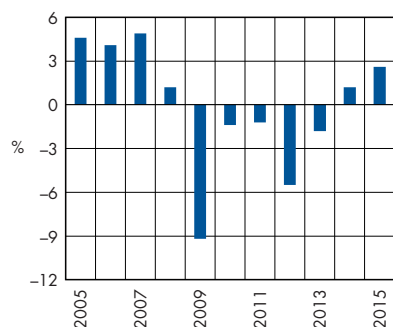


Fitch Affirmed Croatia's Credit Rating

Industrial production, annual change



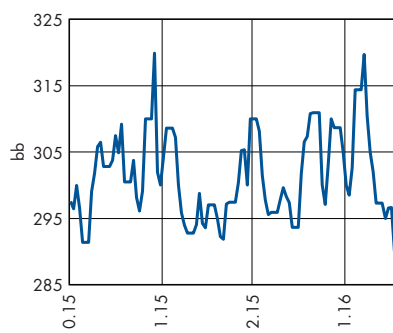
Sources: CBS, Economic RESEARCH/RBA

Croatia rating

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

Sources: CBS, Economic RESEARCH/RBA

5-year CDS (USD)



Sources: Bloomberg, Economic RESEARCH/RBA

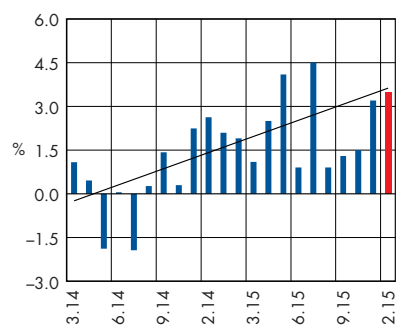
The very end of the week behind us brought the December **industrial production** data. The release confirmed the trend of positive growth rates which were supported by external demand. With annual growth at +1.0%yoy in December, total industrial production in the whole 2015 recorded a positive growth rate (2.6%yoy) for the second year in a row. Due to the solid and prolonged tourist season, the upcoming tourist indicators scheduled for this week are also expected to bring favorable data on number of nights and tourist arrivals in December. Consequently, we expect that the positive effect will be reflected in retail trade data for the same observed month (the real growth rate in retail could accelerate to +3.5%yoy).

In line with our expectation, the **Fitch agency** left the Croatian credit rating unchanged. According to the renewed assessment of Croatia, public debt rose to an estimated 89% of GDP in 2015 which is well above the "BB" median of 44% of GDP, and is only expected by Fitch to peak in 2017 at 92.4% of GDP. Also, Fitch estimates that fiscal deficit will narrow to 5% of GDP in 2015 (which is also significantly above the peer's median at 3.5% of GDP), primarily reflecting stronger revenue growth on the back of an economic recovery. Fitch expects the economy to grow 1.4% in 2016 and 1.8% in 2017 but also stressed that there is a high degree of uncertainty around fiscal forecasts for 2016-2017 given the arrival of the new Government. The negative outlook reflects the risk factors that may result in a downgrade: continued escalation of the public debt (through fiscal underperformance and/or rising financing costs) or weaker GDP growth. On the other side, future developments that may result in a revision of the outlook to Stable include the following: progress on fiscal consolidation leading to greater confidence that public debt/GDP will stabilise over the medium-term; and strengthening growth prospects and competitiveness (particularly through the implementation of structural reforms).

In the meantime, the positive sentiment on the market has continued (reflecting the confidence in the "reform rhetoric" of the new Government) so yields went down slightly and the 5-years CDS (USD) retained levels below 300bp (-20bp compared to the beginning of the year). Declines on weekly level were recorded in yields on the all types of Croatian eurobonds as well as the local bond issuances. Focus on the HRK bonds on the shorter-end of the yield curve might continue through this week as well, especially considering the further decline of 1-year HRK T-bills yield.

Namely, at the latest **T-bill auction** yield on the 1-year HRK T-bills decreased to 1.35% (-11bp), probably further supported by the announced long-term structural repo operation (with maturity 3-5 years). Given that the first one is expected in February, we do not exclude further downward pressures on T-bills yields. The next T-bill auction is scheduled for tomorrow when the Ministry of Finance plans to issue HRK 600mn (HRK 158mn less than the amount maturing). In case that the relatively high interest of investors continues, we do not rule out further downward pressures on T-bill yields.

Retail trade, real annual change



Sources: CBS, Economic RESEARCH/RBA

On the **FX market** the temporarily higher HRK speculative demand recorded at the middle of last week was neutralized by increased FCY demand by the corporate sector thus the EUR/HRK oscillated within the trading range 7.64 – 7.67 kuna per euro. Although the corporate sector's FCY demand is expected to slow down, we expect trading to remain within the same range. As liquidity in the system nearly exceeded the level of HRK 11 bn (the highest in the last 20 years), money market interest rates stayed at the low levels.

Financial analyst: Tomislava Ujević (+385 1 61 74 606), Raiffeisenbank Austria d. d., Zagreb

Key economic figures and forecast

	2014	2015e	2016f	2017f
Real GDP (% yoy)	-0.4	1.5	1.0	1.5
Industrial production, % yoy	1.2	2.7	2.5	3.4
Consumer prices (avg, % yoy)	-0.2	-0.5	1.1	1.5
Unemployment rate (ILO, avg)	17.3	16.2	16.0	15.8
Budget deficit, % of GDP, ESA 2010	-5.7	-5.0	-4.5	-4.1
Public debt, % GDP	85.1	89.9	93.1	94.9
C/A Balance, % of GDP	0.8	4.7	1.5	1.5
FX reserves, (eop, EUR bn)	12.7	13.0	13.1	12.9
EUR/HRK (avg)	7.63	7.62	7.65	7.66

Sources: CNB, MoF, CBS, Raiffeisen RESEARCH

No significant recovery of equity indices

Trading comment

The general indices CROBEX and CROBEX10 the second week in a row ended the week with a minimum increase of 0.5% and 0.34%. The leading European stock indices also recorded a slight increase in value, while the oil price was held above USD 30 per barrel. Regional indices also ended the week mostly with higher values with the largest upswing seen by Serbian BELEX15 index. The index CROBEXkonstrukt has achieved the highest growth among all sectoral indices of 1.26%, while the index of transportation companies the third week in a row recorded the largest fall in the value of 0.67%. Average regular daily turnover amounted to HRK 5.5 mn, 27.1% decrease compared to the last week. Shares of Hrvatski Telekom had the highest turnover of HRK 4.8 mn of regular turnover the second week in the row. Among CROBEX constituents, shares of Arenaturist had the best performance while shares of AD Plastik lost the most.

Company news

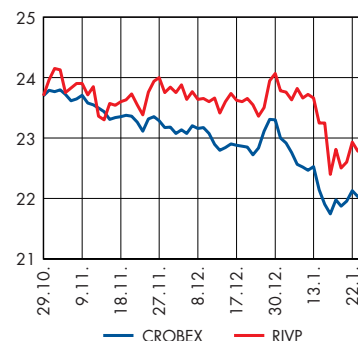
Valamar Riviera has revised its 2015 guidance as a result of higher operating income and achieved savings in operating expenses. Consolidated operating income ranging from HRK 1,290 mn to HRK 1,300 mn (earlier announced range from HRK 1,270 mn to HRK 1,290 mn) is expected. Expected EBITDA (without adjustments) will range from HRK 420 mn to HRK 425 mn. **Valamar** received a verdict of the Permanent Arbitration Court at the Croatian Chamber of Economy in case of the claimant/counter-respondent Glavice d.o.o. in bankruptcy and respondent/counter-claimant Valamar. The Arbitration Court completely rejected the claim of Glavice for the payment of the amount of HRK 64 mn and confirmed the claims of Valamar in amount of HRK 21 mn.

In this week

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

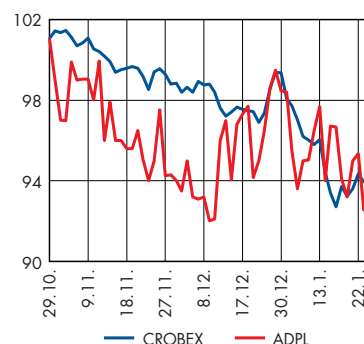
Financial analyst Damjan Sutlić (+385 1 55 75 733), Raiffeisenbank Austria d. d. Zagreb

Valamar Riviera (3 m)



Sources: ZSE, Raiffeisen RESEARCH

AD Plastik (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
29.1.2016			
BELEX15 (RS)	4.36	-6.59	602
PX (CZ)	3.87	-3.69	921
MICEX (RU)	3.73	1.18	1,782
BUX (HU)	2.33	-0.08	23,902
WIG30 (PL)	2.22	-4.96	1,973
SBITOP (SI)	1.92	-1.06	689
NTX (SEE,CE,EE)	1.92	-8.38	879
SOFIX (BG)	0.90	-2.70	448
CROBEX (HR)	0.50	-4.58	1,612
ATX (AT)	-0.07	-10.82	2,137
SASX10 (BH)	-0.40	-2.31	683
BETI (RO)	-1.29	-10.12	6,295.32

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
29.1.2016					
Arenaturist	6.82	340	Kraš	0.00	500
OT-Optima T.	5.56	2	Ina	0.00	2,650
Ingra	4.11	3	Luka Rijeka	-0.02	42
Đuro Đaković H.	2.44	33	Adris Grupa (P)	-0.03	345
Podravka	1.90	319	Tankerska NG	-0.07	70
Petrokemija	1.77	13	HT	-0.21	140
Končar El	1.73	648	Valamar Riviera	-0.35	23
RIZ Odašiljači	1.38	110	Maistra	-0.45	221
Ericsson NT	1.11	986	Luka Ploče	-1.56	620
Zagrebačka Banka	1.09	37	Atlantska Plov.	-1.84	118
Atlantic Grupa	0.50	814	Belje	-2.08	24
Dalekovod	0.08	13	AD Plastik	-2.98	93

* 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	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 – Aystem 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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