

WEEKLY ANALYSIS

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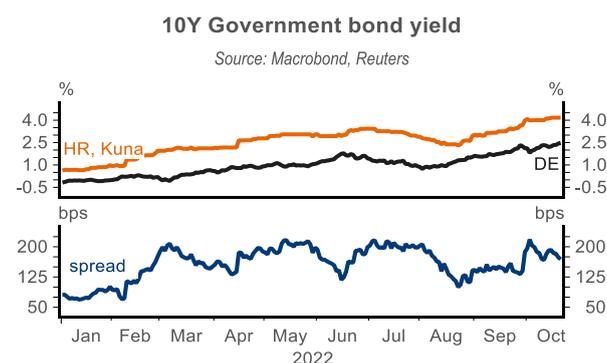
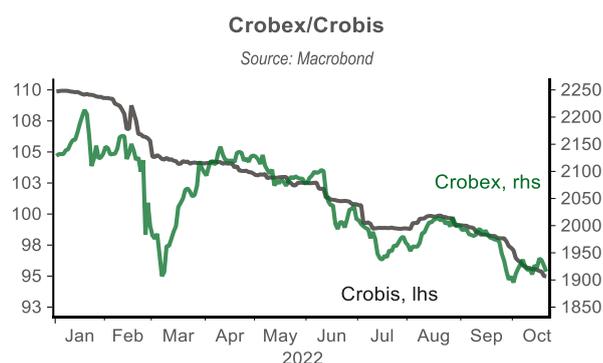
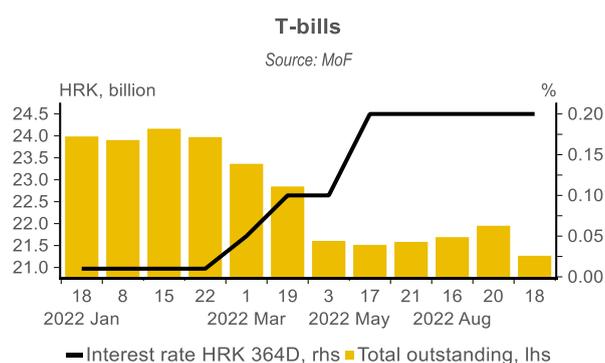
Fiscal week behind us - the Government adopted revised budget

Previous week was “rich” with fiscal data and information. On Thursday, the Government adopted this year’s second state budget revision (the first one was in May), reducing the planned budget deficit by around HRK 750 mln – also equally increasing total revenue (to HRK 171.8 bln), while expenditures remained almost unchanged. Although total revenue thus increased by the aforementioned amount, details reveal that the revision resulted in increase of planned tax revenues by around HRK 4.5 bln, with around half referring to revenue from profit tax, and half to VAT. Simultaneously, the revision significantly reduced expected revenue from grants, primarily from EU funds by HRK 5.3 bln; while revenue from assets were reduced by around HRK 600 mln, mostly due to exempting HEP from the obligation to pay profit to the state budget. Revision also increased planned revenue by around HRK 600 mln from the sale of non-financial assets due to oil and petroleum products sale because of restocking of supplies and revenue from the sale of boat Nov. 514. Simultaneously, although unchanged on the overall level (HRK 184.7 bln), total state budget expenditures were reallocated by the revision. Thus, the biggest change, i.e., expenditure increase refers to HRK 2.5 bln higher material expenditures and refers to claims payment for INA - MOL arbitration procedure (1.4 bln) and health institutions’ expenditures financed from revenues on the basis of contractual relationship with the Croatian Health Insurance Fund (1.0 bln). Wage bill increased by around HRK 280 mln, additional HRK 170 mln went to increasing financial expenditures (here 391 mln is related to INA – MOL arbitration, but compensated by simultaneous reduction of interest expenditure by HRK 226 mln) and for subsidies, while social benefits were raised by HRK 370 mln, and other expenditures by HRK 330 mln. Simultaneously, the revision reduced expenditure for grants (818 mln) and non-financial asset procurement (HRK 2.9 bln). In the end, the revision reduced planned budget deficit to HRK 12.9 bln or 2.7% of GDP. According to ESA methodology, deficit of consolidated general government was reduced by revision from HRK 13.4 bln to 7.1 bln, i.e., from 2.7% to 1.5% GDP, additionally reflecting 0.2% surplus of extra-budgetary funds, 0.2% smaller deficit of local units and 0.8% GDP of other methodological adjustments, while public debt-to-GDP ratio should be reduce to 71.3% by the year’s end. Along with adopting the revision, the Government also adopted on Thursday the Draft Budgetary Plan for 2023 – first budgetary plan draft that, due to accession to the euro area, is also delivered to the European Commission and to Eurogroup. DBP for 2023 represents a deficit on general government level in the amount of 2.3% GDP and reduction of public debt ratio to 69% of GDP. Finally, on Friday Eurostat published data on public debt and deficit trends, according to which, after HRK 167 mln deficit in Q1, in Q2 there was a surplus of HRK 2.2 bln, and on the basis of last four available quarters, the budget on general government level was balanced. At the same time, public debt level in Q2 declined to 74.3% GDP from 79.8% recorded at the end of last year.

And finally, one non-fiscal statistic, on Friday the Croatian Bureau of Statistics also published annual GDP calculation for 1995 – 2021 period, under which revised data indicate that GDP in 2020 recorded a slightly larger decline (-8.6%) compared to provisional data (-8.1%), but that the post-pandemic recovery was significantly faster (+13.1% vs. +10.2% per provisional data). By components, the biggest revision was in investments, with real growth reduced from 7.6% to 4.7%; simultaneously, real export growth increased from 33.3% to 36.4% (with service export growth increasing from 51.5% to 56.6%), and annual import growth rate increasing from 14.7% to 17.6%.

Weekly overview

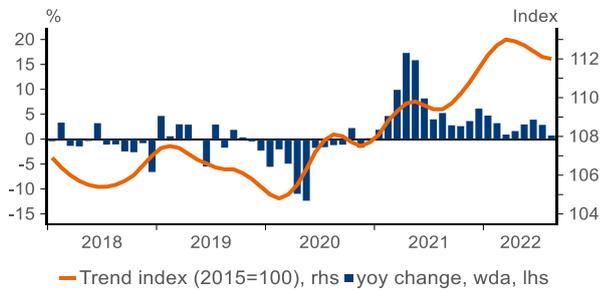
- Last week, data on average wage trends for August were published, increasing its nominal growth to 7.9% y-o-y, and slowing its real decline to -3.9%. Simultaneously published employment data point to unemployment rate decline to 6.1% in September. Slowdown of annual growth rate of the construction work volume to 1.6% in August was disappointing, with the activity regarding residential buildings still in green (+4.7%) although with noticeable slowdown compared to previous months, while works on other constructions accelerated its annual decline to 2.7%.
- Last week exchange rate was around 7.53 – 7.535 on interbank market, with usual trading volumes. By week's end, mid-point exchange rate reached 7.5288 kuna to the euro, which is almost unchanged w-o-w, while USD/HRK decreased by a mild 0.1% to 7.7314 kuna to the dollar. This week we expect a continuation of calm period.
- Excess liquidity increased to 85 billion kuna last week, interest rates continued to stagnate, and there was no interest at the CNB's repo auction. Last week 264 million kuna and 160 million € of T-bills were due, and 776 million kuna was subscribed, thus reducing government debt in T-bills to 21.3 billion kuna. 230 million kuna of 6M and 546 million kuna of 1Y T-bills was subscribed with unchanged interest rate, while EUR T-bills were not issued. There are no maturities this week, and next auction is announced for 15 November.
- Total ZSE turnover last week increased by almost 3.5 times w-o-w to 232 million kuna due to jump of bond trade volume (+391.1% to 211 million kuna) followed by 16.5% lower turnover in shares (20 million kuna). Crobex continued its negative streak (-0.6% to 1,915.5 points) with CROBEXindustry retaining its upward trend (+0.6% to 1,010.7 points), while CROBEXnutris and CROBEXtourist recorded a decline of 1.9, i.e., 0.3% (to 705.3 and 3,254.4 points). Crobis also declined by 0.6% to 95.0 points.



Statistics

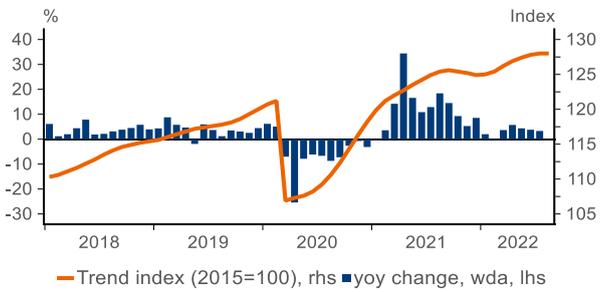
Industrial production

Source: Macrobond



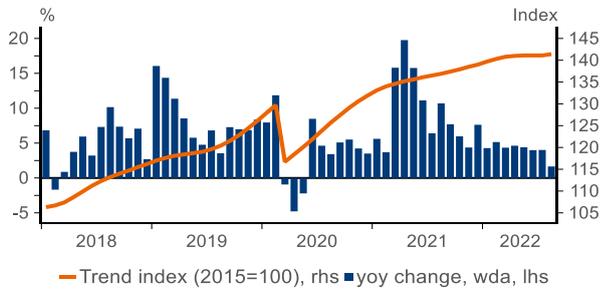
Retail trade, real

Source: Macrobond



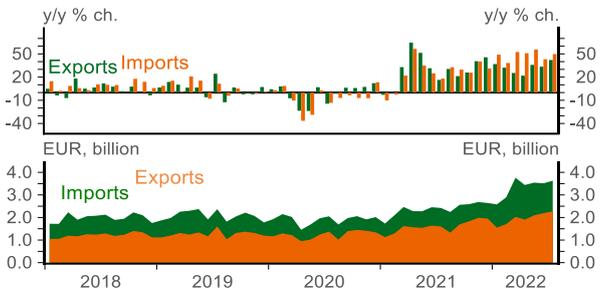
Construction works

Source: Macrobond



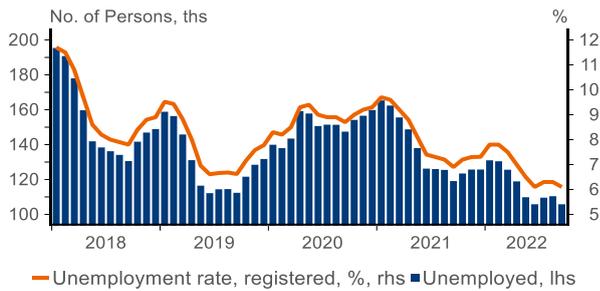
Goods exports and imports

Source: Macrobond



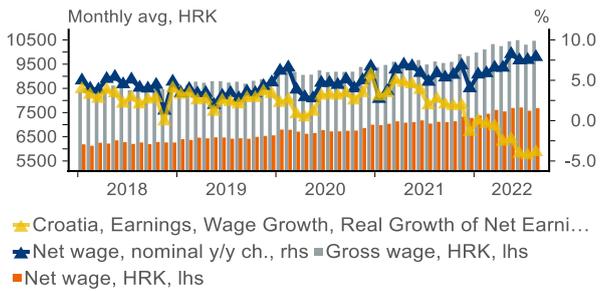
Unemployment

Source: Macrobond



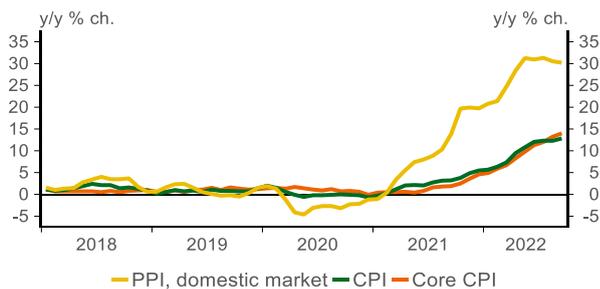
Wages

Source: Macrobond, CBS



Prices

Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond

