

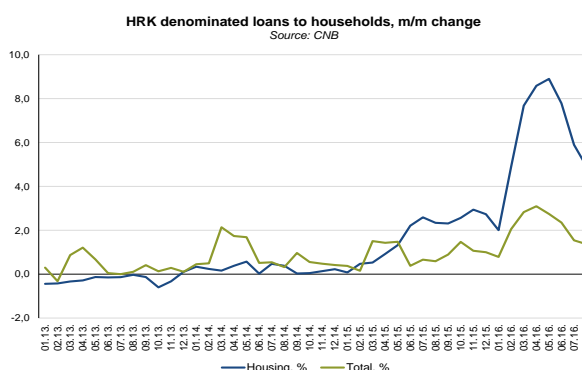
# PBZ Weekly Analysis

## Number 535, October 10, 2016

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## Weekly overview

- In August, the loans of other monetary financial institutions continued to decrease, in fact, this repeating trend has been occurring more or less on an annual and monthly level since the beginning of the conversion process, i.e. since October last year. Thus, total loans in August dropped by 5.8% yoy due to a 6.7% decline in loans to households, a 4.5% decline in loans to non-financial corporations and a 5.2% decline in the central government and social security funds debt. The data on transactions indicate that, after a rise in demand from February to May, the private sector deleveraging has started in June, particularly the deleveraging of enterprises. According to purpose, loans for working capital to non-financial corporations decreased yoy by 2.4%, investment loans by 5.5%, and other loans by 6.8%. As regards household loans according to types and currencies, yoy growth was recorded only by kuna loans (cash general-purpose loans +28.9%, other loans +4.6%, housing loans +81.1%), the same as over the previous months. By the end of the year, we expect the same demand of citizens for kuna loans, however, given the limitations of kuna sources, particularly long-term, we do not expect that the growth of kuna housing loans, which have seen a slowdown over the last three months, will keep the same pace in the forthcoming period. We also expect that MFI portfolios will remain under a strong influence of the sale of non-performing loans, mainly in the part of loans to non-financial corporations.

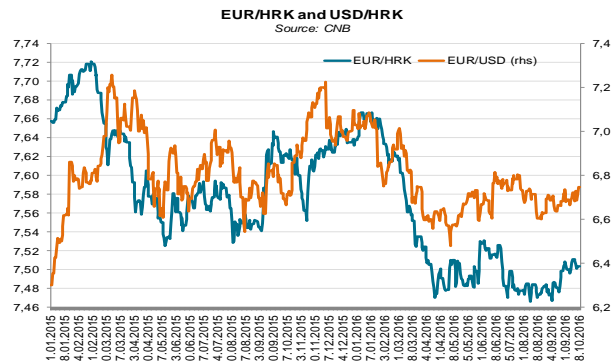
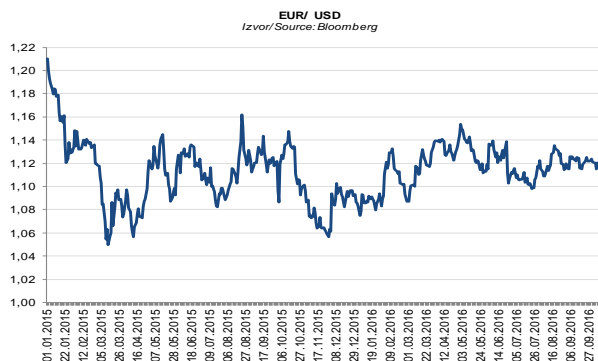


- Deposits continued to accelerate, reaching the rate of 6.7% yoy in August (June: +4.6%, July: +6.1%), where household deposits rose by 1.7%, while deposits of non-financial corporations continued their seasonal ascent, recording a 4.2% growth mom, i.e. 24.7% yoy. Although the *base effect*, which will cease to exist from next month (deposits jumped in September 2015, following the sale of TDR) is still present, the corporate deposits have substantially increased even without it, thus recording a growth of 9.8% at the end of August compared with December 2015. The fastest growth at the total deposit level has again been recorded by demand deposits (+16.9%), while the growth of kuna and FX savings has been much slower (3.7, i.e. 4.4%), which is a result of both seasonal inflows and lower interest rates on demand deposits and short-term savings as well as tax on interest income.

## Dollar stronger, kuna unchanged

The favourable US economy trends supported the dollar, which strengthened by 0.7% against the euro by Thursday, however, the labour market data released on Friday were lower than anticipated, therefore, the rise of the dollar stopped at the end of the week. The dollar strengthened by 0.3% against the euro now, and trading on Friday closed at 1.1201 dollar to the euro.

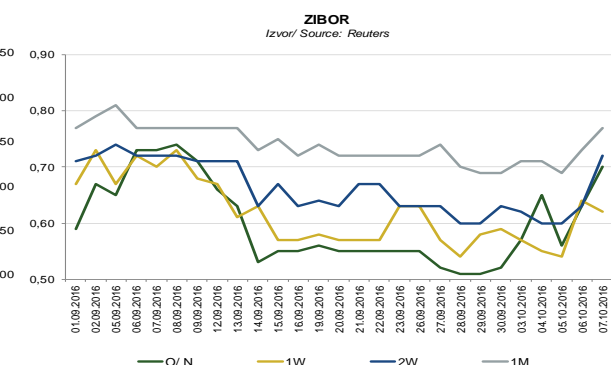
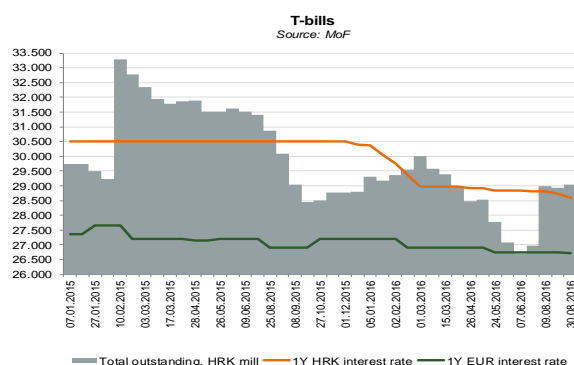
Last week, the domestic FX market saw moderate volumes and a relatively tight range of the EURHRK exchange rate. The mid-exchange rate on Friday amounted to 7.5037 kuna to the euro, down by 0.1% wow, whereas the kuna against the dollar weakened by 0.4% to 6.7455 kuna to the dollar. This week, we expect trading in the range 7.49-7.52 kuna to the euro.



## Reduced liquidity

Last week saw reduced liquidity in the system, so CNB injected 500 million kuna more than the week before at its regular reverse repo auction, i.e. 540 million kuna at the fixed repo rate of 0.3%, while the total ZMM turnover rose to 147 million kuna and the average daily excess of supply over demand fell to 203 million kuna. In accordance with the reduced liquidity and the upcoming new obligatory reserve maintenance cycle, interest rates increased. The overnight Zibor jumped by 18 b.p. to 0.70% wow, 1M by 8 b.p. to 0.77%, while 3M by 10 b.p. to 0.88%.

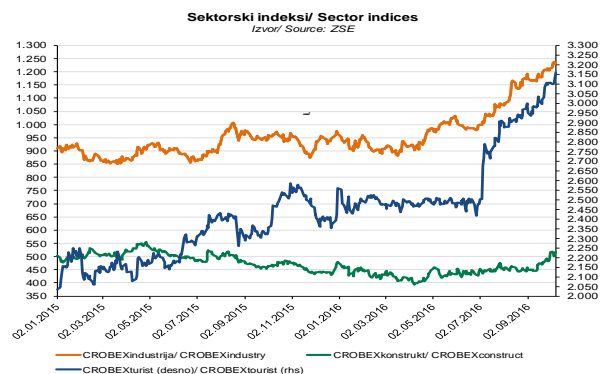
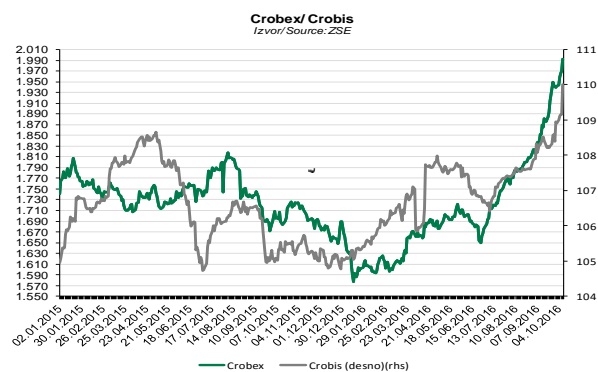
The balance of the subscribed T-bills amounts to 28.9 billion kuna and the next maturity is expected at the end of the month.



## Crobex up for the ninth consecutive week

The Crobex index closed last week at 1,992.03 points (+2.6% wow), reaching its highest level since April 2013, while the Crobis index closed the week at 110.00 points or up by 1.0%. Sector indices also ended in positive territory, thus CROBEXtourism recorded the highest increase wow (+1.7%), closing the week at 3,160.12 points (hitting a new highest level since inclusion for the fourth consecutive week), CROBEXindustry rose by 1.6%, closing the week at 1,233.45 points (after recording a new historically highest level of 1,237.23 points on Wednesday), whereas CROBEXconstruct climbed by

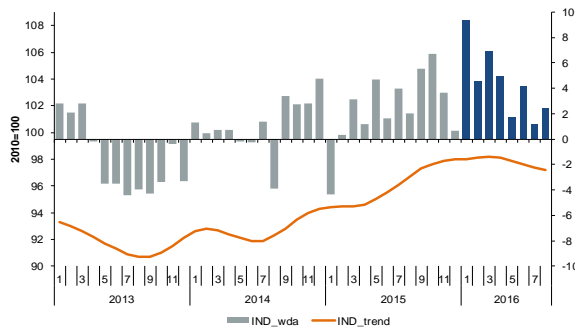
0.3% wow, closing the week at 516.61 points. The total ZSE turnover was 244.9 million kuna (-42.4% wow), where the turnover in shares was 53.3 million kuna (-62.8%) and the turnover in bonds 191.7 million kuna (-32.0%).



# Statistics

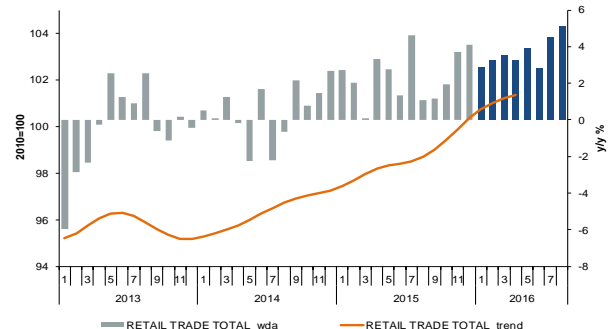
**Industrial production, wda y/y % ch.**

Source: Eurostat



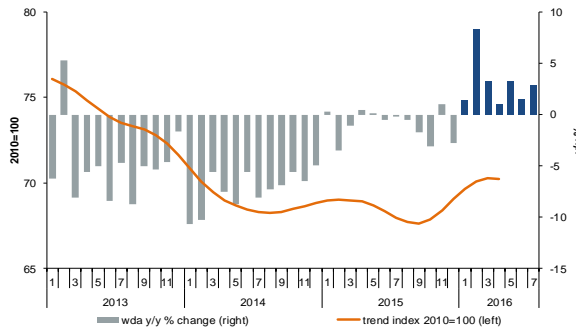
**Retail trade, real, wda y/y ch.**

Source: CBS



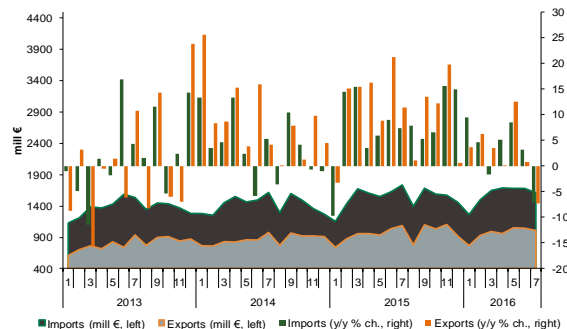
**Construction works, y/y % ch. and index 2010=100**

Source: CBS



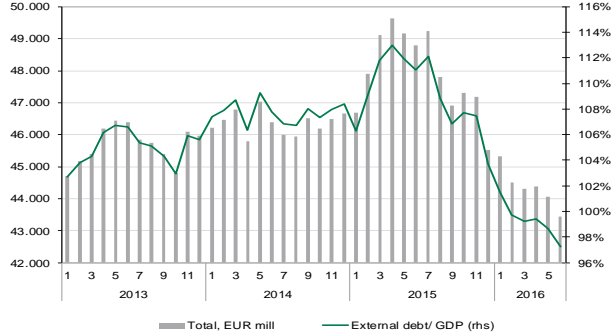
**Goods exports and imports (y/y % ch. and mill €)**

Source: CBS



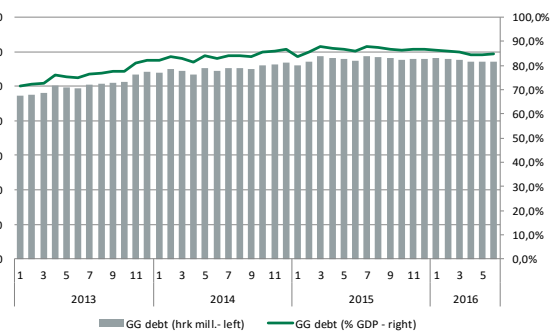
**External debt, amount and share to GDP**

Sources: CNB, CBS, FBZ



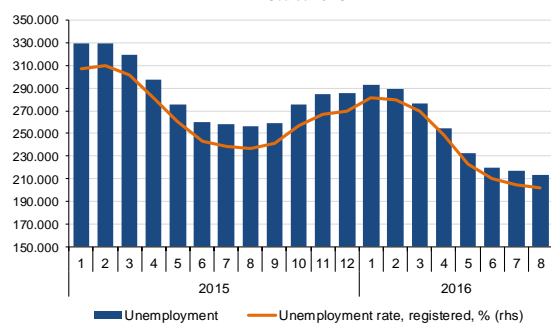
**General government debt**

Source: CNB



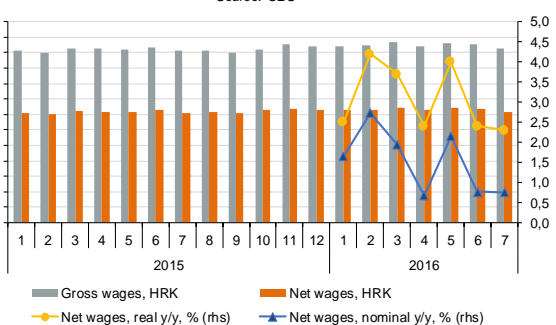
**Total unemployment and unemployment rate**

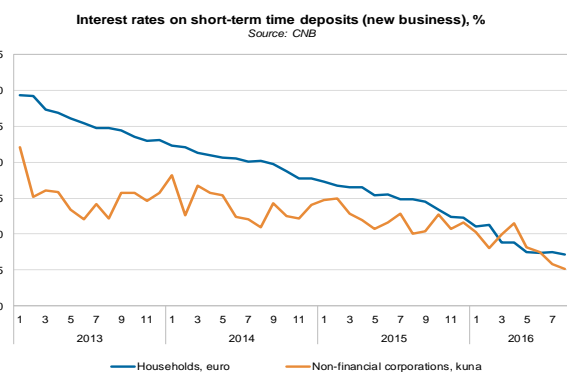
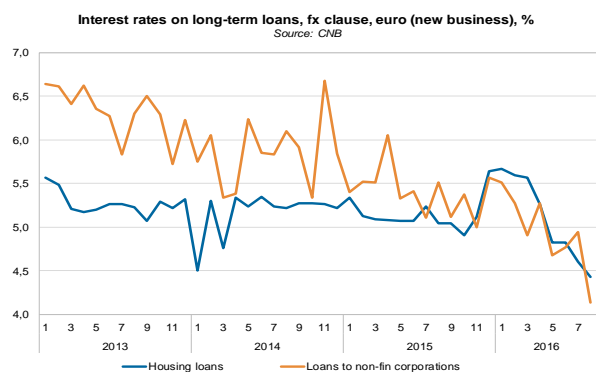
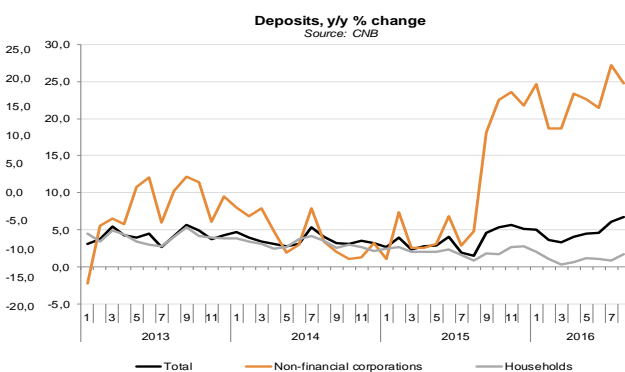
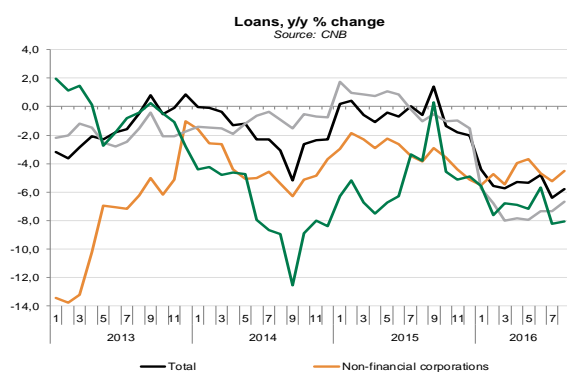
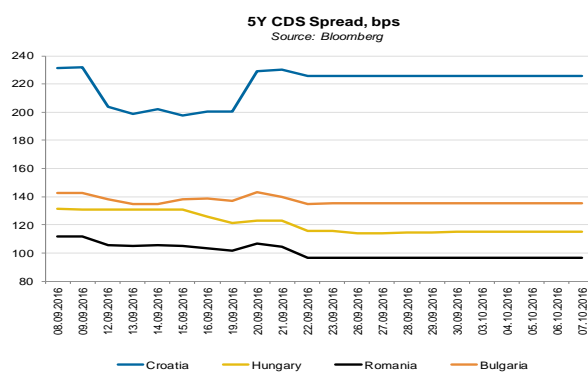
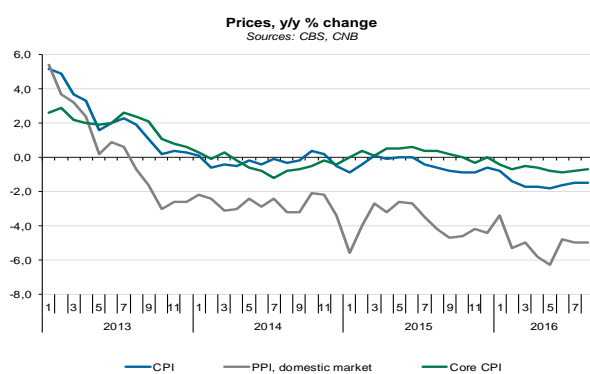
Source: CBS



**Wages, monthly average**

Source: CBS





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