WEEKLY ANALYSIS

NUMBER 854, MARCH 18, 2024

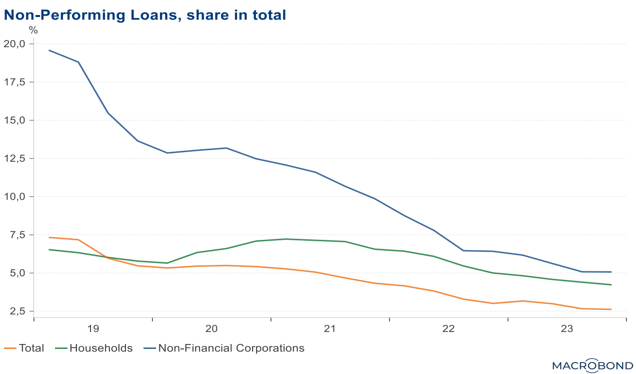
NPL in decline, profitability rises

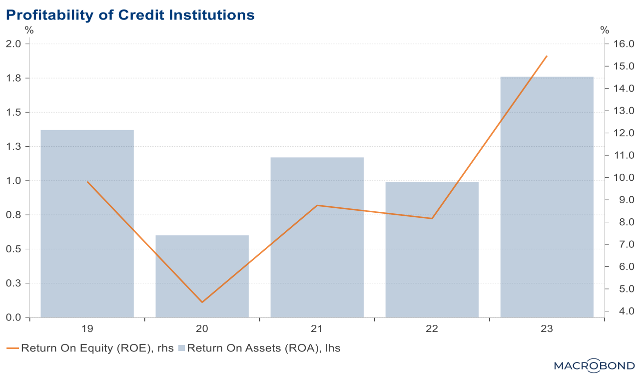
- The share of non-performing loans in total loans (NPL) stood at 2.6% at the end of last year (private sector 4.6%), which is only slightly lower than the quarter before (private sector -0.1 p.p.). The minor downward shift was caused primarily by the stagnation of the share of loans to non-financial corporations (to 5.1%) caused by an increase of the share in Construction and Real estate activities by 0.5 p.p. (to 9.8 and 3.6%, respectively), which offset the decline in Trade (-0.3 p.p. to 4.7%) and Accommodation and food service activities (-0.1 p.p. to 5.7%). In households, we recorded a decrease in NPL of 0.2 p.p. q-o-q, to 4.2%, due to a lower share in housing and cash loans (-0.1 p.p. to 1.7%, or -0.2 p.p. to 5.9%), while overdrafts recorded a negative trend (+0.3 p.p. to 7.0%). The increase in the share of non-performing loans placed to construction companies and the real estate sector might continue this year as well, when operating and borrowing costs are maintained at elevated levels and the real estate market has come off the boil. At the level of the overall portfolio, however, we expect stagnation or only a slight upward shift against the backdrop of strong economic growth, expected monetary policy relaxation and lower inflation.

At the end of 2023, NPL share 2.6%

- According to unaudited data, credit institutions last year generated a 90%, i.e., €0.6bn, higher net profit y-o-y, increasing ROA nad ROE to 1.8% and 15.5%, respectively. For the most part, this result is due to the growth in net interest income (+€0.8bn) due to higher interest rates, as well as to the decline in costs of value adjustments (-€0.1bn) resulting from the improvement in the quality of placements. All other revenues fell (-€0.2bn), while operating costs increased slightly, but business efficiency was noticeably improved due to high growth in gross operating income (C/I -11.5 p.p. to 41.0%). The breakdown of interest income by type of instrument and sector shows that the largest part of the increase in income (+€0.6bn) was generated from lending, followed by other interest income (+€0.5bn-deposits with the CNB). Within interest income from loans and interest expenses from deposits, credit institutions and companies recorded the highest growth. At the same time, the growth of interest income from households amounted to a modest €9 million, while the growth of household deposit costs reached €24 million.

Returns on assets and equity in 2023 increased





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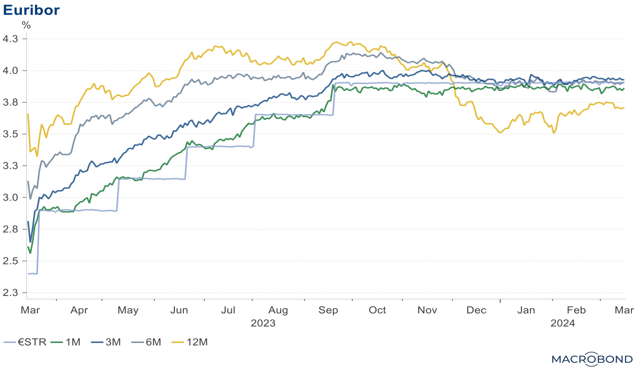
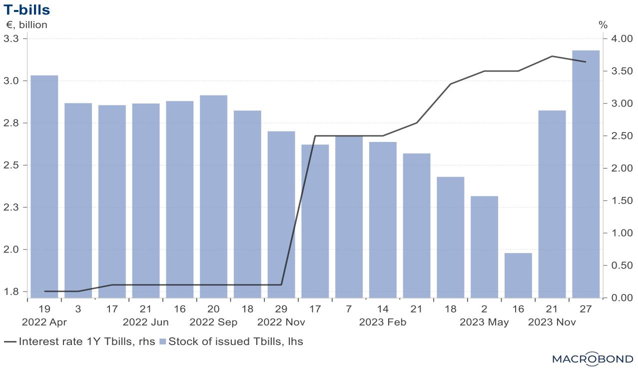
- In anticipation of this week's Fed meeting, following the data pointing to the stability of the U.S. economy, the dollar appreciated against the euro by 0.4% w-o-w, to $1.0892 for the euro.
- Euribor, except for 6M, saw a slight decline so on Friday 3M and 6M were both 3.9%, almost unchanged w-o-w.
- Crobex recovered and closed the week up by 1.3% w-o-w, i.e., at 2,797 points owing to the increase in all the most significant sectoral indices (CROBEXindustry +0.8% to 1,960, CROBEXnutris +3.3% to 933, CROBEXtourist +0.3% to 4,501). Crobis stagnated at 96.4 points.





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