

# BEST'S COUNTRY RISK REPORT

## Croatia CRT-4

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Croatia, a CRT-4 country, has a moderate level of political risk and high levels of economic and financial system risk.
- Following a six year recession (2009-2014), Croatia has had three years of economic expansion. GDP growth was 2.8% in 2017. Medium-term growth is expected to range between 2.5% and 3.0%. To reach its growth potential, Croatia should minimize government interference in the economy.
- A.M. Best categorizes the majority of countries depicted in the map as CRT-1 or CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.



- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

## Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

Vital Statistics 2017		
Nominal GDP	USD bn	54.52
Population	mil	4.1
GDP Per Capita	USD	13,138
Real GDP Growth	%	2.8
Inflation Rate	%	1.1
United Nations Estimates		
Literacy Rate	%	99.3
Urbanization	%	59.6
Dependency Ratio	%	50.9
Life Expectancy	Years	76.1
Median Age	Years	43.0
Insurance Statistics		
Insurance Regulator	Croatian Financial Services Supervisory Agency	
Premiums Written (Life)	USD mil	444
Premiums Written (Non-Life)	USD mil	923
Premiums Growth (2016 - 2017)	%	2.2
Regional Comparison		
	Country Risk Tier	

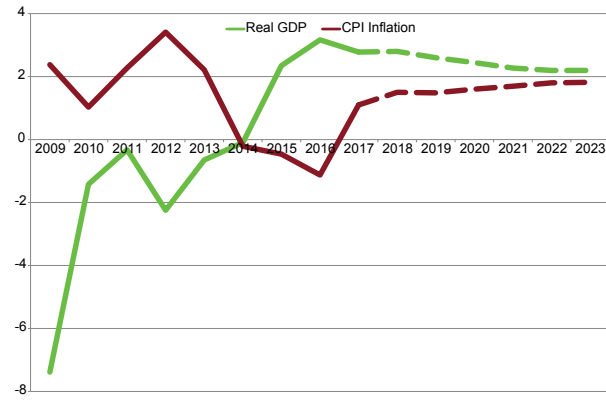
Croatia	CRT-4
Bulgaria	CRT-4
Bosnia and Herzegovina	CRT-5
Czech Republic	CRT-2
Slovenia	CRT-2
Bulgaria	CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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### Economic Growth (%)



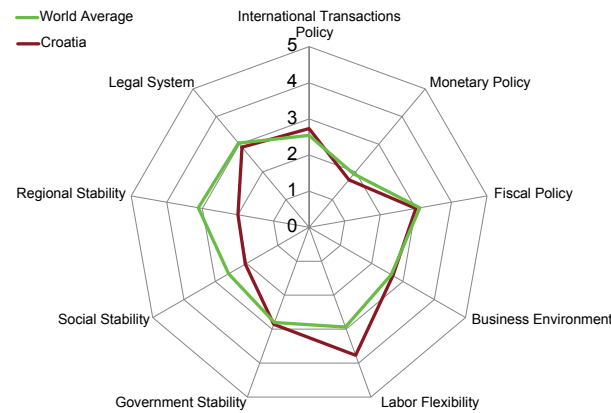
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: High

- Croatia has a service- and export-oriented economy. Tourism, exports, and household consumption have driven GDP growth in recent years.
- High levels of government debt and the state's considerable involvement in the economy has constrained economic growth. These two factors should be minimized to improve the economy's potential. Additional challenges include a cumbersome operating environment and an ageing population.
- A relatively large share of economic activity remains informal. Structural reforms are needed to secure a more competitive, market-driven private sector. Reforms would also help improve tax collection, which would lower the budget deficit.

### Political Risk Summary

Score 1 (best) to 5 (worst)

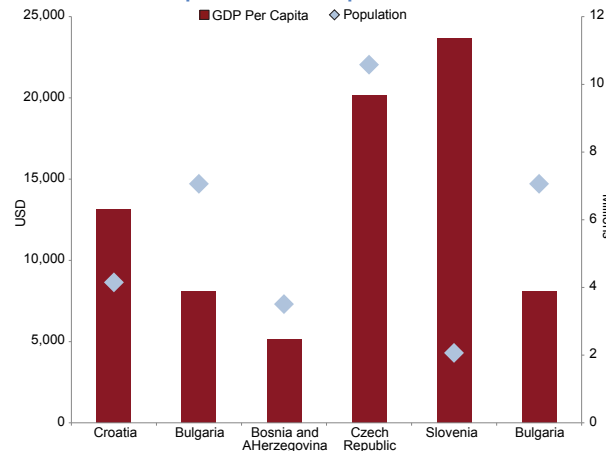


Source: A.M. Best

### Political Risk: Moderate

- Croatia became independent from Yugoslavia in 1991, and joined the EU in 2013, ten years after its official application. It is currently a member of the European Union Exchange Rate Mechanism, which essentially pegs its currency to the euro. It is also a member of NATO.
- Croatia's government is structured as a bicameral parliament, with a House of Representatives and a House of Districts. A coalition parliament splintered in April 2017, resulting in temporary political disarray. In June 2017, a new coalition, consisting of the conservative Croatian Democratic Union (HDZ) and the liberal Croatian People's Party (HNS), formed a thin majority.
- High levels of corruption and political tension have affected institutional effectiveness and hampered the implementation of reform.
- Fiscal consolidation efforts have diminished public debt levels in recent years. The IMF has encouraged both the streamlining of tax rates and the government's resistance to raising wages and benefits.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: High

- Croatia's insurance industry is regulated by HANFA, the Croatian Financial Services Supervisory Agency, which has adopted EU regulations.
- Agrokor, previously Croatia's largest private business, was taken over by state administration in April 2017, owing to a huge debt burden. Prior to the transfer, Agrokor sales were equivalent to around 15% of Croatia's GDP. Lingering uncertainty surrounds the company's restructuring and potential spillover effects to the domestic banking system remain.
- Despite concerns over Agrokor, the banking system seems able to absorb losses owing to large capital buffers.