Presenters

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Minister of Finance of the Republic of Croatia

dr.sc. Boris Vujčić
Governor of Croatian National Bank

Stipe Župan
State Secretary, Ministry of Finance

Hrvoje Radovanić
Director, Public Debt Management Ministry of Finance
## Agenda

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<td><strong>Country Overview and Key Investment Highlights</strong></td>
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<td><strong>7</strong></td>
<td>Terms of Offering</td>
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Country Overview

<table>
<thead>
<tr>
<th>Territory</th>
<th>56,594 sq.km (land), 31,067 sq.km (sea)</th>
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<tbody>
<tr>
<td>Population</td>
<td>Approximately 3.9 mn</td>
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<tr>
<td>Currency</td>
<td>EUR (Since January 1st, 2023)</td>
</tr>
<tr>
<td>GDP</td>
<td>EUR 66.9 bn (current prices, 2022)</td>
</tr>
<tr>
<td>Real GDP growth rate</td>
<td>6.2% (2022)</td>
</tr>
<tr>
<td>GDP per capita in PPS</td>
<td>Croatia 73%; (EU=100%; Slovakia 67%, Greece 68%, Bulgaria 59%)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>EUR 17,486 (current prices, 2022)</td>
</tr>
<tr>
<td>Government</td>
<td>Parliamentary republic</td>
</tr>
<tr>
<td>Credit ratings</td>
<td>Moody’s: Baa2 (stable) / S&amp;P: BBB+ (stable) / Fitch: BBB+ (stable)</td>
</tr>
<tr>
<td>Capital</td>
<td>Zagreb</td>
</tr>
<tr>
<td>EU border countries</td>
<td>Italy (Maritime Border), Slovenia, Hungary</td>
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<tr>
<td>Other borders</td>
<td>Bosnia &amp; Herzegovina, Serbia, Montenegro</td>
</tr>
</tbody>
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Key milestones

- Independence
- WTO membership
- Official EU accession status
- EU accession negotiations completed
- Excessive deficit procedure exited
- Government budget surplus
- Macroeconomic imbalances no longer excessive
- Government budget surplus
- The 2nd strongest GDP growth rate in EU
- Entered:
  - Eurozone
  - ESM
  - Schengen
- UN and IMF membership
- Formal application for EU membership
- NATO membership
- Became 28th member of the EU (EU27 member country after UK withdrawal)
- Successful road sector refinancing and restructuring
- Government budget surplus
- Presidency of the EU Council
- Entrance into ERM II
- Top five GDP growth rate in EU
- Government budget surplus

Sources: CNB, European Commission, S&P, Moody’s, Fitch
Key Investment Highlights

New EU Member State Growth Champion

• 6.2% GDP growth in 2022 among the highest rates within EU (after all-time high of 13.1% in 2021)

Robust fiscal position with balance surplus

• General Government debt to GDP downward trend continued post COVID-19 pandemic, reaching 68.4% in 2022
• General Government Balance surplus of 0.4% GDP in 2022, due to better than anticipated inflow of tax revenues, strong growth of economic activity and increase in the level of prices

Largest Beneficiary of the EU Stimulus Package

• ~EUR 25 bn allocated funds available to be disbursed in 4-year horizon, to support investments and GDP growth

Strong resilience of Banking System

• Among the most capitalized EU banking systems (high level of accumulated capital surpluses)
• Continuous decrease of NPLs’ share towards the historic low of 3.0% in 2022

Euro adoption

• A new chapter of Croatian monetary history - joining euro area as of January 1st 2023
• CNB became part of the Eurosystem and thus an active participant in a common monetary policy under ECB

Euro Stability Mechanism ("ESM") member

• Became the 20th member of the ESM (March 22nd 2023)
• Complete integration within euro area
• Contribution to stronger resilience of its financial system and economy

Joining the Schengen area

• 281 requirements of Schengen acquis met to enter a border-free zone as of January 1st 2023 guarantying free movement between Croatia and 26 countries

Negotiations on OECD accession started

• Invitation to open negotiations received on January 25th 2023
• Accession process to allow convergence with best practices of most developed countries in the world across different areas

Sources: CNB, European Commission
## Agend

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<tr>
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Newest Member of Euro Area with Significant Benefits

### Significant Benefits of Euro zone Accession

- **Key benefits** of euro adoption:
  - Elimination of the **currency risk** from the economy
  - Reduction of the **borrowing cost** of domestic sectors
  - Reduction of the **risk of the outbreak of a currency and banking crisis**
  - Lower transaction costs
  - **Stimulus to international trade and investments**
  - Participation **Eurosystem’s monetary income allocation**
  - Access to financial assistance mechanisms for euro area – European Stability Mechanism

### European Stability Mechanism

- By joining the euro area, **Croatia became 20th member of ESM**, intergovernmental organisation established by member states of the euro area, providing financial assistance to member states experiencing or threatened by severe financial distress
- Croatia subscribed EUR 3.695 bn worth of capital, while also using the right of a 12-year correction of capital contributions (allowed to member countries whose GDP per capita is less than 75% of the EU average), with additional EUR 2.039 bn agreed to be paid in 2035

### Implemented measures for ensuring Consumer protection in transition to Euro:

- **Dual prices display** – in force for the period September 5, 2022 - December 31, 2023
- **Monthly monitoring** of prices of 103 consumer goods & services in 9 cities, in cooperation with CBS
  - 5.7k prices collected in approx. 800 points of sale
- „**Secret buyer for consumer protection in the process of introducing the euro in the Republic of Croatia**“ project, set up in coordination with Consumer protection associations
  - Monthly monitoring of 45 consumer goods and 10 services
- „**Consumer prices**“ web site
  - Provides insight into price trends in retail chains and comparison with prices on December 31, 2022, for targeted product categories (365 monitored products) across 10 retailers present in the country

### RESULT

- **Low, 2.15% increase** in prices of 103 consumer goods and services in 09/2022 – 03/2023 period
- **Increased prices of 71 products only** since December 31, 2022

Sources: CNB, euro.hr, ESM
### Adopted Government Measures to Mitigate High Energy Prices and Rising Inflation

<table>
<thead>
<tr>
<th>Government package</th>
<th>Amount (EUR bn)</th>
<th>Package breakdown (% of total amount)</th>
<th>Key goals</th>
</tr>
</thead>
</table>
| **February 2022** | 0.7 (~1.0% of GDP ’22) | ▪ 43% tax relief  
▪ 25% subsidy for gas  
▪ 17% social benefits and benefits for pensioners  
▪ 10% limitation of the increase in the electricity prices  
▪ 5% support to farmers and fisherman | ▪ Increase in electricity price by 9.6% (instead of 23%)  
▪ Gas price increase up to 20% (instead of 79%)  
▪ Preservation of jobs and purchasing power  
▪ Strong economic recovery |
| **September 2022** | 2.8 (~4.2% of GDP ’22) | ▪ 28% limitation of electricity and thermal energy prices  
▪ 13% tax relief and reduction of fuel duties  
▪ 12% compensation and support for socially vulnerable  
▪ 5% energy renovation of houses and multi-apartment buildings  
▪ 9% non-refundable grants to entrepreneurs for the energy transition  
▪ 18% WC loans with interest subsidization for companies in difficulty  
▪ 15% for HBOR guarantees for loans to exporters in difficulty | ▪ Maintain the standard of living  
▪ Continuous work of public institutions  
▪ Maintenance of high economic growth  
▪ Accelerate transition to renewable energy sources |
| **December 2022** | 0.1 (~0.1% of GDP ’22) | ▪ 100% payment of assistance to beneficiaries of pensions and rights in social welfare | ▪ Mitigating the increase in costs of living |
| **March 2023** | 1.7 (~2.5% of GDP ’23E) | ▪ 70% limitation of rising energy prices  
▪ 10% inflation protection  
▪ 20% special grants and incentives | ▪ Security of energy supply and affordable prices |

Sources: Government website, Government package February 2022 publication, Government autumn package September 2022 publication, Fourth Government package publication March 2023

(1) Based on forecasted GDP growth of 1.6% in 2023E (2022 GDP EUR 66.9 bn)
Limited Vulnerability to Russia/Ukraine Conflict Impacts

**Insignificant Share of Foreign Trade with Russia and Ukraine**

- In 2022, the share of exports of goods to Ukraine and to Russia amounted to 0.3% and 0.8% respectively while the share of imports of goods from Ukraine and Russia amounted to 0.2% and 1.1% respectively.

**Limited Exposure to Russian Gas**

- Croatia's exposure to Russian gas of only 28% is the lowest in CEE, while LNG and own production make 65% of its gas sources in 2021.

**Immaterial Impact on Croatian Tourism**

- In 2022, the share of exports of goods to Russia and Ukraine amounted to 0.3% and 0.8% respectively while the share of imports of goods from Ukraine and Russia amounted to 0.2% and 1.1% respectively.

**Comments**

- Croatia’s exposure to Russian gas of only 28% is the lowest in CEE, while LNG and own production make 65% of its gas sources in 2021.
- The government is focused on further increasing the domestic gas production and transferring to renewable energy sources.
- Impact on the total tourism revenues is very limited as share of tourist guests and overnight stays from Russia and Ukraine together amounted to ~2.5% and ~2.2% in 2021, respectively.

Sources: CBS, Bruegel
Other Recent Vital Milestones and Announcements

- In addition to joining the euro area, Croatia has also became a member of the Schengen zone on January 1 2023, after fulfilling all the required criteria and obtaining positive assessment score by the European institutions.
- Membership in the Schengen area will bring **multiple advantages for Croatia**, especially in terms of:
  - **freedom of movement** and **border crossing**.
  - **faster** and **easier flow of goods** and **services**.
  - **further growth in tourist traffic**.

Next strategic foreign policy goal of the Republic of Croatia is the OECD membership.
- Full membership negotiation officially began with the OECD's adoption of the Plan for the accession of the Republic of Croatia to the OECD.
- Today, the OECD consists of 38 member states, while 5 states currently hold candidate status (including Croatia).
- As a **first step**, Croatia started the **preparation of a self-assessment** of **legal instruments** in relation to the OECD's (the Initial Memorandum), which includes 257 legal instruments of the OECD, divided into 32 policies.
- Croatia is expected to **continue** with the **implementation of reforms** in the upcoming period across various area: **public services, judicial system, education, transport, health, trade**.

The Croatian Ministry of Finance is in the process of preparing the amendments on tax regulations that should introduce a **new package of tax relief from the beginning of 2024** (subject to the amendments of 9 laws)
- Intention is to **increase net salaries** without increasing overall costs for the employers and increase living standard, reduce inequalities, preserve economic growth and **strengthen the fiscal autonomy** of local authority units.

Sources: Croatian Government, European Commission, OECD
Sources: National Development Strategy 2030, adopted by the Parliament on 5th February 2021

Sustainable Economy and Society
1. Competitive and innovative economy
2. Educated and employed people
3. Efficient judiciary, public administration and state property management
4. Global recognition, stronger international position and role

Green and Digital Transition
8. Ecological and energy transition to climate neutrality
9. Self-sufficiency of food production and the development of bioeconomy
10. Sustainable mobility
11. Digital transition of society and the economy

Enhanced Crisis Response Capabilities
5. Healthy, active and high-quality life of citizens
6. Demographic revitalization including a better status of family
7. Security for stable development

Balanced Regional Development
12. Development of the underdeveloped areas and areas of special state concern
13. Greater regional competitiveness
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Funds From EU Funding Mechanisms Available to Croatia by 2027

One of the champion states in EU funds absorption

- Grants Total: EUR 21.8 bn
- Loans Total: EUR 3.6 bn

Available funds ~ EUR 25 bn

- RRF grants EUR 5.5 bn
- RRF loans EUR 3.6 bn
- Agricultural EU EUR 5.0 bn
- Cohesion policy 2021-2027 EUR 9.4 bn
- React-EU

Additional EUR 2.1 bn funds from the MFF 2014 – 2020 available, which must be absorbed until 2023

Allocation of grants available through RRF

- Economy
- Public administration, Judiciary and State protection
- Education, Science and Research
- Labor market and Social protection
- Healthcare
- Building renovation

Planned Milestones & Targets
- 227 Investments
- 145 Reforms

Fulfilled Milestones & Targets
- 100 Investments & Reforms

Disbursements
- EUR 2.2 bn (40% of allocation)

Allocation of grants by time period (in EUR mn)²

Largest amount of funds Croatia ever received from EU

- Pre-financing
- H1 2022
- H2 2022
- H1 2023
- H2 2023
- H1 2024
- H2 2024
- H1 2025
- H2 2025
- H1 2026

One of the champion states in EU funds absorption

Source: European Commission, MoF
(1) Just Transition Fund EU
(2) Based on total (original) allocation of The Recovery and Resilience Facility

3rd EU country that has fulfilled all requirements, allowing to file (and get approved) for second batch of NGEU funds (EUR700mn).
Based on total (original) allocation of The Recovery and Resilience Facility

- Croatia is the biggest beneficiary of the largest stimulus package ever financed through the EU budget, with ~EUR 25 bn allocated EU funds
- EU Packages for 2021 – 2027:
  - Next Generation EU Fund (NGEU), the temporary recovery instrument
  - Multiannual Financial Framework (MFF), the EU long-term budget 2021 – 2027
- Additionally, Croatia still has more than EUR2bn funds from the MFF 2014 – 2020 available, which must be absorbed until 2023, and is beneficiary of the EU Solidarity Fund
- EU package will be a strong lever for the implementation of reforms and projects, for investment, for a speedy economic recovery as well as support and reconstruction after earthquakes in Zagreb (March 2020) and Petrinja (December 2020)

Sources: European Commission, Eurostat

(1) Based on total (original) allocation of The Recovery and Resilience Facility
<table>
<thead>
<tr>
<th>Type of package</th>
<th>Total EU Budget(^1)</th>
<th>Allocated to Croatia</th>
<th>Purpose</th>
<th>Allocation as % of ’22 GDP</th>
</tr>
</thead>
</table>
| **1. Next Generation EU Fund (NGEU)**                   | EUR 807 bn             | EUR 5.8 bn in grants | ▪ **COVID-19 pandemic recovery plan** for building greener, more digital and more resilient EU, key areas including:  
  ✓ Recovery and Resilience Facility  
  ✓ React EU  
  ✓ Rural Development  
  ✓ Fair Transition Fund  
  ✓ RePowerEU | 14.1%                    |
| **2. Multiannual Financial Framework (MFF) 2021-2027**   | EUR 1.2 tn             | EUR 14.0 bn          | ▪ **EU long-term budget for 2021-2027**, key areas including:  
  ✓ European Regional Development Fund  
  ✓ European Social Fund  
  ✓ Cohesion Fund  
  ✓ Just Transition Fund  
  ✓ Fisheries sector  
  ✓ European Maritime, Fisheries and Aquaculture Fund  
  ✓ Asylum, Migration and Integration Fund  
  ✓ European Agricultural Fund for Rural Development  
  ✓ European Agricultural Guarantee Fund | 20.9%                    |
| **3. EU Solidarity Fund**                               | -                      | EUR 1 bn             | ▪ **Reconstruction** of damage caused by earthquakes:  
  ✓ Zagreb earthquake: EUR684mn  
  ✓ Sisačko-moslavačka county: EUR319mn | 1.5%                      |

Source: European Commission, MoF, CNB

\(^1\) Current prices
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Croatia entered the year 2023 with an almost 10% higher level of real GDP compared to the pre-pandemic period.

### Gross Value Added by Sectors (2022)

Strong recovery and subsequent growth have been broad-based with a positive contribution to GVA growth from all categories.

- Wholesale and retail trade, transportation, storage, accommodation and food service activities: 24%
- Manufacturing, mining and quarrying and other industries: 18%
- Financial and insurance activities: 4%
- Information and communication: 6%
- Construction: 6%
- Real estate activities: 9%
- Agriculture, forestry and fishing: 3%
- Other: 30%

**Source:** CBS

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### GDP Growth Rate (EU Countries, in 2022)

Strong performance of Croatian economy in 2022.

**Source:** Eurostat

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(1) Other: Contains professional, scientific, technical, administrative and support service activities as well as public administration, defence, education, human health and social work activities and other service activities.
The Tight Labor Market Continues to Show Strong Resilience

The tight labor market showed resilience in 2022

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered unemployment rate</th>
<th>ILO unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>11.2%</td>
<td>11.6%</td>
</tr>
<tr>
<td>2018</td>
<td>8.4%</td>
<td>9.2%</td>
</tr>
<tr>
<td>2019</td>
<td>6.6%</td>
<td>7.7%</td>
</tr>
<tr>
<td>2020</td>
<td>7.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2021</td>
<td>7.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2022</td>
<td>7.0%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Source: CBS, CNB

Average monthly net wages continue an upward trend

- Registered unemployment rate: 11.2% in 2017, 8.4% in 2018, 6.6% in 2019, 7.5% in 2020, 7.6% in 2021, 7.0% in 2022
- ILO unemployment rate: 11.6% in 2017, 9.2% in 2018, 7.7% in 2019, 8.9% in 2020, 8.0% in 2021, 6.7% in 2022

Source: CBS, CNB

Employment, annual percentage change

Increase of employment in peer countries (2022, y/y) underpins Croatia’s strong position

Croatia

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<tbody>
<tr>
<td>RO</td>
<td>0.1%</td>
<td>0.4%</td>
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<tr>
<td>PL</td>
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<td>BG</td>
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<td>SK</td>
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</tr>
<tr>
<td>HR</td>
<td>2.3%</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>SI</td>
<td>2.4%</td>
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</tr>
</tbody>
</table>

Source: European Economic Forecast - Spring 2023

Unemployment rate 2022F

Croatia compares favorably among its EU peers

<table>
<thead>
<tr>
<th>Year</th>
<th>Average monthly net wage (EUR)</th>
<th>y-o-y % nominal change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>802</td>
<td>6.3%</td>
</tr>
<tr>
<td>2018</td>
<td>828</td>
<td>3.2%</td>
</tr>
<tr>
<td>2019</td>
<td>857</td>
<td>3.5%</td>
</tr>
<tr>
<td>2020</td>
<td>898</td>
<td>4.7%</td>
</tr>
<tr>
<td>2021</td>
<td>946</td>
<td>5.4%</td>
</tr>
<tr>
<td>2022</td>
<td>1,015</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Source: CBS, CNB

Source: European Economic Forecast – Spring 2023
Further Improvement of Fiscal Metrics, Back to Surplus in 2022

In 2022 significant recovery of Croatian fiscal metrics and back to surplus

<table>
<thead>
<tr>
<th>Year</th>
<th>General Gov. Deficit / Surplus</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1%</td>
<td>-1.0%</td>
<td>0.6%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2017</td>
<td>-1%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>2018</td>
<td>-5%</td>
<td>-2.6%</td>
<td>-0.1%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2019</td>
<td>-7%</td>
<td>-2.5%</td>
<td>-3.7%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2020</td>
<td>-9%</td>
<td>-6.2%</td>
<td>-3.4%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2021</td>
<td>-10%</td>
<td>-2.5%</td>
<td>-3.6%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>2022</td>
<td>-11%</td>
<td>-3.0%</td>
<td>-2.4%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

Source: CNB

Central government budget components (2021 vs 2022)

- Total taxes
- Social contributions
- Current transfers
- Property income
- Other

Source: Ministry of Finance

Note: MoF preliminary data for 2022
External Position Remains Strong

**EU inflow to mitigate potential CA imbalances**

<table>
<thead>
<tr>
<th>Year</th>
<th>CA balance (EURbn)</th>
<th>CA balance (as % of GDP)</th>
<th>Current and capital account (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.7</td>
<td>3.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2018</td>
<td>0.9</td>
<td>1.8%</td>
<td>3.1%</td>
</tr>
<tr>
<td>2019</td>
<td>1.6</td>
<td>2.9%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2020</td>
<td>-0.3</td>
<td>-0.5%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2021</td>
<td>1.0</td>
<td>1.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2022</td>
<td>-1.1</td>
<td>-1.6%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: CNB

**Reduction of international reserves by entering the euro**

- Reserves (EUR bn)
- International reserves (as % of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserves (EUR bn)</th>
<th>International reserves (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13.5</td>
<td>26.6%</td>
</tr>
<tr>
<td>2017</td>
<td>15.7</td>
<td>31.7%</td>
</tr>
<tr>
<td>2018</td>
<td>17.4</td>
<td>33.6%</td>
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<tr>
<td>2019</td>
<td>18.6</td>
<td>33.9%</td>
</tr>
<tr>
<td>2020</td>
<td>18.9</td>
<td>37.5%</td>
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<tr>
<td>2021</td>
<td>25.0</td>
<td>43.0%</td>
</tr>
<tr>
<td>2022</td>
<td>27.9</td>
<td>41.6%</td>
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<tr>
<td>Q12023</td>
<td>31.6%</td>
<td></td>
</tr>
</tbody>
</table>

Source: CNB

**Net FDI (as % of GDP)**

- 2017: 2.2%
- 2018: 1.6%
- 2019: 6.3%
- 2020: 1.4%
- 2021: 4.8%
- 2022: 5.6%

Source: CNB
Exports Well Diversified and Deeply Imbedded Into EU Trade

The terms of trade deteriorated substantially from the second half of 2021 onwards, reflecting the surge in energy prices

Geographical Distribution of Exports

CEFTA 19.1%
EFTA 1.6%
EU 27 68.8%

Geographical Distribution of Imports

CEFTA 7.3%
EFTA 0.5%
EU 27 70.7%

Croatia’s main trading partners are Italy, Germany, Slovenia, Hungary and Austria (2022)

Source: CBS

Source: CBS

Source: CBS
Tourism Benefiting from Euro Adoption and Schengen Entry

Monthly performance of overnights shows strong improvement, from mid-2021 almost closing the gap to record 2019 levels

Price developments further supported the revenues side

From balance of payments

Overnights stays of foreign tourists vs. 2019 (indexed)

Continuous outperformance of other Mediterranean countries in overnight stays by foreign visitors
Downward Trajectory of Gross External Debt Continues

Croatia’s gross external debt is back on its downward trajectory and compares favourably among Croatia’s peers

Gross external debt breakdown by debtors (January, 2023)

Source: CNB

General Government external debt repayment projection

Source: CNB

*Repayment projections for this quarter and year refer to the period from the date of the gross debt balance to the end of the specified quarter or year.
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7. Terms of Offering
Profitability of Croatian Banks Doubled, with Capital Ratios Above EU Average

Non-performing loans ratio (NPLR), which was substantially driven by the loan repayments, remained on a declining path. At the same time, profitability slightly decreased as a result of higher operating costs.

Although unrealised loses as well as the greater risk exposure resulted in a decline of the Total Capital Ratio (Own Funds/Total Exposure to Risk), Croatian banking sector is still among the most capitalised in the EU.

Source: CNB
Credit Risk in Performing Exposures Moderates

While the share of stage 3 loans continued decreasing, portfolio’s impairment in the private non financial sector resulted in slightly higher share of stage 2

Source: CNB

Capital buffers of Croatian banks compare favourably among other EU member states (September, 2022)

Source: CNB
External Deleveraging of Banks Continues

Greater deposit inflow in the year prior joining the euro, lowered the loan to deposit ratio

Source: ECB, WEO

Banks’ gross external debt amounted to 7.1% of GDP - among the lowest compared to peer countries (September, 2022)

Source: CNB, ECB, Eurostat
The Tightening of ECB Monetary Policy Continues to Impact the Costs of Financing of Non-financial Corporations More Heavily Than Those of Households

Loans and deposits of non-financial corporations and households\(^1\)

Interest rates on pure new loans and time deposits of non-financial corporations and households\(^2\)

\(^1\) Annual growth rates, based on transactions
\(^2\) Data up to December 2022 refer to loans and deposits in kuna, kuna with a currency clause in euro and in euro, and from January 2023 to loans and deposits in euro.
Inflation Accelerated Significantly, but Still in Line with Other EU Countries

The average annual consumer price inflation accelerated from 2.7% in 2021 to 10.7% in 2022, as a result of the increase in all main subcomponents, mostly food and core inflation.

Increase in prices of all subcomponents reflected spill-over of higher commodities prices on world markets to consumer prices in Croatia, as well as supply-chain bottlenecks that persisted in a post-covid period.

2023F points to a slowdown of the avg. ann. HICP to 7.0%, due to slowdown in annual rate of change in energy and food prices, despite expected increase in an. growth rate of core inflation.
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Prudently Managed Government Debt

General Government Debt to GDP Ratio (%)

Growth-friendly fiscal policy

% of GDP

83% 80% 77% 73% 71% 87% 78% 68%


Source: CNB

General Government Interest Spending to GDP ratio (%)

Below EU and Euro Area in 2022

Croatia Euro Area EU

2.2% 2.2% 2.0% 1.5% 1.5% 1.7%

2.0% 1.5% 1.5% 1.4% 1.4% 1.6%


Source: European Economic Forecast – Spring 2023

General Government debt structure, December 31, 2022

External 33%
Long-term debt securities 18%
Loans 17%
Bills 15%
Domestic 67%

Source: CNB, in accordance with ESA 2010

General Government Debt to GDP ratio (%)

Croatia’s 2022 y-o-y change significantly outperformed its peers


78% 68% 75% 70% 61% 58% 42% 44% 77% 73% 54% 49%

Croatia Slovenia Slovakia Czechia Hungary Poland

Source: European Economic Forecast – Spring 2023
Central Government Debt Profile Stays Well Managed

Central government long term debt securities service profile (principal) almost stretches over the next 20 years

![Graph showing Central Government Debt by Maturity](source)

**Central Government Debt by Maturity**

- **<1**: 44.9%, 4.9%
- **1-5**: 49.0%, 37.2%
- **5-10**: 49.5%, 37.4%
- **>10**: 50.6%, 37.0%

**T-bills share in Central Government Debt**

- 2016: 13.2%
- 2017: 12.4%
- 2018: 12.7%
- 2019: 10.7%
- 2020: 8.3%
- 2021: 8.1%
- 2022: 7.3%

Source: Ministry of Finance

On a pronounced downward path

Source: Bloomberg

(1) Total amount of T-bills (incl. 15months maturity T-bills) divided with Central Government debt (principals paid directly from the state budget)
Evolution of Ratings

The adoption of the euro has significant positive implications on Croatia's credit profile

Credit strengths

- „Croatia ranks well above peers in terms of governance indicators and human development, anchored by EU and eurozone membership.”
- "GDP per capita is 35% higher than the ‘BBB’ median.”
- „Croatia has a large and relatively stable government revenue base; the government interest/revenue ratio is lower than the peer median…”
- „The country runs balance-of-payment surpluses, underpinned by EU funding…”
- „The European Commission estimates annual ageing-related government spending will be 0.3%-of-GDP lower by 2070…”

Credit challenges

- "High dependency on low value-added services sectors, such as tourism…”
- "According to the European Commission the working age population in Croatia could fall by 26% by 2050, one of the most adverse demographic profiles in Europe…”
- "Corporate and household debt jointly exceeds 100% of GDP, a large part of which is external. However, net external debt has been falling rapidly in recent years.”

Sources: CNB, S&P, Fitch and Moody’s latest credit rating analysis for Croatia
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7. Terms of Offering
<table>
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<th>Terms of the Offering</th>
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<th><strong>Issuer</strong></th>
<th>Republic of Croatia</th>
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<td>Fitch: BBB+ (stable) / S&amp;P: BBB+ (stable) / Moody’s: Baa2 (stable)</td>
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<td>General budgetary government purposes</td>
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