

PBZ Weekly Analysis

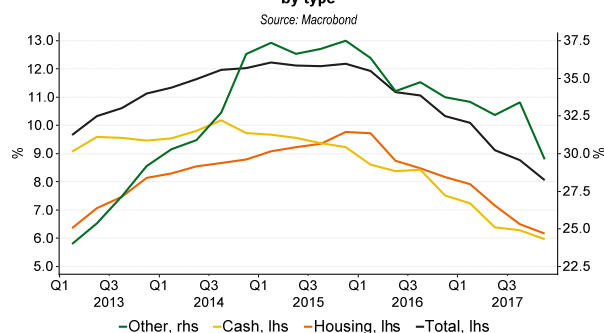
Number 599, March 12, 2018

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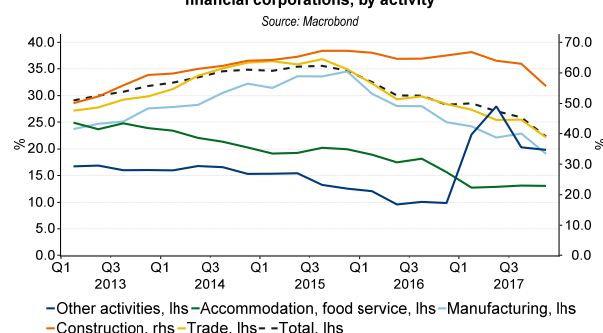
Weekly overview

- The credit portfolio quality recovered strongly over the last quarter of 2017, where the share of partly recoverable and fully irrecoverable loans in total loans decreased by 1.1 p.p. qoq to 11.4%, due to a continuation of the portfolio clean-up and increase in new loans as well as the growth of economic activity. In 4Q, banks sold gross claims amounting to 3.1 billion kuna (in the entire 2017, 8.4 billion kuna), of which 0.7 billion kuna in gross claims on citizens (2017: 2.0 billion kuna) and 2.3 billion kuna on non-financial corporations (2017: 6.2 billion). The share of the so-called bad loans in the retail portfolio decreased by 0.7 p.p. to 8.1%, where the share in housing loans decreased by 0.3 p.p. to 6.2%, in overdrafts by 0.5 p.p. to 6.0%, in cash loans by 0.3 p.p. to 6.0%, while the share in other loans, which remain the most critical, by 3.8 p.p. to 29.6%. The share of non-performing loans in the corporate portfolio decreased by 3.8 p.p. to 22.3%, mostly due to a drop in the construction (-7.4 p.p. to 55.6%), however, other major activities have also recorded a positive trend (real estate: -7.8 p.p. to 25.9%, manufacturing -3.8 p.p. to 19.1%, trade -3.3 p.p. to 22.2%, accommodation and food service activities -0.1 p.p. to 13.1%, other activities (Agrokor) -0.5 p.p. to 19.8%). We anticipate a further reduction in the share of NPL's this year, as a result of the portfolio sale and clean-up, as well as a continuation of a solid economic growth, where negative risks will mostly be a result of the impact of the restructuring of Agrokor on the participants in the process.

Share of partly recoverable and fully irrecoverable loans in loans to households by type

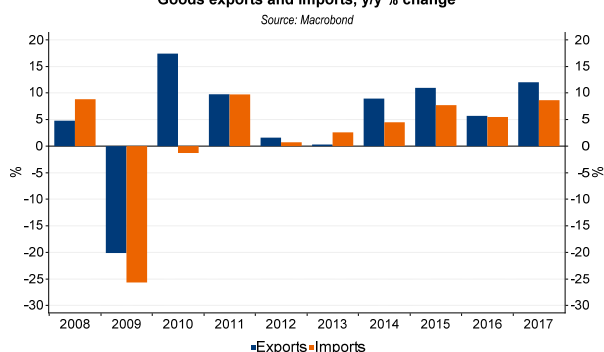


Share of partly recoverable and fully irrecoverable loans in loans to non-financial corporations, by activity



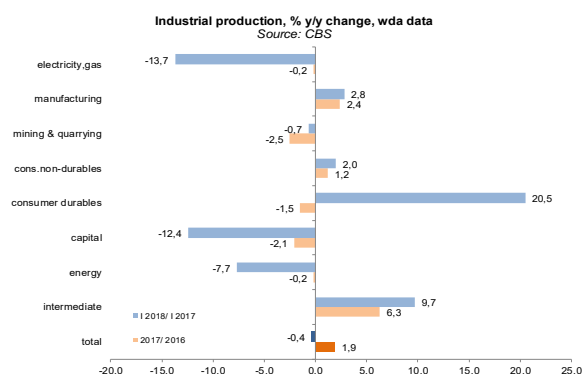
- Total exports of goods in December 2017 amounted to 8.7 billion kuna, which is down by 2.6% yoy, while the total imports of goods decreased by 9.1% yoy (to 12.3 billion kuna) in the same month. Over the last month of 2017, the foreign trade deficit was 3.6 billion kuna, down by 21.6% versus December 2016, while the coverage rate increased by 4.7 p.p., i.e. to 70.7%. The total exports of goods over the entire 2017 reached 104.4 billion kuna, which is up by 12.5% compared with 2016, but also 50.9% up compared with 2008. Last year, the largest (absolute) increase in the exports was recorded in the categories (according to NKD) Manufacture of coke and refined petroleum products (+2.2 billion kuna), Manufacture of basic pharmaceutical products and pharmaceutical

Goods exports and imports, y/y % change



preparations (+2.0 billion kuna) and Manufacture of basic metals (+0.8 billion kuna), while the largest decline was recorded in the Manufacture of furniture (-0.2 billion kuna). Thus, the total imports of goods reached 162.7 billion kuna last year, which is an increase of 9.6% versus 2016, but also an increase of 8.1% versus 2008, whereas the largest increase in the imports was recorded in the Mining and quarrying (+2.1 billion kuna) and the Manufacture of basic metals and Other manufacturing (both by 1.3 billion kuna). The foreign trade deficit in 2017 amounted to 58.3 billion kuna, which is up by 4.7% versus 2016, while the coverage of imports by exports reached record high 64.1%, or 1.6 p.p. yoy.

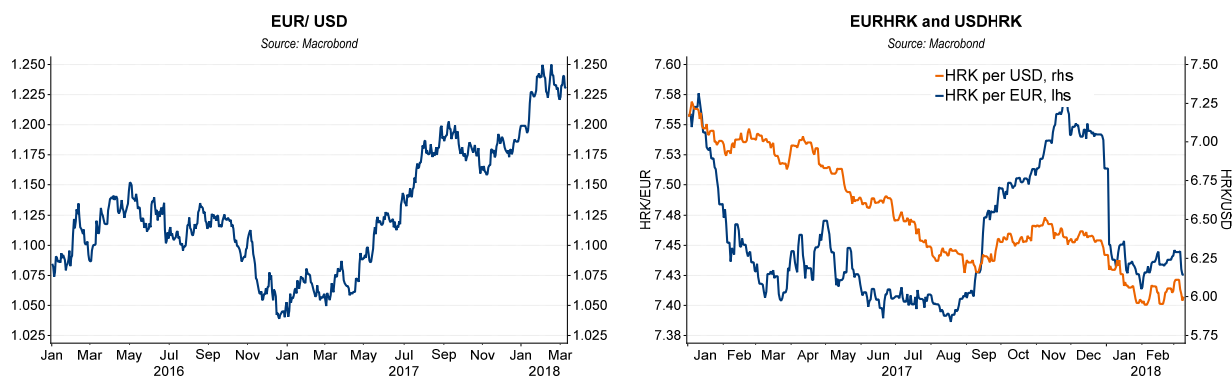
- The industrial production in January dipped by 0.4% yoy (wda), which is the third consecutive month of a yoy decline in the industrial production volume (after -1.7% in November and -2.5% in December). According to NKD, the January reduction in the IP volume yoy was affected by a decrease recorded in Electricity, gas, steam and air conditioning supply (-13.7%) and in Mining and quarrying (-0.7%), whereas a growth of 2.8% was recorded in Manufacturing (of which Manufacture of tobacco products by +129.6%, Manufacture of coke and refined petroleum products by +42.9% as well as Manufacture of wood and of products of wood and cork, except furniture by +24.4%). Compared with the last month of 2017 (seasonally and working-day adjusted), the industrial production in January 2018 decreased by 1.7% (+1.6% in December).



Dollar and kuna moderately stronger

The EUR/USD exchange rate continued its upward trend, reaching 1.2411 dollar to the euro on Wednesday. The trend was reversed after the ECB meeting which, as expected, did not bring major news. Therefore, trading closed at 1.2307 dollar to the euro at the end of the week, down by 0.1% wow.

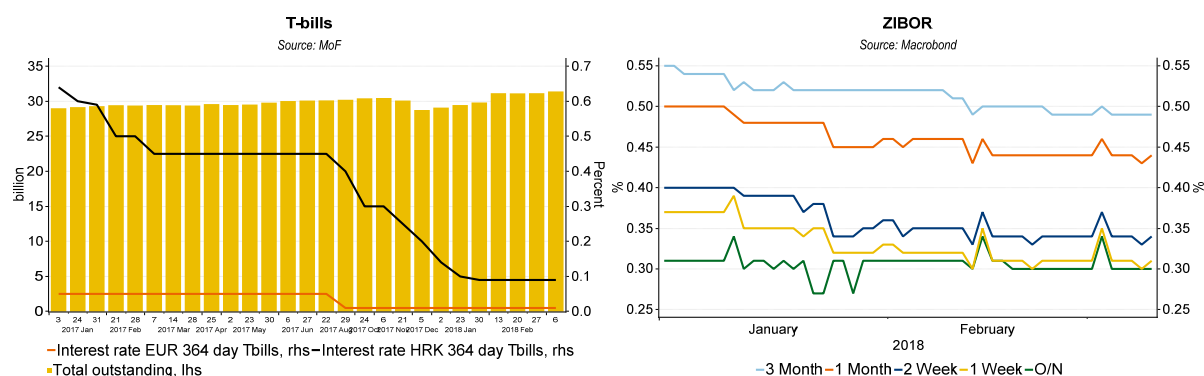
Last week, the kuna slightly strengthened against the euro, so the mid-exchange rate ended the week down by 0.2% wow, amounting to 7.4310 kuna to the euro. The kuna also appreciated against the dollar by 0.2%, therefore the exchange rate decreased to 6.0449 kuna to the dollar. We do not expect stronger exchange rate fluctuations over the upcoming period, while the exchange rate movements will be affected by dividend disbursements, a to date moderate corporate sector demand and a gradual strengthening of FX inflows from tourism amid the approaching Easter holidays.



Interest rates slightly lower

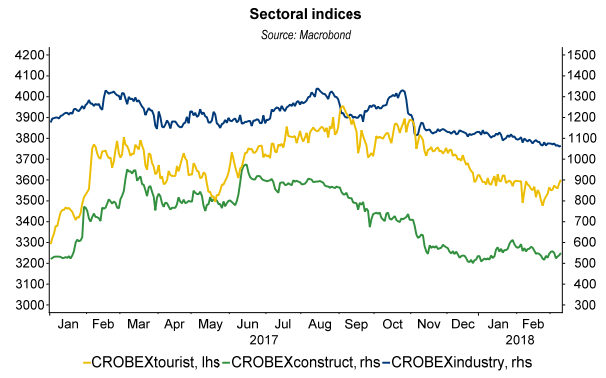
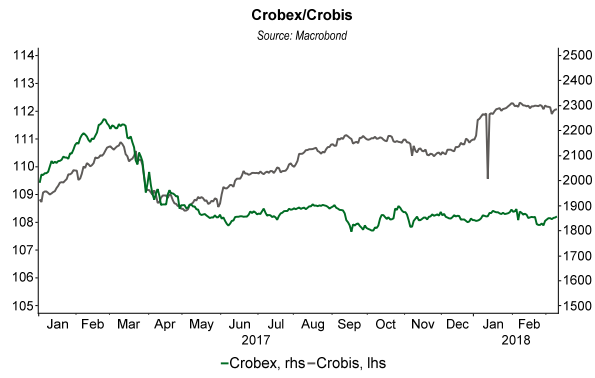
Last week, excess liquidity was above 28 billion kuna, therefore the overnight Zibor dropped by 4 b.p. to 0.30% wow, 1M by 2 b.p. to 0.44% and 3M by 1 b.p. to 0.49%. There was no activity at the regular reverse repo auction, while the ZMM saw one-time turnover amounting to 2.0 billion kuna.

Last week, 0.9 billion kuna in T-bills matured and 1.1 billion kuna in one-year kuna T-bills were subscribed, at the unchanged interest rate of 0.09%, due to which the government debt increased to 31.4 billion kuna. This week, 0.3 billion kuna will mature and the auction with the equal planned issue amount has been announced.



Crobex up wow

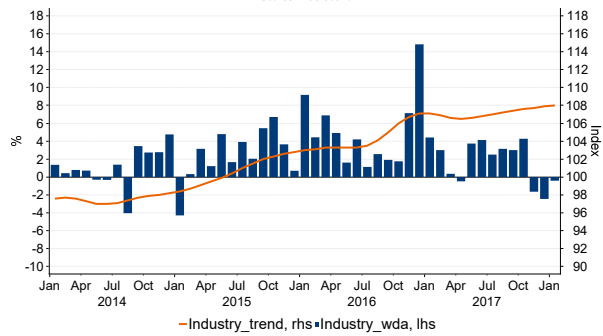
The total ZSE turnover amounted to 189.7 million kuna last week, which is a rise of 3.7 times versus the week before, owing to a 10.7 times higher turnover in bonds (reaching 161.4 million kuna), while the turnover in shares decreased by 22.3% (to 28.3 million kuna). The Crobex index closed up by 0.4% wow on Friday, reaching 1,857.70 points, while Crobis closed down by 0.1% (to 112.07 points). As regards sector indices, CROBEXtourist closed last week at a 1.3% higher wow level (of 3,601.48 points), while CROBEXconstruct (550.77 points) and CROBEXindustry (1,064.26 points) closed the week down by 1.4% and 0.5%, respectively.



Statistics

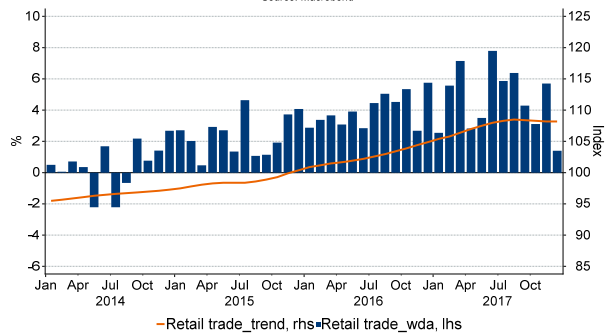
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



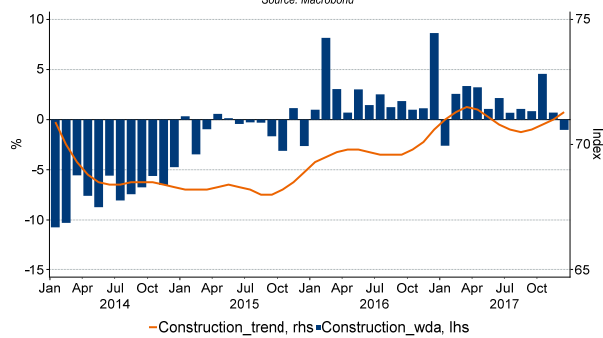
Retail trade, real, wda % ch. y/y and index (2010=100)

Source: Macrobond



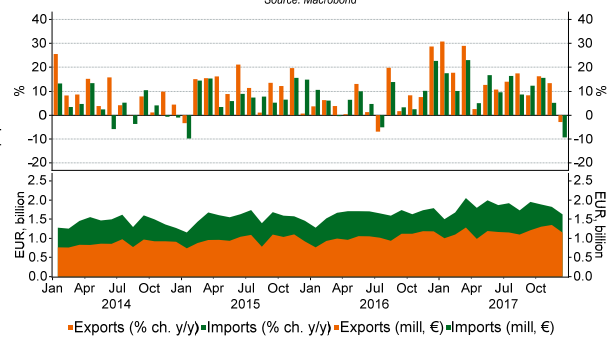
Construction works, wda % ch. y/y and index (2010=100)

Source: Macrobond



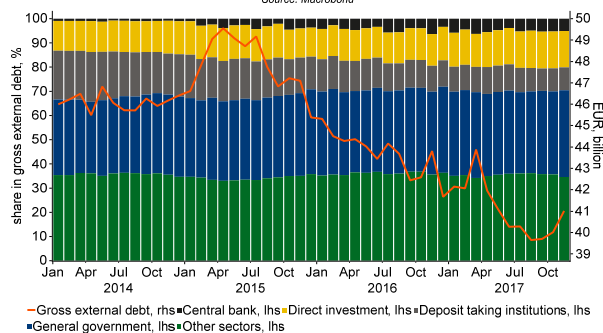
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



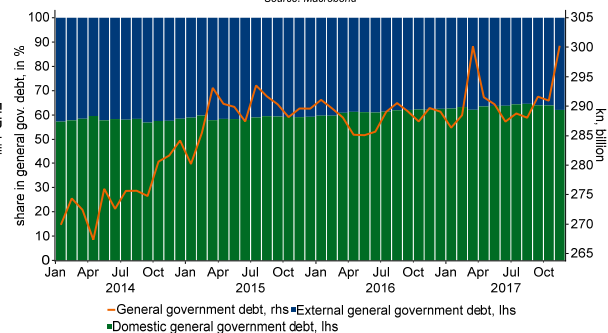
Gross external debt

Source: Macrobond



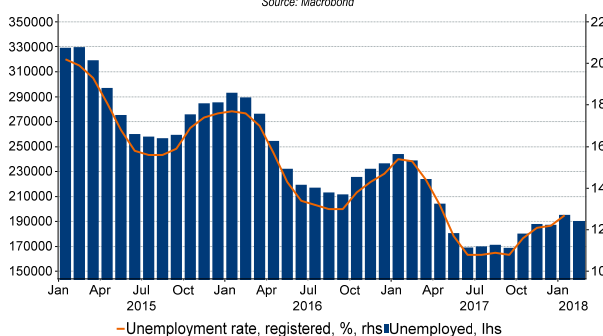
General government debt

Source: Macrobond



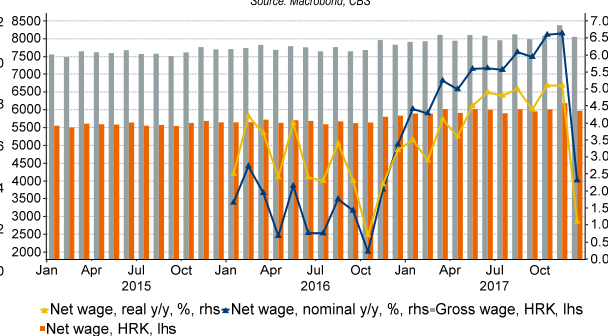
Total number of unemployed and unemployment rate

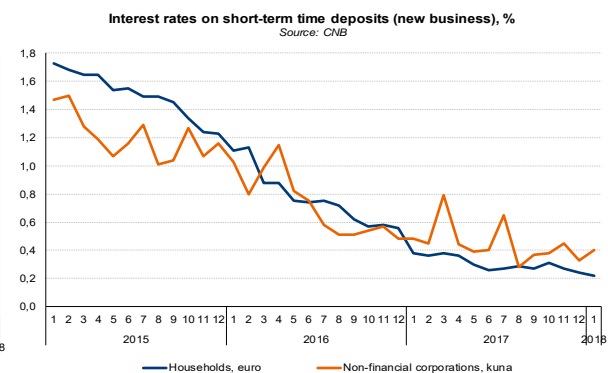
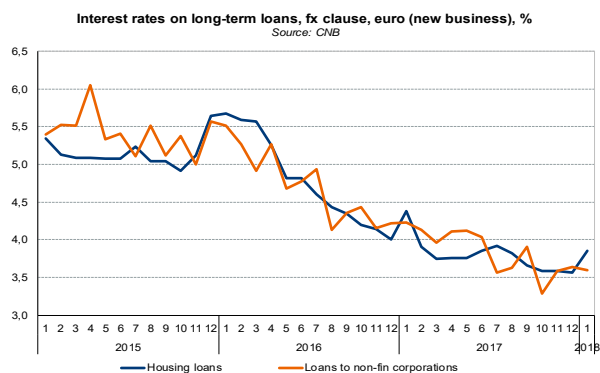
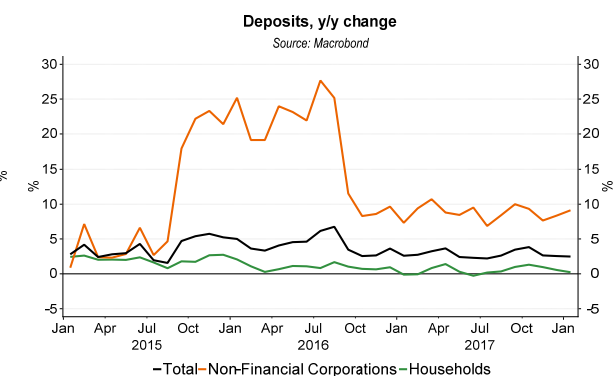
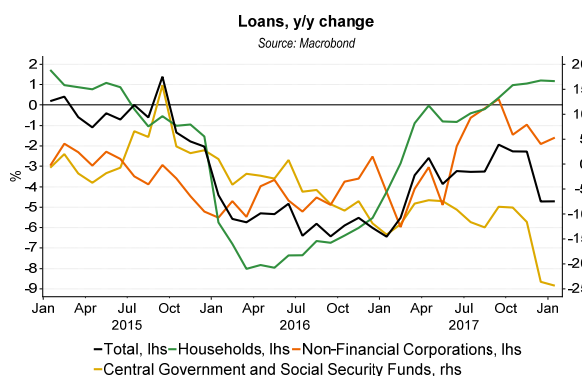
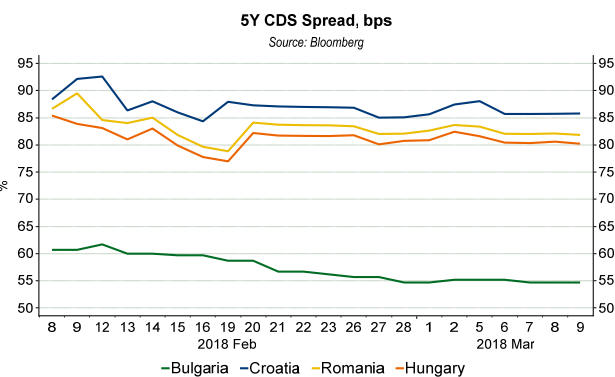
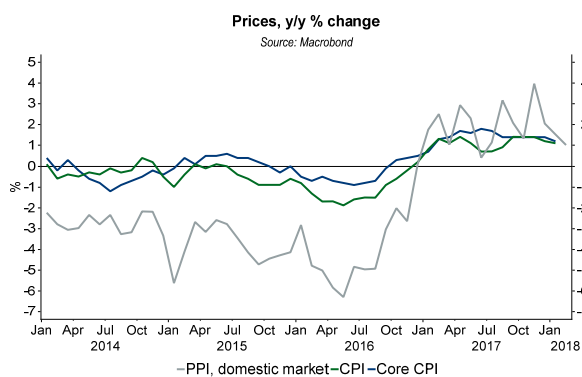
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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