

WEEKLY ANALYSIS

Number 789, September 5, 2022

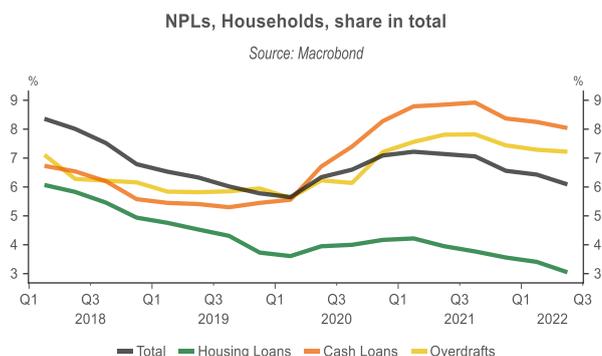
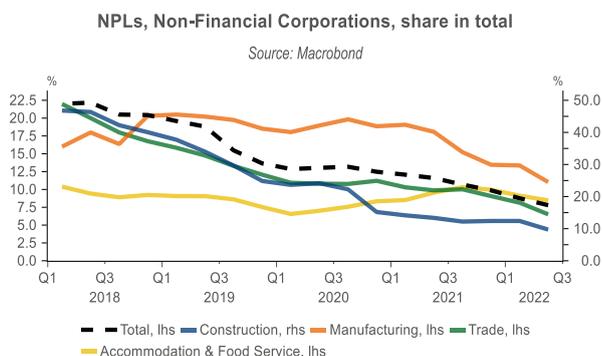
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Strengthening of economic activity supported NPL decline

Strengthening of domestic economic activity growth in 2Q, topic of our previous edition, supported the downward trend continuation of the share of NPLs in credit institutions' balance sheets. NPL share in total loans was lower by 0.3 p.p. in late June compared to March and amounted to 3.8% (share in loans to the private sector was down by 0.6 p.p. to 6.8%), reflecting accelerated growth of placements in 2Q, as well as stronger decline of NPL amounts, while the effect of sales was negligible. Halt in the sale of problematic placements is visible for second quarter in a row and sale volume in 2Q was even lower than in 1Q and amounted to 0.09 billion kuna.

Sharpest decline in NPL share continued to be recorded in the loans to non-financial corporation portfolio (-1.0 p.p. to 7.8%), both due to strong growth in crediting and significant decline in NPL volume. Decline was mostly influenced by Manufacturing, Construction and Trade (-2.3 p.p. to 11.0%; -2.7 p.p. to 9.7%; -1.6 p.p. to 6.5%). Accommodation and food service activities also recorded a decline in the share, at a somewhat milder pace (-0.6 p.p. to 8.5%), while Transportation and warehousing, after a significant decline in previous quarter, recorded a trend reversal in this quarter (+1.3 p.p. to 14.5%). NPL share in household loans in 2Q was lower by a mild 0.3% p.p. at the quarterly level and reached 6.1%. Breakdown by purpose points to a favourable trend arising from positive trends on the labour market, where the share was reduced for third quarter in a row in all types for which data is available to us (housing -0.4 p.p. to 3.1%, cash -0.2 p.p. to 8.0%, overdrafts -0.1 p.p. to 7.2%). However, this year's June vs. pre-covid March 2020 shows that the share of NPLs in household loans is now higher by 0.4 p.p. (reverse is true for loans to enterprises and the share is now lower by a high 5.1 p.p.). Considering that the share is higher in cash loans and overdrafts (and lower in housing loans), the source is probably in looser credit standards and/or weaker creditworthiness of debtors with these types of loans.

Besides the NPL decline, 2Q for credit institutions brought increase in impairment costs that mitigated net profit interannual growth from 46.0% in 1Q to 18.6% in the first six months. Gross operating income increased in the first half of the year by 4.5% y-o-y, mostly due to exponential rise in net income from fees and commissions (+18.6%) due to the economy opening up and growth in activities. Net interest income retained a negative trend (-2.9%), while income from dividends and other income increased (by 75.5, i.e., 3.1%). Operating expenses continued to grow (+8.2%; utility fees, introduction of euro) which "ate" almost the entire increase in gross operating income so net operating margin in the first six months increased only by 0.4% y-o-y. Provisioning costs, although increasing in 2Q compared to 1Q, recorded a significant decline y-o-y in the first six months (-89.0%), thus providing the largest contribution to net profit increase. Cost/income indicator, according to CNB's calculation, deteriorated y-o-y in the first six months (+2.1 p.p. to 53.3%), while profitability improved so ROA and ROE reached 1.3% and 9.5% (+0.1, i.e., +1.4 p.p. y-o-y).

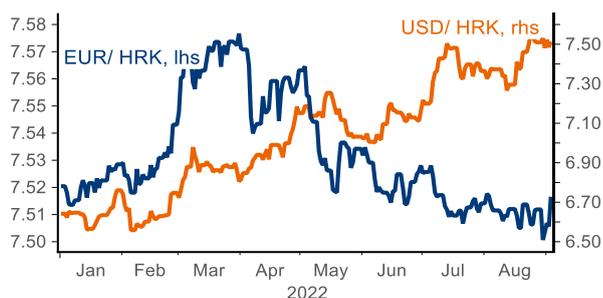


Weekly overview

- Last week the Croatian Bureau of Statistics published data on the trends of retail trade and industrial production in July. Both retail trade turnover in real terms and industrial production recorded y-o-y growth of 3.3%, i.e., 2.9%, meaning a slowdown of trade growth rate third month in a row. Observing the monthly dynamic, retail trade in July recorded only marginal growth of 0.2% compared to June, while industrial production recorded a decline of 1.9%, with intermediate product production recording a decline of 6.1%, thus confirming the score from July business survey in which the score of the level of export orders reached the lowest level in the last year (this score somewhat improved later in August). Observing in total, in the first seven months of this year real-term retail trade turnover recorded increase of 3.4%, and industrial production of 2.8% compared to the same period last year.
- Loan growth continued to accelerate in July, reaching 7.1% y-o-y (private sector 9.0%, central government 0.2%). Loans to non-financial corporations jumped by 15.3%, while household loans retained stable growth momentum (5.2%). Deposits in July increased 13.3% y-o-y (non-financial corporations 23.2%, households 9.9%).
- Domestic FX market was calm during last week and trading was around 7.52. Mid-point EUR/HRK rate was 7.5166 kuna to the euro by the week's end, up by 0.1% w-o-w. Kuna depreciated the same way against the dollar so the exchange rate reached 7.5136 kuna to the dollar. This week we are not expecting significant changes of kuna to the euro exchange rate.
- Last week, since the beginning of September, liquidity decreased to 79 billion kuna. Interest rates continued to stagnate, and there was again no interest in the regular CNB's repo auction.
- ZSE turnover in last week reached 57 million kuna (+29.9% w-o-w), with bond turnover up to 34 million kuna (+71.2%), and turnover in shares to 24 million kuna (+8.1%). Movement of shares was diverse, so the Crobex closed Friday down by 1.1% w-o-w, at 1,992.7 points, with CROBEXindustry decreasing by 2.2% (to 1,036.1 points), while CROBEXconstruct and CROBEXtourist recovered and increased by 2.4, i.e., 0.3% (to 444.7, i.e., 3,535.9 points). Crobis continued its negative trend and declined by 0.6% w-o-w to 99.1 points.

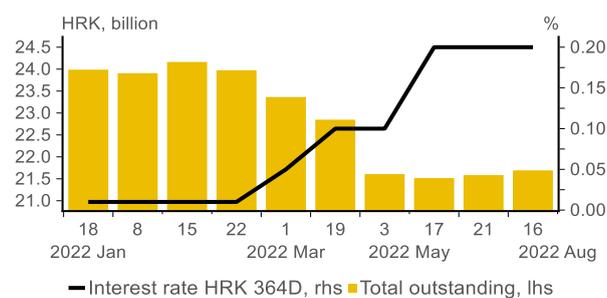
EUR/HRK and USD/HRK

Source: Macrobond



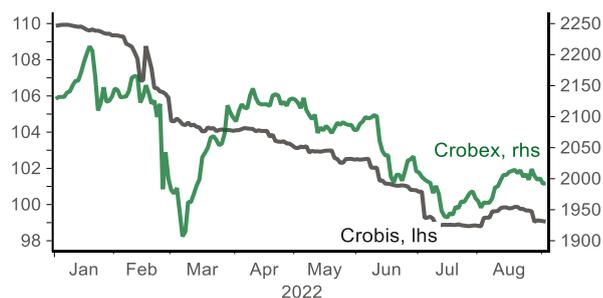
T-bills

Source: MoF



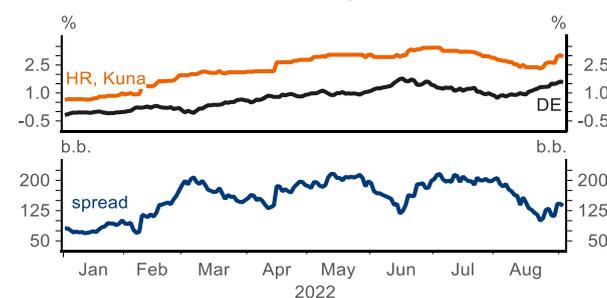
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

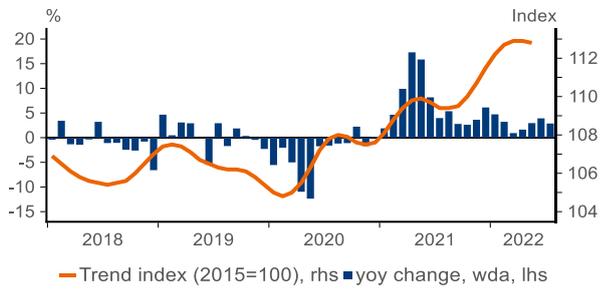
Source: Macrobond, Reuters



Statistics

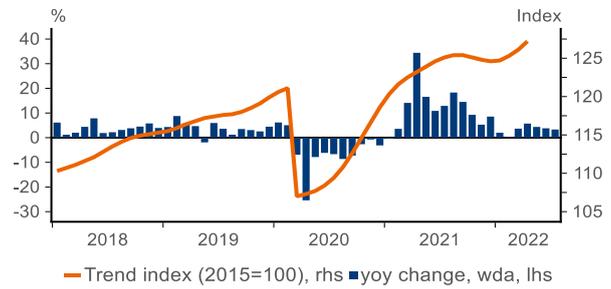
Industrial production

Source: Macrobond



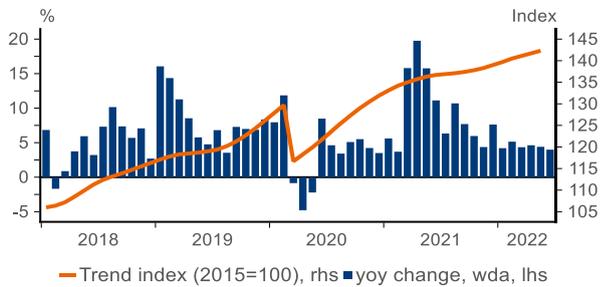
Retail trade, real

Source: Macrobond



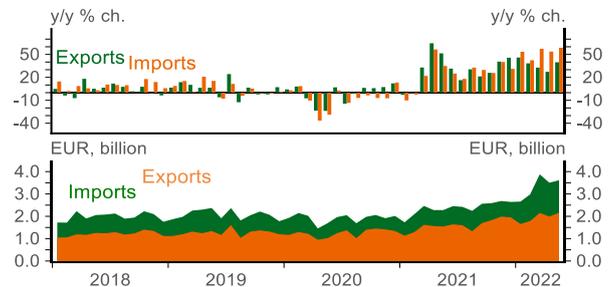
Construction works

Source: Macrobond



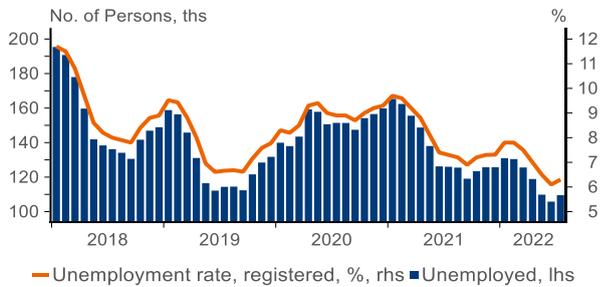
Goods exports and imports

Source: Macrobond



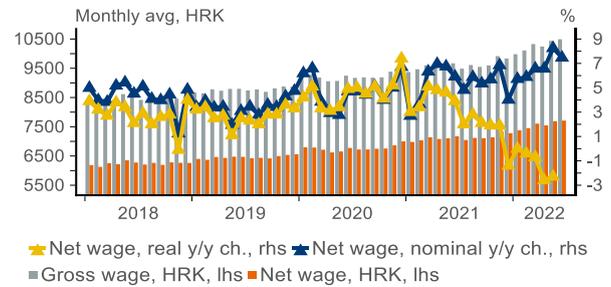
Unemployment

Source: Macrobond



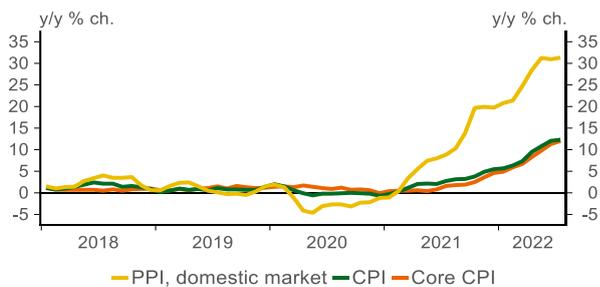
Wages

Source: Macrobond, CBS



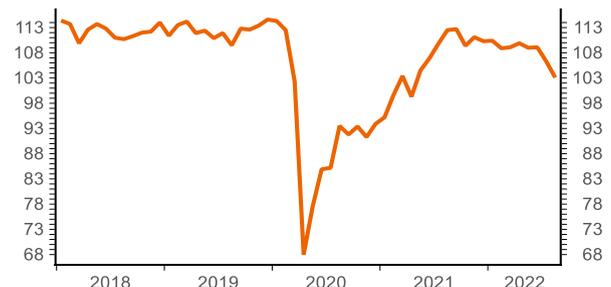
Prices

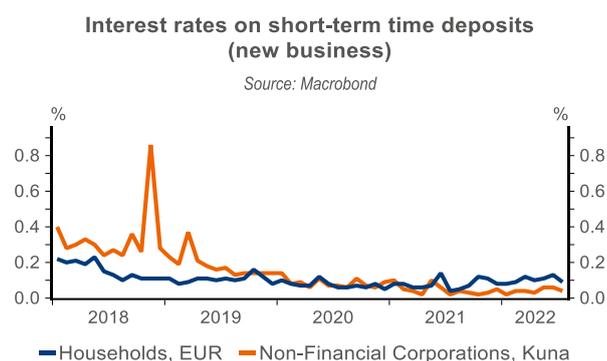
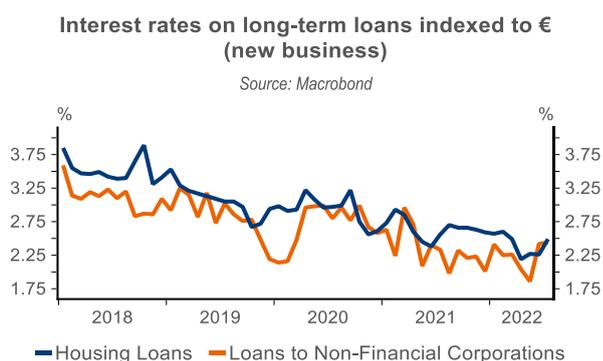
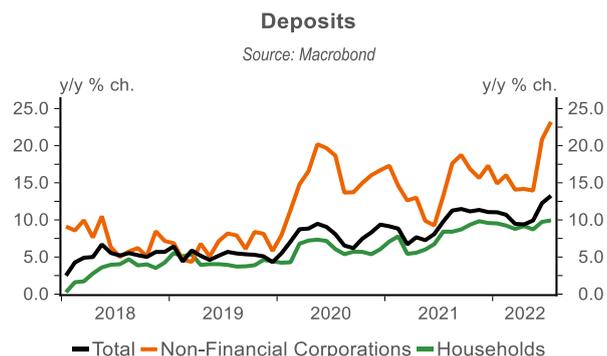
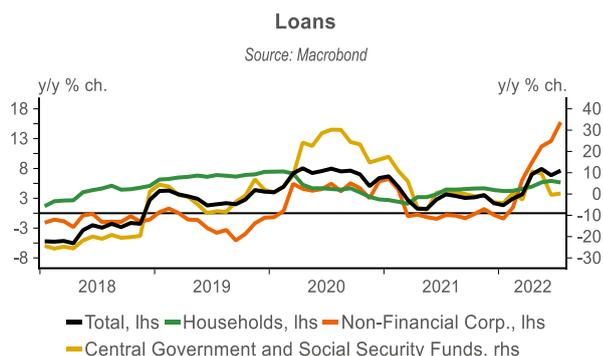
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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