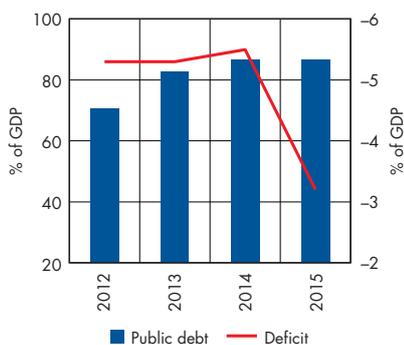


## Stronger Fiscal Adjustment in 2015

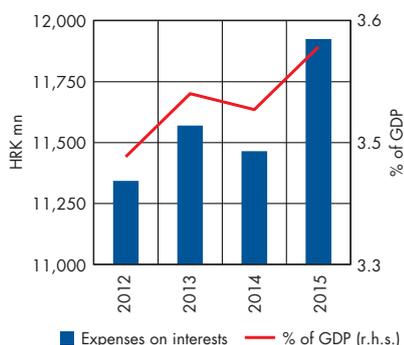
### Consolidated General Government (ESA2010)



Sources: CBS, Economic RESEARCH/RBA

The last week's main highlight was undoubtedly the **EDP report** on fiscal deficit and public debt in 2015. In accordance with the ESA2010 methodology, Consolidated General Government deficit in 2015 declined to HRK 10.7bn or 3.2% of GDP. Besides the better revenue collection, strongly supported by an excellent tourist season, the positive contribution to the lower fiscal deficit came from a notable drop in budget expenditure on GFCF (-22%yoy). A positive impact was derived also from lower budget spending during the pre/post-election period thus in 2015, for the first time the primary surplus of the general government was recorded at 0.36% of GDP. On the other hand, a negative impact on fiscal deficit came from the statistical treatment of social contribution transfers from the second to the first pension pillar (in line with the ESA2010 rules, the transaction is not recognized as revenue at the time of its receipt thus the deficit was increased by HRK1.3bn). Moreover, debt assumption of several public enterprises, on the basis of the third call under the guarantee, influenced deficit in the amount of HRK 950mn.

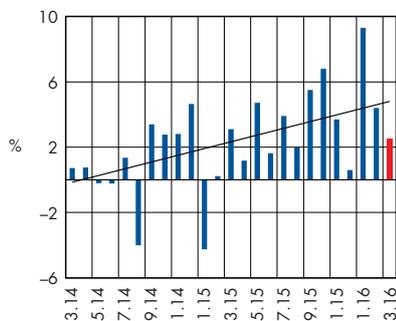
### General government expenditure on interests



Sources: CBS, Raiffeisen RESEARCH/RBA

As we expected, the preliminary data on total public debt were confirmed (at the end of 2015 total public debt reached HRK 289.7bn or 86.7% of GDP). Despite its growth by 1.9% on annual level, public debt share in GDP recorded a slower increase by 0.2pp due to positive GDP growth in 2015 after six consecutive recession years. Nevertheless, it should be noted that revised data showed that total public debt increased by an average HRK 4.7bn in the period 2012-2014 due to broader general government coverage.

### Industrial production (% yoy)

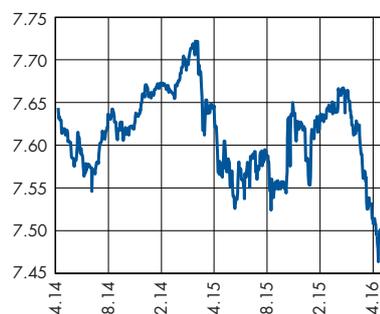


Sources: CBS, Raiffeisen RESEARCH/RBA

Finally, it is important to stress that last year's significant step in fiscal adjustment was dominantly driven by favourable external environment while negative contributions were generated by state owned enterprises and their inclusion in the general government coverage. Therefore, in case of further delay in crucial structural reforms (including restructuring of public enterprises), a new increase in total public debt poses a threat. In this context, the focus of this week will be on the new Government's National Reform Programme and Convergence Programme which have to be delivered to the EC under the European semester.

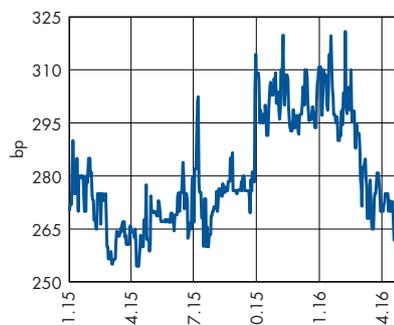
According to economic data calendar, **industrial production** figures for March are set to be released at the very end of the week. After favourable output data in the first two months we expect continuation of solid growth rates (+2.5yoy), primarily based on demand recovery of the main foreign partners. Better industrial performance is expected to influence GDP in Q1, which could be also positively affected by recent tourism data for February (total arrivals and nights spent by tourists grew by 18.4%yoy and 16.1%yoy respectively). Consequently, due to the rising demand for workers during the pre-season period, we were not surprised by the unemployment rate decline to 17.2% in March. Because of the early start of this year's tourist season, the market subsequently experienced a stronger FC inflow thus the HRK **appreciation pressure** has continued over the week behind us. Oscillating around the lowest levels since summer 2013, upcoming days could bring EUR/HRK movements within the last week's range of 7.47-7.51 kuna per euro.

## EUR/HRK, bid



Sources: CNB, Economic RESEARCH/RBA

## 5Y-CDS (USD)



Sources: Bloomberg, Economic RESEARCH/RBA

Nothing special to point out from the MM, only the regular reverse **repo auction** was held by the CNB (all bids in the amount of HRK 80mn were accepted at a constant 0.5% interest rate). Ample liquidity on the market kept the MM interest rates on the current low levels (3-month and 1-year ZIBOR stood at 0.80% and 1.32% respectively). This week the focus will be on the announced **T-bills auction** when the Ministry of Finance plans to issue HRK 600mn, lower than the amount falling due (HRK 900mn and HRK 15mn EUR-linked T-bills). We do not exclude the higher investor's demand but current yields are expected to remain unchanged.

As of the **local bond market**, subdued trading has continued with a mild drop in yields on weekly level. We do not expect any significant changes on the domestic bond market so another week of calm trading is expected. On the other side, the positive sentiment from the emerging markets spilled over on the Croatian Eurobonds as well. Thus, in the middle of the week we saw a significant rise in prices and narrowing of spreads that touched this year's lowest levels. Consequently, 5Y-CDS (USD) slid to the lowest values since July 2015.

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

## Dividends in focus

### Trading comment

ZSE equity indices closed the week slightly up (CROBEX 0.42% and CROBEX10 +0.2%). Out of CROBEX constituents **Varteks** posted the strongest advance, while Belje went down by 5.2%. Out of sector indices, CROBEXIndustrial and construction sectors' shares performed the best. Regular stocks turnovers were a bit higher w/w, HRK 10 mn on average daily, while the most traded share was **Hrvatski Telekom**.

### Company news

**Ericsson NT** informed about new contract worth more than HRK 10 mn related to informatization of Croatian hospitals. Moreover, the company announced dividend proposal of HRK 100 per share (regular dividend of HRK 20 and extraordinary dividend of HRK 80). Ex-dividend day is June, 3. HT's share goes ex-dividend at the same day, with proposed dividend of HRK 6 per share. EPIC m. b. H., shareholder of **Valamar Riviera** announced the counterproposal related to dividend payment. Namely, EPIC is proposing dividend payout in treasury shares or in cash, depending on investors' preferences. Shareholders who decide to receive cash, will be entitled to original dividend proposal in gross amount of HRK 0.6 per share.

### In this week

We reckon with somewhat intensified investors' activity in this week, with 1Q 2016 financial reports in focus.

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

### HT (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Ericsson NT (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Market performance

Index	1w %	ytd %	Value on*
<b>22.4.2016</b>			
ATX (AT)	2.34	-1.64	2,358
BELEX15 (RS)	-0.81	-5.56	608
BETI (RO)	-1.62	-6.41	6,555
BUX (HU)	-1.49	11.78	26,739
CROBEX (HR)	0.42	0.21	1,693
PX (CZ)	1.43	-3.84	920
MICEX (RU)	2.78	11.32	1,961
SBTOP (SI)	0.35	3.18	718
SOFIX (BG)	-0.15	-5.40	436
SASX10 (BH)	-0.23	1.81	712
NTX (SEE,CE,EE)	0.03	0.66	966
WIG30 (PL)	-0.13	4.10	2,161

\* as at 16:30 CET. Source: Bloomberg

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
<b>22.4.2016</b>					
Varteks	7.67	16	Kraš	0.18	521
Đuro Đaković H.	6.11	38	HT	0.18	148
Luka Rijeka	4.79	44	Podravka	0.16	330
Ledo	2.96	9,730	Ina	0.00	2,700
Ingra	2.79	3	OT–Optima T.	0.00	2
Maistra	2.33	220	Atlantic Grupa	0.00	815
Dalekovod	1.82	11	Ericsson NT	-0.74	1,080
Končar El	1.55	655	AD Plastik	-1.35	98
Atlantska Plov.	1.30	121	Zagrebačka Banka	-1.63	41
Tankerska NG	1.20	76	Adris Grupa (P)	-1.73	398
Arenaturist	0.45	326	Belje	-5.16	19
Valamar Riviera	0.45	25			

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

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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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