

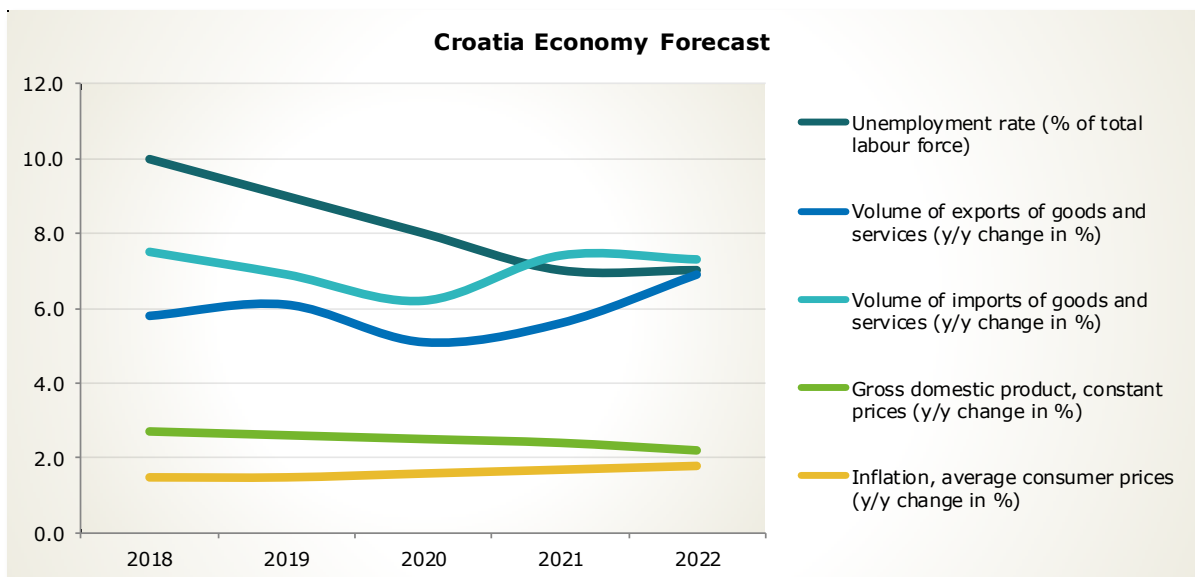
## **CROATIA ECONOMY REPORT** Q1 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
<b>GDP Growth</b>	3.9% y/y
<b>Industrial output</b>	2.7% y/y
<b>Industrial sales</b>	6.5% y/y
<b>Wholesales</b>	9.8% y/y
<b>Retail sales</b>	9.5% y/y
<b>Average annual inflation</b>	1.4%
<b>Unemployment rate</b>	7.6%
<b>Number of building permits</b>	5.7% y/y
<b>Money supply growth</b>	4.4% y/y
<b>Household loans</b>	6.0% y/y
<b>CROBEX blue-chip index</b>	0.5% q/q
<b>Gross external debt</b>	EUR 39.304 bln
<b>Current account deficit</b>	EUR 2.203 bln
<b>Net FDI inflow</b>	EUR 405.0 mln
<b>Foreign trade deficit</b>	EUR 2.429 bln
<b>Number of foreign tourist overnights</b>	-5.5% y/y

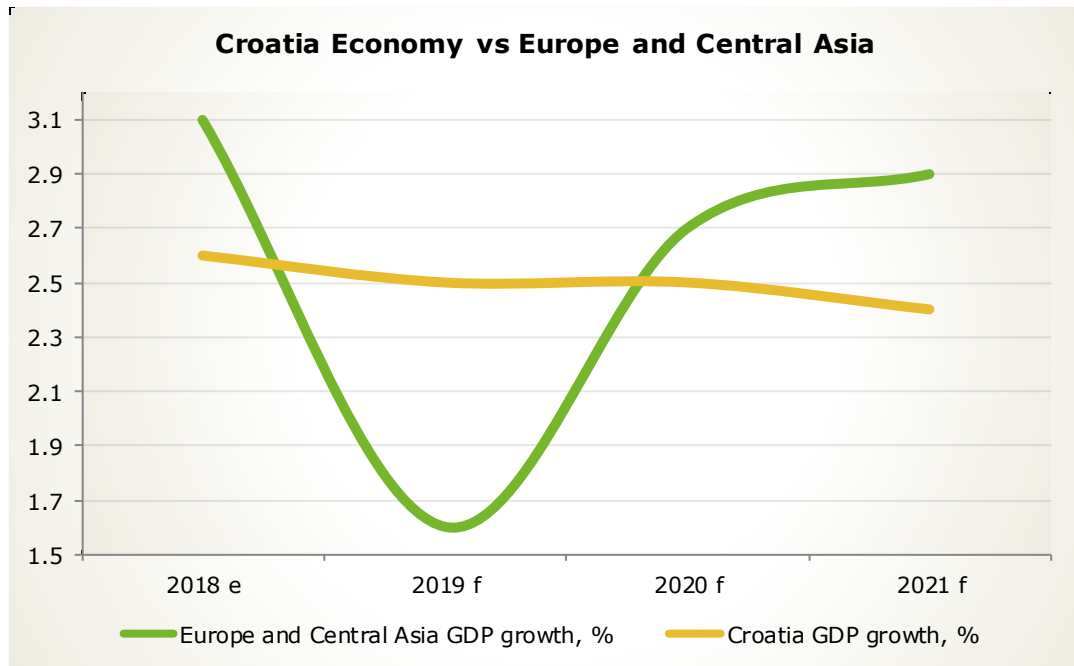


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

Croatia's economic growth continues to benefit from strong tourism activity, solid merchandise exports, and strong domestic consumption, according to IMF. Growth is expected to stand at about 2.6% in 2019. In 2020 and 2021, IMF forecasts country's economic growth to slow to 2.5% and 2.4%, respectively. Although moderating, unemployment is still high, at 10.0% in 2018 and tending to fall as low as 7.0% in the next five years. Inflation is projected to remain within the 1.5% - 1.8% range over the medium term. Thanks to the strong

tourism receipts, the external position will remain in substantial surplus despite consistently faster imports growth.

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 2.5% in 2019, down from 2.6% in 2018. This is higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.



Source: World Bank, *Global Economic Prospects*, June 2019

## 2. REAL SECTOR

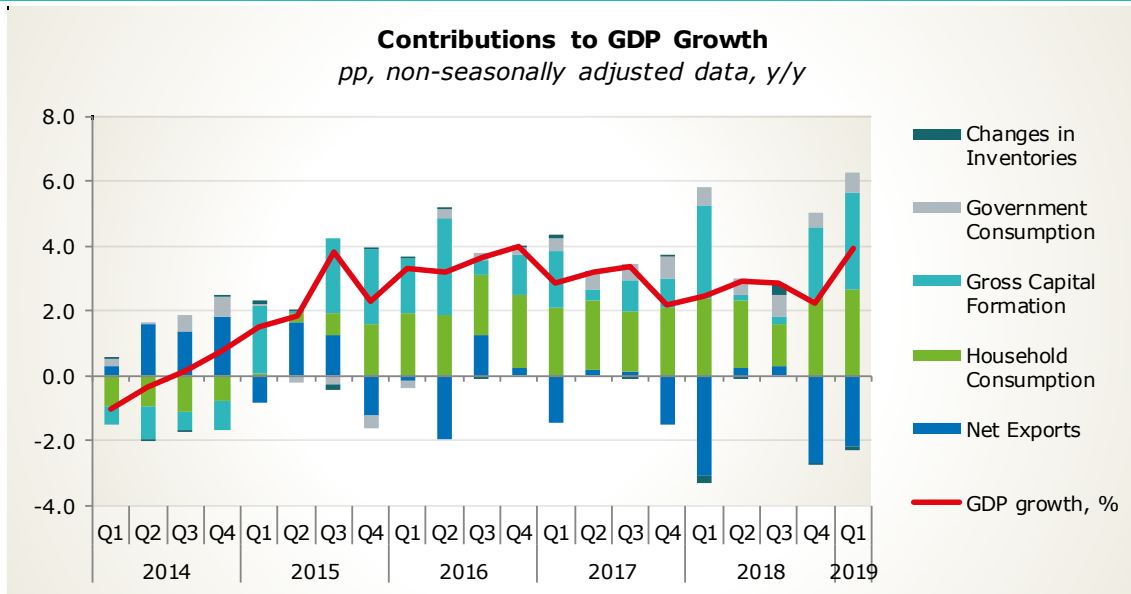
### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### ***The economic growth accelerated in Q1 2019 to 3.9% y/y, up from 2.3% y/y in Q4 2018***

The country's GDP grew by a real 3.9% y/y and totalled HRK 82.735 bln in Q1 2019, 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% of the GDP, expanded by 4.0% y/y. Gross capital formation went up by 9.7% y/y, contributing 3.0 pp to the GDP expansion. Imports grew faster than exports, by 7.7% and 4.6%, respectively. As a result, the foreign trade took away 2.2 pp from the GDP growth.

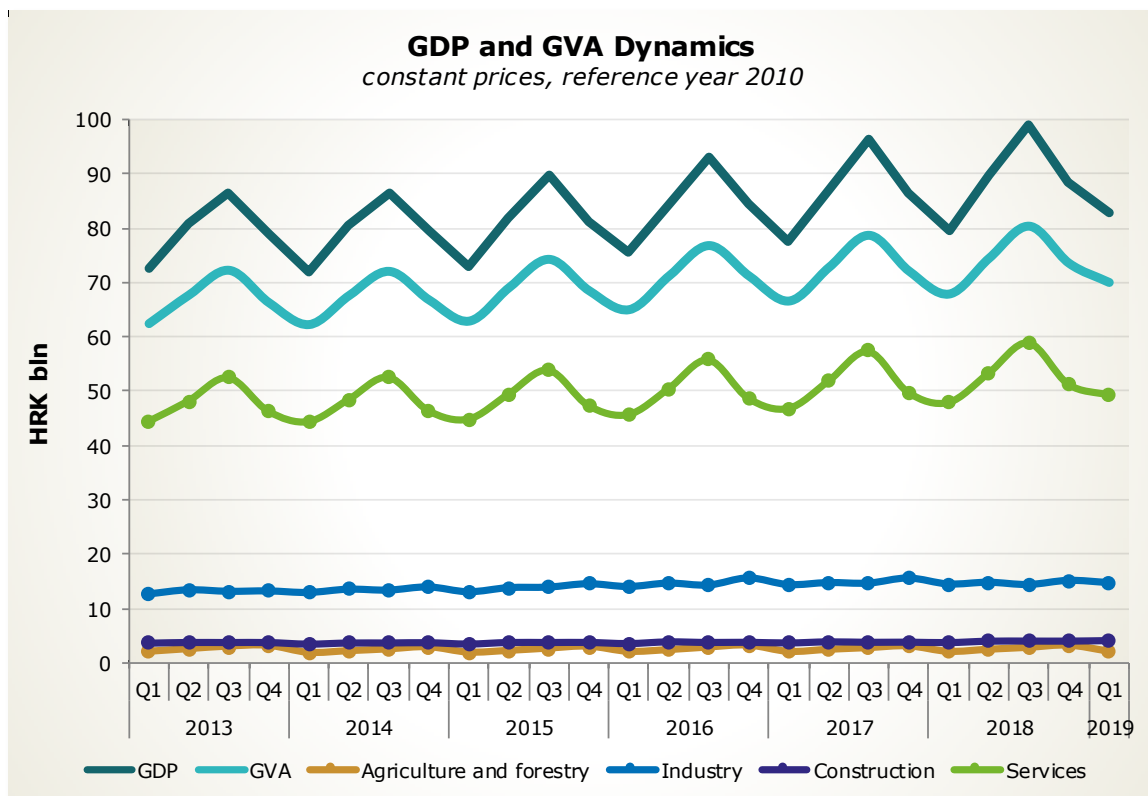
Household consumption remained strong, advancing by 4.3% y/y in real terms in Q1 2019 and contributed to 2.7 pp to the overall growth. Major factors behind this trend are the tightening of the labour market and the real wage rises.



Source: DZS; SeeNews calculations

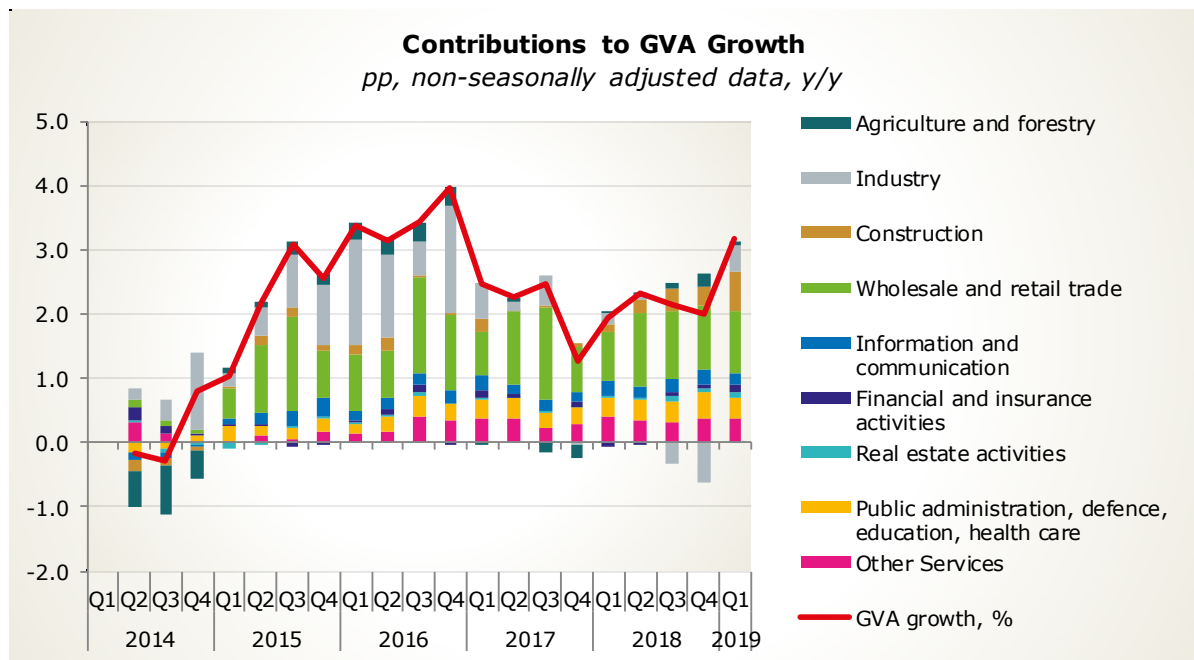
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 3.2% y/y in Q1 2019 and totalled HRK 69.923 bln. The industrial sector increased by 1.8%, while construction went up by 11.6%. The services sector recorded a 2.9% annual rise, slicing a 70.5% share in the GVA. The agricultural sector rose by 1.9% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q1 2019, with 0.9 pp, followed by construction with 0.6 pp.



Source: DZS; SeeNews calculations

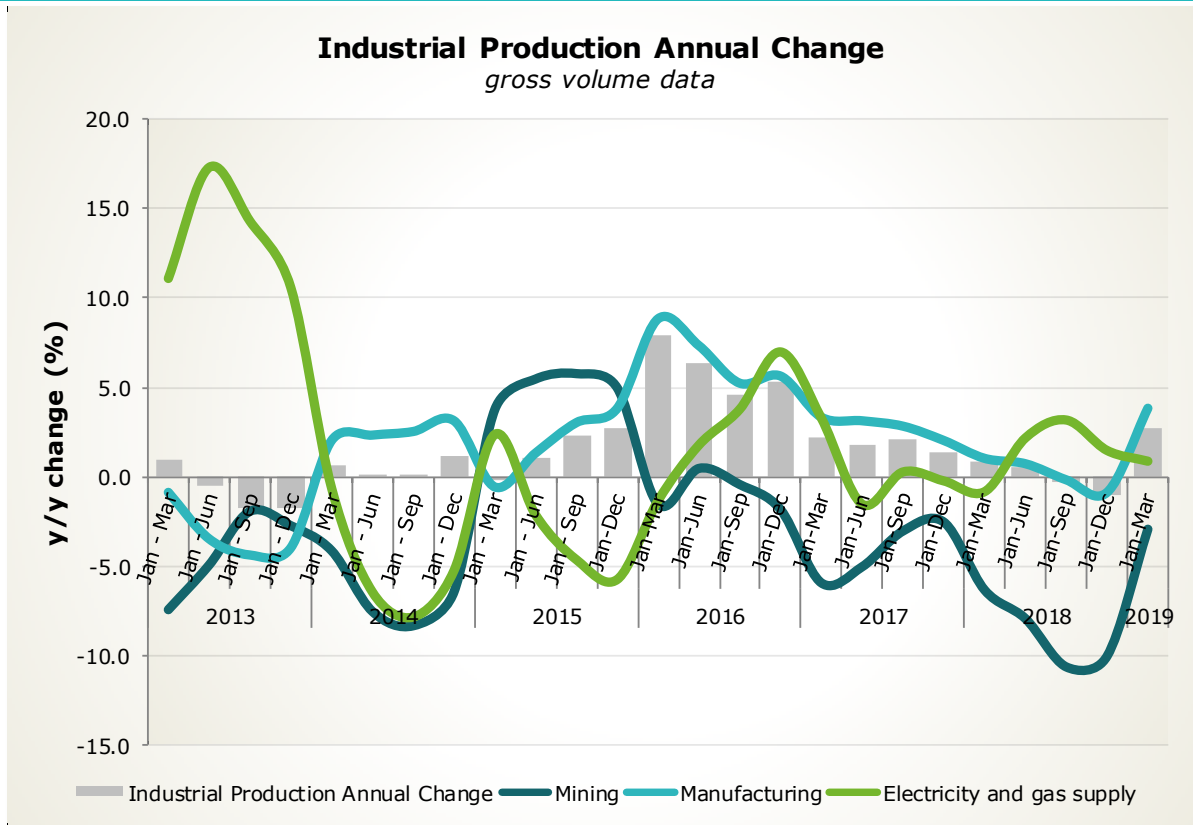
Note: Non-additive data due to direct chain-linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output increased in the first quarter of 2019 to 2.7% y/y

Industrial output went up by 2.7% on the year in Q1 2019, according to DZS data. This is significant acceleration compared to Q1 2018, when industrial production expanded by 0.8% y/y.

The rise during the year was backed by the 3.8% annual increase in the manufacturing sector. The electricity and gas supply sector increased by 0.9% yearly, while the production of the mining sector fell by 2.9% y/y.



Source: DZS

## 2.3. INDUSTRIAL SALES

### Industrial sales increased by 6.5% y/y in the first quarter of 2019

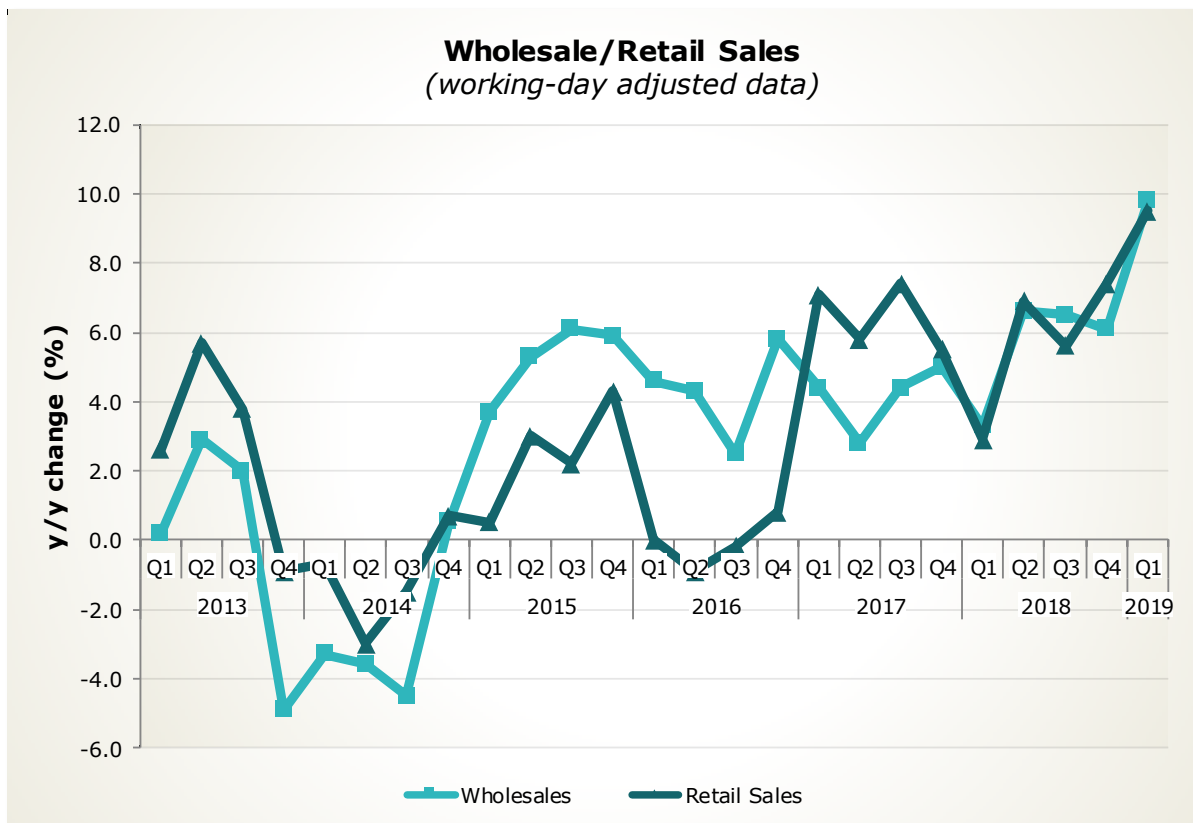
Industrial sales rose by 6.5% y/y in Q1 2019, compared to a 0.4% annual decrease in Q1 2018, according to DZS.

The industrial sales were pushed up by the 10.7% annual jump of sales of intermediate goods. In addition, capital goods and consumer durables went up by 8.3% and 6.7% y/y, respectively. Consumer non-durables goods grew by 5.8% y/y in Q1 2019. Sales in the energy sector were the only segment to decline in terms of sales, by 30.0% y/y.

## 2.4. WHOLESALE/RETAIL

### Retail sales growth at 9.5% y/y, wholesales up 9.8% y/y in Q1 2019

Retail sales registered annual increase of 9.5% in Q1 2019, up from a 2.9% y/y rise in Q1 2018, according to DZS data. In the same time, wholesales advanced by 9.8% y/y, up from 3.3% y/y in the same period the previous year.



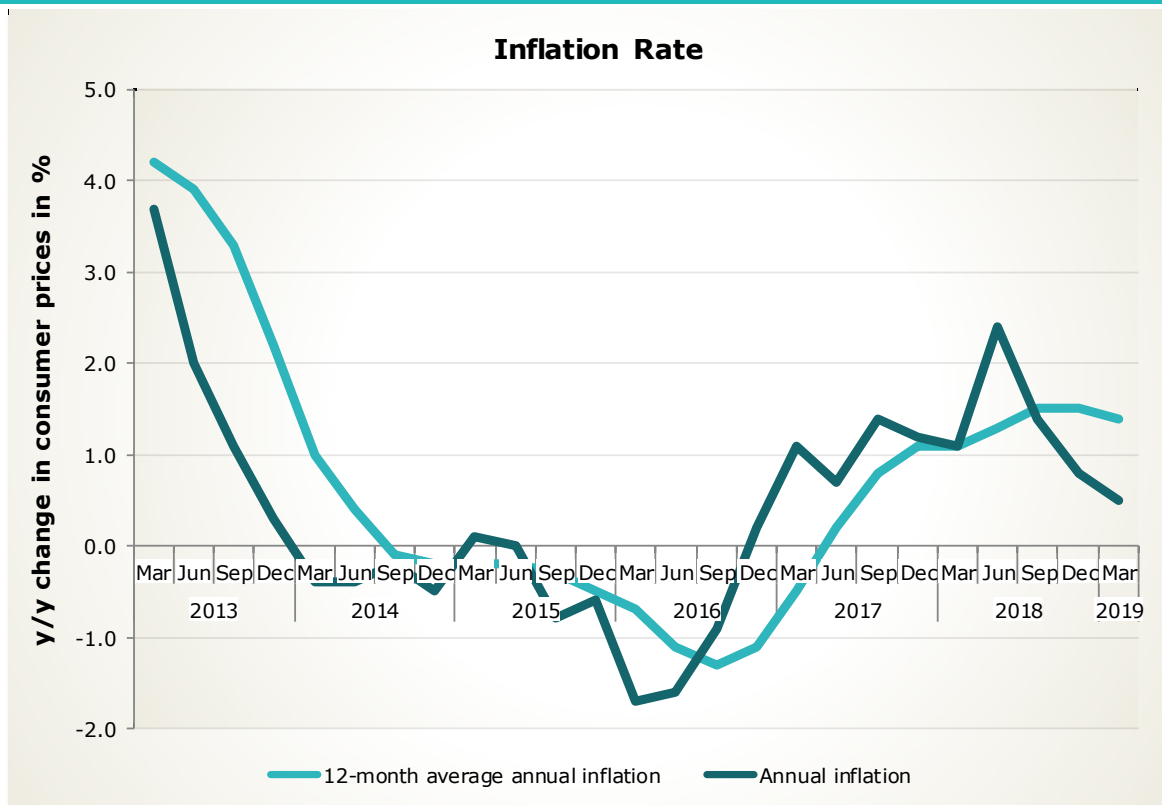
Source: DZS

## 2.5. INFLATION

### *Inflation stable at 1.4% in March 2019*

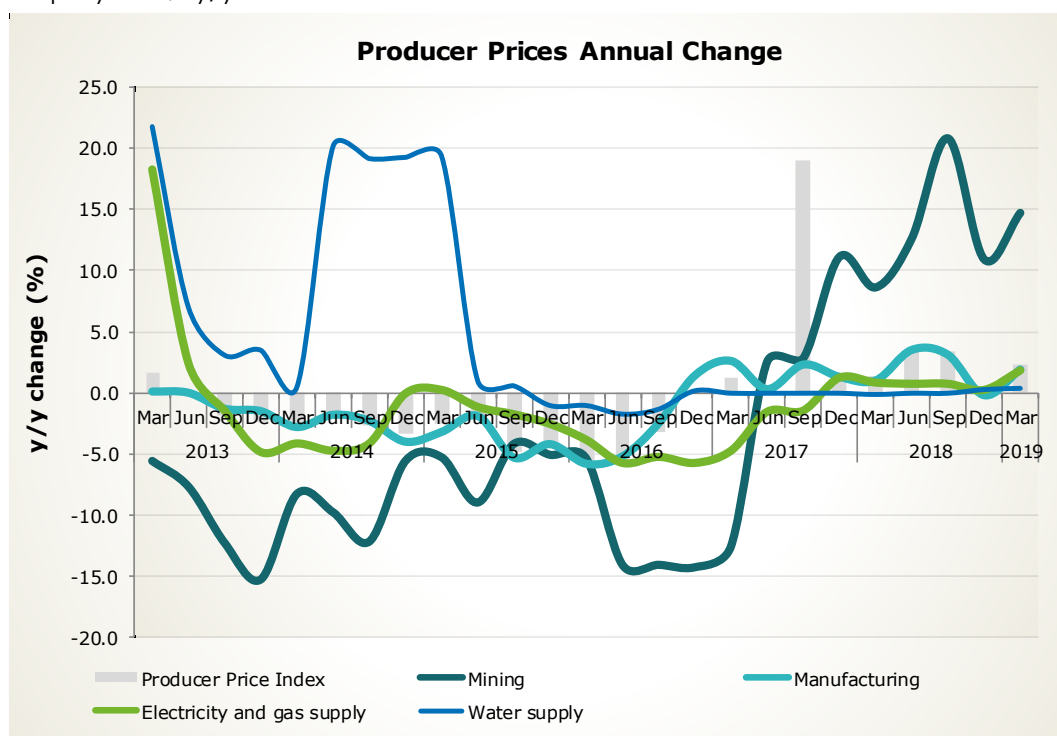
Consumer prices in Croatia increased by 1.4% y/y as of March 2019, down from 1.5% y/y in December 2018, according to DZS. The increase of the average consumer prices was primarily due to the 3.5% rise in the transport services prices and the 3.4% rise of the alcoholic beverages and tobacco products.





Source: DZS

Producer prices went up annually, by 2.3% in Q1 2019. Manufacturers' producer prices rose by 1.9% y/y, while the average producer prices in the mining sector went up by 14.7% y/y. The sector of electricity and gas supplies saw an increase of 1.8% y/y on average. Water supply inched up by 0.40% y/y.



Source: DZS

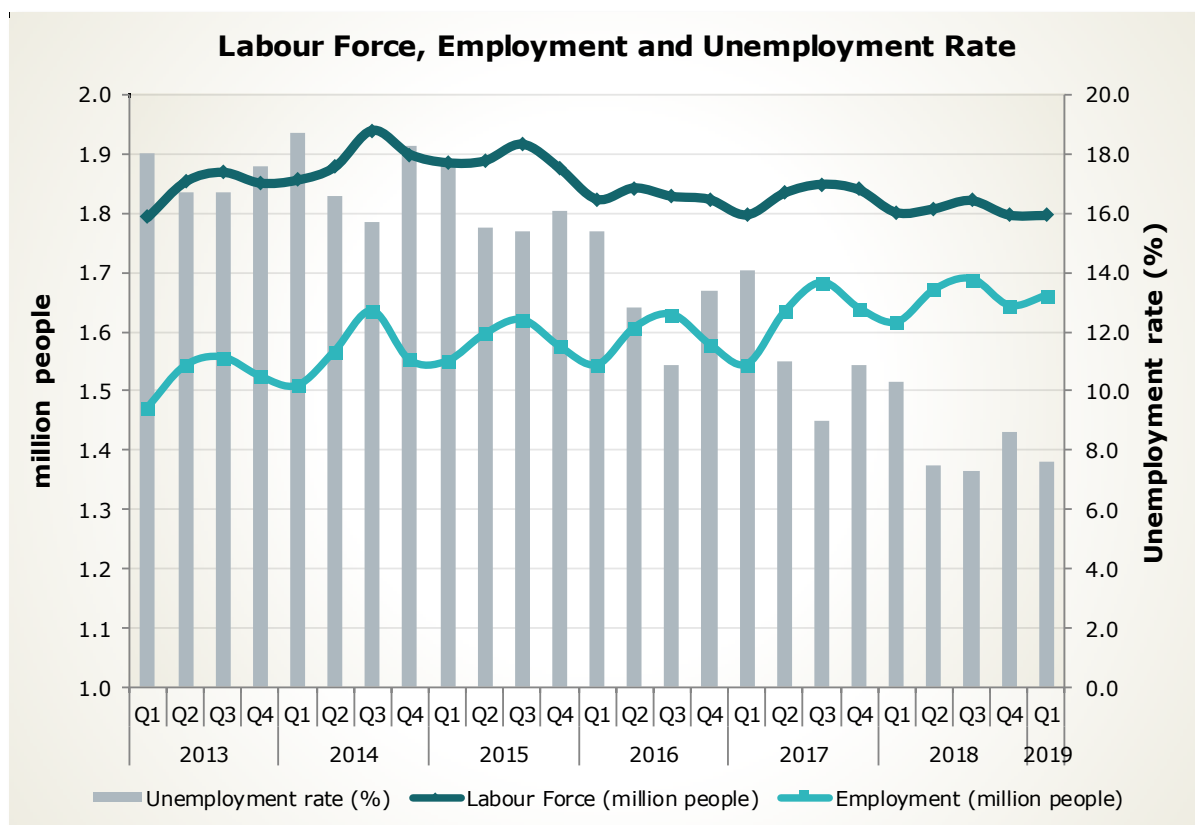
## 3. LABOUR MARKET

*Unemployment rate continued to trend downwards to 7.6% in Q1 2019, wages grew 3.6% y/y in the quarter*

The favourable labour market developments that marked the whole 2018 persisted in Q1 2019. The unemployment rate in Croatia narrowed to 7.6% of the total labour force in Q1 2019, down from an average unemployment rate of 10.3% in Q1 2018, according to data of DZS.

The dynamics of growth in the number of employed persons increased slightly during the year. The employed population aged 15 years and older was 1.661 million as of March 2019, up 2.8% y/y.

The average monthly net salary in the first quarter of 2019 went up by 3.6% y/y to HRK 6,411, according to data of DZS. The growth in salaries was a result of the improving economic developments in Croatia and in part reflects problems of labour shortages in specific types of occupations.



Source: DZS

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits increased by 5.7% y/y in Q1 2019*

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q1 2019 increased by 5.7% y/y and totalled 1,437, according to DZS data.

Permits for non-residential<sup>1</sup> buildings went down by 4.7% to 285, while permits for residential buildings registered an 8.6% increase to 1,152.

The total built-up area of the non-residential units, covered by the permits, shrank by 15.3% y/y to 197,947 sq m. The total built-up area of the housing units went up by 36.2% to 496,977 sq m.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1. HRK EXCHANGE RATE

The average quarterly exchange rate of the HRK against the EUR increased to HRK 7.4176 in Q1 2019 from HRK 7.4151 in Q4 2018, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR	7.4176	7.4151	7.4370
USD	6.5285	6.4977	6.0518
GBP	8.4989	8.3604	8.4196
CHF	6.5495	6.5278	6.3854

##### 5.2. MONETARY POLICY

##### *The national bank kept the policy rate unchanged at 3.0%*

The HNB continued its expansionary monetary policy keeping the monetary policy rate at 3.0% as of March 2019. The average weighted interest rate in inter-bank trade on the overnight market was at 2.5%.

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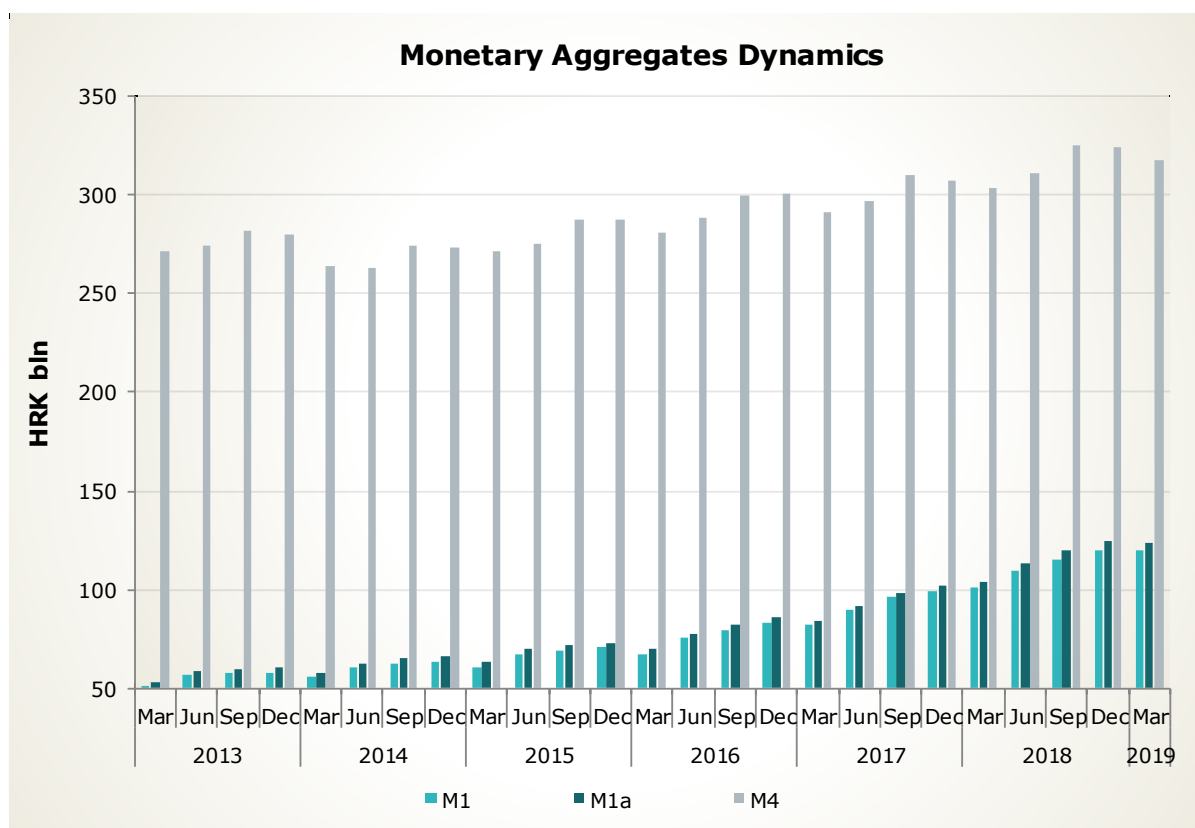
<sup>1</sup> Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

## 5.3. MONETARY AGGREGATES

### Money supply grew by 4.4% y/y in Q1 2019

In Q1 2019, 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 317.2 bln in Q1 2019, according to data provided by HNB.

Monetary aggregate M1 grew annually by 18.0%, while M1a increased by 18.6% compared to the previous year.



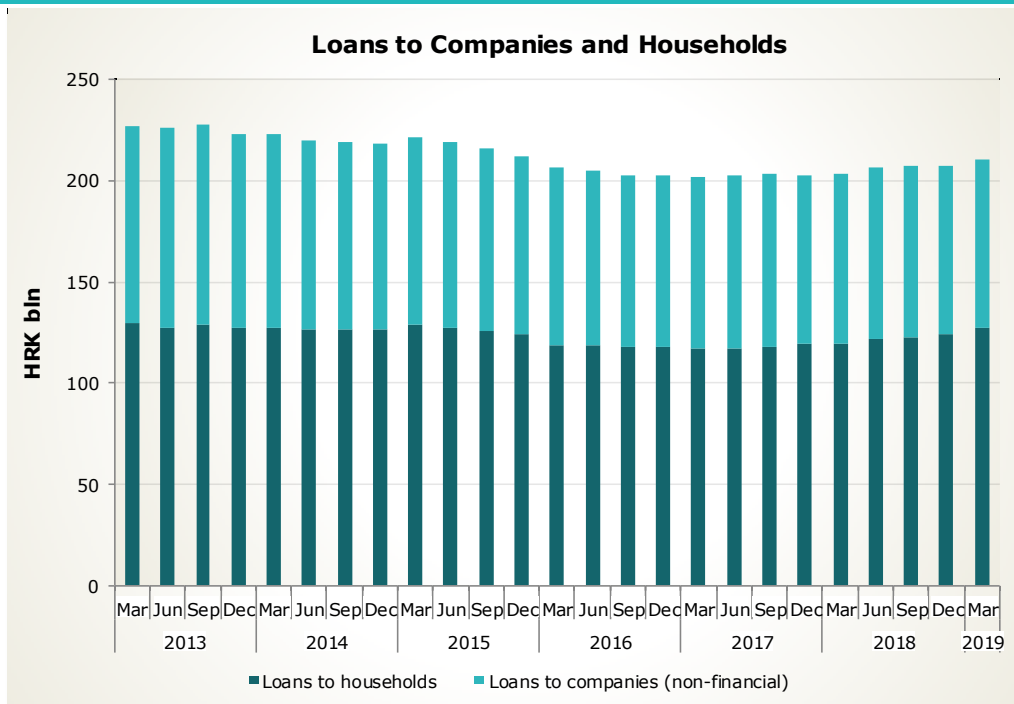
Source: HNB

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 6.0% y/y in Q1 2019

Household loans went up by 6.0% to HRK 126.920 bln, according to HNB data. House purchasing loans advanced by 3.5% to HRK 54.446 bln, accounting for 42.9% of the total loans. The second largest loan type, slicing a 39.0% share, was the any-purpose cash loan with its value rising to HRK 49.473 bln from HRK 44.153 bln in Q1 2018, according to HNB. Loans to non-financial corporations stood unchanged on an annual basis to HRK 83.231 bln.

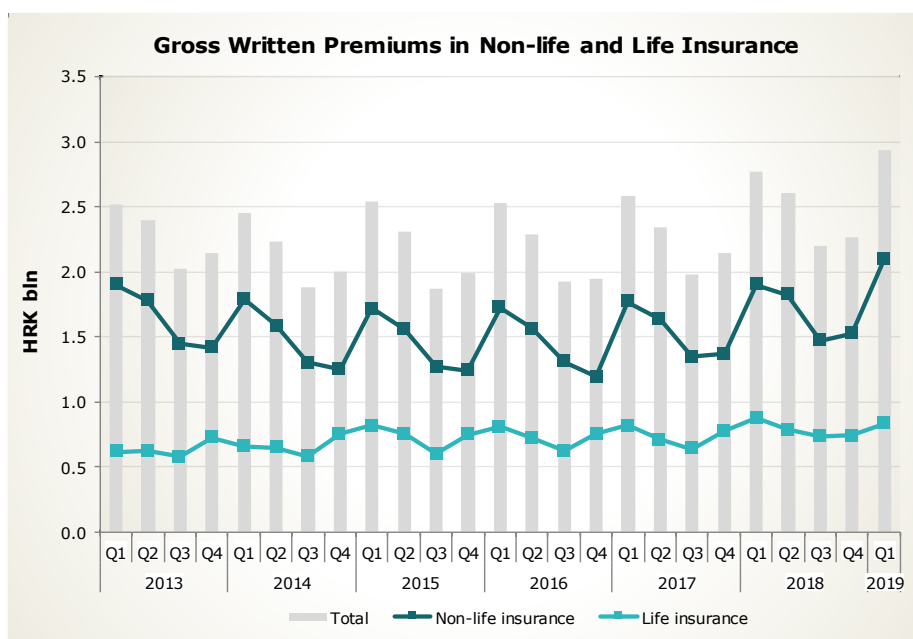


Source: HNB

## Insurance premium income up 6.0% y/y in Q1 2019

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.940 bln in Q1 2019, up by 6.0% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 10.8% annual increase of the non-life insurance sector, which posted GWP of HRK 2.104 bln. The life insurance sector dropped by 4.5% y/y to HRK 0.835 bln.

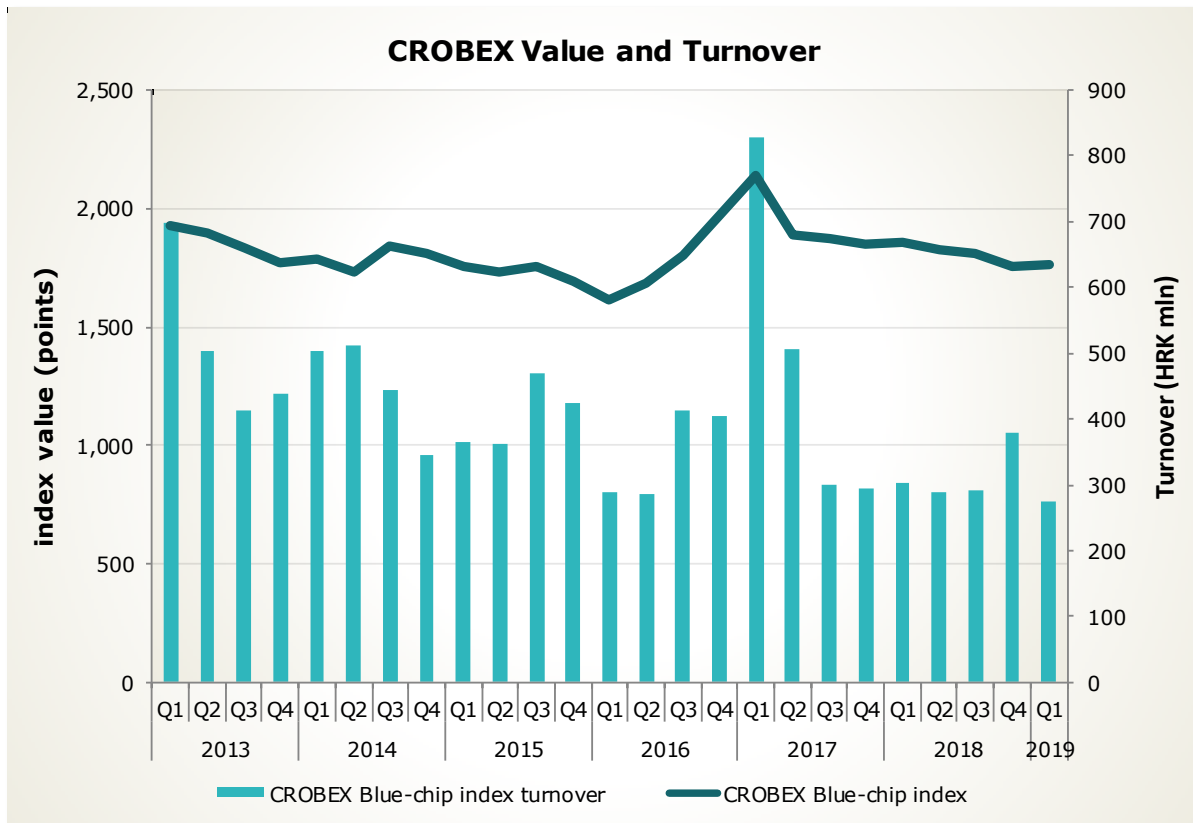


Source: HANFA

## 6. CAPITAL MARKETS

### Blue-chip CROBEX slightly up in Q1 2019

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by the minimal 0.5% y/y to 1,764.51 points in the end of March 2019. The CROBEX turnover totalled HRK 275.3 mln in Q1 2019, compared to HRK 301.9 mln in Q1 2018.



Source: ZSE

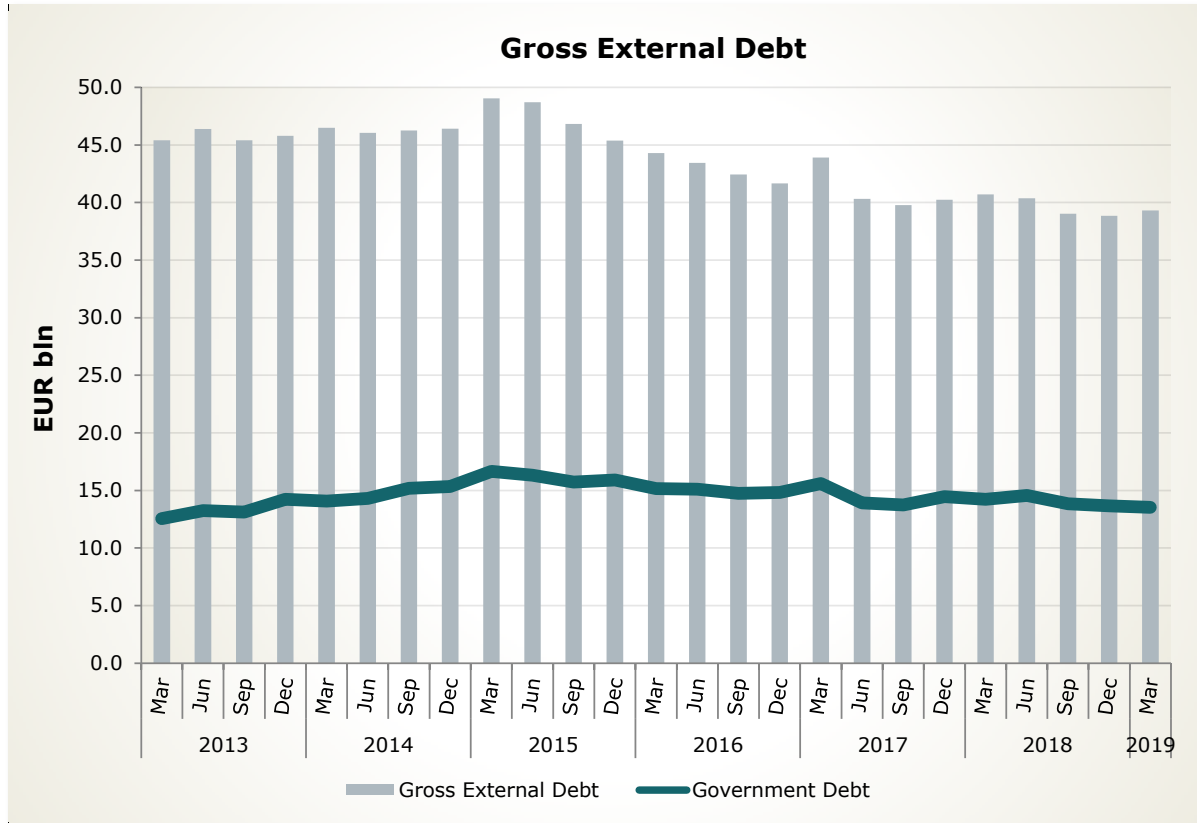
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### Gross external debt down y/y to EUR 39.304 bln in March 2019

The gross external debt totalled EUR 39.304 bln as of March 2019, according to HNB. It went down by 3.5% y/y and by EUR 468.3 mln in comparison to end-2018.

As of March 2019, long-term liabilities amounted to EUR 28.124 bln, or 71.6% of the total debt, decreasing by 3.4% on the year. Short-term liabilities totalled EUR 5.147 bln, equal to 13.1% of the total debt and up by 7.2% compared to a year ago.



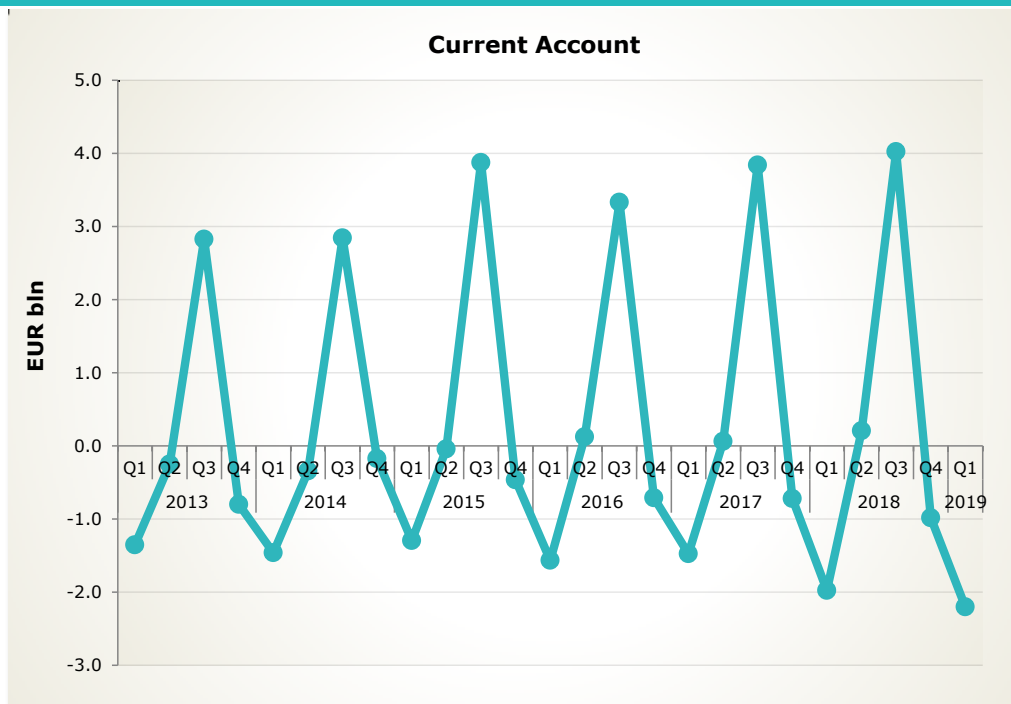
Source: HNB

## 7.2. BALANCE OF PAYMENTS

### Current account deficit up 11.4% y/y to EUR 2.203 bln

In Q1 2019, Croatia had a current account deficit of EUR 2.203 bln, up 11.4% y/y, according to HNB statistics data. In the previous quarter, the current account deficit was EUR 983.9 mln. 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 secondary income account was positive during Q1 2019 at EUR 294.8 mln, compared to a surplus of EUR 338.9 mln in Q1 2018.

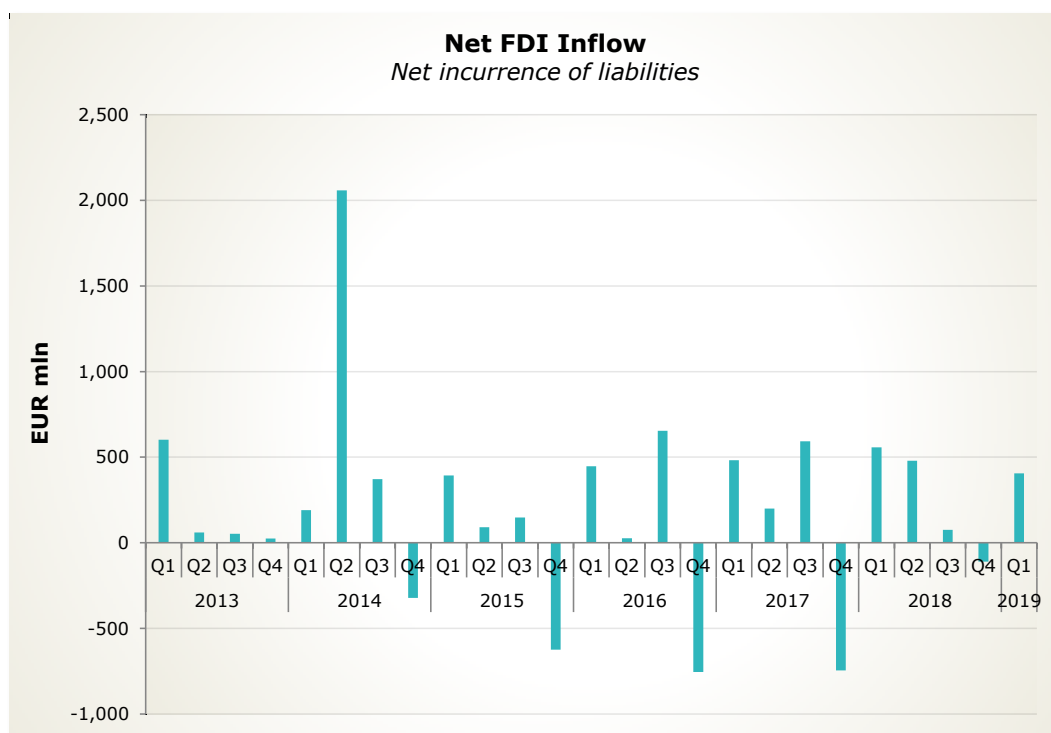


Source: HNB

### 7.3. FDI

#### Net FDI inflow at EUR 405.0 mln in Q1 2019

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 405.0 mln in Q1 2019, according to preliminary data of HNB. This was a 27.3% drop compared to a year earlier when FDIs amounted to EUR 557.4 mln.



Source: HNB

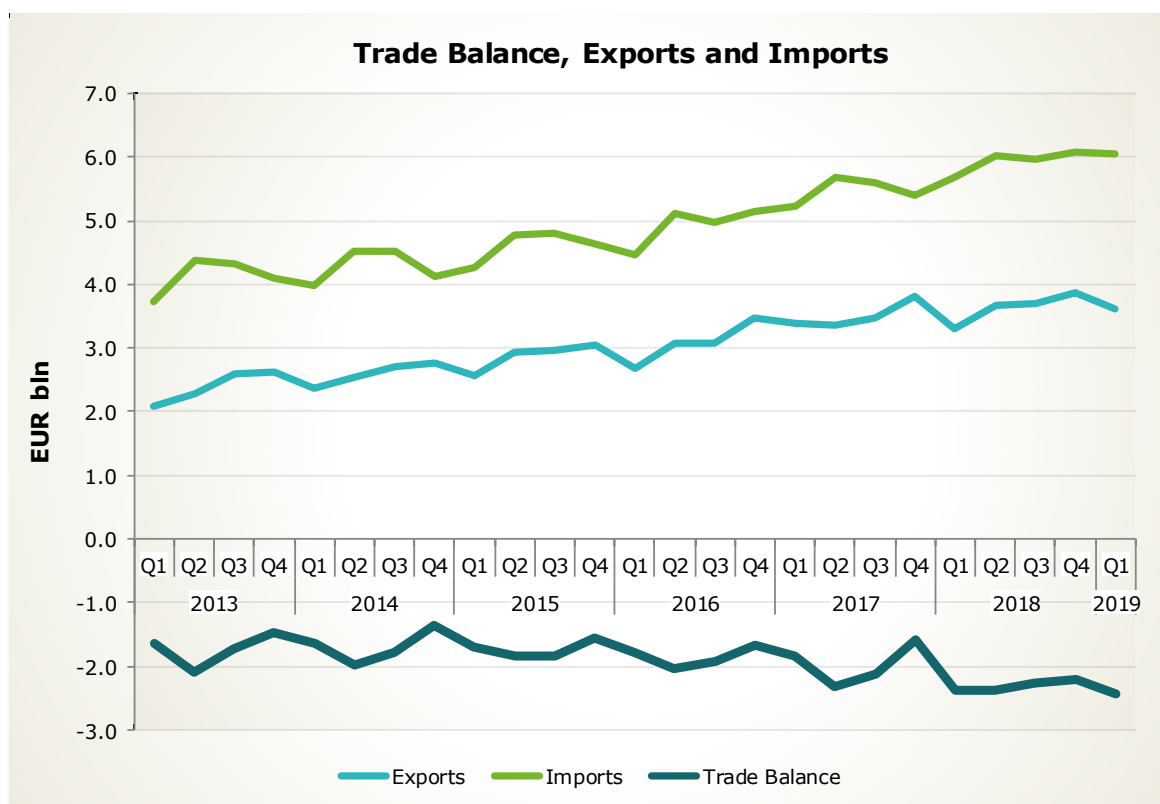


## 7.4. FOREIGN TRADE

### Foreign trade deficit swelled by 2.5% y/y to EUR 2.429 bln in Q1 2019

The trade deficit stood at EUR 2.429 bln in Q1 2019, compared to EUR 2.369 bln in the same period of the previous year, according to DZS.

Exports grew 9.6% y/y to EUR 3.618 bln, while imports increased by 6.6% on the year to EUR 6.047 bln. Imports increased more than exports as a consequence of the faster growth in the import of tobacco products and products manufactured in the professional, scientific and technical activities sector.



Source: HNB

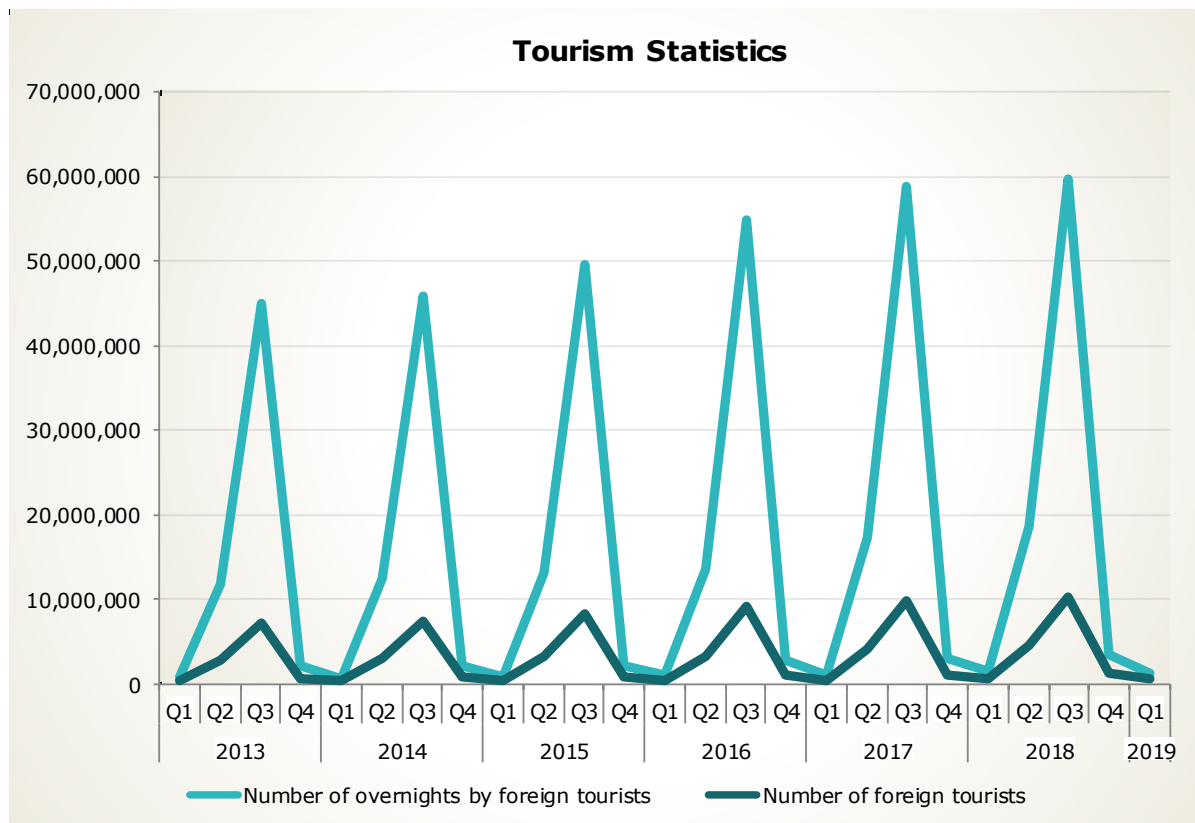
## 7.5. TOURSIM

### Number of foreign tourist overnights decreased by 5.5% y/y in Q1 2019

Croatia is a popular sea tourist destination due to its long coastline on the Adriatic Sea. Nevertheless, the tourist overnights of foreigners decreased by an annual 5.5% to 1.326 mln in Q1 2019, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 1.998 mln in the quarter, down by 1.7% in comparison to a year earlier.

The number of foreign tourists went up by 4.7% y/y to 608,879.



Source: DZS

## 8. MAJOR DEVELOPMENTS

### **Croatia has highest share of innovative enterprises among SEE countries**

Mar 14, 2019

Croatia has the highest percentage of companies with innovation activity among the countries of Southeast Europe with 48% of all enterprises, according to a new Eurostat survey.

[Read the full story here](#)

### **Croatia backs project to build EUR 70.1 mln bridge to Bosnia**

Feb 22, 2019

Croatia's government has approved a conclusion on financing a project for construction of a cross-border bridge across the river Sava at Gradiska, in northern Bosnia, along with an access road.

[Read the full story here](#)

### **IMF encourages Croatia to entirely implement structural reforms**

Feb 14, 2019

Croatia's authorities need to grasp the opportunity given by positive macroeconomic conditions in order to proceed with the reform agenda, according to the International Monetary Fund (IMF).

[Read the full story here](#)

## **Croatia approves EUR 234 mln in funding for LNG terminal**

Jan 30, 2019

Croatia's government approved the allocation of EUR 234 mln of budget funding for the first phase of a project to build a liquefied natural gas (LNG) terminal on the island of Krk.

[Read the full story here](#)

## **EIF launch EUR 70 mln investment programme to back Croatian SMEs**

Jan 29, 2019

The European Investment Fund and Croatia's development bank HBOR are launching a EUR 70 mln equity investment programme in support of fast-growing SMEs and mid-caps.

[Read the full story here](#)

## **Croatia's 2018 new passenger car registrations up 18.7%**

Jan 16, 2019

New passenger car registrations in Croatia increased 18.7% year-on-year to 59,856 in 2018, provisional data from the European Automobile Manufacturers' Association (ACEA) showed.

[Read the full story here](#)

## **EU Commission endorses reintroduction of bank resolution scheme in Croatia**

Jan 14, 2019

The European Commission has authorised the reintroduction of a bank resolution scheme in Croatia for small banks with total assets below EUR 1.5 bln. The bank resolution scheme was originally approved in October 2016 and was prolonged in June the following year. It aims to facilitate the work of Croatian resolution authorities, should a concrete case and need arise for it.

[Read the full story here](#)

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