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GDP growth in 2Q +3.3%

- In line with expectations, year-to-year GDP growth in this year's second quarter slowed to 3.3% from 3.9% recorded in the first quarter (seasonally adjusted growth rate slowed from 3.9% to 3.0%), while quarter-to-quarter growth rate was 0.8% (1Q: 1.0%).
- Growth in (real) net wages, low unemployment and increase in the number of employed persons, accompanied by a slowdown in the inflation rate and lively lending activity, supported personal consumption, which recorded a growth rate of 6.1% in the second quarter, slightly accelerating from 6% recorded in the first quarter. The first available data for July reveal that real retail trade turnover increased both month-on-month (2.9%) and year-on-year (7.9% cal. adjusted and 9.0% unadjusted), thus accelerating compared to the rates recorded in June, which was also indicated by the previously available data on the growth of the amount of fiscalised invoices. At the same time, the data of the fiscalisation system for August indicate an increase in the amount of fiscalised invoices in retail trade of 7.4%, i.e. a total of 8.9% in the first two months of the third quarter. Nevertheless, the third consecutive month of decline in the consumer confidence index and the gradual closing of the gap of more optimistic (or less pessimistic) Croatian consumers compared to the euro area average indicate that in the coming period there will be a normalization of personal consumption growth rates, and thus a somewhat less generous positive contribution of this category to the overall GDP growth rate. In the second quarter, additional stimulus to domestic demand came from government spending, whose growth accelerated to 4.0%, which we attribute to a strong growth in public sector wage expenditure. At the same time, a strong increase was recorded for the second quarter in a row also in investments (+12.9%), which also reflects the data on a 14.5% growth in construction activity. The described growth in domestic consumption also pulled the import component, and the growth of total imports accelerated to 5.2%. On the other hand, exports are in the red for the fifth quarter in a row, with an increase in exports of goods (in 2Q +3.1%) and a decline in exports of services (in 2Q -5.2%) in the last two quarters. While the decline in exports of services in the first quarter of this year was attributed to a decrease in exports of refinement services, the data do not suggest that the same could also be the reason for the decline in the second quarter, and it is unclear whether this may be a real decline in exports of tourism services, given that the data on the number of foreign arrivals/overnight stays, and turnover in tourism activities still suggested positive growth or at least stagnation. However, for clearer conclusions, we must wait for the publication of the balance of payments data at the end of September.

Substantial personal consumption

Strong investment growth

Decline in exports of services

Meanwhile, data from the Tax Administration reveal that the peak tourist season brought an increase in the amount of fiscalised invoices in the accommodation and food service activity of 9.2% (July 8.3%, and August 10.1%), with the increase in prices according to the harmonised index in July amounting to 10.3%.

Given that the trends in the first half of this year did not deviate significantly from our expectations, we remain with the estimate that at the level of the whole year the growth will be around 3.4%, although certain shifts could be caused by the announced statistical revision of historical data, which will be published at the end of October.

- The week concluded with the disclosure of the first estimate of the inflation rate in August. According to Eurostat data, inflation in the euro area slowed down from 2.6% in July to 2.2% in August, while core inflation slowed only slightly to 2.8% from 2.9%, as price increases in the services sector accelerated to 4.2% (from 4.0%), which is also the highest level of services inflation in the last ten months. Given that inflationary pressures within the services sector are expected to moderate in the coming period, we expect the ECB to continue cutting interest rates in September. As for Croatia, the harmonised inflation rate slowed to 3.0% from 3.3% in July, while the national rate was 1.8%.
- The euro weakened slightly against the dollar at the end of last week, remaining at levels significantly higher than in July. At the end of the week, the exchange rate stood at \$1.1087 per euro, down by 0.3% week-on-week.
- Euribor maintained a slightly downward trend in the past week, so 3M and 6M stood at 3.5 and 3.4%, respectively, at the end of the week, which is slightly lower week-on-week. This week, EUR 283 million of three-month treasury bills are due, but the auction is absent.
- Crobex failed to maintain the positive trend and recorded a 0.4% weekly decline, to 2,944 points. Of the major sectoral indices, CROBEXindustry was in the black (+1.8% to 2,278 points), while CROBEXnutris and CROBEXtourist achieved a negative performance (-0.4% to 904 points and -0.9% to 4,481 points, respectively). Crobis stagnated at 96.7 points.

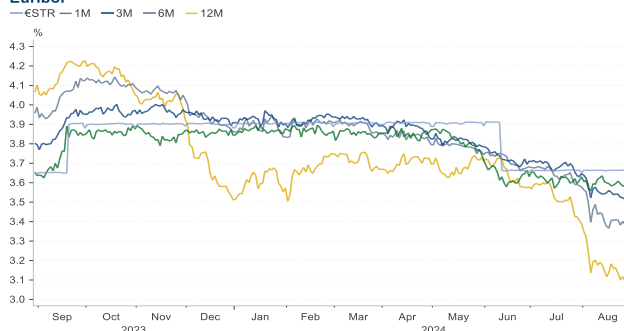
**Harmonised
inflation rate in
August 3%,
national 1.8%**

EUR/ USD



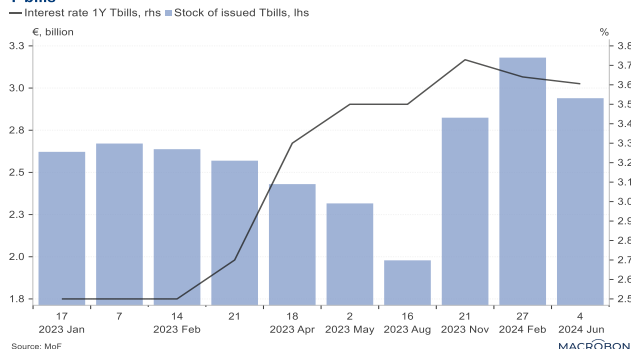
Source: ECB (European Central Bank)

Euribor



Source: European Money Markets Institute (EMMI), ECB (European Central Bank)

T-bills



Source: MoF

Crobex/CroBis



Source: Zagreb Stock Exchange

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