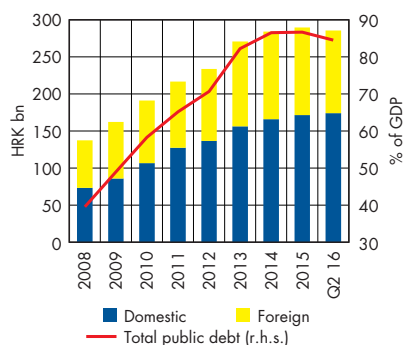


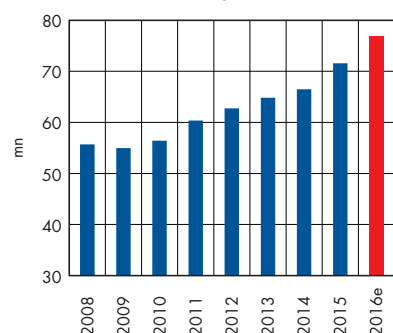
Closer to a Stable Government

Public debt (ESA 2010)



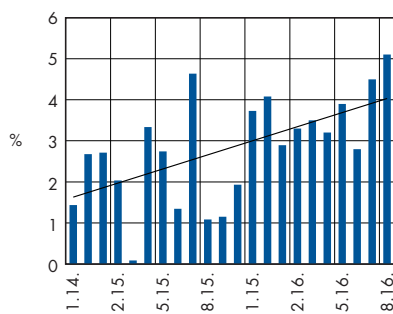
Sources: CNB, Economic RESEARCH/RBA

Number of tourist nights



Sources: CBS, Economic RESEARCH/RBA

Retail trade, real annual changes



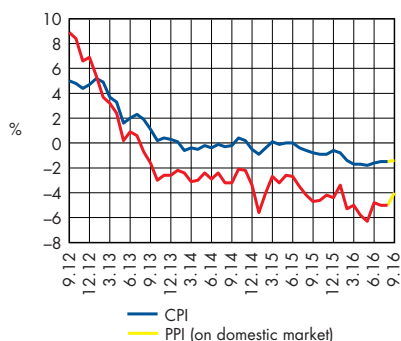
Sources: CBS, Economic RESEARCH/RBA

Last week was full of positive economic releases, but also an indication that this week Croatia will get a **new Government** with a stable majority in the Parliament. Namely, the HDZ announced that after a month of negotiation with MOST and other smaller political parties and minorities they have a stable majority in the Parliament (at least 85 MPs out of 151). The latter is particularly important in light of the much needed continuation of fiscal consolidation and structural changes, which could be carried out in the expansion phase of business cycle more smoothly. We can expect that Mr. Plenkovic (the HDZ leader) will be the new Prime Minister, while some of the Ministers, like the one of Finance, will remain on their position thus ensuring that the focus on reforms and growth-friendly fiscal continuation is maintained.

The latest CNB data confirmed improved fiscal metrics. Strongly supported by economic recovery on the one side and political deadlock on the other (as revenue expansion was capped), public debt stabilized while general government deficit dropped below 3% in H12016. At the end of June **public debt** decreased for over HRK 3.9 bn (-1.3% ytd), primarily as a result of lower foreign liabilities. With the amount of HRK 285.7 bn the share of public debt in GDP fell to 84.5% (2.2 pp lower in comparison to the end of 2015). A stronger inflow of budget funds through tax revenues is affected by **tourism** especially, which in the first eight months reported an 8.2%yoy increase of nights, while the number of arrivals rose by 7.1%yoy. Given the structure of accommodation facilities (during the peak tourist season half of total accommodation facilities refer to private accommodation), disposable income of households increased. Therefore, we were not surprised with the latest **real retail trade turnover** figure for August, which delivered 5.1%yoy growth. This is the biggest annual rate since the last quarter of 2007. Towards the end of the year the positive trends are expected to continue, supported also by the deflationary environment, which exerts a positive impact on disposable income and personal consumption, as the biggest component of GDP. The latter is expected to be confirmed by the upcoming **CPI** and **PPI** data for September, which could continue with a series of negative growth rates at 1.6%yoy and 4.0%yoy respectively. However, amid the improved household consumption and tourism over the whole 2016, imports also increased thus mitigating the positive impact of exports of services and goods. Therefore, structural weaknesses, low competitiveness and, consequently, high import dependence are still our reality and should not be ignored. These weaknesses can be inferred clearly from the recent **merchandise trade data** for the first seven months. Import of goods grew stronger than exports (2.7%yoy vs. 2.4%yoy) thus deepening the trade balance deficit.

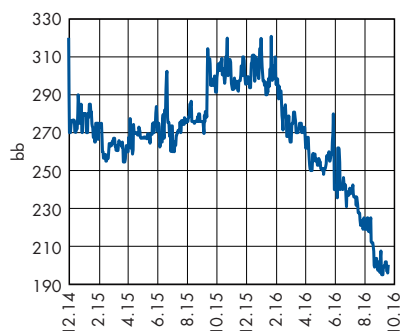
As for **financial markets**, it was a rather quiet week. Daily HRK liquidity surplus remained reduced at around HRK 3.5bn but without any stronger impact, especially on the longer-end of the curve. As we see a return of HRK liquidity after the pension pay-outs, we do not exclude even small downward pressures on the **MM rates** (up to 3 months).

CPI and PPI, annual changes



Sources: CBS, Economic RESEARCH/RBA

5-year CDS (USD)



Sources: Bloomberg, Economic RESEARCH/RBA

EUR/HRK remained stable, hovering around 7.50 kuna per euro. Seasonal mild depreciation pressures on the domestic currency are expected to continue, thus in the week ahead EUR/HRK could oscillate within the range 7.50 – 7.53 kuna per euro. Coming closer to the end of year, EUR/HRK should face a slight upward movement supported by import activity. Still, we see some risks that the forecasted level of 7.60 might fall short. Namely, HRK continues to find support in FCY inflows from prolonged tourist season,, demand for HRK loans, solid performance in fiscal and C/A outcome and eventually in the banks' net positive international position.

Lack of **bonds**, and the consequent low liquidity, should be the main feature of the local bond market, even until the end of the year. Prices will, therefore, remain relatively high and yields low, supported further by ample HRK surplus. The new sovereign bond issuance should not be expected before the first quarter of 2017, at least according to the rhetoric of the current and future Minister of Finance. But then, due to the relatively demanding (re)financing needs in H12017 (pure HRK bond and USD Eurobond are maturing in the amount of HRK 5.5bn and USD 1.5bn, respectively), we expect an active state role on the primary market, both on the local and foreign financial markets. Eurobonds are likely to follow regional developments, whereby the Croatian risk premium is now supported by economic recovery, improved fiscal metrics and entry into a more stable political environment.

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Croatia

	2014	2015	2016e	2017f	2018f
Nominal GDP (EUR bn)	43.0	43.9	45.1	46.8	48.5
Real GDP (% yoy)	-0.4	1.6	2.3	2.5	2.0
GDP per capita (EUR at PPP)	16,100	16,900	17,100	17,400	17,700
Household consumption (real, % yoy)	-0.7	1.2	2.8	2.5	1.5
Gross fixed capital formation (real, % yoy)	-3.6	1.6	3.8	4.5	3.5
Industrial output (% yoy)	1.2	2.6	4.8	4.2	3.8
Producer prices (avg, % yoy)	-2.7	-3.9	-4.8	0.5	2.4
Consumer prices (avg, % yoy)	-0.2	-0.5	-1.2	1.3	2.2
Unemployment rate (avg, %)	17.3	16.3	14.9	14.2	13.7
General budget balance (% of GDP)	-5.5	-3.2	-2.7	-2.9	-2.8
Public debt (% of GDP)	86.5	86.7	86.5	85.8	85.2
Trade balance (% of GDP)	-14.8	-14.9	-14.3	-13.6	-12.5
Current account balance (% of GDP)	0.9	5.2	2.0	2.1	2.1
Net foreign direct investment (% of GDP)	6.7	0.3	3.3	4.1	3.7
Official FX reserves (EUR bn)	12.7	13.8	13.5	13.0	13.6
Gross foreign debt (% of GDP)	108.5	103.7	97.8	96.2	95.1
EUR/LCY (eop)	7.66	7.64	7.60	7.65	7.65

Data as of 3 October 2016 9:06 AM CEST

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

New contract for ĐĐ Holding

Trading comment

Stock indices of the Zagreb Stock Exchange CROBEX and CROBEX10 continued with positive momentum and closed the week at 2.6% and 3.2%, respectively. Regular shares turnover was somewhat lower, HRK 9 mn on average daily. Among CROBEX constituents, shares of **Atlantska plovidba** posted the highest increase during the week while shares of **Belje** had the sharpest drop. Between sector indices the best performance was recorded by index of construction shares and the index of transport shares lost the most. Shares of **Valamar Riviera** recorded the highest turnover followed by shares of **Hrvatski Telekom** and preferred shares of **Adris**. Leading regional indices had mostly positive performance led by Hungarian BUX.

Company news

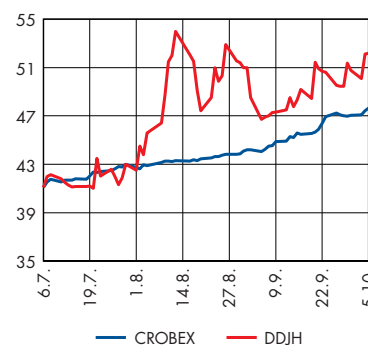
Đuro Đaković Special Vehicles, the member company of **ĐĐ Holding**, contracted with a French client production of special cistern wagons worth HRK 54 mn. The wagons are planned to be delivered at the end of first and during the second quarter of 2017. **ACI** informed about business results in first 8 months of 2016. The company realized revenues in the amount of HRK 135 mn, out of which daily berths revenues amounted to HRK 43 mn (+9% yoy) while annual berths revenues amounted to HRK 64.8 mn and montly berths HRK 6.3 mn.

In this week

We expect continuation of the positive sentiment on ZSE.

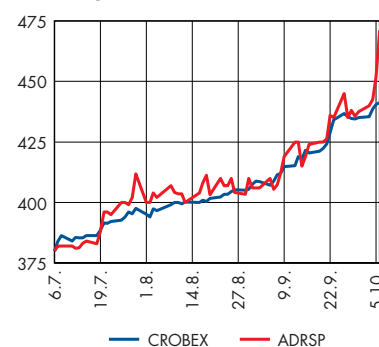
Financial analyst Ana Turudić

ĐĐ Holding (3 m.)



Sources: ZSE, Economic RESEARCH/RBA

Adris Grupa (P) (3 m.)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
7.10.2016			
BUX (HU)	3.05	19.17	28,507
WIG30 (PL)	2.63	-2.26	2,029
CROBEX (HR)	2.61	17.90	1,992
PX (CZ)	2.56	-7.38	886
NTX (SEE,CE,EE)	1.99	-1.69	943
SOFIX (BG)	0.58	10.11	508
MICEX (RU)	0.11	12.42	1,980
BELEX15 (RS)	0.00	-1.21	636
BETI (RO)	-0.01	-0.97	6,936
ATX (AT)	-0.48	-0.13	2,394
SBITOP (SI)	-0.58	5.92	737
SASX10 (BH)	-4.29	-0.96	692

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

Top/Flop – CROBEX index

Share	1w %	Price on*
7.10.2016		
Atlantska Plov.	11.04	200
Adris Grupa (P)	9.71	480
Zagrebačka Banka	6.00	52
Dalekovod	5.82	14
Ledo	4.65	11,250
Valamar Riviera	2.94	35
AD Plastik	2.56	140
Končar El	1.92	690
Ericsson NT	1.58	1,160
Đuro Đaković H.	1.48	52
Atlantic Grupa	1.09	879
HT	0.80	165

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

Share	1w %	Price on*
7.10.2016		
Luka Rijeka	0.66	47
Podravka	0.53	381
Imperial	0.03	800
Sunčani Hvar	0.00	24
Uljanik Plovidba	-0.24	124
OT-Optima T.	-0.73	3
Kraš	-0.76	521
Luka Ploče	-1.23	575
Arenaturist	-1.38	429
Tankerska NG	-2.67	73
Belje	-5.19	26

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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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Magazinska cesta 69, 10000 Zagreb
www.rba.hr
tel. ++385 1/45 66 466
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Publication finished on October 7, 2016

Publication approved by editor on October 10, 2016 at 08:05

First release scheduled for October 10, 2016 at 08:17

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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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EU REGULATION NO 833/2014 CONCERNING RESTRICTIVE MEASURES IN VIEW OF RUSSIA'S ACTIONS DESTABILISING THE SITUATION IN UKRAINE

Please note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time, i. e. financial instruments which have been issued before 1 August 2014.

We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmissbrauchs-Verordnung.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer. It shall in no way affect the legality, validity or enforceability of the remaining terms.