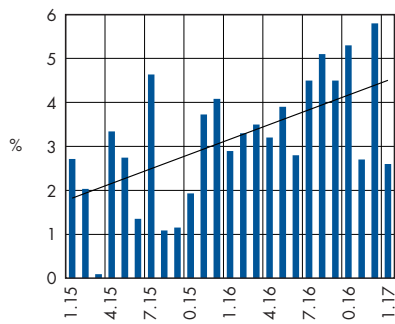


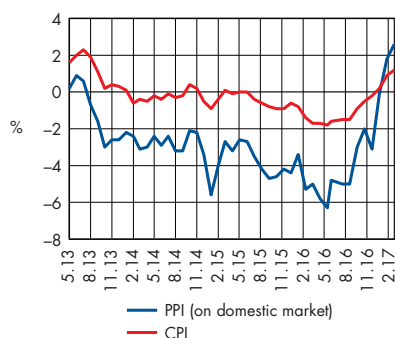
## First Eurobond after two years

### Retail trade, real annual changes



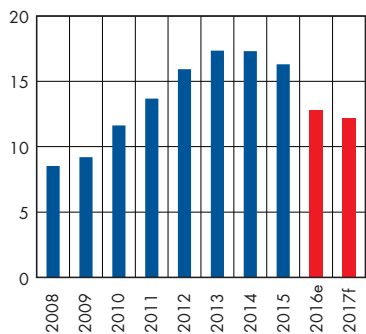
Sources: CBS, Economic RESEARCH/RBA

### Inflation, yoy



Sources: CBS, Economic RESEARCH/RBA

### Unemployment rate (ILO, avg)



Sources: CBS, Economic RESEARCH/RBA

More or less, January retail trade and CPI rolled out in line with the expectations. After the average **retail trade** turnover in 2016 accelerated to 4% yoy and confirmed a positive trend for the third year in a row, the data for January point to a continuation of favorable trends. According to the first CBS's results, the real retail trade growth in January amounted to 2.6%yoy. The solid growth rate is positively affected by the recently adopted tax reform and stabilization on the labour market. The expected subdued inflation and further excellent results in tourism, paired with effects of the new tax changes, will result in continued positive retail trade trends this year as well. In line with price developments on the world commodity market, the **January CPI figure** accelerated to 1.4% yoy, thus confirming that disinflation vanished and the months ahead are expected to bring a return to the modestly positive inflation rates.

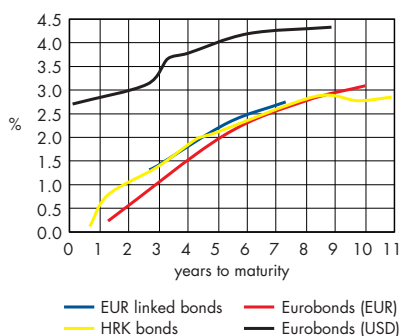
This week focuses on the **labour market data** that are expected to improve further, thus confirming the declining trend in unemployment and the increasing one in wages. **Wage growth** in January particularly applies to net salary, which predominantly resulted from changes in the taxation of income. February registered unemployment rate is projected to fall from 15.4% in January to 15.1%.

The **ILO figures** for 2016 should also confirm the reduction of unemployment. The release is scheduled for the very end of the week and might deliver the 2016 unemployment rate of 12.8%, which is the lowest rate since 2010. All in all, the figures point to a further households' consumption growth at the beginning of the year. However, we assume that less than half of the unemployment reduction was driven by job creation, while the remaining share was due to a further contraction of the labour force on account of adverse demographic dynamics and net migration outflows. As these trends are expected to continue, reversing the current trend in the labour force will be one of the main challenges of Croatia in the years ahead.

In the meantime, the week's spotlight was on the first **Eurobond** issuance after 2015. So Croatia sold a 3% coupon 10-year EUR 1.25 bn Eurobond. The deal was launched at 230 bp spread to midswaps translating into a 3.19% yield. In the course of the transaction the initial price guidance was reduced twice – first down from 260 bp to 240 bp, and then later to the final 230 bp. A strong demand with books closing in excess of EUR 2.75 bn allowed Croatia to sell a slightly larger amount compared to the initial EUR 1 bn plan. As we anticipated, the new issue attracted a high demand despite the fairly tight pricing conditions. As we expected, the secondary market saw more than 10 bp spread due to a higher demand for the only long dated paper in Croatian EUR Eurobond segment. We believe the spread could tighten in future on the back of strengthened macro policies, thus potentially initiating positive re-rating in 12 –18 months perspective.

On Friday the **S&P** Global Ratings has Croatia on its calendar. No change is expected as reforms must still take place, and implementation will take time. The S&P already updated the outlook last year, moving it from negative to stable,

## Croatia – sovereign curve



\*as of 17 March 9:00 CET

Sources: Bloomberg, Economic RESEARCH/RBA

## EUR/HRK mid rate



Sources: CNS, Economic RESEARCH/RBA

while for a positive outlook the agency would need to see more progress in the fiscal policy area and sustainable growth policies.

The new Eurobond was also attractive for the local institutional players (first and foremost for the pension funds). Therefore, it was not surprising to see the selling activities of the domestic HRK and EUR-linked bonds (2025 and 2020, respectively). As we assume this process of shifting to the Eurobond is nearly finished, a calm week awaits us.

A relatively quiet week on the domestic **FX market** was marked by a modest trading volume and by finally halted HRK appreciation pressures, which have dominated the scene since the beginning of the year. EUR/HRK ranged between 7.42 and 7.44 kuna per euro. A more pronounced demand for FCY might be related to the Eurobond issuance and the dividend pay-outs. On the other hand, the domestic currency will continue to be supported by the healthy surplus in the balance of payments current account, by reduced fiscal risks, inflow of foreign currency from tourism, the revival of investment activity, the positive net foreign position of banks and the growing demand for HRK loans. In the week ahead we do not expect any significant changes in the foreign exchange market, where the bulk of trading is expected in the range of 7.41 and 7.43 kuna per euro. With the approaching Easter period we could see an increased HRK demand thus putting pressure on the EUR/HRK exchange rate. Still, the CNB will remain committed to the FX stability but obviously this year will be more focused on curbing appreciation pressures on the local currency.

As for the **money market**, we expect to enjoy ample HRK liquidity and low interest rates. Considering that this week no liabilities fall due, the MoF did not announce their regular T-bill auction.

Zrinka Živković Matijević

## Croatia – main economic indicators

	2015	2016e	2017f	2018f
Real GDP (% yoy)	1.6	2.9	3.3	2.8
Industrial Production, %, yoy	2.6	5.3	4.5	4.0
Consumer prices (avg, % yoy)	-0.5	-1.1	1.9	1.6
ILO unemployment rate (avg, %)	16.3	12.8	12.2	11.2
General budget balance (% of GDP)	-3.3	-1.5	-1.9	-2.0
Public debt (% of GDP)	86.7	83.9	82.6	80.6
CA (% of GDP)	5.1	3.1	2.5	2.2
Official FX reserves (EUR bn)	13.7	13.5	13.7	14.0
Gross foreign debt (EUR bn)	45.4	41.7	40.9	41.9
Gross foreign debt (as % of GDP)	103.4	91.4	89.7	84.4
EUR/LCY (avg)	7.61	7.53	7.45	7.46

Source: CNB, CBS, Economic RESEARCH/RBA

## Agrokor in the headlines

### Trading comment

Discussions about leverage and liquidity issues in Agrokor dominated in the headlines in the week behind us. Hence, the regular stock turnover on the ZSE mounted to HRK 27 mn on average, daily. Likewise, shares of Ledo and Jamnica were among the top traded shares with a significant price drop on Wednesday but saw a recovery in the rest of the week. CROBEX was also trending down for four days but reversed the momentum on Friday thus closing the week down by 2.2%. Among CROBEX members, shares of Valamar Riviera gained the most on a high turnover of HRK 18 mn while shares of Ledo and Belje lost the most. Therefore, all sector indices recorded a negative performance, except for tourism shares' index, headed by CROBEXnutris. Shares of Adris attracted the highest turnover of as much as HRK 36 mn with preferred and common shares and 0.4% shares changed hands in total. Most of the regional indices closed the week in green.

### Company news

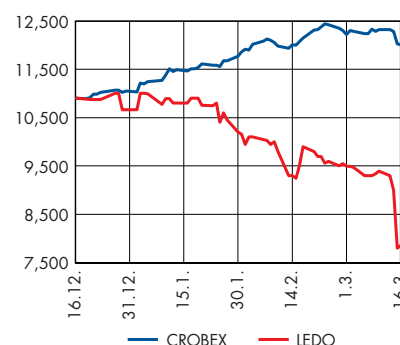
**AD Plastik** informed about new contracts with PSA Group worth EUR 4.8 mn with the serial production starting in 2018 and 2019. Also, AO AD Plastik Togliatti from Russia will be producing parts for Renault worth EUR 4 mn in four years period starting mid-2018. **Tehnika** signed a contract as a main builder on reconstruction of Hotel Split in Split which will have 69 accommodation units compliant to the 4-star category standards.

### In this week

We expect somewhat calmer trading activity and lower regular turnover on the ZSE in this week. Changes in CROBEX constitution effective on Monday are: shares of Imperial, Luka Rijeka, Varteks and Tankerska NG will be replaced by shares of Maistra, Viadukt, Petrokemija, Vupik and Zagrebačka Burza.

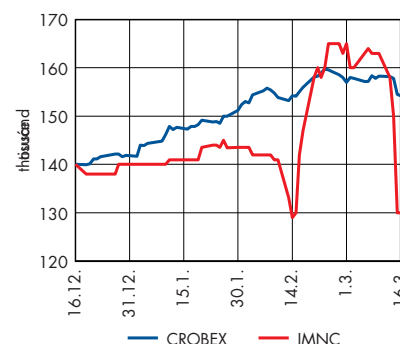
Nada Harambašić Nereau

### Ledo (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Jamnica (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Market performance

Index	1w %	ytd %	Value on*
<b>17.3.2017</b>			
WIG30 (PL)	4.58	18.48	2,658
NTX (SEE,CE,EE)	2.83	12.83	1,142
MICEX (RU)	2.82	-9.10	2,030
SOFIX (BG)	1.61	8.28	635
SBITOP (SI)	1.05	11.72	802
PX (CZ)	0.86	6.41	981
BETI (RO)	0.76	12.27	7,954
BELEX15 (RS)	0.62	3.75	744
ATX (AT)	0.56	8.53	2,842
BUX (HU)	0.22	2.49	32,799
CROBEX (HR)	-2.15	9.14	2,177
SASX10 (BH)	-2.61	-8.88	629

\* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
<b>17.3.2017</b>					
Valamar Riviera	4.69	44	Zagrebačka Banka	-2.02	65
Ingra	1.03	5	Končar EI	-2.12	830
Atlantska Plov.	0.95	385	HT	-2.76	180
Imperial	0.00	815	Luka Rijeka	-3.07	47
AD Plastik	-0.21	165	Luka Ploče	-3.28	559
Adris Grupa (P)	-0.60	495	Podravka	-3.55	389
Ericsson NT	-0.71	1,400	OT-Optima T.	-3.86	4
Arenaturist	-0.80	506	Dalekovod	-4.09	26
Varteks	-0.87	16	Đuro Đaković Grupa	-4.77	45
Tankerska NG	-0.95	80	Kraš	-5.26	540
Atlantic Grupa	-1.52	905	Belje	-7.15	22
Uljanik Plovidba	-1.63	181	Ledo	-14.88	8,000

\* 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		Q1, Q2, Q3, Q4 – quarters
DZS – Croatian Bureau of Statistics		RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	HNB – Croatian National Bank	USD – Dollar
EUR – Euro	IMF – International Monetary Fund	yoy – year-on-year
FED – Federal Reserve System	kn, HRK – Kuna	
GDP – Gross Domestic Product	MF – Ministry of Finance	

#### Design

SIBI; OIB: 62606715155; I.B. Mažuranić 70, 10090 Zagreb

#### Publisher

Raiffeisenbank Austria d.d. Zagreb  
Magazinska cesta 69, 10000 Zagreb  
www.rba.hr  
tel. ++385 1/45 66 466  
fax: ++385 1/48 11 626

Publication finished on March 17, 2017

Publication approved by editor on March 20, 2017 at 08:05

First release scheduled for March 20, 2017 at 08:17

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% all IB services	0%	29%	0%	0%	0%	0%

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We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

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If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer. It shall in no way affect the legality, validity or enforceability of the remaining terms.