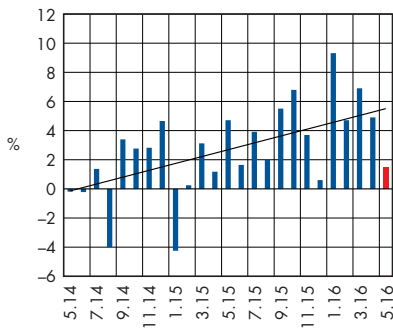


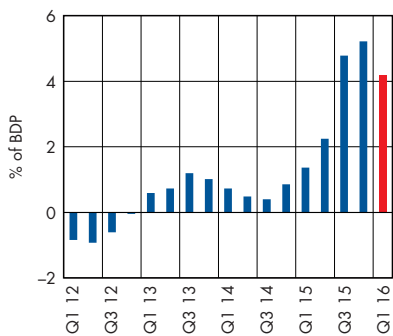
Calm Week on Domestic Market

Industrial production, annual changes (w.d.a)



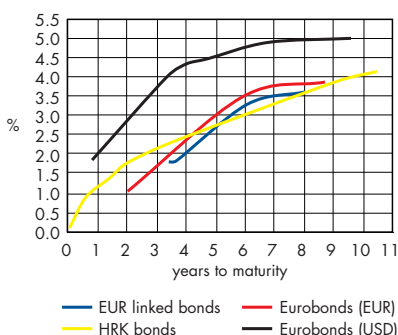
Sources: CBS, Raiffeisen RESEARCH

Current account balance



Sources: CBS, Economic RESEARCH/RBA

Croatia – sovereign bonds yield curve



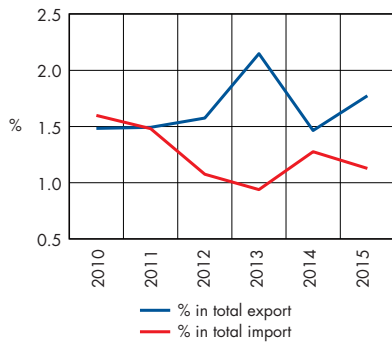
* bid rate, as of June 24th 8:30 CET
Sources: Bloomberg, Economic RESEARCH/RBA

Nearly empty economic calendar and the public holiday in the middle of the week had not been promising in terms of market activities. Moreover, the resolved dilemma about the early elections and the focus on the EURO 2016 (especially on the fabulous match between Croatia and Spain) has kept the period calm. The CBS published only labour market figures, confirming that the usual seasonal decline in the **unemployment rate** is supported additionally by positive movements in the economy. The registered unemployment rate in April stood at 14.4% (down by 2.2pp on annual level).

The last week of June is to bring May **industrial production** data as well as preliminary Q1 balance of payment statistic. Although in April and May consumer and business confidence in industry, trade and services deteriorated, these indicators are still at relatively high levels, suggesting lower but continuous industry growth. We expect to see 1.5 yoy reading. The seasonal deterioration on the **current account** (mainly driven by goods account) might be mitigated by the higher surplus on the services (as the tourist season begun earlier bringing also excellent results) and improved EU funds inflow. All in all, we assume that the Q1C/A deficit will be lower. Moreover, on a rolling basis (last fourth quarters) the C/A balance remains in a relatively huge surplus (more than 4% of GDP), primarily as a consequence of banks registering losses due to the forced CHF conversion in Q42015. With regard to the process of conversion and a partial write-off of household loans indexed to CHF, according to the central bank, from the end of November 2015 to the end of April, banks wrote off a total of HRK 5.7bn of loans. By end-April the balance of total claims of credit institutions from households indexed to CHF dropped to HRK 2.6bn from HRK 21.7bn before the conversion. In the meantime, the monetary policy of the CNB remains expansionary supporting the already high HRK liquidity (daily excess HRK liquidity surpasses HRK 11bn). The key issue thus remaining is the transfer of surplus liquidity into the real sector, which should generate growth and new employment. For the time being, the process remains partly limited due to high indebtedness in all sectors (exceeding 200% of GDP). Therefore, it is not surprising that we still see negative annual growth rates of the credit institutions placements even though the gradual downward trend in the lending and deposit interest rates of banks (mostly) continued. On the loans side, the demand has structurally changed in 2016. Clients dominantly demand loans in the local currency. However, on the deposit side, clients still prefer euros. If those trends continue, in longer horizon this will open a currency mismatch between the dominant FX funding and taking loans in LCY.

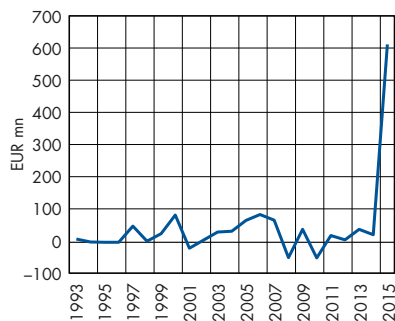
Meanwhile, the financial markets, especially the FX ones, remain calm even at Friday after the results of Brexit referendum. EUR/HRK remained above 7.50 kuna per euro but slight appreciation tendency at the beginning of the week were replaced with slight upward pressure on EUR/HRK. Motivated by the Brexit results CNB stressed its commitment to the stability of the kuna but even without that we do not see much exposure. In the summer months we expect to see a stronger HRK. The HRK is supported by the seasonal inflow of tourism-related FCY receipts and the possible (but temporary) withdrawal of HRK liquidity due to the tourist season and announced sovereign HRK bond issue. The latter could be generous

Foreign trade with United Kingdom



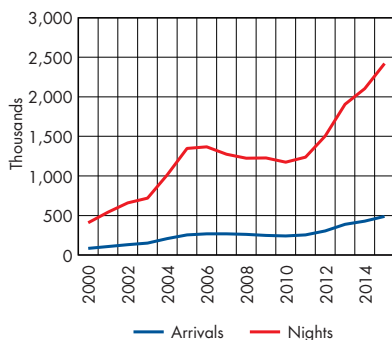
Sources: CBS, Economic RESEARCH/RBA

FDI from United Kingdom



Sources: CNB, Economic RESEARCH/RBA

Tourists from United Kingdom



Sources: CBS, Economic RESEARCH/RBA

as the Ministry of Finance was forced to delay the Eurobond issuance that was planned in May. Ahead of sovereign bond issuance we might see market repositioning and in that context an upward yields pressure on the local bond curves.

As for the Eurobond curve, as we have already grown accustomed to its trend, it will follow the regional sentiment. Besides spillovers from the consequences of Brexit it might be burdened greatly by the threatening cut of the credit rating. And lastly, for the upcoming Tuesday the MoF announced a 1-year T-bill auction in the amount of HRK 300mn, as almost the same amount matures. The yields are to remain stable at 0.95%.

Focus on: Implication of BREXIT for Croatia

Looking back to last ten years it is evident that the Croatian-British economic relations remained modest, especially in terms of foreign trade but also for FDI. The latter is confirmed by official statistical data indicating continuously low trading volume with UK: in the period between 2010–2015 average share in total exports and imports oscillated at the level of 1.7% and 1.2% respectively. Croatia also experienced very subdued FDI inflows from UK (lower than EUR 100mn per annum during the period 1993–2014). Nevertheless, 2015 brought a significant transaction in the amount of EUR 505mn related to the purchase agreement for sale of Croatian Tobacco Factory (TDR) with multinational company British American Tobacco (BAT). The transaction was concluded at the end of September thus generating nearly 78% of total FDI in Croatia in the period of the first three quarters 2015. As this is undoubtedly “one-off” transaction we do not see any significant direct impact of leaving Britain from the EU on Croatian economy. However, over the next three years BAT plans to invest additional EUR 30mn in order to increase production capacity, thus a secondary impact might be less investments going forward.

On the other hand, positive trends in tourist relations intensified: over the last four years the number of tourist arrivals from UK and their nights spent in Croatia recorded double-digit annual growth rates. Moreover, guests from UK make the highest share in the top Croatian destination (Dubrovnik) that is one of the most expensive. That said we see limited near-term risks. Even in case of weaker GBP versus EUR long-lasting loyalty of British tourists, who are simultaneously guests with a high purchasing power, should not change their near- to medium-term behavior in a material way. Furthermore, as of financial markets, we do not see any near-term risks for HRK while the HRK exposure of the economy itself is also limited (low share in debt (and deposits)). So any negative implications may arise from broader European economic fallout (endangering the feeble recovery in Croatia) and overall risk selling on markets. Croatia may take an above market average hit in selling on the Eurobond market given country-specific fundamental and political uncertainty. Paired with political uncertainties increased borrowing costs could have a negative impact on the public debt path and the much needed fiscal consolidation.

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Stock indices slump after Brexit

Trading comment

The stock indices of the Zagreb Stock Exchange, CROBEX and CROBEX10, registered only minor changes on the daily basis in the four-day week behind us. However, the global disturbance caused by the Brexit outcome has also hit domestic and regional indices on Friday. Between regional indices the largest drop on Friday was seen by the Austrian ATX index while CROBEX and CROBEX10 declined by 1.6% and 1.5% respectively. On the weekly level, the largest drop among CROBEX members was registered by shares of **Tankerska NG** while shares of **Đuro Đaković Holding** had the best performance. Almost all sector indices (with the exception of construction shares) on the ZSE also declined, led by shares from the transport sector. The regular stock turnover was lower than in the week before; around HRK 5.4 mn on average daily. Shares of **Valamar Riviera** recorded the highest regular turnover on the ZSE.

Company news

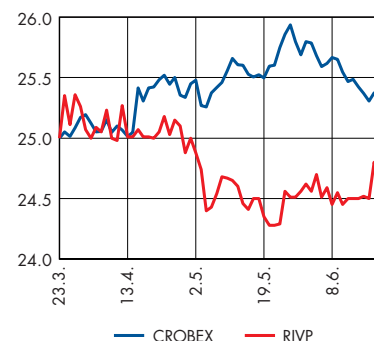
In the week behind there was only a handful of significant corporate announcements on the ZSE. **Tehnika** informed about new contract for finishing works in Sweden in partnership with TUVE BYGG with which Tehnika also teams on a number of new projects. The State Property Management Administration requested a change of the Supervisory Board members from their quota in the form of amendments to the agenda of the AGM of **Podravka**.

In this week

We expect continuation of low activity with stocks on the ZSE with a focus of investors on preferred and common shares of **Adris Grupa** due to ex-dividend day on Wednesday (DPS HRK 15).

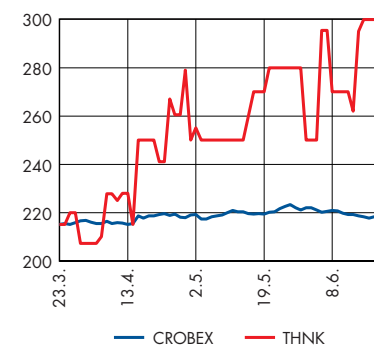
Financial analyst Nada Harambašić Nereau (+385 1 61 74 870)

Valamar Riviera (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Tehnika (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
24.6.2016			
WIG30 (PL)	0.54	-5.17	1,968
SASX10 (BH)	0.15	0.47	702
SBITOP (SI)	0.02	-2.19	681
SOFIX (BG)	-0.08	-0.98	456
MICEX (RU)	-0.27	6.28	1,872
NTX (SEE,CE,EE)	-1.23	-9.85	865
CROBEX (HR)	-1.52	-2.15	1,653
BELEX15 (RS)	-1.92	-5.60	608
PX (CZ)	-2.04	-14.86	814
ATX (AT)	-2.09	-12.59	2,095
BUX (HU)	-2.24	7.25	25,654
BETI (RO)	-2.90	-10.07	6,299

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*
24.6.2016		
Đuro Đaković H.	2.97	41
Arenaturist	2.68	345
Ina	0.93	2,700
Varteks	0.83	15
Ingra	0.82	2
Valamar Riviera	0.46	24
Maistra	0.08	214
Zagrebačka Banka	0.08	39
Adris Grupa (P)	0.00	385
OT-Optima T.	0.00	2
Kraš	-1.03	480
Belje	-1.07	19

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

Share	1w %	Price on*
24.6.2016		
Dalekovod	-1.36	12
HT	-1.74	139
Ericsson NT	-1.79	990
Atlantic Grupa	-1.89	800
Luka Rijeka	-2.20	44
Končar El	-2.56	650
AD Plastik	-3.55	109
Podravka	-3.84	325
Ledo	-4.08	9,400
Atlantska Plov.	-4.89	130
Tankerska NG	-5.09	70

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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