

PBZ Weekly Analysis

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Weekly overview

- According to the first estimate of the Croatian Bureau of Statistics, the real growth of the gross domestic product for the third quarter of 2017 amounted to 3.3% versus the same period of 2016, the seasonally adjusted data show the growth of 3.2% yoy, i.e. 0.9% qoq, the same as over the previous two quarters.

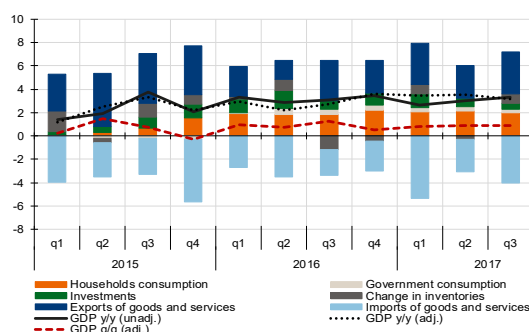
In accordance with the high-frequency

indicators criteria, the trends of which we regularly follow in PBZ Weekly analyses, growth rates of individual components of GDP have been recorded. Therefore, personal consumption recorded a solid increase of 3.7% again, while the growth of government spending speeded up to 2.3% versus the same quarter last year. Investments increased by 3.4% and thus maintained almost the same growth dynamics as in the previous quarter, however, over the first three quarters of this year, a considerable slowdown in growth dynamics was recorded versus the same period last year. The export of goods and services rose by 5.7% in the third quarter, where the export of goods rose by 8.9% and the export of services by 3.2%. The total exports simultaneously increased by 9.5% (goods +9.5%, services +9.4%) and the contribution of net foreign demand to the total growth was negative. The calculation of GDP according to the production approach shows that the growth rate of the gross value added amounted to 2.6% in the third quarter, which is a slightly faster growth versus the growth recorded over the first two quarters when GVA advanced at the rates of 2.3% and 2.2%, respectively. In the third quarter, GVA rose mostly in support service activities related to tourism (wholesale and retail trade, accommodation and food service activities, transport), by 5.2%, whereas in manufacturing GVA rose by 2.2% and in construction by 0.7% compared with the same quarter last year.

In accordance with the mentioned criteria and the revised growth rate over the first two quarters (1q from +2.5% to 2.6%; 2q from 2.8% to 3.0%), there is a possibility that the total annual GDP growth rate slightly increases our estimate (2.9%).

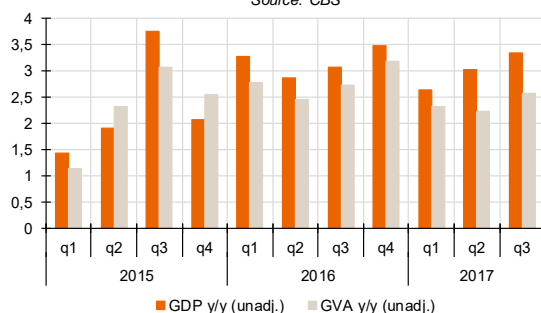
GDP growth (in %) & contributions to growth (in p.p.)

Source: PBZ



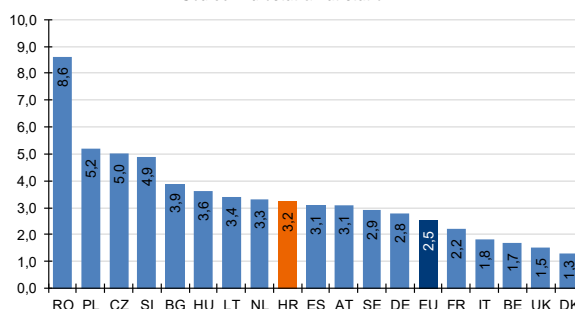
Croatia: GDP & GVA, y/y % ch. (unadj)

Source: CBS

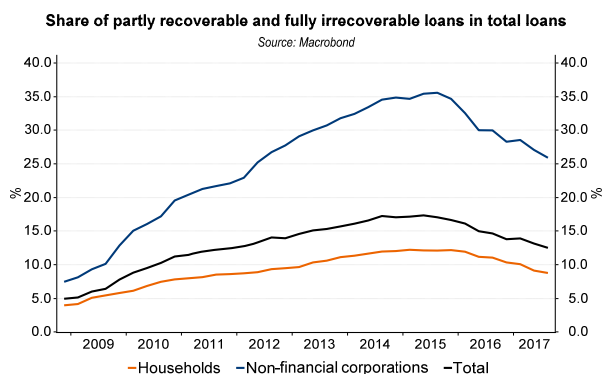


GDP - third quarter y/y growth rate (adj.data)

Source: Eurostat & nat.stat.off.



- A positive trend of improvement in the credit portfolio quality continued in 3Q, where the share of partly recoverable and fully irrecoverable loans in total loans dropped by 0.7 p.p. qoq to 12.5% (private sector: -0.7 p.p. to 16.1%). A decreased share of non-performing loans was recorded both in the corporate portfolio and the retail

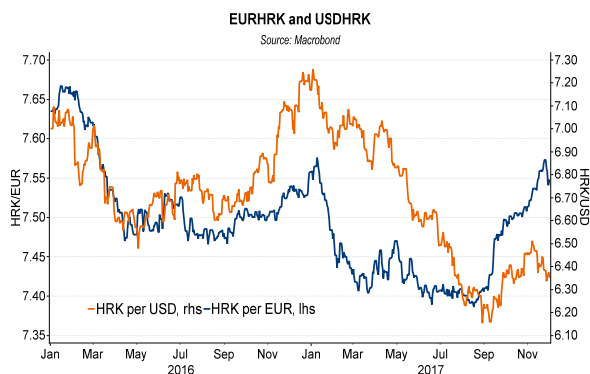


portfolio, as a result of the continued increase in new loans (which are of better quality than older loans), economic recovery and sale of claims. The share of partly recoverable and fully irrecoverable loans in total loans to non-financial corporations decreased by 1.2 p.p. to 25.9%, while the largest contribution to the decrease came from a reduced amount of non-performing loans in the category of other activities (Agrokor holding), where the share decreased by 7.7 p.p. compared with the previous quarter, amounting to 20.3% at the end of September. A positive trend was also recorded in construction, where the share was down by 1.0 p.p., declining to 63.0%. Other significant categories saw a negative trend: manufacturing +0.7 p.p. to 22.9% (the growth of share and amount is most likely related to the restructuring of Agrokor), wholesale and retail trade +0.1 p.p. to 25.5% (however, the amount of NPLs decreased), accommodation and food service activities +0.2 p.p. to 13.1%. The share of retail loans dropped by 0.4 p.p. to 8.8%, while the analysis by purpose shows that the share of bad loans in housing loans fell by 0.7 p.p. to 6.5%, cash loans by 0.1 p.p. to 6.3%, card loans by 0.1 p.p. to 2.5%, and overdrafts by 0.1 p.p. to 6.5%, while the share in other loans increased by 0.8 p.p. to 33.4%. The total capital ratio of credit institutions dropped from 23.3% recorded in June to still substantially high 22.7% in September, whereas the ratio of coverage of bad loans by capital, Texas ratio (net non-performing loans/capital), further improved, declining by 1.9 p.p. qoq to 21.5%.

Dollar stronger, pressures on kuna reduced

Dollar strengthened against the euro, backed up by the U.S Senate adoption of the proposed tax changes, but also the favourable economic indicators which have strengthened market belief that the Fed will raise its key interest rate at the December meeting. At the end of the week, trading closed at 1.1896 dollar to the euro, down by 0.3% wow.

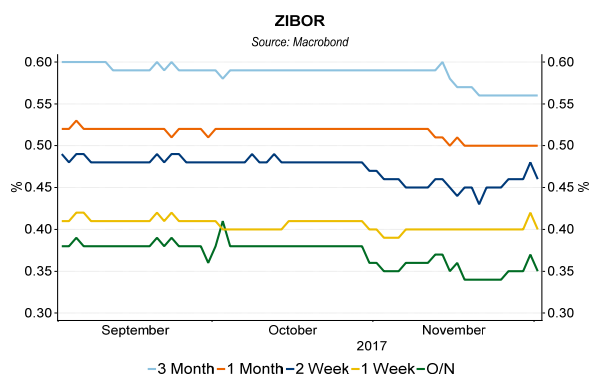
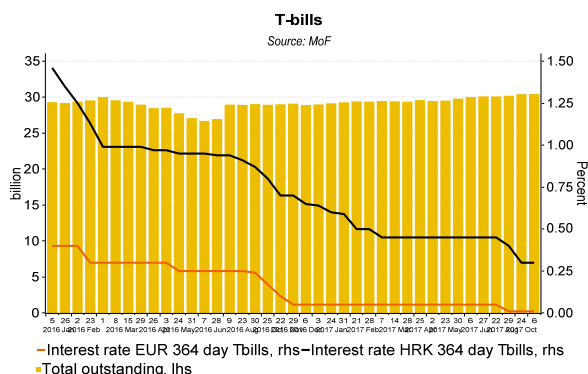
Due to a higher foreign currency supply by foreign banks, depreciation pressures moderately lessened last week which closed with the exchange rate of 7.5418 kuna to the euro, down by 0.4% wow. The kuna strengthened against the dollar as well, by 0.1%, to 6.3751 kuna to the dollar. This week, we anticipate trading in a slightly lower range than the previous week, from 7.54 to 7.58 kuna to the euro.



Money market calm

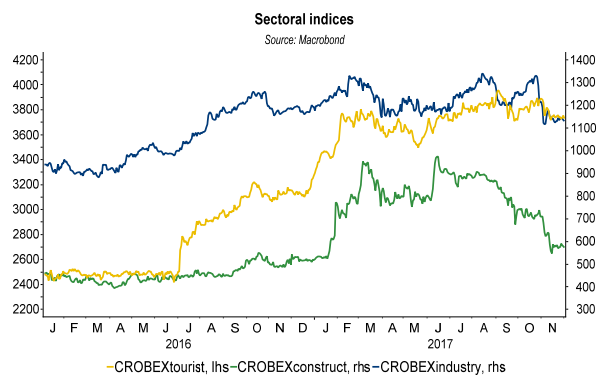
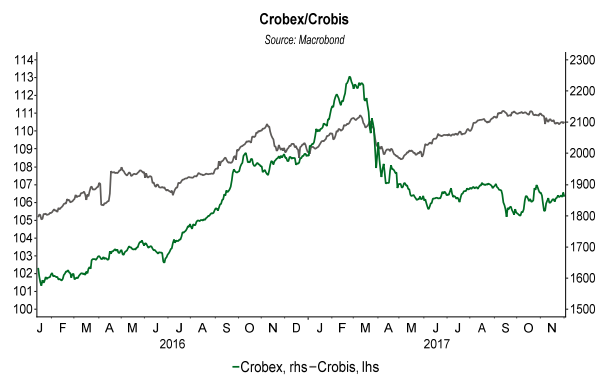
The money market was calm and liquidity was around 16 billion kuna. The overnight Zibor on Friday amounted to 0.35%, +1 b.p. wow, whereas 1M remained at 0.50% and 3M at 0.56%. There was no activity in the regular reverse repo auction and no turnover on the ZMM.

Last week, 0.9 billion kuna matured and, as there was no auction (to reduce debt under T-bills, MF will use the 5.8 billion kuna worth issue of kuna bond maturing in 2023), the government debt under T-bills decreased to 29.2 billion kuna. This week, 1.1 billion kuna will mature and the auction with the planned 675 million kuna has been announced.

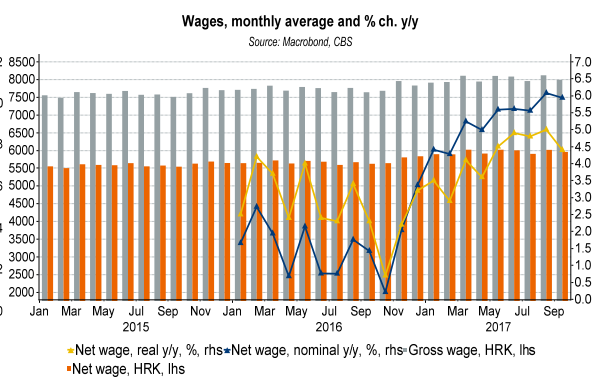
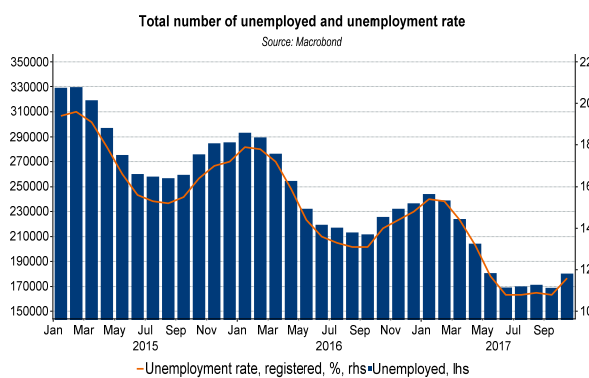
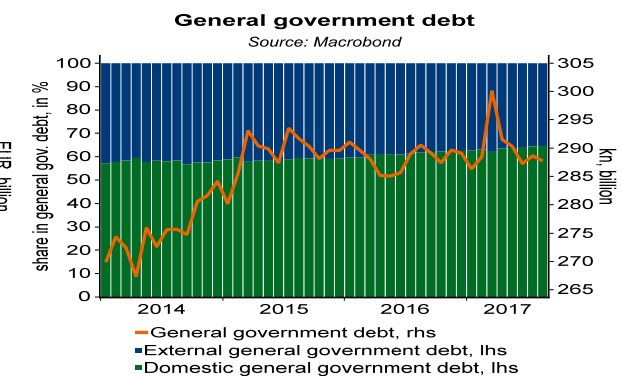
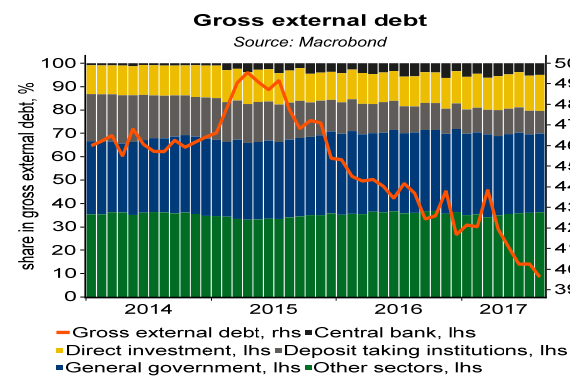
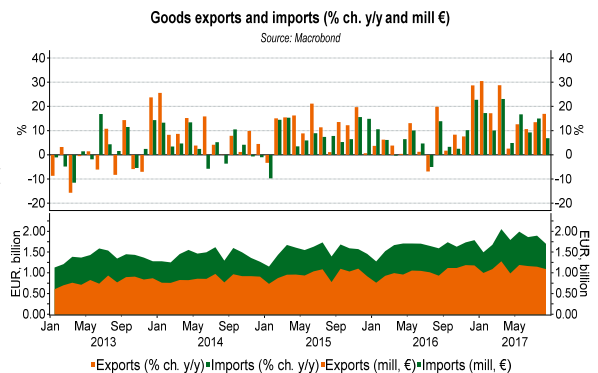
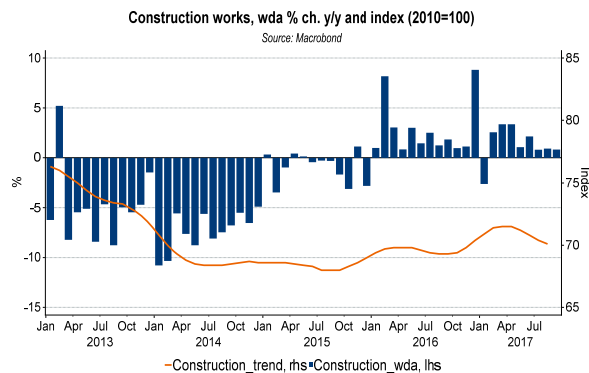
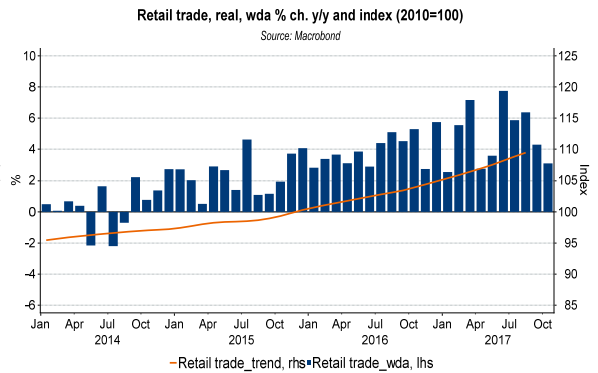
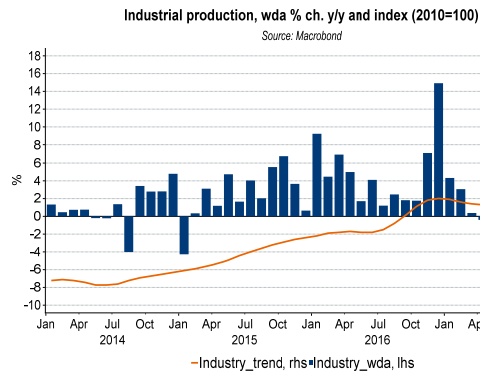


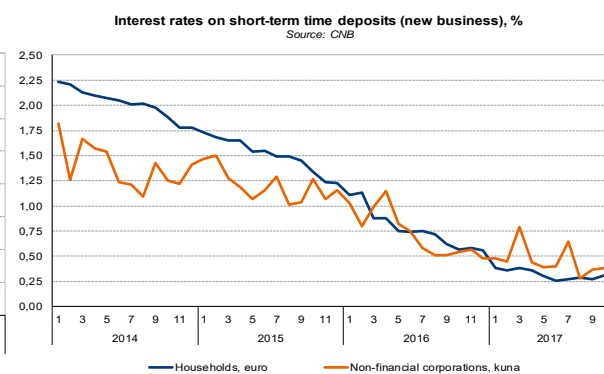
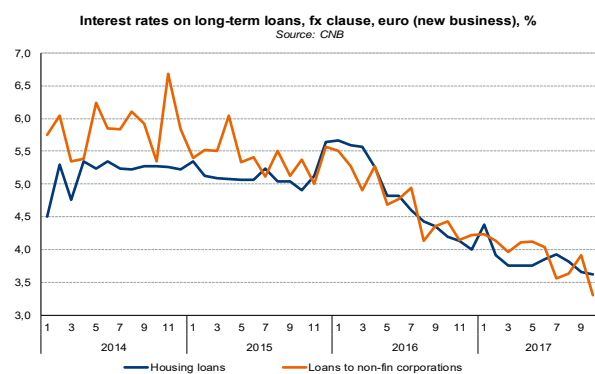
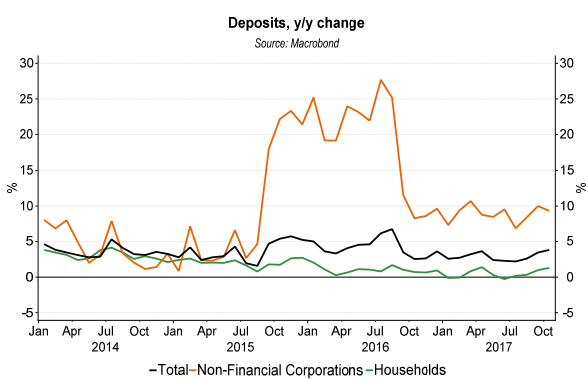
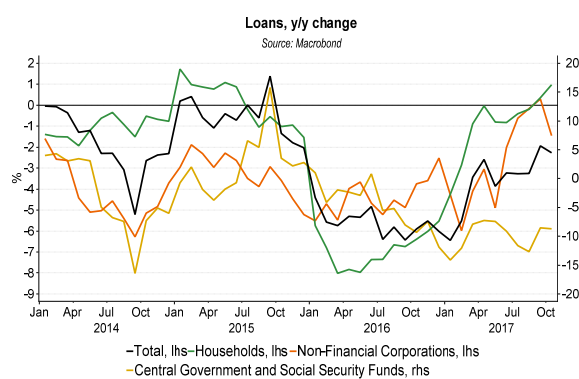
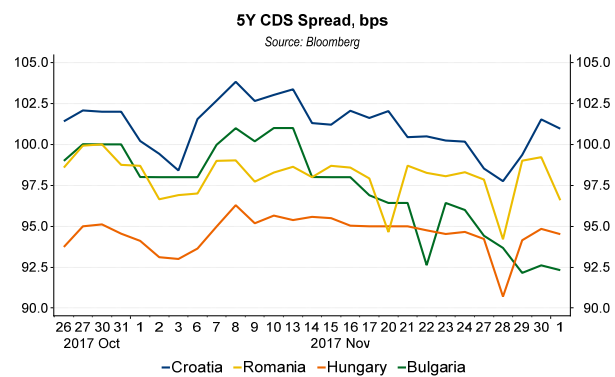
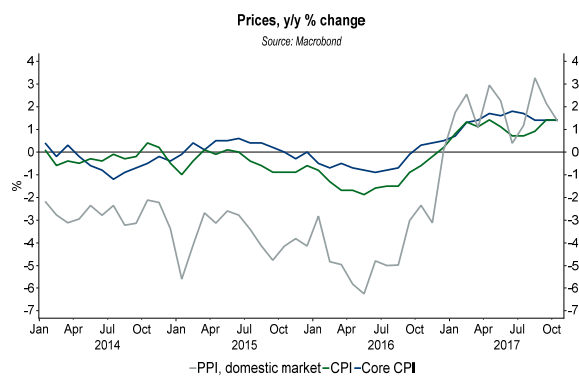
Crobex up for second consecutive week

Last Friday, the Crobex and Crobis indices moderately closed by an increase of 0.1% wow, advancing to 1,861.57 and 110.53 points, respectively. Last week, sector indices ended in negative territory, where CROBEXindustry dropped by 0.3% (to 1,129.93 points), CROBEXtourist fell by 0.2% (to 3,728.91 points) and CROBEXconstruct by 0.1% (to 572.86 points) versus the week before. Last week, the total turnover was 486.6 million kuna, i.e. down by 54.5% wow, where the turnover in bonds amounted to 375.6 million kuna, i.e. down by 63.6% wow, while the turnover in shares amounted to 111.0 million kuna, i.e. increased 3.1 times compared with the week before.



Statistics





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