

# Republic of Croatia

## Rating Report



### Credit strengths

- Robust fiscal consolidation prospects
- Structural reform momentum
- Euro area membership since January 2023

### Credit challenges

- Modest growth potential despite lower wealth levels
- Still moderately high public debt ratio
- Lack of economic diversification

### 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 pandemic. 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 in coming years.

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

**Euro area membership:** Croatia, a member of the euro area since 1 January 2023, 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 include:** i) a moderately high but declining public debt stock; ii) a modest growth potential, reflecting low investment and productivity growth and unfavourable demographics; and iii) the economy's relative lack of diversification and high reliance on tourism, which caused large swings in economic activity in 2020 and 2021 during the Covid-19 pandemic.

### Croatia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bbb-	EUR [+1]	-1/3	BBB+	
Public Finance Risk	20%	aaa		-1/3		
External Economic Risk	10%	bbb-		-1/3		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		aa		-1/3
	Social Factors	7.5%		ccc		-1/3
	Governance Factors	12.5%		bb		0
<b>Indicative outcome</b>	<b>a</b>			<b>-2</b>		
<b>Additional considerations</b>				<b>0</b>		

Note: \*The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*\*The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

### Positive rating-change drivers

- Improved economic outlook, higher wealth levels and greater economic diversification
- Sustained decline in debt-to-GDP ratio

### Negative rating-change drivers

- Deterioration in the growth outlook
- Lasting deterioration in fiscal dynamics

### Ratings and Outlook

#### Foreign currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

#### Local currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

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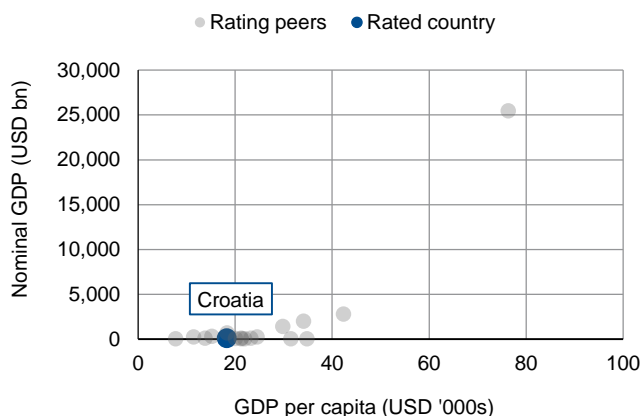
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for Croatia's *Domestic Economic Risk*

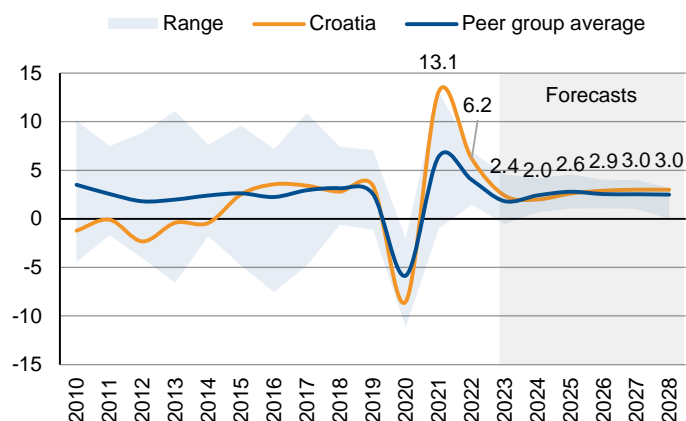
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential of the economy	Neutral	0	Modest growth potential due to low productivity growth and adverse demographics, comparable to peers.
	Monetary policy framework	Neutral	0	Entry into the Eurosystem on 1 January 2023. The ECB is a credible and effective central bank.
	Macro-economic stability and sustainability	Weak	-1/3	Limited economic diversification, shortages of skilled labour.

#### Nominal GDP and GDP per capita



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

#### Real GDP growth, %



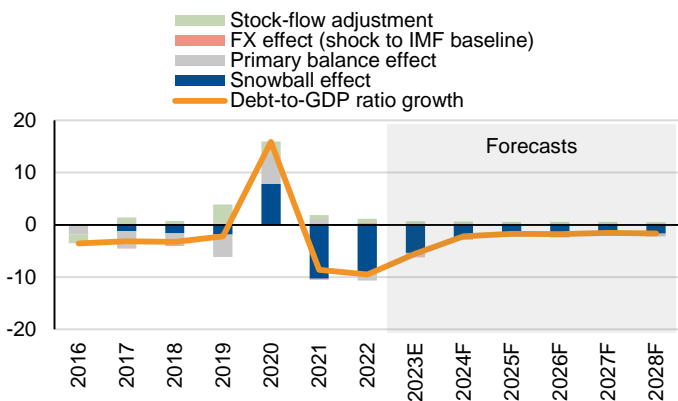
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for Croatia's *Public Finance Risk*

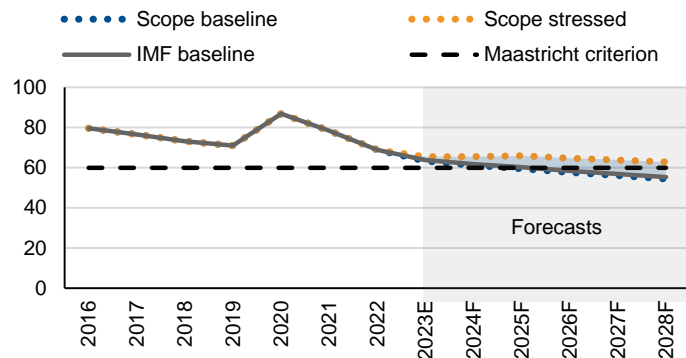
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Pre-crisis fiscal surpluses, record of commitment to fiscal discipline, but comparatively restricted tax base
	Debt sustainability	Weak	-1/3	Elevated public-sector debt, gradual debt reduction over the medium run, costs of an ageing society
	Debt profile and market access	Neutral	0	Favourable financing conditions, foreign-exchange risks in the public debt stock curtailed following euro adoption

#### Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



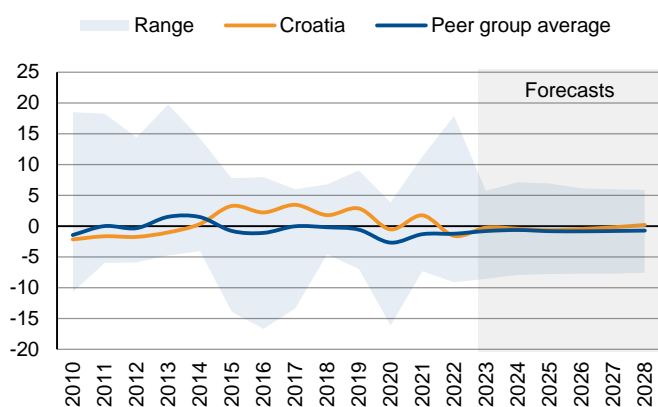
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for Croatia's *External Economic Risk*

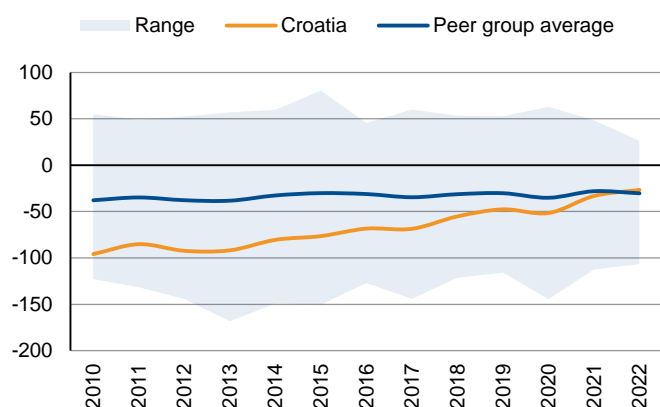
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Current account resilience	Weak	-1/3	High reliance on tourism revenues weakens exporting-sector resilience
	External debt structure	Neutral	0	Narrowing net external debt, but sizable share of debt-creating flows in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

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



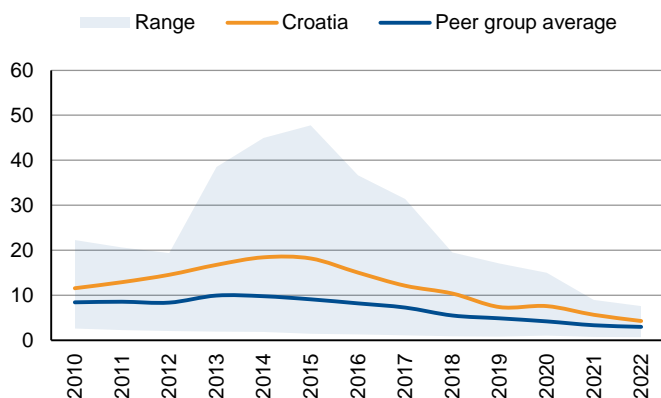
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for Croatia's *Financial Stability Risk*

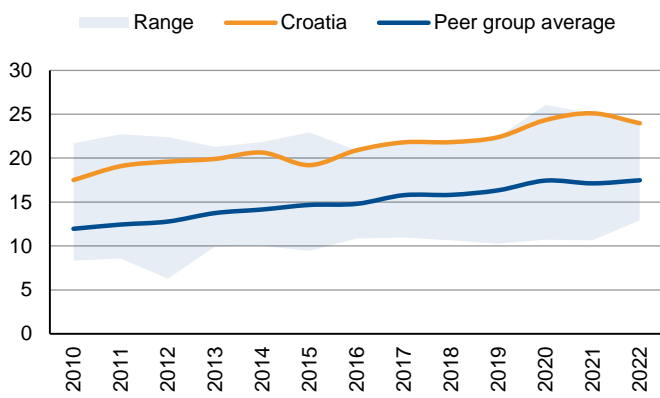
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector
	Banking sector oversight	Neutral	0	Oversight under the Croatian National Bank and the ECB as part of the Banking Union
	Financial imbalances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

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



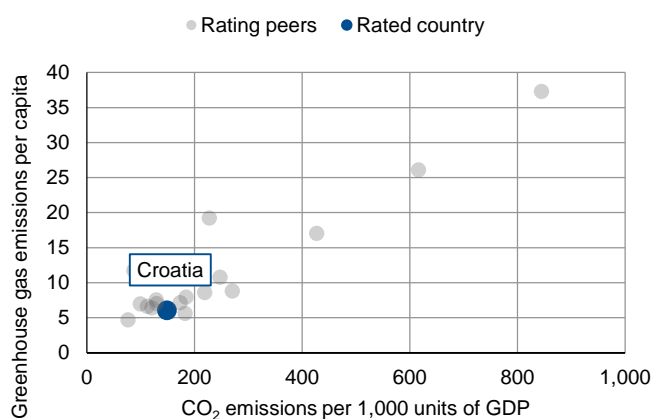
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

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

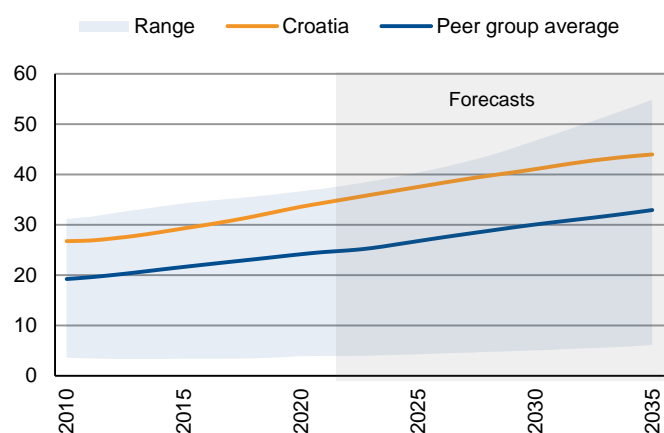
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Environmental factors	Weak	-1/3	Transition risks in line with peers, relatively higher climate risks through impacts on agriculture, tourism and the energy sector
	Social factors	Weak	-1/3	Relatively high human development, but low employment rate, unfavorable demographics
	Governance factors	Neutral	0	Track record of political stability, moderate institutional capacity

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



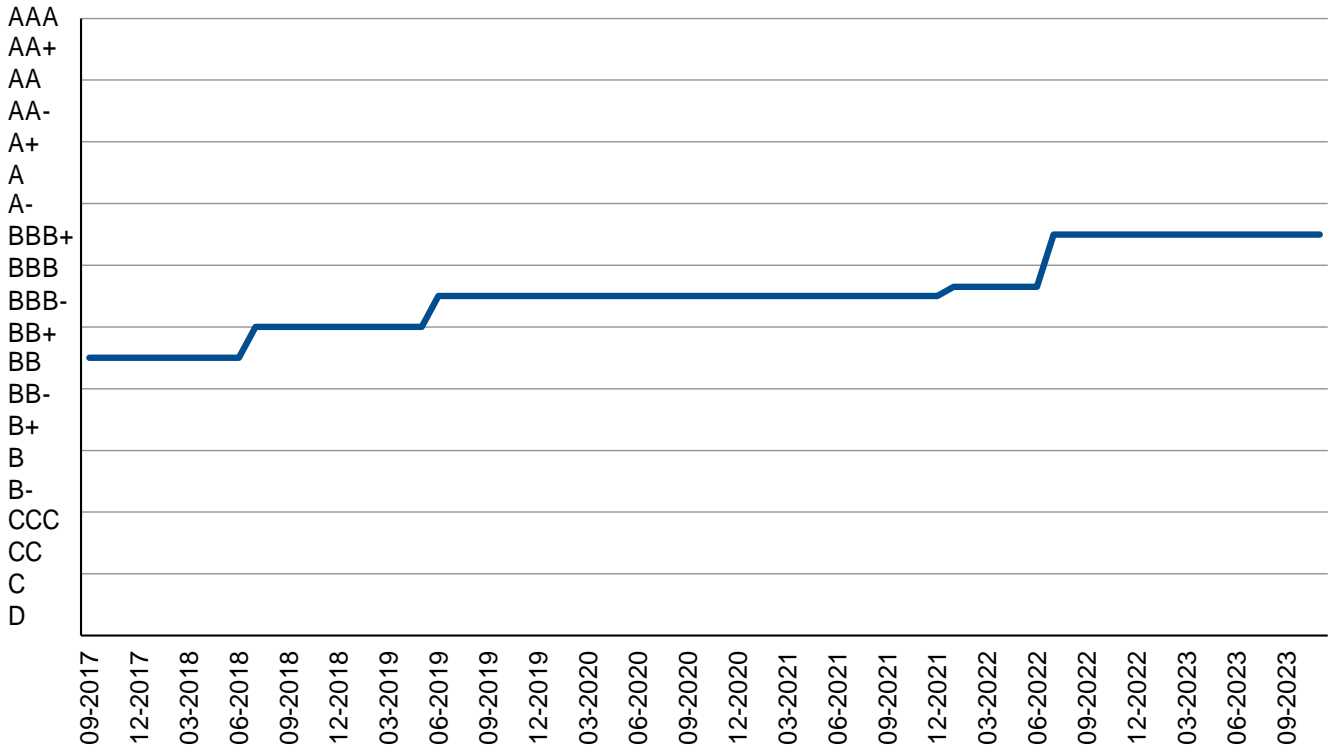
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

**Appendix I. Rating history (foreign-currency long-term issuer rating)**



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

**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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Belgium
Cyprus
Czech Republic
Estonia
France
Japan
Latvia
Lithuania
Malta
Poland
Portugal
Slovakia
Slovenia
Spain
United Kingdom
United States

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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
Domestic Economic	GDP per capita, USD '000s	IMF	15.0	15.1	14.2	17.8	18.3
	Nominal GDP, USD bn	IMF	61.4	61.3	57.6	68.9	70.5
	Real growth, %	IMF	2.8	3.4	-8.5	13.1	6.2
	CPI inflation, %	IMF	1.6	0.8	0.0	2.7	10.7
	Unemployment rate, %	WB	8.4	6.6	7.5	7.6	6.7
Public Finance	Public debt, % of GDP	IMF	73.2	71.0	86.9	78.3	68.8
	Net interest payment, % of revenue	IMF	4.5	4.4	3.8	3.0	2.7
	Primary balance, % of GDP	IMF	2.2	4.2	-5.5	-1.1	1.6
External Economic	Current-account balance, % of GDP	IMF	1.8	2.9	-0.5	1.8	-1.6
	Total reserves, months of imports	IMF	7.0	7.1	9.3	8.5	7.1
	NIIP, % of GDP	IMF	-55.2	-47.6	-51.6	-33.1	-26.5
Financial Stability	NPL ratio, % of total loans	IMF	10.4	7.4	7.6	5.7	4.3
	Tier 1 ratio, % of risk-weighted assets	IMF	21.7	21.6	22.7	24.6	25.2
	Credit to the private sector, % of GDP	WB	54.6	53.0	59.5	53.0	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	158.6	155.0	156.8	148.7	-
	Income share of bottom 50%, %	WID	19.0	19.0	19.1	19.1	-
	Labour-force participation rate, %	WB	66.5	66.6	67.1	68.4	-
	Old-age dependency ratio, %	UN	31.7	32.6	33.6	34.4	35.2
	Composite governance indicators*	WB	0.4	0.4	0.4	0.4	0.5

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 9 November 2023

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