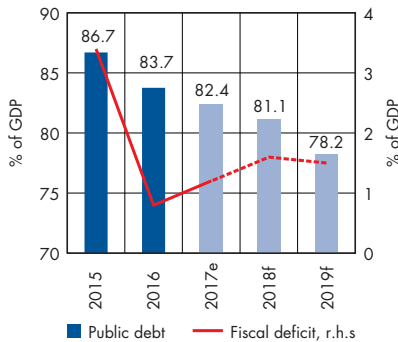


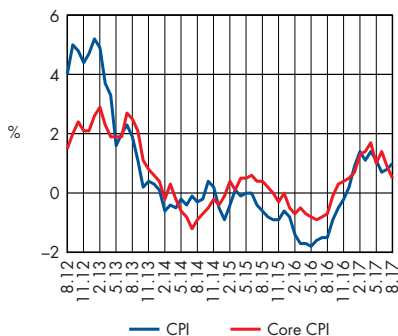
Subdued inflation, budget surplus in H1

Fiscal projection



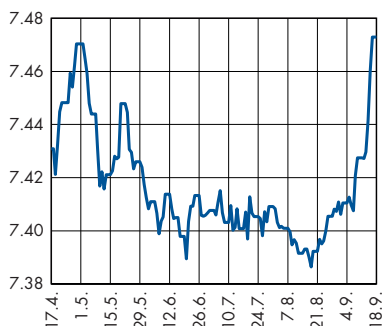
Sources: Government of Croatia, Economic RESEARCH/RBA

CPI, real changes, yoy



Sources: CBS, Economic RESEARCH/RBA

EUR/HRK, mid rate



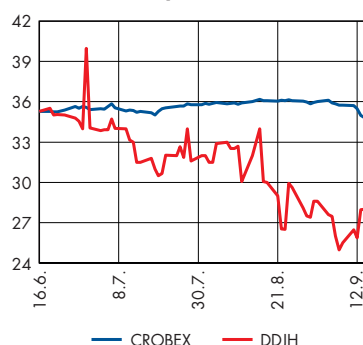
Sources: CBS, Economic RESEARCH/RBA

The Croatian Finance Minister, Mr Z. Marić reported that the **budget deficit in H1** was HRK 1.6 bn (0.4% of projected GDP) while on the general government level (which, besides budget, includes extra budgetary funds and local self-government units) total surplus amounted to HRK 35mn. With the 3.5% increase of budget revenues in H1 and 2% higher budget expenditures, the Government expect an even better result for the whole 2017 than the previously estimated 1.3%. This would drop public debt share in GDP down to 81.1% (2.5pp less that at the end of 2016). Such a movement might be very welcomed at the very end of the week when the **S&P Global Ratings** has Croatia on its calendar. Although we expect no changes, Croatia may win positive wording on state finances and debt reduction but high debt burden may still work against outlook upgrade. When we talk about rating upgrade – this step, above all, definitely depends on the Government's ability to convince the rating agency in its ability to implement the much anticipated reforms while all the risks related to the situation with Agrokor remain the main obstacle. In term of **macroeconomic data**, on Friday the CBS delivered the CPI figures. In line with our expectations, the August annual **inflation rate** stood at 1%. Although wages and employment have been rising since the beginning of the year, there is no evidence of demand-pull inflation. On the contrary, inflationary pressures are mainly driven by supply side, especially by food prices (which grew 3.1%yoy in August). As the Government-supported administrative reimbursement of renewable energy sources increases (starting from 1st September), the prices will definitely find support in rising electricity prices. Still, the average inflation rate for 2017 is expected to remain slightly above 1 % yoy. The focus of the upcoming week is on the **labour market data** that are expected to improve further. Since February nominal net wages have risen more than 5% and a similar trend may be expected in the upcoming months as well. Besides a solid growth in wages (widely supported by tax relief since the beginning of the year), we expect the August registered unemployment rate to remain near current level. The ILO figures for Q22017 are supposed to confirm also the reduction of unemployment. However, we assume that less than half the unemployment reduction was driven by job creation, while the remaining share was due to a further contraction of the labour force partially on account of adverse demographic dynamics and net migration outflows. As these trends are expected to continue, reversing the current trend in the labour force will be one of the main challenges to Croatia in the years ahead. On the **financial markets** depreciation pressures on the domestic currency continued with the EUR/HRK market rate moved closer to 7.50 kuna per euro level. The local financial FX market will continue to perform in line with the usual movements: as the main tourist season ended and the end of the year approaches, EUR/HRK should trend slightly upwards. As of **bond market**, abundant liquidity and higher investors demand (especially for pure kuna papers on the longer end of the yield curve) with simultaneous lack of debt papers supported further decrease in yields on the local bond market. Same pattern we expect in the upcoming days. Therefore, the local bond issuance planned for the Q4 should, at least partially, satisfy the institutional investors' hunger for new local issuance.

Elizabeta Sabolek Resanović

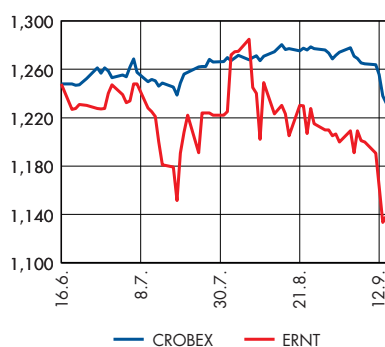
Crni čelik to invest in ĐĐ Grupa

Đuro Đaković Grupa (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Ericsson NT (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Pessimistic sentiment on ZSE continued also in last week and CROBEX went down 3.3% w/w. Regular daily equities' turnover was considerably higher and amounted to HRK 13 mn on average. The most traded share was preferred share of **Adris**. The best performer among CROBEX member companies was Đuro Đaković Grupa, while the strongest decline was again posted by **Viadukt**. Majority of equity indices in the region saw positive performance last week.

Company news

Đuro Đaković Grupa notified that they have received a binding offer for investment from the company Crni čelik d.o.o. in the amount of HRK 250 mn. Crni čelik makes the offer conditional on three decisions of the General Assembly: 1) new shares should be issued at the price of HRK 20 per share, with the exclusion of priority rights from the existing shareholders; 2) the acquisition of shares by Crni čelik should be performed without the obligation to announce the takeover bid for the remaining shares and 3) four out of seven Supervisory Board members should be elected by Crni čelik. **Ericsson Nikola Tesla** announced the continuation of the cooperation with Vipnet on modernization and expansion of its radio access network. The value of the works is not disclosed.

In this week

The Index Committee of ZSE has concluded a regular revision of the CROBEX index. **Maistra**, **Petrokemija** and **Zagrebačka burza** have not met the conditions to stay in index, while **Institut IGH** enters the index. The calculation of CROBEX index with new composition will start on September 18, 2017.

Ana Turudić

Market performance

| Index | 1w % | ytd % | Value on* |
|-----------------|-------|-------|-----------|
| | | | 15.9.2017 |
| PX (CZ) | 2.70 | 13.79 | 1,049 |
| BETI (RO) | 2.65 | 13.91 | 8,070 |
| BUX (HU) | 2.02 | 19.85 | 38,357 |
| MICEX (RU) | 1.32 | -7.76 | 2,060 |
| ATX (AT) | 1.09 | 24.71 | 3,266 |
| NTX (SEE,CE,EE) | 0.90 | 24.68 | 1,262 |
| WIG30 (PL) | 0.65 | 28.55 | 2,884 |
| BELEX15 (RS) | 0.38 | 1.77 | 730 |
| SASX10 (BH) | -1.29 | -8.80 | 630 |
| SBITOP (SI) | -1.38 | 11.60 | 801 |
| CROBEX (HR) | -3.26 | -8.69 | 1,821 |
| SOFIX (BG) | -3.50 | 16.10 | 681 |

* as at 16:00 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

| Share | 1w % | Price on* | Share | 1w % | Price on* |
|--------------------|-------|-----------|------------------|--------|-----------|
| | | | | | |
| | | | | | 15.9.2017 |
| Đuro Đaković Grupa | 6.59 | 27 | Podravka | -3.55 | 299 |
| Ingra | 1.16 | 4 | AD Plastik | -3.93 | 160 |
| HT | 0.23 | 176 | Dalekovod | -4.21 | 21 |
| Kraš | 0.00 | 444 | Atlantska Plov. | -4.25 | 417 |
| OT–Optima T. | 0.00 | 3 | Adris Grupa (P) | -4.27 | 430 |
| Uljanik Plovidba | -0.66 | 166 | Maistra | -4.70 | 320 |
| Atlantic Grupa | -0.74 | 799 | Valamar Riviera | -6.40 | 44 |
| Arenaturist | -1.11 | 480 | Ericsson NT | -7.42 | 1,111 |
| Končar El | -1.37 | 720 | Zagrebačka Banka | -8.60 | 48 |
| Luka Ploče | -1.92 | 510 | Zagrebačka burza | -9.93 | 13 |
| Petrokemija | -3.41 | 9 | Viadukt | -11.11 | 16 |

* as at 16:00 CET.

Source: ZSE, Economic RESEARCH/RBA

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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 | 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.

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