

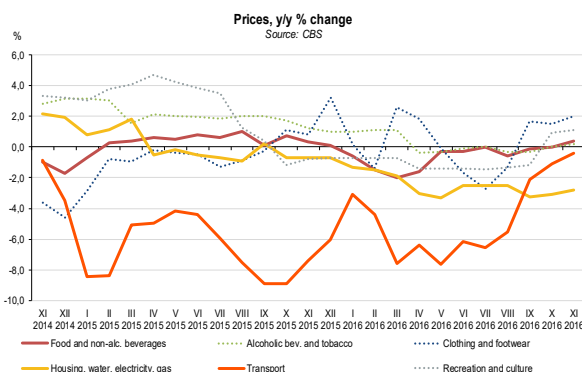
# PBZ Weekly Analysis

## Number 544, December 19, 2016

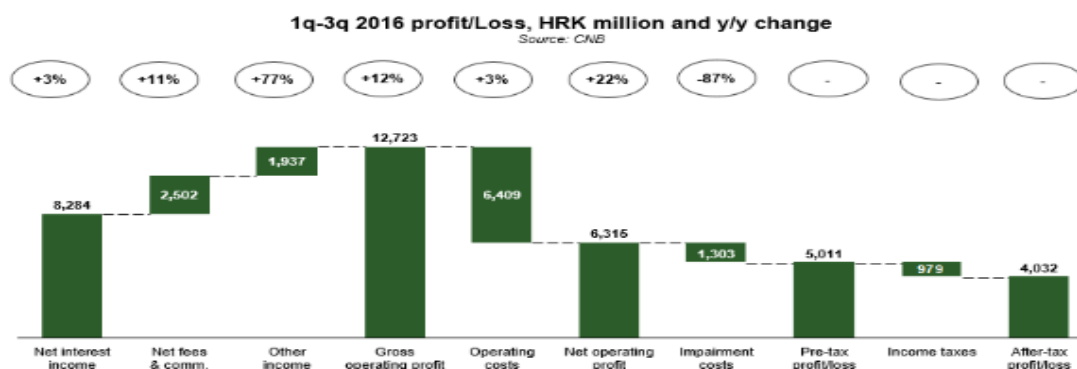
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## Weekly overview

- The pace of decline of consumer price index slowed to -0.2% yoy in November (after -0.5% recorded in October), where the largest negative contribution came from lower prices in the category Housing (-0.5 p.p. or 2.9% lower price level due to a 18.3% lower gas prices). On the other hand, the largest positive contribution to the index growth yoy came from the categories Food and non-alcoholic beverages, Clothing and footwear, Health and Recreation and culture (both by 0.1 p.p.), which is partly a result of the strengthened domestic demand. At the monthly level, the inflation rate remained unchanged, where the largest decrease in the prices was recorded in the categories Restaurants and hotels (-0.6%, of which 3.1% lower accommodation services), while the largest increase was recorded in the category Clothing and footwear (+0.9%, due to the arrival of new collections). Over the first eleven months of 2016, consumer prices dropped by 1.2% yoy (I-XI 2015: -0.4%) due to a low crude oil price in the global markets and the administratively reduced price of gas for households, therefore, we expect the average inflation level this year to amount to -1.2%. Next year, due to the anticipated increase in the oil prices and food product prices in the global markets as well as a further strengthening of domestic demand, we expect the average inflation rate of +1.0%.
- After a strong last year's decline caused by the conversion expenses, the profitability of credit institutions recorded an upward trend this year. Over the first nine months, net interest income rose by 3.0% yoy, since an 8.3% lower interest income was followed by a 23.6% cut in interest expenses. Net income from fees and commissions increased by 10.6% due to a marginally (+0.2%) higher income from fees (a decrease in the income from credit card fees reached 8.5%) and a 18.9% lower expenses on fees. Other income increased by 77.3%, i.e. 0.8 billion kuna, mostly due to the income from the sale of the stake in Visa Europe Ltd. Thus, gross operating income of banks rose by 11.7%, while operating expenses by 3.4%, due to which net operating income recorded a yoy growth of 21.5%. The share of expenses in operating income decreased by 4 p.p. to 50.4%. Expenses on value adjustments and provisions dropped by 86.6%, i.e. 8.4 billion kuna, since the largest part of the estimated conversion expenses was recorded in the business books in the third quarter last year. Pursuant to value adjustments of housing loans, credit institutions recorded a 324 million kuna of income (correction) this year, however, as the conversion effect has ceased to exist, it is obvious that a large share of non-performing loans (30.0%) in corporate loans has the most significant influence on total provision expenses, thus representing the largest burden for profits of banks. The gross profit of banks thus reached 5.0 billion kuna (net 4.0 billion kuna) by the end of September, while profitability ratios have recorded positive figures again,



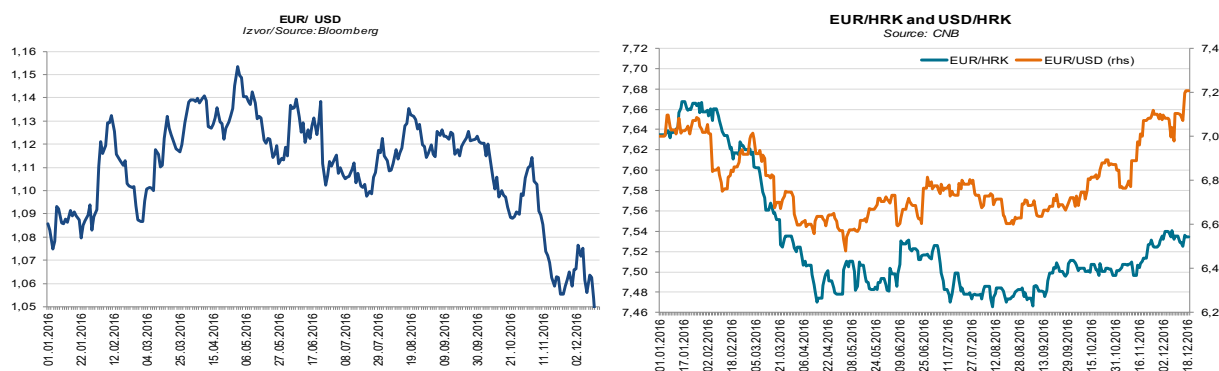
therefore return on assets amounted to 1.1% and return on capital 6.6%. In the upcoming year, banking operations will be characterised by a further pressure to cut interest rates on loans due to an increasing demand for loans and the competition among banks, a further decrease in expenses on value adjustments and provisions owing to a sale of loans and the recovery of the economy, as well as a reduced tax burden as a result of the amendments to the Profit Tax Act according to which write-offs are recognised as tax expenditure.



## Dollar jumps after Fed decision, CNB intervenes

Last week, the dollar surged against the euro, after the Fed's decision to rise the target range for the key interest rate by 25 b.p., to 0.50-0.75%. Trading on Friday closed at 1.0451 dollar to the euro, down by 1.0% wow.

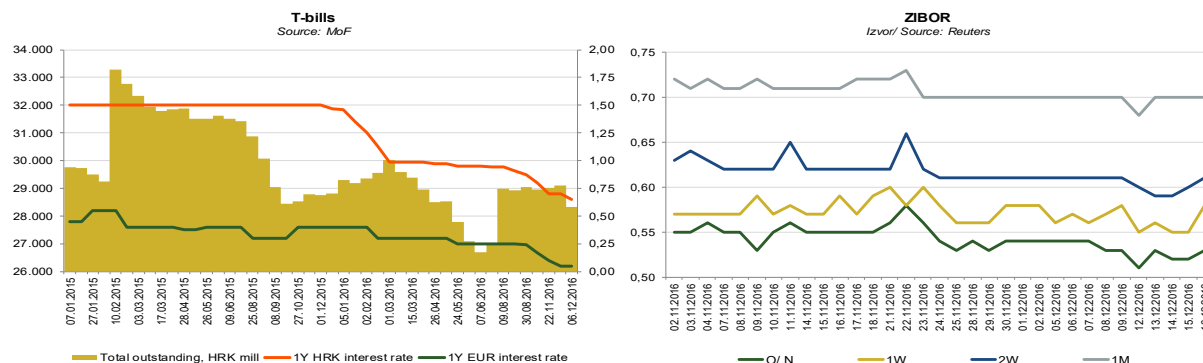
The end of the year brought a higher activity of all the participants on the domestic financial market, therefore CNB intervened last Wednesday by purchasing 278 million euro from banks at the average exchange rate of 7.5490. The mid-exchange rate on Friday amounted to 7.5341 kuna to the euro, unchanged wow, while the kuna against the dollar weakened by 1.5% to 7.2069 kuna to the dollar. Over the next two weeks, we expect a further more active trading in the range 7.52-7.58 kuna to the euro.



## Money market calm

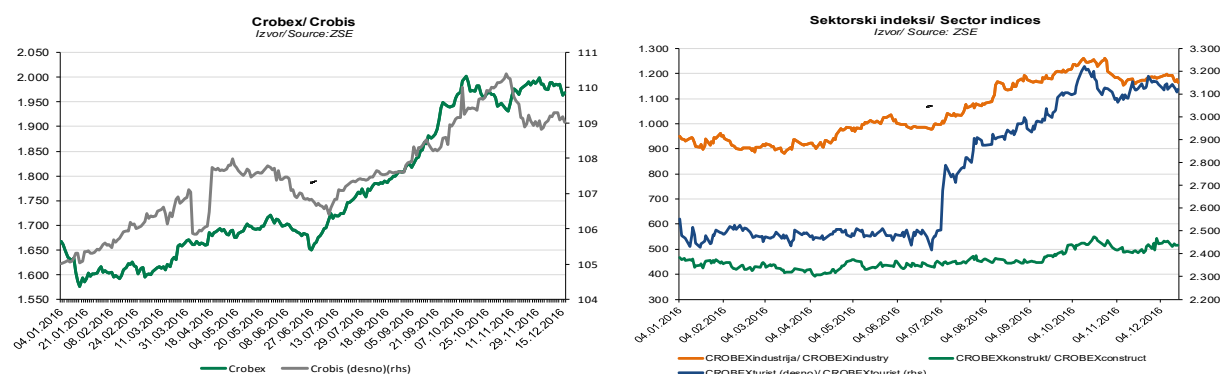
Interest rates stayed the same wow, so the overnight Zibor remained at 0.53%, 1M at 0.70%, and 3M at 0.85%. At the regular reverse repo auction, CNB injected in the system 120 million kuna at the fixed repo rate of 0.3%, 30 million kuna less than the week before, while the ZMM turnover amounted barely to 34 million kuna with the average daily excess of supply over demand amounting to 404 million kuna.

Last week, there was no maturity or auction, therefore the government debt under the issued T-bills remained at 28.3 billion kuna. There will be no auction this week and no more maturity this year.



## Crobex in negative territory again

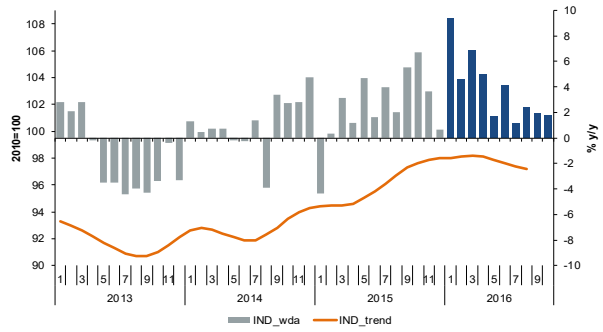
The total ZSE turnover amounted to 762.5 million kuna, down by 9.5% wow, due to a decrease in the turnover in bonds of 21.6% (to 630.9 million kuna), while the turnover in shares increased over 3 times wow (to 131.6 million kuna). The Crobex index closed the week at 1,968.33 points, or a 0.7% lower level wow, while Crobis closed the week at 109.02 points (-0.2%). As regards sector indices, CROBEXconstruct fell by 3.1% wow, closing the week at 515.31 points, CROBEXindustry fell by 2.2% (to 1,166.28 points), while CROBEXtourist stagnated wow, closing the week at 3,120.39 points.



# Statistics

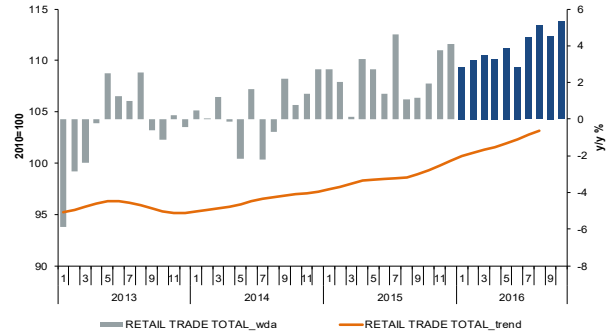
**Industrial production, wda y/y % ch.**

Source: Eurostat



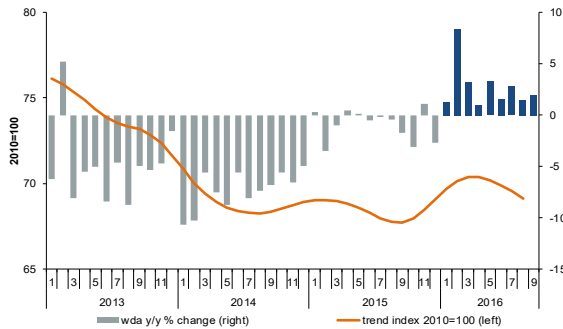
**Retail trade, real, wda y/y ch.**

Source: CBS



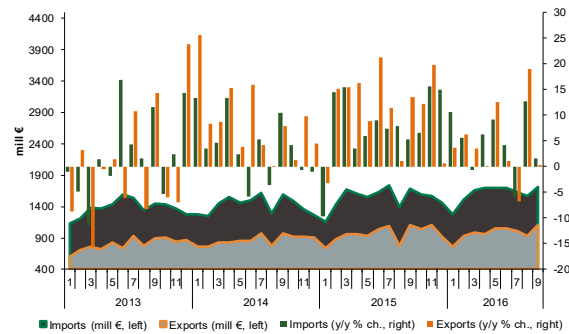
**Construction works, y/y % ch. and index 2010=100**

Source: CBS



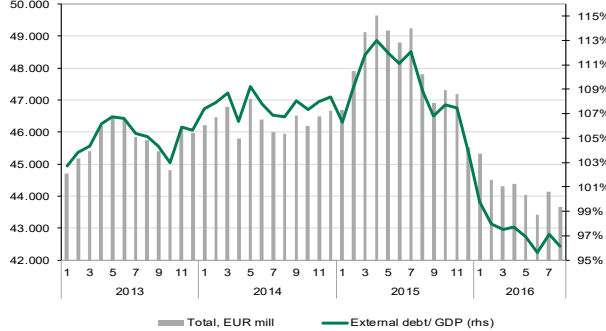
**Goods exports and imports (y/y % ch. and mill €)**

Source: CBS



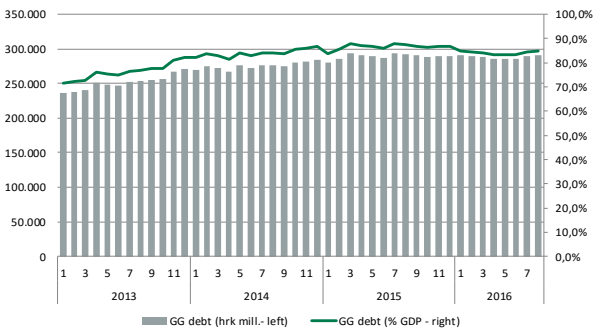
**External debt, amount and share to GDP**

Sources: CNB, CBS, PBZ



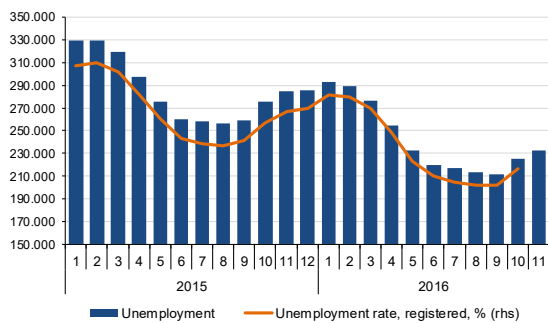
**General government debt**

Source: CNB



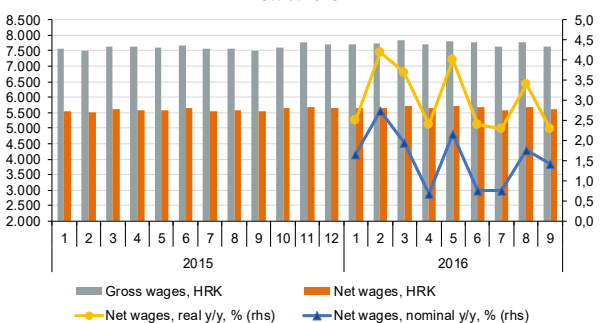
**Total unemployment and unemployment rate**

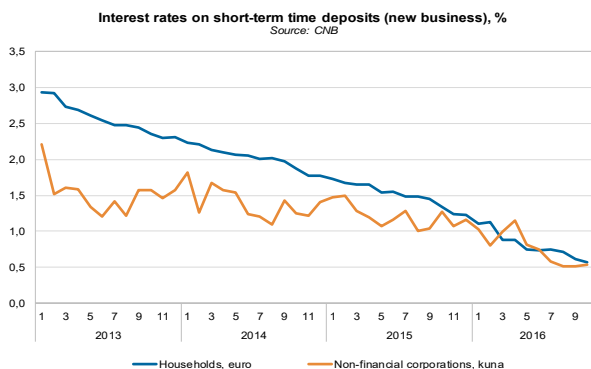
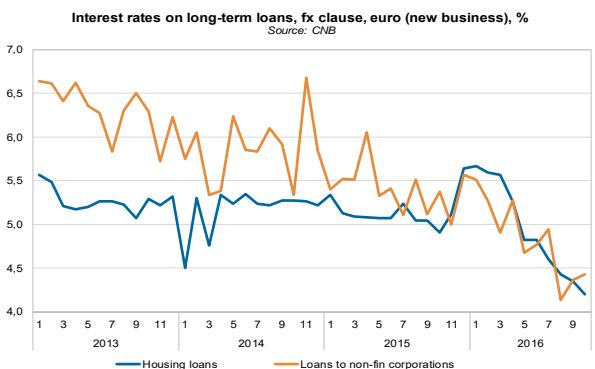
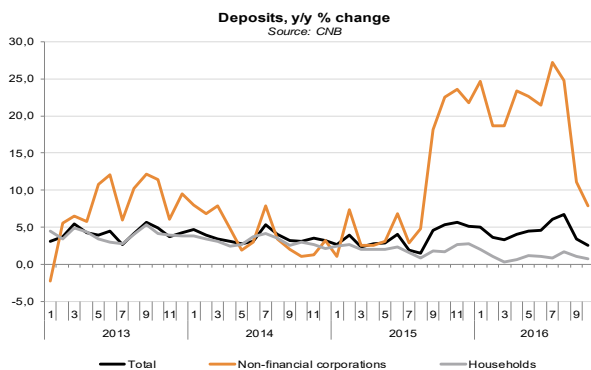
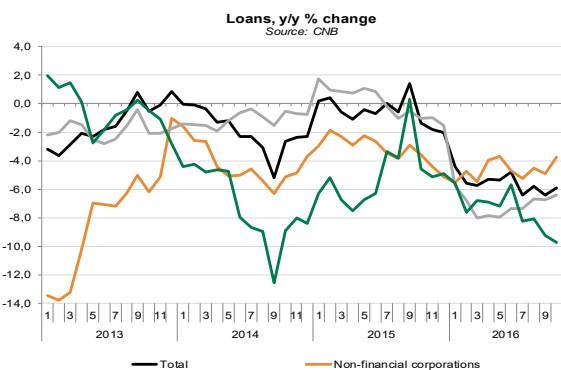
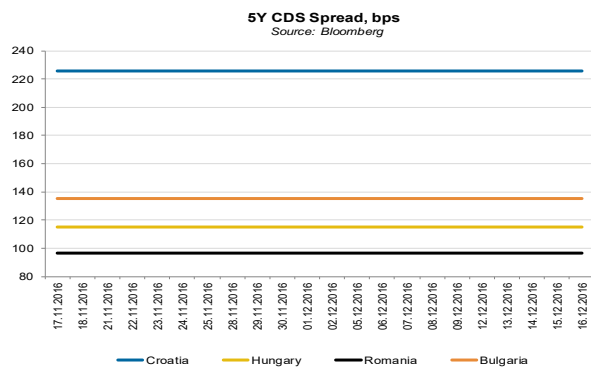
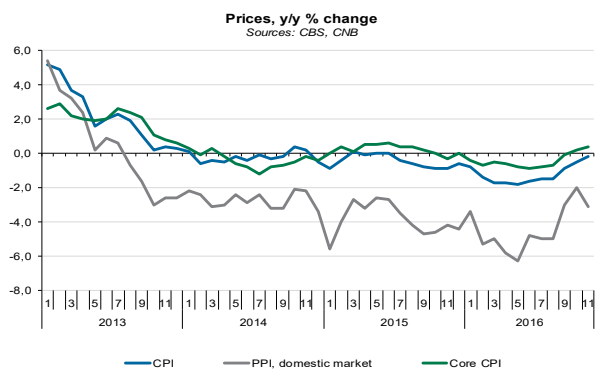
Source: CBS



**Wages, monthly average**

Source: CBS





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