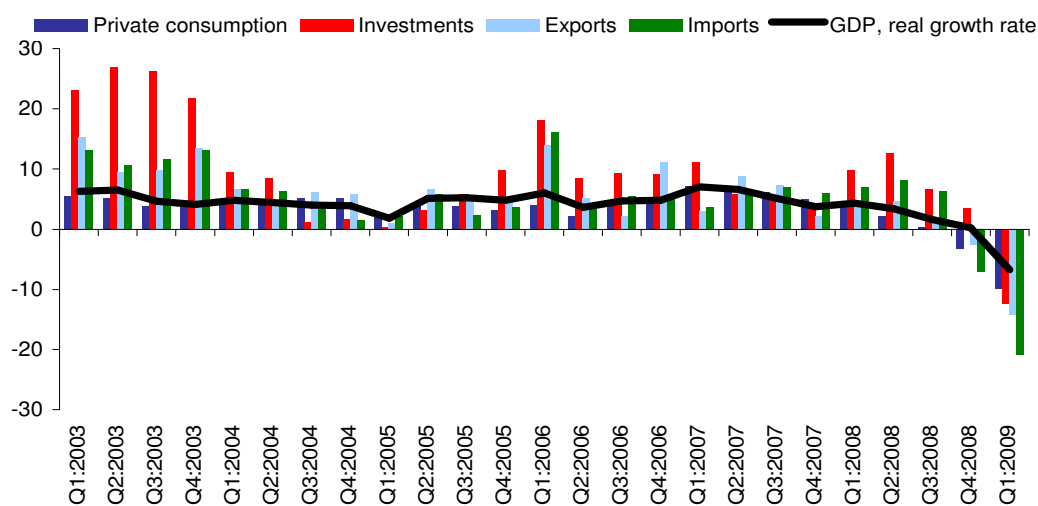


Short note – Fixed Income Research – June 29, 2009

# Croatia: 1Q GDP

## 1Q GDP down 6.7% y/y

- 1Q GDP contraction somewhat exceeded our expectations, landing at -6.7% y/y and clearly confirming the strong economic downturn. Private consumption recorded a 9.9% y/y decline, which was roughly suggested by retail trade figures and was in line with our expectations. Investment activity met our expectations quite well, declining a robust 12.4% y/y. Overall, 1Q confirmed that domestic demand took a strong hit. Along with that, the main downside surprise compared to our forecast (ESBe 5.5% y/y) came from the stronger than expected destocking, as inventories plunged 40% y/y in 1Q, putting a strong burden on 1Q GDP growth. Public consumption managed to offset part of the pressures, recording a 3.9% y/y increase in 1Q, which was suggested by the 1Q budget figures. Still, maintaining an expansionary fiscal stance in the coming quarters is unlikely, given the budget rebalance and need to tighten the stance and keep the deficit under control. Net exports landed well into positive territory, with exports (-14.2% y/y) clearly outperforming imports (-20.9% y/y) - largely in line with the trade balance figures.
- With 1Q09 GDP underperforming our expectation, risks to our 4.5% y/y forecast increased to some extent. We still expect stabilization in the coming quarters and domestic demand coming under less pronounced pressure, with the 3Q performance heavily dependent on the tourist season. Investment activity should remain burdened by weak and more expensive credit and the poor business environment, while private consumption should also take a hit from slowing credit, accompanied by the deteriorating labor market and continued weak consumer confidence. Net exports' contribution should remain in positive territory throughout 2009. Hence, we continue to anticipate FY09 GDP contraction landing in the 4.5-5% region, accounting for weaker recessionary pressures towards year-end. However, given the growth structure and high dependence on domestic demand and credit, the potential for recovery in 2010 is rather limited, with risks for another negative GDP growth year increasing.



Analyst: Alen Kovac  
 Akovac2@erstebank.com  
 Erste Bank Croatia

Source: CBS

This research report was prepared by Erste Group Bank AG ("Erste Group") or its affiliate named herein. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgement on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Group upon request. Past performance is not necessarily indicative of future results and transactions in securities, options or futures can be considered risky. Not all transactions are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Group. Erste Group Bank AG confirms that it has approved any investment advertisements contained in this material. Erste Group Bank AG is regulated by the Financial Services Authority for the conduct of investment business in the UK.

Please refer to [www.erstegroup.com](http://www.erstegroup.com) for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations.