

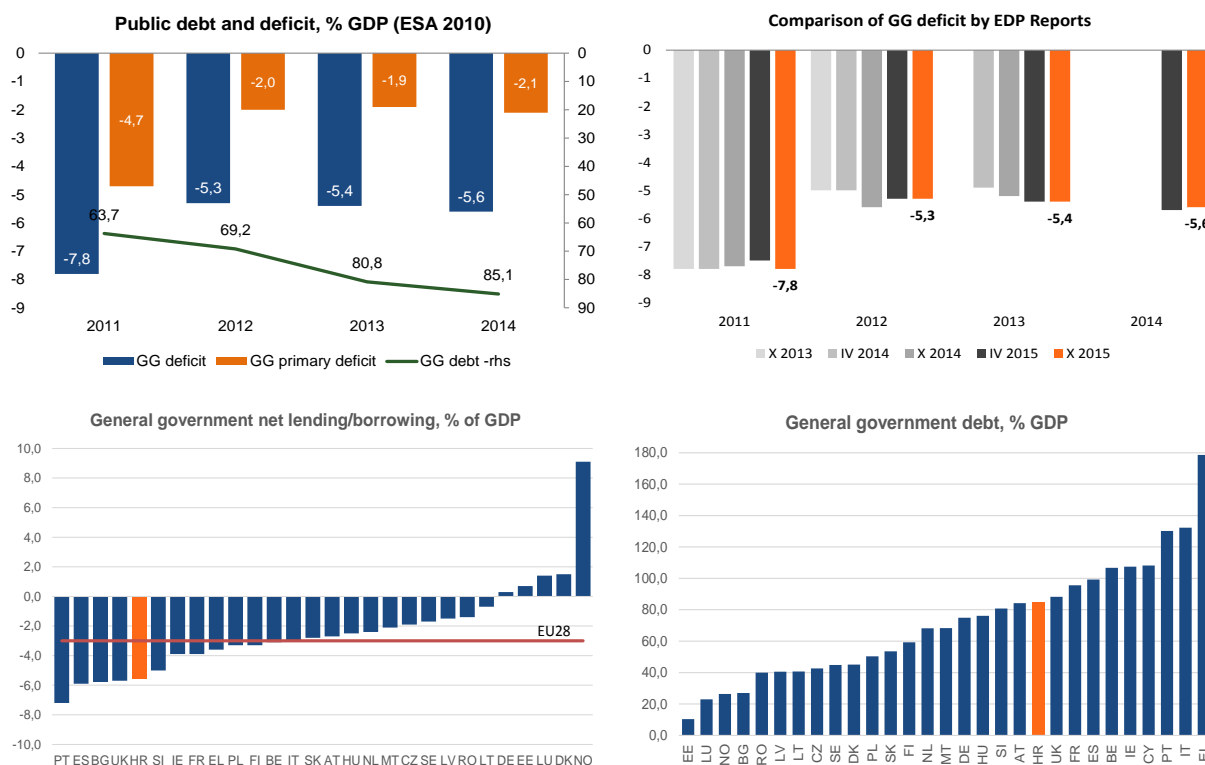
# PBZ Weekly Analysis

**Number 492, October 26, 2015**

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## Weekly overview

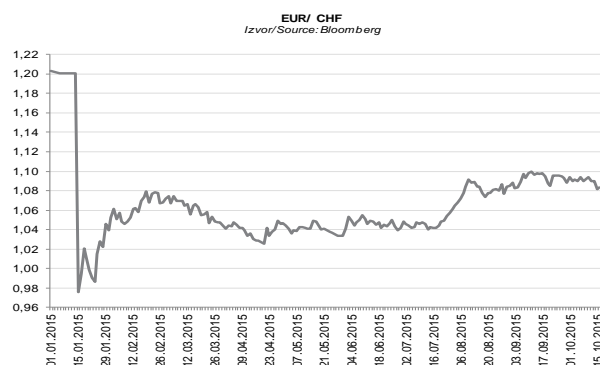
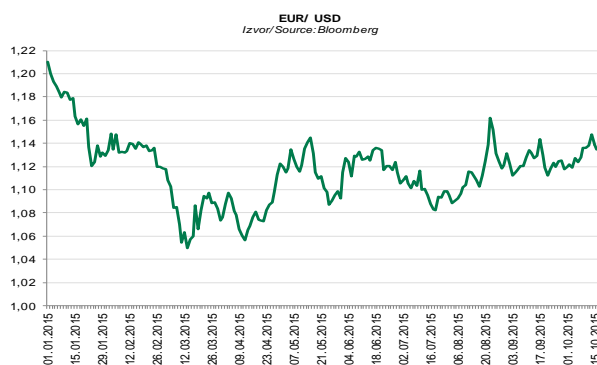
- The October *Excessive Deficit Procedure Report* brought a mild correction of data for the period 2011-2014, compared with the April 2015 notification. Thus, the deficit amount in 2011 increased by 0.25%; in 2012 by 0.05%; the deficit amount in 2013 decreased by 0.01% and in 2014 by 0.14% of GDP. The most significant changes in 2014 imply the change in the treatment of income tax by 785 million kuna due to the application of time-adjusted cash method (+ contribution) and the treatment of the capital injection of the company Petrokemija d.d. in the amount of 250 million kuna (- contribution to deficit). According to the released data, the expected deficit in 2015 will amount to 15.9 billion kuna, or 4.8% of the estimated GDP amount, whereas the public debt level will reach 89.2% of GDP. As shown in the graphs, due to a high deficit level and the consequential high public debt level, the difference between Croatia and other EU similar countries is significant (the so-called new members, with the exception of Slovenia which increased its public debt in 2014 to 80.8% of GDP, partly as a result of the pre-financing of 2015 at lower interest rates)



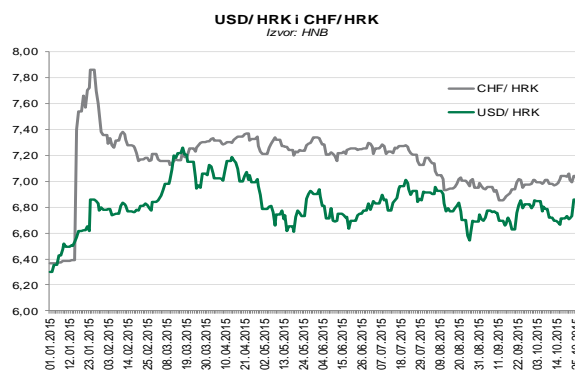
- According to the first results of the Croatian Bureau of Statistics, the registered unemployment rate for September amounted to 16.2%, which is by 3 p.p. more than in August or 1.4 p.p. less than in September 2014. According to the same source, the average net earnings for August amounted to 5,712 kuna. i.e. 3,6% more yoy. A detailed data on the labour market trends will be released on Friday.

## Euro drops dramatically

Although, the eagerly awaited ECB meeting has not brought changes in the monetary policy, it has been clearly pointed out that negative risks have prevailed and that the return of inflation to medium-term goals may be slower than expected. Furthermore, ECB moves from the position "wait and see" and takes the approach "work and assess" and, therefore, is also ready to react if necessary at the next meeting in December. The euro significantly weakened and market movements ended on Friday at 1.1018 dollar to the euro, i.e. down by 2.9% wow, while the Swiss franc closed the week at 1.0782 franc to the euro, down by 0.4% wow. The focus of attention is now on Wednesday and the FED meeting. *(graphs not updated due to technical reasons)*



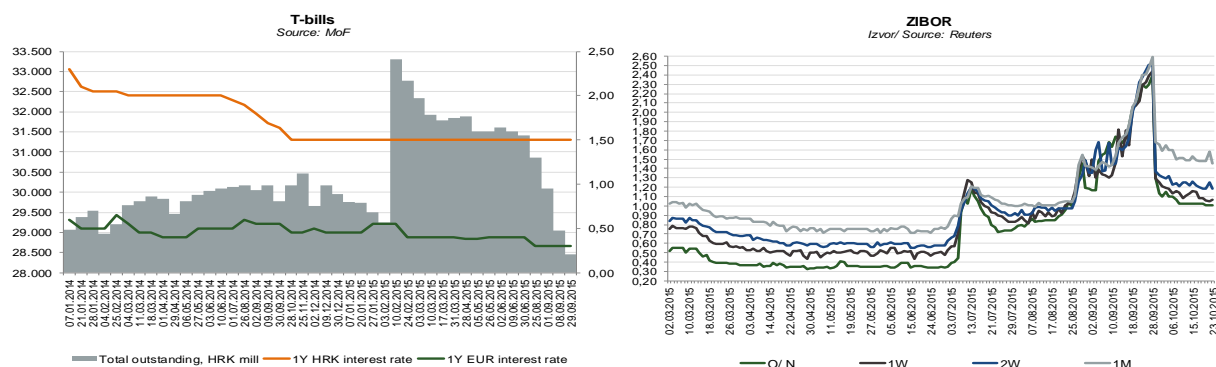
The domestic market mainly saw appreciation pressures and the EUR/HRK exchange rate at the end of the week amounted to 7.6156 kuna to the euro, i.e. 0.1% less wow. The kuna weakened against the dollar (to 6.8566), while the kuna against the Swiss franc remained unchanged and the exchange rate on Friday was 7.0436 kuna to the franc.



## CNB stabilises market

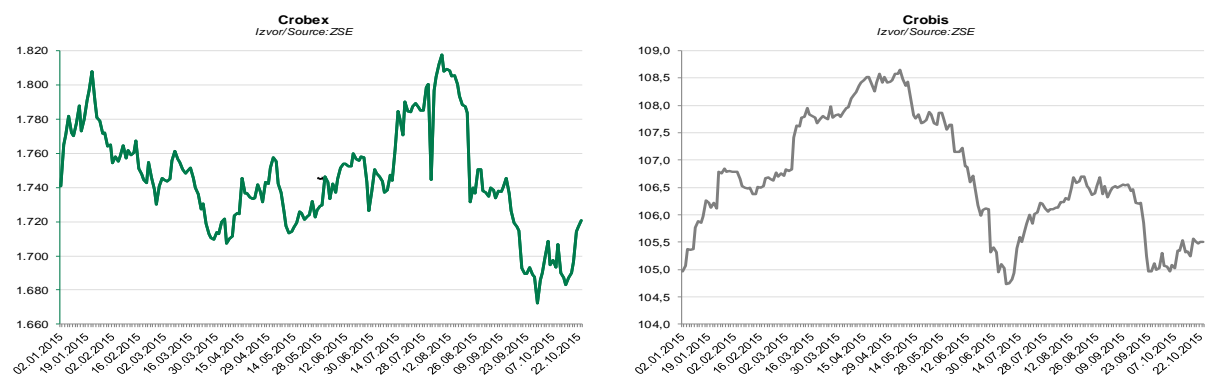
To the now almost regular weekly reverse repo auctions, CNB added its decision on lowering interest rates, therefore the interest rate on lombard loans was reduced from 5 to 2.5%, while the discount rate from 7 to 3%. The interest rate on the short-term liquidity loan was reduced from 5.5 to 3.5% for loan utilisation up to 3 months, and from 6 to 4% for loan utilisation over 3 months. The market stabilised and the overnight Zibor closed the week at the unchanged 1.01%, while 1M and 3M at 1.45% (vs 1.49%) and 1.69% (vs 1.74% the previous week), respectively.

As the maturity of 1.3 billion kuna in T-bills is approaching, the Ministry of Finance has announced this week's auction where a subscription of 500 million kuna and 10 million euro in T-bills will be offered.



## Rise of Crobex

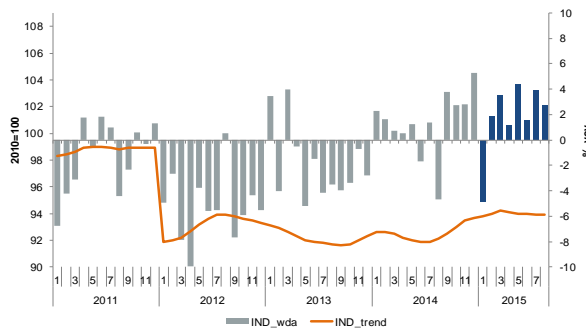
Last week, the Crobex closed at 1,720.51 points or gaining 2% wow, while the Crobis rose by 0.25%, closing the week at 105.51 points. The total turnover in the ZSE decreased by almost 64% wow, amounting to 145 million kuna.



# Statistics and macroeconomic forecasts

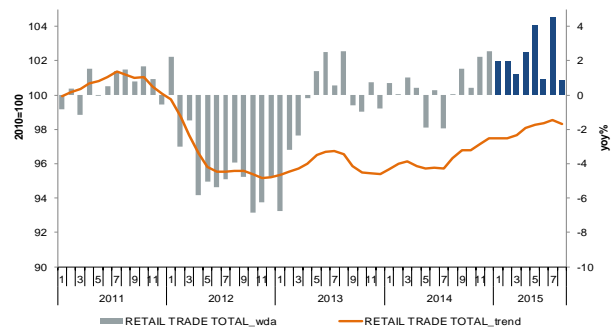
**Industrial production, wda yoy % ch.**

Source: Eurostat



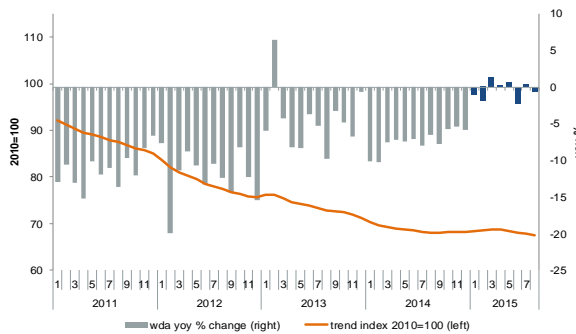
**Retail trade, real, wda yoy ch.**

Source: CBS



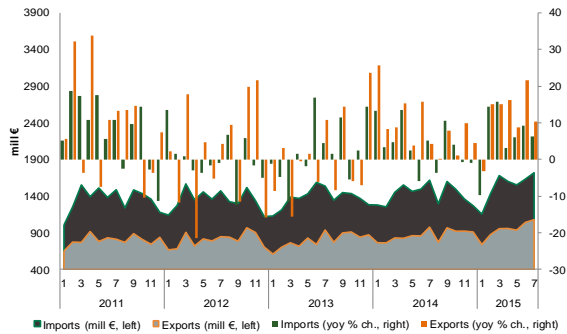
**Construction works, yoy % ch. and index 2010=100**

Source: CBS



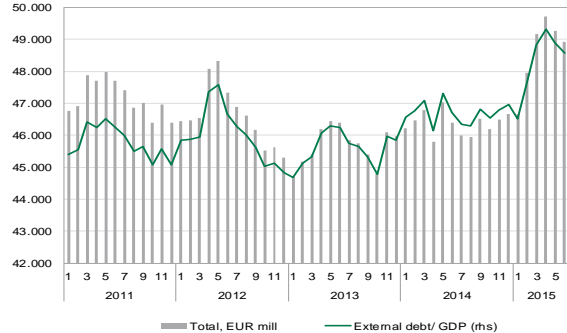
**Goods exports and imports (yoy % ch. and mill €)**

Source: CBS



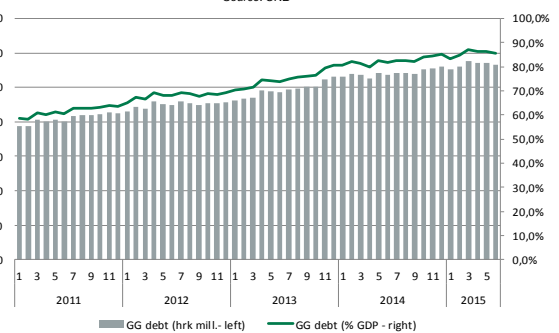
**External debt, amount and share to GDP**

Sources: CNB, CBS, PBZ



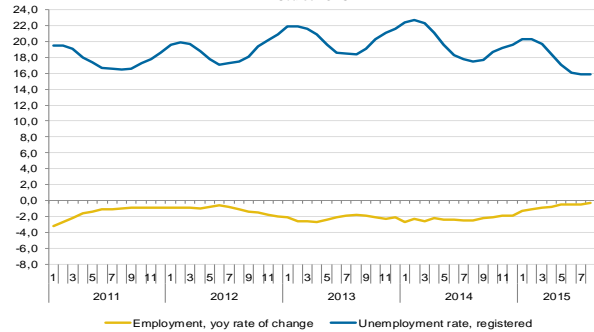
**General government debt**

Source: CNB



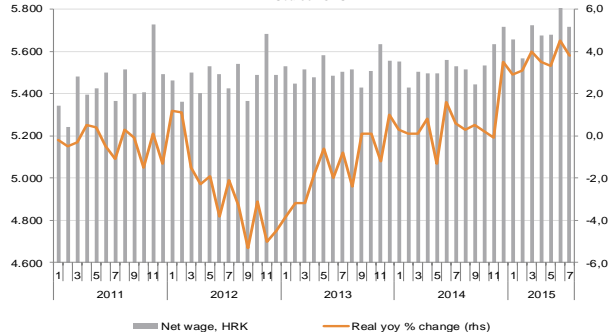
**Employment, yoy rate of change and unemployment rate, %**

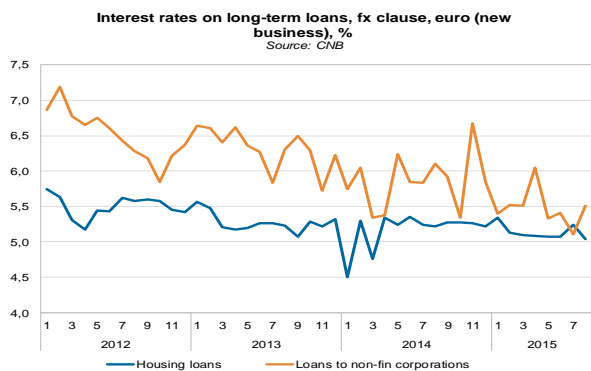
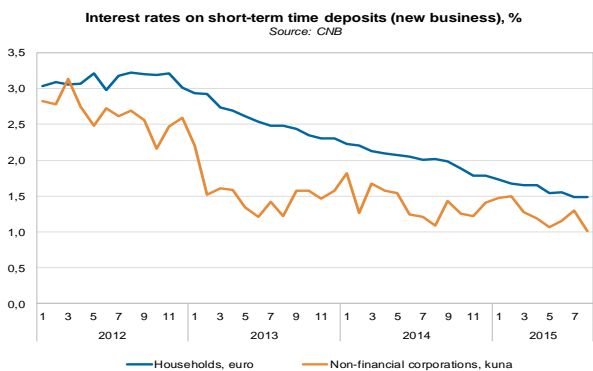
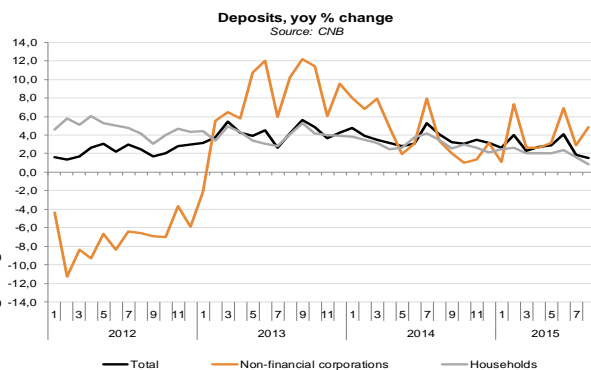
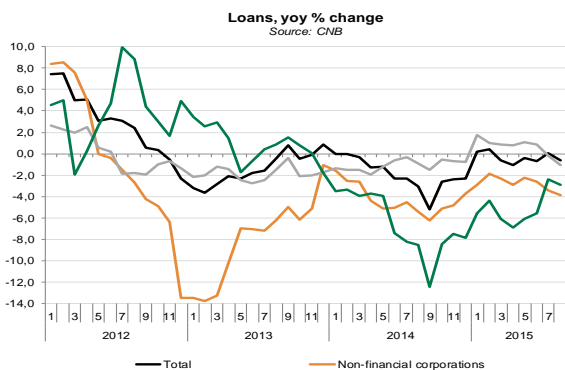
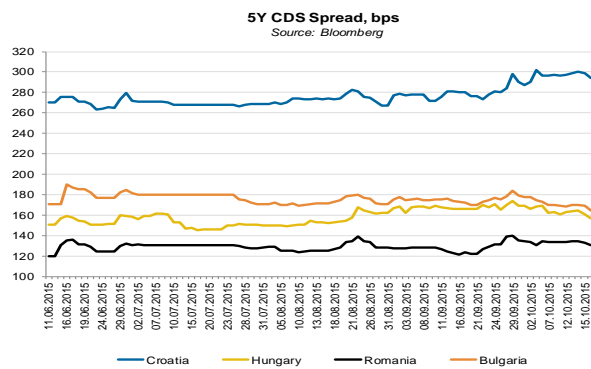
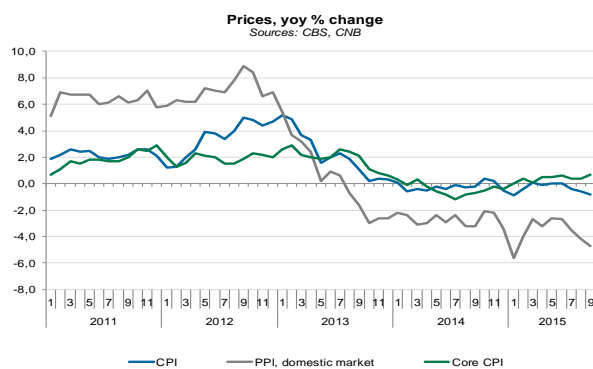
Source: CBS



**Net wages: amount and real yoy rate of change**

Source: CBS





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