

PBZ Weekly Analysis

Number 609, June 4, 2018

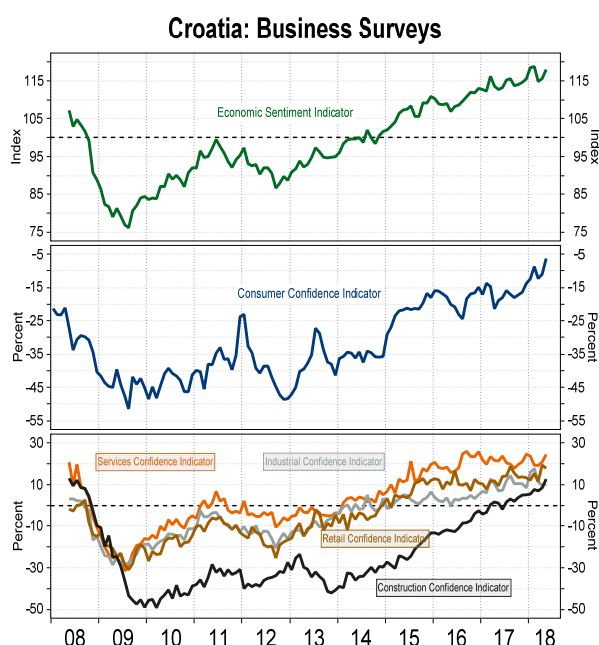
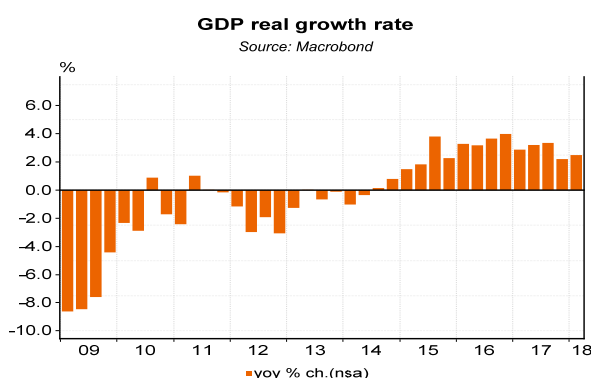
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Weekly overview

In accordance with the high-frequency data and our expectations (2.3%), the first quarterly gross domestic product estimate shows an increase of 2.5% yoy. The seasonally adjusted growth qoq thereby amounted to 0.2%, while the seasonally adjusted growth yoy amounted to 1.5%. Last week's release brought a revision of data for preceding years, so the GDP growth rate for 2016 increased from 3.2 to 3.5%, and for 2017 from 2.8 to 2.9%.

The largest positive contribution to the GDP growth in the first quarter came from domestic demand and household consumption, which recorded a 3.9% growth versus the same quarter last year. A strong growth of personal consumption reflects, among other, an increase in wages (slightly above 4%) and employment (according to the Croatian Pension Insurance institute around 2.5%), but also a recovery of credit activity, since the CNB data show a rise in loans to citizens of 4.6% at the end of March. We anticipate similar trends to continue this year. Apart from personal consumption, public spending also rose, by 2.8%, which is a slightly slower growth versus the growth achieved in the second half of 2017, but still one of the fastest growth rates recorded in the last several years. The investment activity grew by 3.6%, thus recording an acceleration compared with the last quarter of 2017 (1.9%), however, still under the expected dynamic. Consequently, affected by a strong growth of domestic demand, the import of goods and services increased by 5.5% yoy, where the import of goods maintained the same growth rate of 4.5% as in the previous quarter, whereas the increase in the import of services slowed down, however, to the still high 11.2%. As, simultaneously, the export of goods and services failed, recording a decrease of 0.5% versus the same quarter of 2017 (owing to a 1.5% lower export of goods, while the export of services rose by 2.1%), the total contribution of net foreign demand was negative (-3 p.p.).

Although the preliminary data for the second quarter show a continuation of a decrease in the industrial production (after -1.7% in March, and -1,3% in April), the decrease is mainly connected to the several branches such as the chemical industry and manufacture of ships, whereas the food industry, for instance, has recorded rather solid growth rates. At the same time, business optimism indicators have remained at high levels, continuing their increase in May, which, along with the anticipation of another



successful tourism season, lays the basis for keeping our estimate of the economic growth of 2,8% in 2018.

Dollar and kuna unchanged

Last week, the EUR/USD trading closed at 1.1659, barely up by 0.1% wow, despite a Friday release of the data on a drop in the unemployment rate in the USA to the lowest level in the past eighteen years.

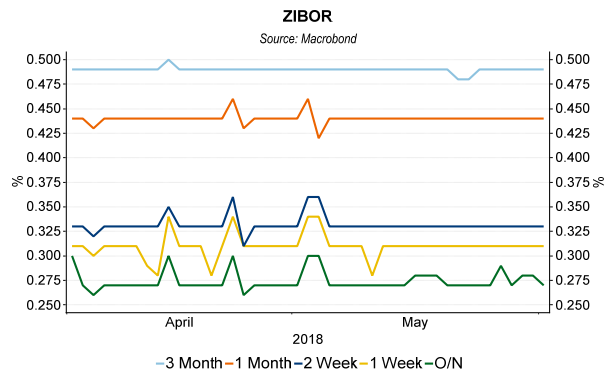
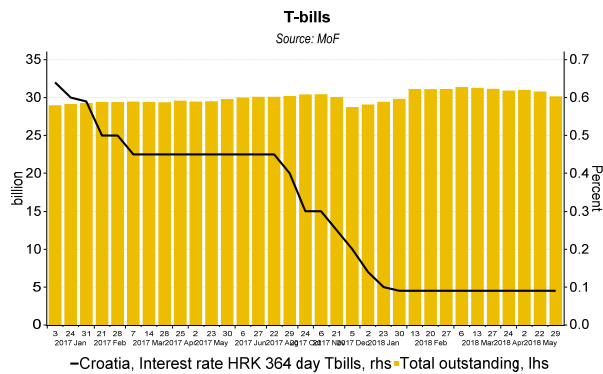
The EUR/HRK exchange rate stayed around 7.38 last week, amounting to 7.3840 kuna to the euro on Friday, unchanged wow. The kuna remained the same against the dollar as well, therefore the mid-exchange rate amounted to 6.3084 kuna to the dollar at the end of the week. As the FX inflows from tourism have increased, we expect that trading range this week will be similar to the one registered last week, from 7.36 to 7.40 kuna to the euro.



T-bill subscription lower than planned

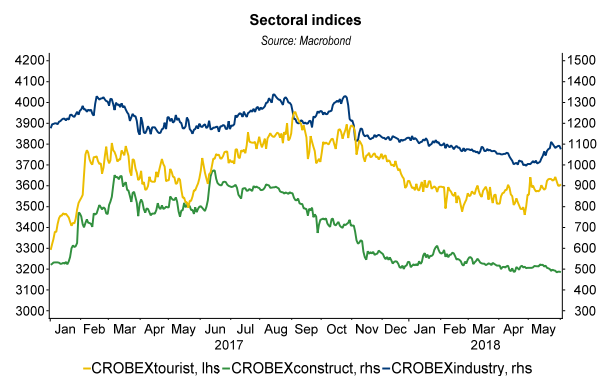
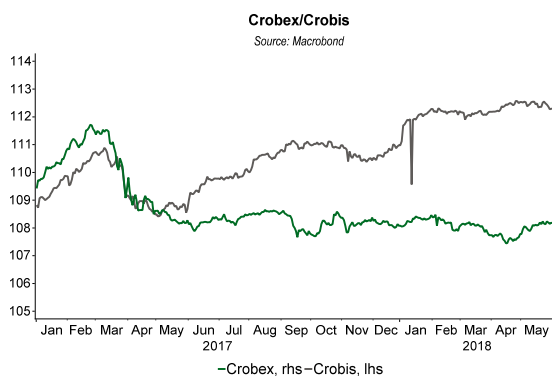
The money market is still calm, therefore excess liquidity moderately declined to 27 billion kuna, while interest rates remained unchanged. The overnight Zibor stayed at 0.27%, while 1M and 3M at 0.44% and 0.49%, respectively. Given a considerable amount of excess liquidity, no turnover was recorded either at the regular reverse repo auction of CNB or on ZMM.

Last week, 1 billion kuna in T-bills matured and, despite the Ministry of Finance plan of a subscription of 800 million kuna, a significantly lower amount of 335 million kuna in one-year T-bills were subscribed at the unchanged interest rate of 0.09%, due to which the government debt declined to 30.2 billion kuna. This week, a total of 643 million kuna will mature and an auction with the planned 600 million kuna has been announced.



Crobex down wow

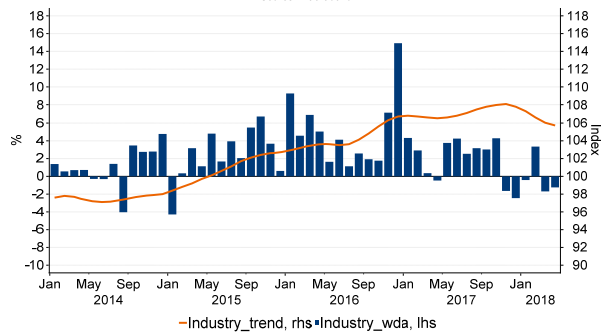
The Crobex Index closed last Friday down by 0.7% wow, reaching 1,846.38 points, while Crobis simultaneously decreased by 0.1% (to 112.33 points). Sector indices closed last week in negative territory, where CROBEXconstruct fell by 1.7% wow (to 486.49 points), CROBEXindustry by 1.4% (to 1,075.89 points), whereas CROBEXtourist decreased by 0.6% (to 3,607.34 points). Over the last week's four trading days, the total ZSE turnover amounted to 181.0 million kuna, which is down by 36.6% versus the week before, due to a 40.9% lower turnover in bonds (reaching 150.5 million kuna) and a 2.4% lower turnover in shares (30.5 million kuna).



Statistics

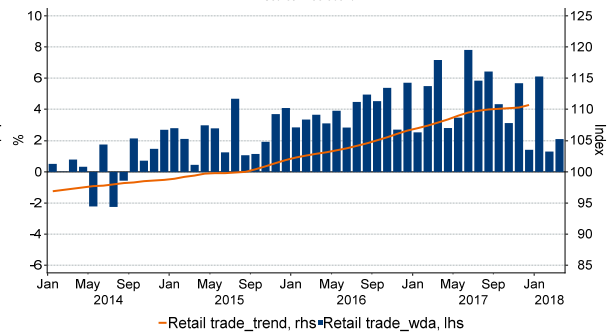
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



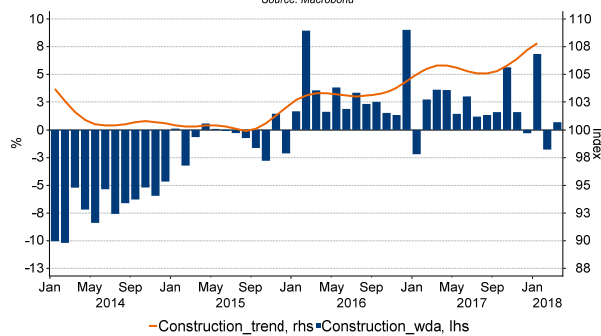
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



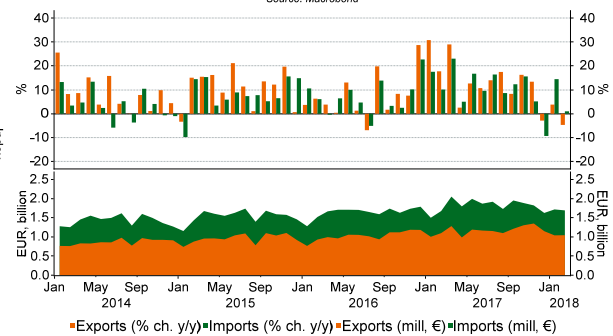
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



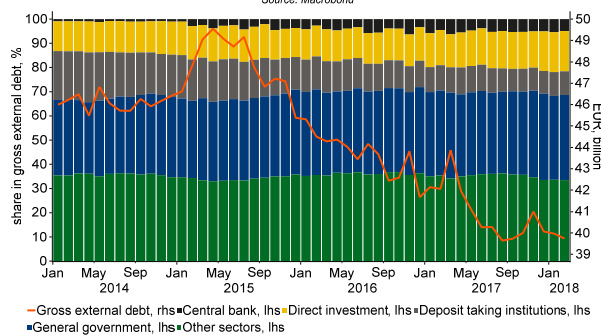
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



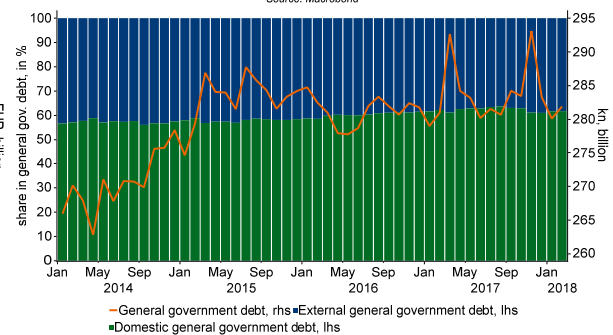
Gross external debt

Source: Macrobond



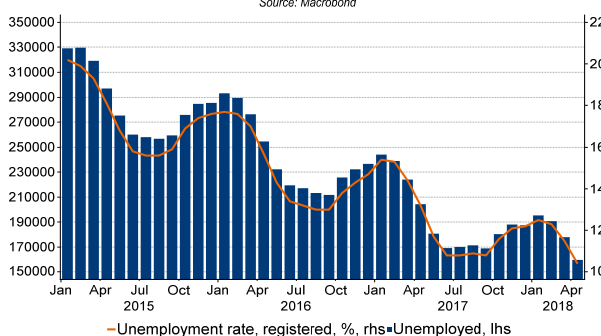
General government debt

Source: Macrobond



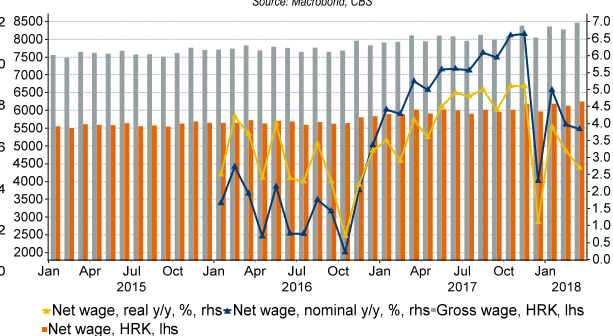
Total number of unemployed and unemployment rate

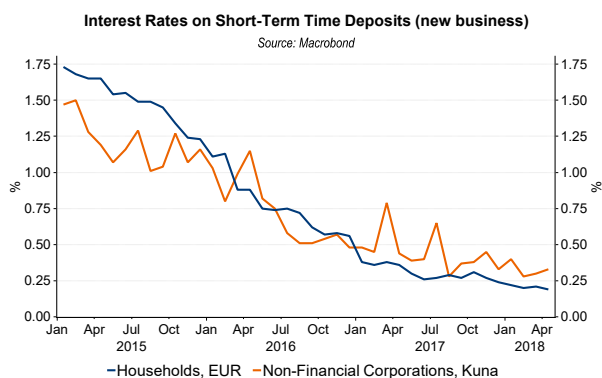
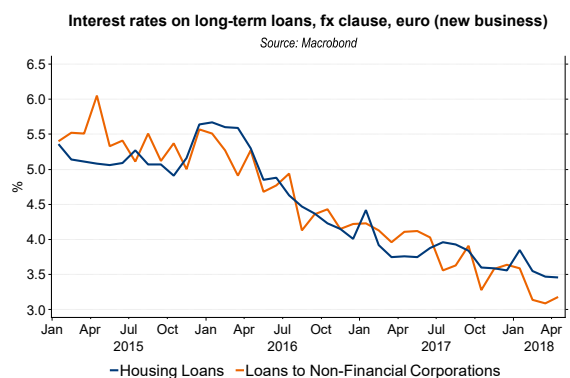
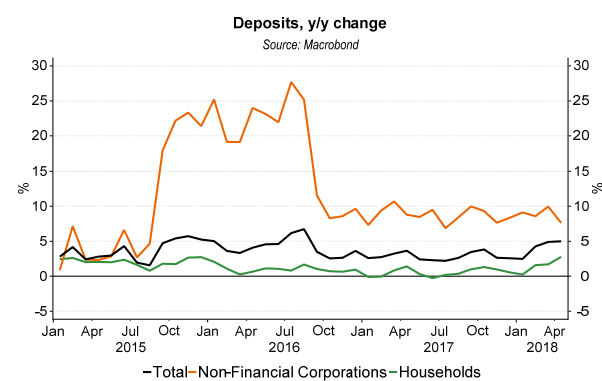
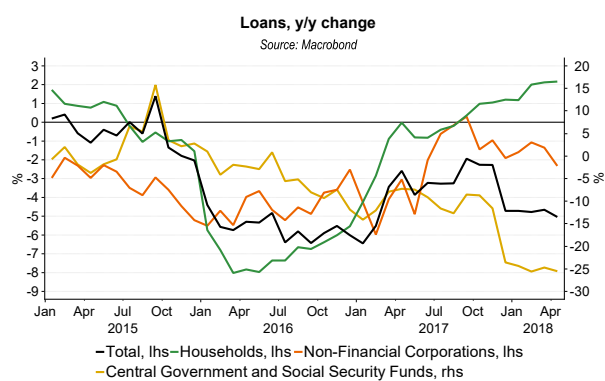
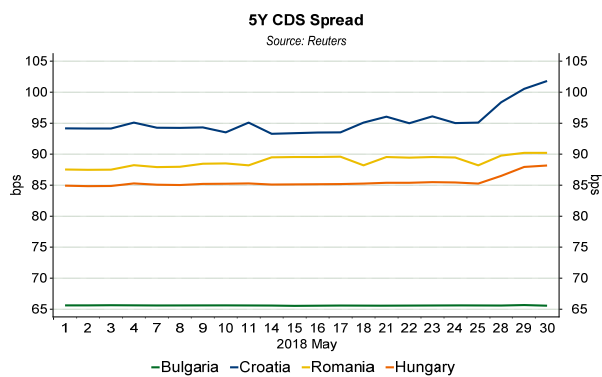
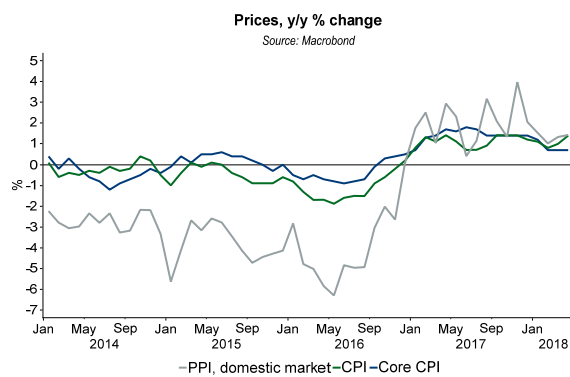
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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