

# WEEKLY ANALYSIS

## Number 790, September 12, 2022

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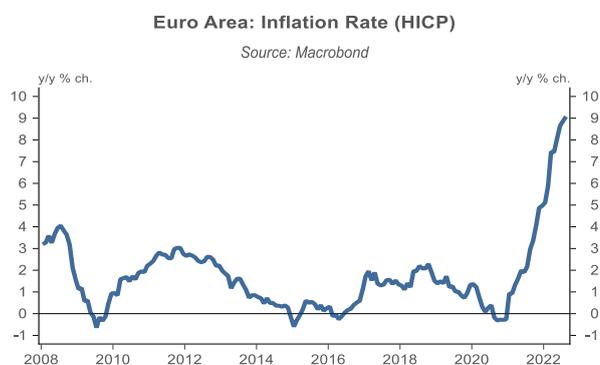
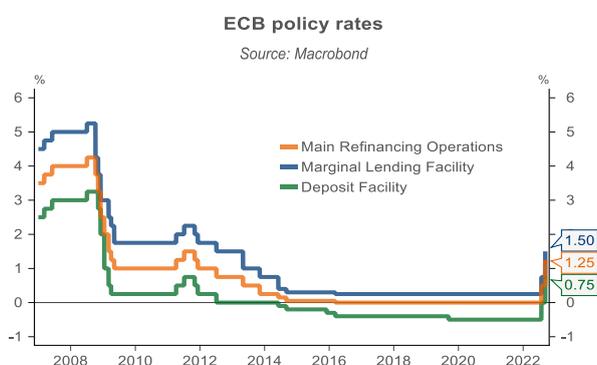
## ECB continues to make decisive moves

Despite the increased risks of economic slowdown, i.e., looming recession in the eurozone in the last quarter of this year and the first quarter of next year, the European Central Bank is focused on tackling strong inflationary pressures (inflation reached 9.1% year-on-year in the eurozone in August) and decided last week to raise all three key interest rates by 75 b.p. From September 14, the interest rate on the main refinancing operations will thus be 1.25%, on marginal lending facility it will be 1.50%, and on deposit facility 0.75%. The ECB stressed that it would continue to raise rates over the next few meetings to alleviate pressures on the demand side, as well as risks of rising inflation expectations. Decisions on the dynamics of rate hikes will be taken by following recent developments and projections of inflation movements, and in the following meetings the increase will not necessarily amount to 75 b.p. Lagarde stressed that the path to monetary policy normalisation had begun in December last year and that the current level of interest rates is not neutral, without specifying what level the ECB would consider neutral. She also stated that the interest rate hike would be completed over the next few meetings, meaning by the end of the first quarter of next year.

When it comes to asset purchase programmes, there are no news; the ECB intends to reinvest the principals from maturing securities under the APP for a longer period of time after having started to raise key interest rates, while in the case of the PEPP it plans to reinvest principals at least until the end of 2024. The ECB also took an important decision for banks by abolishing the two-tier remuneration system for excess reserves, reducing the multiplier value to zero.

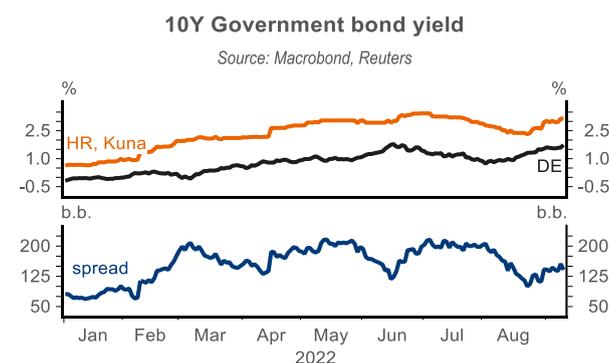
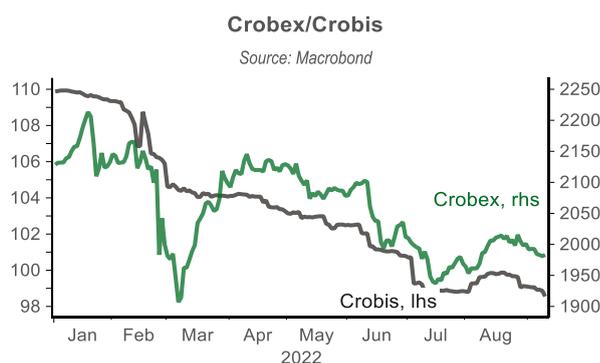
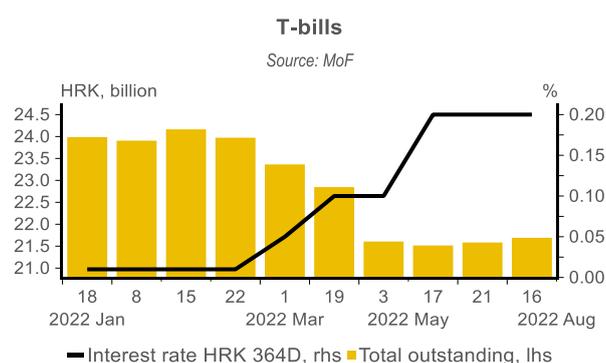
As expected, inflation projections were revised upwards at the September meeting (to an average of 8.1% year-on-year in 2022, 5.5% in 2023 and 2.3% in 2024), while the projections for real GDP growth were raised for 2022 (to 3.1% year-on-year) and decreased for 2023 and 2024 (to 0.9 and 1.9%). The projection of the core inflation rate (HICP excluding energy and food) shows that the ECB expects it to also remain elevated over a longer period and significantly higher than the 2% target (2022: 3.9%, 2023: 3.4%, 2024: 2.3%). Risks to economic growth were rated broadly negative, with the risks of higher-than-projected inflation being elevated.

It is clear from the press release and conference that the widely anticipated recession will not deter the ECB from raising key interest rates. The decision to raise rates was taken unanimously, so it seems that the ECB went from dove to hawk.



## Weekly overview

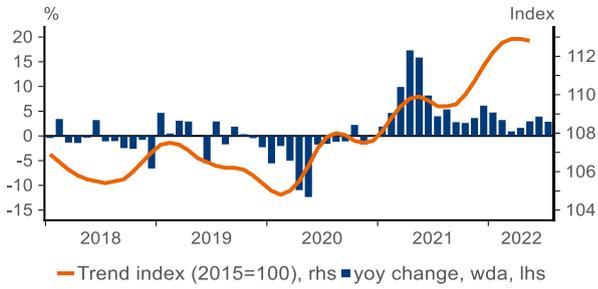
- Among the statistics published during the last week, we would like to highlight the **index of prices of new apartments sold** in the first half of the year, which showed a 20% increase in the average price for 1m<sup>2</sup> (to HRK 16,058) compared to the same period last year, with the average price per m<sup>2</sup> for new apartments sold by companies and other legal entities increasing by 21.1% (to HRK 16,410), while the average price of POS apartments, which participated in the structure of the total average price with 5.2%, increased by 29.4% (to HRK 9,707). Last week, **statistics relating to the trading of goods** were also published, which confirmed the continuation of strong nominal growth rates of goods exports and imports, with exports thus increasing by about 41% in July and imports by almost 49% year-on-year. At the same time, statistics point to a slowdown in the month-to-month growth rate of the producer price index in the domestic market (to 0.5%), while the year-to-year growth rate in August was 30.5%.
- Domestic foreign exchange market continued to be lethargic, with the mid-point exchange rate at the end of the last week at HRK 7.5121 per euro, down by 0.1% w-o-w. At the same time, the kuna strengthened by 0.9% against the dollar, and the exchange rate fell to HRK 7.4488 per dollar. This week we see continued trading in the range of 7.51 to 7.53.
- Liquidity rose to HRK 83 billion at the end of last week. Interest rates stagnated, and there was no interest shown at the CNB's regular repo auction.
- Last week ZSE turnover increased significantly to HRK 109 million (+90.0% w-o-w), with turnover in bonds rising to HRK 72 million (+115.7%) and turnover in shares to HRK 34 million (+42.5%). Crobex plunged by 0.5% w-o-w to 1,983.1 points, with CROBEXindustry recording the strongest decline of 1.7% (to 1,018.6 points), followed by CROBEXtourist with a decline of 1.3% to 3,489.9 points, while CROBEXconstruct continued its positive streak by advancing 1.9% (to 453.3 points). Crobis maintained its downward trend and fell by 0.5% w-o-w to 98.6 points.



# Statistics

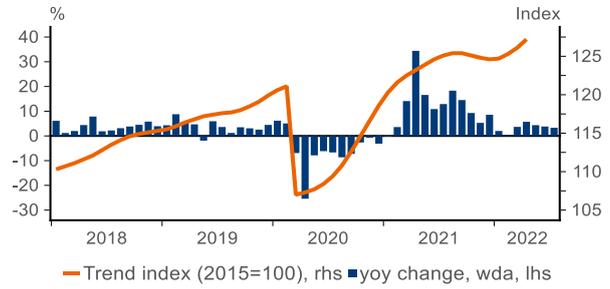
## Industrial production

Source: Macrobond



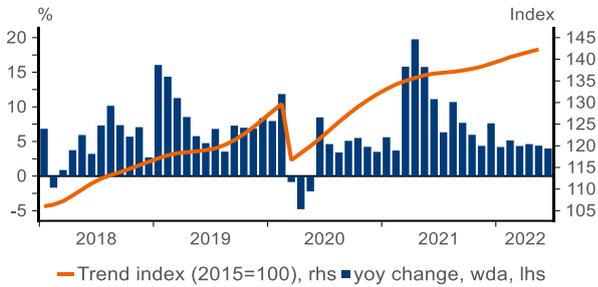
## Retail trade, real

Source: Macrobond



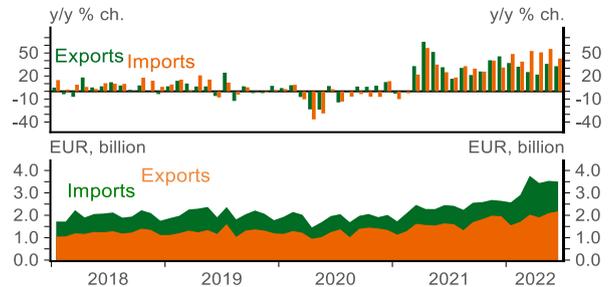
## Construction works

Source: Macrobond



## Goods exports and imports

Source: Macrobond



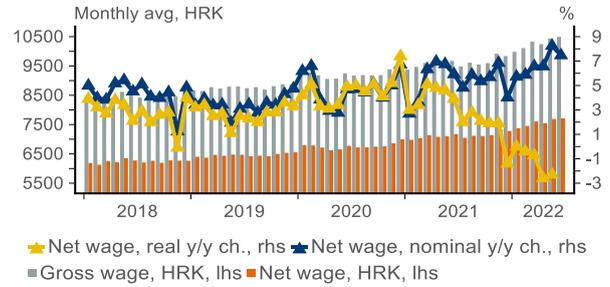
## Unemployment

Source: Macrobond



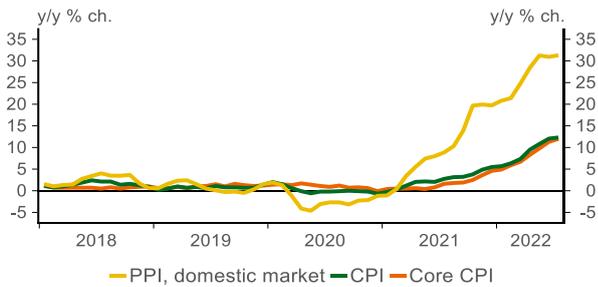
## Wages

Source: Macrobond, CBS



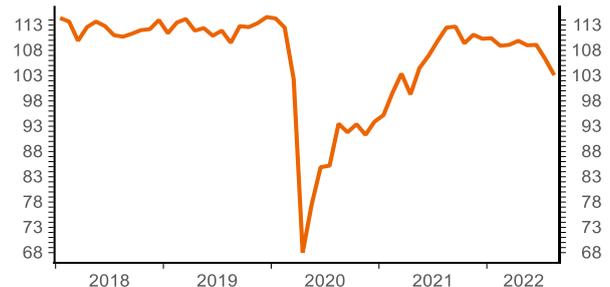
## Prices

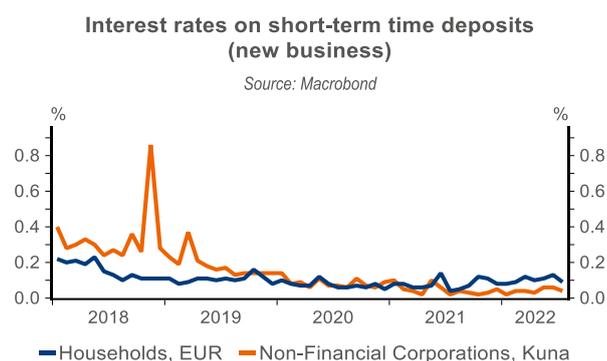
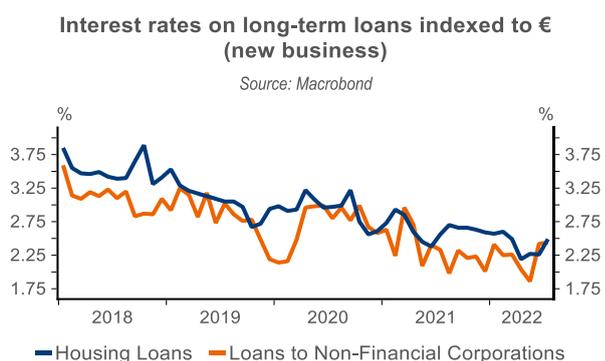
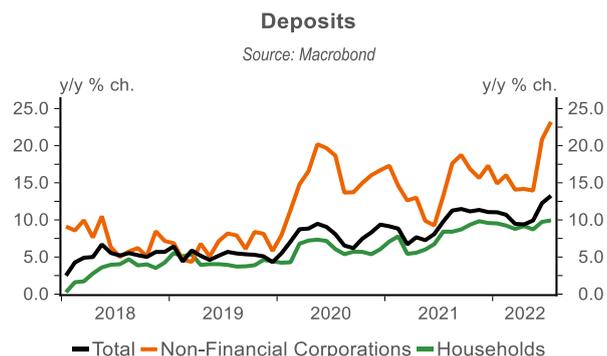
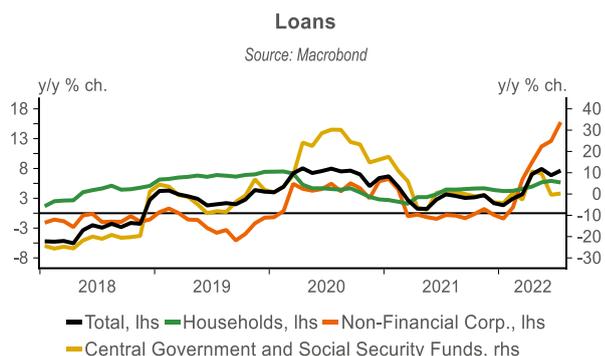
Source: Macrobond



## Economic Sentiment Indicator (ESI)

Source: Macrobond





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