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### Quality of the private sector loans maintained a positive trend

- NPL share in total loans stagnated in Q2 compared to the previous quarter and was 2.6%. Simultaneously, the quality of loans granted to the private sector continued to improve, so the share in the latter decreased by 0.1 p.p. to 4.3%. NPL in loans to non-financial corporations decreased at a somewhat slower pace than the previous quarter, by 0.2 p.p. m-o-m (to 4.4%). As in Q1, the decline is primarily due to an increased portfolio quality in Manufacturing (-5.1% volume, i.e., -0.6 p.p. to 8.0%). At the same time, share in Construction recorded a decline of 0.8 p.p. to 9.0%, while the decrease in Trade and Accommodation and food service activities was a more moderate 0.2, i.e., 0.3 p.p. (to 4.4, i.e., 4.9%). NPL share in households was reduced by 0.1 p.p. q-o-q (to 4.0%), like in Q1, whereas cash loans recorded a decline of 0.1 p.p. to 5.5%, and housing loans and overdrafts stagnated (at 1.6, i.e., 6.8%). In the second half of the year, we expect that solid economic growth and strong labour market combined with continued growth in lending and de-escalation of inflation will result in the continuation of NPL decline.
- Credit institutions' net profit increased by 15.0% in the first half of the year, i.e., by EUR 0.1 billion y-o-y, and yields on assets and capital recorded an interannual increase of 0.2, i.e., 1.4 p.p. (to 2.1, i.e., 18.2%). Profit growth was mainly due to higher net interest income (+EUR 0.2 billion) owing to loan interest income growth, as well as income from overnight deposits with the central bank. The distribution of loan interest income shows that the growth of income from legal entities (+EUR 129 million) far exceeded the growth from households (+EUR 55 million). A more detailed insight into interest costs from deposits reveals similar trends so the cost for legal entities' deposits increased by EUR 104 million, and for household deposits EUR 69 million. Interest costs from issued debt securities are also on the rise (EUR +29 million) for which we have already stated that they were the result of fulfilling the requirements for own funds (MREL). Gross operating profit increased by 12.4% which, combined with 5.9% higher operating costs, led to 17.2% higher net operating profit, and business efficiency continued to improve so the cost-to-income ratio according to the CNB declined by 2.5 p.p. y-o-y, to 39.5%. Credit institutions continued to release provisions, and volume of reduction increased by 5.9% in one year.

**NPL share in loans to the private sector reduced to 4.3%**

**Net profit of credit institutions +15.0%**

**Loans in July +5.6%,  
deposits +3.8%**

- At the end of July, total loans recorded interannual growth of 5.6%, slightly lower than the previous month, whereby loans to the private sector increased by 8.2%, while loans to the central government declined by -6.7%. Loans to non-financial corporations were higher by 4.2%, while the growth of loans to households is still robust and was 10.9%. Deposit growth in July was softened to 3.8% y-o-y, and the growth of private sector deposits to 3.2%. Deposits of non-financial corporations slowed down from the high levels realised early this year to 4.3%, while household deposits grow at a stable rate, coming in at 2.7% in July.
- Last week we had a stable exchange rate that was 1.1103 dollars to the euro at the end of the week, a mild 0.1% higher w-o-w.
- Euribor continued with its mild decline so 3M and 6M were 3.5, i.e., 3.3% at the end of the week, slightly lower w-o-w. The first round of subscription of 3M T-bills of the Ministry of Finance is starting this week, offered to natural persons for subscription with a 3.55%-yield, while the second round of subscription for institutional investors is next week. Targeted nominal amount of the issue is EUR 250 mil.
- Crobex stagnated at 2.944 points w-o-w. Out of more important sectoral indices, CROBEXindustry and CROBEXtourist recorded a negative performance (-0.6% to 2,264 points, i.e., -0.2% to 4,272 points), while CROBEXnutris recorded mild growth (+0.3% to 907 points). Crobis stagnated at 96.7 points.

### EUR/ USD



Source: ECB

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### Euribor

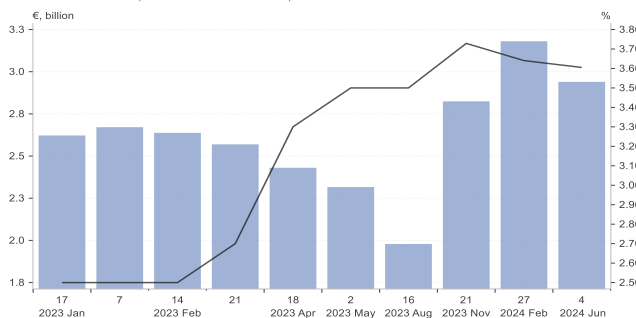


Source: EMMI, ECB

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### T-bills

— Interest rate 1Y Tbilis, rhs ■ Stock of issued Tbilis, lhs



Source: MoF

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### Crobex/Crobis

— Crobex, rhs — Crobis, lhs



Source: Zagreb Stock Exchange

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