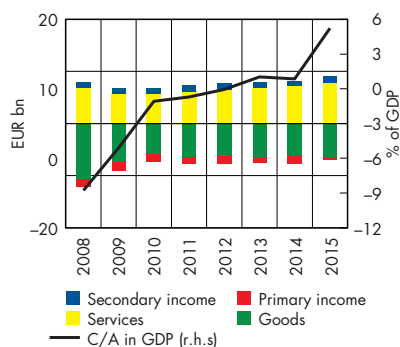


In 2015 CA surplus reached 5.2% of GDP

Current account balance

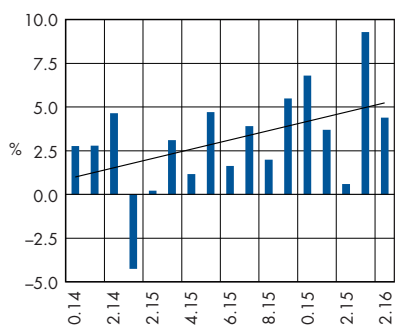


Sources: CNB, Raiffeisen RESEARCH

Last week brought a few important macroeconomic releases but the main highlight was the balance of payments result for Q415. According to the preliminary data, the **Current Account deficit** in the observed quarter narrowed to EUR 390mn (-66%yoy). Despite the exceeded deficit in the goods account to EUR -1.5bn (as a consequence of a relatively stronger import than export growth in absolute terms), improvements on the service account as well as on the secondary and primary accounts positively contributed to a lowered CA deficit in Q415. Consequently, at the level of the whole 2015 CA reached a record high surplus at EUR 2.3bn or 5.2% of GDP.

The most positive contribution to the favourable outcome in 2015 primarily came from the primary account as a consequence of banks registering losses caused by the forced CHF conversion. Moreover, the annual decrease of deficit in the primary account (-79%yoy) to EUR 297mn is supported by increased losses of foreign enterprises in domestic ownership but also profits worsening of foreign owned domestic enterprises. Additionally, revenues from remittances exceeded EUR 941 mn (+25.5%yoy).

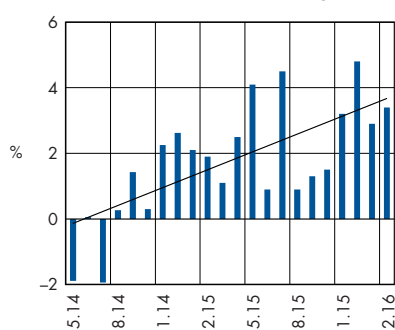
Industrial production, annual changes



Sources: CBS, Raiffeisen RESEARCH

The expected positive contribution to the CA balance came from the surplus services account (+8.9%yoy), which was a result of exceptional tourist season. Namely, income from travel in 2015 reached its historical high EUR 8bn (+7.6%yoy). On the other hand, the usual negative contribution came from the goods account amid the widening of the trade deficit to EUR 6.6bn (+4.4%yoy). Finally, a significant annual growth of over 50%yoy was recorded in the secondary account (EUR 1.4bn) primarily as a result of better receipts from EU related funds.

Retail trade, real annual changes (%)



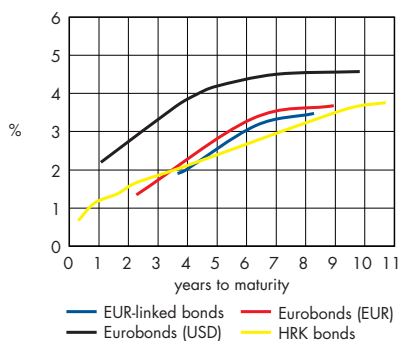
Sources: CBS, Raiffeisen RESEARCH

The CA surplus is expected to continue in the medium term with the largest positive contribution from the services account. Assuming the expected withdrawal of EU funds, positive trends on the secondary income should continue as well. The deficit in the goods account will remain so the next **foreign trade data** for January (scheduled for this week) could confirm its widening on annual level.

Apart from the annual growth in **retail trade** (+3.2%yoy in February), the latest **industrial output** data for the same month also surprised the market positively. Despite an expected drop on monthly basis (-1.6%), as a consequence of base effect, total industrial production in February unexpectedly recorded strong growth at 4.4%yoy. Increased capital goods production (+12.3%yoy) has continued with positive growth rates for the ninth month in a row, most likely as a result of a stronger foreign demand since the observed category recorded a relatively strong export growth. Assuming further recovery in foreign demand, positive growth rates of industrial production are expected to continue during 2016.

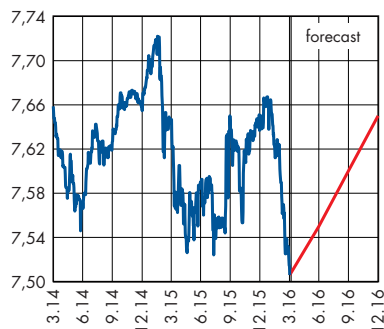
Turning to the **money market**, the week passed very quietly with regular CNB's repo reverse auction and T-bills auction held by the Ministry of Finance. Due to a solid liquidity position of the domestic banks, total amount of bids accepted was just HRK 50mn with unchanged fixed repo rate at 0.5%. Data from the last T-bills auction showed a low interest of the banking sector (43%) so the yields on 1Y

Croatia – sovereign bonds yield curve



*bid rate, as of April 1th 8:30 CET
Sources: Bloomberg, Economic RESEARCH/RBA

EUR/HRK



* bid rate, as of April 1th 16:30 CET
Sources: Bloomberg, Economic RESEARCH

pure HRK T-bills remained unchanged at 0.99%. The MoF issued 1Y pure HRK 581mn T-bills (HRK 319mn lower than planned), decreasing the short-term Government debt for HRK 378mn. As there is no T-bill maturity this week, the Ministry will not hold a new auction.

The local **bond market** experienced a relatively low trading volume with the dominant focus on pure HRK bonds (primarily with maturities in 2017 and 2026). Simultaneously, the Croatian Eurobonds on the wings of a positive SEE regional sentiment recorded a slight weekly decrease in yields (1–3bp). This week higher demand for pure HRK local bond papers is expected to continue, especially for those with longer maturities.

On the **FX market** the week brought a continuation of HRK appreciation pressure that has been lasting since the beginning of this year. Apart from the seasonally higher FCY inflow, an increased FCY supply by institutional investors pushed EUR/HRK to 7.51 kuna per euro thus touching the lowest level since August 2013. On one hand, the seasonally increased FCY supply paired with a slightly higher FCY corporate demand could keep the weekly trading range within 7.50–7.54 kuna per euro.

Financial analyst: Tomislava Ujević (+385 1 61 74 606), Raiffeisenbank Austria d.d., Zagreb

Stock turnover recovered

Trading comment

In the week behind, regular stock turnover was on the rise compared to weeks before and amounted to HRK 8.4 mn on average daily. The most traded were preferred shares of Adris Grupa with total of HRK 7 mn of regular turnover. CROBEX and CROBEX10 continued the upswing and added 0.6% in value each thus counting four weeks of growth in row. Sector indices had a mixed performance with CROBEXtransport increasing the most, as much as 5.2%. Among CROBEX constituents, shares of Atlantska Plovidba increased the most while shares of Đuro Đaković Holding lost the most. The majority of stock indices in the region had positive performance led by Hungarian BUX index.

Company news

Euro Sea Hotels N. V., part of the PPHE Hotel Group, has determined the takeover price for the remaining shares of **Arenaturist** of HRK 325.73 per share. **Valamar Riviera** has bought back 1,174,655 of own shares (share of 0.932%) now holding total of 2.2566% of own shares. **Adris Grupa** informed that there were no offers complying with the terms stated in the public call for buying back up to 5% of preferred shares in the price range from HRK 350 to HRK 385 per share in a minimum block transaction of HRK 2 mn. The management and supervisory boards of **Končar – Elektroindustrija** proposed gross dividend per share of HRK 12 to be paid out of 2015 earnings.

In this week

We expect this slightly higher shares turnover on the Zagreb Stock Exchange to keep up as well as small daily variations of stock indices.

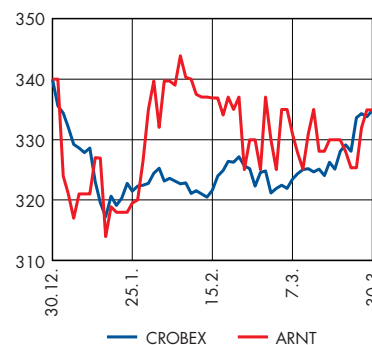
Financial analyst: Nada Harambašić Nereau (+385 1 61 74 870)

Adris (P) (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Arenaturist (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
1.4.2016			
BUX (HU)	3.22	9.81	26,267
NTX (SEE,CE,EE)	2.10	0.81	967
ATX (AT)	1.77	-5.69	2,261
WIG30 (PL)	1.26	5.37	2,187
CROBEX (HR)	0.58	-1.10	1,671
PX (CZ)	0.56	-6.52	894
SOFIX (BG)	0.44	-3.18	446
SASX10 (BH)	0.42	-2.89	679
SBITOP (SI)	0.36	3.76	722
BELEX15 (RS)	-0.01	-5.49	609
BETI (RO)	-0.98	-4.50	6,689
MICEX (RU)	-1.10	4.79	1,846

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
1.4.2016					
Atlantska Plov.	4.50	116	Maistra	-0.90	218
Tankerska NG	3.85	78	Valamar Riviera	-1.13	25
Zagrebačka Banka	3.63	42	Belje	-1.28	20
Kraš	3.18	550	Dalekovod	-1.47	11
Ina	2.97	2,600	Ericsson NT	-1.66	1,096
Adris Grupa (P)	2.30	390	OT-Optima T.	-2.15	2
Atlantic Grupa	2.24	823	Podravka	-2.17	315
AD Plastik	1.26	102	Ingra	-2.17	3
Končar El	0.92	646	Luka Rijeka	-3.66	42
HT	0.42	145	Varteks	-5.00	14
Arenaturist	0.31	333	Đuro Đaković H.	-7.40	32
Ledo	-0.13	9,500			

* as at 16:30 CET. Source: ZSE, Raiffeisen RESEARCH

Economic RESEARCH

Raiffeisenbank Austria d.d. Zagreb (abbreviated as "RBA")

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Abbreviations

avg – average	EUR – Euro	MoF – Ministry of Finance
bp – basis points	FCY – foreign currency	mom – month over month
C/A – current account	FED – Federal Reserve System	ON – overnight
CBRD – Croatian Bank for Reconstruction and Development	FI – financial institutions	MM – money market
CBS – Croatian Bureau of Statistics	FY – full year	MFEA – Ministry of Foreign and European Affairs
CES – Croatian Employment Service	GDP – Gross Domestic Product	qoq – quarter over quarter
CNB – Croatian National Bank	GFCF – Gross fixed capital formation	RBA – Raiffeisenbank Austria d.d.
DPS – dividend per share	ILO – International Labour Organisation	RoC – Republic of Croatia
EC – European Commission	IMF – International Monetary Fund	SMP – Securities markets programme
ECB – European Central Bank	kn, HRK – Kuna	SNA – System of national accounts
EDP – Excessive Deficit Procedure	LSE – London Stock Exchange	USD – Dollar
EM – Emerging Markets	MIP – Macroeconomic imbalance procedure	w.d.a – working day adjusted
eop – end of period		yoy – year over year

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