Raiffeisen Weekly Report

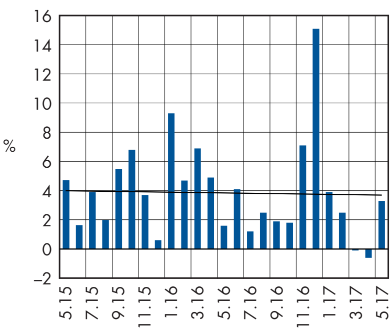
Number 26

July 3rd, 2017

Raiffeisen RESEARCH

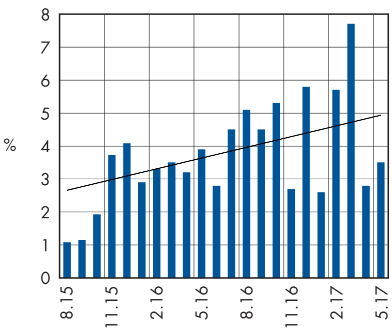
An interesting week

Industrial output, yoy



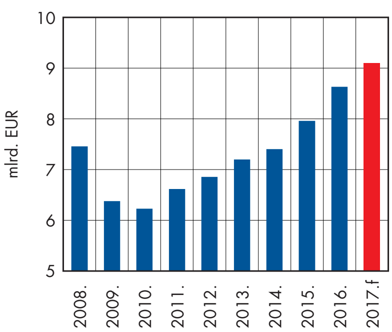
Sources: CBS, Economic RESEARCH/RBA

Retail trade, real changes, yoy



Sources: CBS, Economic RESEARCH/RBA

Travel receipts (tourism)



Sources: CNB, Economic RESEARCH/RBA

The **high-frequency indicators** (retail trade and industrial production) published on Friday point to a stabilization of economic activity in the real sector, at least for now. Namely, after two months of slight decline, in May industrial production delivered a positive annual growth rate (3.3%yoy, WDA indices) thus confirmed the trend of positive rates from Feb 2015. Despite sporadic negative rates the data for the first five months show that industrial production was 1.7% higher than in the same period last year. Further, in May real annual retail trade growth rate went up to 3.5%. With a somewhat faster pace, the 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 very likely that the latest data are probably also related to expectations of one more record tourist season.

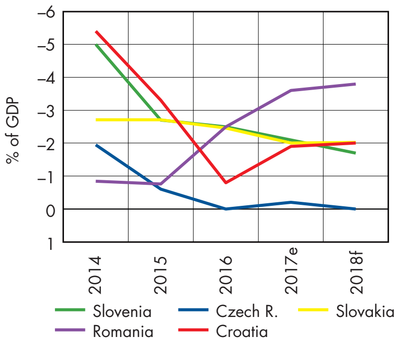
According to the latest CNB data, the **Q1C/A deficit** was EUR 1.5bn, but on a rolling basis (over the last fourth quarters) the C/A balance remained in a relatively huge surplus at 2.7% of GDP. The seasonal deterioration on the current account in the Q1 was mitigated by surplus on the services account (although subdued as tourist season began later this year), improved EU funds inflow, and income from interests.

The MoF delivered Q12017 fiscal statistics. Although **consolidated general government figures** showed mild yearly deterioration, the data are not alarming due the fact that the reduction in government spending in Q1 2016 was conditioned by temporary financing and later by the period in which the technical government was restricted by law regarding the amount and structure of budget expenses. According to the national methodology (based on the so-called monetary principle national methodology which is not fully comparable with the ESA2010), the consolidated general government deficit increased slightly to 2.7% (compared to 2.0% in the same period last year). The 2.4yoy revenue growth was primarily driven by increase of the most generous tax income, VAT while with a 3.9%yoy increase on the expenditure side, contribution to fiscal deficit growth came from an increase in the employee compensation expense and subsidies. Positive impact on the expenditure side came from lower interest expense. In addition to the 5.7% annual interest decline, the primary surplus in the Q1 2017 stood at EUR 1.2bn (1.5% of GDP). However, the continuation of positive economic indicators suggests that revenues should be at least consistent with the planned figures. In terms of 2017 fiscal forecast, we stick to our cautious stance and expect fiscal deficit to deepen this year, mainly due to the increase on the expenditure side. Still, it should remain at levels below 2% of GDP, with the **surplus in primary balance for the third year in a row**.

In the upcoming week the May **PPI** figures will confirm continued subdued inflation rates while tourism readings, after record numbers in April, are expected to show continuation of excellent performance in May as well.

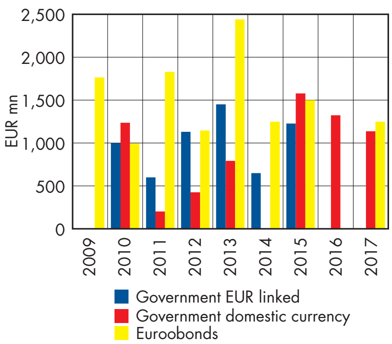
As for the **financial markets**, the local FX market remained relatively calm over the last week. The EUR/HRK market rate hovered around 7.41 kuna per euro

Consolidated General Gov't balance



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

New government bond issues



Sources: MoF, Raiffeisen Research

where we see the trading also this week. However, in addition to the usual seasonal HRK appreciations ahead of the main tourist season and FCY inflows from investments and exports, we do not exclude additional pressure on EUR/HRK. As the central bank remains fully committed to FX stability in the case of stronger HRK appreciation, we should not exclude another FX intervention. The ample excess of daily HRK liquidity and the low-interest rate environment will definitely go in favour of stable yields. The excess liquidity is reflected in the monetary policy operations as again there was no interest in the regular weekly reverse repo auctions from banks. The same outcome is likely this week. On Tuesday the Ministry of Finance issued HRK 646mn in 1-year T-bills. Yields remained unchanged. The next auction is expected at the end of August when 1.151 mn fall due.

As of the bond market, the MoF **pre-announced the planned new 15 year HRK bond indexed to the Euro issuance**. Additional information still lacking. We assume the market has included a "potential" new issuance in their expectations already, so no stronger impact on EUR/HRK market rate is forecast. The secondary bond market remained relatively dull. Still, the focus was on the longer end of the HRK curve. This week we can expect higher trading volumes due to the summer season arrival and the investors repositioning their portfolio before the summer holidays. Once the preannounced new issuance is realized, we do not expect a significant impact on the movements on the secondary market. Finally, last week's increase of core market yields pushed the price of EU bonds toward lower levels as well. Consequently, the Croatian Eurobonds followed the trend and experienced weekly price drops 0.5% wow on average.

Elizabeta Sabolek Resanović

New contract for ĐĐ Grupa

Trading comment

In a week behind us, the average regular stock turnover on the ZSE amounted to HRK 7.7 mn while CROBEX remained almost flat wow. The highest regular turnover was recorded by preferred shares of **Adris Grupa**. Among CROBEX constituents shares of HT performed the best while all sector indices posted negative movements. In the CEE region, stock indices had mainly positive performance.

Company news

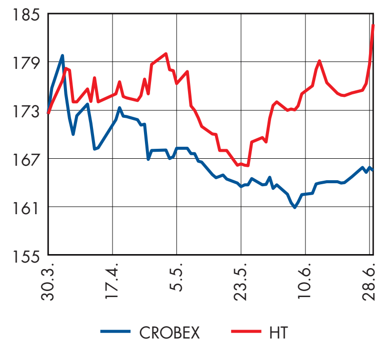
HT launched a share buyback programme that will start on 3 July 2017 and last until 20 April 2021. The maximum of 2.5 mn shares is scheduled for acquisition during the programme for the maximum amount of HRK 500 mn. The company plans to cancel the acquired own shares at the end of each financial year. **Đuro Đaković Grupa** contracted with GEOEN the construction of the geothermal power plant worth HRK 71 mn. The Supervisory Board of **Valamar Rivera** has approved the investments for the 2018 totalling HRK 703.8 mn. The company plans to complete the Girandella Resort in Rabac, to upgrade the quality of Pinia Family Suites and hotel Argosy in Dubrovnik. Furthermore, Valamar continues with investments in premium camping segment. **Luka Rijeka** was granted the co-financing of two projects from the Connecting Europe Facility (CEF). The projects are related to reconstruction and upgrading of the infrastructure in the port basins of Rijeka and Bakar, while their total value is estimated at EUR 39.9 mn. The co-financing was granted in maximum amount of 85% or almost EUR 34 mn.

In this week

We expect continuation of low turnovers also in this week. The share of **Atlantic Grupa** goes ex-dividend on June 5th.

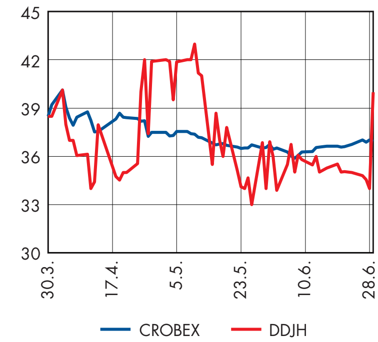
Ana Turudić

HT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

ĐĐ Grupa (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on* 30.6.2017
SASX10 (BH)	2.46	–11.08	614
SOFIX (BG)	2.30	19.96	703
ATX (AT)	1.84	18.94	3,114
BELEX15 (RS)	0.78	–0.84	711
MICEX (RU)	0.77	–15.72	1,882
SBITOP (SI)	0.53	10.98	796
NTX (SEE,CE,EE)	0.29	17.59	1,190
CROBEX (HR)	0.05	–6.48	1,866
WIG30 (PL)	0.05	18.72	2,663
PX (CZ)	–0.21	6.18	979
BUX (HU)	–1.31	9.78	35,133
BETI (RO)	–5.78	11.01	7,865

** as at 16:30 CET.*
Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on* 30.6.2017	Share	1w %	Price on* 30.6.2017
HT	3.15	181	Kraš	–1.08	470
Valamar Riviera	1.69	44	Podravka	–1.44	324
Ericsson NT	1.38	1,247	Ingra	–1.45	5
Atlantska Plov.	1.28	395	Adris Grupa (P)	–2.11	463
Končar El	0.69	730	AD Plastik	–2.14	166
Petrokemija	0.59	14	Dalekovod	–2.17	23
Arenaturist	0.30	472	Uljanik Plovidba	–2.33	126
Luka Ploče	0.00	555	Đuro Đaković Grupa	–2.69	34
Zagrebačka Banka	–0.38	47	OT–Optima T.	–4.75	3
Atlantic Grupa	–0.66	770	Viadukt	–7.24	121
Maistra	–1.03	287	Zagrebačka burza	–10.57	14

** as at 16:30 CET.*
Source: ZSE, Economic RESEARCH/RBA

Raiffeisen RESEARCH

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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
Viktor Viljevac, tel: +385 1/61 74 837, e-mail: viktor.viljevac@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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% all IB services	0%	0%	0%	0%	0%	0%

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