

CROATIA ECONOMY REPORT

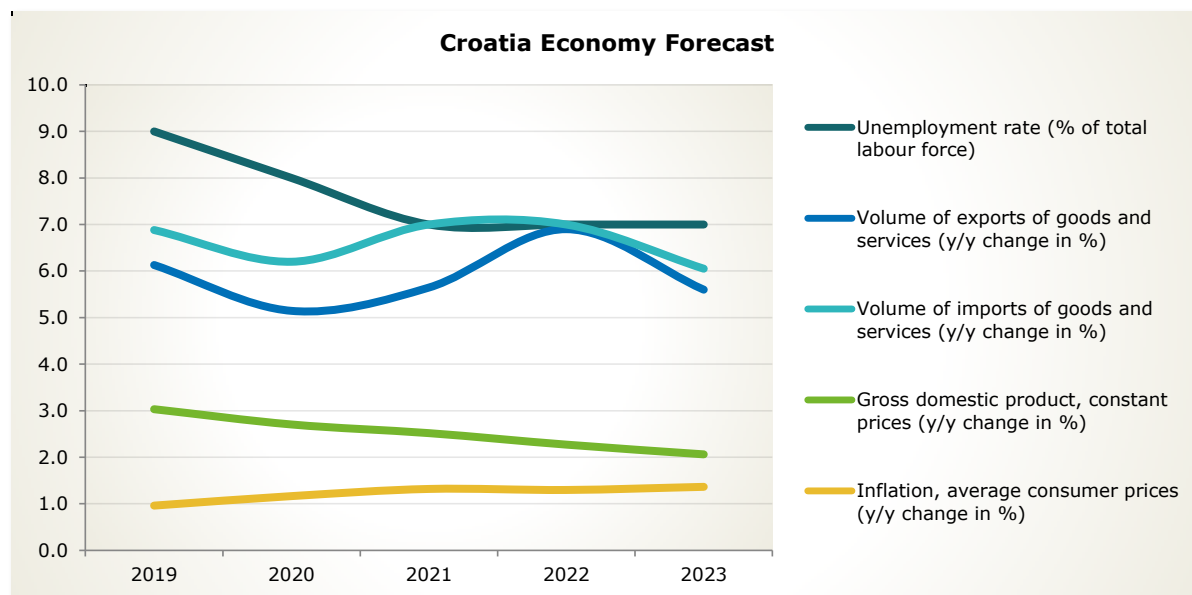
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

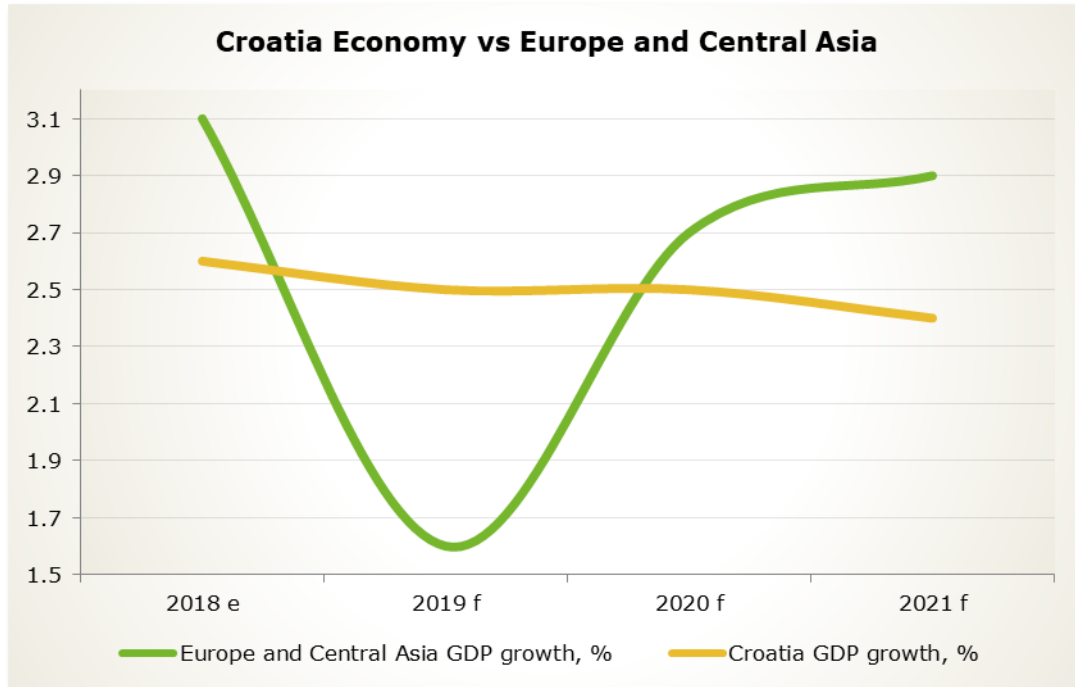
CROATIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	2.4% y/y
Industrial output	0.7% y/y
Industrial sales	-0.1% y/y
Wholesales	5.3% y/y
Retail sales	6.7% y/y
Average annual inflation	1.1%
Unemployment rate	6.1%
Number of building permits	54.4% y/y
Money supply growth	4.1% y/y
Household loans	6.1% y/y
CROBEX blue-chip index	4.7% q/q
Gross external debt	EUR 44.564 bln
Current account deficit	EUR 512.1 mln
Net FDI inflow	EUR -27.7 mln
Foreign trade deficit	EUR 2.793 bln
Number of foreign tourist overnights	3.7% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 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 2.7% in 2020. In 2021 and 2022, IMF forecasts country's economic growth to slow to 2.5% and 2.3%, respectively.. Inflation is projected to remain within the 1.0% - 1.4% range over the period 2019-2023. 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

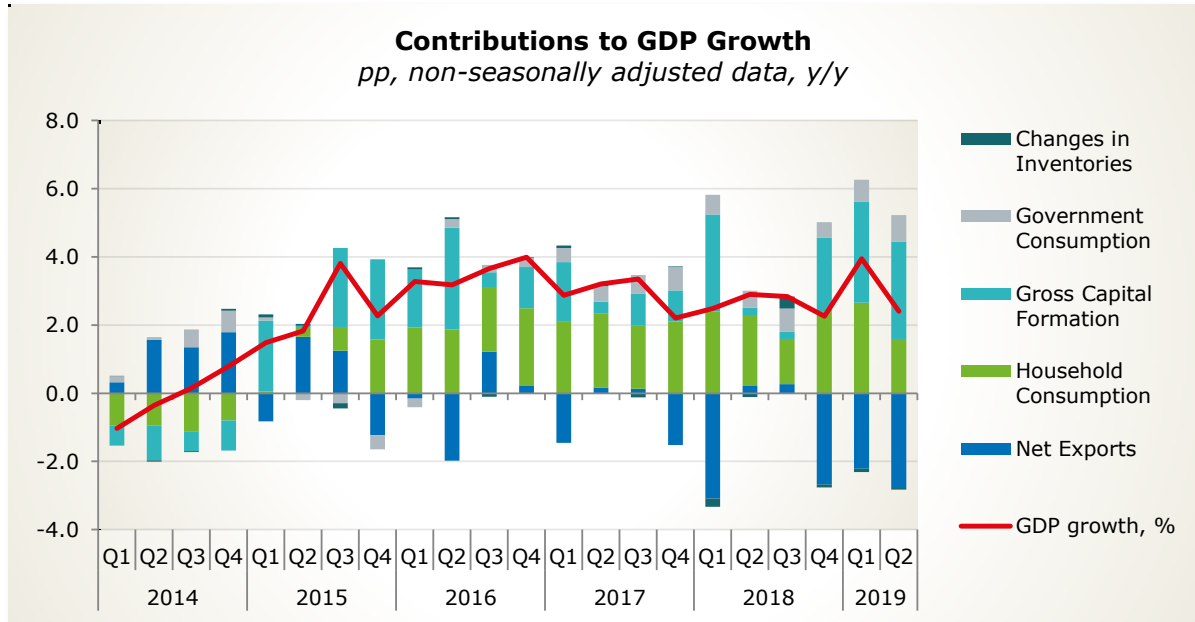
2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth slowed down in Q2 2019 to 2.4% y/y from 4.0% y/y in Q1 2019

The country's GDP increased by a real 2.4% y/y and totalled HRK 91.935 bln in Q2 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 78.4% of the GDP, expanded by 3.0% y/y. Gross capital formation went up by 11.6% y/y, contributing 2.9 pp to the GDP expansion. Imports grew faster than exports, by 6.7% and 1.3%, respectively. As a result, the foreign trade took away 2.8 pp from the GDP growth.

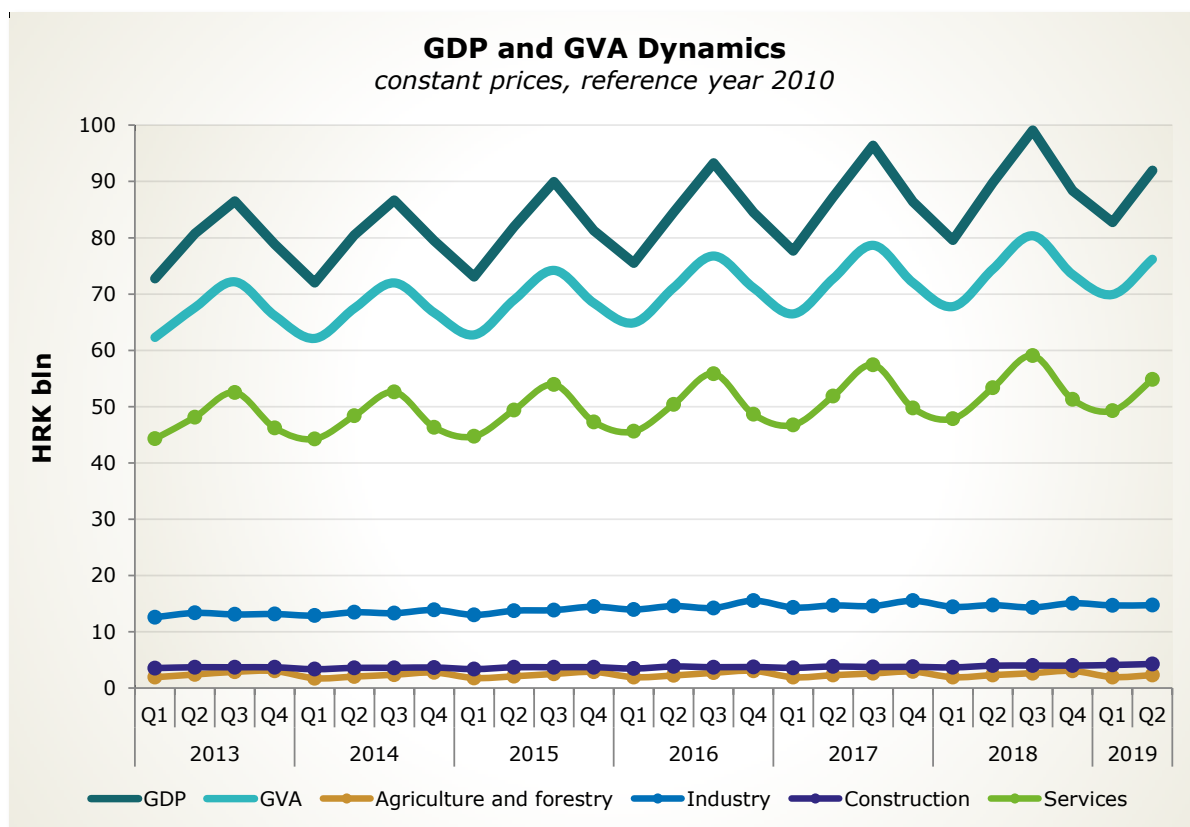
Household consumption remained strong, advancing by 2.7% y/y in real terms in Q2 2019 and contributed to 1.6 pp to the overall growth. Major factors behind this trend are the increasing employment and the real wage rise.



Source: DZS; SeeNews calculations

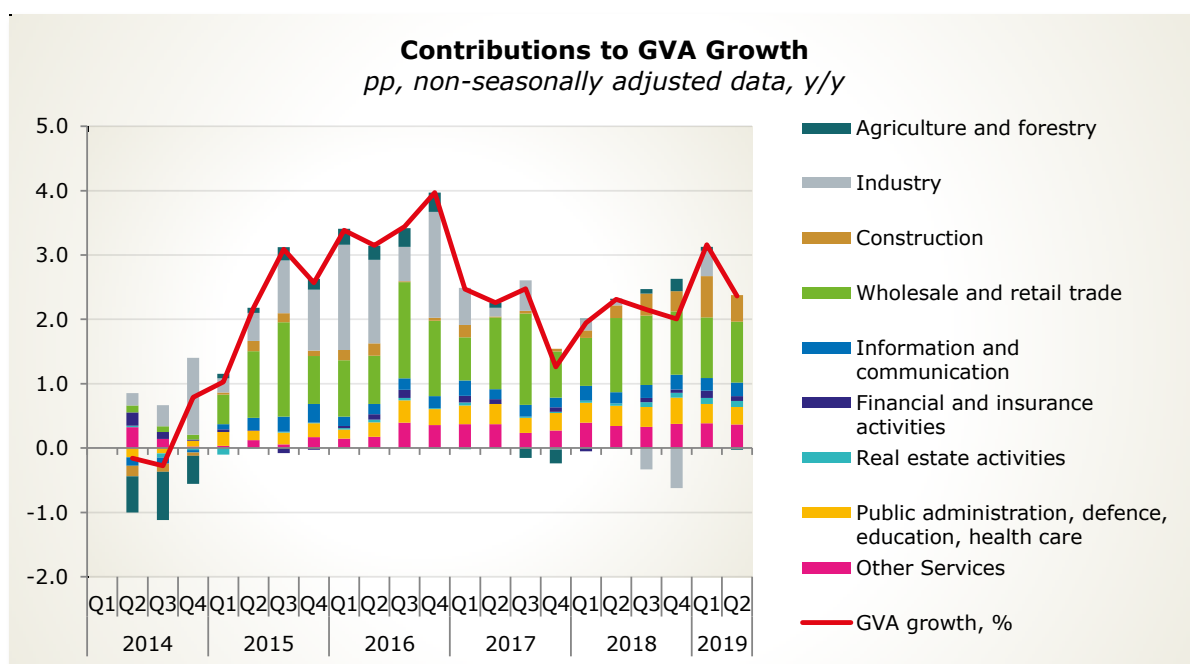
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.4% y/y in Q2 2019 and totalled HRK 76.186 bln. The industrial sector decreased by 0.1%, while construction went up by 7.6%. The services sector recorded a 2.8% annual rise, slicing a 71.9% share in the GVA. The agricultural sector decreased by 0.4% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q2 2019, with 0.9 pp, followed by construction with 0.4 pp.



Source: DZS; SeeNews calculations

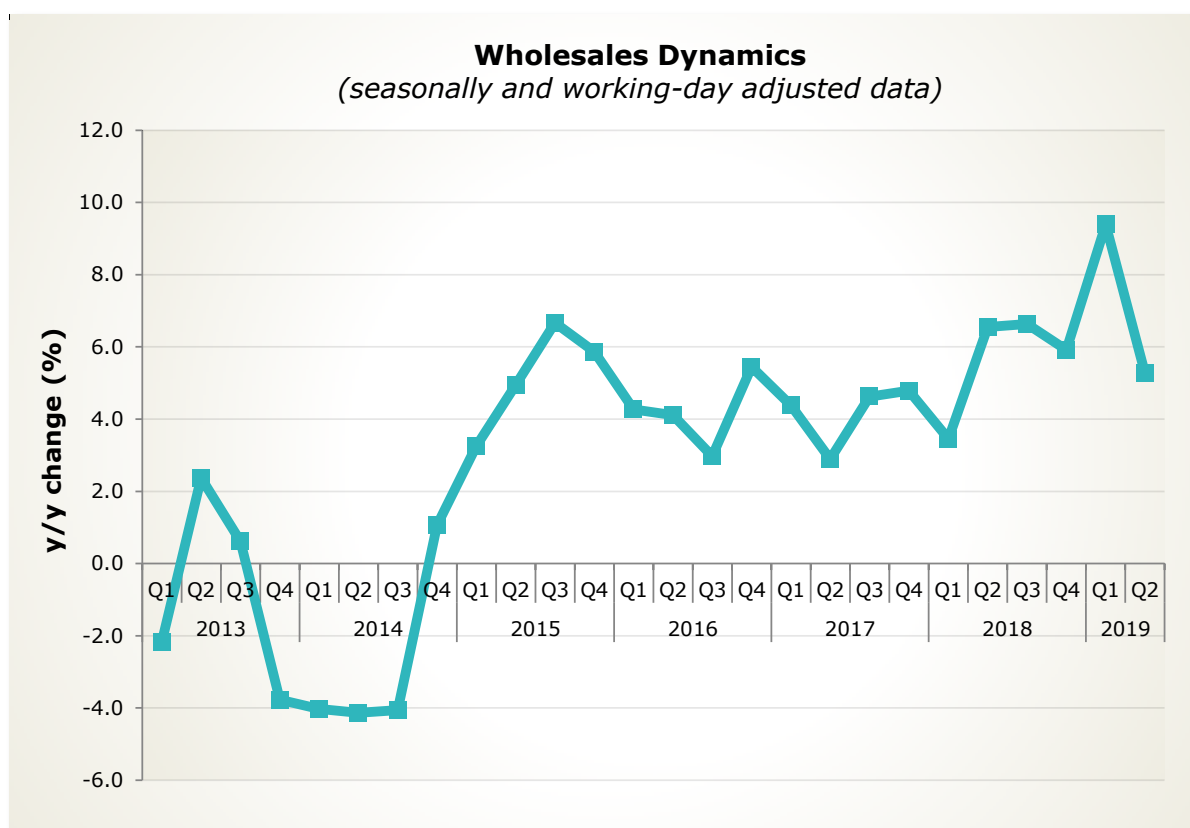
Note: Non-additive data due to direct chain-linking of GDP and its components.

The industrial sales were pushed up by the 6.5% annual rise of sales of intermediate goods. In addition, capital goods and consumer durables went up by 4.7% and 3.7% y/y, respectively. Sales of consumer non-durables goods grew by 3.5%. Sales in the energy sector dropped by 48.7% y/y.

2.4. WHOLESALE/RETAIL

Retail sales growth at 6.7% y/y, wholesales up 5.3% y/y in Q2 2019

Retail sales registered annual increase of 6.7% in Q2 2019, according to DZS data. In the same time, wholesales advanced by 5.3% y/y, down from 6.5% y/y in the same period the previous year.

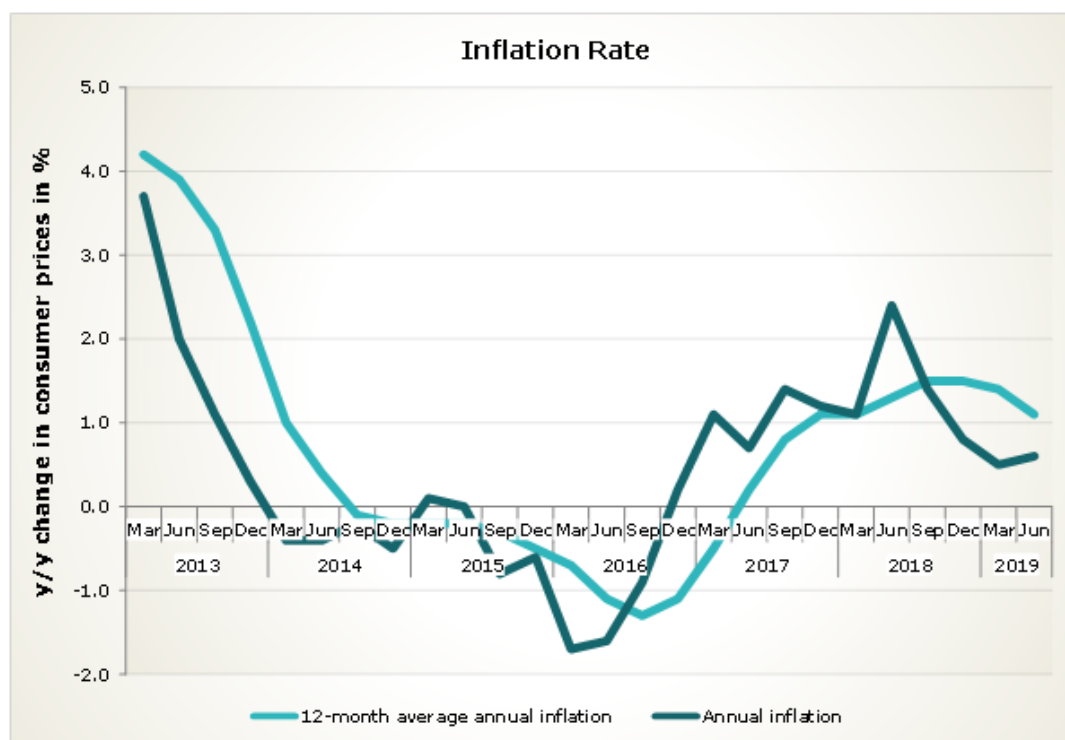


Source: DZS

2.5. INFLATION

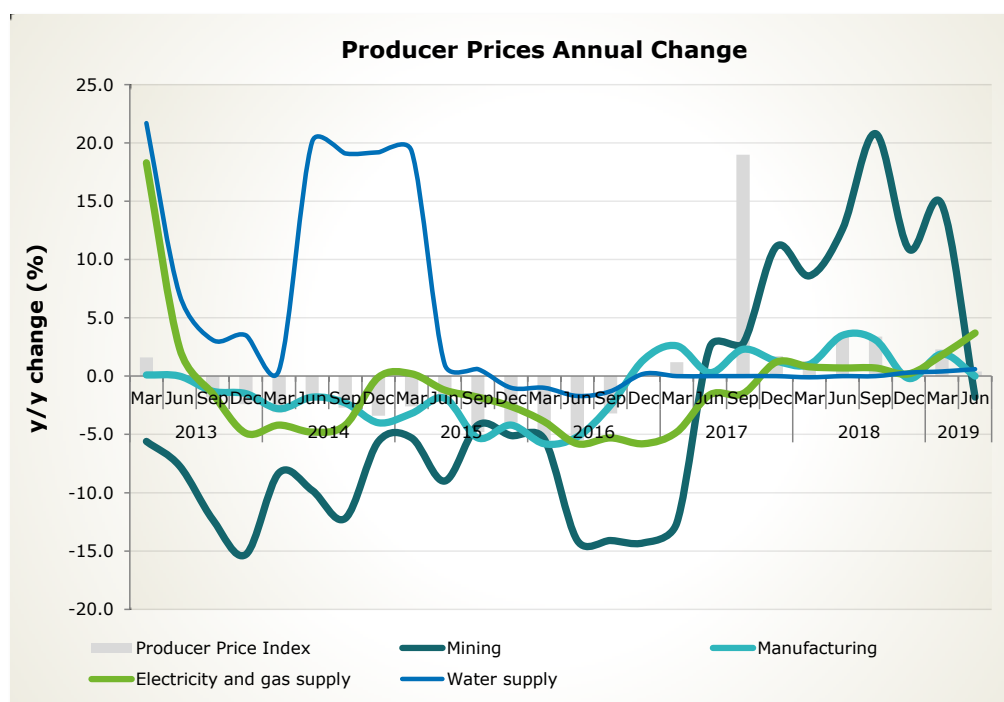
Inflation slowed down to 1.1% as of June 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change in July 2018–June 2019, compared to July 2017–June 2018, stood at 1.1%, down from 1.4% in March 2019. Inflation was boosted by the 4.5% rise in the price of alcoholic beverages and tobacco, the product group with the sharpest inflation increase. In terms of deflation, clothing and footwear was the leading segment with 1.4%.



Source: DZS

Producer prices went up annually, by 0.4% in Q2 2019. Manufacturers' producer prices remained unchanged, while the average producer prices in the mining sector went down by 1.8% y/y. The electricity and gas supply sector saw an increase of 3.7% y/y on average. Water supply inched up by 0.60% y/y.



Source: DZS

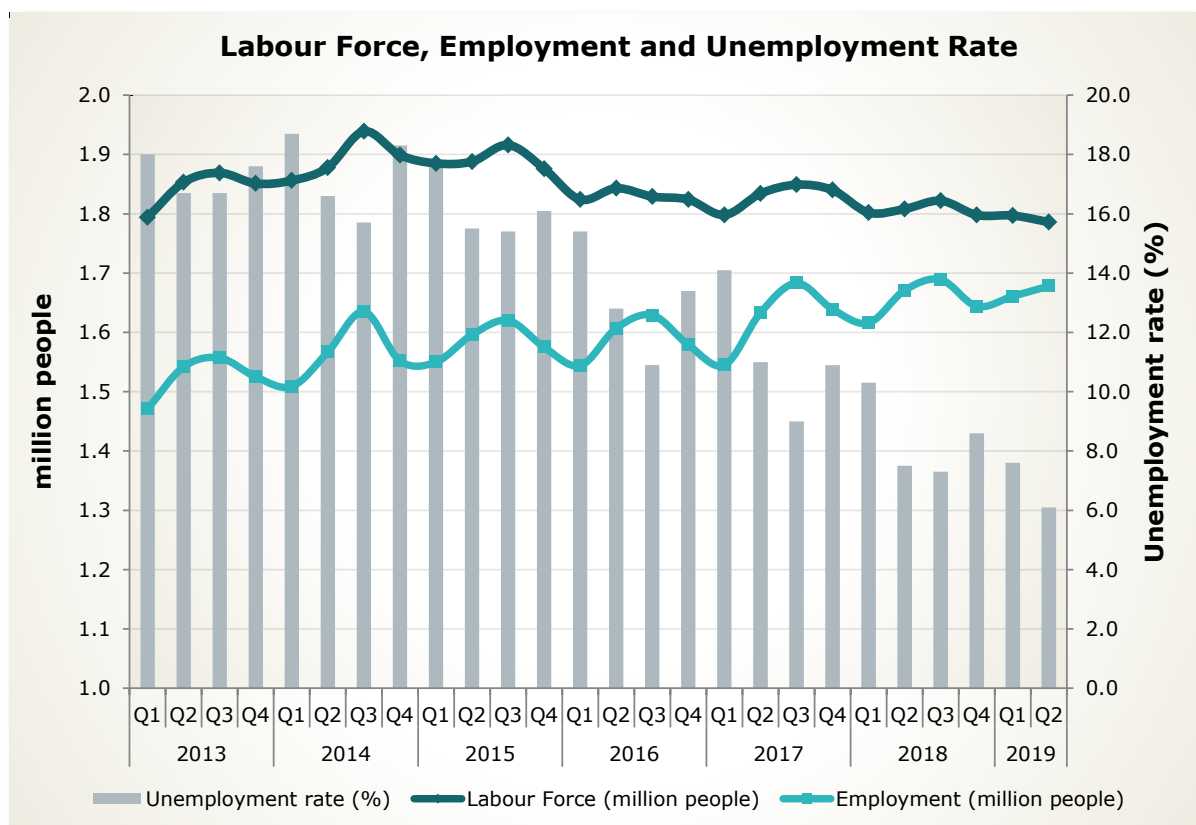
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 6.1% in Q2 2019, wages grew 2.8% y/y in the quarter

The favourable labour market developments that marked the whole 2018 persisted in Q2 2019. The unemployment rate in Croatia narrowed to 6.1% of the total labour force in Q2 2019, down from an average unemployment rate of 7.5% in Q2 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 1.678 million as of June 2019, up 0.4% y/y.

The average monthly net salary in the second quarter of 2019 went up by 2.8% y/y to HRK 6,460, 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 54.4% y/y in Q2 2019

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q2 2019 increased by 54.4% y/y and totalled 1,998, according to DZS data.

Permits for non-residential¹ buildings went up by 3.9% to 295, while permits for residential buildings registered an 15.7% increase to 1,169.

The total built-up area of the non-residential units, covered by the permits, jumped by 28.0% y/y to 226,092 sq m. The total built-up area of the housing units went up by 31.0% to 395,909 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average quarterly exchange rate of the HRK against the EUR decreased to HRK 7.4153 in Q2 2019 from HRK 7.4176 in Q1 2019, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR	7.4153	7.4176	7.3947
USD	6.6019	6.5285	6.1972
GBP	8.4879	8.4989	8.4428
CHF	6.5820	6.5495	6.2944

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 2019. The average weighted interest rate in inter-bank trade on the overnight market was at 2.5%.

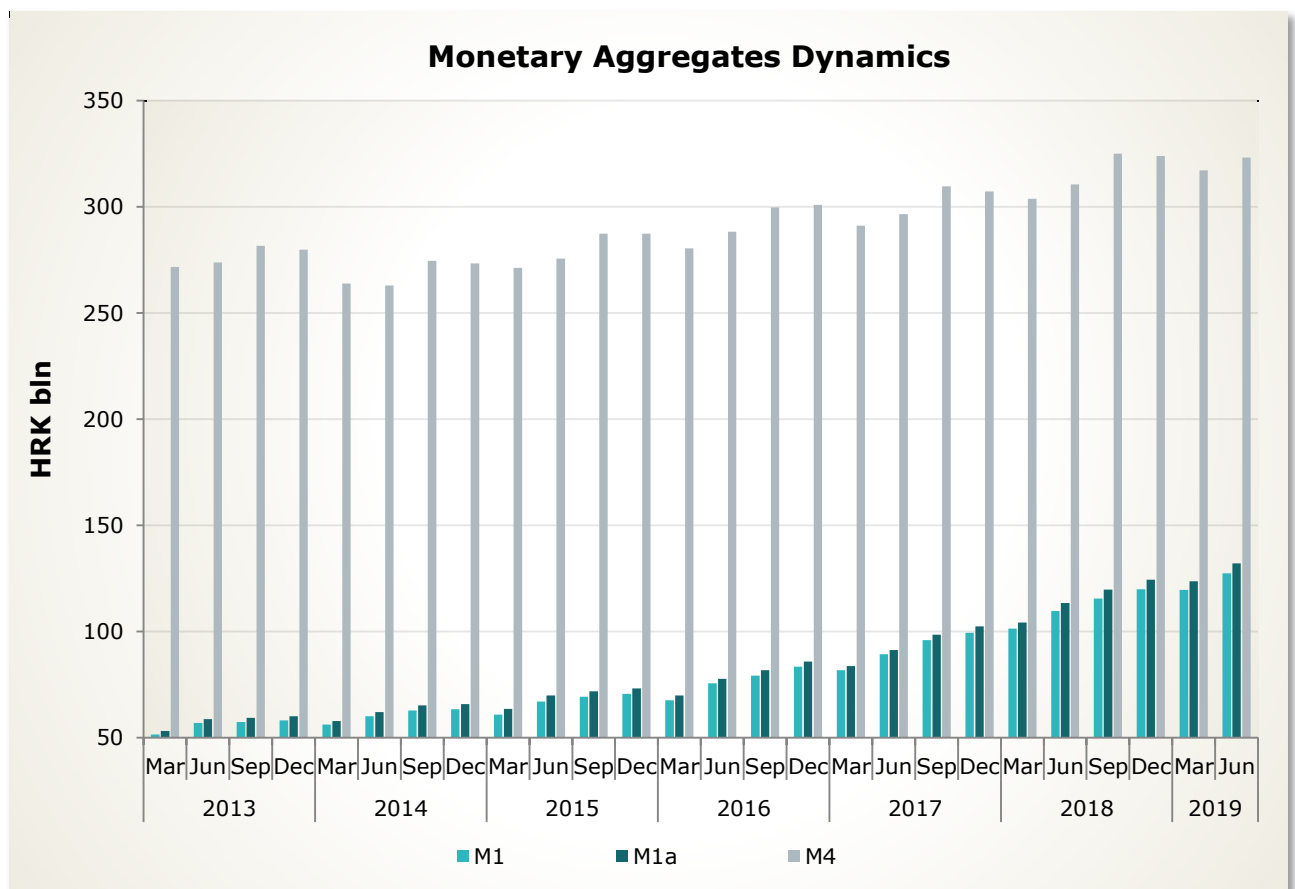
¹Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

5.3. MONETARY AGGREGATES

Money supply grew by 4.1% y/y in Q2 2019

In Q2 2019, broad money increased by 4.1% y/y and reached HRK 323.3 bln, according to data provided by HNB.

Monetary aggregate M1 grew annually by 16.2%, while M1a increased by 16.4% compared to the previous year.



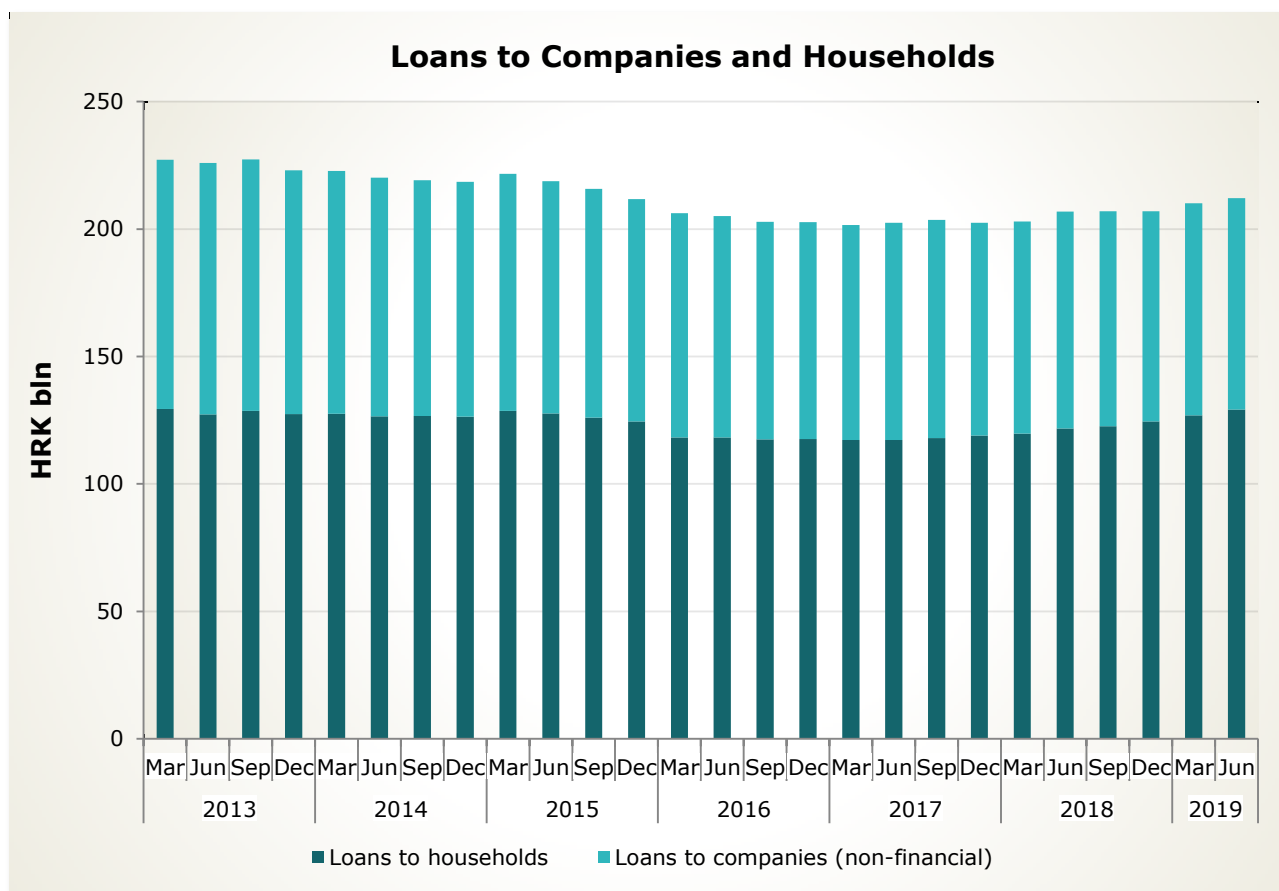
Source: HNB

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 6.1% y/y in Q2 2019

Household loans went up by 6.1% to HRK 129.230 bln, according to HNB data. House purchasing loans advanced by 4.2% to HRK 54.861 bln, accounting for 42.5% of the total loans. The second largest loan type, slicing a 39.4% share, was the any-purpose cash loan with its value rising to HRK 50.969 bln from HRK 45.704 bln in Q2 2018, according to HNB. Loans to non-financial corporations narrowed by 2.5% to HRK 82.935 bln.

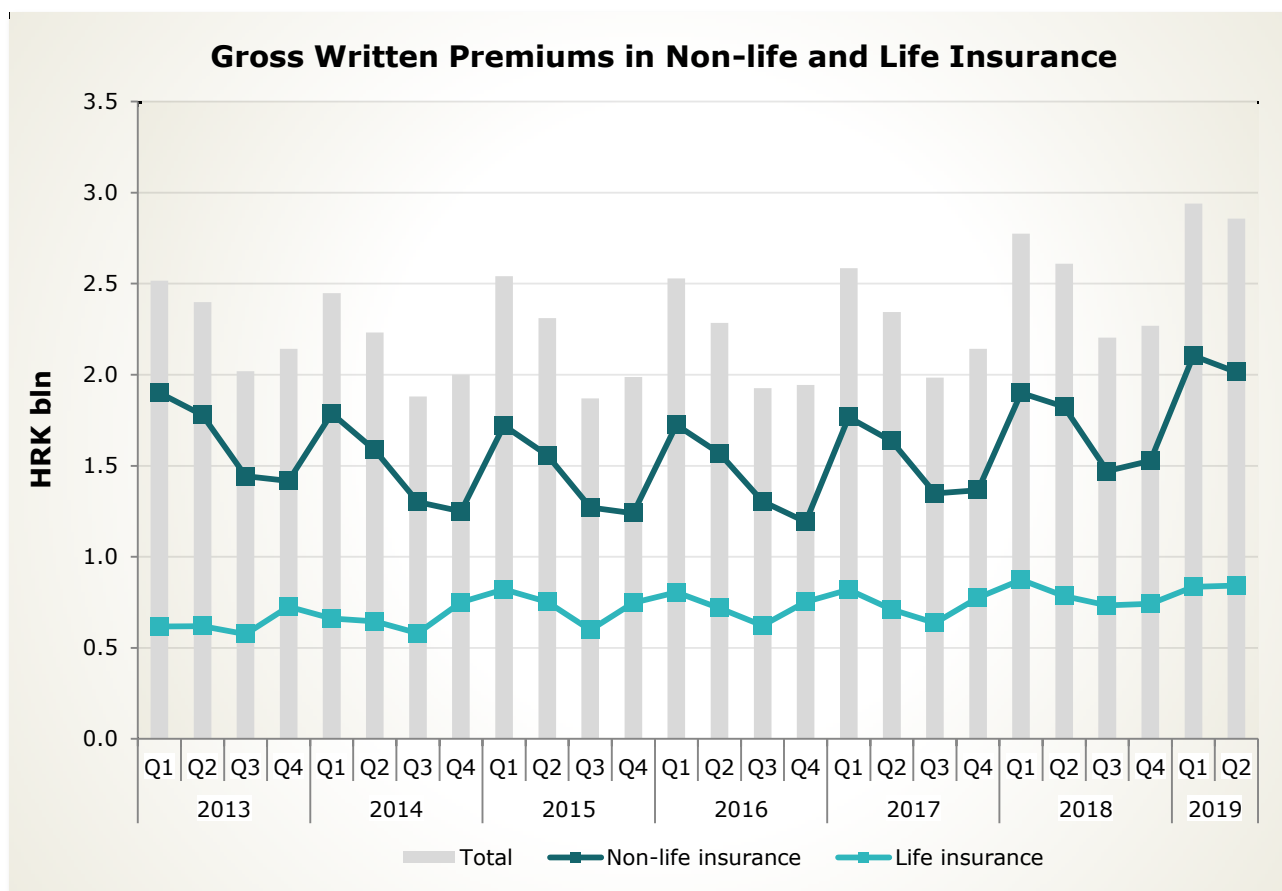


Source: HNB

Insurance premium income up 9.5% y/y in Q2 2019

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.857 bln in Q2 2019, up by 9.05% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 10.4% annual increase of the non-life insurance sector, which posted GWP of HRK 2.014 bln. The life insurance sector went up by 7.5% y/y to HRK .842.9 mln.

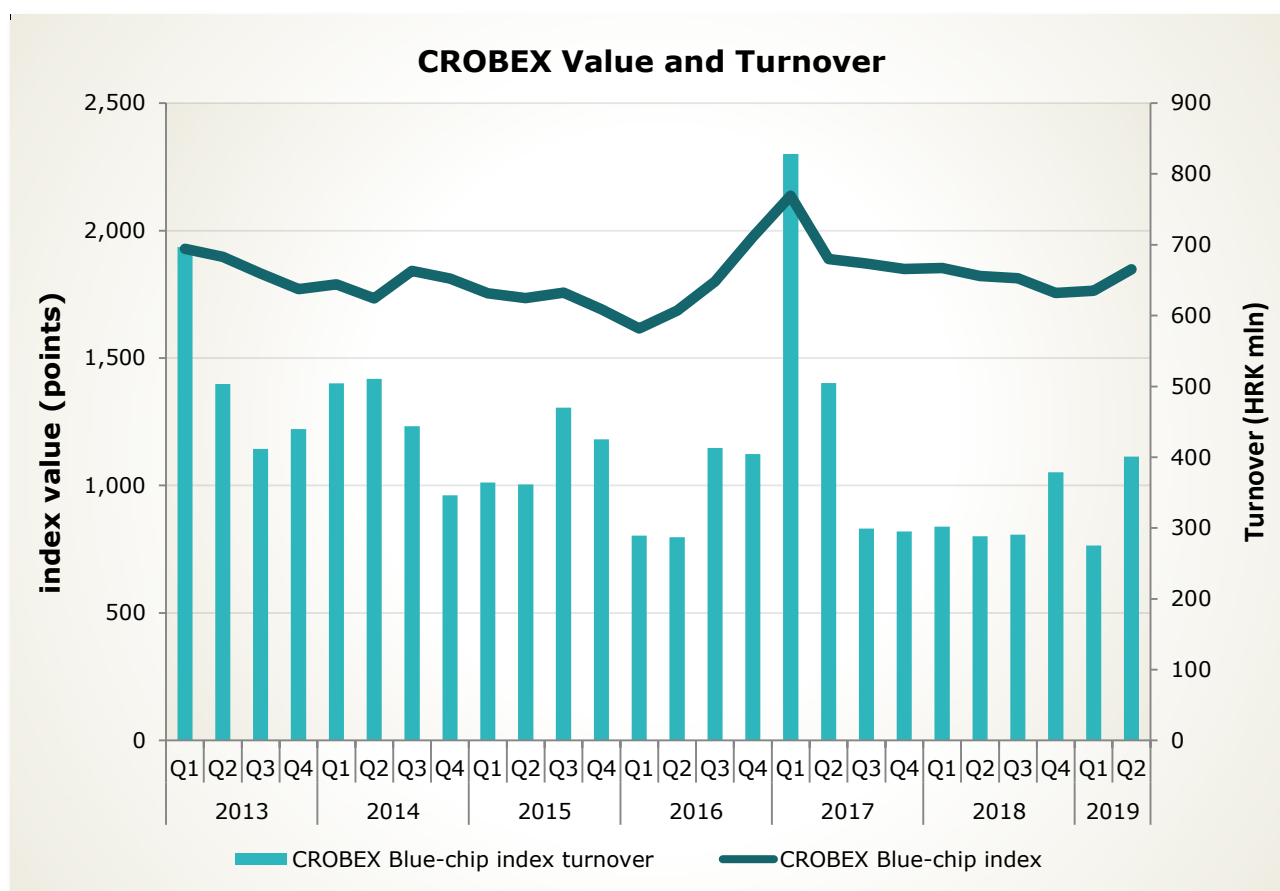


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX slightly up in Q2 2019

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by 4.7% q/q to 1,847.9 points in Q2 2019. The CROBEX turnover totalled HRK 400.7 mln in Q2 2019, compared to HRK 288.4 mln in Q2 2018.



Source: ZSE

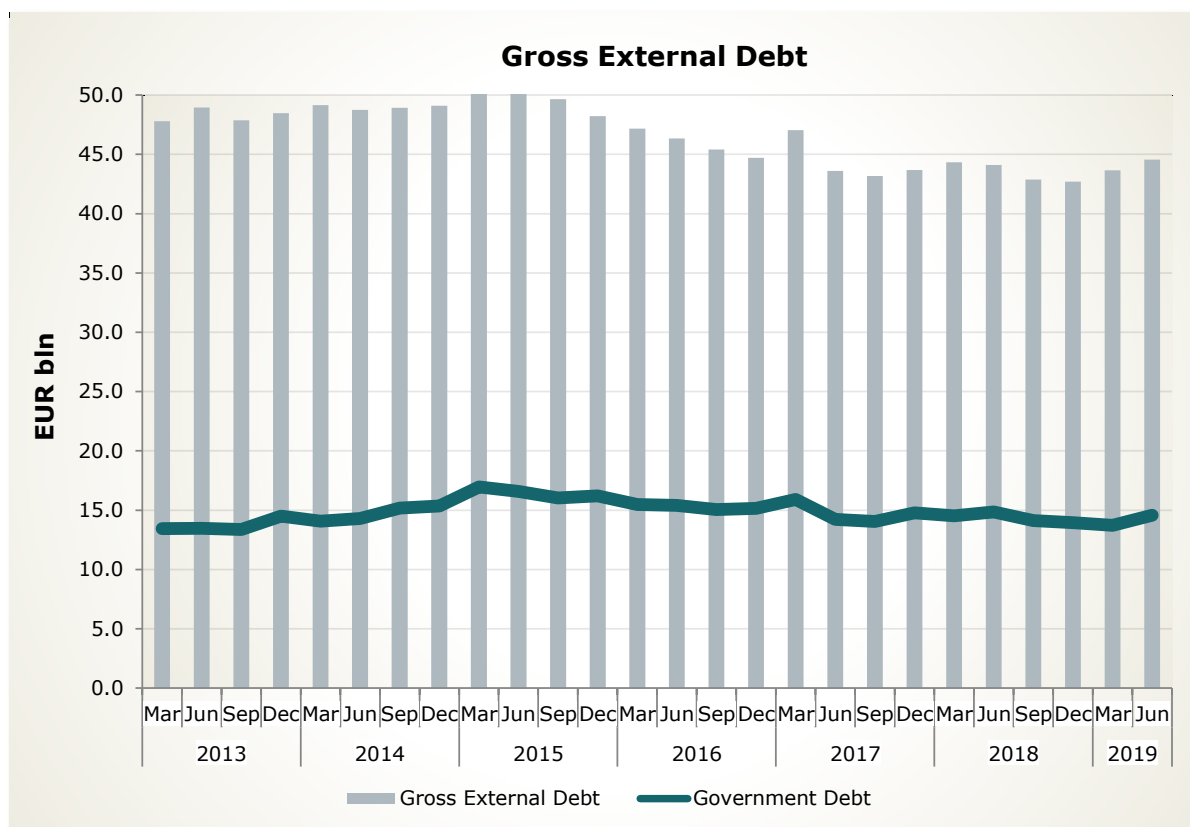
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt up y/y to EUR 44.564 bln in June 2019

The gross external debt totalled EUR 44.564 bln as of June 2019, according to HNB. It went up by 1.0% y/y or by EUR 457.1 mln in comparison to a year earlier.

As of June 2019, long-term liabilities amounted to EUR 29.295 bln, or 65.7% of the total debt, decreasing by 1.4% on the year. Short-term liabilities totalled EUR 8.983 bln, equal to 20.2% of the total debt and up by 26.8% compared to a year ago.



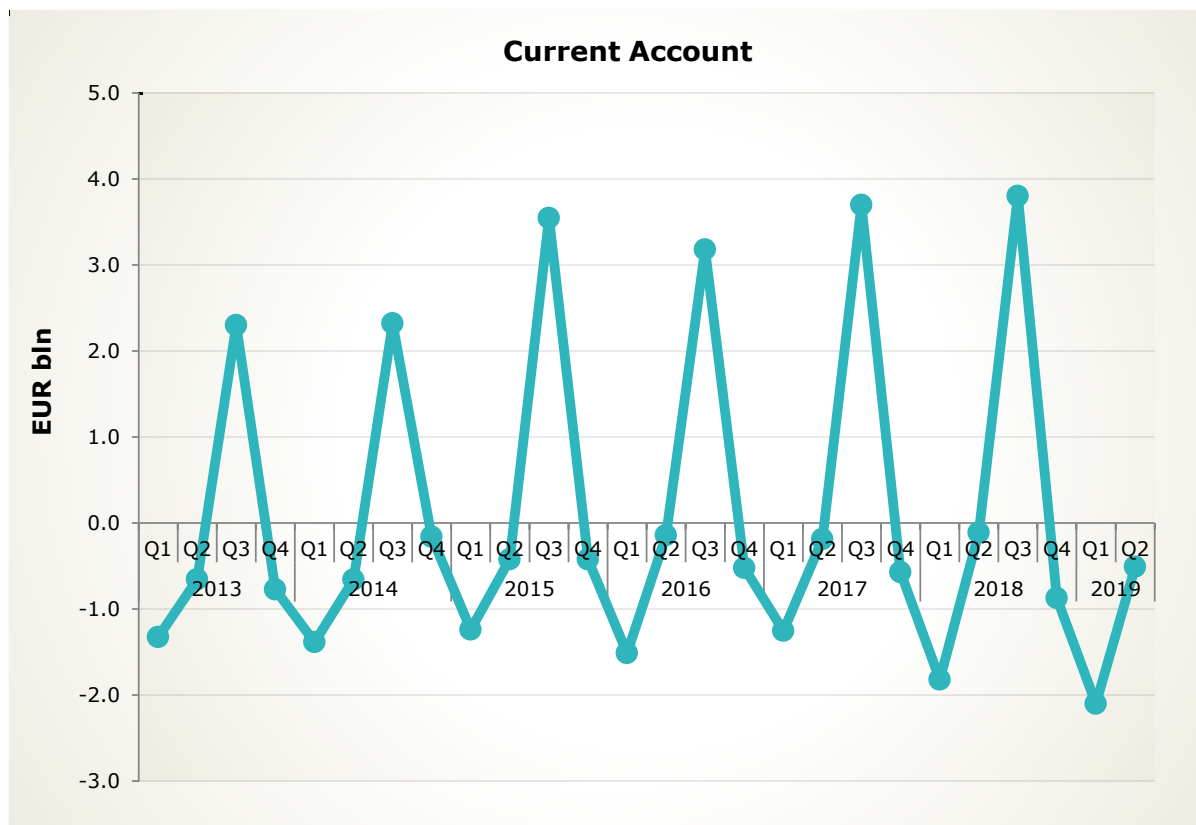
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account deficit more than quadrupled y/y to EUR 0.5 bln in Q2 2019

In Q2 2019, Croatia had a current account deficit of EUR 512.1 mln, up from EUR 114.4 mln in Q2 2018, according to HNB statistics data. In the previous quarter, the current account deficit was EUR 2.105 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 secondary income account was positive during Q2 2019 at EUR 654.4 mln, compared to a surplus of EUR 573.2 mln in Q2 2018.

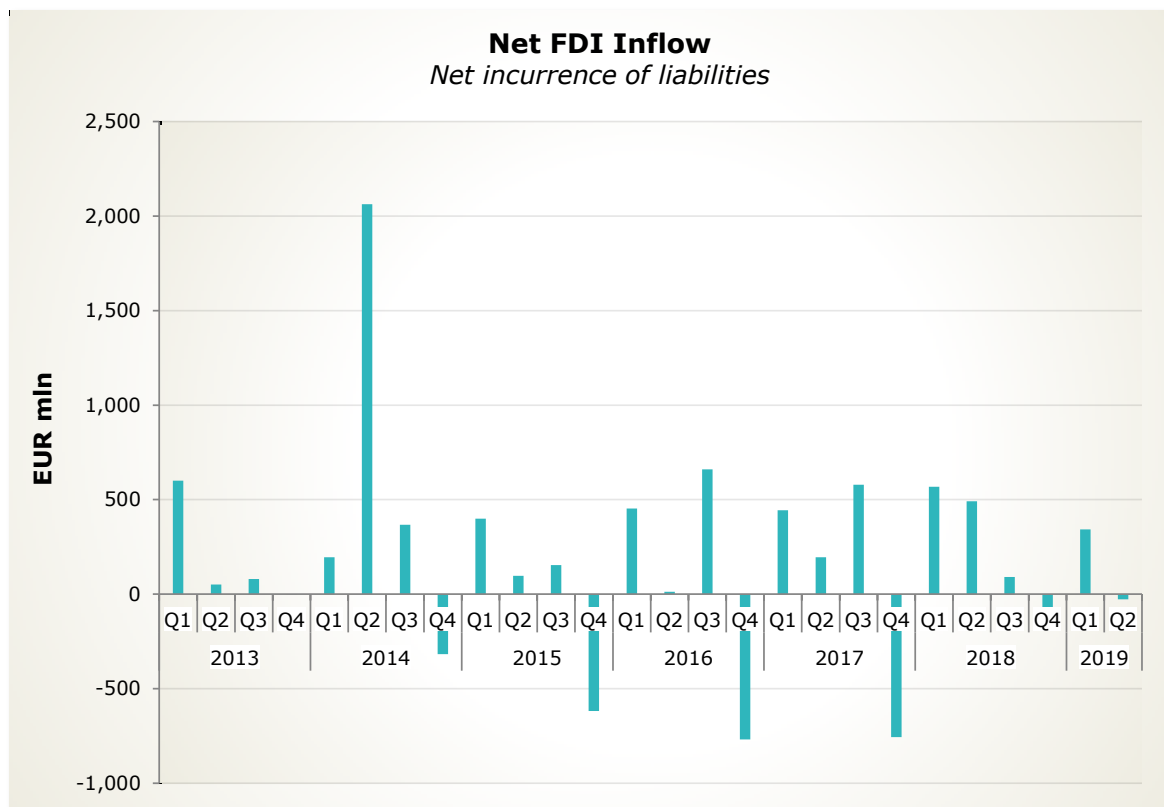


Source: HNB

7.3. FDI

Net FDI inflow was negative, at EUR 27.7 mln in Q2 2019

Net Foreign Direct Investments (FDI) inflow in Croatia turned to a negative EUR 27.7 mln in Q2 2019 from the positive EUR 342.8 mln, according to preliminary data of HNB. A year earlier the quarterly FDI inflow amounted to EUR 491.7 mln.



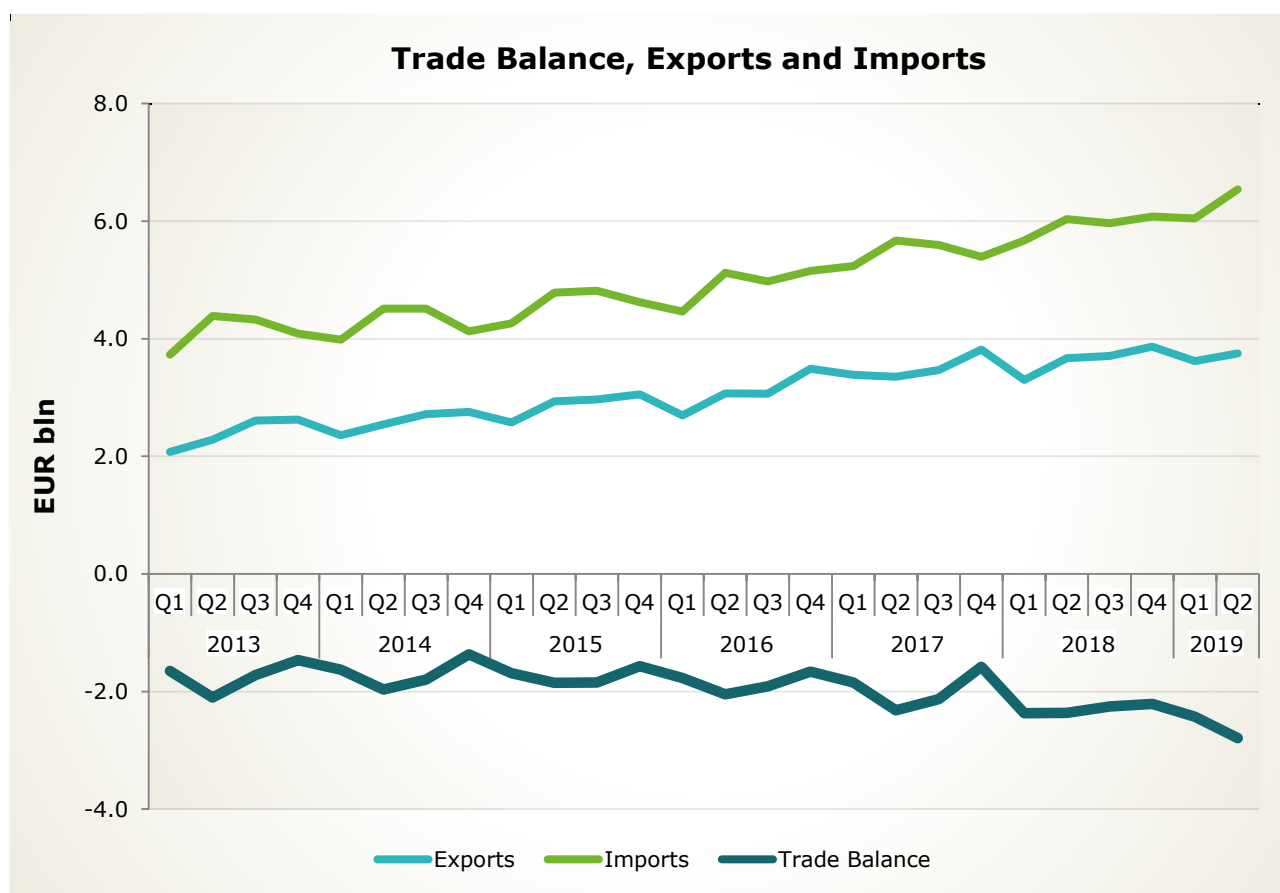
Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit swelled by 18.0% y/y to EUR 2.793 bln in Q2 2019

The trade deficit stood at EUR 2.793 bln in Q2 2019, compared to EUR 2.366 bln in the same period of the previous year, according to DZS.

Exports grew 2.2% y/y to EUR 3.748 bln, while imports increased by 8.4% to EUR 6.541 bln. Mineral fuels and lubricants registered the sharpest annual jump in imports, of 17.0%, while in terms of decline there were only two product groups – crude materials, except fuels and non-classified goods. The growth in exports was fuelled by the 21.1% rise in exports of machinery and transport equipment. Their export value stood at EUR 981.1 mln in Q2 2019, or by EUR 170.9 mln more than in Q2 2018.



Source: HNB

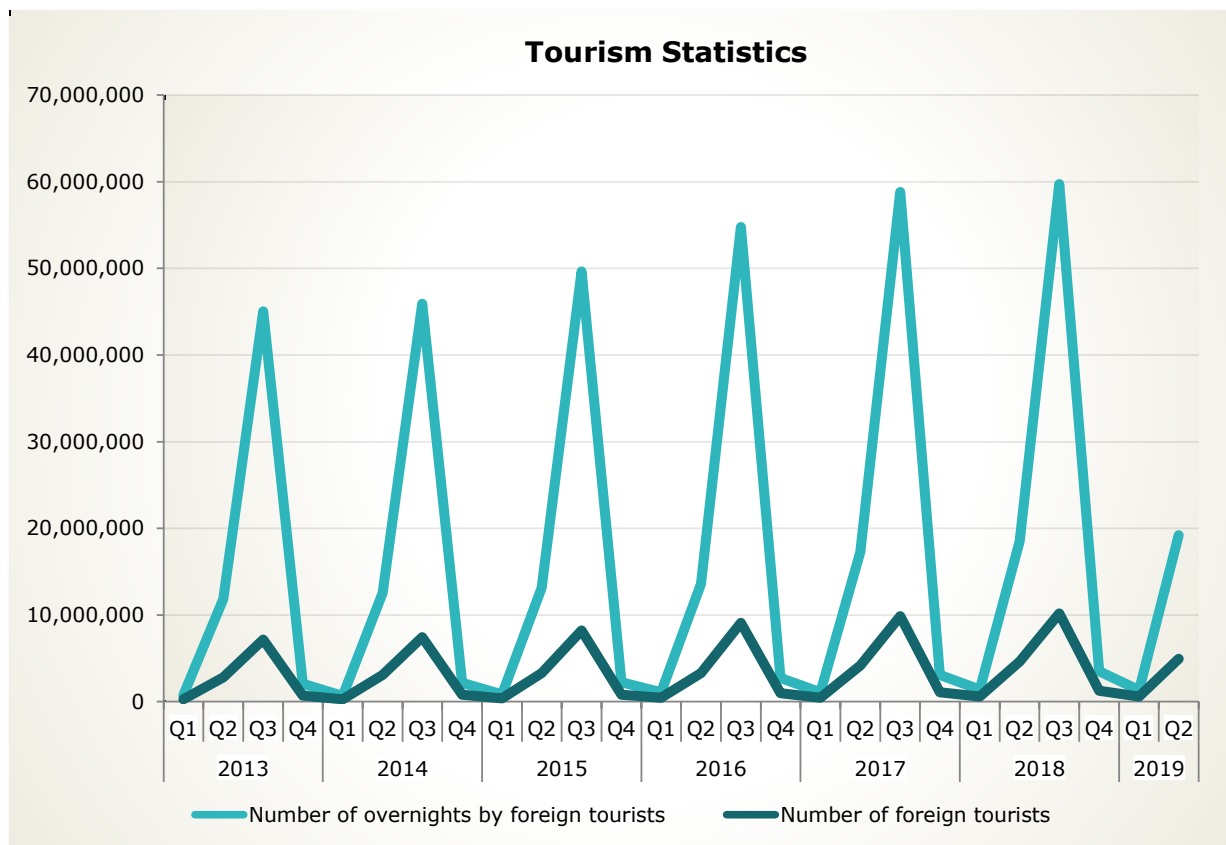
7.5. TOURSIM

Number of foreign tourist overnights increased by 3.7% y/y in Q2 2019

Croatia is a popular sea tourist destination due to its long coastline on the Adriatic Sea. In Q2 2019, the tourist overnights of foreigners increased by an annual 3.7% to 19.219 million, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 20.909 million in the quarter, up by 3.9% in comparison to a year earlier.

The number of foreign tourists went up by 7.4% y/y to 4.961 million.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia, Hungary examining potential natgas markets cooperation

June 21, 2019

Croatia and its northeastern neighbour Hungary have established a working group to explore the potential for cooperation on the natural gas market.

[Read the full story here](#)

EC urges Croatia to target bigger energy consumption decrease

June 20, 2019

The European Commission said Croatia needs to draft detailed and quantified policies to meet its target for 36.4% renewable energy share by 2030 and to commit to a more ambitious goal for reducing final and primary energy consumption in order to contribute to the bloc's 2030 renewable energy target.

[Read the full story here](#)

Zagreb, Ljubljana stock exchanges to launch ADRIAprime joint index on June 19

June 15, 2019

The stock exchanges in Zagreb and Ljubljana are launching on June 19 a joint index, ADRIAPrime, which will track the performance of 13 listed Croatian and Slovenian companies.

[Read the full story here](#)

EU Commission urges Croatia to strengthen budgetary framework

June 5, 2019

The European Commission said Croatia needs to reinforce the budgetary framework and monitoring of contingent liabilities at central and local level, as well as to reduce territorial fragmentation of public administration and create functional distribution of competencies.

Read the full story [here](#)

Juncker hopes Croatia will get nod to join Schengen by end-October

June 10, 2019

European Commission President Jean-Claude Juncker hopes to see a recommendation on Croatia's accession to the EU's Schengen free-travel area by the end of his term in office at the end of October.

Read the full story [here](#)

Croatia's govt plans to borrow EUR 7.9 bln in 2019

June 7, 2019

Croatia plans to borrow HRK 58.8 bln (USD 8.978 bln /EUR 7.93 bln) this year in short- and long-term debt to service its total 2019 financing needs of HRK 63.1 bln.

Read the full story [here](#)

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