

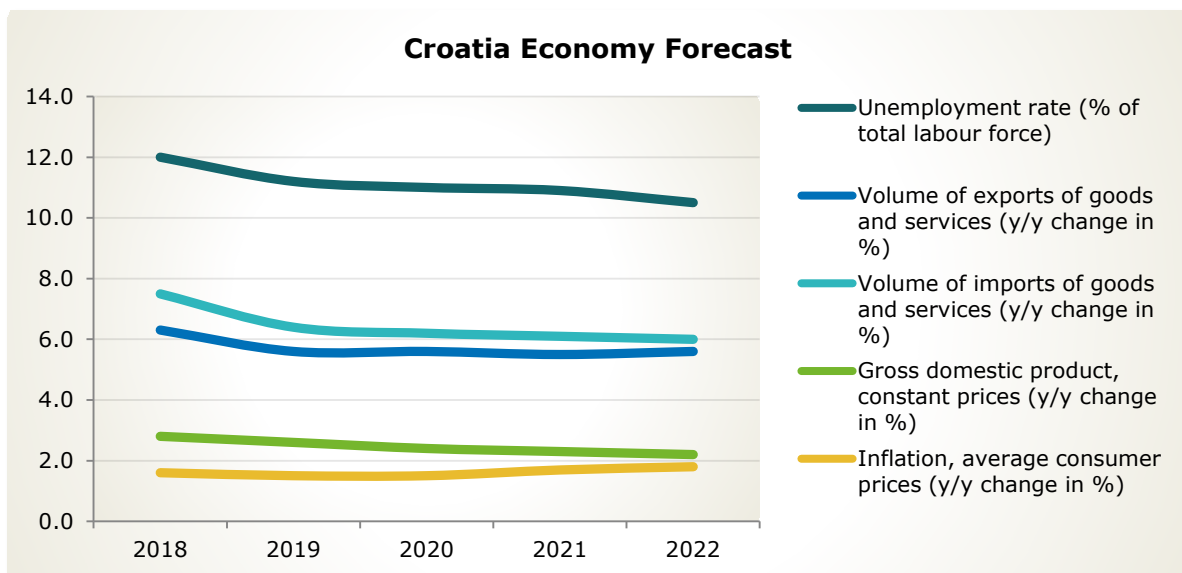
CROATIA ECONOMY REPORT Q3 2018

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	4
2.1. GROSS DOMESTIC PRODUCT (GDP)	4
2.2. INDUSTRIAL OUTPUT	6
2.3. INDUSTRIAL SALES.....	7
2.4. WHOLESALE/RETAIL	7
2.5. INFLATION.....	8
3. LABOUR MARKET.....	10
4. CONSTRUCTION AND REAL ESTATE	11
5. MONEY SUPPLY AND BANKING SYSTEM.....	11
5.1. HRK EXCHANGE RATE	11
5.2. MONETARY POLICY	11
5.3. MONETARY AGGREGATES	12
5.4. BANKING AND INSURANCE.....	12
6. CAPITAL MARKETS	14
7. EXTERNAL SECTOR	15
7.1. FOREIGN DEBT	15
7.2. BALANCE OF PAYMENTS	15
7.3. FDI.....	16
7.4. FOREIGN TRADE	17
7.5. TOURSIM	17
8. MAJOR DEVELOPMENTS	18

1. MACROECONOMIC SNAPSHOT AND FORECAST

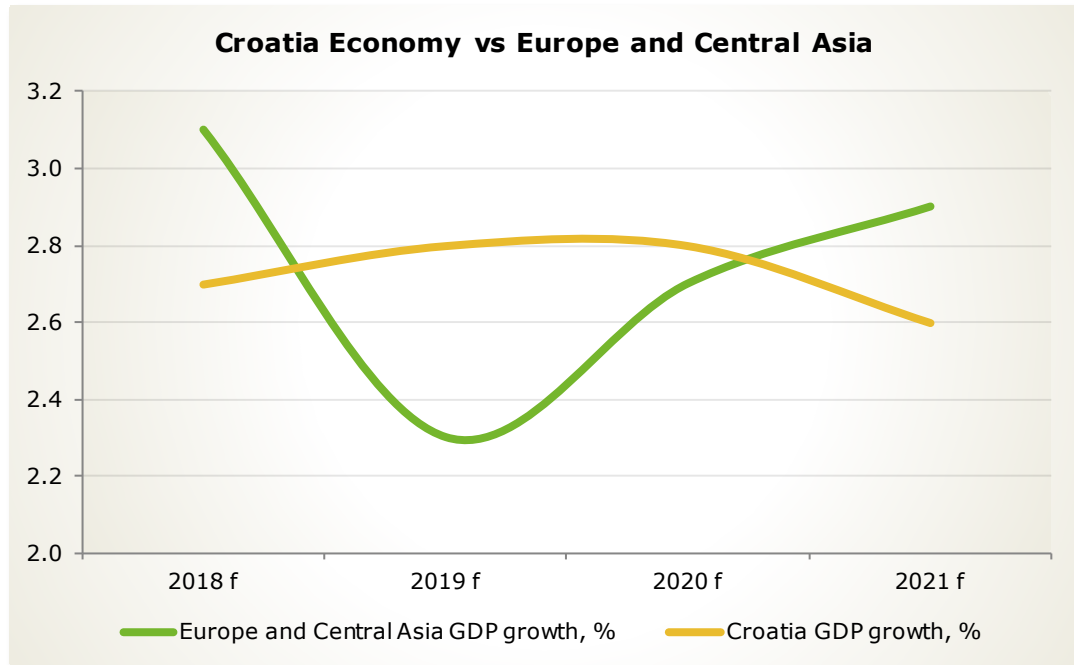
CROATIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	2.8% y/y
Industrial output	-0.3% y/y
Industrial sales	3.4% y/y
Wholesales	6.5% y/y
Retail sales	5.6% y/y
Average annual inflation	1.5%
Unemployment rate	7.3%
Number of building permits	-5.8% y/y
Money supply growth	5.0% y/y
Household loans	3.9% y/y
CROBEX blue-chip index	-0.5% q/q
Gross external debt	EUR 38.748 bln
Current account surplus	EUR 4.011 bln
Net FDI inflow	EUR 56.8 mln
Foreign trade deficit	EUR 2.219 bln
Number of foreign tourist overnights	1.6% 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.

According to the World Bank estimates from January 2019, GDP growth is likely to come in at 2.7% in 2018, down from 2.9% in 2017. This is lower than the projected growth for Europe and Central Asia, of 3.1% in 2018.



Source: World Bank, *Global Economic Prospects*, January 2019

2. REAL SECTOR

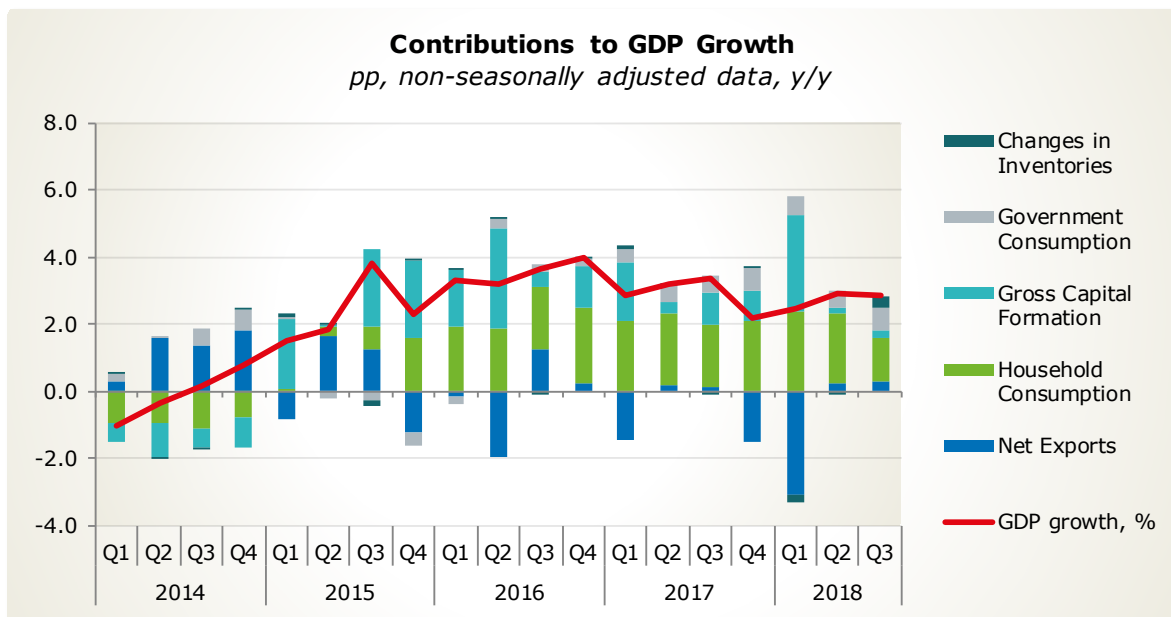
2.1. GROSS DOMESTIC PRODUCT (GDP)

The annual economic growth slightly dropped in Q3 2018 to 2.8% y/y, down from 2.9% y/y in Q2 2018

The country's GDP grew by a real 2.8% y/y and totalled HRK 99.110 bln in Q3 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 67.6% of the GDP, expanded by 3.0% y/y. Gross capital formation increased by 2.0% y/y, contributing 0.2 pp to the GDP expansion. Imports expanded by 5.1%, driven by the rising investment activity and personal consumption, while exports went up by 3.7% y/y in real terms. As a result, the foreign trade contributed with 0.3 pp to the GDP growth.

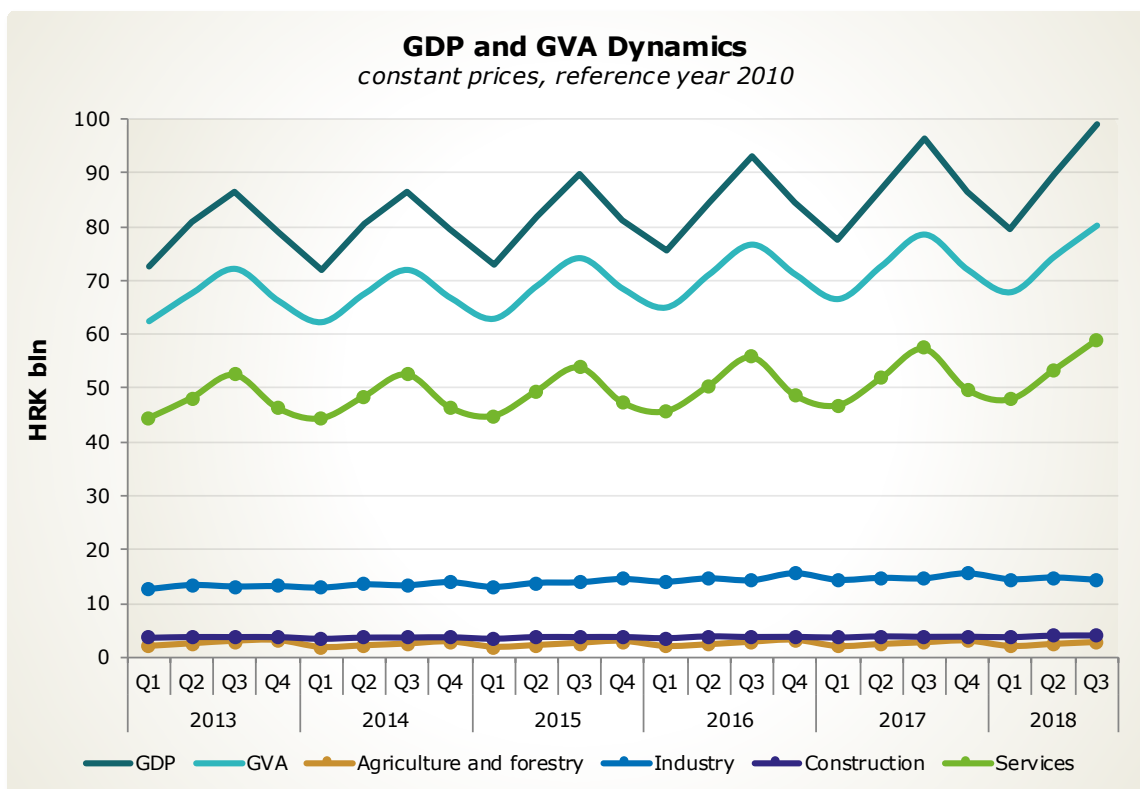
Household consumption remained strong, as it advanced by 2.7% y/y in real terms in Q3 2018 and contributed with 1.3 pp to the overall growth. Major factor behind the upward trend was the tightening of the labour market.



Source: DZS; SeeNews calculations

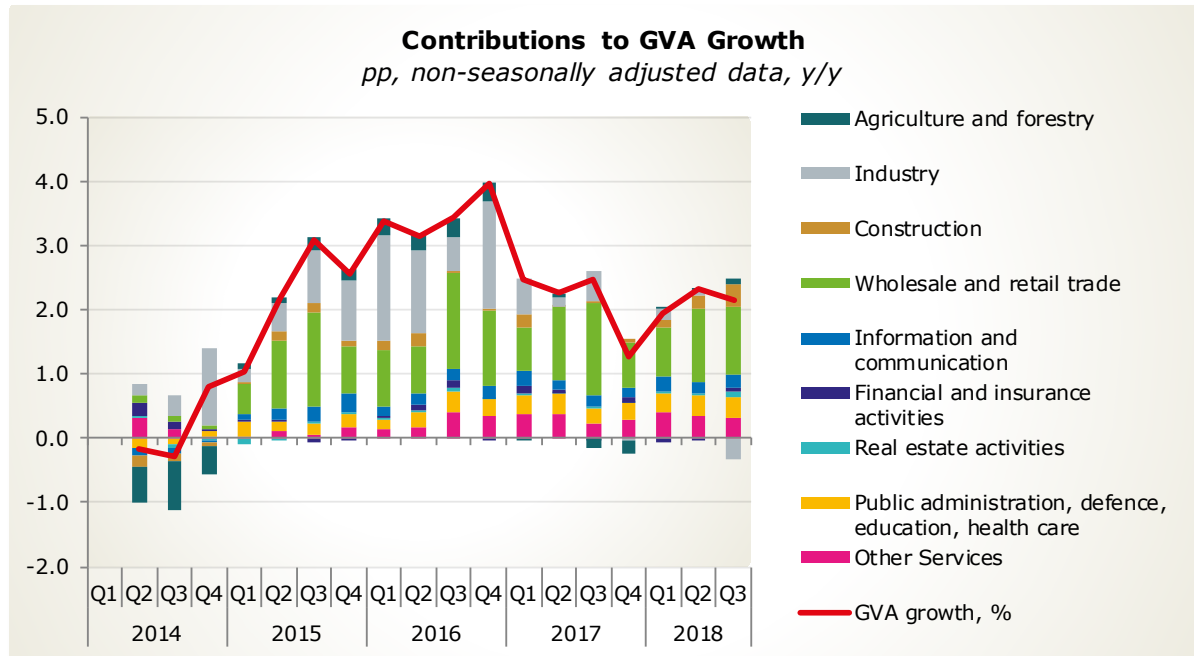
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.2% y/y in Q3 2018 and totalled HRK 80.354 bln. The industrial sector dropped by 1.7%, while construction went up by 7.1%. The services sector recorded a 2.8% annual rise, slicing a 73.5% share in the GVA. The agricultural sector rose by 1.9% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q3 2018, with 1.1 pp, followed by the other services, public administration, defence, education, health care, and construction which contributed 0.3 pp each.



Source: DZS; SeeNews calculations

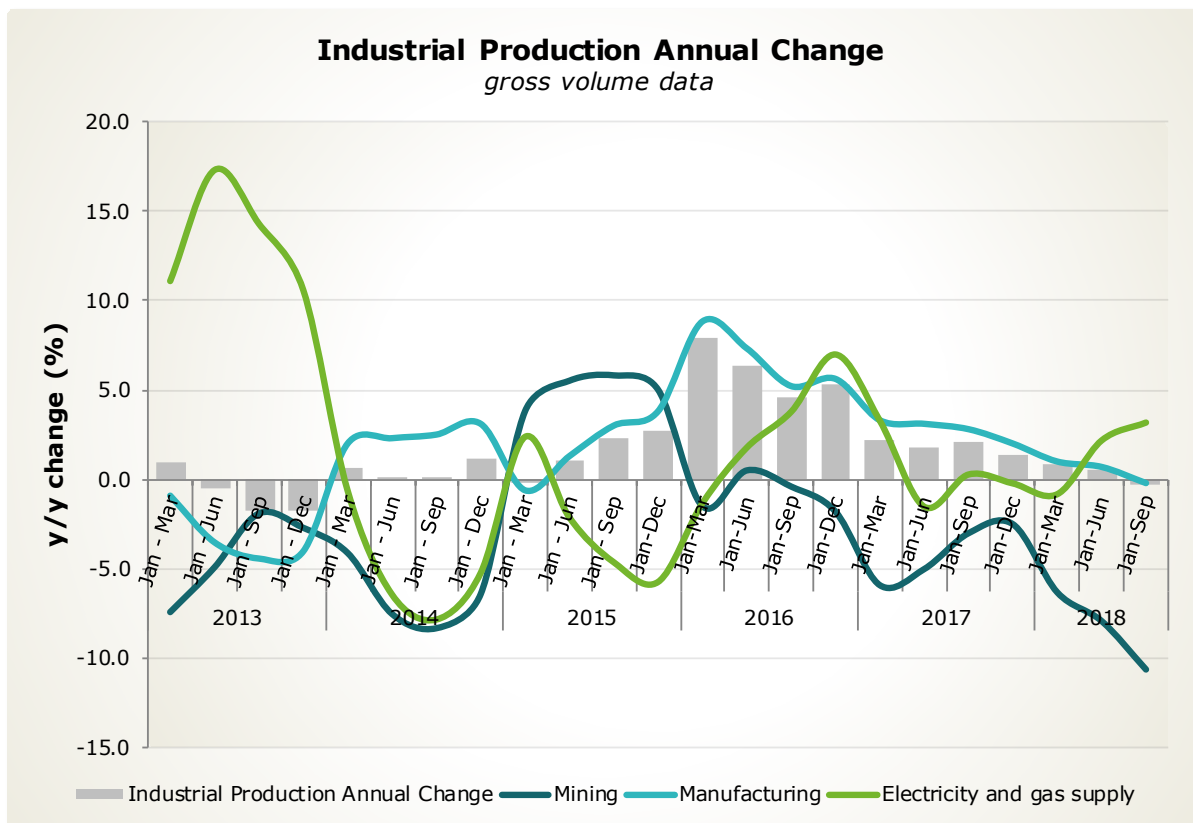
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output inched down in the third quarter of 2018 by 0.3% y/y

Industrial output inched down by 0.3% on the year in Q3 2018, according to DZS data. This was the first time since Q1 2015 when the industrial production in Croatia registered an annual decline.

The manufacturing segment decreased production by an average of 0.2% y/y in Q3 2018, while the electricity and gas supply segment went up by 3.2% y/y and mining saw its production falling by 10.60% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales increased by 3.4% y/y in the third quarter of 2018

Industrial sales rose by 3.4% y/y in Q3 2018, compared to a 2.8% annual increase in Q2 2018, according to DZS.

The industrial sales were pushed up by the 20.3% annual jump of sales in the energy sector. In addition, consumer durables sales went up by 6.9% y/y. Intermediate goods sales grew by

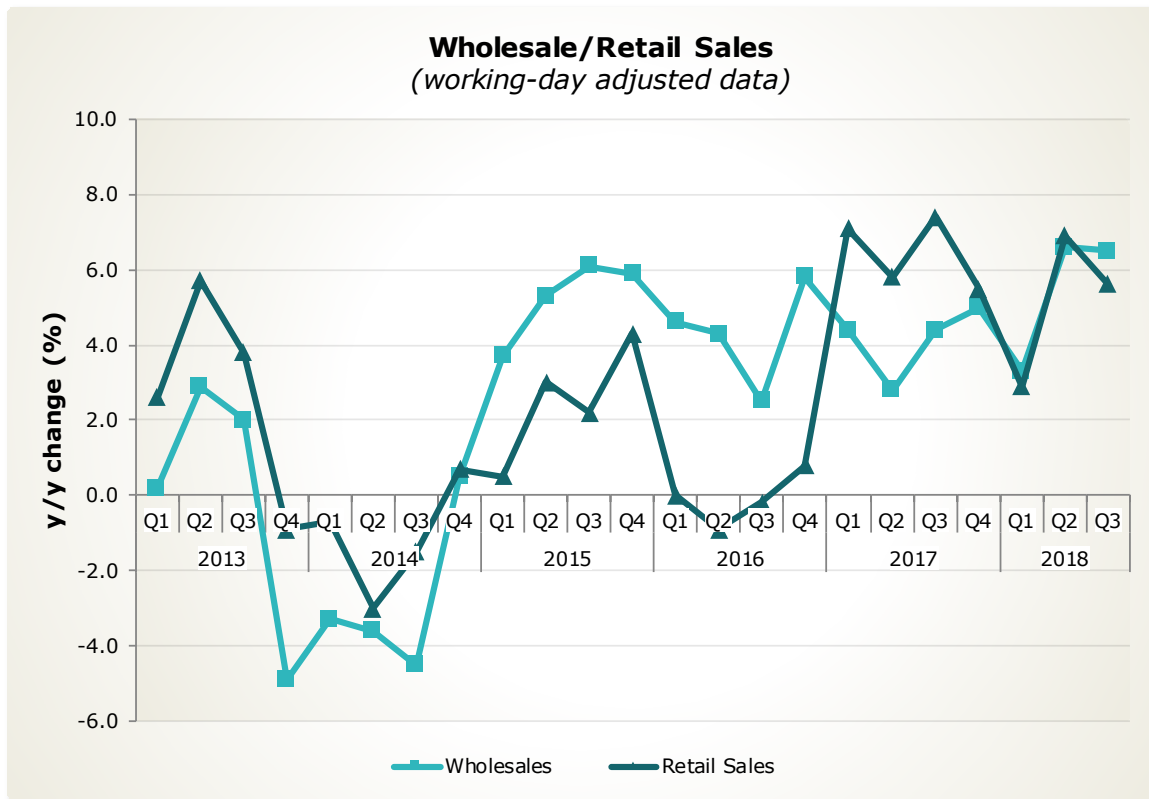
4.8% y/y in Q3 2018, while consumer non-durables reported a modest increase of 1.6%. Capital goods were the only segment to decline in terms of sales, by 5.7% y/y.

2.4. WHOLESALE/RETAIL

Retail sales growth at 5.6% y/y, wholesales up 6.5% y/y in Q3 2018

Retail sales registered annual increase of 5.6% in Q3 2018, down from a 6.9% y/y rise in Q2 2018 and a 7.4% increase in Q3 2017, according to DZS data. In the same time, wholesales

advanced by 6.5% y/y, down from 6.6% y/y in the previous quarter and up from 4.4% in Q3 2017.

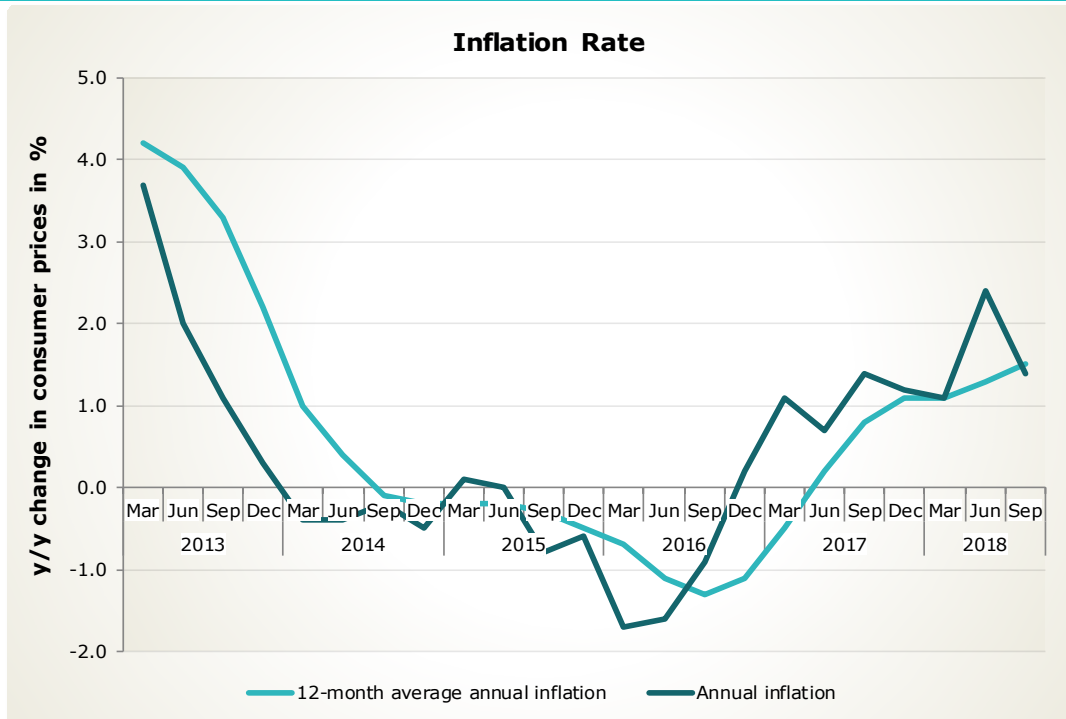


Source: DZS

2.5. INFLATION

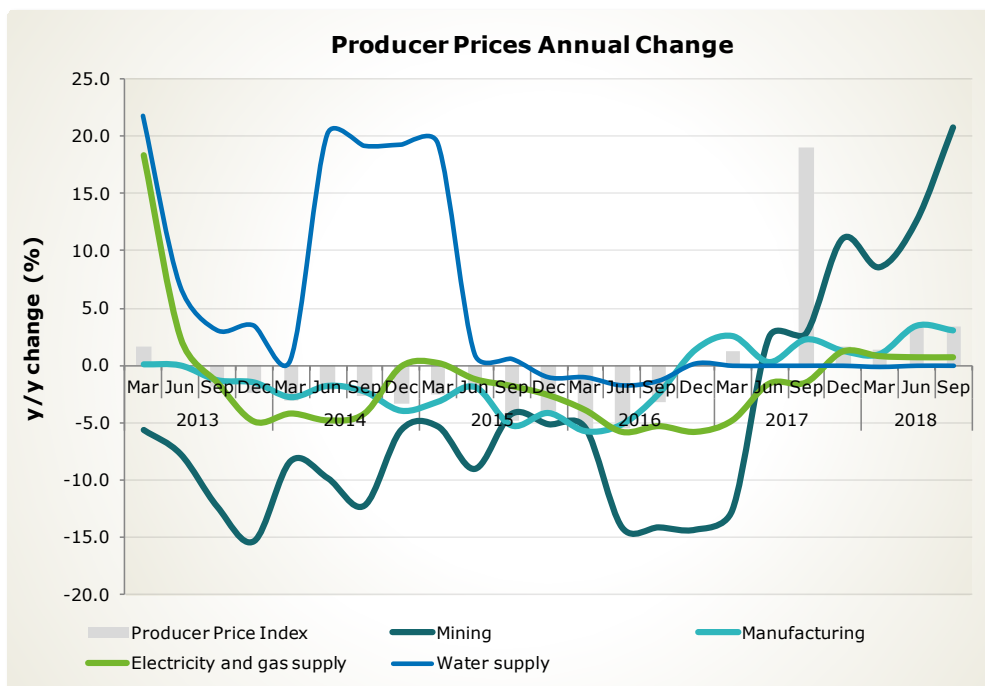
Inflation stable at 1.5% in September 2018

The 12-month average annual inflation in Croatia came in at 1.5% as of September 2018, a slight increase compared to 1.3% in June 2018, according to DZS. The increase of the average consumer prices was primarily due to the 2.5% rise in alcoholic beverages and tobacco prices.



Source: DZS

Producer prices went up annually, by 3.4% in Q3 2018. Manufacturers' producer prices rose by 3.1% y/y, while the average producer prices in the mining sector expanded by 20.8% y/y. The sector of electricity and gas supplies saw an increase of 0.7% y/y on average. Water supply saw no annual changes in producer prices for second consecutive quarter.



Source: DZS

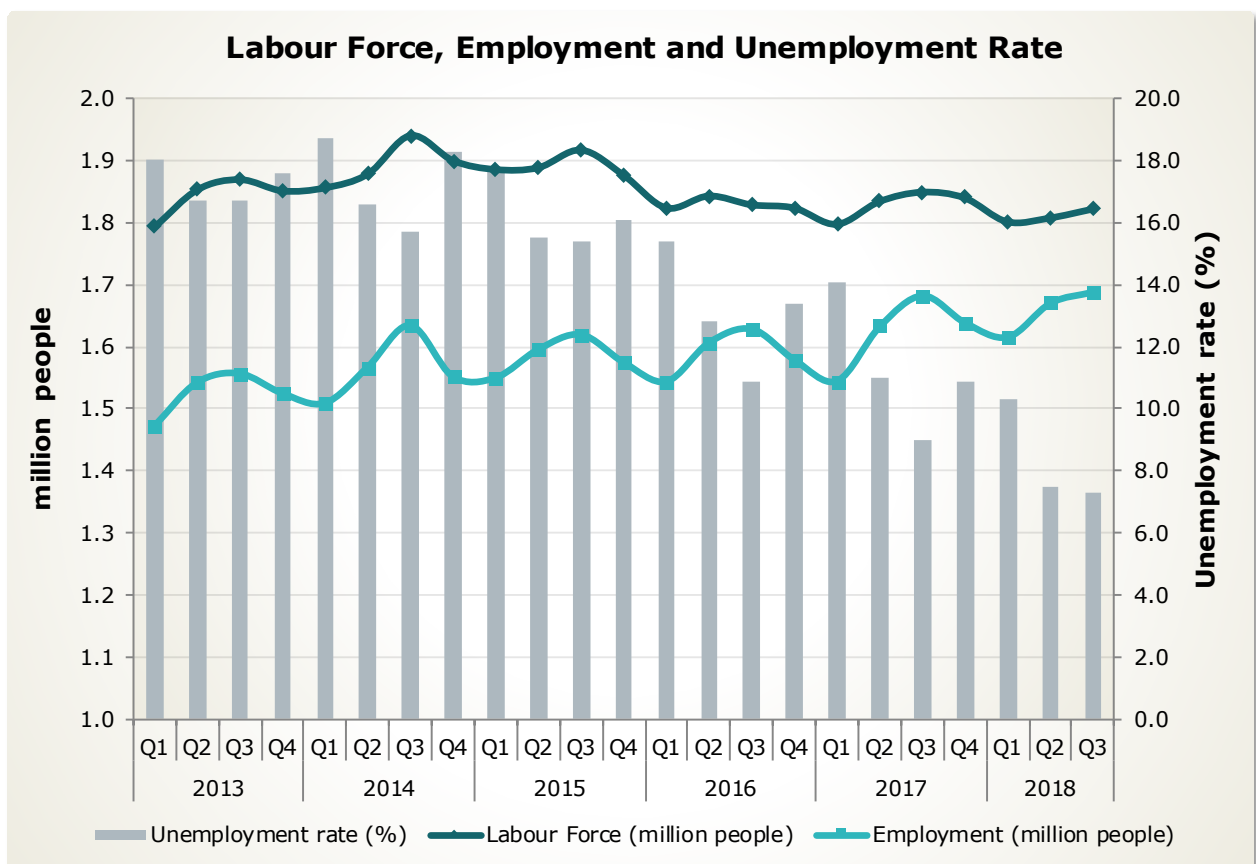
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 7.3% in Q3 2018, wages grew 4.4% y/y in the quarter

The favourable labour market developments that marked the Q2 2018 persisted in the third quarter of 2018. The unemployment rate in Croatia narrowed to 7.3% of the total labour force in Q3 2018, down from 7.5% in Q2 2018, according to data of DZS.

The dynamics of growth in the number of employed persons increased slightly from the second quarter of 2018. The employed population aged 15 years and older was 1.689 million in Q3 2018, up 0.4% y/y.

Net wages ceased their quarterly growth in the third quarter of 2018. The average monthly net wage inched down to HRK 6,222 in Q3 2018 from HRK 6,283 in the previous quarter, but grew annually by 4.4% y/y. The highest net wages were reported by the financial and insurance sector, of HRK 8,360, followed by the information and communication sector with HRK 8,267 and electricity, gas, steam and air conditioning supply with HRK 8,249. Administrative and support service activities occupied the bottom of the ranking with average monthly net wage of HRK 4,836.



Source: DZS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits declined by 5.8% y/y in Q3 2018

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q3 2018 decreased by 5.8% y/y and totalled 1,385, according to DZS data.

Permits for non-residential¹ buildings went down by 2.0% to 296, while permits for residential buildings registered an 8.9% increase to 1,089.

The total built-up area of the non-residential units, covered by the permits, shrank by 8.8% y/y to 244,082 sq m. The total built-up area of the housing units went up by 11.2% to 351,159 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average quarterly exchange rate of the HRK against the EUR increased to HRK 7.4082 in Q3 2018 from HRK 7.3947 in Q2 2018, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
EUR	7.4082	7.3947	7.4182
USD	6.3695	6.1972	6.3214
GBP	8.3025	8.4428	8.2679
CHF	6.4748	6.2944	6.5668

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

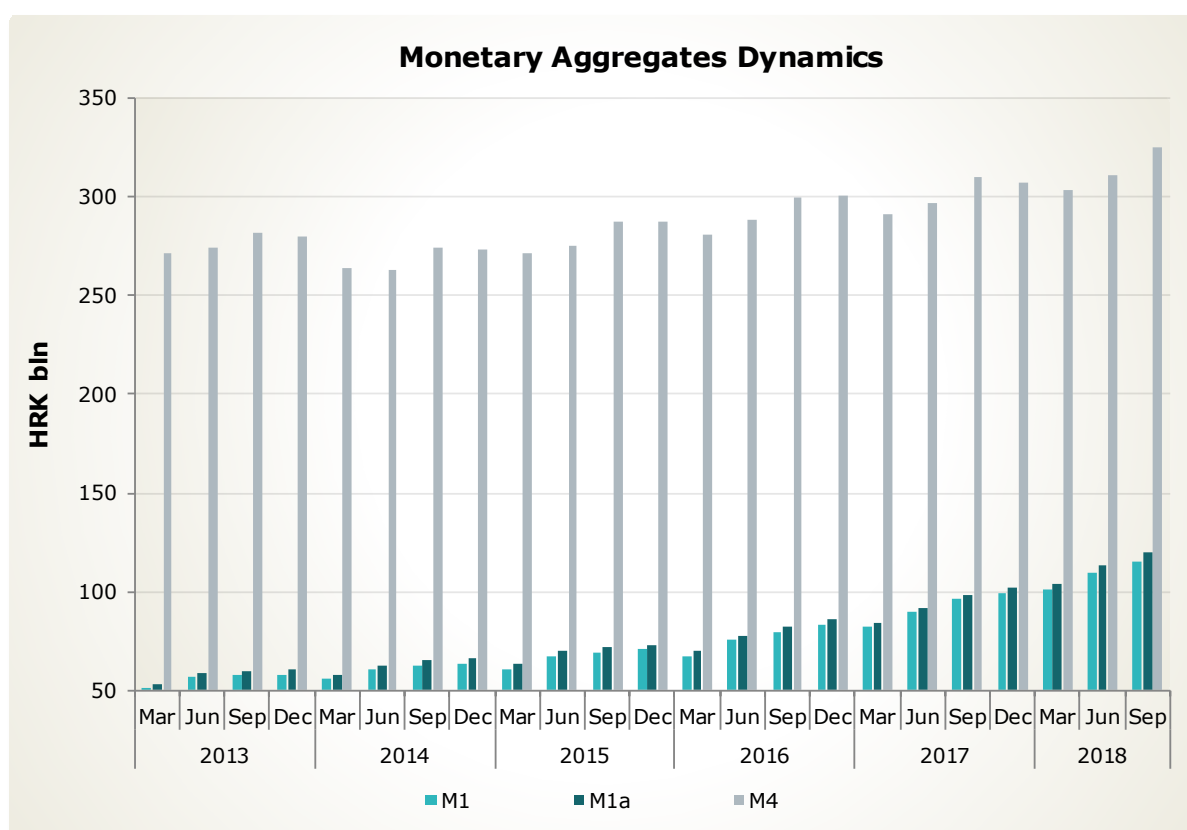
¹ Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

5.3. MONETARY AGGREGATES

Money supply grew by 5.0% y/y in Q3 2018

In Q3 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 5.0% and reached HRK 325.1 bln in September 2018, according to data provided by HNB.

Monetary aggregate M1 grew annually by as much as 20.4%, while M1a increased by 21.5% compared to September of the previous year.



Source: HNB

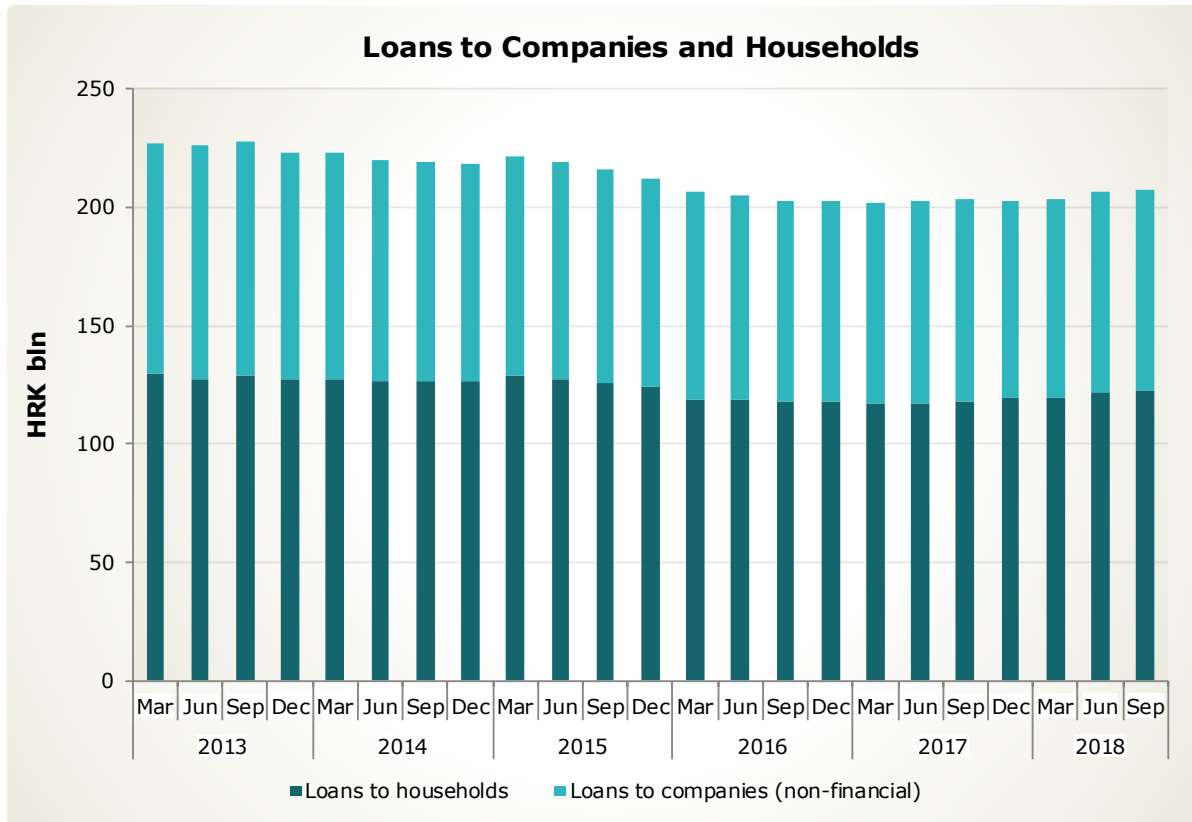
Editor's Note: Money M1a comprises currency outside credit institutions and demand deposits with credit institutions, increased by the demand deposits of the central government with credit institutions.

5.4. BANKING AND INSURANCE

Household loans increased by 3.9% y/y in Q3 2018

Household loans went up by 3.9% to HRK 122.6 bln, according to HNB data. House purchasing loans advanced by 2.3% to HRK 52.848 bln, accounting for 43.1% of the total loans. The second largest loan type, slicing a 38.2% share, was the any-purpose cash loan with its value

rising to HRK 46.873 bln from HRK 42.560 bln in Q3 2017, according to HNB. Loans to non-financial corporations went down by 1.5% y/y to HRK 84.336 bln.

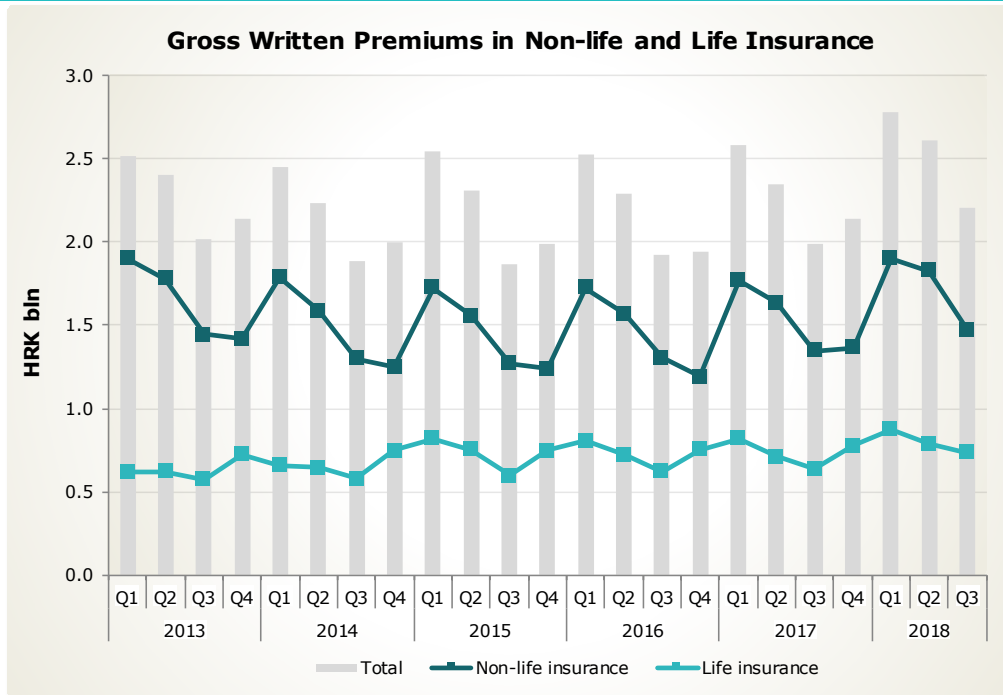


Source: HNB

Insurance premium income up 11.1% y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.204 bln in Q3 2018, up by 11.1% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 9.1% annual increase of the non-life insurance sector, which posted GWP of HRK 1.470 bln. The life insurance sector rose by 15.3% y/y to HRK 784.3 mln.

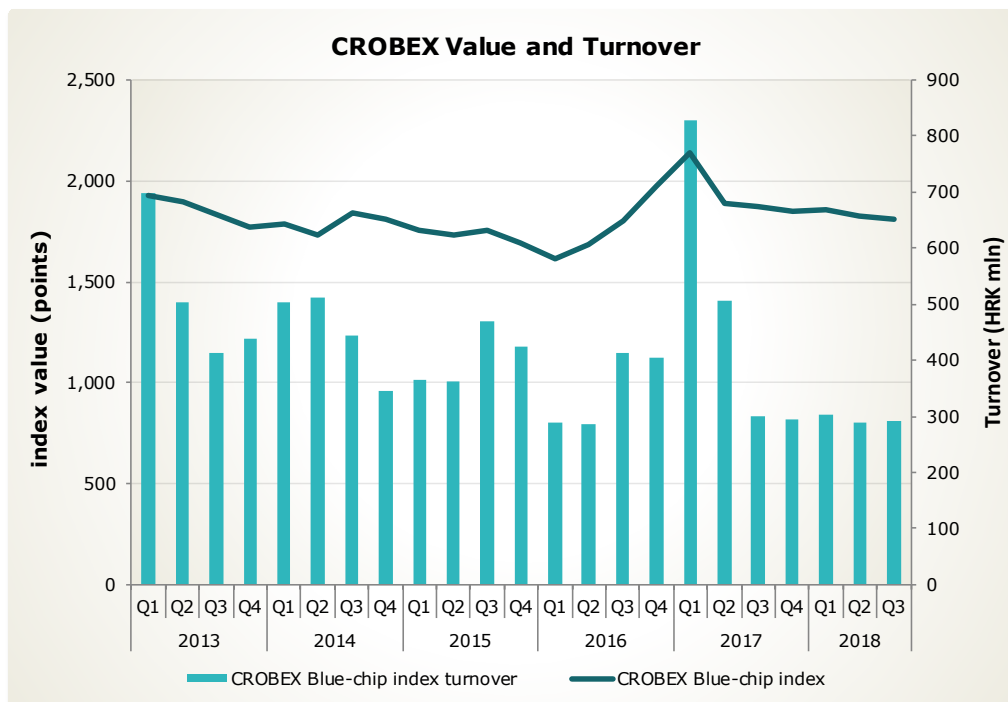


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX down q/q in Q3 2018

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), inched down by 0.5% q/q to 1,812.5 points in the third quarter of 2018. The CROBEX turnover totalled HRK 290.8 mln in Q3 2018, compared to HRK 299.2 mln in Q3 2017.



Source: ZSE

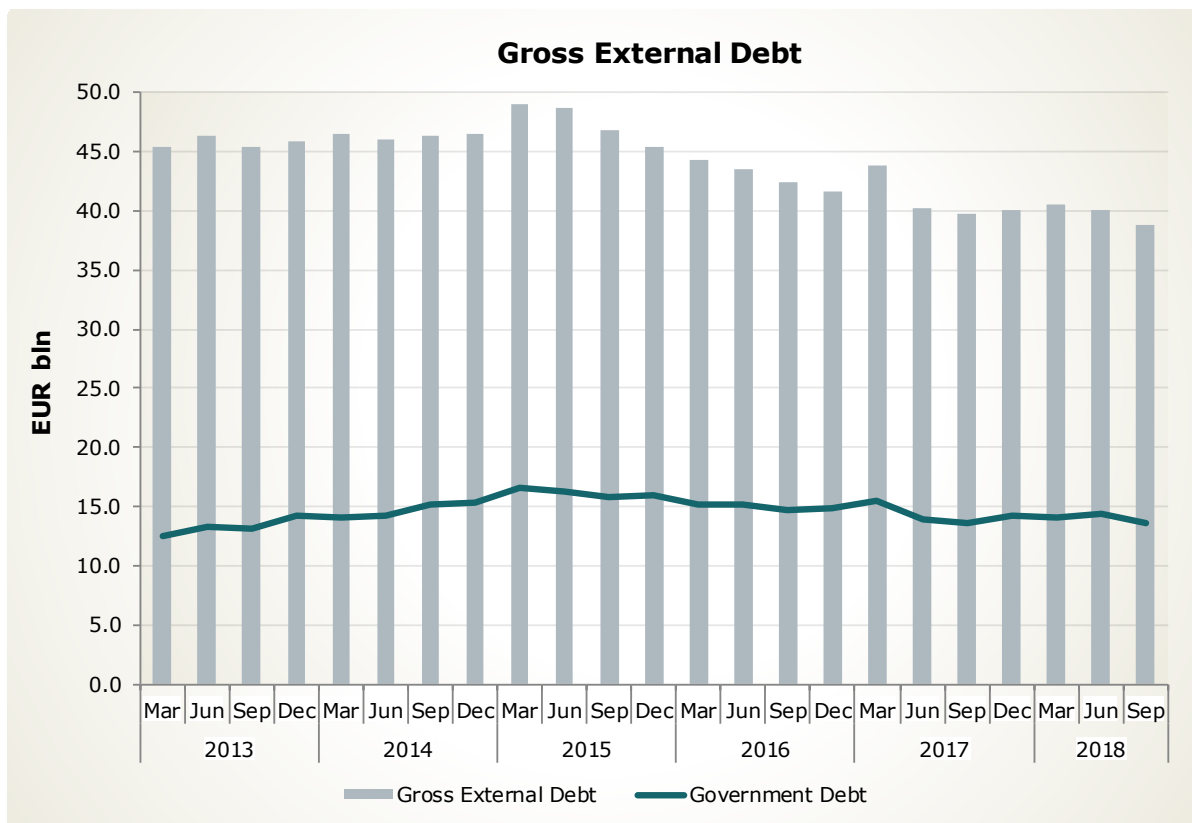
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt down y/y to EUR 38.748 bln in September 2018

The gross external debt totalled EUR 38.748 bln as of September 2018, according to HNB. It went down by 2.5% y/y and was by EUR 1.294 bln down compared to EUR 40.041 bln in June 2018.

As of September 2018, long-term liabilities amounted to EUR 28.654 bln, or 74.0% of the total debt, decreasing by 3.5% on the year. Short-term liabilities totalled EUR 3.767 bln, equal to 9.7% of the total debt and down by 5.8% compared to a year ago.



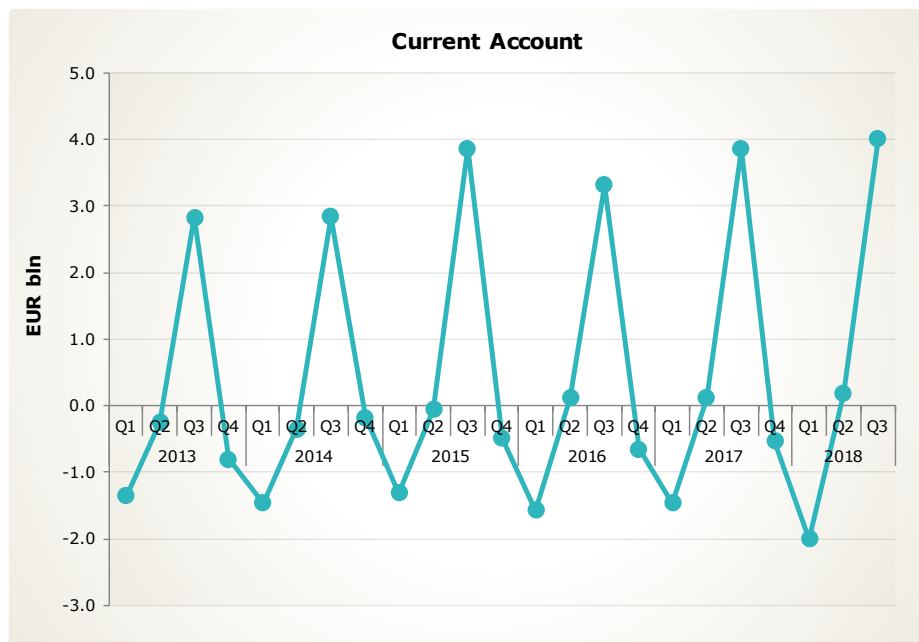
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus up 4.0% y/y to EUR 4.011 bln

In Q3 2018, Croatia had a current account surplus of 4.011 bln, up 4.0% y/y, according to HNB statistics data. The current account of the balance of payments of Croatia is usually in a surplus in the third quarter as the country is a popular sea tourist destination.

The balance on the goods account was negative at EUR 2.272 bln, up 4.8% y/y, while services surplus rose by 5.0% y/y to EUR 6.232 bln.

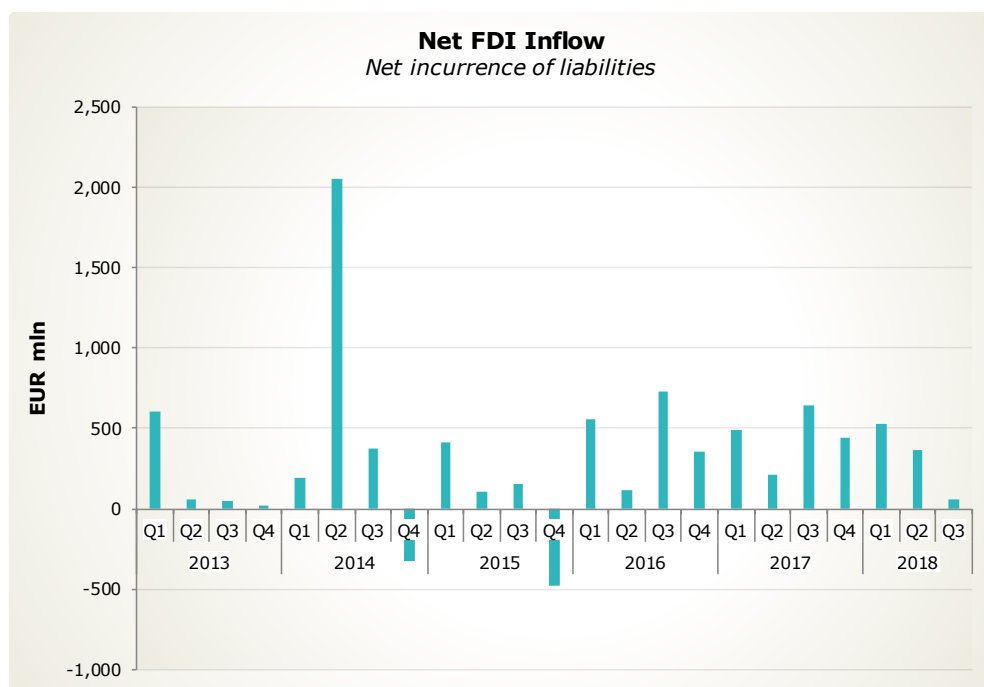


Source: HNB

7.3. FDI

Net FDI inflow at EUR 56.8 mln in the third quarter of 2018

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 56.8 mln in Q3 2018, according to preliminary data of HNB. This is a 91.2% decrease compared to a year earlier when FDIs amounted to EUR 645.5 mln.



Source: HNB

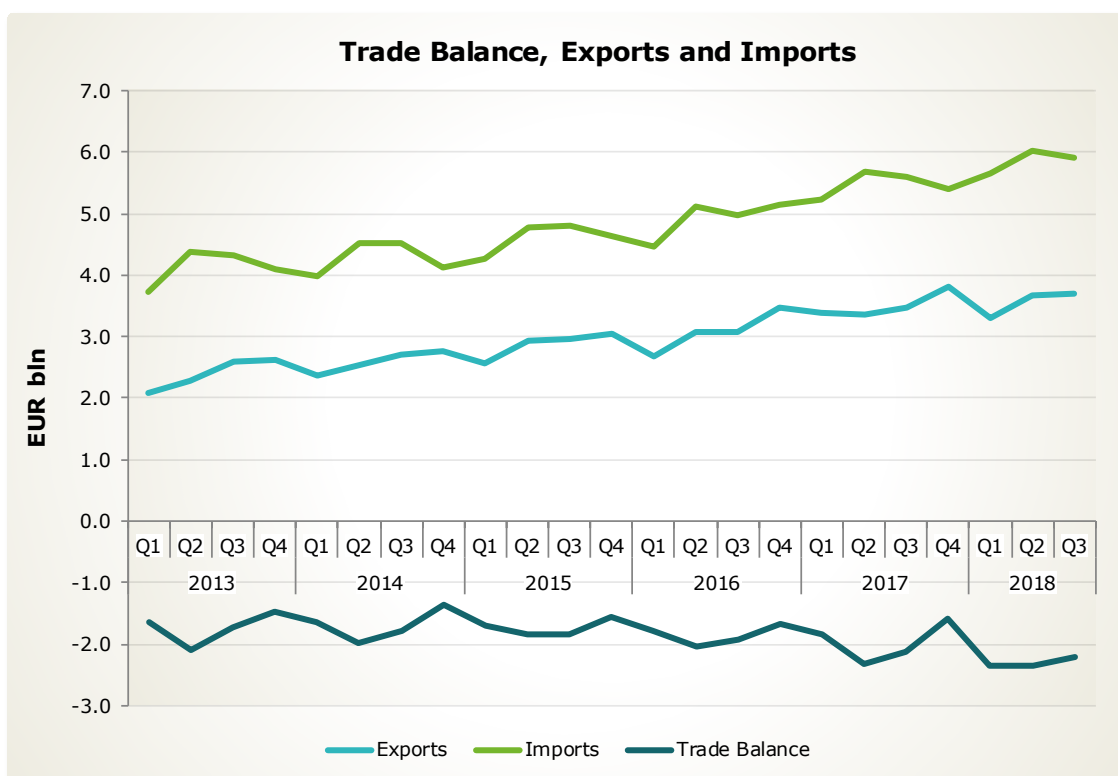
7.4. FOREIGN TRADE

Foreign trade deficit deepened by 4.3% y/y to EUR 2.219 bln in Q3 2018

The trade deficit stood at EUR 2.219 bln in Q3 2018, compared to EUR 2.128 bln in the same quarter of the previous year, according to DZS.

The total goods exports increased by 6.5% y/y to EUR 3.690 bln, compared to an expansion of 9.3% y/y in Q2 2018, mainly influenced by a boost in the petroleum products exports.

In Q3 2018, total goods imports rose by 5.6% y/y, down from 6.2% y/y rise in Q2 2018 and totalled EUR 5.909 bln.



Source: HNB

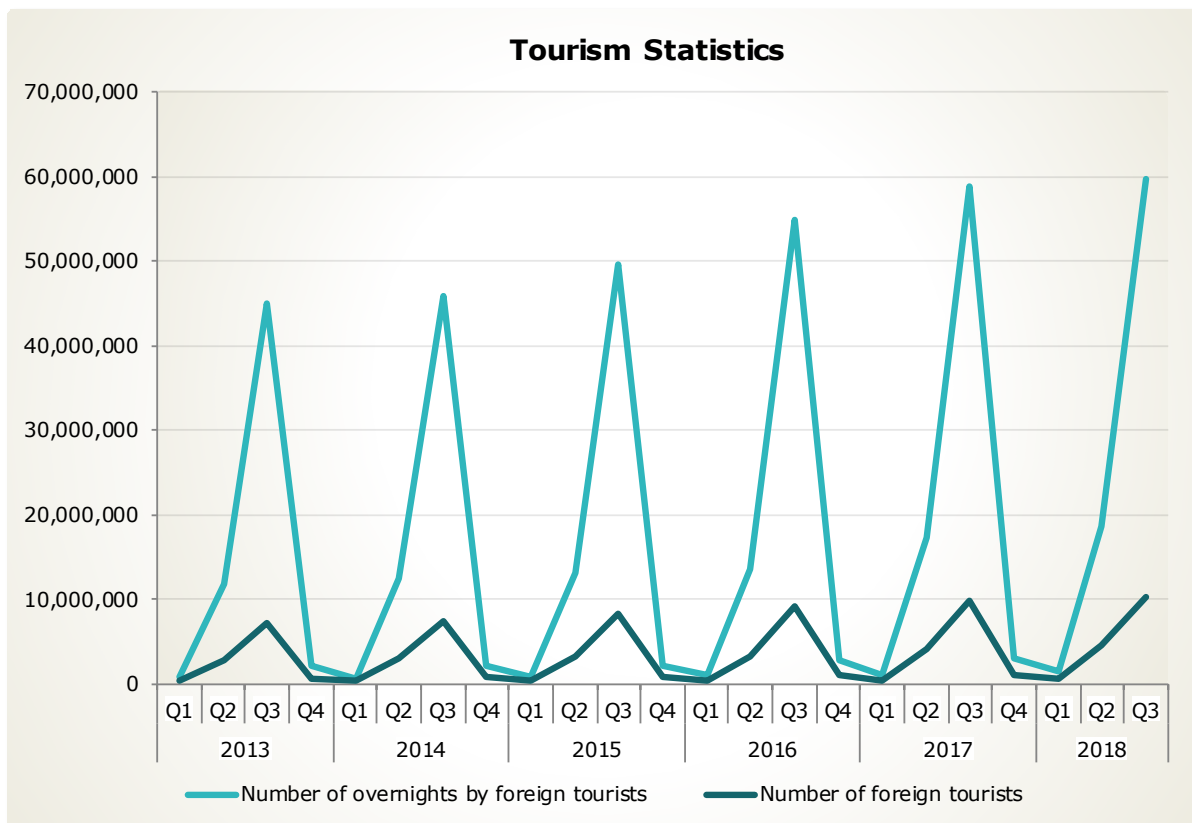
7.5. TOURSIM

Number of foreign tourist overnights increased by 1.6% y/y in Q3 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 1.6% to 59.742 million in Q3 2018, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 63.155 million in the quarter, rising by 1.8% in comparison to a year earlier.

The number of foreign tourists went up by 3.1% y/y to 10.174 million.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia aims to enter EU's Schengen area before 2020

Aug 29, 2018

Croatia's goal is to enter the EU's Schengen passport-free travel area before the country's six-month presidency of the Council of the EU in 2020, the country's government announced in August 2018.

[Read the full story here](#)

WTO finds Croatia discriminating against foreign gas pipeline operators

Aug 15, 2018

Croatia is among three EU member states discriminating against foreign gas pipeline operators, the World Trade Organisation (WTO) has found in a ruling squashing Russia's attempts to challenge EU gas market rules.

[Read the full story here](#)

Croatia to postpone cut in general VAT rate until 2020

Aug 3, 2018

Croatia's government said it would wait until 2020 to cut the general value added tax (VAT) rate from its current level of 25%, one of the highest in the EU.

[Read the full story here](#)

Croatia signs EU declaration on artificial intelligence

July 17, 2018

Croatia has signed the declaration of cooperation on artificial intelligence (AI) of the European Union.

[Read the full story here](#)

Croatia eyes cooperation with China on rail, port infrastructure projects

July 9, 2018

Croatia is interested in launching joint infrastructure projects with China in the fields of railway transport and ports, Croatia's prime minister Andrej Plenkovic announced in July 2018

[Read the full story here](#)

Croatia to build a EUR 2.8 mln business incubator in Antunovac

July 6, 2018

The cornerstone of a business incubator and accelerator was laid in Croatia's Antunovac in July 2018 - a project aiming to strengthen the entrepreneurial environment in the municipality and boost regional competitiveness.

[Read the full story here](#)

Croatia kicks of preparations for EU presidency

July 6, 2018

Croatia's government has adopted a package of decisions defining the functions and interrelations of the bodies of state administration before and during the country's six-month presidency of the Council of the EU in 2020.

[Read the full story here](#)

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