

PBZ Weekly Analysis

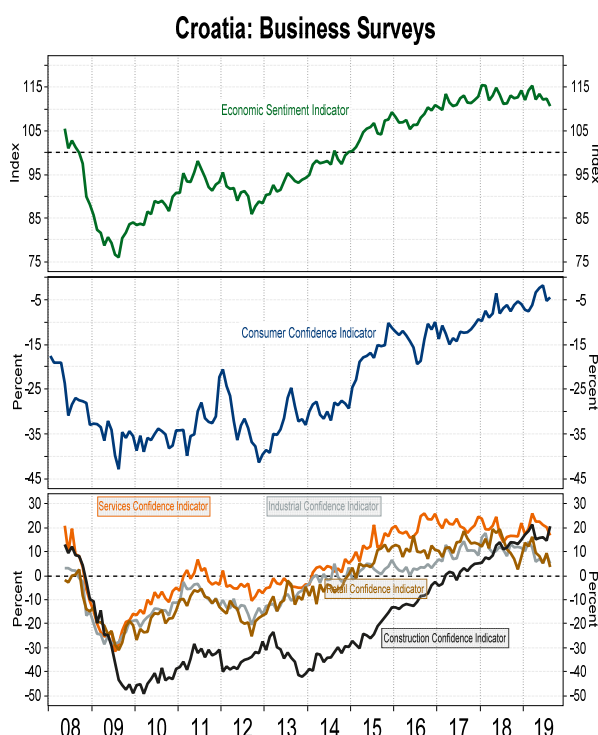
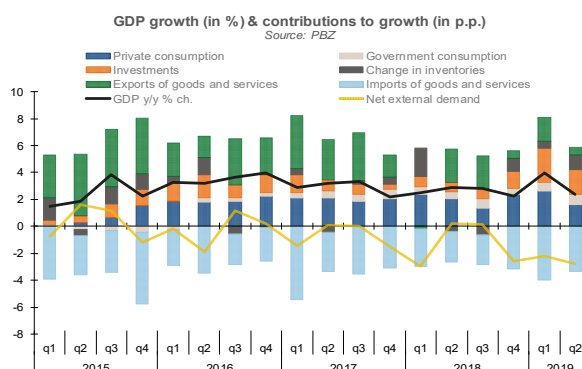
Number 660, September 2, 2019

- Weekly overview (p. 1)
- Dollar stronger, kuna stays the same (p. 2)
- T-bills issued with negative yield (p. 2)
- Crobex stagnates wow (p. 3)
- Statistics (pp. 4-5)

Weekly overview

The first estimate shows that GDP for the second quarter increased by 2.4% in real terms versus the same period last year, i.e. by 0.2% versus the first quarter this year, which is a more substantial slowdown than expected. Domestic demand remains the main driver of growth, where the increase in household spending slowed to 2.7% (from 4.4% in the first quarter), while investment activity rose by 8.2% yoy (mild slowdown versus the 11.5% growth achieved in the previous quarter). At the same time, government spending accelerated to 3.9%, therefore the total contribution of domestic demand amounted to 5.2 percentage points. However, the growth of imports (+6.7%) surpassed substantially a meagre growth of exports of goods and services of 1.3% (due to a drop in the exports of goods of 0.9%), thus pushing the contribution of net foreign demand deeper in the negative -2.8 p.p, which, finally resulted in the mentioned total growth of 2.4%.

In the second half of the year, we do not expect a significantly different growth structure, personal consumption and investments will remain the main growth drivers, while export activities will remain under the challenges of negative environmental impact, specifically, where it concerns tourism, a substantially slower growth than the preceding years. The currently available data for the third quarter is on the same track: the retail trade turnover increased in July by 3.6% yoy (a decrease of 2.1% mom), which, compared with the 6.1% increase in June, reflects a well-known fact on a weaker beginning of the main tourist season (Croatian National Tourist Board -0.3% arrivals; -1.7% decrease in nights in July). Simultaneously, the Economic Sentiment Indicator (ESI) fell to 110.7 in August (-1.7 index points versus July), where an improved economic climate was recorded in relation to consumers and the construction sector, while deterioration in the retail trade, services sector and industry, where substantial deterioration was recorded in the expected export order trends, which reveals further issues in the exports of goods. However, we will get a better insight later this week, when data on trends in the industrial production and exports in July have been released.

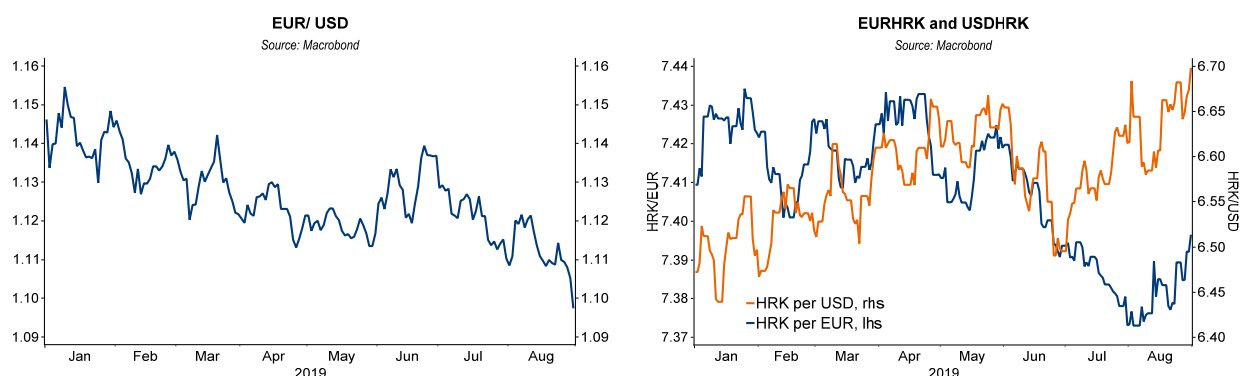


We may conclude that, mainly owing to higher risk arising from the external environment, we are considering a potential moderate negative revision of the current growth forecast for 2019 and 2020 from the current 3.0% and 2.6%, respectively.

Dollar stronger, kuna stays the same

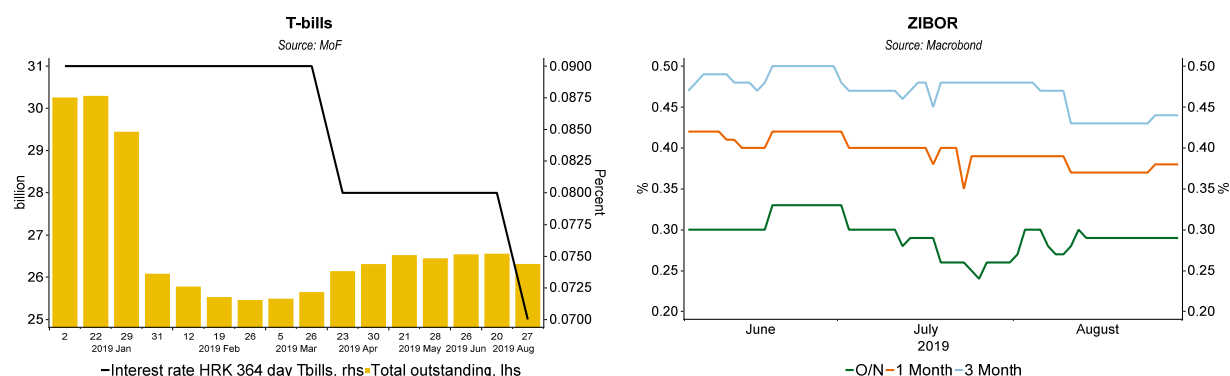
The dollar significantly strengthened at the end of last week, on the back of optimism related to trade talks between USA and China. The EUR/USD exchange rate closed below 1.10 on Friday, i.e. down by 1.5% wow.

The kuna to euro exchange rate remained below 7.4, amounting to 7.3965 at the end of last week, up by 0.1% wow. The kuna against the dollar weakened by 0.2%, while the exchange rate rose to 6.6985 kuna to the dollar.



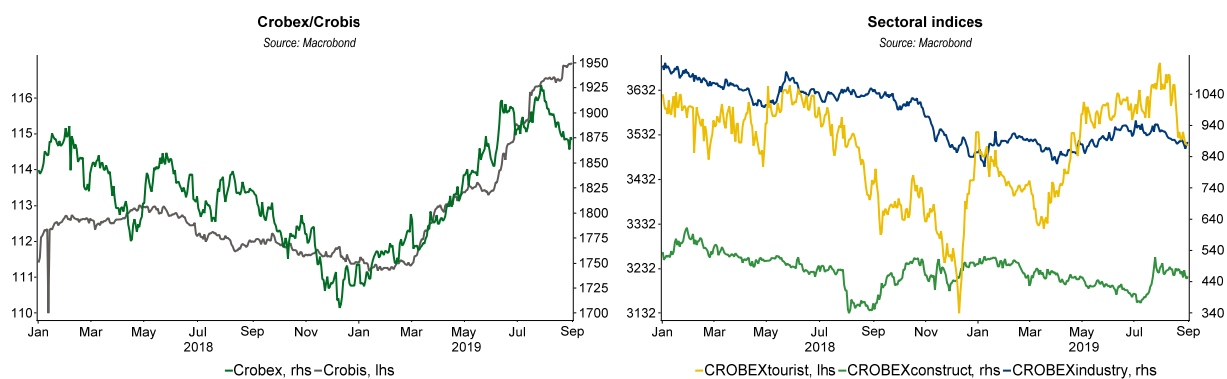
T-bills issued with negative yield

Excess liquidity rose to 34 billion kuna, there was no activity at the repo auction of CNB nor on ZMM, while interest rates recorded minor fluctuations, consequently, the overnight Zibor amounted to 0.29%, 1M 0.38% and 3M 0.4%. At the last week's T-bill auction, a total of 81 million kuna in one-year kuna T-bills was subscribed at a 1 b.p. lower interest rate of 0.07% and 32 million euro in one-year T-bills with a currency clause, issued for the first time with negative yield of 0.05%. The government debt under T-bills thus declined to 26.3 billion kuna. There will be no maturity and no auction this week.



Crobex stagnates wow

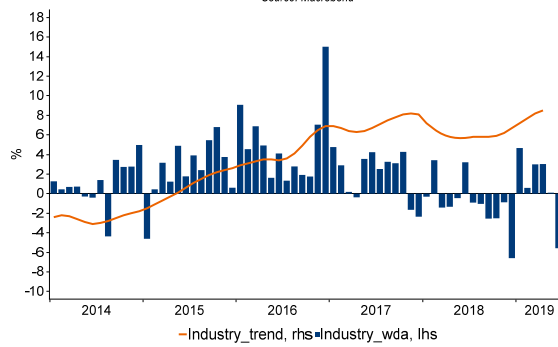
The total ZSE turnover last week amounted to 182.2 million kuna, which is up by 2.9 times wow, due to a 4.2 times higher turnover in bonds (reaching 137.9 million kuna) and a growth in turnover in shares of 47.9% (to 44.3 million kuna). The Crobex Index closed at 1,873.36 points on Friday, i.e. stagnated wow, whereas Crobis simultaneously advanced by 0.1% (to 116.55 points). Sector indices ended in negative territory, where CROBEXconstruct dropped by 3.3% wow (to 457.54 points), CROBEXindustry by 1.1% (to 886.57 points) and CROBEXtourist by 0.4% (to 3,508.43 points).



Statistics

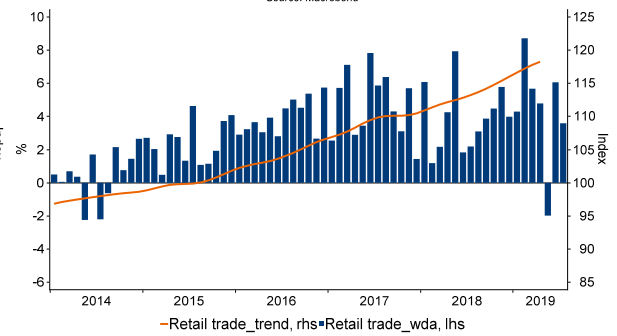
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



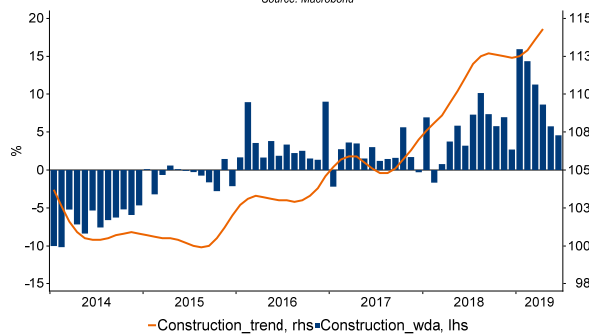
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



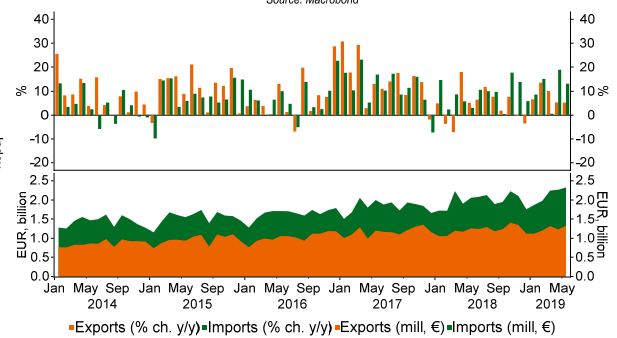
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



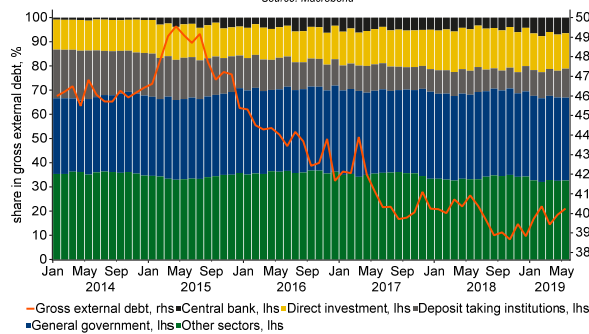
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



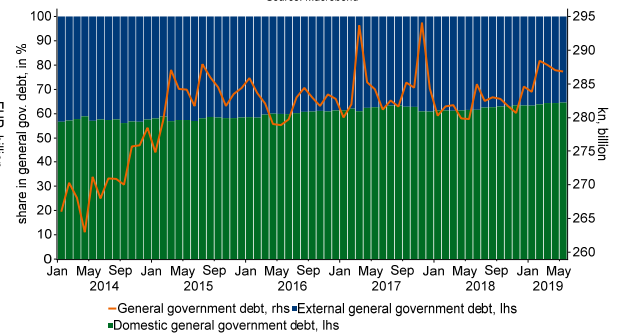
Gross external debt

Source: Macrobond



General government debt

Source: Macrobond



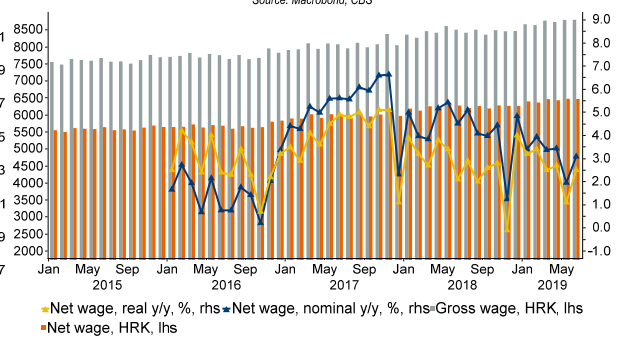
Total number of unemployed and unemployment rate

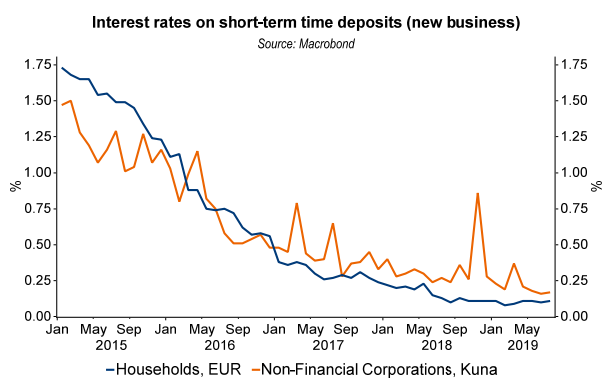
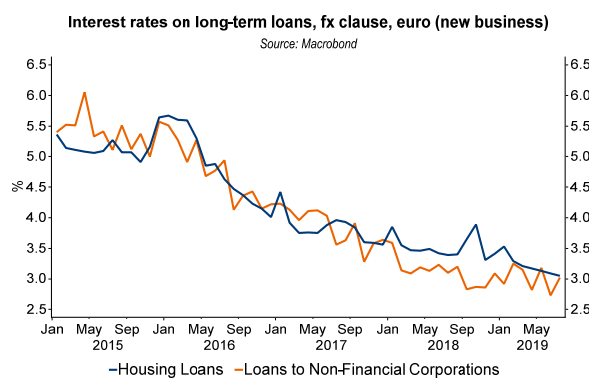
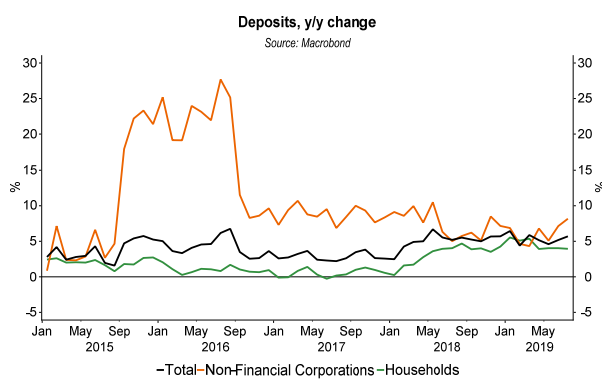
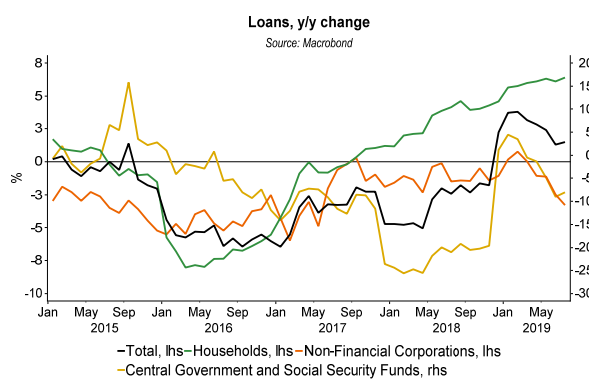
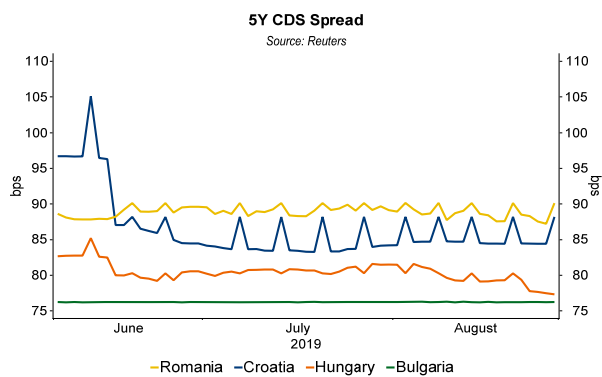
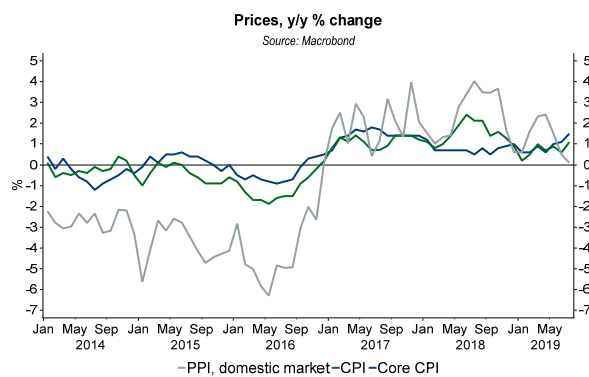
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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