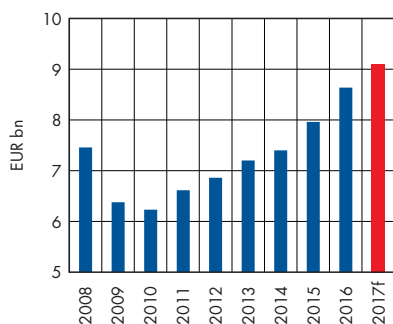


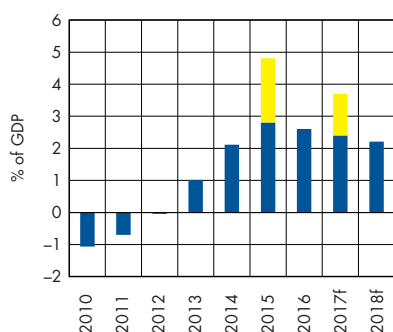
C/A surplus and improved debt indicators

Travel receipts (tourism)



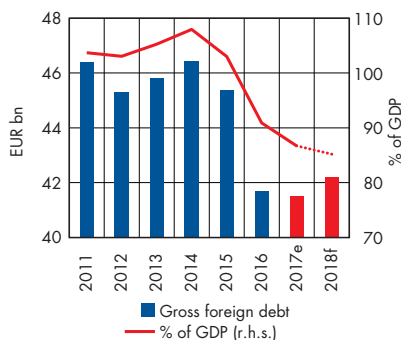
Sources: CNB, Economic RESEARCH/RBA

C/A balance (% GDP)



*yellow represents the effect of the CHF conversion in 2014, and Agrokor impact in 2017.
Sources: CNB, Economic RESEARCH/RBA

Gross foreign debt



Sources: CNB, Economic RESEARCH/RBA

Recent data confirmed further lowering of Croatia's external vulnerability. Namely, **total public debt** at the end of Q22017 slid to HRK 287.3bn or 81.9% of GDP (-1.8pp ytd). The fall in the public debt since the beginning of the year is a consequence of very favourable developments in the budget, which recorded a slight surplus in H12017, but also a result of the continued economic growth. Regardless of the relative improvements in the public debt trends, the high cost of debt servicing will put pressure on the public finances in the next period as well. However, in the conditions of economic growth and robust budget revenues the general budget deficit in 2017 could be lower than initial projections, reaching about one percent of GDP. Consequently, Croatia should, with a solid primary surplus, record a further fall in the public debt to GDP ratio. In the same period, domestic sector deleveraging (primarily driven by government and other sectors) together with improved GDP outcome lead to further **gross foreign debt decrease**, additionally supported by favourable exchange rate development. At the end of Q22017 total gross external debt dropped to EUR 40.4bn or 86.1% of GDP (-4.8pp ytd). Finally, in Q2, the **current account** showed a higher EUR144m surplus strongly driven by solid performance in the tourist pre-season. Favorable developments (especially on the service account) are expected to continue, widely supported by rising receipts from tourism but also from higher EU funds. The four-quarter cumulative C/A surplus stood at 2.6% of GDP. Including capital account the surplus stood at 3.6% of GDP at the end of the second quarter of 2017. On the 2017 level, we expect the C/A 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.

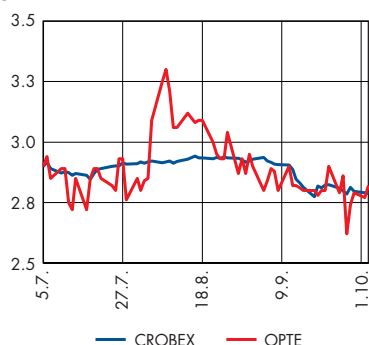
The week ahead should roll out in a positive tone. Namely, the final **tourism** results for August will surely confirm the expectations of yet another record tourist season with a solid yoy growth. The PPI release on Tuesday is also worth mentioning. Annual growth rate in September might be around 2.5%. 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 gas as of 1 April and partly due to recent announced increase of electricity prices starting from 1st September).

Domestic **financial markets** remained calm, with almost no movements. EUR/HRK continued hovering around 7.50 kuna per euro level while MM rates, on balance, virtually not moved at all. As the year approaches its end, the usual seasonal HRK weakening can be expected. Due to the prolonged tourist season, solid recovery, improved fiscal metrics, and decreasing external vulnerability, the depreciation pressure could be of lower intensity. Still, the direction of the coming EUR/HRK movements is unquestionable.

Elizabeta Sabolek Resanović

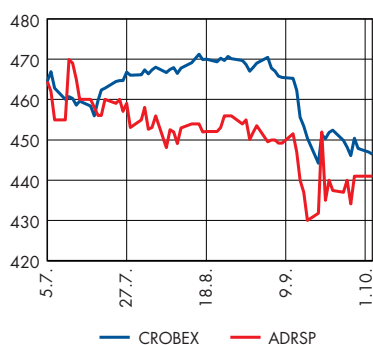
The 2016 audited reports of Agrokor Group companies released

Optima Telekom (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Adris Grupa (P) (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Last week CROBEX closed the week 0.1% wow up. Regular daily equities' turnover was somewhat lower and amounted to HRK 4 mn on average. The most traded share was **Hrvatski Telekom**. The best performer among CROBEX member companies was **Optima Telekom**, while transportation sector index posted the strongest growth among sector indices. Equity indices in the region saw mostly positive performance last week.

Company news

Agrokor's member companies published the 2016 audited reports. The main feature is the 50% haircut of the receivables from associated companies. Operating result of **Jamnica** amounted to HRK -310.7 mn in 2016, while operating profit adjusted for one-off impairment of receivables from associated companies amounted to HRK 306.1 mn and is 17% yoy up. In case of **Ledo**, operating result stood at HRK 157.6 mn while the normalized operating profit was HRK 404.7m (8.1% up from 2015). **Adris Group** and **Croatia Osiguranje** informed on financial regulator's decision to approve the acquisition of a qualifying stake of more than 50% of voting rights and the share capital of BNP Paribas Cardif Insurance.

In this week

The announcement of consolidated audited reports for Agrokor Group is scheduled for Monday which should provide some guidance to investors on ZSE.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on*
6.10.2017			
BUX (HU)	1.79	18.61	37,958
PX (CZ)	1.45	15.05	1,060
BETI (RO)	1.20	12.52	7,972
NTX (SEE,CE,EE)	1.15	24.84	1,263
ATX (AT)	0.94	27.83	3,347
MICEX (RU)	0.80	-6.22	2,094
BELEX15 (RS)	0.74	1.21	726
SASX10 (BH)	0.53	-8.72	630
SBITOP (SI)	0.40	11.45	800
WIG30 (PL)	0.25	27.32	2,856
CROBEX (HR)	0.12	-9.10	1,813
SOFIX (BG)	-1.25	15.87	680

* as at 16:00 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
6.10.2017			6.10.2017		
OT-Optima T.	6.09	3	Institut IGH	0.78	257
Atlantska Plov.	5.06	430	Arenaturist	0.78	467
Đuro Đaković Grupa	5.03	36	Kraš	0.00	440
Uljanik Plovidba	3.66	142	AD Plastik	-0.06	162
Adris Grupa (P)	2.53	445	Dalekovod	-0.64	20
Ingra	2.39	4	Podravka	-1.02	294
Luka Ploče	2.00	510	HT	-1.14	174
Zagrebačka Banka	2.00	51	Ericsson NT	-1.84	1,120
Valamar Riviera	1.13	44	Končar EI	-4.33	665
Atlantic Grupa	0.99	810	Viadukt	-7.61	9

* 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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"Hold": for stocks for which we expect a positive return up to 10% (up to 15% for stocks with high volatility risk) over next 12 months.

"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.

Target prices are based on calculated fair value which is derived by applying relative valuation tools (peer group analysis) or discounted cash flow DCF method. Detailed information on specific valuation methods applied is available at: <https://www.rcb.at/en/the-bank/business-segments/cr/concept-and-methods/>

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% all IB services	0%	0%	0%	0%	0%	0%

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