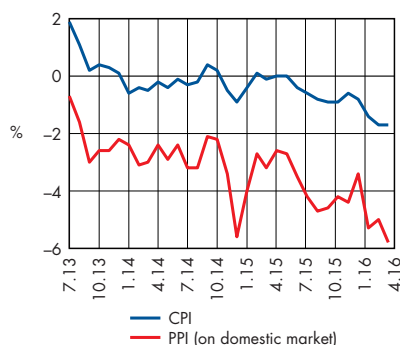


## Five EC's Recommendations in Focus

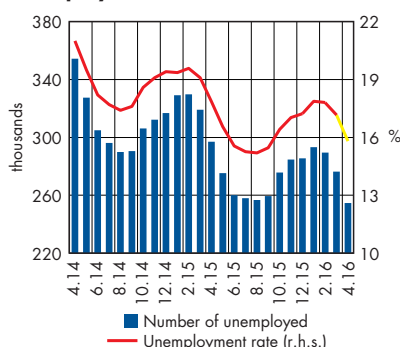
**PPI and CPI, annual changes (%)**



Sources: CBS, Economic RESEARCH/RBA

In line with our expectation, the latest **CPI data** confirmed deflationary pressures which, with a few interruptions, date back to February 2014. Mainly due to decline in transport prices by 6.4%yoy (lower prices of fuels for personal transport equipment by 10.9%), CPI in April declined by 1.7%yoy, while, compared to the previous month, CPI increased by 0.1% (mainly thanks to new collection of clothing and footwear). The absence of inflationary pressures this year should be additionally supported by the administrative reduction in the price of gas as of April this year, which will be reflected in the category of housing, water, electricity, gas and other fuels. For the time being, we also do not expect stronger inflationary pressures from domestic demand, given that it is still suppressed by the lacklustre recovery in the labour market. On the other hand, the expected rise in crude oil prices on global markets (later in the year) together with the base effect might soften deflationary pressures.

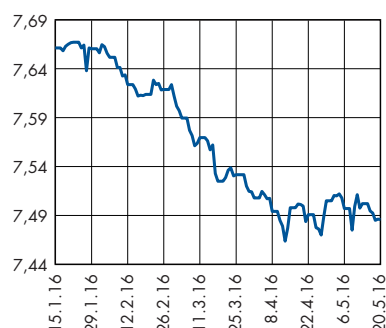
**Number of unemployed and unemployment rate**



Sources: CBS, CES, Economic RESEARCH/RBA

In the week to come, as regards economic releases, the focus is expected to be on **labour market data**. In line with the usual seasonal employment with monthly decline in the number of unemployed in April (7.9% mom), we expect registered unemployment rate to fall below 16%. Hence, we expect the decrease in the number of unemployed to continue in the coming months as well. The first results of real average gross and net wages in March might show more growth on the annual level, driven by the lack of inflationary pressures and at the same time resulting in higher disposable income.

**EUR/HRK**



Sources: Bloomberg, Economic RESEARCH/RBA

Regarding the **money market**, at the beginning of the last week the CNB held a regular reverse repo auction in the amount of HRK 100mn at an unchanged rate of 0.50%. As we expected, more pronounced interest was missed due to the solid liquidity position of domestic banks. Paired with the weak HRK demand, MM interest rates were retained at low levels. For this week the Ministry of Finance announced the new T-bills auction in the amount of HRK 700mn and EUR 20mn so any changes in yields are not expected.

On the local **bond market** we saw again a calm week with low trading volume and investor's focus on EUR-linked bond with maturity in 2019. Still, the week was marked by the CNB announcing the second of the four 4-year structural repo operations planned for this year. Due to ample HRK liquidity and still subdued demand for loans, we expect a relatively modest interest, but also the announced LTRO is expected to put some additional pressures on the longer-end HRK curve. Nevertheless, the week ahead could bring a continuation of the modest trading volumes on the local bond market in anticipation of the unofficially announced new (Euro)bond issuance.

Meanwhile, **EUR/HRK** experienced a slight downward trend during the week behind us. Paired with increased trading volume by the corporate sector, registered appreciation pressure on domestic currency came from higher FCY supply from institutional investors and domestic banks, thus EUR/HRK slid to the level of 7.483 kuna per euro. During the coming days we see the trading within the range 7.48–7.51 kuna per euro without any significant impact from the announced

## EC's recommendations

### 1. Fiscal policy

- To ensure a durable correction of the excessive deficit by 2016. Thereafter, achieve an annual fiscal adjustment of at least 0.6% of GDP in 2017.
- By September 2016, reinforce numerical fiscal rules and strengthen the independence and the mandate of the Fiscal Policy Commission.
- By the end of 2016, improve budgetary planning and strengthen the multi-annual budgetary framework.
- By the end of 2016, start a reform of recurrent taxation of immovable property.
- Adopt and start implementing a debt management strategy for 2016–2018.

### 2. Pensions and labour market

- By the end of 2016, take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme.
- Provide appropriate up- and re-skilling measures to enhance the employability of the working-age population.
- Consolidate social protection benefits.

### 3. Public administration reform

- By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration.
- In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services.
- Reinforce the monitoring of SOEs performance and boards' accountability. Advance the listing of shares of SOEs and the divestment process of state assets.

### 4. To improve the business climate

- Significantly reduce parafiscal charges.
- Remove unjustified regulatory restrictions hampering access to and the practice of regulated professions.

### 5. Judicial system

- Take measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.
- Facilitate the resolution of NPLs, in particular by improving the tax treatment of the resolution of NPLs.

Sources: EC, Economic RESEARCH/RBA

LTRO. Nevertheless, moving closer to the main tourist season, HRK appreciation pressures will be intensified, nevertheless, possibly mitigated by the expected upcoming Eurobond issuance.

Focus of the week was undoubtedly on the **EC's recommendations** concerning the National Reform Programme and the opinion on the 2016 Convergence Programme. In the light of the Commission's In-depth Review and this assessment, the EC actually recommended taking actions in the five crucial areas. In order to ensure a durable correction of the excessive deficit by 2016, and thereafter achieve an annual fiscal adjustment of at least 0.6% of GDP in 2017, several measures are recommended (to improve the overall budgetary process, to start with reform of recurrent taxation of immovable property; to reinforce the framework for public debt management). By the end of 2016 Croatia should take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age and provide appropriate measures to enhance the employability of the working-age population; and to consolidate social protection benefits. Also, in order to improve sufficiency and reduce territorial disparities in the delivery of public services, the EC recommended reducing fragmentation and harmonising the wage-setting frameworks across the public administration. Further recommendations included reinforcing the monitoring of SOEs and significantly reducing para-fiscal charges, along with improvements in the quality and efficiency of the judicial system.

As we expected, the EC assessed the Government's program package as a fairly ambitious reform agenda which, if fully implemented within the indicated timelines, would help address its macroeconomic imbalances and it was clearly stressed there is no need at this stage for a stepping-up of the MIP. Anyway, the first signs of possible delay or limp enforcement of reforms will be seen in Q32016 at the earliest when the new budget (2017) cycle begins.

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

## Atlantic Grupa intends to issue new bonds

### Trading comment

Regular shares turnovers on ZSE were a bit higher than in the previous week, HRK 8 mn daily on average. CROBEX and CROBEX10 indices closed the week with almost no wov change. Out of CROBEX constituents, the strongest performance was posted by **Dalekovod** while the largest drop had **Kraš**. All sector indices posted wov advance, with CROBEXtransport performing the best. Regional indices recorded mixed returns with SASX10 index having the strongest drop.

### Company news

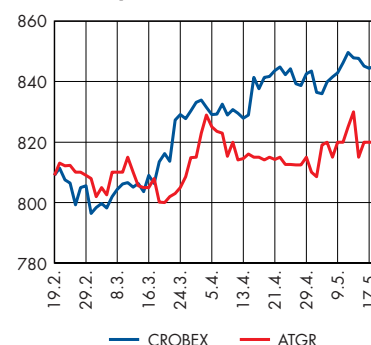
**Atlantic Grupa** intends to execute a new bonds issue in the total nominal amount of HRK 200 mn. The net proceeds would be used to refinance the obligations from the outstanding bond with the maturity on 20 September 2016 whereas the rest of the collected funds would be used for the working capital. EBRD sold 132,615 shares of Atlantic Grupa in private placement to AZ Mandatory Pension Fund and decreased its ownership stake to 2% thereby. AZ Mandatory Pension Fund raised its stake to 8.41%. **Viadukt** announced that their offer was chosen as the best in the public procurement process for the client Hrvatske ceste. The works are valued at HRK 30.5 mn.

### In this week

In this week we do not expect some major changes on ZSE, i. e. continuation of low turnovers and cautious trading.

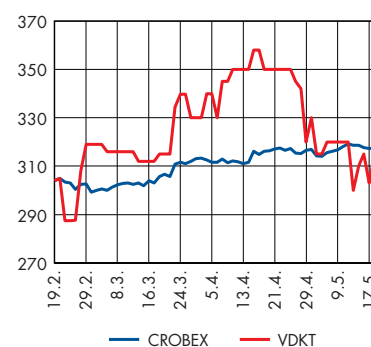
Financial analyst Ana Turudić (+385 1 61 74 401)

### Atlantic Grupa (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Viadukt (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Market performance

Index	1w %	ytd %	Value on*
<b>20.5.2016</b>			
ATX (AT)	-0.50	-8.60	2,191
BELEX15 (RS)	0.00	-5.56	608
BETI (RO)	-1.03	-8.68	6,397
BUX (HU)	-1.03	9.88	26,283
CROBEX (HR)	-0.04	0.50	1,698
PX (CZ)	0.00	0.00	1,540
MICEX (RU)	0.00	11.32	1,961
SBITOP (SI)	-0.99	1.66	708
SOFIX (BG)	0.00	-5.40	436
SASX10 (BH)	-1.65	-2.14	684
NTX (SEE,CE,EE)	-0.65	-6.02	902
WIG30 (PL)	-0.41	-3.03	2,013

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
<b>20.5.2016</b>					
Dalekovod	6.09	12	HT	0.35	140
Atlantska Plov.	5.14	130	Ledo	0.06	9,856
AD Plastik	5.01	100	Atlantic Grupa	0.00	815
Belje	4.11	21	Končar El	-0.08	669
Tankerska NG	3.21	80	Arenaturist	-0.66	323
Maistra	3.18	227	Đuro Đaković H.	-0.74	42
Varteks	3.10	15	Valamar Riviera	-0.75	24
Luka Rijeka	2.17	47	Ina	-1.89	2,700
Ingra	2.09	2	Zagrebačka Banka	-3.38	40
Podravka	1.43	345	OT-Optima T.	-4.07	2
Ericsson NT	0.45	1,124	Kraš	-4.24	474
Adris Grupa (P)	0.41	394			

\* 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 – 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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