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## **THE INFLUENCE OF LEASING ON THE CROATIAN COMMODITY EXCHANGE DEFICIT**

*Basic issues of this research are leasing relations and their impact on the Republic of Croatia foreign trade. It is a well-known fact that leasing is a very important strategic form of financing and conquering world markets. Croatia is in recent times very interesting for foreign investors, especially if having in mind the fact that the Croatian Government, after the ownership transformation and change of economic system, chose global-liberal foreign trade as its policy, abandoning the protectionism and an import replacement strategy of the ex-state, in order to join the Euro-Atlantic Association as soon as possible. This policy, as well as the unfavorable economic and political situation in the last decade of the past century, has negatively affected the Republic of Croatia foreign trade, causing constant and almost continuously growing trade deficit. In our opinion leasing operations contributed a lot to this situation. We shall try to verify this hypothesis in this paper.*

*Key words: leasing, deficit, liberalism, trade, strategy*

### **1. Introductory notes**

From the historical point of view, leasing operations are considered to be rather old financing institution. Prof. M. el. Mokhtar Benu believes that this kind of business started 5.000 years ago in the ancient Egypt during the Thinite period,

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and during the reign of Menés, the first Pharaoh of Egypt (Lauré, M., 1977.) leasing was considerably used. The term leasing itself comes from an English word “lease”, which means let, rent, hire, charter (Dragičević, A., 1991). Romance countries tried to subsume the expression and the leasing performances under the institution related to the rent and to regulate it with similar laws. Lease Law of the Republic of France from the year 1966 uses the term *credit-bail*, the Belgian Law from the year 1967 uses *locatio-financement*, and the Italian Tax Relief Law from the year 1968 and the Bill of Lease Law from the years 1973, 1977 and 1979 – use the term *locazione finanziaria*. In the German speaking countries not one of the translated terms leasing (*Mietfinanzierung*, *Finanzmiete* and *Maschinenmiete*) could not substitute the terms like *Mobilien – Leasing* and *Immobilien – Leasing* that entered different administrative texts and became generally accepted in the literature and the financial – banking activities.

Today, however, the term leasing is closely connected to the economic activities of the USA, as an independent and modern financing institution. Namely, at the end of the 19<sup>th</sup> century, or to be more precise starting from the year 1877, a big American company Bell Telephone handed over its telephones and telecommunication equipment, and the operation was carried out through a financial-business deal called leasing. It was no longer about selling the telephones, but only about giving telephones for use – *usus*, through the mediation of the financial leasing. In the USA today, more than 6000 companies are in leasing business. Leasing business is developing fast not only in the USA but also in many countries in the world, including Croatia.

The term leasing indicates every business relation where a lessor gives an asset to a lessee (a car for example) to use and exploit for a certain period of time. A lessee is committed to pay an agreed sum of money in agreed installments. The basic concept of leasing is profitable usage of investment goods with flexible payments, adapted to the needs of a lessee and a current world and domestic situation in economy.

Leasing business shares in the total investment of the World economy has been increasing in the last decades. At present, in the USA it is over 30%, in Great Britain and Ireland it is about 34%, in Italy about 15%, and in the European Union it is from 17-18% on average. According to the statistics of the umbrella body that represents the leasing industry in Europe “Leaseurope”, in 2003 almost 250 billion Euros were invested in real estate, equipment and cars, which represented a 9% growth per year on average. 80% were invested in equipment and vehicles, with the share of 34% in motorcars and machinery and industrial equipment in 2%. Service and private sector are the type of asset that represent the largest portion of the lease with the share of 51%, as well as the manufacturing industry and construction with about 31%. The leasing contracts have maturities of 3,5 years on average. Real estate leasing accounted for 18%. Retail outlets as well as indus-

trial and office buildings constitute the vast majority of real estate leases and the contracts have maturities of 8 years on average. (Urukalović, D., 2003.)

Leasing and leasing relations are greatly used in Croatia as well. However, they are not *ex lege* regulated by our economic – legislative standards. It means that the explicit law on that does not exist. Croatian Laws do not know leasing contracts and there are no laws to regulate such contractual relations, nor does general Croatian Act on mandatory relationships regulate such relations. In spite of all, parties involved can have leasing relations, according to the principle of the will autonomy of the mandatory relationships contracting, and independently and freely decide if they would and under which conditions sign the leasing contracts. However, it has to be said that the leasing contract is mentioned in some Croatian Acts. Trade Act and Bank Act state that the equipment can be temporarily exported or imported, as well as financed on the basis of the leasing relation contracts.

According to the Croatian autonomous leasing regulations and the Croatian business practice, there are two basic types of leasing in Croatia: financial leasing and operating leasing. Financial leasing is a contract between a lessee and a lessor. It is quite similar to a loan and has almost all purchases and sales terms with the grace period. It is irrevocable and guarantees the return of the lessee's asset or the advance payment. There are basically two types of the financial leasing: financial leasing comprising VAT, and financial leasing excluding VAT. General conception of both types of financial leasing is allocation of the ownership.

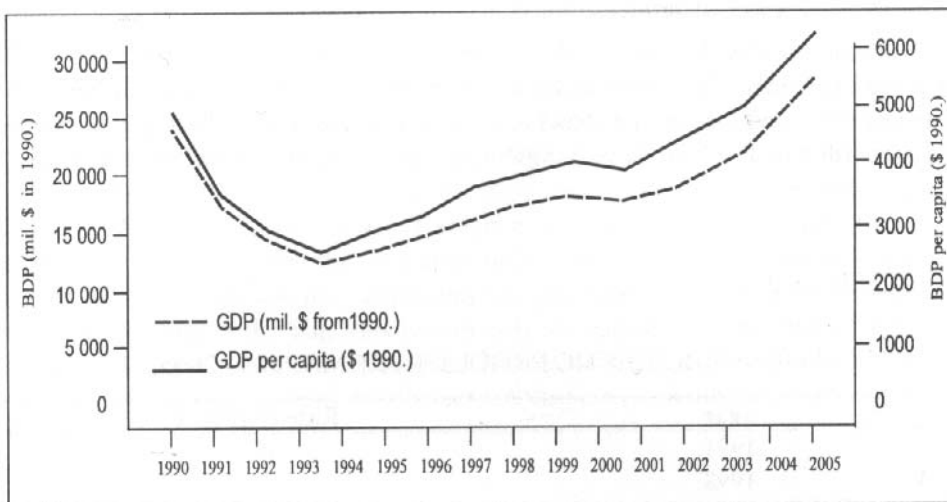
Operating leasing is also contract between a lessee and a lessor. This type of leasing is the world's most represented model for vehicles and computer equipment purchases. The basic idea of the operating leasing is not an allocation of assets but the right to use an asset for an agreed period of time, i.e. a long-term lease of assets. This type of leasing is quite suitable for companies (corporate bodies), as well as for natural persons in the VAT system.

## **2. Foreign trade and the Croatian economy**

Immediately after gaining independence Croatia transformed its social-economic system. It switched from socialist economy based on public ownership and workers' self-management to capitalist marketing economy, based on private ownership and capital production relations. Bad selection of the privatization model (with many elements of primitive accumulation), dysfunction of law-governed state, some exogenous factors of the economic activities like huge war casualties and war havoc that Croatia experienced in the Patriotic Defense war, as well as loss of markets of the former Yugoslavia, caused negative rates of economic growth in Croatia for almost a decade – see figure no.1.

Figure no.1

### GDP AND GDP PER CAPITA 1990 – 2005



Source: Družić, I. (2003.) p.p.115. and personal evaluation

Using the data from Figure 1. has shown that the negative rate of economic growth in the period from 1991 to 2000 was about  $-1\%$  a year on average. Beside that, a disturbingly negative rate of growth of population was also realized, and it amounted to almost  $-1\%$  a year on average. During the analyzed period, negative rate of employment was also recorded, and it amounted to  $-2,76\%$  a year on average. Such negative trends under war and post-war conditions are considered atypical phenomena. In other words, almost all available resources are usually used in economy under war and post-war conditions, especially work resource, considering the fact that male population fit for work and military service are callout. Therefore, not the decrease of the number of employees but additional employment of women and retirees would be a logical move.

Unfavorable economic trends were particularly manifested in the period from 1991. – 1995. Negative average yearly rate of growth surpassed  $-20\%$ . The rate of employment was also negative under the war conditions, and it often surpassed  $-10\%$ , which is hard to explain by the economic factors. The rate of inflation amounted to more than  $500\%$  a year, and this was in the period of constitution of independent Croatian state, ravages of war and introduction of national currency.

Under such conditions, relations with foreign countries showed relatively favorable trends. Thus export/import ratio (Družić, I., 2003.) was at the average yearly level of even 90%. However, it should be mentioned that the silent sanctions were imposed on Croatia at that time, which influenced deceleration of import, and the very concentration of potential on the liberation war greatly influenced the decrease of goods and services import.

Economic development of the Republic of Croatia in the period 1996-2005 recorded considerably favorable trends. The rates of economic growth have become positive and they amount to 4% yearly on average. The highest rate of growth was recorded in 1997, while only 1999 recorded a negative growth of -0,9%.

*Table no. 1*

GROSS DOMESTIC PRODUCT FROM 1991. – 2005.

<b>Year</b>	<b>Rate of growth</b>
1991	-20,6
1992	-11,7
1993	-0,9
1994	0,64
1995	1,69
1996	4,21
1997	6,8
1998	2,5
1999	-0,9
2000	2,9
2001	3,8
2002	5,2
2003	4,3
2004	4,0
2005	4,5

Source: Annual reports CNB – different years

There have been major breakthroughs in the stabilization monetary policy in this period. Thus, Croatia transformed its hyperinflation economy to an economy with a low percentage of inflation, which amounted to 4 – 5% on average.

The source of positive trends in the monetary consolidation of the Croatian economy is found in money stringency policy. An effective rate of interest was sometimes double-digit. The policy of firm state budget restrictions contributed

to the anti inflationary policy. Tax payments and quasi-taxation were restricted by restructuring Ministry of Defense of Republic of Croatia, Ministry of the Interior, social security, old-age pension insurance, as well as the overall reform in the process of character development and academic education. Having tax payments and quasi-taxation reduced a successful and efficient reform of public revenues is executed, where the introduction of Croatian value added tax plays an important role.

Balance of payment of a state shows the dynamics and structure of economic relations with abroad. Therefore, the state and dynamics of the Croatian balance of payment is shown in table no. 2 for the purpose of further and deeper analysis. Beside the above-mentioned facts one should say that it is quite understandable why Croatia chose global liberal foreign-trade policy of an export propulsive strategy, when we know that the total area of Croatia is 56.583 km<sup>2</sup>, with a population of 4,280.000 inhabitants, with relatively poor social and natural resources after the dissolution of the Yugoslav community and gaining independence. What this means is that Croatia has abandoned protectionism and export substitutive strategy of the ex-state, wishing to join Euro-Atlantic associations as soon as possible.

Table no. 2

BALANCE OF PAYMENT OF REPUBLIC OF CROATIA  
IN MILLION USA \$.

	1995.	1996.	1997.	1998.	1999.	2000.	2001.	2002.	2003.	2004.
<b>A. CURRENT ACCOUNT (1+6)</b>	-1.441,5	-1.091,3	-2.325,1	-1.530,6	-1.397,2	-459,4	-725,1	-1.916,4	-2.038,8	-1.446,7
1. Goods, services and income (2+5)	-2.243,8	-2.113,7	-3.194,5	-2.236,6	-2.029,7	-1.342,6	-1.690,8	-2.992,6	-3.432,5	-2.638,5
1.1. Credit	7.306,0	8.112,3	8.578,4	8.963,5	8.372,6	9.008,9	10.053,1	10.999,4	15.386,8	14.811,1
1.2. Debit	-9.549,8	-10.226,0	-11.772,9	-11.200,1	-10.402,2	-10.351,4	-11.743,8	-13.992,9	-18.819,2	-17.529,6
2. Goods and services (3+4)	-2.215,0	-2.043,8	-3.172,0	-2.072,6	-1.673,4	-935,9	-1.174,3	-2.493,9	-2.279,5	-2.012,8
2.1. Credit	7.087,2	7.842,4	8.214,6	8.568,6	8.117,8	8.663,1	9.634,2	10.571,0	14.906,7	14.239,8
2.2. Debit	-9.302,2	-9.886,2	-11.386,2	-10.641,2	-9.791,1	-9.598,9	-10.808,5	-13.064,9	-17.186,1	-16.252,6
3. Goods	-3.259,3	-3.623,5	-5.196,2	-4.147,4	-3.298,6	-3.203,8	-4.101,3	-5.648,6	-7.921,0	-6.727,8
3.1. Credit	4.632,7	4.545,7	4.210,3	4.604,5	4.394,7	4.567,2	4.758,7	5.003,6	6.285,2	6.603,1
3.2. Debit	-7.892,0	-8.169,2	-9.406,5	-8.751,9	-7.693,3	-7.770,9	-8.860,0	-10.652,2	-14.206,3	-13.330,9
4. Services	1.044,3	1.579,7	2.024,2	2.074,8	1.625,2	2.267,9	2.927,0	3.154,7	5.641,6	4.715,0
4.1. Credit	2.454,5	3.296,7	4.004,3	3.964,1	3.723,0	4.095,9	4.875,5	5.567,4	8.621,4	7.636,7
4.2. Debit	-1.410,2	-1.717,0	-1.980,1	-1.889,3	-2.097,8	-1.828,0	-1.948,5	-2.412,7	-2.979,9	-2.921,7
5. Income	-28,8	-69,9	-22,4	-164,0	-356,3	-406,7	-516,5	-498,8	-1.153,0	-625,7
5.1. Credit	218,8	269,8	363,8	394,9	254,8	345,8	418,9	428,4	480,1	651,3
5.2. Debit	-247,6	-339,7	-386,2	-558,9	-611,1	-752,5	-935,3	-927,2	-1.633,1	-1.277,0
6. Current transfers	802,3	1.002,4	869,4	706,0	632,5	883,2	965,7	1.076,2	1.393,7	1.191,8
6.1. Credit	971,1	1.173,2	964,0	919,1	967,4	1.101,0	1.174,5	1.358,5	1.727,2	1.584,6
6.2. Debit	-168,8	-150,8	-94,6	-213,1	-335,0	-217,8	-208,8	-282,3	-333,5	-392,8
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	1.095,6	1.995,3	2.651,6	1.469,0	2.497,1	1.197,4	1.270,5	2.761,8	3.005,5	2.269
B1. Capital account	0	16,2	21,5	19,1	24,9	20,9	133,0	443,4	83,7	23,1
B2. Financial account, excl. foreign reserves	1.538,8	2.512,3	3.058,2	1.601,5	2.850,7	1.758,7	2.450,6	3.015,3	4.313,2	2.289,0
1. Direct investments	108,8	486,4	346,7	834,9	1.420,0	1.084,8	1.406,7	591,1	1.650,5	698
1.1. Abroad	-5,4	-24,4	-186,1	-97,5	-47,2	-3,9	-154,6	-532,9	-62,4	-280,9
1.2. In Croatia	114,2	510,8	532,9	932,4	1.467,2	1.088,7	1.561,3	1.124,0	1.713,0	979,0
2. Portfolio investments	4,9	628,3	577,0	14,9	532,4	707,6	600,7	259,8	1.006,1	244,2
2.1. Assets	0,3	6,2	11,1	-0,1	-38,3	-22,7	-129,3	-669,8	173,5	-752,5
2.2. Liabilities	4,6	622,1	565,9	15,1	570,8	730,3	730,0	410,0	832,6	996,7
3. Other investment	1.425,1	1.397,6	2.134,4	751,7	898,2	-33,7	443,2	2.684,0	1.656,5	1.346,8
3.1. Assets	419,5	794,4	171,3	348,8	-24,7	-986,5	349,6	384,4	-2.535,7	-454,7
3.2. Liabilities	1.005,6	603,3	1.963,2	402,9	922,9	952,8	93,6	2.299,6	4.192,2	1.801,5
B3. Reserve assets (CNB)	-443,1	-533,3	-428,0	-151,5	-378,5	-582,1	-1.313,1	-696,9	-1.391,4	-43,0
<b>C. NET ERRORS AND OMISSIONS</b>	345,9	-904,0	-326,5	61,7	-1.099,8	-738,0	-545,5	-845,4	-966,7	-822,4

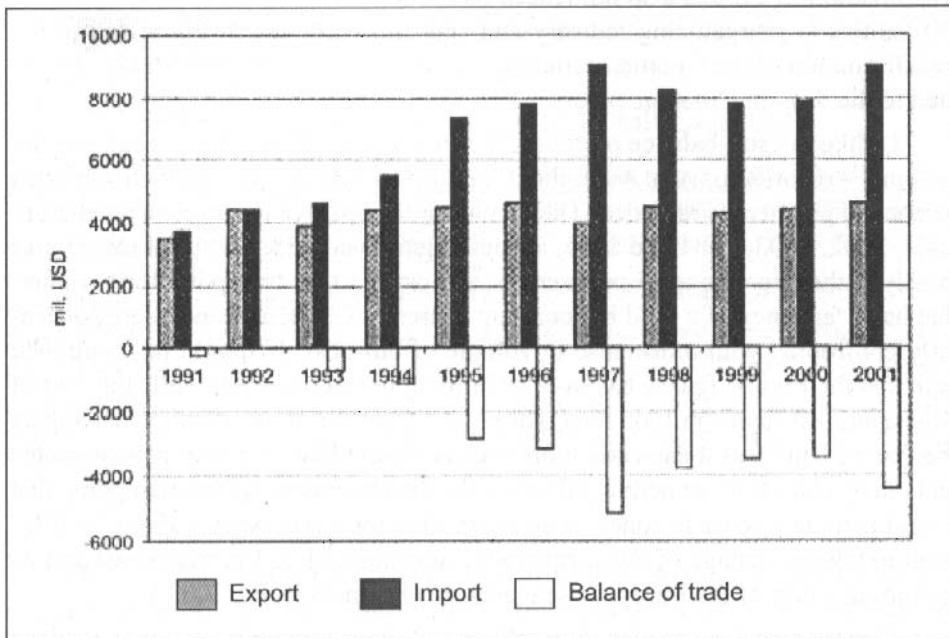
Source: CNB Banks Bulletin, different years

According to the data in Table no.2 the deficit of the balance of current accounts of the Republic of Croatia has been in a continuous growth since 1994. It reached the highest level in 1997 and 2003, amounting to over USA\$ 2327 million in 1997 and over USA\$ 2038 million in 2003. Thus, it is necessary to establish what situations caused the biggest deficit, as it is obvious that such high and permanent deficits of the current accounts are impossible to sustain or to service in a long-term period. It is also interesting to mention that the current account of the Republic of Croatia was positive in 1992 and 1993, difficult and war times for Croatia, which was also an important basis for the austerity program of the Republic of Croatia.

The results shown also indicate the fact that the trade balance was the most important segment – sub-balance of our current account balance. It is also visible that the commodity exchange of the Republic of Croatia records a big and constant deficit.

Figure no. 2.

EXPORT/IMPORT RATIO OF THE REPUBLIC OF CROATIA



Source: CBS, (Croatian Bureau of Statistics), Statistical yearbook 2002



The biggest trade deficit was in 1997, and it accounted to US \$ -5.196,2 million. There was a slight fall in the following years (1998, 1999 and 2000), but since then till today it has had its usual ascending trend. In 2003 the highest level in the history of economy of the Republic of Croatia was reached, accounting to the sum of US\$ -7.921,0.

Displayed data in table no.2 show that the Croatian export has been stagnant for a decade. According to many scientists, the reasons for the stagnation could be found in the wrong policy of the overvaluation of the Croatian national currency. Having overvalued kuna, the imported goods were becoming cheap. You could buy more and more foreign money for the same amount of kuna and consequently more and more foreign goods and services. Due to the stagnation, decrease of purchasing power in the country, drop in export and rise in import, the sales of domestic products on the domestic market has decreased. At the same time this influenced the fall of total domestic production and accompanying macroeconomic consequences connected to the decreased reproduction like unemployment, investments, public expenditure, rate of interest etc.

Stagnation is recorded in the export to former Yugoslav republics with whom economic and trade relations are established. Thus the export to Slovenia and Macedonia is halved. It seems that the importers from these countries realized that there are cheaper and more quality markets other than Croatian market. The war situation in Croatia also influenced their decision to switch to other markets. Difficulties in reorganizing industry and sins and weak points connected to the transformation of the Croatian economy are also some of the factors that contributed to the drop in Croatian export.

Unlike the sub-balance of goods, the sub-balance of services – see table no. 2, item 4 – records constant and rather high surplus since the independent Croatian balance of payment is recorded. The surplus or the positive balance was highest in 2001, 2002, 2003, 2004 and 2005, accounting to over US\$ 5.000 million, thanks mostly to the Croatian tourism revenues, and partly to the transportation revenues that has a tendency of a mild but constant decrease. Croatian seaports are particularly confronted with a decrease in volume of business. It should be mentioned here that the Port of Trieste has over 40 million tons of turnover, while the Port of Rijeka has less than 4 million tons. The port of Chopper more and more endangers the Port of Rijeka as it can cater more quality freight like container consignments and other. Therefore, an active policy for the developments of Croatian ports, that would include free trade zones, is an imperative for our country, especially if we want to take advantage of our comparative advantages like Croatian coast and its becoming a part of the European sea territory (Jovančević, R., 2003.).

Current transfers displayed in table no. 2, item 6 include revenues realized by legal and physical persons based on one-off payments. This sub-balance of the

balance of payment of the Republic of Croatia has a positive balance, too. It goes from US\$500 million to almost US\$ 1.100 million, realized in 2003, when the help from the Croatian diaspora was the most significant.

Major question today in Croatia is what to do with the deficit in current payments. Certain number of scientists is worried and greatly objects to the governmental economic policy, emphasizing huge indebtedness of the state - see table no. 3. Others have opinion that there is no harm in such tendencies as the balance of current accounts deficit is a major worry. It is sustainable and expectable during the phase of the economic transformation and adjustment to the open economy. They also state that the deficit has not been accompanied by the fall but by the growth of the reserves both in the Croatian National Bank (CNB) and in the commercial banks treasuries.

It is important to mention that many countries in the world have big surplus in the balance of current accounts. The surplus of Japan accounted to US\$107 billion in 1999, which was 2,5% of its GDP; Switzerland had US\$ 29,2 billion, or 11,2% of its GDP; Singapore US\$ 21,3 billion, or 25% of its GDP; The Netherlands 17,3 billion, or 4,4% of its GDP; Thailand US\$ 12,4 billion, or 9,9% of its GDP; Belgium US\$11,7 billion or almost 5% of Belgium GDP, and finally Taiwan US\$ 7 billion, or 2,5% of Thai GDP. These are all economically developed countries with a negligible inflation.

*Table no. 3*

EXTERNAL DEBT OF CROATIA IN MILLION USD

Sectors	1996	1997	1998	1999	2000	2001	2002	2003	2004
Direct investments	0,0	0,0	477	540	1115	1080	1066	1797	1986,3
Government	2397	2906	3395	3973	4795	4944	6359	8454	7236,1
Central bank – (IMF loans)	208	232	234	197	159	122	0,0	0,0	2,4
Banks	1252	2216	2265	1954	1597	1821	4033	7393	7652,4
Other sectors	-	-	-	-	-	-	3963	5925	5798,1
Other investments	1450	2098	3215	3208	3336	3082	3796	5447	0,0
Total	5307	7452	9586	9872	11002	11049	15421	23570	22675,4

Source: Annual report CNB – different years

On the other hand, there are many countries like Croatia, that record considerable balance of current accounts deficits, among which is the USA that reached a record deficit of US\$ 331,5 billion in 1999, that accounted to only 3,6% of their GDP, which was over \$US 9000 billion for that year. In the same year, Australia

had a deficit of US\$ 22,9 billion, or 5,6% of its GDP; Germany had a deficit of US\$ 19,3 billion, or 0,9% of its GDP; Mexico had US\$ 14,2 billion, or 2,9% of its GDP; Canada had US\$ 2,3 billion, or 0,4% of its GDP; etc. (Jovančević, R., 2003.) and finally Croatia with US\$ 1,39 billion, or 7% of its GDP.

It should also be said that the academic distinctions on the balance of current accounts deficit has been going on for years. Older population liked to think that a big deficit meant prodigality that had to be stopped. It is still common to think that the balance of current accounts deficit causes many economic problems. Depreciation of American dollar on the world capital markets in the first half of 1995 was explained, among many reasons, as a consequence of a big balance of current account deficit. The crisis of Australian dollar and Mexican peso, whose devaluation was a direct consequence of an “unsustainable” balance of current account deficit, is explained in similar ways. Former economists’ negative approach to the balance of current account deficit has been abandoned. Such theory came from the times when the economies stayed within the national frameworks. It was still happening in 1950s and 1960s, when the fixed rate of exchange was established by the Bretton Woods system, enforcing capital flow control, which made global financial market constitution more difficult. The balance of current account meant the decrease of national reserves then, defined as balance of payment crises

However, today when the capital freely flows across the borders, a state can have the balance of current account deficit without having adverse repercussions on its international economic position.

But, how long it can endure depends on how well the foreign capital was used. Permanent and long- term balance of current account deficit can be beneficial for undeveloped countries aiming for a fast economic development, too. If such countries have investment projects that guarantee higher capital gain than in developed countries, the capital will be invested under the condition that the country is politically and economically stable and safe.

When it comes to the idea on when a country is to depend on the import of capital, scientists have recently created a specific theory about phases in the balance of payment development. The theory states that undeveloped countries have balance of payment and trade deficit, and then a considerable capital influx i.e. capital balance surplus in the first phases. After certain time the export grows, induced by the foreign investments which gradually generates trade balance surplus. However, balance of current account is still negative since the rates of interest on taken loans mature. Only after all debts are paid, the country is in the phase of the balance of current account surplus and thus can become a net-creditor to other countries. In the last phase, the country is confronted with the trade balance deficit again, but it is paid with the incomes from the investments of its own capital abroad. The country still remains to be net-creditor to other world businessmen.

As far as Croatia is concerned, foreign capital investments should be primarily stimulated, which involves providing adequate and stimulative legislative regulations. This is in accordance with the trends on the world trade market where the investments through public institutions or state indebtedness are out of sympathy. Therefore, the loans that the World Bank, the International Monetary Fund and other financial institutions provided would tend to gradually decline in Croatia. Large public infrastructure interventions in railroads, roads, electric power industry and water resources will probably be sole areas to direct public loans to. Everything else should be included in the direct foreign investments, only if they ensure high profit rate,<sup>1</sup> and with the profit transferable out of the Republic of Croatia.

### **3. Leasing businesses and Croatian trade deficit**

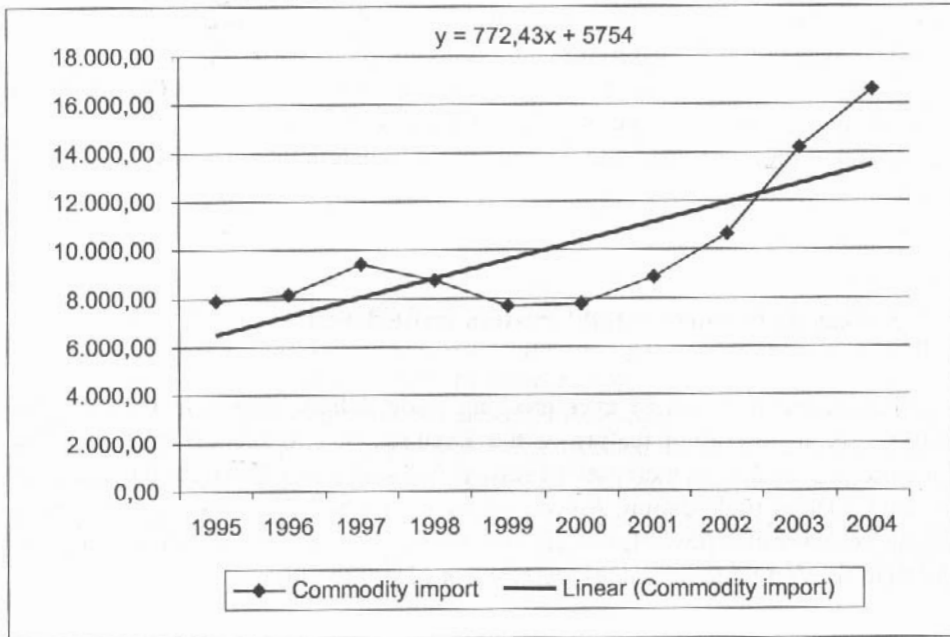
Permanent and almost ever growing trade deficit, shown in the previous analysis, is an important feature of the Republic of Croatia foreign trade. The dynamic and headlong increases of import but stagnant export are basic factors for the Croatian trade deficit. Among above mentioned data, leasing and leasing businesses were also powerful originators for the increase of Croatian imports, i.e. Croatian foreign trade deficit, especially from 1999 to 2005.

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<sup>1</sup> Jovančević, R.: Vanjskotrgovinska razmjena, [H.G.R.](#), E.F., Zagreb, 2003., pp 490.

Figure no. 3.

## DYNAMISM AND TREND OF COMMODITY IMPORTS IN CROATIA



Y = commodity import

X = time

Source: CBS, CNB and personal calculation

In order to verify above-mentioned facts, we shall use structural parallel analysis of the Croatian commodity exchange as well as correlation regression model. In this context, figure no. 3, based on Croatian foreign exchange data in table no. 2, the dynamics and trend of commodity import in Croatia is shown. Analyzing data from figure no. 3 we came to conclusion that the dynamics of commodity import in Croatia in the last ten years has been violent. For the sake of truth, it stagnates for a short period of time in 1999 and 2000. However, it grows fast after that in 2002 and 2003, but in 2004 it grows at top speed.

In 2001, the rate of growth of commodity import was 13% in USD – fixed exchange rate, in 2002 it was 18,4%, in 2003 it accounted to 32,3%, and in 2004 it tends to be about 15%. From the structural – parallel point of view, in sectors and fragments of total commodity import in Croatia in the last four years, the import

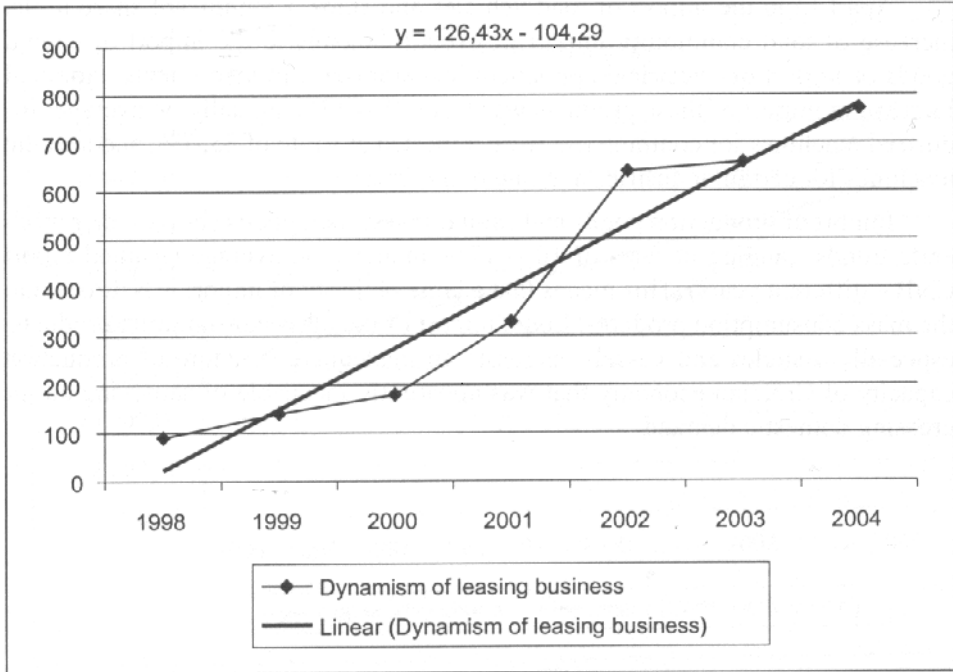
of road vehicles has been leading. It amounted to USD 942 million in 2001, USD 1392 million in 2002 and even USD 1600 million in 2003. Along with the road vehicles import, the import of ships and vessels has been increased, reaching USD 527 million in 2003, or it had an annual growth of over 145%.

Apart from the import of road vehicles and ships, a significant share in the increase of total commodity import in Croatia belongs to the import of capital goods or import of: electrical appliances, apparatuses and instruments. Nominal increase in import of these products was from 25 – 47% annually on average. Industrial machines for common use were imported at a rate of 35, 7%, and specific machines for certain industries at a rate of 39, 7%.

Import of production goods and capital investment goods shows rather moderate trends, ranging at rates of 10 – 17% annually on average (Annual report CNB – different years). This means that a large majority of import was directed to the mass consumption products. Large import of the mass consumption products, especially vehicles and vessels, suggests an inadequate structure of production capacity of Croatian economy that was apparently incapable of satisfying an increasing domestic demand.

Figure no. 4.

## DYNAMISM AND TREND OF LEASING BUSINESSES



Y = dynamism of leasing businesses

X = time

Source: CBS, CNB and personal calculation

Dynamism and leasing and leasing business trends also greatly influenced the increase of Croatian import in the analyzed period, i.e. the dynamics and the Croatian trade deficit indirectly – see figure 4.

The beginnings of leasing and leasing relations in Croatian business practice are of a recent date, or late 1980s. They were primarily import i.e. passive leasing businesses, resulting from foreign business partners' initiative, and had a form of either operating or financial business relation.

Import-passive leasing business is defined as a leasing relation where a Croatian company is a lessee. Basic motives for such a relation are that a lessee, that is an importer, does not have enough liquid assets (operating leasing is recorded as temporary import – only 3% of the determined customs duties are paid

monthly, while financial leasing is recorded as purchase with a grace period). It is evaluated that import leasing business from 1987 to 1997 accounted for 5 – 10% of our export, mostly for the import of equipment, vessels, transport vehicles and computer equipment (Masnjak, B., 2001).

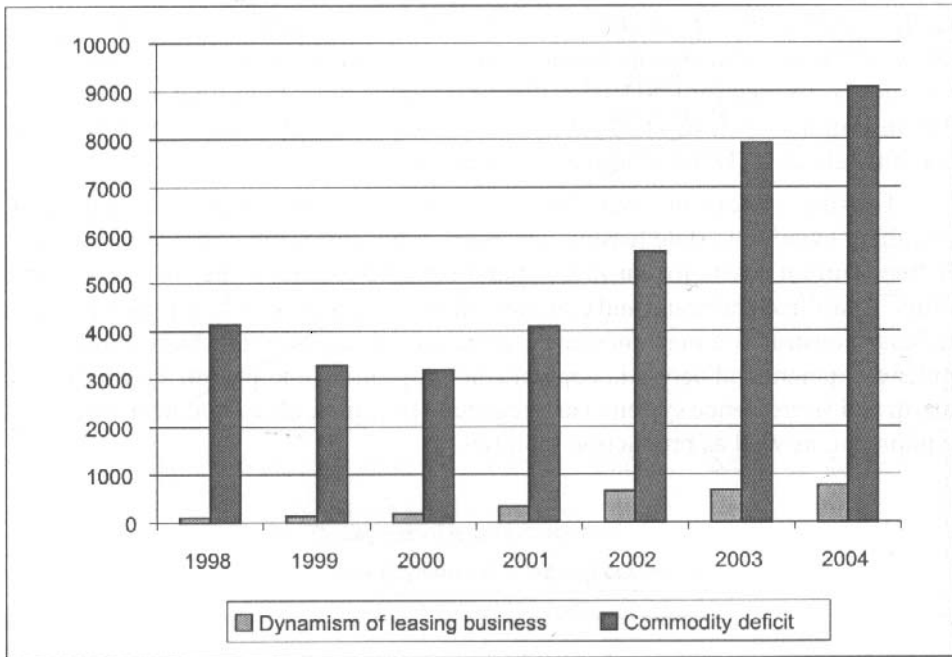
Only after successful global privatization of the Croatian banking will the import-passive leasing businesses in Croatia be in full swing. The situation especially started to change in 2000 since leasing of motor vehicles gained in importance. Thus the value of concluded leasing contracts on personal and commercial vehicles accounted for USD105 million in 2000, USD 225 million in 2001, USD 360 million in 2002, USD 430 million in 2003, USD 510 million in 2004, while for 2005 about USD 600 million is anticipated.

Leasing of not only vehicles but also other capital assets and equipment, including even real estate leasing has recently become a top solution for Croatia. It frees current assets for business operations and enables effective usage of tax relief. Apart from personal and commercial vehicles and vessels, it is also possible to lease construction machines and equipment, agricultural mechanization, computer equipment and network, copy machines, printing equipment, air-conditions, alarm and surveillance system, cash registers, furniture, office, medical and dental equipment, as well as production facilities.



*Figure no. 5.*

### DYNAMISM OF LEASING BUSINESSES AND CROATIAN TRADE DEFICIT



Source: Annual report CNB and personal calculation

Leasing has become the fastest growing institution of the Croatian foreign trade financial market in less than six years – see figure no. 4 and 5. Therefore, many leasing companies are being established. Today, there are more than fifteen leasing companies in Croatia, and the most important ones are worth mentioning: Hypo-Leasing Kroatien (founded by Hypo Alpe – Adria Bank AG with a 90% share and Hypo Leasing Kärnten from Austria with a 10% share); Raiffeisen Leasing Kroatien PBZ leasing – Zagreb; Euroleasing d.o.o., Zagreb; Kaptol Petrač Leasing; and many others.

Almost all of the Croatian leasing companies perform only import – passive leasing businesses in the form of operating and financial leasing. Most often it is the case of the road vehicles leasing (conducted survey data) and it accounts for more than 50%.

Financial leasing is very similar to standard credit financing, as its basic purpose is becoming the owner of the car after the lease is paid in full. Term of payment ranges from one to seven years with a mandatory deposit of at least 15 to 20 % if VAT is comprised on the delivery, or 25 % if VAT is financed and paid on the rate of interest in installments. It is intended for physical and legal persons, especially those in VAT system that has a claim upon pre-tax refund. VAT is settled up on the delivery of an asset in its total amount, i.e. its net value plus the rate of interest. In this case it is considered as a pre – tax. Another option is that VAT is settled up on the net value of a leased asset, and the remaining VAT on the interest in monthly installments, where the rate of interest is a cost and VAT is a rate of interest and a pre-tax. Leasing asset is than written off in the lessee's book.

The basic point of operating leasing is in using vehicles without obtaining the ownership, and its returning and retaking after the expiry date of a contract, which is three to five years. However, although the contract did not include the buying off, considerably low nominal value of the vehicle after the expiration of lease, i. e. much lower value than its market value in the amount of minimal deposit of 20 to 30%, depending on the lease duration, induces many lessees to buy off and resale vehicles themselves. Operating leasing is designed for physical and legal persons, especially those in VAT system. Monthly rent is recorded as a cost, and VAT is recorded as a pre tax. It is balanced monthly at a rent service R – 1 account, while the asset of a leasing is written off in the lessor' book.

Above mentioned facts state that the leasing businesses have been a significant factor in the increase of Croatian import in the analyzed period. In other words, they had an important role as mediating factor of the foreign trade deficit in Croatia. Apart from the leasing businesses, foreign trade deficit also influenced real appreciation of Croatian kuna and stagnant – depressive trends in the Croatian economy. This means that the rate of trade deficit alterations was the function of the three following originators: powerful increase in import – passive leasing businesses, overvalued kuna in the foreign rate of exchange, and stagnation in the Croatian economy. Mathematically and statistically it is expressed as:

$$SRd = f(SRULP, STHKD, S.P.BDP)$$

SRd = trade deficit change

SRULP = import leasing businesses trends

STHKD = Croatian kuna to USD trends

SPBDP = GDP trends

Table no. 4

TRADE DEFICIT RATES OF GROWTH, LEASING  
BUSINESSES AND GDP

Year	Trade deficit rate of growth		Leasing businesses		HRK to USD		GDP % growth
	In mil. USD	% change	in mil. USD	% change	Rate of exchange	% change	
1994	1322		30		5,25		
1995	3259	147	60	100,00	5,32	1,33	1,69
1996	3624	11	70	16,67	5,54	4,14	4,21
1997	5196	43	100	42,86	6,30	13,72	6,80
1998	4147	-20	90	-10,00	6,25	-0,79	2,50
1999	3299	-20	140	55,56	7,65	22,40	-0,9
2000	3204	-3	180	28,57	8,16	6,67	2,90
2001	4101	28	330	83,33	8,36	2,45	3,8
2002	5649	38	640	93,94	7,15	-14,47	5,20
2003	7921	40	660	3,13	6,12	-14,41	4,30
2004	9079	15	770	16,67	6,00	-1,96	4,00

Source: CBS CNB – reports, and personal calculation and evaluation

Regression analysis relation of the trade deficit volume and leasing business volume is shown in table 5 and 6.

Table no. 5

REGRESSION SUMMARY FOR DEPENDENT VARIABLE “TRADE DEFICIT CHANGE” COMPARED TO INDEPENDENT VARIABLE CHANGE “IMPORT LEASING BUSINESS RATE OF CHANGE”

Regression Summary for Dependent Variable: ROB__DEF (new.sta)						
R= ,87405841 R <sub>c</sub> = ,76397811 Adjusted R <sub>c</sub> = ,73775345						
F(1,9)=29,132 p<,00043 Std.Error of estimate: 1146,6						
		St. Err.		St. Err.		
	BETA	of BETA	B	of B	t(9)	p-level
Intercpt			2649,503	502,5675	5,271934	0,000513
LEASING	0,874058	0,16194	7,054225	1,306964	5,397412	0,000434

Source: Personal calculation

Table no. 6.

ANALYSIS OF VARIANCE FOR DEPENDENT VARIABLE OF THE “TRADE DEFICIT CHANGE”

Analysis of Variance; DV: ROB__DEF (new.sta)					
	Sums of		Mean		
	Squares	df	Squares	F	p-level
Regress.	38301428	1	38301428	29,13206	0,000434
Residual	11832767	9	1314752		
Total	50134196				

Source: Personal calculation

Multiple regression of the trade deficit rate and independent variance set can also be made. Consequently, it is concluded that  $SRd = f(SRULP, STHKD, S.P.BDP)$ , and in what way and to what extent the change of trade deficit depended on each stated variance is shown in tables 7 to 10.

Table no. 7

REGRESSION SUMMARY FOR DEPENDENT VARIABLE "CHANGE OF TRADE DEFICIT" CONSIDERING INDEPENDENT: "IMPORT LEASING BUSINESS RATE OF CHANGE", "RATE OF EXCHANGE TRENDS HRK - US\$" AND "GDP RATE OF CHANGE"

Regression Summary for Dependent Variable: ROB_DEF						
R= ,63639711 R <sub>c</sub> = ,40500128 Adjusted R <sub>c</sub> = ,10750192						
F(3,6)=1,3614 p<,34114 Std.Error of estimate: 1945,9						
		St. Err.		St. Err.		
	BETA	of BETA	B	of B	T(6)	p-level
Intercept			-0,0917297	0,3626732	-0,25293	0,808767
LEASING	0,611978281	0,3071922	0,7527809	0,3778702	1,992168	0,093435
TECAJ	-0,247313996	0,3392543	-1,0495856	1,4397749	-0,72899	0,493467
BDP	0,083054227	0,340143	0,0190363	0,0779617	0,244174	0,815231

Source: Personal calculation

The table shows following relations:

$$y_i = -0,0917297 + 0,77527809x_{1i} - 1,0495756x_{2i} + 0,0190363x_{3i}$$

Where:

Y – import deficit rate of change

X1 – import leasing business rate of change

X2 – rate of exchange trends

X3 – GDP trends

B1 = 0,7527809 means that the leasing business rate of change positively influences trade deficit rate of change. GDP trends in this model are insignificant in this model.

Table no. 8.

ANALYSIS OF VARIANCE

<b>Analysis of Variance; DV: ROB_DEF (visestr.sta)</b>					
	Sums of		Mean		
	Squares	df	Squares	F	p-level
Regress.	0,902701795	3	0,3009006	1,5584292	0,294156
Residual	1,158476472	6	0,1930794		
Total	2,061178207				

Source: Personal calculation

Table no. 9.

CORRELATION OF REGRESSION WEIGHTS

<b>Correlation of Regression Weights B; DV: ROB_DEF</b>			
	LEASING	RATE OF EXCHANGE	GDP
LEASING	1	-0,0094394	0,0728506
RATE OF EXCHANGE	-0,009439372	1	0,4294593
GDP	0,072850578	0,4294593	1

Source: Personal calculation

Small auto-correlation between independent variances shows that the model does not have a problem of auto-correlation of dependant variances (or interdependence of dependant variances).

Table no. 10.

**CO-VARIANCES OF REGRESSION WEIGHTS  
AND THEIR IMPORTANCE IN THE MODEL**

<b>Co-variances of Regression Weights B; DV: ROB_DEF</b>			
	LEASING	RATE OF EXCHANGE	GDP
LEASING	0,142785922	-0,0051355	0,0021461
RATE OF EXCHANGE	-0,005135472	2,0729518	0,0482057
GDP	0,002146135	0,0482057	0,006078

Source: Personal calculation

Co-variances of regression weights are also satisfactory.

Rather high coefficient of the single correlation of 0,87405841 clearly states our hypothesis and by quality analysis it proves the statement that the Croatian trade deficit was strongly influenced by import – passive leasing businesses in the analyzed nine – year period. They even increased so strongly that they caused the increase of Croatian foreign debt, the part of the debt that refers to the bank and leasing companies. For the sake of illustration, the debt of commercial banks increased for 700% in the analyzed period, and the debt of leasing companies for more than 1900%. CNB Annual report states that the “data on leasing companies foreign debt also show the prolongation of negative trends. Total debt of the leasing companies accounted for more than USD 2000 million in the end of 2004, which is almost USD 500 million or 125% more than in the end of 2003, and USD 894 million or 145,8% in 2003 more than compared to 2002 ” (Annual report CNB and CNB Banks Bulletin – different years).

Formerly stated hypothesis confirm quantitative multiple regression analysis too, with a partial coefficient of correlation of rate of change influence on leasing businesses to commodity exchange deficit rate of change of 0,6309659, and thus proves our assumption that the deficit of Croatian commodity exchange was substantially caused by import –passive leasing businesses as well.

#### **4. Final notes**

While analyzing the leasing influence on the foreign commodity exchange deficit the following can be concluded:

First, economic relations are being more and more internationalized – acquiring common world traits from both economic and legislative and political point of view. The Republic of Croatia, with its 56 583 km<sup>2</sup>, with a population of about 4,280.000, and with a rather humble social and natural resources, chose open economy and **global liberal** foreign trade policy of an export propulsive strategy after gaining independence.

Second, the beginnings of leasing and leasing relations in Croatian economic practice are recent. They began in the late 1980s primarily as **import-passive leasing businesses** based on the initiatives of foreign business partners in the form of both operating and financial intermediary leasing relation. Leasing and leasing businesses in the Croatian economy are the institutions of the autonomous trade law. They are not a piece of binding legislation regulated **ex lege**, which would by all means be **necessary and wished for**. They are partly based on individual volition when contracting mandatory relations and partly on Croatian Trade and Bank Act, but mostly on Croatian contract form of the foreign trade law.

Third, only with a successful global privatization of the Croatian banks will the import-passive leasing businesses gain its importance. It was rapidly growing after 1998 and the consequences regarding Croatian trade deficit are disturbing.

Fourth, the Republic of Croatia has had a constant trade deficit with an almost ever-growing trend in the ten-year structural qualitative analysis, which is greatly disturbing for the Government and population.

Fifth, rather high coefficient of the single correlation of 0,87405841 clearly states our hypothesis and quality structural analysis proves the statement on import-passive leasing businesses as an important intermediary in the Croatian foreign trade exchange deficit.

Sixth, this hypothesis was confirmed by quantitative regression analysis with a partial coefficient of 0,3671, which means that more than 36% of the Croatian trade exchange deficit can be explained by import-passive leasing businesses.

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## UTJECAJ LEASINGA NA DEFICIT HRVATSKE ROBNE RAZMJENE

### Sažetak

Osnovni je cilj ovoga rada istražiti utjecaj leasinga na vanjskotrgovinsku razmjenu Republike Hrvatske. Općepoznata je činjenica da je leasing veoma važan strateški oblik financiranja i osvajanja svjetskih tržišta. Hrvatska je u posljednjim godinama postala veoma zanimljiva stranim ulagačima, a osobito ako imamo na umu da je hrvatska Vlada, nakon vlasničke transformacije i promjene ekonomskoga sustava napustila strategiju protekcionizma i supstitucije uvoza bivše države da bi što brže pristupila Euroatlantskim asocijacijama. Takva se politika zajedno s nepovoljnom ekonomskom i političkom situacijom u posljednjem desetljeću prošloga stoljeća negativno odrazila na vanjsku trgovinu Republike Hrvatske, uzrokujući konstantne i stalno rastuće trgovinske deficite. Polazište je ovoga rada tvrdnja da su takvoj situaciji uvelike doprinijeli leasing odnosi.

Ključne riječi: leasing, deficit, liberalizam, strategija