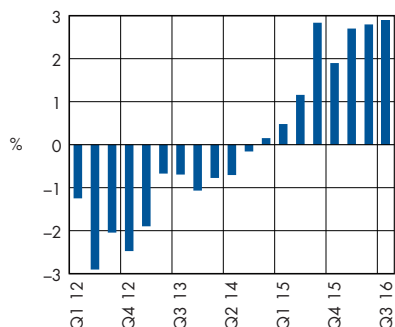


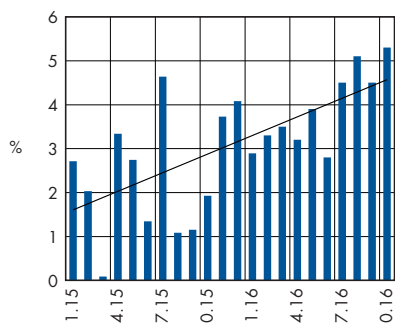
Favourable Q3 GDP Outcome in the Limelight

GDP, real annual changes



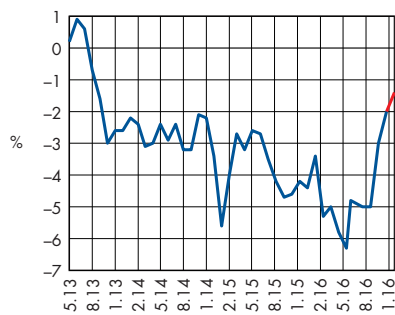
Sources: CBS, Economic RESEARCH/RBA

Retail trade, annual changes



Sources: CBS, Economic RESEARCH/RBA

PPI, annual changes*



* on domestic market
Sources: CBS, Economic RESEARCH/RBA

An ample week in terms of important macroeconomic releases confirmed the positive economic trends. In line with our expectation, in Q3 16 real **GDP growth** accelerated to 2.9%yoy (the strongest growth since Q2 2008), positively driven by domestic and net foreign demand. Due to the significant share of tourism in GDP, it was not surprising that the largest positive contribution to GDP outcome came from the exports of services (+7.4%yoy), primarily thanks to record-high tourist indicators. Simultaneously, improved conditions on the labour market and lack of inflationary pressures brought positive impulses on disposable income and household consumption, which grew by 3.4%yoy in real terms. At the same time, decelerated government consumption and continued growth of GFCF (strongly supported by investment activities and better utilization of EU funds) also brought a positive contribution to GDP outcome in Q3.

The latest **industrial production** and excellent **retail trade** figures for October (+1.8%yoy and +5.3%yoy respectively) also support our expectation of positive GDP growth in Q4. Moreover, even in the case of decelerated GDP growth in Q4, the real 2016 economic growth could be better-than-initially projected (+2.7%yoy). Personal consumption and investments are expected to be the main drivers of GDP growth, while positive effects of exports are still offset by a continued growth of imports thus implying persistent import dependency. The latter is expected to be confirmed by the upcoming **foreign trade figures** for September, which could bring an annual deterioration of the merchandise deficit in the first three quarters. On the other hand, worsening of the foreign trade balance is mitigated by imported deflationary pressures (primarily due to annual drop in prices on the world's commodity market). However, the upcoming report on **PPI** is expected to show a gradual deceleration of the negative growth rate to 1.4%yoy in November.

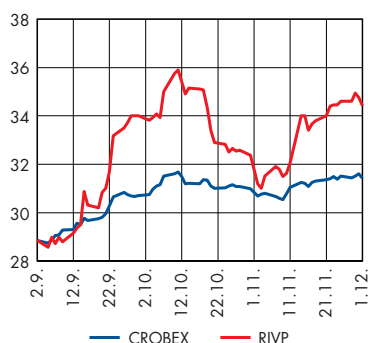
Meanwhile, the **domestic bond market** entered a quiet period, marked by diminished trading volumes with dominant investors' focus on pure HRK bonds with longer duration. Simultaneously, Croatian Eurobonds lead the regional sentiments hence anticipated volatility from abroad (triggered by upcoming political events) is expected to spill-over on domestic market. In the meantime, the increased interest for short-term government papers pushed the 1-year EUR T-bill yield further 5bp lower compared to the previous auction. Improved financing conditions in terms of the declining trend of T-bills yields are supportive also to the overall fiscal consolidation efforts. Namely, according to the recently published **government guidelines** for the three-year budget preparation, during the period 2017–2019 the fiscal deficit as percentage of GDP (in accordance with national methodology) is set to decline to -1.6%, -1.2% and -0.9% respectively.

As for the **FX market**, the domestic currency experienced a slight depreciation pressure on a weekly level (thanks to higher FCY demand by banking and corporate sectors), but this is common at this time of the year. During the week ahead we reckon the EUR/HRK trading to be stable within the range 7.53–7.55 kuna per euro.

Tomislava Ujević

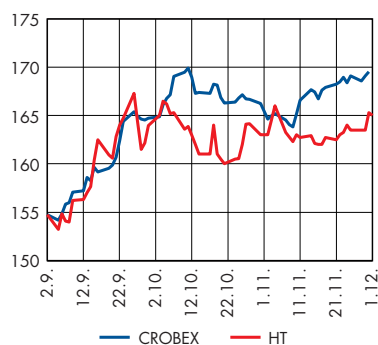
Valamar to invest HRK 873 mn in 2017

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

HT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

CROBEX and CROBEX10 closed the week with loss of 0.3% and a gain of 0.3%, respectively. The regular equity turnover was significantly higher than in the previous week and amounted to HRK 16 million daily on average. Thereof, shares of **HT** were the most traded with turnover of HRK 9 million in total. Among CROBEX constituents the top performer was the share of **Ingra** while CROBEXconstruct index was the winner among sector indices. Regional indices posted mixed wow performance.

Company news

The Supervisory Board of **Valamar Riviera** approved total investments amounting to HRK 873 million for the year 2017. For the most part, the approved investments refer to investments in the facilities in the Family Life Bellevue Resort 4* and the Valamar Girandella Resort 4* in Rabac, the campsite Lanterna in Poreč, and campsites on the island of Krk. Furthermore, due to increased booking in the last quarter, in FY 2016 the management expects to achieve total revenues ranging from HRK 1,475 mn to HRK 1,485 mn (previously announced range: from HRK 1,460 mn to HRK 1,475 mn).

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*
2.12.2016			
BELEX15 (RS)	2.51	9.67	706
MICEX (RU)	1.70	21.15	2,134
BETI (RO)	1.59	-0.85	6,945
SOFIX (BG)	1.53	22.33	564
PX (CZ)	-0.02	-7.15	888
ATX (AT)	-0.24	4.62	2,508
CROBEX (HR)	-0.31	17.56	1,986
WIG30 (PL)	-0.37	0.48	2,086
BUX (HU)	-0.65	24.52	29,785
NTX (SEE,CE,EE)	-1.11	-1.53	945
SASX10 (BH)	-1.57	-1.88	686
SBITOP (SI)	-1.86	-0.45	693

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

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
2.12.2016					
Ingra	14.07	3	Luka Ploče	0.00	560
Zagrebačka Banka	5.96	52	Ledo	-0.01	11,000
Belje	5.89	25	Valamar Riviera	-0.47	34
Đuro Đaković Holding	3.68	49	AD Plastik	-0.58	138
HT	3.07	168	OT-Optima T.	-0.77	3
Ericsson NT	2.32	1,145	Končar EI	-1.44	680
Luka Rijeka	1.87	47	Atlantic Grupa	-1.47	873
Adris Grupa (P)	1.54	460	Varteks	-1.54	16
Kraš	0.94	535	Podravka	-2.19	380
Arenaturist	0.85	427	Tankerska NG	-3.05	72
Imperial	0.50	812	Uljanik Plovidba	-9.48	158
Dalekovod	0.29	14			

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

Raiffeisen RESEARCH

Raiffeisenbank Austria

Economic Research

Zrinka Živković Matijević, MSc, Head of Department; tel: +385 1/61 74 338, email: zrinka.zivkovic-matijevic@rba.hr
 Elizabeta Sabolek Resanović, Economic Analyst; tel: +385 1/46 95 099, e-mail: elizabeta.sabolek-resanovic@rba.hr
 Tomislava Ujević, Economic Analyst; tel: + 385 1/61 74 606, email: tomislava.ujevic@rba.hr

Financial Advisory

Nada Harambašić Nereau, MSc, Financial Analyst; tel.: +385 1/61 74 870, email: nada.harambasic-nereau@rba.hr
 Ana Turudić, Financial Analyst; tel: +385 1/61 74 401, email: ana.turudic@rba.hr

Markets and Investment Banking

Robert Mamić, Executive Director; tel: +385 1/46 95 076, email: robert.mamic@rba.hr

Editor

Zrinka Živković Matijević, MSc, Head of Economic Research

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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Raiffeisenbank Austria d.d. Zagreb
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 www.rba.hr
 tel. ++385 1/45 66 466
 fax: ++385 1/48 11 626

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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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Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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