

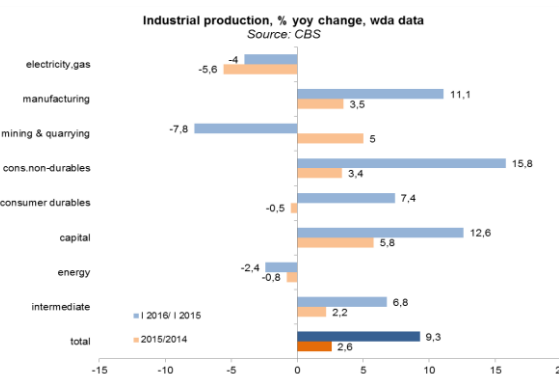
PBZ Weekly Analysis

Number 508, March 14, 2016

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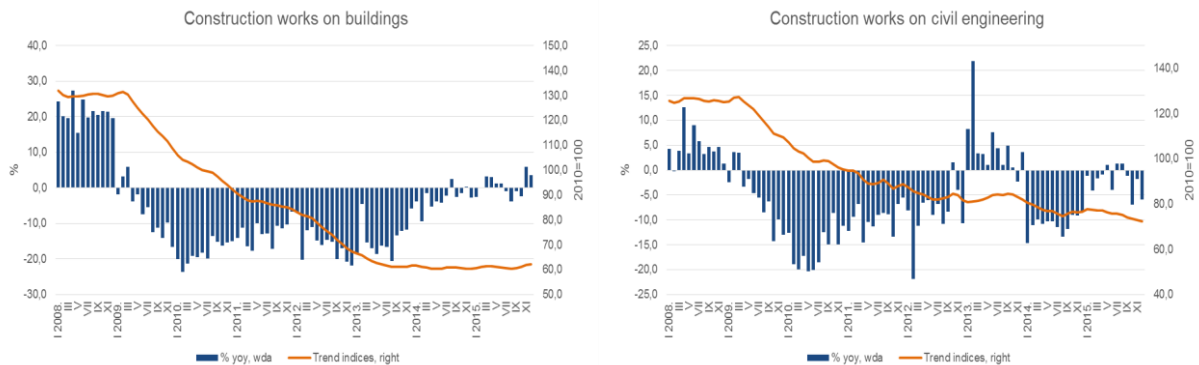
Weekly overview

- According to the seasonally adjusted data, total industrial production in January 2016 rose by 3.2% from December 2015, while the wda data show a substantial increase of 9.3% from January 2015 (due to a low base: IP decreased by 4.3% in January 2015, partly as a result of a repair of manufacturing facilities). According to



- GIG, the largest IP volume growth yoy in January was recorded in Consumer non-durables (+15.8%), Capital goods (+12.6%), Consumer durables (+7.4%) and Intermediate goods (+6.8%). At the same time, a decline was recorded only in Energy production (-2.4%). According to NKD, the IP growth yoy in January was recorded only in the Manufacturing activity (+11.1%), where the three components with the largest share in the categories *Manufacture of food products*, *Manufacture of other non-metallic mineral products* and *Manufacture of basic pharmaceutical products and pharmaceutical preparations* rose by 16.7%, 1.6% and 40.6%, respectively. The activities Mining and quarrying (-7.8%) and Electricity, gas, steam and air conditioning supply (-4%) recorded a simultaneous fall in the industrial production volume. We expect positive movements, although a bit more moderate than in January, to continue in the upcoming months.
- According to the DZS statement, total export of goods for December 2015 amounted to 7 billion kuna, which is almost the same level as in December 2014, while the import amounted to 11.1 billion kuna, or 13.5% more than the previous year. The total export of goods in 2015 amounted to 87.8 billion kuna (+11% g/g) and the import amounted to 140.7 billion kuna (+7.7% g/g), which resulted in an increase in the foreign trade deficit to 53 billion kuna (from 51.6 billion in 2014). The coverage of import by export rose to 62.4% from 60.5% in 2014. In 2015, the import recorded a lower level from 2014 only in a few categories, where *Manufacture of coke and refined petroleum products* (-15.1%) and *Manufacture of basic metals* (-23.3%) had a significant share. On the other hand, the export in the category *Manufacture of other transport equipment* (+118.8%) recorded a relatively highest increase yoy, followed by *Manufacture of basic pharmaceutical products and pharmaceutical preparations* (+35.4%). In 2015, the export of goods in the EU countries rose by 15.7%, while the export in the CEFTA countries fell by 1.4%. The most significant export markets are Italy, Slovenia, Germany and Bosnia and Herzegovina, which together account for 46.7% of the total export of goods.
- According to wda indices, construction works in December of 2015 decreased by 2.2% compared with the same month of 2014, while the seasonally adjusted indices show a drop of 2.1% from November of 2015. In 2015, an overall fall in construction works of 0.5% was recorded, which is a substantial slowdown of the fall in the activities compared with 2014, when the overall decrease amounted to -7.3%. The index of construction works on buildings

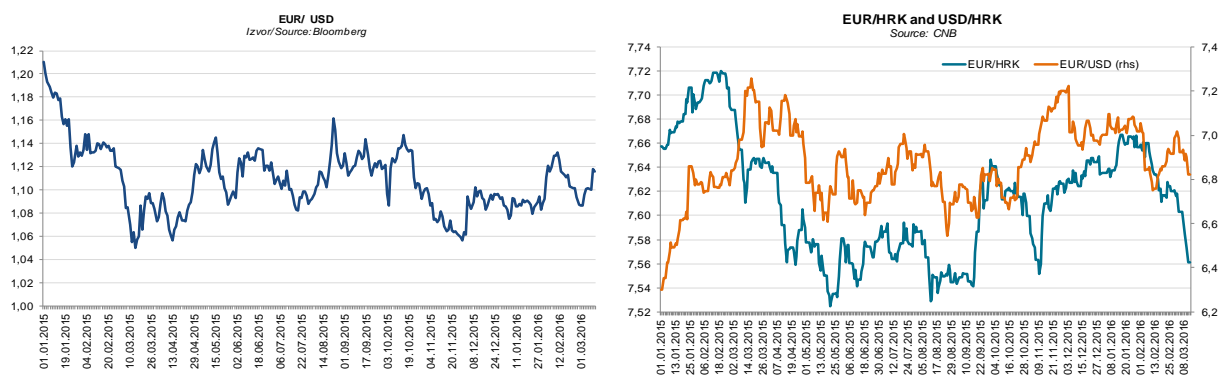
(with a 44% share of hours worked on sites) rose by 0.7% last year (the first growth since 2008 yoy), while the index of civil engineering works (56% share of hours worked) declined by 2% yoy. A total of 6,328 building permits were issued in 2015, which is a decrease of 4% compared with 2014, while the anticipated value of works amounted to 20.9 billion kuna (3.2% more from 2014). Thus, construction activity recorded a fall for the seventh consecutive year, although less sharp compared with the previous periods, and we anticipate a modest growth of the sector in 2016, supported by a better EU fund utilisation.



ECB shakes up market

A bold ECB package of measures adopted at the last week's meetings, cutting the central bank interest rates by 5-10 bps and expanding asset purchases scope and amount, pleasantly surprised the market and by far exceeded investor expectations. Immediately after the ECB decision release, the euro slid by more than 1% against the dollar, however, not for too long as, following President Draghi statement on a diminished prospect of a further interest rate cut, the exchange rate regained higher levels on the same day. Thus, finally, the euro strengthened by 1.4% against the dollar wow and the trading on Friday closed at 1.1156 dollar to the euro.

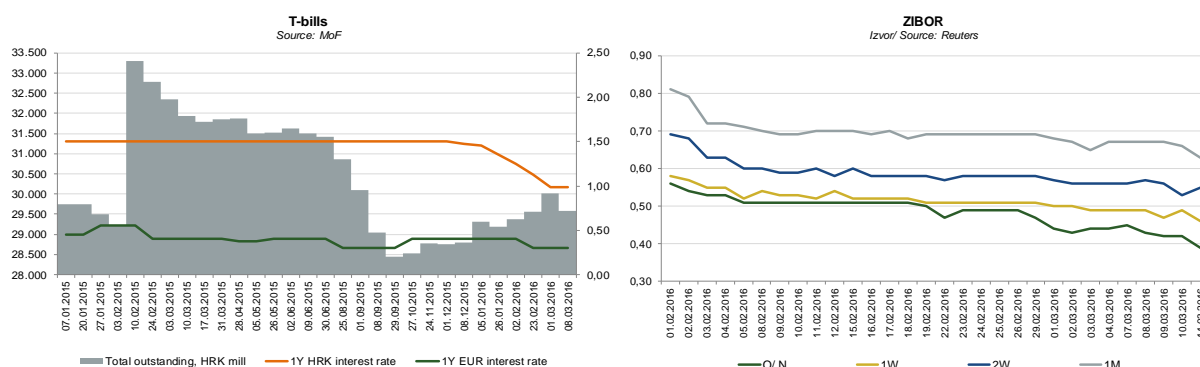
Due to ample foreign exchange supply in the interbank market and an absence of corporate demand, the EUR/HRK exchange rate dropped to 7.55, the lowest level this year, whereas the end of the week saw a correction and trading at slightly higher levels. The mid-exchange rate on Friday amounted to 7.5610 kuna to the euro, down by 0.6% wow, while the USD/HRK fell by 1.5% to 6.8209 kuna to the dollar. In case of the absence of strong demand, due to an early beginning and anticipation of a good tourist season, this summer may see a slightly lower exchange rate from the previous seasons. This week, we expect trading in the range from 7.55 to 7.58 kuna to the euro.



Money market calm

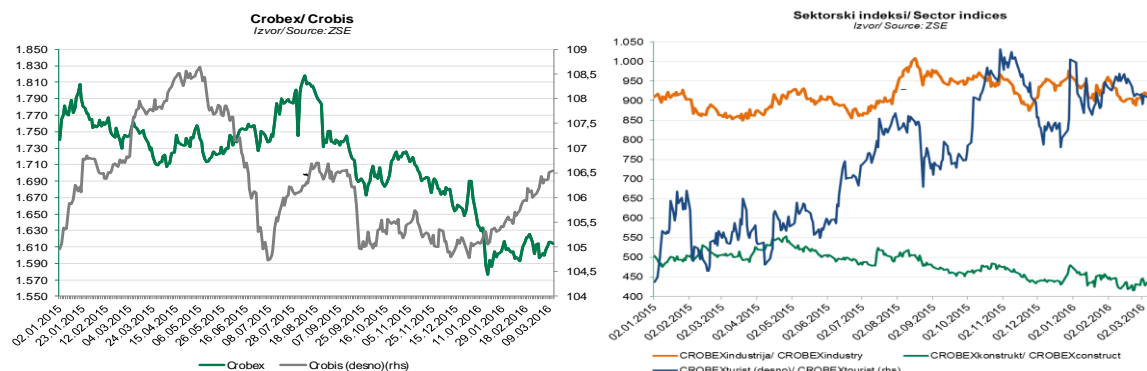
A total of 146 million kuna at the fixed repo rate of 0.5% was injected into banks at the last week's regular reverse repo auction. The total ZMM turnover rose to 302 million kuna, while supply exceeded demand by an average of 310 million kuna a day. The market was calm, therefore interest rates continued their downward trend; the overnight Zibor closed the week at 0.39% (-5 b.p. wow), 1M at 0.63% (-4 b.p.), and 3M at the unchanged 0.83%.

The MF T-bill auction saw a subscription of 1 billion kuna in six-month T-bills with a 5 b.p. lower interest rate of 0.45% and 778 million kuna in one-year T-bills with an unchanged yield of 0.99%. Thus, the government debt under T-bills dropped to 29.6 billion kuna. A total of 0.5 billion kuna will mature this week, and the auction amounting to 300 million kuna has been announced for Tuesday).



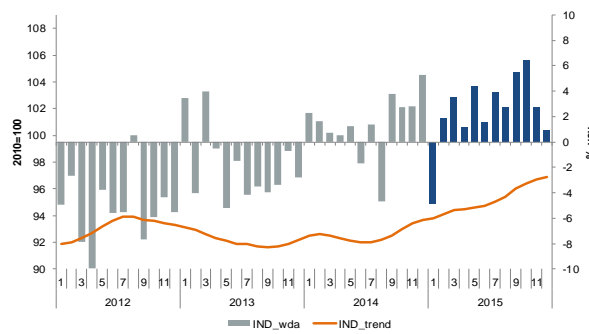
Crobex gains strength after two-week decline

Crobex recovered and grew by 0.9% wow to 1,613.45 points, whereas the Crobis index also closed the week with an increase of 0.2% wow, to 106.55 points. With regard to sector indices, CROBEXtourist grew by 0.9% wow (to 2,494.95 points), while CROBEXindustry (897.97 points) and CROBEXconstruct (423.87 points) closed the week with a fall of 2.5% and 0.9%, respectively. The total ZSE turnover declined by 72.2% wow to 354 million kuna, where the bond turnover decreased by 73% to 31 million kuna, and the share turnover by 72.1% to 322 million kuna).

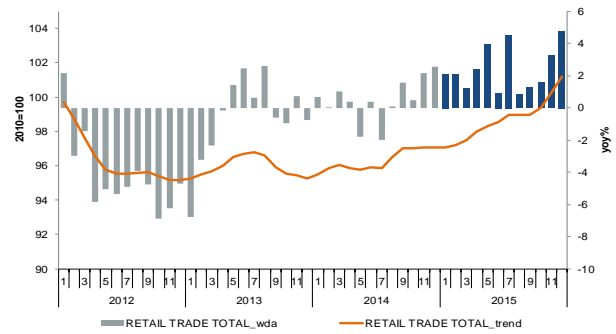


Statistics

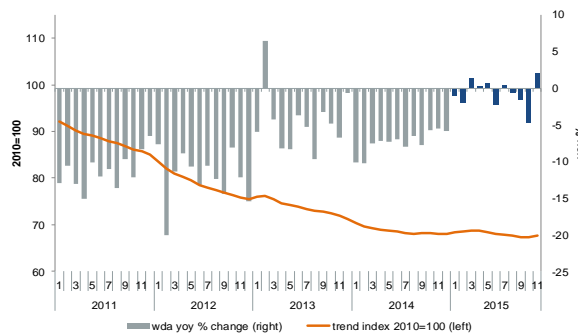
Industrial production, wda yoy % ch.
Source: Eurostat



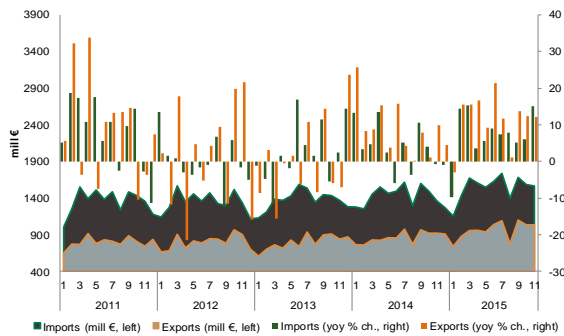
Retail trade, real, wda yoy ch.
Source: CBS



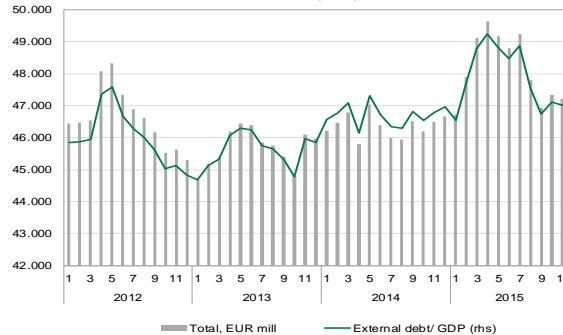
Construction works, yoy % ch. and index 2010=100
Source: CBS



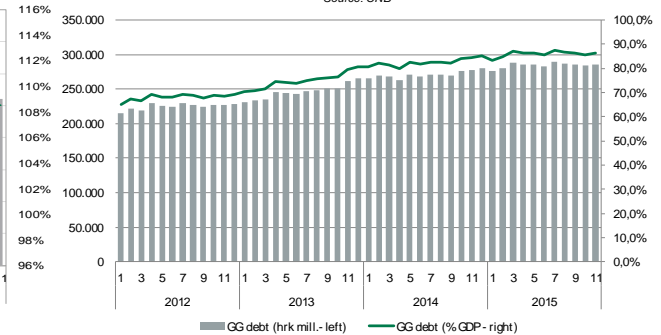
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



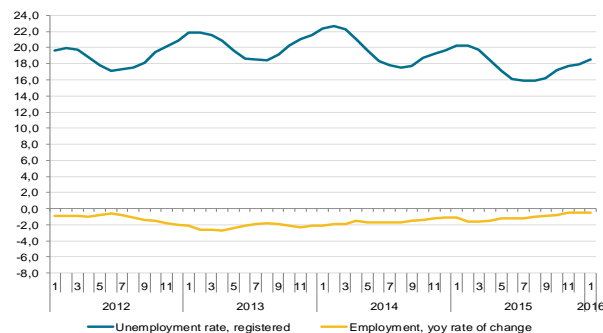
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



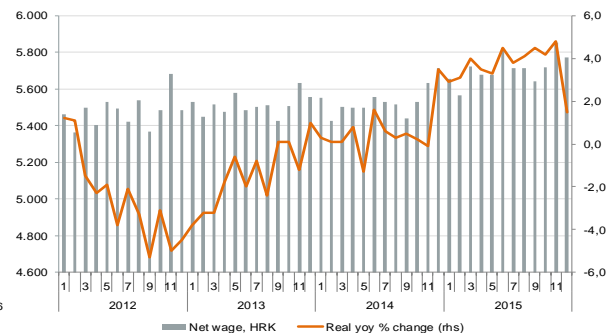
General government debt
Source: CNB

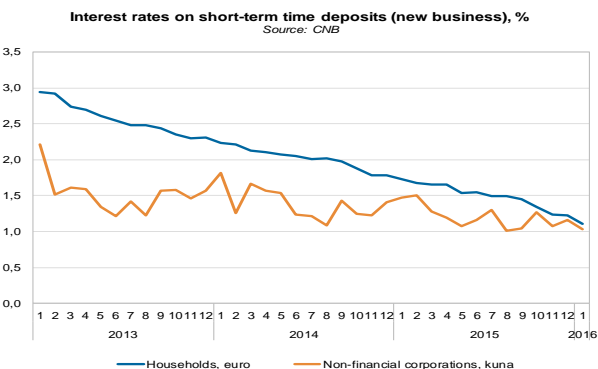
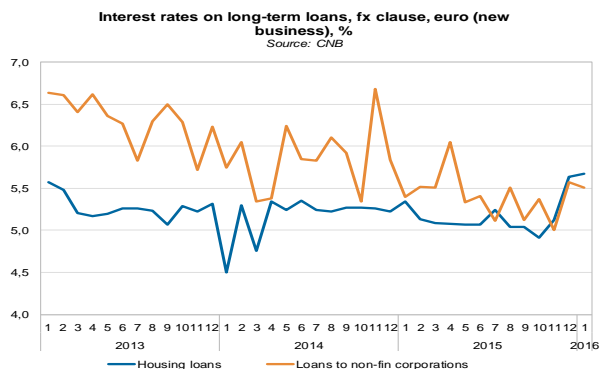
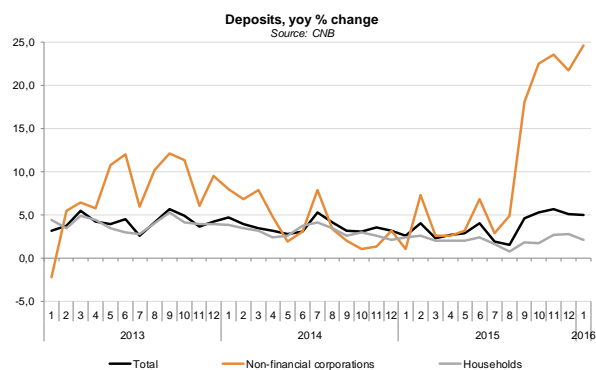
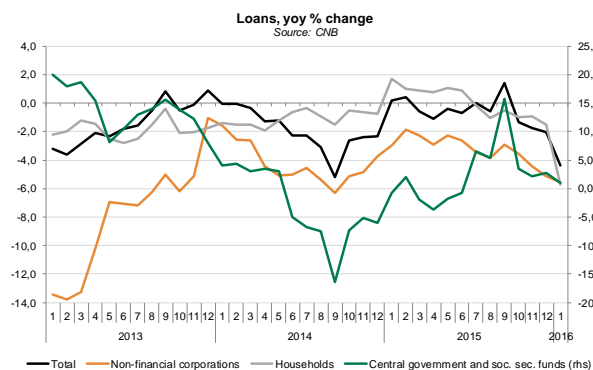
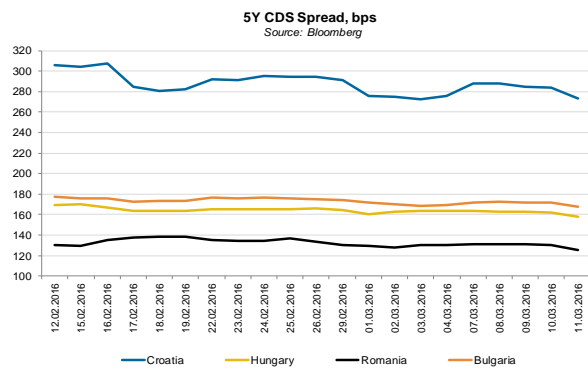
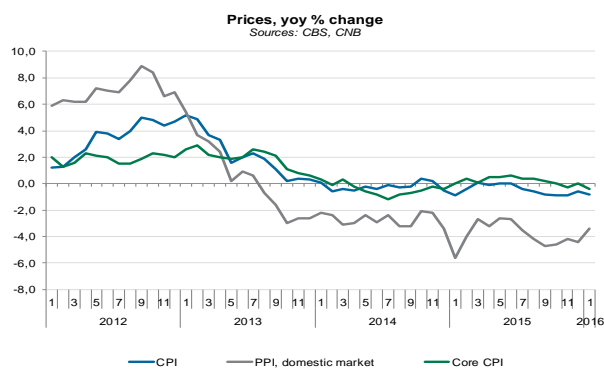


Employment, yoy rate of change and unemployment rate, %
Source: CBS



Net wages: amount and real yoy rate of change
Source: CBS





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