

WEEKLY ANALYSIS

Number 801, December 5, 2022

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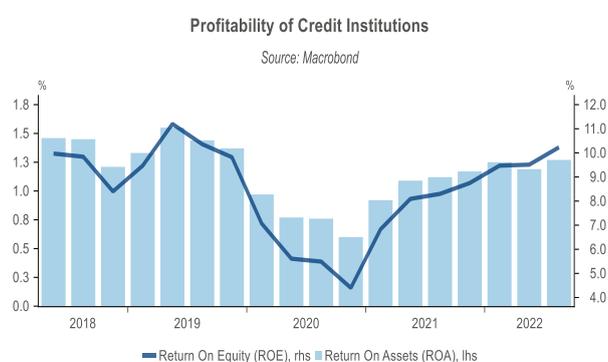
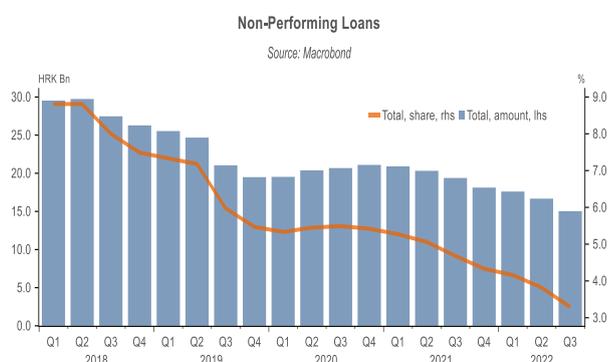
Third quarter brings positive trends for banks

Although slower, still-solid GDP growth in Q3 and especially strong tourist season resulted in the continuation of improving the quality of credit portfolio and income growth for credit institutions.

NPL share in total loans in September decreased by 0.5 p.p. q-o-q to 3.3% (private sector -0.9 p.p. to 5.9%), thanks to strong growth of new loans followed by NPL volume decrease due to healthy economic activity that facilitates debt repayment as well as increased amount of sales of non-performing placements (0.5 billion kuna, out of which 0.4 billion kuna households). Corporate loans continue recording strong recovery in quality (NPL: -1.3 p.p. to 6.5%) mostly due to robust pace of lending growth. The most significant decline from 0.6 to 0.9 p.p. q-o-q was recorded by Manufacturing, Accommodation and food service activities and Trade (to 10.2, 7.8, i.e., 5.9%), while in Construction there was an increase in the share (+0.9 p.p. to 10.7%). Regarding households, credit portfolio records stronger increase in quality (-0.6 p.p. on a quarterly level to 5.5%) than in Q2, which is, among other things, the result of higher amount of sold problem receivables. NPL decline by loan type to citizens was between 0.3 and 0.7 p.p. so the share is now 2.5% for housing, 7.3% for cash and 6.9% for overdrafts.

The strongest effect on banks' profit in Q3 were again from trends in provisions. Namely, after 65 million kuna of cost in the first six months, Q3 brought release of provisions so in the first nine months the banks made a cumulative profit from provisions in the amount of 141 million kuna. Gross operating profit in the observed period increased by 6.1% y-o-y, mostly due to 17.0% increase of net income from fees and commissions due to economic activity and tourism growth, as well as dividend growth (+105.7%). Negative trend of net interest income was mitigated (to -0.6%) although interest income from loans to clients is still in decline, while other income increased by 5.2%. Operating expenses increased at the same pace as in the first six months (+8.2%) due to inflation and preparations for euro introduction, thus increasing net operating profit in first three quarters by a solid 3.8% y-o-y. Cost efficiency indicator (per CNB calculation) increased in the first nine months by 1.4 p.p. y-o-y to 51.8%), but profitability improved due to reduction in provisions so return on assets and equity reached 1.3% and 10.2% (+0.2, i.e., +1.9 p.p. y-o-y).

We are expecting a slowdown of income growth in Q4, in line with weakening economy, but also a continuation of positive trend in asset quality, which shows signs of deterioration as usual due to weaker growth or decline of GDP only with a certain time delay.



Weekly overview

- In late October total loans recorded a somewhat stronger y-o-y growth rate than the previous month of 9.1%, with loans to the central government increasing by 0.8%, and to the private sector 11.4% (households 4.9%, non-financial corporations 22.1%). In October, deposits slowed down to 12.7% y-o-y (private sector 12.4%; households 10.5%, non-financial corporations 17.1%) due to a strong decline in deposits from non-financial corporations m-o-m (-3.7%).
- Last week we again noticed mild EUR/HRK fluctuations and Friday closed with mid-point exchange rate at 7.5341, down by 0.1% w-o-w. Kuna continued to appreciate against the dollar and mid-point exchange rate decreased by 1.2% to 7.1569 kuna to the dollar. This week we expect a continuation of calm period.
- Excess liquidity remained at 88 billion kuna last week, interest rates continued stagnating, and there were no placements at the CNB's repo auction. Last week 1,959 million kuna of T-bills was due, and 1,315 million kuna was subscribed so government debt in T-bills reduced to 20.3 billion kuna. 55 million kuna of 3M T-bills was subscribed (with interest rate 0.08%, 2 p.b. lower than the previous issue), 140 million kuna of 6M T-bills (with unchanged interest rate of 0.10%) and 1.12 billion kuna of 1Y T-bills (with unchanged interest rate of 0.20%). This was the last auction for this year and also final HRK T-bill auction, the next one is announced for 17 January 2023.
- ZSE turnover in last week was up by 15.7% w-o-w, reaching 219 million kuna with turnover in shares increasing by 35.5% (to 28 million kuna), while turnover in bonds increased by 13.6% (to 190 million kuna). Crobex recovered in the last day of the week, in line with global trends, increasing by 0.3% w-o-w from 1,919.4 points. Major indices recorded a mixed performance so CROBEXindustry continued its negative trend (-0.6% to 1,022.3), while CROBEXnutris and CROBEXtourist once again recorded growth (+1.1% to 722.1; +0.5% to 3,268.4). Crobis continued to increase (+0.4% to 96.5 points).

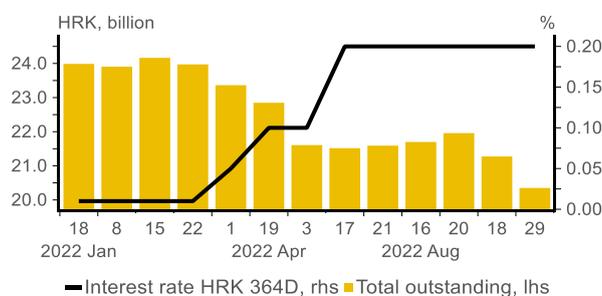
EUR/HRK and USD/HRK

Source: Macrobond



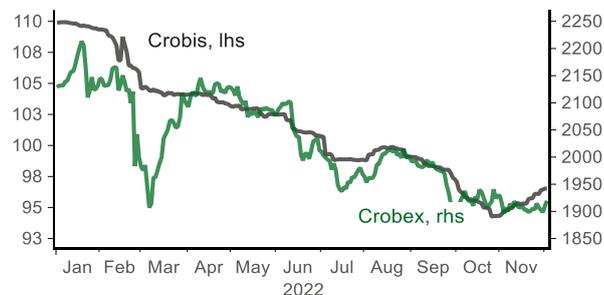
T-bills

Source: MoF



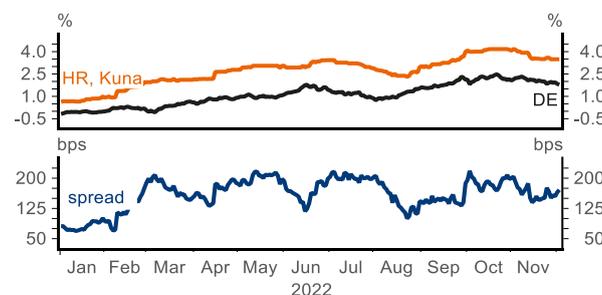
Crobex/Crobis

Source: Macrobond



10Y Government bond yield

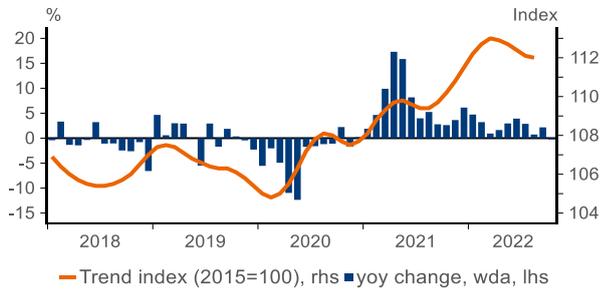
Source: Macrobond, Reuters



Statistics

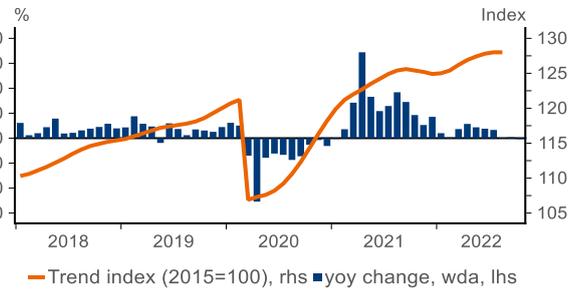
Industrial production

Source: Macrobond



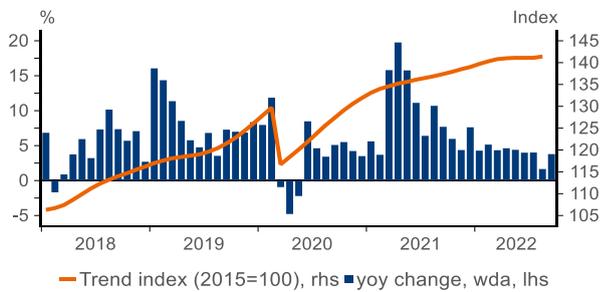
Retail trade, real

Source: Macrobond



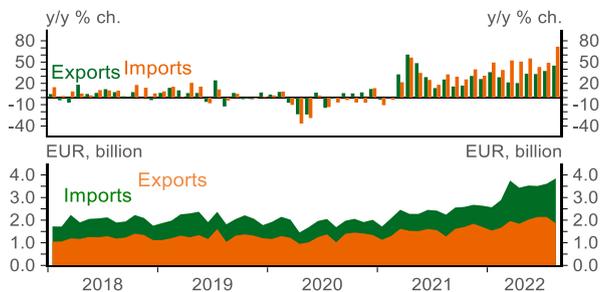
Construction works

Source: Macrobond



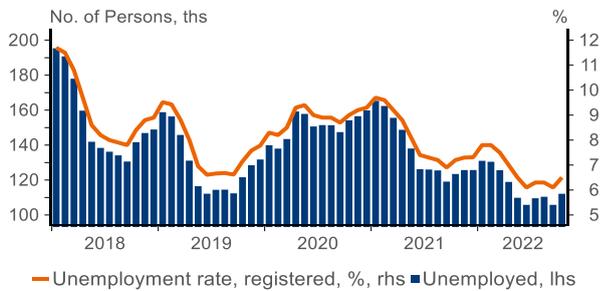
Goods exports and imports

Source: Macrobond



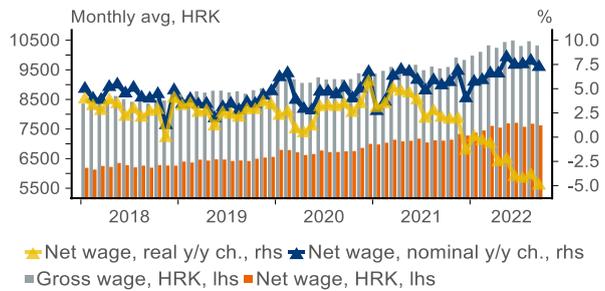
Unemployment

Source: Macrobond



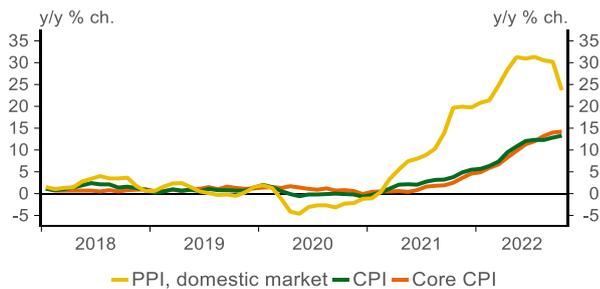
Wages

Source: Macrobond, CBS



Prices

Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond

