

CROATIA ECONOMY REPORT

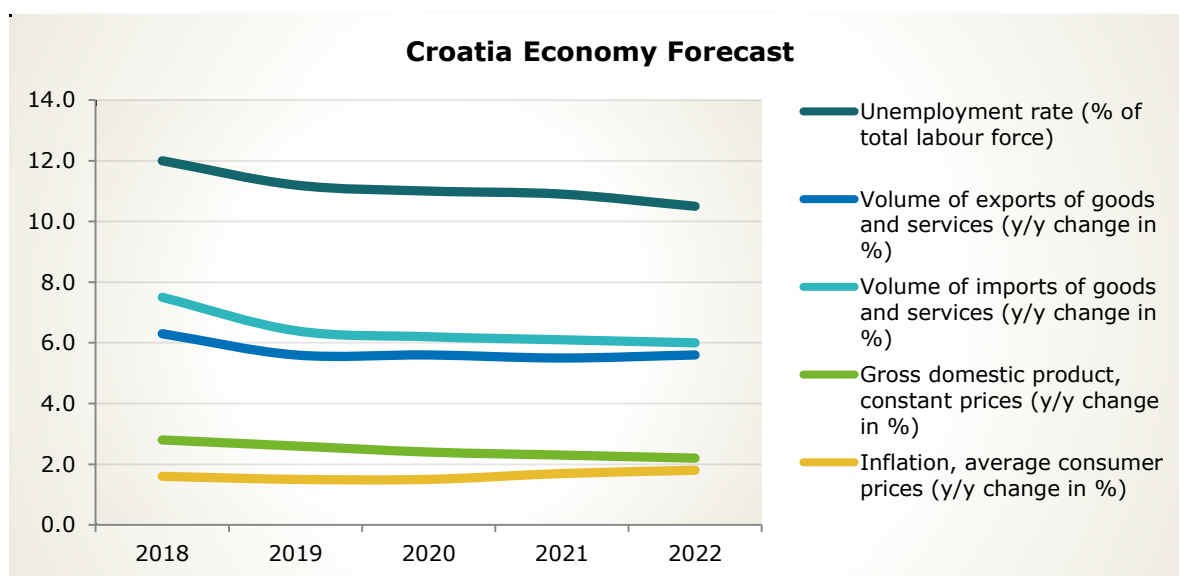
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

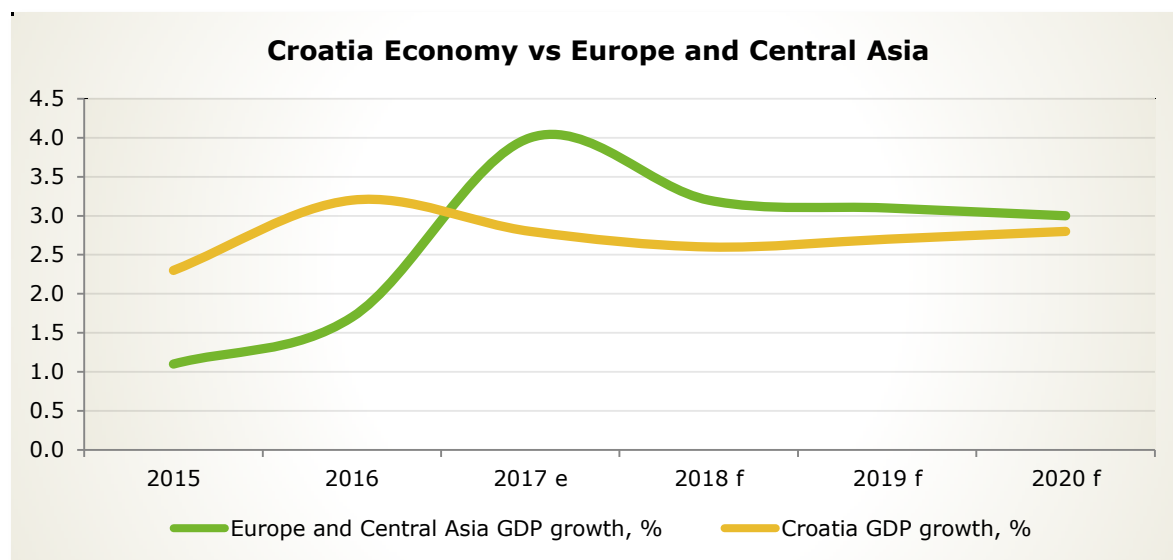
CROATIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	2.9% y/y
Industrial output	0.5% y/y
Industrial sales	2.8% y/y
Wholesales	6.6% y/y
Retail sales	6.9% y/y
Average annual inflation	1.3%
Unemployment rate	7.5%
Number of building permits	-6.3% y/y
Money supply growth	4.7% y/y
Household loans	3.9% y/y
CROBEX blue-chip index	-1.7% q/q
Gross external debt	EUR 40.142 bln
Current account surplus	EUR 0.212 bln
Net FDI inflow	EUR 344.7 mln
Foreign trade deficit	EUR 2.334 bln
Number of foreign tourist overnights	7.3% y/y



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

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 2.8% in 2018, before decelerating gradually over the medium term toward 2.2% in 2022. Although moderating, unemployment is still high, at 12.0% in 2018 and tending to fall as low as 10.5% in the next five years. Inflation is projected to remain within the 1.5 - 1.8% range over the medium term. Thanks to strong tourism receipts, the external position will remain in substantial surplus despite consistently faster imports growth.

IMF projected general government deficit of 0.6% of GDP in 2017, narrower than the budget target of 1.6%. The overperformance 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.



Source: World Bank, Europe and Central Asia Economic Update, May 2018

Croatia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y change	2.3	3.2	2.8	2.6	2.7	2.8
Private Consumption	1.1	3.5	3.6	3.0	2.8	2.6
Government Consumption	-0.9	1.9	2.0	1.5	1.5	1.6
Gross Fixed Capital Investment	3.8	5.3	3.4	6.4	6.9	7.4
Exports, Goods and Services	9.4	5.6	6.1	5.8	5.0	5.0
Imports, Goods and Services	9.2	6.2	8.1	7.4	6.3	6.4
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	1.3	0.6	-2.2	2.2	2.2	2.2
Industry	2.6	4.4	1.3	3.6	2.8	2.8
Services	2.3	2.3	3.6	2.3	2.7	2.8
Inflation (Consumer Price Index)	-0.5	-1.0	1.5	1.4	1.4	1.5
Current Account Balance (% of GDP)	4.5	2.6	3.6	2.6	1.7	1.0
Net Foreign Direct Investment (% of GDP)	0.5	4.0	1.3	2.6	2.6	2.8

Source: World Bank, Europe and Central Asia Economic Update, May 2018

According to the World Bank estimates from May 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

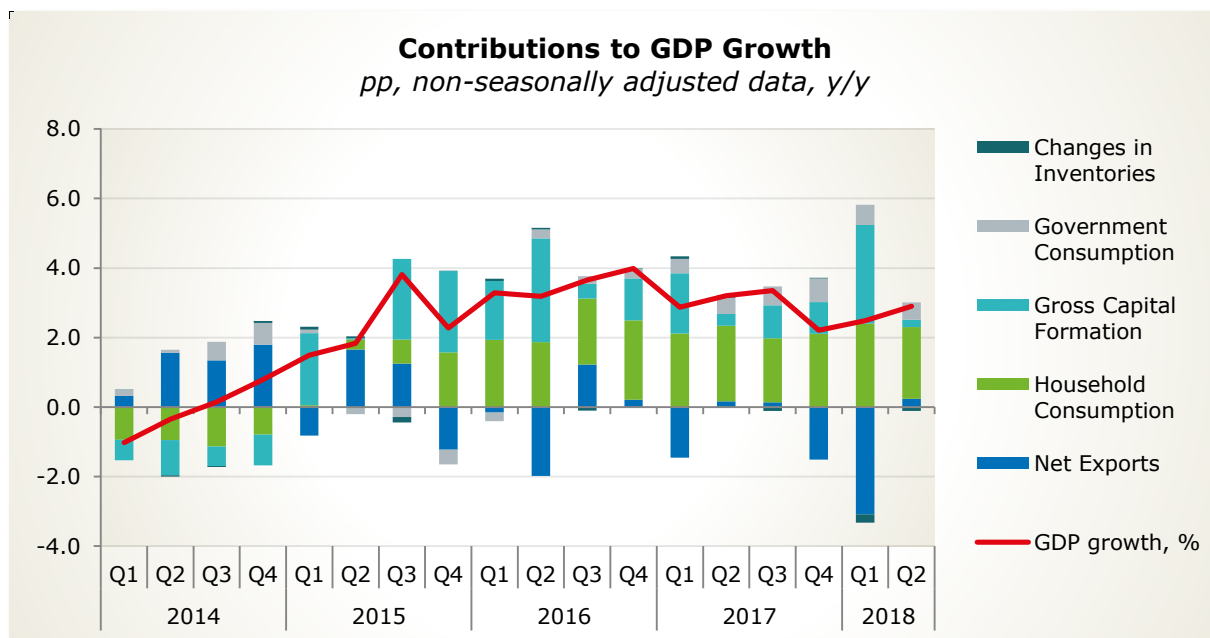
2.1. GROSS DOMESTIC PRODUCT (GDP)

The economic growth accelerated in Q2 2018 to 2.9% y/y, up from 2.5% y/y in Q1 2018

The country's GDP grew by a real 2.9% y/y and totalled HRK 89.781 bln in Q2 2018, according to preliminary data of the Croatian Bureau of Statistics (DZS). The main drivers behind the y/y economic growth were export of goods and services and household consumption.

Final consumption, which accounted for 77.9% of the GDP, expanded by 3.3% y/y. Gross capital formation slightly increased by 0.8% y/y, contributing 0.2 pp to the GDP expansion. Imports expanded by 4.7%, driven by the rising investment activity and personal consumption, while exports went up by 5.6% y/y in real terms. As a result, the foreign trade contributed with 0.2 pp to the GDP growth.

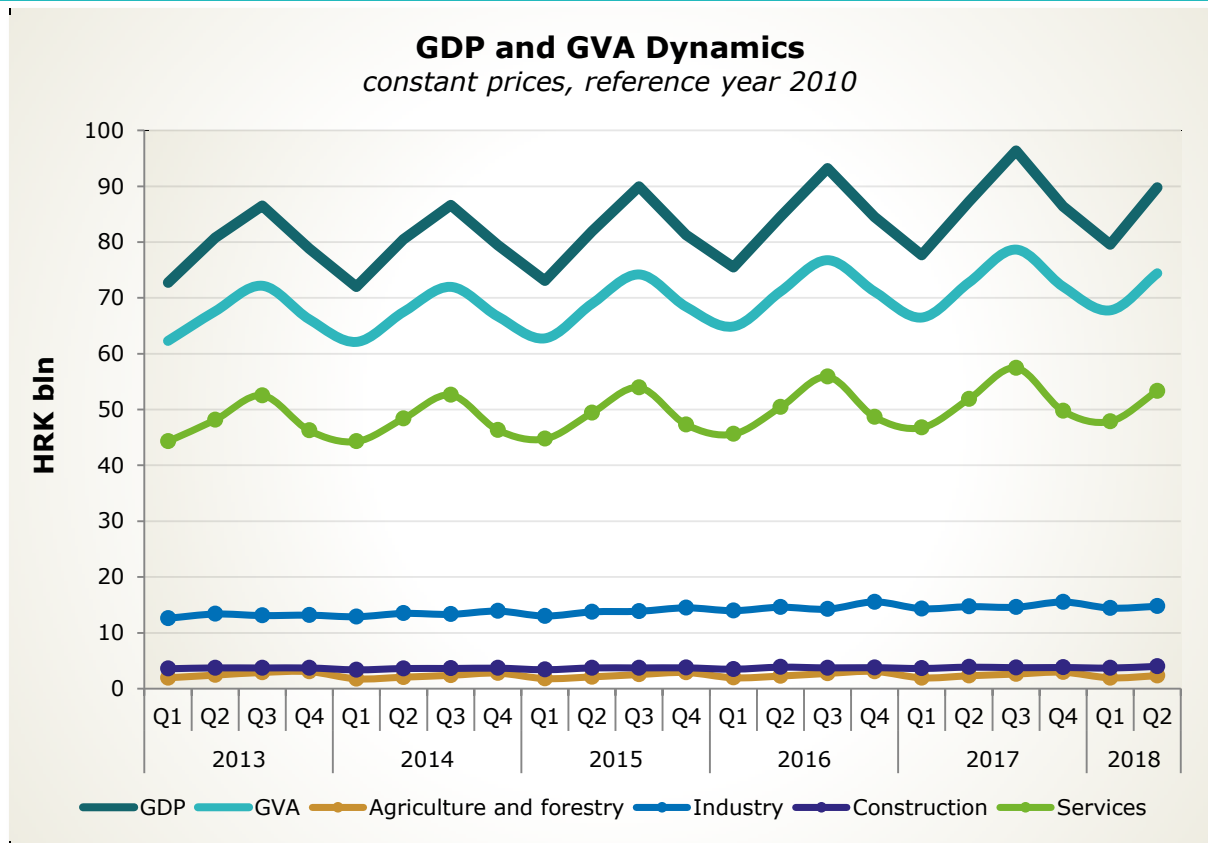
Household consumption remained strong, as it advanced by 3.6% y/y in real terms in Q2 2018 and contributed with 2.1 pp to the overall growth. Major factors behind the upward trend were the tightening of the labour market and the real wage rises.



Source: DZS; SeeNews calculations

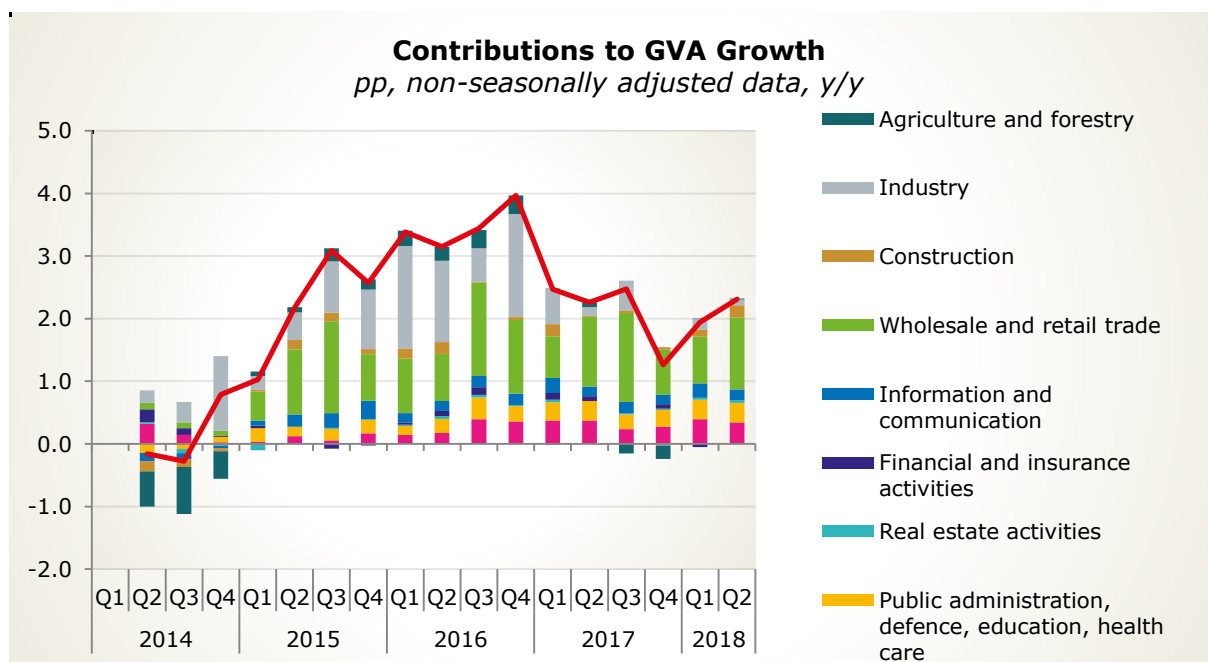
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.3% y/y in Q2 2018 and totalled HRK 74.428 bln. The industrial sector increased by 0.4%, while construction went up by 3.6%. The services sector recorded a 2.8% annual rise, slicing a 71.7% share in the GVA. The agricultural sector went up by 0.5% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q2 2018, with 1.2 pp, followed by the other services and public administration, defense, education, health care sectors which contributed by 0.3 pp each.



Source: DZS; SeeNews calculations

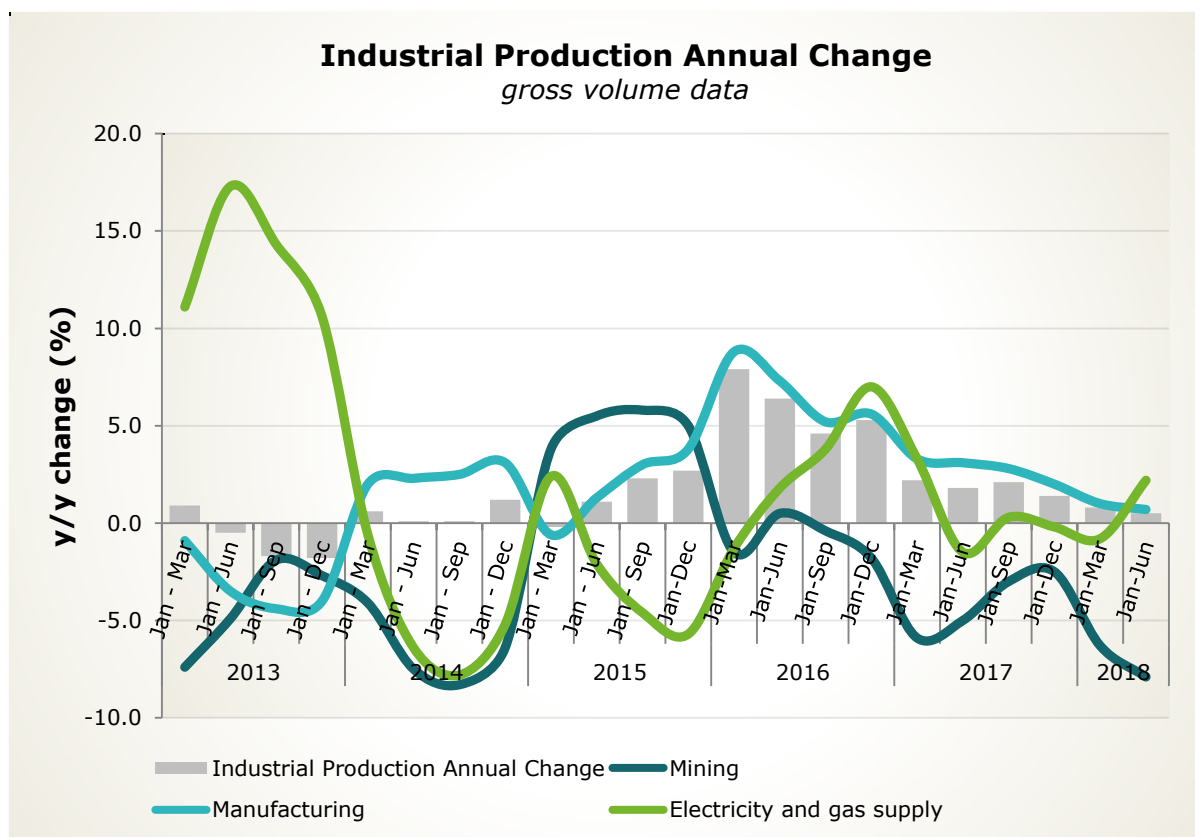
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output further slowed pace of growth in the second quarter of 2018 to 0.5% y/y

Industrial output went up by 0.5% on the year in Q2 2018, according to DZS data. This is minor slowdown compared to Q1 2018 when industrial production expanded by 0.8% y/y and is a continuation of the deceleration trend from 2017, when industrial output growth increased by 1.4% for the year, down compared to 5.3% y/y growth in 2016.

The manufacturing segment ramped up production by an average of 0.7% y/y in Q2 2018, while mining went down by 7.9% y/y and the electricity and gas supply segment increased production by 2.2% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales increased by 2.8% y/y in the second quarter of 2018

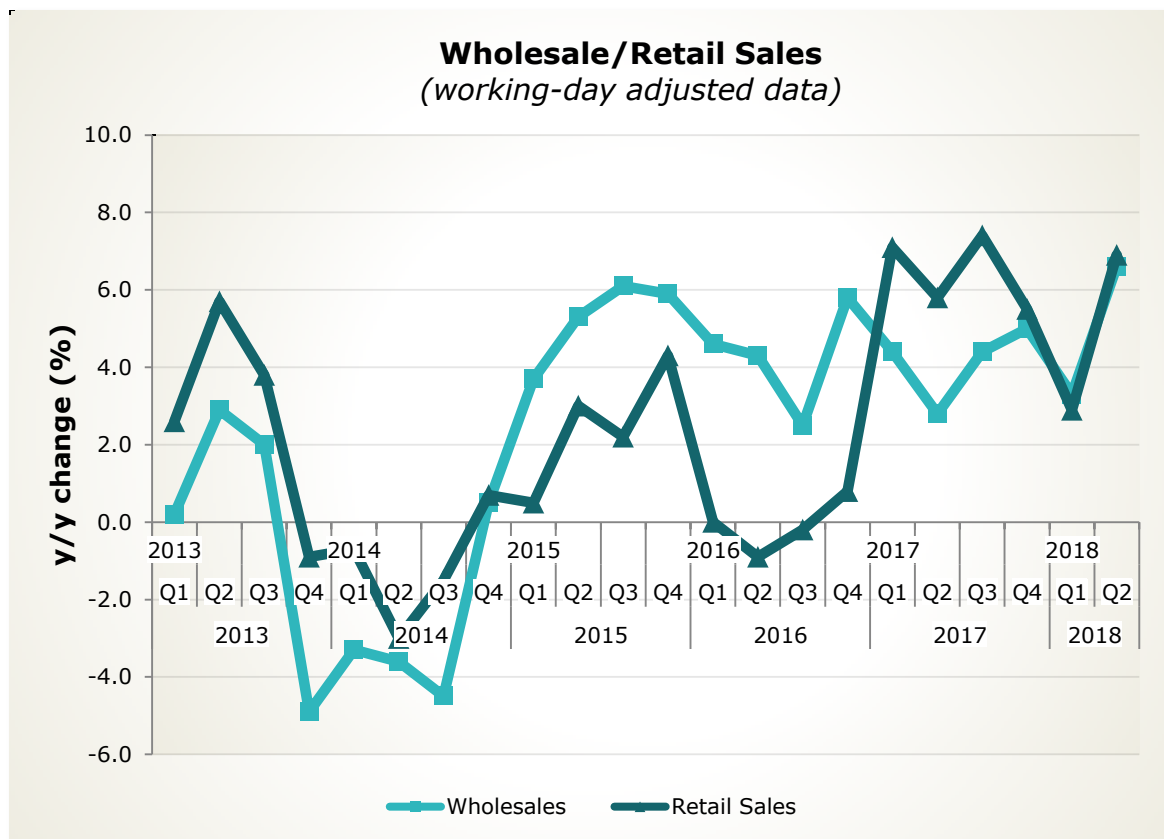
Industrial sales rose by 2.8% y/y in Q2 2018, compared to a 0.4% annual decrease in Q1 2018, according to DZS. In the whole 2017, industrial turnover on the domestic and non-domestic markets had increased by 5.9% y/y.

The industrial sales were pushed up by the 10.6% annual jump of sales in the energy sector. In addition, consumer durables sales went up by 8.9% y/y. Intermediate goods grew by 4.4% y/y in Q2 2018, while consumer non-durables reported a modest increase of 2.1%. Capital goods were the only segment to decline in terms of sales, by 4.8% y/y.

2.4. WHOLESALE/RETAIL

Retail sales growth accelerated to 6.9% y/y, wholesales up 6.6% y/y in Q2 2018

Retail sales registered annual increase of 6.9% in Q2 2018, up from a 2.9% y/y in Q1 2018 and a 5.8% rise in the same quarter of 2017, according to DZS data. In the same time wholesales advanced by 6.6% y/y, up from 3.3% y/y in the previous quarter and 2.8% in Q2 2017.

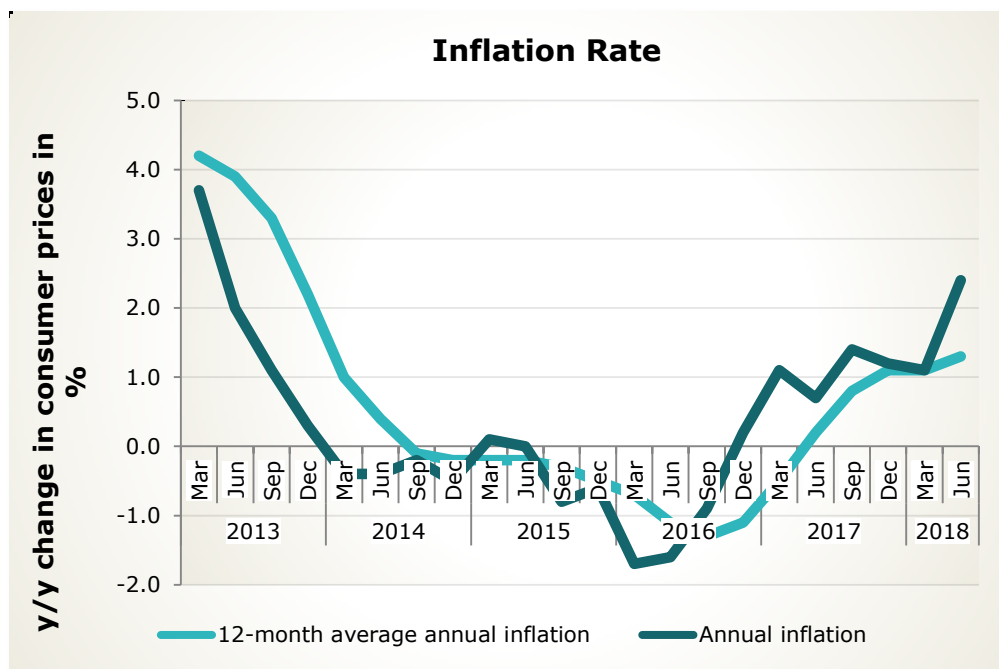


Source: DZS

2.5. INFLATION

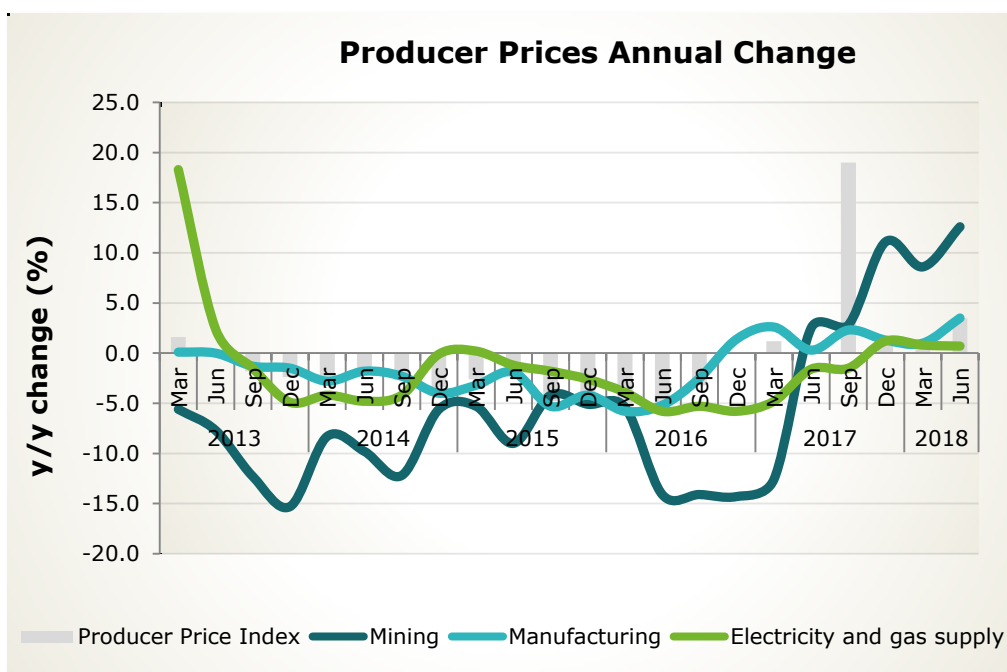
Inflation stable at 1.3% in June 2018

The average annual inflation in Croatia came in at 1.3% as of June 2018, a slight increase compared to 1.1% in March 2018, according to DZS. The increase of the average consumer prices on an annualised basis as of June was primarily due to the 2.4% rise in alcoholic beverages and tobacco prices.



Source: DZS

Producer prices went up annually, by 3.5% in Q2 2018. Manufacturers' producer prices rose by 3.5% y/y, while the average producer prices in the mining sector expanded by 12.6% y/y. The sector of electricity and gas supplies saw an increase of 0.7% y/y on average.



Source: DZS

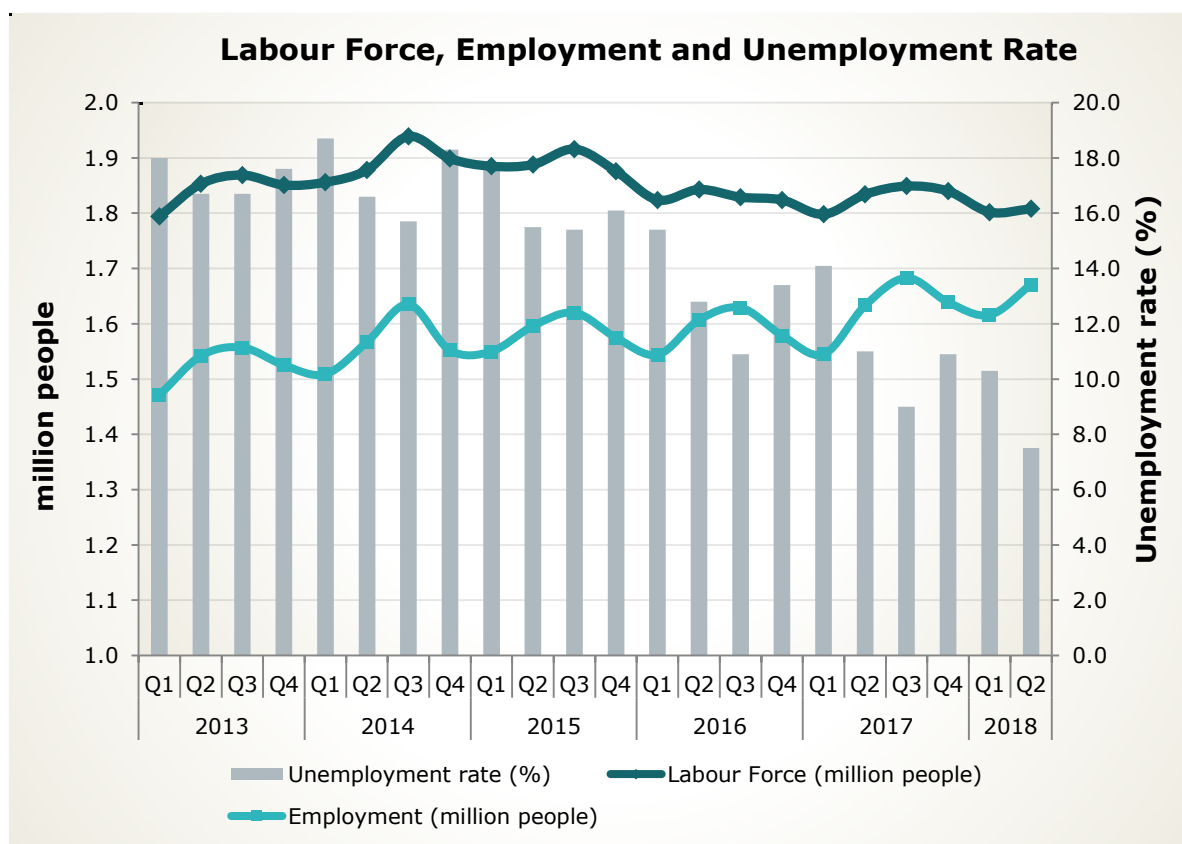
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 7.5% in Q2 2018, wages grew 5.0% y/y in the quarter

The favourable labour market developments that marked the Q1 2018 persisted in the second quarter of 2018. The unemployment rate in Croatia narrowed to 7.5% of the total labour force in Q2 2018, down from 10.3% in Q1 2018, according to data of DZS.

The dynamics of growth in the number of employed persons increased slightly from the first quarter of 2018. The employed population aged 15 years and older was 1.671 million as of June 2018, up 2.3% y/y. Almost all sectors made a positive contribution to employment trends, with the leading contribution coming from construction and manufacturing.

Net wages continued to grow in the second quarter of 2018. The average monthly net wage grew by 5.0% y/y to HRK 6,283 in June 2018. The highest net wages were reported by the mining and quarrying sector, of HRK 8,966, followed by the financial and insurance sector with HRK 8,698 and electricity, gas, steam and air conditioning supply with HRK 8,437. Administrative and support service activities occupied the bottom of the ranking with average monthly net wage of HRK 4,815.



Source: DZS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits declined by 6.3% y/y in Q2 2018

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q2 2018 decreased by 6.3% y/y and totalled 1,294, according to DZS data.

Permits for non-residential¹ buildings decreased by 18.9% to 284, while permits for residential buildings also registered a 2.0% decrease to 1,010.

The total built-up area of the non-residential units, covered by the permits, decreased sharply by 40.4% y/y to 176,699 sq m. The total built-up area of the housing units went down by 2.6% to 302,252 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 7.3947 in Q2 2018 from HRK 7.4370 in Q1 2018, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR	7.3947	7.4370	7.4268
USD	6.1972	6.0518	6.7616
GBP	8.4428	8.4196	8.6397
CHF	6.2944	6.3854	6.8595

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 June 2018. The average weighted interest rate in inter-bank trade on the overnight market was 1.25%.

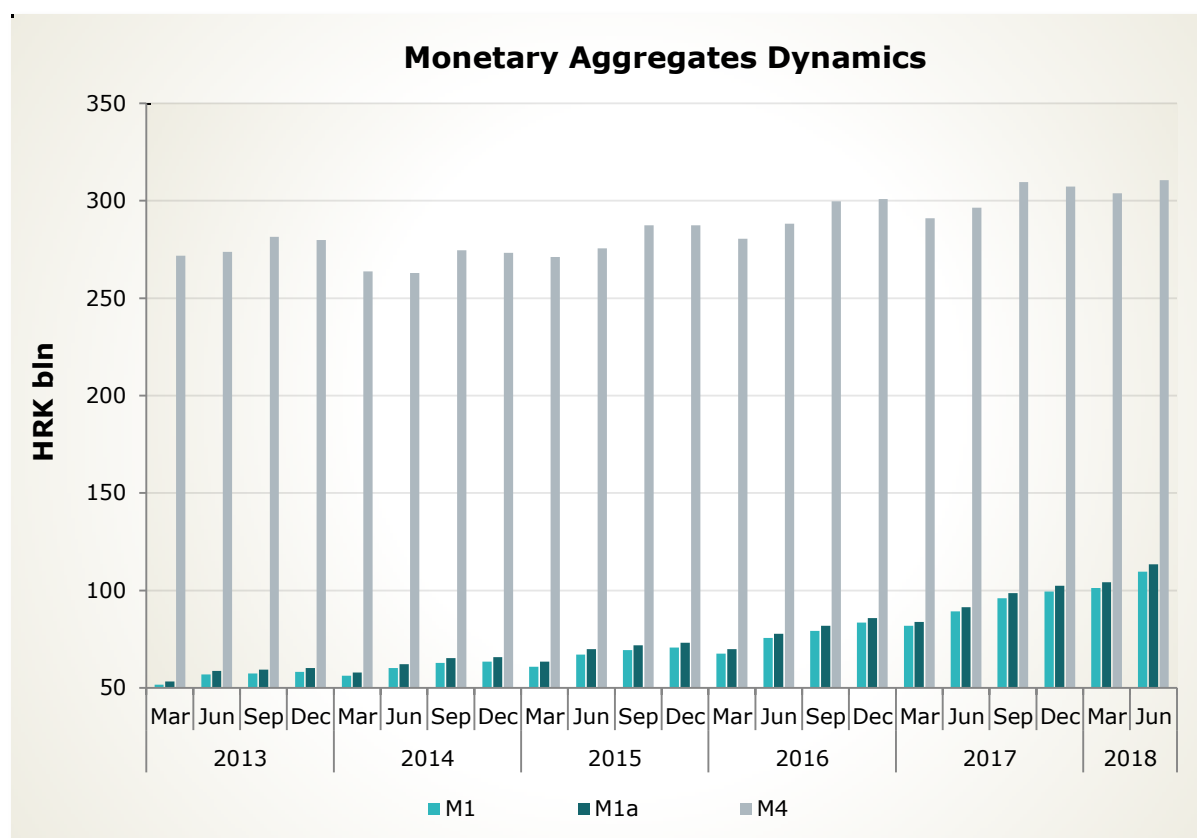
¹ Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

5.3. MONETARY AGGREGATES

Money supply grew by 4.7% y/y in Q2

In Q2 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 4.7% and reached HRK 310.6 bln in June 2018, according to data provided by HNB.

Monetary aggregate M1 grew annually by as much as 22.8%, while M1a increased by 24.2% compared to June of the previous year.



Source: HNB

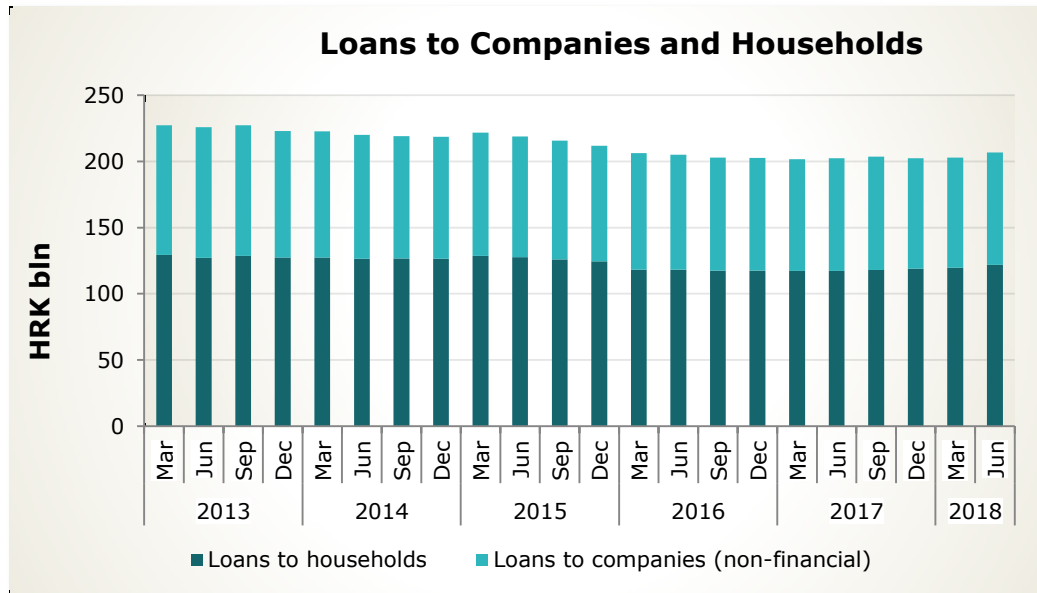
Editor's Note: Money M1a comprises currency outside credit institutions and demand deposits with credit institutions, increased by the demand deposits of the central government with credit institutions.

5.4. BANKING AND INSURANCE

Household loans increased by 3.9% y/y in Q2 2018

Household loans went up by 3.9% to HRK 121.8 bln, according to HNB data. House purchasing loans advanced by 2.4% to HRK 52.7 bln, accounting for 43.2% of the total loans. The second

largest loan type, slicing a 37.5% share, was the any-purpose cash loan with its value rising to HRK 45.7 bln from HRK 41.7 bln in Q2 2017, according to HNB. Loans to non-financial corporations went down by 0.1% y/y to HRK 85.0 bln.

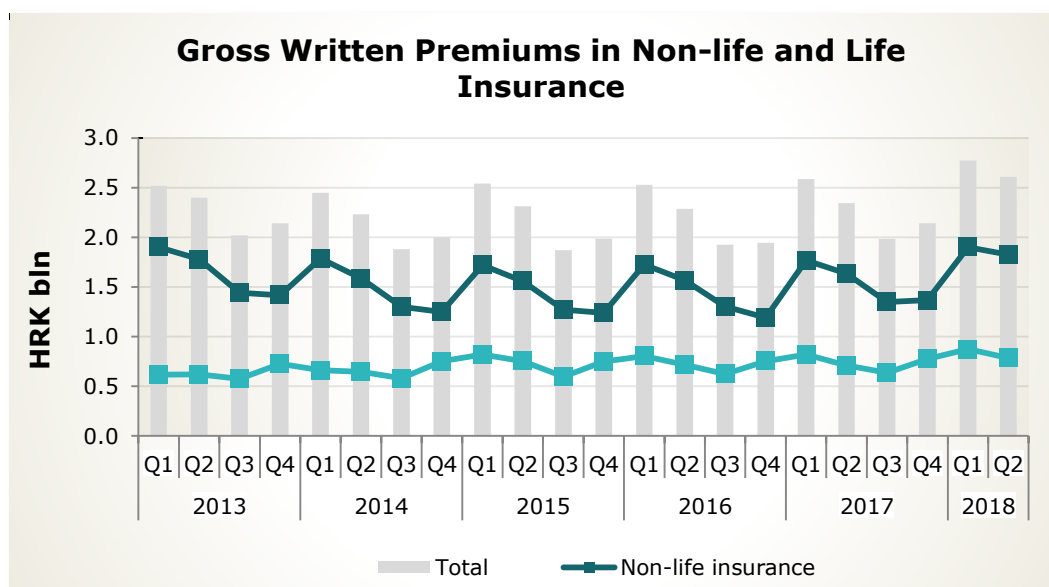


Source: HNB

Insurance premium income up 11.3% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.609 bln in Q2 2018, up by 11.3% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 11.6% annual increase of the non-life insurance sector, which posted GWP of HRK 1.824 bln. The life insurance sector rose by 10.5% y/y to HRK 0.784 bln.

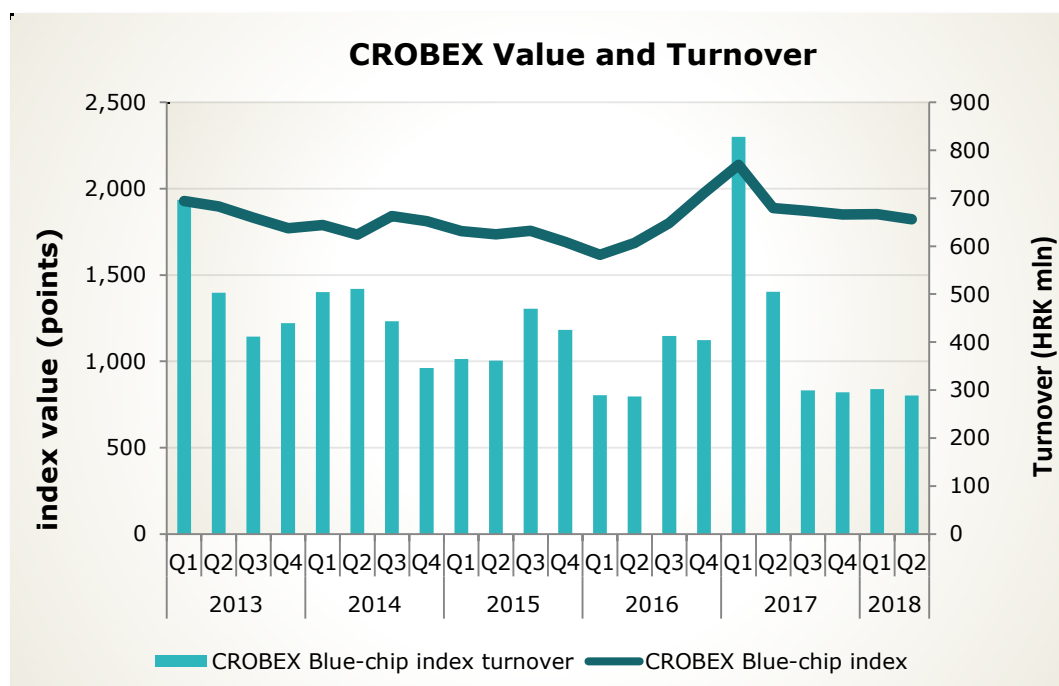


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX down in Q2 2018

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), shrank by 1.7% y/y to 1,821.7 points in the end of June 2018. The CROBEX turnover totalled HRK 288.4 mln in Q2 2018, compared to HRK 504.8 mln in Q2 2017.



Source: ZSE

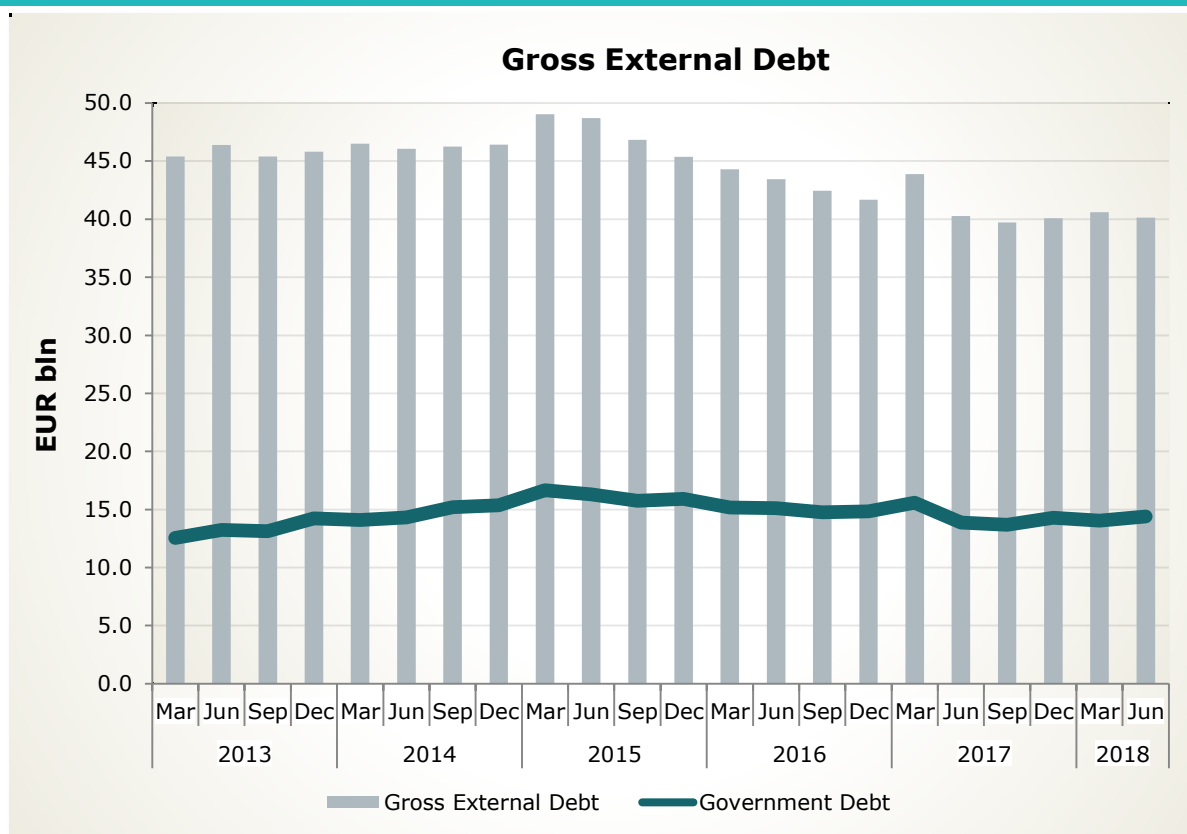
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt slightly down y/y to EUR 40.142 bln in June 2018

The gross external debt totalled EUR 40.142 bln as of June 2018, according to HNB. It went slightly down by 0.3% y/y and down compared to EUR 40.594 bln in March 2018.

As of March 2018, long-term liabilities amounted to EUR 29.448 bln, or 73.4% of the total debt, decreasing by 2.5% on the year. Short-term liabilities totalled EUR 3.878 bln, equal to 9.7% of the total debt and down by 3.2% compared to a year ago.



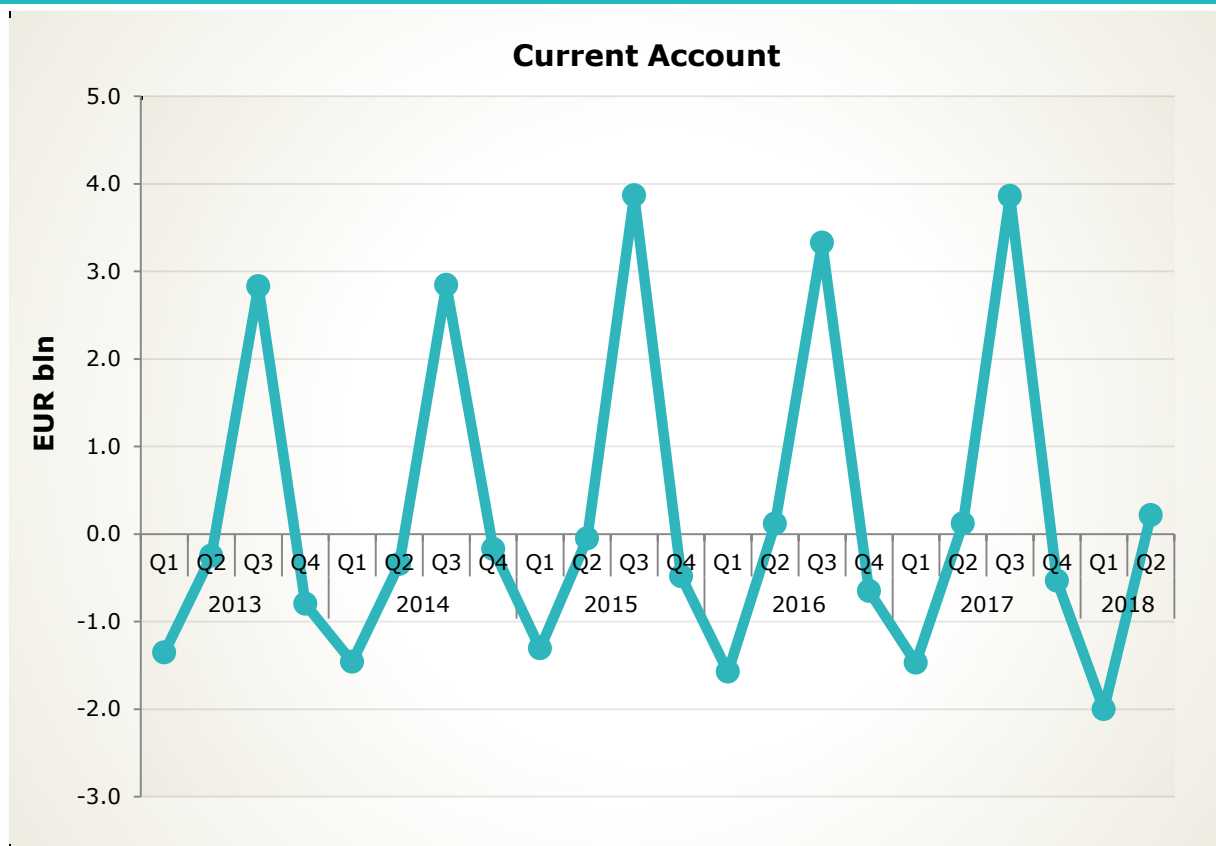
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus up 79.7% y/y to EUR 0.212 bln

In Q2 2018, Croatia had a current account surplus of 0.212 bln, up 79.7% y/y, according to HNB statistics data. The current account of the balance of payments of Croatia is usually in a surplus in the second quarter as the country is a popular sea tourist destination.

The balance on the goods account was negative at EUR 2.358 bln, up 0.3% y/y, while services surplus rose by 3.7% y/y to EUR 2.447 bln.

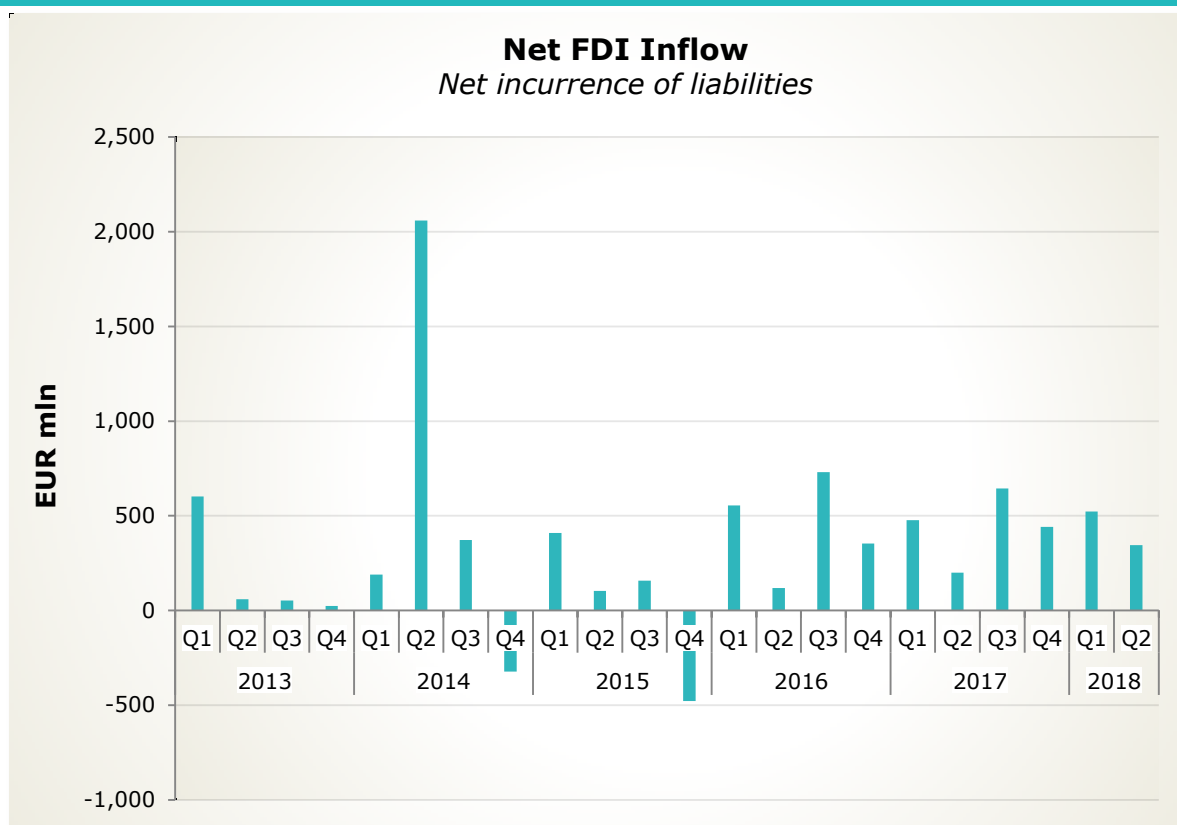


Source: HNB

7.3. FDI

Net FDI inflow at EUR 344.7 mln in the second quarter of 2018

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 344.7 mln in Q2 2018, according to preliminary data of HNB. This is a 73.1% increase compared to a year earlier when FDIs amounted to EUR 199.1 mln.



Source: HNB

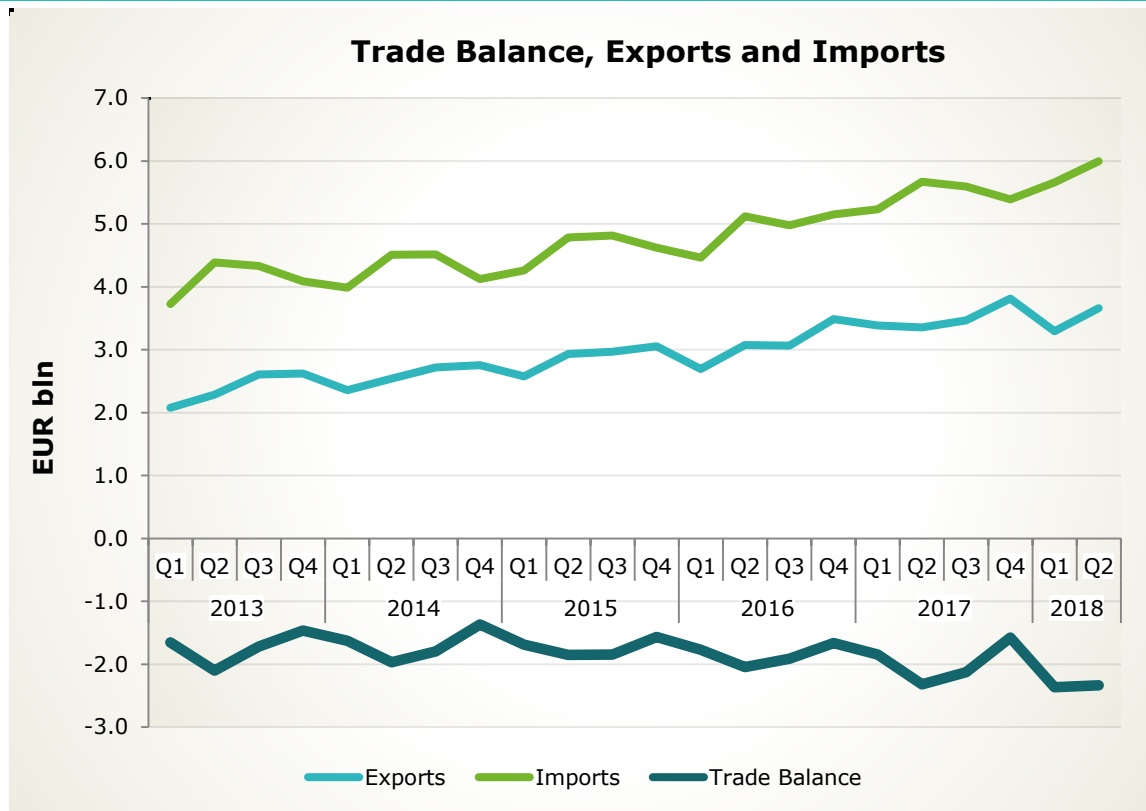
7.4. FOREIGN TRADE

Foreign trade deficit deepened by 0.6% y/y to EUR 2.334 bln in Q2 2018

The trade deficit stood at EUR 2.334 bln in Q2 2018, compared to EUR 2.319 bln in the same period of the previous year, according to DZS.

The total goods exports increased by 9.2% y/y to EUR 3.661 bln, compared to a drop of 2.7% y/y in Q1 2018, mainly influenced by a boost in the petroleum products exports.

In Q2 2018, total goods imports rose by 5.7% y/y, down from 8.1% y/y rise in Q1 2018.



Source: HNB

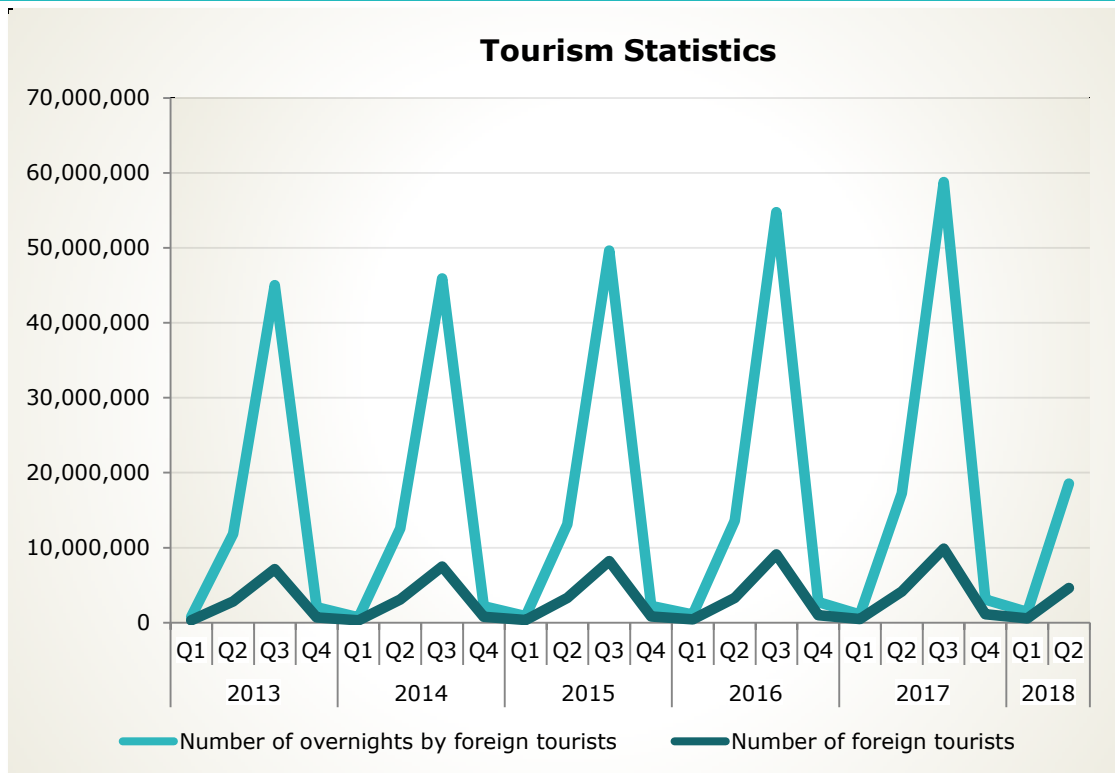
7.5. TOURSIM

Number of foreign tourist overnights increased by 7.3% y/y in Q2 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 7.3% to 18.527 million in Q2 2018, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 20.123 million in the quarter, rising by 7.6% in comparison to a year earlier.

The number of foreign tourists went up by 10.9% y/y to 4.620 million.



Source: DZS

8. MAJOR DEVELOPMENTS

EC approves EUR 165 mln Croatian investment to extend Istrian Y motorway

June 15, 2018

The European Commission said it has approved under EU State aid rules a Croatian plan to extend the Istrian Y motorway concession agreement between Croatia and the company Bina-Istra, allowing EUR 165 mln of new investments to go ahead.

[Read the full story here](#)

Croatia intensifying investment in rail infrastructure - transport min

June 6, 2018

Croatia's capital Zagreb will be linked by rail to Hungary by 2022, and to the coastal city of Rijeka by 2030, as the government steps up investment in rail infrastructure.

[Read the full story here](#)

Croatia to benefit from EUR 8.8 bln under EU cohesion policy 2021-2027

May 30, 2018

Croatia should have at its disposal EUR 8.768 bln in constant 2018 prices under EU's cohesion policy for 2021-2027, or EUR 9.888 bln in current prices taking inflation into account.

[Read the full story here](#)

Croatia's hotel industry to see investment of EUR 1.2 bln in 5 years

May 29, 2018

Investments totalling EUR 1.2 bln will be made in Croatia's hotel industry by 2022, with an increasing number of Asia-based investors.

[Read the full story here](#)

Croatia takes over chairmanship of Council of Europe

May 21, 2018

Croatia has assumed the rotating chairmanship of the Council of Europe, during which it will host 28 events most of which will focus on human rights

[Read the full story here](#)

Croatia's govt adopts strategy to join eurozone

May 11, 2018

Croatia's government said it has adopted a strategy for introduction of the euro and has established a national council to lead the process.

[Read the full story here](#)

Croatia to invest EUR 270.1 mln in projects in Split-Dalmatia county

May 4, 2018

Croatia will invest over EUR 270.1 mln into projects in the coastal city of Split and the Split-Dalmatia county.

[Read the full story here](#)

Croatia signs deal for Peljesac bridge construction with Chinese tie-up

Apr 23, 2018

Croatian motorway operator Hrvatske Ceste signed on Monday a EUR 280.5 mln deal for the construction of Peljesac bridge with a Chinese consortium led by China Road and Bridge Corporation.

[Read the full story here](#)

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