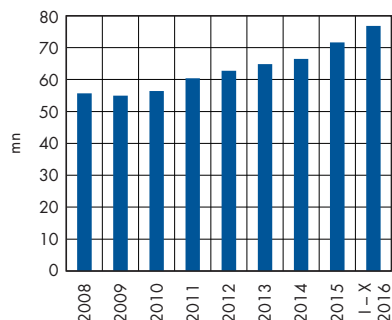


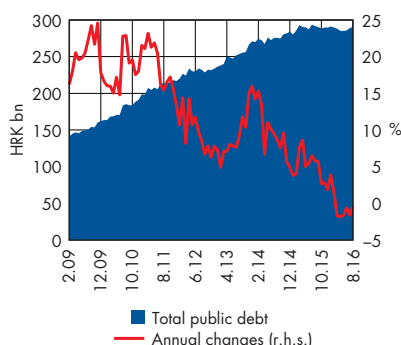
## The three-year fiscal framework proposed

### Number of tourist nights



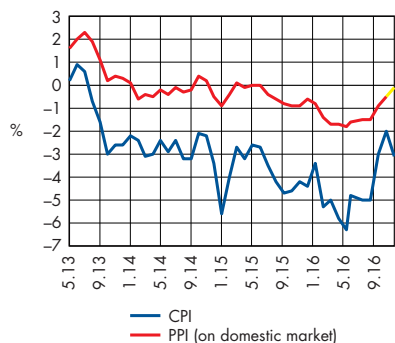
Sources: CBS, Economic RESEARCH/RBA

### Public debt



Sources: CNB, Economic RESEARCH/RBA

### CPI and PPI, annual changes



Sources: CBS, Economic RESEARCH/RBA

Recent macroeconomic releases confirmed positive trends during the H2 2016. The October data on **tourism** brought favourable double-digit indicators related to the number of tourist arrivals and nights (+13.2%yoy and 15.9%yoy respectively), thus confirming a record-high tourist season result. Positive spill-over effects paired with deflationary environment strongly contribute to disposable income as well. The latter is also confirmed by the latest **PPI** figure, which recorded a further annual drop in November (-3.1%yoy). Likewise upcoming **CPI** data for the same month are expected to confirm the trend of negative growth rates on annual basis but at a slower pace (-0.1%yoy).

Meanwhile the **foreign trade** data for September confirmed our expectations of annual deterioration of the merchandise deficit in the first three quarters. According to the CBS data, in the observed period annual growth of exports of goods was lower than imports (3.8%yoy versus 4.3%yoy) hence the foreign trade deficit narrowed by 5.2%yoy thus reflecting the overall import dependency.

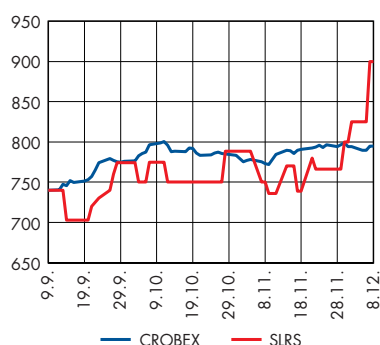
The week behind us also brought the data on **gross external debt**, which declined to EUR 43.7bn by the end of August (-8.6%yoy). External vulnerability has continued to fall since the end of 2015, thanks to deleveraging in all sectors, especially financial institutions and the government.

Simultaneously, in the same observed month total **public debt** rose to HRK 290.4bn (+0.5%mom), primarily thanks to T-bills issuance in the amount of EUR 1.5bn. At the same time, positive trend on annual level continued: in August total public debt decreased for the sixth consecutive months (-0.4%yoy), strongly driven by a better-than-expected fiscal outcome in 2016. Therefore the effect of the lower deficit will have a positive influence on public debt, which is expected to lower its share in GDP below the 2015 level. Moreover, further **fiscal consolidation plans** were presented on last week's Government session when the state budget for the period 2017-2019 was proposed. Over the three-year period the Government plans to reduce the fiscal deficit to 0.6% of GDP and the total public debt is set to decline to 75.9% of GDP by the end of 2019. Although this sounds encouraging, we remain cautious as some important issues have to be resolved (such as negotiation salaries with trade unions in public sector). Furthermore, the first year of its mandate 2017 will show whether the Government is ready to implement crucial reforms as announced. Meantime the improved financing conditions on the domestic financial market could persist and thus provide additional support for the overall fiscal consolidation efforts. The latter was confirmed again on the last week's T-bills auction when an increased demand for short-term government papers resulted in a further decline in yields (pure HRK 1-year T-bill's yield decreased to 0.65% which is 5bp lower in comparison to the previous auction). Regarding the **domestic bond market**, the week passed quietly with subdued trading volumes. As the year-end approaches, activities on domestic bond market are expected to remain calm. No significant changes were recorded even on the FX market and the similar EUR/HRK trading pattern could continue in the week ahead (7.52-7.55 kuna per euro).

Tomislava Ujević

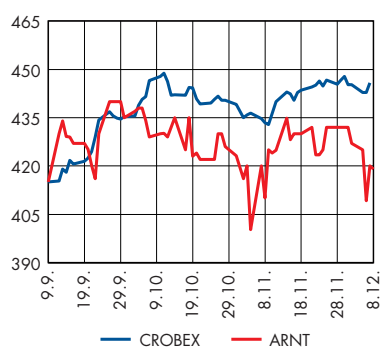
## Arenaturist acquires two hotels in Germany

### Solaris (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Arenaturist (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Trading comment

CROBEX and CROBEX10 closed the week with slight losses of 0.2% and 0.1%, respectively. The regular equity turnover was lower than in the previous week and amounted to HRK 7 mn daily on average. Thereof, shares of **HT** were the most traded with turnover of almost HRK 10 mn in total. Among CROBEX constituents the top performer was the share of **Varteks** while CROBEXconstruct index was the winner among sector indices. Regional indices posted mainly positive weekly changes.

### Company news

**Solaris** announced construction of the congress centre in 2017 with the aim of season extension from February to December. Congress centre Solaris will be part of the hotel Ivan, and will comprise six multifunctional conference rooms and two meeting rooms with total capacity of 1500 participants. Planned investments amount to EUR 7.5 mn, out of which EUR 6 mn will be financed with loans and the remainder with own funds. The works should be finished by April 2017. **Arenaturist**, via its wholly owned subsidiaries, entered into an agreement to acquire the art'otel cologne and art'otel berlin kudamm located in Berlin, Germany, for EUR 54.5 mn. The acquisition is subject to receiving local authority consent while the funding arrangements for the acquisition are currently being negotiated.

### In this week

In this week there are no significant announcements scheduled hence we expect continuation of the similar trading dynamics on ZSE.

Ana Turudić

### Market performance

Index	1w %	ytd %	Value on*
9.12.2016			
WIG30 (PL)	5.67	6.17	2,204
NTX (SEE,CE,EE)	4.85	3.12	989
ATX (AT)	4.11	8.67	2,605
MICEX (RU)	3.36	24.93	2,201
SOFIX (BG)	3.13	26.16	581
BUX (HU)	2.08	27.21	30,428
BELEX15 (RS)	1.86	11.71	720
PX (CZ)	1.83	-5.53	903
SBITOP (SI)	1.80	1.34	705
CROBEX (HR)	-0.17	17.36	1,983
SASX10 (BH)	-0.67	-2.53	681
BETI (RO)	-0.88	-1.67	6,887

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
9.12.2016			9.12.2016		
Varteks	6.88	17	Atlantic Grupa	-0.45	869
OT-Optima T.	5.79	3	Ledo	-0.45	10,950
Tankerska NG	3.19	74	Adris Grupa (P)	-0.65	457
Ingra	3.00	3	Luka Rijeka	-0.79	46
Zagrebačka Banka	2.08	53	Podravka	-1.18	376
HT	1.80	171	Uljanik Plovidba	-1.25	156
Luka Ploče	1.77	570	Imperial	-1.48	800
Dalekovod	0.85	14	Kraš	-1.81	525
Končar El	0.29	682	AD Plastik	-1.92	136
Atlantska Plov.	-0.31	322	Arenaturist	-2.33	417
Ericsson NT	-0.39	1,141	Belje	-3.40	24
Valamar Riviera	-0.44	34			

\* 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		Q1, Q2, Q3, Q4 – quarters
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	kn, HRK – Kuna	yoy – year-on-year
FED – Federal Reserve System	MF – Ministry of Finance	
GDP – Gross Domestic Product		

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"Reduce": expected negative return up to -10% 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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