

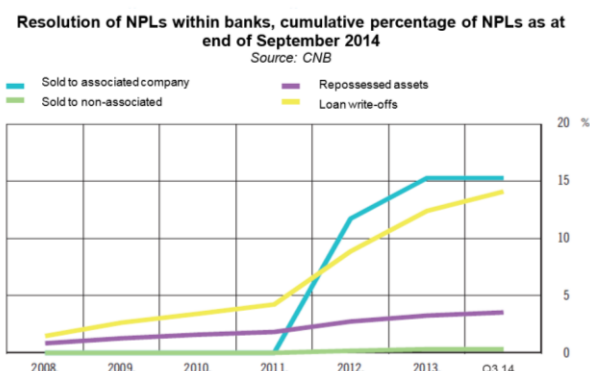
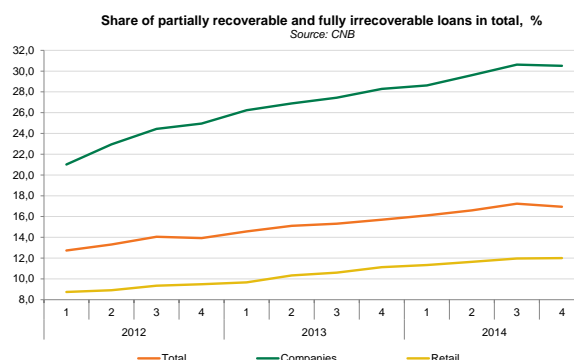
# PBZ Weekly Analysis

## Number 464, March 9, 2015

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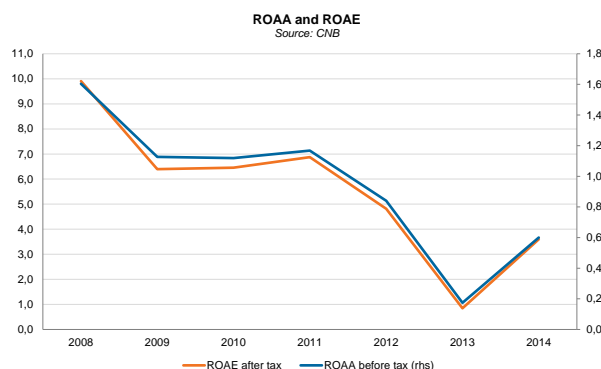
## Weekly overview

- In January, total loans recorded an increase of only 0.2% yoy (if we exclude the influence of the exchange rate and the weakening of the kuna, the rate is negative). Specifically, loans to the central government increased by 1.2%, to households by 1.7% (due to an increase of almost 30% in kuna any-purpose cash loans), while loans to non-financial corporations decreased by 2.9% (of which: loans for working capital -5.1%, for investments -2.8%, whereas loans for other purposes grew by 0.8%). At the same time, deposits continue their upward trend, thus recording a 2.7% increase compared with the same month last year. Household deposits rose solidly by 2.5%, while non-financial corporation deposits, usual for January, fell from December (-5.2%), however, recording a growth of 1.1% yoy. This year, we expect the same trends in the household sector as last year and a continuation of deleveraging, as well as demand mostly for cash loans on shorter maturities. At the same time we see an opportunity for a moderate growth of corporate demand for loans, mainly for working capital and other purpose loans, while investment activities will be on hold until recovery gains momentum. In addition, we should also mention that, while domestic banks have recorded a decline in loans to non-financial corporations, their external borrowing is growing, therefore, in November 2014 the external debt of non-financial corporations (including direct investments) was up by 5.7% compared with the end of 2013.
- The share of partly recoverable and fully irrecoverable loans in total loans slightly dropped by the end of last year to 17.0% (from 17.2% by the end of 3Q), as a result of a mildly reduced share in loans to non-financial corporations, from 30.6% in September to 30.5% in December. These trends have slightly exceeded the expectations of the central bank, which forecasted the share of around 33% to be recorded by the end of the year. However, they were mostly a result of an active resolution of the non-performing loan issues within the banks, where the main focus was on the sale and write-off of a portion of loans or repossession of assets. The share in loans to households in 4Q recorded only a minimum growth compared with the previous quarter, from 11.97% to 12.00% (housing loans from 8.7% to 8.8%). The share was significantly reduced in overdrafts on transaction accounts (-1.7 p.p.) and card loans (-0.5 p.p.), while the total number was dragged up by a substantial worsening in the quality of other loans (+4.3 p.p. to 34.5%), namely loans pegged to the franc, where a share of non-performing loans reached 53.3%. Breakdown by currencies show that over the last quarter the amount of non-



performing kuna and euro loans declined qoq, whereas the amount of loans pegged to the franc rose due to the previously mentioned worsening in the quality of other purpose loans to households. The overall coverage of partly recoverable and fully irrecoverable loans with value adjustments continued its upward trend, reaching 51.0% (non-financial corporations 48.5%, households 56.2%), which is the largest value since the beginning of the crisis, however, still lower than the one recorded by the end of the pre-crisis year of 2007 (54.4%).

- Gross operating income of credit institutions in 2014 amounted to 16 billion kuna, which is a growth of 4% yoy. The cost to income ratio dropped to 53%, by which the net operating income of credit institutions rose by almost 8% yoy. Costs of value adjustments and provisions reached 5 billion kuna and their share in the net operating income decreased to 69%. The

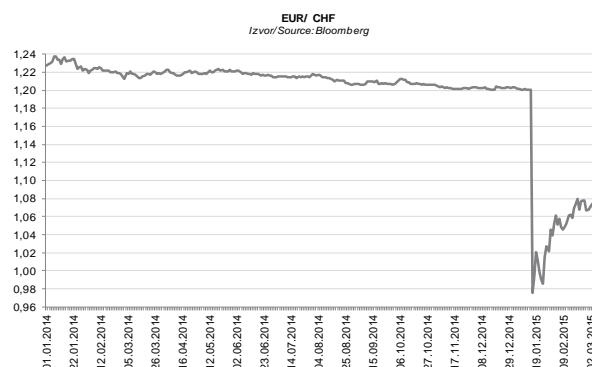
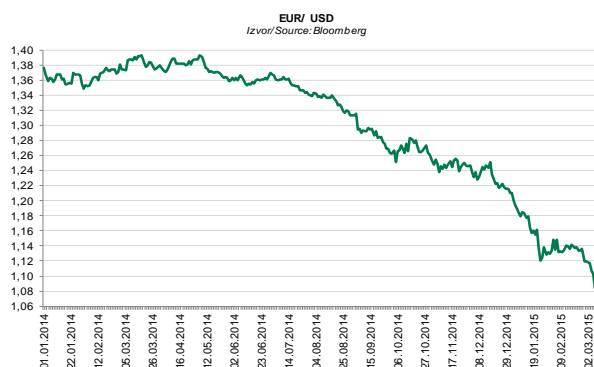


gross profit of credit institutions increased 3.5 times yoy, which is, in addition to a more strict cost control and active resolution of the non-performing loan issue, a result of the base effect; specifically, regulatory changes introduced in the last quarter of 2013 sharply cut the profit of the banks, which consequently consolidated their operations and recorded lower provision costs. Last year, return on assets and capital made a leap upward from the minimum recorded in 2013, reaching 0.6%, or 3.6%, respectively, however, they are still under the level recorded in 2012.

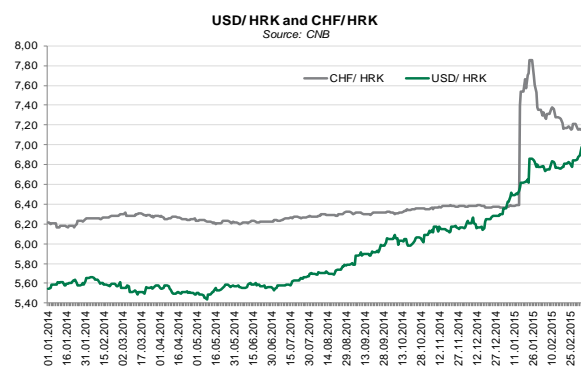
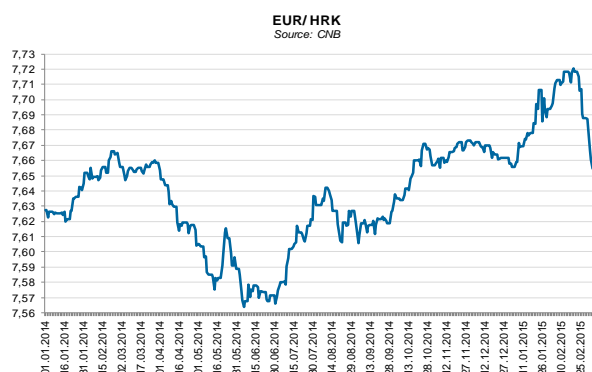
- In January, the wda industrial production decreased by 5.0% compared with January 2014, whereas the seasonally adjusted data show a decrease of 4.0% compared with December 2014. The annual decrease is a result of a 6.5% contraction in manufacturing (82% of the total IP), partly lessened by a 1.2% increase in electricity and gas (11.9% share) as well as a 4.8% increase in mining and quarrying (6.4% share). Out of a total of 24 activities within the manufacturing, 17 recorded a fall in the production.

## EUR/USD below 1.1, kuna at 7.65

Last week the euro continued to weaken against the U.S. dollar, ahead of this year's beginning of the ECB purchase of securities and the increased signals of the Fed announcing the beginning of a midyear rise in the dollar interest rates. EUR/USD sank below 1.1, its lowest level recorded over the period longer than ten years, and the trading by the end of the week closed at 1.0844 dollar to the euro, down by 3.1% wow. The Swiss franc only slightly fluctuated against the euro, ending the week at 1.06924 franc to the euro.



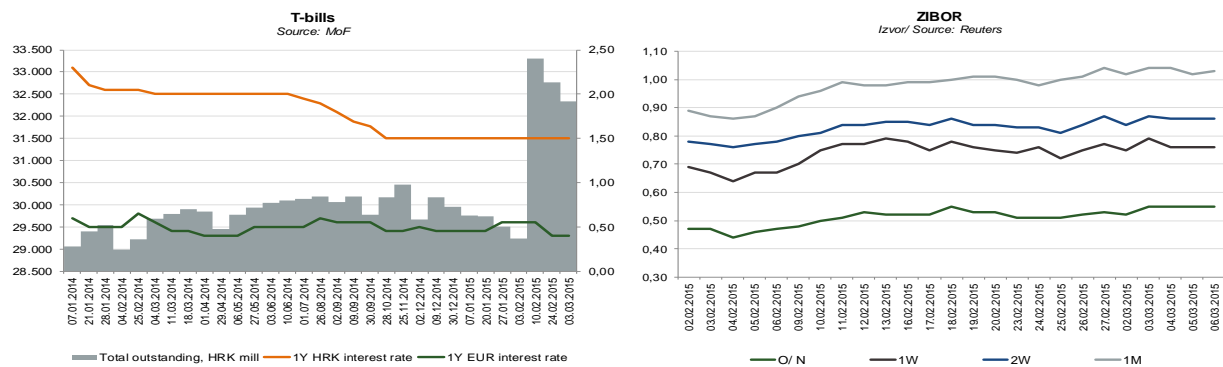
Last week, due to a higher volume of trading in the interbank market, the pressures on the kuna continued to weaken, therefore the week ended with a mid-exchange rate of 7.6547 kuna to the euro, which is down by 0.4% wow, recording the lowest level since October 2014. In accordance with the euro trends in global markets, the kuna continued to weaken against the dollar and the exchange rate rose to 6.9791 kuna to the dollar, which is up by even 2.0% wow. The kuna against the franc strengthened by 0.8%, and the exchange rate fell to 7.1539 kuna to the franc. This week, we expect a stabilisation of the EUR/HRK exchange rate and the trading to range from 7.61 to 7.64 kuna to the euro.



## No major changes

The Zibor on overnight loans closed the week at the mildly corrected 0.55% (vs 0.53%), while 1M and 3M at 1.03% (vs 1.04%) or 1.14%, respectively (vs 1.16% the week before). The weekly turnover in the ZMM grew to 669 million kuna, with almost the same supply and demand at the level around 1.4 billion kuna.

A total of 1.37 billion kuna in T-bills were issued at the auction last week, of which 100 million with 91-day maturity and an unchanged yield of 0.28%; 200 million with 182-day maturity and the yield of 0.50%, as well as 1.07 billion with 364-day maturity and the yield of 1.50%. The overall government debt under T-bills amounts to 32.8 billion kuna. This week, a total of 1.7 billion kuna in T-bills will mature and the auction has been announced.

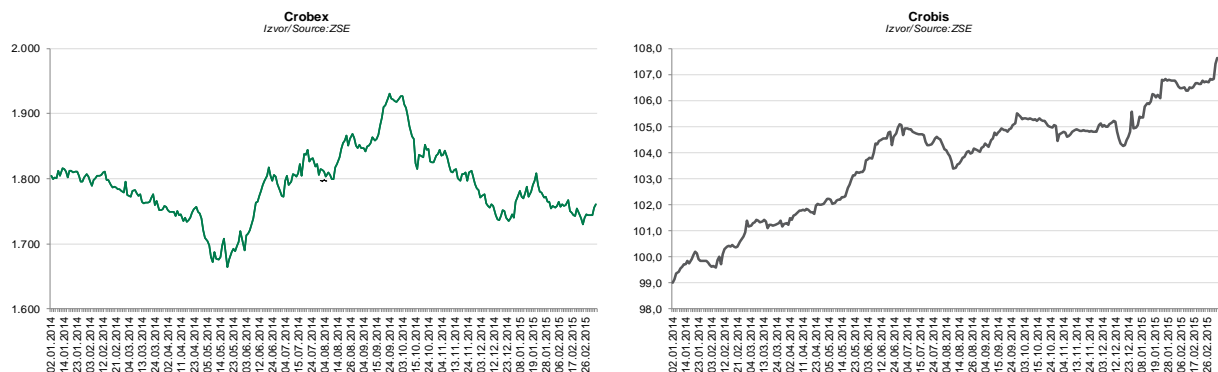


## Crobex recovers

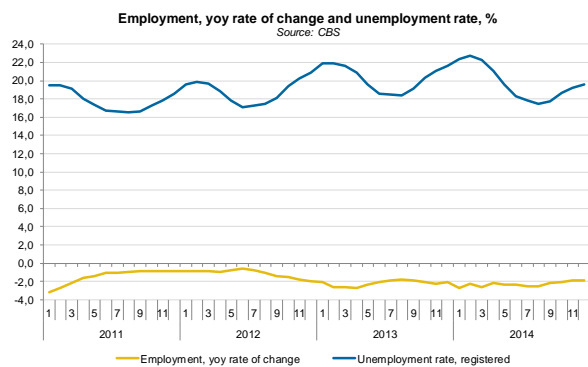
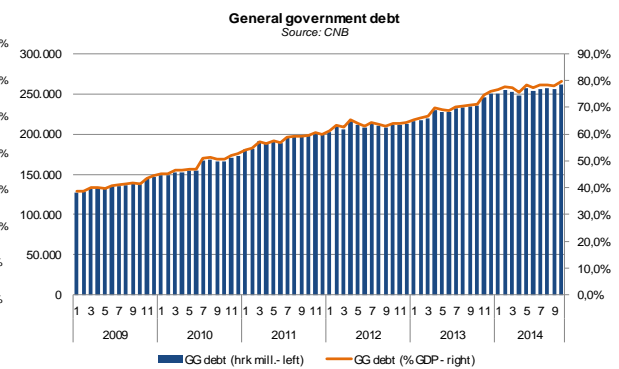
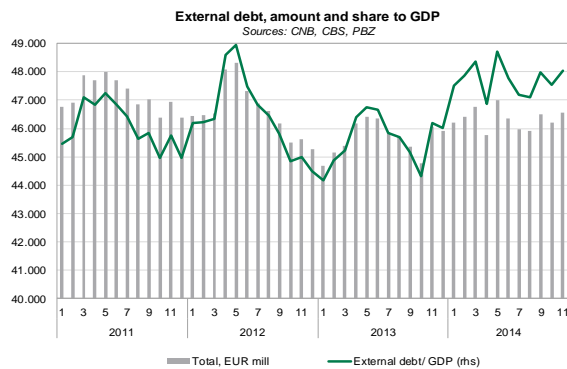
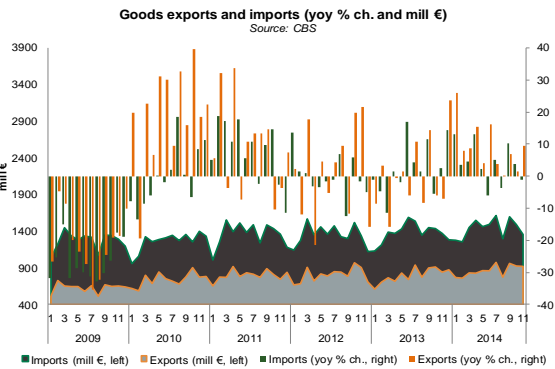
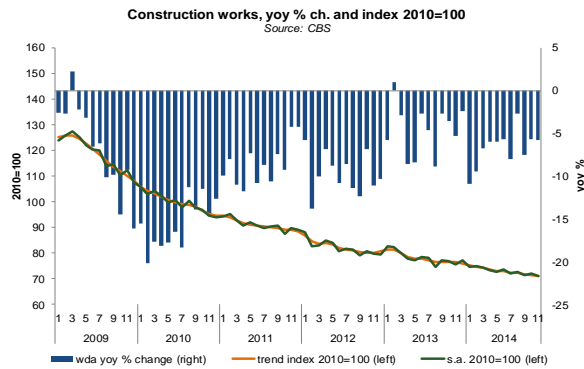
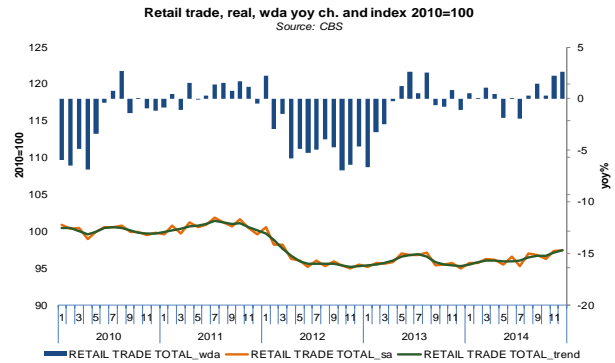
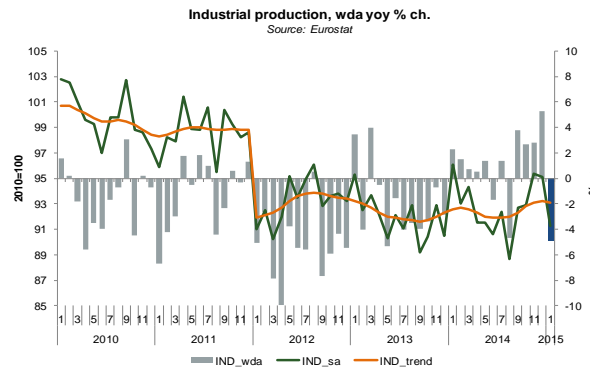
The total turnover in the ZSE was reduced by half from the previous week, amounting to 319 million kuna. The turnover in shares was four times lower, amounting to 64 million kuna, whereas the turnover in bonds declined by 28% to 252 million kuna.

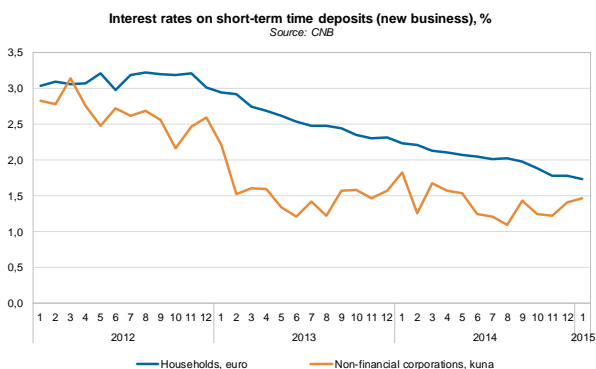
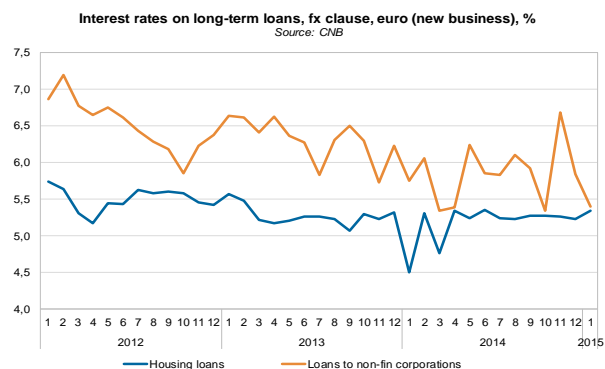
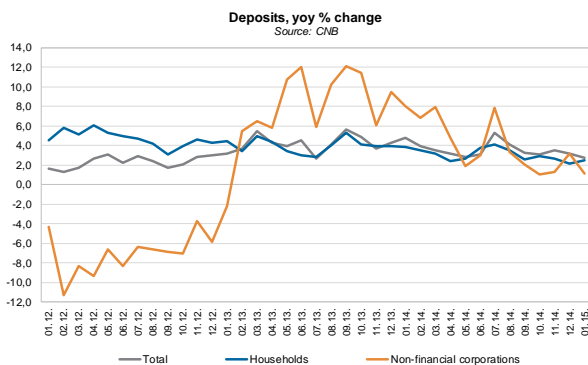
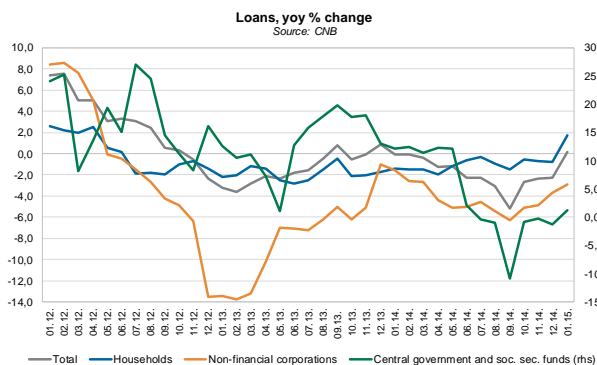
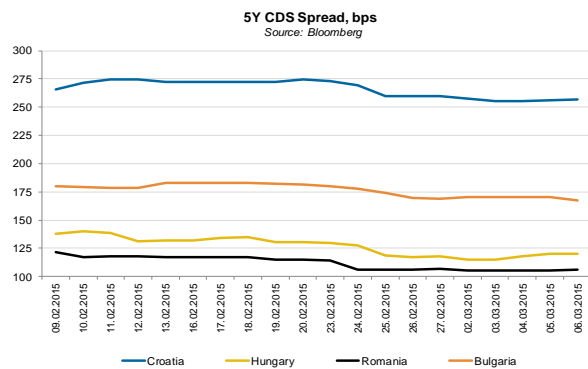
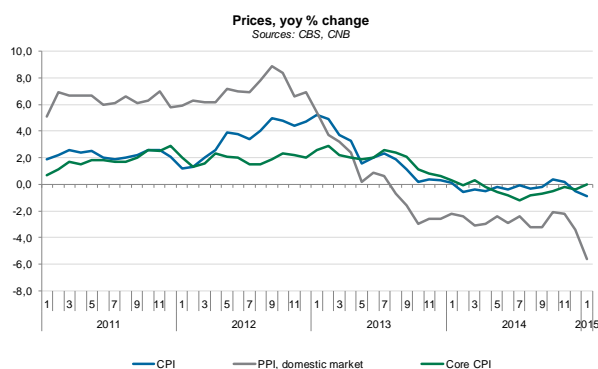
The Crobex recovered, climbing 1% wow to 1,761.17 points due to a mixed performance of the major index components shares (Podravka -1.2%, HT +2.9%, Ledo +3.1%, Končar EI -2.3%, Ina 0.0%, Adris Grupa +0.2%, Ericsson NT +0.7%, Atlantic Grupa -0.9%). The highest turnover of 17 million kuna was achieved by the HT share, with a wow price growth from 162.42 to 167.06 kuna.

The highest, 95 million kuna turnover in the debt market was achieved by the MF kuna bond maturing in 2017, whereas the Crobis also rose by 1%, to 107.63 points.



# Statistics and macroeconomic forecasts





## 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	annual 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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