PRIVREDNA BANKA ZAGREB

PBZ Weekly Analysis

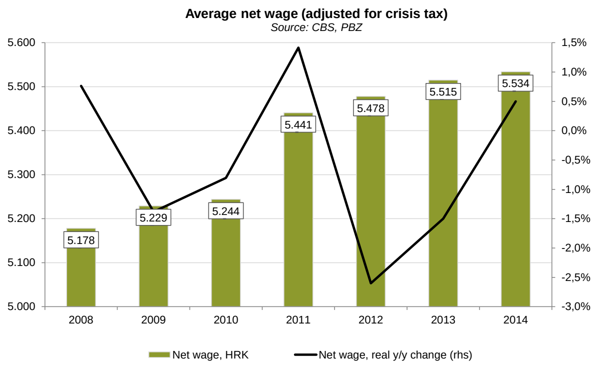
Number 463, March 2, 2015

Weekly overview

- The Croatian Bureau of Statistics released its flash estimate of the quarterly GDP for the fourth quarter of 2014, according to which GDP increased by 0.3% compared with the same quarter of 2013. However, the indicated increase was not sufficient to correct significantly the negative rates realised over the previous three quarters, therefore GDP decreased by 0.4% yoy. The analysis of the fourth quarter according to components shows a remaining negative contribution of domestic demand to the achieved 1.7 p.p. rate of change of GDP, where the prevailing negative influence came from a decline in gross fixed capital formation in the fixed capital (-3.7%), whereas personal consumption decreased by 0.6% and government spending by 0.5% compared with the same period of 2013. A positive contribution of net external demand 2.0 p.p. is a consequence of an increase in exports of goods and services of 4.5% and a simultaneous decrease in imports of 0.4%. Consistent with the above mentioned, the largest contribution to the quarterly gross value added growth was achieved in the manufacturing which recorded a real-term growth rate of 5.2%, while the negative contribution came from the construction which recorded a real-term decline of 4.9% from the same quarter of 2013. Regarding the expectations for 2015, we are maintaining our forecast that GDP will stagnate in real-terms.

- In line with our estimate, the unemployment rate in January rose to 20.3%, up by 0.7 p.p. from December, while the number of employed persons continued to drop, falling below 1.3 million, which is down by 1.3% yoy. February saw a moderate growth of the number of unemployed persons, therefore, we estimate that the rate increased to 20.4%. As the highest unemployment rates are usually recorded over the first months of the year and this year Easter falls early in April, we expect that a seasonal decrease in the number of unemployed persons will begin this month.

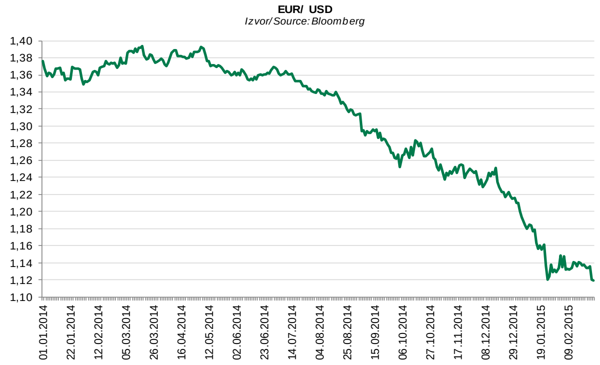
- The data on the trends in net earnings in December came as a pleasant surprise. Legislation changes pushed the average net earnings to 5,716 kuna, which is a nominal increase of 2.9%, or a real-term increase of 3.4% yoy. Thus, in 2014, net earnings climbed by 0.3% in nominal terms and 0.5% in real terms (gross: 0.2% and 0.4%, respectively), showing a significantly lower nominal growth from the previous two years, however, also the first real-term growth recorded over this period. Therefore, this year, given the December leap, we expect net earnings to grow by an average of 2.5-3% in nominal terms.

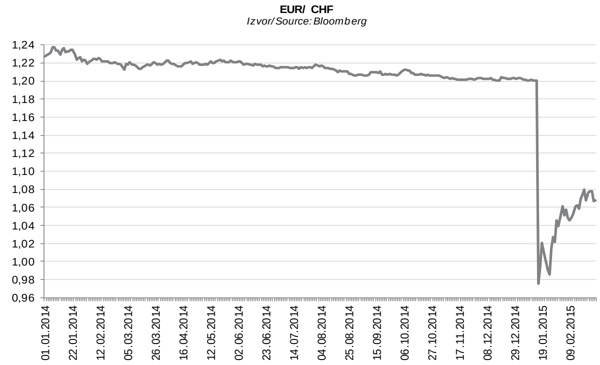


Euro weakens against dollar, EURHRK below 7.7

Last week, the euro weakened against the dollar due to the continued uncertainty over Greece and the upcoming ECB QE programme scheduled for March. The trading by the end of the week closed at

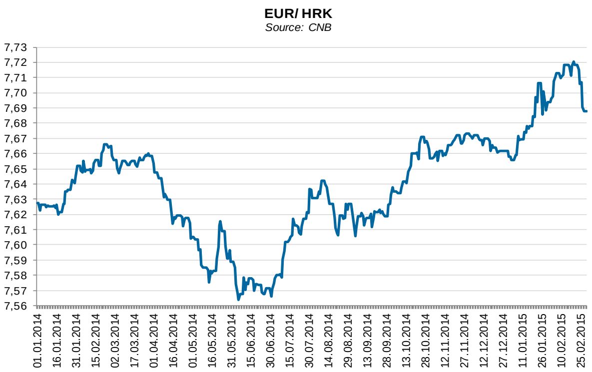
1.1196 dollar to the euro, down by 1.6% wow. The Swiss franc remained unchanged against the euro, amounting to 1.06802 franc to the euro by the end of the week.

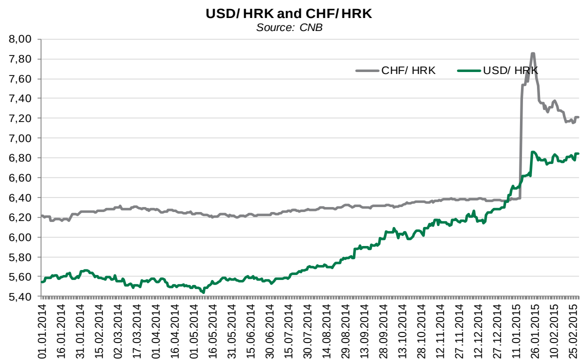




Last week saw a buoyant domestic foreign market. After the central bank intervention the previous week and the announcement of the recent issue of MF euro bond, the pressures lessened and the kuna strengthened against the euro. The week ended with a mid-exchange rate of 7.6878 kuna to the euro, down by 0.4% wow. The kuna continued to weaken against the dollar, reaching 6.8421 kuna to the dollar, which is up by 0.5% wow. The franc followed the same pace, so the exchange rate against the franc increased as well, reaching 7.2084 kuna to the franc.

This week, a new issue of euro bond will come into focus as thee issue may temporary encourage an increased demand for the euro. We expect the trading at slightly lower levels, ranging from 7.67 to 7.71 kuna for the euro.

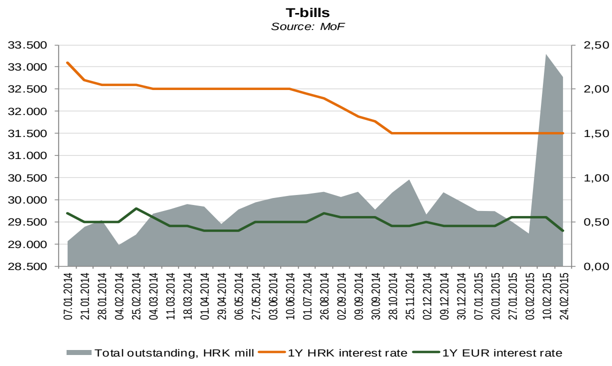


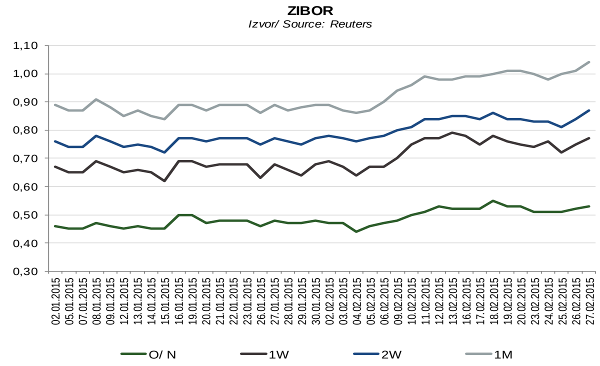


Mild correction of interest rates

While the Zibor on overnight loans closed the week at the unchanged 0.53%, 1M and 3M were mildly corrected to 1.04% (vs 1.01%) or 1.16%, respectively (vs 1.14% the week before). The weekly turnover in the ZMM grew to 623 million kuna, with supply exceeding demand by an average of 125 million kuna per day.

A total of 30 million kuna in T-bills with 182-day maturity and the yield of 0.50%, 958 million kuna with 364-day maturity and the yield of 1.50% as well as 3 million euro with 364-day maturity and the yield of 0.40% were issued at the auction last week. The overall government debt under T-bills amounts to 32.8 billion kuna. This week, a total of 1.8 billion kuna in T-bills will mature and the auction has been announced.



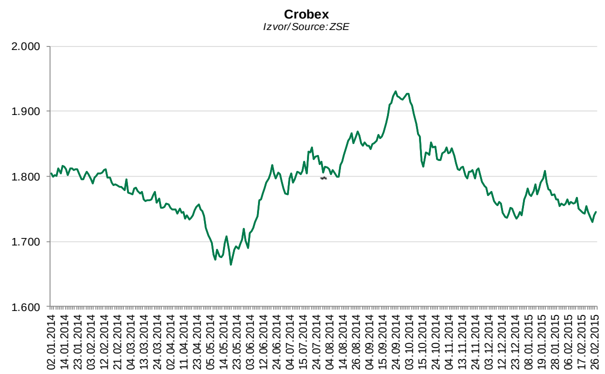


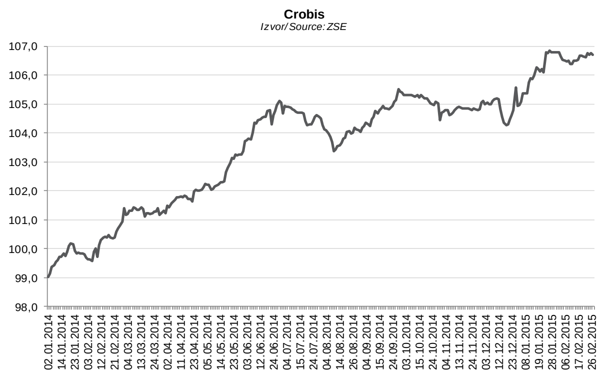
Crobex remains in negative territory

The total turnover in the ZSE increased almost 2.5 times from the previous week, amounting to 641 million kuna, as a result of a four times higher turnover in shares of 287 million kuna and 80% growth in the turnover in bonds reaching 352 million kuna.

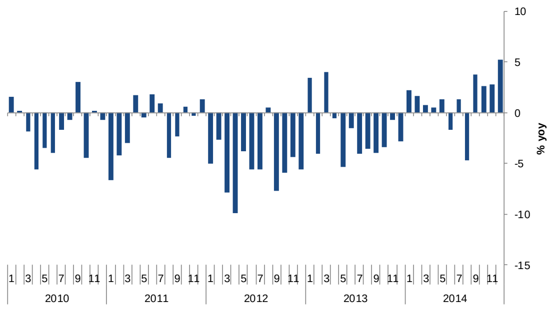
The Crobex recorded a decline of 1% for the second consecutive week wow, closing the week at 1,745.56 points due to a mixed performance of the major index components shares (Podravka +3.6%, HT +1.8%, Ledo -0.9%, Končar EI +0.7%, Ina +1.3%, Adris Grupa +0.5%, Ericsson NT -0.3%, Atlantic Grupa -1.6%). The highest turnover of 167 million kuna was achieved by the ordinary share of Adris Grupa with a weekly price growth of 0.1%. Then follows, with a 30 million kuna turnover and a weekly price drop of 3.3% Slavonski zatvoreni investicijski fond (SLPF-R-A) and the preferential shares of Adris Grupa with a 16 million kuna turnover and the price growth of 0.5%.

The highest, 126 million kuna turnover in the debt market was achieved by the MF euro bond maturing in 2019, whereas the Crobis moderately rose to106.71 points.

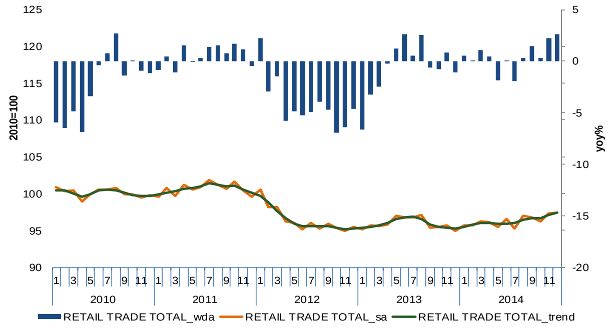




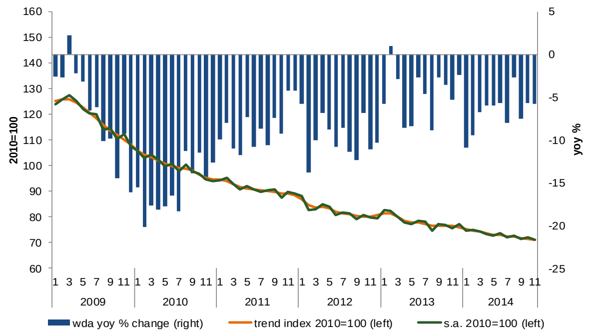
Statistics and macroeconomic forecasts



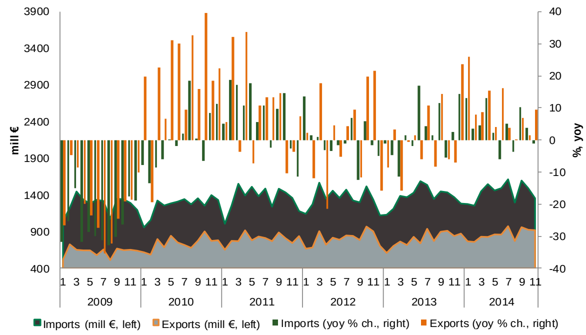
Industrial production, wda yoy % ch.
Source: Eurostat



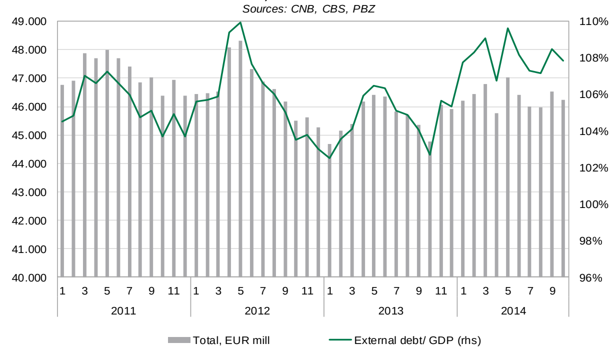
Retail trade, real, wda yoy ch. and index 2010=100
Source: CBS



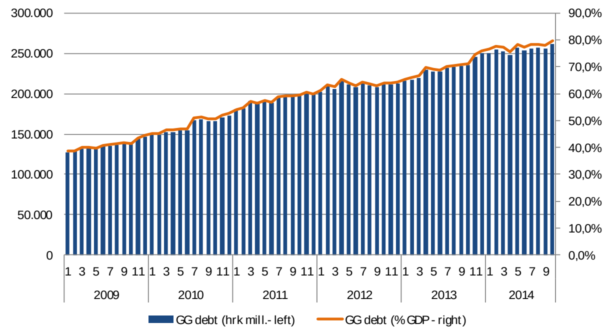
Construction works, yoy % ch. and index 2010=100
Source: CBS



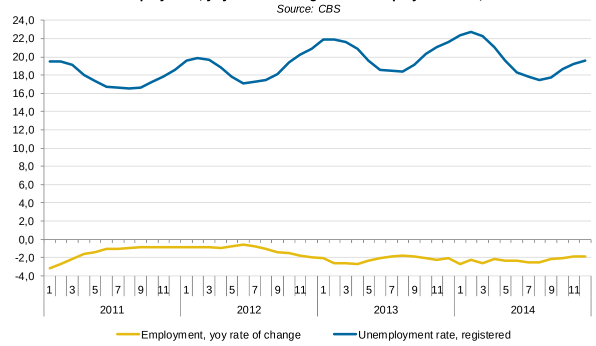
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



External debt, amount and share to GDP
Sources: CNB, CBS, PBZ

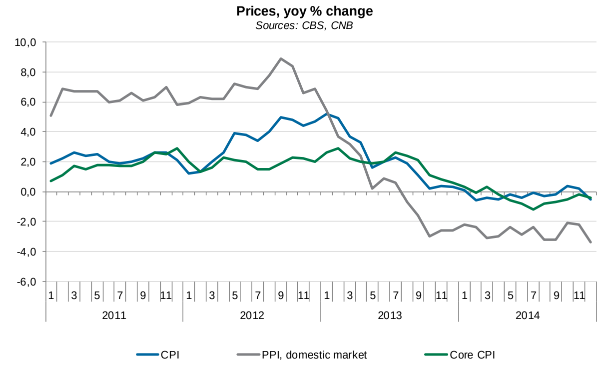


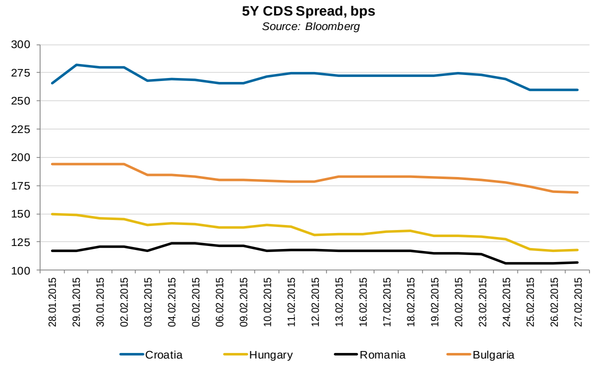
General government debt
Source: CNB

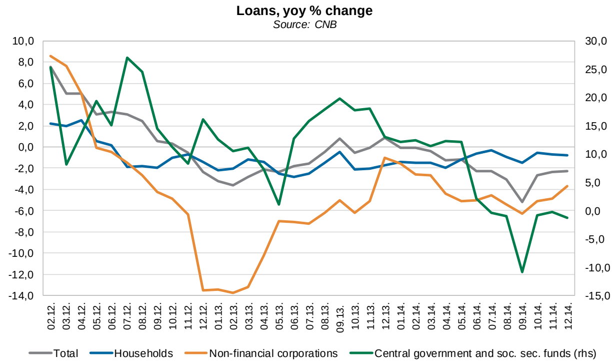


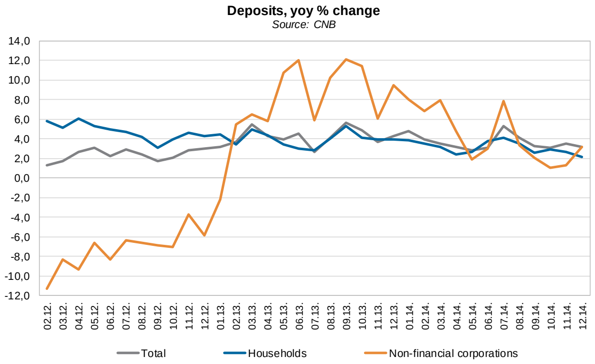
Employment, yoy rate of change and unemployment rate, %
Source: CBS

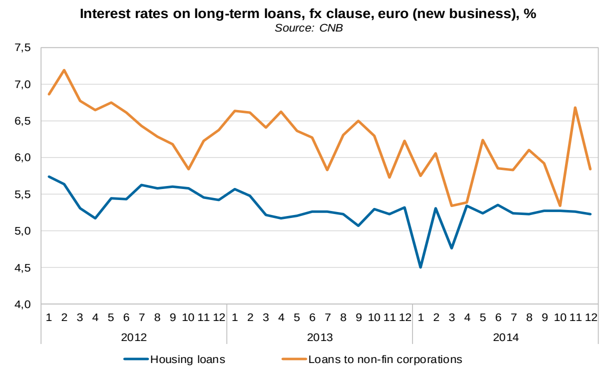
Net wages: amount and real yoy rate of change
Source: CBS

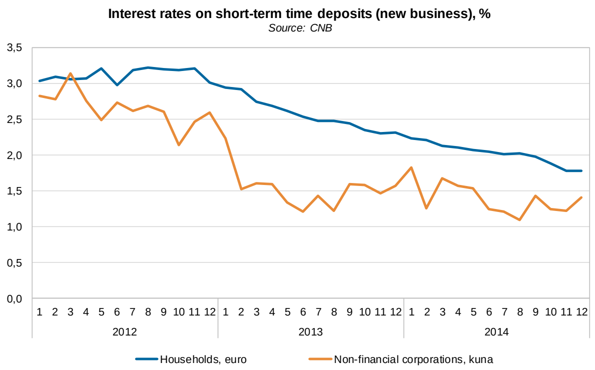












BASIC MACROECONOMIC INDICATORS

based on data available till 12/15/2014		2014e	2015f
GDP, current prices	HRK mill	327.278	329.896
GDP, current prices	EUR mill	42.894	43.067
GDP, real	annual growth, in %	-0,7	0,0
GDP, nominal	annual growth, in %	-0,9	0,8
CPI	anual average, in %	-0,2	0,8
HRK / EUR	annual average	7,63	7,66
HRK / USD*	annual average	5,73	6,32
HRK / CHF*	annual average	6,28	6,23

** computed on the basis of ISP forecasts for EUR/USD and EUR/CHF*

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