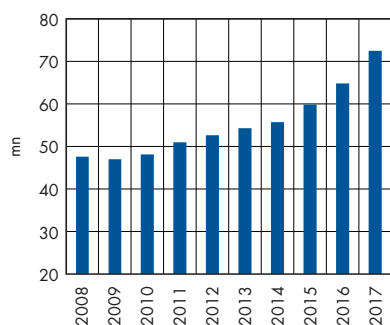


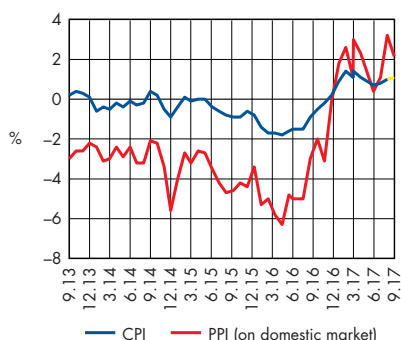
Leaning on exports, the economy is growing

**Number of overnights stays
(Jan–Aug)**



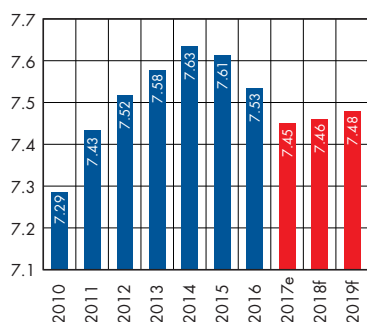
Sources: CBS, Economic RESEARCH/RBA

CPI, PPI, yoy



Sources: CNB, Economic RESEARCH/RBA

EUR/HRK average rate



Sources: CNB, Economic RESEARCH/RBA

On Tuesday the national statistical office delivered **tourism figures for August** which showed expected growth of tourist arrivals and overnight stays (6.1%yoy and 5.4%yoy respectively). The share of foreign tourists in the overnight stays amounted 94.4%. Cumulatively, during the first eight months, the number of overnight stays was 72.5 million (+11.8% more than in the same period last year). For the whole 2016 total number of overnight stays stood at 77.8mn. It is very certain that, with data for September, this year will officially be a new record tourist season. Although the strength of tourism helped Croatia remain on the path of 3%yoy real growth, it also increased the sensitivity to potential downturns in tourism. As long as Croatia is perceived as a safe destination, it will retain its attractive destination status. Under such circumstances, the budget picture will look more favourable due to the stronger revenue inflow, especially VAT.

On the other side **foreign trade activities** in terms of import and export of goods remained subdued although the latest data pointed to a slight rise. In the period from January to July, foreign trade deficit widened to EUR 4.9bn (+9.3%yoy). In the same period, exports growth at 15.7%yoy compared to imports growth of 13.2%yoy resulted in coverage of imports by exports at 61.7% (+1.4pp).

After Sep **PPI** figures confirmed modest growth rate (2.1%yoy), the upcoming week is reserved for September **CPI data**. Annual inflation growth is expected to remain around 1%. The rise in average monthly inflation rates (and consequently annually) will be affected by the announced administrative increase of electricity prices starting from 1st September. However, on annual level, inflation remains moderate and mainly driven by supply side, especially by food prices.

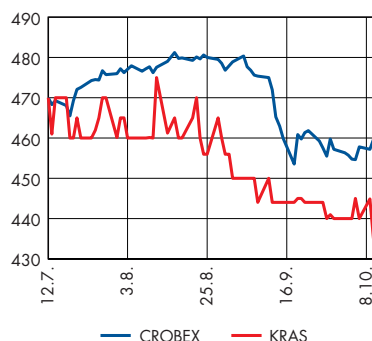
Labor market data are on the agenda at the very end of the week. Since February nominal net wages have risen more than 5% and a similar trend may be expected in the upcoming months as well. Besides a solid growth in wages (widely supported by tax relief since the beginning of the year), we expect the September registered unemployment rate to remain near current level.

On the domestic **financial markets** the kuna depreciated further and jumped just above 7.51 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 but the direction of the coming EUR/HRK movements remain unquestionable. As of bond market, abundant liquidity with simultaneous lack of debt papers continues to support low yields environment. 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

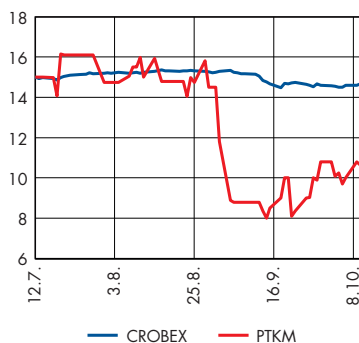
CROBEX strengthened 2.7%

Kraš (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Petrokemija (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Announcement of the audited reports for 2016 for Agrokor Group did not affect trading on ZSE where weak investors' activity was continued with average daily regular turnover of HRK 4 mn. CROBEX went up 2.7% and closed the week at 1,862.04 points headed by share of **Viadukt**. Among sector indices CROBEX-industrija was the winner, whereas construction sector index had the weakest performance, mainly due to decline of shares of **Institut IGH** and **Ingra**. Equity indices in the region saw mixed performance last week.

Company news

Kraš informed that total receivables from Agrokor group as of April 9th, 2017, i.e. until beginning of the Extraordinary management procedure amounted to HRK 27 mn. Part was already collected while remainder is up to the outcome of the settlement. The shareholders of **Petrokemija** on AGM held on Wednesday decided on simplified reduction of share capital by merging of shares and amendment of the Articles of Association.

In this week

In this week we expect continuation of similar trading dynamics on ZSE with likely positioning of investors ahead of the reporting season.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on*
13.10.2017			
NTX (SEE,CE,EE)	2.70	27.94	1,295
CROBEX (HR)	2.69	-6.66	1,862
BUX (HU)	2.43	21.43	38,863
SBITOP (SI)	2.13	13.82	817
WIG30 (PL)	2.07	30.17	2,920
ATX (AT)	1.39	28.73	3,371
BETI (RO)	0.50	13.25	8,024
BELEX15 (RS)	0.16	1.38	727
MICEX (RU)	0.01	-6.21	2,094
PX (CZ)	-0.42	14.32	1,054
SASX10 (BH)	-1.29	-9.89	622
SOFIX (BG)	-1.52	14.11	669

* as at 16:00 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
13.10.2017			13.10.2017		
Viadukt	11.76	10	Končar EI	2.27	675
Đuro Đaković Grupa	9.24	39	Adris Grupa (P)	1.12	450
Podravka	6.98	314	HT	0.57	175
Uljanik Plovidba	6.75	150	Arenaturist	0.33	468
Ericsson NT	5.71	1,184	Atlantic Grupa	0.00	810
Atlantska Plov.	4.74	450	AD Plastik	0.00	162
Zagrebačka Banka	3.82	53	Ingra	-1.32	4
Dalekovod	3.60	21	Luka Ploče	-1.96	500
Valamar Riviera	3.05	45	OT-Optima T.	-3.72	3
Kraš	2.27	450	Institut IGH	-4.32	246

* 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
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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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