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GDP growth of 2.9% recorded in Q1

- The Croatian Bureau of Statistics' flash estimate confirmed our expectation of a slowdown in GDP growth in this year's Q1. Namely, published data point to a slowdown in the quarterly growth rate to 0.3%, while the growth rate compared to the same period last year slowed to 3.1% (from 3.7% in 4Q24) per seasonally adjusted data, i.e., to 2.9% (from 3.9% in 4Q24) per seasonally unadjusted data. The growth structure did not bring any special surprises: different schedule of the Easter holidays combined with consumer boycotts expectedly slowed down the y-o-y growth of personal consumption to 1.7% (after 6.3% recorded in 4Q24) - also the lowest growth rate since 1Q21, thus the contribution of personal consumption to total growth was only 0.9 p.p. Simultaneously, investment growth was more than halved (4.5% compared to 9.5% in 4Q24), also reducing the contribution to overall growth to 1.2 p.p. from an average of 2.2 p.p. recorded in the previous 12 quarters, which was also indicated by the slowdown in the growth of the construction work index. An equally positive contribution of 1.5 p.p. came from government spending and changes in stock, all of which together with the negative contribution of net foreign demand of -2.2 p.p. results in the total growth rate of 2.9%. Namely, per trade data, an acceleration in the increase in exports of goods to 11.6% was recorded, while exports of services, after a short break at the end of last year, recorded a real decline of -1.8% - as expected, as we announced in the Weekly Analysis on 5 May; thus, the total exports' growth was +6%, with a positive contribution of 2.7 p.p. On the other hand, the growth of imports of goods and services of 8.8% had a negative contribution of -4.9 p.p., thus rounding up the total negative contribution of net foreign demand to -2.2 p.p.
- What do recent data tell us? The current quarter will bring personal consumption recovery due to the "levelling" by a later Easter, and we also expect a smaller real decline in tourism. Namely, data on retail trade turnover in April, per the data from the Tax Administration, i.e., increased Easter spending (+12.4% nominal growth in retail trade invoices), confirmed a monthly real turnover growth of 1% and an annual growth of 4.9% (9.1% seasonally unadjusted). Following the Easter holidays, per the Tax Administration data, May recorded a continued increase in the amount of fiscalized retail invoices, up by 4.6% in nominal terms, suggesting an estimated real growth of around 3% (retail trade deflator used), which would in turn raise the average real consumption growth rate in the

Flash estimate confirmed our expectation of growth slowdown in Q1

...Q2 "levelled" by a later Easter

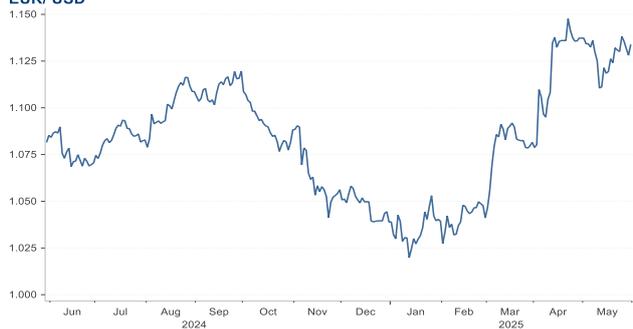
first two months of Q2 to around 6%, compared to 1.6% in 1Q25. And while Q2 should therefore, show stronger growth in personal consumption than Q1, the data clearly indicate that personal consumption growth is slowing down. Namely, the average growth in the amount of fiscalized retail trade invoices in this year's first five months was 5.8%, and in the same period last year 13.4%, i.e., in real terms 3.7% compared to 9.9% (last year's average inflation rate was 4% in the observed period, and this year 3.5%). At the same time, data on fiscalized invoices in Accommodation indicate that after a growth of 13.5% recorded in April (again the Easter effect), the amount of invoices in May noted a decrease of -2.3%, with the number of invoices issued down by -0.6%. Simultaneously, in Food service activities, the amount of fiscalized invoices increased by 10.2%, and the number of invoices issued by 2.3% y-o-y, which in total points to the growth of the amount of fiscalized invoices of 6.1%, i.e., the number of invoices of 2.1% in the NCA I - Accommodation and food service activities. Overall, in the first two months of Q2, the amount of fiscalized invoices in NCA I recorded an increase of 8.8% compared to the same period last year, which, together with the trend of average inflation in the business activity (9.1% in April, the latest available data), again points to a slight decline or only positive zero in real terms – but let us wait for June for a more complete estimate, considering it could bring better results than May that was burdened by last year's high base, and which could ultimately bring more favourable trends in exports of services, which, let us recall, decreased by -5.2% in 2Q24. Cumulatively, in the first five months, the growth in the amount of fiscalized invoices in the NCA I was 10%, half the 21.6% recorded in the same period last year, with only a somewhat milder price growth of 10.4% compared to 11.2%. As for export of goods, the growth in Q1 partially reflects the restart of the Rijeka Refinery after overhaul/modernisation, which also pulled along the export component, the contribution of which will slightly deaccelerate in the upcoming months, but part of it is probably hidden in the so-called front-loading of export to the US, probably mostly via other EU trade partners, which we also wrote about in more detail in early May. The good news is the continued growth of industrial production in April (+6.5%), on the wings of already mentioned energy production, but also the continued growth of the production of intermediate and capital goods and the re-growth of production of nondurable consumer goods after two consecutive months of decline.

And while we are seeing the deceleration of existing champions of growth: personal consumption and investments, an uncertain global environment represents a great risk to the fragile recovery of exports, which supports our view that this year's GDP growth will slow down to around currently estimated 2.9%, with highlighted negative risks.

We maintain our estimate for FY25 growth of 2.9%

- The possibility of decreasing of trade tensions stimulated the dollar's appreciation against the euro until mid-week, but on Friday, weak economic data resulted in a renewed decline of the dollar, finishing the week at 1.1339 dollars to the euro, up by 0.3% w-o-w.
- In the week before the ECB's meeting, Euribor continued to decline, recording a decrease of up to 10 bps w-o-w, thus lowering 3M and 6M to 2.0%, i.e., 2.1% by the end of the week. This week, the first round of subscriptions is finishing, and the second one is being held for 1Y T-bills. The target amount of the issue is EUR 750 million.
- The recovery of world stock markets supported the domestic capital market, so Crobex finished the week up by 2.1% w-o-w, i.e., at 3,459 points due to growth of all sectoral indices (CROBEXindustry +2.3% to 2,621, CROBEXnutris +2.8% to 805, CROBEXtourist +0.4% to 4,547 points). Crobis stagnated at 99.2 points.

EUR/ USD



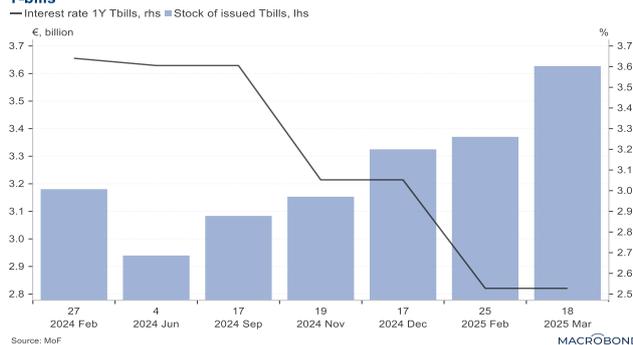
Source: ECB

Euribor



Source: EMMI, ECB

T-bills



Source: MoF

Crobex/Crobis



Source: Zagreb Stock Exchange

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