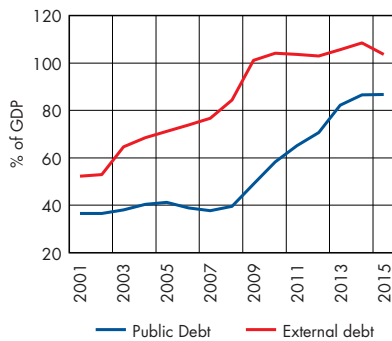


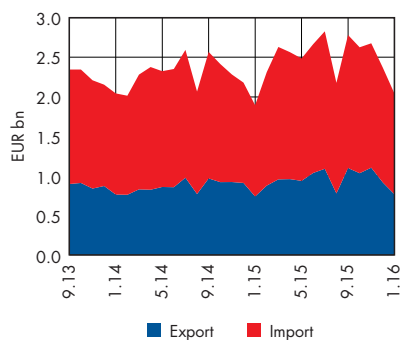
EUR/HRK down

Public and gross external debt



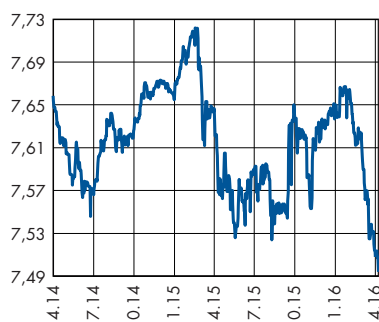
Sources: CNB, Economic RESEARCH

Trade balance



Sources: CBS, Economic RESEARCH

EUR/HRK



* bid rate, as of April 8th 16:30 CET
Sources: Bloomberg, Economic RESEARCH

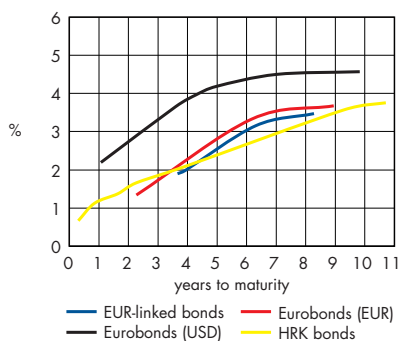
Preliminary data on gross external debt and public debt for 2015 caught our attention. At the end of last year **gross external debt dropped** to EUR 45.5 bn (103.7% of GDP), primarily as a result of marked deleveraging among credit institutions, which intensified significantly in H2 2015. Furthermore, according to the revised data, total **public debt** in December 2015 reached HRK 289.7 bn or 86.7% of GDP (+1.9%yoy). The largest contribution to the annual growth came primarily from central government borrowing, of which debt reached HRK 284.6bn at the end of last year. Based on the 2016 budget the government has already announced a stabilisation of public debt this year. With a reduction in the general government deficit the expected proceeds from privatisation (amounting at HRK 1.6 bn) should contribute to the public debt stabilisation. However, the fact remains that the level of debt, the modest economic recovery and the elevated cost of debt servicing send out a warning about the high sensitivity of public debt sustainability. On the other hand, there is still a need to limit the growth of budget spending as well as to change its structure. At the same time, improving the business environment together with implementing structural reforms to reduce the high exposure to risks that threaten the economic recovery remain as the essential priorities. Additionally, **foreign trade figures** for January reported a deterioration in the deficit and dropped to EUR 507mn (22.3%yoy).

In the coming week, **CPI and PPI** readings for March are set to be released with expected CPI drop of 1.7% yoy. The inflation rate is expected to continue in the negative territory in the coming months as well, although, towards the end of the year, we may see a mild intensification of inflationary pressures due to the expected increase in crude oil prices. That said, we expect this year will again be marked by an absence of inflationary pressures.

Although the activity on the **domestic bond market** was rather muted last week, yields on pure kuna and EUR linked papers recorded a slight decrease along the curve. Simultaneously, the Croatian Eurobonds, with the focus on dollar issues, recorded a weekly decrease in yields (5 – 17bp) with the narrowing of spreads relative to benchmark issues. On the local bond market we expect this week to be calm with modest trading volume continued. Given the relatively low level of the EUR/HRK exchange rate, the focus of market players could be oriented towards the EUR-linked bonds. Here we can see somewhat more pronounced trading volumes.

Turning our attention to the **FX market**, at the end of the week the EUR/HRK market rate shortly breached the psychological level of 7.50 kuna per euro. As the main tourist season approaches, we expect FCY inflow to continue supporting the usual strengthening of the kuna against the euro. Possible Croatia's exit to the international capital markets with a bond issuance should have a neutral effect on the FX rate as FCY inflow on that basis, and a possible conversion into kuna, usually takes place with the central bank thus strengthening the FX reserves. Implementation of reforms with an improved investment climate would certainly support the local currency by a stronger inflow of investments and stable recovery. Taking into account the fact that during 2016, the ECB will enable favourable conditions for

Croatia – sovereign bonds yield curve



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

borrowing with its unconventional measures, we do not exclude the possibility of continued focus of the corporate sector on the foreign capital markets and the inflow of FCY on that basis.

Due to the CNB consistency to preserve the EUR/HRK FX rate stability, in the case of more pronounced and sudden appreciation pressures on the domestic currency, we do not rule out the possibility of a central bank FX intervention. With the end of the main tourist season the kuna should note usually mild depreciation pressures whereby EUR/HRK upward trend is expected by the end of the year. However, this year's EUR/HRK average FX rate should be lower compared to 2015.

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Equity indices in red on rather low turnover

Trading comment

Regular stocks turnover was quite low in a week behind, HRK 5.8 mn on average daily. Highest turnover was recorded by **Hrvatski Telekom** share, HRK 5.1 mn in total. CROBEX and CROBEX10 indices went down by 0.6% and 0.1% wow, with construction sector shares dipping the most (-4.6%). Regional indices posted mixed performance. SASX10 index went up the most, while the largest drop was booked by Polish WIG30.

Company news

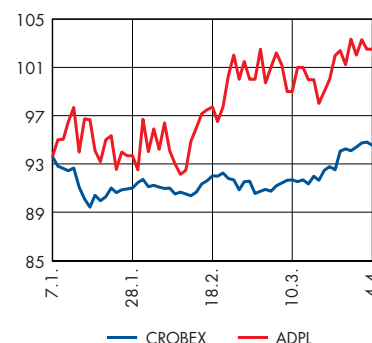
According to media, after three rounds of negotiations of **Valamar Riviera** with union representatives, the rise in salaries of 4% was agreed. As of June 1 the pays will go up by 2% and as of December 1 by additional 2%. **ĐĐ Special Vehicles**, the member company of the **Đuro Đaković Holding** signed with Croatian Ministry of Defense the contract which continues the activities of general revision of tanks M-84 in 2016. Total value of the contract amounts to HRK 10 mn. Slovakian company based in Cyprus, Prime Tourist Resorts, intends to launch the takeover bid for the remaining shares of **Sunčani Hvar**. Following the acquisition of shares from Orco Property Group, Prime Tourist Resorts is now holding stake of 61.95% in Sunčani Hvar. **Viadukt** has signed a new contract with City of Zagreb worth HRK 38.6 mn to be completed in 10 months period.

In this week

We expect relatively low investors' activity to continue. At the beginning of the week we expect somewhat higher interest in **AD Plastik**, as the share goes ex-dividend on April, 12. Furthermore, April, 13 is the ex-dividend date for the shares of **PBZ**.

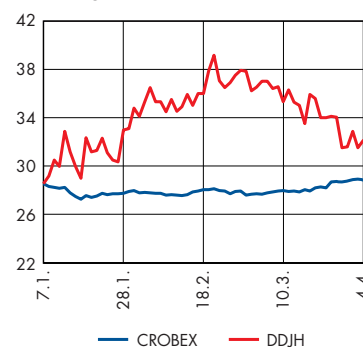
Financial analyst Ana Turudić (+385 1 61 74 401)

AD Plastik (3 m)



Sources: ZSE, Raiffeisen RESEARCH

ĐĐ Holding (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
8.4.2016			
ATX (AT)	-1.09	-6.47	2,242
BELEX15 (RS)	0.90	-4.63	614
BETI (RO)	0.44	-3.85	6,735
BUX (HU)	0.49	10.53	26,439
CROBEX (HR)	-0.59	-1.68	1,661
PX (CZ)	0.42	-6.24	897
MICEX (RU)	0.70	6.15	1,870
SBTOP (SI)	0.07	3.83	723
SOFIX (BG)	-1.17	-4.31	441
SASX10 (BH)	1.55	-1.39	689
NTX (SEE,CE,EE)	-2.15	-1.23	948
WIG30 (PL)	-2.52	2.94	2,136

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
8.4.2016					
Podravka	1.90	321	Maistra	-1.38	215
OT-Optima T.	1.10	2	Kraš	-1.81	540
Ina	1.00	2,626	Ledo	-1.97	9,313
HT	0.91	146	Arenaturist	-2.10	326
Luka Rijeka	0.00	42	Končar El	-2.28	631
Tankerska NG	-0.03	78	Belje	-3.19	19
Adris Grupa (P)	-0.07	390	Atlantska Plov.	-4.49	111
Valamar Riviera	-0.28	25	Đuro Đaković H.	-4.82	30
AD Plastik	-0.47	102	Dalekovod	-5.14	10
Ericsson NT	-0.64	1,089	Zagrebačka Banka	-5.51	40
Varteks	-0.70	14	Ingra	-6.67	3
Atlantic Grupa	-0.94	815			

* 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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