

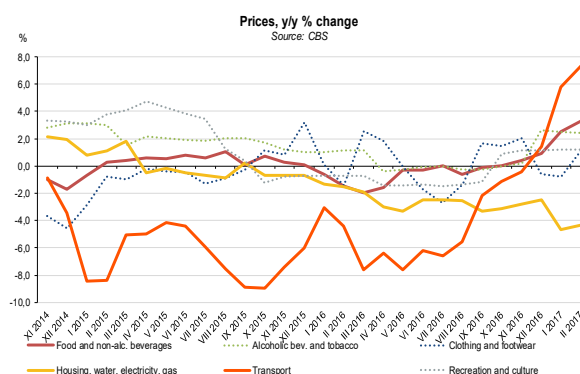
# PBZ Weekly Analysis

## Number 555, March 20, 2017

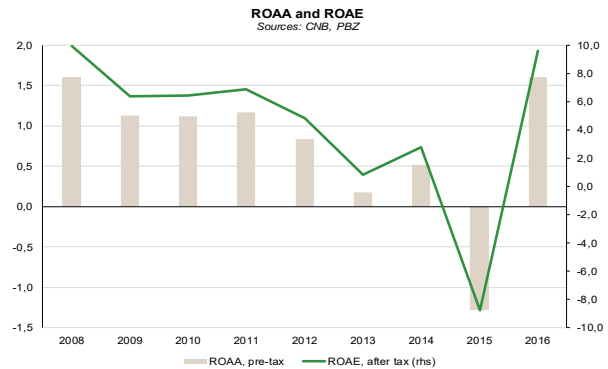
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## Weekly overview

- After increasing by 0.9% in January, the annual inflation rate in February accelerated to 1.4%, the highest level since August 2013 when the growth of the consumer price index stood at +1.9%. On a monthly basis, inflation in February increased by 0.2%, while the twelve-month average increased to -0.8%. The core inflation rate in the same month accelerated to 1.3% yoy (+0.7% in January), partially indicating stronger domestic demand. The largest positive contribution to the yoy growth of consumer prices came from higher prices of Transport (by 0.9 p.p. or +7.3%, of which fuels by +16.3%) and Food (by 0.9 p.p. or +3.5%, of which vegetables by +13.0%), reflecting higher prices of crude oil and food, while the prices of Housing, water, electricity, gas and other fuels (-0.7 p.p. or -4.4%, of which gas by -11.2%) and Communication (-0.2 p.p. or -2.7%) gave the largest contribution to the reduction of the consumer price index. Contributions of Alcoholic beverages & tobacco, Clothing & footwear, Recreation & culture and Restaurants & hotels was 0.1 p.p., while contributions from the categories of Furnishing, Education and Miscellaneous goods and services were absent.
- CBS confirmed the first estimate according to which the real-term retail trade index in January grew by 2.6% (wda) yoy, which resulted in a positive trend of yoy growth in real retail trade for the 29<sup>th</sup> month in a row, supported in one part by personal income tax changes introduced at the start of the year. At the monthly level, real retail trade decreased by 2.5% (s.a. and wda). Meanwhile, the real Retail trade of food, beverages and tobacco in January decreased by 1.5% yoy, while the real Retail trade of non-food products (automotive fuels excluded) increased by 6.9% yoy. According to the gross, unadjusted data, the nominal turnover in retail trade in January increased by 4.8% yoy, mostly because of (observing by branches) 18.8% growth in the category of Motor fuels and lubricants (with a 17.4% share in total turnover), which can be partially attributed to the higher oil prices, while growth in Non-specialised stores with food, beverages and tobacco predominating (38.4% share) was +1.7% yoy.



- Profitability of credit institutions improved last year, due to which profitability indicators reached the levels comparable to the levels recorded in 2008. Despite a 8.9% fall in interest income, net interest income in 2016 increased by 2.6% yoy, as a result of lower interest rates on time deposits and a decline in corporate and retail

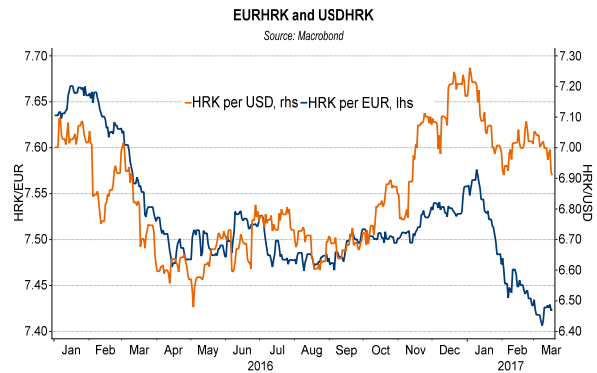


time deposits in banks as well as deleveraging of banks abroad, due to which interest expenses decreased by 24.6%. Net income from fees and commissions increased by 5.7%, mostly as a result of a cut in expenses on fees and commissions (-17.6%), since the income from fees declined by 2.2% (income from credit card fees -10.8%). Other income, including gains/losses from financial assets/liabilities, almost doubled, i.e. rose from 1.9 to 3.4 billion kuna, mainly as a result of the income from the sale of the bank stakes in Visa Europe Ltd. Thus, gross operating income jumped by 12.9%, whereas operating expenses fell by 1.1%, due to which net operating income rose by 30.2% yoy, while the cost/ income ratio dropped by 6.9 p.p., i.e. from 55.2% in 2015 to 48.3% in 2016. Total expenses on value adjustments and provisions decreased by 9.3 billion kuna, i.e. 77.6%, owing to the absence of conversion costs recorded in 2015 and the sale and write-off of loans (according to CNB data, banks sold gross claims worth 6.0 billion kuna last year, of which 4.4 billion kuna of claims on non-financial corporations and 1.4 billion kuna on citizens). The gross profit of banks thus reached 6.5 billion kuna in 2016 (net 5.1 billion kuna), therefore the return on assets amounted to 1.6% and return on capital 9.6%. This year will remain to be challenging for banks' operations, since a revival of demand for loans and greater interest for kuna loans exerts pressure on further lowering of interest rates on loans and encourages a more intensive raising of kuna funding, while, simultaneously, a balance sheet clean-up and the respective decrease in expenses on value adjustments and provisions continues.

### Dollar weaker following the Fed's decision

The Fed meeting last week brought the broadly expected raise in the fed funds target range by 25 b.p. up to 0.75-1.00% which induced the weakening of the dollar against the euro, and the market is currently focused on the next interest rate raise, possible as early as in June. The trading closed on Friday at 1.0738 dollar for the euro, up by 0.6% wow.

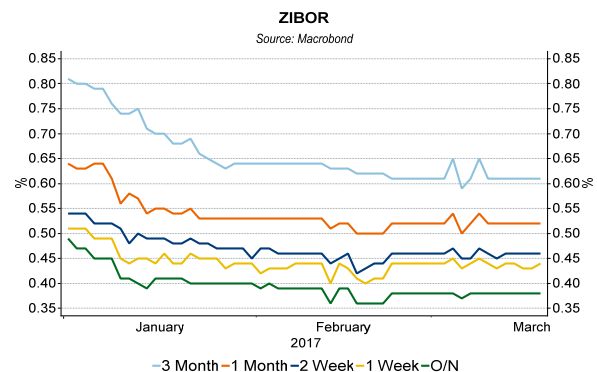
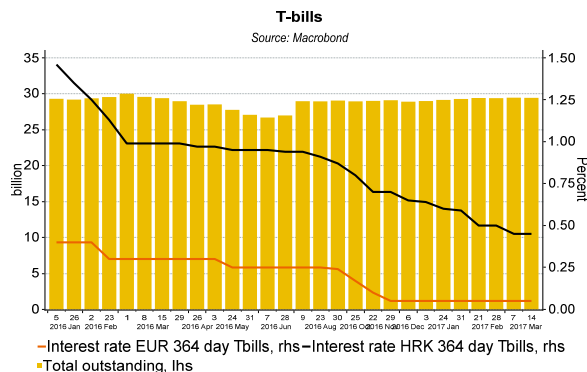
The government euro bond issuance in the beginning of the week resulted in a slight weakening of kuna, but until the close of the week the kuna strengthened and was traded at 7.41. The mid-exchange rate was on Friday 7.4242 kuna for the euro, unchanged wow. The kuna strengthened against the dollar by 1.3% up to 6.9101 kuna for the dollar. This week we expect the trading to continue in the range from 7.39 to 7.44 kuna to the euro.



## No change on money market

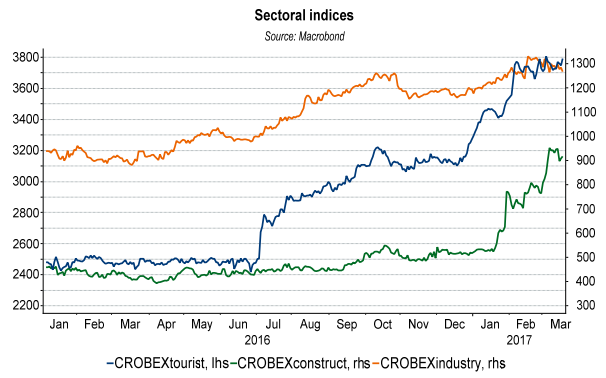
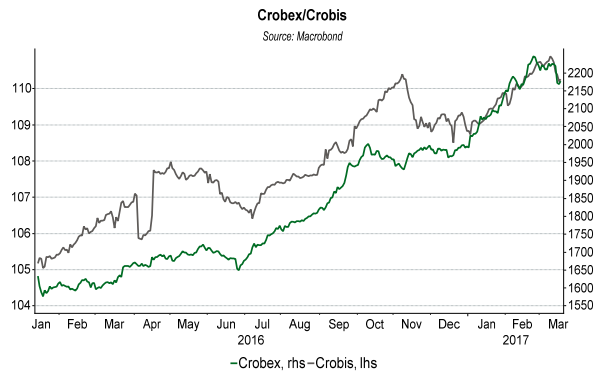
The liquidity remains at a record level and demand is weak, so interest rates remained unchanged on money market. The overnight Zibor remained at 0.38%, 1M at 0.52% and 3M at 0.61%. At the regular CNB reverse repo auction there was no demand the second week in a row, while the TNZ turnover was only 10 million kuna.

Last week 352 million kuna T-bills matured, and subscribed was 300 million, due to which the government debt under T-bills went down to 29.4 billion kuna. Subscribed were one-year T-bills with the 0.45% interest rate, unchanged compared with the previous issue. This week there will be no maturity and no auction.

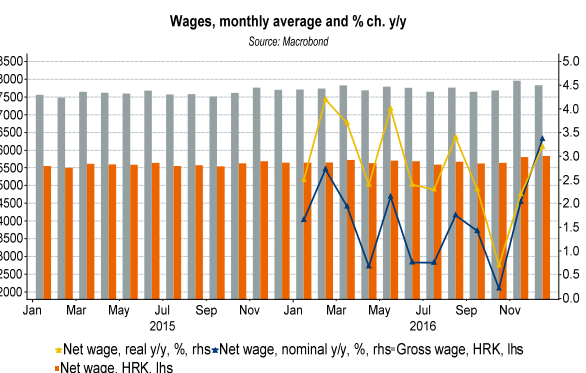
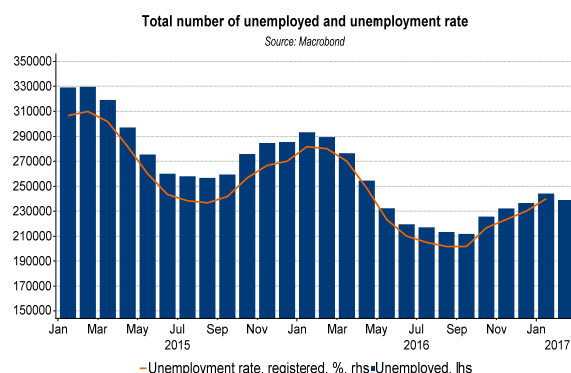
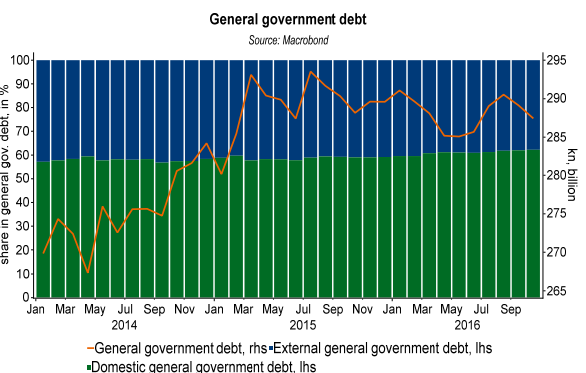
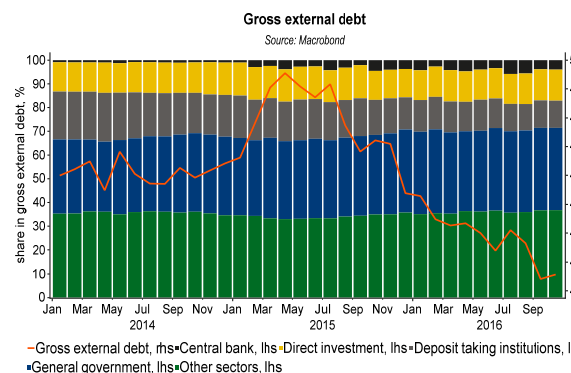
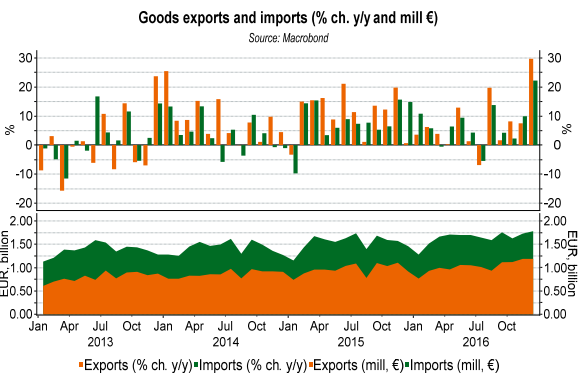
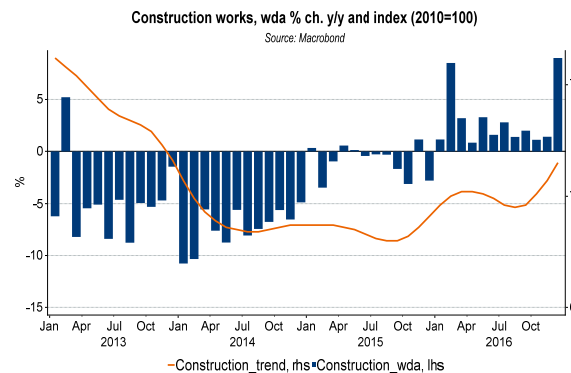
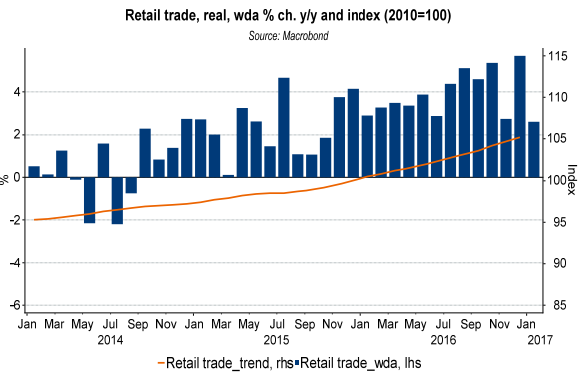
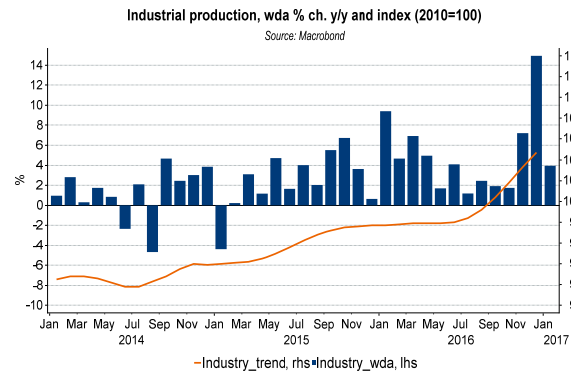


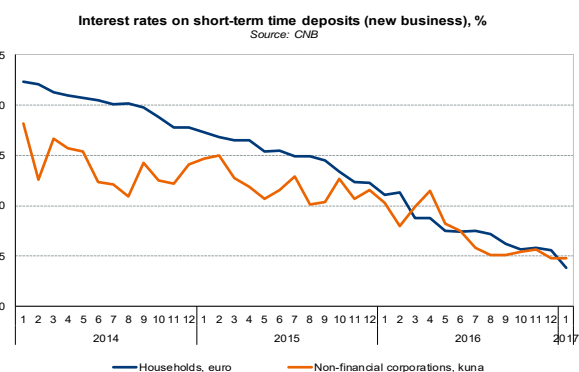
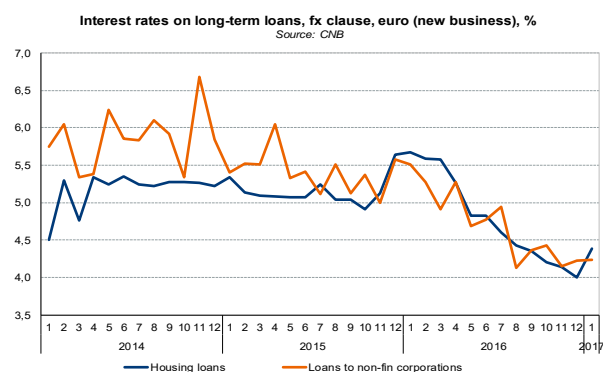
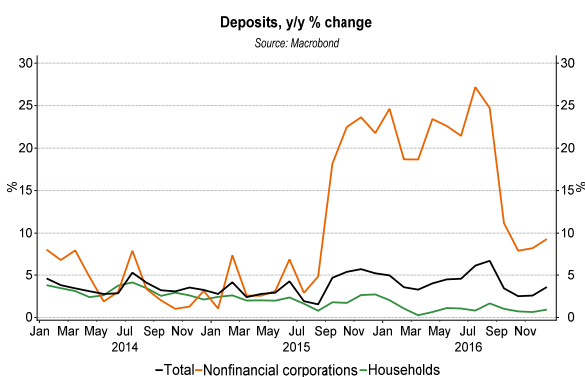
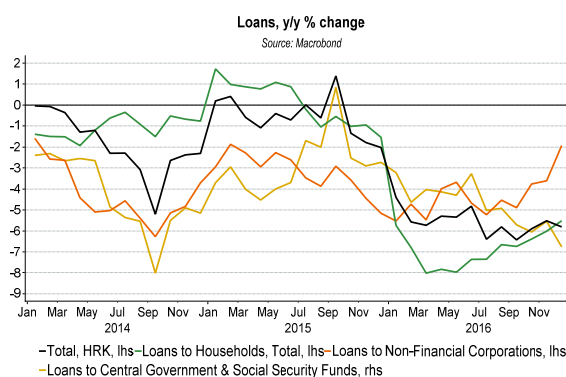
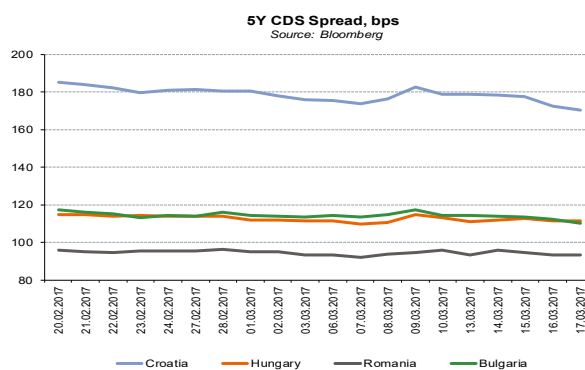
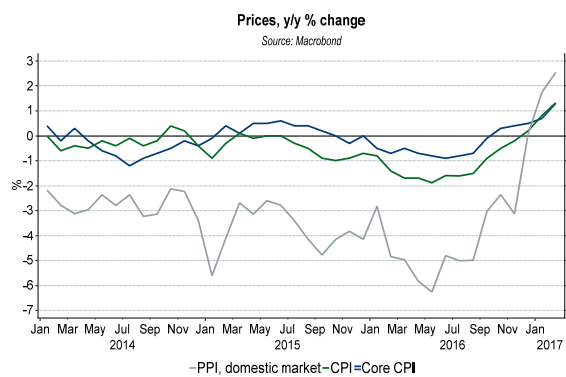
## Crobex fell wow

Crobex index fell by 2.2% wow and closed the week at 2,177.24 points, because of a fall in the prices of shares within the Agrokor concern (Jamnica -17.2%, Ledo -14.9%, Zvijezda -8.7%, Belje -7.2%), while Crobis closed the week at 110.26 points or 0.5% down wow. As regards sector indices, CROBExtourist closed the week at 3,790.95 points (+1.7% wow), while CROBExindustry (1,266.17 points) and CROBExconstruct (917.33 points) closed the week with a fall of 1.9% and 1.6%, respectively. The total ZSE turnover increased by 2.2 times (to 1.016 billion kuna), where the turnover in bonds increased by 2.3 times (to 862.7 million kuna) and the turnover in shares by 1.8 times (to 153.2 million kuna).



# Statistics





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