

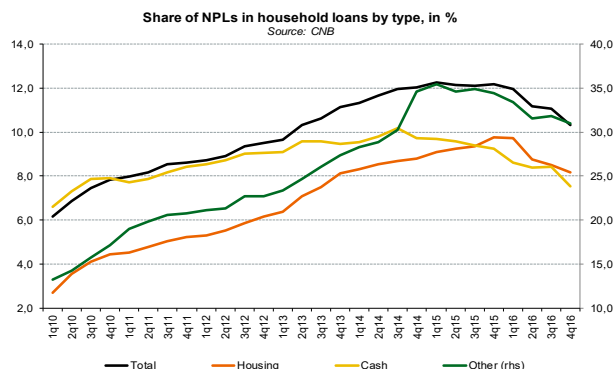
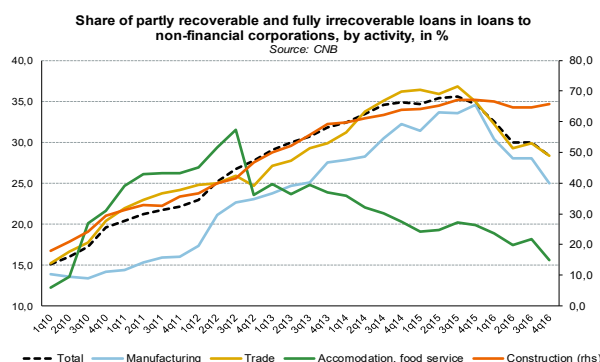
# PBZ Weekly Analysis

## Number 554, March 13, 2017

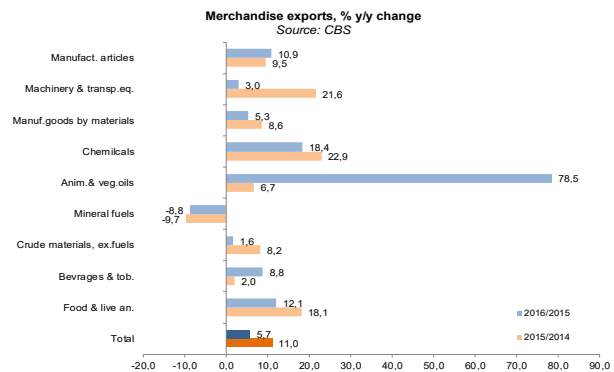
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## Weekly overview

- The last quarter of 2016 was the sixth consecutive quarter of credit quality improvement. Thus, the share of partly recoverable and fully irrecoverable loans in total loans decreased by 0.8 p.b. compared with the third quarter, amounting to 13.8% (private sector: -1.2 p.p. to 18.0%). The largest contribution to the decrease came from the corporate sector where a decline in the share of 1.7 p.p. to 28.3% was recorded, while the share of loans to citizens dropped by 0.7 p.p. to 10.3%. The described trends are mostly a result of a strong activity of sale and write-off of loans over the mentioned period, when 1.8 billion kuna of gross claims was sold, of which an equal share of claims on citizens and claims on non-financial corporations (0.8 billion kuna). The central bank data on the quality of corporate loans according to activities show that a positive trend is mainly a result of an improved quality of loans in major branches - Manufacturing, Trade and the Accommodation and food service activities, where at the quarterly level, the share was reduced by 3.0 p.p., 1.4 p.p. and 2.5 p.p., respectively, to 25.0%, 28.4% and 15.6%. The most critical activity remains Construction; although the volume of non-performing loans in this category has declined, their share in total loans is still extremely high, amounting to 65.7% at the end of 2016. The distribution of loans to citizens according to purpose shows that the share of partly recoverable and fully irrecoverable housing loans in total loans decreased by 0.3 p.p. to 8.2%, in overdrafts by 1.8 p.p. to 10.0%, in card loans by 0.3 p.p. to 3.2%, in cash loans by 0.9 p.p. to 7.5%, and in other loans by 0.8 p.p. to 31.0%. For housing loans according to currencies, the share of bad loans indexed to the euro remained at 7.0%, while for loans indexed to the kuna, the mentioned share fell from 5.1 to 4.6% due to a strong growth of new kuna housing loans. The asset quality improvement was followed by a further increase in the coverage of non-performing loans by value adjustments. The total coverage reached 63.6% at the end of last year, up by 1.7 p.p. versus the third quarter, where the coverage of loans to non-financial corporations rose by 2.2 p.p. to 63.0%, while the coverage of loans to citizens by 0.7 p.p. to 64.7%.



- The release of December 2016 data on foreign trade in goods, which shows an increase in the export of goods of 28.3% and in the import of goods of 20.9% yoy, rounds off the statistics for the whole year of 2016, where the export of goods rose by 5.7% (to 92.8 billion kuna) and the import of goods by 5.4% (to 148.3 billion kuna) yoy. Last



year, the foreign trade deficit amounted to 55.5 billion kuna, up by 4.7%, while the coverage of imports by exports moderately rose by 0.2 percentage points (to 62.6%). The export of goods in the EU countries increased by 5.4% versus 2015 (import: +4.3%), whereas the export in the CEFTA countries decreased by 3.2% (import: +13.8%). Simultaneously with the data for the last month of 2016, CBS released the preliminary data for January 2017, when a strong increase in the export of 26.6% yoy (growth of export into non-EU countries was +63.3%) and a slightly lower increase in the import of 9.9% was recorded, due to which the foreign trade deficit dropped by 15%, while the coverage of import by export rose by 9.1 p.p. (to 69.0%).

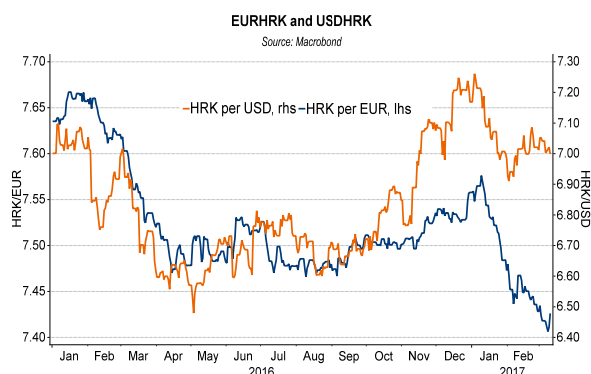
- The industrial production in January 2017, according to wda data, rose by 4.0% yoy (-6.9% mom, seasonally and working-day adjusted data), a substantially lower increase versus the last month of 2016 when the industrial production hit a record high of 14.9% yoy. According to NKD, the yoy IP growth in January was mostly impacted by an increase in Manufacturing (+2.5%, of which Manufacture of coke and refined petroleum products +168.7%) and in Electricity, gas, steam and air conditioning supply (+19.4%), while a decrease was recorded in Mining and quarrying (-6.3%).

### **Euro stronger, kuna slightly weaker**

In anticipation of the Fed's meeting, the dollar mostly continued to strengthen over the week, however, at the end of the week the trend reversed and the euro strengthened against the dollar. Despite the fact that the ECB has not indicated any changes in its monetary policy, the upwardly revised outlook for the GDP growth and inflation in 2017 and 2018 as well as the ECB President Draghi's statement that the risks surrounding the euro area growth have become less pronounced have been sufficient to support the euro. Therefore, trading on Friday closed at 1.0673 dollar to the euro, up by 0.5% yoy.

The increased demand for foreign exchange has led to a slight weakening of the kuna, so the CNB's mid-exchange rate amounted to 7.4260 kuna to the euro at the end of last week, up by 0.1% wow. At the same time, the kuna strengthened by 0.6% against the dollar and the exchange rate decreased to

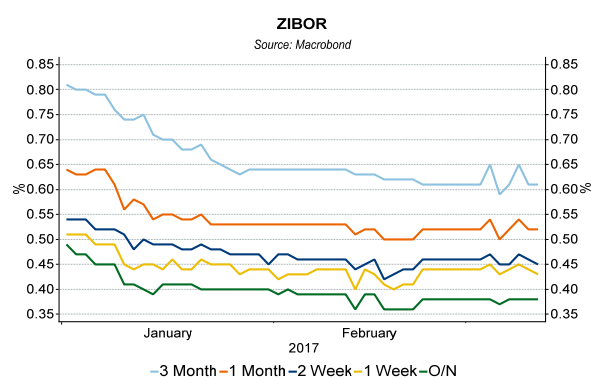
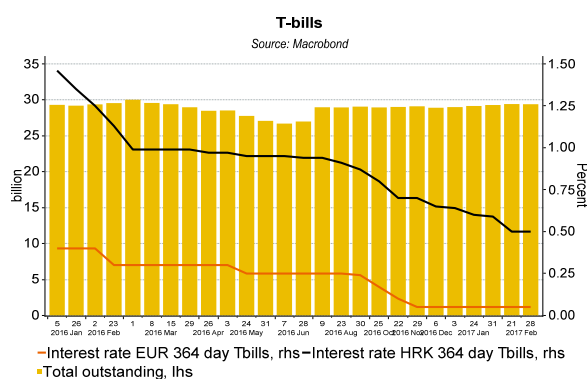
6.9991 kuna to the dollar. This week, we anticipate the trading range 7.40-7.45 to continue, while the announced disbursement of dividends of domestic business entities and a new issue of a government euro bond might bring more activity to the domestic FX market.



## Money market calm

Liquidity is still high, therefore the first week of the obligatory reserve maintenance period so only slight changes in interest rates. The overnight Zibor remained at 0.38%, 1M decreased by 2 b.p. to 0.52% and 3M decreased by 4 b.p. to 0.61%. There was no demand at the CNB's regular reverse repo auction, whereas the ZMM turnover recorded more activity, amounting to 371 million kuna.

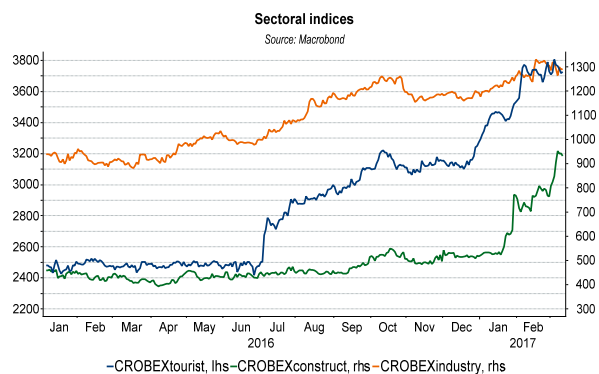
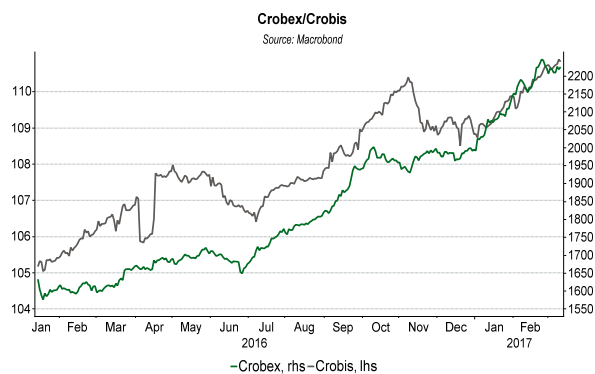
Last week, 0.8 billion kuna matured and 0.9 billion kuna in T-bills were subscribed, due to which the government debt under T-bills moderately rose to 29.5 billion kuna. Kuna one-year T-bills were subscribed at the rate of 0.45%, down by 5 b.p. compared with the earlier issue. This week, a total of 352 million kuna will mature and the auction has been announced with the planned amount of 300 million kuna.



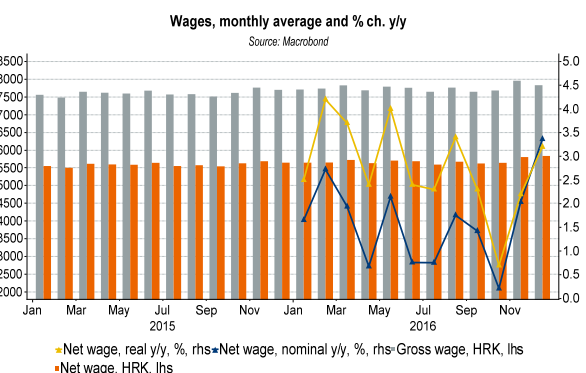
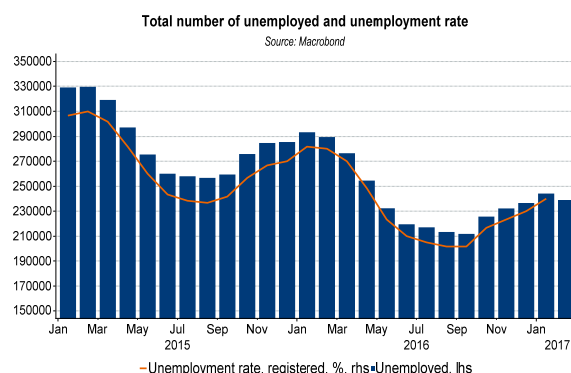
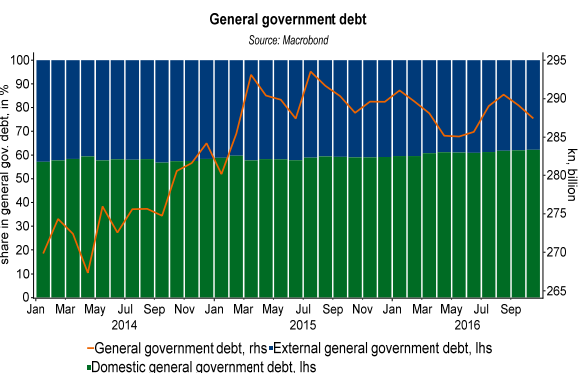
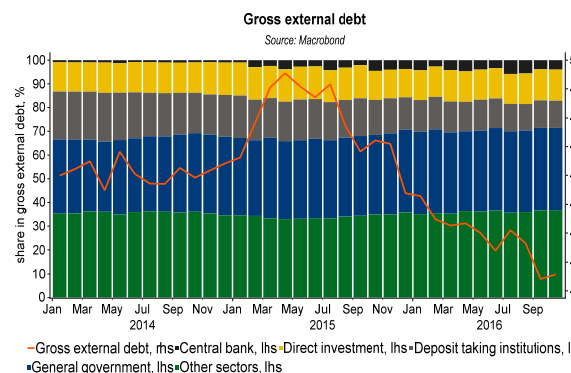
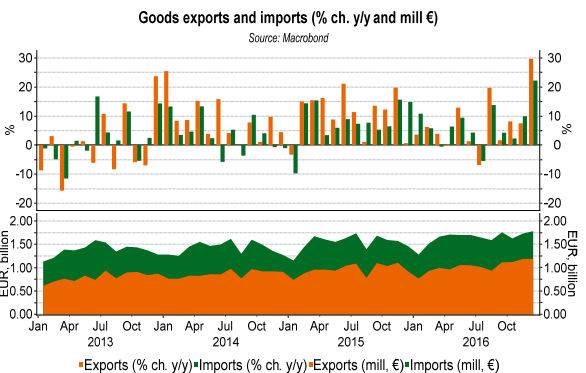
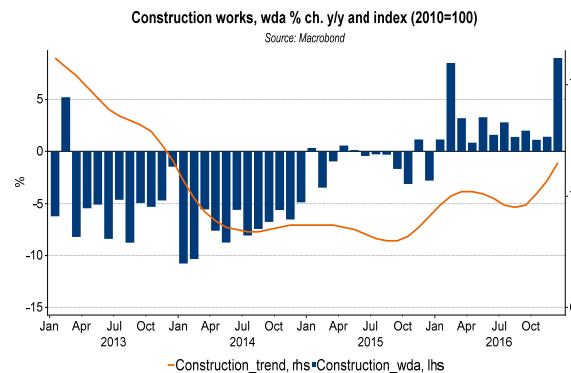
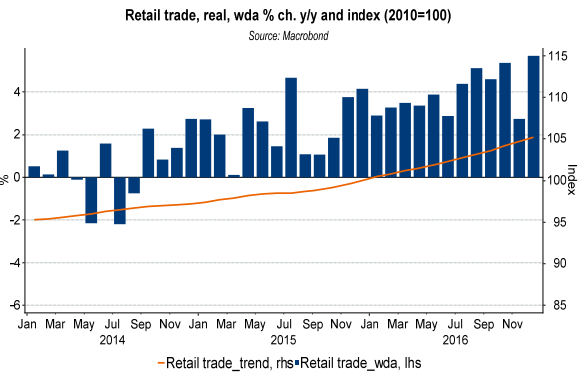
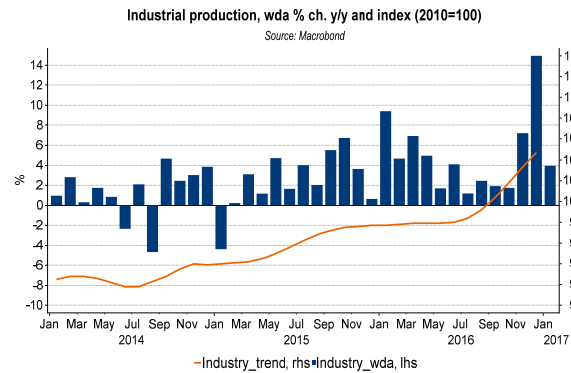
## Crobex up wow

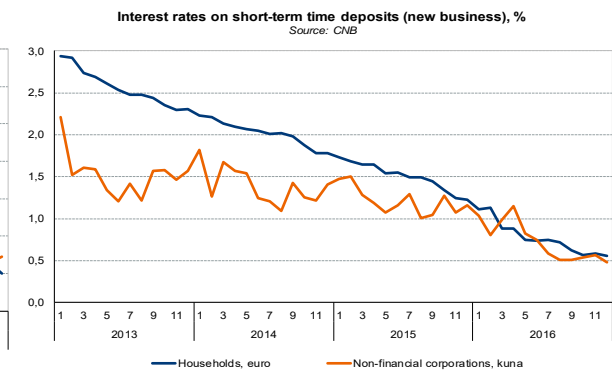
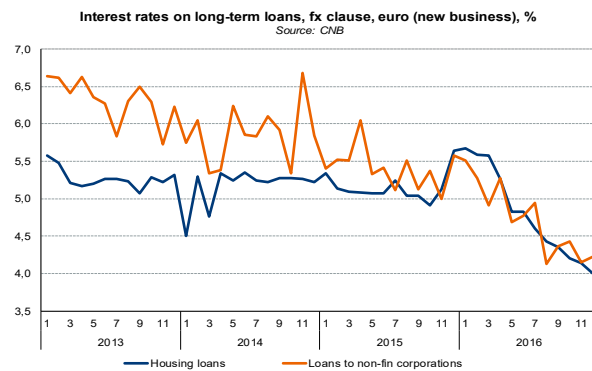
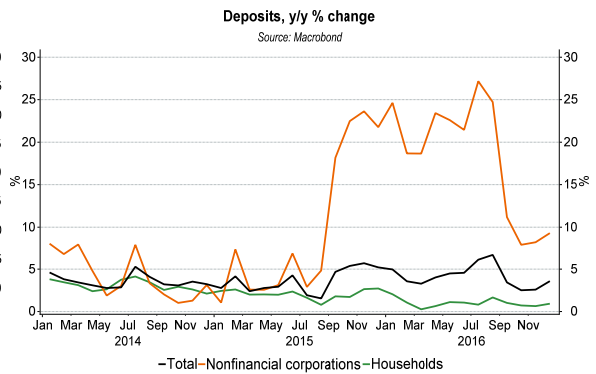
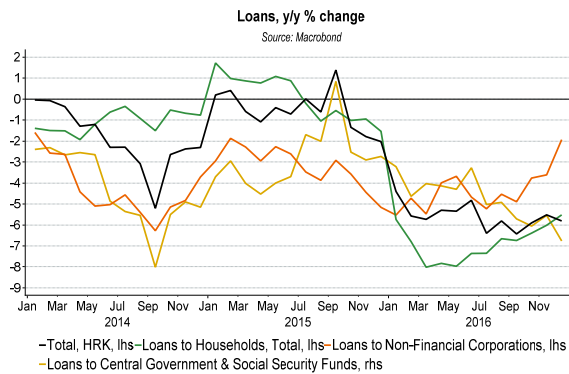
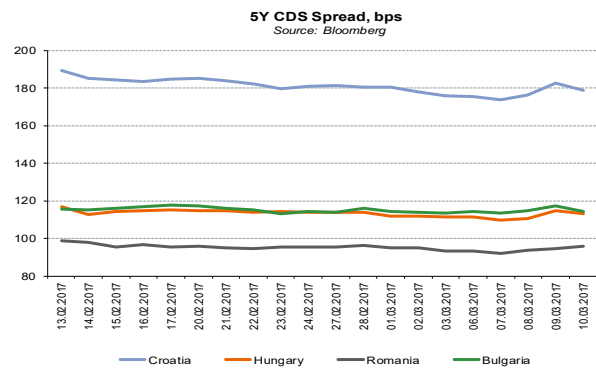
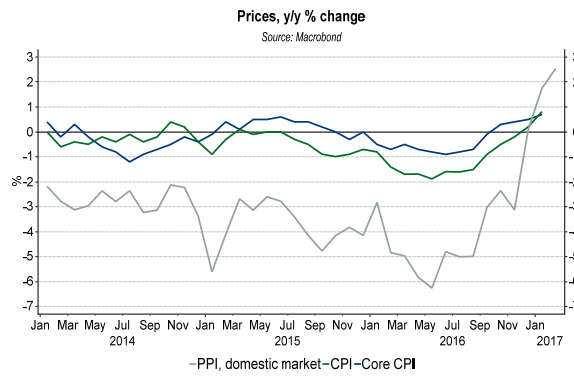
The total ZSE turnover amounted to 459.5 million kuna (+2.0% wow), where the turnover in bonds amounted to 375.9 million kuna (+12.7%) and the turnover in shares 83.6 million kuna (-28.5%). The Crobex index rose by 0.3% wow, closing the week at 2,225.09 points, while Crobis rose by 0.2% (to 110.83 points). As regards sector indices, CROBEXconstruct increased by 9.9%, closing the week at 931.80 points, while CROBEXtourist and CROBEXindustry closed the week dropping by 2.1% and

2.0% (to 3.726,34 and 1,290.60 points), respectively. On 20 March 2017, the Crobex and CROBEXtr indices will be revised and the shares of Imperial d.d., Luka Rijeka d.d., Varteks d.d. and TANKERSKA NEXT GENERATION d.d. will be excluded, while the shares of Maistra d.d., Viadukt d.d., Petrokemija d.d., Vukovarski poljoprivredno industrijski kombinat d.d. and Zagrebačka burza d.d. will be included in the above mentioned indices.



# Statistics





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