

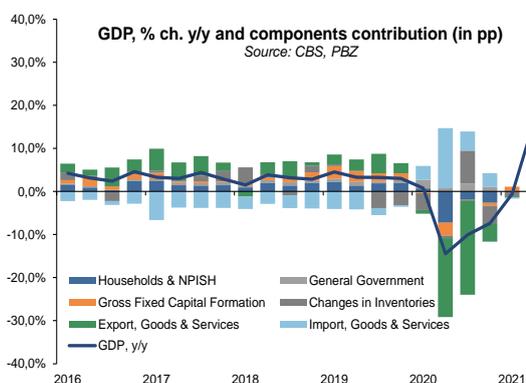
WEEKLY ANALYSIS

Number 768, February 28, 2022

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Strong recovery in 2021, expectations eclipsed by the growth of uncertainty

On Friday the Croatian Bureau of Statistics released its first assessment of trends of gross domestic product in the final last year's quarter, i.e., the entire 2021. According to a preliminary assessment, GDP recorded a mild decline of 0.1% in the last year's Q4 compared to Q3, while compared to 2020 Q4 it recorded growth of 9.7% according to seasonally non-adjusted data, that is, 9.9% according to seasonally adjusted data. According to components, during the observed quarter personal consumption rose by real 7.6% (nominally 12.4%), contributing to total growth by 5.4 p.p., while public consumption recorded growth of 14% (contribution of 2.9 p.p.). Simultaneously, strong growth of total export was continued (31.7% due to 24.7% real growth of goods export and 49.1% growth of service export), which in combination with 16.4% higher import resulted in 3.0 p.p. of positive contribution of net foreign demand to the total growth of GDP. The only disappointing data came from the investment side which recorded a growth of only 0.8%. All in all, gross domestic product in 2021 recorded growth of 10.4%, resulting in the GDP level exceeding the pre-pandemic 2019 level by 1.5%. Last year's growth was widely spread so the aforementioned personal consumption recorded growth of 10% compared to 2020 (+4.1% compared to 2019), export of goods and services of +33.3% (+3%) while investments rose by 7.6%, i.e., 1.0% compared to 2019. Simultaneously, government spending recorded growth of 3.0% while total import rose by 14.7% y-o-y. Look ahead has unfortunately been once again blurred by a high level of uncertainty as the result of Russian invasion to Ukraine, so it is highly likely that our assessment of this year's growth by 4.7% will be susceptible to revision during March and a new cycle of economic assessments. Namely, likely retention of high prices of energy products and food for a period longer than initially expected will have a negative impact via cost shock on purchasing power of both households and companies. Unfavourable geopolitical environment, possible tightening sanctions and expected slowdown of EU growth rate compared to initial basic scenario are all additional negative risks for expected growth, and rise of uncertainty and possible destabilisation of the wider region can jeopardise the tourist season. Although currently we do not see a high probability of extremely unfavourable events, high level of uncertainty regarding trends of energy products, raw materials and food prices, i.e., the strengthening of inflationary pressures certainly points to strengthening of negative risks, clearly shown by the graph below, where unfavourable trends of real net wages that started at the beginning of last year are visible. Namely, although average net wage for December (paid in January) recorded nominal growth of 4.0%, January inflation of 5.7% pushed the interannual change of real net wage into negative waters.

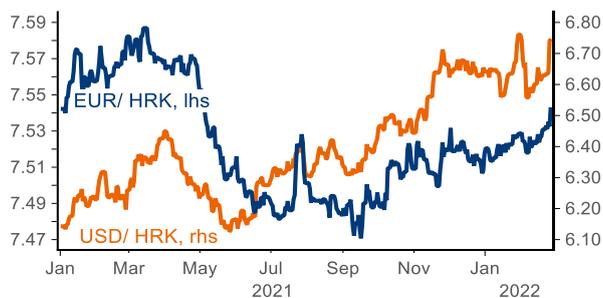


Weekly overview

- Consumer price index recorded an annual increase of 5.7% in January, mostly due to an increase of prices of Food and non-alcoholic beverages (9.4%) and Transport (10.8%).
- Volume of construction work in December was up by 7.7% y-o-y, while during the entire 2021 volume of work was up, in average, by 9.6% y-o-y, where activity regarding residential buildings was up by 10.2%, and for other constructions by 8.7%.
- EUR/HRK exchange rate continued its growth and was up by 0.2% w-o-w on Friday and amounted to 7.5431 kuna to the euro. Kuna depreciated against the dollar by a high 1.8% to 6.7476 kuna to the dollar due to appreciation of dollar against the euro on global markets.
- Excess liquidity rose to 80 billion kuna, interest rates stagnated w-o-w, and there was no interest at the CNB's repo auction. Last week 1.0 billion kuna of 1Y HRK T-bills was due, and 803 million kuna was subscribed, thus reducing government debt in T-bills to 24.0 billion kuna. Interest rate stagnated at 0.01%. This week again 1.0 billion kuna is due, so the announced auction is planned in the amount of 800 million kuna.
- The Crobex Index closed last Friday at 2,042.24 points, down by 3,7% w-o-w, while Crobis simultaneously decreased by 1.3% (to 106.10 points). Sector indices ended in red, whereas CROBEXconstruct was down by 1.5% (470.78 points), CROBEXtourist by 2.7% (3,503.22), and CROBEXindustry by 6.0% (1,183.23). Total ZSE turnover last week reached 287.1 million kuna, up by 40.7% w-o-w, owing to 17.7% higher turnover in bonds (reaching 179.4 million kuna) and 2.1 times higher turnover in shares (107.7 million kuna).

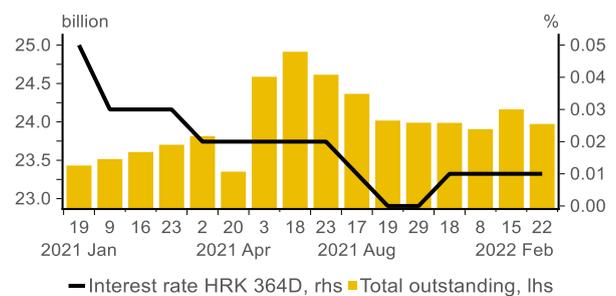
EUR/HRK and USD/HRK

Source: Macrobond



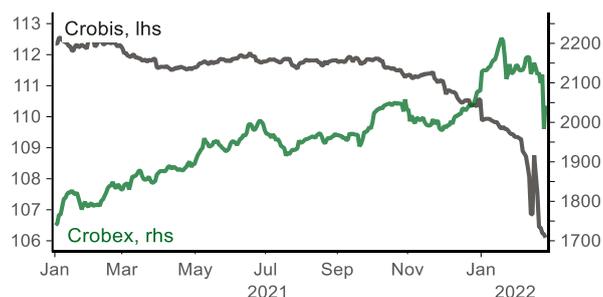
T-bills

Source: MoF



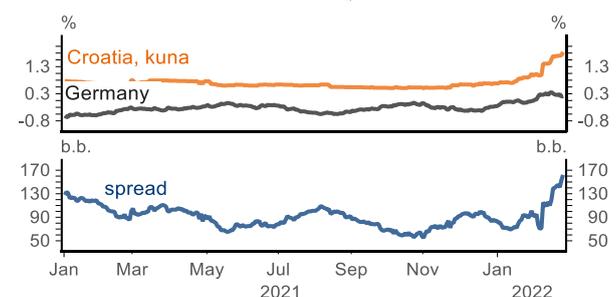
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

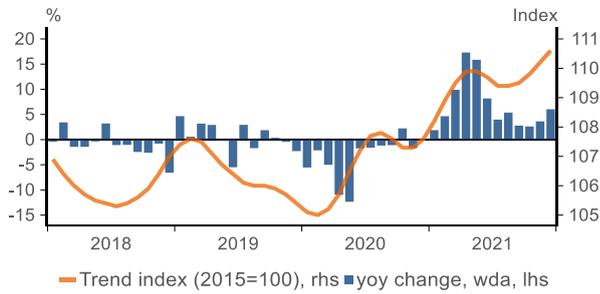
Source: Macrobond, Reuters



Statistics

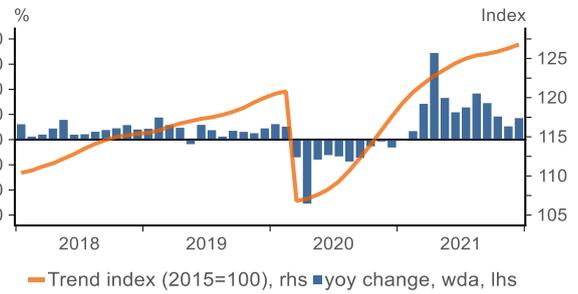
Industrial production

Source: Macrobond



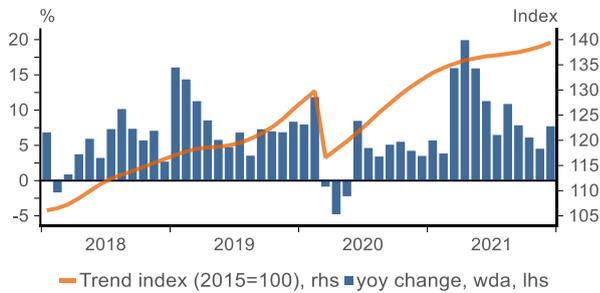
Retail trade, real

Source: Macrobond



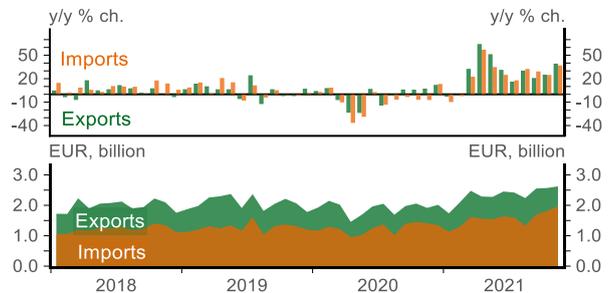
Construction works

Source: Macrobond



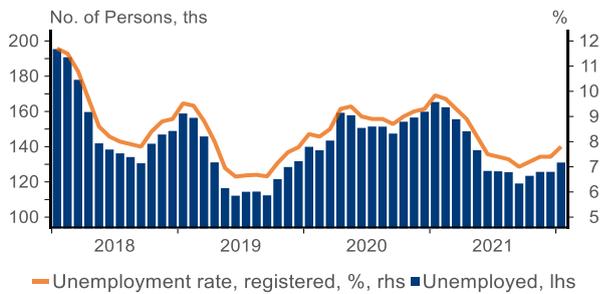
Goods exports and imports

Source: Macrobond



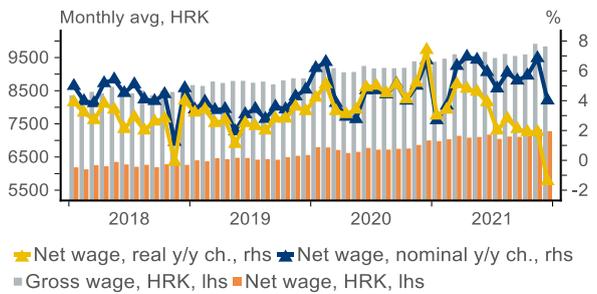
Unemployment

Source: Macrobond



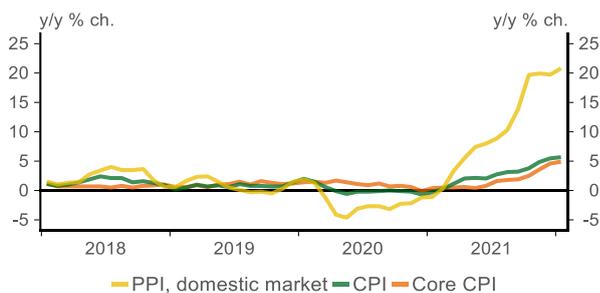
Wages

Source: Macrobond, CBS



Prices

Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond

