

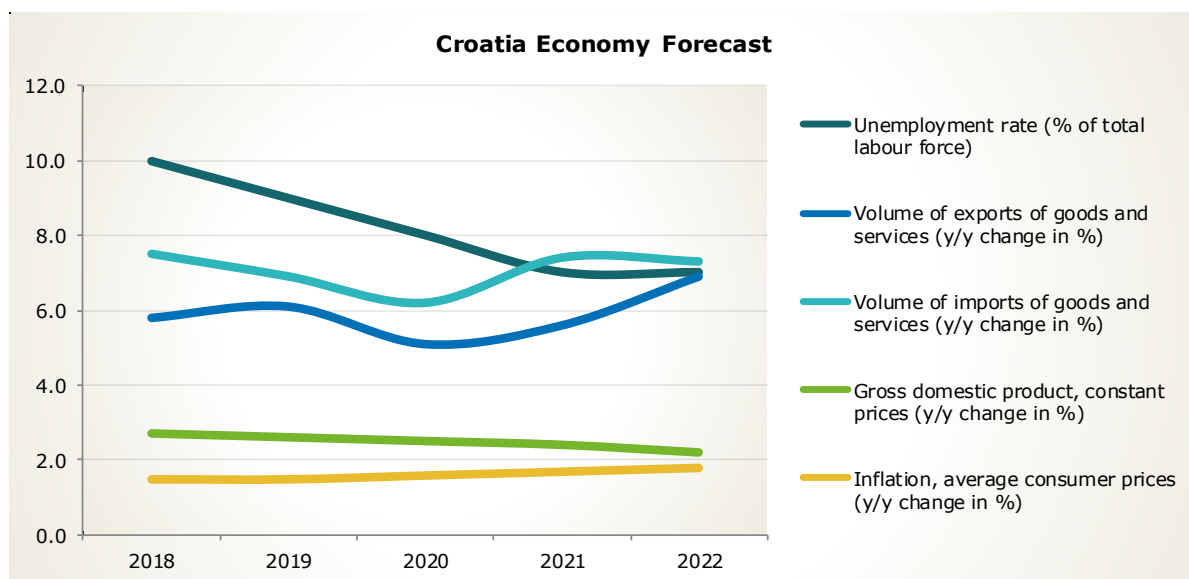
## **CROATIA ECONOMY REPORT** 2018

## 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 .....	14
7.1. FOREIGN DEBT .....	14
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 2018	
<b>GDP Growth</b>	2.6% y/y
<b>Industrial output</b>	-1.0% y/y
<b>Industrial sales</b>	3.6% y/y
<b>Wholesales</b>	5.7% y/y
<b>Retail sales</b>	5.8% y/y
<b>Average annual inflation</b>	1.5%
<b>Unemployment rate</b>	8.4%
<b>Number of building permits</b>	5.1% y/y
<b>Money supply growth</b>	5.5% y/y
<b>Household loans</b>	4.6% y/y
<b>CROBEX blue-chip index</b>	-6.6% y/y
<b>Gross external debt</b>	EUR 38.836 bln
<b>Current account surplus</b>	EUR 1.354 bln
<b>Net FDI inflow</b>	EUR 1.058 mln
<b>Foreign trade deficit</b>	EUR 9.141 bln
<b>Number of foreign tourist overnights</b>	3.7% y/y

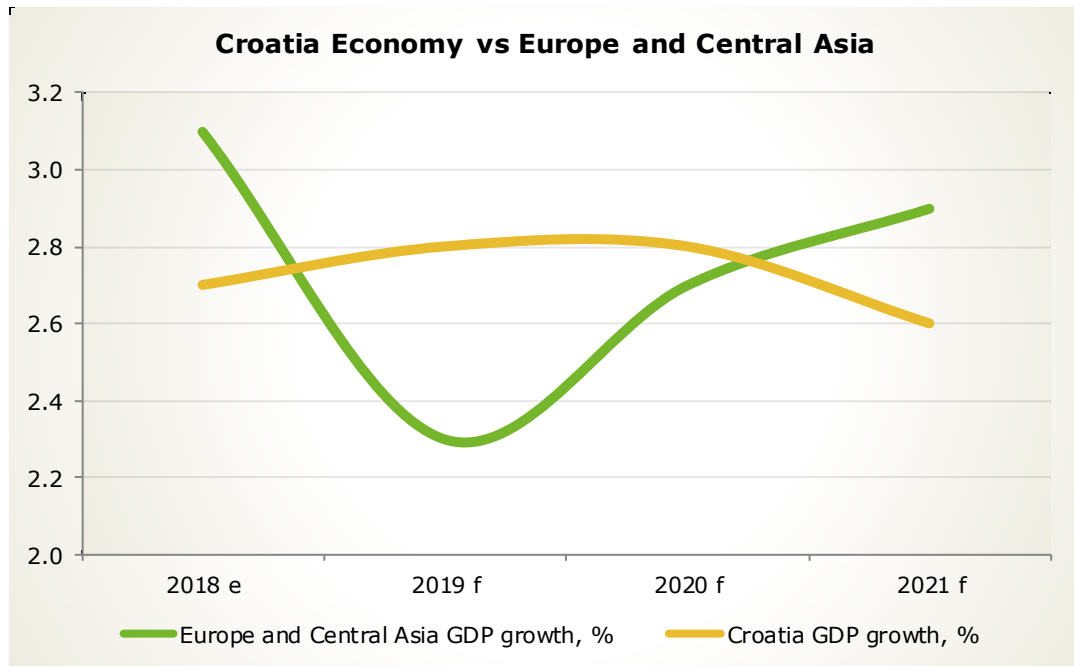


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

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 2.6% in 2019. In 2020 and 2021, IMF forecasts country's economic growth to slow to 2.5% and 2.4%, respectively. Although moderating, unemployment is still high, at 10.0% in 2018 and tending to fall as low as 7.0% in the next five years. Inflation is projected to remain within the 1.5% - 1.8% range over the medium term. Thanks to the strong

tourism receipts, the external position will remain in substantial surplus despite consistently faster imports growth.

According to the World Bank estimates from April 2019, GDP growth is likely to come in at 2.8% in 2019, up from 2.7% in 2018. This is higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.



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

## 2. REAL SECTOR

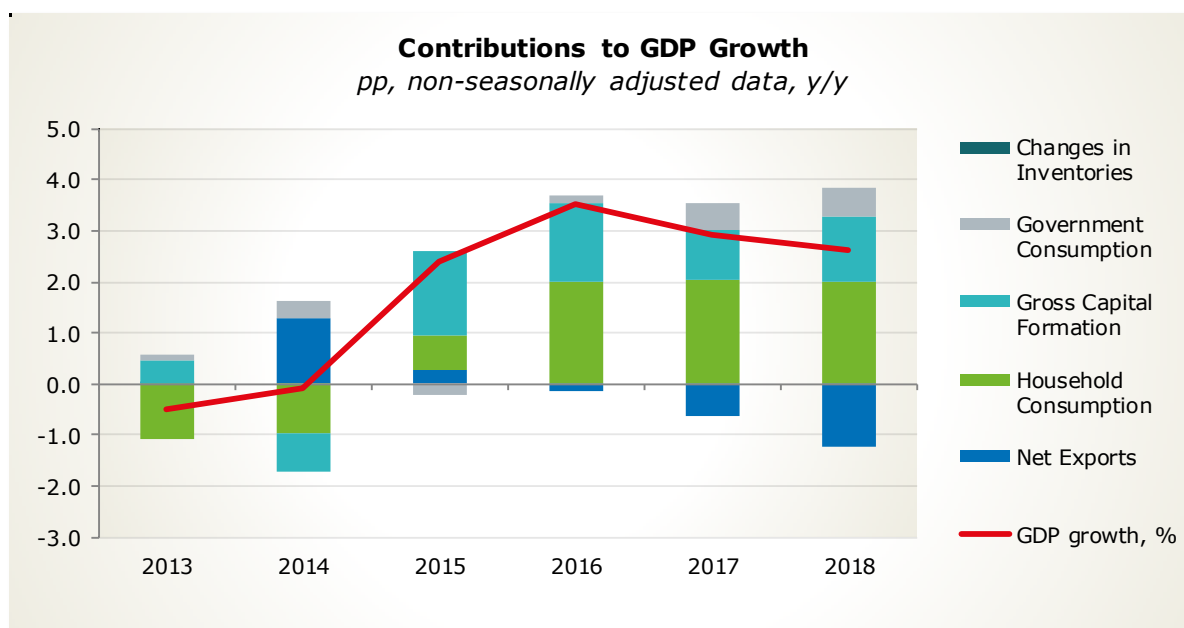
### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### ***The annual economic growth slowed down in 2018 to 2.6% y/y***

The country's GDP grew by a real 2.6% y/y, down from 2.9% y/y in 2017 and totalled HRK 356.820 bln in 2018, 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 77% of the GDP, expanded by 3.3% y/y. Gross capital formation went up by 6.1% y/y, contributing 1.3 pp to the GDP expansion. Imports grew faster than exports, by 5.5% and 2.8%, respectively. As a result, the foreign trade took away 1.2 pp from the GDP growth.

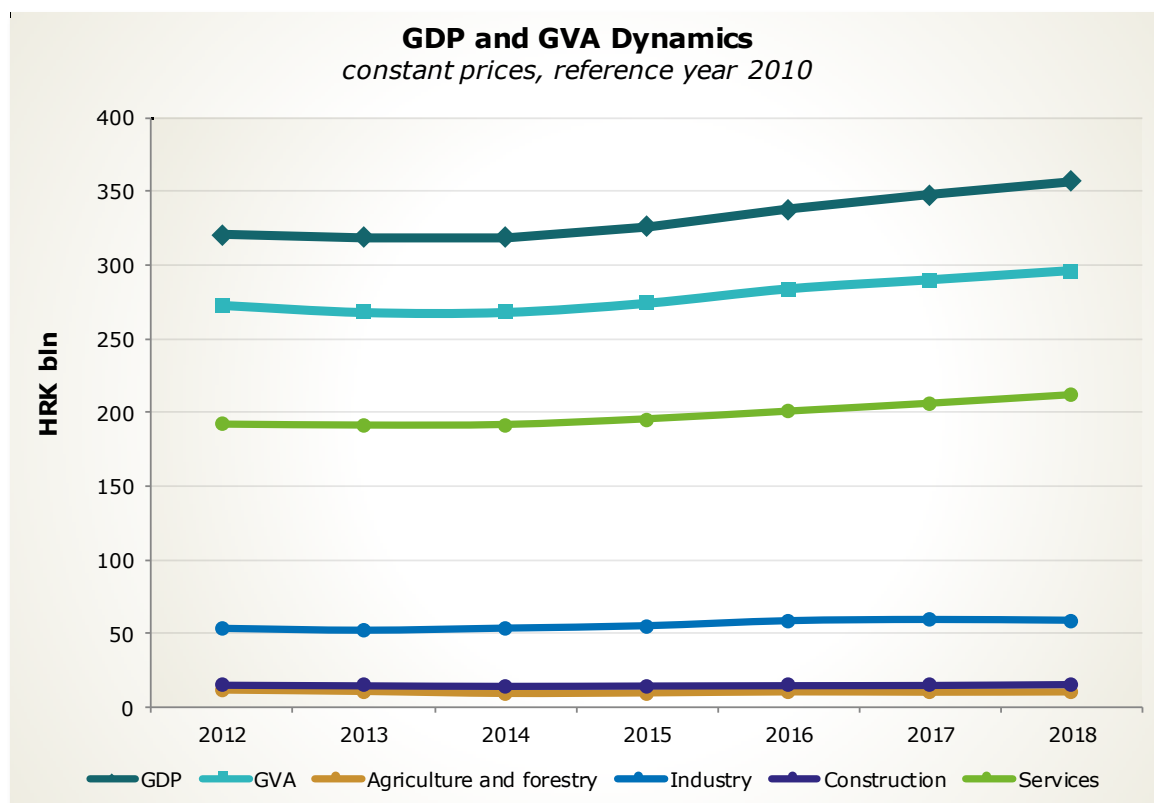
In 2018, the Croatian economy slowed its pace of growth by 0.3 pp compared to the annual growth rate of 2.9% in 2017.



Source: DZS; SeeNews calculations

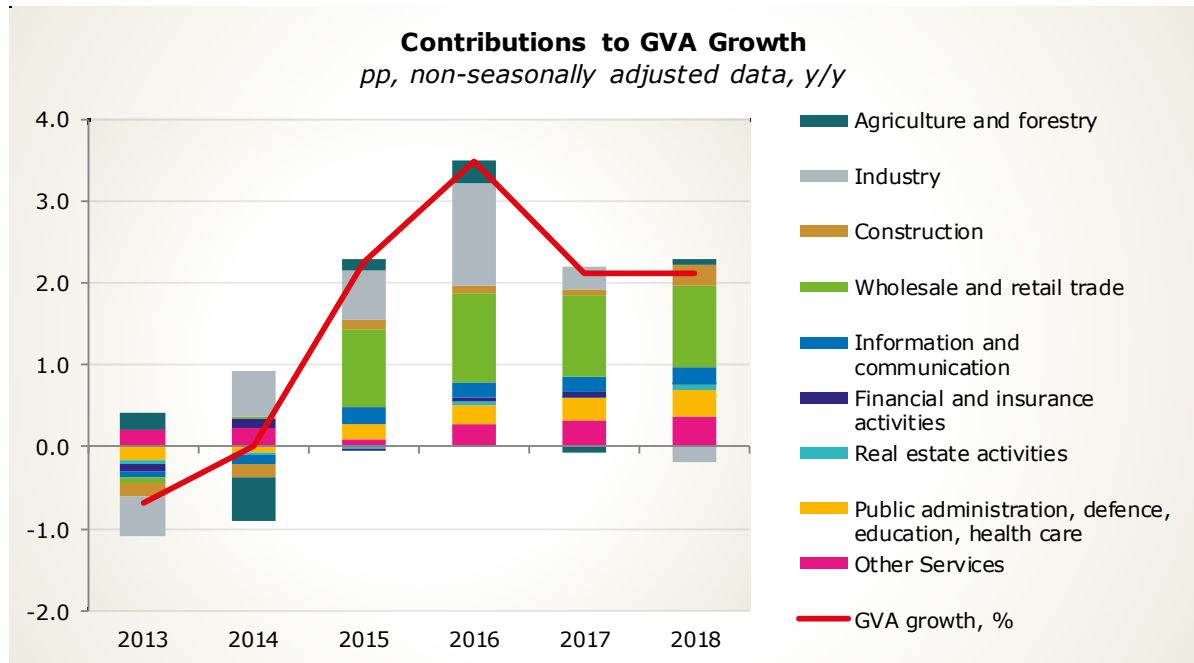
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.1% y/y in 2018 and totalled HRK 296.024 bln. The industrial sector dropped by 0.9%, while construction went up by 4.7%. The services sector recorded a 2.8% annual rise, slicing a 71.5% share in the GVA. The agricultural sector rose by 2.0% y/y.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in 2018, with 1.0 pp, followed by the other services and public administration, defence, education, health care, and construction which contributed with 0.4 pp and 0.3 pp, respectively.



Source: DZS; SeeNews calculations

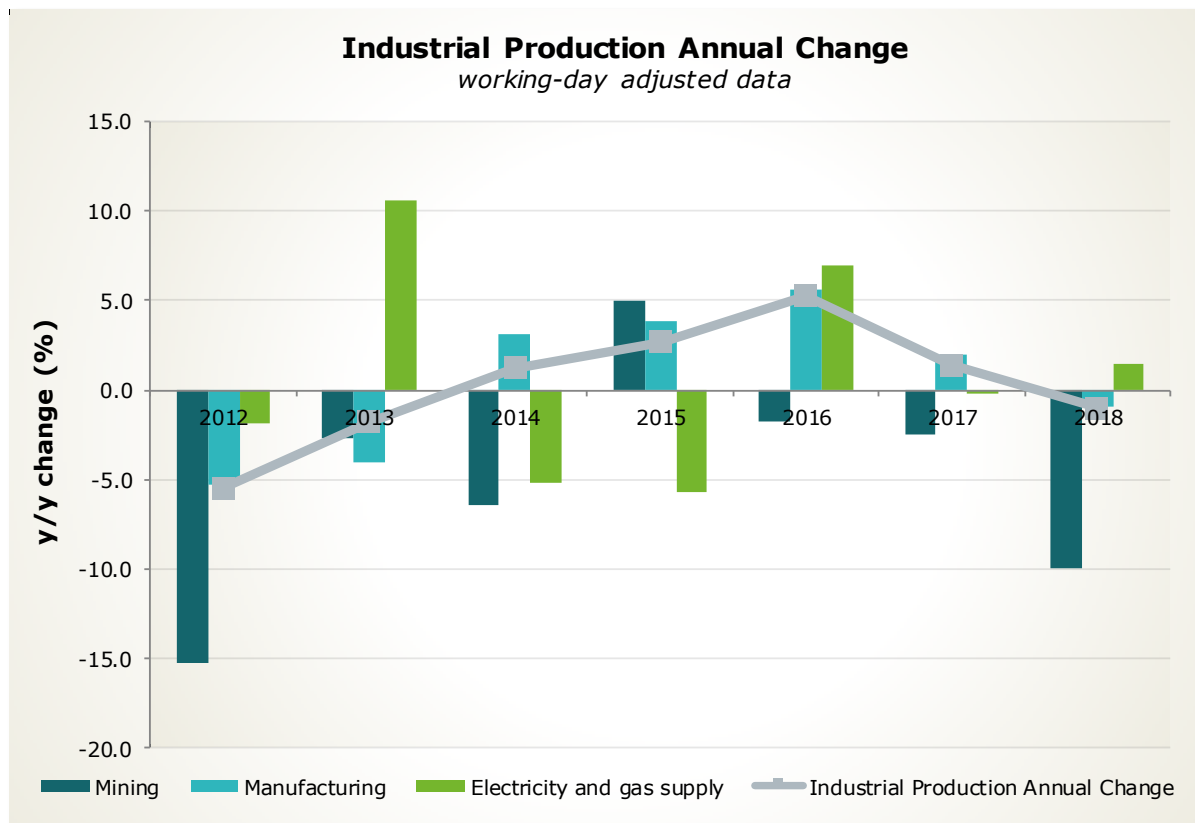
Note: Non-additive data due to direct chain-linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output decreased in 2018 to 1.0% y/y

Industrial output went down by 1.0% on the year in 2018, according to DZS data. This is significant slowdown compared to 2017, when industrial production expanded by 1.4% y/y.

The shrank during the year was backed by the 1.5% annual increase in the electricity and gas supply sector. The production of the mining and the manufacturing sectors fell by 10.0% and 0.9% y/y, respectively.



Source: DZS

## 2.3. INDUSTRIAL SALES

### *Industrial sales increased by 3.6% y/y in 2018*

Industrial sales rose by 3.6% y/y in 2018, compared to a 5.9% annual increase in 2017, according to DZS.

The industrial sales were pushed up by the 17.4% annual jump of sales in the energy sector. In addition, consumer durables and consumer non-durables sales went up by 5.7% y/y each. Intermediate goods sales grew by 4.9% y/y in 2018. Capital goods were the only segment to decline in terms of sales, by 3.9% y/y.

## 2.4. WHOLESALE/RETAIL

### *Retail sales growth at 5.8% y/y, wholesales up 5.7% y/y in 2018*

Retail sales registered annual increase of 5.8% in 2018, down from a 6.4% y/y rise in 2017, according to DZS data. In the same time, wholesales advanced by 5.7% y/y, up from 4.2% y/y in the previous year.



Source: DZS

## 2.5. INFLATION

### *Inflation stable at 1.5% in 2018*

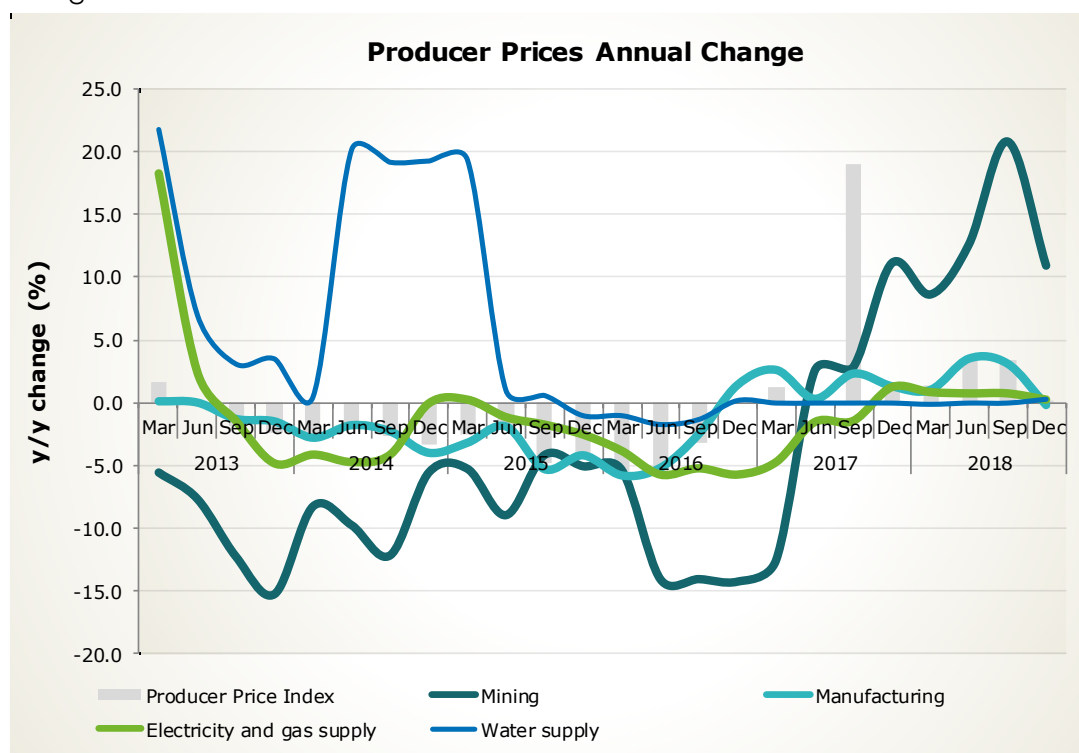
Consumer prices in Croatia increased by 1.5% y/y in 2018, up from 1.1% y/y in 2017, according to DZS. The increase of the average consumer prices was primarily due to the 3.0% rise in the transport services prices.





Source: DZS

In December 2018, compared to December 2017, producer prices increased by 10.9% in mining sector, 0.3% in water supply services and 0.2% in electricity, gas, steam and air conditioning supply. The manufacturing sector saw a decrease of 0.2% y/y in producer prices, on average.



Source: DZS

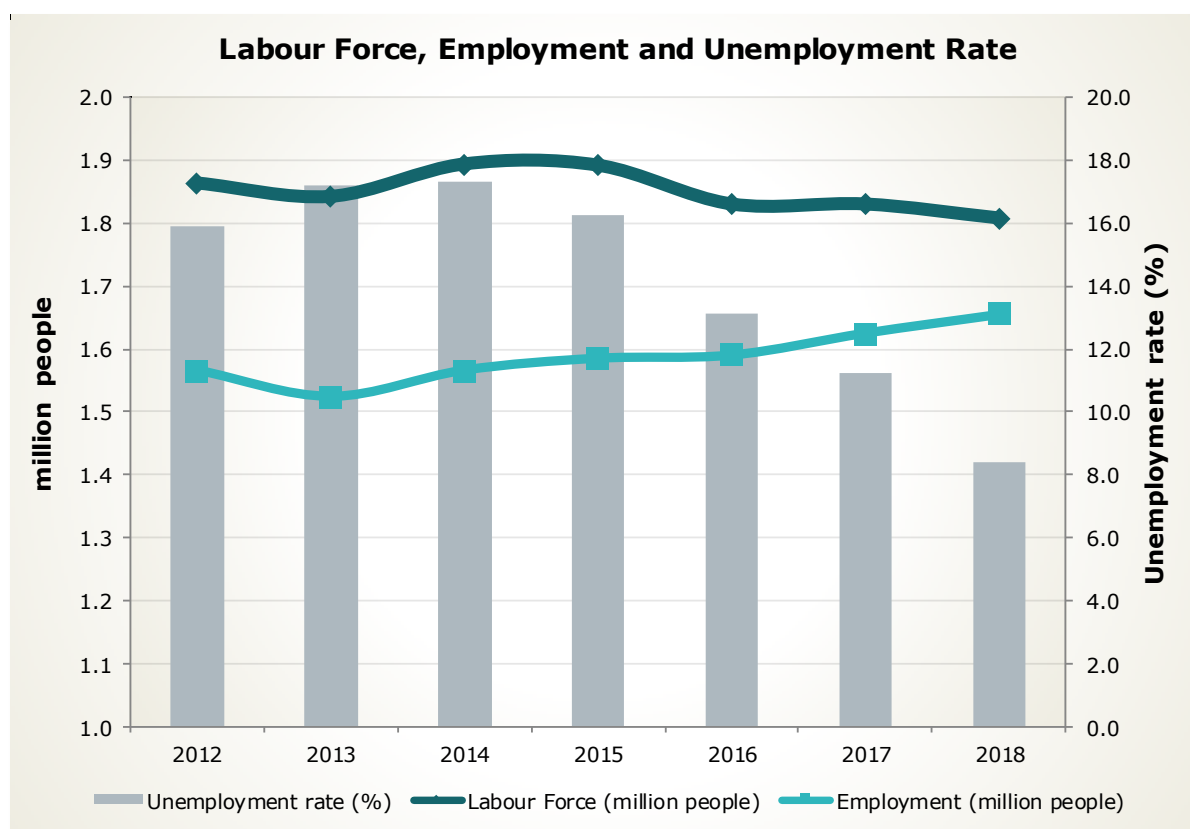
## 3. LABOUR MARKET

*Unemployment rate continued to trend downwards to 8.4% in 2018, wages grew 4.3% y/y in the year*

The favourable labour market developments that marked the beginning of 2018, persisted in the end of the year. The unemployment rate in Croatia narrowed to 8.4% of the total labour force in 2018, down from 11.3% in 2017, according to data of DZS.

The dynamics of growth in the number of employed persons increased slightly during the year. The employed population aged 15 years and older was 1.655 million in 2018, up 1.8% y/y.

The average monthly net salary in 2018 went up by 4.3% y/y to HRK 6,241, 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 5.1% y/y in 2018*

The number of permits for new buildings, excluding civil engineering, issued in Croatia in 2018 increased by 5.1% y/y and totalled 5,838, according to DZS data.

Permits for non-residential<sup>1</sup> buildings went down by 10.4% to 1,172, while permits for residential buildings registered an 14.5% increase to 4,666.

The total built-up area of the non-residential units, covered by the permits, shrank by 17.2% y/y to 934,275 sq m. The total built-up area of the housing units went down by 0.9% to 1,421,186 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 7.4141 in 2018 from HRK 7.4601 in 2017, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	2018	2017	2016
EUR	7.4141	7.4601	7.5294
USD	6.2784	6.6224	6.8037
GBP	8.3817	8.5172	9.2217
CHF	6.4197	6.7223	6.9077

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

---

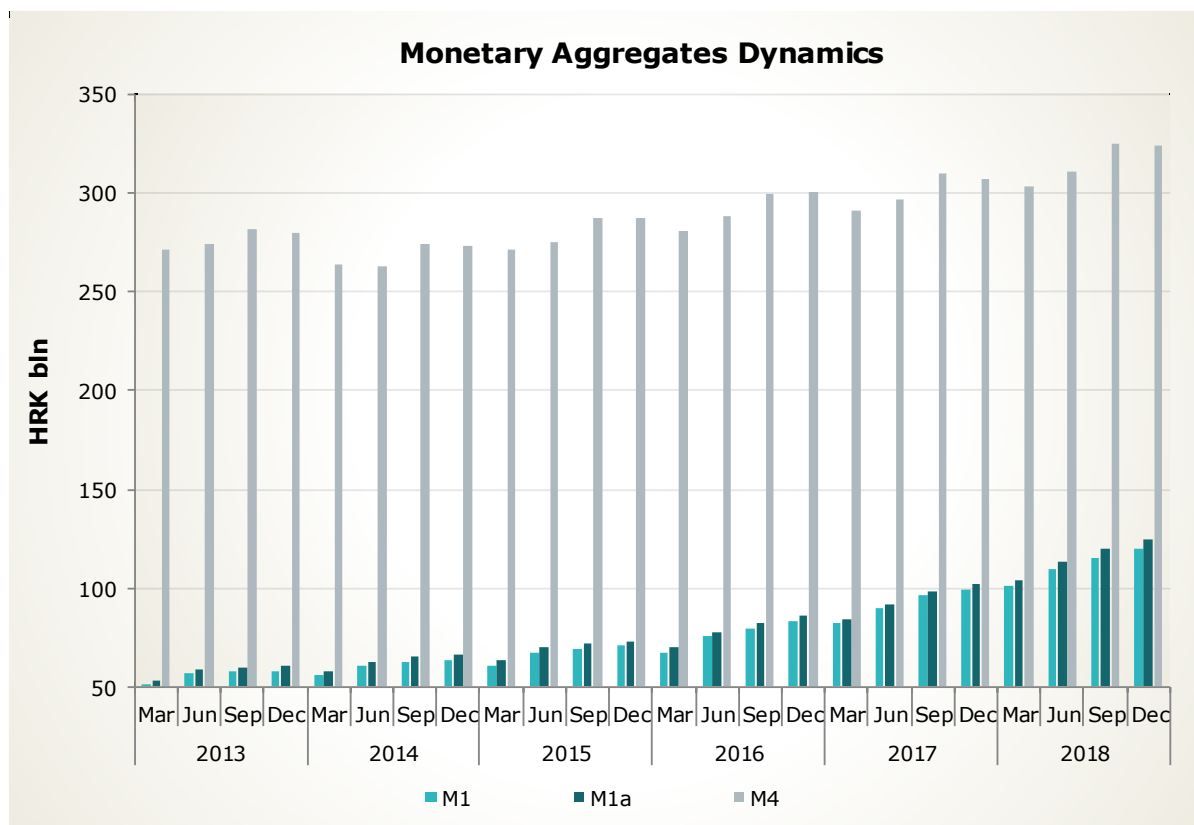
<sup>1</sup> Non-residential buildings category includes: hotels, offices, wholesale and retail trade buildings, traffic and communication buildings, industrial buildings and warehouses, and public entertainment, education, hospital or institutional care buildings.

## 5.3. MONETARY AGGREGATES

### Money supply grew by 5.5% y/y in 2018

In 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 5.5% and reached HRK 324.0 bln in 2018, according to data provided by HNB.

Monetary aggregate M1 grew annually by 20.7%, while M1a increased by 21.4% compared to the previous year.



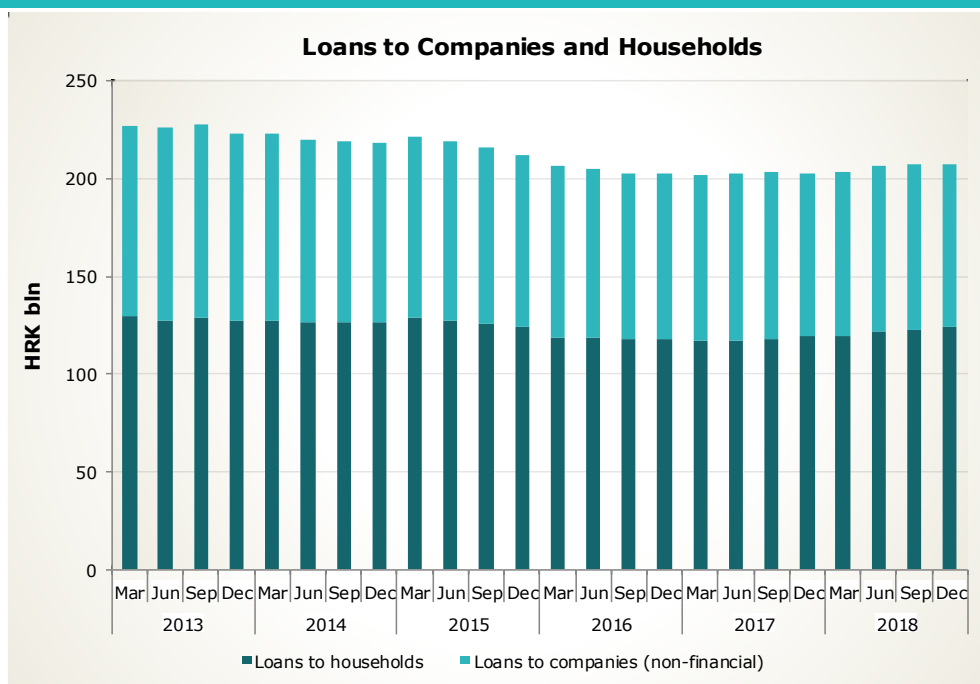
Source: HNB

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 4.6% y/y in 2018

Household loans went up by 4.6% to HRK 124.5 bln, according to HNB data. House purchasing loans advanced by 2.3% to HRK 54.040 bln, accounting for 43.4% of the total loans. The second largest loan type, slicing a 38.3% share, was the any-purpose cash loan with its value rising to HRK 47.716 bln from HRK 42.955 bln in 2017, according to HNB. Loans to non-financial corporations went down by 1.1% y/y to HRK 82.529 bln.

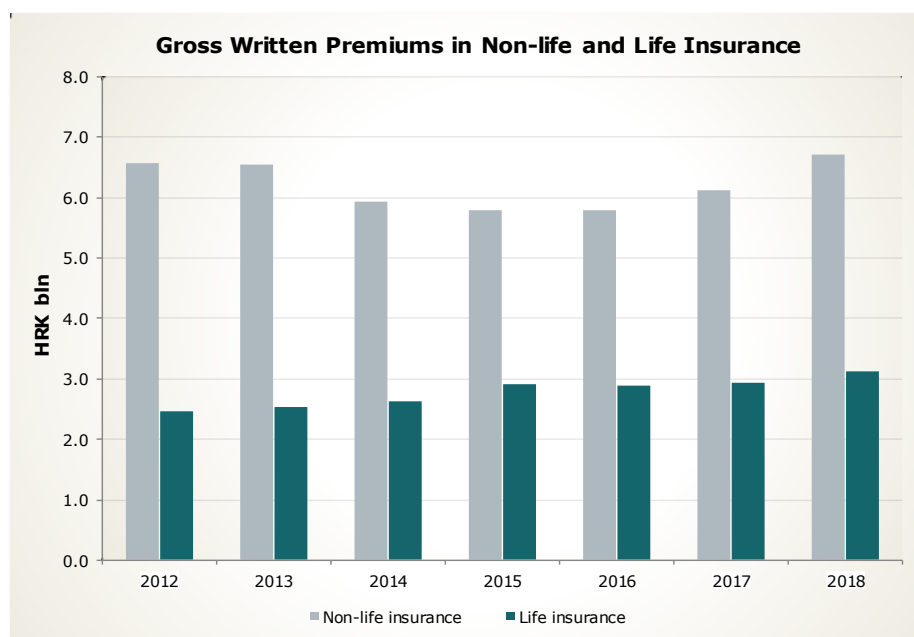


Source: HNB

## Insurance premium income up 9.9% y/y 2018

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 9.856 bln in 2018, up by 8.8% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 9.9% annual increase of the non-life insurance sector, which posted GWP of HRK 6.721 bln. The life insurance sector went up by 6.6% y/y to HRK 3.134 bln.

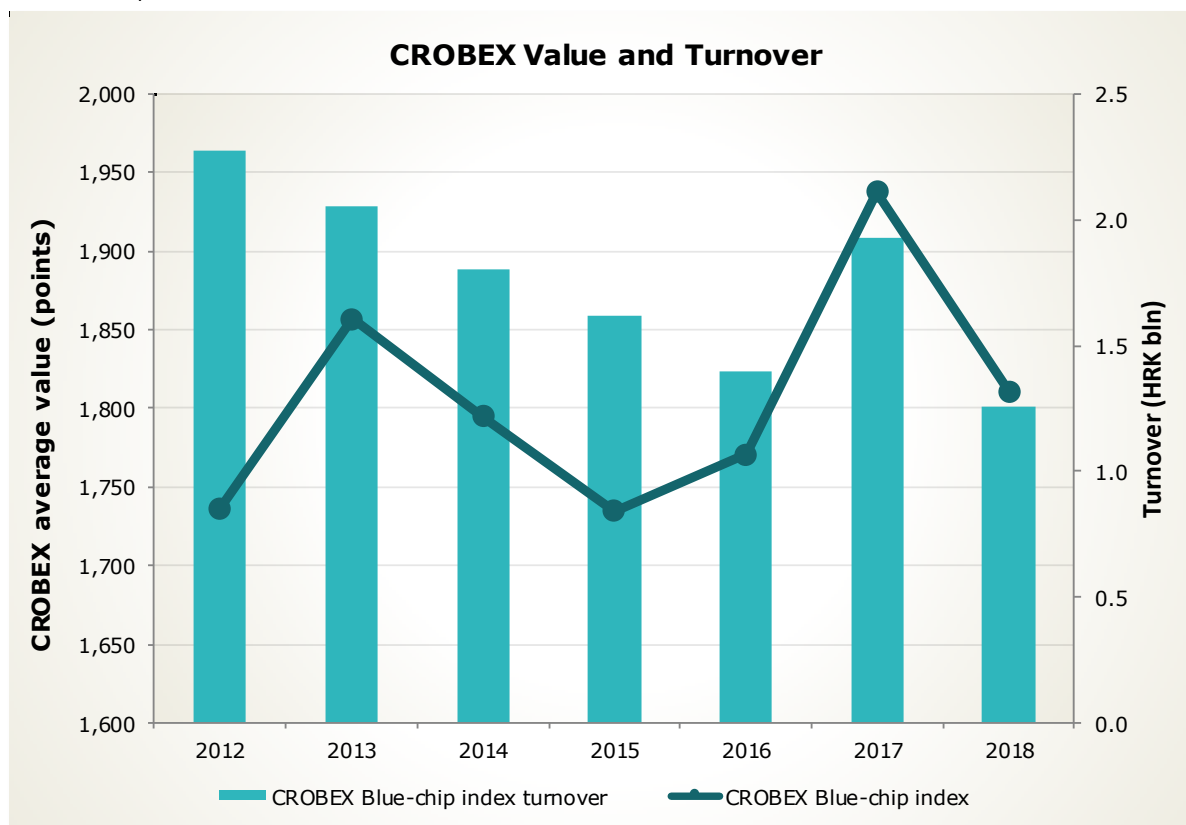


Source: HANFA

## 6. CAPITAL MARKETS

### Blue-chip CROBEX down y/y in 2018

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), went down by 6.6% y/y to 1,810.7 points in 2018. The CROBEX turnover totalled HRK 1.260 bln in 2018, compared to HRK 1.927 in 2017.



Source: ZSE

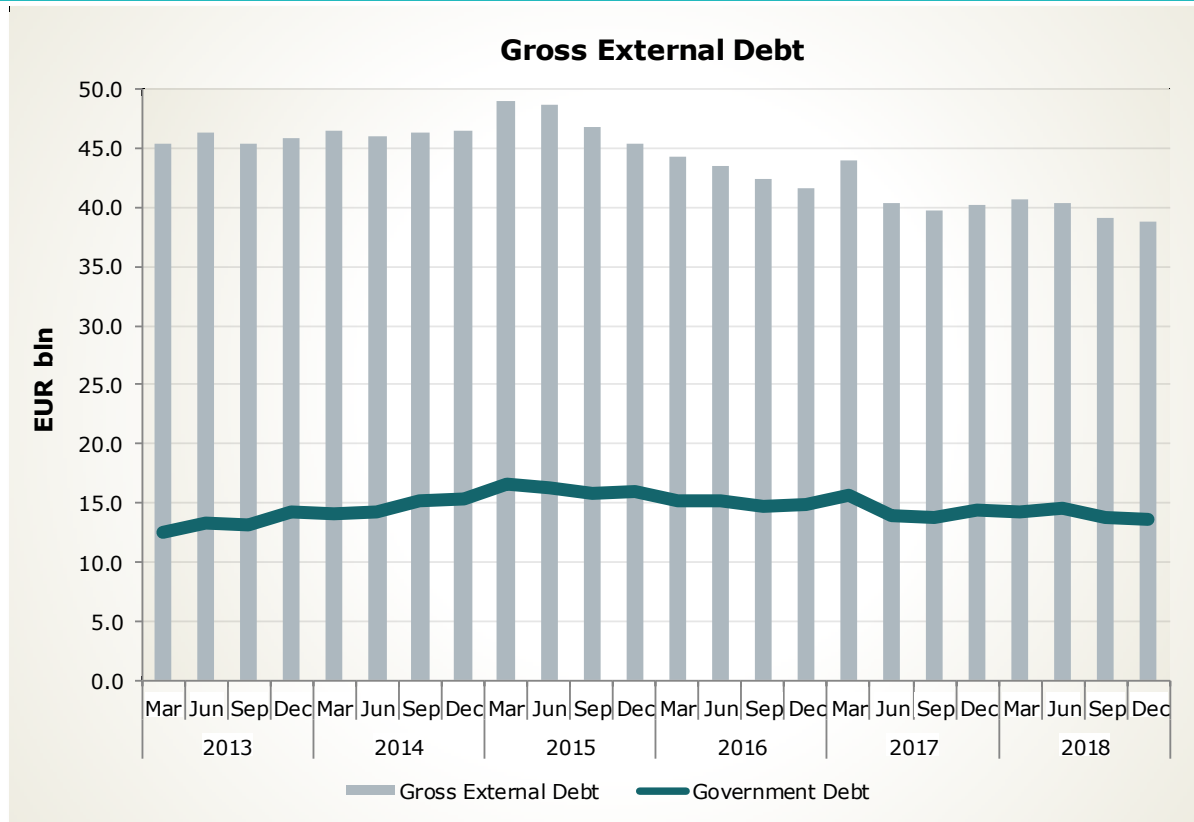
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### The gross external debt down y/y to EUR 38.836 bln in December 2018

The gross external debt totalled EUR 38.836 bln as of December 2018, according to HNB. It went down by 3.5% y/y and was by EUR 1.411 bln down compared to EUR 40.247 bln in December 2017.

As of December 2018, long-term liabilities amounted to EUR 28.491 bln, or 73.4% of the total debt, decreasing by 3.7% on the year. Short-term liabilities totalled EUR 4.218 bln, equal to 10.9% of the total debt and up by 2.1% compared to a year ago.



Source: HNB

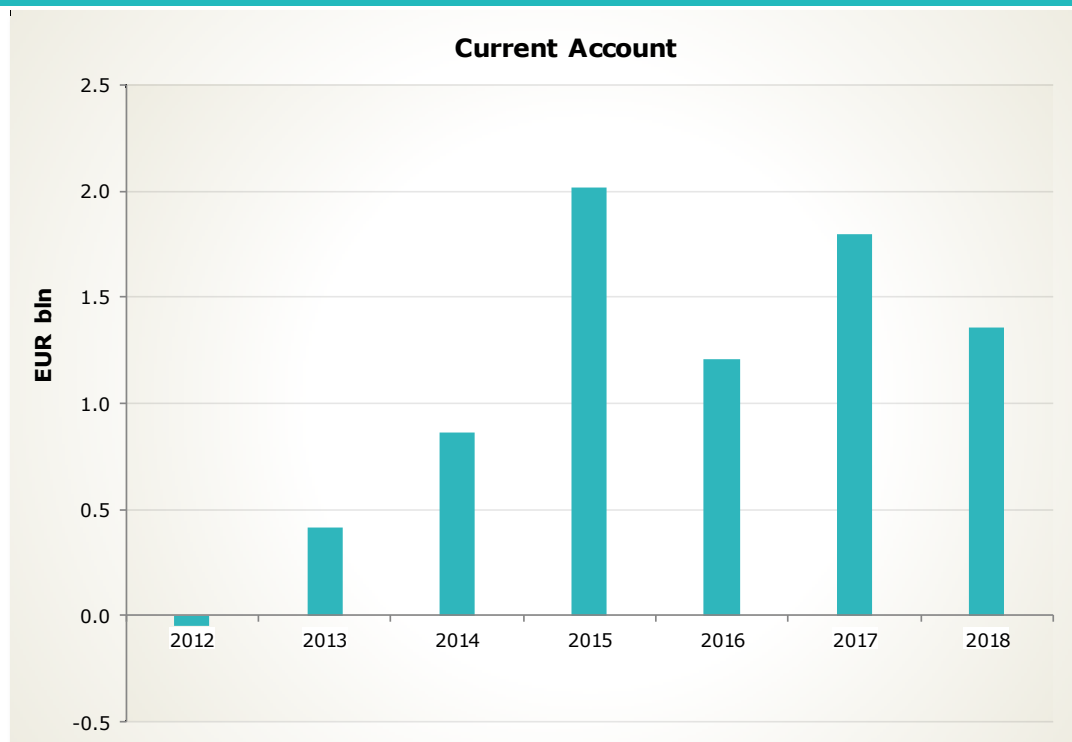
## 7.2. BALANCE OF PAYMENTS

### Current account surplus down 24.5% y/y to EUR 1.354 bln

In 2018, Croatia had a current account surplus of 1.354 bln, down 24.5% y/y, according to HNB statistics data. In the previous year, 2017, the current account surplus was EUR 1.795 bln. 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 8.254 bln, down 12.4% y/y, while services surplus went up by 5.4% y/y to EUR 9.826 bln.

The secondary income account was positive during 2018 at EUR 1.725 bln compared to a surplus of EUR 1.591 bln in 2017.

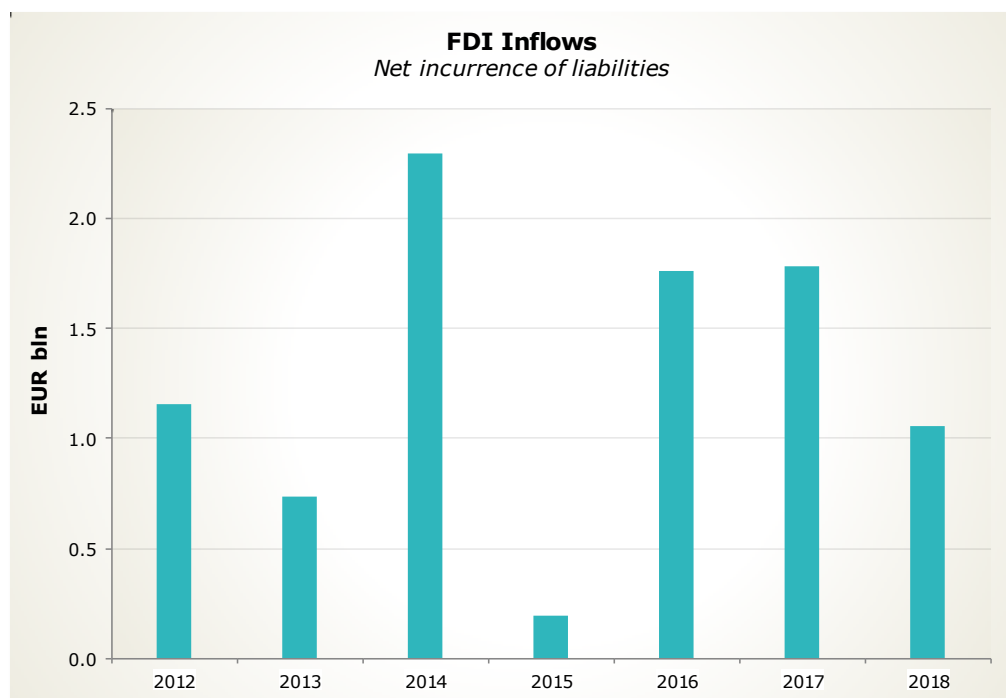


Source: HNB

### 7.3. FDI

#### Net FDI inflow at EUR 1.058 bln in 2018

Net Foreign Direct Investments (FDI) inflow in Croatia totalled EUR 1.058 bln in 2018, according to preliminary data of HNB. This is a 40.6% decrease compared to a year earlier when FDIs amounted to EUR 1.782 bln.



Source: HNB

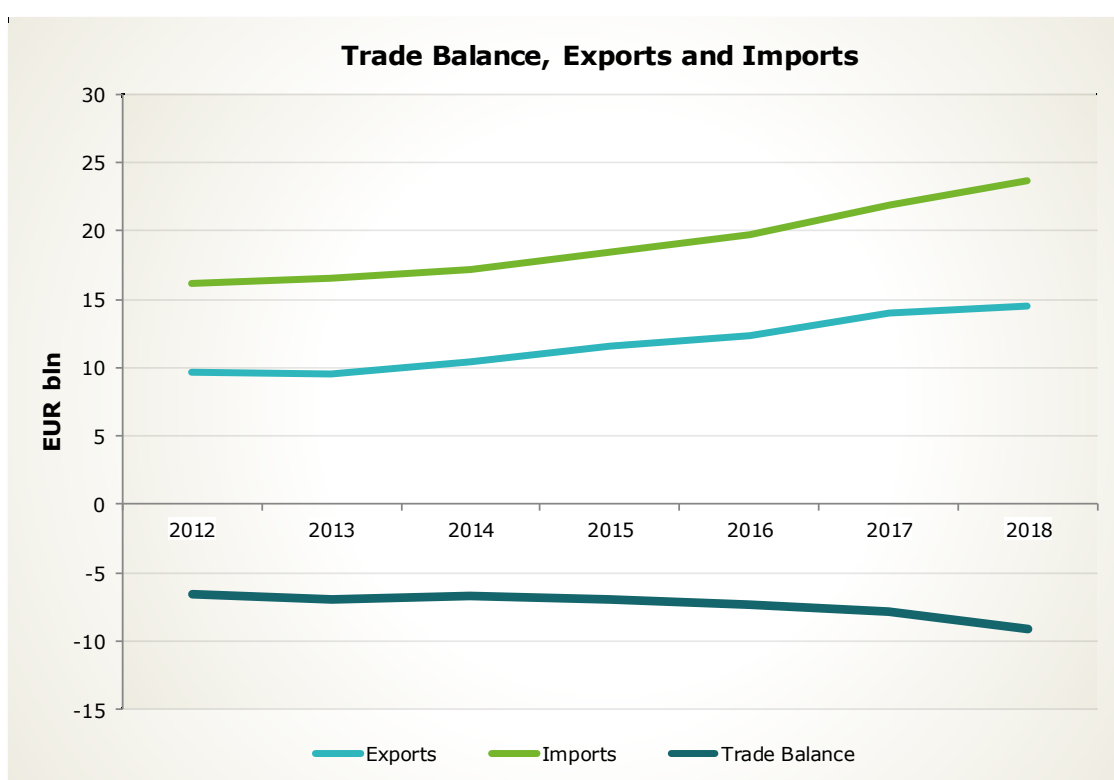


## 7.4. FOREIGN TRADE

### Foreign trade deficit deepened by 16.1% y/y to EUR 9.141 bln in 2018

The trade deficit stood at EUR 9.141 bln in 2018, compared to EUR 7.875 bln in the previous year, according to DZS.

Exports grew 3.6% y/y to EUR 14.517 bln, while imports increased by 8.1% on the year to EUR 23.658 bln. Imports increased more than exports as a consequence of the faster growth in the import of machinery and transport equipment, and manufactured goods classified chiefly by material.



Source: HNB

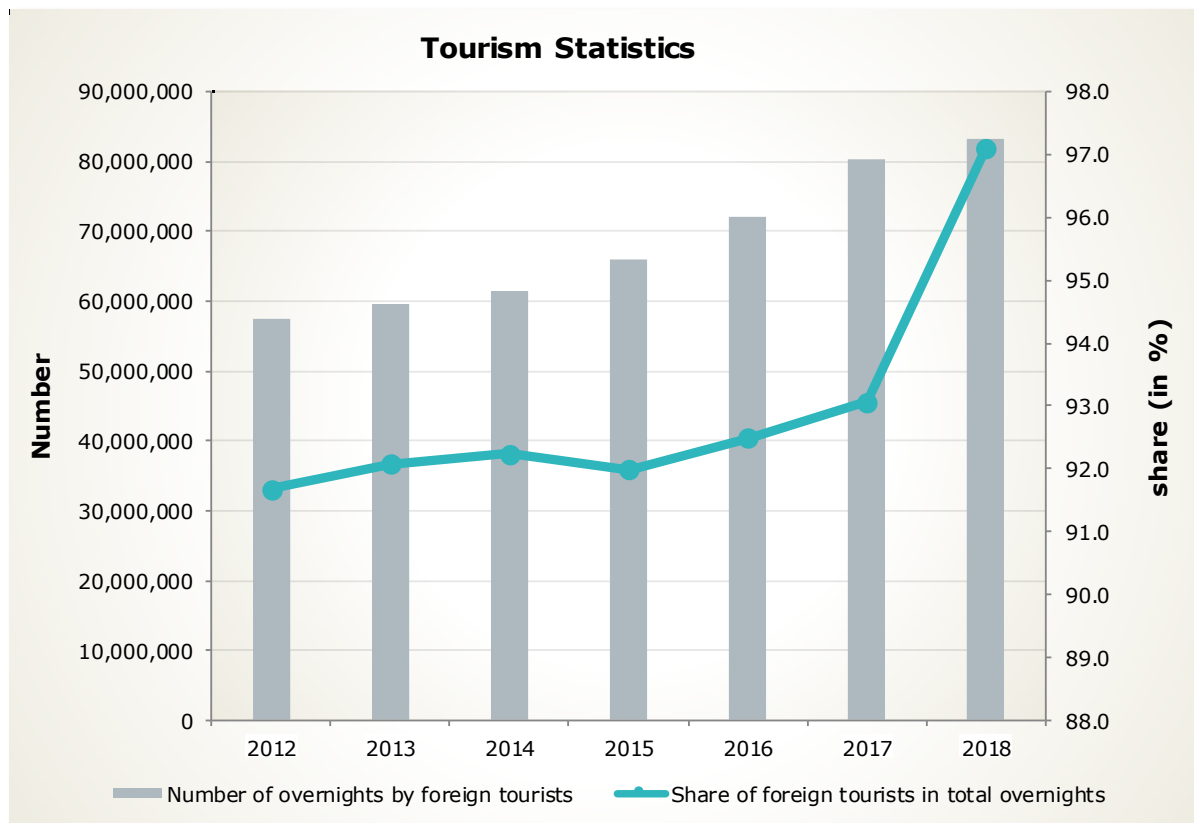
## 7.5. TOURSIM

### Number of foreign tourist overnights increased by 3.7% y/y in 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 3.7% to 83.175 million in 2018, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 85.652 million in the year, decreasing by 0.6% in comparison to a year earlier.

The number of foreign tourists went up by 6.7% y/y to 16.645 million.



Source: DZS

## 8. MAJOR DEVELOPMENTS

### **Croatia to build EUR 70.1 mln road in Rijeka**

Dec 19, 2018

Croatia's government signed a EUR 70.1 mln financing agreement for the construction of the DC 403 road connecting the western part of the country's principal seaport of Rijeka with the city ring road.

[Read the full story here](#)

### **Croatia may cancel F-16 deal with Israel**

Dec 12, 2018

Croatia may cancel the deal for the purchase of 12 F-16 multi-purpose fighter jets from Israel, Prime Minister Andrej Plenkovic has said.

[Read the full story here](#)

### **IMF advises Croatia to speed up public administration reform**

Dec 11, 2018

Croatia's government needs to focus on the restructuring of public administration, in order to dynamise the country's economy and transfer to a more efficient state, the International Monetary Fund (IMF) said.

[Read the full story here](#)

### **EIB lending EUR 300 mln for cohesion projects in Croatia**

---

Dec 10, 2018

The European Investment Bank (EIB) plans to extend EUR 300 mln loan to Croatia in the second and final portion of a EUR 600 mln financing designed to speed up the implementation of Cohesion Policy projects.

[Read the full story here](#)

***Croatia contributes EUR 500,000 for Bosnia under ERI initiative***

Dec 10, 2018

Croatia will contribute EUR 500,000 euro for the Economic Resilience Initiative (ERI) of the European Investment Bank (EIB) to support job creation and infrastructure investments in Bosnia and/or other Western Balkan countries, the lender said.

[Read the full story here](#)

***Croatian investment agency signs ESIF guarantee deal with 6 banks***

Nov 26, 2018

Croatia's innovations and investments agency HAMAG-BICRO signed an agreement with six local banks for the implementation of the Capped Portfolio Guarantee Instrument from the European Structural and Investment Funds (ESIF), according to the agency.

[Read the full story here](#)

***EBRD approves financing concept for Bosnia-Croatia gas link project***

Oct 23, 2018

The European Bank for Reconstruction and Development (EBRD) has approved the financing concept for the construction of a gas pipeline linking Bosnia to Croatia, Bosnian monopoly BH Gas said.

[Read the full story here](#)

## **DISCLAIMER:**

Whilst the information contained in this Profile has been given in good faith and every effort has been made to ensure its accuracy, SeeNews cannot guarantee the accuracy of this information and hereby expressly disclaims any responsibility for error, misinterpretation and any and all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the Service referred to herein, or in the event of bankruptcy, liquidation or cessation of trade in any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned. Unless otherwise stated, the copyrights and any other rights in all material on this site are owned by SeeNews. Use of this Profile is provided by SeeNews subject to the following Terms and Conditions:

1. Use of this Profile constitutes your acceptance of these Terms and Conditions which take effect when you first use this Profile. SeeNews reserves the right to change these terms and conditions at any time by posting changes on line. You are responsible for reviewing regularly information posted on line to obtain timely notice of such changes. Your continued use of the Profile after changes are posted constitutes your acceptance of this agreement.
2. Neither SeeNews nor other related parties, whilst endeavouring to provide 24/7 availability, will be held liable if for any reason the Profile is unavailable at any time.
3. Access to this Profile may be suspended temporarily or permanently and without notice.
4. Whilst SeeNews endeavours to ensure that the information on this site is correct and up-to-date, no warranty, express or implied, is given as to its accuracy and SeeNews does not accept any liability for error or omission.
5. Part of this Profile contains materials submitted to SeeNews by third parties. Third parties are responsible for ensuring that materials submitted for inclusion on this Profile complies with national and relevant international law. SeeNews cannot guarantee the accuracy of this material and hereby expressly disclaims any responsibility for error, omission or inaccuracy in the material, misinterpretation and any all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the services referred to herein, or in the event of bankruptcy, liquidation or cessation of trade of any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned or from SeeNews upon explicit request.
6. SeeNews shall not be liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this Profile, or any data contained in it, or from any action or decision taken as a result of using this Profile or any such information.
7. SeeNews accepts no responsibility for the content of any site to which a hypertext link from this Profile exists. Such links are provided for your convenience on an "as is" and "as available" basis with no warranty, express or implied, for the information provided within them.
8. If any of these terms should be determined to be illegal, invalid or otherwise unenforceable by reason of the laws of any state or country in which these terms are intended to be effective, then to the extent and within the jurisdiction in which that term is illegal, invalid or enforceable, it shall be severed and deleted from the clause concerned and the remaining terms and conditions shall remain in full force and effect and continue to be binding and enforceable.
9. By accessing and reading any part of this Profile, you should have accepted these Terms in full.

## **Copyright**

All rights reserved. Downloads and print extracts of SeeNews content are allowed for personal and non-commercial use only. Re-publication or re-distribution of content, including by framing, is strictly prohibited without the prior written consent of SeeNews.

SeeNews Ltd 2019