

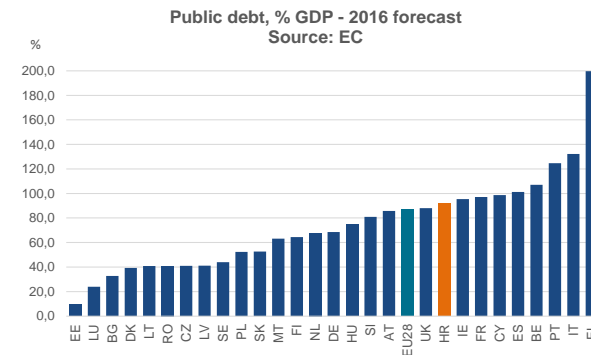
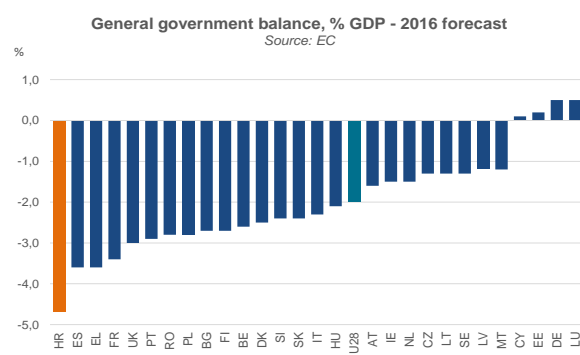
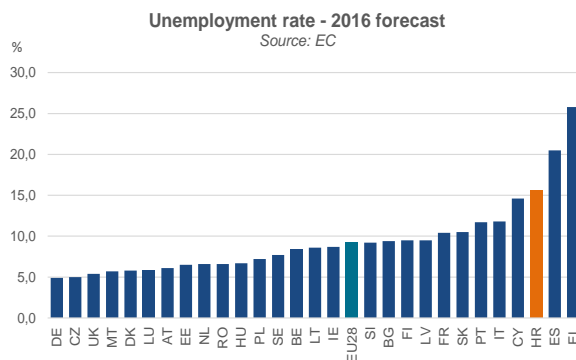
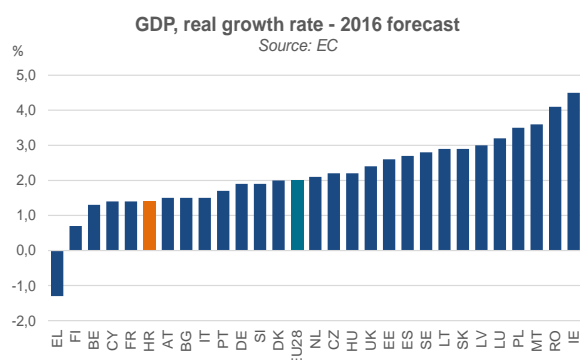
PBZ Weekly Analysis

Number 494, November 9, 2015

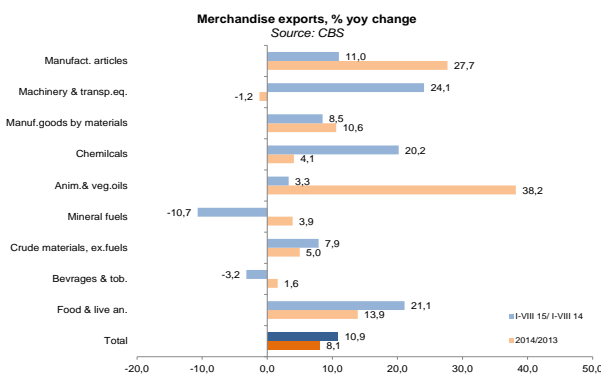
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Weekly overview

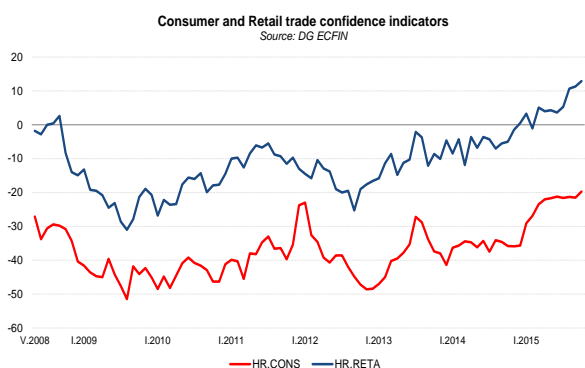
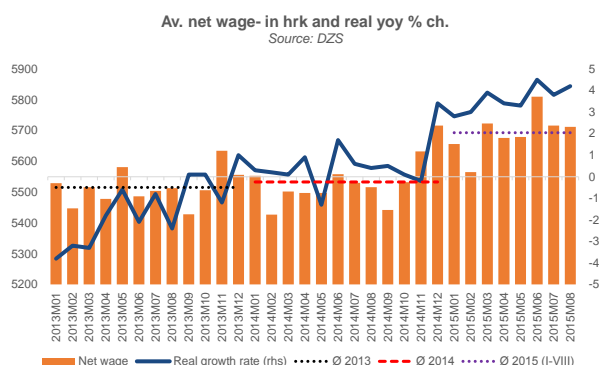
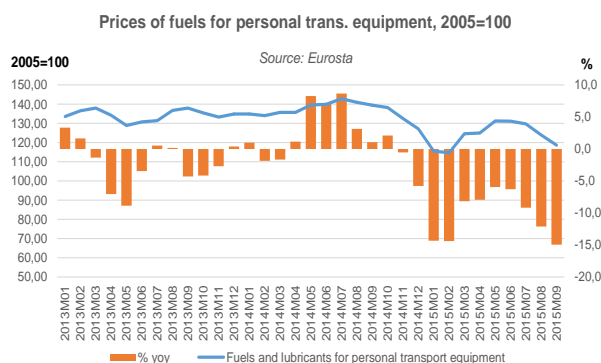
- Yesterday's parliamentary elections pushed the country into a new period of uncertainty. Due to a tie between the two largest coalitions (both "Patriotic Coalition" and "Croatia is growing" won 59 seats), a new government will be formed only with a support of 19 seats won by MOST, a list of independent candidates who claim that they will support either of the two indicated coalitions only if they are ready to conduct reforms.
- The European Commission autumn forecast:



- In August, the export of goods decreased by 0.3% (HRK) i.e. increased by 0.2% (EUR) compared with the same month of 2014. At the same time, the import of goods grew by 5.2% (HRK) i.e. 5.8% (EUR; average EUR/HRK exchange rate was down by 0.9% in August 2015). Thus, the coverage of imports by exports fell to 56.3% in August, which is the lowest coverage level in the past 15 months. Cumulatively, over the first eight months, the export rose by 10.9%, and the import by 6.6%. According to NKD, the export recorded an increase in the majority of activities, except the manufacture of tobacco products (-5.5%) and metals (-26%), as well as (mainly due to the influence of a decrease in prices) refined petroleum products (-18.4%). The main trends are shown on the import side, where a decrease was recorded by the manufacture of metal (-1.2%), refined petroleum products (-15.6%) as well as mining and quarrying (-22.5%).



- The preliminary data of the Croatian Bureau of Statistics show that retail trade in September climbed by 1.3% (wda) compared with the same month of the previous year, while turnover fell by 0.3% in nominal terms. Compared with August 2015, the retail trade turnover stagnated in nominal terms, while the real turnover recorded a seasonally adjusted growth of 0.3%. As details will be revealed in a midweek release, from this we may conclude that the retail trade increase is a result of a growth of real disposable income, due to tax relief on net wages and lower prices of petroleum products, but also due to a good and extended tourist season. The upcoming months will see a continuation of positive trends, however, by the end of this year and in the early 2016 they will show less dynamics, due to the equalisation of the base – tax relief entered in force in January 2015, while the decline in petroleum product prices began at the end of 2014, therefore the annual rates of change will be less pronounced (assuming that there will be no external shocks). The expectations regarding the continued positive movements are supported by the movements of consumer confidence index and retail trade confidence which have recorded highest level since the beginning of monitoring. However, when formulating expectations we remain cautious, as high unemployment, particularly youth unemployment, is still the main limiting factor for the recovery of personal consumption.

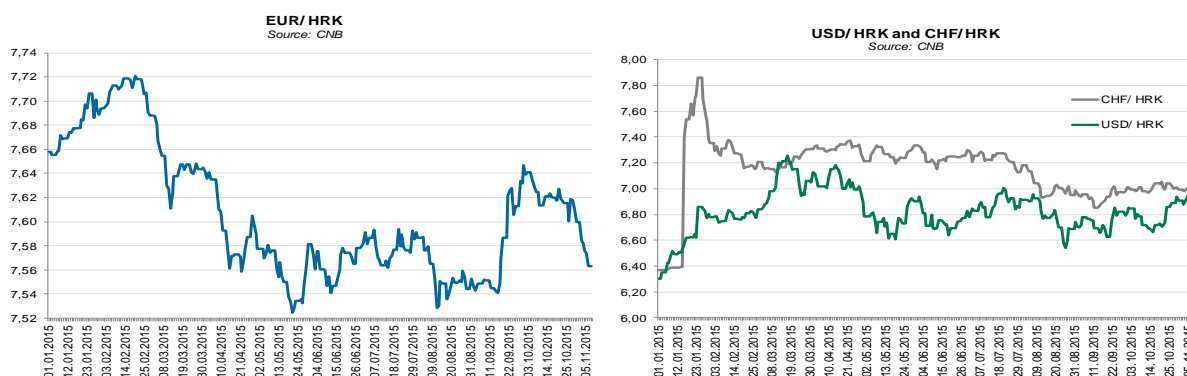


EUR/USD below 1.08

As a result of the expectations that December will see a change in the USA monetary policy and the ECB QE expansion, as well as the release of the macroeconomic indicators, the dollar strengthened and the market movements closed on Friday at 1.0741 dollar to the euro, i.e. down by 2.4% wow, while the Swiss franc closed the week at 1.0804 franc to the euro, down by 0.6% wow.

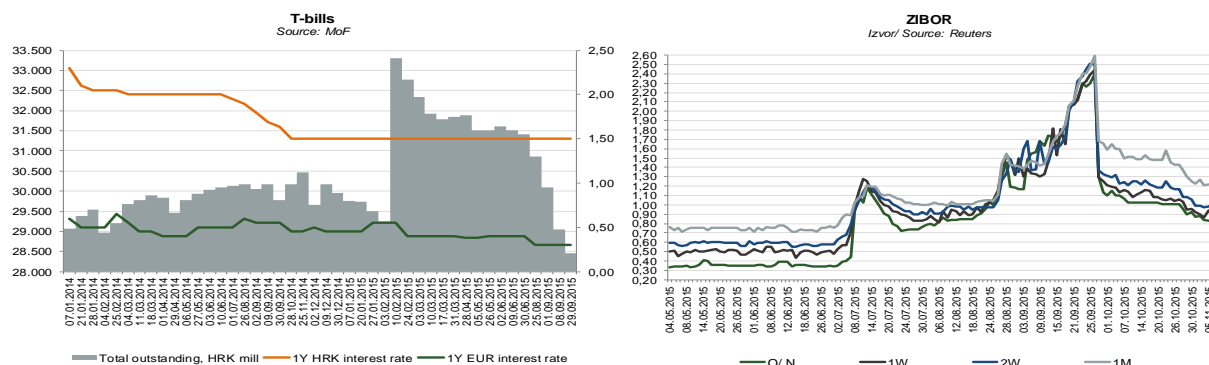


The domestic market mainly saw appreciation pressures and the EUR/HRK exchange rate at the end of the week amounted to 7.5629 kuna to the euro, i.e. down by 0.5% wow. The kuna weakened against the dollar (by 0.7%, to 6.9557) while the kuna against the Swiss franc remained unchanged and the exchange rate on Friday amounted to 6.9911 kuna to the franc.



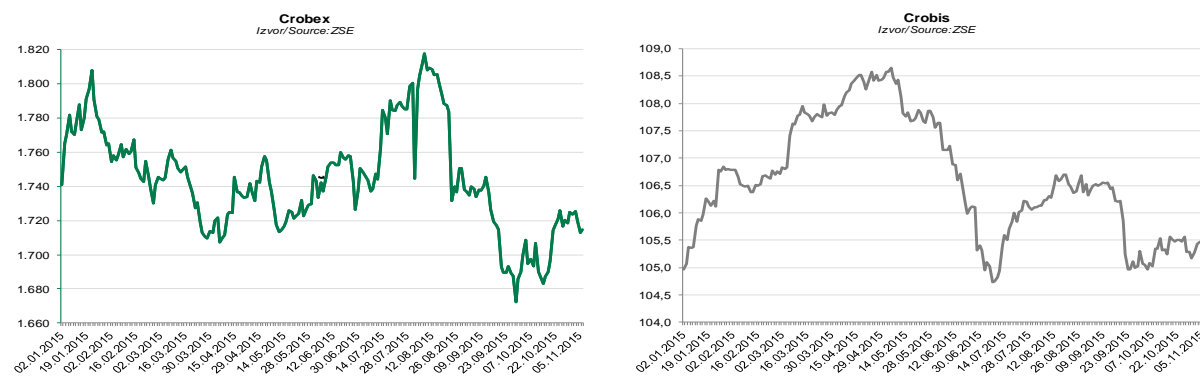
Money market at standstill

Lower trading volume and liquidity around 6 billion kuna still affect interest rates, therefore, the overnight Zibor closed the week at 0.82% (vs 0.92%), while 1M and 3M at 1.22% (vs 1.25%), and 1.45%, respectively (vs 1.66% the previous week).



Crobex in negative territory

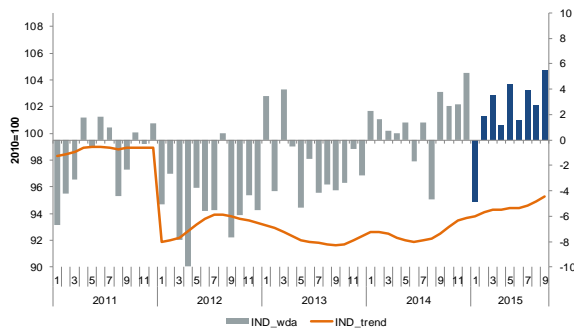
Last week, the Crobex closed at 1,714.70 points, i.e. losing 0.6% wow, whereas the Crobis closed the week at a 0.3% higher level, i.e. at 105.50 points. The total ZSE turnover was 26% lower wow, amounting to 276 million kuna.



Statistics and macroeconomic forecasts

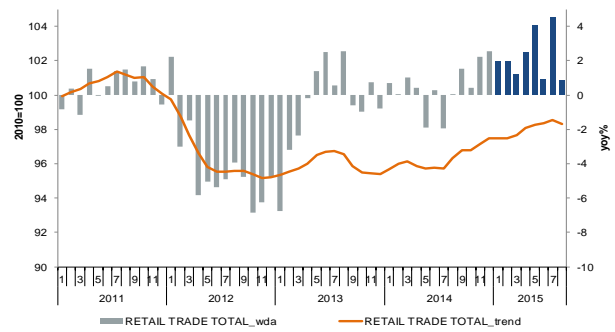
Industrial production, wda yoy % ch.

Source: Eurostat



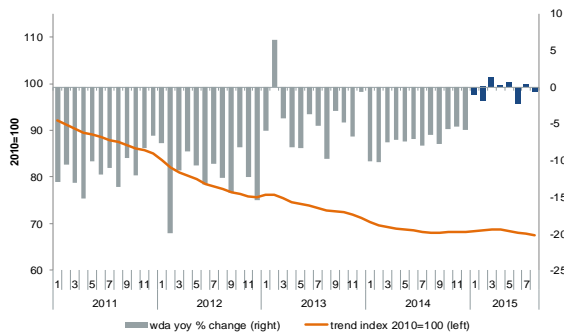
Retail trade, real, wda yoy ch.

Source: CBS



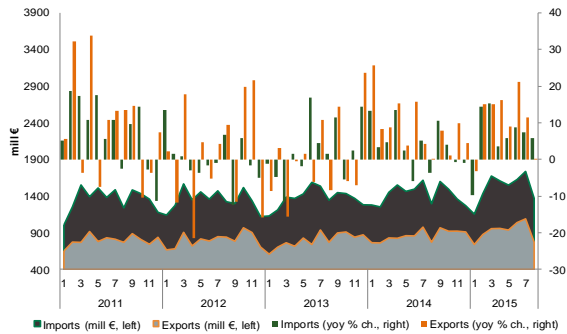
Construction works, yoy % ch. and index 2010=100

Source: CBS



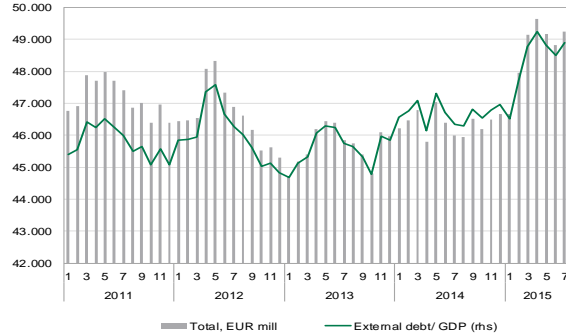
Goods exports and imports (yoy % ch. and mill €)

Source: CBS



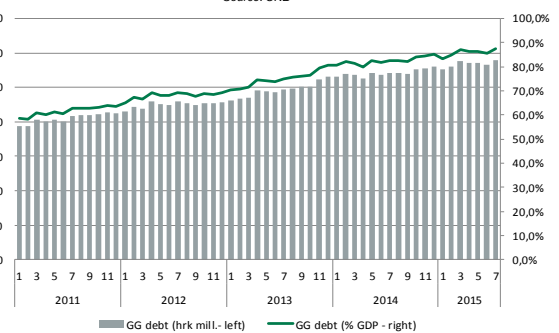
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



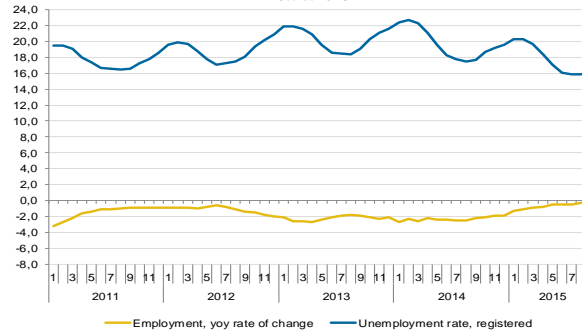
General government debt

Source: CNB



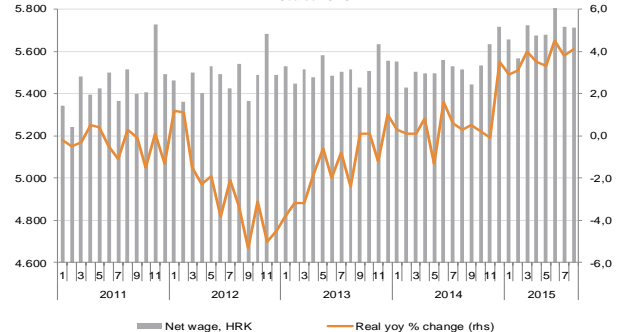
Employment, yoy rate of change and unemployment rate, %

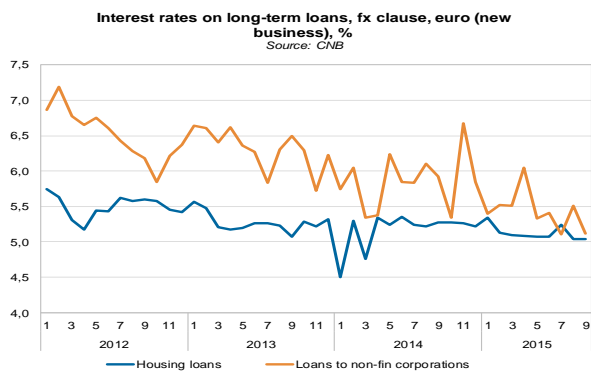
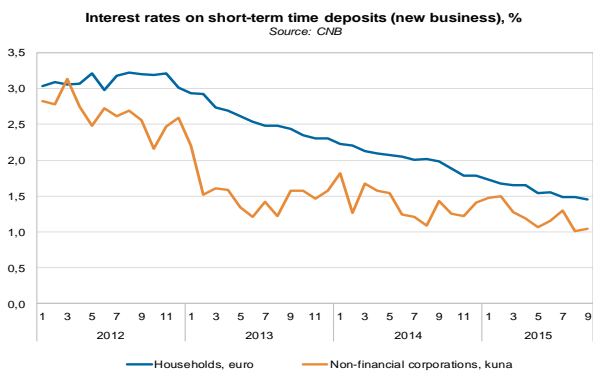
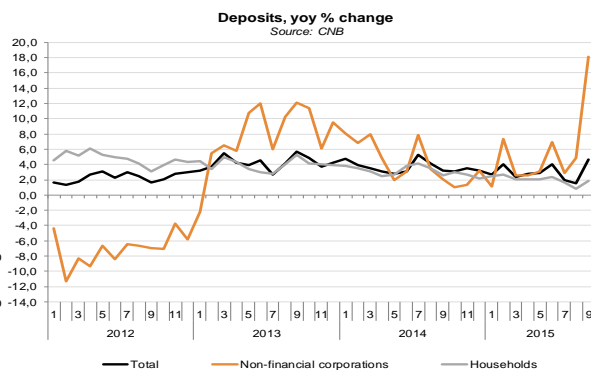
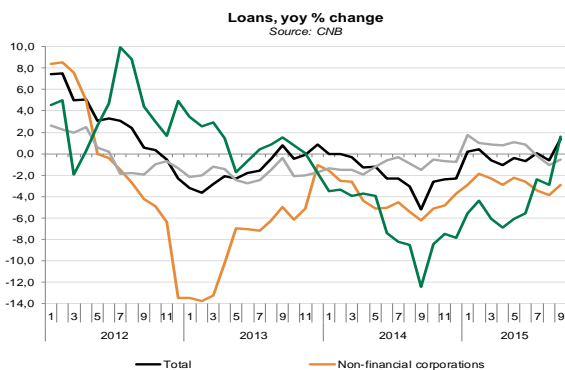
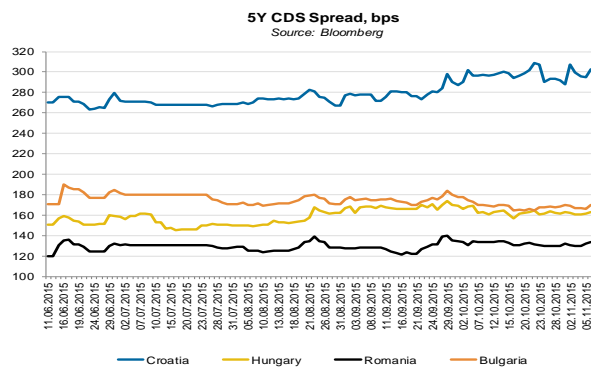
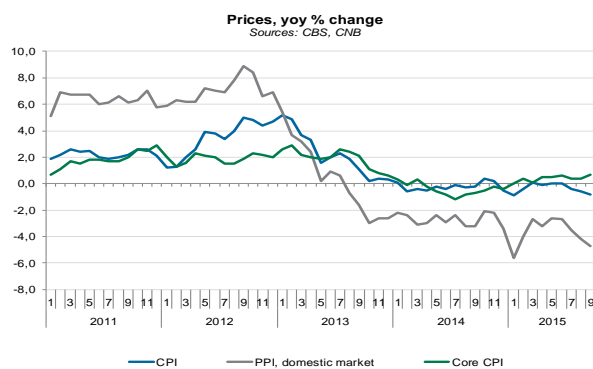
Source: CBS



Net wages: amount and real yoy rate of change

Source: CBS





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