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Croatian Weekly Economic Bulletin

January 20 – 26, 2003, Edition 256

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This week: A week in which everyone settled happily to continue discussing the probability of a general strike and watch the developments in the doctors' strike, when, suddenly, yet another prominent Croatian citizen was murdered on the street. The story would remain in the back pages were it not for the fact that the murdered man was Marko Sliško, brother of the already murdered Vjeko Sliško, whose (more spectacular) murder had been one of the greatest mob-liquidations in post-war Croatia. However, in the case of Vjeko, subsequent investigations indicated that there was no organised crime in Croatia. Now, with the murder of the second brother, Croatian Minister of Home Affairs Lučin stated publicly that this was proof that there is, in fact, organised crime in Croatia and that something must be done to stop it. The statement surprised the public and aroused a lot of interest. What kind of actions will follow the statement, of course, remains to be seen.

In the meantime, the Government presented the by now infamous changes in Labour Law to the Parliament, simultaneously starting negotiations with the social partners in an effort to find alternate solutions for improved worker protection. This, of course, still does not mean that there would be no general strike but, as time passes, it does begin to be more and more clear that the Government is treading a very thin line indeed between IMF demands and the actual social situation in the country. How successful it is in the balancing act is not yet entirely clear, but at least the effort is evident.

The doctors continued the strike, with reports on the number of participants still differing widely, from 6-8% claimed by the Ministry of Health to 82% claimed by the unions. Of course, definitions of strike vary; Croatian war pilots, for example, are not on strike, but have rather all asked for medical leave, claiming depression brought about by financial concerns and difficult working conditions.

By the end of the week, Croatian media found yet another source of large headlines, this time claiming that Croatian President had announced an initiative to ask for war damages from Yugoslavia, in the amount of cca. 15 billion €. On Sunday, President Mesić denied the initiative, explaining that he had merely stated the figure as his own personal estimate of what the damages should be, and adding that asking for compensation is the province of the Government, and not the President.

And the Government had had a very busy week indeed, particularly the Prime Minister, who had started a European tour in an effort to collect support for Croatia's application for EU membership. Apparently following incitement from abroad – certain sources quote the Vatican as the main source – Croatia has decided to submit the application in February, in an attempt to catch the 2007 round. How successful it will be, remains to be seen; so far, several countries have expressed their intent to support the application. Others, albeit unofficially, expressed equally firm intent to oppose the application as well. Thus, the future remains interesting...



Securities Trading and Acquisitions

Week at the Markets

CROBEX falls to 1121.6.

More than half a billion Kuna turnover, thanks to Eurobonds.

Karlovačka Pivovara still attractive.

Last week, we saw placement of the third instalment of Eurobonds which helped in generating one of the largest weekly turnovers ever, if not the largest: 518,730,694.11 Kuna. Falling sharply at the end of the week, CROBEX closed at 1121.6 (-5.23%). CROBIS closed at 101.9623 (0.44%).

The Quotation I trading was slow, although Pliva recovered a bit with 1,526,591.58 Kuna turnover. It closed at 505 (-0.21%). Trading with Podravka was not up to its previous weekly turnover, but it managed 2,666,339.82 Kuna turnover with 207.05 close (-2.79%). Trading with Lenac was once again negligible, generating just 31,050 Kuna of turnover.

However, in the Quotation TN there was a lot of unusually strong trading. In spite of no new additional confirmation of Heineken take over, the stock of Karlovačka Pivovara continued growing in value and it was traded for total turnover of 4,391,055.10 Kuna. Its prices ranged between 809 low and 930 high, closing at 900 (12.5%). Trading with Kraš made 2,353,161.15 Kuna turnover and the stock closed at its high, 280 (-3.44%). Riviera stock was sold for 987,218.68 Kuna turnover with 140 close (-1.06%). Istraturist made 912,968.46 Kuna, closing at 117.5 (-2.08%). Končar traded for 752,385.59 Kuna and closed at 86 (-).

The new instalment of 125A brought almost 400 million turnover.

Bond	Turnover
DAB-O-03CA	76,566,783.98
DAB-O-05CA	4,273,400.97
HZZO-O-047A	2,712,050.44
PODR-M-320A	5,347,260.00
RHMF-O-049A	23,157,763.99
RHMF-O-08CA	1,653,610.42
RHMF-O-125A	386,932,656.09

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	- 7,75 %	57,62	49,50	53,50	104.459	5.604.597,46
TOTAL						5.604.597,46

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION PIF						
PLTR-R-A	- 7,52 %	45,00	42,57	44,00	9.301	408.778,16
SNCE-R-A	- 8,52 %	31,00	28,00	29,00	35.877	1.052.220,31
TOTAL						1.460.998,47



Ticker	% change	Top	Bottom	Closing	Volume	Turnover
QUOTATION RIGHTS						
RHMF-A-A	- 4,64 %	24,28	23,02	23,02	1.766.062	424.219,71
TOTAL						424.219,71

Ticker	% change	Top	Bottom	Closing	Volume	Turnover
FREE MARKET						
ANTA-R-A	0,00 %	1.340,03	1.340,03	1.340,03	7	9.380,21
BLKL-R-A	14,60 %	52,00	45,00	52,00	255	12.671,00
BLSC-R-A	0,92 %	109,00	108,00	109,00	91	9.911,00
CROS-R-A	7,65 %	2.180,00	2.180,00	2.180,00	5	10.900,00
EKOM-R-A	2,38 %	430,01	430,01	430,01	270	116.102,70
ELKA-R-A	1,74 %	65,00	62,06	62,06	295	18.802,82
ELPR-R-A	- 17,41 %	43,81	36,37	36,37	151	6.235,87
EXPF-R-A	- 5,12 %	41,02	38,79	39,01	14.088	556.836,33
HBRL-R-A	- 63,75 %	29,00	29,00	29,00	682	19.778,00
HRBC-R-A	- 0,48 %	100,51	100,00	100,02	1.313	131.564,41
ISTT-R-A	- 3,45 %	116,50	116,50	116,50	2.000	233.000,00
JDRA-R-A	2,17 %	235,00	232,05	235,00	57	13.386,15
JNAF-R-A	2,33 %	2.200,00	2.200,00	2.200,00	5	11.000,00
KAPI-R-A	12,49 %	900,00	812,00	900,00	1.622	1.326.568,00
KNST-R-A	40,35 %	80,00	80,00	80,00	81.931	6.554.480,00
KOEI-R-A	0,01 %	85,00	85,00	85,00	195	16.575,00
KRAS-R-A	- 4,27 %	278,00	278,00	278,00	62	17.236,00
PIKR-R-A	0,00 %	120,00	120,00	120,00	142	17.160,00
PLAG-R-A	1,64 %	620,00	620,00	620,00	20	12.400,00
RDBA-R-A	0,00 %	94,00	94,00	94,00	600	56.400,00
RIVP-R-A	0,13 %	140,01	135,00	140,00	5.417	752.365,00
SLPF-R-A	- 6,36 %	27,56	26,00	26,60	40.521	1.076.683,46
SNBA-P-A	- 14,09 %	85,20	73,09	73,09	127	10.092,04
SNBA-R-A	- 25,96 %	118,47	118,47	118,47	18	2.132,46
SNHO-R-A	- 2,70 %	41,01	39,61	40,10	29.150	1.172.182,98
SSNC-P-A1	3,85 %	145,00	135,00	135,01	122	16.890,70
SUNH-R-A	0,00 %	42,00	42,00	42,00	345	14.490,00
TNPL-R-A	0,80 %	202,00	202,00	202,00	20	4.040,00
TRCM-R-A	0,00%	1.000,00	1.000,00	1.000,00	6	6.000,00



VDKT-R-A	0,00 %	30,00	30,00	30,00	161	4.830,00
VLBT-R-A	- 1,25 %	58,22	56,61	57,75	13.794	793.171,67
TOTAL						13.003.265,80
SUM TOTAL						20.493.081,44

(ZSE Web page, VSE Web page)

New Enlisting Rules on ZSE

CSEC approves ZSE rules.

On 16th January, Croatian Securities Exchange Commission approved new ZSE rules for enlisting stocks. The rules should simplify enlisting to all interested parties. (SD 01.20-7; ZSE Web page)

Eurobonds

€200 million in Eurobonds.

On Thursday, the Minister of Finance and ZSE CEO signed agreement on enlisting the third instalment of RHM-F-O-125A bonds. The instalment is worth €200 million, with 6.875% annual interest rate and 2012 expiration. The sponsor was ZB Brokeri.

The money from this instalment will be mostly used to pay debts to London and Paris clubs, and the remainder should cover refinancing of other State obligations. (SD 01.24-7; VJ 01.23-8; VJ 01.24-9)

Privatisation and Transition

Sunčani Hvar: the Grand Finale

In spite of HSS opposition, SH to be sold.

HSS is still not satisfied with the sale of SH. One of its high ranking members said that the Government decision might have political consequences of unspecified nature. He believes that it would not be wise to sell SH because the company represents 90% of Hvar economy and the sale would create a monopoly. He is not against the tender itself, but rather against terms of the sale as defined by CPF.

On Thursday, the Government decided to sell SH to TČ after all, with four votes against. Not surprisingly, HSS was against the sale, although it remained outvoted. As a compromise, the Government decided to demand precise data on TČ ownership structure before signing of the contract. One of the arguments HSS put against the sale was that TČ was partially owned by Ljubljanska Bank, although the point is rather moot because TČ shares are sold on the open market and anyone can purchase them, including Hvar residents. After the meeting, PM refused any possibility of further international privatisation tenders until all privatisation issues in coalition are resolved.

TČ was very satisfied with the decision. It points out that it does not plan to automatically change anything: every employee, including current management members, will be in position to prove their worth; local experts would head the company and there would be no workforce importing from Slovenia. In addition, salaries should rise towards Slovenian standards. TČ hopes that the local government, which opposed the sale, would soon see mutual benefits. (VJ 01.20-3; SD 01.21-1,4; VL 01.24-3; VL 01.25-3; SD 01.24-1,3; SD 01.25-2; SD 01.25-64; VJ 01.22-9; VJ 01.24-1,4,5)

Slobodna Dalmacija Sale

Trial tender attracts six interested parties.

CPF received six offers for Slobodna Dalmacija: Slovenian Delo, representatives of Croatian diaspora headed by Milan Miletić, Austrian Styria, Swiss Minerai, part of DC PMM AG, Croatian Slobodni Mediji, and British Watermark. Some agreed on the proposed price, and some offered investment drafts. Based on received letters of intent, CPF will probably open the "real" tender as soon as possible. It is interesting to note that only two of the bidders are from publishing sector, Delo and Styria, while others are involved in other kinds of activities or were registered as companies because of the SD tender.

DC PMM AG is prepared to purchase shares unconditionally, i.e. to pay 10% above nominal price and invest further 50 million Kuna. Watermark media offered 105 Kuna per share (par value is 100 Kuna). Milan Miletić offered 1.7 million less, or 37 million. Delo did not offer any figure, but it proposed its development ideas for the company. Styria and Slobodni Mediji Ltd. also both remained silent regarding the figures. (VL 01.21-7; SD 01.21-3; SD 01.25-64VJ 01.21-4, NL 01.21-11; NL 01.22-9)



Business Development

Pliva continues selling all non-pharmaceutical companies

Pliva Sold Adria Servis

Last week, Pliva pharmaceuticals sold their company Adria Servis Ltd., dealing in hostelry, postal services, maintenance and cleaning of business premises and environment and other services, at the price of 9.2 million Kuna. The company had a negligible part in Pliva's total income, and operated as a separate company since 1999. Adria Servis was sold to service company NIL Ltd.

As had been the case with the earlier sales of companies not connected with the matrix operations, Pliva insisted that the new owner should retain all the employees for a period of at least three years. This is a continuation of Pliva's strategic focusing on pharmaceuticals and the realisation of the multi-year restructuring plan. The funds realised through the sale will be invested into research and development of new drugs, and further expansion of international operations. (VJ 01.24-9)

Agrokor Buys Frikom

Agrokor's offer apparently the best for Yugoslavia's largest frozen food producer

Agrokor's offer for the acquisition of 55.49% of shares of Frikom, Serbia's largest producer of ice-cream, frozen vegetables, pastry and fish, is better than the one sent by the Greek company Delta, claimed Mr. Siniša Mali, Tender Privatisation Director at the Serbian Privatisation Agency last week. Delta and Frikom have practically split the Yugoslavian ice-cream market between them, with smaller participation from other foreign investors, which include Nestle, Agno and Mars, but also Croatian Ledo and the local Somboled and Mlekare Šabac. The official confirmation of this publicly made statement was not available, but the Agency has announced they would publicise the results of the tender next week at the latest.

The Frikom tender was open in September 2002, the term for the submission of offers was prolonged several times, and finally, last week, the two offers received were open and made public. Within 30 days after the opening, the tender commission should hold talks with the representatives of the winning company and specify the details of the contract. However, in the same term, the tender can also be annulled. Apart from asking for offers from the same branch and with annual turnover of at least 40 million US\$, the tender specified that, together with the offer of the sum, the potential buyers also attach an investment programme and the programme of solving the status of surplus employees.

Although Podravka, which had entered frozen food production last year with the takeover of Poreč-based Ital-Ice, they did not make an offer this time. Agrokor participated in the tender with the intention to strengthen its frozen food group and take the leading regional position in the segment. Agrokor sources stress that they have not received an official confirmation of the news as yet, but admit that, unofficially, they have also heard that their offer was estimated as the better one.

Frikom, founded in 1976 as a joint investment by PKB (one of the largest agricultural companies in former Yugoslavia), Unilever and International Finance Corporation, employs some 840 people. In 1991, Unilever, which had held 46% of the company, left Frikom, which turned into a shareholders' company with the majority of the shares owned by the state. Within the last decade, Frikom's results had been positive, with sales growth reaching almost 30% in the year 2000. Over 90% of the income is realised at the Yugoslavian market, thanks to Frikom's own wholesale and retail facilities, as well as over 10,000 retail points. Frikom also exports its products to the EU, Hungary, Bulgaria, Czech Republic, Slovakia, Russia, Cyprus, Macedonia, Bosnia and Herzegovina, and Croatia. The largest portion of the exports pertains to frozen vegetables – 28%. (VJ 01.24-9; VL 01.24-7; VL 01.25-2; SD 01.24-7)

Heineken and KP

Heineken confirms its interest, but...

Although there is an agreement on take over of Karlovačka Pivovara between Heineken and Lukšić, the deal is not yet finalised and it depends on several conditions. Heineken must conclude its inspection of KP, agree on the exact terms of sale, and receive a number of approvals, both internal and external. (SD 01.20-6)

Inkobrod

Dispute between Inkobrod, Leda and Peters revolve around CEO Vukoša.

Hundred Leda employees who have not received their salaries refused to accept CEO's explanation and asked for the money and his departure from the company. CEO was in Netherlands where he tried to settle the situation with Dutch clients; his attempt failed and the debt of €400,000 is now being pursued through Rotterdam court, which should be resolved in two weeks.

On the other hand, Dutch company Peters is allegedly guaranteeing the payment of the wages, but only if CEO should resign. A member of Leda management claims that the Dutch still want to construct ships in Korčula, but not with CEO Vukoša. Peters spent 387,000 US\$ for

purchasing 50% of shares, investing in equipment and paying debts, but CEO did not put the money in books, thus leaving them without any rights. (SD 01.24-56)

Local Retail and Agrokor Monopoly

Is Agrokor/Konzum guilty of monopolistic practices?

Croatia needs another large retailer.

With Agrokor under investigation, the idea of another national chain of retail stores is once again in focus. To recapitulate: Agrokor has been charged with monopolistic behaviour because of the alleged preferential treatment that its products get in its Konzum chain of stores, and also because of its failure to notify Agency for the Protection of Market Competition when it took over several competitors, e.g. Alastor.

The other national chain would be formed from bankrupted companies Diona, Nama and Brodokomerc. They would end up in the hands of the consortium composed of Gavrilović, Podravka, Vindija and Kraš; if consortium should register itself, Lura would join as well. The consortium offered 250 million Kuna for Diona, less than half of the starting price of 532 million Kuna; the offer was rejected by Diona creditors and the fourth sale tender is expected. (NL 01.22-12; VJ 01.22-6)

Babin Kuk

€20 million investment in expansion of Dubrovnik hotel company.

The company management reported its long term plans which consist of construction of a congressional centre and exclusive villas for tourists, as well as improving existing business operations. So far the owner of Babin Kuk, investment fund Dom, put €20 million into the company. This season hotel Minčeta should open its doors after repairs and redecoration. (SD 01.21-17)

INA on Kosovo

INA returns to Kosovo. Symbolic step forward.

Before the Homeland War, INA had 28 petrol stations and storage depots on Kosovo. The UN High Emissary for Kosovo announced that INA will get its property back, at first just for management, and later on in full ownership. INA Management confirmed that there is an agreement on opening INA-Priština company that would take over the former property of INA. Considering the unofficial information that there are 2,000 privately owned petrol stations on Kosovo, INA's influence will not be great but it will testify as to return of the legal principles. In addition, it will be an important message to Belgrade, on whose territory INA has 160 confiscated petrol stations. (SD 01.23-8)

Industry

European Corridor X

Improving railway traffic.

The railways in the states on corridor X which connects Salzburg and Solun over Ljubljana, Zagreb, Belgrade and Skopje are trying to regain their business results from before the Homeland War. Until 1991, there were 12 million tons of cargo and 7 million passengers passing through the corridor each year. After the War, the traffic was re-established but the figures were never comparable to the old days. Although corridor X can be passed by road or partially waterways, the most important aspect was the railway system. The annual income from the railway transportation in the corridor before 1991 was 200 million DEM, 50 million of which was Croatia's.

The traffic figures are growing: in 2002, there were 34% trains and 42% cargo wagons more than in 2001. Once the visa regime with Yugoslavia is abolished, the traffic will have even fewer obstacles. In addition, CEA regards the corridor also in the context of local trading.

The existing railways are sufficient for current needs, but in the future there should be additional investments in the infrastructure and trains. Today, the fastest trains travel 6.5 hours from Zagreb to Belgrade, while before 1991 the time required was just four hours.

The highest speed limit on several parts of the railway is 160 km/h, while passenger trains travel between 80 and 155 km/h and freight trains between 80 and 120 km/h. After modernisation, trains should be able to go at 160 km/h for the entire way. Modern trains might even achieve 200 km/h. That phase of the modernisation should be finished by 2010. After 2030, there might be an additional track for passenger traffic on west-east axis in Posavina, capable of supporting speeds of up to 300 km/h. (VL 01.21-7)

Brijuni for Elite Tourism

Brijuni management ask for Government approval for development of the company.

On Monday, the management of the national park Brijuni accepted the development plan for the park. If the Government approves its proposal, Brijuni would become an elite tourist destination as early as 2005. The project comprises of adaptation and conversion of hotels Neptun and Karan in five-star facilities, renovation of six villas and construction of a golf hotel. Numerous recreational facilities would be built or repaired.



The investment is worth €130 million, and the investor would be the public company, whose 51% should be owned by the Government and at least 33% by Istarska County. (VL 01.21-2)

Sisak Ironworks

Another potential buyer makes an appearance reminiscent of the previous owner.

The ironworks was visited by representatives of Russian metallurgic company Merčelj. Although they had previously expressed some interest in Sisak's pipe production, they failed to make a bid on the tender. However, the court believes that this was not a normal tender because of the bankruptcy and unofficial procedure and therefore additional bids, agreements and negotiations should be possible.

The Russian company seems to be willing to keep all 1,700 jobs and to increase production to 200,000 tons, enough to make profit. While the head of the county finds the offer very appealing, the bankruptcy manager reminds that Trubo Impex came with a similar, very favourable offer year ago. Indeed, the Russians are being asked the same terms that were accepted by Trubo Impex. However, Merčelj is much more a manufacturing than trading company, and it would have several direct benefits from the Sisak plant whose production is complementary to that in Russia; not only could it finalise its products in Sisak, but it would also benefit from API and ISO certificates. Olmax complained on possible acceptance of the late entrant, but its complaint was rejected.

The bankruptcy manager reported that the police are conducting a criminal investigation in the company, looking for irregularities in its business. He believes that it is not the right moment, considering the on-going attempt to sell the company. (VL 01.22-7; SD 01.21-48; VL 01.24-7; SD 01.24-5; VJ 01.21-7; VJ 01.22-9; VJ 01.23-8; VJ 01.24-9)

Registration of Farmers

Registration accelerating.

The number of applications is increasing rapidly. On Monday and Tuesday alone, relevant services received 50% of the number of applications submitted in previous six weeks. It is estimated that by the end of the week the total number of applications was 60,000. (SD 01.24-7)

Farmer Loans

State plans to support farmers with 60 million Kuna in loans.

In 2003, the State allotted 60 million Kuna for farmer loans. The money came from Counties and the Ministry of Agriculture and Forestry. Farmers can apply for loans for activities like animal husbandry, fruit and vegetable production, vineyards, fishing etc. The loan can also be approved for purchasing of the agricultural equipment and mechanisation, storing and processing of agricultural products and tourist development on farms.

The interest rate is 5%, except in certain strategic areas where it is 3%. The minimum amount is 40,000 Kuna and the maximum one million. Terms of repayment go between nine months and seven years, depending on the loan purpose. There is a possibility of one- to three-year grace period.

Apart from new loans, farmers can apply for reprogramming of older unpaid loans. According to the Ministry, farmers are overdue with 215 million Kuna. The reprogramming will be possible in case of those debts that were caused by objective reasons like bad weather, market problems etc. The minimum amount of debts that are open to settlement is 20,000 Kuna, and it will be possible to pay it in several ways, including cash payment with up to 60% discount. (VL 01.21-7)

Alcohol Beverage Quality

Wine quality certified according to international standards.

In December 2002, the laboratory of the Croatian Institute of Viticulture and Enology was authorised to control the quality of wines and strong alcohol beverages following the international standards. The quality of wine will be tested on 11 control parameters set by international and Croatian wine regulation. Although quality testing is not compulsory, producers can use it to confirm the value of their products and to gain quality assurance for export purposes. (VL 01.22-2)

RBŠ Concession

Four companies interested in RBŠ concession.

There were four parties interested in the expired concession of bankrupted Remontno Brodogradilište Šibenik (RBŠ), a 32-year concession for commercial use of special purpose port of Šibenik shipyard. Prizma Oprema Trade did not provide all documentation required because it found out about the tender too late; it would like to construct two new vessels each year, estimated value of 10 million US\$, and it would also expand capacities and employ additional 200 workers. POT is already working for Dutch clients but with limited capacities. Sidrišta offered more money than defined in the tender, investment plan, guarantees from Jadranska Bank Šibenik and offer to take over or take care of RBŠ employees. In addition, it is prepared to invest €3 million through re-capitalisation. Metauro Jedra has ZaBa guarantees and it is willing to take over 200 employees and take care of the rest. KIIM SSTA(R) would like to invest €10 million in one to three years period, and take over or take care of all employees. (NL 01.22-11)

Financial, Banking and Insurance

Kuna Situation

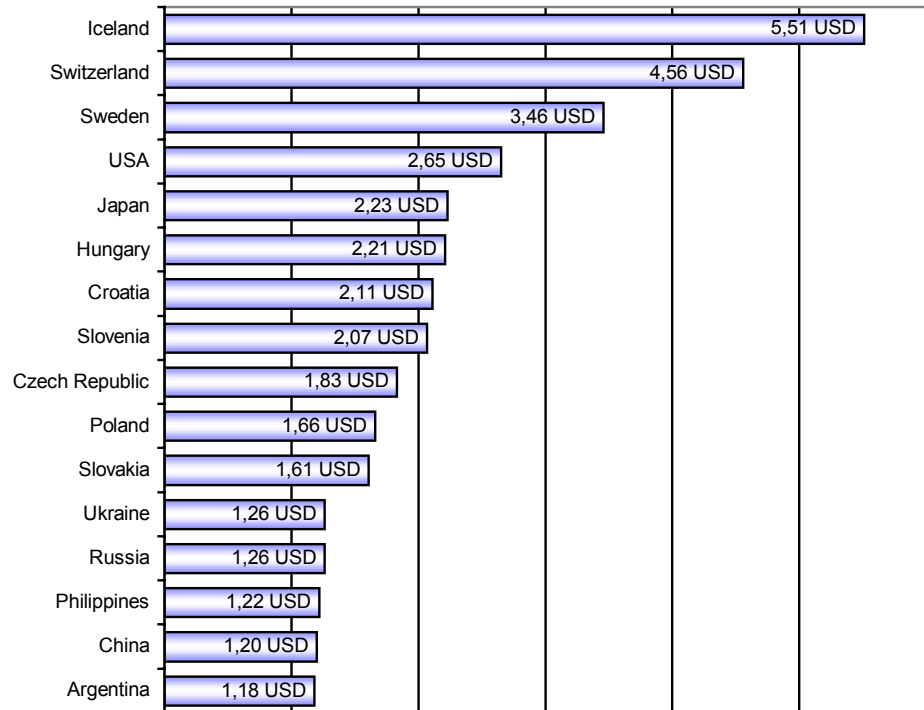
Kuna growth continues;

BigMac index indicates Kuna still 20% over-valued towards US\$

At the weekly level, Kuna has gone up in comparison with almost all major world currencies, Japanese Yen excepted. The raise of 1.54% in relation to US\$ brought the US\$ to the lowest level in the past 40 months. This is, of course, merely a reflection of the world situation: at the world market, US\$ has reached the lowest level in relation towards € over the past three years, and the lowest level towards the Swiss Frank over the last four years.

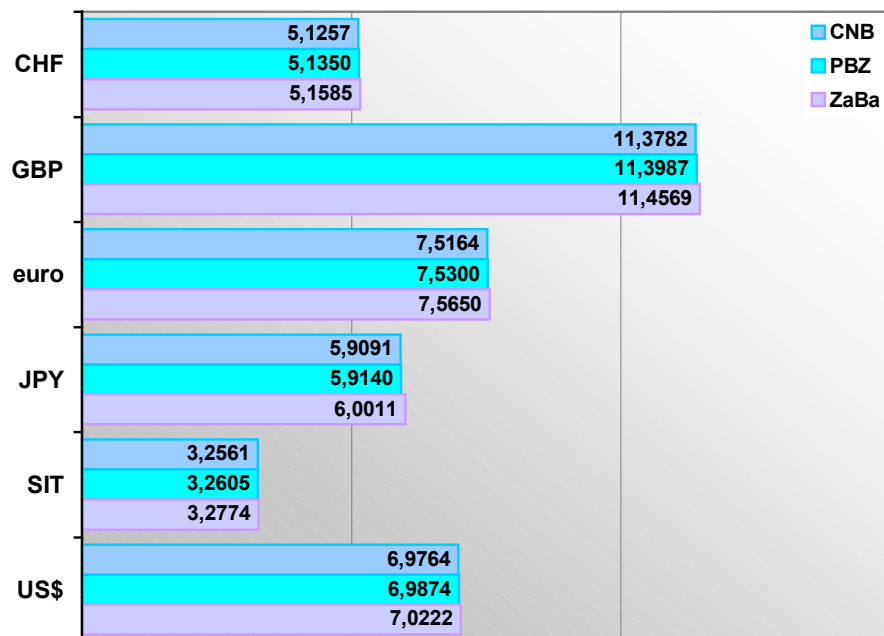
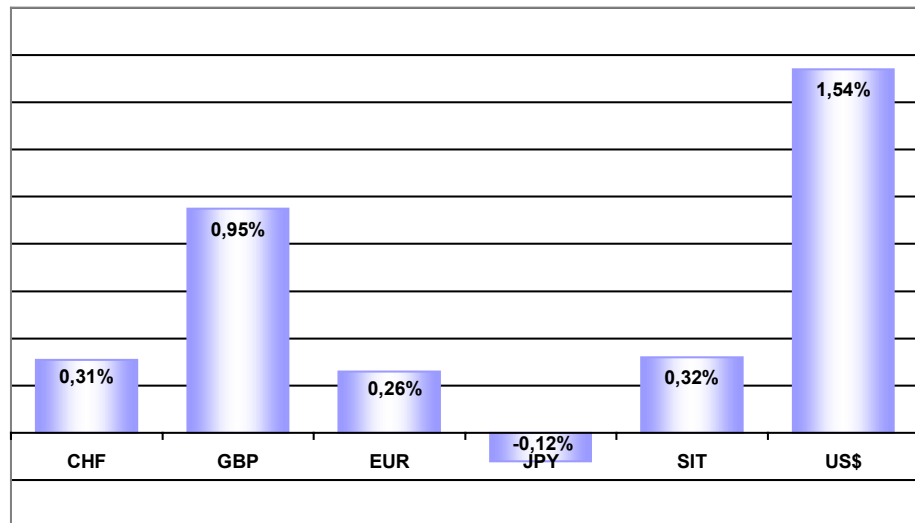
At the same time, The Economist reports that, following the Big Mac index, Kuna is still 20.4% under-valued in comparison with the US\$. At the moment, the average price of Big Mac in Atlanta, Chicago, New York and San Francisco is 2.65 US\$, while in Croatia the price averages 14.9 Kuna or 2.11 US\$.

Here is a graphic overview of the relations among hamburger prices in some countries, for comparison purposes.



Following the BigMac index, The Economist estimates that the € is 8% over-valued, GBP 21%, Swedish Kroner 30%, the Swiss Frank 70%, and the Icelandic currency a round 100%. However, the analysis also indicates that many currencies, particularly in less developed countries, are over-valued. Thus, they believe, the Russian Rouble is 50% under-valued, Slovakian Krona almost 40%, Polish Zloty over 35%, Czech Krona exactly 30%, Slovenian Tolar 25%, and the Hungarian Forint a little over 15%. Calculating from the BigMac index, the US\$ should, in Croatia, be valued at 5.62 Kuna.

In the meantime, here are the actual changes on the weekly level, followed, as usual, by the latest exchange rates.



(CNB web page; PBZ web page; ZaBa web page; VJ 01.20-6,9)

Positive results from new pension system.

Pension System Reform

According to Hagen, the reform is showing good results. By the end of 2002, the number of users of the compulsory pension system saving is 938,310, with total assets of 2,036,919,614.45 Kuna and income of 11.1201%.

PBZ Croatia secured highest income to its clients, 12.1001%, Helios made 11.5734%, AZ 11.0506%, Raiffeisen 10.8647%, Plavi 10.7109%, Erste 9.4637% and Ha Jedan 5.9428%.

Fund managements invested 95.15% of their assets into Croatian income generators, 81.86% of which into bonds. Other securities were not nearly as attractive, e.g. 5.04% was invested into bonds, and 5.32% into short-term securities.

In 2003, Hagen expects some of the funds to merge; Plavi and Erste have been negotiating on the merger for quite some time. It is also expected that this year there will be more interest in voluntary pension insurance. (SD 01.21-7)

CNB Auctions

CNB sold 563 million Kuna denominated bills, 29.7 million euro denominated bills, and 21.5 million dollar denominated bills

On 22nd January, CNB held its usual auction of Kuna denominated bills. The total amount of bids submitted was 593 million, 563 of which were accepted. The interest rates went between 2% and 2.21%, with the weighted interest rate of 2.07%. The average price was 99.802.



The auction of foreign currency denominated bills took place on 24th January. CNB sold 29.7 million in euro denominated bills, 13.2 million with 35-day maturity and 19.5 million with 63-day maturity. The interest rates were 2.6505% and 2.64469%, and discount prices 99.743 and 99.539, respectively. It also sold 21.5 million in dollar denominated bills, 6.05 million with 35-day maturity and 15.5 million with 63-day maturity. The interest rates were 1.165% in both cases, while discount prices were 99.887 and 99.797, respectively. (CNB Web page)

Statistics

Money Market

Trade increase 90% on weekly level

Last week, the Money Market registered increase of demand, supply and trade. The overall demand totalled 595 million Kuna, 2.6% more than the week before, while demand totalled 465 million, almost 84%. The largest supply, 160 million Kuna, was registered early in the week, with demand peaking on Tuesday at 140 million Kuna.

The realised weekly trade totalled 367.15 million Kuna, almost 91% more than in the week before. It should be noted, however, that the week in question had been one day shorter than the standard week, which certainly played a part in the immense weekly difference.

Daily volume of trade averaged 73.43 million Kuna, with the interest rate averaging 1.45%. During the week, interest rates ranged from 1.6% early in the week to 1.02% registered on Friday. (VJ 01.20-6)

Cheese Import Doubled

Dangerous import trend.

Between January and October 2001, cheese import doubled. The strongest contributor was Gouda produced abroad, whose import tripled; two years ago, Gouda import was negligible. The main reason for this is the abolishment of custom fees: after Croatia joined WTO, local manufacturers were open to foreign competition, while at the same time older EU members continue to provide subventions of €1/kg for exporting cheese to Croatia. Last year, imported European cheese was priced at €2/kg, which would come to a little over €4/kg in groceries. Domestic production cannot compete because their products sell for €6.5/kg in shops.

According to estimates, by the end 2002 Croatia imported 9,000 tons of cheese, almost half of the entire annual production of all domestic producers. Lura, Vindija and Zdenka asked the State to protect them from price damping, and it is possible that that by the end of this month the Ministry will officially ask EU to classify Croatia as a country for which no export subventions apply. At the current growth rate of cheese import, Croatia might lose its cheese production within a year. (VL 01.22-2(PS))

State Activities

Application for EU in February Certain

Croatian PM gathers support for the upcoming EU application

On Monday evening, speaking to the press in Croatian Embassy in Berlin after his talks with the German Chancellor Schröder, Croatian Prime Minister Ivica Račan stated that Croatia would submit its application for EU membership either on February 18th in Athens, or on the 25th in Bruxelles. The first visit is intended as the end of Croatian PM's European tour, while the Bruxelles meeting with EU officials is part of the regular political dialogue.

During his German visit, Mr. Račan spoke with the German Chancellor Schröder, who assured him of his country's support for the Croatian candidature. Mr. Schröder had said that it was "up to Croatia when it would submit the application, but Germany would support it." He stressed that Croatian achievements in the implementation of reforms makes the application "a normal step".

Croatian PM had also invited Chancellor Schröder to visit Croatia, and expressed his expectation that the visit would take place by the middle of this year. Berlin was the first stop of the European tour. Early next week, the Prime Minister is travelling to Bruxelles, where he will meet with the Chairman of the European Commission, Mr. Romano Prodi. Other stops on the tour include London, Vienna, Madrid, Dublin and Athens. (VJ 01.20-11; VJ 01.21-1,6; NL 01.21-9)

Labour Law Before Parliament After All

Although the unions still hold out on the issues they consider unacceptable, on Thursday, the Government sent the proposal for the changes in Labour Law to the Parliament. However, Prime Minister Mr. Ivica Račan expressed his hopes that, over the next two to three months, the social partners will be able to find a joint, compromise solution at least for the major issues – severance payment, discharge terms, part-time employment and the definition of small employers.



The Prime Minister also called the social partners to find solutions that could compensate the cuts in some of the current funds: he specified the protection of employee claims through funds for the protection of claims in case of insolvency and bankruptcy, as well as improved court protection and the introduction of a system of alternate solutions for some labour suits. Finally, the PM stressed that the package includes increased unemployment benefits, which should make the return to the labour market easier to bear.

The Minister of Labour and Social Welfare, Mr. Davorko Vidović, added that the unions have shown surprisingly little interest in employee participation in company management, which the proposal also includes, insisting that any company with over 50 employees have one employee representative in the supervisory board. He also stressed that the proposed changes are one of the imperative reforms of the Government, intended to insure quicker restructuring of Croatian economy and improved economic growth. However, his opinion seems not to be shared by either the employees or the employers. Chairman of the Croatian Employers' Association, Mr. XXXXXXXX, stated last week that CEA had hoped for a "more courageous reform", while the current proposal is viewed as a mid-way solution, neither entirely in favour of the employers nor entirely in favour of the employees.

The unions are, of course, also not satisfied, finding the four key points must be solved differently. They fear that part-time employment with a limit of three years may be misused so as to employ "contract workers" for a period of three years and then simply fire them and take new ones with the same (lower) expense. The cuts in discharge terms are viewed as an invitation for the buyers of large companies (primarily INA and HEP) to get rid of the surplus employees at minimum cost. However, the Government is not entirely without arguments. As far as the part-time employment is concerned, they call upon the changes in the contribution terms for part-time employees, which forces employers to pay health and pension contributions for them as well. This means that the difference in employer expense between permanent and part-time employees is significantly smaller now than it had been before. As for the severance payment cuts, the Government warns, prior payments had been expressed in net salaries, while the new proposal expressed them in gross salaries. Thus, although the "number of salaries" seems incredibly different, the difference is in effect a lot smaller, as Croatian gross salaries remain around twice the net salary amount. Finally, the Government stressed, small employers, whether they have 10 or 20 employees, will still have to give reasons for discharging their employees, and will merely be exempt from the obligation of developing surplus workers' management programmes.

Representatives of the five syndicate matrices were received on Wednesday by the President of the Republic, Mr. Stjepan Mesić, who expressed his support for workers' rights, but warned that a general strike would not be a good way to find a joint solution for the problems. The unions asked the President to appeal to the Government to find a way to protect workers' rights and not "push Croatia to the level of Albania or Slovakia".

Prior to the Parliament session at which the Labour Law proposal was first read, union representatives stood before the Government building, handing out leaflets in which they expressed their concern over the four controversial issues, and called on the Parliament Members to "vote following their conscience". (VJ 01.23-3,4; NL 01.23-2,3; VJ 01.24-4,5; NL 01.24-2,3; VL 01.22-3; VL 01.22-13(PS); VL 01.23-5; SD 01.20-3; SD 01.21-2; VL 01.24-3; VL 01.25-2)

State Guarantees

Stricter rules for issuing State guarantees.

The Minister of Finance announced a new policy on State guarantees, a lot stricter than the previous practice. The guarantees would be given only for projects that fall among company priorities and strategic developments; no privately owned companies would be able to apply. In addition, any company applying for guarantees should not have any outstanding obligations towards the State, or have negative income; the only exception would be large State-owned shipyards. The terms are defined very precisely and there is a proposal that managements and enterprises should guarantee the return of the money with their own personal property.

The Government has limited its ability to issue guarantees by determining the upper limit of the money it would guarantee in 2003 to 5.9 billion Kuna. Finally, the budget of individual ministries might depend on their ministers' efficiency in deciding on guarantees: each minister would be required to estimate the value of a project proposed for guarantees. (SD 01.20-6)

One Billion Kuna in Evaded Taxes

Unreported taxes amount to 1.1 billion Kuna.

After control and supervision of 21,500 taxpayers, inspectors found over 1.1 billion of unreported taxes, part of which was due to tax evasion. Each of 795 inspectors in average found 1.4 million Kuna of unreported obligations, almost double than in 2001. In almost 40% of cases, inspectors discovered illegalities and submitted almost 8,000 charges. (SD 01.21-7)

Law on Investment Funds

Changes in the Law might effectively disband investment funds.

The proposal for changes in the Law on investment funds calls for re-introduction of 10% ownership limit of any particular company, and of maximum 10% of the fund to be invested in



securities issued by a single source. The funds would have one year to comply with changes, leading to massive sale of stocks with a single exception of ZIF Velebit whose investment structure is compliant with the proposed changes. According to the head of the VSE supervisory board, the law would lead to re-registration or disbanding of funds: their investment opportunities would be very limited after the initial sale which would lower their value. Finally, stock trading would suffer because open and pension funds are putting just small parts of their assets into shares.

For instance, in last three years Dom fund invested €10 million in Babin Kuk, both for reconstruction and improvement. The strategic investment in the hotel company should reach €70 million in next ten years. However, the new law would force Dom fund to sell most of its shares on both accounts: it has 66.3% of Babin Kuk, and BK represents 10.62% of fund assets. BK is not the only share that Dom fund, whose stock is the only one in the VSE Quotation I and one of the four first-quotations shares in Croatia, would have to get rid: it would have to sell its shares in Riviera Holding, Brodospas, hotel Opera, Dioki, Petrokemija, HTP, Zlatni Otok, Jadrankamen, Konstruktor, Monter etc.

The Government explained its position by claiming that funds are bad managers. Dom fund refuted allegations, claiming that there should be an independent objective analysis on business success of companies owned by the State and ZIF's. Head of Slavonski ZIF believes that the proposal came because of disagreements between investment funds and CPF. The already existing limits on investment funds are limiting their role and preventing them from investments abroad; if the rules should change once again, it might indicate lack of stability that might discourage serious investors. (SD 01.23-8)

Trade Unions and Associations

Doctors' Strike

Negotiations between the Croatian Doctors' Syndicate and the Government started on Wednesday, even though the strike did not stop. The Ministry of Health offered an increase of around 10%, with further improvements to come in the new collective contract. The Ministry explained that the demanded 45% was "out of the question" as that would leave the budget without funds for medicines, drugs and other materials.

A portion of the doctors continued the strike, mostly by wearing the strikers' badges. However, some of the strikers followed the "increased level of strike" instructions and reduced their activities to the bare minimum. At the same time, three other health syndicates made a public statement saying that they do not support the 45% increase demand, as it is "unrealistic and would be harmful to the sector as such". The representatives of the three unions, which jointly represent 40,000 out of the total of 60,000 health sector employees added that the collective contract negotiations had included the CDS, even though their representative had refused, previously, to participate in them actively. (VJ 01.24-6; NL 01.23-3; NL 01.24-3; VL 01.20-2; SD 01.20-3,48; VL 01.21-3; VL 01.23-2; SD 01.21-1,5; VL 01.24-3; SD 01.24-1,2)

Also In the News

JMBG, Once Again

JMBG secrecy – costly and pointless.

Although it would have been better if the Government and the Parliament had done it before proposing and passing the law on JMBG secrecy, the creation of an expert group which should examine the practical consequences of decision has some value. Unfortunately, most of the experts from the group were against the decision, stating that costs of the decision were high and that it would not benefit anyone. (VL 01.22-3)

International Relations

Succession Issues

Croatia under international pressure to ratify the agreement on succession.

Croatia is still refusing to ratify the agreement on succession, at least until whereabouts of some 600 million US\$ remain unknown. There is a strong pressure for ratification from all sides.

On Thursday, representatives from Yugoslav successor States met in Sarajevo where they discussed the division of the part of the diplomatic property, the works of art in particular. The division should be realised after the ratification of the succession agreement. There are certain objects for which there is no interest. The diplomatic assets of former Yugoslavia, which include more than 120 buildings, are estimated at 260 million US\$. (VL 01.22-4; VL 01.24-2)



Regional News

BOSNIA AND HERZEGOVINA

B&H SE's

Sarajevo SE: 1.4 million KM

BL SE: 87,400 KM; 2002 turnover 6.99 million KM

At the Sarajevo Market, the overall weekly turnover totalled 1.4 million Convertible Marks (cca. 5.2 million Kuna), 712,000 of which (cca. 2.6 million Kuna) pertained to shares – 50.8% of the total turnover. The largest turnover was realised by Sarajevo Klas, Mostar Slavonijatrgovina, Bosnalijek, and Fabrika Cementa Lukavac. Among the privatisation funds, the most sought-after were the shares from the Sarajevo PIF Naprijed. Other Sarajevo PIF's – Big, Prof-Plus and Migroup, as well as Tuzla-based Eurofond, also elicited a lot of interest.

At the Banja Luka SE, the weekly turnover totalled 87,417.56 KM (cca. 320,000 Kuna), over half of which came from the shares of Šamac-based company Budućnost. BL SE also published its preliminary report regarding the year 2002. The first report indicates that the annual turnover totalled 6.99 million KM (over 26 million Kuna). (VJ 01.20-8)

Bosnia&Herzegovina Gets Standard&Poor's Rating

Bosnia wants S&P's rating because of foreign investors

Bosnia and Herzegovina signed an agreement with Standard&Poor's regarding the creation of a B&H credit rating. This was announced last week at the press conference held in London. According to Treasury Minister Mr. Ante Domazet, B&H expects a B-category rating.

The S&P rating was arranged primarily in order to incite the growth of direct foreign investments, which should, if Bosnian Government prognoses come true, reach some 300 million US\$ p/a by the year 2006. Minister Domazet stressed that this is the only reason for the rating, and not the preparation of bonds, as rumours have stated.

However, Bosnia and Herzegovina does indeed intend to prepare an emission of bonds, in agreement with the IMF, intended for the coverage of frozen forex savings of its citizens. The sum total of the frozen savings comes to around 3 billion Convertible Marks, 450 million of which should be covered by transfers from Yugoslavian banks, in accordance with the division of property of the former Yugoslavia. The remainder of the funds should come through emissions of state bonds in favour of the citizens, to be issued over the next 10 years. The international emission of bonds is planned for next year, when the restructuring of bonds issued as part of the 1997 agreement on payment of debts towards foreign commercial banks will also come under revision.

Minister Domazet also stressed that Bosnia and Herzegovina still faces the solving of 10 billion KM of debts to local creditors. However, he warned, the sum could be reduced by half through debt write-offs. (VJ 01.20-7; VL 01.22-6(PS))

Lijanovići Blocked For Customs Duties

Accounts of Lijanovići Meat Industry blocked due to unpaid customs duties

Due to several years of failing to pay customs duties, Lijanovići Meat Industry (LMI) from Široki Brijeg owes some € 24 million to the Budget of the Federation of Bosnia and Herzegovina, announced last week the Information Office of the Customs Authorities of the Federation of Bosnia and Herzegovina.

Because of the debt, LMI accounts are blocked, and will remain blocked until all the customs duties are paid. (VJ 01.24-9)

SLOVENIA

Ljubljana SE

Slovenian market struggles with insider trading

Last week at the LJSE passed in quiet, with trade remaining modest. The prices of most shares continued downwards, but the market retained stability.

The Agency for Securities Market is struggling to uncover and prevent all trade based on insider information. Although there have been no names specified so far, a number of situations with more or less obvious insider trading have been registered at the Slovenian market, which means that the problem is growing. Agency's investigators have started in earnest with the beginning of the year, when certain brokerages were investigated over a whole series of suspicious transactions. The beginning of the year also brought new rules of conduct for the LjSE, and changes in the Central Depository Agency regulations. Management and supervisory board members are now under obligation to inform the market of all transactions with their companies' shares.

Immediately prior to the introduction of the new rules, Gorenje shares soared on the wings of rumours regarding the takeover. Company management failed to react to the rumours, neither confirming nor denying them, but the heads of the company sold their own shares at the market,



at very high prices; only after that, the management issued a statement denying all takeover rumours. A similar situation happened with Kolinska, where Chairman of the Board sold his Kolinska shares only a few days before the news that Kolinska will no longer represent Swiss Nestle became public knowledge. (VJ 01.20-8)

Slovenian Referendums

Slovenians support their Government.

On two referendums that took place on Sunday, Slovenian citizens supported the Government plan for privatisation of the railways with 51% approval rate and the request for return of phone installation charges with 77%. The latter should take place only after the privatisation of Telekom Slovenija in 15 months. (VL 01.21-8)

Krško Dispute

Pre-arbitration request sent.

HEP reacted promptly: on Thursday, the Government approved starting of the pre-arbitration procedure, and HEP sent the request to Slovenia on Friday. HEP demands damages on account of half of nuclear power plant Krško, giving three months to Slovenian side to respond. Croatia has the right to demand the international arbitration by 31st July. According to HEP, its half of the plant is worth 720 million US\$, almost 900 million with interest, plus some 285 million because of the undelivered electricity produced by the plant and sold on the international market. (SD 01.25-8)

SERBIA

Ball Greenfield Investment

Canned goods factory to be constructed in Zemun

U.S.A. based company Ball announced last week a € 75 million investment into the construction of a canned goods factory in Serbia. This is one of the largest greenfield investments in Serbia in the past few years.

The construction of the factory, to be situated in Zemun, has been under negotiations over the last three years. Ball had to choose between Romania and Serbia, which was eventually chosen due to better transport infrastructure. The American company had founded its European branch, Ball Packaging Europe, in December last year, after a € 878 million takeover of a German canned goods. Schmalbach-Lubec, the second largest such company in Europe. (VJ 01.20-7)

CZECH REPUBLIC

Czech Telecom Still Won't Go into Privatisation

Czech Telecom remains government property until 2005

After the failed attempt to privatise a majority participation in ČeskýTelecom, the Czech Government decided to retain control over the company until the year 2005, announced last week Czech Information Minister Mr. Vladimír Mlynar. Minister Mlynar also cut short all market speculations that the Government may ask for large dividends from the Telecom in order to cover Budget holes.

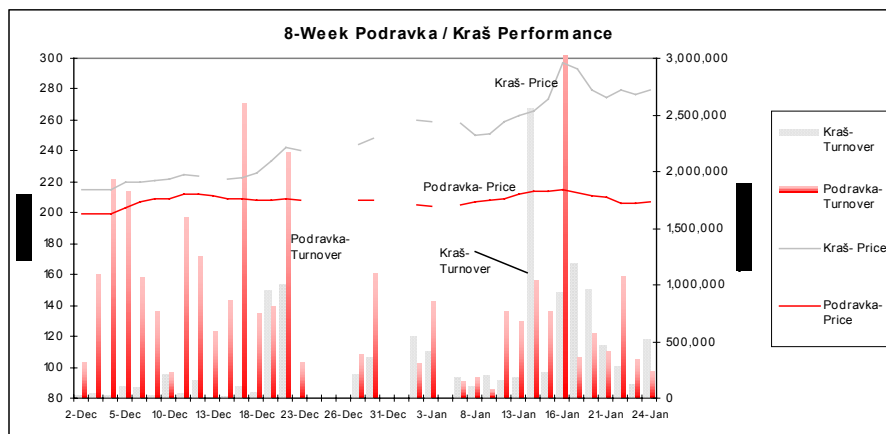
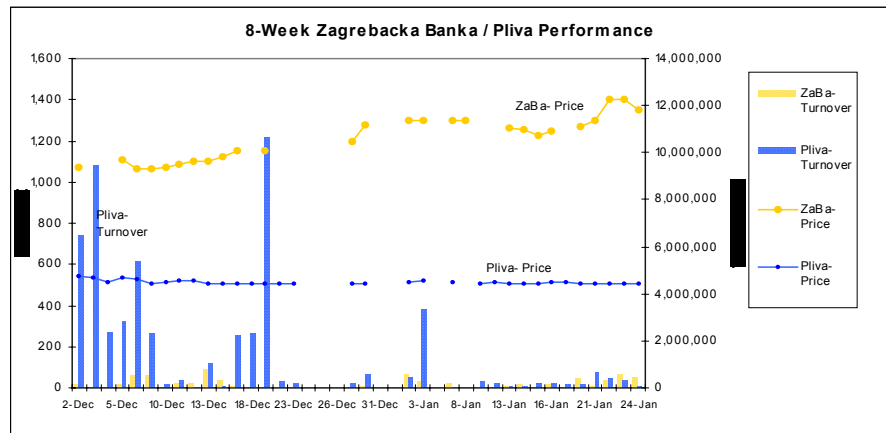
Mr. Mlynar did state that the dividends might be paid, but "not huge". With Government support, Telecom is expected to retain most of the profits and use them so as to buy out partner participation in the profitable mobile telephony operator Eurotel. Czech Telecom holds 51% of the company, while the remainder is split between two American companies: AT&T Wireless and Verizon Communications.

The first attempt at privatisation failed because Czech Government had refused to accept a too-low price. The only offer, in the amount of € 1.8 billion, came from a consortium formed by Deutsche Bank and Danish TDC Telecom. After the Government refusal to accept the offer, certain Government officials explained the decision, partly, by the fact that the loss of expected budgetary income could be replaced by large dividends from the company. (VJ 01.20-7)



Auctor Securities Croatian Capital Markets Overview

Market Developments



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.

ZaBa has moved upward steadily in the last few weeks, at least partially based on speculation regarding its upcoming dividend.

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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