

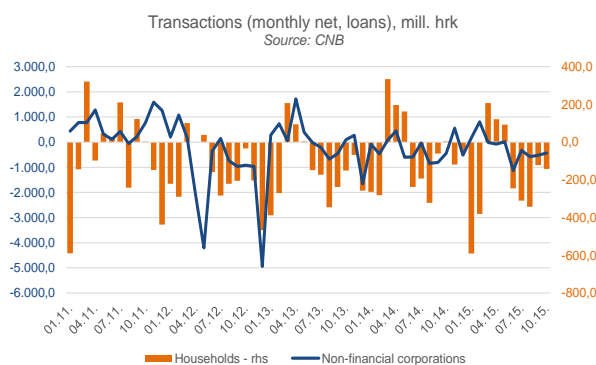
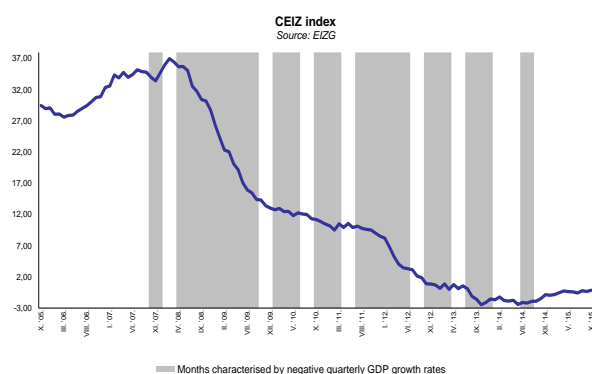
PBZ Weekly Analysis

Number 498, December 7, 2015

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Weekly overview

- According to the first results, retail trade in October increased in real terms of 1.5% (wda) compared with the same month of 2014 (nominal growth of 0.2%), recording fifteen consecutive months of positive movements in retail trade. According to the seasonally adjusted data, a nominal stagnation of retail trade, i.e. a real-term fall in the turnover of 0.2% was recorded in October. Given the positive signs coming from the data on the October trends in retail trade and industrial production, we may expect that the last this year's quarter will see a positive result, which is also indicated by the CEIZ index movements. In fact, according to the Institute of Economics in Zagreb, in October 2015 the CEIZ index recorded an increase in the value of 0.2 index points compared to September of the same year. Since June last year the CEIZ index has been recording a pronounced growth trend and since that time through the end of October 2015, the index value rose by 2.3 index points cumulatively. As, from the last quarter of 2014 to the third quarter of this year the seasonally adjusted GDP recorded positive quarterly changes, the movements of both CEIZ index and GDP indicate the recovery of the economy. As the same pattern has continued in the first month of the fourth quarter, we may expect that the last quarter of this year will see the same positive economic trends which have been recorded in the previous four quarters, as indicated by the Institute of Economics in Zagreb. It is interesting that the continued process of deleveraging of the private sector was recorded at the same time, therefore, loans to the private sector at the end of October decreased by 2.1% from the previous year, where the level of retail loans fell by 1.0% and corporate loans by 3.6%.



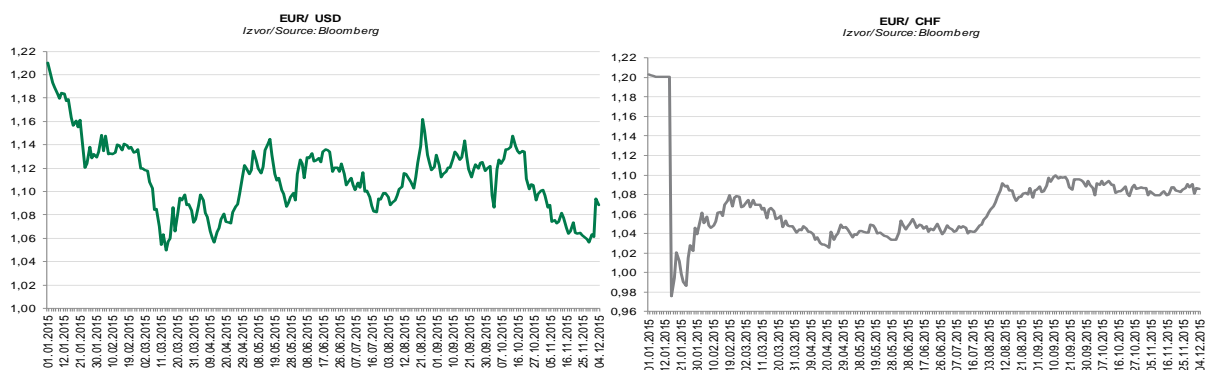
- The Croatian Bureau of Statistics confirmed that the GDP for this year's third quarter increased by 2.8% compared with the same quarter this year, whereas the seasonally adjusted data show a growth of 1.3% compared with the previous quarter.
- In October, the total number of persons in employment dropped by 1.3% compared with September, amounting to 1,328,838 persons. The number of persons in employment in legal entities decreased by 0.5% (to 1,119,093), in trades and crafts and free lances by 5.6% (to 188,787), whereas the number of private farmers remained almost the same (20,958). The drop in the total number of persons in employment mom is a result of the end of the tourist season and the inclusion of seasonal workers to labour exchange again, thus the number of

unemployed persons rose to 275,813 (+6.3% compared to September). The registered unemployment rate increased from 16.2% to 17.2%.

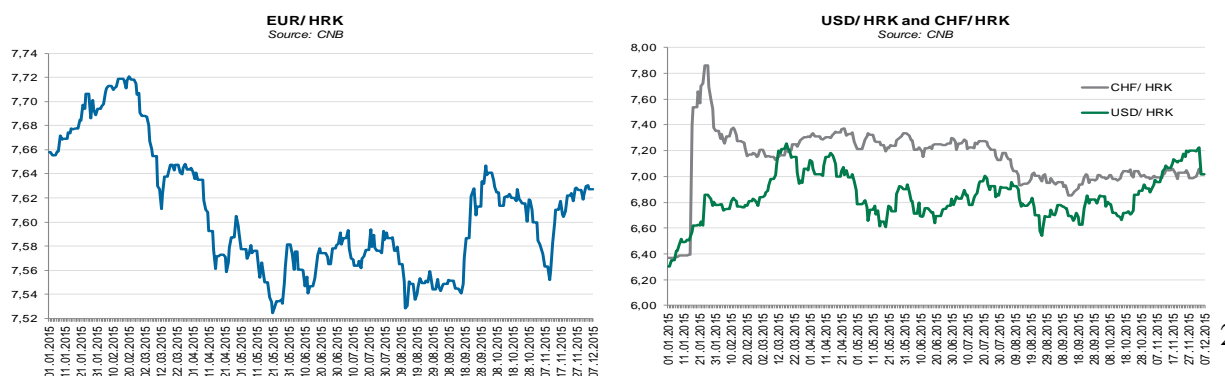
- The average monthly net earnings per person in employment in legal entities was 5,640 kuna, which is a nominal decline of 1.3%, and a real decline of 1.7% mom. Thus, the highest average net earnings were paid off in the activity Air transport (10,641 kuna), whereas the lowest average net earnings were paid off in the activity Manufacture of wearing apparel (3,103 kuna). Compared with the same month of 2014, the average monthly net earnings paid off in September was higher by 3.6% in nominal terms and 4.4% in real terms. Over the first nine months of this year, the average monthly net earnings paid off per person in employment in legal entities amounted to 5,687 kuna, which is a nominal increase of 3.4% and a real-term increase of 3.8%, compared with the same period last year.

Euro recovery

The ECB decision to lower interest rates on deposits by only 10bb to -0.3%; the extension of the purchase of bonds programme by March 2017 with the broadened scope which will include regional bonds slightly disappointed the markets, as stronger action was expected. Following the above mentioned news, the euro recovered and the week closed at 1.0881 dollar to the euro, i.e. up by 2.7% wow. Compared with the CHF, the euro weakened to 1.0855 Swiss franc to the euro, i.e. down by 0.5% wow. We are expecting a release of the Swiss National Bank this week and the FED meeting next week.



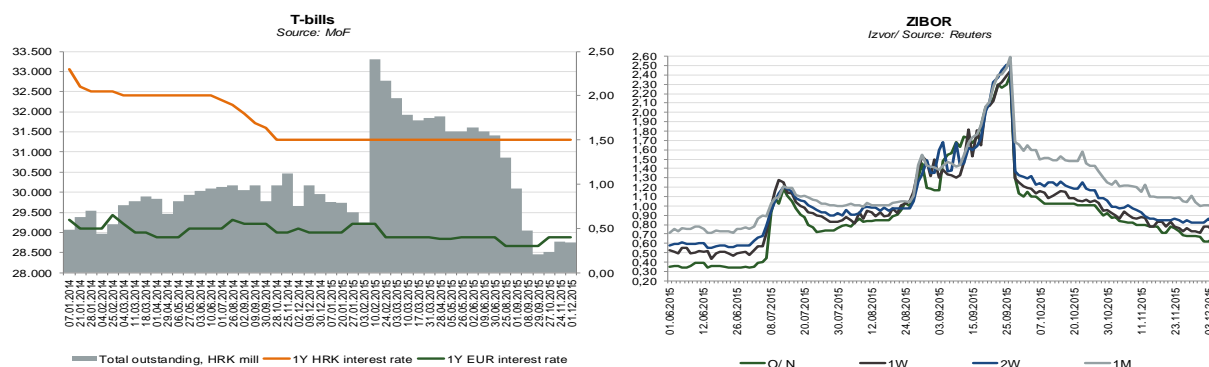
At the end of the week, the domestic market saw an almost unchanged exchange rate of 7.6273 kuna to the euro. The kuna strengthened against the dollar (by 2.6% to 7.0149), while the kuna against the Swiss franc weakened (by 0.4% to 7.0175).



Slight correction of interest rates

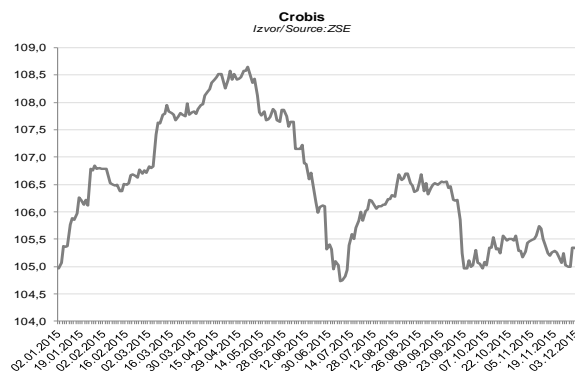
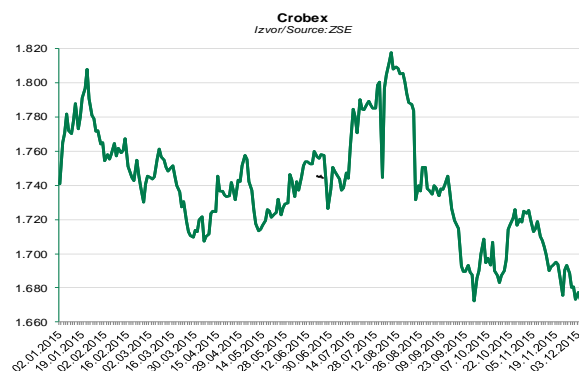
Due to regular reverse repo auctions (208 million kuna at 0.50% injected last week) and poor activity, interest rates remained at the current levels and the overnight Zibor closed the week at 0.65% (vs 0.68 the previous week), while 1M and 3M at 0.99% (vs 1.11%) and 1.29% (vs 1.32% the previous week), respectively.

The last week's auction saw a subscription of 0.7 billion in kuna T-bills and 20.3 million in euro T-bills, in both cases one-year T-bills of an unchanged yield of 1.50% and 0.40%, respectively. The current balance of the subscribed T-bills is 28.7 billion kuna. A total of 1.5 billion kuna in T-bills will mature this week and the auction has been announced.



Crobex still in negative territory wow

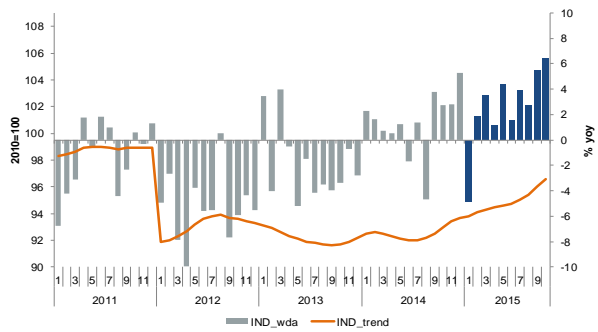
The Crobex closed the week at 1,673.21 points, i.e. at a 0.9% lower level compared with the week before, whereas the Crobis closed the week at 105.10 points, i.e. +0.1% compared with the previous Friday.



Statistics and macroeconomic forecasts

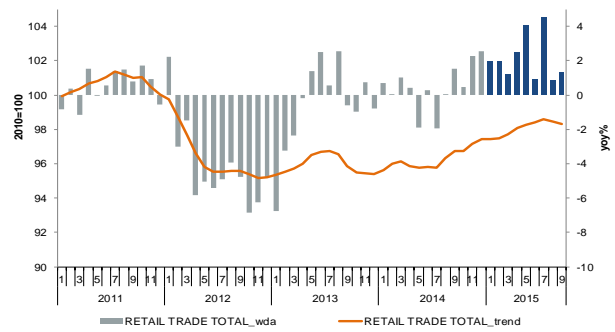
Industrial production, wda yoy % ch.

Source: Eurostat



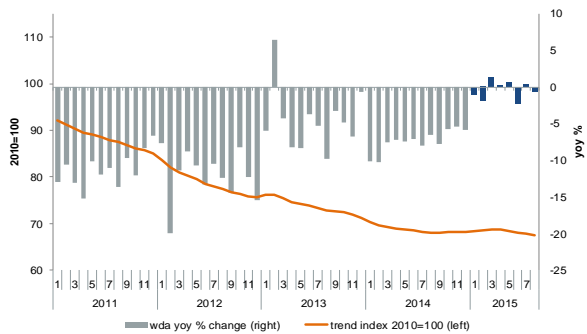
Retail trade, real, wda yoy ch.

Source: CBS



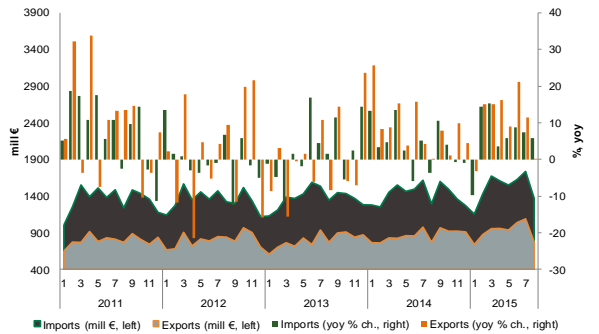
Construction works, yoy % ch. and index 2010=100

Source: CBS



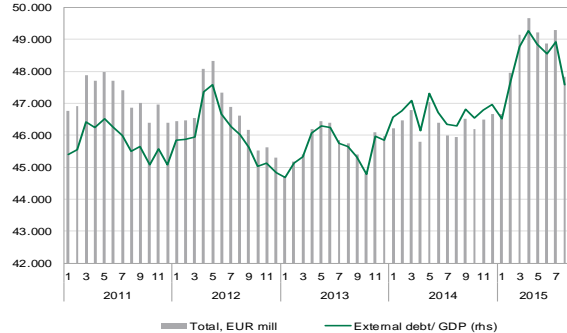
Goods exports and imports (yoy % ch. and mill €)

Source: CBS



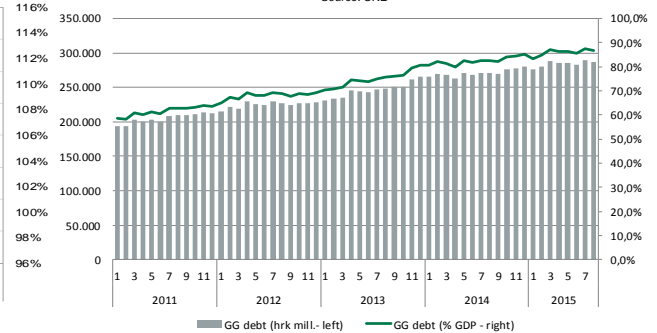
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



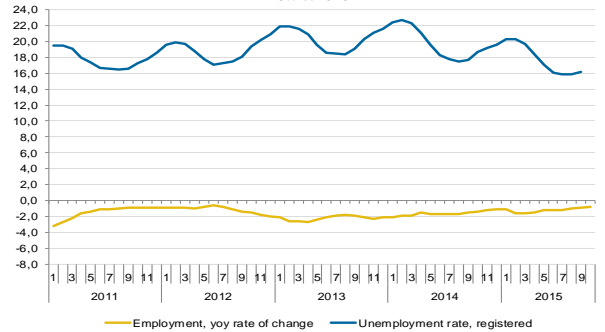
General government debt

Source: CNB



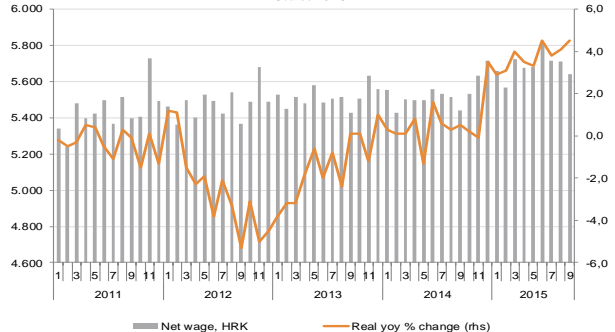
Employment, yoy rate of change and unemployment rate, %

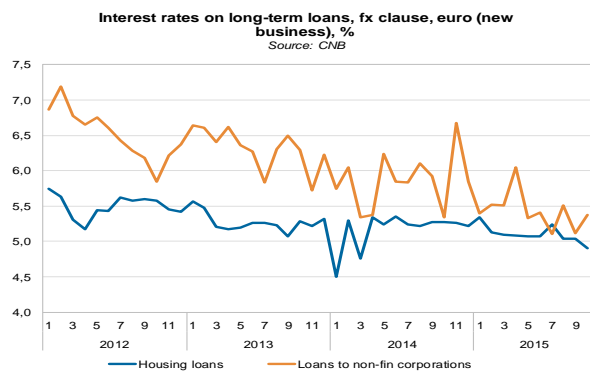
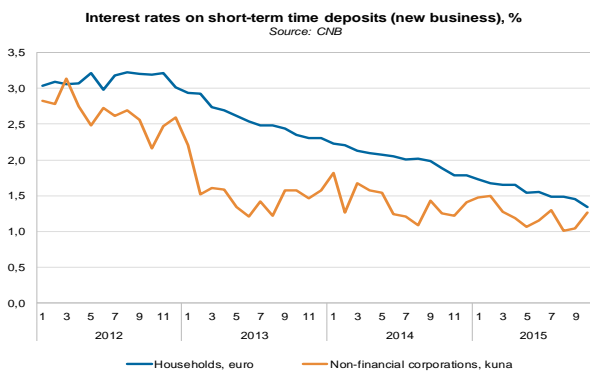
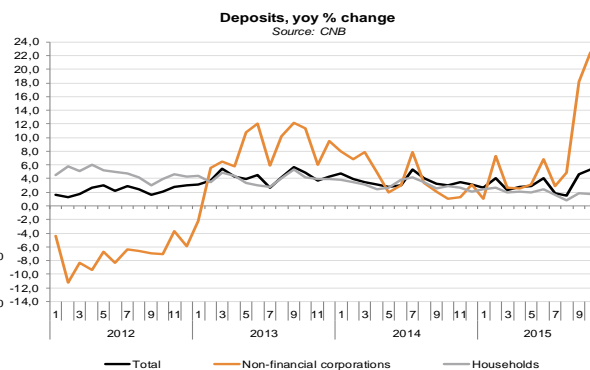
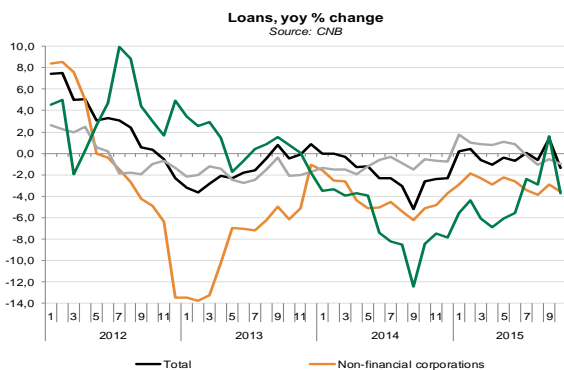
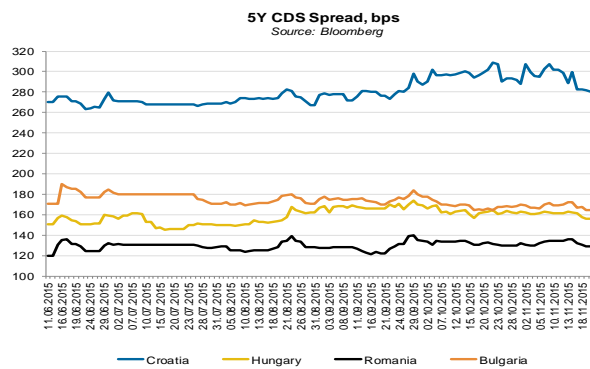
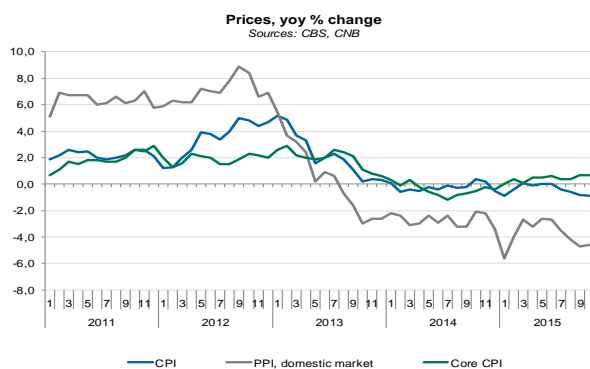
Source: CBS



Net wages: amount and real yoy rate of change

Source: CBS





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