

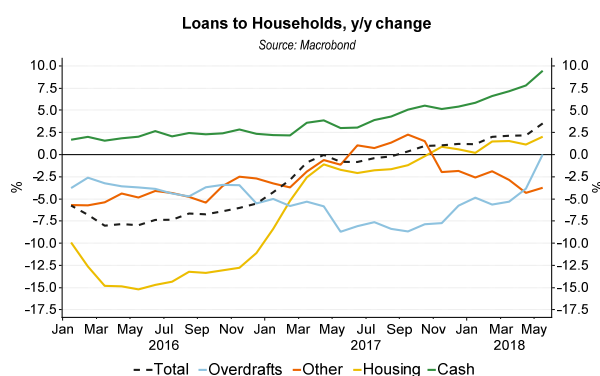
PBZ Weekly Analysis

Number 612, July 2, 2018

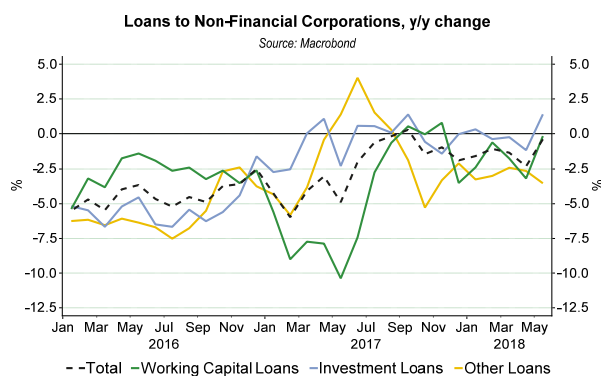
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Weekly overview

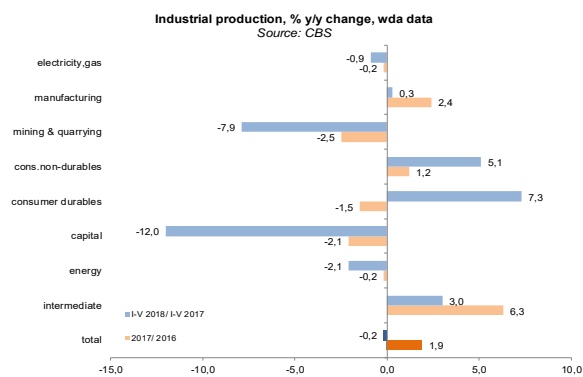
- The pace of decrease of total loans substantially slowed down in May to -2.9%, from -5.1% recorded in April, due to a significantly smaller decline in loans to the central government and the social security funds (-21.8%) and a 1.9% increase in loans to the private sector. The latter is a result of a simultaneous slighter decrease in loans to non-financial corporations (-0.4% yoy and +0.3% mom) with a 3.5% leap of loans to households. A detailed overview of the portfolio of household loans shows that housing loans, in spite of a negative influence of exchange rate movements (0.5% stronger kuna yoy) rose by even 2.0%, where kuna loans maintained their strong upward trend, recording an increase of 25.8%. The statistics of new transactions reveals that May has brought a recovery of newly granted kuna housing loans, which slightly eased off over the previous months. The increase in cash loans speeded up to 9.5%, whereas a slightly surprising growth, although slender (0.01% yoy and +1.4% mom), was recorded by overdrafts. A continuous rise in kuna loans to citizens led to a gradual increase in their share in the portfolio of household loans, so for the first time the share exceeded 50% in May. A division of the corporate portfolio according to purpose shows that the yoy rate of decrease slowed down in May as a result of the recovery of loans for working capital (+0.4% mom) and an increase of 1.4% in investment loans yoy. Data on transactions are in line with the described movements, showing that a cumulative yoy growth of loans to the private sector reached 4.3% in May, where claims on non-financial corporations moderately accelerated to 3.1% and claims on households jumped to 5.3%. Deposits also recorded a positive trend, owing to seasonal movements, therefore a growth of total deposits of 6.7% was registered in May (+30.2% transaction funds), due to a rise in deposits of the private sector of 5.2% (non-financial corporations 10.5%, households 3.6%). Caused by the dynamics of loan and deposit movements, we have revised upward our forecast of growth of loans to the private sector for this year from 1.1% to 1.5% (over the upcoming period, we expect a remaining negative influence of sales and the reached arrangement of Agrokor), but we have kept our forecast of growth of private sector deposits at



1.5%.



- The industrial production in May decreased by 0.7% yoy (wda), thus the decrease in the production volume trend continued for the third consecutive month yoy. The unfavourable result in May was strongly affected by a two-digit drop in the production in Mining and quarrying (-10.4%), whereas Electricity, gas, steam and air conditioning supply and Manufacturing registered a yoy increase in activities of 2.0% and 0.1%, respectively. The comparison with the previous month (seasonal and working-day adjusted) shows a rise in the industrial production of 1.8% in May. Over the first five months of this year, the industrial production declined by 0.2% on average, versus the same period last year, mainly due to a decrease in the production volume recorded in the categories Mining and quarrying (-7.9%, of which extraction of crude petroleum and natural gas -7.4%) and Electricity, gas, steam and air conditioning supply (-0.9%). Manufacturing thus increased by 0.3% yoy, which is a significantly worse result versus the first five months of 2017, when the yoy growth amounted to 2.8%, and is partly a result of a decline in the production in its nine components (out of a total of 24). At the same time, its largest component (Manufacture of food products, which accounts for almost 15% of total IP) increased by 4.5% yoy.



Kuna below 7.38

Last week, investors focused on developments related to customs tariffs, therefore the volatility of the EUR/USD exchange rate increased. At the end of the week, trading closed at 1.1684 dollar to the euro, up by 0.3% wow.

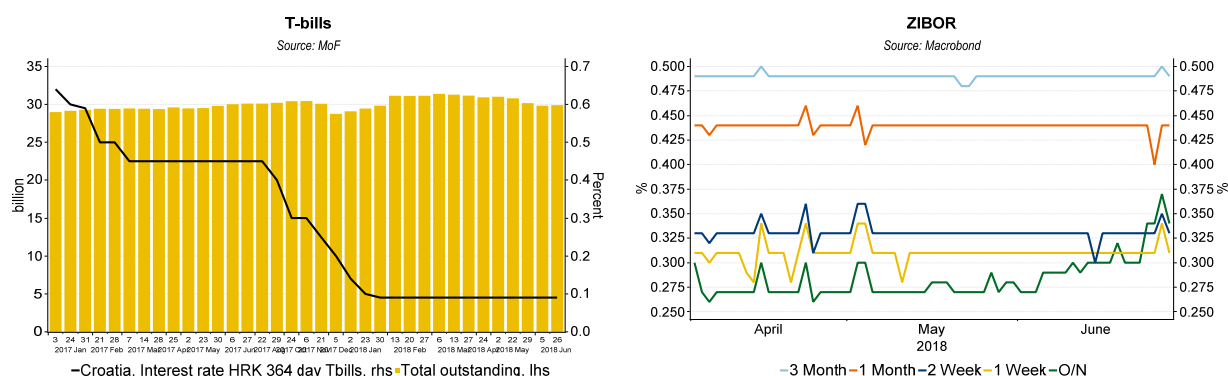
Kuna slid below 7.38 kuna to the euro, so the mid-exchange rate on Friday amounted to 7.3796, unchanged wow. The kuna against the dollar strengthened by 1.1% and the exchange rate fell to 6.3366 kuna to the dollar.



Money market calm

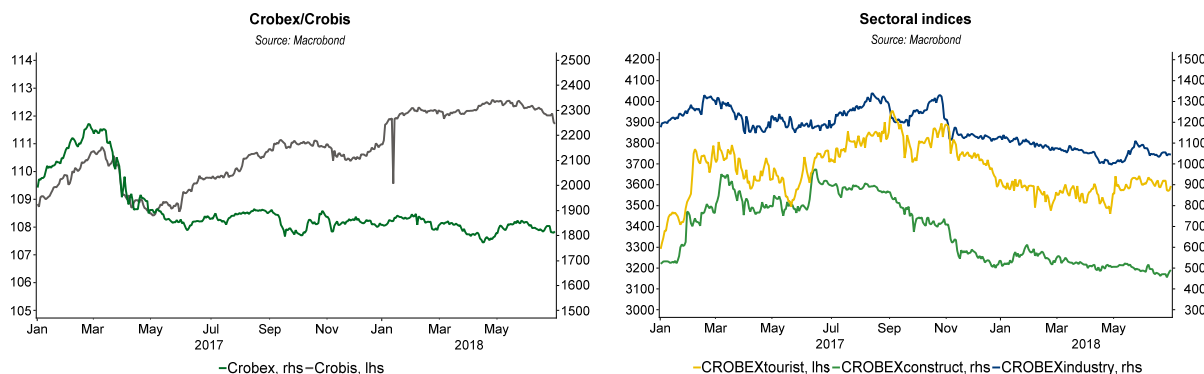
Excess liquidity decreased below 26 billion kuna, while only the overnight Zibor recorded a shift, increasing by 4 b.p. wow to 0.34%, whereas 1M and 3M stayed the same at 0.44% and 0.49%. There was no interest shown at the reverse repo auction of CNB and there was no turnover on ZMM.

Last week, a total of 646 million kuna in T-bills matured and 721 million kuna in 1-year kuna T-bills at the interest rate of 0.09% were subscribed, therefore the government debt slightly rose to 29.9 billion kuna. The next T-bill maturity date is 23 August.



Crobex down wow

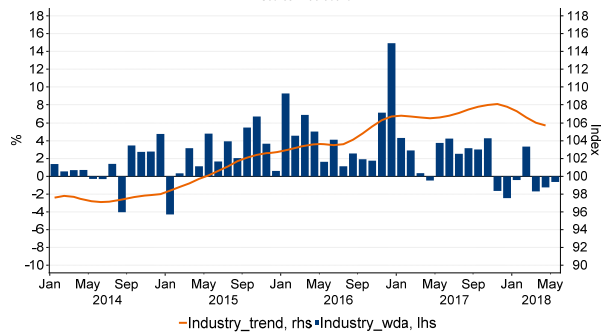
The total ZSE turnover amounted to 602.9 million kuna last week, which is a rise of 4.1 times versus the week before, owing to a 5.3 times higher turnover in bonds (reaching 544.5 million kuna) and a 28.9% higher turnover in shares (58.4 million kuna). The Crobex index closed on Friday at 1,816.49 points, which is a decrease of 1.2% wow, whereas Crobis dropped by 0.3% (to 111.72 points). As regards sector indices, CROBEXconstruct closed last Friday up by 4.3% wow (reaching 491.87 points), while CROBEXindustry (1,044.79 points) and CROBEXtourist (3,594.73 points) closed on Friday down by 1.0% and 0.7% wow, respectively.



Statistics

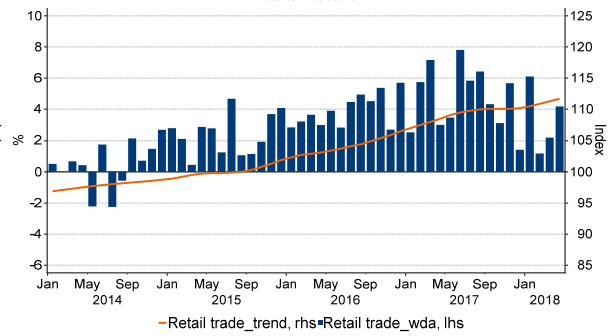
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



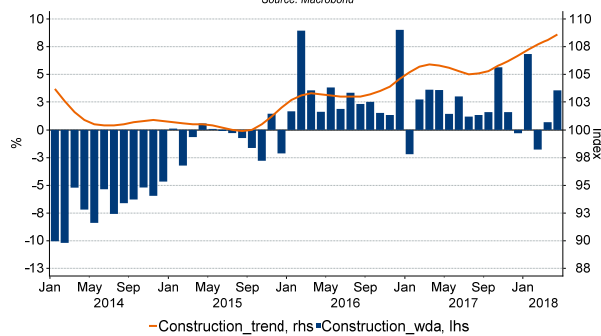
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



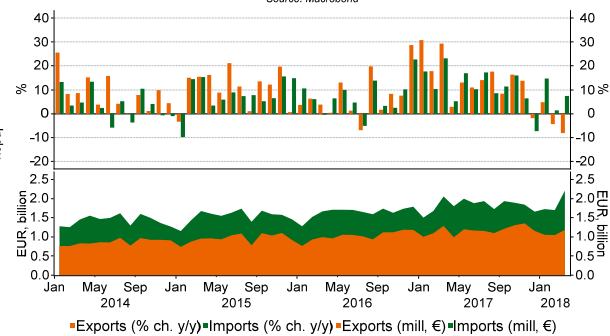
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



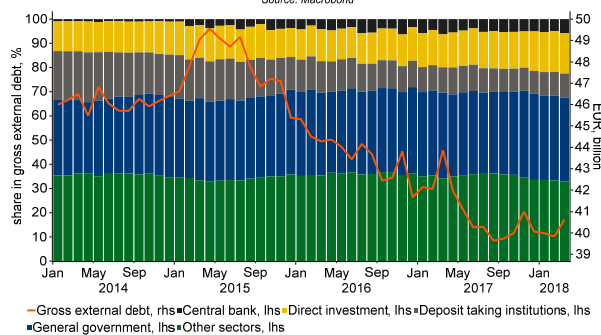
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



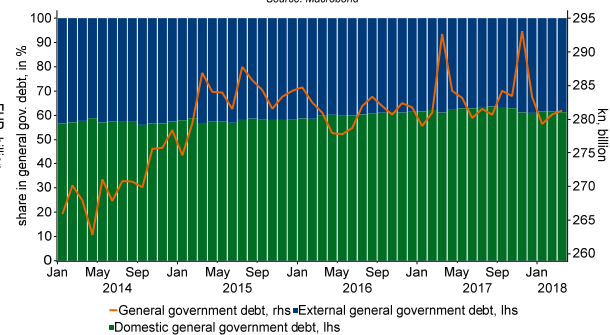
Gross external debt

Source: Macrobond



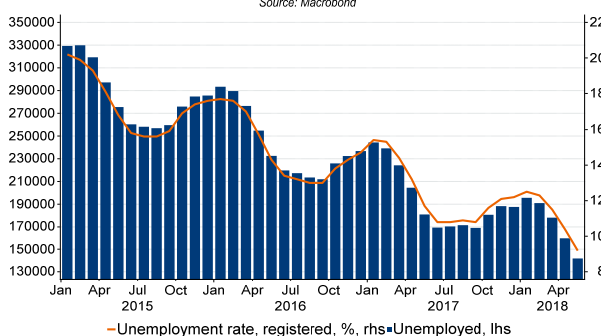
General government debt

Source: Macrobond



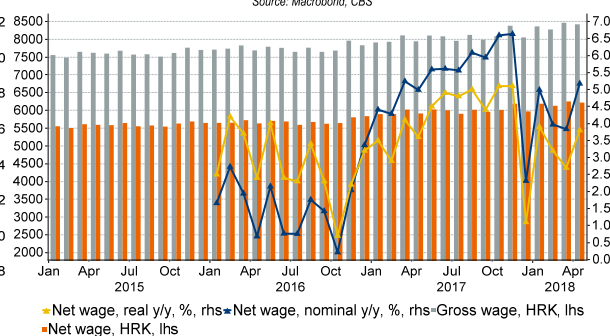
Total number of unemployed and unemployment rate

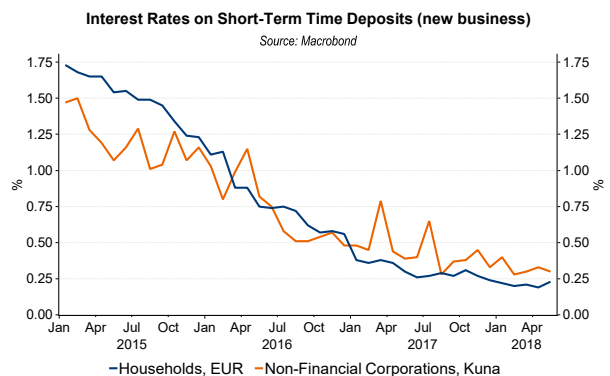
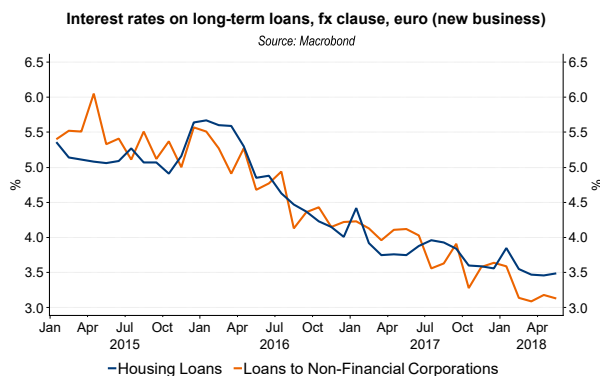
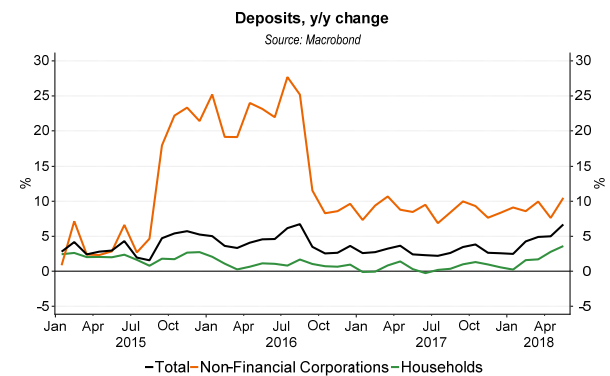
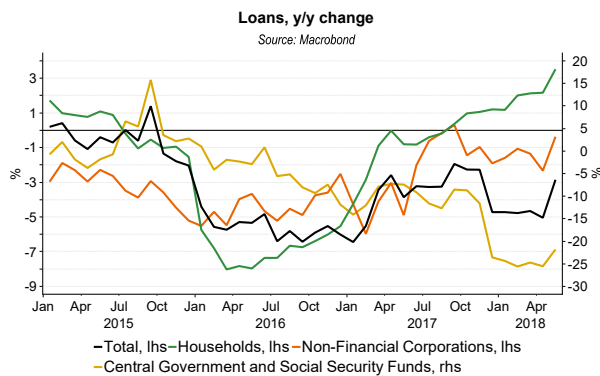
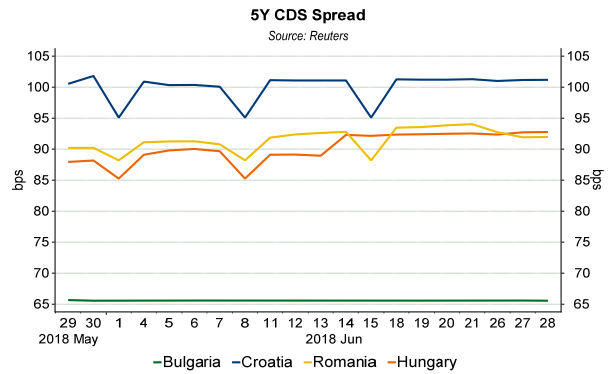
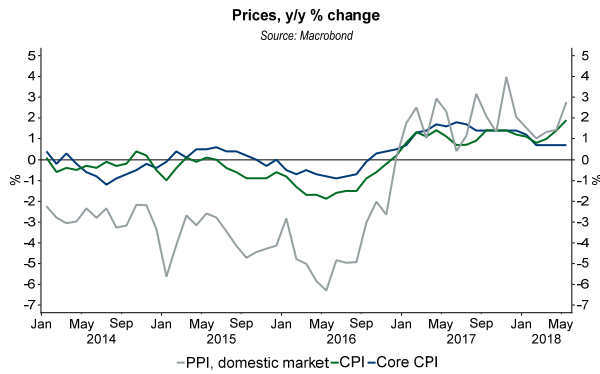
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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