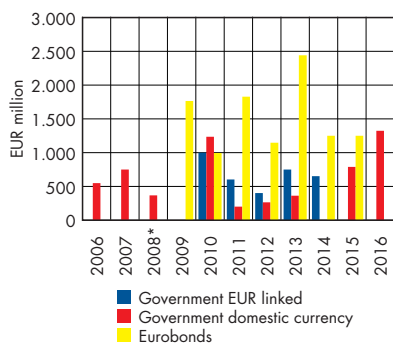


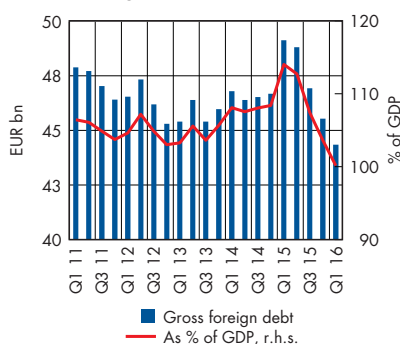
Generous HRK bond issuance

Government bond issuances



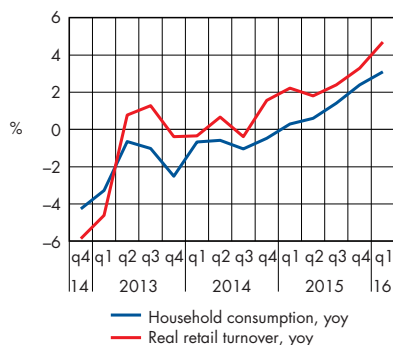
* 2-year T-bills MoF
Sources: CBS, Economic RESEARCH/RBA

Gross foreign debt



Sources: CNB, Economic RESEARCH/RBA

Household consumption and retail, annual changes



Sources: CBS, Economic RESEARCH/RBA

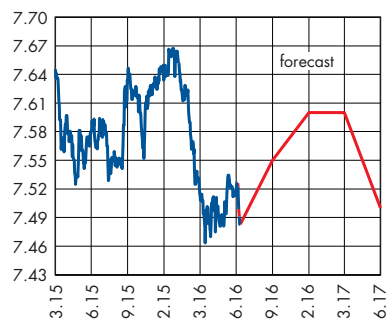
Last week the MoF successfully tapped the local market by issuing the **HRK bond** (coupon at 2.75%) maturing in 2021. As it was planned, the Government collected HRK 6bn of average yield at 2.85%. The order book exceeded 8b HRK. Although the collected amount is 2.5b HRK more than the RHMFO-167A notional maturing in two weeks, the recent delay of the Eurobond issuance as well as political insecurity might be the main reasons for such a generous issuance. The lower yield compared to the previous issues could be completely attributed to the significantly different market environment i. e. ample liquidity and the central bank's efforts to lower the interest rates at the longer end of the curve. The main aim of the latest auction was to collect funds to refinance the upcoming bond maturity and therefore the MoF allowed the notional of the old bond to be converted to the new one. We assume that the banks might take this opportunity since 5-year maturity is eligible for the **CNB's LTRO**. The next LTRO will be held on Thursday but the fixed repo rate went down from 1.8% to 1.4% making this HRK fund source more attractive to the banks. Still, due to the subdued loan demand, we would not be surprised if the final outcome of the third LTRO turns out unimpressive.

According to the 2016 Budget, the Government planned to collect HRK 17.7bn on capital markets by issuing bonds. Until now they collected HRK 10 bn on the local market. Refinancing needs in 2016 will be definitely met as the local market is abundant with liquidity surplus, and market players (especially large institutional investors such as pension funds) are able to meet a possible increase in government bonds' supply. Nevertheless, a 20% average of refinancing needs over the years to come may not be met solely on the local market. Q12017 will be a challenging period for certain, as a bulk amount of the next year's sovereign bonds matures in February and April (Feb: HRK 5.5 bn; April: USD 1.5 bn). The crucial factor for the pricing will be the political stability, as one of the major assessment factors of the rating agencies. In that context it will be really interesting to see whether the political instability would prevail in the Friday's rating assessment of Croatia (thus overweighting the above expected growth and improved fiscal metrics). According to the **rating calendar**, **S&P** and **Moody's** could announce a renewed assessment this coming Friday.

Last week's FX movement finally brought in some activity. On the back of the seasonal inflow of tourism-related FCY receipts and temporary withdrawal of HRK liquidity, after more than a month **EUR/HRK** dropped below 7.50 kuna per euro. Still, significant appreciation pressures are not expected. Trading range in the upcoming week is 7.47–7.50 kuna per euro.

Meanwhile, several **economic releases**, published last week, confirmed that economic recovery continued accompanied by disinflation environment. The lack of any inflationary pressure was visible in **June PPI figure** as it reported a negative value (-4.8% yoy) for the 35th month in a row. Even the **CPI release** announced for Thursday will confirm a widely spread disinflation. Namely, supported by low energy prices (and the April cut of administrative gas prices) we estimate a fall in consumer prices at 2% yoy. **May retail data** (+3.9% yoy) as well as **tourism arriv-**

EUR/HRK, mid rate CNB

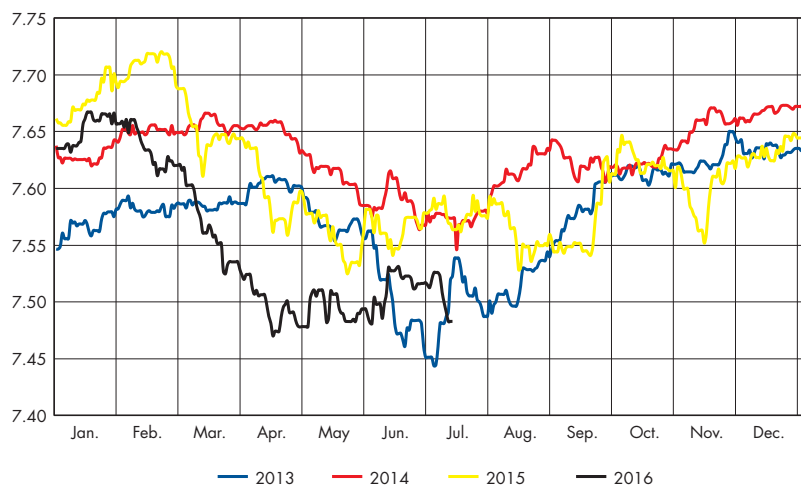


Sources: CNB, Economic RESEARCH/RBA

als and overnights (2.1% and 7.3% respectively) suggest that Q2 GDP might be again driven by domestic demand (primarily household consumption) while the pick-up in import growth has offset the continuous export acceleration, thus stressing the requirement to strengthen the competitive position (based on quality) and reduce the high dependency on imports. Encouraging indicators at the beginning of the second quarter, positive expectations regarding the high tourist season and the economic environment of Croatia's main exports partners suggest that this year's GDP growth could be even higher than we (initially) expected. Meanwhile, external vulnerability decreased further as gross external debt dropped to EUR 44.3 bn (-2.6% ytd) or 100.2% of GDP (-3.5pp ytd).

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EUR/HRK, mid rate



Sources: CNB, Economic RESEARCH/RBA

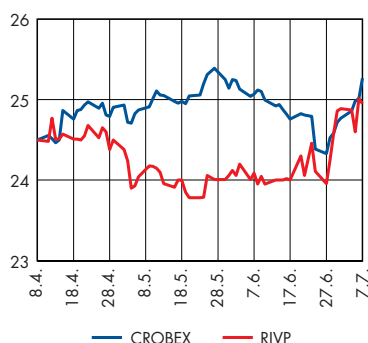
Key economic figures and forecast

	2014	2015	2016e	2017f	2018f
Real GDP (% yoy)	-0.4	1.6	1.5	1.5	2.0
Industrial production, % yoy	0.4	2.4	3.9	2.5	2.7
Consumer prices (avg, % yoy)	-0.2	-0.5	-1.0	1.5	2.2
Unemployment rate (ILO, avg)	17.3	16.3	15.9	15.5	15.1
Budget deficit, % of GDP, ESA 2010	-5.5	-3.2	-3.0	-2.9	-2.8
Public debt, % GDP	86.5	86.7	87.2	87.6	87.5
C/A Balance, % of GDP	0.9	5.2	2.0	2.2	2.1
FX reserves, (eop, EUR bn)	12.7	13.7	13.5	13.3	13.6
EUR/HRK (avg)	7.63	7.61	7.56	7.57	7.60

Sources: CNB, CBS, Economic RESEARCH/RBA

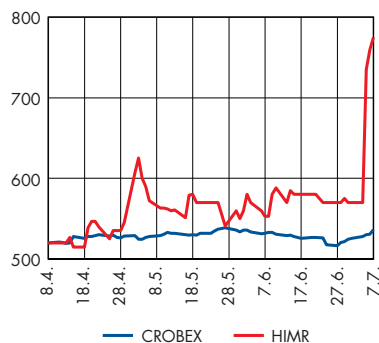
Strong upswing of CROBEXtourist index

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Imperial (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Despite the continuation of low regular turnovers with stocks on the Zagreb Stock Exchange in the week behind, CROBEX and CROBEX10 added 2.6% and 2.5%, respectively. Among sector indices, only CROBEXkonstrukt fell while the index of tourism companies stocks performed the best increasing by as much as 10%. Majority of CROBEX members went up led by shares of **Maistra**. The regular stocks turnovers were slightly higher compared to the week before, at HRK 5 mn on average daily. Shares of **Imperial** had the highest turnover (total of HRK 5.4 mn; share price up by 36% in the week) followed by shares of **Valamar Riviera** (total turnover of HRK 3.8 mn). The equity indices in the region posted a mixed performance with the top performers being the Hungarian index BUX and Croatian CROBEX.

Company news

Valamar Riviera submitted the binding offer for acquisition of 50.08% shares of **Imperial d. d., Rab** and established a joint action with AZ d.o.o., the mandatory pension fund management company, in relation to the Imperial. The report of the CERP, the state centre for restructuring and sale, revealed that two binding bids were submitted for the stake in Imperial, one of them was deemed as invalid and the other was that of Valamar Riviera amounting to HRK 260.81 mn for the stake (HRK 819 per share of Imperial). The offered amount is HRK 0.9 mn above the initial ask price. The CERP will analyse the offer of Valamar Riviera and make a final decision on the subject in the days to come.

In this week

We expect continuation of low activity with stocks on the ZSE in this week ahead of the start of Q2 reporting season.

Financial analyst Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on* 8.7.2016
BUX (HU)	2.64	12.98	27,025
CROBEX (HR)	2.64	2.02	1,724
SBITOP (SI)	2.07	0.80	702
BETI (RO)	0.26	-7.15	6,504
BELEX15 (RS)	-0.25	-6.38	603
SASX10 (BH)	-0.50	-1.57	688
MICEX (RU)	-0.51	7.13	1,887
SOFIX (BG)	-0.76	-2.15	451
NTX (SEE,CE,EE)	-0.92	-10.50	859
WIG30 (PL)	-1.26	-7.13	1,928
PX (CZ)	-1.29	-14.90	814
ATX (AT)	-1.63	-13.64	2,070

* as at 16:30 CET. Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on* 8.7.2016	Share	1w %	Price on* 8.7.2016
Maistra	10.04	230	Đuro Đaković H.	1.32	42
AD Plastik	8.85	123	Adris Grupa (P)	1.32	382
Atlantska Plov.	7.25	150	Ericsson NT	0.79	1,016
Ina	7.14	3,000	Valamar Riviera	0.44	25
Varteks	6.28	15	Atlantic Grupa	0.00	815
Končar El	5.99	675	Kraš	-2.04	480
Arenaturist	3.46	359	Ingra	-2.04	2
Podravka	3.28	339	Belje	-2.35	20
Zagrebačka Banka	2.18	40	Dalekovod	-2.76	13
Luka Rijeka	2.13	48	Tankerska NG	-4.41	72
Ledo	2.08	9,800	OT-Optima T.	-6.06	2
HT	1.66	143			

* as at 16:30 CET. Source: ZSE, Economic RESEARCH/RBA

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Abbreviations

bp – basis points

CERP – Restructuring and Sale Center

DZS – Croatian Bureau of Statistics

ECB – European Central Bank

EUR – Euro

FED – Federal Reserve System

GDP – Gross Domestic Product

HBOR – Croatian Bank for
Reconstruction and
Development

HNB – Croatian National Bank

IMF – International Monetary Fund

kn, HRK – Kuna

MF – Ministry of Finance

RBA – Raiffeisenbank Austria d.d.

USD – Dollar

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"Reduce": expected negative return up to -10% over next 12 months.

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Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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