



CROATIA: ECONOMIC NEWS IN BRIEF

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Economic Section
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Note to the reader

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MACROECONOMICS AND ECONOMIC POLICY DEVELOPMENTS

GDP down 5.7 % in the third quarter of 2009

Data for the third quarter of 2009, released by the Central Bureau of Statistics, showed that GDP decreased by 5.7 % as compared to the third quarter of 2008. Further, household expenses went down by 6.9 %, gross fixed capital investments by 10.5 %, exports dropped by 17.6 %, while imports fell by 23.5 %. Government expenditure in the third quarter of 2009, for the first time since 2003, saw a drop of 0.6 %.

As per Eurostat's statistics from December 2009, Croatia's GDP at purchasing power parity per capita was 63 % of the EU average in 2008, marking a continuous growth from 50 % in 2005, 57 % in 2006, 60 % in 2007.

Gross foreign debt exceeds EUR 42 billion

Latest data released by the Croatian National Bank showed that Croatia's gross foreign debt at the end of September 2009 totalled EUR 42.76 billion, an increase of EUR 3.4 billion during 2009.

Inflation in November at 1.8 %, in December 1.9 %

Prices of goods and services rose from 1.3 % in October to 1.8 % in November 2009. Decline in consumption prompted prices decline, and December saw a lower inflation than expected, of 1.9 %, according to the data released by the Central Bureau of Statistics.

Average net salary covers 79.95 % of the living costs

Average net monthly salary in Croatia paid in October of HRK 5.279 was in December covering 79.95 % of the consumer basket compiled by the Independent Trade Unions of Croatia. The minimum living costs of a retired couple were HRK 3.588 in December. The average pension in October was HRK 2.170,29 which covered 61 % of the living costs in December, the trade union informed.

Unemployment rise 21.1 % in November, 21.2 % in December y-o-y

The Croatian Employment Office reported that the unemployment rate in Croatia in December 2009 had reached 21.2 % y-o-y, with 291.545 registered unemployed persons, or 3 % up from November 2009 when there were 282.936 registered unemployed persons, and unemployment rate was at 21.1 % y-o-y. The Croatian Employment Office projects a rise in the number of jobless to over 300.000 in the spring of 2010.

NL main foreign investor in Croatia in the third quarter of 2009

Foreign direct investments in the first nine months of 2009 amounted to EUR 1.699 billion, which is 28.2 % less than if compared with the three quarters of 2008, showed preliminary data published by the Croatian National Bank. Most of investments in the related period came from the Netherlands, EUR 839.1 million.

Import-export ratio at 49.1 % in November

As reported by the Central Bureau of Statistics, in the first eleven months of 2009 Croatia's imports continued to fall at a higher rate than exports, resulting in the reduction of the Croatia's foreign trade deficit. In the January-November period, exports totalled EUR 6.9 billion, 21 % down from the same period of last year. Imports totalled EUR 14 billion, marking a drop of 26.3 %. The export-import ratio stood at the 49.1 %. The foreign trade deficit totalled EUR 7.1 billion. In

trade exchange with the Netherlands, export to the Netherlands were cut 25 % y-o-y. while imports from the Netherlands dropped 22 % on annual level.

Credit rating for Croatia slightly changed

Moody's Investors Service has downgraded the issuer and debt ratings of the Croatian Bank for Reconstruction and Development (HBOR) from A3 to Baa3, noting that the outlook on the ratings is stable, Baa3.

Standard & Poor Rating Services lowered Croatia's long-term for local currency loans to BBB/A-3, and confirmed the BBB/A-3 rating for foreign currency indebtedness. Croatia's forecast remain negative, and in case foreign loans become more expensive and less attainable, a drop in the country's credit rating could be expected.

The Dun & Bradstreet's credit rating for Croatia in December, and also in January 2010, remained at DB3d, which classifies it among countries with a mild risk of doing business.

Economic forecast mild recovery in 2010

Foreign economists expect that a mild recovery of the Croatian economy will occur in 2010. While the European Bank for Reconstruction and Development, EBRD, in its Transition Report 2009 presented in December, estimates that Croatian GDP will grow by 1.5 % in 2010, other financial institutions are less optimistic. The British Economist Intelligence Unit, IMF, the World Bank and the Croatian Government estimate that GDP growth in Croatia will stand at 0.5 % in 2010.

LEGISLATION AND REGULATION

State budget for 2010 adopted

The State Budget for 2010, which the Croatian Parliament adopted in December, sets revenues at HRK 112.8 billion and expenditures at HRK 121.4 billion. The budget is drafted with a 0.5 % GDP growth projection. The central government's deficit is envisaged at 2.5 % of GDP. Expense account costs have been cut from HRK 50 million to HRK 30 million, material expenses by HRK 645 million, and grants by HRK 1.2 billion, including a HRK 125 million cut for railways and a HRK 695 million cut for agriculture. The budget envisages higher costs for adjustment to European Union standards, including HRK 2 billion for various related programmes, HRK 432 million for the co-financing of projects from the pre-accession funds, and a HRK 1 billion increase for interest rates, totalling HRK 3.4 billion.

New Minister of Economy appointed

Djuro Popijac was in November appointed the new Minister of Economy, Labour and Entrepreneurship in Croatia. Popijac replaced Damir Polancec, who resigned in October. Prior to being appointed the minister, Popijac was the Head of the Croatian Employers Association.

Selection of a new legislation in force as of November 2009

- Bill regulating subsidies for capital investments in agriculture - NN 140/09
- Custom Tariff Act for 2010 - NN 145/09
- Agriculture Law - NN 149/09

New legislation in force as of 2010

- **New Labour Act** - adjusted with European Union legislation - temporary work with the same employer is limited to three years; 40-hour working week; overtime of up to 48 hours; redistribution of working hours; at least four weeks' annual leave are defined;
- **Amended VAT Act** - introducing changes to the taxation of financial services in Croatia;
- **OIB - Personal Identification Number** is becoming the main identifier of persons in communication with public authorities;
- **New Excise Taxes Act** - setting up a series of new institutions, such as excise warehouses, licensed keepers of excise warehouses, system of deferred payment; regulating taxation of three groups of products - alcoholic drinks, tobacco and tobacco products, energy products and electric power. No change in the system of excise taxes charged on cigarettes is prescribed, while excise taxes on electricity are delayed until Croatia becomes a member of the European Union;
- **New Games of Chance Act** - introducing a new type of revenue - a tax on winnings from lottery and betting. Organising games of chance on the Internet, by telephone and other interactive communication devices is allowed, providing that the Finance Ministry has a direct link to the organiser's computer system.
- **The Consumer Credit Act** - allowing the consumer to terminate the credit agreement within 14 days without giving a reason; regulating the role of credit brokers.

Work permit quotas for foreigners in 2010 cut down

The Croatian government has in December determined an annual quota of work permits for foreign nationals in 2010. The quota is 4.5 times lower than the one for 2009. The 2010 quota was set at 6.948 work permits, of which 6.000 will account for extended permits and 948 are permits for newly-hired foreign workers. The majority of permits will be granted to workers in the shipbuilding industry (243 permits) and the construction sector (300 permits), followed by tourism and catering industry, culture, agriculture, science and education - NN 150/09.

EU AND INTERNATIONAL CO-OPERATION

Financial package for Croatia adopted by the EU

A draft financial package for the first two years of Croatia's EU membership was adopted by the EU in December. Namely, in 2012 and 2013, a total of EUR 3.568 billion of EU budgetary funds will be allocated to Croatia. Croatia will be able to access most of this amount through cohesion and structural funds, total of EUR 2.205 billion could be drawn based on quality projects submitted in the first two years. The third most important source of financing are funds allocated for direct payments to farmers, funds for rural development and fisheries. A total of EUR 373 million is allocated for direct payments to farmers, EUR 352 million for rural development, and EUR 120 million for Croatia's preparations to enter the Schengen area. According to the EC estimates, Croatia is expected to pay EUR 609 million into the EU budget in the first year of its EU membership, and EUR 647 million in 2013.

EBRD investments in Croatia

In 2009, EBRD invested EUR 255 million in Croatia, twice as much as in 2008. Almost 70 % of all the investments was directed in the private sector. Ms. Charlotte Ruhe, EBRD Director for Croatia stated, at the occasion of the presentation of the Transition Report 2009 in December, that priorities in the next three years would be investments in corporate competitiveness, projects facilitating energy efficiency, tourism, infrastructure, notably railways, environmental protection projects, and the financial sector.

EIB and ZABA EUR 100 million loan for SMEs

The European Investment Bank (EIB) and Zagrebacka banka (ZABA) have in December signed a long-term loan agreement of EUR 100 million to finance small and medium-sized enterprises and projects in the area of knowledge, health and ecology. The loan agreement will become operational by early 2010.

SECTORS' DEVELOPMENT

Tenders for new round of privatization of shipyards to be invited in February 2010

After none of the bids submitted in the first round of privatization of the six Croatian state-owned shipyards was accepted, the Croatian Government announced that tenders for the second round of privatisation of all six shipyards will be invited by mid of February 2010.

Investments in national motorway projects

The Ministry of Maritime Affairs, Transport and Infrastructure has radically curtailed the investment scope for the upcoming 2009-2012 national motorway construction plan. Only HRK 7.7 billion of the envisaged HRK 27.7-billion investment target will be channelled into motorway construction over the next three years. In 2010, only 20 kilometres of new motorways sections will be built, on the Ravce-Ploce and the Jakusevac-Velika Gorica routes, to be finalized by 2012. All other motorway sections, including the 'Podravina Y', the Zagreb-Sisak and Ploce-Dubrovnik sections will have to be put on hold for the time being.

Financing of water management system in Croatia

The bill on the financing of the water management system, which defines sources of financing for objectives in water management was approved by the Croatian Parliament in December. The bill is based on a water management strategy which envisages investments in the water management system in the amount of HRK 53 billion over the next 15 years, a significant share of which would be provided by the European Union. The bill envisages the payment of different water charges for different types of water consumption. Under the new law on water management, rates are no longer paid for gravel and sand mining because the new law prohibits gravel and sand mining in waterways. Within a year of the entry into force of the new law, the water management company Hrvatske Vode will terminate all existing contracts with clients paying charges for water protection for producing waste water in technological processes, and they will be committed to installing equipment measuring the quantity of waste water produced.

Estimated decline of tourism revenues in 2009 around EUR 1 billion

Croatian National Bank's data on travel revenue and expenditure in the third quarter of 2009 show that the nine-month revenue was EUR 5.77 billion, 15.2 % less than over the same period of 2008. Croatia's tourism revenue from foreign tourists was EUR 3.886 billion, or 15.7 % less than in the same period of 2008. The decrease, according to analysts, is a result of smaller number of overnight stays, adaptations of tourists to crisis conditions, and discount prices of some of the hoteliers. At year-end, the revenue is expected to reach EUR 6.4 billion. Compared with 2008 when revenues were EUR 7.4 billion, a minus of EUR 1 billion in tourism earnings would be recorded for 2009.

In terms of tourist arrivals and overnight stays, 10.78 million tourists visited Croatia in the first eleven months of 2009, or 3 % less than in 2008. Foreign tourists accounted for 9.258 million arrivals, 1 % less y-o-y, but they kept the level of overnight stays from 2008. In the same period, 1.528 million domestic arrivals was registered, which was a decrease of 13 % compared with 2008. Overnight stays of domestic tourists were decreased by 10 % in the related period. Total number of recorded overnight stays for the first eleven months of 2009 was 55.97 million, marking a decline of 1 % y-o-y.

As to the number of Dutch tourists in Croatia in 2009, 306.919 Dutch tourists has visited the country (3.55 % increase from 2008). Overall, Dutch tourists account for 4.9 % of all foreign tourists in 2009.

Decline in the retail sales, automobile sales hit hardest

The retail sector in Croatia is recording a decline in sales results for the 13 consecutive months. Retail sales have dropped by 15.4 % in October. Automobile sales have been hit hardest, with a drop of 63.7 % compared to October 2008, while during the first ten months of 2009 a drop of 58.2 % was recorded y-o-y. Supermarkets are least affected by the October retail sales plunge. During October, supermarkets recorded a 1 % growth in trade turnover. Similarly, footwear and apparel stores also boast a 2 % increase in trade volume, compared with the October 2008.

Passengers and cargo transport in Croatia

From January to September 2009, 110.2 million passengers and 111.1 million tons of cargo was transported in Croatia, as reported by the Central Bureau of Statistics. Compared with the same period of 2008, the number of passengers was down 1.5 %, while the volume of cargo transported fell 11 %. In total transport, railway accounts for 47 %, road transport 41 %, maritime and coastal transport 10 %, and air transport 2 %. The number of passengers transported was increased in railway transport and reduced in other means of transport. On the other hand, 67 % of cargo was transported by road. Maritime and coastal transport followed with 19 %, railway with 9 %, and pipelines with 5 %, while air transport's share is negligible.

Half of the households in Croatia with Internet access

Eurostat's statistics shows that in the first quarter of 2009 in Croatia, every second household, or 50 % had access to the Internet, and 39 % of Croatian households had a broadband Internet connection. In the 27 EU member states, 65 % of households had access to the Internet in the same period. When it comes to individuals aged 16-74 having bought or ordered goods or services for private use over the Internet, in Croatia, 10 % of people bought or ordered goods or services over the Internet in the last 12 months, while in EU 27 the rate was at 37 %.

Croatian companies above EU average in using e-commerce

According to a survey of the use of information and communication technologies in 2008 covered the 27 EU members (excluding Belgium), Croatia and Norway carried out by Eurostat, Croatian companies generated 14 % of their revenues through electronic commerce in 2008, while the EU average stood at a rate of 12 %. The survey revealed that on average e-commerce revenues were mainly generated on the domestic markets. Croatian companies generated 81 % of their e-commerce revenues on the domestic market, 13 % on the EU market and 6 % on other markets.

Metal Research Centre opened in Pula

The Metris metal research centre was opened in the northern Adriatic city of Pula in November 2009. The project, co-financed through the PHARE 2006 programme, was launched by the Istrian Development Agency after an analysis of Istria County economy established that the manufacturing industry accounts for more than 33 % of its total revenue and that metal-working accounts for over 50 %. The main objective of the centre is to raise the competitiveness of Istria's and Croatia's metal-working industry on the global market.

ECONOMIC ANALYSIS & SURVEYS

Deloitte's Technology Fast 500 rankings: 3 Croatian companies listed

The latest Technology Fast 500 rankings compiled by the international accounting and consulting firm Deloitte, placed three Croatian companies - Croz, Tau on-line and Klising on the list of 500 fastest-growing technology, media, telecommunications and life sciences companies in terms of percentage revenue growth over five years. (http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/TMT_us_tmt/us_tmt_Fast500winners_101509.pdf)

Innovation Capacity Index: Croatia 38th among 131 countries

The European Business School has published the first "Innovation for Development Report 2009-2010", which ranks 131 countries according to the Innovation Capacity Index, with Croatia ranked 38th, the National Competitiveness Council informed. The index measures institutional environment, human capital endowment, social inclusion, the regulatory and legal framework, research and development, and the adoption and use of information and communication technologies. The strengths of Croatia's innovation capacity are reflected in the number of mobile phone users, the fact that schools have Internet access, the number of articles in science and technology papers, and the number of Internet users. Weaker areas which need to be improved are the country's innovation capacity, such as investor protection, power supply and distribution, financial sector efficacy, and the debt level. (<http://www.innovationfordevelopmentreport.org/about.html>)

The World Bank's Study on trade logistics in the global economy: Croatia 74th of 155 countries

The World Bank's study entitled "Connecting to Compete: Trade Logistics in the Global Economy", ranks Croatia at the 74th place of 155 countries according to the capacity to connect firms, suppliers and consumers by efficient transport. The Netherlands is ranked 3rd. (<http://siteresources.worldbank.org/INTTLF/Resources/lpireport.pdf>)

2009 Corruption Perceptions Index: Croatia 66th of 180 countries

The 2009 Corruption Perceptions Index of the Transparency International shows that Croatia has dropped in the corruption perceptions index from a score of 4.4 in 2008 to 4.1 (on a scale of 0-total corruption to 10-no corruption), being ranked 66th among 180 countries. (http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table)

HLIPO business optimism index in decline

The HLIPO business optimism index in Croatia, compiled by the Henda public opinion research company and the Lider magazine, dropped for the second consecutive month in November to 76.9 %, 9.2 % down from the previous month. The decline was mainly fuelled by the tourism sector, where the index fell to 72 %, the lowest point since the index was introduced in Croatia. The only sector that saw a rise in the index was the retail sector.

OTHER NEWS

Document on “Strategic Development of Gorski Kotar” presented

Croatian NGO Odraz, with local partners PINS - entrepreneurial incubator in Skrad, NGO Smart from Rijeka and HMRR- Croatian Rural Development Networks have presented a document called Strategic Development of Gorski Kotar. The document was developed by the Local Action Group Gorski Kotar as a part of the project called Sustainable Future of Rural Areas in Croatia, with a support from the Milieukontakt Oost-Europa as the Dutch partner in the project, and financial support from the Dutch Government's MATRA programme.

EUR 175 million investment in a new shopping centre in Split announced

Split based Tulipan Grupa, together with German and Dutch partners, has announced investment of EUR 175 million in building of a commercial and residential complex in the part of the city in Split called Mejasi. Dutch partner in the project is Amsterdam based Eureal Holding BV.

Cooperation on development of vaccine strains agreed

Agreement for development of six vaccine strains was signed between Croatian Veterina d.o.o. of the Genera Group and the Dutch laboratory Gezondheidsdienst voor Dieren BV, one of the leading control research laboratories in Europe. Development of vaccine strains will result in obtaining European registration files for internationally competitive products.

Partnership with NewFrontiers

Croatian system integration company Combis obtained status of the first and only Croatian partner of the Dutch company NewFrontiers, specialised in business intelligence solutions for SAP.

EXCHANGE RATE

Source: Croatian National Bank

28 November 2009: 1 EUR = 7.317 HRK

31 October 2009: 1 EUR = 7.306 HRK

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