

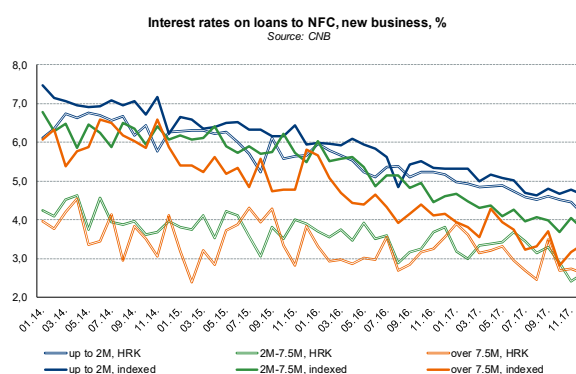
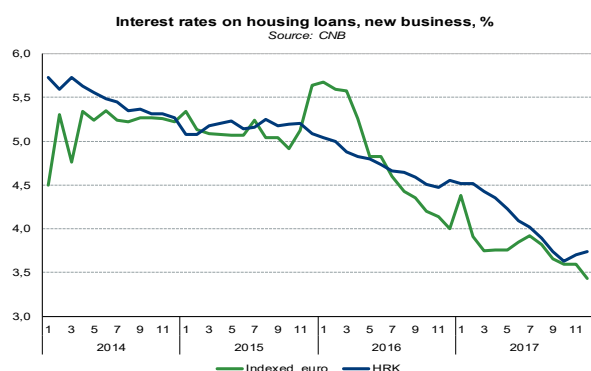
PBZ Weekly Analysis

Number 596, February 19, 2017

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Weekly overview

The awakening of the private sector demand amid record levels of excess liquidity, a spectacular rise in funds on transaction accounts which are the most economical to banks and better fiscal indicators, thus encouraging a decrease in interest rates on loans last year. The average interest rate on loans to the private sector in 2017 amounted to 7.0% on kuna loans and 4.3% on loans with a currency clause, which is down by 30 and 90 b.p, respectively, yoy. The average interest rate on loans to households in 2017 declined to 7.7% for kuna loans (-50 b.p. yoy) and 4.9% for loans with a currency clause (-80 b.p.), which is a result of both a drop of interest rates on housing loans and consumer and other loans. Interest rates on retail loans decreased more dramatically for indexed loans than for kuna loans, therefore the interest rate on housing loans with a currency clause fell by 1 p.p. yoy to 3.8% in 2017 (which is partly connected to the interest rate growth due to the conversion the year before), while the interest rate on kuna housing loans decreased by 70 b.p. to 4.1%. Regardless of the currency risk aversion of households which resulted in an increased offer of kuna loans, such a strong rise in kuna financing is not supported by the structure of the funding of banks, hence, banks cut interest rates on indexed loans, trying to reach out to citizens for taking out euro loans. Thus, the interest rate on housing loans in euro was down by 30 b.p. versus kuna loans at the end of the year, amounting to 3.4%. Last year, interest rates on loans to non-financial corporations declined by 20 b.p. on average for kuna loans and 90 b.p. for indexed loans, amounting to 4.4% and 3.9%, respectively. According to the volume of the placement, interest rate movements were a mixed bag. Loans up to 2 million kuna recorded a decline in the interest rate of 70 b.p. for both kuna and indexed loans (to 4.7% and 4.9%, respectively), loans ranging from 2 to 7.5 million kuna recorded a decline in the interest rate of 40 b.p. for kuna loans (to 3.2%) and even 100 b.p. for indexed loans (to 4.1%), while loans for large corporations in an amount exceeding 7.5 million kuna recorded a decline in the interest rate of barely 2 b.p. (to 3.07%) for kuna loans, and 90 b.p. to 3.6% for indexed loans. Thus, financing remains the most favourable for large corporations, where financing for medium and small-sized businesses is more expensive by 10 to even 160 b.p. on average, versus large corporations, depending on the size and currency. Interestingly enough, as opposed to loans to households, loans to the corporate sector are less expensive in kuna than in the foreign currency. The comparison of interest rates on corporate loans in Croatia with those in the Eurozone shows that loans indexed to the euro, i.e. FX euro loans are more expensive in the Republic of Croatia, around 100-200 b.p., which reflects the costs of funding and operational risks, where, as expected, the largest spread is recorded for small business loans (up to 2 million kuna/ 0.25 million euro).



The interest rate on time deposits of the private sector fell in 2017 by 40 b.p. on average yoy, both for kuna and FX deposits, decreasing to 0.8% and 0.4%, respectively. The drop in the interest rate was more pronounced in households than in corporations, thus the interest rate on time deposits of households declined by 60 b.p. to 1.0% for kuna and 0.4% for FX deposits, whereas the interest rate on corporate deposits decreased by 30 b.p. for kuna deposits (to 0.6%) and 10 b.p. for FX deposits (to 0.4%). Simultaneously, the interest rate on kuna transaction accounts moderately declined by 4 b.p. for households and 6 b.p. for non-financial corporations, amounting to an average of 0.04% and 0.08%, respectively.

Dollar weakens, kuna unchanged

Last week saw a corrected dollar, following its strong increase the week before, therefore trading on Friday closed at 1.2406 dollar to the euro, up by 1.3% wow.

The period of relatively calm trading in the domestic FX market continued, where the EUR/HRK mid-exchange rate fluctuated around 7.43-7.44, amounting to 7.4338 kuna to the euro at the end of the week, recording almost no change wow. The kuna against the dollar strengthened by 1.9% and the exchange rate decreased to 5.9537 kuna to the dollar. We expect a continuation of a stable kuna this week.

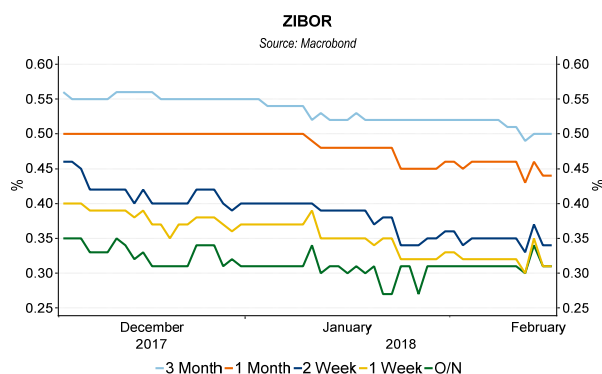
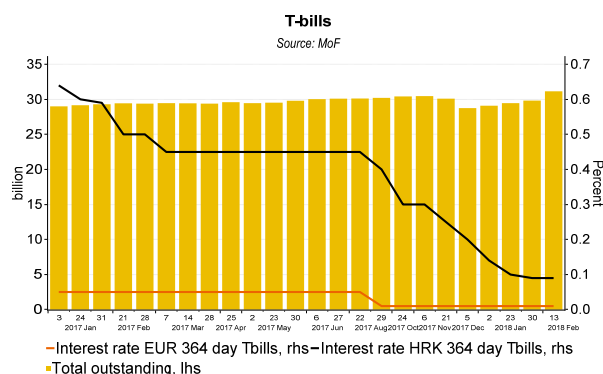


T-bill auction held

Last week, excess liquidity rose to 27-28 billion kuna, therefore the overnight Zibor remained at 0.31%, 1M decreased by 2 b.p. wow to 0.44% and 3M decreased by 1 b.p. to 0.50%. No interest was shown at the regular reverse repo auction and there was no turnover on the ZMM.

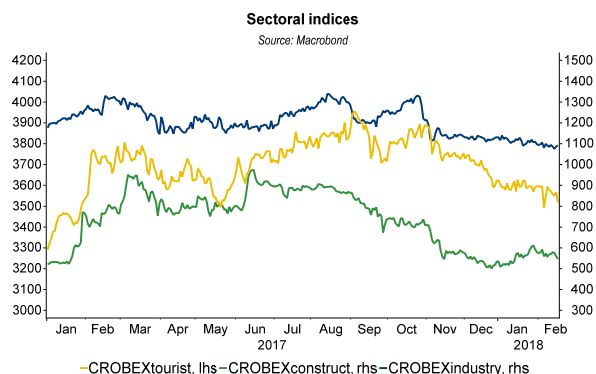
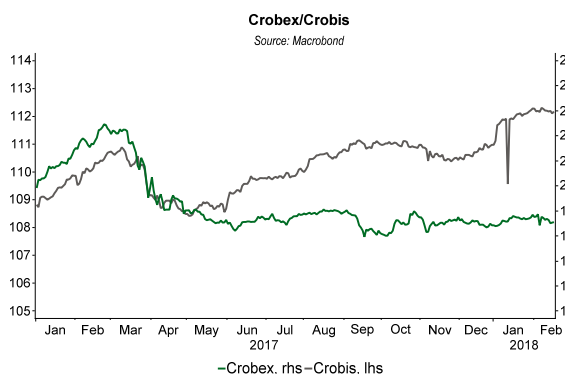
Last week saw no T-bill maturity, however, T-bill auction was held with a subscription of 1.3 billion kuna in one-year kuna T-bills at the unchanged interest rate of 0.09%, due to which the government debt

increased to 31.1 billion kuna. This week, 1.5 billion kuna will mature and the auction with the planned issue amount of 1.3 billion kuna has been announced.



Crobex again in negative territory

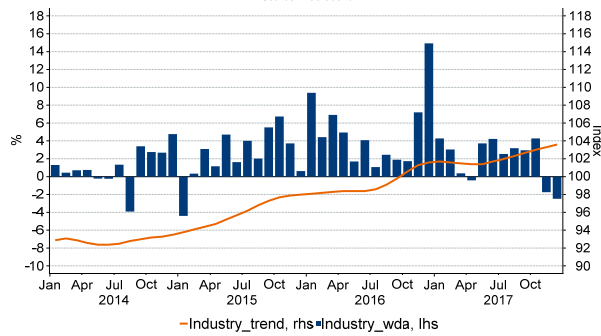
The total ZSE turnover amounted to 539.9 million kuna last week, up by 51.0% versus the week before, as a result of an increase in the turnover in bonds of 63.5% (to 502.9 million kuna), while the turnover in shares decreased by 25.9% (to 37.0 million kuna). The Crobex Index closed the week at 1,855.51 points or down by 0.5%, while Crobis closed at 112.18 points on Friday, i.e. remained unchanged wow. As regards sector indices, CROBEXindustry closed last Friday at a 0.7% higher wow level, reaching 1,091.75 points, while CROBEXconstruct (546.67 points) and CROBEXtourist (3,518.13 points) closed the week down by 3.9% and 1.7%, respectively.



Statistics

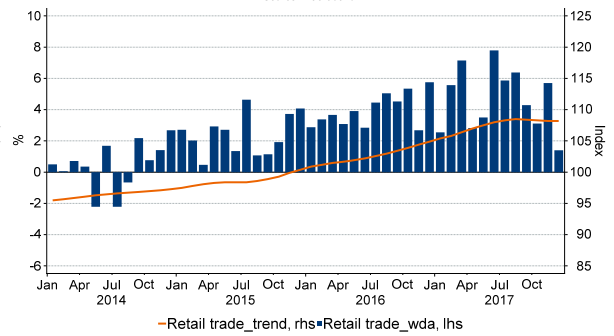
Industrial production, wda % ch. y/y and index (2010=100)

Source: Macrobond



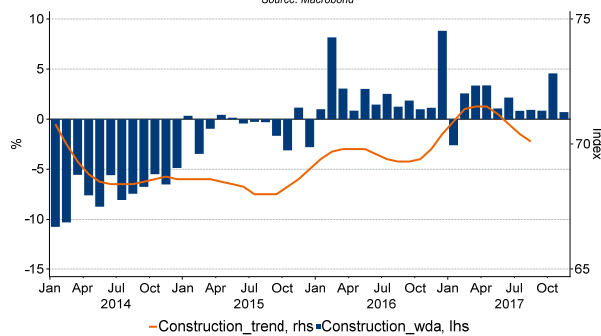
Retail trade, real, wda % ch. y/y and index (2010=100)

Source: Macrobond



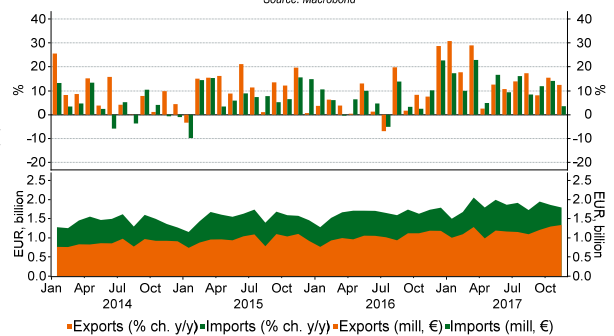
Construction works, wda % ch. y/y and index (2010=100)

Source: Macrobond



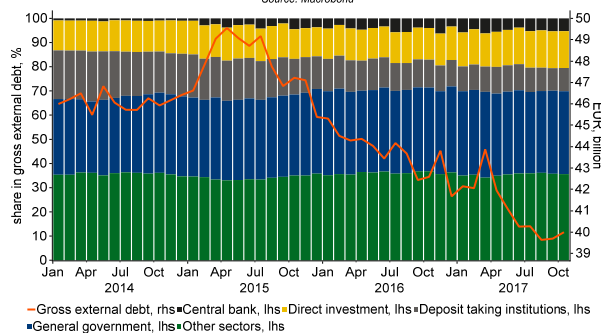
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



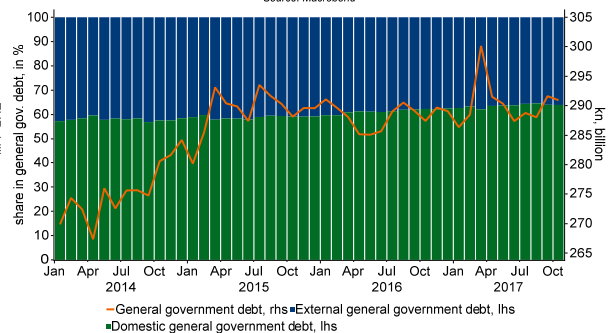
Gross external debt

Source: Macrobond



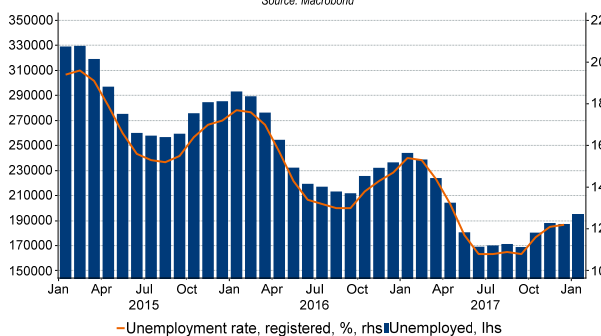
General government debt

Source: Macrobond



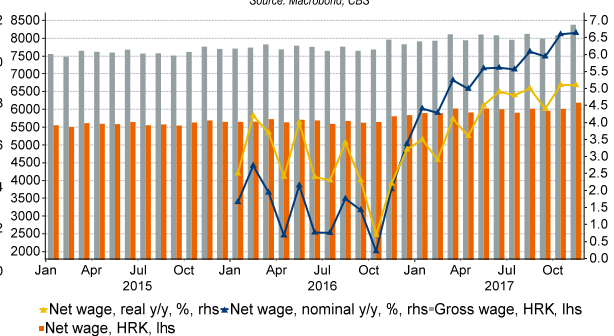
Total number of unemployed and unemployment rate

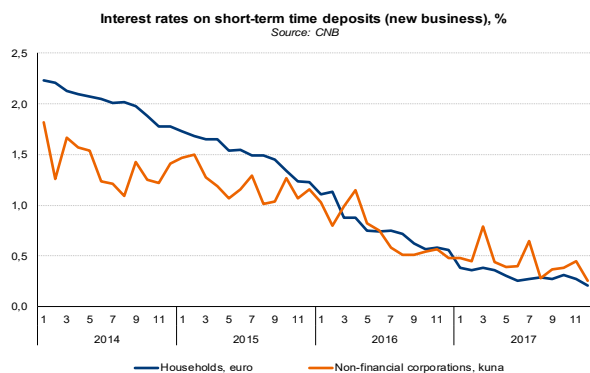
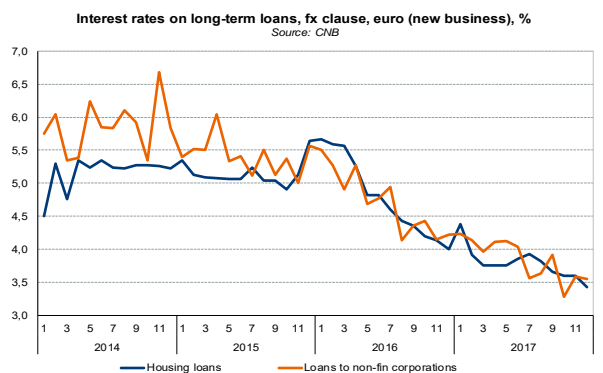
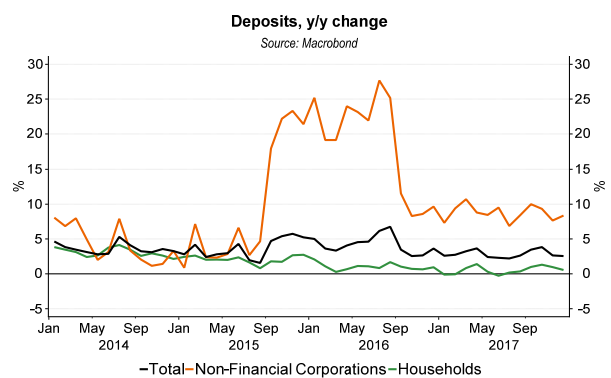
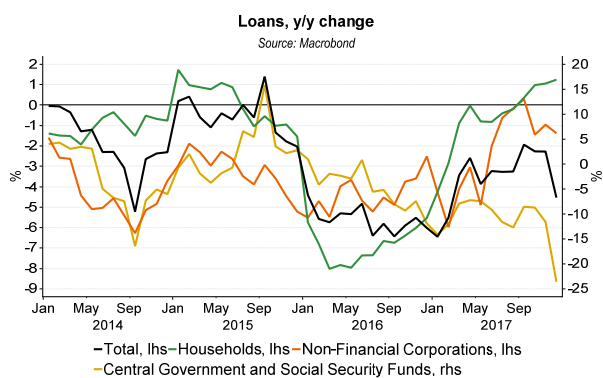
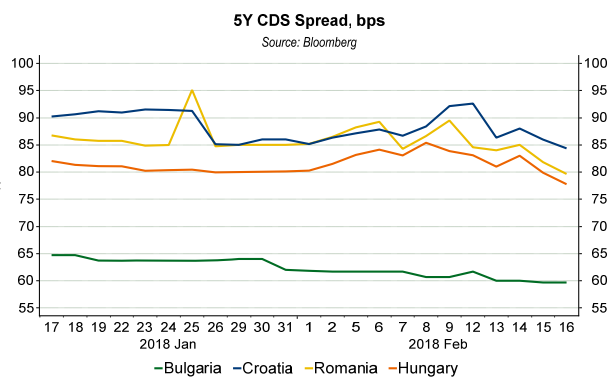
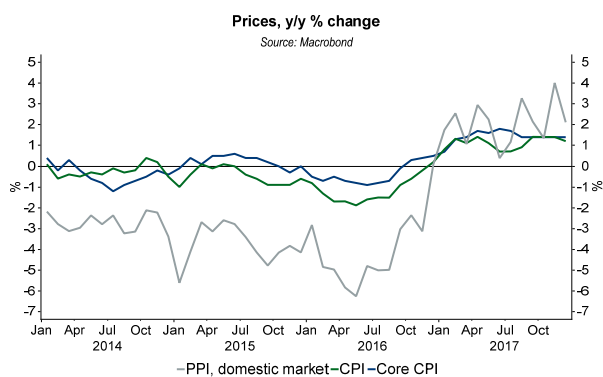
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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