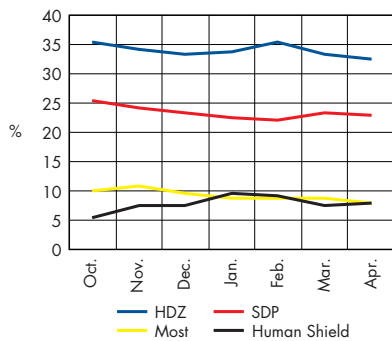
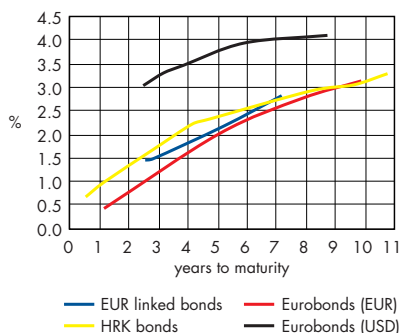


Opinion polling for the next Croatian parliamentary election



Sources: Ipsos Puls, Economic RESEARCH/RBA

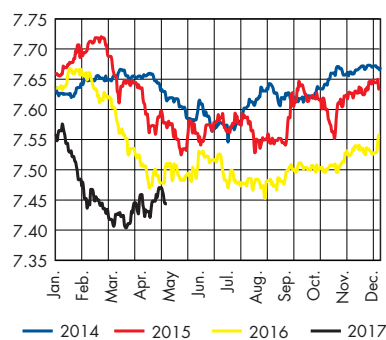
Croatia – sovereign curve



*as of 5 May 9:00 CET

Sources: Bloomberg, Economic RESEARCH/RBA

EUR/HRK mid rate



Sources: CNB, Economic RESEARCH/RBA

Minister of Finance survived no-confidence vote

As expected, the **political issues** in Croatia have remained in focus. The Minister of Finance survived the motion of no confidence vote, which ended in a tie (75 – 75 votes with one abstention). The vote of no confidence was the first and key point for the survival of the Government, because if it had been passed, the dissolution of the Parliament would have been the most likely option. At the end the speaker of the Croatian Parliament and also the leader of MOST resigned. In less than 24 hours, the Croatian Democratic Union (HDZ) announced that it has the support of 76 MPs to appoint the new Parliament chairperson. Obviously, the most political parties (especially the main opposition – Social Democratic Party) do not want a snap election. Now, our view is that everything might calm down, at least until the local elections.

Already at this point we could exclude snap elections before the summer, but still, this could be a possible outcome of the recent political turmoil ((in our view to 40%). Technically HDZ may ensure the sufficient majority in the Parliament for ruling, but the majority will be very tight and fragile. Unsurprisingly, hence, the Prime Minister left the door open for snap elections.

While the snap elections would not threaten the short term economic growth and fiscal metrics (given the Government will be restricted from spending), the political uncertainty (that is likely to last for several months) will definitely slow the progress of the reform agenda. Although rating agencies would view the political uncertainty negatively, improved fiscal metrics and broad based recovery supports current credit rating and outlook of Croatia. Or, if we look at this from the other side, exit from the Excessive Deficit Procedure and continuing favourable trends will not motivate credit rating agencies to improve the outlook of Croatia to positive from stable.

The increased political developments definitely put aside the economic and market developments, but also put the story of Agrokor on hold (at least in the local media). With regards to the latter, nothing special has been happening as it is crucial to wait and see the real outcome of the financial statements audit. Meanwhile, the Governor stressed he expects a very moderate negative impact of Agrokor at about 0.3 percentage points on GDP growth, assuming a decent restructuring process. Including such a moderate effect, the real GDP, according to the central bank estimates, could increase by about 3% yoy in 2017 (vs ours 3.3%).

In terms of relevant **macroeconomic data**, this week will be rather dull. The April PPI figures and March tourism data are to be released. Positive annual PPI rates will continue for the fourth month in a row due to return of imported inflationary pressures coming primarily from foreign commodity markets. We also predict that March data will confirm favourable tourism figures in Q1 17, thus supporting our view of one more excellent tourist season.

Croatia – main figures and forecasts

	2016	2017e	2018f
Real GDP (% yoy)	2.9	3.3	2.8
Industrial Production, % yoy	5.3	4.2	3.8
Consumer prices (avg, % yoy)	-1.1	1.9	1.6
ILO unemployment rate (avg, %)	13.1	12.2	11.2
General budget balance (% of GDP)	-0.8	-1.9	-2.0
Public debt (% of GDP)	84.2	82.6	80.6
CA (% of GDP)	2.6	2.5	2.2
Official FX reserves (EUR bn)	13.5	13.7	14.0
Gross foreign debt (EUR bn)	41.7	40.9	41.9
Gross foreign debt (as % of GDP)	91.4	89.7	84.4
EUR/LCY (avg)	7.53	7.45	7.46

Sources: CNB, CBS, Economic RESEARCH/RBA

Turning our attention to the **financial markets**, given the increased political uncertainties, we anticipate another week of weak trading volumes on the local bond market. Croatian Eurobonds have remained stable, reflecting the complacency of investors, who got used to political tensions across the region.

During the last week EUR/HRK returned back to the normal trends as the FX market witnessed a slight HRK appreciation. Some market participants have surely taken advantage of the relatively high EUR/HRK level to change market positions by selling EUR. We keep the expectations of trading in a relatively wide range (between 7.41 and 7.46 kuna per euro), whereby, under the usual circumstances, the EUR/HRK rate should move to the lower limit of the expected range.

Zrinka Živković Matijević

Quiet week in stock trading

Trading comment

In the week after the Q1 reporting season and amid the suspension of trading with shares of Agrokor's companies, the stock trading on the Zagreb Stock Exchange was subdued with small changes of indices on the daily basis. Also on the weekly level, CROBEX and CROBEX10 had a neutral move. Thereby, shares of construction companies had the best performance while index of industrial companies dropped the most. Among CROBEX members, shares of Ingra were the winner and shares of Petrokemija closed the week with the highest loss. The regular turnover amounted to meagre HRK 5.4 mn daily on average with shares of Hrvatski Telekom and preferred shares of Adris being the most traded. Equity indices in the region posted a mixed performance during the week.

Company news

Tehnika signed a contract for works on reconstruction of the hospital complex KB Sveti Duh with construction of a daily hospital building and an underground garage worth HRK 124.3 mn. The works should be completed in 24 month time.

Đuro Đaković Grupa has started with the capital increase procedure aiming to raise up to HRK 152 mn by issuing new shares. The subscription is opened this week and the process will be considered as a success if the minimum of 5 mn shares (out of maximum 7.6 mn offered) will be subscribed. The company also informed about new contract worth HRK 15 mn with a Swiss customer. The gross dividend proposed for shares of **INA** amounts to HRK 15.2 per share.

In this week

We expect continuation of weak trading activity with shares on the Zagreb Stock Exchange while the suspension of trading with Agrokor's companies ought to be extended up until 15 May (including). According to the dividend calendar, shares of Hrvatski Telekom go ex-dividend on Tuesday (DPS of HRK 6) and shares of Valamar Riviera go ex-dividend on Wednesday (DPS of HRK 0.8).

Nada Harambašić Nereau

Hrvatski Telekom (P) (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Tehnika (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Market performance

Index	1w %	ytd %	Value on*
5.5.2017			
ATX (AT)	1.27	16.42	3,048
BETI (RO)	0.76	17.05	8,293
SOFIX (BG)	0.54	12.68	661
NTX (SEE,CE,EE)	0.41	17.87	1,193
CROBEX (HR)	0.14	-4.53	1,905
SASX10 (BH)	0.07	-10.10	621
WIG30 (PL)	0.06	21.31	2,721
PX (CZ)	-0.34	8.99	1,004
BUX (HU)	-0.58	2.38	32,764
SBITOP (SI)	-0.67	8.29	777
BELEX15 (RS)	-0.74	-0.28	715
MICEX (RU)	-1.04	-10.62	1,996

* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
5.5.2017					
Ingra	13.40	5	Belje	0.00	8
Viadukt	7.12	90	Đuro Đaković Grupa	-0.02	42
Zagrebačka Banka	5.31	50	Atlantic Grupa	-0.51	780
Arenaturist	5.01	510	Adris Grupa (P)	-0.52	456
OT-Optima T.	4.74	4	Uljanik Plovidba	-0.63	161
Podravka	2.66	347	HT	-1.34	176
AD Plastik	2.03	168	Valamar Riviera	-1.52	41
Luka Ploče	0.73	550	Maistra	-1.99	290
Kraš	0.00	450	Atlantska Plov.	-2.00	425
Ericsson NT	0.00	1,340	Dalekovod	-4.54	23
Končar El	0.00	800	Zagrebačka burza	-4.57	17
Vupik	0.00	19	Petrokemija	-6.35	14
Ledo	0.00	3,450			

* as at 16:30 CET.

Source: ZSE, Economic RESEARCH/RBA

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Abbreviations

bp – basis points	HBOR – Croatian Bank for Reconstruction and Development	pp – percentage points
CERP – Restructuring and Sale Center	HNB – Croatian National Bank	Q1, Q2, Q3, Q4 – quarters
DZS – Croatian Bureau of Statistics	IMF – International Monetary Fund	RBA – Raiffeisenbank Austria d.d.
ECB – European Central Bank	kn, HRK – Kuna	USD – Dollar
EUR – Euro	MF – Ministry of Finance	yoy – year-on-year
FED – Federal Reserve System		
GDP – Gross Domestic Product		

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Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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