

# Republic of Croatia

## Rating Report

### Rating rationale

**Robust downwards public debt trajectory:** Croatia holds a solid record of fiscal consolidation, characterised by primary fiscal surpluses and robust debt reduction in the years leading up to the Covid-19 pandemic in 2020. Commitment to fiscal discipline, a robust growth outlook and favourable debt affordability underpin a declining debt trajectory, with debt projected to fall below the 60% of GDP Maastricht criterion in 2024.

**Sound structural reform momentum:** The Croatian government has shown an ongoing commitment to structural reform and fiscal prudence in line with efforts to join the euro area, which it entered in January 2023. The implementation of the reforms agreed under its Recovery and Resilience Plan, supported by sizable EU grant-funding, is expected to yield further structural improvements for Croatia's economic resilience and long-term growth prospects.

**Euro area membership:** Croatia benefits from the highly credible monetary policy and rigorous financial sector oversight of the Eurosystem. Euro adoption has significantly curtailed external and financial sector foreign-exchange risks and is expected to support economic momentum over the medium-term.

**Rating challenges:** i) low economic diversification and high reliance on tourism raise the country's vulnerability to external shocks and limit convergence to euro area income levels; ii) adverse demographic trends could weaken potential growth due to labour supply constraints, and lead to rising fiscal costs; and iii) a moderately high, albeit declining, public debt stock.

**Figure 1: Croatia's sovereign rating drivers**

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	a-	EUR	Croatia	- 1/3	BBB+
Public finance risk		20%	aaa			0	
External economic risk		10%	bbb			- 1/3	
Financial stability risk		10%	aaa			0	
ESG risk	Environmental factors	5%	bbb+	[+1]	[-0]	- 1/3	
	Social factors	7.5%	ccc			- 1/3	
	Governance factors	12.5%	bbb+			- 1/3	
<b>Sovereign Quantitative Model</b>		<b>a</b>			<b>-2</b>		
<b>Additional considerations</b>					<b>0</b>		

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. Movements between indicative ratings are only determined after the analyst's review of quantitative results and are documented and approved by a rating committee during review of the rating. The rating committee approved an indicative rating of 'a'. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

**BBB+/Positive**

Senior unsecured debt

**BBB+/Positive**

Short-term issuer rating/Outlook

**S-2/Positive**

### Local currency

Long-term issuer rating/Outlook

**BBB+/Positive**

Senior unsecured debt

**BBB+/Positive**

Short-term issuer rating/Outlook

**S-2/Positive**

### Lead Analyst

Julian Zimmermann

+49 69 6677389-89

[j.zimmermann@scoperatings.com](mailto:j.zimmermann@scoperatings.com)

### Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

### Credit strengths and challenges

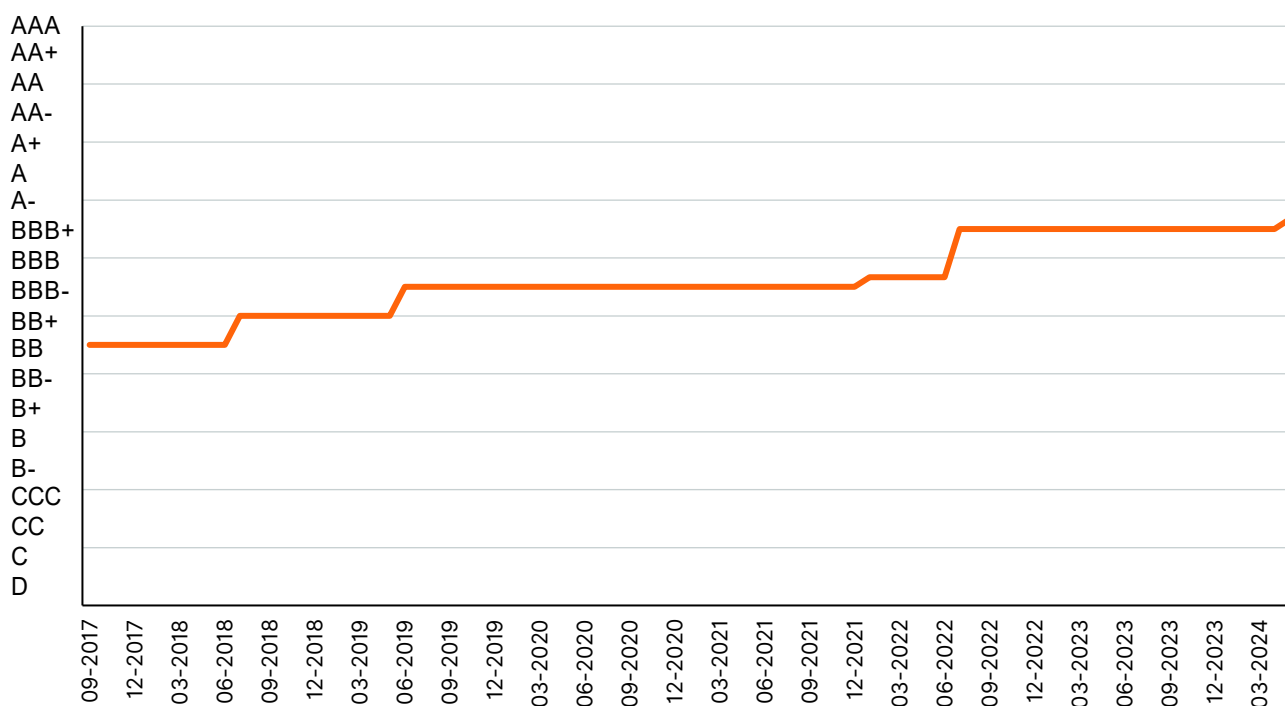
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>• Robust economic outlook, fiscal consolidation prospects</li> <li>• Structural reform momentum</li> <li>• Euro area membership</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate economic diversification</li> <li>• Adverse demographic trends</li> <li>• Still comparatively high public debt</li> </ul>

### Outlook and rating triggers

The Positive Outlook reflects Scope’s view that risks are tilted to the upside over the next 12 to 18 months.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>• Strong economic outlook, for example reflected by improvements in economic diversification, and/or productivity and wealth levels</li> <li>• Favorable fiscal dynamics, sustained decline in debt-to-GDP ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Material weakening in the growth outlook</li> <li>• Significant deterioration in fiscal dynamics</li> </ul>

Figure 2: Rating history<sup>1</sup>



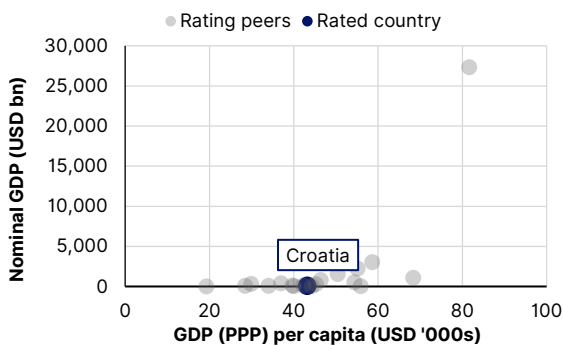
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

#### Overview of Scope's assessments of Croatia's Domestic Economic Risk

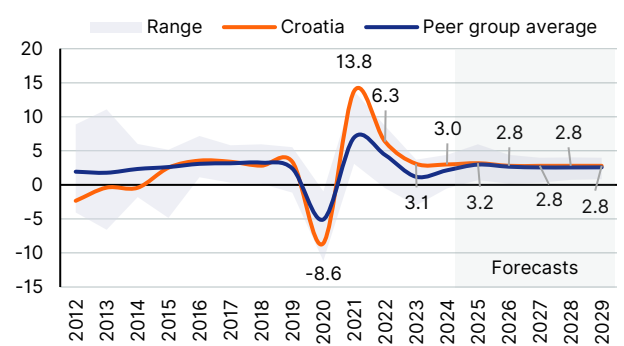
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Growth potential and outlook	Neutral	0	Growth potential broadly in line with peers, moderate productivity growth and adverse demographics
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Weak	-1/3	Limited economic diversification, shortages of skilled labour

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



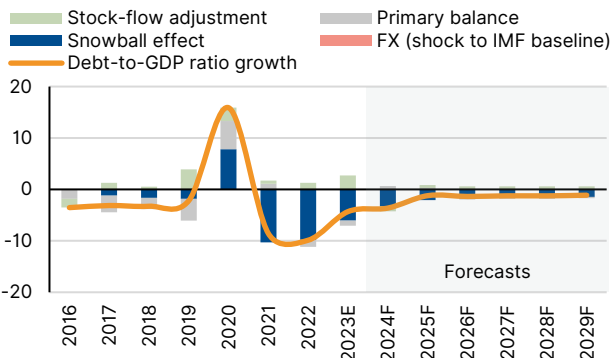
Source: IMF WEO, Scope Ratings forecasts

### Public finance risk

#### Overview of Scope's assessments of Croatia's Public Finance Risk

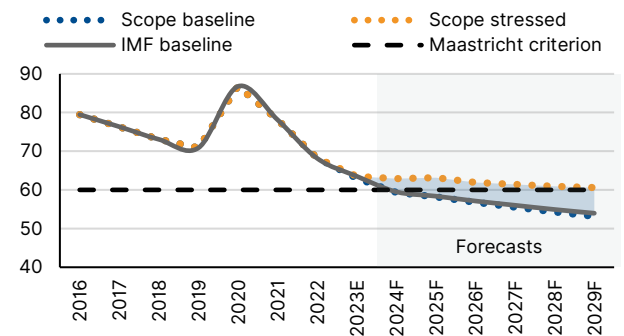
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Pre-crisis fiscal surpluses, record of commitment to fiscal discipline, but comparatively restricted tax base
	Long-term debt trajectory	Neutral	0	Relatively high public debt, expected to decline steadily in the medium term
	Debt profile and market access	Neutral	0	Favourable financing conditions, foreign-exchange risks in the public debt stock curtailed following euro adoption

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

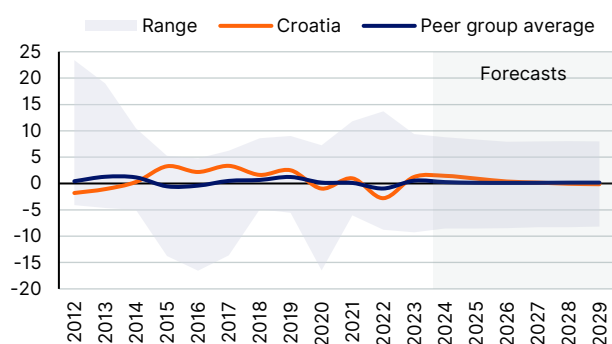
\*Sovereign Quantitative Model.

## External economic risk

### Overview of Scope's assessments of Croatia's External Economic Risk

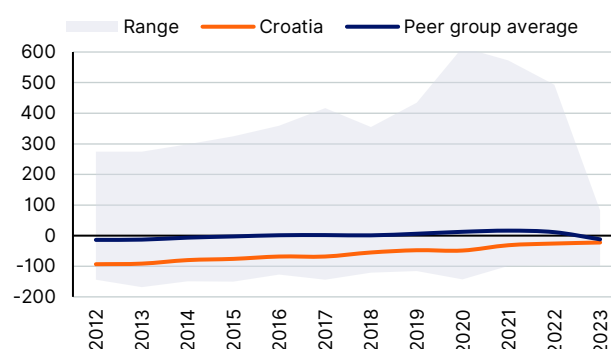
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Current account resilience	Weak	-1/3	High reliance on tourism revenues weakens exporting-sector resilience
	External debt structure	Neutral	0	Narrowing external debt
	Resilience to short-term external shocks	Neutral	0	Small and open economy; euro-area membership mitigates exposure to international markets fluctuations

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



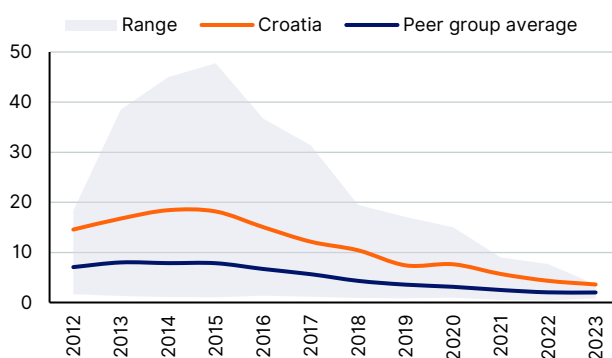
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Croatia's Financial Stability Risk

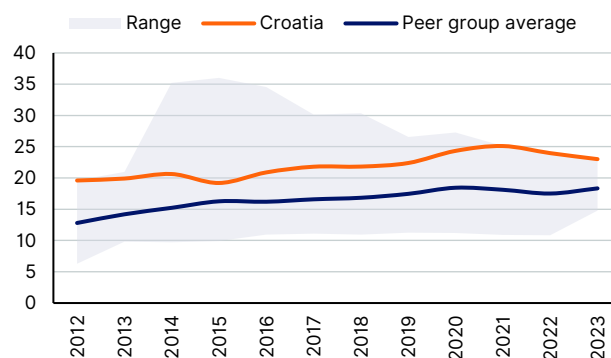
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector
	Financial sector oversight and governance	Neutral	0	Oversight under the Croatian National Bank and the ECB as part of the Banking Union
	Financial imbalances	Neutral	0	Moderate savings and low private sector indebtedness

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



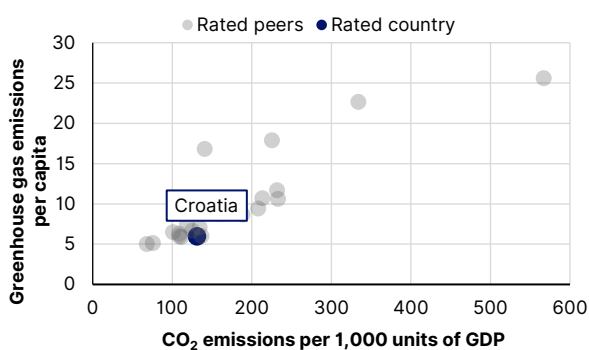
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Croatia's ESG Risk

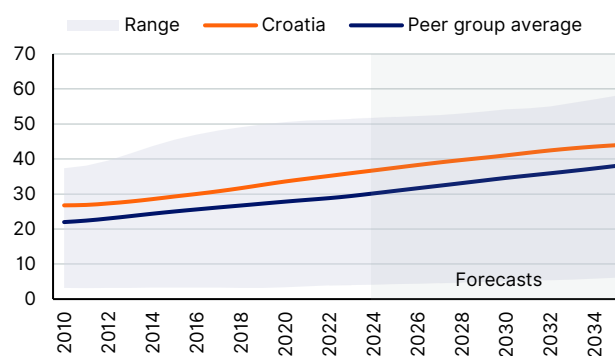
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Environmental factors	Weak	-1/3	Transition risks in line with peers, relatively higher climate risks through impacts on agriculture, tourism and the energy sector
	Social factors	Weak	-1/3	Relatively high human development, but lower employment rates and unfavorable demographics
	Governance factors	Weak	-1/3	Comparatively moderate institutional capacity, challenges around efficiency of judicial system

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

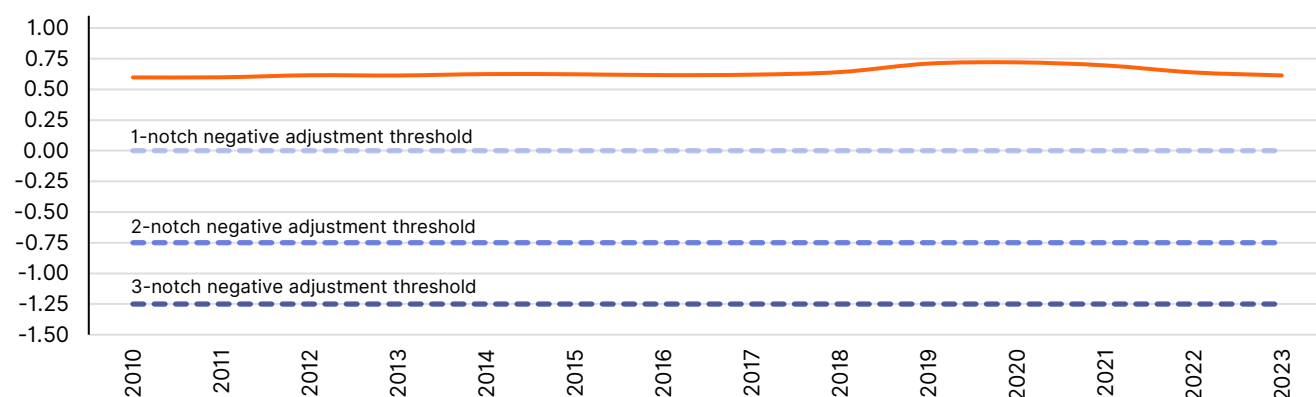
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Croatia, 3-year moving average



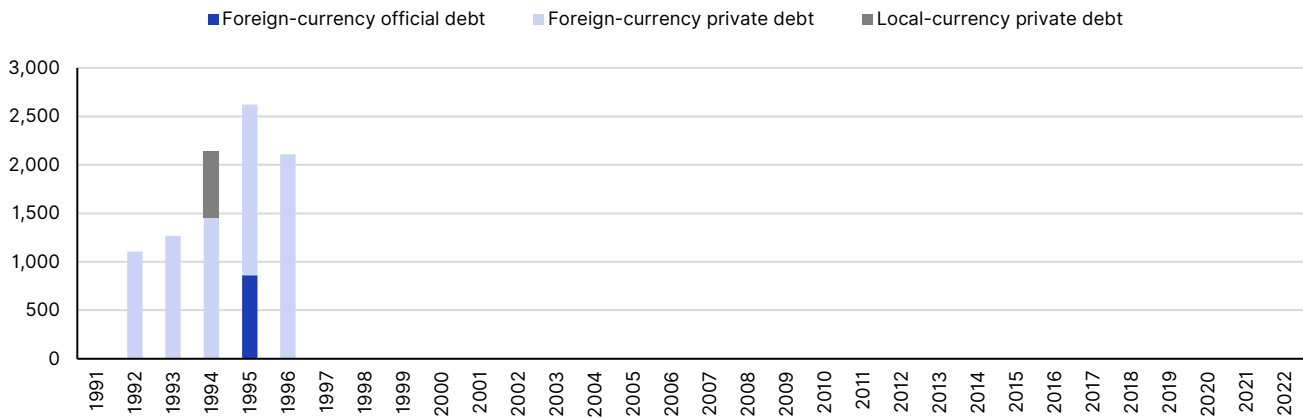
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Cyprus
Estonia
Latvia
Poland
Portugal
Slovakia

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 3 May 2024	94

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	28.9	30.6	28.4	35.3	40.4	43.2
	Nominal GDP, USD bn	IMF	62	61	58	69	72	82
	Real growth, %	IMF	2.8	3.4	-8.6	13.8	6.3	2.8
	CPI inflation, %	IMF	1.6	0.8	0.0	2.7	10.7	8.4
	Unemployment rate, %	WB	8.4	6.6	7.5	7.6	7.0	6.3
Public Finance	Public debt, % of GDP	IMF	73.1	70.9	86.8	78.1	68.2	63.5
	Net interest payment, % of government revenue	IMF	4.5	4.4	3.8	3.0	2.7	2.7
	Primary balance, % of GDP	IMF	2.2	4.2	-5.5	-1.1	1.3	1.5
External Economic	Current-account balance, % of GDP	IMF	1.6	2.5	-1.0	1.0	-2.8	1.2
	Total reserves, months of imports	WB	7.0	7.1	9.3	8.5	7.1	-
	NIIP, % of GDP	IMF	-55.0	-47.7	-48.6	-31.3	-25.8	-
Financial Stability	NPL ratio, % of total loans	IMF	10.4	7.4	7.6	5.7	4.3	3.6
	Tier 1 ratio, % of risk-weighted assets	IMF	21.7	21.6	22.7	24.6	25.2	23.0
	Credit to the private sector, % of GDP	WB	54.4	52.9	59.4	52.8	50.3	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	153.5	150.3	156.0	138.0	131.4	-
	Income share of bottom 50%, %	WID	19.3	19.2	19.2	19.0	19.1	-
	Labour-force participation rate, %	WB	66.5	66.6	67.1	68.4	69.3	-
	Old-age dependency ratio, %	UN	31.7	32.6	33.6	34.4	35.2	36.0
	Composite governance indicators*	WB	0.4	0.4	0.4	0.4	0.4	-
	Political stability, index	WB	0.8	0.7	0.6	0.6	0.6	-

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

## Scope Ratings GmbH

Lennéstraße 5  
D-10785 Berlin  
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0  
Fax: +49 30 27891-100  
[info@scoperatings.com](mailto:info@scoperatings.com)

**in**  
Bloomberg: RESP SCOP  
[Scope contacts](#)

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