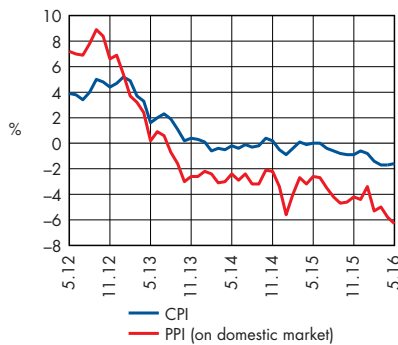


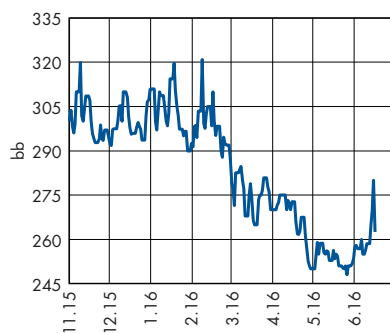
Snap Elections on Horizon

PPI and CPI, annual changes (%)



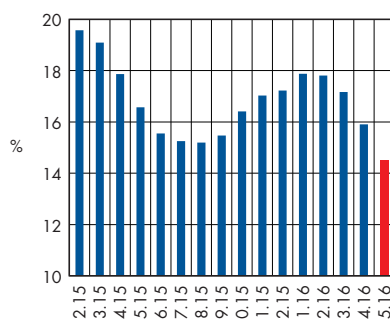
Sources: CBS, Raiffeisen RESEARCH

5y-CDS (USD)



Sources: Bloomberg, Economic RESEARCH/RBA

Registered unemployment rate



Sources: CBS, Economic RESEARCH/RBA

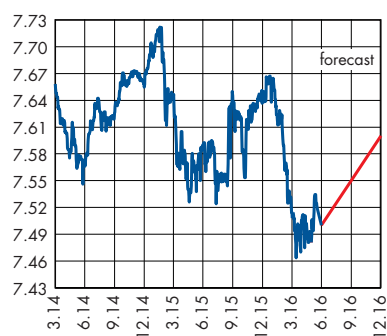
Exhausting **political story** which started with PM's call upon HDZ and MOST leaders to step down generated more turmoil in the week behind us. After the decision made by the Commission for Conflict of Interest Prevention that Mr. Karamarko was in the conflict of interest, he offered resignation from the post of First Deputy PM. Simultaneously, MOST clearly confirmed their two options: either this government with PM Oreskovic or snap elections while the opposition tried to enforce pulling down the Government, repeatedly calling for new elections. At the end, for the first time in Croatian history, an initiative for the motion of no-confidence against PM (established by this same majority) finally finished on Thursday, when parliament members voted against PM Oreskovic. More precisely, 125 members, out of total 142, voted to remove PM.

Political parties now have 30 days to form a new government or the Parliament will be dissolved, which leads to new elections. However, President Kolinda Grabar-Kitarovic immediately called consultations with political leaders, which already started on Friday. It is worth noting that there is another possibility if the MP majority file the motion for dissolution of the Parliament to Chairman of the Parliament and if the MPs vote for the dissolution, new election has to be called immediately by the President within the next 30 to 60 days. As we assume that HDZ would not succeed in the Government reshuffling we might expect an early election. Even the election would not bring political stability, at least for the time being, as we do not expect to see a clear winner. Therefore the risk of delaying much needed structural measures is becoming more apparent. Consequently, we do not exclude further credit rating to go downward as well. However, in our view, fiscal consolidation could continue even in 2016, strongly supported by expected benefits from upcoming tourist season and its spill-over effects on the overall economic and fiscal outcome. After all, recent fiscal developments confirmed our stance that even without doing anything, fiscal adjustment is happening due to the structure of expenditures (additionally supported by the fact of technical government in charge now).

Looking at the macroeconomic data, the last week's calendar was quite scarce. The Central Bureau of statistics released **CPI results** for May. As expected, persistent deflationary pressures were confirmed. Lower prices coming from the global commodity markets paired with the Government's decision on administrative reduction in the price of gas (as of April this year) resulted in CPI decline by 1.8%yoy in May.

The week ahead will be highlighted by **labour market data**. By the end of the week the first results on ILO labour force figures in Q1 will be published. According to the CBS schedule, the first results on average net and gross earnings in April are set to be released together with registered unemployment rate in May. Due to continued deflationary pressures we expect that real wages in April will continue to grow on an annual basis. As the peak of tourist season approaches, stronger demand for seasonal workers could push down the unemployment rate in May towards 14.5%.

EUR/USD, bid



Sources: Bloomberg, Economic RESEARCH/RBA

On the domestic **bond market**, reduced trading volume continued with modest investor interest and slight drop in prices of HRK securities on weekly level. In June the yield curve saw a parallel upward shift by around 30bp from unnaturally low levels, especially at the short end of the yield curve, which have been reached on excess liquidity in the system. Such situation is strongly supported by the announced new bond issuance in the domestic market. Until recent political uncertainties have stabilized, higher trading volume is not expected, but also not before the details on new government issuance.

Turning to **FX market**, the week behind us brought increased trading volumes and slight appreciation pressures on HRK versus euro. Higher FCY supply from corporate and banking sector supported HRK strengthening, so the week ended with downside EUR/HRK path slightly below 7.52 kuna per euro. This week we see trading within unchanged range 7.51 – 7.54 kuna per euro.

Financial analyst: Tomislava Ujević (+385 61 74 606)

High season of AGMs

Trading comment

The ZSE equity indices CROBEX and CROBEX10 continued sliding and lost 0.9% each during the previous week. All sector indices also had a negative performance led by F&B sector shares. Among CROBEX constituents, shares of OT-Optima Telekom lost the most but in a thin turnover while shares of Atlantska Plovidba had the best performance. The majority of equity indices in the region also had losses. The regular share turnover was slightly higher than in the previous week, HRK 6 mn on average daily. Shares of **Hrvatski Telekom** again had the highest turnover; over HRK 21 mn in total.

Company news

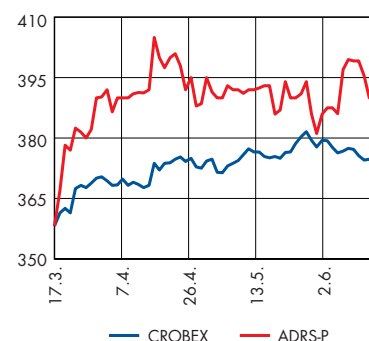
Most of the corporate announcements in the previous week were related to invitations or reports from the AGMs held. The AGM of **Adris** confirmed the DPS of HRK 15 and the company presented its plan for the current year and for the next three years. Accordingly, investments in **Maistra** by 2019 of HRK 1.6 bn will be targeted in capacity upgrades in Rovinj but also in new hotels acquisitions or newbuilding in other attractive locations in Croatia. The plan in 2016 for **Cromaris** is to raise production to 7,500t of fish and to have 16% higher revenues yoy while the plan by 2018 is to reach net income of HRK 40 – 45 mn. In the current year, for **Croatia Osiguranje** the plan is to continue investing in new products and to improve further the operating efficiency with expected growth of KPIs yoy. Dalekovod also presented its plans related to growth of the revenues and EBITDA in 2016. **Atlantic Grupa** published terms of the new corporate bond issue: face amount HRK 200 mn, price 99.954%, coupon of 3.125% and yield of 3.135%.

In this week

We expect cautious trading on ZSE to continue in this week with the focus on shares of **Atlantic Grupa** as they go ex-dividend on Tuesday.

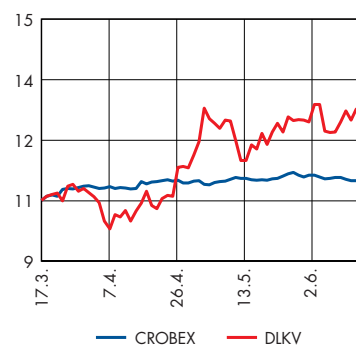
Financial analyst Nada Harambašić Nereau (+385 1 61 74 870)

Adris (pref.) (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Dalekovod (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
			17.6.2016
SOFIX (BG)	2,57	-0,90	457
BETI (RO)	1,09	-7,48	6.480
SASX10 (BH)	0,17	0,32	701
BELEX15 (RS)	-0,70	-3,75	620
PX (CZ)	-0,91	-12,96	832
CROBEX (HR)	-0,95	-0,64	1.679
MICEX (RU)	-1,06	6,93	1.883
BUX (HU)	-1,10	9,65	26.229
SBITOP (SI)	-1,79	-2,21	681
NTX (SEE,CE,EE)	-1,85	-8,73	876
WIG30 (PL)	-1,87	-5,97	1.952
ATX (AT)	-2,19	-10,64	2.142

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
					17.6.2016
Atlantska Plov.	5,16	137	Podravka	-1,46	338
Arenaturist	3,38	336	Ingria	-2,00	2
AD Plastik	2,74	113	Ericsson NT	-2,03	1.008
Kraš	1,04	485	Zagrebačka Banka	-2,23	39
HT	0,59	141	Đuro Đaković H.	-2,60	40
Varteks	0,21	14	Tankerska NG	-2,74	74
Valamar Riviera	0,21	24	Maistra	-2,76	214
Atlantic Grupa	-0,16	815	Belje	-3,01	19
Končar El	-0,44	667	Adris Grupa (P)	-3,56	385
Ledo	-0,71	9.800	Luka Rijeka	-4,55	45
Ina	-0,93	2.675	OT-Optima T.	-9,09	2
Dalekovod	-1,42	13			

* 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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