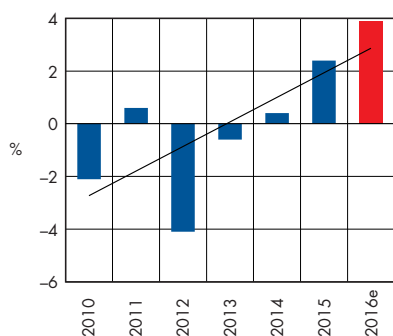


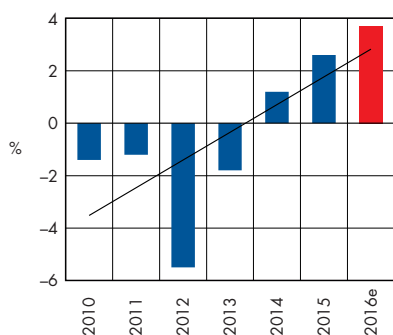
## From negative to stable outlook

Retail trade, real annual changes



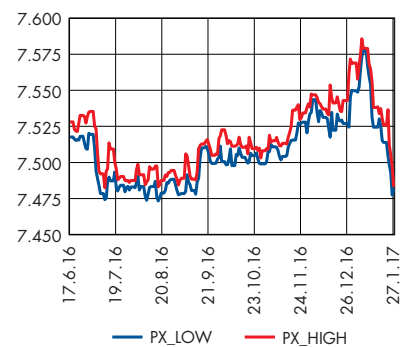
Sources: CBS, Economic RESEARCH/RBA

Industrial production, real changes



Sources: CBS, Economic RESEARCH/RBA

EUR/HRK, market rate



Sources: Bloomberg, Economic RESEARCH/RBA

The week reserved for **labor market data** confirmed our expectations of an increase in people unemployed on monthly basis and a decrease in unemployment rate for 2016 as a whole to 15% (-2pp yoy). Although an encouraging sign, it does not fully reflect the structural improvements (such as employment growth) and is more a result of other factors that are not caused by employment (e.g. deletion from the register of unemployed). In addition, the latest data point to serious structural and demographic problems, further intensified by economic migration. Thus, only last year, the total number of persons removed from the unemployment register who went to work abroad reached 4,887 (+2.5%yoy).

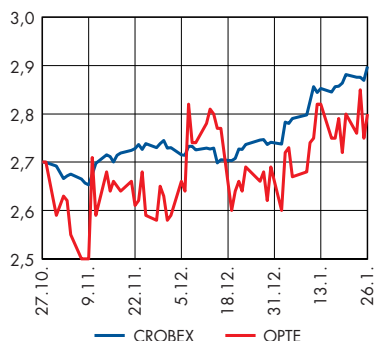
Economic releases on **industrial production and retail trade in December**, scheduled for this week, will round off the data for the whole 2016. With an expected retail trade annual growth rate of 2.5%, the growth for the whole 2016 could accelerate to 3.9%yoy. The projected growth is primarily a result of growing consumer optimism, which is partly under the influence of the income tax relief. Additionally, due to the generous pre-holiday spending we should not neglect the impact of tourist arrivals and overnight stays. As regards industrial production, the annual growth rate for the whole 2016 could increase to 3.7%yoy. The growth is expected to continue especially in activities closely related to tourism and trade. So we expect manufacture, after having slowed down in Q3, to see slightly stronger annual growth rates. Paired with the projected growth in Croatia's most important trading partners, the upward cycle in manufacture will continue throughout 2017.

Turning our attention to **financial markets** where on the FX market appreciation pressures on the domestic currency continue with EUR/HRK touching 7.48 kuna per euro level. This week, further supply of FCY from the corporate sector might push EUR/HRK towards lower levels so the expected trading range could be between 7.46-7.49 kuna per euro. On the **bond market**, we saw modest trading in anticipation of new government borrowings. Namely, according to the proposed *Strategy of Public Debt* for the 3 year period (2017-2019), the total budgetary borrowing needs in 2017 stood at HRK 65.3 bn. The state plans to finance a part of the liabilities on the capital markets by issuing HRK 14 bn on the domestic market (with the issuances planned in Q1, Q2 and Q4) and for HRK 11.4 bn the Government plans to tap the international market in Q1. The remaining amount will be covered by issuing T-bills and loans. In order to improve fiscal transparency and public debt management, the presented document is welcomed widely. It remains to see whether the Government will be consistent in implementing the adopted *Strategy*. Moreover, public debt data are expected to be updated and published regularly. Finally, as expected, at the very end of the week the Fitch confirmed LT credit rating for Croatia at BB and following the recent S&P's revision, also changed the outlook **from negative to stable**. As for the **money market** a record-high level of liquidity and an increased demand for short-term government papers at T-bills auction resulted in further declining yields on 1Y pure kuna papers to 0.60%.

Elizabeta Sabolek Resanović

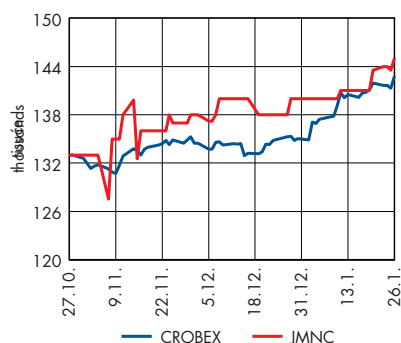
## Surge of construction shares

### OT-Optima Telekom (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Jamnica (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Trading comment

The stock indices of the Zagreb Stock Exchange, CROBEX and CROBEX10 posted small gains last week. The regular equity turnover amounted to HRK 10.8 million daily on average. The highest regular turnover over the week was recorded by shares of **Jamnica** totalling HRK 7.3 million. Shares of **Ingra** gained the most among CROBEX members, as well as shares of other construction companies listed on the ZSE which also surged. Thus, CROBEXkonstrukt index was undoubtedly the top performer among sector indices of the ZSE while only index of F&B companies declined. Leading world and European equity indices posted gains in the week behind as well as majority of regional indices.

### Company news

Shareholders of **OT-Optima Telekom** approved the merger with H1 Telekom. The transaction would be financed by capital increase issuing new 5,886,456 shares of OT-Optima Telekom which would be distributed to H1 Telekom shareholders so that for each share of H1 Telekom they receive 0.75 share of OT-Optima Telekom. The decision is subject to approval of the market watchdog. **Tehnika** signed a contract for construction of a residential complex in Sweden containing 16 buildings whose completion is previewed in 36 months. **Đuro Đaković Grupa** contracted a delivery of wagons worth HRK 17 mn with a French buyer in Q4 this year.

### In this week

We expect similar trading dynamics on the ZSE in this week.

Nada Harambašić Nereau

### Market performance

Index	1w %	ytd %	Value on*
<b>27.1.2017</b>			
MICEX (RU)	4.77	1.35	2,263
WIG30 (PL)	4.01	7.90	2,421
BETI (RO)	2.67	5.63	7,484
NTX (SEE,CE,EE)	2.62	5.85	1,071
ATX (AT)	1.57	4.14	2,727
PX (CZ)	0.92	1.68	937
SBITOP (SI)	0.87	3.73	744
SOFIX (BG)	0.81	4.04	610
CROBEX (HR)	0.59	5.72	2,109
BUX (HU)	-0.49	2.24	32,720
BELEX15 (RS)	-0.72	-2.92	696
SASX10 (BH)	-1.86	-4.95	656

\* as at 16:30 CET. Source: Bloomberg, Economic RESEARCH/RBA

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
<b>27.1.2017</b>					
Ingra	17.07	4	Arenaturist	0.13	512
Atlantska Plov.	9.24	348	OT-Optima T.	0.00	3
Uljanik Plovidba	7.31	175	Imperial	0.00	815
Dalekovod	7.13	16	Ericsson NT	0.00	1,260
Tankerska NG	4.06	80	HT	-0.80	173
Luka Ploče	3.85	590	Luka Rijeka	-0.90	48
Končar El	2.77	780	Đuro Đaković Grupa	-1.03	45
Podravka	2.64	393	Belje	-1.35	24
AD Plastik	1.41	142	Atlantic Grupa	-1.81	922
Adris Grupa (P)	0.84	470	Varteks	-1.90	18
Valamar Riviera	0.75	39	Zagrebačka Banka	-2.10	59
Kraš	0.61	543	Ledo	-2.89	10,450

\* as at 16:30 CET. Source: ZSE, Economic RESEARCH/RBA

# Raiffeisen RESEARCH

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### Abbreviations

bp – basis points	HBOR – Croatian Bank for Reconstruction and Development	pp – percentage points
CERP – Restructuring and Sale Center	HNB – Croatian National Bank	Q1, Q2, Q3, Q4 – quarters
DZS – Croatian Bureau of Statistics	IMF – International Monetary Fund	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	kn, HRK – Kuna	USD – Dollar
EUR – Euro	MF – Ministry of Finance	yoy – year-on-year
FED – Federal Reserve System		
GDP – Gross Domestic Product		

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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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% all IB services	0%	29%	0%	0%	0%	0%

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