

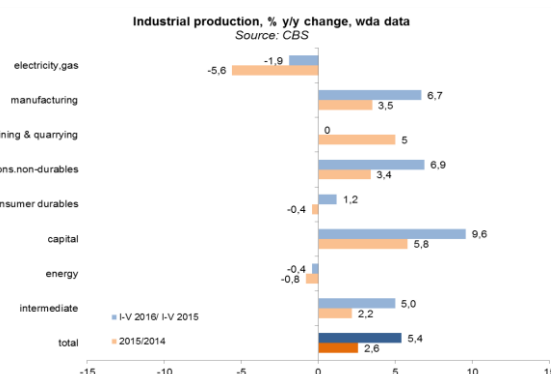
PBZ Weekly Analysis

Number 523, July 4, 2016

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Weekly overview

- Industrial production in May 2016 rose by 1.6% yoy (wda data). Although the recorded growth is the lowest since the beginning of the year, partly due to a relatively high base in the same month of 2015 (+4.7%), the industrial production grew for a 16 consecutive month in May. The mom IP recorded a fall of 1.4% in May (second consecutive



month). According to NKD, Manufacturing (with a 77.9% share in total IP), increased by 2.5% yoy (lowest increase since April 2015), where the production of food decreased by 0.3%, while some industrial branches recorded two-digit declines in the production volume (manufacture of tobacco products by 32.4%, wearing apparel by 14.3%, coke and refined petroleum products by 14.3% and basic metals by 24.4%). Electricity, gas, steam and air conditioning supply rose by 1.7%, while production in the activity Mining and quarrying rose by 0.9% (of which extraction of crude petroleum and natural gas +3.3%). According to MIGs, production increased in Capital goods by 5.5%, in Durable consumer goods by 2.8%, Non-durable consumer goods by 2.2%, Intermediate goods by 1.4%, while production decreased in Energy by 1.6% yoy. Over the first five months of 2016, the industrial production grew by 5.4%, showing a significantly faster increase versus the increase from the same period last year, when a rise of 1.3% was recorded, which is a result of both strengthening of external demand and beginning of recovery of domestic demand.

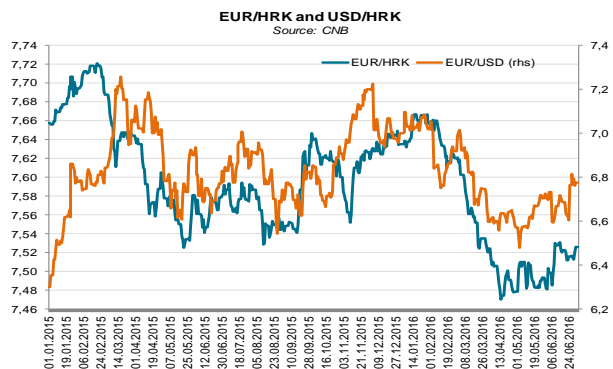
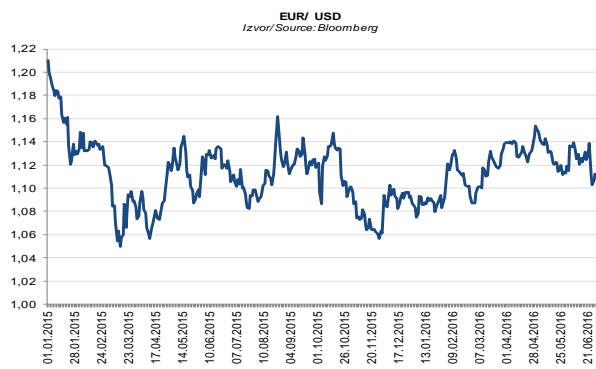
- In May, a total of 1,376,697 of persons in employment was recorded, up by 1.9%. The number of persons in paid employment in legal entities rose by 1.5% (to 1,157,608 persons), in crafts and trades and free lances by 4.7% (to 199,119), while the number of employed private farmers decreased by 0.3% mom. A rise in the number of persons in paid employment in legal entities mom is a result of preparation for tourist season, which can also be seen from the data on a 14.1% growth in the number of persons employed in the category Accommodation and food service. On a year over year basis, the total number of persons in employment in May dropped by 0.7% (-0.7% in legal entities, -0.1% in crafts and trades and -6.1% in agriculture). The administrative number of unemployed persons in May decreased to 232,327 persons (-8.7% mom and -15.6% yoy), hitting the lowest level since October 2008, whereas the registered unemployment rate was 14.4% (-1.5 p.p. mom and -2.2 p.p. yoy).
- The average monthly net earnings per person in employment in legal entities in April amounted to HRK 5,633 (gross: HRK 7,688). The yoy level saw an increase of 0.7% in nominal terms and 2.4% in real terms (gross: 0.9% and 2.6%), while the mom level saw a decrease of 1.6% in nominal terms and 1.7% in real terms (gross: -1.8% in nominal and real terms). The highest net earnings were paid off in the activity Financial service activities,

except insurance and pension funding (HRK 9,993), while the lowest net earnings were paid off in the activity Manufacture of wearing apparel (HRK 3,291). Median net earnings in April amounted to HRK 4,698 (gross: HRK 6,297).

Pound sinks

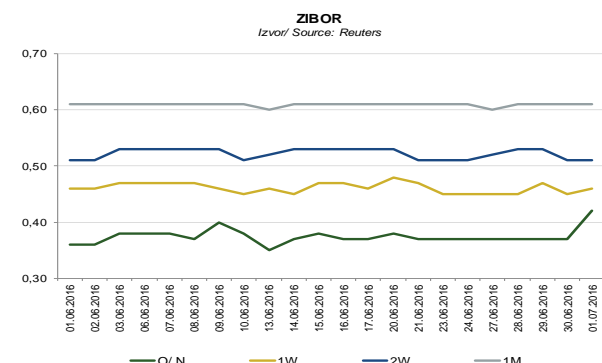
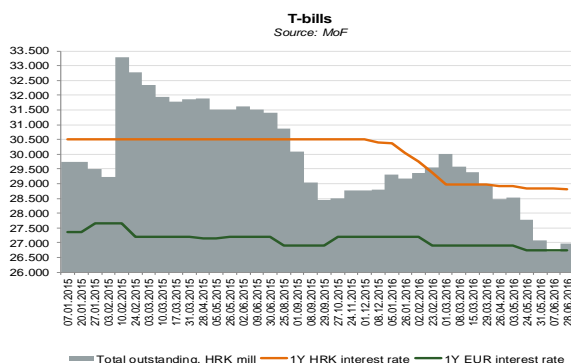
Last week, the EURUSD exchange rate fluctuated at 1.10-1.11 dollar to the euro, and trading closed at 1.1136, ending the week up by 0.2% wow. As expected, investors focused on the pound, which has slowly declined post-Brexit, suffering a fall of 3.3% against the euro and 3.0% against the dollar over the last week.

The kuna recorded only slight changes last week, thus the mid-exchange rate on Friday amounted to 7.5258 kuna to the euro, up by 0.1% wow. The kuna against the dollar weakened by 0.2% to 6.7764 kuna to the dollar.



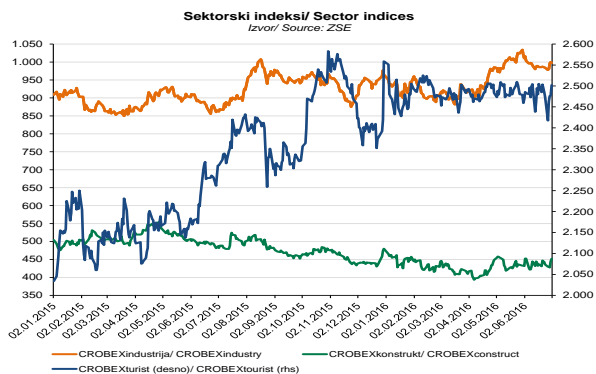
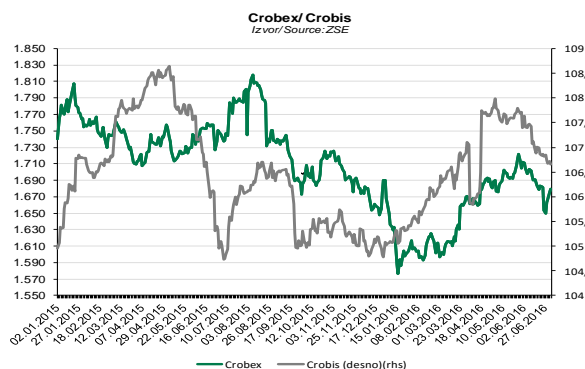
Low demand for kuna continues

The demand for kuna in the money market is still low. Liquidity slightly decreased at the end of the month and therefore the overnight Zibor rose on Friday from the moderate 5 b.p. to 0.42%, while 1M and 3M remained at 0.61 and 0.80%, respectively. At the regular reverse repo auction, 80 million kuna at the fixed repo rate of 0.50% was injected in the system, while the total ZMM turnover barely amounted to 5 million kuna, where supply exceeded demand by an average of around 300 million kuna per day. As last week 0.3 billion kuna matured and 0.6 billion kuna in one-year kuna T-bills with a 1 b.p. lower yield of 0.94% were subscribed, the government debt under T-bills rose to 27.0 billion kuna. There will be no maturity this week and therefore no auction.



Crobex wow rise

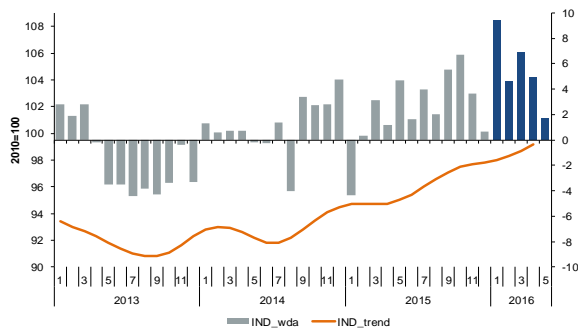
Following the four-week fall, the Crobex closed at 1,679.48 points, finishing the week by 1.6% wow, while the Crobis closed the week at 106.65 points or down by 0.2%. Sector indices performance was positive, thus CROBEXconstruct closed the week at 452.09 points or up by 3.7% versus the week before, CROBEXindustry at 998.33 points (+1.5%), while CROBEXtourist closed the week at 2,502.23 points or up by 1.2%. The total ZSE turnover dropped by 42.2% wow (to 329.2 million kuna), where the turnover in shares rose 7 times (to 151.3 million kuna), while the turnover in bonds fell by 67.8% (to 175.9 million kuna).



Statistics

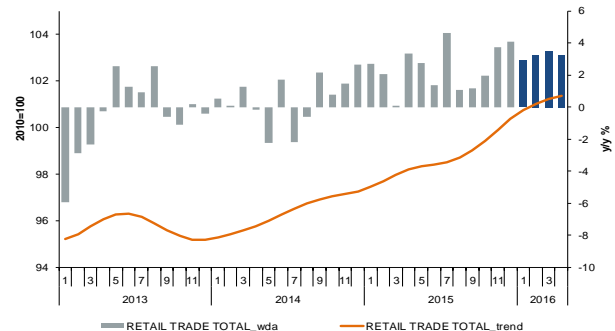
Industrial production, wda y/y % ch.

Source: Eurostat



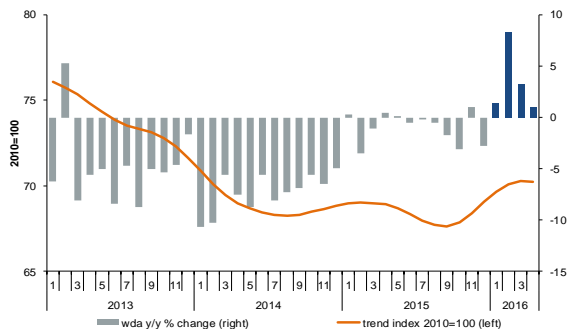
Retail trade, real, wda y/y ch.

Source: CBS



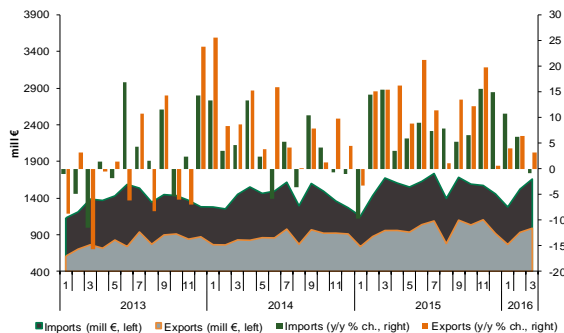
Construction works, y/y % ch. and index 2010=100

Source: CBS



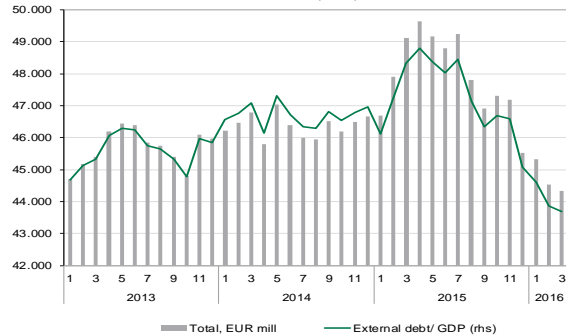
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



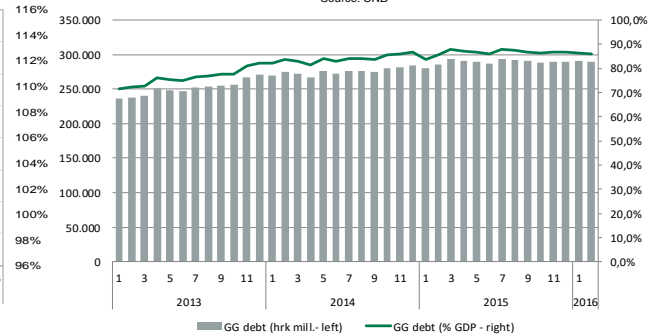
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



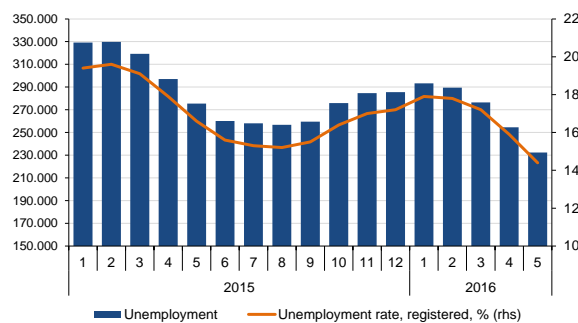
General government debt

Source: CNB



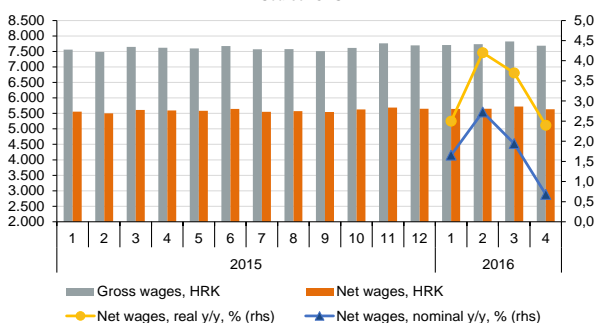
Total unemployment and unemployment rate

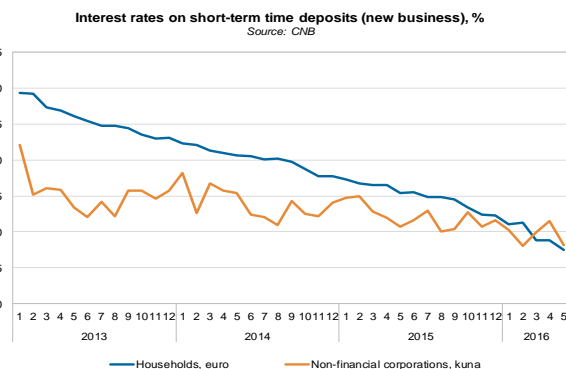
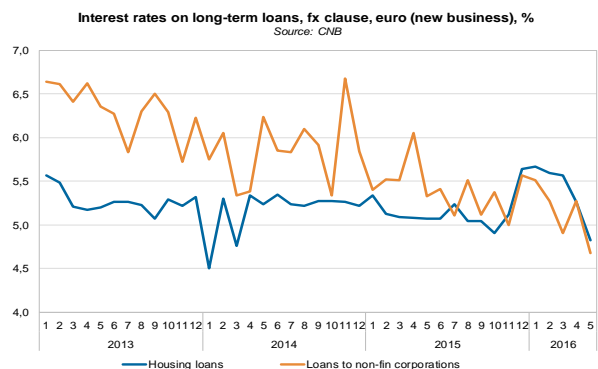
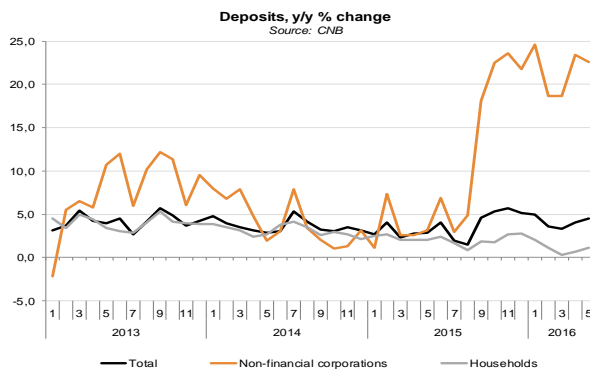
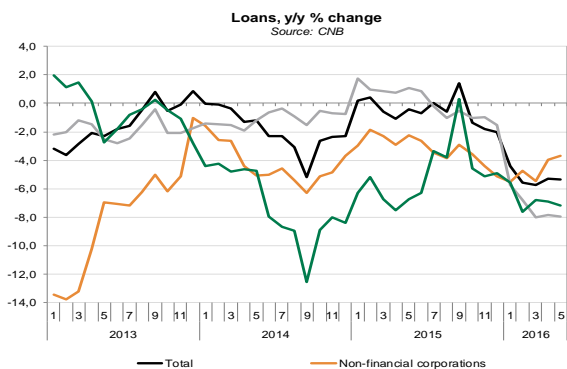
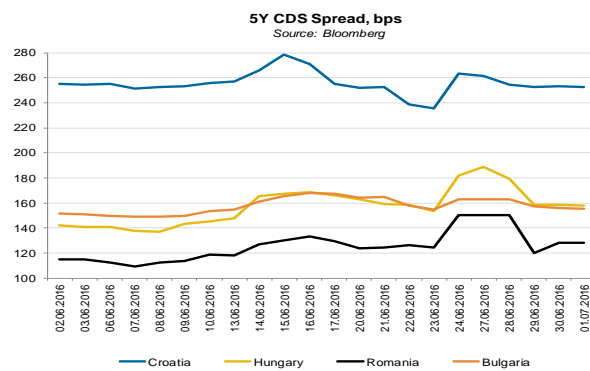
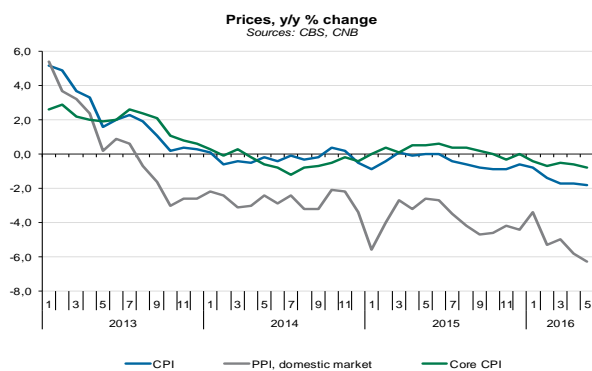
Source: CBS



Wages, monthly average

Source: CBS





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