

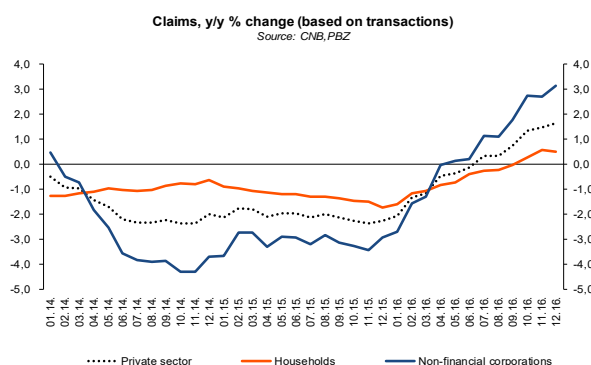
# PBZ Weekly Analysis

## Number 549, February 6, 2017

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## Weekly overview

- Total assets of other MFI's were down by 0.5% yoy at the end of 2016, which is mainly a result of a decrease in the household credit portfolio (conversion) and the sale of receivables (receivables amounting to 4.2 billion kuna were sold over the first nine months) and a simultaneous deleveraging of banks due to which net foreign assets reached 11.8



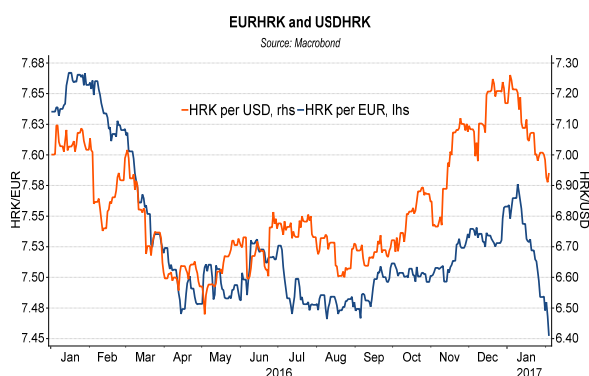
billion kuna at the end of the year. External sources were mainly replaced by domestic sources, so the share of deposits in balance sheet increased from 61.8% recorded at the end of 2015 to 64.3%, while the share of foreign liabilities fell from 11.2% to 7.7%. The MFI's claims on the central government and social security funds at the end of the year, despite a substantial decline of 11.9% in loans to the government, were up by 2.9%, owing to a 23.8% increase in placements in securities. Also, claims on non-financial corporations at the end of 2016 were at the same level as in December 2015, whereas loans as a consequence of the sale and write-off of placements recorded a yoy decrease of 1.9%. Specifically, a decrease in loans for working capital and investment loans amounted to 1.5% and in other loans 3.3%. Loan to households in 2016 dropped by 5.5%, of which housing loans 11.1% (in kuna +87.8%), overdrafts -5.5%, cash loans +2.4% (in kuna +26.4%) and other loans -2.6% (in kuna +9.0%). A decline in retail loans is mostly a result of the conversion process, when banks have written-off loans amounting to 6.0 billion kuna from November 2015 up to the end of 2016. Thus, total loans in 2016 fell by 5.8%, however, the currency risk aversion and lower difference between interest rates on kuna loans and loans with a currency clause resulted in a growth of kuna loans of 14.5%, due to a 7.4% increase in loans to non-financial corporations and a 24.2% higher level of kuna loans to households. Loans to the private sector sank by 4.0%, but, from the aspect of transactions, claims on the private sector cumulatively increased by 1.6% last year. Total deposits in 2016 rose by 3.6% yoy (private sector +2.8%), where deposits of non-financial corporations, due to a growth recorded the year before and the economic recovery, soared by 9.3%, whereas household deposits recorded a substantially lower increase of 1.0%. The latter significantly slowed down compared with 2015, as a result of a fall in interest rates on time deposits, transfer of funds from time deposit accounts to transaction accounts and sight deposit accounts, outflow of savings from banks into investments with higher yields (funds) and the appreciation of the kuna against the euro. This year, we anticipate demand mainly for kuna loans, but also a continuation of balance sheet clean-up, further boosted by tax changes, due to which we expect a further nominal decrease in the loan volume (private sector -1.4%), while we forecast a continuity in the growth of deposits, in accordance with the GDP growth, however, at a lower rate versus last year (private sector +1.6%).

- The industrial production in December 2016 rose by 14.9% compared with the same month of 2015 (wda data), recording at the same time the strongest growth since the Croatian Bureau of Statistics' first publication of these data, while the mom data show an increase of 4.0% (according to the seasonally and working-day adjusted data). The average yoy growth of the industrial production in 2016 (after the growth of 1.2% in 2014 and 2.7% in 2015) accelerated to 5.0%, due to a strong foreign demand and the recovery of domestic demand. According to MIGs, a yoy increase was recorded in all the categories in 2016, where the largest growth was recorded in the production of Capital goods (with a share of 16.04% in total IP), which rose by 6.3% yoy. At the same time, the production of Energy (21.89% share) rose by 5.7%, Intermediate goods (29.97% share) by 5.1%, Durable consumer goods (2.58% share) by 4.2%, and Non-durable consumer goods (29.52%) by 4.1% yoy. According to NKD, Manufacturing (with a share of 77.9% in total IP) rose by 5.4% yoy, where its largest component (Manufacture of food products with a share of 13.65%) rose by 3.6%. The yoy increase was also recorded in Electricity, gas, steam and air conditioning supply (+7.0%), while Mining and quarrying recorded a drop in the production of 1.8%.

### Dollar weaker, kuna at 7.45

Last week's FOMC meeting did not bring news relating to the dynamics of the fed funds rate hike, so the dollar weakened. Trading on Friday closed at 1.0783 dollar to the euro, up by 0.8% wow.

The kuna continued to strengthen, so trading was around the level of 7.43 and the mid-exchange rate fell to 7.4521 kuna to the euro by the end of the week, down by 0.4% wow, recording the lowest level since July 2013. At the same time, the kuna against the dollar strengthened by 1.0%, so the exchange rate declined to 6.9406 kuna to the dollar. This week, we expect trading in the range 7.42-7.47 kuna to the euro.

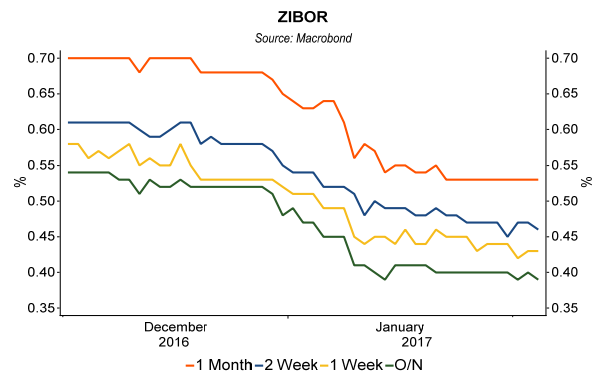
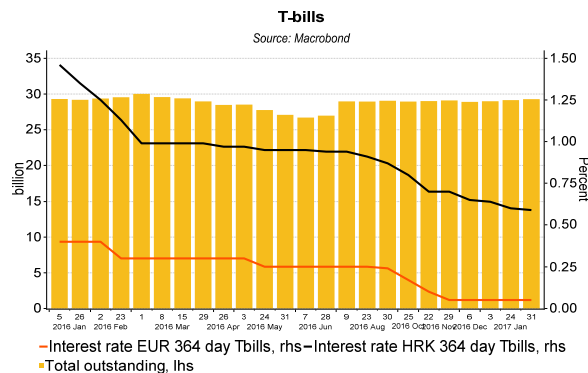


### Interest rates stay the same

Last week, on the eve of the MF issue of bonds in the domestic market, liquidity was still high, so interest rates mostly stayed the same. The overnight Zibor moderately dropped by 1 b.p. to 0.39%,

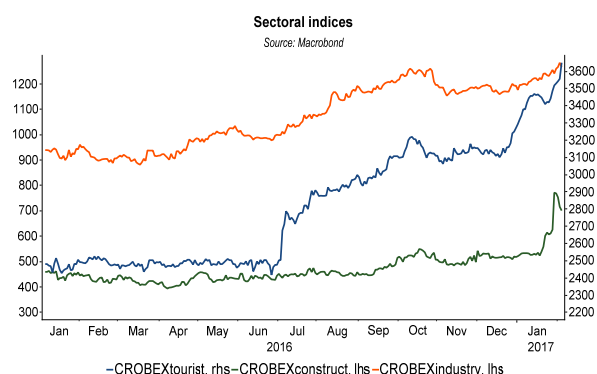
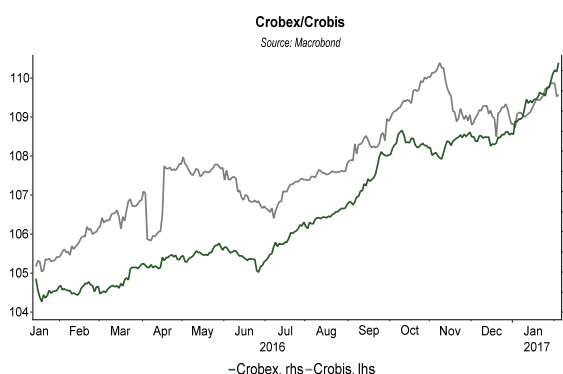
1M remained at 0.53% and 3M at 0.64%. At the regular reverse repo auction, CNB injected 140 million kuna at the fixed repo rate of 0.3%, whereas there was almost no demand on ZMM.

Last week, 0.6 billion kuna matured, while 0.8 billion kuna in one-year kuna T-bills at the interest rate of 0.59% was subscribed, down by 1 b.p. from the previous week's issue. Thus, the government debt under the T-bills reached 29.3 billion kuna. This week, there will be no maturity and no auction.

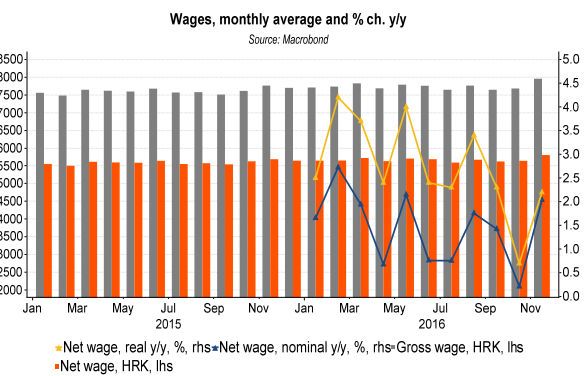
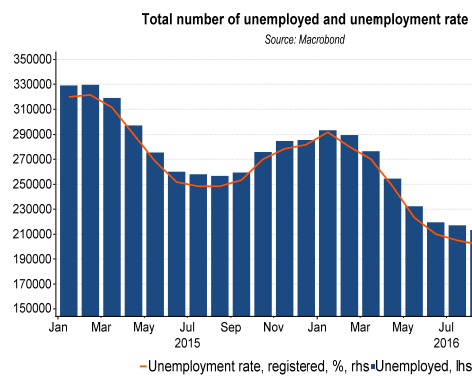
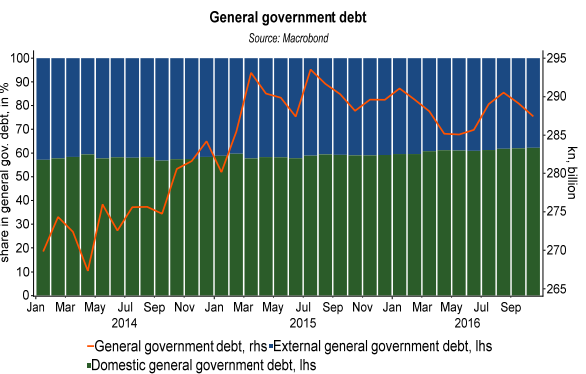
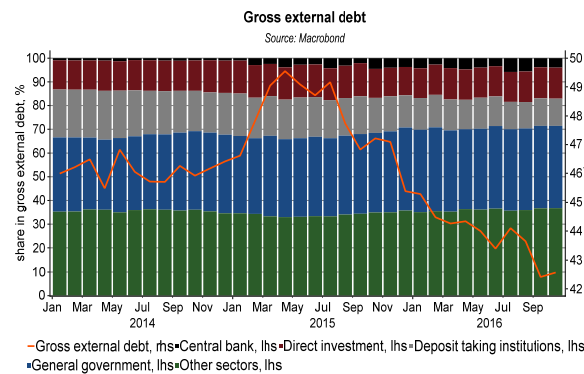
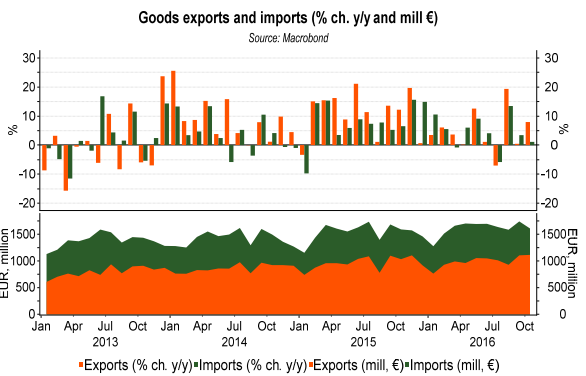
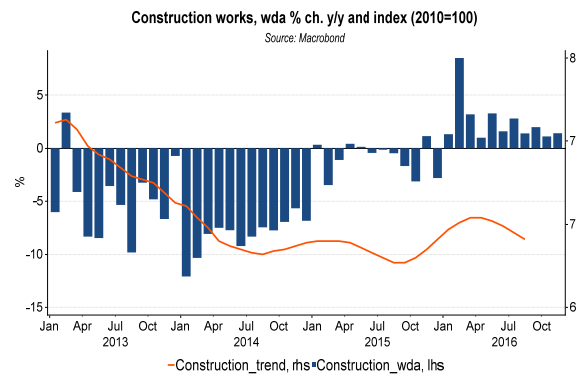
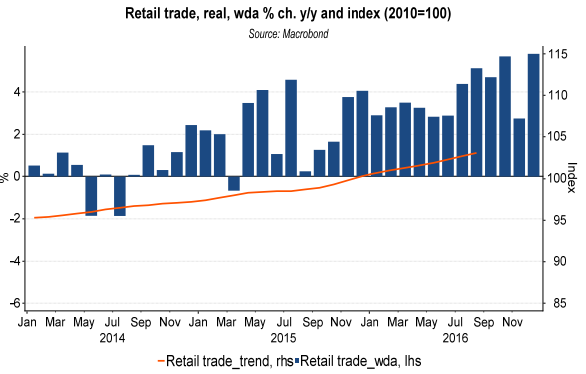
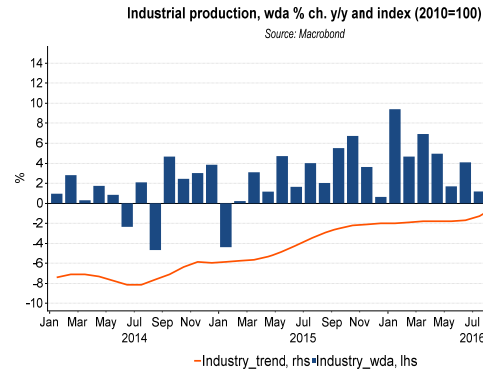


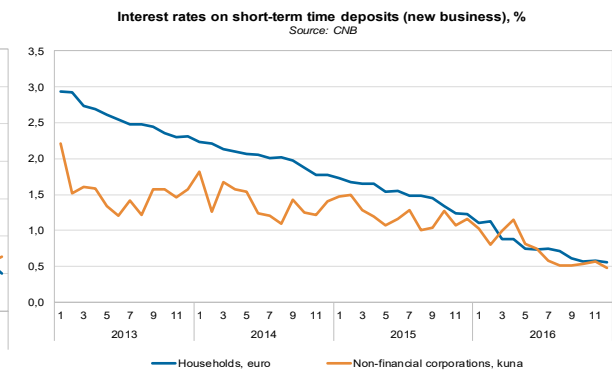
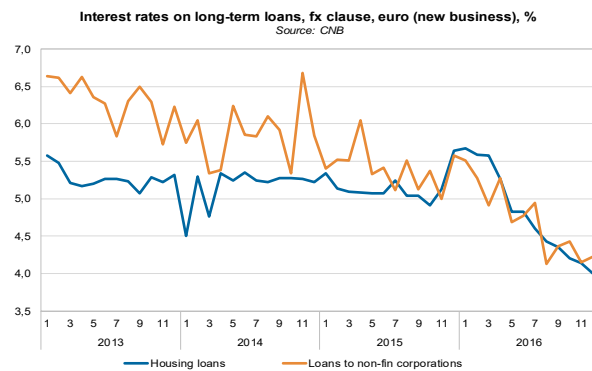
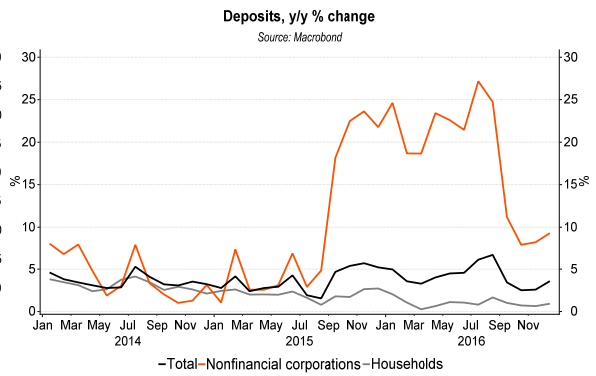
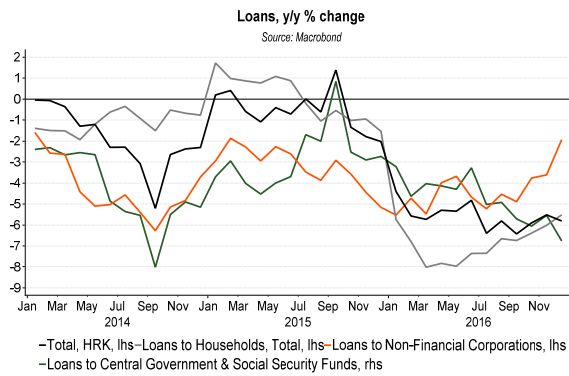
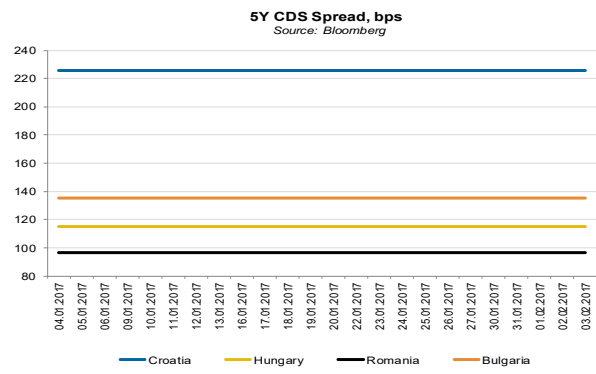
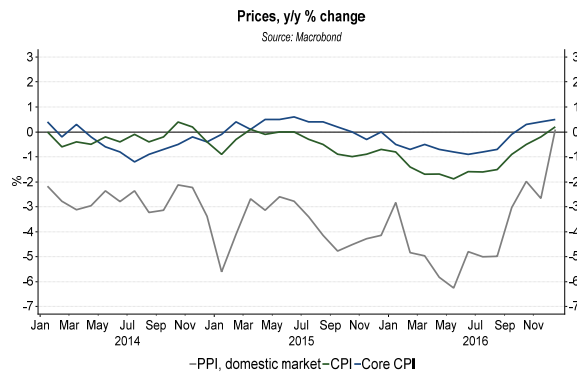
## Crobex continues to rise

The Crobex indices rose wow by 2.9%, closing the week at 2,170.28 points, while Crobis declined by 0.2% wow, closing the week at 109.58 points. Sector indices ended in positive territory, where CROBEXconstruct recorded a two-digit increase wow (+12.0%), closing at 701.14 points last Friday. CROBEXtourist rose by 4.7% (to a new, historically highest level of 3,650.54 points), while CROBEXindustry rose by 0.9% wow (to 1,266.78 points). The total ZSE turnover increased by 61.2% compared with the previous week, amounting to 577.1 million kuna, where the turnover in shares was up by 94.8% (to 118.4 million kuna), and the turnover in bonds by 54.3% wow (to 458.7 million kuna). Last week, the domestic market saw two issues of bonds of the Ministry of Finance totalling 8.5 billion kuna, where a five-year bond (3 billion kuna) was issued at the interest rate of 2.25%, and an eleven-year bond (5.5 billion kuna) at the interest rate of 2.875%.



# Statistics





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