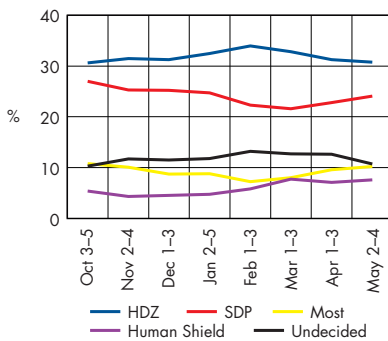


## Political suspense still in the foreground

### Opinion polling for the next Croatian parliamentary election

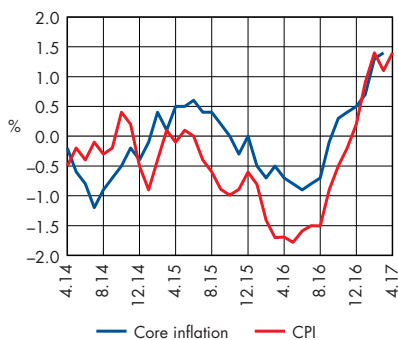


Source: Promocija Plus

Since the last Parliamentary session (held on May 5) Croatia has been in a temporary calmer mood in anticipation of the local elections, scheduled for May 21. Appointment and voting of new ministers who should replace the four former Ministers (from the ex-junior governing party MOST) have not occurred. Moreover, even after over 20 days the ruling HDZ and the PM have not announced their candidates publicly yet.

The rationale behind is probably the huge uncertainty whether the HDZ will succeed in gathering a parliamentary majority to support the new ministers, as in the case of non-vote this would mean the definitive end of the current government and the announcement of early elections. In our view, such a scenario would certainly endanger the results of local elections that represent the platform for the next cycle of parliamentary elections. Namely, it is commonly known that political parties are led by their own electoral motives and reward those local units that can contribute more to obtaining votes also in the national elections. Therefore, the local elections in Croatia, as well as elsewhere, have an important influence on the general political events.

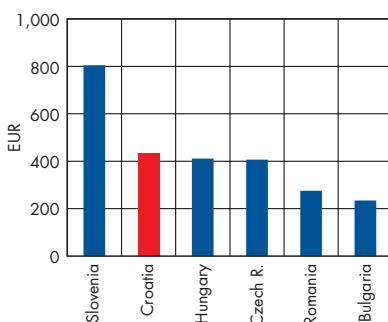
### Inflation, yoy (%)



Sources: CNB, CBS, Economic RESEARCH/RBA

Weeks immediately after the local elections, i.e. the first half of June, should give a clear picture of whether Croatia is facing another snap elections (the second elections in a year). It is really possible that PM Plenkovic will not succeed in gathering a parliamentary majority support for the new ministers, and that would mean early parliamentary elections after the main tourist season i.e. in September / October. The latest opinion polling for the next Croatian parliamentary election supports our expectations that in that case, once again, we may miss the clear winner. HDZ would be the relative winner of the elections but without the possibility of forming a majority, and this time surely without a coalition with MOST. The popularity of MOST has risen slightly on the wings of the events related to the Finance Minister (and Agrokor). Rumours concerning the big coalition between the main parties (HDZ and SDP) slowly find their way into the media, but in our view, this is still excluded (at least for now).

### Minimum gross wages\*



\* Feb 2017

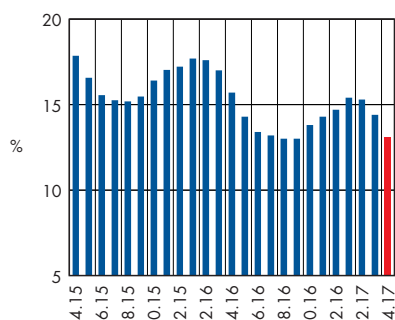
Sources: Eurostat, Economic RESEARCH/RBA

It is also indicative that according to CRO Demoscope (a regular monthly public opinion poll) research (conducted at the beginning of May), 76 percent of citizens believe that the country is going in the wrong direction. This result is very close to the level recorded at the peak of the last year's government crisis.

Political volatility (instability) would not be such a problem if Croatia had a strong institutional framework and functioning of the rule of law. The latter has been especially highlighted with the recent escalation of the Agrokor issue, and definitely represents a crucial problem of the business environment.

As for important **economic releases**, only the April CPI was released. According to the latest CBS data, CPI in April recorded positive growth rates at 0.5% mom and 1.4% yoy respectively, thus confirming the return of inflation rates back to positive territory (for the fifth month in a row). The strongest positive contribution to the monthly increase came from seasonally higher clothing and footwear prices.

## Registered unemployment rate



Sources: CBS, Economic RESEARCH/RBA

## EUR/HRK\*



\*as of 19 May 14:00 CET

Sources: Bloomberg, Economic RESEARCH/RBA

## 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

es, and higher unprocessed food prices given the unfavourable weather conditions. On the annual level CPI increase is primarily driven by food prices that rose by 1.4% yoy. As expected, we have witnessed also a spillover from the world oil market. Namely, prices on fuels and lubricants for personal transport equipment grew by 9.7% yoy. Core CPI (excl. volatile food and energy) accelerated its growth to 0.6% yoy in April, confirming that some pressures are also coming from increased domestic demand.

Still, the overall higher rates are predominantly a result of the strengthening of imported inflationary pressures, which, in contrast to the last three years, now bring upward pressure on prices in the domestic market. A slight spur to the increase in prices will be seen also in the remainder of the year, from imported inflationary pressures, primarily from the commodities markets of crude oil and food raw materials. To an extent, it could come also from the effects of the tax reform (increase in the VAT on certain services and excise duties). To a lesser extent, growth in the prices of consumer goods and services will come also from the growth in domestic demand.

Economic calendar for the very end of May is reserved for the **labour market data** only. In line with the usual seasonal movements, we expect the declining trend in unemployment and the increasing one in wages to be confirmed. Wage growth in March particularly applies to net salary, which predominantly resulted from changes in the taxation of income, and it will be somewhat offset by the positive inflation rate. The registered unemployment rate is projected to fall from 14.4% in March to 13.1% in April (2.5 percentage points lower compared to the same month of the previous year).

Turning our attention to the local financial market, **EUR/HRK** faced some volatility whereas depreciation pressures on HRK stem from the uncertainty concerning Agrokor i.e. most probably banks' further write-offs of Agrokor's debt. Fundamentally speaking, in a short run HRK should be more exposed to the appreciation pressures due to the start of the high tourist season, robust exports and stronger FCY inflows, higher demand for HRK loans and improved fiscal and external position.

The local bond market remained dull with very tight trading volumes with no significant changes in yields. After three weeks the Ministry of Finance announced a **T-bill auction** as HRK 330 mn and EUR 16 mn mature this week. Ample liquidity, and consequently a low interest rate environment, suggest no changes in yields.

Zrinka Živković Matijević

## Weak interest for equities

### Trading comment

The cautious sentiment among investors on the Zagreb Stock Exchange could be seen in further deterioration of daily stock turnovers which amounted to only HRK 5.1 mn on average and the CROBEX decline of 1.3% in the last week. The common shares of Adris were the most traded thanks to a block transaction of HRK 10.7 mn. Among members of CROBEX, shares of Petrokemija were the best performers while shares of Uljanik Plovidba recorded the largest drop. Most of the equity indices in the region had a positive performance during the week.

### Company news

**Valamar Riviera** and PBZ Croatia Osiguranje mandatory pension funds' management company have submitted a joint offer for the investment and recapitalization of the company Helios Faros from Stari Grad on the island of Hvar. They propose a restructuring plan as well as a five year investment plan worth HRK 650 mn which will encompass upgrade of around 700 accommodation units to a premium segment. **Đuro Đaković Grupa** announced that the capital increase process has been suspended because the success threshold of 5 million shares subscribed was not achieved. **Arena Hospitality Group** published that the PPHE Hotel Group which already holds 77% of the company's shares, intends to subscribe for such number of new shares, at a price ranging between HRK 400 and HRK 500 per share, as shall have an aggregate value equal to EUR 9 mn. The book building period for the process ends on Thursday. **AD Plastik** signed a grant agreement which will provide the company amount of HRK 19.6 mn for the development of the new painting technology from European Structural and Investment funds.

### In this week

The supervisory board of AD Plastik will be discussing on the dividend proposition for 2016 on Thursday. Starting this week, shares of Agrokor's companies Ledo, Jamnica and Belje will be excluded from calculation of the CROBEX and shares of Ledo from the CROBEX10 index. The market regulator extended the suspension of trade with shares of companies from Agrokor group until the audited 2016 and Q1 2017 reports are published.

Nada Harambašić Nereau

### Market performance

Index	1w %	ytd %	Value on*
<b>19.5.2017</b>			
ATX (AT)	2,79	20,99	3.168
BELEX15 (RS)	1,80	3,01	739
BUX (HU)	1,26	8,96	34.869
NTX (SEE,CE,EE)	0,95	20,15	1.216
BETI (RO)	0,89	19,72	8.482
SOFIX (BG)	0,58	12,34	659
SBITOP (SI)	0,26	9,35	785
PX (CZ)	0,18	10,66	1.020
MICEX (RU)	-1,14	-11,68	1.972
CROBEX (HR)	-1,27	-6,70	1.861
WIG30 (PL)	-1,71	18,97	2.669
SASX10 (BH)	-2,72	-11,51	611

\* as at 16:30 CET.

Source: Bloomberg, Economic RESEARCH/RBA

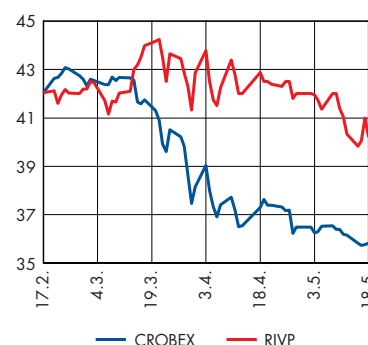
### Top/Flop – CROBEX index

Share	1w %	Price on*
<b>19.5.2017</b>		
Petrokemija	18,72	16
Kraš	10,57	520
Ingra	7,06	5
OT-Optima T.	3,31	4
Končar El	0,76	800
Vupik	0,00	19
Ledo	0,00	3.450
Belje	0,00	8
Dalekovod	-0,10	21
Luka Ploče	-0,19	540
Valamar Riviera	-0,27	40
Zagrebačka burza	-0,30	16
Atlantic Grupa	-1,15	771

\* as at 16:30 CET.

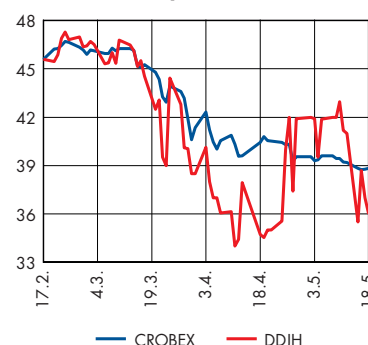
Source: ZSE, Economic RESEARCH/RBA

### Valamar Riviera (3 m)



Sources: ZSE, Economic RESEARCH/RBA

### Đuro Đaković Grupa (3 m)



Sources: 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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% of all recommendations	0%	72%	0%	0%	14%	14%
Investment banking services	0	0	0	0	0	0
% all IB services	0%	0%	0%	0%	0%	0%

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We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmissbrauchs-Verordnung.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer. It shall in no way affect the legality, validity or enforceability of the remaining terms.