

WEEKLY ANALYSIS

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A week rich with data and notices.....	1
Weekly overview	2
Statistics.....	3

A week rich with data and notices

The period from our last Weekly analysis abounded with notices of important macroeconomic data but also with important reports being published, such as the Convergence Report of the ECB, i.e., the European Commission. Let us start with our two-week overview.

On Friday, 27th of May the Croatian Bureau of Statistics published the growth assessment for GDP of 7.0% in this year's Q1. According to published data, personal consumption recorded strong real growth of 6.2%, somewhat unexpected considering that real growth in retail trade turnover, as the best proxy personal consumption trends, was only 1.4% in the same period, according to the original non-adjusted data. Data on trends of other service activities, published on the same day, confirmed strong growth of consumption in other service activities, such as hospitality services where the (nominal) turnover doubled, and in transport and other service activities which also recorded strong growth and thus pushed up the aforementioned personal consumption growth rate. Growth support in Q1 also came from foreign investment activity which recorded growth of 7.9% after stagnating in last year's Q4. Positive growth contribution to GDP also came from export growth of 29.4%, whereas export of goods y-o-y increased by the same percentage, while export of services recorded growth of 24.5%. As expected, this strong growth of domestic demand carried with it import growth that was 25% in real terms.

In continuation of this data-filled week we also gained insight in preliminary data for this year's Q2 and quite mixed trends. Namely, according to published data, retail trade turnover in real terms recorded growth of 5.7% (7.5% per original non-adjusted data) in April, representing a consumption growth acceleration compared to March when the growth was 3.6%, and data on the amounts of fiscalized invoices, which recorded in section 47 of the National Classification of Activities a nominal growth of still relatively high 15.8%, while in hospitality growth was 103.5%, suggesting that the positive trend should continue in May. Accelerating inflation rate will reduce the aforementioned nominal growth rates to lower real rates, and call for caution came from data on consumer trust that, after recovering in April, slipped in May to the lowest level recorded since May 2020 mostly outlining the growth of inflationary expectations. And while described data point to (current) relatively resilient household consumption, data on industrial production trends point to a slowdown two months in a row. Namely, after the annual production volume decreased by 1.9% in March, this decrease continued in April by 1.3% y-o-y. Unfortunately, we still lack data on trade in goods in April, but last business surveys point to sharp decline of (export) orders in industrial sectors of our most important trade partners, although not in Croatia where data point to opposite direction. Acceleration of growth of investment loans to companies in April may be added to positive signals, which we hope points to a revival of (private) investment activity.

Regarding notices, we certainly must highlight the sixth sanction package for Russia published by the EU, especially the part referring to embargo on oil and refined products import via shipping lanes and exclusion of the largest Russian bank Sberbank from SWIFT.

Finally, (expected) positive reports on the convergence by the EC and the ECB, published on June 1, paved the way to planned entry into the euro zone on January 1, 2023, pending the decision of the Economic and Financial Affairs Council in the first half of July. Croatia is therefore one step away from becoming the twentieth member of single currency area and also a member who, compared to other new member states on their way to the euro, had the shortest stay in the ERM II system.

Weekly overview

- April recorded acceleration of loan growth to 6.5% y-o-y due to stronger growth of loans to the private sector of 6.0% (households 4.5%, non-financial corporations 8.5%) and a trend reversal in crediting of the central government (10.6%). Total deposits simultaneously slightly decreased to 9.4% y-o-y, whereas private sector deposits realised a slightly higher growth rate of 10.5% (households 9,2%, non-financial corporations 14,2%).
- Share of NPLs in total loans in late March was 4.2%, down by 0.2 p.p. on a quarterly basis. Share in household loans was reduced by 0.1 p.p. to 6.4%, while it recorded a sharp decline of 1.1 p.p. to 8.8% in loans to non-financial corporations.
- Last week kuna slightly strengthened and by the end of the week the mid-point exchange rate was down by 0.1% w-o-w and amounted to 7.5291 kuna to the euro. Kuna appreciated against the dollar by 0.4%, and the exchange rate decreased to 7.0058 kuna to the dollar. This week we expect a continuation of trading in the range of 7.50 – 7.55 kuna to the euro.
- Excess liquidity declined to 71 billion kuna, interest rates mostly stagnated w-o-w, and there was no demand at the CNB's repo auction.
- The Crobex Index closed last Friday at 2,092.17 points, up by 0.3% w-o-w, while Crobis simultaneously stagnated at 102.49 points. As for sector indices, CROBEXindustry recorded a decline of 2.4% w-o-w (to 1,164.77 points), while CROBEXtourist and CROBEXconstruct increased by 0.8%, that is, 1.5% (3,577.44 and 460.42). Total ZSE turnover in last week's four trading days reached 48.4 million kuna or 63.4% less w-o-w, owing to 96.0% lower turnover in bonds (reaching 3.9 million kuna), while turnover in shares increased by 28.1% (44.5 million kuna).

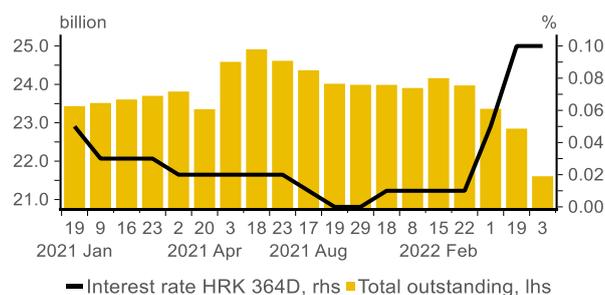
EUR/HRK and USD/HRK

Source: Macrobond



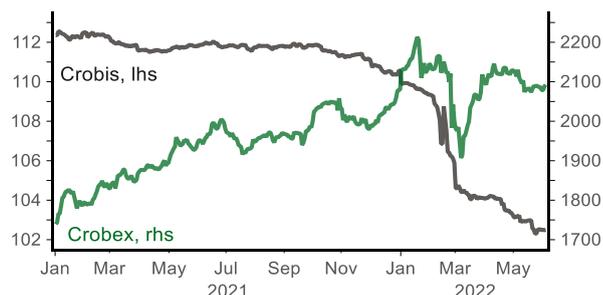
T-bills

Source: MoF



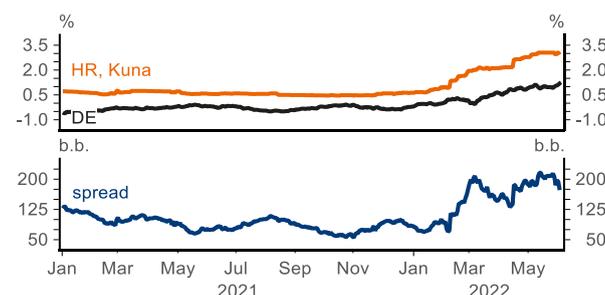
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

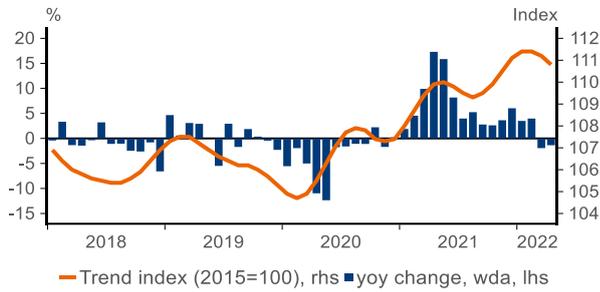
Source: Macrobond, Reuters



Statistics

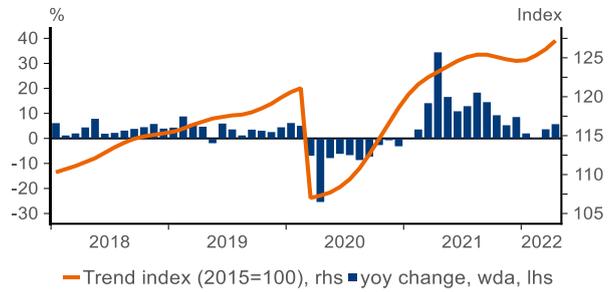
Industrial production

Source: Macrobond



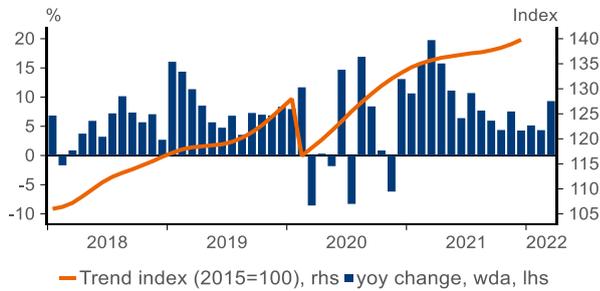
Retail trade, real

Source: Macrobond



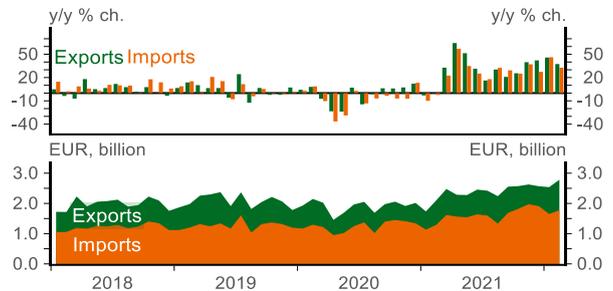
Construction works

Source: Macrobond



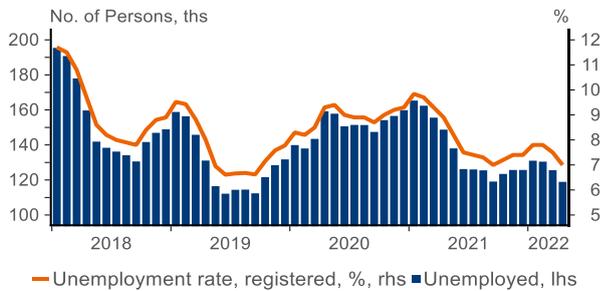
Goods exports and imports

Source: Macrobond



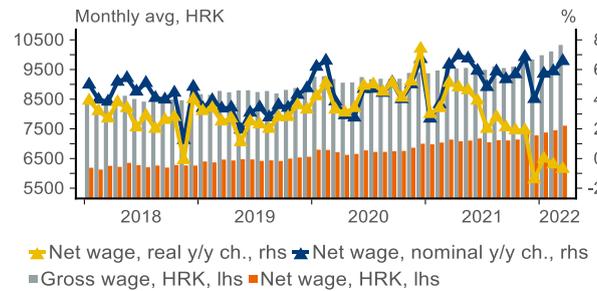
Unemployment

Source: Macrobond



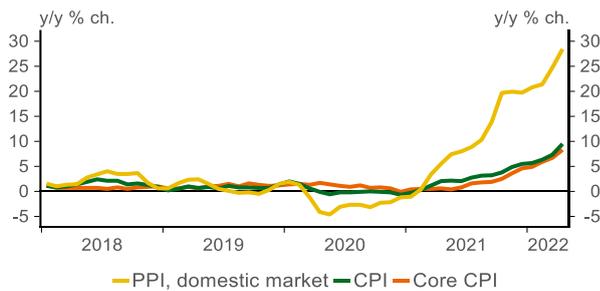
Wages

Source: Macrobond, CBS



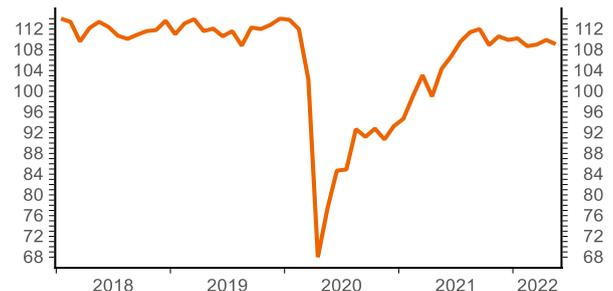
Prices

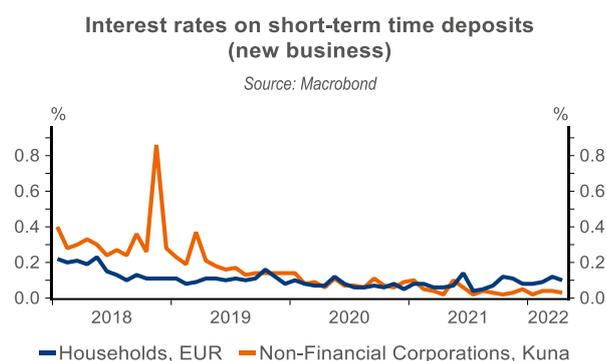
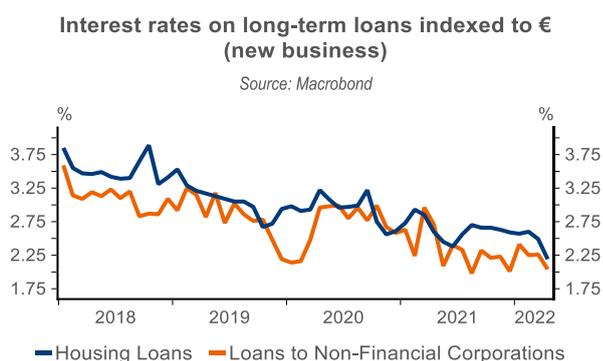
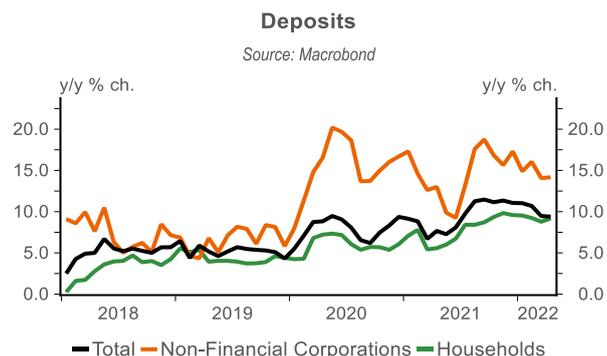
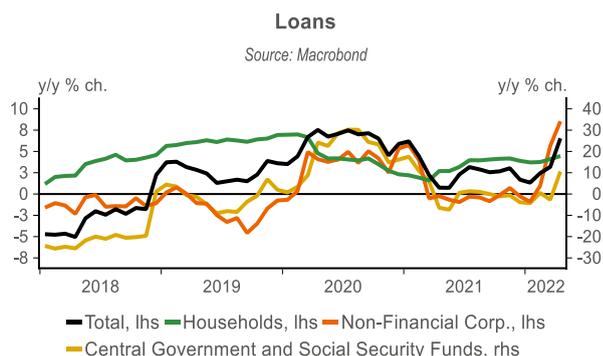
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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