

PBZ Weekly Analysis

Number 542, December 5, 2016

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Weekly overview

- The flash estimate of the Croatian Bureau of Statistics shows that the quarterly GDP for the third quarter of 2016 grew by 2.9% in real terms versus the same quarter of 2015, in line with our expectations of a 3.0% growth, which shows a continuation of positive trends from the first two quarters where the growth rate amounted to 2.7% i.e. 2.8%. According to the released seasonally adjusted data, GDP increased by 1.7% versus the previous quarter, recording the largest qoq growth since the first quarter of 2008. According to the expenditure approach, personal consumption recorded a yoy real growth of 3.4% (the highest growth since 1Q2008 again), while government spending recorded a real growth of 2.1% and investments 2.9%, which is a slowdown compared with the previous two quarters where the growth of investments amounted to 4.3% and 6.5% yoy, respectively. The export of goods and services rose by 6.3%, where the growth rate of the export of goods was 2.4% and the growth rate of the export of services 7.4%, consistent with the trends signalled by the indicators of physical movements during tourist season. At the same time, the import of goods and services rose by 6.0%, where the growth rate of the import of goods was 4.9%, while the growth rate of the import of services was 11.1% compared with the same quarter last year. In line with the indicated movements, a positive contribution of net external demand to the total GDP growth was 1.4 percentage points. We expect the last this year's quarter to round off this year's positive movements, which may also be seen from the data released so far, according to which the industrial production in October recorded a growth of 1.8% yoy, while the real-term growth of retail trade in October accelerated to 5.3%. Therefore, our estimate is that the real-term growth of GDP yoy will be around 2.7%. Consistent with the revised expected growth rate for 2016 and the estimate that our largest export markets will continue the similar growth pace as in 2016 and also the anticipated positive effects of the tax reform as well as according to the Fiscal Policy Guidelines based on the growth of government spending, our estimate of the 2017 growth will be revised upwards, as expected, towards the anticipated growth rate for 2016 (a release of a new macroeconomic forecast is expected in mid-December).
- The construction works volume in September, according to the wda data, rose by 2.0% yoy, while a decrease of 0.2% was recorded at a monthly level, according to the seasonally and working-day adjusted data. The volume of construction works on buildings (with a 44.7% share of hours worked on sites) increased in September by 9.6%, while the civil engineering works volume (a 55.3% share of hours worked) decreased by 4.0% yoy (drop of activities for the seventh consecutive month), partly due to the absence of investments in large infrastructure projects. From January to September, construction activities were up by 2.7% yoy, partly due to larger EU funds utilisation, whereas a slow recovery of the sector may be seen from the data on the number of job openings in the category Construction (I-IX 2016: +22.2% yoy). The volume of construction works on buildings over the indicated period rose by 9.7%, while the volume of civil engineering works decreased by 3.2% yoy. Over the first

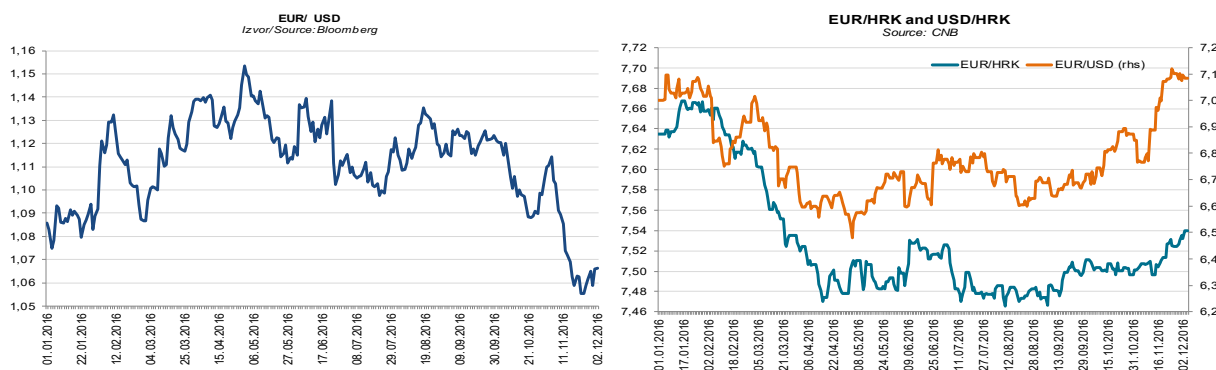
nine months, a total of 5,556 building permits were issued (+23.7% yoy) with an anticipated value of works amounting to 15.7 billion kuna (+13.3%).

- The total number of persons in employment in October declined by 0.7% versus September (to 1,392,235 persons), which is mostly a result of the end of the tourism season. The mom number of persons in employment in Crafts and trades and free lances recorded a decline of 5.6% (to 188,446 persons), in Agriculture by 0.2% (to 19,682), while the number of persons in paid employment in legal entities rose by 0.1% (to 1,184,107), where the largest positive contribution was in the category Education (5,734 newly employed or +5.6%).
- For September, the average monthly paid off net earnings per person in paid employment in legal entities amounted to 5,624 kuna (gross: 7,664 kuna), which is a mom nominal decrease of 0.9%, and a real-term decrease of 2.0% (gross: -1.5% and -2.6%, respectively). At the annual level, the average monthly net earnings increased in nominal terms by 1.4%, while in real terms by 2.3% (gross: +1.8% and +2.7%, respectively). The median net earnings for September amounted to 4,921 kuna, while the median gross earnings amounted to 6,346 kuna.

US dollar corrected, kuna slightly weaker

Despite of the favourable GDP movement indicators, which have further supported the market belief that the Fed will raise the interest rate this month, the dollar, in anticipation of such a development, has slightly moved back from the record levels of the previous week, posting a technical correction. Trading on Friday closed at 1.0664 dollar to the euro, up by 0.7% wow.

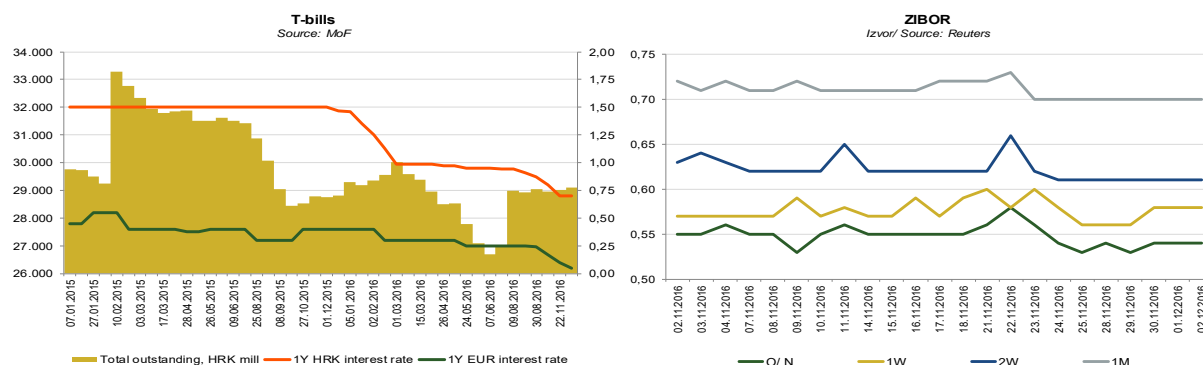
The period of stability in the domestic FX market has continued and the EUR/HRK exchange rate remains around 7.54. The mid-exchange rate on Friday amounted to 7.5396 kuna to the euro, up by 0.2% wow, while the kuna against the dollar strengthened by 0.2% to 7.0834 kuna to the dollar. This week, we expect trading in the range 7.53-7.56 kuna to the euro.



Money market calm

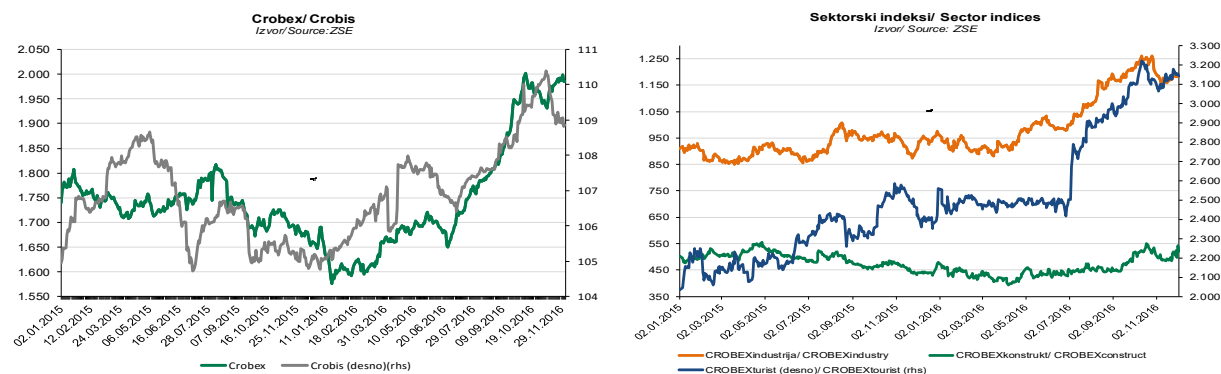
Interest rates stayed the same and the overnight Zibor rose by 1 b.p. to 0.54% wow, 1M remained at 0.70%, while 3M at 0.87%. At the regular reverse repo auction, CNB injected 80 million kuna at the fixed repo rate of 0.3%, 200 million kuna less than the week before, while the ZMM turnover was significantly reduced to 77 million kuna with the average daily excess of supply over demand of 336 million kuna.

Last week, 0.85 billion kuna in T-bills matured, whereas a total of 0.7 billion kuna and 31.5 million euro in T-bills were issued, due to which the government debt under the issued T-bills rose to 29.1 billion kuna. Kuna T-bills were issued with a one-year maturity and at an unchanged interest rate of 0.7%, while euro T-bills, also with a one-year maturity, were issued at the interest rate of 0.05%, 5 b.p. lower than the previous issue. This week, a total of 1.3 billion kuna in T-bills will mature and the auction with the planned amount of 1.1 billion kuna has been announced.



Crobex down wov

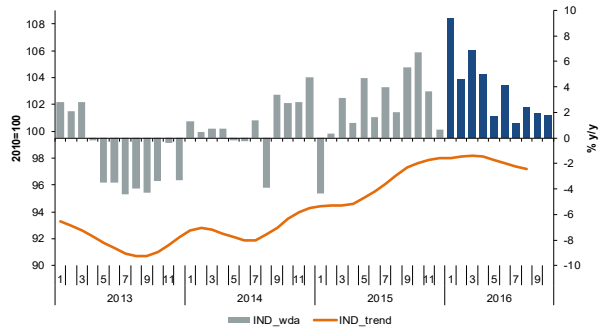
The total ZSE turnover amounted to 121.1 million kuna, down by 87.3% wow, as a result of a decrease in the turnover in bonds of 91.3% (to 79.5 million kuna), while the turnover in shares rose by 3.0% (to 41.6 million kuna). The Crobex index closed the week at 1,986.33 points (-0.3% wow), while the Crobis closed at 108.86 points (-0.1%). CROBEXtourist closed the week at 3,141.22 points (-1.2%), CROBEXindustry at 1,184.05 points (-0.1%), while CROBEXconstruct closed the week at 521.78 points (+0.6% wow).



Statistics

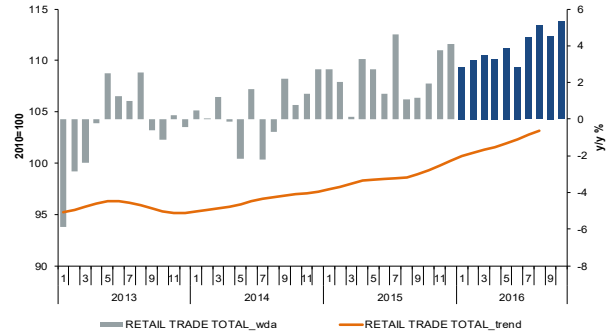
Industrial production, wda y/y % ch.

Source: Eurostat



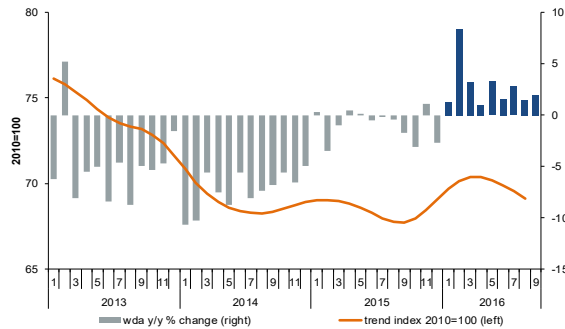
Retail trade, real, wda y/y ch.

Source: CBS



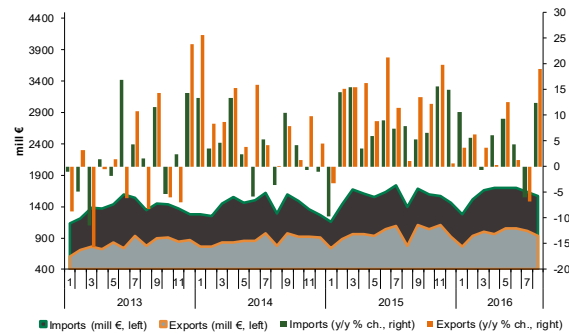
Construction works, y/y % ch. and index 2010=100

Source: CBS



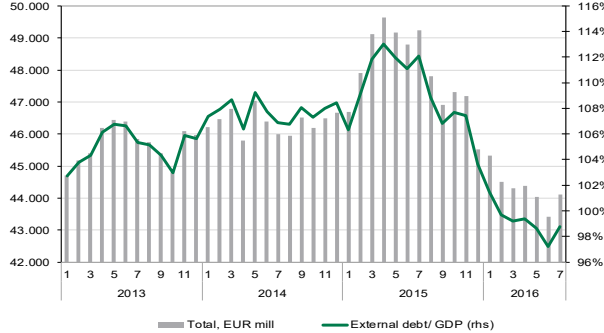
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



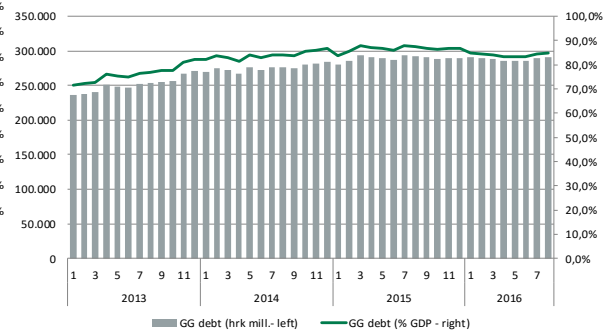
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



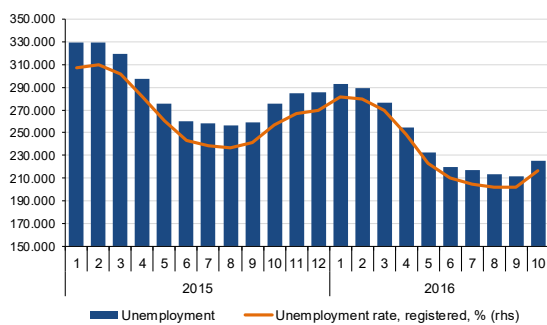
General government debt

Source: CNB



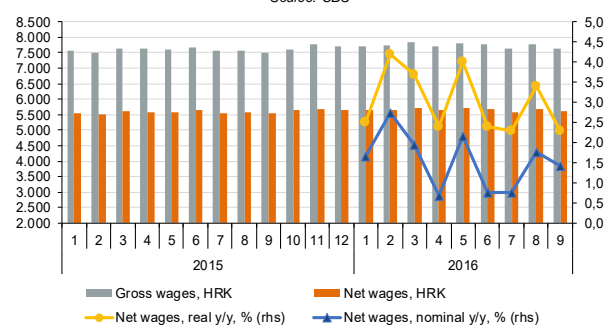
Total unemployment and unemployment rate

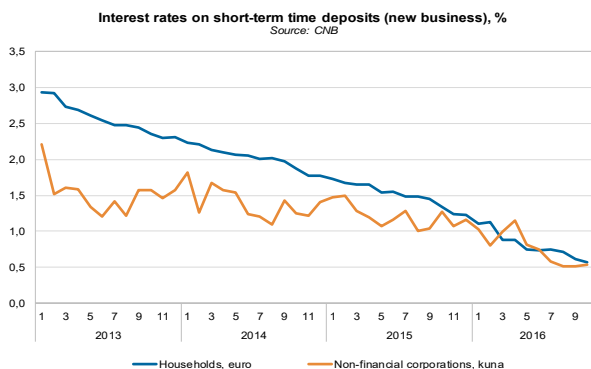
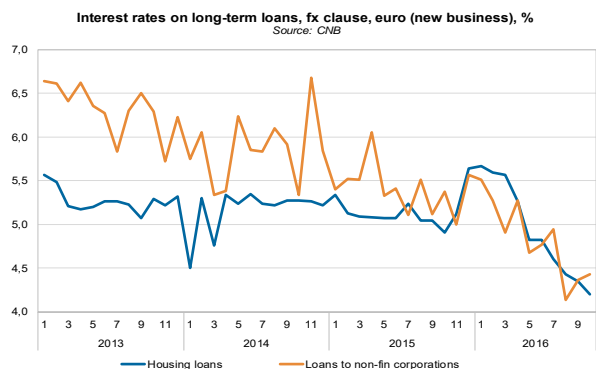
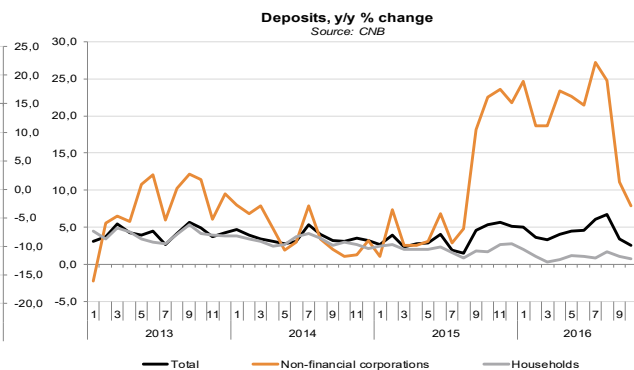
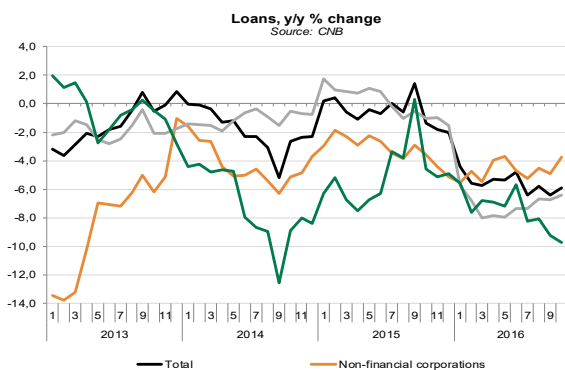
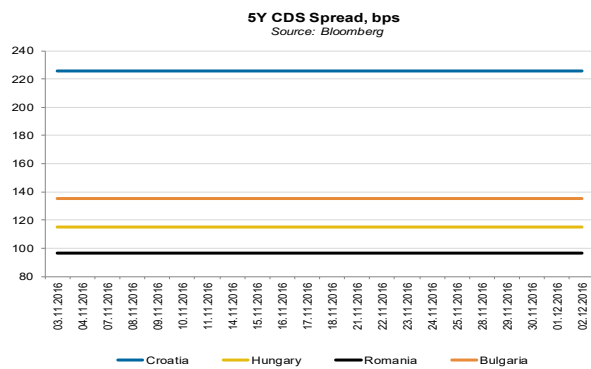
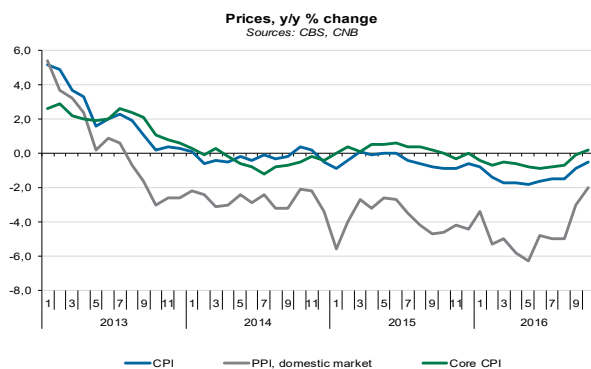
Source: CBS



Wages, monthly average

Source: CBS





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