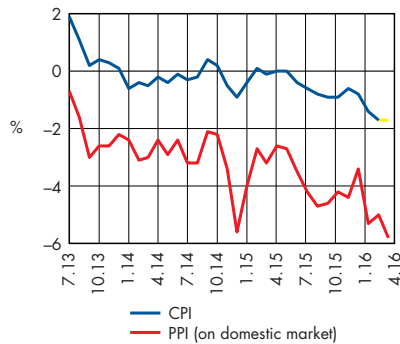


A Week of Mixed Signals

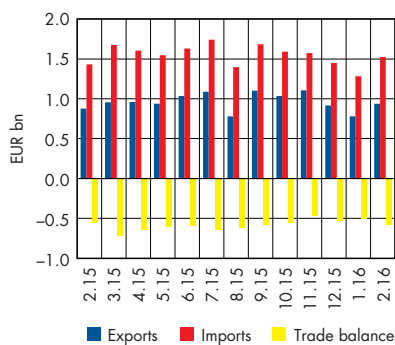
PPI and CPI, annual changes (%)



Sources: CBS, Economic RESEARCH/RBA

Deflationary pressures, which have lasted uninterruptedly since August 2013, were confirmed by the April **PPI data** that declined by 5.8%yoy, the strongest fall ever. Imported deflationary pressures were reflected in double-digit annual drop in energy prices (-14.1%yoy) therefore PPI excluding energy in the same observed month reported a much lower decline (-1.6%yoy). We expect further downward pressures on domestic prices so the awaited April **CPI release** (scheduled for this week) could show the same negative inflation rate as in the month before (-1.7%yoy). Along with the lower prices coming from the global commodity markets, our forecast is additionally supported by the recent Government's decision on administrative reduction in the price of gas as of April this year.

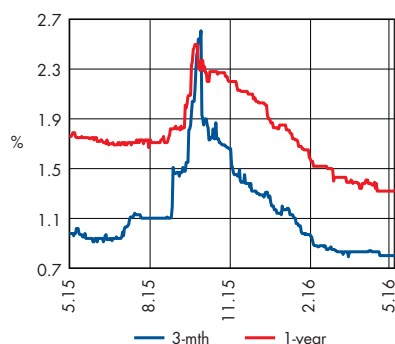
Foreign trade



Sources: CBS, Economic RESEARCH/RBA

Last week brought also **Foreign trade** data for the first two months. A relatively higher growth of import than of export of goods (8.3%yoy vs 6.3%yoy) resulted in trade deficit worsened by 11.8%yoy and consequently coverage of import by export slid to 61.3% (1.2pp lower than in the first two months of the previous year). Nevertheless, the preliminary results for the first quarter indicate a reverse trend i. e. slight increase in the pace of export growth and slowdown of imports. So we expect that the final results for Q1 will bring some improvements in terms of narrowing of the foreign trade deficit, primarily thanks to the small and medium private enterprises as the main drivers of the Croatian export of goods.

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Sources: Bloomberg, Economic RESEARCH/RBA

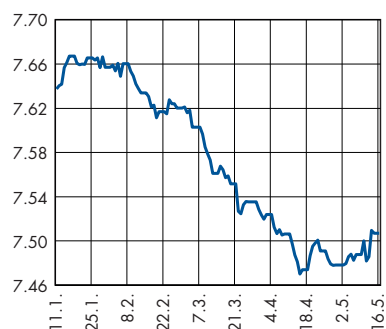
In addition, the recently published Q1 tourism data brought suitable growth in total tourist arrivals and nights (17.3%yoy and 18.9%yoy, respectively). Such favourable results are strongly supported by earlier Easter's holidays so, paired with better than expected industrial growth, their positive contribution to GDP outcome in Q1 is also anticipated.

Looking at the **money market**, nothing special to point out, just to mention that the CNB held the regular reverse repo auction in the amount of HRK 100mn (slightly higher than in the previous few) at a fixed rate of 0.50%. As expected, pension disbursements increased liquidity in the system by additional HRK 3bn which, paired with a low demand for kuna, resulted in an unchanged money market interest rate. The **T-bills auction** was not held last week but still the next one has not been announced as there are no amounts falling due this week. We expect that the new announcement could be at the end of the month when pure HRK 853mn and EUR-linked 43mn mature.

In line with our expectations, a calm trading week on the local **bond market** repeated. EUR-linked bonds recorded a mild growth in prices while pure HRK bonds experienced a slight yield growth on weekly level. However, due to the unofficial information related to the new Eurobond issuance we expect another quiet week on local bond market.

Turning to the **FX market**, the week started with increased trading volume and higher FCY supply from domestic banks. Consequently, some appreciation pressures on domestic currency pushed EUR/HRK to the level at 7.47 kuna per euro. However, moving to the middle of the week we saw an increased FCY demand

EUR/HRK, mid



Sources: CNB, Economic RESEARCH/RBA

(partially as a result of profit taking as a consequence of the previous sharp EUR/HRK decline but also stem from the market positioning ahead of the probable Eurobond issuance) thus the exchange rate returned upward. This week we expect EUR/HRK trading within the range 7.48–7.52 kuna per euro whereas FCY demand might come from institutional investors ahead of the expected activity on the primary bond market.

In the meantime, political disputes that arise from time to time reflect a fragile support within the ruling coalition. Moreover, some decisions (such as excluding eight companies from the pool of strategically important state-owned enterprises) have increased political divergence. However, in our view based on the opinion polls, none of the political parties is interested in the new elections as the outcome would be even more uncertain than the last time. Therefore, we remain optimistic (on the strength of the good Q1 macroeconomic performance) but also very cautious, taking into account all the risks arising from the possible lacklustre reform implementation.

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

Privatisation talks

Trading comment

The regular stock turnover continued to shrink on the Zagreb Stock Exchange in the week behind and the daily average was less than HRK 5 mn. The most traded were shares of Podravka with the total turnover of HRK 5.3 mn during the week. Equity indices CROBEX and CROBEX10 went up by 0.7% with CROBEX reaching 1,700 points threshold for the first time in five months. Between CROBEX constituents, shares of Luka Rijeka increased the most and shares of ĐD Holding had the highest drop. From the sector perspective, transport shares had the best performance while shares from construction sector were on the flop side. Equity indices in the region had a mixed performance with Hungarian BUX index climbing the most again.

Company news

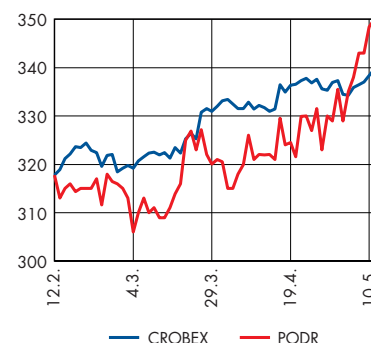
The government made changes on the list of strategically important companies by removing the following eight firms from the list: ACI, Croatia Airlines, Luka Rijeka, Croatia Banka, Petrokemija, Končar EI, Podravka and Croatia Osiguranje. With this move, sale of the state's stakes in these companies becomes an option but the PM Mr. Orešković said that the government would not sell all the companies that had been removed from the list. The plan is to sell stakes in **Končar EI** (around EUR 46 mn), **Sunčani Hvar** (around EUR 17 mn), EUTelsat (around EUR 30 mn) and in **Croatia Osiguranje**. **Ericsson Nikola Tesla** and Ministry of Healthcare and Social Development of the Republic of Kazakhstan signed a contract for the e-health implementation. The contract is worth HRK 150 mn. The implementation and installation will last approximately one year, while support services will continue for three years.

In this week

Considering very thin turnovers on the ZSE we expect only small changes in values of general indices in the week ahead.

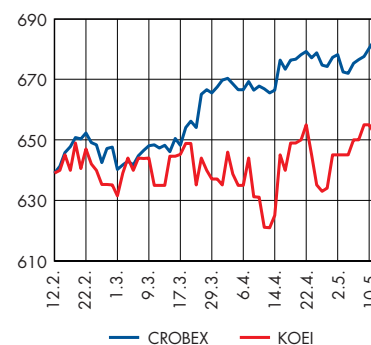
Financial analyst Nada Harambašić Nereau (+385 1 61 74 870)

Podravka (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Končar EI (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
			13.5.2016
BUX (HU)	1,62	11,00	26.552
CROBEX (HR)	0,73	0,54	1.699
SBITOP (SI)	0,07	2,67	715
BETI (RO)	0,06	-7,96	6.447
BELEX15 (RS)	0,00	-5,56	608
PX (CZ)	0,00	0,00	1.540
MICEX (RU)	0,00	11,32	1.961
SOFIX (BG)	0,00	-5,40	436
NTX (SEE,CE,EE)	-0,82	-5,28	909
SASX10 (BH)	-0,88	-0,50	696
WIG30 (PL)	-1,72	-2,25	2.029
ATX (AT)	-1,85	-8,30	2.198

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
					13.5.2016
Luka Rijeka	6,53	46	Adris Grupa (P)	0,10	392
Atlantska Plov.	3,04	124	Atlantic Grupa	0,00	815
Belje	3,04	20	Valamar Riviera	-0,33	24
Končar EI	3,00	670	Podravka	-0,87	340
Zagrebačka Banka	2,99	41	Maistra	-2,21	220
Varteks	2,48	15	AD Plastik	-2,32	95
Ina	1,93	2.752	Kraš	-2,94	495
Tankerska NG	1,29	77	OT-Optima T.	-3,91	2
Ledo	1,23	9.850	Ingra	-4,40	2
Ericsson NT	0,76	1.119	Dalekovod	-6,43	12
HT	0,54	140	Đuro Đaković H.	-6,49	42
Arenaturist	0,31	325			

* 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 – Aystem 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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