

PBZ Weekly Analysis

Number 506, February 29, 2016

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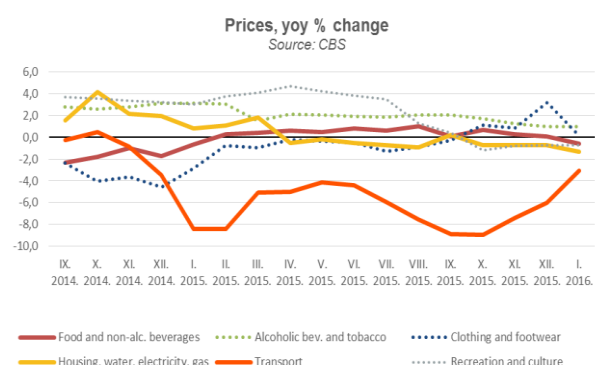
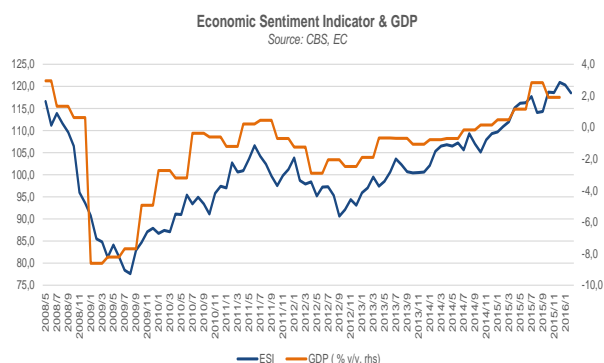
Weekly overview

- The preliminary data of the Croatian Bureau of Statistics on the 1.9% GDP growth for the last quarter of 2015 are slightly lower than our forecasts of growth over 2%, mainly due to a stronger than anticipated negative contribution of net external demand (1.1 p.p.), while the movements of the domestic demand component are in

accordance with the expectations. In fact, the trends in retail trade and data on tourist activity indicated the acceleration of personal consumption (+2.4%); while an increase in government spending (+0.8%) was expected, given the political cycle. The investment activity (+3.7%) speeded up further, as a result of a better EU fund absorption. The strengthening of domestic demand clearly affected the rise in the import component, which rose by 13.6% and thus exceeded a more than solid increase in the imports of goods and services (+11.6%). We may conclude that Croatia ended its first post-recession year with a growth of 1.6%, boosted by a rise in the real-term income due to tax changes and a drop in oil prices, a remarkable tourist season and awakened imports in goods. It is difficult to anticipate the upcoming trends for the first this year's quarter as, currently, there are no available usual high-frequency indicators such as industrial production, retail trade or trade in goods. Still, it will be interesting to see the movements of the Economic Sentiment Indicator (ESI), which, after reaching its maximum of 120.9 in December, recorded a fall of 120.3 and 118.5 in January and February, respectively, thus reflecting the speculations on the potential slowdown of the EU economic recovery.

- The Consumer Price Index dropped by 0.8% yoy in January, whereas the comparison with December 2015 shows a decrease of 0.7%. Monthly prices were lower in the categories *Clothing and Footwear* (-10.9%, due to seasonal sales), *Transport* (-2.2%, fall in fuel prices by 4.3%) and *Housing, water, electricity, gas and other fuels* (-0.9%).

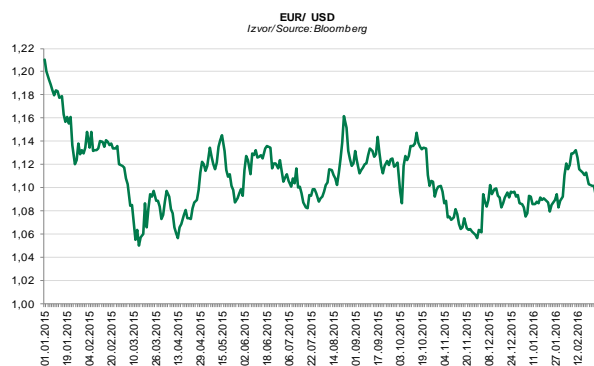
A rise in the prices mom was also recorded in the categories *Food and non-alcoholic beverages* (+1.3%), *Furnishings, household equipment and routine household maintenance* (+0.6%) and *Alcoholic beverages and tobacco, Recreation and culture, Restaurants and hotels* and *Miscellaneous goods and services*, which equally grew by +0.1%. The prices of *Health, Communication* and *Education* remained in January at the price level recorded in December of 2015. At the annual level, the largest drop was recorded in the prices of



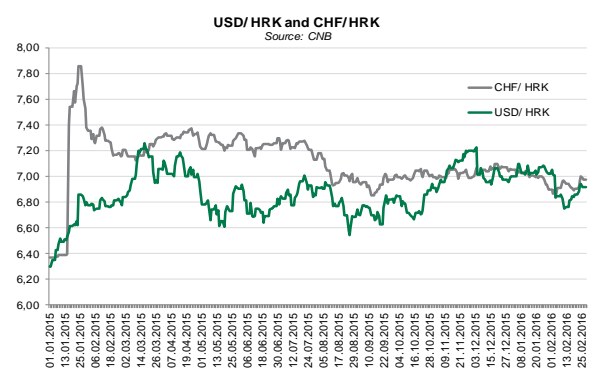
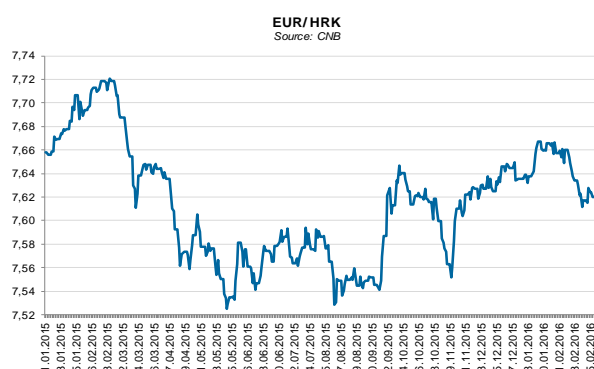
Transport (-3.1%, of which fuel -4.7%), *Housing* (-1.3%, of which electricity, gas and other fuels -3.3%), *Education* (-1.1%), *Recreation and culture* (-0.7%), *Food and non-alcoholic beverages* (-0.6%, of which prices of food by -0.9%) and *Communication* by -0.4%. An increase in the prices yoy was recorded in the categories *Health* (+1.8%), *Alcoholic beverages and tobacco* (+1%), *Restaurants and hotels* (+0.7%), *Miscellaneous goods and services* (+0.2%) and *Clothing and footwear* (+0.1%). At the same time, prices of *Furnishings, household equipment and routine household maintenance* from January this year remained at the same levels as in January of 2015. The manufacturing prices of industrial products in the domestic market were lower in January, both mom (-1.2%) and yoy (-3.4%), mainly due to (according to GIG) a fall in the level of prices in the category *Energy* (-2.6% m/m and -7.9% g/g). Given the fall in the industry manufacturing prices, lower energy generating products, increased competition and the absence of stronger domestic demand pressures in the upcoming months, we do not expect stronger inflationary movements.

Euro under pressure

In anticipation of the ECB meeting announced for the next week, the weak Eurozone data and a decline in the Ifo index pushed the euro, therefore the trading closed the week at 1.0934 dollar to the euro, which is down by 1.8% wow, while the franc strengthened by 1.1% against the euro and closed the week at 1.09028 franc to the euro.



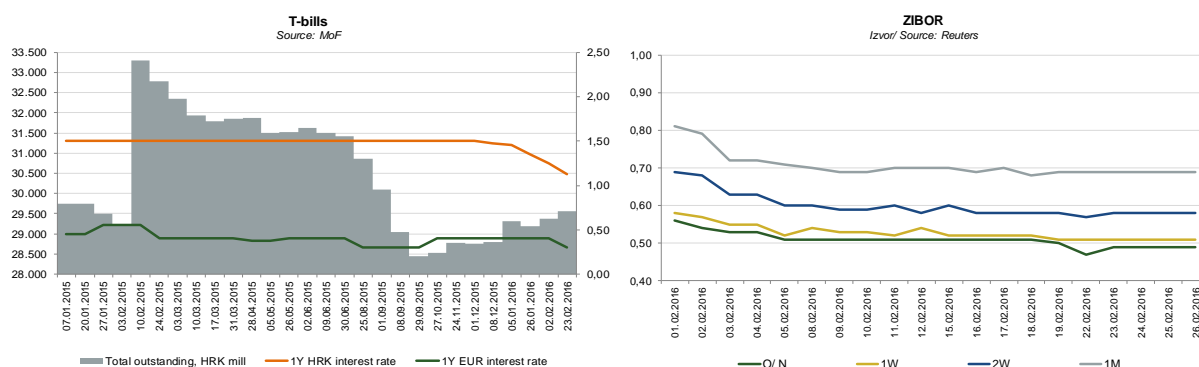
The domestic FX market saw a calm last week, therefore the mid-exchange rate of the kuna against the euro ended at 7.6203 kuna to the euro on Friday, remaining steady compared with the previous Friday. The kuna weakened against the dollar and the franc, by 0.8 and 1.0%, respectively, to 6.9168 kuna to the dollar and 6.9751 kuna to the franc. This week we expect the trend of calm domestic fx market to continue, with lower volumes and trading in range from 7.60 to 7.64 kuna to the euro.



Money market calm

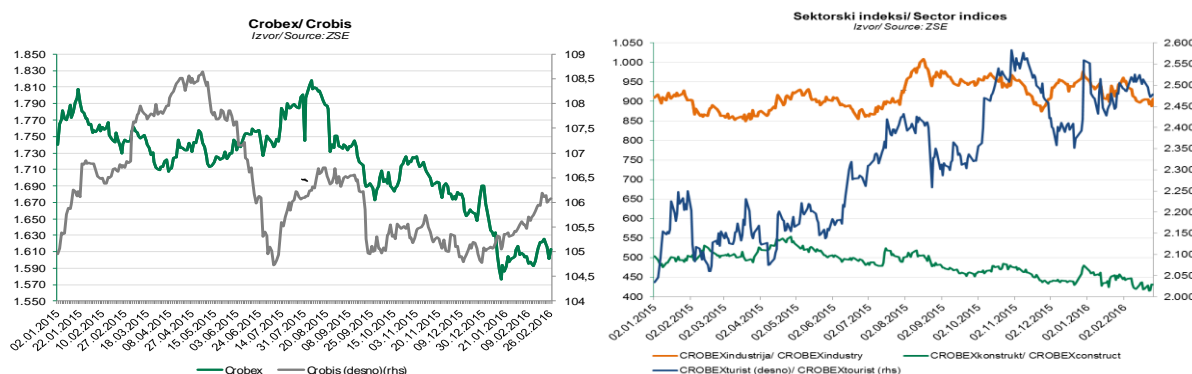
Last week, the money market did not record major changes, given the ample liquidity around the levels above 11 billion kuna. At the regular reverse repo auction, all the submitted offers amounting to HRK 151 million at the fixed repo rate of 0.5% were accepted. The total ZMM turnover barely amounted to 73 million kuna, whereas supply exceeded demand by an average of 270 million kuna per day. The interbank market interest rates were unchanged, therefore the overnight Zibor closed the week at 0.49%, 1M at 0.69% and 3M at 0.85%.

After a two-week break, the MF T-bill auction was held last week. A total of 10 million kuna in three-month T-bills with a yield of 0.40% (-3 b.p. compared with the previous issue), 5 million kuna in six-month T-bills with 0.50% (-5 b.p.) and 1.3 billion kuna in one-year T-bills with the interest rate of 1.13% (-12 b.p.) were subscribed. There was also a subscription of 11 million euro in three-month T-bills with an unchanged yield of 0.20% and 3 million euro in one-year T-bills with the interest rate of 0.30% (-10 b.p.). As 1.1 billion kuna in T-bills matured, and 1.3 billion kuna was subscribed, the government debt under T-bills increased to 29.6 billion kuna. A total of 1.1 billion kuna will mature this week again, and the auction with the same offer amount has been announced for Tuesday.



Crobex negative performance amid higher turnover

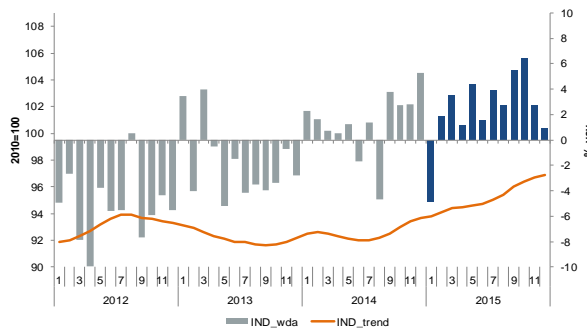
The total ZSE turnover was five times higher from the week before, amounting to 2.567 billion kuna, due to a 61.5% increase in the share turnover of 59.4 million kuna and a 5.5 higher growth of bond turnover, reaching 2.506 billion kuna. The Crobex dipped by 0.5% wow, closing the week at 1,613.22 points, while the Crobis index closed the week at 106.07 points, or a 0.1% lower level compared to the previous week. Sector indices had a mixed performance, therefore CROBEXkonstrukt ended the week at 431.66 points (+2.7% wow), CROBEXindustrija rose by 0.2% wow (to 906.64 points), while CROBEXturist dropped from last week by 1.2%, closing the week at 2,478.52 points.



Statistics

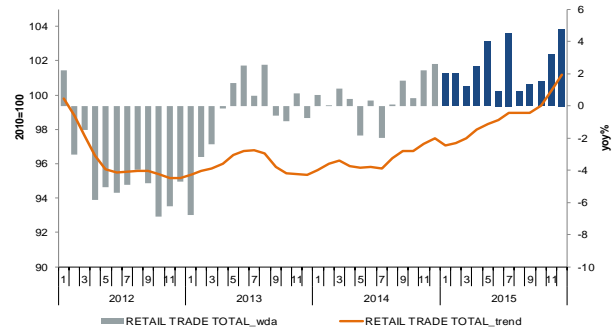
Industrial production, wda yoy % ch.

Source: Eurostat



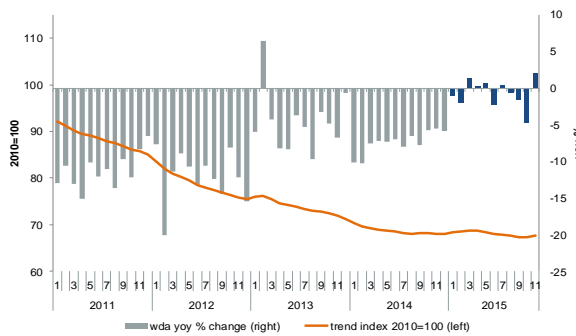
Retail trade, real, wda yoy ch.

Source: CBS



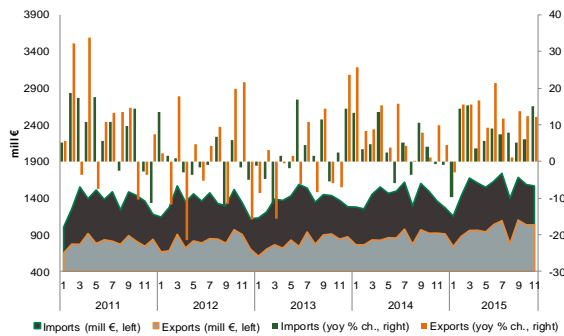
Construction works, yoy % ch. and index 2010=100

Source: CBS



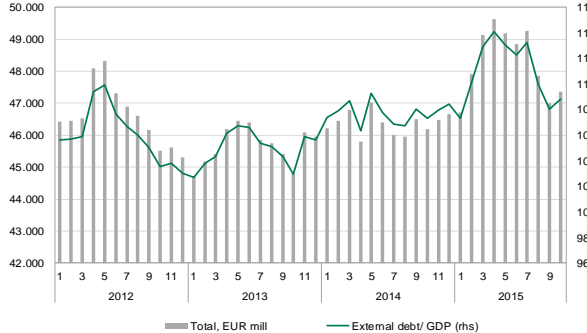
Goods exports and imports (yoy % ch. and mill €)

Source: CBS



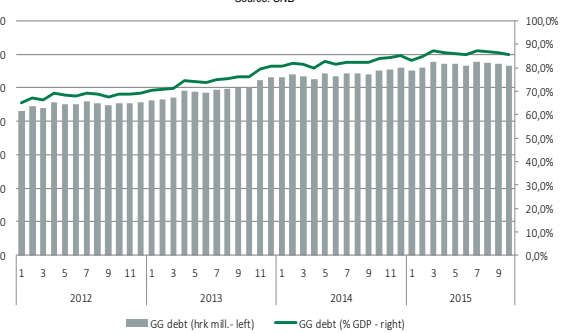
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



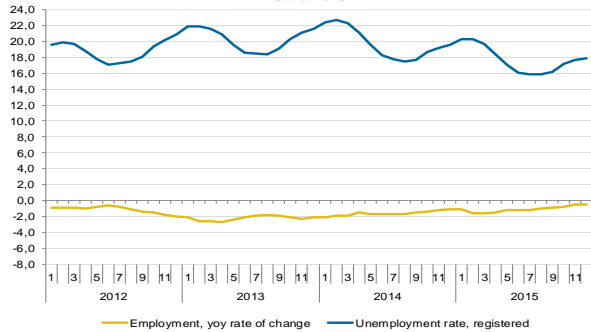
General government debt

Source: CNB



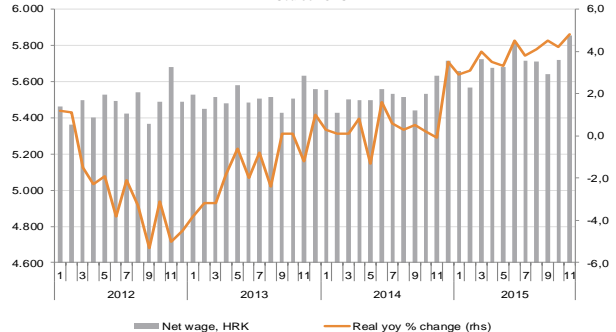
Employment, yoy rate of change and unemployment rate, %

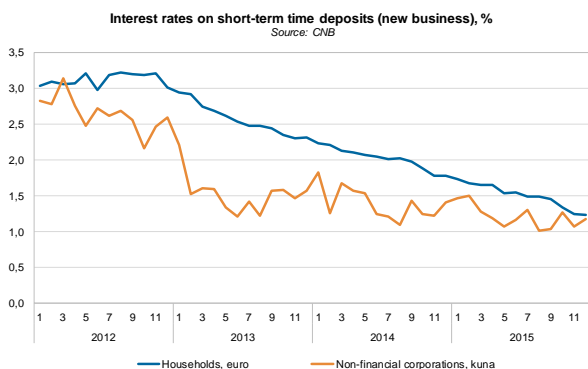
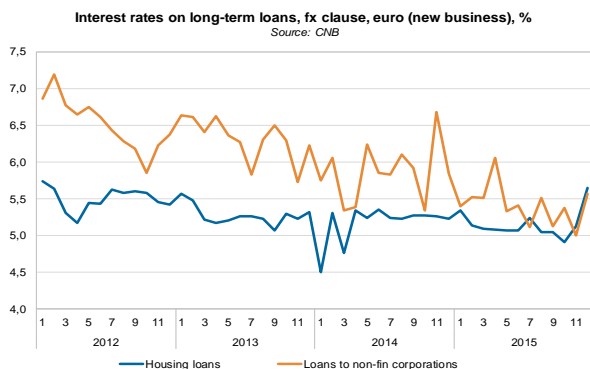
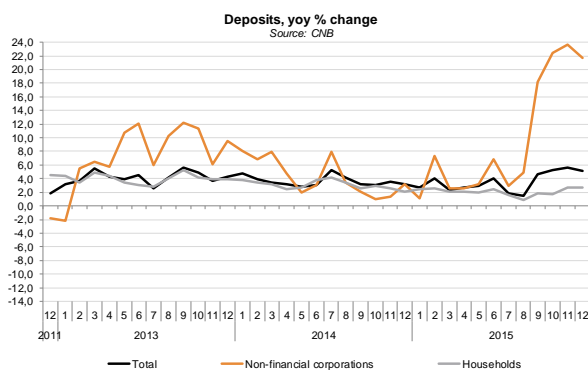
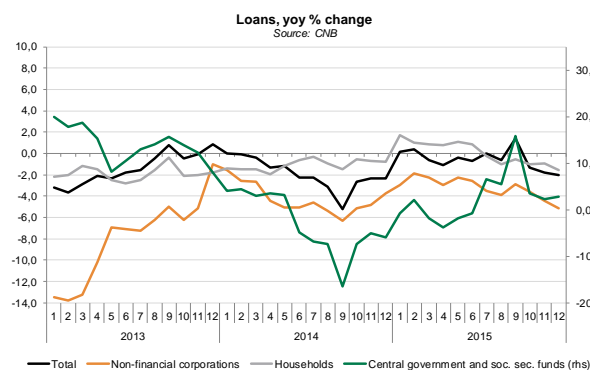
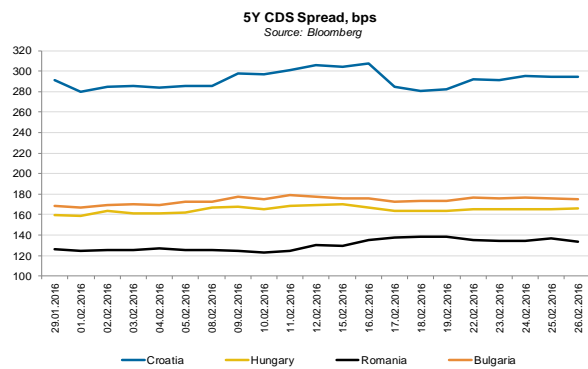
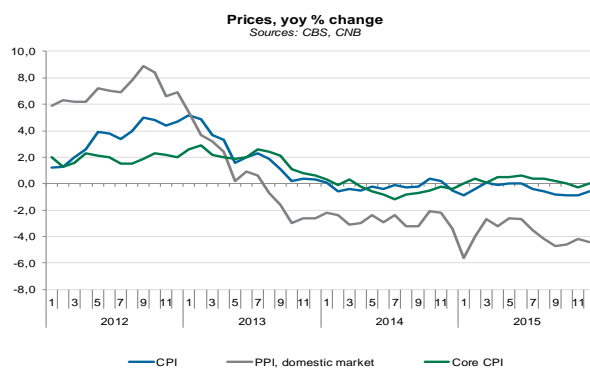
Source: CBS



Net wages: amount and real yoy rate of change

Source: CBS





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