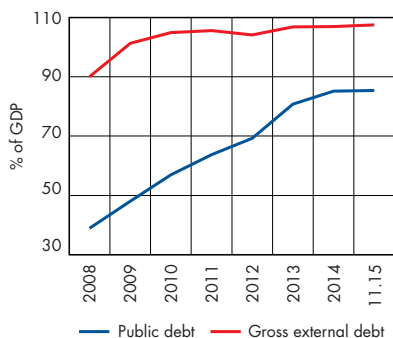


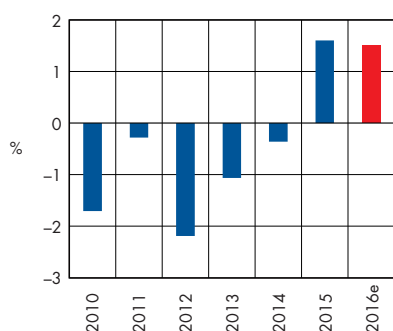
In Anticipation of 2016 Budget Proposal

Public and gross external debt



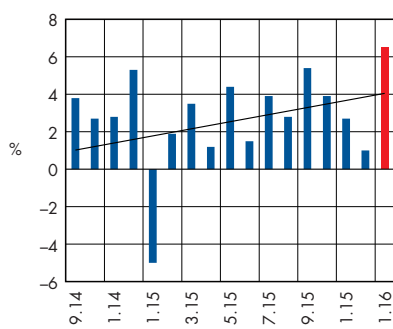
Sources: CNB, Raiffeisen RESEARCH

Real GDP, annual change



Sources: CBS, Raiffeisen RESEARCH

Industrial production, annual change



Sources: CBS, Economic RESEARCH

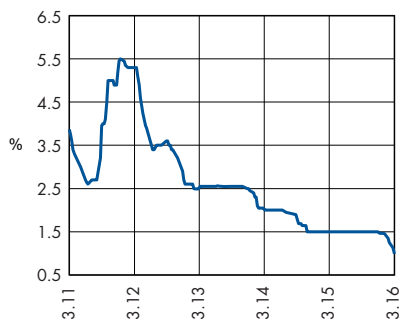
The week behind us was marked by the recently published data on public and **gross external debt** for November 2015. Reaching 107.5% of GDP, total gross external debt stood at EUR 47,2bn (+1.6%yoy) while **public debt** exceeded HRK 258bn or 85.4% of GDP thus continuing with positive growth rates (+3%yoy). Given that excellent tourist season strongly supported the fiscal outcome in 2015 (primarily through the better than expected VAT revenues and excises) resulting in lower general government deficit, we expect that total public debt by the end-2015 could remain at around 86% of GDP. This is lower than we initially projected, and also supported by better GDP outcome in 2015. However, raising interest expenses in 2015 (+7%yoy) warn us of a possible *snow-ball effect* while the recently published EC's *In-Debt Review* emphasizes that the most important factor behind the public debt increase were the high fiscal deficit and costs related to the materialization of contingent risks in state owned enterprises. Therefore, the announced fiscal adjustment will play a pivotal role in the debt stabilization process, while a positive impact is expected from intensified privatization processes. This week the focus will be on Government's **Budget Proposal for 2016** from which we expect to see and quantify further fiscal and structural policy steps in order to achieve defined macroeconomic goals. On the other hand, the past experience usually showed that budget execution used to be quite different from budget plans. Therefore we should be cautious when deriving conclusions based on proposed numbers.

At the very end of the week the CBS published the GDP estimate for Q415 by expenditure approach, which confirmed the first results published the week before (+1.9%yoy). At the annual level GDP in 2015 grew by 1.6%yoy in real terms. The largest positive contribution to **GDP growth in 2015** came from the increased export of goods (+12.1%yoy) generating a positive contribution of net-foreign demand. Domestic demand also positively contributed (by 1.2pp) primarily due to increased household consumption (+1.2%yoy). According to activity sections, the largest contributions to GVA growth in 2015 were achieved in Manufacturing (+2.6%yoy) while the Construction brought the largest negative contribution (-0.6%yoy).

The data calendar for the next week holds a few important releases. **Foreign trade** figures for December are expected to confirm a continuation of solid export and import growth rates in annual terms, while the **PPI data** for February will probably reflect imported deflationary pressures (-4.3%yoy). Despite the expected (usual) decline in monthly terms, the release on total industrial production in January could report a significant increase at +6.5%yoy as a result of continued foreign demand, but also the overly low base effect.

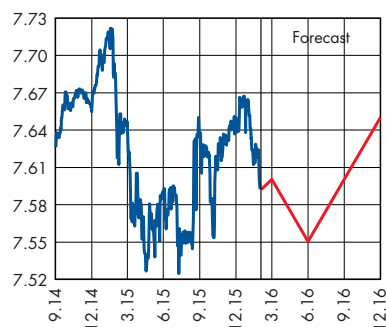
On the last week's **T-bills auction** the Ministry of Finance issued pure HRK 1.525bn T-bills, increasing short-term Government debt by HRK 455mn. Due to ample system liquidity and lack of any other type of attractive investment, the share of bank institutions in the total issuance was over 78%. Moreover, although the yields on 3mth and 6mth pure HRK T-bills remained unchanged (0.40% and 0.50% respec-

1-year T-bills yields (HRK)



Sources: MF, Economic RESEARCH

EUR/HRK



* bid rate, as of March 4th 16:00 CET
Sources: Bloomberg, Economic RESEARCH

tively), 1-year pure HRK yields slid further from 1.13% to 0.99% (historical low). The next T-bills auction is scheduled for Tuesday when pure HRK 1.19bn matures.

Plenty liquidity on the market was also confirmed on the regular one-week **reverse repo auction** where all bids accepted amounted to barely HRK106mn with unchanged fixed repo rate at 0.50%. Paired with a relatively weak HRK demand and low trading volumes it resulted in a slight decrease of **money market** interest rates.

As for the local **bond market**, yet another week passed with considerable high trading volumes and a slight drop in yields on weekly level. The focus was primarily on pure HRK debt securities with shorter maturity (2017 and 2018). As portfolio reshuffling was concluded by institutional investors and banks, calm trading is expected during the week ahead. At the same time, Croatian Eurobonds also experienced mild yields' decreases for the second consecutive week. The positive sentiment on the market continued and was reflected in 5-years CDS (USD) which slid to the lowest level since September 2015.

Turning to **FX market**, we saw a mild appreciation pressure on the domestic currency, driven by a higher FCY supply from institutional investors and domestic banks thus EUR/HRK fell below 7.60 kuna per euro. Further slight HRK appreciation pressures might continue and are expected to intensify with the approach of the Easter holidays.

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	1.6	1.5	1.5
Industrial production, % yoy	1.2	2.6	3.0	3.4
Consumer prices (avg, % yoy)	-0.2	-0.5	0.0	1.5
Unemployment rate (ILO, avg)	17.3	16.6	16.2	15.8
Budget deficit, % of GDP, ESA 2010	-5.6	-4.5	-3.9	-3.5
Public debt, % GDP	85.1	86.0	87.2	87.6
C/A Balance, % of GDP	0.8	4.7	2.0	2.2
FX reserves, (eop, EUR bn)	12.7	13.7	13.5	13.0
EUR/HRK (avg)	7.63	7.61	7.62	7.62

Sources: CNB, MoF, CBS, Raiffeisen RESEARCH

Stock indices declined

Trading comment

Despite the continuation of the reporting season, low regular turnover has continued and only HRK 6.3 mn on average daily has been achieved, while the block transactions totalled HRK 38.8 mn, in which shares of Atlantic Grupa participated with HRK 13.9 mn, Ledo with HRK 13.1 mn and Hrvatski Telekom with HRK 11.8 mn. Hrvatski Telekom stock was the most traded one in regular turnover, with HRK 11.3 mn turnover. General index CROBEX10 recorded sharp fall of 1.46%, while CROBEX index was in red as well and lost 0.84% in value. Sector indices had mixed movements, with the largest increase of 1.98% achieved by the CROBEXtransport index while CROBEXnutris led with a decline of 0.98%. Among CROBEX constituents, shares of Atlanska Plovidba increased the most while shares of Ingra lost the most. Stock indices in the region had positive performance led by Hungarian BUX index.

Company news

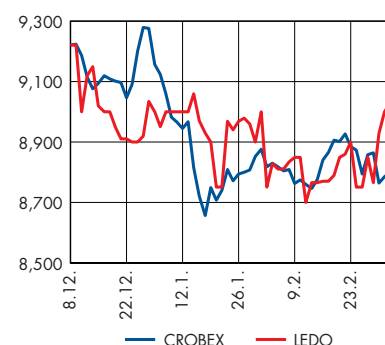
In an indirect acquisition of the W2005/Dvadeset Osm by Euro Sea Hotels N. V. owned by PPHE Hotels Group, the stake of 74.15% shares of **Arenaturist** changed hands thus imposing the obligation of publishing a takeover offer for the remaining shares in Arenaturist by the new majority shareholder. The takeover price will be determined as a three-month average of price on the stock exchange in the period before the obligation has arisen. After the analysis of received indicative bids for the sale of stake in Đuro Đaković Strojna Obrada, **Đuro Đaković Holding** has given up from the sale of this company while the sale of stake in Đuro Đaković Energetika I Infrastruktura is still on the table.

In this week

In the week ahead we expect continuation of thin trading on the Zagreb Stock Exchange and stagnation of general stock indices.

Financial analyst Damjan Sutlić (+385 1 55 75 733)

Ledo (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Arenaturist (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Market performance

Index	1w %	ytd %	Value on*
4.3.2016			
BUX (HU)	4.62	3.47	24,750
ATX (AT)	3.83	-7.05	2,228
MICEX (RU)	3.28	6.52	1,876
NTX (SEE,CE,EE)	3.18	-3.81	923
PX (CZ)	2.81	-6.97	890
SASX10 (BH)	2.12	-1.91	686
WIG30 (PL)	1.42	0.69	2,090
SBITOP (SI)	1.35	-0.23	695
BETI (RO)	1.06	-6.25	6,567
BELEX15 (RS)	0.32	-8.16	592
SOFIX (BG)	0.15	-3.07	447
CROBEX (HR)	-0.84	-5.32	1,600

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
4.3.2016					
Atlanska Plov.	15.15	114	Ericsson NT	-0.30	995
Petrokemija	10.51	12	Tankerska NG	-0.34	67
RIZ Odašiljači	3.70	84	AD Plastik	-0.49	101
Arenaturist	3.08	335	Atlantic Grupa	-0.62	805
Kraš	1.96	520	Đuro Đaković H.	-1.33	37
Maistra	1.42	215	Belje	-1.39	22
Zagrebačka Banka	1.26	39	Adris Grupa (P)	-1.61	354
Končar El	0.75	640	OT-Optima T.	-3.65	2
Valamar Riviera	0.69	23	Podravka	-3.76	306
Luka Rijeka	0.05	40	Luka Ploče	-6.20	600
HT	-0.07	141	Ina	-6.80	2,400
Dalekovod	-0.18	11	Ingra	-6.94	3

* 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 – 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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