

PBZ Weekly Analysis

Number 497, November 30, 2015

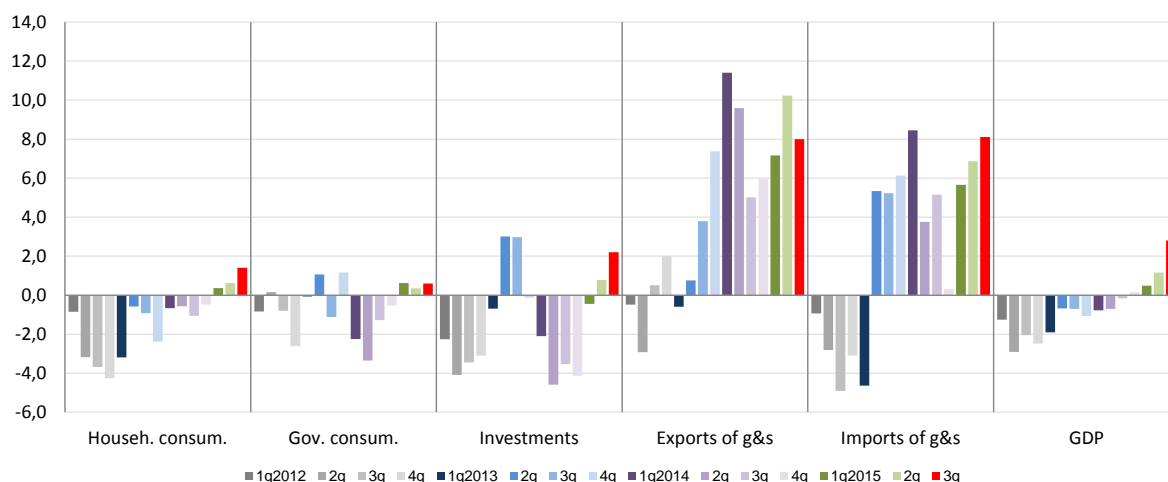
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Weekly overview

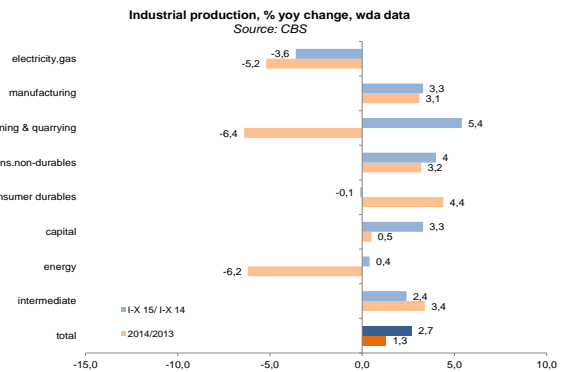
- Although we anticipated the acceleration of the economic growth in the third quarter of this year (to approx 2%), the Flash Estimate of the Croatian Bureau of Statistics (CBS) indicating a growth of 2.8% exceeded our expectations. The data from the release reveal a more significant acceleration of the personal consumption growth (to +1.4% compared with +0.6% in the second quarter), and government spending (to +0.6% vs +0.4% the previous quarter). However, the largest surprise comes from an increase of even 2.2% in investments (an increase which was not implied by the movements of construction works indices), while a positive contribution of net foreign demand continued in the third quarter, as expected. In fact, due to high-frequency indicators, we could have anticipated a substantial contribution of the export of services, i.e. tourism to the GDP growth over the monitored period. Thus, the export of goods and services increased by 8.0% compared with the same period last year, while the import rose by 8.1%; which finally resulted, according to the CBS data, in the contribution of the net foreign demand of 1.6 percentage points. Although there are few available indicators for the last quarter, the currently available data show that the industrial production in October recorded a large increase of 6.4% (wda) and 4.8% (gross indices) compared with the same month of 2014, we expect a positive GDP growth rate in this quarter as well, although much lower than the growth recorded in the third quarter, as a result of a significantly lower influence of tourism as well as the potential negative impact of the election cycle on business activities. However, in the end, this year might see a GDP growth rate of around 1.3%. Where it concerns the year 2016, we do not anticipate considerably different movements, rather the maintenance of the growth rate at the approximately same levels. In fact, personal consumption will see lower positive influences of this year's tax changes as well as a positive influence of low price levels, therefore, we may expect consumption to remain at the same or marginally higher levels. We expect a significantly higher positive contribution from the investment activity fostered mainly by a greater absorption of the EU funds, whereas, where it concerns domestic demand, government spending, i.e. the unclear manner of carrying out fiscal consolidation is the largest unknown fact. As far as foreign demand is concerned, although we expect its further positive contribution, some uncertainty arises due to geopolitical risk and the fact that the bar was set high in 2015 for the export of services, i.e. tourism.

GDP components, real yoy growth rates

Source: CBS



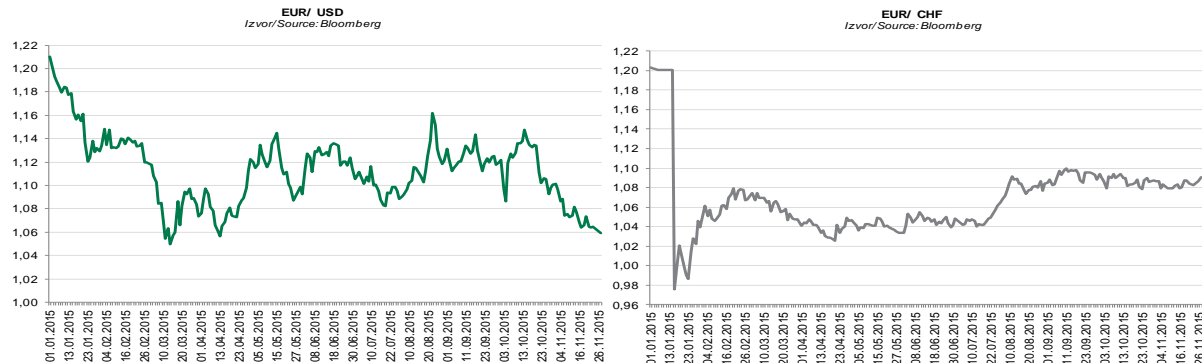
- According to the seasonally adjusted data, the industrial production in October rose by 1% compared with September, while the working-day adjusted data show a growth of 6.4% yoy (for the ninth consecutive month, the largest growth since May 2007). The yoy growth is a result of the continuation of positive movements in Manufacturing (+6.8%, of which



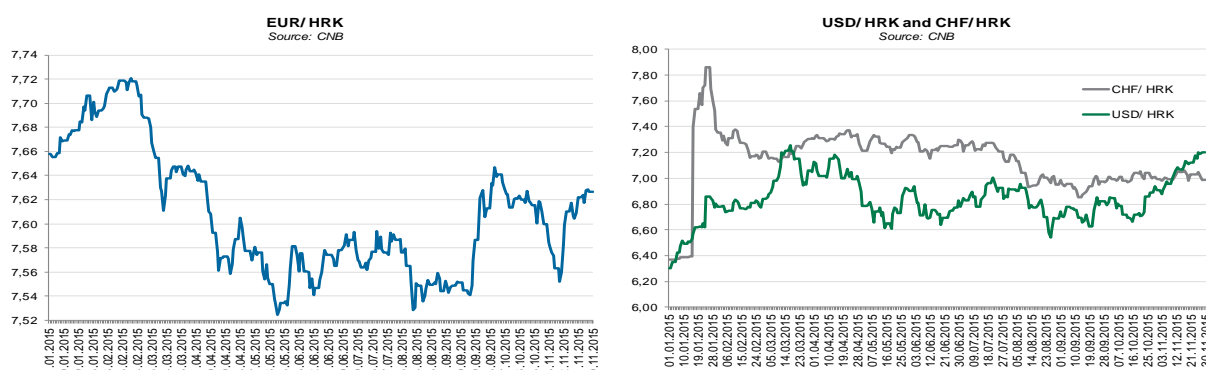
Manufacture of food products rose by 8.7% and *Manufacture of fabricated metal products, except machinery and equipment* by 9.4%, as well as the two components with the largest share in total industrial production), in Electricity, gas, steam and air conditioning supply (+6.1%) and Mining and quarrying (+1.9%, where *Extraction of crude petroleum and natural gas* increased by 5.8%). The data for the first ten months of this year show a cumulative growth in the industrial production of 2.7% compared with the same period of 2014.

Euro below 1.06

In anticipation of this week's ECB meeting, the euro sank further and the week closed at 1.0593 dollar to the euro, i.e. down by 0.5% wow. Compared with the CHF, the euro strengthened to 1.0908 Swiss franc to the euro, up by 0.6% wow.



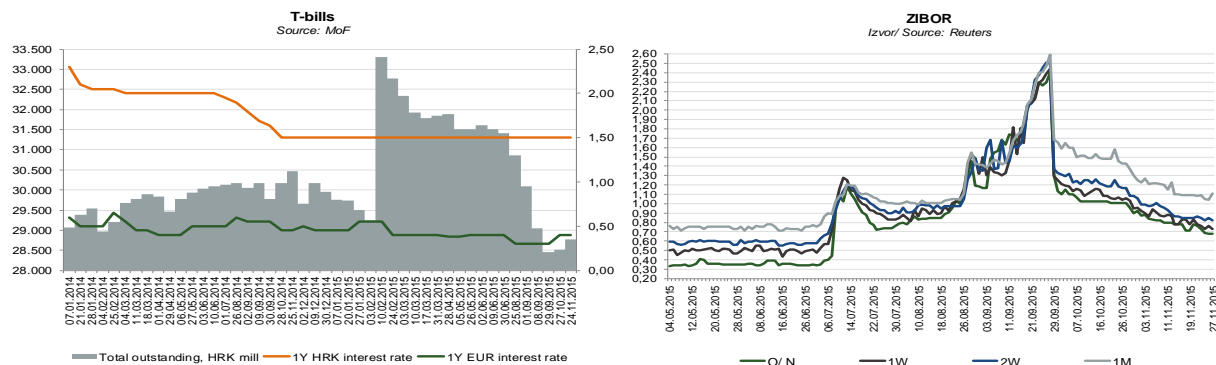
The exchange rate at the domestic market closed the week at 7.6268 kuna to the euro, i.e. up by 0.1% wow. The kuna weakened against the dollar as well (by 1.1% to 7.1998), whereas the kuna against the Swiss franc strengthened (by 0.6%, to 6.9874).



T-bill yields increase moderately

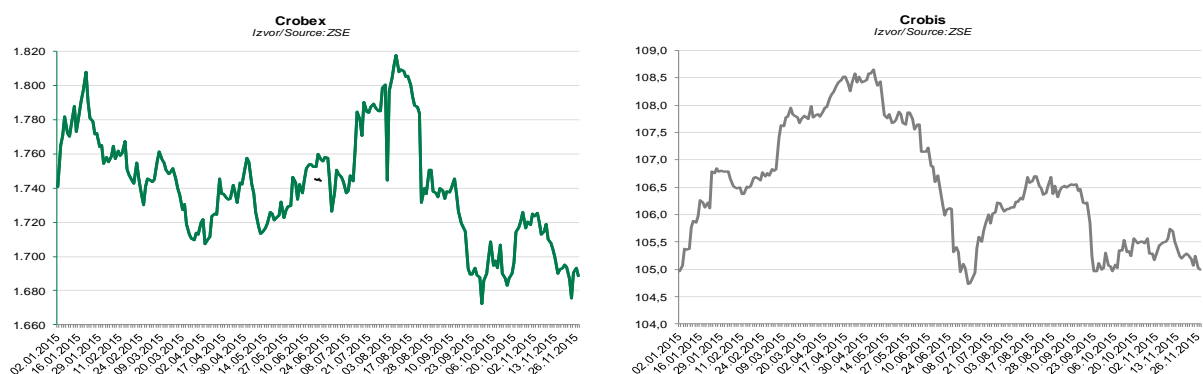
Due to regular reverse repo auctions (178 million kuna at 0.50% injected last week) and clam environment, interest rates remained at the current levels and the overnight Zibor closed the week at 0.68% (vs 0.78 the previous week), while 1M and 3M at 1.11% (vs 1.09%) and 1.32% (vs 1.38% the previous week), respectively.

The last week's auction saw a subscription of 1.85 billion in kuna T-bills and 12.55 million in euro T-bills, as follows: 50 million kuna in three-month T-bills with a yield of 0.43% (vs 0.28% at the previous, late October auction); 100 million kuna in six-months yields of 0.55% (vs 0.40%) and 1.7 billion kuna in one-year T-bills with an unchanged yield of 1.50%. Also, there was a subscription of 11 million euro of 3M and 1.55 million euro in 1Y T-bills, both of an unchanged yield of 0.20% and 0.40%, respectively. The current balance of the subscribed T-bills is 28.7 billion kuna. A total of 864 million kuna in T-bills will mature this week and the auction has been announced.



Crobex continues to decrease

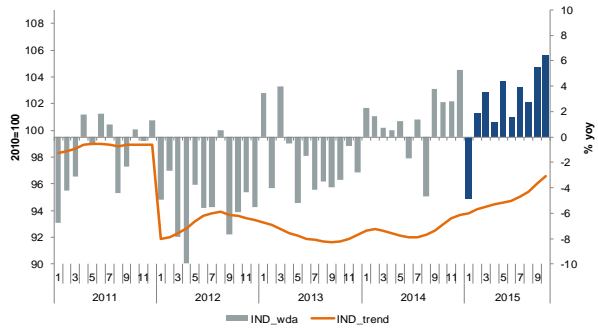
The Crobex closed the week at 1,688.66 points, i.e. 0.3% lower level compared with the week before, whereas the Crobis index closed the week at 105.00 points, which is a decline of 0.25% wow. The total ZSE turnover was down by 6% from the previous week, amounting to 294 million kuna.



Statistics and macroeconomic forecasts

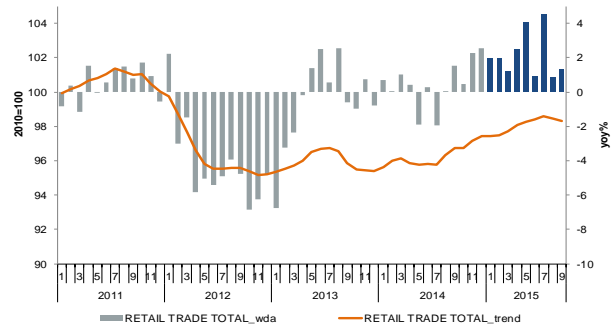
Industrial production, wda yoy % ch.

Source: Eurostat



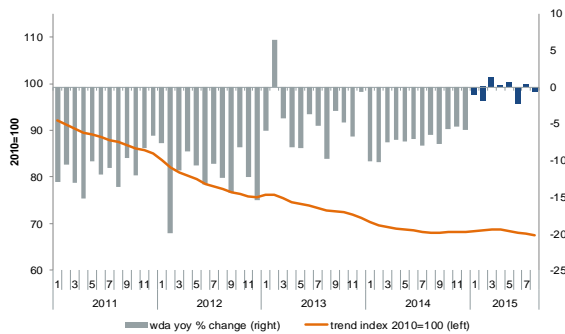
Retail trade, real, wda yoy ch.

Source: CBS



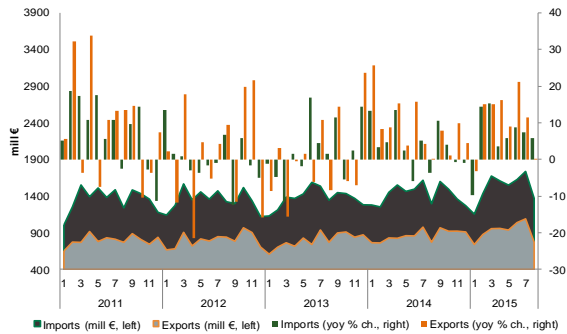
Construction works, yoy % ch. and index 2010=100

Source: CBS



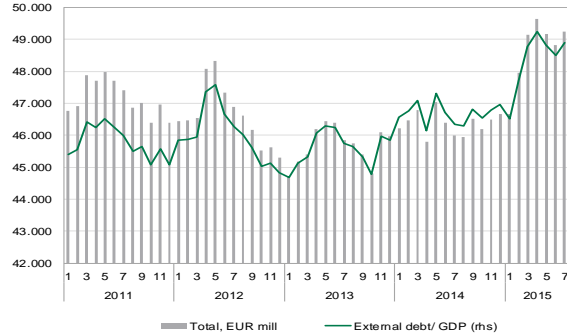
Goods exports and imports (yoy % ch. and mill €)

Source: CBS



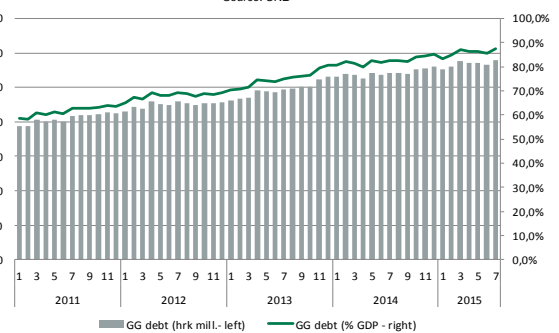
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



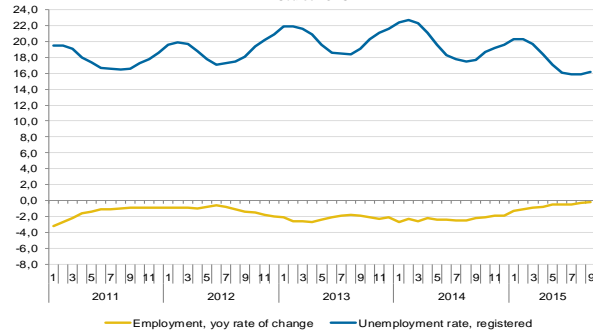
General government debt

Source: CNB



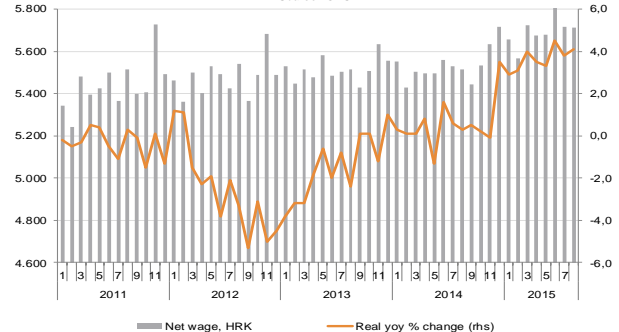
Employment, yoy rate of change and unemployment rate, %

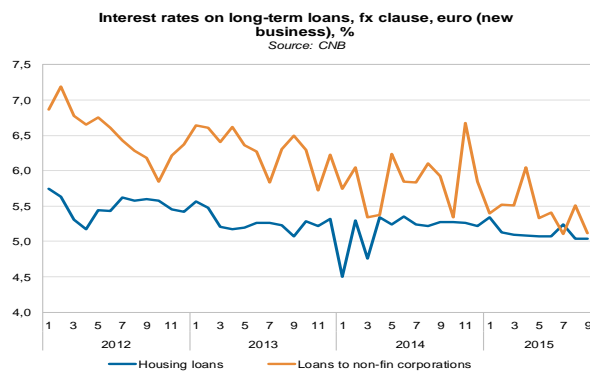
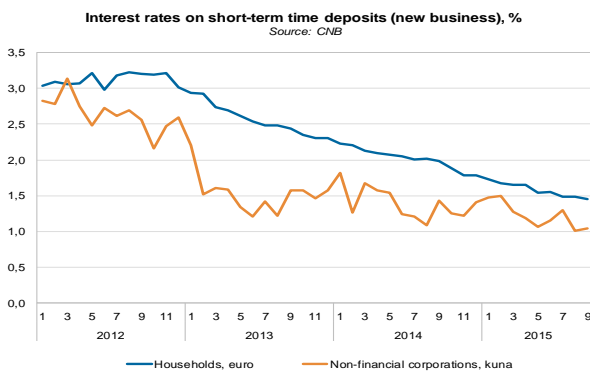
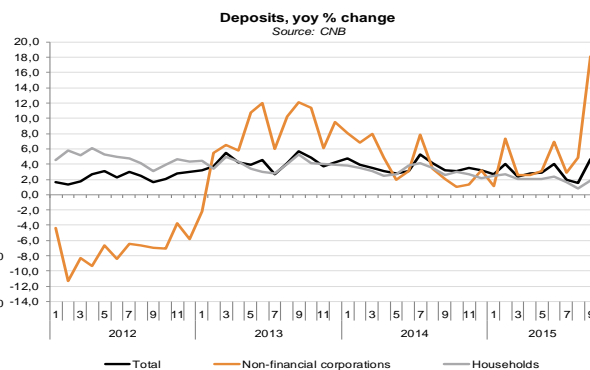
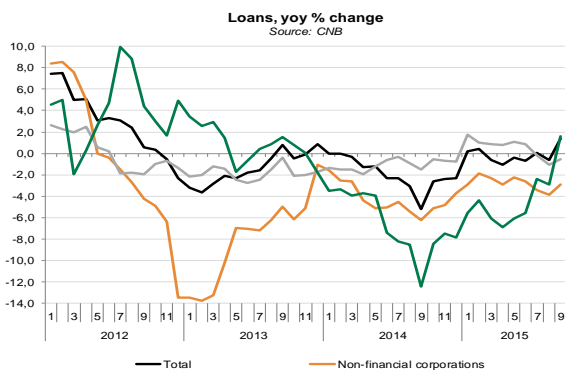
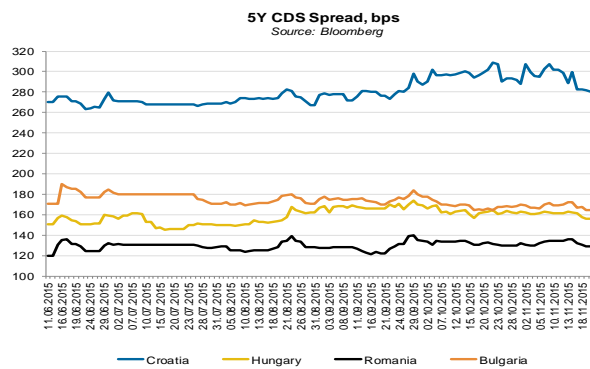
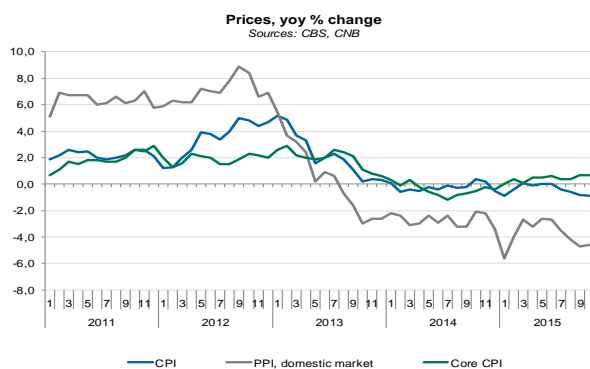
Source: CBS



Net wages: amount and real yoy rate of change

Source: CBS





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