

**Sovereign Rating**

New  Update

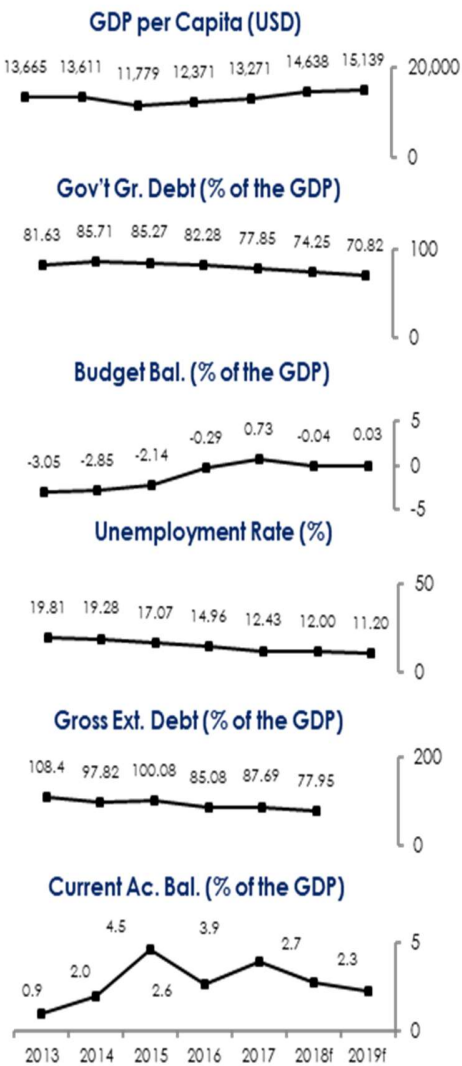
**Publishing Date:** 25/10/2018

**Analyst**

Fatih Sevimli  
 +90 212 352 56 73  
[fatih.sevimli@jcrer.com.tr](mailto:fatih.sevimli@jcrer.com.tr)

**RATINGS**

	Long	Short
Foreign Currency	BBB-	A-3
Local Currency	BBB-	A-3
Outlook	FC	Stable
	LC	Stable



**The Republic of Croatia  
 Macroeconomic Variables**

Data*	2017	2016	2015	2014	2013	2012
GDP-Current Prices (HRK bn)	365.16	351.35	339.62	331.57	331.79	330.83
GDP-Current Prices (USD bn)	54.76	51.64	49.52	57.68	58.16	56.55
Real GDP Growth (%)	2.76	3.54	2.40	-0.09	-0.49	-2.30
GDP per Cap.-Current Prices (USD)	13,271	12,371	11,779	13,611	13,665	13,250
Unemployment Rate (%)	12.43	14.96	17.07	19.28	19.81	18.60
Annual Inflation-CPI (%)	1.13	-1.13	-0.46	-0.22	2.22	3.41
Gov't Gross Debt (% of the GDP)	77.85	82.28	85.27	85.71	81.63	70.60
Budget Balance (% of the GDP)	0.73	-0.29	-2.14	-2.85	-3.05	-3.39
Trade Balance (% of the GDP)	2.73	3.09	2.80	1.98	0.39	0.25
Current Ac. Balance (% of the GDP)	3.93	2.59	4.53	1.98	0.91	-0.11
Gross External Debt (% of the GDP)	87.69	85.08	100.08	97.82	108.40	105.54
Foreign Res. in Months of Imports	7.53	6.40	7.37	6.52	7.91	6.73

\*As the end of each year

**The Country Outlook and the Rating Perspective**

Croatia ('the Country'), as the most recent member of the EU, makes up for its six consecutive years of recession which ended in the last quarter of 2014. After the Cold War, the Country declared its independence in 1991 through the partition of the Socialist Federal Republic of Yugoslavia. The Croatian economy suffered a great deal from the ethnic-based Yugoslav Wars between 1991 and 1995. The damages of the war created difficulties for the transition process from a socialist centrally planned system to an open and liberal market economy. Nevertheless, after the war, Croatia consolidated its structural reforms by large-scale privatizations and external trade liberalization which gave way to an open economy with accelerated growth.

Croatia's EU accession process began as the Country was given the official candidacy status in 2004. Since then, Croatia enjoyed increasing foreign direct and portfolio investment which triggered its growth. The Country's economic development slowed down by the global financial crisis in 2008 which constrained its exports, shipbuilding industry and foreign investment inflow. Between 2009 and 2014, Croatia witnessed shrinkages in its GDP and employment with rising public and external debt. However, after becoming a member of the EU as of July 1, 2013, Croatia reignited its growth stimuli, created current account surplus and reduced unemployment with decreasing indebtedness. In these regards, JCR Eurasia Rating has assigned the long-term foreign and local currency ratings of Croatia as "BBB-" with "Stable" outlooks.

**Strengths**

- Service sector-led economic growth thanks to the increasing contribution of tourism
- The recent current account and budget surplus after the years with twin deficit
- Stable currency with expansionary monetary policy through low interest rates
- Improvements in the investment climate due to the EU membership
- Major reforms to diversify the industrial sectors for sustainable growth

**Constraints**

- Structural unemployment problem despite the recent recovery
- High public and private debt stock denominated in foreign currencies which lead to dependence on the foreign direct and portfolio investments
- Excessive reliance on imports in goods in contrast to the surplus in services
- Financial problems of the retail giant Agrokor and its potential effects on the whole economy, primarily banking sector