

PBZ Weekly Analysis

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Weekly overview

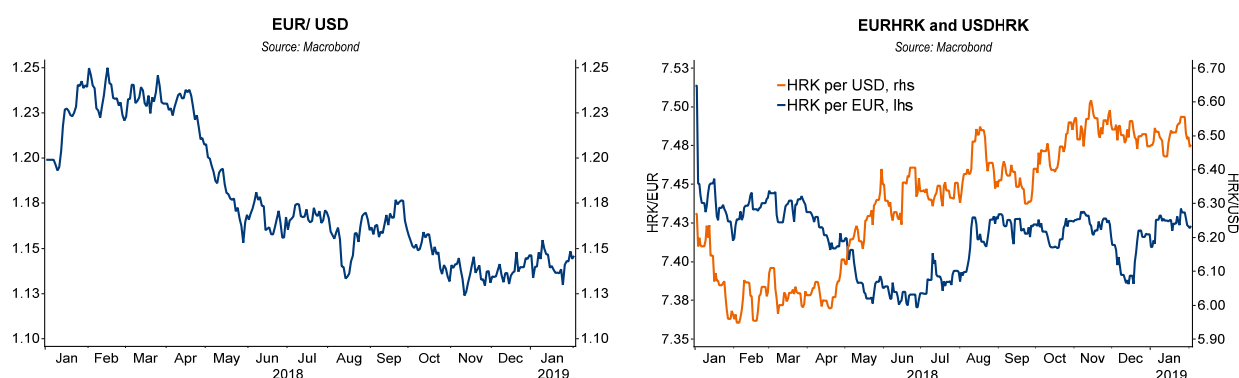
After a three-year decrease, total assets of other MFIs in 2018 increased by 3.7% yoy, mostly owing to a robust growth of funds on transaction accounts (24.3%). As a result, deleveraging of banks abroad continued, therefore net foreign assets recorded positive figure at the end of the year, amounting to 10.8 billion kuna. Total deposits in 2018 advanced by 5.7% yoy, which is a notable acceleration versus the year before, due to a stronger growth of the private sector deposits supported by economic activity, favourable labour market developments, another record tourism season, remittances from abroad and the recovery of crediting. While demand deposits soared, kuna and FX savings declined by 1.6 and 1.1%, respectively, which comes as a no surprise amid the low and descending interest rates on savings and the kuna appreciation against the euro (1.3% yoy). Last year, household deposits recovered (+4.2%; i.e. around 5% when excluding a negative influence of stronger kuna) whereas, simultaneously, deposits of non-financial corporations maintained their strong upward trend (+7.2%). After last year's continuous eleven-month fall due to the sale of claims and a partial repayment of debt of road companies in late 2017, total loans closed the year at a 2.2% higher yoy level, thus ending the negative period after more than three years. The recovery of crediting may be attributed to a stable economic growth, increase in personal income, reduced interest rates and the continued programme of subsidised housing loans. In 2018, loans to the central government and the social security funds increased by 1.2% and to the private sector by 2.3%, where the end of the year was under the influence of the activation of the general government guarantees issued for shipbuilding. The latter had also an impact on developments in placements transactions, where the cumulative growth to the private sector amounted to 4.4% yoy, of which to households 6.2% and to non-financial corporations a meagre 1.9%, due to previously mentioned circumstances in December (back in November, the growth was 3.1%). Household loans rose by 4.6% yoy, mostly owing to a 11.1% surge in cash loans, which were mainly granted without any collateral, while almost half of these loans were granted with maturities greater than ten years (around 40% in 2017). The extension of maturity indicates that these loans are not used solely for current spending, but also, for instance, for financing housing needs, given the tighter credit standards for housing loans. Along with cash loans, a moderate increase in housing loans (+2.3%) was recorded in the retail loan portfolio, whereas other types of loans recorded a decrease or a minimum growth. Corporate loans fell by 1.4% yoy, whereas breakdown by purpose shows that loans for working capital and investments were reduced by 4.3 or 0.5%, respectively, while loans for other purposes climbed by 3.7%.

In 2019, we anticipate further positive trends in the credit demand of the private sector, where the limiting factors will involve a relatively high share of B and C loans, particularly for non-financial corporations, regulatory restrictions imposed on housing loans and their potential introduction for cash loans (the central bank clearly monitors their development closely, bringing a detailed overview in the last issue of the publication Macropprudential diagnostics No. 7) while, at the same time, a continued economic growth and low interest rates give a boost to its strengthening. We anticipate a continuation in an upward trend in deposits, whereas, in an atmosphere where low interest on savings discourage its recovery, sight deposits are likely to record the strongest growth, as previously recorded.

Dollar weaker after Fed meeting, kuna unchanged

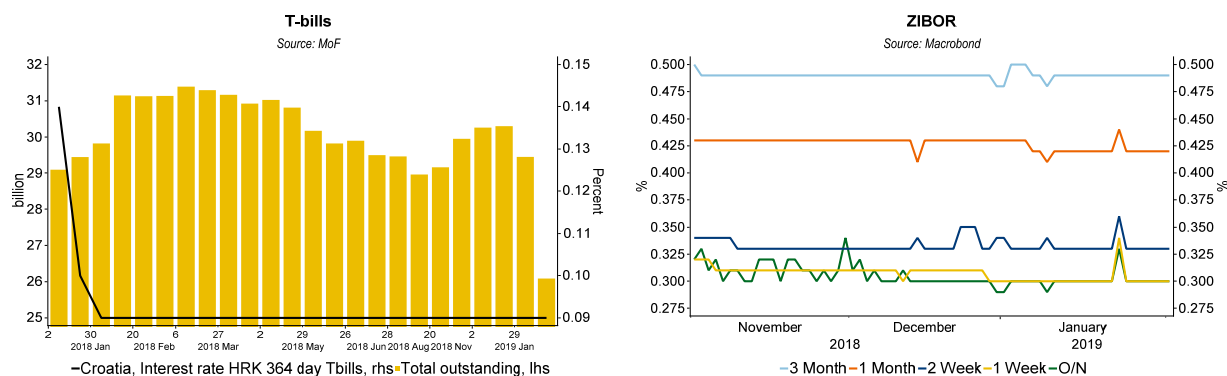
Last week's meeting of the Fed surprised the markets, since the indications of a future key interest rate hike were removed from its statement, due to which the dollar weakened, closing the week at 1.15 dollar to the euro, up by 0.4% wow.

The EUR/HRK mid-exchange rate amounted to 7.4231 kuna to the euro at the end of last week, down by 0.1% from the previous Friday. The kuna appreciated against the dollar by 1.3% and the exchange rate dropped to 6.4735 kuna to the dollar. This week, we expect trading in the range 7.40-7.44 kuna to the euro.



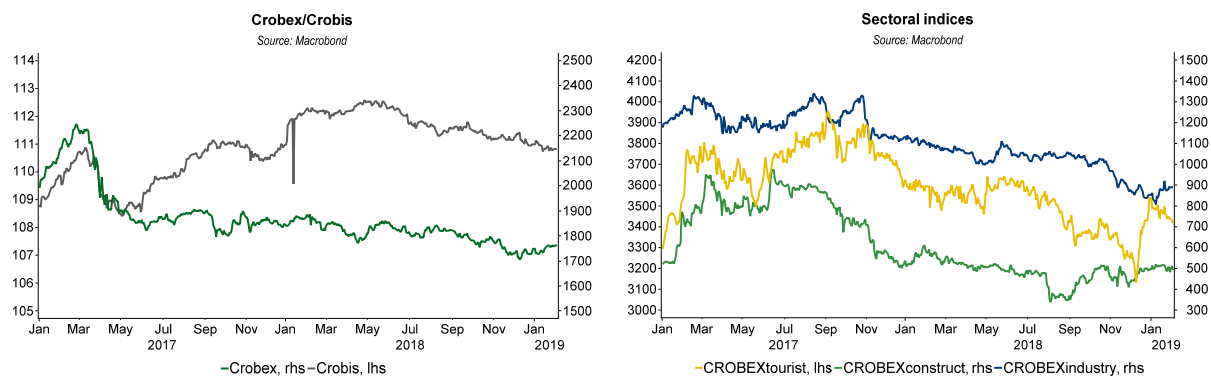
Kuna and FX T-bills issued

Liquidity remains generous, with the excess nearing 35 billion kuna, therefore, interest rates have stayed the same (the overnight Zibor 0.30%, 1M 0.42%, 3M 0.49%) and there was no activity at the repo auction or on ZMM. Last week, 1.2 billion kuna in one-year kuna T-bills matured, while 0.4 billion kuna were subscribed at the unchanged interest rate of 0.09%. Ahead of the maturity of 1.5 billion euro in euro T-bills, an auction was held, with euro T-bills amounting to 1.0 billion euro at the interest rate of 0.00%, 10 b.p. lower than the previous issue. Thus, the government debt under T-bills decreased to 26.1 billion kuna. There will be no auction this week.



Crobex down wow

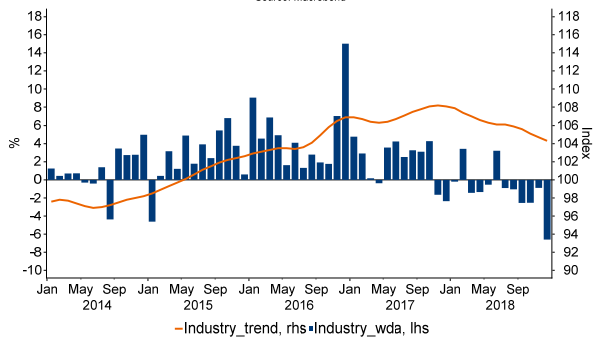
The Crobex Index closed last week at 1,760.03 points, i.e. down by 0.1% wow, while Crobis simultaneously rose by 0.1% (to 110.84 points). As regards sector indices, CROBEXindustry rose by 1.0% wow on Friday (to 888.95 points), while CROBEXconstruct (492.94 points) and CROBEXtourist (3,417.74 points) decreased by 2.7% and 0.9%, respectively. Last week, the total ZSE turnover amounted to 1,176.5 million kuna, up by 3.2 times versus the week before, owing to a 3.3 times higher turnover in bonds (to 1,142.3 million kuna) and an 87.7% higher turnover in shares (to 34.2 million kuna).



Statistics

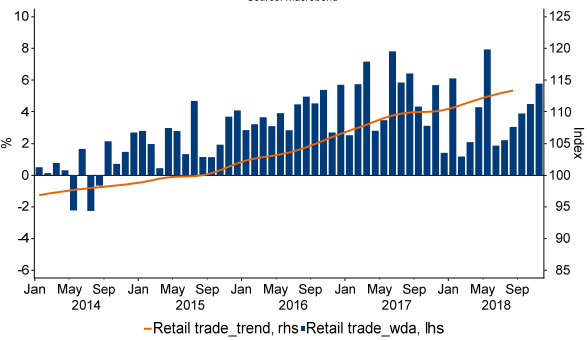
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



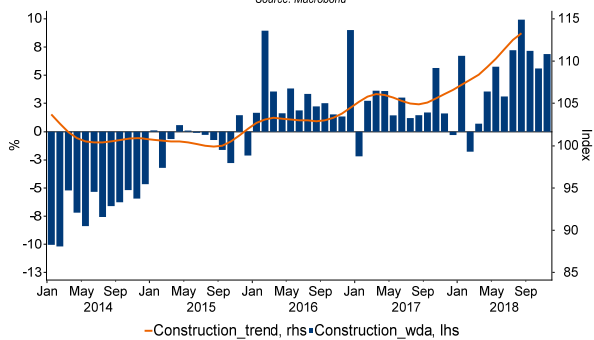
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



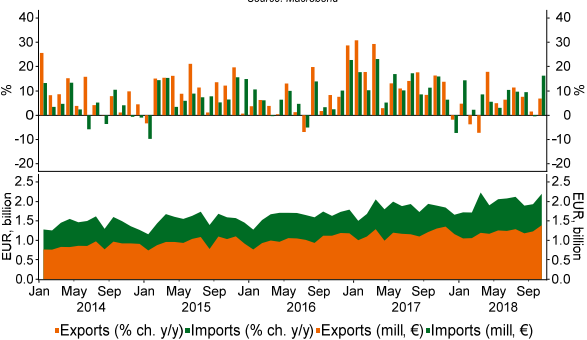
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



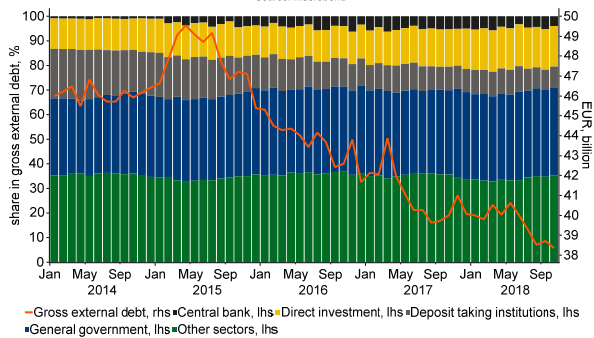
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



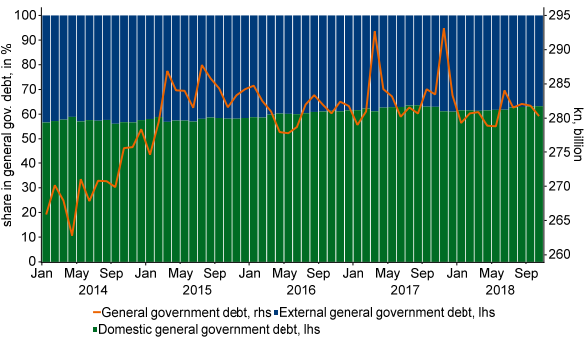
Gross external debt

Source: Macrobond



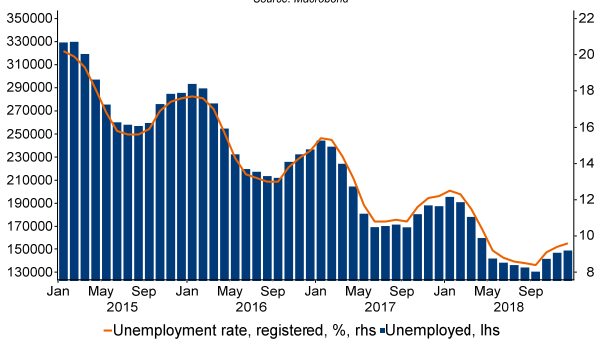
General government debt

Source: Macrobond



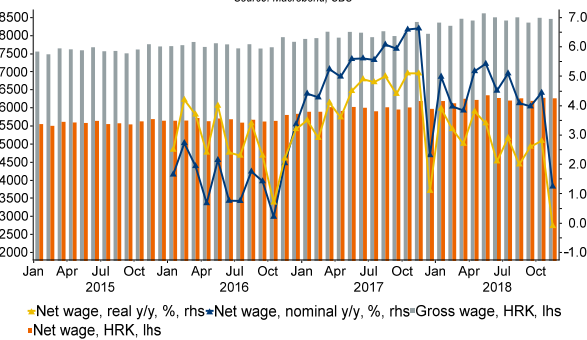
Total number of unemployed and unemployment rate

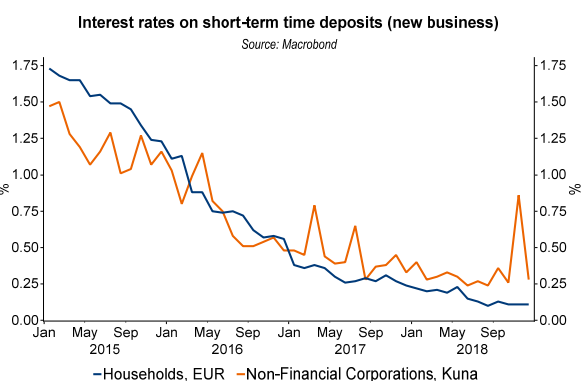
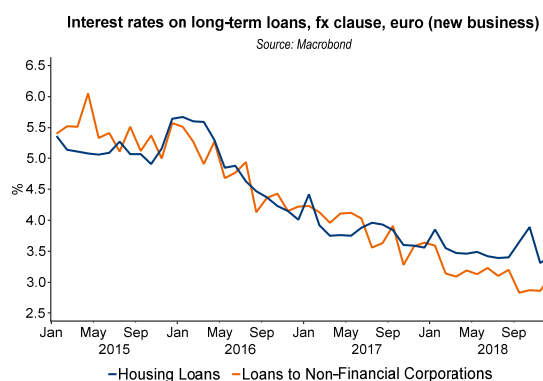
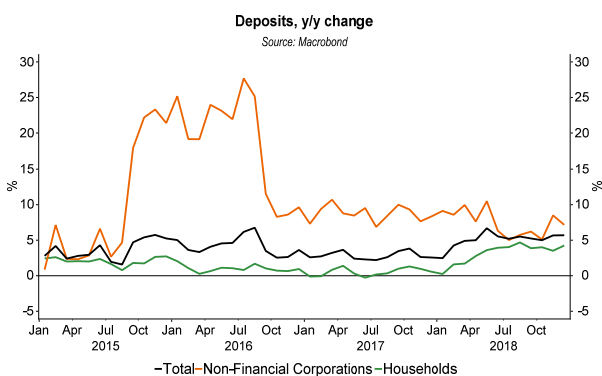
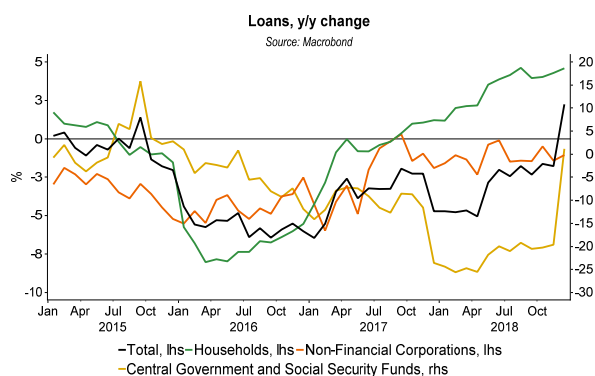
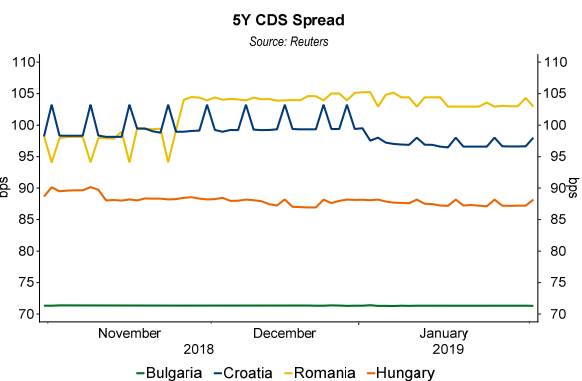
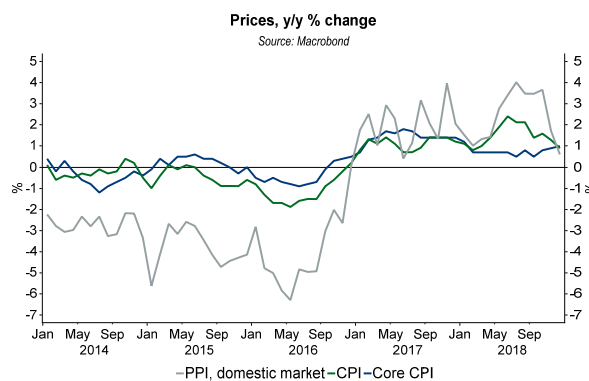
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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