

# WEEKLY ANALYSIS

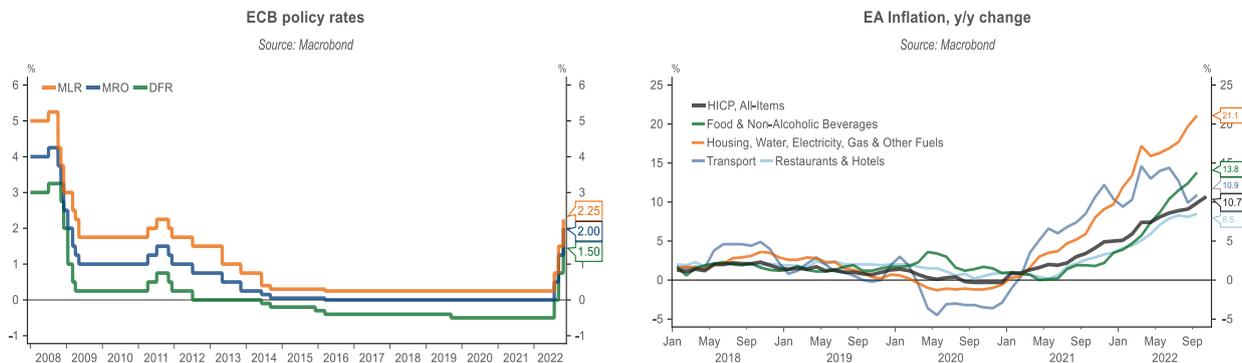
## Number 797, November 7, 2022

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## ECB raised rates by 75 b.p. in line with expectations

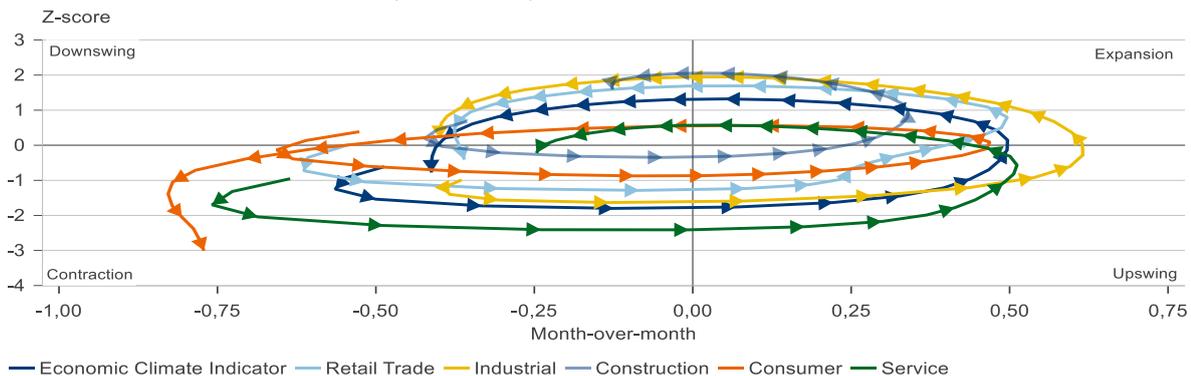
Since the September meeting of the European Central Bank, the situation has not improved, inflation continues to show its teeth and in October in the eurozone it reached a record 10.7% year-on-year (9.9% in September). Details for October are not yet available, but in September the core inflation rate (excluding energy and food) was 4.8%, and growth was still largely generated by higher energy and food prices. What is further worrying is that inflation is not only high but also widespread, with most of the most important components recording strong growth in September (food 13.8%, housing 21.1%, transport 10.9%, restaurants and hotels 8.5%). In addition, high-frequency data from the real sector indicate a significant deterioration in trends; retail trade saw a year-on-year decline of 2.0% in August (-1.2% July), industrial production grew by 2.5% in August (after -2.5% in July), PMI fell below critical 50 points (47.1 in October), and ESI dropped to 92.5 points in October (93.7 in September). The likelihood of a recession is on the rise. However, as we have already noted, the increased risk of a recession in the eurozone, which is expected to be mild and transient in character and is *de facto* calculated into the ECB's projections (Q4 of this year and Q1 of 2023), will not stop the cycle of raising key interest rates aimed at combating inflation and preventing inflation expectations from becoming entrenched and creating an inflationary spiral. Consequently, the October meeting passed without surprise, bringing an increase in key interest rates by 75 b.p. Thus, as of 2 November, the interest rate on main refinancing operations (MRO) is 2.00%, on overnight loans (MLR) 2.25% and on overnight deposits 1.50% (DFR). The remuneration of the minimum reserves has been lowered (DFR will be used instead of MRO) and the conditions of the third TLR series have been adjusted in such a way that the interest rate has been raised (valid one is used instead of the average key interest rate) due to monetary policy consistency.

Lagarde said more rate hikes are coming but did not clarify at which pace and to what level. Markets estimate that there will be another milder 50 b.p. increase in December, and further dynamics will depend not only on the inflation movements, but also on the degree of economic slowdown. Lagarde acknowledged that the current developments are worse than in the September baseline scenario, which predicts real year-on-year growth of eurozone GDP in 2023 of 0.9%, but still better than in the adverse scenario (-0.9%) because some of the risks (complete suspension of Russian gas flows without substitution, further increase in commodity prices) did not materialize.



## EU: Economic climate clock since January 2020

Source: European Commission (DG ECFIN)



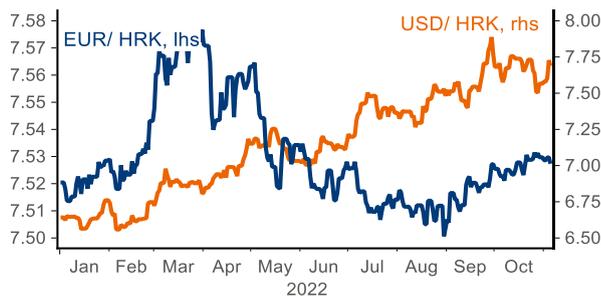
MACROBOND

## Weekly overview

- Total loans accelerated year-on-year growth to 8.8% in September, owing to the strong 11.1% growth in loans to the private sector driven by demand from non-financial corporations, primarily from the energy sector (+21.2%; households +5.1%), accompanied by a slightly weaker growth in central government lending (+0.5%). Total deposits simultaneously recorded growth of 13.4% (private sector 13.9%).
- The EUR/HRK exchange rate recorded only minor shifts last week and stood at 7.5273 on Friday, which is almost unchanged on a weekly basis. Against the dollar, the kuna strengthened by a strong 1.6% and the exchange rate fell to 7.6888 kuna for the dollar.
- Excess liquidity was reduced to HRK 78 billion last week. Interest rates stagnated, and there were no placements at the CNB's repo auction.
- Last week, ZSE turnover decreased by 14.2% w-o-w to HRK 299 million due to a drop in share turnover (-65.2% to HRK 93 million) followed by a higher turnover in bonds (+156.5% to HRK 206 million). Crobex fell again after a short recovery (-0.9% to 1,907.1 points) due to the negative performance of the most important indices (CROBEXindustry -1.4% to 1,020.2 points, CROBEXnutris -1.9% to 698.9 points, CROBEXtourist -1.1% to 3,263.1 points). Crobis achieved a slight growth of 0.4% to 94.7 points.

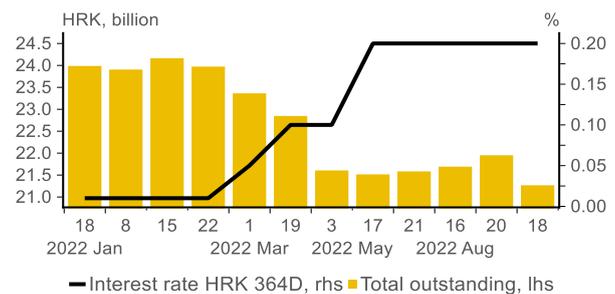
EUR/HRK and USD/HRK

Source: Macrobond



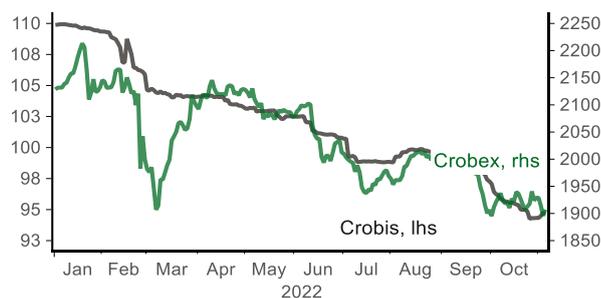
T-bills

Source: MoF



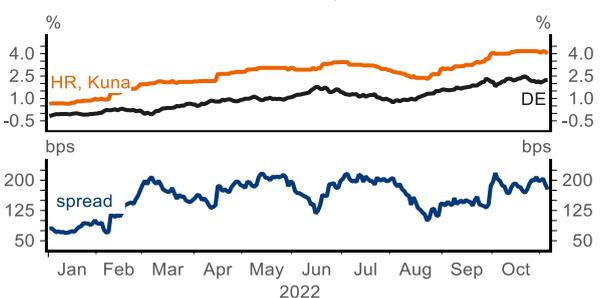
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

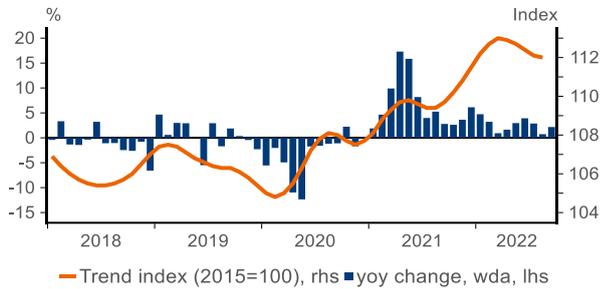
Source: Macrobond, Reuters



# Statistics

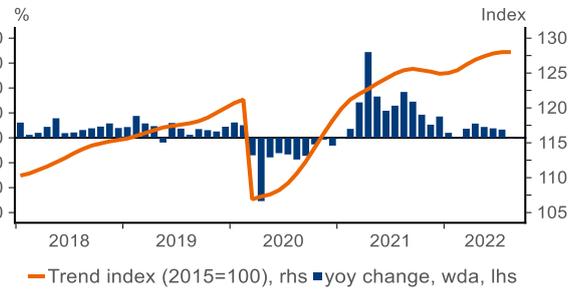
## Industrial production

Source: Macrobond



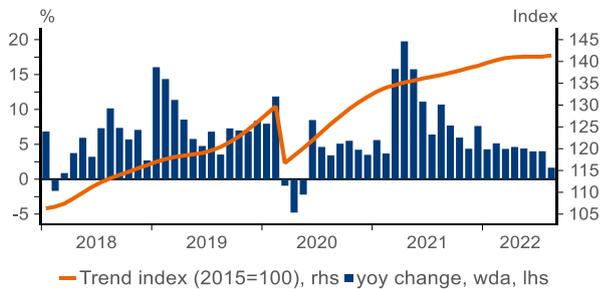
## Retail trade, real

Source: Macrobond



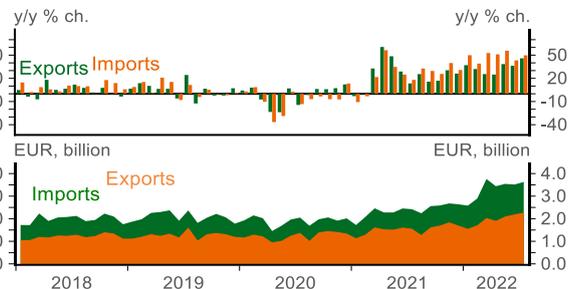
## Construction works

Source: Macrobond



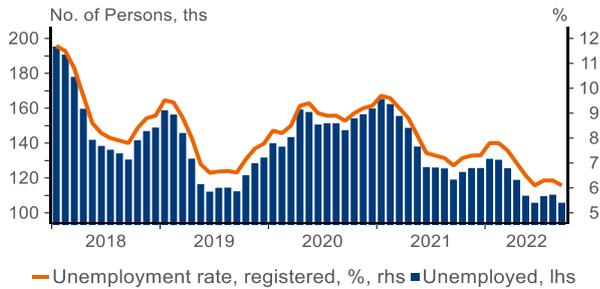
## Goods exports and imports

Source: Macrobond



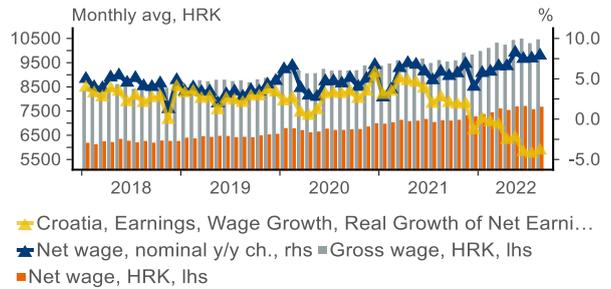
## Unemployment

Source: Macrobond



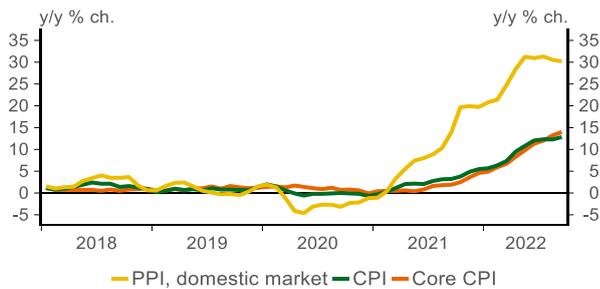
## Wages

Source: Macrobond, CBS



## Prices

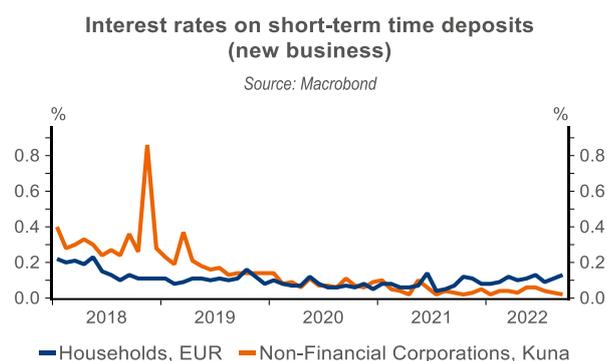
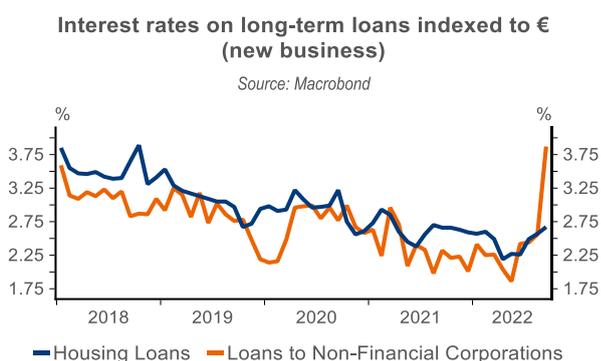
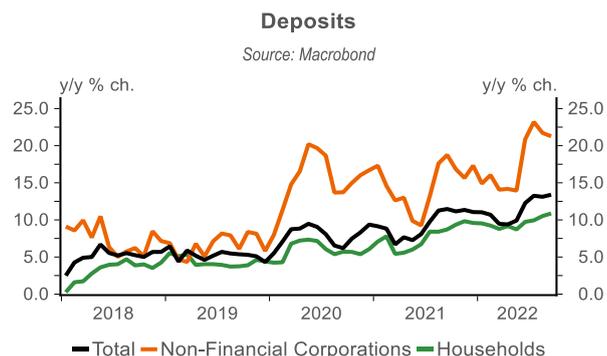
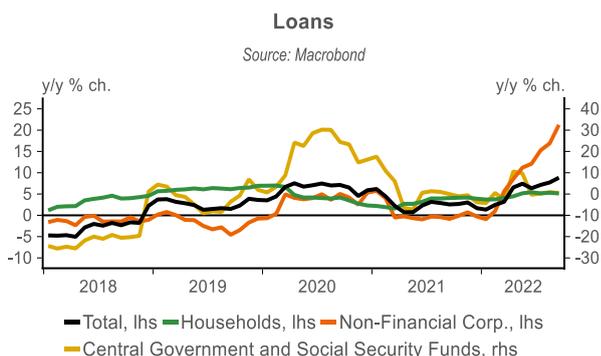
Source: Macrobond



## Economic Sentiment Indicator (ESI)

Source: Macrobond





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