

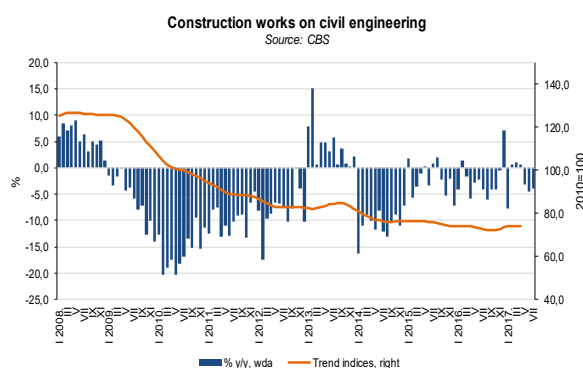
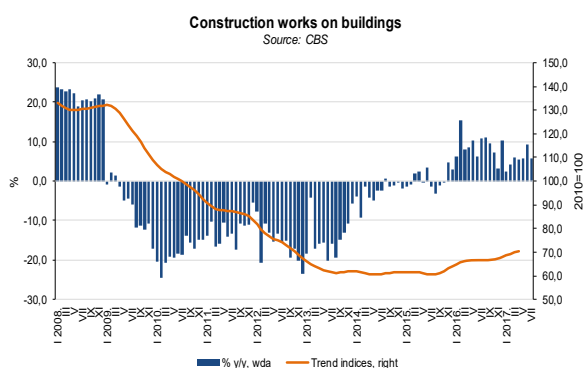
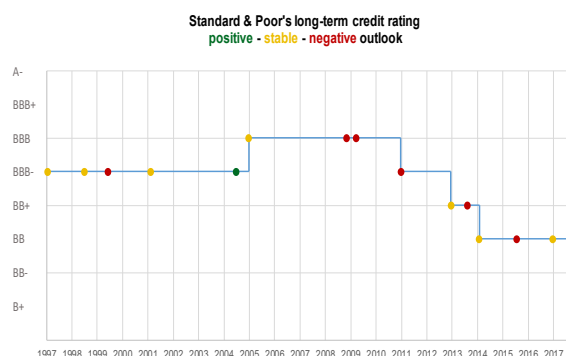
PBZ Weekly Analysis

Number 578, September 25, 2017

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Weekly overview

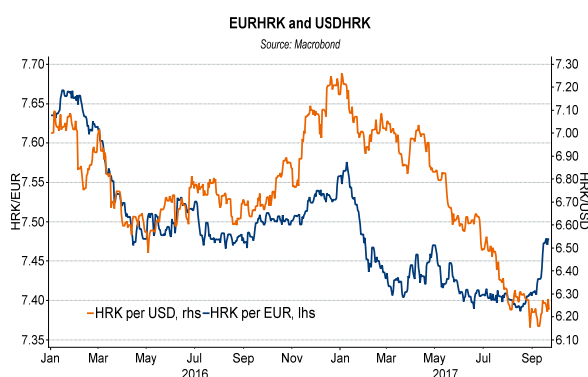
- On Friday, the Standard & Poor's rating agency revised the outlook on the Republic of Croatia's long-term debt in foreign currency and domestic currency from stable to positive, maintaining the rating at BB. The improved outlook reflects the expectations on the continuation of the economic growth (3% in 2017, 2.7% in 2018), which will positively affect the fiscal parameters, but with a simultaneous limited impact of Agrokor on the economy. S&P indicates in its statement that the improvement in the credit rating may occur if the economic growth continues and if the Government continues to show capability and willingness for implementing structural reforms, but also continues to carry out the defined fiscal adjustment. Let us remind ourselves that the Fiscal Policy Guidelines for 2018-2020 foresee the general government deficit of 0.8% in 2018, and 0.3% in 2019, while a 0.5% GDP surplus is planned for 2020, thus moving the public debt trajectory towards 72.1% of GDP in 2020 (78.3% in 2018, 75.3% in 2019).
- In July, the volume of construction works increased by 0.7% yoy (according to wda data), while the mom volume of works decreased by 0.9% (seasonally and working-day adjusted). The construction activity on buildings in July soared by 5.8% yoy, while the fall in the civil engineering works amounted to -3.9%. The economic growth, a better use of EU funds and increased investments, mainly in the private sector, resulted in a 1.6% growth in the construction activity over the first seven months of 2017 compared with the same period last year (I-VII 2016: +2.8%), where the growth in the activity was led by a 5.6% rise in the volume of construction works on buildings (I-VII 2016: +9.3%), whereas the volume of civil engineering works (infrastructural projects) declined by 2.4% (I-VII 2016: -2.9%). Although the volume of construction works over the first seven months of 2017 recorded a slightly more moderate growth versus the same period last year, the number of the issued building permits is encouraging, since it amounted to 5,361 over the first seven months of 2017, up by 28.3% yoy, where the anticipated value of works specified in the mentioned permits also strongly increased (+51.8%), reaching 15.4 billion kuna.



EUR/USD stable, kuna continues to weaken

The dollar moderately recovered after the FOMC meeting, where the possibility of an interest rate hike in December had been confirmed, however, the trend did not last long, therefore trading on Friday closed at 1.1951 dollar to the euro, which is up by 0.1% wow.

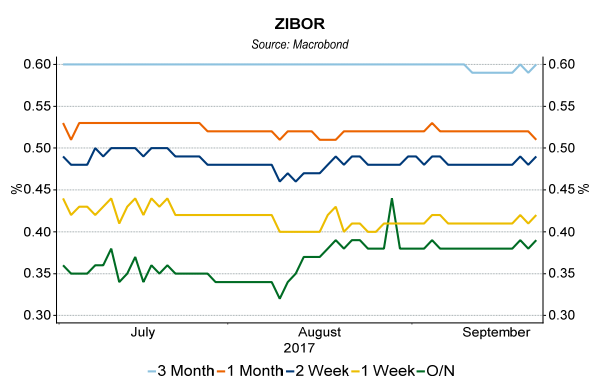
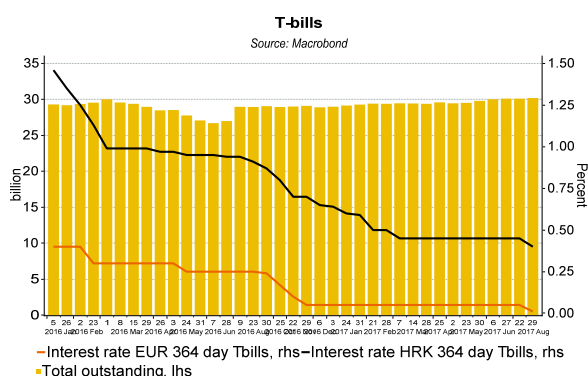
The EUR/ HRK exchange rate did not record major changes over the last week, amounting to 7.4774 kuna to the euro at the end of the week, up by 0.1% wow. The kuna against the dollar strengthened by 0.5% to 6.2317 kuna to the dollar. This week, we expect a continuation of a weaker kuna trend, with trading in the range 7.47-7.50.



Ample liquidity

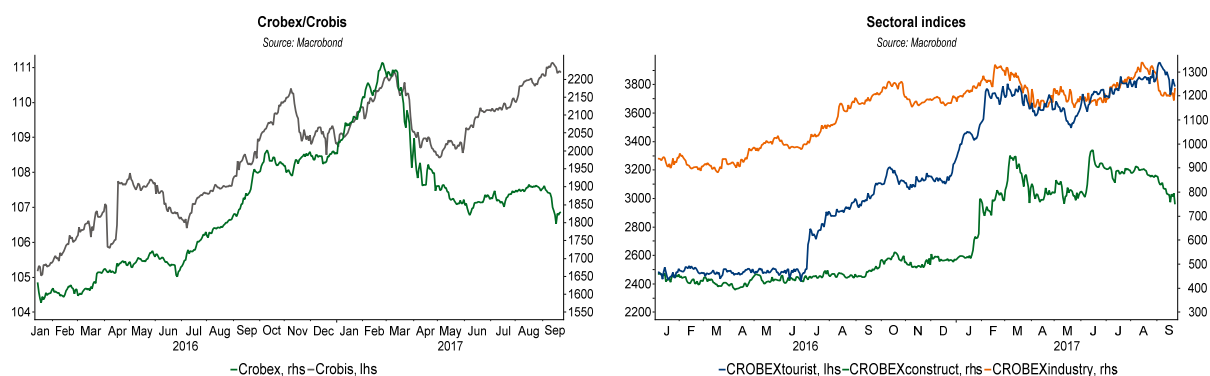
Last week, the money market saw weak demand and ample liquidity, where the excess was around 15 billion kuna, therefore interest rates recorded only minor changes wow. The overnight Zibor rose by 1 b.p. to 0.39%, 1M decreased by 1 b.p. to 0.51%, while 3M rose by 1 b.p. to 0.60%. At the regular reverse repo auction, CNB injected 30 million kuna in the system at the fixed repo rate of 0.3%, while there was no ZMM turnover.

There was no maturity or T-bill auction, so the government debt remained at 30.2 billion kuna. There will be no maturity or auction this week again, and we do not expect the next auction before the end of October when 1.4 billion kuna in T-bills will mature.

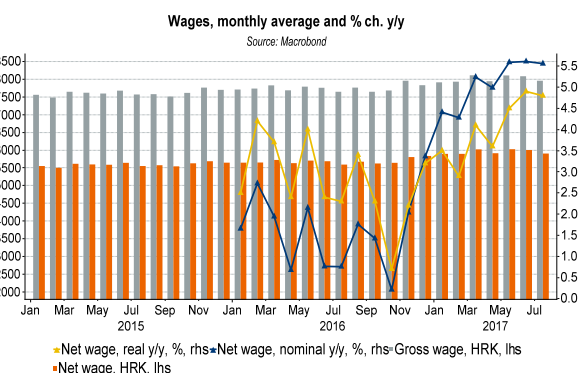
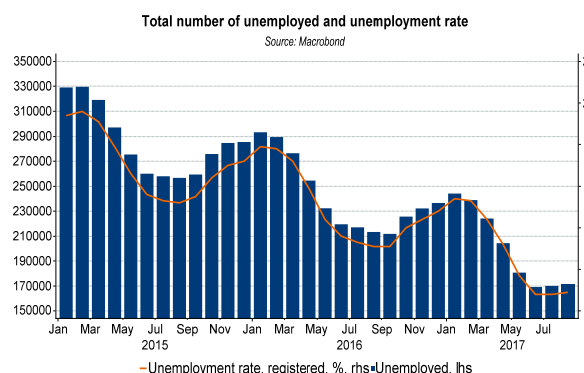
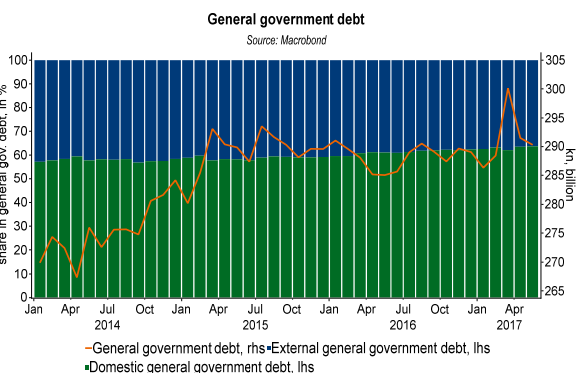
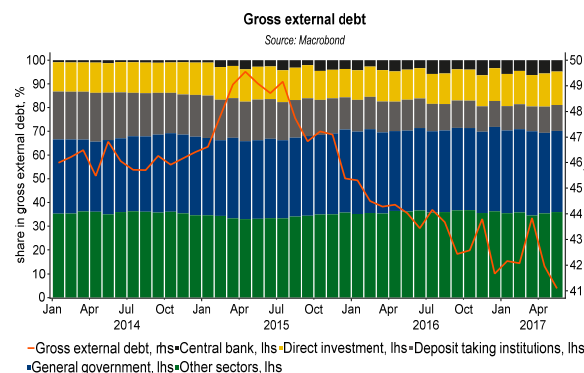
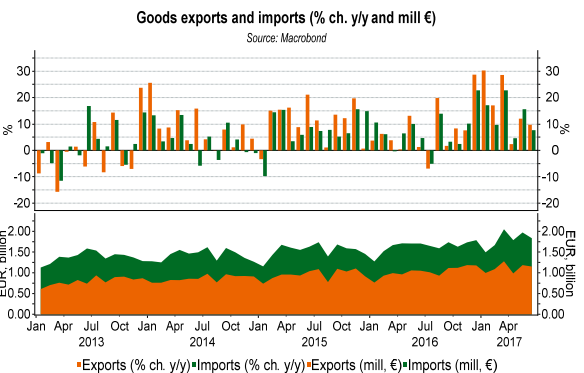
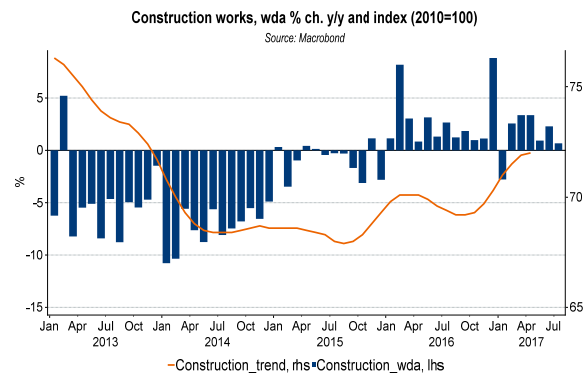
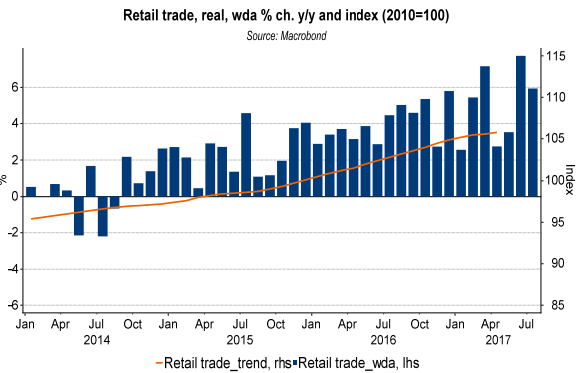
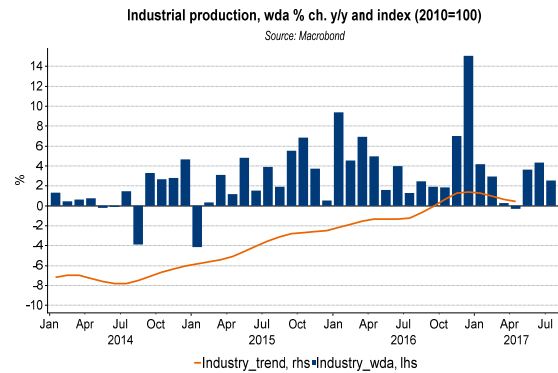


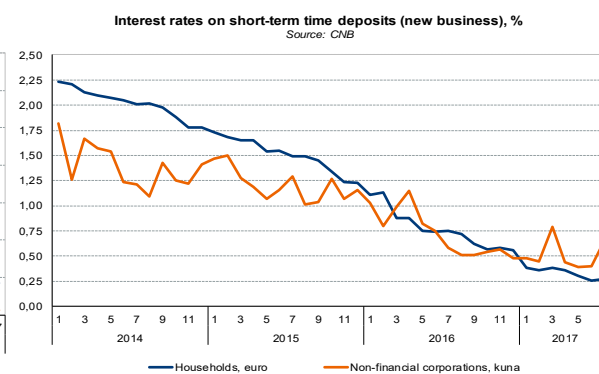
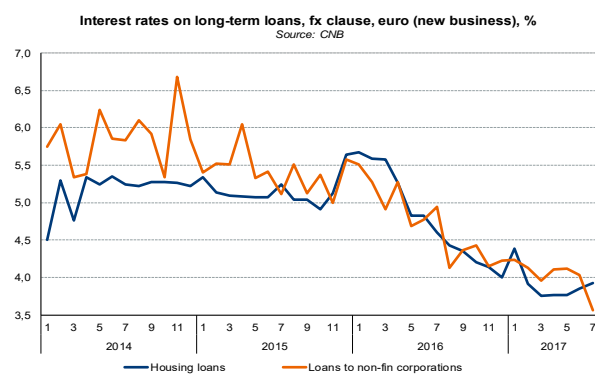
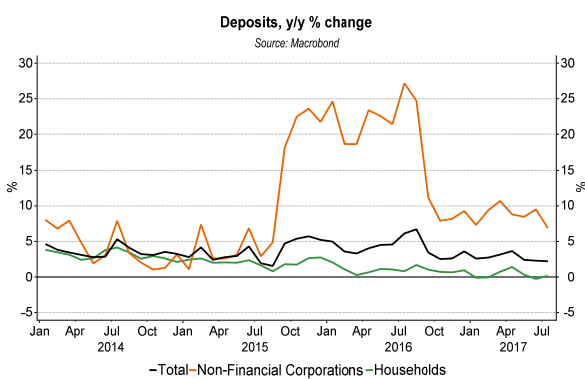
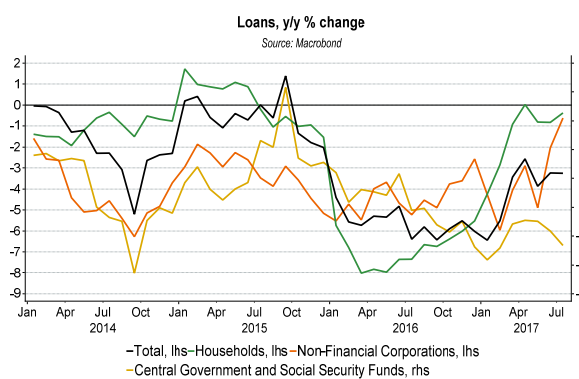
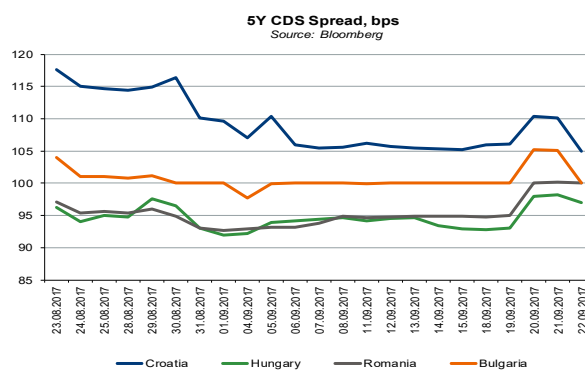
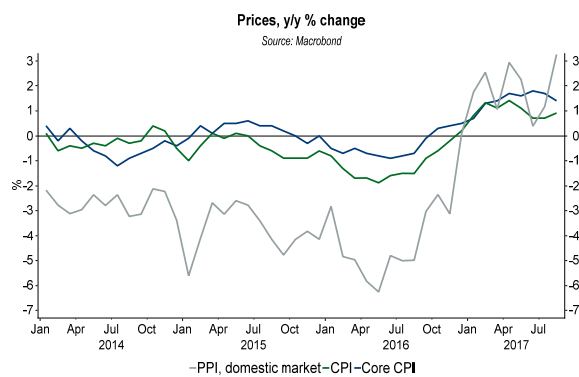
Crobex up wow

Last week, the total ZSE turnover amounted to 373.7 million kuna, which is up by 60.2% wow, due to 2.1 times higher turnover in bonds (which totalled 336.2 million kuna), while the turnover in shares fell by 49.6% (to 37.5 million kuna). The Crobex index closed last week up by 0.4% wow, reaching 1,829.42 points, while Crobis dropped by 0.2% (to 110.85 points). As regards sector indices, CROBEXindustry closed at 1,233.36 points on Friday, i.e. up by 2.9% wow, whereas CROBEXconstruct (749.22 points) and CROBEXtourist (3,786.45 points) closed last week down by 5.0% and 1.2%, respectively.



Statistics





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