

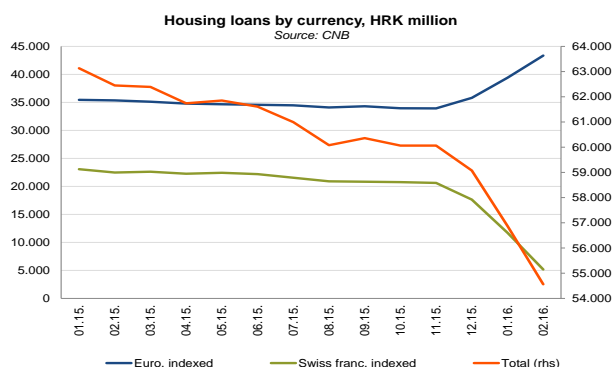
# PBZ Weekly Analysis

## Number 510, April 4, 2016

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## Weekly overview

- The consolidated balance sheet of other monetary financial institutions has continued to decrease for the third consecutive month yoy, mainly as a result of a reduction in the portfolio of housing loans portfolio due to the conversion (-12.6%), and a decline of claims of non-financial corporations (-4.1%), and the consequential deleveraging of banks abroad (foreign currency liabilities -26.3%). Thus the assets of other MFI's at the end of February were down by 2.6% compared with the same month last year. Total loans sank by 5.6%, where the three most significant sectors, the central government, non-financial corporations and households recorded a decrease of 4.1, 4.7 and 6.8%, respectively. However, loans to non-financial corporations increased for the second consecutive month mom (January +0.4%, February +1.6%), due to an increase in loans for working capital (+3.7%), and loans for other purposes (+1.4%). The statistics according to original maturity shows that, as expected, it involves short-term loans, whereas long-term investment loans have continued their negative trend because of an increased borrowing abroad and the sale of the bank portfolios. Loans to households dropped by 1.8% mom, while the comparison with the end of 2015 shows a drop of 3.8%. Housing loans indexed to the franc fell by 12.5 billion kuna from December 2015, while, at the same time, housing loans indexed to the euro rose by 7.6 billion kuna. Therefore, we expect that, following the end of the conversion, the portfolio of housing loans with a currency clause will decrease by around 12% from the end of last year. Concerning other types of loans to households, the trend from the previous period continued in February as well, and therefore an increase yoy was recorded for kuna housing loans (+31.0%) and kuna general-purpose cash loans (+27.0%). We anticipate a further stable growth of the indicated types of loans in the upcoming period, due to the citizens' inclination to domestic currency borrowing, amid a larger offer of kuna bank loans, while we expect an overall fall in loans to the private sector by 3.8% at the annual level. Total deposits in February rose by 3.6% yoy. Household deposits increased by 1.1%, while deposits of non-financial corporations by 18.7% (lower base as a result of the sale of TDR in the second half of the year), however, the comparison with the end of 2015 shows a decline in deposits (households -0.5%, corporations -4.5%) in both sectors. We expect the above mentioned trend to change in the following months, due to the beginning of the tourist season, and total deposits of the private sector to grow by 2.3% yoy, which will be a slowdown from 2015, when we saw a one-off effect of the corporate deposits and slightly higher interest rates on savings.
- According to the seasonally adjusted data, total industrial production in February 2016 fell by 1.6% from 2016, while the wda data show a substantial increase of 4.4% from February 2015



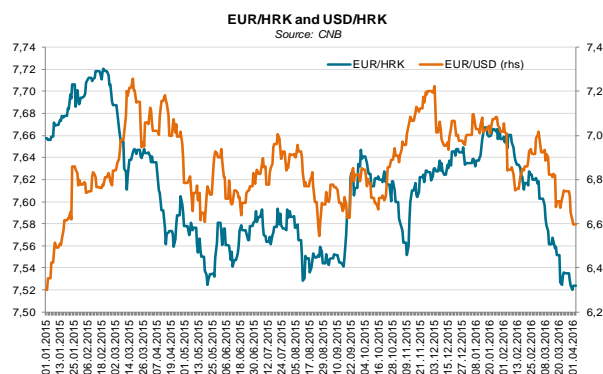
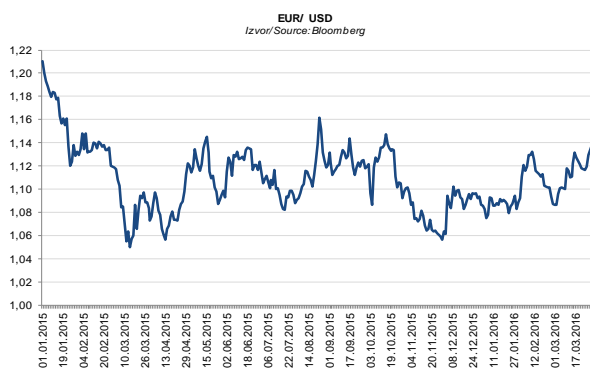
(for the thirteenth consecutive month). IP increased yoy in the following categories (according to GIG) Capital goods (+12.3%), Consumer non-durables (+8.2%) and Intermediate goods (+2.9%), while IP decreased by 4.4% and 1.2% in Consumer durables and Energy, respectively. The IP volume index mom decreased in Intermediate goods (-7.5%) and Consumer non-durables (-3.3%), while a growth was recorded in Capital goods (+11%), Consumer durables (+2.8%) and Energy (+1%).

- The total number of employed persons in February 2016 decreased by 0.8% from January 2016, amounting to 1,336,075 persons. The number of persons in paid employment in legal entities declined by 1% (to 1,134,681), in agriculture by 0.5% (to 20,148), while in crafts and trades and free lances this number increased by 0.2% (to 181,246). The total number of employed persons in February decreased by 1.4% yoy, where the number of persons in paid employment in legal entities was also lower by 1.4%, in crafts and trades and free lances by 0.5% and agriculture by 6.8%. The average monthly net earnings per person in employment in legal entities in January 2016 was higher by 1.7% in nominal terms, and 2.5% in real terms yoy, amounting to 5.646 kuna. The number of unemployed persons in February fell by 1.3% mom, reaching 289,420 persons, while the registered unemployment rate amounted to 17.8%. The number of unemployed persons dropped yoy, amounting to 40,322 persons, which resulted in a decline in the registered unemployment rate of 1.8 p.p.
- According to the preliminary data of the Croatian Bureau of Statistics, the real retail trade turnover in February 2016 was up by 3.2% yoy (wda data), and 0.4% mom (seasonally adjusted data), respectively.

## **Dollar weaker**

Following the last week's speech of the Fed Chair Yellen, investors believed that the likelihood of the Fed's interest rate hike at its April meeting was reduced, which led to a new weakening of the dollar against the euro and the exchange rate increase to the levels above 1.13. At the end of the week, trading closed at 1.1391 dollar to the euro, up by 2.0% wow.

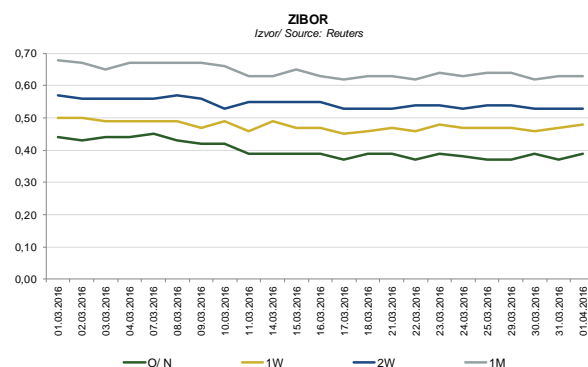
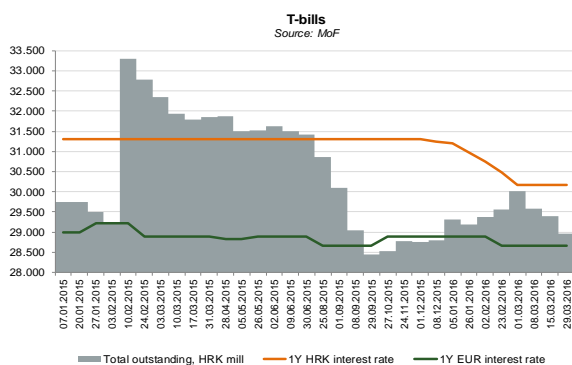
The kuna against the euro exchange rate is slowly approaching the level of 7.50, last seen in the summer of 2013. The domestic market still sees an insufficient foreign exchange demand, while the focus is on the beginning of the tourist season, therefore, we may expect the kuna strengthening trend to continue in the upcoming period. The mid-exchange rate on Friday amounted to 7.5241 kuna to the euro, down by 0.1% wow, while the kuna against the dollar strengthened by 2.2% to 6.5966 kuna to the dollar. This week, we expect trading in the range from 7.49 to 7.53 kuna to the euro.



## No major commotion in money market

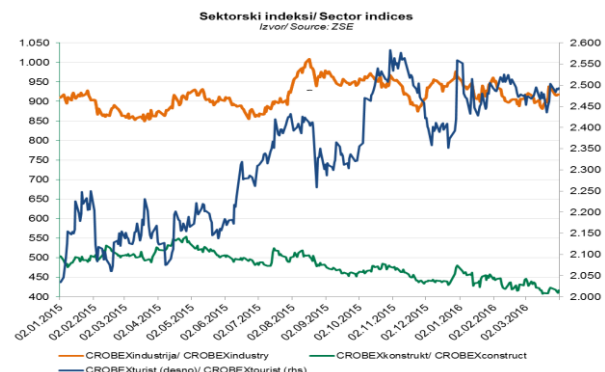
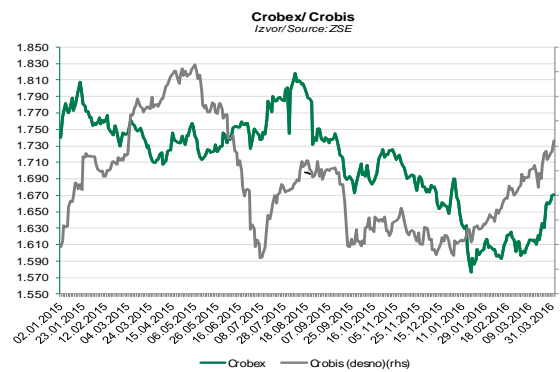
The money market saw another week with no major commotion. At the regular reverse repo auction, only 50 million kuna at the fixed repo rate of 0.5% was injected into banks, whereas the total ZMM turnover barely amounted to 48 million kuna, where supply exceeded demand, as usual, by an average of 305 million kuna a day. Interest rates recorded only slight shifts, therefore, the overnight, 1M and 3M Zibor closed the week at 0.39% (+2 b.p), 0.63% (-1 b.p.) and 0.83% (unchanged wow), respectively.

The MF T-bill auction saw a subscription of 581 million kuna in one-year T-bills with an unchanged yield of 0.99%. As 959 million kuna matured, the government debt under T-bills lowered to 29.0 billion kuna. There will be no maturity this week and no auction.



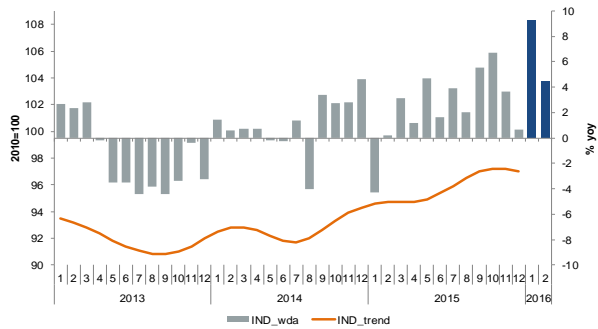
## Crobex increases for fourth consecutive week

Over the last week's four trading days, the total ZSE turnover fell by 16.9% from the previous week, amounting to 543.4 million kuna, as a result of a 33.4% decline in the bond turnover of 45.7 million kuna and a 15.1% decline in the share turnover of 496.2 million kuna. The Crobex rose wow by 0.6%, closing the week at 1,671.08 points, while the Crobis index closed the week at 107.10 points (the highest level since June 2015), i.e. up by 0.4% from the previous week. Sector indices closed the week in negative territory, thus CROBEXindustry ended at 918.10 points (-2.1% wow), CROBEXconstruct at 416.71 points (-1.5% wow), while CROBEXtourist was down by 0.4% from the previous week, closing the week at 2,493.25 points.

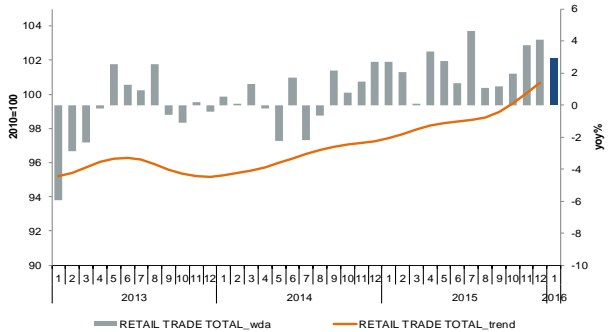


# Statistics

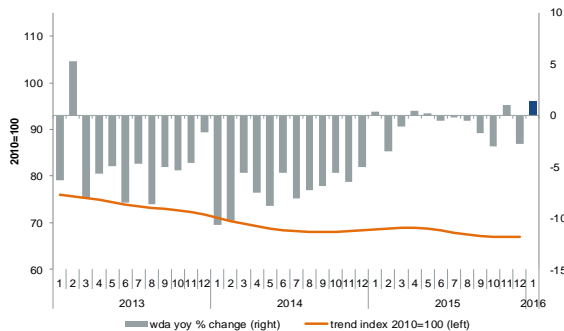
**Industrial production, wda yoy % ch.**  
Source: Eurostat



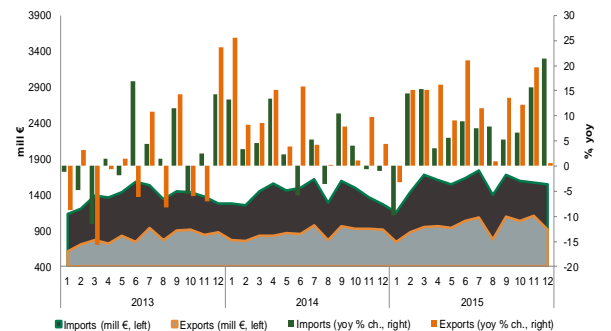
**Retail trade, real, wda yoy ch.**  
Source: CBS



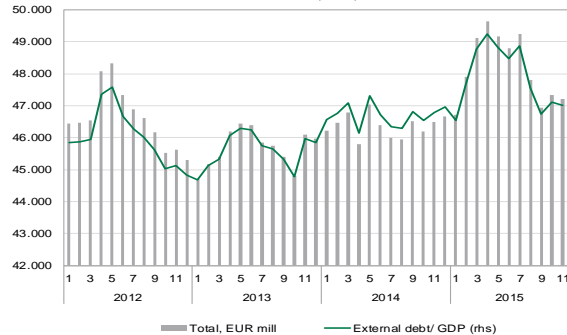
**Construction works, yoy % ch. and index 2010=100**  
Source: CBS



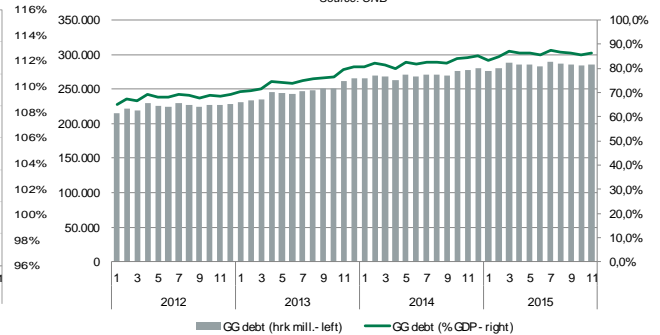
**Goods exports and imports (yoy % ch. and mill €)**  
Source: CBS



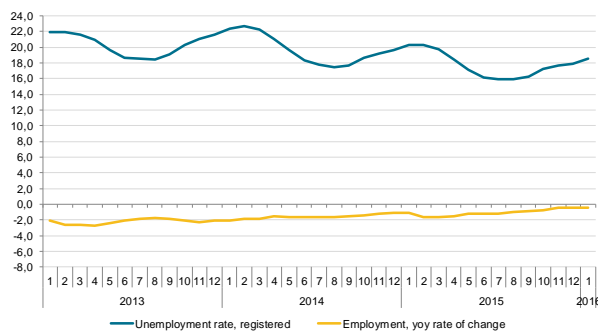
**External debt, amount and share to GDP**  
Sources: CNB, CBS, PBZ



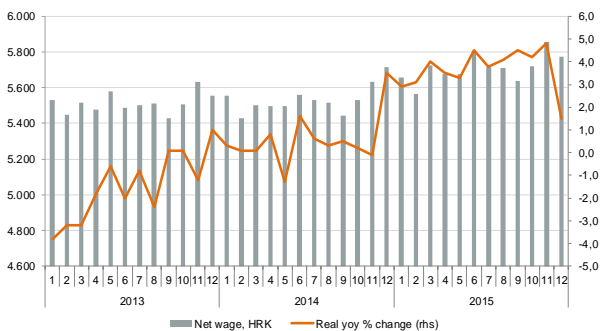
**General government debt**  
Source: CNB

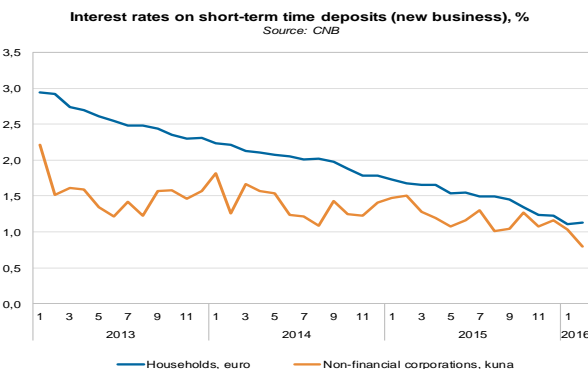
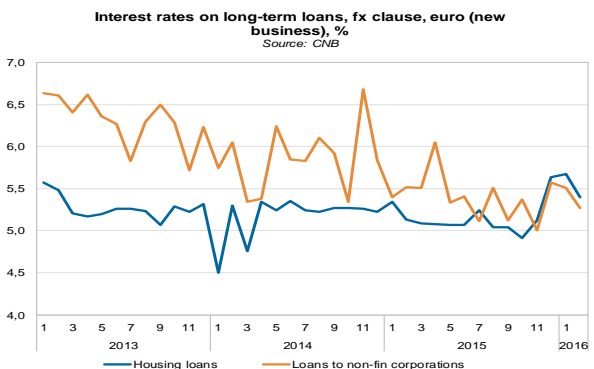
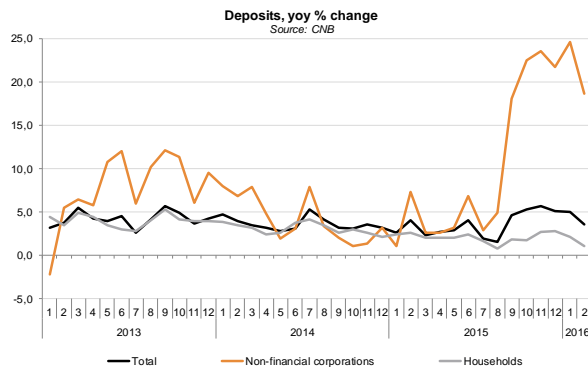
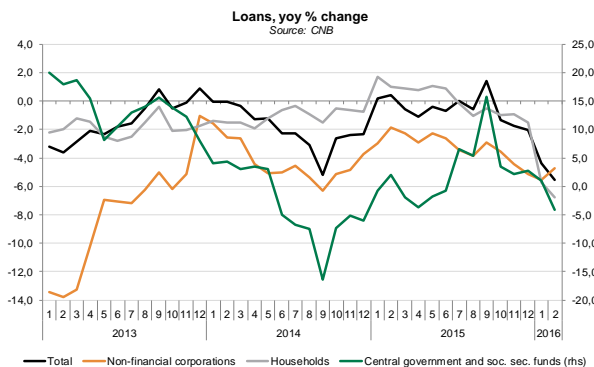
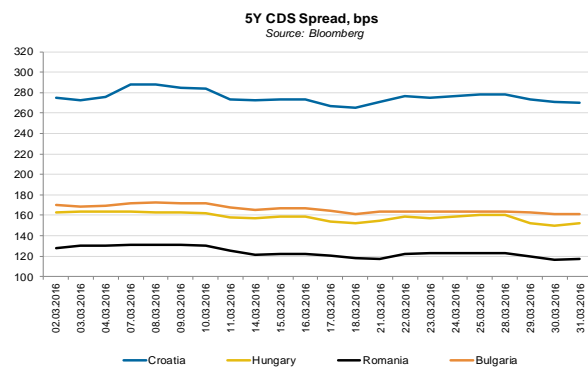
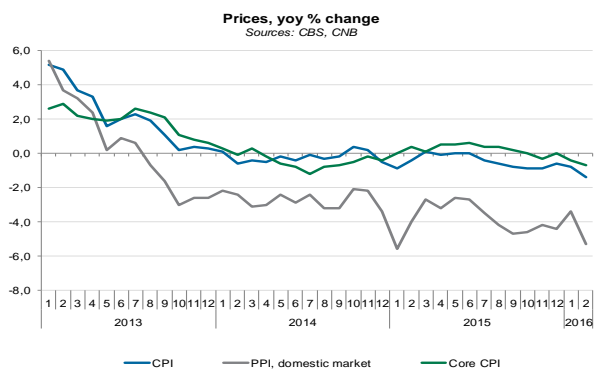


**Employment, yoy rate of change and unemployment rate, %**  
Source: CBS



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





#### **RESEARCH OFFICE**

Ivana Jović

Ana Lokin

Ivan Odrčić

#### **TREASURY**

Eugen Bulat

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