

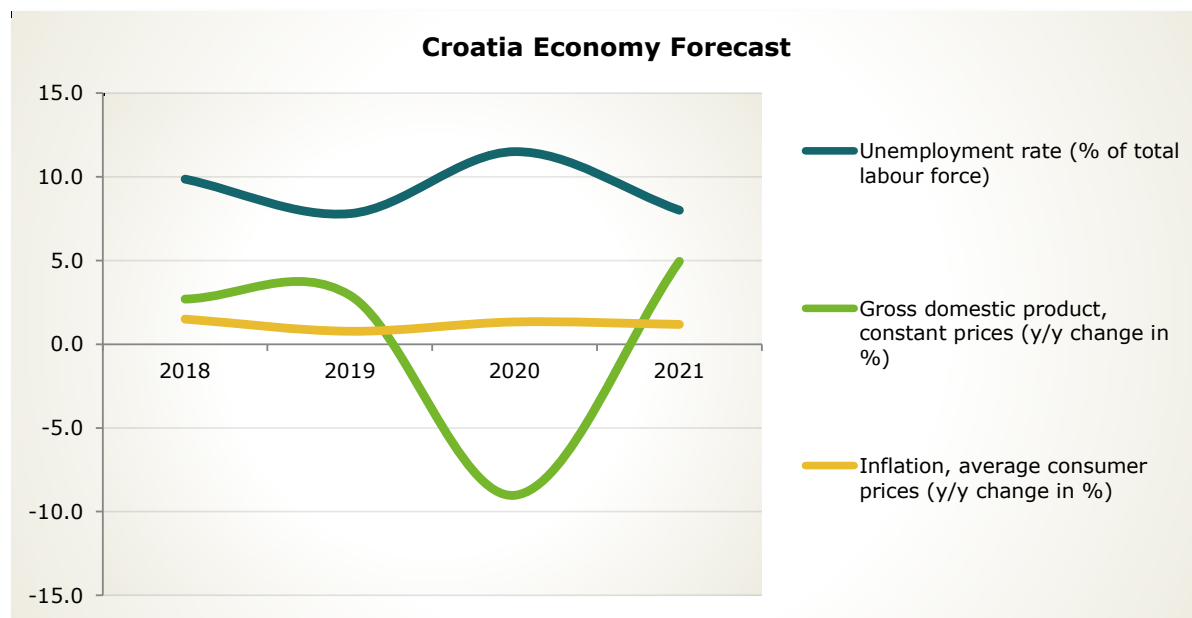
CROATIA ECONOMY REPORT 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

CROATIA – MACROECONOMIC SNAPSHOT AS OF 2019	
GDP Growth	2.9% y/y
Industrial output	0.6% y/y
Industrial sales	-1.8% y/y
Wholesales	4.9% y/y
Retail sales	4.8% y/y
Average annual inflation	0.8%
Unemployment rate	6.6%
Number of building permits	12.2% y/y
Money supply growth	2.9% y/y
Household loans	6.9% y/y
CROBEX blue-chip index	5.0% q/q
Gross external debt	EUR 40.9 bln
Current account surplus	EUR 1.6 bln
Net FDI inflow	EUR 1.2 bln
Foreign trade deficit	EUR 9.8 bln
Number of foreign tourist overnights	1.2% y/y

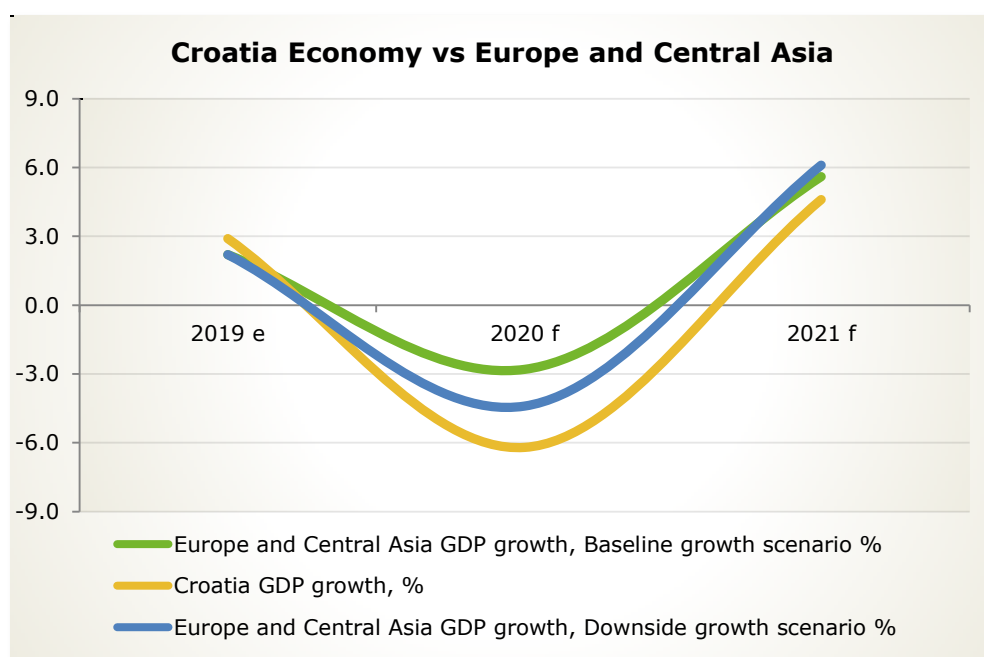


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2020

Croatia's economy will be hit hard by the COVID-19 pandemic and GDP will deteriorate by 9.0% y/y, according to IMF. Given the high uncertainty of the current situation, the macroeconomic outlook may be further revised downwards. Growth is expected to resume in 2021 in a V-shaped recovery, although the projected 4.9% annual rate will not be enough to bring the economy to its pre-crisis level at least by 2022. Inflation is projected to pick up slightly to the 1.2% - 1.3% range over the period 2020-2021. Despite fiscal and social measures

for preventing mass job losses, deployed by the Croatian government, unemployment will jump to its highest level since 2016, of 11.5%, mainly as a consequence of the two-month complete lockdown and the expected dramatic drop in travel and tourism, responsible for more than a quarter of the country's total employment.

According to the World Bank estimates from April 2020, GDP growth is likely to come in at negative 6.2% in 2020, sharply down from 2.9% in 2019 and the previous forecast of 2.6% for 2020. This is lower than the projected baseline and downside growth scenarios for Europe and Central Asia, of -2.8% and -4.4% in 2020, respectively. The recovery in the short term, until 2021, of Croatia's economy is expected to be at 0.5 pp to 1.5 pp slower rate than the average in Europe and Central Asia.



Source: World Bank, Europe and Central Asia Economic Update, Spring 2020

Croatia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices, y/y ct	3.1	2.7	2.9	-6.2	4.6	3.2
Private Consumption	3.1	3.2	3.5	-3.3	1.2	3.1
Government Consumption	2.2	1.3	3.3	3.1	2.3	2.4
Gross Fixed Capital Investment	5.1	4.1	7.1	-4.6	5.1	6.0
Exports, Goods and Services	6.8	3.7	4.6	-19.6	19.4	5.2
Imports, Goods and Services	8.4	7.5	4.8	-13.4	12.7	5.8
Real GDP growth, at constant factor prices (by sec	2.6	2.2	2.6	-6.2	4.6	3.2
Agriculture	-2.5	2.2	1.2	4.0	2.0	2.0
Industry	1.8	0.4	2.3	-3.5	2.1	2.3
Services	3.1	2.8	2.7	-7.6	5.7	3.6
Inflation (Consumer Price Index)	1.1	1.5	0.8	0.2	1.4	1.5
Current Account Balance (% of GDP)	3.4	1.9	2.0	-1.2	1.9	2.2
Net Foreign Direct Investment (% of GDP)	2.3	1.4	1.3	1.4	1.3	3.6

Source: World Bank, Europe and Central Asia Economic Update, Spring 2020

2. REAL SECTOR

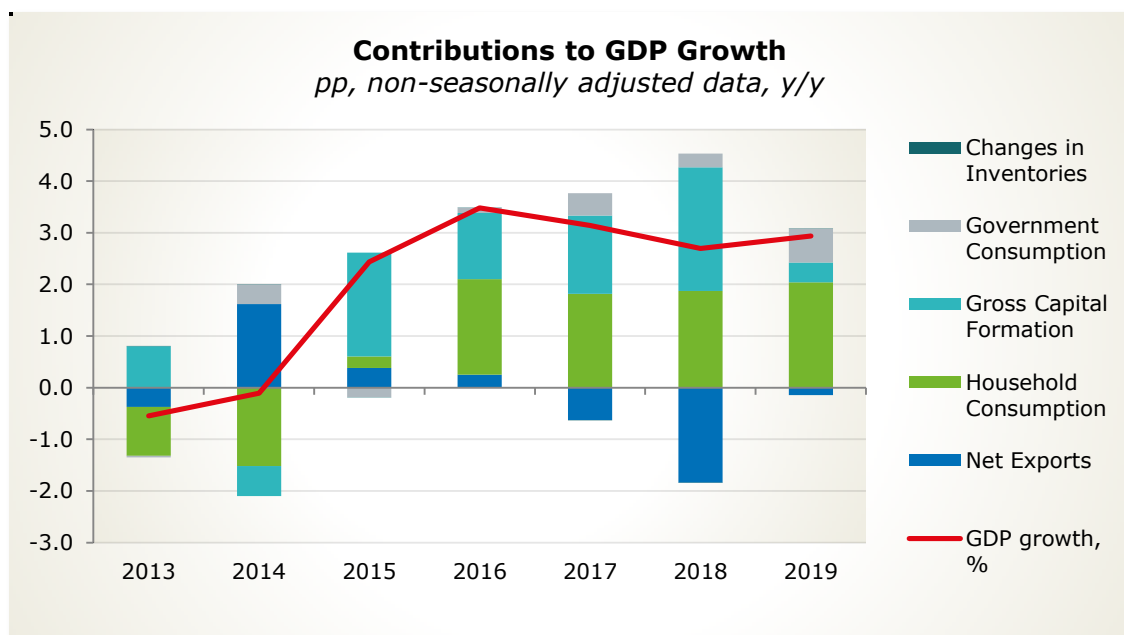
2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth picked up in 2019 to 2.9% y/y from 2.7% y/y in 2018

The country's GDP increased by a real 2.9% y/y and totalled HRK 383.3 bln in 2019, according to preliminary data of the Croatian Bureau of Statistics (DZS). The main driver behind this growth was household consumption and to a much lesser extent – government consumption and gross capital formation.

Final consumption, which accounted for 78.6% of the GDP, expanded by 3.5% y/y. Gross capital formation went up by 1.7% y/y. Exports grew slower than imports, by 4.6% and 4.8%, respectively. As a result, the foreign trade took out 0.1 pp from the GDP growth.

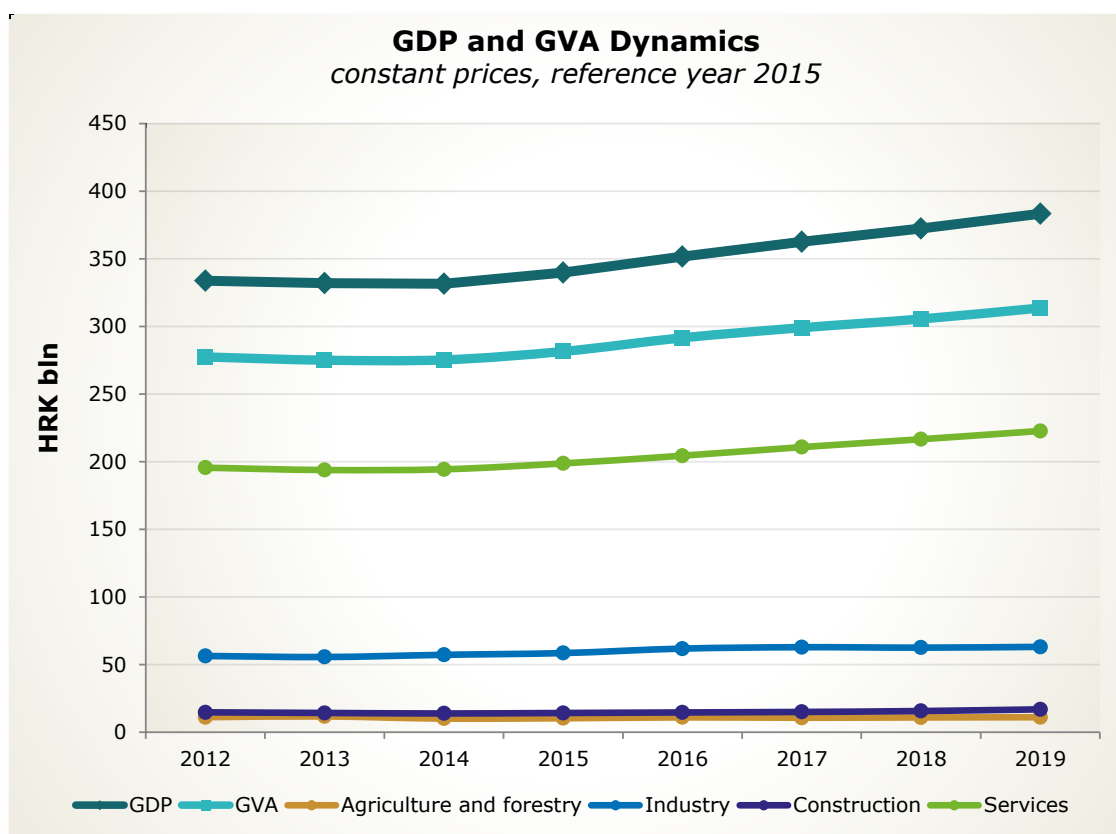
Household consumption remained strong, advancing by 3.5% y/y in real terms in 2019 and contributed with 2.0 pp to the overall growth. Major factors behind this trend are the increasing employment and the real wage rise.



Source: DZS; SeeNews calculations

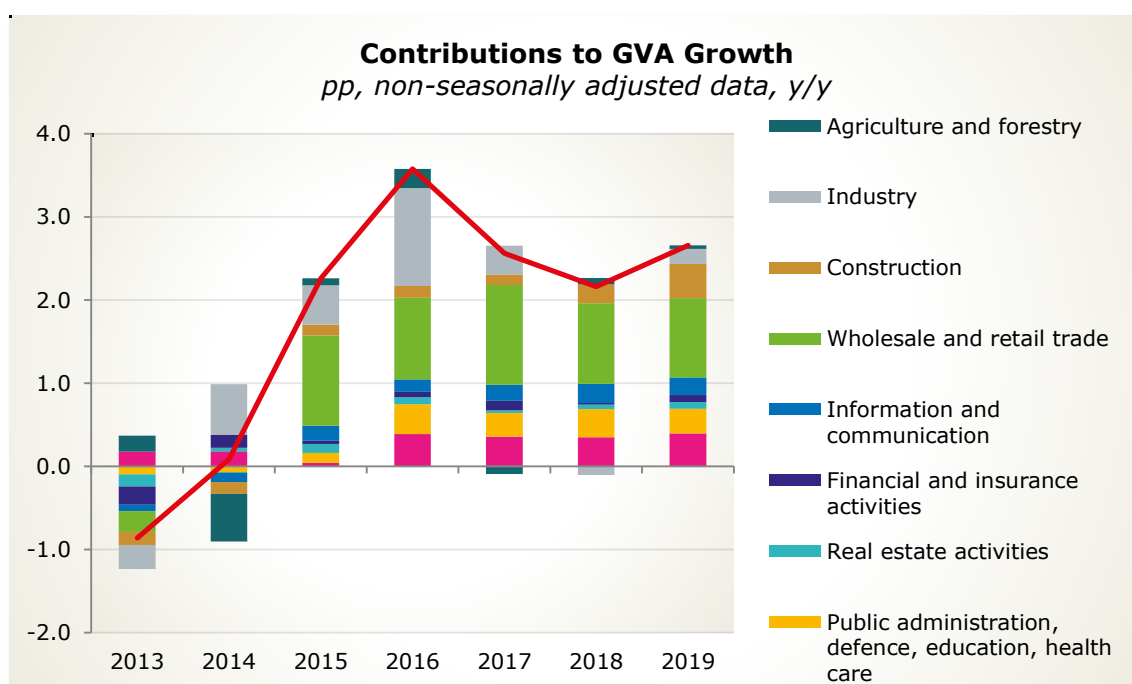
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy grew by 2.7% y/y in 2019 and totalled HRK 313.6 bln. Construction went up by 8.0%, while agriculture and forestry increased by 1.2% y/y and kept its 3.5% share in the Croatian economy. The services sector recorded a 2.8% annual rise, slicing a 71.0% share in the GVA. The industrial sector posted the lowest annual rise among the economy sectors, of 0.9% and decreased its GVA share to 20.1% from 20.4% in the previous year.



Source: DZS

Retail and wholesale trade was the largest contributor to GVA growth in 2019, with 1.0 pp, followed by construction and other services with 0.4 pp each.



Source: DZS; SeeNews calculations

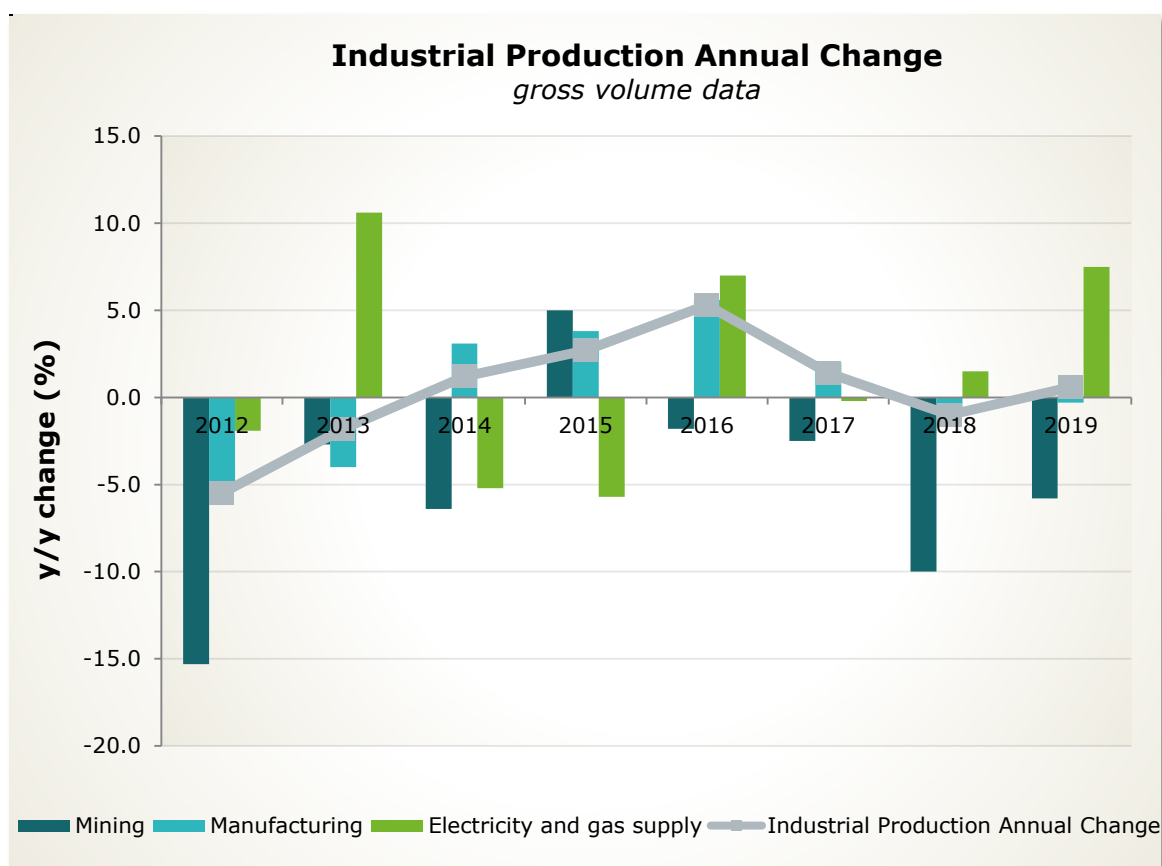
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output increased in 2019 by 1.1% y/y

The industrial production in Croatia went up by 0.6% on the year in 2019, according to DZS data. This is an acceleration compared to 2018, when industrial production contracted by 1.0% y/y.

The rise was backed by the 7.5% annual increase in the output of the electricity and gas supply sector. The production of the manufacturing sector inched down by 0.3%, while the output of the mining sector fell by 5.8% y/y.



Source: DZS

2.3. INDUSTRIAL SALES

Industrial sales decreased by 1.8% y/y in 2019

Industrial sales went down by 1.8% y/y in 2019, compared to a 3.6% annual increase in the previous year, according to DZS.

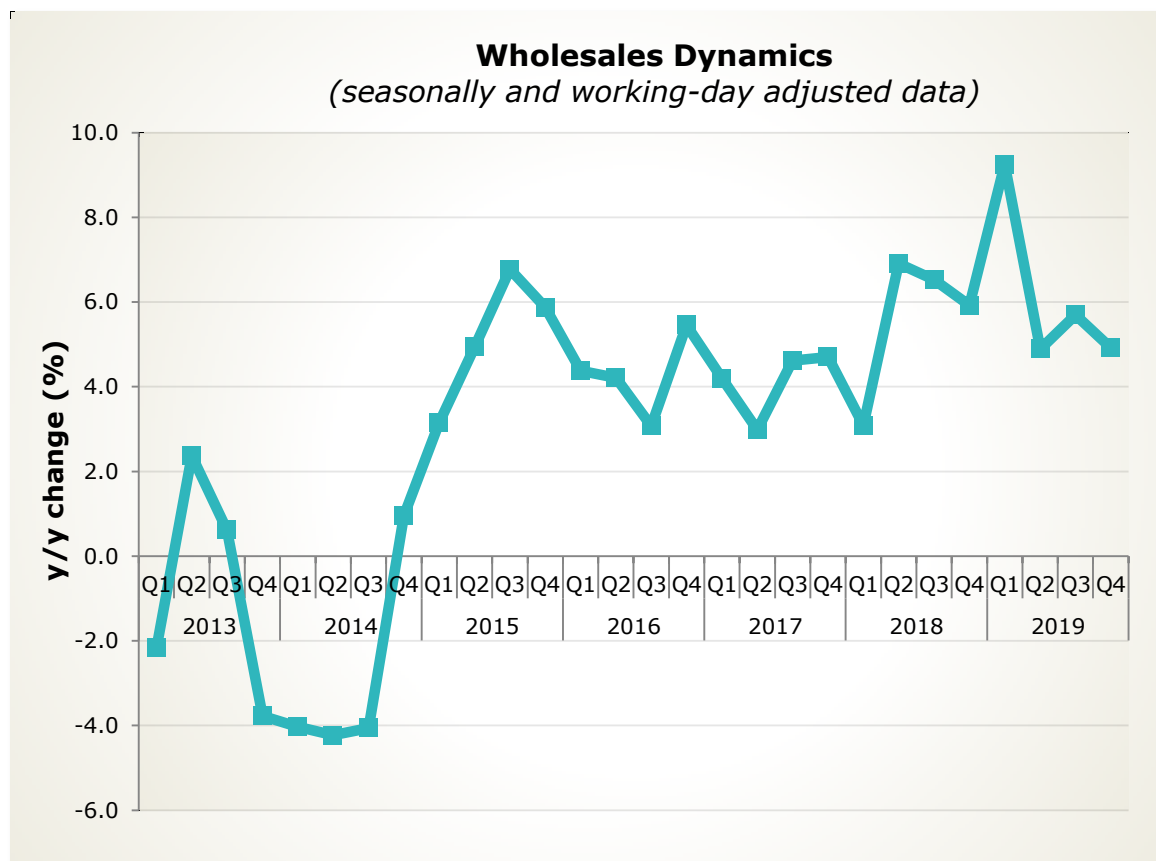
Industrial sales were pushed up by the 6.4% annual rise of sales of capital goods. In addition, consumer durables and intermediate goods went up by 2.5% and 2.0% y/y, respectively.

Sales of consumer non-durables goods inched down by 1.4%, while sales in the energy sector plummeted by 26.6% y/y.

2.4. WHOLESALE/RETAIL

Retail sales grew by 4.8% y/y in 2019, wholesales up 4.9% y/y in Q4 2019

Retail sales annual growth slowed down to 4.8% in 2019, from 5.0% in the first nine months of the year, according to DZS data. In Q4 2019, wholesales advanced by 4.9% y/y, down from 5.9% y/y in the same quarter of the previous year.

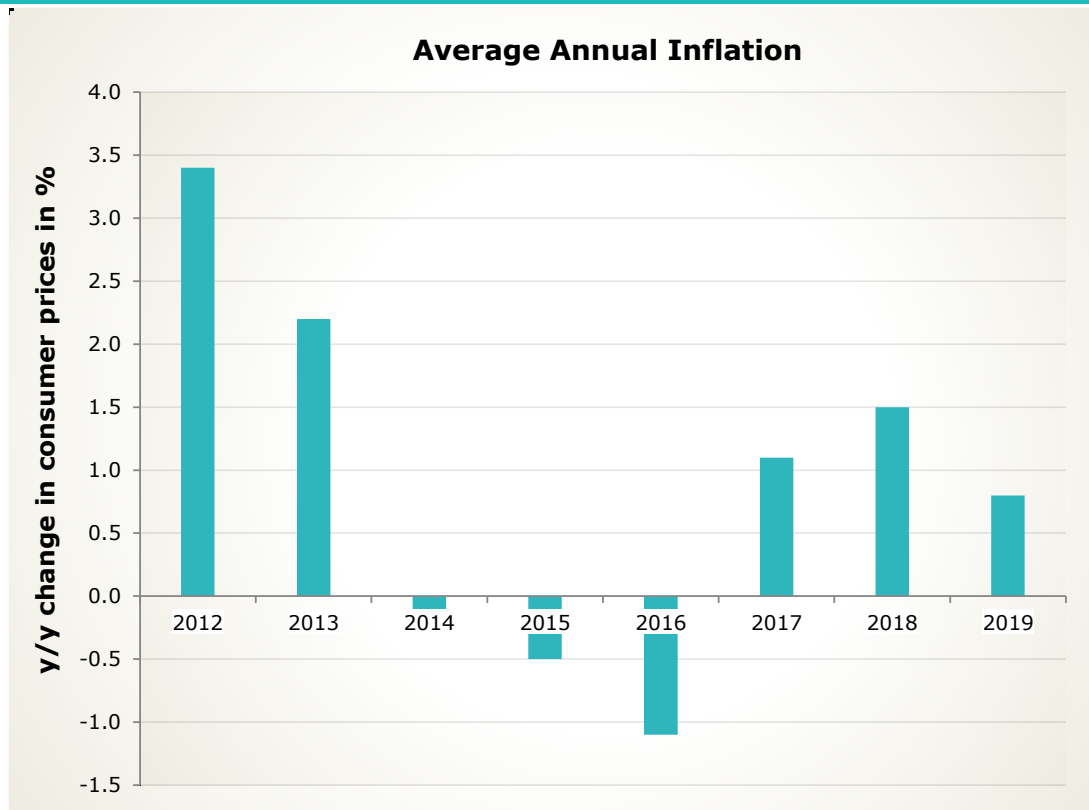


Source: DZS

2.5. INFLATION

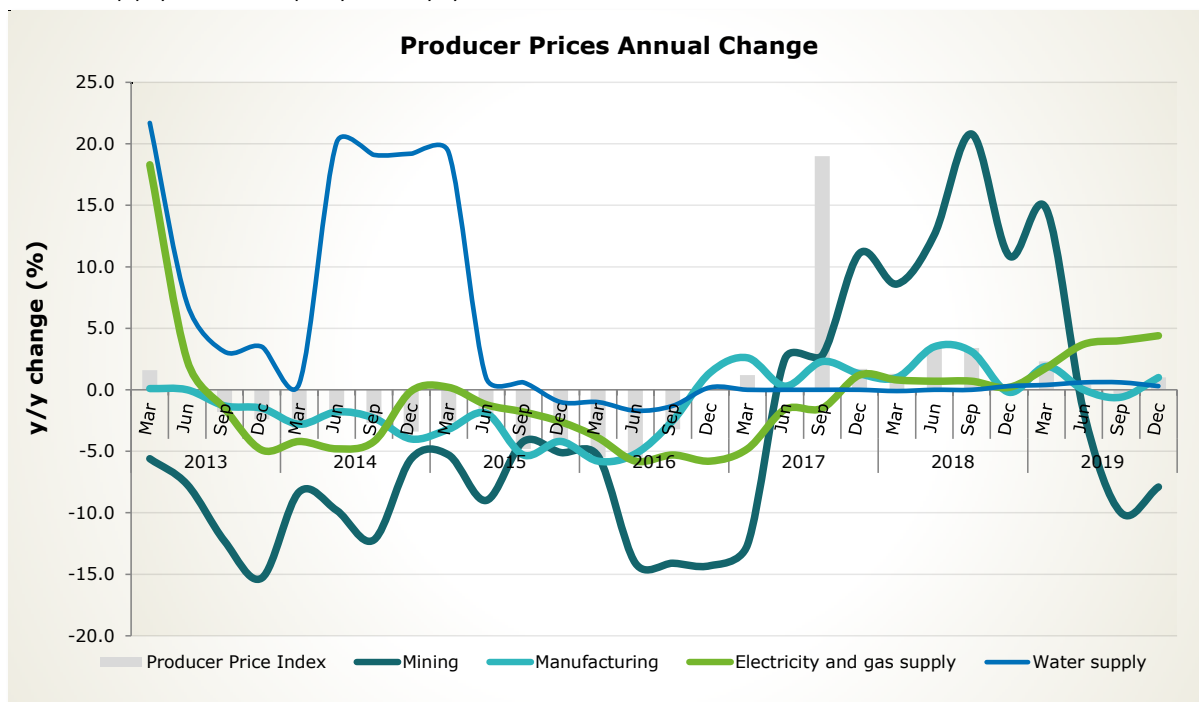
Inflation slowed down to 0.8% in 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change, stood at 0.8%, down from 1.5% in 2018, according to DZS. Inflation was boosted by the 4.4% rise in the price of alcoholic beverages and tobacco, together with the housing, water, electricity, gas and fuels product group with 3.1%. In terms of deflation, healthcare and clothing and footwear were the leading segments with -0.9% each.



Source: DZS

Producer prices went up annually, by 1.0% in December 2019. Manufacturers' producer prices notched up by 1.0%, while the average producer prices in the mining sector slumped by 7.9% y/y. The electricity and gas supply sector saw an increase of 4.4% y/y on average. Water supply inched up by 0.3% y/y.



Source: DZS

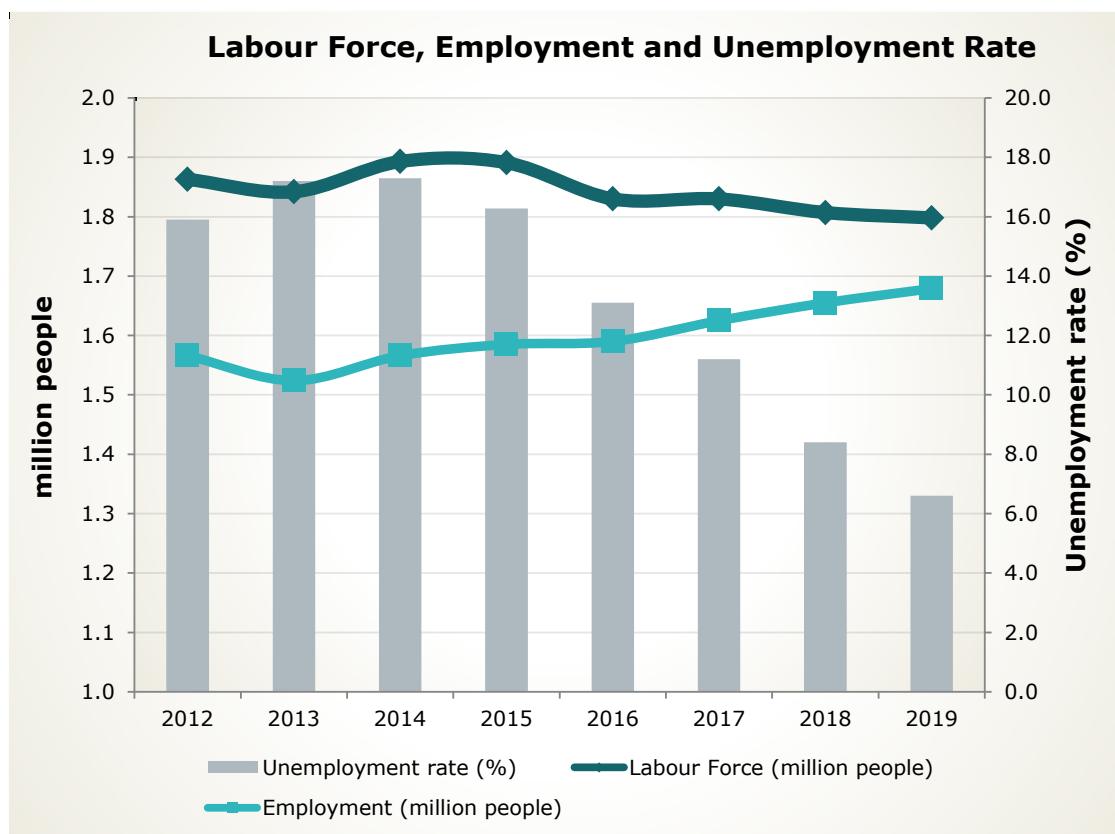
3. LABOUR MARKET

Unemployment rate continued to trend downwards to 6.6% in 2019, wages grew 3.4% y/y

The favourable labour market developments that marked the first nine months of 2019 persisted in the last quarter of the year. The average annual unemployment rate in Croatia narrowed to 6.6% of the total labour force, down from 8.4% in 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 1.679 million on average in 2019, up 1.5% y/y.

The average monthly net salary in 2019 went up by 3.4% y/y to HRK 6,457, 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 12.2% y/y in 2019

The number of permits for new buildings, excluding civil engineering, issued in Croatia in 2019 increased by 12.2% y/y and totalled 6,548, according to DZS data.

Permits for non-residential buildings went down by 3.1% to 1,136, while permits for residential buildings registered a 4.5% increase to 4,878.

The total built-up area of the non-residential units covered by the permits rose by 1.3% y/y, to 946,167 sq m. The total built-up area of the housing units jumped by 25.8% to 1,788,490 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. HRK EXCHANGE RATE

The average annual exchange rate of the HRK against the EUR decreased to HRK 7.4136 in 2019 from HRK 7.4141 in 2018, according to the Croatian National Bank (HNB).

Average Annual HRK Exchange Rate			
Foreign Currency	2019	2018	2017
EUR	7.4136	7.4141	7.4601
USD	6.6223	6.2784	6.6224
GBP	8.4542	8.3817	8.5172
CHF	6.6622	6.4197	6.7223

5.2. MONETARY POLICY

The national bank kept the policy rate unchanged at 3.0%

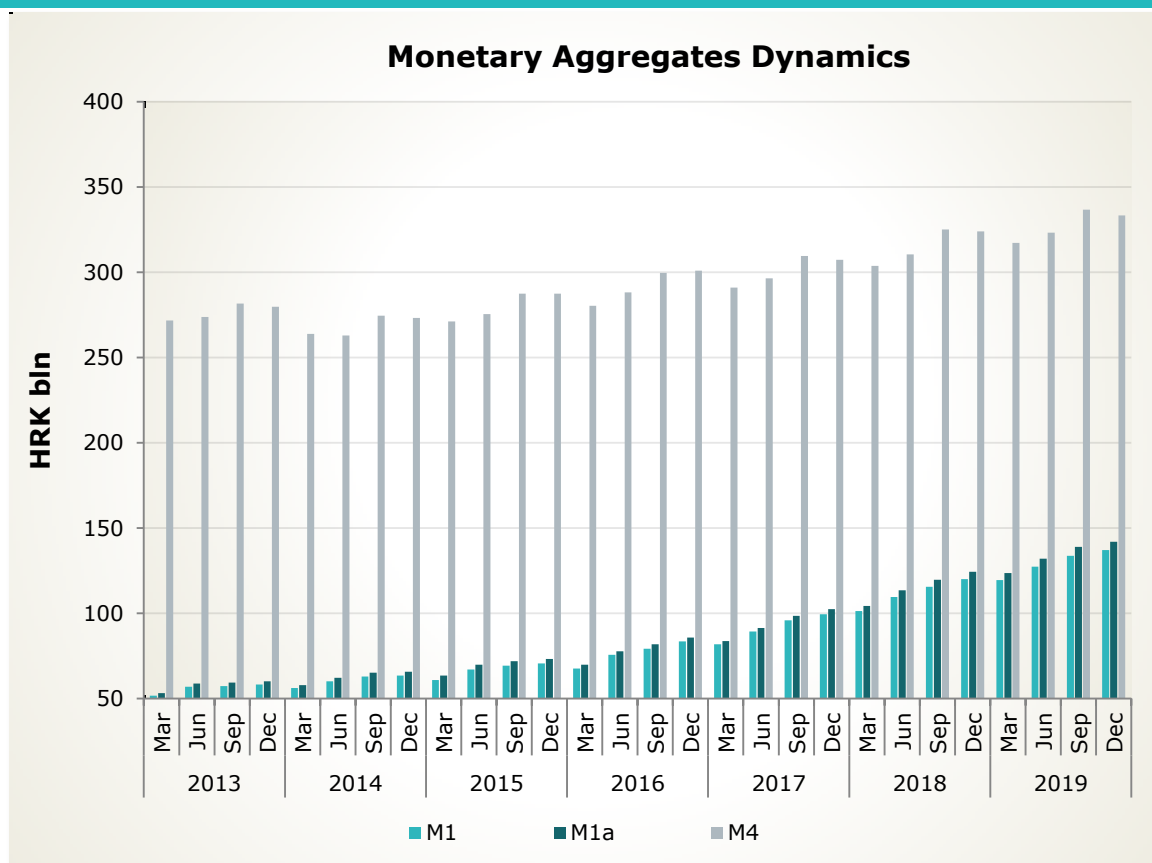
The HNB continued its expansionary monetary policy keeping the monetary policy rate at 3.0% as of December 2019. The average weighted interest rate in inter-bank trade on the overnight market was at 2.5%.

5.3. MONETARY AGGREGATES

Money supply grew by 2.9% y/y in December 2019

In December 2019, broad money expanded by 2.9% y/y and reached HRK 333.3 bln, according to data provided by HNB.

Monetary aggregate M1 grew annually by 14.3%, while M1a increased by 14.2% compared to the previous year.



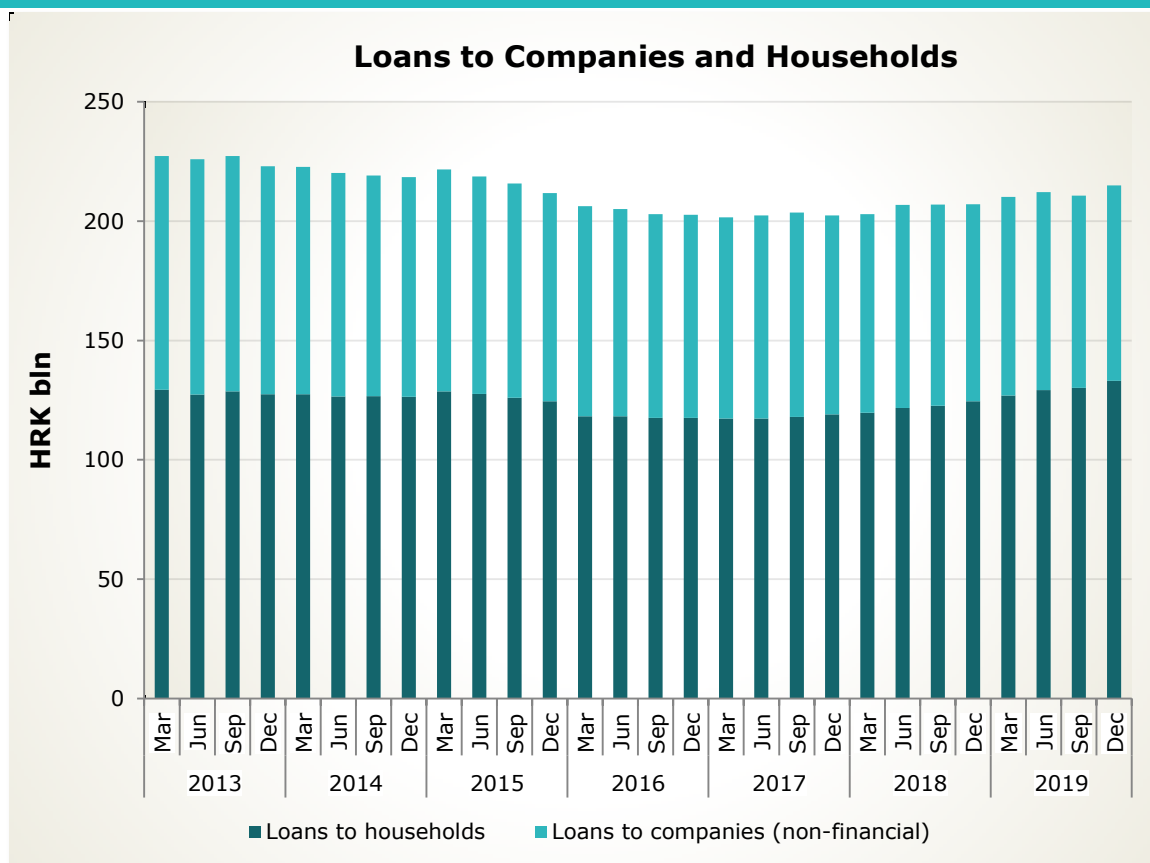
Source: HNB

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 6.9% y/y in December 2019

Household loans went up by 6.9% to HRK 133.1 bln, according to HNB data. House purchasing loans advanced by 6.3% to HRK 57.4 bln, accounting for 43.1% of the total household loans. The second largest loan type, slicing a 39.8% share, was the any-purpose cash loan with its value rising to HRK 52.9 bln from HRK 47.7 bln in December 2018, according to HNB. Loans to non-financial corporations narrowed by 0.8% to HRK 81.9 bln.

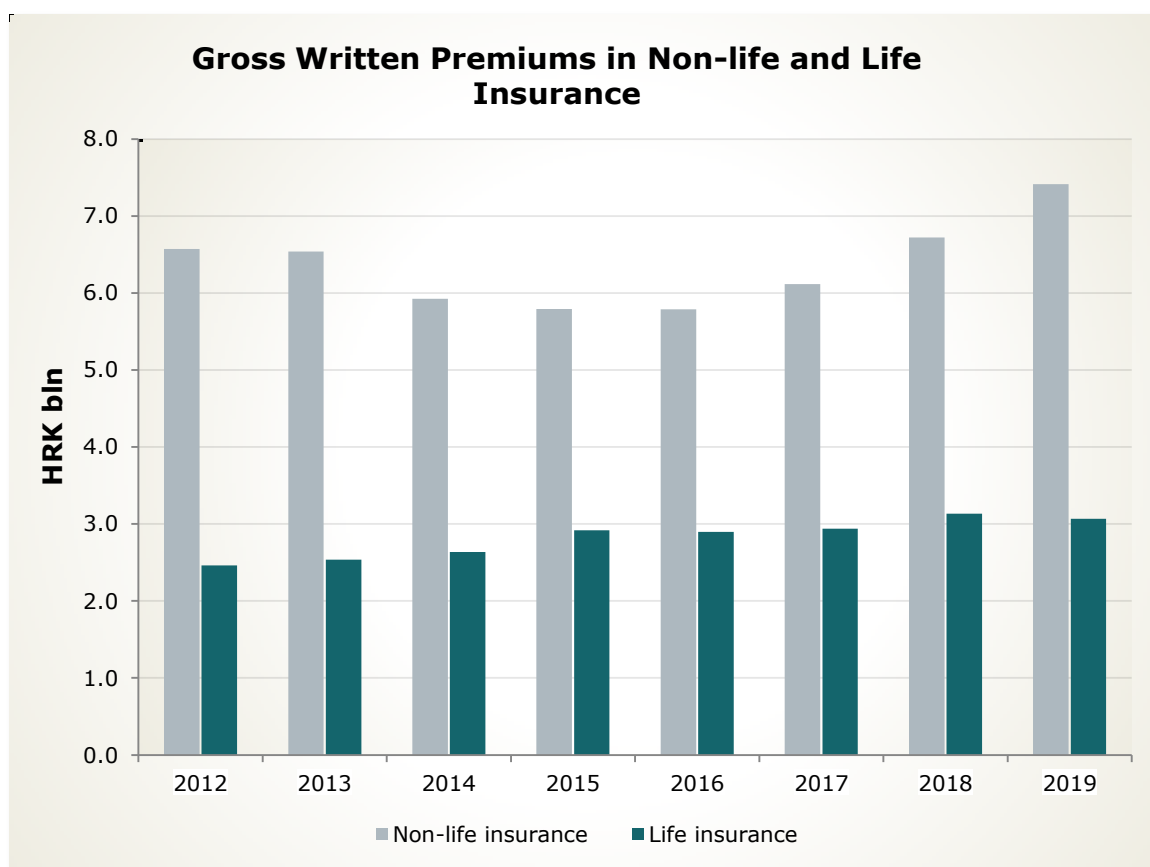


Source: HNB

Insurance premium income up 6.3% y/y in 2019

The total gross written premiums (GWP) of the non-life and life insurance companies, excluding reinsurance, stood at HRK 10.5 bln in 2019, up by 6.3% y/y, according to the Croatian Financial Services Supervisory Agency (HANFA).

The uptrend was due to the 10.3% annual increase of the non-life insurance sector, which posted GWP of HRK 7.4 bln. The life insurance sector went down by 2.2% y/y to HRK 3.1 bln.

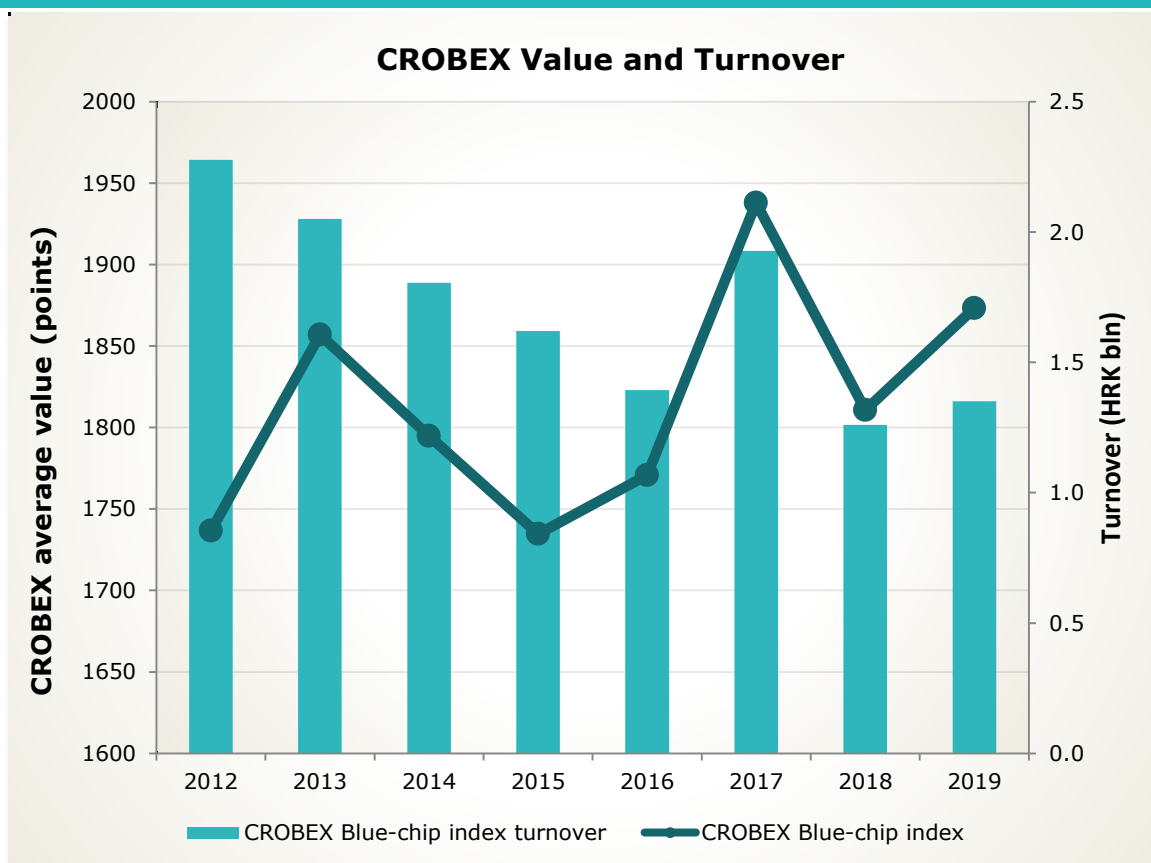


Source: HANFA

6. CAPITAL MARKETS

Blue-chip CROBEX slightly up in 2019

The average value of CROBEX, the blue-chip index of the Zagreb Stock Exchange (ZSE), grew by 3.5% y/y to 1,873.3 points in 2019. The CROBEX turnover totalled HRK 1.351 bln in 2019, compared to HRK 1.260 bln in 2018.



Source: ZSE

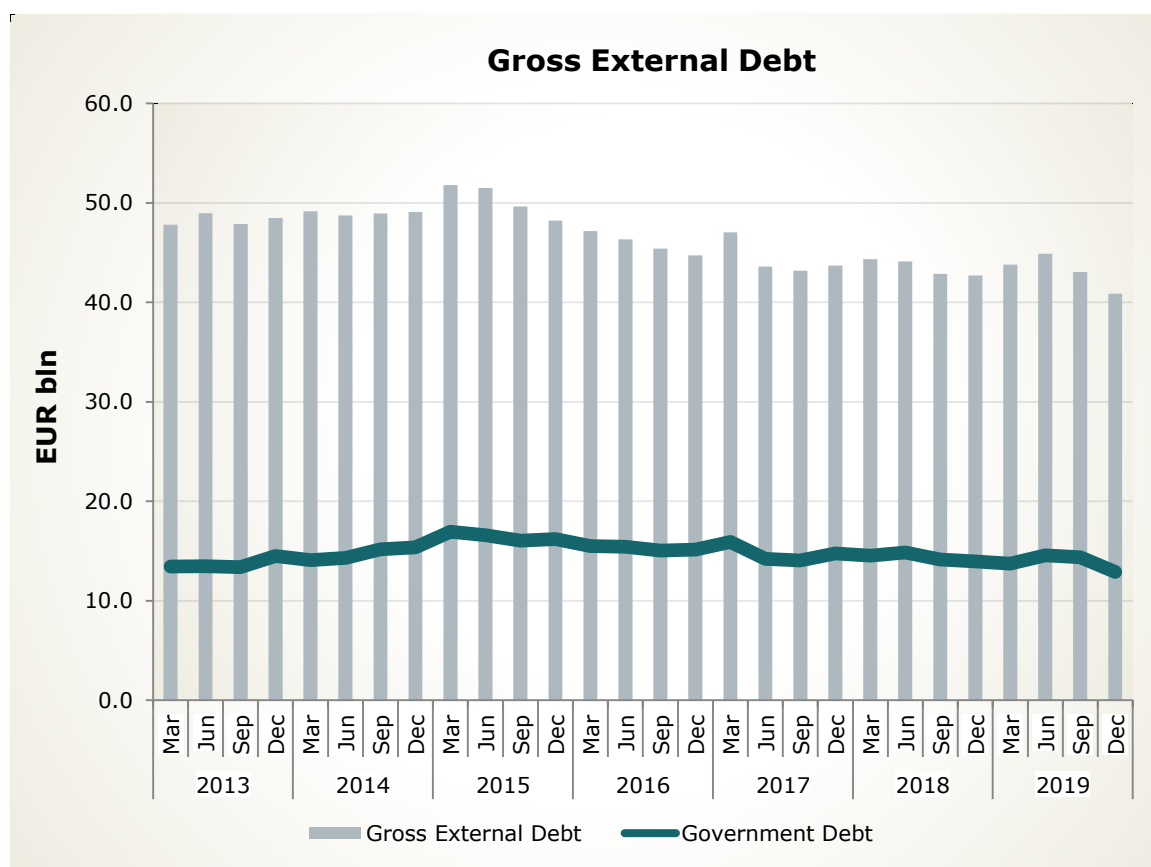
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt down 4.3% y/y to EUR 40.9 bln in December 2019

The gross external debt totalled EUR 40.9 bln as of end-2019, according to HNB. It went down by 4.3% y/y or by 1.8 bln in comparison to a year earlier.

As of December 2019, long-term liabilities amounted to EUR 27.7 bln, or 67.9% of the total debt, decreasing by 3.0% on the year. Short-term liabilities totalled EUR 7.0 bln, equal to 17.1% of the total debt and down by 9.8% compared to a year ago.



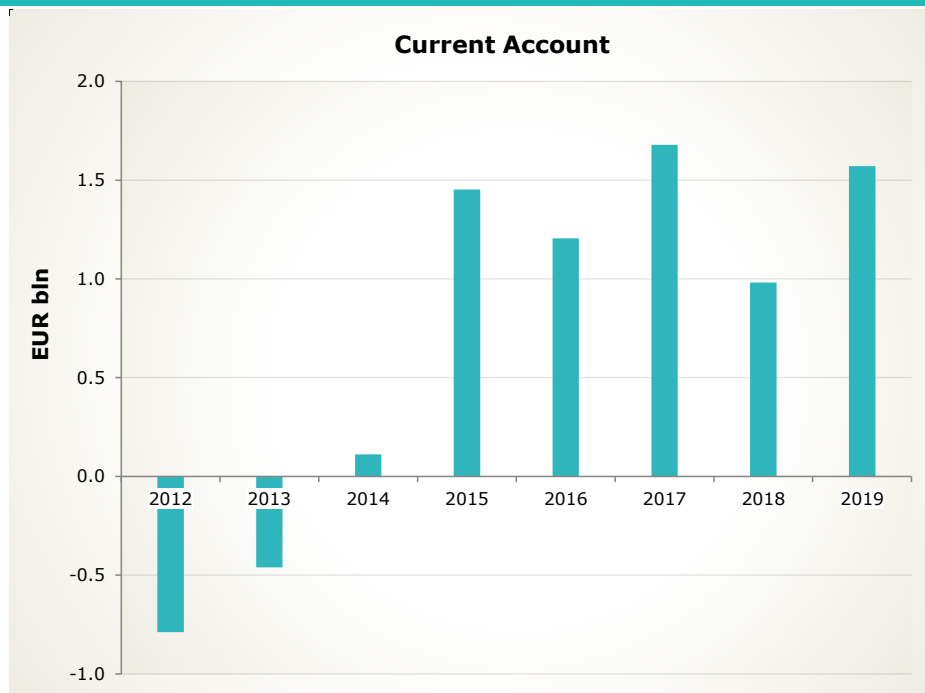
Source: HNB

7.2. BALANCE OF PAYMENTS

Current account surplus up by 59.9% y/y to EUR 1.571 bln in 2019

In 2019 Croatia had a current account surplus of EUR 1.571 bln, up from EUR 0.982 bln in 2018, according to HNB statistics data. The current account of the balance of payments of Croatia is usually in a deficit in all but the third quarter, as the country is a popular sea tourist destination. The surplus generated in Q3 2019, of EUR 4.571 bln, completely outweighed the gaps in the rest of the year.

The secondary income account was positive during 2019, at EUR 2.436 bln, compared to a surplus of EUR 2.197 bln in 2018.

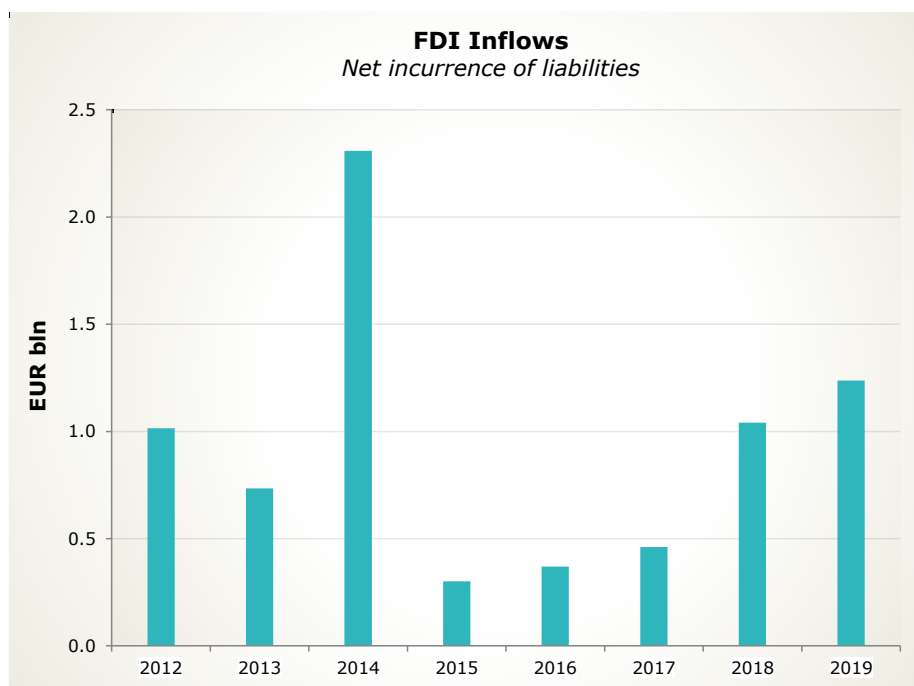


Source: HNB

7.3. FDI

Net FDI inflow was positive, at EUR 1.237 bln in 2019

Net Foreign Direct Investments (FDI) inflow in Croatia amounted to EUR 1.237 bln in 2019, up from EUR 1.041 bln in the previous year, according to preliminary data of HNB. This was the highest annual net FDI inflow in the country since 2014, when EUR 2.309 bln were invested in Croatia.



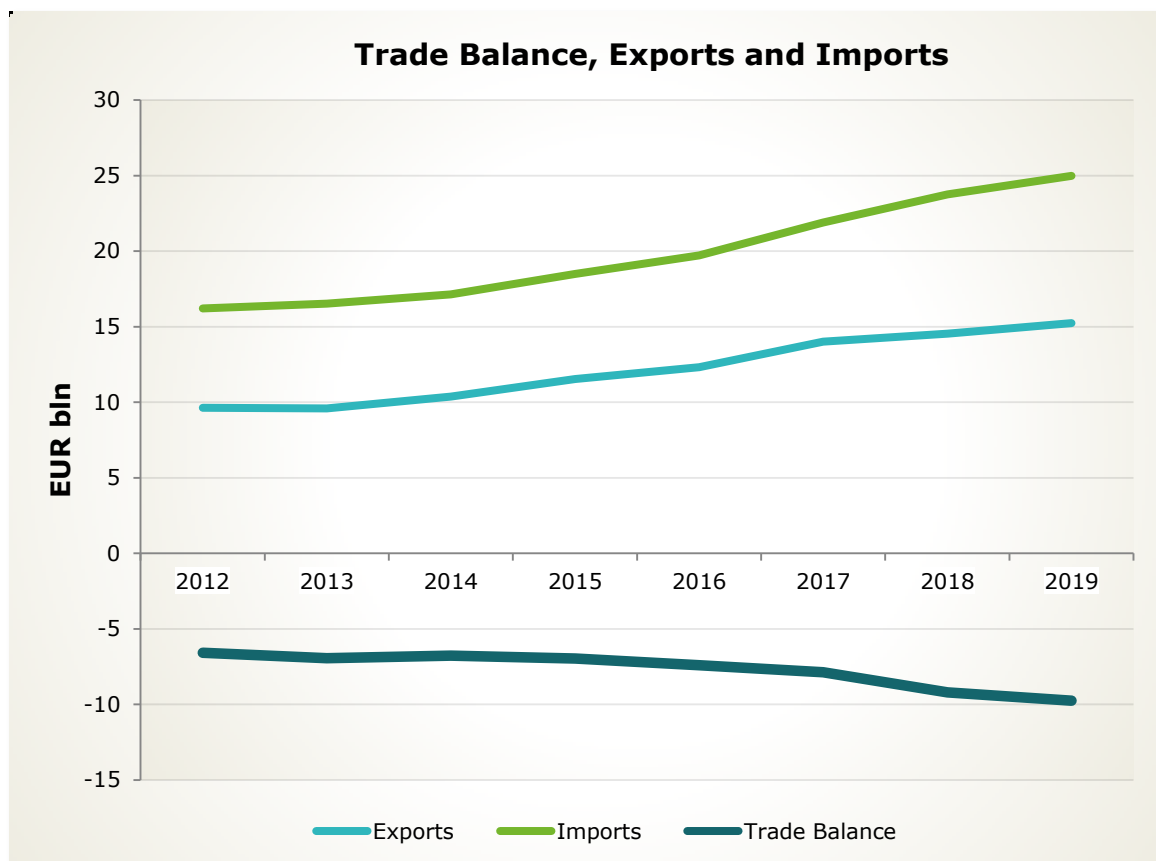
Source: HNB

7.4. FOREIGN TRADE

Foreign trade deficit expanded by 6.0% y/y to EUR 9.8 bln in 2019

The trade deficit stood at EUR 9.8 bln in 2019, compared to EUR 9.2 bln in the previous year, according to DZS.

Exports grew 4.7% y/y to EUR 15.2 bln, while imports increased faster, by 5.2%, to EUR 25.0 bln. Machinery and transport equipment registered the sharpest annual rise in exports, of 13.0%, while three product groups recorded a decline – mineral fuels and lubricants, miscellaneous manufactured articles and non-classified goods. The growth in imports was fuelled by the 20.3% rise in exports of beverages and tobacco, followed by food and live animals with 11.7% and animal and vegetable oils and fats with 11.0%.



Source: HNB

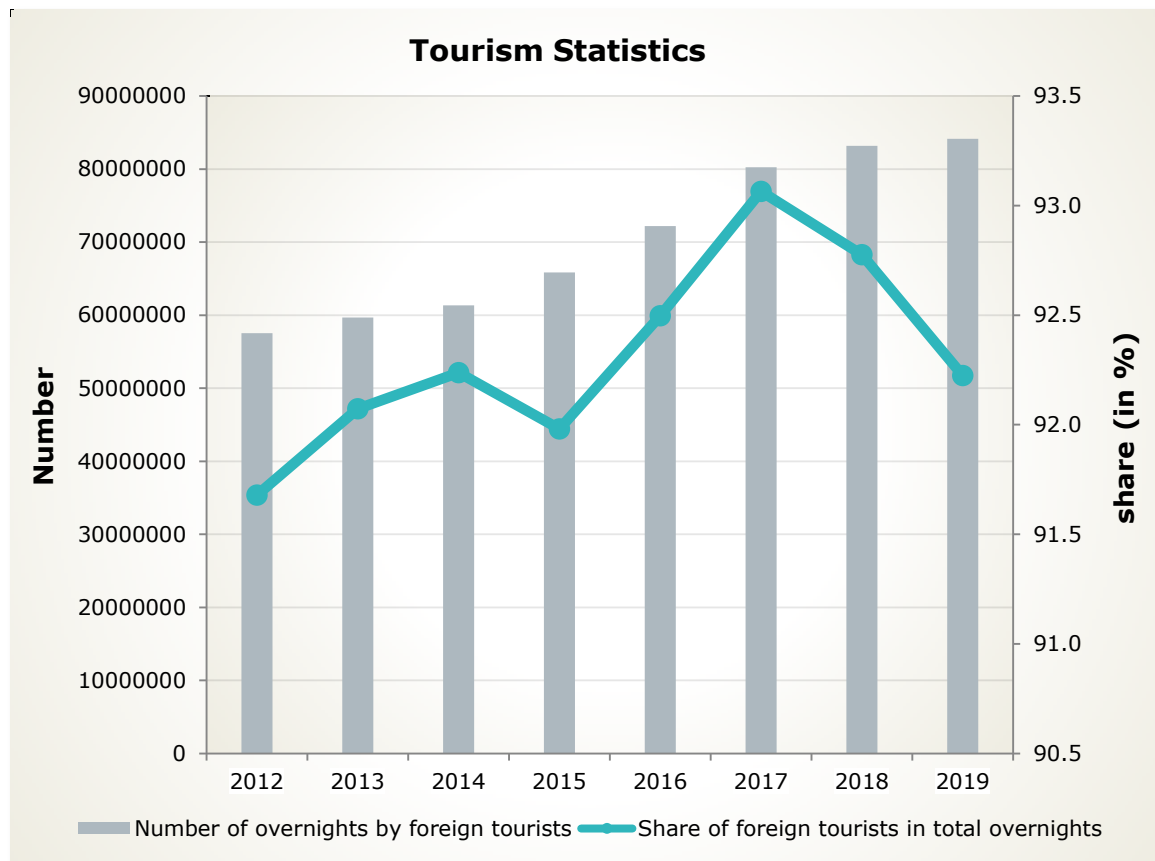
7.5. TOURSIM

Number of foreign tourist overnights increased by 1.2% y/y in 2019

Croatia is a popular sea tourist destination due to its location on the Adriatic Sea and the period July-September was responsible for 71.1% of all overnights of foreign tourists in 2019. On annual basis, the tourist overnights of foreigners inched up by 1.2% to 84.148 million, according to DZS.

The total number of overnights, both of foreign and local tourists, stood at 91.243 million in 2019, up by 1.8% in comparison to a year earlier.

The number of foreign tourists went up by 4.3% y/y to 17.353 million.



Source: DZS

8. MAJOR DEVELOPMENTS

Croatia EU funds absorption rate rises to 83% at end-2019 - PM

Dec 30, 2019

Croatia's rate of absorption of European Union funds will increase to 83% at the end of 2019, prime minister Andrej Plenkovic said.

[Read the full story here](#)

Croatia signs EU funding deal for EUR 365 mln railway revamp project

Dec 27, 2019

Croatia has signed a European Union funding deal for the planned upgrade of the 44 km Hrvatski Leskovac-Karlovac railway section worth HRK 2.72 bln (USD 407 mln/EUR 365 mln), the transport ministry said on Friday.

[Read the full story here](#)

EBRD to lend UniCredit Leasing Croatia 75 mln euro for SMEs, energy efficiency

Dec 27, 2019

The European Bank for Reconstruction and Development (EBRD) will lend EUR 75 mln (USD 83.5 mln) to UniCredit Leasing Croatia to support leasing finance of micro, small and medium companies, as well as energy efficiency investments in the country, it said on Friday.

[Read the full story here](#)

Croatia to invest EUR 116.5 mln in two water projects

Dec 17, 2019

Croatia will invest some HRK 867 mln (USD 130 mln/EUR 116.5 mln) in the construction and reconstruction of water supply and sewer systems in the northern Koprivnica-Krizevci county, the environment ministry said.

[Read the full story here](#)

Croatia to invest EUR 3.0 bln in railway network in next 10 years - PM

Dec 17, 2019

Croatia plans to invest EUR 3.0 bln (USD 3.3 bln) in improving its railway network in the next 10 years, prime minister Andrej Plenkovic said.

[Read the full story here](#)

Fitch affirms Croatia at 'BBB-', outlook positive

Dec 9, 2019

Fitch Ratings said it has affirmed Croatia's long-term foreign- and local-currency issuer default ratings (IDRs) at 'BBB-', with a positive outlook.

[Read the full story here](#)

Croatia's c-bank FX reserves rise 1.2% m/m in Oct

Nov 29, 2019

Croatia's central bank said on Friday its foreign exchange reserves rose 1.2% month-on-month in October to a preliminary EUR 20.289 bln (USD 22.314 bln).

[Read the full story here](#)

Croatia raises foreign workers quota for 2020

Nov 25, 2019

The Croatian government said it has decided to issue 103,740 work permits to foreign nationals next year, up by some 40,000 compared to this year, in order to alleviate a labour shortage.

[Read the full story here](#)

Croatian parl approves 2020 budget targeting 0.2%/GDP surplus - report

Nov 14, 2019

Croatia's parliament approved on Thursday the 2020 budget bill targeting a consolidated general government surplus of HRK 629 mln (USD 94 mln/EUR 84 mln), equivalent to 0.2% of the projected gross domestic product, public broadcaster HRT reported.

[Read the full story here](#)

Croatia could join Eurozone by 2024 - PM

Nov 12, 2019

Croatia could join the Eurozone at the beginning of 2023 or a year later, prime minister Andrej Plenkovic said in November.

[Read the full story here](#)

EU gives green light to drinking water, wastewater projects in Croatia worth EUR 156.6 mln

Nov 4 , 2019

The European Commission said in November it has given its approval to two projects worth a combined EUR 156.6 mln to upgrade water and wastewater infrastructure in Croatia.

[Read the full story here](#)

Croatia needs to invest EUR 269 mln to raise tunnel network safety - report

Oct 21, 2019

Croatia needs to invest EUR 269 mln to raise the safety of its road tunnels network, bringing it in line with EU standards, local media reported in October, citing transport ministry information.

[Read the full story here](#)

Croatia joins European Blockchain Partnership

Oct 11, 2019

Croatia has decided to join the European Blockchain Partnership (EBP), a platform offering more than EUR 300 mln to EU member states for the development of cross-border digital public services with the highest standards of security and privacy, the government said.

[Read the full story here](#)

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