

PBZ Weekly Analysis

Number 673, December 9, 2019

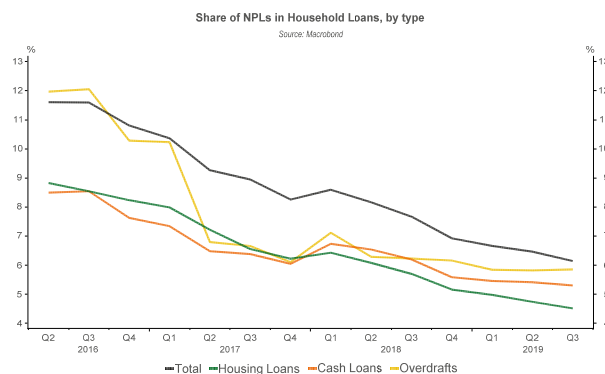
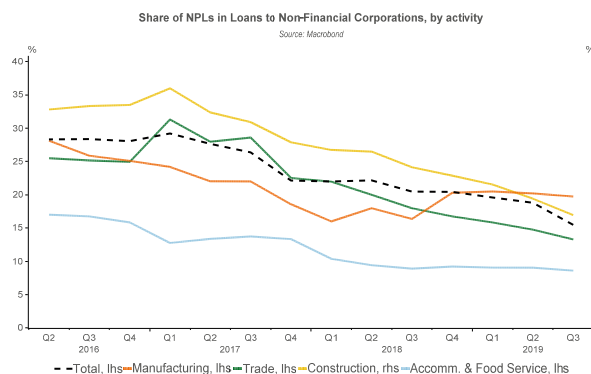
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Weekly overview

- Credit growth continues at low rates, mainly backed by household demand. In October, total loans increased by 2.3% yoy, where more moderate rates of decrease were recorded for loans to the central government (-0.7%) and non-financial corporations (-3.5%), while loans to households accelerated to 6.4%. The latter may be primarily owed to a higher growth rate of housing loans of 5.2% (5.1%, breakdown by transactions) supported by the subsidies programme, whereas cash loans slowed down for the seventh consecutive month (11.0%; 11.8%, breakdown by transactions), showing that the central bank measures borne fruit. At the same time, deposits continue to rise substantially (+5.3% in October), along with a stable trend in households (3.9%) and a slightly more pronounced fluctuations in non-financial corporations (8.4%). By the end of the year, we expect a further solid growth of household loans and deposits as well as lessening of the rate of decrease of loans to non-financial corporations (the base effect of the call of the guarantees issued for shipbuilding will vanish in December), while we forecast a mild slowdown in the growth of loans to citizens next year due to a lower economic growth rate and strengthened effects of macroprudential measures, in addition, we expect the growth of corporate loans to remain subdued by the sale of the portfolio. In our estimate, the increase in deposits will continue at moderate rates, while interest rates should continue their downward trend, somewhat more pronounced for loans than for deposits, which will further continue the pressure on net interest margin. Thus, over the first nine months of this year, interest income of credit institutions decreased by 10.1% and, only due to 47.5% lower interest expenses, net interest income recorded a meagre growth of 0.4% yoy.
- According to the latest CNB's data on credit quality, presented in line with the methodology of the European Banking Authority¹ (among a number of changes, the item loans now includes loans and advances, placed deposits and interest, while non-residents are included in the each pertaining sector instead in other sectors), the share of non-performing loans amounted to 6.0% at the end of September 2019, which is down by 1.2 p.p. qoq, and is mostly a result of a significant improvement in the corporate portfolio quality, owing to a high volume of sold claims (gross 2.7 billion kuna). Thus, the share in loans to non-financial corporations fell by 3.3 p.p. to 15.5%, where all the activities for which data is available, i.e. seven activities with the average share in total loans and advances of non-financial corporations that exceeded 5% over the past three years, recorded a drop in share (manufacturing -0.5 p.p. to 19.7%, construction -4.3 p.p. to 29.7%, trade -1.5 p.p. to 13.3% and the accommodation and food service activities -0.4 p.p. to 8.6%). The share of non-performing loans in loans to households decreased by 0.3 p.p. to 6.1% during the monitoring period. Thereby, out of three types of loans where data is available (using the same criterion as for corporate loans), two types, housing and cash loans, declined by 0.2 p.p. to 4.5% and 0.1 p.p. to 5.3%, respectively, while the third type, overdrafts on transaction accounts, stagnated at 5.9%. As bad loans are still at higher levels, particularly loans to non-financial corporations, we believe that the space for the sale of facilities is far from

¹ <https://www.hnb.hr/-/promjena-u-objavi-podataka-o-kvaliteti-kredita>

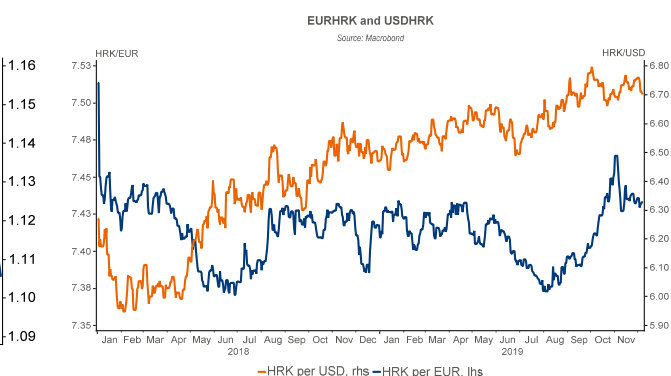
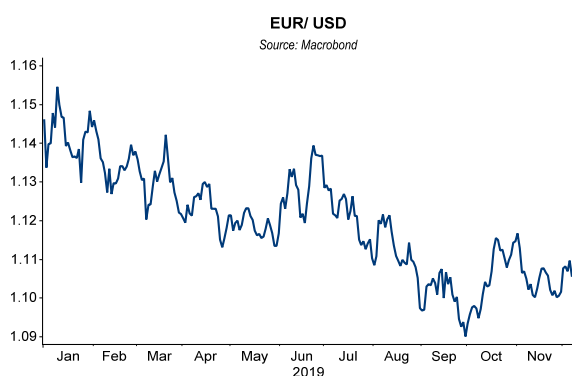
being exhausted, therefore we expect further portfolio cleansing. Simultaneously, the projected growth of economic activity, mildly slower but still positive, makes loan repayments easier, while the continuation of a moderately upward trend of credit activity results in an increase in the share of newly granted loans in the banks' assets. Therefore, we anticipate a continuation of the positive trend in the share of non-performing loans and a decline below 5% in 2020.



Dollar mildly weaker, kuna stable

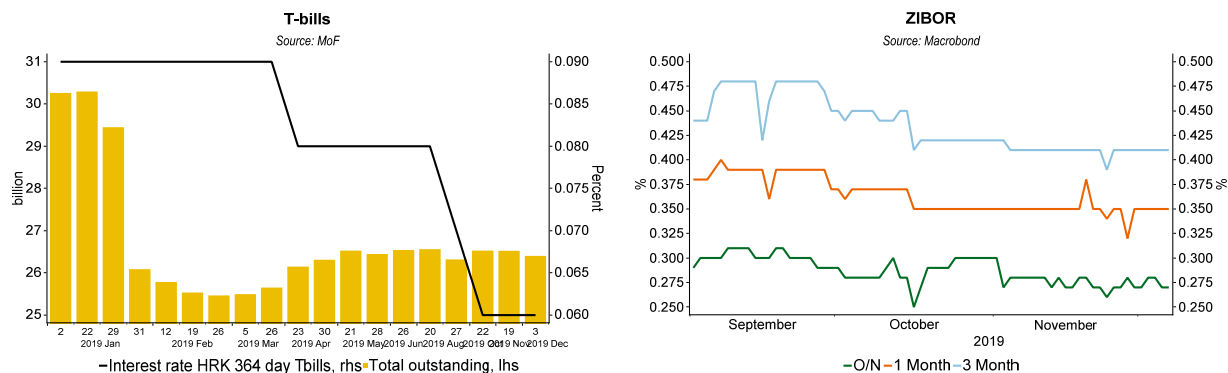
The US economic activity indicators released last week were lower than expected, thus leading to a moderate depreciation of the dollar against the euro. Trading in the EUR/USD exchange rate closed at 1.11 dollar to the euro on Friday, up by 0.4% wow.

We see a continuation of a stable EUR/HRK exchange rate, which closed the week at the level of 7.4334 kuna to the euro, almost unchanged wow. The kuna against the dollar strengthened by 0.9% wow, to 6.7016 kuna to the dollar. This week, we do not expect major changes in the EUR/HRK exchange rate.



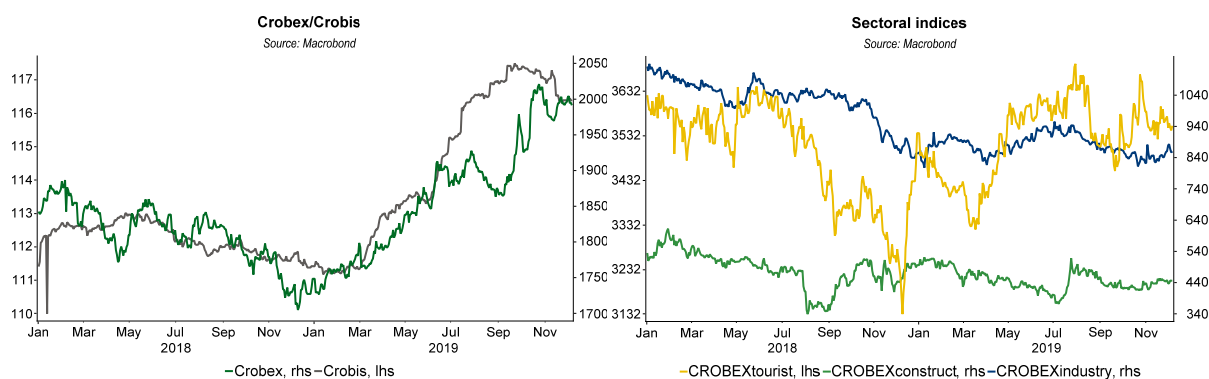
Interest rate stagnation continues

Excess liquidity remained around 29-30 billion kuna, while there was no turnover at the repo auction of CNB or on ZMM. Interest rates continued to stagnate (O/N Zibor 0.27%, 1M 0.35%, 3M 0.41%). Last week, a total of 1.872 million kuna and 3.3 million euro in T-bills matured, while 1,761 million kuna were subscribed at the unchanged interest rate of 0.06%, due to which the government debt under T-bills mildly fell to 26.4 billion kuna. The next T-bill maturity date is 2 January 2020.



Crobex in negative territory, turnover up

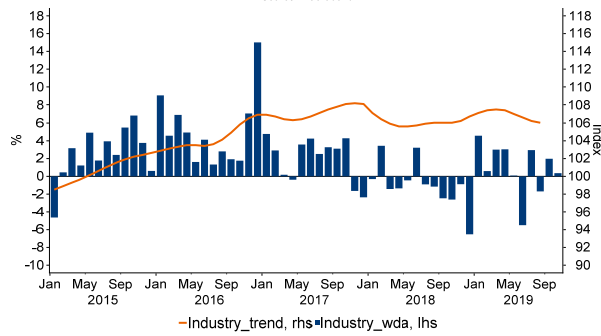
Total ZSE turnover reached 323.7 million kuna last week, thus increasing 2.8 times wow, as a result of a 4.2 times higher turnover in bonds (hitting 293.4 million kuna), whereas the turnover in shares declined by 34.6% (to 30.3 million kuna). The Crobex Index closed last Friday at 1,991.46 points, i.e. fell by 0.2% wow, while Crobis simultaneously stagnated (at 115.94 points). Sector indices ended in negative territory, where CROBEXtourist dropped by 0.6% wow (to 3,554.93 points), CROBEXconstruct by 0.5% (to 446.40 points) and CROBEXindustry by 0.1% (to 859.77 points).



Statistics

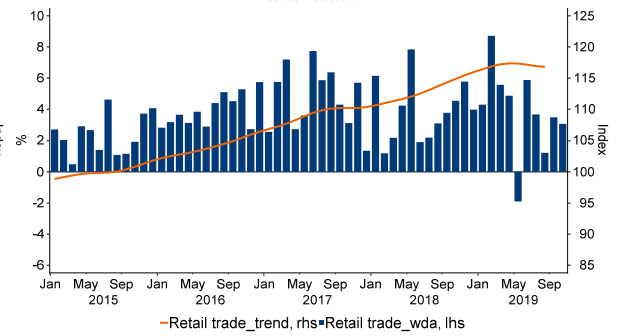
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



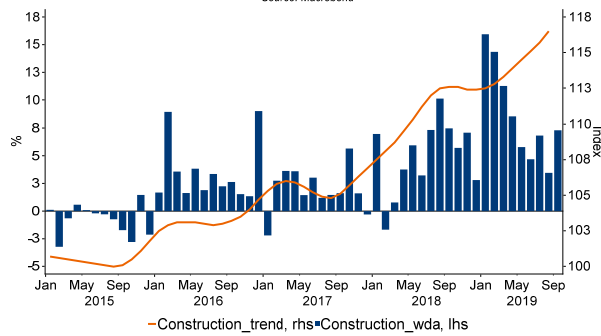
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



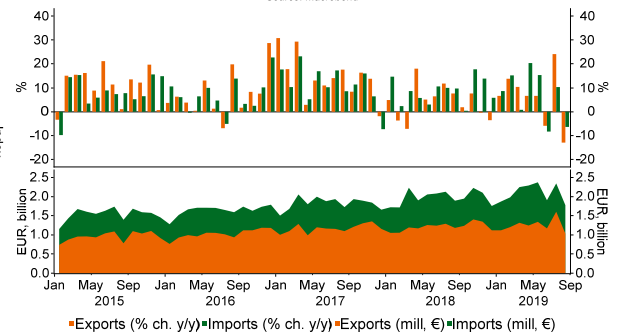
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



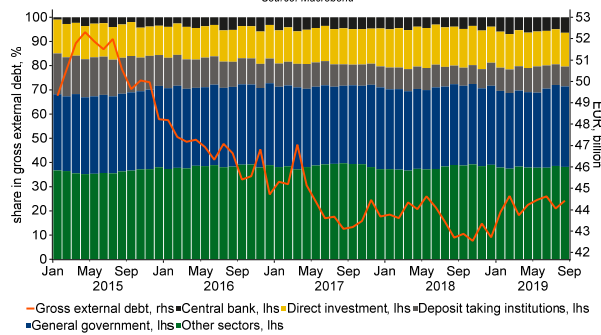
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



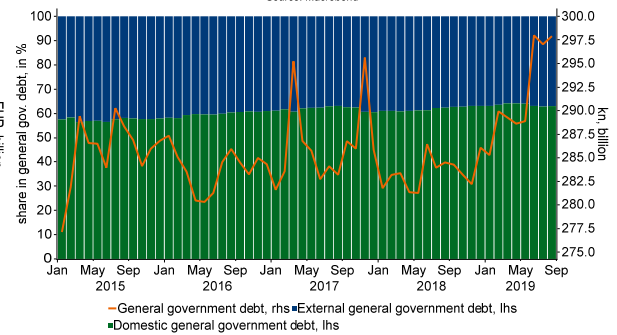
Gross external debt

Source: Macrobond



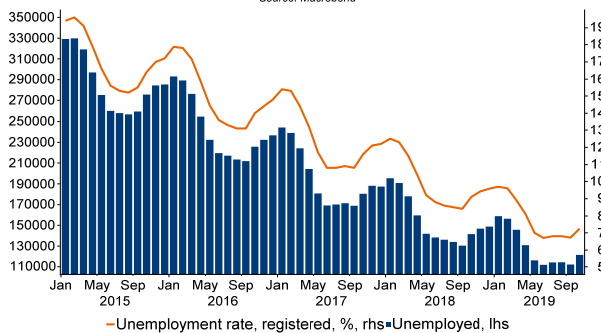
General government debt

Source: Macrobond



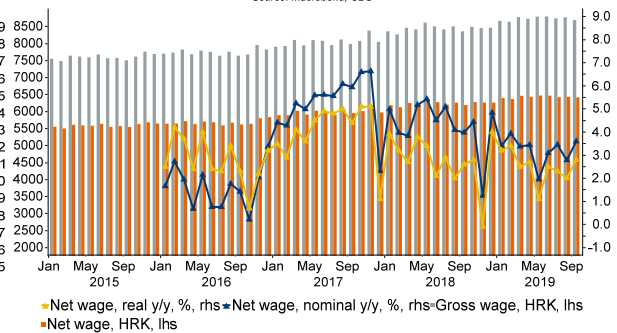
Total number of unemployed and unemployment rate

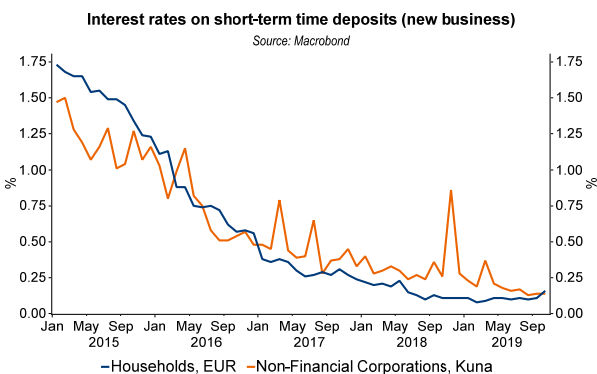
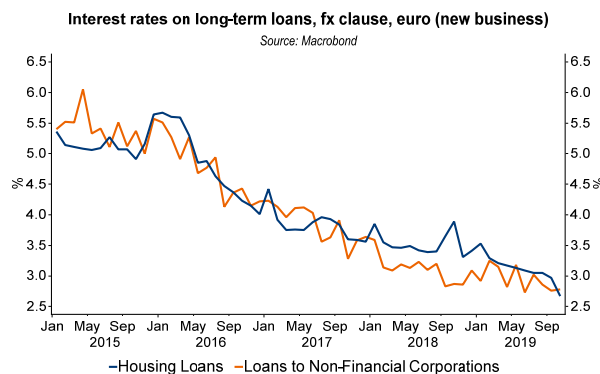
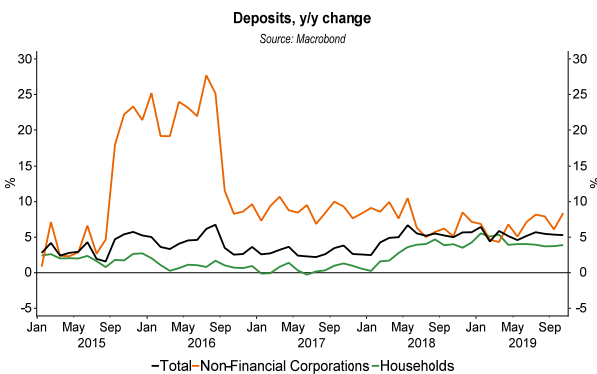
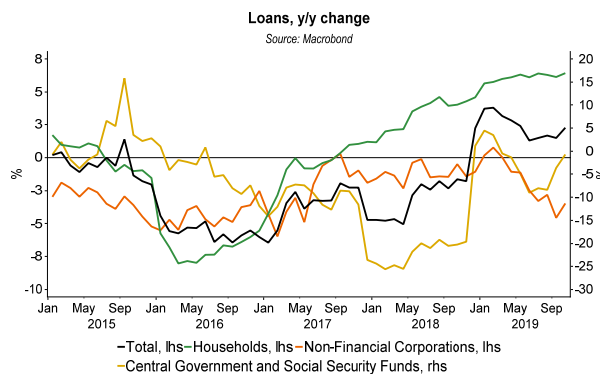
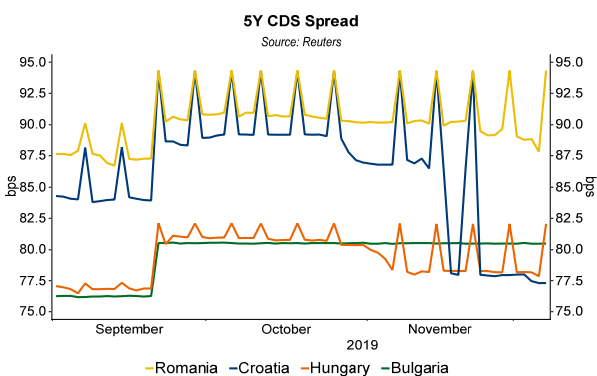
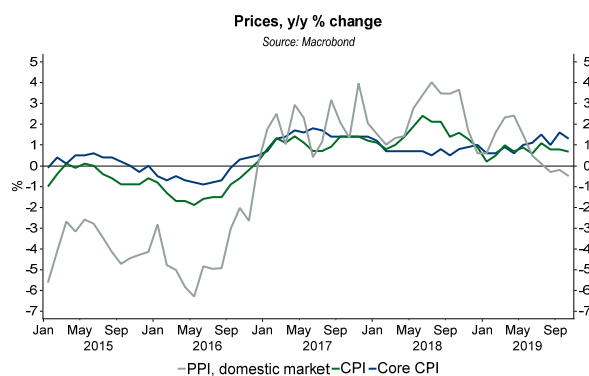
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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