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Robust growth of gross domestic product continues

- According to the first quarterly estimate, GDP grew by 3.7% year-on-year in 4Q24, while quarter-on-quarter, the growth strengthened to 1.4%, which rounded up the overall GDP growth rate in 2024 to 3.8% – only slightly higher than our estimated 3.6%. GDP growth in the last quarter of last year was somewhat stronger than expected, mainly due to stronger-than-expected domestic demand: private consumption increased by 6.3% (monthly retail trade data pointed to slightly slower growth), while government spending recorded a growth of 7.1% year-on-year, and investment of 9.5% (in line with expectations). At the same time, exports of goods and services increased by 4.7% annually with stagnation of service activities, but strong growth in exports of goods (9.2%), while on the other hand, imports increased by 9.9% compared to the previous year (goods 8.8%, services 14.9%).

3.7% GDP growth in Q4 rounded up the annual GDP growth rate in 2024 to 3.8%

The production side confirms the above, given that GVA in wholesale/retail + transport + accommodation/catering services increased by 6.7% compared to the previous year, which, along with the growth of GVA in construction (13.2%), confirms strong domestic demand. Unfortunately, it is disappointing that, after positive growth in the 3rd quarter, the last quarter of last year brought a decrease in GVA by -0.4% in the manufacturing industry.

Overall, GDP growth in 2024 was marked by a positive contribution from domestic demand (5.8% growth in private consumption, 4.5% in government spending and 9.9% in investments), with a negative net foreign demand as export growth (0.9% y/y) was outweighed by import growth (5.3%).

We maintain our assessment that the growth rate will slow down to 3% in the current year, with pronounced downside risks stemming mainly from the increased level of uncertainty in the geopolitical and economic environment. Domestic demand will continue to be the main driver of growth, albeit more moderately than in previous periods. The favourable labour market will continue to support private consumption, although wage growth is expected to be milder compared to last year but still supported by the growth of the minimum wage and continuous wage growth in the public sector (3% in February + 3% in September). Since we expect a slight slowdown in employment growth compared to the 2.5-3.3% recorded over the last three years, while the growth of consumer credit will be limited by new macroprudential measures (15% in 2024), against the backdrop of evident inflationary pressures, private consumption will continue to be stimulating, albeit less than last year.

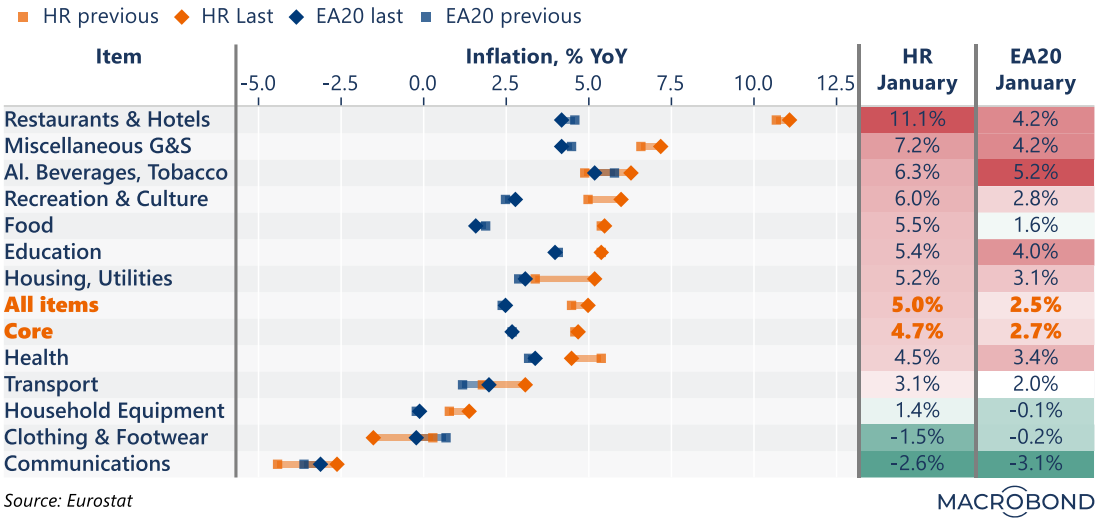
Investment activity will continue to be supported by the use of EU funds (primarily the Recovery and Resilience Facility) given the possible negative impact of external uncertainty on investment plans, regardless of stimulating interest rate movements. Exports will continue to reflect dynamics

of economic growth of the main trading partners, which in turn will also depend heavily on the introduction of tariffs, while tourism will continue to face a challenging year due to deteriorated price competitiveness and suppressed private consumption of outbound markets.

Inflation confirmed at 5.0% in January

- The Croatian Bureau of Statistics confirmed the flash estimate of inflation in January, which amounted to 5.0% according to the harmonized index and 4.0% according to the national index, thus accelerating for the fifth month in a row. The disclosure of the final data also brought a more detailed overview by components, compared to the euro area average, as presented in following graph:

Harmonised inflation: January 2025 - Croatia vs EA20 average



Source: Eurostat

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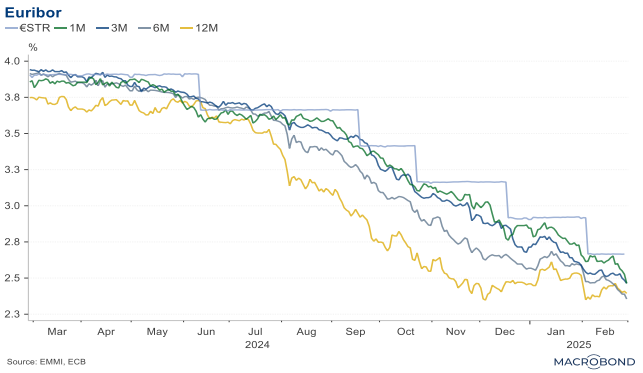
Credit growth accelerated in January

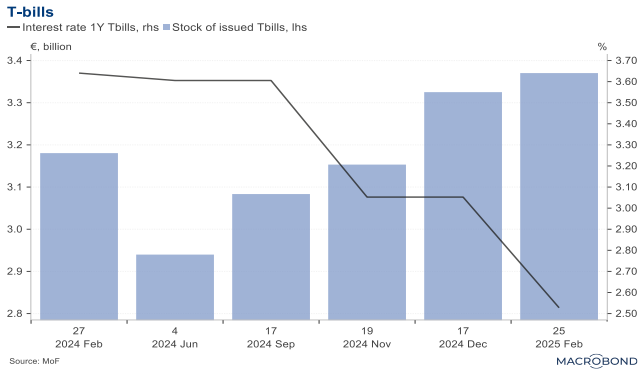
- The beginning of the year brought an acceleration in credit growth, so in January total loans were up by 8.2% year-on-year, largely resulting from a stronger growth in corporate loans (+11.6%), namely to large enterprises (+10.7%, of which: working capital +23.9%, other +7.3%). Loans to households accelerated only slightly to 11.9% due to slightly stronger growth in housing loans (+9.4%), while growth in cash and other loans stagnated. At the same time, growth of deposits reached almost unchanged 5.0% year-on-year, with deposits of non-financial corporations falling month-on-month (seasonal development) but accelerating year-on-year (+3.6%), while growth rate of household deposits decreased slightly (+4.4% year-on-year).

- The possible introduction of EU tariffs resulted in the strengthening of the dollar, so the exchange rate met the end of the week at $1.0411 per euro, down by 0.5% week-on-week.

- Euribor dropped by 10 b.p. week-on-week, so on Friday 3M and 6M were 2.5% and 2.4%, respectively. Last week, €0.8bn of 1Y T-bills were issued, with natural persons subscribing €0.6bn with a yield of 2.60% and institutional investors with €0.2bn with a yield of 2.30%. Total government debt in T-bills increased to €3.4 billion. The next maturity of T-bills is March 20.

- Crobex broke the positive streak by posting a 3.9% decline week-on-week (to 3,334 points) due to a strongly negative performance of sectoral indices (CROBEXindustry -3.8% to 2,345, CROBEXnutris -0.5% to 859, CROBEXtourist -3.0% to 4,357). Crobis followed a negative trend (-0.1% week-on-week, to 99.3 points).





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