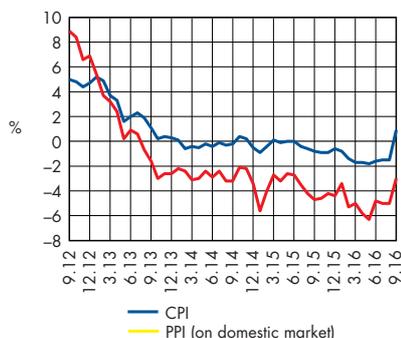


In anticipation of new Government

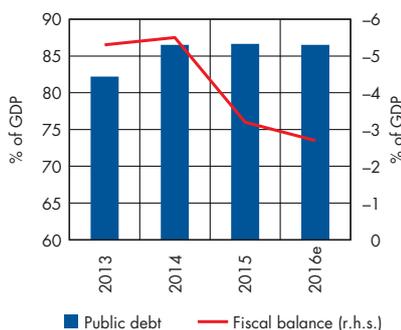
CPI and PPI, annual changes



Sources: CBS, Economic RESEARCH/RBA

The week behind us was actually dominated by **politics**. In line with our expectations, the HDZ leader Mr. Plenkovic was named Croatia's PM-designate, after he collected 91 supportive signatures of MPs (out of 151). As scheduled, the first session of the new Parliament was held on Friday and during the week ahead we expect the new Croatian Government to be formed and start to work effectively on much needed structural reforms. A stable majority paired with improved macroeconomic indicators certainly represent a favourable start position for continuation of fiscal consolidation and structural changes. In this context we expect that the upcoming **EDP report** and Q22016 budget data will confirm better-than-expected fiscal outcome, strongly influenced by favourable tourism results as well as the fact that technical government was limited in terms of higher budget spending.

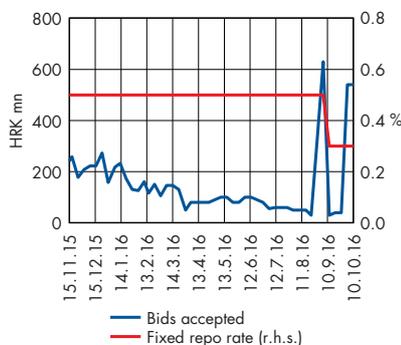
Consolidated General Government (ESA 2010)



Sources: CNB, CBS, Economic RESEARCH/RBA

Amidst an environment of negative inflation rates (which was confirmed by recent **PPI and CPI** releases) the positive impact on consumption could be sustained by alleviating the burden on personal income, thus exerting a positive impact on GDP as well. However, in order to achieve sustainable economic growth, a stable government must play a crucial role in the long run by emphasising reforms and meeting the needs of the private sector.

Reverse repo auctions



Sources: CNB, Economic RESEARCH/RBA

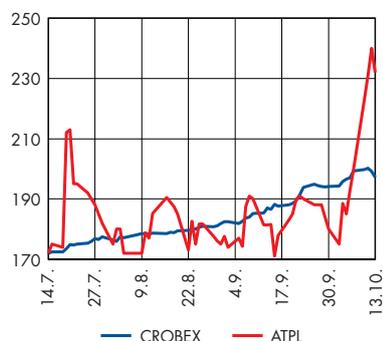
As for **financial markets**, after the pension pay-outs we saw restoration of HRK liquidity in the system, with daily excess at around HRK 6bn, which is enough for a new period of bank's reserve requirements to be maintained. Money market interest rates remained at the current low levels (O/N ZIBOR stood at 0.66% while 3-mth and 12-mth interest rates remained at 0.88% and 1.30% respectively). The CNB's regular weekly **repo reverse auction** brought some increased bank demand and resulted in the HRK 540mn of accepted bids with unchanged fixed repo rate at 0.30%.

On the **FX market**, a slow upward trend of the EUR/HRK, which dates back to mid-September, has continued. A calm week on the market is expected to continue during the week ahead hence the EUR/HRK could stay within the range 7.50 – 7.53 kuna per euro. However, as the end of year approaches, we anticipate EUR/HRK should face a slight upward movement supported by increased import activity. On the other hand, improved macroeconomic and fiscal performance could be supportive to HRK therefore there is a risk that the forecasted average 2016 level of 7.60 might fall short. Regarding **local bonds** the low liquidity and lack of papers are still prevail in the domestic bond market trading. Most of domestic bonds recorded only a slight increase in yields on a weekly level; however, we do not expect any significant changes on the market in the week ahead. As expected, Croatian Eurobonds followed regional developments and the week ended with increased yields (approximately by 0.06% – 0.18% on a weekly level). However, the Croatian risk premium measured by 5-y CDS (USD) continued to oscillate slightly above 200bb, positively affected by improved fiscal metrics as well as the more stable political environment.

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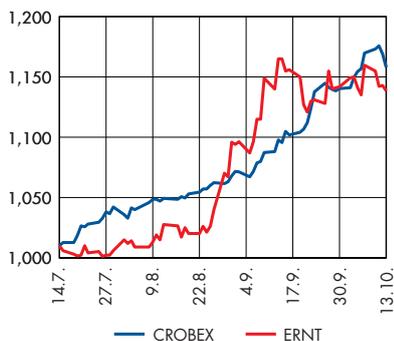
Stock indices retreated

Atlantska Plovidba (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Ericsson NT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Although the equity indices of the Zagreb Stock Exchange started and ended last week behind with gains, on the weekly level CROBEX and CROBEX10 lost 1% and 1.7%, respectively. The regular equity turnover amounted to HRK 9.1 million daily on average. Thereof, shares of Valamar Riviera were the most traded with HRK 7.2 million turnover in total, followed by shares of Jadransko Osiguranje. Among CROBEX members, shares of Atlantska Plovidba were again the top performer thus bolstering a growth of the CROBEXtransport index which topped performance of other sector indices. The regional stock indices had a mixed performance in the previous week.

Company news

Ericsson Nikola Tesla in cooperation with beCloud company signed a contract for the second phase of LTE technology introduction in three regions of Belarus. The contract is worth over HRK 76 million and the delivery deadline is set till the end of 2017. **Iliria d.d.** intends to raise its capital by issuing up to 27,400 of new shares at the price ranging from HRK 1,250 to HRK 1,500 per share. The proceeds from the capital increase will be used for the acquisition of the shopping mall City Galleria in Zadar. Mr Sergej Gljadelkin who already holds 34.21% shares of **Hidroelektra Niskogradnja** has published a takeover offer for the remaining shares at the price of HRK 20.52 per share. In line with the cooperation agreement, **Valamar Riviera** has transferred 10% shares of **Imperial** to AZ d.o.o. in an OTC transaction.

In this week

We expect a somewhat weaker trading dynamics with stocks on the Zagreb Stock Exchange ahead of the start of Q3 reporting season.

Financial analyst Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on*
			14.10.2016
SASX10 (BH)	2.34	1.35	709
PX (CZ)	1.52	-5.98	899
ATX (AT)	1.20	0.95	2,420
SOFIX (BG)	0.23	10.37	509
BELEX15 (RS)	0.03	-0.62	640
BUX (HU)	-0.12	18.75	28,406
NTX (SEE,CE,EE)	-0.32	-2.21	938
BETI (RO)	-0.61	-1.48	6,901
MICEX (RU)	-0.63	11.71	1,968
CROBEX (HR)	-0.98	16.74	1,972
WIG30 (PL)	-1.03	-3.42	2,005
SBITOP (SI)	-1.79	4.02	724

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

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
					14.10.2016
Atlantska Plov.	20.06	240	Uljanik Plovidba	0.16	124
Ingra	4.11	3	Luka Rijeka	0.13	47
Sunčani Hvar	2.31	24	Varteks	-0.28	18
OT-Optima T.	2.20	3	AD Plastik	-0.36	140
Kraš	1.73	530	Ericsson NT	-0.60	1,153
Dalekovod	1.67	15	Končar EI	-0.72	685
Arenaturist	1.40	435	Đuro Đaković Holding	-0.80	51
Belje	1.21	26	Atlantic Grupa	-1.31	868
Luka Ploče	1.12	581	Ledo	-1.33	11,100
Tankerska NG	0.68	74	Podravka	-2.09	373
Imperial	0.58	805	HT	-2.60	161
Valamar Riviera	0.43	35			

* 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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"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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