

# WEEKLY ANALYSIS

## Number 684, March 9, 2020

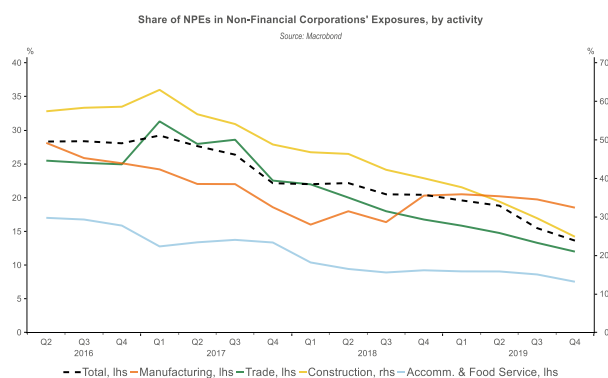
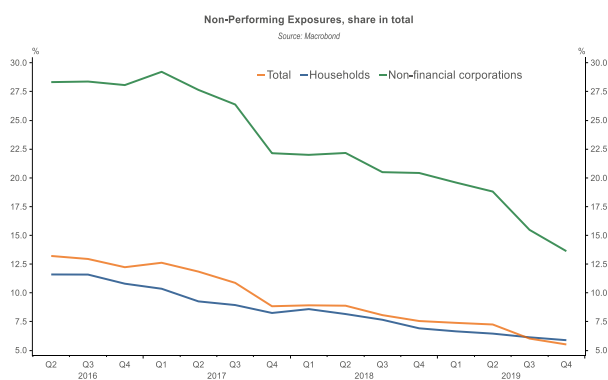
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## Asset quality maintained a positive trend

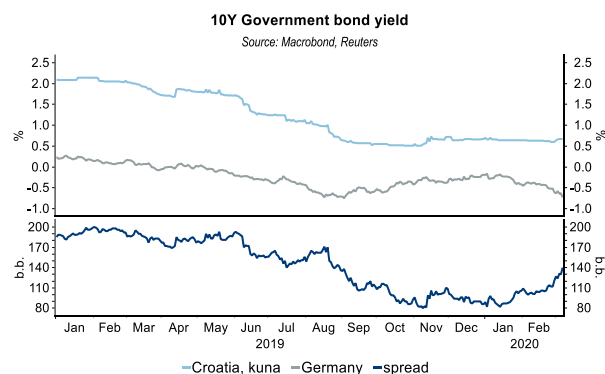
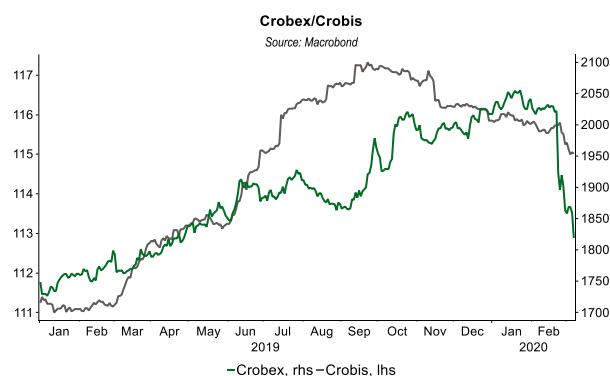
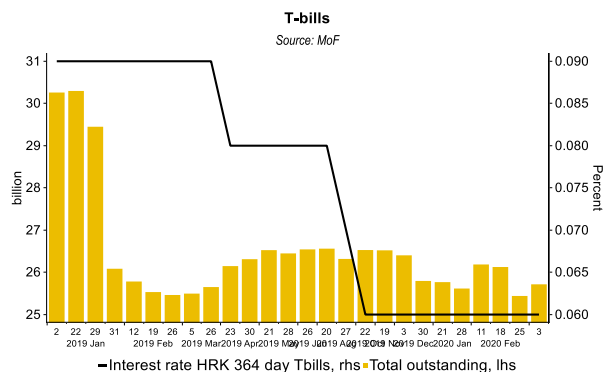
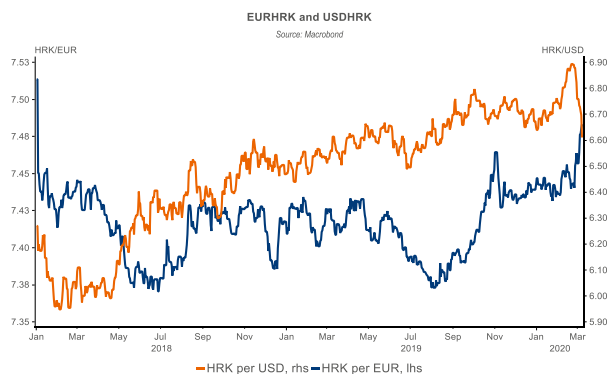
The central bank's recent data on asset quality reveal that the share of non-performing exposures declined in the last quarter of 2019 by 0.5 p.p. qoq amounting to 5.5%. Sale of receivables simultaneously lost momentum reaching barely 0.5 billion kuna in gross value (last year a total of 4.1 billion kuna of gross receivables was sold), indicating that, in the given period, sales had no significant effect on the reduction of the share of non-performing receivables, it was rather a result of a portfolio expansion (+1.0% qoq), active policies of banks and economic growth. In the observed period the share by non-financial companies dropped by 1.9 p.p. to 13.6%, where all activities with available data have registered a positive development, with construction ranked at the forefront, achieving a reduction of 4.8 p.p. to 24.9%. When it comes to other activities, the dynamics was slightly more moderate (manufacturing -1.2 p.p. to 18.5%, trade -1.3 p.p. to 12.0%, accommodation and food service activities -1.1 p.p. to 7.5%, real estate activities -1.8 p.p. to 13.3%). In view of three of the most significant activities in terms of the share, the poorest quality is attributed to manufacturing, presumably resulting from lower amounts of sold receivables within the indicated portfolio (e.g. in comparison with the construction industry), and a weaker growth of new placements reflecting anaemic growth rates of the industrial production. The share of non-performing exposures of households dropped in last quarter by 0.3 p.p. to 5.9% owing to an improved quality of housing loans recording a decline of 0.6 p.p. to 3.9%. At the same time, cash loans and overdrafts registered a slight share increase of 0.2 and 0.1 p.p. to 5.5 and 6.0% respectively.

Data on movements of non-performing exposures in the EU (EBA, September 2019) indicate that, as in Croatia, the share on the EU level has been declining, Croatia compared with the other EU members seems to belong to a large group with a share in the range between 5 and 10%, along with Bulgaria, Hungary, Poland, Ireland, Italy, Portugal and Slovenia, whereas Greece is ranked at the one extreme of this scale with a share of almost 40, and Sweden at the other extreme with a share below 1%. The comparison with the EU countries and the development of non-performing exposures show that domestic banks and the regulating body can feel good about the past performance, but that additional efforts are nevertheless needed to reduce the share to the level of the best performing countries, which would enable a stronger rise of lending, especially for companies, and fuel the economic growth. We expect the downward trend to continue throughout the year, supported by a solid GDP growth, further portfolio sales and continuation of a moderate growth of placements, and the share to hover around 4-4.5% at the end of the year.



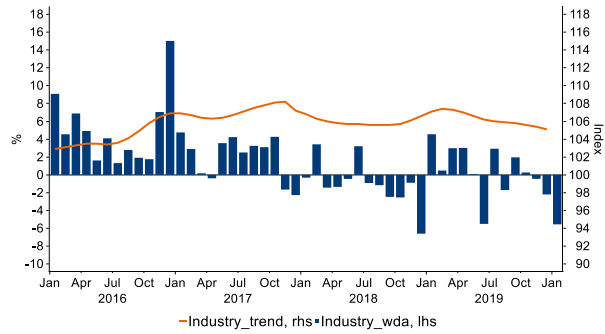
## Weekly overview

- In January the volume of industrial production recorded a relatively robust yoy decline of 5.5%, fuelled mostly by a downturn in Manufacturing (-4.8%), as in Mining and Quarrying (-12.1%) and Electricity, gas, steam and air conditioning supply (4.0%).
- The EUR/HRK rate on the domestic foreign exchange market with small trading volumes broke through the 7.50 level for the first time since the end of 2017 and on Friday the mid-exchange rate reached 7.4833 kuna to the euro, up by 0.4% wow. The kuna strengthened against the dollar by a strong 2.2% to 6.6107 kuna to the dollar amid weakening of the dollar versus the euro, following the unexpected Fed's decision to reduce the interest rates.
- Excess liquidity dropped to 36 billion kuna in the week behind us, however the interest rates continued to stagnate. At the CNB's repo auction no activity was recorded, while ZMM recorded a turnover of 0.8 billion kuna. At the T-bill auction a subscription of 1.2 billion kuna in one-year T-bills was registered (with an unchanged interest rate of 0.06%), i.e. 0.2 billion kuna more than the matured amount, increasing the volume of issued T-bills to 25.7 billion kuna. This week there is no upcoming maturity, and the following auction is announced for March 23rd.
- Crobex closed last Friday at 1,819.14 points, i.e. -2.4% wow, while Crobis simultaneously dropped by 0.2% (to 114.76 points). The sector indices closed on a negative note, where CROBEXindustry fell by 4.8% (to 797.35 points), CROBEXconstruct by 4.7% (to 372.12 points) and CROBEXtourist by 1.4% (to 3,133.27 points). Last week the total ZSE turnover reached 639.4 million kuna, up by 2.1% wow, owing to a 5.6 times higher turnover in bonds (reaching 557.8 million kuna), while turnover in shares dropped by 60.1% (to 81.6 million kuna).

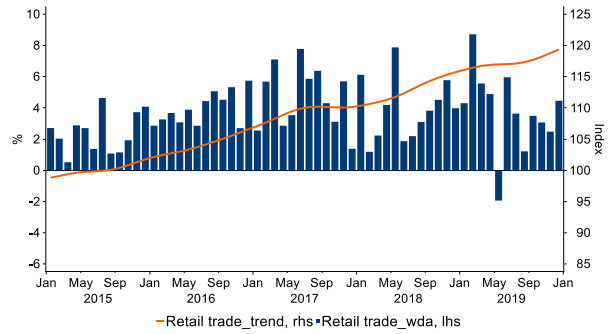


## Statistics

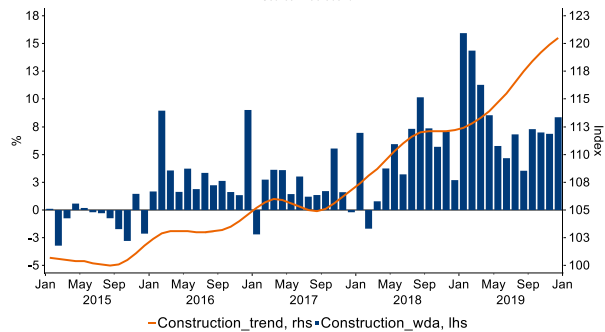
**Industrial production, wda % ch. y/y and index (2015=100)**  
Source: Macrobond



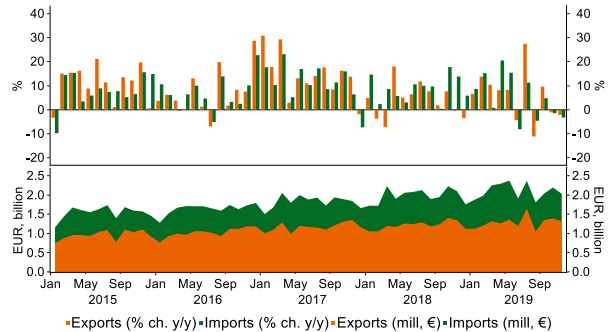
**Retail trade, real, wda % ch. y/y and index (2015=100)**  
Source: Macrobond



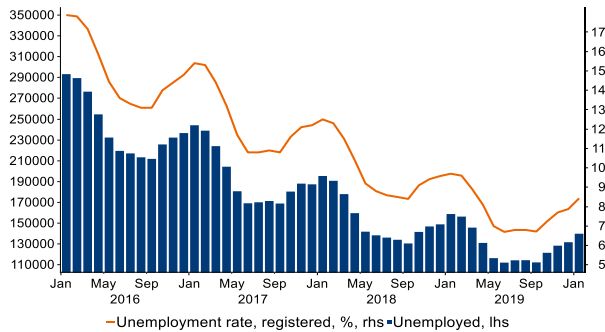
**Construction works, wda % ch. y/y and index (2015=100)**  
Source: Macrobond



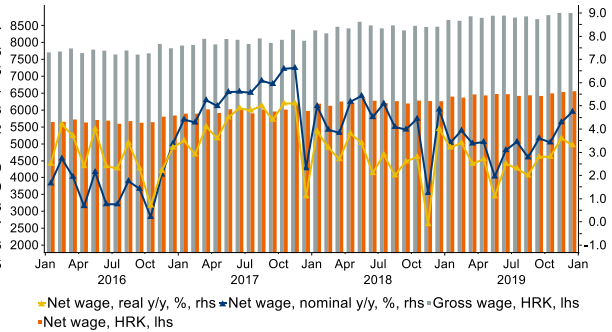
**Goods exports and imports (% ch. y/y and mill €)**  
Source: Macrobond



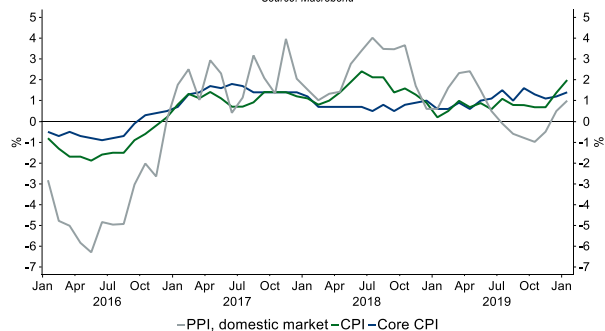
**Total number of unemployed and unemployment rate**  
Source: Macrobond



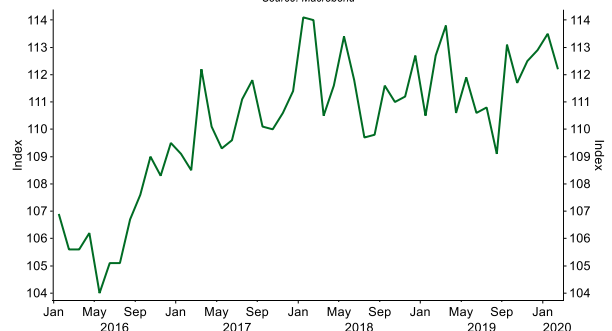
**Wages, monthly average and % ch. y/y**  
Source: Macrobond, CBS

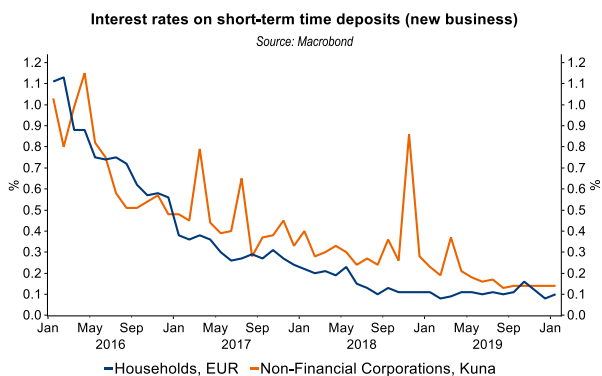
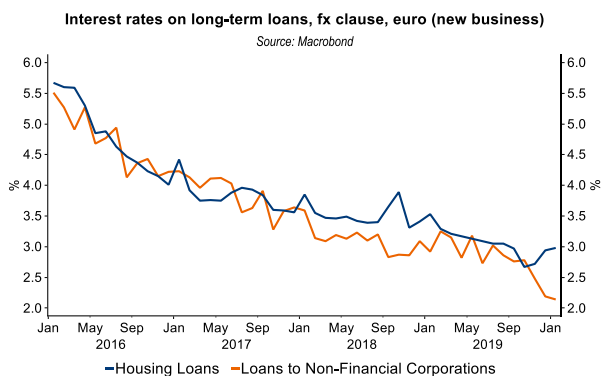
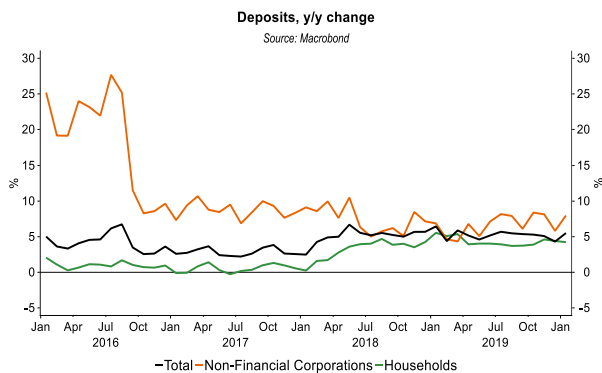
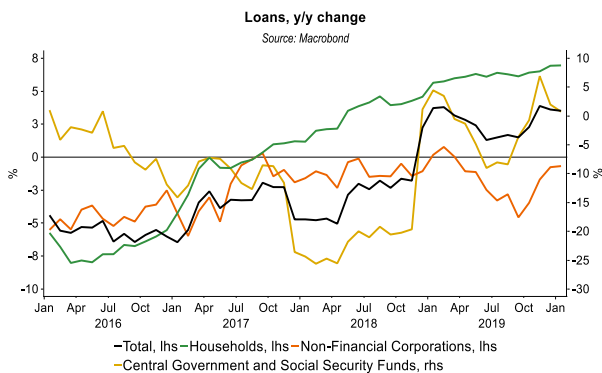


**Prices, y/y % change**  
Source: Macrobond



**Economic Sentiment Indicator (ESI)**  
Source: Macrobond





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