

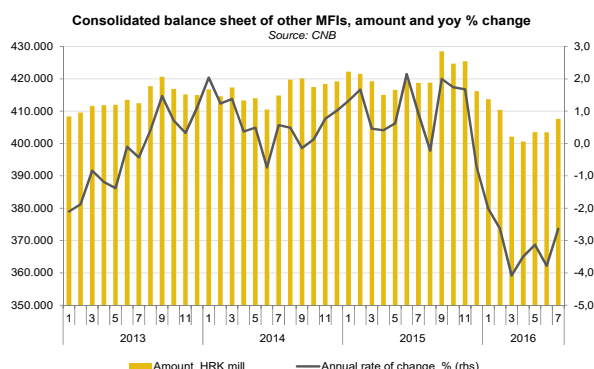
PBZ Weekly Analysis

Number 531, September 12, 2016

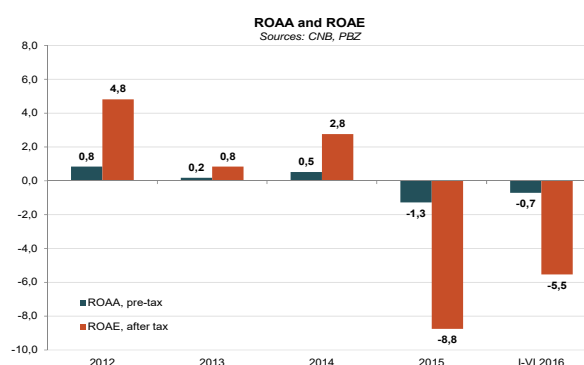
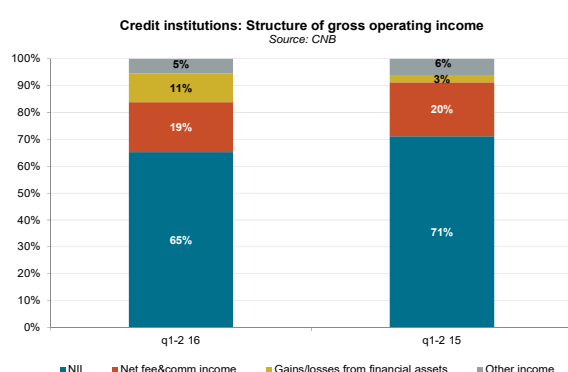
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Weekly overview

- In June, the exports of goods recorded a fall of 0.4%, while the imports recorded a growth of 1.5% yoy, where the coverage of imports by exports was reduced to 62.6% (63.7% in June 2015). Cumulatively, over the first six months the exports of goods increased by 3.4% (to 43.5 billion kuna), while the imports increased by 4.1% (to 71.9 billion kuna), where the deficit in the trade in goods grew by 1.4 billion kuna (to 28.5 billion kuna), and the coverage of imports by exports amounted to 60.4%. According to NKD, the largest increase in the exports (the absolute amount) over the first six months compared with the same period last year was recorded in the Manufacture of pharmaceutical products (by 1.0 billion kuna), while the largest decrease in the exports was recorded by the Manufacture of coke and refined petroleum products (by 1.1 billion kuna). The preliminary data of the Croatian Bureau of Statistics (CBS) for July reveal a large reduction in the exports (-10.8%) and the imports as well (-13.2%) yoy, however, this release should be interpreted with caution since the CBS, as a rule, corrects the preliminary data in its later statement.
- The consolidated MFI assets continued to decline in July (-2.6% yoy) due to a further reduction in the credit portfolio. The annual rate of decrease of loans accelerated to -6.4% (June: -4.8%) due to a 5.5% fall in the financing of the central government and the social security funds (June: +0.8%), and a stronger fall in loans to non-financial corporations compared with the previous month (-5.2%; June: -4.7%). The rate of decrease of household loans remained at 7.4% (housing loans -14.3%), while kuna retail loans continued to post record growth rates (housing loans +76.6%, cash loans +28.6%). Total deposits in July increased by 1.8% mom and 6.1% yoy. The increase in household deposits yoy slowed down to 0.8% (June: +1.1%), while deposits of non-financial corporations soared by 6.0% mom, due to which the growth rate yoy accelerated to 27.2% (June: +21.4%). For the rest of the year, we expect the same demand of citizens for kuna loans and a slight recovery of the corporate sector demand, as well as the continued process of cleaning up bank balance sheets from non-performing loans, which might significantly reduce the volume of private sector loans by the end of the year.
- The profitability of credit institutions has continued to recover in the second quarter this year as well. Net interest income reached 5.5 billion kuna, which is up by 1.9% yoy, while net fee income rose by 2.9% to 1.6 billion kuna. Other income doubled, reaching 1.4 billion kuna, thus gross operating profit jumped by 11.2% to 8.4 billion kuna. Operating costs increased by 2.5% to 4.3 billion kuna, where, due to contributions to the Single Resolution Fund, there was a 23.1% rise in deposit insurance premium. Thus, net operating profit rose by 22.2% to 4.1



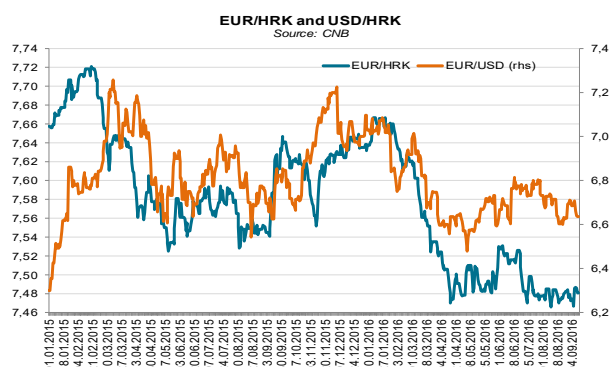
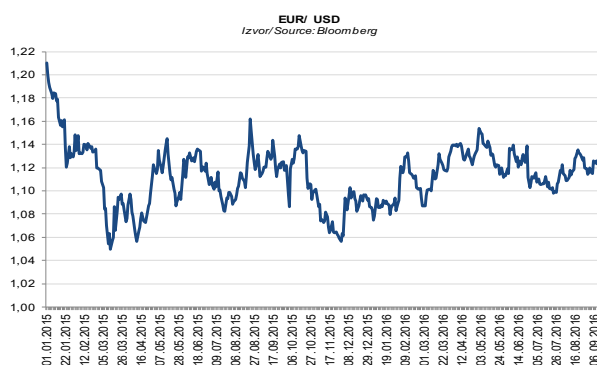
billion kuna, while cost to income ratio dropped to 51.5% (I-VI 2015: 55.9%). As costs of value adjustments and provisions were cut by 73.8% to 0.5 billion kuna (0.3 billion kuna of income from repealed loss provisions under housing loans, 0.2 billion kuna lower expenses on loss provisions for working capital loans), gross profit increased by 148.6% yoy to 3.6 billion kuna, while net profit by 130.2% to 2.9 billion kuna. Thus, the return on assets and capital (cumulative values for the last four quarters) rose to -0.7 and -5.5%, respectively (2015: -1.3%; -8.8%). According to the preliminary data of the Croatian National Bank, the majority of banks recorded business profit in the first half of the year, while the number of banks that recorded business losses was reduced to five, with the total market share in the banking sector assets of 1.5%. The total capital ratio of banks at the end of June amounted to 21.72%, or a total of 21.78% for credit institutions.



Dollar breaks its ascending trend, CNB intervenes

The ascending trend of the dollar ended as the hopes of the Fed's interest rate hike dashed this month. At the same time, ECB left the monetary policy unchanged at its last week's meeting, so the EUR/USD trading closed on Friday at 1.1233 dollar to the euro, up by 0.7% wow.

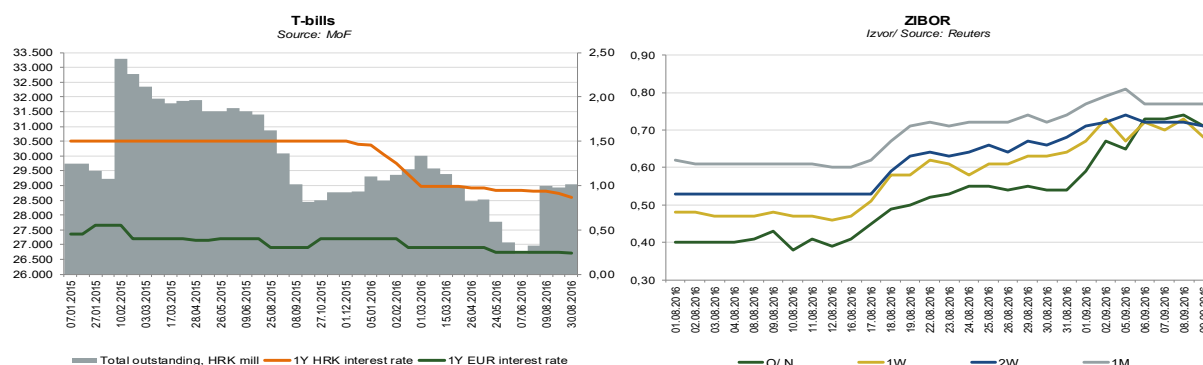
Last week started with FX intervention as, at the moment the exchange rate fell to 7.48, the Croatian National Bank purchased 69 million euro at the mid-exchange rate of 7.50197 kuna to the euro. The rest of the week saw low demand of the corporate sector and a calm interbank market, therefore the mid-exchange rate on Friday amounted to 7.4811 kuna to the euro, which is up by only 0.1% wow. The kuna against the dollar strengthened by 0.7% and the exchange rate decreased to 6.6375 kuna to the dollar.



Interest rates slightly lower

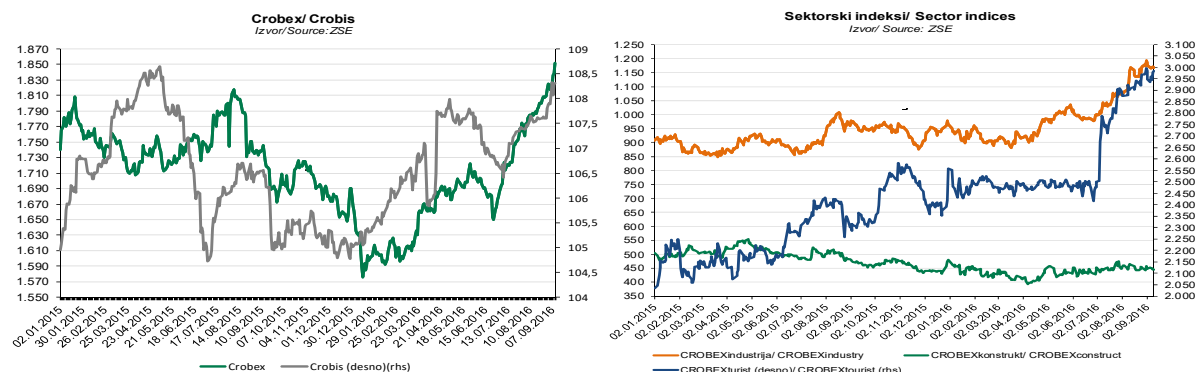
Interest rates slightly declined due to a rise in the system liquidity, except for the overnight Zibor which, amid the approaching end of the current cycle of the obligatory reserve maintenance period, increased by 4 b.p. wow to 0.71%. At the same time, 1M Zibor declined by 2 b.p. to 0.77%, while 3M declined by 1 b.p. to 0.87%. At the regular reverse repo auction, 300 million kuna more than the week before was injected in the system, i.e. this year's record amount reached 630 million kuna at the usual fixed repo rate of 0.50%. The total ZMM turnover dropped to 630 million kuna, whereas the average gap between demand and supply climbed to 220 million kuna.

Last week, 0.2 billion kuna in T-bills matured and, as there was no auction, the government debt fell to 28.9 billion kuna. There will be no maturity or auction this week.



Crobex up for the fifth consecutive month

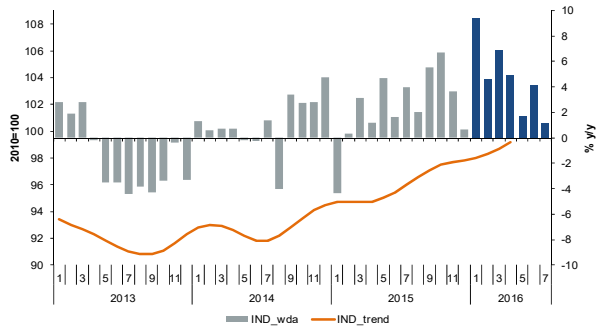
The Crobex index closed the week at 1,851.17 points (highest level since October 2014), up by 1.5% versus the previous week, while the Crobis closed the week at 108.31 points (+0.4%). As regards sector indices, CROBEXindustry closed the week at 1,168.91 points (-0.5%), CROBEXconstruct at 446.32 points (-0.3%), whereas CROBEXtourist closed the week at 2,983.33 points (+1.2% wow). The total ZSE turnover amounted to 312.1 million kuna, which is down by 56.0% wow, where the turnover in bonds amounted to 220.3 million kuna (-66.6%) and the turnover in shares 90.1 million kuna (+84.3% wow). From 19 September 2016, the indices Crobex and CROBEXtr will be revised, where the shares of Maistra d.d. and Ina d.d. will be excluded, while the shares of Imperial d.d., Luka Ploče d.d., Sunčani Hvar d.d. and Uljanik Plovidba d.d. will be included in the above mentioned indices.



Statistics

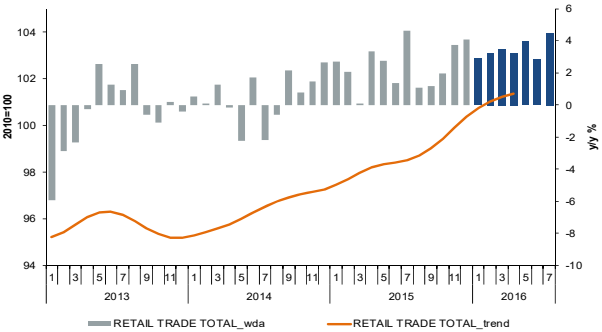
Industrial production, wda y/y % ch.

Source: Eurostat



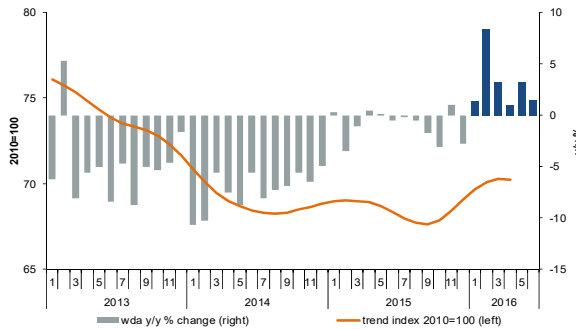
Retail trade, real, wda y/y ch.

Source: CBS



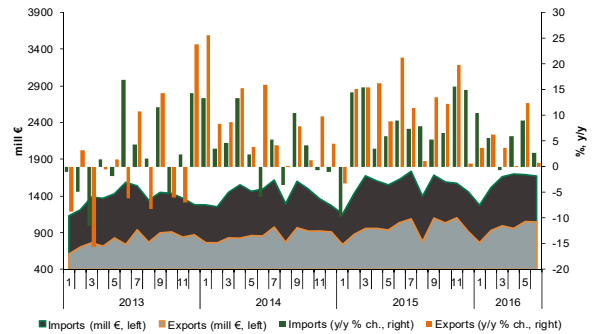
Construction works, y/y % ch. and index 2010=100

Source: CBS



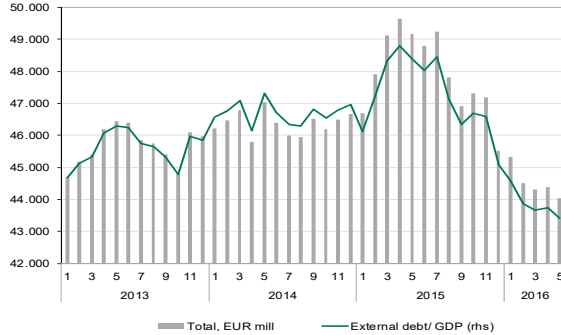
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



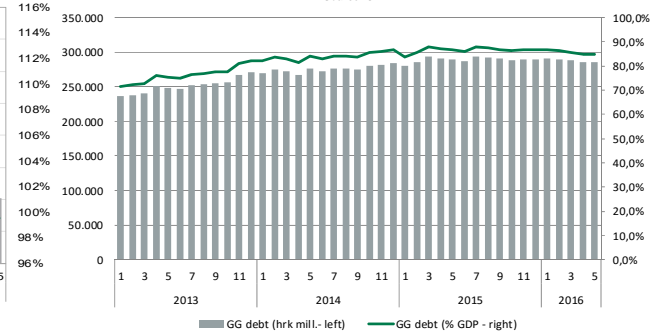
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



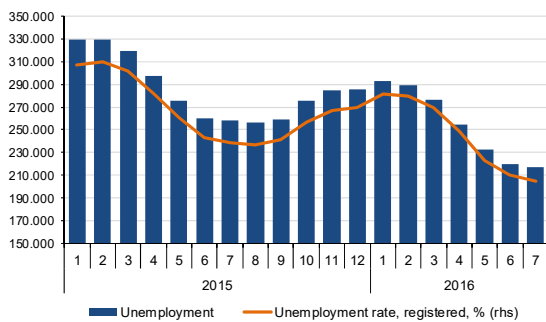
General government debt

Source: CNB



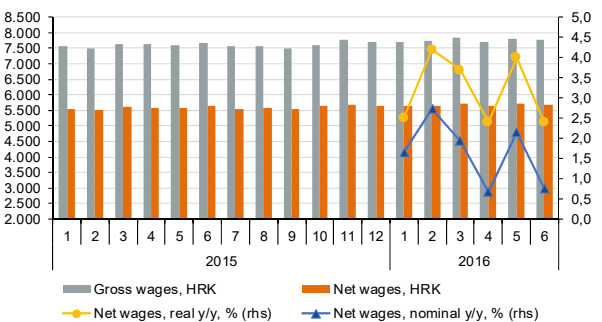
Total unemployment and unemployment rate

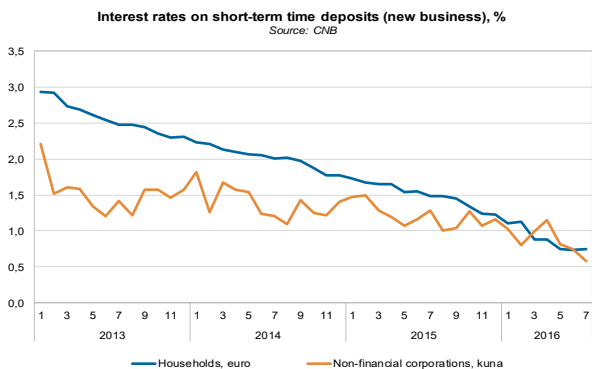
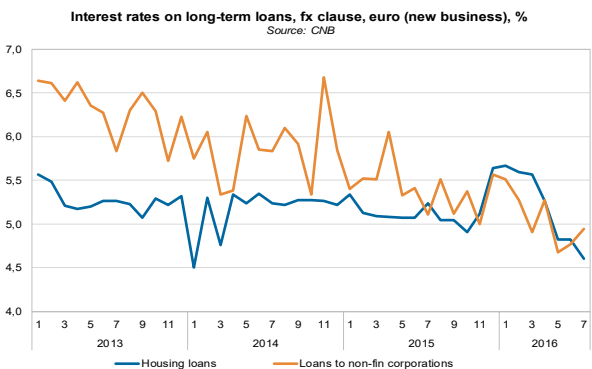
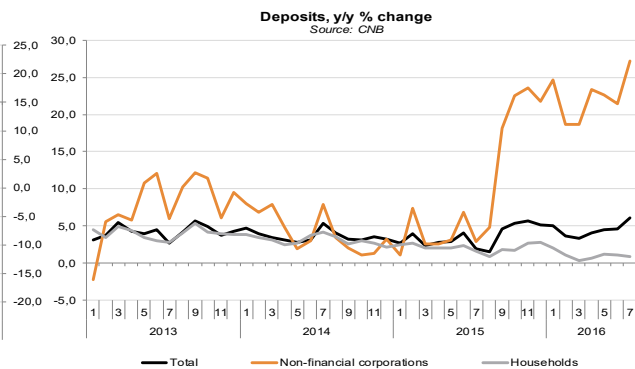
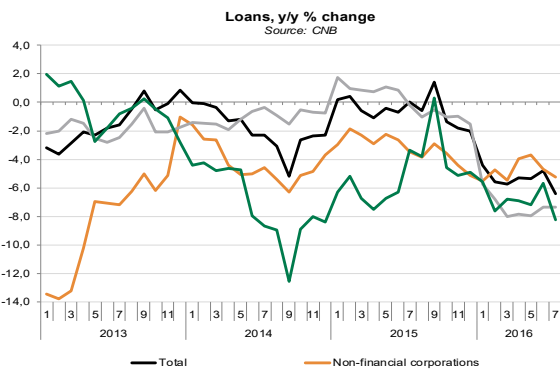
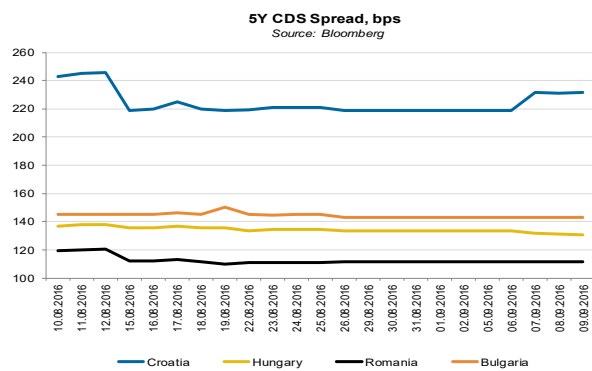
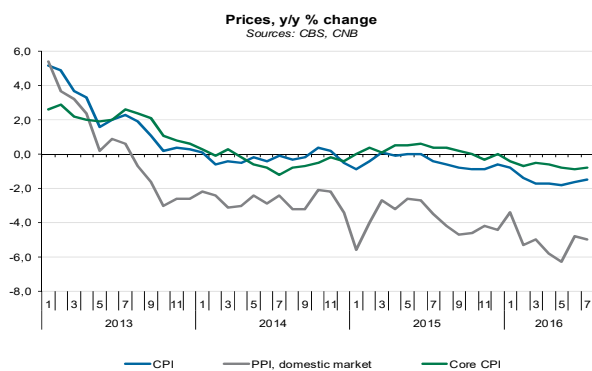
Source: CBS



Wages, monthly average

Source: CBS





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