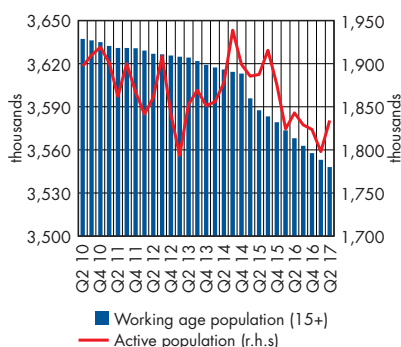


Croatia – Credit rating

Agencija	Foreign Currency	
	Long Term Rating	Outlook
Fitch Ratings	BB	Stable
Moody's	Ba2	Stable
Standard&Poor's	BB	Positive

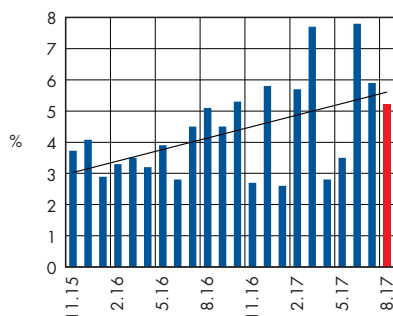
Sources: CNB, Economic RESEARCH/RBA

Labour force (ILO)



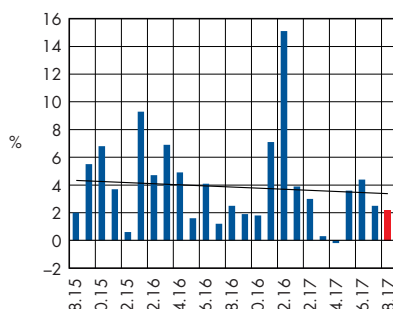
Sources: CNB, Economic RESEARCH/RBA

Retail trade, yoy



Sources: CBS, Economic RESEARCH/RBA

Industrial production, yoy



Sources: CBS, Economic RESEARCH/RBA

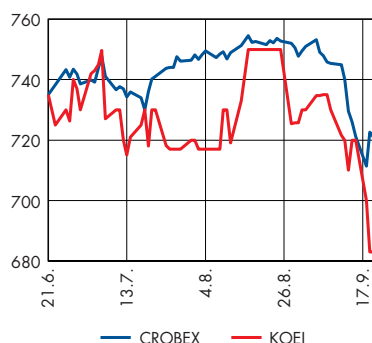
Outlook revised to positive, rating unchanged

The August registered unemployment rate remained slightly below 11% while the ILO figures confirmed the reduction of unemployment in Q2 but also pointed to further decline of the working age population. As we already stated several times 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. Finally, in July nominal net wages recorded a continuation of positive annual growth rate, widely supported by tax relief since the beginning of the year. The **upcoming week** is abundant in macroeconomic data. On Friday the CBS has **Retail trade and Industrial Production** figures for August on the agenda. It will be interesting to see how some high frequency indicators develop in Q317. We expect to see relatively strong figures i.e. the continuation of the positive cycle amidst excellent tourist season data and improved business and consumer optimism. Therefore, the real growth of retail at 5.2%yoy would not be a surprise, while the industrial production might reach 2.2%yoy. Additionally, at the very end of the week the CNB will, beside the complete monetary statistics for July, announce the preliminary **Q2 C/A** numbers. For the second year in a row we expect healthy surplus on the current account of the balance of payment mainly driven by positive movements in the service accounts. Namely, a stronger growth in income from travel (tourism) in Q2 is expected due to Easter holidays falling later this year and later start of the tourist season. On the 2017 level, we expect the current account surplus to reach 3.7% of GDP. Nevertheless, it is noteworthy that this projection includes the influence of bank provisions (1.3 pp), which contribute to the surplus. Positive developments in the balance of payments will be a consequence of improvements in the services accounts (good tourist season), better utilisation of EU funds, lower costs of (re)financing of external debt and more favourable developments in Croatia's foreign trade. As of **financial markets**, on the FX market depreciation pressures on the domestic currency continued with the EUR/HRK market rate moving closer to the 7.50 kuna per euro level. Similar FX movements might be expected over the next weeks. The **local bond market** as well as the Croatian Eurobonds will move in line with the regional peers but will also benefit from the improved fiscal metrics, solid growth and still extremely accommodative monetary policy. Finally, later on Friday the **S&P Global Ratings** revised the **sovereign credit rating outlook of Croatia to positive** and affirmed the long-term rating at BB. As we expected and mentioned last week Croatia has won a positive wording on continued economy growth, improved fiscal metrics and debt reduction. S&P estimates this year GDP growth at 3 percent, backed by strong domestic demand and strong exports, which will help the Government to maintain a stronger budget position and continue to reduce still significant debt burden. However, the main downside risk remains Agrokor. When it's about rating – if economic recovery remains on track and the Government continues to show ability and willingness to implement structural reforms and stick to its fiscal consolidation agenda – Croatia might expect rating upgrade as well.

Elizabeta Sabolek Resanović

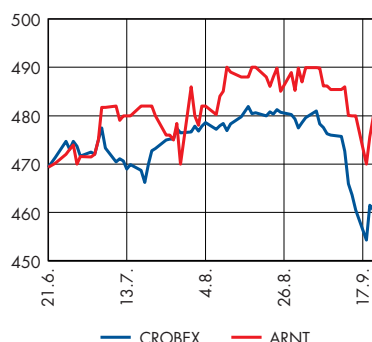
Đuro Đaković Grupa the best performer

Končar Elektroindustrija (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Arena Hospitality Group (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Last week CROBEX ended the negative trend and gained 0.4% wow. Regular daily equities' turnover was somewhat lower and amounted to HRK 7 mn on average. The most traded share was **Valamar Riviera**. By far the best performer among CROBEX member companies was **Đuro Đaković Grupa**, while the strongest decline was posted by **Institut IGH**. Equity indices in the region saw mostly negative performance last week.

Company news

Shares of **Končar Elektroindustrija** lost 2.7% last week after the media speculations that Končar will take the role of leader of the consortium on the construction of hydroelectric power plant Vranduk near Zenica, after Elektroprivreda BiH terminated the contract with Austrian Strabag. **Ingra** informed that its business accounts are frozen, due to receivables claim of the creditor that did not take part in the prebankruptcy procedure.

In this week

Index Committee of Zagreb Stock Exchange performed the revision of the CROBEX10 index. Starting from the September 25, 2017 the shares of **Arena Hospitality Group** enter the index.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on*
22.9.2017			
ATX (AT)	0.97	25.99	3,299
CROBEX (HR)	0.44	-8.29	1,829
MICEX (RU)	0.00	-8.01	2,054
SBITOP (SI)	-0.17	11.40	799
NTX (SEE,CE,EE)	-0.23	24.28	1,257
SOFIX (BG)	-0.32	15.73	679
PX (CZ)	-0.51	13.46	1,046
BELEX15 (RS)	-0.67	1.09	725
BUX (HU)	-0.69	18.93	38,060
WIG30 (PL)	-0.82	27.19	2,853
SASX10 (BH)	-0.94	-9.66	624
BETI (RO)	-1.97	10.87	7,855

* as at 16:00 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
22.9.2017					
Đuro Đaković Grupa	30.21	35	AD Plastik	0.63	161
Viadukt	12.50	18	Kraš	0.00	444
Dalekovod	7.07	22	Ericsson NT	-0.45	1,106
Zagrebačka Banka	5.47	51	Podravka	-0.57	297
OT-Optima T.	3.57	3	Atlantska Plov.	-1.56	410
Luka Ploče	1.96	520	Arenaturist	-1.66	472
Adris Grupa (P)	1.72	437	Končar EI	-2.71	701
Valamar Riviera	1.30	44	Ingra	-5.75	4
HT	1.13	178	Uljanik Plovidba	-7.27	153
Atlantic Grupa	0.87	806	Institut IGH	-11.99	240

* as at 16:00 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		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	

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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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