improving the accuracy of banks' financial accounts, strengthening bank supervision, and enhancing the CNB's enforcement powers should become key policy priorities. Moreover, since the size of the market may not be sufficient to support all existing banks over the medium term, an orderly, market-driven exit strategy should be developed in the context of the legal framework currently under preparation in order to minimize the disruption to the sector as a whole from the closure of individual banks.

II. Croatia: Selected Aspects of Export Performance and Prospects [17]

A. Introduction

40. Between 1993 and 1997, Croatia's total export receipts increased by 13 percent (Table 3), compared with an average increase of 79 percent for other Central and Eastern European Countries (hereafter referred to as the CEECs).[18] This chapter examines Croatia's export performance in more detail (Section B), focusing on three potential explanations for its poor relative export performance: worsening indicators of external competitiveness (Section C); the implications of the war and the effects of post-war reconstruction on the demand for goods produced in export sectors (Section D); and Croatia's trade relations with the European Union (EU) and other CEECs (Section E). In addition, the link between trade performance and foreign direct investment (FDI) is considered (Section F). In particular, this section discusses how improved access to EU markets by some CEECs has influenced FDI flows into those latter countries, and whether or not there have been (or could be) any detrimental effects on Croatia's FDI inflows and related exports because it has not been party to the same trade agreements as a number of other countries in the region. The chapter ends with some concluding remarks (Section G).

B. Recent Comparative Export Performance

41. The collapse of the Council of Mutual Economic Assistance (CMEA) and the Soviet Union in 1991 resulted in a large contraction of trade within the transition economies of Central and Eastern Europe.[19] In response, the CEECs undertook a process of reform which had a profound effect on their foreign trade regimes: tariff levels were reduced, many

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[17] Prepared by Jimmy McHugh. Helpful suggestions were received from Boris Vujčić and Tomislav Presečan.

[18] The sample of Central and Eastern European countries included in this chapter are: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia. The growth rate refers to export receipts denominated in deutsche mark, as the deutsche mark is a more representative unit of account for Croatian trade than the U.S. dollar. Recent exchange rate movements tend to reduce export growth when measured in U.S. dollars because of valuation effects from the substantial appreciation of the U.S. currency.

[19] Blejar and others (1993), Kornai (1993), Holzmann and others (1995), and Rosati (1994) provide accounts of the collapse of demand for Eastern European exports following the demise of the CMEA and the USSR.

quantitative restrictions were eliminated, direct trade subsidies were lowered or abolished, and exchange systems were liberalized.[20]

42. More recently, the benefits of this reform process have begun to be felt. Table 3 highlights the export performance of individual CEECs during 1993–97: Estonia, Hungary, and Poland recorded the fastest export growth, with growth rates in excess of 120 percent.[21] Over the same period, the average (unweighted) rate of growth for the whole sample of CEECs was 79 percent (Figure 1). By comparison, Croatia's exports grew by just 13 percent, the lowest rate of growth recorded by any of the countries in the sample. Furthermore, export volume in Croatia actually declined during 1995 and 1996.[22]

43. Perhaps the most significant consequence of the collapse of the command economy system was the reorientation of trade toward the west, in particular toward the EU (Table 4). Between 1993 and 1997, total CEEC exports to the EU increased by 18 percent a year, with Hungary, the Slovak Republic, and Romania registering export growth in excess of 25 percent per year. This rapid growth in trade meant that the EU became the dominant export market for the CEECs.[23]

44. Croatia has largely missed out on the rapid expansion of CEEC exports to this market. Between 1993 and 1997, its exports to the EU increased by an average of just 1 percent per year. Thus, Croatia's share of the EU market declined from 0.27 percent in 1993 to just

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[20] For a comprehensive review of the measures undertaken by the CEECs since 1989 and a comparison with the previous trade regimes, see Drábek and Smith (1995).

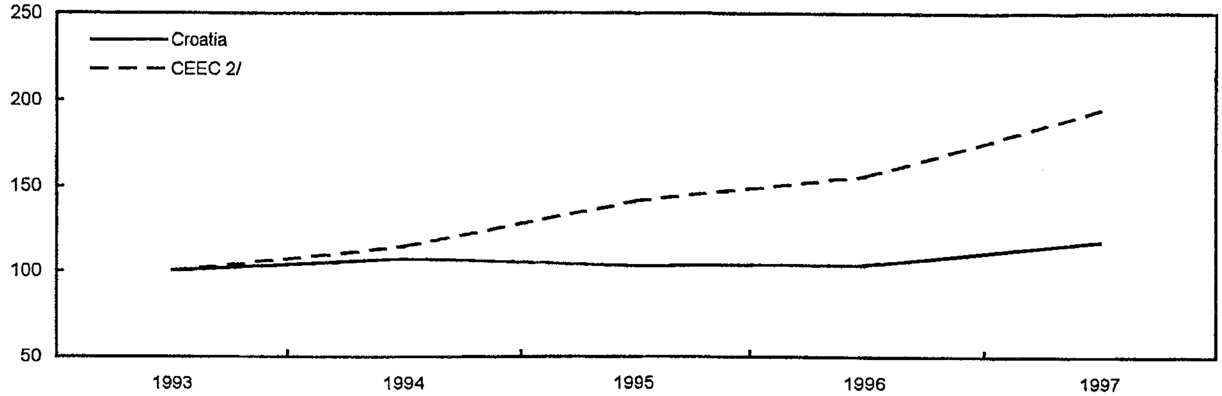
[21] The dissolution of the SFRY and Czechoslovakia has meant that a complete set of data was unavailable for the years prior to 1993.

[22] Based on the WEO export deflators, the volume declines were 1.2 percent and 0.5 percent, respectively, in 1995 and 1996.

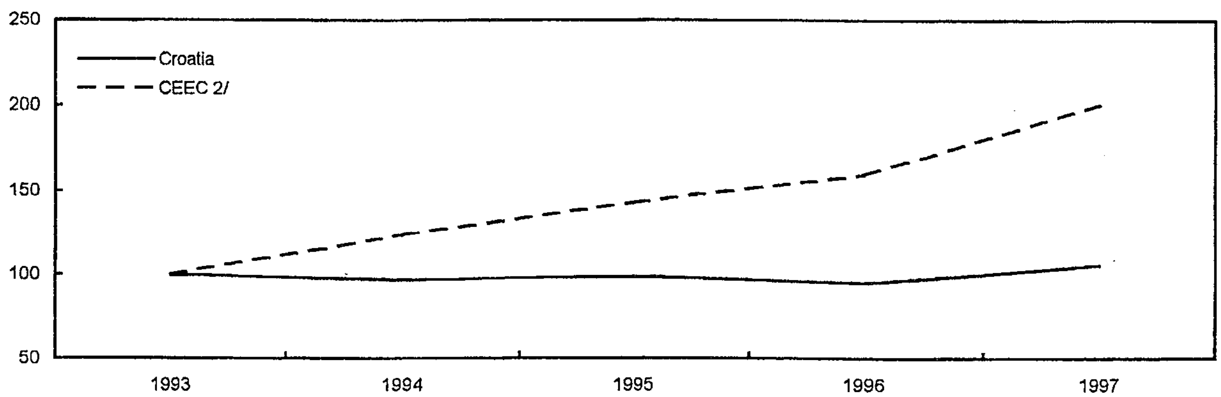
[23] An analysis of the reorientation of CEEC exports to the EU is contained in "Impact of EMU on Selected Country Groups: Background Material for Central and Eastern European Countries and Selected Mediterranean Countries," SM/98/140 (June 15, 1998). Briefly, the four reasons for this reorientation were: increasing trade liberalization through the extension by the EU of the Generalized System of Preferences and other trade agreements; the natural tendency for trade to gravitate toward Western Europe once markets became freer; the redirection of goods from the CMEA to other markets through significant cuts in prices, or so-called distress exports; and the supply effects from structural reform and macroeconomic stabilization.

Figure 1. Central and Eastern Europe: Export Performance 1/
(1993=100)

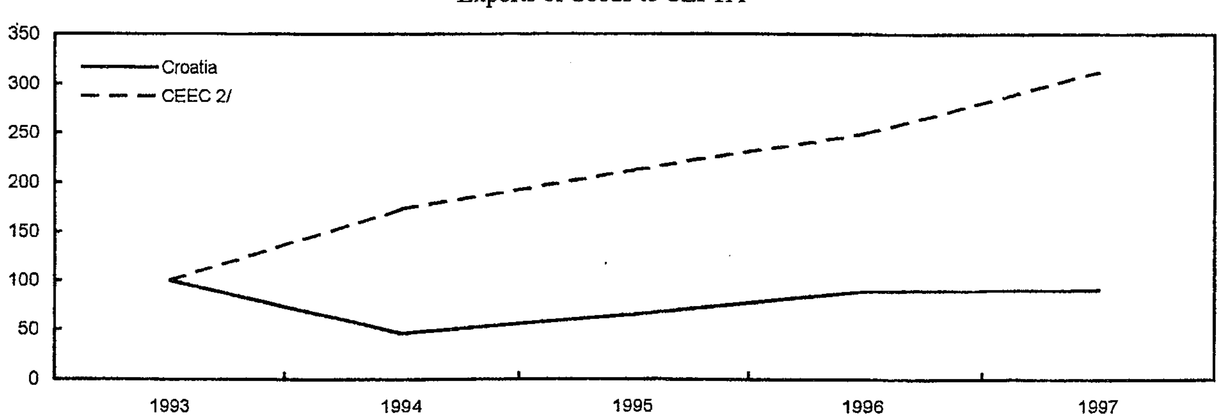
Exports of All Goods



Exports of Goods to the European Union



Exports of Goods to CEFTA



Sources: IMF Direction of Trade Statistics, World Economic Outlook, and IMF staff estimates.

1/ Original exports series are denominated in deutsche mark.
2/ The indices for CEEC exports in each chart are simple averages of individual country data.

0.19 percent by 1997 (Table 5).[24] In contrast, Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic all enjoyed significant increases in their market share; Slovenia more or less maintained its share at its 1993 level.

45. Within the CEECs, intraregional trade liberalization has been another major factor in the recovery of exports. The proliferation of trade agreements—most notably the Central European Free Trade Agreement (CEFTA), but also some bilateral trade agreements—has reduced trade barriers within Eastern Europe.[25] These export markets have grown faster than either the EU market or markets in the rest of the world, reflecting a return to some of the trade patterns that prevailed during the socialist era.

46. Not surprisingly, some of the fastest rates of export growth to the CEFTA area have been enjoyed by CEFTA member countries themselves (Table 6). For example, since 1993 the Czech Republic and Slovenia have almost doubled their export receipts, while in Hungary and Poland these receipts have about tripled. Non-CEFTA countries have also enjoyed strong export growth to CEFTA countries: for example, both Estonia and Romania (which only recently joined CEFTA) doubled their exports receipts to these countries.

47. In contrast, Croatia's export growth to the CEFTA countries has been both volatile and comparatively small. During the Yugoslav conflict, these exports declined significantly. With the onset of peace in 1995, Croatian exports to the CEFTA area grew rapidly (41 percent and 37 percent in 1995 and 1996, respectively). However, growth was more subdued in 1997, when exports grew by 2 percent. Notwithstanding positive growth in 1995–97, Croatia's exports to the CEFTA countries have yet to return to the level achieved in 1993.

C. External Competitiveness

48. To what extent can Croatia's relatively weak export performance be accounted for by changes in external competitiveness? One view suggests that a real exchange rate appreciation reduces export competitiveness by raising the price of domestic exports relative to foreign exports, thereby reducing demand for domestic exports. However, some commentators argue that the real exchange rate appreciations that have occurred in several transition economies since 1992 are a special case and that the implications for external competitiveness may well be overstated. According to this line of reasoning, during the final stages of central planning, the exchange systems of the CEECs were heavily regulated and currencies were not convertible. As a consequence, during the initial stages of transition, there were large discrepancies between purchasing power parity and the prevailing exchange rates. Thus, it is

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[24] Based on total EU imports, net of intra-EU trade.

[25] The members of CEFTA are the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, and Slovenia. See Box 3 for details on CEFTA.

difficult to judge the evolution of external competitiveness by taking as a starting point the initial phase of transition (Oblath, 1994).

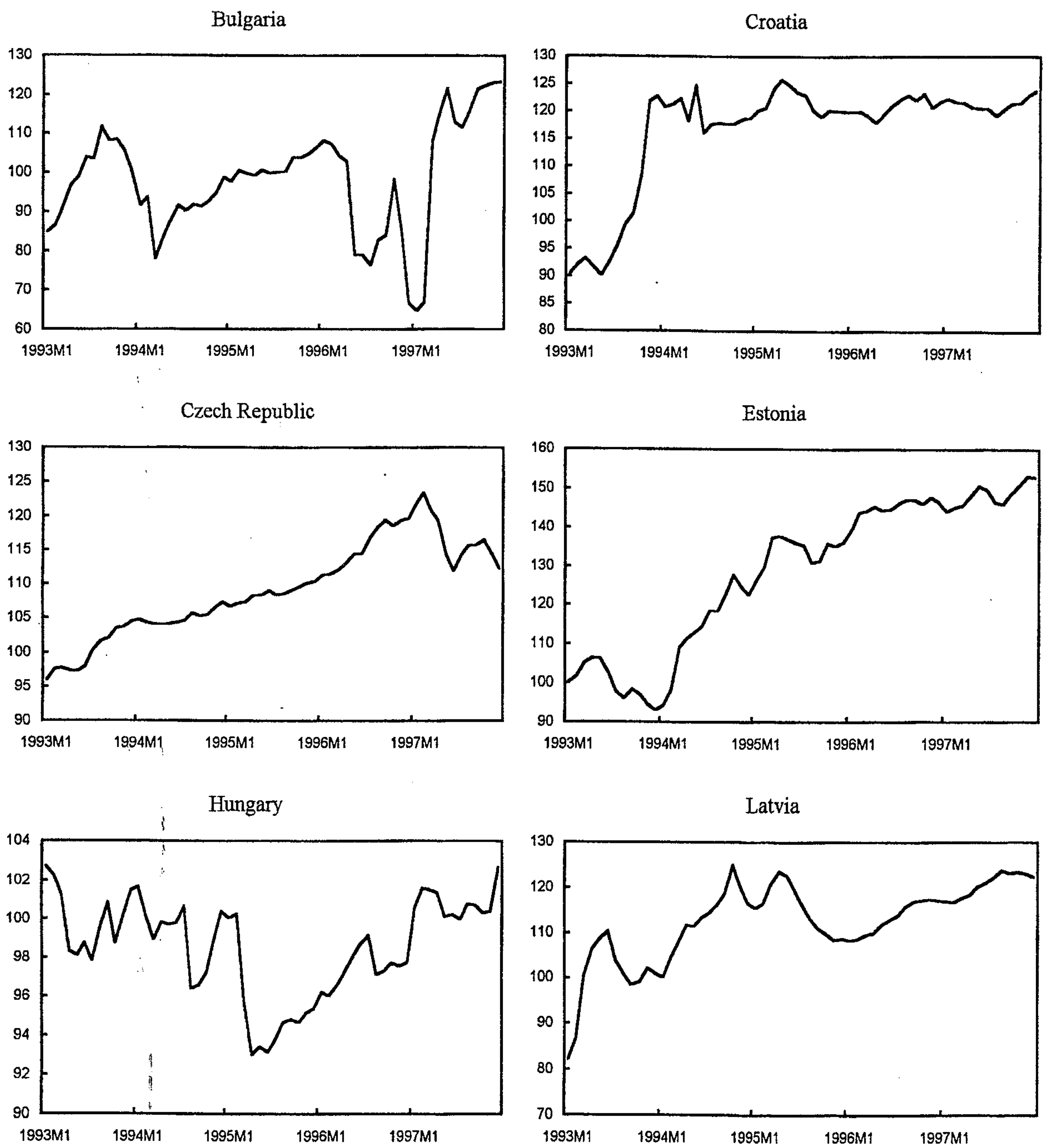
49. Halpern and Wyplosz (1996) expand this idea in arguing that exchange rate developments in many transition economies have followed a common pattern. During the early stages of transition, when significant macroeconomic weaknesses were present, the real exchange rate suffered an initial massive depreciation. However, once the macroeconomic situation stabilized, and the process of structural transformation began, the real exchange rate began to appreciate. Halpern and Wyplosz suggest that this real appreciation is in response to two different effects. The first effect could be described as the overshooting effect: the initial depreciation often overshot its equilibrium level, and so a subsequent appreciation was inevitable. The second effect could be described as the productivity effect. Once the transition process took hold, significant productivity and efficiency gains were realized, which encouraged an appreciation in the long-run equilibrium exchange rate. If this latter effect was significant, any observed appreciation would be consistent with maintaining external competitiveness.

50. Owing to data limitations, the only readily available measure of the real exchange rate for all the CEEC economies is the CPI-based real effective exchange rate (REER-CPI). Table 7 and Figure 2 provide data on the REER-CPI for the selected sample of CEECs. Following Croatia's stabilization program of October 1993, when the government decided to limit the exchange rate to a narrow range against the deutsche mark, the real effective exchange rate appreciated dramatically (in 1994 it was 20 percent higher than the previous year). Thereafter, the REER has remained quite stable. This stability suggests that changes in external competitiveness as measured by the REER-CPI cannot account for Croatia's relatively weak export performance much beyond 1994.

51. This point is reinforced by the observation that several other CEECs recently experienced significant exchange rate appreciations while registering substantial export growth. For example, during 1993–97, the real effective appreciations for Estonia, the Czech Republic, Latvia, Lithuania, and Poland were the same as, or larger than, for Croatia—though the rate of appreciation was more gradual. Bulgaria, Romania, and the Slovak Republic also experienced significant appreciations, albeit less than Croatia's.

52. An attempt was also made to assess relative external cost competitiveness by exploring various labor market indicators (Table 8), recognizing that there are important data limitations and that the results must therefore be interpreted with considerable caution. For example, the accuracy of the underlying data is, of course, an issue. In addition, coverage is confined to manufacturing or industrial sectors, and therefore excludes the services and informal (or unrecorded) sectors, which can affect external competitiveness. Furthermore, productivity is measured on a gross output rather than a value added basis; thus industries can, in theory, record significant productivity gains while actually making losses.

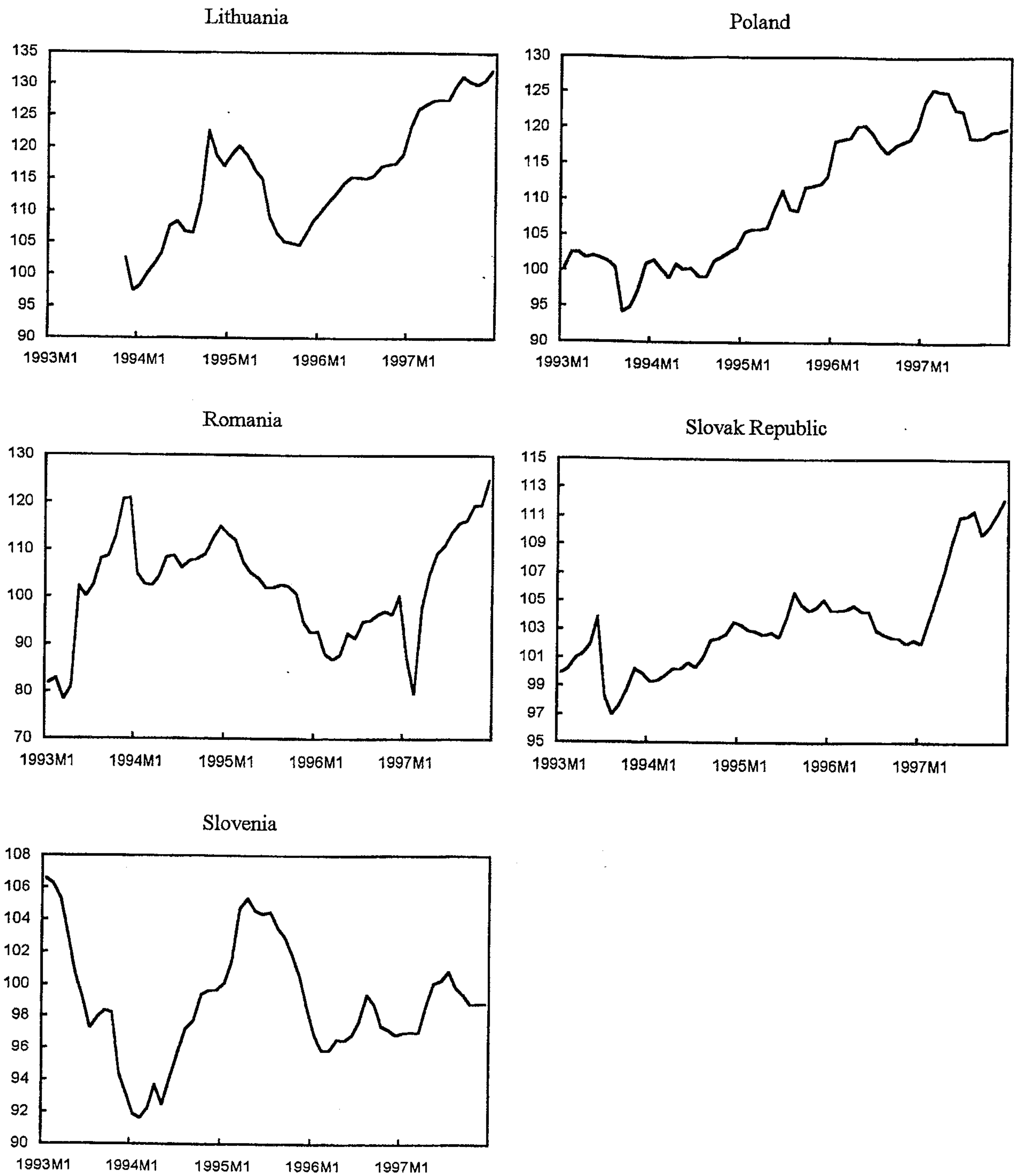
Figure 2. Central and Eastern Europe: Real Exchange Rate Developments 1/
(1993 = 100)



Source: INS database.

1/ CPI based calculation.

Figure 2 cont. Central and Eastern Europe: Real Exchange Rate Developments 1/
(1993=100)



Source: INS database.

1/ CPI-based calculation.

53. With these caveats in mind, Table 8 clearly indicates that wages are high in Croatia compared with other transition countries: in 1997, the only country with higher deutsche mark-denominated wages was Slovenia. Real manufacturing wage growth also points to a significant deterioration in cost competitiveness. In the four years after 1993, real wages deflated by domestic producer prices increased by over 103 percent, suggesting a possible squeeze on the manufacturing sector's profit margins. In contrast, average real wage growth over the same period in the rest of the CEECs was 23 percent.

54. It must be noted that a simple comparison of wage levels can provide a potentially misleading indicator of labor costs, since it does not take into account differences in productivity. While productivity growth could be an offsetting factor, cross-country comparisons suggest that such growth has not been considerably stronger in Croatia.

55. Combining the data on wage costs and productivity indicates that Croatia has recorded one of the highest rates of growth of unit labor costs in the region: an increase of 70 percent from 1993 to 1997, compared with smaller increases, often times by substantial margins, in Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, and Slovenia. While the Baltic countries experienced much more rapid growth in unit labor costs during this period, deutsche mark-denominated wages in the Baltic countries were extremely low in the base year relative to the rest of the CEECs. Thus, despite the rapid growth of their wage costs over the last four years, their strong export performance in recent years suggests that the rise in unit labor costs has not put the Baltic countries at a competitive disadvantage.

56. Concerns about external competitiveness in Croatia are borne out by a recent study by Vujčić and Presečan (1997). Their study indicates that much slower growth, on average, of Croatian exports of manufactured goods relative to other transition countries has been accompanied by slower trade specialization within various product groups. Using indices of intra-industry trade, and correlating these with export performance, they conclude that Croatia has lagged behind the comparator group economies in improvements in competitiveness.[26]

D. The Impact of War

57. Precise estimates of the effects of the war on export performance are difficult to obtain, but there is considerable anecdotal evidence suggesting that the impact was considerable. The tourist industry was deeply affected by the conflict, with estimates of lost tourist receipts as high as US$13 billion (Radnić and Ivandić, 1997). In 1989, the year immediately prior to the conflict, Croatia received over 54 million overnight foreign tourist stays. In 1991, this figure had fallen to just under 7 million overnighters. While the tourist industry has recovered somewhat in recent years—in 1997 Croatia received 25 million foreign overnighters—the industry is still operating considerably below pre-war levels. Furthermore,

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[26]The comparator group of countries is the Czech Republic, Poland, the Slovak Republic, and Slovenia.

direct physical damage inflicted upon the tourist industry was estimated to be at least US$235 million (Radnić and Ivandić, 1997).

58. In terms of merchandise export performance, perhaps the most significant effect of the war was the disruption of the main traffic links between the central, eastern, and southern parts of the country. The war also disrupted the large volumes of trade transported on the Danube River. These transportation problems created severe difficulties for trade relations within the former SFRY, which were particularly important prior to the war. A study undertaken by the Zagreb-based Statistics Institute indicates that in the immediate pre-war period, over half of all goods produced within Croatia, and whose final user was outside the republic, went to other former Yugoslav republics (Stjepanović, 1990). However, many of these transport connections were re-established after July 1995.

59. During the early years of the conflict, the Croatian government's need to finance the war created significant macroeconomic instability as government deficits were financed through monetary expansion. Macroeconomic instability deeply affected Croatia's access to international capital markets during the early 1990s. In particular, export finance was difficult to obtain. Furthermore, the conflict required a reallocation of labor toward military purposes. While there are no precise data on the extent of the mobilization, it was undoubtedly considerable.

60. There is tentative information that suggests that post-war reconstruction has also affected export performance. An analysis of the sectoral composition of Croatia's exports reveals that import growth outstripped export growth in many sectors, suggesting that goods previously produced for export may have been diverted toward domestic markets (Table 9). The most adversely affected sector would seem to be construction materials, which accounted for about 14 percent of total exports in 1997. During 1995–96, construction exports fell by 15 percent while imports increased by 60 percent.

E. Trade Relations

61. The CEECs have actively sought closer political and economic relationships with the EU and, to a lesser extent, with the member countries of the European Free Trade Association (EFTA).[27] At the same time, the CEECs have tried to rebuild traditional markets within Central Europe through initiatives such as bilateral trade agreements and the CEFTA.[28] In contrast to several other CEECs, Croatia has not negotiated any new trade arrangements with either the EU or EFTA, nor has Croatia participated in regional free trade agreements.

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[27]Trade arrangements between the CEECs and the EU are discussed in Temprano and Feldman (1998).

[28] For a survey of the development of intraregional trade initiatives and the creation of CEFTA, see Rudka and Mizsei (1994).

62. It is worth noting that Croatian firms enjoyed the benefits of preferential trade agreements with the EU long before the rest of Central and Eastern Europe. The SFRY concluded a number of trade agreements from 1970 onward, including a trade and cooperation agreement in 1980. Following the dissolution of the SFRY, the EU unilaterally decided to continue to apply the commercial terms of the agreement to all the former Yugoslav republics. This may in part help explain the poor growth performance of Croatian exports to the EU, relative to other CEECs: the longer period of preferential access would have resulted in historically higher volumes of Croatian exports to the EU relative to other CEECs, and so lead to lower relative growth rates in recent years.

63. Table 10 provides a summary of the current status of trade relations between the EU and the major CEECs. The EU has offered a number of facilities for promoting trade and development within the CEECs (Box 1). However, the main vehicle for encouraging closer EU-CEEC trade links has been the Association Agreements (also known as Europe Agreements), which are, in effect, stepping stones to eventual full membership of the EU.[29] Croatia, the other former Yugoslav republics (with the exception of Slovenia), and Albania are the only CEECs that have not signed Association Agreements with the EU.[30]

64. In terms of trade policy, the primary benefit of an Association Agreement is that the EU is obliged to phase out all statutory tariffs on CEEC industrial goods. The Agreements are "asymmetric" in the sense that the EU is required to eliminate tariffs more rapidly than the CEECs.[31] However, the EU continued until recently to impose quotas on so-called sensitive industrial goods, such as textiles, clothing, and footwear. Furthermore, contingent protection instruments such as voluntary export restraints (VERs) and anti-dumping duties are permitted under the Association Agreements.

65. The impact of the Association Agreements upon CEEC-EU trade has been the subject of some debate. Inotai (1994) and Messerlin (1992) make the points that the Association Agreements do not provide any special treatment for the CEECs and that the extent of tariff reduction and increased access to EU markets was initially rather limited. The extensive protection initially offered by the EU to those goods on the sensitive list has been criticized by Faini and Portes (1995) and others. Furthermore, the lack of progress in reducing tariffs on agriculture—a major sector within the CEECs—has limited the impact of the trade liberalization embodied within the Agreements (Drábek and Smith, 1995).

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[29]For an analysis of the Europe Agreements and the prospects for EU membership of CEECs, see Temprano and Feldman (1998).

[30]In the case of Slovenia, an Association Agreement was signed in June 1996, but it is still being ratified.

[31]In general, the Association Agreements give the CEEC signatories a 10-year transition period during which all tariffs on industrial goods must be eliminated.

Box 1. Economic Relations Between Central and Eastern Europe and the European Union

The EU has created a number of mechanisms through which it fosters closer economic ties with the CEECs.

PHARE - This initiative provides grants to CEECs, mostly to finance technical assistance. Its objectives are to help these countries develop market institutions, adopt EU legislation and standards, and "strengthen democracy to the stage where the participating countries are ready to assume membership of the European Union."

OBNOVA - Created in July 1996, this program aims to reinforce the Dayton Accord through grant assistance. The program covers four countries; Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia, and the former Yugoslav Republic of Macedonia (FYRM). The main objectives of the program are: regional cooperation projects, infrastructure rehabilitation, the return and reintegration of refugees, and the consolidation of democracy.

Trade and Cooperation Agreements (TCA) - The EU granted most favored nation status and the phasing out of selective (discriminatory) quantitative restrictions. These Agreements have in most cases been replaced by Association Agreements.

Autonomous Preferential Trade Regimes (APTR) - After the dissolution of the SFRY, the EU renounced the Trade and Cooperation Agreement of 1980. However, it continued to apply the commercial terms of the agreement unilaterally to each of the new republics that arose out of the SFRY, including Croatia. The EU refers to this trade arrangement as the "Autonomous Preferential Trade Regimes." The APTR are subject to annual review.

Interim Europe Agreements - These Agreements allowed for the early implementation of the trade-related aspects of the more comprehensive Europe Agreements.

Association Agreements - Also known as Europe Agreements, these aim to integrate the economies of Central and Eastern Europe with the European Union. The Agreements aim to establish a free trade area for industrial goods, with a transition period of 10 years. These Agreements also cover the progressive liberalization of the trade in services, liberalization of payments, free movement of capital, and the protection of intellectual property rights. However, the Agreements foresee only limited liberalization of trade in agricultural products. Also, some sensitive industrial products, such as steel and textiles, were subject to slower liberalization timetables. While Association Agreements may form the basis of future full membership in the EU, the agreements do not imply any EU commitment to admit the associated countries to full membership in the future.

66. Nevertheless, the absence of an Association Agreement can adversely affect Croatian exports to the EU in three ways. First, there is the supply-switching effect: the majority of CEEC products will no longer be subject to EU tariffs, while all Croatian exports will continue to do so. Thus, at the margin, there will be a shift away from Croatian exports toward other CEEC exports. Table 11 provides information on the coverage and rates of EU tariffs applied to non-EU imports.[32] For many Croatian exports, the lack of preferential access creates a significant price differential relative to similar goods produced in other CEECs.

67. Second, the Association Agreements call for the harmonization of product standards and the elimination of other nontariff trade barriers. The elimination of such barriers will lower border prices and induce further supply switching away from Croatian exports toward goods produced by other CEEC countries.

68. Finally, the Association Agreements have strict rules of origin clauses (Box 2), which will divert trade away from Croatia and toward other countries that have concluded Association Agreements. In order to qualify for EU trade preferences, CEEC products must contain a significant value added component, produced either locally or within the EU. In order to encourage intra-CEEC trade, the EU introduced cumulation provisions, which enable countries that are party to Association Agreements to consider inputs from other countries with similar agreements as local content.

69. In addition, Croatia is not a member of CEFTA. Total trade to CEFTA countries constitutes only 18 percent of Croatia's exports, which may reflect the comparatively high tariff restrictions in place (Table 12).[33] The proximity of these markets suggests that the potential gains from membership could be significant.

70. Membership in CEFTA (Box 3) in the near future seems a remote prospect for Croatia. While negotiations on WTO membership are at an advanced stage, the possibility of an EU Association Agreement is very unlikely within the foreseeable future; thus, Croatia fails to meet one of the three criteria for CEFTA membership. While Croatia is in the process of negotiating bilateral agreements with each CEFTA member, only one agreement (with Slovenia) has been concluded so far. Negotiations are currently underway with Hungary and Poland. However, in the case of Poland, progress has stalled over agricultural issues.

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[32] Table 11 should be interpreted with caution, since the Association Agreements provide for a list of "sensitive" imports to which duty-free does not apply.

[33] Baldwin and others (1997) report that the CEECs' average applied tariff is 6.5 percent.

Box 2. European Union Rules of Origin

Rules of Origin (ROOs) establish the economic nationality of products. In a customs union or a free-trade area, ROOs determine when members provide preferential treatment for goods produced by fellow members. Under a free trade agreement, where each member maintains its own external tariffs, ROOs prevent nonmember countries from enjoying lower tariff rates by subjecting exports from nonmember countries routed through member countries with low external tariffs—but destined for member countries with higher external tariff barriers—as subject to the tariff rates of the final-destination country.

Each EU preferential trade agreement, including Association Agreements, has special protocols defining ROOs. A product can be given preferential treatment if it is either "wholly obtained" or has undergone a "substantial transformation" in an associated country.

In order to qualify for preferential treatment, firms must provide significant documentation proving that they are in compliance with ROO requirements. If compliance costs are high, then ROOs are, in effect, nontariff barriers (Hoekman, 1993). If conventional tariffs are low, then exporters may prefer to pay them, rather than pay the costs of providing ROO documentation proving the economic nationality of the goods.

The EU has recognized that if different ROOs are applied to each associated country, then both trade diversion and "hub and spoke" investment deterring effects may arise within the CEEC. In response, the EU has taken steps in recent years to facilitate the cumulation of origin among associated countries. This culminated in 1997 in the so-called *pan-European cumulation of rules of origin agreement,* which currently covers 31 countries including the 15 EU countries, the 10 associated CEECs, and the four EFTA countries. Under this agreement, materials from any of the 31 countries may be counted as local content by the associated country processing them. Obviously, these cumulation rules discriminate against those countries, such as Croatia, which do not have preferential EU trade arrangements.

F. Market Access and the Link with FDI

71. FDI is defined as the acquisition by foreigners of a controlling interest in a domestic firm. This controlling interest can manifest itself in two ways: the foreigner may acquire existing assets or may provide resources for the creation of new assets.[34] For the host country, FDI provides valuable technology transfers and improved management and marketing techniques. In the case of the CEECs, FDI is an important counterweight to the weaknesses of domestic capital markets. Domestic saving, which tends to be low by international standards, can be complemented by foreign saving. Foreign investors can access international capital

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[34] Sinn and Weichenrieder (1997) point out that the bulk of FDI in transition countries has typically not involved the development of new enterprises, but the acquisition of existing assets through the various privatization initiatives undertaken in each CEEC.

markets more cheaply than domestic investors, who tend to be viewed as being more risky. Furthermore, FDI tends to be sectorally concentrated in manufacturing. Given the CEECs' relative abundance of highly educated, low wage workers, FDI can play a vital role in exploiting the region's comparative advantage (Halpern, 1994).

Box 3. CEFTA

The Central European Free Trade Agreement (CEFTA) was signed on December 21, 1992, and came into effect in March 1, 1993. It has two objectives: the creation of a free trade area through the gradual elimination of tariff and nontariff trade barriers on all industrial goods and on a limited number of agricultural products. CEFTA will also eliminate discrimination against intra-CEFTA trade compared with EU trade. Originally, members were the Czech Republic, Hungary, Poland, and the Slovak Republic; Romania and Slovenia joined later.

There are three requirements for membership in the CEFTA: i) bilateral free trade agreements with each existing member of CEFTA; ii) WTO membership; and iii) an Association Agreement with the EU.

The Agreement provides for a phased reduction in customs duties. Tariffs on chemicals, raw materials, and machinery and equipment were eliminated entirely on March 1, 1993, while tariffs on industrial goods were eliminated in stages between 1993 and 1995. Tariffs on sensitive products (such as textiles, cars, and metallurgical products) will be gradually phased out between 1995 and 2001. Trade liberalization on agricultural products is confined to those products not produced in the importing country.

The Agreement embodied a general principle that tariffs for trade among member countries would be matched by those imposed by the EU through the Association Agreements. Under the Agreement's ROOs, a commodity enjoys a lower tariff if at least 60 percent of the value added had been produced within CEFTA.

72. The implications of FDI for trade are ambiguous: it may either be a substitute for, or a complement to, trade. If the FDI flows are used to provide the necessary capital to create new domestic industries which will accommodate domestic demand, then FDI is a substitute for trade in the sense that the host country will substitute domestic products for imports. If the FDI is used to expand industries whose products will be sold abroad, then it is a complement to trade.

73. Stern (1997) argues that recent FDI flows into the CEECs can be characterized as having three distinct phases. The first stage, which he refers to as the initiation phase, corresponds to the early period of transition in which the political and economic uncertainty, the absence of an institutional framework, coupled with the lack of macroeconomic stabilization, make investment a risky prospect and, as a consequence, the size of foreign investment flows tends to be low. The limited FDI that does arrive reflects the privatization process and the desire of foreign investors to gain a foothold in domestic consumer markets, which can be achieved with comparatively small investments.

74. During the second stage, referred to as the internationalization stage, the host country becomes much more conducive to longer-term investments. The motive for these investments can be either trade-substituting or trade-complementing—i.e., either to capture domestic market share, or to exploit the comparative advantage of the host country.

75. The final stage is referred to as the mature investment stage. This phase occurs when the transition process is all but complete, and all the key elements of the market economy are in place. During this phase, FDI will largely flow into the export sector and therefore will complement trade.

76. The danger for Croatia is that because it is not party to the same agreements with the EU as a number of other CEECs, FDI inflows may well be adversely affected through attempts by the EU and the CEECs to resolve the problem of "hub-and-spoke" investment-deterring effects.[35] For example, if each of the CEEC economies (the spokes) negotiated free trade agreements with the EU (the hub), an EU firm would have access to all the markets within the CEEC and the EU, whereas a firm in a CEEC country would have access to just the EU and the home market. Other things being equal, the FDI would be attracted to the hub economies rather than the spokes.

77. The Association Agreements try to resolve this problem through ROOs, which allow for cumulation (Box 2). Since Croatia is not even a spoke, the Association Agreements' ROOs and cumulation clauses tend to attract FDI flows into other CEEC economies. In terms of Stern's taxonomy, Croatia could find itself stuck in the first phase. Trade-substituting FDI, which develops domestic markets, may still be profitable. However, the lack of a preferential trade agreement with the EU will discourage trade-complementing FDI flows, which typically expand the export-oriented sector.

78. Despite these theoretical arguments, there is little evidence so far that Croatia has received significantly lower FDI compared with other CEECs. While the distribution of FDI into the CEECs has been very uneven—with the Czech Republic, Estonia, Hungary, and Latvia receiving a disproportionate amount relative to the other CEECs (Table 13)—the amount of FDI flows in terms of GDP received by Croatia after the war years is broadly similar to that of other CEECs. This emphasizes the point made by Agarwal (1996), whose study of the determinants of German FDI to the CEECs reports that Association Agreements are not a sufficient condition for attracting FDI. He found that Bulgaria and Romania received comparatively small amounts of FDI despite having signed Association Agreements and argued that the likelihood of future EU membership was an even more important determinant of FDI. Either way, since Croatia is not party to an Association Agreement with the EU or other regional trade arrangements, the flow of FDI into the country could ultimately suffer.

[35] Baldwin (1994) provides a comprehensive survey of hub-and-spoke investment-deterring effects.

G. Summary and Concluding Remarks

79. Croatia's export performance was weak during the war years, both in terms of overall growth and declining market share in the EU as well as the CEFTA markets. While there were some tentative signs in 1997 that Croatian export performance might be improving—total exports valued in deutsche mark grew by 7 percent, with a similar rate of growth recorded for exports to the EU market—export performance recorded by other CEECs was significantly better.

80. There is little evidence in terms of the CPI-based real effective exchange rate that external competitiveness has recently deteriorated, as this measure has remained broadly unchanged since 1994. However, labor market indicators suggest that relative external cost competitiveness has, in fact, worsened.

81. There is considerable anecdotal evidence to indicate that the war had a significant negative impact on Croatian exports. Traditional transport routes were cut, the war created considerable macroeconomic instability, and labor was reallocated to military activities. In addition, post-war reconstruction may have diverted goods, particularly in the construction materials sector, away from export markets and toward domestic sales.

82. A particularly worrying development in terms of medium-term balance of payments sustainability is the fact that Croatia does not enjoy the same trade and economic arrangements with the EU as several other CEECs. In particular, while many of these countries now have EU Association Agreements in place and favorable prospects for joining the EU in the not too distant future, Croatia seems unlikely to secure an Association Agreement soon. The ROOs clauses of those agreements tend to discourage firms in other CEECs from using inputs produced by Croatian firms. A related problem for Croatia is that the absence of an Association Agreement with the EU in the future could be detrimental to Croatia's ability to attract trade-complementing FDI inflows. As EU membership approaches for many of the CEECs, Croatia could increasingly find itself in a more disadvantageous position when it comes to attracting FDI.

83. In this environment of uneven trade preferences, the need to improve external competitiveness through domestic measures is heightened. Comparison with other CEECs suggests that Croatia does have room for further productivity gains. Such benefits could be achieved through an acceleration of Croatia's structural reform program, including the privatization of key enterprises in a manner that improves internal decision making, wage discipline, and overall efficiency.

Table 3. Central and Eastern Europe: Exports of Goods

	1993	1994	1995	1996	1997 Est.
	(In millions of deutsche mark)				
Bulgaria	6,161	6,386	7,661	7,360	8,626
Croatia	**6,454**	**6,914**	**6,639**	**6,841**	**7,294**
Czech Republic	23,475	25,913	30,758	32,640	38,410
Estonia	1,342	2,151	2,668	2,691	3,624
Hungary	13,423	12,412	18,436	21,344	34,070
Latvia	1,743	1,658	1,960	2,239	3,027
Lithuania	2,855	3,179	2,949	3,493	4,419
Poland	26,102	32,717	41,758	47,511	58,165
Romania	8,071	9,846	11,296	12,261	14,522
Slovak Republic	8,978	10,858	12,295	13,289	15,416
Slovenia	10,057	11,115	11,968	12,584	14,137
	(Index 1993=100)				
Bulgaria	100	104	124	119	140
Croatia	**100**	**107**	**103**	**106**	**113**
Czech Republic	100	110	131	139	164
Estonia	100	160	199	201	270
Hungary	100	92	137	159	254
Latvia	100	95	112	128	174
Lithuania	100	111	103	122	155
Poland	100	125	160	182	223
Romania	100	122	140	152	180
Slovak Republic	100	121	137	148	172
Slovenia	100	111	119	125	141
	(Percent change)				
Bulgaria	0	4	20	-4	17
Croatia	**-11**	**7**	**-4**	**3**	**7**
Czech Republic	67	10	19	6	18
Estonia	88	60	24	1	35
Hungary	-15	-8	49	16	60
Latvia	34	-5	18	14	35
Lithuania	59	11	-7	18	27
Poland	6	25	28	14	22
Romania	21	22	15	9	18
Slovak Republic	-11	21	13	8	16
Slovenia	-4	11	8	5	12

Source: IMF, *World Economic Outlook*.

Table 4. Central and Eastern Europe: Exports of Goods to the European Union

	1993	1994	1995	1996	1997 Est.
	(In millions of deutsche mark)				
Bulgaria	1,802	2,538	2,884	2,878	3,355
Croatia	**3,660**	**3,535**	**3,616**	**3,464**	**3,851**
Czech Republic	10,505	12,139	13,289	19,187	21,278
Estonia	642	1,012	1,427	1,595	2,734
Hungary	8,237	11,064	11,576	12,390	20,762
Latvia	552	632	813	945	2,654
Lithuania	1,282	991	1,410	1,649	2,441
Poland	16,193	19,359	22,985	24,451	27,064
Romania	3,350	4,820	6,288	6,426	8,238
Slovak Republic	2,674	3,797	4,598	5,485	7,225
Slovenia	6,373	7,259	7,980	8,069	9,228
	(Index 1993=100)				
Bulgaria	100	141	160	160	186
Croatia	**100**	**97**	**99**	**95**	**105**
Czech Republic	100	116	127	183	203
Estonia	100	157	222	248	426
Hungary	100	134	141	150	252
Latvia	100	114	147	171	480
Lithuania	100	77	110	129	190
Poland	100	120	142	151	167
Romania	100	144	188	192	246
Slovak Republic	100	142	172	205	270
Slovenia	100	114	125	127	145
	(Percent growth)				
Bulgaria	1	41	14	0	17
Croatia	**...**	**-3**	**2**	**-4**	**11**
Czech Republic	...	16	9	44	11
Estonia	34	57	41	12	71
Hungary	-21	34	5	7	68
Latvia	14	14	29	16	181
Lithuania	35	-23	42	17	48
Poland	26	20	19	6	11
Romania	40	44	30	2	28
Slovak Republic	...	42	21	19	32
Slovenia	...	14	10	1	14

Source: IMF, *Direction of Trade Statistics*.

Table 5. Central and Eastern Europe: Growth of EU Market Share

	1993	1994	1995	1996	1997
			(Index 1993=100)		
Market share of European Union 1/ 2/					
Bulgaria	100.0	126.0	134.8	125.5	121.7
Croatia	100.0	86.4	83.3	74.4	69.5
Czech Republic	100.0	103.4	106.6	143.5	134.9
Estonia	100.0	140.9	187.2	195.0	281.2
Hungary	100.0	120.1	118.4	118.2	155.6
Latvia	100.0	102.2	124.1	134.5	317.5
Lithuania	100.0	69.1	92.7	101.1	125.8
Poland	100.0	106.9	119.6	118.6	110.2
Romania	100.0	128.7	158.2	150.7	169.6
Slovak Republic	100.0	127.0	144.9	161.1	176.2
Slovenia	100.0	101.9	105.5	99.5	88.7
			(In percent)		
Exports to EU as a share of all exports					
Bulgaria	29.3	39.8	37.7	39.1	38.5
Croatia	**56.7**	**51.1**	**54.5**	**50.6**	**50.8**
Czech Republic	44.8	46.8	43.2	58.8	55.8
Estonia	47.9	47.0	53.5	59.3	75.4
Hungary	61.4	89.1	62.8	58.1	56.9
Latvia	31.7	38.1	41.5	42.2	87.7
Lithuania	44.9	31.2	47.8	47.2	55.2
Poland	62.0	59.2	55.0	51.5	46.4
Romania	41.5	49.0	55.7	52.4	59.2
Slovak Republic	29.8	35.0	37.4	41.3	46.2
Slovenia	63.4	65.3	66.7	64.1	60.5
			(In percent)		
Market share in all EU imports 2/					
Bulgaria	0.08	0.10	0.11	0.10	0.09
Croatia	**0.16**	**0.14**	**0.13**	**0.12**	**0.11**
Czech Republic	0.45	0.47	0.48	0.65	0.61
Estonia	0.03	0.04	0.05	0.05	0.08
Hungary	0.36	0.43	0.42	0.42	0.55
Latvia	0.02	0.02	0.03	0.03	0.08
Lithuania	0.06	0.04	0.05	0.06	0.07
Poland	0.70	0.75	0.84	0.83	0.77
Romania	0.14	0.19	0.23	0.22	0.25
Slovak Republic	0.12	0.15	0.17	0.19	0.20
Slovenia	0.28	0.28	0.29	0.27	0.24
			(In percent)		
Market share in of all EU imports 3/					
Bulgaria	0.13	0.16	0.17	0.16	0.16
Croatia	**0.27**	**0.23**	**0.22**	**0.19**	**0.19**
Czech Republic	0.77	0.78	0.79	1.08	1.04
Estonia	0.05	0.07	0.09	0.09	0.13
Hungary	0.60	0.71	0.69	0.70	0.94
Latvia	0.04	0.04	0.05	0.05	0.13
Lithuania	0.09	0.06	0.08	0.09	0.12
Poland	1.18	1.25	1.37	1.38	1.31
Romania	0.24	0.31	0.38	0.36	0.42
Slovak Republic	0.19	0.24	0.27	0.31	0.35
Slovenia	0.46	0.47	0.48	0.45	0.41

Source: IMF, *Direction of Trade Statistics*.

1/ Index of individual country exports to the EU, divided by the index of all EU imports (including intra-EU trade).
2/ Includes intra-EU trade.
3/ Excludes intra-EU trade.

Table 6. Central and Eastern Europe: Exports of Goods to CEFTA

	1993	1994	1995	1996	1997 Est.
			(In millions of deutsche mark)		
Bulgaria	86	147	139	143	146
Croatia	**1,327**	**615**	**864**	**1,182**	**1,203**
Czech Republic	4,904	5,587	6,127	7,460	9,432
Estonia	29	26	40	44	58
Hungary	830	1,232	1,452	1,728	2,194
Latvia	59	40	64	51	72
Lithuania	148	218	188	200	234
Poland	877	1,068	1,831	2,228	2,784
Romania	272	448	382	412	600
Slovak Republic	4,557	5,039	5,582	5,504	6,902
Slovenia	432	316	503	677	832
			(Index 1993=100)		
Bulgaria	100	171	163	166	170
Croatia	**100**	**46**	**65**	**89**	**91**
Czech Republic	100	114	125	152	192
Estonia	100	92	140	153	203
Hungary	100	148	175	208	264
Latvia	100	67	108	86	121
Lithuania	100	147	127	135	158
Poland	100	122	209	254	318
Romania	100	165	141	151	221
Slovak Republic	100	111	123	121	151
Slovenia	100	73	116	157	193
			(Percent change)		
Bulgaria	42	71	-5	2	2
Croatia	**...**	**-54**	**41**	**37**	**2**
Czech Republic	...	14	10	22	26
Estonia	...	-8	52	9	33
Hungary	...	48	18	19	27
Latvia	51	-33	61	-20	40
Lithuania	91	47	-14	7	17
Poland	...	22	71	22	25
Romania	30	65	-15	8	46
Slovak Republic	...	11	11	-1	25
Slovenia	...	-27	59	35	23

Source: IMF, *Direction of Trade Statistics*.

Table 7. Central and Eastern Europe: Exchange Rate Developments

	1993	1994	1995	1996	1997 Est.
Real Effective Exchange Rate (1993=100) 1/					
Bulgaria	100	91	102	90	109
Croatia	**100**	**119**	**122**	**121**	**121**
Czech Republic	100	105	109	116	117
Estonia	100	115	134	145	148
Hungary	100	99	95	97	101
Latvia	100	113	115	113	121
Lithuania	100	109	111	115	129
Poland	100	101	109	119	122
Romania	100	108	103	93	108
Slovak Republic	100	101	104	103	109
Slovenia	100	95	103	97	99
Exchange Rate (nat. currency per DM) 1/					
Bulgaria	16.7	33.4	46.9	118.2	933.6
Croatia	**2.3**	**3.7**	**3.6**	**3.6**	**3.1**
Czech Republic	17.6	17.7	18.5	18.0	18.0
Estonia	8.4	7.6	8.0	8.0	7.9
Hungary	55.6	64.8	87.7	101.4	106.2
Latvia	0.4	0.3	0.4	0.4	0.3
Lithuania	2.6	2.4	2.8	2.7	2.3
Poland	1.1	1.4	1.7	1.8	1.9
Romania	459.8	1,019.8	1,418.6	2,049.4	4,319.5
Slovak Republic	18.6	19.7	20.8	20.4	19.2
Slovenia	68.5	79.4	82.7	90.0	87.1

Sources: IMF, Information Notice System and *World Economic Outlook*.

1/ Period average.

Table 8. Central and Eastern Europe: Labor Market Competitiveness Indicators

	1993	1994	1995	1996	1997
Gross wages, DM per month 1/					
Bulgaria	208	160	180	140	142
Croatia	**416**	**564**	**752**	**855**	**958**
Czech Republic	324	377	424	514	576
Estonia	130	223	303	374	446
Hungary	473	494	442	465	523
Latvia	120	232	279	334	396
Lithuania 3/	79	141	178	266	378
Poland	330	353	388	480	555
Romania	119	129	147	158	134
Slovak Republic	297	329	361	421	491
Slovenia	940	1031	1160	1217	1328
Real wage index (PPI deflated) 1/					
Bulgaria	100	88	91	75	59
Croatia	**100**	**130**	**170**	**188**	**203**
Czech Republic	100	111	121	136	147
Estonia	100	107	107	114	134
Hungary	100	109	103	103	102
Latvia	100	140	161	168	175
Lithuania 2/	100	116	130	158	180
Poland	100	105	111	131	143
Romania	100	93	108	112	74
Slovak Republic	100	107	113	125	132
Slovenia	100	108	112	120	127
Productivity index 3/					
Bulgaria	100	113	121	123	115
Croatia	**100**	**102**	**108**	**120**	**135**
Czech Republic	100	105	117	128	142
Estonia	100	107	107	114	134
Hungary	100	107	119	130	145
Latvia	100	109	108	122	127
Lithuania 3/	100	88	98	103	104
Poland	100	114	122	134	153
Romania	100	113	135	158	158
Slovak Republic	100	107	111	114	119
Slovenia	100	111	120	127	134
DM-denominated ULC index 4/					
Bulgaria	100	68	72	55	59
Croatia	100	133	168	171	170
Czech Republic	100	131	145	147	162
Estonia	100	161	218	254	257
Hungary	100	97	78	76	76
Latvia	100	180	249	252	247
Lithuania 2/	100	202	228	325	460
Poland	100	94	97	109	110
Romania	100	96	92	84	72
Slovak Republic	100	104	109	125	140
Slovenia	100	98	103	102	105

Source: European Bank for Reconstruction and Development.

1/ Data refer to average monthly industrial wages in Bulgaria, Croatia, Czech Republic, Slovak Republic, Slovenia, and average monthly manufacturing wages for Hungary, Poland, and Romania.

2/ Data for 1997 refer to the first three quarters.

3/ Based on gross output.

4/ Index of DM wages deflated by productivity index.

Table 9. Croatia: Composition of Trade According to Categories Defined by SITC

(In millions of deutsche mark)

	1993	1994	1995	1996	1997
Total Imports (c.i.f)	**7,715**	**8,486**	**10,762**	**11,719**	**15,819**
Food & live animals	590	809	1,118	1,154	1,442
Beverages & tobacco	62	101	95	87	99
Raw materials excluding fuel	290	245	284	332	474
Fuels & lubricants	763	956	1,248	1,290	1,474
Animal & vegetable oils & fats	24	20	36	57	47
Chemical products	951	878	1,161	1,277	1,674
Construction materials	1,329	1,300	1,868	2,083	2,627
Machines & transport equipment	1,856	2,218	2,879	3,204	5,310
Miscellaneous manufactures	1,290	1,259	1,452	1,682	2,075
Other goods	560	699	621	554	598
Total Imports - percent change	5	10	27	9	35
Food & live animals	-24	37	38	3	25
Beverages & tobacco	-28	64	-6	-9	14
Raw materials excluding fuel	-33	-16	16	17	43
Fuels & lubricants	7	25	31	3	14
Animal & vegetable oils & fats	-37	-16	79	57	-17
Chemical products	-14	-8	32	10	31
Construction materials	-1	-2	44	11	26
Machines & transport equipment	55	20	30	11	66
Miscellaneous manufactures	9	-2	15	16	23
Other goods	11	25	-11	-11	8
Total Exports (f.o.b)	**6,454**	**6,914**	**6,639**	**6,841**	**7,294**
Food & live animals	607	646	566	638	667
Beverages & tobacco	166	108	129	188	210
Raw materials excluding fuel	392	347	359	392	530
Fuels & lubricants	624	627	560	676	740
Animal & vegetable oils & fats	6	11	13	15	24
Chemical products	933	882	1,166	968	989
Construction materials	869	1,061	961	894	1,022
Machines & transport equipment	913	1,187	1,114	1,290	1,305
Miscellaneous manufactures	1,933	2,039	1,767	1,717	1,750
Other goods	11	6	3	63	57
Total Exports - percent change	-15	7	-4	3	7
Food & live animals	-20	6	-12	13	5
Beverages & tobacco	-10	-35	19	46	12
Raw materials excluding fuel	-17	-11	3	9	35
Fuels & lubricants	-5	1	-11	21	9
Animal & vegetable oils & fats	-38	68	23	9	66
Chemical products	-5	-5	32	-17	2
Construction materials	-36	22	-9	-7	14
Machines & transport equipment	-35	30	-6	16	1
Miscellaneous manufactures	12	6	-13	-3	2
Other goods	-76	-46	-44	1,844	-10

Source: The authorities.

Table 10. Central and Eastern Europe: Trade Arrangements

	WTO	CEFTA	PHARE	OBNOVA	Bilateral agreement with EFTA	Other bilateral agreements	EU Trade and Cooperation Agreement 1/	EU Autonomous Preferential Trade Regime	EU Interim Agreement 1/	EU Association Agreement 1/	EU membership application	EU Commission opinion 2/
Bulgaria	Yes	No	Yes	No	Yes	Czech Rep, Slovak Rep, Slovenia	November 1990	No	December 1993	February 1995	December 1995	Negative
Croatia	No	No	No	Yes	No	Slovenia, FYR of Macedonia	No	Yes	No	No	No	...
Czech Republic 3/ 4/	Yes	Yes	Yes	No	Yes	Bulgaria, Romania	November 1990	No	March 1992	February 1995	January 1996	Positive
Estonia	Yes	No	Yes	No	Yes	Slovak Republic, Slovenia	March 1993	No	No	February 1998	November 1995	Positive
Hungary	Yes	Yes	Yes	No	Yes	Israel	December 1988	No	March 1992	February 1994	March 1994	Positive
Latvia	Yes	Yes	Yes	No	Yes	Slovak Republic, Slovenia	February 1993	No	No	February 1998	October 1995	Negative
Lithuania	Yes	No	Yes	No	Yes	Slovenia	February 1993	No	No	February 1998	December 1995	Negative
Poland	Yes	Yes	Yes	No	Yes	...	December 1989	No	March 1992	February 1994	April 1994	Positive
Romania	Yes	No	Yes	No	Yes	Czech Republic, Slovak Republic	May 1991	No	May 1993	February 1995	June 1995	Negative
Slovak Republic 3/ 4/	Yes	Yes	Yes	No	Yes	Bulgaria, Estonia, Israel, Romania	November 1990	No	March 1992	February 1995	June 1995	Negative
Slovenia	Yes	Yes	Yes	No	Yes	Bulgaria, Croatia, Estonia, Latvia, Lithuania, FYR of Macedonia	September 1993	No	January 1997	5/	June 1996	Positive

Sources: EU sectoral and trade barriers database; IMF TPD database; and Temprano and Feldman (1998).

1/ Date refers to when agreement came into force.
2/ A negative opinion implies that the European Commission's assessment of the country in question is that it is not ready to start accession discussions.
3/ The Czech Republic and the Slovak Republic have a customs union agreement.
4/ The Czech and Slovak Federal Republic (CSFR) signed a Trade and Cooperation Agreement in May 1990 and an Association Agreement in December 1991. Following the dissolution of the CSFR, separate Association Agreements and supplementary protocols to the Interim Agreement were signed with each of the successor republics.
5/ An Association Agreement was signed in June 1996, but it is still in the process of ratification.

Table 11. EU Tariffs by ISIC Categories

ISIC Code	Description	Number of lines	Applied rate (1997)		
			Simple average	Range	Standard Deviation
1	Agriculture, hunting, forestry, and fishing	1,822	15.1	0-155.1	18
2	Mining and quarrying	124	5	0-13.8	1.9
3	Manufacturing (incl. food, beverages, tobacco)	8,848	9.1	0-1009.9	20.9
31	Food, beverages, and tobacco	1,670	26.5	0-1009.9	43.3
32	Textiles, clothing, and leather industries	1,288	9	0-25	3.9
33	Wood and wood products, including furniture	199	3.2	0-10	2.6
34	Paper, paper products, printing, and publishing	209	5	0-9.6	2.8
35	Chemicals, petroleum, coal, rubber, plastics	2,067	4.8	0-71.3	4.6
36	Non-metallic mineral products, except petrol and coal	230	4.6	0-12.6	2.7
37	Basic metal industries	632	3.6	0-10	2.2
38	Fabricated metal products, machinery, and equipment	2,300	3.7	0-22	2.8
39	Other manufacturing industries	253	4.1	0-18.2	2.6

Source: World Trade Organization, "Trade Policy Review" (October 1997).

Table 12. Central and Eastern Europe: Tariff Structure Summary

Country	Simple Average	Minimum	Maximum	Trade Weighted Average	Number of Bands	Standard Deviation
Bulgaria	17.6	0	110	...	64	11.5
Croatia	...	5	25	9.3		...
Czech Republic	7	..	...	...	...	...
Estonia	0	0	0	0	0	0
Hungary	14.3	0	139	10.2	100	17
Latvia	5.9	0	75	2.5		10.7
Lithuania	4.6	0	87	2	...	9.3
Poland	11.6	...	...	5.8	...	...
Slovak Republic	7	...	...	...	...	...
Slovenia	...	...	...	10.7	...	...

Source: IMF, Trade Policy Division.

Table 13. Central and Eastern Europe: Foreign Direct Investment 1/

	1993	1994	1995	1996	1997
			(In millions of deutsche mark)		
Bulgaria	...	171	236	164	838
Croatia	**123**	**166**	**126**	**796**	**608**
Czech Republic	1,080	1,409	3,672	2,149	1,758
Estonia	255	344	290	226	459
Hungary	3,885	1,857	6,476	2,983	3,706
Latvia	84	252	257	574	730
Lithuania	38	97	79	144	193
Poland	959	880	1,625	4,125	4,482
Romania	155	553	583	643	786
Slovak Republic	222	276	192	194	46
Slovenia	186	208	252	280	344
			(In percent of GDP)		
Bulgaria	...	1.1	1.3	1.2	4.6
Croatia	**0.7**	**0.7**	**0.4**	**1.5**	**1.6**
Czech Republic	1.9	2.2	5.1	2.5	1.9
Estonia	9.7	8.7	5.6	3.4	5.5
Hungary	6.0	2.7	10.1	4.4	4.7
Latvia	2.4	4.3	3.8	7.1	7.2
Lithuania	0.9	1.4	0.9	1.2	1.2
Poland	0.7	0.6	1.0	2.0	1.9
Romania	0.4	1.1	1.1	1.2	1.2
Slovak Republic	1.1	1.2	0.8	0.7	0.1
Slovenia	0.9	0.9	0.9	1.0	1.0

Source: IMF, *World Economic Outlook*.

1/ Gross inflows.

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III. Government Social Expenditure in Croatia: Recent Trends and Comparison with Other Countries[33, 34]

A. Recent Trends

84. Total social expenditure by the Croatian consolidated central government has increased quite substantially in recent years (Table 14). This is true whether expenditure is measured as a percentage of GDP or as a percentage of total government expenditure. Between 1994 and 1997, total social expenditure rose by about 6 percentage points of GDP and its share in total expenditure by 6½ percentage points. Social expenditure in 1997 (on a cash basis, and therefore excluding the expenditure arrears accumulated by the pension and health funds in that year) represented 57½ percent of Croatia's government expenditure and 26½ percent of its GDP.

85. The bulk of the increase in social expenditure is explained by the expansion of pension benefits and, to a lesser extent, of health expenditure. The increase in pension benefits largely reflects population aging, the increase in the minimum guaranteed pension in 1996, and the granting of new "beneficiary pensions" to war participants and invalids, as well as to families of war victims. Also, the reintegration into Croatia of Eastern Slavonia and other regions substantially increased pensions as well as health expenditure in 1997, by adding to the number of beneficiaries without leading to a concomitant increase in contributions. By contrast, education expenditure remained practically stable during this period, with its share in total expenditure actually declining moderately.

86. While the biggest annual increase in the share of social expenditure in GDP took place in 1995, most of the increase in the share in total government expenditure took place in 1996 and 1997. This is because total expenditure also rose sharply (by 4½ percentage points of GDP) in 1995, partly reflecting the war-related jump in defense expenditure. In 1996 and 1997, by contrast, total expenditure by the consolidated central government remained practically stable as a percentage of GDP and the increase in the share of social expenditure in GDP was achieved through a significant redistribution of government expenditure toward social outlays (and, largely, away from defense expenditure).

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[33]Prepared by Heliodoro Temprano-Arroyo.

[34]Government social expenditure is defined in this chapter as the sum of expenditures on education, health, and social security and welfare, undertaken by the consolidated central government. These are three of the main expenditure groupings distinguished in the Government Financial Statistics' functional classification of expenditure. The social security and welfare category is normally dominated by pension benefits. The sources of the government expenditure data used in this chapter are the Ministry of Finance for Croatia and the IMF's Government Finance Statistics Yearbook for all other countries.

Table 14. Croatia: Social Expenditure, 1994-98 1/

	1994 Actual		1995 Actual		1996 Actual		1997 Actual		1998 Projected 2/	
	Percent of GDP	Percent of total expenditure 3/	Percent of GDP	Percent of total expenditure 3/	Percent of GDP	Percent of total expenditure 3/	Percent of GDP	Percent of total expenditure 3/	Percent of GDP	Percent of total expenditure 3/
Consolidated central government	20.5	51.1	23.1	51.6	24.5	54.0	26.4	57.6	26.8	58.9
Education	2.9	7.1	2.9	6.5	3.0	6.5	3.0	6.5	3.1	6.9
Health	5.9	14.8	7.0	15.6	7.4	16.3	6.9	15.0	7.8	17.1
Social security and welfare 4/	11.7	29.2	13.2	29.5	14.1	31.2	16.5	36.0	15.9	34.9
Of which : Pensions	7.6	19.0	9.0	20.1	9.8	21.5	11.6	25.8	11.0	24.2
Of which:										
Central budgetary government 5/	5.7	14.1	5.6	12.5	5.5	12.2	5.9	12.9	6.1	13.4
Education	2.9	7.1	2.9	6.5	3.0	6.5	3.0	6.5	3.1	6.9
Health	0.1	0.2	0.1	0.2	0.1	0.3	0.2	0.3	0.2	0.4
Social security and welfare 4/	2.7	6.8	2.6	5.8	2.5	5.4	2.8	6.0	2.8	6.1
Of which : Pensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extrabudgetary funds 5/	14.9	37.0	17.5	39.1	19.0	41.8	20.5	44.7	20.7	45.5
Health	5.9	14.6	6.9	15.4	7.3	16.0	6.7	14.7	7.6	16.7
Social security and welfare 4/	9.0	22.4	10.6	23.7	11.7	25.8	13.7	30.0	13.1	28.8
Of which : Pensions	7.6	19.0	9.0	20.1	9.8	21.5	11.6	25.2	11.0	24.2
Memorandum items:										
Transfer from the central budgetary government to the Pension Fund	0.0	0.0	0.3	0.6	1.0	2.3	2.2	5.0	2.2	4.7
Total expenditure of the consolidated central government (excl. net lending)	40.2	100.0	44.8	100.0	45.4	100.0	45.8	100.0	45.2	100.0

Sources: Ministry of Finance, and Fund staff estimates.

1/ On a cash basis.
2/ Assumes the clearing of the expenditure arrears accumulated by the health and pension funds in 1997, tentatively estimated at Hrk 900 million.
3/ As a percentage of total expenditure (excluding net lending) of the consolidated central government.
4/ Includes maternity benefits.
5/ On a consolidated basis.

B. Projections for Social Expenditure in 1998

87. Based on the budget and plans for the extrabudgetary funds for 1998, social expenditure in Croatia is expected to increase from its 1997 level. Total social outlays could rise by almost half a percentage point of GDP and their share in total expenditure by 1¼ percentage point. The main factor behind this new expansion of social expenditure is spending on health, which could increase by almost 1 percentage point of GDP on current plans. This contrasts with the trend observed between 1994 and 1997, when pension expenditure accounted for the bulk of the increase in social expenditure. The projected increase in health expenditure in 1998 largely reflects the clearing of the expenditure arrears incurred by the Health Fund in 1997 and the estimated impact of the introduction of the VAT on the cost of the Health Fund's purchases.[35] Some of these arrears have already begun to be cleared, with the government approving in March 1998 a new transfer of HRK 200 million to the Health Fund earmarked for this purpose.

88. Pension expenditure is projected to decline by about ½ a percentage point of GDP in 1998.[36] This does not take into account, however, the new pension payment obligations that may stem from the recent Constitutional Court ruling invalidating past government decisions suspending the indexation of pensions to wages since 1993. Although it is still unclear how this issue will be resolved, compliance with this ruling may result in higher pension payments already in 1998.[37]

89. Other categories of social expenditure (education and social security outlays other than pensions) are projected to remain practically constant as a percentage of GDP in 1998, and to increase only moderately as a percentage of total expenditure.

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[35]Under the VAT introduced in January 1998, the standard 22 percent rate applies to the Health Fund's purchases of goods and services. Under the sales tax that the VAT replaced, by contrast, most of these purchases were either exempt or subject to reduced rates. The application of the VAT is estimated to increase the annual cost of the Health Fund's purchases by 0.3–0.5 percent of GDP.

[36]The 1998 budget reduced by about HRK 300 million the government transfer to the Pension Fund relative to its 1997 actual level, implying a 5 percent increase compared to the transfers initially foreseen in the 1997 budget. The budget, however, did not take into account the need to clear the arrears accumulated by the Pension Fund last year on its payment of contributions to the Health Fund, estimated at about HRK 300 million. Partly reflecting this, the staff projection assumes larger-than-budgeted transfers from the government to the Pension Fund. Pension payments are also projected to be higher than assumed in the Pension Fund's plan.

[37]See Chapter IV of this document for more discussion.

C. Comparison with Other Countries

90. Croatia's share of social expenditure in total expenditure by the consolidated central government (57.6 percent in 1997) is much higher than the average share seen in other transition countries for which data were available (46.1 percent), although a few of those countries had similar shares (Table 15). Croatia's share is even significantly above the average of the selected industrial countries shown in Table 15, and is only exceeded by two of them (the Netherlands and Switzerland). With Croatia's ratio of government expenditure to GDP being relatively high, the contrast between its social-expenditure-to-GDP ratio (26.4 percent in 1997) and those seen in the two groups of comparator countries (15.5 percent and 19.3 percent for the transition and industrial countries, respectively) is even more marked.

91. Although, as noted, the share of Croatian education expenditure in GDP has not risen much in recent years, this share is somewhat above the average seen in transition and industrial countries. Cross-country comparisons of government expenditure on "health" and "social security and welfare" are less reliable since the classification of certain of these expenditures between the two categories varies across countries. This probably explains in part why the relative weights of "health" and "social security and welfare expenditure" in Tables 15 and 16 diverge sharply, even for countries within the same group and with similar levels of total social expenditure.[38] With this caveat in mind, the attached tables suggest that Croatia's higher share of social expenditure reflects higher expenditure on the "health" and "social security and welfare" components in roughly equal proportions.

92. Regarding Croatia's relatively high expenditure on "social security and welfare", a combined analysis of the information in Tables 16 and 17 suggests that it is basically explained by its higher expenditure on pensions. The rest of the difference within this category is largely accounted for by Croatia's exceptionally high war-related social expenditures, in particular assistance (other than through pension benefits) to refugees, displaced persons, war participants (including demobilized soldiers), and war victims.

93. As a percentage of total expenditure, Croatia spends on pensions approximately the same as the average OECD country. However, this partly reflects Croatia's high government expenditure-to-GDP ratio. As a share of GDP, Croatia's expenditure on pensions is among the highest in the world. In particular, Croatia's pension benefits-to-GDP ratio is exceeded in only a handful of industrial and transition countries. This ratio is also several times higher than those seen in developing countries, although, with the population in these countries being much younger, the comparison with them is much less relevant. Table 17 also shows that

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[38]In the case of Croatia, expenditure on additional maternity benefits and equipment for newborn children is classified as social security and welfare expenditure. It could, however, also be classified under health expenditure.

Table 15. Government Social Expenditure in Selected Industrial and Transition Countries

(In percent of total expenditure) 1/

	Year	Education	Health	Social security and welfare	Total social expenditure
Industrial countries					
United States	1995	1.8	19.2	29.2	50.2
Canada	1994	2.9	4.9	39.8	47.6
Japan	1993	6.0	1.6	36.8	44.4
Australia	1995	7.6	13.4	33.6	54.6
Switzerland	1993	2.6	20.5	48.2	71.2
United Kingdom	1995	4.9	14.0	31.1	50.0
Netherlands	1995	10.6	14.6	37.0	62.3
Denmark	1995	9.4	0.8	43.2	53.4
Sweden	1995	5.3	0.3	51.9	57.4
Norway	1994	6.7	3.7	36.7	47.1
Spain	1993	4.2	6.2	39.6	49.9
Ireland	1993	13.0	14.2	27.6	54.8
Greece	1993	11.8	22.6	22.5	56.9
Average of countries above 2/		6.7	10.5	36.7	53.8
Central and Eastern Europe					
Albania	1995	2.3	5.6	21.7	29.6
Belarus	1992	17.6	2.5	36.5	56.6
Bulgaria	1995	4.0	3.4	25.3	32.6
Czech Republic	1995	11.6	16.7	28.9	57.2
Estonia	1994	8.8	16.9	30.0	55.7
Latvia	1995	14.5	6.1	36.7	57.3
Lithuania	1995	6.5	6.6	34.8	47.9
Romania	1994	9.7	8.1	28.8	46.6
Russia	1995	2.2	1.7	27.7	31.6
Average of countries above 2/		8.6	7.5	30.0	46.1

Source: IMF, *Government Finance Statistics Yearbook 1996.*

1/ Expenditure by the consolidated central government, excluding net lending.

2/ Simple average.

Table 16. Government Social Expenditure in Selected Industrial and Transition Countries

(In percent of GDP)

	Year	Education	Health	Social security and welfare	Total social expenditure
Industrial countries					
United States	1995	0.4	4.2	6.4	11.0
Canada	1994	0.7	1.2	9.7	11.6
Japan	1993	1.5	0.4	8.9	10.7
Australia	1995	2.1	3.7	9.3	15.1
Switzerland	1993	0.7	5.5	13.1	19.3
United Kingdom	1995	2.1	5.8	13.0	20.9
Netherlands	1995	5.4	7.4	18.8	31.7
Denmark	1995	4.1	0.4	18.7	23.2
Sweden	1995	2.4	0.1	23.3	25.8
Norway	1994	2.8	1.5	15.1	19.4
Spain	1993	1.7	2.4	15.6	19.7
Ireland	1993	5.5	6.0	11.7	23.2
Greece	1993	4.0	7.7	7.7	19.5
Average of countries above 1/		2.6	3.6	13.2	19.3
Central and Eastern Europe					
Albania	1995	1.3	3.1	12.1	16.5
Bulgaria	1995	1.6	1.4	10.5	13.6
Czech Republic	1995	4.6	6.7	11.5	22.8
Estonia	1994	2.8	5.4	9.6	17.8
Latvia	1995	4.7	1.9	11.8	18.4
Lithuania	1995	1.7	1.7	8.9	12.2
Romania	1994	3.1	2.6	9.2	14.9
Russia	1995	0.5	0.4	6.6	7.6
Average of countries above 1/		2.5	2.9	10.0	15.5

Source: IMF, *Government Finance Statistics Yearbook 1996.*

1/ Simple average.

Table 17. Comparison of Indicators of Public Pension Schemes in Selected Country-Groups 1/

	Public pension spending/GDP 1/	Public pension spending/government spending 1/	Normal retirement age 2/		Payroll tax for pensions 2/ 3/		
			Women	Men	Employers	Employees	Total
OECD countries 4/	9.2	24.7	62.9	64.4	7.4	11	18.4
Eastern Europe and FSU 4/	8	19.1	55.3	60.3	...	...	25.5
Latin America and Caribbean 4/	2	8.5	58.7	60.8	4.5	8.4	12.9
Middle East and North Africa 4/	2.8	7.9	57.8	60.4	4.8	8.3	13.1
Sub-Saharan Africa 4/	0.5	1.8	56	56.2	3.6	5.6	9.2
Asia 4/	1.9	9.6	55.6	56.5	5.1	7.9	13
Average of regions above 4/	4.1	11.9	57.7	59.8	5.1	8.2	15.4
Memorandum item:							
Croatia 5/	11.6	25.8	55	60	10.75	10.75	21.5

Sources: World Bank, *Averting the Old Age Crisis*, 1994 (New York, Oxford University Press); and Ministry of Finance.

1/ In percentages. Based on data referring to years ranging from 1985 to 1992, depending on the country. Data for Croatia refer to 1997.
2/ Data refer to 1991.
3/ As a percentage of the gross wage rate.
4/ Simple average.
5/ Data for Croatia refer to 1997, except data on contribution rates which refer to 1998.

normal retirement ages in Croatia are low in comparison with OECD countries, but not in comparison with country groups with lower life expectancies, including the transition countries group.[39] Finally, Table 17 confirms the view that Croatia's payroll taxes for pensions are relatively high, though similar to those seen on average in other transition countries.

[39]As discussed in Chapter IV, Croatia intends to increase retirement ages significantly as part of its pension reform plans.

IV. Pension Reform in Croatia: Towards a Multi-Pillar System[40, 41]

A. Introduction

94. The government submitted to parliament a new Pension Insurance Law in September 1997. The law has passed two readings, and a third and final reading is expected to take place in the coming months. The new law aims at ensuring the financial sustainability of the pension system by downsizing and rationalizing the pay-as-you-go (PAYG) public pension system and moving to a multi-pillar system in which the PAYG pillar will be complemented by two privately-managed, fully-funded pillars—one mandatory (the second pillar) and one voluntary (the third pillar).

95. The measures aimed at downsizing the PAYG system are described in detail in the new law and are to come into effect in early 1999. The draft law, however, only enunciates the basic principles of the second and third pillars. For these two new pillars to become operational, it will be necessary to adopt implementing legislation and create the appropriate financial infrastructure, including, in particular, the establishment of private pension funds that will receive and invest a share of the pension contributions. A new law on private pension funds defining a tighter prudential framework for the establishment and operation of these funds is being prepared by the government with the support of independent experts and the World Bank.[42]

96. This chapter describes the main features of pension reform as contained in the draft law that had its second reading in May 1998. Certain elements of the law, however, may be modified to take into account both the comments made by parliament during the second reading and the recent ruling of the Constitutional Court regarding the system of indexation of pensions (discussed below). The comments by parliament and the difficulties related to the resolution of the Constitutional Court ruling may also result in some delay in the passage, and entry into force, of the new pension legislation.

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[40]Prepared by Heliodoro Temprano-Arroyo.

[41]This chapter updates the information presented in "Summary of the Croatian Pension System: Current Features and Issues for Reform," in "Republic of Croatia: Selected Issues and Statistical Appendix," SM/97/61, February 26, 1997.

[42]Pension reform constitutes the focus of a Public Sector Adjustment Loan (PSAL) that the World bank is currently discussing with the Croatian authorities. The World Bank has been financing the work in this area of some legal consultants, and may approve in the coming months a Project Preparation Facility in the context of the PSAL operation to provide technical assistance for the drafting of second-pillar legislation.

B. Measures to Rationalize the PAYG Pillar[43]

97. The draft Pension Law contains the following measures aimed at downsizing and rationalizing the PAYG pillar:

- An *increase in normal retirement ages* from 55 to 65 for women and from 60 to 65 for men. This will be done in a gradual way: each year, retirement ages will be raised by six months, implying that it will take 20 and 10 years for women and men, respectively, for the full increase in retirement ages to take place.

- Consistent with the increase in normal retirement ages, *minimum early retirement ages* will also be raised by 10 years (from 50 to 60) for women and by 5 years (from 55 to 60) for men. This will done more rapidly than the increase in normal retirement ages: each year, early retirement ages will be increased by 1 year.

- At the same time, the *reduction factor for early retirement* will be increased from 1.33 to 3.6 percent per year of early retirement. The new reduction factor will still be relatively low, however, and will continue to encourage early retirement.[44]

- The *base period used to calculate the pension benefits* will be increased from the 10 consecutive years with highest salaries to the full working life of the pensioner. This measure, which will tend to reduce the average pension benefit, will be implemented progressively over a 10-year period, with the computation period increasing by three years for every year elapsed.

- For pensioners remaining entirely under the PAYG system (those aged 40 or more at the time the reform is implemented), benefits will be determined by the higher of :

    * An *individual benefit* based on the pensioner's lifetime *net* wage history relative to the net average wage for her/his cohort. Under this *personal points formula*, which is modeled on the scheme introduced in Germany by the 1991 reform, each pensioner is assigned a number of personal points based on her/his relative net wage history. The "value" of each personal point is adjusted annually by changes in average net wages in the economy. The pension base is obtained by multiplying the number of personal points by the value of those

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[43]Box 4 provides a brief description of Croatia's current pension system.

[44]While the 3.6 percent factor has been borrowed from the system introduced in Germany in 1991, Germany is currently considering an increase in that factor. By comparison, the actuarial reduction factor in the United States is 20 percent for the three years between ages 62 and 65.

Box 4. The Current Pension System in Croatia

Croatia currently has a PAYG pension system operated by the Pension and Disability Insurance Fund ("the Pension Fund"). The Pension Fund consists of three segments: the Workers Fund, which accounts for about 90 percent of all pension contributions and beneficiaries, the Farmers Fund, and the Self-Employed Fund. Each of these three subfunds provides three types of benefits: retirement pensions, disability pensions, and survivor pensions. The Pension Fund collects most of its revenues from a 21.5 percent payroll contribution, paid in equal amounts by workers and employees. It also receives transfers from the central budget, which amounted to HRK 2.7 billion, or 2.2 percent of GDP, in 1997. A third source of revenues are dividends from, and proceeds from the sale of, shares from its portfolio of enterprises (see Table 18).

A worker must have contributed for at least 20 years to qualify for a retirement pension. Pension benefits are calculated based on the 10 best paid consecutive years of the beneficiary's career. For the calculation of the pension base, earnings are adjusted upward by average net wage growth in the economy in the years up to the one preceding the year in which the entitlement is established. The accrual factor is set in such a way that it aims to produce an 85 percent pension/net wage replacement rate for a full career worker. For men, the pension base is multiplied by a coefficient of 0.35 plus an additional 0.02 per each year of contribution up to a maximum of 0.85. For women, the initial coefficient is 0.4 plus an additional 0.03 per year of contribution or other qualifying periods, also up to a maximum of 0.85. Normal retirement ages are currently 60 for men and 55 for women, while early retirement ages are 55 for men and 50 for women. Men must have contributed for at least 35 years, and women for at least 30 years, to be able to take early retirement. A 1.33 percent reduction factor is applied for each year of early retirement.

There is a guaranteed minimum pension, provided that neither the retiree nor other members of his/her household have other sources of income sufficient to support them. This means-tested guaranteed threshold was HRK 893 per month in January 1998 (or 35.7 percent of the economy's average net wage in that month). For full-career workers, a minimum guaranteed pension of HRK 1,212 per month applied in January 1998. In addition, certain groups of people—such as retired parliamentarians, war veterans, war invalids, families of war victims, and refugees from other republics of the former Yugoslavia—receive so-called beneficiary or merit pensions (that is, pensions exceeding the amount that would be justified by the contributions made by the recipient in the past). Merit pensions have grown rapidly in recent years and accounted for 16 percent of total pension payments in 1997. They are financed by transfers from the budget to the Pension Fund.

Table 18. Croatia: Accounts of the Pension and Disability Insurance Fund, 1991-98

(In millions of kuna)

	1991	1992	1993	1994	1995	1996	1997	1988 Plan
Revenue and grants	46	188	3,008	8,325	10,524	12,407	15,300	16,231
Current revenue	43	185	2,968	8,322	10,030	11,106	12,439	13,511
Social security contributions	42	170	2,636	8,041	9,807	10,951	12,244	13,321
Other nontax revenue (mostly property income)	1	15	332	281	223	155	196	189
Capital revenue (sales of shares)	0	0	0	0	162	141	236	350
Grants (transfer from the budget)	2	3	40	3	332	1,160	2,624	2,370
Expenditure and net lending	46	209	3,318	8,002	10,667	12,411	15,548	16,231
Current expenditure	46	209	3,318	8,002	10,651	12,394	15,533	16,205
Wages and salaries	1	3	46	99	133	143	164	226
Employer contributions	0	0	10	22	24	27	31	39
Other purchases of goods and services	3	13	184	258	321	258	340	350
Interest	0	0	0	4	2	1	14	10
Transfer to the Health Fund 1/	0	0	0	1,295	1,782	1,925	1,722	2,011
Pension payments	42	193	3,078	6,324	8,389	10,040	13,263	13,570
Capital expenditure	0	0	0	0	16	18	15	26
Net lending	0	0	0	0	0	0	0	0
Current balance excluding grants	-2	-24	-351	320	-621	-1,288	-3,093	-2,695
Overall balance	0	-21	-310	323	-143	-4	-248	0
Financing	0	21	310	-323	143	4	248	0
Foreign	0	0	0	0	0	0	0	0
Domestic	0	21	310	-323	143	4	248	0
Memorandum items:								
Rate of contribution to the Pension Fund (end of period) 2/	22.0	22.0	22.0	27.0	25.5	25.5	25.5	21.5
Total expenditure on pensions in percent of GDP	9.6	7.1	7.9	7.2	8.5	9.4	11.1	10.2

Sources: Ministry of Finance; and Central Bureau of Statistics.

1/ Transfer to pay for health care for pensioners. The contribution to the Health Fund was reduced from 25 percent to 18 percent of pension payments in January 1997 and eliminated altogether in February 1998. To compensate for the elimination of this transfer to the Health Fund, the contribution rate to the Pension Fund was reduced from 25.5 percent to 21.5 percent, and the contribution rate to the Health Fund increased from 14 percent to 18 percent, with both changes also becoming effective in February 1998.

2/ In percent of gross wages. Includes both employers' and workers' contributions.

points.[45] Under this approach, workers with the same years of service receive the same pension/wage replacement rate.[46]

* A *basic benefit* equal to the number of years of service multiplied by the sum of: i) 0.25 percent of the average *gross* wage in the economy at the time of retirement; and ii) 0.25 percent of the total value of the personal points accumulated by the beneficiary, as determined using the personal points formula. Under this *basic benefit formula*—which is intended to guarantee a minimum pension for all pensioners—the replacement rate is lower the higher the worker's lifetime average wage.

- Regulations and controls on *invalidity pensions* will be tightened in order to reduce abuses.

- Certain measures to *improve wage reporting and compliance* in the payment of contributions will be introduced.

- The new law also enshrines the principle of *ex-post indexation of pensions to inflation.*

C. The Establishment of Two Privately-Managed Pillars

98. For workers under 40 (the "cut-off age") at the time of the introduction of the reform, the new Pension Law foresees the transfer of at least 5 percentage points of pension contributions to the second-pillar pension funds from January 1999. For workers of 40 years of age or more, the full 21.5 percent contribution will continue to be directed to the PAYG pillar. Of course, each year the share of workers contributing to the second pillar would increase as new workers enter the labor force.

99. For *workers under 40*, the part of pensions based on prior work (that is, work undertaken before the introduction of the reform) will be credited according to the higher of the personal point and basic benefit formulas described above. Future work, however, will be credited using the basic benefit formula only. Since these workers will have accumulated contributions in the second-pillar pension funds, they will also receive complementary pension payments from these funds upon retirement.

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[45]The accrual factor—which is applied to the pensionable base to determine actual pensions—will be calculated as under the current system (except for early retirement, where, as noted, the reduction factor will be increased).

[46]The first-reading draft of the law envisaged the annual indexation of the value of personal points to the cost-of-living index (COLI). This type of indexation had the problem that, assuming real wage growth in the economy over the medium term, replacement rates for new pensions awarded under the personal points formula would tend to decline overtime.

100. Although efforts are being made to prepare and pass before end-1998 the legislation needed for the second and third pillars, adhering to this timetable cannot be guaranteed. Furthermore, once these complementary laws have been passed, some time will be required for the private pension funds to be established and begin operations. According to the World Bank, it can take more than one year for the funds to start operating after the needed legal framework is in place.

101. In view of this time lag, there are two options. One is to delay the transfer of pension contributions to the second pillar until the private pension funds are ready. A problem with this option is that delaying the start of the second pillar may postpone its implementation indefinitely (as the recent experience of Latvia suggests). The second option is to transfer the contributions to an institution that will invest and manage these funds until the second-pillar pension funds are operational. This second proposal (the creation of an "interim" second pillar) is based on the scheme used successfully in Sweden. It raises, however, a number of issues, such as which institution would manage the interim pillar, in which assets it would invest its funds, and whether it would have any responsibility for the licencing and supervision of the second-pillar funds. These issues would need to be clarified by the new Pension Law and/or complementary legislation.

102. Regarding the third pillar, little has been decided. One possibility would be to allow the second-pillar funds to offer voluntary pension plans, in which case they would manage both the second (mandatory) pillar and the third (voluntary) pillars. Alternatively, this task could be assigned to other financial institutions regulated separately. This and other issues such as the prudential regulatory framework affecting third-pillar pension schemes are yet to be settled.

D. The Transitory Fiscal Cost of Pension Reform

103. The loss of part of the contributions to the second pillar will in principle have to be covered by a concomitant increase in the transfer from the central budget to the Pension Fund. This cost is estimated at about 1.1 percent of GDP for the first year of reform (1999), assuming that 5 percentage points of the contribution are diverted to the second pillar. The cost, however, will increase as the proportion of workers contributing to the second pillar increases, peaking at about 2¼ percentage points of GDP about 20 years after the introduction of the second pillar, once all workers have moved to the multi-pillar system.

104. It is important to note that the cost due to the diversion of contributions to the second pillar does not imply a fiscal expansion, in the sense that the associated reduction in public saving is offset by an equivalent increase in private saving within the second-pillar funds. It will, however, tend to increase the budget deficit and, therefore, unless offset by other fiscal actions, will have to be financed by an increase in public debt. The cost due to the loss of contributions will be gradually offset by reduced pension payments from the PAYG pillar, as the rationalization measures in that pillar start yielding fruits, and as workers aged below 40 at

the time the reform was introduced retire and start drawing pensions from their second-pillar retirement accounts.

105. World Bank projections based on a pension reform simulation model (PROST) suggest that the planned reform could reduce pension payments (relative to a no-reform scenario) by ½ percent of GDP by 2000, by 1¼ percent of GDP by 2015, and by about 3 percent of GDP by 2035. By the year 2030, these savings should be sufficient to approximately offset the loss from the transfer of contributions to the second pillar, thus fully eliminating the transitory cost of the reform. Thereafter, the reform would start yielding net benefits.

106. The transition cost of pension reform could basically be covered by issuing government securities (which could be acquired by the second-pillar funds or transitory institution with their surplus savings), by privatization revenues, or by a combination of both. Regarding the use of privatization revenues to pay for pension reform, the Pension Fund has an important portfolio of shares in some 750 formerly socially-owned enterprises, received in the context of the privatization process.[47] The book value of this portfolio is about DM 3.5 billion (about HRK 12.6 billion), although the market value of these assets is thought to be roughly half of this amount (or about 5.3 percent of 1997 GDP). Assuming that the market value is half of the book value, the divestiture of these assets could therefore finance the transitory cost of pension reform during approximately the first five years. Furthermore, according to the Privatization Law of 1995, about 30 percent of the receipts from the sale of the public enterprises (which include the petroleum conglomerate INA and the big utilities) is to be set aside for "pension funds" in the context of pension reform. Also, privatization receipts accruing to the budget could be used to finance the higher state transfers to the Pension Fund required by the establishment of the second pillar.

E. Amendments Proposed by Parliament in the Second Reading of the New Pension Law

107. Among the remarks made by parliament during the second reading of the proposed Pension Law, the following seemed of particular significance:

- Most members of parliament argued that retirement ages for women should not be increased so much. They favored an increase in women's normal and early retirement ages to 60 and 55 years, respectively, rather than to the 65 and 60 years envisaged in the draft law.

- Parliament debated strongly against the indexation of prices to wages, although many parliamentarians seemed open to consider a mixed variant (such as the so-called Swiss

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[47]Under the Law on the Transformation of Socially-Owned Enterprises of 1991, one third of the non-privatized part of the capital of these enterprises had to be transferred to the Pension Fund.

formula) in which pension growth would be indexed to a weighted average of price and wage inflation.

- Parliament said that it could not approve the new Pension Law before having a more precise idea of what the second and third pillars will look like. This may require the government to accelerate the preparation of the second- and third-pillar legislation so as to be able to submit it hand-in-hand with the new Pension Law.

- Finally, a majority of parliamentarians questioned January 1999 as the starting date for the reform.

F. The Constitutional Court Ruling of May 1998

108. As part of the stabilization program of October 1993, the government suspended the automatic indexation of pensions to wages. This was done through regular government decrees until a new law was passed in February 1997, establishing the principle of price indexation of pensions.[48] This law indicated that, beginning on January 1, 1997, pensions would be adjusted every six months to take account of changes in the COLI during the six previous months, or at shorter intervals if the COLI increased by more than 3 percent.[49] With real wages increasing very rapidly since 1994, the suspension in 1993 of the indexation of pensions to wages resulted in a sharp deterioration of the pension/net wage replacement rate, which fell from about 71 percent in 1993 to about 49 percent in 1997 (see Table 19). The end of the war in 1995 and the economy recovery led to increasing pressures by pensioner associations for a reestablishment of past replacement rates.

109. In addition to laying down the principle of price indexation, the law of February 1997 compensated pensioners for the deviation of pension growth from wage growth between February 1995 and December 1996. These "compensation pensions" amounted to a total of about HRK 500 million (0.4 percent of 1998 GDP) and are being paid in 18 monthly installments, the first of which took place in May 1997.

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[48]"Law on the Adjustment of Pensions and other Monetary Payments, and on the Management of the Pension and Disability Insurance Fund," *Narodne Novine* No. 20, February 19,1997.

[49]The 1997 law, however, did not preclude pensions from growing above the COLI, for example if the growth of Pension Fund contributions allowed this. It only guaranteed that pensions would increase *at least* with the COLI.

Table 19. Croatia: Key Indicators of the Pension System, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997
Total number of pensioners (end-of-period)	594,839	646,140	762,072	784,364	813,382	863,551	874,061	907,479
Of which: Old-age pensioners	264,096	310,068	387,405	409,122	433,180	443,688	451,046	467,363
Total active insured persons (end-of-period)	...	1,839,265	1,724,792	1,698,138	1,644,009	1,567,981	1,478,975	1,468,938
Of which: Workers' Fund	1,682,971	1,555,734	1,442,406	1,410,638	1,354,146	1,340,951	1,267,650	1,270,226
Dependency ratio (insured/pensioners) 1/	2.83	2.41	1.89	1.80	1.66	1.55	1.45	1.40
Old-age dependency ratio 2/	2.97	2.89	2.83	2.77	2.71	2.66	2.66	2.66
Average old-age monthly pension (period average; in kunas)	4	6	25	376	755	924	994	1,154
Net replacement rate for old-age pensions 3/	88.7	74.2	73.6	71.4	60.6	50.8	48.9	48.6

Sources: Central Bureau of Statistics; Croatian Pension and Disability Fund; and the World Bank.

1/ Insured persons of the Workers' Fund only.

2/ Population between 20 and 59 years old over population aged 60 or more.

3/ Average monthly old-age pension over average monthly net wage.

110. Following an appeal by pensioners, the Constitutional Court ruled in May 1998 that the decrees and 1997 law suspending the indexation of pensions to wages were invalid.[50] In particular, the Court argued that they were incompatible with articles 1, 3, 5, and 14.2 of the Constitution, which define Croatia as a social state that should protect the standard of living, and guarantee the equality of treatment, of its citizens. The Court ruling may oblige the government to compensate pensioners not just for the difference between wage and pension growth in 1995–96, as foreseen in the law of February 1997, but for the full deviation experienced since the indexation of pensions to wages was terminated.

111. While the Court did not specify how the situation should be redressed, the fiscal implications of this ruling are potentially enormous. Given the sharp increase in real wages since end-1993, the total compensation for the past divergence between pensions and wages would be very sizeable. Depending on how it is calculated, the corresponding new pension debt has been estimated at between HRK 7 billion and HRK 30 billion (or between 5 percent and 22½ percent of projected 1998 GDP) for the period up to end-1997. Furthermore, the ruling also affects two of the main parameters of the envisaged pension reform. First, it implies a higher starting level for pensions and the replacement rate. Second, it puts into question the indexation to prices foreseen in the new Pension Law. Since parliament has also objected to the price indexation of pensions (with some parliamentarians expressing a preference for a formula indexing pensions to a weighted average of wage and price growth), it now seems difficult for the government to stick to this key component of its reform plans.[51]

112. Based on the PROST pension model, and assuming that real wages grow on average by about 4 percent a year, the World Bank estimates that a shift from full price indexation to full wage indexation would require an increase in social security contributions to the Pension Fund of about 4 percentage points in order to keep the financial position of the Pension Fund unchanged. Such an increase in contributions would run against the government's declared objective of reducing payroll taxes over the medium term in order to reduce the indirect cost of labor and thus reduce Croatia's relatively high rate of unemployment.

G. Summary and Concluding Remarks

113. A rapid increase in early retirement, disability and merit pensions, population aging, as well the recent increase in the number of pensioners related to the reintegration of war-affected regions into the Croatian territory, have put the Croatian pension system in a difficult financial position, posing a threat to the overall fiscal position of the government. Moreover,

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[50]"Decision of the Constitutional Court of Croatia of May 12, 1998," *Narodne Novine* No. 69, May 14, 1998.

[51]Even a mixed formula would now seem to conflict with a strict interpretation of the Constitutional Court ruling.

demographic trends are expected to put further pressure on the system in the next three decades.

114. In this context, the government has presented a pension reform proposal that aims at putting the pension system on a sound footing and ensuring its medium-term sustainability. The expenditure measures envisaged in the reform plan will take some time to mature, and a significant transitory fiscal cost is expected from the transfer of part of the payroll contributions to the second-pillar pension funds. Also, the shape and scope of the second and third pillars need to be better defined, the corresponding legislation adopted, and the financial infrastructure necessary for their operation developed. But the overall pension reform project, designed in collaboration with the World Bank, seems well conceived.

115. The recent ruling of the Constitutional Court on pensions has, however, complicated the government's task, both by potentially increasing the obligations of the pension system in the short term and by putting into question some of the basic elements of the pension reform program (in particular, the indexation of pensions to prices). While the Court did not specify how pensioners should be compensated for the past divergence between pension and wage growth—the amount of compensation is to be determined by the political process—the Court's ruling may have large fiscal implications and may result in a delay in the implementation of the pension reform plan. Resolving this issue promptly and in a way that does not weaken the reform program is one of the major challenges confronting Croatian policymakers in the near future.

Summary of the Croatian Exchange and Trade System[51]
(Position as of December 31, 1997)

A. Exchange Arrangements

116. Croatia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement on May 29, 1995. The currency of Croatia is the kuna, the external value of which is determined in the interbank market. The exchange rates in the interbank market are determined by authorized banks that transact with each other at freely negotiated rates. The Croatian National Bank (CNB) may set intervention exchange rates at which it will transact with banks outside the interbank market for purposes of smoothing undue fluctuations in the exchange rate. On December 31, 1997, the average interbank market rate for the U.S. dollar was HRK 6.303 per US$1. There are no taxes or subsidies on purchases or sales of foreign exchange. Settlements between residents and nonresidents may be effected in any convertible currency. Croatia does not maintain any bilateral payments agreements.

B. Administration of Control

117. The Law on the Foreign Exchange System, Foreign Exchange Operations, and Gold Transactions, which was enacted on October 7, 1993, governs foreign exchange transactions. The CNB formulates and administers exchange rate policy. The CNB and the Ministry of Finance may issue foreign exchange regulations under this law. A Trade Law (codifying domestic trade and foreign trade legislation in a comprehensive law) was passed on January 31, 1996, and came into force on February 17, 1996. Companies wishing to engage in foreign trade must register with the commercial courts. The representative offices of foreign companies must be registered with the Ministry of Economy.

118. Foreign exchange transactions must be conducted through authorized banks licensed to conduct foreign exchange transactions. Restricted licenses are given to banks that may open accounts for resident natural persons and may buy and sell banknotes and checks.

C. Resident and Nonresident Accounts

119. Resident natural and juridical persons may, in principle, open and operate foreign exchange accounts only in Croatia. However, the CNB has the authority to allow resident juridical persons to keep foreign exchange in accounts with foreign banks in order to cover the costs of business operations and meet the requirement of regular foreign trade activities abroad. The law also makes specific provisions for resident juridical persons engaged in capital project construction abroad to maintain accounts with foreign banks, subject to a license issued by the CNB.

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[51] Prepared by Jimmy McHugh.

120. Nonresidents may open foreign exchange accounts with fully licensed banks in Croatia. These accounts may be credited freely with foreign exchange and debited for payments abroad or conversion into domestic currency; reconversion of domestic currency into a foreign currency is permitted. Juridical persons may credit these accounts with foreign banknotes up to a limit of US$20,000 without special permission from the CNB.

121. Nonresident natural and juridical persons may open accounts in domestic currency with the proceeds from sales of goods and services or with foreign exchange transferred from abroad. They may purchase foreign exchange with funds held in these accounts without restriction.

D. Imports and Import Payments

122. Croatia does not maintain any import quotas—the existing quotas were abolished by decree of July 12, 1996, although such quotas are in principle allowed for under the Trade Law under conditions similar to WTO rules. All imports except a list of products whose importation is controlled by international agreement for noneconomic reasons (such as arms, gold, illegal drugs and narcotics, and artistic and historic works) are free from licensing requirements, and a small number of other products (notably iron tubes and bars). The importation of these items is allowed on a case-by-case basis.

123. Imports are subject to customs tariffs of up to 25 percent, with a few exceptions. The exemption for duty-free imports by travelers was US$100 until December 31, 1997; since January 1, 1998 this exemption has been changed to HRK 300. Goods imported by travelers and postal shipments up to the value of US$500 are subject to a simplified customs procedure with a unified tariff rate of 8 percent. For imports exceeding that value, the regular import tariffs and taxes are applied. Returning citizens may bring into the country household effects duty-free in an amount related to the period spent abroad for household effects and for private business purposes without restrictions, but on a case-by-case basis, under the approval of Ministry of Finance. Under certain conditions, goods imported by nonresidents for investment purposes are exempt from import duties. Also, raw materials and intermediate products used in the production of exports are exempt from all import duties and taxes, provided that the value added of the export product is at least 30 percent of the value of the imported items and that export proceeds are received in convertible currency. Payments for legal imports are not restricted. Advance payments and down payments for imports are permitted.

E. Payments for Invisibles

124. Payments for invisibles related to legal imports by juridical persons may be made freely. Natural persons may also purchase foreign exchange in the interbank market for the payment of goods and services abroad and for deposit in a foreign exchange account for the purpose of future payments. Payments of royalties, insurance, and legal obligations and contracting of life and casualty insurance policies with foreign companies are also permitted.

125. Resident natural persons may take out of the country—including on short cross-border trips—foreign currency equivalent to DM 1,000. There exist no restrictions on the frequency with which such amounts can be taken out. An additional amount equivalent up to DM 2,000 may be taken out, provided that it is withdrawn from foreign currency accounts or purchased from banks for travel expenses. In both cases the CNB may allow higher amounts to be taken out on a case-by-case basis. The exportation of Croatian currency by both residents and nonresidents is limited to HRK 2,000 a person, but larger amounts may be exported with special permission from the CNB.

F. Exports and Export Proceeds

126. Exports are free of restrictions except for certain products for which permits must be obtained (List D products: e.g., weapons, drugs, and art objects); several basic foodstuffs to ensure adequate domestic supplies; unrenewable resources (oil and natural gas); hides and wood. Export proceeds must be collected and repatriated in full to Croatia within 90 days of the date of exportation; this period may be extended with the permission of the CNB up to 150 days. If payment terms in excess of 90 days have been agreed with foreign importers, the credit arrangement must be registered with the CNB.

G. Proceeds from Invisibles

127. Proceeds from services are, in principle, subject to the same regulations as those applying to merchandise exports. The importation of Croatian currency by both residents and nonresidents is limited to HRK 2,000 a person, but larger amounts may be imported with special permission from the CNB.

H. Capital Account

128. Resident juridical persons, including commercial banks, may borrow abroad. They are required to register the loans contracted, including commercial credits, with the CNB. Financial credits may be extended to nonresidents by resident juridical persons, only in accordance with the provisions of the Law on Foreign Trade Credit Operations. Natural persons are permitted to obtain loans from nonresidents in domestic or foreign currency. The foreign exchange positions of commercial banks are subject to a limit (maximum up to 30 percent of the bank's capital).

129. Foreign direct investment by nonresidents may take the form of joint ventures or full ownership and must be registered with the commercial courts. Repatriation of capital and transfers abroad of profits are not restricted. In principle, domestic and foreign investment is treated equally (e.g., "national treatment"). If the foreign equity capital participation exceeds 20 percent, inputs used in the project are exempt from import duties. The profit tax rate is uniform and amounts to 35 percent. Foreign direct investment abroad by residents must be registered with the Ministry of Economy within a 30-day period from the signing of the contract. Such investment must generally be undertaken through loans abroad or through

reinvestment of profits. Inward portfolio investment is not restricted, except in central bank short-term securities in the primary market. In general, outward portfolio investment is restricted.

130. A new law governing the foreign ownership of real estate came into effect on January 1, 1997. Foreign natural and juridical persons can legally purchase real estate subject to the approval of both the Ministries of Foreign Affairs and Justice. However, the law grants the right of ownership only to those foreign nationals in whose countries Croatian citizens are given reciprocal rights of property ownership

I. Gold

131. The CNB may export gold and gold coins without any restrictions. Unprocessed gold may be exported under the approval of the CNB. Gold coins may be exported by authorized commercial banks, under the approval of the CNB. Importation of gold is subject to the approval of Ministry of Economy.

Changes from July 1, 1995 through December 31, 1997

December 14, 1995: The Law on Issuance and Sale of Securities was passed and came into force on January 1, 1996.

December 14, 1995: The Law on Investment Funds was passed and came into force on January 3, 1996.

February 17, 1996: The Trade Law became effective.

June 8, 1996: The Law on Foreign Credit Operations became effective.

July 1, 1996: The Law on Customs Tariffs (including unification of various tariffs into a single tariff structure) became effective.

July 12, 1996: A Law on Export Quotas (including abolition of import quotas) became effective.

July 31, 1996: An exchange of bonds in the context of an agreement with London Club creditors was effected.

January 1, 1997: The Law on Real Estate Ownership became effective.

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of April 30, 1998)

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
1. Taxes on income, profits and capital gains				
1. Individual Income	The unified tax is levied on all personal income and includes income from employment, small-business activity and self-employment, farming and forestry, and property and property rights. The tax base for residents is both income earned domestically and abroad; foreigners are taxed for income earned in Croatia.	There is an exempt tax threshold of HRK 800 per month (as of Jan. 1, 1997). This amount increases if the taxpayer has a dependent spouse or other close or disabled family members and/or children. As of January 1, 1995, allowances for food, and travel are included in the tax base. Capital gains are tax exempted. Tax exemptions granted under the former Direct Taxes Act continue to be valid until they expire.	20 percent on taxable income up to three annual minimum salaries (decreased as of January 1, 1997 from 25 percent); 35 percent on taxable income exceeding three annual minimum salaries.	Income Tax Act became effective January 1, 1994. Taxes which are paid abroad for activities in Croatia can be deducted from the tax liability up to the overall liability in Croatia.
1.2 Profit Tax	The tax is levied on legal entities as well as natural persons who engage in regular and for-profit business activity, and who are required to keep business books and have to submit financial statements. Natural persons who engage in small business activities that are covered by the income tax can choose to pay profit taxes and keep accounting books instead. The taxable base is the difference between the value of assets and liabilities at the beginning and the end of the tax period. The tax is imposed on both residents and non-residents operating a business in Croatia.	Exemptions and tax relief can be granted to enterprises which invest in war affected regions. Taxes which are paid abroad for activities in Croatia can be deducted from the tax liability. Exemptions that were granted under the Direct Taxes Act continue to be valid until they expire.	As of January 1, 1997, the rate was increased from 25 to 35 percent of the assessed taxable base.	The Profit Tax Act became effective January 1, 1994. As of January 1, 1997, the tax base is reduced by a "normal" rate of return on equity which is defined as 5 percent increased by the change in the producer price index published by the National Institute for Statistics.

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
1.3 Surcharge on Income Tax	Towns and cities of more than 40,000 inhabitants can impose a surcharge to be collected by the cities on the income tax of the central government.		Up to 30 percent. City of Zagreb up to 60 percent.	
1.4 Gaming Tax	The tax is levied on individuals who realize profits from gambling.			
2. Social security contributions				
2.1 Employees 2.1.1 Pension Fund 2.1.2 Health Fund 2.1.3 Employment Fund 2.1.4 Child Benefit Fund	The tax is levied on individuals who receive wages and salaries for work performed in the country or abroad if they have been assigned to a job by a Croatian employer. The tax takes the form of a Central Government payroll tax. The funds are in principle obliged to balance their budgets, and benefits are financed on a pay-as-you-go basis.	No exemptions are provided.	**Standard rates**: Pensions: 10.75 percent Health: 9.00 percent Employment: 0.85 percent Child Benefits: 2.20 percent	On February 1, 1998, the rate of the contribution to the Pension Fund was reduced from 12.75 percent to 10.75 percent, and the rate of the contribution to the Health Fund increased from 7 percent to 9 percent, for both employees and employers. This was intended to offset the elimination as from that date of the transfer from the Pension Fund to the Health Fund.
2.2 Employers 2.2.1 Pension Fund 2.2.2 Health Fund 2.2.3 Water Management Fund	Same tax base as for employees' contributions.	No exemptions are provided.	Pensions: 10.75 percent Health: 9.00 percent Employment: 0.85 percent Water Management 0.76 percent	

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
3. Tax on property				
3.1 Tax on real property transactions	The tax is paid by individuals selling property and by persons taking part in exchange transactions.	Certain exemptions are envisaged by statute.	5 percent.	
3.2 Inheritance and gift tax	The tax is paid by those who inherit property or receive it as a gift. The rate is set and collected by the counties.		Up to 5 percent.	
3.3 Tax on motor vehicles	The tax is levied on owners of motor vehicles and collected by the counties. It is based on both engine power and age of the vehicle.		Automobiles DM 30 to DM 200 per year. Motorcycles DM 20 to DM 100 per year.	
3.4 Tax on watercraft	The tax is paid by owners of watercraft and collected by the counties. It is based on the age of the boat, equipment and length.		DM 30 to DM 550 per year.	
3.5 Tax on firms	The tax is paid by legal and natural persons who own a business but do not pay income and profit tax. The fee is set and collected by the municipality.		Up to DM 500 per year.	
3.6 Tax on weekend houses	The tax is paid by legal and natural persons who own weekend houses. The fee is set and collected by the municipality.		Up to DM 3 per square meter.	

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
4. Domestic taxes on goods and services				
4.1 Value-Added Tax	The tax is paid on domestic sales and on imports of most goods and services. Entrepreneurs may deduct VAT paid on their purchases. Uses credit-invoice method and destination principle.	Exports are zero-rated. Exemptions are limited to rental housing, financial services, health and social welfare services, and education and cultural services. There is a registration threshold (an annual turnover of HRK 50,000).	Standard rate: 22 percent	The VAT became effective on January 1, 1998.
4.2 Excise taxes	Specific unit taxes paid by producers and importers.			The excise taxes became effective July 1, 1994.
4.2.1 Tax on oil derivatives			HRK 0.30 to 1.90 per liter.	Effective on May 27, 1997.
4.2.2 Tax on tobacco			HRK 2.50 to 8.50 per package of cigarettes.	Effective on August 15, 1995
4.2.3 Tax on beer			HRK 80.00 per hectoliter.	Effective on January 1, 1998
4.2.4 Tax on high percentage alcohol			HRK 30.00 to 60.00 per liter per absolute alcohol content.	
4.2.5 Tax on soft drinks			HRK 40.00 per hectoliter.	Effective on January 1, 1998

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
4.2.6 Tax on Motor Vehicles			• Private automobiles of 55 Kw or more: rates range from HRK 3,000 to HRK 30,000, depending on engine power and on whether they are first-hand or second-hand vehicles. • Motorbikes: rates range from HRK 2,000 to HRK 10, 000, depending on length. • Vessels without cabins: rates range from HRK 6,000 to HRK 24, 000 depending on length. • Vessels with cabins: rates range from HRK 15, 000 to HRK 90,000, depending on length.	Effective January 1, 1998
4.2.7 Tax on imported coffee			HRK 3.6 to HRK 15 per kilogram.	Effective January 1, 1998
4.3 Ticket tax	The tax is paid by the organizers of sports events and levied on the ticket price. It is collected by the counties.		Up to 5 percent.	
4.4 Special consumption tax	The tax is paid by restaurant owners and levied on the sales price of beverages sold. Municipalities collect the revenues and set the rates.		Up to 3 percent.	
4.5 Tax on advertizing	The tax is paid by legal and natural persons who advertize in public places. The tax is set and collected by the municipalities.		Up to DM 300 per year.	

Tax	Nature of Tax	Deduction and Exemptions	Rates	Remarks
5. Taxes on international trade and transactions				
5.1 Import duties				
5.1.1 Customs duties	Paid by the importer of a wide range of goods and services	A large number of items are not considered customs goods (e.g., movable property owned by Croatian citizens, enterprises, and other legal persons; certain foreign personal investments in domestic enterprises and retail shops; imports which will be used mainly for production of goods for exports).	Most tariff rates are in the 5-25 percent range.	

Table 20. Croatia: Quarterly GDP at Constant 1990 Prices 1/

	GDP (In thousands of kunas)	Index 1990 = 100
1989		
Q1	72.3	103.0
Q2	76.0	108.4
Q3	80.1	114.2
Q4	73.6	104.9
Total	302.0	107.6
1990		
Q1	69.6	99.3
Q2	70.1	99.9
Q3	73.5	104.7
Q4	67.4	96.0
Total	280.5	100.0
1991		
Q1	59.3	84.6
Q2	61.0	86.9
Q3	53.1	75.8
Q4	47.9	68.3
Total	221.4	78.9
1992		
Q1	47.5	67.7
Q2	48.2	68.8
Q3	50.2	71.6
Q4	49.5	70.6
Total	195.5	69.7
1993		
Q1	44.2	63.0
Q2	45.2	64.4
Q3	45.9	65.5
Q4	44.5	63.4
Total	179.8	64.1
1994		
Q1	44.4	63.4
Q2	46.6	66.4
Q3	50.3	71.7
Q4	49.0	69.8
Total	190.3	67.8
1995		
Q1	49.3	70.3
Q2	51.0	72.7
Q3	51.8	73.8
Q4	51.2	73.0
Total	203.3	72.5
1996		
Q1	51.0	72.6
Q2	53.2	75.9
Q3	56.8	81.0
Q4	54.6	77.8
Total	215.5	76.8
1997		
Q1	53.3	76.0
Q2	56.4	80.3
Q3	61.5	87.7
Q4	58.4	83.2
Total	229.5	81.8

Source: Central Bureau of Statistics.

1/ Series rebased using new annual GDP series published in April 1998.

Table 21. Croatia: Gross Domestic Product at Current Prices 1/

	1990	1991	1992	1993	1994	1995	1996 2/	1997 2/
				(In millions of kunas)				
Manufacturing and mining	73.3	116.9	700.4	10,106.5	19,926.8	18,582.0	...	...
Agriculture and fishing	24.4	38.4	325.1	4,209.3	7,409.5	7,859.9	...	...
Forestry	2.9	4.8	33.2	360.8	845.3	612.1	...	...
Water management	0.9	1.7	6.6	85.9	151.4	177.3	...	...
Construction	15.2	18.7	87.4	1,635.9	3,717.0	4,778.2	...	...
Transport and communications	21.4	38.2	159.6	2,007.0	5,999.1	6,659.9	...	...
Trade	23.4	36.9	234.0	2,868.0	6,471.8	8,804.3	...	...
Hotels, restaurants and tourism	11.2	9.0	76.7	925.0	1,961.7	1,792.6	...	...
Crafts and trades	11.0	16.9	80.0	837.0	2,339.4	3,255.8	...	...
Community service activities	14.9	39.8	329.2	3,881.6	5,599.2	6,348.4	...	...
Financial and other services	14.9	35.6	320.8	2,687.2	5,737.7	6,563.0	...	...
Education and culture	16.6	19.9	86.1	1,279.7	3,405.0	4,053.7	...	...
Health care and social welfare	16.0	22.2	91.8	1,228.3	3,207.7	3,369.8	...	...
Public administration	12.1	21.0	96.7	2,253.1	6,612.6	8,266.4	...	...
Total activity at factor cost	250.2	397.0	2,413.9	32,779.7	71,512.2	78,882.5	...	...
Import taxes	7.9	19.5	100.1	1,236.1	3,582.4	4,184.2	...	...
Turnover tax	29.6	37.8	303.8	5,971.2	14,794.1	17,534.3	...	...
Subsidies on products	-7.1	-13.0	-111.2	-983.9	-2,447.5	-2,183.1	...	...
Net indirect taxes	30.4	44.2	292.7	6,223.5	15,929.0	19,499.5	...	...
GDP (market prices)	280.5	441.2	2,706.6	39,003.2	87,441.2	98,382.0	107,255.3	119,053.4
				(Percent composition)				
Manufacturing and mining	26.1	26.5	25.9	25.9	22.8	18.9	...	...
Agriculture and fishing	8.7	8.7	12.0	10.8	8.5	8.0	...	...
Forestry	1.0	1.1	1.2	0.9	1.0	0.6	...	...
Water management	0.3	0.4	0.2	0.2	0.2	0.2	...	...
Construction	5.4	4.2	3.2	4.2	4.3	4.9	...	...
Transport and communications	7.6	8.7	5.9	5.1	6.9	6.8	...	...
Trade	8.3	8.4	8.6	7.4	7.4	8.9	...	...
Hotels, restaurants and tourism	4.0	2.0	2.8	2.4	2.2	1.8	...	...
Crafts and trades	3.9	3.8	3.0	2.1	2.7	3.3	...	...
Community service activities	5.3	9.0	12.2	10.0	6.4	6.5	...	...
Financial and other services	5.3	8.1	11.9	6.9	6.6	6.7	...	...
Education and culture	5.9	4.5	3.2	3.3	3.9	4.1	...	...
Health care and social welfare	5.7	5.0	3.4	3.1	3.7	3.4	...	...
Public administration	4.3	4.8	3.6	5.8	7.6	8.4	...	...
Total activity at factor cost	89.2	90.0	89.2	84.0	81.8	80.2	...	...
Import taxes	2.8	4.4	3.7	3.2	4.1	4.3	...	...
Turnover tax	10.6	8.6	11.2	15.3	16.9	17.8	...	...
Subsidies on products	-2.5	-2.9	-4.1	-2.5	-2.8	-2.2	...	...
Net indirect taxes	10.8	10.0	10.8	16.0	18.2	19.8	...	...
GDP (market prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics

1/ Revised series published in April 1998. Based on the uniform classification of economic activities.

2/ Preliminary estimates.

Table 22. Croatia: Gross Domestic Product at Constant (1990) prices 1/

	1990	1991	1992	1993	1994	1995	1996 2/	1997 2/
				(In millions of kunas)				
Manufacturing and mining	73,330	53,084	39,145	35,046	37,219	35,170	...	...
Agriculture and fishing	24,357	21,833	20,182	19,282	16,931	17,465	...	...
Forestry	2,907	2,710	2,938	2,176	2,743	2,010	...	...
Water management	938	630	255	198	200	236	...	...
Construction	15,198	9,621	5,932	6,376	7,191	8,405	...	...
Transport and communications	21,427	14,396	13,995	10,318	12,831	12,936	...	...
Trade	23,390	16,749	12,550	10,153	11,665	15,634	...	...
Hotels, restaurants and tourism	11,185	3,718	3,572	2,550	2,784	2,397	...	...
Crafts and trades	10,976	8,163	10,428	8,625	9,472	10,177	...	...
Community service activities	14,859	13,576	14,865	14,297	14,126	14,400	...	...
Financial and other services	14,893	17,348	16,028	15,562	17,554	18,346	...	...
Education and culture	16,609	15,629	14,566	14,642	14,772	14,690	...	...
Health care and social welfare	16,046	15,208	14,542	14,732	14,543	14,253	...	...
Public administration	12,082	13,570	13,007	12,988	13,178	16,712	...	...
FISIM	-8,035	-7,328	-6,445	-5,902	-6,141	-6,391	...	...
Total activity at factor cost	250,161	198,907	175,561	161,043	169,069	176,439	...	...
Import taxes and excises	7,921	6,038	6,842	7,933	8,752	11,411	...	...
Turnover tax and excises	29,581	21,244	17,323	14,500	16,330	19,433	...	...
Subsidies on products	-7,119	-4,808	-4,276	-3,712	-3,833	-3,959	...	...
Net indirect taxes	30	44	293	6,224	15,929	19,500	...	...
GDP (market prices)	280,544	221,381	195,450	179,764	190,317	203,323	215,522	229,531
				(Percent compostion)				
Manufacturing and mining	26.1	24.0	20.0	19.5	19.6	17.3	...	...
Agriculture and fishing	8.7	9.9	10.3	10.7	8.9	8.6	...	...
Forestry	1.0	1.2	1.5	1.2	1.4	1.0	...	...
Water management	0.3	0.3	0.1	0.1	0.1	0.1	...	...
Construction	5.4	4.3	3.0	3.5	3.8	4.1	...	...
Transport and communications	7.6	6.5	7.2	5.7	6.7	6.4	...	...
Trade	8.3	7.6	6.4	5.6	6.1	7.7	...	...
Hotels, restaurants and tourism	4.0	1.7	1.8	1.4	1.5	1.2	...	...
Crafts and trades	3.9	3.7	5.3	4.8	5.0	5.0	...	...
Community service activities	5.3	6.1	7.6	8.0	7.4	7.1	...	...
Financial and other services	5.3	7.8	8.2	8.7	9.2	9.0	...	...
Education and culture	5.9	7.1	7.5	8.1	7.8	7.2	...	...
Health care and social welfare	5.7	6.9	7.4	8.2	7.6	7.0	...	...
Public administration	4.3	6.1	6.7	7.2	6.9	8.2	...	...
FISIM	-2.9	-3.3	-3.3	-3.3	-3.2	-3.1	...	...
Total activity at factor cost	89.2	89.8	89.8	89.6	88.8	86.8	...	...
Import taxes and excises	2.8	2.7	3.5	4.4	4.6	5.6	...	...
Turnover tax and excises	10.5	9.6	8.9	8.1	8.6	9.6	...	...
Subsidies on products	-2.5	-2.2	-2.2	-2.1	-2.0	-1.9	...	...
Net indirect taxes	0.0	0.0	0.1	3.5	8.4	9.6	...	...
GDP (market prices)	100.0	100.0	100.0	100.0	100.0	100.0	100	100

Source: Central Bureau of Statistics

1/ Revised series published in April 1998. Based on the uniform classification of economic activities.
2/ Preliminary estimates.

Table 23. Croatia: Trends in Industrial Production

(Industrial production by main industrial groupings, 1992=100)

	Total Industry	Energy	Intermediate Goods	Capital Goods	Durable Consumer Goods	Nondurable Consumer Goods
1992	100.0	100.0	100.0	100.0	100.0	100.0
1993	94.0	114.5	97.4	107.4	108.5	78.3
1994	91.5	116.9	98.2	78.9	105.7	83.3
1995	91.7	133.8	90.2	81.5	93.2	88.4
1996	94.5	146.4	97.1	86.6	93.6	82.8
1997	101.0	171.3	95.2	92.3	122.7	92.6
1992						
Q1	95.8	96.6	98.5	106.9	99.0	98.0
Q2	96.8	97.9	100.0	119.0	92.9	94.7
Q3	99.0	87.1	100.6	104.9	97.4	109.1
Q4	108.4	118.5	107.7	119.2	104.6	113.1
1993						
Q1	94.7	124.1	101.3	122.3	111.6	79.5
Q2	94.9	109.1	101.3	134.4	111.7	76.5
Q3	90.8	106.3	97.5	108.2	98.3	81.0
Q4	95.6	118.7	96.1	118.7	105.6	87.7
1994						
Q1	87.1	125.0	92.5	79.4	103.5	82.6
Q2	90.3	102.9	105.0	92.4	104.5	80.8
Q3	90.5	119.1	99.1	81.1	95.5	87.8
Q4	97.9	120.7	102.8	102.3	112.8	94.5
1995						
Q1	91.7	148.9	90.9	87.3	95.9	88.3
Q2	92.6	135.5	95.9	92.3	94.1	89.6
Q3	87.2	120.2	88.7	85.2	89.9	88.6
Q4	95.4	131.1	91.3	102.1	87.0	100.5
1996						
Q1	91.7	161.0	93.6	89.5	89.4	81.5
Q2	93.9	131.3	100.3	105.5	89.0	82.5
Q3	93.0	132.4	100.0	98.8	95.6	85.3
Q4	99.6	161.3	101.2	95.7	94.6	94.5
1997						
Q1	94.2	186.7	88.1	93.4	113.7	86.7
Q2	100.2	157.4	99.0	105.1	135.9	95.7
Q3	98.8	147.3	90.7	99.7	112.8	100.8
Q4	110.6	194.2	109.7	117.1	120.6	101.1

Source: Central Bureau of Statistics.

Table 24. Croatia: Agricultural Production

(1988=100)

	1991	1992	1993	1994	1995	1996
Total production	93.8	81.2	85.2	82.7	83.5	85.2
Field crops	108.0	74.1	85.7	85.7	92.5	93.4
Cereals	115.7	70.0	88.5	83.2	89.0	88.1
Industrial crops	106.9	86.3	86.8	78.1	82.0	91.0
Meadow crops	101.8	68.5	71.1	76.0	77.6	77.6
Fruit	123.8	128.4	104.8	85.9	95.3	122.0
Viticulture	123.6	119.1	124.2	114.2	106.2	116.8
Stock-raising	72.2	72.8	67.0	65.6	61.0	60.4
Cattle	67.3	79.1	70.2	66.0	61.4	60.2
Pigs	73.0	72.7	70.7	71.4	65.0	63.7

Source: Central Bureau of Statistics.

Table 25. Croatia: Tourism—Overnight Stays

(In thousands)

	Overnight Stays		
	Total	Domestic	Foreign
1989	61,849	7,383	54,466
1990	52,523	6,747	45,776
1991	10,158	3,394	6,764
1992	10,724	3,170	7,554
1993	12,909	3,152	9,757
1994	19,977	4,421	15,556
1995	12,885	4,370	8,515
1996	21,455	4,909	16,546
1997	30,314	5,617	24,697
1996			
Jan.	247	155	92
Feb.	252	139	113
Mar.	289	148	141
Apr.	560	220	340
May	918	253	665
Jun.	2,178	432	1,746
Jul.	6,109	1,224	4,885
Aug.	8,020	1,536	6,484
Sep.	1,950	322	1,628
Oct.	389	174	215
Nov.	257	155	102
Dec.	285	151	134
1997			
Jan.	260	174	86
Feb.	295	187	108
Mar.	496	230	266
Apr.	591	233	358
May	1,524	340	1,184
Jun.	2,946	477	2,469
Jul.	8,944	1,418	7,526
Aug.	11,286	1,619	9,667
Sep.	2,924	431	2,493
Oct.	537	210	327
Nov.	251	151	100
Dec.	260	147	113

Source: Central Bureau of Statistics.

Table 26. Croatia: Nights Spent by Tourists According to Type of Accommodation

(In thousands)

	1992	1993	1994	1995	1996	1997
	(Total nights spent)					
Hotels	4,983	5,729	8,433	5,587	8,551	11,247
Pensions	15	23	21	15	31	51
Motels	100	82	103	95	111	140
Overnight lodging houses	32	21	27	29	41	42
Tourist facilities	1,648	2,178	3,357	1,972	3,083	3,791
Inns and other food and lodging establishments	2	2	2	2	5	40
Spas and sanatoriums	300	199	283	262	172	207
Company vacation facilities	140	139	248	303	401	685
Vacation facilities for children and adolescents	61	107	219	192	225	372
Campgrounds	2,651	3,562	5,079	3,429	5,815	7,857
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	709	748	2,054	840	2,806	5,660
Other	84	119	151	159	215	224
Total	10,725	12,908	19,977	12,884	21,457	30,313
	(Nights spent by tourists from Croatia)					
Hotels	2,067	2,053	2,610	2,569	2,732	2,793
Pensions	10	9	6	7	10	14
Motels	64	53	64	66	73	107
Overnight lodging houses	12	10	14	16	21	19
Tourist facilities	391	369	410	466	502	434
Inns and other food and lodging establishments	1	1	1	1	3	12
Spas and sanatoriums	252	119	130	173	139	156
Company vacation facilities	78	88	173	225	251	442
Vacation facilities for children and adolescents	16	41	108	108	107	200
Campgrounds	161	257	368	351	388	445
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	95	97	449	279	527	839
Other	23	54	88	108	158	155
Total	3,170	3,150	4,421	4,369	4,911	5,616
	(Nights spent by foreign tourists)					
Hotels	2,916	3,676	5,823	3,018	5,819	8,454
Pensions	5	14	15	8	21	37
Motels	36	29	39	29	38	33
Overnight lodging houses	20	11	13	13	21	23
Tourist facilities	1,257	1,809	2,947	1,506	2,581	3,358
Inns and other food and lodging establishments	1	1	1	1	2	27
Spas and sanatoriums	48	80	153	88	33	51
Company vacation facilities	62	51	75	78	150	242
Vacation facilities for children and adolescents	45	66	111	84	118	171
Campgrounds	2,490	3,305	4,711	3,078	5,427	7,412
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	614	651	1,605	561	2,279	4,820
Other	61	65	63	51	57	69
Total	7,555	9,758	15,556	8,515	16,546	24,697

Source: Central Bureau of Statistics.

Table 27. Croatia: Nights Spent by Tourists According to Country of Origin

	1992	1993	1994	1995	1996	1997
			(Number of nights; in thousands)			
Total	7,044	9,758	15,556	8,515	16,546	24,697
European Union	3,642	5,130	8,027	4,569	8,987	13,024
Eastern Europe	3,257	4,133	6,946	3,503	6,844	10,697
Other European	36	338	397	297	443	743
Non-European	109	156	186	147	272	232
			(In percent)			
Total	100.0	100.0	100.0	100.0	100.0	100.0
European Union	51.7	52.6	51.6	53.7	54.3	52.7
Eastern Europe	46.2	42.4	44.7	41.1	41.4	43.3
Other European	0.5	3.5	2.6	3.5	2.7	3.0
Non-European	1.5	1.6	1.2	1.7	1.6	0.9

Source: Central Bureau of Statistics.

Table 28. Croatia: Composition of Employment 1/

(In thousands)

	1991	1992	1993	1994	1995	1996	1997 2/
Total	1,303.6	1,137.9	1,108.4	1,061.5	1,026.8	1,012.4	970.3
Goods and services	1,053.0	903.8	872.3	827.0	792.2	782.5	739.9
Mining and industry	461.9	397.6	384.7	368.3	349.2	315.1	292.2
Of which:							
Manufacture of metal products	36.8	28.9	28.2	26.4	24.4	20.0	17.0
Machine industry	25.3	21.7	19.7	17.7	15.7	14.3	12.8
Shipbuilding	21.7	16.4	16.3	15.5	14.1	13.3	12.4
Manufacture of electrical equipment	28.3	24.9	23.9	21.5	20.5	20.2	19.2
Finished wood products	27.5	22.9	22.3	21.2	19.5	19.0	18.0
Textile fibre and fabrics	20.5	16.2	15.5	14.3	13.2	11.2	9.1
Finished textile products	52.9	46.2	48.9	48.3	45.6	39.4	39.6
Leather footwear and accessories	24.3	21.4	22.2	23.2	21.2	15.9	14.6
Food products industry	51.1	46.5	44.1	44.2	43.9	39.0	36.6
Agriculture and fisheries	48.3	43.2	42.3	39.5	35.2	31.3	28.0
Of which: fisheries	1.6	1.6	1.5	1.4	1.3	1.4	1.2
Forestry	13.4	11.5	10.8	10.9	10.9	9.8	9.3
Water management	5.6	5.0	4.3	4.0	4.0	3.9	3.9
Construction	98.8	76.2	66.3	59.0	59.0	61.5	58.0
Transport and communications	110.2	95.6	90.0	84.9	84.1	81.8	81.1
Of which:							
Railways	33.1	28.6	26.4	23.9	23.4	22.7	22.5
Ocean shipping	10.0	7.2	5.3	4.7	4.6	4.3	4.3
Road transport	24.4	21.1	20.0	18.3	17.9	17.2	16.1
Communications	20.3	19.9	20.2	20.4	21.1	21.6	22.3
Trade	142.3	123.9	125.2	116.5	109.8	124.9	116.4
Retail trade	103.5	90.1	87.9	80.4	73.0	72.1	65.8
Wholesale trade	31.0	28.2	31.8	31.6	32.4	46.8	44.7
Foreign trade	7.8	5.6	5.5	4.5	4.4	6.0	5.9
Hotels, restaurants, tourism	61.0	52.5	50.5	48.8	44.6	44.9	43.5
Crafts and trade	28.3	24.2	23.8	21.8	20.0	20.6	19.0
Housing, utilities, and public services	28.3	23.8	23.3	23.5	24.1	24.4	24.8
Financial and other services	55.4	50.7	51.5	50.1	51.3	64.3	63.7
Of which: banking	21.7	19.0	18.6	19.1	19.3	23.5	23.7
Education, health, and government	250.6	234.1	236.1	234.5	234.6	229.9	230.4
Education, culture, and the arts	93.8	87.7	88.9	89.4	88.9	89.4	89.9
Health care and social services	101.9	97.4	98.6	97.3	95.3	92.6	91.7
Government bodies	54.4	48.6	48.2	47.5	50.4	47.9	48.8

Source: Central Bureau of Statistics, Monthly Statistical Report.

1/ The data cover the former socially-owned enterprises, private and partially privatized enterprises, as well as the general government sector. Annual data are the average of March and September. Data for 1996 and 1997 are calculated on the basis of 12 monthly observations. Data do not include those employed at crafts and trades and freelances, employed at the Ministry of Internal Affairs, Ministry of Defense and private farmers.

2/ Preliminary data.

Table 29. Croatia: Trends in Employment and Unemployment 1/

(In units, unless otherwise indicated; end of period)

	Majority State-owned Ent. & Pub. Sector 2/ (1)	Private Sector 3/ (2)	Total Employment (3)=(1)+(2)	Unemployed (registered) (4)	Labor Force (5)=(3)+(4)	Unemployment Rate 4/ (In percent) (4)/(5)	Vacancies
1990	1,670,096	285,766	1,955,862	195,466	2,151,328	9.1	10,701
1991	1,482,740	343,650	1,826,390	283,308	2,109,698	13.4	6,922
1992	1,221,333	435,200	1,656,533	261,050	1,917,583	13.6	8,863
1993	1,054,357	586,823	1,641,180	243,096	1,884,276	12.9	8,426
1994	870,787	716,791	1,587,578	247,555	1,835,133	13.5	9,069
1995	799,665	738,804	1,538,469	249,070	1,787,539	13.9	7,765
1996 5/	843,364	569,424	1,412,788	264,124	1,676,912	15.8	6,456
1997 6/	...	...	1,162,659	277,691	1,440,350	19.3	10,472

Sources: State Institute for Macroeconomic Analysis and Forecasting; Bureau of Statistics, and Croatian Employment Office.

1/ Total employment estimates are based on employees paying pension contributions
2/ Comprises formerly socially-owned enterprise sector as well as government sector.
3/ Private sector employment includes individual farmers, entrepreneurs and their employees, independent professional workers' and employees at private enterprises. From 1992 onwards, private enterprises established in the process of privatization are included.
4/ This data is based on unofficial (lower) estimates of the labor force and, therefore, differ from that shown in the basic indicators table.
5/ 1996 data refer to situation as of March 31, 1996.
6/ Preliminary data.

Table 30. Croatia: Trends in Total Labor Costs

(In thousands of kunas, prices of December 1994)

	Total Labor Costs	Wage Bill	Contributions From Wages	Income Tax	Compensation From Employment and Work	Other Contributions
1995						
Jan.	1,007,405	455,620	314,606	109,888	95,436	31,634
Feb.	1,015,997	465,931	313,577	104,031	97,204	34,974
Mar.	1,086,224	490,473	329,145	113,772	109,928	42,523
Apr.	1,071,930	470,275	320,854	139,441	111,523	29,366
May	1,058,654	467,082	305,374	131,942	120,049	33,598
Jun.	1,080,861	469,758	318,257	124,716	129,264	38,328
Jul.	1,176,288	501,238	341,060	150,952	144,012	38,485
Aug.	1,051,610	466,520	308,223	123,030	117,174	36,191
Sep.	1,066,127	461,274	314,874	129,695	122,028	17,169
Oct.	1,010,717	440,686	292,231	125,933	118,629	32,133
Nov.	1,030,425	441,814	303,913	124,534	125,309	33,663
Dec.	1,141,700	479,775	327,431	144,327	151,577	37,196
1996						
Jan.	997,683	427,501	292,405	128,822	110,662	36,837
Feb.	1,009,692	440,698	299,242	121,762	114,015	32,519
Mar.	1,058,539	456,932	310,542	129,273	123,914	36,292
Apr.	1,042,157	439,868	305,211	138,711	127,499	29,664
May	1,084,616	457,658	316,415	139,054	135,842	33,885
Jun.	1,153,063	473,356	335,808	167,928	139,968	34,052
Jul.	1,133,568	467,838	335,875	150,106	145,061	32,677
Aug.	1,139,485	484,616	350,992	150,571	118,750	32,554
Sep.	1,121,511	474,760	329,445	151,736	128,427	34,957
Oct.	1,129,031	474,791	340,217	144,135	138,552	29,314
Nov.	1,088,039	474,360	328,997	139,444	115,670	27,523
Dec.	1,197,432	512,853	361,539	146,582	144,346	29,891
1997						
Jan.	1,199,611	536,867	360,504	138,352	123,884	36,869
Feb.	1,176,321	535,076	349,905	130,468	129,431	28,976
Mar.	1,243,225	556,301	367,035	141,397	143,769	31,969
Apr.	1,231,073	541,825	355,698	151,096	151,479	28,490
May	1,289,146	555,026	365,670	158,180	174,333	32,922
Jun.	1,280,296	560,404	366,242	159,260	165,989	25,966
Jul.	1,397,130	615,952	402,903	177,228	167,809	30,481
Aug.	1,293,222	573,032	380,159	162,097	142,605	32,141
Sep.	1,268,836	560,332	363,785	158,154	156,824	26,976
Oct.	1,339,007	586,126	380,470	166,305	173,636	29,392
Nov.	1,327,708	562,367	371,163	204,334	158,664	28,111
Dec.	1,608,010	657,074	430,527	249,217	234,182	33,136

Source: Payment Transfer Agency.

Table 31. Croatia: Trends in Average Monthly Net Wages and Salaries 1/

	Total	Total
	(In HRK)	(In US$)
1994	0.0	234.0
1995	1,818.0	347.8
1996	2,033.0	374.1
1997	2,377.0	386.0
1996	2,033.0	
Jan.	1,924.0	356.0
Feb.	1,908.0	351.1
Mar.	1,920.0	351.8
Apr.	1,980.0	357.6
May	2,067.0	371.2
Jun.	1,994.0	363.6
Jul.	2,071.0	386.1
Aug.	2,085.0	396.7
Sep.	2,028.0	379.2
Oct.	2,071.0	380.1
Nov.	2,124.0	394.7
Dec.	2,217.0	401.9
1997	2,377.0	
Jan.	2,274.0	400.3
Feb.	2,196.0	368.7
Mar.	2,271.0	374.9
Apr.	2,313.0	378.9
May	2,361.0	387.6
Jun.	2,406.0	390.8
Jul.	2,390.0	375.0
Aug.	2,395.0	365.8
Sep.	2,394.0	377.3
Oct.	2,437.0	391.8
Nov.	2,525.0	413.7
Dec.	2,544.0	407.2

Source: Croatian Economic Trends; and staff estimates.

1/ Comprises the formerly socially-owned industrial sector ("economy") and the general government sector ("non-economy").

Table 32. Croatia: Average Gross Monthly Pay per Employee

(In kuna)

	1994	1995	1996	1997
Total	2,155	2,887	3,243	3,668
Goods and services	2,092	2,781	3,178	3,579
Mining and industry	2,083	2,743	3,086	3,409
Of which:				
Manufacture of metal products	1,823	2,384	2,534	2,866
Machine industry	1,788	2,272	2,693	3,134
Shipbuilding	1,660	2,308	2,865	3,128
Manufacture of electrical equipment	2,409	3,137	3,614	4,081
Finished wood products	1,622	2,032	2,028	2,195
Textile fibre and fabrics	1,352	1,745	1,873	2,090
Finished textile products	1,855	2,195	2,256	2,406
Leather footwear and accessories	1,535	1,877	1,966	2,096
Food products industry	2,530	3,472	3,715	3,994
Agriculture and fisheries	2,020	2,690	2,991	3,332
Of which:				
Fisheries	1,969	2,603	2,776	2,784
Forestry	2,187	3,041	3,487	3,903
Water management	1,927	2,558	3,156	3,673
Construction	1,970	2,550	2,959	3,284
Transport and communications	2,189	2,840	3,326	3,916
Of which:				
Railways	1,791	2,513	2,883	3,194
Ocean shipping	3,156	3,845	4,219	4,694
Road transport	1,833	2,421	2,752	3,066
Communications	2,259	2,906	3,596	4,770
Trade	1,855	2,590	2,886	3,243
Retail trade	1,682	2,378	2,598	2,926
Wholesale trade	2,240	3,104	3,612	3,893
Foreign trade	2,754	3,546	3,910	4,388
Hotels, restaurants, tourism	1,967	2,591	2,758	3,070
Crafts and trade	2,003	2,625	2,884	2,257
Housing, utilities, and public services	1,946	2,741	3,260	3,750
Financial and other services	2,895	3,796	4,472	5,146
Of which:				
Banking	2,886	3,829	4,672	5,418
Education, health and government	2,360	3,190	3,422	3,911
Education, culture and the arts	2,310	2,988	3,240	3,655
Health care and social services	2,234	3,202	3,427	4,024
Government bodies	2,686	3,510	3,743	4,161

Source: Central Bureau of Statistics.

Table 33. Croatia: Indices of Nominal Net Wages and Salaries per Employee

(1993=100)

	1992	1993	1994	1995	1996	1997
Total	6.3	100.0	237.1	345.6	386.5	451.9
Goods and services	6.4	100.0	236.6	343.2	389.7	453.1
Mining and industry	6.5	100.0	230.5	332.0	371.2	425.3
Of which:						
Manufacture of metal products	6.2	100.0	209.5	300.6	321.3	373.4
Machine industry	6.7	100.0	227.4	318.4	373.0	446.9
Shipbuilding	8.4	100.0	209.2	320.6	391.5	441.5
Manufacture of electrical equipment	6.3	100.0	225.6	328.2	375.5	439.9
Finished wood products	6.6	100.0	217.5	300.7	303.3	335.5
Textile fibre and fabrics	7.0	100.0	231.8	325.8	347.9	403.3
Finished textile products	6.4	100.0	210.2	276.2	285.2	314.2
Leather footwear and accessories	6.5	100.0	199.4	268.2	282.6	316.6
Food products industry	6.1	100.0	244.7	361.4	386.0	433.8
Agriculture and fisheries	6.9	100.0	231.4	330.6	367.6	424.9
Of which:						
Fisheries	6.9	100.0	200.2	293.2	304.6	322.8
Forestry	6.8	100.0	225.6	344.4	391.4	456.8
Water management	5.9	100.0	234.6	342.2	413.4	496.7
Construction	5.4	100.0	260.1	372.0	428.0	485.3
Transport and communications	6.6	100.0	227.8	326.0	381.0	459.6
Of which:						
Railways	7.9	100.0	228.1	348.0	395.6	456.1
Ocean shipping	6.3	100.0	224.3	304.5	333.8	383.5
Road transport	7.2	100.0	240.4	346.7	392.8	453.5
Communications	6.1	100.0	218.7	314.2	389.5	517.7
Trade	7.3	100.0	254.3	381.9	423.0	490.7
Retail trade	7.6	100.0	259.2	392.3	427.6	497.4
Wholesale trade	6.9	100.0	245.0	365.5	420.1	469.7
Foreign trade	6.2	100.0	233.9	334.6	368.3	427.7
Hotels, restaurants, tourism	5.7	100.0	241.6	340.8	362.3	417.4
Crafts and trade	6.3	100.0	239.5	344.5	397.7	441.0
Housing, utilities, and public services	6.0	100.0	234.3	355.8	417.9	499.2
Financial and other services	5.9	100.0	234.8	337.0	392.9	467.7
Of which:						
Banking	5.5	100.0	218.6	317.8	382.1	457.9
Education, health, and government	6.1	100.0	236.2	346.7	372.1	440.2
Education, culture and the arts	6.1	100.0	229.3	324.4	350.5	410.8
Health care and social services	6.2	100.0	247.3	380.6	408.1	493.5
Government bodies	5.7	100.0	230.2	328.9	352.2	406.6

Source: Central Bureau of Statistics.

Table 34. Croatia: Indices of Real Net Wages and Salaries per Employee

(1993=100)

	1992	1993	1994	1995	1996	1997
Total	100.0	100.0	114.4	160.4	171.9	193.1
Goods and services	101.5	100.0	114.2	159.3	173.4	193.6
Mining and industry	103.1	100.0	111.2	154.1	165.1	181.8
Of which:						
Manufacture of metal products	98.4	100.0	101.1	139.5	142.9	159.6
Machine industry	106.3	100.0	109.8	147.7	165.9	191.0
Shipbuilding	133.3	100.0	100.9	148.8	174.2	188.7
Manufacture of electrical equipment	100.0	100.0	108.9	152.3	167.0	188.0
Finished wood products	104.7	100.0	105.0	139.5	134.9	143.4
Textile fibre and fabrics	111.1	100.0	111.9	151.2	154.8	172.4
Finished textile products	101.5	100.0	101.4	128.2	126.9	134.3
Leather footwear and accessories	103.1	100.0	96.2	124.5	125.7	135.3
Food products industry	96.8	100.0	118.1	167.7	171.7	185.4
Agriculture and fisheries	109.5	100.0	111.7	153.4	163.5	181.6
Of which:						
Fisheries	109.5	100.0	96.6	136.1	135.5	137.9
Forestry	107.9	100.0	108.9	159.8	174.1	195.2
Water management	93.6	100.0	113.2	158.8	183.9	212.3
Construction	85.7	100.0	125.5	172.6	190.4	207.4
Transport and communications	104.7	100.0	110.0	151.3	169.5	196.4
Of which:						
Railways	125.3	100.0	110.1	161.5	176.4	194.9
Ocean shipping	100.0	100.0	108.2	141.3	148.5	163.9
Road transport	114.2	100.0	116.0	160.9	174.7	193.8
Communications	96.8	100.0	105.6	145.8	173.3	221.2
Trade	115.8	100.0	122.7	177.2	188.2	209.7
Retail trade	120.6	100.0	125.1	182.0	190.2	212.6
Wholesale trade	109.5	100.0	118.3	169.6	186.9	200.7
Foreign trade	98.4	100.0	112.9	155.3	163.8	182.8
Hotels, restaurants, tourism	90.4	100.0	116.6	158.1	161.2	178.4
Crafts and trade	100.0	100.0	115.6	159.9	168.9	188.5
Housing, utilities, and public services	95.2	100.0	113.1	165.1	185.9	213.3
Financial and other services	93.6	100.0	113.3	156.4	174.8	199.9
Of which:						
Banking	87.3	100.0	105.5	147.5	170.0	195.7
Education, health, and government	96.8	100.0	114.0	160.9	165.5	188.1
Education, culture, and the arts	96.8	100.0	110.7	150.5	155.9	175.6
Health care and social services	98.4	100.0	119.4	176.6	181.5	210.9
Government bodies	90.4	100.0	111.1	152.6	156.7	173.8

Source: Central Bureau of Statistics.

Table 35. Croatia: Structure of Average Employment Cost per Worker

(In kuna)

	1997 March
Average cost of employment per worker (1)	3,949.7
Of which:	
Employers' contribution to the Pension Fund (2)	413.7
Employers' contribution to the Health Fund (3)	227.2
Employees' contribution to the Pension Funds (4)	413.7
Employees' contribution to the Health Fund (5)	227.2
Other levies (6) 1/	162.8
Gross wage (7) = 1 - (2+3+4+5+6)	2,505.2
Personal income tax (8)	341.1
Net wage (9) = 7 - personal income tax	2,164.0
Memorandum items:	
(In percent)	
Cost of employment/net wage (1/9)	182.5
Gross wage/net wage (8/9)	115.8

Source: Nestie, D, "Labour Cost: Should It Be Reduced and Why," Zagreb, October 1997.

1/ Includes contributions to the Water Management Authorities, the Croatian Chamber of Commerce, the Child Benefit Fund, and the Employment Fund.

Table 36. Croatia: Price Developments

	Retail Prices			Producer Prices		
		Rate of Growth			Rate of Growth	
	Index Dec. 1994=100	Previous Period	Same Month Previous Year	Index Dec. 1994=100	Previous Period	Same Month Previous Year
1993	51	1,516.6	...	57.0	1,512.4	...
1994	100	97.6	...	101.3	77.6	...
1995	102	2.0	...	102.0	0.7	...
1996	106	3.5	...	103.4	1.4	...
1997	109	3.6	...	105.8	2.3	...
1996						
Jan.	103.9	0.2	3.2	101.7	0.1	1.9
Feb.	104.4	0.5	3.6	101.7	0.0	1.3
Mar.	104.3	-0.1	3.3	100.7	-1.0	0.7
Apr.	104.0	-0.3	2.4	101.1	0.4	1.6
May	105.2	1.1	3.3	100.7	-0.4	1.2
Jun.	105.7	0.5	4.1	101.1	0.4	1.7
Jul.	106.1	0.4	4.5	101.1	0.0	1.7
Aug.	106.1	0.0	4.7	101.1	0.0	1.3
Sep.	106.2	0.1	3.1	101.2	0.1	1.1
Oct.	106.7	0.6	3.2	101.2	0.0	0.6
Nov.	107.2	0.5	3.5	102.8	1.6	1.7
Dec.	107.2	0.0	3.4	103.1	0.3	1.5
1997						
Jan.	108.3	1.0	4.2	103.6	0.5	1.8
Feb.	108.3	0.0	3.7	103.7	0.1	2.0
Mar.	108.4	0.1	3.9	103.0	-0.7	2.2
Apr.	108.5	0.1	4.4	103.2	0.0	1.9
May	108.9	0.4	3.6	103.4	0.2	2.3
Jun.	109.1	0.2	3.4	103.2	0.2	2.1
Jul.	108.8	-0.3	2.7	104.4	-0.2	2.0
Aug.	109.7	0.8	3.5	104.4	1.2	3.4
Sep.	110.0	0.3	3.7	104.4	0.0	3.3
Oct.	110.2	0.2	3.3	104.5	0.1	3.3
Nov.	110.6	0.4	3.1	104.8	0.3	1.9
Dec.	111.4	0.7	3.8	104.7	-0.1	1.6
1998						
Jan.	114.1	2.4	5.4	103.9	-0.8	0.3
Feb.	114.5	0.4	5.8	103.8	-0.1	0.1
Mar.	114.8	0.2	5.9	101.8	-1.9	-1.1
Apr.	115.1	0.3	6.1	102.0	0.2	-0.9

Source: Central Bureau of Statistics.

Table 37. Croatia: Indices of Retail Prices

(Annual average percentage change)

	1992	1993	1994	1995	1996	1997
Total	665.5	1,516.6	97.6	2.0	3.5	3.6
Goods	746.8	1,502.4	95.1	0.0	2.4	2.7
Agricultural products	623.3	1,135.9	134.5	3.7	0.0	6.5
Industrial products - total	751.1	1,514.2	94.1	-0.2	2.5	2.7
Processed food products	740.7	1,442.2	93.3	0.0	4.5	3.6
Alcoholic beverages	749.7	1,593.4	108.2	4.4	7.7	3.2
Tobacco	1,050.0	1,278.2	159.1	27.2	18.2	0.0
Non-food industrial products	743.3	1,552.6	90.8	-2.2	0.2	2.6
Textile products	817.4	1,774.7	103.5	-4.2	-1.5	5.9
Fuel and light	659.9	1,807.1	87.6	-3.5	1.9	3.1
Household furnishings	771.1	1,776.3	103.8	-5.8	-3.3	1.5
Electric appliances	958.5	1,488.6	62.2	-10.6	-3.9	-2.2
Medicine	374.7	2,665.1	110.5	0.6	-0.6	6.7
Services	393.5	1,604.2	110.9	11.9	8.6	7.0
Housing services	77.0	1,534.4	142.8	18.1	5.1	1.1
Public utilities and services	358.2	1,805.5	113.7	5.3	4.5	8.9
Transport	486.7	1,681.4	98.8	6.5	5.9	8.2
Communications	246.2	1,703.8	95.2	23.8	32.8	15.0

Source: Central Bureau of Statistics.

Table 38. Croatia: Employment in National Public Enterprises

(End of Year; in persons)

	1992	1993	1994	1995	1996	1997
HRVATSKA ELEKTROPRIVREDA (Electricity)	14,250	13,984	14,457	14,158	14,664	15,057
HRVATSKA VODOPRIVREDA (Water Supply)	569	426	400	401	544	579
HRVATSKE CESTE (Road Construction)	3,857	3,643	3,715	3,645	3,752	3,816
HRVATSKE ELJEZNICE (Railroads)	29,301	22,840	22,004	21,812	21,833	21,966
HPT (Post and telecommunications)	18,439	19,445	19,687	20,493	20038	21055
JADROLINIJA RIJEKA (Coastal navigation)	2,209	1,499	2,113	1,974	2,046	2,030
HRVATSKA RADIO - TELEVIZIJA (HRT) (Radio and TV)	2,846	2,752	2,719	2,928	3,179	3,369
HRVATSKE SUME (Forestry)	10,113	9,882	10,201	10,034	9,971	9,284
NARODNE NOVINE (Printing)	725	763	746	727	701	652
INA - INDUSTRIJA NAFTE (Oil refining and distribution)	18,345	18,084	17,965	17,513	16,525	13,974
Total	100,654	93,318	94,007	93,685	93,253	91,782

Source: State Institute for Macroeconomic Analysis and Forecasting.

Table 39. Croatia: Number of Enterprises in the Economic Sector and Number of Legal Entities Undergoing Bankruptcy

(End of Year)

	Number of Enterprises in the Economic Sector						Legal Entities Undergoing Bankruptcy					
	1992	1993	1994	1995	1996	1997	1992	1993	1994	1995	1996	1997
Total	81,896	113,543	143,755	164,104	171,170	177,730	373	397	275	348	354	387
Total number in the Economic Sector	55,378	84,384	117,775	135,682	140,719	145,105						
Industry	6,871	9,607	12,089	13,492	14,003	14,558	147	131	84	112	119	128
Agriculture and fishing	1,633	2,380	3,008	3,349	3,446	3,520	15	17	14	20	26	29
Forestry	53	90	124	151	159	173	...	...	...	...	...	...
Water supply	35	35	34	36	35	36	...	...	...	...	...	...
Construction	3,692	5,643	7,723	9,027	9,643	10,282	63	64	45	55	51	56
Transport and communication	1,459	2,641	4,158	4,740	4,998	5,267	2	2	4	6	7	8
Trade	27,096	42,283	61,401	71,273	73,423	74,902	83	110	78	95	91	104
Restaurants and Tourism	3,097	4,397	6,035	6,837	7,147	7,432	12	14	9	11	12	14
Artisanship and personal services	2,281	3,521	5,029	5,929	6,086	6,171	21	24	15	18	17	17
Housing and urban services	942	1,064	1,141	1,200	1,244	1,313	3	2	2	3	2	2
Financial, engineering and business	8,210	12,723	17,033	19,648	20,535	21,451	27	33	24	28	28	28
Number in Non-economic Sector	26,518	29,159	25,980	28,422	30,451	32,625	...	...	...	...	...	...
Education and culture	10,852	11,596	13,064	14,042	14,841	15,571	...	...	...	...	...	...
Health and social welfare	669	697	766	837	936	1,044	...	...	...	...	...	...
Government, funds, associations and organizations	15,006	16,866	12,150	13,543	14,674	16,010	...	...	...	...	...	...

Source: Central Bureau of Statistics.

Table 40. Croatia: Budgetary Central Government Revenue

	1991	1992	1993	1994	1995	1996	1997	1998 Budget
				(In million of kunas)				
Revenue and grants	64	557	8,471	24,260	27,981	31,367	33,846	37,124
Revenue	64	557	8,471	24,260	27,881	31,367	33,846	37,124
Current revenue	64	547	8,371	23,906	27,287	30,244	33,385	34,955
Tax revenue	63	502	7,892	23,350	26,505	28,530	31,338	32,796
Income and profit tax	25	84	936	3,803	4,507	5,488	5,887	6,308
Property tax	0	2	63	118	142	172	243	236
Taxes on goods and services	33	316	5,663	15,894	17,746	18,873	20,502	21,398
Taxes on international trade	5	99	1,230	3,487	3,939	3,965	4,676	4,822
Other taxes	0	0	0	49	172	33	30	31
Non-tax revenue	1	45	479	556	782	1,714	2,047	2,159
Capital revenue	0	10	100	354	594	1,123	461	2,169
Grants	0	0	0	0	100	0	0	0
				(In percent of GDP)				
Revenue and grants	14.5	20.6	21.7	27.7	28.4	29.2	28.4	27.8
Revenue	14.5	20.6	21.7	27.7	28.3	29.2	28.4	27.8
Current revenue	14.5	20.2	21.5	27.3	27.7	28.2	28.0	26.2
Tax revenue	14.2	18.6	20.2	26.7	26.9	26.6	26.3	24.6
Income and profit tax	5.6	3.1	2.4	4.3	4.6	5.1	4.9	4.7
Property tax	0.0	0.1	0.2	0.1	0.1	0.2	0.2	0.2
Taxes on goods and services	7.5	11.7	14.5	18.2	18.0	17.6	17.2	16.0
Taxes on international trade	1.1	3.7	3.2	4.0	4.0	3.7	3.9	3.6
Other taxes	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.0
Non-tax revenue	0.2	1.7	1.2	0.6	0.8	1.6	1.7	1.6
Capital revenue	0.0	0.4	0.3	0.4	0.6	1.0	0.4	1.6
Grants	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
				(Composition)				
Revenue and grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue	100.0	100.0	100.0	100.0	99.6	100.0	100.0	100.0
Current revenue	100.0	98.2	98.8	98.5	97.5	96.4	98.6	94.2
Tax revenue	98.5	90.1	93.2	96.3	94.7	91.0	92.6	88.3
Income and profit tax	38.5	15.1	11.0	15.7	16.1	17.5	17.4	17.0
Property tax	0.0	0.4	0.7	0.5	0.5	0.5	0.7	0.6
Taxes on goods and services	52.1	56.8	66.9	65.5	63.4	60.2	60.6	57.6
Taxes on international trade	7.9	17.9	14.5	14.4	14.1	12.6	13.8	13.0
Other taxes	0.0	0.0	0.0	0.2	0.6	0.1	0.1	0.1
Non-tax revenue	1.5	8.1	5.7	2.3	2.8	5.5	6.0	5.8
Capital revenue	0.0	1.8	1.2	1.5	2.1	3.6	1.4	5.8
Grants	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0

Source: Ministry of Finance.

Table 41. Croatia: Budgetary Central Government Expenditure and Net Lending

	1991	1992	1993	1994	1995	1996	1997	1998 Budget
				(In millions of kuna)				
Expenditure and net lending	83	564	8,403	23,546	28,696	31,502	35,006	39,135
Expenditure	83	564	8,403	23,230	28,476	30,973	34,395	37,477
Current expenditure	80	520	7,742	20,745	25,495	25,930	29,580	31,988
Expenditure on goods and services	62	396	6,111	17,144	20,735	19,623	20,263	21,700
Wages and salaries	21	98	1,941	6,589	8,394	8,365	9,148	10,095
Employer contributions	4	24	484	1,383	1,716	1,966	1,892	2,189
Other goods and services	37	273	3,686	9,173	10,625	9,292	9,223	9,417
Interest payments	0	21	212	1,131	1,392	1,218	1,737	2,572
Domestic	0	21	207	895	911	950	775	1,183
External	0	0	5	236	481	268	962	1,389
Subsidies and other current transfers	17	103	1,419	2,470	3,369	5,089	7,579	7,716
Capital expenditure	3	44	661	2,485	2,980	5,043	4,815	5,489
Lending minus repayments	0	0	0	316	221	529	611	1,657
				(In percent of GDP)				
Expenditure and net lending	18.9	20.8	21.5	26.9	29.2	29.4	29.3	29.3
Expenditure	18.9	20.8	21.5	26.6	28.9	28.9	28.8	28.1
Current expenditure	18.1	19.2	19.8	23.7	25.9	24.2	24.8	24.0
Expenditure on goods and services	14.1	14.6	15.7	19.6	21.1	18.3	17.0	16.3
Wages and salaries	4.7	3.6	5.0	7.5	8.5	7.8	7.7	7.6
Employer contributions	1.0	0.9	1.2	1.6	1.7	1.8	1.6	1.6
Other goods and services	8.4	10.1	9.5	10.5	10.8	8.7	7.7	7.1
Interest payments	0.1	0.8	0.5	1.3	1.4	1.1	1.5	1.9
Domestic	0.1	0.8	0.5	1.0	0.9	0.9	0.6	0.9
External	0.0	0.0	0.0	0.3	0.5	0.2	0.8	1.0
Subsidies and other current transfers	3.9	3.8	3.6	2.8	3.4	4.7	6.4	5.8
Capital expenditure	0.8	1.6	1.7	2.8	3.0	4.7	4.0	4.1
Lending minus repayments	0.0	0.0	0.0	0.4	0.2	0.5	0.5	1.2
				(Composition)				
Expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditure	100.0	100.0	100.0	98.7	99.2	98.3	98.3	95.8
Current expenditure	96.0	92.1	92.1	88.1	88.8	82.3	84.5	81.7
Expenditure on goods and services	74.7	70.1	72.7	72.8	72.3	62.3	57.9	55.5
Wages and salaries	24.8	17.4	23.1	28.0	29.2	26.6	26.1	25.8
Employer contributions	5.4	4.3	5.8	5.9	6.0	6.2	5.4	5.6
Other goods and services	44.5	48.4	43.9	39.0	37.0	29.5	26.3	24.1
Interest payments	0.5	3.7	2.5	4.8	4.9	3.9	5.0	6.6
Domestic	0.5	3.7	2.5	3.8	3.2	3.0	2.2	3.0
External	0.0	0.0	0.1	1.0	1.7	0.8	2.7	3.5
Subsidies and other current transfers	20.9	18.3	16.9	10.5	11.7	16.2	21.7	19.7
Capital expenditure	4.0	7.9	7.9	10.6	10.4	16.0	13.8	14.0
Lending minus repayments	0.0	0.0	0.0	1.3	0.8	1.7	1.7	4.2

Source: Ministry of Finance.

Table 42. Croatia: Budgetary Central Government Expenditure by Function

	1991	1992	1993	1994	1995	1996	1997	1998 Budget
				(In millions of kunas)				
Expenditure by function	83	565	8,403	22,283	28,476	30,973	34,395	37,477
General public services	3	21	395	1,675	1,911	1,912	2,183	2,598
Defense affairs and services	22	196	3,259	7,650	9,911	7,760	6,991	7,500
Public Order and safety	15	65	998	2,841	3,351	3,714	4,170	4,479
Education	15	60	824	2,865	3,278	3,600	4,051	4,746
Health affairs and services	1	3	8	57	78	152	185	254
Social security and welfare	8	66	856	2,547	3,186	4,408	6,452	6,227
Culture	2	7	126	309	430	411	539	598
Housing	0	10	76	463	1,343	2,603	2,069	2,402
Agriculture, forestry and fisheries	2	43	495	653	512	551	616	699
Mining and mineral resources	0	0	74	192	255	381	693	493
Transportation and communication	7	37	578	1,499	2,232	3,405	3,434	3,646
Other	7	58	715	1,532	1,988	2,076	3,013	3,837
				(In percent of GDP)				
Expenditure by function	18.9	20.9	21.5	25.5	28.9	28.9	28.8	31.4
General public services	0.8	0.8	1.0	1.9	1.9	1.8	1.8	2.2
Defense affairs and services	4.9	7.2	8.4	8.7	10.1	7.2	5.9	6.3
Public order and safety	3.4	2.4	2.6	3.2	3.4	3.5	3.5	3.8
Education	3.4	2.2	2.1	3.3	3.3	3.4	3.4	4.0
Health affairs and services	0.3	0.1	0.0	0.1	0.1	0.1	0.2	0.2
Social security and welfare	1.9	2.4	2.2	2.9	3.2	4.1	5.4	5.2
Culture	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Housing	0.0	0.4	0.2	0.5	1.4	2.4	1.7	2.0
Agriculture, forestry and fisheries	0.4	1.6	1.3	0.7	0.5	0.5	0.5	0.6
Mining and mineral resources	0.0	0.0	0.2	0.2	0.3	0.4	0.6	0.4
Transportation and communication	1.7	1.4	1.5	1.7	2.3	3.2	2.9	3.1
Other	1.7	2.1	1.8	1.8	2.0	1.9	2.5	3.2
				(Composition)				
Expenditure by function	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General public services	4.2	3.8	4.7	7.5	6.7	6.7	7.7	9.1
Defense affairs and services	26.0	34.7	38.8	34.3	34.8	27.3	24.5	26.3
Public Order and safety	18.2	11.4	11.9	12.8	11.8	13.0	14.6	15.7
Education	18.2	10.6	9.8	12.9	11.5	12.6	14.2	16.7
Health affairs and services	1.5	0.5	0.1	0.3	0.3	0.5	0.6	0.9
Social security and welfare	10.1	11.7	10.2	11.4	11.2	15.5	22.7	21.9
Culture	1.9	1.3	1.5	1.4	1.5	1.4	1.9	2.1
Housing	0.2	1.8	0.9	2.1	4.7	9.1	7.3	8.4
Agriculture, forestry and fisheries	2.3	7.5	5.9	2.9	1.8	1.9	2.2	2.5
Mining and mineral resources	0.0	0.0	0.9	0.9	0.9	1.3	2.4	1.7
Transportation and communication	8.8	6.5	6.9	6.7	7.8	12.0	12.1	12.8
Other	8.7	10.2	8.5	6.9	7.0	7.3	10.6	13.5

Source: Ministry of Finance.

Table 43. Croatia: Consolidated Fiscal Accounts

	1991	1992	1993	1994	1995	1996	1997
				(In millions of kuna)			
Central budgetary government 1/ 2/							
Revenues and grants	64	557	8,471	24,260	27,481	30,731	33,665
Expenditures plus net lending	70	500	7,482	21,939	26,189	27,592	29,409
Balance	-6	57	989	2,321	1,292	3,139	4,255
Extrabudgetary funds 1/ 3/							
Revenues and grants	75	315	4,849	12,622	15,898	17,940	19,986
Expenditures plus net lending	90	477	6,163	13,529	18,062	21,556	25,827
Balance	-15	-162	-1,314	-907	-2,164	-3,617	-5,841
Consolidated central government 1/							
Revenues and grants	139	872	13,320	36,882	43,379	48,671	53,651
Expenditures plus net lending	160	977	13,645	35,469	44,251	49,148	55,236
Balance	-21	-105	-326	1,413	-872	-477	-1,586
				(In percent of GDP)			
Central government 1/ 2/							
Revenues and grants	14.5	20.6	21.7	27.7	27.9	28.7	28.2
Expenditures plus net lending	15.9	18.5	19.2	25.1	26.6	25.7	24.6
Balance	-1.4	2.1	2.5	2.7	1.3	2.9	3.6
Extrabudgetary funds 1/ 3/							
Revenues and grants	17.0	11.6	12.4	14.4	16.2	16.7	16.7
Expenditures plus net lending	20.3	17.6	15.8	15.5	18.4	20.1	21.6
Balance	-3.3	-6.0	-3.4	-1.0	-2.2	-3.4	-4.9
Consolidated central government 1/							
Revenues and grants	31.5	32.2	34.2	42.2	44.1	45.4	45.0
Expenditures plus net lending	36.2	36.1	35.0	40.6	45.0	45.8	46.3
Balance	-4.7	-3.9	-0.8	1.6	-0.9	-0.4	-1.3

Sources: Ministry of Finance; and IMF staff estimates.

1/ Revenues and expenditures adjusted for inter-governmental transfers.

2/ Includes since 1994 the Croatian Roads Fund.

3/ Composed of the Pension Fund, Health Fund, Employment Fund, Child Benefits Fund and, since 1995, the Croatian Privatization Fund.

Table 44. Croatia: Outstanding Stocks of Domestic Debt of the Central Budgetary Government

(In millions of deutsche mark, end of period)

	1991	1992	1993	1994	1995	1996	1997
Medium- and long-term credits from the Croatian National Bank (CNB)	0.0	62.6	8.2	8.5	7.6	7.0	6.1
CNB loan I	0.0	31.3	4.1	4.3	3.8	3.5	3.1
CNB loan III	0.0	0.0	0.0	0.0	100.3	54.4	0.0
Frozen foreign exchange deposits (ffcd)	5033.9	4653.6	3989.7	3245.9	2796.3	2382.8	2102.4
Bonds 1993 (interest ffcd)	0.0	0.0	107.4	89.5	53.7	17.9	0.0
Bonds 1994-1 (interest ffcd)	0.0	0.0	0.0	47.6	0.0	0.0	0.0
Bonds 1994-2 (interest ffcd)	0.0	0.0	0.0	0.0	9.7	0.0	0.0
Bonds JDA 1995-1 (principal ffcd)	0.0	0.0	0.0	0.0	153.7	128.1	76.9
Bonds JDB 1995,1996 (principal ffcd)	0.0	0.0	0.0	0.0	0.0	147.1	98.1
"Big Bonds" - Series I	1550.1	1597.3	1420.0	1360.7	1301.4	445.1	415.4
"Big Bonds" - Series II (Rijecka & Splitska)	0.0	0.0	0.0	0.0	0.0	220.0	211.4
"Big Bonds" - Series III (Privredna)	0.0	0.0	0.0	0.0	0.0	209.0	205.1
"Big Bonds" - Series IV (Privredna)	0.0	0.0	0.0	0.0	0.0	213.4	182.8
BRA bonds - Series I (Rijecka & Splitska)	0.0	0.0	0.0	0.0	0.0	313.1	267.0
BRA bonds - Series II (Privredna)	0.0	0.0	0.0	0.0	0.0	86.4	84.5
BRA bonds - Series III (Privredna)	0.0	0.0	0.0	0.0	0.0	216.5	212.5
BRA bonds - Series IV (Privredna)	0.0	0.0	0.0	0.0	0.0	120.6	118.0
Reconstruction bonds	0.0	0.0	16.3	10.9	8.0	7.3	5.5
Depreciation loan	...	...	...	278.5	185.7	95.7	0.0
Apartment bonds	0.0	0.0	0.0	0.0	0.0	245.0	196.0
Treasury bills	0.0	0.0	0.0	0.0	0.0	74.4	105.7
Total above	6584.0	6313.5	5541.5	5041.6	4515.9	4929.2	4287.2

Source: Ministry of Finance.

Table 45. Croatia: Government Employment

	1992 Dec.	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec. 1/
	(Number of persons)					
Central government	25,635	27,055	26,190	24,688	25,231	26,963
Budgetary central government	18,885	14,753	13,892	17,590	18,169	19,981
Administration	6,938	8,471	7,823	10,691	11,214	11,580
Legislature	721	852	817	1,099	1,150	1,193
Judiciary	5,725	5,430	5,252	5,800	5,805	5,931
Social Accounting Service (ZAP)	5,501	5,430	5,252	5,252	5,200	...
Croatian National Bank (CNB)	384	401	431	460	460	...
Extrabudgetary funds	6,366	6,471	6,615	6,638	6,602	6,982
Regional and local governments	20,443	19,395	25,560	18,948	19,000	19,637
Health care	73,158	73,409	69,996	71,234	71,317	66,792
Social services	24,090	24,613	24,978	25,578	25,097	23,682
Education	64,489	67,328	65,860	67,284	66,187	66,285
Primary	38,202	39,449	38,910	39,197	38,341	37,503
Secondary	17,249	18,354	17,922	18,574	18,149	18,410
Tertiary	8,280	8,420	8,374	8,607	8,690	8,746
Other	758	1,105	654	906	1,007	1,626
Research	3,994	3,947	3,865	3,990	3,361	3,536
Culture, arts and information	17,048	16,576	16,446	16,619	17,093	18,757
Sports	1,608	1,578	1,513	1,536	1,458	1,556
Total general government	230,465	234,285	234,954	237,310	231,083	234,178 2/
	(In percent of total employment)					
Total general government	11.7	12.2	12.4	13.0	...	...
Budgetary central government	1.0	0.8	0.7	1.0	...	...
Regional and local governments	1.0	1.0	1.3	1.0	...	...
Extrabudgetary funds	0.3	0.3	0.3	0.4	...	...
Providers of						
Health care	3.7	3.8	3.7	3.9	...	...
Education	3.3	3.5	3.5	3.7	...	...
Social services	1.2	1.3	1.3	1.4	...	...
Culture, arts and information	0.9	0.9	0.9	0.9	...	...

Source: Croatian Ministry of Finance.

1/ Preliminary.
2/ Excuding ZAP and the CNB.

Table 46. Croatia: Health Insurance

(Number of persons insured; annual averages)

	1992	1993	1994	1995	1996	1997
Total	4,608,466	4,571,955	4,591,341	4,629,280	4,634,634	4,634,142
Currently employed 1/	1,606,984	1,573,520	1,564,494	1,588,344	1,599,226	1,604,895
Pensioners	712,032	742,828	778,400	799,892	821,909	850,052
Unemployed persons	178,618	166,534	161,660	158,164	174,123	189,844
Family members	1,847,566	1,818,717	1,813,077	1,811,602	1,824,209	1,824,144
Refugees and displaced persons	191,000	191,000	191,000	191,649	138,088	80,585
Other	72,266	79,356	82,710	79,629	77,079	84,652

Source: CBS, Statistical Year Book; and Croatian Health Insurance Institute.

1/ Including active farmers.

Table 47. Croatia: Disability and Retirement Insurance

	1992	1993	1994	1995	1996	1997
			(Number of persons)			
Retirement benefits	762,072	784,364	813,382	863,551	874,061	907,479
Disabilty pensions	183,530	181,614	184,989	193,654	197,049	207,858
Old-age pensions	387,405	409,122	433,180	443,688	451,046	467,363
Survivor pensions	191,137	193,628	195,213	200,589	196,603	202,866
Former republics of former Yugoslavia			25,620	29,118	29,363	29,392
Disability compensation (for bodily injury)	95,153	100,964	104,172	104,819	105,392	105,919
Disabled workers - retraining or additional training	2,472	2,159	2,102	2,476	953	651
Disabled workers - unemployment benefits	7,418	11,654	13,061	14,434	21,016	37,699
Compensation for less than full-time employment	16,947	16,192	16,145	14,390	11,811	12,028
Compensation for reduced pay on new job	32,043	31,637	32,956	32,217	28,335	25,823
			(Expenditures, in thousands of kunas)			
Total	208,836	3,318,269	8,479,061	10,667,302	12,343,273	15,448,078
Disability pensions	39,383	593,397	1,245,613	1,648,754	1,969,763	2,944,078
Old-age pensions	108,681	1,756,203	3,698,375	4,412,054	4,758,209	6,648,471
Survivor pensions	36,132	571,993	1,208,417	1,510,676	1,672,647	2,434,623
Supplement (100 kuna)			413,087	521,767	1,059,389	...
Compensation for bodily injury	1,382	20,709	42,780	51,695	57,350	82,959
Costs and compensations associated with retraining and additional training of disabled workers	4,471	96,256	240,043	257,632	351,947	640,939
Contributions to housing construction	2,754	36,128	3,243	1,782,484	1,924,702	1,721,989
Administrative costs	4,933	91,481	166,327	316,078	222,901	250,774
Other	11,100	152,102	1,874,265	274,842	326365	724,245

Source: Central Bureau of Statistics, and National Workers' Retirement and Disability Fund.

Table 48. Croatia: Monetary Survey

(In millions of kuna; end of period)

	1993	1994	1995	1996	1997				1998
					Mar.	June	Sept.	Dec.	Mar.
Assets									
1. Foreign assets (net)	-1962.5	1135.8	3025.3	11709.9	12638.2	13162.5	19684.7	16854.4	14569.0
2. Domestic credit	39357.0	42937.6	47633.6	48121.6	49386.0	52513.3	51076.7	55596.0	58248.6
2.1 Claims on central government and funds (net)	19069.1	15624.3	15155.5	14633.0	13204.4	12475.4	7624.7	7331.8	6229.3
2.2 Claims on other domestic sectors	20262.0	27221.6	32346.6	33311.1	35953.3	39780.7	43170.2	47950.5	51700.8
2.3 Claims on other banking institutions	10.2	30.0	30.8	38.4	53.1	68.9	74.8	72.9	77.5
2.4 Claims on other financial institutions	15.7	61.8	100.6	139.1	175.2	188.2	207.0	240.9	241.0
Total (1+2)	37394.5	44073.4	50658.9	59831.5	62024.1	65675.8	70761.4	72450.4	72817.6
Liabilities									
1. Money	3133.9	6639.6	8274.8	11409.4	10995.0	12017.9	13266.7	13795.2	12835.7
2. Savings and time deposits	1465.6	1866.9	2037.9	3254.7	3816.0	4256.7	5103.8	5350.8	5581.3
3. Foreign currency deposits	5412.3	8775.3	14099.4	21802.0	24315.3	26630.2	30422.1	31059.6	33113.4
4. Bonds and money market instruments	48.3	199.0	124.8	129.5	165.8	159.0	181.3	137.0	125.9
5. Restricted and blocked deposits	14262.9	12122.3	10711.0	8301.0	7605.2	7309.3	6181.9	5950.5	5189.7
o/w: Households' blocked f/c deposits	13857.4	11470.6	9812.5	7168.2	6519.9	6100.1	4957.1	4571.8	4156.2
6. Other (net)	13071.5	14470.4	15411.0	14935.0	15126.9	15302.7	15605.7	16157.3	15971.6
Total (1+2+3+4+5+6)	37394.5	44073.4	50658.9	59831.5	62024.1	65675.8	70761.4	72450.4	72817.6
Memorandum items:									
1. Net domestic assets	12022.5	16345.0	21511.6	24885.7	26654.0	29901.3	29289.1	33488.3	37087.3
Assets									
1. Claims on central government (net)	19444.5	16469.0	16273.0	15946.3	14533.9	14045.9	9628.8	9526.1	8434.6
2. Domestic credit	20287.9	27313.3	32478.1	33488.6	36181.6	40037.9	43452.0	48264.2	52019.3
3. Other assets (net)	-27709.8	-27437.3	-27239.5	-24549.2	-24061.5	-24182.5	-23791.6	-24302.1	-23366.5
Liabilities									
1. Broadest money (M4)	10060.0	17480.7	24536.9	36595.6	39292.1	43063.8	48973.9	50342.7	51656.4
2. Foreign liabilities (net)	1962.5	-1135.8	-3025.3	-11709.9	-12638.2	-13162.5	-19684.7	-16854.4	-14569.0

Source: Croatian National Bank.

Table 49. Croatia: Money Authorities' Balance Sheet
(In millions of kuna; end of period)

	1993	1994	1995	1996	1997				1998
					Mar.	June	Sept.	Dec.	Mar.
Assets									
1. Foreign assets	4043.5	7908.3	10075.1	12818.5	13495.9	14347.0	15525.0	16004.9	15952.9
Of which: foreign exchange swaps	...	...	...	155.7	30.1	...	...	224.8	0.0
2. Claims on central government	535.1	250.6	390.1	218.8	173.5	174.4	66.4	0.0	0.0
3. Claims on other domestic sectors	0.3	0.7	0.9	1.1	0.3	21.0	25.4	24.4	0.3
4. Claims on banks	191.6	223.8	220.2	213.9	43.7	22.1	104.1	33.5	314.9
5. Claims on other banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	4770.5	8383.4	10686.3	13252.3	13713.5	14564.6	15720.9	16062.8	16268.1
Liabilities									
1. Reserve money	2248.9	4714.2	6744.1	8770.4	8420.0	9184.7	9713.4	10346.1	9520.8
1.1 Currency outside banks	1367.0	2658.2	3365.1	4366.2	4553.0	4933.9	5222.3	5319.6	4994.4
1.2 Banks' cash	52.2	133.8	131.5	147.4	141.2	152.1	170.7	204.9	167.3
1.3 Banks' deposits	821.5	1901.3	3199.0	4210.9	3682.9	4048.2	4257.5	4750.8	4268.6
1.4 Deposits of other banking institutions	0.0	5.9	45.6	45.9	42.7	50.4	62.7	70.8	89.9
1.5 Deposits of other domestic sectors	8.2	15.0	2.8	0.1	0.1	0.1	0.1	0.1	0.7
2. Restricted and blocked deposits	1.4	40.3	212.2	243.2	96.7	83.0	94.1	101.1	108.6
2.1 Restricted deposits	1.4	40.3	54.1	78.7	96.7	83.0	94.1	101.1	108.6
2.2 Blocked f/c deposits	0.0	0.0	158.1	164.4	0.0	0.0	0.0	0.0	0.0
3. Foreign liabilities	151.7	716.1	1175.1	1160.0	1437.0	1480.3	1494.2	1470.7	1486.3
4. Central government and funds' deposits	0.0	793.8	395.5	557.6	838.9	854.6	1254.9	1032.7	1618.2
4.1 Demand deposits	0.0	793.8	395.5	424.6	615.5	594.3	1087.0	805.7	1340.5
4.2 Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	147.6	0.0
4.3 NBC bills	0.0	0.0	0.0	133.0	223.4	260.3	167.8	79.4	277.7
5. NBC bills	21.2	375.1	168.3	665.7	704.6	628.5	811.1	722.0	936.5
6. Other items (net)	2347.3	1743.9	1991.1	1855.4	2216.3	2333.5	2353.2	2390.3	2597.6
Total (1+2+3+4+5+6)	4770.5	8383.4	10686.3	13252.3	13713.5	14564.6	15720.9	16062.8	16268.1

Source: Croatian National Bank.

Table 50. Croatia: Deposit Money Banks' Accounts
(In million of kuna; end of period)

	1993	1994	1995	1996	1997				1998
					Mar.	June	Sept.	Dec.	Mar.
Assets									
1. Reserves	860.9	2033.5	3302.1	4359.2	3828.3	4208.6	4434.0	4963.3	4449.9
2. Foreign assets	6212.1	7078.4	9273.9	12518.0	13439.0	14029.9	17303.5	16126.7	16371.3
Of which: Claims on former SFRY	969.2	385.9	425.8	247.9	225.8	230.5	228.1	226.2	226.2
3. Claims on central government	19971.9	17837.0	17186.5	16692.7	15666.9	15787.3	15438.6	15238.7	14816.8
3.1 Bonds arising from blocked f/c deposits	14836.8	11437.3	10078.2	8291.1	7863.1	7561.3	7177.1	6714.3	6367.2
3.2 Big bonds	3635.5	4971.6	5060.9	2438.5	2396.6	2346.2	2299.5	2291.9	2182.6
3.3 Other claims	1499.6	1428.1	2047.4	5963.1	5407.2	5879.8	5962.0	6232.5	6267.0
4. Claims on other domestic sectors	20261.7	27220.8	32345.8	33310.0	35952.9	39759.7	43144.8	47926.1	51700.5
4.1 Claims on local government	11.4	112.9	147.1	145.4	150.1	149.4	204.4	308.8	383.0
4.2 Claims on enterprises	18348.2	23733.5	27686.4	26814.7	28624.1	31058.9	32863.6	35282.8	37634.9
4.3 Claims on households	1902.1	3374.4	4512.3	6349.9	7178.8	8524.4	10076.8	12334.5	13682.5
5. Claims on other banking institutions	10.2	30.0	30.8	38.4	53.1	68.9	74.8	72.9	77.5
6. Claims on other financial institutions	15.7	61.8	100.6	139.1	175.2	188.2	207.0	240.9	241.0
Total (1+2+3+4+5+6)	47332.4	54261.4	62239.8	67057.4	69115.5	74042.6	80602.8	84568.5	87656.9
Liabilities									
1. Demand deposits	1758.7	3960.5	4861.2	6997.2	6399.1	7033.5	7981.5	8404.8	7750.8
2. Savings and time deposits	1465.6	1866.9	2037.9	3254.7	3816.0	4256.7	5103.8	5350.8	5581.3
3. Foreign currency deposits	5412.3	8755.3	14099.4	21802.0	24315.3	26630.2	30422.1	31059.6	33113.4
4. Bonds and money market instruments	48.3	199.0	124.8	129.5	165.8	159.0	181.3	137.0	125.9
5. Foreign liabilities	12066.4	13134.8	15148.7	12466.6	12859.8	13734.1	11649.6	13806.5	16268.8
Of which: Liabilities to former SFRY	8177.1	6777.5	6713.6	2801.4	2428.2	3064.0	348.9	212.4	210.3
6. Central government and funds' deposits	1437.8	1669.4	2025.6	1720.9	1797.1	2631.7	6625.4	6874.2	6969.2
7. Credit from central bank	275.2	224.0	182.6	267.7	42.9	21.3	104.5	33.7	314.2
8. Restricted and blocked deposits	14261.5	12081.5	10656.0	8219.2	7508.5	7226.3	6087.8	5849.4	5081.1
Of which: Households' blocked f/c deposits	13857.4	11470.6	9812.5	7168.2	6519.9	6100.1	4957.1	4571.8	4156.2
9. Capital accounts	11203.3	13721.8	15116.2	15133.6	15258.7	15846.0	16009.4	16629.9	17210.3
10. Other items (net)	-596.6	-1371.7	-2012.6	-2934.0	-3047.7	-3496.2	-3562.7	-3577.5	-4758.1
Total (1+2+3+4+5+6+7+8+9+10)	47332.4	54261.4	62239.8	67057.4	69115.5	74042.6	80602.8	84568.5	87656.9
Memorandum items:									
2. Intrabank accounts	1016.2	205.1	414.3	299.7	276.5	325.5	582.7	375.9	274.9
3. Central government demand deposits	633.0	369.7	271.1	126.1	141.3	275.9	123.7	117.4	86.7

Source: Croatian National Bank.

Table 51: Croatia: Interest Rates of the Croatian National Bank

(In percent, annualized)

Year	Month	Deposit Rates: On Statutory Reserves with the CNB	Deposit Rates: On CNB Bills on Obligatory Basis	Deposit Rates: On CNB Bills on a Voluntary Basis: 7 days	Deposit Rates: On CNB Bills on a Voluntary Basis: 35 days	Deposit Rates: On CNB Bills on a Voluntary Basis: 91 days	Credit Rates: CNB Discount Rate	Credit Rates: On Lombard Credits	Credit Rates: On Daily Credits for Overcoming Short-term Illiquidity	Credit Rates: On Arrears
1995	January	5.2	...	9.0	12.0	14.0	8.5	18.0	17.0	22.0
	February	5.2	...	9.5	12.5	14.8	8.5	18.0	17.0	22.0
	March	5.2	...	9.0	16.1	17.3	8.5	18.0	17.0	22.0
	April	5.2	...	9.0	15.9	17.5	8.5	18.0	17.0	22.0
	May	5.5	16.5	9.0	15.8	17.5	8.5	18.0	17.0	22.0
	June	5.5	16.5	9.0	18.0	19.3	8.5	18.9	17.0	22.0
	July	5.5	16.5	9.0	19.0	19.5	8.5	19.7	17.0	22.0
	August	5.5	16.5	10.0	19.2	24.0	8.5	20.5	17.0	22.0
	September	5.5	16.5	12.0	22.0	24.0	8.5	22.3	17.0	22.0
	October	5.5	16.5	12.0	22.9	26.0	8.5	24.4	17.0	22.0
	November	5.5	16.5	12.0	24.4	27.0	8.5	24.9	17.0	22.0
	December	5.5	16.5	12.0	25.5	27.0	8.5	25.5	17.0	22.0
1996	January	5.5	16.5	12.0	26.0	...	8.5	25.7	17.0	22.0
	February	5.5	16.5	12.0	26.0	27.5	8.5	27.3	17.0	22.0
	March	5.5	16.5	12.0	26.0	27.5	8.5	27.7	17.0	22.0
	April	5.5	16.5	12.0	26.0	28.0	8.5	28.1	17.0	22.0
	May	5.5	16.5	12.0	25.1	26.5	8.5	28.3	17.0	24.0
	June	5.5	16.5	...	21.5	22.8	8.5	27.1	17.0	24.0
	July	5.5	16.5	...	16.5	17.6	8.5	20.9	17.0	24.0
	August	5.5	12.0 1/	...	9.1	10.8	6.5	19.6	17.0	24.0
	September	5.5	...	...	8.0	9.5	6.5	13.0 3/	17.0	18.0
	October	5.5	...	...	8.0	9.5	6.5	11.0	17.0	18.0
	November	5.5	...	...	8.0	9.5	6.5	11.0	17.0	18.0
	December	5.5	...	...	8.0	9.5	6.5	11.0	17.0	18.0
1997	January	5.5	...	...	7.5	9.0	6.5	11.0	17.0	18.0
	February	5.5	...	...	7.5	9.0	6.5	11.0	17.0	18.0
	March	5.5	...	...	7.5	9.0	5.9 2/	9.5 2/	17.0	18.0
	April	5.5	...	...	7.1	8.5	5.9	9.5	17.0	18.0
	May	5.5	...	...	7.0	8.5	5.9	9.5	17.0	18.0
	June	4.5	...	...	7.0	8.5	5.9	9.5	17.0	18.0
	July	4.5	...	...	7.0	8.5	5.9	9.5	17.0	18.0
	August	4.5	...	...	7.0	8.5	5.9	9.5	17.0	18.0
	September	4.5	...	...	7.9	9.0	5.9	9.5	17.0	18.0
	October	4.5	...	...	8.0	9.0	5.9	9.5	17.0	18.0
	November	4.5	...	...	8.0	9.0	5.9	9.5	17.0	18.0
	December	4.5	...	...	8.0	9.0	5.9	9.5	17.0	18.0
1998	January	4.5	...	...	8.0	9.0	5.9	9.5	17.0	18.0
	February	4.5	...	...	8.5	9.5	5.9	9.5	17.0	18.0
	March	4.5	...	...	8.6	9.7	5.9	...	17.0	18.0

Source: Croatian National Bank.

1/ From August 9, 1995.
2/ From March 12, 1997.
3/ Weighted average of interest rates on lombard credits, during the period June 1995 to September 1996.

Table 52. Croatia: CNB Credit Facilities

Loan type	Purpose and Conditions	Maturity	Interest rate[1]
Lombard credit	These secured credits are granted in amounts up to 50 percent of a bank's holdings of CNB bills and 25 percent of a bank's holdings of treasury bills.	These loans may be used for a maximum of 18 days within a month (up from 12 days since May 1998).	11 percent.
Intervention credit	These credits are available to banks if they have a negative liquidity balance at the end of the business day, having exhausted all avenues to obtain additional funds from the money market or through Lombard credits. These loans must be repaid to the CNB before the bank can extend any new credits.	These credits may be used for two consecutive days, and no more than three times per month.	19 percent.
Daily bridging loan	These credits are available to banks to relieve intra-day liquidity shortfalls.	Loans must be repaid on the day they are granted. If not, the CNB may convert them to an intervention credit.	17 percent.
Pre-rehabilitation loan	This loan was granted in Q1 1998 to Dubrovačka Banka during the period in which the CNB was assessing the economic feasibility of initiating the rehabilitation process. A similar loan (called an initial loan) was extended to Slavonska Banka in 1995.	To be determined by the CNB.	14 percent.
Failure to meet reserve requirements	The shortfall in a bank's required reserves is regarded by the CNB as a credit.	To be determined by the CNB.	19 percent.

[1] As of end-May, 1998.

Table 53. Croatia: Deposit Money Banks' Deposit Rates

(Monthly weighted average; in percent, annualized)

	Interest Rates on Deposits in Kuna	Interest Rates on Deposits in Kuna Indexed to f/x	Interest Rates on Deposits in f/x
1992 Dec	434.47	6.04	...
1993 Dec	27.42	5.91	...
1994 Dec	5.03	6.95	...
1995 Dec	6.10	12.69	4.57
1996 Jan	6.35	11.22	4.61
Feb	6.56	13.02	4.72
Mar	6.44	9.72	4.70
Apr	6.45	7.84	4.67
May	6.40	11.68	4.44
Jun	5.82	11.58	4.10
Jul	5.89	13.02	3.98
Aug	5.50	10.41	4.15
Sept	4.69	11.44	4.50
Oct	4.46	10.23	4.82
Nov	4.31	10.02	5.03
Dec	4.15	9.46	5.09
1997 Jan	4.18	9.82	4.51
Feb	4.33	9.49	4.22
Mar	4.43	8.57	4.27
Apr	4.44	9.21	4.38
May	4.43	9.53	4.48
Jun	4.33	10.31	4.44
Jul	4.21	7.98	4.25
Aug	4.22	9.45	4.09
Sept	4.32	8.75	4.34
Oct	4.25	6.84	4.21
Nov	4.07	8.82	4.53
Dec	4.35	7.63	4.77
1998 Jan	4.67	7.34	5.13
Feb	4.45	7.39	5.55
Mar	4.51	7.69	5.45

Source: Croatian National Bank.

Table 54. Croatia: Deposit Money Banks' Credit Rates

(Monthly weighted average; in percent, annualized)

	Interest Rates on Credits in Kuna	Interest Rates on Credits in Kuna Indexed to f/x	Interest Rates on Credits in f/x
1992 Dec	2,332.9	20.4	...
1993 Dec	59.0	51.8	...
1994 Dec	15.4	12.0	...
1995 Dec	22.3	19.6	15.7
1996 Jan	26.4	24.0	17.7
Feb	25.8	26.2	17.7
Mar	24.9	22.7	17.6
Apr	25.6	23.5	16.1
May	25.1	22.9	14.1
Jun	23.6	22.4	14.3
Jul	22.8	21.6	15.1
Aug	20.8	20.7	15.7
Sept	18.7	21.9	19.6
Oct	18.0	20.8	21.0
Nov	20.2	19.9	22.1
Dec	18.5	19.0	19.3
1997 Jan	17.6	20.1	23.5
Feb	17.2	17.6	20.4
Mar	16.9	18.1	19.1
Apr	16.9	17.0	17.7
May	15.8	16.6	17.9
Jun	15.3	15.4	16.7
Jul	15.0	15.2	15.5
Aug	14.2	15.7	13.6
Sept	14.3	15.8	15.3
Oct	14.6	15.9	18.7
Nov	13.7	15.5	17.5
Dec	14.1	14.4	13.6
1998 Jan	14.7	15.4	16.1
Feb	14.5	15.2	15.5
Mar	14.8	15.2	14.6

Source: Croatian National Bank.

Table 55: Croatia: Balance of Payments 1/

(Millions of U.S. dollars, unless otherwise indicated)

	1993	1994	1995	1996	1997 Preliminary
Current account	600	786	-1,283	-881	-2,433
Merchandise trade balance	-960	-1,323	-3,238	-3,651	-5,223
Exports f.o.b.	3,904	4,260	4,633	4,546	4,206
Imports f.o.b.	-4,864	-5,583	-7,870	-8,197	-9,429
Services and income 2/	1,134	1,585	1,154	1,743	1,938
Transportation	342	318	308	316	266
Travel	926	1,405	930	1,499	2,008
Other services	-10	-61	-30	-52	-252
Compensation of employees	17	35	39	15	56
Interest income	-141	-112	-92	-36	-140
of which: interest debt service	-253	-226	-267	-272	-320
of which: Travel	...	1,405	930	1,499	2,008
Current transfers 2/	426	523	800	1,028	852
Capital account	56	145	827	1,734	2,769
Direct investment	77	95	83	509	196
Portfolio investment	0	9	5	27	174
Medium- and long-term loans	-192	-140	-137	438	1,743
Disbursements	154	182	315	844	2,364
Amortization scheduled	-345	-321	-452	-407	-621
Net non loan claims	74	172	407	789	186
Short term capital flows (net) 3/	97	10	470	-29	470
Net errors and omissions	-183	-251	849	-430	-148
Overall balance	473	681	393	423	188
Financing	-473	-681	-393	-423	-188
Gross reserves (-= increase)	-449	-789	-490	-419	-225
IMF (net purchases)	-24	108	98	-4	37
<u>Memorandum items</u>					
Current account (in percent of GDP)	5.8	5.4	-6.8	-4.5	-12.5
Overall balance (in percent of GDP)	4.6	4.7	2.1	2.1	1.0
Gross reserves (millions of US dollars)	616	1,405	1,895	2,314	2,539
Reserves in months of imports of goods and NFS	1.2	2.4	2.4	2.8	2.7
Reserves in months of imports of goods	1.5	3.0	2.9	3.4	3.2
Imports of goods as a percent of GDP	46.9	38.3	41.8	41.5	48.5
Outstanding debt (US$m) 4/	2,942	3,282	3,921	4,611	6,420
of which: short-term debt 3/	50	37	208	355	441
Government external borrowing as percent of GDP	0.1	0.1	0.1	2.0	4.2
Debt to GDP ratio	28.4	22.5	20.8	23.4	33.0
Short term debt in percent of gross reserves 3/	...	2.6	11.0	15.3	17.4
Debt Service	-598	-547	-719	-678	-941
Debt service to exports ratio	...	7.8	10.1	8.6	11.6
GDP (millions of US dollars)	10,364	14,593	18,811	19,738	19,432
Exchange Rate (period average)	3.8	6.0	5.2	5.4	6.1
Errors and ommissions in percent of GDP	-1.8	-1.7	4.5	-2.2	-0.8

Sources: Croatian National Bank, and staff estimates

1/ Balance of payments compilation is based upon the methodological changes undertaken by the CNB in January 1998.
2/ Data for last quarter of 1997 reflects latest ITRS information
3/ Does not include trade credits with maturities of less than three months.
4/ Does not include debt that was excluded from the London Club agreement, and claims on international reserves of the former SFRY.

Table 56. Croatia: Merchandise Exports and Imports 1/

(In millions of U.S. dollars)

Month	Overall		World Except Former Yugoslav Republics		Former Yugoslav Republics	
	Exports	Imports	Exports	Imports	Exports	Imports
1995	4,633	7,510	3,571	6,658	1,061	850
January	370	505	303	447	67	58
February	366	554	284	487	82	67
March	430	676	338	599	92	77
April	290	619	218	550	72	69
May	468	679	381	605	87	74
June	441	679	346	602	95	77
July	352	787	282	717	70	70
August	270	503	174	444	96	59
September	555	615	427	533	128	82
October	329	605	236	532	93	73
November	427	702	330	616	97	86
December	335	584	252	526	83	58
1996	4,512	7,788	3,293	6,922	1,219	866
January	390	527	305	472	85	55
February	292	502	212	447	80	55
March	401	633	298	557	103	76
April	353	668	255	599	98	69
May	433	637	313	562	120	75
June	294	588	204	517	90	71
July	414	732	304	646	110	86
August	369	588	261	519	108	69
September	275	587	197	508	78	79
October	332	699	243	618	89	81
November	458	857	352	775	106	82
December	501	771	349	703	152	68
1997	4,341	9,123	3,064	8,181	1,277	942
January	484	652	331	586	153	66
February	373	720	271	654	102	66
March	339	669	248	611	31	58
April	328	635	239	549	89	86
May	337	776	238	694	99	82
June	350	782	258	699	92	83
July	337	742	248	666	89	76
August	319	630	207	555	112	75
September	389	785	278	707	111	78
October	366	776	230	684	136	92
November	396	856	282	762	114	94
December	323	1,100	234	1,014	89	86

Source: Central Bureau of Statistics.

1/ Data have not been revised in line with the 1998 balance of payments compilation methodology. Includes trade with countries of the former SFRY.

Table 57. Croatia: Composition of Exports (SITC) 1/

(In millions of U.S. dollars)

	Total				
	1993	1994	1995	1996	1997
Total	3,904	4,232	4,633	4,512	4,341
Food products	367	369	395	411	385
Live animals	22	5	6	7	5
Meat and meat products	49	60	50	47	54
Fish and fish products	49	50	45	49	60
Grain and grain products	74	64	75	64	36
Fruit and vegetables	40	40	42	40	28
Coffee, tea, cocoa and spices	25	1	34	31	31
Livestock feed	10	21	15	15	21
Other food products	98	128	128	158	150
Beverages and tobacco	101	67	90	92	121
Raw materials, excluding fuels	237	214	251	247	323
Oil seeds, for planting and consumption	1	2	4	2	4
Raw rubber	0	0	0	0	0
Wood, framing lumber and cork	168	144	161	166	230
Textile fibers and waste material	6	6	7	3	2
Raw fertilizers and minerals	12	13	13	13	19
Metal ores and scrap	10	20	22	20	31
Other raw materials	40	29	44	43	37
Mineral fuels and lubricants	377	386	391	416	426
Petroleum and petroleum products	322	344	366	371	385
Gas, natural and industrial	18	16	22	28	40
Other fuels and lubricants	37	26	3	17	1
Animal and vegetable oil and fats	4	7	9	10	14
Chemical products	564	543	814	643	570
Organic chemicals	61	43	53	44	36
Paints, material for tanning and dyeing	16	14	18	23	24
Medical and pharmaceutical products	100	133	137	139	157
Synthetic fuels	77	86	112	118	87
Plastic, cellulose resins	145	177	361	209	171
Other chemical products	166	90	133	110	97
Products classified according to constituent material	526	654	670	594	589
Rubber products	11	13	9	9	9
Paper, cardboard and products thereof	80	98	107	62	72
Textile yarns, textiles and the like	95	129	124	110	91
Non-metal mineral products	102	126	126	135	132
Raw iron and steel	66	69	59	48	64
Non-ferrous metals	41	50	73	65	62
Other metal products	131	168	172	165	160
Machines and transport equipment	552	732	778	964	253
Special machines for specific industries	32	47	45	51	42
Metal-working tools	17	15	28	24	31
General-purpose industrial machines	39	42	52	54	59
Electrical machines, devices and tools	143	172	211	219	227
Other machines and transport equipment	321	456	442	616	393
Miscellaneous ready-made products	1,169	1,257	1233	1133	1157
Household furnishings	148	138	151	120	125
Clothing	644	629	673	633	633
Footwear	225	279	234	235	248
Scientific and monitoring instruments	13	17	28	22	23
Other ready-made products	139	194	147	123	124
Miscellaneous transactions and goods	7	3	2	2	2

Source: Central Bureau of Statistics.

1/ Data have not been revised in line with the 1998 balance of payments compilation methodology. Includes trade with countries of the former SFRY.

Table 58. Croatia: Composition of Imports (SITC)

(In millions of U.S. dollars)

	Total				
	1993	1994	1995	1996	1997
Total	4,666	5,229	7,510	7,788	9,123
Food products	357	498	780	767	832
Live animals	69	18	27	46	66
Meat and meat products	61	76	114	98	118
Fish and fish products	13	19	23	28	30
Grain and grain products	19	39	45	57	86
Fruit and vegetables	92	131	222	194	178
Coffee, tea, cocoa and spices	24	52	98	89	110
Livestock feed	41	34	38	53	56
Other food products	38	129	213	202	187
Beverages and tobacco	37	62	66	58	87
Raw materials, excluding fuels	176	151	198	220	274
Oil seeds, for planting and consumption	7	12	13	14	37
Raw rubber	4	4	8	6	6
Wood, framing lumber and cork	16	19	27	52	65
Textile fibers and waste material	36	28	32	30	35
Raw fertilizers and minerals	45	38	51	56	56
Metal ores and scrap	31	7	3	7	15
Other raw materials	36	43	64	55	60
Mineral fuels and lubricants	461	589	871	857	850
Petroleum and petroleum products	302	436	736	707	672
Gas, natural and industrial	103	95	34	107	124
Other fuels and lubricants	56	58	101	43	54
Animal and vegetable oil and fats	15	12	25	38	28
Chemical products	575	541	810	848	965
Organic chemicals	102	81	114	118	123
Paints, material for tanning and dyeing	47	46	68	71	74
Medical and pharmaceutical products	98	99	177	188	185
Synthetic fuels	24	15	22	20	28
Plastic, cellulose resins	58	70	77	73	123
Other chemical products	246	230	352	378	430
Products classified according to constituent material	804	801	1304	1384	1515
Rubber products	45	53	86	88	92
Paper, cardboard and products thereof	166	134	236	249	251
Textile yarns, textiles and the like	148	149	210	203	212
Non-metal mineral products	75	77	124	142	188
Raw iron and steel	159	142	243	257	285
Non-ferrous metals	64	81	137	133	140
Other metal products	147	165	268	312	346
Machines and transport equipment	1,123	1,367	2009	2129	3062
Special machines for specific industries	147	176	281	318	381
Metal-working tools	24	24	28	31	44
General-purpose industrial machines	169	217	330	370	455
Electrical machines, devices and tools	159	241	376	399	427
Other machines and transport equipment	625	709	994	1011	1680
Miscellaneous ready-made products	780	776	1013	1117	1196
Household furnishings	32	54	93	92	121
Clothing	173	231	271	286	270
Footwear	358	202	214	240	246
Scientific and monitoring instruments	58	79	113	132	159
Other ready-made products	159	210	322	367	401
Miscellaneous transactions and goods	339	431	433	370	345

Source: Central Bureau of Statistics.

1/ Data have not been revised in line with the 1998 balance of payments compilation methodology. Includes trade with countries of the former SFRY.

Table 59. Croatia: Exports by Destination 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Total	3,904	4,260	4,633	4,512	4,341
Developed countries	2,419	2,729	2,862	2,478	2,418
EU countries	2,245	2,531	2,672	2,303	2,221
Austria	130	149	200	198	223
Belgium	29	38	43	41	38
Denmark	7	10	7	4	6
France	133	111	110	84	80
Italy	828	910	1,098	949	904
Netherlands	92	94	80	69	62
Germany	895	941	997	839	775
Sweden	25	164	14	13	16
Great Britain	73	68	57	70	67
Other	33	46	65	35	50
EFTA countries	45	65	59	41	49
Norway	3	4	5	3	4
Switzerland	40	60	52	37	41
Other	2	1	2	1	4
Other developed countries	129	133	131	135	148
Australia	6	5	6	4	5
Japan	1	1	1	2	6
Canada	5	5	7	8	9
U.S.A.	82	88	83	89	97
Turkey	20	14	5	13	9
Other	15	20	30	19	22
Developing countries	1,484	1,531	1,770	2,034	1,923
Countries of former SFRY	966	967	1,061	1,219	1,277
Bosnia and Herzegovina	189	338	383	549	649
FYR of Macedonia	63	73	70	59	77
Slovenia	712	556	608	611	530
Other and unclassified	2	...	...	0	21
Countries of the former USSR	173	176	185	172	199
Other developing European countries	158	192	229	191	222
Czech and Slovak Republics	11	...	...	...	...
Czech Republic	13	34	36	40	46
Hungary	54	68	71	55	49
Poland	37	45	49	56	47
Slovakia	8	16	21	22	22
Other	35	29	52	17	58
Developing Middle East countries	19	14	39	64	11
Developing Asian countries	59	28	60	54	30
Developing countries of North Africa	22	22	33	39	29
Developing other African countries	55	71	115	270	132
Developing countries in the Americas	33	61	48	24	24
Developing countries of Oceania	0	0	0	0	0

Source: Central Bureau of Statistics.

1/ Data have not been revised in line with the 1998 balance of payments compilation methodology. Includes trade with countries of the former SFRY.

Table 60. Croatia: Imports by Origin 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Total	4,666	5,229	7,510	7,788	9,123
Developed countries	2,952	3,525	5,300	5,262	6,279
EU countries	2,630	3,096	4,664	4,625	5,431
Austria	311	353	575	597	709
Belgium	47	55	85	100	96
Denmark	16	31	51	48	62
France	97	116	188	199	293
Italy	882	994	1,366	1,421	1,724
Netherlands	92	115	174	176	170
Germany	991	1,110	1,509	1,602	1,840
Sweden	60	81	148	117	147
Great Britain	90	179	455	225	189
Other	44	62	113	139	200
EFTA countries	86	112	219	179	244
Norway	5	8	44	27	21
Switzerland	79	101	169	144	213
Other	2	3	6	8	16
Other developed countries	235	317	417	457	604
Australia	5	5	9	17	12
Japan	42	54	80	104	139
Canada	10	19	12	17	49
U.S.A.	124	172	201	213	266
Turkey	9	16	28	27	31
Other	45	50	88	79	107
Developing countries	1,714	1,705	2,210	2,526	2,844
Countries of former SFRY	773	572	850	866	942
Bosnia and Herzegovina	14	4	8	63	137
FYR of Macedonia	46	27	36	34	42
Slovenia	712	541	805	769	756
Other and unclassified	1	...	...	...	7
Countries of the former USSR	261	254	224	253	497
Other developing European countries	235	210	473	571	640
Czech and Slovak Republic	52	...	...	...	...
Czech Republic	42	92	147	207	208
Hungary	78	100	158	193	239
Poland	25	38	45	50	59
Slovakia	24	53	78	84	81
Other	14	27	45	38	53
Developing Middle East countries	3	16	44	106	186
Developing Asian countries	284	364	213	301	212
Developing countries of North Africa	64	91	236	269	169
Developing other African countries	37	15	24	17	22
Developing countries in the Americas	57	81	145	143	174
Developing countries of Oceania	0	0	0	0	0

Source: Central Bureau of Statistics

Table 61. Croatia: Exchange Rates and International Reserves

	HRK/US$ 1/		HRK/100DM 1/		Real Effective Exchange Rate (Jan. 1994=100) 2/	Foreign Exchange Reserves of the CNB (In millions of U.S. dollars)
	e.o.p	p.a.	e.o.p	p.a.		
1995 January	5.5	5.6	363.0	363.0	95.8	1,445.2
February	5.3	5.5	362.9	363.1	95.4	1,477.4
March	5.0	5.1	363.0	362.9	92.7	1,535.2
April	5.0	5.0	359.5	362.6	91.4	1,641.7
May	5.0	5.1	359.8	359.6	91.5	1,721.7
June	5.0	5.0	360.8	360.0	92.2	1,826.1
July	5.0	5.0	361.5	360.8	92.4	1,911.5
August	5.4	5.2	363.4	362.7	94.5	1,863.1
September	5.3	5.4	370.8	369.2	95.0	1,943.8
October	5.3	5.3	372.0	372.0	94.3	1,897.4
November	5.3	5.3	371.7	372.1	94.3	1,892.0
December	5.3	5.3	370.6	371.2	94.7	1,895.2
1996 January	5.5	5.4	370.8	370.5	95.1	1,845.2
February	5.4	5.4	369.1	370.1	95.4	1,883.6
March	5.5	5.5	370.0	369.6	95.7	1,890.8
April	5.6	5.5	365.5	368.8	96.7	1,876.3
May	5.6	5.6	360.9	363.6	94.3	1,919.2
June	5.4	5.5	357.6	359.1	93.7	2,019.1
July	5.3	5.4	355.7	356.1	92.4	2,216.3
August	5.3	5.3	355.1	354.7	91.5	2,331.1
September	5.4	5.3	356.2	355.6	92.2	2,295.1
October	5.4	5.4	356.6	356.3	92.6	2,312.5
November	5.5	5.4	356.2	356.5	91.8	2,292.5
December	5.5	5.5	356.2	356.0	92.8	2,314.0
1997 January	5.9	5.7	356.3	356.2	93.1	2,173.1
February	6.0	6.0	357.3	356.7	94.8	2,177.8
March	6.0	6.1	357.5	357.3	95.3	2,252.4
April	6.2	6.1	358.0	357.5	95.6	2,208.1
May	6.1	6.1	356.8	357.3	95.4	2,271.9
June	6.2	6.2	357.0	356.8	95.6	2,326.5
July	6.6	6.4	356.6	356.9	97.4	2,326.2
August	6.4	6.6	355.1	355.9	97.5	2,442.4
September	6.2	6.3	354.5	354.7	95.9	2,487.8
October	6.1	6.2	352.6	353.4	94.9	2,527.1
November	6.2	6.1	352.7	352.4	93.8	2,515.6
December	6.3	6.3	351.1	352.1	93.9	2,539.0

Source: Croatian National Bank.

1/ Croatia introduced a new currency, the Croatian kuna, on May 30, 1994, at the rate of one kuna per 1,000 Croatian dinars. Exchange rates prior to May 1994 are foreign currency units per 1,000 Croatian dinars.

2/ Real effective exchange rates are calculated relative to seven currencies using retail or consumer prices. An increase in the rate denotes a real appreciation.

Table 62. Croatia: External Debt

(In millions of U.S. dollars, unless otherwise stated)

	1993	1994	1995	1996	1997
Total debt stock, including short term credits	2,942	3,282	3,921	4,615	6,427
Total debt stock, excluding short term credits	2,942	3,282	3,919	4,611	6,420
Medium and long term loans	2,332	2,655	3,018	4,256	5,979
Official sector	1,142	1,292	1,423	1,866	1,855
International organizations	315	399	487	672	851
Government sector	827	893	936	1,194	1,005
Paris club	772	821	864	993	843
Other	56	72	72	201	162
Private sector	1,191	1,363	1,595	2,390	4,123
London club	941	993	1,000	1,462	1,428
Other commercial banks	152	223	353	671	2,283
Suppliers	98	148	242	256	412
Non allocated debt 1/	433	368	391	--	--
Interest arrears 2/	127	222	302	--	--
London club	36	51	55	--	--
Paris club	91	170	247	--	--
Short term debt 3/	50	37	208	355	441
Short term credits 4/	0	1	2	5	8
Memorandum items					
External debt to GDP ratio 5/	28.4	22.5	20.8	23.4	33.1
Short term debt in percent of gross reserves	8.0	2.6	11.0	15.3	17.4
Official debt to GDP ratio	11.0	8.9	7.6	9.5	9.5
Private sector debt to GDP ratio	11.5	9.3	8.5	12.1	21.2
Short term debt to GDP ratio	0.5	0.3	1.1	1.8	2.3
Dollar GDP	10,364	14,593	18,811	19,738	19,432
Gross reserves	616	1,405	1,895	2,314	2539

Sources: CNB and staff estimates.

1/ Debt contracted by the former Socialist Republic of Yugoslavia, for which responsibility was assumed by Croatia as part of the London and Paris club restructuring agreements of 1995–96

2/ These arrears were subsequently restructured into principal as part of the London and Paris club restructuring agreements of 1995–96.

3/ Does not include short term trade related debt with maturities of less than three months.

4/ Overdraft facilities used by domestic banks, drawn on accounts held in foreign banks.

5/ Excludes short term credits.