

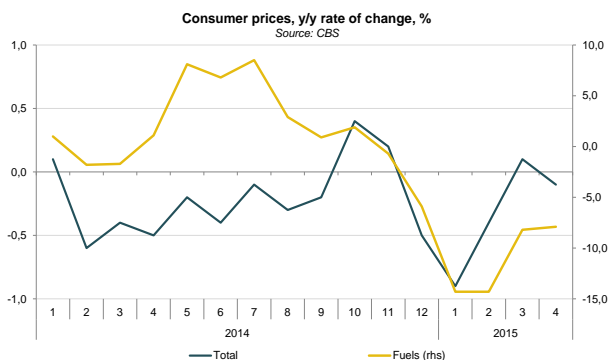
PBZ Weekly Analysis

Number 474, May 18, 2015

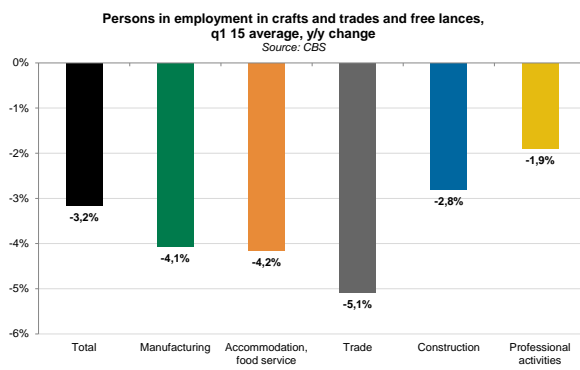
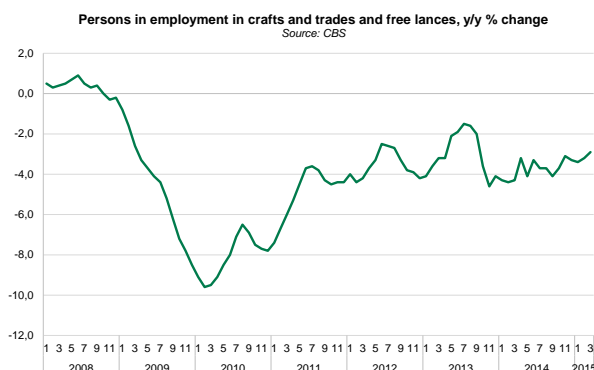
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Weekly overview

- Annual price growth experienced shortness of breath, therefore, April saw a negative inflation rate of -0.1% again, while a twelve month average remained at -0.2%. Although fuel prices were 0.3% higher mom, as a result of increased excise duties in the second half of the month, a significant price drop of 7.9% was again recorded yoy, exerting strong pressure of 0.6 p.p. on the annual trends in general price levels. In addition to the impact of fuel prices, a negative contribution came from 7.1% lower prices of gas (contribution of -0.2 p.p.), while higher excise duties resulted in a 2.1% increase in tobacco prices (0.1 p.p.). Prices of food increased by 0.6%, while prices of recreation and culture by 4.6% yoy, thus the contribution of both items to the overall rate was around 0.2 p.p. Our estimate of an annual inflation rate remains the same, around 0%.

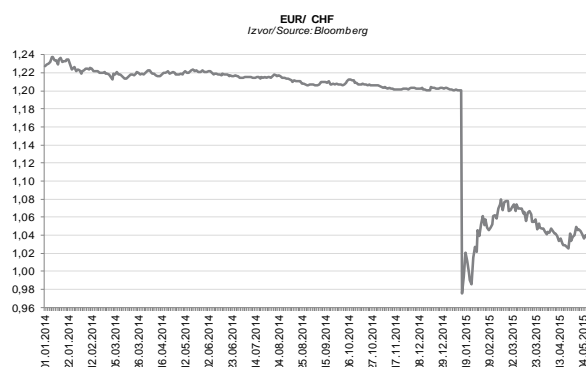
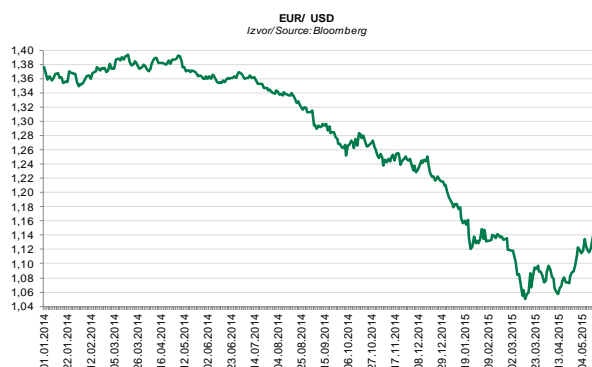


- Negative trends in crafts and trades sector continued in the first quarter of this year, where the number of employed persons in crafts and trades and free lances decreased by an average of 3.2% yoy. A drop in the number of employed persons was recorded in all of the major activities: manufacturing -4.1%, accommodation and food service activities -4.2%, trade -5.1%, construction -2.8%, professional, scientific and technical activities -1.9%. The number of employed persons in crafts and trades and free lances has declined continuously since November of 2008, yoy.

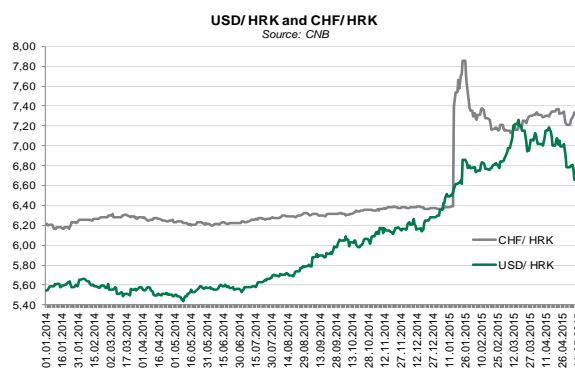
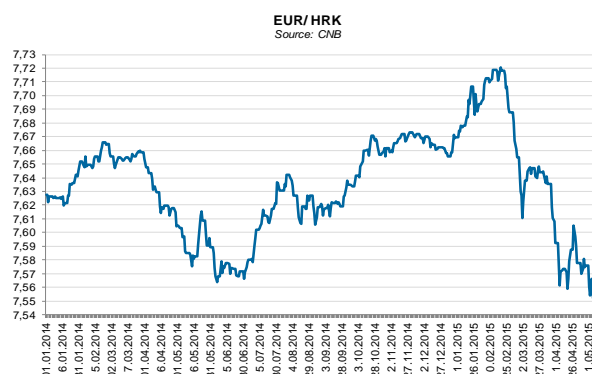


Euro continues to grow, weak demand in domestic market

Last week, the released data showing significant Eurozone GDP growth in the first quarter exceeded market expectations, supporting a further strengthening of the euro against the dollar. The trading on Friday closed at 1.1451 dollar to the euro, 2.3% more from the previous Friday. The franc also weakened against the euro, closing the week at 1.04883 franc to the euro, 0.6% more wow.



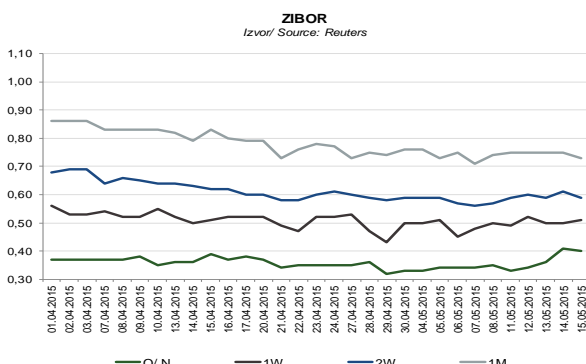
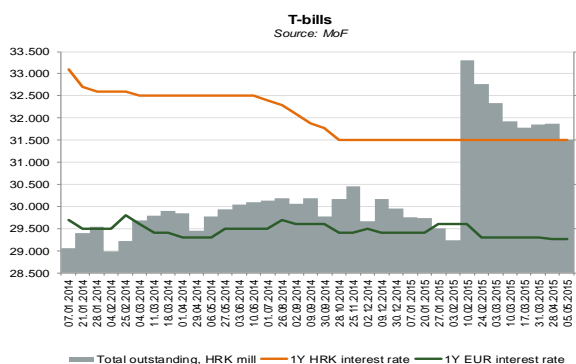
The domestic FX market saw a weaker demand of the corporate sector for foreign currency and certain uncertainty related to the manner and maturities of the future government and corporate sector borrowing. In such an environment, the kuna against the euro exchange rate fell to 7.54, hitting its lowest level in almost two years, whereas the week ended with a mid-exchange rate of 7.5503 kuna to the euro, 0.3% lower wow. The kuna also strengthened against the dollar (1.3%) to 6.6499 kuna to the dollar as well as against the Swiss franc (1.1%) to 7.2432 kuna to the franc. This week, we expect the trading in the range 7.52-7.56 kuna to the euro.



No major changes

Interest rates: the Zibor on overnight loans ended the week at 0.40% (vs 0.35%), while 1M and 3M at 0.73% (vs 0.74%) and 0.95% (vs 1.02%, compared with the previous week), respectively. Last week, the turnover in the money market amounted to 218 million kuna, whereas the average daily supply exceeding demand was 79 million kuna.

There will be no T-bill maturity this week and, therefore, the auction has not been announced.

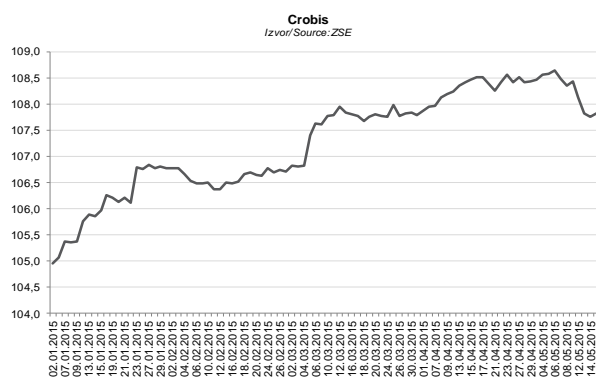
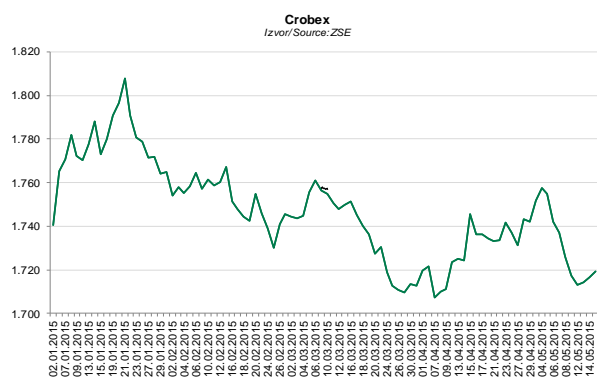


Crobex continues its negative trend

The total turnover in the ZSE declined by 24% wow, amounting to 408 million kuna. The turnover in shares fell by 15% to 41 million kuna, whereas the turnover in bonds declined by 25% to 367 million kuna.

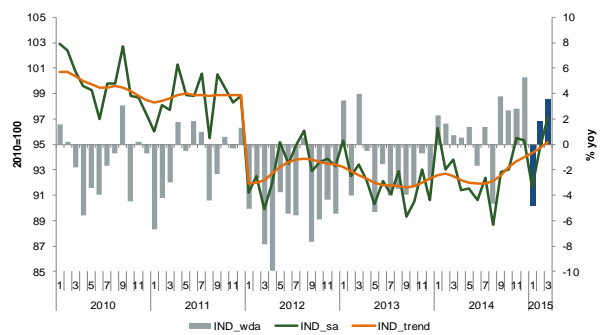
The Crobex decreased by 0.4% wow, closing the week at 1,719.23 points due to a mixed performance of the major index components shares (Ina -1.2%, Adris Grupa -0.5%, HT +0.3%, Valamar -2.3%, Končar EI -1.3%, Atlantic Grupa +2.3%, Podravka -1.4%, Ledo +3.8%, Ericsson NT -2.1%). The highest turnover of 8 million kuna was achieved by the HT shares, the value of which slightly recovered wow, climbing from 156.49 kuna to 156.92 kuna.

The highest, 85 million kuna turnover in the debt market was achieved by the kuna bond RHMF-O-17BA, followed by the MF euro bond maturing in 2019, with a turnover of 69 million kuna. The Crobis closed the week at 107.83 points, down by 0.5% from the previous Friday.

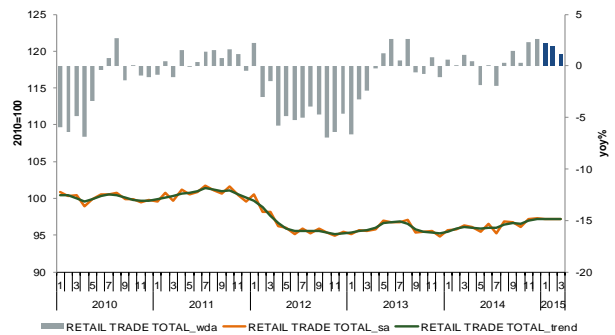


Statistics and macroeconomic forecasts

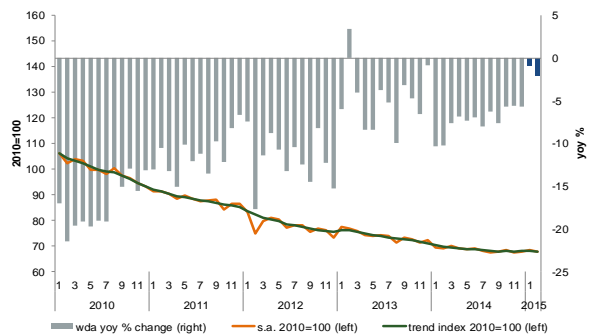
Industrial production, wda yoy % ch.
Source: Eurostat



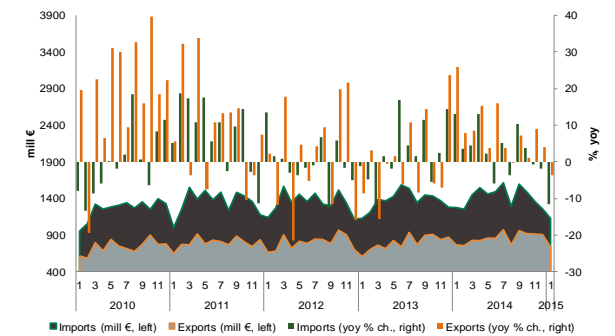
Retail trade, real, wda yoy ch. and index 2010=100
Source: CBS



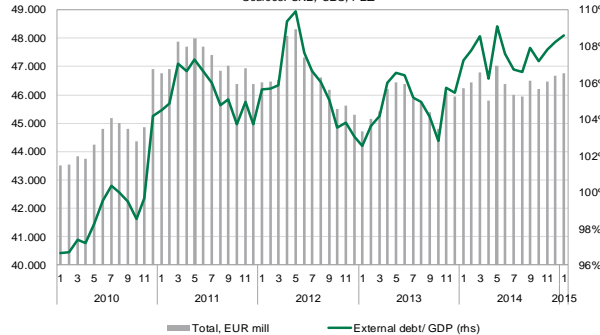
Construction works, yoy % ch. and index 2010=100
Source: CBS



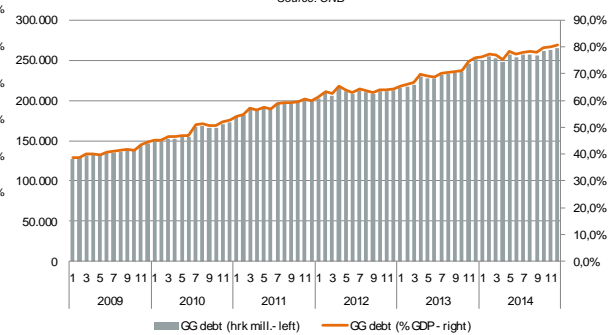
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



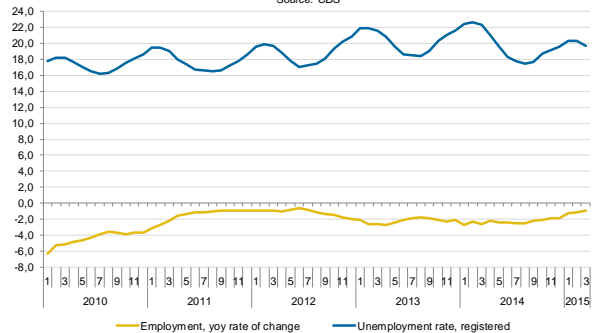
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



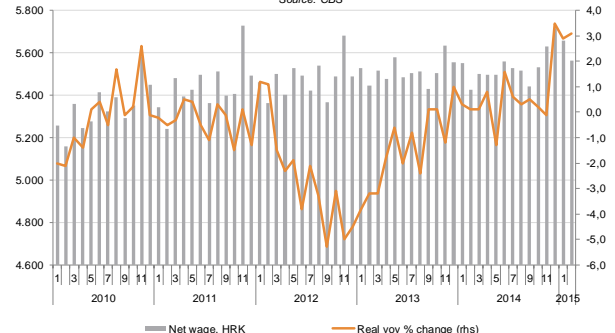
General government debt
Source: CNB

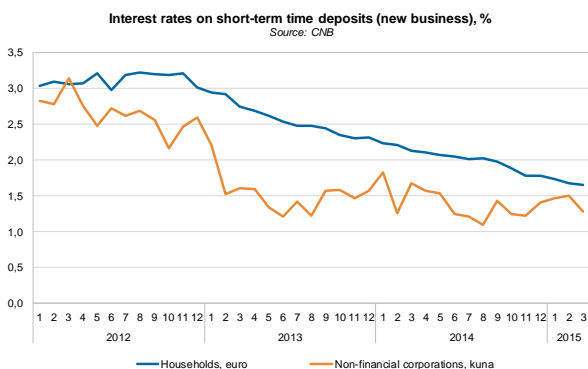
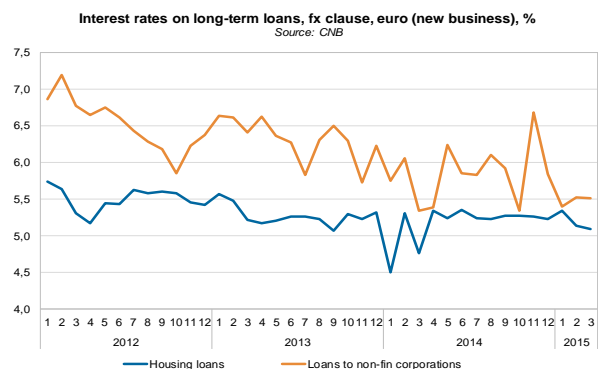
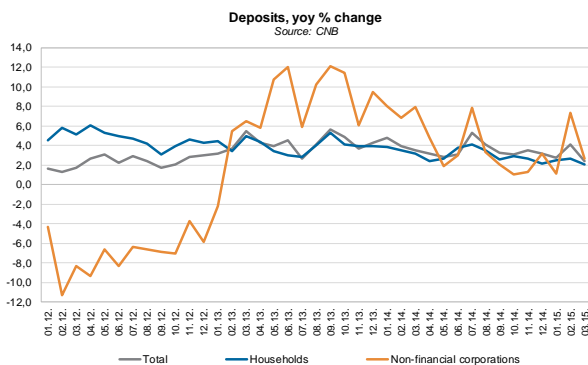
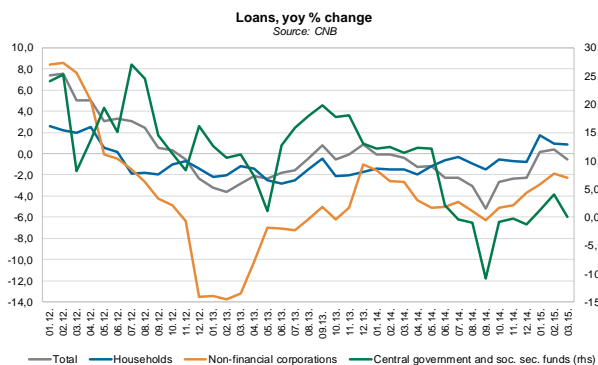
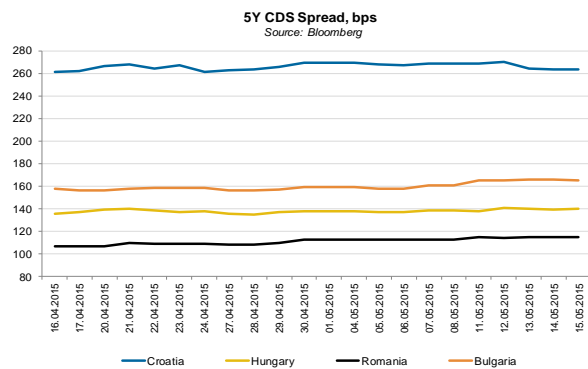
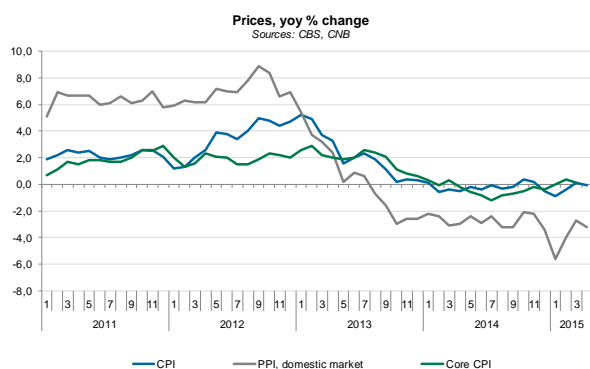


Employment, yoy rate of change and unemployment rate, %
Source: CBS



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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