

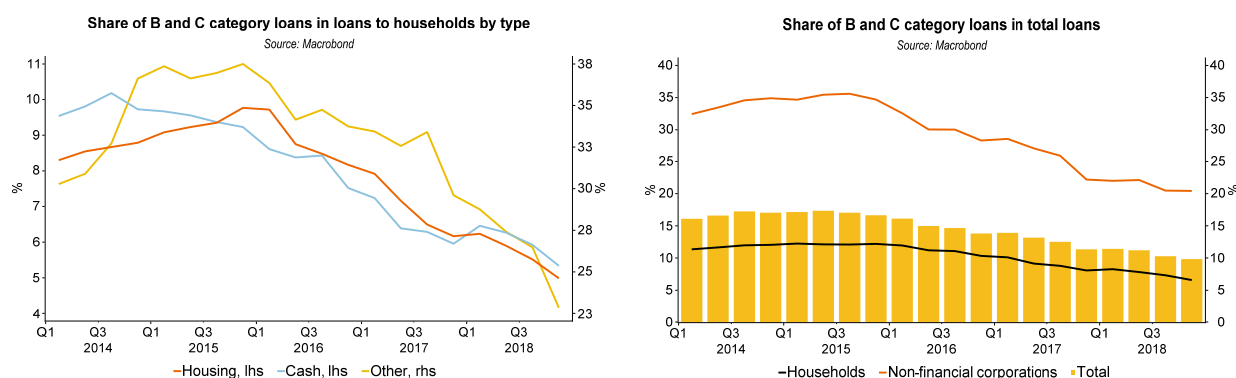
PBZ Weekly Analysis

Number 641, March 11, 2019

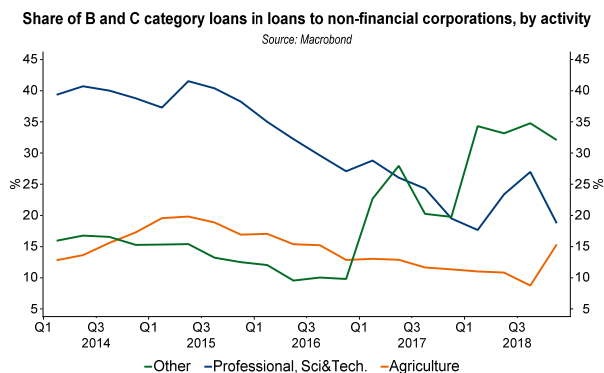
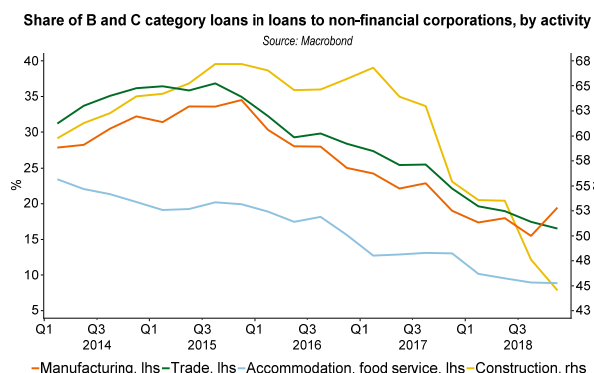
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Weekly overview

Strengthened by economic growth, improved labour market and an increase in new loans, the downward trend in the share of B and C loans in credit portfolios of banks continued in the fourth quarter of 2018, however, at a more moderate pace versus the previous quarter, due to a slowdown in the dynamics of sale of non-performing loans and the aggravated portfolio of some activities. In the fourth quarter banks sold gross claims (financial assets at amortised costs) amounting to 1.1 billion kuna, 51.8% less compared with the third quarter, of which 0.6 billion kuna in claims on citizens and 0.5 billion kuna on non-financial corporations (+37.7% and -73.7% qoq, respectively). A significantly lower volumes of sale resulted in a qoq decrease in the share of B and C loans in total loans of 0.4 p.p. (-0.9 p.p. over the previous quarter) to 9.8%. The share of B and C loans in loans of non-financial corporations declined barely by 0.1 p.p., since the improved quality in majority of the activities (construction -3.1 p.p. to 44.6%, trade -0.9 p.p. to 16.5%, accommodation and food service activity -0.1 p.p. to 8.9%, professional, scientific and technical activities -8.2 p.p. to 18.8%, other activities -2.7 p.p. to 32.1%) scarcely managed to compensate for a strong deterioration of ratios in the activities facing problems, such as manufacturing (+4.0 p.p. to 19.5%) and agriculture (+6.6 p.p. to 15.4%). At the same time, the quality of retail loans significantly improved, recording a decline in the share of 0.8 p.p. qoq (to 6.6%). Thereby the share in housing loans fell by 0.5 p.p. to 5.0%, in cash loans by 0.6 p.p. to 5.3%, while overdrafts recorded stagnation at 6.0% and other loans decreased significantly 3.6 p.p. to 22.9%. Whereas the share of non-performing loans of households gradually continued to move towards the levels registered at the beginning of the crisis, the indicators of the corporate portfolio remained above the levels recorded ten years ago. The latter reveals that the economic and credit growth are not sufficient for the resolution of non-performing loans, however, further intensified efforts for resolving structural impediments are necessary to speed up the process, such as the measures proposed by EC¹ for the implementation of the Council's Action Plan to tackle non-performing loans in Europe (more efficient and predictable frameworks of restructuring, insolvency and debt collection, development of secondary markets, establishment of transaction platform for non-performing loans at the EU level etc.).



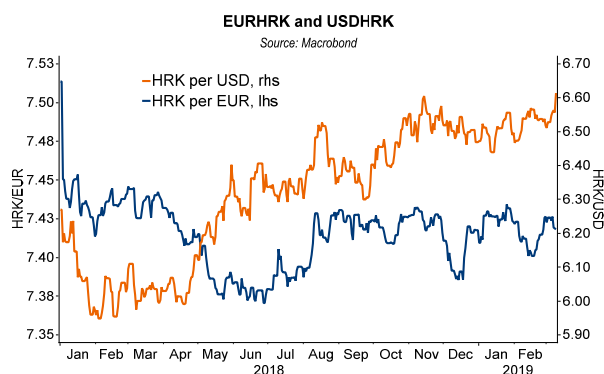
¹ https://ec.europa.eu/info/publications/180314-proposal-non-performing-loans_en



Euro weakens after ECB meeting

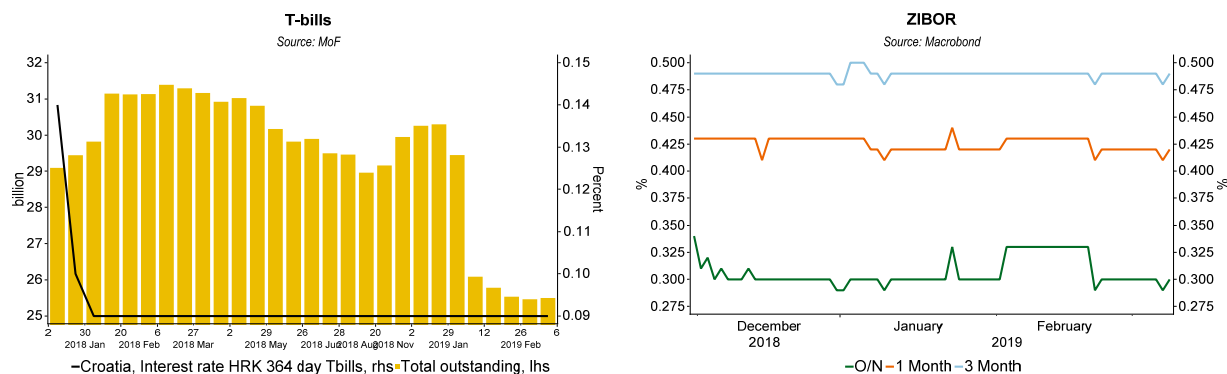
The ECB meeting surprised the markets by announcing the third series of the targeted longer-term refinancing operations (TLTRO), change in the forward guidance by which ECB continues to expect that interest rates will remain at their present levels at least by the end of the year as well as lower projections of GDP and inflation which pave the way to further quantitative easing measures. In this environment, the euro weakened against the dollar, while trading closed moderately above 1.12 dollar to the euro on Friday, down by 1.0% wow.

The kuna mildly strengthened against the euro and the exchange rate decreased to 7.4183 kuna to the euro on Friday. The kuna against the dollar weakened strongly by 1.3% to 6.6140 kuna to the dollar due to the strengthening of the dollar against the euro. This week, we anticipate trading in the range 7.40-7.44 kuna to the euro.



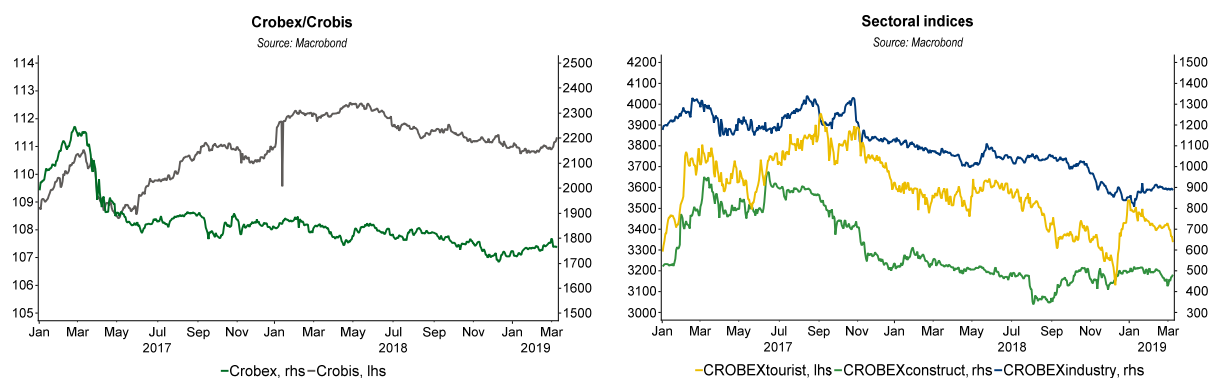
Money market unchanged

Money market interest rates stayed calm amid weak demand and maintenance of excess liquidity at 32 billion kuna. There was no activity at the repo auction, and the ZMM turnover reached 0,6 billion kuna. Last week 1.1 billion kuna matured, while 1.0 billion kuna in one-year kuna T-bills were issued at the interest rate of 0.09%, therefore the government debt under T-bills stayed at 25.5 billion kuna. This week, 0.2 billion kuna in T-bills matures, whereas the Ministry of Finance has announced that no auction will be held this time.



Crobex down wow

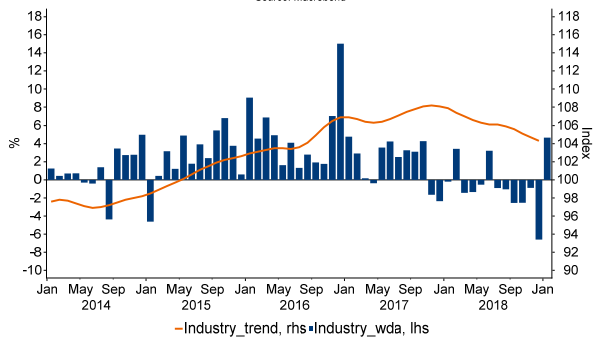
The total ZSE turnover amounted to 198.3 million kuna last week, down by 19.7% versus the week before, owing to a 62.4% lower turnover in shares (reaching 35.8 million kuna), while the turnover in bonds increased by 7.1% (to 162.5 million kuna). The Crobex Index closed at a 1.7% lower wow level last Friday, decreasing to 1,762.92 points, whereas Crobis simultaneously rose by 0.4% (to 111.33 points). As regards sectors indices, CROBEXconstruct climbed by 10.9% wow (to 482.77 points), while CROBEXindustry (886.86 points) and CROBEXtourist (3,338.45 points) fell by 1.0% and 2.2%, respectively. The Index Committee conducted a regular revision of the Crobex Index at its meeting of 6 March 2019, where a decision was made that the shares of INGRA d.d. (INGR), BRODOGRADILIŠTE VIKTOR LENAC d.d. (VLEN) and KRAŠ (KRAS) are to be excluded from the Crobex Index, while the share of the company ULJANIK PLOVIDBA (ULPL) met the requirement to be included in the indicated Index.



Statistics

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

Source: Macrobond



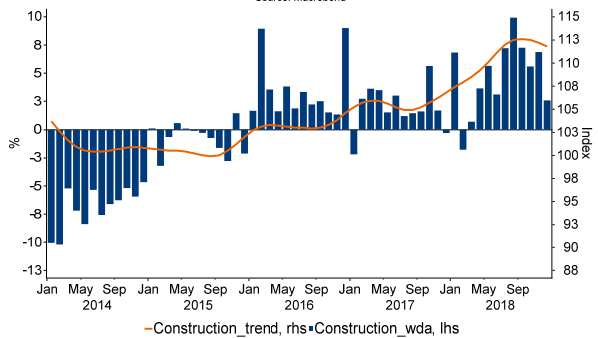
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



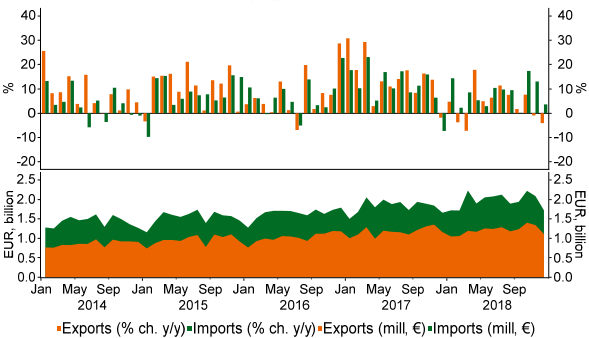
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



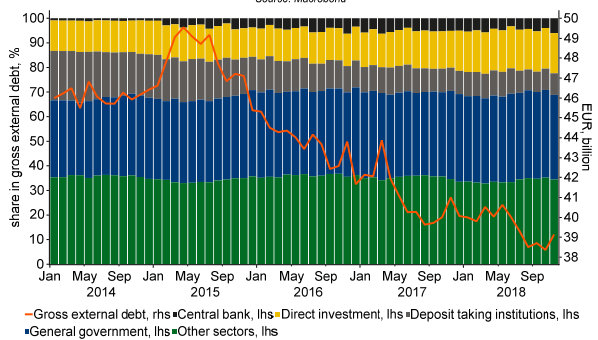
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



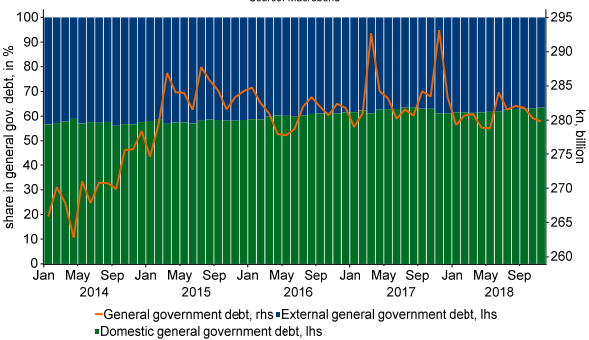
Gross external debt

Source: Macrobond



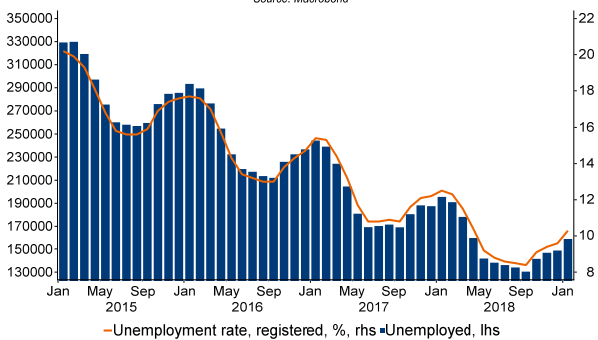
General government debt

Source: Macrobond



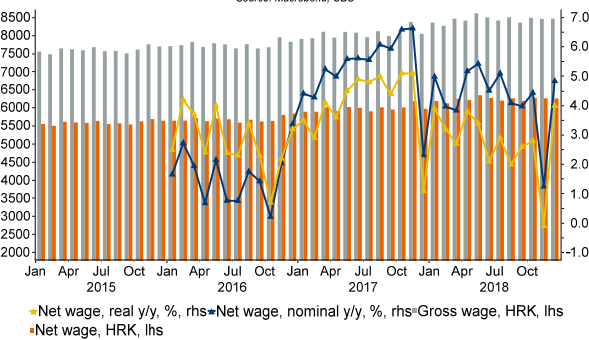
Total number of unemployed and unemployment rate

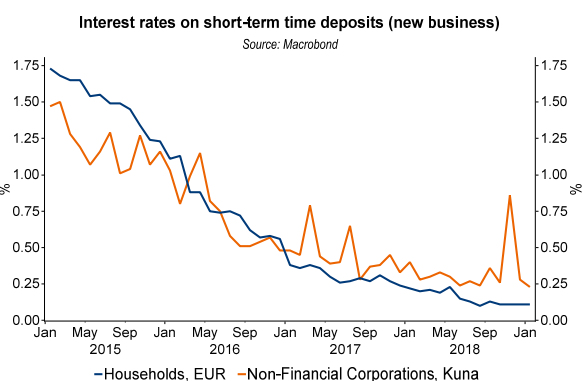
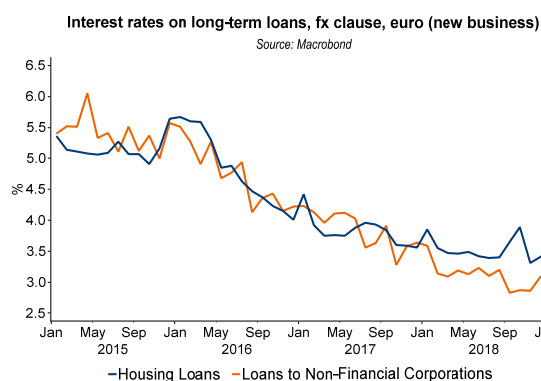
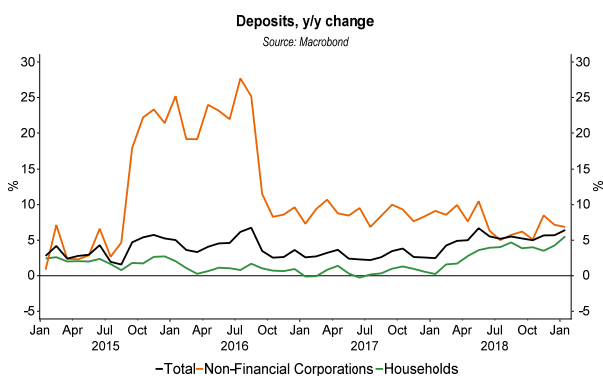
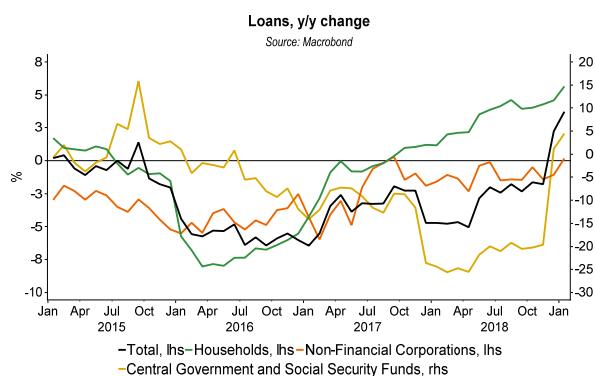
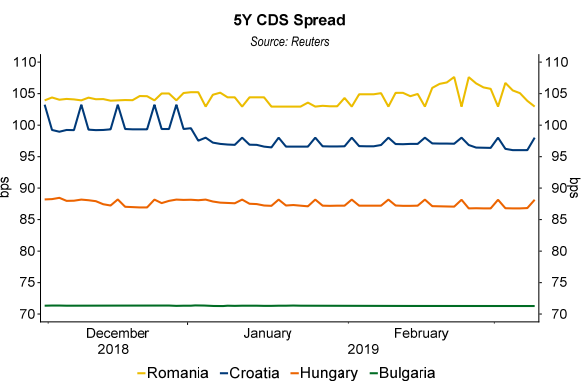
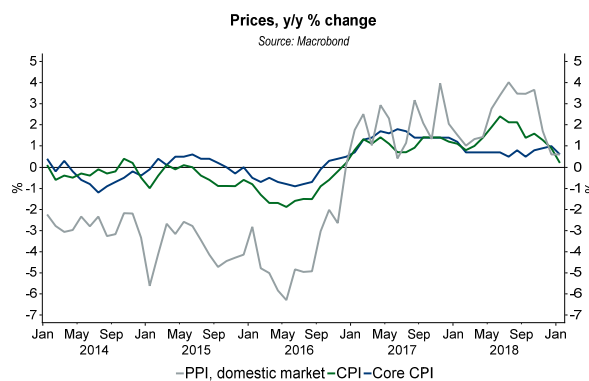
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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