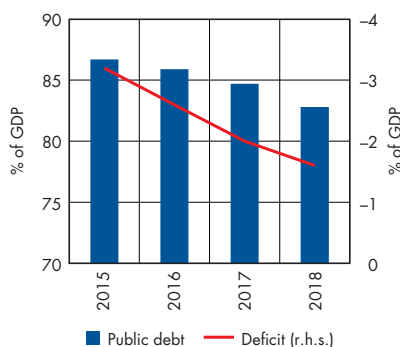


Government's Reform Program Endorsed

Fiscal projections – Convergence programme (ESA2010)



Sources: MoF, Economic RESEARCH/RBA

National Reform Programme 2016

Main goals

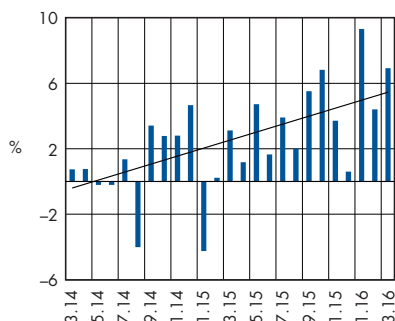
1. to increase public debt sustainability
2. to improve economic growth and job creation

Key areas

1. macroeconomic stability and fiscal sustainability
2. facilitating business activities and improving the investment climate
3. improving the public sector efficiency and transparency
4. improved education for the labour market

Sources: GoC, Raiffeisen RESEARCH/RBA

Industrial production (% , yoy)



Sources: CBS, Raiffeisen RESEARCH/RBA

The long awaited **National Reform Program** and **Convergence Program** for the period 2016–2019 were finally endorsed at the last week's Government session. Two main structural policy goals are to increase public debt sustainability and to improve economic growth and job creation. The reforms are divided into four key areas: macroeconomic stability and fiscal sustainability, facilitating business activities and improving the investment climate, improving the public sector efficiency and transparency, and improved education for the labour market.

In order to stabilize public debt growth already in 2016 the Government plans to collect EUR 500mn from privatization receipts in the period 2016–2017. Further fiscal adjustment is planned by comprising **60 reform measures** which clearly emphasise a few crucial reforms in the following areas: pension, health and state owned enterprises.

Among the set of measures, a more sustainable **pension system** is planned to be reached through the proposed rise in the retirement age for women to 67 years of age (10 years earlier than in the current regulation) but also through equalizing the retirement age for men and women earlier to 2024. The less-favourable early retirement is to be tightened as well, while the early retirement age is to be revised to 62.

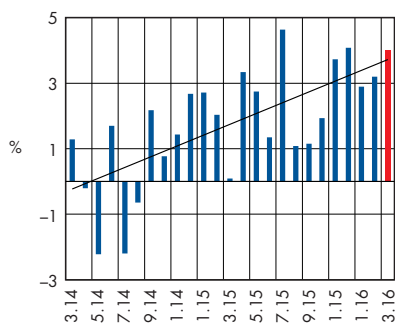
Some of the proposed changes in the **health care system** include: increased price of supplementary health insurance, functional linkage between hospitals, reform of emergency and rationalization of non-medical services in hospitals. Total amount of arrears in the health system reached HRK 2.5bn but this is expected to be cleared by the end of 2018.

Public administration reform is to be based on a new payroll system with a unified collective agreement for civil and public servants, a reduction in the number of public agencies and stronger e-Government. Also, to increase the EU fund absorption, the Government plans to accelerate employment procedures in the area of managing and controlling use of the European structural and investment funds. To improve the business climate, a reduction of para-fiscal charges and merging of the land registry and cadastre (by the end of the year) are proposed. The latter should be the basis for the planned introduction of real estate tax in 2018.

Although structural problems are well identified and measures well addressed, the crucial question remains whether they will be implemented (efficiently). Therefore, we remain very cautious, especially considering that the presented reforms tackle huge beneficiaries of the state budget.

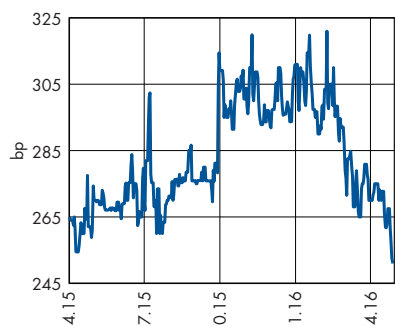
However, the week ended with **industrial production data** which positively surprised the market. After favourable output data in the first two months, total industrial production in March continued with a solid growth rate (+6.9%yoy). Consequently, favourable industrial performance in Q1 (+6.8%yoy), primarily based on demand recovery of the main foreign partners, is expected to influence GDP outcome in Q1 as well.

Retail trade, annual changes



Sources: CBS, Economic RESEARCH/RBA

5Y-CDS (USD)



Sources: Bloomberg, Economic RESEARCH/RBA

According to the CBS economic calendar, the **retail trade data** for March is set to be released. Due to rising real wages and usual increased consumption during the pre-holiday period (Easter) as well as an earlier start of the tourist pre-season, we expect that real retail trade growth in March could accelerate to +4.0%yoy. However, as the main tourist season is getting closer, during the most part of the week the **EUR/HRK** continued to oscillate below the psychological level of 7.50 kuna per euro. Nevertheless, at the very end of the week the domestic currency temporarily experienced stronger depreciation pressures thus EUR/HRK reached the level of 7.52 kuna per euro. In anticipation of further increase in tourist arrivals, paired with lower FCY demand at the beginning of the month, we expect that during the upcoming days EUR/HRK could oscillate between 7.46–7.50 kuna per euro.

As for the money market, the week was marked by the **T-bills auction** which brought a new slight decline in 1-year yield to 0.97% (-2bp compared to the previous auction). The Ministry of Finance issued HRK 672mn T-bills (higher than the planned HRK 600mn) but also announced a new T-bills auction for this week with the amount in plan of HRK 400mn (HRK 155mn lower than the T-bills falling due). No changes in the yields are expected, as well as in the MM interest rate, which could retain the current low levels due to the weak HRK demand and high liquidity in the system.

In line with our expectations, one more week with subdued trading volume on the **local bond market** is behind us. Investors' focus was dominantly on pure HRK bonds with short maturity (2017 and 2018). We also saw a continued decline of 5Y-CDS (USD) which touched the lowest level since the end-2014. In the week ahead no significant changes on the local bond market are anticipated.

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

Dividends in focus

Trading comment

The week on ZSE was labelled by 1Q financial reports releases. Still, it did not affect regular shares' turnovers much, which were again quite low, at HRK 9 mn on average daily. Equity indices posted slight drop, CROBEX -0.3% and CROBEX10 -0.7%. Out of the CROBEX constituents Đuro Đaković Holding performed the best with a surge of 12.1% whereas Varteks went down by 8.9%.

Company news

Atlantic Grupa posted 0.2% yoy lower sales, mainly due to weaker yoy performance of Sports Food unit (-19.4%) and Coffee unit (-2.5%). Overall, profit margins were improved at all levels, driven by lower material expenses and lower net financial loss. **Ericsson NT**'s top line advanced by 7% yoy, thanks mainly to revenues realized with Ericsson Corp. Although gross margin was yoy deteriorated, the company realized considerable savings on SG&A expenses. **Hrvatski Telekom** delivered 3.4% yoy higher top line on the back of 45.3% growth of ICT business. On the other hand, EBITDA fell 0.3% yoy due to higher material expenses in growing ICT business. **Valamar Riviera**'s strong top line growth was driven by early Easter holidays as well as some M. I. C. E. events in Dubrovnik. However, operating expenses increased much less which diminished the net loss posted.

In this week

On Tuesday the shares of HT and Valamar Riviera go ex-dividend and hence we reckon with somewhat intensified investors' activity.

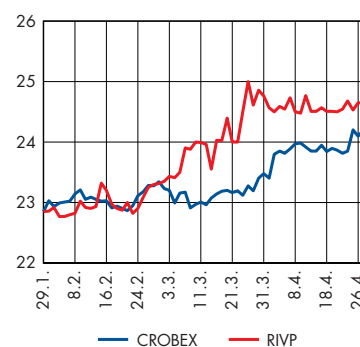
Financial analyst Ana Turudić (+385 1 61 74 401)

HT (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Valamar Riviera (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
29.4.2016			
ATX (AT)	-1.09	-2.68	2,333
BELEX15 (RS)	0.00	-5.56	608
BETI (RO)	-1.14	-7.41	6,486
BUX (HU)	0.59	12.47	26,904
CROBEX (HR)	-0.28	-0.07	1,688
PX (CZ)	0.00	0.00	1,540
MICEX (RU)	0.00	11.32	1,961
SBTOP (SI)	-0.90	2.25	712
SOFIX (BG)	0.00	-5.40	436
SASX10 (BH)	-1.27	0.52	703
NTX (SEE,CE,EE)	-1.63	-0.85	951
WIG30 (PL)	-2.39	2.00	2,117

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
29.4.2016			29.4.2016		
Đuro Đaković H.	12.12	43	Kraš	-0.58	518
Dalekovod	9.41	12	Valamar Riviera	-0.73	25
Atlantska Plov.	5.98	128	Adris Grupa (P)	-0.75	395
OT-Optima T.	2.86	2	Ina	-1.30	2,665
Belje	2.43	19	Končar El	-1.53	645
Zagrebačka Banka	2.34	42	Maistra	-1.77	216
Ledo	2.26	9,950	Ingra	-1.94	3
AD Plastik	2.13	100	HT	-2.14	144
Ericsson NT	0.09	1,081	Tankerska NG	-2.50	74
Arenaturist	0.00	326	Luka Rijeka	-3.89	42
Atlantic Grupa	0.00	815	Varteks	-5.88	15
Podravka	-0.32	329			

* 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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