

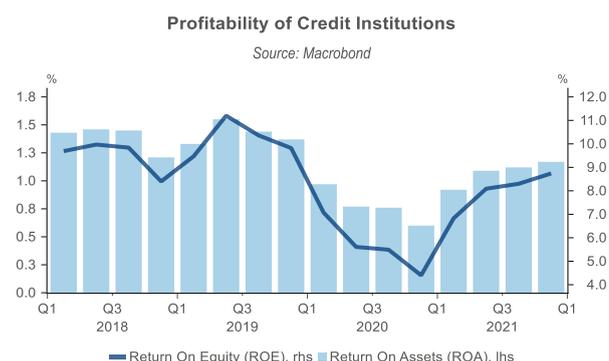
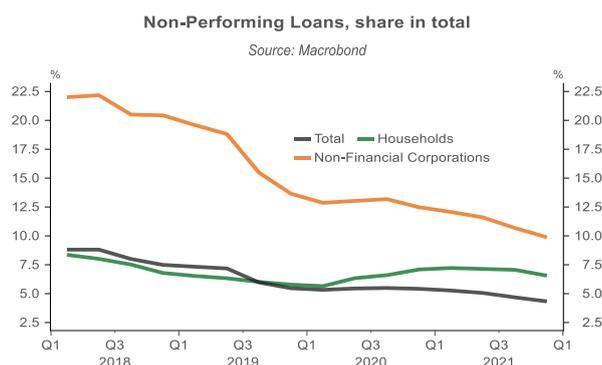
WEEKLY ANALYSIS

Number 769, March 07, 2022

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Trend of improving loan quality maintained in Q4

The last quarter of the previous year along with strong GDP growth also brought a continuation of positive trends in the quality of assets of credit institutions that reflect the upward trend in economic activity that facilitates the repayment of debts and the sale of non-performing receivables on the market. At the end of 2021, the share of NPLs in total loans stood at 4.3% (private sector 7.8%), down by 0.4 p.p. (0.6 p.p.) on a quarterly basis. The drop of the share in the last quarter resulted from the growth of lending, as well as more lively sales of problematic placements. Thus, after a respite in the third quarter, the volume of sales increased again in the fourth quarter, reaching HRK 0.8bn, the majority of which was for households (HRK 0.5bn). As a result, we also saw a stronger quarterly decrease in the volume of non-performing household loans in the amount of HRK 0.7 billion, compared to the HRK 0.5bn recorded by non-financial corporations. The share of NPLs in loans to households therefore dropped by 0.5 p.p. compared to September and amounted to 6.6% at the end of December. Cash loans, where the share grew for eight quarters in a row, recorded a sharp decline of 0.6 p.p. to 8.4% in the last quarter of 2021 (housing loans -0.2 p.p. to 3.6%, overdrafts -0.4 p.p. to 7.5%). In loans to non-financial corporations, the total share fell by 0.8 p.p. to 9.9%, and in terms of activities, Manufacturing recorded a decrease in the share by 1.8 p.p. to 13.5%, and Trade by 0.9 p.p. to 9.1%. In Accommodation and food service activities, the share decreased by 0.4 p.p. to 10.0%, which halted the growth started in the second quarter of 2020 after the outbreak of the pandemic, caused by an interruption and /or a significant decrease in business volumes. At the same time, Construction, after five quarters of decline, in the fourth quarter saw a slight deterioration in the quality of loans and growth in the share of 0.2 p.p., to 12.4%. In addition to the continued improvement of the quality of assets, the trend of growth in bank revenues and profits was also maintained in the fourth quarter, and the central bank's decision to end the ban on dividend payments contributed to the positive result along with favourable trends in the real sector. Gross operating profit thus in 2021 achieved an increase of 8.8%, i.e. HRK 1.3bn y-o-y owing to several times higher dividend income (+HRK 0.9bn) accompanied by a fall in net interest income (-3.6% i.e. -HRK 0.4bn), a rise in net income from fees and commissions (+11.8%, i.e. +HRK 0.4bn) and a decline in other income (+25.2%, i.e. +HRK 0.4bn). The y-o-y decline in operating costs reached 2.9% (HRK 0.2bn), bringing net operating profit growth to a strong 23.5%, or HRK 1.6bn y-o-y. The C/I indicator (CNB calculation) was thus 48.9% in 2021, which represents an improvement of 6.2 p.p. Provisioning costs posted a decline also in the fourth quarter, falling by as much as 54.8% y-o-y (HRK 1.8bn) in the entire year of 2021, resulting in a leap in gross profit of 101.9% (HRK 3.4bn), or net profit of 107.5% (HRK 2.9bn) y-o-y to HRK 5.6bn. Returns on assets and equity reached 1.2% and 8.7% respectively (+0.6, or +4.3 p.p. y-o-y) which is still lower by 0.2 and 1.1 p.p. than in the pre-pandemic year of 2019.

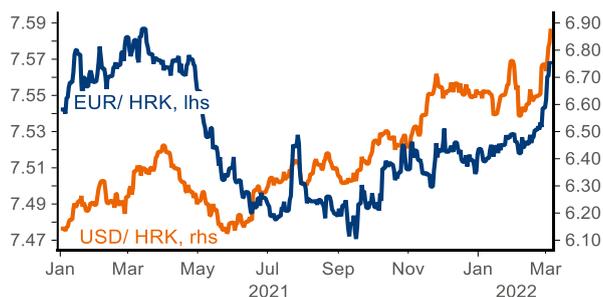


Weekly overview

- Industrial production increased by 3.5% year-on-year in January (Manufacturing +4.4%).
- In January, credit growth weakened to 1.3% year-on-year due to a stronger decline in loans to the central government of -4.3% accompanied by a lower growth rate of loans to the private sector of 1.9% (households 3.7%, non-financial corporations -0.9%). According to transactions, 12-month cumulative growth in loans to the private sector slightly slowed to 2.8% in January. Growth in total deposits and deposits of the private sector slowed to 11.0% year-on-year in January (households 9.5%, non-financial corporations 14.9%).
- Behind us is a week of heightened uncertainty in which the EUR/HRK exchange rate continued to rise slowly, and on Wednesday, when it was trading at the level of HRK 7.58 per euro, the CNB intervened by selling 171 billion euros to banks at an average exchange rate of 7.5625. The week closed with a mid-point exchange rate 0.3% higher on a weekly basis of HRK 7.5671 per euro. The kuna continued to weaken also against the dollar due to the appreciation of the dollar against the euro, and at the end of the week the exchange rate was HRK 6.8792 per dollar, up by 2.0% w-o-w. The movement of the exchange rate in the next period will primarily depend on the development of the situation in Ukraine and its impact on the markets.
- Excess liquidity dropped to HRK 77bn and interest rates stagnated on a weekly basis. There was interest at the CNB repo auction for the first time since May 2020, so HRK 260mn was placed at an interest rate of 0.05%. Last week, HRK 1.0bn of 1Y HRK T-bills was due, and HRK 370mn was subscribed, reducing the government debt in T-bills to HRK 23.4bn. The interest rate was raised by 4 b.p. to 0.05%. There is no maturity this week, so there is no auction, with the next one announced on April 19.
- The Crobex Index closed last Friday at 1,946.54 points, down by 4.7% w-o-w, while Crobis was down by 1.4% at the same time (to 104.62 points). Sector indices closed on a negative note, with CROBEXconstruct down by 13.1% (409.13 points), CROBEXtourist by 4.2% (3,356.04) and CROBEXindustry by 9.2% (1,074.30). Total ZSE turnover last week amounted to HRK 624.7mn, up by 2.2 times w-o-w owing to 2.8 times higher turnover in bonds (reaching HRK 499.7mn) and 16.1% higher turnover in shares (HRK 125.0mn).

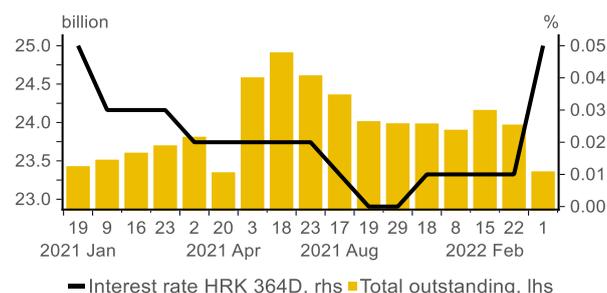
EUR/HRK and USD/HRK

Source: Macrobond



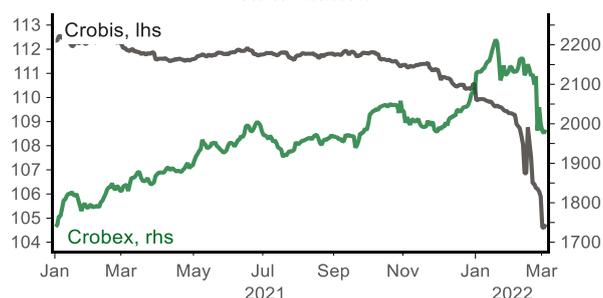
T-bills

Source: MoF



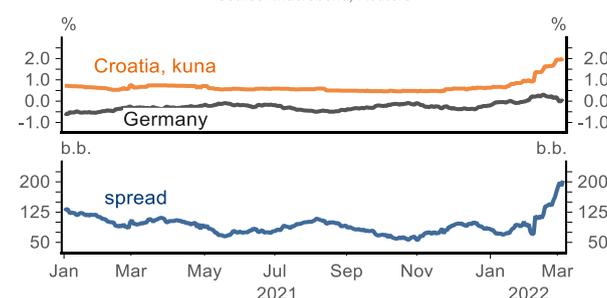
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

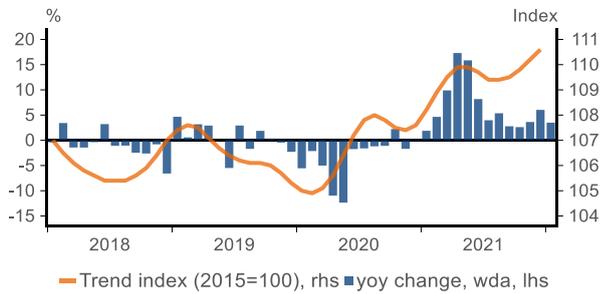
Source: Macrobond, Reuters



Statistics

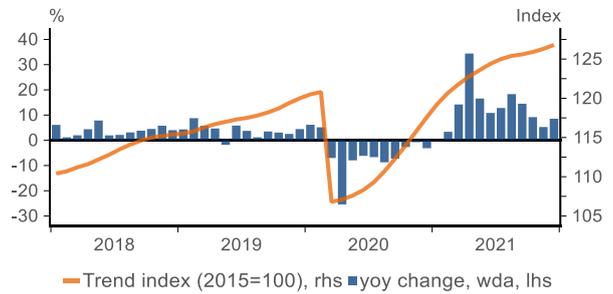
Industrial production

Source: Macrobond



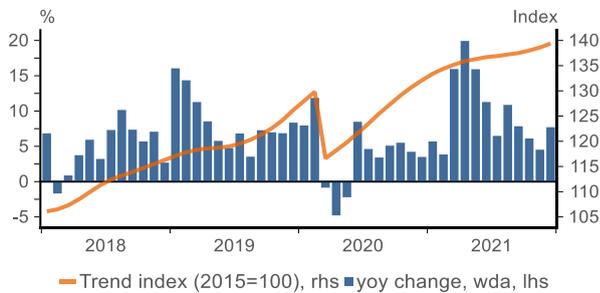
Retail trade, real

Source: Macrobond



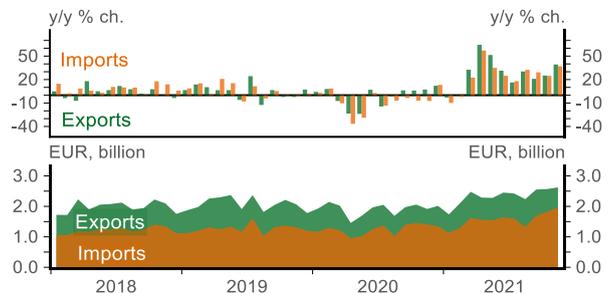
Construction works

Source: Macrobond



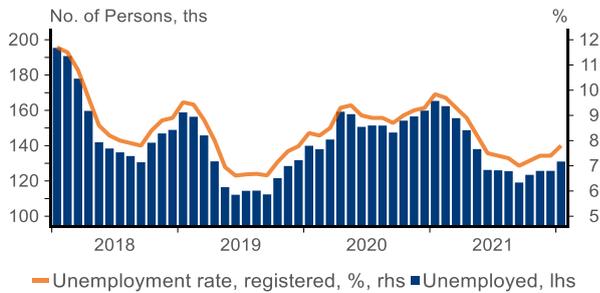
Goods exports and imports

Source: Macrobond



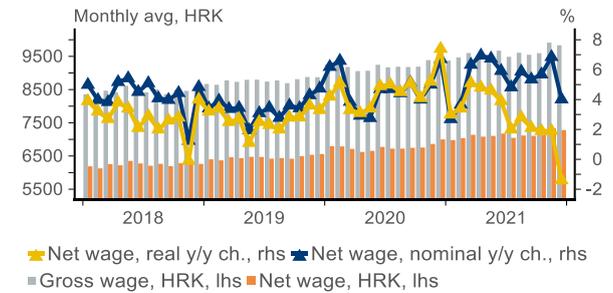
Unemployment

Source: Macrobond



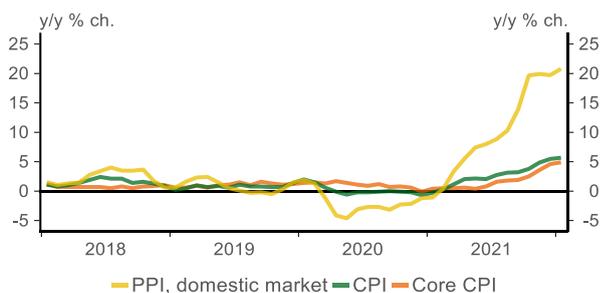
Wages

Source: Macrobond, CBS



Prices

Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond

