

## The New Government Finally Approved

### Key economic figures and forecast

	2015e	2016f	2017f
Real GDP (% yoy)	1.5	1.0	1.5
CPI (avg, % yoy)	-0.5	1.1	1.5
C/A Balance, % of GDP	4.7	1.5	1.5
Public debt, % GDP	89.9	93.1	94.9
EUR/HRK (avg)	7.62	7.65	7.66

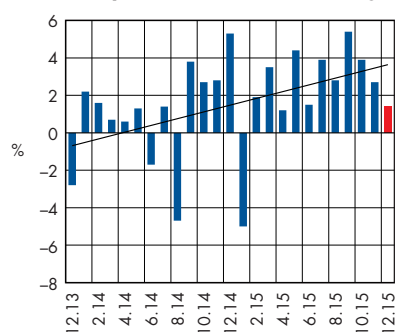
Sources: CNB, CBS, Raiffeisen RESEARCH

### Croatia rating

	Long Term (LT) Rating			
	Foreign Currency		Domestic Currency	
	LT Rating	Out-look	LT Rating	Out-look
Fitch Ratings	BB	Negative	BB+	Negative
Moody's	Ba1	Negative	Ba1	Negative
Standard & Poor's	BB	Negative	BB	Negative

Sources: CBS, Economic RESEARCH/RBA

### Industrial production, annual change



Sources: CBS, Economic RESEARCH/RBA

Last week was lean in terms of important macroeconomic data, but still the focus remained on the most important political issue – the **new Government** formation. After more than two months since the Parliamentary elections Croatia finally got the new Government approved at the Friday Parliament session.

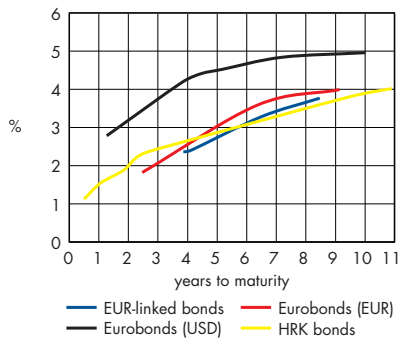
The Prime Minister Mr. Orešković presented the cabinet and disclosed the draft of the future political and economic steps. Besides identifying the main problems of Croatia (lack of growth, delayed restructuring of SOEs, low competitiveness, weak labour market, rising public debt as well as weak public governance), the PM presented the vision of the country by 2020. In order to achieve sustainable economic growth rates (above 3%), sound fiscal metrics (budget deficit below 3% of GDP in 2017, decrease of public debt below 80% of GDP by 2020), improvement of competitiveness and finally a higher quality of life, the Government will be focused on the five main areas: efficiency of the public sector, business competitiveness, investments and EU funds, public debt management and reform of the educational and healthcare system. He also underlined that a successful transformation of economy could be achieved through the implementation of the following measures: responsible and transparent governance, efficiency of judiciary system, society informatisation, tax and monetary policy efficiency and strong communication and cooperation.

Overall, although ambitious, the presented goals look realistic under the presumption, of course, that the proposed steps are actually implemented. However, we have to be very cautious with regard to the aimed public debt decrease to below 80% of GDP by the end of 2020. Namely, even with the general orientation towards privatization of the remaining state portfolio, the Government has to make a significant fiscal consolidation effort that has to result in a primary fiscal surplus at around 1.5% of GDP only to stabilize the public debt ratio at the current level (around 88% of GDP). Therefore, the first crucial indicator of the Government course will be the 2016 Budget that is not expected before mid-Feb. Meanwhile, very soon the PM expects each Minister to define short, medium and long-term goals with measurable key indicators.

The latest yield decrease and tightening of HRK bond spreads suggests that market participants are placing lots of confidence in the new Government. According to the rating calendar, a renewed assessment of Croatia by the rating agency **Fitch** is scheduled for the end of the following week. Nevertheless, as in the case of the latest Standard&Poor's assessment, we do not expect any changes before the new budget is approved in the Parliament thus giving Croatia one more chance to do its belated homework.

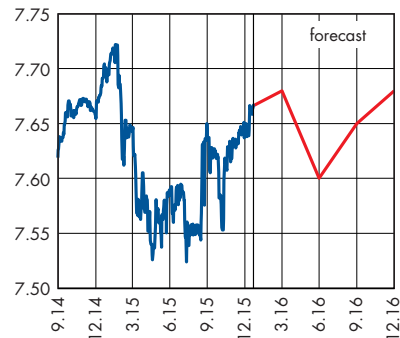
The domestic **financial market** remained calm without significant changes and excitements. The Governor announced a more active role of monetary policy by possible participation in a new guarantees scheme aimed at encouraging lending to SMEs, which ought to be one of the growth drivers of the economy but suffer from lack of capital and insufficient collateral. As for the announced long-term structural operation, the first one is likely to take place in February with

## Croatia – sovereign bonds yield curve



As of 22 January, 8:30 a.m. (CET)  
Sources: Bloomberg, Economic RESEARCH/RBA

## EUR/HRK

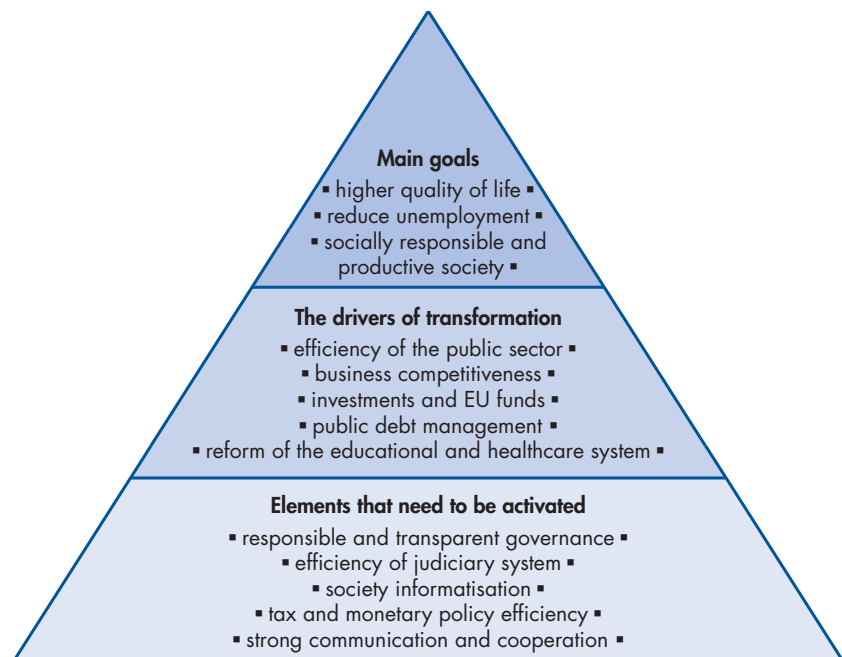


\* bid rate, as of Jan 22th 16:00 CET  
Sources: Bloomberg, Raiffeisen RESEARCH

maturity 3–5 years. Depending on the demand, these repo auctions could occur two to four times during 2016. Still, to some extent, the volume of the operation will depend even on the Government measures. Namely, besides ensuring pure long-term HRK funding for the banking sector lending activity, the aim is to create a more favourable market environment for the sovereign bonds (lowering yields) in case that fiscal consolidation takes place. The timing of the long term repo operations is understandable considering that the slow upward pressures on HRK (visible in the latest weeks) are expected to vanish, the demand for HRK loans is increasing and the new Government expressed readiness to tackle the well known old structural issues. Thus, a more active monetary policy could further contribute to the recovery, which is expecting confirmation even by the upcoming December **industrial production data**, scheduled for release on Friday. The estimated 2015 industrial production growth of 2.7% yoy (the highest since 2007) was widely supported by external demand. A similar trend as well as growth drivers are expected to mark 2016.

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## The framework for Croatia transformation



Source: PM's presentation in the Parliament, January 22th 2016, Raiffeisen RESEARCH

## A slight recovery in equity indices

### Trading comment

After two consecutive negative weeks on the Zagreb Stock Exchange, the third week of the year brought a rebound. The general indices CROBEX and CROBEX10 ended the week in the green with an increase of 1.01% and 1.14% respectively. All sectoral indices of the Zagreb Stock Exchange also recorded an increase in value, except for the index of transport companies which declined by 2.85%. The leading European stock indices ended the negative series on Thursday due to expectations of further monetary easing measures by the European Central Bank, which also provided a support for Croatian indices, while the strategic plan of the new government presented on Friday had no impact on the market, so far. Average regular daily turnover amounted to HRK 7.6 mn down by HRK 1 mn compared to the last week. Shares of Hrvatski Telekom had the highest turnover of HRK 12.5 mn of regular turnover. Among CROBEX constituents, shares of RIZ Odašiljači had the best performance while shares of Genera lost the most. Regional indices ended the week mostly with higher values with the largest upswing seen by MICEX index.

### Company news

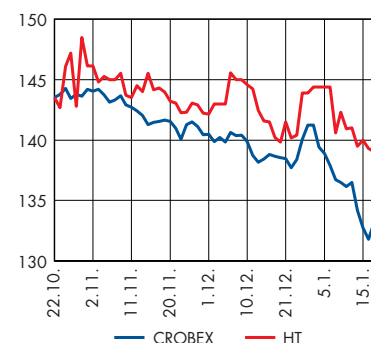
The General Assembly of **Genera** decided to withdraw shares from listing on the Zagreb Stock Exchange and to pay compensation to the remaining minority shareholders in the amount of HRK 179.60 per share. Also, the General Assembly of Žito made the decision to squeeze out minority shareholders and to delist the shares from the Ljubljana Stock Exchange. **Podravka** will pay the compensation of EUR 180.1 per share to the minority shareholders (total of 11,393 shares), which is equal to the price set in the takeover bid for Žito.

### In this week

On the Zagreb Stock Exchange in the week ahead, we expect continuation of tracking the sentiment on European and world markets.

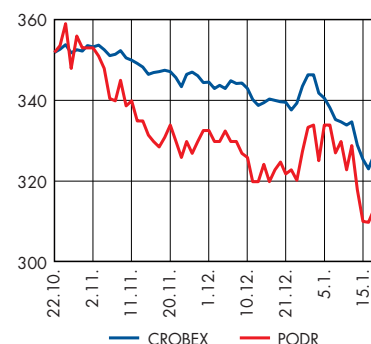
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### Hrvatski Telekom (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Podravka (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Market performance

Index	1w %	ytd %	Value on*
22.1.2016			
MICEX (RU)	6.88	-2.40	1,719
ATX (AT)	1.69	-10.35	2,149
CROBEX (HR)	1.01	-5.06	1,604
SBITOP (SI)	0.85	-2.92	676
PX (CZ)	0.64	-7.27	887
BETI (RO)	0.61	-8.92	6,379
NTX (SEE,CE,EE)	0.21	-9.90	864
SASX10 (BH)	-0.01	-1.92	686
WIG30 (PL)	-0.82	-6.91	1,932
SOFIX (BG)	-1.29	-3.57	444
BUX (HU)	-2.20	-2.36	23,357
BELEX15 (RS)	-4.13	-10.49	576.52

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
		22.1.2016			22.1.2016
RIZ Odašiljači	13.02	109	HT	0.65	140
Petrokemija	12.96	13	Atlantic Grupa	0.50	810
Đuro Đaković H.	7.77	32	Valamar Riviera	0.31	23
Maistra	7.61	222	Kraška	0.20	500
Belje	5.91	24	Atlantska Plov.	0.00	120
Ina	5.45	2,650	Ericsson NT	-1.40	975
Ingra	4.66	3	AD Plastik	-1.43	95
Zagrebačka Banka	3.25	37	Luka Ploče	-1.57	630
Luka Rijeka	3.02	42	Arenaturist	-2.73	318
Dalekovod	2.34	13	OT-Optima T.	-4.26	2
Končar El	1.11	637	Tankerska NG	-6.65	70
Podravka	0.92	313	Genera	-10.17	150
Adris Grupa (P)	0.74	345			

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

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#### Abbreviations

avg – average	FED – Federal Reserve System	ON – overnight
bp – basis points	FI – financial institutions	MM – money market
C/A – current account	FY – full year	MFEA – Ministry of Foreign and European Affairs
CBS – Croatian Bureau of Statistics	GDP – Gross Domestic Product	qoq – quarter over quarter
CES – Croatian Employment Service	GFCF – Gross fixed capital formation	RBA – Raiffeisenbank Austria d.d.
CNB – Croatian National Bank	ILO – International Labour Organisation	RoC – Republic of Croatia
DPS – dividend per share	IMF – International Monetary Fund	SMP – Securities markets programme
EC – European Commission	kn, HRK – Kuna	SNA – System of national accounts
ECB – European Central Bank	LSE – London Stock Exchange	USD – Dollar
EDP – Excessive Deficit Procedure	MIP – Macroeconomic imbalance procedure	w.d.a – working day adjusted
EM – Emerging Markets	MoF – Ministry of Finance	yoy – year over year
eop – end of period	mom – month over month	
EUR – Euro		
FCY – foreign currency		

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