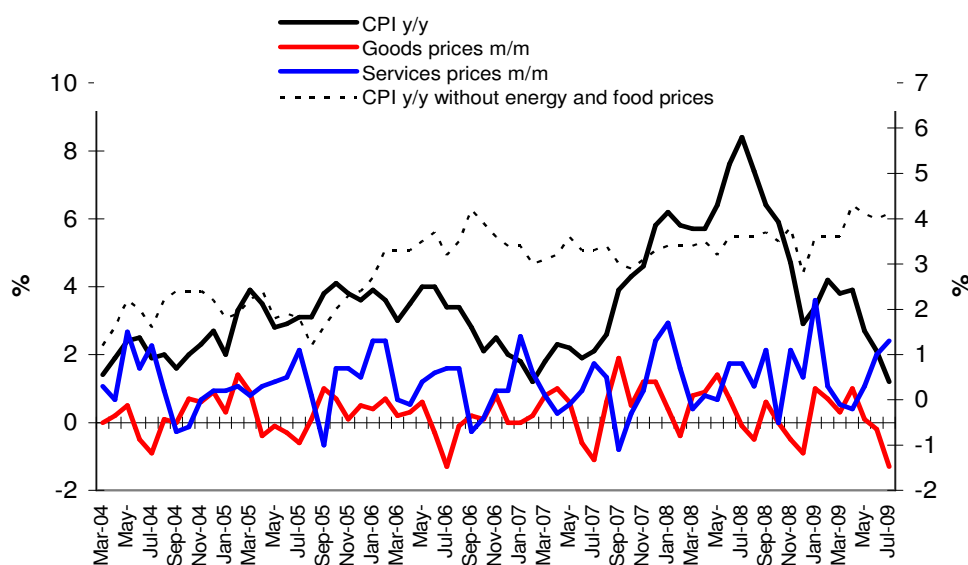


Short note – Macro/Fixed Income Research – September 15, 2009

## Croatia: August CPI

### CPI pressures remained subdued in August

CPI inflation continued to perform under downward pressure, recording a 0.1% m/m decline and posting 1.5% on the annual level. Weak pressures on the monthly level came as a surprise, as the VAT increase took effect in August (VAT was increased as an anti-recession measure by 1pp, to 23%, effective from the beginning of August), though not showing up in the figures. Food, beverages and tobacco products were down 0.2% m/m, while clothing and footwear prices fell 3.8% m/m. On the other hand, energy prices increased 1.4% m/m, mainly resulting from higher fuel prices. Clearly, the August figures had not incorporated the increased VAT rate and, given weak domestic demand, we continue to anticipate that the overall pass-through effect from this increase will be weak. The coming months should not bring dramatic changes to this pattern, with some seasonal categories under pressure. In line with the reversing base effect, we see the annual figures on an upward trajectory in the coming months and remain confident in our 2.9% average inflation forecast for 2009.



Source: CBS

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