

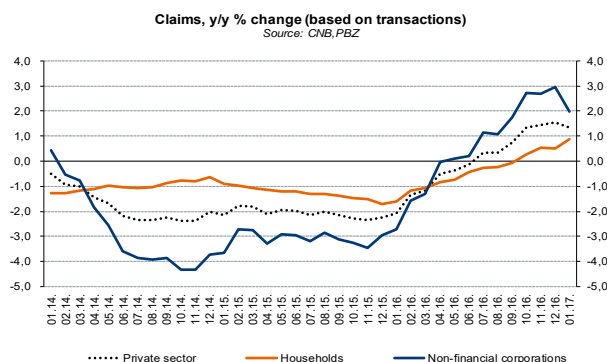
PBZ Weekly Analysis

Number 553, March 6, 2017

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Weekly overview

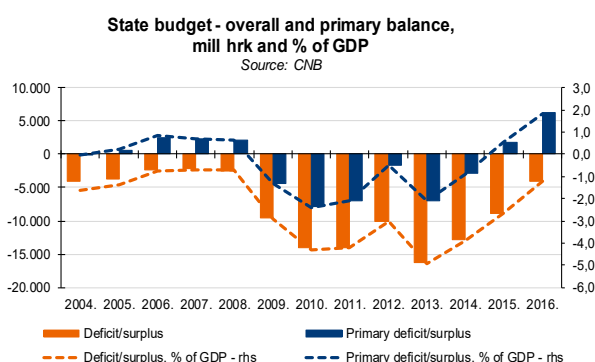
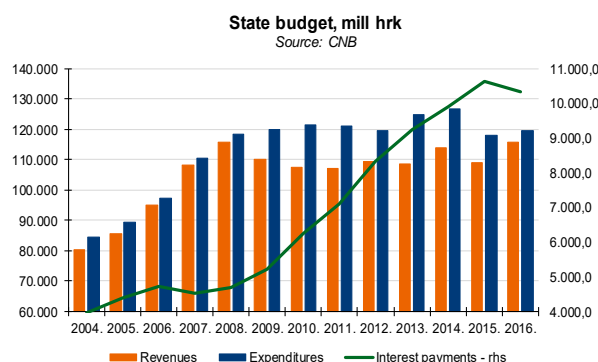
- Negative trends in the MFI credit portfolio continued in January, when a decrease of 6.5% yoy in total loans was recorded, where the central government and the social security funds saw the largest decrease of 14.1%, while a decline in non-financial corporations and households amounted to 4.3%. The data on transactions shows that an



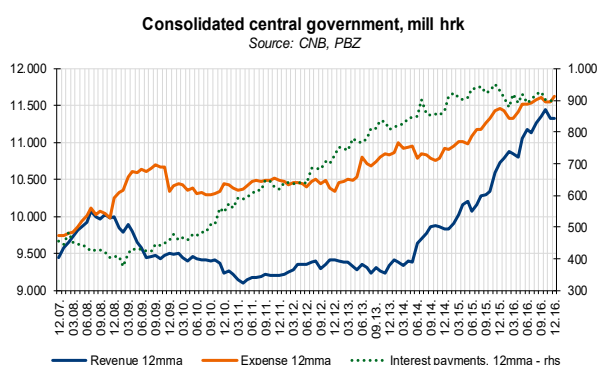
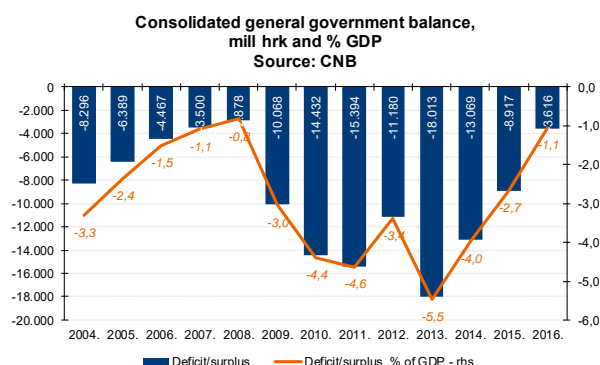
increase in the claims from the private sector slowed down to 1.4% in January, where the increase in the corporate sector fell from 3.0% registered at the end of 2016 to 2.0%, while the increase in the claims to citizens accelerated from 0.5 to 0.9% yoy. According to types and currencies, there were no major surprises related to households, therefore a growth in kuna housing loans, cash loans and other loans continued (+87.9%; +26.4; +8.4% yoy), also, there were major changes related to corporate portfolio, where, along with a rise in kuna loans for working capital, investments and other purposes (+7.9%; +6.4%; +7.4% yoy), an increase was also recorded by investment euro loans (+5.4%). Deposit growth slowed in January to 2.6% yoy, which is a consequence of a lower growth rate of non-financial corporation deposits (+7.3%) and a 0.1% decline in household deposits, as a result of the exchange rate movements (when the influence of the exchange rate is excluded, deposits show an increase around 1.5%). By the end of the year, we expect a continuation of a demand for kuna loans but also of the process of the sale of non-performing loans as well as moderate deposit growth.

- According to the data of the Croatian National Bank, the state budget deficit for 2016 amounted to 4.1 billion kuna (1.2% of GDP), or down by 4,7 billion kuna versus 2015, when the state budget deficit was 8.8 billion kuna (2.7% of GDP). It is important to say that in 2016, for the second consecutive year, a primary surplus of 6.2 billion kuna was recorded i.e. 1.8% of GDP (0.5% of GDP in 2015).

The total state budgeted revenues in 2016 amounted to 115.7 billion kuna (up by +6% compared with 2015), whereas expenditures (including the changes in net financial assets) reached 119.8 billion kuna (up by +1.5% yoy). In 2016, a 5.5% increase in the raised tax revenues, 28% increase in revenue from grants (EU) and a 7.9% increase in revenues from other sources was recorded, but also a 2.7% decrease in social contributions. At the expenditure side, due to methodological modifications, no yoy comparison of employment expenditure and grants to other budgetary entities is possible, however the sum of these two items implies an increase of 6.9%. At the same time, material expenditures dropped by 0.9%, interest expenses by 2.6%, subsidies by 5% and social benefits by 0.7% versus 2015.



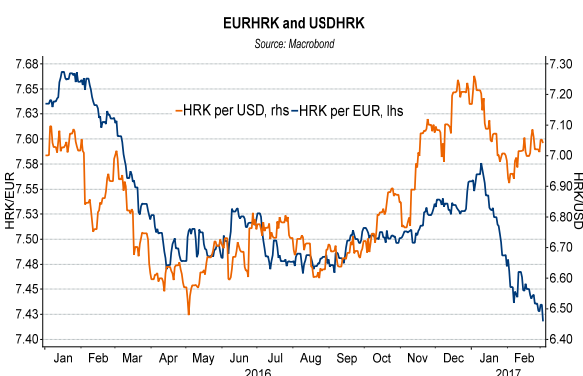
The data from the same source, at the consolidated central government level (including the state budget and off-budget funds), point to a total deficit of 3.6 billion kuna (around 1.1% of GDP), while the total deficit amounted to 8.9 billion kuna in 2015, i.e. 2.7% of GDP. With regard to the above mentioned movements, we anticipate the April notification to be in line with the expectations and also show a substantial reduction in the general government deficit according to the EDP methodology, from 2016 3.3% of GDP to around 1.5% of GDP.



Kuna appreciation continues

Increasing market beliefs that the Fed will raise its interest rate this month supported the dollar, thus EUR/USD fell below 1.05. The end of the week saw a correction, so trading closed at 1.0622 dollar to the euro on Friday, up by 0.6% from the previous Friday.

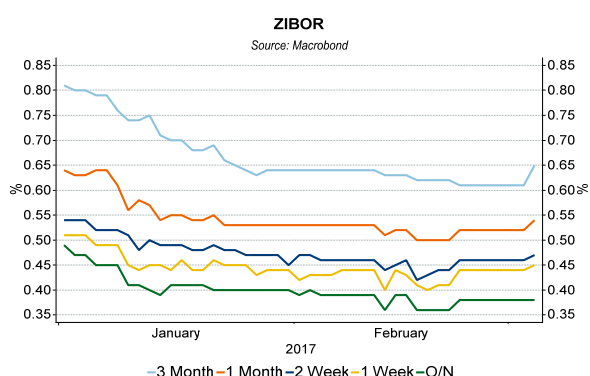
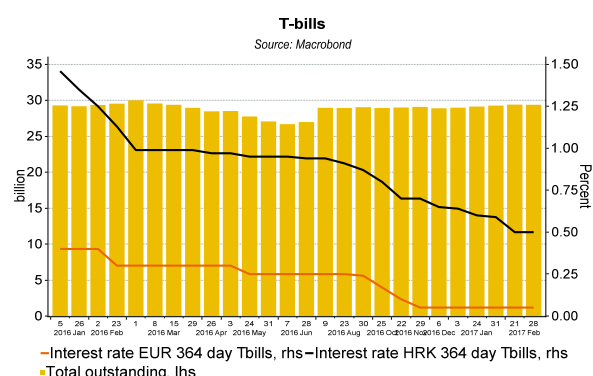
The appreciation pressures continued, so the CNB mid-exchange rate decreased to 7.4180 kuna to the euro last Friday, down by 0.2% wow, also the lowest level since September 2012. The kuna against the dollar weakened by 0.3% to 7.0413 kuna to the dollar. This week, we expect the trend to continue and we also anticipate trading in the range 7.40-7.45 kuna to the euro.



Minor changes in interest rates

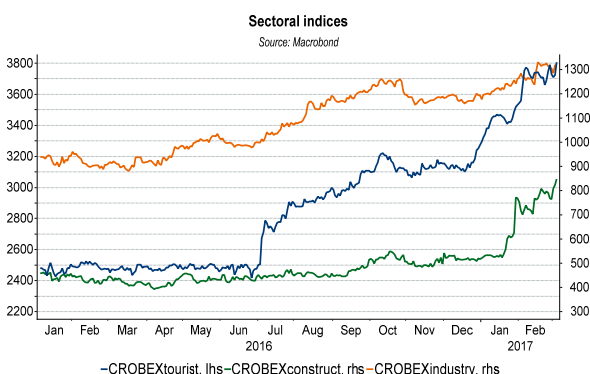
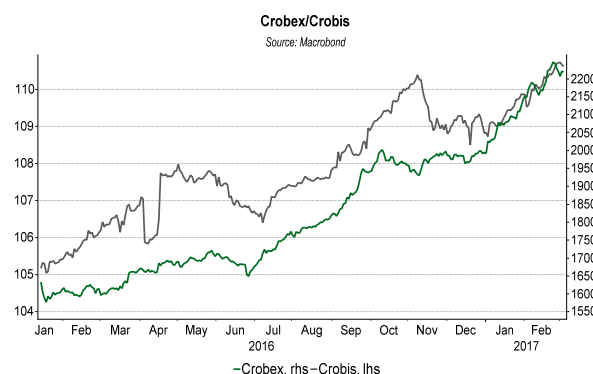
Last week, liquidity moderately decreased and interest rate continued to record minor changes. The overnight Zibor remained at 0.38%, 1M rose by 2 b.p. wow to 0.54%, while 3M increased by 4 b.p. to 0.65%. At the regular reverse repo auction, CNB injected 40 million kuna in the system, the same as the week before, at the fixed repo rate of 0.3%, while the ZMM turnover amounted to 10 million kuna.

Last week, 1.5 billion kuna matured, while the same amount was subscribed at the same time, so the government debt under T-bills stayed at 29.4 billion kuna. There was a subscription of one-year kuna T-bills at the interest rate of 0.50%, unchanged versus the previous issue. This week, a total of 0.8 billion kuna will mature and the auction with the same amount of T-bills has been planned.

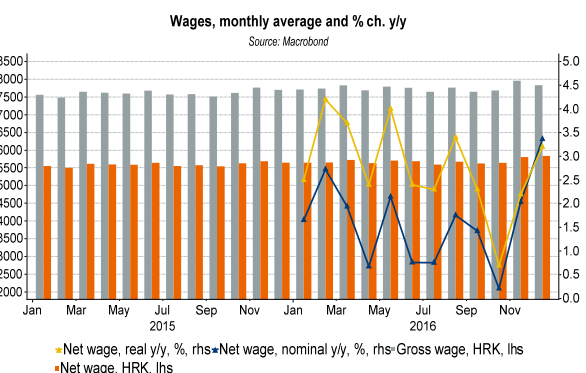
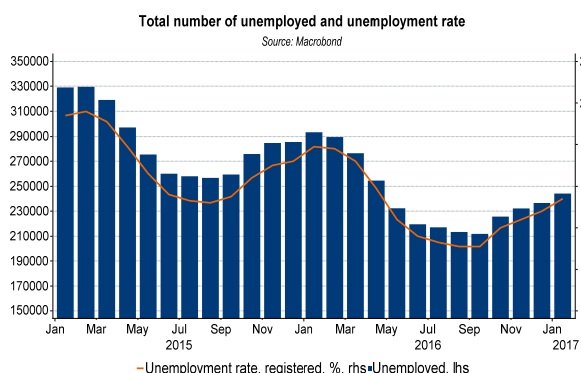
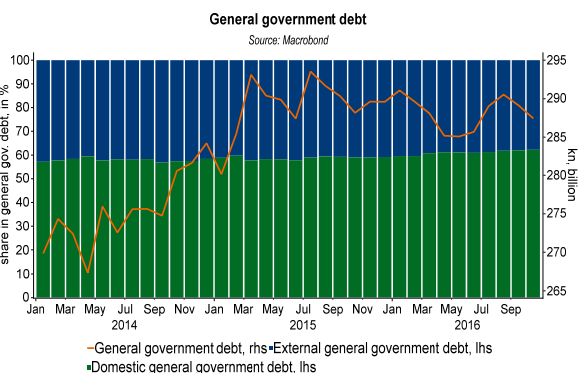
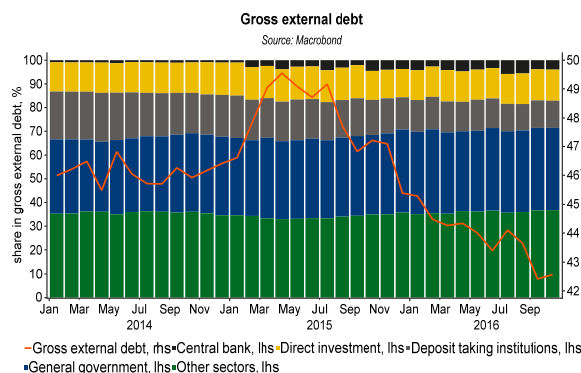
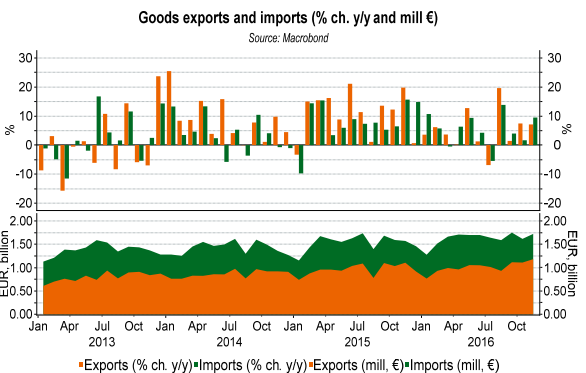
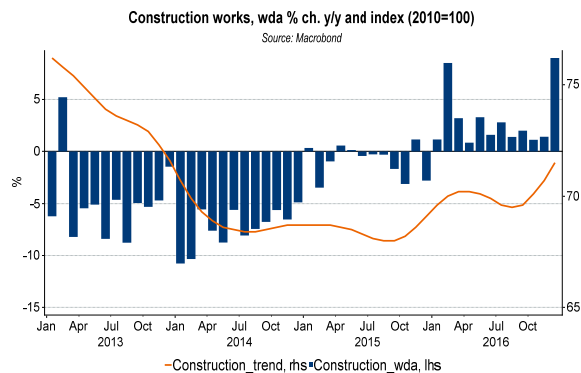
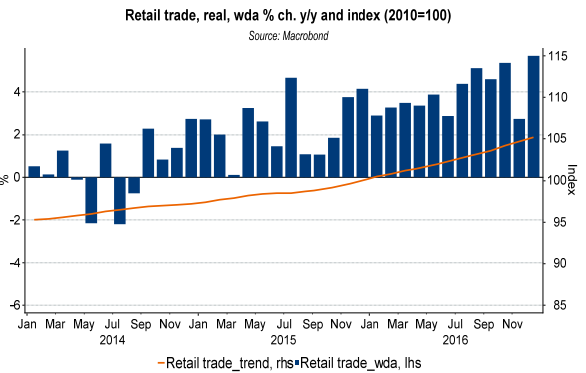
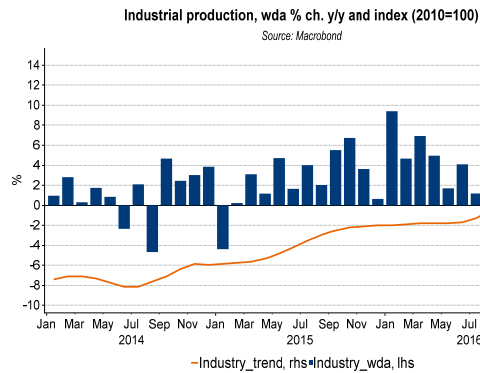


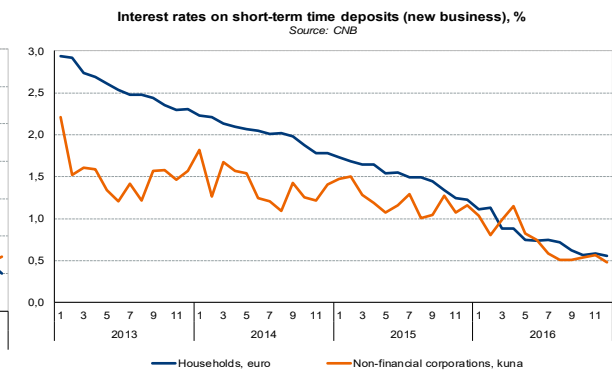
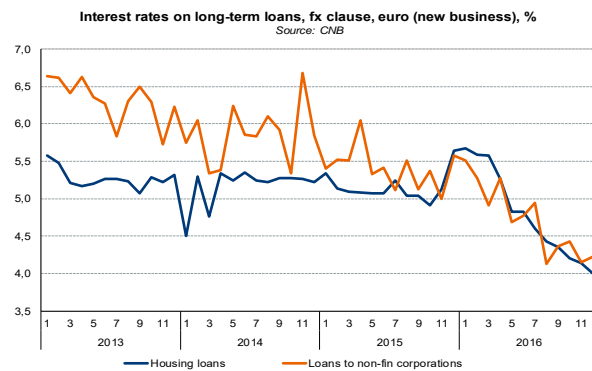
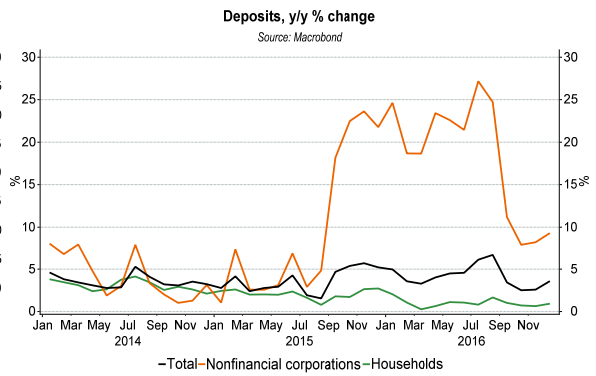
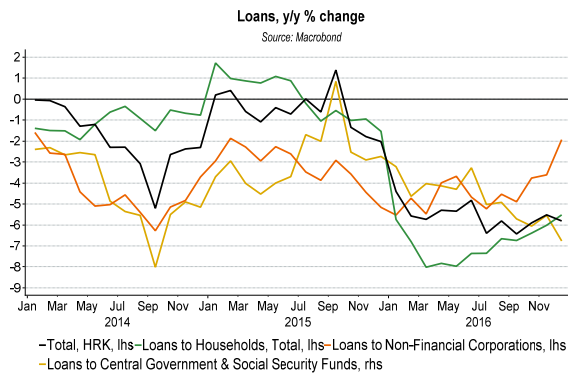
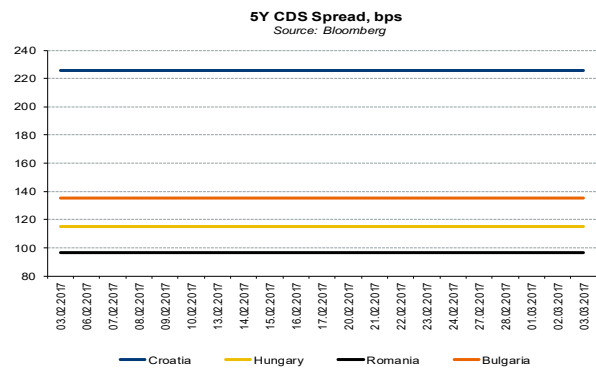
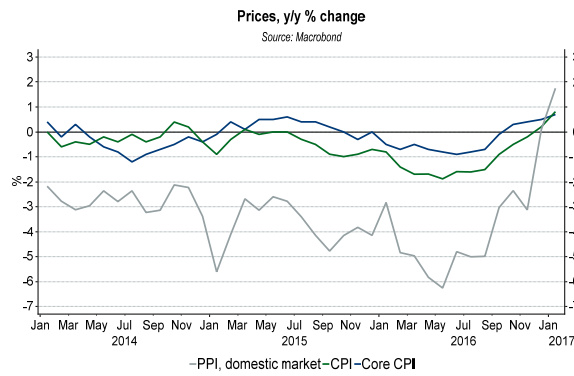
Crobex down wov

The Crobex index dropped by 1.1% wov, closing the week at 2,218.38 points, while Crobis closed the week at 110.62 points (unchanged wov). The sector indices performance was positive, thus CROBEXconstruct closed the week at 847.99 points or up by 7.2% versus the week before, CROBEXtourist at 3,805.35 points (+1.6%), while CROBEXindustry closed the week at 1,316.36 points or up by 0.2%. The total ZSE turnover amounted to 450.5 million kuna (-20.9% wov), where the turnover in bonds amounted to 333.7 million kuna (-22.7%), while the turnover in shares amounted to 116.8 million kuna (-15.5%).



Statistics





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