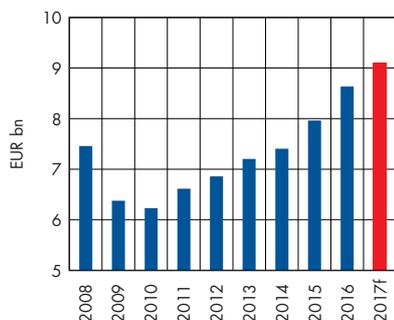


Macroeconomic figures in the shadow of politics and the Agrokor saga

Travel receipts (tourism)



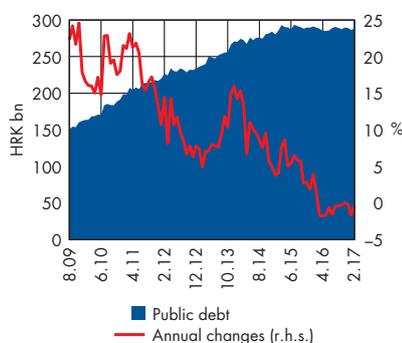
Sources: CNB, Economic RESEARCH/RBA

Gross foreign debt



Sources: CNB, Economic RESEARCH/RBA

Public debt (ESA2010)



Sources: CNB, Economic RESEARCH/RBA

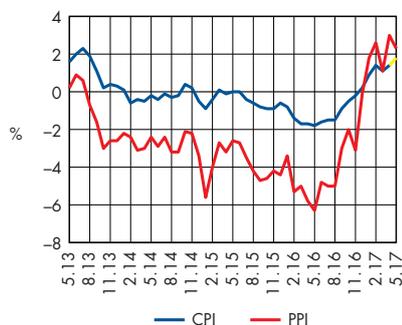
In the week behind us the political story came back into focus. Although it seemed that HDZ would not be able to successfully settle a **coalition reshuffle** and find a new ruling majority in the Parliament (after ejecting MOST from the coalition over a month ago), the HNS Central Committee decided to reject the earlier decision and enter into coalition negotiations with HDZ. The new coalition already agreed to fill the Government with new ministers (in exchange for support HNS received two ministries: the Ministry of Construction and Physical Planning and the Ministry of Science and Education). Later on Friday the Parliament voted on the new ministers, with 78 out of 151 MPs supporting the “new” Government.

Although the Government of PM Plenkovic will survive, we obviously have to grow accustomed to a new political environment in Croatia that could be described as political volatility. Still, this would not be a problem if the business environment was characterized by a strong rule of law. Thus, it is not known how much and to what extent will the Government stability affect the strengthening of institutions and the implementation of all the crucial reforms needed for sustainable growth, development and smooth business.

Meanwhile, in **Agrokor** the Extraordinary Administration was given approval to arrange a new financial agreement in the amount of EUR 480mn, which includes EUR 80mn from the loan approved to Agrokor by domestic banks in April. On top of this amount, additional EUR 50 mn is foreseen for suppliers specifically, as a potential trade credit with refinancing. Reportedly, the facility has super-senior status and provides a roll-up for another EUR 530 mn of old debt (also to be raised to senior). The financing was secured at Euribor + 400bp and matures in July 2018. New financing is supposed to ensure sustenance of ongoing business operations of Agrokor and its operational companies.

In terms of **macroeconomic data**, last week was abundant with new releases. The latest data on **foreign trade** in March pointed to a slight rise in foreign trade activities. In the period from January to March, foreign trade deficit widened to EUR 1.8bn (+3.7%yoy). In the same period, exports growth at 24.6%yoy compared to import growth of 16.3%yoy resulted in coverage of imports by exports at 64.6% (+4.3pp). Recent tourist figures confirmed the expectations of **another excellent tourist season beginning**. According to April preliminary results, both the number of arrivals and the number of overnight stays rose by two-digit rates (42% and 53% respectively). This year again tourism will remain the main driver of healthy economic results, generating additional investments directed at increasing both capacities and quality. The renown of a safe and accessible tourist destination featuring beauties of nature contributes positively to the attractiveness of Croatia, whereas a share of tourist arrivals should be attributed to the instability in the competitive Mediterranean markets of Turkey and North Africa. Therefore, we estimate that 2017 might exceed even some more optimistic forecasts and have a multiplicative effect on the rest of the economy, supporting the rate of economic growth and thus, to a certain extent, neutralize any possible negative impacts.

CPI, PPI*



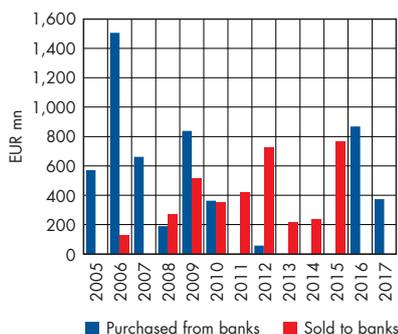
*on domestic market

Sources: CBS, Economic RESEARCH/RBA

The week behind us also brought data on **gross external debt**, which declined to EUR 42bn by the end of February (-5.6%yoy). External vulnerability has continued to fall since the end of 2015, thanks to deleveraging in all sectors, especially financial institutions and the government. Similar trends (reduction in gross external debt) are expected to continue by the end of the year, so with the economy growth the share of gross external debt in GDP will confirm the reduction of the Croatian external vulnerability. In the same observed month total **public debt** rose to HRK 288.5bn (+0.7%mom), primarily thanks to two HRK bond issuances (in total amount of EUR 8.5bn) that surpassed the amount falling due (EUR 5.5bn). At the same time, the positive trend on annual level continued: in February total public debt decreased for the twelfth consecutive month (-0.4%yoy).

Finally, the May **PPI** numbers brought an annual growth rate (+2.3% yoy) thus confirming the return of (imported) inflationary pressures. The latter will surely be confirmed by the upcoming **CPI** figures for May, scheduled for release on Friday.

CNB FX interventions

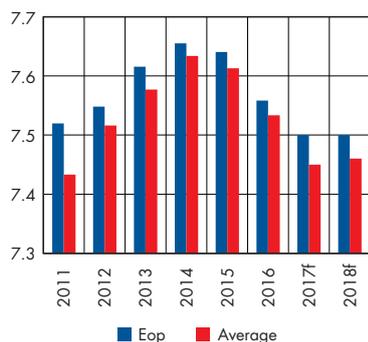


Sources: CNB, Economic RESEARCH/RBA

Turning our attention to the **financial markets** where movements on the FX market were the highlight of the week. After EUR/HRK rate breached the psychological 7.40 kuna per euro level on Monday, the CNB decided to maintain its **FX intervention** aiming at reducing appreciation pressure on the domestic currency by buying EUR 188mn at average rate of 7.416263. This was the first FX intervention this year, by which the CNB sent the signal where it sees EUR/HRK. Very soon EUR/HRK market rate moved back below 7.40 levels, which provoked the CNB to intervene on the FX market once more last week by buying additional EUR 186mn at an average rate of 7.426582. As we have pointed out already, the downward pressures on kuna are expected to continue given the beginning of expected excellent tourist season, robust exports and stronger FCY inflows, higher demand for HRK loans, and improved fiscal and external position. At the same time, the uncertainty around Agrokor, i.e. most probably banks' further write-offs of Agrokor's debt, will continue to affect the EUR/HRK path. However, if the CNB continues with FX interventions in the following period, we see **liquidity surplus** at all-time highs, which might push Croatian LCY short term rates even lower. Furthermore, ample liquidity will also affect yields on the **HRK bonds** yield curve, where we expect to see a downward trend in the upcoming days. Regional developments and market sentiment in the CEE countries continued to influence Croatian Eurobonds, which recorded a further price increase.

Elizabeta Sabolek Resanović

EUR/HRK, mid rate



Sources: CNB, Economic RESEARCH/RBA

New financing for Agrokor

Trading comment

Regular shares' turnover on ZSE amounted to HRK 6 mn on average in a week behind. Excluding the block transaction with shares of **Medora hoteli**, the most traded were shares of **Podravka**, HRK 4.3 mn in total. CROBEX closed the week 0.7% down with **Viadukt** being the best performer. On the other hand, the sharpest drop was seen by shares of **Arena Hospitality Group**. Likewise, the index of construction companies' shares was the winner among sector indices and the shares of tourism sector lost the most. Most of the equity indices in the region had a positive performance on the weekly level headed by ATX.

Company news

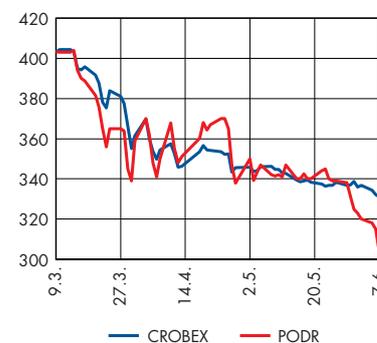
Valamar Riviera informed about the purchase of the right to use the Kinderhotels brand for the Valamar Girandola Maro Resort in Rabac, planned to be opened in season 2018. The proposed dividends of **Kraš** and **HUP-Zagreb** are set at HRK 8 and HRK 16, respectively. **Đuro Đaković grupa** contracted the delivery of wagons worth HRK 75 mn with the buyer from Luxemburg. The representatives of pension funds and UCITS holding a total of 26% of shares of **Ledo** and 2% shares of **Jamnica** proposed the extraordinary commissioner to relieve those companies from guarantees given to Agrokor in order to maximise the the recoverable value of the Agrokor Group through the sale of an individual asset, company or the Group. The member companies of Agrokor Group announced on Thursday that Agrokor has arranged new financing in the amount of EUR 480 mn in which they participate as guarantors/co-debtors. That amount includes the EUR 80 mn loan that was provided to Agrokor by Croatian banks in April, while additional EUR 50 mn is foreseen for suppliers as a potential trade credit with refinancing. Hence, the total credit amount is EUR 1,060 mn, of which the new credit amounts to EUR 530 mn, and the remainder is meant to refinance old debt.

In this week

In this week we expect similar trading dynamics on ZSE to continue.

Ana Turudić

Podravka (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Ericsson NT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
9.6.2017			
ATX (AT)	1.47	22.37	3,204
NTX (SEE,CE,EE)	1.35	21.10	1,225
WIG30 (PL)	1.31	20.25	2,698
SOFIX (BG)	0.80	15.24	676
SASX10 (BH)	0.74	-10.09	621
BUX (HU)	0.69	10.59	35,393
PX (CZ)	0.30	9.47	1,009
SBITOP (SI)	0.15	10.39	792
BELEX15 (RS)	-0.16	0.19	719
MICEX (RU)	-0.54	-16.17	1,872
CROBEX (HR)	-0.73	-7.77	1,840
BETI (RO)	-2.87	20.22	8,518

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*
9.6.2017		
Viadukt	11.81	100
Dalekovod	8.52	22
Đuro Đaković Grupa	5.70	36
Ingra	4.81	5
OT–Optima T.	4.26	4
Atlantska Plov.	4.11	405
AD Plastik	3.02	170
Luka Ploče	2.22	544
Maistra	1.87	293
Valamar Riviera	0.84	42
Petrokemija	0.67	15

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

Share	1w %	Price on*
9.6.2017		
HT	0.60	175
Podravka	0.00	320
Zagrebačka burza	0.00	16
Atlantic Grupa	-0.66	755
Končar EI	-1.46	740
Kraš	-2.00	490
Adris Grupa (P)	-2.17	460
Zagrebačka Banka	-2.38	45
Uljanik Plovidba	-3.85	125
Ericsson NT	-7.14	1,198
Arenaturist	-10.00	450

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Economic Research

Zrinka Živković Matijević, MSc, Head of Department; tel: +385 1/61 74 338, email: zrinka.zivkovic-matijevic@rba.hr
 Elizabeta Sabolek Resanović, Economic Analyst; tel: +385 1/46 95 099, e-mail: elizabeta.sabolek-resanovic@rba.hr

Financial Advisory

Nada Harambašić Nereau, MSc, Financial Analyst; tel.: +385 1/61 74 870, email: nada.harambasic-nereau@rba.hr
 Ana Turudić, Financial Analyst; tel: +385 1/61 74 401, email: ana.turudic@rba.hr

Markets and Investment Banking

Robert Mamić, Executive Director; tel: +385 1/46 95 076, email: robert.mamic@rba.hr

Editor

Zrinka Živković Matijević, MSc, Head of Economic Research

Abbreviations

bp – basis points

CERP – Restructuring and Sale Center

DPS – Dividend per share

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

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www.rba.hr

tel. ++385 1/45 66 466

fax: ++385 1/48 11 626

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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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