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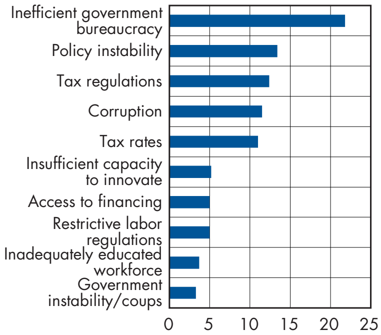
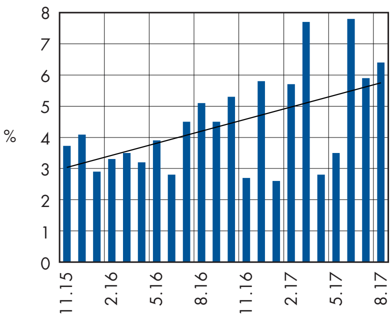
Growth continues, along with old obstacles to strengthen the competitiveness

The most problematic factors for doing business in Croatia



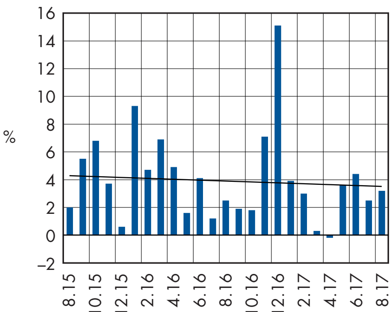
Sources: WEF: Global Competitiveness Report 2017–2018, Economic RESEARCH/RBA

Retail trade, yoy



Sources: CBS, Economic RESEARCH/RBA

Industrial production, yoy



Sources: CBS, Economic RESEARCH/RBA

The highlight of the last week was the most recent results of the "**Global Competitiveness Report, 2017–2018**". In this year's report Croatia remained at the 74th place (out of 137), and is stagnating with the grade of 4.19. The latter is, above all, a consequence of the still slow implementation of structural reforms that are critical for long-term, sustainable economic development. Furthermore, the areas in which intensive reforms are required have become even clearer, especially in the factors of institutions, in which Croatia's ranking fell by 13 places. On the other side, this year's results showed improvements in the grades for macroeconomic environment and health and primary education. The latest Report confirmed, once more, the need to continue and accelerate the key reforms in order to create a stimulating investment environment, thereby creating new jobs and raising living standards. Apart from the ability and adaptability of the private sector, changes will largely depend on the government's measures aimed at removing the most problematic factors for business activities in Croatia. According to the last Report, these relate predominantly to the public sector and include low efficiency of public administration, taxation burden, unstable policies, tax regulations, corruption, etc.

On Friday the CBS published the preliminary **retail trade and industrial output** data, which pointed to a continuation of favorable trends. Namely, in August real annual retail trade went up by 6.4% (8.5% in nominal terms), keeping up the retail trade growth that has been going on since Sep 2014. The favorable trend in merchandise was supported by a record tourist season, strong consumer optimism, rising employment prospects, as well as the alleviation of the tax burden. On the other hand, 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 any negative influence on retail trade results, at least for the time being. According to the WDA indices, industrial production grew by 3.2%yoy while a 0.3% increase (SA) was recorded on monthly basis. Consequently, in the period from Jan to Aug it rose by 2.6% (WDA) compared to the same period last year. We expect positive trends to continue for both retail trade and industrial output figures.

In the upcoming week there are no important macroeconomic releases on the agenda.

As of **financial markets**, on the FX market depreciation pressures on the domestic currency continued with the EUR/HRK market rate shortly jumping over the 7.50 kuna per euro level. Similar FX movements, without any significant excitements, might be expected over the next week, with the EUR/HRK trading range slightly shifting from 7.48 to 7.52 kuna per euro level. 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, recent outlook upgrade and still extremely accommodative monetary policy.

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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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Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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