

WEEKLY ANALYSIS

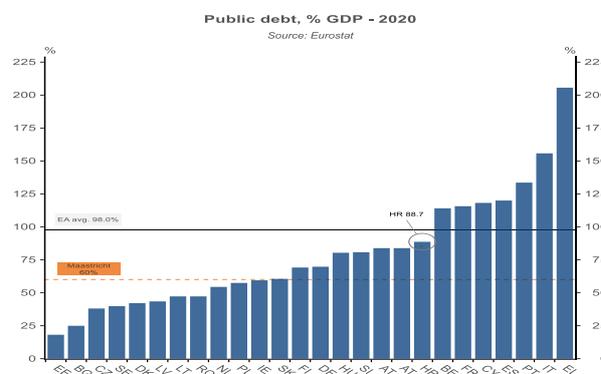
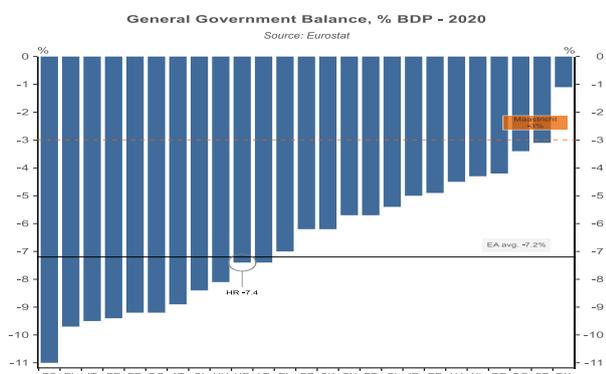
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Expectedly deteriorated fiscal metrics	1
Weekly overview.....	2
Statistics	3

Expectedly deteriorated fiscal metrics

According to the data from the April Notification on excessive deficit procedure and the level of general government debt data (EDP Notification), deficit of consolidated general government was 27.5 billion kuna, i.e., 7.4% of GDP (CBS also published last week revised data on the gross domestic product decline in 2020 of 8.0% instead of previously published 8.4%), while government debt reached 329.7 billion kuna, i.e., 88.7% GDP. Data reveal 6.5% decline of general government revenue (to 178.5 billion kuna) whereas tax revenues were reduced by 11.3%, and social security contributions by 4.8%, while other current and capital revenues (EU funds) increased by 30%. Simultaneously, expenditures rose by 16.2 billion kuna, i.e., 8.6% (to almost 206 billion kuna), whereas the biggest growth was recorded in subsidies (by 8 billion; +130%) and capital investments (by 38 billion; +21,3%), while an increase of 2.5 billion was also recorded in the wage bill and those on social benefits.

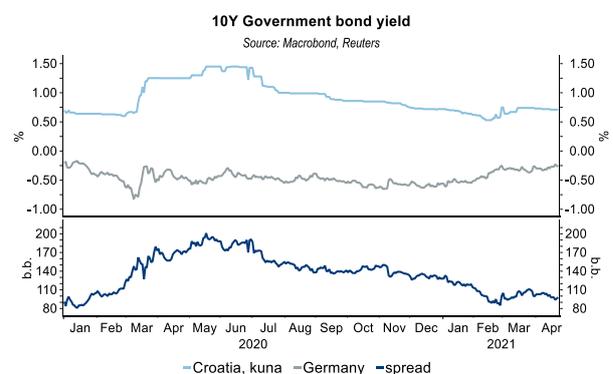
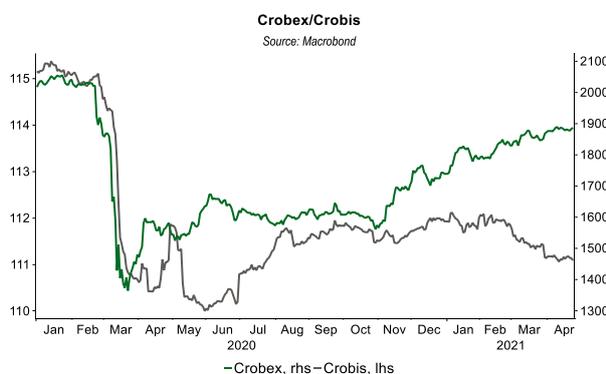
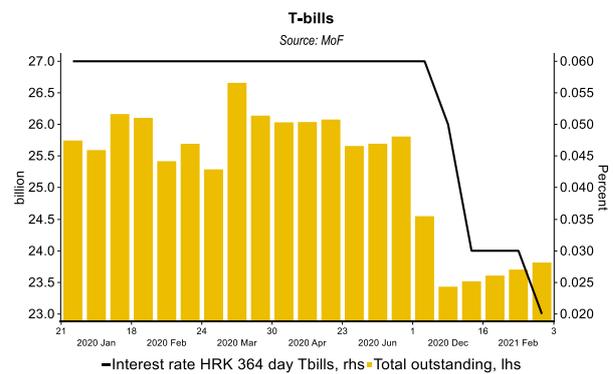
Considering that Croatia, due to its economy structure, is one of the most crisis-affected EU member states, realized deficit and reached level of government debt are even slightly better than expected. However, considering that the numbers do not include hefty accumulated overdue obligations of the healthcare sector, and due to which (alongside other increased expenditures) the targeted level of deficit in 2021 in the upcoming amending budget will be corrected for a minimum of 1% (from 2.9% to approximately 4% GDP), it is clear that returning the deficit to a level below the targeted 3% will be slower than expected. Regarding government debt, according to published EDP Notification at the end of this year government debt should decrease to 87.1% GDP, which is along the lines of dynamic of decrease of 1/20 according to 60% threshold.



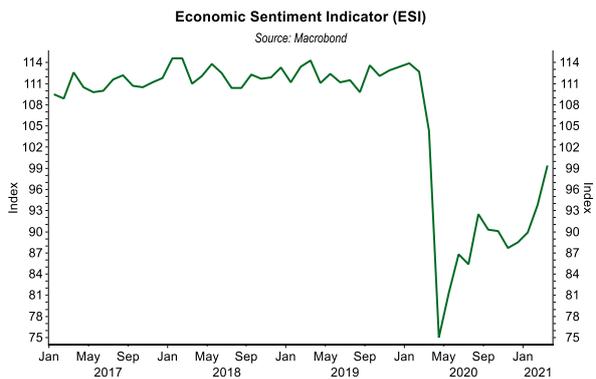
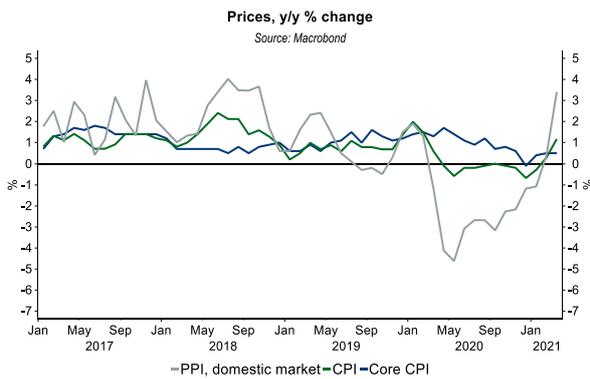
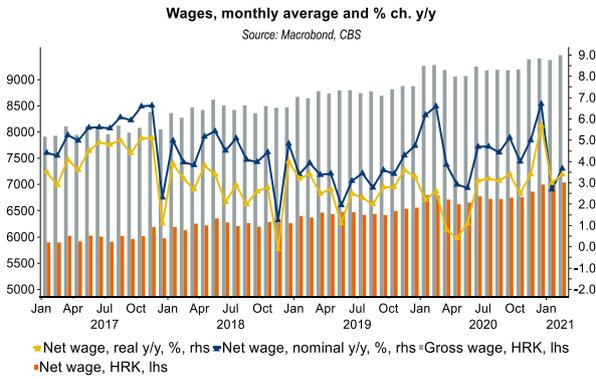
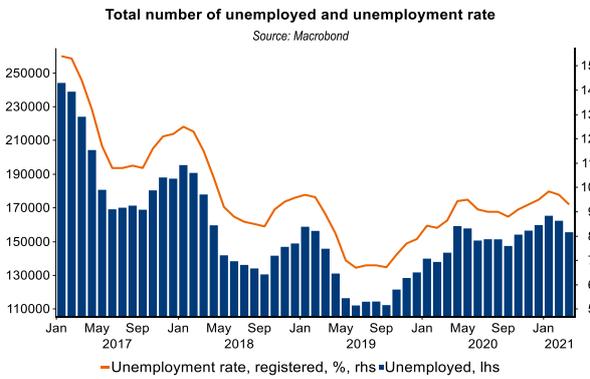
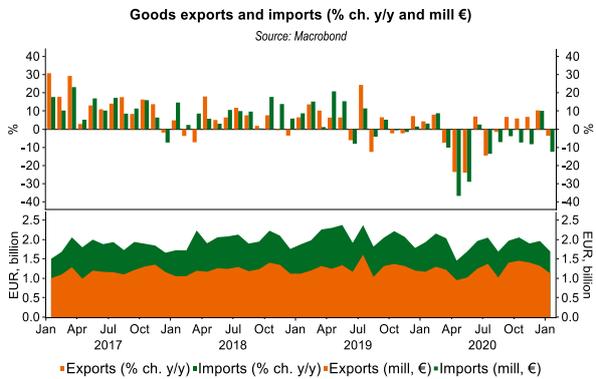
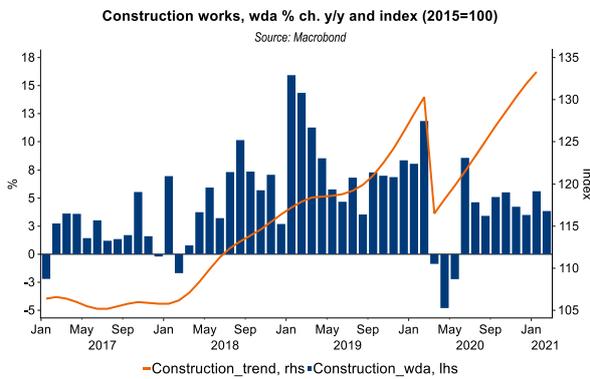
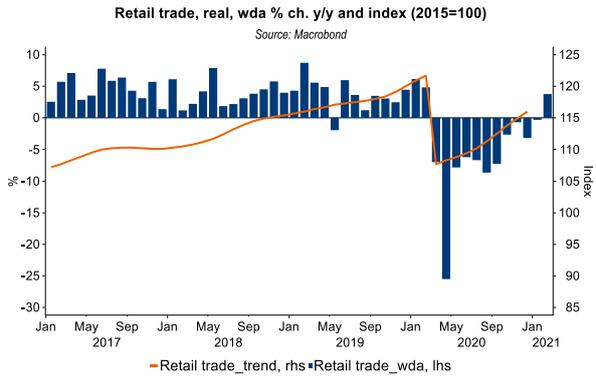
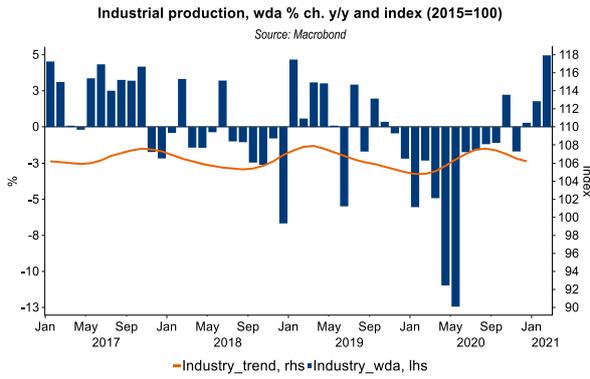
Regarding this year, planned government deficit of 10.7 billion kuna (2.7% GDP) should increase in the revised budget to approximately 17.1 billion kuna due to increase of expenditures for settling the healthcare debt (4.6 billion kuna), Covid supplement for pensioners (600 million kuna) and 4% salary increase (1.2 billion kuna). However, a part of required increase in the amount of 2.6 billion kuna is covered by redistribution of government budget funds (adopted at last week's Government session), which would mean that the deficit in government budget is increased by remaining approximately 3.9 billion kuna or 1% GDP (to 14.5 billion or 3.7% GDP, not including possible changes on the revenue side). Estimated increase of the deficit increases the need for financing for approximately 2.5 billion kuna, considering that issuing bonds in February brought around 1.4 billion kuna more than planned in 2021 financing plan (but this also with the presumption that full re-financing of T-bills will be continued, i.e., that the part of that surplus will not be used for T-bills debt level reduction).

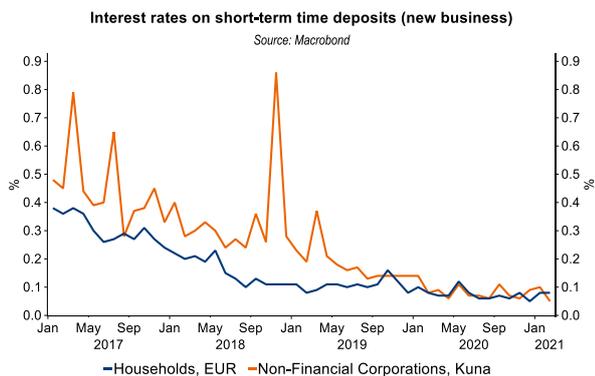
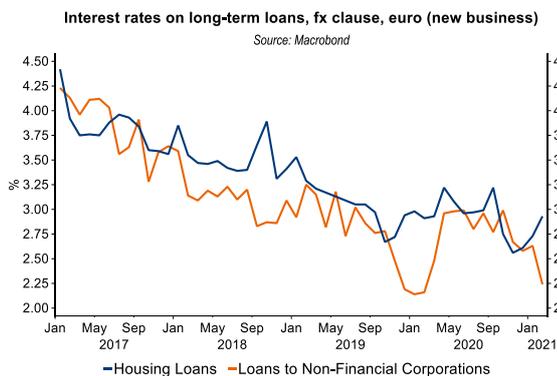
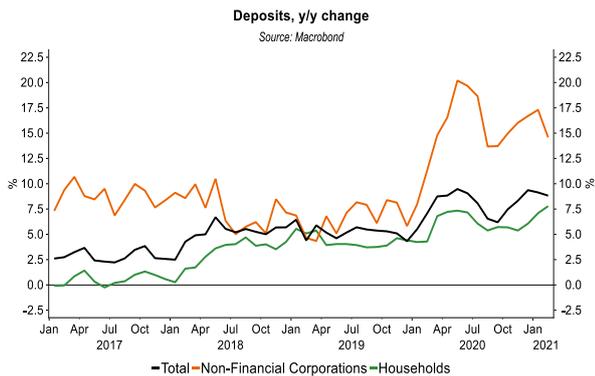
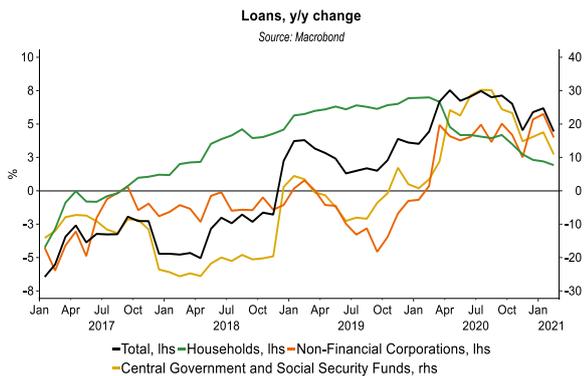
Weekly overview

- Volume of construction work in February recorded a slowdown of the annual growth rate to +3.8% (with +5.7% in January), whereas activities on buildings and other constructions recorded equal growth rate of +3.9%.
- With small volumes, last week trading unfolded in the range of 7.560-7.575 kuna to the euro. At the end of the week mid-point exchange rate amounted to 7.5700, up by 0.1% wow, while the exchange rate to the dollar was down by 0.6% to 6.2785 kuna to the dollar. This week we forecast a continuation of stable movement of EUR/HRK.
- Excess liquidity rose to 69 billion kuna, so the interest rates kept quiet and at the central bank's repo auction there was no interest. At the last week's auction 2.3 billion kuna of one-year HRK T-bills was issued (with unchanged interest rate of 0.02%) by which the government debt in T-bills mildly lowered to 23.4 billion kuna. This week an amount of 200 million kuna of T-bills is due, but there will be no auction.
- The Crobex Index closed last week at 1,887.11 points, up by 0.4% wow, while Crobis simultaneously stagnated at 111.52 points. As for sector indices, CROBEXindustry recorded a growth of 1.1% wow, while CROBEXconstruct and CROBEXtourist fell by 2.8% i.e. 0.6% (to 804.35 and 3,481.13 points). Total ZSE turnover last week reached 153.3 million kuna, up by 44.7% wow, owing to 57.4% higher turnover in bonds (reaching 121.0 million kuna) and 11.1% higher turnover in shares (32.3 million kuna).



Statistics





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