

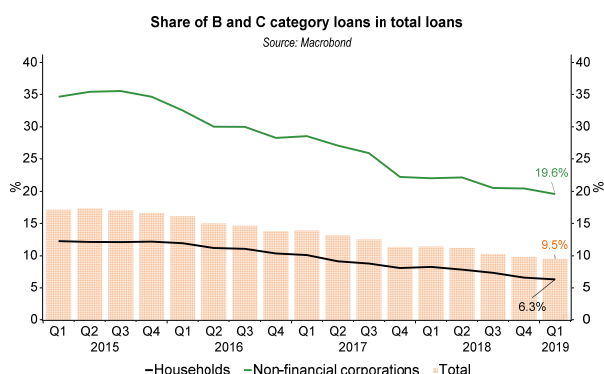
PBZ Weekly Analysis

Number 653, June 10, 2019

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Weekly overview

- Due to the strong economic and credit growth in the first quarter, favourable trends in the credit portfolio quality continued, while the impact of the sale of claims (total sold claims in the first quarter amounted barely to 80 million kuna) was substantially lower versus the previous period. The share of B and C loans in total loans thus decreased by 0.3



p.p. qoq, amounting to 9.5% at the end of March. The share of non-performing loans in loans to non-financial corporations fell by 0.9 p.p. qoq to 19.6%, owing to the improved quality of loans granted to trade (-2.1 p.p. to 5.3%), professional, scientific and technical activities (-3.5 p.p. to 15.3%), construction (-3.2 p.p. to 41.9%) and other activities (-0.6 p.p. to 31.5%). The difficulties in manufacturing adversely affected the portfolio quality, therefore the share of B and C loans in this activity rose by 1.1 p.p. to 19.8%. The share in loans to households declined to 6.3%, which is down by 0.3 p.p. versus the end of 2018, where the largest contribution to these trends came from a significant growth of housing and cash loans, with a simultaneous decrease in non-performing housing loans and other loans (housing loans -0.2 p.p. to 4.8%, cash loans -0.1 p.p. to 5.2%, overdrafts -0.3 p.p. to 5.7%, other -1.8 p.p. to 21.1%). For the rest of the year, we anticipate a more intensive sale of bad loans and a further drop in the share to the level of 9%.

- On Friday, the Fitch Agency upgraded the Republic of Croatia's both foreign and local currency rating to BBB- (from BB+), with a positive outlook, which is a move from speculative to investment rating. The report of Fitch, among other, reveals that rating was upgraded since Croatia outperformed its budget target (for the third consecutive year), restrained budget expenditure, increased tax revenue and reduced interest costs.

Dollar weaker, kuna stable

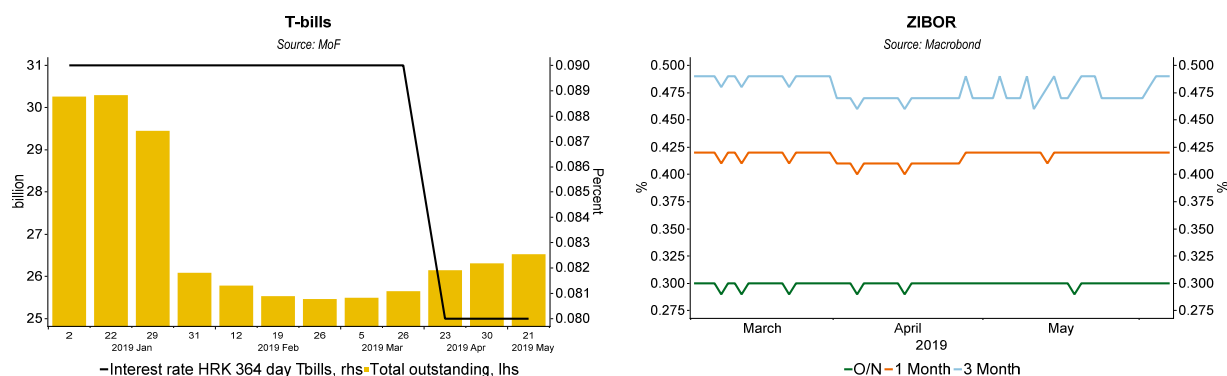
At its last meeting, the European Central Bank modified the forward guidelines by extending the period it expects interest rates to remain on hold by June 2020, indicating that the next move need not necessarily be an increase in interest rates. At the same time, the Fed officials signalled that they are closely monitoring economic developments, thus leading markets to increase their belief that the next move may be the interest rate cut. Amid these events, the dollar weakened by 1.5% against the euro wow, closing the week above 1.13 dollar to the euro.

The domestic FX market is still calm, the exchange rate amounted to 7.4136 kuna to the euro at the end of the week, down by 0.1% wow, while the kuna against the dollar strengthened substantially by 1.0% to 6.5869 kuna to the dollar. We expect the stable trend of EUR/HRK to continue this week.



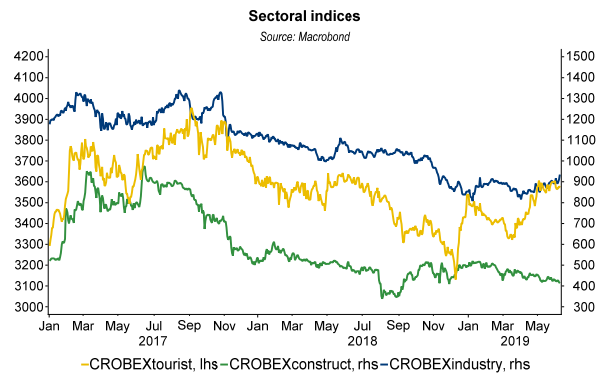
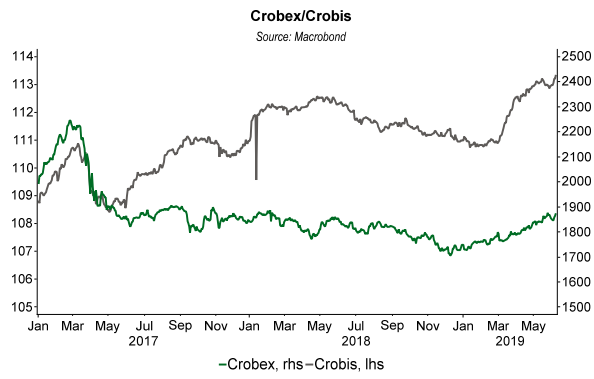
Interest rates unchanged

Last week, excess liquidity decreased to 30 billion kuna, while interest rates stagnated wow (O/N at 0.30%, 1M at 0.42%), or they recorded minor shifts (3M +2 b.p. to 0.49%). There was no interest shown at the repo auction of CNB, while the ZMM turnover reached 1.2 billion kuna. 113 million kuna in T-bills matured, but, since there was no auction, the government debt under T-bills fell to 26.3 billion kuna. The next maturity date of T-bills amounting to 721 million kuna falls on 27 June.



Turnover and Crobex up wow

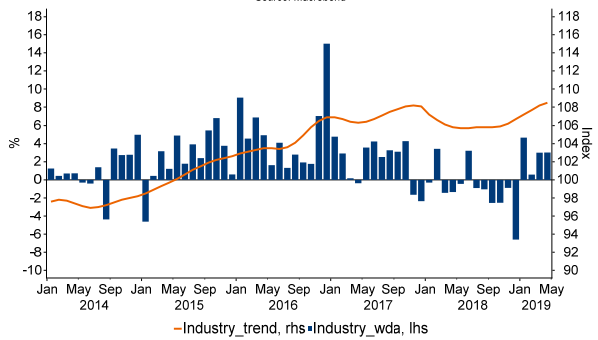
Last week, the total ZSE turnover amounted to 219.9 million kuna, i.e. 3.5 times up wow, due to a 6.4 times higher turnover in bonds (reaching 168.5 million kuna) and a 39.8% higher turnover in shares (51.4 million kuna). The Crobex Index closed last Friday at 1,874.59 points, which is an increase of 1.3% wow, while Crobis simultaneously rose by 0.3% (to 113.35 points). As regards sector indices, CROBEXconstruct decreased by 3.0% on Friday wow (to 414.33 points), while CROBEXindustry and CROBEXtourist advanced by 2.0% and 0.2%, respectively (to 935.58 and 3,580.46 points).



Statistics

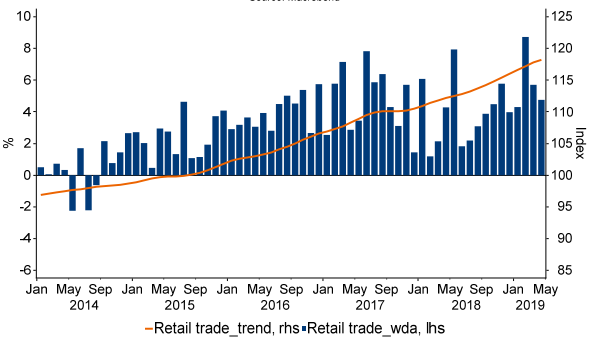
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



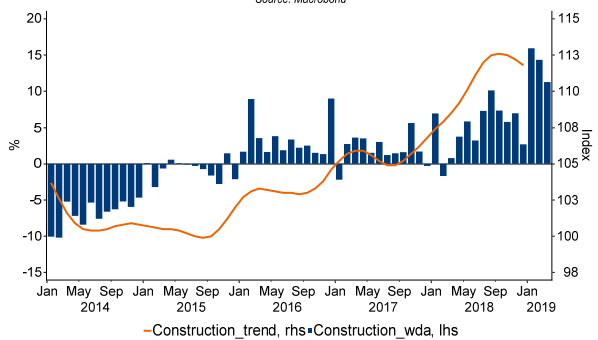
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



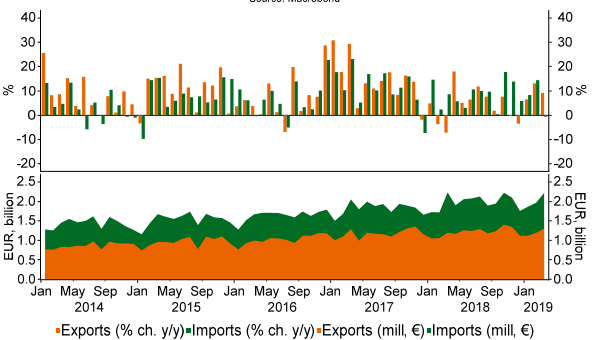
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



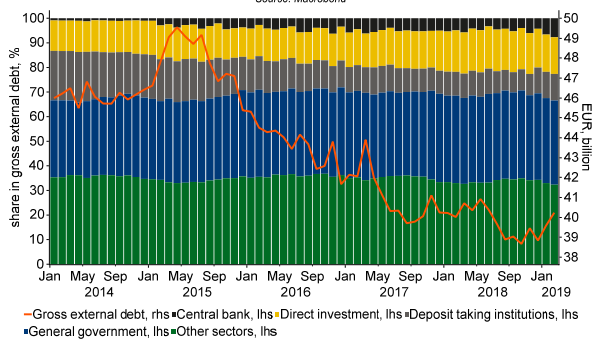
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



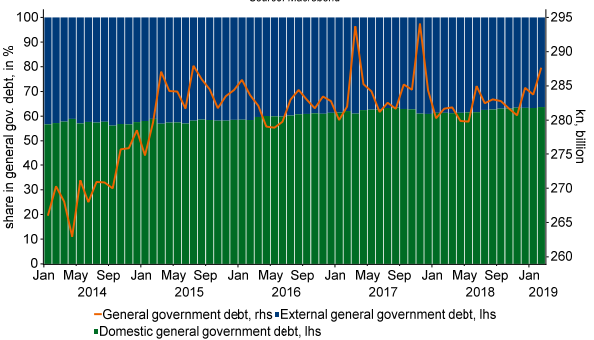
Gross external debt

Source: Macrobond



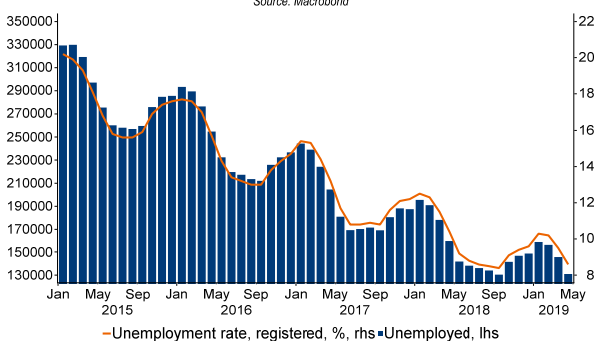
General government debt

Source: Macrobond



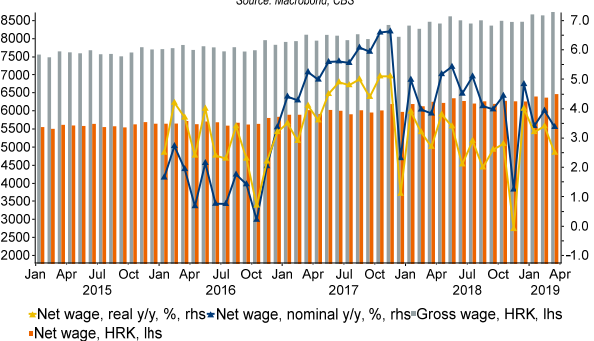
Total number of unemployed and unemployment rate

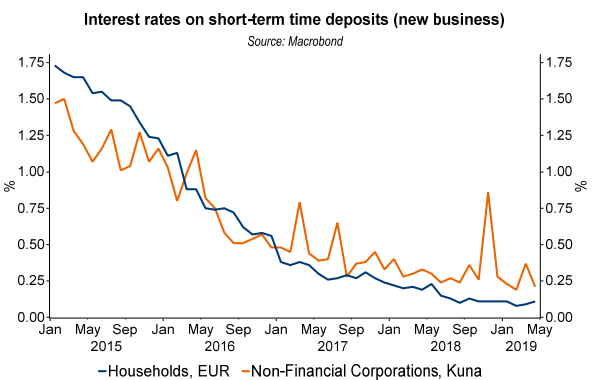
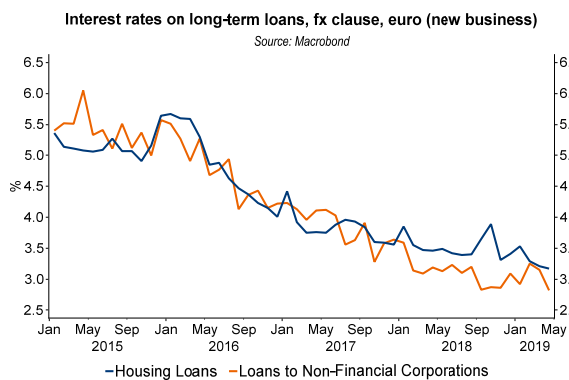
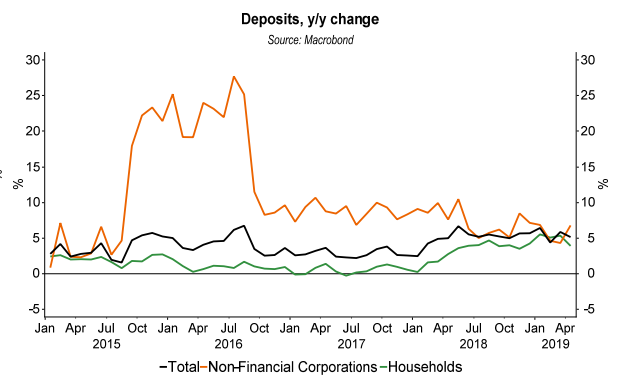
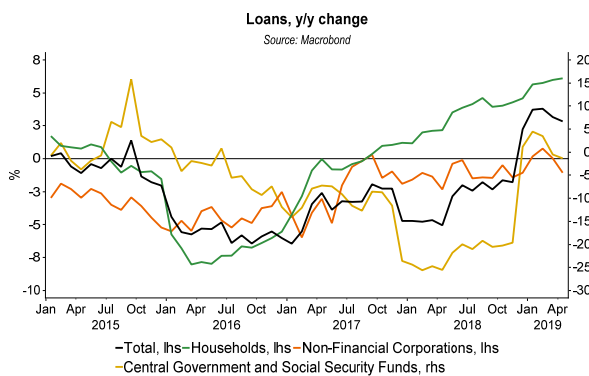
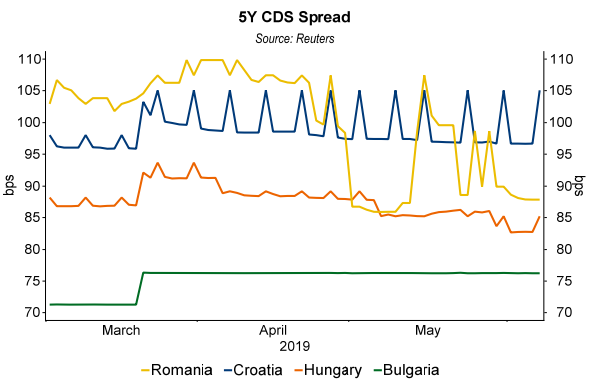
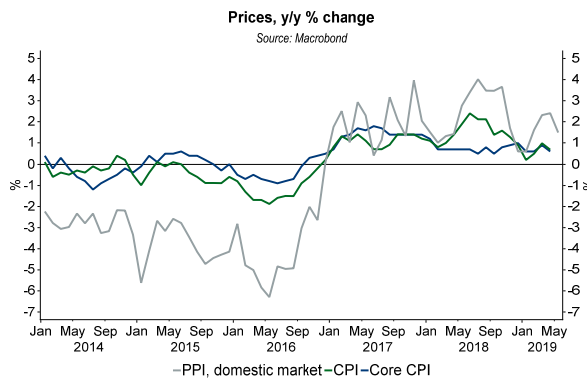
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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