

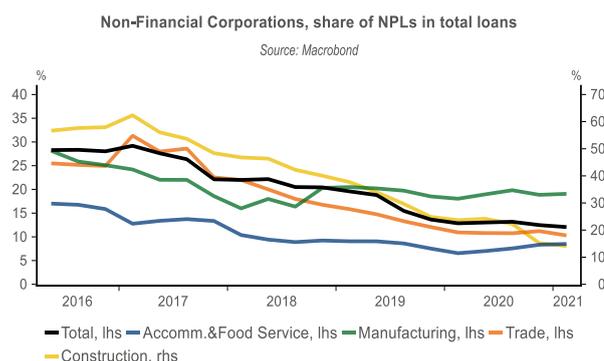
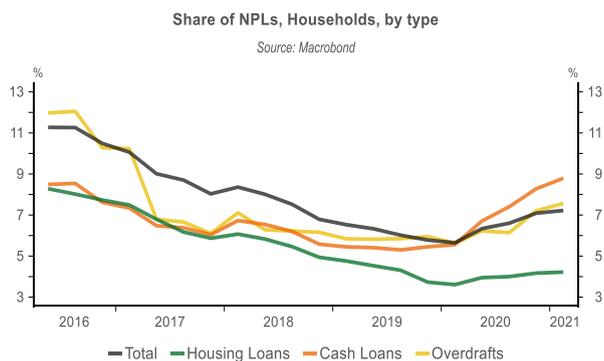
WEEKLY ANALYSIS

Number 737, June 14, 2021

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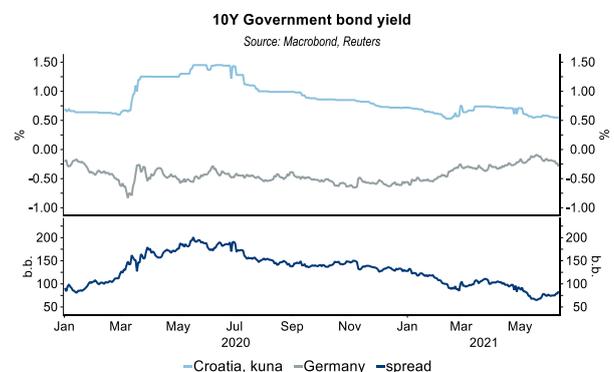
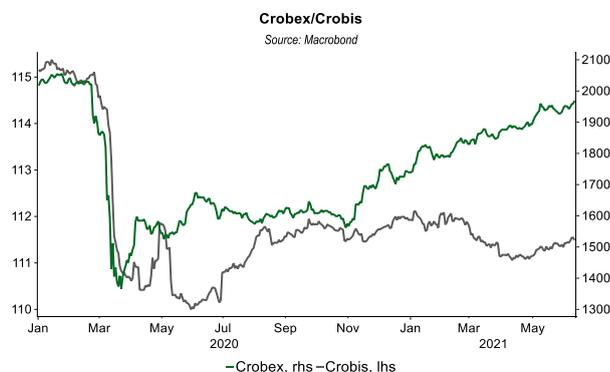
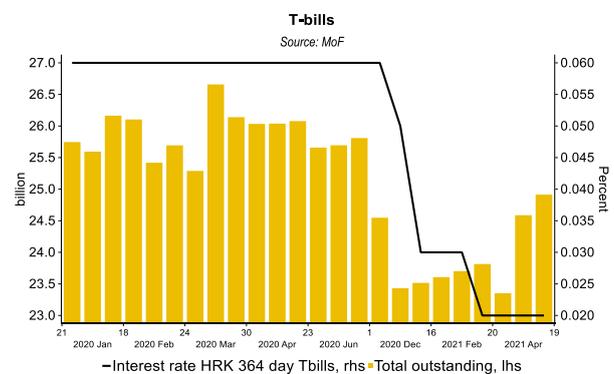
Profit of credit institutions at pre-pandemic level

Quality of credit institutions' loans at the beginning of this year continued to improve with households and non-financial corporations recording divergent movements. At the end of March 2021 the share of non-performing loans in total loans was down by 0.1 p.p. qoq amounting to 5.3% (-0.2 p.p. compared to the end of the pre-pandemic 2019), and the share within private sector 9.1% (-0.1 p.p. qoq, +0.3 p.p. vs. the end of 2019). Loans to households recorded an increase of the share of problematic loans for the fourth consecutive quarter that thus at the end of March reached 7.2%, up by 0.1 p.p. compared to the end of 2020 and up by 1.4 p.p. compared to the end of 2019. This mostly results from the weakening quality of cash loans (+0.5 p.p. qoq, to 8.8%), while the share of housing loans stagnated (at 4.2%) amid a continuous growth of new loans. The share of non-performing loans in total loans to non-financial corporations decreased in the first quarter by 0.4 p.p. qoq, to 12.1% (-1.6 p.p. compared to the end of 2019), primarily owing to a strong improvement of the quality of loans placed to trade (-0.9 p.p. to 10.3%). Construction registered a continued decline in the share (-1.1 p.p. to 14.2%), while in manufacturing and accommodation and food service activities there was a deterioration of quality (+0.2 p.p. both industries, to 19.1% and 8.5% respectively). Positive trend in the movements of the share of NPL was thus continued also at the beginning of this year, however the high share of Phase 2 in total loans (loans with problems related to repayment) above 13% and a still significant share of corporate loans under moratoria indicates that a clearer view will be obtained only in the second half of the year, following the expiry of most of the moratoria, i.e. after phasing out most of the fiscal supports. The CNB thus in the latest issue of Financial Stability states that withdrawal of the measures might lead to a risk materialisation, but while in households the maintained employment and incomes will significantly soften the blow, when it comes to companies individual activities have been strongly affected and their financial inventories are being depleted, hence their liquidity and solvency will depend on the pace of the withdrawal, i.e. reduction of the measures. Lower level of economic activity affected the movements of credit institutions' income over the first quarter. Interest income dropped by 7.1% yoy (loans to non-financial corporations -4.9%, loans to households -6.3%), while interest expenses were down by 21.9% (deposits of non-financial corporations -31.0%, deposits of households -36.0%), hence, net interest income narrowed by 5.2%. Net fee and commission income fell by 6.8% due to lower income from payment transactions (-2.2%) and credit cards (-5.3%). Gross operating profit thus decreased by 3.4%, which along with 8.4% lower operating costs (teleworking, cessation of the collection of ex-ante premium for securing deposits) brought about a 3.3% growth of net operating profit. With 16.1% higher provision costs, net profit stagnated yoy, i.e. after a level less than half generated in FY20, in this year's first quarter it reached a pre-pandemic level. Consequently, ROA i ROE advanced to 0.9 and 6.8%, which constitutes a significant improvement compared to FY 2020 (+0.6 and +4.4% respectively).



Weekly overview

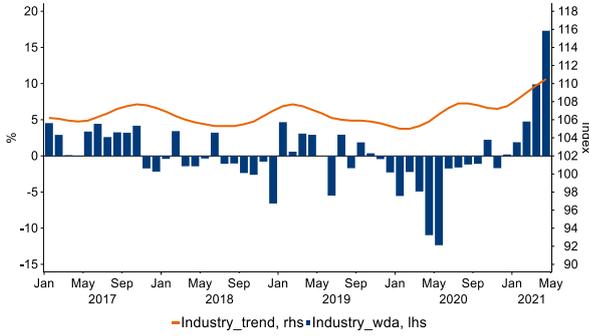
- Exports of goods in March advanced by 32.7%, and imports by 22.7% yoy, whereby foreign trade deficit in the trade of goods increased by 7.6%, and the coverage ratio reached 65.0% (60.0% in March 2020). Over this year's first three months, total exports of goods grew by 10.2% yoy, while imports simultaneously increased by 4.2%.
- With small trading volumes, last week the exchange rate slipped below 7.50 and at the end of week it amounted to 7.4965 kuna to the euro, down by 0.1% wow. The kuna also strengthened against the dollar, by 0.4%, thus the exchange rate dropped to 6.1684 kuna to the dollar. This week we do not expect major changes in the EUR/HRK exchange rate.
- Liquidity soared once again by exceeding 73 billion kuna, hence, there was no demand shown at the weekly repo auction, and interest rates stagnated. This week there is no maturity of T-bills thus there will be no auction held.
- The Crobex Index closed last Friday at 1,968.82 points, up by 1.0% wow, while Crobis simultaneously stagnated at 111.92 points. As concerns sector indices, CROBEXtourist posted a wow decline of 0.2% (to 3,613.76 points), while CROBEXindustry and CROBEXconstruct recorded a growth of 0.5% and 0.8% wow (to 1,066.63 and 498.90 points). Total ZSE turnover last week reached 84.5 million kuna, down by 38.8% wow, owing to a declined turnover in shares by 57.4% (reaching 43.4 million kuna), while turnover in bonds grew by 13.1% (to 41.1 million kuna).



Statistics

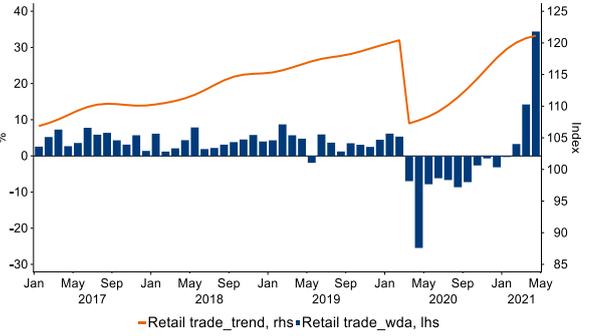
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



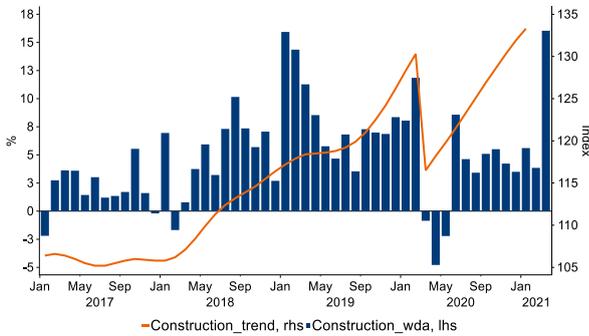
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



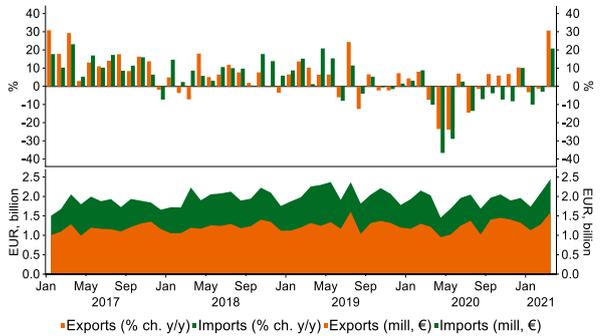
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



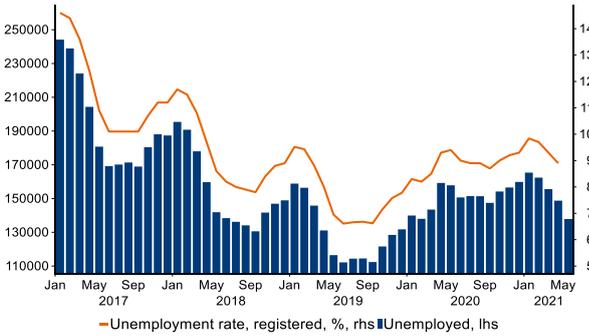
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



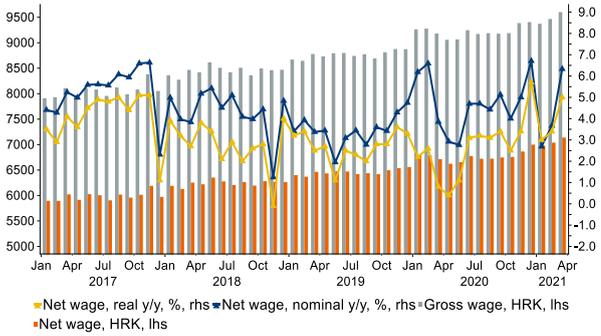
Total number of unemployed and unemployment rate

Source: Macrobond



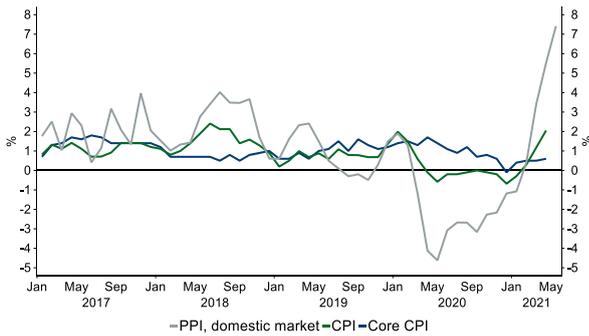
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



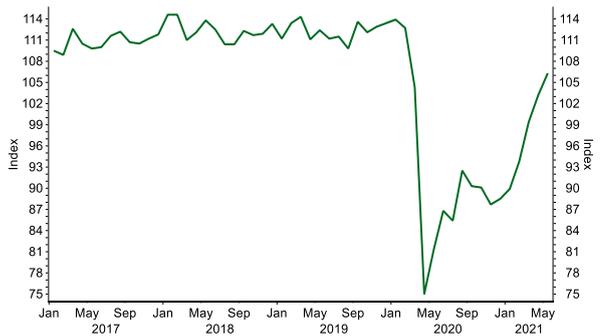
Prices, y/y % change

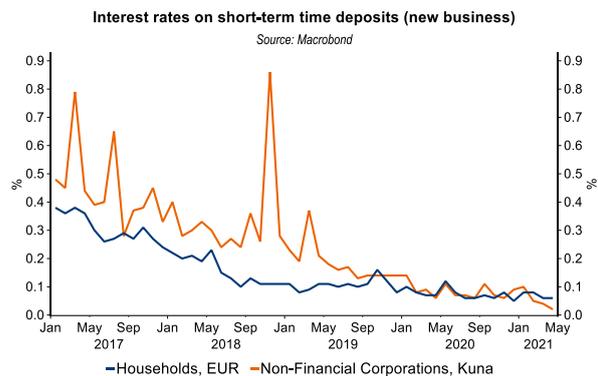
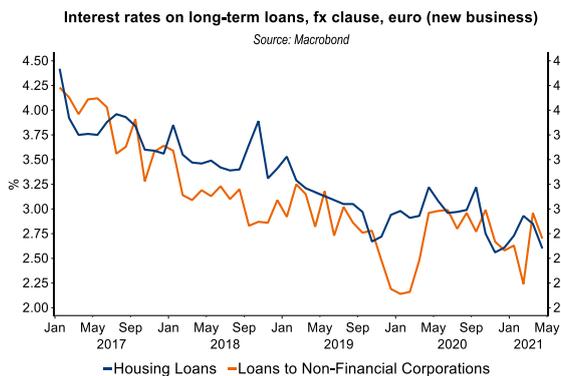
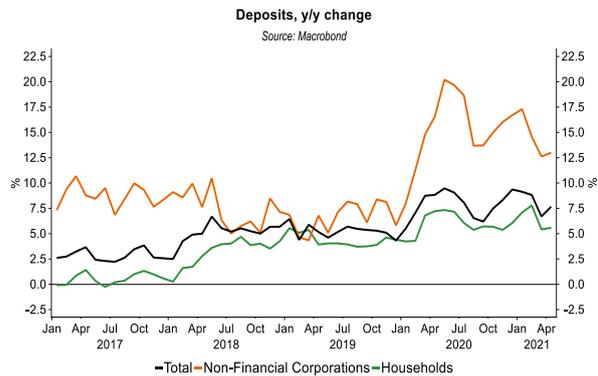
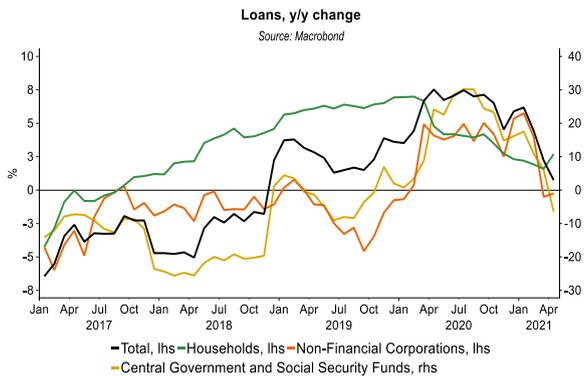
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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