

## MACROECONOMIC ENVIRONMENT

### Maastricht criteria

The Maastricht criteria are:

- general state deficit: under 3% of Gross Domestic Product (GDP)

- level of total public debt: under 60% of Gross Domestic Product (GDP)

- inflation (convergence criteria: it may be slightly above the average inflation rate in the three member states with the lowest rates): approximately 2% to 2.5%

- discount rates (convergence criteria: at levels equal to those in the three member states having the lowest inflation rates)

In comparison with developed and transition countries, the Republic of Croatia shows the following indicators:<sup>1</sup>

#### 1. Inflation rate (year-on-year growth rate)

Country	1995	1996	1997	1998
Developed countries (total)	2.4	2.2	2.0	1.4
<b>Euro zone</b>				
Austria	2.3	1.8	1.3	0.8
Belgium	1.5	2.1	1.6	1.0
France	1.8	2.0	1.2	0.7
Ireland	2.5	1.7	1.4	2.4
Italy	5.2	4.0	2.0	2.0
Germany	1.8	1.5	1.8	1.0
Portugal	4.1	3.1	2.2	2.8
Spain	4.7	3.6	2.0	1.0
<b>Greece</b>	8.9	8.2	5.5	4.8
<b>Great Britain</b>	3.4	2.4	3.1	3.4
<b>Transition countries</b>				
Bulgaria	62.1	1123.0	1.082.3	22.3
Czech Republic	9.1	8.8	8.4	10.7
Hungary	28.3	23.5	18.3	14.4
Poland	26.8	20.2	15.9	11.7
Romania	32.2	38.8	154.8	59.1
Slovakia	9.9	5.8	6.1	6.7
Slovenia	12.6	9.7	9.1	8.6
<b>Croatia</b>	2.0	3.5	3.6	5.7

### 2. Public debt as % of GDP

Countries	1995	1996	1997	1998
<b>Euro zone</b>	75.8	78.3	78.1	78.8
Austria	69.4	69.7	63.1	63.1
Belgium	130.8	126.9	115.9	115.9
France	60.1	63.0	65.3	66.5
Ireland	84.3	74.8	56.6	56.6
Italy	125.2	124.3	122.4	119.9
Germany	60.5	63.0	63.6	63.1
Portugal	65.9	65.0	61.5	57.7
Spain	71.4	75.5	74.4	73.3
<b>Greece</b>	110.1	112.2	106.3	106.3
<b>Great Britain</b>	58.9	58.5	59.1	56.6
<b>Croatia</b>				24.9

### 3. Deficit/surplus as % of GDP

Countries	1995	1996	1997	1998
<b>Euro zone</b>	-4.8	-4.1	-2.5	-2.1
Austria	-5.1	-3.7	-1.9	-2.1
Belgium	-4.0	-3.1	-1.9	-1.3
France	-4.9	-4.1	-3.0	-2.8
Ireland	-2.1	-0.3	1.1	2.3
Italy	-7.7	-6.6	-2.7	-2.7
Germany	-3.3	-3.4	-2.7	-2.1
Portugal	-5.7	-3.3	-2.5	-2.3
Spain	-7.1	-4.5	-2.6	-1.8
<b>Great Britain</b>	-5.3			
<b>Transition countries</b>				
Bulgaria	-6.6	-10.9	-3.9	0.9
Czech Republic	0.5	-0.1	-1.0	-1.7
Hungary	-5.5	-1.9	-4.8	-3.3
Poland	-2.4	-2.4	-1.3	-2.4
Romania	-4.1	-4.9	-3.6	-3.1
Slovakia	-1.6	-4.4	-5.7	-2.7
Slovenia	-0.3	0.1	-1.5	-0.8
<b>Croatia</b>	-0.7	-0.4	-1.2	0.5

<sup>1</sup> Source: International Financial Statistics Yearbook, IMF 1999

Note: - source of data for public deficit and real GDP for the Euro zone: OECD Economic Outlook, OECD

- source of data for deficit/surplus and real GDP for transition countries: Focus on Transition, Oesterreichische Nationalbank, 1999

- source of data for Croatia: State Bureau of Statistics, the National Bank of Croatia and the Finance Ministry



#### 4. Discount rate — year end

Countries	1995	1996	1997	1998
Euro zone				
Austria	3.00	2.50	2.50	2.50
Belgium	3.00	2.50	2.75	2.75
Ireland	6.50	6.25	6.75	4.06
Italy	9.00	7.50	5.50	3.00
Germany	3.00	2.50	2.50	2.50
Portugal	8.50	6.70	5.31	3.00
Spain	9.00	6.25	4.75	3.00
Greece	18.00	18.50	14.50	
Transition countries				
Czech Republic	9.60	10.50	13.00	7.50
Hungary	26.00	23.00	20.50	
Poland	25.00	22.00	24.50	18.25
Slovakia	9.75	8.80	8.80	8.80
Slovenia	14.62	11.42	13.78	8.55
Croatia	8.50	6.50	5.90	5.90

#### 5. Year-on-year real GDP growth

Countries	1995	1996	1997	1998
Euro zone				
Austria	2.1	1.6	2.5	2.9
Belgium	1.7	2.0	2.5	3.3
France	2.3	1.3	3.0	2.9
Ireland	2.1	1.6	2.3	3.2
Italy	11.1	7.4	9.8	10.4
Germany	2.9	0.9	1.5	1.4
Portugal	1.2	1.3	2.2	2.8
Spain	2.9	3.2	3.7	3.9
Greece	2.7	2.4	3.5	3.8
Greece	2.1	2.4	3.2	3.5
Great Britain	2.8	2.6	3.5	2.1
Transition countries				
Bulgaria	2.9	-10.1	-6.9	3.5
Czech Republic	6.4	3.8	1.0	-2.7
Hungary	1.5	1.3	4.4	5.1
Poland	7.0	6.1	8.9	4.8
Romania	7.2	3.9	-6.6	-7.3
Slovakia	6.9	6.6	6.5	4.4
Slovenia	4.1	3.3	4.6	3.9
Croatia	6.8	6.0	6.5	2.7

#### Changes in other economic indicators in the Republic of Croatia in the period 1996-1999

##### GDP structure - expenditure methodology:

	1996	1997	1998
Personal consumption	60.54	62.54	59.64
Government spending	27.00	25.60	26.20
Investment	21.94	27.91	23.15
Goods and service exports	40.19	40.26	40.03
minus: goods and services imports	49.67	56.32	49.03
<b>GDP (mkt. prices) 100.00</b>	<b>100.00</b>	<b>100.00</b>	

##### Industry

After growth of 3.1% in 1996 and 6.8% in 1997, the physical volume of industrial production experienced growth also in 1998 by 3.7% or by 3.8% when seasonally adjusted to the 1990 average. In the first eight months of 1999, the index of the physical volume of industrial production recorded a year-on-year drop of 2.8%.

##### Employment trends:

##### Employment in the Republic of Croatia from 1989 to July 1999

Year	Employed *	Unemployment rate	Employed	Surveyed unemployment rate
1993	1446606	14.8	-	-
1994	1437059	14.5	-	-
1995	1417427	14.5	-	-
1996	1329547	16.4	1540319	10.0
1997	1310918	17.5	1593008	9.9
1998	1384841	17.2	1543805	11.4
VII				
1999	1345460	19.1	-	-

\* Number of persons employed according to data from the Employment Bureau

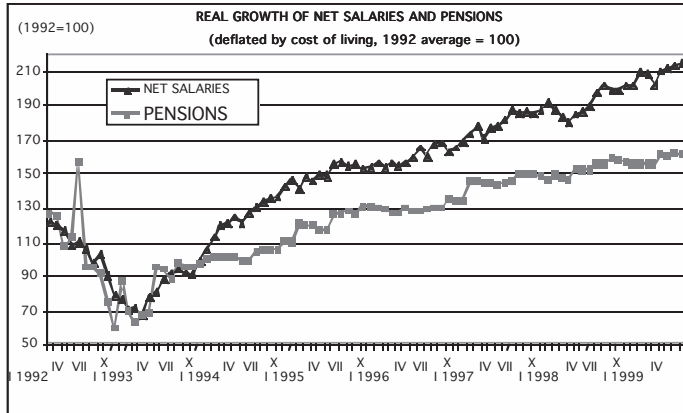
\*\* Number of persons employed according to data from the Labour Survey

Source: State Bureau of Statistics





Salary and pension growth



The average growth of gross salaries in the period from 1996 to June 1999 was 11.2%. Nominal salaries in August 1999 were 59.8% and real salaries 37.6% above the January 1996 salaries.

In 1997 nominal pensions grew by 16.2% (11.8% in real terms) over 1996, while in June 1999 pensions were 46.2% higher than the January 1996 pensions. The average increase in pensions during the first six months of 1999 was 8.8%.

**Exchange rate trends, 1996-1999**

Since the introduction of the Stabilisation Program, the average monthly kuna against German mark exchange rate, which has certain managed float characteristics, has been moving within relatively narrow boundaries. The average monthly exchange rate against DM in the past 5 years has been floating within a 10.8% range from a low of HRK 3.89 to DM 1 in March 1999 to a high of HRK 3.51 to DM 1 in January 1998. Within this band the exchange rate against DM has oscillated generally due to the current account's seasonal character.

Reserves held by the National Bank of Croatia and commercial banks in August 1999 totalled US\$ 4.5442 billion or 5.5% more than in 1996. Croatia's foreign reserves, which consist solely of reserves held by the National Bank of Croatia, grew by 23% during the same period. Over the same period, real effective exchange rate index depreciated by 13.9%.

Current account

After a high of US\$ 2.4 billion (11.6% of GDP) in 1997 (approximately HRK 500 million resulted from increased imports in November and December, caused by negative expectations related to the introduction of VAT), current account deficit shrank to US\$ 1.5 billion or 7% of GDP in 1998 and in 1999 current account deficit is expected to settle at 6% of GDP.

**Republic of Croatia Debt**

	Total Foreign debt (\$ bn)	Total foreign debt as % of GDP	Debt service/ exports (%)
Dec. 1993	3.3629	30.9	10.4
Dec. 1994	3.6985	25.3	9.1
Dec. 1995	4.2134	22.4	9.9
Dec. 1996	4.8084	24	9
Dec. 1997	6.6616	32.9	10.3
Dec. 1998	8.4887	39.0	13.0
Jun. 1999	8.8286		

