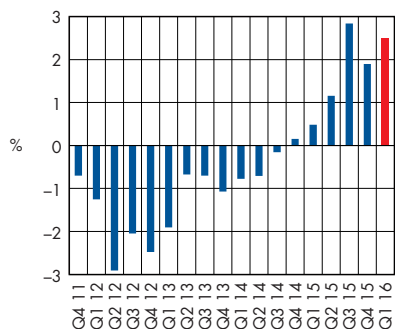


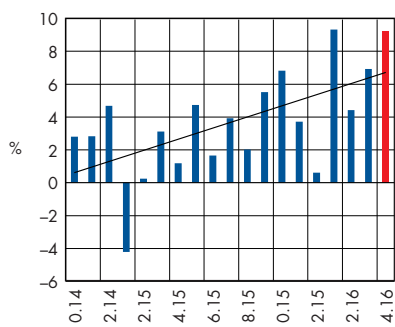
Politics – in the Spotlight – Again

GDP, real annual changes



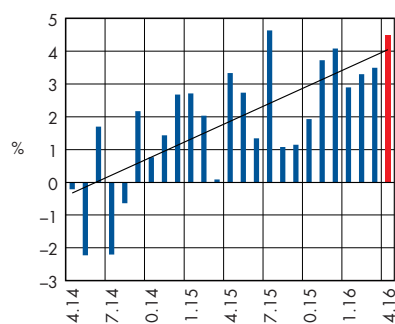
Sources: CBS, Raiffeisen RESEARCH

Industrial production, annual changes



Sources: CBS, Raiffeisen RESEARCH

Retail trade, real annual changes



Sources: CBS, Raiffeisen RESEARCH

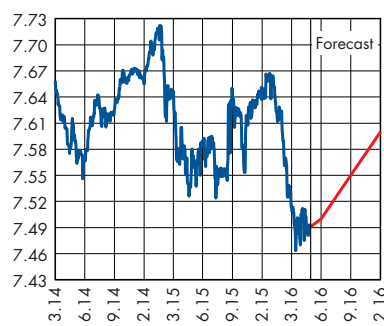
Last week's turmoil on the **political** scene and the disagreement between the parties in power (HDZ and MOST) re-actualized the issue of the Government surviving. Of course, the deterioration in intra-coalition relations did not come out of the blue, but the risk of early elections is definitely on the rise (but still not certain). Namely, at Friday's Government teleconference Ministers should individually stated their position on the SDP's proposal to dismiss the First Deputy Prime Minister and HDZ leader Tomislav Karamarko. As it had been announced previously in media, the MOST Ministers supported the motion of no confidence against Karamarko, due to his political responsibility. Allegedly, the responsibility arises from the recent issues of his wife's company (on providing consulting services related to MOL – energy company in the middle of an international arbitration process with Croatia over the management rights to the Croatian energy company INA). The impeachment of the First Deputy Prime Minister must take place before June 18 and the opposition (SDP) needs to collect 76 votes in the Parliament. Although the outcome is still uncertain, in such a scenario the Prime Minister T. Oreskovic would have to either propose a new candidate for Vice-Prime Minister, or the whole Government would resign. In that case early elections would most likely be held after the summer. It is still unknown whether the HDZ would propose a new candidate (not likely from

5-year CDS (USD)



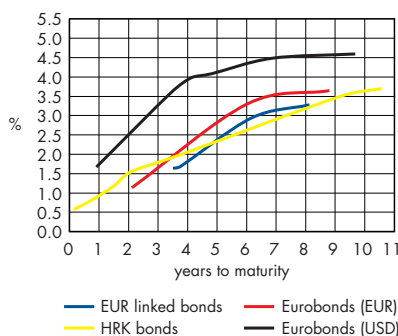
Sources: Bloomberg, Economic RESEARCH/RBA

EUR/HRK



* bid rate, as of May 26th 16:30 CET
Sources: Bloomberg, Economic RESEARCH

Croatia – sovereign bonds yield curve



* bid rate, as of May 26th 8:30 CET
Sources: Bloomberg, Economic RESEARCH/RBA

ever, a structural review of the retail turnover shows that the majority of consumption is still directed at meeting basic needs of life, and the increase in real income is also used for further deleveraging. Stronger annual growth rates of imports of goods reduce the positive contribution of the growth of exports of goods and services, thus confirming the high share of imports in the exports of goods and services. A portion of imports is surely generated by the expected recovery in gross fixed capital formation. A stronger rise of this component is expected in the upcoming quarters, spurred by the inflow of capital from foreign sources (EU funds and other investment schemes). On the other hand, heightened uncertainties in the period before and immediately after the formation of the new Government discouraged investments by the public sector, as well as government consumption in Q1. The fall in government spending in Q1 16 and the expected stagnation in the remaining quarters should result in a mildly-negative contribution to economic growth on an annual level.

In our baseline scenario, a relatively strong growth of manufacturing, trade and the hospitality industry on the supply side should support the positive rate of overall growth, while construction, regardless of its quarterly growth, might register stagnation on annual level.

As for other releases, it is worth mentioning the **April industrial production** and **retail trade data**, both expected to show solid performance (9.2%yoy and 4.5%yoy, respectively). Industry is primarily supported by recovery in the main Croatian trading partners, while trade is heavily affected by tourism and its positive spill overs on the labour market and other segments of economy.

In the meantime, the **financial markets** remain calm despite the MoF and CNB activity on the money market. The MoF issued 1y pure HRK 320mn (HRK 380mn lower than planned) and EUR linked T-bills 16mn (EUR 5mn lower than planned) decreasing short-term government debt by HRK 533mn and EUR 27.2mn. Nevertheless, modest interests from investors' yields recorded another decline. The yield on 1y pure HRK issues went down to 0.95% (-2bp), while the yield on 1y EUR linked T-bills dropped to 0.25% (-5bp). We expect that, due to ample HRK liquidity, yields on T-bills will remain at current levels over months ahead.

The CNB held the second out of four structural (long-term) repo auction (LTRO) planned for this year. Due to the solid liquidity position of domestic banks, total amount of bids accepted was very modest at HRK 146.5mn with maturity of 4-years and fixed repo rate at 1.8%. As we expected, the market did not show any significant reactions. Therefore, interest rates remained depressed at low levels, while the bond market along the yield curve reported a further slight decrease.

EUR/HRK remained unimpressed with the political, macro or market developments hovering between 7.49 and 7.50 kuna per euro. These levels close to 7.50 are supposed to be present in the upcoming weeks as well.

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State started selling minority stakes

Trading comment

In the week behind, stock indices CROBEX and CROBEX10 posted a growth of 1.37% and 1.35%, respectively. Among CROBEX members, the highest price increase was seen by shares of AD Plastik while shares of Luka Rijeka dropped the most. Share of AD Plastik surged by HRK 7 after the Supervisory Board proposed dividend payout from 2015 earnings of HRK 8 per share for shareholders registered on July 21. Viewed by sectors, industrial shares gained the most and transport shares lost the most. Regional stock indices mostly had a positive performance led by the Austrian index ATX. The regular share turnover retreated again to low HRK 5.8 mn, on average daily, and the largest regular turnover was recorded with shares of Hrvatski Telekom.

Company news

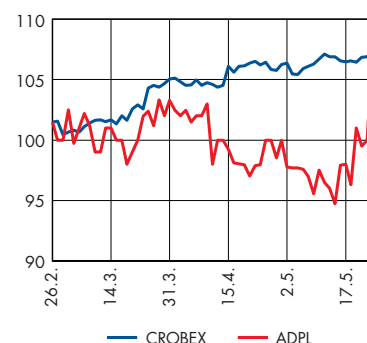
The Restructuring And Sales Centre (CERP) invited investors to express interest and submit binding offers for 20.49% shares of **Končar Elektroindustrija**. The offered price per share must be at least HRK 670 and (formally correct) bids with a higher price shall be given advantage. The deadline for submitting binding offers is May 31st, 2016, at 12:00 o'clock (local time). Also, 29.94% of shares of **Sunčani Hvar** owned by the state have been put up for sale in the public auction with a variable ending via the trading system of the Zagreb Stock Exchange on June 13th. The share can be purchased only as a whole package at the starting price of HRK 162.77 mn (HRK 28 per share). On June 6th, the CERP scheduled the public auction on the ZSE for 24.78% shares of **HTP Korčula** owned by the state with the starting price of HRK 65 per share. The share will be sold in 12 packages. **AD Plastik** announced a new deal with Fiat which is expected to result in over EUR 6 mn revenues, in full year terms, with a planned start of the serial production at the beginning of 2017.

In this week

Shares of Končar Elektroindustrija could be in the focus of investors on the ZSE due to the deadline for binding offers submission as well as shares of Ericsson NT because of the ex-dividend date on Friday (DPS of HRK 100).

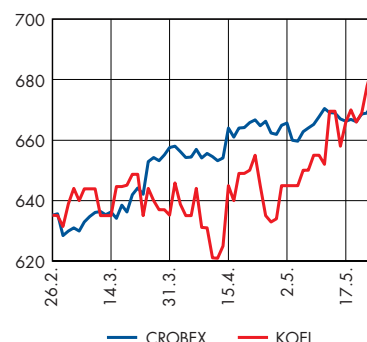
Financial analyst Nada Harambašić Nereau (+385 1 61 74 870)

AD Plastik (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Končar Elektroindustrija (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
27.5.2016			
ATX (AT)	3.35	-5.44	2,267
SASX10 (BH)	3.11	0.90	705
NTX (SEE,CE,EE)	2.78	-3.44	927
WIG30 (PL)	2.20	-1.24	2,050
BUX (HU)	2.19	12.93	27,013
BETI (RO)	1.88	-7.39	6,487
MICEX (RU)	1.82	9.33	1,926
CROBEX (HR)	1.37	1.89	1,721
SOFIX (BG)	0.00	-4.71	439
SBITOP (SI)	-0.19	1.47	706
PX (CZ)	-0.26	-8.73	873
BELEX15 (RS)	-2.41	-5.59	608

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*
27.5.2016		
AD Plastik	7.13	107
Ina	5.56	2,850
Atlantska Plov.	3.48	135
Dalekovod	2.38	12
Končar El	2.18	684
Podravka	1.78	351
Zagrebačka Banka	1.25	41
Varteks	1.24	16
Ledo	1.21	9,975
Valamar Riviera	0.97	24
Arenaturist	0.66	325
HT	0.56	141

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

Share	1w %	Price on*
27.5.2016		
Adris Grupa (P)	0.00	394
Atlantic Grupa	0.00	815
Kraš	0.00	474
Tankerska NG	0.00	80
OT-Optima T.	0.00	2
Ingra	0.00	2
Ericsson NT	-0.18	1,122
Maistra	-0.38	226
Belje	-0.39	20
Đuro Đaković H.	-2.01	41
Luka Rijeka	-3.19	46

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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