

WEEKLY ANALYSIS

Number 755, November 29, 2021

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Continuation of strong growth in Q3

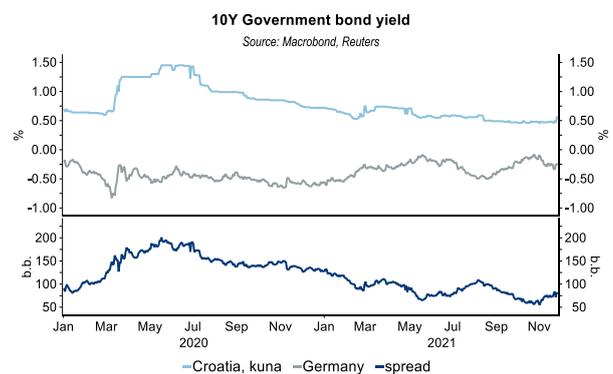
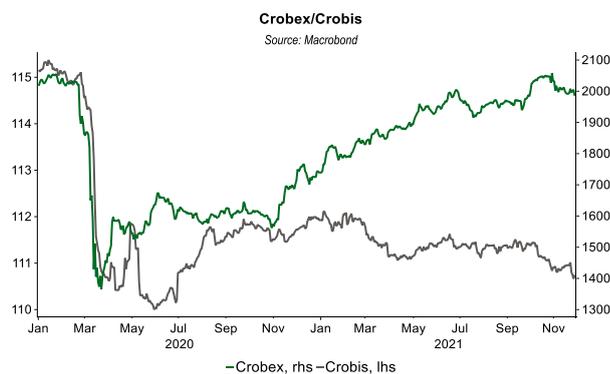
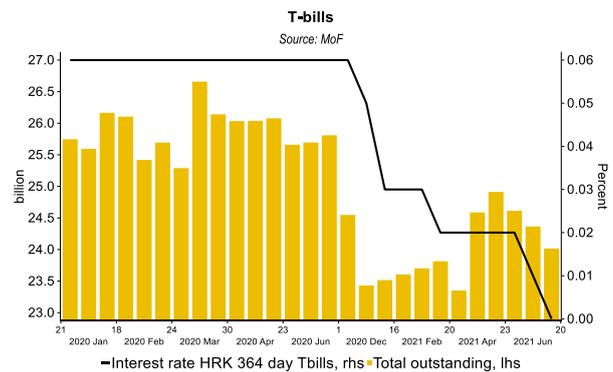
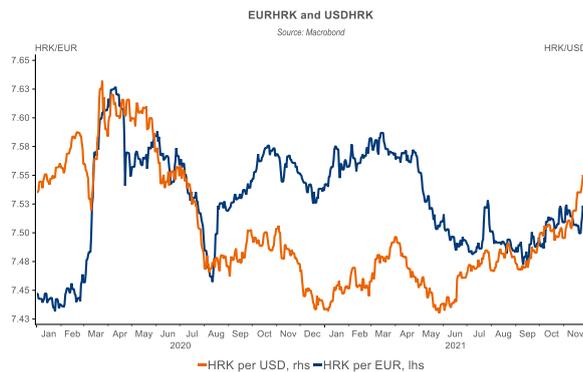
First evaluation of trends of gross domestic product in this year's Q3 points to a continuation of strong double-digit interannual growth, considering that after a 16.5% growth in Q2, growth of 15.8% compared to the same period last year was recorded. As indicated by high-frequency indicators, according to GDP components per expenditure (and the same refers to production) method, growth was widely distributed and interannual decline was expectedly recorded only in government spending (-4.5%). The most significant contribution to total growth came from personal consumption (+16%) and export (+48.8%), where export of services (tourism mostly) recorded a 71.6% growth, while export of goods rose by 13.1% - an expectedly slower growth than recorded in previous quarter but still quite a robust signal of the growing role of export of goods in the domestic economy. Simultaneously, investment activity rose by 7.6% but it is interesting that import of goods and services recorded growth of only up to 13.9% despite the strong growth of domestic demand, and subsequently net foreign demand provides strong positive contribution to the total growth. On the basis of 10.7% growth recorded in first three this year's quarters and available data on the economic activity during October and beginning of November (Tax Administration data on fiscalised invoices) we expect that the final this year's quarter will also bring significant growth although not in double digits recorded in Q2 and Q3, and it is quite certain that economic growth in this year could amount to, approximately, and possibly even higher than 9%.

And while concluding this year with growth that will exceed even the most optimistic initial forecasts, we turn to 2022, unfortunately still marked by re-activation of lockdown measures in some European countries (Austria, Germany) and relatively high uncertainties of further development of the pandemic due to the emergence of new Omicron virus strain. We expect that next year's growth could be between 4 and 5%, whereas we expect a somewhat stronger contribution of investment activity due to an overlap of withdrawing the rest of the funds from the previous (2014 – 2020) financial envelope with funds withdrawal from the Recovery and Resilience Facility, followed also by strengthening of activities in rebuilding earthquake-affected areas. We expect that export of goods will follow economic growth of trading partners, although problems in supply chains are still present (and we do not exclude a possibility of slower than expected normalization due to pandemic trends) represent a negative risk. Considering strong tourism recovery in this year, manoeuvring space for a new spectacular growth in the following year is somewhat smaller, but pre and post season can certainly contribute to stronger positive movements, so although inflationary pressures somewhat reduce available income of European tourists, accumulated available savings still supports consumption. We also expect continuation of solid growth of personal consumption supported by positive movements on the labour market, accumulated savings and recovery of consumer credit, while the contribution of public spending to the total growth should weaken, especially in comparison with the pandemic-marked period.

All in all, after a truly strong and fast recovery we are facing a period in which economic growth supported by available financial funds, implementing reforms with the goal of supporting and strengthening business environment, with accession to the Eurozone and Schengen can significantly expedite the convergence and move us away from the infamous second-last position in the European Union.

Weekly overview

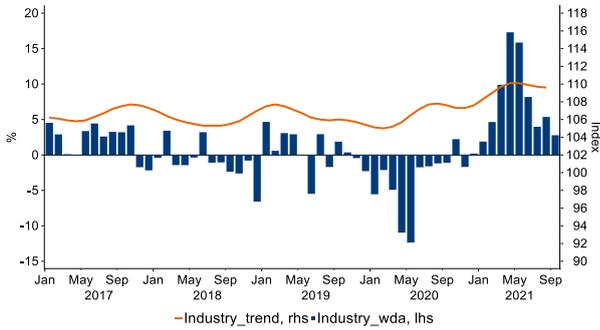
- Total volume of construction work was up by 7.8% y-o-y in September, where growth in residential buildings was +8.7%, and +6.7% for other constructions. In the first nine months of this year, the volume of construction work on average amounted to 10.8%, out of which +11.1% for residential buildings and +10.2% for other constructions.
- Mid-point exchange rate amounted to 7.5197 kuna to the euro on Friday, up by 0.3% w-o-w. The kuna also weakened against the dollar by a mild 0.4%, to 6.6647 kuna to the dollar.
- Excess liquidity increased to 69 billion kuna, interest rates stagnated and there were no placements at the CNB's repo auction. This week HRK 2 billion of T-bills is due so the announced auction is planned in the same amount.
- The Crobex Index closed last Friday at 1,985.29 points, down by 0.4% compared to Friday the week before, while Crobis simultaneously decreased by 0.2% (to 111.18 points). Sector indices ended in red, whereas CROBEXconstruct was down by 4.8% w-o-w (to 417.72 points), CROBEXindustry by 1.4% (1,121.05), and CROBEXtourist by 0.4% (3,545.22). Total ZSE turnover last week reached 97.3 million kuna, up by 12.8% w-o-w, owing to the growth of turnover in shares of 13.9% (reaching 35.4 million kuna) and 12.2% higher turnover in bonds (61.9 million kuna).



Statistics

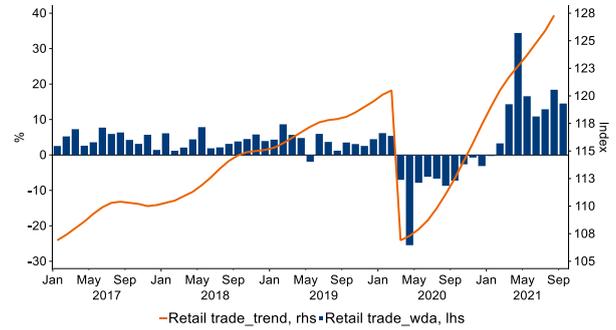
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



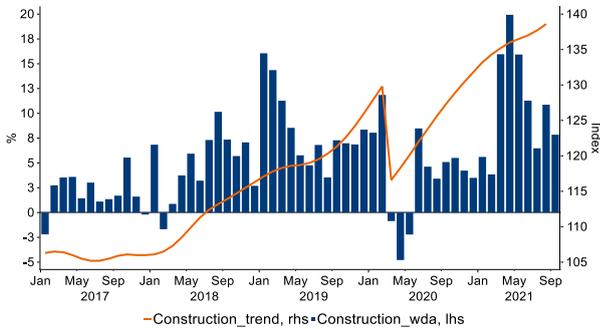
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



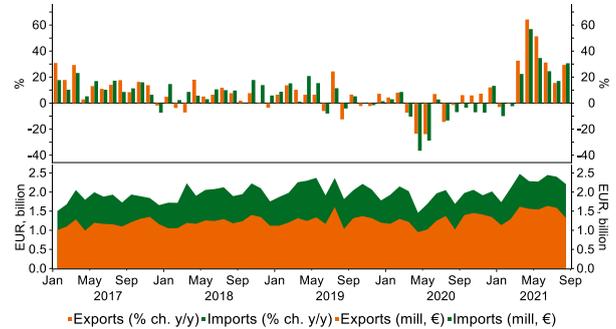
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



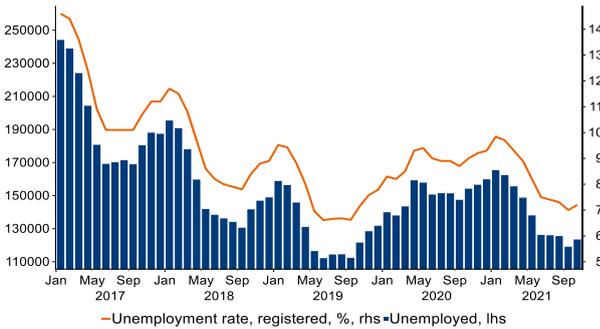
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



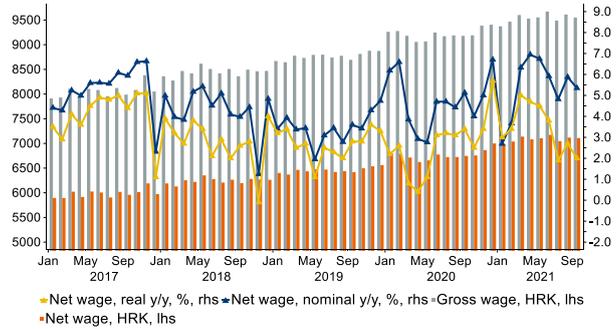
Total number of unemployed and unemployment rate

Source: Macrobond



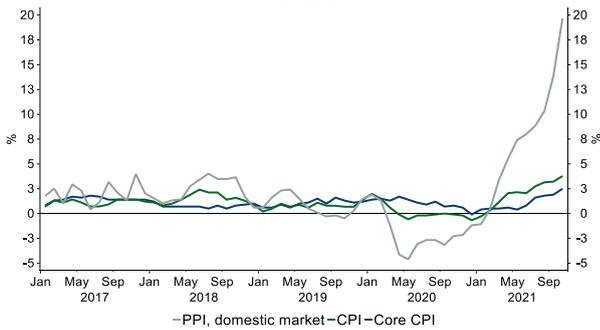
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



Prices, y/y % change

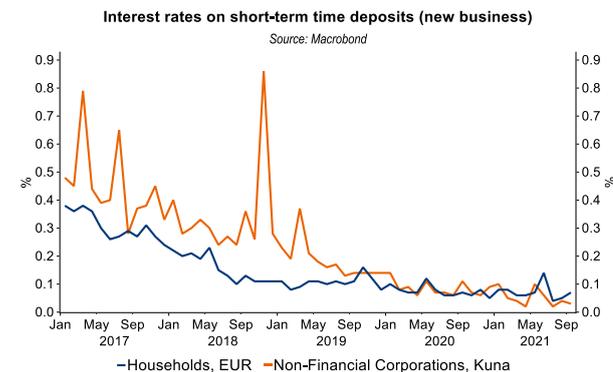
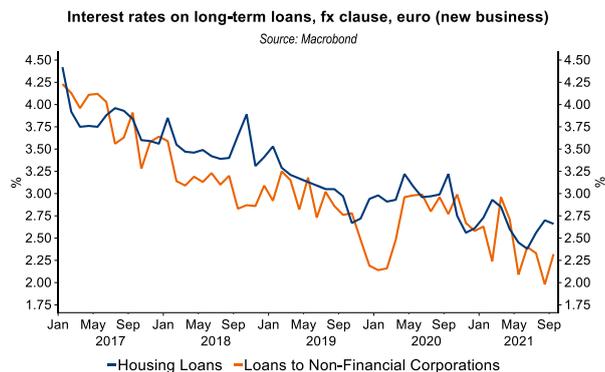
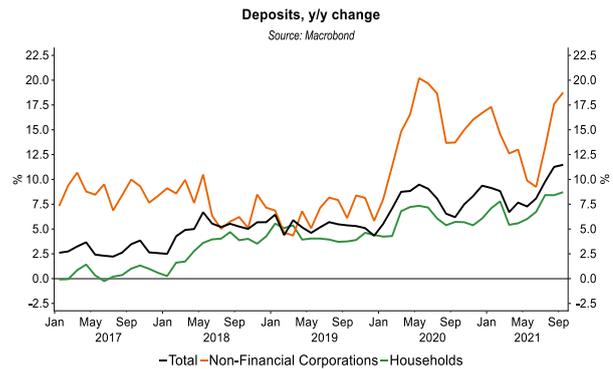
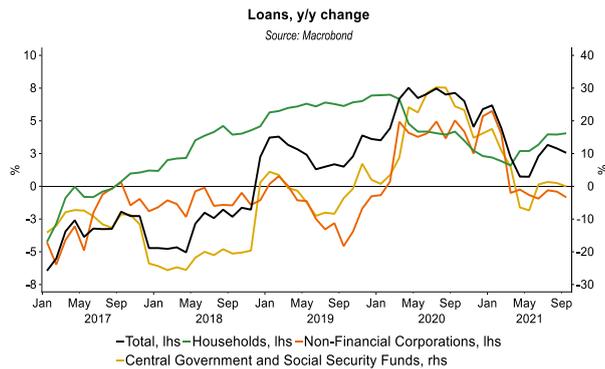
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





RESEARCH OFFICE

Ivana Jović
Ana Lokin
Ivan Odrčić

TREASURY

Eugen Bulat

TRANSLATION

Ana Biloš
Jelena Marinović

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