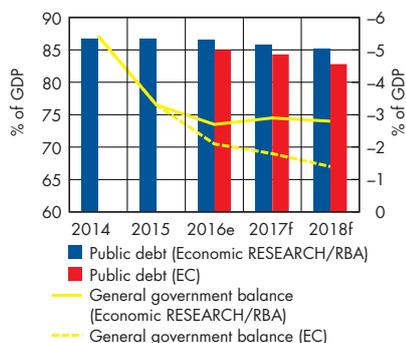


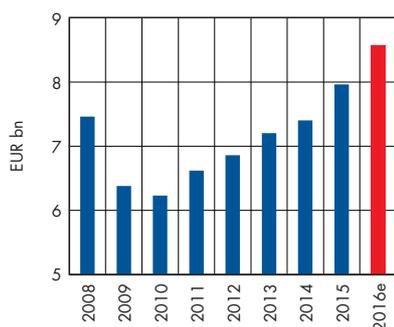
The comprehensive tax reform sent to the Parliament

Fiscal metrics, general government



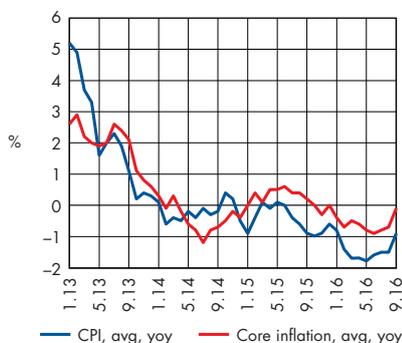
Sources: EC, Economic RESEARCH/RBA

Travel receipts (tourism)



Sources: CNB, Economic RESEARCH/RBA

Inflation, annual change



Sources: CBS, Economic RESEARCH/RBA

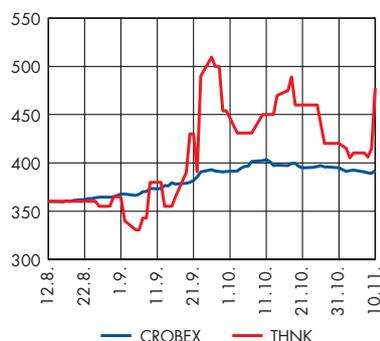
At the last week session the Government sent a **new tax package** for 2017 and 2018 to the Parliament. The tax reform covers a large package of 15 laws. The proposed amendments actually kept the majority of initial proposals. However, after consultations within the parties in power and social partners the biggest changes refer to the VAT rate proposal. Contrary to the initial proposal, the general VAT rate is not be lowered. Therefore, the VAT rates of 25% (general rate), 13% and 5% are to remain in place. The lowest rate applies to bread, milk, medicines, orthopaedic aids, and books. The overall effect of the tax reform (i.e. cost for the general budget) in 2017 and 2018 is estimated to HRK 2bn and HRK 1.3 bn, respectively. Still, already in its first year the tax reform would reduce the tax-to-GDP ratio by 0.6pp causing higher disposable income and consequently stronger households' consumption. Paired with a reduced corporate tax burden (the general tax rate to 18% from 20%, for SME and farmers to 12%), we expect to see a positive impact on GDP growth and the revenue side thus compensating the lost revenues. Moreover, the MoF planned to achieve 2% of GDP general deficit in 2017. We keep a cautious stance (2.9% GDP) as public expenditure structure remains unfavourable and as expenditures tend to rise in a period of political stability. Furthermore, some issues, like wages in the public sector, have to be negotiated (total impact/risk on budget is estimated at HRK 1.8 bn). Medium to long-term growth and fiscal sustainability is largely conditioned by implementation of the reforms in the public systems (health care, education, welfare and pension), stronger rule of law, and improved efficiency of the public administration. Therefore, besides the 2017 budget figures (to be presented in the upcoming weeks), the focus is definitely on the oncoming structural measures.

In the meantime, economic releases confirmed that growth gained momentum, strongly supported by tourism. The **September tourism** nights and arrivals reported strong (double digit) figures, +14.5% and 11.5%, respectively. However, due to the huge import dependency, higher domestic demand and service exports trigger imports of goods thus diminishing the positive effects of external demand. Therefore, as expected, foreign **trade deficit** has continued to widen. The final Jan-Aug merchandise data showed 4.4% yoy export growth but at the same time 4.7% yoy import growth. So, in the Jan-Aug period foreign trade deficit deepened by 5.2% yoy, and the coverage of imports by exports decreased to 60.4% (0.2pp lower than in the same period in 2015). However, negative trends in merchandise trade were offset partly by an annual drop in oil prices on the world's commodity markets (Croatia is net importer of energy). The **CPI figure** for October, scheduled for release on Thursday, will confirm a continuation of the negative rates (-0.8% yoy). In the first nine months of this year alone the general level of consumer prices declined by 1.4%, with the greatest contribution to the decline coming from energy and food products, which account for over 40% of CPI. In terms of structure, the fall in these two categories has freed up available income for households and eliminated the fear of a deflation spiral. A slow and mild recovery in prices on the global commodities markets (primarily crude oil and food) is expected to spill over to domestic prices, so in addition to a base effect, the average rate of inflation is expected to return to positive figures in 2017.

Zrinka Živković Matijević

New contracts for Tehnika and AD Plastik

Tehnika (3 m)



Sources: ZSE, Economic RESEARCH/RBA

AD Plastik (3 m)



Sources: ZSE, Economic RESEARCH/RBA

Trading comment

Equity indices CROBEX and CROBEX10 posted a wow advance. Regular equities' turnover was much higher compared to the previous week, at HRK 12 mn daily on average. The highest turnover was recorded by **Podravka**, HRK 188.2 mn in total. Thereof HRK 186.4 mn refers to block trade, when 517,852 shares were sold by Norwegian fund Skagen Kon-Tiki. Among CROBEX constituents the top performer was the share of **Uljanik plovdba**, while the strongest drop was posted by industrial shares' index. Regional indices closed the week mainly in green.

Company news

Tehnika informed about two contracts signed related to construction of a business-sports center and residential building. The value of the contracts is not disclosed while the deadline for the completion is set at end of 2017. **AD Plastik** won a nomination for the production of painted front and rear bumpers and rear bumper side aprons for the vehicle Renault Clio. Start of the serial production is planned for August 2017 while the expected revenue amounts to EUR 16.5 mn during a two-year period. **Dalekovod** terminated the contract with Polish electricity transmission company related to construction of transmission line. The contract was signed in 2014 and was worth EUR 110 mn.

In this week

In this week we expect continuation of the similar trading dynamics on ZSE.

Ana Turudić

Market performance

Index	1w %	ytd %	Value on*
11.11.2016			
MICEX (RU)	3.91	15.79	2,040
ATX (AT)	3.05	3.73	2,486
WIG30 (PL)	2.29	0.20	2,080
BUX (HU)	2.01	28.01	30,620
SOFIX (BG)	1.68	16.97	539
NTX (SEE,CE,EE)	1.22	-0.01	959
PX (CZ)	1.08	-5.53	903
BETI (RO)	0.91	-2.31	6,843
CROBEX (HR)	0.82	16.17	1,963
SASX10 (BH)	0.05	0.99	706
BELEX15 (RS)	-0.39	3.21	665
SBITOP (SI)	-0.82	5.45	734

* as at 16:30 CET. Source: Bloomberg, Economic RESEARCH/RBA

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
11.11.2016					
Uljanik Plovdba	16.14	155	Ingra	0.38	3
Atlantska Plov.	13.59	349	Kraš	0.00	530
Arenaturist	6.17	425	Belje	0.00	25
Tankerska NG	2.54	76	AD Plastik	-0.14	138
Đuro Đaković Holding	2.52	50	Atlantic Grupa	-0.43	875
Zagrebačka Banka	2.08	49	Imperial	-0.49	800
Luka Rijeka	2.02	49	Sunčani Hvar	-0.83	24
Valamar Riviera	1.71	32	Ericsson NT	-0.97	1,118
Podravka	1.62	373	Ledo	-1.23	11,210
OT–Optima T.	1.57	3	HT	-1.48	163
Končar El	1.48	685	Luka Ploče	-2.69	543
Adris Grupa (P)	0.65	452			

* 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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"Reduce": expected negative return up to -10% over next 12 months.

"Sell": for stock with expected negative return by more than -10% over next 12 months.

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% of all recommendations	29%	72%	0%	0%	0%	0%
Investment banking services	0	2	0	0	0	0
% all IB services	0%	29%	0%	0%	0%	0%

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