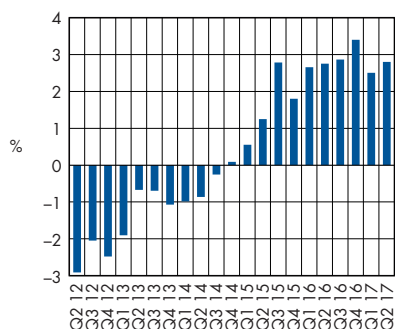


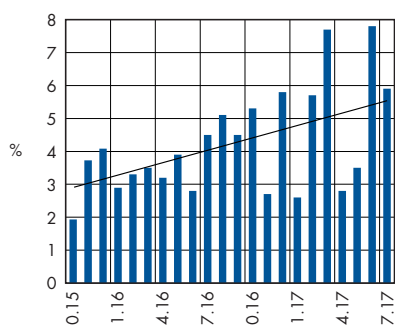
Real Q2 GDP growth rate at 2.8%yoy

GDP real growth rate



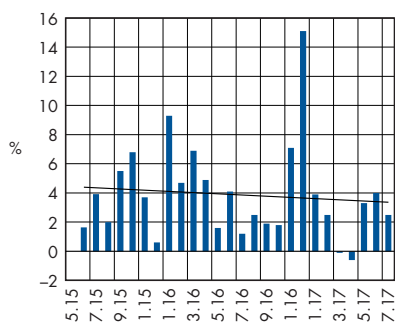
Sources: CBS, Economic RESEARCH/RBA

Retail trade, real changes, yoy



Sources: CBS, Economic RESEARCH/RBA

Industrial production, yoy



Sources: CBS, Economic RESEARCH/RBA

The first Q2 17 GDP estimate reported **continuation of economic growth** at a faster pace with real GDP rising by +2.8%yoy. The positive contribution came from domestic demand (+3.3%) while the contribution of net-foreign demand was negative (-0.5%), as a result of higher real growth rate of imports (4.6%yoy) compared to the exports (3.6%yoy), confirming the relatively high import dependence of the Croatian economy.

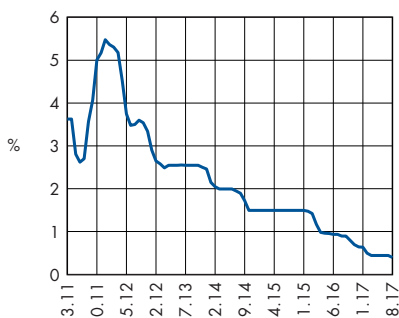
Breakdown by components showed that the largest positive contribution to the GDP volume change came from household consumption with the highest rate since Q1 08 (+3.8%yoy in real terms). Strong household consumption levels are not much of a surprise since high-frequency indicators reported a solid retail trade growth, increasing optimism, improvements in consumer confidence, growth of employment, declining unemployment and an increase in disposable income. One should mention that household consumption growth was not accompanied by an increase in the levels of borrowing and loans, as was the case in the pre-crisis period. Government consumption increased by 1.7%yoy in real terms while GFCF real growth decelerated to 3.2%yoy, possibly because particular companies postponed their investment decisions due to the uncertainty related to Agrokor. On the other hand, positive trends related to the withdrawal of EU funds, recovery of the construction sector and continuous corporate capital investments supported the continuation of positive trends.

Along with the GDP figures, the CBS published the **preliminary retail trade** data which also pointed to a continuation of favorable trends. Namely, in July real annual retail trade went up by 5.9% (7.7% in nominal terms), keeping up the retail trade growth that has been going on since Sep 2014. It seems that suppliers and retail chains displayed a high degree of flexibility and adapted to the newly created conditions related to Agrokor in a relatively short period of time, avoiding the negative influence on retail trade results at least for the time being. Finally, at the very end of the week the CBS delivered the July **industrial output** data. According to the WDA indices, industrial production grew by 2.5%yoy while a 1.1% decline (SA) was recorded on monthly basis. Consequently, in the period from Jan to Jul it rose by 2.5% (WDA) compared to the same period last year.

However, we expect positive trends to continue for both retail trade and GDP volumes. For the whole 2017 we project real GDP to grow at 2.9% supported by domestic demand, mainly household spending and GFCF. We expect net-foreign demand to have a negative influence on the GDP growth rate in 2017. When it comes to the rest of the year, we expect industrial output in 2017 to grow by 2.0% yoy in real terms.

The week ahead should roll out in a positive tone as well. Namely, the final July **tourism results** will surely confirm the expectations of yet another record tourist season with a solid double-digit yoy growth. The August **PPI** release on Thursday is also worth mentioning. Annual growth rate in August might be around 1.5%. We expect energy prices to recover in the continuation of the year (partly also due to the expiration of the effect of administrative cuts in the prices of natural

1Y HRK T-Bills



Sources: MoF, Economic RESEARCH/RBA

gas as of 1 April and partly due to recent announced increase of electricity prices starting from 1st September).

Turning our attention to the **financial markets**: this week's T-Bill auction passed with a strong investors' demand, which pushed yields to the lowest level ever. Namely, the 1Y pure kuna paper was issued at 0.40%, while the EUR paper of the same maturity yielded at 0.01%. In a 6-year period yield on 1Y HRK papers decreased from 5.5% to 0.4%. However, it will be interesting to see further development of MM yields in the upcoming period.

The local financial **FX market** will continue to perform in line with the usual movements: as the tourist season ends and the end of the year approaches, EUR/HRK should trend slightly upwards. However, compared with 2016, the average as well as the end-of-year figure should reach lower levels.

Finally, the local bond market as well as the Croatian Eurobonds will move in line with the regional peers but also benefit from the improved fiscal metrics, solid growth and still extremely accommodative monetary policy.

Elizabeta Sabolek Resanović

Higher liquidity on ZSE

Trading comment

Last week on ZSE was labelled by somewhat increased liquidity, with shares of **Valamar Riviera** in focus with total turnover of HRK 14.4 mn. Regular daily equities' turnover amounted to HRK 6 mn on average. Stock index CROBEX lost 0.2% and closed the week at 1,896 points, while the best performer among member companies was **Viadukt**. CROBEXturst was the winner among sector indices, while industrial sector index lost the most. Majority of equity indices in the region saw mixed performance last week.

Company news

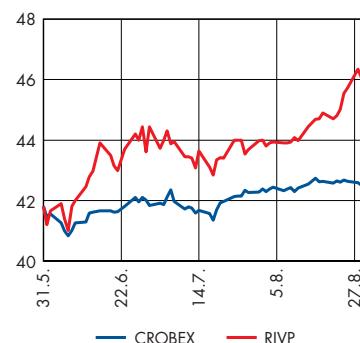
Petrokemija's management proposed the share capital reduction by HRK 343 mn to HRK 42.9 mn in order to cover the company losses. Furthermore, the nominal amount of the ordinary share will be reduced from HRK 30 to HRK 3.33, which is below the minimum nominal value prescribed by the Companies act. Hence, merging of shares will be performed so that 3 ordinary shares will be merged into one share of HRK 10 nominal value each. For the purpose of rounding up the nominal value of the share to HRK 10, the remainder of HRK 3.92 mn remaining after covering the total loss of the company shall be transferred to the capital reserves. **Uljanik** informed on the contract signed with Nexans Subsea Operations AS from Norway related to construction of the cable laying vessel (CLV 10,000). Total length of the vessel is 149.9 m and the width 31 m. The delivery deadline is 34 months from the contract coming into force.

In this week

The share of **Janaf** goes ex-dividend on Monday, September 4th.

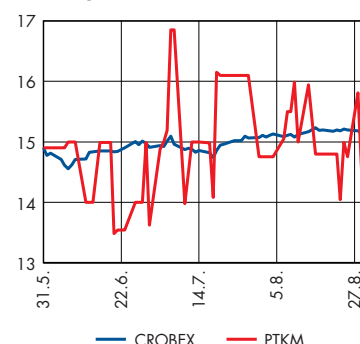
Ana Turudić

Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Petrokemija (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
1.9.2017			
WIG30 (PL)	1.99	29.68	2909.00
MICEX (RU)	1.51	-10.02	2,009
NTX (SEE,CE,EE)	0.87	25.19	1,267
ATX (AT)	0.74	24.32	3,255
SASX10 (BH)	0.41	-8.75	630
BELEX15 (RS)	0.08	1.02	725
CROBEX (HR)	-0.23	-4.91	1,897
SOFIX (BG)	-0.52	21.12	710
BUX (HU)	-0.67	17.98	37,756
PX (CZ)	-1.29	11.02	1,023
SBITOP (SI)	-1.49	13.51	815
BETI (RO)	-3.49	14.13	8,086

* as at 16:00 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*
1.9.2017		
Viadukt	11.17	27
Maistra	6.69	333
Valamar Riviera	3.78	47
Podravka	1.60	318
Arenaturist	1.01	490
Atlantic Grupa	0.24	814
Uljanik Plovidba	-0.02	170
Dalekovod	-0.19	21
Ingra	-0.45	4
Adris Grupa (P)	-0.55	454
Zagrebačka Banka	-0.76	53

* as at 16:00 CET.

Source: ZSE, Economic RESEARCH/RBA

Share	1w %	Price on*
1.9.2017		
HT	-1.10	179
Ericsson NT	-1.23	1,200
Kraš	-1.32	450
Petrokemija	-1.69	15
Luka Ploče	-1.92	510
Zagrebačka burza	-2.07	14
Končar EI	-2.67	730
Đuro Đaković Grupa	-3.44	29
AD Plastik	-3.76	164
OT-Optima T.	-4.61	3
Atlantska Plov.	-6.78	405

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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		RBA – Raiffeisenbank Austria d.d.
DPS – Dividend per share		s.a. – seasonally adjusted
DZS – Croatian Bureau of Statistics	HNB – Croatian National Bank	USD – Dollar
ECB – European Central Bank	IMF – International Monetary Fund	WDA – working day adjusted
EUR – Euro	kn, HRK – Kuna	yoy – year-on-year
FED – Federal Reserve System	MF – Ministry of Finance	
GDP – Gross Domestic Product	pp – percentage points	

Design

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

Publisher

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Magazinska cesta 69, 10000 Zagreb
www.rba.hr
tel. ++385 1/45 66 466
fax: ++385 1/48 11 626

Publication finished on September 1, 2017

Publication approved by editor on September 4, 2017 at 8:05

First release scheduled for September 4, 2017 at 8:17

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