

PBZ Weekly Analysis

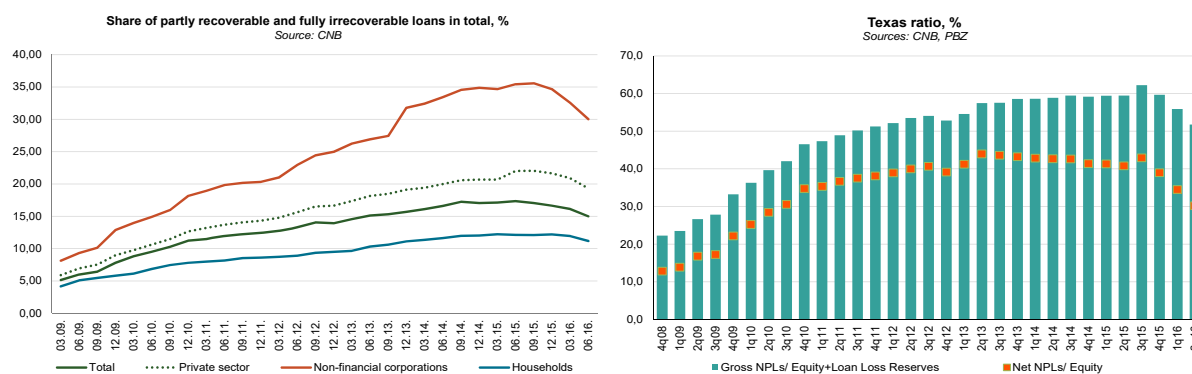
Number 530, September 5, 2016

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Weekly overview

- The flash estimate of gross GDP for the second quarter shows a real-term growth of 2.8% (seasonally adjusted growth of 2.0%) yoy, or the maintained qoq growth rate of 0.6% (the same as in 1Q 2016.). The growth is mainly a result of domestic demand, as household demand, which accounts for the most significant share in demand, increased by 3.0%, while investments rose by 6.3%, however, a substantial increase of 2.6% was recorded even by government spending. A solid growth in personal consumption was also implied by the movements of high frequency indicators such as retail trade, labour market and available income indicators, while an increase in the investment activity was partly announced by a growth in the construction work indices and data on a better EU fund utilisation. The contribution of net external demand in the second quarter was negative (around 1.4 p.p.), due to a faster rise in the imports of goods and services (+6.7%) than exports (+4.1%). In the third quarter, we anticipate that the positive contribution of domestic demand will be supported by better net external demand indicators as we expect another record tourist season, although the last year's high base may slightly lessen annual growth rates. The release of high frequency data for the third quarter reveals an exceptional tourist season, so retail trade data for July reveal an increase in yoy growth rate to 4.5% in real terms (+2% compared with June), but also a slowdown in the industrial production growth to 1.2% compared with the same month last year. The slowdown in the industrial production is a result of a slowdown in the manufacturing growth to 1.5%, which is the lowest growth rate this year, nevertheless, the cumulative growth for the first seven months is still above 5%.
- The quality of loans has continued to recover in the second quarter of this year, thus representing the fourth consecutive quarter of a decline in the share of partly recoverable and fully irrecoverable loans in total loans. Thus, after a qoq decrease of 0.3, or 0.4 and 0.5 p.p., respectively, from the previous three quarters, the second quarter this year has brought a more significant decrease of 1.1 p.p., where the share of non-performing loans in total loans fell to 15.0% (private sector: -1.6 p.p. to 19.3%). The same as before, this was primarily caused by a stronger activity related to the loan sale and write-off, mainly in the corporate sector, due to which the share in loans to non-financial corporations declined by 2.5 p.p. to 30.0%, while in retail loans by 0.8 p.p. to 11.2% (*we must note that the data released in June were based on the ESA 2010 methodology, which resulted in the largest change in the data for non-financial corporations*). As regards retail loans according to purpose, housing loans recorded a qoq fall in the share of 1.0 p.p. to 8.8%, card loans of 0.5 p.p. to 6.3%, cash loans of 0.4 p.p. to 11.7%, while overdrafts and loans for other purposes of 0.2 p.p. to 3.5, i.e. 8.4%, respectively. As regards housing loans according to currency, the share of problem loans recorded a strong fall in kuna-indexed loans (by 2.2 p.p. to 5.9%) due to a dramatic rise in the portfolio of kuna housing loans (refinancing), whereas a mild fall of 0.2 p.p. to 6.7% was recorded by housing loans indexed to the euro. The share of non-performing loans in franc-indexed housing loans reached high 63.4% as, following the conversion process, mostly problem loans remained in the portfolio. Due to a reduction in the share of problem

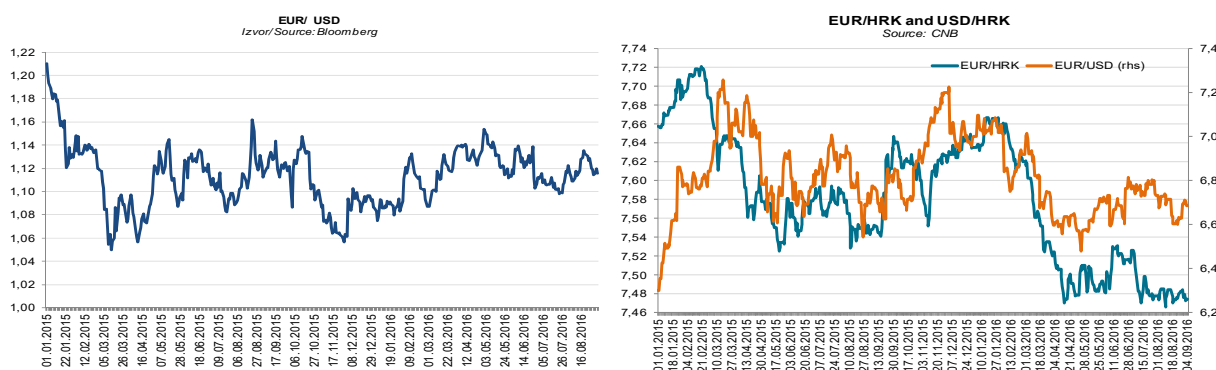
loans in bank balance sheets, the system was also strengthened by an increased coverage of problem loans with provisions. Total coverage of non-performing loans with value adjustments continued its upward path, reaching 59.7% by the end of the second quarter, which is an increase of 1.3 p.p. versus the first quarter. The coverage of loans to non-financial corporations amounted to 58.2% (+1.4% p.p. qoq) at the end of June, while the ratio of retail loans reached 62.7% (+1.2% p.p.). As regards more favourable trends in the coverage ratio, we find it interesting to see the Texas ratio of the domestic banking system as it shows the coverage of partly recoverable and fully irrecoverable loans with capital. The Texas ratio continued its positive trend of decrease and the share of gross non-performing loans in the capital and value adjustments dropped to 51.8% (55.9% in 1Q), while the share of bad loans net of value adjustments in capital fell to 30.2% (34.5% in 1Q), which is another indicator of high capitalisation and adequate risk management policies of domestic banks.



Dollar continues to strengthen, kuna unchanged

The dollar has continued its weakening trend against the euro, although the labour market data released on Friday substantially reduce the likelihood that the Fed will raise its key interest rate this month. The trading on Friday closed at 1.1156 dollar to the euro, down by 0.4% wow.

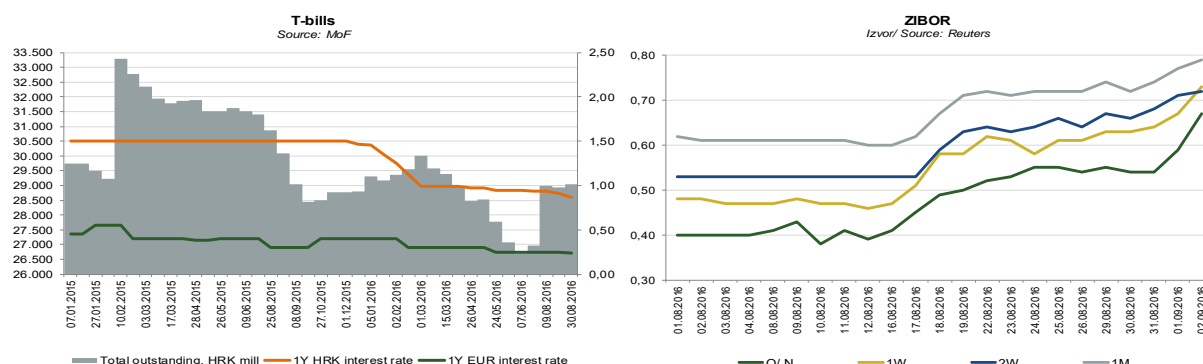
Last week, the exchange rate of the kuna against the euro was relatively steady, amounting to 7.4743 kuna to the euro on Friday, down by 0.1% wow. The kuna against the dollar weakened by 0.9% and the exchange rate increased to 6.6872 kuna to the dollar.



Increased demand in money market

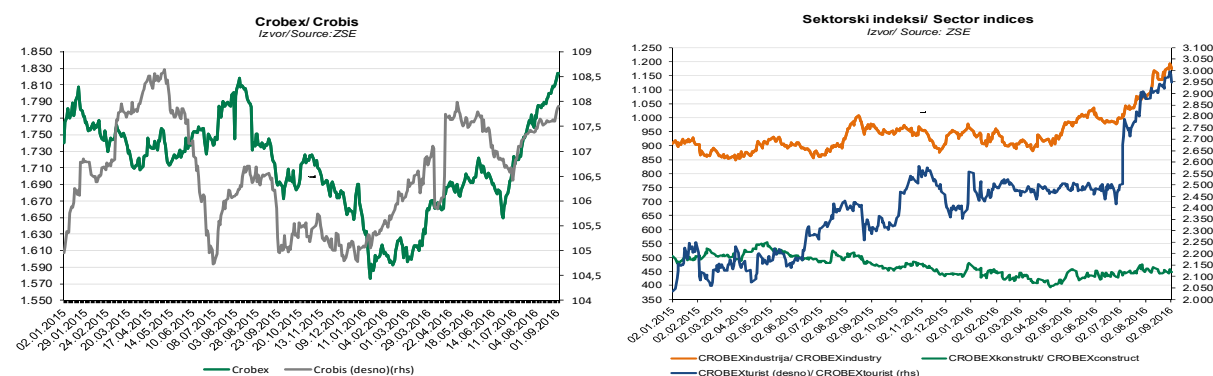
Interest rates continued to rise due to a slightly higher demand amid lower liquidity, while the growth was primarily recorded on the shorter end of the curve. The overnight Zibor increased now by 13 b.p. to 0.67%, 1M by 1 b.p. to 0.73%, while 3M by 3 b.p. to 0.88%. At the regular reverse repo auction 300 million kuna more than the previous week were injected in the system, i.e. 330 million kuna at the usual fixed repo rate of 0.50%. The total ZMM turnover surged to 1.1 billion kuna, while the average amount of gap between supply and demand fell to 180 million kuna.

Last week, a total of 0.5 billion kuna in T-bills matured, while 0.6 billion kuna in T-bills were issued, therefore the government debt moderately rose to 29.1 billion kuna. There was a subscription of 406 million kuna in one-year kuna T-bills with the interest rate of 0.87%, 4 b.p. lower than the previous issue and 20.1 million euro in one-year euro T-bills with the interest rate of 0.24%, 1 b.p. lower than the previous issue. This week, a total of 0.2 billion kuna will mature and, due to the low maturity amount, MF will not hold the auction this week.



Crobex continues its positive trend

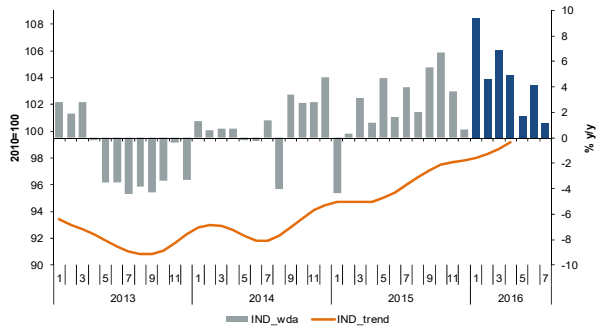
The Crobex index closed the week at a 0.8% higher level versus the week before, i.e. at 1,823.65 points (the highest level since November 2014), whereas the Crobis increased by 0.3% wow, closing the week at 107.90 points. As regards sector indices, CROBEXconstruct closed the week at 447.76 points (-1.2% wow), CROBEXtourist at 2,949.39 points (-0.6%), while CROBEXindustry rose by 0.3% wow, closing the week at 1,174.66 points. The total ZSE turnover amounted to 709.3 million kuna (-6.2% wow), where the turnover in bonds increased by 10.0% (to 659 million kuna), while the turnover in shares decreased by 68.6% wow (to 48.9 million kuna).



Statistics

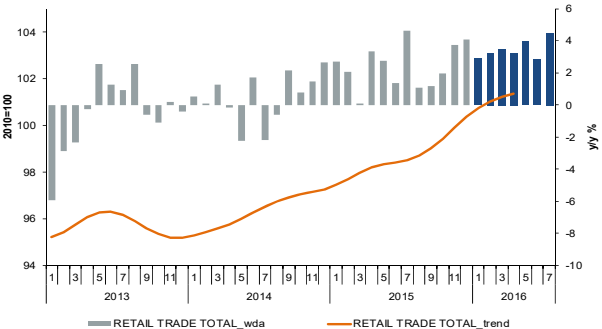
Industrial production, wda y/y % ch.

Source: Eurostat



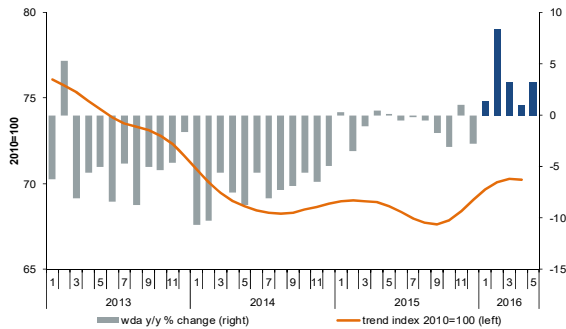
Retail trade, real, wda y/y ch.

Source: CBS



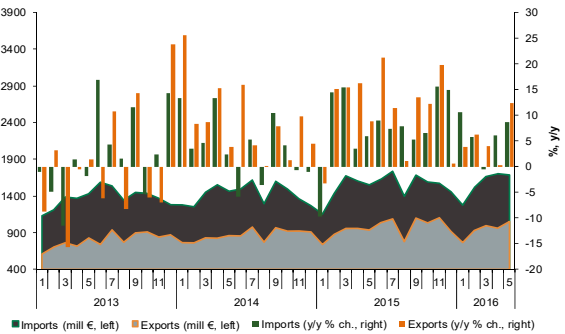
Construction works, y/y % ch. and index 2010=100

Source: CBS



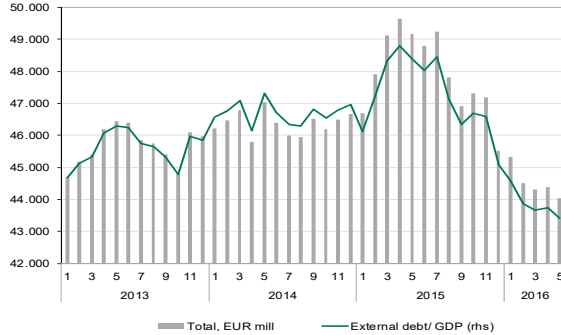
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



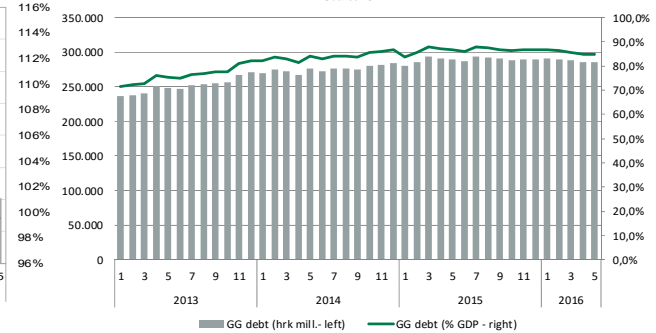
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



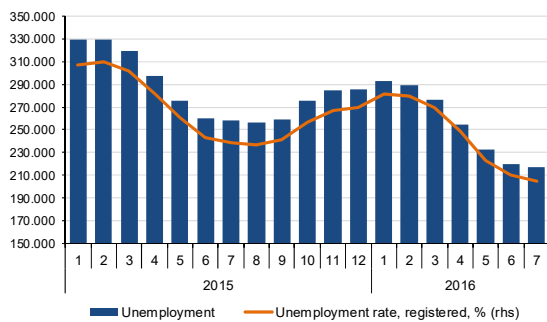
General government debt

Source: CNB



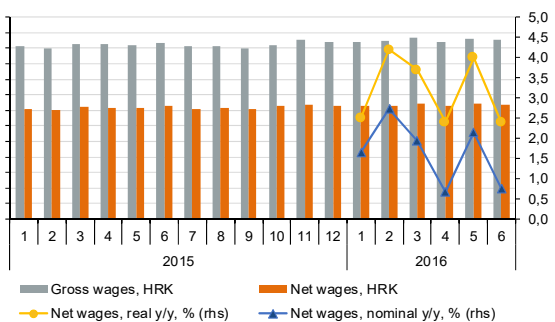
Total unemployment and unemployment rate

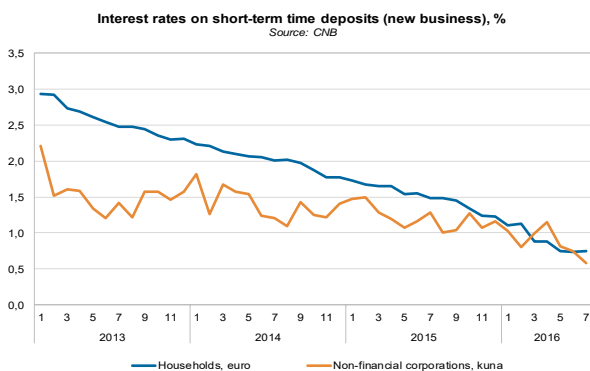
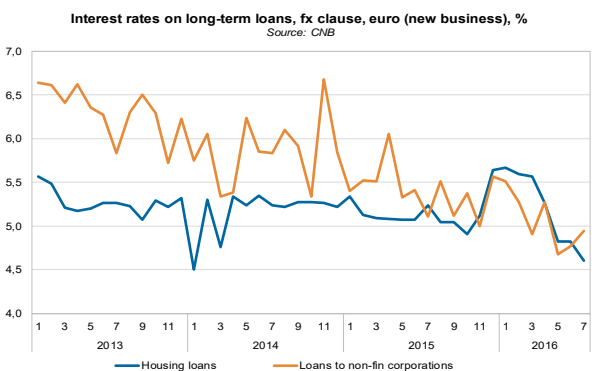
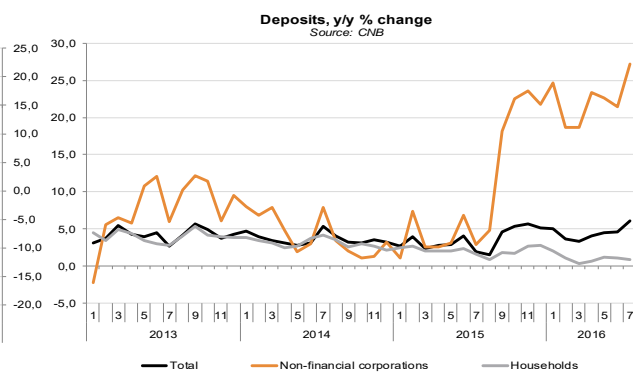
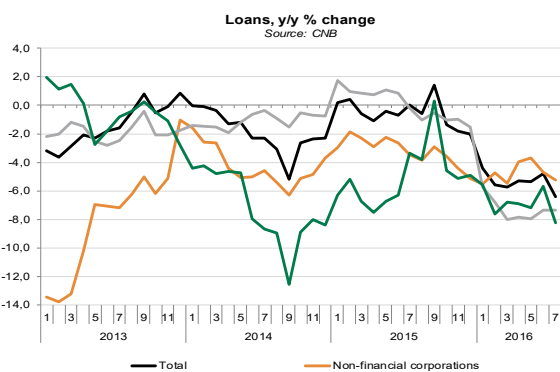
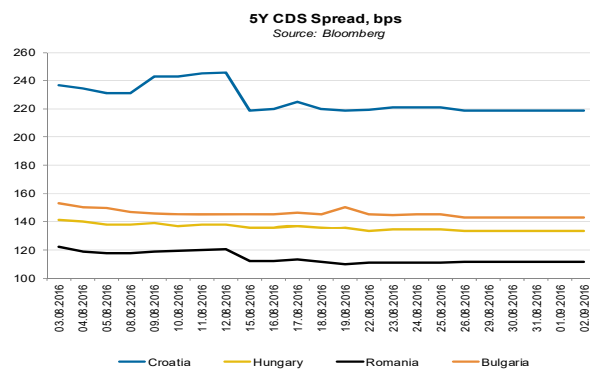
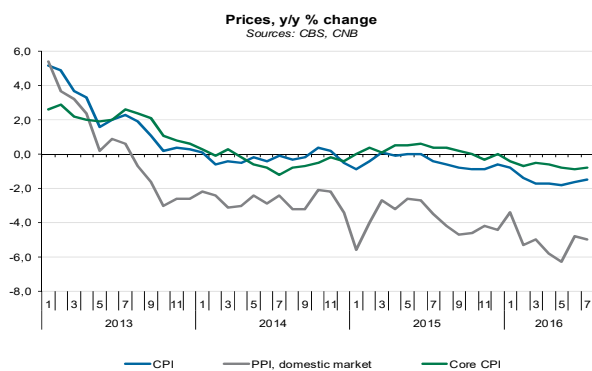
Source: CBS



Wages, monthly average

Source: CBS





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