

Sovereign Rating

New Update

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Chief Analyst

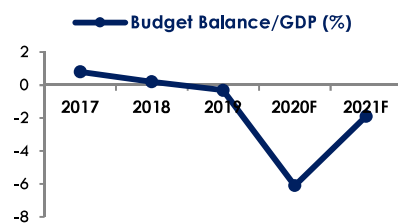
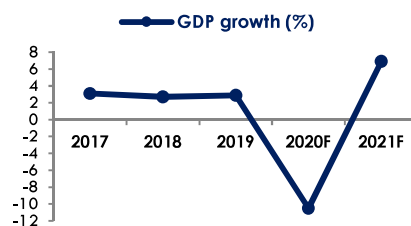
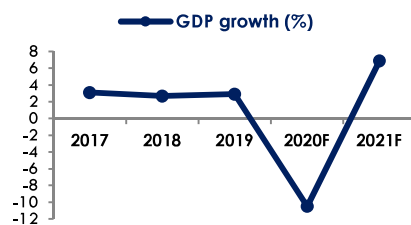
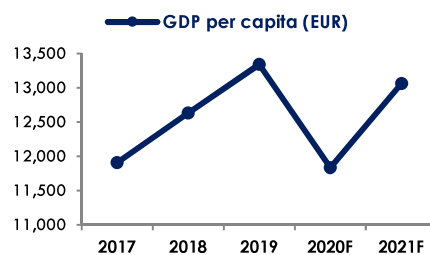
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RATINGS

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



(*) F: Forecast

Croatia

Macroeconomic Variables

Data	2021F	2020F	2019	2018	2017
GDP, Current Prices (EUR bn)	52	48	54	52	49
GDP per capita (EUR)	13,065	11,835	13,342	12,631	11,907
GDP growth (%)	6.9	-10.5	2.9	2.7	3.1
CPI	2	0.6	1.4	0.8	1.2
Unemployment (%)	7.8	10.2	6.6	8.4	11.2
Budget Balance/GDP (%)	-1.9	-6.1	-0.3	0.2	0.8
Public Debt/GDP (%)	82.6	87.5	73.2	74.7	77.8
Exports, YoY (%)	21	-20	5	4	7
Imports, YoY (%)	15.6	-13.1	5	7.5	8.4
Current Account (EUR bn)	0.3	-2.9	1.6	1	1.7
Current Account/GDP (%)	0.7	-6	2.9	1.9	3.4
Gross External Debt/GDP (%)	84.2	90.5	75.7	82.7	88.9
Net FDI/GDP (%)	1.9	2.8	1.9	1.5	2.3
EURHRK, end of year	7.5	7.5	7.44	7.42	7.51

JCR Eurasia Rating has affirmed the sovereign ratings of Croatia as 'BBB' on the Long-Term Foreign and Local Currency and as 'A-3' on Short-Term Foreign and Local Currency scales with 'Stable' outlooks for both terms.

Croatian economy had been building solid foundations of economic activity, with stable GDP growth, declining unemployment, improving external debt profile and steady FDI flows. However, the Covid-19 pandemic and the subsequent lockdowns introduced at home as well as across the world struck the tourism centre country. As travel bans and restrictions took place, tourism revenues which account for approx. 20% of GDP sharply declined. Macroeconomic impact of the pandemic also manifested in declining trade and pressure on public finances. Ample liquidity and capitalization of the banking system is an important pillar of the sovereign rating as well, though the economic toll of the pandemic is likely to weigh on asset quality. However, Croatian economy has proven quick to rebound and even the sensitive tourism sector fared better than initial expectations.

Net population decline and unfavourable demographics are structural issues which demand special attention, and it is a welcome development to see the emigration slowing down. Government fiscal actions to maintain employment, supported with the relative fiscal space available and EU programs include state wage subsidies, which cover the cost of minimum wage. Programs to preserve employment in the mostly affected transportation and tourism sectors will continue. Loans received from EU's SURE program will also help fund Croatia's measures.

Rapid response by CNB to facilitate liquidity conditions, emergency swap lines extended by the ECB and EU funding programs provide strong anchors to support the recovery. Additionally, entry into Europe's Exchange Rate Mechanism II (ERM II) will provide further support and stability to the currency and the economy. Croatia will receive EUR 10 billion under the Next Generation EU program, with almost 2% of GDP are grants, and EUR 12 billion under the EU's new Multiannual Financial Framework. Overall, we expect a relatively swift recovery in Croatia's economic profile in 2021.

Strengths	Constraints
<ul style="list-style-type: none"> Improving public financing and budget balance pre-pandemic Supportive balance of payments dynamics with decreasing net external indebtedness backed up by current account balance and reserves Stable and accommodative monetary policy Precautionary currency swap line with the European Central Bank Funding support from EU, via Next Generation EU program and Multiannual Financial Framework 	<ul style="list-style-type: none"> Slowdown in economic growth and expected deterioration of economic fundamentals due to Covid-19 pandemic Reduction in tourism revenues, which typically account for one-fifth of national income, due to lockdowns Pressure on banking sector asset quality, though expected to be short-term Net emigration though slowing down in recent periods

Considering the aforementioned factors and developments, JCR Eurasia Rating has assigned the Long-Term Foreign and Local Currency Ratings of Croatia as "BBB" with "Stable" outlooks. The recovery post-pandemic will be monitored in the next quarters.