SeeNews

Business Intelligence for Southeast Europe

CROATIA ECONOMY REPORT

Q2 2017

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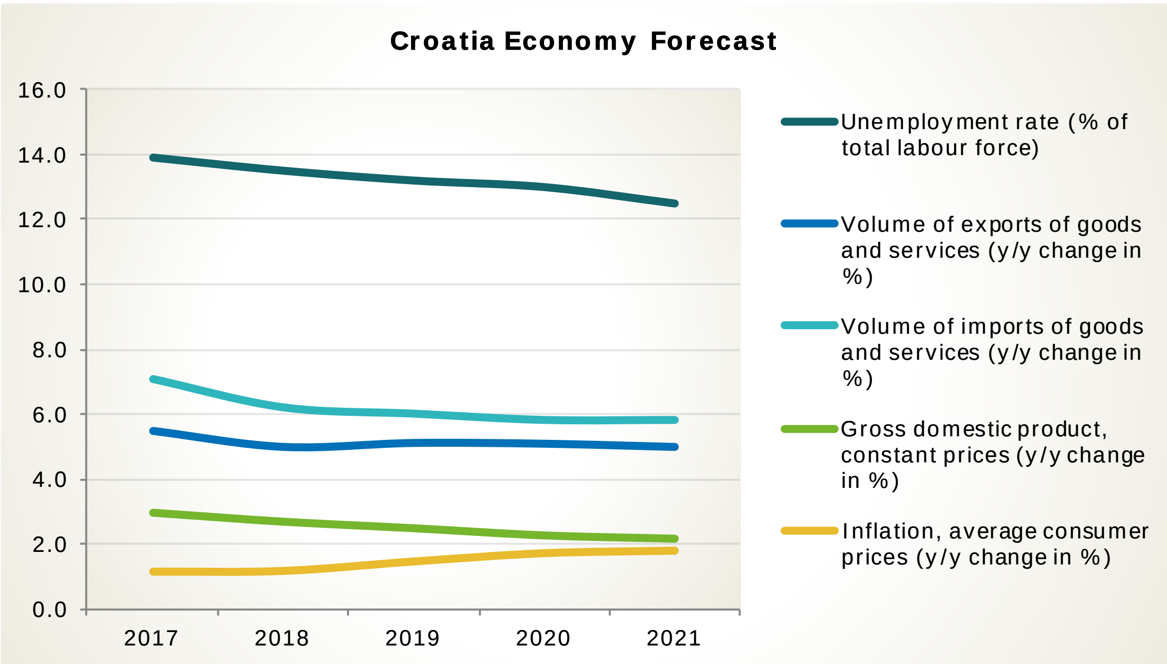
1. MACROECONOMIC SNAPSHOT AND FORECAST

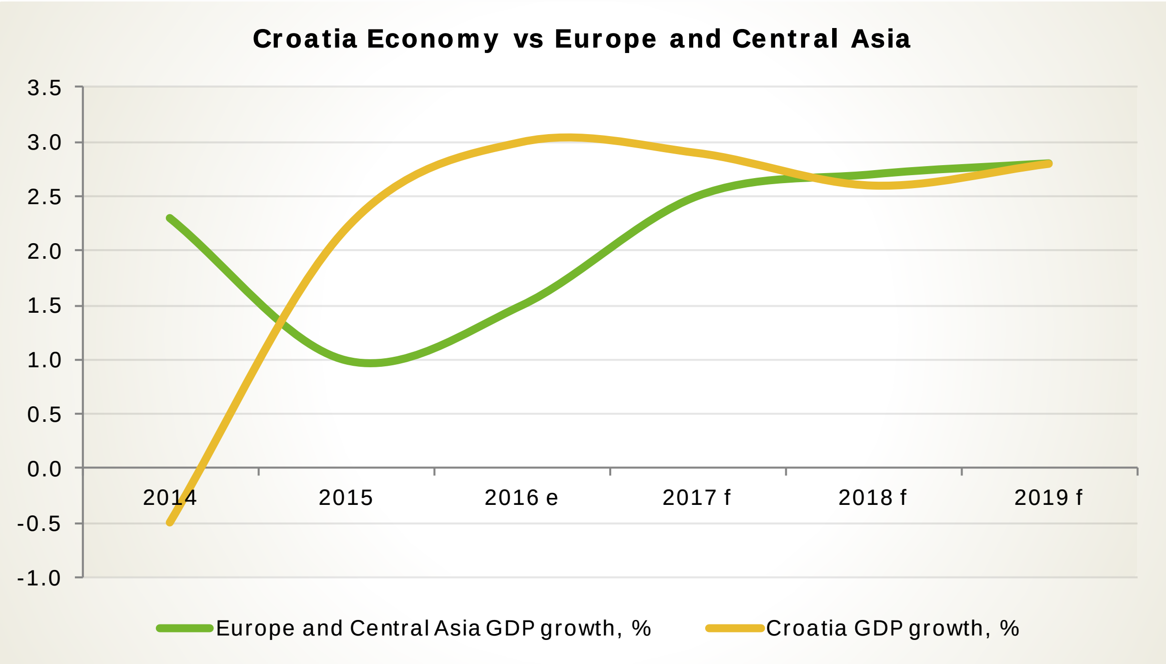
CROATIA – MACROCECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	*2.8% y/y*
Industrial output	*1.8% y/y*
Industrial sales	*8.9% y/y*
Wholesales	*2.8% y/y*
Retail sales	*5.8% y/y*
Average annual inflation	*0.2%*
Unemployment rate	*11.0%*
Number of building permits	*27.2% y/y*
Money supply growth	*2.9% y/y*
Household loans	*-0.8% y/y*
CROBEX blue-chip index	*-11.7% q/q*
Gross external debt	*EUR 40.383 bln*
Current account surplus	*EUR 144 mln*
Net FDI inflow	*EUR 190 mln*
Foreign trade deficit	*EUR 2.288 bln*
Number of foreign tourist overnights	*26.9% y/y*



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The International Monetary Fund (IMF) expects GDP growth in Croatia to slow down to 2.9% in 2017, from 3.0% in 2016 as reported by the country's statistical institute (DZS). In 2018 and 2019, IMF forecasts growth of 2.7% and 2.5%, respectively. The growth projections are based on an anticipated solid export and tourism performance and a continued recovery in domestic demand. Private consumption is expected to be supported by recovering wages, better employment prospects, and decreasing the process of deleveraging. EU fund absorption and expected budget consolidation will increase public and private investments.

However, according to the IMF, the risks to the forecasts continue to be tilted to the downside. External demand could slow due to the economic uncertainties in the EU and global interest rate increases could lead to higher costs for the large public and private financing needs. Trade and tourism could be hurt by the refugee crisis and delay in reforms could bring fiscal risk through wage and social benefits increases, as well as slower absorption of EU structural and investment funds.



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

According to a recent World Bank (WB) forecast, the Croatian economy will grow by 2.9% in 2017, down from 3.0% in 2016, as reported by DZS. In 2018-2019 the GDP is projected to grow between 2.6%-2.8%, on strengthened personal consumption, tourism and EU funds absorption. The bank expects the current account surplus to decline to 0.6% of the country's GDP by 2019, given a high import-reliance of the growth model.

New fiscal expansion and domestic policy uncertainty poses a risk to the WB forecasts. In addition, the still high levels of private and public sector indebtedness make the country vulnerable to the Fed's monetary tightening and to increasing the volatility on the financial markets.

Croatia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change	-0.5	2.2	3.0	2.9	2.6	2.8
Private Consumption	-1.6	1.1	3.3	3.3	2.7	2.6
Government Consumption	-0.8	-1.4	1.3	1.0	1.2	1.5
Gross Fixed Capital Investment	-2.8	3.8	5.1	5.6	5.6	5.9
Exports, Goods and Services	6.0	9.4	5.7	5.7	5.0	4.8
Imports, Goods and Services	3.1	9.2	5.8	7.3	6.0	5.5
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	-4.4	1.5	-2.1	2.0	2.2	2.2
Industry	1.0	2.5	4.3	2.6	2.8	2.8
Services	-0.1	2.0	2.5	3.1	2.6	2.9
Inflation (Consumer Price Index)	-0.2	-0.5	-1.0	1.5	1.4	1.4
Current Account Balance (% of GDP)	2.0	4.8	2.7	2.0	1.3	0.6
Net Foreign Direct Investment (% of GDP)	1.7	0.6	4.2	4.2	4.2	4.1

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

2. REAL SECTOR

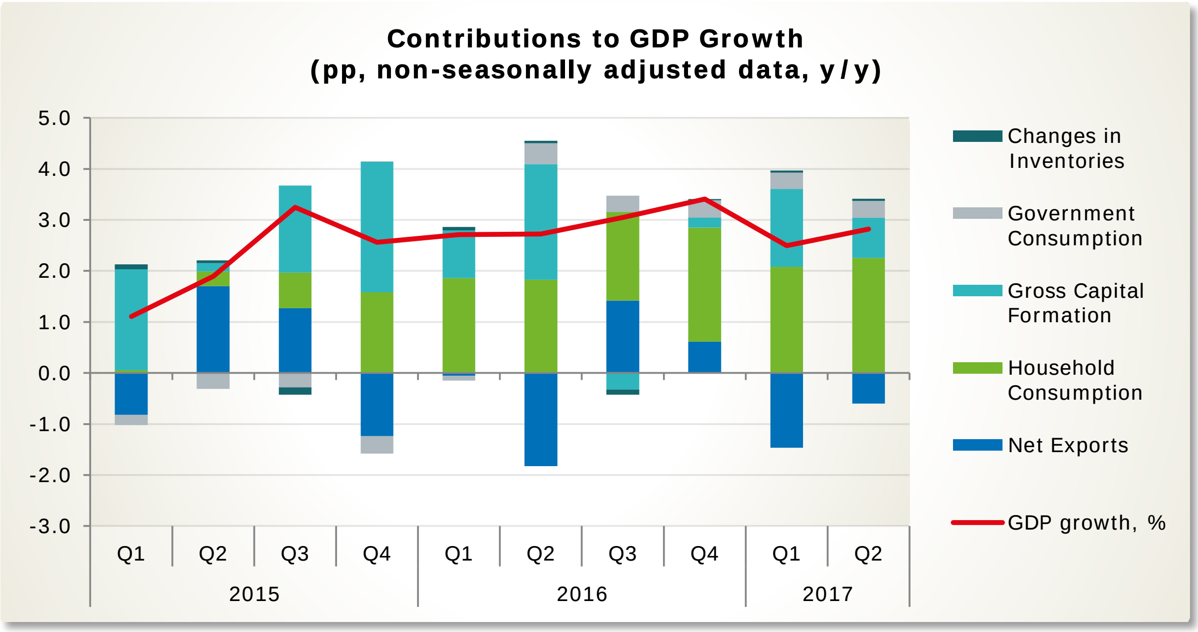
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.8% y/y in Q2 2017

The country's GDP grew by a real 2.8% y/y and totalled HRK 84.380 bln in Q2 2017, according to preliminary data of the Croatian Bureau of Statistics (DZS). The main drivers behind the y/y economic growth were household consumption and gross capital formation.

Final consumption, which accounted for 79.3% of the GDP, expanded by 3.3% y/y and contributed by 2.6 pp to the GDP growth during the second quarter. Gross capital formation went up by 3.2% y/y, contributing with 0.8 pp to the GDP expansion. Imports grew faster than exports, by 4.6% and 3.6%, respectively and the trade gap widened to HRK 4.2 bln in Q2 2017 from HRK 3.7 bln in Q2 2016. As a result, the foreign trade took away 0.6 pp from the GDP growth.

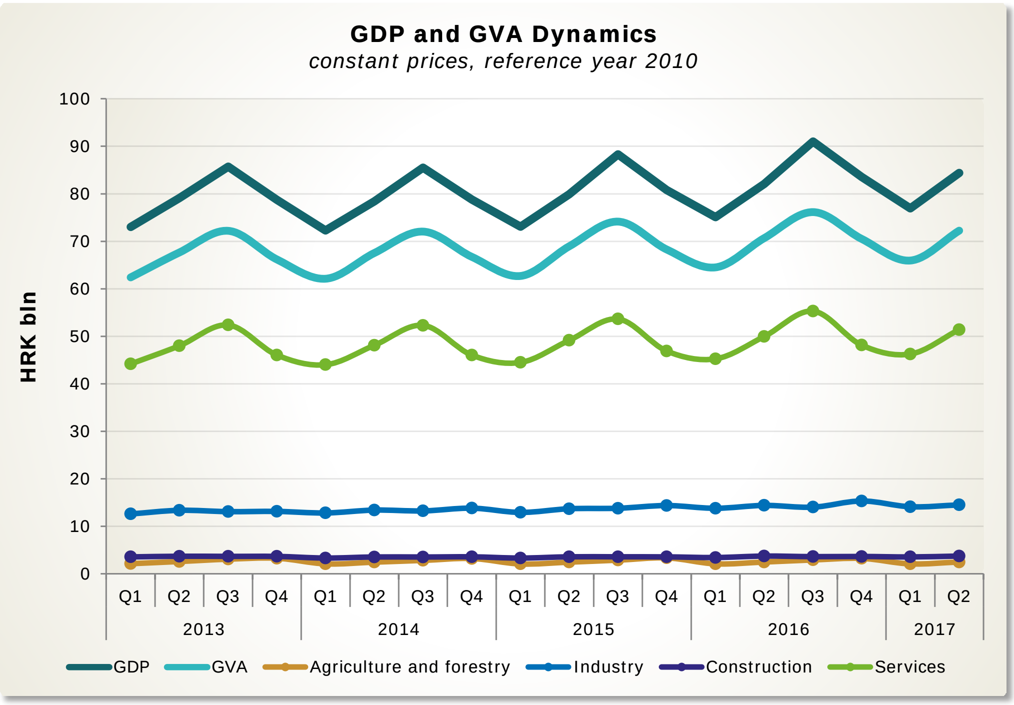
In the period April – June 2017, the Croatian economy accelerated its pace of growth by 0.1 pp compared to the annual growth rate of 2.7% in Q2 2016.



Source: DZS; SeeNews calculations

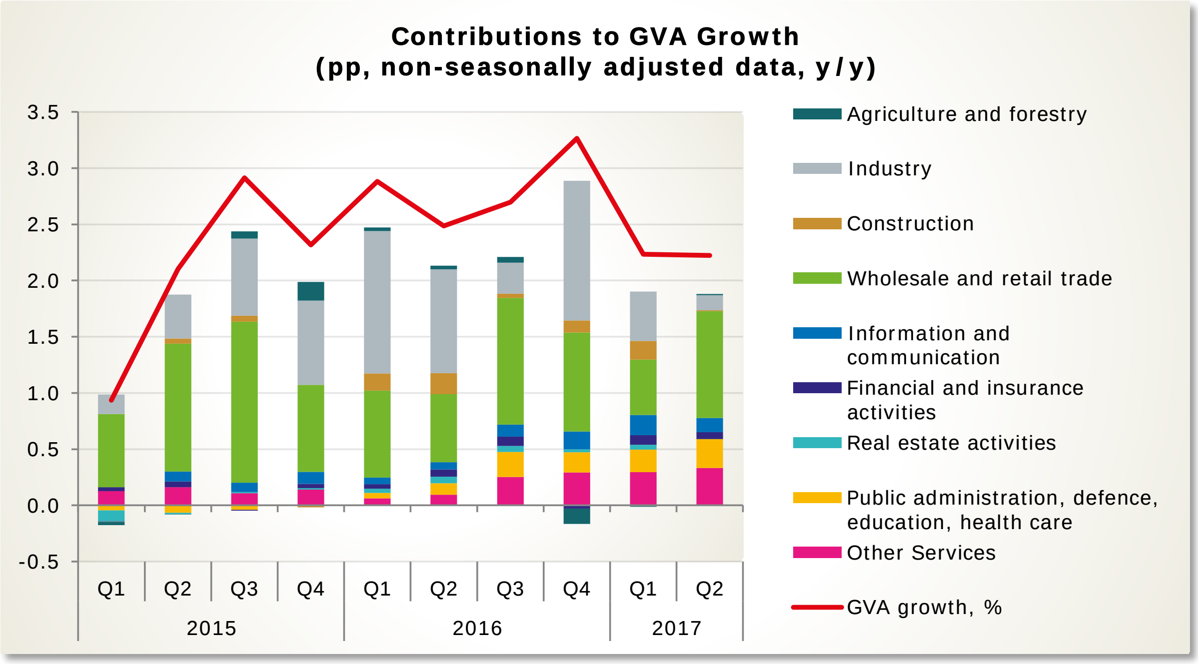
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew in value by 2.2% y/y in Q2 2017 and totalled HRK 72.246 bln. The industrial sector increased by 0.8% but its share in the GVA structure narrowed to 20.1%. The construction sector went up by 0.2% and its share in the GVA was 5.2%. The services sector recorded a 2.9% annual increase, slicing a 71.2% share in the GVA. The agricultural sector grew by 0.3%, while its share in the GVA remained unchanged at 3.5%.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q2 2017, with 0.9 pp, followed by the public administration, defense, education and health care sector which contributed by 0.3 pp.



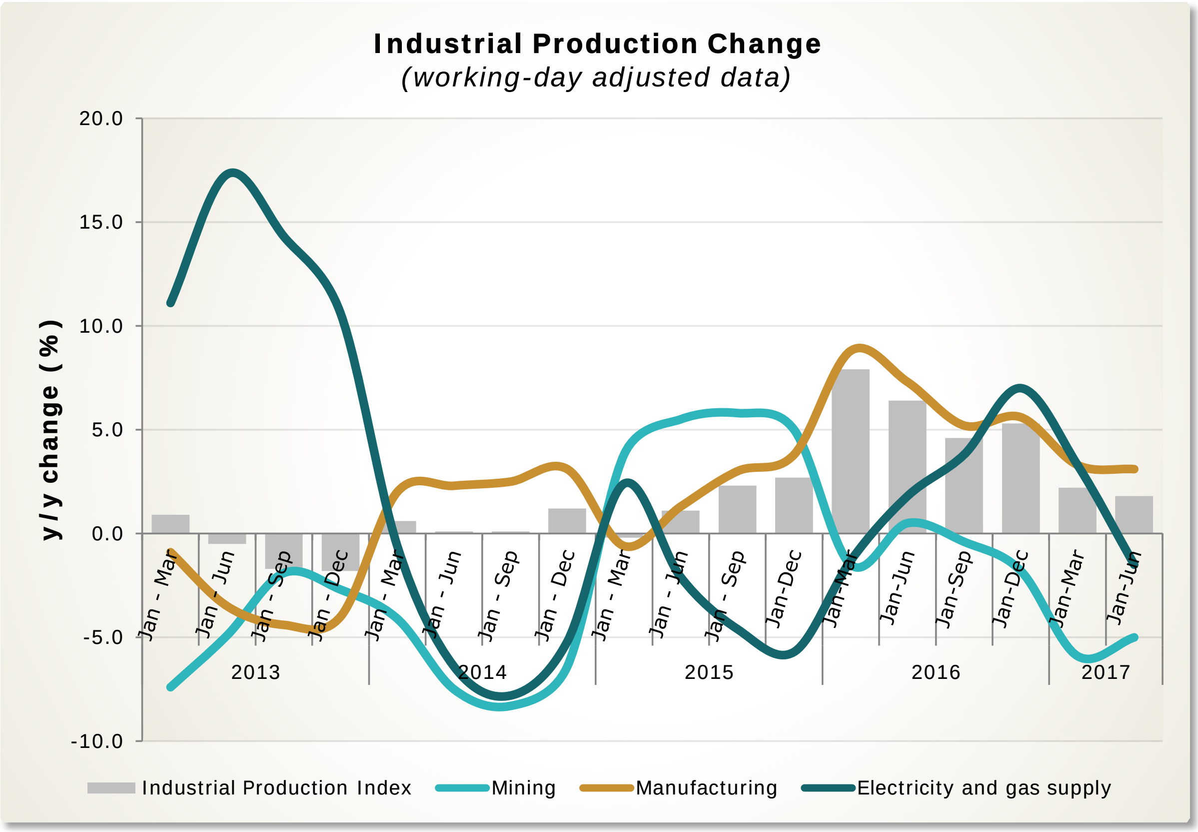
Source: DZS; SeeNews calculations
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output slowed pace of growth in January - June 2017 to 1.8% y/y

Industrial output went up by 1.8% on the year in January to June 2017, according to DZS data. This is significant slowdown compared to Q1 2017 when industrial production expanded by 2.2% y/y.

The growth during the quarter was backed by the 3.1% annual increase in the manufacturing sector. The production of the mining sector fell by 5.0% y/y and the output of the electricity and gas supply sector – by 1.5%.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales surged by 8.9% y/y in January - June 2017

In contrast to the slowdown in the industrial production, industrial sales surged by 8.9% y/y in the first half of 2017, compared to a 6.7% annual decrease in the corresponding period of 2016, according to DZS. In June 2017 alone, industrial turnover on the domestic market increased by 14.6% y/y, while the non-domestic turnover went up by 10.6% y/y.

The industrial sales were pushed up by the 50.4% annual jump of sales in the energy sector because of the oil price surge on the global markets. Consumer durables grew by 10.2% y/y in the first half of 2017, while capital goods sales went up by 6.0% y/y.

2.4. WHOLESALE/RETAIL

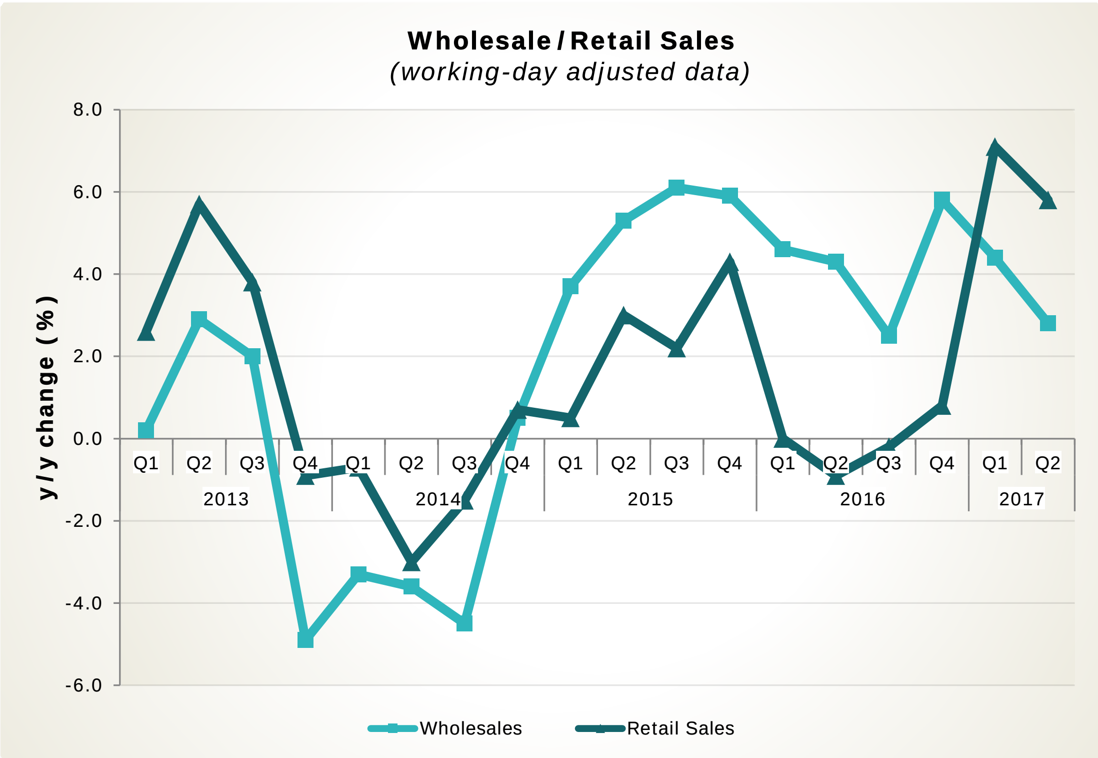
Retail sales increased by 5.8% y/y, wholesales up 2.8% y/y in Q2 2017

Retail sales registered annual increase of 5.8% in the second quarter of 2017 after a 7.1% annual rise in the previous quarter, Q1 2017, according to DZS data.

The highest increase in turnover was recorded by water transport - 22.2%, travel agency, tour operator reservation services and related activities - 18.8% and motion picture, video and television programme production, sound recording and music publishing activities - 17.1%.

On the other hand, the sharpest decrease in turnover was recorded in real estate activities - 4.7%, advertising and market research – 4.4% and other professional, scientific and technical activities - 3.7%.

The wholesale sector went up by 2.8% y/y, following a 4.4% rise in Q1 2017.



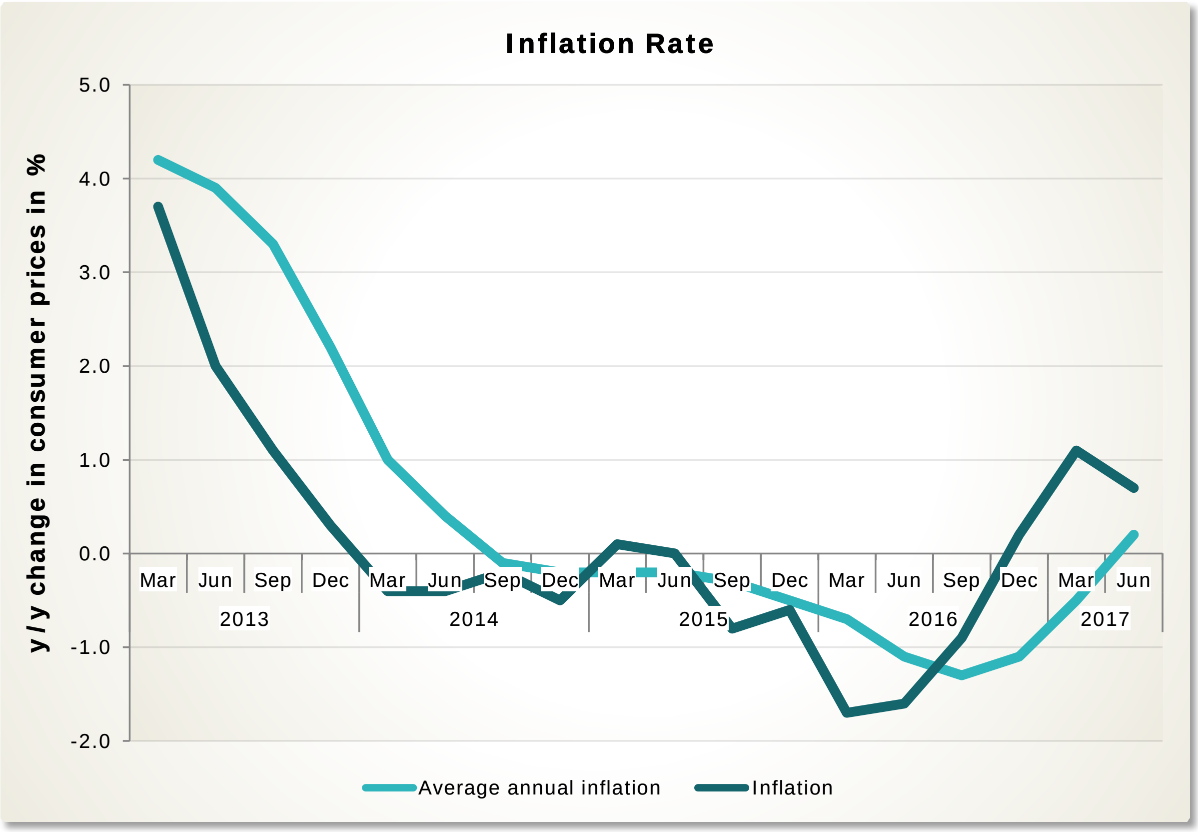
Source: DZS

2.5. INFLATION

Average annual inflation of 0.2% as of June 2017

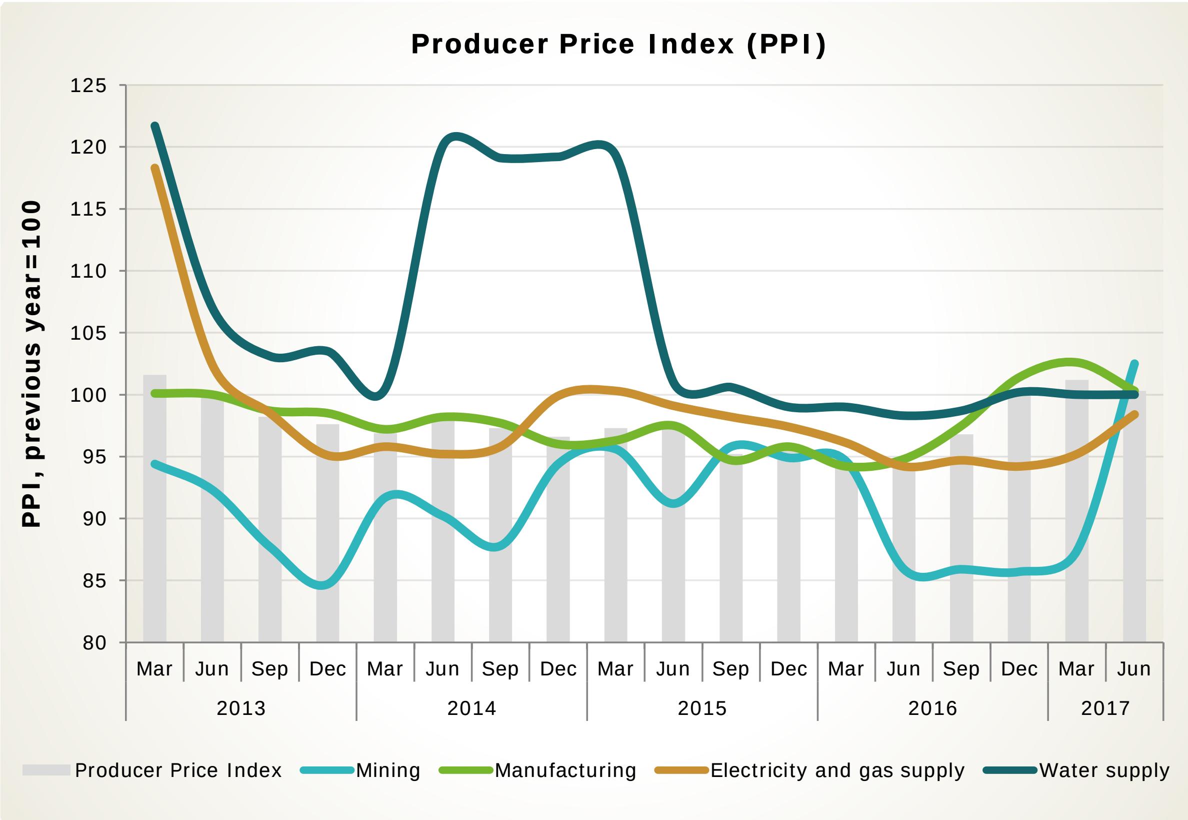
Consumer prices in Croatia went up by 0.2% in the period July 2016 – June 2017, compared to July 2015 – June 2016, according to DZS. This is a transition to inflation for the first time since the period July 2013 – June 2014. In the previous period, April 2016 – March 2017, the average annual deflation was 0.5%.

Headline inflation decelerated in June 2017 to 0.7% from 1.1% in March 2017. In June 2017, as compared to May 2017, the average prices in Croatia decreased by 0.5%, primarily as a result of the seasonal decrease in the prices of vegetables - 7.1%. On average, the monthly decrease in the consumer prices in June 2017 was alleviated by an increase of 9.3% in the prices of accommodation services, of 5.2% in transport services, and of 4.6% in package holidays.



Source: DZS

Producer prices went up annually, by 0.3% in June 2017. Manufacturers producer prices inched up by 0.3% y/y, while the average producer prices in the mining sector went up by 2.5% y/y. The sector of electricity and gas supplies saw decrease of 1.6% y/y in producer prices, on average.



Source: DZS

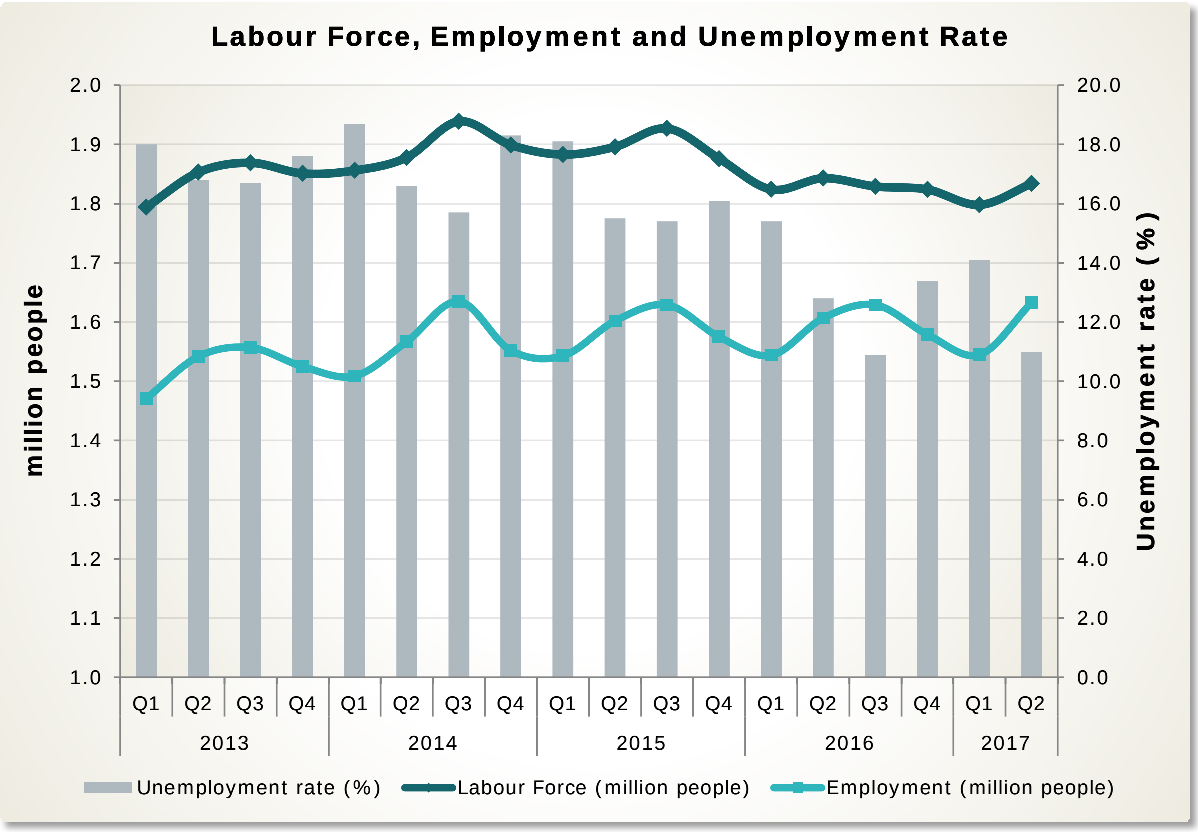
3. LABOUR MARKET

Unemployment rate went down y/y to 11.0%, wages grew 5.4% y/y as of June 2017

The favourable labour market developments that marked the first three months of 2017 persisted in Q2 2017. The unemployment rate in Croatia narrowed to 11.0% of the total labour force in Q2 2017 from 12.8% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.633 million as of June 2017, up 1.6% y/y. Employment pickup was led by growth in the number of employed persons in industry and construction activities. Youth unemployment remains high, but decreased noticeably to 20.5% in June 2017 from 29.6% a year earlier.

The average monthly net salary in April – June 2017 went up by 5.4% y/y to HRK 5,982, 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 jumped by 27.2% y/y in Q2 2017

The number of permits for new buildings, excluding civil engineering, issued in Croatia in the second quarter of 2017 surged by 27.2% y/y and totalled 1,381, according to DZS data.

Permits for non-residential[1] buildings increased by 21.1% to 350, while permits for residential buildings registered a 29.4% increase to 1,031.

The total built-up area of the non-residential units, covered by the permits, increased by 20.9% y/y to 296,548 sq m. The total built-up area of the housing units went up by 29.1% to 310,465 sq m.

[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. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average quarterly exchange rate of the HRK against the EUR fell to HRK 7.4268 in Q2 2017 from HRK 7.5003 in Q2 2016, according to the Croatian National Bank (HNB).

Average Quarterly HRK Exchange Rate			
Foreign Currency	Q2 2017	Q1 2017	Q2 2016
EUR	7.4268	7.4685	7.5003
USD	6.7616	7.0167	6.6386
GBP	8.6397	8.6870	9.5330
CHF	6.8595	6.9848	6.8435

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 June 2017. The average weighted interest rate in inter-bank trade on the overnight market was at 0.02%. At the same time, the interest rate on one-year HRK T-bills without a currency clause dropped to its all-time low of 0.45%.

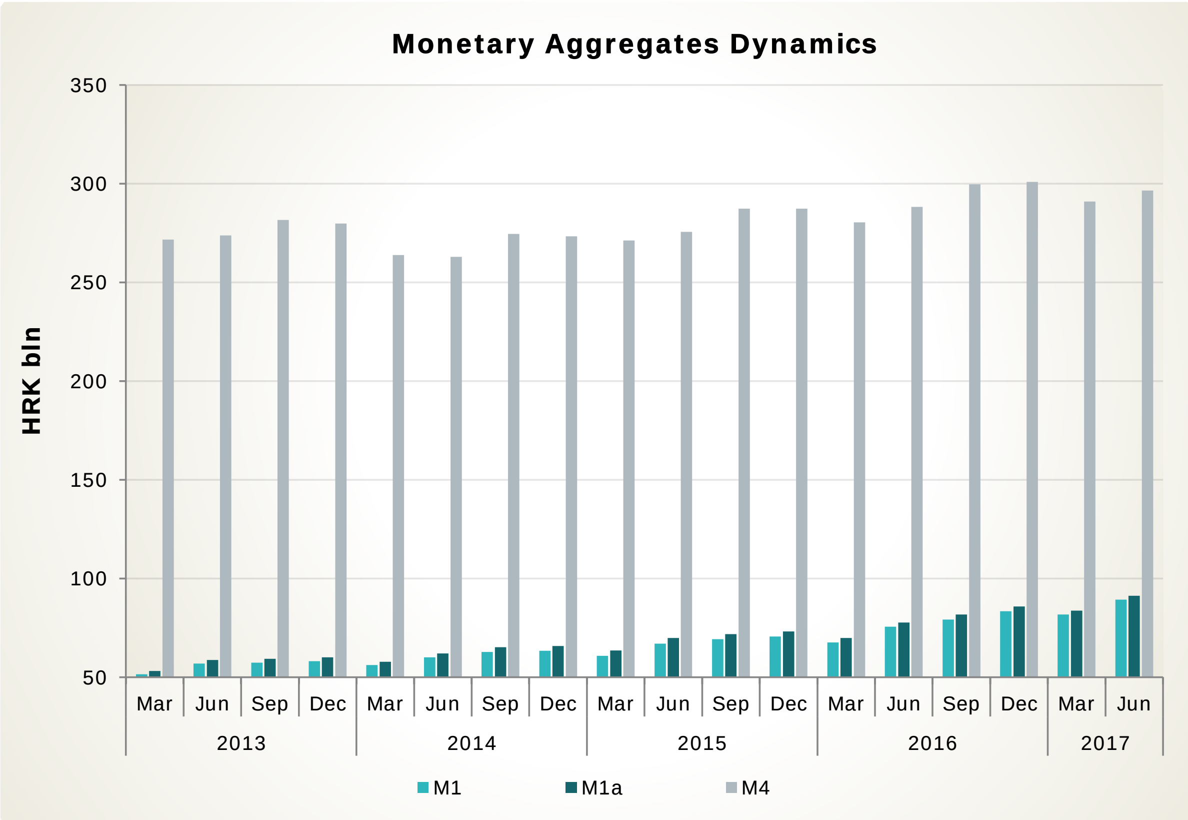
5.3. MONETARY AGGREGATES

Money supply growth was 2.9% y/y as of June 2017

Broad money (money aggregate M4) increased by 2.9% y/y and reached HRK 296.515 bln in June 2017, according to data provided by HNB. The growth in money supply as measured by M4 slowed compared to Q1 2017 when M4 grew by 3.7% y/y.

The M1a[2] money aggregate rose by 17.5% to HRK 91.389 bln and money aggregate M1, or narrow money, also went up, by 18.1%, to HRK 89.313 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

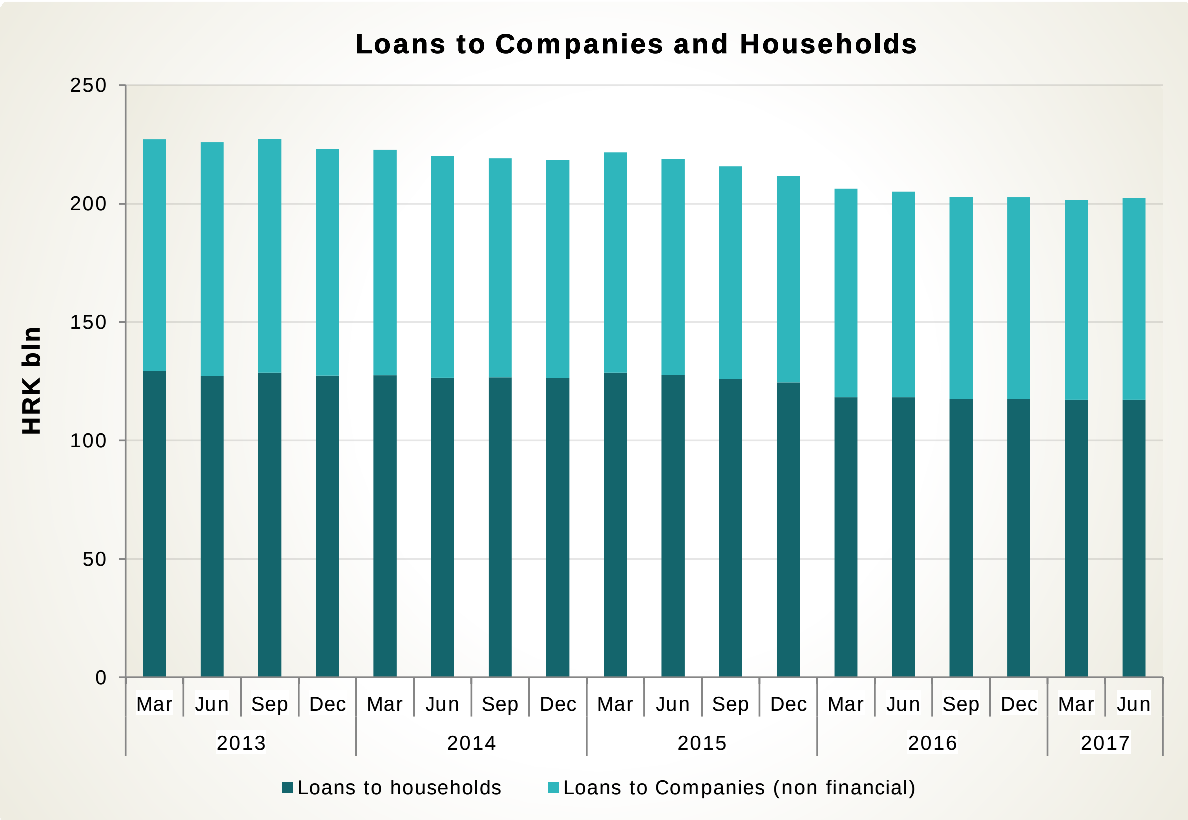
5.4. BANKING AND INSURANCE

Household loans decreased by 0.8% y/y in June 2017

Household loans went down by 0.8% to HRK 117.263 bln, according to HNB data. House purchasing loans narrowed by 2.1% to HRK 51.464 bln, accounting for 43.9% of the total loans.

The second largest loan type, slicing a 35.5% share, was the any-purpose cash loan with its value rising to HRK 41.656 bln from HRK 40.423 bln in June 2016, according to HNB.

Loans to non-financial corporations went down by 2.0% y/y to HRK 85.134 bln.

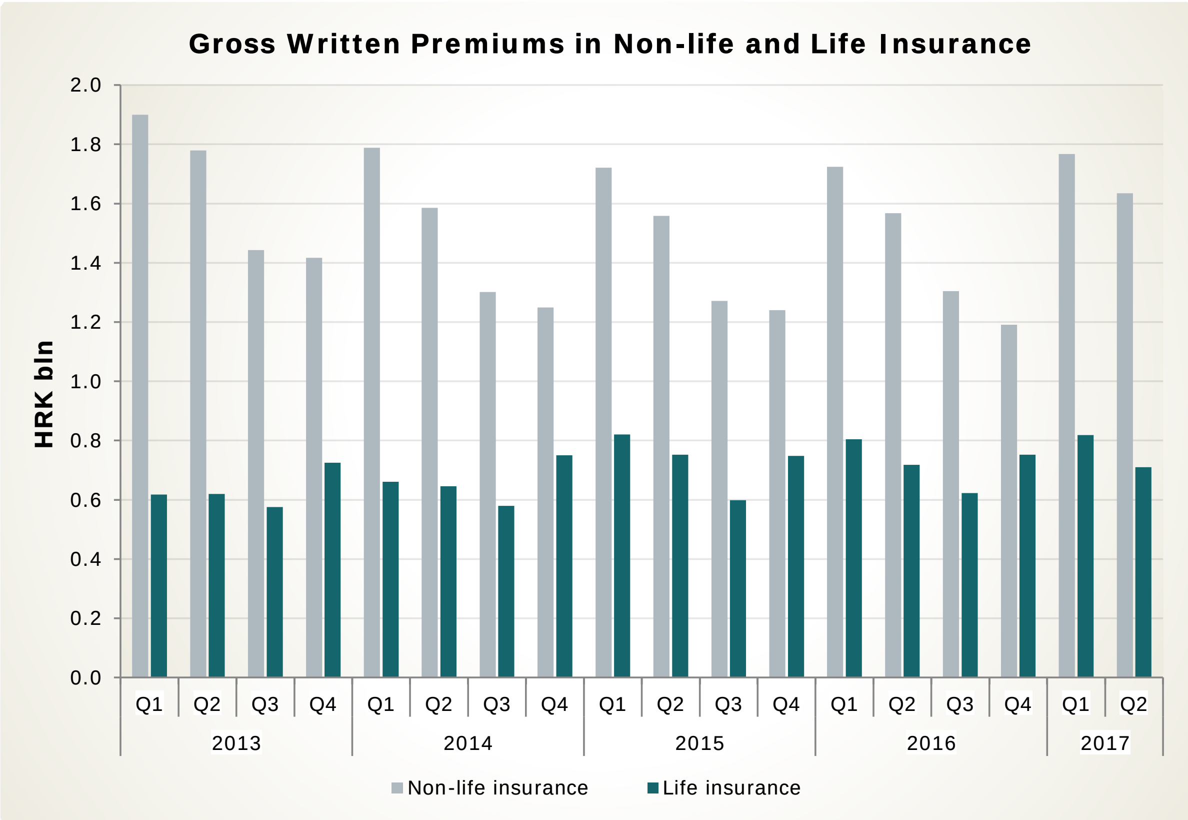


Source: HNB

Insurance premium income up 2.6% y/y in Q2 2017

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.345 bln, up by 2.6% y/y in Q2 2017, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 4.3% annual increase of the non-life insurance sector, which posted GWP of HRK 1.635 bln. The life insurance sector inched down by 1.1% y/y to HRK 710 mln.



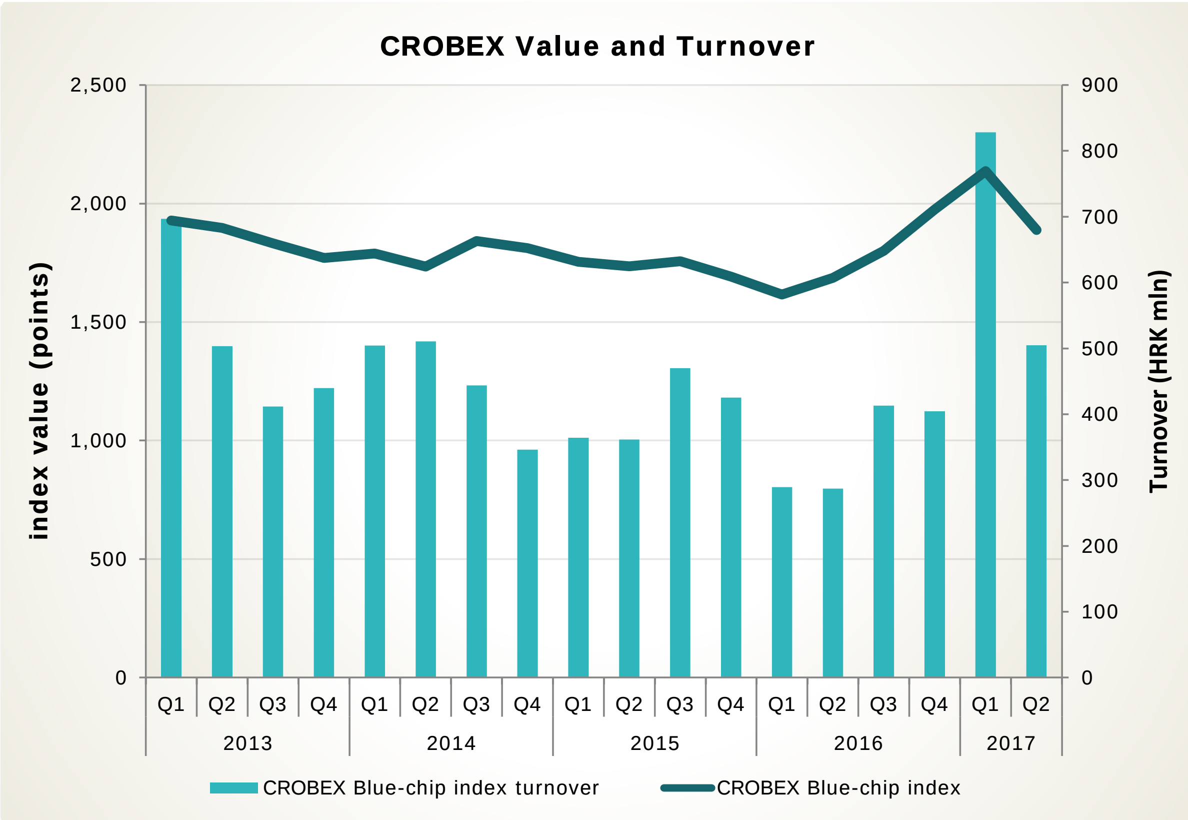
Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX down by 11.7% q/q in Q2 2017

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), decreased by 11.7% q/q to 1,888 points in Q2 2017.

The CROBEX turnover totalled HRK 504.8 mln in Q2 2017, compared to HRK 828.0 mln during the first three months of 2017.



Source: ZSE

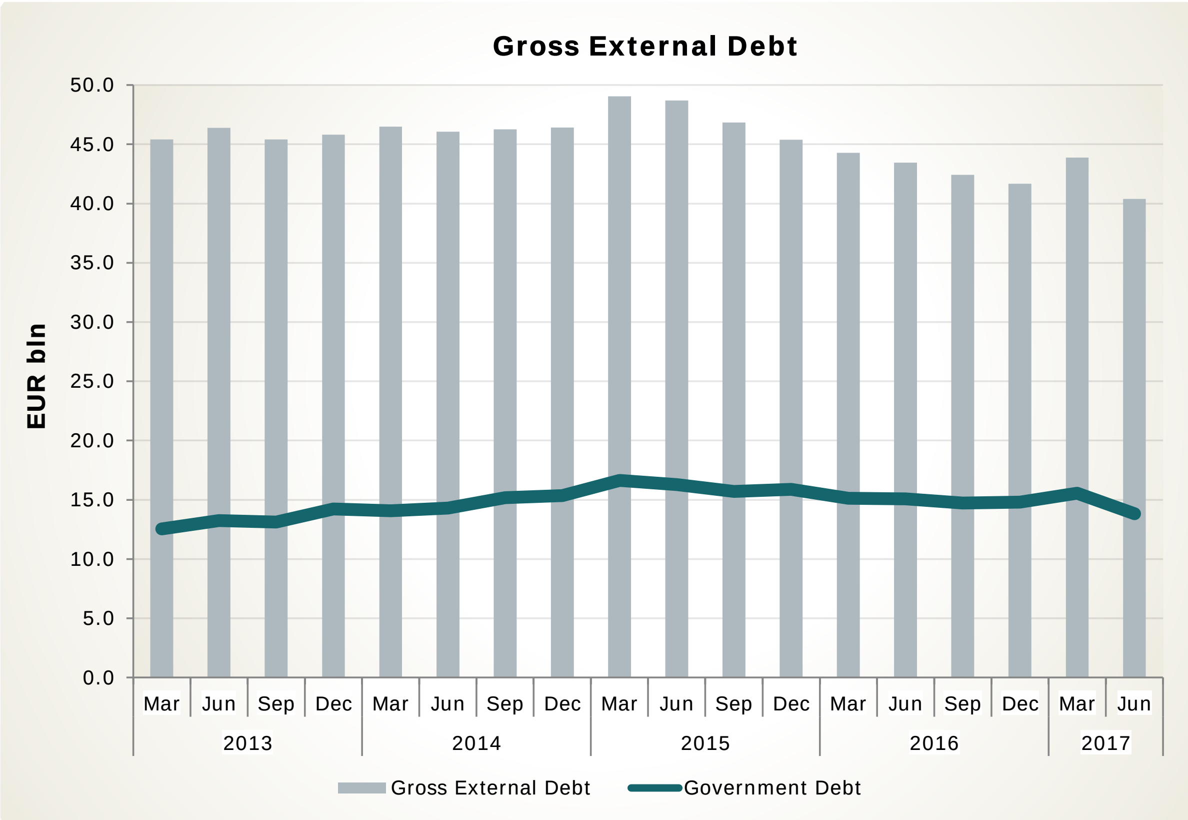
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 40.383 bln in June 2017

The gross external debt totalled EUR 40.383 bln as of June 2017, according to HNB. It went down by 7.0%, or EUR 3.057 bln, compared to June 2016.

As of June 2017, long-term liabilities amounted to EUR 30.352 bln, or 75.2% of the total debt, decreasing by 11.6% on the year. Short-term liabilities totalled EUR 4.183 bln, equal to 12.1% of the total debt and up by 17.3% compared to a year ago.



Source: HNB

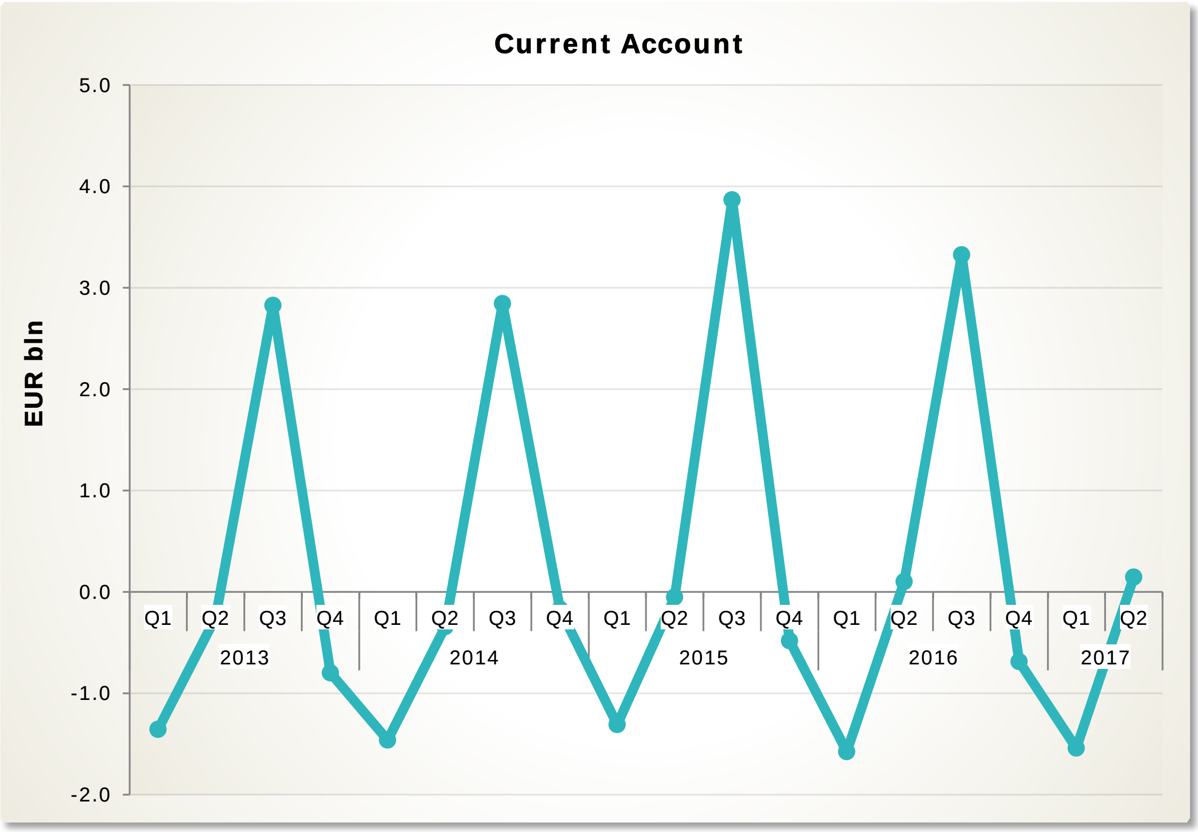
7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 144 mln in Q2 2017

The current account surplus increased to EUR 144 mln in Q2 2017, up 44.2% y/y, according to central bank statistics data. In comparison to the previous quarter, Q1 2017, the current account turned to surplus from a deficit of EUR 1.542 bln. 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 2.295 bln, up 10.3% y/y, while services surplus went up by 10.9% y/y to EUR 2.294 bln.

The secondary income account was positive during the period April – June 2017 at EUR 544.3 mln compared to a surplus of EUR 485.8 mln in Q2 2016.

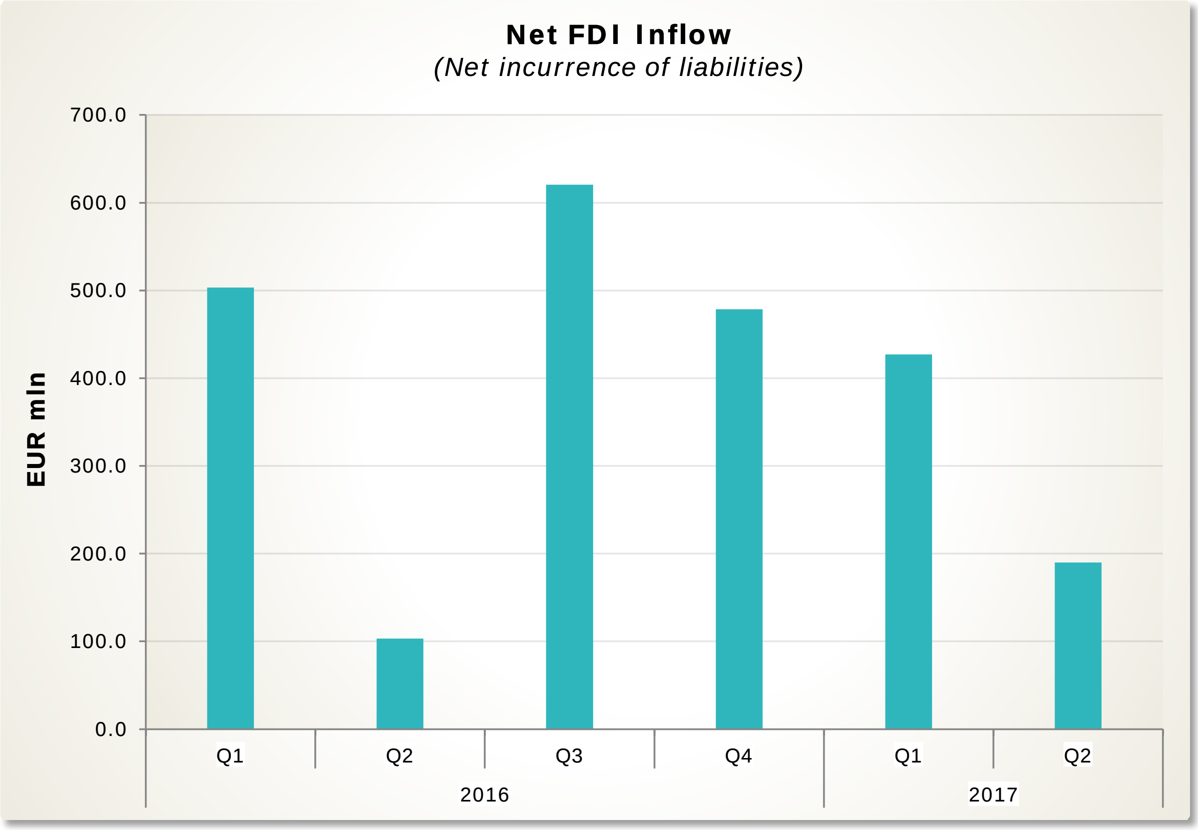


Source: HNB

7.3. FDI

Net FDI inflow at EUR 190.0 mln in Q2 2017

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 190.0 mln in Q2 2017, according to preliminary data of HNB. This is an 84.2% jump compared to a year earlier when FDIs amounted to EUR 103.1 mln.



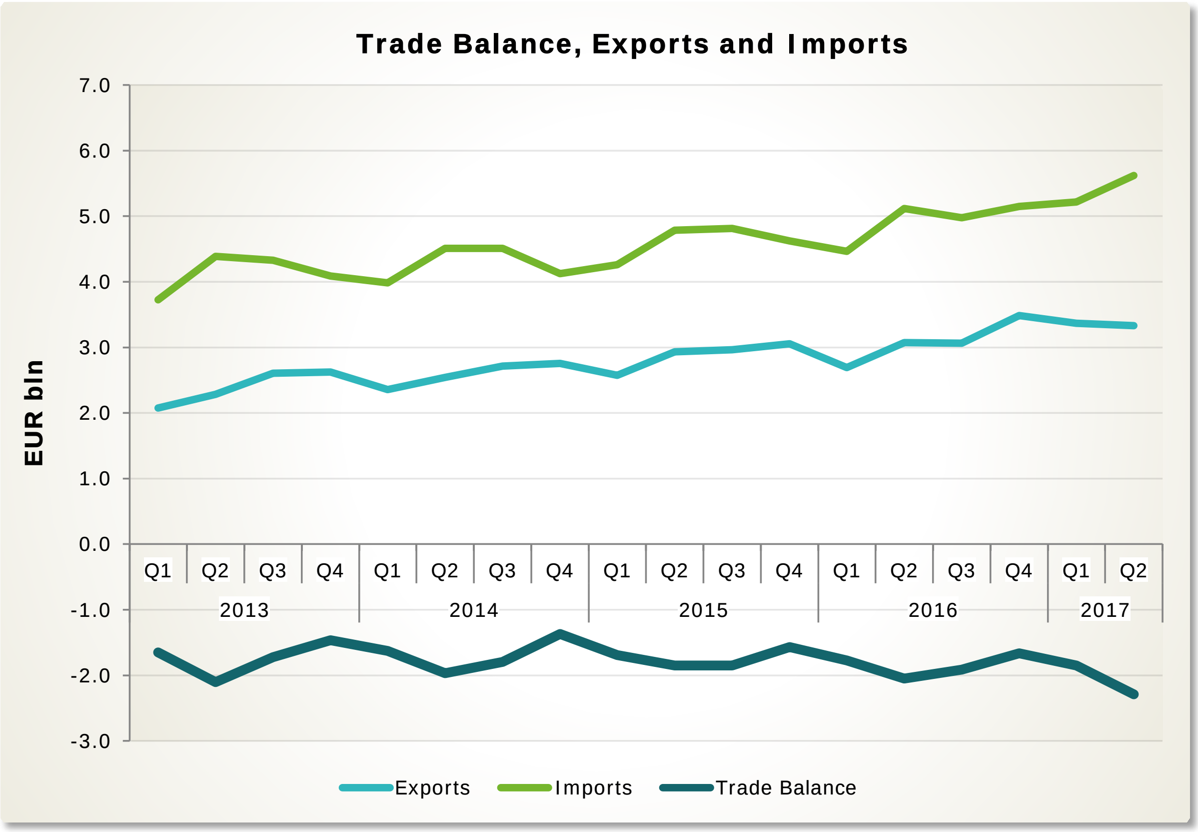
Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit widened by 11.8% y/y in Q2 2017

The trade deficit stood at EUR 2.288 bln in Q2 2017, compared to EUR 2.047 bln in the corresponding quarter of the previous year, according to DZS.

Exports grew 8.5% y/y to EUR 3.333 bln, while imports increased by 9.8% on the year to EUR 5.621 bln. Imports increased more than exports as a consequence of the faster growth in the imports of miscellaneous manufactured articles and food and live animals.



Source: HNB

7.5. TOURSIM

Number of foreign tourist overnights increased by 26.9% y/y in Q2 2017

Croatia is a popular sea tourist destination due to its long coastline on the Adriatic Sea. Tourist overnights of foreigners increased by an annual 26.9% to 17.266 million in Q2 2017, according to DZS.

The total number of overnights, both of foreign and local tourists, reached 18.696 million, rising by 25.4% in comparison to a year earlier.

The number of foreign tourists went up - by 26.6% y/y to 4,165,659.

Source: DZS

8. MAJOR DEVELOPMENTS

EC approves extension of Croatian bank resolution scheme

June 27, 2017

The European Commission said it has authorised, under EU state aid rules, the prolongation of the bank resolution scheme in Croatia, initially approved in October 2016.

Read the full story here

EC takes Croatia to court for failing to fully enact EU rules on audit

June 14, 2017

The European Commission said on Wednesday it has decided to refer Croatia to the Court of Justice of the EU for failing to fully enact European rules on audit in its national legal system.

Read the full story here

EBRD approves new strategy for Croatia for 2017-2021

June 8, 2017

The EBRD said on Thursday its board of directors has approved a new strategy for Croatia which sets out the priorities for the bank's work in the country for the period 2017-21.

Read the full story here

EC urges Croatia to reinforce budgetary planning, speed up privatisations

May 22, 2017

The European Commission urged Croatia on Monday to reinforce budgetary planning, discourage early retirement, improve adult education and public administration, and speed up privatisation.

Read the full story here

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