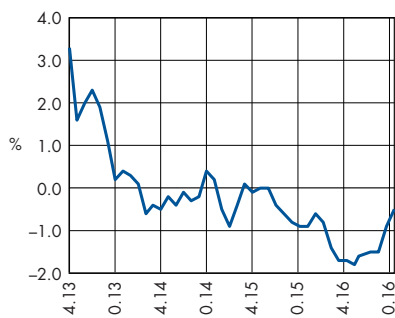


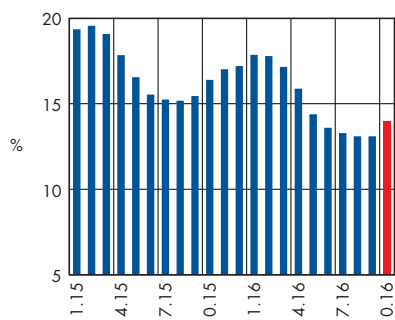
The fourth structural repo operation announced

CPI, annual changes



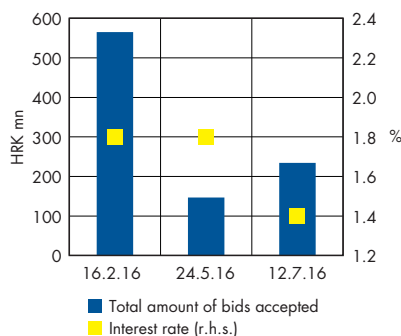
Sources: CBS, Economic RESEARCH/RBA

Registered unemployment rate



Sources: CBS, Economic RESEARCH/RBA

LTRO



Sources: CNB, Economic RESEARCH/RBA

The data calendar was quite sparsely filled last week, however the main upcoming highlight will be the labor data which are expected to bring a seasonal worsening on the monthly level. As the most recent figures showed an increased number of the unemployed in October (+6.6%mom) we reckon that the CBS's release on **registered unemployment rate** could go up to 14.0%. Despite the unsurprising deterioration on monthly level, it is lower by 2.4pp on the annual basis. The latter is strongly influenced by the excellent and prolonged tourist season, which resulted in the better than expected unemployment rate even in September. However, during the months ahead we expect the usual worsening and seasonal movements on the labor market. However, the whole 2016 will undoubtedly bring visible improvement of the main labor indicators.

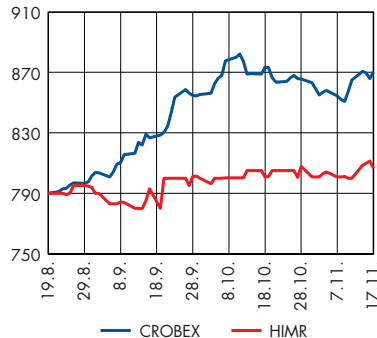
In the meantime, the latest **CPI release** confirmed that deflationary environment persisted, yet at a slower pace in October (-0.5%yoy and +0.4mom) so the upcoming first release on average **net and gross wages** is expected to report the continuation of positive annual growth rates of wages in real terms. Paired with the prepared comprehensive tax reform package, the synergic effect could result in higher disposable income thus positively affecting personal consumption as the highest GDP component. Improved macroeconomic conditions are also supported by favorable fiscal performance in 2016. The latter is also confirmed by the **2016 budget revision** which was proposed by the Government on its last week's session (in accordance with national methodology, consolidated general government deficit was revised down by 1pp of GDP as compared to the previous budget plan). Consequently our projection for 2016 is exposed to positive risk, and, according to the ESA2010 methodology fiscal deficit could slide down to -2.0% of GDP (-0.7pp lower than initially projected). Although the Government is committed to a broad reform agenda, including the tightening of budget discipline and cutting excessive tax rates, it seems that Croatia's assessments by credit agencies will hold until the Government presents the 2017 budget proposal.

A fairly active week on the **local bond market** was marked by increased trading volumes and slump in prices (on pure HRK and euro denominated papers). We do not rule out further spill-over effect from abroad, thus higher volumes and greater volatility are expected in the week ahead. Nevertheless, the focus will be on the announced CNB's 4-year **structural repo operations** (the last one, out of the four planned for this year). Due to ample HRK liquidity and still subdued demand for loans, we expect relatively modest interest. However, the LTRO is expected to put additional pressures on the longer-end HRK curve. As for **FX movements** we do not expect any significant impact given that healthy surplus in the balance of payments C/A, much reduced fiscal risks, inflow of FCY stemming from an extended tourist season, the strengthening of investment activity, and positive net external position held by banks already gives support to the local currency. Mild FCY demand could push EUR/HRK slightly up thus this week's trading range is expected between 7.51-7.54 kuna per euro.

Tomislava Ujević

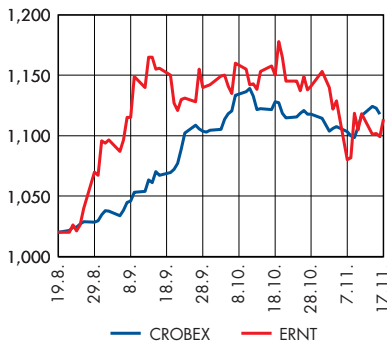
New contract for Ericsson NT

Imperial (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Ericsson NT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

CROBEX and CROBEX10 closed the week behind with gains of 0.8% and 0.9%, respectively. The regular equity turnover was at similar level as in the previous week and amounted to HRK 12 million daily on average. Thereof, shares of **Imperial** were the most traded with turnover of HRK 10 million in total. Among CROBEX constituents the top performer was the share of **Uljanik Plovidba** while CROBEXtransport index was the winner among sector indices. Regional indices closed the week mainly in red.

Company news

Together with AZ **Valamar Riviera** announced a takeover bid for the remaining shares of Imperial. The price offered amounts to HRK 819 per share. Valamar and AZ currently hold 378,515 shares of Imperial which makes a 59.5% ownership stake. **Ericsson Nikola Tesla**, as the leader of a consortium comprising Ericsson Nikola Tesla, Tehnomobil Securitas and Dat-Con, has signed an agreement with Croatian Ministry of Interior to deliver a state border control system. The contracted project amounts to nearly HRK 48 million. The implementation is to start immediately and the realization is scheduled to end in January 2017.

In this week

In this week we expect continuation of the similar trading dynamics on ZSE.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on*
18.11.2016			
BELEX15 (RS)	1.28	4.53	673
CROBEX (HR)	0.80	17.10	1,979
SASX10 (BH)	0.41	1.40	709
MICEX (RU)	0.36	15.78	2,039
ATX (AT)	-0.05	3.65	2,484
BETI (RO)	-0.31	-2.51	6,829
BUX (HU)	-1.40	25.72	30,074
SOFIX (BG)	-1.52	15.19	531
PX (CZ)	-1.89	-7.57	884
NTX (SEE,CE,EE)	-1.91	-2.11	939
SBITOP (SI)	-3.09	2.19	711
WIG30 (PL)	-3.16	-2.97	2,014

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

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
18.11.2016					
Uljanik Plovidba	14.84	178	Luka Ploče	0.37	545
Atlantska Plov.	6.16	371	Končar EI	0.00	685
Valamar Riviera	5.43	34	Kraš	0.00	530
Varteks	2.56	16	HT	-0.01	163
Podravka	2.42	382	AD Plastik	-0.12	138
OT-Optima T.	1.93	3	Sunčani Hvar	-0.42	24
Arenaturist	1.19	430	Ledo	-0.98	11,100
Imperial	1.06	809	Ericsson NT	-1.43	1,102
Atlantic Grupa	0.97	884	Dalekovod	-2.23	14
Ingra	0.76	3	Tankerska NG	-2.46	74
Adris Grupa (P)	0.44	454	Luka Rijeka	-3.11	47
Zagrebačka Banka	0.41	49			

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

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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		

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
 fax: ++385 1/48 11 626

Publication finished on November 18, 2016

Publication approved by editor on November 21, 2016 at 08:05

First release scheduled for November 21, 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% 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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