

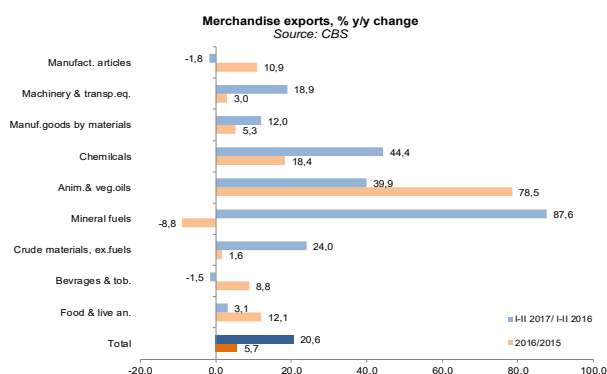
PBZ Weekly Analysis

Number 563, May 15, 2017

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Weekly overview

- Interest rates of banks continued their downward trend in the first quarter of this year, therefore interest rates on newly granted kuna loans in March dropped by 10 b.p. qoq for both loans to households and non-financial corporations, decreasing to 7.9 and 4.4%, respectively, on average. Interest rates on loans with a currency clause over the same period recorded a slightly stronger decrease which was around 60 b.p. for households and 40 b.p. for non-financial corporations, to 5.0% and 3.9%, respectively. The interest rate on kuna housing loans declined around 10 b.p. qoq, amounting to 4.4% on average in March, while the interest rate on housing loans with a currency clause dropped by 30 b.p., amounting to 3.8%. The analysis of loans to non-financial corporations according to amounts shows that the interest rate on loans up to 2.0 million kuna fell around 30 b.p. both on kuna loans and on loans with a currency clause, the interest rate on loans amounting to 2.0-7.5 million kuna fell by 50 b.p. for kuna and 30 b.p. for indexed loans, while interest rates on loans above 7.5 million kuna fell by 40 b.p. for kuna loans and 60 b.p. for kuna loans with a currency clause. Financing conditions for the corporate sector have been clearly improving, however, it is obvious that the strongest decline has been recorded by interest rates on loans to large corporations, where there is the highest possibility that loans of domestic banks will be substituted by foreign banks. The Bank lending survey shows that banks have planned a further relaxation on corporate credit standards for the second quarter, however, while the standards for small and medium-sized businesses will ease, those for large corporations might tighten. The survey shows that, regarding citizens, the trend of significant easing in the credit standards from the first quarter will continue in the next quarter as well, equally for housing loans and other retail loans. The fall in interest rates on loans has occurred simultaneously with the fall in interest rates on deposits. Thus, the interest rate on kuna and FX time retail deposits decreased by 20 b.p., amounting to 1.1 and 0.5%, respectively, on average in March, whereas the interest rate for non-financial corporations was unchanged on FX deposits and volatile on kuna deposits - since the interest rate in February amounted to 0.5%, the same as in December 2016, the interest rate in March jumped to 0.8% (+30 b.p. qoq). Over the upcoming months, we anticipate a continuation of a decreasing trend in interest rates, given high liquidity and low interest rates in the domestic and the Eurozone money market, a downward CDS trend for Croatia and the remaining private sector fragile demand as well as the growing competition among banks.
- The total exports of goods in February 2017 amounted to 8.1 billion kuna, up by 14.0% versus the same month last year, while the imports amounted 12.4 billion kuna i.e. up by 6.7% yoy. Thus, the foreign trade deficit decreased by 4.8% yoy (to 4.269 billion kuna), while the coverage of imports by exports



amounted to 65.5%, i.e. 4.1 percentage points more compared with February 2016. Over the first two months of 2017, versus the same period last year, the total exports of goods rose by 20.6% (to 15.6 billion kuna), the imports by 10.7% (to 23.7 billion kuna), whereas the foreign trade deficit declined by 4.6% (to 8.018 billion kuna) and the coverage of imports by exports increased by 5.4 percentage points (to 66.1%). According to sectors, the largest export was recorded in Mineral fuels and lubricants (by 826 million kuna or +87.6%) and Chemical products (by 782 million kuna or +44.4%), while the export of Food and live animals increased moderately by 50 million kuna (+3.1%). The exports in the EU countries (which accounts for 64.8% of the total exports of goods) rose by 15.1% (to 10.1 billion kuna), while the exports in CEFTA countries (with a 16.2% share in the total exports) increased by 28.8% (to 2.5 billion kuna, partly due to the application of the Protocol to the Stabilisation and Association Agreement between the EU and Bosnia and Herzegovina, enabling the duty-free export of food and agricultural products from Croatia to the BH market). The preliminary data for March indicate an increase in the exports of goods of 22.0% and the imports of 12.4% yoy.

Dollar and kuna stronger

The dollar partly recovered its losses against the euro, strengthening to 1.0931 dollar to the euro, down by 0.6% wow.

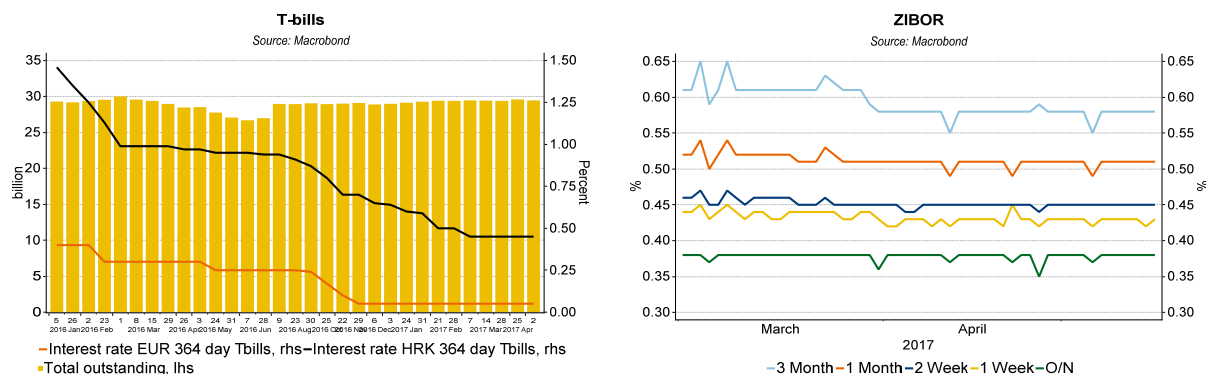
The appreciation of the kuna has slowly continued, so the mid-exchange rate on Friday amounted to 7.4211 kuna to the euro, down by 0.3% wow, while the kuna against the dollar weakened by 0.5% to 6.8258 kuna to the dollar. We anticipate trading this week in the range 7.40-7.45 kuna to the euro.



Money market unchanged

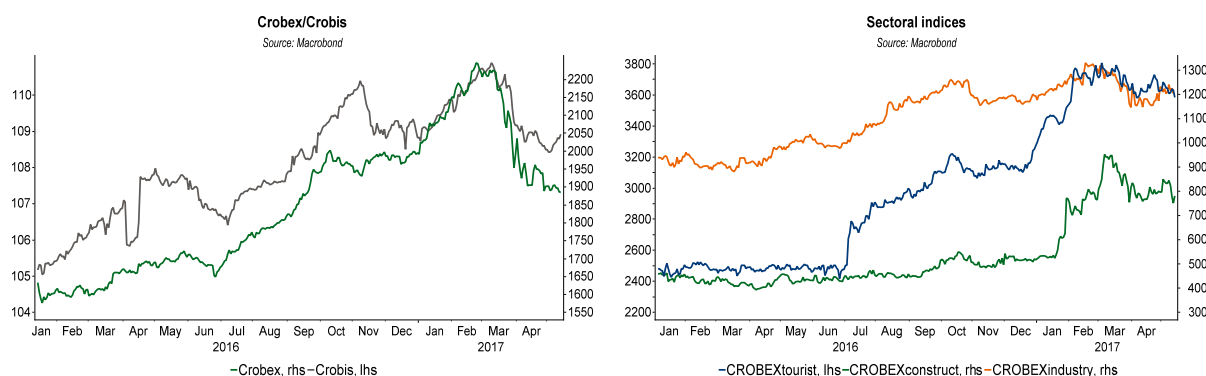
Although a new obligatory reserve maintenance period began last week, amid more than sufficient liquidity, interest rates remained calm; the overnight Zibor stayed at 0.38%, 1M Zibor at 0.51% and 3M at 0.58%. There was no demand at the CNB's regular reverse repo auction again, while the ZMM turnover barely amounted to 10 million kuna.

There was no maturity or auction last week, therefore the government debt under T-bills remained at 29.5 billion kuna. This week, there will be no maturity and no auction again.

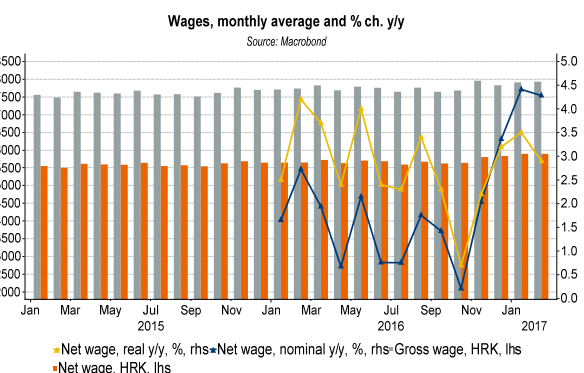
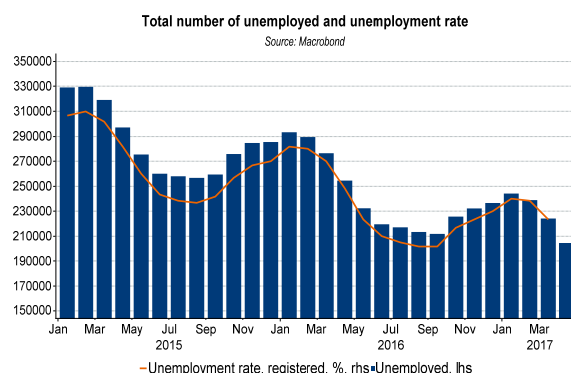
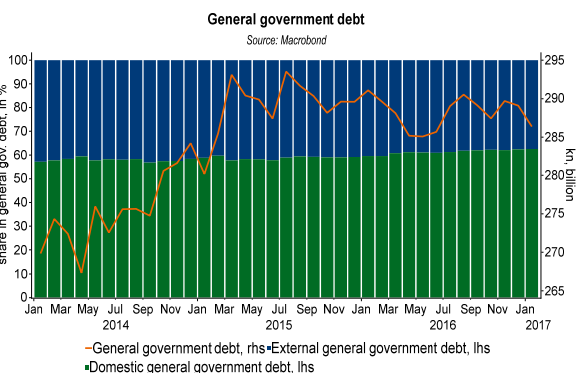
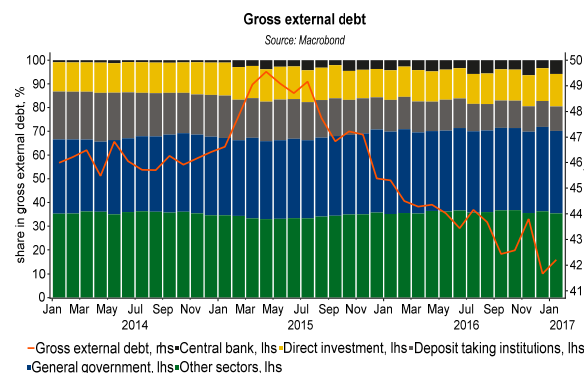
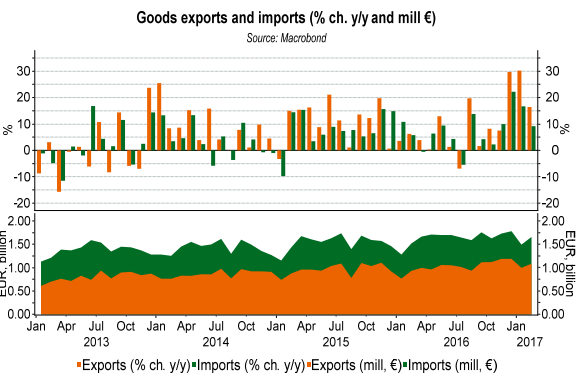
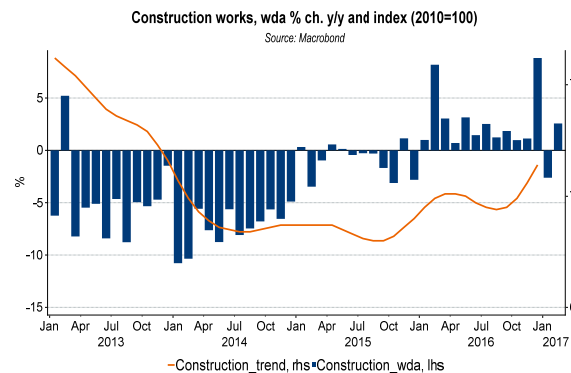
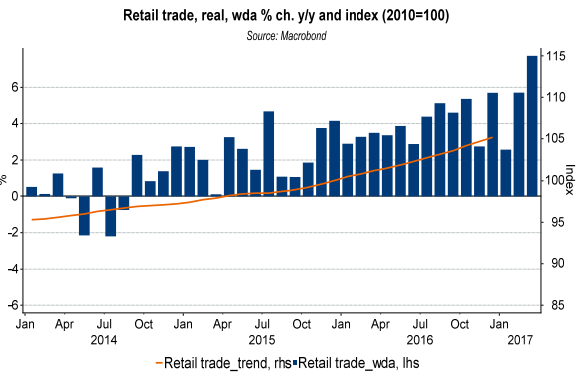
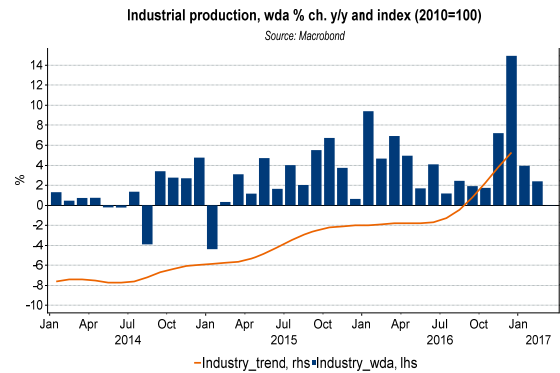


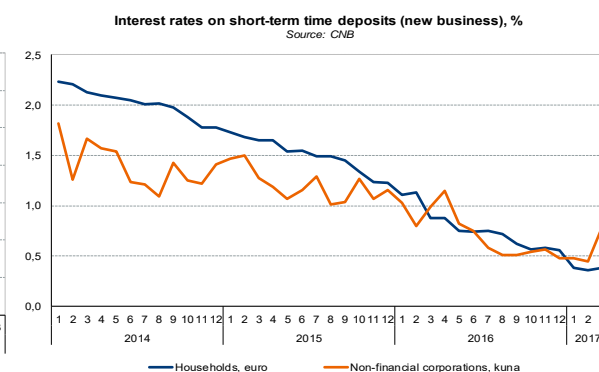
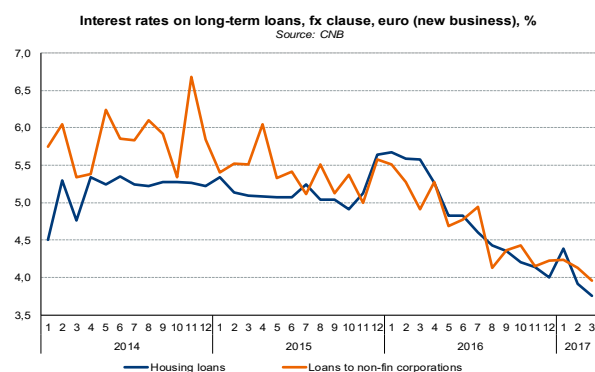
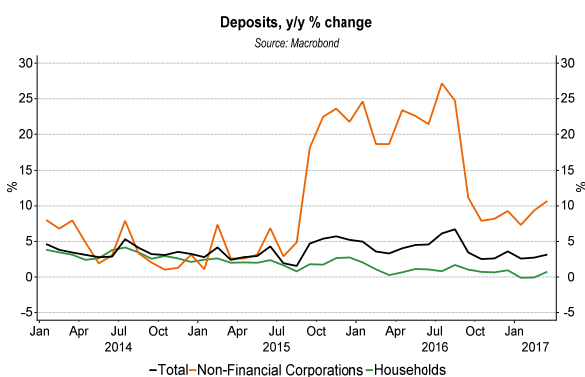
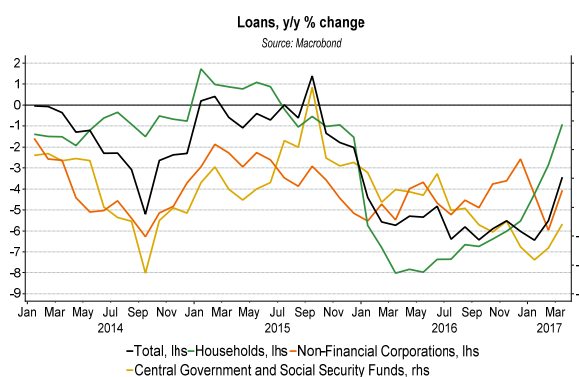
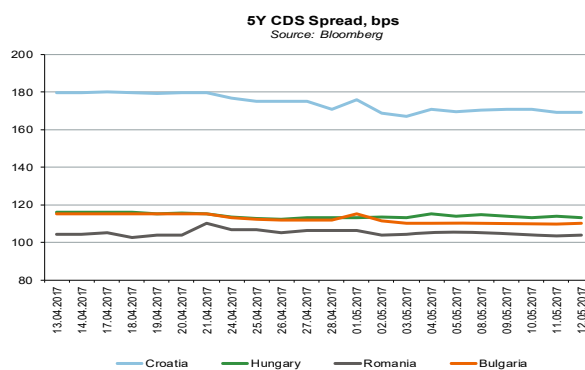
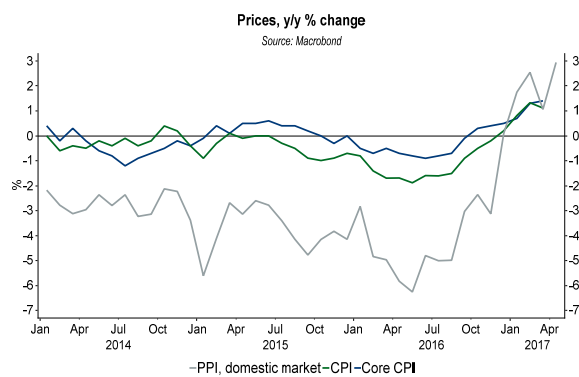
Crobex back in negative territory

The Crobex index closed at a 1.0% lower level wow on Friday, declining to 1,885.17 points, while Crobis rose by 0.3% (to 108.92 points). Sector indices ended in negative territory, where the largest drop was recorded by CROBEXconstruct, which closed at a 6.2% lower level of 780.88 points wow on Friday. CROBEXtourist closed at 3,582.42 points last week, i.e. down by 1.6% wow, while CROBEXindustry at 1,201.90 points, i.e. down by 0.7%. The total ZSE turnover amounted to 67.5 million kuna, i.e. down by 20.5% wow, due to a 55.2% lower turnover in bonds (to 28.3 million kuna), while the turnover in shares increased by 80.1% (to 39.3 million kuna). On 3 May 2017, the Index Committee adopted the Decision on an extraordinary revision, based on which the shares of Ledo d.d., Belje d.d. Darda and Vupik d.d. are to be excluded from the composition of the Crobex index after the close of trading on 19 May 2017.



Statistics





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