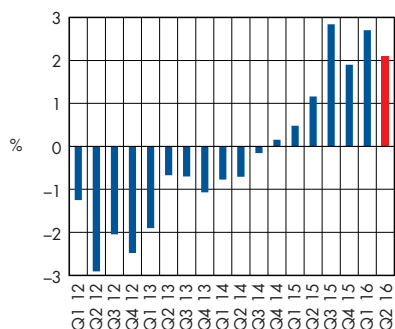


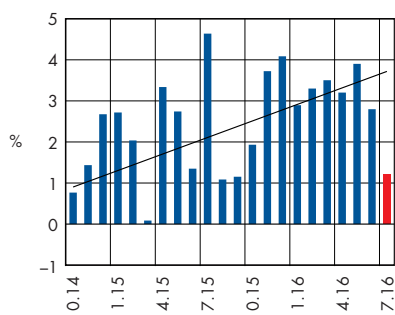
In anticipation of Q2 GDP figures

GDP, real annual changes



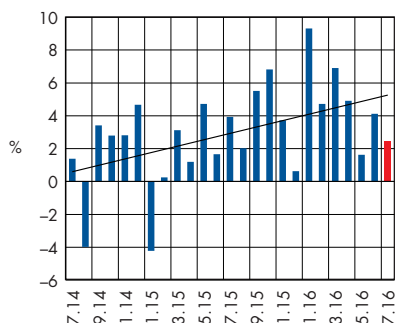
Sources: CBS, Economic RESEARCH/RBA

Retail trade, real annual changes



Sources: CBS, Economic RESEARCH/RBA

Industrial production, yoy



Sources: CBS, Economic RESEARCH/RBA

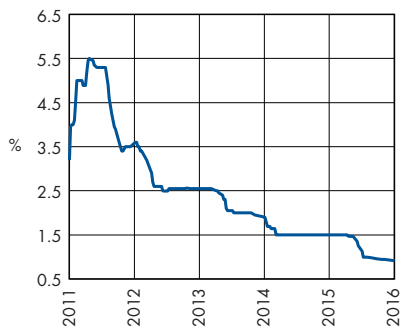
The week behind us was lean in terms of relevant macroeconomic data; just the first CBS's estimates on **average wages and registered unemployment rate** were published on Tuesday. In line with our expectations, negative annual inflation rates largely caused by imported price pressures from the world's commodities market (but also spurred by the administrative reduction in the price of gas) resulted in wages growth rates speeding up. The trend of positive rates on annual level is expected to continue over the upcoming months as well. As the labour market conditions are getting better, strongly influenced by probably record high tourist season, the registered unemployment rate for July declined to 13.3% (from 13.6% in June). However, coming closer to the end of the year improved development in employment, aided by rising demand for seasonal workers in tourism, is expected to vanish.

The upcoming week is rich in terms of macroeconomic announcements. The **highlight of the week will be Q2 GDP** first estimate scheduled for Wednesday while at the very end of the week the industrial production and retail trade data for July are set to be released. We expect GDP growth of 2.1% yoy with the largest positive contribution should come from exports of goods and services and personal consumption. On the other hand, the positive effect of foreign demand should be largely offset by stronger growth of imports of goods which is the consequence of the high import dependence of the domestic economy and exports. Personal consumption is encouraged by the good results in tourist pre-season and seasonal improvement in the labor market, while real disposable income is further influenced by the continued decline in average prices of consumer goods. Movements in the economies of the most important Croatian foreign trade partners, high-frequency indicators in the Q2 in Croatia as well as expectations for the Q3 suggest that growth 2016 could be higher than earlier estimates. Therefore, for the whole 2016 GDP could reach a growth rate of 2.3%.

Furthermore, with the expected continuation of positive trends in the movement of foreign demand, **industrial production** in July could continue with annual growth although albeit at a slower pace (2.4% yoy). And finally the spill over of the positive effects of good results in tourism could be partially mitigated by the last year's high base effect so in July we expect a slowdown in the **retail trade** growth to 1.2% yoy.

As for the **financial markets**, the Ministry of Finance issued HRK1.15bn in 1Y T-bills, surpassing its HRK1.0bn plan. Ample HRK liquidity and a lack of any attractive investment continue to support the demand for the short term Government papers despite the historically low yields which have recorded a further decline to 0.91% (-3bp). We expect that due to ample HRK liquidity, yields on T-bills will remain at current levels over months ahead. In the last week of the peak tourist season the EUR/HRK saw rather stable week, trading in a narrow range between 7.487 and 7.793 kuna per euro but still below 7.50. The upward EUR/HRK trend is 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,

1Y HRK T-bills yield



Sources: MoF, Economic RESEARCH/RBA

thus confirming the recovery of economic activity mostly accompanied by the strengthening of the kuna against the euro.

As expected, the end of the peak tourist season brought greater volumes with the main focus on pure kuna papers (especially those that mature in 2018 and 2021) on the domestic bonds market. More active trading is expected to continue. Prices of Croatian Eurobonds remained stable with no significant changes compared to previous week.

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CROBEX on the rise

Trading comment

Although the regular stock turnover was rather small on the Zagreb Stock Exchange last week with HRK 5.6 million on average daily, a much higher turnover was reported in OTC transactions with shares of Jamnica, Ledo and Medora hotels which are in a takeover process. Measured by the regular turnover, shares of Hrvatski Telekom were the most traded with HRK 4.5 million in total and also shares of Tankerska Next Generation had high turnover of HRK 6 million in regular and block transactions. Stock indices CROBEX and CROBEX10 during the week added 0.9% and 0.8%. Among CROBEX members the highest growth was recorded again with shares of Đuro Đaković Holding and Varteks after a correction in the week before. Between sectors' indices, only CROBEXtransport index declined while industrial shares increased the most. Stock indices in the region also had mostly positive performance led by the Austrian ATX index.

Company news

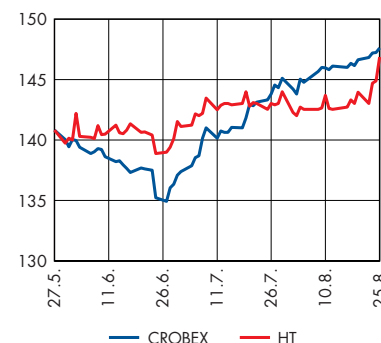
There were no relevant announcements from companies listed on the Zagreb Stock Exchange in the week behind.

In this week

According to the dividend calendar of the Zagreb Stock Exchange, shares of Imperial go ex-dividend on Tuesday (DPS of HRK 3) and shares of Janaf go ex-dividend on Friday (DPS of HRK 132.15).

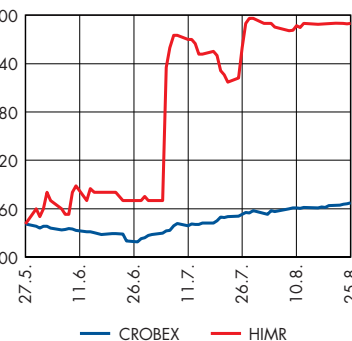
Financial analyst Nada Harambašić Nereau

Hrvatski Telekom (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Imperial (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
26.8.2016			
ATX (AT)	1.91	-3.57	2,311
SOFIX (BG)	1.54	2.79	474
SBITOP (SI)	1.23	5.48	734
BETI (RO)	0.94	-0.45	6,973
CROBEX (HR)	0.88	7.04	1,809
PX (CZ)	0.59	-10.85	853
BELEX15 (RS)	0.49	-3.43	622
NTX (SEE,CE,EE)	0.10	-3.74	924
SASX10 (BH)	0.09	-1.26	690
BUX (HU)	0.00	15.16	27,548
MICEX (RU)	0.00	11.44	1,963
WIG30 (PL)	-0.58	-1.93	2,036

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

Top/Flop – CROBEX index

Share	1w %	Price on*
26.8.2016		
Đuro Đaković H.	11.58	53
Varteks	11.32	18
Belje	8.37	22
Arenaturist	4.82	408
Ingra	4.58	3
OT-Optima T.	2.91	2
Ericsson NT	1.96	1,040
Končar El	1.82	670
HT	1.49	146
Kraš	1.18	515
Podravka	1.11	365
Zagrebačka Banka	1.01	42

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

Share	1w %	Price on*
26.8.2016		
AD Plastik	0.85	119
Maistra	0.77	234
Ledo	0.47	10,700
Valamar Riviera	0.35	29
Adris Grupa (P)	0.22	404
Ina	0.00	2,955
Atlantic Grupa	-0.06	816
Dalekovod	-0.15	13
Luka Rijeka	-0.16	49
Tankerska NG	-1.38	70
Atlantska Plov.	-1.78	182

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Abbreviations

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

Design

SIBI; OIB: 62606715155; I.B. Mažuranić 70, 10090 Zagreb

Publisher

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Petrinjska 59, 10000 Zagreb
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Publication finished on August 26, 2016

Publication approved by editor on August 29, 2016 at 08:05

First release scheduled for August 29, 2016 at 08:17

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

"Sell": for stock with expected negative return by more than -10% u over next 12 months.

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% of all recommendations	29%	72%	0%	0%	0%	0%
Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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