

WEEKLY ANALYSIS

Number 756, December 6, 2021

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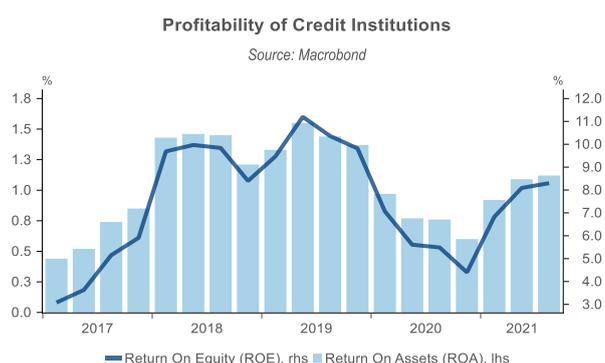
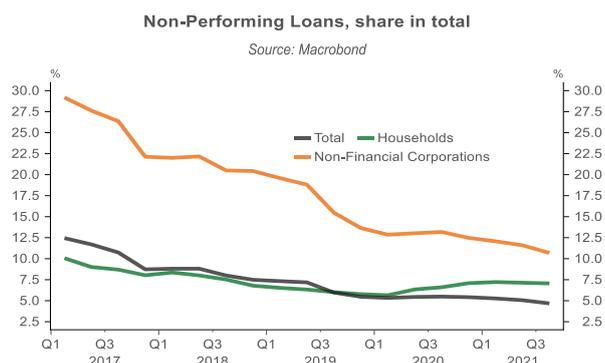
Third quarter marked by positive movements in banking

In the third quarter for the fourth consecutive quarter the credit institutions credit portfolio quality posted an improvement and decline of the share of non-performing loans in total loans of 0.4 p.p. compared with June, to 4.7% (private sector -0.4 p.p. to 8.4%). The amount of sold problem receivables was low in the observed period from which it follows that the main reasons for quality improvements should be sought in new placements, active policy of banks and sharp economic growth.

The share of non-performing loans in total loans to non-financial corporations dropped by as much as 1.0 p.p. (-0.4 p.p. in previous two quarters) to 10.7%, whereby the volume of non-performing loans decreased by an impressive amount of HRK 1.0 bn. The largest part of that amount, HRK 0.5 bn, refers to Manufacturing (-2.9 p.p. to 15.2%), followed by Agriculture, forestry, and fishing with a decline of HRK 0.3 bn (-8.0 p.p. to 7.4%). Out of the remaining activities Construction posted a decline of the share at the level of 1.2 p.p. to 12.2%, while Trade and Accommodation and food service activities recorded an increase of 0.2, i.e. 0.8 p.p. to 10.0 and 10.3%. Households are also continuing to record a decline in the share of non-performing loans, but at a significantly slower rate (-0.1 p.p. at the quarterly level, to 7.1%), however exclusively due to the growth of housing loans quality (-0.2 p.p. to 3.8%), while the quality of cash loans portfolio continued to deteriorate (+0.1 p.p. to 8.9%), and regarding overdrafts the share stagnated at 7.8%.

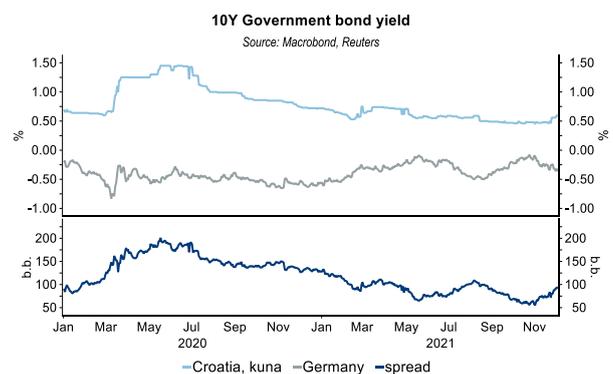
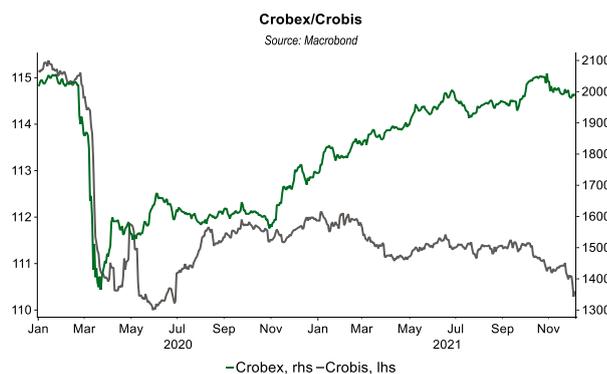
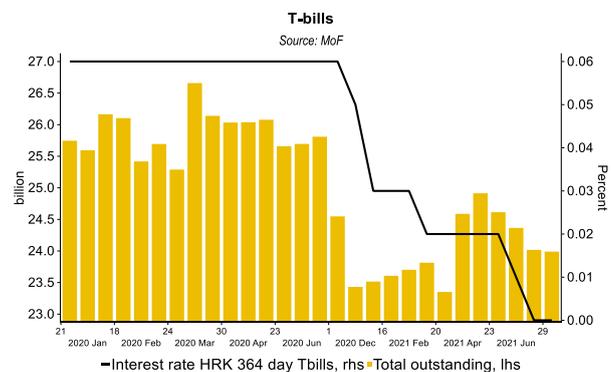
With a positive trend in asset quality, the third quarter also brought a continuation of the growth of revenues of banks supported by exceptionally favourable GDP developments. Interest income over the first three quarters fell by 4.9% y-o-y (loans to non-financial corporations -2.6%, loans to households -5.0%), while interest expenses were down by 19.2% (deposits of non-financial corporations -30.9%, deposits of households -34.5%) by which net interest income narrowed by 3.1%. Simultaneously the growth of net fee and commission income accelerated in the third quarter spurred primarily by tourism, thus these revenues recorded an increase of 13.0% owing to 16.1% increase of payment traffic income and 44.0% leap in card income. Gross operating profit thus increased by 3.8% and with the declined operating expenditure of 3.3% such trend brought about a sharp recovery of net operating profit of 12.6% y-o-y. Cost/income indicator according to the CNB's calculation thus improved by 4.2 p.p. to 50.4%. Major stimulus for growth of profit however came from significantly lower provisioning costs (-60.4% y-o-y) owing to reduced uncertainty by which the net profit rose by 59.6% y-o-y reaching HRK 4.0 bn. Returns on assets and equity also generated growth, to 1.1% and 8.3% (+0.4, i.e. +2.8 p.p. y-o-y) continuing to approach the levels reached in the pre-pandemic 2019.

In the current quarter, against the backdrop of continuing economic recovery, we expect the favourable dynamics of non-performing loans to continue, that will positively affect the movements of profit of banks.



Weekly overview

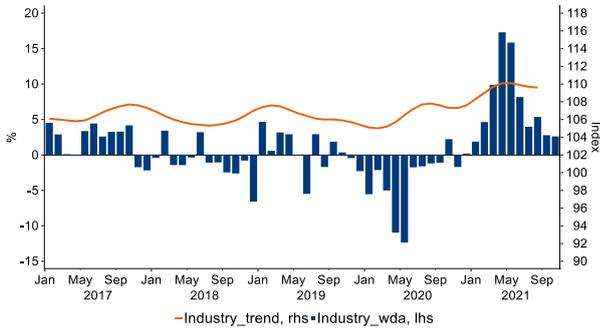
- Growth of total loans slightly strengthened in October to 2.7% y-o-y, whereby loans to the central government plunged by 1.1%, while growth to the private sector accelerated to 2.5% (households 4.1%, non-financial corporations -0.1%). According to the transactions, the 12-month cumulative growth of loans to the private sector stagnated at 3.3%. Growth of total deposits in October decelerated to 11.1% y-o-y, whereby the growth rate of deposits of the private sector remained at 11.4% (households 9.4%, non-financial corporations 16.8%).
- HRK/EUR mid-point exchange rate on Friday reached 7.5189 kuna to the euro, slightly lower w-o-w. Simultaneously the kuna strengthened by 0.2% against the dollar, and the exchange rate fell to 6.6491 kuna to the dollar.
- Excess liquidity dropped towards HRK 66 billion, interest rates mainly stagnated, and at the central bank's repo auction there were no placements. Last week an auction was held in T-bills where a subscription of HRK 1,959 million of T-bills was placed, which is slightly less than what was due, by which the government debt in T-bills mildly decreased to HRK 24.0 bn. One-year HRK T-bills were registered with an unchanged interest rate of 0.00%. There are no more T-bills due until the end of the year.
- The Crobex Index closed last Friday at 1,993.37 points, up by 0.4% compared to Friday the week before, while Crobis simultaneously dropped by 0.3% (to 110.84 points). As for sector indices, CROBEXtourist posted a decline of 0.6% w-o-w, to 3,523.54 points, while CROBEXindustry and CROBEXconstruct grew by 0.5% and 2.2% respectively (1,126.99 and 426.80 points). Total ZSE turnover last week reached HRK 138.5 million, up by 42.4% w-o-w, owing to the growth of turnover in bonds of 60.8% and shares of 10.2% (to HRK 99.6 and 39.0 million).



Statistics

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

Source: Macrobond



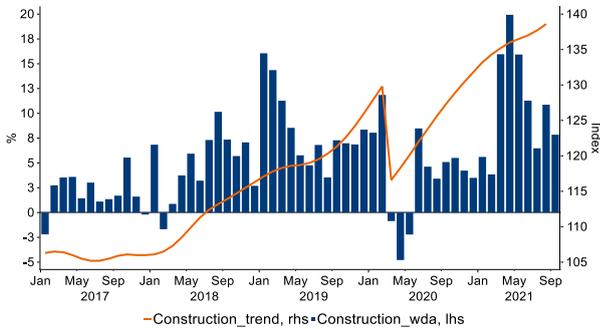
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



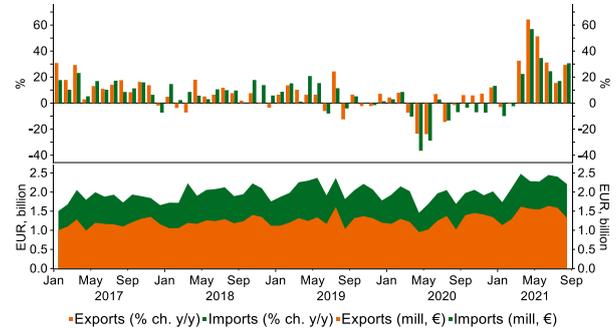
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



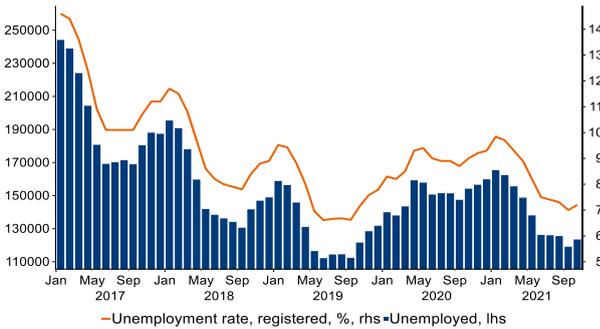
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



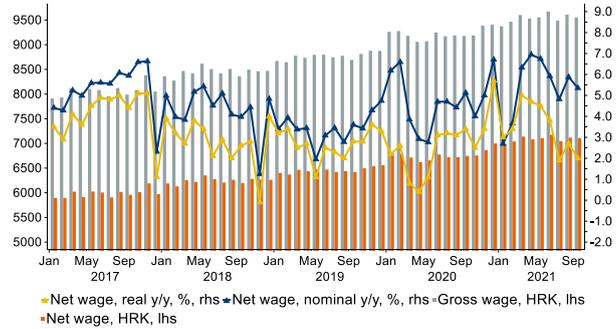
Total number of unemployed and unemployment rate

Source: Macrobond



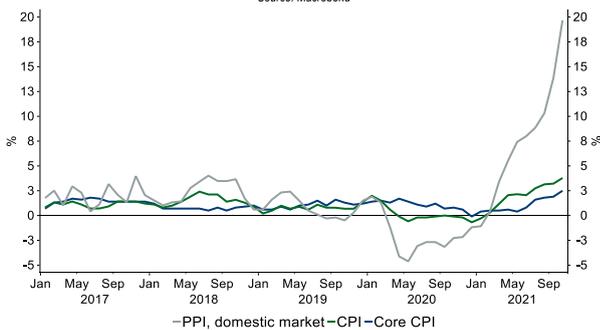
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



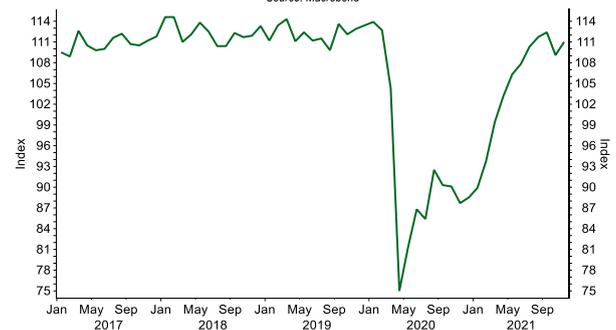
Prices, y/y % change

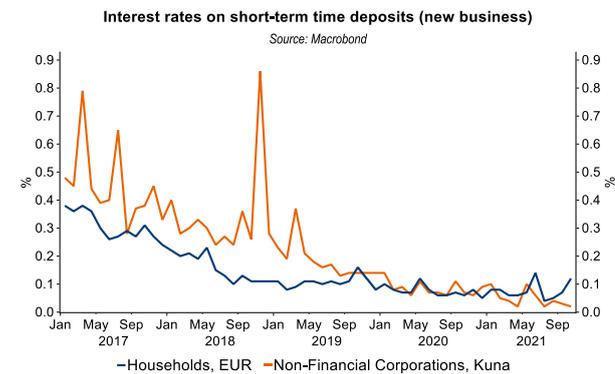
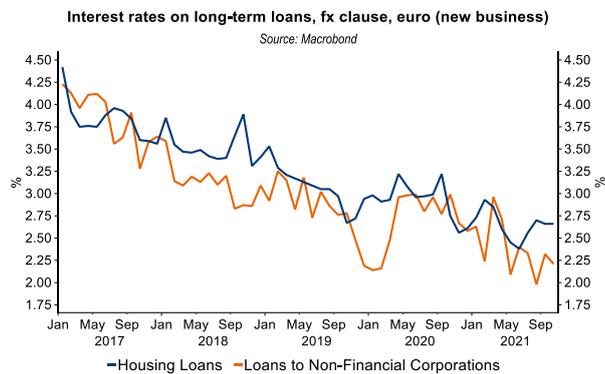
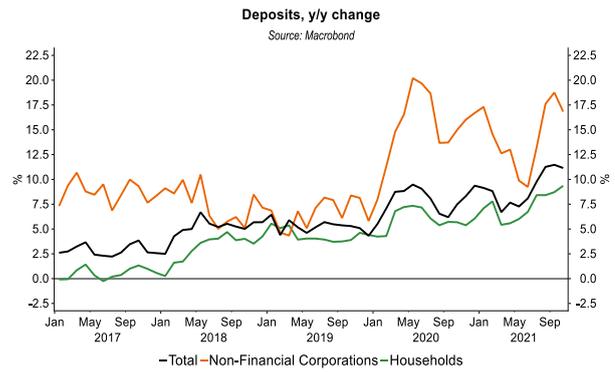
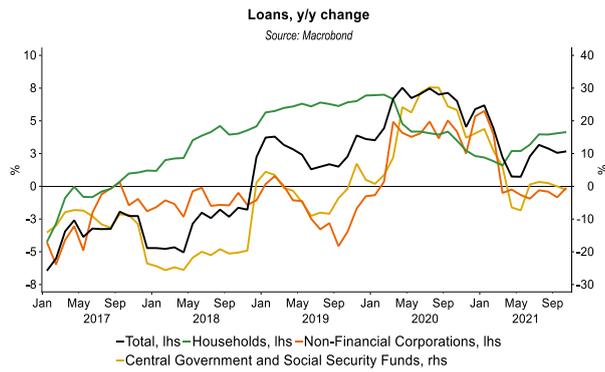
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





RESEARCH OFFICE

Ivana Jović
Ana Lokin
Ivan Odrčić

TREASURY

Eugen Bulat

TRANSLATION

Ana Biloš
Jelena Marinović

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