

Croatian Economic Outlook

Quarterly



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Forecast Update

Global recovery continues

Global economic activity is still on a recovery path, however, on a weaker one than expected. Some of the reasons for this weakening include a decrease in the activity of advanced economies towards the end of 2015, eroding commodity prices, and China's transition to a more balanced growth model after a decade of strong credit and investment growth. In light of this situation, the International Monetary Fund (World Economic Outlook, April 2016) revised its estimated world output growth to 3.2 percent this year, followed by a mild pick-up in activity of 3.5 percent in 2017, a downward revision of 0.2 and 0.1 percentage points from the January forecast.

Euro zone growth is leveling off

Euro zone continued along a recovery path with a growth rate of 1.6 percent in 2015.

Favorable effects from lower energy prices and modest fiscal expansion should be the main growth drivers in the current and following year; however, they are still not strong enough to outweigh high private and public debt, poor investment climate, and negative effects of long-term unemployment. IMF projects growth rates to stand at 1.5 and 1.6 percent for 2016 and 2017, respectively, down by 0.2 and 0.1 percentage points from their January forecast.

Recovery in Croatia is gaining momentum

Ever since the last quarter of 2014, the Croatian economy is on a recovery path. Last year the economy grew by 1.6 percent, after six consecutive years of decline. This positive momentum carried on into the beginning of 2016 as well, with first quarter's growth rate of 0.8 percent (measured quarter-to-quarter,

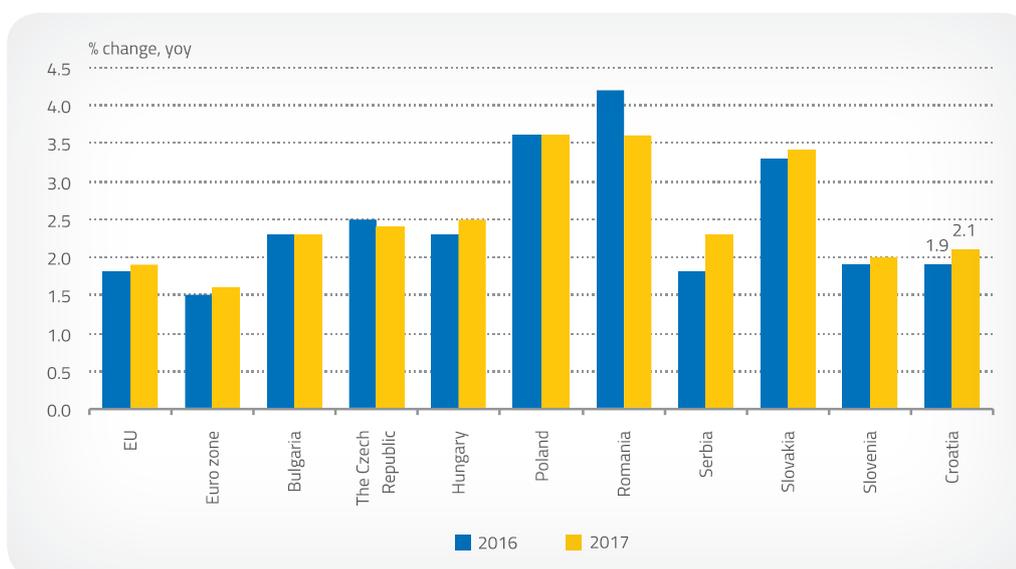


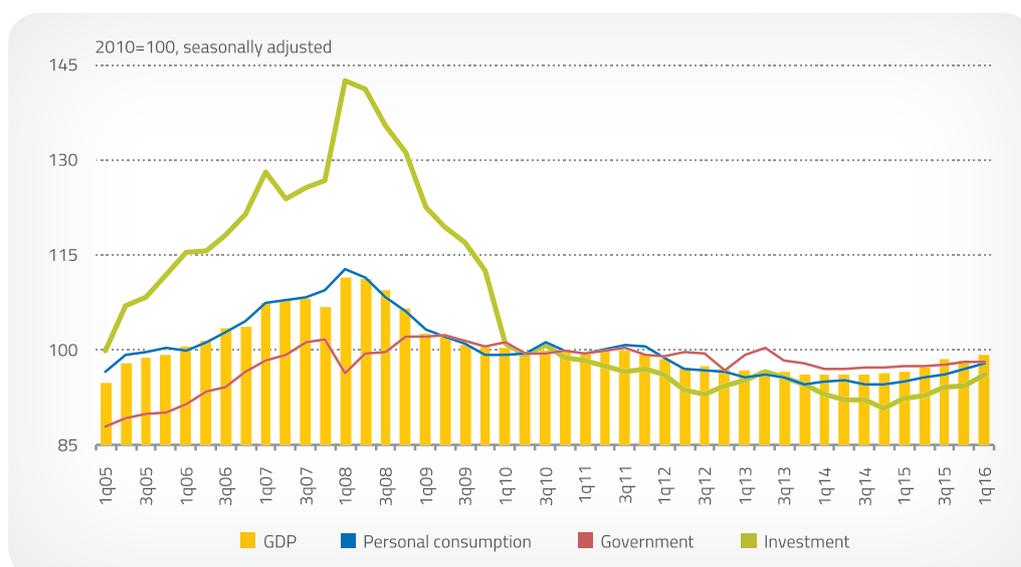
Figure 1
Real GDP Growth
Forecasts for the
EU, Croatia and
Selected CEE
Countries

Source: *World Economic Outlook*, IMF, April 2016 and EIZ for Croatia.

Figure 2
Real Gross
Domestic Product

Note: Seasonally adjusted by X11ARIMA (Statistics Canada).

Source for the original data: Croatian Bureau of Statistics.



seasonally adjusted). When compared to the same period last year, GDP in the first quarter of 2016 increased by 2.7 percent. Based on positive signals from all GDP components, we have revised our GDP forecast for the current and the following year upwards and it now stands at 1.9 and 2.1 percent, respectively (Figure 1).

Personal consumption recovery is speeding up

Personal consumption rebounded in the first quarter of 2015 and has been growing ever since (Figure 2). In 2015, as a whole, it increased by 1.2 percent and in the first quarter of 2016 it went up by 3.1 percent (measured year-on-year), in what has been the highest recorded increase since the beginning of 2008. This positive momentum is also reflected in quarter-to-quarter growth, which stood at 0.9 percent (seasonally adjusted) in the first quarter of this year. Positive effects of tax changes in 2015, Swiss franc loans conversion, low oil prices and improved consumer optimism should ensure the continuation of consumption recovery. Projected figures for 2016 and 2017 were both revised upwards by 0.1 percentage point and now stand at 1.5 and 1.6 percent.

Government consumption is expected to gradually increase

After growing by 0.6 percent in 2015, government consumption remained relatively stable at the beginning of 2016 (Figure 2) and in the first quarter recorded a modest 0.1 percent increase when compared to the previous quarter (seasonally adjusted) and

went up by 0.6 percent when compared to the same period last year. The newly elected government came forward with the new budget which does not deviate much when compared to the last year's budget. Taking into account that the European Commission declared not to take any additional corrective measures within the Excessive Deficit Procedure (EDP) and Macroeconomic Imbalances Procedure (MIP), and that the economic climate is improving, we expect government spending to gradually increase as well. Projected growth rates stand at 0.6 and 0.9 percent for the current and the following year.

Investment activity is gaining momentum

After six consecutive quarters of negative growth, investment finally rebounded in the second quarter of 2015 (Figure 2), leading to a total growth of 1.6 percent in 2015. This positive momentum carried on in the first quarter of 2016 with growth rates of 4.3 percent (measured year-on-year) and 2.0 percent (measured quarter-to-quarter, seasonally adjusted), the highest increase since 2008. The positive investment climate might be somewhat offset by political instability in the third quarter as the country is being run by an acting government during the summer months, with Parliament elections expected to take place in September, prolonging thereby the expected period necessary for the implementation of the planned reforms. In light of these new circumstances, we have revised our investment growth forecasts for 2016 and 2017 to 2.5 and 3.3 percent, up

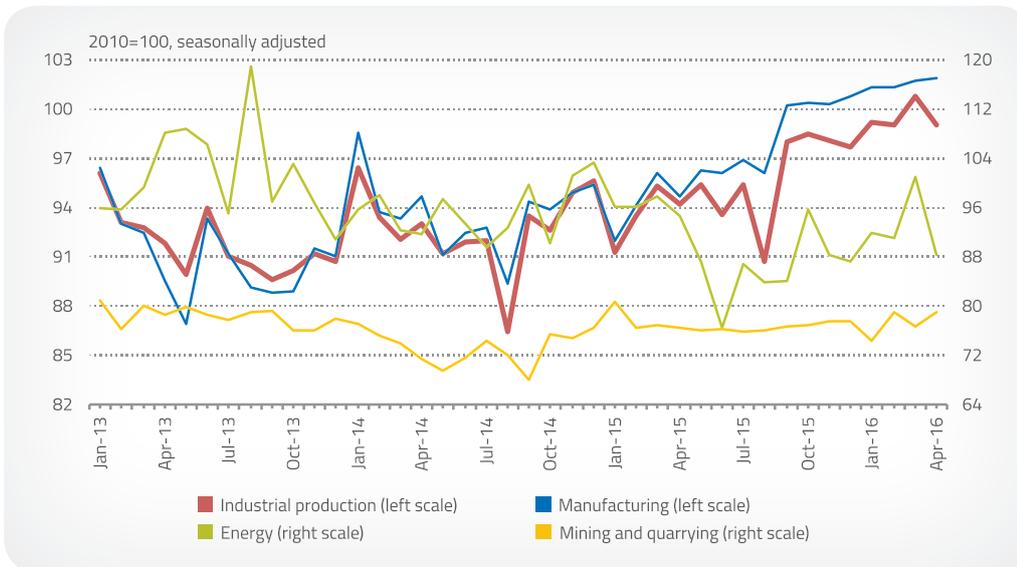


Figure 3
Industrial
Production
Decomposition

Note: Seasonally adjusted by X11ARIMA (Statistics Canada).

Source for the original data: Croatian Bureau of Statistics.

by 0.6 and 0.3 percentage points, but with considerable uncertainty surrounding these figures. Meanwhile, when compared to the same period last year, industrial production increased by 7.9 percent, manufacturing by 8.8 percent, and construction by 3.5 percent in the first quarter of 2016 (Figure 3). We expect these positive trends in the real sector to continue in the quarters ahead, although at a somewhat slower rate.

Trade activity still strong in 2016

During the last three years both exports and imports demonstrated signs of moderate recovery, with exports growing at a higher rate (Figure 4). This positive trend continued in the first quarter of 2016 with rates of 7.1 and 6.1 percent for exports and imports (measured year-on-year). Optimistic figures for the tourist season and good recovery prospects of Croatia's main trading partners

lead us to revise this year's forecast for export growth to 5.2 percent. Import growth was also revised upwards to 4.8 percent, reflecting significant retail trade growth in 2015 and in the first quarter of 2016 together with improved consumer optimism. For 2017 we see a gradual slowdown of this initial increase in activity with exports growth rate of 4.2 percent and imports growth rate of 4.4 percent. Ongoing improvements in trade activity, together with the surplus of secondary incomes that is expected to increase further due to EU investment funds, support the current account surplus. On the downside, we believe that the rising deficit of primary incomes caused by foreign-owned banks profit recovery will set the current account surplus at a somewhat lower rate of 3.9 percent of GDP for the current year before declining further to 2.8 percent of GDP in the following year.

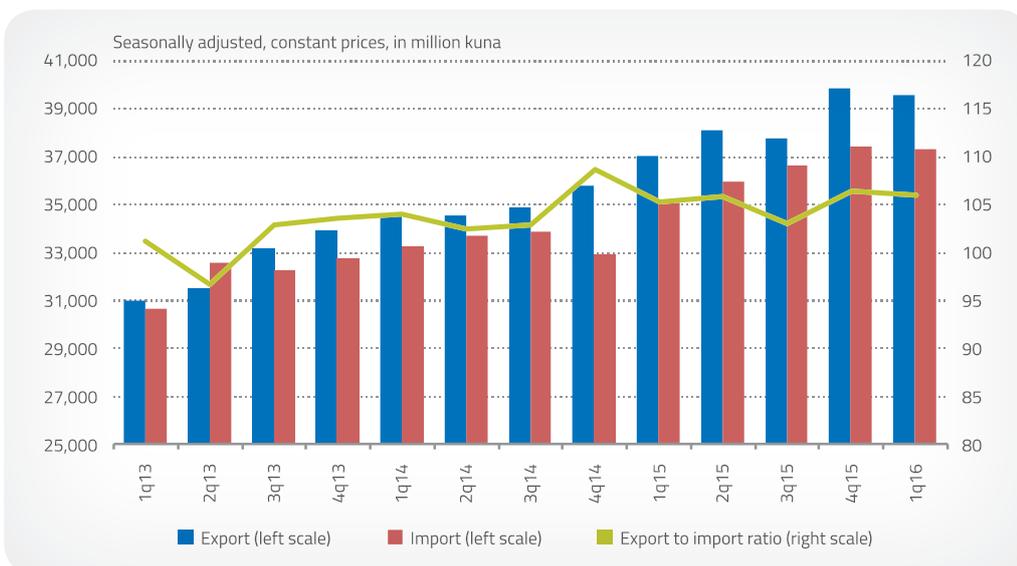


Figure 4
Export to Import
Ratio

Note: Seasonally adjusted by X11ARIMA (Statistics Canada).

Source for the original data: Croatian Bureau of Statistics.

Table 1
Forecast
Summary

	2016	2017
Real GDP (% change)	1.9	2.1
Real private consumption (% change)	1.5	1.6
Real government consumption (% change)	0.6	0.9
Real investment (% change)	2.5	3.3
Exports of goods and services (constant prices, % change)	5.2	4.2
Imports of goods and services (constant prices, % change)	4.8	4.4
Current account balance (% of GDP)	3.9	2.8
General government balance (ESA 2010 definition, % of GDP)	-2.9	-2.5
Public debt (ESA 2010 definition, % of GDP)	87.2	87.0
Unemployment rate (registered, %, pa)	16.5	16.1
Exchange rate, HRK/EUR (pa)	7.52	7.50
Broad money, M4 (% change, eop)	4.0	4.2
Total domestic credit (% change, eop)	-1.1	1.5
Consumer prices (% change, pa)	-0.4	0.8

Note: Cut-off date for information used in the compilation of forecasts was June 8, 2016.

Conventional abbreviations: pa - period average, eop - end of period, HRK - Croatian kuna, EUR - euro.

Source: Authors' forecasts.

The political marriage did not last

It only took a couple of months to realize that the government in which the Vice Presidents, Tomislav Karamarko (HDZ) and Božo Petrov (Most), and the non-partisan Prime Minister Tihomir Orešković, could not work properly. Indeed, as it turned out, the aforementioned trio leading the government created a fertile ground for the development of a political crisis. The government crisis was triggered a month ago when the media leaked that Mrs. Karamarko had a lucrative business contract with a lobbyist for the Hungarian oil company MOL, a 49-percent owner of INA, the largest Croatian oil company. With the Croatian government holding 44 percent of INA's shares and being currently in an arbitrage process with MOL at an international court, Mr. Karamarko as the Vice President has accordingly been accused of conflict of interest. Mr. Petrov insisted on Karamarko's resignation for reasons of moral and political responsibility, but Mr. Karamarko refused to do so and instead asserted that HDZ will no longer support Mr. Orešković and that the collaboration with Most is over.

No-confidence motion

HDZ easily gathered the majority in the Parliament to vote against the Prime Minister and a no-confidence motion was passed on June 16 with 125 votes against the Prime Minister. Besides HDZ, the main opposition

party SDP backed the motion, but Most voted against. After the fall of the government, HDZ's rhetoric turned towards the support of a new Prime Minister, this time someone who would be HDZ's genuine choice, rather than a weak compromise with Most, since such a compromise, embodied in Mr. Orešković, has proven to be a failure from their perspective. Their final choice was the acting Finance Minister Zdravko Marić, but after a couple of days it became clear that HDZ could not manage to gather the minimum of 76 votes to form the new government, leading to the next logical step—Parliament dissolution and new elections.

Parliament dissolution

Despite the fact that the polls are indicating a decline in the electorate's support for the HDZ-led Patriotic coalition and Most, making the possibility of new elections less appealing to these political actors, 137 representatives (including HDZ, Most, and SDP), voted for the dissolution of the Parliament on June 20. As this decision comes into force on July 15, new Parliament elections must be held by September 11 at the latest. Several representatives have already argued that no elections should take place during summer months as many people leave their homes for vacation, proposing therefore September 4 as the most likely date. President Kolinda Grabar-Kitarović will decide on the final date of the elections.

Deficit lower than expected

According to the EDP fiscal notification from April 2016, the government deficit in 2015 amounted up to 10.7 billion kuna, or 3.2 percent of GDP. The increase in tax revenues and a decrease in gross fixed capital formation, i.e. public investment, contributed predominately to the deficit shrinkage. However, the notification emphasized that the data on gross fixed capital formation are considered only preliminary. Accordingly, final figures on that category of government expenditure might be somewhat higher and fiscal deficit slightly larger than reported.

Expenditures kept at bay

Apparently, temporary financing in the first three months of 2016 made central government expenditures smaller by as much as 6.5 percent relative to the same quarter of 2015. At the same time, revenues increased by 3.7 percent. It is believed that the government bodies had postponed consumption until the full 2016 budget was voted on, which occurred on March 21.

Fiscal consolidation

The State Budget for this year, enacted on March 21, 2016, is largely in line with the Guidelines for the Budget, mentioned in our last issue. Total budget revenues are projected at 114.3 billion kuna, which is an increase of 6.1 percent in comparison to the plan for 2015. At the same time, expenditures should be around 122.4 billion kuna, which is a slim increase of 1.4 percent from the plan for 2015. These advancements should result in further central government budget deficit reduction to 2.2 percent of GDP in 2016.

Furthermore, the government expects that the deficit of the general government based on the national accounting rules will fall to 2.7 percent of GDP.

End of EDP in 2016?

Due to the surprisingly favorable first estimation of the 2015 deficit based on ESA 2010, and to the clear intention to cut the deficit even further in 2016, we revise our previous forecast of government deficit to 2.9 percent of GDP in 2016, and further to 2.5 percent in 2017. This development would mean Croatia might exit the EDP in 2016 thus attracting the attention of capital markets. Likewise, the growth rate of public debt is now also expected to slow down more significantly. Public debt at the end of 2015 amounted to 86.7 percent of GDP and is expected to be at around 87.2 percent of GDP in 2016 and 87.0 percent in 2017 (Figure 5).

Investors' trust shaken

In spite of the positive signs from the available data for 2016 and deficit estimations for 2015, only the upcoming period will determine the definite trajectory of Croatia's public finance. On June 1, the Ministry of finance decided not to issue a Eurobond due to insufficient demand and an unfavorable asked interest rate that amounted up to 5 percent. The reason for the latter case most probably had to do with the turbulent domestic political situation with a de facto non-functional government that made investors cautious. The terms of future borrowing will be determined by the developments on the political front in the months ahead. Clearly, political instability and turmoil have shaken investors' trust.

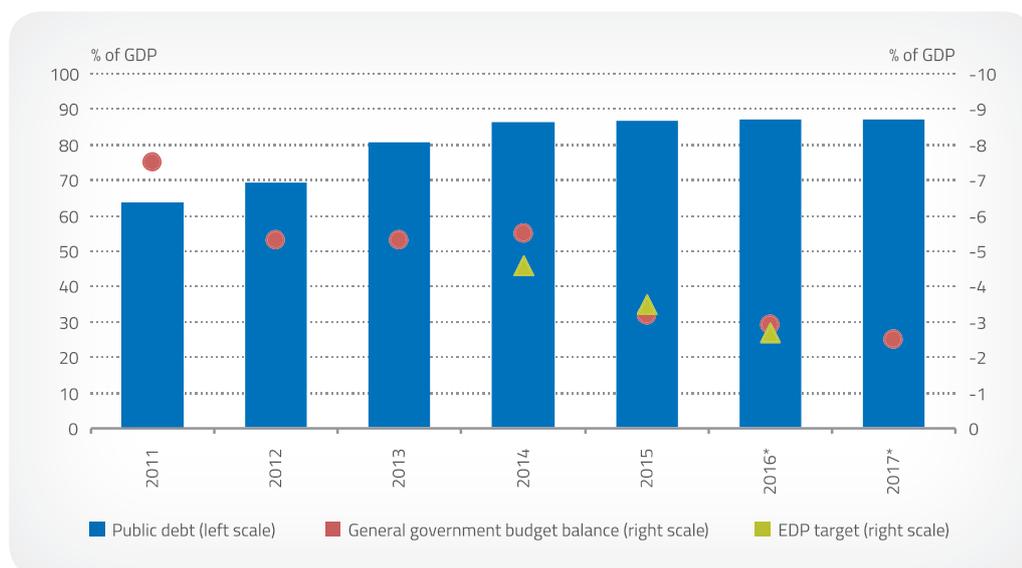


Figure 5
General Government Budget Balance and Debt

Note: * EIZ forecast.

Source: Eurostat and EIZ for forecast.

Employment and wage statistics methodology changes

As announced in our last issue, this year the Croatian Bureau of Statistics (CBS) started to publish official data on employment and wages based on the so-called JOPPD forms (Report on income, income tax and surtax and mandatory social security contributions), obtained from the Tax Administration. Data obtained from the JOPPD should be more reliable given it also includes employees from the micro-firms, up to 10 employees. This means that, as of 2016, the official employment figure is somewhat higher than the one based on previous methodology, whereas average wages and the unemployment rate are slightly lower.

Jobless growth

Registered unemployment started to decline on a monthly basis already in February this year, whereas annually, it has been falling constantly ever since the second quarter of 2014. The total number of the unemployed registered at the Croatian Employment Service (CES) amounted up to 232 thousand in May, which is 8.7 percent lower than in the previous month and 15.6 percent lower than in May 2015. This is also the lowest-recorded unemployment level since October 2008. Besides some increase of exits from the Register due to employment, the main reason for a large year-on-year drop in registered unemployment is the removal from the Register due to non-compliance and non-appearance suggesting either a rise of the informal sector or intensified emigration as the number of new retirees in the first quarter of 2016 increased only slightly in comparison

to the same period last year. Unfortunately, there is no reliable estimate on these trends.

Active population shrinking

During 2015, the fall in unemployment only partly translated into the rise of employment. Surprisingly, the first four months of 2016 saw a simultaneous fall of both official employment and unemployment on a year-on-year basis. Thus, the active population shrank by almost 4 percent (nearly 60 thousand people) in the January–April period of 2016 compared to the same period last year. The unemployment rate has been decreasing and in April it amounted up to 15.9 percent, or two percentage points below the figure from April last year. Taking into account recent labor market developments, including methodology changes, we revise our previous forecasts for the unemployment rate downwards, to 16.5 and 16.1 percent for 2016 and 2017 (Figure 6). Nominal wages should continue with their above-inflation growth rate, inducing a rise in real disposable income. The main risks to these projections are on the downside, as political instability can easily translate into the private sector, labor market included.

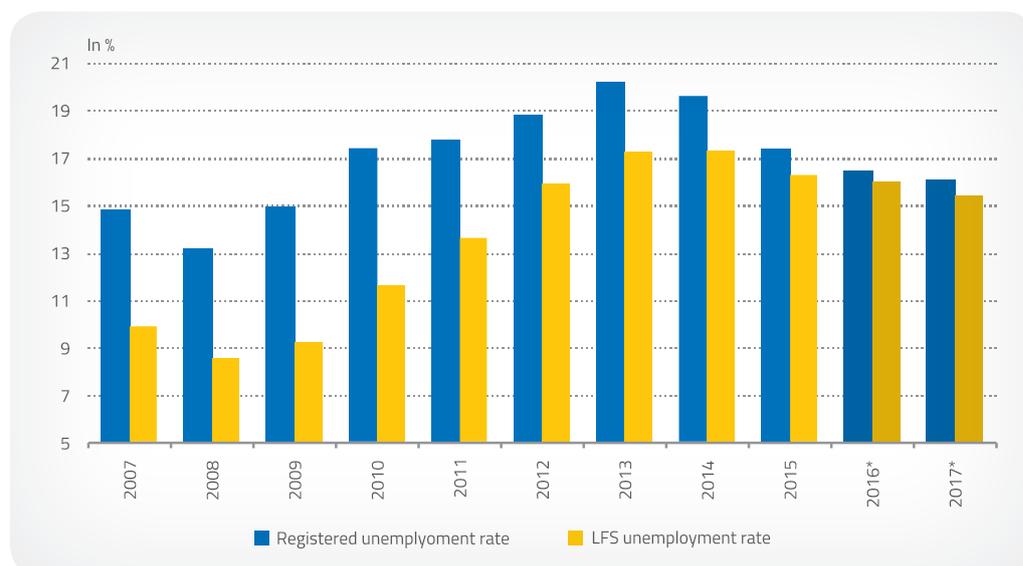
Consumer prices continue to fall

In 2016 consumer price inflation will remain much the same as in 2015, at around -0.4 percent. Consumer price and producer price indices in May 2016 recorded negative growth rates of -1.8 and -6.4 percent when compared to the same month of the previous year. Prices of electricity, gas and other fuels, and especially prices of transport, contributed the most to the deflation in May. On top of

Figure 6
Unemployment Rate

Note: * EIZ forecast.

Source: Croatian Bureau of Statistics.



that, the authorities' decision to reduce gas tariffs in April will be driving deflation in the months ahead. In the next year, the expected continuation of labor market recovery and adjustment of oil prices to higher market values will lead to the average rate of 0.8 percent.

HRK/EUR exchange rate stability

We see the HRK/EUR exchange rate stable, on average at 7.52 in 2016 and 7.50 in 2017. At the end of May, the Croatian National Bank (CNB) intervened on the foreign exchange market in order to mitigate kuna appreciation against the euro. The CNB purchased 83.5 million euro at the average exchange rate of 7.49. Expectations of another good tourist season, foreign currency borrowing, and the CNB commitment to defend the exchange rate stability are all kuna-supportive factors. On the other side, fiscal policy remains the central downside risk to the forecast.

Banks wrote off a total of 5.4 billion kuna of loans

Mostly due to Swiss franc loans conversion and the partial write-off of household loans indexed to the HRK/CHF exchange rate, banks wrote off a total of 5.4 billion kuna of loans in the period from the end of November 2015 to the end of March 2016. Meanwhile, the balance of total claims of credit institutions from households indexed to the HRK/CHF exchange rate decreased by 84.3 percent or from 21.7 billion to 3.4 billion kuna. Also, conversion regulations are having an effect on the share of non-performing loans (NPLs) in total loans. The share of NPLs decreased to

16.1 percent by the end of March, as opposed to 17.1 percent in the same period last year. Both corporate and household NPLs recorded a decline during the first quarter. At the same time, banks recorded 1.2 billion kuna net profits as a result of smaller expenses on loss provisions caused mostly by the Swiss franc loans conversion.

Expansionary monetary policy

In the upcoming period, the CNB will continue to provide kuna liquidity through reverse repo auctions and keep money market interest rates at low levels. Despite accommodative monetary policy in the euro zone and stimulating CNB measures, credit growth still remains negative. In April total credit decreased by 5.3 percent when compared to the same month of the previous year. Both credit to households and enterprises recorded a significant drop (Figure 7). On the other side, the latest available data for April 2016 suggest that broad money recorded 4.4 percent growth when compared to the same month of the previous year. All three main broad money components, narrow money, kuna savings deposits, and foreign exchange deposits contributed to the broad money acceleration.

Credit growth still negative

We expect credit to continue to decrease in this year by 1.1 percent, while an improvement of 1.5 percent in 2017 is mostly based on improved growth prospects and favorable labor market dynamics. At the same time, broad money creation will follow with 4 percent in this, and 4.2 percent in the next year.

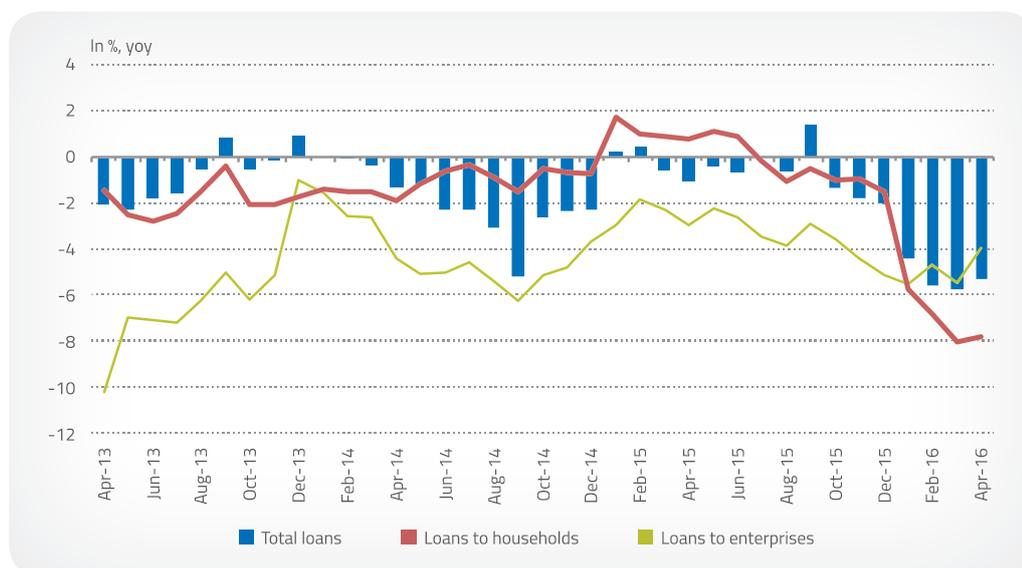


Figure 7
Credit Sector
Developments

Source: Croatian
National Bank.

Table 2 Main Economic Indicators

	2014	2015	2015			2016
			Q2	Q3	Q4	Q1
ECONOMIC ACTIVITY						
Real GDP (% change, yoy)	-0.4	1.6	1.2	2.8	1.9	2.7
Real private consumption (% change, yoy)	-0.7	1.2	0.6	1.4	2.4	3.1
Real government consumption (% change, yoy)	-1.9	0.6	0.4	0.6	0.8	0.6
Real investment (% change, yoy)	-3.6	1.6	0.8	2.2	3.7	4.3
Industrial output (% change, yoy)	1.2	2.7	2.4	4.6	3.9	7.9
Unemployment rate (registered, %, pa) ^a	19.6	17.4	16.9	15.7	17.3	17.6
Nominal GDP (EUR million)	43,045	43,921	10,969	12,154	10,979	10,161
GDP per capita (EUR)	10,156	10,363	-	-	-	-
PRICES, WAGES, AND EXCHANGE RATES						
Implicit GDP deflator (% change, yoy)	0.0	0.1	0.4	0.0	-0.1	-0.3
Consumer prices (% change, yoy, pa)	-0.2	-0.5	0.0	-0.6	-0.8	-1.3
Producer prices (% change, yoy, pa)	-2.8	-3.8	-2.8	-4.1	-4.3	-4.2
Average gross wage (% change, yoy, pa) ^a	0.2	1.3	1.5	1.5	1.4	2.6
Exchange rate, HRK/EUR (pa)	7.63	7.61	7.57	7.57	7.62	7.62
Exchange rate, HRK/US\$ (pa)	5.75	6.86	6.86	6.80	6.96	6.92
FOREIGN TRADE AND CAPITAL FLOWS						
Exports of goods (EUR million)	10,369	11,528	2,933	2,967	3,055	2,690
Exports of goods (EUR, % change, yoy)	8.1	11.2	15.4	9.2	10.9	4.5
Imports of goods (EUR million)	17,129	18,483	4,785	4,815	4,621	4,461
Imports of goods (EUR, % change, yoy)	3.6	7.9	6.1	6.7	12.1	4.7
Current account balance (EUR million)	368	2,293	28	3,923	-390	-
Current account balance (% of GDP)	0.9	5.2	0.3	32.3	-3.6	-
Gross foreign direct investment (EUR million)	2,910	128	111	170	-548	-
Foreign exchange reserves (EUR million, eop)	12,688	13,707	13,734	13,437	13,707	13,199
Foreign debt (EUR million, eop)	46,664	45,534	48,793	46,918	45,534	-
GOVERNMENT FINANCE^b						
Revenue (HRK million) ^c	131,917	150,089	37,291	39,283	40,284	-
Expense (HRK million) ^c	139,532	150,559	36,527	36,093	40,691	-
Net = Gross operating balance (HRK million) ^c	-7,615	-470	764	3,190	-407	-
Net acquisition of non-financial assets (HRK million) ^c	4,855	7,850	1,566	1,985	3,371	-
Net lending/borrowing (HRK million) ^c	-12,470	-8,320	-802	1,205	-3,778	-
Domestic government debt (EUR million, eop)	21,650	22,457	21,935	22,555	22,457	-
Foreign government debt (EUR million, eop)	15,443	15,482	15,977	15,485	15,482	-
Total government debt (eop, % of GDP)	86.5	86.7	-	-	86.7	-
MONETARY INDICATORS						
Narrow money, M1 (% change, yoy, eop)	9.6	11.4	11.6	10.4	11.4	11.0
Broad money, M4 (% change, yoy, eop)	3.2	5.1	4.8	4.6	5.1	3.6
Total domestic credit (% change, yoy, eop)	-2.3	-2.0	-0.7	1.4	-2.0	-5.7
DMBs credit to households (% change, yoy, eop)	-0.8	-1.5	0.9	-0.5	-1.5	-8.0
DMBs credit to enterprises (% change, yoy, eop)	-3.7	-5.2	-2.6	-2.9	-5.2	-5.5
Money market interest rate (% pa) ^d	0.6	0.8	0.5	1.2	0.9	0.6
DMBs credit rate for enterprises, short-term, (% pa) ^e	5.7	5.4	5.5	5.3	5.3	5.1
DMBs credit rate for households, short-term, (% pa) ^d	9.3	8.9	9.2	8.8	8.4	7.9

Notes: ^a Break in time series; figures for 2016 are the result of processing data from JOPPD forms. ^b Data refer to consolidated general government. ^c On the cash principle. ^d Interbank demand deposit trading, one week interest rate. ^e The weighted average interest rate on new kuna and foreign currency indexed loan agreements, revised data.

Conventional abbreviations: pa - period average, eop - end of period, yoy - year-on-year, HRK - Croatian kuna, EUR - euro, US\$ - U.S. dollar, DMB - deposit money bank.

Sources: Croatian Bureau of Statistics, Croatian National Bank, and Ministry of Finance.

Real Sector Developments

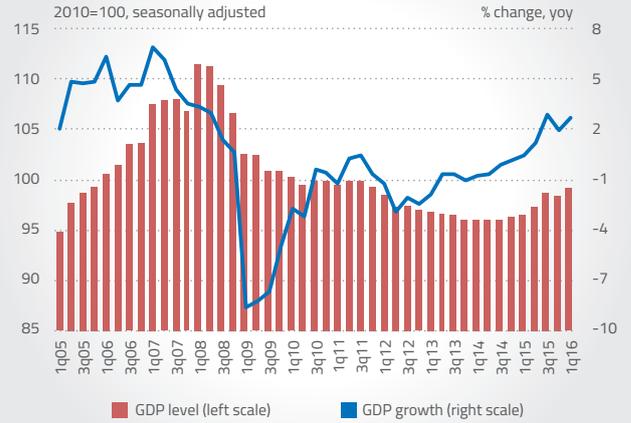
Industrial production and retail trade slowly continue their recovery



Note: Seasonally adjusted by X11ARIMA (Statistics Canada).
Source for the original data: Croatian Bureau of Statistics.

Real Gross Domestic Product

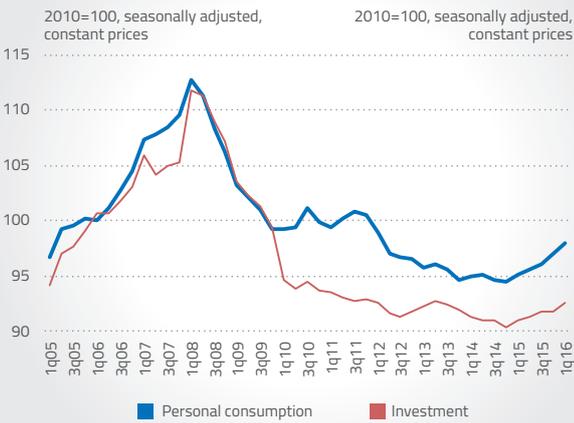
Real GDP growth continues along a recovery path



Note: Seasonally adjusted by X11ARIMA (Statistics Canada).
Source for the original data: Croatian Bureau of Statistics.

Personal Consumption and Investment

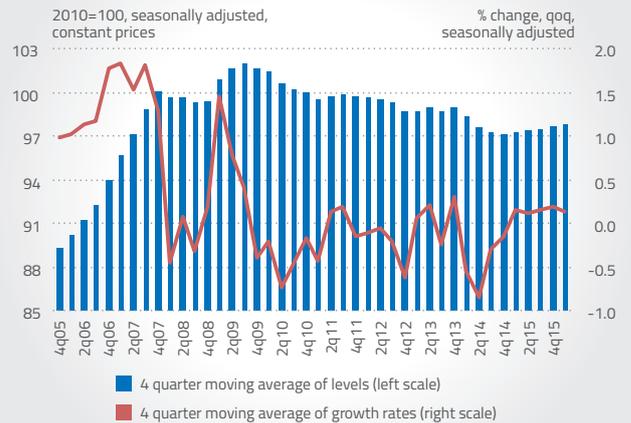
Consumption and investment hit low in the end of 2014 and rebound afterwards



Note: Seasonally adjusted by X11ARIMA (Statistics Canada).
Source for the original data: Croatian Bureau of Statistics.

Government Consumption

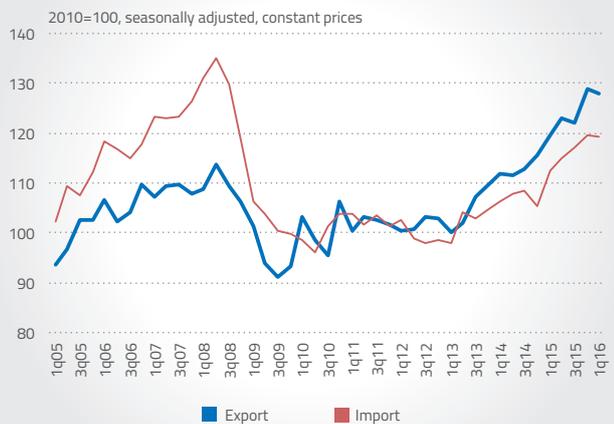
Government consumption change levels-off around zero



Note: Seasonally adjusted by X11ARIMA (Statistics Canada).
Source for the original data: Croatian Bureau of Statistics.

International Trade

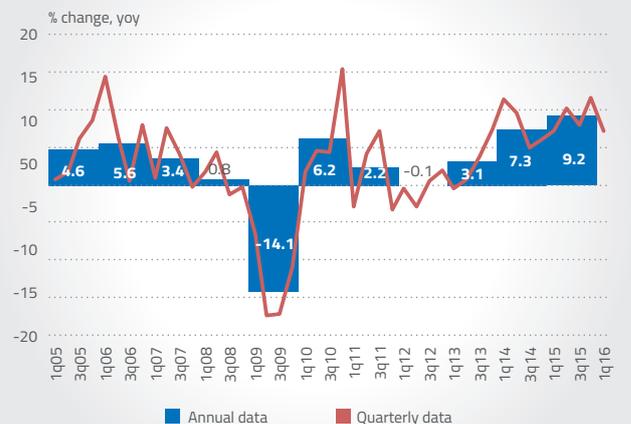
International trade on the rise since Croatia joined the EU



Note: Seasonally adjusted by X11ARIMA (Statistics Canada).
Source for the original data: Croatian Bureau of Statistics.

Exports of Goods and Services

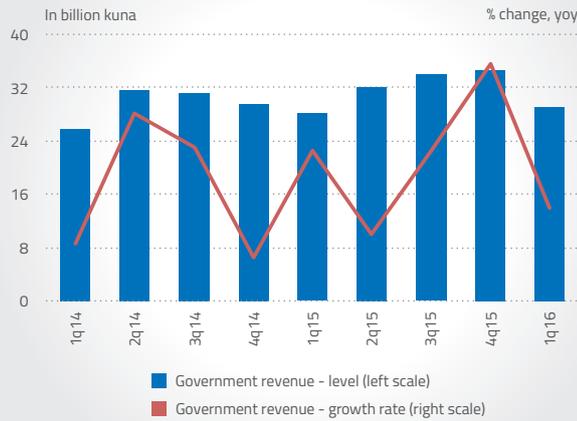
In 2015, exports recorded the highest growth rate in the last ten years



Source for the original data: Croatian Bureau of Statistics.

Central Government Revenue

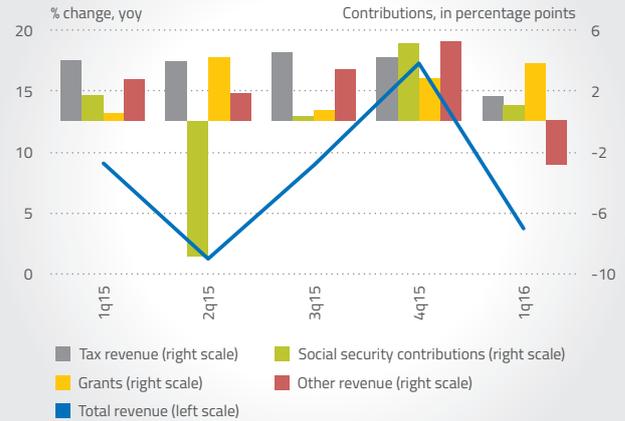
Modest increase in the first quarter of the central government revenue



Source: Ministry of Finance.

Central Government Revenue Contributions

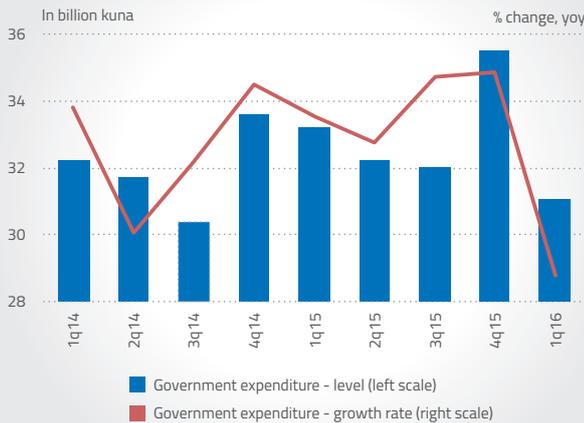
Grants contributed the most to total revenue growth (yoy) in the first quarter of 2016



Source: Ministry of Finance.

Central Government Expenditure

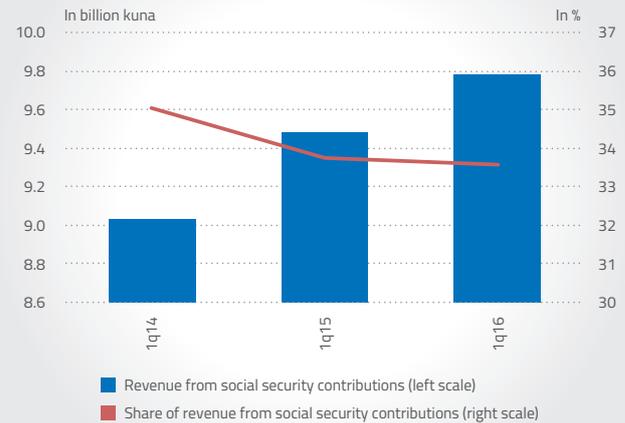
Central government expenditure sharply decreased in the first quarter due to temporary financing



Source: Ministry of Finance.

Social Security Contributions

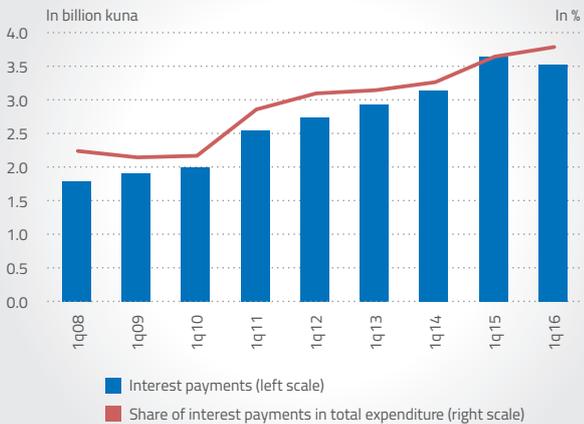
Social security contributions recover in the first quarter



Source: Ministry of Finance.

Interest Payments

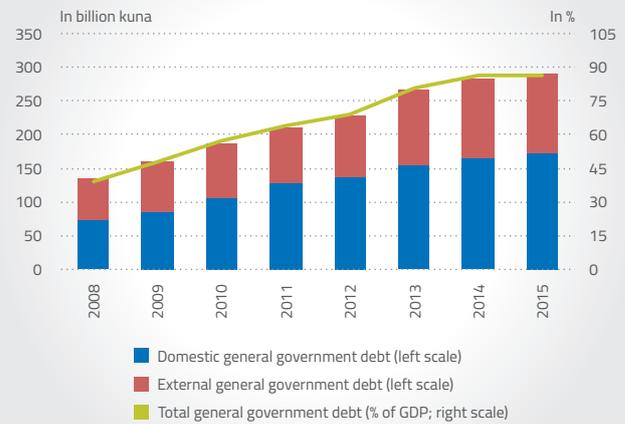
Interest payments decrease in the first quarter, but their share in total expenditure is higher than in 2015



Source: Ministry of Finance.

Public Debt

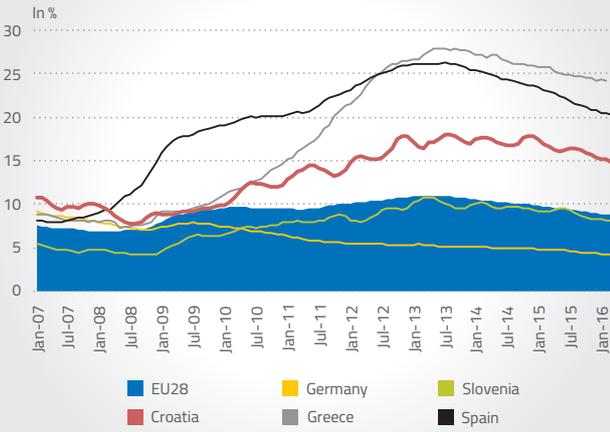
Public debt growth has slowed down significantly in 2015



Source: Croatian National Bank.

Unemployment in the EU

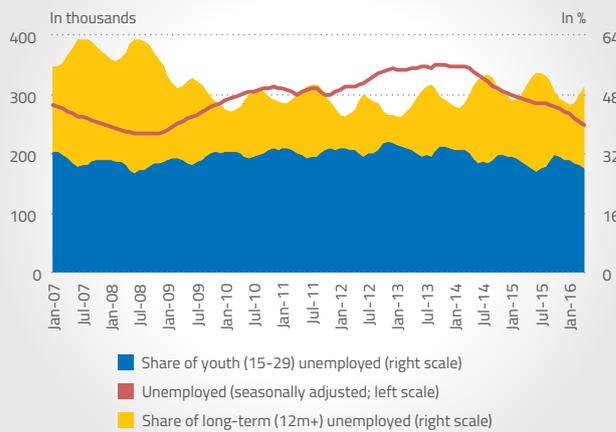
Croatian unemployment is one of the highest in the EU; almost double than the EU-28 average



Source: Eurostat.

Unemployed

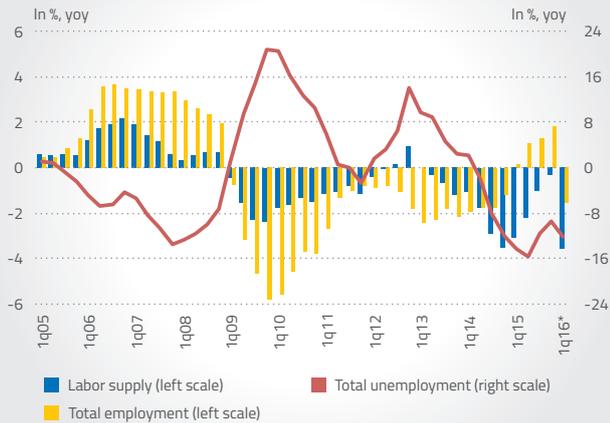
Total number of unemployed is decreasing, but shares of long-term and youth unemployed are persistently high



Source for the original data: Croatian Employment Service.

Activity, Employment, and Unemployment

Total labor supply is declining in the first quarter of 2016 due to falling employment and unemployment



Note: * The results of processing data from JOPPD forms. Sources: Croatian Bureau of Statistics and Croatian Employment Service.

Wages

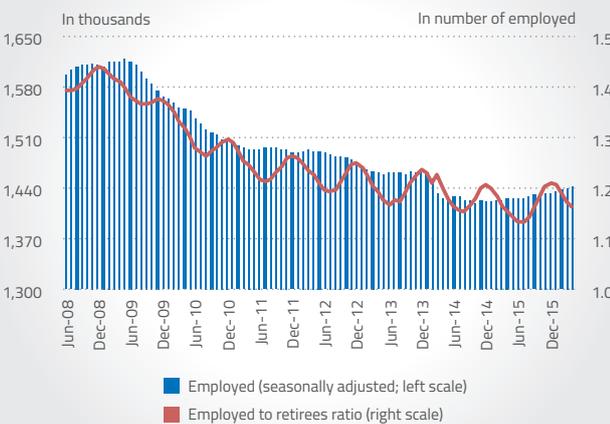
Due to continued deflationary pressures, real wage growth is surpassing nominal wage growth



Note: * The results of processing data from JOPPD forms. Source: Croatian Bureau of Statistics.

Employed to Retirees Ratio

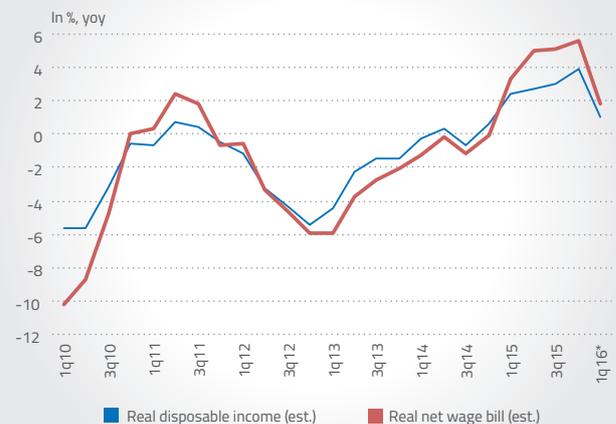
Employed to retirees ratio is on a continuous sliding trend



Source for the original data: Croatian Pension Insurance Institute.

Real Disposable Income (Estimation)

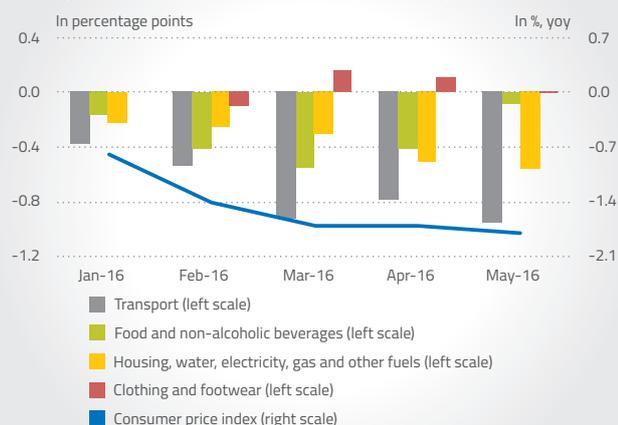
Wages overtook government transfers in sustaining the rise of disposable income



Note: * The results of processing data from JOPPD forms. Source: EIZ estimate based on the Croatian Bureau of Statistics and Ministry of Finance data.

Deflation

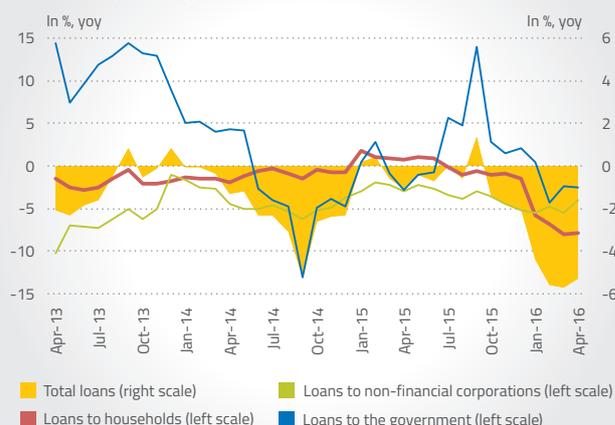
Transport prices contributed the most to deflation, with gas tariffs reduction kicking in in April



Source: Croatian National Bank.

Total Domestic Credit

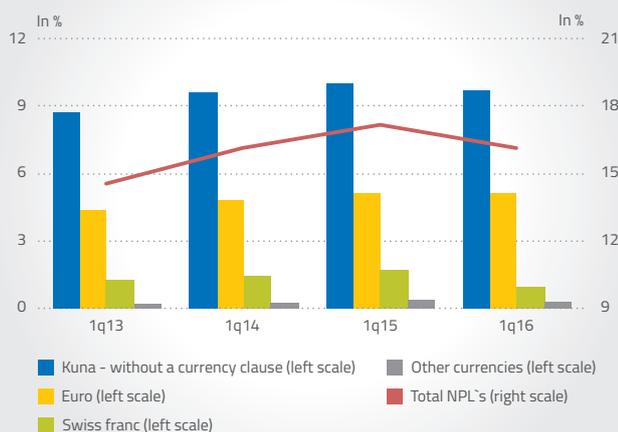
Despite favorable lending terms, all credit components record negative growth rates



Source: Croatian National Bank.

Non-performing Loans by Currencies

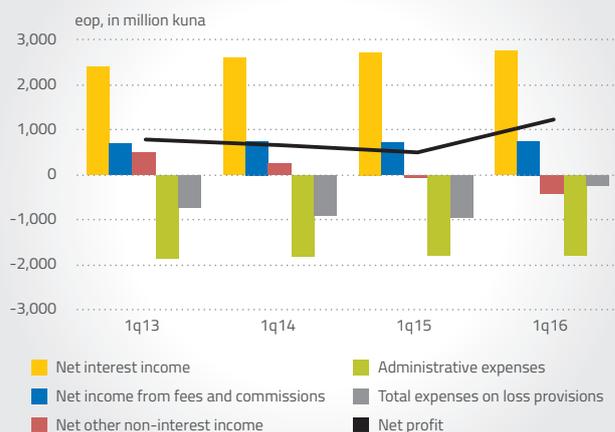
The share of non-performing loans decreased to 16.1 percent by the end of March



Source: Croatian National Bank.

Bank Income and Profit

Profits increase in the first quarter of 2016 due to falling expenses on loss provisions



Source: Croatian National Bank.

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