

WEEKLY ANALYSIS

Number 751, October 25, 2021

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Revised GDP knocked down the share of public debt in 2020

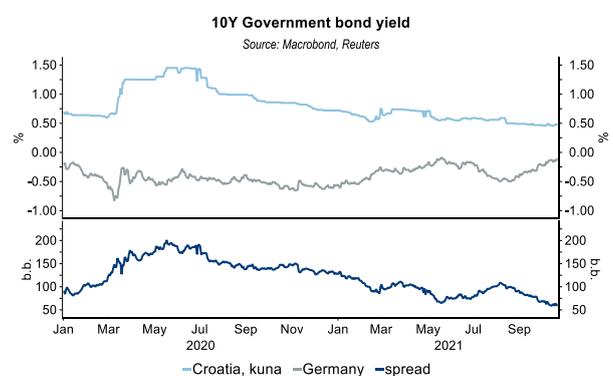
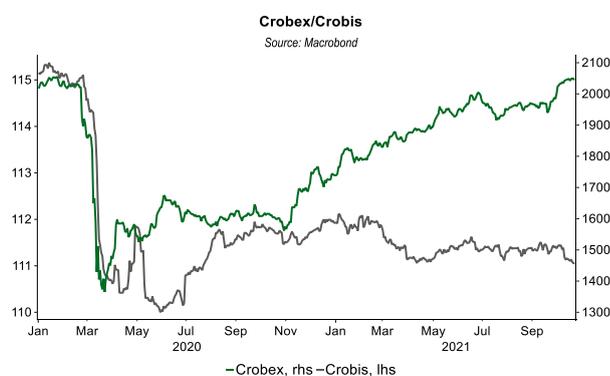
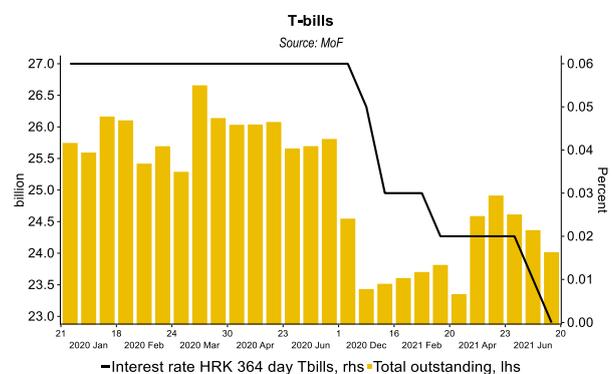
Last week's announcement of annual calculation of gross domestic product brought a significantly higher growth rate in 2019 (3.5% instead of previously published 2.9%), but also a marginally higher rate of decline in 2020 (-8.1% versus -8.0%) from previously published data. Higher growth in 2019 mostly reflects a revised growth rate for personal consumption (4.1% versus previous 3.5%) and investments whose growth was increased from previous 7.1% to revised 9.8%. Revised data for last year show a somewhat milder decline of personal consumption (-5.3% versus previous -6.2%) but also a significantly stronger decline of investments (-6.1% versus -2.9%). Revision also brings growth of goods' export of 0.3% (instead of decline of -0.8%) and a somewhat milder decline of export of services (-42% versus -45.2%), while a decline of import of goods and services was mitigated to -12.3% from previously published -13.8%.

Just like the revised annual calculation also brought 2.5%, that is, 1.8% higher nominal GDP in 2019 and 2020 than the previously published, public debt/ GDP ratio also improved, it was reduced from previously published 72.9%, that is, 88.7% to 71.1%, that is, 87.3%. According to the data published in October's EDP notification, the general government deficit/GDP remained the same at -7.4% in 2020 considering that compared to the data from April, the nominal amount of deficit was increased by 1.3% (from 27.5 to 27.9 billion kuna).

Simultaneously with the revised historical data, Eurostat also published quarterly data for revenue, expenditure and deficit/surplus of the general government according to ESA methodology for first two quarters of the current year. According to published data in the first semester of this year, total revenue amounted to 93.8 billion kuna, that is, 13.7% more than in the comparable (marked by lockdown) period during last year. Revenues from indirect taxes and levies increased by 17.6%, that is, 10.2% while that from direct taxes reduced by 3.4%, which mostly reflects recovery of consumption (revenue from VAT +22%) and changes in income and profit tax. Other revenues increased by 22.8% and we presume that they mostly reflect better withdrawal of EU funds. Ministry of Finance in its explanation of the implementation of the state budget for first semester also lists some additional ample revenues such as, for example, payments of overdue dividends from 2020 or a payment from the Croatian Deposit Insurance Agency on behalf of refund of funds paid from the state budget during previous years. At the same time, total expenditure of the general government reached 103.1 billion kuna, that is, 5.5% more than the same period last year. Expenditure for intermediate consumption thus rose by 6.9% (to 16 billion kuna), wage bill by 6.0% (to 26.4 billion kuna; wage increase in public and government services), social levies by 6.8% (to 33.5 billion kuna), investments by 18.8% (to 9.5 billion) while only expenditure for interest rates and subsidies recorded a decline of 7.8%, that is, 29.4% due to favourable financing conditions, i.e., a reduced number of beneficiaries of aid for preservation of employment. Therefore, according to ESA methodology in this year's first semester on the level of general government there was a deficit in the amount of 9.3 billion kuna (vs 15.2 billion of deficit in the same period last year), which is an expected improvement considering the circumstances a year ago. Targeted level of general government deficit according to April's state budget revision was 3.8% GDP, however, according to the statements of the finance minister the deficit will still be somewhat higher, and the exact amount will be known during this week when a draft of this year's second budget revision will be submitted. In any case, the suspended SGP rules allow for a more flexible fiscal policy in this and next year, but in the light of joining the eurozone we presume that the draft of the 2022 State Budget will still follow the direction of reducing the deficit to below 3% of the GDP, with continued dynamic of reducing public debt.

Weekly overview

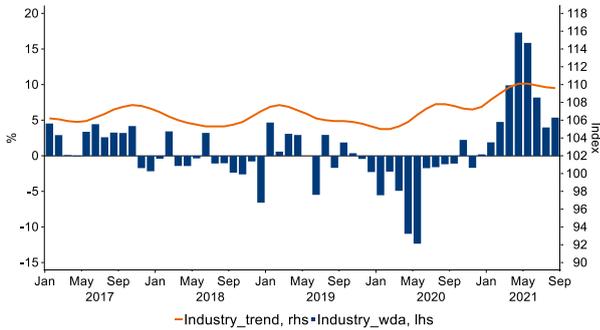
- Total volume of construction work was up by 10.8% yoy in August, where growth in residential buildings was 11.1%, and 10.5% for other constructions. In the first eight months of this year, the volume of construction work recorded an annual growth of 11.2%.
- Behind us is another relatively quiet week with a mild appreciation of kuna to the euro and on Friday the mid-point exchange rate amounted to 7.5074 kuna to the euro, down by 0.1% wow. The kuna also strengthened against the dollar by 0.4%, to 6.4486 kuna to the dollar. This week we see HRK/EUR trading in the range of 7.50-7.55.
- Excess liquidity increased to 66 billion kuna, there were no placements at the CNB's repo auction, and interest rates stagnated. Last week 264 million kuna was issued and 160 million euro of one-year T-bills with interest rate of 0.00%, i.e., -0.15%, down by 1 b.p. that is, 10 b.p. lower than the previous issue. This reduced the indebtedness of the central government via T-bills to 24.0 billion kuna. Nothing is due during this week so there will be no auction.
- The Crobex Index closed last Friday at 2,048.34 points, that is, stagnated at wow, while Crobis simultaneously decreased by 0.1% (to 111.49 points). With sector indices, CROBEXindustry stagnated at 1,181.29 points, while CROBEXtourist and CROBEXconstruct declined by 0.9% and 1.1% respectively (to 3,583.13 and 468.93 points). Total ZSE turnover last week reached 215.8 million kuna, down by 51.1% wow, owing to a 47.8% decline in turnover in bonds (183.1 million kuna) and a 64.0% lower turnover in shares (32.7 million kuna).



Statistics

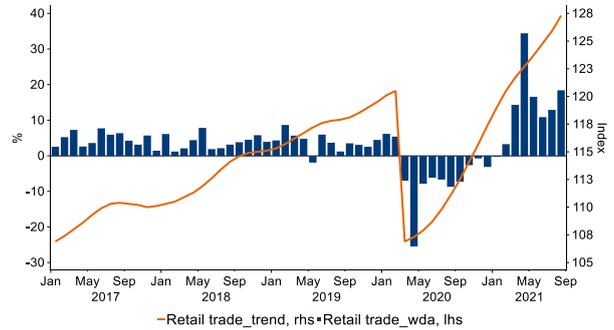
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



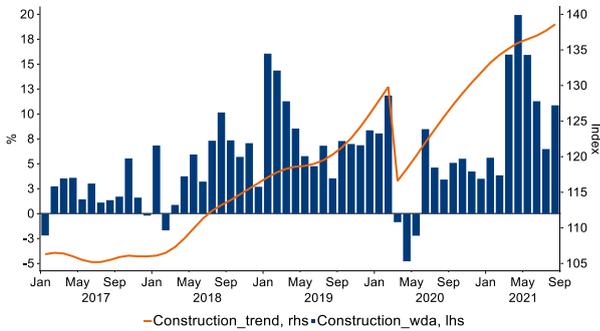
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



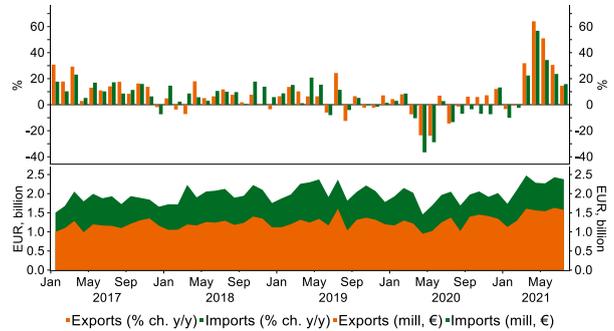
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



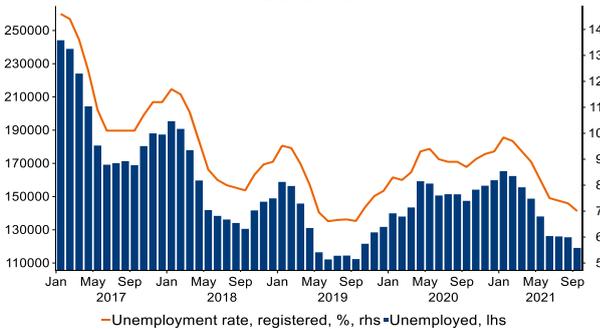
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



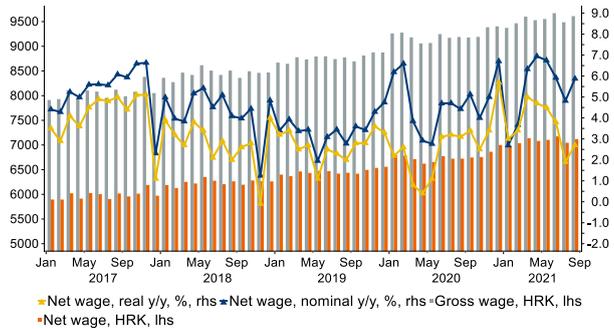
Total number of unemployed and unemployment rate

Source: Macrobond



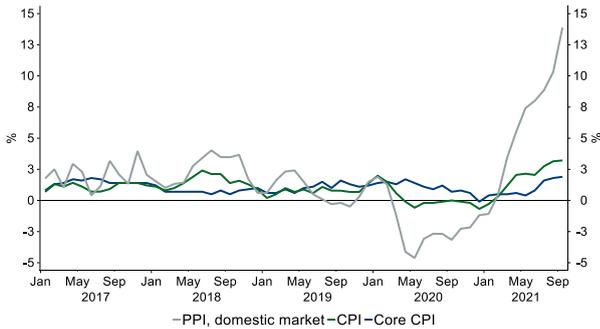
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



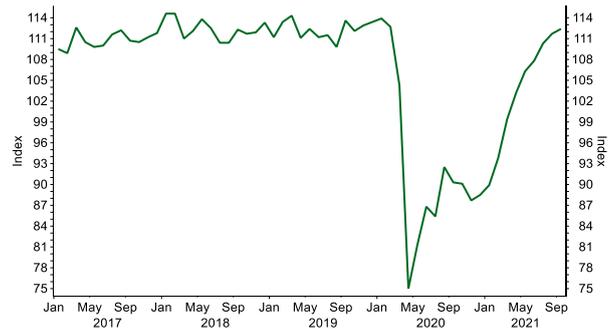
Prices, y/y % change

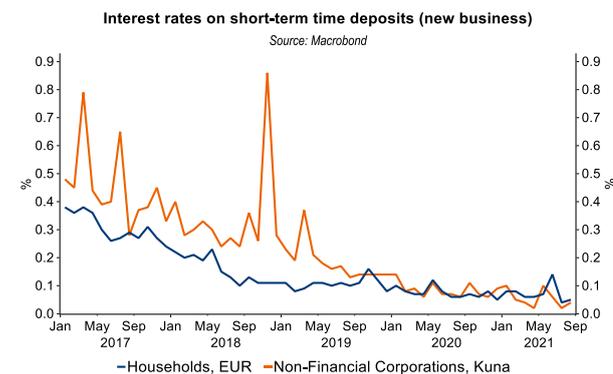
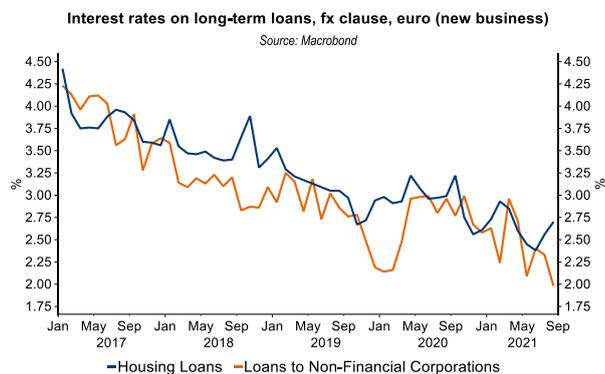
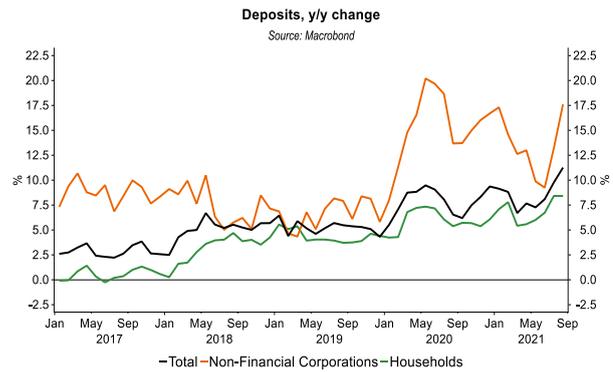
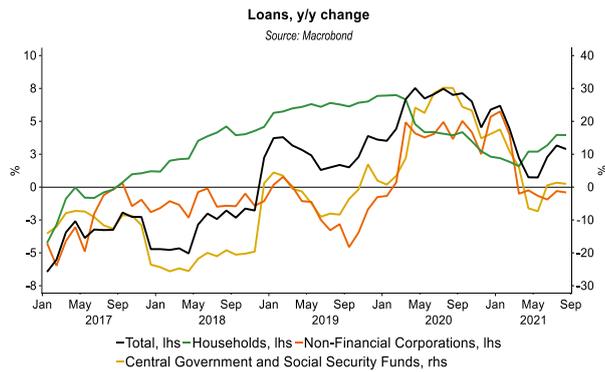
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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