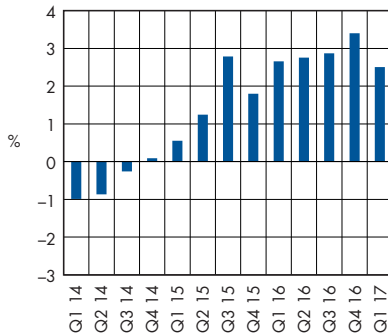


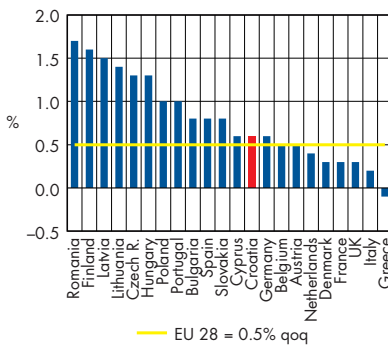
## Solid growth in Q1

GDP real growth rate (yoy)



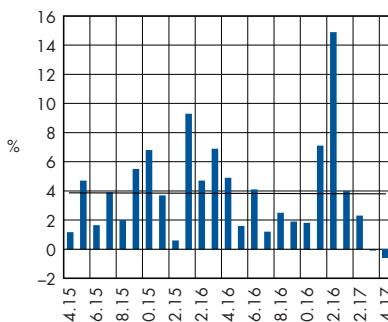
Sources: CBS, Economic RESEARCH/RBA

GDP real growth rate (s.a. qoq)



Sources: Eurostat, Economic RESEARCH/RBA

Industrial production, yoy



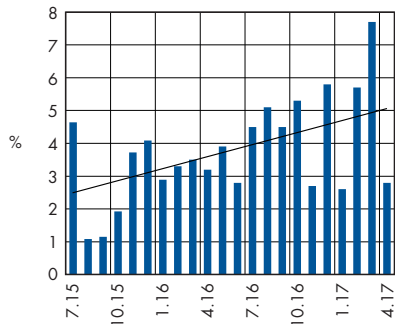
Sources: CBS, Economic RESEARCH/RBA

An ample week in terms of macroeconomic releases is behind us. The **first Q1 GDP** estimate reported real growth of 2.5%yoy. According to the seasonally adjusted data, GDP growth rate was kept at 3.4%yoy and 0.6%qoq. While the positive contribution came from the domestic demand, the largest positive contribution to the GDP volume change came from exports of goods (3.4%) as a result of a 14.9% real annual growth of exports of goods (confirming that more and more Croatian companies are turning to foreign markets using primarily the advantages of the single European market). Increase in exports of services was considerably milder, which is not surprising since the Easter holidays were in April, and besides impacting pre-holiday consumption, this also postponed the usual tourist arrivals. The Q1 real rise in exports of goods and services was 8.6%yoy, but it was not sufficient to neutralize the adverse impact of imports on GDP. Consequently, the net-foreign demand brought a negative contribution. Again, this highlights the high imports dependence of the domestic economy, which mostly results from low competitiveness.

The largest GDP component, household consumption, continued with solid annual changes (+3.5%yoy in real terms). Government consumption increased by 1.6%yoy, which probably reflects the continuation of fiscal consolidation, while the acceleration of GFCF annual growth (+5.4%yoy) for the eight consecutive quarters is especially appealing. Compared to Q1 2016, GVA was higher by 2.2% with the largest contributions achieved in Wholesale and retail trade (+3.2%yoy).

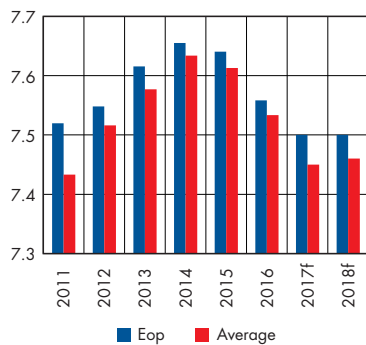
Although the latest GDP data confirmed a continued favourable trend in the first quarter, the **recent high-frequency indicators** (retail trade and industrial production) point to a slowdown of economic activity in the real sector. Namely, after more than two years of growth, in April industrial production delivered a negative annual growth rate (-0.6%yoy, WDA indices). Thanks to the solid growth in January and February, data for the first four months show that the industrial production was 1.3% higher than in the same period last year. Further, in April real annual retail trade growth rate went down to 2.8%. Although at slower pace, recent data confirmed a positive trend that has lasted since Sep 2014. Given the solid recovery of the main Croatian foreign trade partners and the absence of a more significant slowdown in household consumption, it is likely that the latest data are related to the situation in Agrokor. Given the current circumstances, we do not exclude the possibility of revising economic growth for this year, as current projections are more exposed to negative risks closely related to the restructuring of Agrokor and general adjustment of the market players to the new situation. In the short term, we expect the biggest impact on the company's investment activity, while in the event of any further growth in personal consumption, it is likely that part of the demand could be offset by increased imports. It remains to be seen whether, and to what extent, will the tourist season neutralize any possible negative impacts.

## Retail trade, real changes, yoy



Sources: CNB, Economic RESEARCH/RBA

## EUR/HRK, mid rate



Sources: CNB, Economic RESEARCH/RBA

In the **upcoming week** the May PPI figures will confirm return of (imported) inflation at around 3.1 yoy growth while tourism readings are expected to show excellent performance in April, considering this year's later date of Easter and Easter holidays, and the beginning of the (pre)season. However, Agrokor will remain in focus on the domestic market whereas additional information regarding a new credit line is expected.

Turning our attention to the local **financial market** where EUR/HRK continued hovering around 7.41 kuna per euro level. The uncertainty around the Croatian biggest private company (Agrokor), i.e. most probably banks' further write-offs of Agrokor's debt, will continue to affect the EUR/HRK path. Basically, in the short run HRK should be more exposed to the appreciation pressures due to the beginning of the high tourist season, robust exports and stronger FCY inflows, higher demand for HRK loans, and improved fiscal and external position. Additionally, 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.

Another boring week passed on the **domestic bond market** with subdued trading volumes. This week we might see a somewhat more pronounced demand for pure kuna papers, bringing a slight decrease in yields. Croatian Eurobonds, following the worldwide trend of rising prices, also experienced a weekly price growth. The Ministry of Finance announced a T-bill auction as HRK 402 mn mature this week. Ample liquidity, and consequently a low interest rate environment, suggests no changes in yields.

Elizabeta Sabolek Resanović

## Higher turnover thanks to Valamar Riviera

### Trading comment

Thanks to higher turnover by shares of Valamar Riviera on Wednesday when the stock recorded HRK 10 mn, the total daily average was higher than in the week before and amounted to HRK 7 mn. CROBEX closed the week in red losing 0.5% and the worst performance was seen by shares of Uljanik Plovidba. Likewise, the index of shares from transport companies lost the most among sectors and the winners were shares of tourism sector. Most of the equity indices in the region had a negative performance on the weekly level headed by MICEX.

### Company news

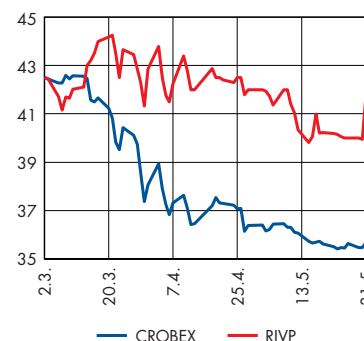
**Adris Grupa** confirmed their total exposure to Agrokor of HRK 967 mn. The loan was backed by shares of Jamnica and Konzum and by promissory notes of Agrokor, Konzum and Jamnica. Adris explains that this exposure was created from the cooperation between TDR (sold tobacco company) and Agrokor and was transferred before the sale of the unit on Adris. After the capital increase and the stock conversion, **Arena Hospitality Group** has 5,128,721 ordinary shares with the ticker ARNT-R-A. The newly issued 2,946,221 shares will be listed on the stock exchange with the first trading day being June 6th, 2017.

### In this week

In this week we expect news related to Agrokor to remain in the focus of investors. On Friday, shares of Ericsson Nikola Tesla go ex-dividend (DPS of HRK 90).

Nada Harambašić Nereau

### Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Adris-P (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Market performance

Index	1w %	ytd %	Value on* 2.6.2017
BUX (HU)	2,29	9,82	35.145
SOFIX (BG)	1,66	14,33	670
BETI (RO)	1,41	23,77	8.769
BELEX15 (RS)	0,29	0,35	720
SBITOP (SI)	0,24	10,23	791
CROBEX (HR)	-0,47	-7,09	1.853
SASX10 (BH)	-0,59	-10,75	616
PX (CZ)	-0,89	9,28	1.007
WIG30 (PL)	-0,90	18,23	2.652
NTX (SEE,CE,EE)	-1,30	19,38	1.208
ATX (AT)	-1,51	20,72	3.161
MICEX (RU)	-3,25	-16,18	1.871

\* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

### Top/Flop – CROBEX index

Share	1w %	Price on* 2.6.2017
Petrokemija	5,67	15
Arenaturist	4,17	500
Valamar Riviera	4,13	42
HT	2,95	174
Đuro Đaković Grupa	2,67	34
Atlantska Plov.	2,36	389
Adris Grupa (P)	2,10	470
Ingra	2,01	5
Atlantic Grupa	-0,39	760
Maistra	-0,69	288
Ericsson NT	-0,77	1.290

\* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

Share	1w %	Price on* 2.6.2017
Dalekovod	-1,34	21
Zagrebačka Banka	-1,49	46
Luka Ploče	-1,81	532
Zagrebačka burza	-1,84	16
Viadukt	-2,07	89
OT-Optima T.	-2,22	4
Kraš	-2,91	500
AD Plastik	-4,34	165
Končar EI	-5,53	751
Podravka	-5,60	320
Uljanik Plovidba	-7,14	130

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#### Abbreviations

bp – basis points

CERP – Restructuring and Sale Center

DZS – Croatian Bureau of Statistics

ECB – European Central Bank

EUR – Euro

FED – Federal Reserve System

GDP – Gross Domestic Product

HBOR – Croatian Bank for

Reconstruction and

Development

HNB – Croatian National Bank

IMF – International Monetary Fund

kn, HRK – Kuna

MF – Ministry of Finance

pp – percentage points

Q1, Q2, Q3, Q4 – quarters

RBA – Raiffeisenbank Austria d.d.

s.a. –seasonally adjusted

USD – Dollar

WDA – working day adjusted

yoy – year-on-year

#### Design

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

#### Publisher

Raiffeisenbank Austria d.d. Zagreb

Magazinska cesta 69, 10000 Zagreb

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tel. ++385 1/45 66 466

fax: ++385 1/48 11 626

Publication finished on June 2, 2017

Publication approved by editor on June 5, 2017 at 08:05

First release scheduled for June 5, 2017 at 08:17

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Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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