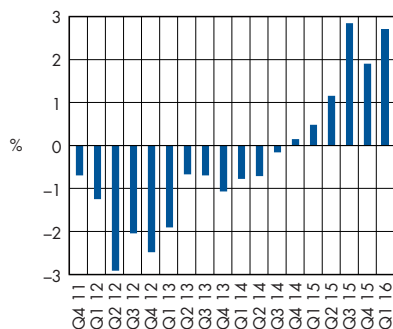


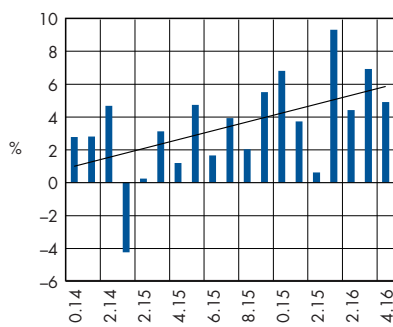
Good economic indicators in the shadow of politics

GDP, real annual changes



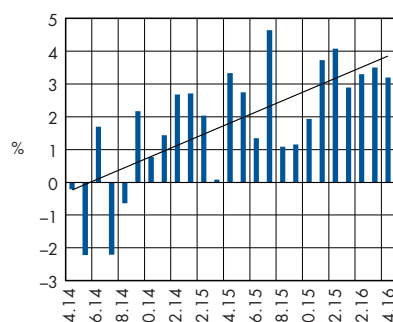
Sources: CBS, Raiffeisen RESEARCH

Industrial production, annual changes



Sources: CBS, Raiffeisen RESEARCH

Retail trade, real annual changes



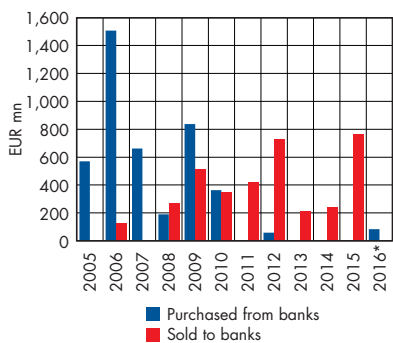
Sources: CBS, Raiffeisen RESEARCH

Although the week behind us brought plenty of positive macroeconomic announcements, the recent domestic political wobbles alleviated the present upswing trends partly. Namely, in the middle of the week, despite very positive reactions from investors, the announced new **Eurobond issuance was postponed** until the current domestic political uncertainties resolve. From a near-term perspective this decision decreases the potential negative supply-side effect for Croatian Eurobonds and should be slightly supportive for the market from a technical standpoint. Nevertheless, we are also a bit sceptic about Croatia achieving a better pricing with such a “wait-and-see” stance. Up to now markets were very ready to receive this year. This holds especially true for more high-yielding sovereign credits (like Croatia, currently having a EUR EMBIG yield at cca. 3%). Moreover, market conditions may become even more challenging in the weeks/month(s) ahead. That said, the postponement could be seen also as a certain sign of (fundamental) credit weakness. Not to forget that sovereign credit updates by all three major rating agencies are looming in July (with negative outlooks across the board).

However, coming back to economic figures, the first **Q1 16 GDP** estimate showed real 2.7%yoy growth thus continued with positive growth rates on annual level for the sixth consecutive quarter (s. d. a.+0.6%qoq). Positive contribution came from domestic demand (by 2.8 pp) primarily as a result of household consumption (+3.1%yoy). Growing household consumption was widely generated by higher disposable income and spillover effects from an excellent tourist season as well as slowed negative trends on the labour market. Mild growth was recorded in the component of Government consumption (+0.6%yoy) while GFCF growth (4.3%yoy) positively surprised thus suggesting a further spur in the investment growth cycle. On the other side, despite the largest positive contribution to GDP growth in Q1 coming from the export of goods (+9.4%yoy), the net-foreign demand brought a negative contribution (-0.1pp). The latter is a result of relatively strong imports of goods and services (+6.1%) compared to the same period last year. In the same reporting period, exports of services has slowed the annual growth rate to 4.6%.

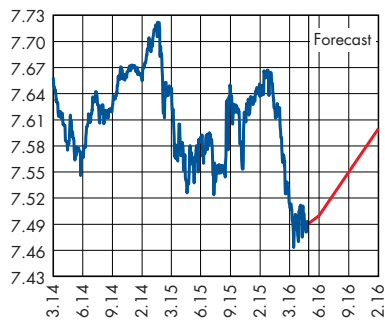
For the whole 2016 we maintain our estimation of 1.5%yoy real growth with an emphasis that, in the short term, there is a positive risk that it will reach a level of 2%yoy, especially in the case of another excellent tourist season, improved investment climate and stronger withdrawal of the EU funds. Partly, downside risks might come from external factors where the possible slowdown in the EU could adversely affect exports. Furthermore, high dependence on tourism, with its share in the economy by income reaching the level of 19% of GDP, fuels additional concern. On the other hand, apart from the risks of increasing instability on the domestic political scene, the postponement of the consolidation of public finances as well as the continuation of the unfavourable business environment would certainly have a negative impact on the credit rating and investment, and indirectly on the costs of financing. Final GDP data, scheduled for Tuesday, will probably confirm the first estimate. Furthermore, **industrial production** and **retail trade** data for April (with 4.9% and 3.2% respectively annual growth) also confirmed favourable movements. Assuming a further foreign demand recovery, we expect the con-

CNB FX Interventions



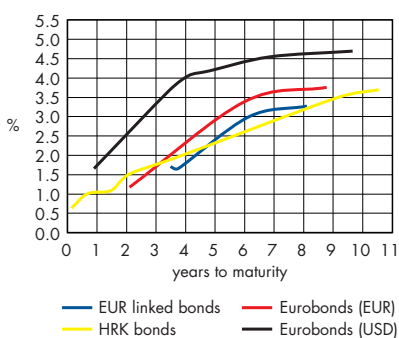
* till 31.5.2016
Sources: CNB, Economic RESEARCH/RBA

EUR/HRK



* bid rate, as of June 3rd 16:30 CET
Sources: Bloomberg, Economic RESEARCH

Croatia – sovereign bonds yield curve



* bid rate, as of June 3rd 8:30 CET
Sources: Bloomberg, Economic RESEARCH/RBA

tinuation of the positive industrial production annual growth rates during 2016. Coming closer to the peak of tourist season, we expect retail trade turnover to continue its upward tendency, additionally supported by negative inflation rates, which consequently bring a positive impact on real disposable income as well.

The upcoming week brings several new macroeconomic releases. We expect that foreign trade data for March (scheduled to be released on Wednesday) might mitigate lower performance in foreign trade in the first two months of this year while tourism April data could indicate a beginning of another excellent tourist season. And finally, at the very end of the next week the May PPI data will corroborate the still present lack of inflationary pressures.

Turning our attention to the financial markets, since the **EUR/HRK** continued to slide towards 7.47 kuna per euro, in the middle of the week the CNB intervened on the FX market by buying EUR 83.5mn at the mid-rate of 7.492533 kuna per euro. This was the first **FX intervention** this year, in an effort to maintain FX stability on the domestic FX market. However, in the upcoming period we still expect a stronger kuna amid a higher FCY inflow from tourism, a high C/A surplus and a solid goods trade trend. This week we see EUR/HRK between 7.49–7.52 kuna per euro. As of the MM, on the last week auction, the MoF issued 1Y pure HRK 683mn T-bills, decreasing short-term Government debt by HRK 688mn. Yields on 1Y pure HRK T-bills remained unchanged at 0.95%. We expect that due to ample HRK liquidity, yields on T-bills will remain at current levels over months ahead.

Movements on the FX market positively affected the Croatian EUR-linked govies whereas we saw somewhat lively trading. Namely, a more pronounced difference in spreads between EUR/HRK market rates compared to mid EUR/HRK FX rate market players recognized as a good profit taking opportunity what resulted with stronger demand for EUR-linked papers and higher trading volumes. Pure HRK issues closed a week with slight fall in prices. And finally, although in the first part of the week Croatian Eurobonds recorded a drop in prices the continuation of the week brought price increase probably as a consequence of delayed new Eurobond issuance. This week further reduced trading volumes are expected due to recent political uncertainties continuing.

Financial analyst: Elizabeta Sabolek Resanović (+385 46 95 099)

New contract for Ericsson NT in Armenia

Trading comment

ZSE equity indices CROBEX and CROBEX10 lost 1.0% and 1.2% wow. Out of CROBEX constituents shares of **AD Plastik** posted the highest growth, while the strongest drop was recorded by shares of Ericsson NT as the share went ex-dividend on Friday and declined by HRK 109 per share (DPS of HRK 100). Viewed by sectors, construction shares gained the most while industrial and F&B shares lost the most. Regional stock indices mostly had a negative performance too led by the Polish WIG30 and the Russian MICEX. The regular share turnover was somewhat higher than in the previous week; HRK 6.6 mn on average daily, and the largest regular turnover was recorded with shares of **Hrvatski Telekom** (HRK 7 mn).

Company news

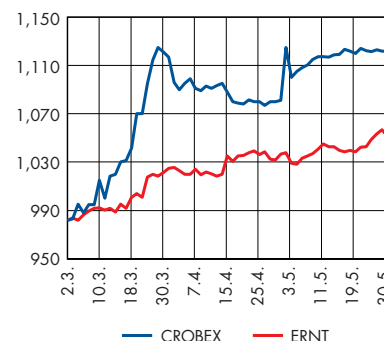
Ericsson Nikola Tesla reported on continuation of cooperation with Armenian Ucom related to extension and modernization of the network. The second stage of the cooperation is worth HRK 82 mn. As announced earlier, **Dalekovod** reported that it had signed EUR 65 mn worth contracts with Norwegian Statnett. After the expiration of the deadline for the submission of the offers for the state owned shares of **Končar elektroindustrija**, the CERP announced that the shares are purchased by domestic pension funds for HRK 360 mn.

In this week

We expect cautious trading on the ZSE in this week with an eye on political situation. The shares of **Tankerska Next Generation** go ex-dividend on Thursday.

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

Ericsson NT (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Dalekovod (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
3.6.2016			
BELEX15 (RS)	2.71	-3.03	625
BETI (RO)	1.07	-6.60	6,542
SOFIX (BG)	0.80	-3.95	443
BUX (HU)	0.53	13.52	27,155
SASX10 (BH)	0.06	0.96	706
CROBEX (HR)	-1.01	0.86	1,704
PX (CZ)	-1.07	-7.88	881
SBITOP (SI)	-1.68	-0.24	694
NTX (SEE,CE,EE)	-1.91	-5.44	907
ATX (AT)	-2.02	-7.48	2,218
MICEX (RU)	-2.52	6.68	1,879
WIG30 (PL)	-2.59	-3.97	1,993

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
3.6.2016					
AD Plastik	7.70	115	Končar El	-1.26	675
Ingra	4.92	3	Đuro Đaković H.	-1.52	40
Dalekovod	3.12	13	Tankerska NG	-1.53	79
OT-Optima T.	3.03	2	Adris Grupa (P)	-1.65	388
Kraš	1.27	480	Ina	-1.75	2,800
Zagrebačka Banka	0.91	41	Podravka	-1.99	344
Valamar Riviera	0.79	24	Maistra	-2.72	220
Arenaturist	0.00	325	Atlantska Plov.	-3.37	130
Luka Rijeka	0.00	46	Belje	-3.62	20
Atlantic Grupa	-0.25	813	Varteks	-3.87	15
HT	-0.35	140	Ericsson NT	-9.80	1,012
Ledo	-1.25	9,850			

* 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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