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### Inflation easing in December

- In December, for the first time in the last 24 months, inflation rate declined by 0.3% m-o-m, thus concluding the year with 13.1% inflation, i.e., annual rate of 10.8%.
- December therefore brought a long expected inflationary pressure relaxation m-o-m, reflecting in fact 4% lower prices in the category of transport, i.e., fuels, then 2.8% lower prices of clothing and footwear due to seasonal sales, and 0.6% lower prices in the housing/utilities category (mild gas price decline and a more significant one of liquid and solid fuels). However, seeing as other product category prices simultaneously increased, monthly price decline stopped at mentioned 0.3%. The biggest price growth in December was for food by 1.2%, while for alcoholic beverages and recreation and culture it amounted to 0.8%, and 0.7% for other products and services. Prices increased in health and in restaurants and hotels slightly less (0.5%) as well as in household equipment and routine household maintenance (0.3%).
- Annual inflation rate thus declined in December to 13.1% from a record 13.5% recorded in November, with price growth from 2.3% (education) to 19% for food products. High two-digit inflation rates were also recorded in household equipment/routine household maintenance (16.1%), i.e., housing/utilities (16%), while prices in restaurants and hotels in December were higher by 17.1% than in the same month in 2021, and prices of clothing and footwear, i.e., other goods and services by 12.1%, i.e., 11.5%.
- On a year level, average inflation rate amounted to 10.8% with the biggest price increase recorded for food products (15.9%), transport (14.2%), restaurants and hotels (13.4%), household equipment/routine household maintenance (12.4%) and housing/utilities (10%).
- Data from the Croatian National Bank also suggest inflationary pressure relaxation. Although core inflation rate in December reached a new record annual level of 15%, inflation rate was reduced to 0.5% m-o-m, which is the lowest monthly rate recorded in the last 12 months.

**Monthly inflation in  
December -0.3%**

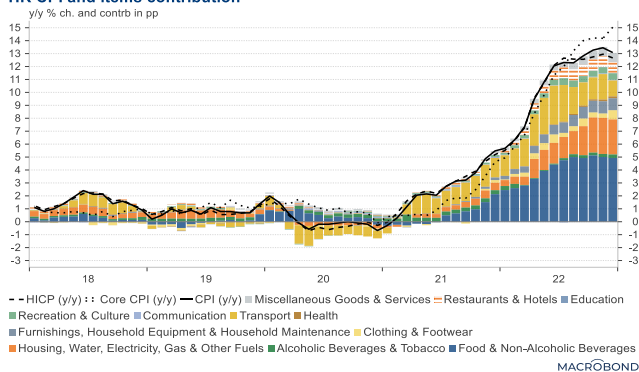
**Annual inflation in  
December 13.1%**

**Average annual  
inflation in 2022  
10.8%**

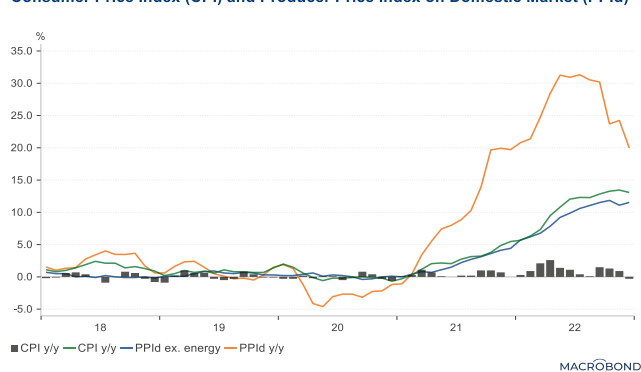
**Core inflation rate  
15%**

- Pressure relaxation also suggests PPI trend on the domestic market (-2.6% m/m in December) in greater measure reflecting a monthly price decrease for energy products (-9.3%) considering that, excluding energy, growth of 0.8% m/m was recorded, which is a significantly slower dynamic compared to trends in the first half of the year. Considering the time delay of spill-over from producer to consumer prices, without any larger shocks, we can therefore expect a stabilisation of inflationary pressures in the upcoming months, but increased annual inflation rate will still remain in this year at the level of 6-7%, according to the current estimation.

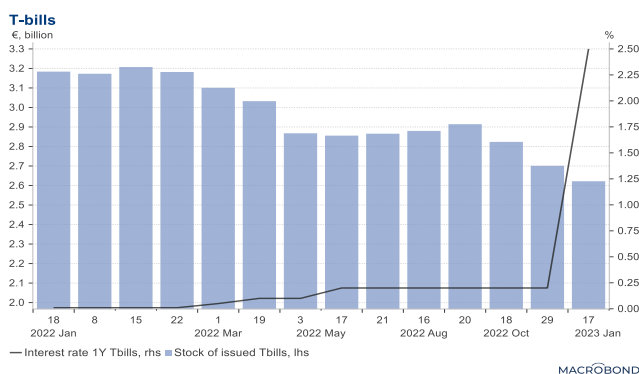
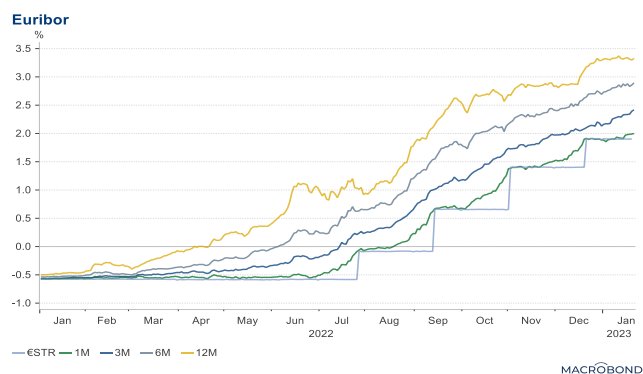
HR CPI and items contribution



Consumer Price Index (CPI) and Producer Price Index on Domestic Market (PPId)



- Signs of deacceleration of US economy and expectations that the Fed will mitigate the strength of interest rate increase, while the ECB will continue with its stronger increase, also confirmed by ECB accounts, prompted a mild continuation of EUR/USD pair growth. At week's end, the exchange rate reached 1.08 dollar to the euro, up by 0.1% w-o-w.
- Euribor for shorter maturities recorded a mild growth of 10 bps last week, while rates for longer maturities stagnated. 3M rate reached 2.4% level at the end of week, and 6M reached 2.9%. At the first this year's T-bill auction, the MoF subscribed 148 million € of T-bills, 78 million € less than was due, thus reducing government debt in T-bills to 2.6 billion €. 15 million € of 3M T-bills was subscribed with interest rate of 2.0%, 23 million € of 6M T-bills with interest rate of 2.2% and 110 million € of 1Y T-bills with interest rate of 2.5%. Next auction is announced for 7 February when 234 million € is due.
- Crobex interrupted its positive cycle, following a negative performance of European stock markets due to expectation of continuation of ECB interest rate growth. Crobex thus recorded a decline of 1.8% w-o-w (to 2,068.9 points) with all the most important indices ending in red (CROBEXindustry -0.9% to 1,130.8, CROBEXnutris -1.3% to 774.0, CROBEXtourist -0.7% to 3,563.5). Crobis stagnated (at 94.7 points).



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