

## NUMBER 839, NOVEMBER 20, 2023

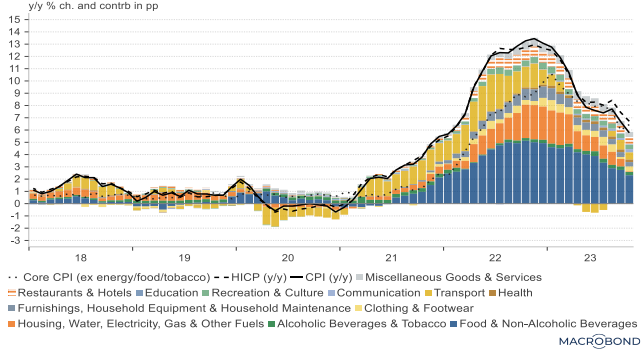
### Overview of the week – Inflation

- The Croatian Bureau of Statistics confirmed its flash estimate of the annual inflation rate in October (5.8%) with a slight correction of the monthly rate to 0.5% (from 0.4%). And while on a monthly level there was a price decrease in Energy (-1.2%) and Food, beverages and tobacco (-0.4%), an increase was recorded in Non-food industrial products without energy (+2.7%) and Services (+0.4%), which accelerated the core inflation monthly rate to 1.5% (after 0.8% in September) and the annual one to 6.5% (from 5.9% in September). On an annual level, prices of Food increased by 8.2%, Non-food industrial products without energy by 5.8%, and Services by 7.3%, while prices of Energy decreased by 0.3%. Our estimation of the average annual inflation rate remains unchanged at 8.1%.
- Considering that food products represent the most significant category of the consumer basket according to share, it is good to see inflationary pressures weakening, also indicated by recent trends of a number of indicators, from, e.g., prices of input in agricultural production, through production prices to import prices of food products. With simultaneous stabilisation of price trends for oil and natural gas (under the burden of a global demand slowdown, for it would be hard to state that the energy crisis has passed considering the prevailing downside risks arising from geopolitical instabilities), price trends of energy intensive goods should also calm down, and weakening of pressures in global supply chains will also positively impact the price development of goods. It is apparent from the recently published analysis of the European Commission that, during the 2019–2022 period an equal contribution to inflation in Croatia came from energy import prices and other import prices on one hand, and domestic factors (unit labour cost, i.e., unit profits) on the other. The Commission estimates that in the 2022–2025 period domestic factors shall have a significantly more pronounced contribution than in the previous period, while the contribution of unit profits shall weaken after 2023, and the contribution of unit labour cost will remain prominent in 2024. However, in 2025 the influence of both domestic factors should normalise. Considering the expected continuation of relatively strong nominal wage growth in 2024 and previously described trends, we expect a somewhat sluggish trend of de-escalation of inflation that should amount to, on average, around 3.5% next year.

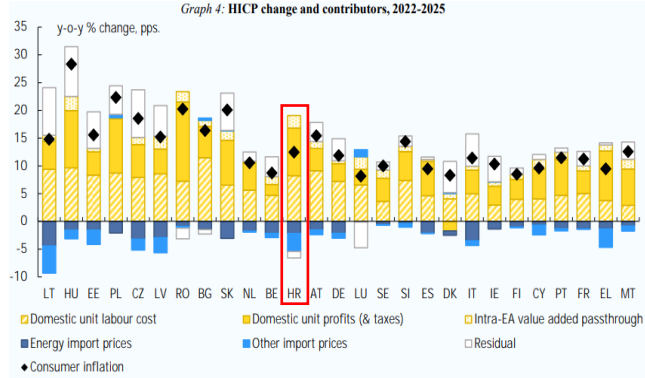
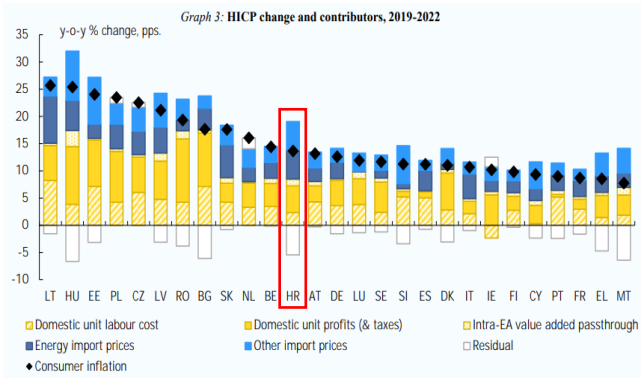
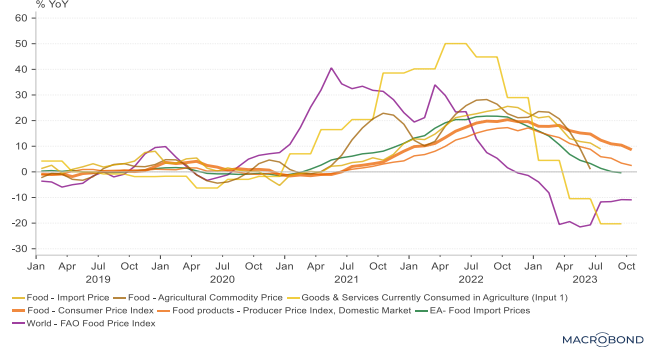
**Average annual inflation rate estimation unchanged in 2023 (8.1%)**

**EC estimates a strong contribution to inflation by domestic factors in the upcoming period**

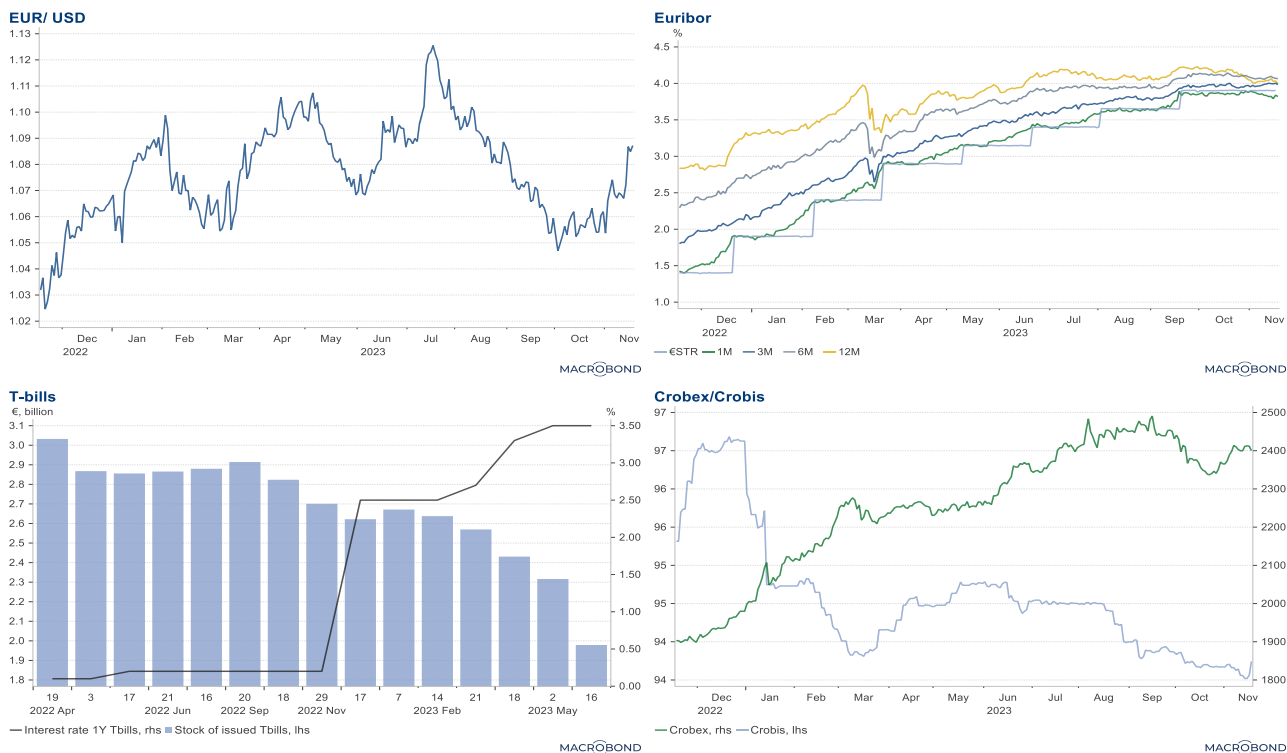
### CPI and items contribution



### Croatia: Food prices



- The dollar weakened against the euro due to signs of cooling of the U.S. economy and inflation rate decrease that has exceeded expectations. On Friday, the exchange rate reached 1.0872 dollar to the euro, up by 1.8% w-o-w.
- Euribor decreased slightly, so by the week's end 3M was 4.0%, and 6M 4.1%. After a three-month break, this week the Ministry of Finance will issue a 1Y T-bill with a yield of 3.75% that was offered to natural persons last week, during the first subscription round.
- Crobex held steady at 2.400 points w-o-w due to a colourful performance of the most important sectoral indices (CROBEXindustry +1.4% to 1,629, CROBEXnutris +0.9% to 872, CROBEXtourist -3.2% to 3,904). Crobis slightly recovered (+0.2% to 93.7 points).



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