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Slowed growth of household savings

- After a strong growth in retail deposits in banks during the pandemic years and a sharp leap induced by joining the euro area, the last two years have brought significantly more moderate growth despite a strong labour market, i.e. growing employment and nominal wage increase. This is due to spending the pandemic savings surpluses, high inflation that has put pressure on disposable incomes, weakening the possibility of saving, and the "entry" of the state into the savings market in the form of the issuance of debt securities intended for retail investors. Thus, after the growth of household deposits by €4.6 billion in 2020-21 and by €4.4 billion in 2022, an increase of only €1.5 billion was recorded from the beginning of 2023 to the end of September this year. At the same time, the central bank's data show that the value of citizens' investments in debt securities of the Republic of Croatia reached €4.1 billion at the end of September (i.e. 12% of the total value of government debt securities), and although not everything has been withdrawn from bank accounts, it shows that this is a significant amount outside the financial system at the level of 10% of total household deposits. However, as banks' liquidity surpluses remain noticeable (€14.6 billion in August), outflows had only a limited impact on developments in deposit interest rates.
- The breakdown of deposits by maturity shows that term funds have been growing almost continuously since the middle of last year owing to interest rates on savings having bounced off the bottom. However, their growth began to slow down, amounting to 25.4% year-on-year in September, which only reached the level of the second quarter of 2021. Compared to the end of 2010 (the first data available to us), they are lower by about 30%.
- According to the latest available data from the CNB, the concentration of deposits at the end of 2023 did not change significantly compared to six months earlier, and less than 2% of depositors still held almost 39% of total deposits. Comparison over a longer period, 2023 and 2014, shows that the concentration decreased (possibly because deposits were converted into other forms of assets), while the median amount of deposits increased significantly. Judging by the amounts of bank deposits, economic growth has improved the financial situation of a large number of households, but in absolute terms mostly for the richest. It is known that the strong growth in food prices mostly affects households with lower incomes, which has certainly influenced the recent movements in the amount of deposits.
- The CNB survey shows that the indices of households' responses to the question on the change in the financial situation in the past and expectations for the next year are sinking deep into negative territory in 2022-23. The end of last year and this year bring a recovery, in line with the subsidence of inflationary pressures, wage growth and employment. In combination with negative expectations of economic developments in the next 12 months, it may encourage a strengthening of the propensity to save, but not necessarily in the form of bank deposits (CNB's estimate, for example, indicates a sharp increase of cash in circulation since the beginning of 2023). According to Eurostat, the household saving rate in Croatia rose close to 8% in 2023, which is still below the level of around 10% recorded before the pandemic.

Households hold 12% of the total value of domestic government debt securities

Term funds lower by about 30% compared to the end of 2010

Deposit concentration almost unchanged in 2023

- Total loan growth reached 4.9% year-on-year in September, slightly lower than a month earlier, with loans to the private sector rising by a strong 7.8%, while loans to the central government were down by 10.2%. Loans to non-financial corporations continued to grow at a stable moderate pace (3.6%), while loans to households slowed down, but still maintained robust dynamics (10.6%), supported by strong growth in cash loans. Total deposits continued to slow down, reaching the end of September up by 3.5% year-on-year. Private sector deposits slowed to 2.6% due to lower growth rates of corporate deposits accompanied by stable growth in household deposits.
- Stronger-than-expected eurozone GDP growth supported the euro, which pushed the exchange rate to \$1.0885 per euro at the end of the week, up by 0.6% week-on-week.
- Euribor stagnated week-on-week, with 3M and 6M standing at 3.1 and 2.9%, respectively, on Friday.
- Crobex continued its positive streak in the week behind us, achieving a plus of a slight 0.3% week-on-week (to 3,063 points). The most important sectoral indices recorded a negative trend (CROBEXindustry -0.2% to 2,270, CROBEXnutris -1.0% to 885, CROBEXtourist -0.4% to 4,144). Crobis increased by 0.1% (to 97.8 points).

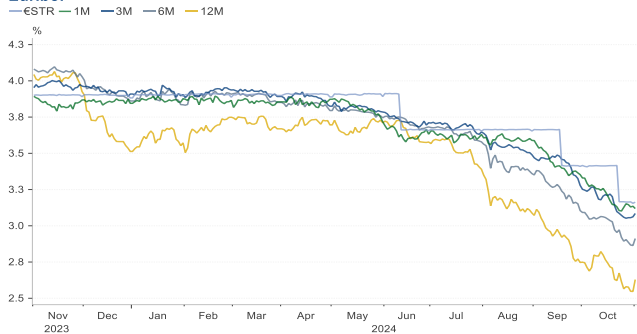
EUR/ USD



Source: ECB

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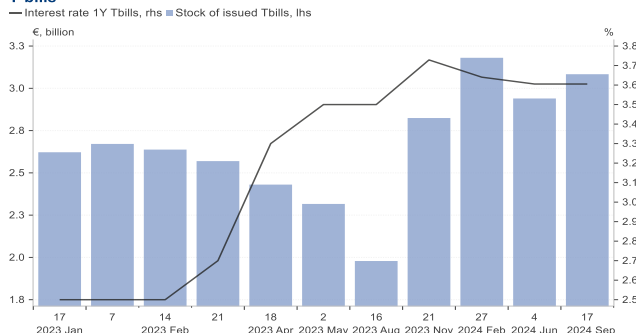
Euribor



Source: EMMI, ECB

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T-bills



Source: MoF

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Crobex/Crobis



Source: Zagreb Stock Exchange

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