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A week rich in data…

- The past shortened working week was marked by a series of important statistical releases revealing that the domestic economy weathered the winter better than expected, and that it enters the spring with strengthened domestic consumption, promising tourism, but also weakened industrial production.

- The first estimate of gross domestic product developments in the first quarter of this year revealed an acceleration of the quarterly growth rate to 1.4% (after 0.5% in 4Q22 and -0.6% in 3Q22), which kept the annual growth rate at a solid 2.8% (after 3.5% in 4Q22). Looking at the components, personal consumption recorded an annual growth of 1.4%, which, given the stagnation in retail trade volumes, is the result of an increase in turnover from service industries. Historically low unemployment rate, double-digit growth in the average net wage with the return of positive real growth rates, weakening inflationary pressures (and expectations) and a gradual recovery in consumer confidence are the fundamental drivers of personal consumption, which, judging by the April recovery in retail trade turnover (+3.1% m-o-m; +4.2% y-o-y) and data from the Tax Administration according to which the nominal increase in the amount of fiscalised invoices in May recorded a growth of 16.7%, will also in the continuation of the year support overall economic growth. According to CBS data, real growth in government spending slowed to 2.2% in the first quarter, with government spending increasing by 10.8% in nominal terms. At the same time, investment activity grew by 3.9%, as indicated also by the statistics of construction works carried out. The most interesting data relate to exports and imports. Namely, the annual growth rate of exports of goods and services slowed to 4.8% in real terms, the lowest growth rate in the last seven quarters, with the growth of exports of goods slowing to only 1.5% (the lowest rate since the summer of the pandemic 2020), while exports of services, after a series of quarters of post-pandemic double-digit growth rates, slowed to a single-digit 9.1%. Simultaneously, imports of goods and services recorded a real decline of -0.8% y-o-y, primarily due to the -1.5% decline in imports of goods and deceleration of the growth rate of imports of services to 3.5%, resulting in a positive contribution of net foreign demand to overall growth.

Quarterly GDP growth rate in 1Q23 accelerated to 1.4%

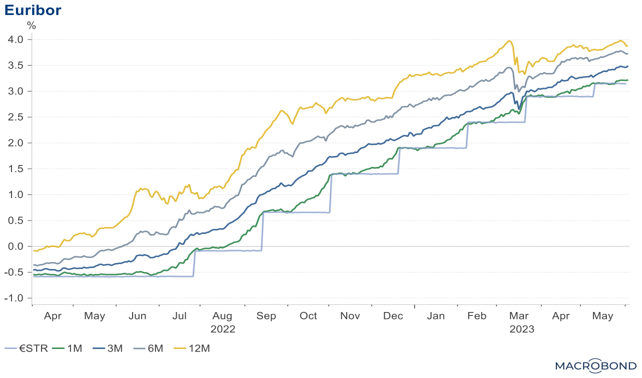
- In addition to the said recovery in retail trade turnover in April, the first high-frequency data for the second quarter concern industrial production and are significantly less favourable. Namely, in April, after four consecutive months of (slight) growth, industrial production fell by -2.4% compared to the month before, whereby the stronger decline was mitigated by the growth of electricity production (+5.2% m-o-m), since manufacturing recorded a decline of -3.8%. In accordance with the described monthly movement, industrial production plunged by -3.5% y-o-y, with manufacturing accelerating the decline to as much as -5.2%, thus recording the sixth consecutive month of decline. It is also interesting to look at the sectoral sentiment indices, which according to the latest published survey do not hold up so badly. Namely, overall economic sentiment indicator (ESI) since September last year, with greater or minor deviations, has recorded an upward trend, similar to sectoral indices and consumer confidence, which, despite the fact that it is traditionally in the negative (pessimistic zone), records a faster recovery than in the EU. We certainly expect wind in our sails also from the upcoming tourist season, namely the data of the e-Visitor system suggest a promising start given that the number of foreign overnight stays in April recorded a y-o-y increase of 18%, and positive developments continued also in May. Investment activity will continue to be supported by available EU funds, although private investment is likely to remain suppressed by increased funding costs and still present uncertainty. Accordingly, we expect that the rate of economic growth in this year could reach about 2%, primarily due to more resilient personal consumption and better than the initially expected tourism.

With continued growth in personal consumption, investment and tourism, the expected GDP growth rate could reach 2% this year

- And finally, the week concluded with the publication of the first estimate of the Central Bureau of Statistics that indicates a subsiding monthly inflation rate from 1.0% in April to 0.5% in May, that is, annual inflation rate from 8.9% to 7.9%. Although a detailed release will be published in two weeks, CBS reveals that on a monthly basis, price increase was recorded in food (+1.4% m-o-m), non-food industrial products without energy (+0.7%) and services (+0.7%), while a decrease in prices was recorded in energy products (-2.0%). We expect the average annual inflation rate to be around 6.7%.

Inflation is slowing

- The dollar continued to strengthen below the 1.07 level backed by a deal on the U.S. public debt limit, only to weaken on Friday amid market expectations that the Fed would not raise interest rates at its June meeting. At the end of the week, the exchange rate was $1.0763 for the euro, up by 0.1% w-o-w.
- Euribor stagnated on maturities of up to one year, and on one year it advanced by 10 b. p. w-o-w. 3M was 3.5% on Friday and 6M was 3.7%. There is no maturity of T-bills this week and there will be no auction held.
- Crobex achieved growth by concluding the week up by 0.4% w-o-w, i.e., at 2,263 points due to the recovery of all the most significant sectoral indices (CROBEXindustry and CROBEXnutris +0.2% to 1,429 and 777, CROBEXtourist +1.1% to 4,050). Crobis was still at 94.7 points.



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