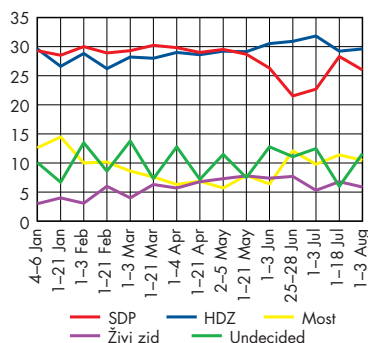


In the middle of the summer

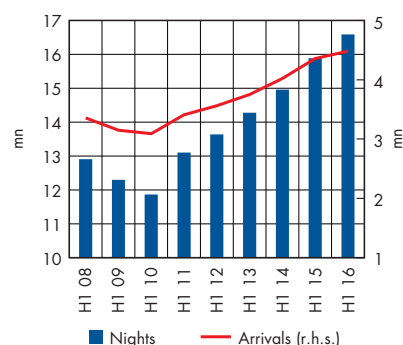
Opinion polling – Party standings



Sources: Promocija plus, IPSOS PULS

A calm week at the peak of the tourist season was actually busy in terms of economic releases. However, more interesting were (political) preparations for the upcoming snap elections, scheduled on September 11th. In that context, **the parliamentary election campaign** starts officially this week. As opinion polls suggest that we are still unlikely to see a clear cut winner as no party/coalition is expected to win an outright majority. Therefore we do not exclude a *déjà-vu* of last November's elections i. e. that the main political parties (SDP and HDZ) will be forced to negotiate with MOST. However, MOST proved to be a tough negotiator and a political partner that does not back off when faced with the demands of leading parties commanding stronger electoral support. Interestingly, rumors of a *grand coalition* (between HDZ and SDP) are more often but for now we do not see such an outcome, at least for now.

Tourism: arrivals and nights statistics, mn

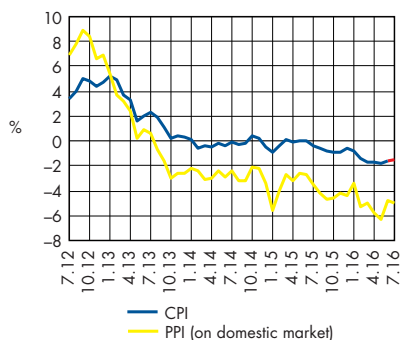


Sources: CBS, Economic RESEARCH/RBA

As for economic programmes of political parties we do not expect (much) divergence from the platforms which had been introduced at regular parliamentary elections in November last year. However, it will be interesting to see their stance on the reform of local and regional self-government units, especially given the fact that local elections are envisaged sometime in the spring of 2017. In addition, when other things are made equal, one should not rule out the parties being more prone to populist measures in order to win votes.

It is thus unlikely that autumn will bring much stability as far as the formation of the government and parliamentary majority are concerned. Until then the technical Government will hold on to executive power. All in all, the political scene in autumn will be the most interesting so far in Croatia.

Prices, annual change

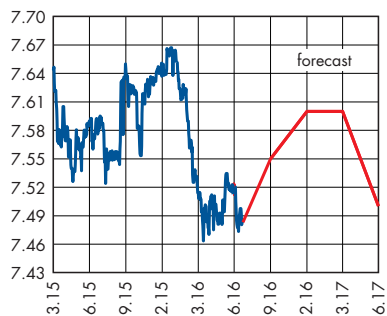


Sources: CBS, Economic RESEARCH/RBA

As for **economic releases**, the final results of May merchandise trade confirmed that the positive effects of export growth are greatly subdued by the relatively strong import dependence. Specifically despite the double-digit growth in exports (12.4% yoy), 8.7% yoy an increase in imports caused further widening of trade deficit (+3% yoy). The link between imports and exports is mainly driven by the export of services with an estimate elasticity estimated at 0.74 (according to the EC)¹. This is in line with the H1 tourism data that confirmed our expectation of yet another excellent tourist season. Namely, the total number of overnight stays in H1 reached 16.6mn, which is 4.4% more compared to the same period in 2015, while tourist arrivals in the same period rose by 2.8%yoy. The positive spill over of tourism on other economy segments is especially visible on the disposable income on households and seasonal employment. As the number of registered unemployed persons in July dropped to the lowest level since August 2008 the upcoming unemployment rate release is supposed to deliver reading of 13.4%. Real income is also positively affected by further disinflationary environment; July PPI sunk by -5% yoy while the July CPI data release scheduled for tomorrow is expected to remain in the negative territory for 13 months in a row (estimate: -1.5%yoy).

¹ European Commission staf working document: Country Report Croatia 2016 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances estimates

EUR/HRK, bid



* as at 15:30 CET.

Sources: Bloomberg, Economic RESEARCH/RBA

Financial markets remain relatively dull, especially the FX market, where EUR/HRK hovered mainly around 7.48 kuna per euro. Slight depreciation pressures on HRK which were evident at the end of the week, suggest that we might see a slight shift of trading range in upcoming weeks. This is a usual pattern of EUR/HRK as we approach the end of peak tourist season. The upward EUR/HRK trend is being expected to continue by the end of the year. Still, the average 2016 EUR/HRK exchange rate at the annual level should come in lower than in 2015, thus confirming the recovery of economic activity mostly accompanied by the strengthening of the kuna against the euro. Meanwhile, as announced earlier, the Ministry of Finance held a generous T-bill auction as more than EUR 1.2 bn of 18-months EUR-T-bill matured. The amount was fully rolled over by 455 days EUR T-bill in the amount of EUR 1.5 bn (EUR 500 mn above the planned amount). As we expected, with bid to cover 1.1, yield decreased from 1.95% (last issuance in Feb 2015) to 0.70%. Considering the long-lasting (global) ample liquidity and low interest rate environment, such yield may be considered attractive.

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Key economic figures and forecast

	2014	2015	2016e	2017f	2018f
Real GDP (% yoy)	-0.4	1.6	2.3	2.5	2.0
Industrial production, % yoy	0.4	2.6	4.8	4.2	3.8
Consumer prices (avg, % yoy)	-0.2	-0.5	-1.0	1.5	2.2
Unemployment rate (ILO, avg)	17.3	16.3	14.9	14.2	13.7
Budget deficit, % of GDP, ESA 2010	-5.5	-3.2	-2.8	-2.9	-2.8
Public debt, % GDP	86.5	86.7	87.3	86.9	86.8
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

Surge of industrial shares' index

Trading comment

Equity indices CROBEX and CROBEX10 posted mostly small changes on the daily basis and closed the week up by 0.9% and 0.5%, respectively. Among CROBEX members, the list of winners was indisputably led by shares of ĐĐ Holding and Varteks while shares of Arenaturist were on the down side. While all sector indices increased in value, CROBEXindustrija was the top performer gaining as much as 7.9% due to the surge of shares of ĐĐ Holding and Varteks. The equity indices in the CEE region also had a positive performance. The regular stock turnover on the ZSE was on the usual levels, at HRK 5.7 mn on average daily and the highest turnover was registered with shares of Valamar Riviera. Shares of tourism companies Iliria and HUP-Zagreb also had relatively high regular turnover in the week behind.

Company news

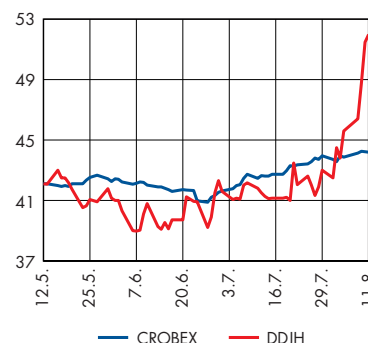
In a transaction between Agrokor and TDR, 16% of shares of **Tisak** changed hands and now Agrokor holds 51.34% while BAT and TDR increased their joint stake to 41.86% in Tisak. The shareholder of **Hidroelektra Niskogradnja** Mr Sergej Gljadelkin bought additional 53,931 shares in the company at the price of HRK 20 per share thus increasing its stake to 24.6%.

In this week

Shares of **Podravka** could be in the spotlight on the ZSE on Thursday due to the ex-dividend day (DPS of HRK 7).

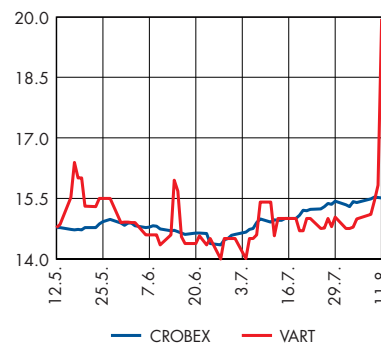
Financial analyst Nada Harambašić Nereau

ĐĐ Holding (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Varteks (3)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
12.8.2016			
ATX (AT)	2.22	-4.90	2,279
NTX (SEE,CE,EE)	2.20	-1.65	944
SASX10 (BH)	2.15	-0.89	693
WIG30 (PL)	2.12	1.87	2,114
BUX (HU)	1.63	16.04	27,758
PX (CZ)	1.60	-9.72	863
CROBEX (HR)	0.91	5.72	1,786
MICEX (RU)	0.80	11.27	1,960
BETI (RO)	0.73	-2.89	6,802
SBITOP (SI)	0.65	2.76	715
SOFIX (BG)	0.06	-0.40	459
BELEX15 (RS)	0.00	-5.24	610

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

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
12.8.2016					
Varteks	23.42	19	Ingra	0.80	3
Đuro Đaković H.	18.42	54	Končar El	0.31	658
Atlantska Plov.	7.62	185	HT	0.01	143
AD Plastik	4.88	118	Tankerska NG	0.00	75
OT-Optima T.	4.43	2	Ina	0.00	3,000
Kraš	2.94	525	Atlantic Grupa	-0.01	814
Ericsson NT	1.83	1,027	Dalekovod	-0.07	14
Zagrebačka Banka	1.76	42	Adris Grupa (P)	-0.52	400
Maistra	1.69	240	Luka Rijeka	-1.41	48
Valamar Riviera	1.53	27	Belje	-1.76	21
Ledo	1.44	10,600	Arenaturist	-2.13	391
Podravka	0.84	359			

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

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Abbreviations

bp – basis points	GDP – Gross Domestic Product	kn, HRK – Kuna
CERP – Restructuring and Sale Center	HBOR – Croatian Bank for Reconstruction and Development	MF – Ministry of Finance
DZS – Croatian Bureau of Statistics	HNB – Croatian National Bank	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	IMF – International Monetary Fund	USD – Dollar
EUR – Euro		
FED – Federal Reserve System		

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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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