

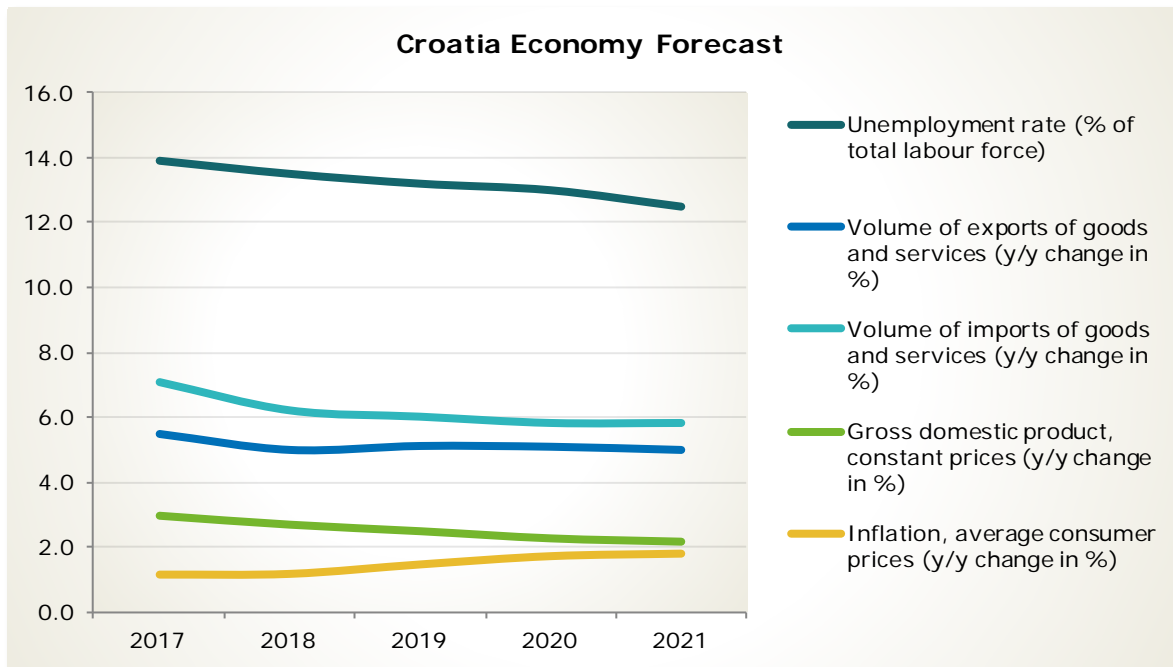
CROATIA ECONOMY REPORT Q3 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	3.3% y/y
Industrial output	2.1% y/y
Industrial sales	6.8% y/y
Wholesales	4.4% y/y
Retail sales	7.4% y/y
Average annual inflation	0.8%
Unemployment rate	9.0%
Number of building permits	38.9% y/y
Money supply growth	3.3% y/y
Household loans	0.4% y/y
CROBEX blue-chip index	-0.9% q/q
Gross external debt	EUR 39.382 bln
Current account surplus	EUR 3.868 bln
Net FDI inflow	EUR 669.5 mln
Foreign trade deficit	EUR 2.101 bln
Number of foreign tourist overnights	7.4% y/y

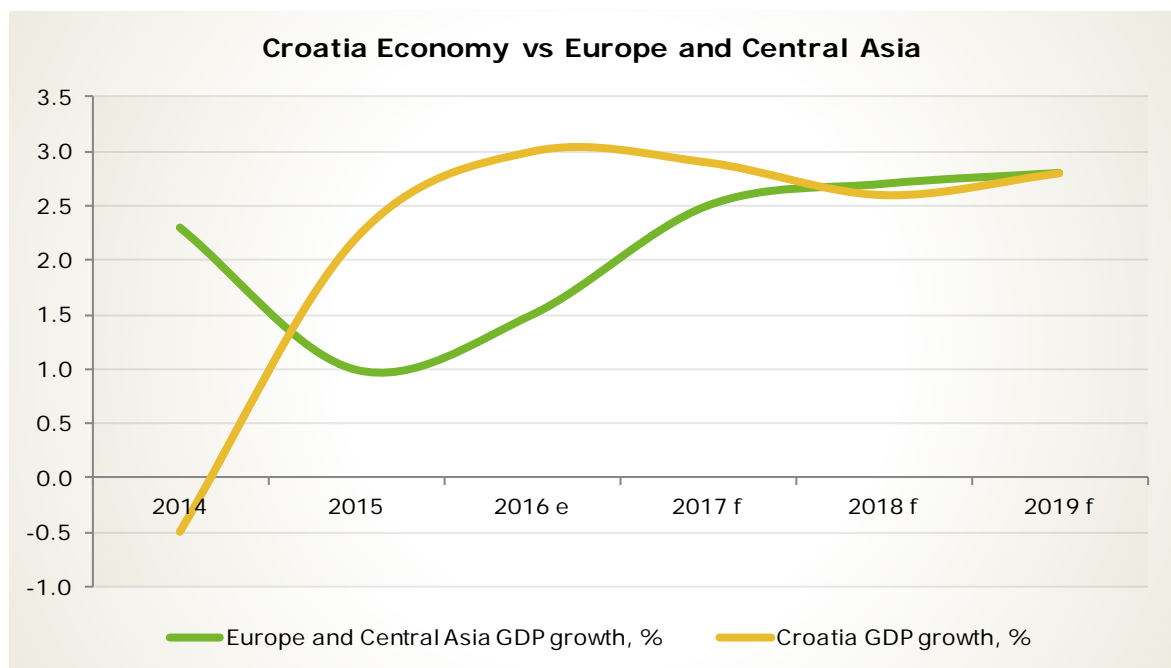


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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 pose a risk to the WB forecasts. In addition, the still high levels of private and public sector indebtedness make the country vulnerable 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

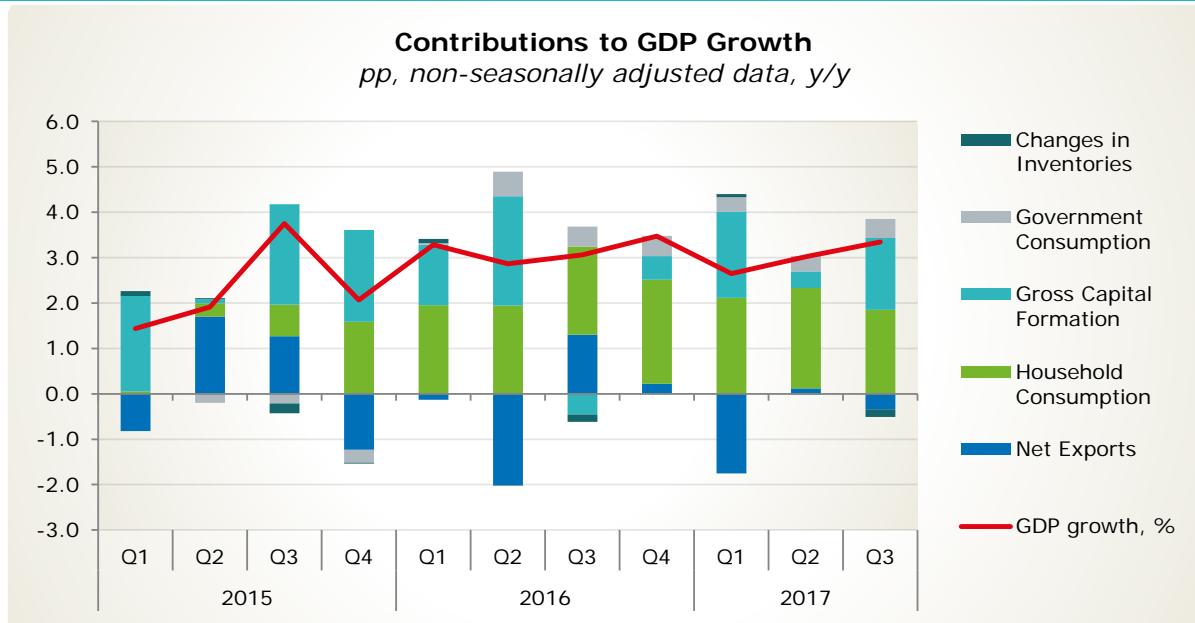
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 3.3% y/y in Q3 2017

The country's GDP grew by a real 3.3% y/y and totalled HRK 96.298 bln in Q3 2017, 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 67.5% of the GDP, expanded by 3.3% y/y and contributed by 2.3 pp to the GDP growth during the third quarter. Gross capital formation went up by 16.1% y/y, contributing 1.6 pp to the GDP expansion. Imports grew faster than exports, by 9.5% and 5.7%, respectively. As a result, the foreign trade took away 0.3 pp from the GDP growth.

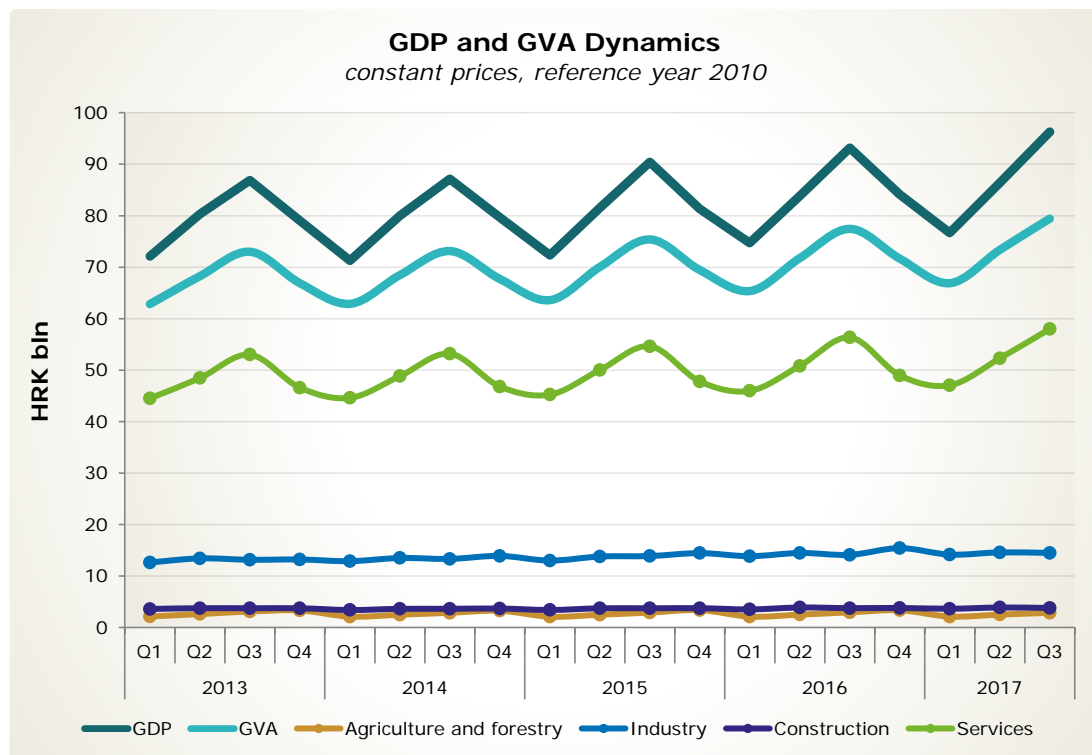
In the period July – September 2017, the Croatian economy accelerated its pace of growth by 0.2 pp compared to the annual growth rate of 3.1% in Q3 2016.



Source: DZS; SeeNews calculations

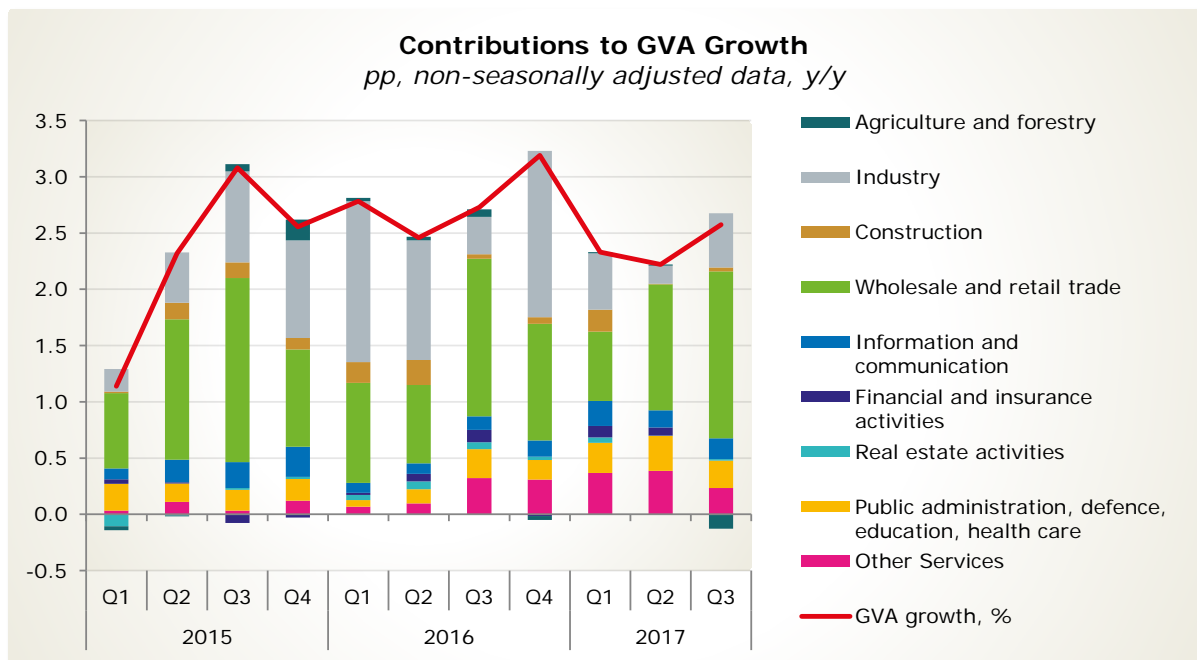
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew in value by 2.6% y/y in Q3 2017 and totalled HRK 79.437 bln. The industrial sector increased by 2.6%, but its share in the GVA stayed at 18.2%. The construction sector inched up by 0.7%, but its share in the GVA went down to 4.8%. The services sector recorded a 2.9% annual increase, slicing a 73.0% share in the GVA. The agricultural sector fell by 3.1%, while its share in the GVA decreased to 3.6%.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q3 2017, with 1.5 pp, followed by the industry sector which contributed by 0.5 pp.



Source: DZS; SeeNews calculations

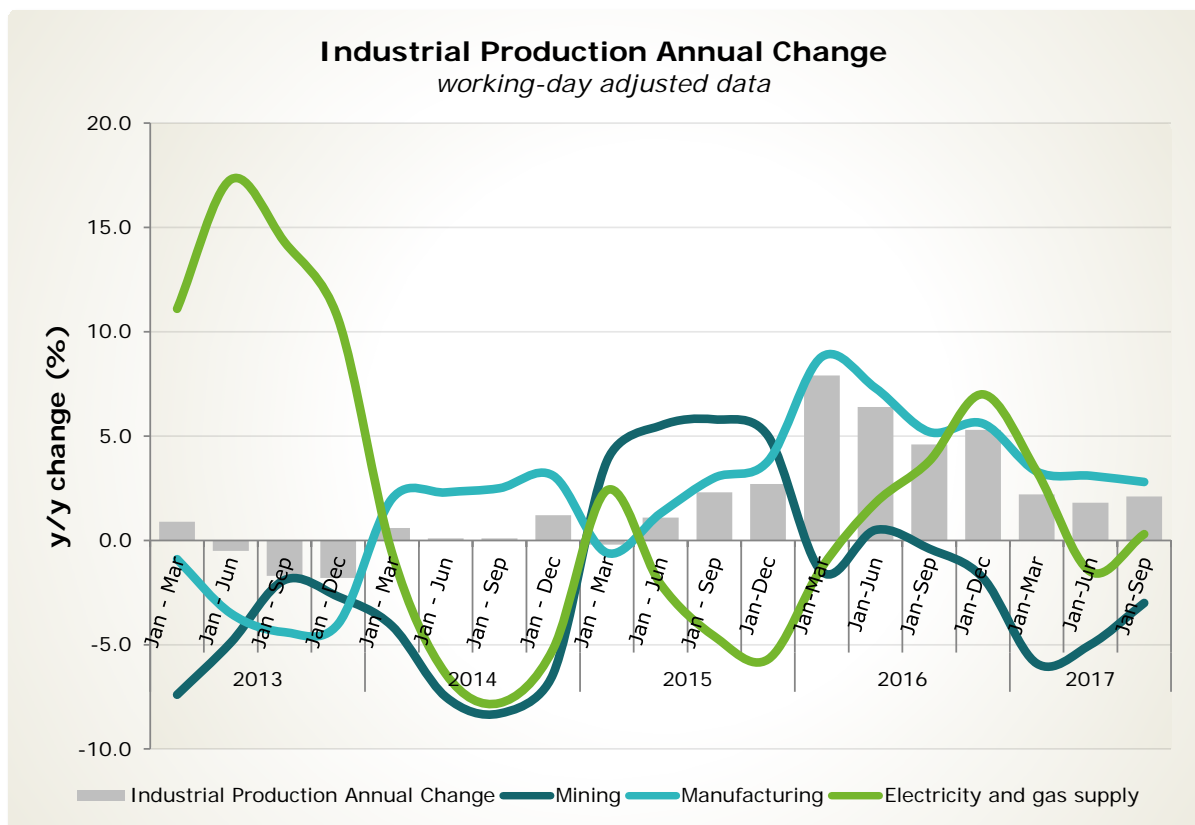
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output slowed pace of growth in January - September 2017 to 2.1% y/y

Industrial output went up by 2.1% on the year in January to September 2017, according to DZS data. This is significant slowdown compared to Q3 2016 when industrial production expanded by 4.6% y/y.

The growth during the quarter was backed by the 2.8% and 0.3% annual increase in the manufacturing and in the electricity and gas supply sectors, respectively. The production of the mining sector fell by 3.0% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales surged by 6.8% y/y in January - September 2017

In contrast to the slowdown in the industrial production, industrial sales surged by 6.8% y/y in the first nine months of 2017, compared to a 4.3% annual decrease in the corresponding period of 2016, according to DZS. In September 2017 alone, industrial turnover on the domestic market increased by 3.6% y/y, while the non-domestic turnover went down by 1.8% y/y.

The industrial sales were pushed up by the 25.8% annual jump of sales in the energy sector because of the oil price surge on the global markets. Consumer durables grew by 10.1% y/y in January - September 2017, while intermediate goods and capital goods sales went up by 5.7% and 3.9% y/y, respectively.

2.4. WHOLESALE/RETAIL

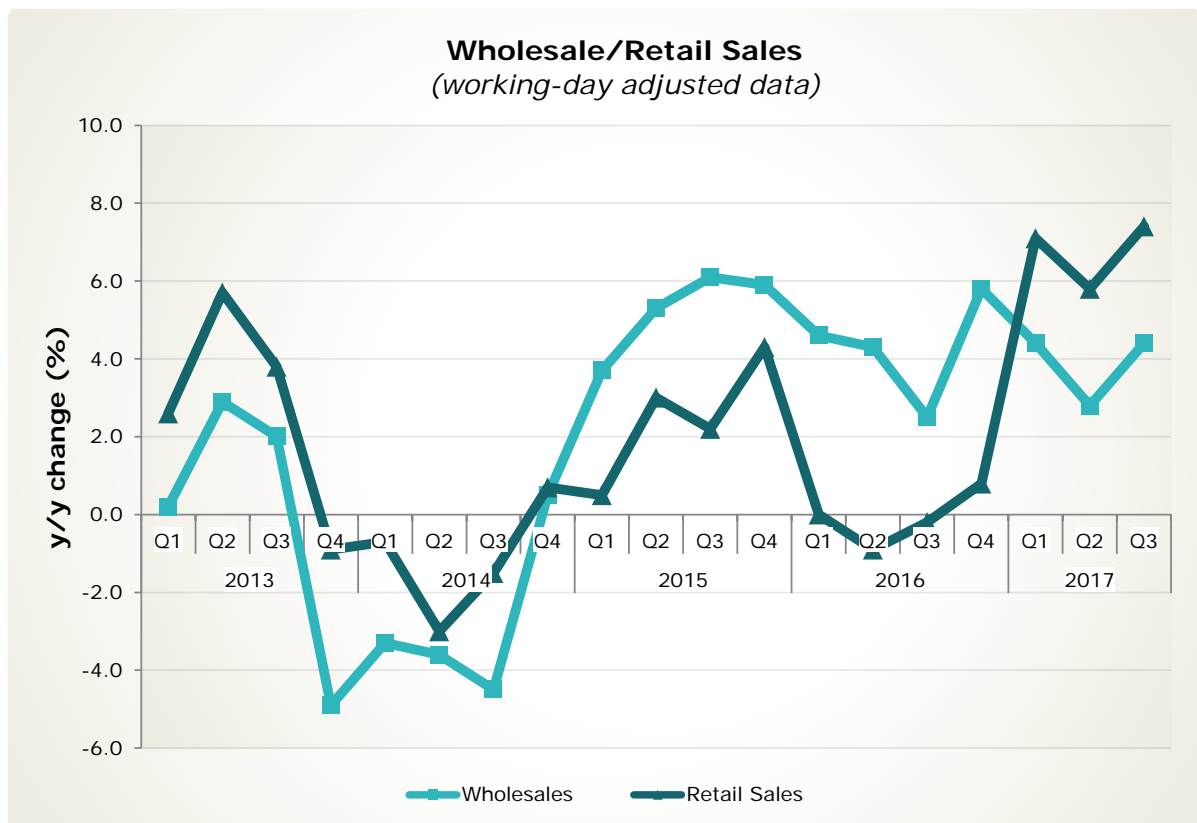
Retail sales increased by 7.4% y/y, wholesales up 4.4% y/y in Q3 2017

Retail sales registered annual increase of 7.4% in the third quarter of 2017 after a 5.8% annual rise in the previous quarter, Q2 2017, according to DZS data.

The highest increase in turnover was recorded by rental and leasing activities - 23.1%, travel agency, tour operator reservation services and related activities - 15.0% and information service activities - 12.8%.

On the other hand, the sharpest decrease in turnover was recorded in office administrative, office support and other business support activities - 9.6%, real estate activities - 5.7% and food and beverage service activities - 4.9%.

The wholesale sector went up by 4.4% y/y, following a 2.8% rise in Q2 2017.



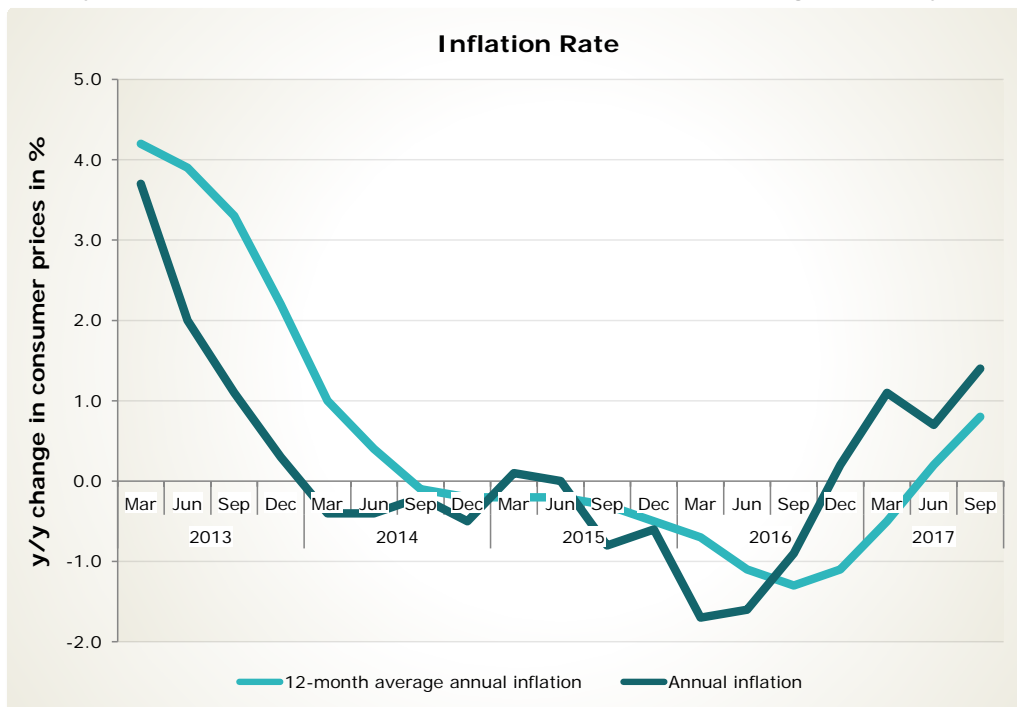
Source: DZS

2.5. INFLATION

Average annual inflation of 0.8% as of September 2017

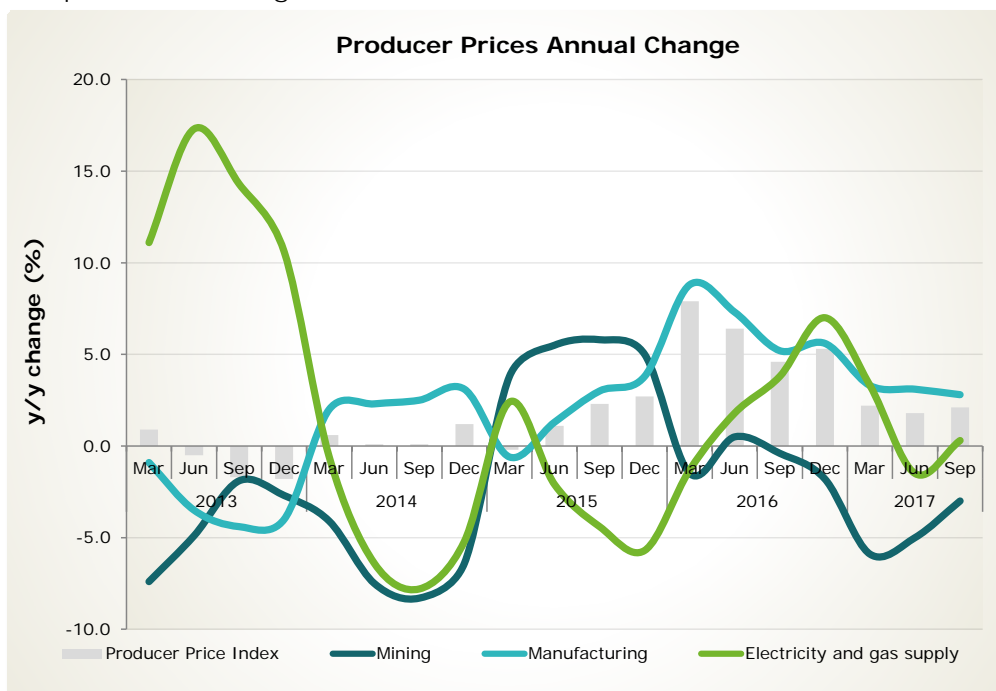
Consumer prices in Croatia went up by 0.8% in the period October 2016 – September 2017, compared to October 2015 – September 2016, according to DZS. In the previous period, July 2016 – June 2017, the average annual inflation was 0.2%.

Headline inflation accelerated in September 2017 to 1.4% from 0.7% in June 2017. In September 2017, as compared to August 2017, the average prices in Croatia increased by 1.5%, primarily as a result of the seasonal increase in the prices of vegetables by 2.5%.



Source: DZS

Producer prices went up annually, by 2.1% in January - September 2017. Manufacturers' producer prices rose by 2.8% y/y, while the average producer prices in the mining sector went down by 3.0% y/y. The sector of electricity and gas supplies saw an increase of 0.3% y/y in producer prices, on average.



Source: DZS

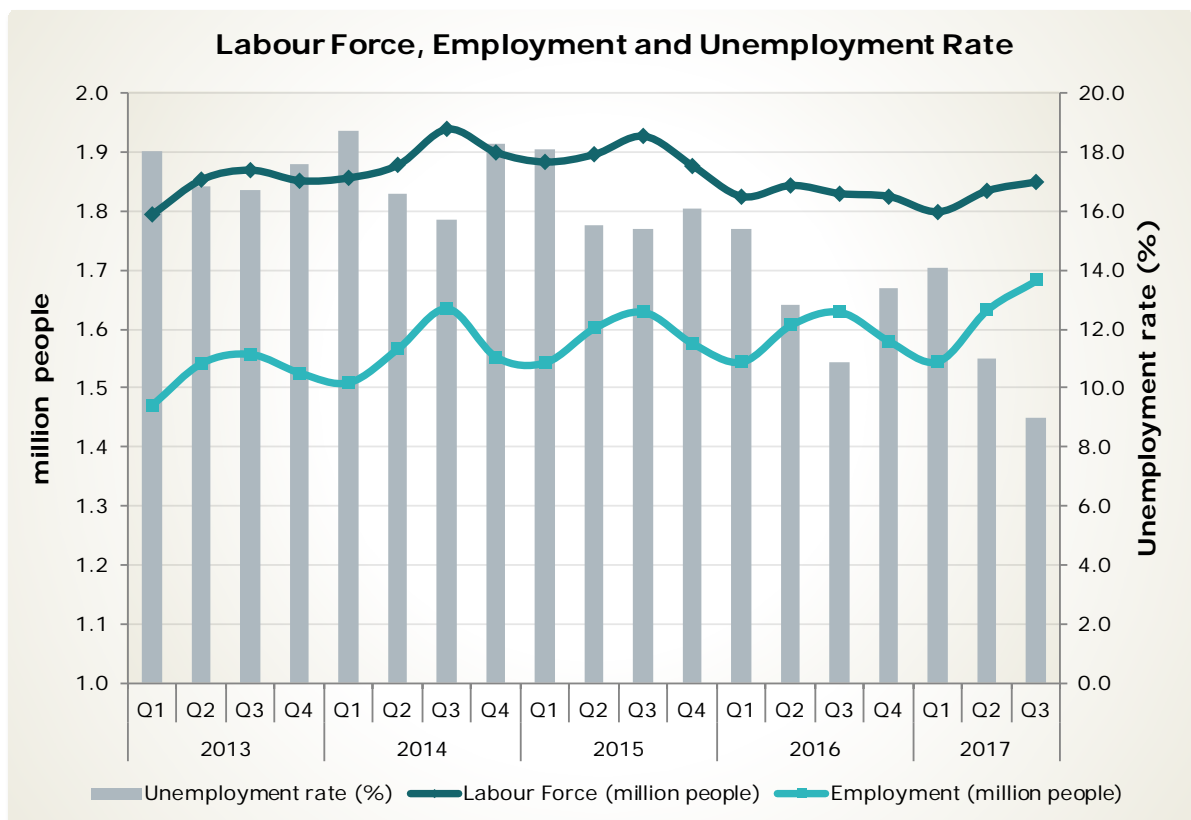
3. LABOUR MARKET

Unemployment rate went down y/y to 9.0% in Q3 2017, wages grew 5.9% y/y as of September 2017

The favourable labour market developments that marked the first half of 2017 persisted in Q3 2017. The unemployment rate in Croatia narrowed to 9.0% of the total labour force in Q3 2017 from 10.9% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.683 million in the third quarter of 2017, up 3.3% y/y. Employment pickup was led by growth in the number of employed persons in the manufacturing industry, and wholesale and retail trade. Youth unemployment remains high, but decreased noticeably to 22.8% in September 2017 from 27.8% a year earlier.

The average monthly net salary in July – September 2017 went up by 5.9% y/y to HRK 5,961, 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 38.9% y/y in Q3 2017

The number of permits for new buildings, excluding civil engineering, issued in Croatia in the third quarter of 2017 surged by 38.9% y/y and totalled 1,471, according to DZS data.

Permits for non-residential¹ buildings increased by 2.4% to 302, while permits for residential buildings registered a 30.9% increase to 1,000.

The total built-up area of the non-residential units, covered by the permits, decreased by 18.8% y/y to 267,777 sq m. The total built-up area of the housing units went up by 10.3% to 315,826 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 7.4179 in Q3 2017 from HRK 7.4858 in Q3 2016, according to the Croatian National Bank (HNB).

Average Quarterly HRK Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
EUR	7.4179	7.4268	7.4858
USD	6.3192	6.7616	6.7068
GBP	8.2653	8.6397	8.8215
CHF	6.5653	6.8595	6.8762

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%.

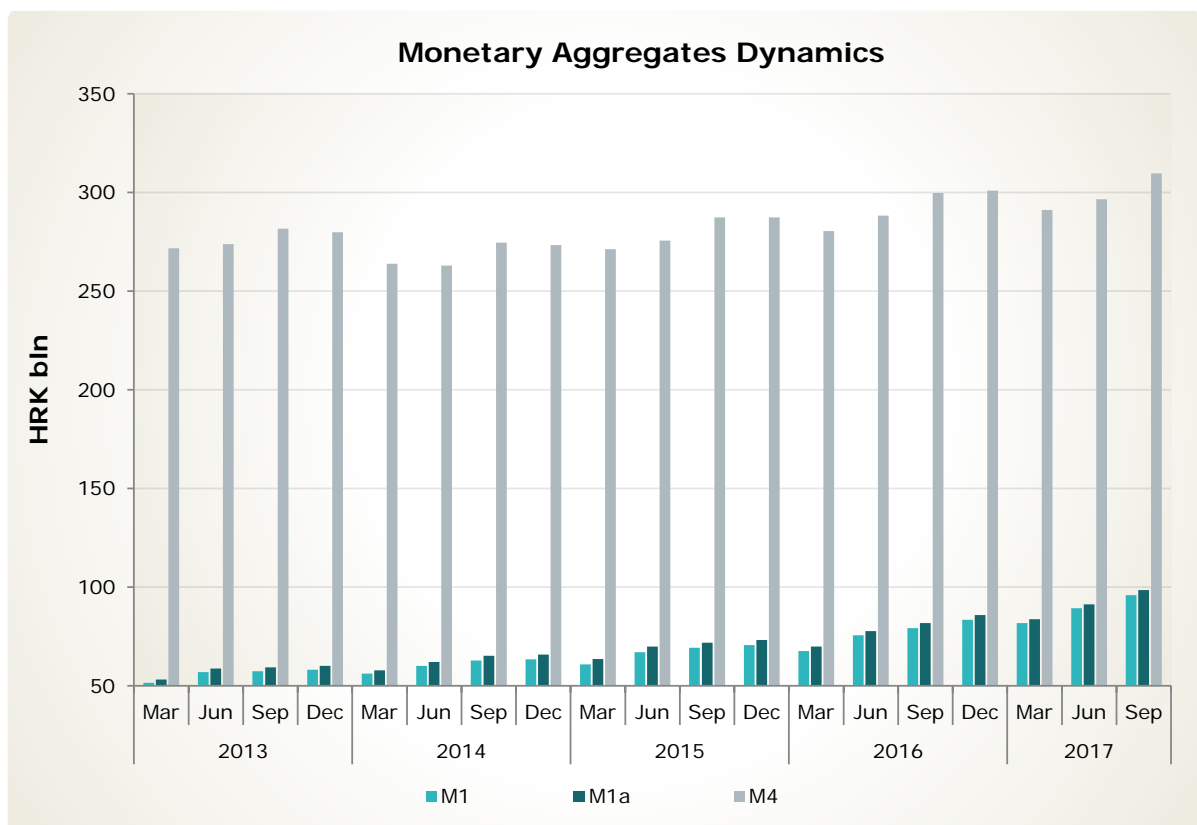
¹ Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

5.3. MONETARY AGGREGATES

Money supply growth was 3.3% y/y as of September 2017

Broad money (money aggregate M4) increased by 3.3% y/y and reached HRK 309.635 bln in September 2017, according to data provided by HNB. The growth in money supply as measured by M4 accelerated compared to Q2 2017 when M4 grew by 2.9% y/y.

The M1a² money aggregate rose by 20.4% to HRK 98.571 bln and money aggregate M1, or narrow money, also went up, by 21.0%, to HRK 95.957 bln.



Source: HNB

5.4. BANKING AND INSURANCE

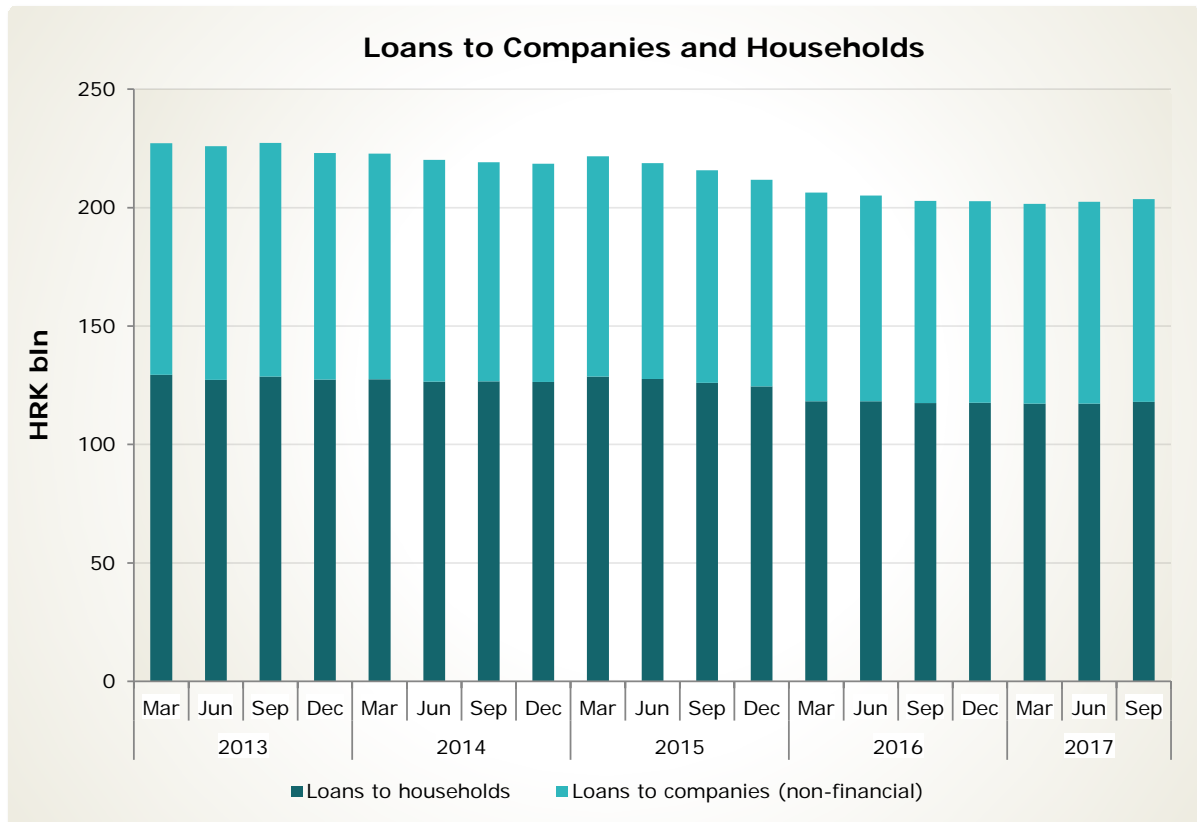
Household loans increased by 0.4% y/y in September 2017

Household loans went up by 0.4% to HRK 117.961 bln, according to HNB data. House purchasing loans narrowed by 1.2% to HRK 51.680 bln, accounting for 43.8% of the total loans.

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.

The second largest loan type, slicing a 36.1% share, was the any-purpose cash loan with its value rising to HRK 42.560 bln from HRK 40.502 bln in September 2016, according to HNB.

Loans to non-financial corporations went up by 0.3% y/y to HRK 85.579 bln.

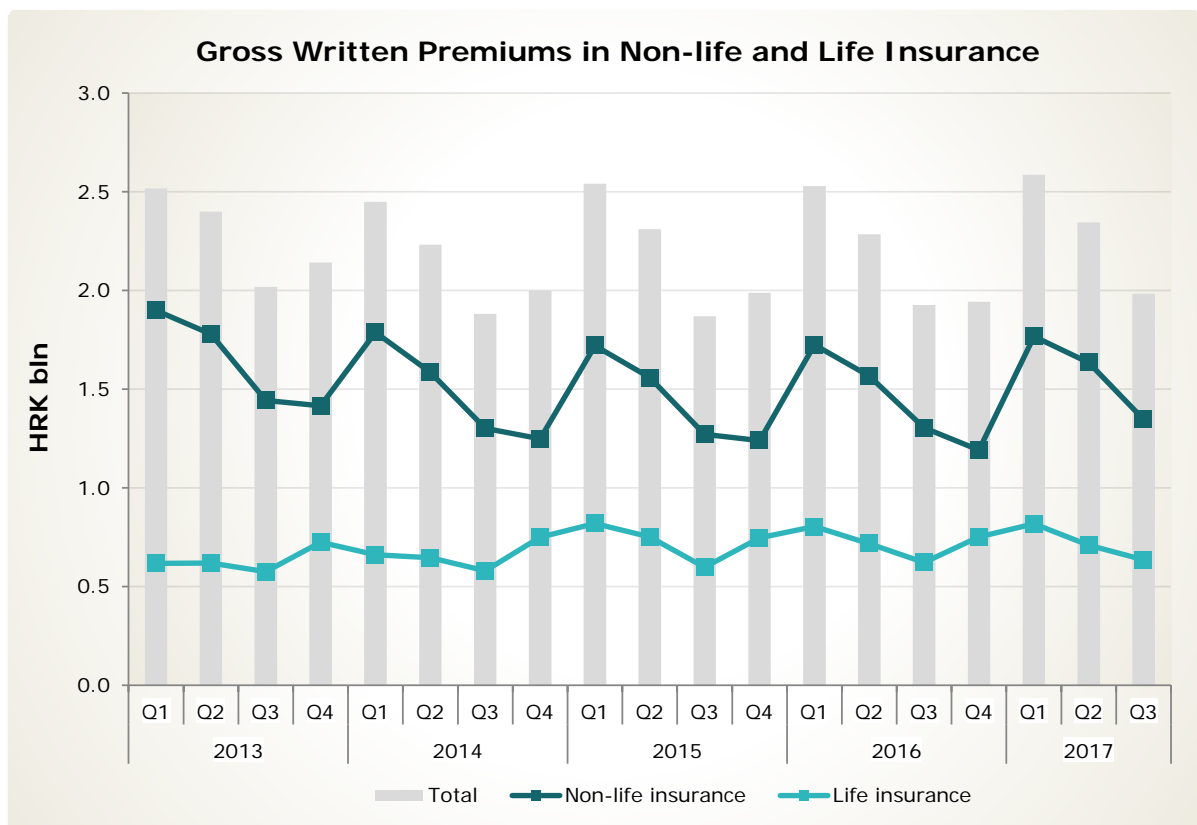


Source: HNB

Insurance premium income up 2.9% y/y in Q3 2017

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 1.984 bln, up by 2.9% y/y in Q3 2017, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 3.3% annual increase of the non-life insurance sector, which posted GWP of HRK 1.347 bln. The life insurance sector inched up by 2.2% y/y to HRK 636 mln.



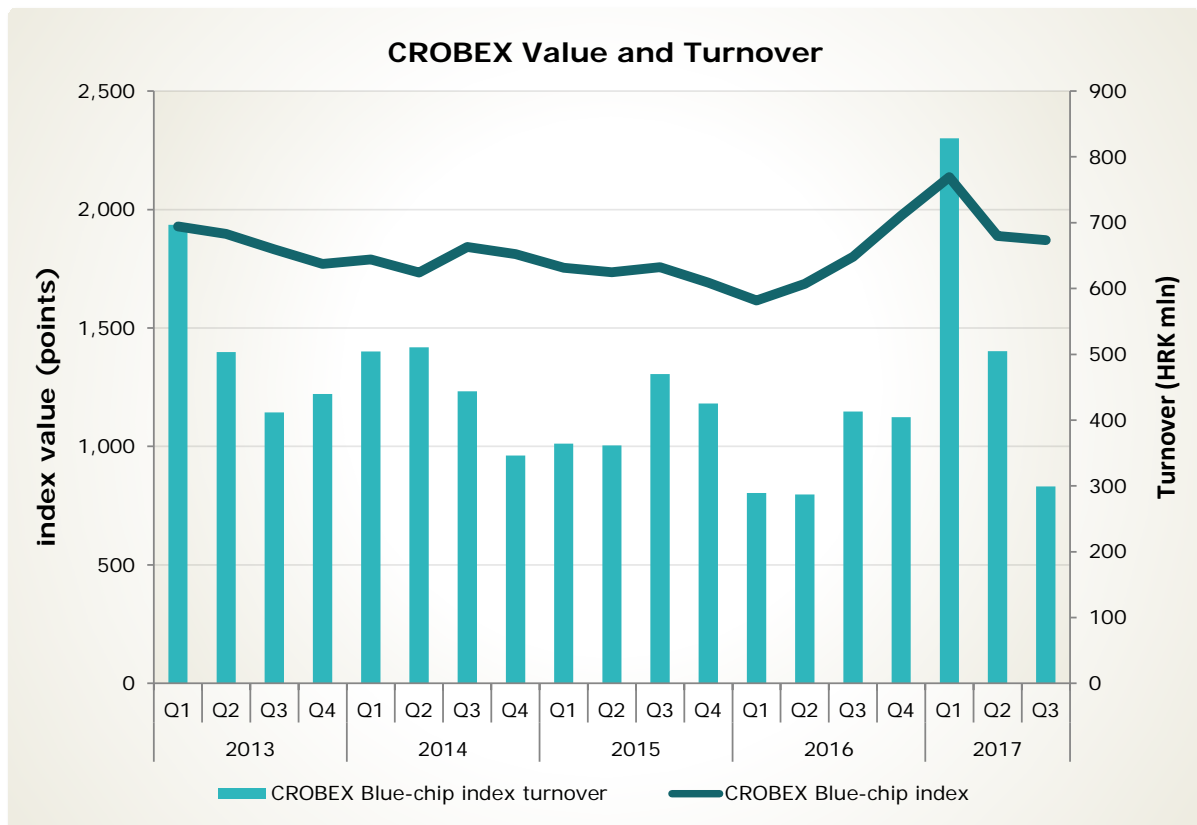
Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX down by 0.9% q/q in Q3 2017

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), decreased by 0.9% q/q to 1,871 points in Q3 2017.

The CROBEX turnover totalled HRK 299.2 mln in Q3 2017, compared to HRK 504.8 mln in Q2 2017.



Source: ZSE

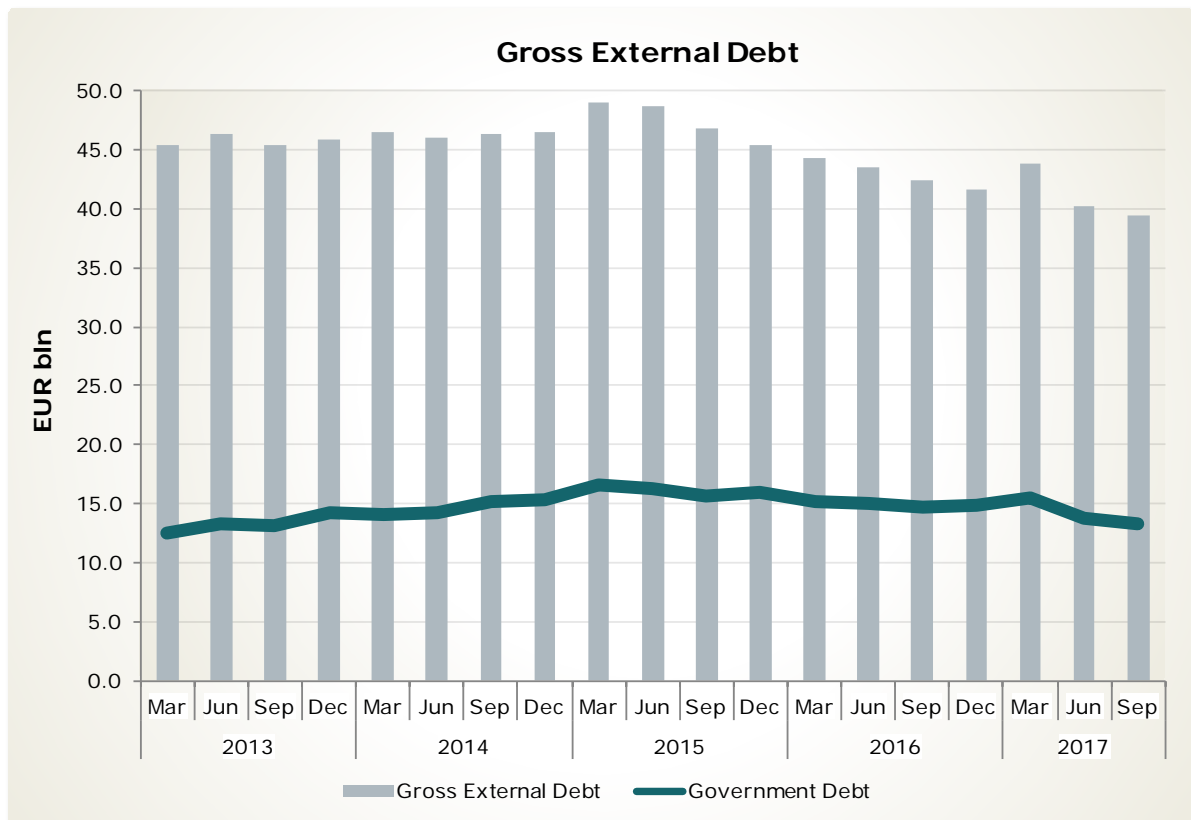
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 39.382 bln in September 2017

The gross external debt totalled EUR 39.382 bln as of September 2017, according to HNB. It went down by 7.2%, or EUR 3.052 bln, compared to September 2016.

As of September 2017, long-term liabilities amounted to EUR 29.387 bln, or 74.6% of the total debt, decreasing by 12.2% on the year. Short-term liabilities totalled EUR 3.970 bln, equal to 10.1% of the total debt and up by 16.5% compared to a year ago.



Source: HNB

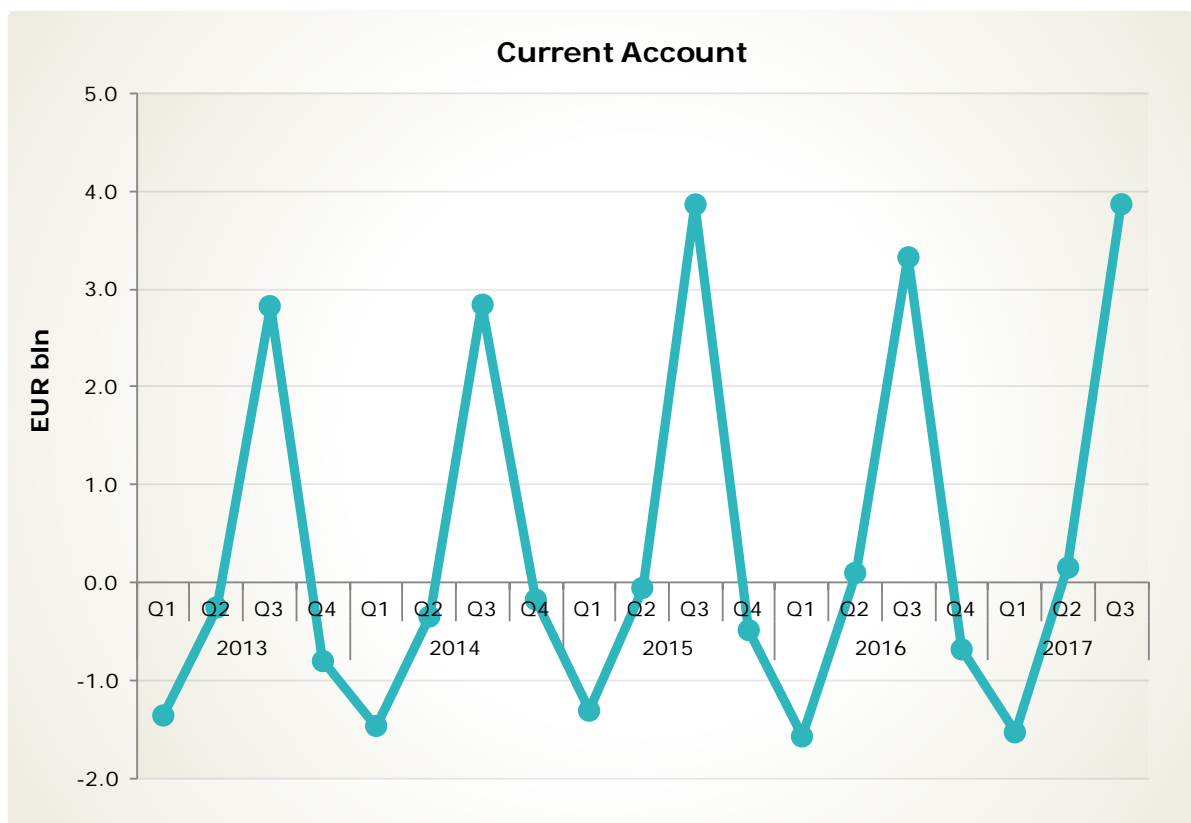
7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 3.868 bln in Q3 2017

The current account surplus increased to EUR 3.868 bln in Q3 2017, up 16.3% y/y, according to central bank statistics data. In the previous quarter, Q2 2017, the current account surplus was just EUR 154.1 mln. 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 2.144 bln, up 12.2% y/y, while services surplus went up by 7.3% y/y to EUR 5.946 bln.

The secondary income account was positive during the period July – September 2017 at EUR 388.2 mln compared to a surplus of EUR 310.0 mln in Q3 2016.

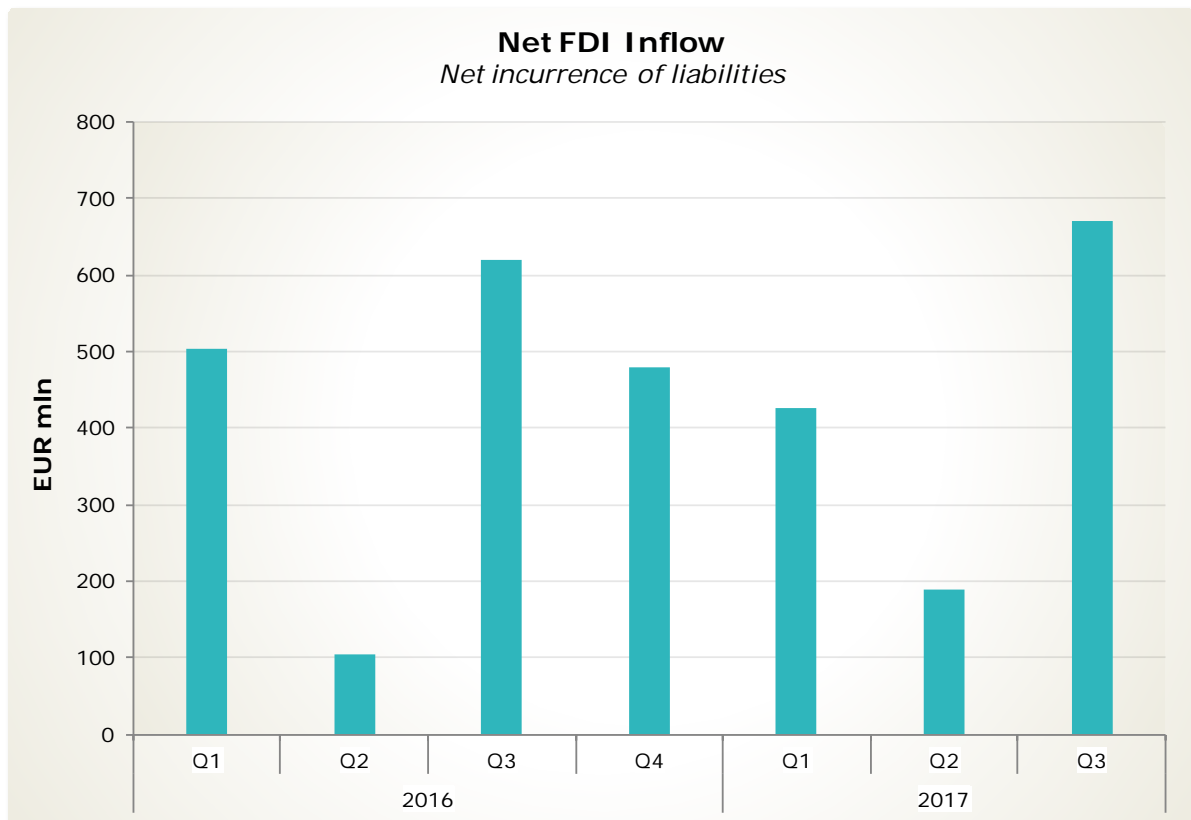


Source: HNB

7.3. FDI

Net FDI inflow at EUR 669.5 mln in Q3 2017

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 669.5 mln in Q3 2017, according to preliminary data of HNB. This is a 7.9% increase compared to a year earlier when FDIs amounted to EUR 620.6 mln.



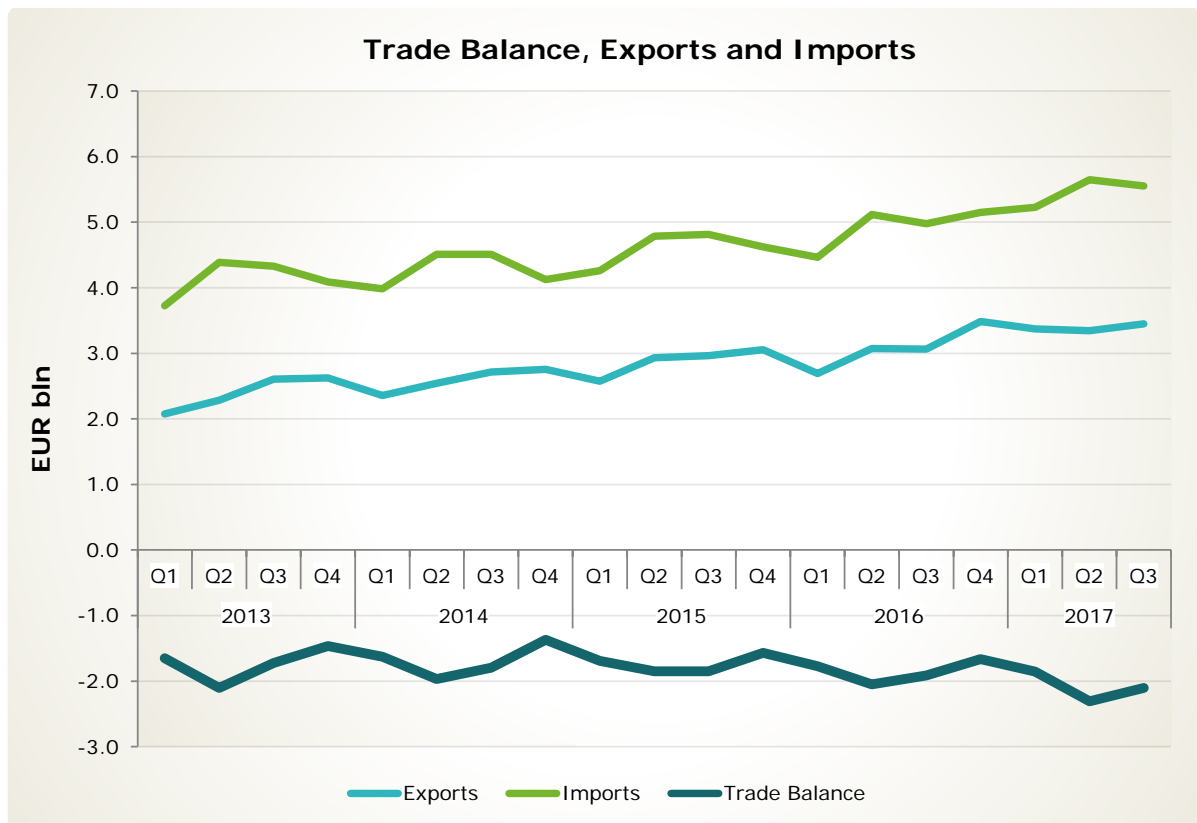
Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit widened by 9.9% y/y in Q3 2017

The trade deficit stood at EUR 2.101 bln in Q3 2017, compared to EUR 1.911 bln in the corresponding quarter of the previous year, according to DZS.

Exports grew 12.6% y/y to EUR 3.451 bln, while imports increased by 11.6% on the year to EUR 5.552 bln. Exports increased more than imports as a consequence of the faster growth in the exports of chemical products and animal and vegetable oils and fats.



Source: HNB

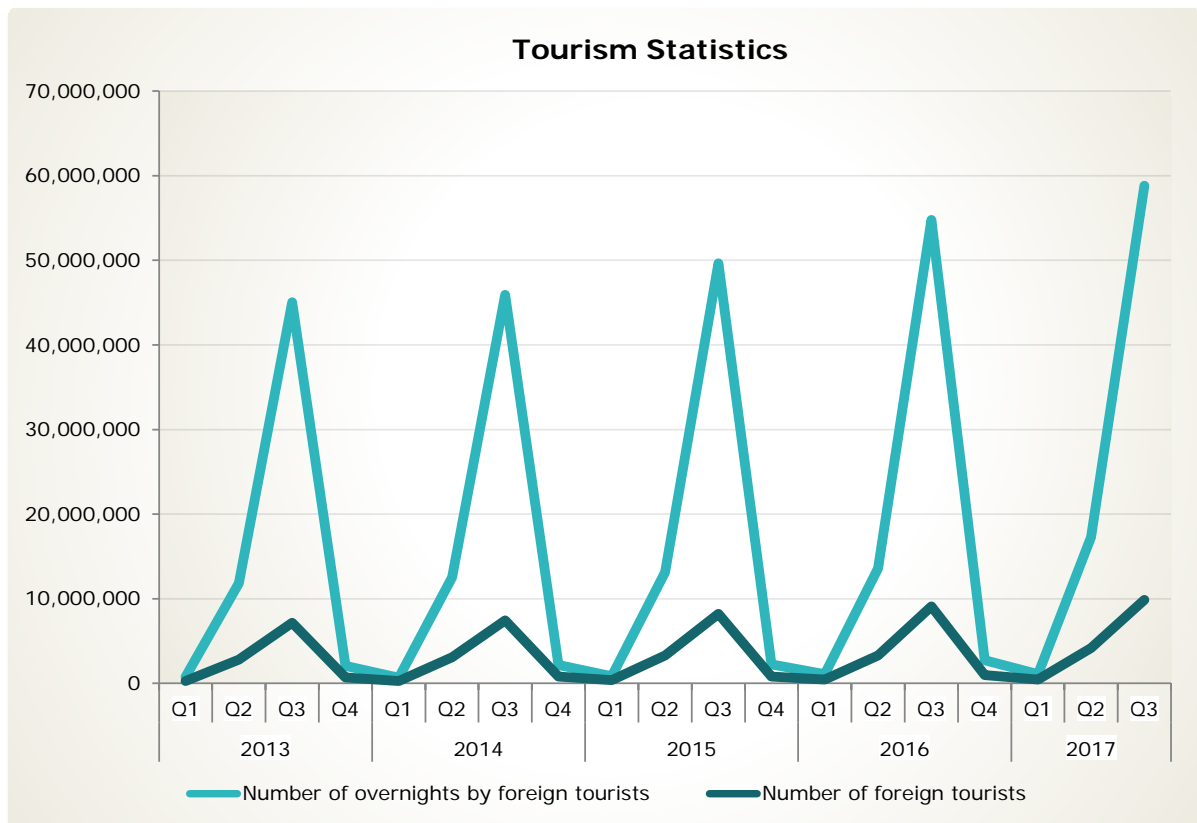
7.5. TOURSIM

Number of foreign tourist overnights increased by 7.4% y/y in Q3 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 7.4% to 58.809 million in Q3 2017, according to DZS.

The total number of overnights, both of foreign and local tourists, reached 62.018 million, rising by 6.9% in comparison to a year earlier.

The number of foreign tourists went up by 8.5% y/y to 9,869,033.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia's GDP growth to stand at around 3% in next 5 yrs - fin min

Sept 20, 2017

Croatia's finance ministry expects the country's economy to grow by around 3% annually in the next five years, due to the benefits of the European Union (EU) membership, finance minister Martina Dalic said.

[Read the full story here](#)

Gazprom signs 10-year deal for gas exports to Croatia

Sept 18, 2017

Gazprom Export, a fully-owned subsidiary of Russia's state-owned gas group Gazprom, said it signed a contract for natural gas supplies to Croatia with local company Prvo Plinarsko Društvo (PPD) for the period October 1, 2017 - December 31, 2027.

[Read the full story here](#)

New border crossing aims to provide Bosnia with stronger link to Croatia's Dubrovnik

Aug 30, 2017

A newly built border aims to create a stronger link between lower Bosnia and Croatia's coastal city of Dubrovnik, Bosnia's Indirect Taxation Authority said.

[Read the full story here](#)

Croatia signs 28 grant deals totalling HRK 670.3 mln

Aug 25, 2017

Croatia's government on Thursday signed 28 grant deals totalling HRK 670.3 mln, including HRK 554.2 mln from EU funds, to finance construction of business incubators, equipping of hospitals and social institutions, and preserving the country's cultural and natural heritage.

Read the full story [here](#)

EU funds inflow into CEE countries to peak in 2021-22

July 18, 2017

EU funds inflow into countries in Central and Eastern Europe (CEE) will intensify in 2019-20 and peak in 2021-22, as during the first two years of the current 2014-2020 period the countries have been busy drawing funds related to the previous programming period, Erste Group said in July 2017.

Read the full story [here](#)

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