

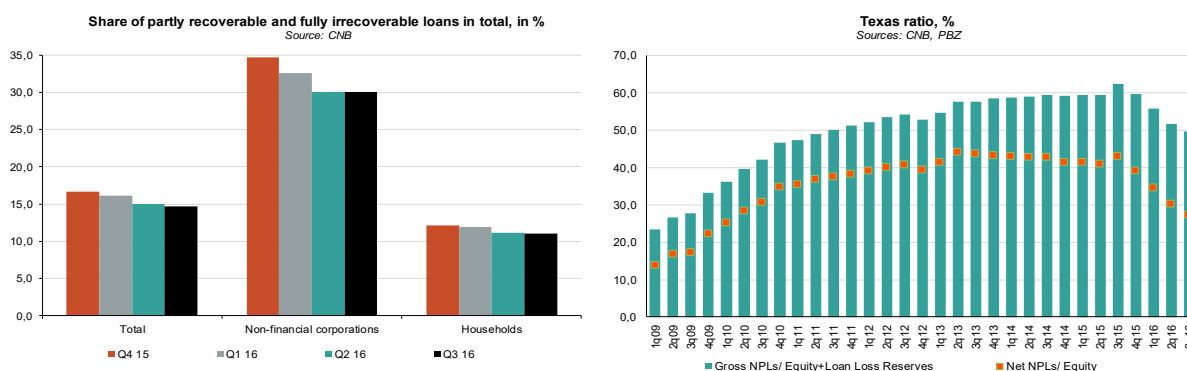
PBZ Weekly Analysis

Number 543, December 12, 2016

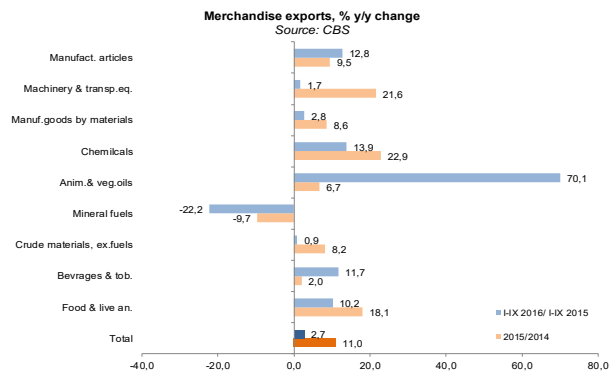
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Weekly overview

- Positive trends in asset quality have continued in the third quarter of this year, although the dynamics slowed down versus the previous three quarters. The share of partly recoverable and fully irrecoverable loans in total loans decreased by 0.3 p.p. in the third quarter versus the second quarter, thus declining to 14.7% (private sector: -0.1 p.p. to 19.2%). The same as in the second quarter, the largest contribution to the decline came from the corporate sector, i.e. the sale of loans, where the amount of non-performing loans dropped by 483 million kuna, however, the share remained at 30.0%. At the same time, the amount of loans to households decreased by 216 million kuna, or by 0.1 p.p. to 11.1%. The analysis of loans to citizens according to purpose shows that housing loans recorded a qoq fall in the share of 0.3 p.p. to 8.5%, mortgage loans of 0.01 p.p. to 32.6%, while other types of loans recorded an increase in the share (car loans +0.03 p.p. to 6.3%, card loans +0.01 p.p. to 3.5%, overdrafts +0.1 p.p. to 11.8%, cash loans +0.05 p.p. to 8.4%, other loans +0.3 p.p. to 31.9%). As regards housing loans according to currency, the share of non-performing kuna loans continued to decrease (-0.8 p.p. to 5.1%), which is a result of an expansion of kuna financing, as in absolute terms the volume of "bad" kuna housing loans increased. The share of housing loans indexed to the euro increased by 0.2 p.p. to 7.0%, while the share of loans indexed to the franc increased further, by 1.6 p.p. to 65.0%, since, following the conversion, only a small portion of mostly non-performing loans remained in the portfolio. A decreased share of NPLs in total loans was followed by a further improvement in the coverage ratio and capitalisation of banks. Thus, the coverage of partly recoverable and fully irrecoverable loans with value adjustments continued to rise, reaching 61.9%, up by 2.2 p.p. compared with the previous quarter. The coverage of loans to non-financial corporations by the end of the third quarter climbed to 60.8% (+2.6% p.p. qoq), while loans to households to 63.9% (+1.2% p.p.). The decreasing trend of the Texas ratio continued, where the share of gross non-performing loans in the capital and value adjustments dropped to 49.6% (-2.2 p.p.), whereas the share of bad loans reduced by value adjustments in the capital dropped to 27.3% (-2.9 p.p.). In the upcoming period, we anticipate a further and potential more intensive sale of loans and write-offs, and thus a further fall in the share of bad loans in the balance sheets of credit institutions.



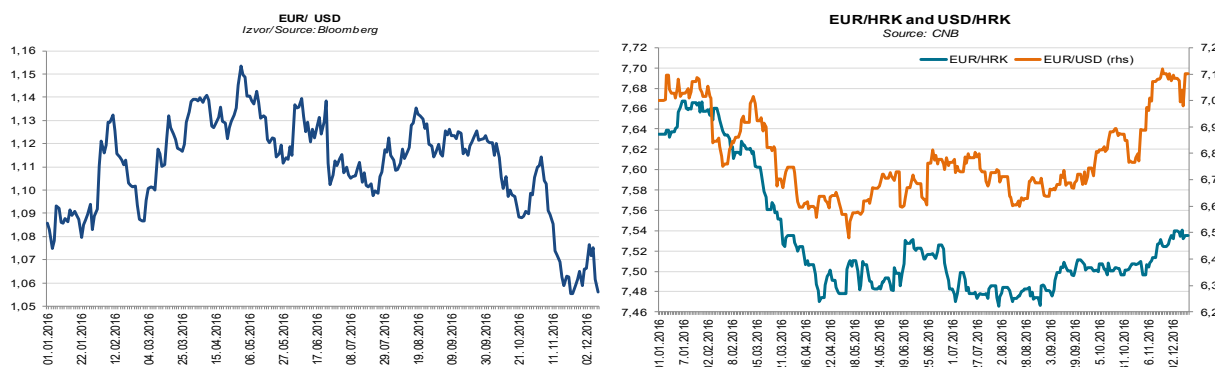
- The total exports of goods in September amounted to 8.3 billion kuna, a decrease of 0.6% from the same month last year, whereas the imports amounted to 12.8 billion kuna, up by 0.6% yoy, due to which the foreign trade deficit for September increased by 3.0% (to 4.5 billion kuna), while the coverage of imports by exports declined by 0.8 p.p. yoy (to 64.5%). Cumulatively, over the first nine months of 2016, the exports of goods rose by 2.7% yoy (to a total of 66.3 billion kuna), while the imports of goods rose by 3.3% (to 109.0 billion kuna), due to which the foreign trade deficit increased to 42.7 billion kuna (from 41.1 billion kuna in the first nine months of 2015). Thereby, the coverage of imports by exports was 60.8% (-0.3 p.p. yoy). Manufacturing, the most significant category by its share, recorded an increase in the exports of 4.4% yoy (to 59.3 billion kuna) over the first nine months, where the largest contribution came from higher exports in the category Pharmaceutical products, which recorded an increase of 1.3 billion kuna yoy, while the largest limiting impact on the increase in the exports was recorded by a fall in the exports in the category Refined petroleum products (by 1.4 billion kuna yoy). The recovery of the domestic demand (both personal consumption and investment activities) influenced a faster growth in the imports of goods, while the weakening of the positive effect of the entry into EU significantly reduced the last year's two-digit export growth rates. We expect positive trends in the exports of goods to continue next year as well, however, a further strengthening of domestic demand and the anticipated increase in oil prices will additionally strengthen the imports growth, and thus we may expect the expansion of the trade deficit.



Short-term rise in euro

The euro has initially strengthened against the dollar, to 1.0870 dollar to the euro, after the release of the ECB decision on the continuation of the APP, however, the dollar has quickly recovered on the eve of this week's meeting of the Fed and the exchange rate fell to 1.06. Trading on Friday closed at 1.0561 dollar to the euro, down by 1.0% wow.

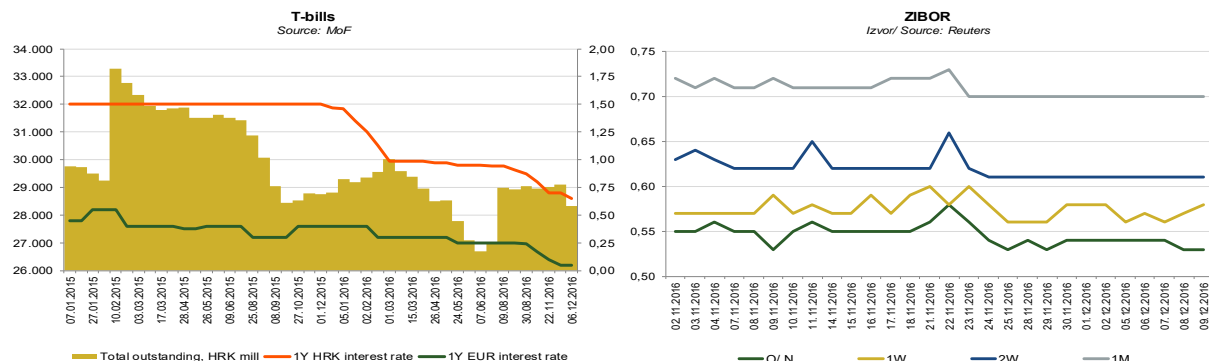
The domestic FX market saw on more week where no major activity was recorded, so the exchange rate remained unchanged. The mid-exchange rate on Friday amounted to 7.5356 kuna to the euro, down by 0.1% versus the previous week, while the kuna against the dollar weakened by 0.3% to 7.1023 kuna to the dollar.



Money market lethargy

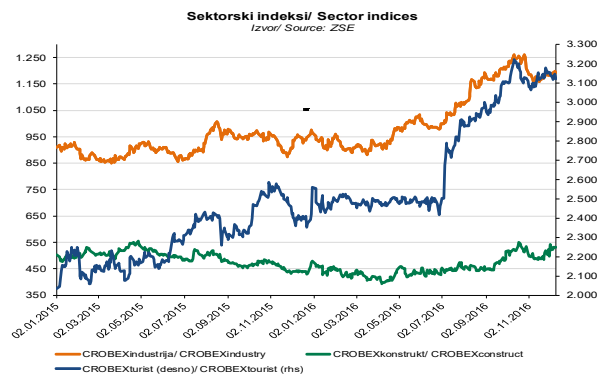
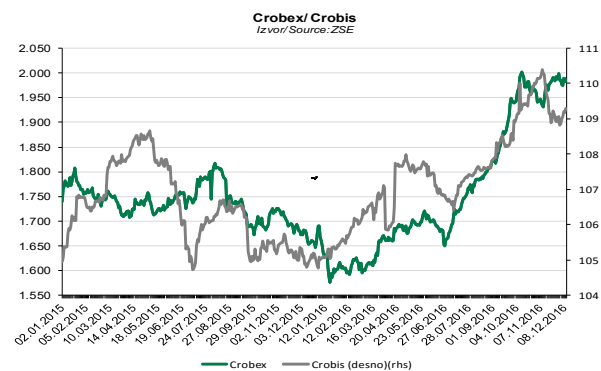
Interest rates continued to record only minor shifts, thus the overnight Zibor decreased by 1 b.p. to 0.53% w.o.w., 1M remained at 0.70% and 3M declined by 2 b.p. to 0.85%. At the regular reverse repo auction, CNB injected in the system 150 million kuna at the fixed repo rate of 0.3%, 70 million kuna more than the previous week, while the ZMM turnover fell to barely 29 million kuna with the average daily excess of supply over demand amounting to 416 million kuna.

Last week, 1.3 billion kuna in T-bills matured, whereas a total of 1.1 billion kuna were issued, due to which the government debt under the issued T-bills decreased to 28.3 billion kuna. Kuna T-bills were issued with a one-year maturity at an interest rate of 0.65%, 5 b.p. lower than the previous issue. There will be no auction this week and no more maturity this year.



Crobex down for the second consecutive week

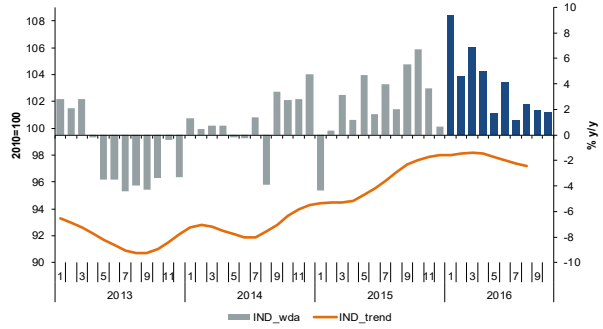
The Crobex index closed the week at 1,982.98 points, i.e. down by 0.2% w.o.w., while Crobis closed the week at 109.28 points (+0.4%). As regards sector indices, CROBEXconstruct closed the week at 531.97 points (+2.0%), CROBEXindustry at 1,192.57 points (+0.7%), while CROBEXtourist closed the week at 3,120.36 points (-0.7% w.o.w.). The total ZSE turnover increased 7 times w.o.w. (to 842.4 million kuna), where the turnover in bonds rose over 10 times (to 805.1 million kuna), while the turnover in shares fell by 10.5% w.o.w. (to 37.2 million kuna).



Statistics

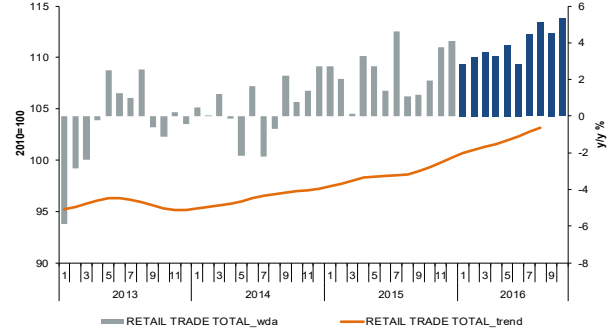
Industrial production, wda y/y % ch.

Source: Eurostat



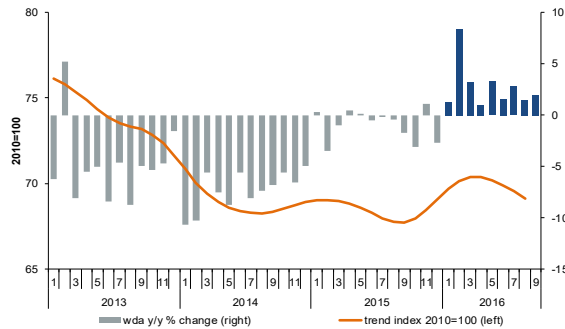
Retail trade, real, wda y/y ch.

Source: CBS



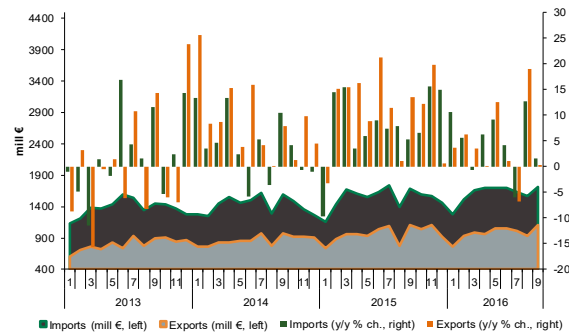
Construction works, y/y % ch. and index 2010=100

Source: CBS



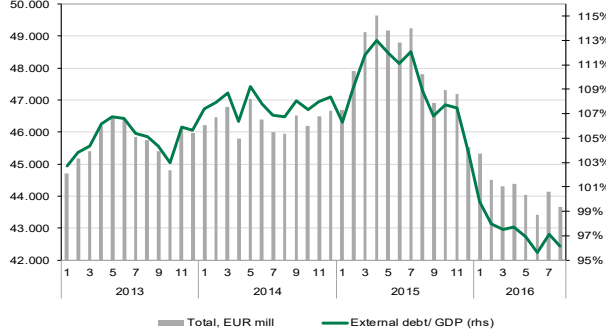
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



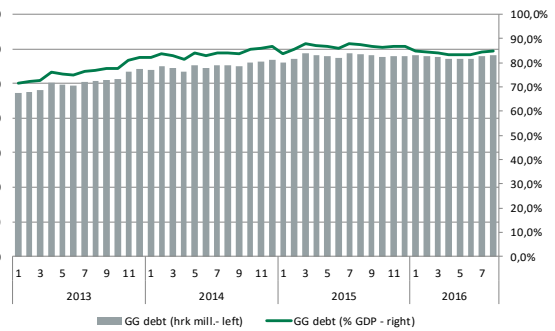
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



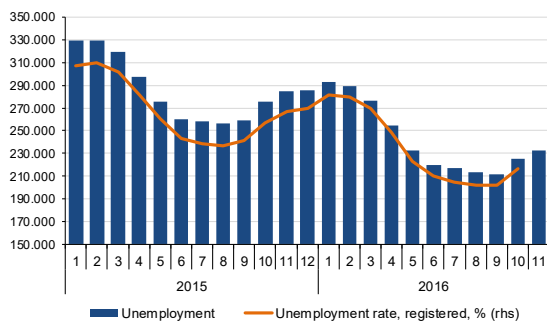
General government debt

Source: CNB



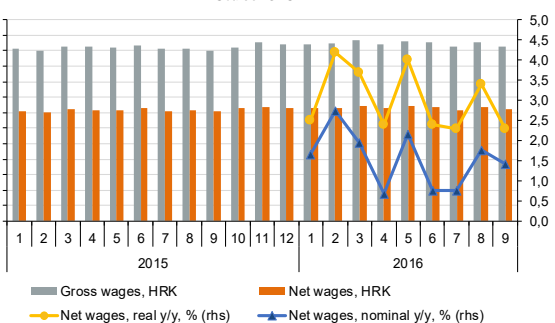
Total unemployment and unemployment rate

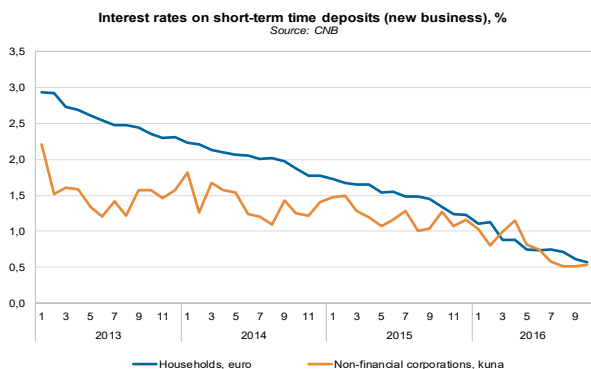
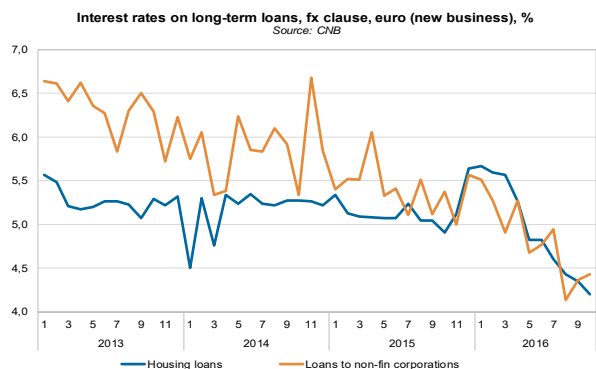
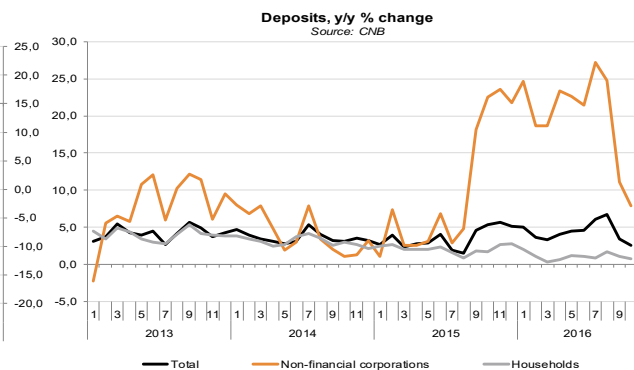
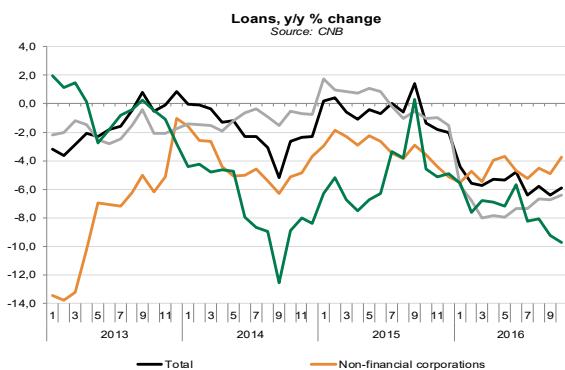
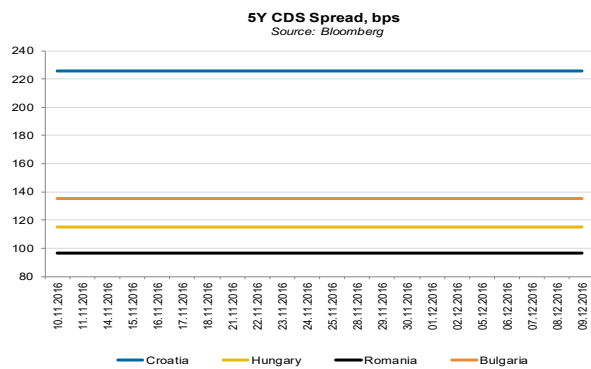
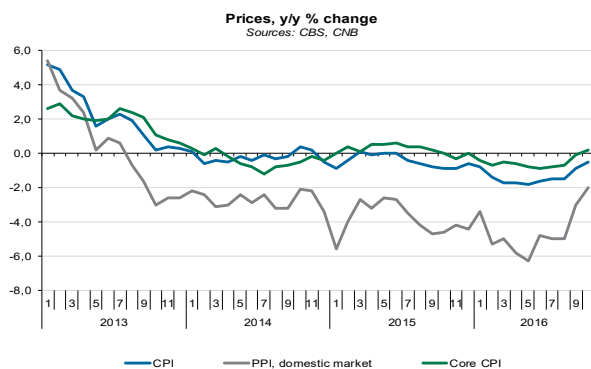
Source: CBS



Wages, monthly average

Source: CBS





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