WEEKLY ANALYSIS

Number 724, March 8, 2021

PRIVREDNA BANKA ZAGREB

Bank of INTESA SANPAOLO

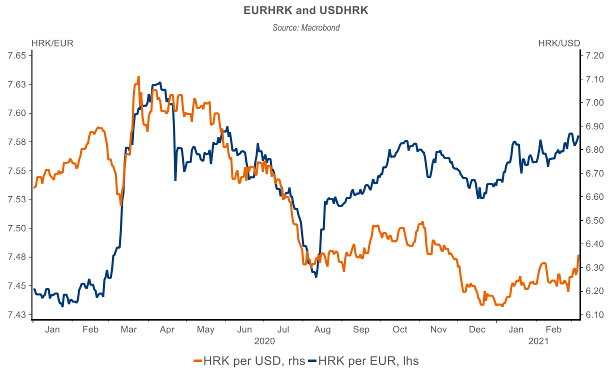
Credit quality maintained in 2020, profit plunged

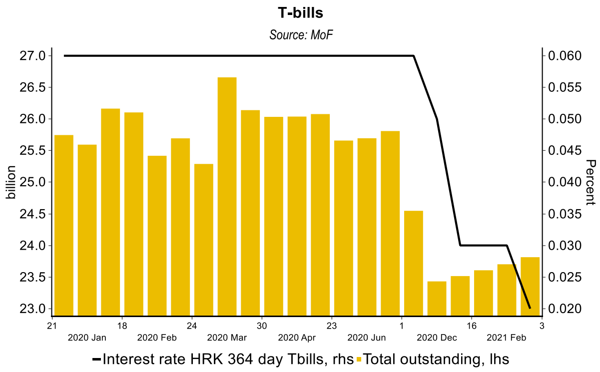
Loan quality of credit institutions in 2020 maintained its upturn, primarily due to high moratoria amount (8.8% of total loans at the end of the year) and relaxed supervisory treatment of loans under moratoria that enabled the banks to keep the said loans in a lower risk category. At the end of 2020 the share of non-performing loans in total loans (NPL) amounted to 5.4% and was lower by merely 0.1 p.p. qoq. The share in non-financial companies fell by as much as 0.7 p.p. to 12.5% owing to a somewhat higher amount of sold receivables in the last quarter (HRK 0.4 billion gross) followed by a sharp rise of placements (HRK +2.5 billion) where distribution by activities shows that credit quality significantly improved in construction, recording a drop in the share of 7.1 p.p. to 15.2%, mostly due to the sharp leap of placements. The decline is also recorded in manufacturing (-1.0 p.p. to 18.9%), while deteriorated quality is recorded in trade (+0.4 p.p. to 11.2%) and accommodation and food service activities (+0.8 p.p. to 8.3%). The latter activity has been recording a rising share for three consecutive quarters, which is expected due to weaker tourism indicators and restriction of business activities/lockdowns as a part of the coronavirus containment measures. Loans to households in the last quarter of the previous year recorded a growth of the share of non-performing loans of 0.5 p.p. qoq to 7.1%, primarily amid the deteriorated quality of cash loans (+0.9 p.p. to 8.3%), resulting from less stringent terms and conditions under which they were placed over the previous periods, while housing loans recorded a growth of only 0.2 p.p. to 4.2% owing, inter alia, to the strong growth of new loans in the last quarter (last wave of subsidies). Although the indicators of NPL movements in 2020 are not dramatic due to measures undertaken by the central bank and commercial banks, movements of the share of Phase 2 loans (performing loans whose quality deteriorated) in total loans indicates that the worst is yet to come – in September 2020 the share of Phase 2 in total loans was higher by 4.4 p.p. compared to December 2019, amounting to 12.0%, whereby the growth in non-financial companies reached 13.5 p.p. (to 21.9%), in cash loans 1.2 p.p. to 14.3%, and in housing loans 1.1 p.p. to 10.5%. Despite the deteriorated quality of placements, there is no reason for concern because capitalisation of credit institutions remained strong owing to the CNB's requirement to withhold dividend payments and reduction of risk weight for FX exposure to the government, hence the total capital ratio at the end of 2020 amounted to 24.9%.

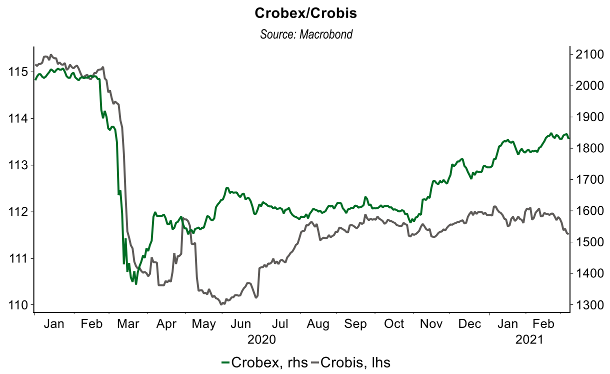
The pandemic had a strong impact on the last year's movements of credit institutions' profit. Amid a smaller volume of placements and lower interest rates, interest income fell by 7.5% yoy (from loans to non-financial companies by 10.8%, from loans to households 3.0%), while interest costs were cut down by 19.8% (on deposits of non-financial companies by -36.9%, on deposits of households -37.4%) by which net interest income decreased by 5.7%. Net fee and commission income plummeted by 10.5% (from payment operations -16.0%, from cards -33.1%) amid weaker economic activity, especially lower number of tourists, while dividend income was down by 81.4%. Gross operating profit decreased by as much as 14.3%, which, in addition to 4.3% lower operating expenses (teleworking, pandemic, reduced number of employees in credit institutions by an average of 2.3%), led to a drop in net operating profit by 24.2% and deterioration of cost efficiency indicators (+8.7 p.p. to 55.0%). Growth of provisioning costs of 59.9%, resulting from the caution of credit institutions due to negative expectations regarding credit portfolio quality, in 2020 led to 53.3% lower yoy net profit, and by this also to the reduction of banks' profitability indicators. Thus, return on assets (ROA) dropped by 0.8 p.p. to 0.6%, and return on equity (ROE) by 5.4 p.p. to 4.4%. Review by credit institutions indicates that three banks and one housing savings bank closed the year in the red.

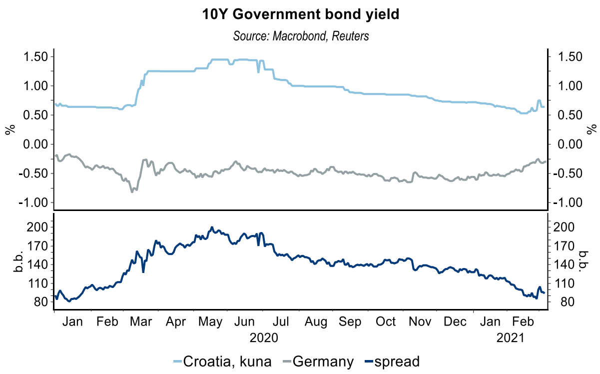
Weekly overview

- With a somewhat more lively turnover, last week the mid-point HRK/EUR exchange rate hovered in a narrow range and on Friday it amounted to 7.5806, almost unchanged in wow terms. The kuna amid strengthening of the dollar against the euro weakened against the dollar by 1.5% to 6.3548 kuna to the dollar. This week we expect a similar trading range of 7.565-7.585.
- In the week behind us excess liquidity amounted to around 63 billion kuna, interest rates stagnated, and at the central bank's repo auction there were no placements. At the last week's auction 320 million kuna of 6-month HRK T-bills were issued with an interest rate of 0.00% (5 b.p. lower than the previous issue) and 1.0 billion kuna of 1-year HRK T-bills with an interest rate of 0.02% (1 b.p. lower than the previous issue), by which the government debt in T-bills increased to 23.8 billion kuna. This week there is no maturity, hence there will be no auction held.
- The Crobex Index closed last Friday at 1,829.77 points, stagnating in wow terms, while Crobis simultaneously fell by 0.3% (to 111.95 points). Sector indices closed on a negative note, whereby CROBEXconstruct fell by 2.9% compared to the week before (to 841.82 points), CROBEXtourist by 2.7% (3,587.29), and CROBEXindustry by 1.1% (1,041.25). Total ZSE turnover last week reached 151.4 million kuna, up by 25.7% wow, owing to 49.7% higher turnover in bonds (reaching 126.9 million kuna), while turnover in shares fell by 31.3% (to 24.5 million kuna).







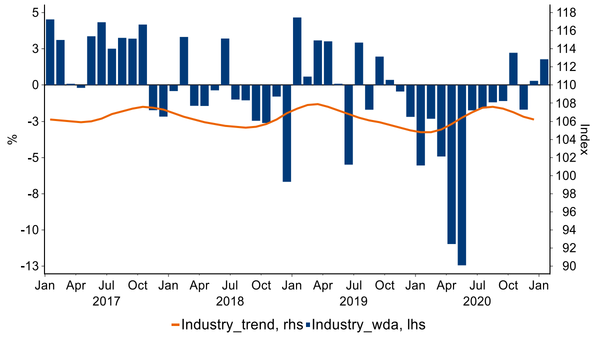


PBZ

Statistics

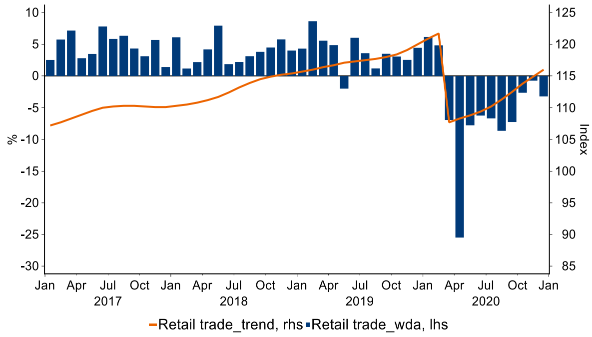
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



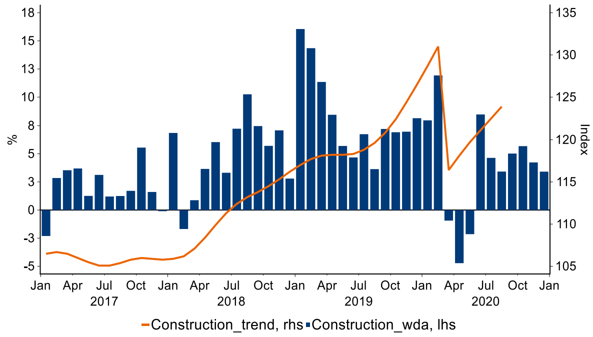
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



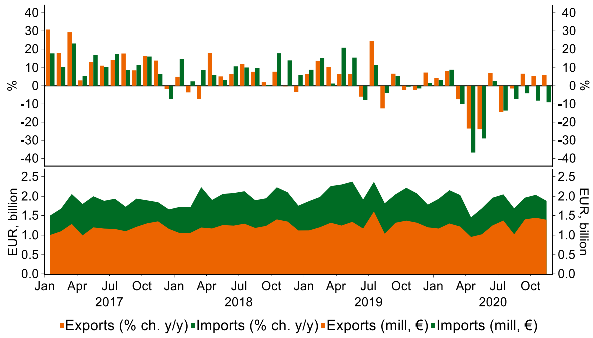
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



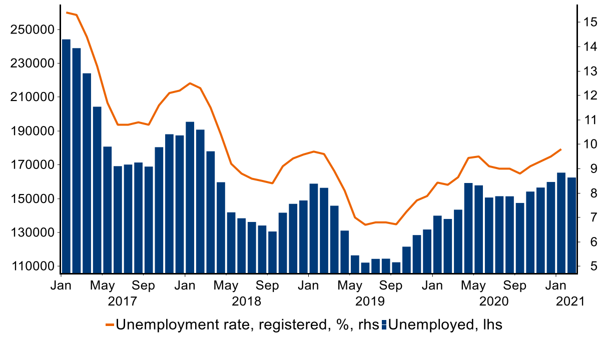
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



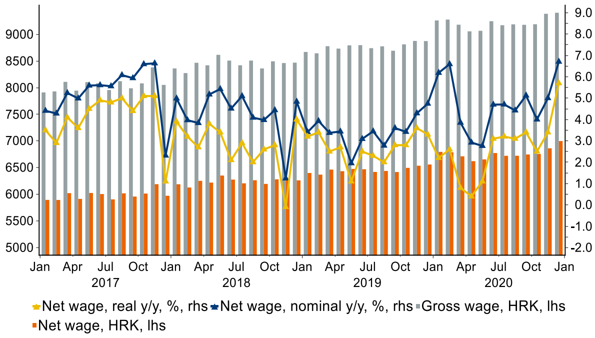
Total number of unemployed and unemployment rate

Source: Macrobond



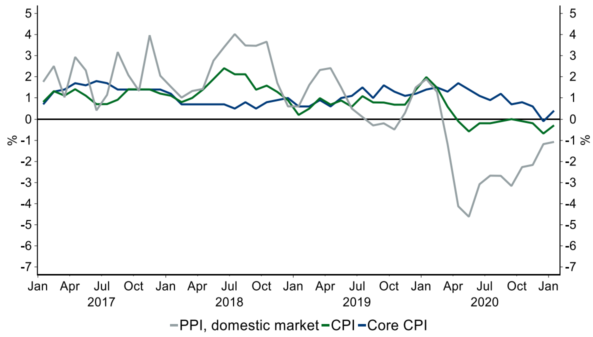
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



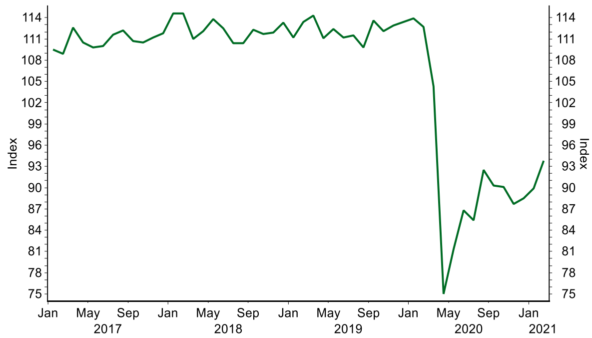
Prices, y/y % change

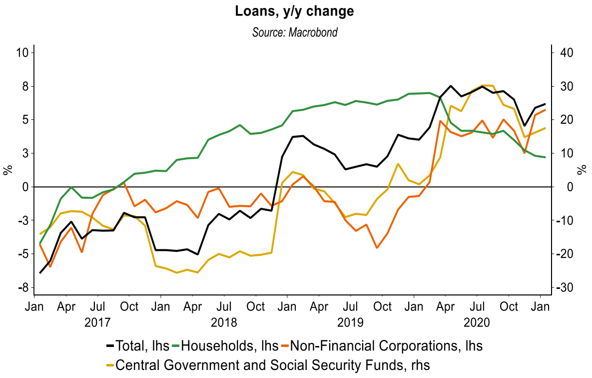
Source: Macrobond

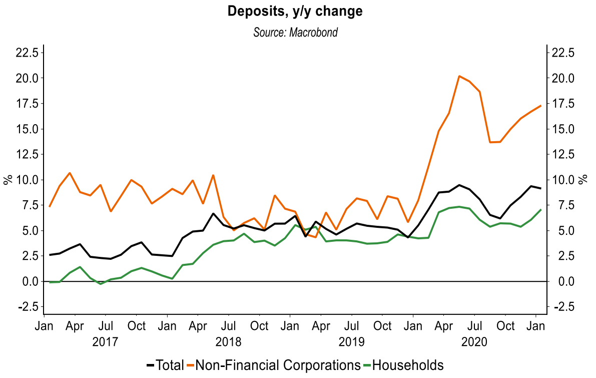


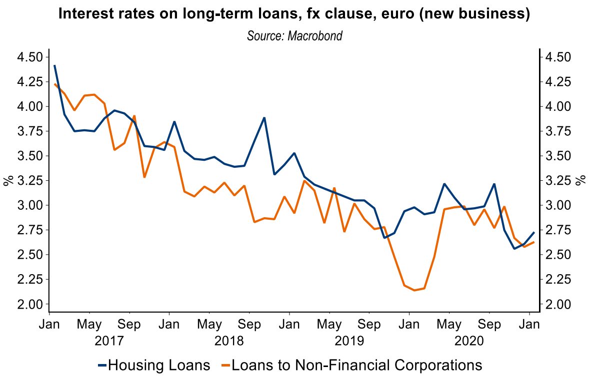
Economic Sentiment Indicator (ESI)

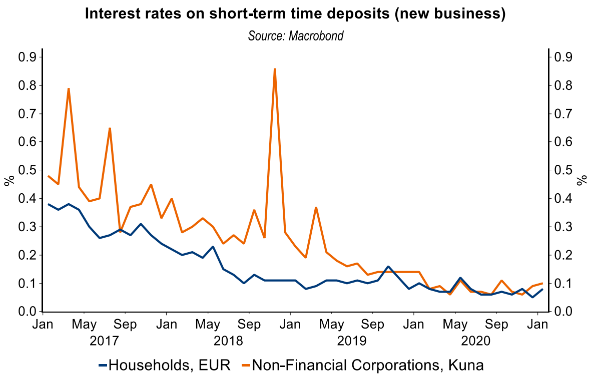
Source: Macrobond











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