

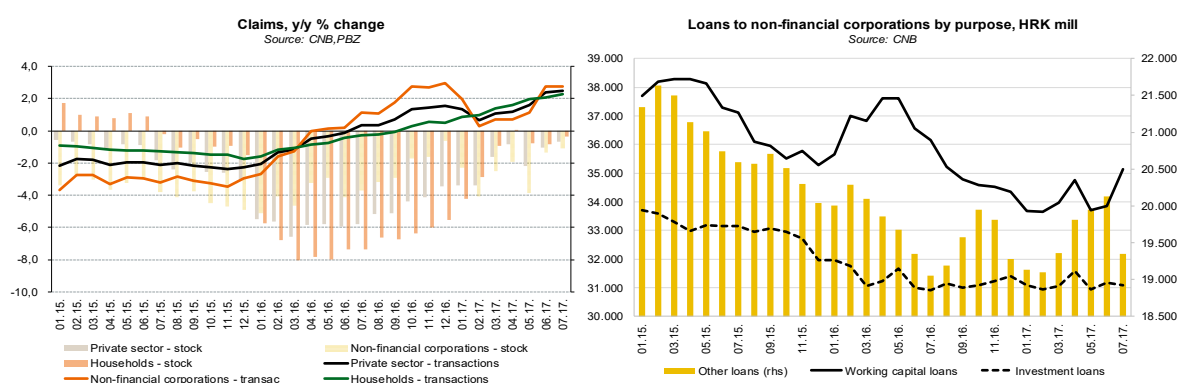
PBZ Weekly Analysis

Number 577, September 18, 2017

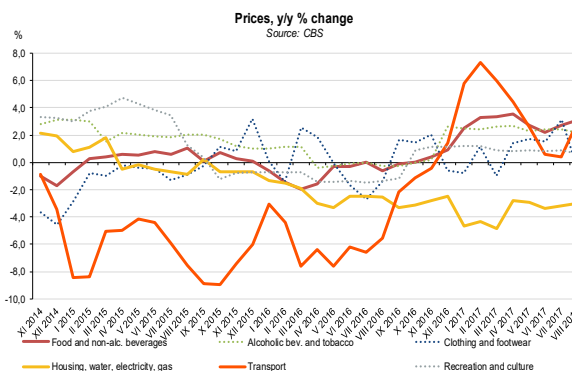
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Weekly overview

- Total loans decreased in July by 0.5% mom, or 3.3% yoy, due to the sale of claims, exchange rate movements and the central government deleveraging. Specifically, the rate of decrease of central government loans from central banks accelerated to -11.6%. A decline in loans to non-financial corporations in July slowed down to -0.6% yoy, which is a result of a recovery of investment (+0.6%) and other loans (+1.5%). Simultaneously, loans for working capital fell to 2.8% yoy, however they strongly increased by 3.8% mom, where FX euro loans jumped even by 30.0%. Loans to households in July recorded a slighter decline yoy versus the previous month, since the portfolio movements are still under a strong influence of the portfolio sale as well as a stronger kuna (the EUR/HRK exchange rate dropped by 1% yoy at the end of the month). Housing loans slowed down to -1.8% yoy (kuna +40.4%), overdrafts decreased by 7.4%, card loans by 3.5%, while other loans and cash loans rose by 0.8 and 3.9%, respectively (kuna +11.8%, +22.8%). According to transactions, claims on non-financial corporations and households are not abating, thus in July the growth in claims on the private sector advanced to 2.5% yoy, where claims on non-financial corporations reached 2.8%, while on households 2.3%. The growth of deposits in July was slightly lower compared with the previous month, amounting to 2.2% yoy, as a result of a slowdown in the corporate deposit growth. Household deposits increased moderately in July by 0.2% yoy and, when excluding the impact of the exchange rate change, we see an increase of around 1% yoy. The foreign exchange inflow from tourism halted the outflow of citizen FX deposits, therefore, in July euro FX savings and term deposits rose by around 50 million euro versus the previous month, while dollar savings deposits increased somewhat less than 30 million dollars. However, as interest rates on savings deposits are extremely low, it is most likely only a brief break. The attraction of the alternative forms of investments amid such environment is on the rise, so, over the first six months the number of stakeholders – natural persons in UCITS funds increased by 3.7 thousand, while net assets of UCITS funds held by natural persons increased by 2.6% at the end of July, versus the end of 2016. The yoy growth in deposits of non-financial corporations slightly slowed down to 6.9% in July, where kuna sight deposits advanced by 20.3% (+4.8% mom), which is a result of higher seasonal outflows.



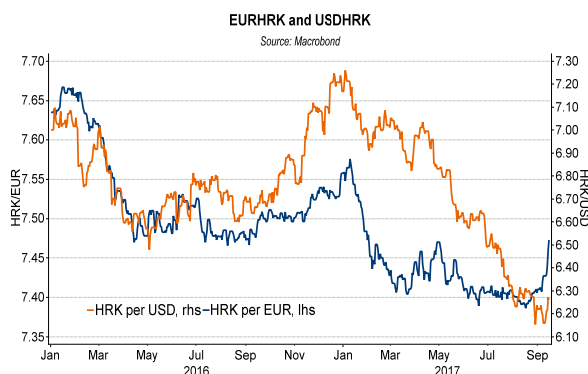
- The consumer price index in August rose by 1.0% yoy, whereas there was no change compared with the previous month. In August, the largest increase yoy was recorded in the prices of Restaurants and hotels (+6.0%), Food (+3.1%, of which milk, cheese and eggs by +7.8% and vegetables by +7.4%) and Transport (+2.9%, of which fuels by +5.7%), while the largest decrease was recorded in the category Housing, water, electricity, gas and other fuels (-3.0%, of which energy by -9.7%). The twelve-month average in August rose to +0.6% (+0.4% in July), while the core inflation rate dropped to +1.4% yoy (+1.7% in July). Over the first eight month of 2017, consumer prices increased by 1.0% on average versus the same period last year, where the largest contribution to the increase came from higher prices of Food (by 0.8 p.p., i.e. +3.0%), Transport (by 0.5 p.p., i.e. +3.7%, of which fuels by +8.0%) and Restaurants and hotels (by 0.2 p.p., i.e. +4.5%, of which Restaurants, cafes and the like by +5.4%), 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. or -3.6%, of which electricity by -9.7% and gas by -3.5%). In 2017, we expect the average annual inflation rate of 1.1%.



Dollar recovers, kuna weakens

Last week, the dollar partly regained its losses against the euro, thus trading closed at 1.1945 dollar to the euro at the end of the week, down by 0.8% wow.

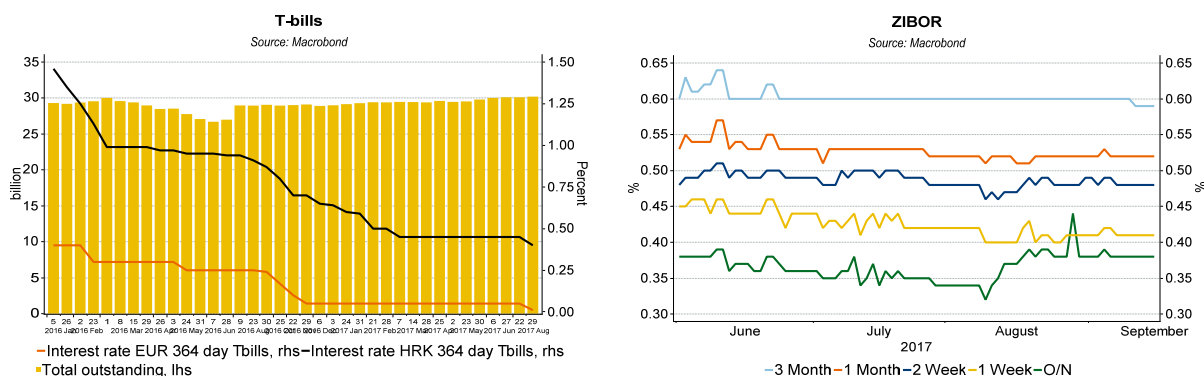
A gradual strengthening of depreciation pressures on the kuna continued, therefore the exchange rate increased by the end of the week to 7.4729 kuna to the euro, up by 0.6% wow. The kuna against the dollar weakened by 1.6% to 6.2613 kuna to the dollar.



Higher liquidity

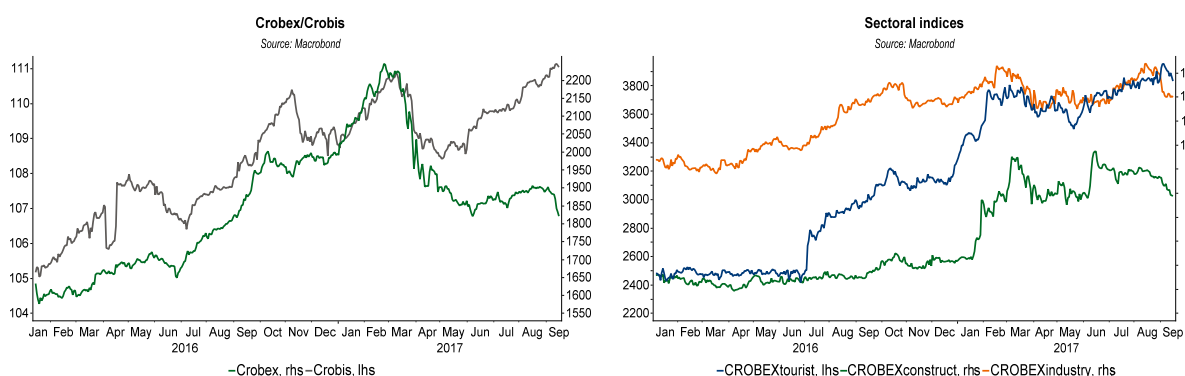
Last week, the money market saw an increase in excess liquidity, whereas interest rates recorded no major changes. The overnight Zibor remained at 0.38%, one-month at 0.52%, while 3M decreased by 1 b.p. to 0.59%. At the regular reverse repo auction, CNB injected 30 million kuna in the system at the fixed repo rate of 0.3%, while there was no turnover on the ZMM.

There was no maturity or auction last week, so the government debt under T-bills remained at 30.2 billion kuna. This week, there will be no maturity and no auction again.

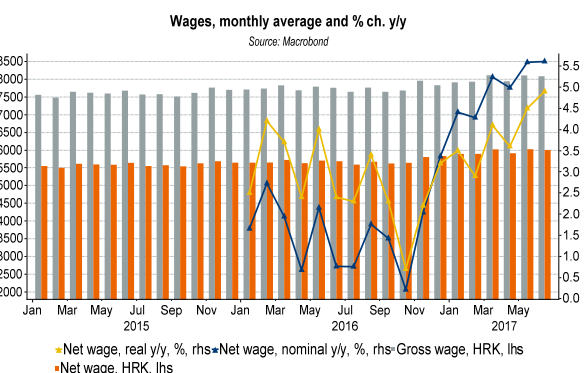
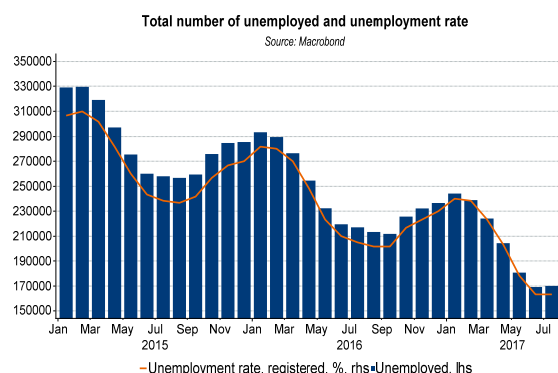
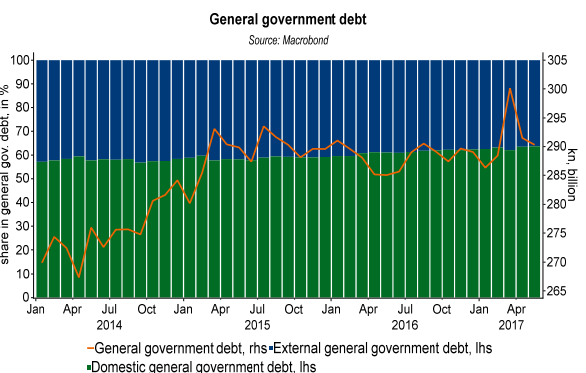
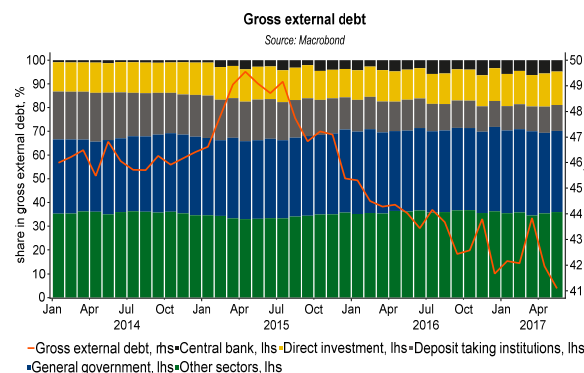
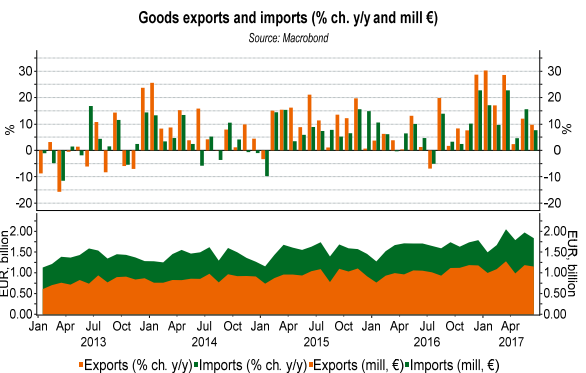
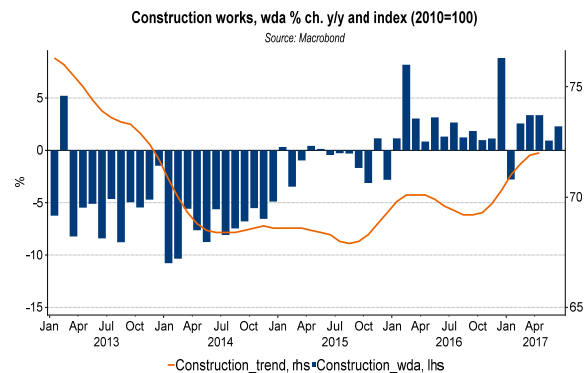
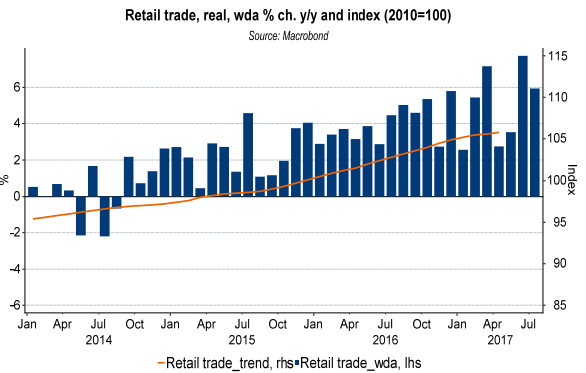
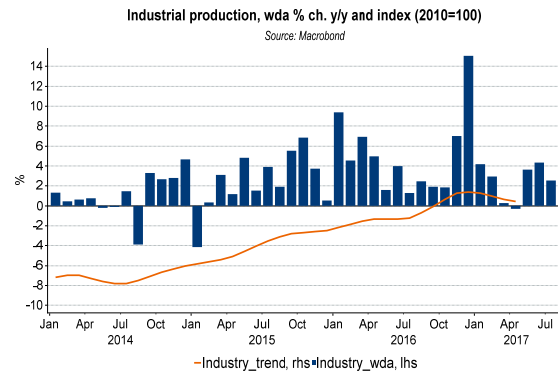


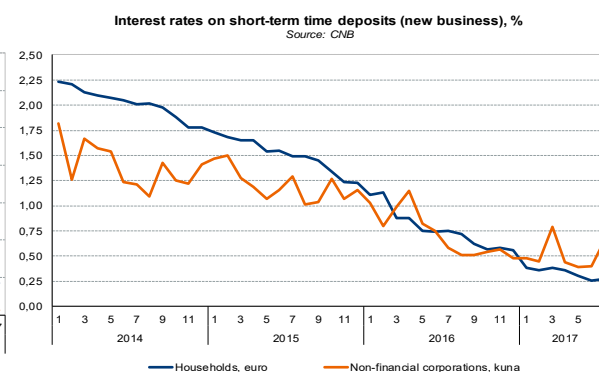
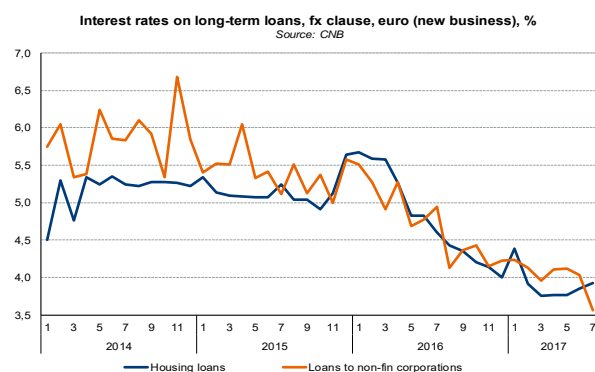
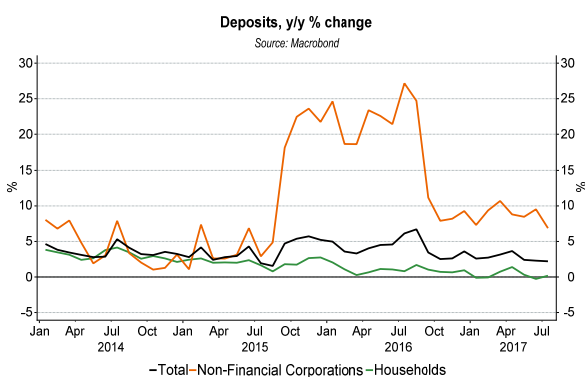
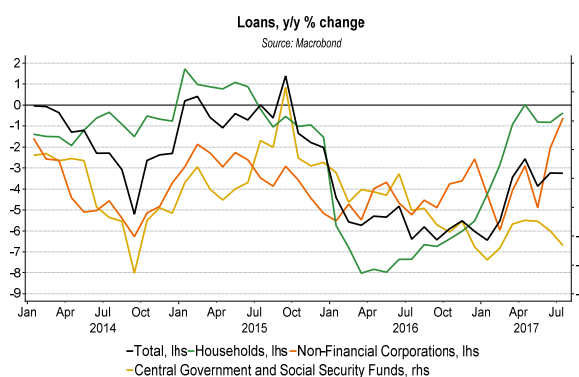
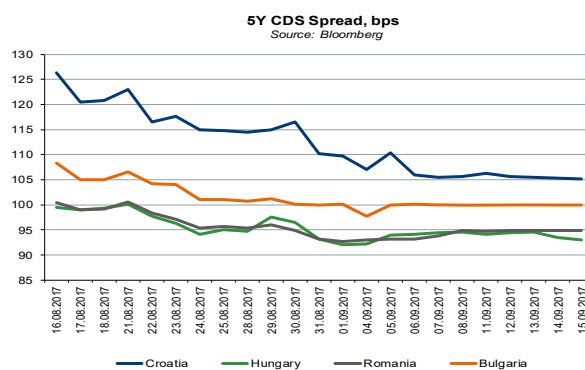
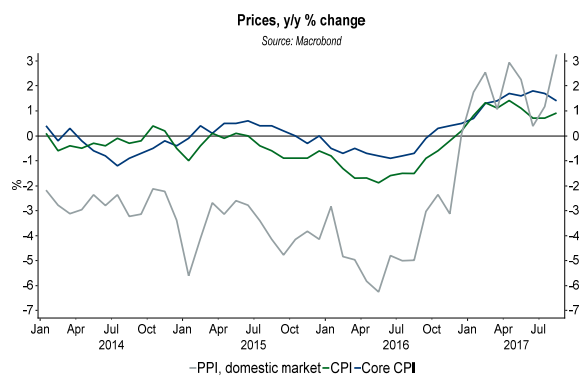
Crobex continues negative trend

The Crobex index closed at the level of 1,821.43 points last Friday, which is down by 3.3% wow, while Crobis closed the week at 111.04 points, i.e. unchanged wow. Sector indices ended in negative territory, where CROBEXconstruct declined by 3.4% wow, declining to 788.36 points, CROBEXtourist was down by 1.9% (to 3,832.91 points), while CROBEXindustry by 0.2% (to 1,198.93 points). Last week, the total ZSE turnover amounted to 233.2 million kuna, which is down by 69.8% versus the week before, where the turnover in shares fell by 29.7% (to 74.4 million kuna), while the turnover in bonds fell by 76.2% (to 158.8 million kuna).



Statistics





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