

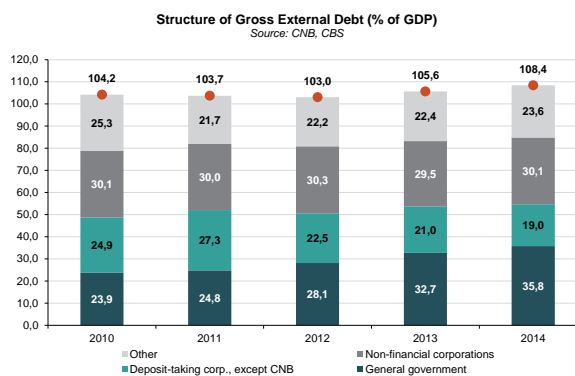
PBZ Weekly Analysis

Number 481, July 6, 2015

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Weekly overview

- The first results of the Labour Force Survey show that the survey unemployment rate 15+ amounted to 18.1% (15-64: 18.3%) in the first quarter of this year, which is down by 0.6 p.p. yoy (15-64: -0.5 p.p.). The unemployment rate for men and women in the 15+ group was 18.1%, however, while the rate for men was 0.9 p.p. higher yoy, the rate for women was 2.3 p.p. lower. The activity rate also recorded a positive trend, rising from 51.3% in the first quarter of 2014 to 52.1%, or by 0.8 p.p., where the rate for men increased by 1.2 p.p. to 58.8%, whereas for women by 0.5 p.p. to 46.1%.
- According to the preliminary data, retail trade in May recorded a working-day adjusted growth of 4.1% compared with the same month of 2014, while a seasonally adjusted growth amounted to 0.6%, compared with the previous month. Such a high retail trade growth rate yoy has not been recorded since September 2007. A combined influence of improved consumer expectations, due to tax relief on net wages, a good tourist pre-season and a low base are the main background factors contributing to the achieved growth. This year, particularly over the summer months, we expect positive trends to continue and, ultimately, a positive contribution of personal consumption to the GDP growth.
- The industrial production in May rose by 4.4% from May of 2014, thus reaching the largest growth rate recorded in this year, consequently, the growth rate in the first five months jumped to 1.3%. The growth in May is a result of a 6.1% increase in the manufacturing (the largest growth rate since the end of 2011) and a 8.1% increase in mining and quarrying, while electricity supply sank by 10.1% compared with the same month last year. Out of 23 manufacturing sections, only eight recorded a drop in the production in May (manufacture of tobacco products, textiles, wearing apparel, printing, manufacture of basic metals, computer and electronic products, electrical equipment and other manufacturing), whereas the remaining sections recorded an increase, the largest increase being in the manufacture of leather and related products (+42.1%) and the lowest in the manufacture of other non-metallic mineral products (+1.1%). Except January of this year, the industrial production recorded a 9-month growth trend, which is still mostly a result of higher export activities. We expect positive trends to continue and the overall debt this year to be around 1.3%, as recorded last year.
- Gross external debt climbed to 49.3 billion euro (+5.5% yoy) at the end of March, reaching a new record level of 114% of the estimated GDP for this year. The general government debt ended the first quarter at a 18.4% higher level compared with the same month last year, after an issue of 1.5 billion euro worth of MF euro bonds in March, thus reaching 38.6% of GDP. The debt of non-financial corporations was reduced slightly by 0.3%, to 31.0% of GDP, while the debt of MFIs

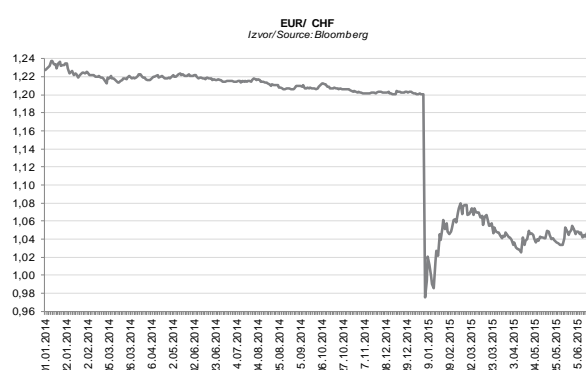
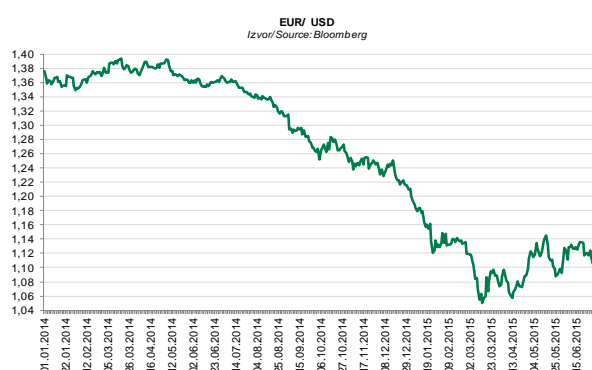


dramatically fell by 12.3% to 19.0% of GDP. The debt of the central bank highly increased by 170.9%, which is, according to the CNB explanation, a consequence of an investment of a part of the international reserves in repo agreements, however, as the gross reserves increase by the same amount, the net effect of the transaction is neutral.

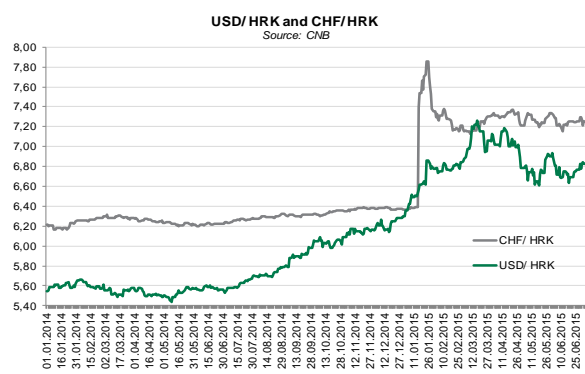
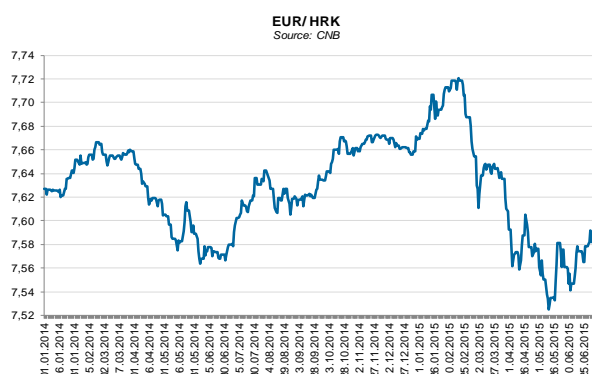
- The consolidated assets of other MFIs at the end of May rose by 0.6%. Compared with April, total loans recorded a 0.2% growth in the same month, which is mostly a result of an increase in lending to the central government (+0.9%) and a leap of kuna cash retail loans (+2.5%). The rate of fall slowed down to -0.4% yoy, where households recorded a growth of 1.1% (kuna cash loans, housing loans pegged to the franc), whereas loans to non-financial corporations fell by 2.3%. Still, corporate loans moderately rose by 0.3% at the end of May, compared with the end of last year, due to a 0.6% increase in loans for other purposes and a 2.0% increase in loans for working capital. However, investment loans continued to deteriorate (-1.6% compared with December of 2014). Total deposits in May slightly climbed mom (+0.3%), therefore the annual rate mildly accelerated to +2.9% (April: +2.7%). Household deposit trends continued at the usual dynamics (+2.0% yoy), while deposits of non-financial corporations jumped almost by 2% mom (demand deposits), by which their growth pace accelerated to 3.1% yoy.

Euro awaits referendum, domestic market calm

Last week in global FX markets was exciting, as the uncertainty about Greece and the approaching of yesterday's referendum agitated the waters. Under such pressures the euro weakened against the dollar and the trading on Friday closed at 1.1115 dollar to the euro, down by 0.5% wow. The Swiss central bank intervened over the weekend prior to the beginning of last week in order to stabilise the franc, the demand for which increased again and the franc slightly weakened against the euro wow, closing the week at 1.04428 franc to euro, up by 0.1% wow.



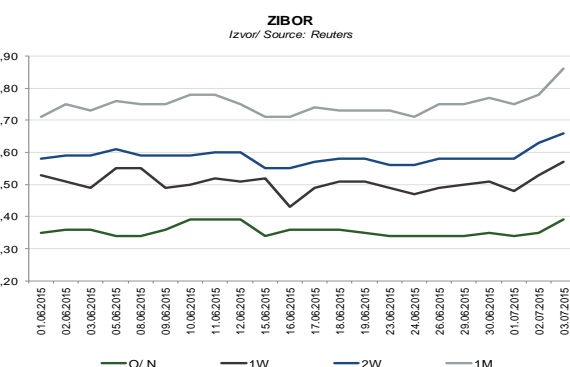
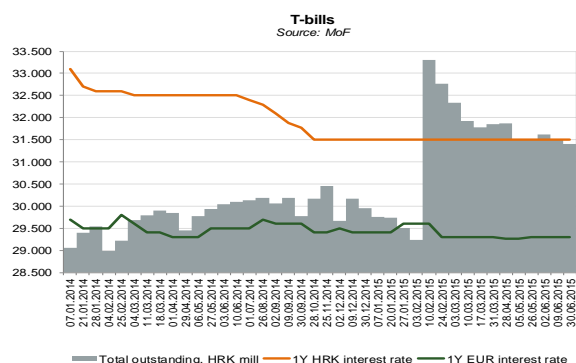
The EUR/HRK exchange rate continued to record only mild fluctuations, ending the week at 7.5864 kuna to the euro, up by 0.1% wow. The kuna remained unchanged against the Swiss franc as well, therefore the mid-exchange rate on Friday amounted to 7.2549 kuna to the franc, while the kuna against the dollar weakened by 0.8%, to 6.8272 kuna to the dollar.



Slight increase in interest rates

Slightly higher demand for kuna led to a rise in interest rates and the Zibor on overnight loans closed the week at 0.39% (vs 0.34%), while 1M and 3M at 0.86% (vs 0.75%) and 1.03% (vs 0.94% the previous week), respectively. The turnover in the ZMM amounted 216.5 million kuna, while the average daily supply exceeding demand was 185 million kuna.

At the last week's auction, the Ministry of Finance issued a total of 323 million kuna in one-year T-bills, with an unchanged yield of 1.50%. The overall public debt under T-bills is 31.4 billion kuna. Only 60 million in T-bills will mature this week and no auction has been announced by MF.



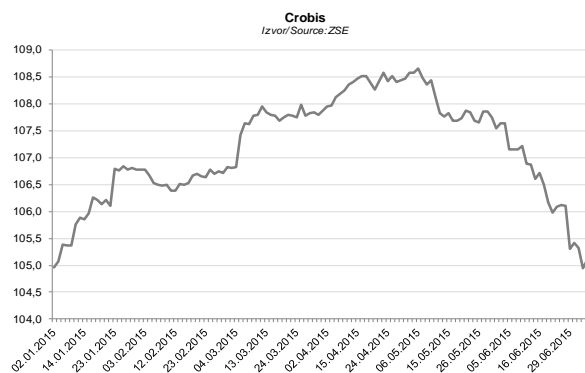
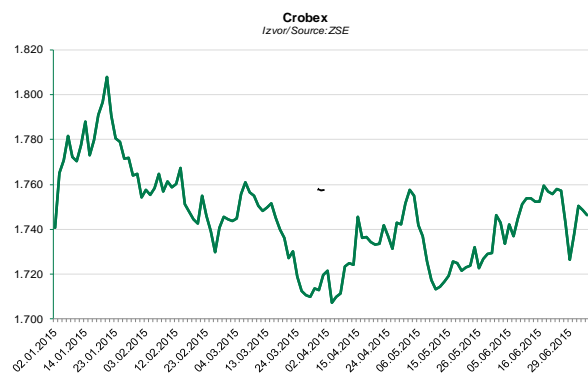
Crobex moderately moves into positive territory

Last week, the total turnover in the ZSE was almost two times higher wow, amounting to 527 million kuna, as a result of a 73% higher bond turnover of 449 million kuna and almost 3.5 times higher share turnover of 75 million kuna.

The Crobex rose mildly by 0.2% wow, closing the week at 1,746.36 points due to a mostly mixed performance of the major index components shares (Adris Grupa -1.6%, Ina +1.5%, HT -2.0%, Valamar +0.5%, Končar EI +1.6%, Atlantic Grupa -0.5%, Podravka -2.5%, Ledo -0.7%, Ericsson NT -3.4%). The highest turnover of 21 million kuna was achieved by the Granolio shares, the price of which fell by 0.5% wow, from 125.25 to 124.68 kuna, whereas the turnover achieved by the

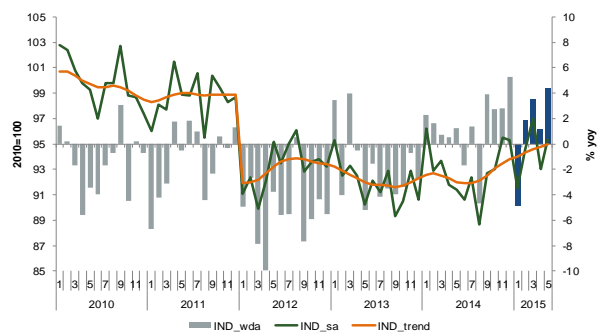
preferential shares of Adris grupa reached 17 million kuna and the price dropped from 377.33 to 371.25 kuna.

The highest, 135 million kuna turnover in the debt market was achieved by RHM-F-O-172A bonds maturing in 2017, whereas the Crobis closed the week at a 0.9% lower level of 105.10 points.

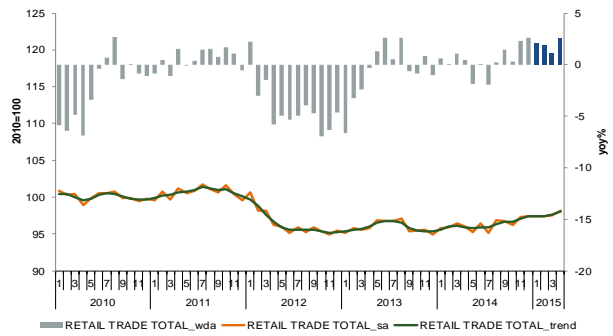


Statistics and macroeconomic forecasts

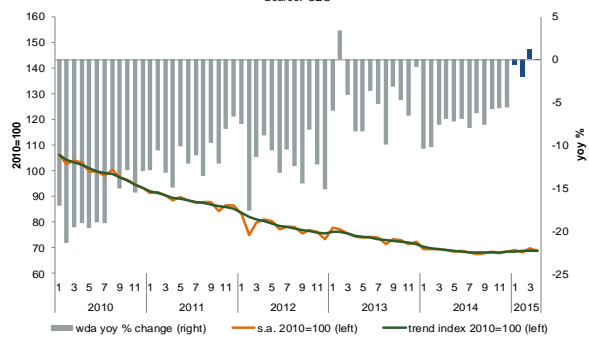
Industrial production, wda yoy % ch.
Source: Eurostat



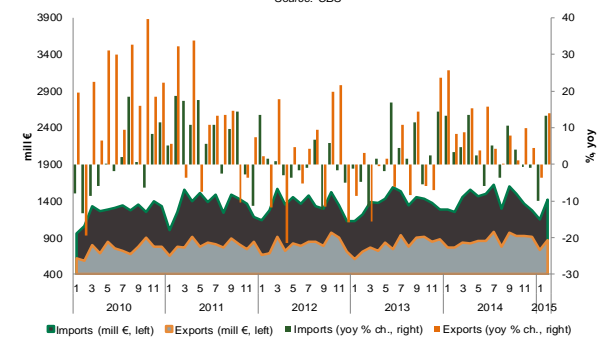
Retail trade, real, wda yoy ch. and index 2010=100
Source: CBS



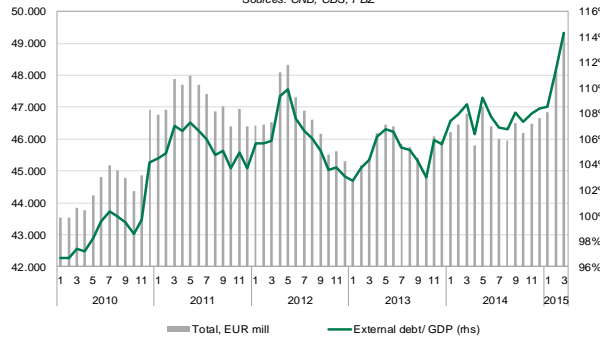
Construction works, yoy % ch. and index 2010=100
Source: CBS



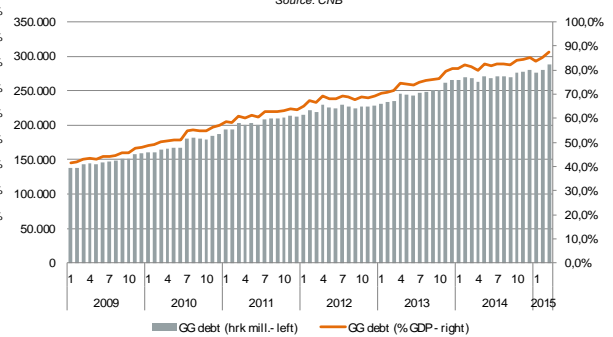
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



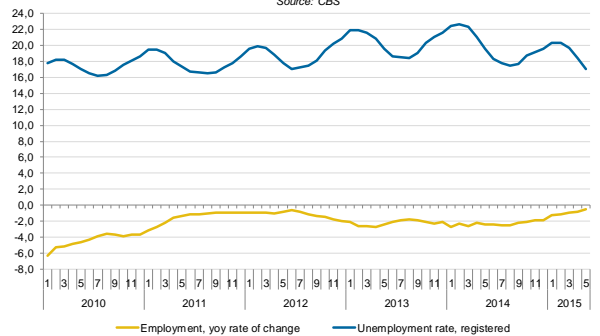
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



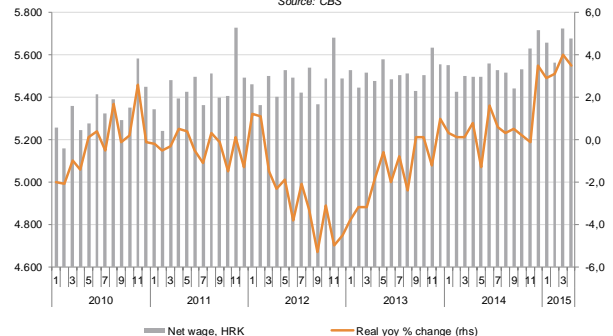
General government debt
Source: CNB

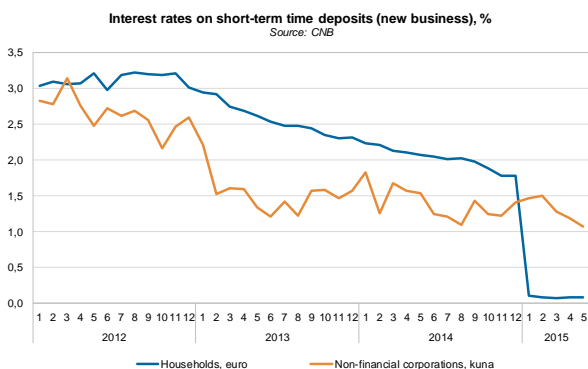
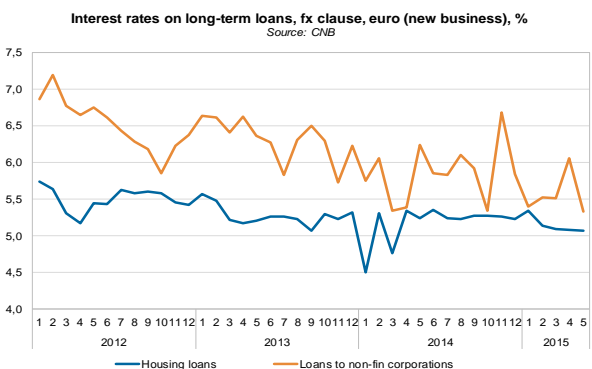
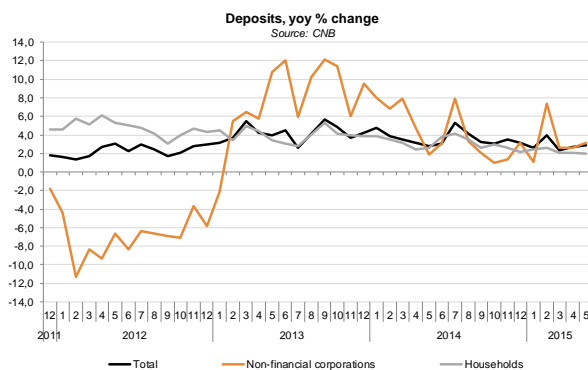
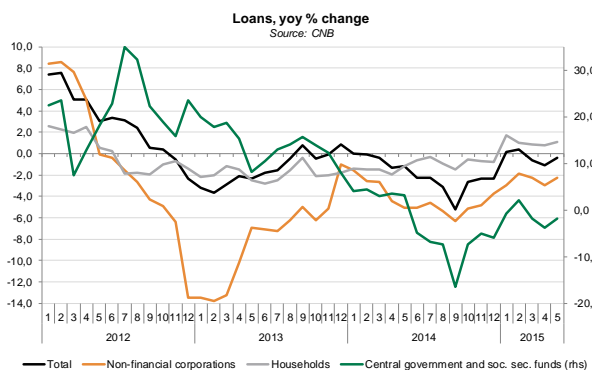
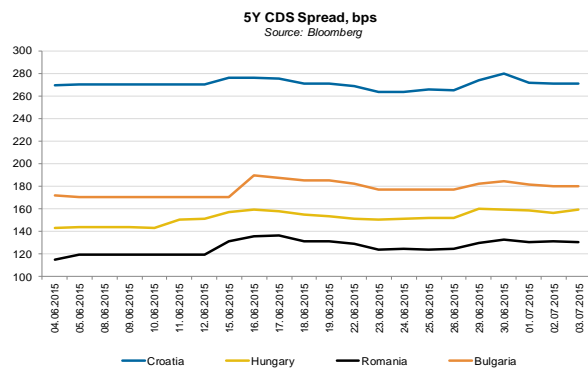
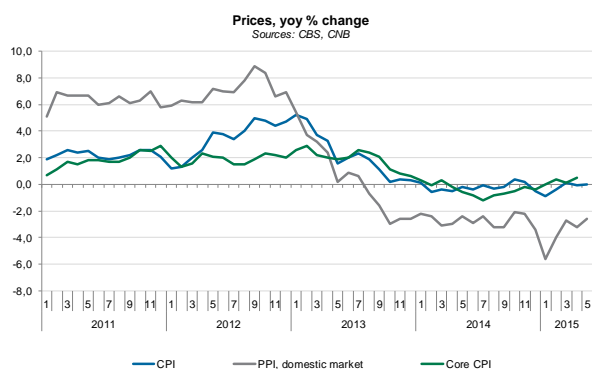


Employment, yoy rate of change and unemployment rate, %
Source: CBS



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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