

WEEKLY ANALYSIS

Number 750, October 18, 2021

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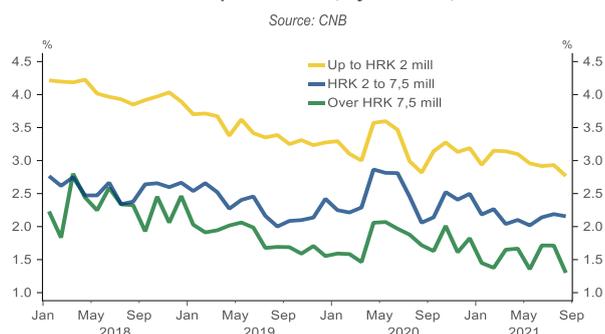
Financing conditions continued to improve

During summer months financing conditions of the private sector continued to improve due to strong economic recovery, improved labour market movements and outlook, increased income of the private sector and less pronounced risks amid declining non-performing loans. Interest rates on loans to companies continued to drop also due to, inter alia, a weak credit demand of the corporate sector that spurred competitiveness among banks. Thus in August interest rates on newly placed corporate loans compared to December were lower by 30-50 b.p., while compared with the 2020 average, over this year's first eight months the average interest rate on loans to small enterprises (up to HRK 2 million) dropped by 0.2 p.p. to 3.0%, and on loans to medium-sized (2 to HRK 7.5 million) and large enterprises (over HRK 7.5 million) by 0.3 p.p. to 2.1 and 1.5% respectively. Strengthening of the credit demand and subsidies on housing loans positively affected the movements of interest rates on loans to households that in the first eight months were cut by an average of 0.2 p.p. on housing loans and 0.3 p.p. on loans for other purposes compared with the 2020 average (to 2.7 and 5.4% respectively). By comparing August with December, we see that interest rate on housing loans was higher by 20 b.p., and on other loans lower by 30 b.p., whereby the movements of interest rate on housing loans reflect the subsidies cycles.

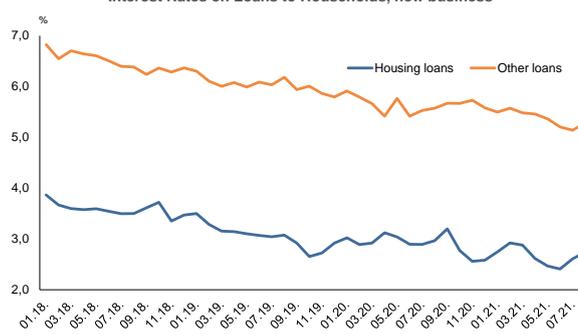
Ample liquidity, low and negative interest rates in the money market foster further stagnation, i.e. slight decline of interest rates on deposits. Interest rates on overnight deposits are thus retained at low levels (households 0.03% on HRK, 0.01% on FX in August, non-financial corporations 0.01% on HRK, 0.02% on FX), while interest rates on time deposits continued to decline compared to last year, thus approaching the rates on overnight deposits. Hence, compared with the 2020 average, the average interest rate on new time deposits of the private sector over this year's first eight months dropped by 6 b.p. for both HRK and FX deposits, to 0.07%. Interest rate on time deposits of households thus dropped to 0.08% on HRK and 0.09% on FX, and of companies to 0.06% on HRK and 0.03% on FX.

Until the end of 2021 and in 2022 the euro area key interest rates should be maintained at the existing levels despite strengthening inflationary pressures because the ECB retains the rising prices to be of transient nature (euro area inflation rate in September reached 3.4%; the ECB projection of the average rate amounts to 2.2% in this and 1.7% in the following year). Projections of interest rates in the money market also move accordingly, that in the baseline scenario see the average 3-month Euribor stable at -0.5% in the current and following year. In such environment and with Croatia approaching its entry into the euro area (expected in 2023), we forecast that until the end of the following year interest rates on loans of domestic banks will continue to decline, and those on deposits will stagnate.

Interest Rates on Corporate Loans, by loan size, new business

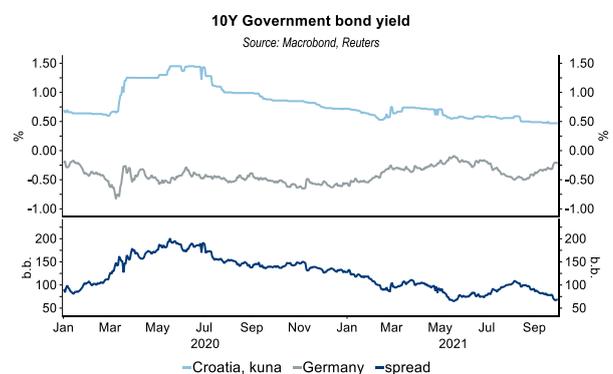
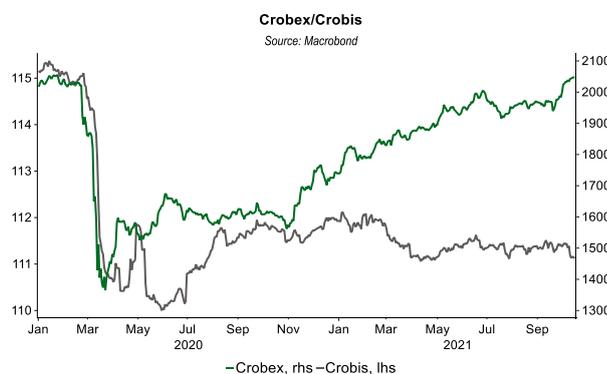
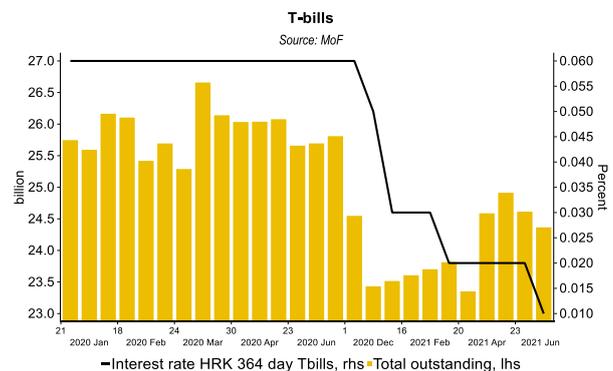


Interest Rates on Loans to Households, new business



Weekly overview

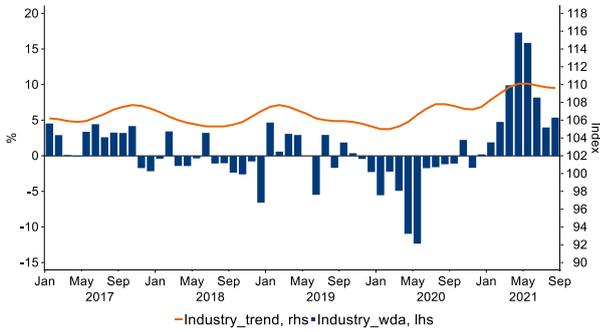
- The Consumer Price Index in September recorded an increase of 3.3% y-o-y, while in the period from January to September the average growth of consumer prices amounted to 1.8%, mostly due to 6.9% higher Transport prices.
- Behind us is a relatively quiet week in the domestic FX market in which the mid-point exchange rate slightly grew in y-o-y terms, to 7.5120 kuna to the euro. The kuna strengthened against the dollar by 0.3% thus the exchange rate fell to 6.4747 kuna to the dollar. This week we see EUR/HRK trading in the range of 7.49-7.54.
- Excess liquidity increased to 65 billion kuna, there were no placements at the CNB's repo auction, and interest rates mostly stagnated. This week 1.5 billion kuna of HRK and EUR T-bills is due, and the auction of one-year T-bills is announced in the amount of 300 million kuna and 140 million euro.
- The Crobex Index closed last Friday at 2,047.81 points, up by 0.7% compared to the week before, while Crobis simultaneously decreased by 0.2% (to 111.56 points). Sector indices advanced, whereby the highest growth was recorded by CROBEXconstruct (+11.0%), reaching 474.23 points, while CROBEXindustry and CROBEXtourist grew by 1.7% and 0.5% (1,181.63 and 3,617.17). Total ZSE turnover last week reached 441.6 million kuna, up by 60.2% w-o-w, owing to the growth of turnover in bonds of 69.0% (to 350.7 million kuna) growth of turnover in shares of 33.6% (90.9 million kuna).



Statistics

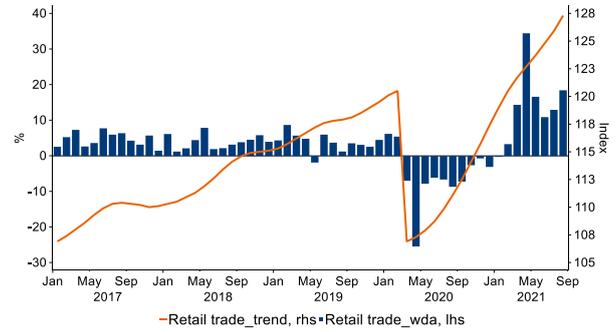
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



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

Source: Macrobond



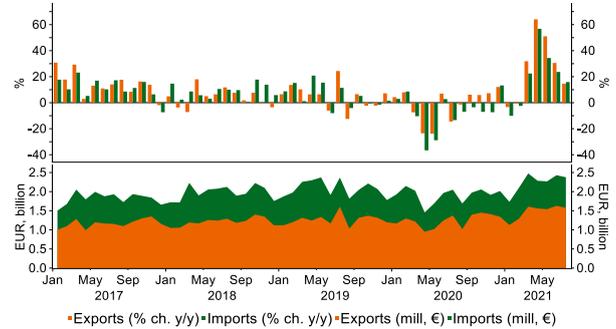
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



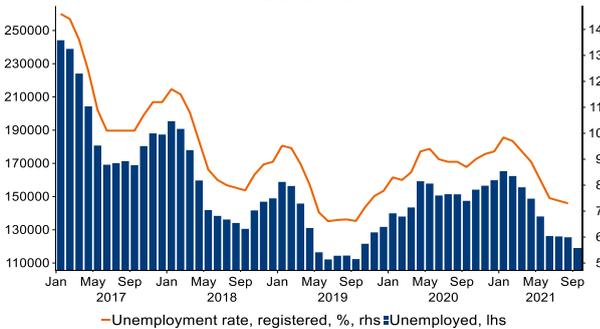
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



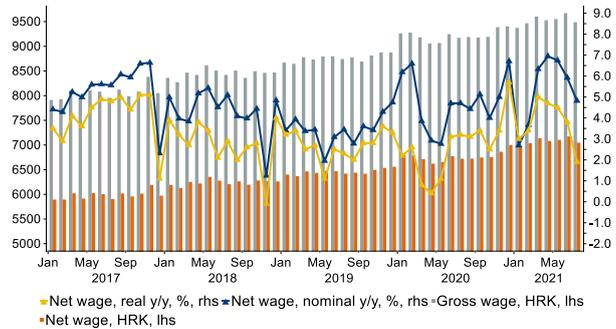
Total number of unemployed and unemployment rate

Source: Macrobond



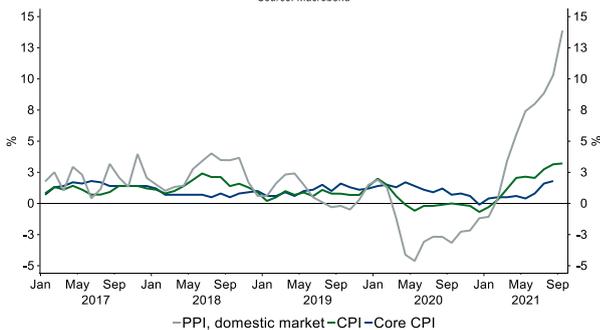
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



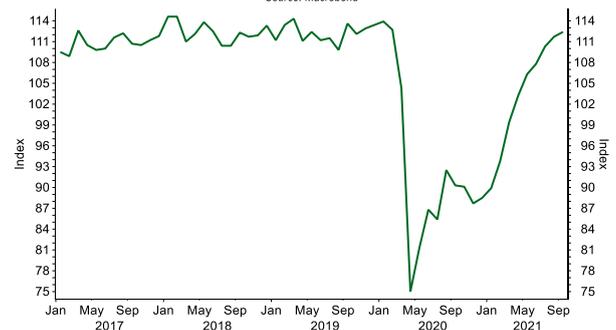
Prices, y/y % change

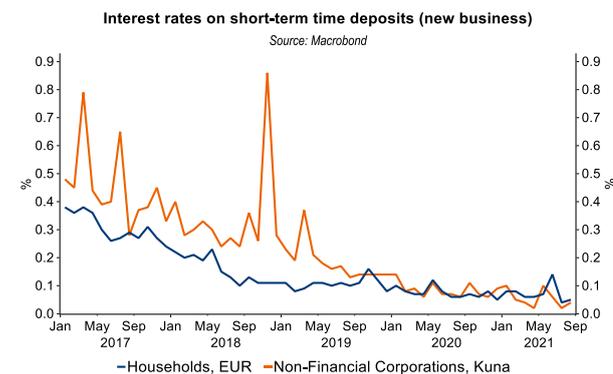
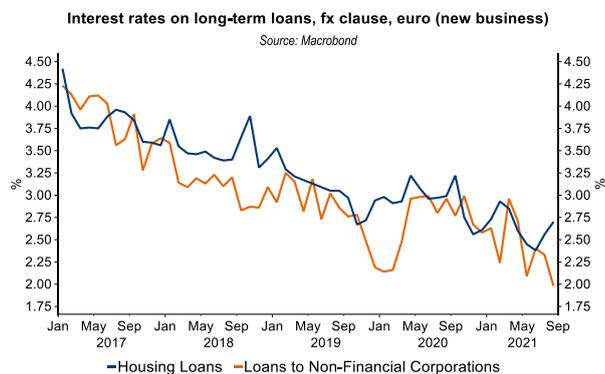
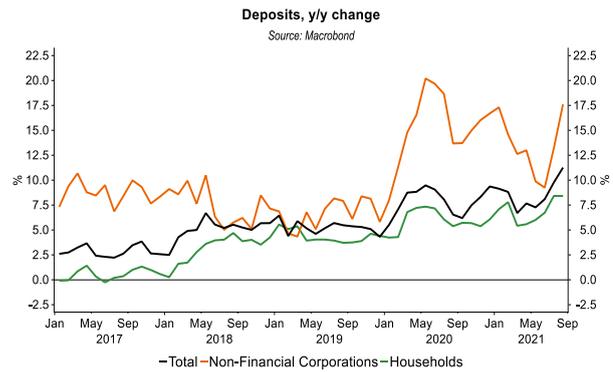
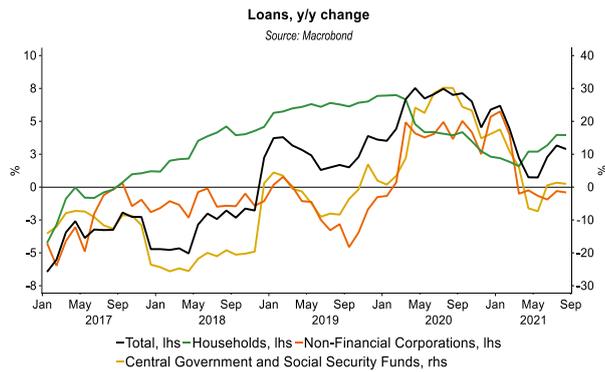
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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