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Croatian Weekly Economic Bulletin

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This week: A week marked mostly by strikes and snow. First, the teachers went on strike as had been announced, but cut the foreseen five days to two, claiming this was due to the fact that the strike had already achieved what it had set out to do – turn the public attention to the problems of the education sector, not only of non-teaching staff (even though their position had been the direct cause of the strike this time) but also of all teachers.

Then the doctors started the strike, and didn't end it at all, but many of those participating in the strike seem to be doing so Japanese style, by working as usual and wearing a badge in support of the strike.

Although in many of their elements they were widely different (the school strike demands were, on the whole, significantly lower than the medical ones, to name just one) there were two elements that both strikes had in common, and both are worth noticing: for one, in both cases, the Government adopted a very strong attitude, saying they are not ready to jeopardise the economic future of the country in order to fulfil somebody's momentary demands, and assessing both strikes as failures. How much this last is true or not, it is difficult to assess at the moment. In both cases, Government information regarding the number of people actually involved in the strike varied greatly from syndicate-provided information; the fact remains that almost no schools and no hospitals closed their doors.

The other important common element is the lack of popular support. Unlike the previous instances, when the public generally tended to take the side of the unions, albeit with merely verbal support, this time the "average citizen" seems to have had it up to a very high spot indeed with everyone's demands. The teachers were berated for making the children fight their way to school through the snow and then not knowing what would happen; the doctors are getting even more severe treatment, as they are normally perceived as already well paid, subject to many bribes, and generally a privileged stratum of the society.

How this will influence the possible income of the possible general strike, remains, of course, to be seen. However, it does seem that the Croatian public is no longer ready to perceive any striker as the underdog.

How well this bodes for the Government is far from certain, though. The tough stance towards strikers, defending the Budget with the explanation that "if the salaries of one group were raised, all salaries would have to be raised" certainly works very well with the foreign observers, though. At the same time, the discussion on whether Croats really do live better now than they did two years ago is gaining heat in the eyes of the public. Improved economic indicators don't mean too much to the average citizen; or do they? We will see this in the (pre-election) months to come...

Apart from this, the only noteworthy event last week was the infamous statement of Ivica Kostelić regarding fascism. The statement flew over the world quickly, as did the subsequent apology. Other statements of dubious moral value, made mostly by his father, were shortly re-hashed, and then forgotten again. With the bread less than ample, the games are important.



Securities Trading and Acquisitions

Week at the Markets

CROBEX closes at 1183.5.

Strong trading with Podravka and Karlovačka Pivovara.

CROBEX closed at 1183.5 (1.05%) and CROBIS at 101.5191 (-0.03%). The total turnover was 180,394,054.25 Kuna, with 23 or so million not coming from bonds.

For the second time, Pliva turnover was very low, just 585,786.06 Kuna. The stock closed at 506.04 (-1.74%). Podravka stock traded for rather high 7,375,726.09 Kuna, with 214.1 average and 213 close (2.31%). In the quotation TN, the highest turnover was generated by Kraš, 5,095,249.57 Kuna, almost eight times the previous turnover. The stock price went from 260 low to 305 high, closing at 290 (14.62%). Trading with shares of Karlovačka Pivovara brought 4,141,618.57 Kuna, probably due to Heineken interest. Its value grew strongly during the week, closing at 800 (66.67%). Riviera turnover was 1,506,053.05 Kuna, closing at 141.5 (3.8%). Istraturist shares were traded for 885,953.96 Kuna, with 120 close (3.45%).

Unusual variety in bonds trading.

Bond	Turnover
DAB-O-03CA	41,075,868.83
DAB-O-05CA	14,260,473.50
HZZO-O-047A	13,135,719.38
PLAG-O-048A	763,719.71
RHMF-O-049A	12,527,039.19
RHMF-O-08CA	9,648,139.15
RHMF-O-125A	65,777,593.37

Here is, also, the situation at the Varaždin Market, courtesy of the VSE web page.

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
FIRST QUOTATION						
DOMF-R-A	- 0,30 %	58,70	57,31	57,98	36.867	2.143.882,79
TOTAL						2.143.882,79

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
SECOND QUOTATION						
BRIN-R-A	0,00 %	50,00	50,00	50,00	125	6.250,00
TOTAL						6.250,00

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION PIF						
PLTR-R-A	- 3,30 %	49,50	45,00	45,00	10.943	529.044,49
SNCE-R-A	- 1,52 %	33,00	31,00	32,00	29.702	959.164,92



TOTAL	1.488.209,41
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Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION RIGHTS						
RHMF-A-A	- 5,73 %	25,01	23,98	25,00	5.706.263	1.378.342,68
TOTAL						1.378.342,68

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
FREE MARKET						
ANTA-R-A	0,75	1.340,01	1.340,01	1.340,01	10	13.400,10
BD62-R-A	- 6,67	56,00	56,00	56,00	71	3.976,00
BDSS-R-A	0,00	150,00	150,00	150,00	120	18.000,00
BLSC-R-A	- 1,47	108,01	108,01	108,01	43	4.644,43
CROS-R-A	0,04 %	2.025,00	2.025,00	2.025,00	5	10.125,00
EKOM-R-A	5,00 %	420,01	410,02	420,01	1.685	695.579,00
ELKA-R-A	- 0,81 %	62,00	59,01	61,00	726	44.113,37
EXPF-R-A	- 0,05 %	42,00	41,02	41,02	5.775	239.297,83
HRBC-R-A	0,31 %	100,50	100,50	100,50	413	41.506,50
HTCP-R-A	11,11 %	50,00	50,00	50,00	450	22.500,00
ISTT-R-A	7,73 %	121,00	120,00	121,00	2.125	256.400,00
JDRA-R-A	0,00 %	230,00	230,00	230,00	272	62.560,00
KAPI-R-A	81,84 %	810,01	575,00	800,00	11.800	9.430.551,00
KOEI-R-A	4,28 %	85,00	84,00	85,00	700	58.999,00
KRAS-R-A	16,16 %	300,00	260,00	290,00	1.791	512.350,00
LANO-R-A	- 34,79 %	180,00	180,00	180,00	5	900,00
MIV-R-A	0,00 %	1.850,00	1.850,00	1.850,00	10	18.500,00
MRMR-R-A	0,00 %	1.665,00	1.665,00	1.665,00	17	28.305,00
PDBA-P-A	24,69 %	202,00	202,00	202,00	7	1.414,00
PDBA-R-A	4,94 %	160,56	160,55	160,55	170	27.294,50
PLAG-R-A	1,33 %	610,00	610,00	610,00	6	3.660,00
PURI-R-A	0,00 %	180,53	180,53	180,53	487	87.918,11
RIVP-R-A	0,98 %	140,00	139,00	140,00	183	25.587,50
SLBD-R-A	0,00 %	360,00	360,00	360,00	11.278	4.060.080,00



SLPF-R-A	1,76 %	28,25	27,40	28,00	34.620	969.732,59
SNBA-P-A	0,0 %	85,08	85,07	85,08	76	6.465,70
SNBA-R-A	38,68 %	160,00	160,00	160,00	25	4.000,00
SNHO-R-A	2,92 %	42,00	40,22	41,06	13.416	552.532,63
SUNH-R-A	13,82 %	42,00	42,00	42,00	1.552	65.184,00
TNPL-R-A	0,20 %	201,00	200,00	200,00	105	21.039,00
TRCM-R-A	0,00%	1.000,00	1.000,00	1.000,00	53	53.000,00
VART-R-1	0,00 %	47,50	47,00	47,50	143	6.746,00
VLBT-R-A	- 0,03 %	59,00	58,11	58,40	7.951	465.176,50
VSK-P-A	0,00 %	20,00	20,00	20,00	349	6.980,00
TOTAL						17.867.967,76
SUM TOTAL						22.884.652,64

(ZSE Web page, VSE Web page)

Privatisation and Transition

Sunčani Hvar

No decision yet.

Local Government the only factor opposing the sale.

Previously announced meeting on Monday (C. see previous issue of CWEB) brought no progress. All participants – CPF, Government, Syndicate and local government – apart from Mayor agreed that the sale should proceed. The mayor of Hvar opposed both privatisation model and privatisation itself, the stand which City Council maintained on a similar meeting on Wednesday. Apart from the local government, the only question was what if Slovenians failed to meet their obligations. However, the sale contract provides for violation clauses.

Mayor and the local government had several ideas, each benefiting primarily the City of Hvar. One proposal was for the State to annul the tender, forgive 4.5 billion of SH debts and remain its owner; apart from legal issues, this course of action would mean that there would be no investments in the company, or at least no investments of nearly sufficient volume. Another proposal was to abort the sale in order to sell SH property individually; paradoxically, previous administration supported the current model of privatisation. In the end, the local government would like to be given 25%+1 of shares, in return for which it would rapidly resolve property issues between the city and the company.

In the meantime, the Government legal experts stated that the Government could reject Terme Čatež offer, but it could not annul the tender.

Deputy PM Linič visited Slovenia, where it met with Slovenian Government and TČ representatives. During talks with the Slovenian Minister of Economy, they agreed that open questions like Krško, Slovenian resorts in Croatia, Ljubljanska Bank and border disputes should not stand in way of agreements on mutual protection and encouragement of investments, resolution of double taxation issues and tourist co-operation, but that they should rather be isolated and solved separately. (VL 01.13-2; VL 01.14-2; VL 01.16-2; VL 01.16-6; SD 01.14-5; SD 01.15-2; SD 01.16-2; SD 01.17-3; VJ 01.13-5; VJ 01.14-6; VJ 01.14-8)

Report on Privatisation

Only eight completely legal privatisations out of 143 investigated cases.

The State Audit Office submitted a report to the Parliament. The report analyses privatisation and transition in 242 companies that have been processed so far. The auditors point out that in most cases privatisation and transition did not meet goals set by the Law on Privatisation: the stock capital of examined companies was reduced by 26.4%, employee figures fell from 124,183 to 48,970, 29.3% of the companies went into bankruptcy, and 73.14% did not realise their development programmes. In addition, property assessment missed significant parts of company property, losing almost 154.5 million DEM in stock capitals. Unrealistic presentation of loans also lowered the final company value. From 143 companies that were audited by October 2002, there were only eight without any irregularities. The office submitted charges to relevant



offices, in 38 cases admitting that they did not manage to find conclusive evidence. (SD 01.17-5)

Tender on Split Ironworks

CPF offers ironworks for 36,242,280 Kuna.

CPF opened new tender for sale of Željezara Split. The 120 million Kuna asking price from the first tender was reduced to 36,242,280 Kuna. CPF is selling not only its own shares but also all shares in State portfolio, including e.g. those of Croatian Pension Insurance Institute and Croatian Railways. One of the deciding factors will be buyer's willingness to maintain all employees for a year, or to offer them alternative, or to open new jobs. Five-year investment plan is required. In addition, the State wants to get rid of €22 million of guarantees it provided for modernisation and reconstruction of the ironworks. The tender is open until 13th February. (SD 01.14-12)

CPF Activities

CPF privatisation activities.

If CPF continues as planned, next week it will put on sale seven hotels and tourist companies, including Kaštelanska Rivijera. The decision was supposed to be made on Tuesday, but CPF meeting was postponed until Thursday.

The hotels in question are all in Dubrovnik region: Neptun (87.73% of shares), Kompas (83.5% of shares), Park (73.89% of shares), Lero (84.5% of shares), Koločep (88.43% of shares) and Mlini (88.57% of shares). The sale will include 72.02% of Kaštelanska Rivijera shares. The experts from the region asked immediate consultation with CPF because they would like to participate and advise on privatisation. So far, none of the privatisation on Dubrovnik region showed any improvement in the company business: one of the privatised hotels turned out to be the least successful hotels in the region. The situation does not look very favourable for sale, considering the effects of the SH crisis on foreign investors.

CPF is also offering four tourist companies following the privatisation model used in controversial case of Sunčani Hvar. It should sell 56.29% of Vodičanka with starting price of 20.98 million Kuna, which is 25% of the nominal value of shares. It asks 19.83 million Kuna or 20% of the nominal price for 77.97% of hotel Podgora. 90.15% of hotel Živogošće will be offered for 31.03 million Kuna and 81.4% of Jelsa for 25.8 million Kuna. The tender deadline is 4th February. There were no interested parties on the first tender, when shares were offered at their nominal value.

The sale of Vodičanka is creating some reactions because of suspicions regarding its privatisation. Company employees believe that they were victims of a fraud: during the Homeland War, they did not receive their salaries and were thus unable to pay for their shares. In addition, they were not receiving warnings on debt, and thus CPF gained most of the small shareholders' shares. (SD 01.14-48; SD 01.15-8; SD 01.16-10; SD 01.18-10; VJ 01.14-4,8)

INA Privatisation

Offers opened and under analysis.

On 17th January, the Minister of Economy opened first binding offers for 25%+1 INA shares, submitted by Rosneft, MOL and OMV. The figures offered are still open to negotiations. In next two weeks, the offers will be analysed and evaluated, bidders will conduct further negotiations and submit their final offers.

Unofficially, three offers went between 250 to 400 million US\$. (VL 01.15-2; VL 01.16-2; VL 01.18; SD 01.13-8; SD 01.18-3; VJ 01.17-5)

Sisak Ironworks

Four offers, none very favourable.

The situation remains open after opening of bids on Wednesday. Four potential buyers, Podbrezova, Duferco, Olmax and ZinchItalia submitted their offers but each offer asks for long-term guarantees that could be provided only by the Government. Therefore, there will be one more round of direct negotiations between the Government, bankruptcy manager and each potential buyer. Among the terms the bidders demanded, there are a guaranteed supply of energy, and special electricity and gas prices. The number of employees that will have to be let go ranges between 500 and 1,000 people. Duferco and Olmax are interested in parts of the facility, not the entire ironworks. Considering that their desires are complementary, the bankruptcy manager is regarding their offers as one. The possibility to divide the company into several units, accept one of the offers and rent the rest also remains viable.

The bankruptcy manager believes that it is likely that all 1,700 employees of the ironworks and 200 of Remont Caprag will go to the employment office before the new owner of the company decides to employ 1,200 of them. Although the scenario is not confirmed, it is the most realistic. Syndicates judged each of the offers to be inadequate.

Syndicates also asked from the bankruptcy manager to continue paying rent on flats owned by the company. They would also like to include the said rent into property value for buyout purpose, and they demand the sale of the flats under same terms as those for previously sold flats. The latter is certainly not going to be possible, since those terms were valid until 1996.



The sale of the flats will not be possible until the company exits bankruptcy. (VL 01.16-6; SD 01.15-56; SD 01.16-5; SD 01.18-5; VJ 01.14-8; VJ 01.15-9; VJ 01.17-5)

Business Development

Cedevita Establishes Slovenian Company

Cedevita Ltd. establishes company in Slovenia due to intense relations with the market

Cedevita Ltd., part of the Atlantic Group, established a Slovenian company, Cedevita Ljubljana Ltd., which started operation on January 3rd, report Atlantic Group sources. The company was founded with the goal of improving business results, providing active support to Cedevita's Slovenian distributor, and facilitate daily contacts with business partners and key customers on the Slovenian market.

Last year, Cedevita realised € 2.3 million of income at the Slovenian market, selling instant vitamin, dieting and conдитory products. Cedevita brand has extremely good market acceptance in Slovenia, and their vitamin products hold around 85% of the market in their category.

The new company will be managed by Mr. Bogdan Slovnik. In his CV, Mr. Slovnik has the positions of Acquisition and Sales Head for ABC Pomurka Trgovina, Sales Manager in Beiersdorf Ljubljana, and Sales Manager for Nestle products as part of Zepter Slovenica. (VJ 01.14-7; SD 01.14-8)

Heineken Wants Karlovačka Pivovara

Heineken wants to enter Croatian market.

On Wednesday, Heineken announced its interest in acquiring the control package of KP shares. Lukšić Group, owner of 68% of KP, sold to Heineken several of its breweries in Chile and Argentine. The deal is to be put in front of the Agency for the Protection of Market Competition.

Heineken would provide a good strategic partner to KP, giving it a brand name and enabling it to compete under better terms. (VL 01.16-7; VL 01.17-3)

Kerum to Build for State

Agreement between three parties lead to quick construction.

On Monday, the Minister of Public Works, Reconstruction and Construction Čačić, entrepreneur Kerum and representatives of the City of Split held an unexpected meeting which quickly resulted in agreement on Brodarica. To recapitulate: the Ministry wanted to buy the old industrial complex from the bankrupted Diokom in order to build a Government subsidised residential area. However, it failed to bid on the tender which was won by Kerum who had similar plans with the site. As a consequence, the City Council decided not to accelerate administrative changes that would permit immediate residential construction on the location.

All three sides made the following agreement: Kerum will enter the Ministry programme, while the City will resolve all administrative issues. Apart from flats, whose price will be €900/m², Kerum will construct a business complex. It is likely that the construction will start by summer. (SD 01.14-12)

Brodosplit

Shipyard has perspective contract with unknown Swedes.

Experts from Brodosplit visited Sweden, where they signed letter of intent for construction of eight highly sophisticated superhandy tankers for transportation of oil and petroleum products. The tonnage of each vessel is 60,000. The deal would be signed on 4+2+2 formula, i.e. contract on four vessels with two extension options. Whether the contract will be signed will be known in March. At the moment, Brodosplit capacities are occupied by February 2005, and the Scandinavian contract would provide work until the end of 2006. In addition, it would follow the new strategy of the Ministry of Economy to avoid building simpler ships. (SD 01.17-12)

Industry

Đuro Đaković Works Outside of Season

Đuro Đaković has so much work outside of season they need additional labour

Construction specialists from Đuro Đaković – Montaža, normally specialising in ship construction, found a way to keep themselves employed outside of the ship-building season. In addition to the construction and assembly of the steel construction of the Krka river bridge by Skradin as well as the bridge and viaduct over the river Gacka on the future Zagreb-Split highway, ĐĐ also signed a contract with two Croatian concrete factories. One, with Našicecement from Zoljani, pertains to € 1.4 million work, to employ some 150 people over the next three months. The other, signed with Dalmacijacement, pertains to the reconstruction of Dalmacijacement's three concrete factories. The works, expected to employ some 120 people, also over three months, should provide monthly income of cca. 3.5 million Kuna.



Thanks to the contracts in question, ĐĐ not only managed to employ its permanent workers throughout the so-called "dead season" period, but also provided employment for 50 otherwise unemployed construction workers from the Croatian Employment Bureau. Furthermore, the people working on the concrete factories' contracts will stand a chance to gain attractive bonuses offered by the investors. (VJ 01.13-7)

Pork 20% Down

Prices of pork going down, requiring intervention to help producers.

Buyout price for pork fell to 10.18 Kn/kg, 20% less than in 2002. Because of the fall of the demand, there is a surplus of 10,000 animals which lead to the lowest pork prices in last couple of years.

The Ministry of Agriculture and Forestry arranged meeting with processing industry representatives. They agreed to make an intervention and buy pork from the producers at market prices which vary between 8 Kuna in Slavonia and 15 Kuna in Dalmatia. The pork prices in other European countries are even lower, e.g. 5.67 Kuna in Poland, 6.46 Kuna in Russia, 6.61 Kuna in Germany and 8.84 Kuna in Hungary. (VL 01.18-2)

Registration of Farmers

The numbers are going up.

The Minister of Agriculture and Forestry announced that the deadline for registration of farmers will remain 31st January. The rate of registration is growing. Unregistered farmers will not be punished, but they will also not be able to sell their products or receive subventions. (VL 01.13-4; SD 01.16-11)

INA Expands Services

INA offers new payment methods.

INA introduced two new methods of payment for petrol. Its customers can now use new INA cards or with mobile phone. (SD 01.15-8; SD 01.16-10; VJ 01.15-9)

Medicine Supply Problems

If the State does not improve its payment performance soon, the system will collapse.

The owners of pharmaceutical stores are complaining that HZZO is once again late with its payments. Croatian Institute for Health Insurance is supposed to pay for prescription drugs within 120 days, which is exceeded in many cases. If debts remain open after 200 days, the whole system will collapse. CEA representative in charge of the sector believes that the State should provide additional 400 million Kuna to ensure normal functioning of the supply system. (VL 01.14-2)

Podravka Ambitions in 2003

Podravka shows great perspectives for 2003.

In 2003, Podravka should become the most prominent food processing company in the region. Its existing distribution contracts with large multinational companies and its intentions to take over important companies in Serbia and Czech Republic might lead to annual growth of over 10%. The distribution alone should generate over a billion Kuna turnover.

In 2001, Podravka income was 2.67 billion. It strongly grew after acquisition of Ital-ice and Lagris signed distribution contracts with several companies, including Nestle and Unilever in most republics of former Yugoslavia. It is distributing Heinz and Kraš products in Hungary. It is also distributing Adria fish cans in Croatia, where it also enhanced its beverages programme Studenac with Austrian "Power Horse". In Poland, it co-operates with Japanese Ajinomoto both in distribution and production, and it is likely it will expand production of Nestle licensed products. (VL 01.14-7)

BMC Software Forum

Presentation of BMC software for enterprise management.

In February, BMC will organise its first user forum in Croatia. BMC is the leading vendor of IT solutions for enterprise management and it uses forums as places to present its strategies, products and technologies to its current and potential users. (SD 01.15-9)

Financial, Banking and Insurance

Kuna Situation

Kuna follows trends: down towards €, up towards US \$; experts expect the depreciation to continue until the end of the month

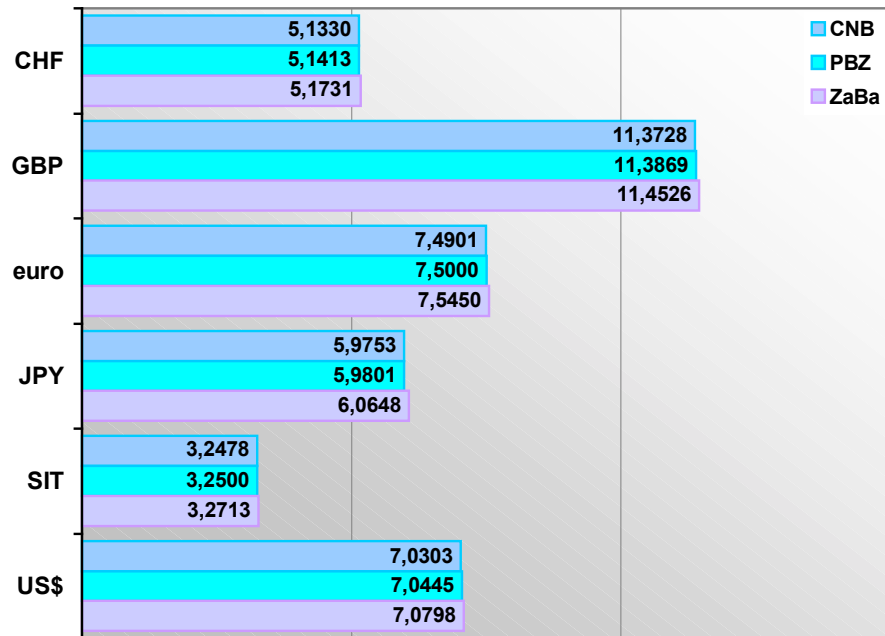
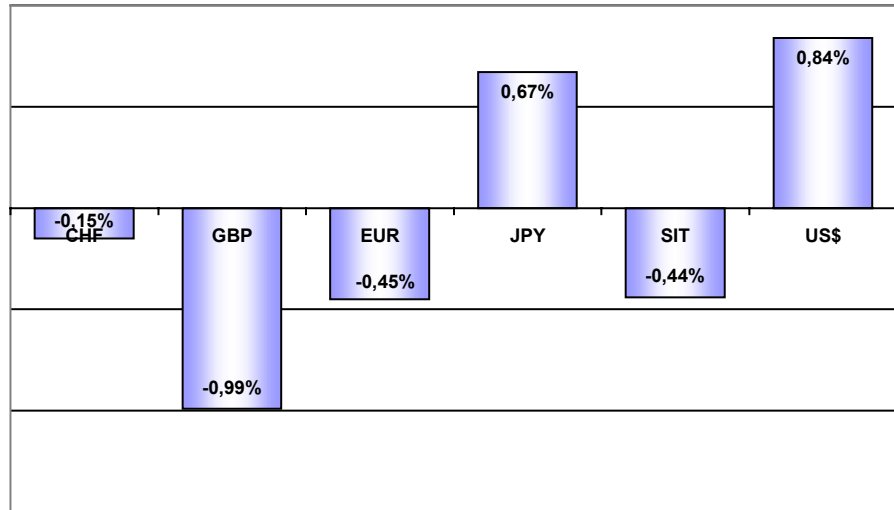
The first days of 2003 brought about the traditional January depreciation to Kuna, particularly in relation towards euro and the Swiss frank. At the same time, Kuna went up in relation to US\$ and the Yen, following the world trends. Currently, € is generally strong and over the 1.05 US\$ level, while the US\$ and the ¥ are going down: last year, US\$ lost 15% in comparison with the €, while, at the end of the week, the Japanese currency reached its lowest level towards the European one in the last 3.5 years, additionally cut by the political tensions at the Korean peninsula.

Back in Croatia, the first quarter is traditionally the period when increased payments of foreign debts result in increased demand for foreign currencies, which can also explain part of the over-



7.5 € value. Last week, CNB intervened, selling almost 75 million €, but the action, resulting in withdrawal of over 560 million Kuna, only managed to slow down the depreciation trend, not stop it.

Here is a graphic overview of the changes at the weekly level, followed by the latest exchange rates, as usual.



(CNB web page; PBZ web page; ZaBa web page; VJ 01.13-6)

Financial Aggregates Grow

Money mass grows, M4 liquid funds drop

In the month of November, monetary aggregates of primary funds registered growth in money mass M1, a drop in overall liquid funds M4, and continued growth of placement in comparison with October.

Overall liquid funds registered a drop in November due to a 1.2% drop of forex deposits, while, at the annual level, forex deposits registered 14.1% growth in Kuna amounts.

Together with the growth of the money mass, Kuna deposits went up 2.9%, continuing the upward trend after a short period of problems in the system caused by the affair in one of the largest Croatian banks, Rijecka Bank. (VJ 01.14-6)



CNB introduces measures to limit credit placements.

CNB against Loans

CNB introduced measures that should prevent business banks from high credit placements. The placement problem lies in the fact that business banks are supporting their loans from their foreign debts, thus increasing foreign debt and threatening macroeconomic stability. The central bank estimates that an annual increase in placements of 16 percent should be enough to support further economic growth, without too much pressure on the balance of payments and foreign borrowing. The banks whose placements grew more than 4% by the end of March, 8% by the end of June, 12% by the end of September or 16% by the end of the year, will have to purchase CNB bills to the amount twice as high as the amount in excess of the above mentioned rates. The maturity of the purchased bills will be 91 days, with the annual interest rate of 0.50 percent. However, the central bank will not repurchase them or accept them as collateral for a Lombard loan, nor will the banks be allowed to sell them to another party before maturity.

Bank representative believe that the CNB decision is too limiting and that it will not have equal impact on all banks. (VL 01.18-3; SD 01.16-11; SD 01.17-7; SD 01.18-7; VJ 01.17-8; NL 01.17-11; CNB Web page)

CNB Auctions

CNB sells 1,027.3 million in Kuna denominated bills, 15.35 million in euro denominated bills, and 3.25 million in dollar denominated bills.

On 15th January, CNB held auction of Kuna denominated bills. It accepted 1,027.3 million from 1,047.3 million offered. The interest rates offered ranged between 1.95% and 2.12%, the weighted being 2.07. The average price was 99.802.

On 17th January, CNB sold 15.35 million in euro denominated bills, 8.95 million of which with 35-day maturity and 6.4 million with 63-day maturity. The interest rates were 2.66288% and 2.653%, and discount prices 99.742 and 99.538, respectively. CNB also sold 3.25 million in dollar denominated bills, 2.3 million of which with 35-day maturity and 0.95 million with 63-day maturity. The interest rates were 1.17375% and 1.18063%, and discount prices 99.886 and 99.794, respectively. (CNB Web page)

CNB Permission on Merger

CRTZ to join ZaBa.

CNB allowed Zagrebačka Bank to acquire 100% of shares of Cassa di Risparmio di Trieste – Banca Zagreb (CRTZ) and to merge with CRTZ. ZaBa and CRTZ both belong to Unicredito Italiano, and the merger will allow all CRTZ to benefit from the entire ZaBa offering. Total CRTZ assets at the end of 2001 were 422.1 million Kuna, 0.3% of the total assets in banking sector. (SD 01.17-7)

CNB on State Accounting

State could function more efficiently.

CNB Governor Rohatinski expressed his opinion that it would be logical for State to have just two accounts, one for Kuna and the other for foreign currency transactions. His idea is to turn CNB into the State fiscal agent, and he is going to propose it to the Ministry soon.

The governor believes that this would lower payment operation expenses of the State and improve overview of the situation. (VL 01.17-2)

Treasury Notes

Interest rate on one-year notes remains unchanged.

The interest rate on one-year notes remained at 3% after Tuesday auction. The Ministry of Finance sold 200.2 million Kuna in notes, while the demand was almost 580 million. The Ministry issued 153.8 million Kuna in one-year notes, 17.6 million in six-month notes whose interest rates grew from 2.5% to 2.6%, and 28.6 million in three-month notes whose interest rates fell from 2.1 to 2%. (VJ 01.15-9)

Statistics

Money Market

Supply 2.3 times demand; interest rates grow

At the money market, the supply last week was 2.3 times higher than the demand, totalling 580 million Kuna against demand of 253 million. The weekly trade totalled 192.35 million Kuna, with daily volume averaging 48.09 million at the average interest rate of 1.56%. During the week, interest rates ranged from 0.96% to 2.43%, closing at 1.24%. This was a significant increase from early January's 0.69%, the lowest rate over the past 4 months.

The lower volume of trade can additionally be explained by the period of compulsory reserve retention, but also by the fact that, at the end of the week, the limits of the usual loan-takers were filled. (VJ 01.13-6)

Inflation in December

Croatian 2002 inflation equals Eurozone's

According to the latest information from the State Bureau of Statistics, retail prices in Croatia in December last year were 2.3% higher than in the same month the year before. In the same



period, Eurostat reports inflation rate of 2.2% for the 12 Eurozone countries—exactly the level of Croatia's last year inflation rate on the annual level.

According to SBS, December growth of retail prices was just 0.1%, split to 0.2% increase of commodities prices, and a 0.1% drop in service prices. As commodities pertain to 78.15% of all price basket items, it is clear that the changes in their prices have important effects on the inflation in the country as a whole.

The December 2.3% annual rate is the lowest year-end inflation rate registered since 1994, warn analysts. As for the annual inflation of 2.2%, it is mostly due to the 7.9% increase in service prices, in its turn caused by 9.8% increase of prices in transport, post and telecommunication services, which cover exactly 50% of the service group.

It is interesting to note that no services registered a drop in 2002 prices as compared with 2001. On the other hand, prices of commodities went up just 0.6% throughout the year, with the highest growth, 3.1%, registered among beverages. At the same time, alimentary products, interior decoration items, light and heating fuels registered a drop in their prices. (VJ 01.14-8)

Unemployment Drops Continue

Unemployment continues downward, as does demand for labour

Croatia saw the end of the year 2002 with 366,162 unemployed persons, continuing the downward trend in unemployment. Thus, December 2002 registered a 1% drop in unemployment on a monthly level, and a 7.3% drop on the annual level, announced Croatian Employment Institute last week.

Last year also registered the lowest unemployment growth rate in the past seven years: 2.5%. The year also saw the employment of 165,566 people from the CEI evidence, 18,106 more than in the year 2001. It is also interesting to note that, throughout 2002, CEI registered 21,925 new people less than in the year before.

Looking at the data by qualification, December saw a lowering of unemployment among qualified and highly qualified labour, while half-qualified saw an increase. The fastest way to find employment was to be young: best rates were registered in the 15-34 group.

Going by county, drops in unemployment were registered in 20 out of 21 Croatian counties, with only Virovitičko-Podravska County registering a 0.8% increase of unemployment compared with the situation in December 2001. The highest drop was registered in Istarska County, 32.5%, followed by Primorsko-Goranska County at 14.1%.

December even saw the change of trends in registration: CEI registered 17,833 new registrations, 33.6% less than in December 2001, while 21,358 people left the CEI registries. 8,891 people of this number found employment: 1.4% more than in December 2001. 12,467 people – 51.9% more than in December 2001 – were removed from the CEI registry for other reasons, mostly insufficient registration with the CEI, failure to follow legal regulations, departure to the army, or retirement.

However, the demand for labour also continued on the downward trend in December. However, part of the reason for this can also be found in the fact that the new legislation no longer has the registration of job openings as compulsory with the CEI. Thus, throughout 2002, a total of 174,150 open positions were registered with the CEI, while a year before the figure had been almost twice as high.

Commenting the gender distribution, CEI Director Ms. Sanja Crnković-Pozaić warned that the trend of growth among unemployed women, which went from 54.3% in 2001 to 56.3% in 2002, may continue this year as well. She stated that, should this be the case, CEI may introduce subsidies for the employment of women. She added that such subsidies may be implemented through the existing "Gamma of Employment Measures", as is the case in many European countries. (VJ 01.14-4)

Employment in Construction

Fewer builders.

Croatian Employment Institute analysed employment in the construction sector. Croatian construction companies employ 93,000 workers, which is 6.9% of the total Croatian employment. In 1990, the number of employees in the sector was 118,700 or 7.9% of the total. During 2002, the sector required additional 18,755 employees; it employed 15,984 or 85.1%. (SD 01.15-9)

Tourists in Croatia

6% more tourists between January and November of 2002.

Between January and November, Croatia was visited by 8.2 million tourists, 6% more than in the same period of 2001. The State Bureau of Statistics reported that the total number of overnight stays was 44.42 million, a 3% increase. November figures are not exactly reflecting the overall picture: the number of tourists was lower by 4%, but overnight stays increased 1%.

During the period, there were almost 7 million foreign tourists, 6% more, and they made 89% of the total number of overnight stays, or 3% increase. Croatian tourists also made more visits, but 1% less overnights. Among foreign guests, 1.47 million came from Germany, 14% more, with



11% increase of overnights. Italians made 1.08 million visits, with 3% overnight increase. The number of Slovenian visitors fell by 1% and of their overnights by 2%. (SD 01.14-7)

State Activities

Real Estate

State finally acting

All municipal attorneys were instructed to control property registration of privatised companies. The problem (C. mention in several issues of CWEB in 2002) lies in the land surrounding sold objects, mostly hotel and tourist companies, which some companies wrote as their property. It is estimated that CPF and other parties were damaged by €4 billion. According to some information, even lighthouses entered into company ownership in this way. Legal proceedings against responsible parties might be in order as well. (SD 01.16-3; SD 01.17-5)

Agrokor-Konzum Monopoly?

Is Agrokor behaving as a monopolist?

The Government tasked the Ministry of Economy and Agency for the Protection of Market Competition to investigate if Agrokor is abusing its position of being both large manufacturer and owner of a chain of retail stores. The question is whether Konzum is deliberately not stocking products of other manufacturers on its shelves.

The explanation for the task was belief that store shelves are not a privilege of any owner and that everyone should be able to get them under same terms. The Government received many complaints from local manufacturers who were unable to place their products through Konzum due to Agrokor-imposed barriers. In addition, it puts one more light on State effort to create a large national retailer built from Diona, Nama and Brodokomerc. (VL 01.18-3)

Zlatni Rat

Zlatni rat again in spotlights.

County office in Splitsko-Dalmatinska County proposed annulling the tender for concession of Bol beach Zlatni rat. The arguments for proposals were recently submitted documents and studies which indicate that long-term concession to a local government department might be the best solution. (SD 01.14-5)

Tax Changes for Letting Real Estate

Letting flats and other real estate property easier than before.

Citizens who let real estate properties will have reduced tax rate from 25% to 15%, beginning with 1st January. However, they will no longer benefit from personal deductions. Citizens who let apartments to tourists will count half of the rent as expenses, while others will get 30%. These changes should simplify the system. (SD 01.16-11)

Trade Unions and Associations

General Strike: Will It Happen or Not?

Union matrices threaten general strike if Government doesn't withdraw the proposal of Labour Law changes; Government and employers find the threat irresponsible and accuse unions of political manipulation

Five union matrices – Union of Independent Syndicates of Croatia (SSNH), Croatian Association of Syndicates (HUS), Association of Workers' Syndicates (URS), Croatian Independent Unions (NHS), the Matrix of Public Service Syndicates (MSS) – entirely refuse to accept the text of the proposed changes in Labour Law, and demand that the Government withdraw the proposal by January 24th at the latest. This is also the date of the meeting of the Social-Economic Council, and the unions demand that the Prime Minister Mr. Ivica Račan also appear at the meeting.

On Monday, union matrices established a striking committee, stressing their decisiveness to oppose the changes in Labour Law through "all forms of syndicate opposition, including the general strike". The matrices also called all unions, as well as all Croatian workers, to take part in organised fight against the announced Labour Law changes.

Unions explain their position by asking that no cuts be made in labour rights until independent labour judiciary is established, the payment of guaranteed salaries insured, and appropriate social security for discharged workers provided. The biggest problems that the unions see in the proposed changes are cuts in discharge payments and terms, legalisation of temporary employment for an indefinite period of time, and easier discharge terms for small employers with up to 20 employees.

Speaking at a press conference held on Monday, Mr. Ivan Tomac, Deputy Chairperson of SSSH, explained that the unions believe they must not allow the Government "to cross this last line". He added that the reforms in labour law had been promised to the IMF in October 2001, with March this year as a deadline for their implementation. However, he added, unions cannot allow the promised 140 million US\$ to divest the workers of all rights and protection.



He also stated that the exact date of the possible general strike is not yet known, although February seems the most logical date, as this is when the Parliament will be discussing the Law. What is certain, unions announced, is that, until the expiry of the term set by the unions for the withdrawal of the Labour Law changes, 24th of this month, there will be no bilateral talks on labour legislation, neither between unions and employer, nor between unions and the Government.

Prior to the general strike, unions announced, there are other, "softer" measures that they may undertake, although they refused to specify what those measures would be. Certain sources numbered protests before the Government buildings as one of the most logical preludes to the strike.

If the general strike should take place, unions believe that it may include the participation of up to 500,000 people, and could paralyse the whole of Croatia. However, Mr. Tomac also expressed his belief that the Government will "show enough sensibility" and will withdraw the proposal, "finally starting and honest dialogue with the unions", so that the strike will not "have to happen".

Should, on the other hand, the Government refuse to withdraw the proposed changes to Labour Law, it will be a sign that it has drifted away from the workers and lost all social sensibility, stated the Chairperson of NHS, Mr. Krešimir Sever.

Finally, unions denied all accusations that the timing of their actions is connected with the pre-election times. They claimed that their actions are spurred exclusively by social motives, and intended to protect the livelihood of the workers.

Officially, the Government did not issue a reaction to general strike threats. Unofficial sources, however, express the conviction that the Government will not give up on changes, but will rather continue with the normal procedure, expecting the Parliament to either approve or reject the proposal. At the Government meeting on Monday, Minister of Labour and Social Welfare, Mr. Davorko Vidović, briefed the governing coalition on the proposed changes, and the discussion is expected to continue this week.

The only Government member who did make a public statement was Mr. Slavko Linić, who had been singled out by the unions as well, with the message that he should "not play at being Margaret Thatcher, as he can't become English no matter how hard he tries" (a statement by Mr. Boris Kunst, Chairperson of the URH). In a short statement to Vjesnik daily, Deputy Prime Minister Linić stressed that the Government will not give up on changes, adding that, the sooner the reforms are implemented, the sooner Croatia will see increased economic activity and more jobs, which will make general strike nonsensical. Mr. Linić added his belief that the flexibilisation of the employment laws pertaining to SME's will be the main factor in inciting new enterprises, as it will remove a part of the risk burden from the employers.

Croatian Employers' Association seems to share his opinion. In a statement issued on Monday, CEA assessed the announced general strike as an attack against new investments that will slow down economic growth and actually reduce the possibility of creation of new jobs.

At the same time, intellectual circles are not entirely convinced. Academy member Dr. Josip Županov stated on Tuesday that the announced changes of the Labour Law may entirely remove the corrective forces which protect labour rights and exist in all Western European countries. (VJ 01.13-3,4; NL 01.13-2; VJ 01.14-1,3; NL 01.14-2,3)

Petrokemija Gives up on Radical Actions

Petrokemija Defence HQ decided on Monday that they would postpone any radical union actions for a while longer. The reason given for this is their understanding for the important and sudden drop of temperature in Croatia, which led to increased gas consumption, stated the HQ.

PDHQ Spokesperson, Mr. Željko Klaus, warned, however, that this does not mean that they have given up on their demand to insure regular continuation of production to Petrokemija as soon as possible.

The meeting also concluded that an extraordinary meeting of the HQ should take place at the end of the week, in order to gain general support for actions foreseen in the case that the gas problem is not resolved.

On Tuesday, PDHQ representatives met with the Minister of Economy, Mr. Ljubo Jurčić. PDHQ came to the meeting expecting "a clear Government attitude towards the problem and firm guarantees that they would receive the first available delivery of gas." (VJ 01.14-8; VL 01.17-6; VL 01.18-7; VL 01.13-6; VL 01.14-6)

School Strike

Despite the "closed door" strike announcements, the first day of the new term saw organised activities going on in most primary schools in Croatia. According to State Administration Office, some 75% of the teaching staff worked on Monday, while some 21% of them went on strike. At

Petrokemija Defence HQ announced they would postpone actions as they understand the impact of the sudden cold wave

Teachers' strike: Government finds it a failure, CTS claims success



the same time, 76% of professional associates and 73% of technical staff also worked, while 20% of professionals and 23% of technical staff went on strike.

Out of the 825 primary schools in Croatia, 68% worked normally, 24% worked partially, and only 8% of schools were actually closed.

Because of this, Minister of Education and Sports Mr. Vladimir Strugar assessed the strike as failed, as most schools and most staff actually worked. He also warned that the lost class-hours will have to be worked off later, adding that those classes will be regularly paid, unlike the hours spent on strike.

On behalf of the Ministry, Mr. Strugar apologised to the parents and children who experienced any inconveniences due to the strike, although he added that this was, in fact, not the responsibility of the Ministry.

At the same time, Chairperson of the Croatian Teachers' Syndicate, Mr. Dalimir Kuba, expressed his satisfaction with the response to the strike, assessing the action as a success. He explained this attitude by stating that the success of a strike is not dependent on the number of its participants or the payment of the striking hours, but rather the "sensibilisation of the public for problems in education". CTS representatives also stressed that part of the teachers gave up on strike seeing that administrative and technical staff was not participating either, even though the strike was intended to increase their salaries.

On Tuesday, the Grand Council of CTS held a meeting, at which they discussed further actions. In preparation for the meeting, Mr. Kuba warned that the strike is "a means of pressure, and not a goal onto itself". (VJ 01.14-4; VL 01.13-2; VL 01.14-3; VL 01.15-3; VL 01.16-3; VL 01.17-3; SD 01.14-4; SD 01.15-3; SD 01.16-5; SD 01.17-5)

Doctors' Strike

Views on the strike divided between unions and government; the strike continues

As had been announced, the doctors went on strike on the 15th, cancelling all "non-urgent" medical procedures and working only so much as to cover the immediate needs of the patients. As this meant, despite all, that more or less all doctors had to perform at least some work, Minister of Health, Dr. Andro Vlahušić, stated on Thursday that the strike had been a failure, as it is "impossible to both strike and work". The Minister was referring to the fact that many doctors actually worked as usual, contenting themselves with a badge stating their support for the strike. At the same time, certain hospitals joined the strike later, apparently because of lack of information and coordination among the strikers.

To recap, the doctors are asking for a 45% increase of salaries, while the Ministry is offering 10%. Croatian Doctors' Syndicate head, Dr. Babić, stated that 28% is the minimal sum for negotiations, but the Minister refused to comment claiming that he had not had any official information regarding this.

On the other hand, Dr. Babić claimed on the same day that the strike is successful so far, as 90% of the doctors and dentists are striking, in almost all hospitals and other public health institutions. He added that the Minister is misinforming the public by calling them to the hospitals despite the strike.

The strike produced rather unfavourable reactions among the general public, as doctors are considered well-paid already, and bribery is (at least perceived as) standard practice, so that the sympathies are hardly on the side of the strikers. Additional lack of support was produced by the strikers' announcement, on the second day of the strike, that only "truly urgent" cases will be taken into procedure. However, the strike continued throughout the week, with no ending in sight.

There is hope, though, as the Ministry announced that negotiations are continuing and that "98% of the issues" regarding the upcoming collective contract have already been agreed upon. (VJ 01.16-4; VJ 01.17-4; VJ 01.18-2,3; VL 01.16-3; VL 01.17-3; SD 01.14-4; SD 01.15-4; SD 01.16-4; SD 01.17-5)

Customs Officials Strike

No strike in January for customs officials

The negotiations between the Government and Syndicate are showing progress and it is unlikely that there will be a strike in January, says Syndicate representative. (VJ 01.15-6)

Also In the News

Erste Bank Analysis

Erste Bank: keep buying Croatian Eurobonds, particularly long-term ones

In their latest report, analysts of the Austrian Erste Bank continue recommending the acquisition of Croatian State Eurobonds, particularly those with the terms of maturity in 2009 and 2011, which are, therefore, less sensitive to current events than those with earlier terms. However, they warn, investors should keep in mind that Croatia is nearing elections, which could influence fiscal policies. In addition to the instability of the political scene in Croatia prior to the elections, the investors should bear in mind the possibility that the sale of 25% of INA shares be



postponed. EB analysts explain the warning by stating that the transaction, estimated at around 300 million US\$, will be impossible to complete without a consensus in the ruling coalition. Directly before the elections, a consensus breaking up INA's state monopole may not be possible, they conclude. On the other hand, they do expect an increase in local demand for Eurobonds, which bodes well for the value of the bonds. (VJ 01.14-8)

Croatia Bus

Another chapter in the CB saga...

The prosecution is asking for temporary measures for Croatia Bus because of 21 incidents of violence during the strike which started on 5th November. Additional reason for invoking the measures are the existing charges against Sulić. The hearing on Croatia Bus situation will be held on 28th January. (VJ 01.17-6)

JMBG Problems

Many protest against unnecessary changes.

Croatian Employers' Association pointed negative sides of hidden JMBG once again. At first, it seemed that "only" financial institutions would suffer from the lack of JMBG, but now it seems that consequences would be reflected in all business sectors, increasing operative costs. Companies providing services, like phone providers and rent-a-car agencies, would be hurt the most. Basically, citizens might have to resort to using notaries in order to prove their identities.

Health insurance system is also facing problems. Its institutions will comply with the law, but they fear that their quality of service will go down because of identification problems. Every institution will probably assign some kind of unique identifier to its patients, but interfacing and exchanging information with other institutions remains open.

Yet another problem surfaced with processing of tax forms: JMBG is the key to the entire system and without it tax offices cannot track any transactions.

On Wednesday, representatives from State institutions met in the Ministry of Labour and Social Welfare. Once again and unofficially, everyone apart from the representative of the hosting Ministry agreed that JMBG should stay on documents, that its lack would cause problems and that the proposed remedies are making JMBG removal pointless. The Ministry of Labour and Social Welfare claims that all it requires is additional work from administration.

Finally, members of most political parties said that they supported the proposal for removal of JMBG because no institutions came with counter-arguments during the discussion. Although late, they might raise the issue again. (VL 01.13-6; VL 01.14-6; VL 01.15-3; VL 01.16-3; VL 01.17-4; VL 01.18-6; SD 01.15-56; SD 01.17-56)

14.7 Million Snow Damage

Snow hits transport sector

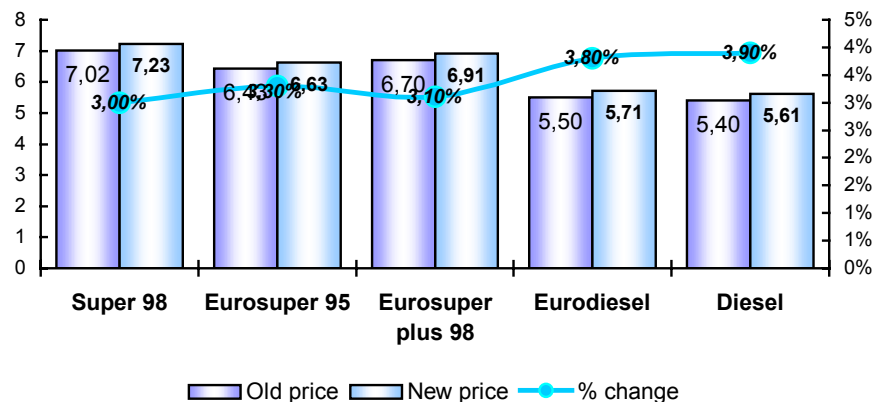
The week of heavy snow brought around 14.7 million Kuna of damages to Croatian land and air transport companies. Croatian Railways estimate their loss at 10 million Kuna, road transportation suffered 3.5 million Kuna loss in international transportation alone, Zagreb airport estimates its loss to one million and Croatia Airlines to 40,000 US\$. (SD 01.17-7)

New Fuel Prices

INA increases retail fuel prices

Starting with Thursday, retail fuel prices went up on average 3.2%, while diesel fuel prices increased an average 3.5%, announced INA on Wednesday. This is in keeping with the changes of oil prices at the Mediterranean market, and the relation of the Kuna-US\$ exchange rate.

Here is a graphic overview of the changes:



(VJ 01.16-1)



International Relations

EU Application in February?

Diplomatic sources claim that Croatia is planning to submit its official application for full EU membership in February

According to Vjesnik daily, Croatian diplomatic sources stated last week that Croatian Government will almost certainly submit the official application for full membership on 25th February. Even though several dates had been under discussion, the date of the regular Bruxelles meeting with EU representatives seems to be "99% certain".

By submitting the official application, Croatia will speed up the rhythm of approach to European integration, in the hope that conditions for the candidacy will be fulfilled soon. Government optimism is based on several factors: improved political and economic situation, particularly compared with the other West-Balkans countries, and the recently adopted national programme for the alignment of Croatian legislation with EU regulations.

Greek Presidency already announced they would support Croatian application. Once the application is officially submitted, the Greek Presidency will inform EU bodies of the situation. This will shift the responsibility to the EU, which will then have to give official opinion on the application. Due to procedural reasons, the official attitude of the EU cannot be expected this year; in general, consideration of the applications usually takes about one year.

However, the Croatian timing may suit official Bruxelles for political reasons. The consideration period will be long enough for Croatia to pass through new parliamentary elections, which will allow the EU to see what the new Croatian Government will look like, i.e. whether it can be trusted to continue on the road of democracy and European standards.

Croatian politicians hope that certain encouraging statements, at least those of a more general and less official nature, may arrive earlier, during the Greek Presidency. By mid-2003, Solun will be host to a summit of EU and West Balkans countries, which may be a good opportunity for such expressions of encouragement as well. The Greek Presidency has already put Balkans among its priorities during the mandate, and the Greek Minister of Foreign Affairs, Mr. Georgios Papandreou, stated at a recent visit to Zagreb that the EU wishes to see all countries of the Balkans as its members, provided the countries demonstrate their European orientation and implement the EU principles.

Croatia, as well as other countries currently outside the integration process, is stuck on the Copenhagen criteria list, a group of political and economic conditions set by the EU in 1993. They include human and minority rights, democratic principles in state organisation and function, independence and efficiency of the judiciary, and the implementation of a free, open market and market economy. How far along meeting the Copenhagen criteria Croatia has come will become clearer at the end of March, when the European Commission will publish its annual report on Croatia's situation.

On the other hand, Croatia also needs to meet its obligations from the Stabilisation and Association Agreement. The document includes part of the conditions for full membership, together with the national programme. Croatian Government hopes that Croatia may fulfil the 31 chapter of the conditions by the end of the year 2006. However, even though some circles hope that Croatia may thus catch the EU train together with Bulgaria and Romania, more cautious ones claim that the goal is somewhere between the years 2008 and 2012. The EU, of course, continually claims that the date itself is less important than the rhythm of adopting the EU conditions and, even more importantly, their implementation. (VJ 17.01-5)

HEP Pre-Arbitrage Proposal

HEP expects Government approval of final pre-arbitrage offer soon

In order to avoid the danger of the expiry of legal terms for international arbitration in the case of the Krško nuclear plant, Croatian Power Utility HEP asked for an emergency Government approval for the sending of the last pre-arbitrage offer for the solution of the Croatian-Slovenian conflict. The Ministry of Economy expects that the Government will give HEP the go-ahead as soon as this week, so that HEP could send the offer to the Slovenian Government by the end of the month.

According to unofficial information, HEP proposal will ask for 717.5 million US\$ for the Croatian half of the plant. The figure was determined by Croatian experts, who claim that this is the amount HEP would have to spend for an alternate source of the same amount of power as HEP should get from Krško, and add to that the supposed Krško profits for HEP over the next 20 years.

Allegedly, HEP will offer the Slovenian side to pay the sum either in cash funds or in power deliveries, with the price and delivery conditions of the power to be set by the two sides. In case of cash, HEP will propose payment over 3 years, with the standard international interest rate for such transactions.

Despite earlier cries of Government stalling, HEP now claims that they had waited for the beginning of 2003 with their proposal because of the term for the ratification of the Croatian-



Slovenian Krško Agreement by the Slovenian parliament, which elapsed with the end of the past year.

Following the rules set out in the European Power Charter, arbitrage procedures must be started five years at the latest since the appearance of the conflict situation – in this case, by July 31st 2003. Prior to arbitrage, the last offer must be sent, proposing a peaceful solution and obliging the other side to answer within three months.

However, as the Slovenian Constitution Court recently approved the Croatian-Slovenian Agreement, the final pre-arbitrage offer may have the practical effect of speeding up the Slovenian ratification of the Agreement. Should this happen, the one thing remaining for discussing would be the amount and mode of implementation for a remuneration to Croatia for the period since July 1st 2002, when the Agreement had been supposed to come into power, until the date when it actually does come into power.

The Agreement stipulates the annulment of mutual claims, and the return of Croatia into the plant by the middle of last year. Thus, the Slovenian lag in ratification created important damages for HEP, currently estimated at around 39 million US\$ just until the end of the year 2002.

What is important is that possible beginning of Slovenian ratification procedures does not postpone the sending of the final pre-arbitrage offer. Previous experience indicates that the Slovenian side may try to use the start of the ratification procedures as a means to buy time in order to exceed the legal arbitrage limit.

Should the Slovenian fail to respond to the final offer within the set term of three months, Croatian side and HEP will be at liberty to continue with the arbitrage procedures without fear of falling behind the times.. (VJ 01.13-9; VL 01.13-3; SD 01.16-3)

Regional News

BOSNIA AND HERZEGOVINA

Sarajevo SE opens, Banja Luka SE still on holidays

Sarajevo SE

In the first week of January, Sarajevo SE realised the weekly turnover of 810,144.04 KM (cca. 3 million Kuna), 26.21% of which, 212,316 KM, pertained to shares trade. The leaders remained the same in the new year, including Bosnalijek, Naprijed and Klas. PIF shares realised almost 600,000 KM of turnover, with Big joined in the lead by Prof-plus. (VJ 01.13-8)

Eronet Gets GSM Licence

Bosnian and Herzegovinian Communications Regulation Agency announced, after many postponements, the issuing of the third GSM licence in Bosnia and Herzegovina. After BHTelekom and Telekom Srpska, the third mobile operator in the entire area of Bosnia and Herzegovina will be Eronet, 49% owned by Croatian telecom as the largest shareholder. The licence was assigned after the town of Grude bought 4.48% of the company from Croherz, whose shareholders include Hercegovačka Bank.

The decision was protested by HT Mostar, denying the privatisation of the 51% of the company under the former management. Representatives of HTM asked for an additional, fourth GSM licence in order to start their own mobile operator should they fail to gain an annulment of the majority portion sale.

It is, however, doubtful whether HTM would manage to attract enough customers to make the enterprise worthwhile. With around 70,000 users, Eronet is currently the smallest of the three Bosnian and Herzegovinian GSM operators. BHT has 400,000, and TS 270,000 users. Thus, it seems doubtful that a fourth provider could really achieve sound economic results. (VJ 01.13-8)

Third GSM licence in Bosnia and Herzegovina goes to Eronet; HT Mostar contests the decision

SLOVENIA

Slovenian market hushed after holidays, expecting new regulation

Ljubljana SE

The first days of the year 2003 passed in a rather negative atmosphere at the Ljubljana Exchange. The overall turnover was modest, the prices mostly continued downward, and the SBI 20 index lost 2.7% at the weekly level, closing at 3,220 points. Privatisation investment fund index PIX also went down, closing at 2,700 points.

Among the shares, the biggest drop was registered by Gorenje, which opened the week at 4,400 SIT, to close it at 4,100. Mercator also lost, 5%, despite gaining the status of the largest investor in the area of former Yugoslavia thanks to the € 70 million investment in the construction of shopping centres in Croatia and Serbia. Merkur went down 2.8%, while Petrol reached its lowest level in the past 4 months.



Trade was particularly lively in Terme Čatež shares. On Tuesday alone, Terme shares registered the turnover in the amount of 1 million SIT, 8.2% of the company's entire market capitalisation. The price of Terme went from 17,000 to 27,000 SIT at the annual level, gaining almost 60%. This was due to Terme's ambitious spreading politics both at the local and the regional markets. Their offer for the takeover of 62.3% of Sunčani Hvar shares still stands, despite controversies on the Croatian side.

The beginning of the new business year will also bring about certain legislation changes which will effect Slovenian capital market. The Law on Legal Entities' Profit Tax is under preparation; it is expected to introduce new income accounting system and cut the tax basis, but will also lower certain investment-based tax relief.

The greatest change, however, is expected from coming into power of the Law on Investment Funds and Investment Fund Management Companies, adopted in October last year, aligning Slovenian legislation with the EU. The new law abolishes the ban on sale of shares to competitor funds, and generally aligns Slovenian Investment fund regulation with that practiced in the EU. (VJ 01.13-8)

Third Case of BSE in Slovenia

Potential discovery of BSE in Slovenia

In a slaughterhouse of meat processing company Celjska Mesnina from Celje, employees separated and tested on BSE a suspected slaughtered animal. Preliminary results confirmed their suspicions. If confirmed, this case would be the third case of BSE detected in Slovenia. Strict precautionary measures were put in place without waiting for confirmation. (VL 01.18-8)

SERBIA

Serbian Government announces law on liberalisation of crude oil imports

Serbia to Liberalise Crude Oil Trade

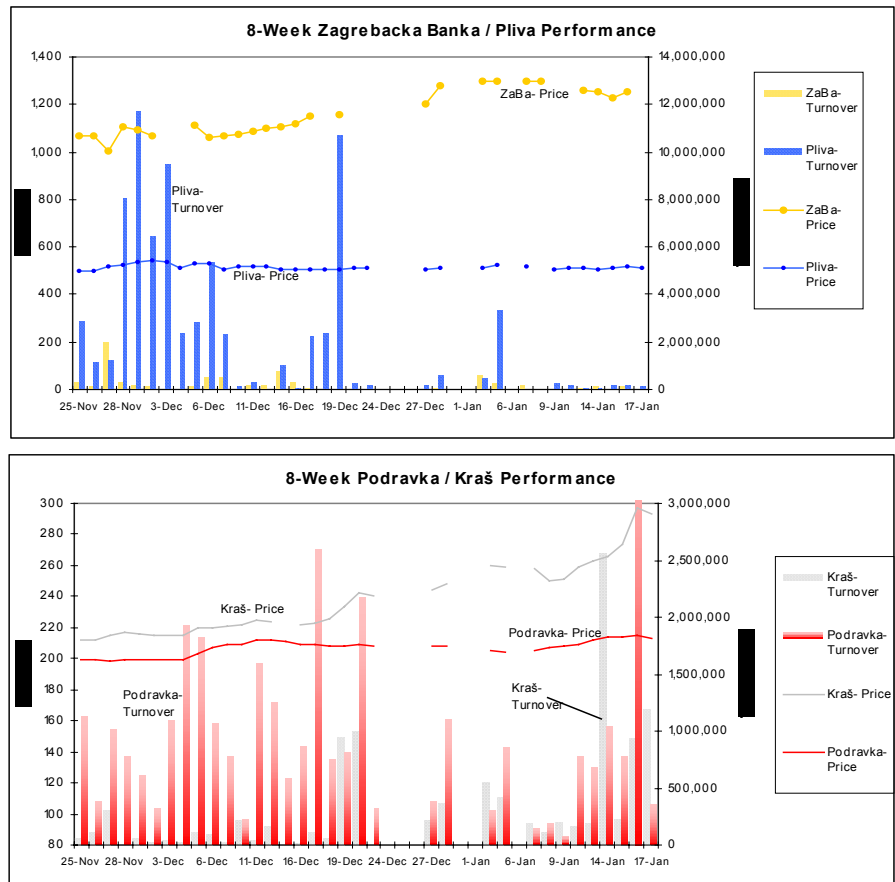
By the end of February, Serbian government will present a draft of the Law on Liberalisation of Crude Oil Import, divesting the state-owned Naftna Industrija Srbije of a highly lucrative monopole. The new law, which had first been announced for the end of last year, is supposed to annul the 2001 regulation which managed imports with the view of preventing crude oil and oil derivatives smuggling, spread during the sanctions against Serbia.

Last year, the monopole on the import of crude oil provided the Serbian state with some 40 billion Dinars (cca. 678.2 million US\$) or 20% of the budget. However, NIS will remain the only importer of oil derivatives, insuring the funds for the reconstruction and modernisation of two refineries, damaged in NATO bombings.

The opening of the market is insisted upon by the Ministry of Privatisation, in the wish to insure a successful tender for the sale of Beopetrol chain of gas stations. Several international companies interested in Beopetrol stations stipulated the liberalisation of the market as their condition for participating in the tender at all. (VJ 01.13-9)



Auctor Securities Croatian Capital Markets Overview



The daily price shown for an issue of securities is the average price for the issue for that day. The average is calculated by dividing the total turnover for the issue for that day by the total number of shares of that issue traded. The frequency of very small trades and the ease of manipulating prices makes this average the most accurate indicator of price. Breaks in the graphic representation of share prices above indicate that the stock did not trade that day.

The ZSE was closed on Dec 24 to Dec 26, Dec 31 to Jan 1 and Jan 6.

Pliva did not trade on: Jan 8.

ZaBa did not trade on: Dec 3 to Dec 4, Dec 18, Dec 23, Jan 9, Jan 10 and Jan 17.

Kras did not trade on: Dec 13.

Kras this week broke the HRK300 barrier briefly before slowly beginning to settle. Speculation on a takeover bid?

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:

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