

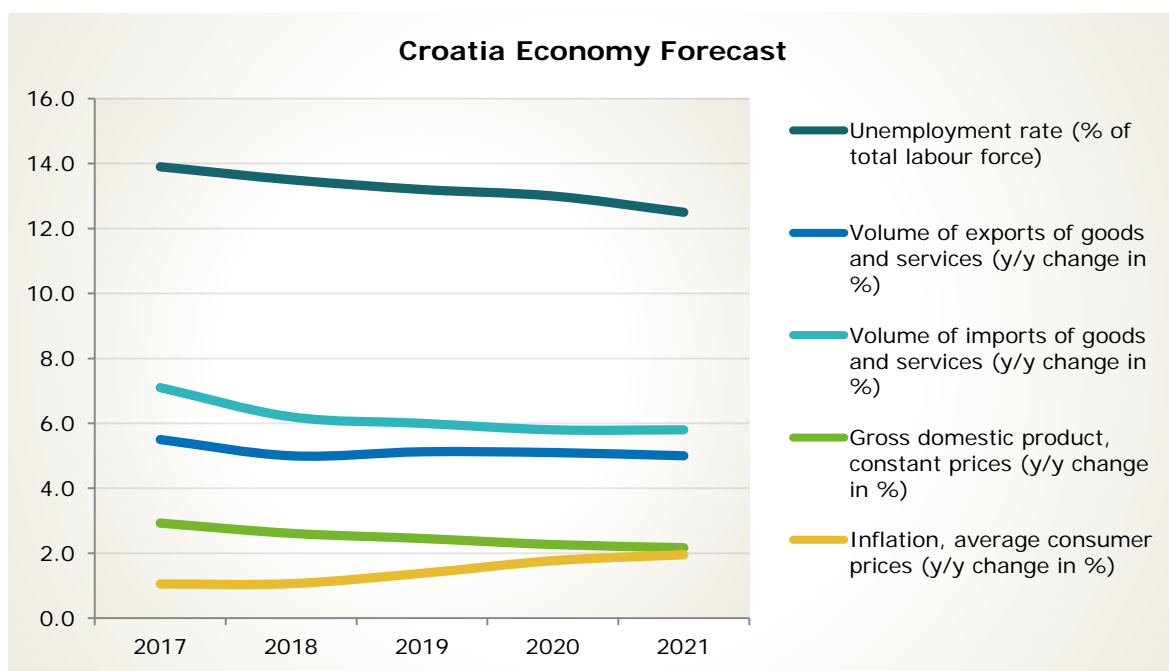
CROATIA ECONOMY REPORT 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF 2016	
GDP Growth	2.9% y/y
Industrial output	5.0% y/y
Industrial sales	-3.2% y/y
Wholesales	4.2% y/y
Retail sales	0.0% y/y
Average annual deflation	1.1%
Unemployment rate	13.4%
Number of building permits	26.8% y/y
Money supply growth	4.7% y/y
Household loans	-5.5% y/y
CROBEX blue-chip index	2.1% y/y
Gross external debt	EUR 41.663 bln
Current account surplus	EUR 1.169 mln
Net FDI inflow	EUR 1.706 bln
Foreign trade deficit	EUR 7.366 bln
Number of foreign tourist overnights	9.6% y/y



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

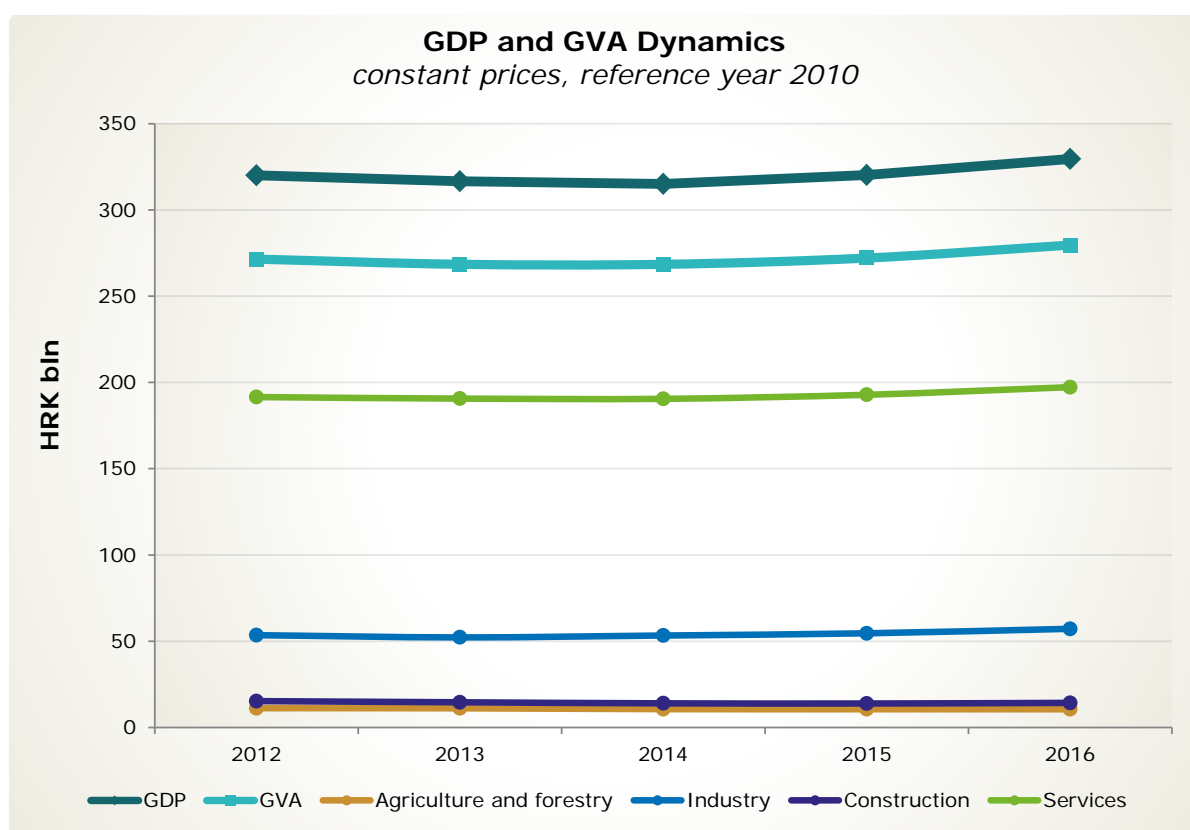
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.9% y/y in 2016, compared to a 1.6% y/y increase a year ago

The country's GDP grew by a real 2.9% y/y and totalled HRK 329.551 bln in 2016, according to preliminary data of the Croatian Bureau of Statistics (DZS).

Final consumption, which contributed 77.6% to the GDP, expanded by 2.9%. Gross capital formation went up by 4.1%, contributing 20.1% to the GDP. Both exports and imports grew - by 6.7% and 7.3%, respectively.



Source: DZS

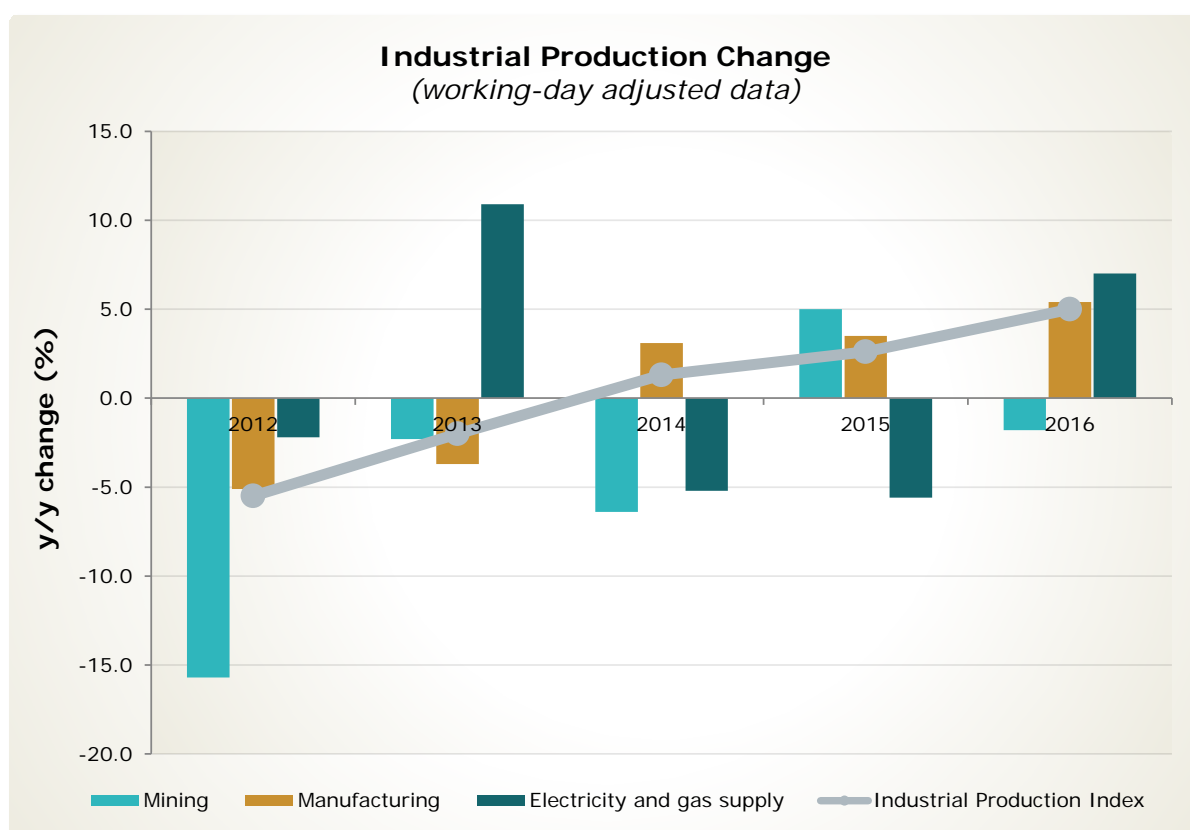
The gross value added (GVA) generated by the national economy grew in value by 2.8% y/y in 2016 and totalled HRK 279.6 bln. The industrial sector increased by 4.8% and its share in the GVA structure rose to 20.5% from 20.1%. The construction sector went up by 2.6%, but its share in the GVA stayed at 5.1%. The services sector recorded a 2.3% annual increase, slicing a 70.5% share in the GVA, down from 70.9%. The agricultural sector decreased by 0.1%, while its share in the GVA also inched down to 3.8% from 3.9%.

2.2. INDUSTRIAL OUTPUT

Industrial output rose by 5.0% y/y in 2016

Industrial output went up by 5.0% on the year in 2016, according to DZS data. The growth was backed by the 7.0% annual increase of the output of the electricity and gas supply sector, followed by the manufacturing sector, where production rose by 5.4%. Meanwhile the production of the mining sector dwindled by 1.8% on the year.

Manufacture of electrical equipment was the segment to report the highest annual production growth, of 22.2%, while manufacture of basic metals' output dropped the most, by 13.5% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales went down by 3.2% y/y in 2016

Industrial sales decreased by 3.2% y/y in 2016, compared to a 4.1% annual rise in the previous year, according to DZS. Industrial turnover on the domestic market fell by 5.9%, while non-domestic turnover expanded by 0.8%.

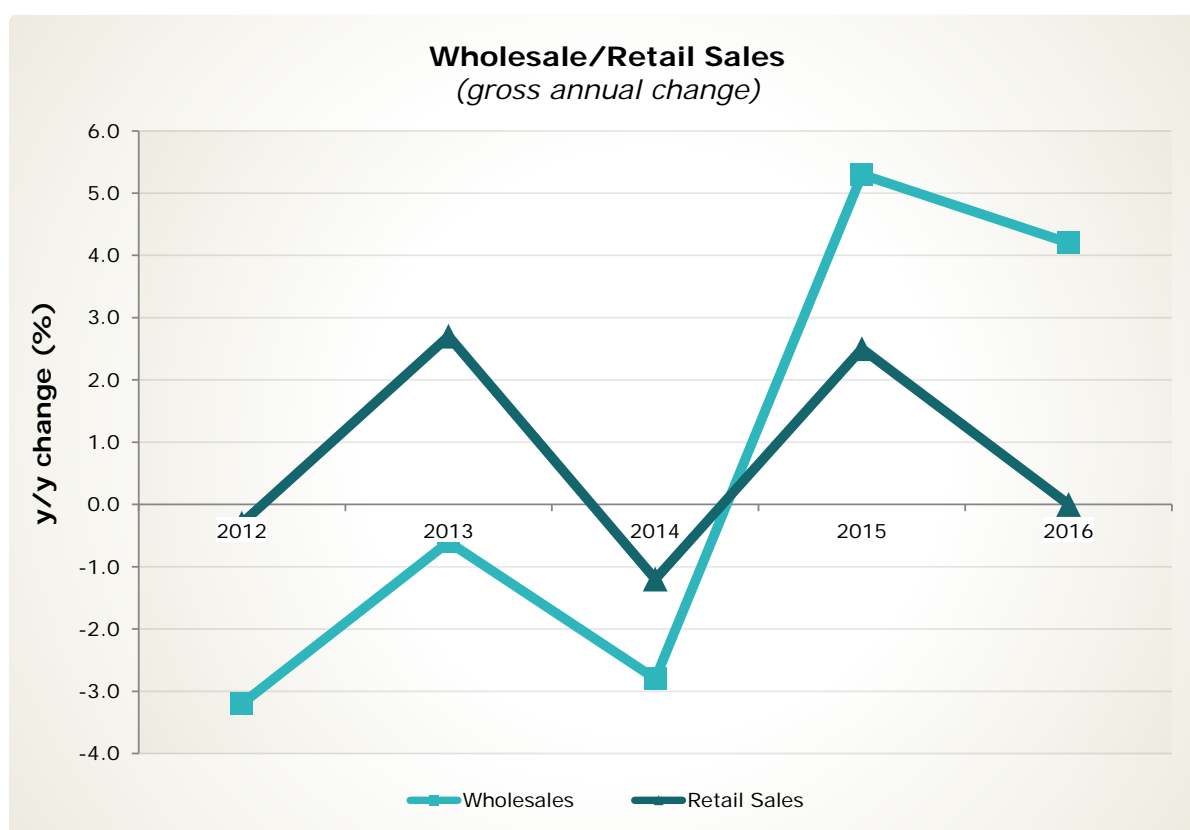
Industrial sales were pushed down by the 23.4% annual drop of sales in the energy sector, the 2.9% decrease in sales of intermediate goods and the reduction of consumer non-durables sales by 1.0%. On the other hand, sales of consumer durables jumped by 7.0%, followed by the 2.9% annual rise in the sales of capital goods.

2.4. WHOLESALE/RETAIL

Retail sales unchanged, wholesales further up y/y in 2016

Retail sales remained unchanged in 2016 after an increase of 2.5% in 2015, according to DZS data.

The wholesale sector went up by 4.2% y/y, following a 5.3% rise in the previous year.



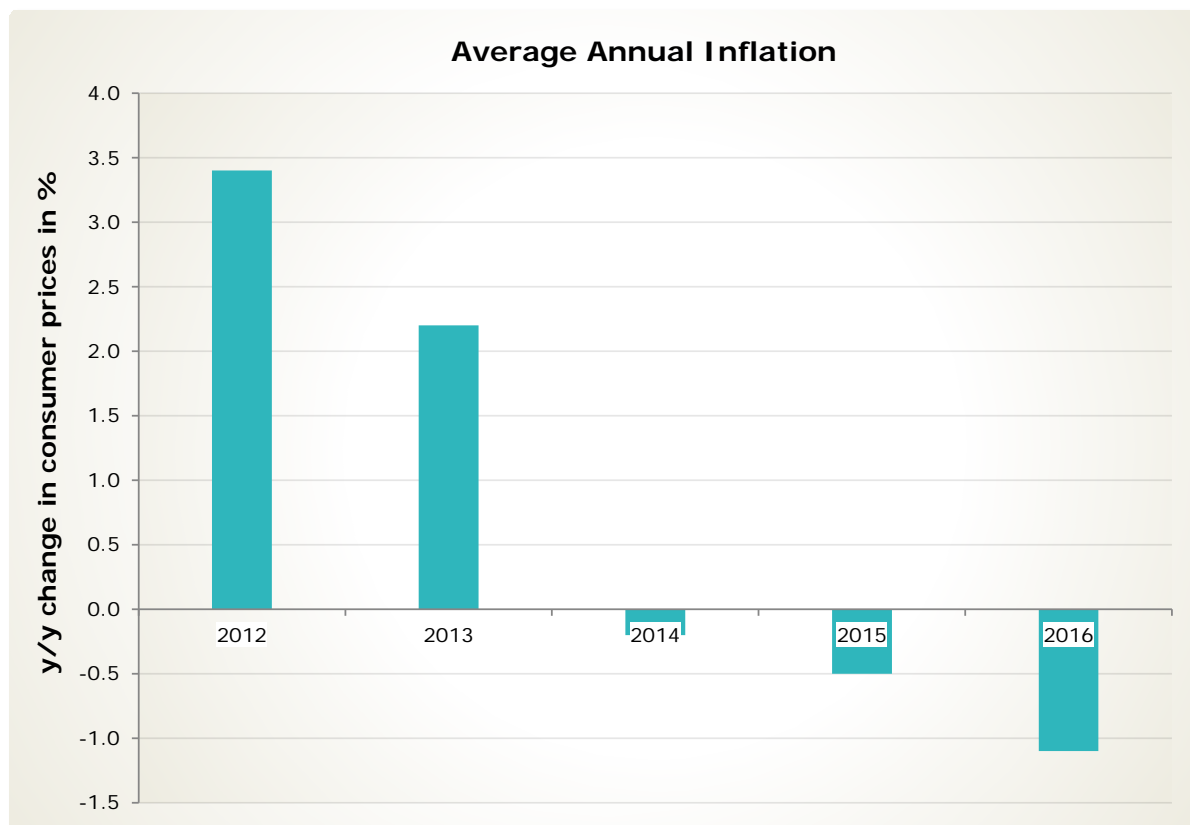
Source: DZS

2.5. INFLATION

Average annual deflation of 1.1% in 2016

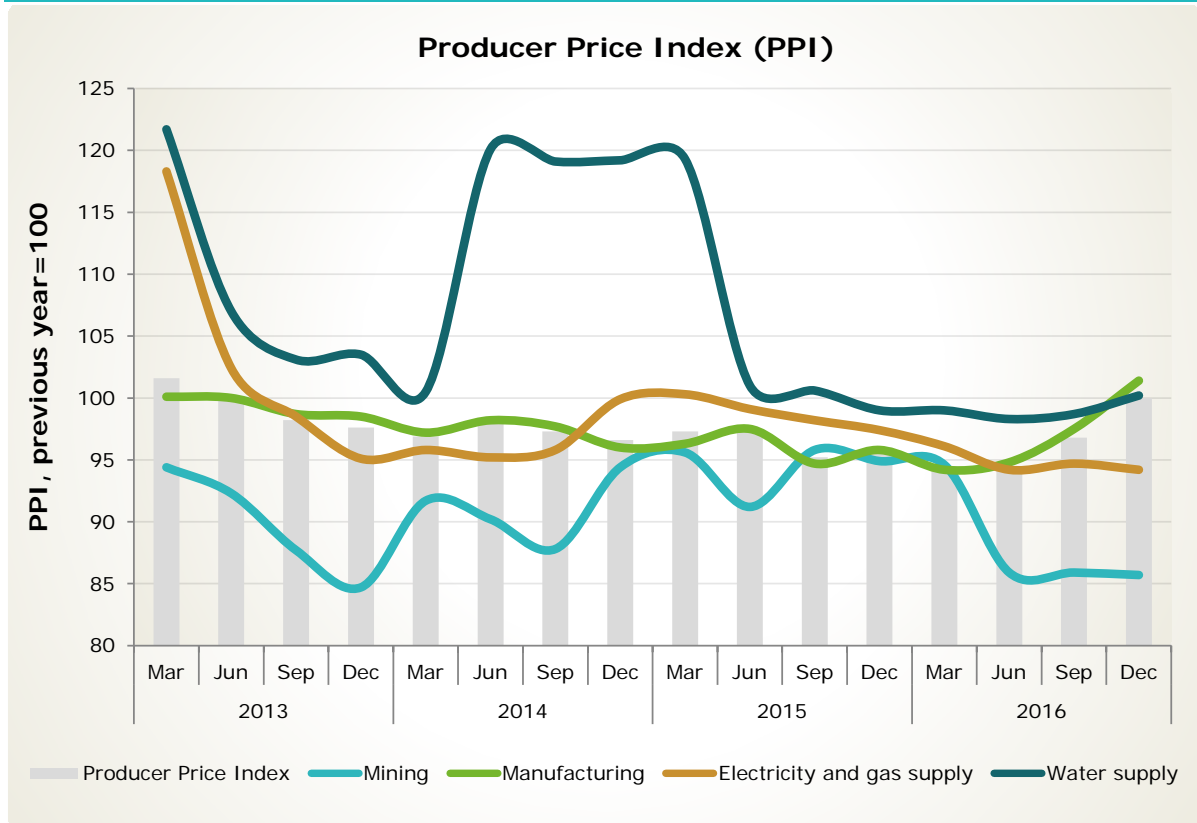
Average annual deflation in Croatia accelerated to 1.1% in 2016 from 0.5% in 2015, according to DZS.

The highest average annual deflation in consumer prices was registered in liquid fuels, gas and recreational and sporting services, of 17.3%, 16.3% and 14.5%, respectively. The consumer group to report the sharpest inflation was hospital services – 14.9%, followed by sewage collection and major tools and equipment, posting an inflation of 10.7% and 5.2%, respectively.



Source: DZS

Producer prices stayed unchanged in December 2016, compared to the same month of the previous year. Producer prices in the extraction of crude petroleum and natural gas deflated the sharpest, by 19.6%. The highest inflation, of 18.7%, was registered in manufacture of coke and refined petroleum products. Producer prices remained unchanged in annual terms for mining support service activities and other manufacturing.



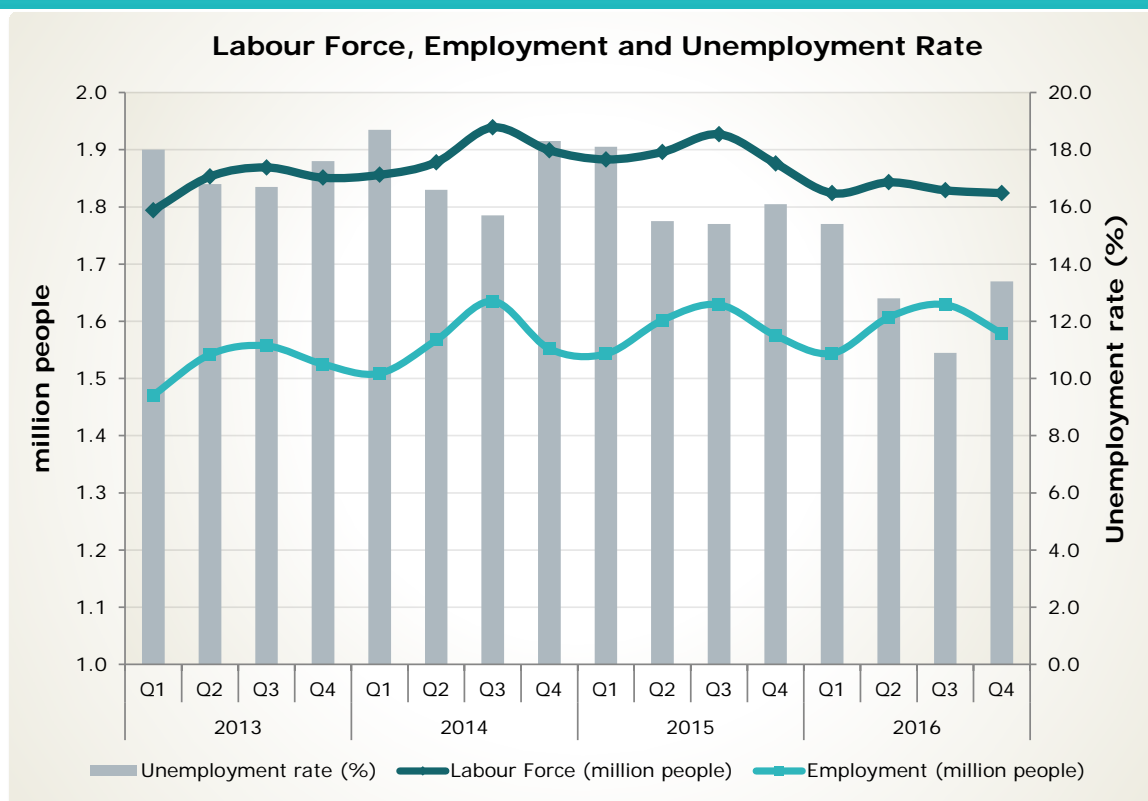
Source: DZS

3. LABOUR MARKET

Unemployment rate went down y/y to 13.4% in Q4 2016, wages drop 0.5% y/y in 2016

Unemployment in Croatia narrowed to 13.4% of the total labour force in Q4 2016 from 16.1% a year earlier, according to data of DZS.

The employed population aged 15 years and older was 1.579 million in October to December 2016, up from 1.575 million in the corresponding period of the previous year.



Source: DZS

The average monthly net salary in 2016 inched down by 0.5% y/y to HRK 5,685, 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 7,965, HRK 7,892 and HRK 7,602, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits jumped by 26.8% y/y in 2016

The number of permits for new buildings, excluding civil engineering, issued in Croatia in 2016 went up by 26.8% y/y and totalled 4,288, according to DZS data.

Permits for non-residential¹ buildings increased by 20.9% to 1,196, while permits for residential buildings soared by 29.2% to 3,092.

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 went down by 12.2% y/y to 1,239,868 sq m. The total built-up area of the housing units rose by 36.4% to 1,067,557 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average annual exchange rate of the HRK against the EUR fell to HRK 7.5294 in 2016 from HRK 7.6096 in 2015, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate				
Foreign Currency	2016	2015	2014	2013
EUR	7.529383	7.609601	7.630014	7.573548
USD	6.803718	6.862262	5.749322	5.705883
GBP	9.221675	10.489299	9.465973	8.922067
CHF	6.907710	7.133762	6.282424	6.154290

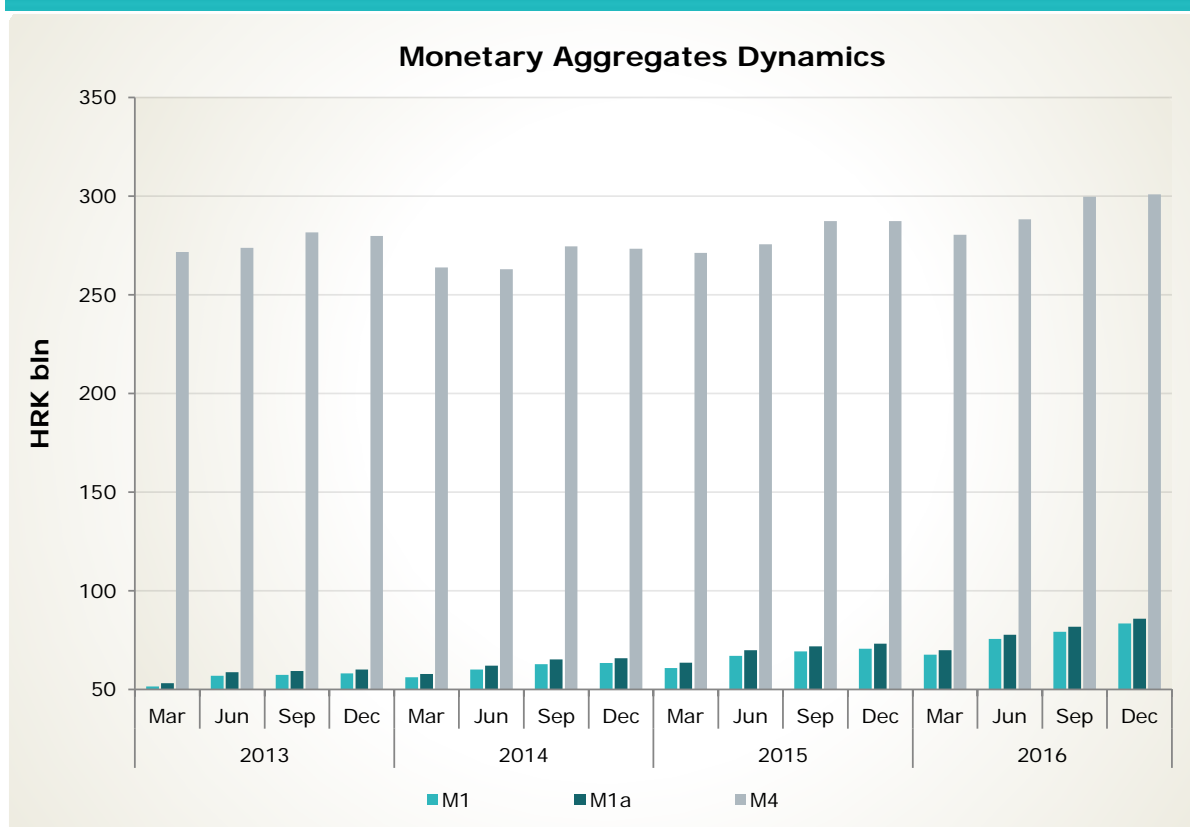
5.2. MONETARY AGGREGATES

Money supply growth was 4.7% y/y in 2016

Broad money (money aggregate M4) increased by 4.7% y/y in 2016 and reached HRK 300.9 bln in December 2016, according to data provided by HNB.

The M1a² money aggregate increased by 17.2% to HRK 85.830 bln and money aggregate M1, or narrow money, also went up, by 18.1%, to HRK 83.469 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.



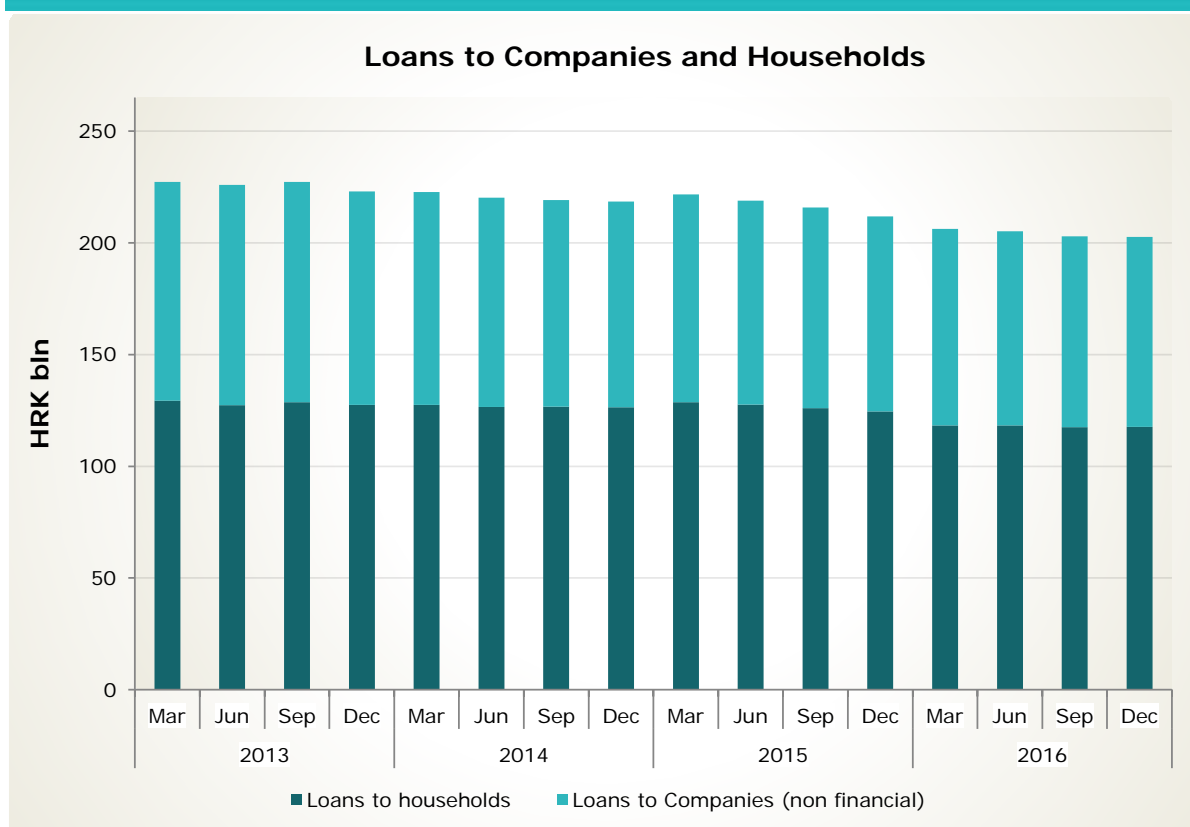
Source: HNB

5.3. BANKING AND INSURANCE

Household loans decreased by 5.5% y/y in December 2016

Household loans went down by 5.5% to HRK 117.6 bln, according to HNB data. House purchasing loans narrowed by 11.1% y/y to HRK 52.518 bln, accounting for 44.7% of the total loans. The second largest loan type, slicing a 34.6% share, was the any-purpose cash loan with its value rising to HRK 40.746 bln from HRK 39.793 bln.

Loans to non-financial corporations went down by 2.6% y/y to HRK 85.035 bln. Loans with a maturity of more than five years accounted for the bulk, or 54.5%, of the total corporate loans.



Source: HNB

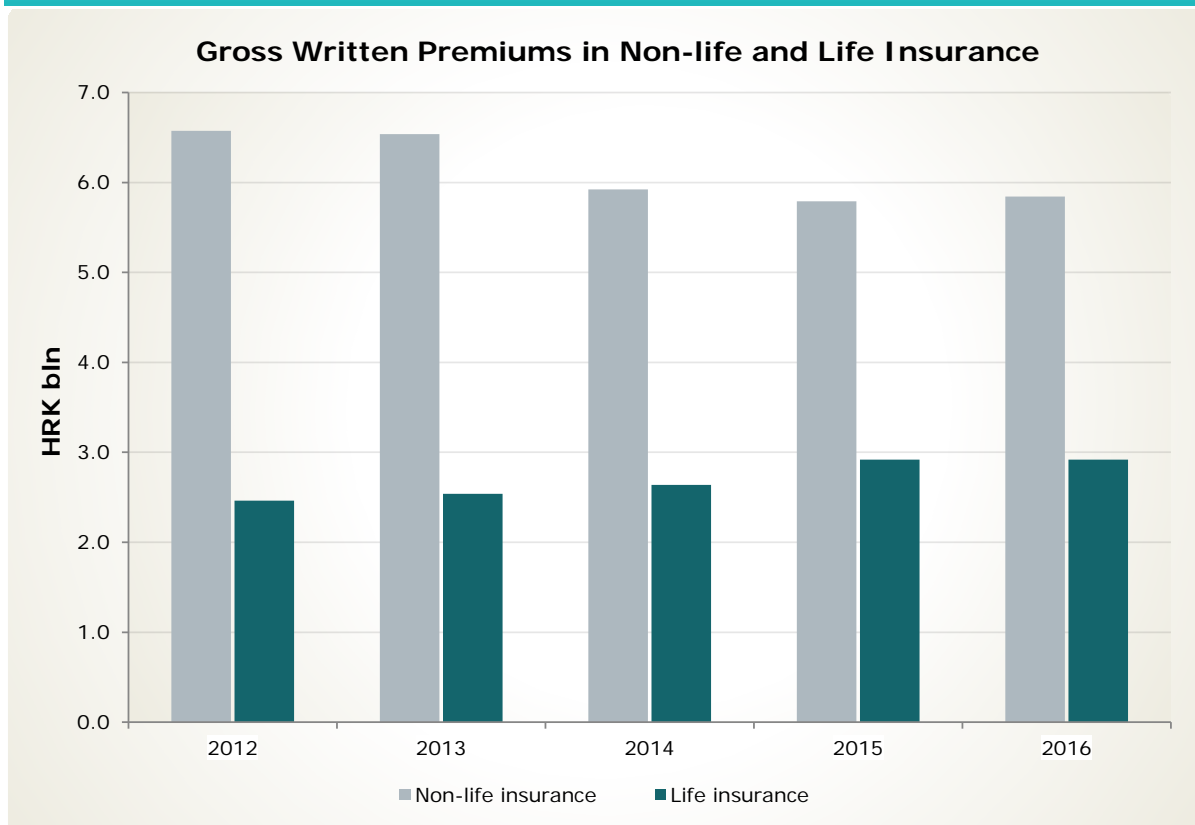
As of December 2016, the total assets of the banking system totalled HRK 413.3 bln, down from HRK 416.2 bln in December 2015. The highest total assets value in the period Q1 2013 – Q4 2016 was HRK 428.5 bln, registered in Q3 2015.

Insurance premium income up 0.6% y/y in 2016

The total gross written premiums (GWP) of the non-life and life insurance companies stood at HRK 8.761 bln, up by 0.6% y/y in 2016, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 0.9% annual increase of the non-life insurance sector, which posted GWP of HRK 5.843 bln. The life insurance sector remained almost unchanged at HRK 2.918 bln.

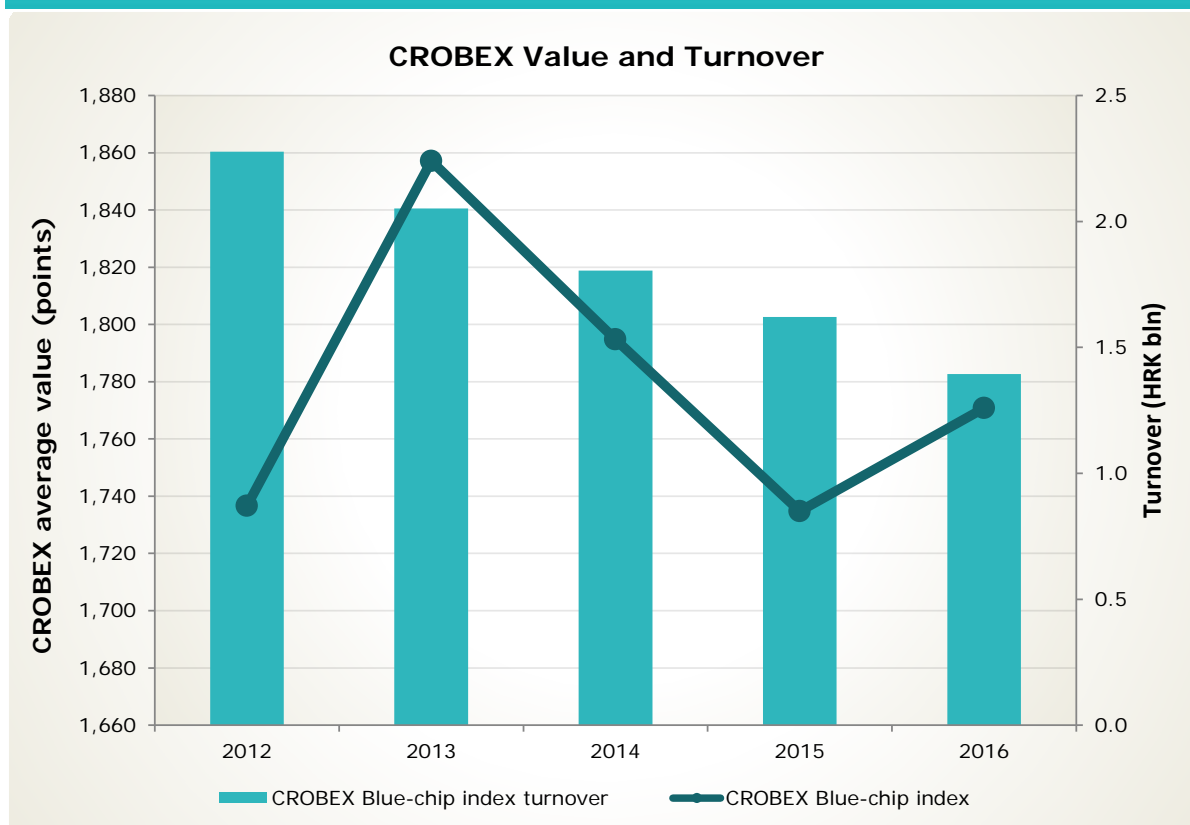
The predominant non-life insurance type in 2016 was motor vehicle liability insurance, which accounted for 35.0% of the total non-life insurance GWP, or HRK 2.043 bln, going down in annual terms by 2.8%.



6. CAPITAL MARKETS

Blue-chip CROBEX up by 2.1% y/y in 2016

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by 2.1% y/y to 1,771 points in 2016. During the year, CROBEX's value fluctuated between 1,576 points and 2,002 points. The CROBEX turnover totalled HRK 1.394 bln in 2016, compared to HRK 1.621 bln a year earlier.



Source: ZSE

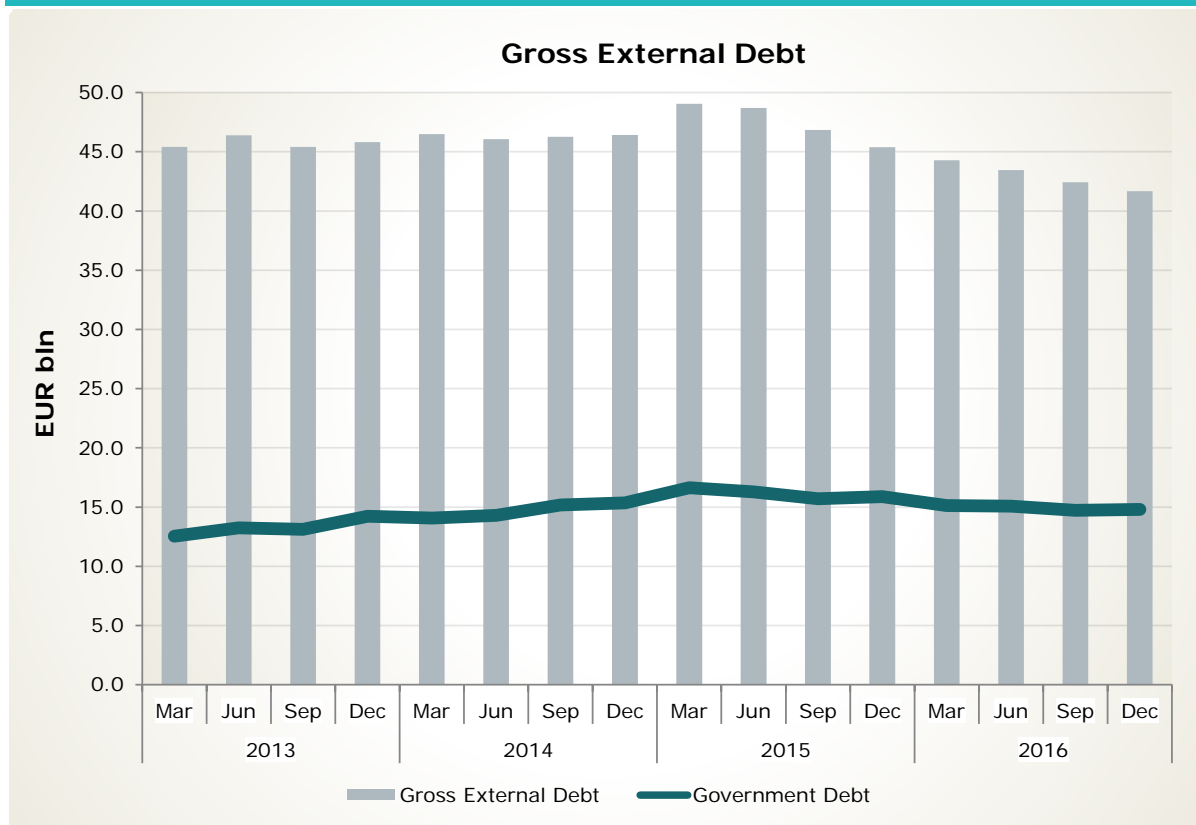
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 41.663 bln in December 2016

The gross external debt totalled EUR 41.663 bln as of December 2016, according to HNB. It went down by 8.2%, or EUR 3.721 bln, compared to December 2015.

As of December 2016 long-term liabilities amounted to EUR 32.499 bln, or 78.0% of the total debt, decreasing by 10.4% on the year. Short-term liabilities totalled EUR 3.421 bln, equal to 8.2% of the total debt and down by 7.2% compared to a year ago.



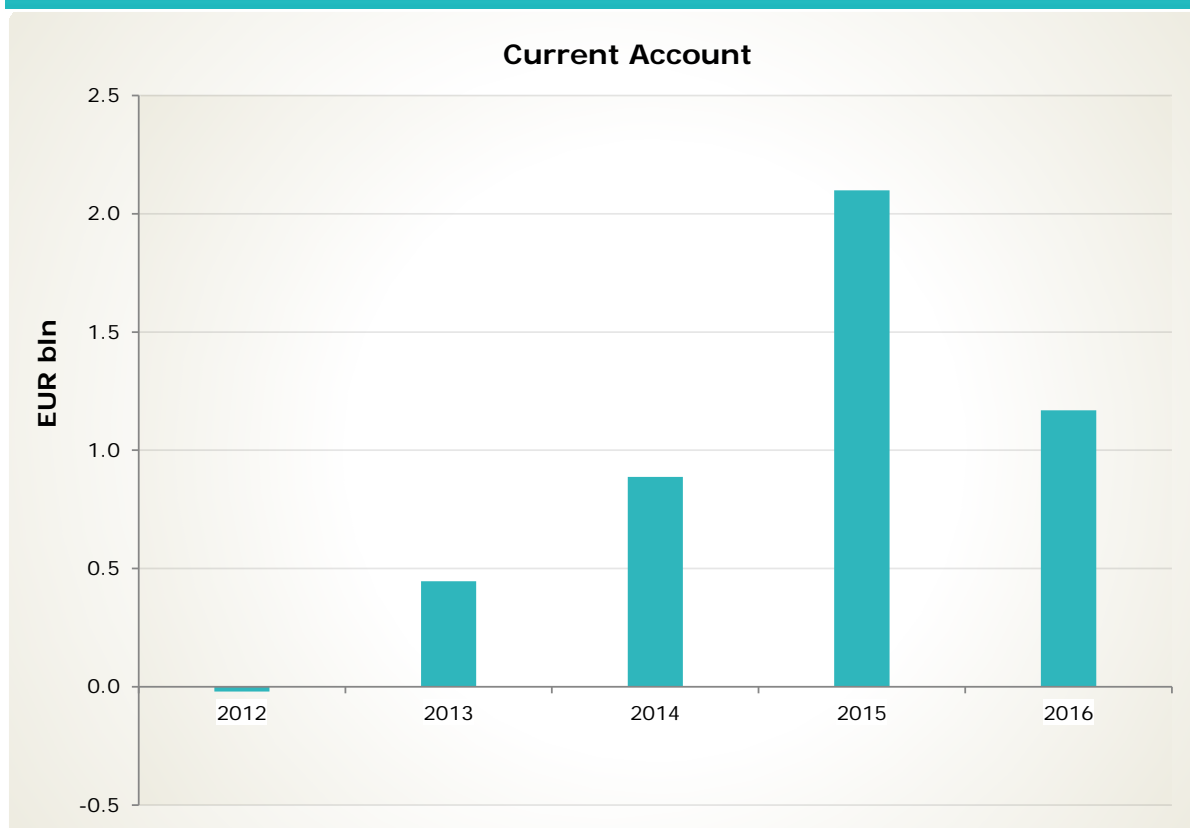
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 1.169 bln in 2016

The current account surplus shrank to EUR 1.169 bln in 2016 from EUR 2.099 bln a year earlier, according to central bank statistics data.

Secondary income came in at EUR 1.303 bln, up 1.8% y/y. The rise was caused by the 6.5% annual increase of the secondary income credit account.



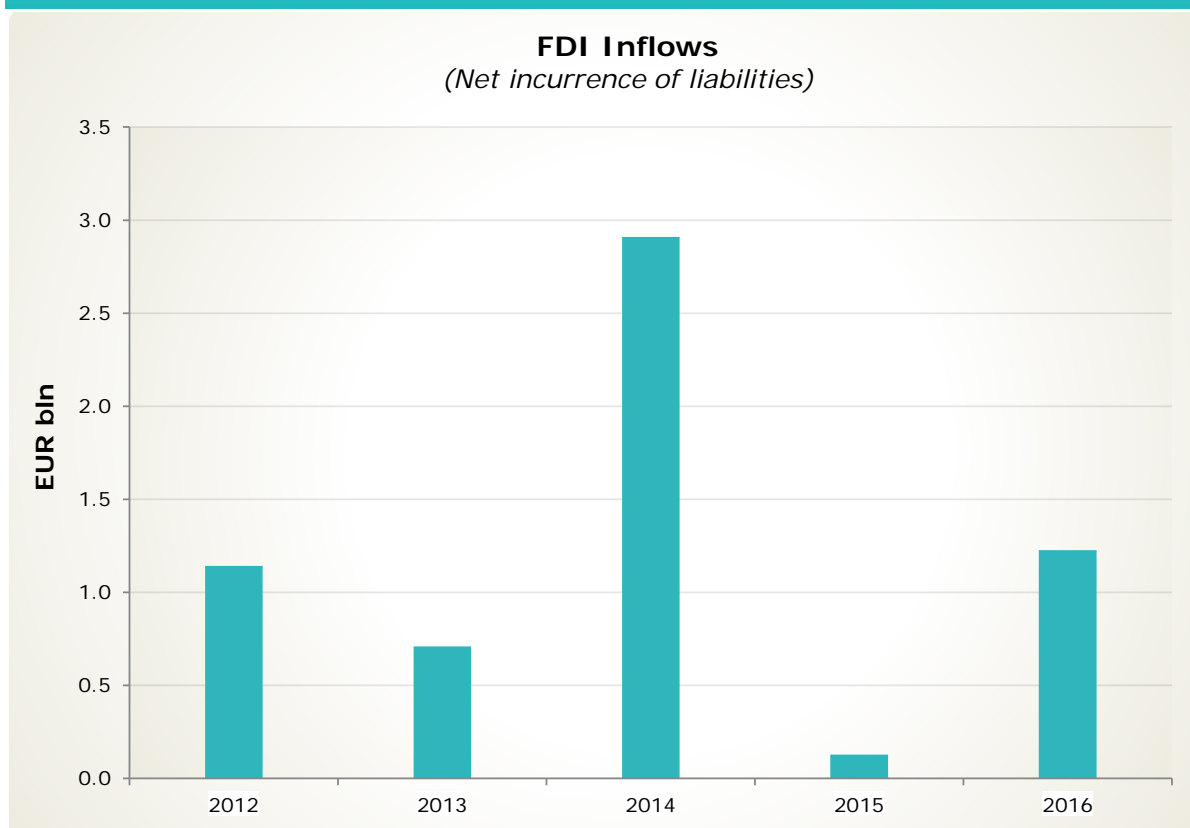
Source: HNB

7.3. FDI

Net FDI inflow at EUR 1.706 bln in 2016

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 1.706 bln in 2016, according to preliminary data of HNB.

In 2016, the largest foreign investors in Croatian economy were Italy, Netherlands and Germany with net direct investments of EUR 1.898 bln, EUR 538.8 mln and EUR 274.7 mln, respectively.



Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit widened by 5.9% y/y in 2016

The trade deficit stood at EUR 7.366 bln in 2016, compared to EUR 6.955 bln in the previous year, according to DZS.

Exports grew to EUR 12.321 bln from EUR 11.528 bln, while imports increased by 6.5% on the year to EUR 19.687 bln.

Croatia's most exported goods in 2016 were food products, which accounted for 8.7% of the total exports, followed by fabricated metal products, except machinery and equipment, with a 7.6% share, and machinery and equipment with a 7.3% share.

In terms of imports, the main goods were again food products, which made up 9.4% of the total, followed by machinery and equipment, slicing an 8.2% share, and chemicals and chemical products, which had a 7.7% share.



Source: HNB

7.5. TOURSIM

Number of foreign tourist overnights rose by 9.6% y/y in 2016

Tourist overnights of foreigners rose by an annual 9.6% to 72.193 million in 2016, according to DZS. The total number of overnights, both of foreign and local tourists, reached 78.050 million, up by 9.0% in comparison to 2015. Foreign tourist overnights accounted for 92.5% of the total number of overnights in Croatia in 2016.

The number of foreign tourists also went up - by 8.9% y/y to 13.809 million. Most foreign tourists visiting the country in 2016 arrived from Germany – 2,277,378, followed by Slovenia – 1,298,501, and Austria – 1,237,969.



Source: DZS

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