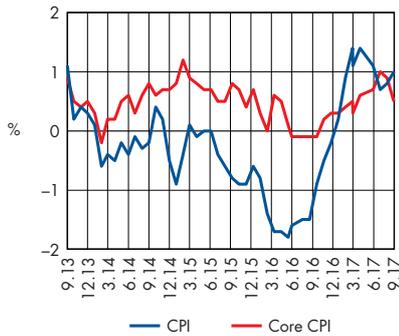


Inflation still subdued

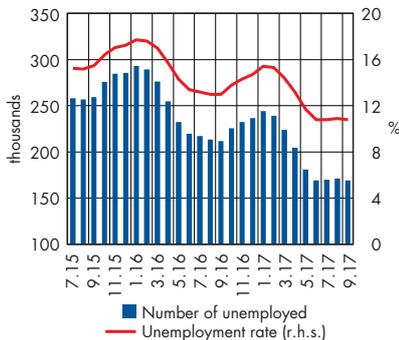
CPI, yoy



Sources: CBS, Economic RESEARCH/RBA

Last Monday the CBS delivered CPI statistics for September. Slightly above our expectations, a 1.4% growth compared to the same period last year was mainly driven by the supply side, especially by food prices. On the other side, the average price of goods and services for personal consumption accelerated to 1.5% on a monthly basis. The latter is, above all, a consequence of the administrative rise in electricity prices as of 1st September. This decision will surely generate some of inflationary pressures on an annual basis too. However, inflationary pressures remained modest. In the first nine months the average inflation rate was 1.1%.

Registered unemployment rate



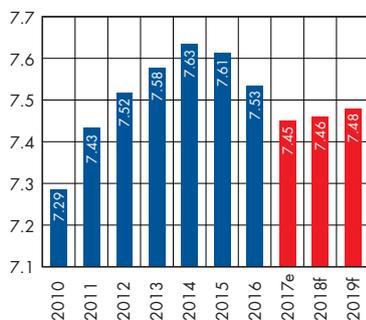
Sources: CBS, Economic RESEARCH/RBA

After three years of disinflationary pressures or negative inflation rates, the average consumer price growth for 2017 could reach 1.2%. Modest inflation rates with a slight upwards tendency to 2% should be maintained by 2019 both in Croatia and the eurozone. This is the consequence of the moderate rise in prices on world commodity markets (primarily crude oil) and the absence of a significant inflation impact on the demand side despite nominal and real wage growth and the consequent increase in consumption.

September recorded the unemployment rate remaining near current level (10.8%).

Improved macroeconomic indicators certainly create favorable conditions for continuation of fiscal consolidation and structural changes, which could be undertaken in the expansion phase of business cycle more efficiently. In this context we expect that the upcoming EDP report (scheduled for Monday) will confirm a better-than-expected fiscal outcome in 2016, strongly driven by favorable tourism results.

EUR/HRK average rate



Sources: CNB, Economic RESEARCH/RBA

On the FX market the week passed with EUR/HRK hovering around the 7.51 kuna per euro level. As long as the FX stability is maintained and the inflationary pressures remain modest (well below 2%), the accommodative stance of the monetary policy is probable. That means that the money market rates as well as long term yields will be supported by ample liquidity in the system remaining at the current record low levels. The low interest rate environment, together with improved fiscal metrics, seems very favourable for the upcoming HRK local bond issuance which is expected to take place during the last quarter, ahead of October HRK bond maturity. Also, at the beginning of October EUR 1.5bn T-bills fell due, and we expect the Government will roll them over at maturity.

As for Treasury bills, after almost two months the MoF announced a new T-bill auction for the upcoming Tuesday. It plans to issue HRK 1.2 bn and EUR 200 mn of 1Y T-bills. Despite ample liquidity and consequently a low interest rate environment, the absence of investment alternative might push HRK yields toward lower levels, while the maturing amount (HRK 1.2 bn and EUR 29 mn) will be definitely covered.

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

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