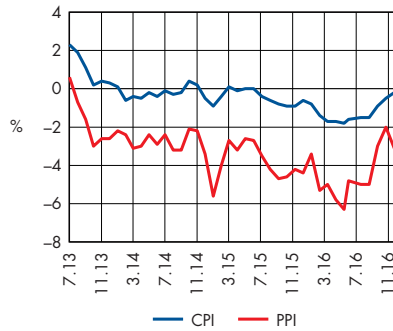


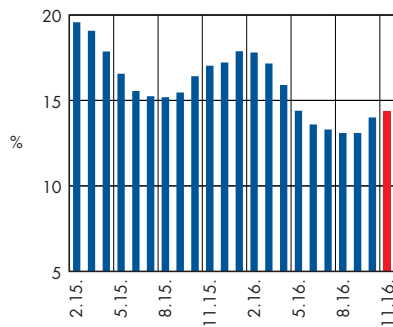
## From negative to stable outlook

### CPI and PPI, annual changes



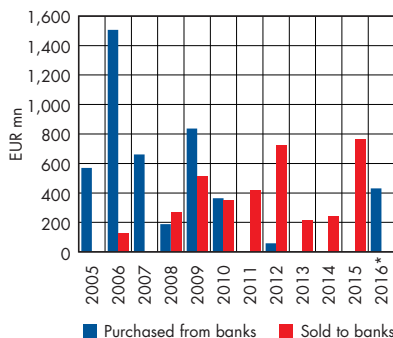
Sources: CBS, Economic RESEARCH/RBA

### Registered unemployment rate



Sources: CNB, Economic RESEARCH/RBA

### FX interventions



Sources: CNB, Economic RESEARCH/RBA

In line with our expectation, deflationary pressures continued in November but at a slower pace (-0.2%yoy) while simultaneously **inflation** measured by CPI recorded stagnation in monthly terms. Over the first eleven months CPI decreased by 1.2yoy, but excluding volatile components (energy and food) core inflation in the same observed period rose by 0.3%yoy. In the last month of this year we expect negative CPI rates on annual basis to be retained, continuously supported by further deflationary pressures from abroad. Consequently, 2016 will be the third year in a row with negative average CPI growth so it will not be surprising when the upcoming report on average net and gross **wages** confirms the trend of positive real annual growth rates in October (the first results are set to be released next Friday). However, considering the recent development related to OPEC and non-OPEC members on the reduction of oil production quotas, we expect that slight recovery of the global oil prices will spill over to domestic market therefore, in addition to a base effect, 2017 could see a return of positive CPI growth rates. The latter will mitigate the expected growth rate of average wages, which are estimated to increase in 2017 primarily thanks to the recently adopted tax reform. Also, at the last week's Parliament session, after rejecting all 132 amendments (that would have increased total government spending by more than HRK 9bn), the state budget for 2017 was adopted. Meanwhile, in line with our expectations, a robust economic performance allowing the Government to boost fiscal consolidation and the elections producing a new cabinet with a strong mandate finally resulted in the **S&P's** replace outlook from negative to stable.

This week's macro calendar will bring the first results on registered **unemployment** in November. We predict a slight seasonal deterioration in monthly terms to 14.4% but a continued improvement on annual level. Furthermore, the prolonged tourist season is clearly reflected in better (un)employment statistics such as the recently published data on job vacancies (in November the share of seasonal jobs increased to the record high level of 13.8%).

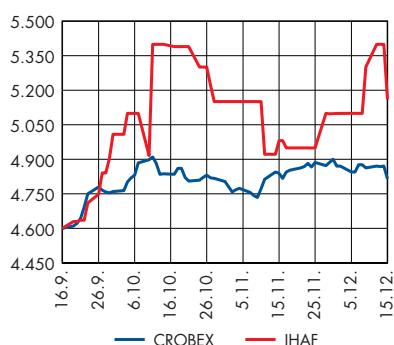
Regarding the FX market, last week's unexpected **FX intervention** was a surprise. Although the volatility of EUR/HRK remained relatively low, the CNB intervened with FX aiming to reduce appreciation pressure on the domestic currency. The EUR/HRK stabilized at slightly above 7.53 kuna per euro. In the days ahead the EUR/HRK is expected to stay between 7.52-7.55 kuna per euro.

At the same time, on the domestic **bond market**, the week was marked by subdued trading volumes with a few coupled transactions primarily with longer pure HRK papers. In anticipation of the upcoming holidays similar trading turnovers are expected.

Tomislava Ujević

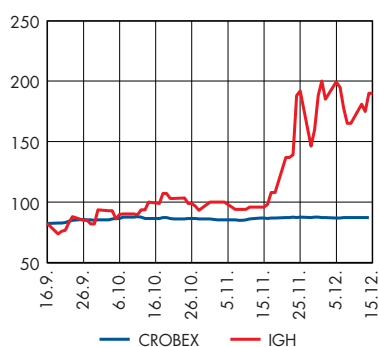
## New contracts for Janaf and Institut IGH

### Janaf (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Institut IGH (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Trading comment

CROBEX and CROBEX10 closed the week with slight losses. The regular equity turnover was similar as in the previous week and amounted to HRK 7.5 mn daily on average. Thereof, shares of **HT** were the most traded with turnover of more than HRK 5 mn in total. Among CROBEX constituents the top performer was the share of **Arenaturist** while all sector indices posted negative changes with the exception of CROBEXturstur. Regional indices closed the week mainly in green.

### Company news

Croatian Financial Services Supervisory Agency gave its approval to **Croatia Osiguranje** to perform activities of reinsurance in the group of non-life insurances. **Janaf** informed about contracts with Vitol S.A. and Crodux Derivati Dva related to long-term storage of oil derivatives. Furthermore, the company contracted oil transportation with Unipetrol RPA. **Institut IGH** also announced two new contracts. One contract is in Georgia worth EUR 12.5 mn (expected net revenue of 60% of the contracted value, i.e. EUR 7.5 mn) and another one is with HŽ Infrastruktura worth HRK 33.8 mn whereby the share of Institut IGH amounts to HRK 23.6 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*
16.12.2016			
BUX (HU)	4.36	33.45	31,923
NTX (SEE,CE,EE)	2.41	5.53	1,013
PX (CZ)	2.30	-3.65	921
ATX (AT)	2.16	10.75	2,655
MICEX (RU)	1.43	27.18	2,240
WIG30 (PL)	1.17	7.34	2,228
SBITOP (SI)	0.71	2.05	710
BELEX15 (RS)	0.23	11.97	721
BETI (RO)	0.00	-1.67	6,887
SOFIX (BG)	-0.52	25.50	578
CROBEX (HR)	-0.74	16.49	1,968
SASX10 (BH)	-2.33	-4.80	665

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
16.12.2016			16.12.2016		
Arenaturist	3.10	430	Varteks	-0.64	17
Kraš	2.80	540	Adris Grupa (P)	-0.66	454
Uljanik Plovidba	2.54	160	Valamar Riviera	-0.94	34
OT-Optima T.	1.09	3	AD Plastik	-1.14	134
Tankerska NG	0.62	75	Luka Ploče	-1.56	561
HT	0.56	172	Luka Rijeka	-1.91	46
Ericsson NT	0.48	1,146	Ingra	-1.94	3
Imperial	0.00	800	Belje	-2.69	24
Atlantic Grupa	-0.23	867	Đuro Đaković Holding	-4.12	45
Končar El	-0.29	680	Zagrebačka Banka	-4.34	51
Podravka	-0.40	374	Dalekovod	-4.52	14
Ledo	-0.46	10,900			

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

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