

WEEKLY ANALYSIS

Number 784, July 4, 2022

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Corporate lending gained momentum

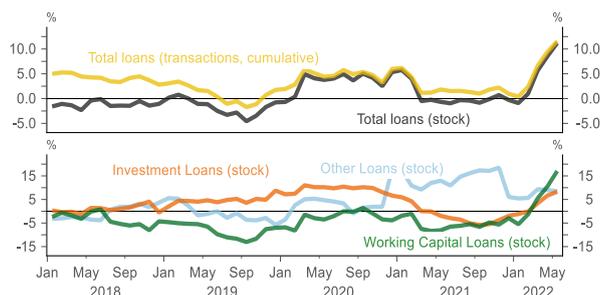
May is the third month in a row in which we see strong growth in loans to the private sector (7.5% y-o-y), as a result of growing lending to non-financial corporations (11.2%). Corporate demand has noticeably strengthened in recent months as it has become increasingly certain that the era of low interest rates is coming to an end, and demand has also been driven by increased prices that have increased the need for financing for some businesses and activities. If we look at the maturity structure of loans placed to non-financial corporations, we see that in April and May the short-term (+6.0 and +11.0%) and especially medium-term lending (18.3 and 18.9%) became more vibrant, while loans placed for a period above five years are growing at a slightly steadier pace (5.9 and 8.5%). The described maturity reflects the type of loans by purpose, so May brings a leap in working capital loans (from 10.6% in April to 17.1%) accompanied by a much more moderate acceleration of investment loans (from 6.7% in April to 8.3%). Transaction data are keeping pace with stock movements, pointing to an acceleration in 12-month cumulative loan growth to 7.8% in May, of which households to 5.5% and non-financial corporations to 11.6%. It is interesting to note that the central bank states that more than half of the monthly volume of transactions in May relates to companies engaged in the distribution of electricity and gaseous fuels. If we also look at the data on the movement of loans according to the size of the enterprise, we see that growth is widespread and accelerated in May in all groups (micro 11.1%; small 4.0%; medium 9.8%; large 13.0%). May's record holders, according to the year-to-year volume of the increase in investment loans, are micro-enterprises (HRK 0.8bn), and large enterprises when it comes to working capital loans (HRK 3.0bn). Although there is always a gap between requested and approved placements to clients that is higher with smaller enterprises due to the perception of risk, price and other factors, the good news is that bank loans to micro and small enterprises are steadily growing by enabling business financing at currently extremely favorable interest rates. Households recorded higher loan growth of 5.2% y-o-y in May, with the contribution of housing loans (which accelerated to 9.5%) to the growth strengthening to 4.4 p.p. owing to the subsidy scheme. Cash loans recorded a steady growth (2.6%) which remains far lower than the rates we saw before the pandemic (10-11%).

Private sector deposits were up by 10.1% y-o-y in May. Although the recovery in investment and consumption, still low interest rates on overnight and term deposits and high inflationary pressures that result in a decrease of disposable income and corporate revenue (let's reiterate that in this year we are forecasting an inflation rate of 9.3% year-on-year) do not stimulate deposit growth, re-heightened uncertainty, an expected successful tourist season and the approaching date of joining the eurozone support strong growth of deposits in banks' liabilities. Let's also add that the conservatism of clients who prefer security and keeping savings in a highly liquid form evidently outweigh the search for higher yields.

In our June projections, we significantly raised the forecast for private sector loan growth in 2022 to 6.4% y-o-y, while we expect deposit growth to slow down towards the end of the year and reach 6.0% y-o-y. Uncertainty about the growth of bank aggregates as we make projections remains high due to the war in Ukraine and geopolitical tensions, the movement of food and energy prices and their spillover to other categories of goods and services, potential energy shortages towards the end of the year, and the ECB's decisions on the pace at which to raise interest rates.

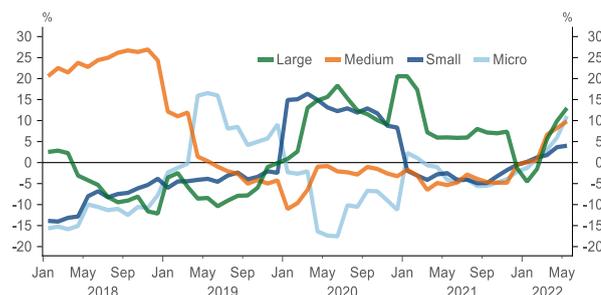
Loans to Non-Financial Corporations, y/y change

Source: Macrobond, CNB



Loans to Non-Financial Corporations by company size, y/y change

Source: Macrobond



Weekly overview

- Industrial production volumes in May recorded an annual increase of 3.0% (+2.6% from January to May), while at the same time real turnover in retail trade increased by 4.3% (+3.3% over the first five months of this year).
- Last week the mid-point exchange rate of the kuna against the euro again stagnated on a weekly basis and on Friday it was 7.5257. Against the dollar, the kuna weakened by 1.0% and the exchange rate rose to HRK 7.1989 per dollar.
- Excess liquidity fell to HRK 69bn at the end of June, interest rates on longer maturities on Friday were lower by 20 b.b. w-o-w, and there was no interest at the CNB's repo auction.
- The Crobex Index closed last Friday at 2,009.96 points, down by 0.1% w-o-w, while Crobis was down by 0.3% at the same time (to 100.70 points). As for sector indices, CROBEXindustry decreased by 3.3% compared to the week before (to 1,097.65 points), while CROBEXtourist and CROBEXconstruct increased by 0.7% and 2.6% respectively (3,545.72 and 421.94). Total ZSE turnover last week reached HRK 40.0 million, down by 24.9% w-o-w, owing to a 73.7% lower turnover in bonds (reaching HRK 6.3 million), while turnover in shares increased by 15.1% (HRK 33.7 million).

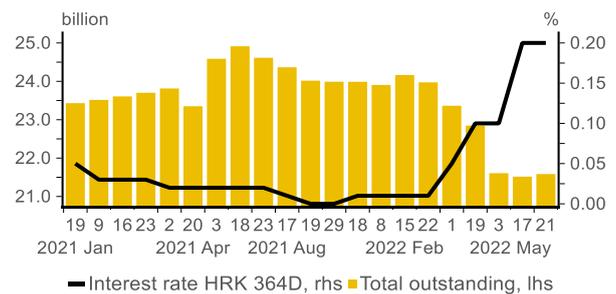
EUR/HRK and USD/HRK

Source: Macrobond



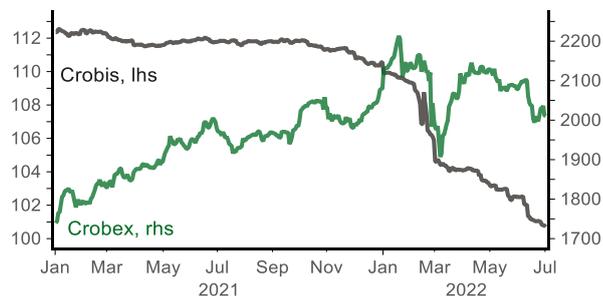
T-bills

Source: MoF



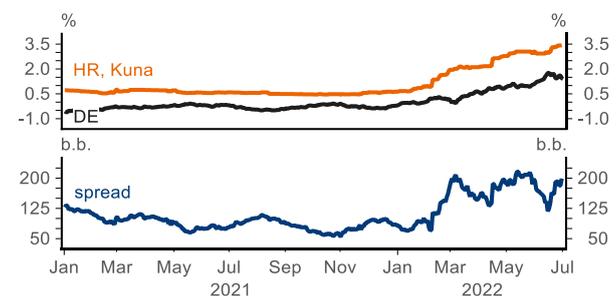
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

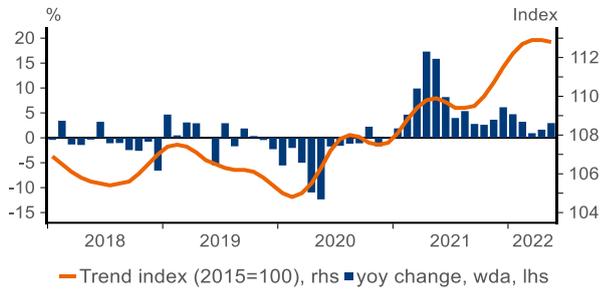
Source: Macrobond, Reuters



Statistics

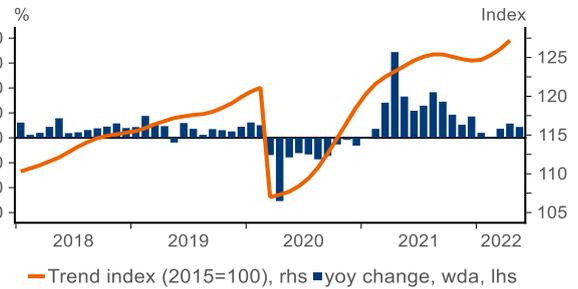
Industrial production

Source: Macrobond



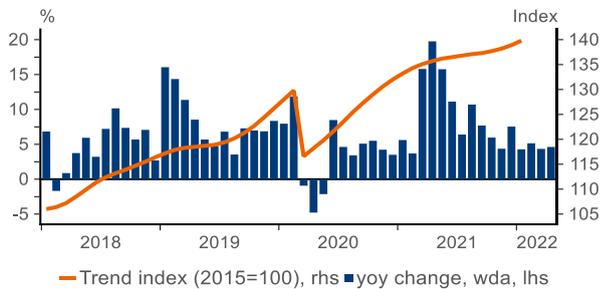
Retail trade, real

Source: Macrobond



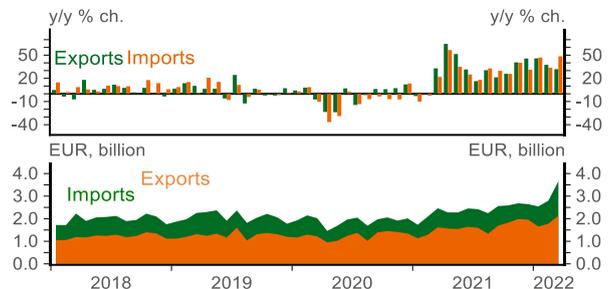
Construction works

Source: Macrobond



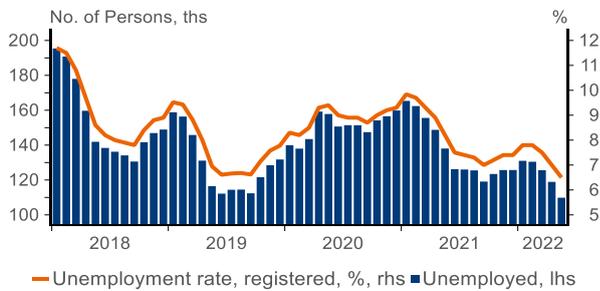
Goods exports and imports

Source: Macrobond



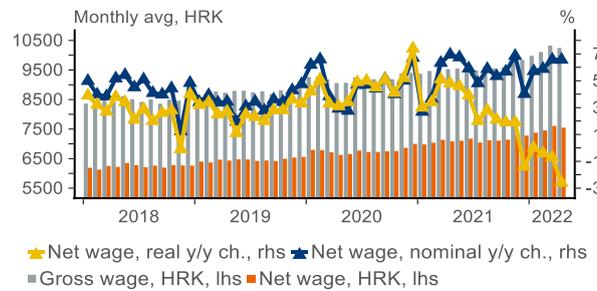
Unemployment

Source: Macrobond



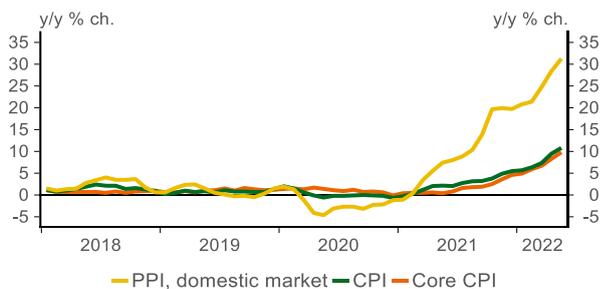
Wages

Source: Macrobond, CBS



Prices

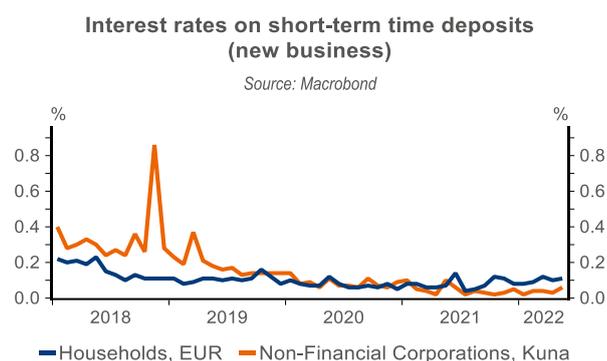
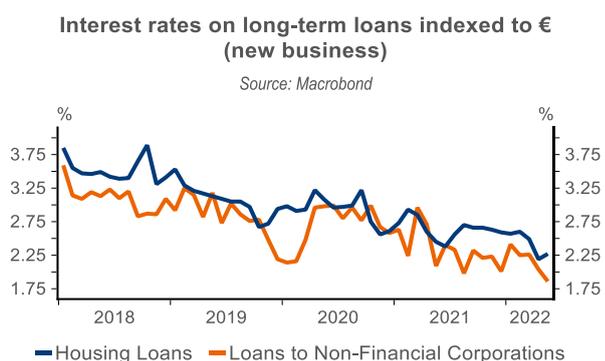
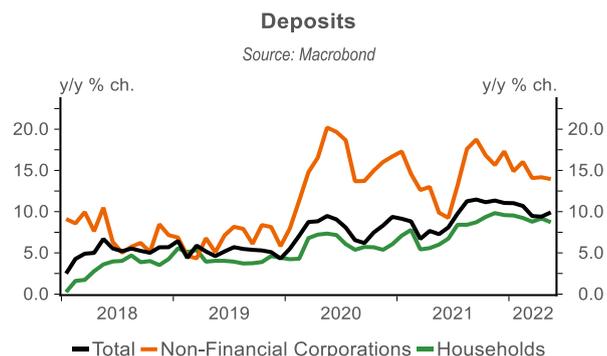
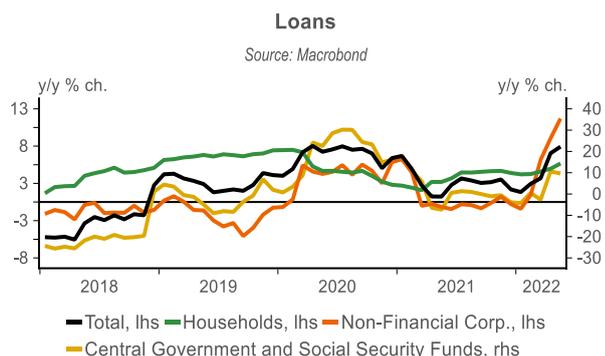
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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