

PBZ Weekly Analysis

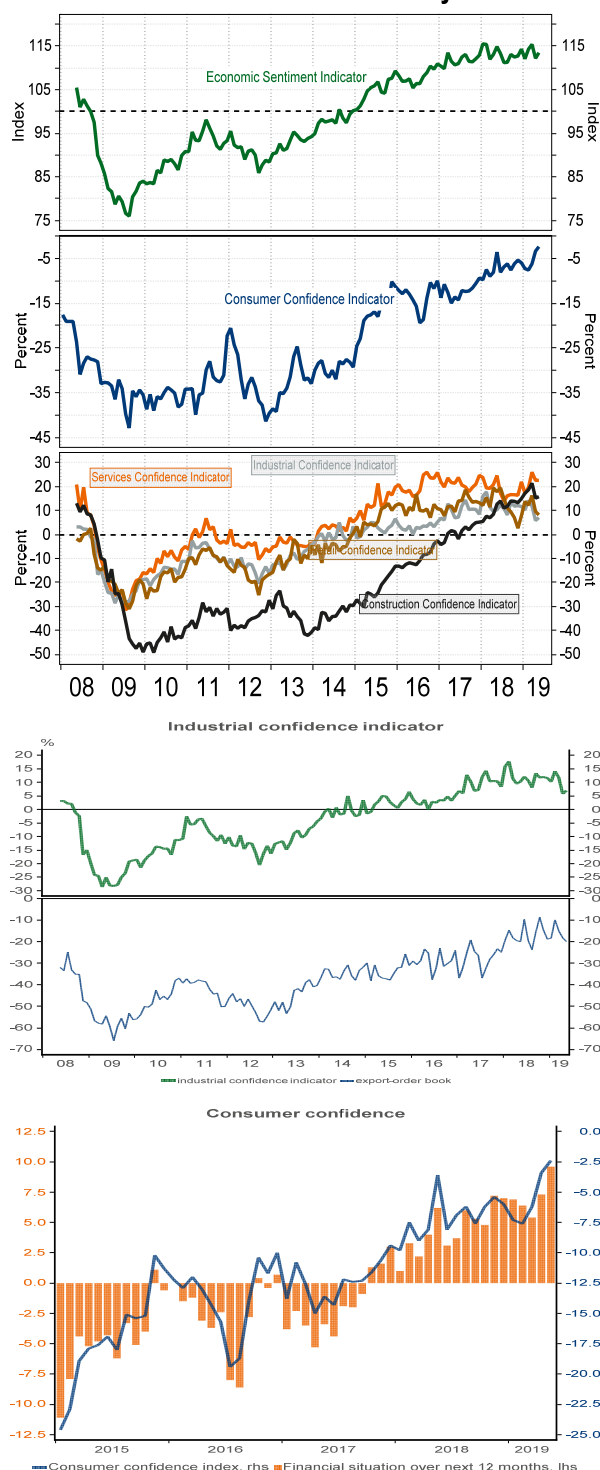
Number 652, June 3, 2019

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Weekly overview

The first estimate of the Croatian Bureau of Statistics reveal that the growth of the gross domestic product for the first quarter this year amounted to 3.9% - thereby exceeding our expectations that the growth might reach 3.5%. The released data show a substantial increase in household spending (+4.4%, the largest growth rate recorded since the first quarter of 2008), driven by both an increase in wages and employment as well as a greater household appetite for loans in line with the growing consumer confidence. The strong growth of gross fixed capital formation investments (11.5%) reflects the awakening of the public sector investment activity, since, according to the available data the civil engineering works index rose by 15.2% (compared with minus 8.5% registered in the same period of 2018), but also a further acceleration of the construction activities on buildings. Given a more intensive withdrawal from the EU funds, we expect a substantially higher growth rate of investment activity this year, compared with the past two years. While the contribution of domestic demand to the total growth of 6.1 p.p. was positive, net foreign demand recorded a negative contribution of 2.2 p.p. Although the exports of goods and services climbed by 4.6% (where the increase in the exports of goods recovered to +7.6%; while the increase in the exports of services slowed to 0.9% - late Easter), the increase in the imports was more noticeable (+7.7%; where the imports of goods rose by 5.9% and of services by even 16.6% versus the same quarter of 2018), which, finally, resulted in the mentioned negative contribution of net foreign demand. To sum up, based on the first quarter results and the still higher levels of the economic sentiment indicator, reflecting the growing confidence of consumers as well as the construction sector and the service activities sector, along with the worsened industrial sector sentiment (due to the deteriorated expectations in the export order developments), it is highly probable that in June, within the regular macroeconomic forecast revisions, the expected annual GDP growth rate will be revised upwards from the current 2.4%, which is also supported by the first available data for 2Q revealing that the retail trade rose by 4.8% and industrial production by 3% in April (although manufacturing slowed to +1.6%).

Croatia: Business Surveys



Dollar stronger, kuna stays the same

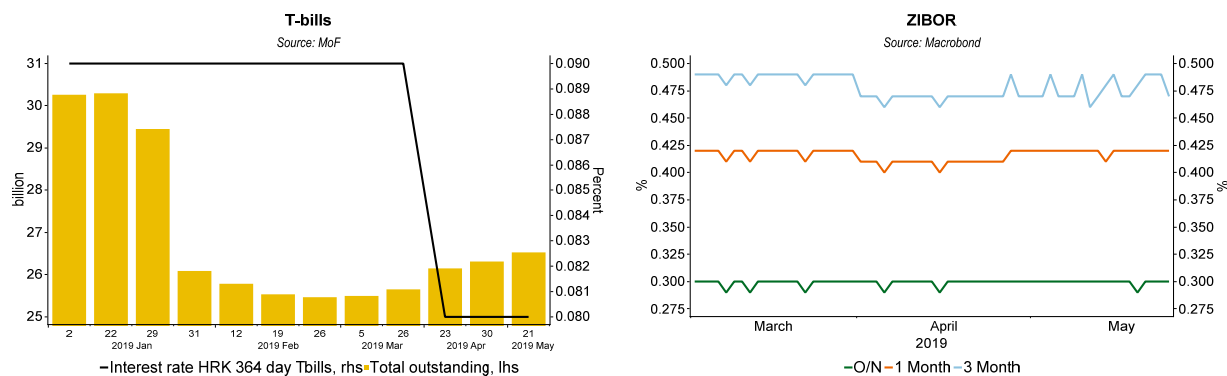
The dollar to euro exchange rate was mildly corrected last week, therefore the dollar strengthened by 0.3% wow and the week closed below 1.12 dollar to the euro.

A calm period at the domestic FX market has continued, with modest trading volumes. The mid-exchange rate of CNB was 7.4197 kuna to the euro on Friday, which is almost unchanged wow, whereas the kuna against the dollar weakened by 0.3% to 6.6545 kuna to the dollar. We expect a continuation of the trading range of 7.41-7.43.



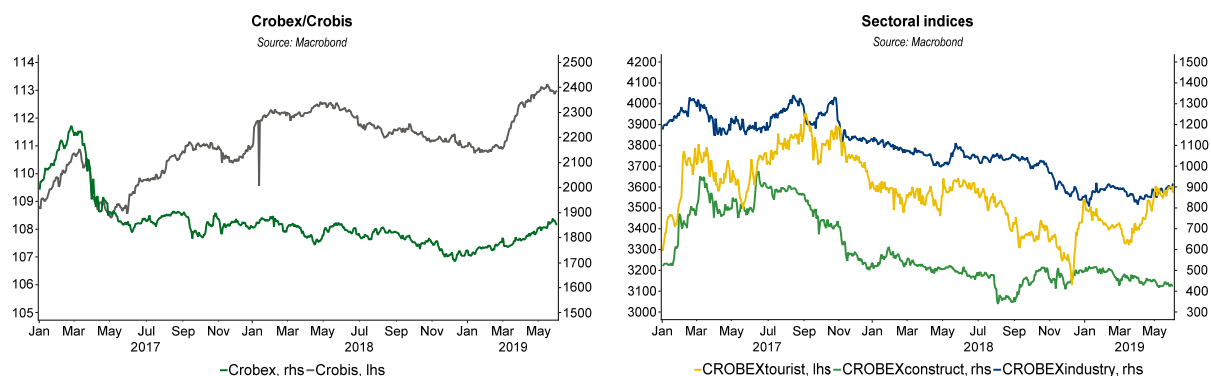
Money market unchanged

Excess liquidity moderately dropped to 31 billion kuna, while interest rates remained the same (O/N at 0.30%, 1M at 0.42%) or changed mildly wow (3M +1 b.p. to 0.48%). There were no facilities recorded at the CNB's repo auction and no activity at the ZMM. The T-bill auction saw a subscription of 253 million kuna in one-year T-bills at the interest rate of 0.08%, due to which the government debt under T-bills slightly decreased to 26.4 billion kuna. This week, 113 million kuna in T-bills will mature, however, there will be no auction.



Crobex down wow

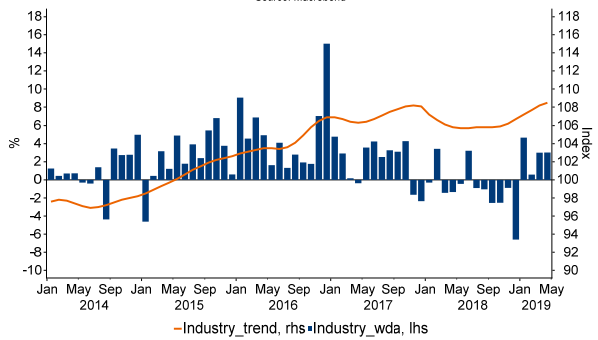
The Crobex Index closed last Friday at 1,851.20 points, i.e. down by 1.3% wow, whereas Crobis stagnated at the same time (at 112.99 points). As regards sector indices, CROBEXindustry rose on Friday by 1.1% wow, reaching 917.55 points, while CROBEXconstruct and CROBEXtourist declined by 1.0% and 0.7%, respectively (to 427.26 and 3,573.42 points). Last week, the total ZSE turnover was 194.9 million kuna, which is down by 53.5% versus the week before, owing to a decrease in the turnover in bonds of 56.5% (157.3 million kuna) and a decrease in the turnover in shares of 35.4% (37.6 million kuna).



Statistics

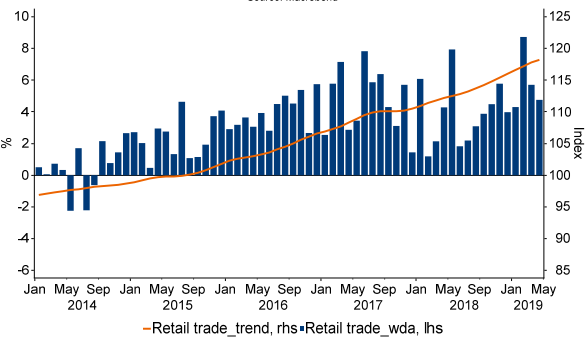
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



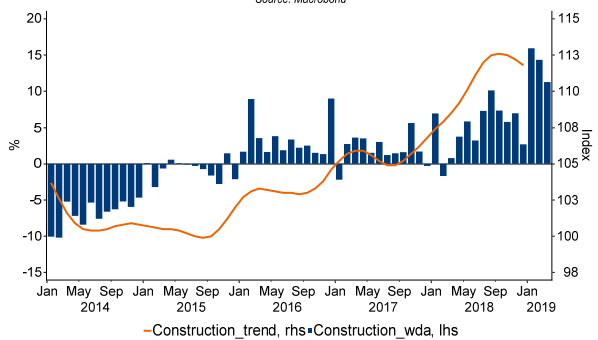
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



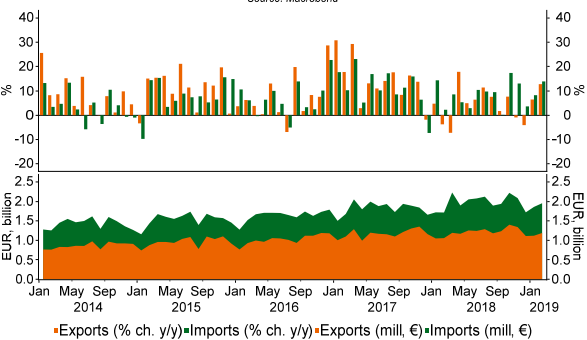
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



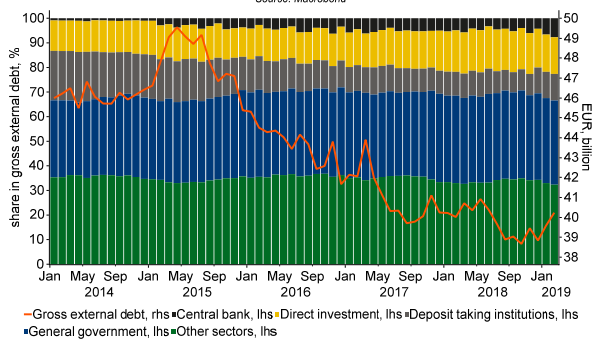
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



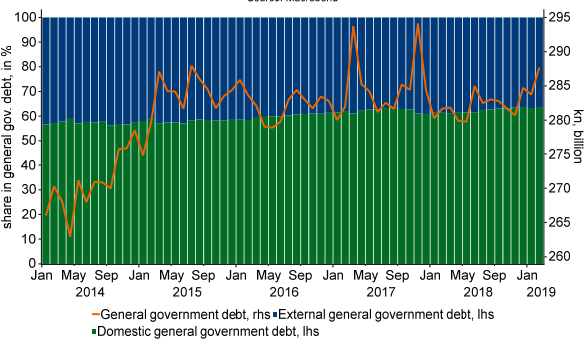
Gross external debt

Source: Macrobond



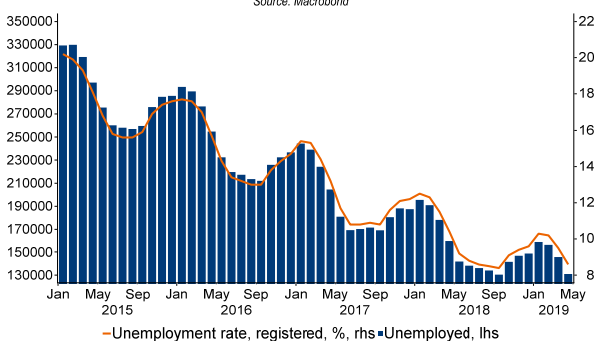
General government debt

Source: Macrobond



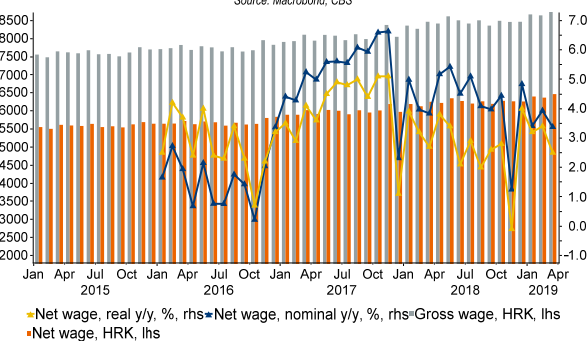
Total number of unemployed and unemployment rate

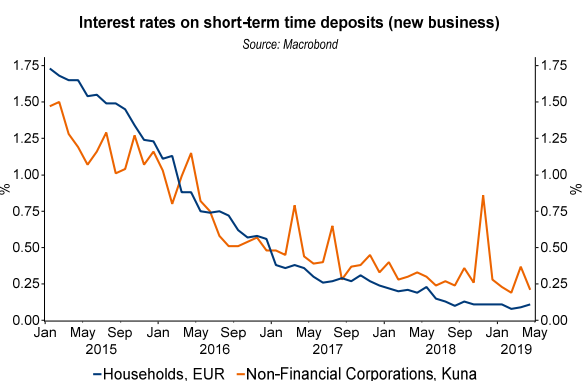
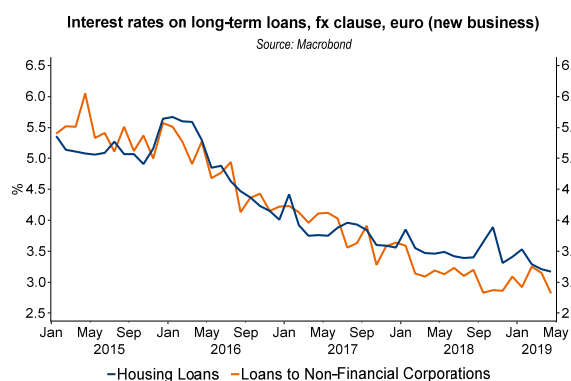
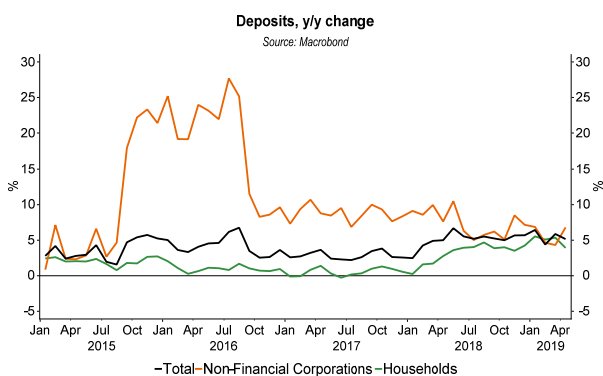
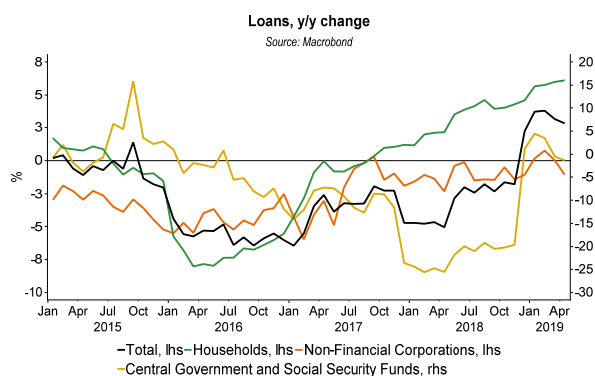
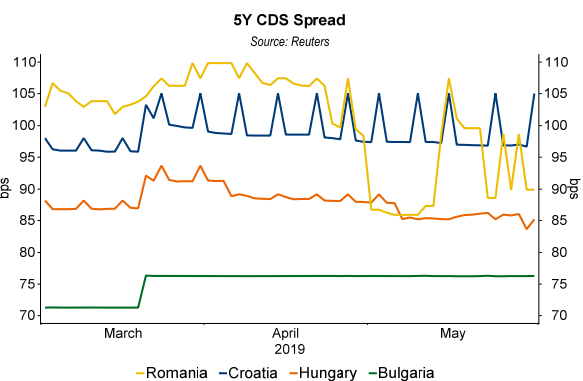
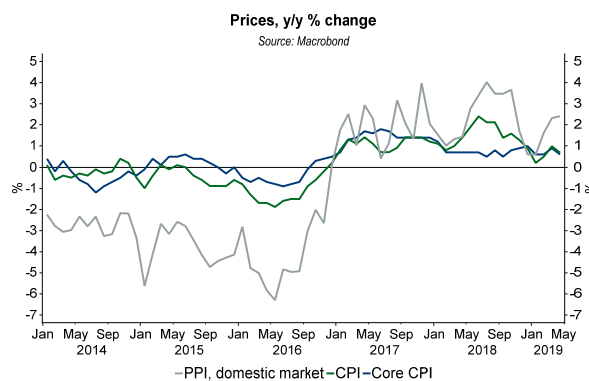
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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