

WEEKLY ANALYSIS

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Balance of payments surplus decreased, public debt exploded

According to the recently published CNB data, the pandemic year of 2020 pushed the balance of payments current account into a deficit of 379 mn euro, i.e. 0.8% of GDP (compared to 1.5 bn euro or 2.8% of GDP of surplus generated in 2019), primarily amid a deterioration of the services account balance. Namely, the surplus realised in the account of services nearly halved (-49.2% to 5.2 bn euro) compared to 2019, mostly reflecting 54.3% lower tourism revenues. Simultaneously, a sharper drop in imports (-10.7%) than in exports (-5.4%) of goods, led to an improved balance in the goods account, i.e. to a reduction of the generated deficit to 8.6 bn euro (from 10.5 bn euro in 2019). In the primary income account a surplus was generated of 213 mn euro (in 2019 a deficit of 842 mn) due to fallen profits of domestic banks and foreign-owned enterprises, while surplus in the secondary income account increased to 2.8 bn euro (+13.1%) and in capital transactions to 1.3 bn euro (+18.1%) due to a considerably stronger

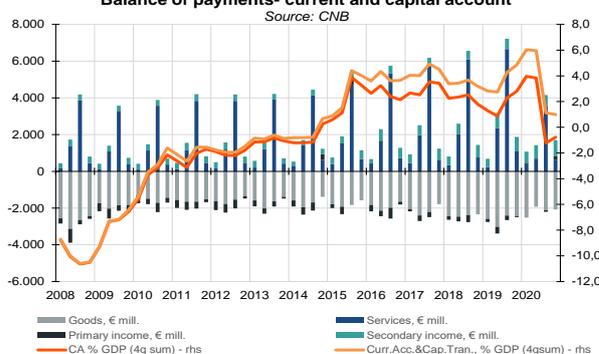
absorption of EU funds than it was the case in 2019. Accordingly, total surplus in the current and capital account amounted to 937 mn euro or 1.9% of GDP, compared to a 2.6 bn surplus generated the year before. As for 2021, recovery of domestic demand might bring a deterioration in the account of goods since it might release a stronger growth of imports, while in the account of services there should be an improvement, i.e. increase of the generated surplus amid expected recovery of tourist activity compared to the previous year. In the primary income account there might be a deterioration of balance amid better business performance of foreign-owned enterprises, while in the secondary income and capital transactions accounts the positive trend should be continued amid an even stronger inflow of EU funds primarily under the absorption of MFF 2014-2020, and also pre-financing of RRF funds later during the year.

Outstanding gross external debt at the end of last year amounted to 40.6 bn euro, down by 252 mn euro or 0.6% versus the end of 2019, but due to a sharp decline in nominal GDP, the share of external debt rose to 82.7% (from 75.4% in late 2019). And while during the year non-financial corporations reduced external debt by app. 1 bn euro, the central bank by 344 mn and other sectors by around 377 mn euro, general government external debt increased by slightly above one billion euro, of credit institutions by around 204 mn euro and debt under the affiliated creditors by around 200 mn euro. Let us also mention that, according to the published data, total public debt at the end of last year amounted to 329.7 bn kuna, up by 36.7 bn kuna versus the end of 2019, where around 2/3 of the increase concerned the domestic component of the debt, and one third the external one. The share of public debt in GDP thus grew to 89.1%, up by 16.3 p.p. versus the end of 2019, but we will provide more detail on public finances after the release of the set of fiscal data in mid-April.

		€ mn		% of GDP	
		2019	2020	2019	2020
1.	Current account	1,520	-379	2,8	-0,8
	Goods	-10,451	-8,644	-19,3	-17,6
	exports	12,867	12,172	23,7	24,8
	imports	23,318	20,817	43,0	42,4
	Services	10,333	5,247	19,1	10,7
	o/w tourism revenues	10,539	4,814	19,4	9,8
	Primary income	-842	213	-1,6	0,4
	Secondary income	2,480	2,805	4,6	5,7
2.	Capital account	1,115	1,316	2,1	2,7
3.	Current & capital account (1.+2.)	2,634	937	4,9	1,9
4.	Financial account	2,463	780	4,5	1,6
	Direct investments	-1,044	-936	-1,9	-1,9
	Portfolio investments	525	-88	1,0	-0,2
	Financial derivatives	-113	-346	-0,2	-0,7
	Other investments	2,105	1,546	3,9	3,1
	Reserve assets	989	603	1,8	1,2
5.	Net errors and omissions (4.-3.)	-171	-157	-0,3	-0,3

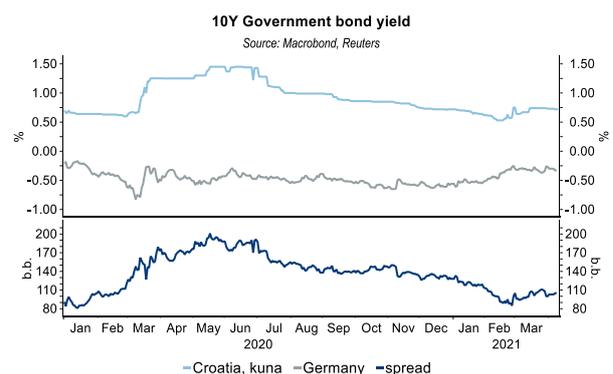
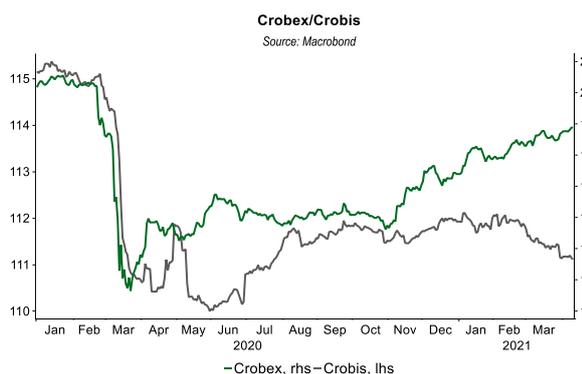
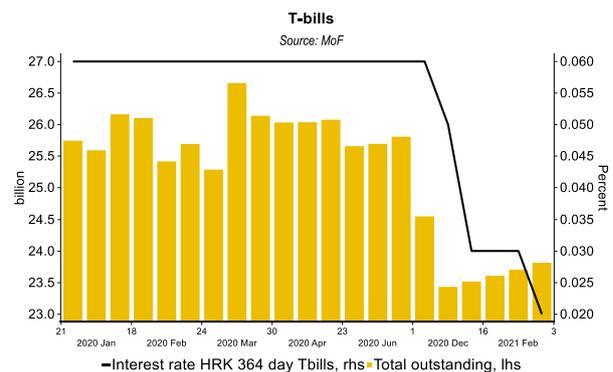
Source: CNB

Balance of payments- current and capital account

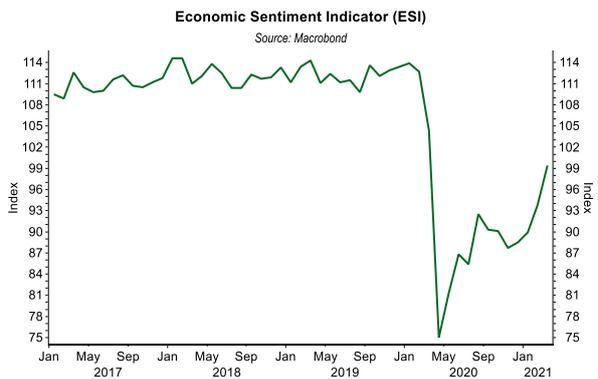
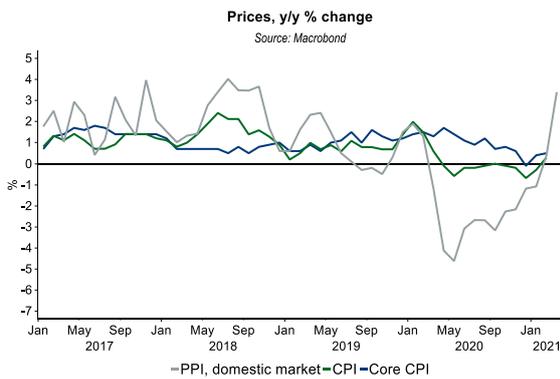
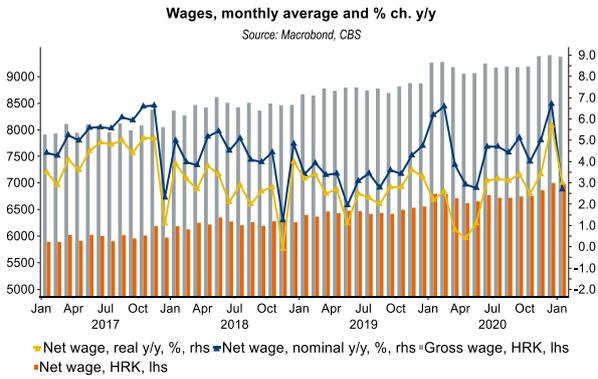
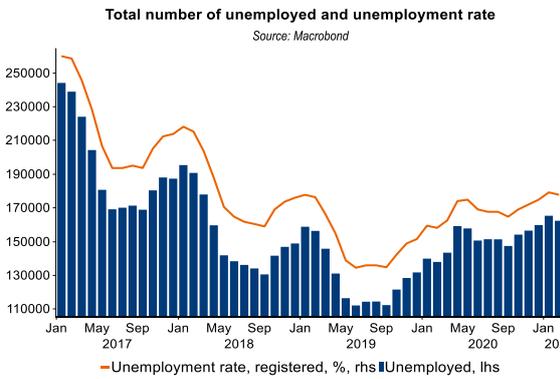
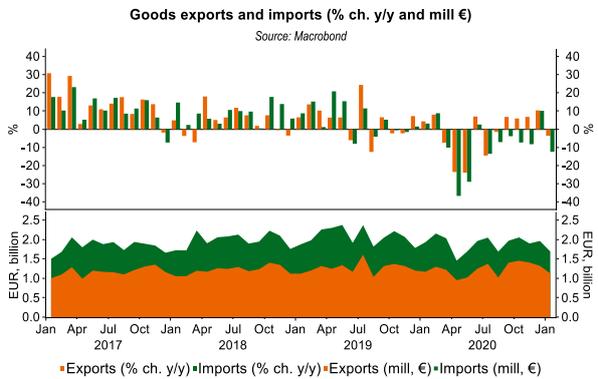
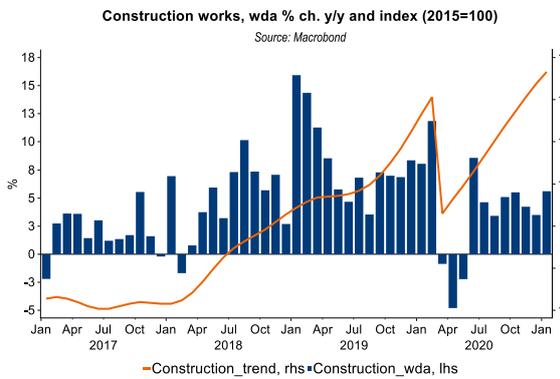
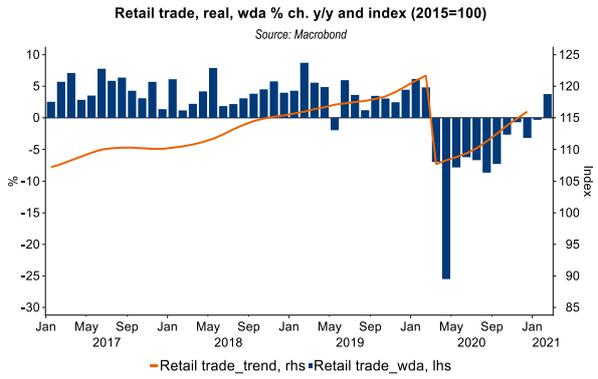
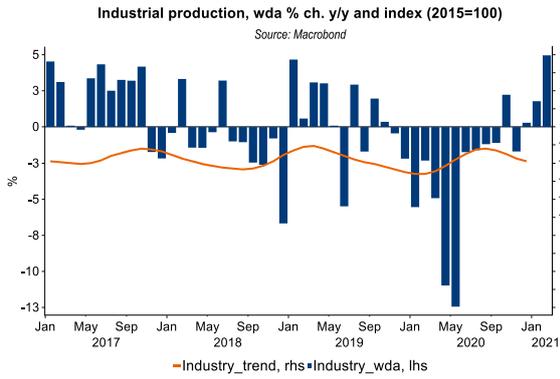


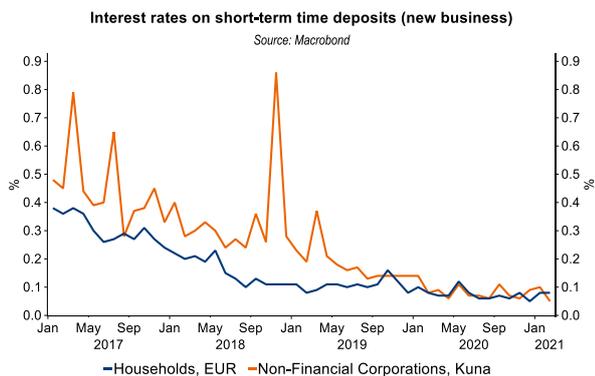
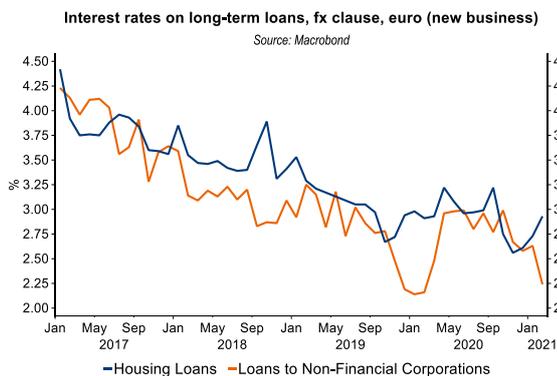
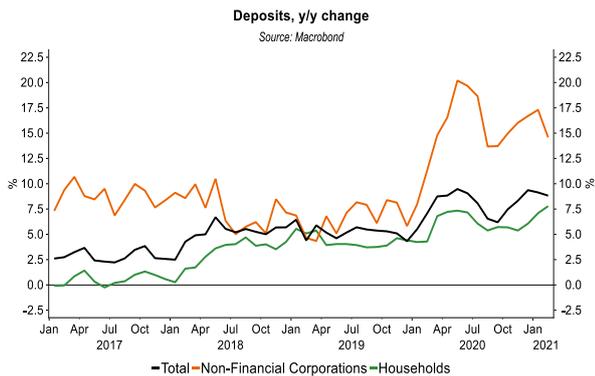
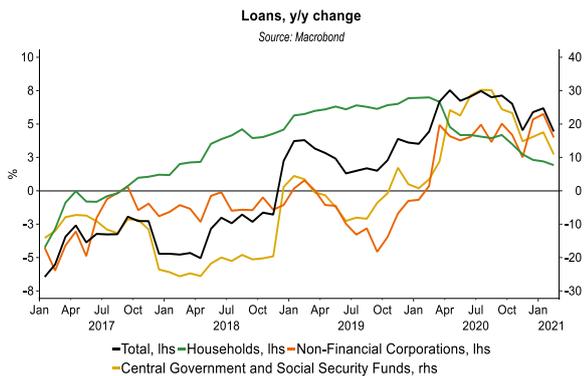
Weekly overview

- Total exports of goods decreased in January by 2.4% yoy, while imports simultaneously decreased by 11.3%, whereby foreign trade deficit in trade of goods dropped by 24.9%, and the coverage of imports by exports advanced by 6.1 p.p. (to 66.6%).
- Last week the HRK/EUR exchange rate recorded only mild fluctuations and on Friday it reached the level of 7.5691, which is almost unchanged in wow terms, while the kuna strengthened against the dollar by 0.9% to 6.3649 kuna to the dollar.
- Excess liquidity hit a new record level of 68 billion kuna in the week behind us. Interest rates recorded a slight downward movement in the longest maturities, and there was no demand at the CNB's repo auction.
- The Crobex Index last week closed at 1,889.05 points, up by 0.7% wow, while Crobis simultaneously fell by 0.1%, reaching 111.54 points. Sector indices closed on a positive note, where CROBEXconstruct grew by 3.8% wow (to 819.67 points), CROBEXindustry by 2.8% (1,089.29) and CROBEXtourist by 1.1% (3,549.11). Total ZSE turnover in the last week's four trading days reached 55.5 million kuna, down by 79.0% compared to the week before, owing to 87.5% lower turnover in bonds (reaching 30.5 million kuna), while turnover in shares grew by 19.0% (to 25.0 million kuna).



Statistics





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