

CROATIA ECONOMY REPORT

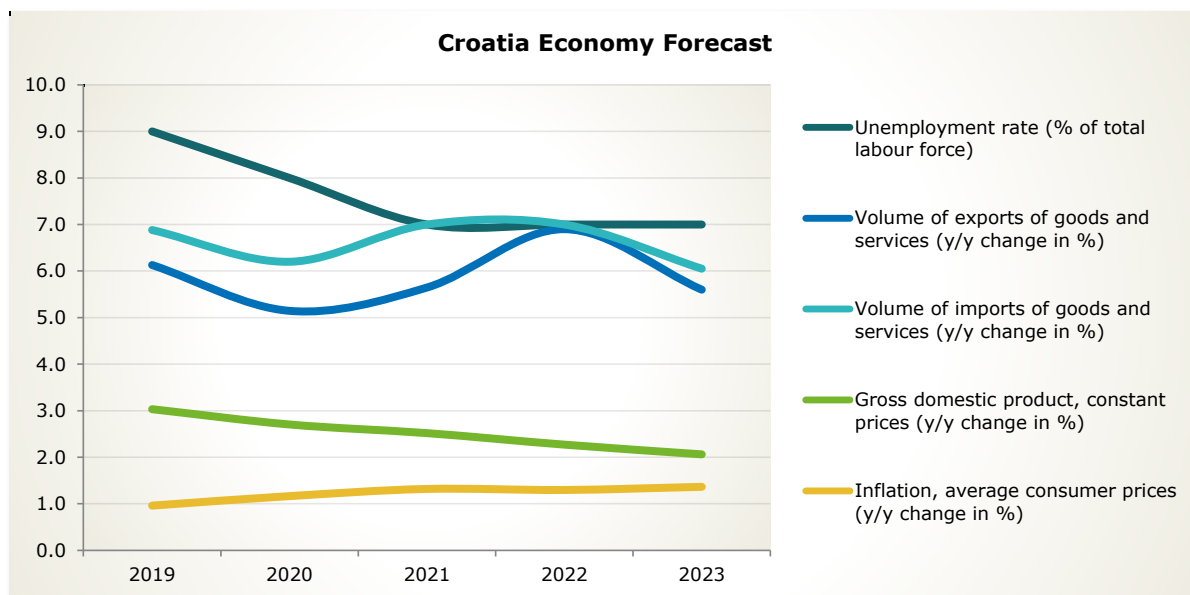
Q3 2019

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. INDUSTRIAL OUTPUT	7
2.3. INDUSTRIAL SALES.....	7
2.4. WHOLESALE/RETAIL	8
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	11
5.4. BANKING AND INSURANCE.....	12
6. CAPITAL MARKETS	14
7. EXTERNAL SECTOR	15
7.1. FOREIGN DEBT	15
7.2. BALANCE OF PAYMENTS	16
7.3. FDI.....	17
7.4. FOREIGN TRADE	18
7.5. TOURSIM	19
8. MAJOR DEVELOPMENTS	19

1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF Q3 2019	
GDP Growth	2.9% y/y
Industrial output	1.1% y/y
Industrial sales	-0.3% y/y
Wholesales	4.9% y/y (Q2 2019)
Retail sales	5.0% y/y
Average annual inflation	0.9%
Unemployment rate	5.7%
Number of building permits	14.7% y/y
Money supply growth	3.6% y/y
Household loans	6.1% y/y
CROBEX blue-chip index	2.6% q/q
Gross external debt	EUR 43.278 bln
Current account surplus	EUR 4.568 bln
Net FDI inflow	EUR 440.8 mln
Foreign trade deficit	EUR 2.147 bln
Number of foreign tourist overnights	0.2% y/y

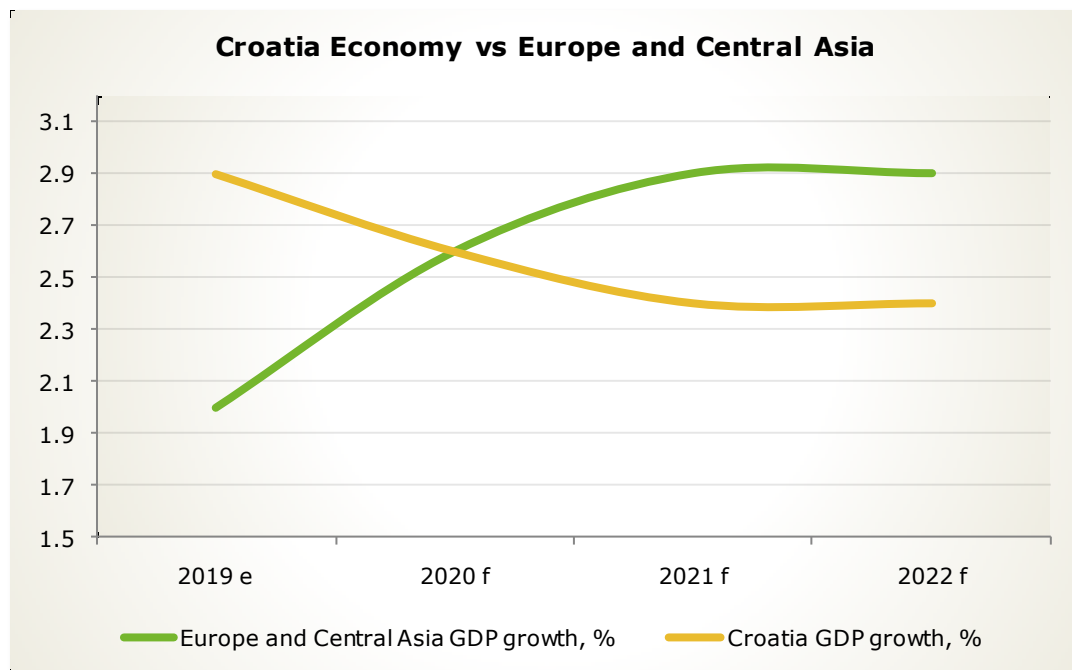


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

Croatia's economic growth continues to benefit from strong exports of goods and services and domestic consumption, according to IMF. Growth is expected to decelerate slightly to about 2.7% in 2020 and continue its downward trend in 2021 and 2022, when IMF forecasts real GDP growth rates of 2.5% and 2.3%, respectively. Inflation is projected to remain within the 1.0% - 1.4% range over the period 2019-2023. Consistently faster imports growth in the

medium term will partially offset strong tourism performance and deteriorate the trade balance.

According to the World Bank estimates from January 2020, GDP growth is likely to come in at 2.9% in 2019, up from 2.7% in 2018. This is higher than the projected growth for Europe and Central Asia, of 2.0% in 2019, but in the medium term, until 2022, Croatia's economy is expected to expand by up to 0.5 pp slower rate than the average in Europe and Central Asia.



Source: World Bank, *Global Economic Prospects*, January 2020

Croatia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018	2019 e	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change	3.5	2.9	2.6	2.9	2.6	2.4	
Private Consumption	3.5	3.6	3.5	3.7	3.5	3.3	
Government Consumption	0.7	2.7	2.9	3.5	2.7	2.3	
Gross Fixed Capital Investment	6.5	3.8	4.1	8.3	6.4	6.3	
Exports, Goods and Services	5.6	6.4	2.8	2.8	2.7	2.6	
Imports, Goods and Services	6.2	8.1	5.5	6.3	5.3	5.1	
Real GDP growth, at constant factor prices (by sectors)	3.5	2.1	2.1	2.9	2.6	2.4	
Agriculture	7.3	-2.1	2.0	2.0	2.0	2.0	
Industry	5.0	0.9	0.3	2.9	2.7	2.5	
Services	2.8	2.8	2.8	3.0	2.6	2.3	
Inflation (Consumer Price Index)	-1.0	1.0	1.5	0.9	1.0	1.4	
Current Account Balance (% of GDP)	2.5	3.5	2.5	1.1	0.3	-0.8	
Net Foreign Direct Investment (% of GDP)	4.3	2.6	1.4	2.2	2.2	2.4	

Source: World Bank, *Europe and Central Asia Economic Update*, October 2019

2. REAL SECTOR

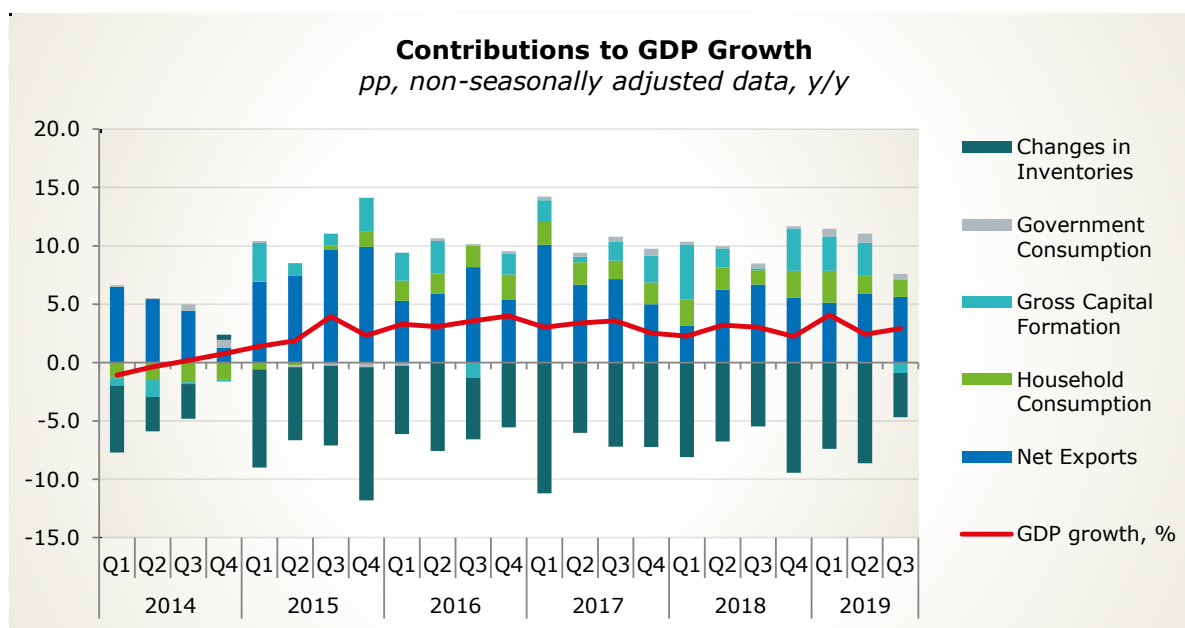
2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth picked up in Q3 2019 to 2.9% y/y from 2.4% y/y in Q2 2019

The country's GDP increased by a real 2.9% y/y and totalled HRK 107.336 bln in Q3 2019, according to preliminary data of the Croatian Bureau of Statistics (DZS). The main drivers behind this growth were net exports and household consumption.

Final consumption, which accounted for 68.2% of the GDP, expanded by 3.0% y/y. Gross capital formation went down by 11.7% y/y. Exports grew faster than imports, by 5.1% and 4.3%, respectively. As a result, the foreign trade added 5.6 pp to the GDP growth.

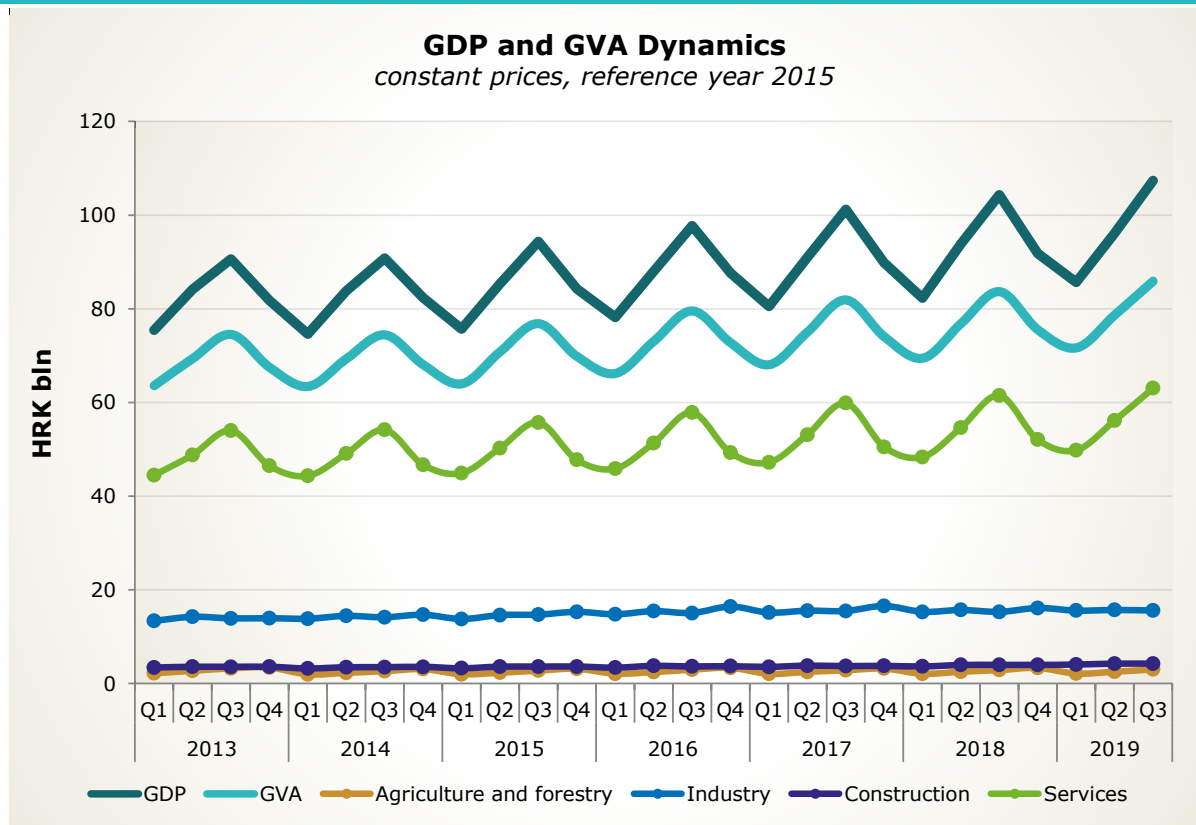
Household consumption remained strong, advancing by 3.0% y/y in real terms in Q3 2019 and contributed with 1.5 pp to the overall growth. Major factors behind this trend are the increasing employment and the real wage rise.



Source: DZS; SeeNews calculations

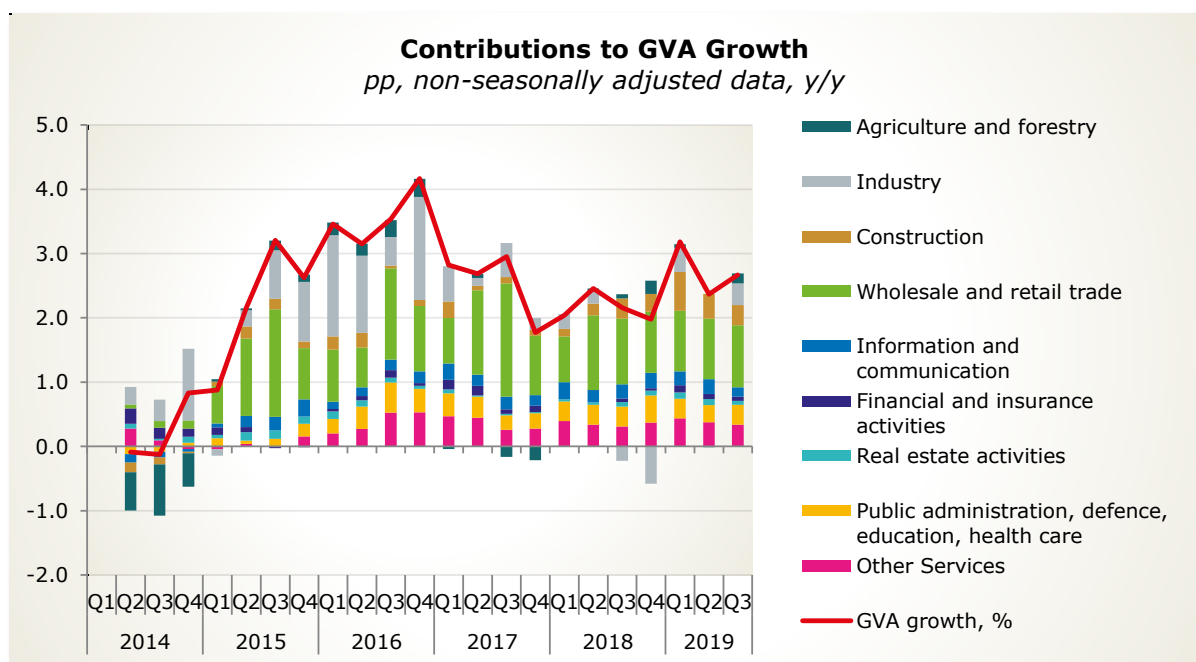
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.7% y/y in Q3 2019 and totalled HRK 85.890 bln. The industrial sector increased by 1.9%, while construction went up by 6.5%. The services sector recorded a 2.5% annual rise, slicing a 73.4% share in the GVA. Agriculture and forestry increased by 4.5% y/y and kept their 3.5% share in the Croatian economy.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in Q3 2019, with 1.0 pp, followed by industry, construction, public administration and defence and other services with 0.3 pp each.



Source: DZS; SeeNews calculations

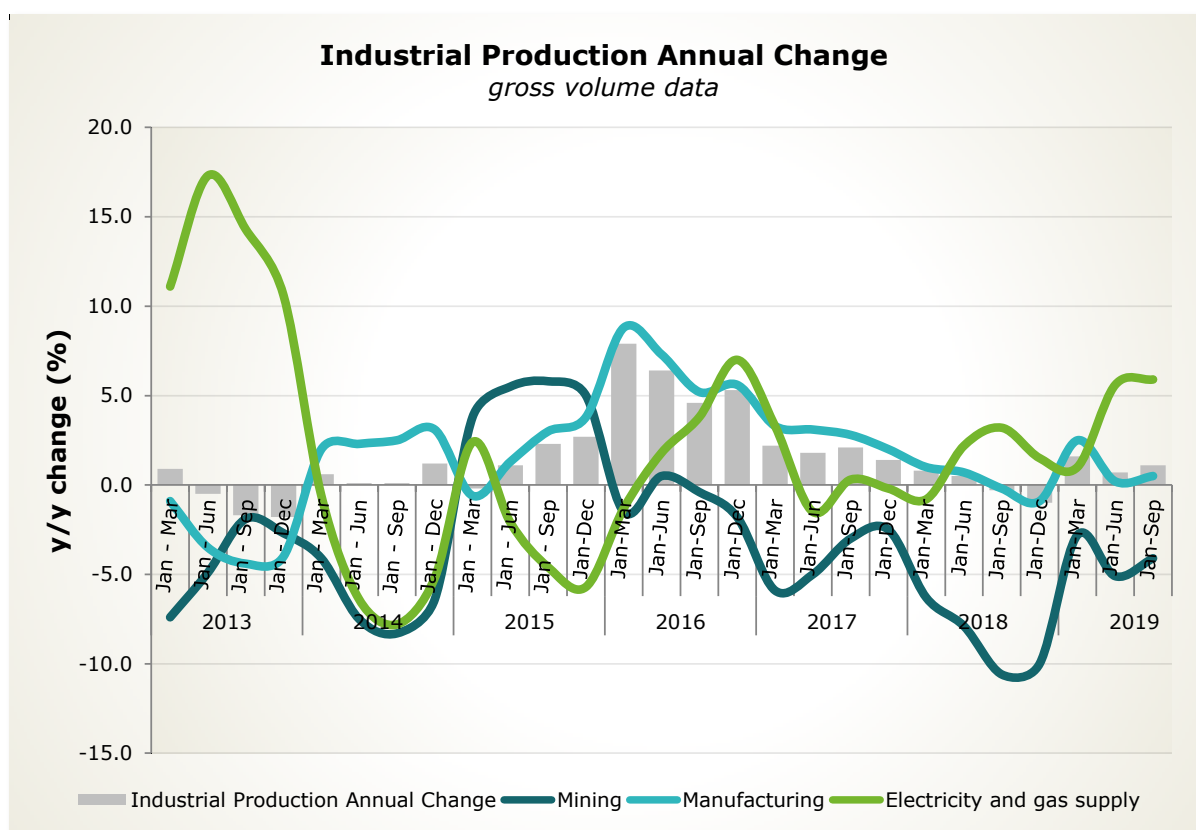
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output increased in Jan-Sept 2019 by 1.1% y/y

The industrial production in Croatia went up by 1.1% on the year in the first nine months of 2019, according to DZS data. This is an acceleration compared to the same period of 2018, when industrial production contracted by 0.3% y/y.

The rise during the period was backed by the 5.9% annual increase in the output of the electricity and gas supply sector. The production of the manufacturing sector inched up by 0.5%, while the output of the mining sector fell by 4.1% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales decreased by 0.3% y/y in Jan-Sept 2019

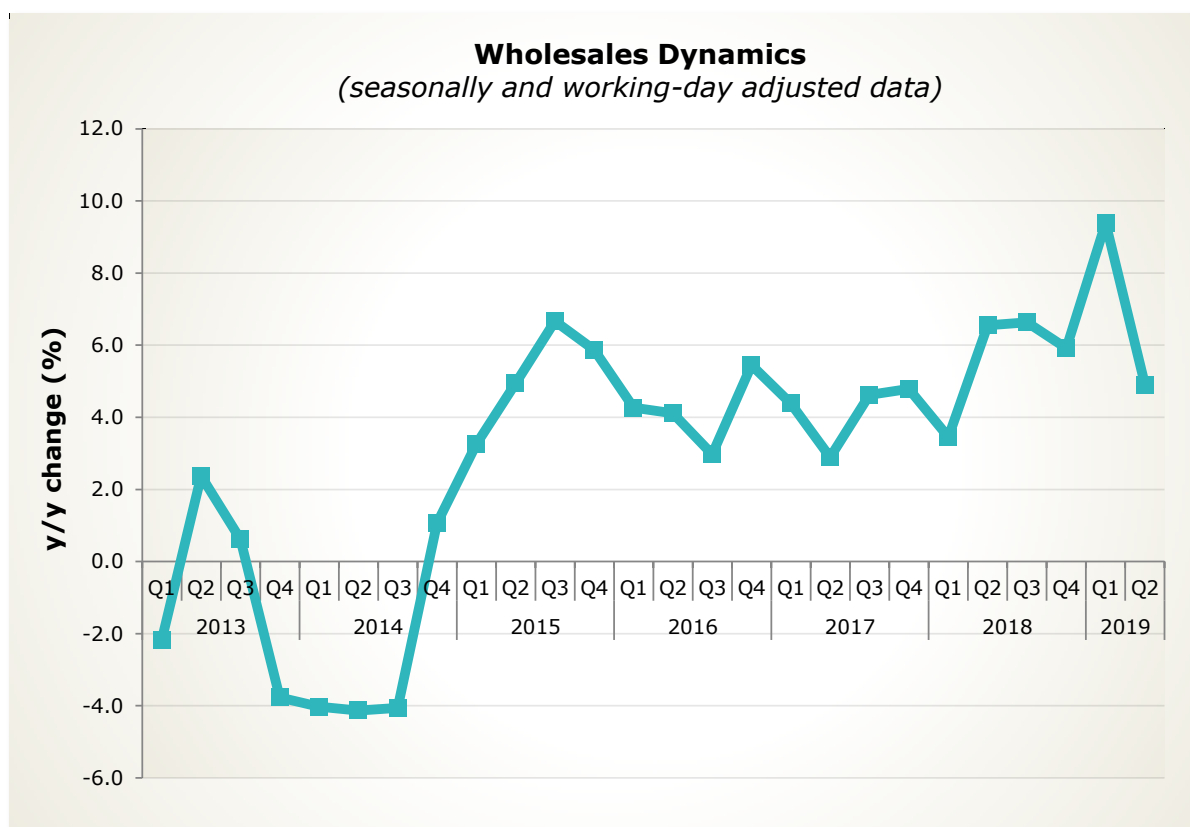
Industrial sales decreased by 0.3% y/y in January-September 2019, compared to a 3.4% annual increase in the corresponding period of 2018, according to DZS.

Industrial sales were pushed up by the 7.9% annual rise of sales of capital goods. In addition, intermediate goods and consumer durables went up by 4.8% and 2.8% y/y, respectively. Sales of consumer non-durables goods grew by 0.5%, while sales in the energy sector dropped by 30.7% y/y.

2.4. WHOLESALE/RETAIL

Retail sales growth at 5.0% y/y in Q3 2019, wholesales up 4.9% y/y in Q2 2019¹

Retail sales registered annual increase of 5.0% in Q3 2019, according to DZS data. In Q2 2019, wholesales advanced by 4.9% y/y, down from 6.5% y/y in the same period the previous year.



Source: DZS

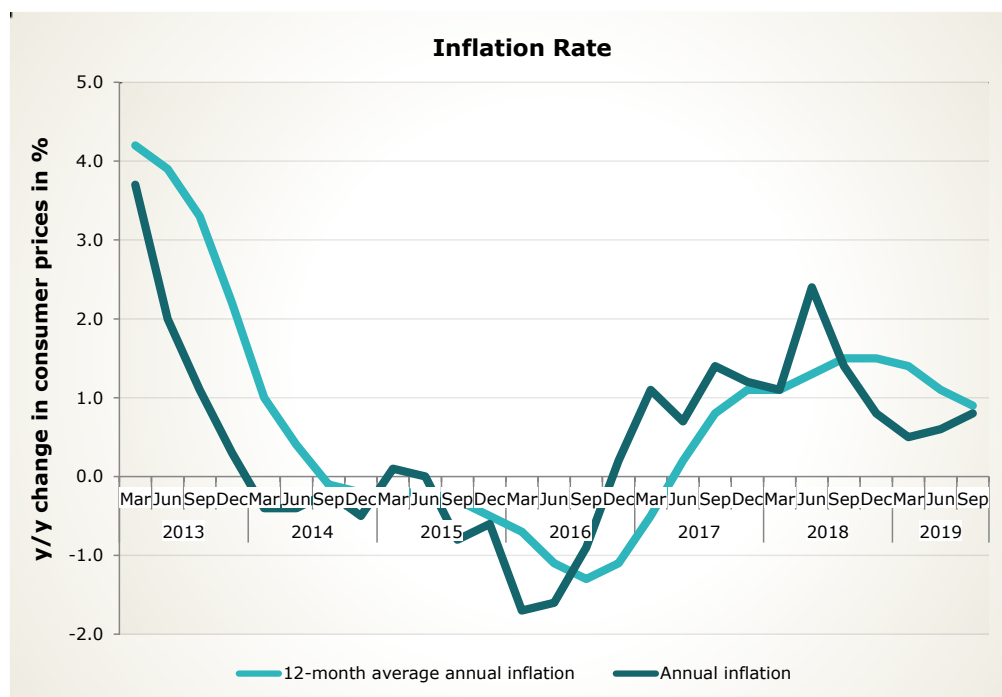
2.5. INFLATION

Inflation slowed down to 0.9% as of September 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change in October 2018–September 2019, compared to October 2017–September 2018, stood at 0.9%, down from 1.1% in June 2019. Inflation was boosted by the 4.5% rise in the price of alcoholic beverages and tobacco, together with the housing, water, electricity, gas

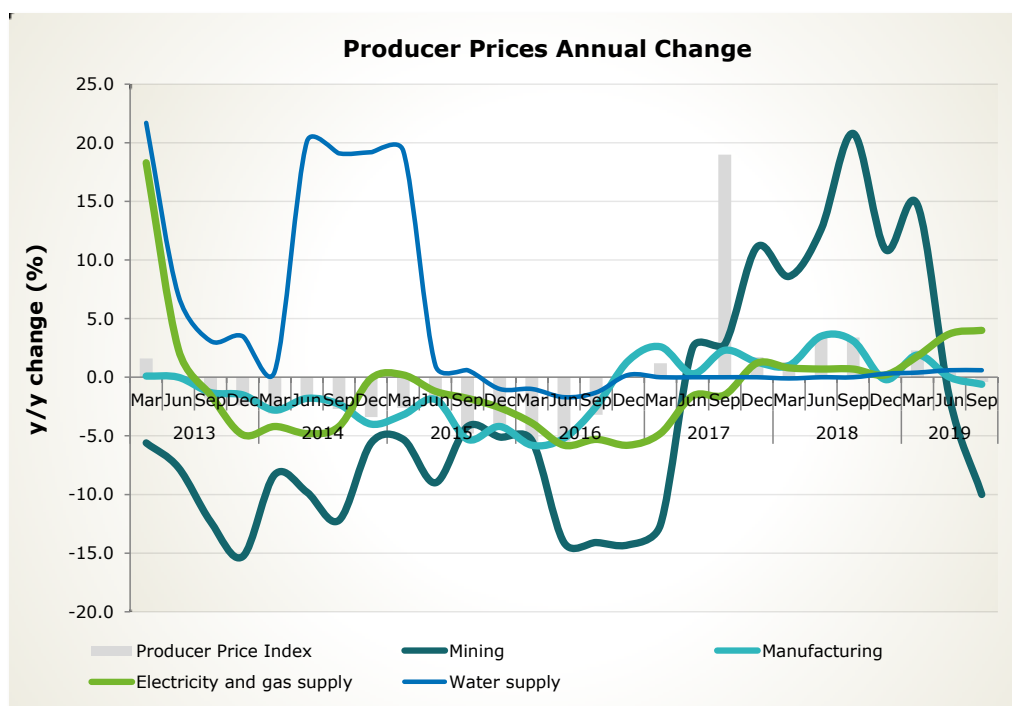
¹ Data for wholesale in Q3 2019 was not available at the time of preparation of this report.

and fuels product group with 3.1%. In terms of deflation, clothing and footwear was the leading segment with 1.4%.



Source: DZS

Producer prices went down annually, by 0.4% in September 2019. Manufacturers' producer prices notched down by 0.6%, while the average producer prices in the mining sector slumped by 10.0% y/y. The electricity and gas supply sector saw an increase of 4.0% y/y on average. Water supply inched up by 0.60% y/y.



Source: DZS

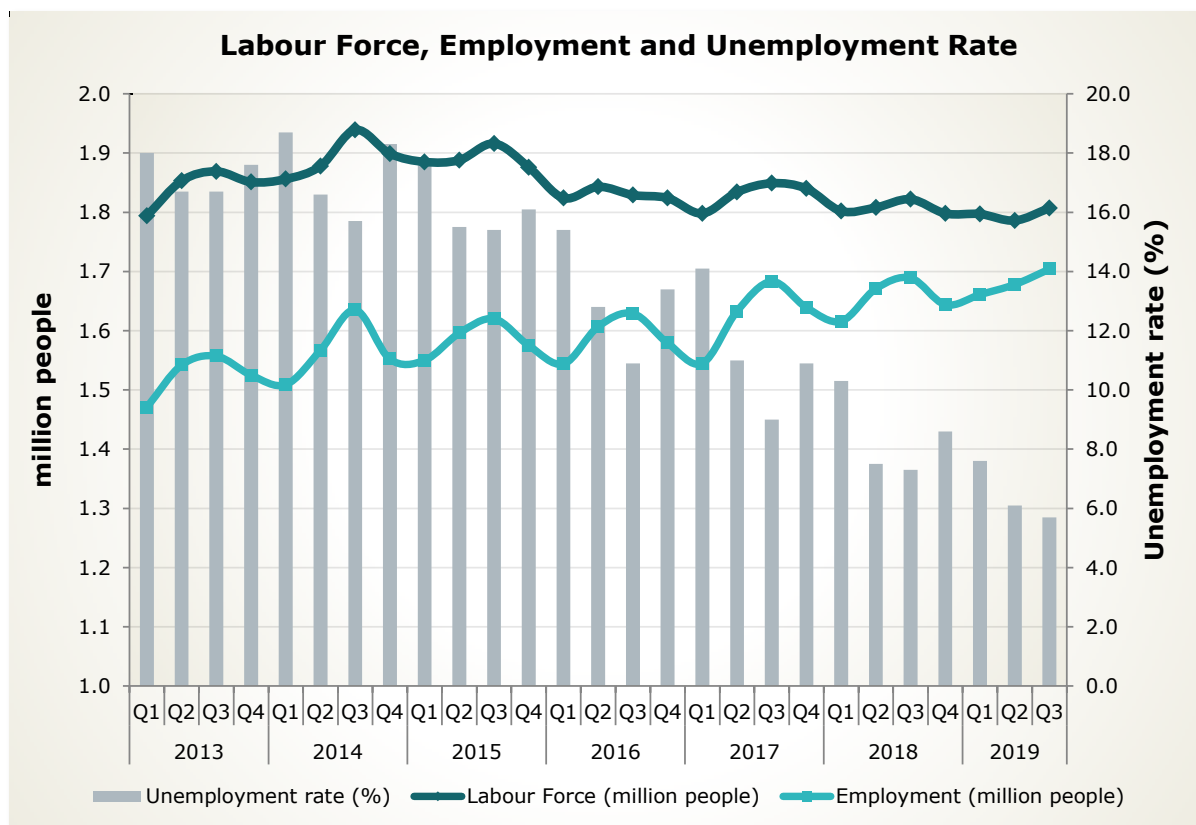
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 5.7% in Q3 2019, wages grew 3.3% y/y in the quarter

The favourable labour market developments that marked the first half of 2019 persisted in Q3 2019. The unemployment rate in Croatia narrowed to 5.7% of the total labour force, down from an average unemployment rate of 7.3% in Q3 2018, according to data of DZS.

The number of employed persons continued its slight increase during the year. The employed population aged 15 years and older was 1.704 million as of September 2019, up 0.9% y/y.

The average monthly net salary in the third quarter of 2019 went up by 3.3% y/y to HRK 6,425, 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 14.7% y/y in Q3 2019*

The number of permits for new buildings, excluding civil engineering, issued in Croatia in Q3 2019 increased by 14.7% y/y and totalled 1,588, according to DZS data.

Permits for non-residential buildings went down by 9.8% to 267, while permits for residential buildings registered a 21.3% increase to 1,321.

The total built-up area of the non-residential units covered by the permits decreased by 8.7% y/y. The total built-up area of the housing units went up by 24.3% to 436,558 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 7.3878 in Q3 2019 from HRK 7.4153 in Q2 2019, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	Q3 2019	Q2 2019	Q3 2018
EUR	7.3878	7.4153	7.4082
USD	6.6421	6.6019	6.3695
GBP	8.1882	8.4879	8.3025
CHF	6.7389	6.5820	6.4748

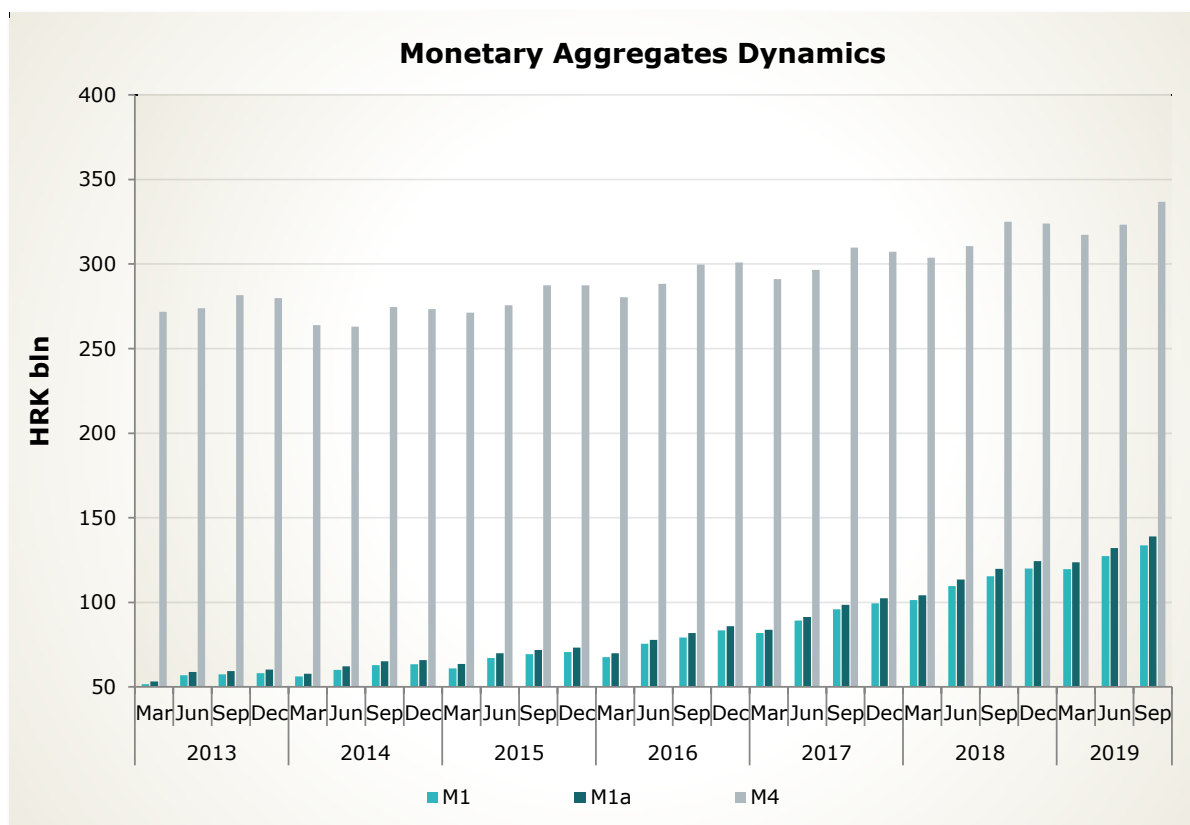
5.2. MONETARY POLICY*The national bank kept the policy rate unchanged at 3.0%*

The HNB continued its expansionary monetary policy keeping the monetary policy rate at 3.0% as of September 2019. The average weighted interest rate in inter-bank trade on the overnight market was at 2.5%.

5.3. MONETARY AGGREGATES*Money supply grew by 3.6% y/y in September 2019*

In September 2019, broad money increased by 3.6% y/y and reached HRK 336.7 bln, according to data provided by HNB.

Monetary aggregate M1 grew annually by 15.7%, while M1a increased by 16.0% compared to the previous year.



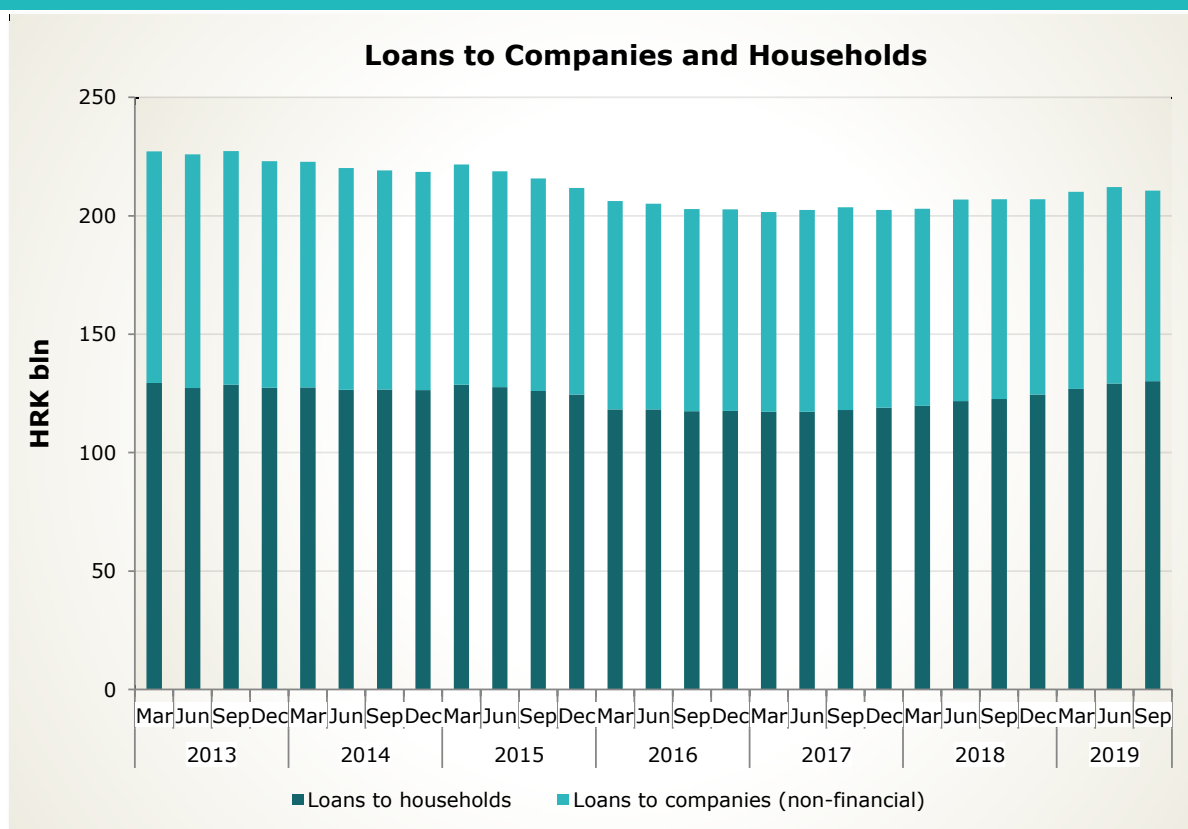
Source: HNB

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 September 2019

Household loans went up by 6.1% to HRK 130.133 bln, according to HNB data. House purchasing loans advanced by 4.4% to HRK 55.197 bln, accounting for 42.4% of the total loans. The second largest loan type, slicing a 40.1% share, was the any-purpose cash loan with its value rising to HRK 52.211 bln from HRK 46.873 bln in September 2018, according to HNB. Loans to non-financial corporations narrowed by 4.6% to HRK 80.486 bln.

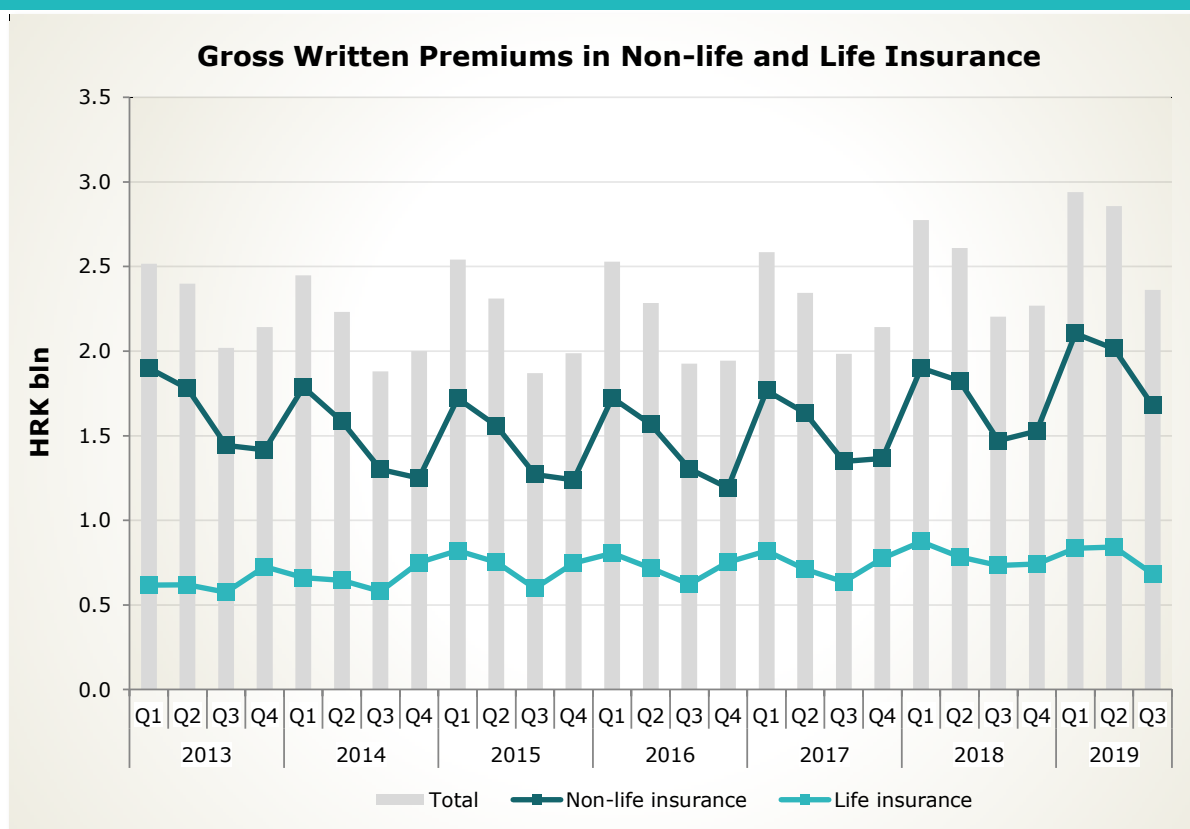


Source: HNB

Insurance premium income up 7.2% y/y in Q3 2019

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 2.362 bln in Q3 2019, up by 7.2% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 14.2% annual increase of the non-life insurance sector, which posted GWP of HRK 1.679 bln. The life insurance sector went down by 6.8% y/y to HRK 0.684 bln.

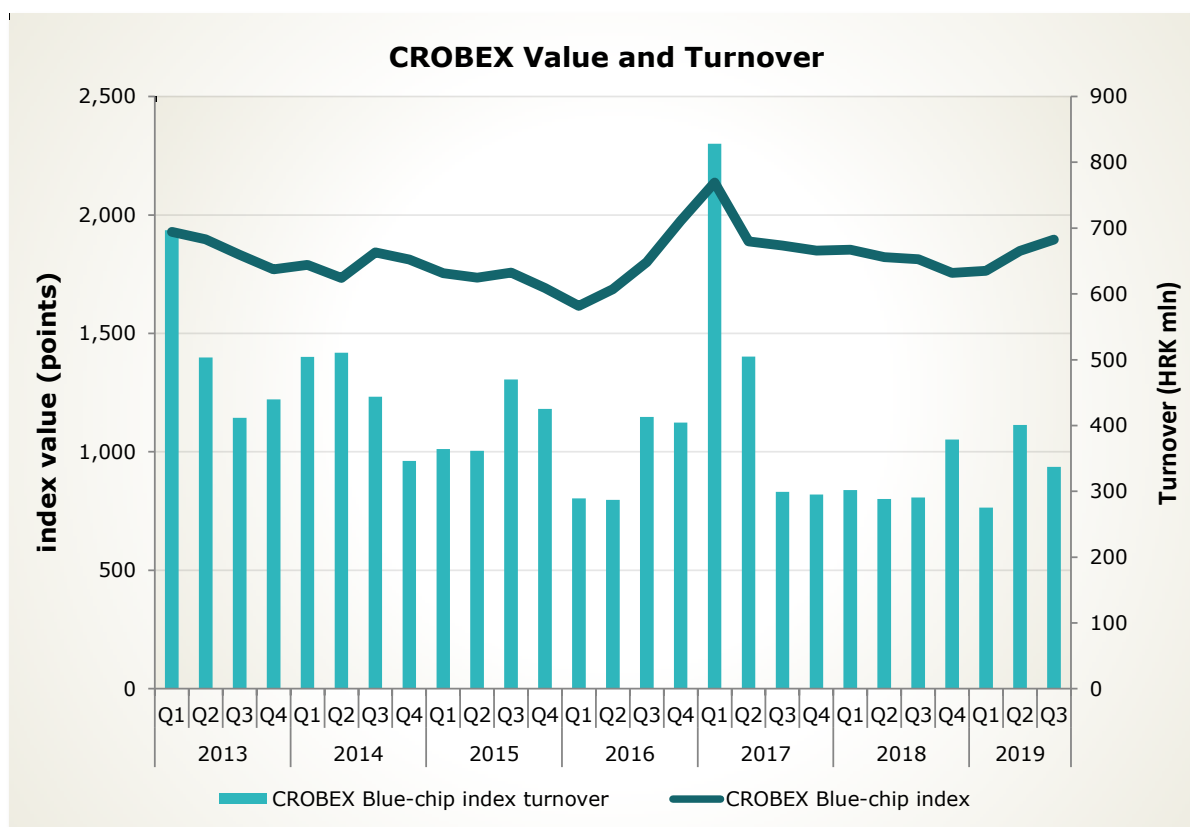


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX slightly up in Q3 2019

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by 2.6% q/q to 1,895.5 points in Q3 2019. The CROBEX turnover totalled HRK 337.0 mln in Q3 2019, compared to HRK 400.7 mln in Q2 2019.



Source: ZSE

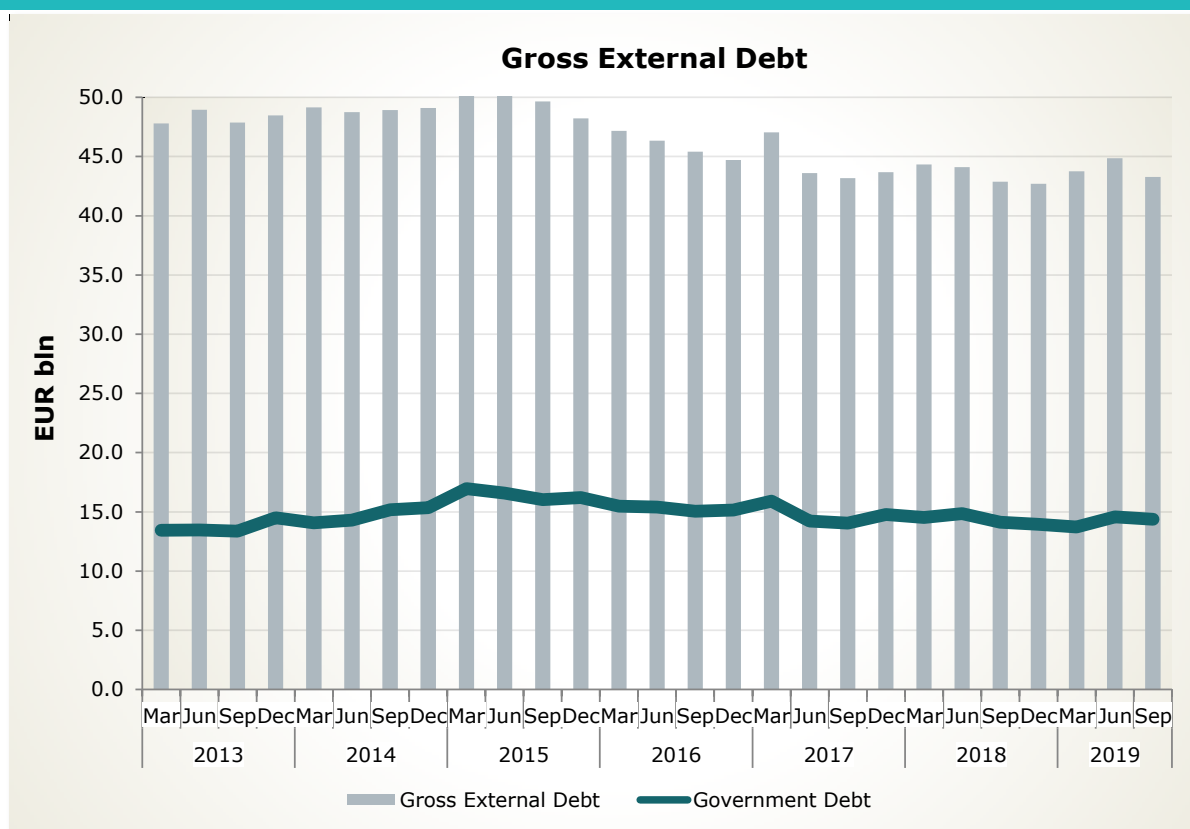
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt up y/y to EUR 43.278 bln in September 2019

The gross external debt totalled EUR 43.278 bln as of September 2019, according to HNB. It went up by 0.9% y/y or by EUR 404.1 mln in comparison to a year earlier.

As of September 2019, long-term liabilities amounted to EUR 29.350 bln, or 67.8% of the total debt, increasing by 1.4% on the year. Short-term liabilities totalled EUR 7.786 bln, equal to 18.0% of the total debt and up by 10.2% compared to a year ago.



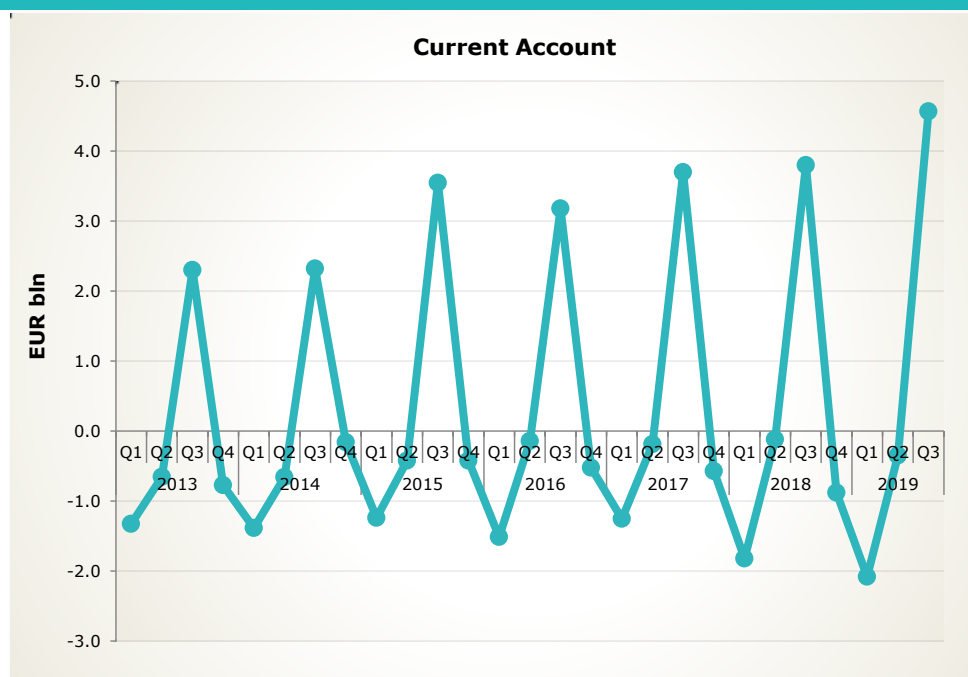
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus up by 20.3% y/y to EUR 4.568 bln in Q3 2019

In Q3 2019, Croatia had a current account surplus of EUR 4.568 bln, up from EUR 3.797 bln in Q3 2018, according to HNB statistics data. 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 Q3 2019 at EUR 545.9 mln, compared to a surplus of EUR 455.5 mln in Q3 2018.

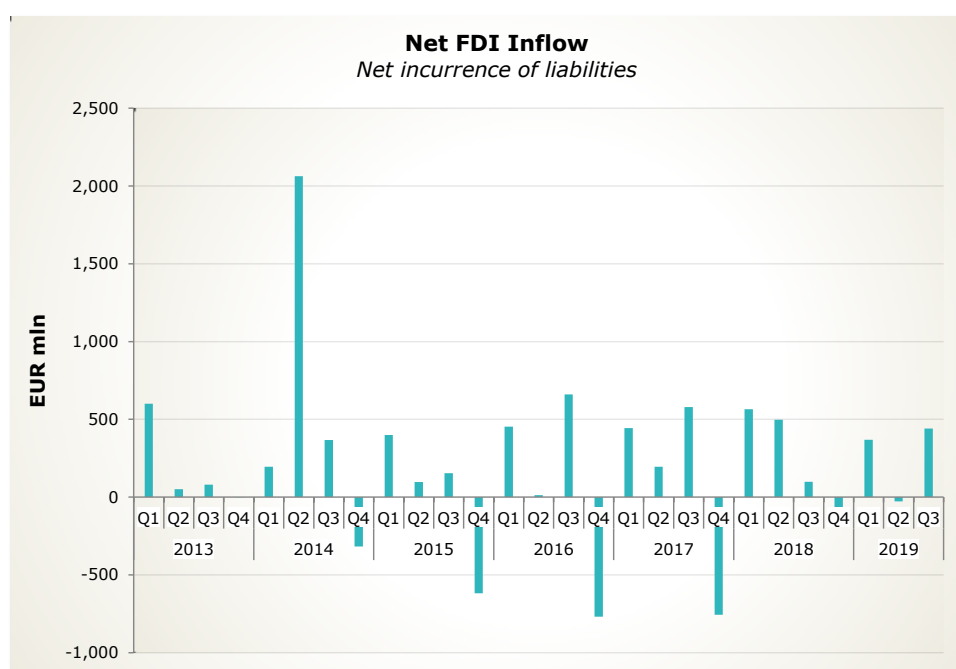


Source: HNB

7.3. FDI

Net FDI inflow was positive, at EUR 440.8 mln in Q3 2019

Net Foreign Direct Investments (FDI) inflow in Croatia turned to a positive EUR 440.8 mln in Q3 2019 from the negative EUR 28.0 mln, according to preliminary data of HNB. A year earlier the quarterly FDI inflow amounted to EUR 98.1 mln.



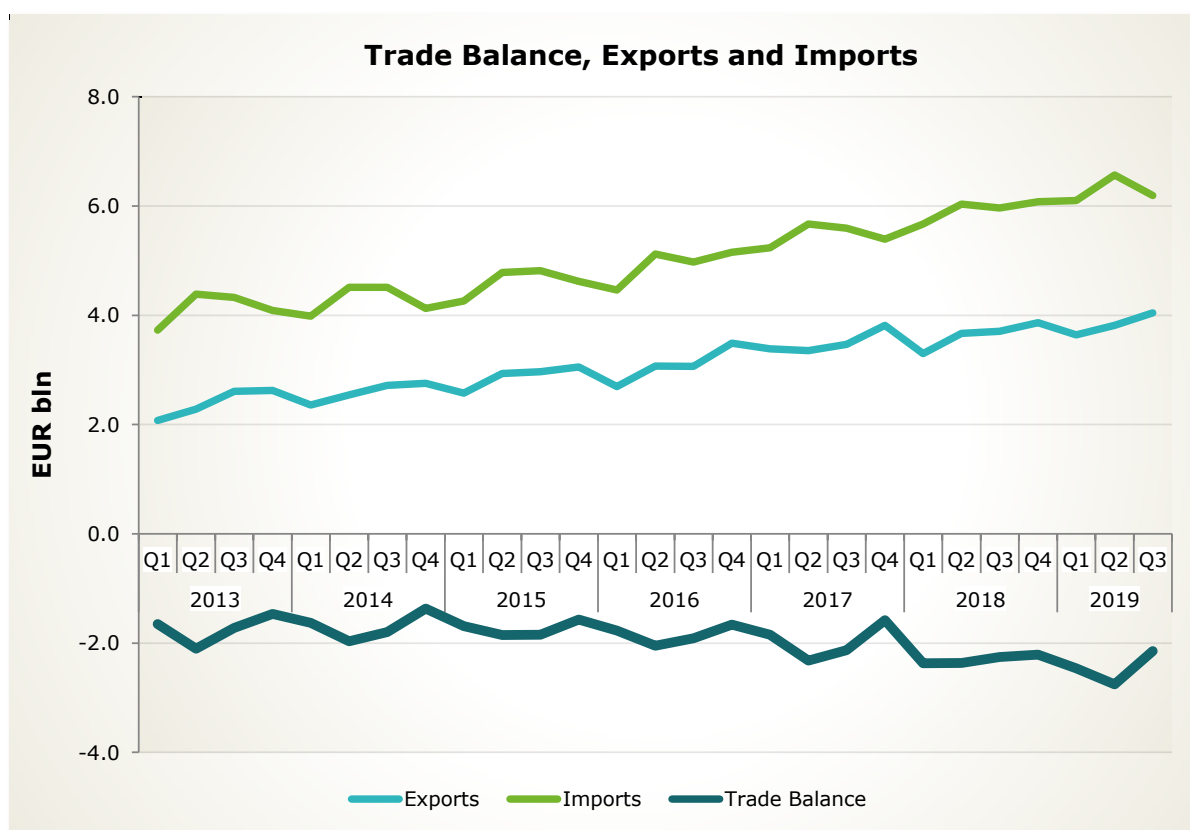
Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit narrowed by 4.7% y/y to EUR 2.147 bln in Q3 2019

The trade deficit stood at EUR 2.147 bln in Q3 2019, compared to EUR 2.254 bln in the same period of the previous year, according to DZS.

Exports grew 9.1% y/y to EUR 4.045 bln, while imports increased slower by 3.8% to EUR 6.192 bln. Beverages and tobacco registered the sharpest annual jump in imports, of 17.2%, while three product groups recorded a decline – other commodities and transactions, mineral fuels and lubricants and non-classified goods. The growth in exports was fuelled by the 30.9% rise in exports of chemical products, followed by machinery and transport equipment and animal and vegetable oils and fats.



Source: HNB

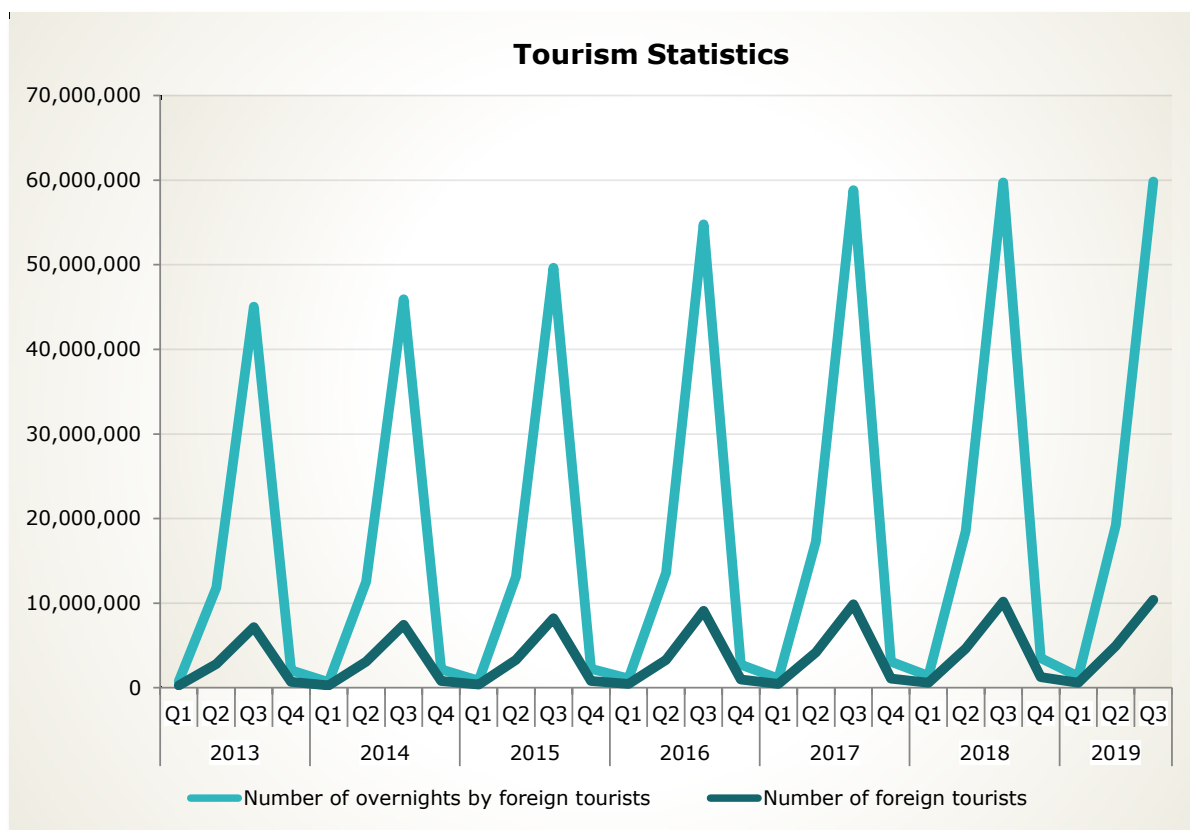
7.5. TOURSIM

Number of foreign tourist overnights increased by 0.2% y/y in Q3 2019

Croatia is a popular sea tourist destination due to its location on the Adriatic Sea and the period July-September is the strongest quarter for the country's tourism sector. In Q3 2019 the tourist overnights of foreigners inched up by an annual 0.2% to 59.839 million, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 63.660 million in the quarter, up by 0.8% in comparison to a year earlier.

The number of foreign tourists went up by 2.2% y/y to 10.394 million.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia to partner with other UK tour operators after Thomas Cook collapse

Sept 26, 2019

Croatia will continue to actively promote its tourism destinations in the UK in cooperation with other British tour operators following the collapse of UK-based global travel group Thomas Cook, tourism minister Gari Cappelli said.

[Read the full story here](#)

Croatia's Jan-Aug new passenger car registrations up 1.4% - ACEA

Sept 18, 2019

New passenger car registrations in Croatia grew 1.4% year-on-year to 47,824 in the first eight months of 2019, provisional data from the European Automobile Manufacturers' Association, ACEA, indicated on Wednesday.

[Read the full story here](#)

Croatia's pharmaceutical market up 8% in value in 2018

Sept 18, 2019

Croatia's pharmaceutical market expanded by 8.0% in terms of value to HRK 6.63 billion (USD 990 million/EUR 897 million) in 2018, Croatia's Agency for Medical Products and Medical Devices, HALMED, said.

[Read the full story here](#)

HBOR partners with 3 Croatian banks to provide 68 mln euro for rural development

Sept 18, 2019

Croatia's state-owned reconstruction and development bank HBOR said on Tuesday it has launched a joint project with three local banks to extend HRK 500 million (USD 75 million/EUR 68 million) worth of investment loans for rural development.

[Read the full story here](#)

Croatia says 473 mln euro railway project qualifies for EU co-financing

Sept 13, 2019

Croatia's project for the revamp of a 44 km railway linking the capital Zagreb with the city of Karlovac in the north, worth HRK 3.5 billion (USD 525 million/EUR 473 million) with VAT, has qualified for European Union co-financing, the transport ministry said.

[Read the full story here](#)

EIB backs projects in Croatia with EUR 342.5 mln in Jan-Sept 2019

Sept 10, 2019

The European Investment Bank (EIB) said on Monday it has provided EUR 342.5 million (USD 378.6 million) financing to support various projects in Croatia in the first nine months of 2019.

[Read the full story here](#)

Visegrad Four, Croatia, Romania, Slovenia to launch joint CEEplus share index

Sept 5, 2019

The stock exchanges of the Visegrad Group of countries (Poland, the Czech Republic, Slovakia, Hungary), Croatia, Romania and Slovenia plan to launch a new Three Seas region exchange index, CEEplus, in order to boost their attractiveness and to make their voice stronger across debates concerning EU capital markets, the Budapest bourse said.

[Read the full story here](#)

Croatia to offer for sale minority stakes in 90 companies by mid-2020

Aug 15, 2019

Croatia's government will offer for sale its minority stakes in at least 90 companies by the middle of next year as part of preparations to adopt the euro, a government official said.

[Read the full story here](#)

Croatian govt targets budget gap of 0.2%/GDP in 2020, surplus in 2021-2022

Aug 2, 2019

Croatia's government plans to cut budget deficit to 0.2% of gross domestic product (GDP) next year from 0.4% forecast for 2019 and targets budget surplus in each of the following two years, it said.

[Read the full story here](#)

EC approves state aid for Croatia's EUR 233.6 mln LNG terminal project

July 31, 2019

The European Commission said on Wednesday it has found that Croatia's plans to support the development of a EUR 233.6 million (USD 260.4 million) liquid natural gas (LNG) terminal at the Adriatic island of Krk are in line with the EU state aid rules.

[Read the full story here](#)

Croatian govt plans to cut VAT for tourism, lower tax on young people's incomes

July 29, 2019

The Croatian government said it plans a new round of tax reforms worth an estimated HRK 3.75 billion (USD 565 million/EUR 508 million) aimed at relieving the tax burden on tourism industry and boosting youth employment.

[Read the full story here](#)

Croatia's first startup venture capital fund launches operations - report

July 10, 2019

Croatia's first startup venture capital fund Fil Rouge Capital with a size of EUR 42 million (USD 47 million) has started operations, local media reported.

[Read the full story here](#)

Croatia's HZ Infrastruktura to invest HRK 93 bln (EUR 1.6 bln) in 2019-2023 - report

July 9, 2019

Croatian railway infrastructure operator HZ Infrastruktura plans to invest HRK 9.3 billion (USD 1.4 billion/EUR 1.6 billion) in various projects from 2019 to 2023, with 59% of financing coming from the European Union, local media reported on Tuesday.

[Read the full story here](#)

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