

Short note – Macro/Fixed Income Research – August 27, 2010

Croatia: 2Q GDP

2Q GDP contracted by 2.5% y/y

According to the first flash estimate, GDP in 2Q repeated the 1Q performance, posting a 2.5% contraction. The figure came in somewhat below our forecast and the market consensus (ESBe: 2.2% y/y; market 2.3% y/y), showing the ongoing fragile economic development. The detailed breakdown should be revealed as the end of September. We expect the GDP performance to have remained subject to a strong negative impact from contracting investment activity, which likely remained in double-digit negative territory. Private consumption could also remain a burdening factor, still likely showing some stabilization with respect to 1Q (-4.1% y/y). Trade balance statistics, on the other hand, suggest a continuation of the strong net export offsetting effect.

For 3Q, we anticipate stabilization, due to encouraging preliminary tourist season figures (7% y/y more overnight stays in July) and additional stabilization of private consumption. Merchandise trade should also remain supportive, though likely to a lesser extent than in the robust 2Q. Overall, our FY10 GDP forecast remains in the 1.5% region.

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