



Development Support Agency

Vijenac 5c

10 000 Zagreb, Croatia

tel: (+385-1) 488 0455 fax: (+385-1) 488 0456

e-mail: dsahr@attglobal.net

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This week: The last partial week of the season, with a visible increase of news items, although mostly on the home-politics front and regarding weather. The snow which fell over the previous week-end seems determined to make up for the lack of it during the holidays: Zagreb registered the highest amount of snow in the past 10 years, and greeted last Monday more or less paralysed. For once, winter services were not entirely to blame, as the magnitude of the situation was indeed difficult to predict. The fact that, by Tuesday, the city had recovered sufficiently to return to normal functioning indicates that the Monday crisis had been due more to exceptional amount of snow than to its appearance as such.

Not so in the other parts of Croatia: many roads, especially those connecting the coast with the rest of the land, remained closed or half-open at best, and, once the low temperatures pass, the results of general melting also give reason for concern. At the moment, though, Croatia plays at being idyllically snowbound...

Outside the weather, the main focus of interest throughout the week remained the announcement of the strikes. Interestingly enough, despite general complaints about the bad economic and overall situation and, particularly, the public outcries of the dangers of the upcoming changes in Labour Law, it seems that, on the whole, unions are losing general support. Many of those supposed to strike among the teachers expressed their unwillingness to do so, and, in a newspaper poll, around three quarters of the population voted against a possible general strike in protest against the Labour Law changes.

Early in the week, rumours had it that syndicates may even appear at the next elections as a separate candidate/party, but, by mid-week, most of the unions denied any such idea. Too late, it seems: the public had perceived the very idea as yet another public force joining the race to grab whatever can be grabbed in the upcoming elections, and seems to have decided to withdraw their trust from the unions as well. Of course, the week we face will be the best indicator of what the public opinion really is like, as it will see the actualisation (or not) of the announced teachers and doctors' strikes, and the public reaction to the reality, as opposed to theory. As things stand now, doctors will especially find little support: on one side, their salaries are already well above the national average, and, on the other, ice and snow, together with the coming flu epidemic, will make people need doctors more. Should they find empty hospitals, it is more than probable that the strike will gain the medical profession very little popularity.

With this kind of atmosphere, the news of suspension of General Bobetko's court procedures received almost no public attention. Snow makes people forget a lot of things, apparently.

Auctor securities are still snowed up somewhere, but will be back soon.



Securities Trading and Acquisitions

Week at the Markets

CROBEX closes at 1171.2

Stock trading very slow

Four days of trading brought less than half of the turnover from previous week's three days, 126,545,762.61 Kuna. One must note that trading with shares brought less than 4.5 million Kuna, and considering the usually miserable certificates turnover, trading with bonds accounted for more than 95% of the total. CROBEX fell to 1171.2 (-0.58%) and CROBIS to 101.5493 (-0.06%).

The highest turnover was that of Podravka shares. The total of 5,667 shares was sold for 1,179,869.10 Kuna at the average price of 208.2. The stock closed at its highest price, 209.99 (3.42%). Pliva made just 522,575.42 Kuna, closing at 515 (-1.9%). Finally, the only TN stock which made significant turnover was Kraš, which came to 654,803.37 Kuna. After 250.06 low and 265 high, it closed at 253 (-0.78%).

While the bonds did make the largest part of the total, their turnovers fell, letting the Ministry of Finance 125A bear more than half of the entire weekly trading.

Bond	Turnover
DAB-O-05CA	21,645,672.15
HZZO-O-047A	7,226,483.48
PLAG-O-048A	1,679,096.84
RHMF-O-049A	7,852,330.37
RHMF-O-08CA	17,294,364.77
RHMF-O-125A	66,603,027.51

As for the situation at the Varaždin market, here is our usual table overview, courtesy of the VSE web page.

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
FIRST QUOTATION						
DOMF-R-A	- 1,67%	58,59	57,01	58,00	22.919	1.319.134,66
TOTAL						1.319.134,66

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION PIF						
PLTR-R-A	0,92 %	49,90	47,60	49,50	45.671	2.255.528,71
SNCE-R-A	0,20 %	32,40	31,01	32,30	26.443	846.852,89
TOTAL						3.102.381,60

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION RIGHTS						
RHMF-A-A	- 1,52 %	26,00	25,50	25,50	268.689	69.114,14
RHMJ-A-A	- 11,11 %	24,00	24,00	24,00	88.775	21.306,00
TOTAL						90.420,14



Ticker	% change	Top	Bottom	Closing	Volume	Turnover
FREE MARKET						
BLSC-R-A	4,25 %	110,00	108,01	110,00	141	15.456,27
CHGB-R-A	0,00 %	360,00	360,00	360,00	4	1.440,00
EKOM-R-A	0,01 %	410,00	400,00	410,00	2.425	970.034,23
ELKA-R-A	4,24 %	61,50	59,00	61,50	501	29.871,50
EXPF-R-A	- 1,37 %	42,70	41,01	42,50	10.935	453.012,36
HRBC-R-A	- 4,58 %	101,00	100,00	101,00	1.318	132.168,00
ISTT-R-A	2,75 %	112,00	112,00	112,00	400	44.800,00
JDRA-R-A	4,55 %	250,00	230,00	230,00	132	30.900,00
KOEI-R-A	- 1,20 %	82,50	81,51	81,51	300	24.453,00
KRAS-R-A	- 2,26 %	250,00	250,00	250,00	178	44.500,00
LEDO-R-A	2,00 %	510,00	510,00	510,00	86	43.860,00
MIV-R-A	0,00 %	1.850,00	1.850,00	1.850,00	1	1.850,00
MRMR-R-A	0,00 %	1.665,00	1.665,00	1.665,00	44	73.260,00
PURI-R-A	0,00 %	180,53	180,53	180,53	46	8.304,38
RIVP-R-A	- 0,56 %	140,00	134,52	140,00	86	11.908,48
SLPF-R-A	1,54 %	27,98	27,02	27,98	12.151	329.883,19
SNBA-P-A	- 9,07 %	85,08	85,07	85,08	46	3.913,52
SNHO-R-A	- 2,93 %	41,49	38,50	40,00	15.066	603.846,10
VART-R-1	1,06 %	47,50	47,50	47,50	22	1.045,00
VLBT-R-A	- 0,85 %	59,00	58,50	58,50	2.997	175.838,76
TOTAL						3.000.344,79
SUM TOTAL						7.512.281,19

(ZSE Web page, VSE Web page)

Privatisation and Transition

Sunčani Hvar

Fate of SH still undecided, although all voices of reason call for sale

Six Continents might be trying to get back in the running after the race has been run

PM is going to meet with the SH management, CPF representatives and Hvar municipal council on Monday 13th, in order to discuss the approaching sale of the company. Although CPF decided to endorse the offer made by Terme Čatež, which includes 335 million Kuna of investments in next five years and additional €70 million in next 10 as well as the expansion of employment opportunities in the region, a number of political forces rose against the proposed privatisations.

The most peculiar is the case of HSS, a junior member of the ruling coalition. Its proposal, which came out of the blue, consists of giving 25% of shares from the State portfolio to the local government (headed by an HSS member), 25% to former owners and 25% to the best bidder –



the logic behind the proposal being very strange, and practical side very impractical. The local government, headed by an HSS member, is also a loose element: before the tender, it was all for the privatisation, while afterwards it changed its opinion and even started petition against the sale. It is interesting to note that all alternative options would not guarantee sufficient financing for the company development, or in some cases even adequate management because of the ownership structure.

In any case, the postponed decision is hurting SH. SH has 10 hotels, but six of them had hosted refugees during the war which in effect means that they would require substantial investments for repairs. With each day, the possibility of preparing SH for the next tourist season is going down.

The case of SH privatisation is certainly not proving to be a positive example of the Government efficiency and it might become just another dot in a long line of doubtful privatisation cases that marked recent Croatian history. The plan to privatise large companies as one unit had its share of positive and negative sides – while it allowed strong and unified offer in the region, it also slowed down the privatisation process because it posed large capital requirements. SH case was supposed to test waters; everyone expected that there would be a lot of interested parties because SH is regarded as the crown jewel among State-owned tourist companies. Although both Slovenian offers are solid, the Government should question the privatisation model because it considered SH as the best company it had to offer, and if SH did not provoke more interest, it is doubtful that any of the others would.

Observing the aftermath of the tender, people like CEO of brokerage and consulting CBB Vrijednosnice consider that it would be unwise not to sell. TČ gave the best offer. By rejecting the foreign investor, Croatia would send indirect message to all other potential investors. Also, as reported previously, SH employees want the privatisation to continue because new investments would allow the company to survive and then to prosper. It might have been better to divide the company, as some are suggesting, but it is way too late to do that now.

The latest development with SH came from rumours which claim that Six Continents is trying to get back into the game, only a month after it failed to show up on the public tender. CPF regarded SC and its letter of intent as a serious buyer of SH, and the absence of SC from the tender was a great disappointment. On the other hand, rumours are also that this time SC did not offer much and that the Government is not very optimistic regarding the undisclosed offer. An anonymous source claims that both CPF and the Government had actually decided not to wait for the restructuring of SH because of the SC original letter of intent. (VJ 01.07-3,4; VL 01.08-2; SD 01.09-2; VL 01.09-5; VL 01.10-6; SD 01.10-2,10,11; SD 01.12-4; VJ 01.07-3,4; VJ 01.10-4)

Rivijera Ownership Still Unclear

About a month ago, Jadranska Bank from Šibenik announced the sale of the majority package of 55.92% of Šibenik Rivijera. The package, in the value of 58.6 million Kuna, had been bought by JBŠ at 30% discount or 41 million Kuna from Sunce PIF in July 2002. However, despite the month-old announcement that now the majority owner is Mr. Ćiril Zovko, owner of the Importanne Centre and Ibler Square Galerija in Zagreb, neither the public nor Rivijera's employees have received confirmation that the announcement is correct.

Rivijera, with its 300 employees and 1,278 beds in four hotels, had been offered by Jadranska Bank with the possibility of a 15-year loan at the interest rate of 2% per month and the condition that the buyer allow the Bank to registered mortgage rights over the company property in the value at least 1:1.2 higher than the loan amount. Well-informed sources claim that Importanne used part of the loan, with the alleged payment of 18 million Kuna in cash. However, other sources claim that Mr. Zovko is merely one of the potential buyers for Rivijera.

What is known is only that Jadranska Bank had paid 115.4 Kuna per Rivijera share to Sunce PIF for 30% of Rivijera shares. Prior to the acquisition, JBŠ already owned 17% of Rivijera shares, and acquired another 10% in exchange for write-off of unpaid loans. Small shareholders own the remaining 42%. (NL 01.08-17)

Business Development

Inkobrod Goes into Bankruptcy

After Inkobrod finished its first ship in years, it appears it went straight into bankruptcy. The Netherlands company which ordered the ship failed to pay a €400,000 instalment, and until the issue is resolved, Inkobrod refuses to deliver the ship. There is also a smaller sum that has to be paid for the second construction on which Inkobrod started working.

Unofficial sources claim that the situation is created by conflicts in company owning Inkobrod, Leda, which is partially owned by its and Inkobrod CEO and partially by Netherlands company Peters. In any case, the situation is grim for shipyard employees who are out of job now. There

Disagreements with Peters lead Inkobrod to bankruptcy again. CEO claims he will get the money owed to the company through court if necessary



are only two ways out of the situation, settlement in or out of the court. If Peters does not pay very soon, CEO will sell ship on the global market and take Inkobrod and Leda money from the sale. (SD 01.09-64; SD 01.10-56)

HTmobile

HT separated its mobile communications into a new company

From 1st January, HTmobile is a separate 100% HT-owned company which covers all mobile communications operations. The company has 1.2 million users, two networks and three brands, Cronet, Simpa and Mobitel. The business was started with introduction of 0.28 Kn/min fee (VAT excluded) for calls between 17 and 18, and free data services (GPRS, WAP over GPRS and MMS). (VL 01.11-6)

Šibenik Reconstruction Shipyard Bankrupt

RBS goes into bankruptcy

On Thursday, Commercial Court in Šibenik started bankruptcy proceedings for Šibenik Reconstruction Shipyard (RBS). With 422 employees, RBS is one of the largest companies in the region. Its CEO applied for bankruptcy as early as August 2001, but the bankruptcy was postponed twice. In the meantime, RBS lost its concession to govern maritime property. There is a possibility that one of the investors take over employees together with the concession – the tender was opened on 19th December, and the offers will be expected until 19th January. The bankruptcy manager announced that he would not give notice to any of the employees until the end of the tender. If there are no offers, it is likely that half of the workers will end at the employment bureau. (SD 01.10-8)

Dalmacijavino Accounts Blocked

Dalmacijavino owes 160 million Kuna to the State

The Ministry of Finance asked for Dalmacijavino accounts to be blocked because of 160 million Kuna of unpaid VAT, custom and excise. Dalmacijavino was surprised by the development as it was still waiting for the Government to decide whether it will accept the proposed settlement terms. (SD 01.10-13)

Diona Still Unsold

No satisfactory offers were made for Diona

The third tender for Diona was concluded without success. The bid of 250 million, a lot less than the asking price of 530 million, was submitted by a consortium of local manufacturers – Gavrilović, Vindija, Kraš and Podravka. Agrokor also submitted a bid, but it merely wanted to rent Diona property with provision of maintaining current employees.

Diona employees thought that the consortium bid was inadequate – the consortium was prepared to take over all of the employees but it would not guarantee to keep them in case of reduced business.

The Diona creditors are going to set new terms and start a new tender. They will probably take some property from the bankrupted company and set price below 500 million Kuna. However, it means further uncertainties for the bankrupted company, especially considering that Diona owes more than a billion Kuna.

Deputy PM Linić already announced a possibility of giving Diona to local companies that would provide guarantees for continued business. If it should come to this, the only question is whether the new owner would be the consortium or Agrokor. (VL 01.05-7)

Agrokor Denies Strahinjčica Takeover

Strahinjčica is our business partner, claims Konzum

Agrokor Concern, i.e. its retail chain Konzum, issued a denial last week regarding rumours of Konzum's intention to take over the Krapina-based retail chain Strahinjčica. The denial included all possible discussions regarding the possible takeover or its discussions, explaining that Strahinjčica is, in fact, one of Konzum's business partners.

Strahinjčica chain is owned in majority by the controversial Mr. Dragutin Plahutar, after the failure of Željko Miketić, Nediljko Znaor and Mladen Jakopec one of the few remaining Zagorje tycoons. In 2001, the chain was the fifth largest company by income and profits (171.5 million and 671,000 Kuna respectively), as well as the seventh by number of employees (212) in the region. It also held 233rd place in the pan-Croatian list of companies by income. (VJ 01.09-9)

Industry

Agrokor Checks IT Against World Standards

Agrokor should improve strategic communication channels

Agrokor Concern is the first Croatian company and one of the first of the region to have realised a project of checking the success of their IT sector compared with the world standards. The project, realised in cooperation with Gartner Inc. analytical and consulting company, took eight weeks and was completed with a recommendation for increased cooperation between the business system and the IT sector, through improved strategic communication channels. (VJ 01.08-7)



In 2002, RiBa generated 75.6 million Kuna of profit

Riječka Bank Results

In 2002, RiBa made 75.6 million Kuna of net profits, with 8.353 billion balance. The management is satisfied with the results, and it expects 1.5% to 2% monthly balance growth and 50% profit increase in 2003. It plans to offer more favourable loans to citizens during the year.

According to RiBa Chairperson, Mr. Petar Radaković, RiBa's new products this year will also include more advantageous entrepreneur loans, to be realised in cooperation with the Ministry of Tourism. He added that the final decision regarding the possible change of the Bank's name has not yet been reached. (SD 01.09-10; NL 01.09-11)

CA transported 1.322 million passengers in 2002, 6.5% more than in 2001

Record Results for CA

Croatia Airlines transported 1.322 million passengers in 2002, which is the best result in the company history. This 6.5% increase is even more valuable when one takes into account that all major airlines had serious losses due to terrorist attack in USA.

One of the reasons for this success are lower ticket prices in internal traffic: since it reduced prices, CA marked business growth of 46% and its capacity was used 12% more efficiently.

In 2003, CA expects further 7% growth. Its target is to transport 1.4 million passengers. (VL 01.05-2)

Mobilkom Austria signs partnership agreement with Vodafone

Vodafone Partnership

On Tuesday, Mobilkom Austria, owner of VIPnet, signed partnership agreement with Vodafone. MA possesses mobile phone networks in Austria, Croatia and Slovenia. The agreement will provide better prices and services for users of both companies.

All VIPnet users will benefit from Eurocall, a unique roaming price for calls in EU, Slovenia and Croatia. Another benefit is simplified calling without long prefix numbers through virtual home environment. VIPnet will directly benefit from the agreement: previously, all Vodafone users in Croatia had choice between roaming through Cronet and VIPnet and now they will automatically use VIPnet. (VL 01.08-2; VL 01.09-7)

Former manager presents his side of the story

Sisak Ironworks

Russian manager of Željezara Sisak-Nova, representing the company which had withdrawn from the ironworks, issued a statement on the investment, claiming that the former owners had offered the best possible terms for the plant and that they had lost €16 million in the project. The former owners actually wanted to employ only 1,000 workers in the plant; the figure was allegedly later upgraded to 1,300 by Deputy PM Linić and then somehow it grew to 1,700. The reason why the company signed the contract with provision for 1,700 employees remains unknown, because Truboimpex and other candidates were aware that the optimal number of employees was around a thousand. It is obvious that the company expected some help from the State which insisted on keeping all jobs; at the same time, Croatian banks were not prepared to provide loans required for maintaining ironworks operations, and western banks refused without a concrete reason, although many believe that the reason was of political nature.

Offers currently discussed are all very similar to those made during the previous attempt to sell the plant.

There is one week left before the deadline for submission of the final bids. Some sources believe that Podbrezova is the most serious candidate.

The bankruptcy manager repeated his previous statement that the ironworks has no money to pay December salaries. (VL 01.08-3; NL 01.08-3; VJ 01.10-1)

CR loses 2.32 million Kuna in first thirty hours of snow

CR Snow Problems

Croatian Railways suffered a 2.32 million loss during the first thirty hours of snowstorms. Cargo transportation was literally and virtually frozen, and delayed passenger transportation created a 947,000 loss. There were lots of problems with vehicles and equipment, and in addition CR had to engage additional personnel to help clear the snow. Clearing of snow alone cost 360,000 Kuna. (C. considering the date of the report, these are certainly not the final figures.) (VL 01.09-2)

Number of registrations is increasing but still far below expectations

Registration of Farmers

The number of requests for registration is increasing: relevant institutions received 11,173 requests so far.

(SD 01.08-9)

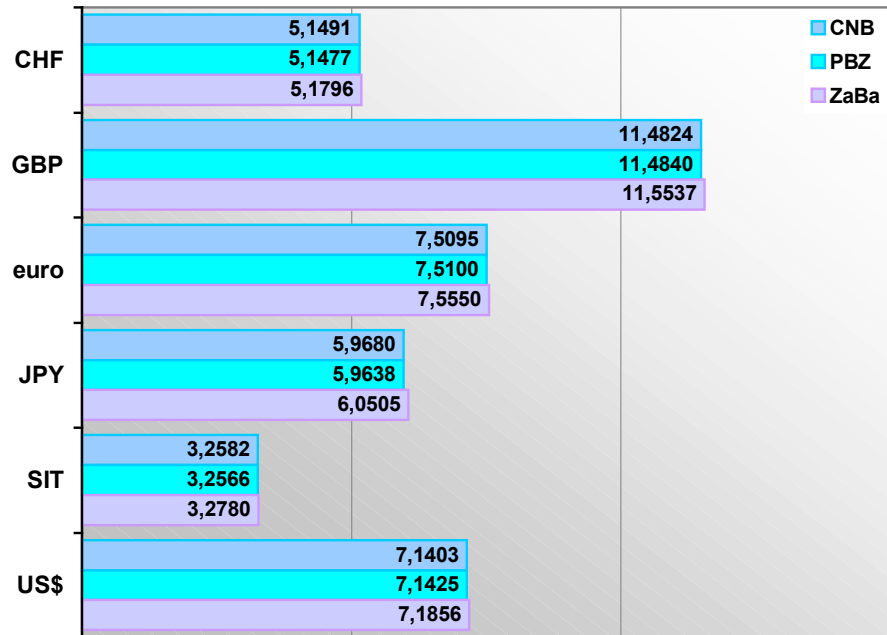


Financial, Banking and Insurance

Kuna Situation

Kuna down 0.46% since the beginning of the year

Here is a graphic overview of the latest exchange rates, as usual.



(CNB web page; PBZ web page; ZaBa web page)

Pension Funds Property Cuts

Pension funds levelled by success remuneration

On January 2nd, the property of the cca. 900,000 clients of the 7 compulsory pension funds was cut by 25% of the actual income realised by each individual fund, the so-called success remuneration.

As all the funds have the right to the same percentage, this means that the clients of the more successful funds actually got the poorer part of the deal, as their success remunerations were higher. This also brought about a levelling of accounting units for individual funds compared to the end of last year.

Thus, for example, the two funds which registered highest income at the end of 2002, PBZ Croatia Osiguranje and Helios, registered 1.4 Kuna of difference per value of accounting unit, and are now almost levelled. PBZ CrOs now dropped from 112.1001 Kuna to 109.5299 Kuna. The value of the Helios accounting unit went down from 111.5734 to 109.3333 Kuna.

A similar situation can be seen with AZ and Raiffeisen funds: AZ accounting unit went from 111.0506 Kuna to 108.7221 Kuna, while RBA Fund went from 110.8647 Kuna to 108.6516 Kuna.

Considering the relatively low income, the smallest change was registered in the accounting unit of the Ha 1 fund: from 105.9428 Kuna, their value went to 104.9749 Kuna, a difference of approximately 0.96 Kuna per unit. The property of the most successful fund, on the other hand, went down approximately 2.5 Kuna per unit.

The figures presented here follow preliminary calculations, following incomplete information regarding last year's inflation. This means that the calculations may be corrected at the end of January, after which the remunerations will be paid to pension funds. (VJ 01.07-9)

CNB Activities

CNB purchases €74,600,000 from business banks

On 7th, CNB intervened on foreign exchange rate and purchased €74,600,000 from business banks at 7.52 exchange rate.

CNB sold 977.7 million of Kuna denominated bills, 10.5 million of euro denominated bills and 7.1 million of dollar denominated bills

On 8th, CNB held its usual auction of Kuna denominated bills. It received bids for 1.081 million, accepting 977.7 million. The interest rates offered varied between 1.95% and 2.15%, the weighted being 2.09%. The average price was 99.8. The total volume of issued Kuna denominated bills is now 5.448.7 million, all of which with 35-day maturity.



On 10th, CNB held foreign currency denominated bills auction. It sold 10.5 million of euro denominated bills, 4.5 million with 35-day maturity and 6 million with 63-day maturity. The interest rates were 2.6605% and 2.65375%, and discount prices 99.742 and 99.538, respectively. It also sold 7.1 million of dollar denominated bills, 6.1 million with 35-day maturity and 1 million with 63-day maturity. The interest rates were 1.1875% and 1.19125%, and discount prices 99.885 and 99.792, respectively. (SD 01.08-9; VJ 01.08-7; CNB Web page)

Treasury Notes

Interest rate climbs to 3%

After several months of downward movements, the interest rate on one-year treasury notes started rising, climbing from 2.8% to 3%. (VJ 01.08-7)

Statistics

Employment Support

Government programmes show some progress

Between March and January, Croatian Employment Institute received 18,064 requests for Government financial support for employing. More than 62% of requests concerned programme "Učenjem do posla za sve", which provides subventions for job introduction, qualification, re-qualification and other forms of learning for new employees. 15% of requests were for employing Homeland War veterans and 9% for employing experienced women above 45 and men above 50. The largest number of requests, 18.84%, was submitted in Zagreb, followed by 12.56% in Split. (SD 01.10-7)

Inflation in 2002

Retail prices 2.2% up, cost of living 1.9%

State Bureau of Statistics published information on inflation. Retail prices went 2.2% up, and cost of living 1.9%. While commodities increased by mere 0.6%, services were 7.9% more expensive. From commodities, the key increase came for beverages, 3.1%. The overall price increase was offset by lower prices of agricultural products. (SD 01.10-8)

Construction on the Rise

12,040 building permits issued

Between January and November, there were 12,040 building permits issued. They cover more than 10,000 buildings with 17,586 flats. The total value of the construction investments is over 21 billion Kuna. Most of the flats, 16,045 with over 1.5 million m² of usable area, are newly built, and the rest of the flat permits concerns reconstruction. (SD 01.09-10)

Q3 GNP – 6.5% Growth

Q3 show strong GNP growth

State Bureau of Statistics reported that GNP grew 6.5% in Q3 on annual level. In real terms, the increase is 3.8%. The key factors were financial investments, import of goods and services and personal expenditure. (VL 01.05-6)

State Activities

Jadrolinija Fleet

The Government might finance three new ships for Jadrolinija. All three should be build in Croatian shipyards

On Thursday, the Government was to discuss how to refresh the fleet of the national passenger shipping company. Jadrolinija should pay for construction of three ferryboats in local shipyards, worth €17 million. Each ship should have capacity to transport 100 motor vehicles and 600 passengers. The shipyards in question would be Split, Kraljevica and Viktor Lenac, with delivery in 11 months. Ships should be ready for sailing in the season of 2004. Some plans saw the construction of the fourth ship as well, but they were cancelled after Brodotrogir withdrew from the combination. (SD 01.09-10)

Trade Unions and Associations

Strike Fever Strikes Again

Government dilemma: reforms or social unrest

The striking fever seems to have caught hold of Croatia again: in the week 13th-17th of January, teaching staff and school employees has announced strikes, while medical staff will start their strike on the 15th. These two general strikes could include over 50,000 people, but the number could increase tenfold if the four union matrices should decide to realise their threat of general strike protesting the cuts in labour rights in the new Labour Law.



After last year's November strike boom, when Željezara Sisak employees strike overlapped with metal workers and high school teaching staff's strikes, this new outbreak indicates that, in the third year of this Government's mandate, social partnership is shaking seriously.

Currently, the only syndicate still standing by the Government-employers-employees social pact is the Matrix of Public Service Employees, and even they claim that their tenacity has more to do with the increased budget allotments for science and education than any belief in the future of the social pact.

On the other hand, the Government is under obligation to follow IMF directives, which led to the limit of the growth of salary mass for public and state services of 1%. This will provide 600 Kuna of holiday allowance for all public servants, and will allow the increase of primary and high-school teaching staff salaries from 3% to 9%. Their salaries thus have 200 million Kuna of budget funds. However, this was not enough for the teachers' syndicates, which will strike asking for increase of non-teaching staff salaries as well.

Teachers' Demands

The syndicate announces the strike in 761 schools, along the principle of closed doors, i.e. no employee working. The demands include 4-10% increase of salaries for non-teaching staff, depending on the years of employment. Furthermore, they demand that a beginner teacher get the average state salary, which increases so that, at 40 years of employment, the salary be 50% higher.

The demands would ask for an increase of 80 million Kuna to the existing budget allocation of 130 million. Croatian Teachers' Union claims that the funds are available at the Ministry of Education, but the Government apparently has no intention of complying with the demands. According to the Prime Minister Mr. Ivica Račan, the matter is much larger than the primary schools' 80 million Kuna. If the Government were to accept the demand, it would lead to a chain reaction, correcting salaries for all public service and state administration employees, bringing the cost to 500 million to 1 billion Kuna. The budget had been adopted, said the Prime Minister, the funds are not there, and an explosion of salaries would bring the State to the brink of economic disaster.

Furthermore, Deputy Minister of Education, Mr. Ivan Vavra, repeated his surprise at the strike coming after 80% of school employees have received larger salaries, and the average school salary has gone over the republic average, going over 4,000 Kuna.

Doctors' Demands

The first doctors' general strike is expected to start on the 15th of January, and could include some 7,000 hospital doctors and 5,000 general practitioners and dentists. Their demand is that a beginner general practitioner's salary be equal to two average salaries, cca. 7,000 Kuna, while specialists' salaries should begin at 2.5 average salaries, or some 9,000 Kuna. The Government is refusing the demand, as it would lead to a 50-70% increase of the salary mass.

The Government offer of lower starting points with bonuses for better workers and cuts for those who fail to distinguish themselves was assessed as a "Robin-Hood principle" by the doctors' unions' leaders, who warned that such calculations would only provide hospital managers with a means to "buy" or "punish" their employees.

Government Fears

The Government has announced that none of the strikers will receive salaries for their days in strike. However, the biggest Government fears are concentrated on possible stronger conflict due to the announced changes in Labour Law. After the changes were first announced, the matrices all expressed dissatisfaction with Government policies and threatened general strike, which led to the Government temporarily giving up on the changes. However, IMF demands the cuts in Labour Law, and the only chance the Government may have to push the changes through lies in rushing the procedure so as not to allow the unions enough time to organise a strike. The changes are expected to enter Parliament procedure by the 7th of February, however, and the four union matrices announced that this is ample time to organise protests, strikes, and other forms of civil disobedience.

The main reasons for union dissatisfaction with the announced changes are quicker and cheaper discharge procedures, free discharges (without need for justification) for employers with up to 20 employees, and the introduction of part-time employment with no limit.

The cuts in labour rights are supposed to open up room for new employment, claims the Government, but unions are not convinced. At the same time, there is a measure of self-preservation involved: with more flexible rules for temporary employment, unions are afraid that they will experience significant drops in membership. However, they warn, with the announced cuts and weakened unions, labour force in the private sector may remain almost unprotected, and will, in turn, probably blame the unions for their failure to protect workers as such.

The Government seems determined to push the changes through, though. The Prime Minister hopes that they will find a compromise, lowering the paper rights but increasing the efficiency of



court protection. Unions refuse this, at least for the time being, claiming that the Government offer is not really an offer at all.

Thus, it seems, that the Government will face a very deep dilemma in the last year of its mandate. If they give up on radical reforms, they may never get another chance to implement them. And if they go on without the unions, they may lose the chance to implement any reforms whatsoever. Unions have already made it clear that they will "follow carefully to see whose representatives raise their hands for the cuts in labour rights". Whether this more or less open threat will have an effect on the representatives of the opposition -- and whether this effect will have any foundation other than pure vote-collecting -- remains to be seen.

Everybody else's fears

In the meantime, everybody fears the consequences of the two strikes: the parents fear for their children's education, everybody fears for their health, and even some of the teachers fear for their personal liberty, particularly after the appearance of "Strike Implementation Directions" issued by Croatian Teachers' Union. The directions indicate that parents must be informed that no classes will be held between 13th and 17th of January, so that "there is no need for students to appear at school". Furthermore, the directions ask the strikers to "notice the typical strike-breaking colleagues and isolate them." The Ministry of Education assessed this kind of rhetoric as "inappropriate and impermissible", adding that school doors must under no circumstances remain locked as the CTU would like them to be.

Thus, the fight for higher salaries seems to have lost its attractiveness for the masses: in a recent newspaper poll, three quarters of the population stated that they would not be ready to join a possible general strike. (VJ 01.07-3; NL 01.08-3; VJ 01.09-4; VJ 01.10-4)

Petrokemija Protest

Syndicate of Petrokemija is not satisfied with negotiations conducted in the Ministry of Economy. The executives from the Ministry, INA and Syndicate met but made no progress in normalisation of the supply of natural gas to the only Croatian factory of mineral fertilisers. Petrokemija, which uses gas as a raw material, not energy source, plans to produce 1.2 million tons of fertilisers in 2003. It requires 600 million cubic metres of gas for the productions, and in order to complete its production schedule, it requires normal deliveries to start next week. (VL 01.11-6; VJ 01.11-7)

HT Shares

The Government and syndicate froze negotiations on terms of share sale to HT employees. Their next meeting is expected in two weeks. (SD 01.09-64)

No results from negotiations on gas supply

No changes in terms so far

Also In the News

JMBG MIA: Potential Chaos

Although many private and State institutions fought against removal of JMBG from identification documents, their efforts were in vain. From 2003, in order to protect the privacy, JMBG will not be put on any documents -- which, according to many representatives from various institutions, including Regos and business banks, will lead to chaos, confusion and large additional expenses.

Regos will insist on JMBG for registrations. It seems that banks and other institutions will follow, meaning that citizens without JMBG will have to carry a special document with their JMBG in addition to standard identification. Of course, in some cases they will have the option not to carry it, in which case they will not be able to receive services from some institutions. Therefore, one can conclude that JMBG-less documents are a small victory for the unclear cause of privacy protection but at the same time a very practical inconvenience. (VL 01.09-7; VL 01.10-3; VL 01.11-4; SD 01.10-7)

Missing JMBG might cause a number of problems

Government Non-Paper on Croatian Economy

According to Vjesnik daily, Croatian Government has ordered an analysis of the current and future situation of the Croatian economy, comparing the situation in Croatian economy in early 2000 and today, and with the countries awaiting inclusion in the EU.

A part of the analysis, supposedly ordered as part of the preparations for the coming election, is a list of Government actions for the upcoming period. Thus, for example, the non-paper states that, in the years to come, GNP growth will remain at around 5%, while retaining macroeconomic stability, low inflation, and a drop in debt and unemployment levels. Furthermore, the State is expected to support the development of new products, particularly export-oriented ones, in the goal of improving Croatian presence at the foreign markets.

Pre-election non-paper on the current situation and future developments of Croatian economy brings reminders of real changes in the situation -- but message may fail to reach its audience



As part of this action, speedy realisation of new ideas and projects, particularly in small and medium business, is announced, together with the State readiness to provide starting capital. Following the mode of the venture capital funds, entrepreneurs would receive non-returnable funding for the most profitable projects, while the State would get ownership participation in remuneration. Other ways for supporting economic growth and employment should come through the development of information and communication technology.

The Government wishes to incite the development of companies which should, in turn, become the bearers of Croatian development, eventually making Croatia a driving force for the whole region. The non-paper also foresees the continuation of privatisation and restructuring processes, a system for the promotion of successful entrepreneurs and enterprises, and the removal of barriers for foreign investments. The non-paper also asks for a solution to transform the informal into formal economy.

The quicker development of Croatia should also be supported by the creation of a more entrepreneurship-favourable climate, supported by clearly defined development strategies for certain activities, as well as increased regional development, use of CARDS programme funding, and the introduction and implementation of international practice and rules in areas such as subsidies, transfers, public acquisitions and state subsidy systems.

The paper also announces continued work on the implementation of the Maastricht criteria: inflation under 3%, cuts in indebtedness to 55% of GNP, and continued cuts in State expenditure participation in GNP. Within these actions, improved quality and stability of public finance is also promised, as well as livelier labour market, lower unemployment, stronger financial market and incitement to domestic savings and investments.

The majority of the document is based on the changes in the past three years, assessed as important foundations for long-term sustainable development. According to basic macroeconomic indicators, Croatia is already ahead of some of the countries awaiting EU membership. For instance, Croatian GNP per capita is 5,150 €, while the average GNP p/c in the 13 candidate countries is 3,673 €, and, per country, only Cyprus, Malta, Slovenia and Czech Republic are actually ahead of Croatia.

Problems in solvency, high public finance deficit, tax pressures and intensified investment activities are also numbered among the achievements of the current Government, as well as a number of other changes, particularly drastic when compared with the last years of HDZ government.

The non-paper's intent is not entirely clear: many media assess it as a pre-election paper, intended mostly to boost citizens' confidence in the current government and remind them of the problems that marked the previous government's rule. This may not be a bad idea, of course, as many public figures seem inclined to either forget or else gloss over the past in their current promotion. At the same time, however, it is not entirely certain that the public will get the message – or, indeed, if it will be willing to get it at all. (VJ 01.10-9)

Credit Suisse Believes in Rosy Future for Croatia

Credit Suisse expects increased GNP growth in 2003

Unlike the local analysts, whose assessments of the economic situation for the 2003 are mostly bleak, foreign experts exhibit a lot more optimism. Crédit Suisse First Boston analysts thus, in their yearly analysts of Croatian economic and political situation, assessed Croatian economy as "growing strongly" and predict improved credit rating for next year. They also re-assessed 2003 GNP growth at 4.2%, instead of the earlier prediction of 3.9%. (NLp 01.08-3)

International Relations

Slovenia Drags Out Krsko Agreement Ratification

Slovenian media admit dragging out tactics in the Krsko conflict

As had been expected, Slovenia is in no hurry to ratify the agreement on the Krsko nuclear plant, ratified by the Croatian Parliament in early July 2002. According to the latest information, Slovenian Parliament may discuss the issue in January, although even this is not certain, since the Slovenian side is currently contesting Article 3 of the Croatian law on the nuclear plant Krsko, regarding the disposal of nuclear waste and the deconstruction of the plant.

Allegedly, the article is not identical to the one in the Slovenian version of the Agreement. However, Croatian media speculate that this is merely a ploy in a dragging-out strategy of the Slovenian side, intended to prolong the ratification sufficiently to prevent international arbitration of the case.

If the pre-arbitration procedure is not started within the next few months, the case will reach legal limitation of actions, which would prevent Croatia from demanding international arbitration regarding the non-delivered electric power. Maribor-based daily Vecer recently publicly announced this as a strategy for the Slovenian side. At the same time, Slovenia's most influential paper, Ljubljana's Delo, claims that the Krsko agreement was used to buy the Piran



Bay from Croatia, adding that the Agreement cannot be ratified due to the new EU regulation regarding nuclear safety, namely the obligation for all countries with nuclear objects to find a location for the disposal of radioactive waste until the year 2008. This issue, claims Delo, may be so significant that Slovenia may give up on ratifying the agreement with Croatia altogether.

Slovenian Minister of Environment, Mr. Janez Kopac, seems to be insisting that the agreement, whether ratified or not, may become null and void under the new EU regulation, forcing Slovenia to take all the responsibility for waste disposal onto itself, but, at the same time, being forced to pay Croatia the full price for the half of the plant.

Croatian side claims that this is not true, believing that, if Slovenia should ratify the agreement, Croatia would be under obligation (as stipulated in the agreement) to take care of its portion of the waste. Whether the arguments have failed to convince Slovenia so far or it is merely a justification for the hesitation is not yet entirely clear. Should the limitation period really occur, the Slovenian side would definitely profit.

Croatian Power Utility HEP, on the other hand, seems well aware of this danger. Thus, according to Vjesnik daily, they had prepared the pre-arbitrage procedure and its first step, i.e. an offer to the Slovenian side for financial compensation in exchange of Croatian ownership of the plant, confiscated following a decree of the Slovenian government from 1998. But, it seems that the proposal was stopped by Croatian Government, apparently expecting the ratification of the Agreement. Should this not happen, certain sources indicate that Croatian side may withdraw its ratification of the agreement first, and then start pre-arbitrage procedures. This strategy, of course, has the drawback of the time limit in the legal procedures.

However, HEP now seems ready to send Slovenia a pre-arbitrage agreement asking for the payment of 720 million US\$, the estimated value of the Croatian half of the nuclear plant. If the Slovenian side refuses, HEP claims to be ready to start the arbitration procedure with the International Centre for Investment Conflicts.

Croatian side would prefer to get back its half of the nuclear plant. The Racan-Drnovsek Agreement was supposed to insure this happening, with both sides ratifying the agreement by July 1st last year, and power starting back to Croatia by the 15th of the same month. This, however, did not yet happen, despite Croatian readiness to clear off the debts for the four-year non-delivery period, as well as to accept the obligations regarding the disposal of the nuclear waste.

The slowness of Croatian Government in calling upon international arbitration becomes even less understandable when taking into account that Slovenian government had no such compulsions in the case of the oil corridors, which threatened the interests of certain Slovenian companies. Thus, it remains to be seen whether this is merely a weakness on the side of the Croatian government, or else a very subtle strategy of some sort. (VJ 01.10-3)

Ljubljanska Bank Deposits

Slovenian legal experts analysed Croatian law and announced on Slovenian TV that according to a law from 1991, Croatia took on itself all obligations towards Croatian depositors. The Slovenian conclusion that Ljubljanska Bank clients have been asking for their 310 million DEM on the wrong address is based on a law that was adopted by Croatia in a package based on 42 financial laws of Yugoslav Federation. The law in question defines that Croatia was issuing the same guarantees for its foreign currency depositors as did Yugoslavia. Until now, Slovenia insisted that the debt should be covered from succession, but it seems that its plans have changed.

The Croatian Minister of Finance refuted Slovenian obligations on basis that the law in question covered banks that were legal entities but not their subsidiaries. He added that the only reason for statements like that was to buy time. (VL 01.09-2; VL 01.10-6; VL 01.11-2; SD 01.10-3; SD 01.11-2; VJ 01.10-4)

Regional News

SLOVENIA

Serbia Freezes Ratified Free Trade Agreement with Slovenia

Economic relations between Serbia and Slovenia, which underwent a renaissance period after the fall of Slobodan Milošević's regime, are now jeopardised again following the decision of the Serbian Minister of Trade, Mr. Slobodan Milosavljević, to freeze the already ratified free trade agreement.

Mr. Milosavljević announced that Serbia will retain the agreement in the frozen state until their producers and traders see a "reciprocation of treatment", according to the treatment of Slovenian companies in Serbia.

Slovenia has a new strategy for absolving itself from Ljubljanska Bank problem

Serbian insistence on "equal conditions" jeopardizes economic relations with Slovenia



Commenting on this statement, Slovenia's leading daily Delo warned that the frozen agreement would actually insure an even better situation for Serbian companies, including asymmetrical customs rates for Serbian products. However, the real problem lies in the demand from the Belgrade-based retail chain Delta to open a hypermarket in Ljubljana, equivalent to Ljubljana's Mercator market in Belgrade. Delo assesses the demand as unjustified and leaning on the "previous logic" of inter-republic exchange on the principle of goods for goods and service for service, instead of the contemporary concept of investments and higher forms of economic cooperation.

Delo comment concluded with the observation that blackmailing into different economic relationships may be an explanation for the fact why Mercator's investment is the first large foreign investment in Serbia after the fall of Milošević's regime, adding the question: what would the Greek side say if Belgrade were to condition their investment into the second largest hypermarket in Belgrade with the construction of a Serbian trade centre in Athens? (NLp 01.08-8)

This week's sources: Večernji List, Jutarnji List, Slobodna Dalmacija, Vjesnik, Glas Slavonije, Novi List, Obzor, Globus, Nacional, ZSE web page, Varaždin OTC web page, CNB web page, Government web page and other sources. Should you need any other or additional information, a translation of an article summarised above or the exact source of an original article used, please contact us at:

*Development Support Agency
Vijenac 5c, 10,000 Zagreb
Tel: (385-1) 488 0455 Fax: (385-1) 488 0456
E-mail: dsahr@attglobal.net*