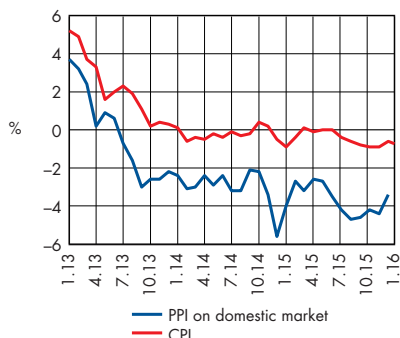


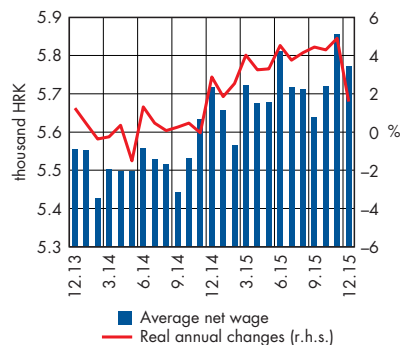
## Positive but Slower GDP Growth in Q4

### Inflation, annual changes



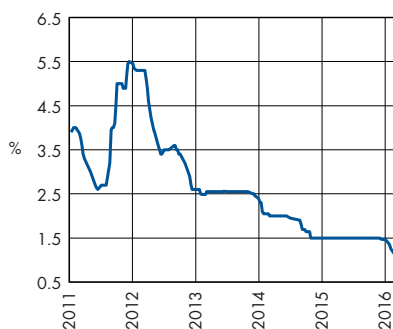
Sources: CBS, Raiffeisen RESEARCH

### Average net wage



Sources: CBS, Raiffeisen RESEARCH

### 1-year T-bills yields (HRK)



Sources: MF, Economic RESEARCH

The busy week in terms of important macroeconomic releases was mostly in line with our expectations. The published inflation data for January confirmed the trend of negative **CPI and PPI** growth rates (-0.8%yoy and -3.4%yoy) primarily as a result of imported deflationary pressures but also the still weak domestic demand. The latter is largely a reflection of the unfavorable conditions in the labor market which strongly correlate with the usual seasonal movements (in January the registered **unemployment rate** rose to 18.5%). Simultaneously, the first results on the real average **gross and net wages** for December showed continued growths on annual level (+1.7% and 1.6% respectively) thus reflecting an absence of inflationary pressures but at the same time resulting in increased disposable income.

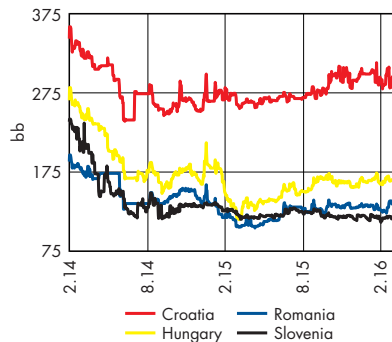
According to the preliminary estimate, for the whole 2015 GDP grew by 1.6%yoy. After the GDP announcement there were no significant reactions on the markets. Nevertheless, a positive contribution from domestic demand is expected to continue this year as well, but significant household consumption may be expected only after the start of the employment growth cycle. We also expect a positive contribution of net exports of goods and services, and a further increase of investments. Assuming that the recently proposed fiscal adjustment under the **Economic and fiscal policy guidelines for 2016–2018** will be accompanied by structural changes of large public systems and state administration (aided by increased efficiency and a rule of law), impetus could be provided for the private sector and economic growth could be made sustainable. This would largely offset the possible temporarily negative effect of the expected fiscal consolidation, ensuring a continued growth in 2016.

Despite the stronger adjustment on the expenditure side structure we expected, still one of the aims of the Government is to increase potential GDP and stabilise public debt to GDP ratio. Therefore, we do not exclude that the Government will start with structural measures as soon as it perceives the real possibilities and defines clear goals.

After a three-week break the Ministry of Finance held an **auction of T-bills** by issuing 1.3bn of pure HRK and 14mn of EUR linked T-bills which are, in both cases, above the planned amount. As expected, ample HRK liquidity and a lack of any attractive investment continue to support the demand for the short term Government papers despite the historically low yields. Moreover, although the yields on the EUR-linked 3-months remained unchanged (0.20%), all other yields declined further (HRK 3-months by 2bb to 0.4%, 6-months by 5bb to 0.5% and 1Y from 1.25% to 1.13% while yield on EUR-linked 1Y T-bills declined by 10bb to 0.30%). Consequently, the **local bond market** experienced increased trading volumes (unseen for a long time) so the yields on the short end of the curve reacted with a downward trend. Solid volumes are supposed to continue as the announced T-bill auction (scheduled for tomorrow when pure HRK 1.07bn matures) might result in further decline in yields, especially on the shorter bond side.

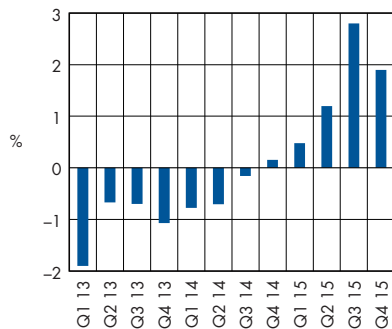
As regards the **FX market**, the week passed as we expected so slightly increased volatility resulted in EUR/HRK oscillation in the range 7.61–7.64 kuna per euro.

## 5-year CDS (USD)



Sources: Bloomberg, Economic RESEARCH

## Real GDP, yoy



Sources: CNB, Raiffeisen RESEARCH

Unchanged trading is expected over this week but we do not exclude a mildly higher level of the exchange rate in case of stronger FCY corporate demand.

At the very end of the week the first **GDP data** for Q4 15 brought some excitement. The first CBS estimate showed that the real GDP in the observed quarter rose by +1.9%yoy thus continued with positive growth rates on annual level for the fifth consecutive quarter but at a lower pace. At the same time, according to the seasonal adjusted data, GDP in Q4 15 decreased by 0.5% compared to the previous quarter. A positive contribution to GDP growth came from domestic demand, primarily as a result of personal consumption (+2.4%yoy). Growing household consumption was widely generated by higher disposable income and spillover effects from the excellent tourist season as well as slower negative trends on the labor market. Mild growth was recorded in component of Government consumption (+0.8%yoy) while GFCF growth (3.7%yoy) surprised positively thus suggesting a further spur in the investment growth cycle. On the other side, net-foreign demand brought a negative contribution (-1.1pp), primarily as a result of stronger growth of imports than exports of goods and services (13.6% vs 11.6%), warning us of the import driving nature of the domestic demand as well as on the high exports dependency on imports.

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

## Reporting season and dividends in focus

### Trading comment

The trading volumes remained thin despite high reporting season; HRK 6.2 mn of regular stock turnover on average daily. However, the block transactions totalled almost as much as the regular turnover. The most traded stock was that of Hrvatski Telekom (HRK 15.2 mn of total turnover, thereof HRK 8.4 mn of block transactions). CROBEX and CROBEX10 lost 0.49% and 0.58% in value, respectively. Except for the CROBEXkonstrukt and CROBEXindustrija which added 2.7% and 0.2% in the week, all other sector indices declined.

### Company news

**Hrvatski Telekom** reported small growth of the top line in 2015 yoy, flat yoy EBITDA before one off items and the net income after minorities of HRK 925 mn. The gross dividend proposition of HRK 6 per share totals HRK 491.3 mn. For 2016 the management expects slightly lower revenues in range 0% to -2% yoy and EBITDA margin of 40%. Investments in 2015 totalled HRK 1,463 mn and for 2016 CAPEX of HRK 1.1 bn is planned. **Atlantic Grupa** reported 5.6% higher sales yoy, a decline of the operating profit but 21% higher yoy net income after minorities. In 2016 the company continues to pursue expansion outside the region with significant investments in German and Austrian market and management expects lower operating profit yoy. **Tankerska Next Generation** in its first year of operations reported HRK 136 mn of sales and HRK 34.5 mn of net profit. Total investments of HRK 960 mn used for the acquisition of four new vessels what completed the fleet of six product tankers of total 300,000 dwt. **AD Plastik** proposed HRK 4 per share gross dividend with the ex-dividend day on April 12th. **Dalekovod** announced that after the re-evaluation of the bids related to the contract award for Dugo Selo – Križevci railway section upgrade and construction of the second track, the bid of the consortium including Dalekovod was confirmed and the value of the works is HRK 1.24 bn.

### In this week

The shares reporting in this week will be in the spotlight while the readings will move the indices.

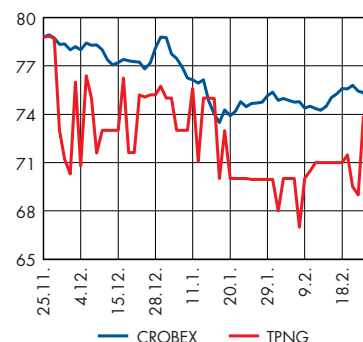
Financial analyst Nada Harambašić Nereau (+385 1 55 75 733), Raiffeisenbank Austria d. d. Zagreb

### Hrvatski Telekom (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Tankerska Next Generation (3 m)



Sources: ZSE, Raiffeisen RESEARCH

### Market performance

Index	1w %	ytd %	Value on*
<b>26.2.2016</b>			
BETI (RO)	3.53	-7.23	6,498
BUX (HU)	2.10	-1.10	23,658
BELEX15 (RS)	1.64	-8.45	590
SBITOP (SI)	1.60	-1.55	685
MICEX (RU)	1.30	3.14	1,817
ATX (AT)	0.99	-10.47	2,146
SOFIX (BG)	0.55	-3.21	446
NTX (SEE,CE,EE)	0.51	-6.77	895
WIG30 (PL)	0.40	-0.72	2,061
SASX10 (BH)	-0.17	-3.94	671
CROBEX (HR)	-0.49	-4.52	1,613
PX (CZ)	-0.67	-9.51	865

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

### Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
<b>26.2.2016</b>					
Ingra	14.29	3	Zagrebačka Banka	-0.66	39
Petrokemija	8.50	11	Končar El	-0.83	635
AD Plastik	5.18	102	Đuro Đaković H.	-0.92	38
Dalekovod	3.19	11	Ina	-1.00	2,575
Valamar Riviera	1.66	23	Luka Ploče	-1.54	640
OT-Optima T.	1.05	2	Arenaturist	-2.99	325
Podravka	0.94	318	Belje	-3.00	22
Ericsson NT	0.40	998	Maistra	-3.64	212
Atlantic Grupa	0.12	810	HT	-3.73	141
Kraš	0.00	510	Tankerska NG	-5.51	68
Luka Rijeka	-0.05	40	Atlantska Plov.	-7.48	99
Adris Grupa (P)	-0.05	360	RIZ Odašiljači	-7.95	81

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

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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 – System 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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