

CROATIA ECONOMY REPORT

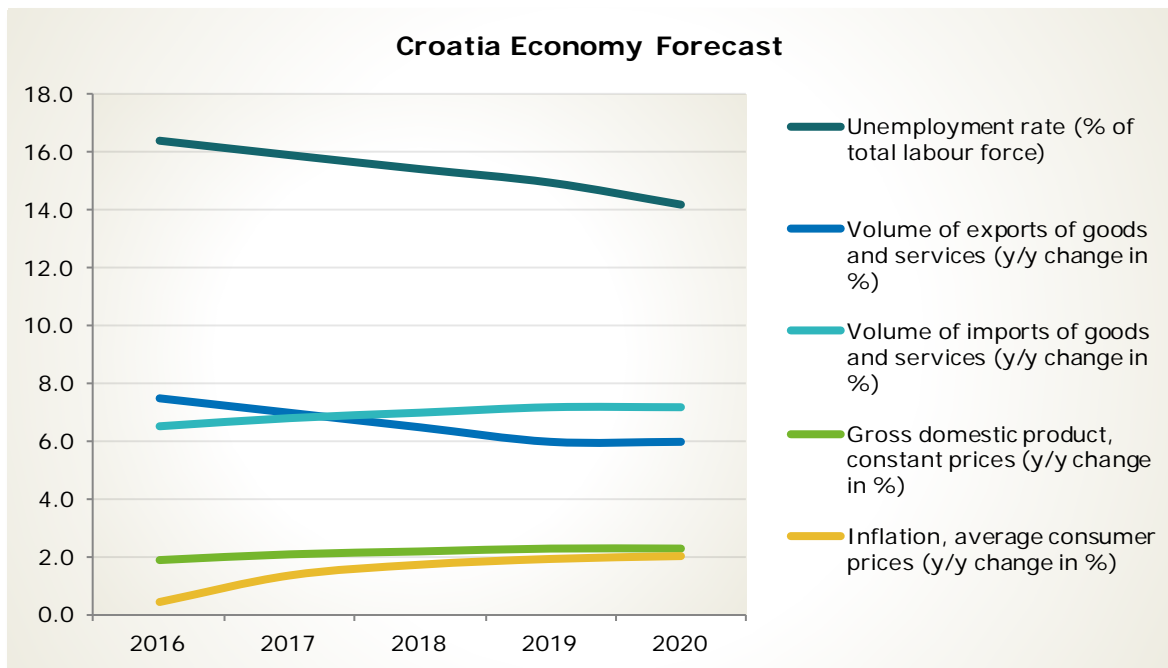
Q1 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q1 2016	
GDP Growth	2.7% y/y
Industrial output	6.8% y/y
Industrial sales	-6.5% y/y
Wholesales	4.6% y/y
Retail sales	0.0% y/y
Average annual deflation	0.7%
Unemployment rate	15.4%
Number of building permits	5.3% y/y
Money supply growth	3.4% y/y
Household loans	-8.0% y/y
CROBEX blue-chip index	-7.9% y/y
Gross external debt	EUR 44.340 bln
Current account deficit	EUR 1.588 bln
Net FDI inflow	EUR 503.2 mln
Foreign trade deficit	EUR 1.771 bln
Number of foreign tourist overnights	27.5% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database - April 2016

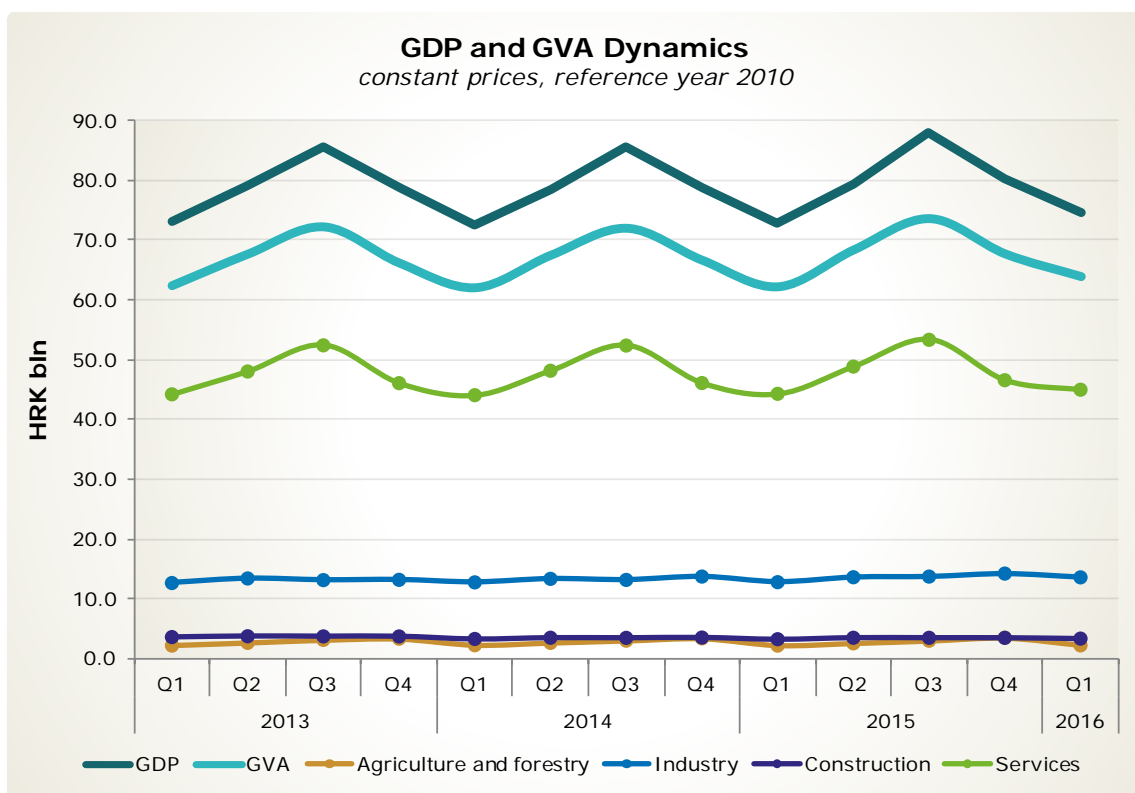
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.7% y/y in Q1 2016, compared to a 0.5% y/y increase a year ago

The country's GDP grew by a real 2.7% y/y and totalled HRK 74.739 bln in Q1 2016, according to preliminary data of the Croatian Bureau of Statistics (DZS).

Final consumption, which contributed 81.9% to the GDP, expanded by 2.5%. Gross capital formation went up by 2.9%, contributing 27.8% to the GDP. Both exports and imports grew - by 7.1% and 6.1%, respectively.



Source: DZS

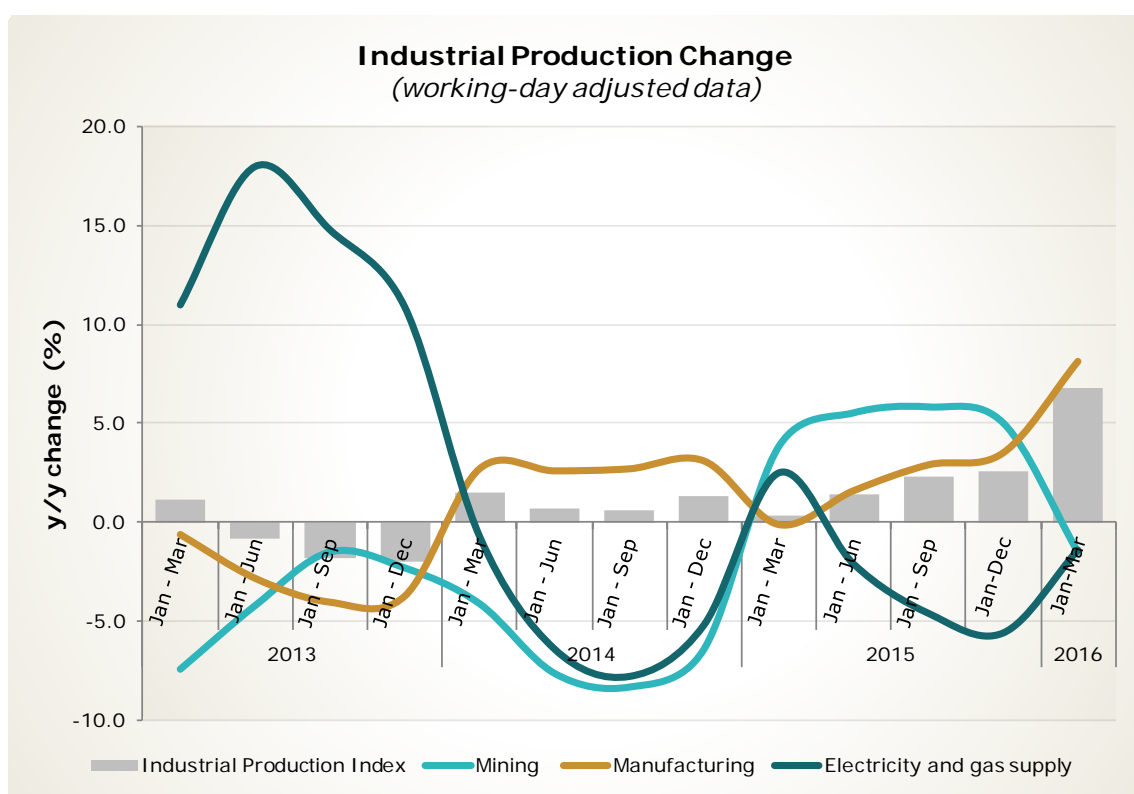
The gross value added (GVA) generated by the national economy grew in value by 2.7% y/y in Q1 2016 and totalled HRK 63.918 bln. The industrial sector increased by 6.3% and its share in the GVA structure widened to 21.2% from 20.5%. The construction sector went up by 3.1% but its share in the GVA remained unchanged at 5.2%. The services sector recorded a 1.5% annual increase, slicing a 70.3% share in the GVA, down from 71.2%. The agricultural sector rose by 1.7%, while its share in the GVA remained at 3.4%.

2.2. INDUSTRIAL OUTPUT

Industrial output rose by 6.8% y/y in January - March 2016

Industrial output went up by 6.8% on the year in January to March 2016, according to DZS data. The growth was backed by the 8.1% annual increase of the output of the manufacturing sector, while the production of the mining, and electricity and gas supply sectors fell by 1.5% and 1.4%, respectively.

Manufacture of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 47.4%, while manufacture of coke and refined petroleum products output dropped the most, by 31.3% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales went down by 6.5% y/y in January - March 2016

Industrial sales decreased by 6.5% y/y in the first three months of 2016, compared to a 5.50% annual rise in the corresponding period of the previous year, according to DZS. Industrial turnover on the domestic fell by 9.8%, while the non-domestic turnover narrowed by 2.0%.

The industrial sales were pushed down by the 55.4% annual drop of sales in the energy sector, the 4.9% decrease in sales of consumer non-durables and intermediate goods sales inched down by 0.8%. On the other hand, sales of consumer durables jumped by 19.5%, followed by the 8.8% annual rise in the sales of capital goods.

2.4. WHOLESALE/RETAIL

Retail sales unchanged, wholesales increased y/y in Q1 2016

Retail sales registered no annual change in the first quarter of 2016 after a 4.3% annual increase in the previous quarter, Q4 2015, according to DZS data. For comparison, a year earlier the retail sales inched up annually by 0.5%.

The wholesale sector went up by 4.6% y/y, following a 5.9% rise in Q4 2015 and a 3.7% increase in Q1 2015.



Source: DZS

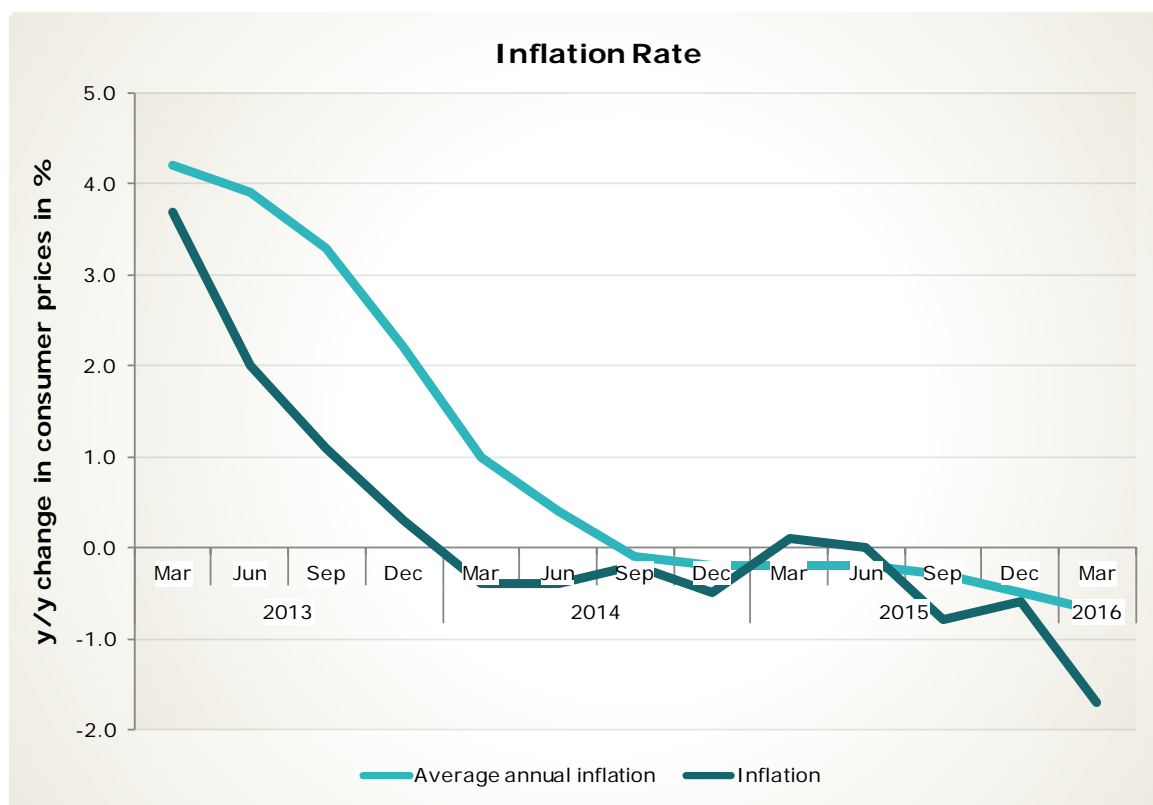
2.5. INFLATION

Average annual deflation of 0.7% as of March 2016

Consumer prices in Croatia went down by 0.7% in the period April 2015 – March 2016, compared to April 2014 – March 2015, according to DZS.

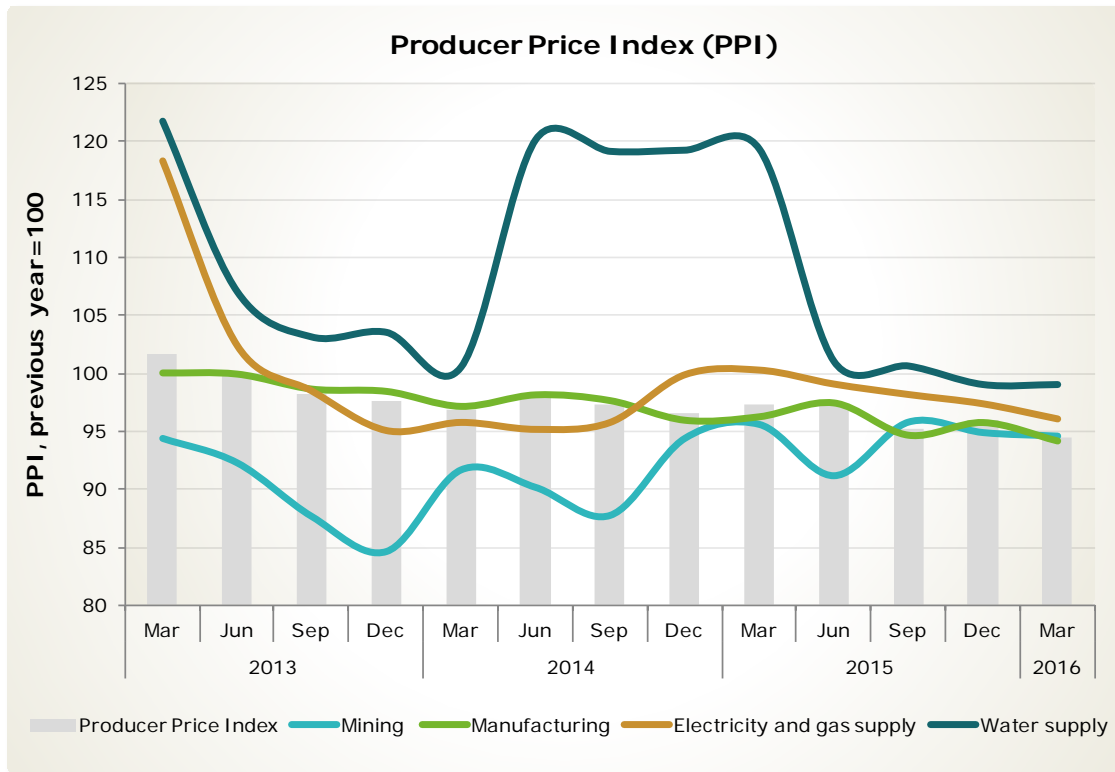
The highest average annual deflation in consumer prices was registered in liquid fuels, passenger transport by railway, and fuels and lubricants for personal transport equipment, of 25.4%, 16.6% and 9.7%, respectively.

The consumer groups to report the sharpest inflation were hospital services – 19.0%, passenger transport by air, and recreational and sporting services – both posting an inflation of 11.6%.



Source: DZS

Producer prices went down annually, by 5.5% in March 2016. Producer prices in the manufacture of coke and refined petroleum products deflated the sharpest, by 30.9%. Inflation, of between 0.5% and 0.9%, was registered in five sectors only. Producer prices remained unchanged in annual terms for mining support service activities, and manufacture of tobacco products.



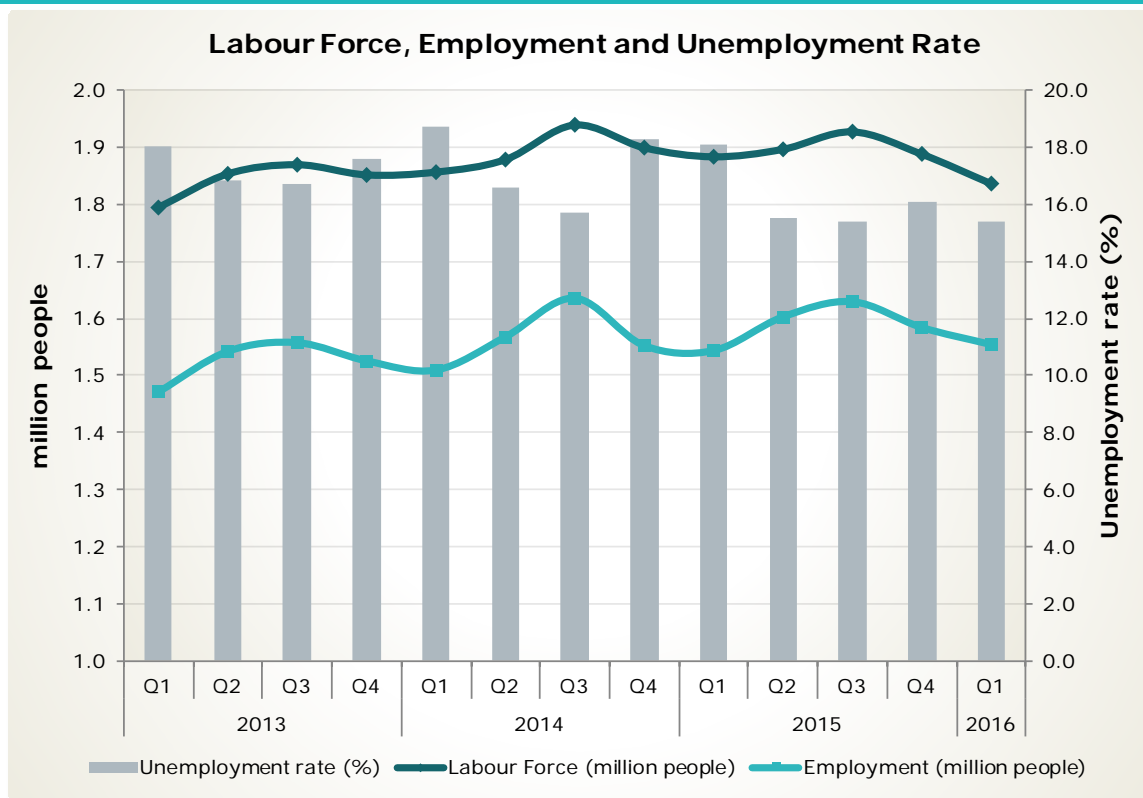
Source: DZS

3. LABOUR MARKET

Unemployment rate went down y/y to 15.4%, wages grow 0.4% y/y as of March 2016

Unemployment in Croatia narrowed to 15.4% of the total labour force in Q1 2016 from 18.1% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.554 million in January to March 2016, up from 1.543 million in the corresponding period of the previous year.



Source: DZS

The average monthly net salary in January – March 2016 inched up by 0.4% y/y to HRK 5,673, according to data of DZS. In the period under review, employees in the electricity, gas, steam and air conditioning supply, information and communication, and financial and insurance activities sectors earned the highest salaries of HRK 7,804, HRK 7,765 and HRK 7,700, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits rose by 5.3% y/y in Q1 2016

The number of permits for new buildings, excluding civil engineering, issued in Croatia in the first quarter of 2016 went up by 5.3% y/y and totalled 873, according to DZS data.

Permits for non-residential¹ buildings dropped by 9.3% to 235, while permits for residential buildings registered an 11.9% increase to 638.

¹ Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

The total built-up area of the non-residential units, covered by the permits, dropped by 54.0% y/y to 223,219 sq m. The total built-up area of the housing units went up by 10.7% to 208,081 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average quarterly exchange rate of the HRK against the EUR fell to HRK 7.6186 in Q1 2016 from HRK 7.6792 in Q1 2015, according to the Croatian National Bank (HNB).

Average Quarterly HRK Exchange Rate			
Foreign Currency	Q1 2016	Q4 2015	Q1 2015
EUR	7.6186	7.6186	7.6792
USD	6.9171	6.9596	6.8097
GBP	9.9032	10.5661	10.3249
CHF	6.9533	7.0244	7.1747

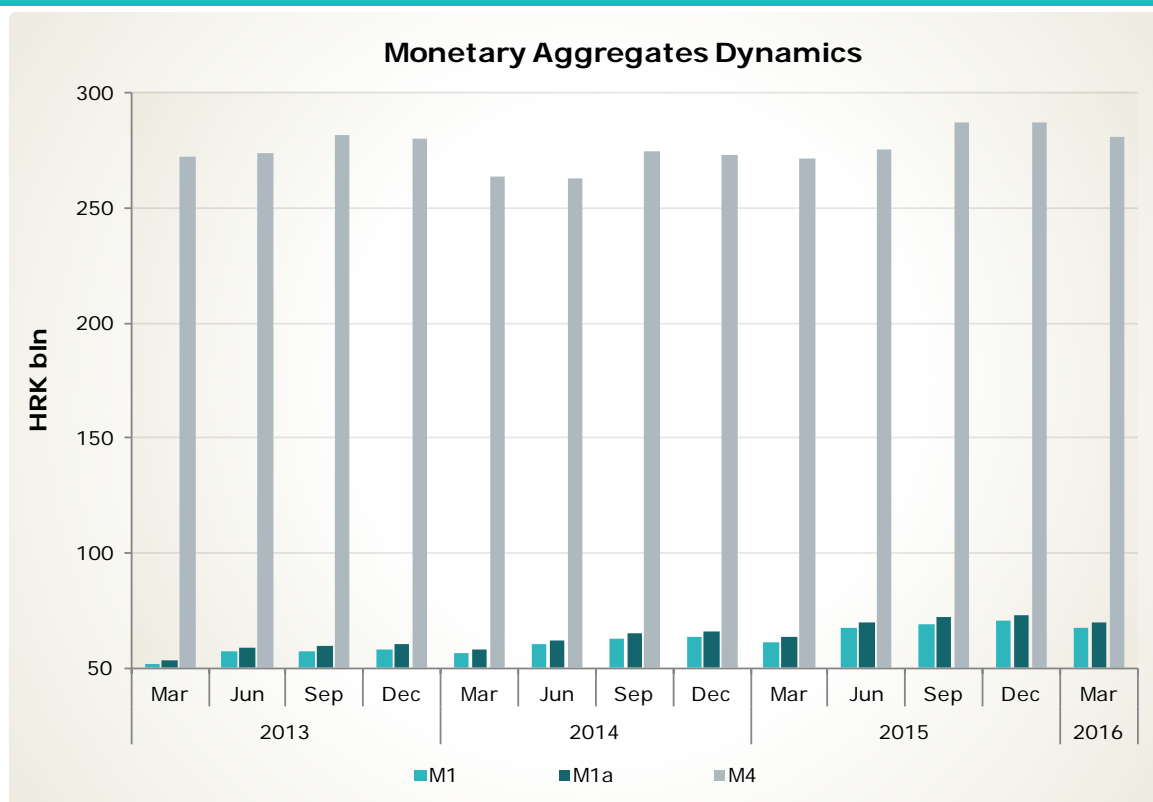
5.2. MONETARY AGGREGATES

Money supply growth was 3.4% y/y as of March 2016

Broad money (money aggregate M4) increased by 3.4% y/y and reached HRK 280.4 bln in March 2016, according to data provided by HNB.

The M1a² money aggregate rose by 10.0% to HRK 69.871 bln and money aggregate M1, or narrow money, also went up, by 11.0%, to HRK 67.605 bln.

² Money M1a comprises currency outside credit institutions and demand deposits with credit institutions, increased by the demand deposits of the central government with credit institutions.



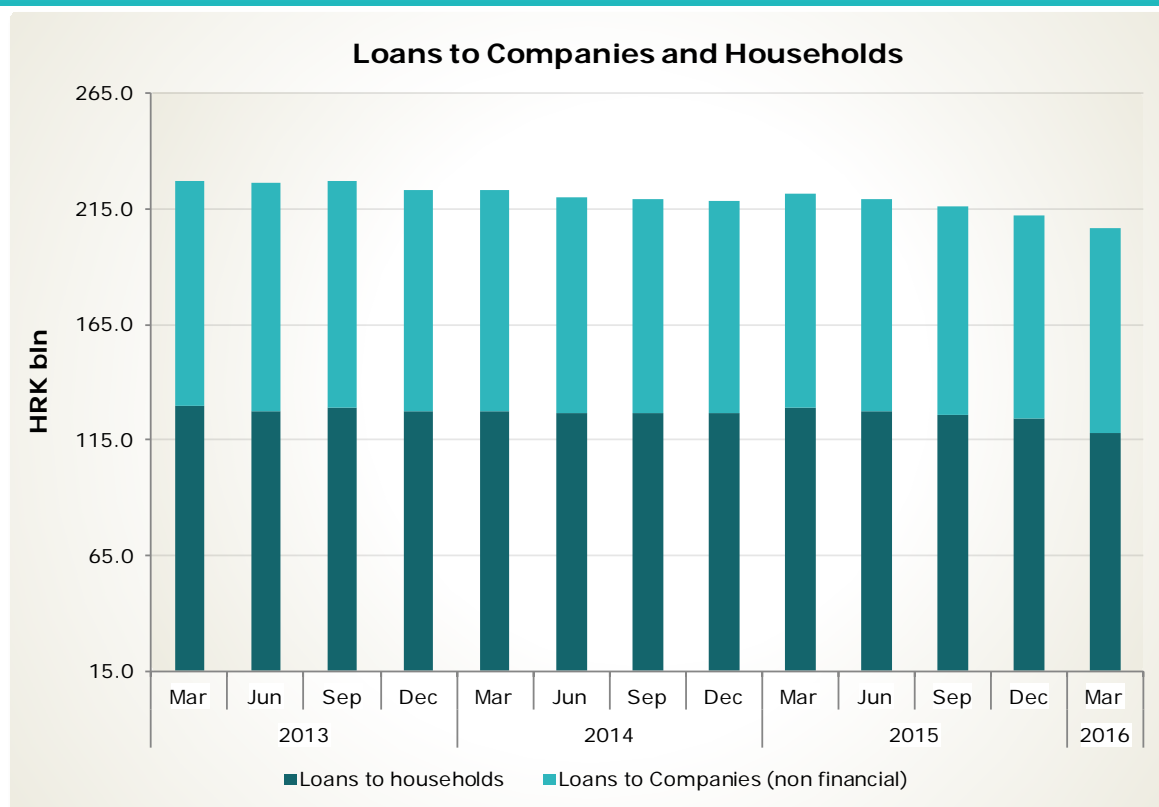
Source: HNB

5.3. BANKING AND INSURANCE

Household loans decreased, by 8.0% y/y in March 2016

Household loans went down by 8.0% to HRK 118.3 bln, according to HNB data. House purchasing loans narrowed by 14.8% to HRK 53.156 bln, accounting for 44.9% of the total loans. The second largest loan type, slicing a 33.6% share, was the any-purpose cash loan with its value rising to HRK 39.778 bln from HRK 39.162 bln.

Loans to non-financial corporations went down by 5.5% y/y to HRK 87.968 bln. Loans with a maturity of more than five years accounted for the bulk, or 52.5%, of the total corporate loans.



Source: HNB

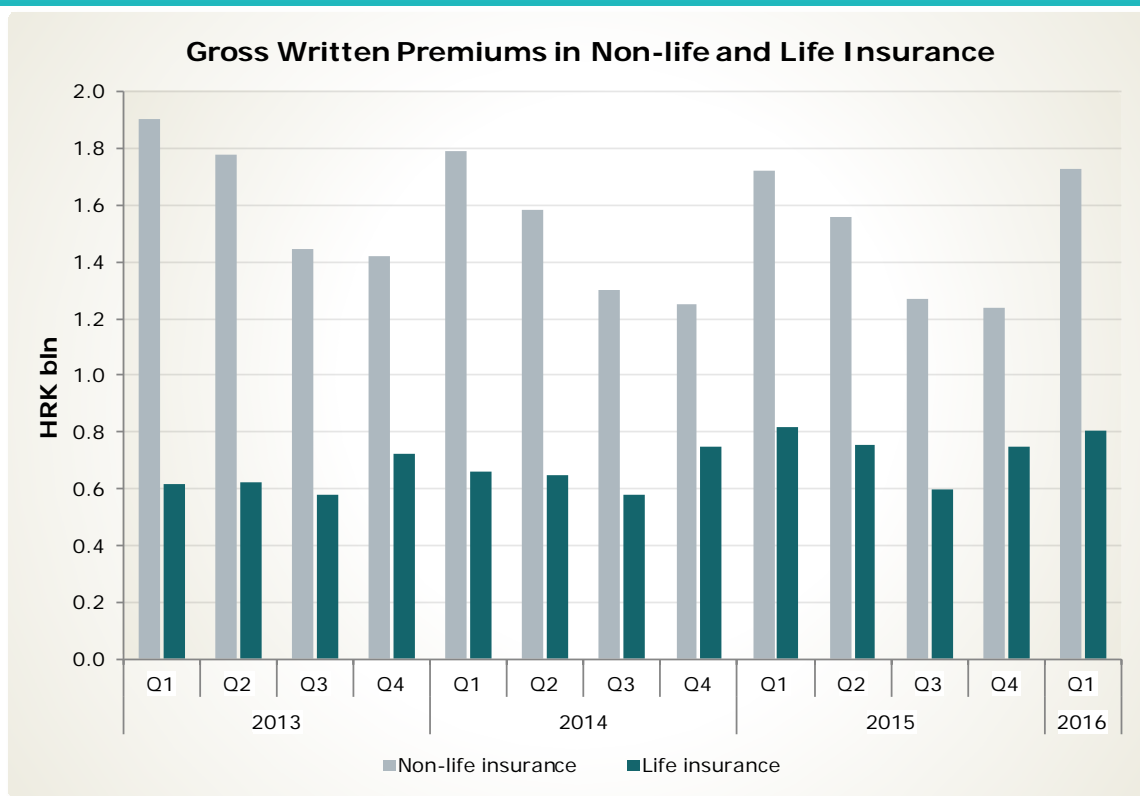
As of March 2016, the total assets of the banking system totalled HRK 402.2 bln, down from HRK 419.3 bln in March 2015. The record-high total assets value in the past ten years, of HRK 428.5 bln, was registered in September 2015.

Insurance premium income down 0.5% y/y in Q1 2016

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.529 bln, down by 0.5% y/y in Q1 2016, according to the Croatian Financial Services Supervisory Agency (HANFA).

The downtrend was due to the 1.9% annual decrease of the life insurance sector, which posted GWP of HRK 804.7 mln. The non-life insurance sector inched up by 0.2% y/y to HRK 1.724 bln.

The predominant non-life insurance type in Q1 2016 was motor vehicle liability insurance, which accounted for 19.1% of the total GWP, or HRK 483.8 mln, going down in annual terms by 6.0%.



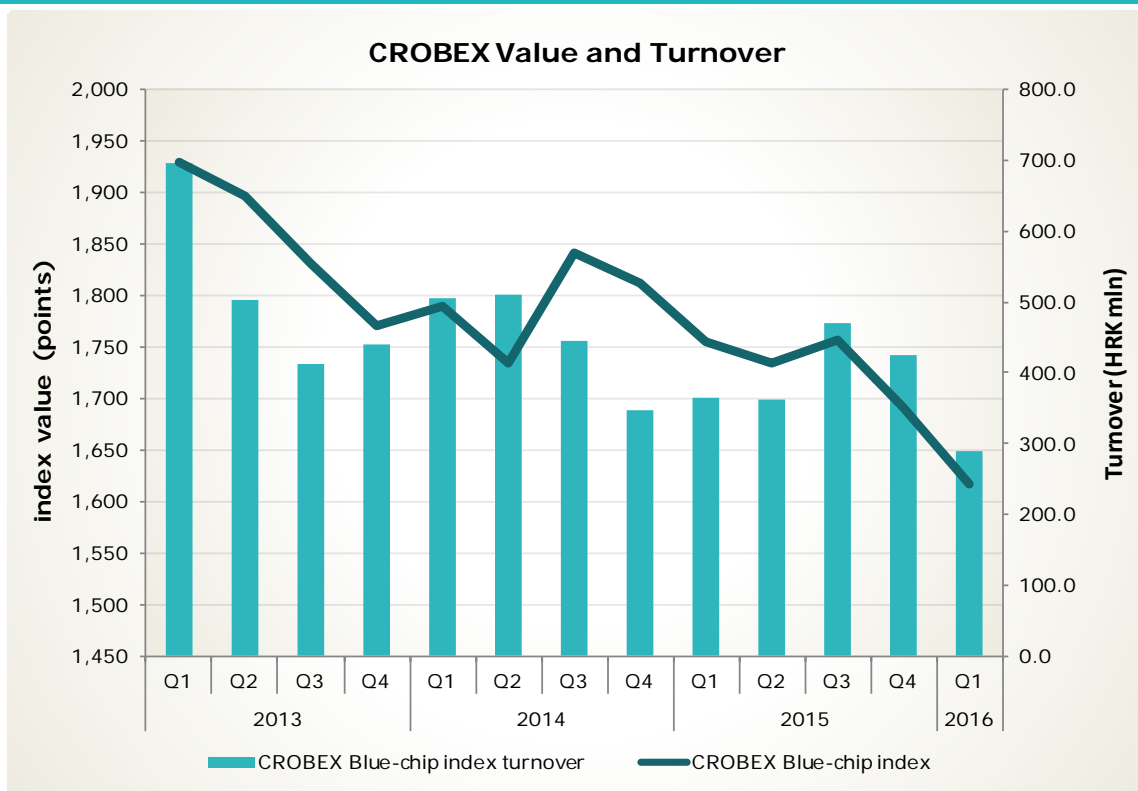
Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX down by 7.9% y/y in Q1 2016

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), fell by 7.9% y/y to 1,616 points in Q1 2016. During the quarter, CROBEX's value fluctuated between 1,576 points and 1,670 points.

The CROBEX turnover totalled HRK 289.5 mln in Q1 2016, compared to HRK 364.5 mln a year earlier. The average daily turnover in the first quarter of 2016 stood at HRK 4.746 mln in comparison to HRK 5.879 mln in the corresponding quarter of the previous year.



Source: ZSE

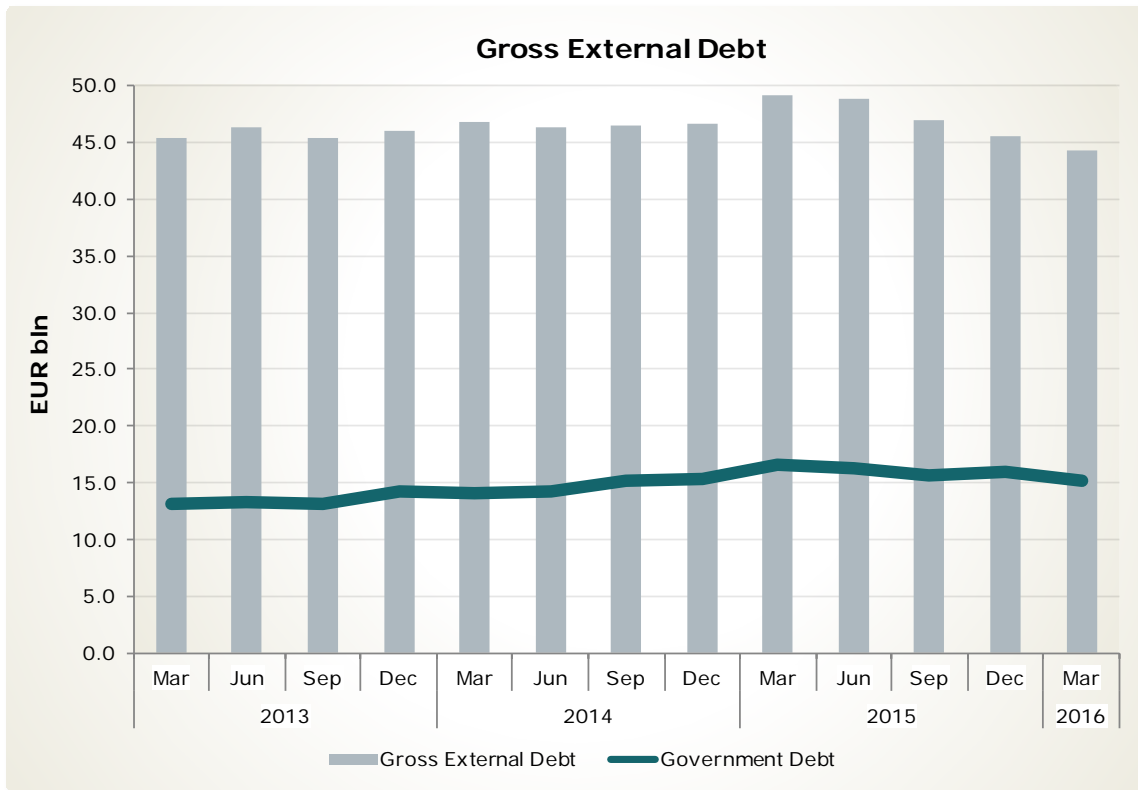
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 44.340 bln in March 2016

The gross external debt totalled EUR 44.340 bln as of March 2016, according to HNB. It went down by 9.7%, or EUR 4.780 bln, compared to March 2015.

As of March 2016 long-term liabilities amounted to EUR 35.132 bln, or 79.2% of the total debt, decreasing by 9.7% on the year. Short-term liabilities totalled EUR 3.372 bln, equal to 7.6% of the total debt and down by 5.9% compared to a year ago.



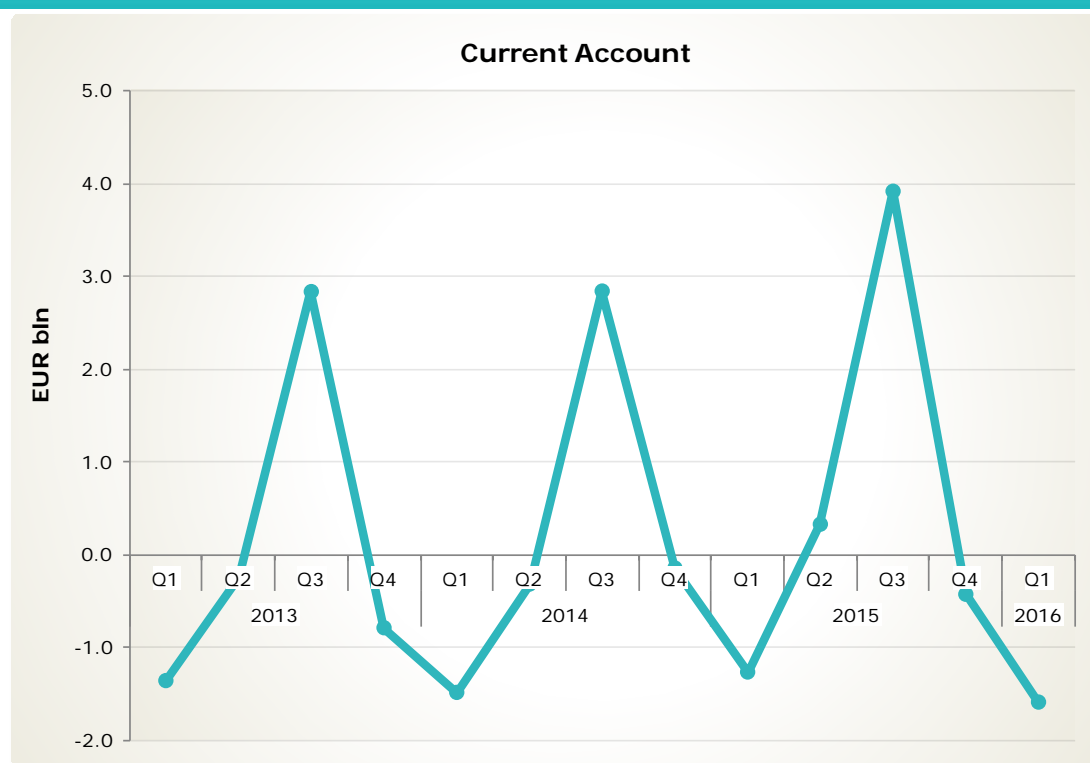
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 1.588 bln in Q1 2016

The current account deficit jumped to EUR 1.588 bln in Q1 2016 from EUR 1.264 bln a year earlier, according to central bank statistics data. In comparison to the previous quarter, Q4 2015, the deficit widened by EUR 1.162 bln.

Secondary income came in at EUR 160.2 bln, down 45.1% y/y. The downfall was caused by the 23.9% annual decrease of the secondary income credit account.



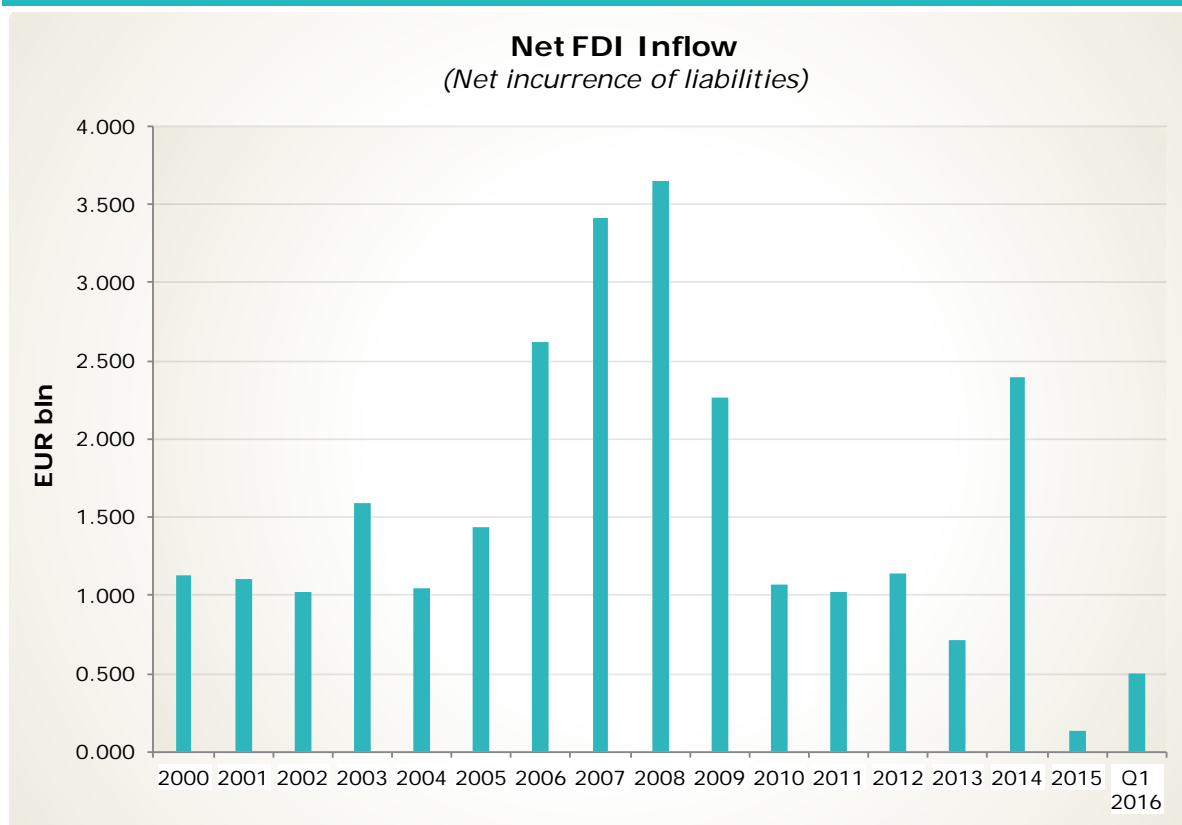
Source: HNB

7.3. FDI

Net FDI inflow at EUR 503.2 mln in Q1 2016

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 503.2 mln in Q1 2016, according to preliminary data of HNB.

Net reinvested earnings inflow had the largest share in the total net FDI, of 47.0%, amounting to EUR 236.5 mln. Equity investments came in at EUR 87.612 mln and debt instruments investments amounted to EUR 179.1 mln.



Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit widens by 5.5% y/y in Q1 2016

The trade deficit stood at EUR 1.771 bln in Q1 2016, compared to EUR 1.679 bln in the corresponding quarter of the previous year, according to DZS.

Exports grew to EUR 2.690 bln from EUR 2.571 bln, while imports increased by 5.0% on the year to EUR 4.461 bln.

Croatia's most exported goods in the first quarter of 2016 were machinery and transport equipment, which accounted for 23.3% of the total exports, followed by miscellaneous manufactured articles with a 18.0% share, and manufactured goods classified chiefly by material with a 16.1% share.

In terms of imports, the main goods were again machinery and transport equipment, which made up 25.2% of the total, followed by manufactured goods classified chiefly by material, slicing a 19.0% share, and miscellaneous manufactured articles, which had a 16.0% share.



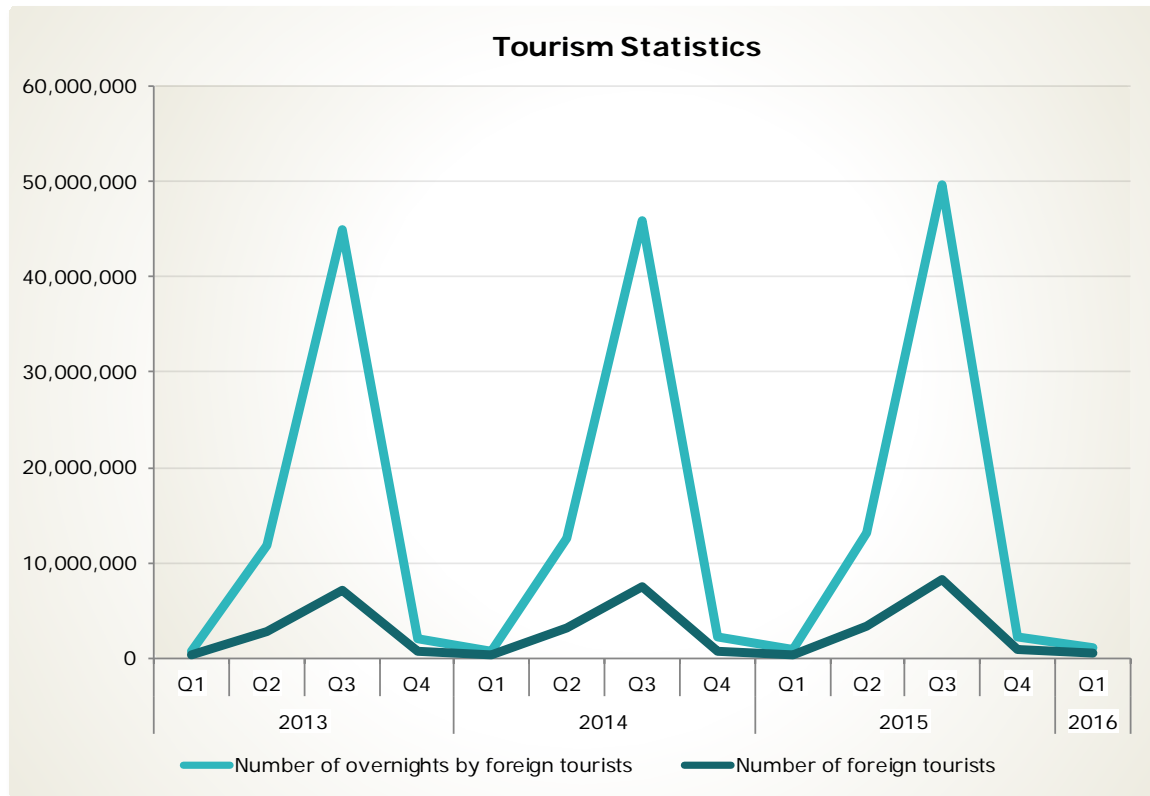
Source: HNB

7.5. TOURSIM

Number of foreign tourist overnights rose by 27.5% y/y in Q1 2016

Tourist overnights of foreigners jumped by an annual 27.5% to 1.088 million in Q1 2016, according to DZS. The total number of overnights, both of foreign and local tourists, reached 1.676 million, jumping by 18.9% in comparison a year earlier,

The number of foreign tourists also went up - by 22.8% y/y to 448,194. In March 2016 alone, the number of foreign tourists amounted to 247,959 versus 193,770 a year ago. Most foreign tourists visiting the country in March 2016 arrived from Germany - 12.6% of the total with their number increasing annually by 43.6%.



Source: DZS

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