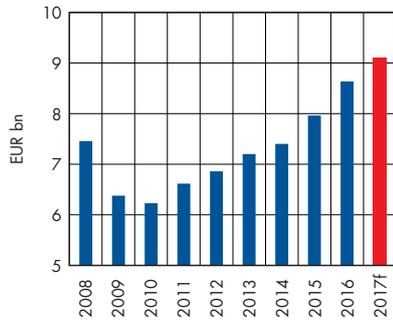


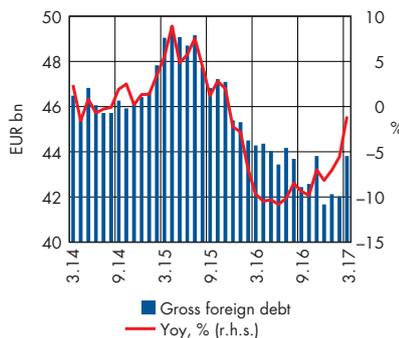
New bond issuance

Travel receipts (tourism)



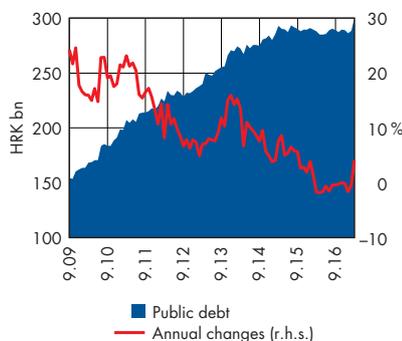
Sources: CBS, Economic RESEARCH/RBA

Gross foreign debt



Sources: CBS, Economic RESEARCH/RBA

Public debt (ESA2010)

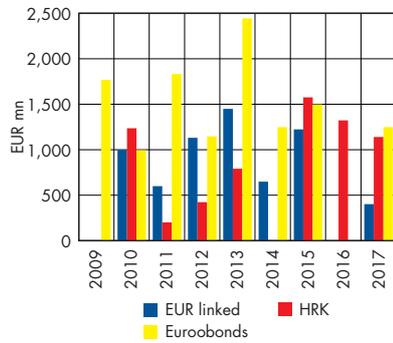


Sources: CNB, Economic RESEARCH/RBA

Recent tourist figures confirmed the expectations of another **excellent tourist season** beginning. In period from Jan to May both the number of arrivals and the number of overnight stays delivered positive growth rates (14.5 and 9.8% respectively). This year again tourism will remain the main driver of healthy economic results, generating additional investments directed at increasing both capacities and quality. Despite somewhat weaker achievements in May 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. The latest data **on foreign trade pointed** to a slight rise in foreign trade activities. In the period from January to April, foreign trade deficit widened to EUR 2.6bn (+4%yoy). In the same period, exports growth at 18.8%yoy compared to imports growth of 12.7%yoy resulted in coverage of imports by exports at 62.4% (+3.2pp). Last week also brought data on **gross external debt**, which declined to EUR 43.8bn by the end of Q1 (-1.1%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. Finally, the June **PPI** numbers brought an annual growth rate at 0.4%.

Turning our attention to **financial market** where the week was marked by the **new local bond issuance**. Croatia took advantage of the favourable conditions, ample liquidity and significantly improved foundations, and taped the primary market with HRK 3 bn new bonds indexed to the Euro. With strong investor interest in the new 15-year bond paper, the yield to maturity was at the low 3.30%. As the Ministry of Finance pre-announced the issuance a week ago, FX development had priced it already. Therefore, no further market impact is expected. On the other side, the new issue will affect total public debt for sure, which by the end of Q1 increased to the level of HRK 300bn, or 86.4% of GDP, mainly driven by higher borrowing on debt capital markets. We see this increase as only temporary, as already in April USD 1.5bn fall due. However, the recent data should not have any particular impact on **Croatia rating assessments** by Fitch and Moody's which, according to the rating calendar, are scheduled for release at the very end of the week. On the other side, although no change is expected on the rating/outlook, it will be interesting to see how the agencies will elaborate in the light of the Agrokor story. We believe that both agencies may mention potential risks to the domestic economy and financial system despite the Croatian state assurances to the contrary. Meanwhile, JP Morgan, Goldman Sachs and VTB will help to arrange a EUR 530 mn super senior loan financing for the embattled Croatian retailer Agrokor, which is likely to be supported by more than 20 lenders. Although not directly relating to sovereign risk profile, the news, nevertheless, should be positive. The local **FX market** remained relatively calm over the last week. The EUR/HRK market rate hovered between 7.40 and 7.42 kuna per euro 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

New government bond issues



Sources: MoF, Economic RESEARCH/RBA

inflows from investments and exports, we do not exclude additional pressure on EUR/HRK might come from the new credit line of Agrokor. The excess liquidity is reflected in the monetary policy operations as well since again there was no interest in the regular weekly reverse repo auctions from banks. The same outcome is likely this week. Finally, last week's increase of core market yields pushed the price of EU bonds toward lower levels as well. Consequently, on the wings of yield growth on the world markets the **Croatian Eurobonds** followed the trend and experienced weekly price drops 0.7% wow on average.

Elizabeta Sabolek Resanović

New contract for AD Plastik

Trading comment

In a week behind us, the average regular stock turnover on the ZSE amounted to only HRK 4 mn while CROBEX added 1.2%. The highest regular turnover was recorded by shares of **Valamar Riviera**, HRK 3.8 mn in total. Among CROBEX constituents shares of **Petrokemija** performed the best after the news that the company has received the letters of intent based on the publicly announced Invitation for indication of interest in recapitalization. Consequently, CROBEXindustrija was the winner among sector indices. On Friday ZSE switched to new trading platform XETRA. In the CEE region, stock indices had mainly positive performance.

Company news

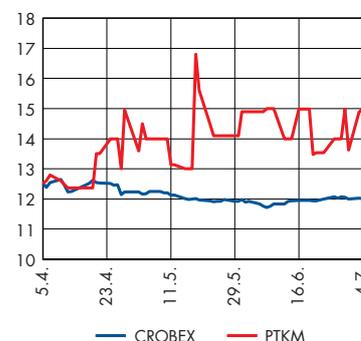
AD Plastik informed about new nomination for the production of exterior components for the new vehicle of Ford. The contract is signed for the 6 year period and is worth EUR 7.8 mn. **Viro T.Š.** informed they (in consortium with Cristal Union from France) have submitted the bid for acquisition of two sugar refineries in Serbia. **Janaf** and **INA** have concluded the agreement for the transportation of crude oil through Janaf's system from the Terminal in Omišalj to the Rijeka Refinery for a three year period. **Luka Rijeka's** throughput of dry cargo in the first six months of 2017 was 35% higher compared to the same period in 2016. Končar announced that Strabag will make up for the eventual damage to Končar, in case the contract for the construction of Hidroelektrana Vranduk would be cancelled. **Dalekovod** is to sign a new contract on Swedish market for the construction of the transmission line Markbygaden Phase 1 long 31 km. The works are worth EUR 7 mn.

In this week

The share of **Končar – elektroindustrija** goes ex-dividend on July 11th and the share of **HUP – Zagreb** on July 13th.

Ana Turudić

Petrokemija (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Viro T.Š. (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
7.7.2017			
BETI (RO)	2.85	14.03	8,079
SASX10 (BH)	2.61	-8.76	630
MICEX (RU)	1.40	-14.64	1,906
CROBEX (HR)	1.23	-5.33	1,872
PX (CZ)	1.06	7.51	991
BUX (HU)	1.01	11.12	35,562
SOFIX (BG)	0.64	20.72	708
SBITOP (SI)	0.63	11.69	801
NTX (SEE,CE,EE)	0.55	17.96	1,194
ATX (AT)	0.50	19.24	3,122
WIG30 (PL)	-0.14	18.57	2,659.90
BELEX15 (RS)	-0.22	-1.06	710

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
7.7.2017					
Petrokemija	23.72	17	HT	0.05	181
Uljanik Plovidba	7.07	135	Kraš	0.00	470
Zagrebačka Banka	4.28	49	Luka Ploče	0.00	555
Maistra	4.18	299	Đuro Đaković Grupa	-0.09	34
Atlantic Grupa	2.39	789	Dalekovod	-0.44	22
Arenaturist	2.16	482	Valamar Riviera	-1.10	44
OT-Optima T.	1.78	3	Adris Grupa (P)	-1.72	455
Končar El	0.57	734	Zagrebačka burza	-2.07	14
AD Plastik	0.41	166	Atlantska Plov.	-2.28	386
Podravka	0.32	325	Ingra	-5.46	5
Ericsson NT	0.08	1,248	Viadukt	-45.87	65

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

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Abbreviations

bp – basis points	HBOR – Croatian Bank for Reconstruction and Development	Q1, Q2, Q3, Q4 – quarters
CERP – Restructuring and Sale Center	HNB – Croatian National Bank	RBA – Raiffeisenbank Austria d.d.
DPS – Dividend per share	IMF – International Monetary Fund	s.a. – seasonally adjusted
DZS – Croatian Bureau of Statistics	kn, HRK – Kuna	USD – Dollar
ECB – European Central Bank	MF – Ministry of Finance	WDA – working day adjusted
EUR – Euro	pp – percentage points	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.

"Sell": for stock with expected negative return by more than -10% over next 12 months.

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% of all recommendations	0%	72%	0%	0%	14%	14%
Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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