

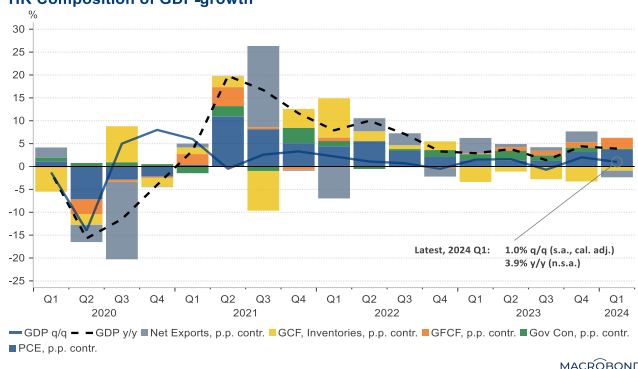
## NUMBER 863, JUNE 3, 2024

### Personal consumption and investments drive growth

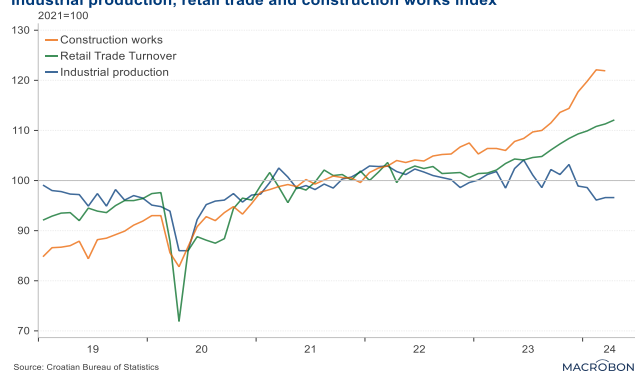
- Per flash estimate of the National Bureau of Statistics, the gross domestic product grew by 1.0% q-o-q in this year's Q1, i.e., by 3.9% y-o-y, which is mostly in line with our expectations. GDP growth largely reflects a strong growth in domestic demand, primarily personal consumption, which increased by 6% y-o-y (acceleration from 5.3% recorded in last year's Q4) and investments, whose growth accelerated to 10.8%. Interestingly, in the same period government spending recorded only a modest 1% increase, although the available fiscal data suggest a somewhat stronger growth. Simultaneously, total export recorded a decrease of 2% where, unlike previous quarters, the export of goods recorded an increase of 2.9%, and the export of services a noticeable 8.2% decrease compared to the same period last year. Given that more detailed data on the structure of export of services are not available, and the available data from tourism statistics suggest a solid start to the year (the Croatian National Tourist Board recorded an increase in foreign arrivals/nights of 23%, i.e., 21% in Q1, and the Tax Administration recorded an increase in the value of fiscalised invoices in activity I by 23%), we tend to attribute this decline to the trends of other categories within the export of services, such as, e.g., goods refining services. However, this remains to be confirmed by the balance of payments statistics at the end of June. Since simultaneously, total import recorded a growth of 2.2% y-o-y, the net contribution of foreign demand to the total growth was negative. The gap between domestic consumption and the export component is also confirmed by the fact that gross added value in industry recorded a 2.3% decline (manufacturing industry -1.5%), while it recorded growth of 13.1% in construction, and a 6.3% growth in the service sector (trade, transport, tourism).

The biggest contribution to growth in Q1 came from personal consumption...

HR Composition of GDP-growth



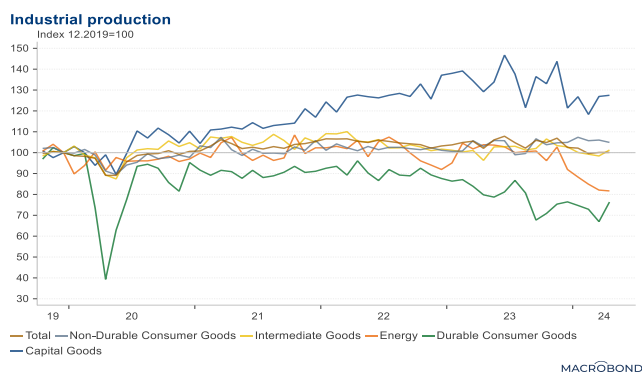
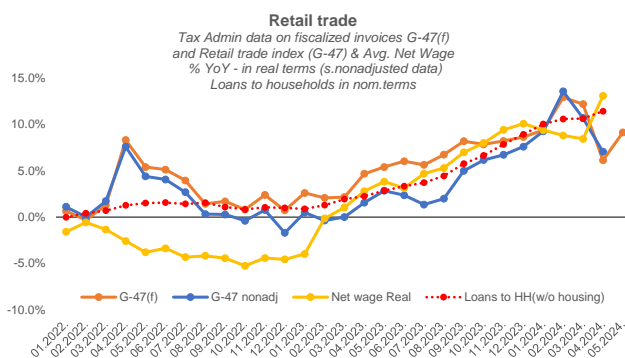
Industrial production, retail trade and construction works index



- The first high-frequency data for this year's Q2 indicate a continuation of personal consumption growth, given that the retail trade turnover volume in April recorded an increase of 0.7% m-o-m, i.e., 8.6% y-o-y. In addition, per data of the Tax Administration, the total amount of fiscalised invoices in the G47 activity in May recorded an increase of 11.7% compared to the same month last year (in April, the

... and available data suggest the same for the current quarter...

growth was 9.9%), which with the inflation rate slowing down to 3.3% suggests an acceleration in retail trade growth rate in May, after the already mentioned growth of 8.6% recorded in April.

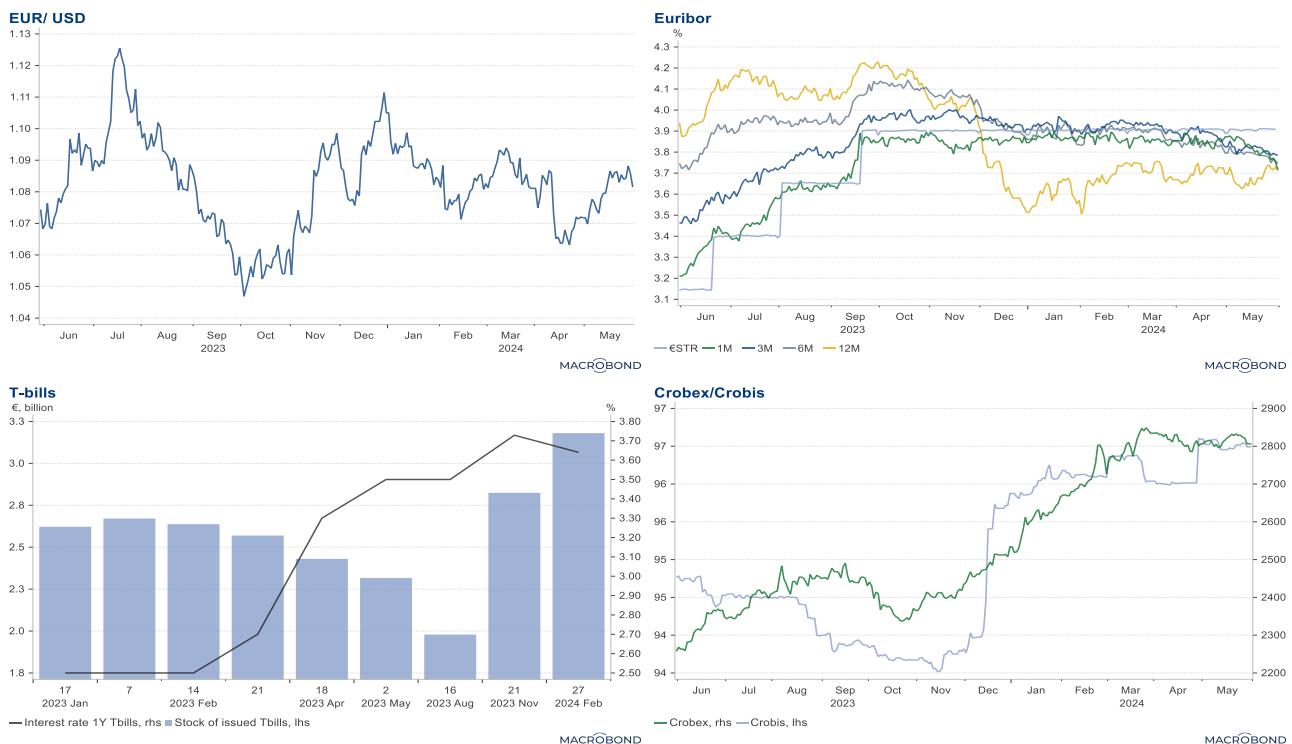


Unfortunately, April data simultaneously reveal that after three consecutive months of decline, and an anaemic monthly growth recorded in March, industrial production in April stagnated m-o-m, while the manufacture of intermediate products, with a 2.8% growth, managed to compensate for part of the decline recorded in for the last five consecutive months, enough to rise to a positive +4.9% y-o-y after three negative months. Energy, on the other hand, continued a five-month streak of m-o-m decline, thus also sinking y-o-y by a little more than a fifth. However, two consecutive months of growth were nevertheless connected by the manufacture of capital goods, which softened the negative annual rate to -1.2% in April, while the manufacture of durable consumer goods, after three consecutive months of decline, partially compensated for the loss with a growth of 14% in April, which finally eased off high double-digit rates of y-o-y decline to -3.8%. Simultaneously, the manufacture of non-durable consumer goods recorded a decrease of 1.1% m-o-m in April, with a growth of 1.5% compared to the same month last year. Therefore, observed at the annual level, total industrial production is 2% lower than in the same month last year, which is already the fifth consecutive month of y-o-y decline. Considering recent trends, we expect that the industrial production's fitness will gradually improve in the upcoming months in accordance with the expected recovery of foreign demand, which is also the assumption of our baseline scenario, according to which economic growth in 2024 could be around 3.4%.

**...while we foresee a more tangible recovery of foreign demand only later this year**

- And finally, the statistical week was concluded with the flash estimate of inflation in May, which according to the national index slowed down to 3.3% from 3.7% a month earlier, with the lowest m-o-m growth rate (0.1%) recorded in the last four months. The internationally comparable harmonised index showed a slightly stronger 0.2% m-o-m increase (but also the lowest in the last four months), while the annual inflation rate slowed to 4.3% from 4.7% recorded in April. The average inflation rate recorded in the euro area was 2.6% (0.2% m-o-m) and slightly accelerated compared to the 2.4% recorded in the previous two months, mainly due to a noticeable acceleration in the service category where the m-o-m rate was 0.6%, while the y-o-y rate accelerated from 3.7% in April to 4.1% in May. We do not expect that the flash estimate of inflation in May will affect the expected interest rate cut at the ECB meeting on 6 June, but we do not foresee the first next cut before September.
- Last week, the exchange rate remained in the range of 1.08-1.09 dollars to the euro, reaching 1.0852 by the end of week, up by 0.1% w-o-w.

- Ahead of this week's ECB meeting where, despite the data on slightly higher inflation in the eurozone in May, a decision on interest rate cut is expected, Euribor mostly stagnated w-o-w, apart from 1M that recorded a decline of 10 bps. At the week's end, 3M and 6M were 3.8, i.e., 3.7%. The first round of subscription of T-bills that were offered to natural persons ends this week, and after the second round planned for institutional investors, the T-bills will be issued.
- Crobex declined 0.8% w-o-w to 2,806 points, following the uneven performance of the most important sectoral indices (CROBEXindustry -0.1% to 2,033, CROBEXnutris -1.2% to 909, CROBEXtourist +0.6% to 4,438). Crobis remained at 96.5 points.



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