

PBZ Weekly Analysis

Number 640, March 4, 2019

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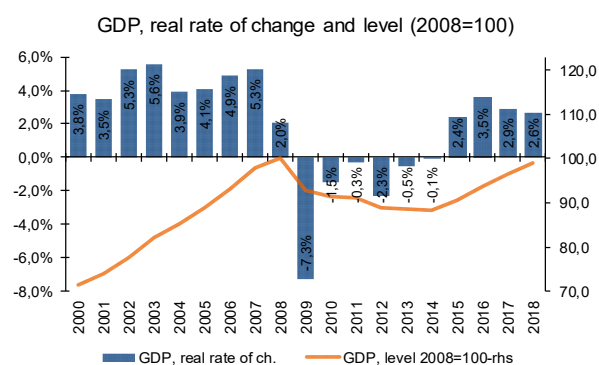
Weekly overview

The first estimate of the quarterly gross domestic product shows that the economic growth in the last quarter of 2018 increased by 2.3% in real terms versus the same quarter of 2017, i.e., according to the seasonally adjusted data, it is an increase of only 0.1% compared with the third quarter of 2018. The estimated growth of 2.3% is mildly lower than our estimate based on the movements of high-frequency indicators (2.5%)

and the consensus of analysts forecasting the growth of 2.6% (2.3 – 3.2% range). The breakdown by components shows a positive contribution of domestic demand (5.0 p.p.), while the contribution of net foreign demand was negative. Within domestic demand, the most significant contribution to growth came from household spending, due to which the growth rate accelerated to 3.9% (from 2.7% over the previous quarter), which is in line with the retail trade trends, the growth of which was supported by positive labour market developments (particularly increase in wages), the credit activity of citizens and, very likely, partly reflects higher consumption ahead of a further increase in net earnings driven by tax changes of January 2019. The acceleration of the growth rate was also recorded by gross fixed capital formation investments, which rose by 6.1% yoy, assumedly due to the awakening of the public sector construction activities, since the civil engineering works index recorded positive growth rates in October and November, after a series of "negative" months. Negative contribution of net foreign demand is a result of a meagre growth of the exports of goods and services (1.3%), where the exports of goods practically stagnated (growth of barely 0.3%), whereas the exports of services maintained the average growth dynamics around 3.0%. Simultaneously, the imports of goods and services, driven by the mentioned domestic demand, climbed by 6.6% (the strongest growth rate in 2018), where the imports of goods rose by 9.0%, while the imports of services fell by 2.8% (a decrease after 15 consecutive quarters of growth).

In line with the described developments over the last quarter, according to the preliminary data, the gross domestic product during 2018 rose by 2.6% (we estimated 2.8%), where the largest positive contribution to growth came from household spending, which increased by 3.5% in 2018 (2017: 3.6%) and gross fixed capital formation investments which increased by 4.1% (2017: 3.8%). The contribution of net foreign demand was negative as expected, taking into consideration that exports barely increased by 2.8% (2017: 6.4%), while imports rose by 5.5% (2017: 8.1%).

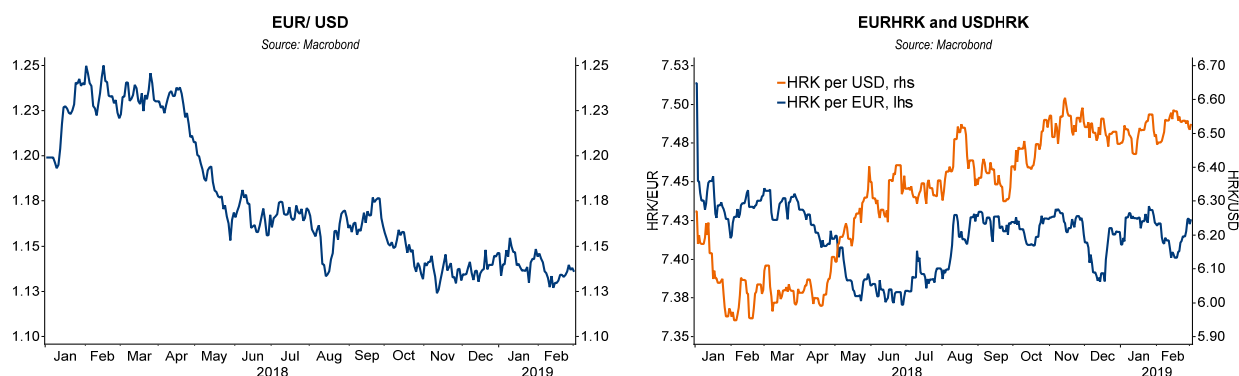
Although we anticipate similar developments of the domestic component of growth for this year (personal consumption will remain boosted by an increase in wages and employment as well as low inflation, while investments are speeding up owing to a stronger activity of the public sector related to the EU funds), less favourable signals of the slowdown in the Eurozone growth (particularly Italy and Germany) give rise to negative risks to our current growth estimate of 2.6%. Therefore, we are not ruling out the possibility of a mild decrease in the expected growth rate for 2019 in March, within a regular revision of macroeconomic forecasts.



Dollar and kuna continue their mild downward trend

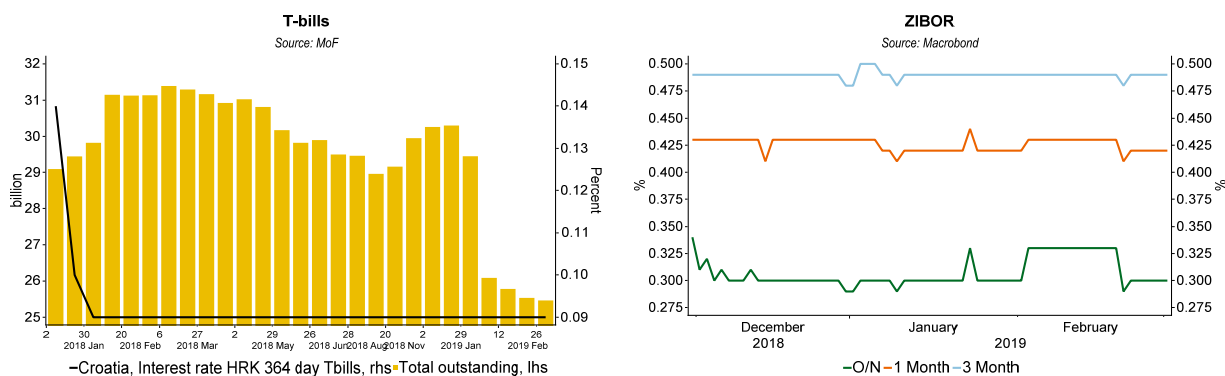
The EUR/USD exchange rate recorded no major fluctuations last week, while trading on Friday closed at 1.14 dollar to the euro, which is up by 0.2% wow.

The kuna continued its mild upward trend against the euro, so the mid-exchange rate at the end of the week increased by 0.2% wow, amounting to 7.4258 kuna to the euro. The kuna against the dollar strengthened by 0.1% and the exchange rate declined to 6.5282 kuna to the dollar. This week, we expect trading in the range 7.42-7.45 kuna to the euro.



Interest rates unchanged

Excess liquidity decreased at the end of the month to 32 billion kuna, however, due to meagre demand, interest rates remained at the level of the previous week (the overnight Zibor at 0.30%, 1M at 0.42%, 3M at 0.49%). There was no interest at the repo auction and ZMM saw a turnover of 19 million kuna. At the T-bill auction, 1.5 billion kuna matured and 1.6 billion kuna in one-year kuna T-bills was subscribed at the interest rate of 0.09%, due to which the government debt under T-bills remained at 25.5 billion kuna. This week, 1.1 billion kuna in T-bills mature, whereas an invitation for auction with the planned issue of 1.0 billion kuna has been announced.



Crobex up for the third consecutive week

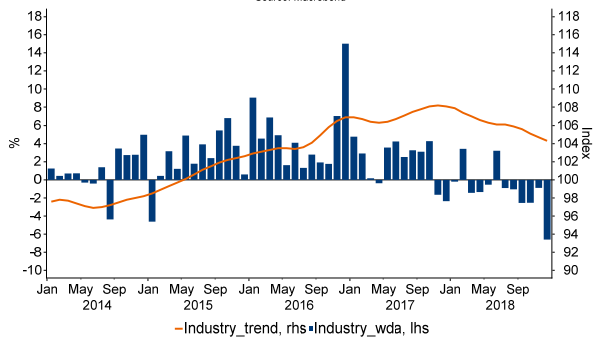
The Crobex Index closed last Friday at 1,792.79 points, up by 0.9% wow (the increase for the third consecutive week), while Crobis stagnated (110.94 points). As regards sector indices, CROBEXconstruct declined by 6.8% wow (to 435.35 points), whereas both CROBEXindustry (895.48 points) and CROBEXtourist (3,415.19 points) rose by 0.1% each. Last week, the total ZSE turnover amounted to 246.9 million kuna, up by 23.2% versus the previous week, due to a 3.5 times higher turnover in shares (reaching 95.1 million kuna), while the turnover in bonds decreased by 12.4% (to 151.8 million kuna).



Statistics

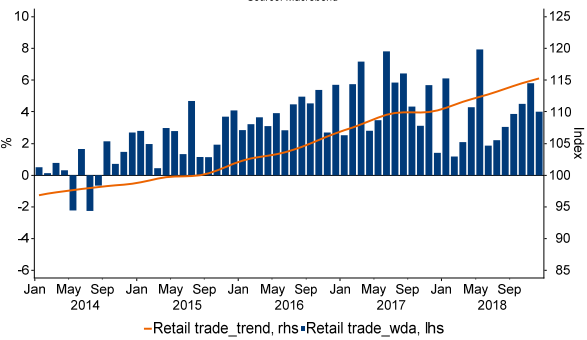
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



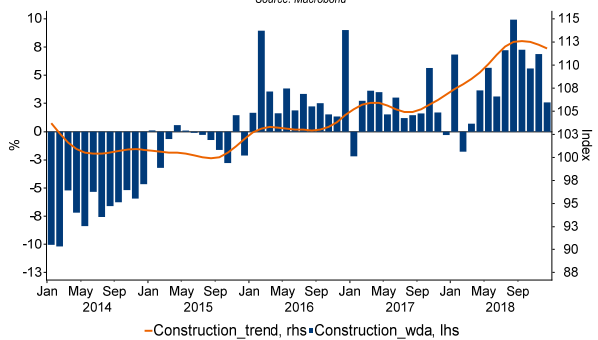
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



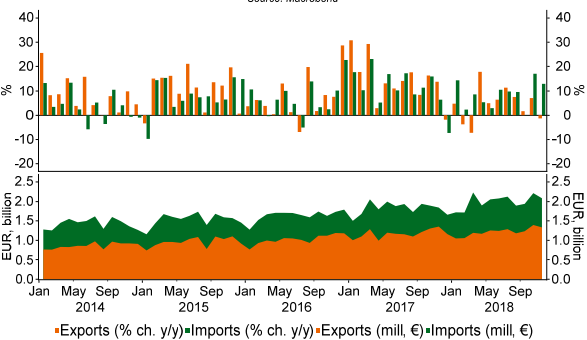
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



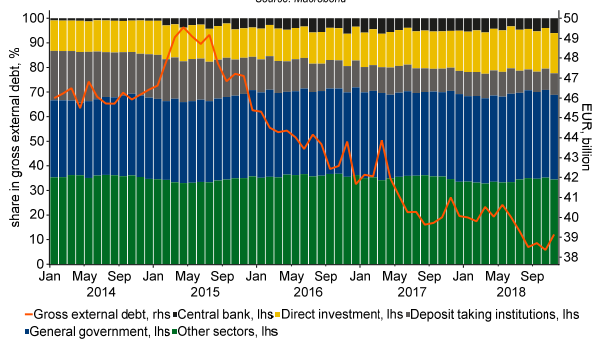
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



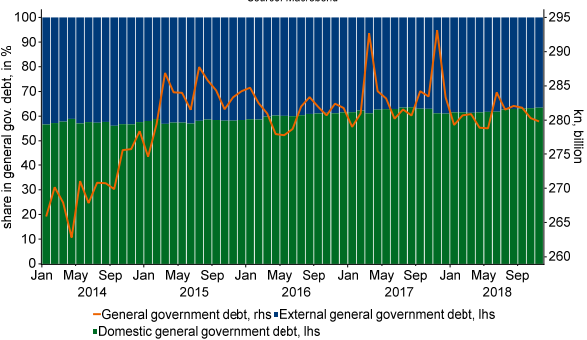
Gross external debt

Source: Macrobond



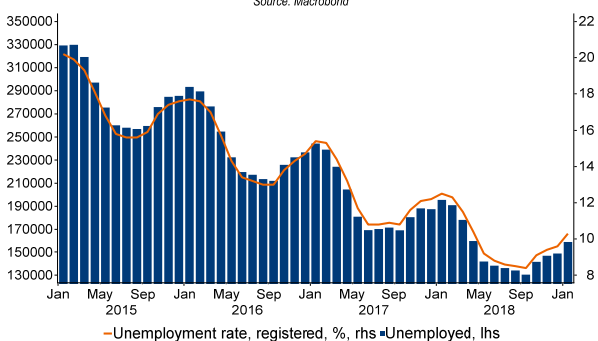
General government debt

Source: Macrobond



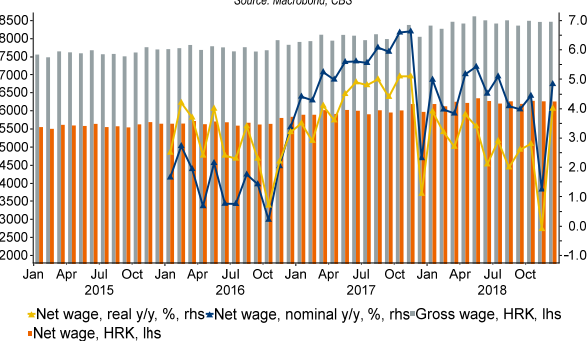
Total number of unemployed and unemployment rate

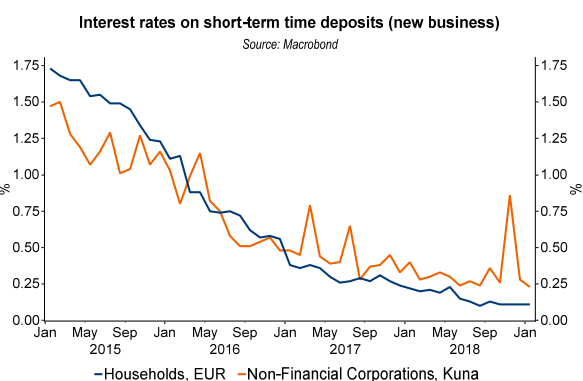
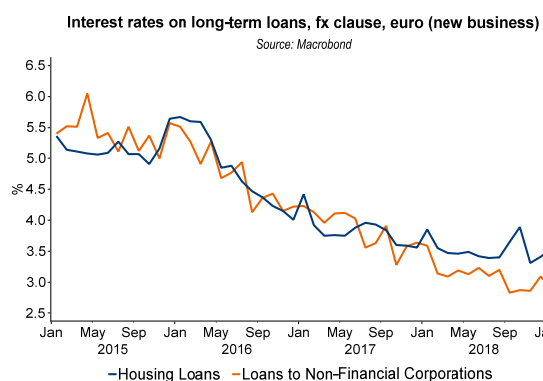
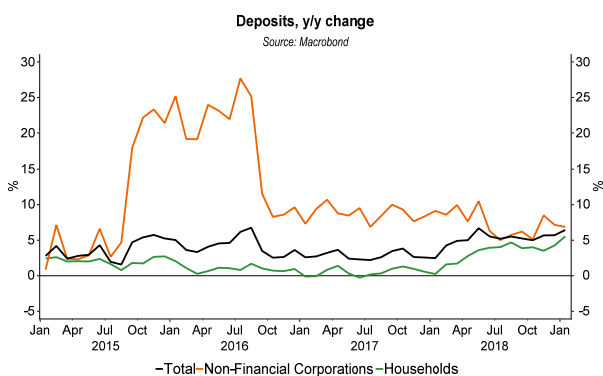
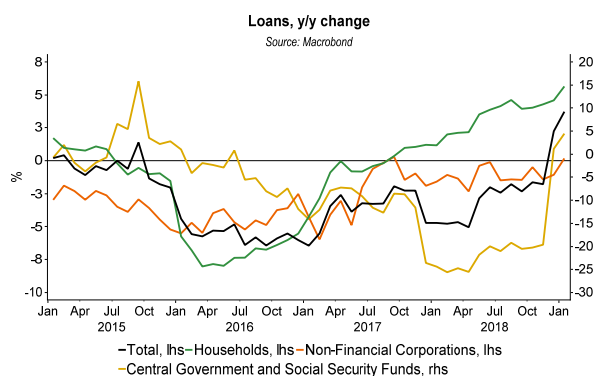
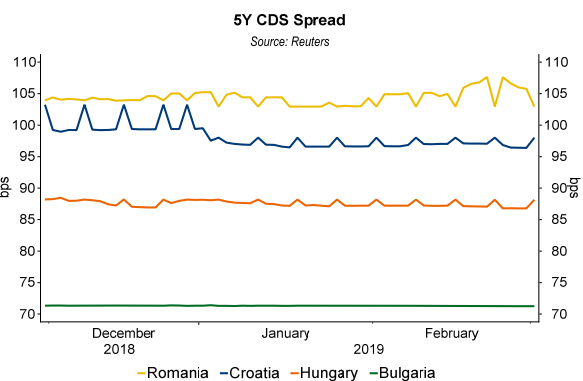
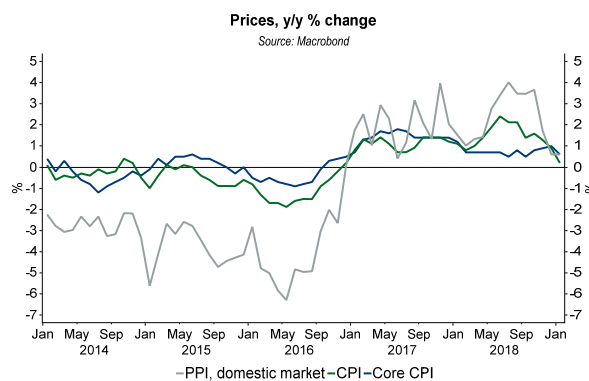
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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