

PBZ Weekly Analysis

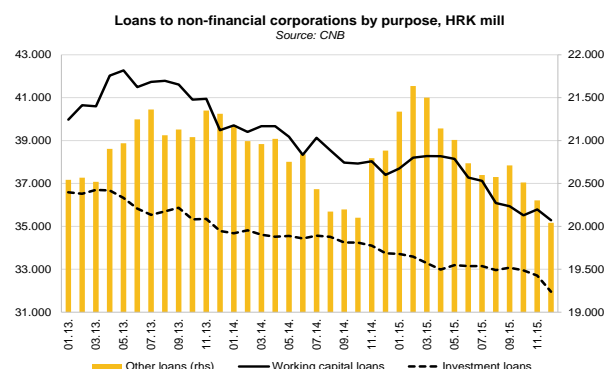
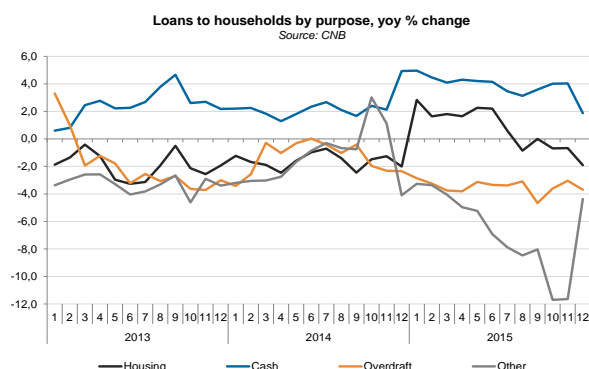
Number 503, February 8, 2016

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Weekly overview

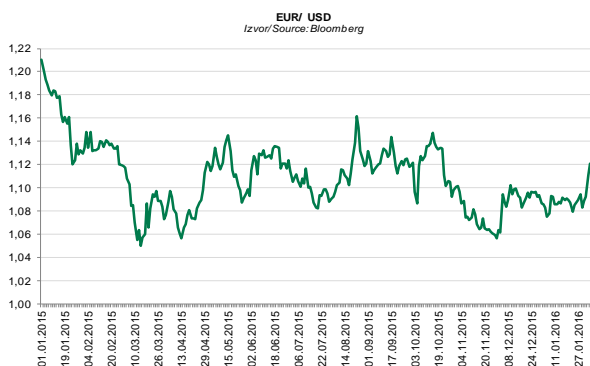
- According to the data Croatian Bureau of Statistics, December continued its positive tourist trend where 18.0% more arrivals (+23.9% domestic and +14.3% foreign) and 11.5% more nights (+14.9% domestic and +9.4% foreign tourists) were realised yoy, which was expected, given the attractive holiday events. Tourists from Italy (16.5%), Austria (14.8%), Slovenia (11.9%), Germany (11.3%), Bosnia and Herzegovina (6.0%), USA (4.3%), Republic of Korea (3.8%) and Serbia (2.9%) realised the largest number of nights where it concerns the structure of foreign tourist nights (almost $\frac{3}{4}$ of total foreign tourist nights). In 2015, the number of arrivals rose by 9.3% (+10.3% domestic, +9.1% foreign), while the number of nights by 7.7% (+11.3% domestic and +7.4% foreign) compared with 2014.
- In December, according to the preliminary data, a real-term growth in retail trade yoy amounted to 4.8% (wda data), while a real-term growth mom amounted to 1.1% (seasonally adjusted data). As in previous months, the growth was supported by a rise in real-term net earnings, however, this time also by the above mentioned holiday consumption of both domestic and foreign tourists. In 2015, an average real-term increase in consumption yoy was 2.4%, while an increase of 1.3% was recorded in nominal terms. A detailed data will be released this week.
- Total loans ended the year at a 2.0% lower level yoy due to deleveraging of almost all the segments of the private sector, while loans to the central government and social security funds increased by 2.8%. Retail loans went down by 1.5% from the previous year; the positive rate was recorded only by kuna cash loans (+24.3%), which, however, could not compensate for the decline in other types of loans, particularly housing loans. Housing loans decreased by 1.9% yoy, as a result of the conversion of loans in CHF into EUR, due to which the amount of the indicated loans fell by 12.9% (the fall was partly lessened by a 10.9% weaker kuna against the franc), whereas, at the same time, the amount of loans pegged to the euro rose by 1.2%. Among other types significant by volume, overdrafts dropped by 3.7%, whereas other retail loans sank by 4.4% yoy. A decline in corporate borrowing from domestic banks in 2015 was more pronounced than the year before, therefore, at the end of the year, total corporate loans were lower by 5.2% yoy. Week demand and continuous deleveraging are a consequence of a remaining significant debt of the sector and a large share of irrecoverable receivables, and partly of more favourable financing conditions on the European markets, successfully exploited by large corporations, which is also indicated by the external debt statistics. According to purpose, all types of loans recorded a decrease, namely, loans for working capital sank by 5.7% yoy, investment loans by 5.3%, and although loans for other purposes recorded positive rates over a larger part of the year, they ended the year at a 4.0% lower level. Deposit growth accelerated after the end of the season, therefore, at the end of last year total deposits were higher by 5.1%. Net earnings, a good tourist season and deflationary movements gave wing to household deposits which recorded an increase of 2.8% yoy. At the end of December of 2015, corporate deposits were higher by

even 21.8% yoy (demand deposits +12.0%, kuna savings +9.3%, fx savings +38.2%), which is mostly due to a rise in fx savings resulting from a successful tourist season and increased export of goods.

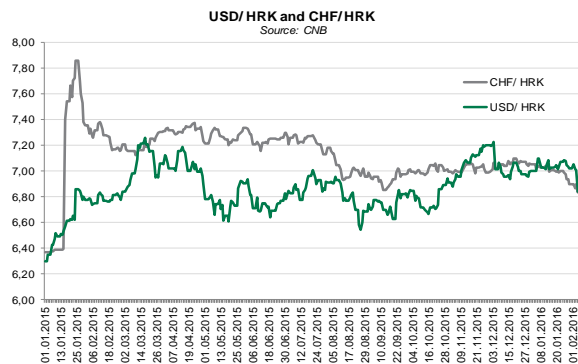


Dollar weaker, kuna stable

The ISM index decline was stronger than expected, which sparked fears of the US economy slowdown and the consequential Fed's giving up of the reference rate hike in March. Under this pressure, the dollar dramatically weakened and, at the end of the week, the trading closed at 1.1158 dollar, up by 3.0% wow, while the franc slightly strengthened against the euro and the EURCHF closed the week at a 0.3% lower level of 1.1047 franc to the euro.



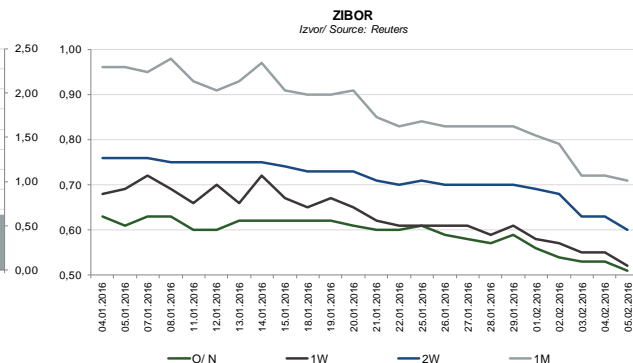
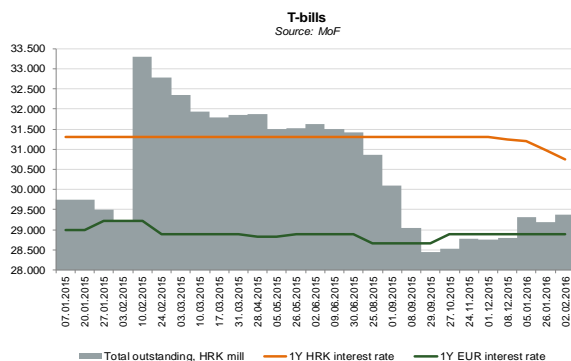
The week behind us saw relatively calm trading with slightly lower volumes, for both interbanket markets and corporate clients, while a continued stable exchange rate of the kuna against the euro was also supported by the CNB auction and generous liquidity. The EURHRK ended the week at an almost unchanged level from the previous week, i.e. at 7.6603 kuna to the euro. At the same time, the kuna strengthened against the dollar by 2.4% to 6.8462 kuna to the dollar, while the kuna weakened by moderate 0.2% against the Swiss franc to 6.9086 kuna to the franc. This week, we expect the EURHRK trading to continue in the range from 7.64 to 7.67 kuna to the euro.



Reverse repo auction held

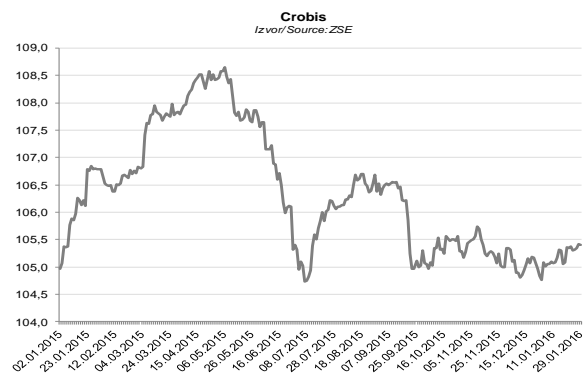
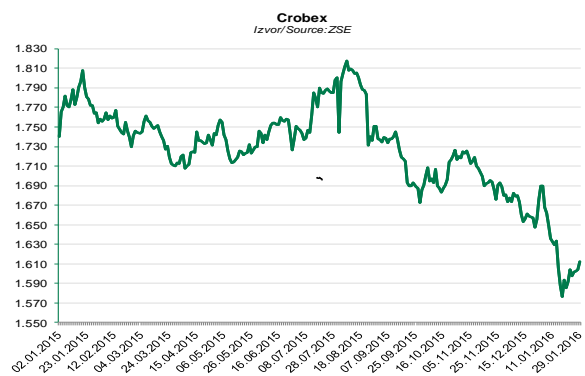
Last week, CNB held a regular reverse repo auction where all the submitted bank offers in the amount of HRK 125.5 million kuna at the fixed 0.50% repo rate were accepted, due to which generous liquidity was maintained and interest rates continued their downward trend. The overnight Zibor closed the week at 0.51% (0.59% the previous week), whereas 1M and 3M fell to 0.71, or 0.88% (0.83, or 0.97% the previous Friday), respectively. The total ZSE turnover amounted to 130 million kuna, down by 7.3% wow, while supply exceeded demand by an average of 264 million kuna per day.

The last week's auction saw a subscription of 626 million kuna in one-year T-bills with a yield of 1.25% (drop in yield from 1.35% the previous week). The current balance of the subscribed T-yields amounts to 29.4 billion kuna. As there will be no maturity this week, no new auction has been announced.



Crobex positive trend stopped

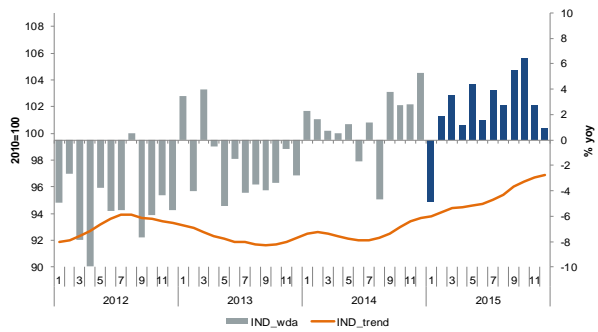
Crobex closed the week at 1,603.52 points, thus declining by 0.5% from the previous week, while the Crobis index slightly rose (+0.1%) wow, closing the week at 105.55 points. The total ZSE turnover was 34.1% higher wow, amounting to 1.168 billion kuna. The turnover in shares fell by 10.2%, amounting to 78 million kuna, whereas the turnover in bonds grew by 40.7%, reaching 1.088 billion kuna.



Statistics

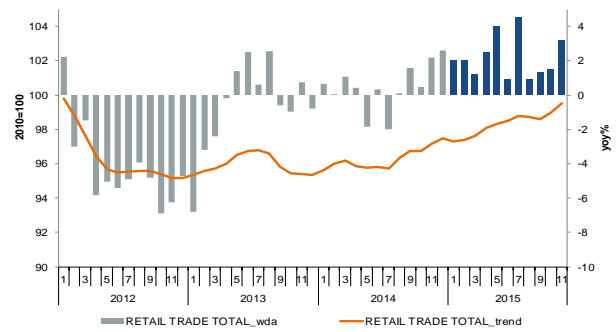
Industrial production, wda yoy % ch.

Source: Eurostat



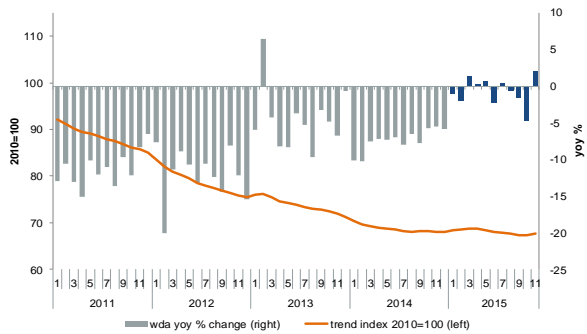
Retail trade, real, wda yoy ch.

Source: CBS



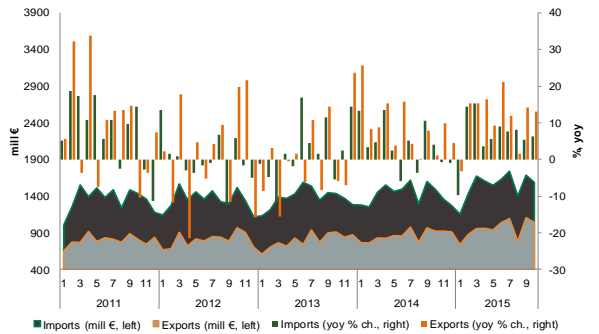
Construction works, yoy % ch. and index 2010=100

Source: CBS



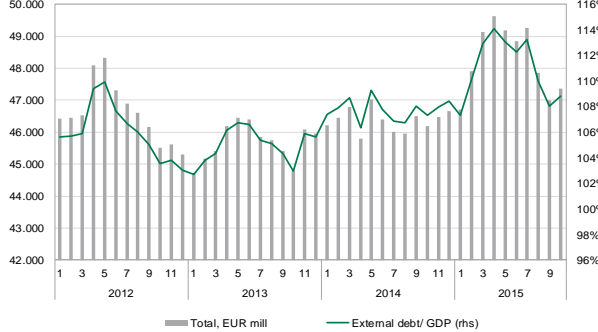
Goods exports and imports (yoy % ch. and mill €)

Source: CBS



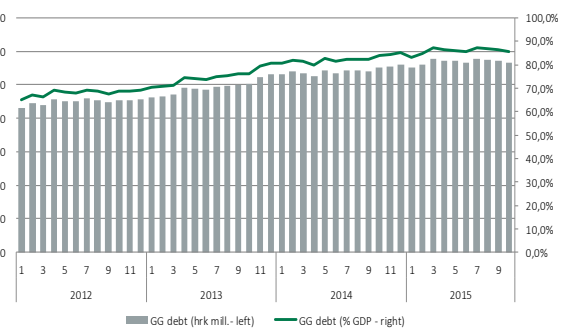
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



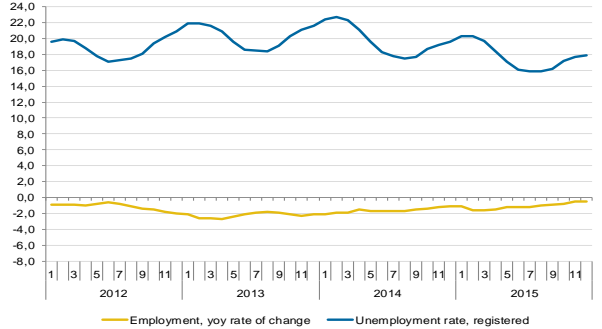
General government debt

Source: CNB



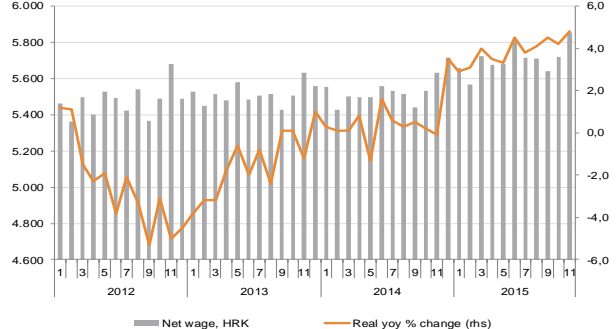
Employment, yoy rate of change and unemployment rate, %

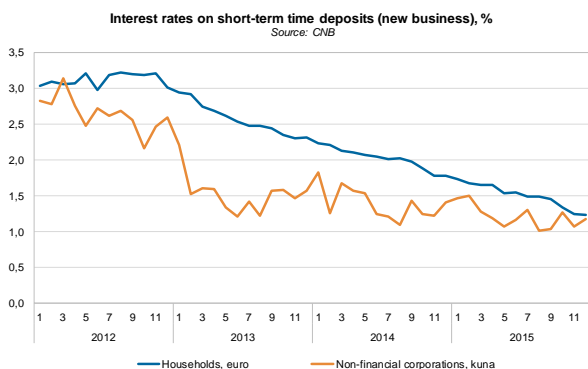
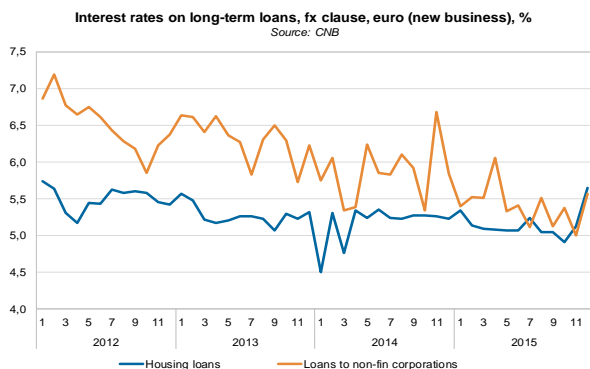
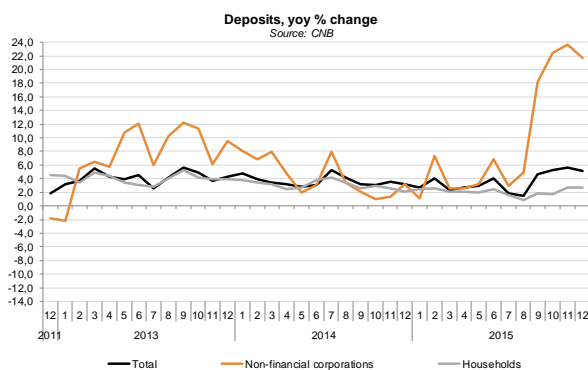
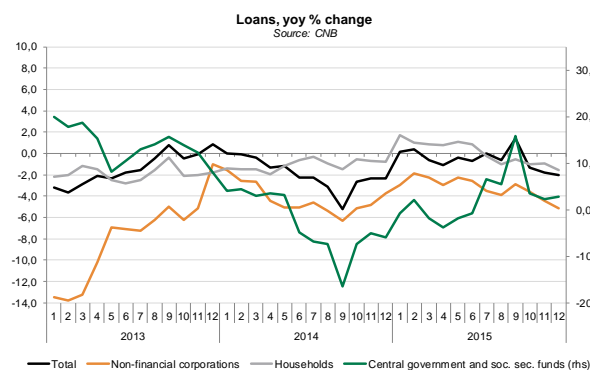
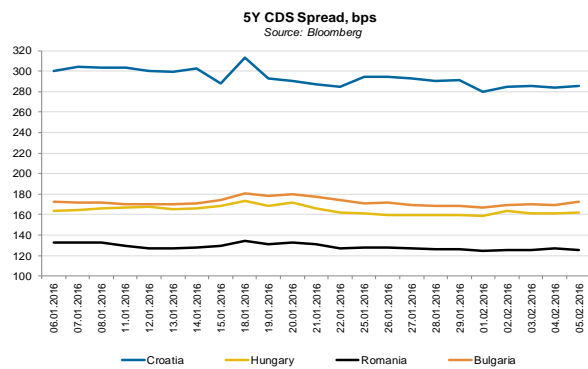
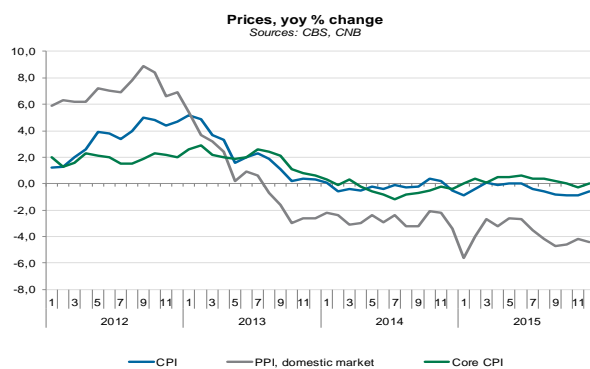
Source: CBS



Net wages: amount and real yoy rate of change

Source: CBS





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