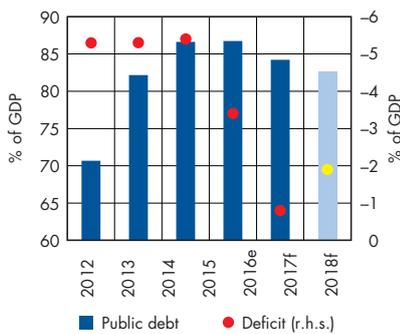


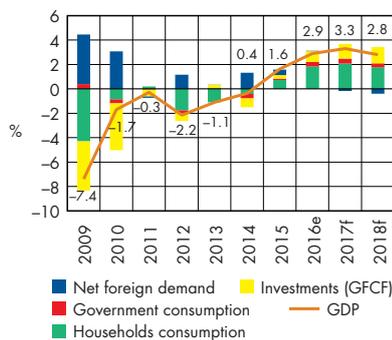
Calm week with no surprises

Consolidated General Gov't (ESA 2010)



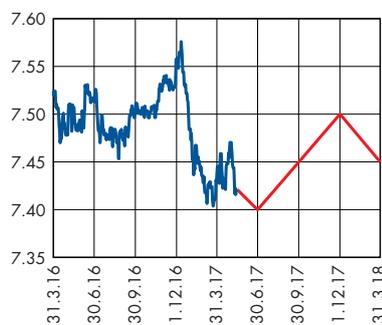
Sources: CBS, MF, Economic RESEARCH/RBA

GDP contributions



Sources: Bloomberg, Economic RESEARCH/RBA

EUR/HRK*



*as of 12 May 14:00 CET
Sources: Bloomberg, Economic RESEARCH/RBA

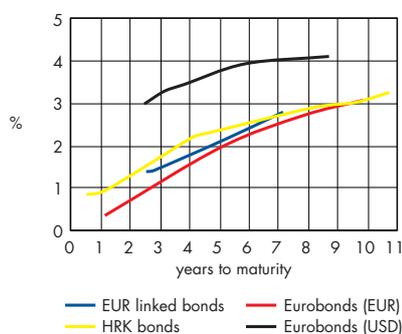
After the unexpected political uncertainties, Croatia entered a temporary calmer mood in anticipation of **local elections** scheduled for May 21. At this point we could exclude snap elections before the summer, but still, this could be a possible outcome of the recent political turmoil. As we stressed several times, technically HDZ may ensure a sufficient majority in the Parliament for ruling, but the majority will be very tight and fragile. Therefore, snap elections are still possible. Early elections would not threaten the short term economic growth and fiscal metrics (given the Government will be restricted from spending), but the political uncertainty could definitely slow the progress of the reform agenda.

Nevertheless, it seems the summer could be politically quiet, and so the focus shifts again to **Agrokor**, which is under Extraordinary Administration pursuant to the *Extraordinary Administration Act*. Last week the company announced data of a part of its debts. The debts of the Agrokor's biggest 19 companies, according to unaudited results, amounted to HRK 40.4 bn at the end of March (HRK 24.5bn of the total amount refers to financial creditors). Governor Vujcic said that liquidity crises in Agrokor would have a negative impact of around 0.3% – 0.4% on GDP growth. It seems that even the European Commission shares the central bank's opinion as in the EC Spring Forecast it revised the Croatian GDP growth forecast to 2.8% yoy from 3.1%.

The influence of Agrokor and its affiliated suppliers on the overall economy is very hard to estimate due to the absence of reliable data and information and the manner and speed at which the restructuring will be done. And while the direct gross value added of the Agrokor Group may roughly be estimated (close to 2% of GVA), the problem largely lies in, and is exacerbated by, the large number of entities relying on the Group, their future operation being largely dependent on the success of restructuring. In the short-term the resolution of Agrokor's liquidity problems provided the economy with a moment to pause, probably without a more significant influence on personal consumption but causing the postponement of individual investments. However, the "Agrokor-case" warned again against persistent deficiencies in Croatia's economy by drawing new attention to the problem of inability to collect overdue receivables. This is the problem that has been stressed by all market participants over the years as one of the main hurdles to successful operating and competitiveness.

Anyway, at the moment we stick to our winter GDP forecast of 3.3% yoy real growth. Namely, exports performed better than expected as it increased by 21.1% yoy in Q117. Furthermore, the most recent Q1 data imply that tourism will remain the main driver of healthy economic results, generating additional investments directed at increasing both capacities and quality. We estimate that 2017 might exceed even the most optimistic forecasts of tourism and will have a multiplicative effect on the rest of the economy, holding the rate of economic growth at around 3 percent. The Agrokor crisis would affect mainly investments, which might be offset though by higher investment in general because of the local elections but yet, the largest effect from the concern collapse is to be seen next year as the restructuring would likely start in Q417.

Croatia – sovereign curve



*as of 12 May 9:00 CET, Sources: Bloomberg, Economic RESEARCH/RBA
Sources: Bloomberg, Economic RESEARCH/RBA

In terms of macroeconomic data, the **April PPI** numbers brought an accelerated annual growth rate (+3.0% yoy) thus confirming the return of inflationary pressures, primarily caused by rising food and oil prices on the international markets. The latter will surely be confirmed with the upcoming **CPI** figures for April scheduled for release on Wednesday.

Turning our attention to the local **financial market**, nothing special happened. As expected, **EUR/HRK** returned back to the normal trends as the FX market witnessed a slight HRK appreciation. As the main tourist season approaches, a similar trend i.e. slow but steady downward movement of EUR/HRK might be expected. The **local bond market** was even more dull with very tight trading volumes with no significant changes in yields. The same developments could be expected even this week. The Ministry of Finance did not announce a T-bill auction as there is no maturity this week. And eventually, money market rates will continue to be pushed by ample liquidity in the financial system.

Zrinka Živković Matijević

Croatia – main figures and forecasts

| | 2016 | 2017e | 2018f |
|-----------------------------------|------|-------|-------|
| Real GDP (% yoy) | 2.9 | 3.3 | 2.8 |
| Industrial Production, % yoy | 5.3 | 4.2 | 3.8 |
| Consumer prices (avg, % yoy) | -1.1 | 1.9 | 1.6 |
| ILO unemployment rate (avg, %) | 13.1 | 12.2 | 11.2 |
| General budget balance (% of GDP) | -0.8 | -1.9 | -2.0 |
| Public debt (% of GDP) | 84.2 | 82.6 | 80.6 |
| CA (% of GDP) | 2.6 | 2.5 | 2.2 |
| Official FX reserves (EUR bn) | 13.5 | 13.7 | 14.0 |
| Gross foreign debt (EUR bn) | 41.7 | 40.9 | 41.9 |
| Gross foreign debt (as % of GDP) | 91.4 | 89.7 | 84.4 |
| EUR/LCY (avg) | 7.53 | 7.45 | 7.46 |

Sources: CNB, CBS, Economic RESEARCH/RBA

Severe drop of Viadukt's shares

Trading comment

Last week on ZSE was labelled by low turnovers, HRK 6 mn on average daily, while CROBEX posted a wow decline of 1%. The weakest performance was recorded by construction sector shares, led by Viadukt, while only F&B sector shares posted positive wow changes. The shares of **Hrvatski Telekom** and **Atlantic Grupa** were the most traded with turnovers of HRK 4.9 mn and HRK 4.8 mn respectively. Equity indices in the region posted mostly a positive performance during the week.

Company news

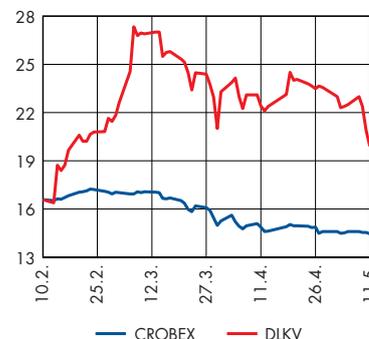
Share of **Viadukt** recorded a sharp wow drop after the announcement that the company is preparing to enter pre-bankruptcy procedure. **Atlantic Grupa** proposed a dividend payment in the amount of HRK 13.50 per share, yoy flat. All shareholders registered as of July 6, 2017 are entitled to the dividend and the proposed payment date is July 12, 2017. **Dalekovod** released the 1Q 2017 figures. Although the operating revenues went up 0.14%, the company posted a yoy drop of operating profit while the bottom line stood at HRK -2.4 mn. **Arena Hospitality Group** aims to raise between HRK 600 and HRK 750 mn of new capital through SPO primarily for the refurbishment and upgrade of the existing properties in Croatia as well as for the expansion of its operations in the CEE region.

In this week

As the trading with shares of Agrokor's companies should be resumed on 16 May we expect somewhat intensified investors' activity on ZSE in the week ahead.

Ana Turudić

Dalekovod (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Viadukt (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

| Index | 1w % | ytd % | Value on* |
|-----------------|-------|--------|-----------|
| 12.5.2017 | | | |
| BUX (HU) | 4.40 | 7.21 | 34,309 |
| BETI (RO) | 1.51 | 18.90 | 8,424 |
| BELEX15 (RS) | 1.48 | 1.19 | 726 |
| SASX10 (BH) | 1.18 | -9.03 | 628 |
| PX (CZ) | 1.08 | 10.33 | 1,017 |
| SBITOP (SI) | 0.72 | 9.07 | 783 |
| ATX (AT) | 0.59 | 17.88 | 3,087 |
| NTX (SEE,CE,EE) | 0.41 | 18.98 | 1,204 |
| WIG30 (PL) | -0.47 | 20.81 | 2,710 |
| SOFIX (BG) | -0.88 | 11.69 | 655 |
| MICEX (RU) | -0.91 | -11.13 | 1,984 |
| CROBEX (HR) | -1.02 | -5.50 | 1,885 |

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

| Share | 1w % | Price on* |
|------------------|-------|-----------|
| 12.5.2017 | | |
| Kraš | 4.51 | 470 |
| AD Plastik | 3.57 | 174 |
| Adris Grupa (P) | 3.06 | 470 |
| Maistra | 2.38 | 297 |
| Atlantic Grupa | 0.00 | 780 |
| Vupik | 0.00 | 19 |
| Ledo | 0.00 | 3,450 |
| Podravka | 0.00 | 347 |
| Belje | 0.00 | 8 |
| Zagrebačka burza | 0.00 | 17 |
| Končar El | -0.75 | 794 |
| Ericsson NT | -1.43 | 1,321 |
| Luka Ploče | -1.63 | 541 |

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

| Share | 1w % | Price on* |
|--------------------|--------|-----------|
| 12.5.2017 | | |
| Đuro Đaković Grupa | -2.10 | 41 |
| Valamar Riviera | -2.49 | 40 |
| Zagrebačka Banka | -2.61 | 48 |
| HT | -3.01 | 171 |
| OT-Optima T. | -3.72 | 4 |
| Ingra | -3.94 | 4 |
| Atlantska Plov. | -5.87 | 400 |
| Petrokemija | -6.14 | 13 |
| Uljanik Plovidba | -6.28 | 151 |
| Arenaturist | -6.46 | 477 |
| Dalekovod | -8.44 | 21 |
| Viadukt | -22.67 | 70 |

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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 | |

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