

PBZ Weekly Analysis

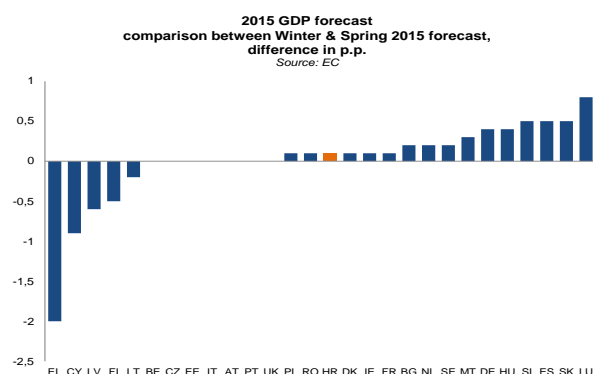
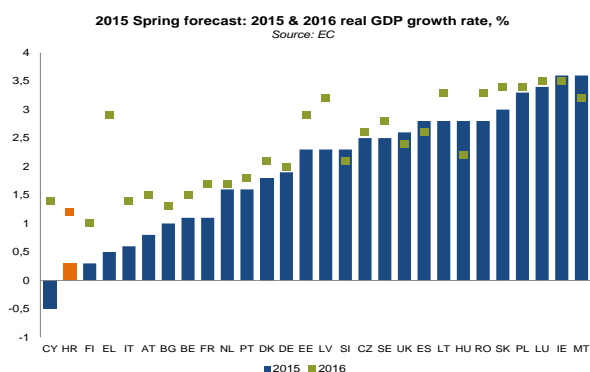
Number 473, May 11, 2015

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Weekly overview

- New spring forecasts of the European Commission are mostly in line with our anticipations and, compared with the winter forecasts, they bring a moderately improved estimate of the economic growth, but also worsened fiscal indicators, in accordance with the recently published revised data for the period 2011-14:

	GDP, real, %	HICP, %	Unemployment rate, %	General government balance, % GDP	General government debt, % GDP
2015 (Spring 2015)	0.3	0.1	17.0	-5.6	90.5
2015 (Winter 2015)	0.2	-0.3	16.8	-5.5	84.9
2015 (Autumn 2014)	0.2	0.6	17.7	-5.5	84.9
2015 (Spring 2014)	0.7	1.2	18.0	-3.1	69.2
2016 (Spring 2015)	1.2	1.3	16.6	-5.7	93.9
2016 (Winter 2015)	1.0	1.0	16.4	-5.6	88.7



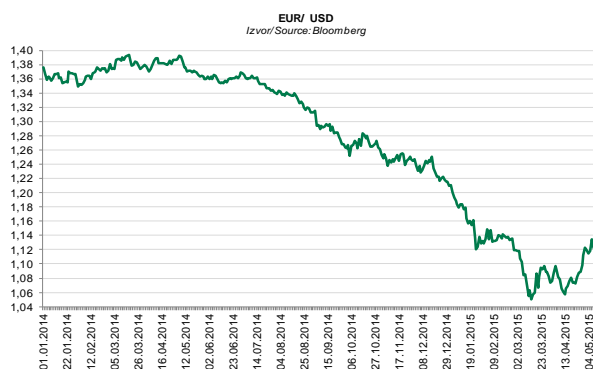
- According to the preliminary data, retail trade in March recorded a working-day adjusted growth of 1.1% in real terms, or 0.4% in nominal terms, compared with the same month of 2014, which is the eight consecutive month of an increased turnover. Compared with the previous month, the retail trade turnover shows stagnation. The final data will be released today.
- The data on the realised tourist arrivals and nights in commercial accommodation show that the positive trend continues, therefore, the number of tourist arrivals in the first quarter increased by 16.9% compared with the same period last year, where domestic tourist arrivals increased by 6.6% and foreign by 24.4%. The overall number of realised nights increased by 18.7%, domestic by 9.4%, foreign by 25.6%.
- In February, a dynamic trade in goods was recorded and the export rose by 15.2% yoy, while the import by 13.8%. Together with a slightly worse January (export -3.6% and import -9.5%), an

increase in the export of 5.8% and import of 2.1% was recorded in the first two months. Manufacturing, which is the most significant industry by its share, recorded a similar increase in the export and import of 6.3 or 6.2%, respectively, in the first two months. A strong decrease in the export of refined petroleum products of 60.4% and basic metals of 32.3% had a limited impact on the export growth. A reduced export was also recorded in the manufacture of beverages (-2.9%), wood and wood products (-3.1%), paper (-4.7%), chemicals and chemical products (-2.3%) as well as machinery (-4.2%). The remaining 16 manufacturing activities recorded an increase in the export over the first two months, and a particularly significant growth of 262% was recorded in the manufacture of other transport equipment – manufacture of ships. The first statistic results of the trade in goods for the period January to March show the export of goods growth of 7.5% and the import of goods growth of 4.5%, compared with the same period of 2014.

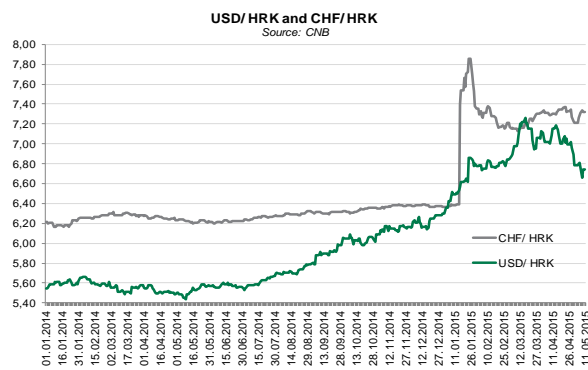
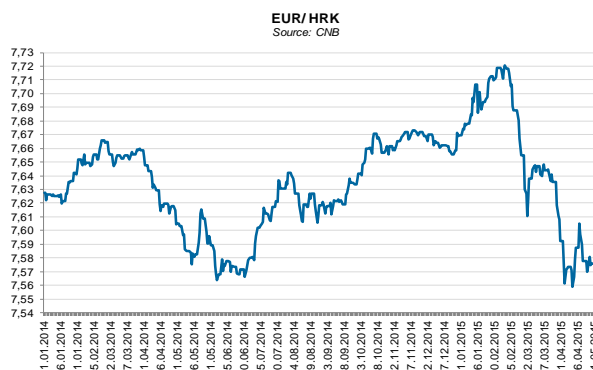
- After a two-month positive rate, total loans in March sank again yoy (-0.6%), as there was no effect of an increase in loans to the central government which in the previous two months pushed the total rate into positive territory. The largest decrease of 2.3% yoy was recorded by loans to non-financial corporations, however, in the first quarter positive shifts were recorded on quarterly level. The loans to non-financial corporations rose by 1.1% qoq, as a result of an increase in loans for other purposes (+3.5%) and loans for working capital (+2.1%), while the data on the structure of loans by original maturity reveal that the above mentioned loans are mostly short-term loans. Loans for investments have continued to decline both yoy (-3.8%) and qoq (-1.4%). Loans to households ended the first quarter with a 0.9% growth yoy, which, the same as in previous months, is a result of an increase in kuna cash general purpose loans (+25.5%) and an exchange rate induced increase in housing loans pegged to the franc (+6.5%). An increase of 3.4%, or 0.4%, respectively, was also recorded by less significant kuna housing loans and kuna card loans, whereas all other types and currencies show a negative trend. Total deposits in March returned to the usual trend pace, recording a growth of 2.4% yoy. Deposits to non-financial corporations recorded a solid increase of 2.6%, where a substantial rise was recorded by funds on transaction accounts (+7.9%), while savings recorded more moderate rates of change (+2.9% kuna, -2.6% FX). Retail deposits continued to grow at a usual pace (+2.0%) and, the same as for non-financial corporations, the fastest growth was recorded by sight deposits (+11.1%), while changes in savings and term deposits were less pronounced (-2.0% kuna, +2.0% FX). This year, we do not expect major changes in the overall credit activity. As we do not anticipate an increase in investments this year, as for the corporate sector, we expect mostly current financing activities. At the same time, the absence of the labour market recovery and the recent growth of fuel prices impose limits on household income, therefore, although a more significant growth in the consumer confidence was recorded in the first quarter, we expect only minor short-term and medium-term borrowing and a continued housing loans deleveraging. The growth of deposits will remain stable, however, limited by lower interest rates, income tax and weaknesses of the labour market.

EUR/USD unchanged, domestic market at standstill

The euro continued to strengthen against the dollar, following the release of the worse U.S. employment data than expected, so the midweek exchange rate increased to 1.13. By the end of the week the exchange rate was slightly corrected and the trading on Friday closed at 1.1199 dollar to the euro, unchanged from the previous Friday. The franc slightly strengthened against the euro, closing the week at 1.04267 franc to the euro, down by 0.2% wow.



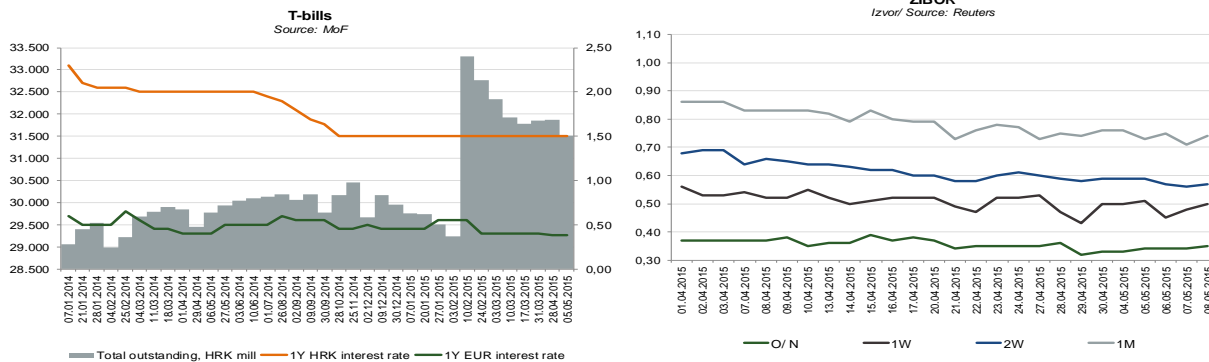
Last week, there were no major commotions at the domestic FX market again, which ended with the mid-exchange rate of 7.5761 kuna to the euro, unchanged wow. At the same time, the kuna moderately strengthened against the dollar (0.6%) to 6.7409 kuna to the dollar and significantly weakened against the franc (1.5%) to 7.3206 kuna to the franc.



Money market low turnover

Interest rates: the Zibor on overnight loans closed the week at 0.35% (vs 0.33%), while 1M and 3M at 0.74% (vs 0.76%) and 1.02% (vs 0.98%, compared with the previous week), respectively. Last week, the turnover in the money market amounted to only 65 million kuna, whereas the average daily supply exceeding demand was 194 million kuna.

At the last week's auction, the Ministry of Finance issued 555 million kuna in T-bills with 364-day maturity and an unchanged yield of 1.50%. The overall public debt under T-bills is 31.5 billion kuna. There will be no maturity this week and, consequently, no auction.

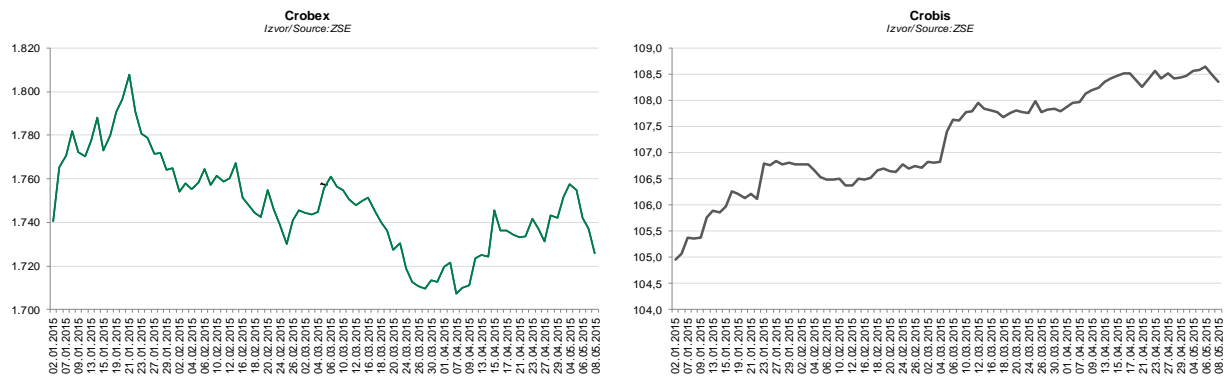


Crobex in negative territory again

Last week, a day shorter, the total turnover in the ZSE wow was almost three times higher, amounting to 534 million kuna. The turnover in shares rose by 27% to 48 million kuna, whereas the turnover in bonds was more than three times higher, reaching 487 million kuna.

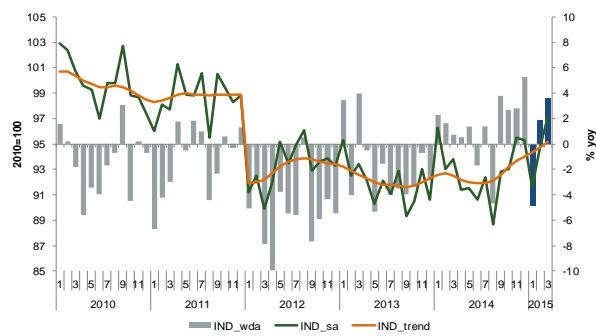
The Crobex decreased by 1.5% wow, closing the week at 1,725.83 points due to a mostly negative performance of the major index components shares (Ina -2.8%, Adris Grupa +0.4%, HT -5.5%, Valamar +0.4%, Končar EI -0.7%, Atlantic Grupa -1.7%, Podravka -1.6%, Ledo +1.7%, Ericsson NT -2.1%). The highest turnover of 13 million kuna was achieved by the HT share, the value of which sank on Friday when the shares traded without the right to the dividend and thus its price dropped from 165.64 kuna to 156.49 kuna wow.

The highest, 101 million kuna turnover in the debt market was achieved by the MF kuna bond maturing in 2016, whereas the Crobis closed the week at the unchanged 108.4 points.

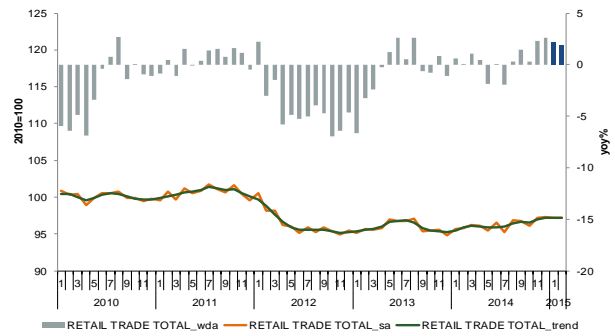


Statistics and macroeconomic forecasts

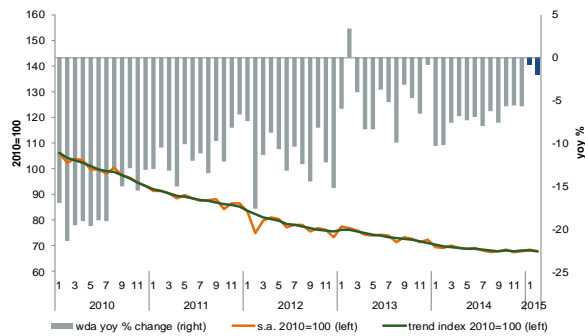
Industrial production, wda yoy % ch.
Source: Eurostat



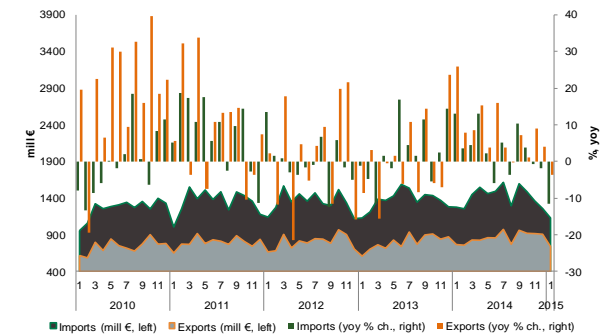
Retail trade, real, wda yoy ch. and index 2010=100
Source: CBS



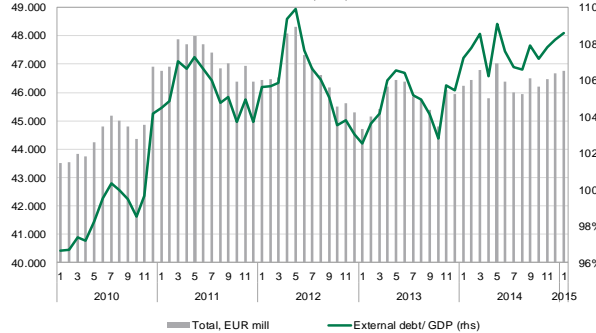
Construction works, yoy % ch. and index 2010=100
Source: CBS



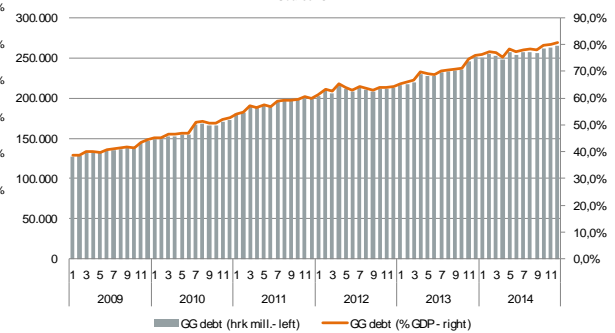
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



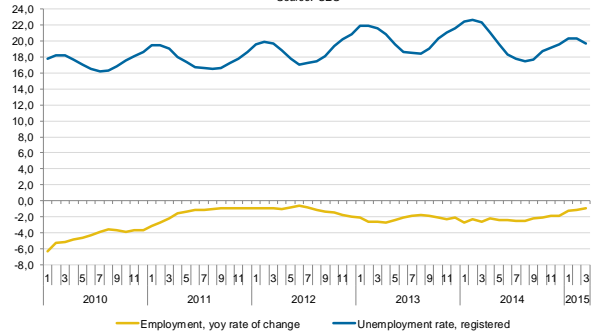
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



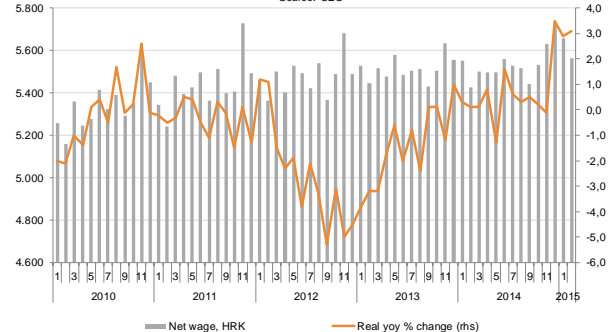
General government debt
Source: CNB

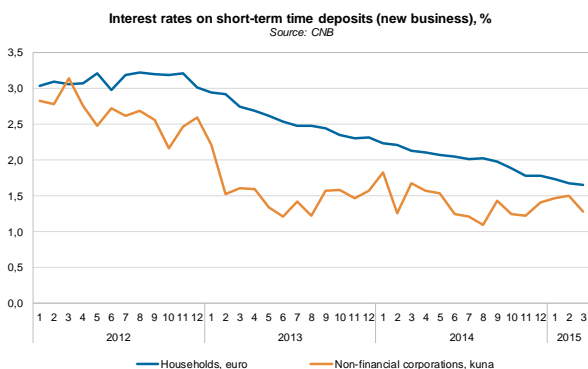
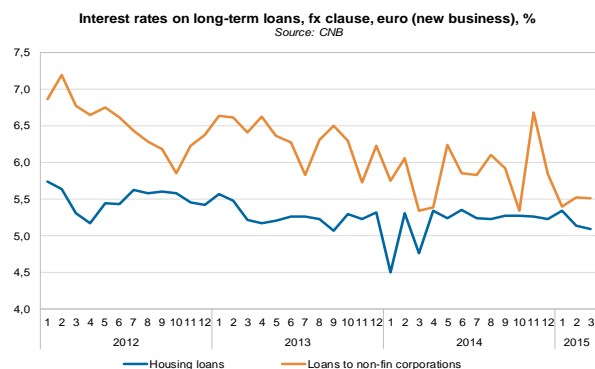
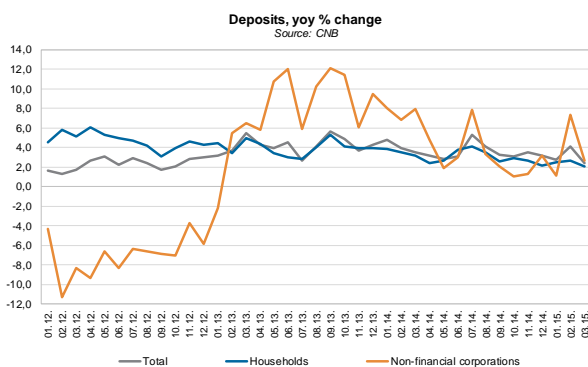
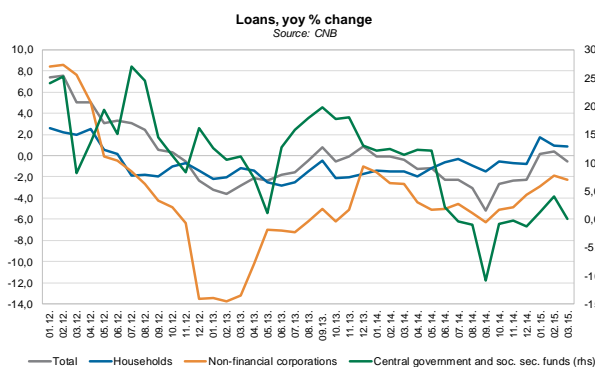
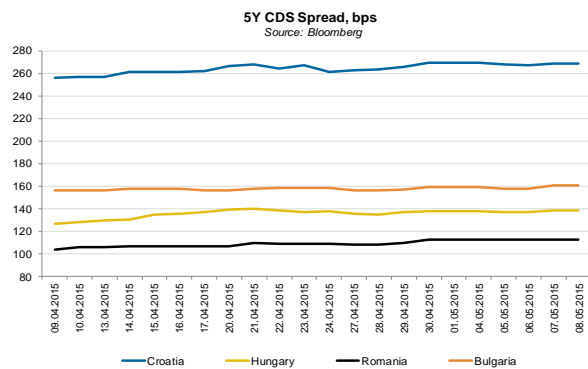
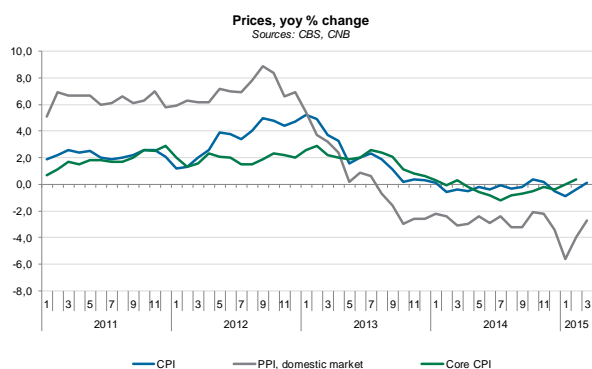


Employment, yoy rate of change and unemployment rate, %
Source: CBS



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





BASIC MACROECONOMIC INDICATORS

based on data available till 03/25/2015		2014	2015f
GDP, current prices	HRK mill	328.927	329.914
GDP, current prices	EUR mill	43.110	43.070
GDP, real	annual growth, in %	-0,4	0,3
GDP, nominal	annual growth, in %	-0,4	0,3
CPI	annual average, in %	-0,2	0,0
HRK / EUR	annual average	7,63	7,66
HRK / USD*	annual average	5,75	6,96
HRK / CHF*	annual average	6,28	7,06

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

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