

WEEKLY ANALYSIS

Number 788, August 29, 2022

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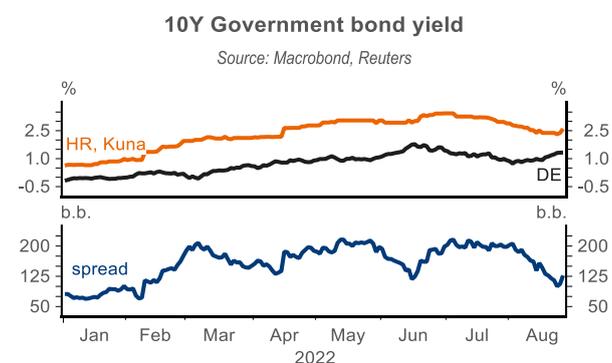
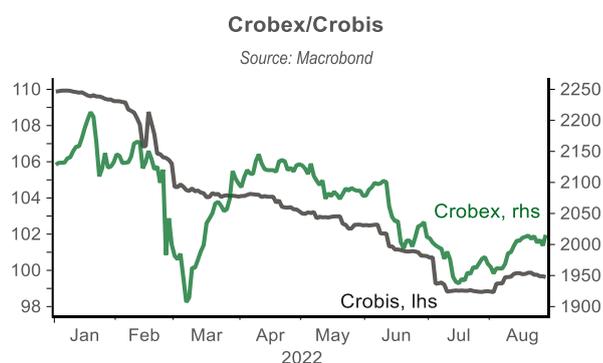
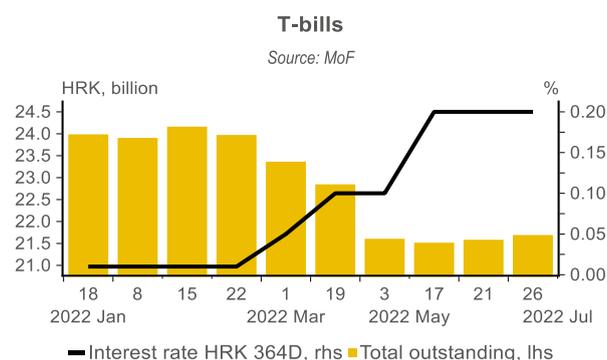
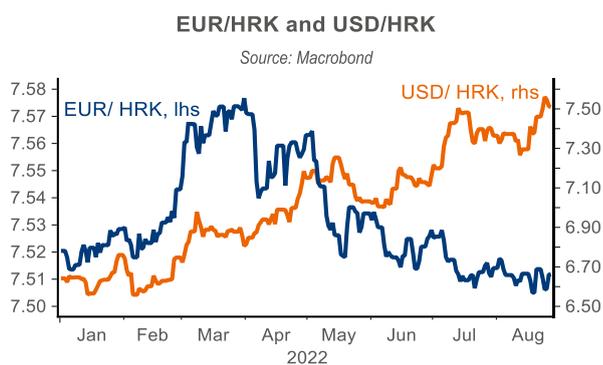
Strong GDP growth continued in 2Q, but autumn will bring slowdown

Preliminary assessment of the Croatian Bureau of Statistics suggests a continuation of strong economic growth in this year's Q2. Per published data, GDP realised (non-seasonally adjusted) growth of 7.7% compared to the same quarter last year, an acceleration of annual growth rate from 7.0% recorded in 1Q. Per seasonally adjusted data, annual growth was 7.8% (compared to 6.8% realised in 1Q22), while qoq growth rate was 2.0% (a slowdown compared to 2.8% recorded in 1Q22 compared to 4Q21). Observed by components, personal consumption recorded annual increase of 7.5% which represents a substantial acceleration compared to 6.2% recorded in the previous quarter. Such trends were also suggested by high-frequency indicators such as Tax Administration data on the fiscalised invoices, so published data on personal consumption growth was not a real surprise. Simultaneously, government expenditure registered annual decline in real terms by 2.2%, which, we presume, is a partial result of high base, i.e., consumption recorded in the same quarter last year, that is, slowdown of nominal growth combined with higher deflator. Gross investments recorded growth in real terms by 5%, a slowdown of annual growth compared to 7.9% recorded in 1Q. Supported by an almost 66% service export increase and goods export increase of 26.5%, total export recorded strong annual growth of 41.9% in real terms. Service export refers mostly to tourism that recorded a strong increase of physical indicators in the observed quarter (154% more arrivals and 129% more overnight stays of foreign tourists) compared to the same quarter in previous pre-season which was still marked by Covid restrictions. Simultaneously, total import had a significantly slower increase (+28.6%) than total export, where goods import (+30.7%, acceleration compared to 25.2% increase in 1Q) was markedly faster (than export), while service import recorded an increase of app. 15%. Observed by production method, total gross added value recorded in 2Q accelerated annual growth to 8.8% (from 6.3% recorded in 1Q), with the highest contribution to growth from Trade, transportation and storage and accommodation & food service that jointly recorded GVA increase of 25% in real terms. GVA growth was widely spread and only service F - Financial and insurance activities – recorded GVA decline in real terms by 0.6%.

In total, GDP in this year's first semester realised 7.4% growth in real terms, while available data so far point to a continuation of solid trends in 3Q with tourism looking especially good. July data point to an increase of foreign arrivals (overnight stays) by 24% (21%) y-o-y, with total amount of fiscalised invoices in accommodation/catering increasing slightly over 42% (with 16.8% inflation in that service according to the consumer price index data). Still, it is a very uncertain assessment of how the economic situation will look in the final months of this year, considering very turbulent trends of gas and electricity prices and its consequences on the consumption among citizens and on business activities of economic subjects, whether directly or via recession trend spill-over from the environment. Signals from the environment are not currently encouraging at all, although some relief can be found in growing occupancy rate of European gas storage facilities and the fact the targeted level of occupancy of 80% will probably be exceeded by 1 November which should reduce the need for reductions. Business surveys are emitting worrying signals, namely in August European PMI (second month in a row) slipped under 50 – score line of demarcation between economic expansion and contraction to a level of 49.2 points, with a significant slide of the service component pointing to deflation of post-Omicron recovery. Simultaneously German IFO index sank to the lowest level from Covid-marked June 2020. In conclusion, autumn and winter will certainly bring a slowdown of economic growth, i.e., recession risks mostly due to enormous and, we dare to say, so far unprecedented energy shock we are faced with.

Weekly overview

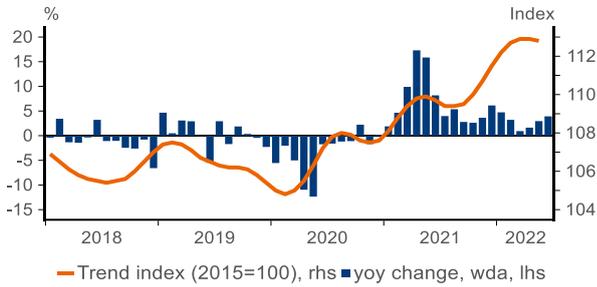
- Last week kuna stagnated against the euro so by the end of week mid-point exchange rate amounted to 7.5119 kuna to the euro. Simultaneously kuna recorded depreciation against the dollar due to strengthening of the dollar against the euro on global FX markets so the exchange rate increased by 0.7% w-o-w, reaching 7.5096 kuna to the dollar.
- Liquidity jumped on 10 August from 68 to 84 billion kuna after releasing a part of the reserves and afterwards continued slightly growing, reaching around 85 billion kuna last week. Last week interest rates stagnated, and there were no placements at the CNB's regular repo auction. T-bills auction was held on 16 August and 1.1 billion kuna of 1Y T-bills was subscribed with stationary interest rate of 0.20%. Next maturity of T-bills is 22 September, and the Ministry of Finance will subsequently announce the date of next auction.
- Total ZSE turnover last week reached 44 million kuna (+70.7% w-o-w), with turnover in bonds multiplying (to 20 million kuna), while turnover in shares decreased by 9.9% (to 22 million kuna). Uncertain environment and unfavourable expectations affected the performance of shares, but Crobex still closed Friday at 0.3% higher w-o-w at 2,015.5 points, with CROBEXindustry up by 0.1% (to 1,059.1 points), while CROBEXconstruct and CROBEXtourist decreased by 7.4, i.e., 1.7% (to 434.1, i.e., 3,525.5 points). Crobis declined by 0.2% w-o-w to 99.6 points.



Statistics

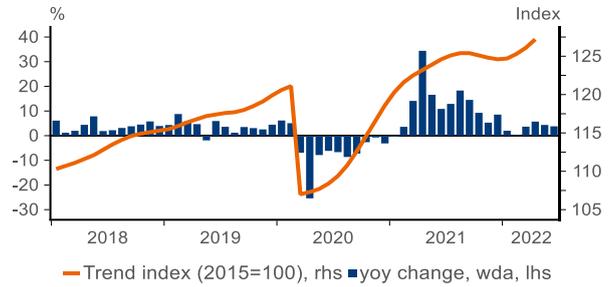
Industrial production

Source: Macrobond



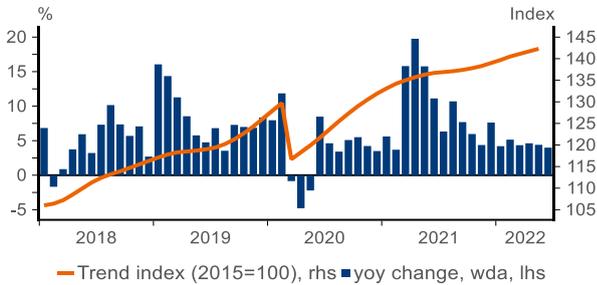
Retail trade, real

Source: Macrobond



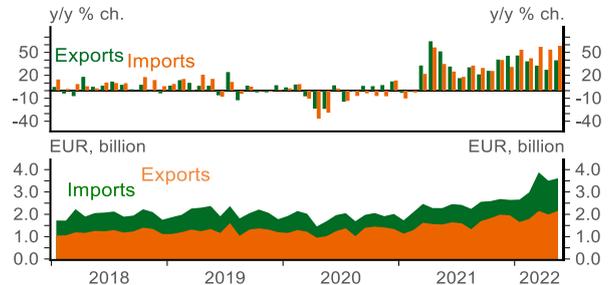
Construction works

Source: Macrobond



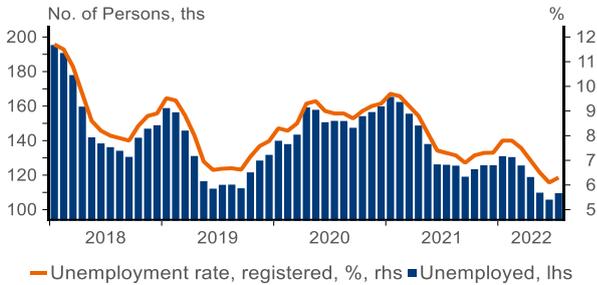
Goods exports and imports

Source: Macrobond



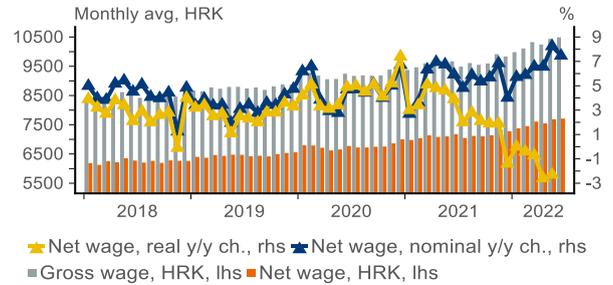
Unemployment

Source: Macrobond



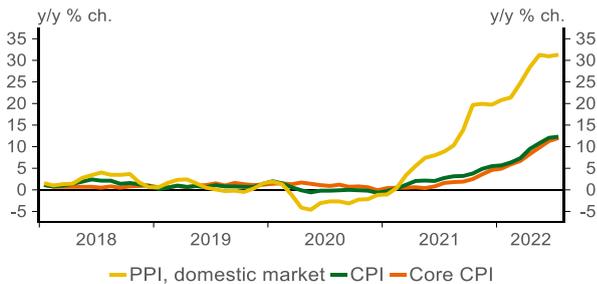
Wages

Source: Macrobond, CBS



Prices

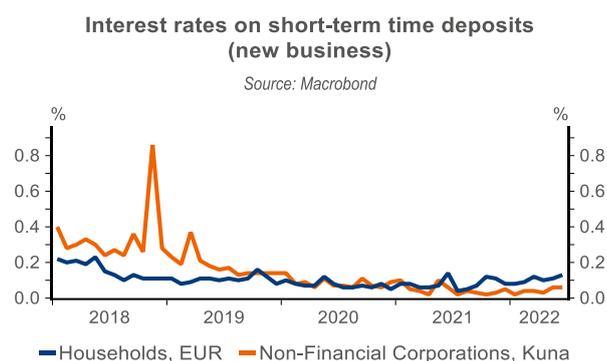
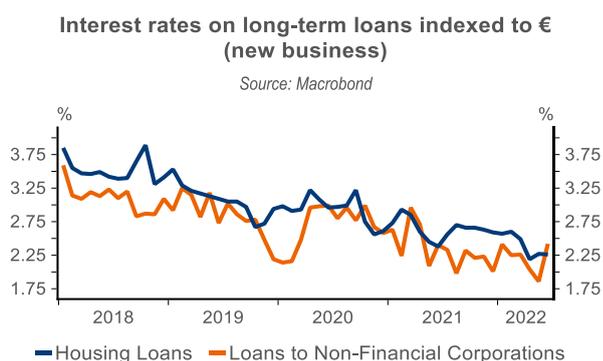
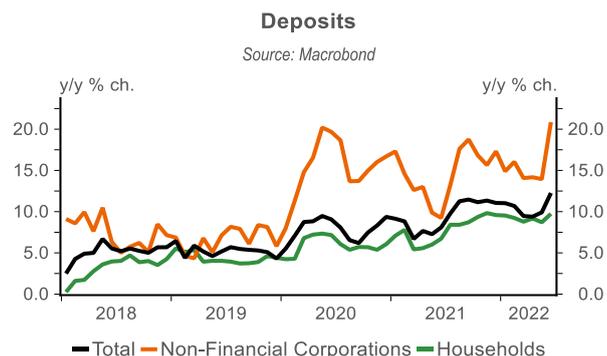
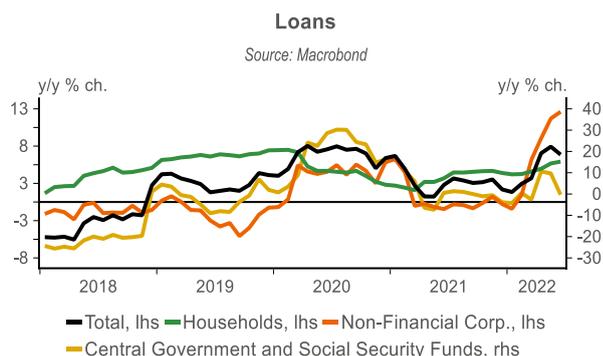
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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