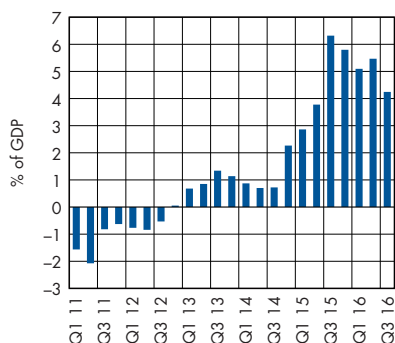


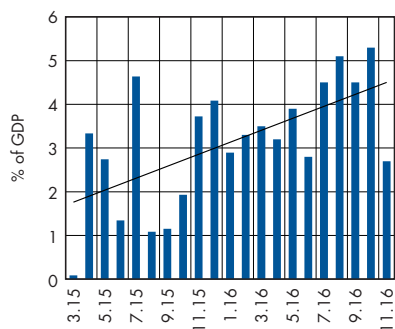
Positive trends confirmed

Current and Capital balance



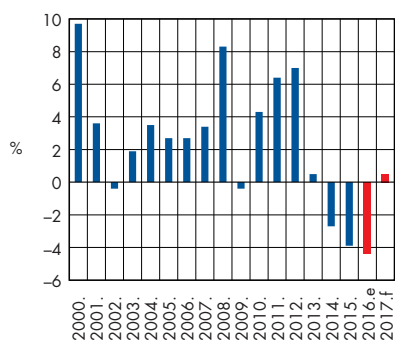
Sources: CNB, Economic RESEARCH/RBA

Retail trade, real annual changes



Sources: CBS, Economic RESEARCH/RBA

PPI on domestic market, annual changes



Sources: CBS, Economic RESEARCH/RBA

After the holiday lull, the beginning of the New Year brought a few favourable macroeconomic releases. The preliminary CNB report delivered the data on **Current Account** surplus in Q316 of EUR 3,345bn but on a rolling basis the current and capital balance remained in a relatively huge surplus at 4.3% of GDP. Lower C/A balance in Q3 (-14.6%yoy) mostly resulted from the diminishing CHF conversion effect and its impact on commercial banks' results. It was also negatively affected by deteriorated balance in goods account thus confirming high import dependence (the latter is expected to be confirmed by the upcoming figures on **foreign trade** in October which is set to be released next Monday). On the other hand, as expected, the main positive contributions to the CA surplus in Q3 came from the services account, mainly thanks to excellent figures in tourism. Namely, in the same observed quarter, revenues from tourism reached nearly EUR 5,5bn (+9%yoy). Simultaneously, a positive impact was also generated by secondary account, which recorded surplus of EUR 296mn (+4%yoy), primarily due to better EU fund utilization. Despite Q416 data could confirm the usual CA deficit (strongly driven by higher foreign trade deficit), on the whole 2016 level we expect CA balance to record a surplus for the fourth year in a row (3% of GDP).

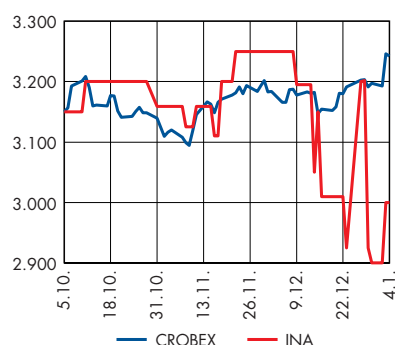
Continued solid results of the tourist post-season also brought a positive contribution to **retail trade** indicators. Paired with the still persistent deflationary environment, real retail trade growth in November increased by +2.7%yoy and further positive growth rates are expected in December due to the seasonal increase in retail trade turnover during the holidays. Negative growth rate in prices is expected to be confirmed even in the next **PPI release** for December, which is to be published next Thursday (-3%yoy). Consequently, the whole 2016 year will bring the record-high drop in PPI on the domestic market, primarily driven by energy prices from abroad. We expect first positive PPI growth rates in Q216, essentially due to the oil price developments on the world market.

Meanwhile, **improved borrowing conditions** on the domestic financial market resulted again in T-bill yields decline (by 0.1-0.2 pp on all pure HRK maturities). Paired with better-than-expected fiscal performance in 2016, it consequently resulted in a public debt decline. According to the latest data, total **public debt** at the end of Q3 16 slid to HRK 289.1bn, or 84.9% of GDP (-1.8pp ytd). The domestic sector deleveraging (primarily driven by banks and government), together with improved GDP outcome, led to further **gross foreign debt** decrease, additionally supported by favourable exchange rate development. At the end of Q3 16 total gross external debt dropped to EUR 42.4bn, or 94.2% of GDP (-9.2pp ytd). Despite the shortened working week trading volumes on the local **bond market** increased, so we expect the trend could continue due to the return of investors from holidays and the start of the new business year. As for the **EUR/HRK**, after the latest CNB's **FX intervention**, held at the very end of the last year (by buying EUR 438mn), a slight depreciation pressure on HRK was recorded, additionally supported by ample HRK liquidity in the system. Thus the EUR/HRK trading range during the week ahead is expected between 7.56-7.59 kuna per euro.

Tomislava Ujević

CROBEX exceeded 2,000 points

INA (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Tehnika (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

In the first week this year, stock indices of the Zagreb Stock Exchange, CROBEX and CROBEX10 added 1.8% and 1.2% respectively. The regular equity turnover amounted to HRK 11.7 mn daily on average. Thereof, shares of **Valamar Riviera** had the highest regular turnover (HRK 8.5 mn) while shares of **Hrvatski Telekom** registered the highest total turnover (HRK 10.4 mn) during the week. Among CROBEX members, shares of **Zagrebačka Banka** gained the most while among sectors, the indices of tourism and construction shares were leading. After the initial surge of **INA's** shares on the Government's announcement of buyout plans of the **MOL's** stake, shares of **INA** closed the week with only 2.6% increase relative to the price before the announcement. Regional equity indices also mostly posted gains in the first four days of the previous week.

Company news

Tehnika signed a new contract as the principal constructor on the above-ground part of a hotel building with an adjoining content named Westgate B in Split. The above-ground part of the construction will have 17 floors (plus a ground floor) with the completion deadline set in 260 days. The value of the contract was not disclosed. The shares of **Tehnika** saw a hike of over 13% on the announcement. **Đuro Đaković Grupa** and the French company **Atir Rail SA** contracted an additional delivery of the special wagon cisterns worth HRK 23 mn.

In this week

We expect continuation of the similar trading dynamics on the ZSE.

Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on*
5.1.2017			
NTX (SEE,CE,EE)	3.11	3.11	1,043
ATX (AT)	3.04	3.04	2,698
BUX (HU)	2.33	2.33	32,748
WIG30 (PL)	2.22	2.22	2,293
BETI (RO)	1.86	1.86	7,217
CROBEX (HR)	1.78	1.78	2,030
PX (CZ)	1.43	1.43	935
SBITOP (SI)	0.65	0.65	722
SOFIX (BG)	0.54	0.54	590
SASX10 (BH)	-0.30	-0.30	688
BELEX15 (RS)	-0.36	-0.36	715
MICEX (RU)	-0.63	-0.63	2,219

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

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
5.1.2017					
Zagrebačka Banka	6.02	57	Končar EI	1.88	703
Đuro Đaković Holding	5.89	49	Ingra	1.30	3
Arenaturist	5.44	494	Podravka	1.26	382
Belje	4.78	24	Imperial	1.23	825
Dalekovod	4.71	14	Adris Grupa (P)	1.00	465
Uljanik Plovidba	3.74	166	Kraš	0.00	540
Valamar Riviera	3.73	36	Tankerska NG	0.00	75
Atlantska Plov.	3.48	292	AD Plastik	-0.20	138
Ledo	3.14	11,000	Atlantic Grupa	-0.37	879
Luka Ploče	2.01	579	OT-Optima T.	-0.74	3
Ericsson NT	1.98	1,187	HT	-1.18	167
Luka Rijeka	1.94	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		

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"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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