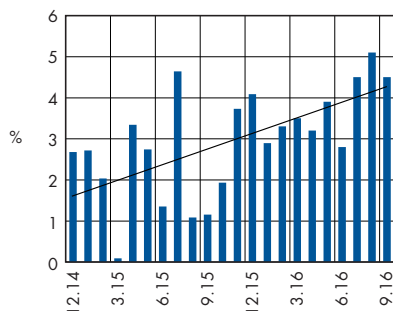


## Encouraging economic releases and a boring market

While the public still widely debates on the effects of the announced tax reform, economic releases confirm that economic recovery gained momentum. The published data on September **industrial production** (+3.6 mom, 1.9% yoy) and **retail sales** (+4.5% yoy) rounded off the third quarter figures, and at the same time encouraged the expectations that this year's forecasted growth is exposed to positive risks. In Q3 industry showed a 2.4%yoy growth, while, strongly supported by tourism, retail grew by 4.5% yoy. Retail trade performance is definitely a good predictor of households' consumption, which is the biggest component of GDP in national accounts (60%). Besides tourism, the latter found a solid footing in the continued price decline, rising wages, labour market stabilization, signs of lending recovery and still positive trend in consumer optimism. The same effects are expected to strengthen in the year ahead as the announced tax reform is aimed at decreasing the tax burden through many proposed tax redemptions and lower rates within the system of income and profit tax. Still, the recovery of domestic demand, as well as excellent tourism data, once again stressed the structural weakness of the Croatian economy i.e. strong dependence on goods import. Therefore, despite the further merchandise export growth, we expect to see widening of the **foreign trade** deficit in the first eight months (+2,2% yoy) when the CBS announces the final report on Tuesday. On the same day preliminary results of September **tourism indicators** should support our estimate of the highest tourist night (+7.5% yoy in 2016) and tourism revenues (above EUR 8.5 bn) thus positively contributing to the CA balance. At the very end of the week the **October PPI** is set to be released. With a negative rate of 2.6%, producer prices have remained in the negative territory for more than three years. Still, **Moody's rating assessment** will attract the biggest attention. Improved fiscal and macroeconomic conditions, paired with the enhanced political environment, could finally result in Croatia keeping its Ba2 credit rating at Moody's, while the upgrade to a stable outlook will definitely depend on the agency's assessment of whether the new government is willing and able to press ahead with reform implementation.

The **financial market** movements remain boring. EUR/HRK stayed largely unchanged trading mostly between 7.50 and 7.52 kuna per euro. The expected level of 7.60 kuna per euro at the end of the year is at risk of being realised at lower levels given that HRK has found support in a healthy surplus in the balance of payments current account, much reduced fiscal risks, inflow of FCY stemming from an extended tourist season, the strengthening of investment activity, positive net external position held by banks and a growing demand for kuna loans. As expected, **MM rates** remained stuck at the low levels widely supported by ample liquidity, while the modest trade with **local bonds** is mainly concentrated at the longer end of the yield curve (both with pure HRK and EUR-linked securities). Lack of supply remains the main feature of the local market and it could last until the next bond issuance, which is still out of horizon. Prices could remain relatively high and yields low, further supported by an abundance of liquidity in the system as indicated by their downward trend during the last T-bill auction.

### Retail trade, real annual changes



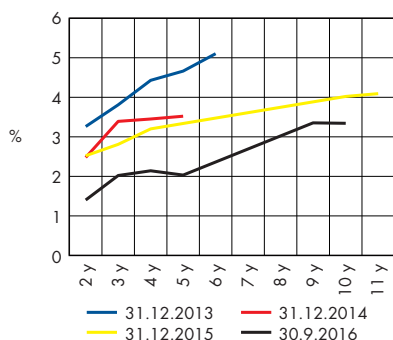
Sources: CBS, Economic RESEARCH/RBA

### Croatia – main figures and forecast

	2015	2016e	2017f
Real GDP (% yoy)	1.6	2.3	2.5
Nominal GDP (EUR bn)	43.9	45.0	46.7
Retail trade, % real annual changes	2.4	3.9	4.0
Industrial output (% yoy)	2.6	4.8	4.2
Consumer prices (avg, % yoy)	-0.5	-1.2	1.3
Unemployment rate (ILO, avg)	16.3	14.9	14.2
General Government Balance, % of GDP	-3.3	-2.7	-2.9
Public Debt, % of GDP	86.7	86.5	85.8
Gross foreign debt (% of GDP)	103.7	97.9	96.4
EUR / HRK, avg	7.61	7.55	7.57
ZIBOR 3m, %, avg	1.2	0.9	0.9
T-bills rate 12m, %, avg	1.5	1.0	0.9

Source: CNB, MoF, CBS  
Forecasts: Economic Research Department – Raiffeisenbank Austria d.d. Zagreb

### Yield to maturity (HRK bonds)



Sources: CNB, Raiffeisen RESEARCH

Economic analyst: Zrinka Živković Matijević (+385 61 74 338), Raiffeisenbank Austria d.d., Zagreb

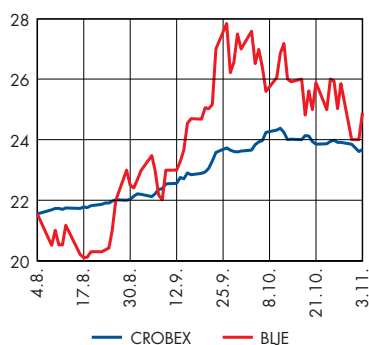
## Cautious trading in the aftermath

### Ledo (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Belje (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Trading comment

In the four-days week behind us, stock indices CROBEX and CROBEX10 recorded small losses in the aftermath of published Q3 2016 reports thanks to the change in momentum by the end of the week. The regular equity turnover was cut to half compared to the week before and daily average amounted to HRK 7 million. The most liquid shares, measured by the turnover, were shares of Valamar Riviera (HRK 8.2 mn in total) followed by common shares of Adris Grupa due to a block transaction. Among CROBEX constituents, shares of Atlantska Plovidba again were the top performer while CROBEXkonstrukt index slipped the most among sector indices of the ZSE. The regional stock indices in the previous week also had mostly decline in values.

### Company news

**Ledo** posted 0.9% higher sales in nine months 2016, 8.3% growth of EBITDA and net income advanced 11.1% compared to the same period 2015. Hence, EBITDA and net margin improved by 1.4pp and 1.6pp despite lower gross margin yoy. **Jamnica** also reported growth of sales (3.9% yoy) in Q1–Q3 2016, higher EBITDA by 24.4% yoy and increase of the bottom line by 23% yoy. Likewise, EBITDA and net margin advanced by 2.5pp and 2.1pp yoy despite the gross margin drop. In the same period, **Belje** recorded 1.4% higher sales yoy while lowering its net loss from HRK 55.8 mn in Q1–Q3 2015 to HRK 38.4 mn.

### In this week

**Hrvatski Telekom** is holding its Capital Markets Day for analysts and investors in Zagreb, on Friday, 11 November 2016. Raiffeisenbank Austria will provide support in the organization and promotion of this event with the international and Croatian investor community.

Nada Harambašić Nereau

### Market performance

Index	1w %	ytd %	Value on*
			<b>4.11.2016</b>
BUX (HU)	0.91	25.72	30,073
SOFIX (BG)	0.75	15.04	530
SASX10 (BH)	0.01	0.94	706
BETI (RO)	-0.70	-3.19	6,781
SBITOP (SI)	-0.86	6.32	740
CROBEX (HR)	-0.89	15.23	1,947
MICEX (RU)	-0.96	11.43	1,963
BELEX15 (RS)	-1.36	3.61	667
NTX (SEE,CE,EE)	-2.59	-1.09	949
WIG30 (PL)	-3.12	-1.93	2,035
PX (CZ)	-3.44	-6.55	894
ATX (AT)	-3.62	0.78	2,416

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
					<b>4.11.2016</b>
Atlantska Plov.	6.08	308	Đuro Đaković Holding	-1.20	49
Atlantic Grupa	2.22	879	AD Plastik	-1.43	138
Uljanik Plovidba	1.11	133	Kraš	-1.49	530
HT	0.63	165	Dalekovod	-1.60	15
Končar El	0.00	675	Luka Rijeka	-2.76	48
Sunčani Hvar	0.00	24	Valamar Riviera	-3.25	32
Ledo	-0.17	11,350	Varteks	-4.79	16
Adris Grupa (P)	-0.20	449	Tankerska NG	-4.82	74
Luka Ploče	-0.36	558	Belje	-5.22	25
Imperial	-0.45	804	OT-Optima T.	-5.56	3
Podravka	-0.56	367	Zagrebačka Banka	-5.88	48
Ericsson NT	-1.06	1,129			

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

# Raiffeisen RESEARCH

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### Abbreviations

bp – basis points	HBOR – Croatian Bank for Reconstruction and Development	pp – percentage points
CERP – Restructuring and Sale Center	HNB – Croatian National Bank	Q1, Q2, Q3, Q4 – quarters
DZS – Croatian Bureau of Statistics	IMF – International Monetary Fund	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	kn, HRK – Kuna	USD – Dollar
EUR – Euro	MF – Ministry of Finance	yoy – year-on-year
FED – Federal Reserve System		
GDP – Gross Domestic Product		

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"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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