

NUMBER 829, SEPTEMBER 11, 2023

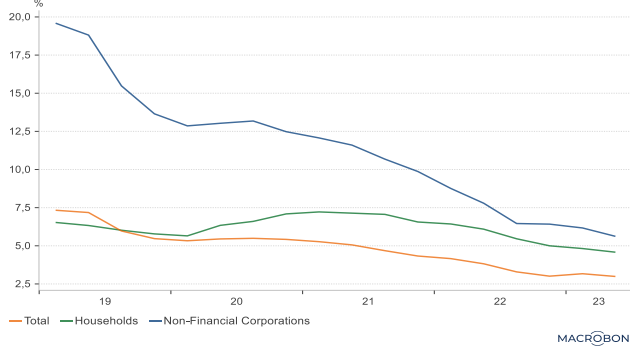
Favourable credit quality trend maintained

- In the second quarter, we recorded a continued decrease in the share of non-performing loans in banks' balance sheets due to stable economic growth, positive labour market trends and weakening inflationary pressures. The growth of economic activity along with the increase in reference interest rates has at the same time also supported the upward trend in profitability of credit institutions.
- Share of NPL (non-performing loans in total loans), after a short-term deviation from the trend in the first quarter, decreased in the second quarter amounting to 3.0% at the end of June. Its share in loans to the private sector continued to descend and dropped to 5.0% (-0,4 p.p. q-o-q). Loans to non-financial corporations recorded a stronger improvement, so the share decrease reached 0.6 p.p. reducing the ratio to 5.6%. Details of the movements in terms of activities show that Construction, after leading the decline in the ratio in the first quarter, recorded an increase of 0.7 p.p. in the second quarter (to 10.0%). At the same time, loans to Manufacturing and Accommodation and food service activities achieved a noticeable improvement, i.e., a decrease in the share of more than 1 p.p. (to 9.6% and 5.9%). Trade recorded only a slight decrease in the ratio (to 4.9%). The share in the portfolio of loans to households dropped by 0.2 p.p. to 4.6%, where housing and cash loans recorded a slight decline (to 1.9 and 6.2% respectively), while the share in overdrafts stagnated (at 6.8%).
- Banks' interest income in the first half of the year increased year-to-year by 73.9% or €0.5bn, with loan income growing by €0.3bn and other interest income €0.2bn. The breakdown of loan income by clients shows that the largest contribution to growth was made by loans to credit institutions (+€0.1bn), followed by non-financial corporations (+€0.09 bn). Interest expenses have increased by more than three times, i.e., by €0.1 bn (on deposits by €60 m) resulting in a 58.5% increase in net interest income. Income from commission and fees increased by 3.4% (+€12 m), largely owing to payment system income (+€4 m). Business efficiency has improved noticeably (C/I 41.9%, -11.3 p.p.), and provisions have been released (-€54 m) which increased net profit by 73.3% to €0.7bn. Profitability improved as a result, with returns on assets and equity reaching 1.9% and 16.8% respectively (+0.7 and +7.2 p.p. y-o-y respectively).

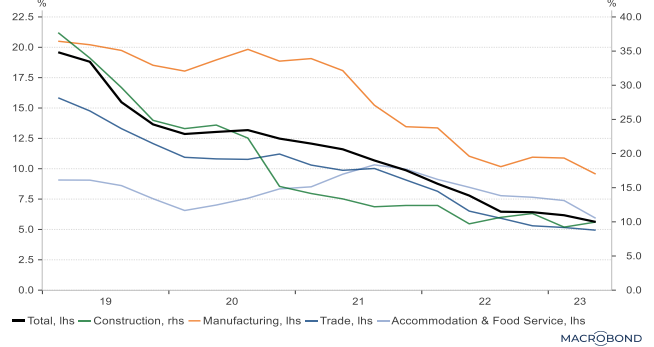
Share of NPL at the end of June 3.0%

Continued improvement in profitability of credit institutions

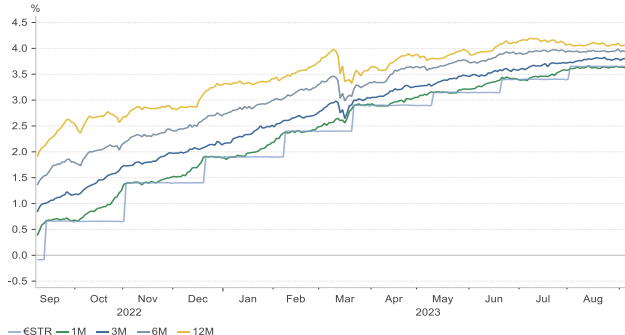
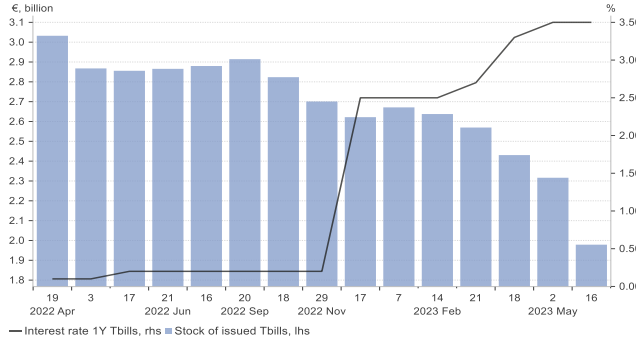
Non-Performing Loans, share in total



NPLs, Non-Financial Corporations, share in total



- More favourable-than-expected data on developments in the U.S. economy led to a reversal of the trend, with the dollar appreciating against the euro at \$1.0704 for the euro on Friday, down by 1.3% w-o-w.
- Euribor last week achieved a slight increase of up to 5 b. p. w-o-w, with 3M at 3.8% at the end of the week and 6M at 4.0%. There is no maturity this week and therefore there will not be any auction of T-bills.
- The positive climate was maintained at the ZSE, so Crobex concluded Friday up by 0.7% w-o-w (2,468 points) with a varied movement of the most important sectoral indices. CROBEXindustry achieved a leap of 1.9% (to 1,629 points), while CROBEXnutris and CROBEXtourist dropped by 1.0 and 0.1% respectively (to 862 and 4,203 points respectively). Crobis continued its negative trend by dropping 0.2% (to 93.8 points).

EUR/ USD**Euribor****T-bills****Crobex/Crobis****LEGAL DISCLAIMER**

This publication is issued by PRIVREDNA BANKA ZAGREB-DIONIČKO DRUŠTVO, Zagreb, Radnička 50 (hereinafter: PBZ) and aimed at clients of the PBZ Group. This publication is intended for information purposes only and may not in any way be considered an offer or invitation to purchase any property or rights mentioned in it. The informative nature of this publication means that it may not serve as a substitute for the personal judgment and assessment of any reader or anyone who receives this publication. The information, opinions, analyses, conclusions, forecasts and projections given here are founded on publicly available data whose accuracy PBZ relies on but cannot guarantee. Accordingly, all the opinions, attitudes, conclusions, forecasts and projections given in this publication are subject to changes, which depend on changes to the data as published by the source used. PBZ allows further utilization of the data given in this publication on the condition that the publication is indicated as the source. All the property mentioned in this publication and whose movement is the subject of comment may from time to time be the subject of trade or positions taken by PBZ.

ECONOMIC RESEARCH

Ivana Jović
Ana Lokin

TRANSLATION

Ana Biloš
Jelena Marinović

www.pbz.hr