

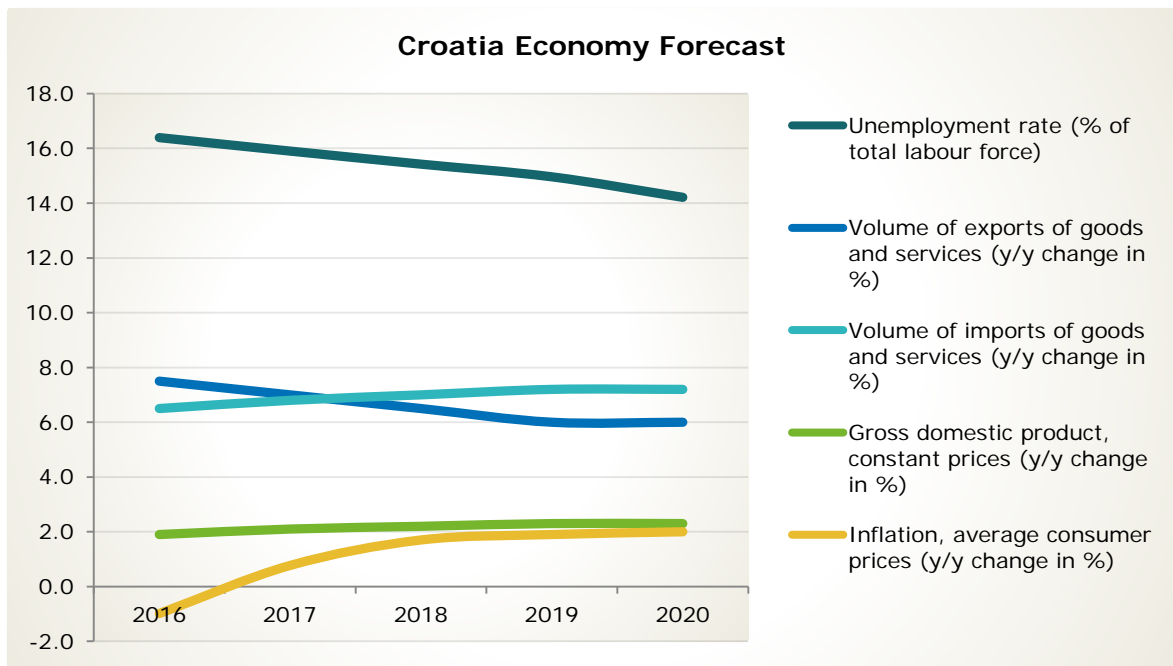
CROATIA ECONOMY REPORT Q3 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q3 2016	
GDP Growth	2.9% y/y
Industrial output	4.0% y/y
Industrial sales	-4.3% y/y
Wholesales	2.5% y/y
Retail sales	-0.2% y/y
Average annual deflation	1.3%
Unemployment rate	10.9%
Number of building permits	33.5% y/y
Money supply growth	4.3% y/y
Household loans	-6.7% y/y
CROBEX blue-chip index	2.5% y/y
Gross external debt	EUR 42.409 bln
Current account surplus	EUR 3.345 mln
Net FDI inflow	EUR 620.6 mln
Foreign trade deficit	EUR 1.914 bln
Number of foreign tourist overnights	10.3% y/y



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

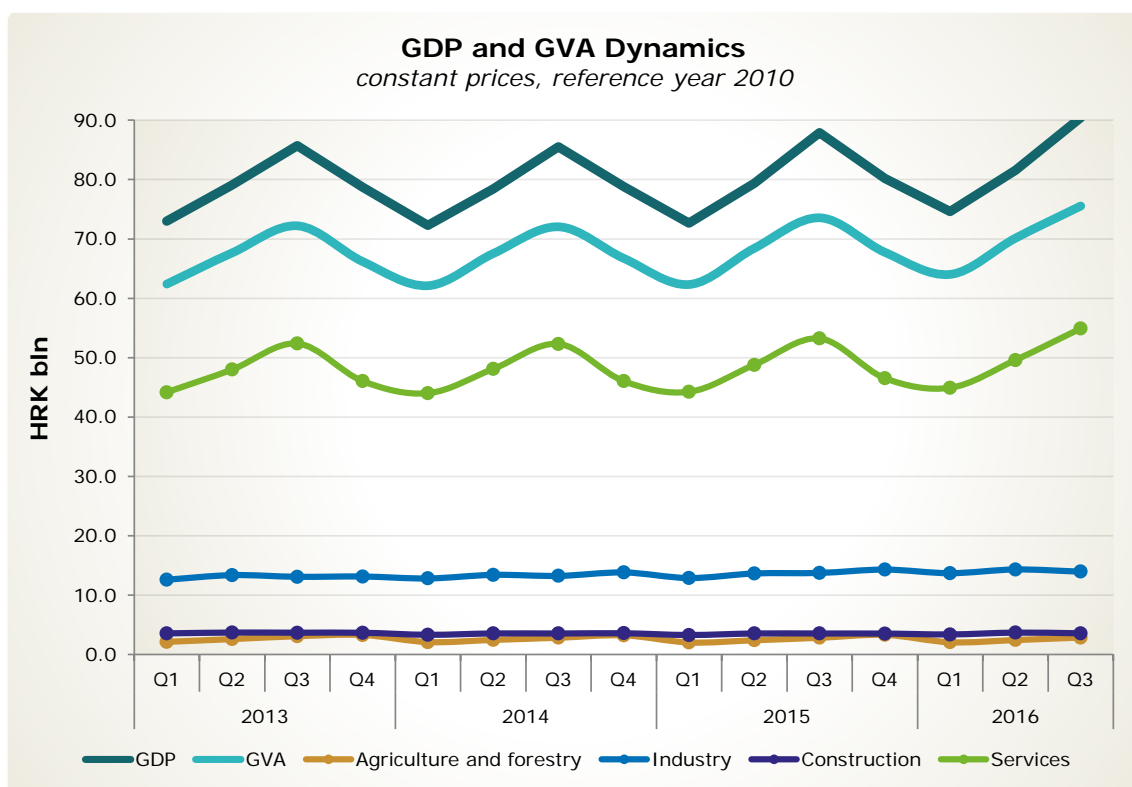
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.9% y/y in Q3 2016, compared to a 2.8% y/y increase a year ago

The country's GDP grew by a real 2.9% y/y and totalled HRK 90.407 bln in Q3 2016, according to preliminary data of the Croatian Bureau of Statistics (DZS).

Final consumption, which contributed 69.0% to the GDP, expanded by 3.0%. Gross capital formation went down by 8.5%, contributing 7.4% to the GDP. Both exports and imports grew - by 6.3% and 6.0%, respectively.



Source: DZS

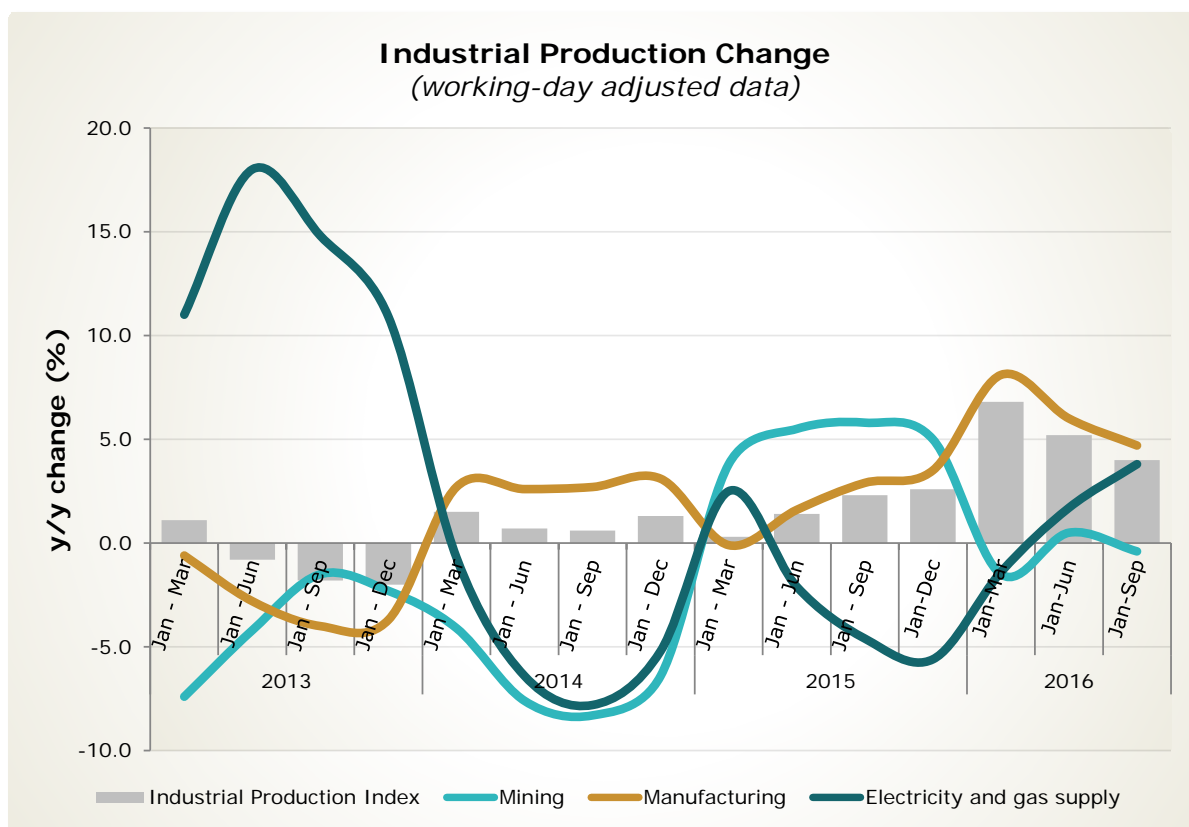
The gross value added (GVA) generated by the national economy grew in value by 2.7% y/y in Q3 2016 and totalled HRK 75.546 bln. The industrial sector increased by 1.6% but its share in the GVA structure decreased to 18.5% from 18.7%. The construction sector went up by 1.0%, but its share in the GVA also inched down to 4.7% from 4.8%. The services sector recorded a 3.2% annual increase, slicing a 72.7% share in the GVA, up from 72.4%. The agricultural sector increased by 1.5%, while its share in the GVA remained unchanged, at 3.8%.

2.2. INDUSTRIAL OUTPUT

Industrial output rose by 4.0% y/y in January - September 2016

Industrial output went up by 4.0% on the year in January to September 2016, according to DZS data. The growth was backed by the 4.7% annual increase of the output of the manufacturing sector, followed by the electricity and gas supply sector, where production rose by 3.8%. Meanwhile the production of the mining sector inched down by 0.4% on the year.

Manufacture of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 31.7%, while manufacture of basic metals' output dropped the most, by 17.2% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales went down by 4.3% y/y in January - September 2016

Industrial sales decreased by 4.3% y/y in the first nine months of 2016, compared to a 3.5% annual rise in the corresponding period of the previous year, according to DZS. Industrial turnover on the domestic market fell by 6.7%, while non-domestic turnover narrowed by 0.9%.

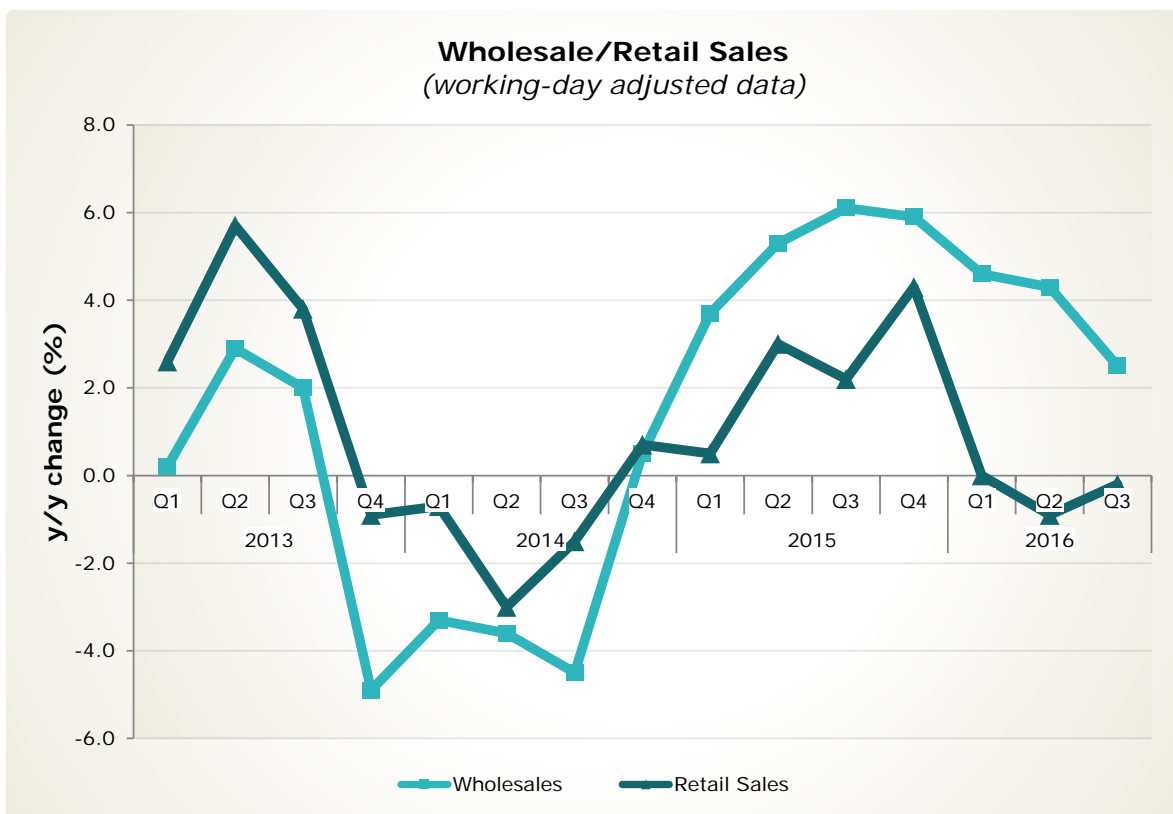
Industrial sales were pushed down by the 34.7% annual drop of sales in the energy sector, the 3.3% decrease in sales of intermediate goods and the reduction of consumer non-durables sales by 2.1%. On the other hand, sales of consumer durables jumped by 8.4%, followed by the 7.1% annual rise in the sales of capital goods.

2.4. WHOLESALE/RETAIL

Retail sales down, wholesales further up y/y in Q3 2016

Retail sales registered an annual decrease of 0.2% in the third quarter of 2016 after a decrease of 0.9% in Q2 2016, according to DZS data. For comparison, a year earlier, retail sales moved up annually by 2.2%.

The wholesale sector went up by 2.5% y/y, following a 4.3% rise in the second quarter of 2016 and a 6.1% increase in Q3 2015.



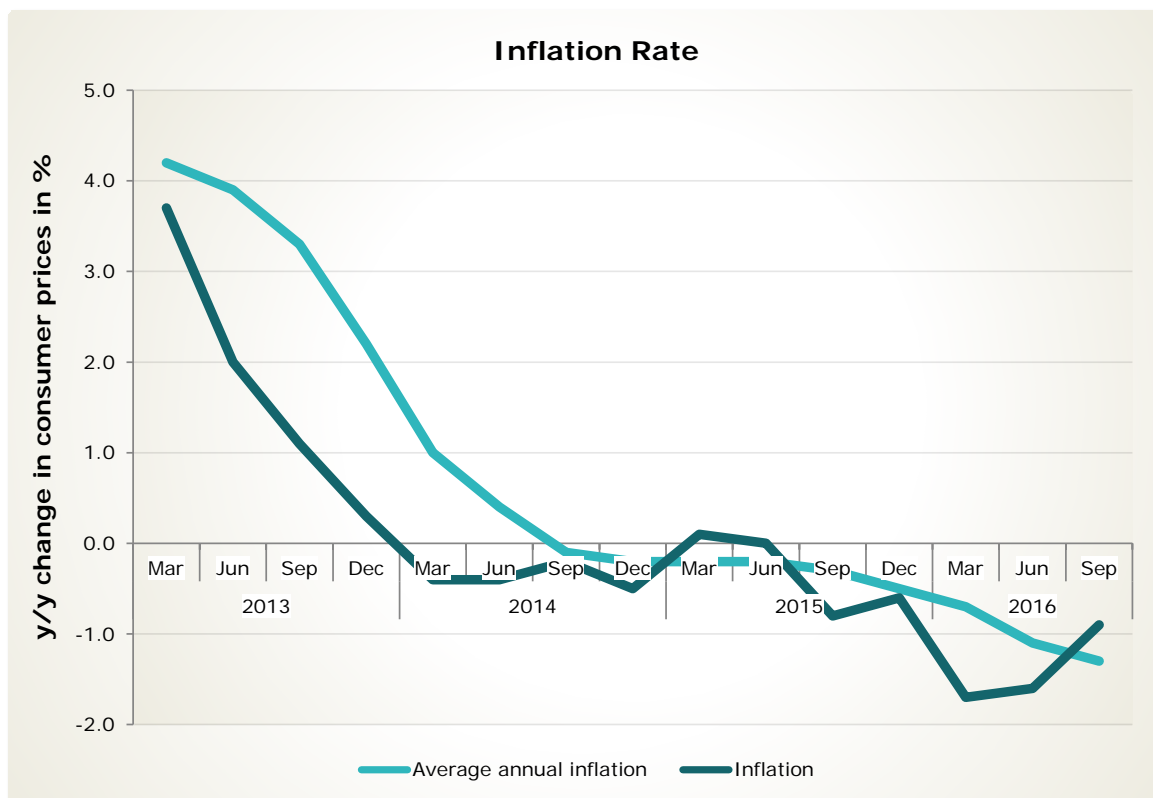
Source: DZS

2.5. INFLATION

Average annual deflation of 1.3% as of September 2016

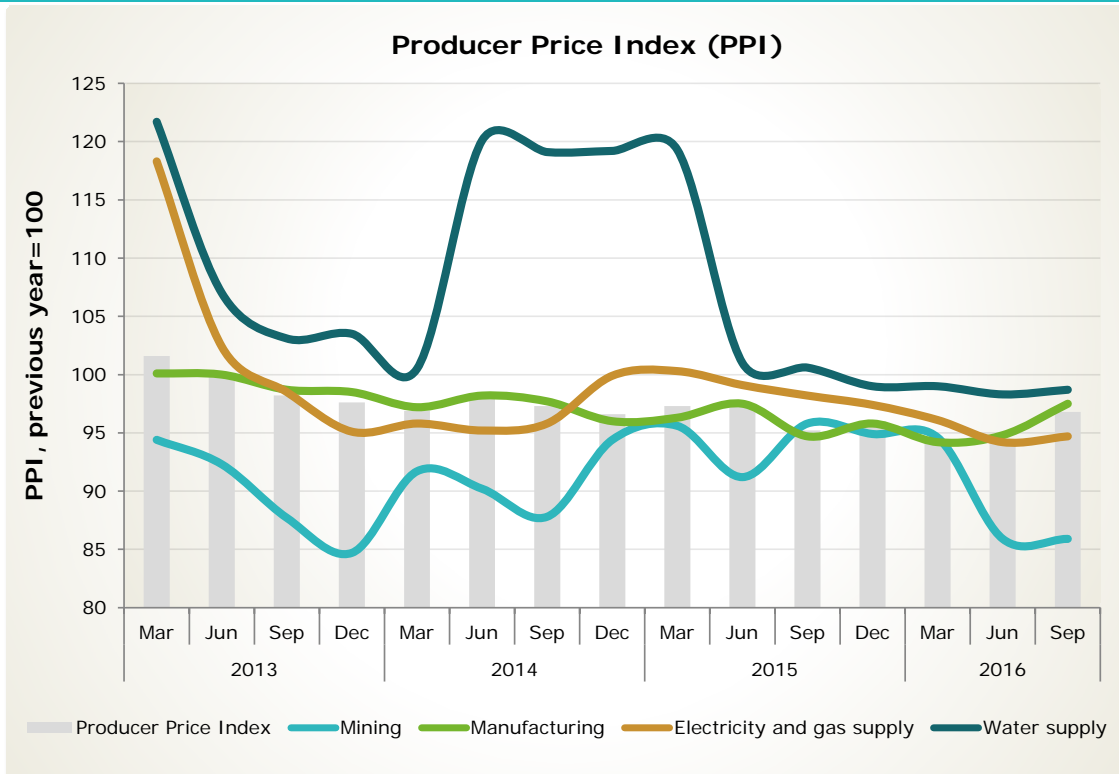
Consumer prices in Croatia went down by 1.3% in the period October 2015 – September 2016, compared to October 2014 – September 2015, according to DZS.

The highest average annual deflation in consumer prices was registered in liquid fuels, recreational and sporting services, and gas, of 24.6%, 18.1% and 13.1%, respectively. The consumer group to report the sharpest inflation was hospital services – 22.7%, followed by sewage collection and pets and related products, posting an inflation of 15.0% and 4.2%, respectively.



Source: DZS

Producer prices went down annually by 3.2% in September 2016. Producer prices in the extraction of crude petroleum and natural gas deflated the sharpest, by 19.4%. Inflation, of between 0.2% and 2.0%, was registered in four sectors only. Producer prices remained unchanged in annual terms for mining support service activities.



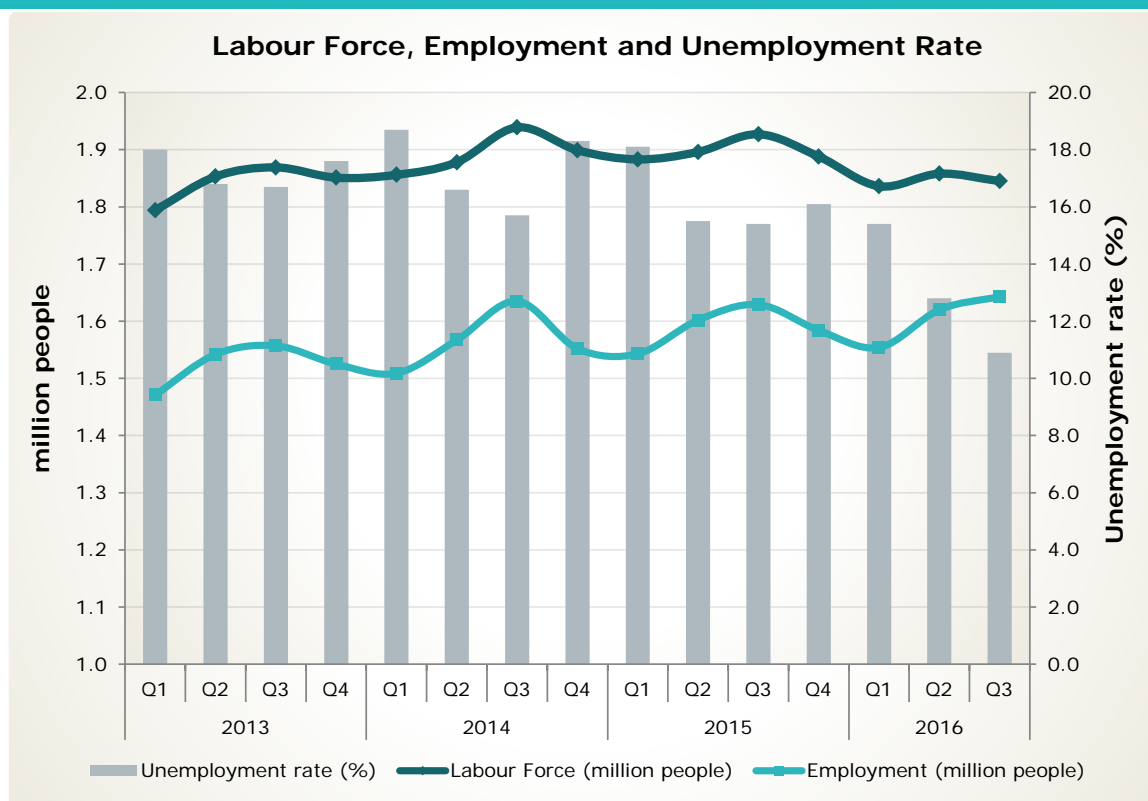
Source: DZS

3. LABOUR MARKET

Unemployment rate went down y/y to 10.9%, wages drop 1.0% y/y as of September 2016

Unemployment in Croatia narrowed to 10.9% of the total labour force in Q3 2016 from 15.4% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.643 million in July to September 2016, up from 1.629 million in the corresponding period of the previous year.



Source: DZS

The average monthly net salary in July – September 2016 inched down by 1.0% y/y to HRK 5,630, according to data of DZS. In the period under review, employees in the electricity, gas, steam and air conditioning supply, financial and insurance activities, and information and communication sectors earned the highest salaries of HRK 7,858, HRK 7,715 and HRK 7,498, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits jumped by 33.5% y/y in Q3 2016

The number of permits for new buildings, excluding civil engineering, issued in Croatia in the third quarter of 2016 went up by 33.5% y/y and totalled 1,059, according to DZS data.

Permits for non-residential¹ buildings increased by 29.4% to 295, while permits for residential buildings soared by 35.2% to 764.

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.

The total built-up area of the non-residential units covered by the permits jumped by 65.1% y/y to 329,707 sq m. The total built-up area of the housing units went up by 52.1% to 286,381 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 7.4858 in Q3 2016 from HRK 7.5694 in Q3 2015, according to the Croatian National Bank (HNB).

Average Quarterly HRK Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
EUR	7.4858	7.5003	7.5694
USD	6.7068	6.6386	6.8032
GBP	8.8215	9.5330	10.5567
CHF	6.8762	6.8435	7.0626

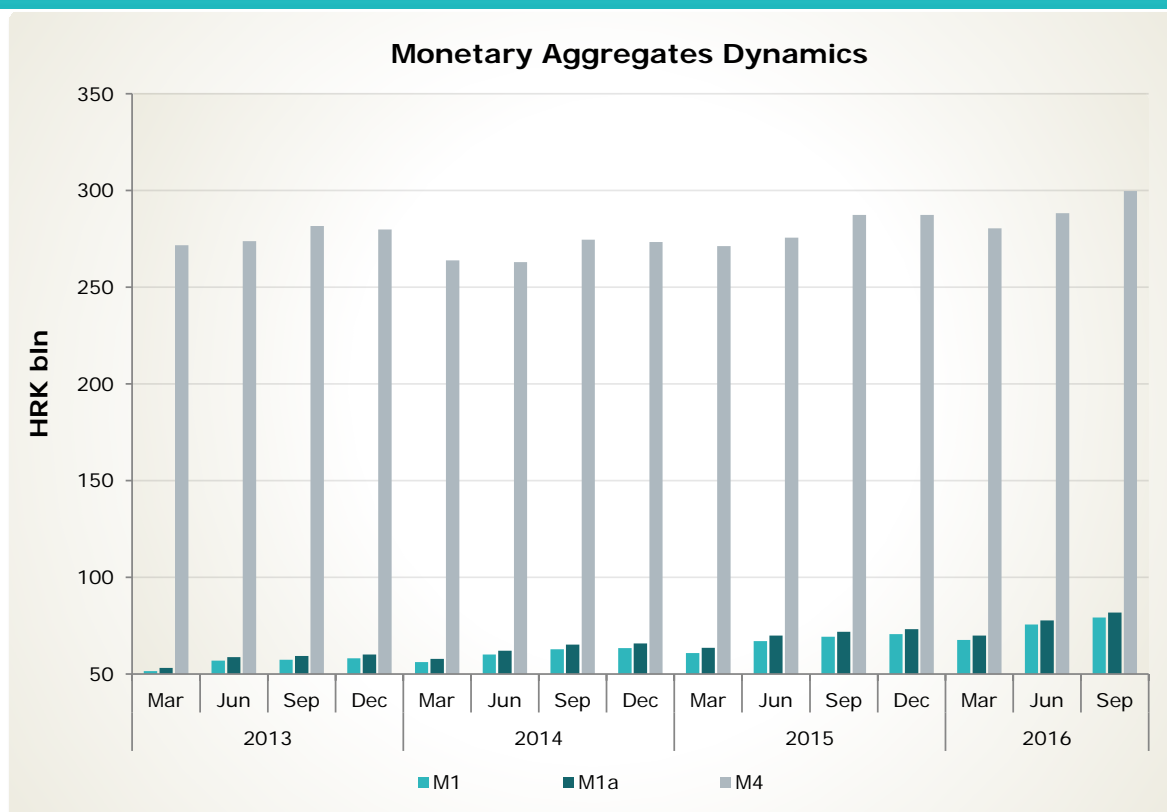
5.2. MONETARY AGGREGATES

Money supply growth was 4.3% y/y as of September 2016

Broad money (money aggregate M4) increased by 4.3% y/y and reached HRK 299.7 bln in September 2016, according to data provided by HNB.

The M1a² money aggregate increased by 13.9% to HRK 81.873 bln and money aggregate M1, or narrow money, also went up, by 14.3%, to HRK 79.315 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.



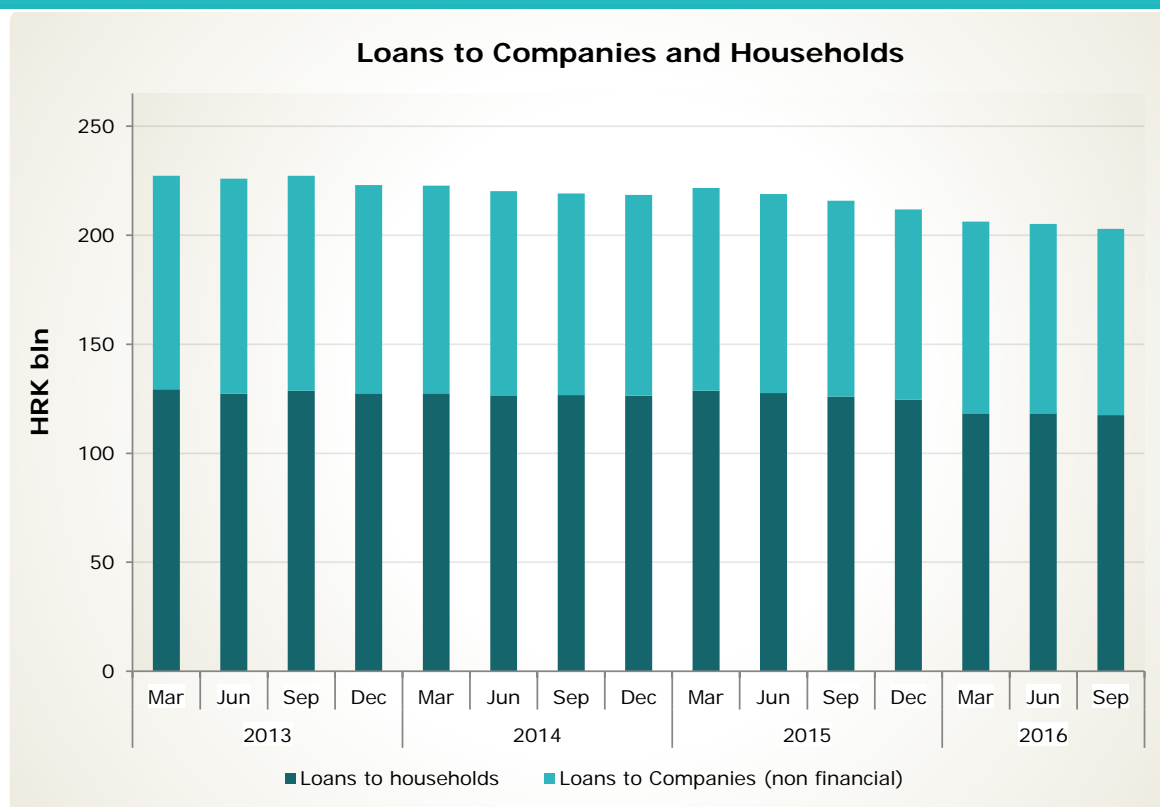
Source: HNB

5.3. BANKING AND INSURANCE

Household loans decreased by 6.7% y/y in September 2016

Household loans went down by 6.7% to HRK 117.5 bln, according to HNB data. House purchasing loans narrowed by 13.3% to HRK 52.301 bln, accounting for 44.5% of the total loans. The second largest loan type, slicing a 34.5% share, was the any-purpose cash loan with its value rising to HRK 40.502 bln from HRK 39.596 bln.

Loans to non-financial corporations went down by 4.9% y/y to HRK 85.328 bln. Loans with a maturity of more than five years accounted for the bulk, or 52.8%, of the total corporate loans.



Source: HNB

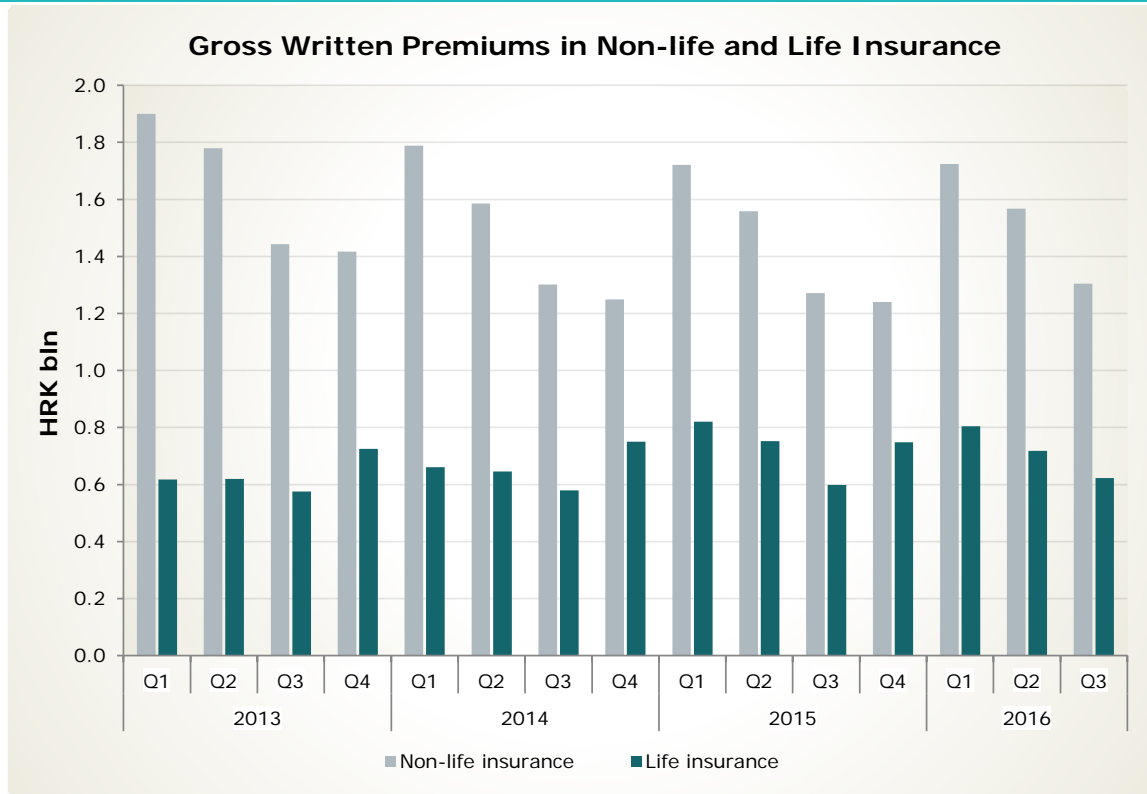
As of September 2016, the total assets of the banking system totalled HRK 414.1 bln, down from HRK 428.5 bln in September 2015, which was the record-high total assets value in the past ten years.

Insurance premium income up 3.1% y/y in Q3 2016

The total gross written premiums (GWP) of the non-life and life insurance companies stood at HRK 1.927 bln, up by 3.1% y/y in Q3 2016, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 4.0% annual increase of the life insurance sector, which posted GWP of HRK 622.3 mln. The non-life insurance sector grew by 2.6% y/y to HRK 1.304 bln.

The predominant non-life insurance type in Q3 2016 was motor vehicle liability insurance, which accounted for 26.3% of the total GWP, or HRK 507.2 mln, going down in annual terms by 0.6%.

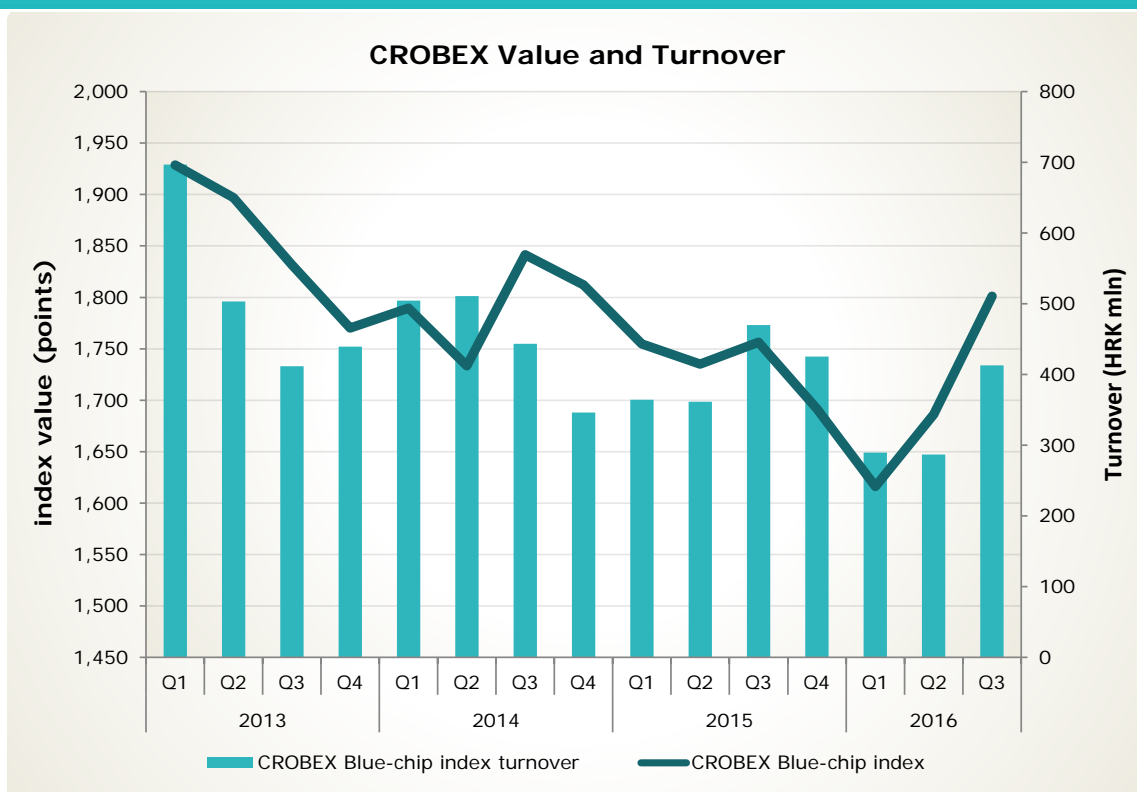


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX up by 2.5% y/y in Q3 2016

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by 2.5% y/y to 1,801 points in Q3 2016. During the quarter, CROBEX's value fluctuated between 1,679 points and 1,949 points. The CROBEX turnover totalled HRK 413.1 mln in Q3 2016, compared to HRK 469.8 mln a year earlier.



Source: ZSE

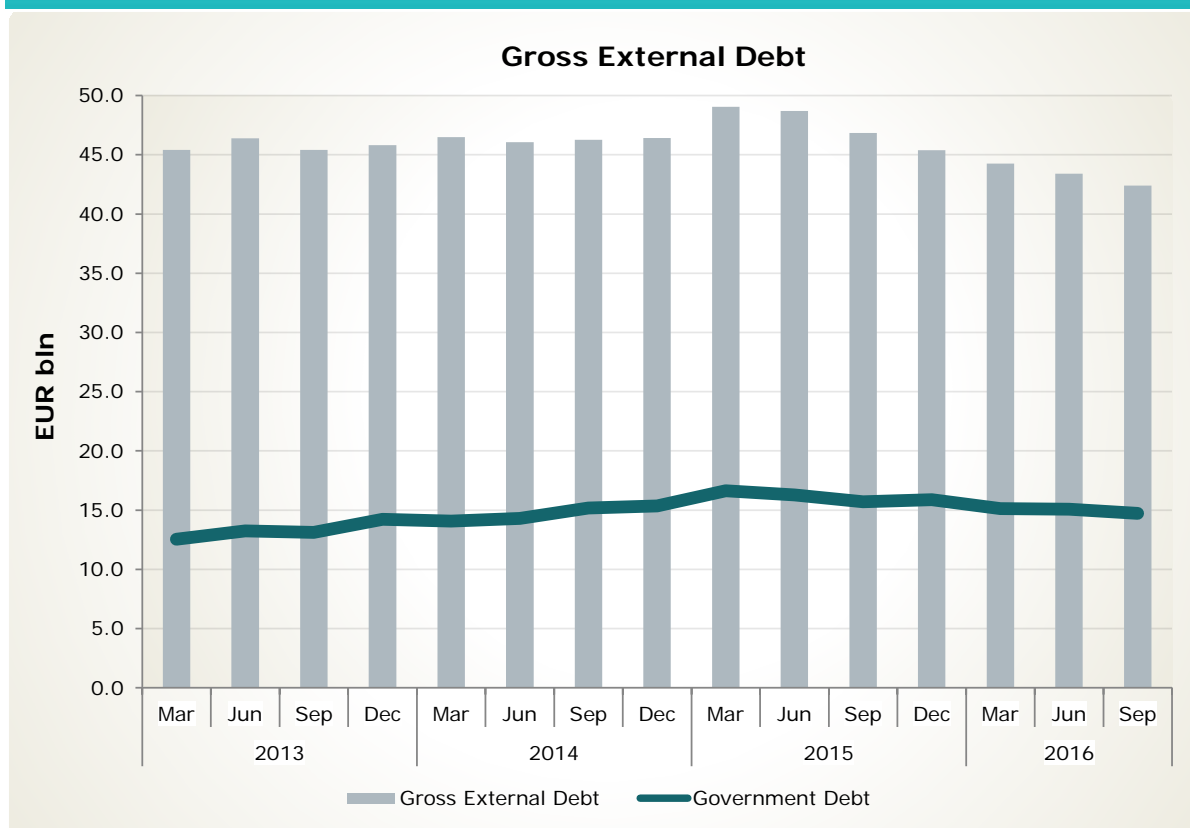
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 42.409 bln in September 2016

The gross external debt totalled EUR 42.409 bln as of September 2016, according to HNB. It went down by 9.4%, or EUR 4.422 bln, compared to September 2015.

As of September 2016 long-term liabilities amounted to EUR 33.456 bln, or 78.9% of the total debt, decreasing by 10.5% on the year. Short-term liabilities totalled EUR 3.409 bln, equal to 8.0% of the total debt and up by 16.1% compared to a year ago.



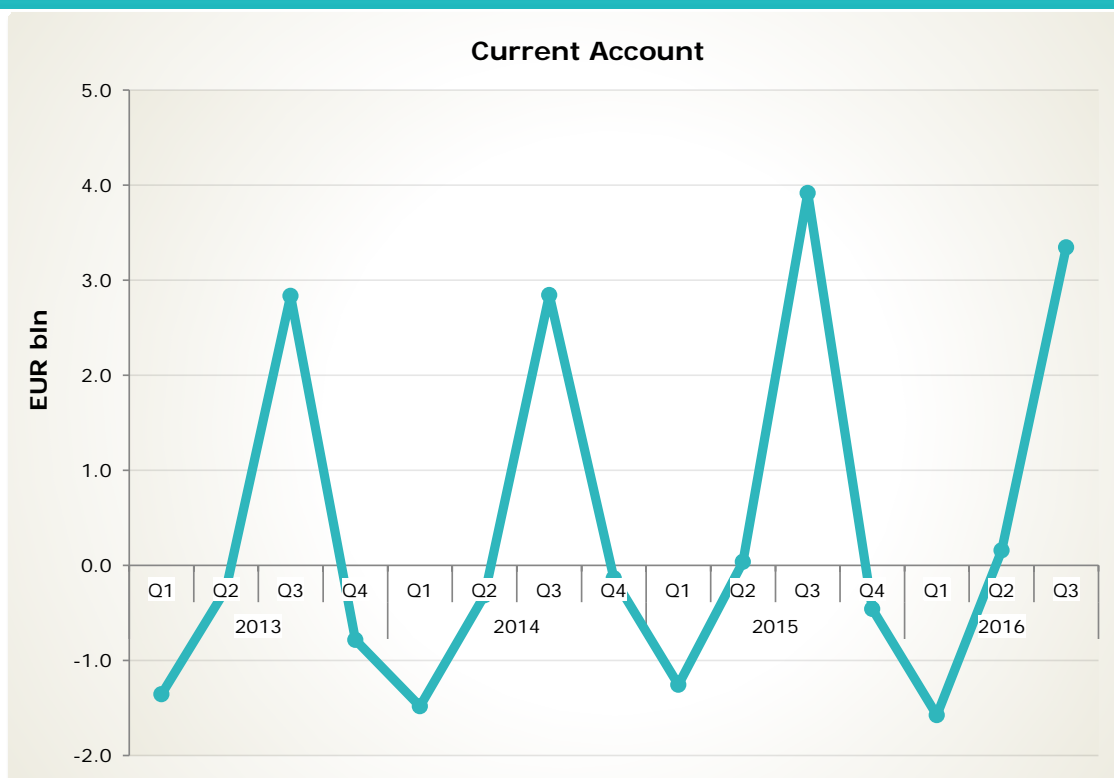
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 3.345 bln in Q3 2016

The current account surplus shrank to EUR 3.345 bln in Q3 2016 from EUR 3.918 bln a year earlier, according to central bank statistics data. In the previous quarter, Q2 2016, a surplus of EUR 156.7 mln was reported.

Secondary income came in at EUR 295.9 mln, up 4.0% y/y. The rise was caused by the 13.6% annual increase of the secondary income credit account.



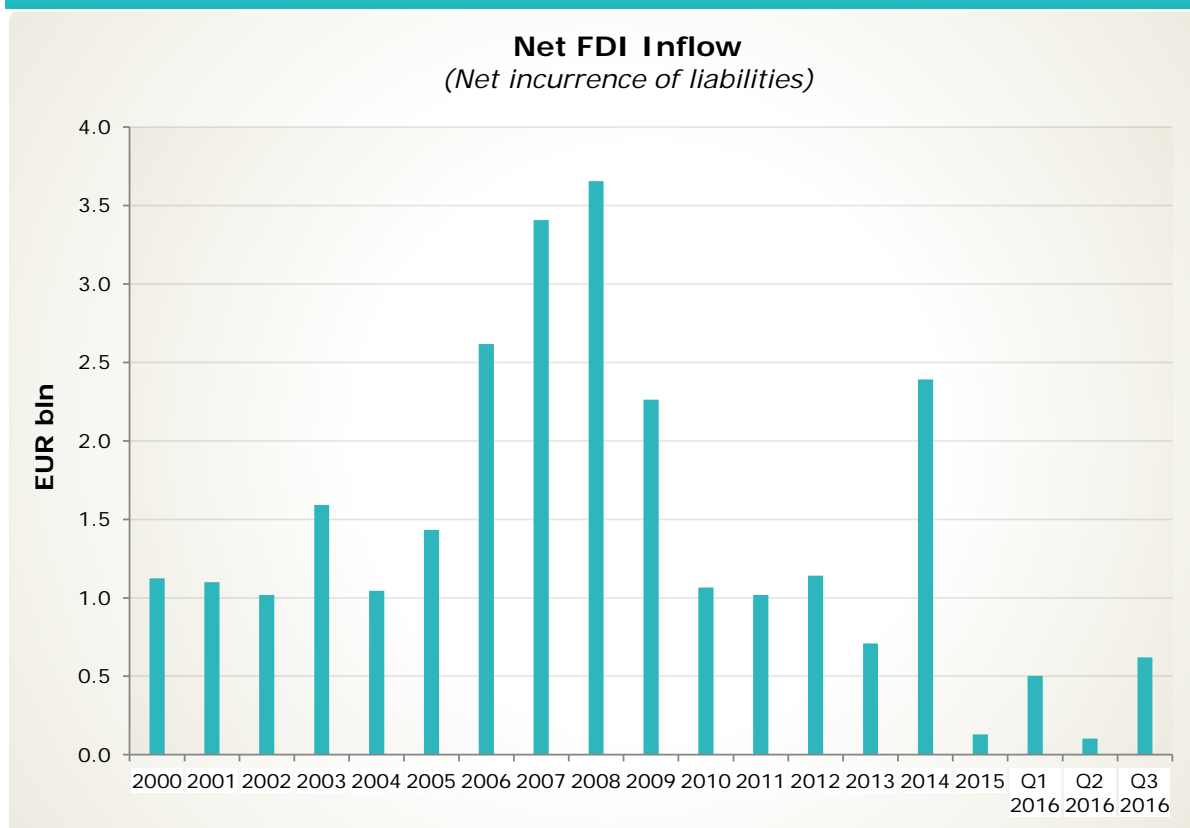
Source: HNB

7.3. FDI

Net FDI inflow at EUR 620.6 mln in Q3 2016

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 620.6 mln in Q3 2016, according to preliminary data of HNB.

In the first nine months of 2016, the largest foreign investors in Croatian economy were Austria, Luxembourg and Germany with a combined share of 55.6% in the total FDI inflow in the country.



Source: HNB

7.4. FOREIGN TRADE

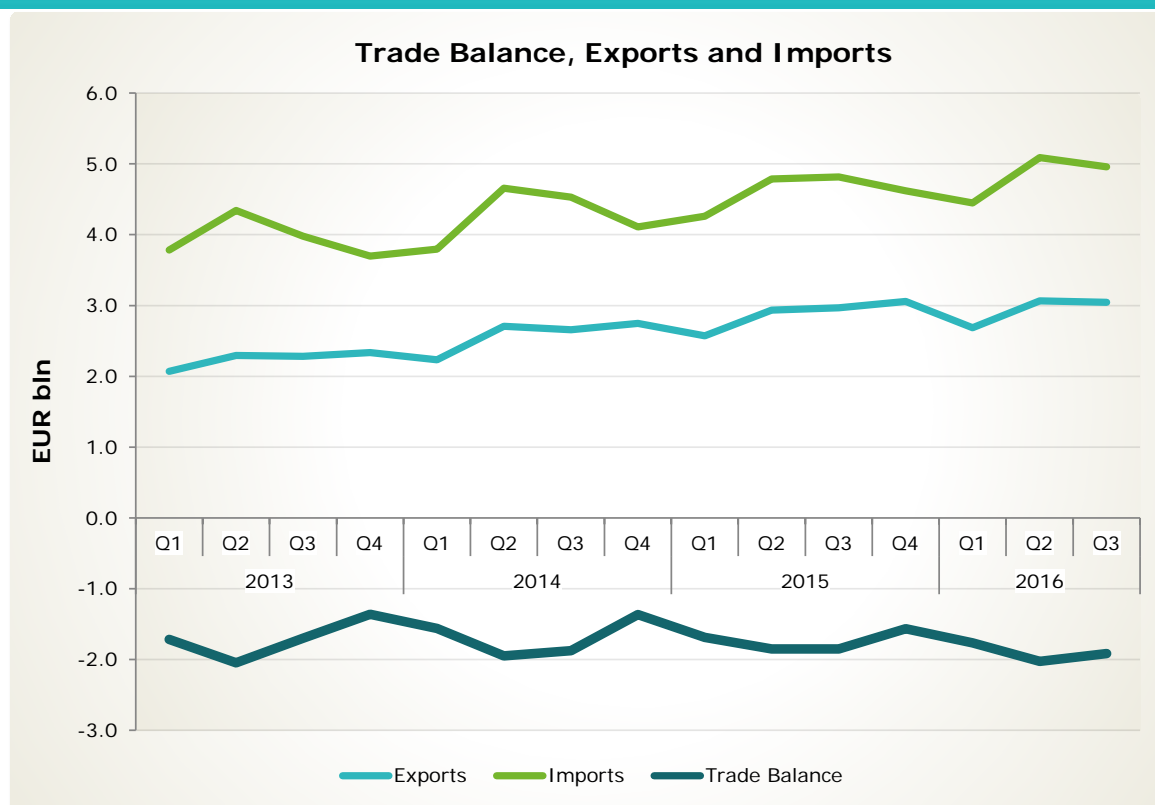
Foreign trade deficit widened by 3.6% y/y in Q3 2016

The trade deficit stood at EUR 1.914 bln in Q3 2016, compared to EUR 1.848 bln in the corresponding quarter of the previous year, according to DZS.

Exports grew to EUR 3.045 bln from EUR 2.967 bln, while imports increased by 3.0% on the year to EUR 4.959 bln.

Croatia's most exported goods in the first nine months of 2016 were food products, which accounted for 8.9% of the total exports, followed by fabricated metal products, except machinery and equipment, with a 8.0% share, and machinery and equipment with a 7.4% share.

In terms of imports, the main goods were again food products, which made up 9.6% of the total, followed by machinery and equipment, slicing an 8.3% share, and chemicals and chemical products, which had an 8.0% share.



Source: HNB

7.5. TOURSIM

Number of foreign tourist overnights rose by 10.3% y/y in Q3 2016

Tourist overnights of foreigners rose by an annual 10.3% to 54.769 million in Q3 2016, according to DZS. The total number of overnights, both of foreign and local tourists, reached 57.994 million, up by 9.9% in comparison to a year earlier,

The number of foreign tourists also went up - by 10.8% y/y to 9.099 million. In August 2016 alone, the number of foreign tourists amounted to 3.986 million versus 3.869 million a year ago. Most foreign tourists visiting the country in Q3 2016 arrived from Germany - 1,579,392, followed by Slovenia - 803,220, and Italy - 782,155.



Source: DZS

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