

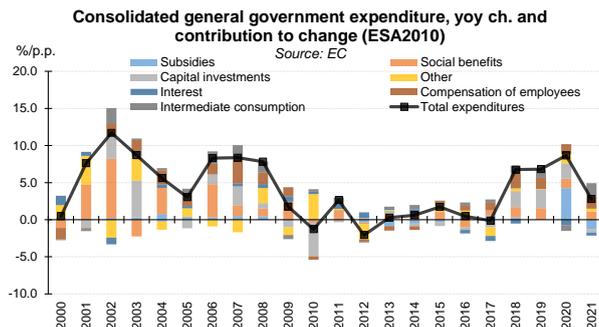
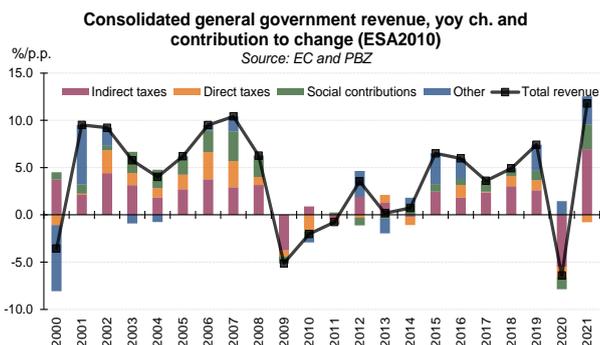
WEEKLY ANALYSIS

Number 775, April 25, 2022

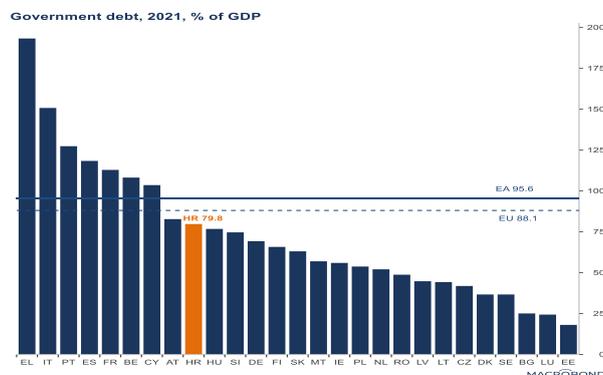
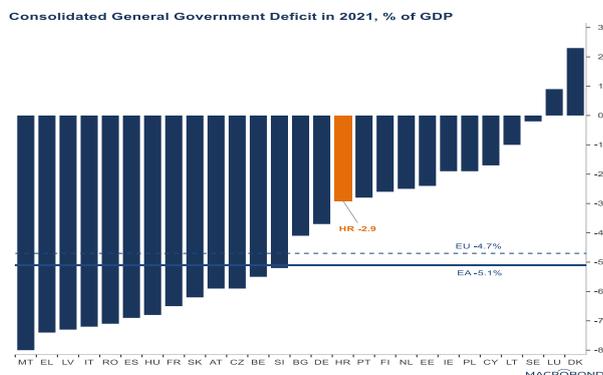
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Deficit in 2021 decreased to 2.9%, public debt to 79.8% of GDP

According to Eurostat data released on Friday, Croatia's **general government deficit last year amounted to 2.9% of GDP** (i.e., HRK 12.4bn), which is noticeably less than the 4.5% (18.8 billion) planned by the last amending budget, which was partly also supported by a stronger growth of gross domestic product than expected, i.e., stronger growth in budget revenues. Detailed data reveal that total revenues in 2021 amounted to HRK 199.6bn, or 11.8% more than in 2020 (4.6% more than in 2019), with taxes collecting 11.5% more year-on-year (106.4bn; -1.4% compared to 2019). VAT, as the most generous tax revenue, raised 57.6bn or almost 21% more than in 2020, and 4.6% more than in 2019. At the same time, direct taxes raised HRK 23.3bn or 5.6% less than in 2021 (12.6% less than in 2019) in line with the tax cuts implemented. Contribution revenue generated HRK 48.9bn (+10.7% compared to 2021; +4.7% compared to 2019), while other current and capital income (mostly EU funds) generated HRK 26.5bn or 12.4% more year-on-year, and as much as 50% more than in the pre-pandemic 2019. The improvement in the fiscal balance, following the 7.3% deficit generated in 2020, was also supported by a much slower growth in expenditure (+2.8% to HRK 212bn), with almost a third of total expenditure relating to the costs of social expenditure (pensions, healthcare...) and an additional quarter to the wage bill, which increased by 6.7% year-on-year (+12.4% compared to 2019). Subsidy expenditure decreased by 18.6% (to 11.6 billion) compared to the pandemic year of 2020, but still almost doubled compared to 2019. Capital investments, meanwhile, decreased by 4.4% year-on-year, but increased by 16% compared to 2019.



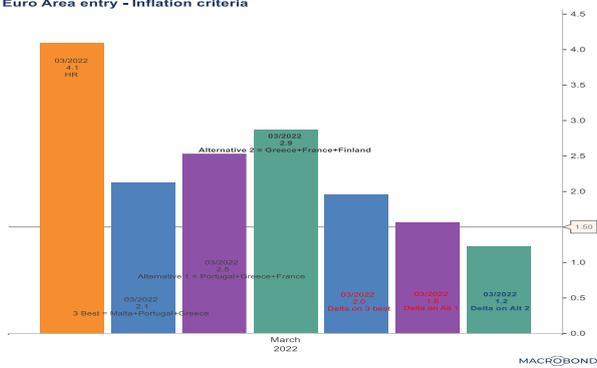
The described developments therefore contributed to a substantial improvement in the fiscal balance, but also to the level of **public debt** as measured by the share in gross domestic product, which **decreased** from a record 87.3% of GDP recorded in 2020 to **79.8%** at the end of 2021.



However, Croatia remains among the group of highly indebted countries in Central and Eastern Europe, with Hungary and Slovenia recording a slightly lower level of public debt share of 76.8% and 74.7%, respectively, while the first next CEE country is Slovakia with a share of 63.1% of GDP. According to the presented data, we see that Croatia also in the last

year would have complied with the currently suspended EPA rules on the level of the total general government deficit, since the deficit was less than 3%, while the level of public debt was reduced much faster (-7.5 percentage points) than the prescribed 1/20 difference compared to the 60% limit, that is, that it would not be in the Excessive Deficit Procedure, which could jeopardize the planned entry into the euro zone. As for other criteria, the most interesting thing at the moment is to follow the criterion of price stability, i.e., the 12-month average of inflation where the limit is set as the average inflation of the three most successful countries (with the lowest inflation) + 1.5 percentage points. Eurostat data as of March this year singled out Malta, Portugal and Greece as the countries with the lowest inflation, and in these three countries the average inflation was 2.1%, which with an additional 1.5 p.p. gives a threshold of 3.6% while the average 12-month inflation in Croatia in March was 4.1% (and in the Euro zone it was 3.9%). Given that the rules allow the exclusion of a member state where inflation deviates significantly from the group average, it is likely that another combination will be viewed as the top three countries, as an example we illustrate two alternatives in the graph. It is important to emphasize that Croatia generally does not deviate significantly from the average euro zone inflation rate.

Euro Area entry - Inflation criteria



12-month HICP Euro area & Croatia



Weekly overview

- Last week, it was trading in the range of 7.55 to 7.57. On Friday, the mid-point exchange rate was almost unchanged on a weekly basis at HRK 7.5604 per euro, while against the dollar the kuna continued to weaken, with the exchange rate rising by 0.1% to HRK 6.9985 per dollar. This week we expect to maintain calm trading.
- Excess liquidity increased to HRK 76 billion, interest rates stagnated on a weekly basis, and there were no placements at the CNB repo auction. Last week, HRK 2.3bn of one-year HRK T-bills was due, and HRK 1.8bn was subscribed, reducing the government debt in T-bills to HRK 22.8bn. The interest rate increased by 5 b.b. compared to the previous issue, to 0.10%. The MoF will notify subsequently of the next auction date, with EUR 1.2bn of FX T-bills due next week.
- The Crobex Index closed last Friday at 2,134.16 points, up by 0.7% w-o-w, while Crobis was down by 0.6% (103.48 points) at the same time. As for sector indices, CROBEXindustry recorded a decrease of 3.3% w-o-w (to 1,216.56 points), while CROBEXtourist and CROBEXconstruct increased by 1.5% and 1.3% respectively (3,609.78 and 442.76 points). Total ZSE turnover in last week's four trading days was HRK 51.7 million, down by 50.1% w-o-w, owing to a 71.0% lower turnover in bonds (reaching HRK 19.7 million) and 9.9% lower turnover in shares (HRK 32.0 million).

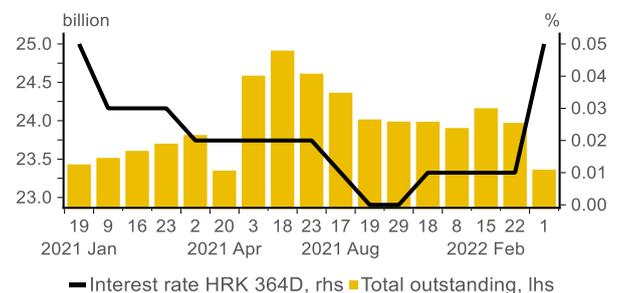
EUR/HRK and USD/HRK

Source: Macrobond



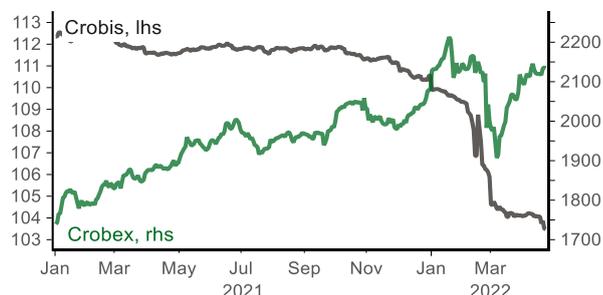
T-bills

Source: MoF



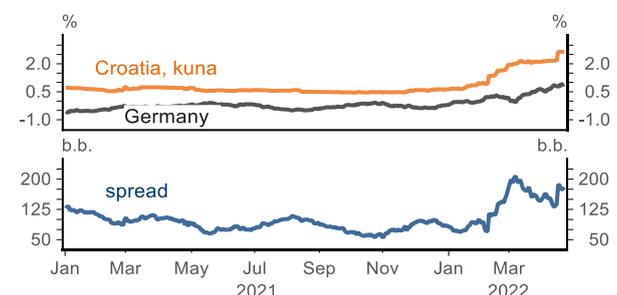
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

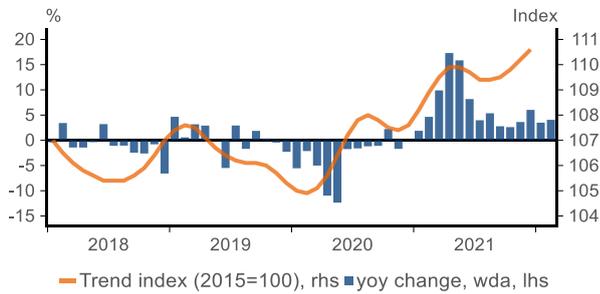
Source: Macrobond, Reuters



Statistics

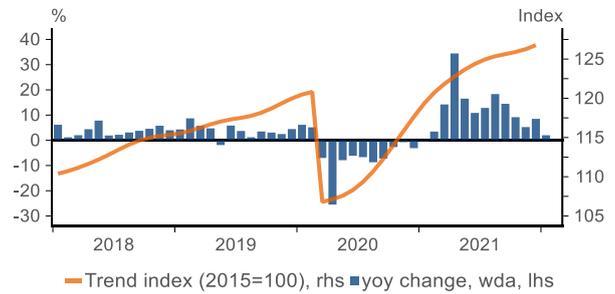
Industrial production

Source: Macrobond



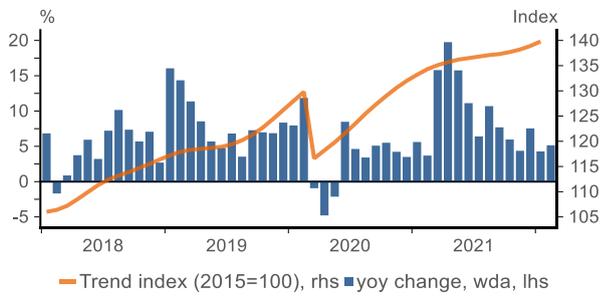
Retail trade, real

Source: Macrobond



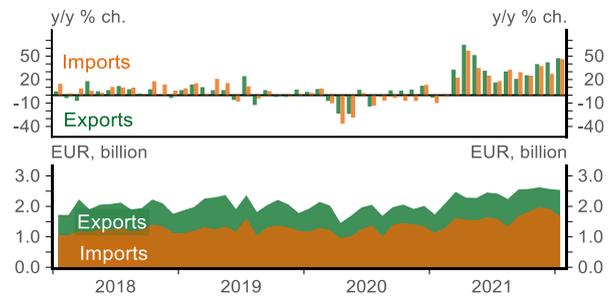
Construction works

Source: Macrobond



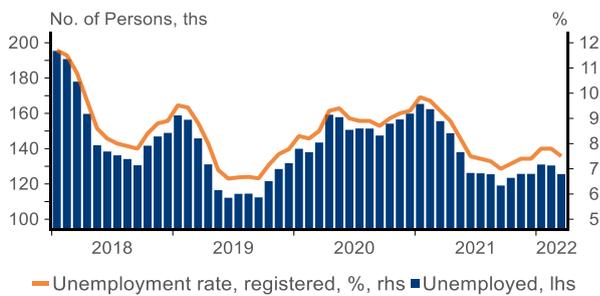
Goods exports and imports

Source: Macrobond



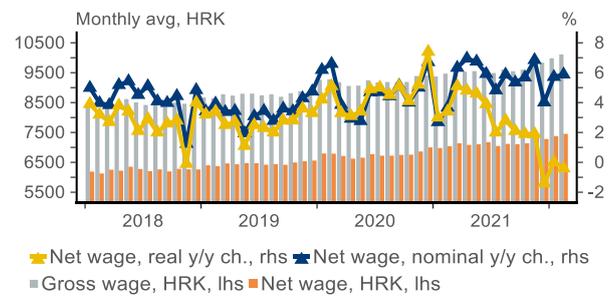
Unemployment

Source: Macrobond



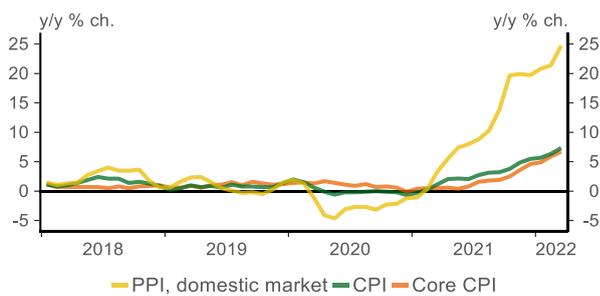
Wages

Source: Macrobond, CBS



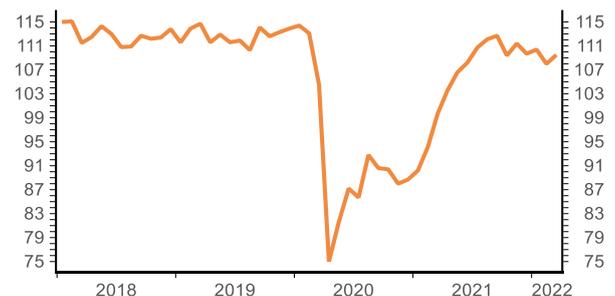
Prices

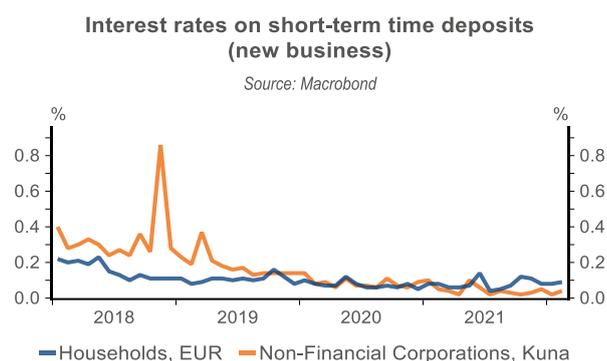
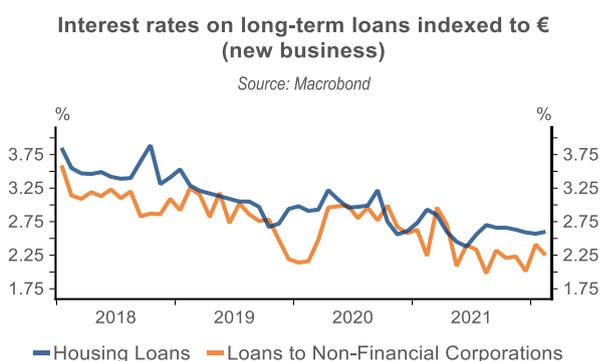
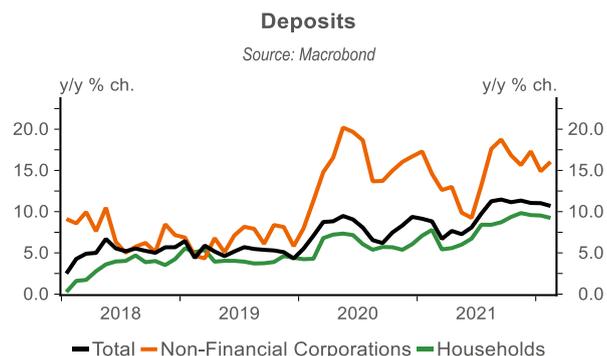
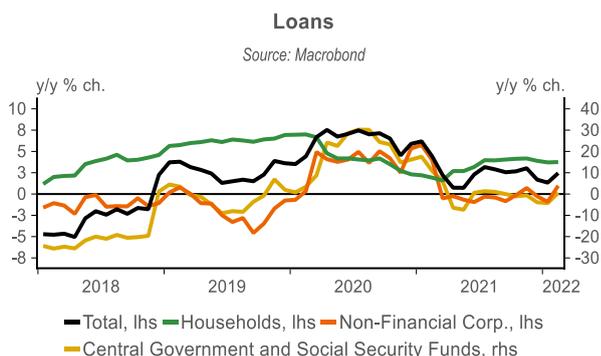
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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