Croatia
CRT-4
August 22, 2019

Region: Europe

Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

- Croatia, a CRT-4 country, has moderate levels of economic and political risk and a high level of financial system risk.
- Gross domestic product (GDP) growth was 2.7% in 2018 and is expected to be 2.6% in 2019. Medium-term growth is expected to range between 2.0% and 2.5%. To reach its growth potential, Croatia should minimize government interference in the economy in order to help improve competitiveness.
- AM Best categorizes the majority of countries depicted in the map as CRT-1 or CRT-2. Notable exceptions are Belarus, Romania, and Ukraine.

Regional Summary: Eastern Europe

- Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.
- The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe 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.
- Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power. However, the region’s standards of living vary greatly by country and are usually generally lower than Western Europe.
Economic Risk: Moderate

- Croatia has a service- and export-oriented economy. Tourism, exports, and household consumption have driven GDP growth in recent years. An economic slowdown in Europe will hamper growth, given the country’s links with the rest of the region.

- 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 aging 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.

- Domestic demand has driven economic growth as low inflation, low unemployment, and rising wages have all been supportive of consumer spending.

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.

- The government’s main priorities are improving public finances, reducing the fiscal deficit, supporting initiatives to strengthen investment in the country’s main sectors of tourism and agriculture, and improving infrastructure, as well as the business operating environment, by reducing bureaucracy.

- High levels of corruption and political tension have affected institutional effectiveness and hampered the implementation of reform.

- Fiscal consolidation efforts have decreased public debt levels in recent years, although the amount of debt is still considered high relative to European standards.

Financial System Risk: High

- Croatia’s insurance industry is regulated by HANFA, the Croatian Financial Services Supervisory Agency, which has adopted EU regulations.

- According to the IMF, bank lending to households has been increasing, although credit to the non-financial corporate sector remains subdued. The IMF recommends further monitoring of household credit growth to minimize any potential for an adverse developments. Non-performing loans remain high, but have declined in recent years.