

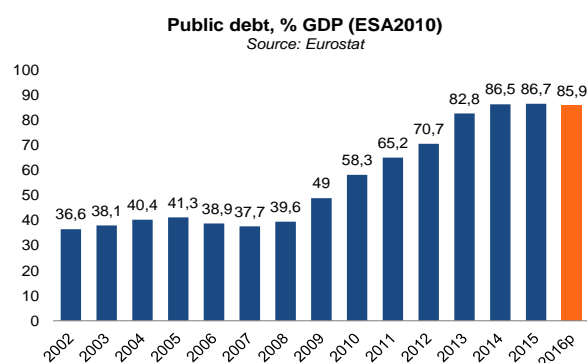
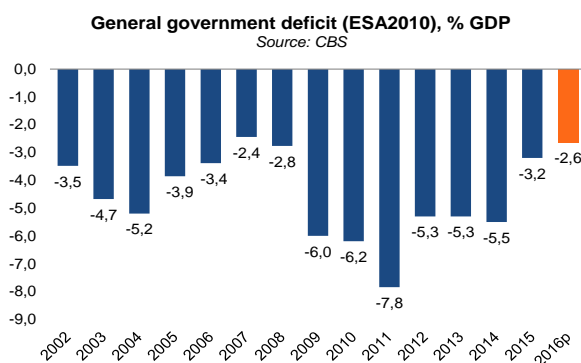
PBZ Weekly Analysis

Number 513, April 25, 2016

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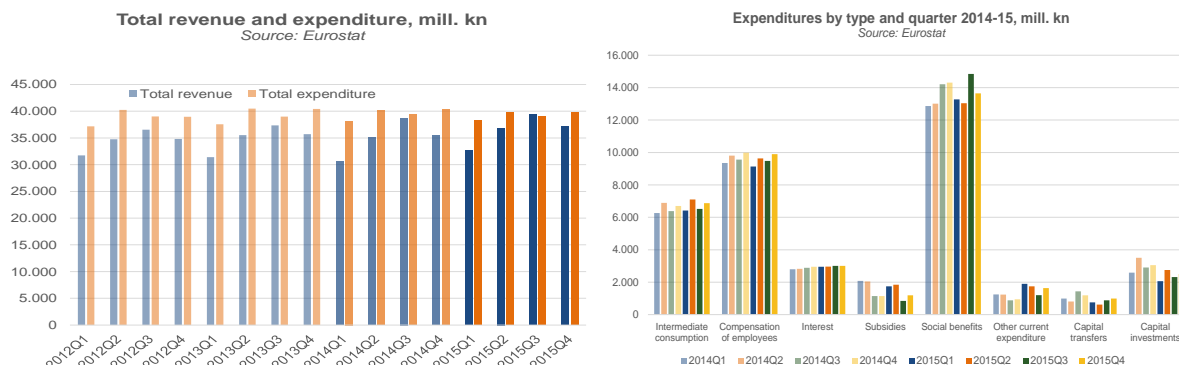
Weekly overview

- The report by the CBS shows a strong fall in general government deficit which was indicated also by preliminary figures on the execution of the state government in 2015. The total deficit thus fell from HRK 18.1 bill (2014) to HRK 10.7 bill or 3.2% of GDP, respectively. The highest impact on fall in deficit came from the central budget itself. The deficit of the central budget in 2015 fell to HRK 8.8 bill (from HRK 12.8 bill in 2014) due to growth in tax income and fall in capital investment (from 3.7% to 2.8% of GDP). The methodological correction (scope or treatment of specific items according to ESA2010) gave rise to such a deficit up to HRK 10.7 bill (2014: HRK 19.2 bill). The highest corrections were applied on treatment of the contributions transfers from the pension Pillar 2 into pension Pillar 1 (HRK 1.3 bill), take-over of the debt generated by HŽ Cargo and HŽ Putnički prijevoz (HRK 950 mill) and capital restructuring (HRK 496 mill). At the same time, the local self-government units ran a surplus budget of HRK 617 mill, and social security funds generated a deficit of HRK 624 mill, i.e. 0.2% of GDP in the both cases. According to the plan contained in the notification, this year further fall in the GGD should take place down to HRK 9 bill, or 2.6% of estimated GDP, respectively (estimate by the Ministry of Finance), and fall in public debt to 85.9% of GDP.



- Should we consider further trends in the general government budget per quarters we can see that in 2015 the strongest growth in total income (q/q 2014) was realised in 1q (+6.5%), 2q (+5.0%) and 4q (+4.6%), while in 3q the income grew by modest 1.9%. In 1q income stagnated, while three remaining quarters recorded annual fall of 1.1% in a row; 0.8% or 1.3% in 4q. At the level of the whole year the income grew by 4.4% (to HRK 146.1 bill), while expenses fell by 0.8% y/y (to HRK 156.8 bill). According to expense categories, in 2015 the expenses fell for wages (-1.4%), subsidies (-12.4%), capital transfers (-26.5%) and capital investment (-20.1%). In parallel, the expenses grew for intermediary consumption (+2.5%), interest (+4.0%), social allowances (+0.8%), and other current expenses by 50.4%. As according to preliminary figures on the execution of the state budget provided by the Ministry of Finance the fall in expenses (accompanied by the 3.2% growth in income) continued also in the first two months 2016 (-14% y/y 2015; where the highest portion of reduction related to agricultural subsidies taking into account that the payment was made in February, this year in April) we can conclude that a strong consolidation continued also in 1q2016, however with regard to methodological differences of the cash principle reporting by the Ministry of Finance

and accounting principle ESA2010, and also taking into account also essential differences in the scope, for the time being we sustain from its more precise quantification.

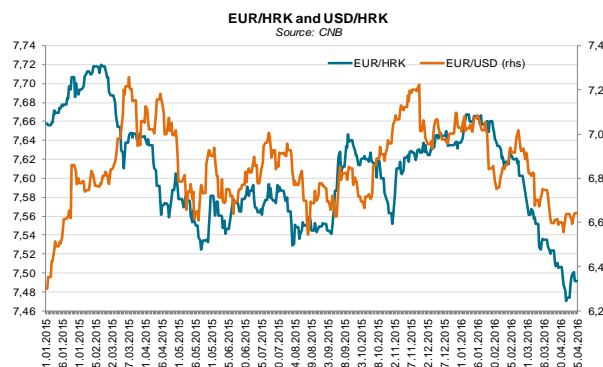
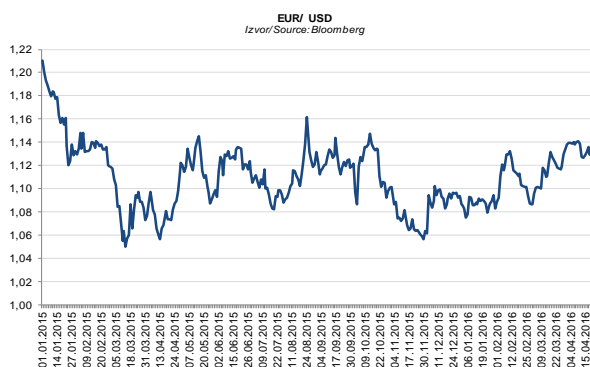


- Construction works in February grew up, according to wda indices, by 8.3% in relation to February 2015, while according to seasonal and working day adjusted indices they grew up by 3.2% m/m. The construction works index for buildings (with the share of 49.2% hours worked at construction sites) in February grew by 15.6% (the highest percentage since December 2008), while works index on other constructions (share of 50.8% of worked hours) grew by 1.5% y/y. In February issued were in total 620 permits (+45.9% y/y), while the foreseen work value was HRK 1.3 bill (10.5% more y/y). In the first two months 2016 the volume of construction works (according to original indices) showed the growth by 3.8% y/y (+10.1% buildings, -2.2% other constructions), and issued were in total 1,021 permits (+27.3% annually) with foreseen works value of HRK 2.5 bill or 7.2% higher y/y.

Kuna slightly depreciated

At the ECB meeting last week there was no surprise so interest were retained at current levels, and the conditions of asset purchase programme remained unchanged. Upon the announcement the euro strongly strengthened against the dollar, however the trend did not continue. Eventually, the dollar strengthened against the euro thus the week was closed on Friday on 1.1222 dollar to the euro, which is the 0.5% fall w/w. This week the investors focused on the FOMC meeting.

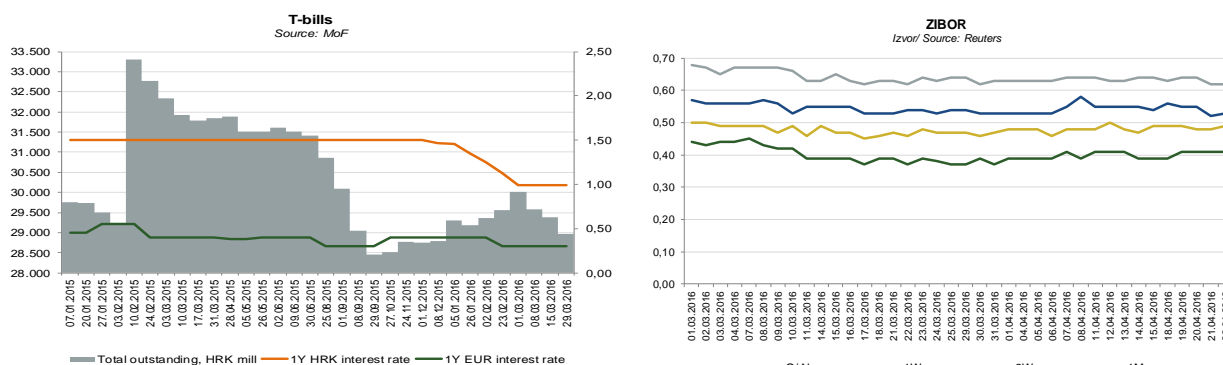
Last week the kuna slightly weakened against the euro thus at the close of the week the mid-exchange rate was 7.4908 kuna for the euro, +0.2% w/w, while the exchange rate of the dollar to the kuna on Friday was 6.6420 kuna for the dollar, +0.1% w/w. This week we expect the trade ranging within 7.47 and 7.51 kuna for the euro.



T-bill auction announced

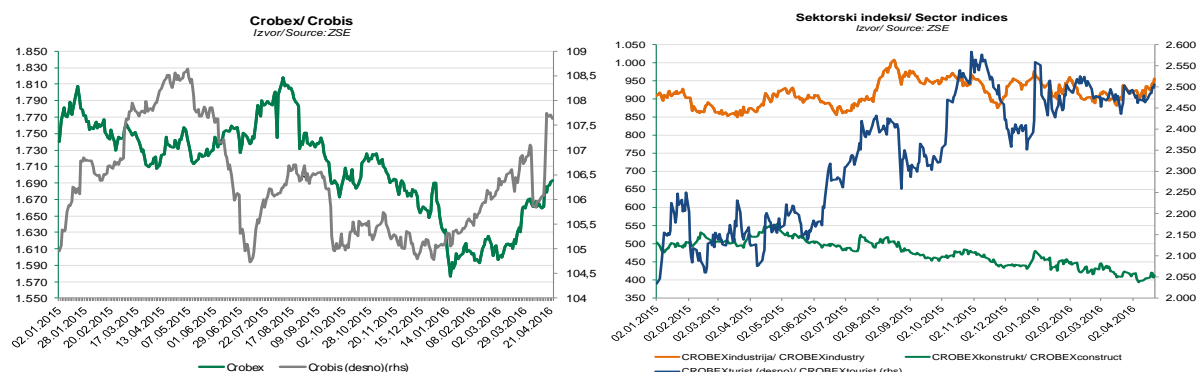
Liquidity is still generous at the levels of approx. 10 billion kuna, and demand low, so on regular reverse repo auction CNB placed to the banks only to HRK 80 mill at the fixed 0.5% repo rate. The total turnover on the ZMM was weak to HRK 55 mill, while offer exceeded supply by an average of HRK 326 mill per day. Interest on short terms recorded only slight shifts thus the overnight Zibor closed the week at 0.41% (+2 b.b. wow), 1M at 0.62% (-2 b.b.), and 3M at 0.80% (-3 b.b.).

There was no MF T-bill auction and, as there was no maturity, the government's debt under T-bills retained at HRK 29.0 bill. This week 1.1 billion of T-bills will mature so the auction is announced with the planned issued amount of HRK 600 mill.



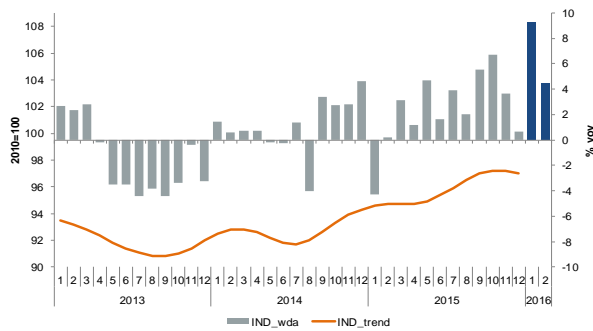
Indices positive

The total turnover on the ZSE grew by 39.3% w/w (to HRK 231.7 mill), owing to 48.3% growth in turnover in bonds (to HRK 191.5 mill) and 10.4% growth in turnover in shares (to HRK 39.4 mill). Crobex closed the week at 1,693.14 points, i.e. at 0.4% higher level w/w, while Crobis index rose by 1.1% w/w and closed the week at 107.64 points. Sector indices closed positive, thus CROBEXindustrija closed the week at 956.06 points (+2.3%), CROBEXkonstrukt at 412.71 points (+2.1%), and CROBEXTurist at 2,506.11 points (+1.5% w/w).

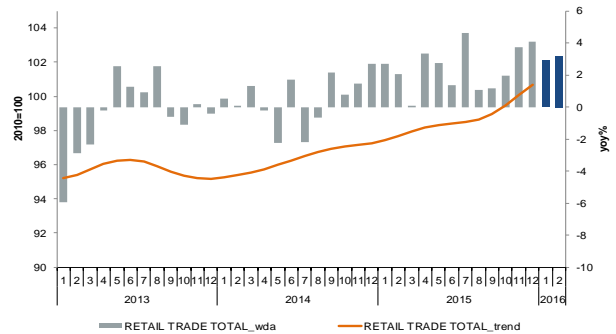


Statistics

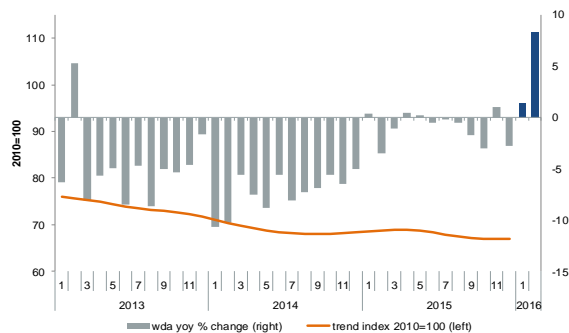
Industrial production, wda yoy % ch.
Source: Eurostat



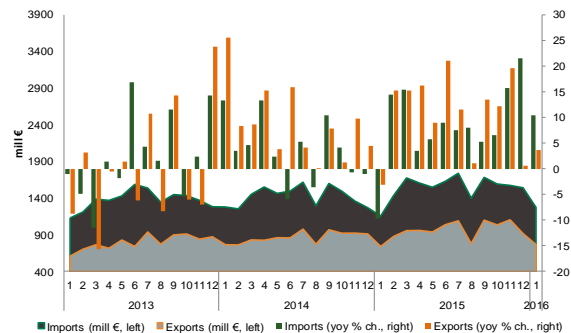
Retail trade, real, wda yoy ch.
Source: CBS



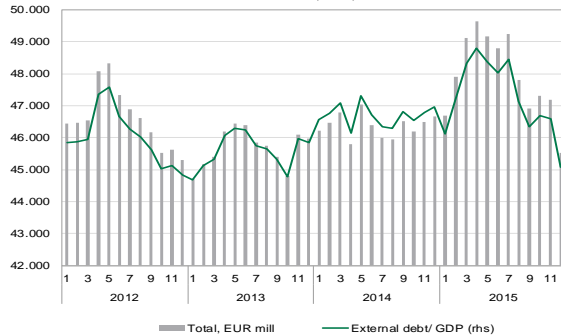
Construction works, yoy % ch. and index 2010=100
Source: CBS



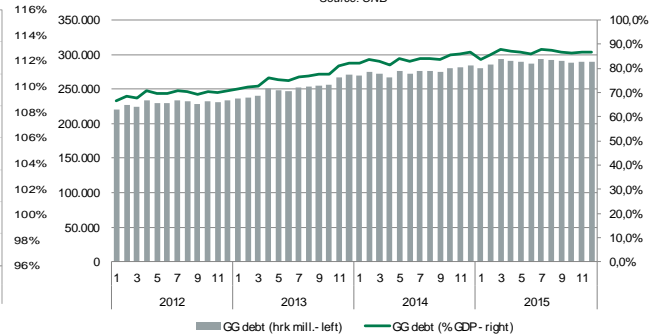
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



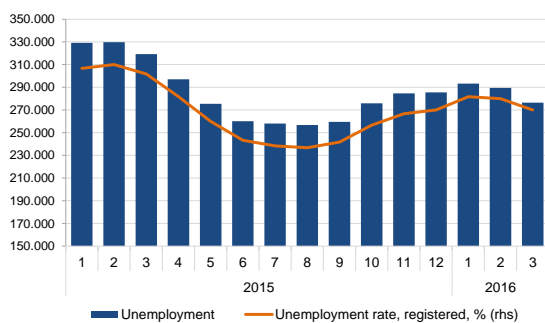
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



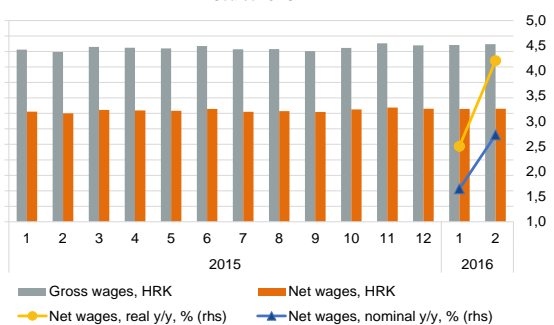
General government debt
Source: CNB

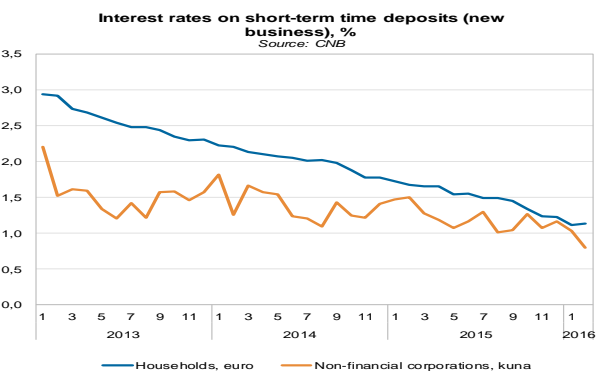
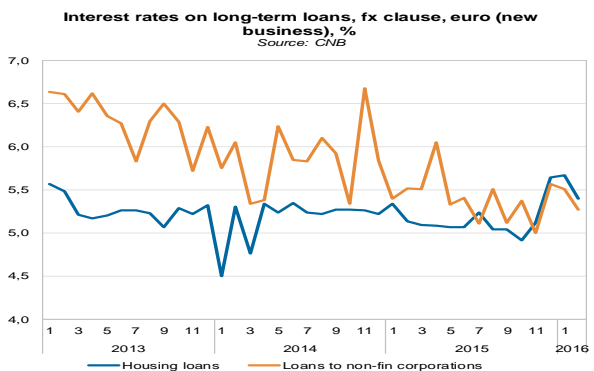
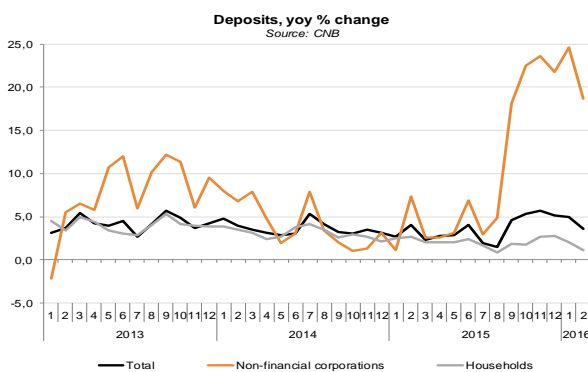
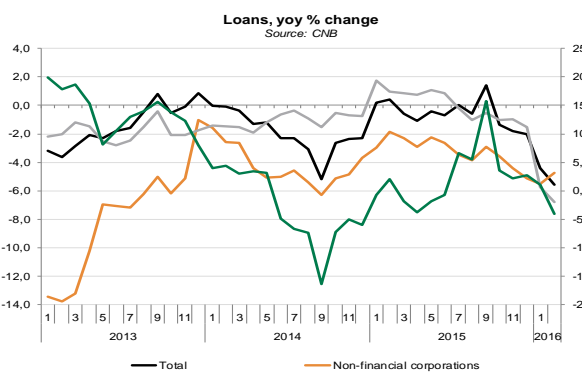
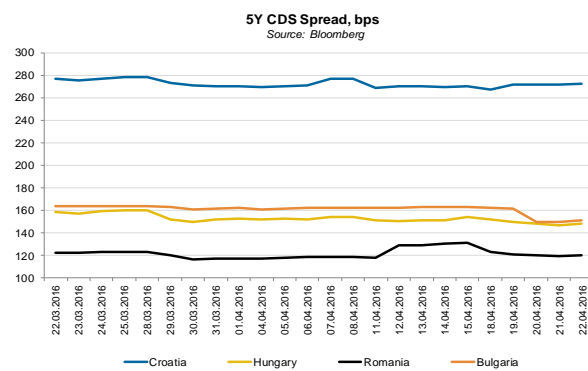
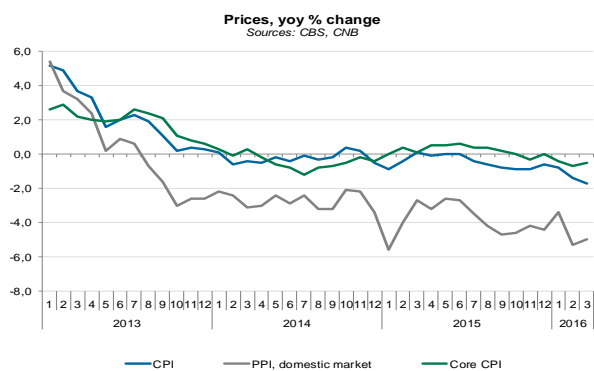


Total unemployment and unemployment rate
Source: CBS



Wages, monthly average
Source: CBS





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