

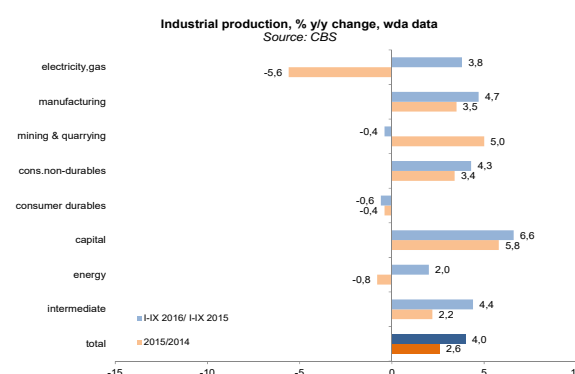
PBZ Weekly Analysis

Number 538, November 7, 2016

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Weekly overview

- The yoy rate of decrease in loans accelerated in September to -6.4% due to a 8.0% decline in loans to the central government and the social security funds, a 4.9% decrease in lending to non-financial corporations and a 6.7% lower level of household loans. According to purpose, loans for working capital to non-financial corporations decreased yoy by 3.2%, investment loans by 6.3% and other loans by 5.5%, which is partly a result of deleveraging and partly of the sale of portfolio. It is interesting to note that the corporate sector recorded a substantial growth in demand for kuna loans. Thus, kuna loans for working capital increased by 11.0%, while kuna loans for investments by 4.7% yoy. As regards household loans according to purpose and currencies, only kuna loans continued their growth (housing +85.1%, cash general-purpose loans +29.0%, other loans +5.2%). The data on transactions show a continuation of deleveraging of the corporate sector in September for the fourth consecutive month, while retail transactions recorded positive figures. The growth in deposits in September slowed down considerably, to 3.5% yoy (August: +6.7%), as the base effect stopped to exist (deposits jumped in September last year after the sale of TDR). After five months of mom growth, deposits of non-financial corporations recorded a decrease in September of 1.3%, i.e. an increase of 11.2% yoy. At the same time, household deposits slowed down to +1.0% (August 1.7%). The funds in the kuna transaction accounts increased by 16.6% yoy, kuna savings deposits by 6.0%, kuna time deposits -0.3%, FX savings deposits 23.8%, while FX time deposits dropped by 6.1%. Thus the overall savings and time deposits recorded an increase of 0.4%, where savings of non-financial corporations increased by 10.3%, while retail savings dropped by 1.3% yoy. It should be taken into account that the exchange rate played an important role in the savings amounts trends, particularly in terms of household savings, as, at the end of September 2016, the kuna against the euro was stronger by 1.6% yoy.
- The industrial production in September (according to wda data) rose by 1.9% yoy (for the twentieth consecutive month), while compared with the previous month (according to the seasonally and wda data) it increased by 3.6%. Positive trends yoy (according to NKD) were affected by a growth in the production in Manufacturing by 3.5% (which has a share of 77.9% in total IP), where its largest component (Manufacture of food products) declined by 0.6%. The yoy growth was also recorded in Electricity, gas, steam and air conditioning supply (+8.7%), while Mining and quarrying recorded a drop in the production of 10.0% (of which Extraction of crude petroleum and natural gas -12.2%). According to MIGs, the largest yoy growth was recorded in Intermediate goods (+7.5%), Durable consumer goods (+6.1%), Capital goods (+5.3%) and Non-durable consumer goods (+0.2%),



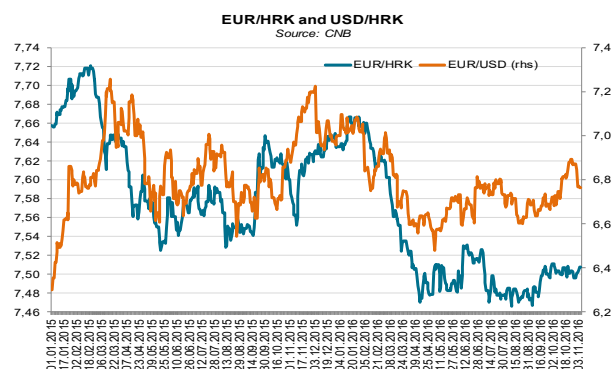
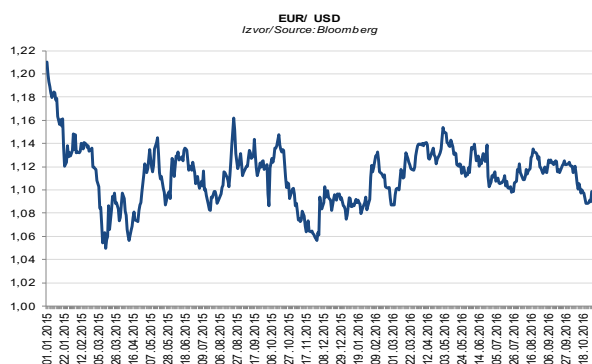
whereas the production of Energy decreased by 3.8% yoy. Analysing the period from January to September, the industrial production (under the influence of a strong external demand, but also the recovery of the domestic demand) increased by an average of 4.0% yoy (where Manufacturing by 4.7%), substantially more than over the same period last year when the growth was +2.1%.

- The average monthly paid off net earnings per person in paid employment in legal entities amounted to 5,673 kuna (gross: 7,764) in August, recording a yoy increase of 1.8% in nominal terms, and 3.4% in real terms (gross: +2.5% and +4.1%, respectively), while the mom level showed an increase of 1.4% in nominal terms, and 1.6% in real terms (gross: +1.5% and +1.7%, respectively). The largest net earnings were paid off in the activity Air transport (10,610 kuna), while the lowest net earnings were paid off in the activity Manufacture of wearing apparel (3,282 kuna). The median net earnings for August amounted to 5,483 kuna, whereas the median gross earnings amounted to 6,498 kuna.

Dollar weaker, kuna stable

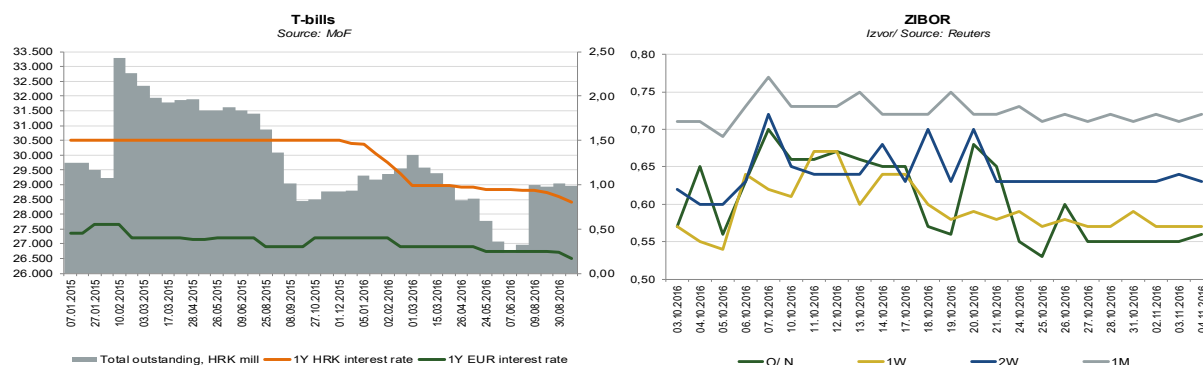
Due to uncertainty surrounding the US presidential elections, the dollar significantly weakened against the euro and the trading on Friday closed at 1.1141 dollar to the euro, up by 1.4% wow.

Last week, the EURHRK exchange rate retained its usual stability and low volumes, so the trading was around the 7.51 level. The mid-exchange rate on Friday reached 7.5077 kuna to the euro, up by 0.2% versus the previous week, while the kuna against the dollar soared, therefore, USD/HRK fell to 6.7655 kuna to the dollar, -1.6% wow. This week, we expect trading in the range 7.50-7.53 kuna to the euro.



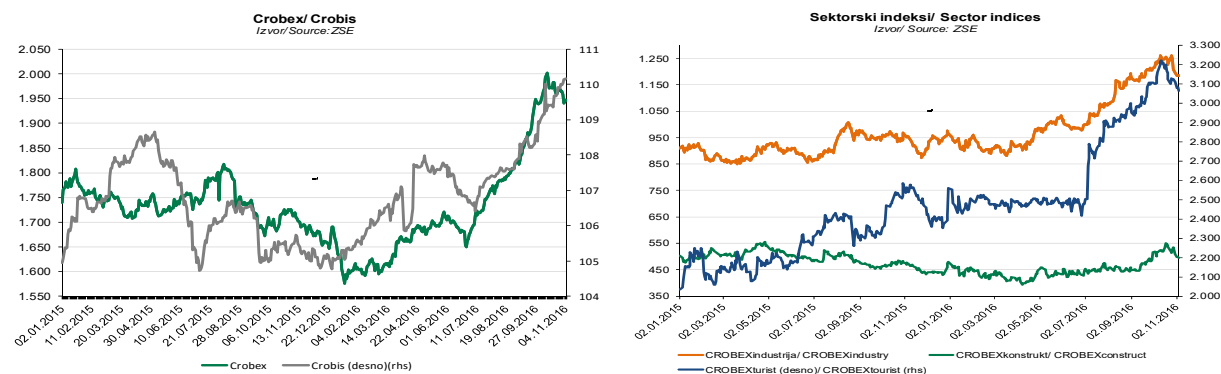
Money market calm

Last week, interest rates in the interbank market recorded only minor shifts. The overnight Zibor moderately climbed to 0.56%, 1M remained at 0.72%, while 3M at 0.88%. At its regular reverse repo auction, CNB injected 240 million kuna in the system at the fixed repo rate of 0.3%, while the total weekly ZMM turnover rose to 277 million kuna and the average daily excess of supply over demand increased to 358 million kuna. The balance of the subscribed T-bills amounts to 29.0 billion kuna, and there will be no maturity or auction this week.



Crobex back in negative territory

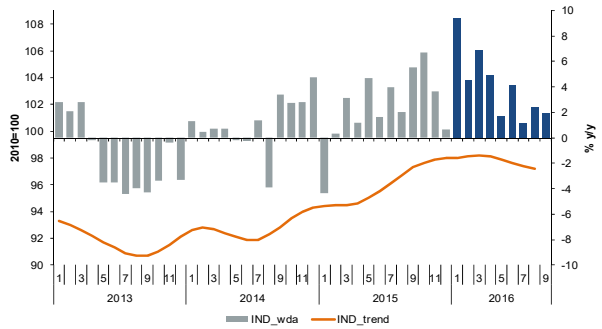
Over the last week's four trading days, the total ZSE turnover decreased by 60.2% versus the week before (to 465.5 million kuna), due to a 61.8% decrease in the turnover in bonds (to 427.5 million kuna) and a 27.1% decrease in the turnover in shares (to 38.0 million kuna). The Crobex index closed the week at 1,946.98 points (-0.9% wow), while the Crobis rose by 0.2% (to 110.17 points). As regards sector indices, CROBEXconstruct closed the week at 496.28 points (-7.2% wow), CROBEXindustry at 1,185.57 points (-1.9%), while CROBEXtourist closed the week at 3,062.80 points (-1.9%).



Statistics

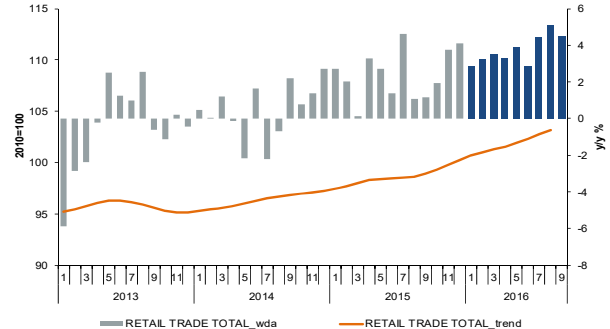
Industrial production, wda y/y % ch.

Source: Eurostat



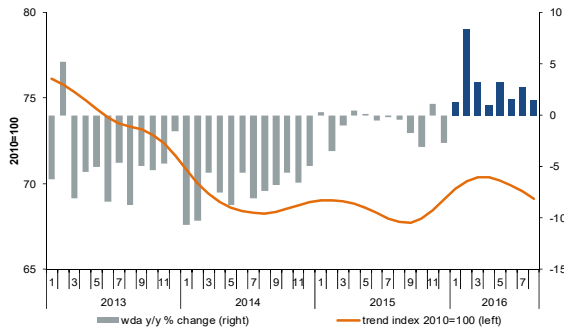
Retail trade, real, wda y/y ch.

Source: CBS



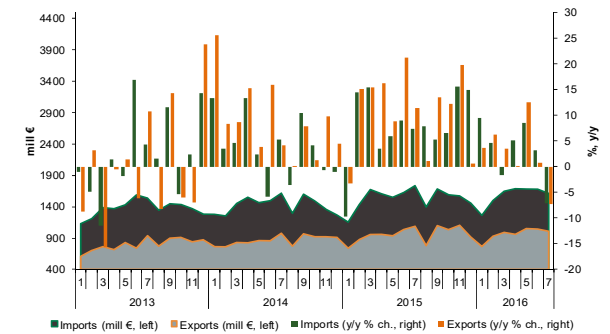
Construction works, y/y % ch. and index 2010=100

Source: CBS



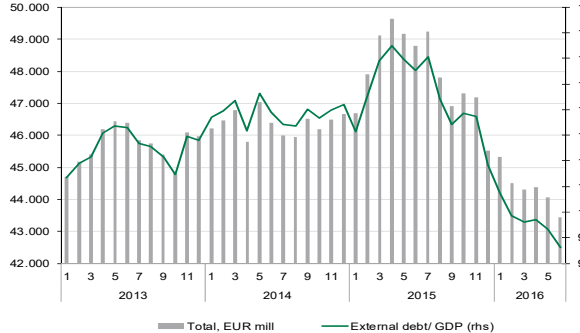
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



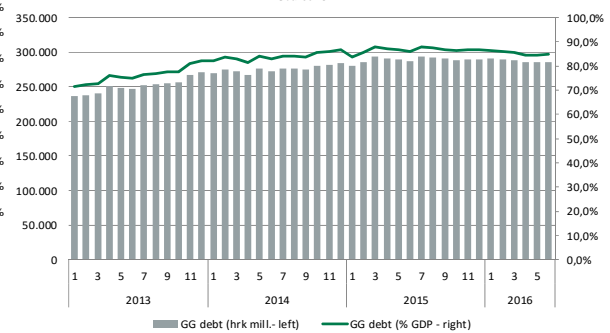
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



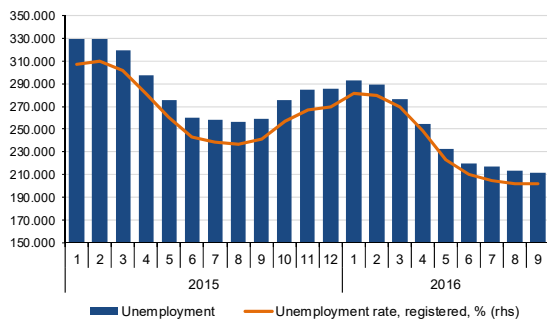
General government debt

Source: CNB



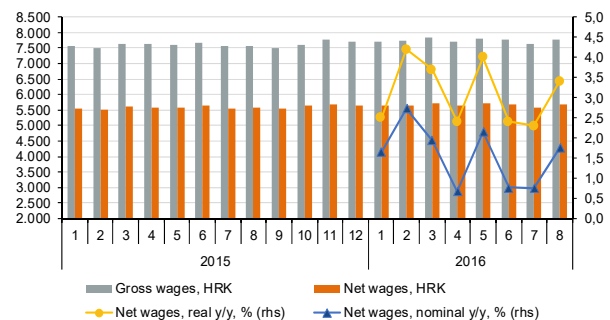
Total unemployment and unemployment rate

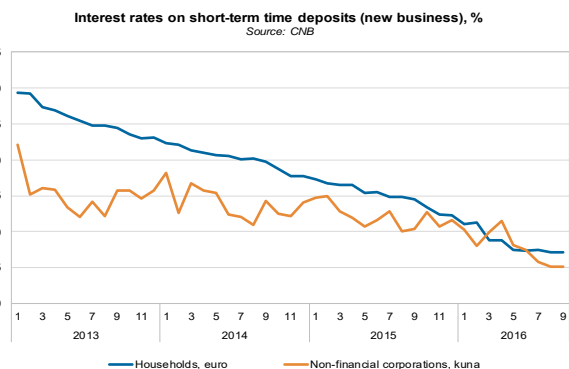
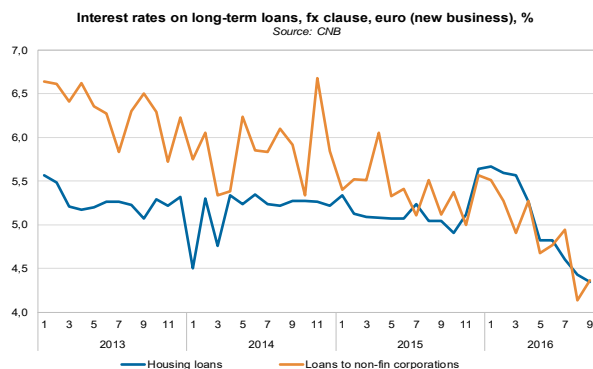
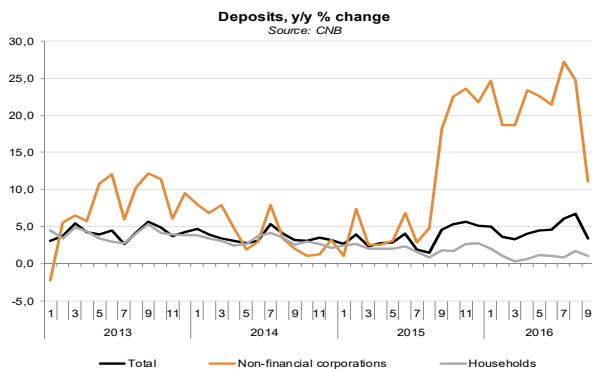
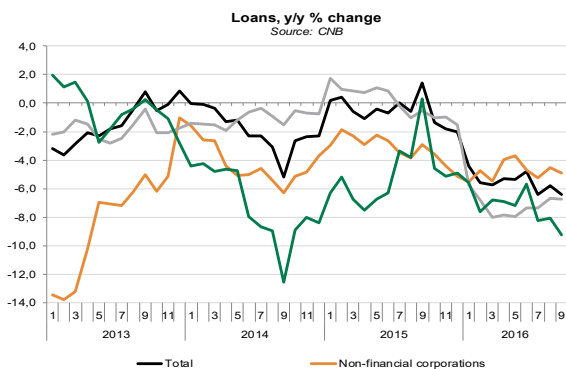
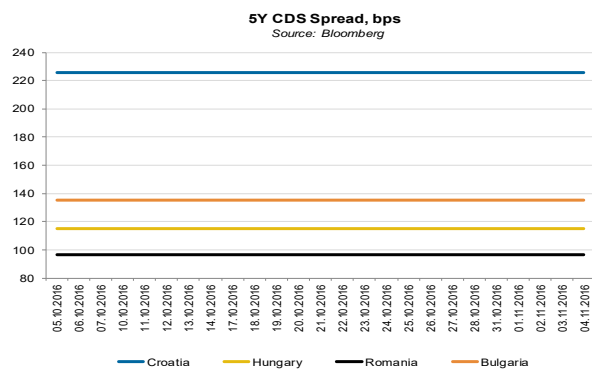
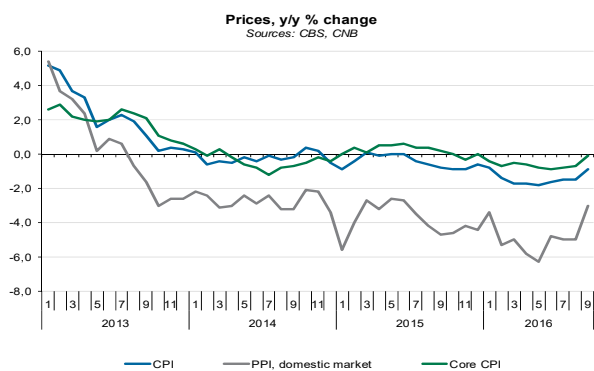
Source: CBS



Wages, monthly average

Source: CBS





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