

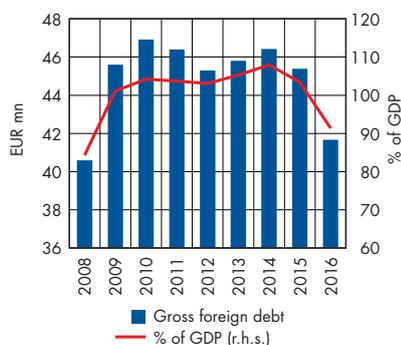
Macroeconomic developments in the shadow of Agrokor

Domestic macroeconomic developments and releases of key economic figures, which confirm the continuation of positive trends, remained in the shadow of the uncertainty and turbulence flooding the market in connection to Agrokor.

The latest data confirm the fall of gross external debt to 91.4% of GDP at the end of 2016 (the below 100%-level was last recorded in Q3 2009). In addition to the growth of the economy, the fall of gross external debt is a result of the deleveraging by all sectors towards their foreign creditors, especially by the government and financial institutions, more precisely by banks. While the government postponed the issue of its Eurobond in the spring 2016, banks have deleveraged due to relatively cheaper domestic deposits, high liquidity and still modest demand for loans. Further, much more favourable conditions in the domestic market have motivated the corporate sector to substitute a share of debt to foreign creditors by borrowing domestically. The supply of kuna loans at interest rates that can compete with borrowing in euros has contributed to a change in the currency structure of loans in the domestic banks but also to a change in the trend of corporate borrowing. This trend is expected to continue. Expected continuation of economic growth, return of inflation, and stronger kuna are additional factors that should contribute to reducing the ratio of gross external debt to GDP, which could fall below 90% by the end of this year. In the same period, total **public debt** (according to the ESA2010 methodology) went down to 84.2% of GDP. On Friday the CBS published tourism figures. In anticipation of Easter holidays and the beginning of tourist (pre)season, double-digit increase in number of tourist arrivals and nights in February, confirm the expectations of another excellent season.

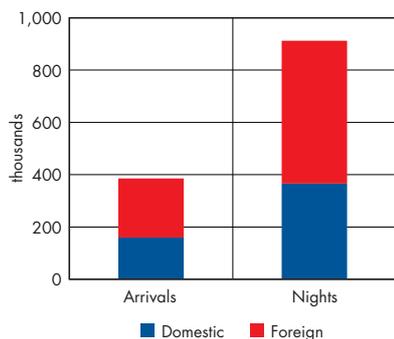
According to the domestic macroeconomic calendar, this week is reserved for the **March CPI and PPI figure**, which is expected to remain around the current levels, thus confirming that the three-year disinflation period is behind us. Despite the solid data, in the upcoming days all the attention of market participants and analysts will continue to focus on new information about the "Agrokor case". The (negative) effects on GDP could be particularly pronounced if we witness a disorderly way out of this situation. However, if the whole process gets well managed and coordinated, the consequences for GDP could be much milder. Eventually, we can expect that the macroeconomic impact will be seen especially in the second half of the year, most probably in the last quarter. However, the exact numbers and the macroeconomic impact are very difficult to predict because of a large number of process stakeholders, lack of information and data but also because of the inability to assess the details of the restructuring process. At the very end of the week the **Law on the procedure of extraordinary administration in companies of systemic importance for the Republic of Croatia**, the so-called "**Lex-Agrokor**", came into force. The Law allows for the procedure of extraordinary administration in companies whose liabilities amount to more than HRK 7,5bn and which have more than 5.000 employees. As on Friday, the company management decided to hand over control to the Government under an emergency law the restructuring officer is expected to be announced today.

Gross external debt



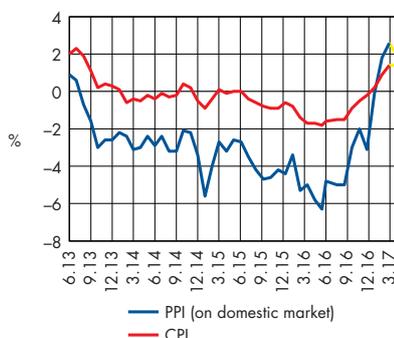
Sources: CNB, Economic RESEARCH/RBA

Structure of tourist arrivals and nights in the first two months in 2017



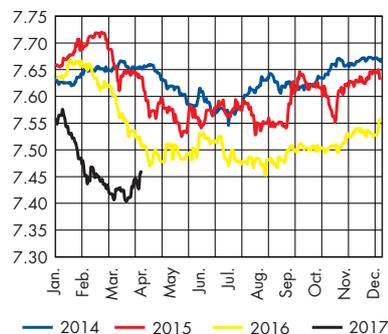
Sources: CBS, Economic RESEARCH/RBA

Inflation, yoy



Sources: CBS, Economic RESEARCH/RBA

EUR/HRK, mid rate



Sources: CNB, Economic RESEARCH/RBA

Turning our attention to **financial markets**, where uncertainty about Agrokor affected the **local bond** market as well. The negative sentiment spilled over, primarily to the pure kuna papers with the average drop in prices by 60bp on a weekly level. We might see a similar trend, with continued increased volatility, over the forthcoming days. As for the **FX market**, somewhat more pronounced depreciation pressures on the domestic currency prevailed. In the forthcoming days, and in anticipation of the pre-season period and Easter holidays, we expect to see a higher HRK demand, which should push the EUR/HRK market rate down to lower levels. Furthermore, we do not rule out the need for extra foreign currency inflows to meet the liquidity requirements in Agrokor, which will create an additional appreciation pressure for the kuna. In such conditions we see the EUR/HRK sliding towards 7.40. Finally, on the **money market**, the persistent high daily excess of liquidity keeps interest rates low. Therefore, in such circumstances, we were not surprised by the banks' zero interest in the regular weekly reverse repo auction.

Elizabeta Sabolek Resanović

Fall discontinued on Friday

Trading comment

After several days of sale-offs on the Zagreb Stock Exchange, a slight turnaround was seen on Friday on somewhat lower turnover as the "Lex Agrokor" was adopted. Hence, CROBEX recorded a drop of 2%, CROBEX10 of 1.7% and CROBEXnutris fell by 7%. This resulted in CROBEX and CROBEXnutris losing 2.2% and 28%, respectively, on a year-to-date basis. Average regular turnover was still above the usual levels, at HRK 33 mn daily. Shares of Ledo were again the most traded with total of HRK 70 mn, followed by shares of Jamnica with HRK 26 mn of turnover while an OTC transaction with shares of Zvijezda amounting to HRK 42.5 mn also took place. Except for shares of Agrokor's companies, common and preferred shares of Adris Group had the highest turnover, HRK 42 mn in total. Among CROBEX members, shares of Viadukt, Belje and Ledo dropped the most while shares of Uljanik Plovidba gained the most. Regional equity indices recorded gains on the weekly level.

Company news

Dalekovod signed a contract with Elektroprivreda HZ HB for building and reconstruction of transmission lines and substations worth over EUR 20 mn. **Ericsson Nikola Tesla** and HT Mostar signed new contracts worth HRK 11 mn in total for the expansion and modernization of the system for monitoring the mobile network, as well as the continuation of the contract on providing services of maintaining Ericsson's equipment in HT Mostar's network.

In this week

We expect focus of investors to remain on the development of crisis in Agrokor thus influencing the overall trading on the Zagreb Stock Exchange. Shares of **PBZ** will go ex-dividend on Thursday (dividend per share of HRK 25.33).

Podravka (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Belje (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Nada Harambašić Nereau

Market performance

Index	1w %	ytd %	Value on*
7.4.2017			
SOFIX (BG)	3.82	12.24	658
NTX (SEE,CE,EE)	3.04	12.85	1,142
BUX (HU)	3.01	1.83	32,588
WIG30 (PL)	2.68	15.18	2,584
ATX (AT)	2.33	10.55	2,895
BETI (RO)	1.60	15.72	8,199
MICEX (RU)	1.19	-9.54	2,020
SASX10 (BH)	0.89	-10.68	617
SBITOP (SI)	0.61	8.62	779
PX (CZ)	0.25	6.73	984
BELEX15 (RS)	-0.54	1.56	729
CROBEX (HR)	-1.95	-2.23	1,950

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*
7.4.2017		
Uljanik plovidba	11.31	197
Atlantska plovidba	6.02	440
AD Plastik	1.94	158
Kraš	1.91	479
Arenaturist	1.01	490
Ericsson Nikola Tesla	0.73	1,374
HT	0.14	174
Končar – Elektroind.	-0.38	787
Zagrebačka banka	-0.60	60
Dalekovod	-0.90	23
Atlantic Grupa	-1.23	800
Valamar Riviera	-1.42	42
Luka Ploče	-1.73	540

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

Share	1w %	Price on*
7.4.2017		
Adris Grupa (P)	-2.29	460
Podravka	-2.45	350
Zagrebačka burza	-2.94	18
OT-Optima Telekom	-3.72	3
Vupik	-4.32	33
Ingra	-4.91	4
Maistra	-5.41	280
Đuro Đaković Grupa	-6.34	36
Petrokemija	-14.67	13
Ledo	-17.58	4,220
Belje	-18.65	14
Viadukt	-27.13	120

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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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"Reduce": expected negative return up to -10% over next 12 months.

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% of all recommendations	0%	86%	14%	0%	0%	0%
Investment banking services	0	1	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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