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Republic of Croatia: Selected Issues and Statistical Appendix

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REPUBLIC OF CROATIA

Selected Issues and Statistical Appendix

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Approved by the European 1 Department

December 21, 1999

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Croatia: Basic Economic Indicators, 1994-1999

	1994	1995	1996	1997	1998	1999 Staff Proj.
Real economy						
Real GDP (percentage change)	5.9	6.8	6.0	6.5	2.5	-2.1
Unemployment rate (average; percent of labor force) 1/	14.5	14.5	16.4	17.5	17.2	20.1 4/
Nominal gross wages (percentage change; period average)	...	34.0	12.3	13.1	12.6	10.4 5/
Retail prices (percentage change; end of period)	-3.0	3.7	3.4	3.8	5.4	5.0
Gross national saving (percent of GDP)	23.1	9.9	16.3	16.6	16.1	18.3
Gross domestic investment (percent of GDP)	17.4	17.6	22.1	28.2	23.2	24.8
Public finance (percent of GDP)						
Central budget (cash basis)	0.6	-0.7	-0.1	-0.9	0.9	-0.1
Excluding privatization	0.2	-1.3	-1.2	-1.3	-0.4	-4.3
Consolidated central government (cash basis) 2/	1.6	-0.9	-0.4	-1.3	0.6	-0.7
Excluding privatization	1.2	-1.7	-1.6	-2.5	-1.0	-4.9
Money and credit (end of period; percentage change)						
Broad money	74.5	40.2	49.3	38.4	13.0	-3.7
Credit to consolidated central government	-18.1	-3.0	-3.5	-49.9	-2.7	19.7
Other credit	36.3	18.6	3.1	44.4	22.4	-2.8
Average credit interest rate (end of period; percent)	15.4	22.3	18.5	14.1	16.1	14.0 6/
Balance of payments						
Trade balance (percent of GDP)	-8.0	-17.4	-18.6	-26.0	-19.1	-17.6
Current account balance (percent of GDP)	5.7	-7.7	-5.8	-11.6	-7.1	-6.5
Total external debt (percent of GDP; end of period)	22.5	20.8	23.2	31.9	37.1	39.0
Official reserves (US\$ million; end of period)	1,405	1,895	2,314	2,539	2,816	2,783
Reserve cover (months of imports of goods and services)	2.5	2.4	2.8	2.7	3.2	3.4
Short-term debt in percent of gross usable reserves 3/	35.2	31.6	40.7	45.6	51.4	88.1
Exchange rate						
Nominal effective rate (1995=100; end of period)	96.8	99.1	101.0	102.8	98.0	99.8 6/
Real effective rate (1995=100; end of period)	97.6	98.6	99.8	101.6	100.0	102.7 6/
Geographic, social, and demographic indicators						
Per capita GDP (at market exchange rates)					\$4,663	
Land area (km ²)					56,538	
Population					4,501,000	
Population density (people per km ²)					79.6	
Population growth (in percent)					-1.5	
Life expectancy at birth (years)				72		
Male				68		
Female				77		
Infant mortality rate (per 1,000 live births)				8.2		
Crude death rate (per 1,000 people)					12.0	

Sources: Croatian authorities; Information Notice System; and IMF staff estimates.

1/ Registered average unemployment rate. According to the Labor Force Survey (based on ILO standards), the unemployment rate was 10.0 percent in November 1996 and 12.6 percent in the first half of 1999.

2/ Including extrabudgetary funds.

3/ On a remaining maturity basis; limited to debt contracts registered with the CNB.

4/ In October 1999.

5/ In January-August 1999.

6/ In September 1999.

I. TRENDS IN CROATIA'S GOVERNMENT SECTOR: A CROSS-COUNTRY PERSPECTIVE¹

A. Size of the Government Sector

1. Consolidated general government expenditure and net lending (ENL), on a cash basis, has risen steadily since the mid-1990s, to 52 percent of GDP in 1998, reflecting in part the cost of post-war reconstruction and compensation, and transition- and demography-induced changes in labor force participation.² In periods of budgetary pressure, expenditures have also been financed by non-cash methods, including arrears accumulation and issuance of shares in state-owned companies. This would imply that cash-based measures tend to understate the true level of expenditures in such periods.³

2. Total revenue of the consolidated general government has tended to keep pace with expenditure and, on average, revenues provided full coverage of budgetary cash expenditures.⁴ Excluding the proceeds from privatization, however, the consolidated general government recorded an average cash deficit of more than 1 percent of GDP during 1994–98, while the primary balance (which excludes interest payments) averaged a surplus of 1.4 percent of GDP. This performance compares favorably with that in other Central and Eastern European (CEE) and EU countries (see Table 1).

3. In relation to GDP, Croatia's general government expenditure is large relative to EU and CEE countries. Moreover, one would expect that the fiscal sector would contract during the transition process as state subsidies to enterprises and consumers are reduced and the range of services provided by the state is scaled back. This tendency is evident in most other transition countries, but has not been observed in Croatia, where the state has increased its role in the economy in most functional and economic categories (see below and Figure 1).

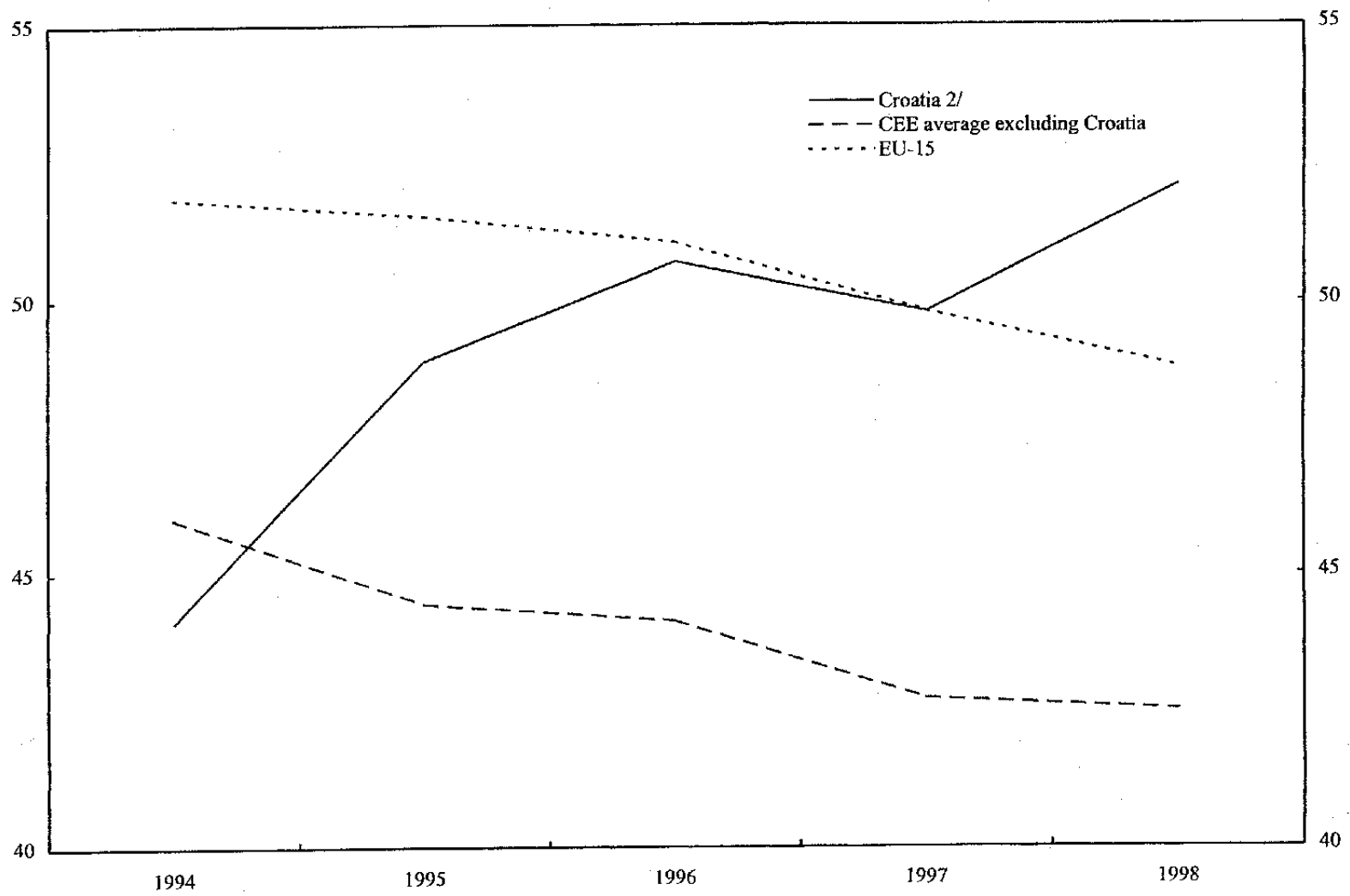
¹ Prepared by Rachel van Elkan.

² The general government consists of the central government, five extrabudgetary funds (EBFs), and local governments (421 municipalities, 122 cities and 21 counties).

³ When repayment of arrears is recorded above the line (as occurred in 1999), the use of arrears does not affect the overall level of cash spending, but postpones the recording of the expenditure.

⁴ The cumulative deficits of between ½ and 1¼ percent of GDP recorded in 1995–97 were exactly offset by surpluses in 1994 and 1998.

Figure 1. General Government Expenditure and Net Lending in Selected CEE and EU Countries, 1994-98 1/
(In percent of GDP)



Source: WEO.

1/ Central and Eastern European countries include: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia.

2/ Cash basis.

B. Composition of Expenditure

Economic classification

4. The major expenditure items in the 1998 consolidated general government budget were transfers to households, nonprofit institutions and abroad (15.7 percent of GDP), goods and nonlabor services (12.7 percent of GDP), wages and salaries (11.8 percent of GDP), and capital expenditure (6.9 percent of GDP). These categories were also the four largest in 1994, but were ranked as follows: goods and nonlabor services (15.6 percent of GDP), transfers (11.2 percent of GDP), wages and salaries (10.4 percent of GDP), and capital expenditure (3.1 percent of GDP). Reflecting the relatively low level of public sector debt (see below), interest payments accounted for only about 1.5 percent of GDP on average since 1994. Moreover, a shift from domestic debt to cheaper external borrowing helped to further contain interest costs during the period.

Box 1. Government Employment and Wages

During 1994–98, the total wage bill of the general government increased by 80 percent, while employment (excluding the police and army) is estimated to have declined by 3½ percent.¹ Moreover, while no data is available for previous years, it is thought that employment in the ministry of defense and the police was substantially higher than the 72,600 reported in 1998. This implies that average public sector wages rose by at least 84 percent during 1994–98. Despite the decline in the level of government sector employment (excluding the police and army), its share of total employment has risen slightly from 20 percent in 1994 to 21½ percent in 1998, reflecting the larger decline in economy-wide employment during the period. Including security forces, the general government accounted for 26 percent of total employment in 1998.

Public administration at the central government, EBFs and local governments accounted for 16 percent of total government employment in 1998, while the police and armed forces, health and social services, and education each accounted for just over a quarter of total government employment. Gross earnings in public administration were 22 percent higher than the national average in 1998, while in health and education they were 20 percent above and 2 percent below the national average, respectively.²

^{1/} Public sector employment is defined as the sum of employment in public administration, compulsory social security, education, health and social work, and sanitation.

^{2/} Large wage increases granted in 1999 have raised wages in public administration and health care further above the national average. Following the 12 percent increase granted in December 1999, wages in public administration are expected to exceed even those in the financial services sector (which previously had the highest level of gross wages) by nearly 7 percent.

5. An indication of the redistributive nature of budgetary spending is given by the sum of subsidies and current and capital transfers (which is defined as all unrequited government

cash payments). This item increased from 13.8 percent of GDP in 1994 to 20.8 percent of GDP in 1998, when it accounted for nearly two-fifths of total general government ENL (see Table 2).⁵ Spending in this category includes support to industry, various segments of the domestic population, and foreign governments and residents. Support to public and private enterprises through these channels in 1998 was 2.8 percent of GDP, up from 2.2 percent of GDP in 1996.⁶ The main beneficiaries during 1994–98 were the publicly owned Croatian Railways (averaging 1.2 percent of GDP), the agricultural sector (averaging 0.6 percent of GDP), the maritime industry (averaging 0.2 percent of GDP) and, more recently, the tourism sector. Subsidies and transfers to support the restructuring and rehabilitation of enterprises adversely affected by the transition process and the war amounted to 0.5 percent of GDP in 1997 and 1998.

6. Post-war related spending accounts for a large part of total subsidies and transfers and encompasses reconstruction of housing and infrastructure (averaging 1.1 percent of GDP during 1995–98), and transfers to veterans, invalids and civil war victims (averaging 1.5 percent of GDP during 1995–98).⁷ However, this understates the full extent of unrequited cash spending for post-war related purposes since transfers to veterans from the pension fund were not separately identified during 1994–96. Post-war related transfers are budgeted to increase to 3.1 percent of GDP in 1999.

7. The Croatian budget also provides financial support to the government and residents of Bosnia and Herzegovina, primarily to finance pensions of war veterans and to underwrite the Croat component of the Federation army. The amount of this support in 1999 is budgeted at 0.4 percent of GDP. Other types of transfers and subsidies include pensions, sick pay and maternity pay (see below), as well as consumer subsidies.

Functional classification

8. A functional classification is prepared by the Ministry of Finance only for unconsolidated central government expenditure. An estimate of consolidated central government expenditure (including the extrabudgetary funds, but excluding local

⁵ Moreover, this item is budgeted to increase further in 1999 to 23.3 percent of GDP. All references to the 1999 budget refer to the revised budget.

⁶ Additional budgetary support to industry is provided through the payment of interest and principal on guaranteed loans and, in 1999, through the cancellation of debt (primarily of the shipyards) to the pension and health funds for unpaid contributions. In the first nine months of 1999, payments on guaranteed loans financed from the current budget were nearly HrK 470 million (0.3 percent of GDP), but total payments for this purpose—which are financed from past budgetary contributions to the guarantee reserve fund—are thought to have been significantly greater.

⁷ This category excludes in-kind benefits (including to refugees) and capital goods acquired for reconstruction purposes.

governments) by function was prepared by IMF staff by netting out intragovernmental transactions and allocating expenditures of the EBFs to various functional categories on the basis of available information regarding the purpose of the spending.⁸ The resulting functional breakdown of expenditures is shown in Table 3 and Figure 2.⁹

9. The largest components of consolidated central government expenditure in 1998 were social security and welfare (16.3 percent of GDP), health (6.5 percent of GDP), defense (4.5 percent of GDP), and education (3.0 percent of GDP). This compares with the following structure of spending in 1994: social security and welfare (12.2 percent of GDP), defense (8.0 percent of GDP), health (5.6 percent of GDP), and education and public order and safety (each 2.9 percent of GDP). Total spending for social purposes (defined as social security and welfare, health and education) increased from 51.1 percent of total consolidated central government expenditure (20.6 percent of GDP) in 1994 to 56.4 percent of total spending (25.7 percent of GDP) in 1998. A further increase of 2½ percentage points of GDP is budgeted for 1999.

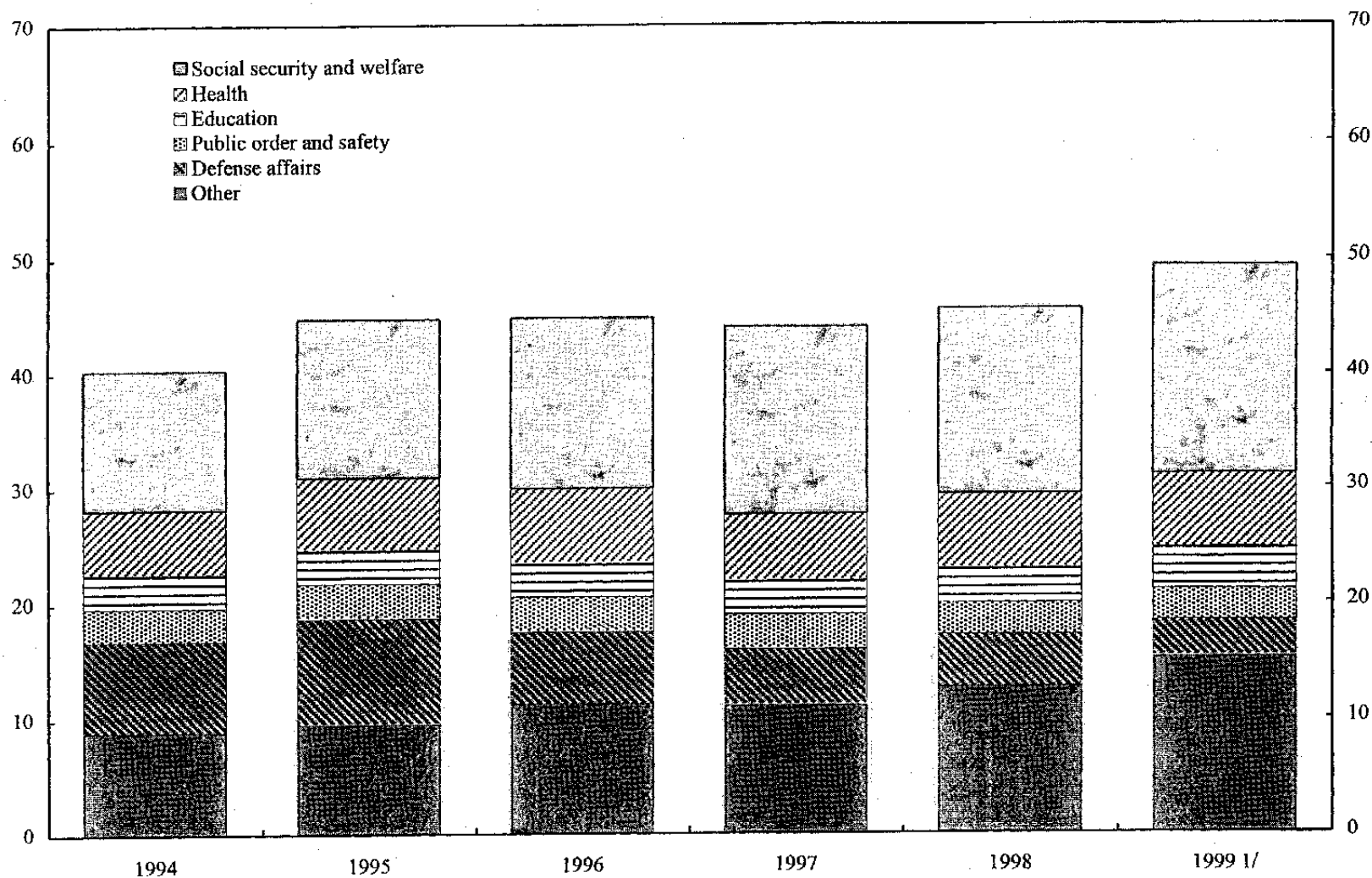
10. Among the expenditure functions, the largest increases during 1994–98 were recorded in social security and welfare (4.1 percentage points of GDP) and housing and community amenities (1.7 percentage points of GDP), while the largest decline (3.4 percentage points of GDP) occurred in defense spending. These shifts reflect the improved security situation during the period that permitted a redistribution of expenditure from defense purposes to social outlays arising from post-war related priorities (including housing for veterans) and demographic shifts in the population. Significant increases are budgeted for 1999 in the categories “mining, manufacturing, construction” reflecting an increase in budgetary assistance to public and private enterprises,¹⁰ in “transport and communications” due to the initiation of an extensive road construction program, and in “expenditures not classified” reflecting the payout of insured deposits in failed banks financed from the budget and part of the transfer to Bosnia-Herzegovina.

⁸ For example, sickness and maternity benefits paid by the health fund are recorded as social welfare spending, rather than health spending.

⁹ This approach excludes net lending and local government expenditure, which together amount to about 5 percent of GDP.

¹⁰ The revised 1999 central budget includes capital transfers to the pension and health funds in exchange for shares acquired by the funds through debt-equity swaps with the shipyards. In its functional classification, the Ministry of Finance (MoF) includes these capital transfers as manufacturing expenditure (which would be consistent with the central budget transferring the funds directly to the shipyards which, in turn, would then pay their obligations to the EBFs). However, in its calculation of total consolidated central government expenditure, the MoF treats these capital transfers as an intragovernmental transaction, implying that total consolidated expenditure would be lower than if the government transferred the funds directly to the shipyards.

Figure 2. Croatia: Consolidated Central Government Expenditure by Function, 1994-99



Sources: Ministry of Finance and IMF staff estimates.

1/ Revised budget.

11. The majority of spending for social security and welfare is devoted to retirement, invalidity, widows' and veterans' pensions, sickness and maternity benefits, unemployment benefits, and child benefits.¹¹ With the exception of sick pay, which has risen sharply reflecting the liberal use of these benefits as an alternative form of unemployment relief, spending on benefits has remained stable since 1994 at around 2¾ percent of GDP. In contrast, expenditure for pensions rose by more than 4 percentage points of GDP between 1994–98, to nearly 12 percent of GDP, and is budgeted to increase further in 1999 to nearly 14 percent of GDP.

12. Government social spending is relatively high by international standards (see Table 4). Spending on health, education, and social security and welfare by the consolidated central government in 1998 was equal to 25.7 percent of GDP in Croatia, compared with an average of 23.4 percent of GDP in CEE countries.¹² This reflects spending on social security and welfare and health that was 2 percentage points of GDP and 1.5 percentage points of GDP, respectively, above the regional average, whereas education spending was 1.2 percentage points of GDP below the regional average.

13. However, in order to assess whether Croatia's social spending is out of line with that of other countries, adjustment should be made for the additional burden imposed on social spending by post-war obligations. Non-war related social expenditure (proxied by total social spending excluding expenses for refugees and others affected by civil war, and pensions for veterans, survivors and the disabled) totaled 19.5 percent of GDP in 1998, which is well below the regional average. However, non-war related social spending is budgeted to increase rapidly in 1999 to 23.1 percent of GDP, close to average social spending in CEE countries.¹³

Expenditure for specific purposes

14. A functional classification based on the GFS methodology provides a sectoral breakdown of government expenditure. However, the classifications used by the authorities is quite broad, while expenditures which benefit some groups fall under different functional categories, making it difficult to identify total benefits for specific purposes. In this section, an attempt is made to identify and consolidate total budgetary resources devoted to three key policy priorities: post-war related purposes; road infrastructure and maintenance; and bank rehabilitation.

¹¹ Also included in this category are the costs associated with administering the welfare system and transfers in kind, including to veterans.

¹² The figures for Bulgaria, Hungary, Romania, and Slovakia relate to general government expenditure. To the extent that local governments undertake social spending, the comparable figures would be larger in Croatia, the Czech Republic, and Poland.

¹³ However, 1.2 percentage points of this increase reflects temporary factors associated with the retroactive indexation of pensions.

Box 2. Trends in Pension Expenditure

The expansion in pension expenditures since 1994 largely reflects population aging, the increase in the minimum guaranteed pension in 1996, legislated and constitutional court mandated retroactive indexation of pensions to wages,¹ and the granting of pensions to war veterans and invalids, as well as to families of war victims. In addition, reintegration into Croatia of Eastern Slavonia and other regions in 1997 substantially increased pension obligations by increasing the number of beneficiaries.²

Between 1993 and 1999, the total number of pension beneficiaries grew by more than 26 percent, to just under one million (21.7 percent of the population). Since 1993, the number of old-age, disability, and survivors' pensioners increased by 23 percent, 27 percent, and 7 percent, respectively (Table 5). However, since veterans receiving pensions were recorded until 1999 according to the type of pension they received, the change in the number of recipients of old-age, disability, and survivors benefits in 1999 understates the actual increase in the number of non-veteran beneficiaries.³ More than half of all beneficiaries were old-age pensioners in 1999, while disability and survivors pensioners each accounted for more than a fifth of all pensioners.

The rapid increase in the number of pensioners generated a sharp rise in the dependency ratio (defined as the ratio of pension beneficiaries to total employment) from 63 percent in 1993 to 96 percent in 1999. Also contributing to the increase in the dependency ratio—and to the financial burden on the current PAYG pension system—was a rapid decline in the number of contributors to the pension fund, reflecting lower overall employment and a shift of workers from an employment to a contractual relationship in order to avoid social security contributions.

	Croatia: Dependency Ratio (Period average)						
	1993	1994	1995	1996	1997	1998	1999 Jan.-Aug.
Ratio of pension beneficiaries to total employment	63.4	67.2	81.6	83.4	91.2	87.6	96.0

Despite a fourfold increase in average pension benefits, replacement rates fell sharply between 1993 and 1999, from 58 percent to 41 percent, as pension levels failed to keep pace with the growth in net wages. The old-age replacement rate (defined as the ratio of the average old-age pension to the average net wage) declined even faster during this period, from 67 percent to 43 percent, reflecting the compression of benefits across different pension types, as the old-age benefit slipped from 1.45 to 1.15 times the pension with the lowest average benefit level (which was the survivors benefit in most years). This narrowing of old-age disability and survivors' benefits was fully reversed in 1999, owing to the separate identification of benefits paid by the pension fund to veterans and members of the Croatian army, which were more than 175 percent of the average net wage and nearly six times the average old-age benefit level in 1999. In addition, veterans receive transfers from the central budget amounting to 0.6 percent of GDP.

¹ As part of the stabilization program of October 1993, the automatic indexation of pensions to wages was suspended through annual decree, and enshrined in law in February 1997, when the principle of price indexation of pensions was adopted. A 1998 ruling judged as unconstitutional the suspension of wage indexation of pensions and, in order to partially redress the fall in the replacement rate, the government decided to pay out an additional HrK 7.5 billion (5¼ percent of 1999 GDP) in pensions during 1998–2001. Of this total, HrK 590 million was paid in 1998, and HrK 1.75 billion is to be paid in 1999.

² Reintegration also added to the deficit of the pension system since the increase in benefit payments was not matched by contribution receipts from the war-affected areas.

³ The number of old-age pensioners increased by 10 percent in 1999, as many workers opted for early retirement in order to receive benefits they were entitled to under the pre-reform pension system. However, official data indicate a smaller increase in the number of old-age pensioners, once veterans receiving old age pensions are separately identified. The jump in the total number of pensioners accounts for a significant part of the increase in pension expenditure projected for 1999.

⁴ Since a proportionately larger number of veterans are eligible for disability and survivors benefits, the average level of these benefits dropped sharply in 1999 once veterans were removed from those groups of beneficiaries.

Post-War Expenditure

15. Post-war spending encompasses expenditure for reconstruction (primarily housing), and cash and in-kind benefits in support of veterans, invalids, refugees and others affected by civil war. Between 1995 and 1999, identifiable post-war budget expenditure totaled HrK 21.7 billion (15.3 percent of 1999 GDP). Aid to veterans and invalids accounted for more than half of budgetary post-war spending, while reconstruction and refugees accounted for 30 percent and 17 percent, respectively. Reflecting their subsequent resettlement, spending for refugees declined over time, whereas spending in support of veterans and invalids increased more than three-fold between 1995 and 1999.

Road construction and maintenance

16. In support of the authorities' policy to improve cross-border and internal transport links, government expenditure for the construction and maintenance of roads accounted for 4.1 percent of 1999 GDP on a cumulative basis between 1996 and 1999, much of it financed by earmarked foreign loans. In addition, the government provided guarantees on foreign loans to private road construction companies in the amount of HrK 1,960 million (US\$260 million or 1.4 percent of GDP), and has granted VAT-exempt status to one such company, thereby raising the fiscal cost of road construction through foregone tax revenues.

Banking sector rehabilitation

17. The fiscal cost of bank rehabilitation is the sum of cash payments to troubled banks and the bank rehabilitation agency (to finance payouts of insured deposits in failed banks), and newly issued public sector debt to recapitalize banks that entered the rehabilitation program.¹⁴ During 1996–99, total cash injections amounted to HrK 2.6 billion (1.8 percent of 1999 GDP), while debt issues totaled HrK 5.3 billion (3.7 percent of 1999 GDP).

C. The Structure of General Government

18. The general government is divided into three parts: the central government; the extrabudgetary funds; and the local governments. The first two parts combine to form the consolidated central government. There are currently five extrabudgetary funds (pension,

¹⁴ Since the Croatian National Bank (CNB) is not permitted to carry over any government debt from one calendar year to the next, an additional fiscal cost associated with the banking sector arises from the need to repay ahead of schedule government debt used by failed banks as collateral to secure liquidity loans from the CNB. The amount of early repayment in 1999 is about HrK 130 million (0.1 percent of GDP).

health, employment, child, and water).¹⁵ The local government level is further divided into counties, cities, and municipalities, of which there are several hundred (see footnote 1).

19. A complex system of grants, revenue-sharing arrangements, and social security contributions connects the different levels of government, while smaller transfers also link branches within the same level of government. Transfers from the central budget to other parts of government—which are the largest type of intragovernmental transfer—totaled HrK 6.5 billion (4.7 percent of GDP) in 1998, compared with HrK 2.0 billion (2.0 percent of GDP) in 1994. Of these, HrK 220 million and HrK 6.2 billion went to the EBFs in 1994 and 1998, respectively. Transfers from the central budget to other parts of government are budgeted to rise further to HrK 11.1 billion (7.8 percent of GDP) in 1999, of which HrK 10.5 billion is slated for the EBFs.

20. These transfers distort the magnitude of underlying revenues and expenditures recorded by the donor and the recipient. Based on consolidated data (i.e., excluding intragovernmental transactions), the central budget and the EBFs accounted for 47 percent and 42 percent, respectively, of general government expenditure in 1998 (see Table 6). The share of the central government in total expenditure (and in GDP) declined sharply since 1994, due to spending increases by the pension and health funds, and the local governments.¹⁶

21. As a share of consolidated revenue, in 1998 the central government collected 60 percent of the total, while the EBFs collected 29 percent. The larger revenue-earning capacity of the central government reflects its ability to levy taxes on goods and services and income, as well as privatization receipts. The EBFs' main revenue source is wage-based contributions, while the local governments rely mainly on surcharges on income taxes collected by the central budget.¹⁷

¹⁵ The road fund was absorbed into the central budget in 1995. The general government does not include the Croatian Privatization Fund or the Croatian Bank for Reconstruction and Development (HBOR).

¹⁶ This decline is measured after correcting for the absorption of the Croatian Road Fund into the central budget in 1995.

¹⁷ Cities with populations in excess of 40,000 may impose a surcharge on the personal income tax collected by the central government. In the case of Zagreb, the permitted rate is up to 60 percent, while in other cities the ceiling is 30 percent. In addition, income taxes collected from individuals living outside Zagreb are shared between the state budget (70 percent), counties (5 percent), and cities (25 percent). In the case of income taxes collected from individuals living in Zagreb, 55 percent goes to the central budget and 45 percent is allocated to the city. A summary of the Croatian tax system is given in Appendix II of this report.

22. Excluding intragovernmental transactions, the central government budget has consistently run a surplus, which rose to a level of 7.4 percent of GDP in 1998 and is expected to increase further in 1999. This has been offset by persistent deficits in the extrabudgetary funds (primarily the pension and health funds), which also reached a new high in 1998 at 6.5 percent of GDP. The consolidated net position of the local governments has remained near balance during 1994–98.

D. Comparative Tax Rates

23. Compared with other transition countries, Croatia's tax system imposes a heavy burden on the economy. Tax collections by the general government totaled 46.6 percent of GDP in 1998, 10 percentage points above the average of other CEE countries (Table 7). This was due primarily to VAT revenues, which were 6 percentage points of GDP above the average collected in other CEE countries, and to social security contributions, which were 1.7 percentage points higher than the cross-country average.

24. The strong revenue-generating capacity of Croatia's VAT reflects its relatively high rate and limited exemptions (Table 8).¹⁸ Apart from Bulgaria, Croatia is the only CEE country with a uniform rate and, at 22 percent, its level is also comparatively high. Croatia's large share of VAT revenues may also reflect significant underreporting of GDP in official statistics. Replacement of the sales tax with the VAT in 1998 boosted Croatia's indirect tax revenue by 3.8 percentage points of GDP compared to 1997. However, a contraction in private consumption, together with reduced compliance, is expected to reduce sharply the revenue yield from the VAT in 1999. On the other hand, Croatia's direct tax rates are not substantially out of line with those in other CEE countries, and this is reflected in personal and corporate income tax collections that are close to the CEE average.¹⁹ Moreover, Croatia's personal and corporate income tax systems appear to be simpler than in most other transition countries, having fewer tax brackets and a limited number of exemptions. Nonetheless, after raising the rate from 25 percent to 35 percent in 1997, Croatia's corporate tax rate is almost double that in Hungary, which cut its tax rate in a revenue-neutral manner by eliminating a wide variety of exemptions. However, owing to the exclusion of dividends and the "normal" return on equity from the taxable base and reduced rates in the war-affected areas, the effective corporate tax rate was 22.8 percent in 1998. Unlike most other CEE countries, Croatia does not yet offer investment incentives in the form of corporate tax holidays, but the Ministry of Economy is working on a proposal to do so in the near future.

25. Croatia's payroll taxes to finance social security and other benefits are not out of line with other CEE countries (Table 9). Contributions are levied at a rate of nearly 42 percent of gross wages and, consistent with trends in several neighboring countries, this rate has

¹⁸ The zero rating for bread, milk, books, and prescription drugs was introduced only in November 1999.

¹⁹ This excludes, however, surtaxes of up to 60 percent levied by local governments on personal income taxes collected by the central government.

declined somewhat in recent years in order to stimulate employment and reduce incentives for evasion.²⁰ Nonetheless, sharply lower collections in 1999 are due in large part to a drop in payroll tax compliance.

E. Public Sector Debt

26. Debt of the central government (excluding domestic arrears) stood at HrK 42.1 billion (30.5 percent of GDP) in September 1999, of which two-thirds was external debt (Figure 3).^{21 22} This represents a 6 percentage point increase over the level at end-1998, owing to new foreign borrowing and the depreciation of the kuna during 1999, which increased the kuna equivalent of both external and domestic debt since the latter is mostly denominated in, or indexed to, foreign exchange.

27. Croatia's public sector debt is the result of several factors: the assumption of debt as part of the succession process since independence; the transition process; and multilateral lending.

- As a result of succession to the Socialist Federal Republic of Yugoslavia (SFRY), Croatia inherited in 1995 a part of the debt owed by the SFRY to creditor governments and banks under the terms of Paris and London club agreements. Of this debt, part was assumed by the enterprises and banks that received the original loan proceeds, while the remaining, unallocated portion was assumed by the Republic of Croatia. The government's London and Paris club debt accounted for 31 percent of total public debt in September 1999.²³
- Succession to the SFRY was also responsible for the buildup of debt arising from the confiscation by the National Bank of Yugoslavia of banks' foreign exchange reserves. These reserves, which amounted to about US\$3 billion, were the counterpart assets to the private sector's foreign currency deposits. In 1991, the Republic of Croatia assumed responsibility for these claims against the former SFRY; however, since the

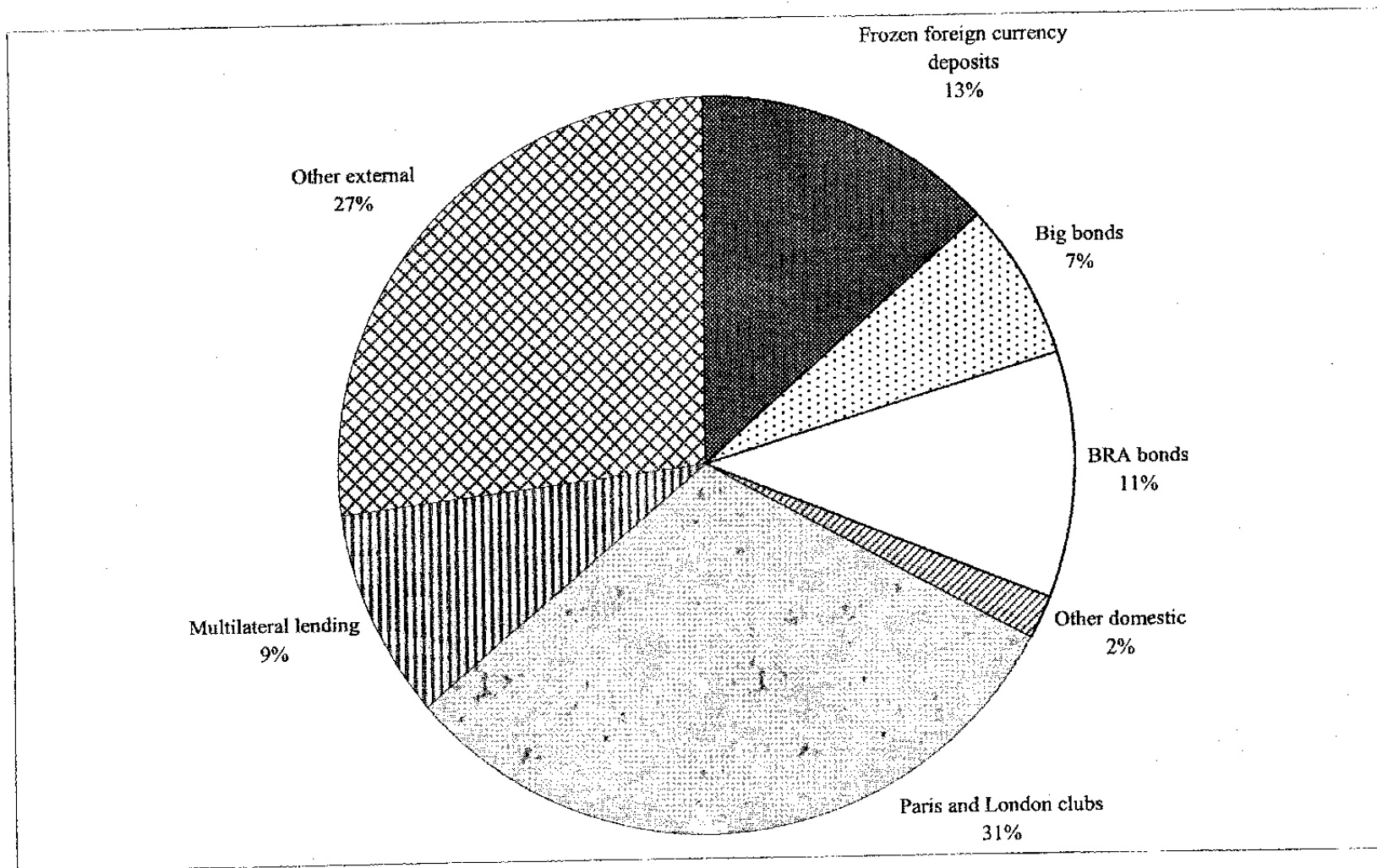
²⁰ Since mid-1998, the child benefit fund has been financed by the central budget, permitting a reduction in payroll contributions.

²¹ Debt data for the general government is not available, but borrowing opportunities for the EBFs and the local governments (except for the city of Zagreb) are small and limited primarily to domestic bank credit.

²² Domestic arrears of the consolidated central government are not included in official debt statistics, and the Ministry of Finance does not have accurate information on their level. Staff estimates that at end-1999, the stock of domestic arrears was equal to some 6 percent of 1999 GDP.

²³ The government also inherited some multilateral debt, primarily from the IBRD, amounting to nearly US\$130 million.

Figure 3. Croatia: Structure of Public Sector Debt in September 1999
(In percent of total; total debt: Hrk 42.1 billion)



Sources: Ministry of Finance, Croatian National Bank, and IMF staff estimates.

fledgling state had little foreign exchange reserves, the government issued to the commercial banks deutsche mark denominated “counterpart” bonds.²⁴ The government also issued bonds (called JDA and JDB bonds) to finance the first two installments of principal of the counterpart bonds. Public debt associated with the frozen foreign exchange deposits accounted for 13 percent of total public debt in September 1999.

Reconstruction bonds, which were almost fully amortized by September 1999, were issued during 1992 and 1993 in an amount of about US\$80 million to finance the reconstruction of war-damaged property.

- Bonds to finance the rehabilitation and restructuring of enterprises (called “big bonds”) were issued in 1991 in an amount of DM 1,550 million. They were used by the enterprises to clear their obligations to domestic banks. Outstanding public debt from this source stood at 7 percent of total public debt in September 1999.
- Official multilateral lending (primarily from the IBRD), to finance structural adjustment and sectoral projects, accounts for about 9 percent of the September 1999 public debt stock.
- The rehabilitation of five state-owned and renationalized banks during 1996–99 was associated with an increase in public debt (called bank rehabilitation agency (BRA) bonds) to recapitalize the banks and provide needed liquidity. Debt from this source accounted for 11 percent of public debt in September 1999, but the rehabilitation of an additional bank in October 1999 added a further HrK 550 million to the stock of outstanding BRA bonds.
- The remaining 29 percent of public debt, which is largely foreign debt, has been used to refinance more expensive domestic debt.

28. Despite the recent increases, public sector debt has declined slightly from US\$5.9 billion in 1991 to US\$5.8 billion in September 1999 and remains relatively low in comparison to other transition countries,²⁵ even though—unlike some other transition countries—Croatia has not seen the real value of its obligations eroded by rapid inflation (Table 10). The relatively low level of Croatia’s public debt reflects moderate fiscal cash

²⁴ In order to prevent the withdrawal of these deposits from the domestic 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 unblocked at the minimum rate of 20 equal semi-annual installments.

²⁵ Data on public sector debt excludes the stock of arrears of the central government and the extrabudgetary funds.

deficits,²⁶ and the redemption of a significant part of domestic debt in exchange for state-owned assets, including housing and enterprise shares.²⁷

29. While the level of debt contracted by the government remains moderate, public guarantees provided to loans from domestic and foreign sources have grown rapidly. Total outstanding public guarantees increased by HrK 4.6 billion from end-1998 to August 1999 to reach HrK 20.9 billion (14.7 percent of GDP). About 37 percent of guarantees are performance related, covering, inter alia, the on-time delivery of ordered goods, mostly ships.

30. External guarantees accounted for 47 percent of total outstanding guarantees in August 1999, and were equivalent to US\$1.4 billion or 6.9 percent of GDP. Major beneficiaries of external guarantees are Croatian Airlines, road construction companies, the shipbuilding industry, the state-owned Croatian Bank for Reconstruction and Development (HBOR), and Croatian Railways. External guarantees increased by HrK 3.5 billion (US\$475 million) during the first eight months of 1999, primarily in support of road construction and shipyards.

31. Regarding domestic guarantees, a large share is associated with lending by HBOR in support of various sectors of the economy, including shipbuilding, small enterprises, and tourism, as well as reconstruction of war-damaged industry and infrastructure. This lending is financed by government-guaranteed foreign borrowing, grants from the central budget and, until mid-1997, earmarked privatization receipts. To the extent that onlending by HBOR is financed by publicly guaranteed foreign borrowing, the state guarantees both the source and the use of the loan funds. Other publicly guaranteed domestic lending is undertaken by commercial banks and primarily supports public enterprises and tourism facilities.

F. Conclusions

32. Croatia's fiscal position appears relatively sound when measured by the overall balance and the public debt ratio. However, when compared with other CEEs and what would be expected during the transition process, Croatia's experience appears less favorable. In particular, the increase in the size of the government sector since the mid-1990s to more than 52 percent of GDP in 1998 reflects structural pressures on spending—including a rapidly increasing dependency ratio and an overly generous health and social transfer system—as well as excessive public sector wages and heavy spending in a number of areas.

33. A number of temporary budgetary obligations—including the cost of bank resolution and court-mandated supplementary pension payments—is expected to further increase general government expenditure in 1999 and 2000. Privatization receipts from state-owned utilities and banks will provide one-off coverage for these, while presenting a short window

²⁶ The cash deficits remained moderate, in part, because of the sale of state-owned assets.

²⁷ Public debt will increase by DM 120 million (0.3 percent of GDP) in early 2000 reflecting a bond issue to individuals whose property was confiscated during the previous regime.

of opportunity in which to address the underlying structural deficiencies in the fiscal sector. However, the bulk of the privatization receipts is likely to be exhausted by 2002, by which time the temporary budget obligations will also have been completed. Nonetheless, the structural problems will persist unless decisive measures are implemented early on. Resolving these problems will be complicated by the absence of an adequate public sector expenditure oversight and control mechanism. Moreover, the recent rapid increase in contingent government liabilities could lead to a substantial additional fiscal burden in light of the weak economic performance of several of the industries that received government guarantees.

34. Expenditure cuts will also be needed in response to the recent erosion in tax compliance, which experience from other countries suggests will be very difficult to reverse. Moreover, tax rates in several areas remain high in comparison to neighboring countries. In order to support increased compliance while improving external competitiveness and increasing Croatia's attractiveness to foreign investors, taxes on employment and profit should be reduced. However, given the uncertainties involved in projecting the likely savings from structural expenditure reforms, it is advisable that tax cuts be introduced only once expenditure savings have been realized. In addition, given the potentially significant revenue losses that could result from the planned introduction of corporate tax holidays, Croatia is advised to limit the breadth and duration of these incentives.

Table 1. General Government Balance and Expenditure and Net Lending
in CEE and EU Countries, 1994-98
(In percent of GDP)

	1994	1995	1996	1997	1998
Balance including privatization receipts					
Bulgaria	-5.8	-6.3	-12.7	-2.5	0.9
Croatia 1/	1.8	-0.7	-0.4	-1.2	0.5
Czech Rep	0.4	0.2	-0.4	-1.4	-1.4
Hungary	-8.6	-6.2	-3.1	-4.8	-4.6
Romania	-1.9	-2.6	-4.0	-3.6	-3.5
Slovakia	-1.3	0.4	-1.3	-5.2	-6.0
Slovenia	-0.2	0.1	0.2	-1.1	-0.6
Poland	-3.0	-3.1	-3.3	-3.1	-3.3
CEE Average	-2.3	-2.3	-3.1	-2.8	-2.3
EU-15	...	...	...	...	...
Balance excluding privatization receipts					
Bulgaria	-5.8	-6.5	-12.9	-5.7	-0.8
Croatia 1/	1.4	-1.7	-1.8	-2.1	-1.5
Czech Rep	-1.1	-0.9	-2.3	-2.3	-1.6
Hungary	-8.6	-60.0	-11.5	-19.3	-6.4
Romania	-1.9	-2.6	-4.0	-4.6	-5.5
Slovakia	-1.3	-1.3	-3.1	-7.7	-7.9
Slovenia	...	...	...	...	...
Poland	-3.8	-3.9	-4.3	-4.5	-4.6
CEE Average	-3.0	-11.0	-5.7	-6.6	-4.0
EU-15	-5.3	-5.2	-4.2	-2.5	-2.1
Expenditure and Net Lending					
Bulgaria	45.7	42.4	45.2	34.2	35.9
Croatia 1/	44.1	48.9	50.7	49.8	52.1
Czech Rep	41.9	41.5	40.7	40.6	40.3
Hungary	59.6	53.8	49.3	49.7	46.9
Romania	33.9	34.7	33.9	34.2	38.3
Slovakia	47.8	46.6	49.0	50.1	48.3
Slovenia	46.1	45.7	44.9	44.8	43.8
Poland	47.1	46.3	45.7	45.3	44.0
CEE Average	45.8	45.0	44.9	43.6	43.7
EU-15	51.9	51.5	51.1	49.8	48.8

Sources: WEO and IMF staff estimates.

1/ Cash basis.

Table 2. Croatia: General Government Subsidies and Transfers, 1994-99
(In percent of GDP)

	1994	1995	1996	1997	1998	1999 Revised Budget
Current and capital transfers and subsidies	13.8	16.8	20.2	21.3	20.8	23.3 2/
<i>Of which to:</i>						
Agriculture	0.5	0.5	0.5	0.5	0.8	0.7
Railways	1.3	1.1	1.2	1.1	1.2	1.0
Tourism	0.0	0.0	0.0	0.0	0.1	0.1
Ports and shipping	...	0.2	0.2	0.4	0.2	0.2
Enterprise restructuring and rehabilitation	...	...	0.0	0.5	0.5	0.2
Bus and air transport	...	...	0.0	0.0	0.0	0.1
Bank rehabilitation agency	0.0	0.0	0.0	0.0	0.0	0.8
War veterans, invalids and civil war victims 1/	...	0.9	1.2	1.8	1.9	2.2
Reconstruction	...	0.8	1.6	1.2	1.0	0.9
Abroad	0.1	0.1	0.1	0.1	0.1	0.5 3/
<i>Of which: To Bosnia and Herzegovina 4/</i>	...	...	...	...	...	0.4
Other transfers and subsidies	12.0	13.2	15.6	15.7	15.1	16.6

Sources: Ministry of Finance and IMF staff estimates.

1/ For 1994-96, excludes transfers to veterans and the Croatian army by the pension fund, which are included under other current transfers.

2/ Estimate based on subsidies and current transfers of the central government and extrabudgetary funds.

3/ Consolidated central budget only.

4/ Not separately identified in the 1994-98 budget presentations.

Table 3. Croatia: Consolidated Central Government Expenditure by Function, 1994-99
(In percent of GDP)

	1994	1995	1996	1997	1998	1999 Revised Budget
Total expenditure	40.3	44.7	44.8	44.0	45.6	49.3
General public services	1.9	1.9	1.8	1.8	2.4	2.5
Defense affairs	8.0	9.2	6.3	4.9	4.5	3.2
Public order and safety	2.9	3.0	3.0	3.0	2.7	2.7
Social spending	20.6	23.0	24.3	25.0	25.7	28.3
Education	2.9	2.9	2.9	2.9	3.0	3.6
Health	5.6	6.3	6.6	5.8	6.5	6.5
Social security and welfare	12.2	13.8	14.9	16.4	16.3	18.2
<i>Of which:</i>	8.9	12.0	12.9	14.4	14.4	16.2
Sickness and maternity benefits	0.7	1.1	1.5	1.6	1.5	1.6
Unemployment benefits	0.2	0.3	0.4	0.4	0.3	0.2
Child benefits	0.7	0.8	0.8	0.8	0.7	0.9
Expenses for refugees and others affected by civil war	...	1.2	1.0	0.9	0.7	0.4
Pensions (retirement, disability, veterans, widows)	7.2	8.5	9.3	10.7	11.2	13.1
Housing and community amenities	1.1	2.1	3.2	2.6	2.8	2.4
Recreation, culture, and religion	0.4	0.4	0.4	0.4	0.4	0.6
Fuel and energy	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture, forestry, fishing, hunting	0.7	0.5	0.5	0.5	0.8	0.8
Mining, manufacturing, construction	0.2	0.3	0.4	0.6	0.5	1.9
Transport and communications	2.6	2.3	3.2	2.8	2.9	3.3
Other	0.3	0.2	0.3	0.5	0.4	0.5
Expenditure not classified	1.6	1.8	1.7	2.0	2.4	3.2

Sources: Ministry of Finance; and IMF staff estimates.

Table 4. Government Sector Social Spending in CEE Countries, 1997-98
(In percent of GDP)

Country	Education		Health		Social security and welfare		Total social spending		Level of Government
	1997	1998	1997	1998	1997	1998	1997	1998	
Bulgaria	4.0	4.0	3.5	3.8	8.9	10.9	16.4	18.7	General
Croatia	2.9	3.0	5.8	6.5	16.4	16.3	25.1	25.7	Consolidated central
Czech Republic	3.7	3.4	6.2	6.3	12.8	12.7	22.7	22.4	Consolidated central
Hungary	4.8	4.7	4.5	4.5	14.5	14.8	23.8	24.0	General
Poland	5.7	5.6	4.5	4.3	19.9	18.8	30.1	28.7	Consolidated central
Romania	3.3	3.6	2.6	3.3	10.0	11.8	15.9	18.7	General
Slovakia	4.7	4.8	7.0	6.5	14.3	14.3	26.0	25.5	General
Average	4.2	4.2	4.9	5.0	13.8	14.2	22.9	23.4	...

Sources: *Government Finance Statistics* and IMF country desks.

Table 5. Croatia: Number of Beneficiaries and Pension Payments by the Croatian Pension Institute

	1993	1994	1995	1996	1997	1998	1999 I-VIII	2000 authorit's proj.
Number of Beneficiaries (in units)								
Total	784,364	813,982	837,931	844,698	907,420	938,648	992,162	1,044,850
Old age	409,122	433,180	443,688	451,046	467,363	487,432	502,261	526,000
Disability	181,614	184,989	193,654	197,049	207,859	212,753	230,759	246,000
Survivors	193,628	195,813	200,589	196,603	202,806	212,109	206,285	214,000
Croatian army and war veterans 1/	...	...	...	...	...	...	26,184	32,200
Other-other formers SFRY republics 2/	...	...	...	...	29,392	26,354	26,673	26,650
Total Pension Payments (in millions of kuna)								
Total	2,922	6,152	7,571	8,401	12,290	14,034	9,842	...
Old age	1,756	3,698	4,412	4,758	6,648	7,493	5,175	...
Disability	593	1,246	1,649	1,970	2,944	3,341	1,873	...
Survivors	572	1,208	1,511	1,673	2,435	2,904	1,460	...
Croatian army and war veterans 1/	...	...	...	...	...	...	1,109	...
Other-other formers SFRY republics 2/	...	...	...	...	263	294	224	...
Annual Pension Benefits and Wages (in kuna)								
Average net wage	6,425	14,984	21,829	24,389	28,517	32,180	36,144	...
Average pension	3,725	7,558	9,036	9,945	13,544	14,951	14,880	...
Old age	4,293	8,538	9,944	10,549	14,225	15,373	15,456	...
Disability	3,267	6,733	8,514	9,996	14,164	15,706	12,178	...
Survivors	2,954	6,171	7,531	8,508	12,005	13,693	10,620	...
Croatian army and war veterans 1/	...	...	...	...	...	...	63,528	...
Other-other formers SFRY republics 2/	...	...	...	...	8,946	11,166	12,617	...
<i>Memorandum items</i>								
average replacement rate 3/	58.0	50.4	41.4	40.8	47.5	46.5	41.2	...
old age replacement rate 4/	66.8	57.0	45.6	43.3	49.9	47.8	42.8	...

Sources: Pension Insurance Fund, Bureau of Statistics, and IMF staff calculations.

1/ Before 1999 Croatian army and war veterans were not separately identified. According to the Ministry of Finance, pension payments to war veterans were Hrk 1.1 billion and Hrk 1.4 billion in 1997 and 1998, respectively, and the number of beneficiaries increased significantly over time.

2/ Before 1996 the number of beneficiaries from other former SFRY republics were not separately identified.

3/ Average pension divided by average net wage.

4/ Old age pension divided by average net wage.

Table 6. Consolidated General Government Revenue and Expenditure by Level of Government, 1994-9

	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual
	(percent of GDP)					(percent of total)				
Total revenue and grants	46.0	48.2	50.4	48.6	52.6	100.0	100.0	100.0	100.0	100.0
Budgetary central government	26.5	28.3	29.0	27.3	31.7	57.6	58.8	57.7	56.2	60.2
Extrabudgetary funds	15.6	15.4	15.6	15.6	15.2	34.0	32.0	31.1	32.1	29.0
Pension fund	3.9	8.8	8.8	8.8	7.7	17.7	18.2	17.5	18.2	14.6
Health insurance fund	4.3	4.6	4.8	4.7	5.9	9.3	9.5	9.5	9.6	11.2
Employment fund	0.6	0.7	0.6	0.5	0.5	1.4	1.5	1.2	1.0	1.0
Child benefit fund	0.8	0.8	0.8	0.8	0.4	1.7	1.6	1.6	1.6	0.7
Public water management fund	0.5	0.6	0.6	0.8	0.8	1.1	1.2	1.3	1.7	1.5
Croatian road fund 2/	1.3	...	...	...	...	2.8	...	...	...	...
Local government	3.9	4.4	5.7	5.7	5.7	8.4	9.2	11.3	11.6	10.8
Total expenditure and net lendin	44.1	48.9	50.7	49.8	52.1	100.0	100.0	100.0	100.0	100.0
Budgetary central government	23.6	26.5	25.4	23.5	24.3	53.4	54.1	50.0	47.2	46.6
Extrabudgetary funds	16.9	18.3	19.7	20.6	21.8	38.2	37.3	38.8	41.4	41.8
Pension fund	7.6	9.0	9.7	11.1	11.7	17.3	18.4	19.1	22.4	22.4
Health insurance fund	6.0	7.2	7.7	7.1	7.8	13.6	14.7	15.3	14.2	15.0
Employment fund	0.5	0.5	0.6	0.6	0.4	1.1	0.9	1.2	1.2	0.8
Child benefit fund	0.8	0.8	0.8	0.8	0.7	1.7	1.7	1.6	1.6	1.4
Public water management fund	0.6	0.8	0.9	1.0	1.1	1.3	1.6	1.7	2.1	2.2
Croatian road fund 2/	1.4	...	...	...	...	3.1	...	...	...	...
Local government	3.7	4.2	5.7	5.7	6.0	8.4	8.6	11.2	11.4	11.6
Overall balance	1.8	-0.7	-0.4	-1.2	0.5	100.0	100.0	100.0	100.0	100.0
Budgetary central government	2.9	1.9	3.7	3.8	7.4	158.2	-264.2	-999.1	-315.4	1504.8
Extrabudgetary funds	-1.2	-2.8	-4.1	-5.0	-6.5	-67.5	398.1	1097.9	412.6	-1332.2
Pension fund	0.5	-0.2	-0.9	-2.3	-4.0	26.8	30.5	239.3	191.6	-822.6
Health insurance fund	-1.7	-2.6	-3.0	-2.4	-1.9	-94.5	366.2	802.4	198.5	-384.7
Employment fund	0.2	0.2	0.0	-0.1	0.1	8.8	-35.0	0.6	5.5	20.2
Child benefit fund	0.0	0.0	0.0	0.0	-0.4	1.5	5.5	-6.3	1.8	-72.1
Public water management fund	-0.1	-0.2	-0.2	-0.2	-0.4	-4.5	30.9	61.9	15.3	-72.9
Croatian road fund 2/	-0.1	...	...	...	...	-5.6	...	...	...	...
Local government	0.2	0.2	0.0	0.0	-0.4	9.3	-33.9	1.2	2.8	-72.6

Source: Ministry of Finance.

1/ Includes the central budget, the extrabudgetary funds and local governments.

2/ Included in the central budget since 1995.

Table 7. Comparison of General Government Revenues in Selected CEE Countries, 1998
(In percent of GDP)

	Bulgaria	Croatia	Czech Republic	Hungary	Poland	Romania	Slovakia	Slovenia	Average excl. Croatia
General government revenue 1/	36.9	50.6	41.5	43	40.7	32.8	42.4	43.1	40.1
Tax revenue	31.4	46.6	36.8	41.4	39.1	30.7	37.1	40.2	36.6
Personal income tax	4.7	5.8	5.2	6.4	8.2	5.5	5.9	6.6	5.8
Social security contributions	7.7	13.9	15.6	13.2	12.5	8.8	14	13.8	12.2
VAT	8.5	14.6	6.6	7.8	7.8	6.6	7.7	14.8 2/	8.6
Corporate income tax	4	2.5	3.7	2.1	2.8	3.3	3.6	1.2	3.0

Source: IMF country desks.

1/ Excluding privatization.

2/ Revenue from goods and services tax.

Table 8. Selected Tax Rates in CEE Countries in 1999

Country	VAT			PIT		CIT	
	Upper	Middle	Lowest	Top Marginal Rate	Number of Tax Brackets	Basic Rate	Other
Bulgaria 1/	20	-	0 2/	40 3/	5 4/	25 5/	20 6/
Croatia	22	-	0 7/	35 8/	2	35	17.5 9/
Czech Republic	22	5 10/	0	40	5	39	25 11/
Hungary	25	12 12/	0 13/	40	3	18	20 14/
Poland	22	7 15/	0 16/	40 17/	3	34	20 18/
Romania	22	11 19/	0 20/	45 21/	4	38	10 22/
Slovakia	23	6 23/	0 24/	42 25/	6	40	25 26/
Slovenia	19	8 27/	0 28/	50 17/	6	25	0 29/

Source: International Bureau of Fiscal Documentation, "Taxation and Investment in Central and East European Countries," various editions.

1/ From January 1, 2000.

2/ Applies only to exports.

3/ Separate schedules apply to wages and other sources of income. Both schedules have the same tax rates, but the wage tax is more progressive.

4/ Including zero bracket.

5/ An additional 10 percent municipal tax is also levied.

6/ Lower rate applies to companies with taxable profit of less than BGL50 million.

7/ Applies to financial and medical services, and real estate transactions and, since November 1999, to books, milk, bread, and prescription drugs provided by the health fund.

8/ Excluding income tax surcharges levied by cities (up to 60 percent in Zagreb and 30 percent in other cities). Actual rates are currently between 6 and 18 percent.

9/ Applies to enterprises in war affected regions.

10/ Applies to basic foodstuffs, all services, real estate and construction works.

11/ Applies to profits of investment and pension funds.

12/ Applies to basic foodstuffs and household electricity.

13/ Applies to textbooks, certain medicines and medical products, and construction.

14/ Dividend withholding tax.

15/ Applies to building materials, pharmaceuticals, medical devices, tourism.

16/ Applies to Basic foodstuffs and health services.

17/ Interest income is tax exempt.

18/ Withholding tax applies to dividends and interest.

19/ Applies to bread.

20/ Household consumption of electricity and gas exempted.

21/ Wage tax. Different schedules (with different tax rates) apply to other sources of income.

22/ On dividends and interest. Income from services is taxed at 15 percent.

23/ Applies to basic foodstuffs, pharmaceuticals, electricity, and legal services.

24/ Postal, financial, education and health services.

25/ Capital income is not taxed.

26/ Withholding tax applies to royalties, rental income, and income of independent artists.

27/ Applies to food, transport, printed material, medical services and public hygiene.

28/ Applies to insurance and financial services.

29/ Applies to interest from securities issued by state or local governments or public companies, and other exemptions.

Table 9. Payroll Taxes in Selected CEE Countries in 1999
(In percentage points)

Country	Pension	Health	Unemployment	Other	Total	Employer's Contribution	Base
Bulgaria 1/	35.7	6.2	4	1 2/	46.9	37.7	Gross wages including in-kind benefits.
Croatia	21.5	18	1.7	0.4 9/	41.6	21.0	Gross wages and salaries
Czech Republic	26	13.5	3.6	4.4 3/	47.5	35	Gross salaries (for employees); other income (for entrepreneurs)
Hungary 4/	30	14 5/	5.5	-	49.5	37	Gross remuneration
Poland	32.5	2.45 + (0.4-8.12) 6/	2.45	0.08 7/	37.5 + (0.4-8.12)	18.8	Gross salary, including in-kind benefits.
Romania	37.5 8/	14	5	-	56.5	40.5	Gross salary, including in-kind benefits.
Slovakia	32.3	13.7	4	-	50	38	Gross wages
Slovenia	24.35	13.25	0.2	0.2 10/	38	15.9	Gross payments.

Source: International Bureau of Fiscal Documentation, "Taxation and Investment in Central and East European Countries," various editions.

1/ From January 1, 2000. Reduced rates apply to employment in specific industries.

2/ For work-related illness and maternity benefits.

3/ Sickness and other benefits.

4/ From January 1, 1999.

5/ An additional lump sum health care levy of HUF 3,600 per month paid by employers applies.

6/ Contributions for injury insurance vary by type of employment.

7/ Contribution to fund to pay wages in the event of insolvency of employer.

8/ For standard working conditions. A 10 percentage point premium is added for arduous labor conditions.

9/ Contribution to the Chamber of Commerce.

10/ Maternity benefits.

Table 10. Total Debt of the Consolidated Central Government
in Selected CEE Countries, 1994-98 1/
(In percent of GDP)

	1994	1995	1996	1997	1998
Bulgaria	...	100.9	105.8	104.4	84.3
Croatia	...	28.2	27.6	26.5	24.5 2/
Czech Republic	13.3	11.2	9.9	10.3	10.7
Hungary	85.1	84.3	71.5	62.9	60.4
Poland	88.8	68.0	54.6	46.5	43.8
Romania	...	16.0	22.7	27.3	28.4
Slovakia	29.6	26.1	24.8	27.1	30.6
Slovenia	21.1	18.5	18.7	22.8	23.2
Average	47.6	44.2	41.9	41.0	38.2
Memorandum item:					
Croatia's consolidated central government debt, including public guarantees	...	...	...	31.1	36.2 3/

Source: WEO and IMF country desks.

1/ Excluding government guarantees.

2/ At end September 1999, Croatia's government debt increased to 30.5 percent of GDP.

3/ At end September 1999, the sum of Croatia's government debt and public guarantees was 45.2 percent of GDP.

II. RECENT DEVELOPMENTS IN CROATIA'S FINANCIAL SECTOR¹

A. Introduction

35. During the 1990s, Croatia has made significant progress in developing a modern financial sector. Banks recovered from a state of near-bankruptcy at the time of independence, money and capital markets were established, and a market-oriented legal framework was introduced. However, the nonbank financial sector remains small and numerous banks experienced severe problems in 1998 and early 1999. This chapter discusses recent developments in the Croatian financial sector. The first section looks at the banking sector, focusing on recent problems, assessing the response of the central bank, and describing the remaining policy agenda. The second section is dedicated to the nonbanking sector and analyzes recent trends and policy needs in the insurance, money, and capital markets.

B. Croatia's Banking Sector

36. Croatia has a modern two-tier banking system which, in November 1999, comprised 48 fully licensed universal banks, 12 representative offices and licensed branches of foreign banks, and 41 other institutions providing a somewhat more limited range of financial services.² Commercial banks dominate in terms of size, accounting for almost all of the total assets of the banking system. All banks are supervised by the Croatian National Bank (CNB). Although most are privately owned and some foreign owned, the state still holds a majority stake in nearly all of the largest banks (Table 11). Privatization procedures are, however, at an advanced stage, and on December 17 it was announced that a majority share in the country's second largest bank had been sold to an Italian bank.

37. Reforming the system has been a lengthy and costly process fraught with many of the difficulties faced by other transition countries. In a market economy, banks play a crucial role in mobilizing and allocating savings. Establishing a modern banking sector and ensuring the conditions for its long-term development have, therefore, been key goals of the transition process. These objectives, however, have proved elusive in several countries where poor reform sequencing, burdensome legacies from the past, weak institutions and scarce human capital have frequently led to widespread banking problems. Similar problems have marred the development of the Croatian banking sector. Following rapid growth until 1997, serious banking difficulties emerged in 1998-1999 under the cumulative effect of financial and institutional weaknesses. Public confidence in the system was shaken and banking problems contributed to the economic recession that began in late 1998. However, the recent enactment and implementation of a stronger regulatory framework, governmental action to address the

¹ Prepared by Åke Lönnberg and Riccardo Maggi. This chapter has benefited from helpful comments by Gary O'Callaghan.

² Four housing savings banks and 31 savings banks make up most of this group.

problems of troubled banks, and the increasing participation of foreign capital have strengthened the prospects for the sound development of the banking sector.

38. This section is divided in three parts. First, developments up to 1997 are briefly reviewed, stressing the weaknesses and inefficiencies which accompanied far-reaching changes in the banking sector. The second part describes the emergence of serious banking problems in 1998 and early 1999 and analyzes the authorities' response. The section concludes with a preliminary assessment of the strategy chosen and a description of the remaining policy agenda.

Early banking sector developments

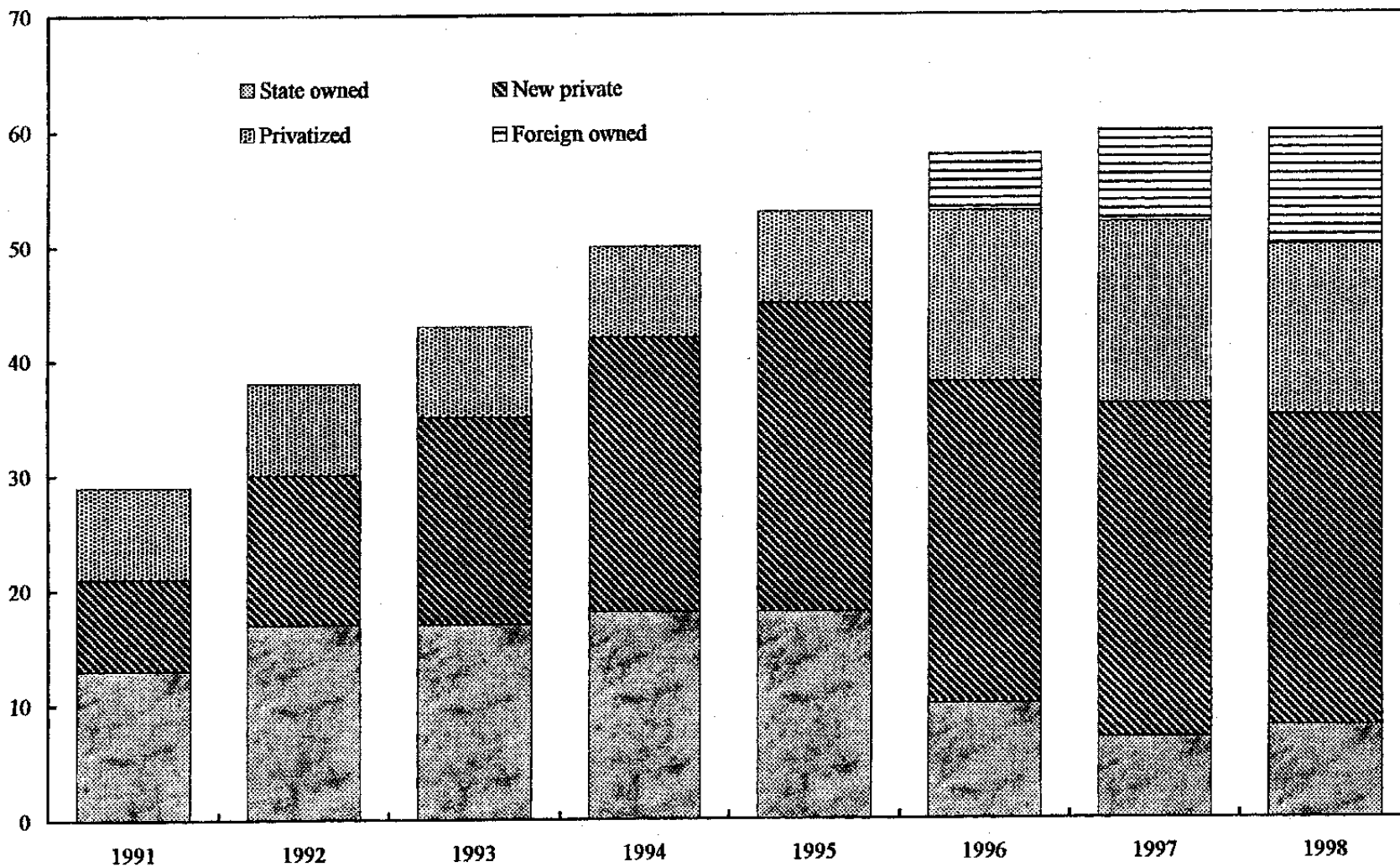
39. Following the introduction of a market-oriented legal framework in the early 1990s,³ significant progress was made in establishing a modern banking system. The banking sector recovered from its state of near-bankruptcy at the beginning of transition and expanded vigorously until end-1997 (Table 12). With improved political and macroeconomic stability, savings held abroad were repatriated, boosting the resources at banks' disposal and fueling a sharp expansion in lending. The number of commercial banks rose sharply (Figure 4) and many of the smaller, newly established institutions recorded above-average rates of growth.

40. By end-1997, however, the incentives for sound bank behavior had not yet been fully established. First, public financial support was repeatedly granted to several state-owned banks in an attempt to restore their long-term viability. At end-1997, four state-owned banks,⁴ accounting for 32 percent of total bank assets were being financially and

³ See, in particular, the 1992 Law on the National Bank of Croatia and the 1993 Law on Banks and Savings Banks. The latter relaxed entry requirements and set the basis for a sharp increase in the number of banks.

⁴ The four banks were: Slavonska Banka (the first to enter the rehabilitation procedure in November 1995 and the first to be privatized in 1998), Riječka Banka and Splitska Banka (the two largest regional banks), and Privredna Banka (at one point the largest Croatian bank). By end-1997, their rehabilitation had implied writing off 17.3 percent of the stock of credit to enterprises and issuing deutsche mark indexed government bonds amounting to HrK 2.9 billion (or 2.3 percent of 1997 GDP).

Figure 4. Croatia: Number of Commercial Banks by Ownership, 1991-98



Source: Croatian National Bank.

operationally restructured under the 1994 Law on Bank Rehabilitation.⁵ While these procedures successfully broke the linkages between weak state banks and loss-making state enterprises, privatization of the rehabilitated banks was only initiated in 1998. Second, private ownership of banks had not always translated into higher efficiency and sound lending policies.⁶ The increasing number of private banks was due to either privatization or new entry. Several banks had been privatized in a way that left the old management in control and did not break their ties with the enterprises which used to own them.⁷ Several new universal banks had entered the market thanks to relatively lax requirements but many appeared to be too small to achieve an efficient scale. Third, the incentives for banks to improve their efficiency had been limited in an environment where deposits grew rapidly and banks could earn high returns by lending surplus funds to the ailing state banks. Finally, the opportunities for unsound bank behavior were exacerbated by shortcomings in the prudential and legal framework⁸ and by a poorly designed deposit insurance scheme which provided depositors with few incentives to monitor banks' financial health.⁹

⁵ This law established the so-called Bank Rehabilitation Agency (BRA) as "a specialized financial institution for the insurance of savings deposits in banks and savings banks, and for the implementation of bank rehabilitation procedures." According to the latter, a bank experiencing serious liquidity problems or suspected to be insolvent would be required to enter a 30-day period during which the CNB would assess the extent of the bank insolvency and its long-term viability. If considered nonviable, the bank would be proposed for bankruptcy. If, instead, it was considered viable, and had lost between 30 and 50 percent of its capital, the bank could be recommended for a 'voluntary' rehabilitation process on the basis of its own restructuring plan. If, however, the losses amounted to more than 50 percent of capital, the CNB could recommend mandatory rehabilitation. In either case, the final decision rested with the government. The choice to rehabilitate a bank implied writing off its capital against losses, providing new capital in the form of BRA rehabilitation bonds, replacing management, and implementing a restructuring plan under BRA supervision.

⁶ See E. Kraft and D. Tirtiroglu, 1998, "Bank Efficiency in Croatia: A Stochastic-Frontier Analysis", *Journal of Comparative Economics*, Vol. 26, pp. 282-300.

⁷ Enterprise ownership of banks was widespread in Croatia as a legacy of the previous regime. When an enterprise owning a bank was privatized, the bank also passed under private ownership. Enterprise privatization, however, often led to widely dispersed ownership and left management in control.

⁸ See "Croatia's Banking Sector" in "Republic of Croatia: Selected Issues and Statistical Appendix", SM/98/58, 1998.

⁹ The insurance scheme envisaged full coverage for amounts up to HrK 30,000 and 75 percent compensation for amounts between HrK 30,000 and HrK 50,000. Insurance was extended to all eligible accounts regardless of the financial soundness of the bank holding the deposits. Moreover, in July 1998, a decree of the Ministry of Finance extended full coverage to amounts up to HrK 100,000 per individual and bank.

41. All of these factors raised concerns about the efficient allocation of the sharply growing stock of loans and the vulnerability of individual banks as the entry of foreign banks and the end of the easy financing provided by savings repatriation raised the pressures of competition.¹⁰ While some banks appeared to be better equipped than others to cope with a more competitive environment, risk management capabilities, related-party lending, single-client exposure, inadequate provisioning, and political interference in lending decisions were all sources of concern for the regulatory authority.¹¹ In this context, a group of rapidly expanding middle-sized banks was identified as potentially vulnerable.¹²

The banking crisis and the CNB response

42. A significant segment of the Croatian banking system came under stress in 1998 when several banks turned out to be vulnerable to adverse macroeconomic developments. Monetary tightening, the weakening economy, and a drying-up of repatriated savings exposed the underlying insolvency of a group of rapidly growing institutions. In addition, deficiencies in banking legislation contributed to a perception of indecisiveness on the part of the supervisory authority, making it difficult to deal with the emerging problems and raising fears about the financial health of the sounder banks. The resulting loss of confidence contributed to a weakening of base money demand, an outflow of official reserves, and a resurgence of currency substitution.¹³ However, the entry into effect of a new banking law in late 1998 allowed a more decisive response by the CNB during 1999, thus halting these negative trends and initiating the resolution of banking problems.

43. Although the underlying weaknesses in several banks became apparent in the course of 1998, the existing legal framework did not allow the CNB to take prompt supervisory action.¹⁴ In February, a fight among owners of the fifth largest bank, Dubrovačka

¹⁰ The easy profit opportunities offered by lending surplus funds to the ailing state banks had also come to an end when these entered the rehabilitation procedures.

¹¹ See Croatian National Bank, "Report on the Credit Policies of Croatian Banks", July 1998 and Croatian National Bank, "The Structure and Performance of the Croatian Banking System in 1997", unpublished draft.

¹² See Croatian National Bank, "Banks at the Crossroads: A Report on the Banking System in the Republic of Croatia", September 1997.

¹³ Base money contracted by nearly 6 percent in the year to March 1999 as the CNB's net usable reserves fell from 152 percent of base money to 122 percent. The local currency share of broad money dropped from 38 percent at end-1997 to 31 percent at end-March 1999.

¹⁴ Under the 1993 banking law, the CNB's authority was limited to propose improvement measures to be implemented by the banks themselves. Even if it initiated bankruptcy proceedings, the supervisory authority could not take control of the property of a bad bank and protect its assets before the appointment of a receiver by the commercial courts.

Banka,¹⁵ led to rumors about the bank's insolvency and prompted a run on deposits. After receiving initial liquidity support from the CNB, the bank was renationalized and subjected to rehabilitation.¹⁶ By June, the liquidity position of the sixth largest bank, Glumina Banka, had also seriously deteriorated. As a condition for CNB support, the bank requested to be rehabilitated. In a break with the past, however, the CNB did not recommend deeply insolvent Glumina Banka for rehabilitation, thus indicating that some banks were not too big to fail. With a more forceful legal framework under preparation, the CNB continued to step up its provision of exceptional liquidity assistance as an increasing number of banks faced mounting liquidity problems. To prepare for action after the expected approval of the new banking law, however, the CNB also contracted two foreign audit firms to examine the 1997 financial accounts of 12 banks and revise them according to international accounting standards.¹⁷

44. The new banking law was approved in December 1998, finally allowing the CNB to take more forceful measures. The new legislation strengthened the central bank's enforcement and regulatory powers and increased the responsibilities of banks' supervisory boards. At the same time, it introduced a regime for a measured and timely response to the problems of failing and insolvent banks and established the institution of a temporary administrator.¹⁸ Backed by its new powers, the CNB began implementing a more comprehensive set of measures aimed at dealing with the weaknesses of identified problem banks, which accounted for roughly a quarter of total bank assets at end-1998.

45. The first type of problem banks comprises institutions in serious financial difficulties whose closure was judged by the CNB to pose a systemic risk. This was the case of Croatia Banka, the twelfth largest bank in the country, which, early in the year, had been found

¹⁵ Dubrovačka Banka had belonged to the former state network of regional banks. It was privatized in 1994 when a large portion of its shares was sold to an entrepreneur attempting to consolidate a strong position in the Dalmatian region and its hotel industry.

¹⁶ Dubrovačka Banka thus became the fourth bank out of the top five to be undergoing rehabilitation. Previous rehabilitation procedures, however, had been limited to state-owned banks.

¹⁷ Although off-site data had already indicated the weakness of most of the selected banks, incorrect asset classification had been a source of concern for the supervisory authority. See Croatian National Bank, "Banks at the Crossroads", 1997.

¹⁸ The temporary administrator controls the banks' assets and has the task of developing, and recommending to the CNB, a strategy for the solution of a bank's problems. The new legislation also increased minimum initial capital requirements, raised the minimum capital-adequacy ratio to ten percent, decreased maximum exposure limits to single clients and lowered the threshold for lending to connected parties expanding and clarifying its definition. The category of savings banks was abolished and all savings banks are required to meet the criteria for commercial banks by end-2001.

insolvent by an on-site examination. Fearing the systemic consequences of a permanent closure of the bank,¹⁹ the CNB appointed a temporary administrator in February 1999, and provided continuous liquidity support. Following CNB recommendations, the government took the decision on September 23 to rehabilitate the bank and announced plans to issue some HrK 550 million in government bonds for its recapitalization.

46. The second type of problem banks accounted for 8 percent of total banking assets at end-1998 and comprised fourteen commercial and savings banks thought to be insolvent. Using the powers of the new banking law, the CNB appointed temporary administrators for all of these banks. By December 1999, bankruptcy proceedings had been initiated for eleven banks²⁰ and the temporary administrators of the three remaining banks²¹ had been instructed to take a number of measures aimed at enhancing the collection of their claims, reducing their operating costs, and increasing the prospects for a merger with a sound financial institution.

47. Finally, the CNB has taken preventive action concerning weaker, but still solvent, small banks. Supervisory agreements were negotiated and an enhanced supervision regime was instituted. By November 1999, all banks concerned were implementing the remedial actions mandated by the CNB in spite of the difficult macroeconomic environment.

48. The CNB strategy for the resolution of banking sector problems envisages the direct outlay of public funds only in certain cases, namely when recapitalizing systemically important banks, when providing incentives for a merger with a sound institution, when paying out insured deposits in bankrupt institutions, and when redeeming, in cash and on demand from the CNB, any government security used as collateral for central bank liquidity lending to failed banks.²² During 1998-99, total cash injections amounted to HrK 1.8 billion (1.3 percent of 1999 GDP), while government debt issues for bank resolution totaled HrK 2.7 billion (1.9 percent of 1999 GDP).²³

¹⁹ The bank was closed for a few days in February 1999.

²⁰ These were: Ilirija, Glumina, Gradska, Komercijalna, Županjska, Gradjanska Štedionica, Neretvanska Gospodarska, Invest Štedionica, Štedionica Gold, Štedionica Mediteran, and Trovačko-Turističa.

²¹ Agro-Obrtnička, Promdei, and Hrvatska Gospodarska Banka.

²² Government securities are currently the only form of collateral allowed for liquidity lending. In the past, however, other assets could also be used. In the case of Glumina Banka, for instance, household loans constituted the collateral. Following the bank's bankruptcy, therefore, the CNB made specific provisions of HrK 290 million for 1999.

²³ During 1999, cash injections amounted to HrK 1.2 billion and debt issues totaled HrK 2.1 billion.

Preliminary assessment and remaining policy agenda

49. The approval of a new banking law and the set of measures taken thereafter by the CNB responded to both short- and long-term concerns. Setting in motion the resolution of weaker banks' problems and restoring public confidence were the more urgent immediate goals while preventing the emergence of new problems and ensuring the sustainable development of the local banking sector constituted more long-term objectives.

50. By November 1999, the CNB had achieved most of its more immediate goals although the difficult macroeconomic environment and the multiplicity of claims on strained budget resources constituted a source of concern. Against the background of strengthening confidence, the demand for base money had recovered, growing by 6 percent in the year to November. By end-October, the local currency share of broad money had climbed back to nearly 35 percent and CNB net usable reserves had risen to 139 percent of base money by end-November.

51. Nonfailed banks, meanwhile, adopted a more prudent lending policy. Their nominal stock of loans contracted slightly during the third quarter of 1999 and credit to other domestic sectors grew by only 3.2 percent by September 1999 relative to end-1998. Still, banks' financial indicators provide some tentative evidence of a strengthening in banks' balance sheets compared to 1998. During that year, the banking sector recorded its first loss on an aggregate basis since 1993.²⁴ This was largely due to increased provisioning for bad loans²⁵ as the reported quality of banks' loan portfolios deteriorated (Table 13). In the first quarter of 1999, however, nonfailed banks reported a drop in the share of nonperforming risk assets and off-balance sheet items. The largest banks also seem to be recovering. Over the first six months of the year, the second largest institution reported record profits, albeit from a low base, while the largest bank continued to make significant provisions thanks to a sustained growth in gross profits.

52. Finally, the direct vulnerability of the banking sector to exchange rate movements has diminished but indirect exposure remains substantial. At end-1997, the banking sector as a whole held a significant short position in foreign exchange. By the third quarter of 1999, however, this net short position was eliminated and all the largest banks were long in foreign exchange.²⁶ The underlying portfolio adjustment²⁷ contributed to the pressures on the foreign

²⁴ Total losses amounted to some HrK 1.9 billion but one bank accounted for more than half of this sum while 43 banks showed positive net profits.

²⁵ In 1998, provisioning for identified losses grew by more than fifty percent and accounted for 30 percent of banks' total costs, as opposed to 11 percent in 1997.

²⁶ These included the banks undergoing rehabilitation which, however, adjusted their portfolios later than the rest of the banking sector.

²⁷ Estimated to average between 30 and 35 percent of banks' total capital.

exchange market but eliminated banks' direct exposure to additional kuna depreciation. However, indirect exposure remained substantial since more than sixty percent of all loans to the private sector are either indexed to or denominated in foreign currency. To the extent that these borrowers are unhedged, banks remain vulnerable to exchange rate depreciation.²⁸

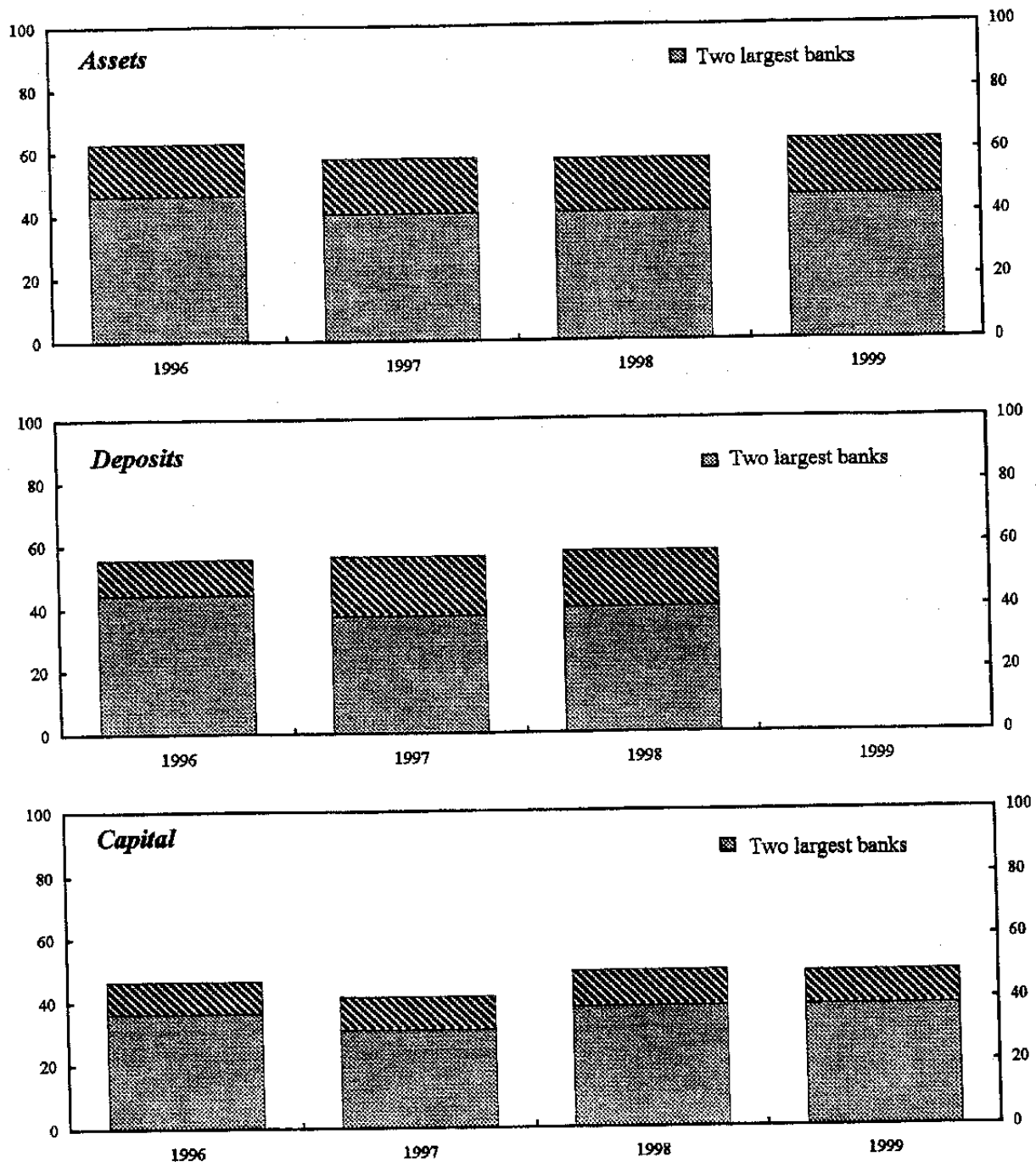
53. Fully implementing the CNB strategy towards problem banks requires achieving the prompt exit of insolvent banks, finding a solution for the systemically important banks, and taking effective preventive action. Fostering the market-driven development of the domestic banking sector, however, requires more than the resolution of current banking problems. In the medium term, there is a need to re-activate banks' lending role, ensuring a more efficient allocation of credit than in the past, and establishing incentives conducive to efficiency-enhancing investment.

54. With regard to the first medium-term objective, banks' reluctance to extend new loans could be due to several reasons, including the slower growth of loanable resources, the introduction of capital controls in early 1998, and the higher cost of borrowing on the international capital market. Moreover, in a depressed environment characterized by high interest rates and significant political and economic uncertainty, few projects are likely to offer the level of expected returns needed to obtain bank financing. Finally, banks are likely to adjust their balance sheets in a prudential response to previous excess lending and the associated decline in the quality of their assets. However, the expectations of stronger economic activity, diminished political uncertainty after the parliamentary and presidential elections in early 2000, and the completion of banks' prudential portfolio adjustments are likely to lead to a resumption in loan growth, especially if policy adjustment improves macroeconomic conditions.

55. As for the other medium-term objectives, it is still too early to make a definitive assessment. An increasingly efficient credit allocation should be achieved as the banking system adjusts to the tougher prudential requirements introduced by the new banking law and undergoes further structural changes. Despite recent bankruptcies and mergers and acquisitions, some of the remaining smaller banks will need to find a market niche or merge to achieve a viable size. The level of concentration continues to be high, with the two biggest banks still controlling 45 percent of total banking assets at end-June 1999 (Figure 5). State involvement in the larger banks remains significant and the spread between deposit and lending rates is still high (Figure 6). Nevertheless, the exit of the bankrupt institutions, the

²⁸ Fund staff estimates indicate that, in March 1999, a 10 percent devaluation would have depleted nearly twenty-six percent of banks' capital under the extreme hypothesis that the indexation clauses on all indexed kuna loans would become immediately and totally inoperable due to borrowers' inability to pay. Thanks to portfolio adjustments, however, the estimated cost of a ten percent devaluation under the same pessimistic assumption had fallen to twenty percent of banks' capital by September 1999. It should be noted that these calculations relate to the aggregate banking system.

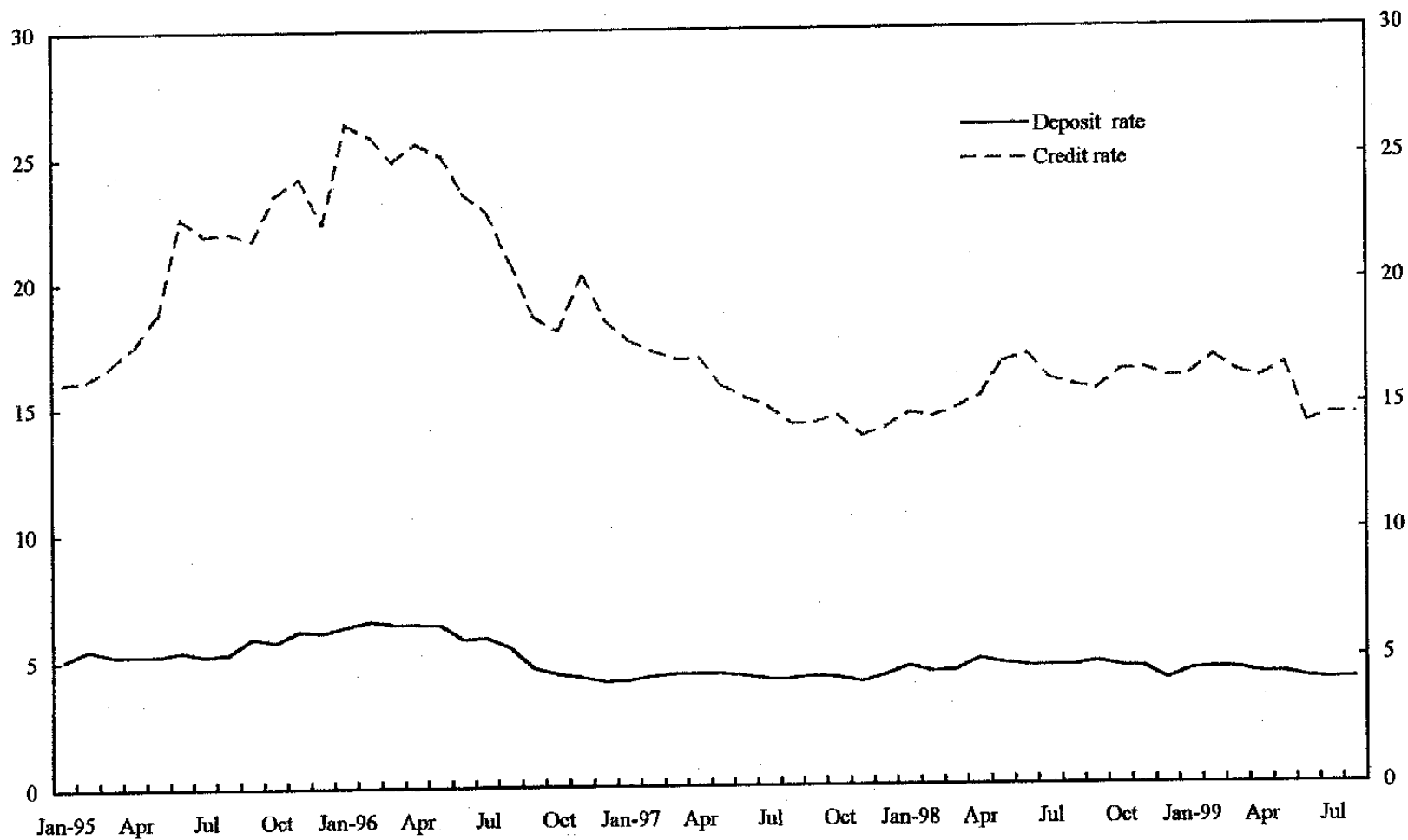
Figure 5. Croatia: Assets and Liabilities of Top Five Banks by Assets, 1996-99 1/
(In percent of banking sector total)



Source: Croatian National Bank .

1/ Data for 1999 refers to end-June where available.

Figure 6. Croatia: Interest Rates, 1995-99 1/



Source: Croatian National Bank.
1/ On Kuna-denominated loans and deposits.

more forceful implementation of an improved supervisory framework, and the increasing dynamism of foreign banks²⁹ have strengthened the prospects for the medium-term development of the banking sector.

56. The authorities could reinforce these trends by carrying out their commitment to phase out state ownership. Significant progress in this regard could be made in the near future given the advanced stage of the tenders for Privredna Banka, Riječka Banka, and Splitska Banka, which jointly account for more than 60 percent of all state-owned banks' assets.³⁰ If carried out, the sale of these institutions to foreign strategic investors would lead to a significant injection of fresh capital, management skills, and advanced technology.³¹

57. As competitive pressures increase, strengthening the procedures for orderly market exit and restructuring will remain a key priority. Further bankruptcies of smaller banks cannot be excluded. If properly managed, however, such institutions' failure would not undermine depositors' confidence. Takeovers of weaker banks by stronger ones is another market-driven solution and could be granted limited government support as long as a merger clearly constitutes the least-cost alternative for the state budget. Finally, a long-term solution for the excessive regional exposure of some local banks is being sought. Since forcing the exit of these banks has proven to be politically difficult, the entry of new banks in regional markets as well as mergers between banks that operate in areas with different economic features could offer a solution.

58. In order to ensure a smooth consolidation process, the authorities plan to improve the quality of coordination between key institutional players, such as the BRA, the Ministry of Finance, the CNB, and the commercial courts administering the bankruptcy cases. They also intend to abide by their commitment to settle the deposit insurance obligations arising from failed banks as promptly as possible, keeping delayed disbursements to the minimum required by the availability of funds and avoiding reliance on the issuance of illiquid government securities for payment. Finally, a reform of the deposit insurance scheme is currently under preparation.³² This could help to reduce central budget contingent liabilities

²⁹ These are recording faster-than-average growth, and three small domestic banks have been acquired by foreign institutions in late 1999.

³⁰ As noted in paragraph 2, the government accepted on December 17 an offer from Banca Commerciale Italiana to buy 66.3 percent of Privredna Banka.

³¹ As shown in the case of Žagrebacka Banka and Privredna Banka, short of privatization itself, twinning arrangements with foreign banks can facilitate the upgrading of local management and technological skills.

³² The first specific depositor protection scheme was introduced in the By-Law on Deposit Insurance of June 1997. After the modifications introduced by a decree of the Ministry of Finance in July 1998, the scheme currently insures household savings deposits up to HrK 100,000 per individual and bank. Balances in excess of this level as well as balances on checking accounts, giro accounts, and deposits of high-level staff in the bank are not covered.

(continued...)

in two ways. First, the vulnerability of the current regime to currency movements can be limited by allowing the BRA to invest an appropriate share of its funds in the foreign currency to which insured deposits are indexed.³³ Second, changes in the way deposit insurance is financed could decrease moral hazard.³⁴ Differentiating the cost of deposit insurance on the basis of banks' financial soundness, for instance, would discourage them from increasing the riskiness of their assets to improve net income. Similarly, basing insurance premia on relative deposit interest rates would discourage unsound banks from offering higher interest rates to attract deposits.

59. The authorities' remaining policy agenda includes some additional items. First of all, the CNB plans to lower reserve requirements to the extent permitted by its exchange rate objective. Banks are currently required to hold a high level of kuna reserves remunerated at below-market rates.³⁵ To alleviate the resulting burden on banks, reserve remuneration could be raised to near market rates and kuna requirements reduced as macroeconomic conditions allowed.³⁶ Second, the next stages of the reform of the payment system will be implemented, making the clearing house for interbank payments fully operational and phasing out ZAP, the payment agency through which all local currency payments and receipts between legal persons and between legal and physical persons are currently cleared.³⁷ Finally, the authorities plan to continue upgrading the regulatory and legal framework by making the adjustments warranted by experience, ensuring proper enforcement, and improving the quality of underlying statistical indicators. Having introduced a new banking law, the authorities now intend to draft a revised central bank law. To continue improving the

Since the commitments and liabilities of the BRA are guaranteed by the state, any shortfall in the funds needed for the payout of insured deposits would eventually be covered through taxation or general government borrowing.

³³ The BRA is legally forbidden from investing in foreign assets. A depreciation increases its contingent liabilities because a large share of insured deposits is denominated in foreign currency but would be repaid in local currency.

³⁴ Currently, banks finance deposit insurance by paying quarterly contributions to the BRA amounting to 0.2 percent of insured deposits. The price of insurance, therefore, is independent of the soundness of banks' balance sheets.

³⁵ In November 1999, the yield on statutory reserve deposits was 5.9 percent while the yield on one-month CNB bills was 10.5 percent. At 30.5 percent, the level of kuna reserve requirements is high by international standards. Since the beginning of 1999, however, all obligatory reserves have been remunerated with the exception of reserves held as cash-in-vault.

³⁶ Reliance on open market operations could be increased in parallel.

³⁷ The existence of ZAP, an institution separate from the central bank, is an historical legacy of the payment system in the former SFRY.

monitoring of banks' financial conditions, the authorities also plan to adopt the regulation for on-site supervisory inspections, implement their plan for the institutional development of the CNB supervision department, and develop an "early warning" system of indicators based on the recently introduced system for unified reporting of prudential and analytical data.

C. Other Financial Markets

60. Commercial banks are by far the most important players in the Croatian financial system. If money and capital markets were broadened and deepened *pari passu* with the development of banks, the pricing and supply of financial services would be improved greatly. For the time being, however, the nonbanking segment remains relatively small. The insurance sector is underdeveloped, although expanding rapidly. The money market discharges its role reasonably well but is highly segmented. The capital market is still in its infancy, with little demand for a scarcely diversified portfolio of financial instruments, very thin secondary markets, and a largely untested regulatory regime. This section analyzes each of these markets in turn.

The insurance market

61. The insurance sector has been expanding at a rapid pace since 1991. Annual growth rates, in fact, have averaged around 10 percent, with the life insurance segment growing even faster as the public readily caught on to a previously nonexistent product.³⁸ At the end of 1998, 24 insurance companies operated in Croatia: four were majority-owned by foreigners and only two, Croatia Osiguranje (CO) and its subsidiary Croatia Lloyd (a reinsurance company), were state-owned. These two companies, however, dominate both the insurance and the reinsurance sector. CO accounted for more than 60 percent of total insurance premia at end-1998 and Croatia Lloyd was the sole national provider of reinsurance services. In spite of these companies' dominant position, however, competitive conditions are relatively good. Foreign-owned companies incorporated in Croatia are able to compete on a level playing field and the above-average growth of CO competitors has caused a decline in its market share. The market, however, is still very concentrated, with no insurance company other than CO holding a market share above 5 percent.

62. Due to two parallel developments, further restructuring and increased foreign participation are likely in the near future. First, both CO and its reinsurance subsidiary are close to being privatized.³⁹ Preparations for sale are advanced and a deal is expected in the first half of 2000. Second, a new insurance act providing for further liberalization and stricter supervisory requirements is close to parliamentary approval. The draft act envisages allowing foreign companies to open branches outside Zagreb, thus further increasing competitive pressures; introducing higher minimum capital requirements to strengthen balance sheets;

³⁸ It is estimated that roughly 5 percent of the population now holds life-insurance policies.

³⁹ The state, however, will retain a blocking minority stake in view of the high market share of each of the two companies.

and forbidding insurance companies to lend to other companies while allowing them to invest in foreign assets, thus compelling insurance companies to focus on their core business while granting them access to a more diversified supply of long-term assets. Once approved, the new legislation is likely to trigger a process of consolidation. Since this would significantly test the existing regulatory framework for the first time,⁴⁰ the government is planning to strengthen the supervisory agency by increasing and training its staff.

The money market

63. The Croatian money market has developed impressively although significant limitations persist. The Zagreb Money Market (ZMM) was set up in 1990 as an independent joint-stock company⁴¹ operating under the Money and Capital Market Law and its own Articles of Association. During the day, the ZMM acts as a broker for interbank transactions, charging a fee for every deal. The market is, however, thin and information is limited, leading to a relatively high dispersion of interest rates. At the end of the business day (i.e., at noon), the ZMM calculates a weighted average money market rate that is reported to the CNB and becomes the starting rate on the next working day.

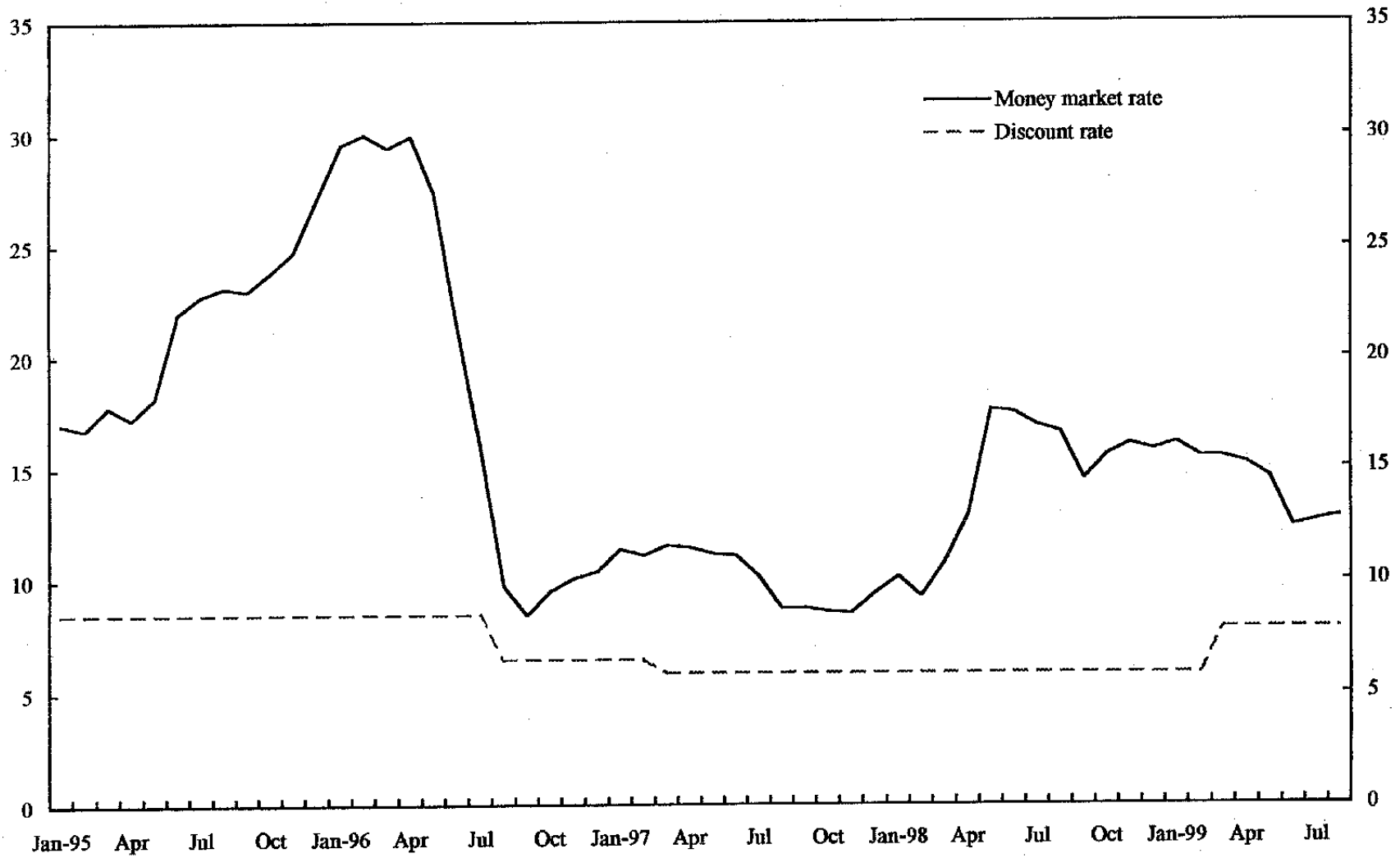
64. Market thinness is heightened by the reluctance of the financially stronger banks to deal with the weaker ones, even in the presence of a sufficient amount of collateral. As a result, resource-surplus banks prefer to hold excess reserves with the CNB or to lend funds on the so-called bilateral interbank market. This is a separate segment of the money market instituted by the stronger banks through direct bilateral contacts that bypass the ZMM altogether.⁴² Given the different nature of market participants, interest rates on the bilateral interbank market are typically lower than those on the ZMM segment. As the banking crisis unfolded in mid-1998, a number of banks withdrew from the ZMM, causing rates to rise from 11 to 18 percent (Figure 7) and heightening the liquidity problems faced by the weaker banks. After the exit of the bankrupt banks in April 1999, rates on the ZMM fell, but were still reported to be some 1.5 percentage points higher than rates on the bilateral market in November 1999.

⁴⁰ The system, in fact, has been largely untested so far. For the time being, however, the supervision and regulation exercised by the Ministry of Finance appear adequate in ensuring the soundness of the Croatian insurance companies.

⁴¹ It was then owned by 27 banks and 2 insurance companies.

⁴² In addition to the two segments of the daily market, the ZMM operates an overnight market after the closing hours of the payment agency, ZAP. The ZMM is the sole broker that has access to information about banks' end-of-day reserve positions and has the authority to transfer the balances of banks in surplus to banks with a negative net position. Overnight loans are collateralized by borrowing banks' required reserves. Since July 1998, the overnight rate is set equal to the average day rate.

Figure 7. Croatia: Money Market and Discount Rates, 1995-99



Source: Croatian National Bank.

65. The segmented nature of the money market in Croatia has several implications:
- As there is no single interest rate indicating prevailing monetary conditions, assessing and implementing monetary policy is particularly difficult.
 - There is an over-reliance on the CNB as a lender of *first* resort: roughly half of total liquidity borrowing by commercial banks is provided by the central bank. To reduce the excessive use of CNB liquidity facilities, the differential between the CNB's lending rates and the interbank market rates could be increased.
 - Overnight transactions on the ZMM money market are predominantly among weaker banks.
66. Two ongoing developments are likely to reduce market segmentation. First, the resolution of the current banking problems and the gradual strengthening of banks will weaken its underlying causes. Second, the reform of the interbank payment system being implemented should improve the information banks can rely upon for managing their intraday liquidity and reduce transaction costs. Further improvements could also be achieved by abolishing the monopoly position enjoyed by the ZMM in brokering transactions. The presence of several brokers would generate more information and allow a more efficient determination of the interbank interest rate.

The equity market

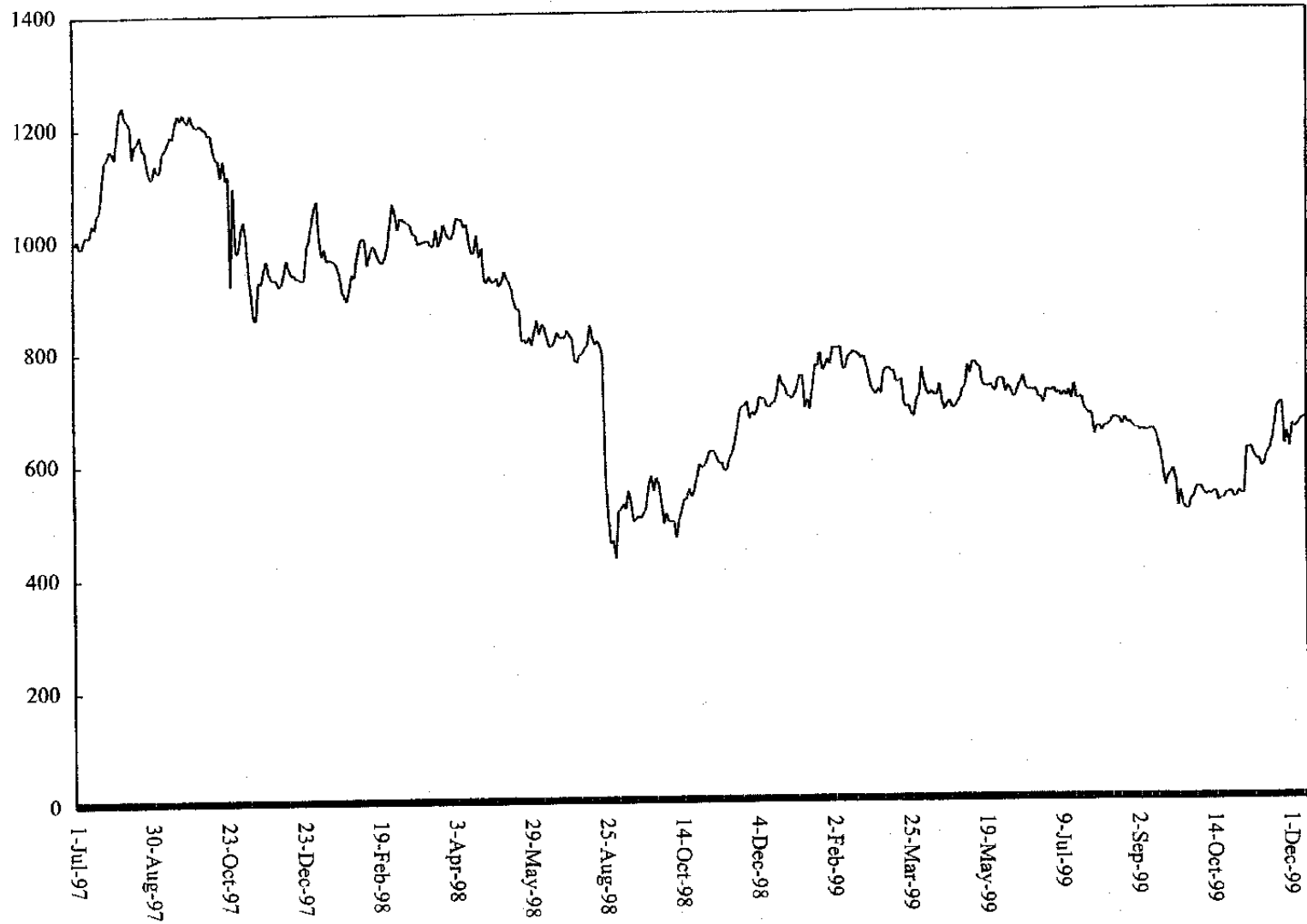
67. The equity market in Croatia is quite rudimentary. In 1999, only six companies were listed on the official market, and 56 on the OTC market.⁴³ Market development was stunted by the worsening domestic macroeconomic environment and by the weakening of international investors' sentiment towards emerging markets. As a result, share prices declined sharply and the CROBEX index nearly halved between end-1997 and November 1999 (Figure 8). In the first nine months of 1999, average daily turnover dropped from HrK 10.4 million in 1997 to HrK 2.4 million and the average number of daily trades fell from 96 to 36.

68. Even if short-term factors account for much of the current slump, the key problems facing the equity market are of a long-term nature. On the supply side, there is no incentive for closely held, private limited companies to be publicly traded. On the demand side, the share-holding habit has not yet developed, even in the presence of a favorable tax regime,⁴⁴ largely because the process of privatization failed to play a catalytic role. This function, however, could be assumed by the reform of the pension system, which will lead to an increase in the demand of local institutional investors for domestic shares and bonds.

⁴³ These data refer to the Zagreb Stock Exchange but an important regional OTC market also exists in the city of Varaždin.

⁴⁴ There is no stamp duty and no tax on capital gains or dividends.

Figure 8. Croatia: Crobex Index, 1997-99



Source: Zagreb Stock Exchange.

69. The establishment of the institutional infrastructure and regulatory framework is well advanced. There is, however, room for further improvement. The lack of reliable financial information on companies, for instance, is a major obstacle to the public trading of shares. Accordingly, the Ministry of Finance should consider re-examining the Company Law with a view to strengthening the relevant provisions (auditing standards, information disclosure, and the like). Also, the imminent creation of a central depository agency for registering share transfers will reduce the costs of transactions⁴⁵ and make them more secure thanks to the establishment of a guarantee fund against default risk. The legal authority of the market regulatory body⁴⁶ has recently been strengthened, along with its capacity to monitor transactions and impose sizable penalties for improper market behavior. However, the Securities Law does not provide sufficient safeguards to prevent outside auditors from approving inaccurate company financial statements. To this end, the law could be amended, for instance by authorizing CROSEC to impose fines proportional to the losses incurred as a result of audited balance sheets.

The government securities market

70. The fixed-income securities market has been expanding but does not yet constitute a significant source of financing for the government and the enterprise sector. The main instruments traded are central government Treasury bills and CNB bills.⁴⁷ Market participation is mainly limited to banks and, to a smaller extent, insurance companies. Contrary to earlier practice, auctions now take place on a regular schedule and bills' maturities are not changed frequently. These developments have helped the market grow but secondary trading remains very limited and liquidity is only ensured by the transactions between banks and the CNB. A stronger secondary market, however, may emerge as a result of the imminent establishment of the central depository agency and the reform of the payment system.⁴⁸

D. Conclusions

71. The development of the Croatian financial sector has faced many of the difficulties experienced by other transition countries. Recent troubles have exacted a significant

⁴⁵ A standardized procedure for recording the net positions of buyers and sellers will substitute the current arrangement which requires the transfer of shares through manual trade-for-trade entries between counterparty brokers. This is a cumbersome procedure which does not always guarantee the timely settlement of transactions.

⁴⁶ The Croatian Securities and Exchange Commission (CROSEC).

⁴⁷ Both can be denominated in either domestic or foreign currencies. The amount of other traded government paper is not large.

⁴⁸ In this context, the recent introduction of a real-time gross settlement system is a particularly positive factor.

macroeconomic price but the strategy implemented by the CNB since the approval of the new banking law promises the early resolution of the more immediate problems. A strengthened regulatory environment and the growing presence of foreign investors are further promising developments. However, some of the weaknesses which contributed to the recent problems are still present. To enhance the prospects for an orderly long-term development of the banking sector, the authorities intend to advance structural reforms. Sector-specific measures, however, are not enough since healthy banking sector development depends on sustainable growth in the rest of the economy. Thus, a more balanced macroeconomic policy mix is needed along with the re-launching of reforms in the real sector. Although banks dominate the Croatian financial sector, the development of other financial markets should not be allowed to lag behind. To this end, appropriate supervision needs to be provided and competitive conditions ensured.

Table 11. Croatia: Banking System by Ownership, 1996-99

(End period; percentage of total)

	1996	1997	1998	1999 1/
Assets				
State banks	39.5	32.7	37.0	40.8
Private banks	60.5	67.3	63.0	59.2
Significant public stake 2/	38.9	9.2	6.1	6.0
Minor public participation	17.1	47.3	38.4	38.5
Majority foreign-owned	1.0	4.0	6.7	8.9
Other	3.6	6.8	11.9	5.7
Total	100	100	100	100
Deposits				
State banks	35.3	29.9	35.3	...
Private banks	64.7	70.1	64.7	...
Significant public stake 2/	42.2	8.9	5.4	...
Minor public participation	19.2	50.6	42.4	...
Majority foreign-owned	0.7	3.6	4.8	...
Other	2.7	7.0	12.0	...
Total	100	100	100	...
Regulatory capital				
State banks	31.4	26.3	36.4	36.0
Private banks	68.6	73.7	63.6	64.0
Significant public stake 2/	35.9	10.1	9.2	8.4
Minor public participation	19.1	43.5	33.9	34.7
Majority foreign-owned	3.2	7.7	13.8	15.3
Other	10.5	12.4	6.7	5.6
Total	100	100	100	100

Source: Croatian National Bank.

1/ End-June.

2/ Public shareholding exceeding 20 percent.

Table 12. Croatia: Banking Sector Assets and Liabilities, 1994-99

(End of period, percent of GDP)

	1994	1995	1996	1997	1998				1999		
					Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Total banking sector assets	62.5	63.7	62.5	68.9	64.0	65.7	67.3	67.4	67.4	63.3	66.6
Deposits	16.9	21.5	29.8	36.6	34.0	35.1	37.0	37.2	36.2	33.5	34.7
<i>Of which</i> : Foreign currency	10.0	14.3	20.2	25.3	24.2	25.3	26.8	27.4	27.6	24.6	25.3
Loans	26.3	28.7	27.9	36.6	35.5	37.8	39.2	40.8	40.1	36.1	38.7
<i>Of which</i> : To enterprises	21.2	22.9	21.4	25.3	24.0	25.1	25.6	26.5	25.7	21.7	23.7
To households	4.0	4.8	6.1	10.3	10.3	11.3	12.2	12.8	13.0	12.7	13.3
Memorandum items:											
GDP (HrK million)	87,441	98,382	107,981	123,811	138,392	138,392	138,392	138,392	142,005	142,005	142,005
Year-on-year inflation rate	-3.0	3.7	3.5	3.8	5.7	5.8	5.8	5.4	3.6	3.8	5.1
Loans-over-deposit ratio	1.55	1.34	0.94	1.00	1.04	1.08	1.06	1.10	1.11	1.08	1.11

Source: Croatian National Bank.

Table 13. Croatia: Quality of Banks' Loan Portfolio, 1994-98
(In percent, end of period)

	1994	1995	1996	1997	1998
Risk classification					
A	87.3	86.8	88.7	89.0	84.2
B	3.8	5.6	4.1	5.3	5.3
C	4.2	4.2	4.2	3.1	4.2
D	2.8	1.8	1.7	0.9	1.9
E	1.9	1.6	1.3	1.7	4.4
Total	100	100	100	100	100
<i>Of which: Nonperforming loans</i> (Categories C-E)	8.9	7.6	7.2	5.7	10.5

Source: Croatian National Bank.,

III. EXTERNAL VULNERABILITY ANALYSIS¹

A. Introduction

72. Croatia's macroeconomic performance in the mid-1990s surpassed that of many other regional economies. During 1993–97, growth was robust, inflation remained subdued, the government deficit was contained, and the ratios of external debt to GDP and debt service to exports remained well below the average of other transition economies in Central and Eastern Europe. More recently, however, large current account deficits and the shift of their financing from nondebt creating flows to external borrowing have led to a sharp increase in the external debt ratios. In particular, the external debt to GDP ratio doubled between end-1995 and mid-1999.

73. This chapter attempts to assess the vulnerability of the Croatian economy to balance of payments and financial crisis. It looks in particular at a range of indicators on which attention has increasingly focused for emerging market economies since the Asian financial crisis, comparing the Croatian economy with comparable transition countries in Central and Eastern Europe. In addition, some indicators of market perception are also presented.

B. External Vulnerability Indicators

74. With the series of major economic shocks that have affected emerging market economies over the last five years, including the “tequila” crisis of late 1994, the Asian crisis that began in 1997, and the Russia crisis in 1998, attention has increasingly focused on how to assess the risk of liquidity crisis in these economies. Several studies looked at the extent to which the depth and incidence of crises reflect solvency related fundamentals, and whether and to what extent they reflect a lack of liquidity.² These studies tried to establish the relevance of key variables in providing early indications of currency crises.

75. Indicators that appeared to be particularly useful in that context include the current account deficit, export growth, the deviation of the real exchange rate from trend, the ratios of short-term debt and broad money to gross international reserves, and the change in reserves. The first three (current account deficit, export growth and deviations of the real exchange rate) are indicators of solvency: low current account deficits lead to lower needs for external borrowing, high export growth ensures that future debt service as a percent of external revenue is smaller for a given current account deficit, and changes in real exchange rates affect the future path of the current account deficit. The other three are liquidity indicators: the ratio of short-term debt (on a remaining maturity basis) to reserves indicates the ability of a country to service its debt falling due over the coming year if the country is

¹ Prepared by Joël Toujas-Bernaté. This chapter has benefited from inputs provided by Gary O'Callaghan.

² Such studies include Sachs, Tornell and Velasco (1996), Frankel and Rose (1996), Kaminsky, Lizondo and Reinhart (1998), and Bussière and Mulder (1999).

cut off from external financing, the ratio of broad money to reserves captures the potential for capital flight by residents, while the change in reserves is an indicator of the residual influences on the balance of payments.

76. IMF staff has developed an Early Warning System based on such a set of indicators meant to allow for a long-range alert of the external vulnerability of countries. Particular efforts have also been made to improve the analysis of liquidity issues *per se*, and in particular of the adequacy of international reserves. The traditional measure comparing reserves to imports does not provide an indication of the ability of reserves to buffer against capital market shocks. Thus, attention has shifted to the ratio of reserves to short-term debt, where short-term debt is defined on a remaining maturity basis. Empirical work suggests that this ratio is indeed a reasonably good predictor of the incidence and depth of crises, even if no single measure can capture all dimensions of vulnerability.

77. Attempts have been made to find simple benchmarks that a country should satisfy in order to minimize vulnerability. An appealing benchmark of “one” for the ratio of reserves to economy-wide short-term debt has received some empirical support. Bussière and Mulder (1999), for instance, found that a ratio of at least one, even with a modest current account deficit and a slightly appreciated exchange rate, would ensure that the risk of a crisis remains low. As another benchmark, it has been suggested that countries should manage their external assets and liabilities in such a way as to be able to live without foreign borrowing for up to one year. This so-called Guidotti rule would require countries to hold reserves not only to cover liabilities maturing within a year, but in addition reserves sufficient to cover one year’s current account deficit. A modified Guidotti rule, which has also received attention, consists of adding net FDI to the current account deficit.

78. In looking at measures of liquidity, an important issue is the exact definition of the concepts of reserves and short-term debt. In particular, all forward liabilities should be recognized as such, and debt with embedded put options should be taken to be payable on the earliest date when the creditor can demand repayment. Also, any part of the reserves pledged or used as collateral should be excluded from the concept of usable reserves, as such reserves prove not to be readily available in time of financial crisis.

C. External Vulnerability of Croatia

79. In the mid-1990s, following a successful stabilization program initiated at end-1993, the external position of the Croatian economy looked fairly robust (Table 14): the current account balance averaged a surplus of 1.2 percent of GDP in 1993–95; the real exchange rate had stabilized; the ratio of external debt, mostly inherited from the former Socialist Federal Republic of Yugoslavia (SFRY), to GDP was very low at about 20 percent; the international reserves position was relatively comfortable, with a ratio of short-term debt (on a remaining maturity basis) to official gross reserves of about one third in 1995 and net international reserves equivalent to more than 2 months of imports of goods and non-factor services. Only the very modest growth in exports and a strong expansion of bank credit to the private sector during the three preceding years suggested some caution.

80. In 1995–96, Croatia made rapid progress in normalizing its external relations by concluding debt rescheduling agreements with the Paris Club and the London Club. Reflecting Croatia's sound debt and reserve positions, and favorable external prospects, three credit agencies awarded Croatia an investment grade sovereign credit rating in early 1997, putting Croatia among other transition economies such as Poland and Hungary.³ This allowed Croatia to rapidly gain access to capital markets, and shift away from short-term inflows to medium- and long-term borrowing. In particular, Croatia issued three eurobonds of US\$300 million, DM 300 million and ATS 700 million, respectively, in 1997, and one eurobond (so-called "Matador" bond) of Ptas 15 billion in 1998.⁴

81. Much larger current account deficits in 1997 and 1998, reaching the equivalent of 11.6 percent and 7.1 percent of GDP, respectively, were largely financed through new external borrowing, thanks to the newly gained access to capital markets. This contributed to a substantial increase in the stock of external debt, which reached the equivalent of about 37 percent of GDP at end-1998, out of which public and publicly guaranteed debt was equivalent to about 20 percent of GDP.⁵ Thus, at end-1998, several indicators of solvency were showing signs of growing weakness: the current account deficit averaged 8.2 percent during the three preceding years; the external debt to GDP ratio nearly doubled—albeit from a low base—in 3 years; and the growth in exports remained very modest.

82. Regarding the indicators of liquidity position, net international reserves increased by about US\$900 million between end-1995 and end-1998, to reach the equivalent of 2.9 months of imports of goods and nonfactor services. While the stock of short-term debt (on a remaining maturity basis) increased somewhat during 1995–98, its ratio to gross reserves was still relatively low at about 37 percent at end-1998. The indicator based on the modified Guidotti rule, namely the ratio of short-term debt corrected for the current account deficit net of foreign direct investment to reserves, was less favorable at about 62 percent at end-1998, after decreasing from a peak of about 119 percent at end-1997. Finally, the ratio of broad money to reserves increased steadily between end-1995 and end-1998 from 2.4 to 3.2, with about two-thirds of broad money in the form of foreign currency deposits. This

³ Moody's, Standard & Poor's, and IBCA gave Croatia in January 1997 their lowest investment grade rating for long-term foreign currency bonds and higher ratings for short-term bonds (both in foreign currency and kuna). Uncertainties about the political process and the possible fiscal implications of restructuring demands were cited among the main reservations.

⁴ The Euro-dollar bond has a 5-year maturity and a 7 percent coupon (80 basis point over 5-year U.S. treasury bills at the time of issuance); the Euro-DM bond has a 7-year maturity and a 6.125 percent coupon (95 basis points over the German government benchmark bond at the time of issuance); the Euro-ATS bond has a 5-year maturity and a 5.625 percent coupon; and the "Matador" bond has a 3-year maturity and a 6.5 percent coupon.

⁵ At end-1998, external government debt was estimated to be equivalent to about 15 percent of GDP, and publicly guaranteed external debt to about 5 percent of GDP.

seemingly still comfortable, albeit weakening, external liquidity position should be seen, however, against the fact that part of the increase in official reserves reflected an increasing stock of foreign currency liabilities of the monetary authorities to residents. With the implementation of new regulations regarding reserve requirements on foreign currency deposits in the third quarter of 1998, domestic commercial banks began to accumulate reserve deposits in foreign exchange with the central bank from September 1998 through April 1999. The central bank also started issuing bills in foreign exchange in April 1998. The stock of these central bank foreign exchange liabilities amounted to about US\$500 million at end-1998 and US\$740 million in mid-1999.

83. A important worry from the standpoint of vulnerability in the last few years has been the emerging weakness in the banking sector. In 1998, a weak economy and a drying-up of repatriated foreign savings exposed the underlying insolvency of a rapidly growing group of private banks. The central bank had to intervene in an increasing number of banks, and public concerns about the soundness of the banking sector contributed to exchange market pressures in late 1998 and early 1999. At the same time, Croatian banks switched from a significant short position in foreign exchange at end-1997 to a long position by the third quarter of 1999. While it improved banks' direct exposure to currency depreciation, it also added to the pressures on the exchange rate during this period. Banks' indirect exposure to currency depreciation, however, likely remains substantial, given that an estimated 50 to 60 percent of banks' domestic assets are denominated in, or indexed to, foreign currency, of which a substantial proportion may be presumed to be uncovered by the borrowers.⁶

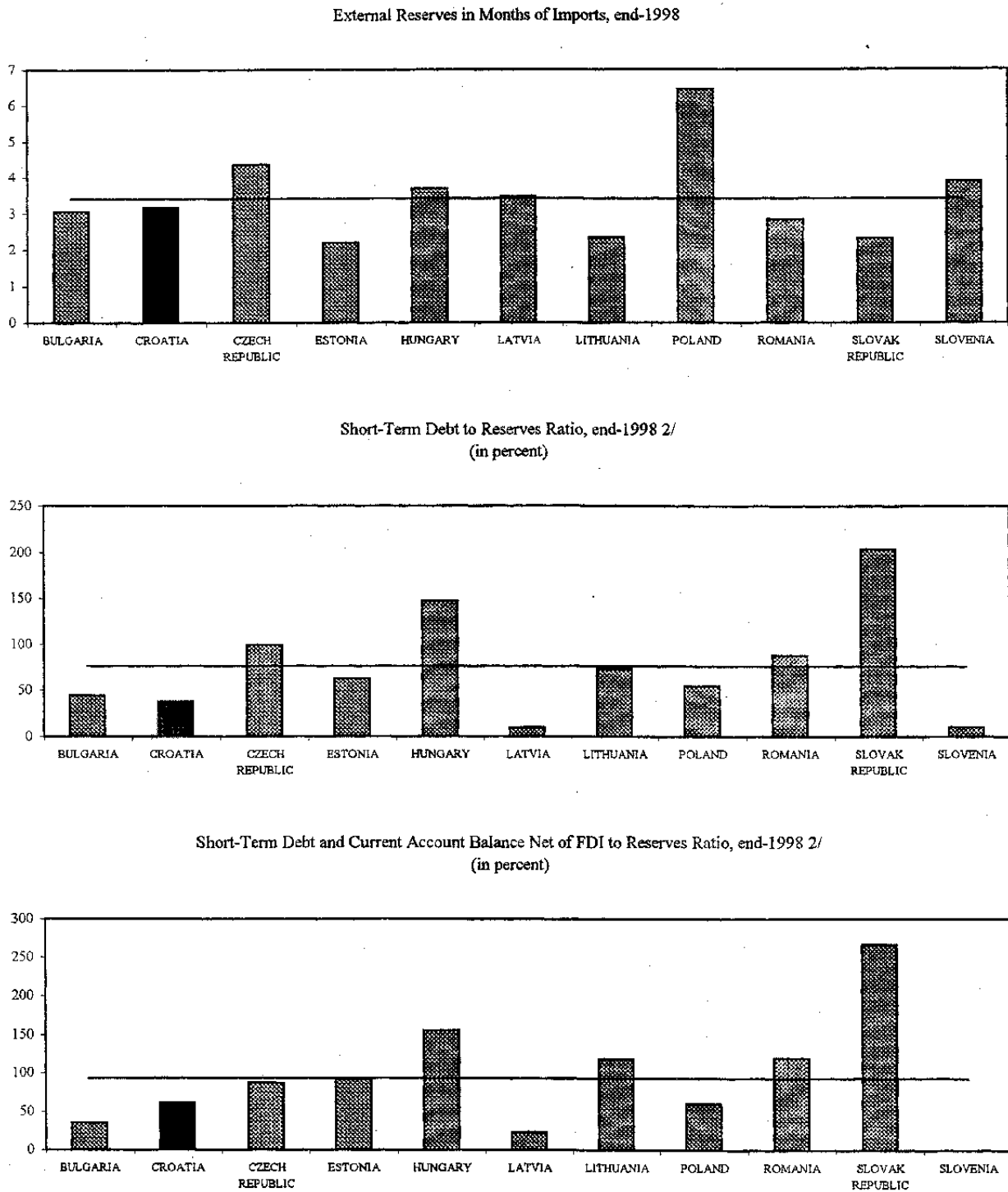
84. Comparing external vulnerability indicators for Croatia with those for other Central European economies confirms the view that, while the external liquidity position of Croatia still remains favorable, Croatia's position in terms of external solvency indicators is weaker. External vulnerability indicators at end-1998 were compiled for a sample of 10 other Central and Eastern European countries (see Figure 9).⁷ The ratios for Croatia of short-term debt and short-term debt corrected for the current account deficit net of FDI to reserves are in the median to lower range of the sample. The more traditional measure of reserves in months of imports shows Croatia's position at the average of the sample. Croatia is also one of the few countries in the sample, together with the Slovak Republic and Slovenia, not to have had an appreciation of its real exchange rate over the last four years.⁸ However, Croatia compares less favorably regarding the current account, growth in exports, stock of external debt and growth in banking sector credit to the private sector indicators, although it is never among the worst ranked countries of the sample.

⁶ See Chapter II for a detailed discussion of recent developments in the banking sector.

⁷ The sample includes Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.

⁸ The appreciation of the real exchange rate over the last four years for some other countries reached 40 to 80 percent. See also Chapter IV.

Figure 9. Croatia: External Vulnerability Indicators in a Regional Perspective 1/
Liquidity Indicators

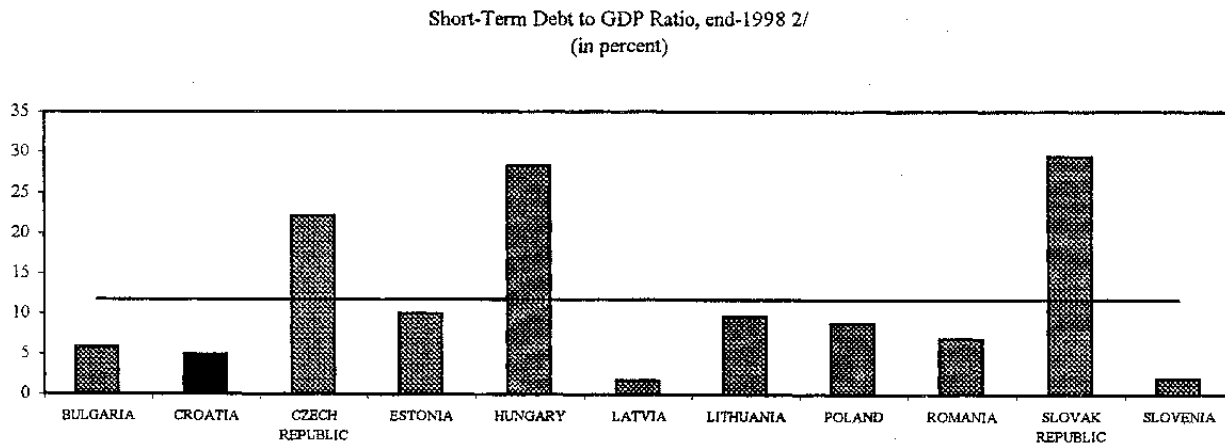
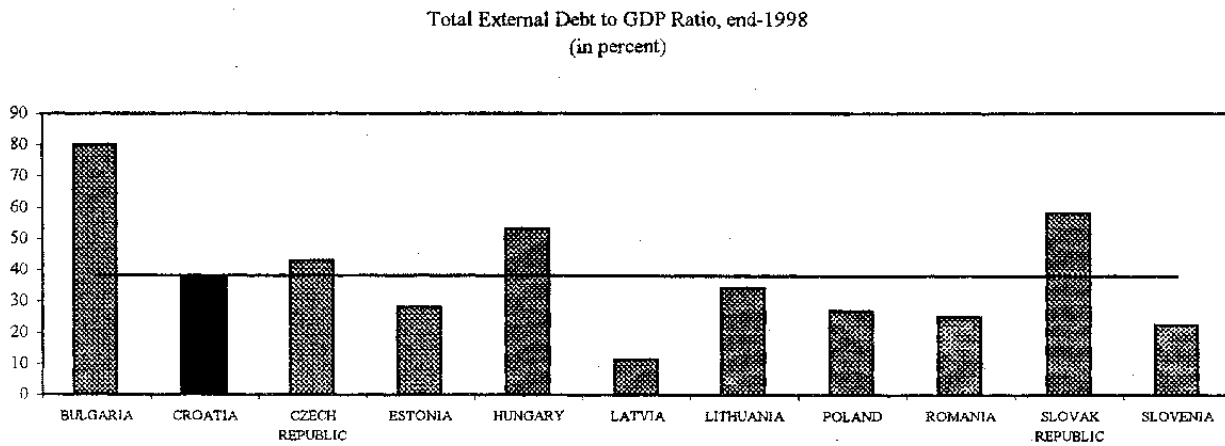
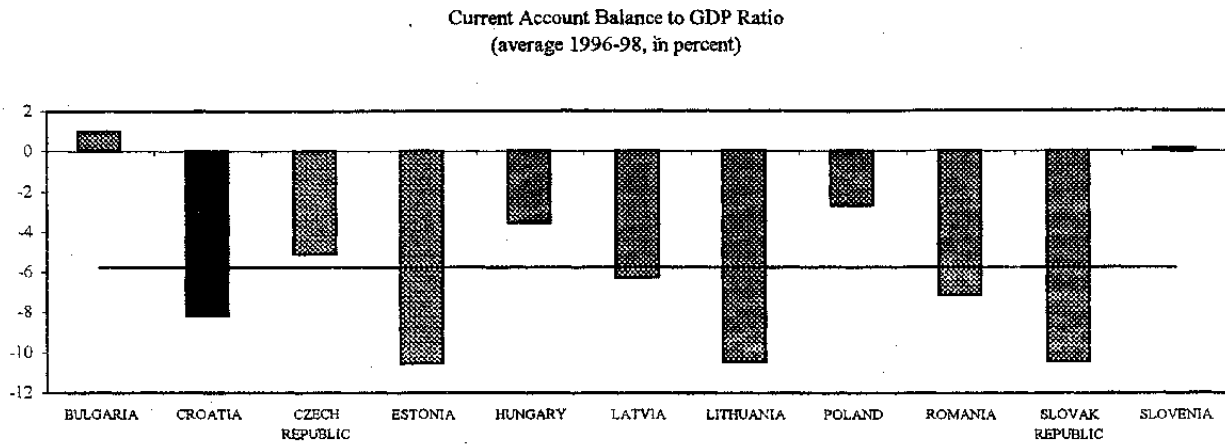


Sources: WEO database; and *International Financial Statistics*.

1/ In each chart, the average of the sample is represented by a line.

2/ Short-term debt is on a remaining maturity basis.

Figure 9 (continued). Croatia: External Vulnerability Indicators in a Regional Perspective 1/
Solvency Indicators

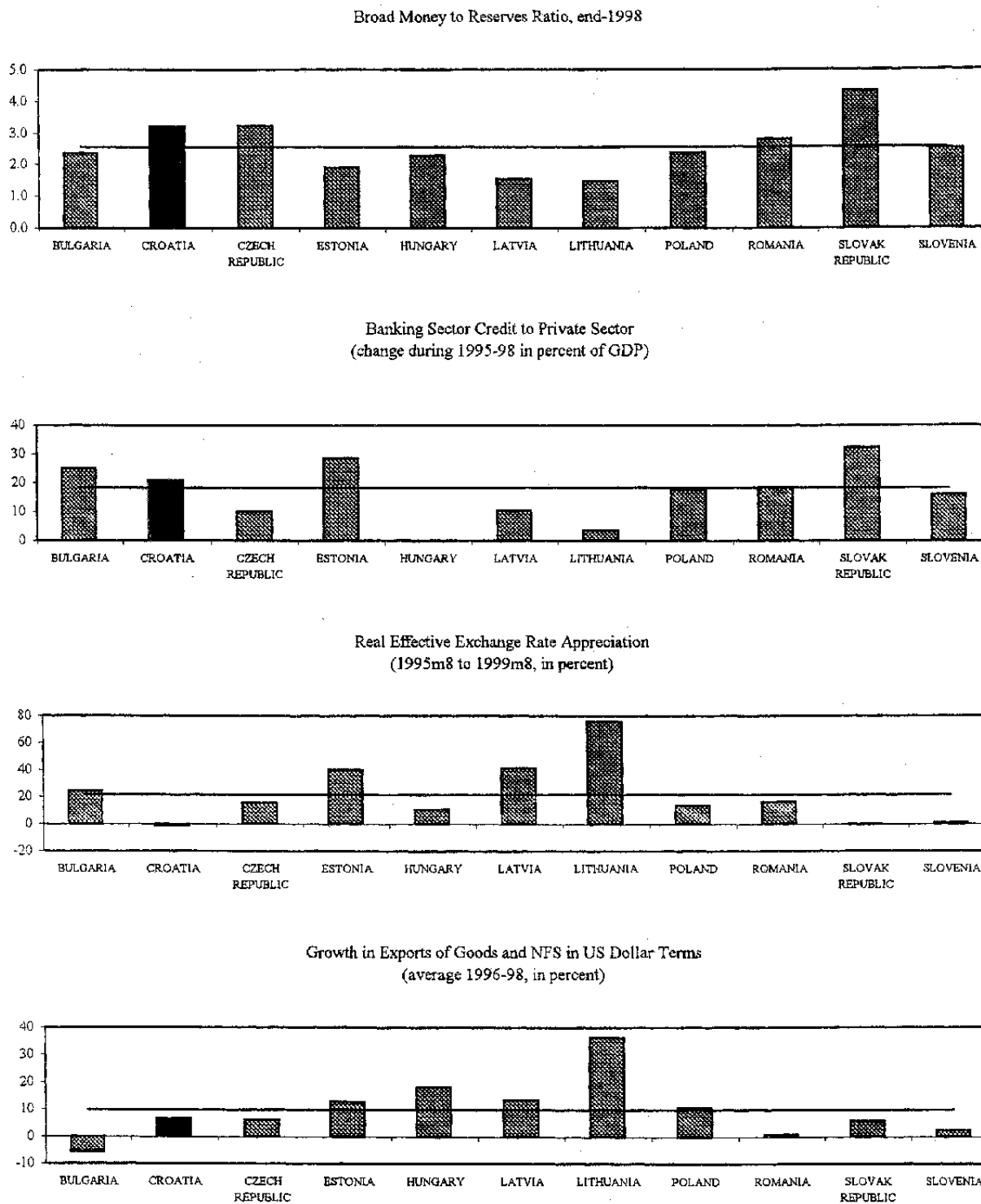


Sources: WEO database; and *International Financial Statistics*.

1/ In each chart, the average of the sample is represented by a line.

2/ Short-term debt is on a remaining maturity basis.

Figure 9 (concluded) Croatia: External Vulnerability Indicators in a Regional Perspective 1/
Solvency and Other Indicators



Sources: WEO database; *International Financial Statistics*; and Information Notice System.

1/ In each chart, the average of the sample is represented by a line.

D. Financial Markets' Perception

85. In the last few years, financial market participants have viewed Croatia with some concern. Following the Asian financial crisis, interest spreads on Croatia's foreign bonds increased by more than in other transition countries with a similar investment-grade credit rating. After initially trading at less than 100 basis points during the first half of 1997, the spread on Croatia's eurodollar bond, which was issued in February 1997 and will mature in 2002, reached about 300 basis points in January 1998 (Figure 10). In the wake of the Russian crisis, the spread increased markedly, reaching more than 600 basis points in October 1998. Since then, it has fluctuated within a range of 360–530 basis points, which is comparable to bonds in lower investment grade rating categories. Countries with similar credit rating to Croatia, such as Malaysia, South Korea or Thailand, currently carry yields that are about 350 basis points below that on Croatian bonds.

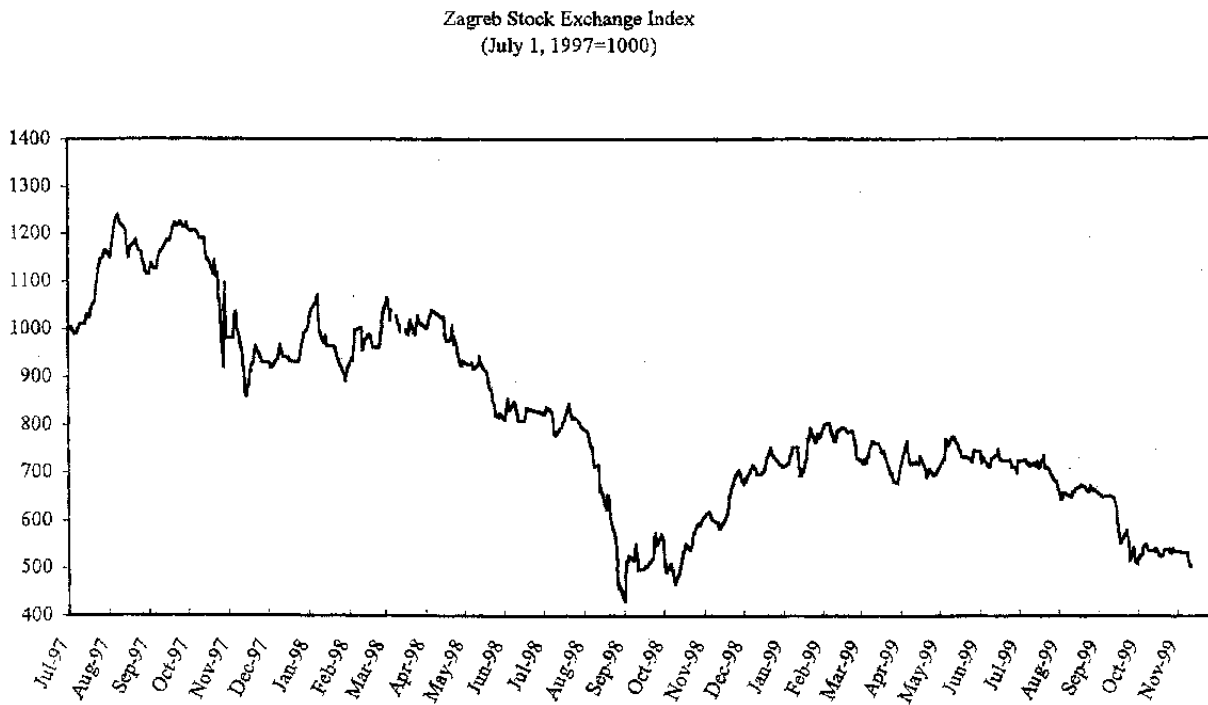
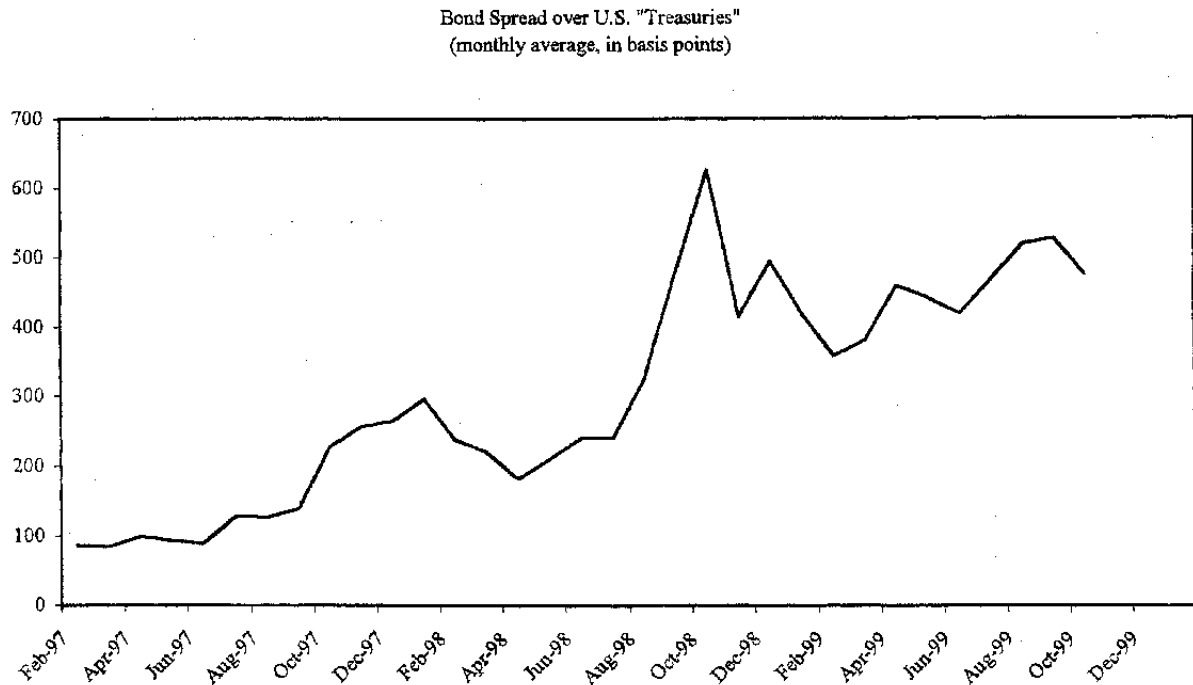
86. During 1999, three credit-rating agencies issued negative reviews. In April, Croatia lost its investment grade rating from IBCA. This was attributed to the increased fiscal deficit and heightened pressures on the current account and banks, in the context of a halt to economic growth and general regional uncertainty surrounding the Kosovo crisis. In June, Standard & Poor's and Moody's both switched from a stable outlook to a negative outlook on foreign currency debt, which was, however, reaffirmed at investment grade ratings. Standard & Poor's attributed the negative outlook to the increasingly uncertain domestic political environment, and severe adjustment problems in the banking and corporate sectors, in the context of tight monetary conditions and subdued economic activity. Moody's cited large upcoming amortization payments and a lack of competitiveness as chief sources of concern.

87. The negative reviews prompted many investment firms to switch to an "underweight" recommendation to their clients, generally citing a fear of increased fiscal and current account pressures in the year 2000, an uncertain domestic political climate, and anticipation of a possible future ratings' downgrade. On the other hand, some firms have seen the high yields on Croatian debt as offering a good investment opportunity.

88. Despite this relatively negative current perception, Croatia was able to issue its first samurai bond of ¥25 billion (about US\$250 million) in early December 1999. The amount was raised from ¥20 billion initially due to strong investor demand, mainly from small- to medium-sized banks and corporations in the Tokyo area. This bond received an investment grade rating of BBB- from Standard & Poor's, and carries a coupon of 4 percent.

89. Developments in the Zagreb stock exchange also reflected the concerns of financial market participants. The CROBEX index first fell by about 20 percent in October 1997 following the Asian financial crisis (see Figure 10). It then fell by about 50 percent between April and September 1998, following the Russian crisis, reaching an historic low on September 1, 1998, before recovering somewhat in late 1998 and early 1999. Again reflecting concerns regarding the situation of the banking and corporate sectors, as well as the uncertain political climate, the index fell by about 30 percent between mid-July and end-September 1999. Overall, the Zagreb Stock exchange index lost more than half of its value between August 1997 and end-September 1999.

Figure 10. Croatia: Financial Markets Indicators, 1997-99



Sources: Bloomberg; and Zagreb Stock Exchange.

E. Conclusions and Prospects

90. The external position of Croatia, which looked robust in the mid-1990s, has weakened in the last few years. In particular, several indicators of external solvency, including the current account deficit, the external debt to GDP ratio, and export growth, have shown signs of relative weakness, and do not compare favorably with some other Central and Eastern European countries. Croatia has been able, however, to maintain a comfortable external liquidity position, with international reserves more than covering the external short-term debt on a remaining maturity basis.

91. In a medium-term scenario prepared by the IMF staff, which is underpinned by a reinvigorating of structural reforms in the enterprise sector, a downsizing of the role of the government in the economy, and increased cooperation between Croatia and its trading partners, the current account deficit is expected to gradually decrease to about 3½ percent of GDP within 5 years, while net international reserves would be boosted to the equivalent of nearly 4 months of imports and the external debt to GDP ratio reduced to 33 percent (see Table below). Croatia would thus improve its external sustainability. However, reflecting large external debt repayments falling due in 2000-01, partly linked to bullet repayments of international bonds, the short-term debt to reserves ratios would worsen in the next two years before improving again thereafter. Gross usable reserves are nevertheless projected to fully cover the external short-term debt on a remaining maturity basis over the 5-year projection horizon.

Croatia: Medium-Term Scenario (In percent of GDP, unless otherwise indicated)						
	1999	2000	2001	2002	2003	2004
Current account balance	-6.5	-5.0	-4.5	-4.0	-3.8	-3.6
Net exports of goods and nonfactor services	-8.2	-7.2	-6.0	-5.5	-4.8	-4.1
External debt	39.0	36.5	35.2	33.9	33.8	33.1
Net international reserves 1/	3.1	3.2	3.2	3.2	3.5	3.8
Short-term debt in percent of gross usable reserves 2/	88.1	85.0	94.1	74.0	64.5	49.2
Current account deficit and short-term debt net of FDI in percent of gross usable reserves 2/	83.4	91.7	100.3	82.1	70.4	54.5
Sources: Fund staff estimates.						
1/ In months of imports of goods and nonfactor services						
2/ Short-term debt is on a remaining maturity basis.						

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Table 14. Croatia: Selected External Vulnerability Indicators, 1995-98
(In percent, unless otherwise indicated)

	1995	1996	1997	1998
Real Effective Exchange Rate Appreciation (cumulative over last 4 years)	...	40.3	-0.1	1.6
Total External Debt to GDP Ratio (year end)	20.8	23.2	31.9	37.1
Short-Term Debt to GDP Ratio (year end) 1/	3.2	4.7	5.8	4.9
Short-Term Debt to Reserves Ratio (year end) 1/	31.6	40.7	45.6	37.8
Short-Term Debt and Current Account Net of FDI to Reserves Ratio (year end)1/	102.8	67.2	118.7	61.5
Broad Money to Reserves Ratio (in units)	2.4	2.8	3.1	3.2
External Reserves in Months of Imports of Goods and Non-Factor Services	2.4	2.8	2.7	3.2
Current Account Balance to GDP Ratio (3-year average)	1.2	-2.6	-8.4	-8.2
Banking Sector Credit to Private Sector (3-year change in percent of GDP)	43.1	13.3	18.9	21.1
Growth in Exports of Goods and Nonfactor Services (3-year average)	0.6	8.2	4.9	6.6

Sources: WEO database; *International Financial Statistics*; and Information Notice System.

1/ Short-term debt is on a remaining maturity basis.

IV. SELECTED ASPECTS OF EXPORT PERFORMANCE, COMPETITIVENESS, AND TRADE POLICY¹

A. Introduction

92. Croatia had a relatively poor export performance over 1994–98, especially when compared with a sample of the Central and Eastern European countries (CEECs).² This chapter, after examining in more detail recent export performance, attempts to assess the extent to which Croatia's underperformance was due to a worsening in Croatia external competitiveness. It also explores the roles which could have been played by the trade regime and the trade relations between Croatia and its main partners. In the last section, recent progress towards WTO accession is described.

B. Recent Export Performance

93. In response to the collapse of the Soviet Union and the Council of Mutual Economic Assistance, the CEECs undertook profound reforms of their trade and exchange regimes. The benefits of this reform process have begun to be felt in many CEECs. Table 15 presents some export performance indicators of a sample of CEECs, including Croatia, during 1994–98. On average for the sample, both exports of goods and of goods and nonfactor services increased by more than 70 percent in U.S. dollar terms over the period. Some countries, including Estonia, Hungary, and Latvia experienced cumulative growth of above 100 percent. As a result, the share of exports of goods and nonfactor services in GDP increased by about 3 percentage points on average. In particular in Hungary, this share more than doubled from a relatively low base.

94. Most of these positive export developments in the CEECs have come from a reorientation of trade toward the EU. On average, exports from the sample of CEECs to the EU increased by more than 15 percent per year during 1994–98, with Estonia, Hungary and the Slovak Republic experiencing annual growth rates in excess of 20 percent. These impressive growth rates led to increases in the market shares of the CEECs in total EU imports from outside the EU by 25 percent on average over the period. As a result, the EU became the increasingly dominant destination of exports for the CEECs.

95. By contrast, Croatia's export developments indicate that Croatia failed to benefit from the rapid expansion of CEEC exports to the EU. The cumulative growth rates of exports of goods and nonfactor services and especially of goods over 1994–98 were much lower than

¹ This chapter was prepared by Joël Toujas-Bernaté.

² The sample of CEECs to which Croatia is compared in this chapter includes Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.

the average of the sample, at 20 percent and 8 percent, respectively.³ More recently, the U.S. dollar value of Croatia's exports of goods during the first 10 months of 1999 decreased by about 8 percent compared with the same period last year.⁴ As a result, the share of exports of goods and nonfactor services in GDP decreased over the 1994–99 period. These developments were largely due to a noticeable decrease in Croatia's exports to the EU and an associated large loss of market share in the EU. Croatia is the only country of the sample in this situation. More recently, however, Croatia has been able to maintain its share in EU imports from outside the EU, as shown in Figure 11. Since early 1998, Croatia has even experienced some gains in this market.⁵

96. Thus, instead of being reoriented toward the EU like the other CEECs (the share of Croatia's exports to the EU in its total exports decreased over 1994–98), Croatia's exports have been increasingly oriented toward nonindustrial countries, including the successor countries of the former SFRY. In 1998, more than 25 percent of Croatian exports went to these countries, of which nearly 15 percent to Bosnia and Herzegovina. But even in these countries, Croatian exports lost market share, especially since early 1997 (see Figure 11). Also, Croatian exports to CEFTA countries have been subdued, and represented less than 15 percent of total exports in 1998, of which about 10 percent to Slovenia.⁶

97. Another important aspect differentiating Croatia from the other CEECs regards the developments in the composition of exports. The composition of Croatia's exports has changed little since 1994. In particular, an index representing the changes in the composition of exports toward the EU between 1994 and 1998 (see Table 15, last column) indicates that the structure of Croatian exports has changed the least among the CEECs.⁷ This might reflect a slower pace of restructuring of the Croatian economy as a whole compared with other transition economies.

³ Growth in the tourism sector accounted for most of the better performance of services exports.

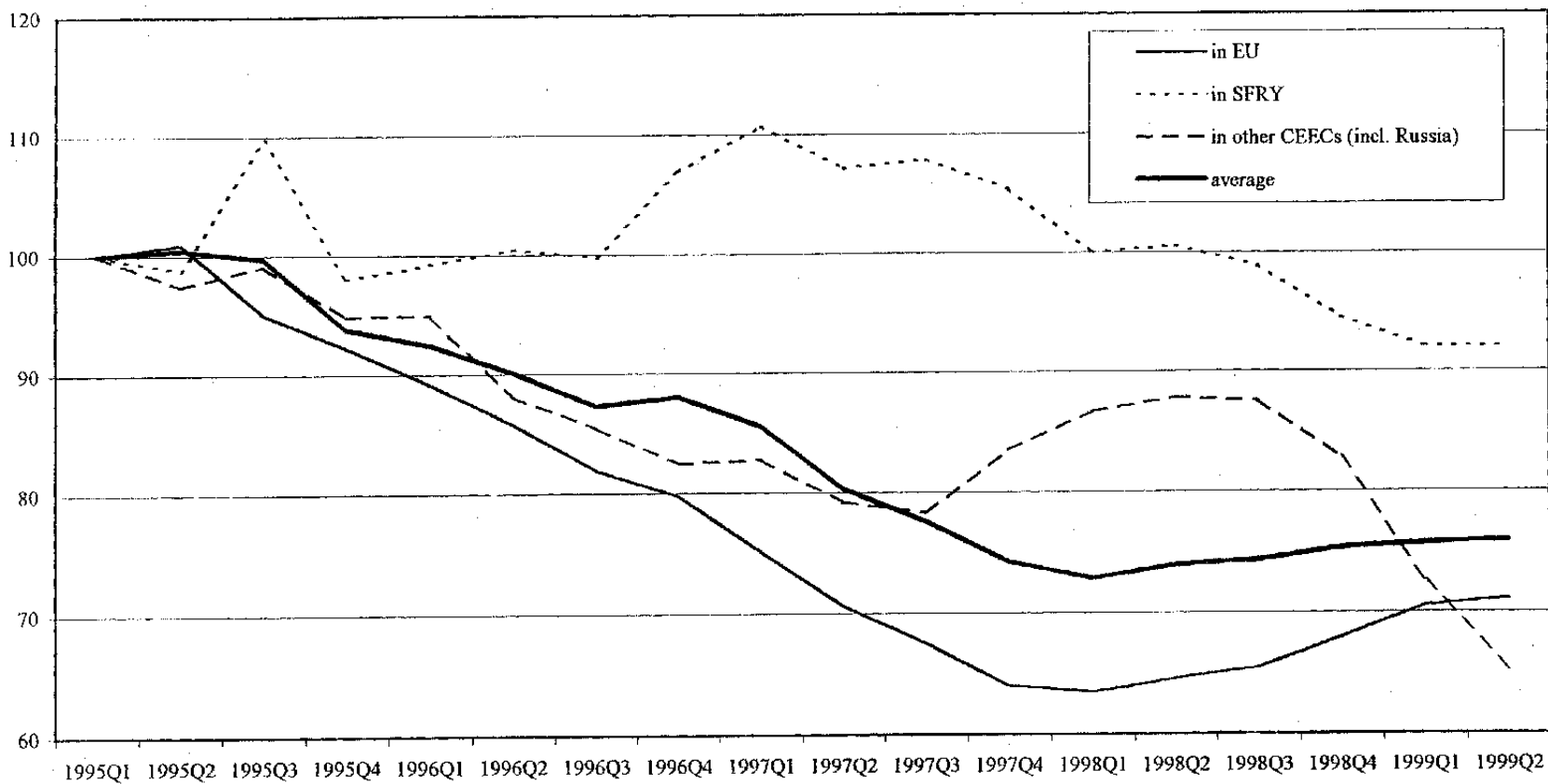
⁴ A decrease in exports to Bosnia and Herzegovina and Russia accounted for more than half of the decrease in total exports in the first ten months of 1999. Exports to Bosnia and Herzegovina plummeted after the cancellation of a bilateral free trade agreement with the Federation of Bosnia and Herzegovina in May 1999, while those to Russia (including pharmaceuticals and telecommunication equipment) collapsed after the Russian crisis in August 1998.

⁵ The decrease in Croatia's exports to the EU in 1999 thus appears to be due to a decrease in total EU imports from outside the EU as economic growth in the EU was slowing down.

⁶ CEFTA is the Central European Free Trade Agreement including the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, and Slovenia.

⁷ This index is calculated as the sum of the absolute changes in the shares in total exports for each individual SITC 3-digit category between 1994 and 1998.

Figure 11. Croatia: Exports Market Shares, 1995-99
 (Index values, 1995 Q1 = 100) 1/



Source: Direction of Trade Statistics (DOTS) database.

1/ Index of market shares of cumulative exports over the four preceding quarters.

C. External Competitiveness

98. In order to assess to what extent Croatia's relatively weak export performance can be accounted for by changes in external competitiveness, a range of competitiveness indicators are reviewed below. Price-based real effective exchange rates are the most frequently used indicators of external competitiveness.⁸ Among them, CPI-based real exchange rate indicators have the advantages that consumer prices are calculated using baskets of goods that are broadly similar across countries, and that such indices are readily available. Other frequently used indicators include PPI-, export price index- and ULC-based real exchange rates, as well as the relative price of nontradables to tradables.

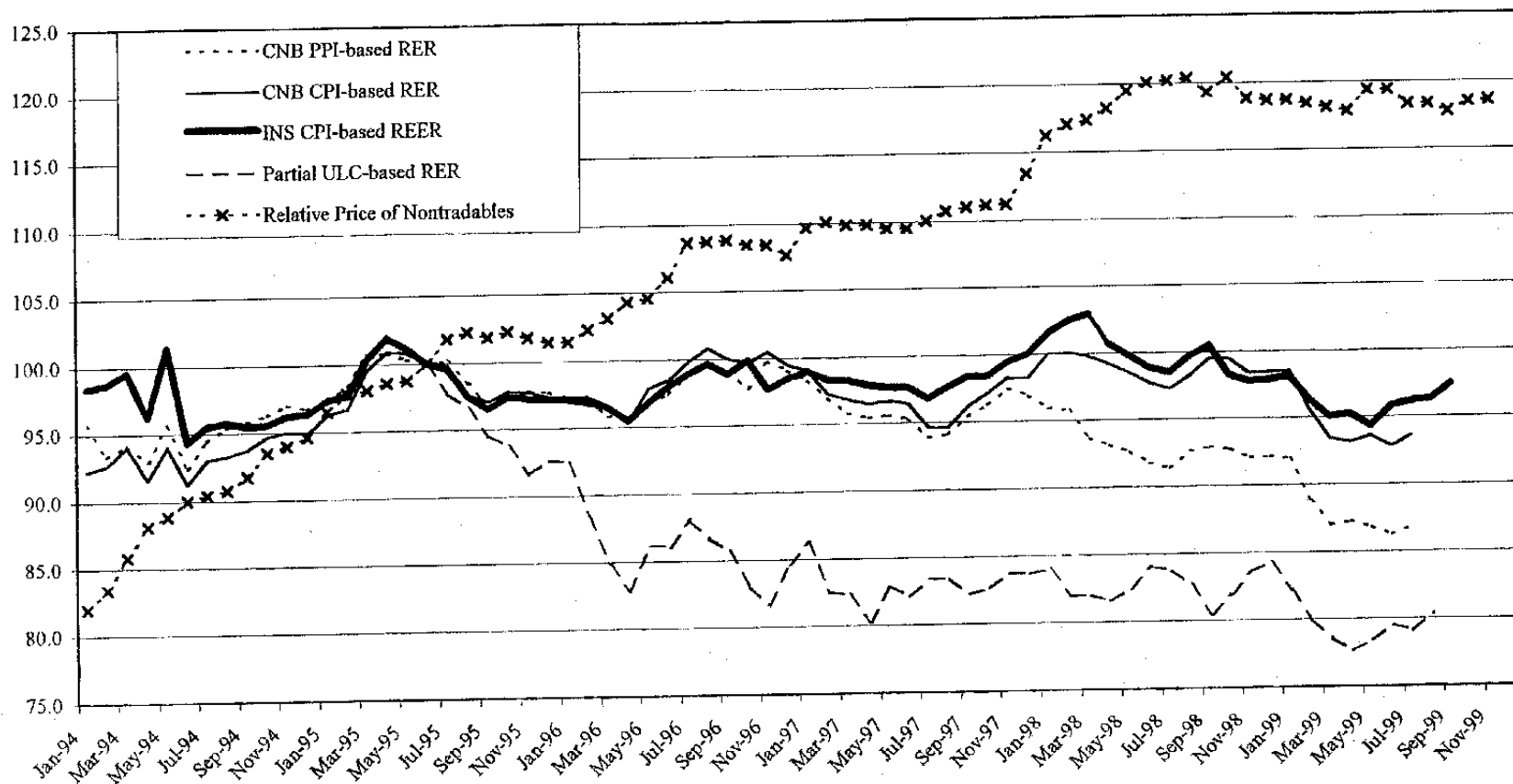
99. All these indicators have pros and cons, and suffer from certain shortcomings as competitiveness indicators, in particular in the context of transition economies. During the transition process, significant productivity and efficiency gains are realized, and prices of some goods and services, which were strongly distorted, including through subsidies and price controls, tend to rise more rapidly. Such developments are usually reflected in an observed appreciation of the real exchange rate measures. However, given that the equilibrium real exchange rate also tends to rise during the transition process for the same reasons, it does not necessarily mean that the observed real exchange rate becomes misaligned when appreciating.

100. Figure 12 presents five real exchange rate indicators for Croatia, including the CPI-based real effective exchange rate from the Fund's Information Notice System (INS), the CPI- and PPI-based real exchange rates calculated by the Croatian National Bank (CNB), a partial ULC-based real exchange rate measuring the ULC in Croatia relative to the ones in its main EU trading partners (Italy, Germany, and Austria), and the relative retail price of services to goods as a proxy for the relative price of nontradables to tradables.

101. The two CPI-based real exchange rates from INS and the CNB have been broadly stable since early 1994, with fluctuations not exceeding 10 percent. Recently, the INS index depreciated by about 8 percent between March 1998 and May 1999, before appreciating by 3 percent until September 1999, thus returning to the level observed in mid-1997. The PPI-based exchange rate from the CNB was very close to the CPI-based indicators until November 1998, but has depreciated by 5–10 percent faster than the CPI-based indicators since then.

⁸ For a detailed review of REERs and other competitiveness indicators, see Marsh and Tokarick (1994) and Lipschitz and McDonald (1991).

Figure 12. Croatia: Real Exchange Rate Indicators, 1994-99
 (Index values; June 1995=100) 1/

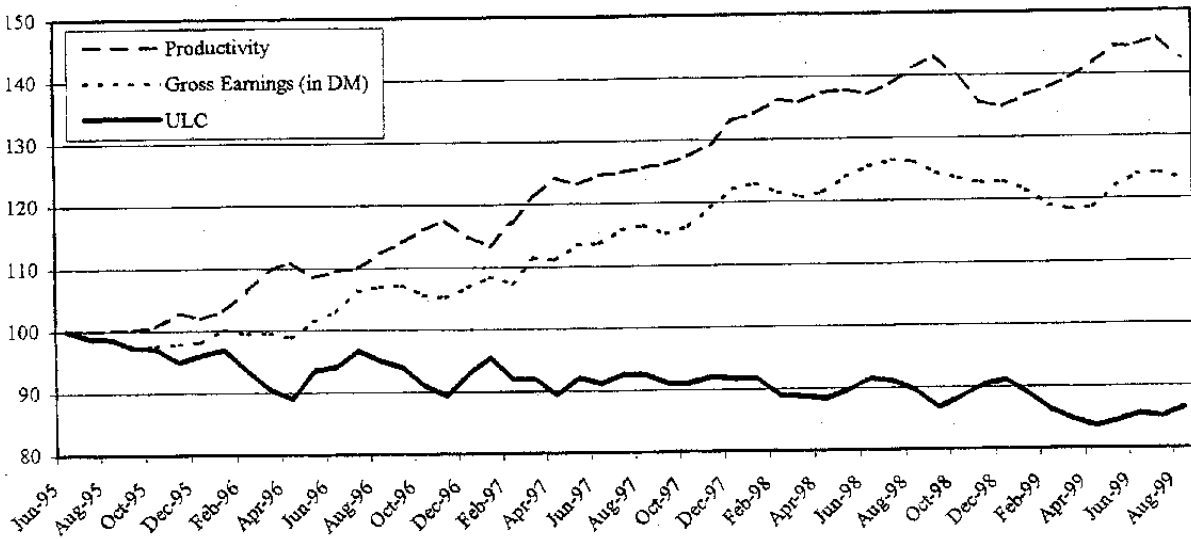


Source: Croatian National Bank; Information Notice System; and Fund staff estimates.

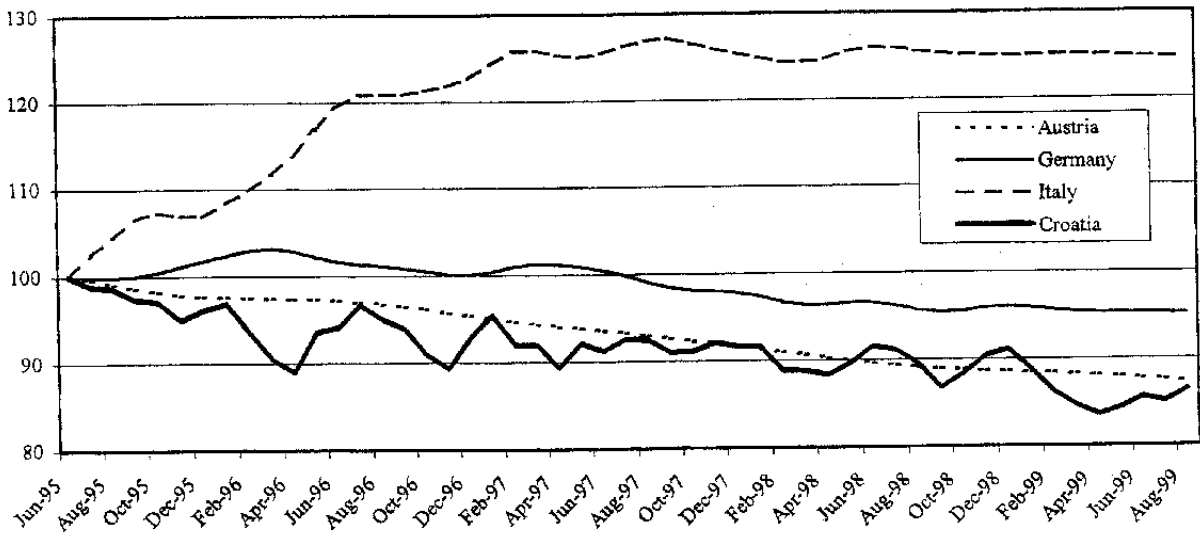
1/ Increase denotes appreciation.

Figure 13. Unit Labor Costs of Croatia and Its Main Trading Partners, 1995-99

Croatia's Industrial Productivity, Gross Earnings and ULC
(3-month moving average index, June 1995 = 100)



Unit Labor Costs in Croatia and Its Main Trading Partners
(in DM, 3-month moving average index, June 1995=100)



Sources: Croatian Bureau of Statistics; and Fund staff estimates.

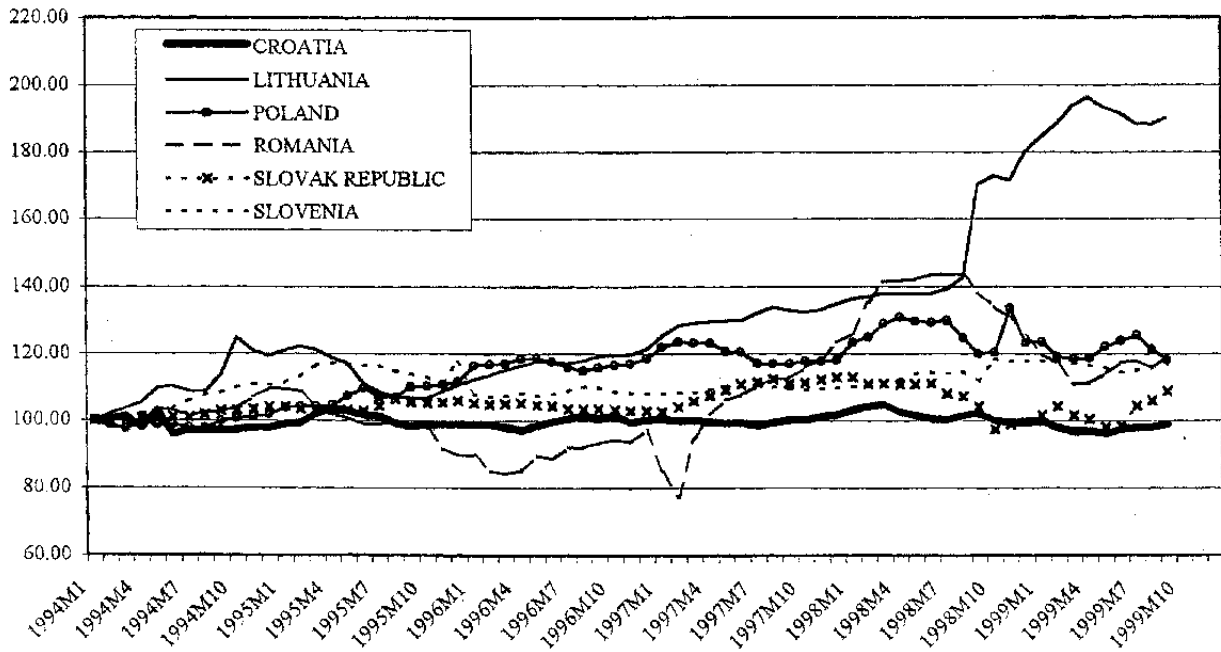
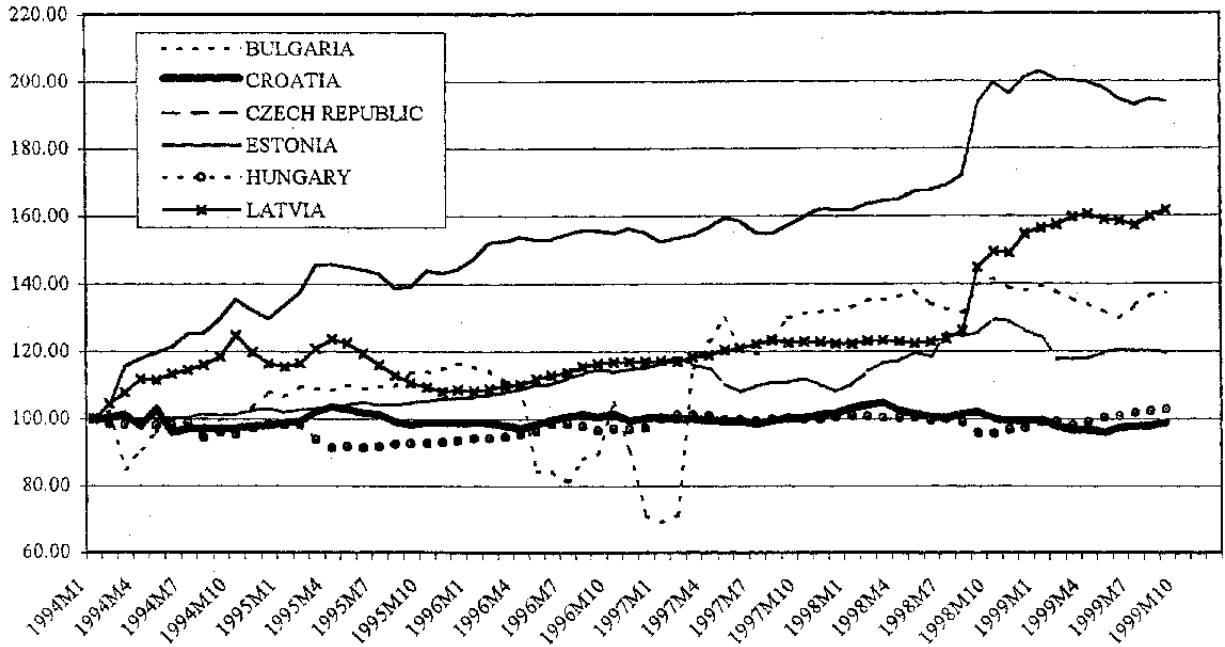
102. Regarding the ULC-based measure, Figure 13 indicates that productivity growth has outpaced the increase in industrial wages since mid-1995. Average gross industrial wages expressed in DM increased by about 25 percent between mid-1995 and mid-1998, but have been broadly stable since then. The larger growth in measured productivity, particularly strong between mid-1995 and mid-1998, largely reflects a decrease in industrial employment during this period, which points to the need of accelerating structural reforms if such productivity gains are to be maintained in the future. Nevertheless, Croatia's industrial ULC (expressed in DM) has experienced a declining trend during the last four years, which compares favorably with ULC developments in Italy, Germany, and Austria, Croatia's main EU trading partners. As a result, the ULC-based real exchange rate, calculated as the relative ULC of Croatia to a weighted average of Italy, Germany and Austria' ULCs (with weights based on Croatia's export shares to these countries), depreciated by about 15 percent from mid-1995 to mid-1996, and has fluctuated around a slowly depreciating trend since then.

103. The relative retail price of services to that of goods is the only one of the five real exchange rate measures to exhibit a strong appreciation since 1994. Measured in this way, the real exchange rate appreciated by nearly 50 percent from early 1994 to mid-1998, but has stabilized since then. This marked appreciation, however, is probably not an indication of a loss in external competitiveness, as it mainly reflects the progressive removal of subsidies from public services, which represent a large share of services in the retail price basket; overall improvements in the quality of services, which were reportedly of relatively poor quality in the early 1990s, and which translated into a more rapidly growing price index for services as the index is not corrected for quality effects; and possibly some higher productivity growth in the tradables sector.

104. The moderate developments in Croatia's REER are even more striking when compared with REERs in other CEECs. Figure 14 presents the INS CPI-based REER for Croatia and the selected sample of CEECs, which is the only readily available measure of the real exchange rate for all the countries in the sample. During 1994-99, several other CEECs experienced significant real exchange rate appreciation, up to 90 percent from January 1994 to September 1999. Croatia had in fact the lowest appreciation of the sample, with only Hungary having experienced comparable developments. As several of these countries registered at the same time significant exchange rate appreciation and substantial export growth, it reinforces the point that changes in external competitiveness as measured by real exchange rates cannot account for much, if any, of Croatia's relatively weak export performance since 1994.

105. These developments in observed real exchange rate indices should be gauged against possible developments in the equilibrium real exchange rate during 1994-98, in order to draw conclusions as to whether Croatia's currency exchange rate became misaligned. The usual methodology for evaluating the equilibrium rate consists of estimating it based on a set

Figure 14. Central and Eastern Europe: Real Exchange Rate Developments, 1994-99
(Index values; 1994M1=100)



Source: Information Notice System

of fundamental determinants.⁹ The traditional determinants include: differential productivity growth between tradables and nontradables (the Balassa-Samuelson effect, often proxied by a time trend); the composition of government expenditure between tradables and nontradables (usefully proxied by the ratio of government investment to GDP); external environment factors, including terms of trade, external transfers, and international real interest rates; and trade liberalization (usually proxied by the foreign trade to GDP ratio). The determinants found to be the most significant usually include the differential productivity growth, the terms of trade, and trade liberalization. Data limitations preclude conducting an econometric analysis for Croatia, but one can look at broad developments of the fundamental determinants. As in other transition economies, productivity growth has probably been higher in the tradable than in the nontradable sector, albeit the differential may have been lower than in other transition economies. Terms of trade are not available for Croatia, but composite indices calculated in the WEO for Croatia's export and import deflators would indicate that Croatia did not experience any large fluctuation in its terms of trade over the period. While Croatia progressively liberalized its trade regime (see below), the trade ratio (total exports and imports over GDP) decreased from 75 percent to 70 percent during 1994–95. Regarding nondebt creating transfers, net FDI increased from the equivalent of 0.7 percent of GDP in 1994 to 3.6 percent in 1998. All of these determinants would have contributed to an appreciation of the equilibrium exchange rate. On the other hand, the consolidated central government investment ratio increased by about 3½ percentage points of GDP between 1994 and 1998. On balance, it thus seems that Croatia's equilibrium exchange rate has at least been stable since 1994, if not appreciated.

106. Given the shortcomings of traditional competitiveness indicators mentioned above, especially for transition economies, recent research has attempted to estimate equilibrium exchange rates indirectly.¹⁰ Specifically, equilibrium dollar wages have been estimated based on such fundamental factors as Purchasing Power Parity GDP per capita, secondary school enrollment as an indicator of the stock of human capital, and the share of agriculture in GDP as an indicator of the level of development. These estimates should also be interpreted with caution, as they are sensitive to the underlying data and are based on possibly overly strong assumptions, such as the stability of the relationships between equilibrium wages and their fundamentals during a period of large transformation of transition economies. Nevertheless, the analysis carried out by Halpern and Wyplosz (1997) indicates that Croatia had one of the highest equilibrium dollar wages among CEECs, just below that of Slovenia. This would tend to explain the higher actual dollar wages of Croatia compared with most other CEECs in recent years (see Table below) by differences in fundamentals, such as a more advanced stage of development and relatively higher human capital.

⁹ See Clark et al. (1994) and Montiel (1997) for a discussion of the determinants of the equilibrium real exchange rate.

¹⁰ See Halpern and Wyplosz (1997) and Krajnyak and Zettelmeyer (1998).

Dollar Industrial Wages in Selected CEECs, 1996–99 1/
(in U.S. dollars)

	1996	1997	1998	1999 2/
Bulgaria	106	107	144	154
Croatia	587	566	596	567
Czech Republic	348	338	370	350
Hungary	322	320	325	312
Poland	372	368	397	455
Romania	148	127	160	130
Slovak Republic	280	284	292	256
Slovenia	604	572	602	618

Source: Staff estimates.

1/ Average gross monthly wages in the industrial sector, except for Slovenia for which net wages are presented.

2/ Data for 1999 refer to averages of monthly data up to the latest available month, which is August 1999 for Croatia and May 1999 for most of the other countries.

107. In conclusion, there seems to be very little evidence, if any, that Croatia's poor export performance since 1994 could be attributed to significant losses of external competitiveness.

D. Trade Liberalization Since Independence

108. At the time of independence, Croatia inherited from the former SFRY a trade system which, despite having been progressively liberalized in the last years before the breakup of the federation, included significant nontariff barriers and was subject to a complex tax system. Imports were classified in four lists: a free list; two lists of items subject to value and volume quotas, respectively; and a list subject to ad hoc licensing. Items on the free list, just under 6,000 out of a total of about 6,600, comprised about 90 percent of the value of imports. Of the restricted items, only 0.1 percent of total imports were subject to licensing, 1.6 percent were subject to value quotas and 8.6 percent to volume quotas. The import tax system included not only tariffs but also special taxes and fees. Import tariffs ranged from 0 to 25 percent.¹¹ In addition, imports were subject to a tax for equalization of traded goods of 0–15 percent, a special import tax of 0–15 percent,¹² and a customs administration fee of

¹¹ The maximum tariff rate was reduced to 18 percent following the dissolution of the SFRY.

¹² A special import tax of 0–7.5 percent was applied to all imported goods except some, mostly consumer goods, to which a special import tax of up to 15 percent was applied.

1 percent.¹³ Imports of raw materials and intermediate products used in the production of exports could enter Croatia duty free if the export value was at least 30 percent higher than the value of the imported items, and were only subject to the 1 percent customs fee. Imports by nonresidents for investment purposes were also duty free. By contrast, exports were not subject to any tax, but export proceeds had to be collected and repatriated in full to Croatia within 60 days of the date of exportation.

109. In the post-independence period, the trade system was substantially liberalized. The process of eliminating import quotas began in 1994 and was completed in July 1996, when the Croatian government adopted a decree abolishing all import quotas with immediate effect. Quantitative restrictions had been maintained until that time on certain agricultural products, some foodstuffs, textile fibers, cement, iron and steel products, and machinery to protect some industries which were being restructured and assist areas damaged by war.

110. In June 1996, a new Customs Tariff Law was adopted by parliament which abolished the application of nontariff measures and incorporated all import taxes into the customs tariff, resulting in a higher maximum tariff. The current customs tariff consists of 7,059 tariff lines. All tariff items are subject to *ad valorem* tariffs, and 590 tariff items are subject to both *ad valorem* and specific duty rates. The *ad valorem* rates on industrial products range from 0 to 25 percent (see Table below)¹⁴. The basic criteria for determining tariff rates are that: (i) tariffs were the only trade policy measure applied to protect domestic industrial and agricultural production; (ii) tariffs were a function of economic development, in particular the technological rehabilitation of the economy; (iii) rates exceeding 15 percent were applied only to protect industries and activities seriously damaged by war, including agricultural products; and (iv) very low tariff rates were applied to imported raw materials.

Croatia: Import Tariff Structure

Tariff rate	Number of tariff items
0	505
0-5	3,038
5-10	828
10-15	883
15-20	1,260
20 and above	545

Source: Ministry of Economy

¹³ In addition, a surcharge on imports of luxury goods of 7.5 percent was introduced in October 1992.

¹⁴ Rates on some agricultural products exceed 25 percent. The average rate on agricultural products is about 35 percent.

111. The simple average tariff rate is 12.1 percent and the weighted average tariff was 9.0 percent based on 1998 imports. The simple average tariff of Croatia compares favorably with the median of all IMF members of 12.7 percent, but is slightly higher than the average and median of the sample of CEECs introduced earlier, of 11.8 percent and 11.6 percent, respectively (see Table 16). Coupled with the absence of nontariff barriers, Croatia has an overall rating of 2 on the 10-point index of trade restrictiveness prepared by the Trade Policy Division of the IMF, which is below the average of the CEEC sample of 2.7. Further lowering of import tariffs is scheduled over the next five years in the context of the expected accession of Croatia to the World Trade Organization (WTO), which would make Croatia's tariff one of the lowest among the CEECs (see below).

112. Exports are not subject to any tariffs or taxes. Export quotas, which were introduced in July 1996 in exceptional cases, including for the purpose of ensuring supplies to the domestic market and protecting nonrenewable natural resources were abolished again between end-1997 and the beginning of 1999.¹⁵ Also, Croatia does not apply any export subsidies.

113. Overall, the fairly liberal trade regime does not seem to have been an impediment to Croatia's export performance.

E. Preferential Trade Relations and WTO Accession

114. The CEECs, in general, have actively sought closer political and economic relations with the EU, and, to a lesser extent, with the member countries of the European Free Trade Association (EFTA). Many of them were also able to secure their accession to the WTO. At the same time, the CEECs have tried to rebuild traditional markets within Central Europe through bilateral trade arrangements and the foundation of the CEFTA in 1993. By contrast, Croatia has not negotiated any new trade arrangements with either the EU or EFTA, nor has it participated in regional free trade agreements. Croatia was also able to make substantial progress in the process of accession to WTO only recently.

115. Croatia enjoyed the benefits of preferential trade agreements with the EU long before the rest of the CEECs. The SFRY concluded a number of trade agreements with the EU from 1970 onward, including a trade and cooperation agreement in 1980. Following the dissolution of the SFRY, the EU decided to continue to apply the commercial terms of the agreement to all the former Yugoslav republics. This preferential access has certainly resulted in historically higher volumes of Croatian exports to the EU relative to other CEECs, until these CEECs gained preferential access to the EU.

116. Table 17 provides a summary of the current status of trade relations between the EU and the major CEECs. The main vehicle that the EU has offered for promoting trade and development within the CEECs and closer EU-CEEC trade links has been the Association

¹⁵ Items subject to export quotas included corn, crude oil, natural gas, wood, raw leather, glass, and newspaper waste. Quotas had been set for a maximum period of one year.

Agreements.¹⁶ These Agreements are, in effect, stepping stones to eventual full membership of the EU. The primary benefit for a CEEC of an Association Agreement is that the EU is obliged to phase out all statutory tariffs on CEEC industrial goods more rapidly than the CEEC is required to eliminate its own tariffs on EU goods.¹⁷

117. 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. Many Agreements with CEECs came into effect in the mid-1990s, except for the Baltics and Slovenia, for which agreements came into effect in 1998 and 1999, respectively.¹⁸ Although there has been some debate about the impact of Association Agreements upon CEEC-EU trade, the absence of such an Agreement has probably adversely affected Croatian exports to the EU in three ways. First, the majority of CEEC products have been subject to lower EU tariffs than Croatian exports, which has raised the price of Croatian products relative to those produced in other CEECs. Second, the harmonization of product standards and the elimination of other nontariff trade barriers called for under the Association Agreements have put Croatian products to a further disadvantage relative to the other CEECs. Third, the strict rules of origin clauses included in the Association Agreements have likely diverted trade away from Croatia and toward other CEECs with Association Agreements.¹⁹ Thus, the progressive switch from more to less favorable trade relations with the EU relative to other CEECs may have been a significant factor behind the loss in market share of Croatian exports to the EU.

118. Croatia is also not a member of CEFTA. The requirements for membership in CEFTA include WTO membership and an Association Agreement with the EU. Croatia does not fulfill either of those requirements yet. Members of CEFTA are gradually eliminating tariff and nontariff barriers on all industrial goods and on a limited number of agricultural

¹⁶ See IMF Staff Country Reports No 98/90, 1998, "Republic of Croatia—Selected Issues and Statistical Appendix", Section II, for a detailed discussion of the various facilities offered by the EU for promoting trade and development in the CEECs.

¹⁷ In general, the Association Agreements give the CEEC signatories a 10-year transition period during which all tariffs on industrial goods must be eliminated. The EU, however, continued until recently to impose quotas on so-called sensitive industrial goods such as textiles, clothing, and footwear.

¹⁸ Slovenia, however, has benefited from an EU Interim Agreement since January 1997, which allowed the early implementation of the trade-related aspects of the more comprehensive Association Agreement.

¹⁹ 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.

products toward each other. The low share of Croatia's exports directed to CEFTA countries of less than 15 percent, of which about 10 percent to Slovenia, may reflect tariff and nontariff barriers in place in those countries.²⁰ The proximity of these markets and long borders with some of them would suggest that the gains from membership could be significant. Croatia also has only a couple of bilateral free trade agreements in place, with the Former Yugoslav Republic of Macedonia and Slovenia. A free trade agreement between Croatia and the Federation of Bosnia and Herzegovina was cancelled in May 1999. By comparison, other CEECs have signed many more bilateral free trade agreements with bilateral partners in Central and Eastern Europe.

119. Another disadvantage for Croatia of not having preferential trade agreements with the EU and other CEECs is that FDI inflows may be adversely affected. In particular, trade-complementing FDI, which tries to exploit the comparative advantage of the host country and typically expands the export-oriented sector, may be diverted from Croatia.²¹ Croatia has received slightly lower FDI compared with other CEECs during 1994–98 (see Table below). In addition, a significant share of FDI in Croatia reportedly reflected equity investments, and “greenfield” FDI was very low. Nevertheless, while Estonia, Hungary and Latvia received during this period a disproportionate amount of FDI relative to other CEECs, Croatia received more FDI than Slovenia or Poland. With the privatization process accelerating in 1999, Croatia is likely to compare more favorably in the next few years. However, without significant progress in the relations with the EU and CEFTA countries, “greenfield” FDI will probably remain low in the coming years.²²

²⁰ Slovenia's high share is in part explained by the existence of a bilateral trade agreement.

²¹ Given the small domestic market, there is also little incentive for trade-substituting FDI to capture domestic market share.

²² As noted in Chapter I, paragraph 24, “greenfield” investment may also have been attracted to other CEECs by the provision of more favorable corporate income tax treatment.

Central and Eastern European Countries: Cumulative FDI, 1994-98
(In percent of cumulative GDP)

Bulgaria	2.3
Croatia	2.2
Czech Republic	3.3
Estonia	5.1
Hungary	5.0
Latvia	6.3
Lithuania	3.3
Poland	1.9
Romania	2.6
Slovenia	0.9
Slovak Republic	1.2
AVERAGE	3.1
(standard deviation)	(1.7)
MEDIAN	2.6

Source: World Economic Outlook.

120. With the process of acceding to WTO membership in the final stage (see below), the Croatian authorities would like to concentrate their efforts on CEFTA membership. To this end, as noted, Croatia will need to sign an Association Agreement with the EU. In the context of the EU initiative for the Balkans, this may require that Croatia sign the Stability Pact agreement, which in turn involves political considerations. New perspectives in that regard may open up following the parliamentary and presidential elections in early 2000. The authorities hope that negotiation with the EU on an Association Agreement could be concluded fairly quickly, possibly before end-2000. This would in turn pave the way for closer trade relations with the CEFTA countries, some of which have been reluctant to sign any preferential trade agreement with Croatia before an agreement between Croatia and the EU has been concluded. As a result, Croatia has not been able to sign any bilateral trade agreement with CEFTA countries, except for Slovenia. Ongoing negotiations with Hungary may nevertheless be concluded in the near future.

121. Croatia is in the final stages of the WTO accession process, which began in 1993 and became very intensive during the last two years. During this period, several laws were amended or passed to ensure compliance with WTO principles. Trade policy, as noted, was liberalized, with all nontariff barriers being eliminated and various import levies replaced with WTO acceptable *ad valorem* tariffs. The Trade Law, which was adopted by parliament on June 30, 1999, also contained provisions on anti-dumping measures, countervailing duties, safeguard measures, and rules of origin to bring Croatian legislation in these areas in compliance with WTO requirements. A new Customs Law was adopted on June 30, 1999, which brought customs valuation provisions in conformity with the relevant Article of the

GATT. The Banking Law, which entered into effect in late 1998, is also WTO compliant. The excise law was amended in October 1998 and June 1999 to ensure equal treatment between domestic and foreign products, in particular for alcoholic beverages and tobacco products, thus bringing all excise taxes into conformity with Article III of the GATT. Finally, several laws were adopted in the area of intellectual property rights in June 1999 to harmonize Croatia's legislation with the requirements of the Trade-Related Intellectual Property System (TRIPS) Agreement.²³ In addition, Croatia has no trade-related investment measures (TRIMs) in place, and is ready to apply the TRIMs Agreement from the date of accession to the WTO. At a formal WTO Working Party meeting which was held at end-September 1999, all parties acknowledged that all Croatian laws were compliant with WTO principles.

122. To become a member of WTO, Croatia also committed to a tariff-binding schedule, which should come into effect in January 2000. Under this schedule, which was accepted by all WTO Working Parties at the meeting at end-September 1999, tariffs will be further lowered over the next 3–7 years. First, the simple average import tariff on industrial goods will decrease to about 5.5 percent within 3–5 years. Regarding agricultural products, the average tariff will decrease from about 35 percent currently to about 14 percent over a period of 5 years, with the transition period being extended to 7 years for some sensitive items, and the highest tariff rate on agricultural products will be brought down to 18 percent.

123. Croatia has all but completed the bilateral negotiations with the 16 countries which requested such negotiations at the beginning of the WTO accession process. The bilateral negotiations covered three areas: industrial products, agricultural products, and services. Negotiations on industrial and agricultural products have been completed, although discussions on agriculture have been difficult with some partners. Negotiations on services were also virtually completed before an issue about audiovisual services came up. One EU member country objected to a clause included in the bilateral agreement between Croatia and the U.S. regarding the opening of the Croatian market in the audiovisual sector. As Croatia cannot amend its commitments under its bilateral agreement without the approval of the other party, the Croatian authorities are now waiting for a compromise to be found between the U.S. and the EU in this area. Such a compromise would remove the last obstacle to Croatia's accession to the WTO, which could come into effect immediately thereafter.

F. Summary and Conclusions

124. Croatia's export performance has been weak in the last five years compared with other CEECs, as Croatia failed to participate in the rapid expansion of CEEC exports to the EU. While CEEC exports were reoriented toward the EU and gained market shares in this

²³ The new laws included a Trademark Law, a Law on Geographical Indications, a Patent Law, a Law on Industrial Design, and a Law on the Topographies of Integrated Circuits. In the area of copyright, Croatia intends to introduce a new Law on Copyright and Neighboring Rights, but has in the interim ensured compliance with the TRIPS Agreement by amending the existing Copyright Law.

market, Croatia experienced a decrease in its exports to the EU and resulting large losses of market share. Similarly, Croatian exports to CEFTA countries have been subdued, while trade within the CEFTA area and between CEFTA countries and other CEECs expanded significantly in recent years.

125. There is little evidence, if any, that Croatia's weak export performance could be attributed to a loss of external competitiveness. While most of CEECs experienced, sometimes significant, CPI-based real exchange rate appreciation, Croatia's real exchange rate indicators have been remarkably stable since 1994. There is also no indication that Croatia's equilibrium exchange rate may have depreciated over the period, therefore not pointing to any misalignment of Croatia's current exchange rate. In addition, higher dollar wages in Croatia compared with most other CEECs can be explained by differences in fundamentals, such as a more advanced stage of development and relatively higher human capital.

126. As part of the SFRY, Croatia enjoyed the benefits of preferential trade arrangements with the EU long before the rest of the CEECs. In the last decade, however, most of the CEECs have signed EU Association Agreements and have favorable prospects for joining the EU, while Croatia has been unable to secure any improvement in its trade arrangements with the EU. The progressive switch from more to relatively less favorable trade relations with the EU has most likely been a significant factor behind the poor Croatian export performance, as Croatian products have faced higher tariff barriers, and the strict rules of origin clauses included in Association Agreements have discouraged other CEECs from using Croatian inputs. In addition, the absence of an Association Agreement with the EU may have been detrimental to "greenfield" FDI inflows in Croatia. Croatia should thus seek closer trade relations with the EU and the CEFTA countries. New perspectives in that regard may open up following the parliamentary and presidential elections in early 2000.

127. The structure of Croatian exports, especially to the EU, has changed the least among the CEECs. This may have reflected a slower pace of restructuring of the Croatian economy as a whole compared with other transition economies, which could have impeded the adaptation of Croatian products to the demand in industrial countries. The structural reform program would thus need to be accelerated, also to sustain strong productivity gains which so far have been achieved at the expense of decreasing employment.

128. Croatia has liberalized its trade regime since its independence, but more needs to be done in order to make Croatia's trade regime one of the most liberal among the CEECs. Reforms scheduled in the context of the WTO accession would achieve this goal. In that regard, Croatia made substantial progress and is now in the final stages of the WTO accession process. The only remaining obstacle to Croatia's membership to the WTO concerns an issue about the audiovisual sector, which, in effect, is beyond the control of the Croatian authorities.

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Table 15. Central and Eastern European Countries: Export Performance Indicators

	Growth of exports of goods and non- factor services (1994-98) 1/	Growth of exports of goods (1994- 98) 1/	Growth of exports of goods to EU (1994-98) 1/	Share of exports of goods and nonfactor services in GDP			Share of exports to EU in total exports of goods		Change in market share in the EU (1994-98)	Index of change in structure of exports to EU (1994-98) 2/
				1994	1998	Change (in %)	1994	1998		
BULGARIA	10.4%	9.1%	57.5%	54.3%	47.5%	-12.6%	47%	52%	10.6%	0.7
CROATIA 3/	20.5%	8.1%	-4.6%	48.8%	39.4%	-19.2%	59%	49%	-33.0%	0.5
CZECH REPUBLIC	60.1%	65.2%	100.1%	51.4%	59.9%	16.6%	53%	64%	40.5%	4.6
ESTONIA	114.2%	82.7%	190.1%	75.5%	77.6%	2.8%	48%	55%	103.7%	0.8
HUNGARY	161.7%	203.4%	133.0%	25.8%	59.4%	130.0%	64%	73%	63.6%	5.3
LATVIA	95.2%	80.7%	46.6%	44.3%	49.6%	12.0%	39%	57%	3.0%	0.5
LITHUANIA	160.7%	147.5%	58.2%	54.4%	56.5%	3.7%	30%	38%	11.1%	0.6
POLAND	86.4%	85.8%	52.1%	19.3%	21.7%	12.0%	69%	68%	6.8%	4.3
ROMANIA	34.8%	36.8%	71.4%	23.6%	25.1%	6.3%	48%	65%	20.4%	1.7
SLOVAK REPUBLIC	44.8%	59.4%	132.8%	65.1%	63.6%	-2.2%	35%	56%	63.5%	2.0
SLOVENIA	28.2%	28.2%	29.1%	60.4%	55.3%	-8.4%	63%	65%	-9.3%	1.1
AVERAGE	74.3%	73.4%	78.8%	47.6%	50.5%	12.8%	50.6%	58.3%	25.5%	2.0
(standard deviation)	(53.9)	(58.9)	(55.5)	(17.9)	(16.6)	(40.4)	(12.6)	(10.0)	(39.0)	(1.8)
MEDIAN	60.1%	65.2%	58.2%	51.4%	55.3%	3.7%	48.2%	56.6%	11.1%	1.1

Sources: WEO; Direction of Trade Statistics (DOTS); and Trade Analysis and Reporting System (TARS) databases.

1/ Exports are expressed in US dollars.

2/ The index is calculated as the sum of the absolute changes in the shares in total exports for each individual SITC 3-digit category between 1994 and 1998.

3/ Data for Croatia may differ slightly from those presented in other tables of the Statistical Appendix, but they have been taken from the same source as for the other CEECs in order to ensure comparability.

Table 16. Central and Eastern Europe: Tariff Structure Summary and Trade Restrictiveness Rating

	Simple average tariff (1998)	Minimum	Maximum	Import weighted average tariff (1998)	Trade restrictiveness index		
					Tariff	NTB	Overall
BULGARIA	15.1	0	74	...	3	2	6
CROATIA 1/	12.1	0	25	9.0	2	1	2
CZECH REPUBLIC	6.9	0	168	...	1	1	1
ESTONIA	0.0	0	0	0.0	1	1	1
HUNGARY	13.3	0	135	...	2	2	5
LATVIA	5.3	0	75	...	1	1	1
LITHUANIA	4.5	0	100	...	1	1	1
POLAND	11.6	...	...	5.8	2	1	2
ROMANIA	19.8	...	248	...	4	1	4
SLOVAK REPUBLIC	7.0 / 10 - 15	0	168	...	3	1	3
SLOVENIA	5.7	0	40	...	1	2	4
AVERAGE	11.8	0.0	103.3	...	1.9	1.3	2.7
(standard deviation)	(5.9)			...	(1.0)	(0.5)	(1.8)
MEDIAN	11.6	0.0	87.5	...	2	1	2

Source: IMF, Trade Policy Division.

1/ The maximum tariff rate of 25 percent refers to industrial products.

Table 17. Central and Eastern Europe: Trade Arrangements

	WTO	CEFTA	EU PHARE	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
Bulgaria	Yes	No	Yes	Yes	Czech Rep, Slovak Rep, Slovenia, Turkey	November 1990	No	December 1993	February 1995	December 1995
Croatia	No	No	No	No	Slovenia, FYR of Macedonia	No	Yes	No	No	No
Czech Republic 2/ 3/	Yes	Yes	Yes	Yes	Bulgaria, Estonia, Israel, Latvia, Lithuania, Romania, Slovak Republic, Turkey	November 1990	No	March 1992	February 1995	January 1996
Estonia	Yes	No	Yes	Yes	Czech Republic, Poland, Slovak Republic, Slovenia, Turkey, Ukraine	March 1993	No	No	February 1998	November 1995
Hungary	Yes	Yes	Yes	Yes	Estonia, Israel, Slovenia, Turkey	December 1988	No	March 1992	February 1994	March 1994
Latvia	Yes	Yes	Yes	Yes	Czech Republic, Slovak Republic, Slovenia, Ukraine	February 1993	No	No	February 1998	October 1995
Lithuania	Yes	No	Yes	Yes	Czech Republic, Poland, Slovak Republic, Slovenia, Turkey	February 1993	No	No	February 1998	December 1995
Poland	Yes	Yes	Yes	Yes	Denmark, Estonia, Israel, Lithuania	December 1989	No	March 1992	February 1994	April 1994
Romania	Yes	No	Yes	Yes	Czech Republic, Moldova, Slovak Republic, Turkey	May 1991	No	May 1993	February 1995	June 1995
Slovak Republic 2/ 3/	Yes	Yes	Yes	Yes	Bulgaria, Czech Republic, Estonia, Israel, Latvia, Lithuania, Romania, Slovenia, Turkey	November 1990	No	March 1992	February 1995	June 1995
Slovenia	Yes	Yes	Yes	Yes	Bulgaria, Croatia, Estonia, Hungary, Israel, Latvia, Lithuania, FYR of Macedonia, Slovak Republic, Turkey	September 1993	No	January 1997	February 1999	June 1996

Sources: EU Sectoral and Trade Barriers Database; and IMF Trade Policy Division database.

1/ Date refers to when agreement came into force.

2/ The Czech Republic and the Slovak Republic have a customs union agreement.

3/ 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.

SUMMARY OF THE CROATIAN EXCHANGE AND TRADE SYSTEM
(Position as of September 30, 1999)

Exchange arrangements

1. 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 September 30, 1999, the average interbank market rate for the U.S. dollar was HrK 7.249 per US\$1. There are no taxes or subsidies on purchases or sales of foreign exchange. Settlements between residents and nonresidents may be affected in any convertible currency. Croatia does not maintain any bilateral payment agreements.

2. 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 Law on Trade (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. The Law on Trade has been subsequently amended on June 30, 1999 in order to achieve full compliance of its provisions with the relevant WTO agreements. Companies wishing to engage in foreign companies must be registered with the Ministry of Economy.

3. 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.

Resident and nonresident accounts

4. 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.

5. 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 per month without special permission from the CNB.

6. 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.

Imports and import payments

7. Croatia does not maintain any import quotas—the existing quotas were abolished by decree of July 12, 1996. All quantitative restrictions, including import quotas can only be applied in situations provided for in relevant WTO agreements. All imports except for a list of products whose importation is controlled by international agreement for noneconomic reasons, including human, animal and plant health, public security, protection of environment, control of trade in works of art and precious metals (such as arms, gold, illegal drugs and narcotics, and artistic and historic works) are free from licensing agreements.

8. Imports are subject to customs tariffs of up to 25 percent. For a number of agricultural and food products combined tariffs (ad valorem+specific tariff per quantity unit) are applied. The exemption for duty-free imports by travelers was US\$100 until December 1, 1997; since January 1, 1998 this exemption has been changed to HrK 300. Goods imported by travelers and postal shipments up to a 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 the 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 on 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.

Payments for invisibles

9. 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 deposits 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.

10. 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 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 per person, but larger amounts may be exported with special permission from the CNB.

Exports and export proceeds

11. Exports are free of restrictions, including quantitative restrictions (for WTO members), except that for certain products licenses must be obtained (e.g., weapons, drugs, gold, art objects). Export proceeds must be collected and repatriated in full to Croatia within 90 days of the date of exportation; this period maybe 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.

Proceeds from invisibles

12. 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.

Capital account

13. 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.

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

15. A new law governing 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.

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

Changes from July 1, 1995 through September 30, 1999

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 decree abolishing 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.

June 30, 1999: The new law amending the Law on Trade was passed (ensuring WTO compliance).

June 30, 1999: The new Customs Law was adopted (to take effect as of January 1, 2000).

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions and Exemptions	Rates	Remarks
1. Taxes on income, profits and capital gains				
1. Individual Income Tax	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 1,000 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.	The 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.

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions and Exemptions	Rates	Remarks
<p>1.3 Surcharge on Income Tax</p> <p>1.4 Gaming Tax</p>	<p>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.</p> <p>The tax is levied on individuals who realize profits from gambling.</p>		<p>Up to 30 percent. City of Zagreb up to 60 percent.</p>	
2. Social security contributions				
<p>2.1 Employees</p> <p>2.1.1 Pension Fund</p> <p>2.1.2 Health Fund</p> <p>2.1.3 Employment Fund</p> <p>2.1.4 Child Benefit Fund</p> <p>2.2 Employers</p> <p>2.2.1 Pension Fund</p> <p>2.2.2 Health Fund</p> <p>2.2.3 Employment Fund</p>	<p>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.</p> <p>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.</p> <p>Same tax base as for employees' contributions.</p>	<p>No exemptions are provided.</p> <p>No exemptions are provided.</p>	<p>Standard rates:</p> <p>Pensions: 10.75 percent</p> <p>Health: 9.00 percent</p> <p>Employment: 0.85 percent</p> <p>Child Benefits: 2.20 percent</p> <p>Pensions: 10.75 percent</p> <p>Health: 9.00 percent</p> <p>Employment: 0.85 percent</p> <p>Water Management 0.76 percent</p>	<p>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.</p>

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions and Exemptions	Rates	Remarks
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.	

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions 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

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions and Exemptions	Rates	Remarks
4.2.6 Tax on Motor Vehicles			<ul style="list-style-type: none"> • 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 advertising	The tax is paid by legal and natural persons who advertise in public places. The tax is set and collected by the municipalities.		Up to DM 300 per year.	

SUMMARY OF THE CROATIAN TAX SYSTEM
(Position as of August 31, 1999)

Tax	Nature of Tax	Deductions 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 18. Croatia: Quarterly GDP at Constant 1997 Prices, 1991-99 1/

	GDP (In millions of kunas)	Index 1990 = 100
1991		
Q1	32.0	84.6
Q2	32.9	86.9
Q3	28.7	75.8
Q4	25.9	68.3
Total	119.4	78.9
1992		
Q1	25.6	67.7
Q2	26.0	68.8
Q3	27.1	71.6
Q4	26.7	70.6
Total	105.4	69.7
1993		
Q1	23.8	63.0
Q2	24.4	64.4
Q3	24.8	65.5
Q4	24.0	63.4
Total	97.0	64.1
1994		
Q1	24.0	63.4
Q2	25.1	66.4
Q3	27.1	71.7
Q4	26.4	69.8
Total	102.7	67.8
1995		
Q1	26.6	70.3
Q2	27.5	72.7
Q3	27.9	73.8
Q4	27.6	73.0
Total	109.7	72.5
1996		
Q1	27.5	72.6
Q2	28.7	75.9
Q3	30.6	81.0
Q4	29.4	77.8
Total	116.3	76.8
1997		
Q1	28.0	73.9
Q2	30.0	79.3
Q3	32.5	85.8
Q4	33.4	88.2
Total	123.8	81.8
1998		
Q1	29.6	78.1
Q2	31.7	83.8
Q3	33.7	89.1
Q4	32.0	84.5
Total	126.9	83.9
1999		
Q1	29.1	76.9
Q2	31.5	83.3

Source: Central Bureau of Statistics.

1/ Following the publication of a new quarterly GDP series in June 1999, data from 1997 onwards has been revised. Earlier data is rebased but not revised.

Table 19. Croatia: Gross Value Added and Gross Domestic Product at Current Prices, 1995-98 1/

	1995	1996	1997	1998 2/
	(In millions of kunas)			
Agriculture, hunting, and forestry	8,193.9	8,887.4	9,471.2	9,673.6
Fishing	219.0	171.4	216.5	167.2
Mining and quarrying	238.0	234.9	645.9	616.3
Manufacturing	19,177.6	19,660.2	22,791.4	32,880.8
Electricity, gas, and water supply	3,023.3	3,411.3	3,675.5	4,438.7
Construction	4,625.2	5,965.1	7,437.0	7,807.2
Wholesale and retail trade	9,502.4	11,121.6	13,050.9	13,250.7
Hotels and restaurants	2,049.8	2,731.8	3,266.3	3,421.0
Transport, storage, and communication	7,805.4	8,022.3	9,091.7	10,608.0
Financial intermediation	3,312.3	3,952.3	4,043.7	5,428.1
Real estate, renting, and business activities	8,452.3	9,362.5	10,649.9	12,211.1
Public administration and defense; compulsory social security	7,055.4	8,241.9	9,548.7	11,877.7
Education	2,863.0	3,433.8	3,864.6	4,870.2
Health and social work	2,609.7	3,522.2	4,441.4	5,398.8
Other	1,996.1	2,161.5	2,512.6	2,839.4
FISIM	-2,240.9	-2,793.7	-3,788.2	-5,056.2
Gross value added (basic prices)	78,882.5	88,086.7	100,918.9	110,532.7
Taxes on products less subsidies on products	19,499.5	19,893.9	22,891.8	27,859.0
GDP (market prices)	98,382.0	107,980.6	123,810.7	138,391.7
	(Percent composition)			
Agriculture, hunting, and forestry	8.3	8.2	7.6	7.0
Fishing	0.2	0.2	0.2	0.1
Mining and quarrying	0.2	0.2	0.5	0.4
Manufacturing	19.5	18.2	18.4	16.6
Electricity, gas, and water supply	3.1	3.2	3.0	3.2
Construction	4.7	5.5	6.0	5.6
Whole and retail trade	9.7	10.3	10.5	9.6
Hotels and restaurants	2.1	2.5	2.6	2.5
Transport, storage, and communication	7.9	7.4	7.3	7.7
Financial intermediation	3.4	3.7	3.3	3.9
Real estate, renting, and business activities	8.6	8.7	8.6	8.8
Public administration and defense; compulsory social security	7.2	7.6	7.7	8.6
Education	2.9	3.2	3.1	3.5
Health and social work	2.7	3.3	3.6	3.9
Other	2.0	2.0	2.0	2.0
FISIM	-2.3	-2.6	-3.1	-3.7
Gross value added (basic prices)	80.2	81.6	81.5	79.9
Taxes on products less subsidies on products	19.8	18.4	18.5	20.1
GDP (market prices)	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

1/ Revised series based on the national classification of economic activities

2/ Preliminary estimates.

Table 20. Croatia: Gross Domestic Product at Constant Prices, 1996-98 1/
(Annual percentage change)

	1996	1997	1998 2/
Agriculture, hunting and forestry	1.8	2.4	3.8
Fishing	-20.4	-3.4	-2.6
Mining and quarrying	-3.0	0.1	-2.4
Manufacturing	1.7	4.3	2.7
Electricity, gas and water supply	20.8	24.4	8.7
Construction	18.8	13	3.2
Wholesale and retail trade	15.6	13.2	-0.6
Hotels and restaurants	21.8	18.1	3.4
Transport, storage and communication	7.0	3.5	3.7
Financial intermediation	1.3	6.3	8.4
Real estate, renting and business activities	2.5	5.2	4.2
Public administration and defense; compulsory social security	2.3	2	2.3
Education	0.7	3.7	3.5
Health and social work	1.7	3.0	1.1
Other community, social and personal service activities	2.5	5.9	5.1
Private households with employed persons	27.2	14.7	42.7
FISIM	5.1	9.5	7.2
Taxes on products less subsidies on products	5.4	5.6	5.8
GDP (market prices)	5.9	6.8	2.5

Source: Central Bureau of Statistics.

1/ Prices of the previous year. Revised series based on the national classification of economic activities.

2/ Preliminary estimates.

Table 21. Croatia: Trends in Industrial Production, 1992-99

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

	Total Industry	Energy	Intermediate Goods, Except Energy	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	78.2
1994	91.4	116.9	98.2	78.9	105.7	83.3
1995	91.7	133.9	90.2	81.5	93.2	88.4
1996	94.6	146.5	97.1	86.5	93.6	82.8
1997	101.0	171.3	95.2	92.3	122.7	92.6
1998	104.8	177.6	99.0	93.6	120.6	96.6
1993						
Q1	94.7	124.0	99.6	108.6	113.4	76.6
Q2	94.9	109.1	99.6	119.4	113.5	73.8
Q3	90.8	106.3	95.9	96.2	99.9	78.1
Q4	95.6	118.6	94.5	105.5	107.3	84.5
1994						
Q1	87.1	125.0	91.0	70.5	105.2	79.6
Q2	90.3	102.9	103.2	82.1	106.2	77.9
Q3	90.5	119.1	97.4	72.0	97.0	84.6
Q4	97.8	120.6	101.1	90.9	114.5	91.1
1995						
Q1	91.7	148.8	89.4	77.6	97.5	85.1
Q2	92.6	135.5	94.3	82.0	95.6	86.4
Q3	87.2	120.1	87.3	75.7	91.3	85.4
Q4	95.4	131.1	89.8	90.7	88.4	96.9
1996						
Q1	91.7	161.1	92.0	79.5	90.7	78.5
Q2	93.9	131.2	98.6	93.7	90.5	79.5
Q3	93.0	132.4	98.3	87.8	97.2	82.2
Q4	99.6	1612.0	99.5	85.1	96.1	91.1
1997						
Q1	94.3	186.7	86.5	83.0	115.5	83.6
Q2	100.2	157.3	97.3	93.4	138.1	92.2
Q3	98.8	147.3	89.1	88.6	114.7	97.2
Q4	110.6	194.1	107.9	104.1	122.6	97.4
1998						
Q1	100.3	193.0	94.1	90.5	119.0	87.2
Q2	105.3	147.9	105.7	101.5	122.9	95.8
Q3	107.5	165.4	97.7	94.7	121.5	106.5
Q4	106.0	204.2	98.3	87.6	119.0	96.7
1999						
Q1	96.7	228.3	86.2	77.6	116.0	82.4
Q2	105.0	175.9	104.9	88.2	128.4	92.7
Q3	102.6	165.8	97.6	92.4	128.3	94.1

Source: Central Bureau of Statistics.

Table 22. Croatia: Agricultural Production, 1991-98

(Previous year=100)

	1991	1992	1993	1994	1995	1996	1997	1998
Total production - net	92.8	86.5	104.9	97.0	100.7	101.6	103.4	109.9
Field crops	101.8	68.6	115.7	100.3	108.4	100.6	107.8	109.0
Cereals	106.7	60.5	126.4	93.8	107.2	98.5	114.8	103.5
Industrial crops	94.8	80.7	100.6	90.0	104.5	110.5	105.4	142.6
Meadow crops	104.4	67.3	103.7	107.5	102.1	99.5	113.2	102.1
Fruit	138.6	103.7	81.6	81.6	111.4	127.9	71.6	111.9
Viniculture	107.2	96.3	104.3	91.7	93.4	110.0	108.8	103.7
Stock-raising	75.9	100.8	92.0	98.3	92.8	99.3	103.0	107.7
Cattle	74.0	117.4	88.8	94.4	93.4	98.4	97.1	100.8
Pigs	73.0	99.6	97.2	101.3	91.1	98.4	102.0	110.7

Source: Central Bureau of Statistics.

Table 23. Croatia: Tourism—Overnight Stays, 1989-99

(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
1998	31,287	5,285	26,002
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
1998			
Jan.	271	183	88
Feb.	294	182	112
Mar.	361	204	157
Apr.	763	246	517
May	1,357	314	1,043
Jun.	3,566	478	3,088
Jul.	9,042	1,355	7,687
Aug.	11,465	1,506	9,959
Sep.	3,112	349	2,763
Oct.	564	191	373
Nov.	249	145	104
Dec.	243	133	110
1999			
Jan.	252	168	84
Feb.	259	157	102
Mar.	324	167	157
Apr.	595	223	372
May	1,102	285	817
Jun.	2,620	473	2,147
Jul.	7,975	1,427	6,548
Aug.	9,717	1,483	8,234

Source: Central Bureau of Statistics.

Table 24. Croatia: Nights Spent by Tourists According to Type of Accommodation, 1992-98

(In thousands)

	1992	1993	1994	1995	1996	1997	1998
	(Total nights spent)						
Hotels	4,983	5,729	8,433	5,587	8,551	11,247	11,387
Pensions	15	23	21	15	31	51	58
Motels	100	82	103	95	111	140	89
Overnight lodging houses	32	21	27	29	41	42	43
Tourist facilities	1,648	2,178	3,357	1,972	3,083	3,791	3,667
Inns and other food and lodging establishments	2	2	2	2	5	40	67
Spas and sanatoriums	300	199	283	262	172	207	166
Company vacation facilities	140	139	248	303	401	685	574
Vacation facilities for children and adolescents	61	107	219	192	225	372	370
Campgrounds	2,651	3,562	5,079	3,429	5,815	7,857	8,650
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	709	748	2,054	840	2,806	5,660	6,020
Other	84	119	151	159	215	224	196
Total	10,725	12,908	19,977	12,884	21,457	30,313	31,287
	(Nights spent by tourists from Croatia)						
Hotels	2,067	2,053	2,610	2,569	2,732	2,793	2,623
Pensions	10	9	6	7	10	14	21
Motels	64	53	64	66	73	107	53
Overnight lodging houses	12	10	14	16	21	19	21
Tourist facilities	391	369	410	466	502	434	414
Inns and other food and lodging establishments	1	1	1	1	3	12	16
Spas and sanatoriums	252	119	130	173	139	156	125
Company vacation facilities	78	88	173	225	251	442	382
Vacation facilities for children and adolescents	16	41	108	108	107	200	235
Campgrounds	161	257	368	351	388	445	458
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	95	97	449	279	527	839	812
Other	23	54	88	108	158	155	126
Total	3,170	3,150	4,421	4,369	4,911	5,616	5,286
	(Nights spent by foreign tourists)						
Hotels	2,916	3,676	5,823	3,018	5,819	8,454	8,765
Pensions	5	14	15	8	21	37	37
Motels	36	29	39	29	38	33	36
Overnight lodging houses	20	11	13	13	21	23	23
Tourist facilities	1,257	1,809	2,947	1,506	2,581	3,358	3,253
Inns and other food and lodging establishments	1	1	1	1	2	27	50
Spas and sanatoriums	48	80	153	88	33	51	41
Company vacation facilities	62	51	75	78	150	242	191
Vacation facilities for children and adolescents	45	66	111	84	118	171	135
Campgrounds	2,490	3,305	4,711	3,078	5,427	7,412	8,192
Housekeeping facilities - private rooms, apartments, villas and weekend cottages	614	651	1,605	561	2,279	4,820	5,208
Other	61	65	63	51	57	69	71
Total	7,555	9,758	15,556	8,515	16,546	24,697	26,002

Source: Central Bureau of Statistics.

Table 25. Croatia: Nights Spent by Tourists According to Country of Origin, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(Number of nights; in thousands)							
Total	7,044	9,758	15,556	8,515	16,546	24,697	26,002
European Union	3,642	5,130	8,027	4,569	8,987	13,024	14,141
Eastern Europe	3,257	4,133	6,946	3,503	6,844	10,697	11,386
Other European	36	338	397	297	443	743	245
Non-European	109	156	186	147	272	232	230
(In percent)							
Total	100.0	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	54.4
Eastern Europe	46.2	42.4	44.7	41.1	41.4	43.3	43.8
Other European	0.5	3.5	2.6	3.5	2.7	3.0	0.9
Non-European	1.5	1.6	1.2	1.7	1.6	0.9	0.9

Source: Central Bureau of Statistics.

Table 26. Croatia: Composition of Employment, 1996-98 1/

(In thousands)

	1996 ^{2/}	1997 ^{2/}	1998 ^{3/}
Total	1,195.1	1,187.9	1,271.7
A. Agriculture, hunting and forestry	39.1	33.5	32.5
B. Fishing	1.4	1.2	3.7
C. Mining and quarrying	8.5	8.5	8.2
D. Manufacturing	306.7	284.5	305.4
E. Electricity, gas and water supply	26.5	26.7	26.9
F. Construction	65.7	67.2	96.5
G. Wholesale and retail trade	141.4	146.5	200.8
H. Hotels and restaurants	44.0	43.2	75.6
I. Transport, storage and communication	86.1	88.0	98.5
J. Financial intermediation	26.9	27.5	29.2
K. Real estate, renting and business activities	40.0	41.9	61.4
L. Public administration and defense; compulsory social security	45.0	44.8	122.6
M. Education	76.8	77.1	78.8
N. Health and social work	77.7	78.0	81.4
O. Other community, social and personal service activities	26.6	26.8	38.4
P. Private households with employed persons	...	...	5.8
Q. Extra-territorial organizations and bodies	0.0	0.0	1.8
Not classified by activity 4/	...	...	4.2

Source: Central Bureau of Statistics.

1/ Since 1996, data have been classified according to the national classification of economic activities. Earlier data, collected according to uniform classification of economic activities, is not comparable.

2/ Excludes persons employed in crafts and trades and free-lances, the police and defense, as well as private farmers.

3/ Excludes private farmers only.

4/ Refers to the persons employed in crafts and trades and free-lances.

Table 27. Croatia: Trends in Employment and Unemployment, 1990-98 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)
1990	1,670,096	285,766	1,955,862	195,466	2,151,328	9.1
1991	1,482,740	343,650	1,826,390	283,308	2,109,698	13.4
1992	1,221,333	435,200	1,656,533	261,050	1,917,583	13.6
1993	1,054,357	586,823	1,641,180	243,096	1,884,276	12.9
1994	870,787	716,791	1,587,578	247,555	1,835,133	13.5
1995	799,665	738,804	1,538,469	249,070	1,787,539	13.9
1996 5/	667,979	764,232	1,432,211	264,124	1,696,335	15.6
1997 5/	644,047	746,383	1,390,430	284,611	1,675,041	17.0
1998 5/	607,052	748,990	1,392,042	292,332	1,683,374	17.4

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, differs from that shown in the basic indicators table.

5/ End-March.

Table 28. Croatia: Trends in Total Labor Costs, 1998-99 1/

(In thousands of kunas)

	Gross Salaries	Net Salaries	Contributions from Salaries	Income Tax	Compensation from Employment and Work	Other Contributions
1998						
Jan.	3,164,429	2,051,607	721,490	391,332	177,967	11,297
Feb.	3,195,320	2,072,272	728,533	394,515	188,474	11,407
Mar.	3,199,320	2,077,493	729,430	392,331	223,539	11,421
Apr.	3,300,076	2,128,935	752,417	418,724	230,030	11,781
May	3,359,352	2,163,644	765,932	429,776	210,396	11,993
Jun.	3,504,945	2,236,662	799,127	469,156	202,211	12,513
Jul.	3,483,188	2,285,840	717,537	479,811	207,247	12,435
Aug.	3,518,010	2,308,299	724,710	485,001	188,210	12,559
Sep.	3,446,944	2,265,621	710,070	471,253	206,521	12,306
Oct.	3,469,779	2,269,571	714,774	485,434	213,395	12,387
Nov.	3,545,118	2,309,132	730,294	505,692	22,721	12,656
Dec.	3,591,774	2,342,731	739,905	509,138	380,440	12,823
1999						
Jan.	3,416,722	2,322,572	703,845	390,305	159,247	12,198
Feb.	3,331,967	2,268,552	686,385	377,030	169,025	11,895
Mar.	3,301,016	2,249,672	680,009	371,335	191,902	11,785
Apr.	3,446,458	2,334,252	709,970	402,236	185,305	12,304
May	3,572,691	2,413,320	735,974	423,397	186,549	12,755
Jun.	3,557,639	2,397,365	732,874	427,400	204,324	12,701
Jul.	3,646,494	2,458,320	751,178	436,996	406,968	13,018

Source: Payment Agency (ZAP).

1/ Excluding employees of the Ministry of Defense and the Ministry of Internal Affairs

Table 29. Croatia: Trends in Average Monthly Net Wages and Salaries, 1994-99 1/

	Total	Total
	(In HRK)	(In US\$)
1994	1,402.9	234.0
1995	1,818.0	347.8
1996	2,033.0	374.1
1997	2,377.0	386.0
1998	2,681.0	421.4
1996	2,033.0	374.1
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	386.0
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
1998	2,681.0	421.4
Jan.	2,501.0	392.7
Feb.	2,475.0	387.7
Mar.	2,548.0	395.8
Apr.	2,592.0	400.9
May	2,626.0	410.6
Jun.	2,699.0	414.8
Jul.	2,756.0	421.3
Aug.	2,720.0	422.4
Sep.	2,729.0	439.1
Oct.	2,793.0	459.2
Nov.	2,806.0	447.7
Dec.	2,935.0	470.1
1999		
Jan.	2,946.0	466.4
Feb.	2,884.0	432.2
Mar.	2,992.0	428.9
Apr.	3,045.0	429.5
May	3,039.0	425.6
Jun.	3,076.0	420.9
Jul.	3,043.0	413.9
Aug.	3,064.0	428.9

Sources: Central Bureau of Statistics; and IMF staff estimates.

1/ Comprises the formerly socially owned industrial sector ("economy") and the general government sector ("non-economy"). Persons employed in the police and defense, in crafts and trades and free-lances and private farmers are not included.

Table 30. Croatia: Average Gross Monthly Pay Per Employee, 1996-99 1/ 2/

(In kuna)

	1996	1997	1998	1999 3/
Total	3,243	3,668	4,131	4,476
A. Agriculture, hunting and forestry	3,013	3,377	3,558	3,778
B. Fishing	2,779	2,784	3,106	3,057
C. Mining and quarrying	3,838	4,206	4,351	4,573
D. Manufacturing	3,034	3,358	3,681	3,834
E. Electricity, gas and water supply	3,840	4,148	4,729	5,105
F. Construction	2,872	3,229	3,473	3,604
G. Wholesale and retail trade	2,948	3,349	3,558	3,526
H. Hotels and restaurants	2,740	3,048	3,453	3,600
I. Transport, storage and communication	3,387	3,970	4,324	4,852
J. Financial intermediation	4,776	5,625	6,413	6,903
K. Real estate, renting and business activities	3,659	4,125	4,643	4,957
L. Public administration and defense; compulsory social security	3,737	4,155	5,053	6,056
M. Education	2,963	3,322	4,046	4,490
N. Health and social work	3,563	4,150	4,989	5,606
O. Other community, social and personal service activities	3,668	4,302	4,662	4,922
P. Private households with employed persons	...	...	...	...
Q. Extra-territorial organizations and bodies	...	...	...	...

Source: Central Bureau of Statistics.

1/ Since 1996, data have been classified according to the national classification of economic activities. Earlier data, collected according to uniform classification of economic activities, is not comparable.

2/ Excludes persons in employment in crafts and trades and free-lances, the police and defense, as well as private farmers.

3/ January-August average.

Table 31. Croatia: Indices of Nominal Net Wages and Salaries Per Employee, 1996-99 1/ 2/

(1997=100)

	1996	1997	1998	1999 3/
Total	85.5	100.0	112.8	126.7
A. Agriculture, hunting and forestry	85.9	100.0	106.6	117.7
B. Fishing	94.5	100.0	116.6	116.0
C. Mining and quarrying	88.1	100.0	105.3	116.5
D. Manufacturing	87.3	100.0	110.3	119.6
E. Electricity, gas and water supply	87.7	100.0	113.1	127.0
F. Construction	87.2	100.0	109.4	117.9
G. Wholesale and retail trade; repair	85.4	100.0	107.4	111.7
H. Hotels and restaurants	86.9	100.0	113.5	122.1
I. Transport, storage and communication	83.2	100.0	109.3	126.9
J. Financial intermediation	82.3	100.0	113.7	127.5
K. Real estate, renting and business activities	85.3	100.0	112.5	125.4
L. Public administration and defense; compulsory social security	86.7	100.0	120.2	146.8
M. Education	85.7	100.0	120.7	138.9
N. Health and social work	83.3	100.0	119.5	139.2
O. Other community, social and personal service activities	82.4	100.0	109.2	120.4
P. Private households with employed persons	...	...	...	...
Q. Extra-territorial organizations and bodies	...	...	...	...

Source: Central Bureau of Statistics.

1/ Since 1996, data have been classified according to the national classification of economic activities. Earlier data, collected according to uniform classification of economic activities, is not comparable.

2/ Excludes persons in employment in crafts and trades and free-lances, the police and defense, as well as private farmers.

3/ January-August average.

Table 32. Croatia: Indices of Real Net Wages and Salaries Per Employee, 1996-98 1/ 2/
(1997=100)

	1996	1997	1998
Total	89.0	100.0	106.0
A. Agriculture, hunting and forestry	89.4	100.0	100.2
B. Fishing	98.3	100.0	109.6
C. Mining and quarrying	91.7	100.0	98.9
D. Manufacturing	90.8	100.0	103.6
E. Electricity, gas and water supply	91.3	100.0	106.3
F. Construction	90.7	100.0	102.8
G. Wholesale and retail trade; repair	88.9	100.0	101.0
H. Hotels and restaurants	90.4	100.0	106.7
I. Transport, storage and communication	86.6	100.0	102.7
J. Financial intermediation	85.6	100.0	106.8
K. Real estate, renting and business activities	88.8	100.0	105.7
L. Public administration and defense; compulsory social security	90.2	100.0	112.9
M. Education	89.2	100.0	113.4
N. Health and social work	86.7	100.0	112.3
O. Other community, social and personal service activities	85.7	100.0	102.6
P. Private households with employed persons	...	...	...
Q. Extra-territorial organizations and bodies	...	...	...

Source: Central Bureau of Statistics.

1/ Since 1996, data have been classified according to the national classification of economic activities. Earlier data, collected according to uniform classification of economic activities, is not comparable.

2/ Excludes persons in employment in crafts and trades and free-lances, the police and defense, as well as private farmers.

Table 33. Croatia: Price Developments, 1993-99

	Retail Prices			Producer Prices		
	Index Dec. 1994=100	Rate of Growth		Index Dec. 1994=100	Rate of Growth	
		Previous Period	Same Month Previous Year		Previous Period	Same Month Previous Year
1993	50.6	1,516.6	...	57.0	1,512.4	...
1994	100.0	97.6	...	101.3	77.6	...
1995	102.0	2.0	...	102.0	0.7	...
1996	105.6	3.5	...	103.4	1.4	...
1997	109.4	3.6	...	105.8	2.3	...
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	5.3	103.9	-0.8	-0.4
Feb.	114.5	0.4	5.7	103.8	-0.1	-0.3
Mar.	114.8	0.2	5.8	101.8	-1.9	-0.7
Apr.	115.1	0.3	6.0	102.0	0.2	-0.7
May	115.7	0.5	6.0	101.9	-0.1	-0.6
Jun.	115.7	0.0	5.8	102.1	0.2	-0.3
Jul.	115.5	-0.2	5.8	101.8	-0.3	-0.4
Aug.	115.6	0.1	5.2	101.7	-0.1	-2.3
Sep.	116.6	0.9	5.8	101.6	-0.1	-2.3
Oct.	117.2	0.5	6.1	102.0	0.4	-2.1
Nov.	117.4	0.2	5.9	102.5	0.5	-2.4
Dec.	117.6	0.2	5.4	102.5	0.0	-2.1
1999						
Jan.	118.2	0.5	3.4	102.6	0.1	-0.9
Feb.	118.6	0.3	3.4	103.4	0.8	0.0
Mar.	119.1	0.4	3.5	102.8	-0.6	1.3
Apr.	119.5	0.3	3.6	103.4	0.6	1.7
May	120.3	0.7	3.8	103.3	-0.1	1.7
Jun.	120.3	0.0	3.8	103.4	0.1	1.5
Jul.	121.6	1.1	5.1	104.3	0.9	2.7
Aug.	121.6	0.0	5.0	105.3	0.9	3.6
Sep.	122.3	0.6	4.7	105.9	0.6	4.3
Oct.	122.8	0.4	4.5	106.3	0.4	4.4
Nov.	122.7	-0.1	4.3	108.2	1.8	5.6

Source: Central Bureau of Statistics.

Table 34. Croatia: Retail Inflation Rates, 1992-99

(Annual average percentage change)

	1992	1993	1994	1995	1996	1997	1998	1999 1/
Total	665.5	1,516.6	97.6	2.0	3.5	3.6	5.7	4.1
Goods	746.8	1,502.4	95.1	0.0	2.4	2.8	4.1	4.1
Agricultural products	623.3	1,135.9	134.5	3.7	0.0	6.5	3.7	-1.0
Industrial products - total	751.1	1,514.2	94.1	-0.2	2.5	2.7	4.1	4.4
Processed food products	740.7	1,442.2	93.3	0.0	4.5	3.6	7.3	0.6
Alcoholic beverages	749.7	1,593.4	108.2	4.4	7.7	3.2	-1.7	4.5
Tobacco	1,050.0	1,278.2	159.1	27.2	18.2	0.0	0.1	7.5
Non-food industrial products	743.3	1,552.6	90.8	-2.2	0.2	2.6	3.9	5.4
Textile products	817.4	1,774.7	103.5	-4.2	-1.5	5.9	4.5	9.2
Fuel and light	659.9	1,807.1	87.6	-3.5	1.9	3.1	1.6	3.5
Household furnishings	771.1	1,776.3	103.8	-5.8	-3.3	1.5	-0.6	4.0
Electric appliances	958.5	1,488.6	62.2	-10.6	-3.9	-2.2	-0.9	4.1
Medicine	374.7	2,665.1	110.5	0.6	-0.6	6.7	18.0	2.0
Services	393.5	1,604.2	110.9	11.9	8.6	7.0	12.1	3.8
Housing services	77.0	1,534.4	142.8	18.1	5.1	1.1	30.9	...
Public utilities and services	358.2	1,805.5	113.7	5.3	4.5	8.9	20.6	...
Transport	486.7	1,681.4	98.8	6.5	5.9	8.2	9.0	2.0
Communications	246.2	1,703.8	95.2	23.8	32.8	15.0	18.1	26.2

Source: Central Bureau of Statistics.

1/ First eleven months over corresponding period in 1998.

Table 35. Croatia: Employment in National Public Enterprises, 1992-98

(End of year, in units)

	1992	1993	1994	1995	1996	1997	1998 1/
HRVATSKA ELEKTROPRIVREDA (Electricity)	14,250	13,984	14,457	14,158	14,664	15,057	15,665
HRVATSKA VODOPRIVREDA (Water Supply)	569	426	400	401	544	579	595
HRVATSKE CESTE (Road Construction)	3,857	3,643	3,715	3,645	3,752	3,816	7,804
HRVATSKE ZELJEZNICE (Railroads)	29,301	22,840	22,004	21,812	21,833	21,966	19,342
HPT (Post and telecommunications)	18,439	19,445	19,687	20,493	20,038	21,055	22,555
HP	...	...	...	...	...	...	12,584
HT	...	...	...	...	...	...	9,971
JADROLINIJA RIJEKA (Coastal navigation)	2,209	1,499	2,113	1,974	2,046	2,030	1,489
HRVATSKA RADIO - TELEVIZIJA (HRT) (Radio and TV)	2,846	2,752	2,719	2,928	3,179	3,369	4,331
HRVATSKE SUME (Forestry)	10,113	9,882	10,201	10,034	9,971	9,284	8,884
NARODNE NOVINE (Printing)	725	763	746	727	701	652	526
INA - INDUSTRIJA NAFTE (Oil refining and distribution)	18,345	18,084	17,965	17,513	16,525	13,974	13,406
Total	100,654	93,318	94,007	93,685	93,253	91,782	94,597

Sources: Central Bureau of Statistics; and State Institute for Macroeconomic Analysis and Forecasting.

1/ End-March

Table 36. Croatia: Number of Enterprises in the Economic Sector and Number of Legal Entities Undergoing Bankruptcy, 1993-98

(End of year)

	Number of Enterprises in the Economic Sector						Number of Legal Entities Undergoing Bankruptcy					
	1993	1994	1995	1996	1997	1998	1993	1994	1995	1996	1997	1998
Total	113,543	143,755	164,104	171,170	177,730	183,306	397	275	348	354	387	294
Total number in the Economic Sector	84,384	117,775	135,682	140,719	145,105	148,247						
Industry	9,607	12,089	13,492	14,003	14,558	15,001	131	84	112	119	128	73
Agriculture and fishing	2,380	3,008	3,349	3,446	3,520	3,584	17	14	20	26	29	23
Forestry	90	124	151	159	173	177	...	...	...	...	...	...
Water supply	35	34	36	35	36	39	...	...	...	...	...	...
Construction	5,643	7,723	9,027	9,643	10,282	10,819	64	45	55	51	56	34
Transport and communication	2,641	4,158	4,740	4,998	5,267	5,465	2	4	6	7	8	10
Trade	42,283	61,401	71,273	73,423	74,902	75,630	110	78	95	91	104	73
Restaurants and Tourism	4,397	6,035	6,837	7,147	7,432	7,758	14	9	11	12	14	9
Artisanship and personal services	3,521	5,029	5,929	6,086	6,171	6,212	24	15	18	17	17	9
Housing and urban services	1,064	1,141	1,200	1,244	1,313	1,385	2	2	3	2	2	4
Financial, engineering and business	12,723	17,033	19,648	20,535	21,451	22,177	33	24	28	28	28	39
Number in Non-economic Sector	29,159	25,980	28,422	30,451	32,625	35,059	...	...	...	...	...	...
Education and culture	11,596	13,064	14,042	14,841	15,571	16,504	...	...	...	...	...	14
Health and social welfare	697	766	837	936	1,044	1,289	...	...	...	...	...	6
Government, funds, associations and organizations	16,866	12,150	13,543	14,674	16,010	17,266	...	...	...	...	...	...

Source: Central Bureau of Statistics.

Table 37. Croatia: Budgetary Central Government Revenue, 1991-99

	1991	1992	1993	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan.-Sep.
(In million of kunas)										
Revenue and grants	64	557	8,471	24,260	27,981	31,367	33,846	43,809	47,909	29,276
Revenue	64	557	8,471	24,260	27,881	31,367	33,846	43,809	47,909	29,276
Current revenue	64	547	8,371	23,906	27,287	30,244	33,385	42,019	42,117	29,082
Tax revenue	63	502	7,892	23,350	26,505	28,530	31,338	40,327	40,023	27,832
Income and profit tax	25	84	936	3,803	4,507	5,488	5,887	7,376	7,372	5,101
Property tax	0	2	63	118	142	172	243	271	260	173
Taxes on goods and services	33	316	5,663	15,894	17,746	18,873	20,502	27,968	27,558	18,971
Taxes on international trade	5	99	1,230	3,487	3,939	3,965	4,676	4,256	4,299	3,241
Other taxes	0	0	0	49	172	33	30	456	533	346
Non-tax revenue	1	45	479	556	782	1,714	2,047	1,692	2,094	1,249
Capital revenue	0	10	100	354	594	1,123	461	1,789	5,792	195
Grants	0	0	0	0	100	0	0	0	0	0
(In percent of GDP)										
Revenue and grants	14.5	20.6	21.7	27.7	28.4	29.2	28.4	31.7	33.7	20.6
Revenue	14.5	20.6	21.7	27.7	28.3	29.2	28.4	31.7	33.7	20.6
Current revenue	14.5	20.2	21.5	27.3	27.7	28.2	28.0	30.4	29.7	20.5
Tax revenue	14.2	18.6	20.2	26.7	26.9	26.6	26.3	29.1	28.2	19.6
Income and profit tax	5.6	3.1	2.4	4.3	4.6	5.1	4.9	5.3	5.2	3.6
Property tax	0.0	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Taxes on goods and services	7.5	11.7	14.5	18.2	18.0	17.6	17.2	20.2	19.4	13.4
Taxes on international trade	1.1	3.7	3.2	4.0	4.0	3.7	3.9	3.1	3.0	2.3
Other taxes	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.3	0.4	0.2
Non-tax revenue	0.2	1.7	1.2	0.6	0.8	1.6	1.7	1.2	1.5	0.9
Capital revenue	0.0	0.4	0.3	0.4	0.6	1.0	0.4	1.3	4.1	0.1
Grants	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
(In percent of total)										
Revenue and grants	100.0	100.0	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	100.0	100.0
Current revenue	100.0	98.2	98.8	98.5	97.5	96.4	98.6	95.9	87.9	99.3
Tax revenue	98.5	90.1	93.2	96.3	94.7	91.0	92.6	92.1	83.5	95.1
Income and profit tax	38.5	15.1	11.0	15.7	16.1	17.5	17.4	16.8	15.4	17.4
Property tax	0.0	0.4	0.7	0.5	0.5	0.5	0.7	0.6	0.5	0.6
Taxes on goods and services	52.1	56.8	66.9	65.5	63.4	60.2	60.6	63.8	57.5	64.8
Taxes on international trade	7.9	17.9	14.5	14.4	14.1	12.6	13.8	9.7	9.0	11.1
Other taxes	0.0	0.0	0.0	0.2	0.6	0.1	0.1	1.0	1.1	1.2
Non-tax revenue	1.5	8.1	5.7	2.3	2.8	5.5	6.0	3.9	4.4	4.3
Capital revenue	0.0	1.8	1.2	1.5	2.1	3.6	1.4	4.1	12.1	0.7
Grants	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0

Source: Ministry of Finance.

Table 38. Croatia: Budgetary Central Government Expenditure and Net Lending, 1992-99

	1992	1993	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan.-Sep.
(In millions of kuna)									
Expenditure and net lending	564	8,403	23,546	28,696	31,502	35,006	42,552	49,334	33,172
Expenditure	564	8,403	23,230	28,476	30,973	34,395	41,473	48,223	32,284
Current expenditure	520	7,742	20,745	25,495	25,930	29,580	34,883	38,180	27,125
Expenditure on goods and services	396	6,111	17,144	20,735	19,623	20,263	22,649	22,510	15,689
Wages and salaries	98	1,941	6,589	8,394	8,365	9,148	10,852	12,013	8,840
Employer contributions	24	484	1,383	1,716	1,966	1,892	2,179	2,577	1,837
Other goods and services	273	3,686	9,173	10,625	9,292	9,223	9,618	7,920	5,012
Interest payments	21	212	1,131	1,392	1,218	1,737	1,951	2,214	1,589
Domestic	21	207	895	911	950	775	917	986	671
External	0	5	236	481	268	962	1,034	1,228	918
Subsidies and other current transfers	103	1,419	2,470	3,369	5,089	7,579	10,283	13,455	9,847
Capital expenditure	44	661	2,485	2,980	5,043	4,815	6,590	10,044	5,160
Lending minus repayments	0	0	316	221	529	611	1,079	1,111	887
(In percent of GDP)									
Expenditure and net lending	20.8	21.5	26.9	29.2	29.4	29.3	30.7	34.7	23.4
Expenditure	20.8	21.5	26.6	28.9	28.9	28.8	30.0	34.0	22.7
Current expenditure	19.2	19.8	23.7	25.9	24.2	24.8	25.2	26.9	19.1
Expenditure on goods and services	14.6	15.7	19.6	21.1	18.3	17.0	16.4	15.9	11.0
Wages and salaries	3.6	5.0	7.5	8.5	7.8	7.7	7.8	8.5	6.2
Employer contributions	0.9	1.2	1.6	1.7	1.8	1.6	1.6	1.8	1.3
Other goods and services	10.1	9.5	10.5	10.8	8.7	7.7	7.0	5.6	3.5
Interest payments	0.8	0.5	1.3	1.4	1.1	1.5	1.4	1.6	1.1
Domestic	0.8	0.5	1.0	0.9	0.9	0.6	0.7	0.7	0.5
External	0.0	0.0	0.3	0.5	0.2	0.8	0.7	0.9	0.6
Subsidies and other current transfers	3.8	3.6	2.8	3.4	4.7	6.4	7.4	9.5	6.9
Capital expenditure	1.6	1.7	2.8	3.0	4.7	4.0	4.8	7.1	3.6
Lending minus repayments	0.0	0.0	0.4	0.2	0.5	0.5	0.8	0.8	0.6
(In percent of total)									
Expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditure	100.0	100.0	98.7	99.2	98.3	98.3	97.5	97.7	97.3
Current expenditure	92.1	92.1	88.1	88.8	82.3	84.5	82.0	77.4	81.8
Expenditure on goods and services	70.1	72.7	72.8	72.3	62.3	57.9	53.2	45.6	47.3
Wages and salaries	17.4	23.1	28.0	29.2	26.6	26.1	25.5	24.3	26.6
Employer contributions	4.3	5.8	5.9	6.0	6.2	5.4	5.1	5.2	5.5
Other goods and services	48.4	43.9	39.0	37.0	29.5	26.3	22.6	16.1	15.1
Interest payments	3.7	2.5	4.8	4.9	3.9	5.0	4.6	4.5	4.8
Domestic	3.7	2.5	3.8	3.2	3.0	2.2	2.2	2.0	2.0
External	0.0	0.1	1.0	1.7	0.8	2.7	2.4	2.5	2.8
Subsidies and other current transfers	18.3	16.9	10.5	11.7	16.2	21.7	24.2	27.3	29.7
Capital expenditure	7.9	7.9	10.6	10.4	16.0	13.8	15.5	20.4	15.6
Lending minus repayments	0.0	0.0	1.3	0.8	1.7	1.7	2.5	2.3	2.7

Source: Ministry of Finance.

Table 39. Croatia: Budgetary Central Government Expenditure by Function, 1991-99

	1991	1992	1993	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan.-Sep.
(In millions of kunas)										
Expenditure by function	83	565	8,403	22,283	28,476	30,973	34,395	41,390	48,223	32,286
General public services	3	21	395	1,675	1,911	1,912	2,183	3,382	3,552	1,997
Defense affairs and services	22	196	3,259	7,650	9,911	7,760	6,991	7,373	5,802	4,104
Public order and safety	15	65	998	2,841	3,351	3,714	4,170	4,251	4,431	3,329
Education	15	60	824	2,865	3,278	3,600	4,051	4,669	5,743	4,124
Health affairs and services	1	3	8	57	78	152	185	817	803	358
Social security and welfare	8	66	856	2,547	3,186	4,408	6,452	8,025	10,816	7,865
Culture	2	7	126	309	430	411	539	577	835	550
Housing	0	10	76	463	1,343	2,603	2,069	2,620	2,527	1,522
Agriculture, forestry and fisheries	2	43	495	653	512	551	616	1,103	1,116	671
Mining, manufacturing, construction	0	0	74	192	255	381	693	729	2,639	1,892
Transportation and communication	7	37	578	1,499	2,232	3,405	3,434	4,073	4,748	2,763
Other	7	58	715	1,532	1,988	2,076	3,013	3,771	5,213	3,112
(In percent of GDP)										
Expenditure by function	18.9	20.9	21.5	25.5	28.9	28.9	28.8	29.9	34.0	22.7
General public services	0.8	0.8	1.0	1.9	1.9	1.8	1.8	2.4	2.5	1.4
Defense affairs and services	4.9	7.2	8.4	8.7	10.1	7.2	5.9	5.3	4.1	2.9
Public order and safety	3.4	2.4	2.6	3.2	3.4	3.5	3.5	3.1	3.1	2.3
Education	3.4	2.2	2.1	3.3	3.3	3.4	3.4	3.4	4.0	2.9
Health affairs and services	0.3	0.1	0.0	0.1	0.1	0.1	0.2	0.6	0.6	0.3
Social security and welfare	1.9	2.4	2.2	2.9	3.2	4.1	5.4	5.8	7.6	5.5
Culture	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.6	0.4
Housing	0.0	0.4	0.2	0.5	1.4	2.4	1.7	1.9	1.8	1.1
Agriculture, forestry and fisheries	0.4	1.6	1.3	0.7	0.5	0.5	0.5	0.8	0.8	0.5
Mining, manufacturing, construction	0.0	0.0	0.2	0.2	0.3	0.4	0.6	0.5	1.9	1.3
Transportation and communication	1.7	1.4	1.5	1.7	2.3	3.2	2.9	2.9	3.3	1.9
Other	1.7	2.1	1.8	1.8	2.0	1.9	2.5	2.7	3.7	2.2
(In percent of total)										
Expenditure by function	100.0	100.0	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	8.2	7.4	6.2
Defense affairs and services	26.0	34.7	38.8	34.3	34.8	27.3	24.5	17.8	12.0	12.7
Public order and safety	18.2	11.4	11.9	12.8	11.8	13.0	14.6	10.3	9.2	10.3
Education	18.2	10.6	9.8	12.9	11.5	12.6	14.2	11.3	11.9	12.8
Health affairs and services	1.5	0.5	0.1	0.3	0.3	0.5	0.6	2.0	1.7	1.1
Social security and welfare	10.1	11.7	10.2	11.4	11.2	15.5	22.7	19.4	22.4	24.4
Culture	1.9	1.3	1.5	1.4	1.5	1.4	1.9	1.4	1.7	1.7
Housing	0.2	1.8	0.9	2.1	4.7	9.1	7.3	6.3	5.2	4.7
Agriculture, forestry and fisheries	2.3	7.5	5.9	2.9	1.8	1.9	2.2	2.7	2.3	2.1
Mining, manufacturing, construction	0.0	0.0	0.9	0.9	0.9	1.3	2.4	1.8	5.5	5.9
Transportation and communication	8.8	6.5	6.9	6.7	7.8	12.0	12.1	9.8	9.8	8.6
Other	8.7	10.2	8.5	6.9	7.0	7.3	10.6	9.1	10.8	9.6

Source: Ministry of Finance.

Table 40. Croatia: Consolidated Central Government Fiscal Accounts, 1991-99

	1991	1992	1993	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan.-Sep.
(In millions of kuna)										
Central budgetary government 1/ 2/										
Revenues and grants	64	557	8,471	24,260	27,481	30,731	33,665	43,809	47,909	29,276
Expenditures plus net lending	70	500	7,482	21,939	26,189	27,592	29,409	34,125	36,178	23,924
Balance	-6	57	989	2,321	1,292	3,139	4,255	9,683	11,730	5,353
Extrabudgetary funds 1/ 3/										
Revenues and grants	75	315	4,849	12,622	15,898	17,940	19,986	21,302	21,656	15,542
Expenditures plus net lending	90	477	6,163	13,529	18,062	21,556	25,827	30,103	34,852	24,808
Balance	-15	-162	-1,314	-907	-2,164	-3,617	-5,841	-8,801	-13,196	-9,266
Consolidated central government 1/										
Revenues and grants	139	872	13,320	36,882	43,379	48,671	53,651	65,111	69,555	44,818
Expenditures plus net lending	160	977	13,645	35,469	44,251	49,148	55,236	64,229	71,030	48,732
Balance	-21	-105	-326	1,413	-872	-477	-1,586	882	-1,475	-3,913
(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	31.7	33.7	20.6
Expenditures plus net lending	15.9	18.5	19.2	25.1	26.6	25.7	24.6	24.7	25.5	16.8
Balance	-1.4	2.1	2.5	2.7	1.3	2.9	3.6	7.0	8.3	3.8
Extrabudgetary funds 1/ 3/										
Revenues and grants	17.0	11.6	12.4	14.4	16.2	16.7	16.7	15.4	15.3	10.9
Expenditures plus net lending	20.3	17.6	15.8	15.5	18.4	20.1	21.6	21.8	24.5	17.5
Balance	-3.3	-6.0	-3.4	-1.0	-2.2	-3.4	-4.9	-6.4	-9.3	-6.5
Consolidated central government 1/										
Revenues and grants	31.5	32.2	34.2	42.2	44.1	45.4	45.0	47.0	49.0	31.6
Expenditures plus net lending	36.2	36.1	35.0	40.6	45.0	45.8	46.3	46.4	50.0	34.3
Balance	-4.7	-3.9	-0.8	1.6	-0.9	-0.4	-1.3	0.6	-1.0	-2.8

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Includes since 1994 the Croatian Roads Fund.

3/ Composed of the Pension Fund, Health Fund, Employment Fund, Child Benefits Fund, and Public Water Management Fund.

Table 41. Croatia: Outstanding Stocks of Domestic Debt of the Central Budgetary Government, 1991-99

(In millions of deutsche marks at current exchange rates, end of period)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 October
Medium- and long-term credits from the Croatian National Bank (CNB)	0.0	31.3	4.1	4.3	104.1	57.9	3.1	0.0	0.0
CNB loan I	0.0	31.3	4.1	4.3	3.8	3.5	3.1	0.0	0.0
CNB loan III	0.0	0.0	0.0	0.0	100.3	54.4	0.0	0.0	0.0
Frozen foreign exchange deposits (ffcd)	5,033.9	4,653.6	3,989.7	3,245.9	2,796.3	2,382.8	2,102.4	1,718.0	1,447.0
Bonds 1993 (interest ffcd)	0.0	0.0	107.4	89.5	53.7	17.9	0.0	0.0	0.0
Bonds 1994-1 (interest ffcd)	0.0	0.0	0.0	47.6	0.0	0.0	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	0.0	0.0
Bonds JDA 1995-1 (principal ffcd)	0.0	0.0	0.0	0.0	153.7	128.1	76.9	25.6	0.0
Bonds JDB 1995,1996 (principal ffcd)	0.0	0.0	0.0	0.0	0.0	147.1	98.1	49.0	0.0
"Big Bonds" - Series I	1,550.1	1,597.3	1,420.0	1,360.7	1,301.4	445.1	415.4	391.3	334.6
"Big Bonds" - Series II (Rijecka & Splitska)	0.0	0.0	0.0	0.0	0.0	220.0	211.4	199.5	192.5
"Big Bonds" - Series III (Privredna)	0.0	0.0	0.0	0.0	0.0	209.0	205.1	196.9	188.3
"Big Bonds" - Series IV (Privredna Banka)	0.0	0.0	0.0	0.0	0.0	213.4	182.8	116.0	40.9
BRA bonds - Series I (Rijecka & Splitska)	0.0	0.0	0.0	0.0	0.0	313.1	267.0	284.6	272.6
BRA bonds - Series II (Privredna Banka)	0.0	0.0	0.0	0.0	0.0	86.4	84.5	80.4	76.1
BRA bonds - Series III (Privredna Banka)	0.0	0.0	0.0	0.0	0.0	216.5	212.5	199.8	190.7
BRA bonds - Series IV (Privredna Banka)	0.0	0.0	0.0	0.0	0.0	120.6	118.0	110.1	104.2
BRA bonds - Series VA (Dubrovačka Banka)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	134.1	113.4
BRA bonds - Series VB (Dubrovačka Banka)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	409.6
Reconstruction bonds	0.0	0.0	16.3	10.9	8.0	7.3	5.5	6.1	5.8
Depreciation loan	0.0	0.0	0.0	278.5	185.7	95.7	0.0	0.0	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	76.4	105.7	151.3	197.6
Total	6,584.0	6,282.2	5,537.4	5,037.4	4,612.5	4,982.1	4,284.1	3,662.7	3,573.3

Source: Ministry of Finance.

Table 42. Croatia: Government Employment, 1992-97

(End of period)

	1992	1993	1994	1995	1996	1997
(In units)						
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 1/
(In percent of total employment)						
Total general government	18.3	18.9	19.4	19.8	19.3	19.7
Budgetary central government	1.5	1.2	1.1	1.5	1.5	1.7
Regional and local governments	1.6	1.6	2.1	1.6	1.6	1.7
Extrabudgetary funds	0.5	0.5	0.5	0.6	0.6	0.6
Providers of						
Health care	3.7	3.8	3.7	6.0	6.0	5.6
Education	3.3	3.5	3.5	5.6	5.5	5.6
Social services	1.2	1.3	1.3	2.1	2.1	2.0
Culture, arts and information	0.9	0.9	0.9	1.4	1.4	1.6

Source: Croatian Ministry of Finance.

1/ Excluding ZAP and the CNB.

Table 43. Croatia: Health Insurance, 1992-98

(Number of persons insured; annual averages)

	1992	1993	1994	1995	1996	1997	1998
Total	4,608,466	4,571,955	4,591,341	4,629,280	4,634,634	4,634,142	4,075,226
Currently employed 1/	1,606,984	1,573,520	1,564,494	1,588,344	1,599,226	1,604,895	1,430,649
Pensioners	712,032	742,828	778,400	799,892	821,909	850,052	931,169
Unemployed persons	178,618	166,534	161,660	158,164	174,123	189,844	192,148
Family members	1,847,566	1,818,717	1,813,077	1,811,602	1,824,209	1,824,144	1,319,571
Refugees and displaced persons	191,000	191,000	191,000	191,649	138,088	80,585	28,243
Other	72,266	79,356	82,710	79,629	77,079	84,652	173,446

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

1/ Including active farmers.

Table 44. Croatia: Disability and Retirement Insurance, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(Number of persons)							
Retirement benefits	762,072	784,364	813,382	863,551	874,061	907,479	938,647
Disability pensions	183,530	181,614	184,989	193,654	197,049	207,858	212,753
Old-age pensions	387,405	409,122	433,180	443,688	451,046	467,363	487,431
Survivor pensions	191,137	193,628	195,213	200,589	196,603	202,866	212,709
Former republics of former Yugoslavia			25,620	29,118	29,363	29,392	26,354
Disability compensation (for bodily injury)	95,153	100,964	104,172	104,819	105,392	105,919	107,093
Disabled workers - retraining or additional training	2,472	2,159	2,102	2,476	953	651	444
Disabled workers - unemployment benefits	7,418	11,654	13,061	14,434	21,016	37,699	39,688
Compensation for less than full-time employment	16,947	16,192	16,145	14,390	11,811	12,028	6,876
Compensation for reduced pay on new job	32,043	31,637	32,956	32,217	28,335	25,823	23,103
(Expenditures, in thousands of kunas)							
Total	208,836	3,318,269	3,479,061	10,667,302	12,343,273	15,448,078	16,535,589
Disability pensions	39,383	593,397	1,245,613	1,648,754	1,969,763	2,944,078	3,341,432
Old-age pensions	108,681	1,756,203	3,698,375	4,412,054	4,758,209	6,648,471	7,493,421
Survivor pensions	36,132	571,993	1,208,417	1,510,676	1,672,647	2,434,623	290,444
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	81,431
Costs and compensations associated with retraining and additional training of disabled workers	4,471	96,256	240,043	257,632	351,947	640,939	789,832
Contributions to housing construction	2,754	36,128	3,243	1,782,484	1,924,702	1,721,989	344,452
Administrative costs	4,933	91,481	166,327	316,078	222,901	250,774	328,785
Other	11,100	152,102	1,874,265	274,842	326,365	724,245	1,251,782

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

Table 45. Croatia: Accounts of the Health Fund, 1994-99

(In millions of kuna)

	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan-Sep
Revenue and grants	5,942	7,602	8,751	9,343	11,552	12,964	8,972
Current revenue	5,819	7,253	8,134	8,536	9,915	10,378	7,503
Social security contribution							
(including transfers from Pension Fund)	5,553	6,960	7,779	8,418	9,783	10,185	7,352
Nontax revenue	266	293	355	118	132	192	150
Capital revenue	0	0	0	25	76	0	0
Grants (current transf. from the government)	122	349	617	782	1,561	2,586	1,469
Expenditure and net lending	5,636	7,592	8,924	9,434	11,571	12,964	9,055
Current expenditure	5,636	7,528	8,737	9,176	11,401	12,834	8,959
Wages and salaries	1,810	2,580	2,807	3,353	3,858	4,221	3,099
Employer contributions	380	510	567	691	795	863	638
Other purchases of goods and services	2,790	3,308	3,729	3,168	4,671	5,490	3,816
Interest	0	0	0	15	12	19	10
Transfers to households	655	1130	1634	1949	2,065	2,241	1,396
Capital expenditure (acquis. of fixed capital assets)	0	64	187	258	170	130	96
Net lending	0	0	0	0	0	0	0
Current balance excluding grants	184	-275	-602	-640	-1,486	-2,456	-1,456
Overall balance	306	10	-173	-91	-19	0	-83
Financing	-306	-10	173	91	19	0	83
Foreign	0	0	84	71	37	0	3
Domestic	-306	-10	89	20	-19	0	80
<i>Of which</i> : From deposit money banks	-306	-10	89	20	-19	0	80

Sources: Ministry of Finance; and IMF staff estimates.

Table 46. Croatia: Accounts of the Pension and Disability Insurance Fund, 1991-99

(In millions of kuna)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 Revised Budget	1999 Jan.-Sep.
Revenue and grants	46	188	3,008	8,325	10,524	12,407	15,300	16,137	19,348	14,107
Current revenue	43	185	2,968	8,322	10,030	11,106	12,439	11,907	12,968	9,229
Social security contributions	42	170	2,636	8,041	9,807	10,951	12,244	11,767	12,897	9,181
Other nontax revenue (mostly property income)	1	15	332	281	223	155	196	140	72	48
Capital revenue (sales of shares)	0	0	0	0	162	141	236	431	150	79
Grants (transfer from the budget)	2	3	40	3	332	1,160	2,624	3,799	6,229	4,799
Expenditure and net lending	46	209	3,318	8,002	10,667	12,411	15,548	16,555	19,348	14,108
Current expenditure	46	209	3,318	8,002	10,651	12,394	15,533	16,521	19,318	14,102
Wages and salaries	1	3	46	99	133	143	164	223	253	184
Employer contributions	0	0	10	22	24	27	31	42	52	35
Other purchases of goods and services	3	13	184	258	321	258	340	328	399	289
Interest	0	0	0	4	2	1	14	28	23	42
Transfer to the Health Fund 1/	0	0	0	1,295	1,782	1,925	1,722	344	0	0
Pension payments	42	193	3,078	6,324	8,389	10,040	13,263	15,500	18,532	13,551
Capital expenditure	0	0	0	0	16	18	15	34	30	6
Net lending	0	0	0	0	0	0	0	0	0	0
Current balance excluding grants	-2	-24	-351	320	-621	-1,288	-3,093	-4,614	-6,349	-4,872
Overall balance	0	-21	-310	323	-143	-4	-248	-418	0	-1
Financing	0	21	310	-323	143	4	248	418	0	1
Foreign	0	0	0	0	0	0	0	0	0	0
Domestic	0	21	310	-323	143	4	248	418	0	1
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	21.5	21.5
Total expenditure on pensions in percent of GDP	9.6	7.1	7.9	7.2	8.5	9.4	11.1	11.2	13.1	9.5

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.

Table 47. Croatia: Key Indicators of the Pension System, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998
Total number of pensioners (end-of-period)	646,140	762,072	784,364	813,382	863,551	874,061	907,479	919,409
<i>Of which</i> : Old-age pensioners	310,068	387,405	409,122	433,180	443,688	451,046	467,363	496,714
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	1,471,509
<i>Of which</i> : Workers' Fund	1,555,734	1,442,406	1,410,638	1,354,146	1,340,951	1,267,650	1,270,226	1,282,576
Dependency ratio (insured/pensioners) 1/	2.4	1.9	1.8	1.7	1.6	1.5	1.4	1.4
Old-age dependency ratio 2/	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Average old-age monthly pension (period average; in kunas)	6	25	376	755	924	994	1,154	1,314
Net replacement rate for old-age pensions 3/	74.2	73.6	71.4	60.6	50.8	48.9	48.6	49.0

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.

Table 48. Croatia: Consolidated General Government, 1994-98

	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	(In millions of kuna)					(Percent of GDP)				
Revenue and grants	40,325	47,440	54,385	60,200	72,738	46.1	48.2	50.4	48.6	52.6
Revenue	40,325	47,430	54,371	60,182	72,687	46.1	48.2	50.4	48.6	52.5
Current revenue	39,965	46,451	52,779	58,987	69,947	45.7	47.2	48.9	47.6	50.5
Tax revenue	37,898	43,677	47,962	53,282	64,506	43.3	44.4	44.4	43.0	46.6
Income and profit tax including social security contributions	17,728	21,053	24,222	26,943	30,743	20.3	21.4	22.4	21.8	22.2
Personal income tax	5,317	5,732	6,916	6,714	8,051	6.1	5.8	6.4	5.4	5.8
Social security contributions	11,525	13,920	15,534	17,725	19,215	13.2	14.1	14.4	14.3	13.9
Profits tax	887	1,401	1,772	2,504	3,477	1.0	1.4	1.6	2.0	2.5
Property tax	306	476	551	748	810	0.3	0.5	0.5	0.6	0.6
Domestic taxes on goods and services	15,797	17,763	18,895	20,538	27,968	18.1	18.1	17.5	16.6	20.2
General sales, or VAT	13,107	12,802	13,504	15,133	22,200	15.0	13.0	12.5	12.2	16.0
Excises	2,689	4,960	5,391	5,405	5,768	3.1	5.0	5.0	4.4	4.2
Local taxes on goods and services	348	114	116	146	145	0.4	0.1	0.1	0.1	0.1
Taxes on international trade	3,487	3,922	3,942	4,640	4,256	4.0	4.0	3.7	3.7	3.1
Other tax revenue	233	350	236	267	582	0.3	0.4	0.2	0.2	0.4
Non-tax revenue	2,066	2,774	4,816	5,704	5,441	2.4	2.8	4.5	4.6	3.9
Capital revenue	361	979	1,593	1,195	2,740	0.4	1.0	1.5	1.0	2.0
Privatization	359	965	1,553	1,155	2,704	0.4	1.0	1.4	0.9	2.0
Capital Transfers from nongovernment sources	2	14	40	40	36	0.0	0.0	0.0	0.0	0.0
Grants	0	10	14	18	51	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	38,598	48,140	54,785	61,697	72,059	44.1	48.9	50.7	49.8	52.1
Expenditure	38,274	47,882	54,297	61,058	70,871	43.8	48.7	50.3	49.3	51.2
Current expenditure	35,607	43,409	46,941	53,608	61,342	40.7	44.1	43.5	43.3	44.3
Expenditure on goods and services	22,669	27,370	27,160	28,667	33,985	25.9	27.8	25.2	23.2	24.6
Wages and salaries	9,064	11,739	12,051	13,577	16,350	10.4	11.9	11.2	11.0	11.8
Other goods and services	13,606	15,630	15,109	15,089	17,635	15.6	15.9	14.0	12.2	12.7
Interest payments	1,138	1,423	1,243	1,839	2,104	1.3	1.4	1.2	1.5	1.5
Domestic	966	942	976	876	1,068	1.1	1.0	0.9	0.7	0.8
External	173	481	268	962	1,036	0.2	0.5	0.2	0.8	0.7
Subsidies and other current transfers	11,799	14,616	18,537	23,103	25,252	13.5	14.9	17.2	18.7	18.2
Capital expenditure	2,667	4,473	7,356	7,450	9,530	3.1	4.5	6.8	6.0	6.9
Lending minus repayments	324	258	487	639	1,188	0.4	0.3	0.5	0.5	0.9
Current balance	4,227	3,042	5,838	5,379	8,605	4.8	3.1	5.4	4.3	6.2
Overall balance	1,596	-700	-399	-1,497	678	1.8	-0.7	-0.4	-1.2	0.5
less privatization	1,238	-1,665	-1,952	-2,652	-2,026	1.4	-1.7	-1.8	-2.1	-1.5
Primary balance	2,735	723	844	342	2,783	3.1	0.7	0.8	0.3	2.0
less privatization	2,376	-242	-709	-813	78	2.7	-0.2	-0.7	-0.7	0.1

Source: Ministry of Finance Annual Report 1994-1998.

Table 49. Croatia: Monetary Survey, 1994-99
(In millions of kuna; end of period)

	1994	1995	1996	1997	1998				1999 1/		
					Mar.	June	Sep.	Dec.	Mar.	June	Sep.
Assets											
1. Foreign assets (net)	1,139.8	3,046.7	11,740.7	16,913.0	14,619.5	14,885.5	15,260.0	12,713.5	10,616.5	12,046.1	14,361.8
2. Domestic credit	43,280.5	47,976.6	48,464.9	56,194.9	58,993.4	62,302.7	64,324.1	66,923.1	69,126.1	64,190.7	66,598.3
2.1. Claims on central government and funds (net)	15,619.0	15,157.1	14,633.7	7,331.4	6,229.3	6,397.4	6,520.1	7,131.1	9,064.8	9,219.3	8,544.5
2.2. Claims on other domestic sectors	27,599.5	32,718.6	33,691.0	48,616.6	52,516.6	55,609.1	57,503.5	59,597.7	59,866.6	54,807.9	57,862.0
2.3. Claims on other banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	47.1
2.4. Claims on other financial institutions	62.1	100.8	140.2	246.8	247.4	296.2	300.5	193.9	194.3	163.5	144.6
Total (1+2)	44,420.3	51,023.3	60,205.6	73,107.8	73,612.9	77,188.2	79,584.1	79,636.5	79,742.6	76,236.8	80,960.1
Liabilities											
1. Money	6,642.6	8,234.9	11,368.9	13,731.4	12,758.0	13,309.4	13,852.3	13,531.4	11,982.4	13,269.5	13,559.4
2. Savings and time deposits	2,045.6	2,158.0	3,386.6	5,598.9	5,890.2	5,552.6	5,943.6	5,683.8	5,353.1	4,977.2	5,252.5
3. Foreign currency deposits	8,783.3	14,099.4	21,817.5	31,278.1	33,453.0	34,958.5	37,046.0	37,970.9	39,165.5	34,970.5	35,994.6
4. Bonds and money market instruments	208.5	130.7	128.1	133.6	136.5	127.4	123.9	154.1	134.5	138.0	510.7
5. Restricted and blocked deposits	12,128.6	10,717.4	8,305.4	5,953.4	5,192.0	5,069.6	4,538.6	4,315.2	4,598.2	4,375.0	3,886.4
<i>Of which</i>											
Households' blocked f/c deposits	11,470.6	9,812.5	7,170.6	4,573.8	4,158.3	3,951.7	3,445.9	3,419.1	3,184.1	3,110.5	2,798.7
6. Other items (net)	14,611.8	15,682.8	15,199.2	16,412.5	16,183.1	18,170.7	18,079.7	17,981.1	18,509.0	18,506.6	21,756.6
Total (1+2+3+4+5+6)	44,420.3	51,023.3	60,205.6	73,107.8	73,612.9	77,188.2	79,584.1	79,636.5	79,742.6	76,236.8	80,960.1
Memorandum items:											
1. Net domestic assets	16,540.1	21,576.3	24,960.4	33,829.0	37,618.3	39,062.4	41,705.8	44,626.8	46,018.9	41,309.2	40,955.3
Assets											
1. Claims on central government and funds (net)	15,619.0	15,157.1	14,633.7	7,331.4	6,229.3	6,397.4	6,520.1	7,131.1	9,064.8	9,219.3	8,544.5
2. Domestic credit	27,661.5	32,819.5	33,831.2	48,863.4	52,764.0	55,905.3	57,804.0	59,791.6	60,061.2	54,971.4	58,053.8
3. Other assets (net)	-26,740.4	-26,400.3	-23,504.6	-22,365.9	-21,375.1	-23,240.3	-22,618.3	-22,295.9	-23,107.2	-22,881.5	-25,643.0
Liabilities											
1. Broadest money (M4)	17,679.9	24,623.0	36,701.1	50,742.0	52,237.8	53,947.9	56,965.8	57,340.3	56,635.4	53,355.2	55,317.1
2. Foreign liabilities (net)	-1,139.8	-3,046.7	-11,740.7	-16,913.0	-14,619.5	-14,885.5	-15,260.0	-12,713.5	-10,616.5	-12,046.1	-14,361.8

Source: Croatian National Bank.

1/ Data from Q2 1999 onwards excludes the assets and liabilities of the banks declared bankrupt in April 1999. Changes in the statistical reporting system introduced a break in the data in July 1999.

Table 50. Croatia: Money Authorities' Balance Sheet, 1994-99
(In millions of kuna; end of period)

	1994	1995	1996	1997	1998				1999		
					Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Assets											
1. Foreign assets	7,908.3	10,075.1	12,818.5	16,004.9	15,952.9	16,829.5	17,016.1	17,591.5	17,375.2	19,156.5	20,412.9
2. Claims on central government and funds	250.6	390.1	218.8	0.0	0.0	0.0	617.1	0.0	1,270.0	1,374.4	1,378.0
3. Claims on other domestic sectors 1/	0.7	0.9	1.1	24.4	0.3	2.3	1.7	1.0	0.4	303.6	291.6
4. Claims on banks 2/	223.8	220.2	213.9	33.5	314.9	487.1	666.7	1,053.8	1,638.0	1,309.4	1,609.5
5. Claims on other banking institutions 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	8,383.4	10,686.3	13,252.3	16,062.8	16,268.1	17,318.8	18,301.6	18,646.2	20,283.6	22,143.9	23,692.0
Liabilities											
1. Reserve money	4,714.2	6,744.1	8,770.4	10,346.1	9,520.8	9,742.1	10,373.8	9,954.2	8,966.1	9,493.9	9,906.7
1.1 Currency outside banks 2/	2,657.3	3,362.1	4,361.3	5,307.5	4,985.3	5,244.8	5,579.4	5,718.8	5,029.7	5,608.4	5,533.5
1.2 Banks' cash 2/	134.7	134.5	152.2	216.9	176.4	207.8	222.6	251.4	207.6	245.9	260.3
1.3 Banks' deposits 2/	1,906.6	3,244.7	4,256.7	4,821.6	4,358.4	4,279.7	4,569.6	3,980.2	3,726.5	3,637.1	4,110.5
1.4 Deposits of other banking institutions 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	1.5	1.7	1.8
1.5 Deposits of other domestic sectors	15.6	2.8	0.1	0.0	0.7	9.8	2.1	1.3	0.8	0.8	0.6
2. Restricted and blocked deposits	40.3	212.2	243.2	101.1	108.6	118.1	560.9	1,787.6	3,523.2	4,275.9	4,837.1
2.1 Restricted deposits 3/	40.3	54.1	78.7	101.1	108.6	118.1	125.8	119.1	141.5	336.2	359.1
2.2 Blocked f/c deposits	0.0	158.1	164.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Foreign liabilities	716.1	1,175.1	1,160.0	1,470.7	1,486.3	1,491.9	1,422.6	1,464.3	1,588.2	1,548.3	1,571.7
4. Central government and funds' deposits	793.8	395.5	557.6	1,032.7	1,618.2	1,339.0	1,024.5	434.8	530.5	600.0	467.6
4.1 Demand deposits	793.8	395.5	424.6	805.7	1,340.5	1,170.5	955.1	390.2	495.8	580.2	467.6
4.2 Foreign currency deposits	0.0	0.0	0.0	147.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.3 CNB bills	0.0	0.0	133.0	79.4	277.7	168.5	69.4	44.6	34.7	19.8	0.0
5. CNB bills	375.1	168.3	665.7	722.0	936.5	1,708.7	2,303.4	2,242.9	1,906.4	2,306.1	2,720.2
6. Other items (net)	1,743.8	1,991.1	1,855.4	2,390.2	2,597.6	2,919.1	2,616.4	2,762.4	3,769.3	3,919.7	4,188.7
Total (1+2+3+4+5+6)	8,383.4	10,686.3	13,252.3	16,062.8	16,268.1	17,318.8	18,301.6	18,646.2	20,283.6	22,143.9	23,692.0

Source: Croatian National Bank.

1/ After May 1999, includes overdue claims on banks for which bankruptcy proceedings have been initiated.

2/ Data revised due to the reclassification of savings banks from the subsector other banking institutions to the subsector banks.

3/ After May 1999, includes deposits of banks for which bankruptcy proceedings have been initiated.

Table 51. Croatia: Deposit Money Banks' Accounts, 1994-99

(In million of kuna; end of period)

	1994	1995	1996	1997	1998				1999		
					Mar.	June	Sep.	Dec.	Mar.	June 1/	Sep. 2/
Assets											
1. Reserves	2,033.5	3,302.1	4,359.2	4,963.3	4,548.4	4,501.5	5,238.4	5,908.1	7,325.4	7,844.8	8,854.6
2. Foreign assets	7,078.4	9,273.9	12,518.0	16,126.7	16,426.0	15,468.9	15,575.9	12,763.1	11,740.9	10,821.6	12,113.8
3. Claims on central government	17,837.0	17,186.5	16,692.7	15,238.7	14,816.9	15,010.9	14,493.5	14,864.2	16,571.6	16,590.9	15,876.3
3.1 Bonds arising from blocked f/c deposits	11,437.3	10,078.2	8,291.1	6,714.3	6,367.3	6,237.1	5,642.4	5,802.3	5,562.5	5,404.1	5,515.6
3.2 Big bonds	4,971.6	5,060.9	2,438.5	2,291.9	2,182.6	2,186.9	2,125.5	2,103.1	2,088.8	2,055.6	1,702.7
3.3 Other claims	1,428.1	2,047.4	5,963.1	6,232.5	6,267.0	6,586.9	6,725.5	6,958.8	8,920.2	9,131.1	8,657.9
4. Claims on other domestic sectors	27,220.8	32,345.8	33,310.0	47,926.1	52,516.3	55,606.8	57,501.8	59,596.7	59,866.2	54,504.3	57,570.5
4.1 Claims on local government	112.9	147.1	145.4	308.8	383.0	565.3	570.5	654.0	731.9	763.3	869.4
4.2 Claims on enterprises	23,733.5	27,686.4	26,814.7	35,282.8	37,887.1	39,410.3	40,091.4	41,225.5	40,742.9	35,684.8	37,808.8
4.3 Claims on households	3,374.4	4,512.3	6,349.9	12,334.5	14,246.2	15,631.2	16,839.9	17,717.2	18,391.4	18,056.2	18,892.3
5. Claims on other banking institutions	30.0	30.8	38.4	72.9	...	...	...	0.4	0.4	-	47.1
6. Claims on other financial institutions	61.8	100.6	139.1	240.9	247.4	296.2	300.5	193.9	194.3	163.5	144.6
Total (1+2+3+4+5+6)	54,261.4	62,239.8	67,057.4	84,568.5	88,555.0	90,884.4	93,110.1	93,326.4	95,698.7	89,925.1	94,606.9
Liabilities											
1. Demand deposits	3,960.5	4,861.2	6,997.2	8,404.8	7,772.0	8,054.8	8,270.7	7,808.9	6,950.4	7,658.6	8,023.5
2. Savings and time deposits	1,866.9	2,037.9	3,254.7	5,350.8	5,890.2	5,552.6	5,943.6	5,683.8	5,353.1	4,977.2	5,252.5
3. Foreign currency deposits	8,755.3	14,099.4	21,802.0	31,059.6	33,453.0	34,958.5	37,046.0	37,970.9	39,165.5	34,970.5	35,994.6
4. Bonds and money market instruments	199.0	124.8	129.5	137.0	136.5	127.4	123.9	154.1	134.5	138.0	510.7
5. Foreign liabilities	13,134.8	15,148.7	12,466.6	13,806.5	16,273.1	15,921.0	15,909.4	16,176.8	16,911.3	16,383.7	16,593.1
6. Central government and funds' deposits	1,669.4	2,025.6	1,720.9	6,874.2	6,969.3	7,274.5	7,565.9	7,298.3	8,246.3	8,146.0	8,242.1
7. Credit from central bank	224.0	182.6	267.7	33.7	314.2	444.4	666.8	1,049.2	1,633.9	1,306.8	1,596.7
8. Restricted and blocked deposits	12,081.5	10,656.0	8,219.2	5,849.4	5,083.4	4,951.5	4,412.9	4,196.0	4,456.7	4,038.8	3,527.2
Of which: Households' blocked f/c deposits	11,470.6	9,812.5	7,168.2	4,571.8	4,158.3	3,951.7	3,445.9	3,419.1	3,184.1	3,110.5	2,798.7
9. Capital accounts	13,721.8	15,116.2	15,133.6	16,629.9	17,614.4	18,834.9	19,146.0	19,785.6	18,619.5	17,859.7	21,004.2
10. Other items (net)	-1,371.7	-2,012.6	-2,934.0	-3,577.5	-4,951.2	-5,235.2	-5,975.2	-6,797.2	-5,772.4	-5,554.2	-6,137.7
Total (1+2+3+4+5+6+7+8+9+10)	54,261.4	62,239.8	67,057.4	84,568.5	88,555.0	90,884.4	93,110.1	93,326.4	95,698.7	89,925.1	94,606.9

Source: Croatian National Bank.

1/ Data from Q2 1999 onwards exclude the assets and liabilities of the banks declared bankrupt in April 1999.

2/ From Q3 1993, total provisions for identified losses are included in the capital accounts line.

Table 52. Croatia: Deposit Rates of the Croatian National Bank, 1994-99

(In percent, annualized)

Year	Month	On Statutory Reserves with the CNB	On CNB Bills on Obligatory Basis	On CNB Bills					
				On a Voluntary Basis			On a Voluntary Basis in f/c		
				35 days	91 days	182 days	62 days	91 days	182 days
1994	December	5.2	...	12.0	14.0	...	...	...	...
1995	December	5.5	16.5	25.5	27.0	...	...	...	...
1996	December	5.5	...	8.0	9.5	...	...	...	...
1997	January	5.5	...	7.5	9.0	...	...	...	...
	February	5.5	...	7.5	9.0	...	...	...	...
	March	5.5	...	7.5	9.0	...	...	...	...
	April	5.5	...	7.1	8.5	...	...	...	...
	May	5.5	...	7.0	8.5	9.50	...	...	...
	June	4.5	...	7.0	8.5	...	...	...	...
	July	4.5	...	7.0	8.5	9.50	...	...	...
	August	4.5	...	7.0	8.5	9.50	...	...	...
	September	4.5	...	7.9	9.0	9.89	...	...	...
	October	4.5	...	8.0	9.0	9.82	...	...	...
	November	4.5	...	8.0	9.0	10.00	...	...	...
	December	4.5	...	8.0	9.0	10.00	...	...	...
1998	January	4.50	...	8.0	9.0	9.75	...	...	...
	February	4.50	...	8.5	9.5	10.00	...	...	...
	March	4.50	...	8.6	9.7	10.06	...	...	...
	April	4.50	...	9.2	10	10.40	4.1	3.9	4.6
	May	4.50	...	9.5	11	11.00	4.1	3.5	5.6
	June	4.50	...	9.5	11	...	4.1	3.4	...
	July	4.50	...	9.5	11	11.00	4.4	3.8	...
	August	4.50	...	9.5	11	11.00	4.4	3.4	...
	September	4.50	...	9.5	11	11.00	4.3	3.4	...
	October	5.90	...	9.5	11	11.00	4.5	3.4	...
	November	5.90	...	9.5	11	11.00	4.4	3.5	...
	December	5.90	...	9.5	11	11.00	4.6	3.1	3.1
1999	January	5.90	...	9.5	11	11.00	3.9	3.0	...
	February	5.90	...	9.5	11	11.50	4.0	2.9	2.9
	March	5.90	...	9.7	11	11.78	3.8	3.8	...
	April	5.90	...	10.1	11	12.00	4.0	2.6	...
	May	5.90	...	10.1	11	12.00	3.4	2.6	...
	June	5.90	...	10.1	11	12.13	3.9	2.4	5.2
	July	5.90	...	10.1	11	12.15	4.1	2.5	...
	August	5.90	...	10.1	11	12.20	3.8	2.5	...
	September	5.90	...	10.3	11	12.28	4.0	2.7	5.8

Source: Croatian National Bank.

Table 53. Croatia: Croatian National Bank 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 in kuna, treasury bills, and Ministry of Finance bills of exchange, and 40 percent of a bank's holdings of CNB bills in foreign currency.	These loans may be used for a maximum of 15 working days within a month.	13 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 credits must be repaid the next working day.	19 percent
Short-term liquidity credit	These credits are available within the framework of the measures taken by the CNB, pursuant to the 1998 Law on Banks, for improving the situation of a bank experiencing liquidity problems but meeting solvency criteria. Amounts and terms are determined by the CNB Governor. Strictly specified high quality collateral is required.	To be determined by the CNB.	14 percent
Illiquidity bridging loans	This loan can be granted to banks in the period during which the CNB is assessing the economic feasibility of initiating the rehabilitation process. The amount is determined by the CNB Governor. High quality guarantees are required and determined by the loan contract.	Loans must be repaid within 90 days or, if the bank is subject to rehabilitation, immediately after the receipts of the funds granted for its rehabilitation.	14 percent
Repurchase agreements	These agreements are organized at the discretion of the CNB for bridging short-term illiquidity or mopping up excess liquidity. CNB and Treasury bills are eligible securities.	To be determined by the CNB	Auction determined
Foreign exchange swap	Swaps are organized at the discretion of the CNB for bridging short-term illiquidity problems. Only fully licensed banks are entitled to participate.	To be determined by the CNB.	-

¹ As of end-November, 1999.

Table 54. Croatia: Credit rates of the Croatian National Bank, 1994-99
(in percent, annualized)

Month	CNB Discount Rate	On lombard credits	On intervention credits	Intra-day refinance facility	On short-term liquidity credits	On inaccurately calculated statutory reserves	On arrears
1994 December	8.50	18.00	19.00	17.00	14.00	19.00	22.00
1995 December	8.50	25.49	19.00	17.00	...	19.00	22.00
1996 December	6.50	11.00	19.00	17.00	...	19.00	18.00
1997 January	6.50	11.00	19.00	17.00	...	19.00	18.00
February	6.50	11.00	19.00	17.00	...	19.00	18.00
March	5.90	9.50	19.00	17.00	...	19.00	18.00
April	5.90	9.50	19.00	17.00	...	19.00	18.00
May	5.90	9.50	19.00	17.00	...	19.00	18.00
June	5.90	9.50	19.00	17.00	...	19.00	18.00
July	5.90	9.50	19.00	17.00	...	19.00	18.00
August	5.90	9.50	19.00	17.00	...	19.00	18.00
September	5.90	9.50	19.00	17.00	...	19.00	18.00
October	5.90	9.50	19.00	17.00	...	19.00	18.00
November	5.90	9.50	19.00	17.00	...	19.00	18.00
December	5.90	9.50	19.00	17.00	...	19.00	18.00
1998 January	5.90	9.50	19.00	17.00	...	19.00	18.00
February	5.90	9.50	19.00	17.00	...	19.00	18.00
March	5.90	9.50	19.00	17.00	14.00	19.00	18.00
April	5.90	11.00	19.00	17.00	14.00	19.00	18.00
May	5.90	11.00	19.00	17.00	14.00	19.00	18.00
June	5.90	11.00	19.00	17.00	14.00	19.00	18.00
July	5.90	11.00	19.00	17.00	14.00	19.00	18.00
August	5.90	11.00	19.00	17.00	14.00	19.00	18.00
September	5.90	11.00	19.00	7.00	14.00	19.00	18.00
October	5.90	11.00	19.00	7.00	14.00	19.00	18.00
November	5.90	11.00	19.00	7.00	14.00	19.00	18.00
December	5.90	12.00	19.00	7.00	14.00	19.00	18.00
1999 January	5.90	12.00	19.00	7.00	14.00	19.00	18.00
February	5.90	12.00	19.00	7.00	14.00	19.00	18.00
March	7.90	13.00	19.00	7.00	14.00	19.00	18.00
April	7.90	13.00	19.00	7.00	14.00	19.00	18.00
May	7.90	13.00	19.00	...	14.00	19.00	18.00
June	7.90	13.00	19.00	...	14.00	19.00	18.00
July	7.90	13.00	19.00	...	14.00	19.00	18.00
August	7.90	13.00	19.00	...	14.00	19.00	18.00
September	7.90	13.00	19.00	...	14.00	19.00	18.00

Source: Croatian National Bank.

Table 55. Croatia: Deposit Money Banks' Deposit Rates, 1994-99

(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
1994 Dec	5.0	7.0	...
1995 Dec	6.1	12.7	4.6
1996 Dec	4.2	9.5	5.1
1997 Jan	4.2	9.8	4.5
Feb	4.3	9.5	4.2
Mar	4.4	8.6	4.3
Apr	4.4	9.2	4.4
May	4.4	9.5	4.5
Jun	4.3	10.3	4.4
Jul	4.2	8.0	4.3
Aug	4.2	9.5	4.1
Sept	4.3	8.8	4.3
Oct	4.3	6.8	4.2
Nov	4.1	8.8	4.5
Dec	4.4	7.6	4.8
1998 Jan	4.7	7.3	5.1
Feb	4.5	7.4	5.6
Mar	4.5	7.7	5.5
Apr	4.9	7.7	5.4
May	4.8	9.4	5.6
Jun	4.7	9.6	5.6
Jul	4.7	9.2	5.3
Aug	4.7	9.9	5.3
Sept	4.8	7.4	4.3
Oct	4.6	7.5	4.4
Nov	4.6	7.1	4.4
Dec	4.1	7.5	4.0
1999 Jan	4.5	6.5	4.3
Feb	4.6	7.0	4.2
Mar	4.5	7.5	4.1
Apr	4.3	6.5	4.2
May	4.3	7.4	4.2
Jun	4.2	6.2	4.1
Jul	4.1	5.9	3.9
Aug	4.1	6.2	4.3
Sept	4.2	6.6	4.1

Source: Croatian National Bank.

Table 56. Croatia: Deposit Money Banks' Credit Rates, 1994-99

(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
1994 Dec	15.4	12.0	...
1995 Dec	22.3	19.6	15.7
1996 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
Apr	15.3	15.2	15.8
May	16.7	15.1	15.1
Jun	17.0	14.9	14.9
Jul	16.0	15.0	5.4
Aug	15.7	15.2	5.8
Sept	15.6	13.4	7.4
Oct	16.3	14.3	7.4
Nov	16.4	13.6	7.1
Dec	16.1	13.0	7.0
1999 Jan	16.1	13.9	6.9
Feb	16.9	13.6	6.3
Mar	16.3	13.2	5.7
Apr	16.0	13.4	6.3
May	16.6	13.4	5.5
Jun	14.2	13.3	5.2
Jul	14.6	12.7	6.6
Aug	14.6	13.1	5.7
Sept	14.0	12.9	6.0

Source: Croatian National Bank.

Table 57. Croatia: Balance of Payments 1993-99 1/

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

	1993	1994	1995	1996	1997	1998	1999	
							Jan.-Mar.	Apr.-Jun. (Prelim.)
Current account	606	826	-1451	-1148	-2,343	-1,543	-541	-528
Merchandise trade balance	-742	-1,172	-3,268	-3,690	-5,224	-4,161	-662	-955
Exports f.o.b.	3,904	4,260	4,633	4,546	4,210	4,613	984	1,041
Imports f.o.b.	-4,645	-5,432	-7,901	-8,236	-9,435	-8,773	-1,646	-1,996
Services and income	1,019	1,469	1,013	1,510	2,010	1,910	-17	303
Transportation	314	321	314	310	283	228	16	23
Travel	935	1,405	924	1,504	2,000	2,133	81	389
Other services	-112	-93	-197	-234	-251	-286	-50	-39
Compensation of employees	17	35	39	39	56	70	16	14
Interest income	-137	-200	-67	-109	-76	-255	-79	-84
Current transfers	329	529	804	1,032	872	708	139	124
Capital and Financial account	-163	38	1,132	2,472	3,120	1,647	444	622
Capital account	0	0	0	16	21	19	5	0
Financial account	-163	38	1,132	2,456	3,099	1,628	438	622
Direct investment	78	106	96	509	302	775	75	122
Portfolio investment	0	9	5	27	665	25	319	-12
Medium- and long-term loans	-190	-145	-142	454	1,205	1,058	-19	-34
Disbursements	154	184	315	844	1,792	1,775	133	91
Amortization scheduled	-343	-329	-457	-391	-587	-717	-152	-124
Currency and deposits 2/	-149	58	704	840	443	218	233	-394
Short term capital flows (net) 3/	97	10	470	199	248	36	31	289
Trade Credits 4/	0	0	0	426	236	-484	-202	650
Net errors and omissions	-226	-540	406	-422	-590	181	-258	68
Overall balance	217	324	87	903	188	285	-355	162
Financing	-217	-324	-87	-903	-188	-285	355	-162
Gross reserves (-= increase)	-451	-789	-490	-419	-225	-277	358	-152
IMF (net purchases)	-24	106	98	-4	37	-9	-2	-10
Exceptional financing	258	360	306	-479	0	0	0	0
Memorandum Items								
Current account (in percent of GDP)	5.6	5.7	-7.7	-5.8	-11.6	-7.1	-11.0	-10.7
Current account (in percent of adjusted GDP) 5/	4.4	4.5	-6.2	-4.6	-9.3	-5.7	-8.8	-8.6
Gross reserves (millions of US dollars)	616	1,405	1,895	2,314	2,539	2,816	2,458	2,610
Reserves in months of imports of goods and NFS	1.3	2.5	2.4	2.8	2.7	3.2	3.0	3.2
Net international reserves (millions of US dollars)	574	1,286	1,674	2,105	2,306	2,581	2,234	2,399
in months of imports of goods and NFS		2.3	2.2	2.5	2.4	2.9	12.3	11.8
Gross usable reserves (millions of US dollars) 6/	616	1,405	1,895	2,314	2,539	2,320	1,763	1,872
Gross usable reserves in months of imports of goods and NFS 6/	1.3	2.5	2.4	2.8	2.7	2.6	2.2	2.3
Net usable international reserves (millions of US dollars)	574	1,286	1,674	2,105	2,306	2,085	1,539	1,661
in months of imports of goods and NFS		2.3	2.2	2.5	2.4	2.3	8.5	8.1
Outstanding debt (US\$m) 7/	2,942	3,282	3,921	4,611	6,420	8,062	8,163	8,195
of which: short-term debt 8/ 9/	50	37	208	355	441	366	357	582
Debt to GDP ratio 7/	27.0	22.5	20.8	23.2	31.9	37.1	40.6	40.8
Short-term debt in percent of gross usable reserves 3/ 8/ 9/	61.5	35.2	31.6	40.7	45.6	51.4		
Short-term debt and current account deficit net of FDI in percent of gross usable reserves 3/ 8/ 9/	-89.8	131.7	65.3	128.9	75.9	55.8		
Debt Service	-591	-642	-698	-713	-848	-1,110	-262	-180
Debt service to exports ratio	9.5	9.0	9.9	9.1	10.3	12.9	16.7	9.6
GDP (millions of US dollars)	10,904	14,583	18,811	19,871	20,109	21,752	4,902	4,918
GDP (Millions of Kuna)	39,003	87,441	98,382	107,981	123,813	138,392	32,623	35,308
Exchange rates								
Kuna per US dollar (pa)	3.58	6.00	5.23	5.43	6.16	6.4	6.7	7.2

Sources: Croatian National Bank, World Economic Outlook, and staff estimates

1/ Based upon CNB balance of payments revisions of summer 1999.

2/ A significant proportion of the currency and deposit flows in 1998 and 1999 are the repatriation of foreign currency reposit requirements held at the CNB.

3/ Data for short term commercial bank credits derived from the CNB foreign exchange department.

4/ Coverage only includes import trade credits with maturities less than three months.

5/ Includes an upward adjustment of 25 percent to GDP for the informal sector. While the exact size of the needed adjustment is not known, some such upward adjustment is clearly warranted and estimates by the Ministry of Finance and the Institute of Public Finance in Zagreb suggest that an adjustment on the order of 25 percent would be reasonable.

6/ Gross reserves adjusted downward by foreign currency reposit requirements held at the CNB, and by the amount of outstanding foreign currency CNB bills.

7/ Does not include debt that was excluded from the London Club agreement.

8/ Coverage is limited to short term debt contracts registered with the CNB.

9/ Short-term debt is presented on a remaining maturity basis.

Table 58. Croatia: Merchandise Exports and Imports, 1997-99 1/

(In millions of U.S. dollars)

	Overall		World Except Former Yugoslav Republics		Former Yugoslav Republics	
	Exports	Imports	Exports	Imports	Exports	Imports
1997	4,171	9,104	2,919	8,163	1,252	941
January	484	652	331	586	153	66
February	356	719	254	653	102	66
March	339	669	248	595	91	74
April	321	635	232	565	89	70
May	330	758	232	675	98	83
June	344	782	251	699	93	83
July	310	743	222	668	88	75
August	296	630	184	554	112	76
September	360	785	249	707	111	78
October	341	776	230	685	111	91
November	366	856	252	761	114	95
December	323	1,100	235	1,015	88	85
1998	4,541	8,383	3,374	7,430	1,167	953
January	316	606	230	551	86	55
February	334	581	249	514	85	67
March	431	743	327	656	104	87
April	323	613	239	543	84	70
May	420	810	312	716	108	94
June	353	765	262	684	91	81
July	349	781	252	690	97	91
August	369	595	278	520	91	75
September	453	750	342	651	111	99
October	464	770	353	677	111	93
November	378	765	266	686	108	79
December	350	603	259	542	91	61
1999						
January	349	575	267	511	82	64
February	278	543	202	489	76	54
March	334	548	252	487	82	61
April	321	633	227	567	94	66
May	384	681	276	607	108	74
June	313	718	234	651	79	67
July	417	750	330	674	87	76
August	363	539	282	478	81	61
September	399	653	295	571	104	82

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: Composition of Exports (SITC), 1993-98 1/

(In millions of U.S. dollars)

	Total					
	1993	1994	1995	1996	1997	1998
Total	3,904	4,232	4,633	4,512	4,171	4,541
Food products	367	369	395	411	385	385
Live animals	22	5	6	7	5	3
Meat and meat products	49	60	50	47	54	50
Fish and fish products	49	50	45	49	60	43
Grain and grain products	74	64	75	64	36	54
Fruit and vegetables	40	40	42	40	28	24
Coffee, tea, cocoa and spices	25	1	34	31	31	30
Livestock feed	10	21	15	15	21	23
Other food products	98	128	128	158	149	158
Beverages and tobacco	101	67	90	92	121	111
Raw materials, excluding fuels	237	214	251	247	261	231
Oil seeds, for planting and consumption	1	2	4	2	4	5
Raw rubber	0	0	0	0	0	0
Wood, framing lumber and cork	168	144	161	166	168	157
Textile fibers and waste material	6	6	7	3	2	3
Raw fertilizers and minerals	12	13	13	13	19	14
Metal ores and scrap	10	20	22	20	31	23
Other raw materials	40	29	44	43	37	29
Mineral fuels and lubricants	377	386	391	416	426	264
Petroleum and petroleum products	322	344	366	371	385	232
Gas, natural and industrial	18	16	22	28	40	30
Other fuels and lubricants	37	26	3	17	1	1
Animal and vegetable oil and fats	4	7	9	10	14	16
Chemical products	564	543	814	643	570	545
Organic chemicals	61	43	53	44	36	31
Paints, material for tanning and dyeing	16	14	18	23	24	20
Medical and pharmaceutical products	100	133	137	139	157	149
Synthetic fuels	77	86	112	118	87	76
Plastic, cellulose resins	145	177	361	209	171	176
Other chemical products	166	90	133	110	96	93
Products classified according to constituent material	526	654	670	594	589	584
Rubber products	11	13	9	9	8	9
Paper, cardboard and products thereof	80	98	107	62	72	63
Textile yarns, textiles and the like	95	129	124	110	91	89
Non-metal mineral products	102	126	126	135	133	131
Raw iron and steel	66	69	59	48	64	68
Non-ferrous metals	41	50	73	65	62	62
Other metal products	131	168	172	165	160	162
Machines and transport equipment	552	732	778	964	752	1380
Special machines for specific industries	32	47	45	51	42	52
Metal-working tools	17	15	28	24	31	38
General-purpose industrial machines	39	42	52	54	59	55
Electrical machines, devices and tools	143	172	211	219	227	234
Other machines and transport equipment	321	456	442	616	393	1001
Miscellaneous ready-made products	1,169	1,257	1,233	1,133	1,049	1,023
Household furnishings	148	138	151	120	125	107
Clothing	644	629	673	633	555	556
Footwear	225	279	234	235	226	199
Scientific and monitoring instruments	13	17	28	22	23	26
Other ready-made products	139	194	147	123	120	135
Miscellaneous transactions and goods	7	3	2	2	2	3

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: Composition of Imports (SITC), 1993-98 1/

(In millions of U.S. dollars)

	Total					
	1993	1994	1995	1996	1997	1998
Total	4,666	5,229	7,510	7,788	9,104	8,383
Food products	357	498	780	767	832	675
Live animals	69	18	27	46	66	40
Meat and meat products	61	76	114	98	118	82
Fish and fish products	13	19	23	28	30	30
Grain and grain products	19	39	45	57	86	62
Fruit and vegetables	92	131	222	194	178	151
Coffee, tea, cocoa and spices	24	52	98	89	110	96
Livestock feed	41	34	38	53	56	56
Other food products	38	129	213	202	187	158
Beverages and tobacco	37	62	66	58	57	66
Raw materials, excluding fuels	176	151	198	220	274	223
Oil seeds, for planting and consumption	7	12	13	14	37	32
Raw rubber	4	4	8	6	6	4
Wood, framing lumber and cork	16	19	27	52	65	56
Textile fibers and waste material	36	28	32	30	35	21
Raw fertilizers and minerals	45	38	51	56	56	53
Metal ores and scrap	31	7	3	7	15	11
Other raw materials	36	43	64	55	60	45
Mineral fuels and lubricants	461	589	871	857	850	596
Petroleum and petroleum products	302	436	736	707	672	394
Gas, natural and industrial	103	95	34	107	124	126
Other fuels and lubricants	56	58	101	43	54	77
Animal and vegetable oil and fats	15	12	25	38	27	39
Chemical products	575	541	810	848	965	981
Organic chemicals	102	81	114	118	123	103
Paints, material for tanning and dyeing	47	46	68	71	74	70
Medical and pharmaceutical products	98	99	177	188	185	200
Synthetic fuels	24	15	22	20	28	24
Plastic, cellulose resins	58	70	77	73	123	175
Other chemical products	246	230	352	378	431	410
Products classified according to constituent material	804	801	1,304	1,384	1,515	1,398
Rubber products	45	53	86	88	92	83
Paper, cardboard and products thereof	166	134	236	249	251	242
Textile yarns, textiles and the like	148	149	210	203	212	194
Non-metal mineral products	75	77	124	142	188	173
Raw iron and steel	159	142	243	257	285	247
Non-ferrous metals	64	81	137	133	140	124
Other metal products	147	165	268	312	346	336
Machines and transport equipment	1,123	1,367	2,009	2,129	3,062	2,952
Special machines for specific industries	147	176	281	318	381	324
Metal-working tools	24	24	28	31	44	30
General-purpose industrial machines	169	217	330	370	455	393
Electrical machines, devices and tools	159	241	376	399	427	380
Other machines and transport equipment	625	709	994	1,011	1,755	1,825
Miscellaneous ready-made products	780	776	1,013	1,117	1,178	1,068
Household furnishings	32	54	93	92	121	126
Clothing	173	231	271	286	270	257
Footwear	358	202	214	240	246	208
Scientific and monitoring instruments	58	79	113	132	141	107
Other ready-made products	159	210	322	367	399	370
Miscellaneous transactions and goods	339	431	433	370	345	385

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 61. Croatia: Exports by Destination, 1993-98 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998
Total	3,904	4,260	4,633	4,512	4,171	4,541
Developed countries	2,419	2,729	2,862	2,478	2,272	2,381
EU countries	2,245	2,531	2,672	2,303	2,074	2,161
Austria	130	149	200	198	223	247
Belgium	29	38	43	41	38	40
Denmark	7	10	7	4	6	5
France	133	111	110	84	80	102
Italy	828	910	1,098	949	787	802
Netherlands	92	94	80	69	62	53
Germany	895	941	997	839	746	767
Sweden	25	164	14	13	16	19
Great Britain	73	68	57	70	67	71
Other	33	46	65	35	49	54
EFTA countries	45	65	59	41	49	80
Norway	3	4	5	3	4	36
Switzerland	40	60	52	37	41	41
Other	2	1	2	1	4	3
Other developed countries	129	133	131	135	149	140
Australia	6	5	6	4	5	7
Japan	1	1	1	2	6	7
Canada	5	5	7	8	9	8
U.S.A.	82	88	83	89	97	89
Turkey	20	14	5	13	9	8
Other	15	20	30	19	23	21
Developing countries	1,484	1,531	1,770	2,034	1,899	2,160
Countries of former SFRY	966	967	1,061	1,219	1,253	1,167
Bosnia and Herzegovina	189	338	383	549	649	654
FYR of Macedonia	63	73	70	59	77	64
Slovenia	712	556	608	611	506	432
Other and unclassified	2	...	...	0	21	17
Countries of the former USSR	173	176	185	172	198	201
Other developing European countries	158	192	229	191	223	247
Czech and Slovak Republics	11	...	...	...	...	...
Czech Republic	13	34	36	40	46	39
Hungary	54	68	71	55	49	52
Poland	37	45	49	56	47	46
Slovakia	8	16	21	22	22	22
Other	35	29	52	17	59	88
Developing Middle East countries	19	14	39	64	11	79
Developing Asian countries	59	28	60	54	30	21
Developing countries of North Africa	22	22	33	39	29	50
Developing other African countries	55	71	115	270	130	343
Developing countries in the Americas	33	61	48	24	24	51
Developing countries of Oceania	0	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 62. Croatia: Imports by Origin, 1993-98 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998
Total	4,666	5,229	7,510	7,788	9,104	8,383
Developed countries	2,952	3,525	5,300	5,262	6,261	5,823
EU countries	2,630	3,096	4,664	4,625	5,412	4,980
Austria	311	353	575	597	709	612
Belgium	47	55	85	100	96	110
Denmark	16	31	51	48	62	61
France	97	116	188	199	293	401
Italy	882	994	1,366	1,421	1,705	1,500
Netherlands	92	115	174	176	170	161
Germany	991	1,110	1,509	1,602	1,841	1,616
Sweden	60	81	148	117	147	109
Great Britain	90	179	455	225	189	176
Other	44	62	113	139	200	234
EFTA countries	86	112	219	179	244	231
Norway	5	8	44	27	21	39
Switzerland	79	101	169	144	213	181
Other	2	3	6	8	10	11
Other developed countries	235	317	417	457	605	612
Australia	5	5	9	17	12	11
Japan	42	54	80	104	139	146
Canada	10	19	12	17	49	18
U.S.A.	124	172	201	213	266	278
Turkey	9	16	28	27	31	26
Other	45	50	88	79	108	133
Developing countries	1,714	1,705	2,210	2,526	2,844	2,560
Countries of former SFRY	773	572	850	866	942	953
Bosnia and Herzegovina	14	4	8	63	137	156
FYR of Macedonia	46	27	36	34	42	56
Slovenia	712	541	805	769	756	722
Other and unclassified	1	...	...	...	7	19
Countries of the former USSR	261	254	224	253	498	407
Other developing European countries	235	210	473	571	640	572
Czech and Slovak Republic	52	...	...	...	...	...
Czech Republic	42	92	147	207	208	181
Hungary	78	100	158	193	239	212
Poland	25	38	45	50	59	63
Slovakia	24	53	78	84	81	65
Other	14	27	45	38	53	50
Developing Middle East countries	3	16	44	106	186	85
Developing Asian countries	284	364	213	301	213	217
Developing countries of North Africa	64	91	236	269	169	106
Developing other African countries	37	15	24	17	21	64
Developing countries in the Americas	57	81	145	143	174	155
Developing countries of Oceania	0	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 63. Croatia: Exchange Rates and International Reserves, 1996-99

	HRK/US\$		HRK/100DM		Real Effective Exchange Rate (Jan. 1994=100) 1/	Foreign Exchange Reserves of the CNB (In millions of U.S. dollars)
	e.o.p	p.a.	e.o.p	p.a.		
1996 January	5.5	5.4	370.8	370.5	98.8	1,845.2
February	5.4	5.4	369.1	370.1	98.8	1,883.6
March	5.5	5.5	370.0	369.6	98.1	1,890.8
April	5.6	5.5	365.5	368.8	97.1	1,876.3
May	5.6	5.6	360.9	363.6	98.5	1,919.2
June	5.4	5.5	357.6	359.1	99.7	2,019.1
July	5.3	5.4	355.7	356.1	100.6	2,216.3
August	5.3	5.3	355.1	354.7	101.3	2,331.1
September	5.4	5.3	356.2	355.6	100.5	2,295.1
October	5.4	5.4	356.6	356.3	101.5	2,312.5
November	5.5	5.4	356.2	356.5	99.3	2,292.5
December	5.5	5.5	356.2	356.0	100.1	2,314.0
1997 January	5.85	5.68	356.3	356.2	100.6	2,173.1
February	6.04	5.96	357.3	356.7	100.0	2,177.8
March	5.99	6.06	357.5	357.3	99.9	2,252.4
April	6.20	6.11	358.0	357.5	99.5	2,208.1
May	6.08	6.09	356.8	357.3	99.3	2,271.9
June	6.17	6.16	357.0	356.8	99.3	2,326.5
July	6.56	6.37	356.6	356.9	98.5	2,326.2
August	6.38	6.55	355.1	355.9	99.3	2,442.4
September	6.24	6.34	354.5	354.7	100.1	2,487.8
October	6.06	6.22	352.6	353.4	100.1	2,527.1
November	6.23	6.10	352.7	352.4	101.1	2,515.6
December	6.30	6.25	351.1	352.1	101.7	2,539.0
1998 January	6.42	6.37	351.7	351.5	103.2	2,404.1
February	6.38	6.38	352.8	351.9	104.2	2,424.6
March	6.49	6.44	352.2	352.9	104.6	2,457.6
April	6.43	6.47	357.6	355.8	102.4	2,481.2
May	6.47	6.39	363.0	360.1	101.5	2,538.6
June	6.60	6.51	364.1	363.4	100.6	2,550.0
July	6.41	6.54	362.6	363.6	100.1	2,597.5
August	6.44	6.44	360.2	360.3	101.4	2,745.2
September	6.17	6.22	368.4	364.7	102.1	2,757.3
October	6.17	6.08	373.6	371.5	99.9	2,696.9
November	6.36	6.27	373.6	373.4	99.4	2,674.7
December	6.25	6.24	374.0	373.9	99.5	2,815.6
1999						
January	6.48	6.32	377.7	375.3	99.7	2,610.1
February	6.87	6.67	386.9	382.6	98.0	2,396.3
March	7.09	6.98	388.4	388.6	96.6	2,450.8
April	7.16	7.09	388.1	388.5	96.9	2,413.1
May	7.26	7.14	388.2	388.1	95.9	2,583.9
June	7.34	7.31	388.4	388.3	97.4	2,610.1
July	7.10	7.35	388.1	388.3	97.8	2,755.0
August	7.26	7.14	388.0	387.9	98.0	2,847.4
September	7.25	7.25	390.2	389.4	99.1	2,815.8
October	7.32	7.13	390.7	390.5	...	2,993.2
November	7.57	7.39	391.6	390.8	...	2,826.0

Source: Croatian National Bank.

1/ 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 64. Croatia: External Debt, 1993-98 1/

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

	1993	1994	1995	1996	1997	1998
Total debt stock, including short-term credits	2,942	3,282	3,921	4,615	6,427	8,062
Total debt stock, excluding short-term credits	2,942	3,282	3,919	4,611	6,420	8,062
Medium- and long-term loans	2,332	2,655	3,018	4,256	5,979	7,051
Official sector	1,142	1,292	1,423	1,866	1,855	1,970
International organizations	315	399	487	672	851	975
Government sector	827	893	936	1,194	1,005	996
Paris club	772	821	864	993	843	886
Other	56	72	72	201	162	110
Private sector	1,191	1,363	1,595	2,390	4,123	5,081
London club	941	993	1,000	1,462	1,428	1,405
Other commercial banks	152	223	353	671	2,283	3,031
Suppliers	98	148	242	256	412	646
Non allocated debt 2/	433	368	391	...	...	...
Interest arrears 3/	127	222	302	...	...	...
London club	36	51	55	...	...	...
Paris club	91	170	247	...	...	...
Bonds 4/	...	...	...	...	...	645
Short-term debt 5/	50	37	208	355	441	366
Short-term credits	0	1	2	5	8	0
Memorandum items:						
External debt to GDP ratio 6/	26.5	23.1	21.7	23.2	31.9	37.1
Short-term debt in percent of gross reserves	8.0	2.6	11.0	15.3	17.4	13.0
Official debt to GDP ratio	10.3	9.1	7.9	9.4	9.2	9.1
Private sector debt to GDP ratio	10.7	9.6	8.8	12.0	20.5	23.4
Short-term debt to GDP ratio	0.4	0.3	1.1	1.8	2.2	1.7
Dollar GDP	11,116	14,235	18,081	19,871	20,109	21,752
Gross reserves	616	1,405	1,895	2,314	2,539	2,816

Sources: CNB and IMF staff estimates.

1/ Excludes non reported principal payments

2/ 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.

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

4/ Data for bonds prior to November 1998 was recorded as medium and long term loans

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

6/ Excludes short term credits.