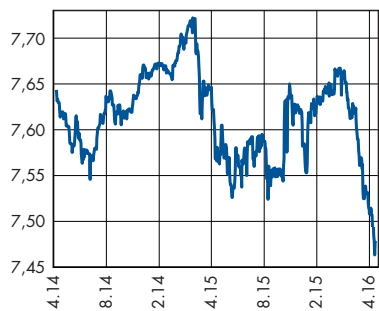


Strong FDI drop in 2015

EUR/HRK



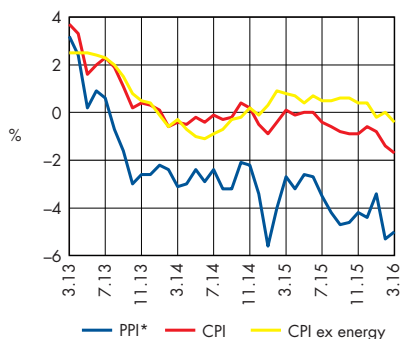
* bid rate, as of April 15th 16:30 CET
Sources: Bloomberg, Economic RESEARCH

Spreads over benchmark (USD Eurobonds)



Sources: Bloomberg, Raiffeisen RESEARCH/RBA

Inflation (% , yoy)



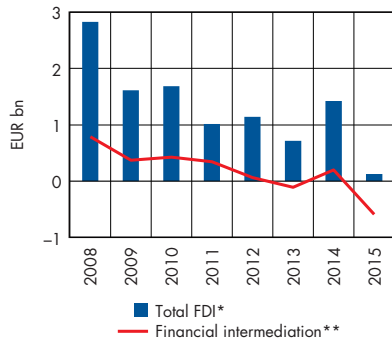
* on the domestic market
Sources: CBS, Economic RESEARCH/RBA

The appreciation pressures on domestic currency on the **FX market** continued with the EUR/HRK touching 7.465 (lowest level since July 2013). Although, the week ended with somewhat higher EUR/HRK market rate (slightly above 7.50 kuna per euro). As we have said already, the early start of this year's tourist season (earlier timing of Easter this year) and consequently a stronger FC inflow, the record C/A surplus, reduced political uncertainty and slightly more favourable fiscal outlook support a stronger kuna. In the upcoming period, as the main tourist season approaches, we expect FCY inflow to continue boosting the usual strengthening of the kuna against the euro. So far, due to the CNB's consistency to preserve the EUR/HRK exchange rate stability, in the case of more pronounced and sudden appreciation pressures on the domestic currency, we do not rule out the possibility of FX intervention by the central bank. As of MM, the CNB continued with its 1W repo reverse auction, again accepting all bids (HRK80m) at unchanged interest rate of 0.5%. As of **domestic bond market**, one more week passed with the record-low trading volume (total registered turnover on the ZSE amounted at only HRK 67.8 mn). Yields on pure kuna papers recorded a weekly decline on the greater part of the yield curve, while yields on EUR-linked bonds rose by 1 to 3bp. This week we expect the persisting weak trading volumes to continue. In the second half of the last week Croatian Eurobonds noted a slight increase in prices driven by positive indicators from China and growing optimism of investors as regards the SEE and CEE region. Namely, in its latest report the IMF (World Economic Outlook) gave optimistic forecasts of economic growth for the whole CEE region. The IMF also predicts a stronger growth for the Croatian economy (compared to last forecast) which certainly gave a positive contribution to the movement of Croatian Eurobonds.

In terms of economic data, last week the focus was on CPI and PPI for March and 2015 FDI. Our estimates were confirmed when the **CPI and PPI** data showed a continuation of the negative annual growth rates (-1.7%yoy and -5%yoy respectively). We expect the imported price pressures will also, due to the low crude oil prices on the international commodity markets, support deflationary pressures in the domestic market as the year goes on. It should also be noted that the deflationary pressures will further be supported by the Government's recent decision to reduce gas prices for the period April 2016 to March 2017. According to the official documents, this should reduce gas prices for households by 18% (including distribution costs). On the other hand, the expected increase in crude oil prices on the international markets (towards the end of the year) could alleviate imported deflationary pressures.

Total FDI in 2015 amounted to EUR 128mn. Compared to 2014 (excluding the round-tripping effect), FDI declined by almost EUR 1.3bn (-91% yoy). During the observed period, the positive contribution to FDI generated by the sale of TDR to the British firm BAT (EUR 510mn) was, for the most part, offset by bank losses (forced CHF loan conversions). Namely, financial intermediation activity (apart from insurance and pension funds) recorded a negative value of about EUR 600mn in the same period.

Foreign Direct Investments



* excl. round tripping
 ** excl. pension and insurance funds
 Sources: CNB, Economic RESEARCH/RBA

Next week brings **labour market data**, i. e. the unemployment rate (Mar) and wages (Feb). The monthly decline in the number of those unemployed in March will probably be reflected in a fall of the registered unemployment rate to 17%, which is in line with the usual seasonal employment. Given the earlier start to the low-peak tourist season (due to the earlier timing of Easter this year), preparations for the tourist pre-season and increased demand for seasonal workers have already begun. Hence, we expect the decrease in the number of unemployed to continue in the coming months.

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New contracts for Tehnika and ĐĐ Holding

Trading comment

ZSE stock indices posted mainly minimal daily changes, but thanks to some stronger performance at the closing of the week, CROBEX saw a solid wow advance of +1.5%. As regards sector indices, industrial shares performed the best, driven mostly by **Đuro Đaković Holding's** share surge. The turnovers were again very low, with average daily regular shares turnover of HRK 9 mn. The most traded was preferred share of **Adris**.

Company news

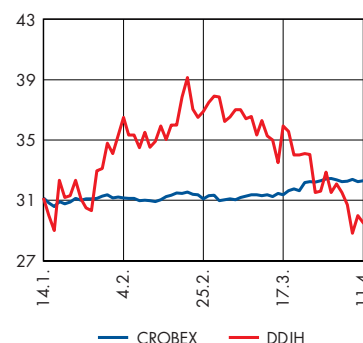
Tehnika informed they will perform the construction of theme park in Biograd na Moru. Works should be finished in February, 2017 and, according to media, value of first stage investment is worth EUR 15 mn. **Končar Elektroindustrija** proposed a dividend of HRK 12 per share, whereas the ex-dividend day is June, 15. **Đuro Đaković Special Vehicles**, a member company of **Đuro Đaković Holding** signed with Finnish Patria a contract on production and delivery of armored wheeled vehicles. Total value of the contract is EUR 26 mn. The share went up by as much as 27.6% on the news.

In this week

In this week we expect investors to be a bit restrained in anticipation of Q1 2016 reporting season.

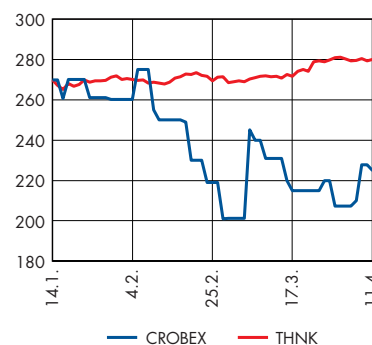
Financial analyst Ana Turudić (+385 1 61 74 401)

ĐĐ Holding (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Tehnika (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
15.4.2016			
ATX (AT)	2.68	-3.99	2,301
BELEX15 (RS)	-0.16	-4.79	613
BETI (RO)	-0.83	-4.74	6,673
BUX (HU)	2.17	13.25	27,090
CROBEX (HR)	1.50	-0.21	1,686
PX (CZ)	0.57	-5.42	904
MICEX (RU)	1.43	8.10	1,904
SBITOP (SI)	-0.98	2.82	716
SOFIX (BG)	-0.99	-5.25	437
SASX10 (BH)	3.48	2.04	713
NTX (SEE,CE,EE)	1.44	0.30	962
WIG30 (PL)	0.77	3.71	2,152

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
15.4.2016					
Đuro Đaković H.	20.00	36	Valamar Riviera	0.29	25
Atlantska Plov.	7.37	119	Maistra	0.00	215
Zagrebačka Banka	5.15	42	Atlantic Grupa	-0.04	815
Varteks	5.02	15	Ericsson NT	-0.09	1,088
Adris Grupa (P)	3.85	405	Arenaturist	-0.39	325
Dalekovod	2.86	10	Ingra	-0.40	3
Ina	2.82	2,700	Luka Rijeka	-0.93	42
Podravka	2.65	330	AD Plastik	-2.71	99
Končar El	2.19	645	Tankerska NG	-3.67	75
Ledo	1.47	9,450	Kraš	-3.69	520
Belje	0.77	20	OT-Optima T.	-4.89	2
HT	0.67	147			

* 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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