

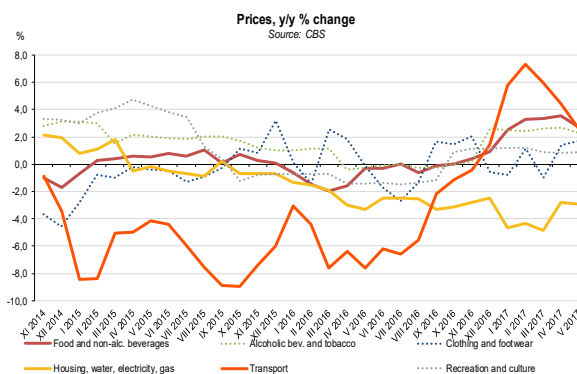
# PBZ Weekly Analysis

## Number 568, June 19, 2017

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## Weekly overview

- The consumer price index for May, due to slightly lower prices in the categories Transport and Clothing and footwear (both around -0.7%), declined by 0.2% mom (+0.5% in April). Consumer prices in May rose by 1.1% yoy, indicating a lower growth of prices versus April, when an annual inflation rate of +1.4% was recorded, which is mainly a result of a slightly lower growth of prices of Food (+2.7%) and Transport (+2.6%) compared with the month before, a larger decrease in prices in the category Housing (-2.8%), but also a moderately lower last year's base. Thus, the core inflation rate in May slowed down to +1.6% (from +1.7% in April). Over the first five months of 2017, compared with the same period last year, the average growth rate of consumer prices amounted to +1.2%, where the largest contribution to the growth came from higher prices of Food (by 0.8 p.p., i.e. +3.2%) and Transport (by 0.7 p.p., i.e. +5.2%, of which fuels by +11.6%), while the largest contribution to the decrease came from lower prices in the category Housing, water, electricity, gas and other fuels (by 0.6 p.p., i.e. -3.9%, of which electricity by -9.7% and gas by -6.8%). A notable growth of prices over the mentioned period was recorded in the category Restaurants and hotels (+3.7%, of which Restaurants, cafes and similar by +4.6%), which may mostly be a consequence of higher VAT rates in the catering industry introduced at the beginning of 2017 as well as higher tourism demand. This year, we anticipate an average inflation rate around 1.3%.
- The balance sheet of other MFIs increased by 0.7% yoy in April, thus recording the second consecutive month of growth, after more than a year of negative trends. The increase in the balance sheet is mostly a result of an increase in demand deposit by 26.3%, whereas kuna and FX savings decreased by 2.0 and 1.7%, due to which total deposits rose by 3.7%. Given the fact that amid a stable growth of more favourable financing sources such as domestic deposits with low interest expenses, the sale of assets and generous liquidity, the need for foreign financing has been reduced, foreign liabilities have continued to decline (-23.4%), as well as their share in total liabilities which hit the historically lowest 7.8% (in April 2016, it was 10.2%). Thus, the domestic MFIs over the past year, have become net creditors to foreign countries, whereas net foreign assets reached 5.6 billion kuna in April. The deposit growth was followed by a continuation of negative trends in the credit portfolio where total loans dropped by 2.6% due to deleveraging of the central government (-7.3%) and the sale and write-off of loans to non-financial corporations (-2.9%; 1 billion kuna of gross claims were sold in the first quarter), while loans to households modestly exceeded zero for the first time after June 2015, recording a 0.02% growth yoy. At the same time, data on transactions still present a considerably optimistic picture of demand, showing that the growth of claims on the

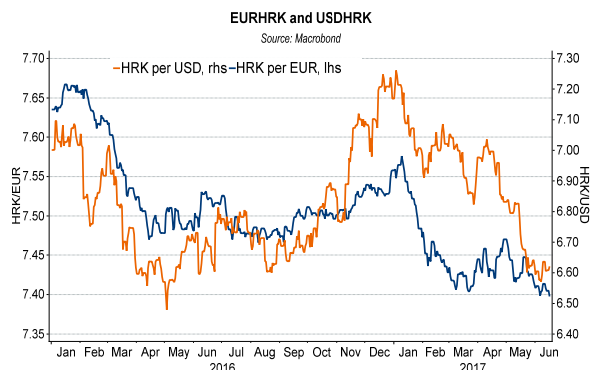


private sector has continued to accelerate slightly, reaching 1.2% in April yoy, where households with their 1.6% growth have exceeded non-financial corporations by 0.7%. For the rest of the year, we expect a push upward of the sale of non-performing loan portfolio, maintenance of a moderate pace of growth of the private sector demand and an accelerated growth of deposits during the season.

### FOMC raises interest rate, kuna below 7.4

The dollar weakened against the euro by midweek, in fact, by the release of the FOMC decision on an increase in the target range for the key interest rate. In line with the expectations, the range has been raised by 25 b.p. to 1.00-1.25%, however, one more rate hike is expected by the end of this year as well as three rate hikes next year and three in 2019. After the release, the dollar partly regained its losses, closing the week at 1.1198 dollar to the euro, unchanged wow.

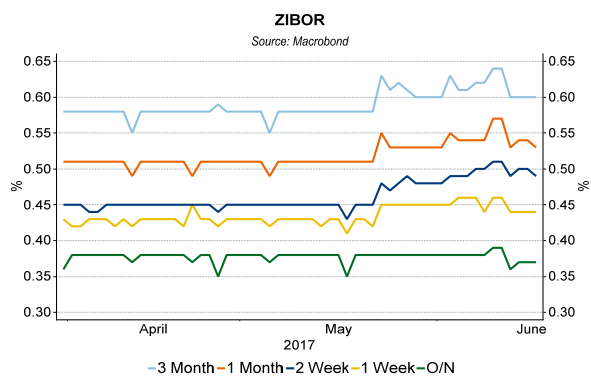
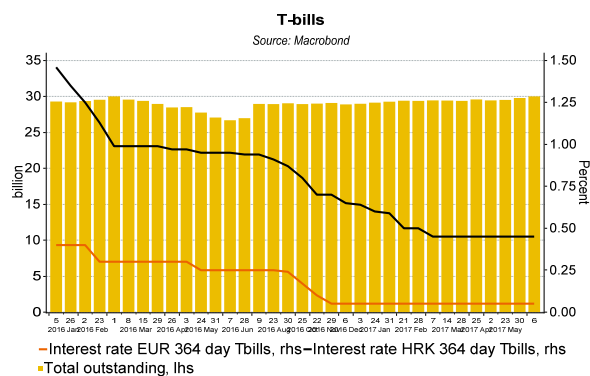
The pressures on the exchange rate are still strong, so the kuna ended the week below the level of 7.4, i.e. at 7.3978 kuna to the euro, down by 0.2% wow. Also, the kuna strengthened by the same pace against the dollar, so the exchange rate fell to 6.6211 kuna to dollar.



### Interest rates slightly down

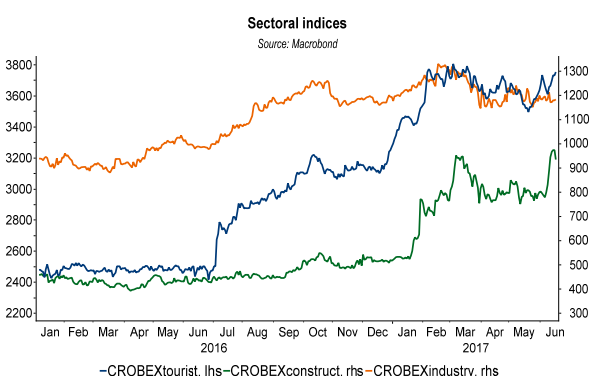
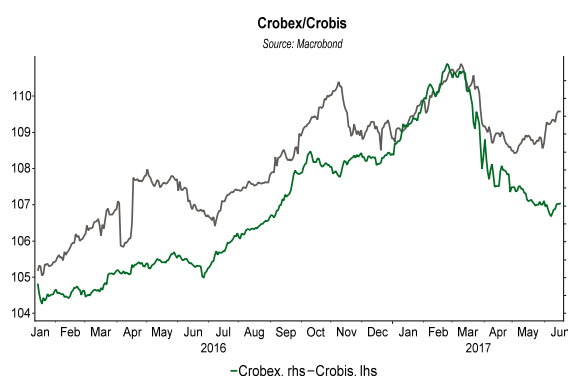
Liquidity reached approximately 17 billion kuna after the CNB's intervention, therefore, interest rates mildly decreased wow. The overnight Zibor dropped by 2 b.p. to 0.37%, while 1M and 3M by 4 b.p. to 0.53% and 0.60%. There was no demand at the regular reverse repo auction and the ZMM turnover barely amounted to 5 million kuna.

There was no maturity or auction last week, so the government debt under T-bills remained at 30.0 billion kuna. This week there will be no maturity and no auction again.

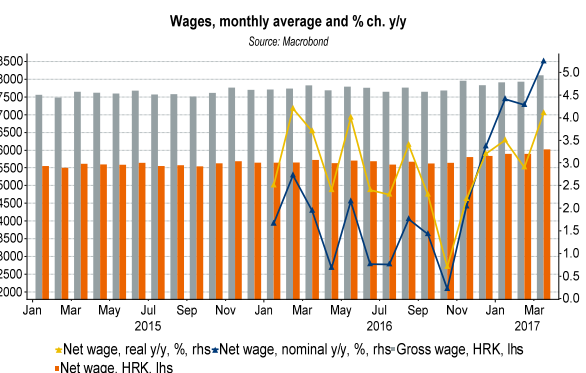
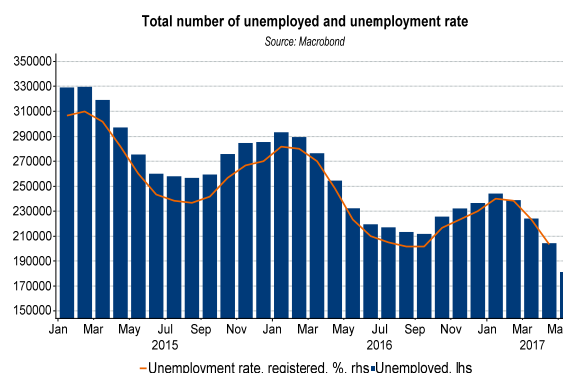
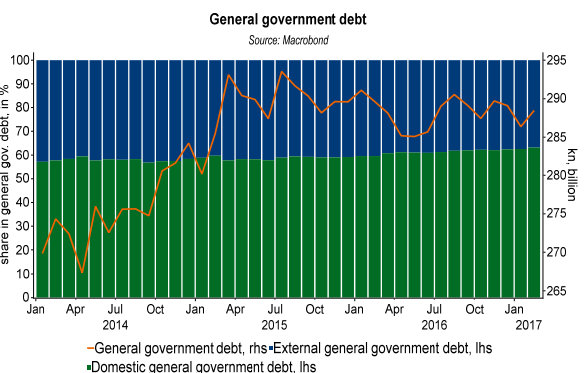
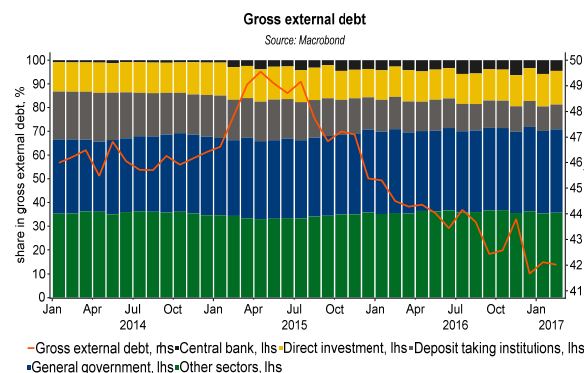
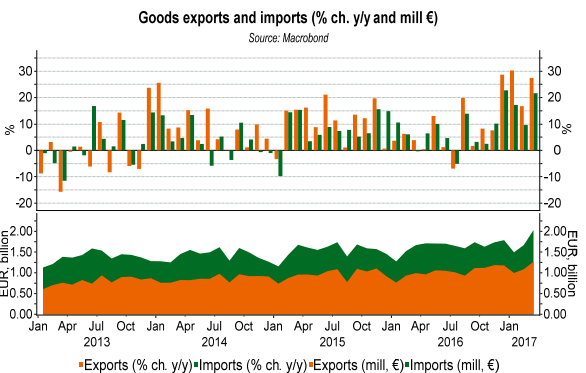
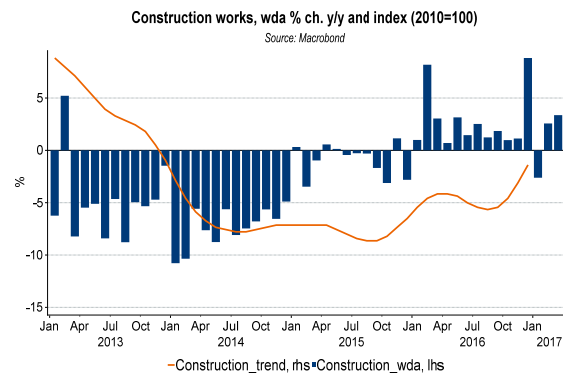
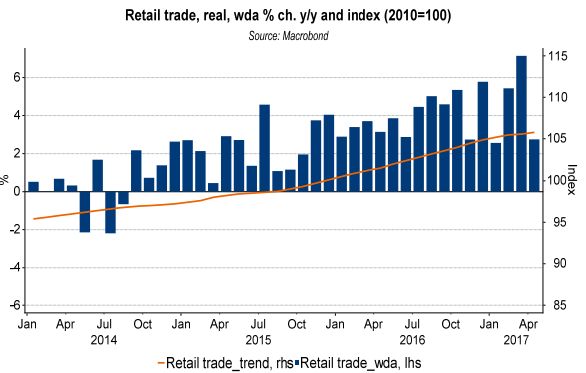
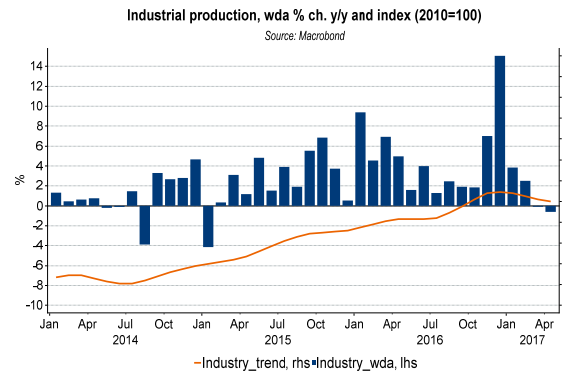


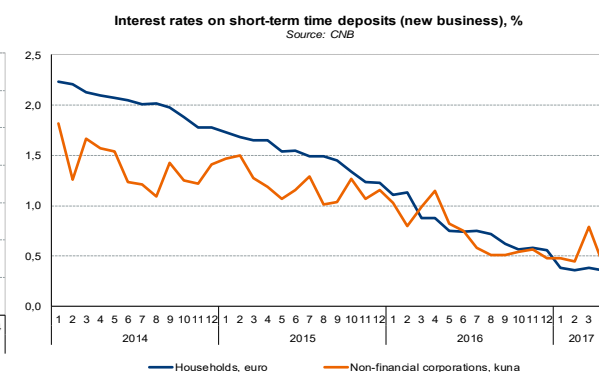
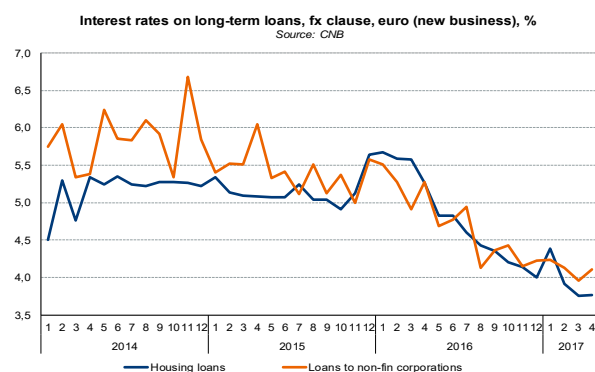
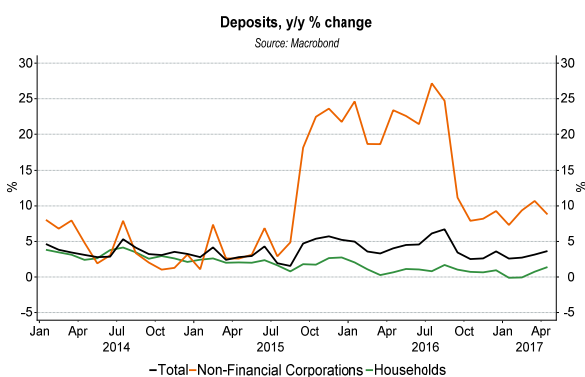
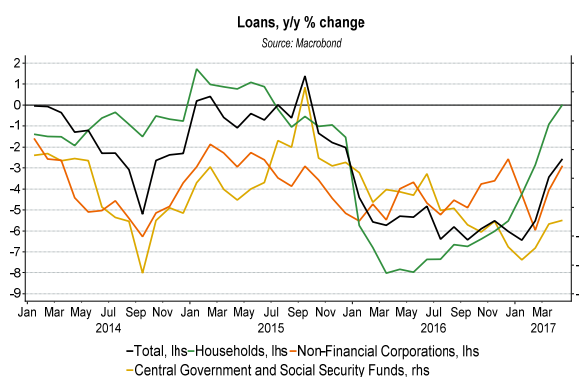
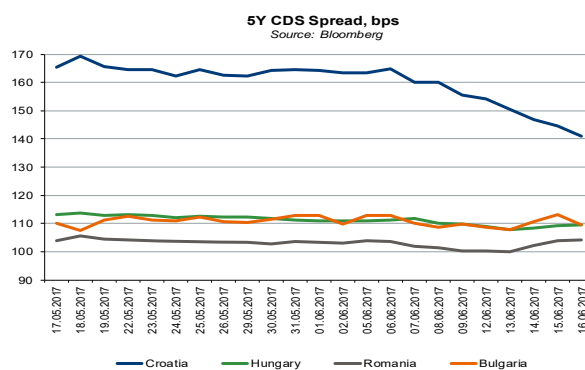
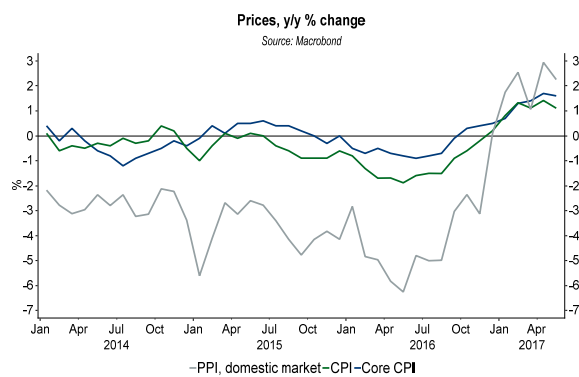
## Crobex up wow

The total ZSE turnover over the last week's four trading days amounted to 270.6 million kuna, which is down by 56.1% versus the week before, where the turnover in bonds amounted to 235.1 million kuna (-46.6%) and the turnover in shares 35.5 million kuna (-79.8%). The Crobex index closed at 1,857.87 points on Friday, increasing by 1.0% wow, while Crobis closed at 109.57 points, or up by 0.2% wow. As regards sector indices, CROBEXindustry closed the week decreasing by 2.4% (to 1,183.24 points) compared with the week before, whereas CROBEXconstruct (934.62 points) and CROBEXtourist (3,753.13 points) closed by increasing 5.2% on Friday, i.e. 2.7%.



# Statistics





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