

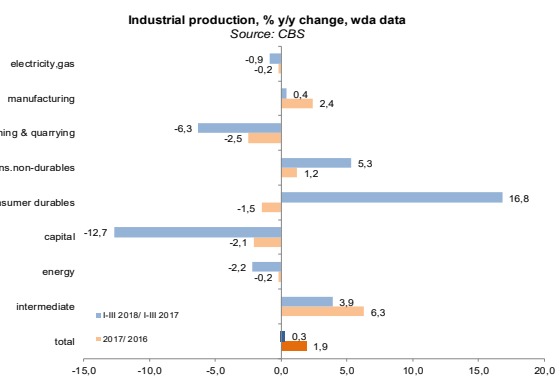
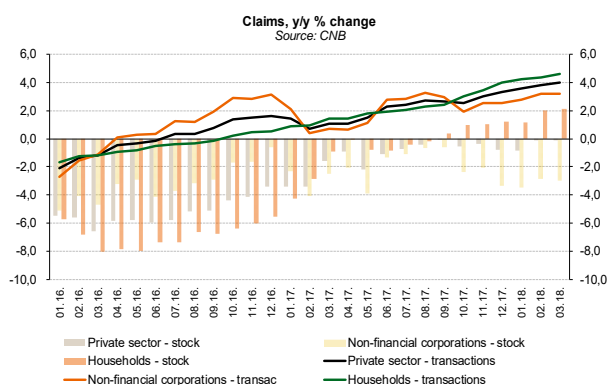
PBZ Weekly Analysis

Number 605, May 07, 2018

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Weekly overview

- The consolidated assets of other MFIs maintained a positive trend in March, recording a slight yoy increase of 0.5%, mainly due to a growth of demand deposit (+27.8%, or 16.6 billion kuna). Savings deposits continued to decrease, therefore total savings and time deposits, kuna and FX, declined by 2.0% (kuna +1.9%, FX -2.8%), while foreign liabilities sank by 12.3%. The yoy growth rate of total deposits accelerated to 4.9%, where deposits of the private sector rose by 3.6% (non-financial corporations +9.9%, households +1.7%, adjusted to exchange rate movements around 2.0%). At the same time, total loans continued to record negative rates (-4.7%), mainly due to deleveraging of the central government, (-24.7%), i.e. a partial repayment of road companies' debt owed to domestic banks in December 2017, while the increase in loans to the private sector remained at 0.7%. The latter is merely a result of a higher volume of loans to households (+2.1%), while loans to non-financial corporations have remained in the negative territory (-1.4%) due to high amounts of claims sold in the second half of last year. Regardless of a decline in loans granted to the private sector, the same as in the preceding period, data on transactions reveal that March brought a continuation of higher demand for loans. A cumulative growth of total claims increased in March to +4.0% yoy, where the increase in claims on the non-financial corporations stayed at +3.2%, while the increase in claims on households continued to accelerate, reaching +4.6%. At the annual level, we expect a continuation of solid demand amid a decline in interest rates, generous liquidity and consumer optimism owing to better trends in the labour market. However, further sales of non-performing loans will have a negative impact on the loan portfolio size, therefore we anticipate a low yoy growth rate of loans to the private sector around 1%. We expect only a slightly higher growth of deposits of the private sector versus loans, where low interest rate on savings deposits will remain the main limiting factor, due to which we expect a continuation of a shift of citizens' savings deposits to investments with higher yields.
- In March 2018, industrial production fell by 1.7% yoy (wda), after a yoy growth of 3.3% recorded the previous month. The largest impact on the yoy declined production in March was recorded by a 3.7% decrease in Manufacturing, particularly in the Manufacture of coke and refined petroleum products (-78.8%), other transport equipment (-40.8%), machinery and equipment (-28.2%) and chemicals and chemical products (-12.0%). A negative contribution also



came from a 9.5% decrease in the production in Mining and quarrying, however, a simultaneous growth of 10.2% was recorded in Electricity, gas, steam and air conditioning supply. With respect to the above, industrial production moderately increased by 0.3% yoy in 1Q2018, thus showing a considerably poorer result versus the same period of 2017, when a growth of 2.5% yoy was recorded.

FOMC unchanged, kuna slightly stronger

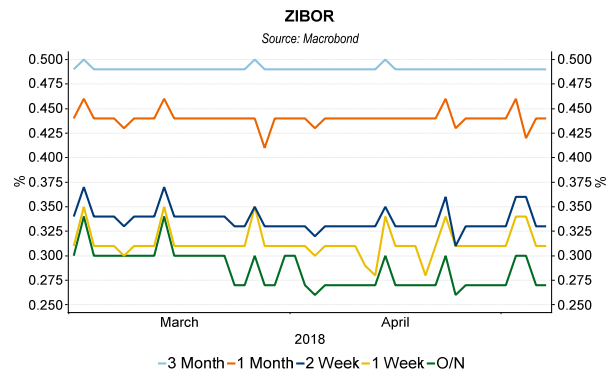
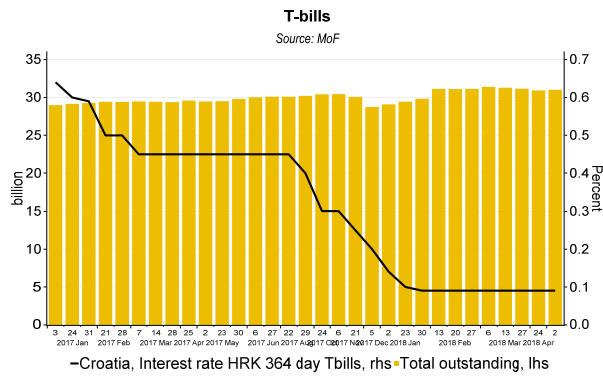
In accordance with the expectations, FOMC made no changes in the monetary policy at its last meeting, therefore markets still expect the next interest rate rise in June. The dollar thus continued to strengthen against the euro, so trading on Friday closed at 1.1959 dollar to the euro, down by 1.3% wow.

The appreciation pressures have mildly increased, therefore the EUR/HRK mid-exchange rate amounted to 7.4075 kuna to the euro at the end of the week, down by 0.1% wow. The kuna depreciated against the dollar by 1.0% wow, to 6.1946 kuna to the dollar. This week, we anticipate EUR/HRK trading in the range 7.38-7.42.



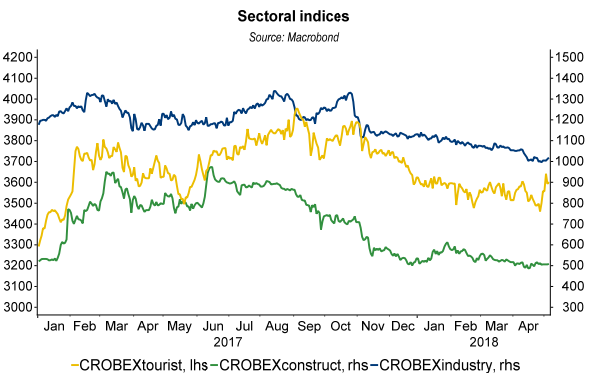
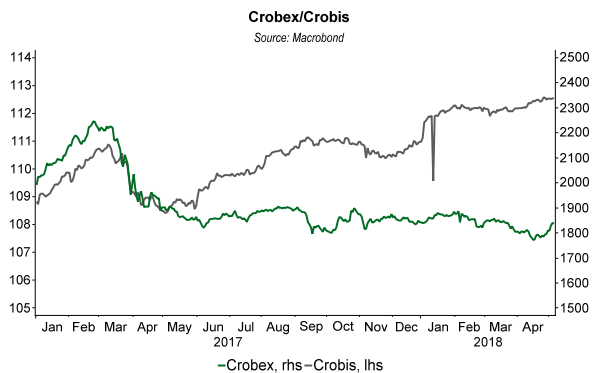
T-bill yield stays the same

Last week saw a calm money market, where excess liquidity decreased to 25 billion kuna and interest rates remained unchanged. The overnight Zibor stayed at 0.27%, 1M at 0.44% and 3M at 0.49%. There was no demand at the regular reverse repo auction and no turnover on the ZMM. Last week, 409 million kuna in T-bills matured and 502 million kuna were subscribed, so the government debt under T-bills moderately advanced to 31.0 billion kuna. One-year kuna T-bills were subscribed at the unchanged interest rate of 0.09%. There will be no maturity or auction this week.



Crobex positive trend continues

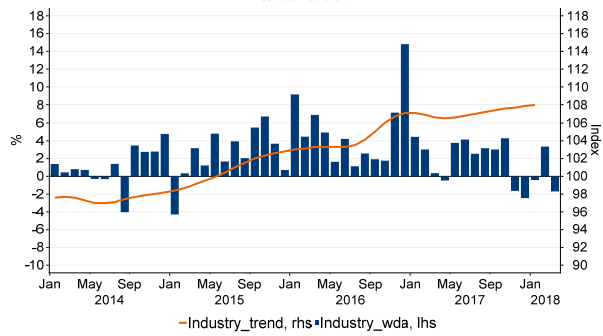
The total ZSE turnover over the last week's four trading days amounted to 77.9 million kuna, which is up by 4.2% compared with the week before, due to a growth in the turnover in bonds of 12.0% (to 47.7 million kuna), while the turnover in shares dropped by 6.1% (to 30.2 million kuna). The Crobex Index closed on Friday at a 2.3% higher wow level, reaching 1,837.72 points, while Crobis stayed unchanged (at 112.53). As regards sector indices, CROBEXconstruct closed last week at 509.73 points (+0.8% wow), CROBEXindustry at 1,018.93 points (+2.2%) and CROBEXtourist at 3,601.32 points (+2.9%).



Statistics

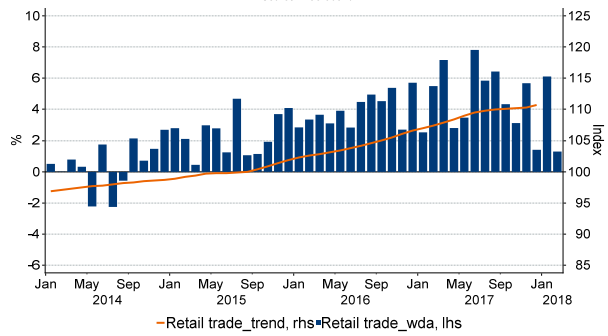
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



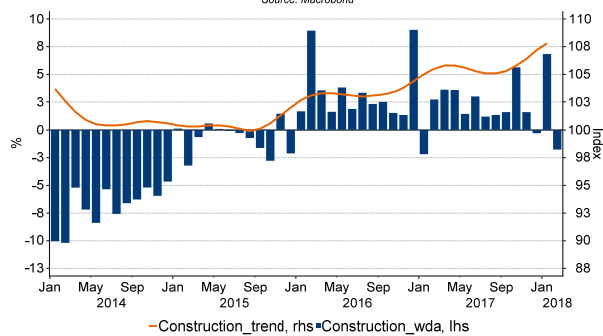
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



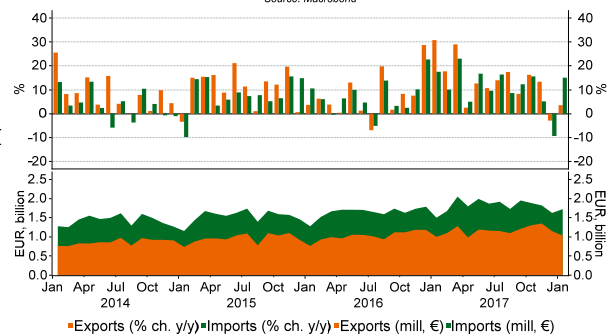
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



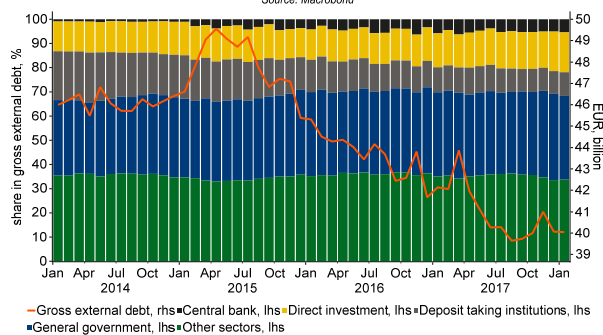
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



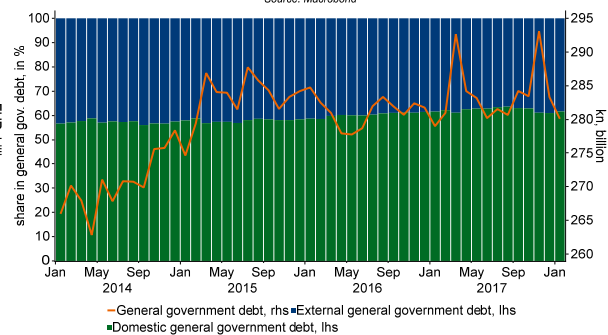
Gross external debt

Source: Macrobond



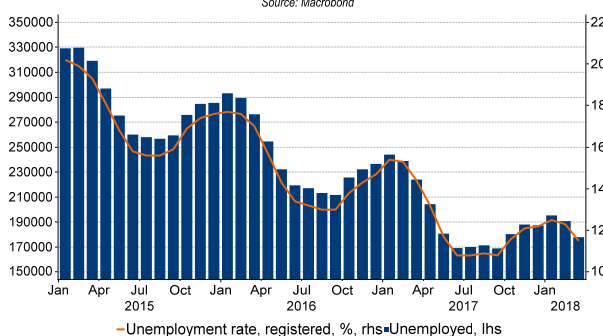
General government debt

Source: Macrobond



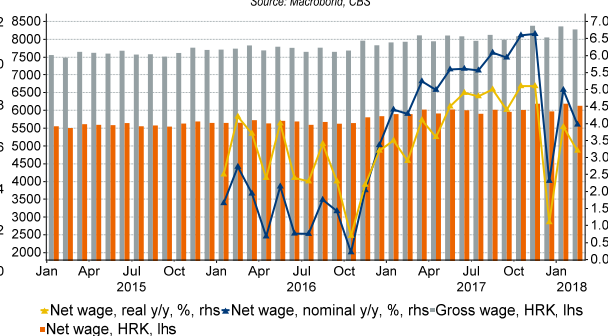
Total number of unemployed and unemployment rate

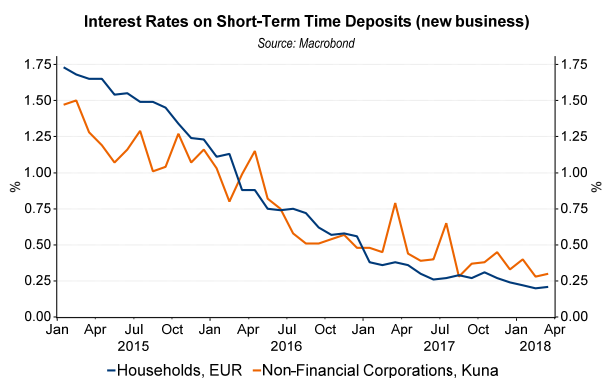
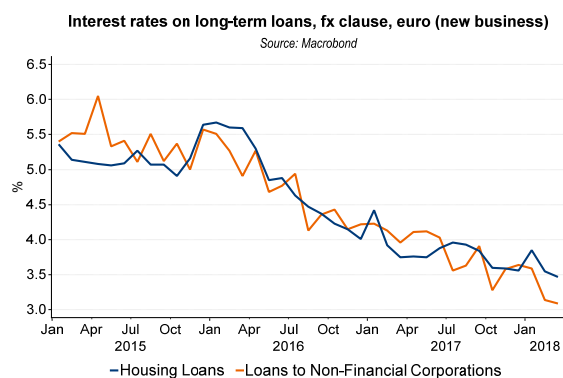
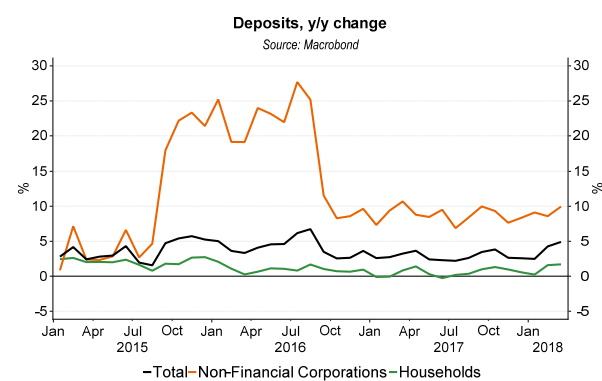
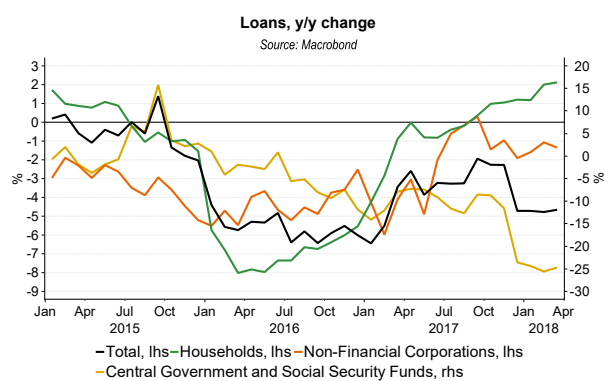
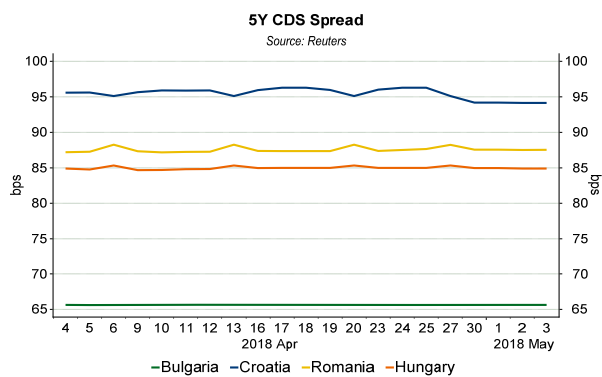
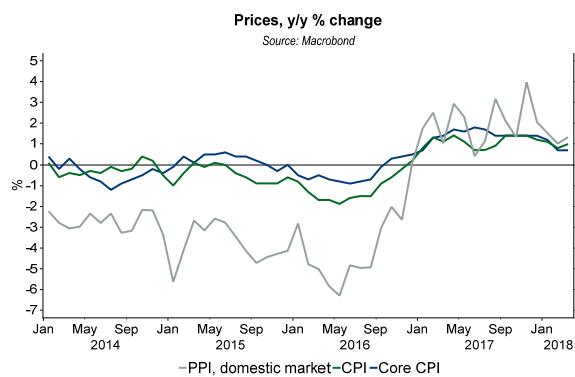
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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