

Republic of Croatia

This annex refers to the release of the monitoring note of 6 August 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		bbb
Reserve currency adjustment		0
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Strong
	Debt sustainability	Neutral
	Debt profile and market access	Neutral
20%	Current account resilience	Weak
	External debt structure	Neutral
	Resilience to short-term shocks	Neutral
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Neutral
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Neutral
QS adjustment (notches)		-1
Additional considerations (notches)		0
Final rating		BBB- STA

Annex II: Selected indicators

	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	12.4	13.5	15.0	14.9	14.1	16.2	17.7
Real GDP, % change	3.5	3.4	2.8	2.9	-8.0	5.0	5.8
Unemployment rate, %	13.1	11.2	8.5	6.6	7.5	7.5	6.8
HICP, % change	-0.6	1.3	1.6	0.8	0.0	1.5	1.3
Policy rate, %, EOP*	0.30	0.30	0.30	0.30	0.05	0.05	0.05
Fiscal balance, % of GDP	-0.9	0.8	0.2	0.3	-7.4	-4.4	-3.0
Government debt, % of GDP, EOP	80.8	77.6	74.3	72.8	88.7	86.0	83.0
Current account balance, % of GDP	2.1	3.4	1.8	2.8	-0.8	-2.0	-1.5

Yearly averages except where stated otherwise; *Croatian National Bank's regular operations rate

Source: Macrobond, European Commission, IMF, Croatian National Bank, Croatian Bureau of Statistics, Scope Ratings GmbH

Annex III: Economic development and default indicators

IMF Development Classification²

5y USD CDS spread (bps) as of 3 August 2021

EMDE

84

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scopeeratings.com
² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Croatia	August 2021	Assessment	Rationale
Peers*	Romania, Cyprus, Turkey		
Domestic economic risk	Growth potential	Weak	Weak growth potential due to low productivity growth and adverse demographics
	Monetary policy framework	Neutral	Credible central bank, adequate monetary-policy response during the pandemic crisis, exchange-rate flexibility limited under ERM II
	Macro-economic stability & sustainability	Weak	Limited economic diversification, skilled labour shortages
Public finance risk	Fiscal policy framework	Strong	Improved fiscal framework, track record of commitment to fiscal discipline, pre-crisis budget surpluses
	Debt sustainability	Neutral	Elevated public-sector debt but projected gradual debt reduction over the medium run
	Debt profile & market access	Neutral	Favourable financing conditions, but significant foreign-currency exposure in public debt
External economic risk	Current account resilience	Weak	High reliance on tourism revenues weakens exporting-sector resilience
	External debt structure	Neutral	Narrowing net external debt position, but sizeable share of debt-creating flows in external liabilities
	Resilience to short-term shocks	Neutral	Improved reserve adequacy and ERM-II entrance support reduction of external-sector risks
Financial stability risk	Banking sector performance	Neutral	Well-capitalised and liquid banking sector; profitability and asset quality impacted by Covid crisis
	Banking sector oversight	Neutral	Effective supervision supported by central bank's "close cooperation" with the ECB under European Banking Union
	Financial imbalances	Neutral	Significant foreign-currency exposure in banking and private sectors mitigated by currency's de-facto peg to the euro; pre-crisis falling private-sector debt levels
ESG risk	Environmental risks	Neutral	Transition risks to the green economy in line with that of peer economies; stagnating share of renewable energy in total energy consumption
	Social risks	Neutral	Comparatively high human development levels, falling poverty, but low employment rate, sizeable net emigration
	Institutional and political risks	Neutral	Track record of political stability and moderate institutional capacity

* Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard after the reserve-currency adjustment.