

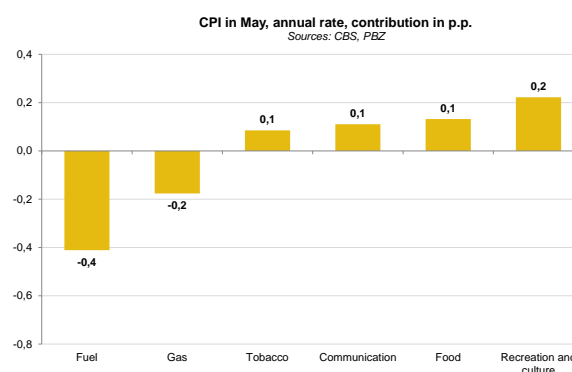
PBZ Weekly Analysis

Number 479, June 23, 2015

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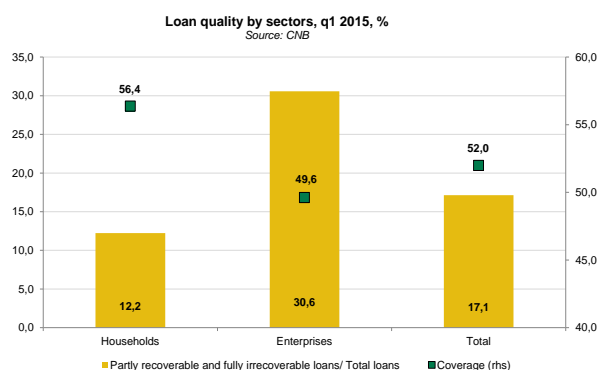
Weekly overview

- Slight changes in inflation continued month on month, therefore the annual rate in May amounted to 0.0% (April -0.1%) and a twelve-month average remained at -0.2%. As in the previous period, such movements were mainly a result of a negative contribution of fuel prices, which, although a leap of 4.9% was recorded mom (due to higher excise duties), decreased by 5.9%



when compared with the same month last year. A negative contribution came also from administratively reduced prices of household gas (-6.1%) and seasonal sales of clothes and footwear (-0.4%). On the other hand, food prices continued to climb at a moderate pace (+0.5%), while tobacco prices increased by 2.1% due to higher excise duties and the prices of recreation and culture rose by 4.2% yoy. At this moment, our estimate of this year's inflation remains at 0.0%.

- The share of partly recoverable and fully irrecoverable loans in total loans was 17.1% at the end of the first quarter, which shows almost no change compared with the end of last year. The contribution to maintaining the same ratio came from a decrease in the share of loans to non-financial corporations, from 30.8% in December to 30.6% in March, which, as we have already mentioned, is



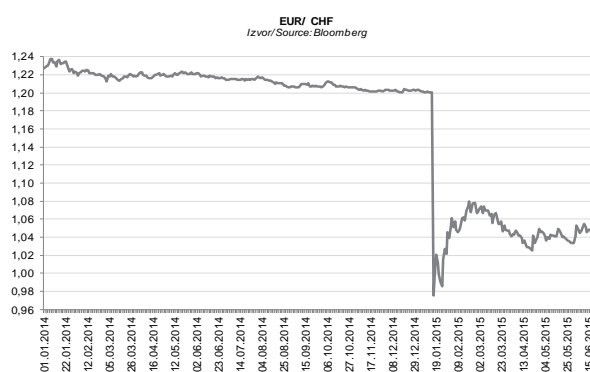
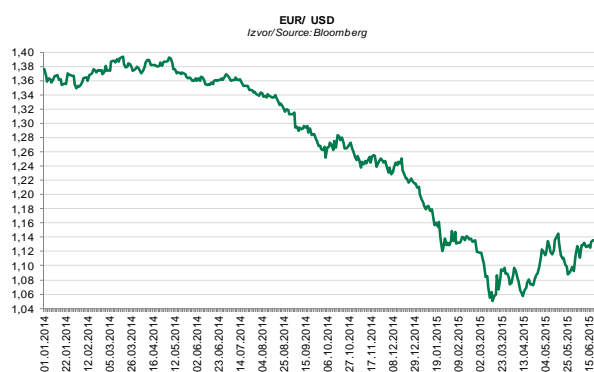
mainly a result of an active resolution of nonperforming loans within banks. At the same time, the share of loans to households increased by 0.2 p.p. qoq, reaching 12.2%. Compared with the end of 2014, the share of housing loans rose by 0.3 p.p., to 9.1%, while the data according to currency show a slight reduction in the share of kuna loans (-0.1 p.p. to 12.0%), stagnation of euro loans (to 5.6%) and an increase by 0.2 p.p. to 13.3% of loans pegged to the franc. The share of retail cash loans has recorded a decrease for the second consecutive quarter, amounting to 9.7%, of overdrafts on transaction accounts a stagnation at 12.9%, whereas a substantial growth, as in previous periods, was recorded by the share of other loans (+0.8 p.p., to 35.4%). The latter is a result of a high share of non-performing loans (56.2%) in loans pegged to the franc. The growing trend in the coverage of partly recoverable and fully irrecoverable loans with value adjustments continued, reaching 52.0%. The coverage in loans to corporations reached 49.6%, which is up by around 4 p.p. compared with the pre-crisis period.

- The gross operating profit of credit institutions in the first quarter sank by 24% yoy, which, along with the growth of costs of value adjustments, is a consequence of fixing the exchange rate of the

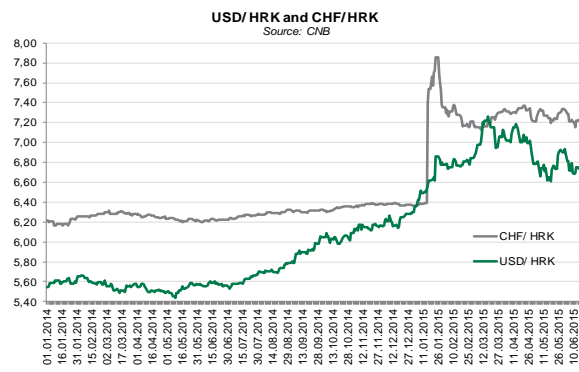
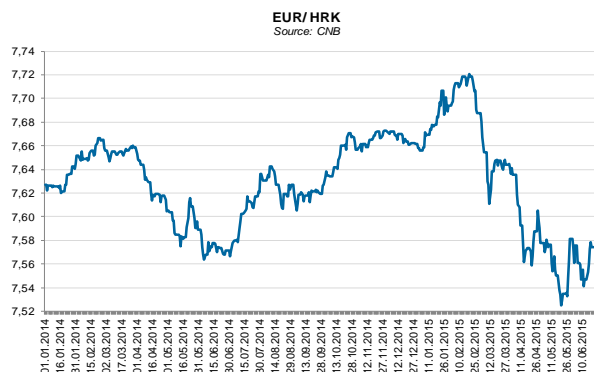
franc which generated a loss higher than HRK 0.2 bn. Due to the above mentioned, the operating income was 3% lower, amounting to HRK 1.6 bn, whereas operating costs reached HRK 2.1 bn, 2% more yoy. Thus, cost/income ratio increased to 57%, 2.5 p.p. more yoy, therefore the net operating profit dropped by 8% yoy. Costs of value adjustments reached almost HRK 1 bn (+6%), while their share in the net operating profit grew from 53% recorded in 1q 2014 to 62%. The net profit of banks was 21% lower, amounting to HRK 0.5 bn.

Euro stronger, kuna slightly weaker

Last week, following the FOMC meeting, the euro strengthened against the dollar. However, the dollar was not affected by the Committee's expected Decision to maintain interest rates at current levels, but rather with substantially lowered projections of the US GDP growth for this year. Thus, EUR/USD closed on Friday at 1.1352 dollar to the euro, up by 0.8% compared with the previous Friday, while the exchange rate was moderately corrected yesterday, closing the day at 1.1341. The Swiss franc slightly strengthened against the euro wow, closing the week at 1.04154 franc to the euro, which is down by 0.4% wow, while it partly lost its value yesterday, ending the day at 1.04499.



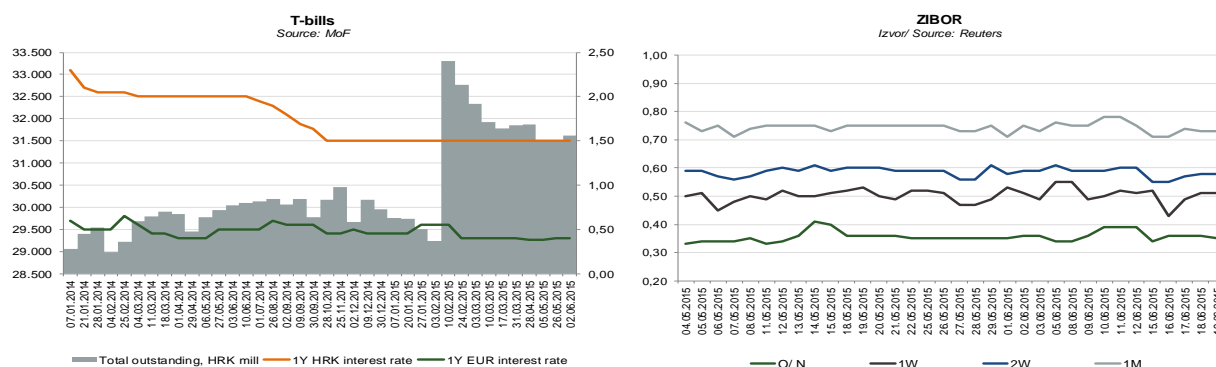
In spite of the beginning of the tourist season and the growth of FX inflows, the exchange rate of the kuna against the euro remains around 7.5750. The mid-exchange rate at the end of the week amounted to 7.5745 kuna to the euro, up by 0.4% wow. The kuna weakened by 0.5% against the Swiss franc, to 7.2525 kuna to the franc, and strengthened by 0.9% against the dollar, to 6.6942 kuna to the dollar. Due to holidays and longer weekends, this week should be quieter, whereas the end of the month might bring more activity to the domestic market. We expect trading in the range 7.56 – 7.59 kuna to the euro.



Sound liquidity, stable market

Interest rates: the Zibor on overnight loans closed the week at the corrected 0.35% (vs 0.39%), while 1M and 3M at 0.73% (vs 0.75%) or 0.94% (vs 0.93% the week before), respectively. Last week, the turnover in the money market amounted to 106.7 million kuna, whereas the average daily supply exceeding demand was 200 million kuna.

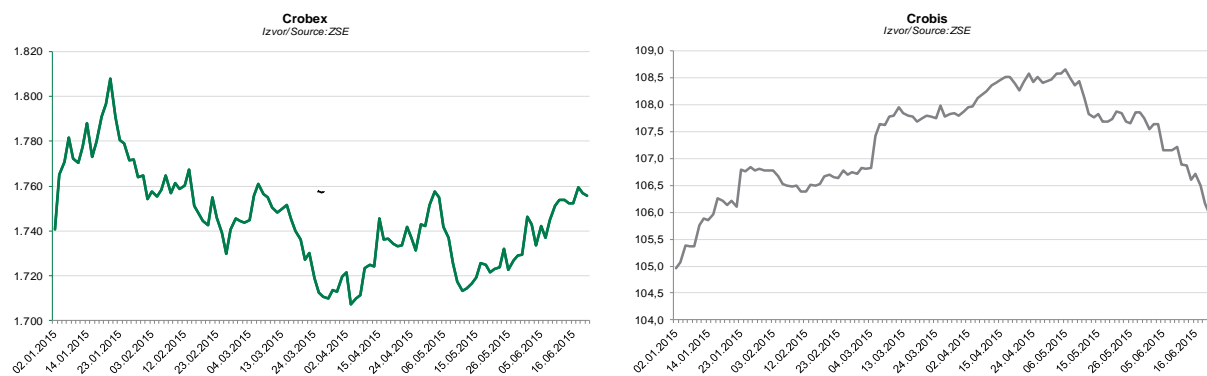
There will be no T-bill maturity this week and no new auction.



Mixed share performance

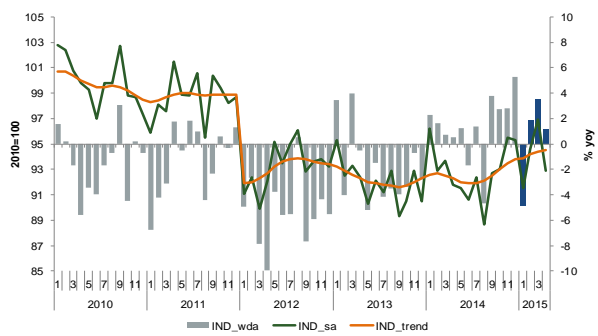
The total turnover in the ZSE was four times higher wow, amounting to 1.1 billion kuna, due to a five times higher bond turnover of 1.0 billion kuna. The turnover in shares decreased by 33% to 42 million kuna. The Crobex slightly increased by 0.1% wow, closing the week at 1,755.60 points, as a result of a mixed performance of the major index components shares (Ina +1.4%, Adris Grupa -1.5%, HT +1.1%, Valamar -0.2%, Končar EI 0.0%, Atlantic Grupa -0.2%, Podravka -0.5%, Ledo +0.3%, Ericsson NT -4.3%). The turnover of 7 million kuna was achieved by both the HT shares and the Adris grupa preferential shares. The price of HT shares rose from 154.67 to 156.31 kuna, while the value of Adris dropped from 386.05 to 380.24 kuna.

The highest, 525 million kuna turnover in the debt market was achieved by the kuna bond maturing in 2015, whereas the Crobis closed the week at a 0.8% lower level of 105.98 points.

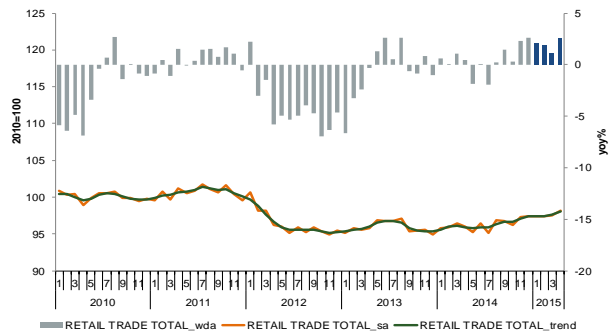


Statistics and macroeconomic forecasts

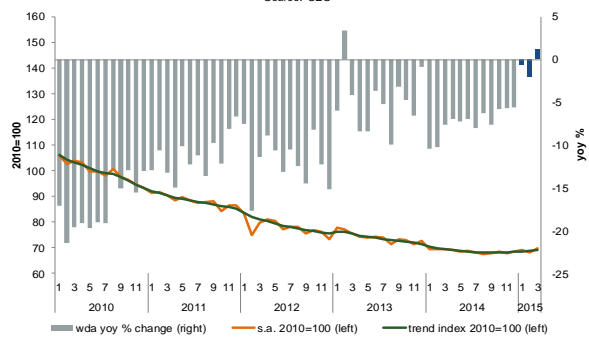
Industrial production, wda yoy % ch.
Source: Eurostat



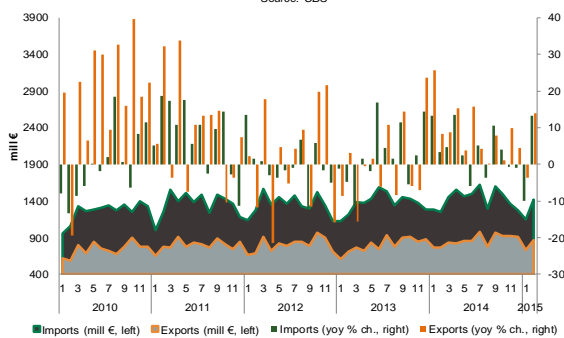
Retail trade, real, wda yoy ch. and index 2010=100
Source: CBS



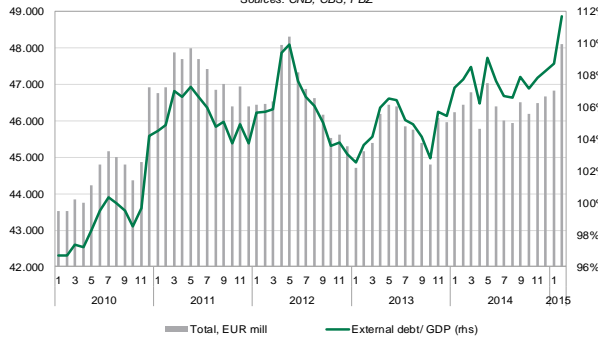
Construction works, yoy % ch. and index 2010=100
Source: CBS



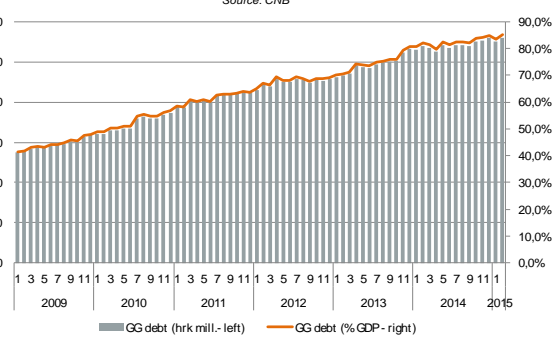
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



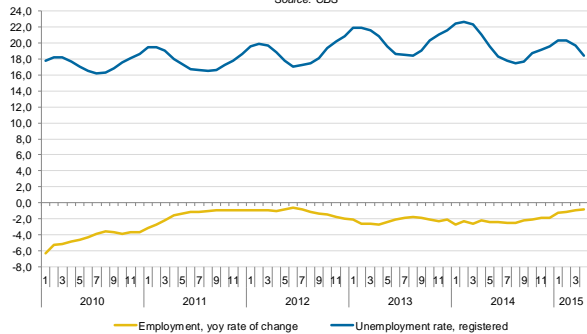
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



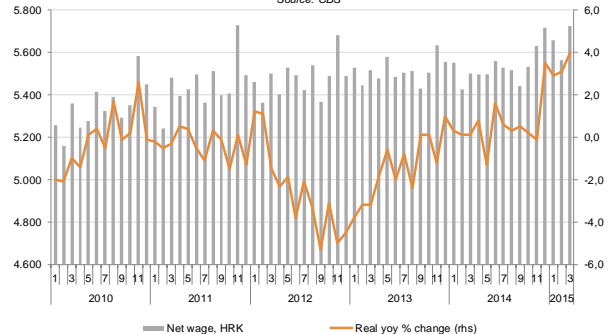
General government debt
Source: CNB

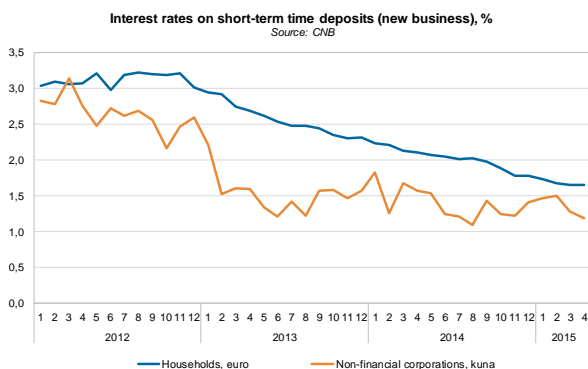
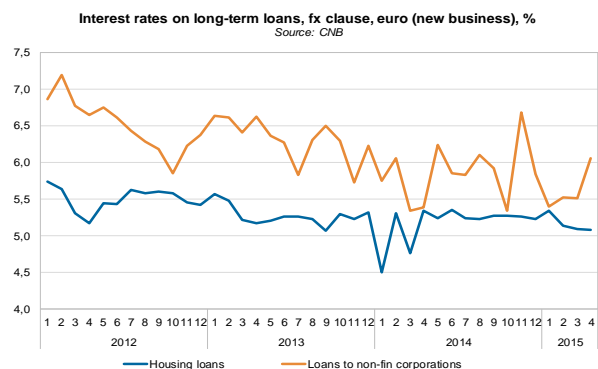
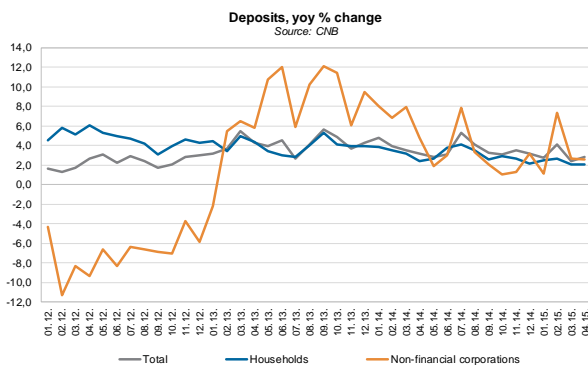
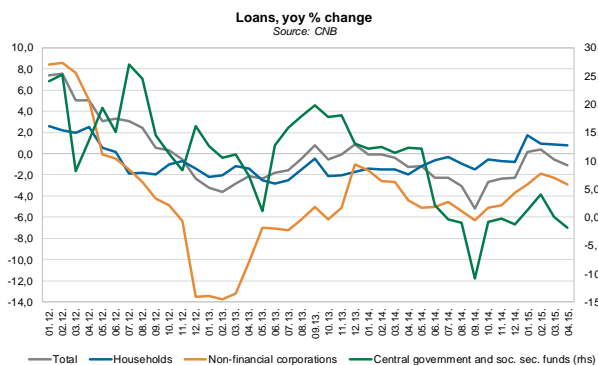
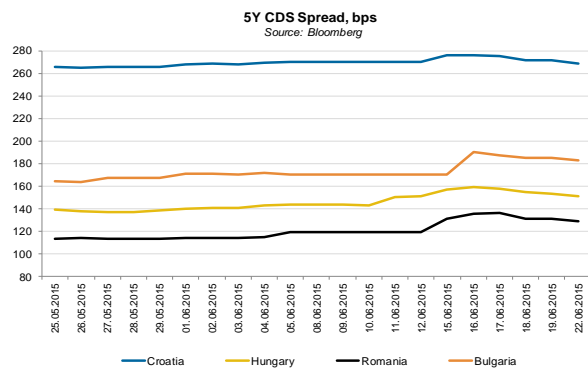
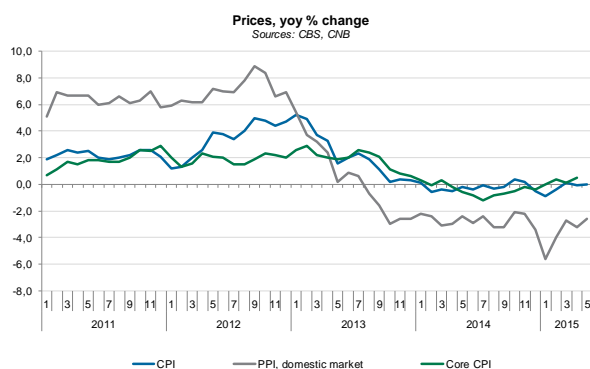


Employment, yoy rate of change and unemployment rate, %
Source: CBS



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





BASIC MACROECONOMIC INDICATORS

based on data available till 06/22/2015		2014	2015f
GDP, current prices	HRK mill	328.431	329.580
GDP, current prices	EUR mill	43.045	43.167
GDP, real	annual growth, in %	-0,4	0,3
GDP, nominal	annual growth, in %	-0,3	0,3
CPI	annual average, in %	-0,2	0,0
HRK / EUR	annual average	7,63	7,64
HRK / USD*	annual average	5,75	7,07
HRK / CHF*	annual average	6,28	7,14

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

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