

## **CROATIA ECONOMY REPORT**

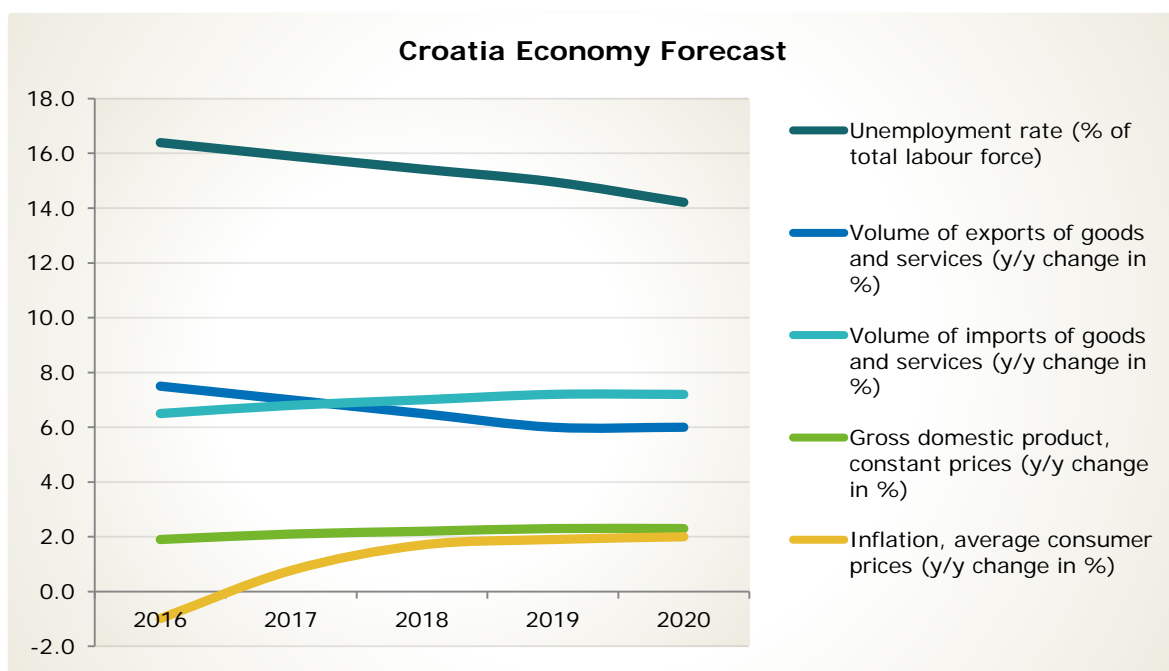
### Q2 2016

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
<b>GDP Growth</b>	2.8% y/y
<b>Industrial output</b>	5.2% y/y
<b>Industrial sales</b>	-6.7% y/y
<b>Wholesales</b>	4.3% y/y
<b>Retail sales</b>	-0.9% y/y
<b>Average annual deflation</b>	1.1%
<b>Unemployment rate</b>	12.8%
<b>Number of building permits</b>	30.2% y/y
<b>Money supply growth</b>	4.6% y/y
<b>Household loans</b>	-7.4% y/y
<b>CROBEX blue-chip index</b>	-2.8% y/y
<b>Gross external debt</b>	EUR 43.404 bln
<b>Current account surplus</b>	EUR 152.2 mln
<b>Net FDI inflow</b>	EUR 103.1 mln
<b>Foreign trade deficit</b>	EUR 2.005 bln
<b>Number of foreign tourist overnights</b>	3.6% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

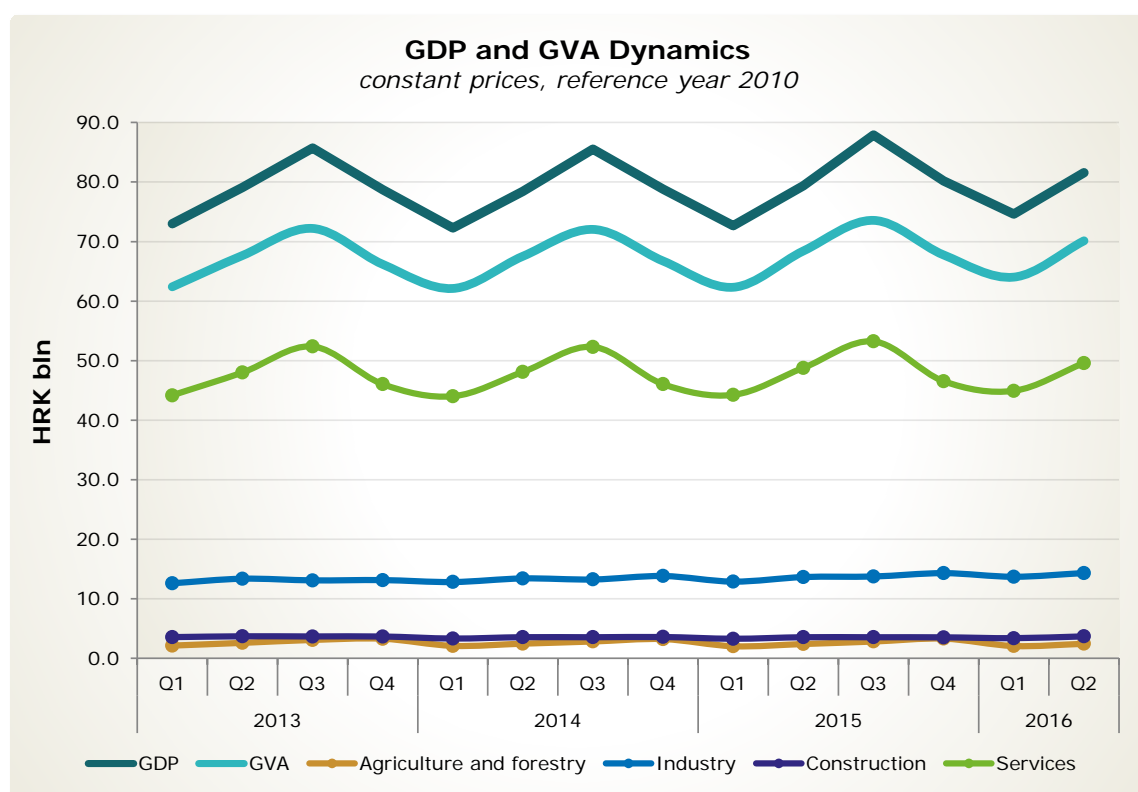
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by real 2.8% y/y in Q2 2016, compared to a 1.2% y/y increase a year ago*

The country's GDP grew by a real 2.8% y/y and totalled HRK 81.571 bln in Q2 2016, according to preliminary data of the Croatian Bureau of Statistics (DZS).

Final consumption, which contributed 79.8% to the GDP, expanded by 2.2%. Gross capital formation went up by 9.6%, contributing 24.5% to the GDP. Both exports and imports grew - by 4.0% and 7.3%, respectively.



Source: DZS

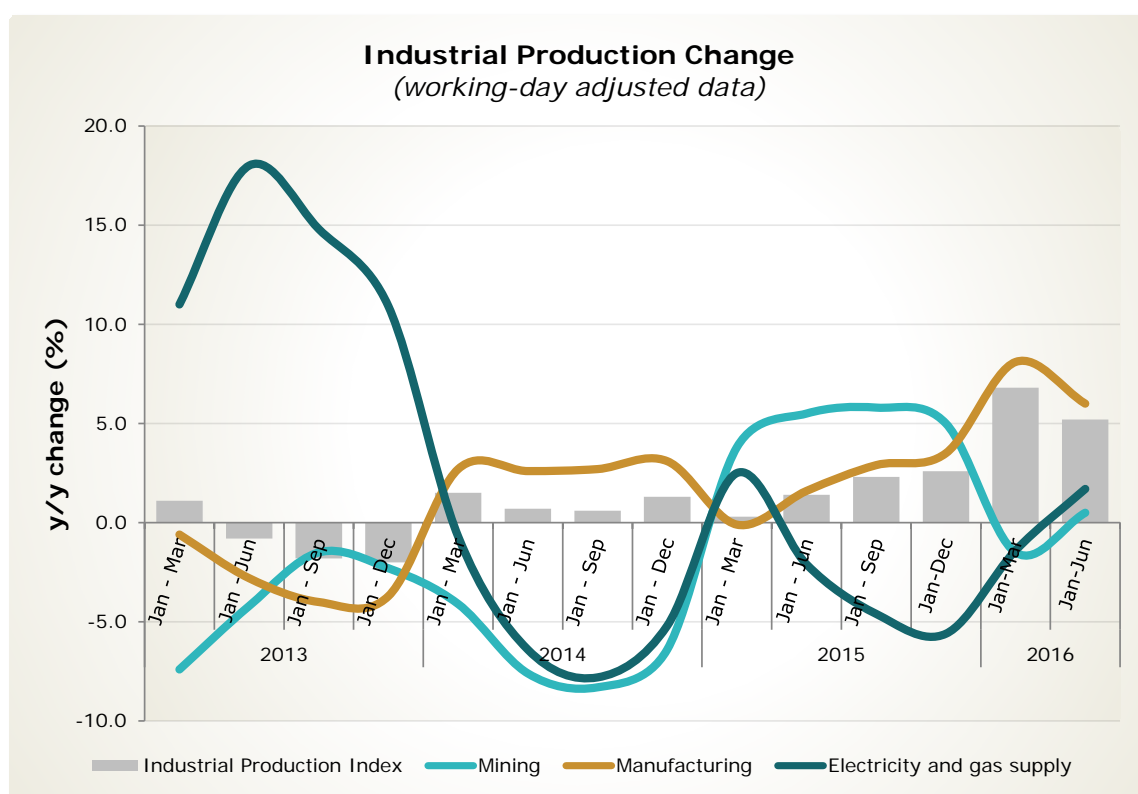
The gross value added (GVA) generated by the national economy grew in value by 2.5% y/y in Q2 2016 and totalled HRK 70.133 bln. The industrial sector increased by 4.9% and its share in the GVA structure widened to 20.4% from 20.0%. The construction sector went up by 4.1%, but its share in the GVA inched up only to 5.3% from 5.2%. The services sector recorded a 1.7% annual increase, slicing a 70.7% share in the GVA, down from 71.3%. The agricultural sector increased by 1.3%, while its share in the GVA remained unchanged, at 3.5%.

## 2.2. INDUSTRIAL OUTPUT

### *Industrial output rose by 5.2% y/y in January - June 2016*

Industrial output went up by 5.2% on the year in January to June 2016, according to DZS data. The growth was backed by the 6.0% annual increase of the output of the manufacturing sector, while the production of the mining, and electricity and gas supply sectors inched up by 0.5% and 1.7%, respectively.

Manufacture of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 50.8%, while manufacture of basic metals' output dropped the most, by 17.9% y/y.



Source: DZS

## 2.3. INDUSTRIAL SALES

### *Industrial sales went down by 6.7% y/y in January - June 2016*

Industrial sales decreased by 6.7% y/y in the first six months of 2016, compared to a 5.0% annual rise in the corresponding period of the previous year, according to DZS. Industrial turnover on the domestic market fell by 8.8%, while non-domestic turnover narrowed by 2.7%.

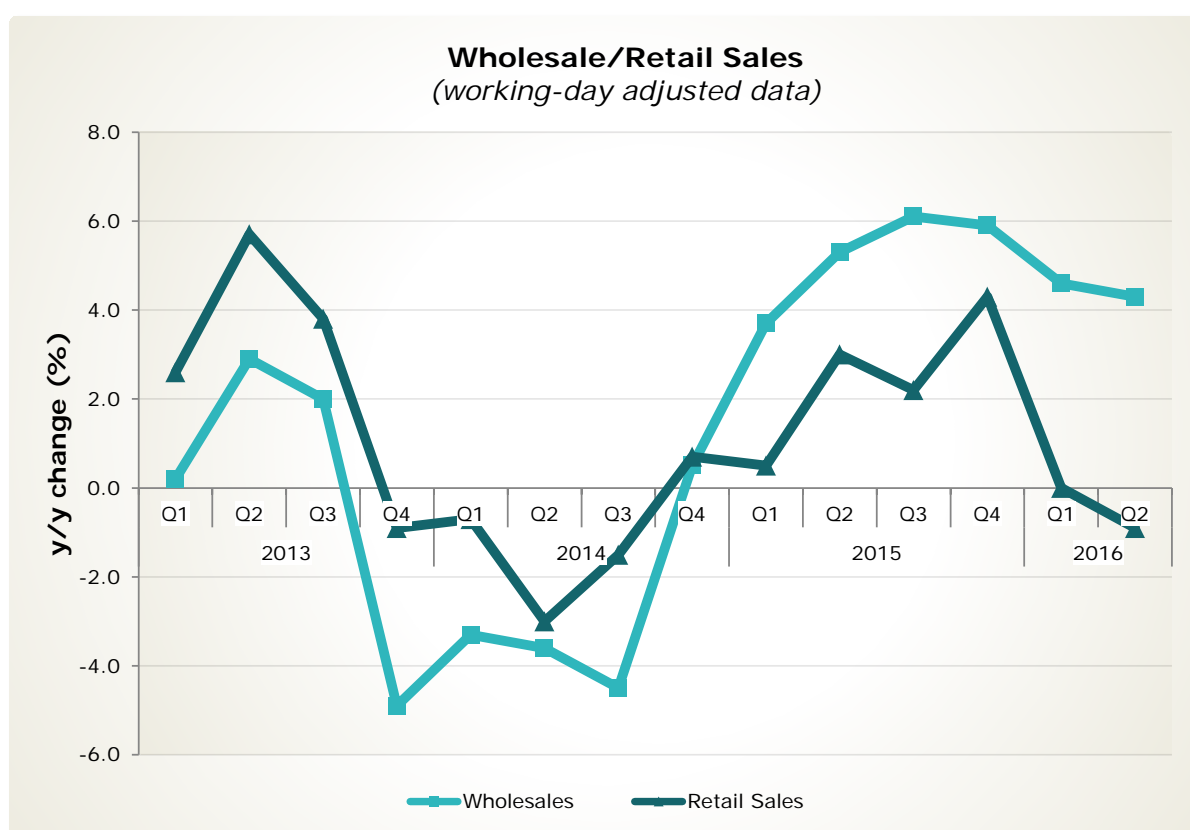
Industrial sales were pushed down by the 44.8% annual drop of sales in the energy sector, the 4.3% decrease in sales of consumer non-durables and the reduction of intermediate goods sales by 2.9%. On the other hand, sales of consumer durables jumped by 10.6%, followed by the 7.2% annual rise in the sales of capital goods.

## 2.4. WHOLESALE/RETAIL

### *Retail sales down, wholesales further up y/y in Q2 2016*

Retail sales registered an annual decrease of 0.9% in the second quarter of 2016 after a standstill in Q1 2016, according to DZS data. For comparison, a year earlier, retail sales moved up annually by 3.0%.

The wholesale sector went up by 4.3% y/y, following a 4.6% rise in the first quarter of 2016 and a 5.3% increase in Q2 2015.



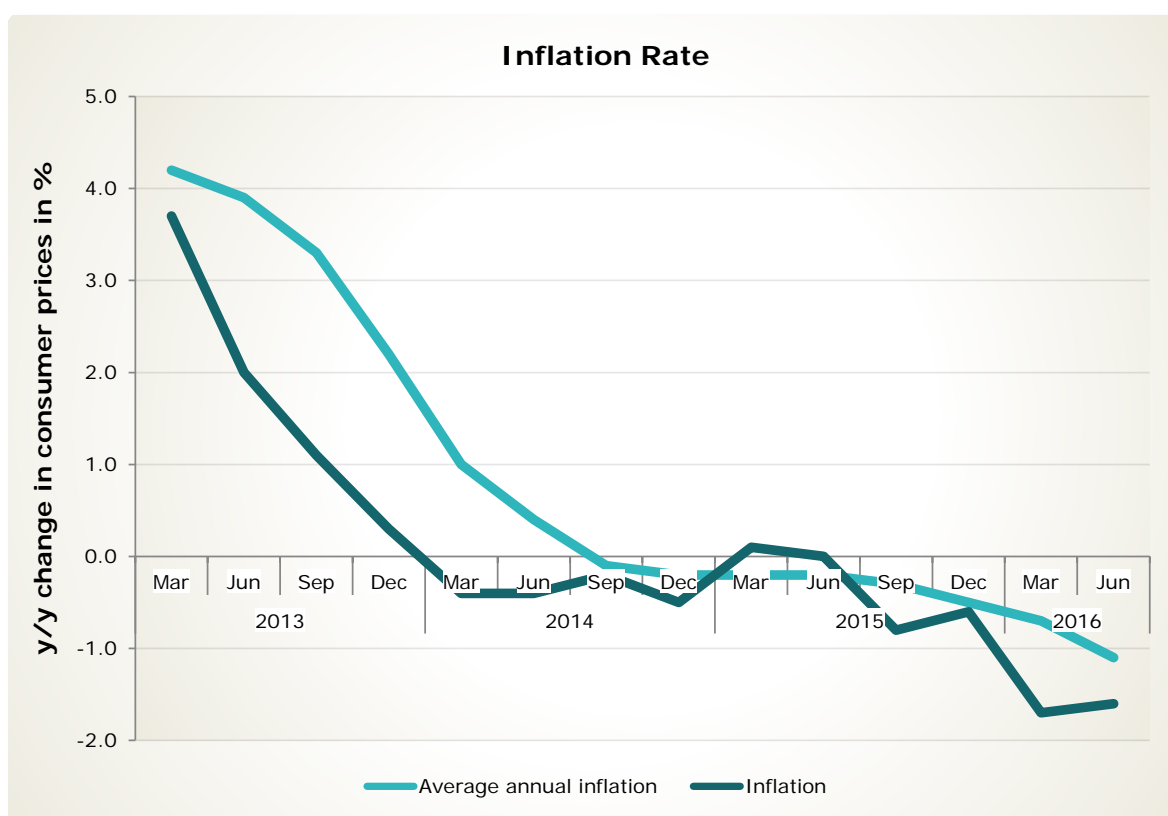
Source: DZS

## 2.5. INFLATION

### *Average annual deflation of 1.1% as of June 2016*

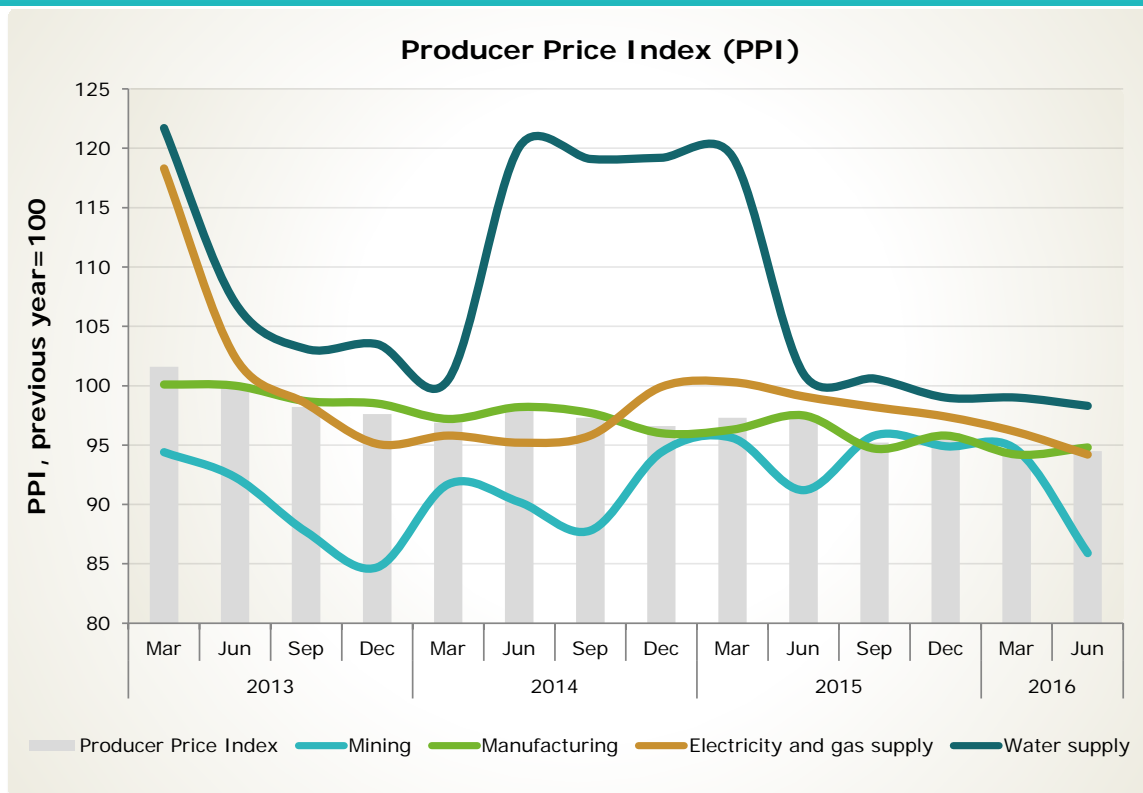
Consumer prices in Croatia went down by 1.1% in the period July 2015 – June 2016, compared to July 2014 – June 2015, according to DZS.

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 27.5%, 14.3% and 11.0%, respectively. The consumer group to report the sharpest inflation was hospital services – 26.1%, followed by sewage collection and passenger transport by air, posting an inflation of 13.7% and 9.7%, respectively.



Source: DZS

Producer prices went down annually, by 5.5% in June 2016. Producer prices in the manufacture of coke and refined petroleum products deflated the sharpest, by 23.5%. Inflation, of between 0.2% and 2.3%, was registered in six sectors only. Producer prices remained unchanged in annual terms for mining support service activities, and repair and installation of machinery and equipment.



Source: DZS

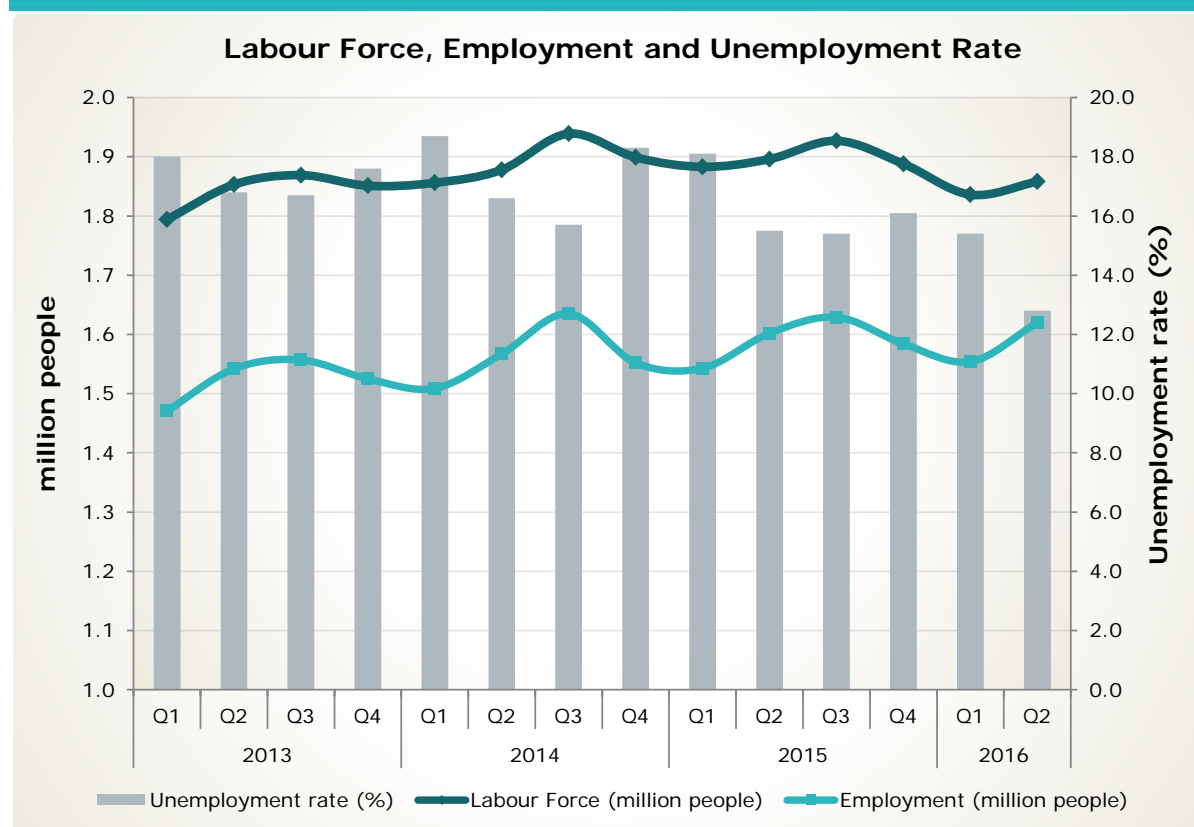
### 3. LABOUR MARKET

*Unemployment rate went down y/y to 12.8%, wages drop 0.8% y/y as of June 2016*

Unemployment in Croatia narrowed to 12.8% of the total labour force in Q2 2016 from 15.5% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.620 million in April to June 2016, up from 1.602 million in the corresponding period of the previous year.





Source: DZS

The average monthly net salary in April – June 2016 inched down by 0.8% y/y to HRK 5,675, according to data of DZS. In the period under review, employees in the financial and insurance activities, electricity, gas, steam and air conditioning supply, and mining and quarrying sectors earned the highest salaries of HRK 8,034, HRK 7,876 and HRK 7,798, respectively.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits jumped by 30.2% y/y in Q2 2016*

The number of permits for new buildings, excluding civil engineering, issued in Croatia in the second quarter of 2016 went up by 30.2% y/y and totalled 1,086, according to DZS data.

Permits for non-residential<sup>1</sup> buildings increased by 17.0% to 289, while permits for residential buildings soared by 35.8% to 797.

<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.

The total built-up area of the non-residential units covered by the permits slumped by 47.0% y/y to 245,293 sq m. The total built-up area of the housing units went up by 33.9% to 240,500 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 7.5003 in Q2 2016 from HRK 7.5713 in Q2 2015, according to the Croatian National Bank (HNB).

Average Quarterly HRK Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
EUR	7.5003	7.6186	7.5713
USD	6.6386	6.9171	6.8608
GBP	9.5330	9.9032	10.4940
CHF	6.8435	6.9533	7.2782

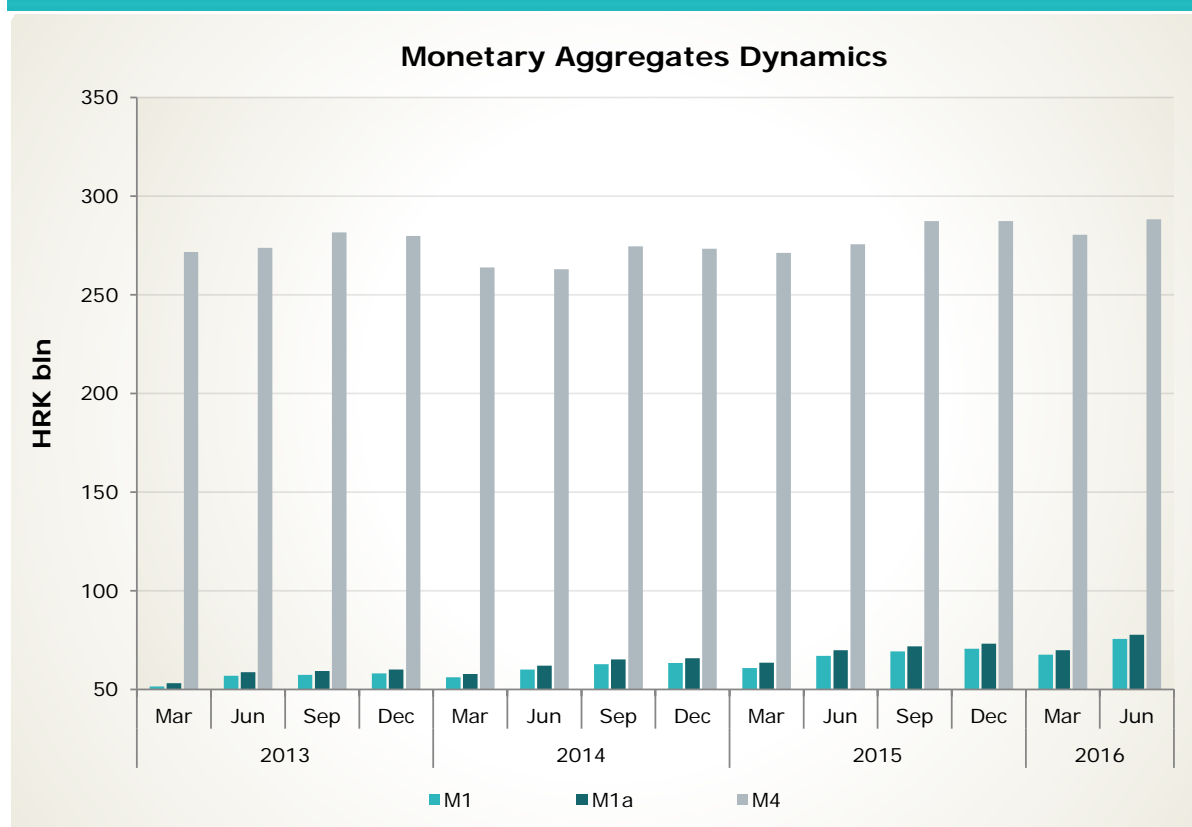
### 5.2. MONETARY AGGREGATES

*Money supply growth was 4.6% y/y as of June 2016*

Broad money (money aggregate M4) increased by 4.6% y/y and reached HRK 288.2 bln in June 2016, according to data provided by HNB.

The M1a<sup>2</sup> money aggregate rose by 11.2% to HRK 77.782 bln and money aggregate M1, or narrow money, also went up, by 12.7%, to HRK 75.613 bln.

<sup>2</sup> 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.



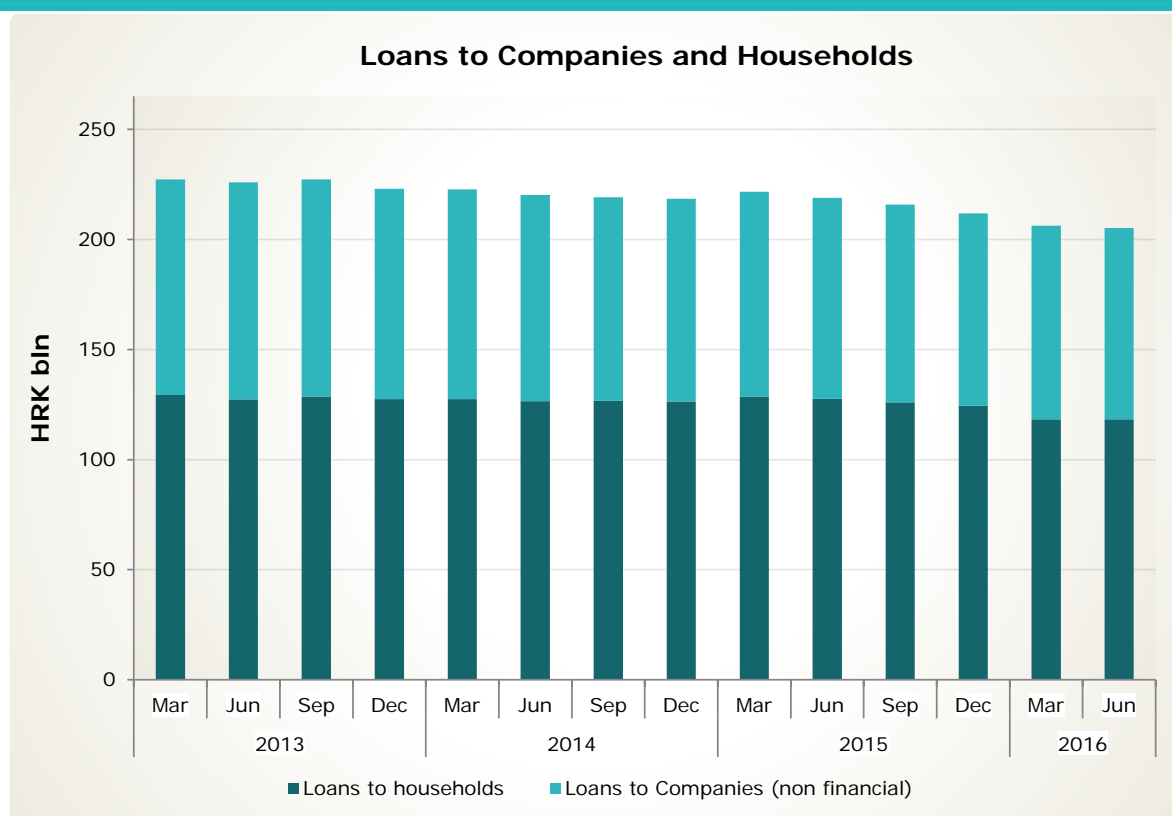
Source: HNB

## 5.3. BANKING AND INSURANCE

### *Household loans decreased by 7.4% y/y in June 2016*

Household loans went down by 7.4% to HRK 118.2 bln, according to HNB data. House purchasing loans narrowed by 14.7% to HRK 52.556 bln, accounting for 44.4% of the total loans. The second largest loan type, slicing a 34.2% share, was the any-purpose cash loan with its value rising to HRK 40.423 bln from HRK 39.379 bln.

Loans to non-financial corporations went down by 4.7% y/y to HRK 86.903 bln. Loans with a maturity of more than five years accounted for the bulk, or 52.0%, of the total corporate loans.



Source: HNB

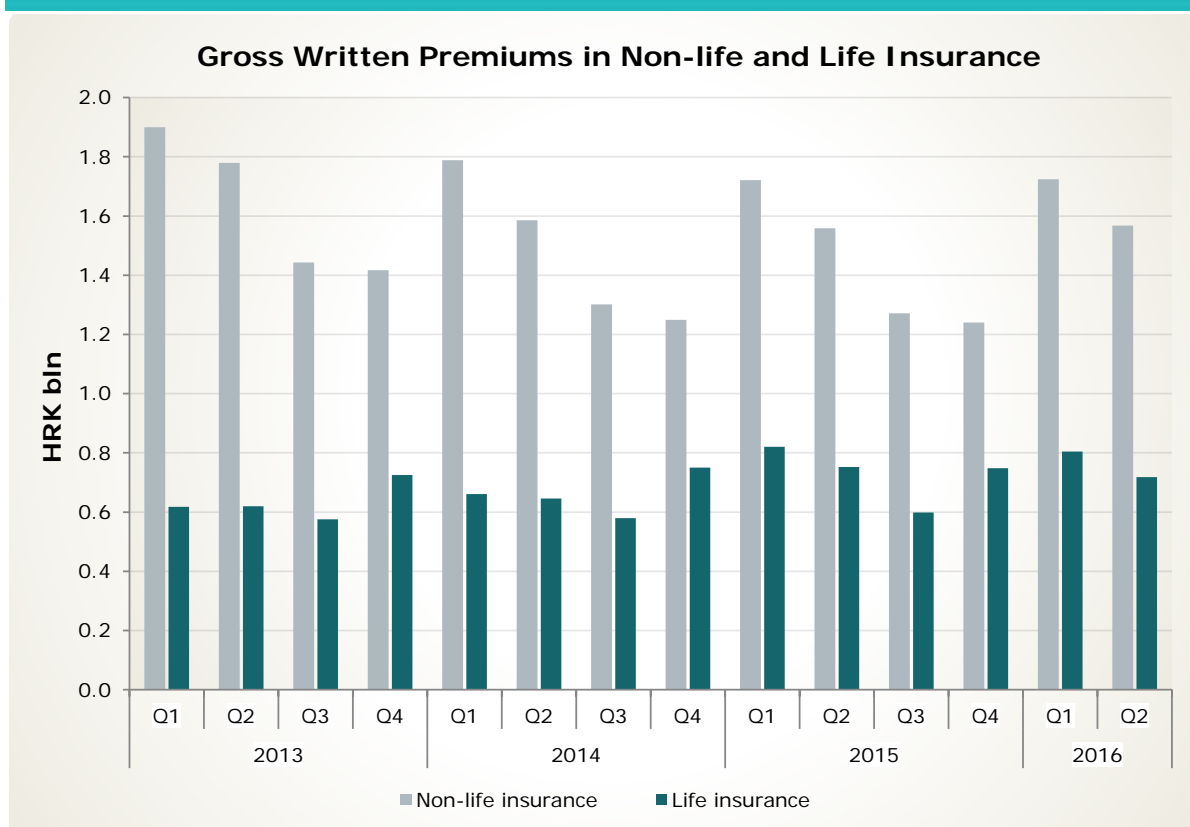
As of June 2016, the total assets of the banking system totalled HRK 403.5 bln, down from HRK 419.3 bln in June 2015. The record-high total assets value in the past ten years, of HRK 428.5 bln, was registered in September 2015.

### Insurance premium income down 1.1% y/y in Q2 2016

The total gross written premiums (GWP) of the non-life and life insurance companies stood at HRK 2.285 bln, down by 1.1% y/y in Q2 2016, according to the Croatian Financial Services Supervisory Agency (HANFA).

The downtrend was due to the 4.5% annual decrease of the life insurance sector, which posted GWP of HRK 718.0 mln. The non-life insurance sector inched up by 0.5% y/y to HRK 1.567 bln.

The predominant non-life insurance type in Q2 2016 was motor vehicle liability insurance, which accounted for 25.3% of the total GWP, or HRK 577.9 mln, going down in annual terms by 4.1%.

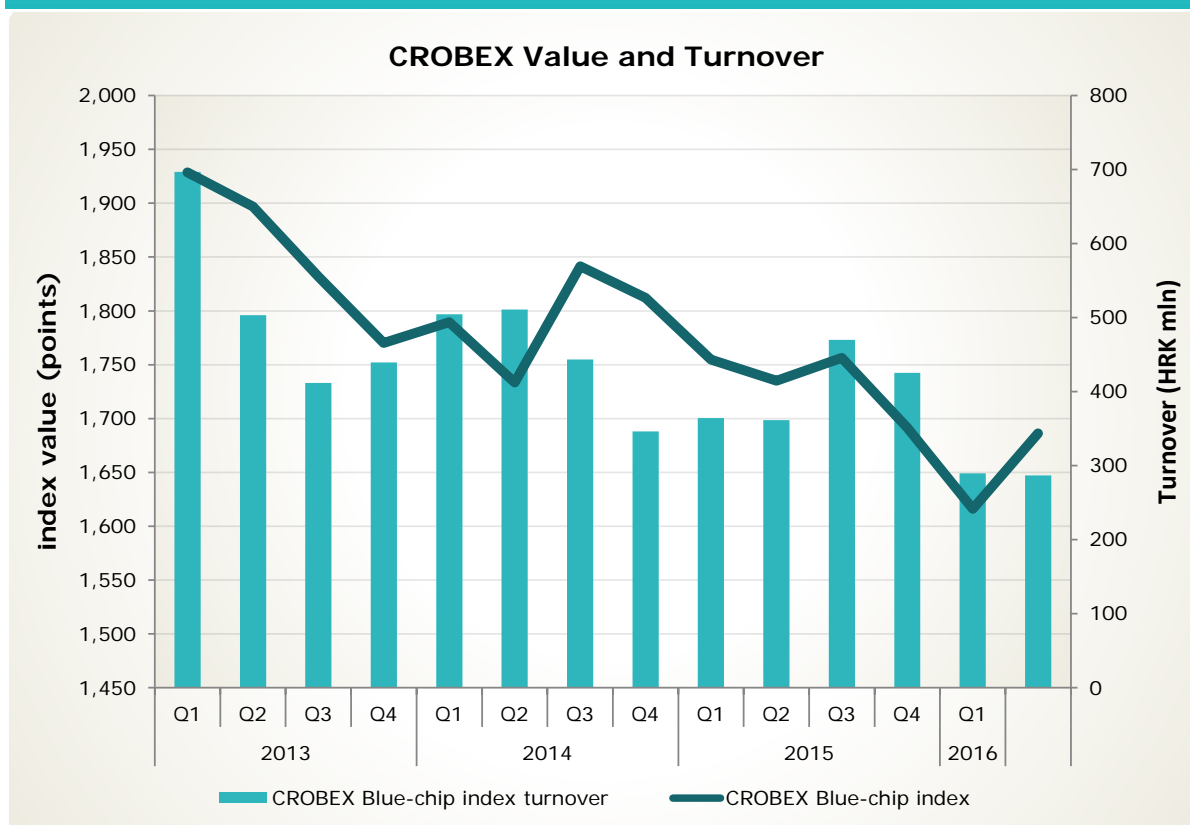


Source: HANFA

## 6. CAPITAL MARKETS

### Blue-chip CROBEX down by 2.8% y/y in Q2 2016

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), fell by 2.8% y/y to 1,686 points in Q2 2016. During the quarter, CROBEX's value fluctuated between 1,650 points and 1,721 points. The CROBEX turnover totalled HRK 286.9 mln in Q2 2016, compared to HRK 361.5 mln a year earlier.



Source: ZSE

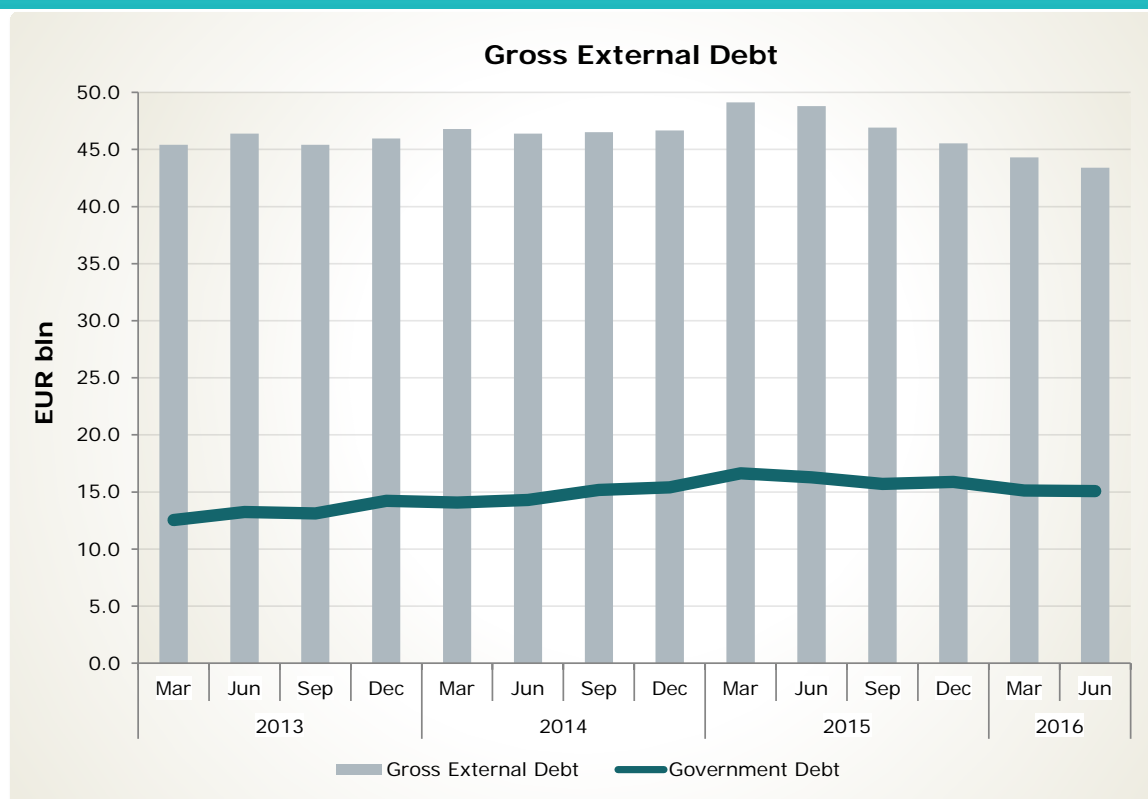
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt narrowed y/y to EUR 43.404 bln in June 2016*

The gross external debt totalled EUR 43.404 bln as of June 2016, according to HNB. It went down by 11.0%, or EUR 5.389 bln, compared to June 2015.

As of June 2016 long-term liabilities amounted to EUR 34.315 bln, or 79.1% of the total debt, decreasing by 11.1% on the year. Short-term liabilities totalled EUR 3.564 bln, equal to 8.2% of the total debt and up by 2.1% compared to a year ago.



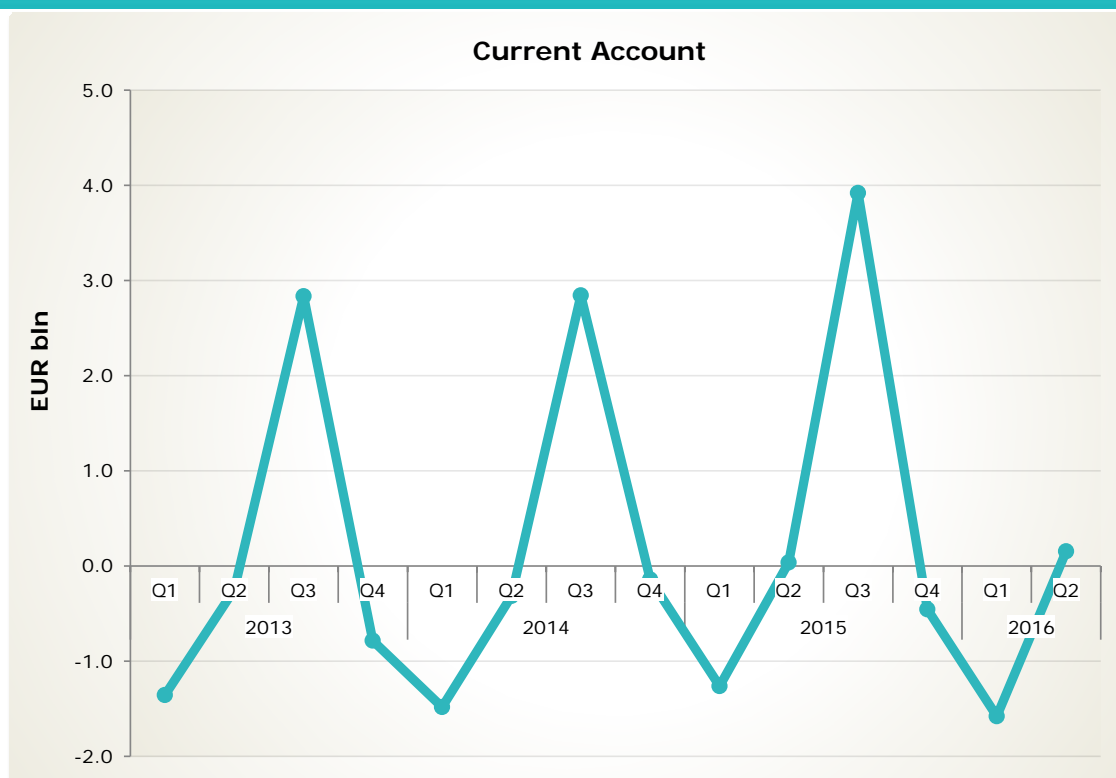
Source: HNB

## 7.2. BALANCE OF PAYMENTS

### Current account surplus at EUR 152.2 mln in Q2 2016

The current account surplus halved to EUR 152.2 mln in Q2 2016 from EUR 35.841 mln a year earlier, according to central bank statistics data. In the previous quarter, Q1 2016, a deficit of EUR 1.580 bln is reported.

Secondary income came in at EUR 471.6 mln, up 54.7% y/y. The rise was caused by the 24.2% annual increase of the secondary income credit account.



Source: HNB

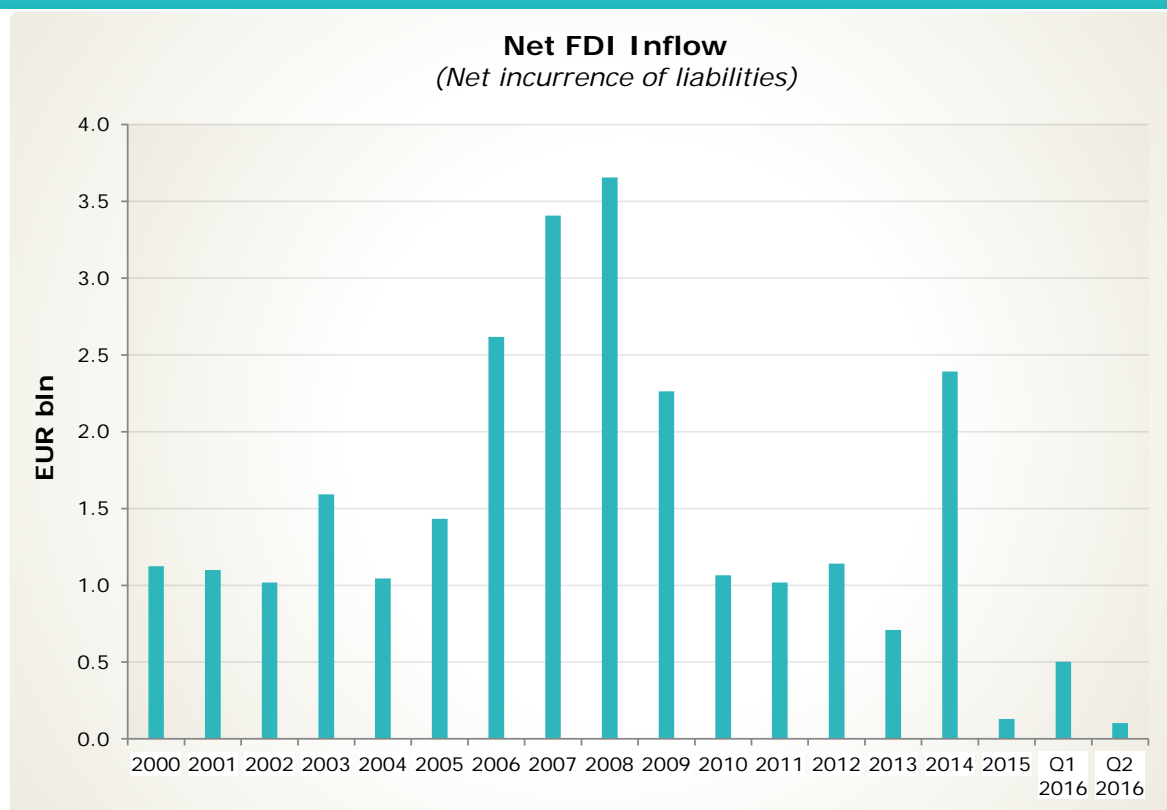
## 7.3. FDI

### *Net FDI inflow at EUR 103.1 mln in Q2 2016*

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 103.1 mln in Q2 2016, according to preliminary data of HNB.

In the first half of 2016, the largest foreign investors in Croatian economy were Austria, Luxembourg and Germany with a combined share of 77.9% in the total FDI inflow in the country.





Source: HNB

## 7.4. FOREIGN TRADE

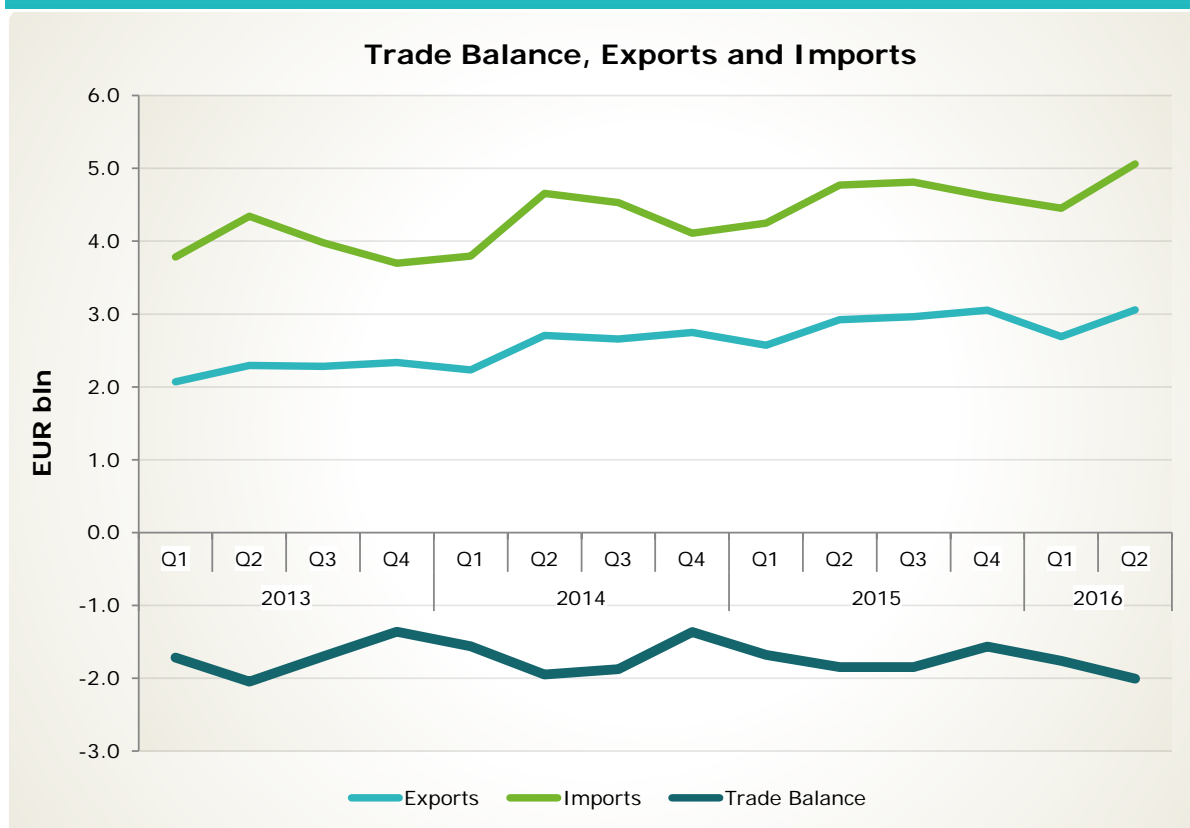
### Foreign trade deficit widened by 8.5% y/y in Q2 2016

The trade deficit stood at EUR 2.005 bln in Q2 2016, compared to EUR 1.848 bln in the corresponding quarter of the previous year, according to DZS.

Exports grew to EUR 3.056 bln from EUR 2.924 bln, while imports increased by 6.1% on the year to EUR 5.061 bln.

Croatia's most exported goods in the first half of 2016 were food products, which accounted for 8.8% of the total exports, followed by fabricated metal products, except machinery and equipment, with a 8.5% share, and machinery and equipment with a 7.5% share.

In terms of imports, the main goods were again food products, which made up 8.9% of the total, followed by machinery and equipment, slicing a 8.4% share, and motor vehicles, trailers and semi-trailers, which had a 7.8% share.



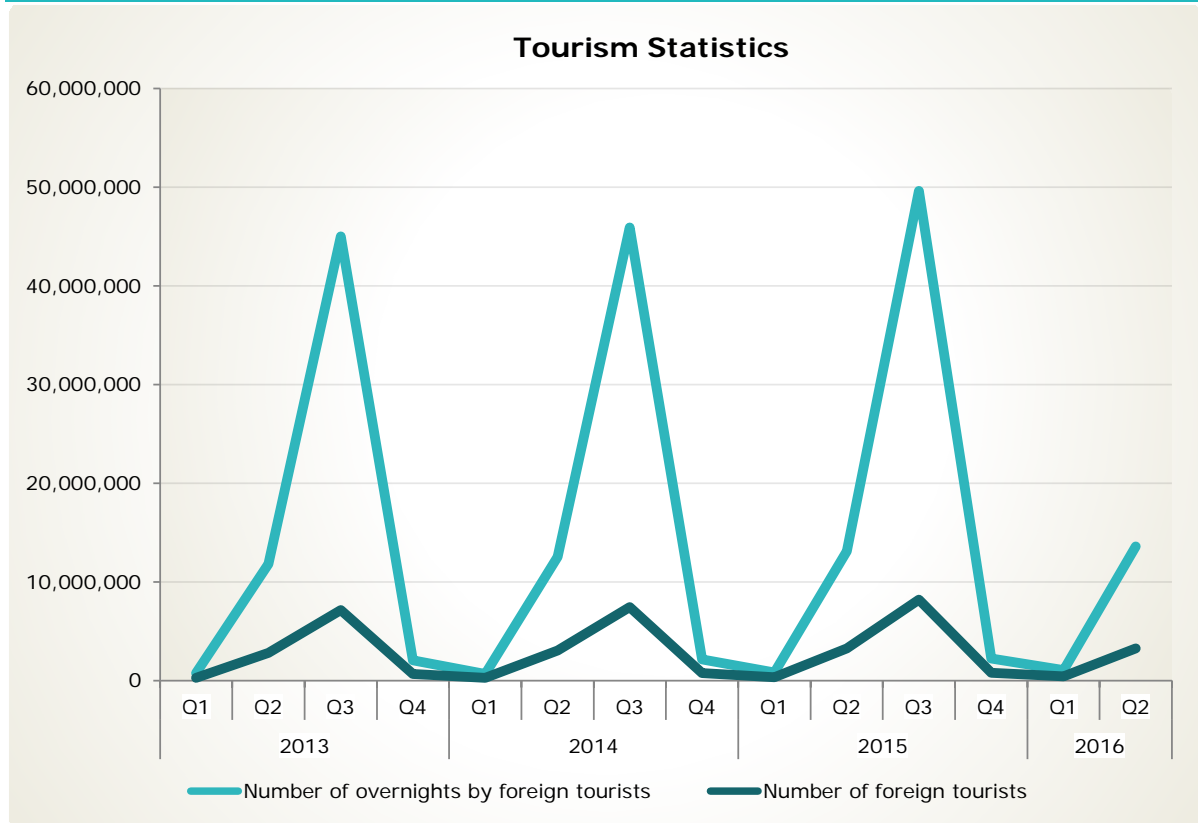
Source: HNB

## 7.5. TOURSIM

### *Number of foreign tourist overnights rose by 3.6% y/y in Q2 2016*

Tourist overnights of foreigners rose by an annual 3.6% to 13.605 million in Q2 2016, according to DZS. The total number of overnights, both of foreign and local tourists, reached 14.910 million, up by 3.0% in comparison to a year earlier,

The number of foreign tourists also went up - by 0.1% y/y to 3.291 million. In June 2016 alone, the number of foreign tourists amounted to 1.727 million versus 1.719 million a year ago. Most foreign tourists visiting the country in June 2016 arrived from Germany – 14.2% of the total with their number decreasing annually by 1.7%.



Source: DZS

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