

CROATIA ECONOMY REPORT

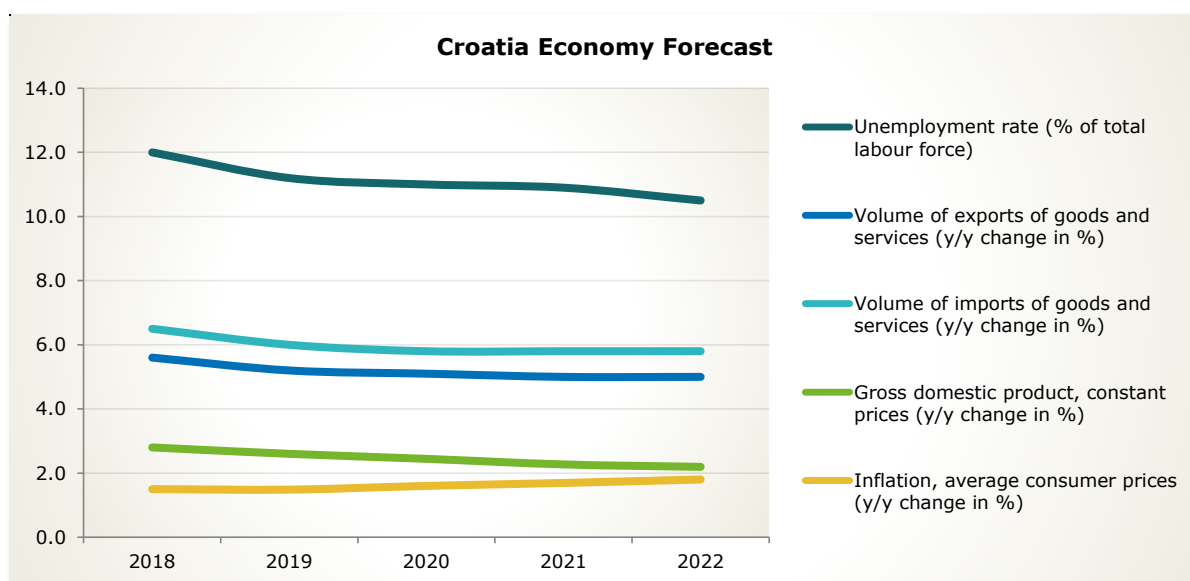
Q1 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	2.5% y/y
Industrial output	0.8% y/y
Industrial sales	-0.4% y/y
Wholesales	3.3% y/y
Retail sales	2.9% y/y
Average annual inflation	1.1%
Unemployment rate	10.3%
Number of building permits	10.2% y/y
Money supply growth	4.4% y/y
Household loans	2.1% y/y
CROBEX blue-chip index	0.2% q/q
Gross external debt	EUR 40.626 bln
Current account deficit	EUR 1.902 bln
Net FDI inflow	EUR 468.2 mln
Foreign trade deficit	EUR 2.359 bln
Number of foreign tourist overnights	31.2% y/y

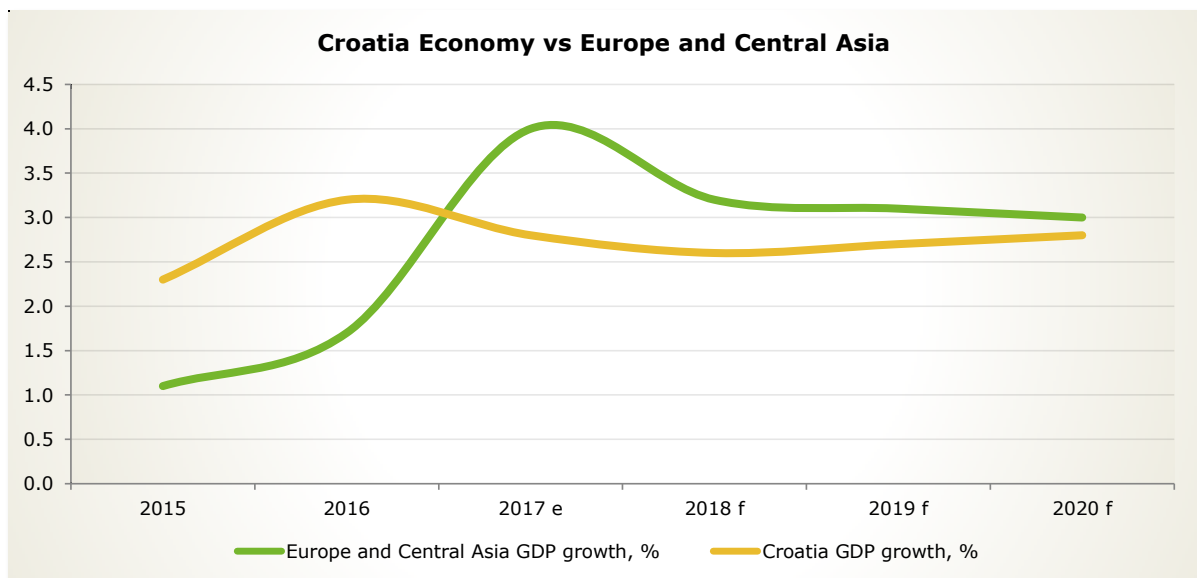


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

Croatia's economic growth continues to benefit from record-high tourism activity, solid merchandise exports, and strong domestic consumption, according to IMF. Growth is

expected to stand at about 2.8% in 2018, before decelerating gradually over the medium term toward 2.2% in the absence of substantial structural reforms. Although moderating, unemployment is still high, above 10.0%. This highlights the need for structural reforms to improve the business environment in order to boost growth and create more jobs, IMF considers. Inflation is projected to remain within the 1.5 - 2.0% range over the medium term. Thanks to strong tourism receipts, the external position will remain in substantial surplus despite imports' growth.

Continued significant fiscal overperformance has resulted in a general government surplus of 0.8% of GDP in 2017. The budget surplus was the result of strong revenue collection, general spending restraint, and moderate public investment, and across-the-board reduction in current expenditure, with the exception of the wage bill. Consequently, public debt declined by almost 5.0 pp, to reach about 78% of GDP by end-2017. Significant progress has also been made in restructuring the debt of public highway companies, according to IMF.



Source: World Bank, Europe and Central Asia Economic Update, October 2017

According to the World Bank estimates from June 2018, GDP growth is likely to come in at 2.6% in 2018, down from 2.8% in 2017. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

2. REAL SECTOR

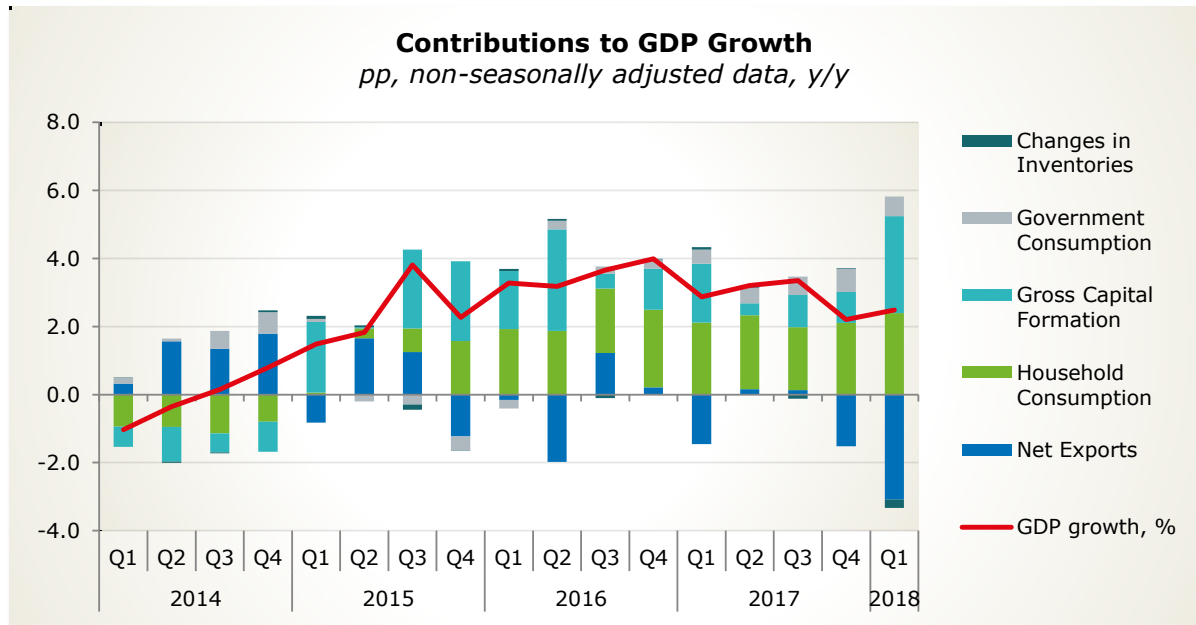
2.1. GROSS DOMESTIC PRODUCT (GDP)

The economic growth accelerated in Q1 2018 to 2.5% y/y, up from 2.2% y/y in Q4 2017

The country's GDP grew by a real 2.5% y/y and totalled HRK 79.593 bln in Q1 2018, according to preliminary data of the Croatian Bureau of Statistics (DZS). The main drivers behind the y/y economic growth were gross capital formation and household consumption.

Final consumption, which accounted for 82.0% of the GDP, expanded by 3.6% y/y. Gross capital formation surged by a real 10.0% y/y, contributing 2.8 pp to the GDP expansion. Imports expanded by 5.5%, driven by the rising investments activity and personal consumption while exports declined by 0.5% y/y in real terms. As a result, the foreign trade took away 3.1 pp from the GDP growth.

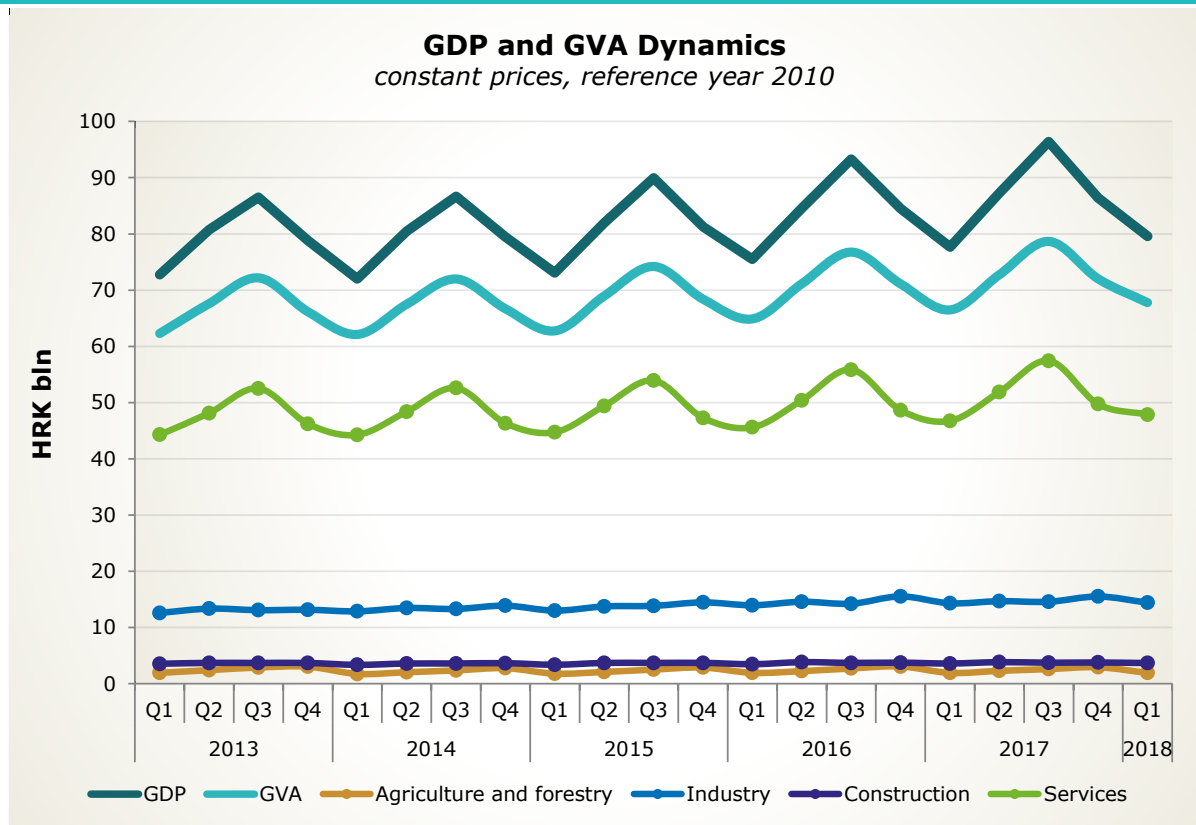
Household consumption remained strong, advancing by 3.9% y/y in real terms in Q1 2018 and contributed to 2.4 pp to the overall growth. Major factors behind this trend are the tightening of the labour market and the real wage rises.



Source: DZS; SeeNews calculations

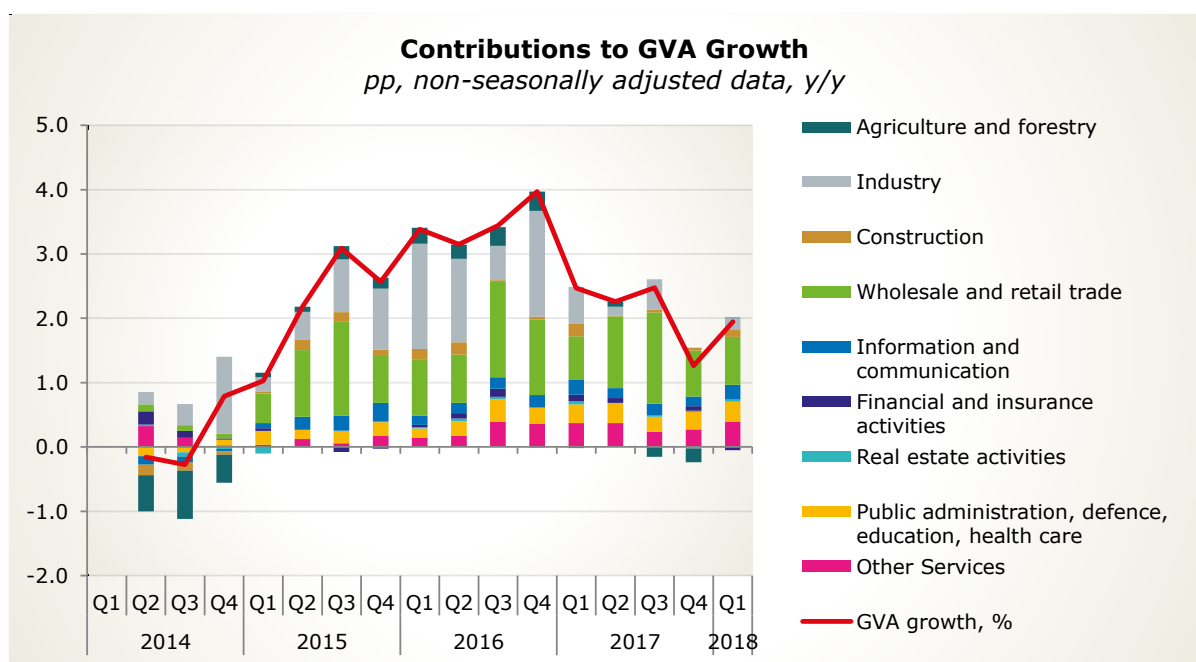
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew in value by 1.9% y/y in Q1 2018 and totalled HRK 67.782 bln. The industrial sector increased by 0.8%, while the construction sector inched up by 2.1%. The services sector recorded a 2.4% annual increase, slicing a 70.6% share in the GVA. The agricultural sector went up by 0.2% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q1 2018, with 0.7 pp, followed by the other services and public administration, defense, education, health care sectors which contributed by 0.4 pp and 0.3 pp, respectively.



Source: DZS; SeeNews calculations

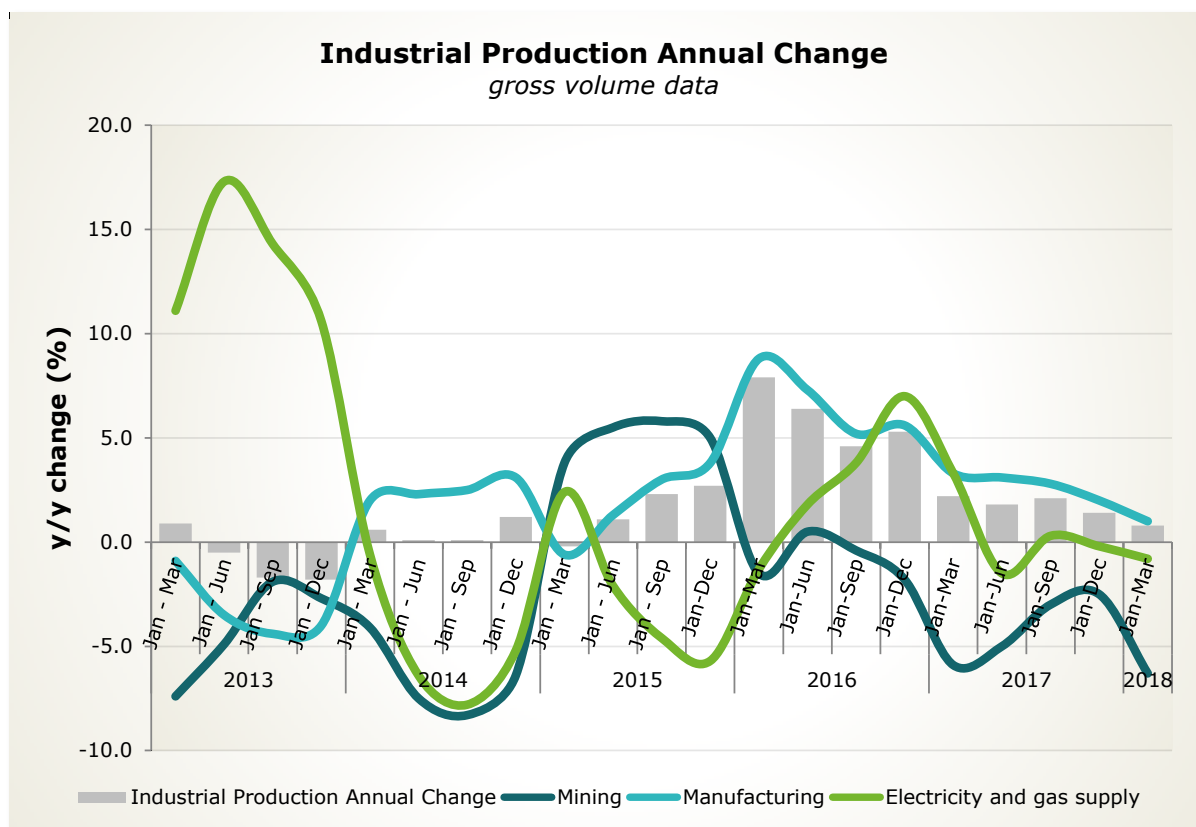
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output further slowed pace of growth in the first quarter of 2018 to 0.8% y/y

Industrial output went up by 0.8% on the year in Q1 2018, according to DZS data. This is significant slowdown compared to Q4 2017 when industrial production expanded by 1.4% y/y and is a continuation of the deceleration trend from 2017, when industrial output growth increased by 1.4% or the year, down compared to 5.3% y/y growth in 2016.

According to the Croatian National Bank, fall in industrial production was observed in all segments, except capital goods. The manufacturing segment ramped up production by an average of 1.0% y/y in Q1 2018, while electricity and gas supply went down by 0.8% y/y and the mining segment decreased production by 6.3% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales declined by 0.4% y/y in the first quarter of 2018

Industrial sales shrank by 0.4% y/y in Q1 2018, compared to a 5.9% annual increase in Q4 2017, according to DZS. In the whole 2017, industrial turnover on the domestic and non-domestic markets increased by 5.8% y/y.

The industrial sales were pushed down by the 16.6% annual slump of sales in the energy sector because of the oil price fall on the global markets. In addition, capital goods sales went down by 15.1% y/y. Consumer durables grew by 13.8% y/y in Q1 2018, while intermediate goods sales and consumer non-durables went up by 5.2% and 5.1% y/y, respectively.

2.4. WHOLESALE/RETAIL

Retail sales growth slowed down to 2.9% y/y, wholesales up 3.3% y/y in Q1 2018

Retail sales registered annual increase of 2.9% in Q1 2018, down from 5.5% y/y increase in Q4 2017 and a 7.1% rise in the same quarter of 2017, according to DZS data. In the same time wholesales advanced by 3.3% y/y, down from rises of 5.0% y/y in the previous quarter and 4.4% in Q1 2017.



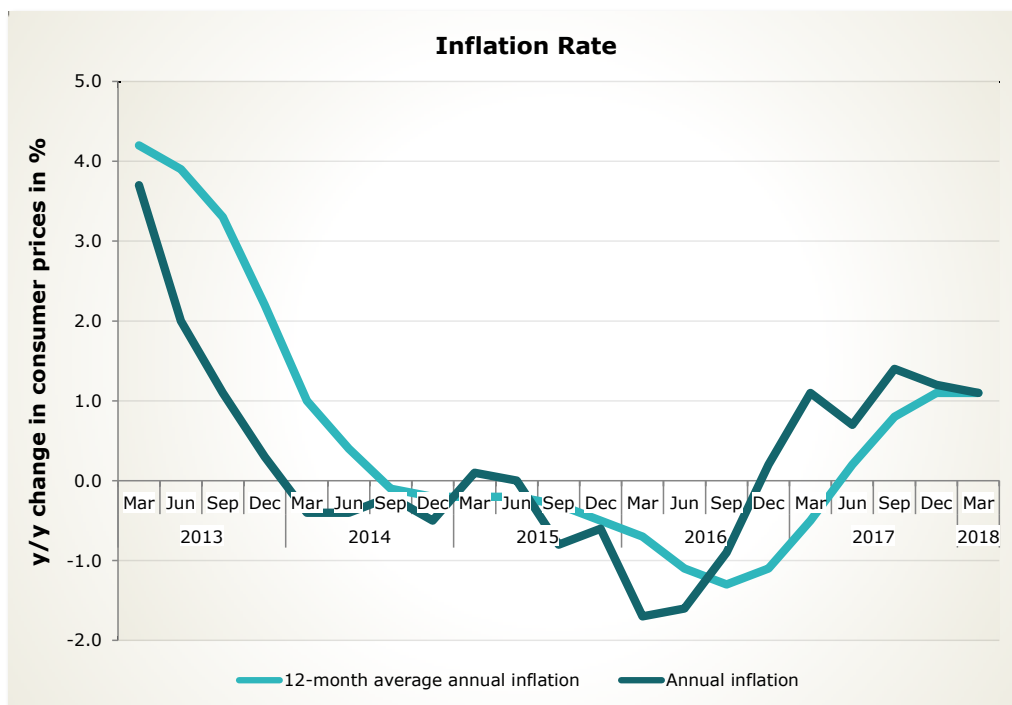
Source: DZS

2.5. INFLATION

Inflation stable at 1.1% in March 2018

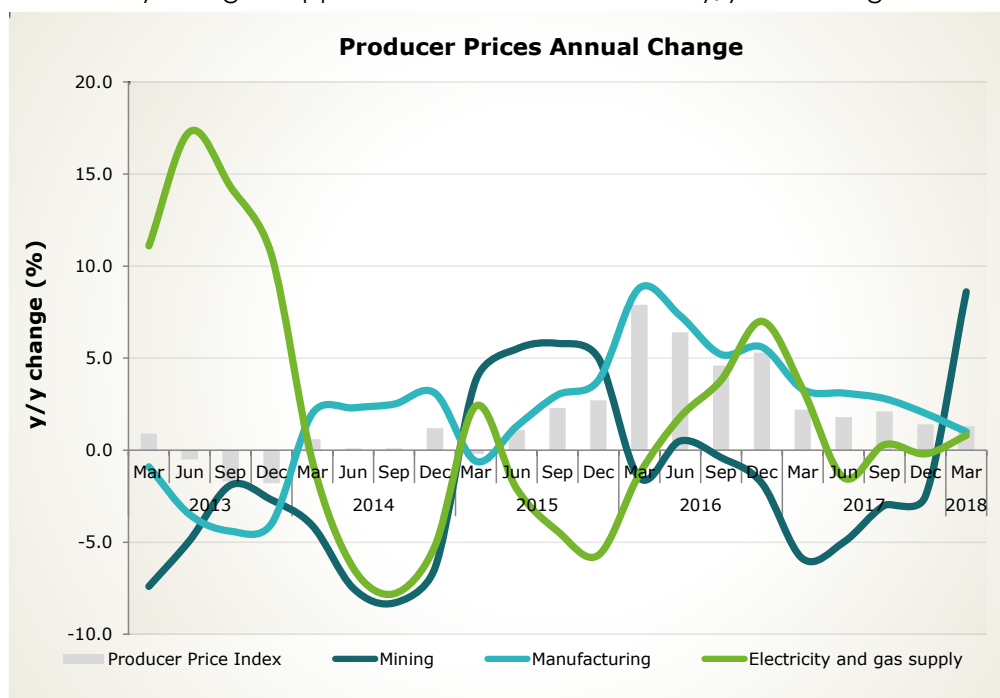
The average annual inflation in Croatia came in at 1.1% as of March 2018, unchanged compared to December 2017, according to DZS. The increase of the average consumer

prices on an annualised basis as of March was primarily due to unprocessed food products' prices. According to the Croatian National Bank, these prices were mainly influenced by a sharp acceleration in the annual growth in the prices of vegetables, caused by a base effect stemming from a steep decrease in these prices in March 2017.



Source: DZS

Producer prices went up annually, by 1.3% in Q1 2018. Manufacturers' producer prices rose by 1.0% y/y, while the average producer prices in the mining sector went up by 8.6% y/y. The sector of electricity and gas supplies saw an increase of 0.8% y/y on average.



Source: DZS

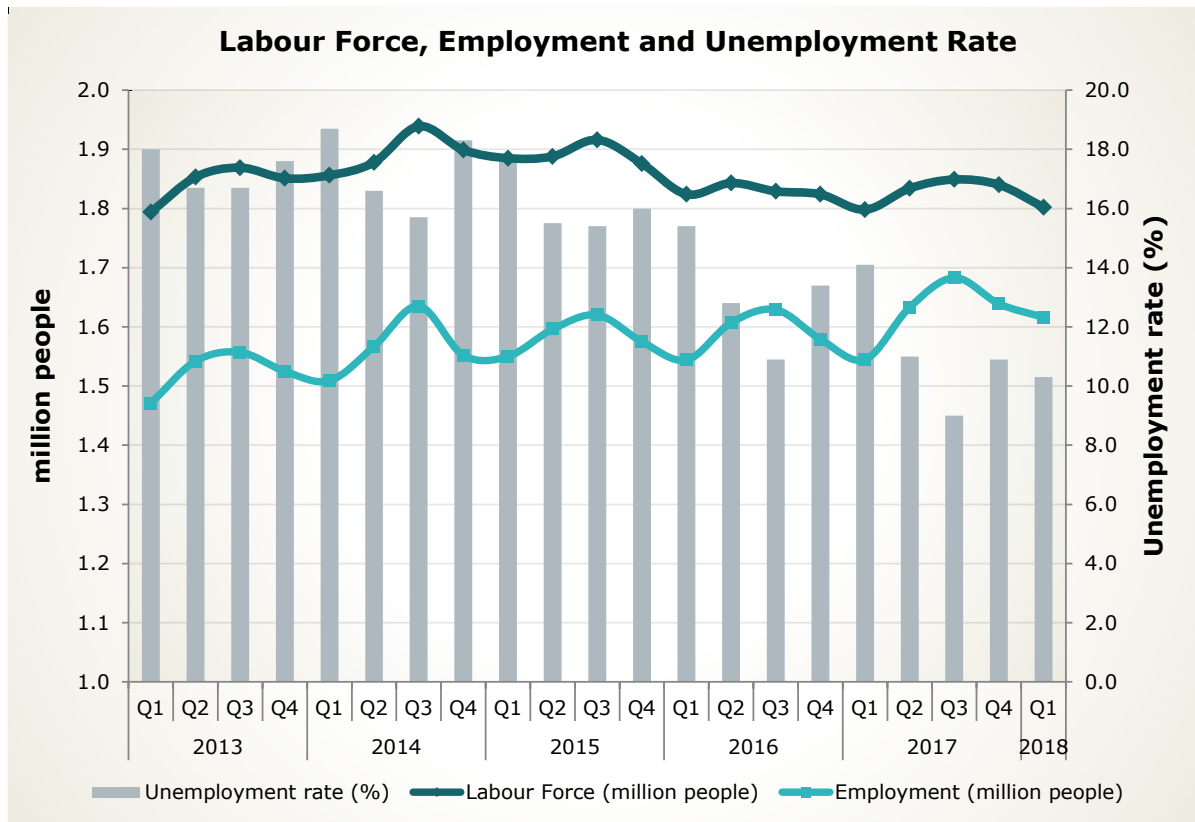
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 10.3% in Q1 2018, wages grew 4.3% y/y in the quarter

The favourable labour market developments that marked the whole 2017 persisted in Q1 2018. The unemployment rate in Croatia narrowed to 10.3% of the total labour force in Q1 2018, down from an average unemployment rate of 11.3% in 2017, according to data of DZS. The fall was largely as a result of clearings from the records for reasons other than employment (non-compliance with legal provisions, registration cancellation and failure to report regularly).

The dynamics of growth in the number of employed persons slowed down slightly from the end of 2017. The employed population aged 15 years and older was 1.616 million as of March 2018, up 4.6% y/y. Almost all sectors made a positive contribution to employment trends, with the leading contribution coming from construction.

Gross wages continued to grow in the first quarter of 2018, although at a slower rate than at the end of 2017. According to the Croatian National Bank, wages rose the most in trade and construction, whereas public sector wages remained almost unchanged. Real wages grew at lower rates in this period than did nominal wages, due to a slight increase in consumer prices. The average monthly net wage grew by 4.3% y/y to HRK 6,190 in March 2018.



Source: DZS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits advanced by 10.2% y/y in Q1 2018

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q1 2018 increased by 10.2% y/y and totalled 1,360, according to DZS data.

Permits for non-residential¹ buildings decreased by 6.6% to 299, while permits for residential buildings registered a 16.1% increase to 1,061.

The total built-up area of the non-residential units, covered by the permits, decreased by 14.0% y/y to 233,721 sq m. The total built-up area of the housing units went up by 5.4% to 364,972 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 7.437 in Q1 2018 from HRK 7.5300 in Q4 2017, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	7.4370	7.5300	7.4685
USD	6.0518	6.3956	7.0167
GBP	8.4196	8.4884	8.6870
CHF	6.3854	6.4814	6.9848

5.2. MONETARY POLICY

The national bank kept the policy rate unchanged at 3.0%

The CNB continued to pursue an expansionary monetary policy, maintaining very high levels of liquidity in the domestic financial market. The bank kept the monetary policy rate at 3.0% as of March 2018. The average weighted interest rate in inter-bank trade on the overnight market was 1.25%.

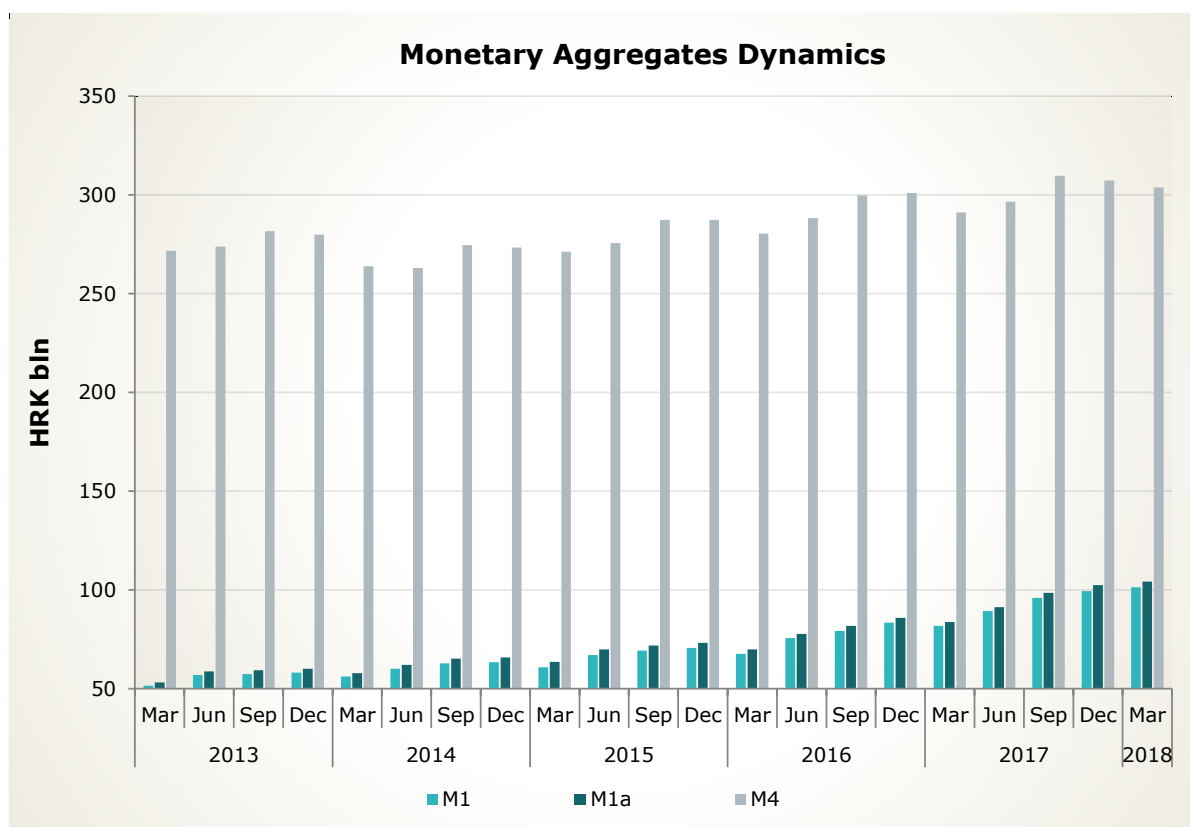
¹ Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

5.3. MONETARY AGGREGATES

Money supply grew by 4.4% y/y in Q1

In Q1 2018 monetary developments were marked by a fall in net foreign assets and an increase in net domestic assets of the monetary system. On a year-on-year basis broad money increased by 4.4% and reached HRK 303.8 bln in March 2018, according to data provided by HNB.

The fall in net foreign assets was mainly due to a decrease in net foreign assets of monetary institutions, while the increase in net domestic assets was mainly induced by an increase in credit institutions' net claims on the central government. If analysed on an annual basis, the growth in total liquid assets, or M4, accelerated to 5.2% in March 2018, excluding the effects of exchange rate changes. Monetary aggregate M1 grew annually by as much as 23.8%, while M1a increased by 24.4% compared to March of the previous year.



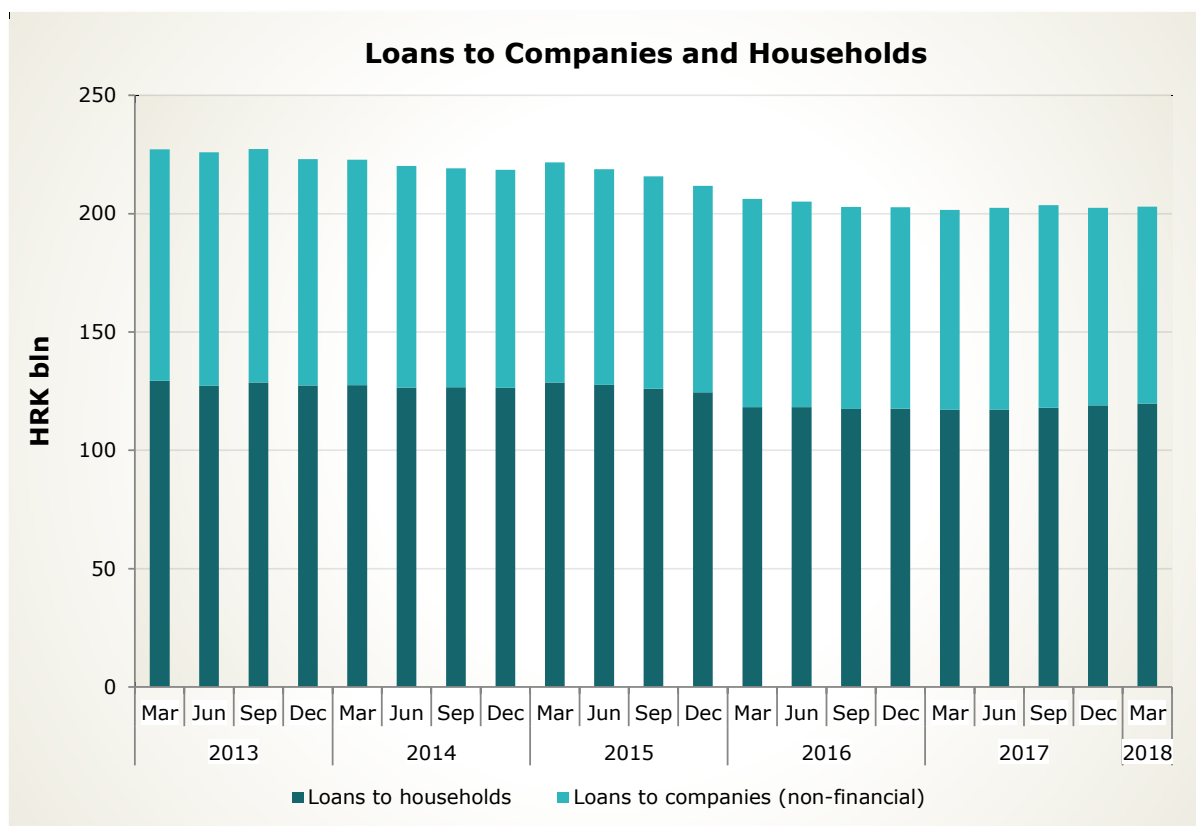
Source: HNB

Editor's Note: 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.

5.4. BANKING AND INSURANCE

Household loans increased by 2.1% y/y in Q1 2018

Household loans went up by 2.1% to HRK 119.754 bln, according to HNB data. House purchasing loans advanced by 1.5% to HRK 52.587 bln, accounting for 43.9% of the total loans. The second largest loan type, slicing a 36.9% share, was the any-purpose cash loan with its value rising to HRK 44.153 bln from HRK 41.209 bln in Q1 2017, according to HNB. Loans to non-financial corporations went down by 1.4% y/y to HRK 83.205 bln. Interest rates on new bank loans granted to the household and corporate sectors slightly decreased on average in March 2018.

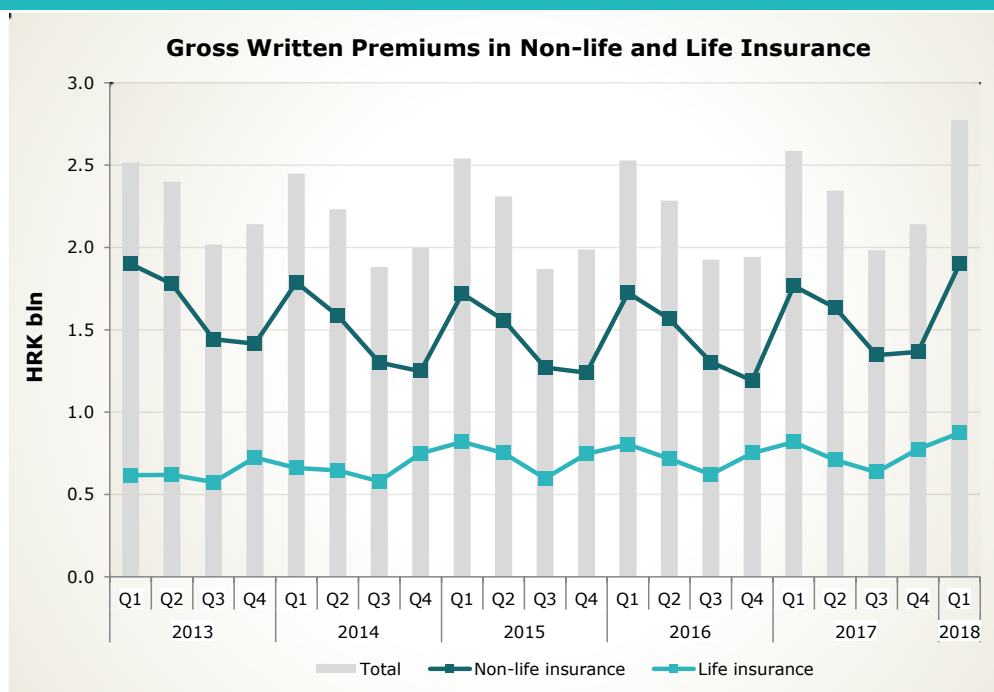


Source: HNB

Insurance premium income up 7.3% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.774 bln in Q1 2018, up by 7.3% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 7.5% annual increase of the non-life insurance sector, which posted GWP of HRK 1.900 bln. The life insurance sector rose by 6.8% y/y to HRK 0.875 bln.

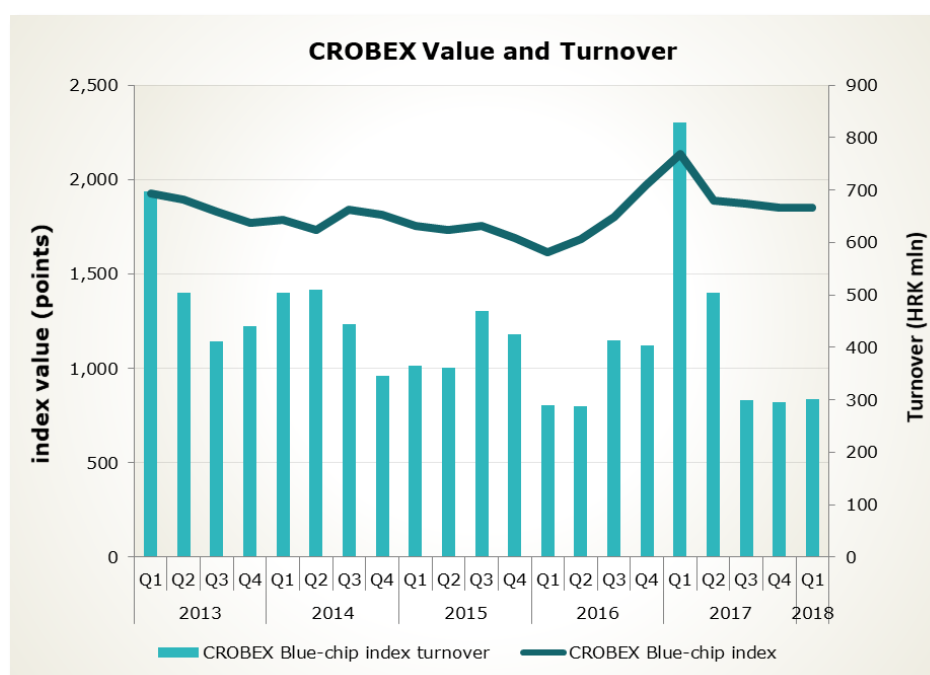


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX slightly up in Q1 2018

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by the minimal 0.2% y/y to 1,853.07 points in the end of March 2018. The CROBEX turnover totalled HRK 301.9 mln in Q1 2018, compared to HRK 828.0 mln in Q1 2017.



Source: ZSE

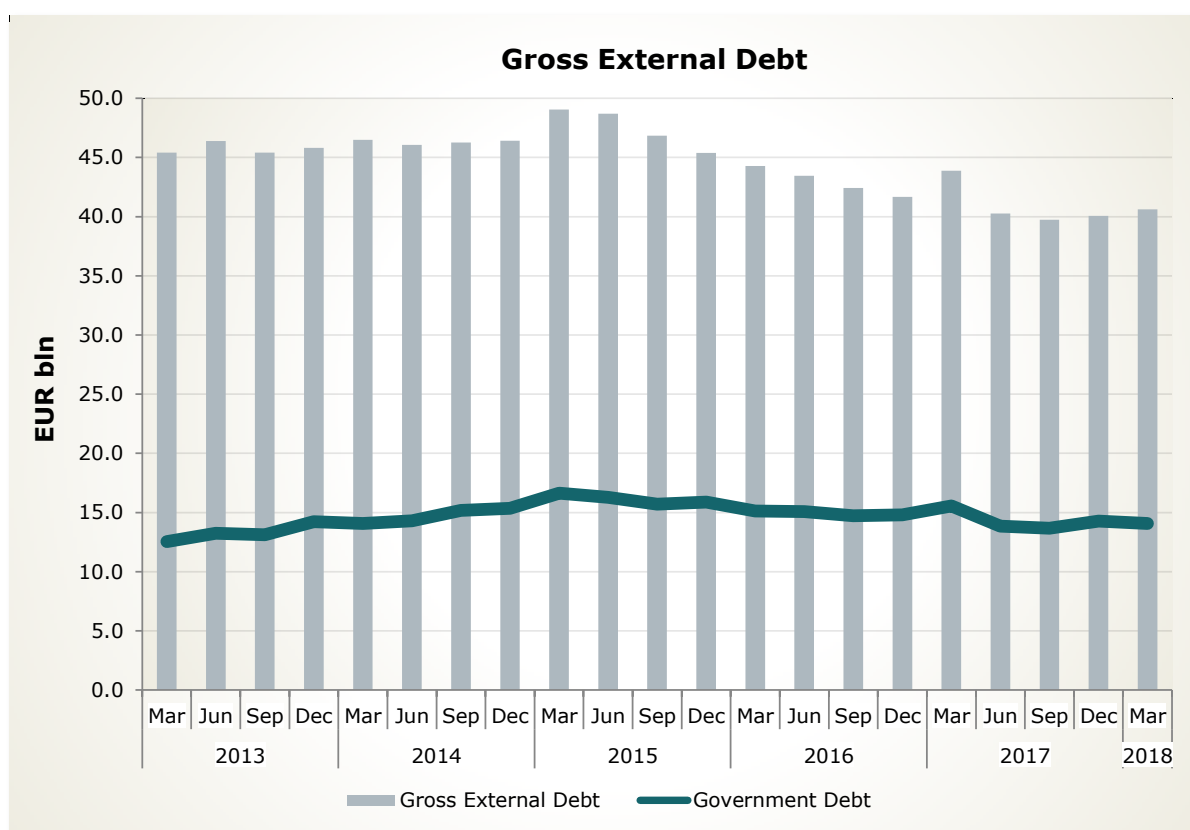
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt up y/y to EUR 40.626 bln in March 2018

The gross external debt totalled EUR 40.626 bln as of March 2018, according to HNB. It went down by 7.4% y/y but was slightly up compared to EUR 40.069 bln in December 2017.

As of March 2018, long-term liabilities amounted to EUR 28.954 bln, or 71.3% of the total debt, decreasing by 11.2% on the year. Short-term liabilities totalled EUR 4.879 bln, equal to 12.0% of the total debt and down by 7.6% compared to a year ago.



Source: HNB

7.2. BALANCE OF PAYMENTS

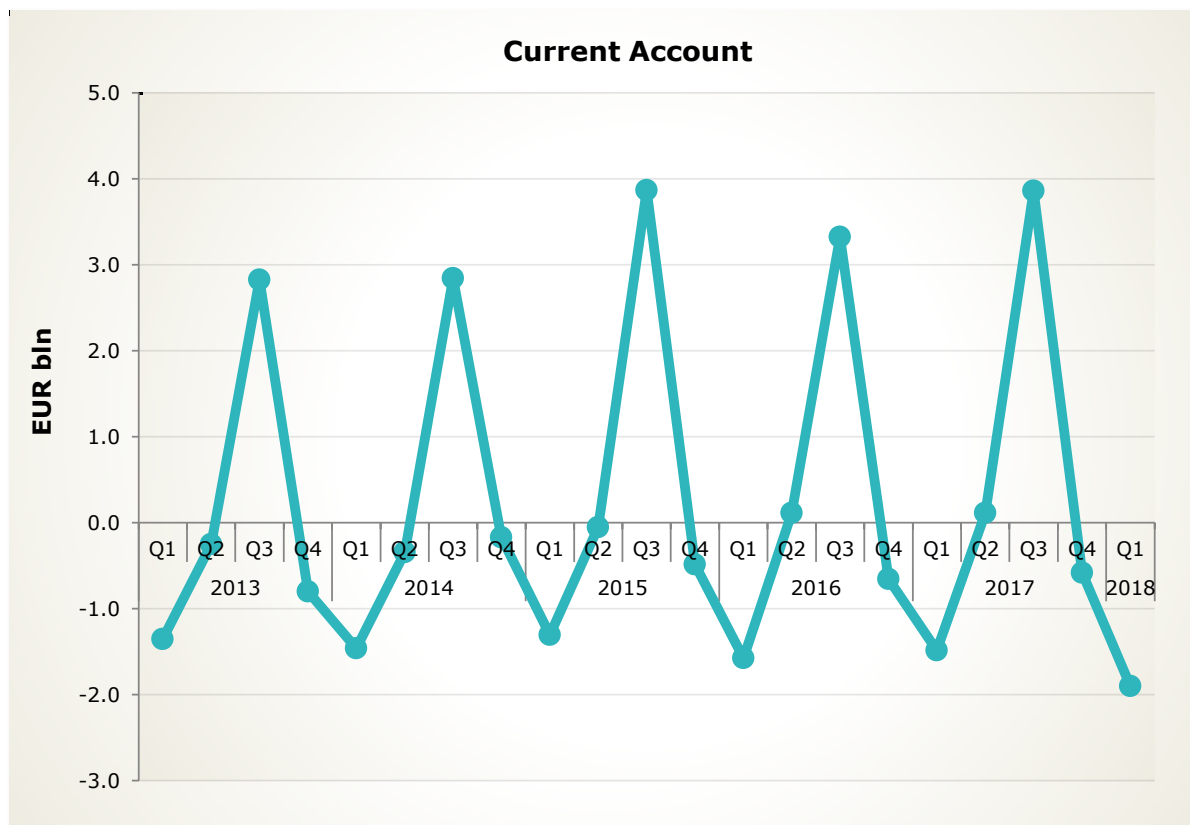
Current account deficit up 27.8% y/y to EUR 1.902 bln

In Q1 2018, Croatia had a current account deficit of 1.902 bln, up 27.8% y/y, according to HNB statistics data. The current account of the balance of payments of Croatia is usually in a

deficit in the first and the last quarter and in a surplus in the second and third as the country is a popular sea tourist destination.

The balance on the goods account was negative at EUR 2.346 bln, up 17.4% y/y, while services surplus went down by 21.7% y/y to EUR 297.5 mln.

The income account was positive at EUR 146.7 mln compared to a surplus of EUR 130.5 mln in Q1 2017.

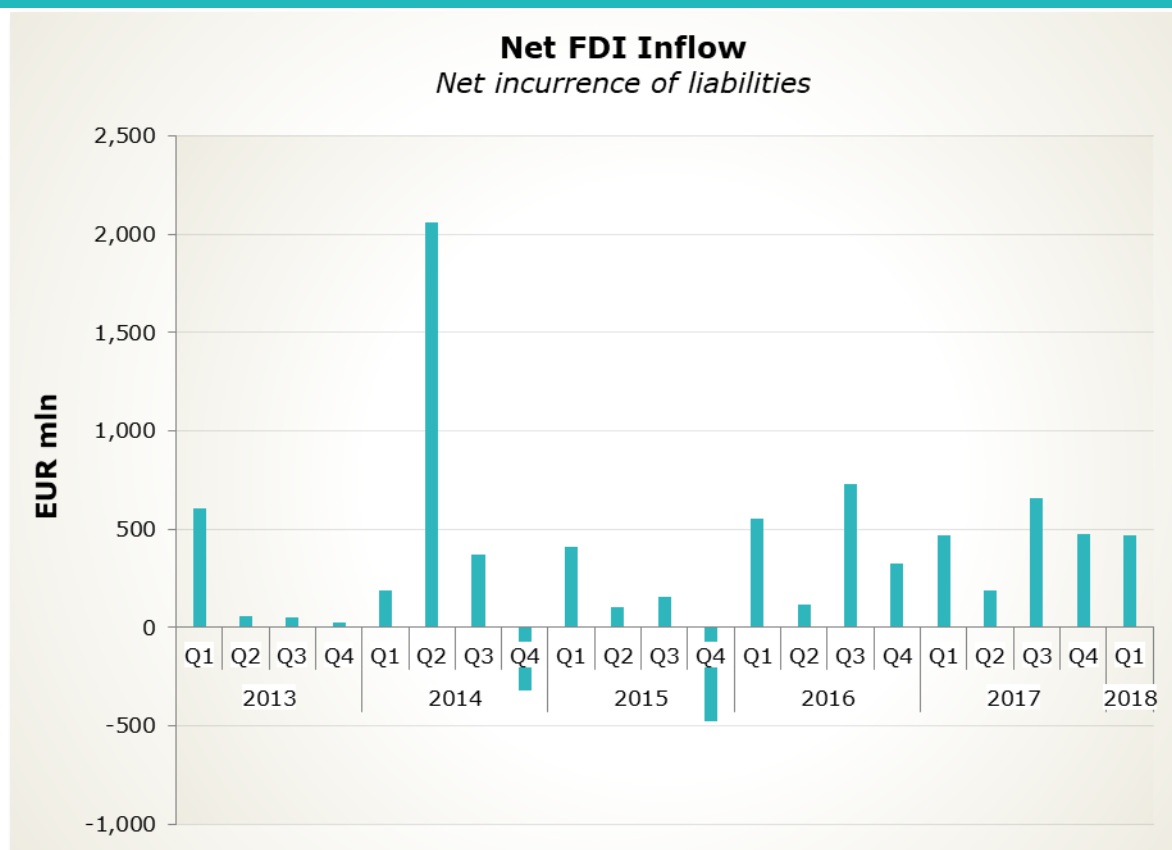


Source: HNB

7.3. FDI

Net FDI inflow at EUR 468.2 mln in the first quarter of 2018

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 468.2 mln in Q1 2018, according to preliminary data of HNB. This is a 0.4% increase compared to a year earlier when FDIs amounted to EUR 466.3 mln.



Source: HNB

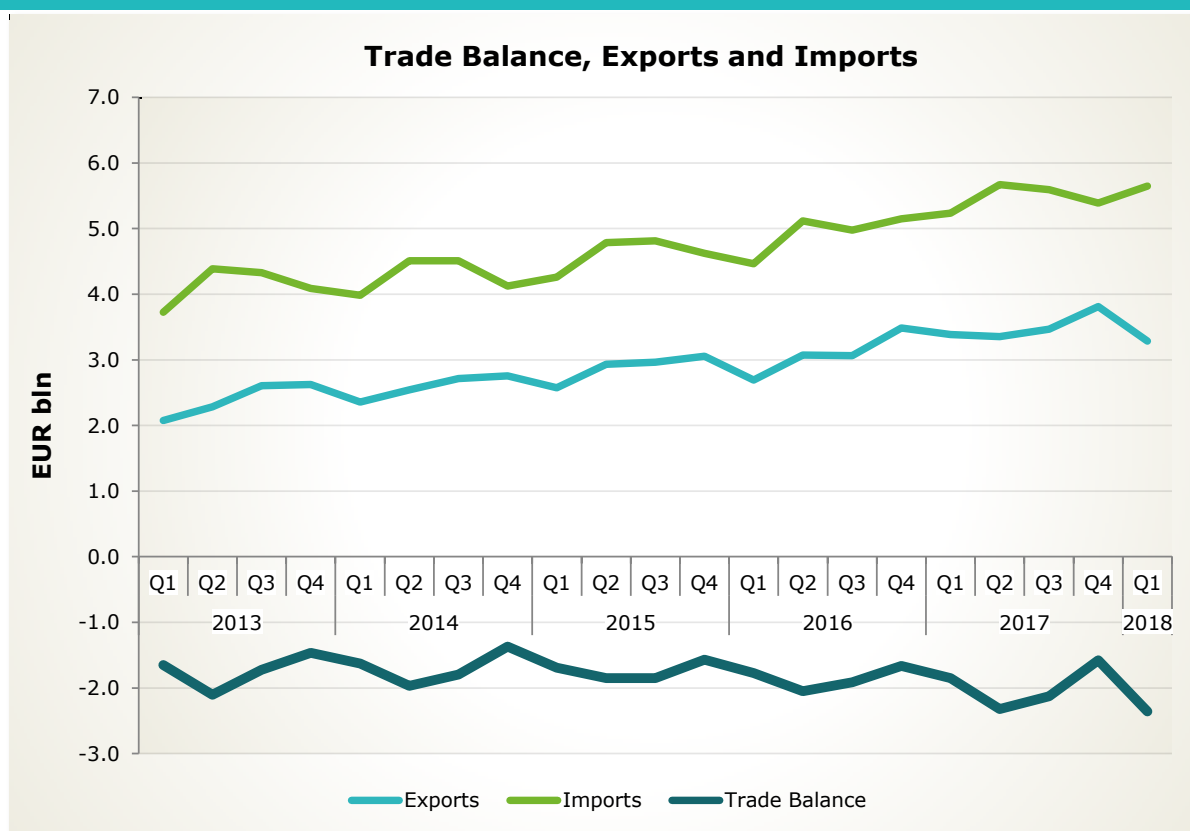
7.4. FOREIGN TRADE

Foreign trade deficit swelled by 27.6% y/y to EUR 2.359 bln in Q1 2018

The trade deficit stood at EUR 2.359 bln in Q1 2018, compared to EUR 1.849 bln in the same period of the previous year, according to DZS.

After having strengthened considerably towards the end of last year, in the first three months of 2018, total goods exports fell by 2.9% y/y to EUR 3.288 bln, compared to a rise of 9.3% y/y in Q4 2017, mainly influenced by a sharp fall in energy exports. The adverse trends in exports reflected not only declining sales of energy but also a fall in the exports of medical and pharmaceutical products, capital goods like power generating machinery and equipment and electrical machinery, apparatus and appliances as well as textile industry products.

By contrast, in Q1 2018, total goods imports rose by 7.9% y/y, up from a 4.7% y/y rise in Q4 2017. The growth in imports was broadly based, and in addition to oil and refined petroleum products, the imports of capital goods, particularly power-generating machinery and equipment and telecommunication apparatus, road vehicles and ships, medical and pharmaceutical products and metal industry products also rose.



7.5. TOURSIM

Number of foreign tourist overnights increased by 31.2% y/y in Q1 2018

Croatia is a popular sea tourist destination due to its long coastline on the Adriatic Sea. Tourist overnights of foreigners increased by an annual 31.2% to 1.402 mln in Q1 2018, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 2.032 mln in the quarter, rising by 22.3% in comparison to a year earlier.

The number of foreign tourists went up by 26.8% y/y to 581,319.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia to invest HRK 335.5 mln (EUR 45.1 mln) under co-op programme with Switzerland

Mar 28, 2018

Croatia's ministry of regional development and EU funds said it has concluded 10 agreements worth a total of HRK 335.5 mln (USD 55.9 mln/EUR 45.1 mln) towards the implementation of projects under the Swiss-Croatian cooperation programme.

[Read the full story here](#)

S&P raises Croatia's long-term rating to 'BB+' on stronger external position

Mar 26, 2018

S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Croatia to 'BB+' from 'BB', with a stable outlook.

[Read the full story here](#)

Serbia, Croatia to apply for rail project EU funding within month

Mar 12, 2018

Serbia's infrastructure ministry said it plans to apply within a month for financing from the European Union (EU) towards the cost of a project for the overhaul of the Belgrade-Zagreb railway line jointly with the Croatian government.

[Read the full story here](#)

Croatia's govt to ease administrative burden on businesses by 12%

Mar 9, 2018

Croatia's government said it has adopted an action plan to reduce the administrative burden on businesses in 2018, which is expected to slash the cost of doing business by HRK 625.9 mln (USD 103.9 mln/EUR 84.5 mln).

[Read the full story here](#)

EIB Group support for Croatia in 2017 close to EUR 600 mln

Mar 6, 2018

The European Investment Bank Group, consisting of the European Investment Bank (EIB) and its subsidiary, the European Investment Fund (EIF), provided EUR 590 mln (USD 731.5 mln) of new loans, guarantees and equity investment in Croatia in 2017, EIB said on Tuesday.

[Read the full story here](#)

Croatia to back local tourist sector with HRK 24.6 mln (EUR 3.3 mln)

Feb 19, 2018

Croatia's tourism ministry launched a public invitation on Monday to allocate a total of HRK 24.6 mln (USD 4.1 mln/EUR 3.3 mln) in grants to local small businesses involved in tourism to increase the competitiveness of their offer in 2018.

[Read the full story here](#)

Croatia signs coop agreement with European Space Agency

Feb 19, 2018

The European Space Agency (ESA) said on Monday it signed a cooperation agreement with Croatia paving the way for more intensive and concrete work related to ESA programmes and activities.

[Read the full story here](#)

EC affirms Croatia's GDP 2018 growth fcast, sees strong domestic demand

Feb 7, 2018

The European Commission said on Wednesday it has maintained its outlook on Croatia's economic growth this year at 2.8%, the same as the November projection, with private consumption remaining the main engine of growth.

[Read the full story here](#)

Croatia to grant HRK 200 mln (EUR 26.9 mln) to SMEs

Feb 2, 2018

Croatia's economy ministry said on Friday it is granting HRK 200 mln (USD 33.6 mln/EUR 26.9 mln) to micro, small and medium-sized enterprises (SMEs) to finance construction of production facilities and equipment purchases.

[Read the full story here](#)

Croatia will not change VAT rate in 2018 - fin min

Jan 18, 2018

Croatia's finance minister, Zdravko Maric, said on Thursday that no changes to the value added tax (VAT) rate would be made this year.

[Read the full story here](#)

IMF urges Croatia to step up structural reforms to avoid economic slowdown

Jan 16, 2018

The International Monetary Fund (IMF) said on Tuesday that Croatia must implement policy measures and expedite structural reforms to boost growth and reduce vulnerabilities.

[Read the full story here](#)

Fitch upgrades Croatia to 'BB+', outlook stable

Jan 15, 2018

Fitch Ratings said it has upgraded Croatia's long-term foreign- and local-currency issuer default ratings (IDRs) to 'BB+' from 'BB', with a stable outlook.

[*Read the full story here*](#)

Croatia picks consortium of Chinese companies to build HRK 2.1 bln (EUR 281.7 mln) bridge

Jan 12, 2018

Croatia's state-owned motorway operator Hrvatske Ceste said on Friday it has picked a consortium of companies led by China Road and Bridge Corporation for the construction of Peljesac bridge at a price of HRK 2.1 bln (USD 341.3 mln/EUR 281.7 mln).

[*Read the full story here*](#)

Croatia's 10-mo central govt budget surplus grows

Jan 8, 2018

Croatia's central government budget surplus increased to HRK 4.6 bln (USD 741.8 mln/EUR 618.0 mln) in the first 10 months of 2017, from HRK 1.6 mln in the year-ago period, official figures show.

[*Read the full story here*](#)

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