



**REPUBLIC
OF
CROATIA**
Investor presentation

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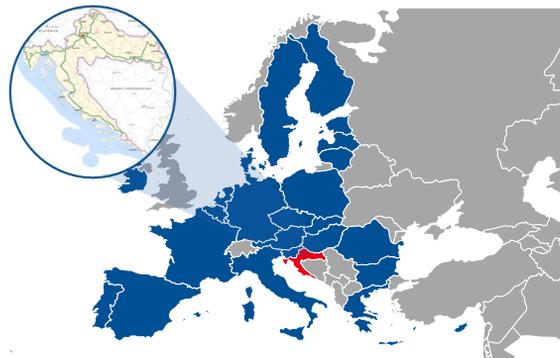


- 1** Country Overview and Key Investment Highlights
- 2 Policy Objectives and Reform Agenda
- 3 Recovery and Resilience Plan
- 4 Macroeconomic Performance of Croatian Economy
- 5 Croatia's Banking Sector and Monetary Policy
- 6 Government Debt and Funding Strategy
- 7 Terms of Offering

Country Overview



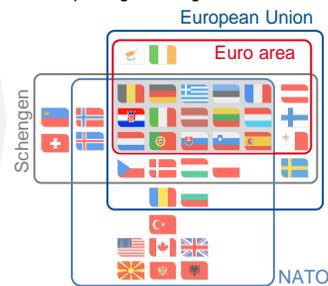
Territory	56,594 sq.km (land), 31,067 sq.km (sea)
Population	Approximately 3.9 mn
Currency	EUR (Since January 1st, 2023)
GDP	EUR 66.9 bn (current prices, 2022)
Real GDP growth rate	6.2% (2022)
GDP per capita in PPS	Croatia 73%; (EU=100%; Slovakia 67%, Greece 68%, Bulgaria 59%)
GDP per capita	EUR 17,486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



Key milestones



Fully-integrated in important Pan-European/global organisations:



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



1

Country Overview and Key Investment Highlights

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Policy Objectives and Reform Agenda

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Recovery and Resilience Plan

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Macroeconomic Performance of Croatian Economy

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Croatia's Banking Sector and Monetary Policy

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Government Debt and Funding Strategy

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Terms of Offering

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

Adopted Government Measures to Mitigate High Energy Prices and Rising Inflation



Government package	Amount (EUR bn)	Package breakdown (% of total amount)	Key goals
1 February 2022	0.7 (~1.0% of GDP '22)	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
2 September 2022	2.8 (~4.2% of GDP '22)	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Maintain the standard of living Continuous work of public institutions Maintenance of high economic growth Accelerate transition to renewable energy sources
3 December 2022	0.1 (~0.1% of GDP '22)	<ul style="list-style-type: none"> 100% payment of assistance to beneficiaries of pensions and rights in social welfare 	<ul style="list-style-type: none"> Mitigating the increase in costs of living
4 March 2023	1.7 (~2.5% of GDP '23E)	<ul style="list-style-type: none"> 70% limitation of rising energy prices 10% inflation protection 20% special grants and incentives 	<ul style="list-style-type: none"> Security of energy supply and affordable prices

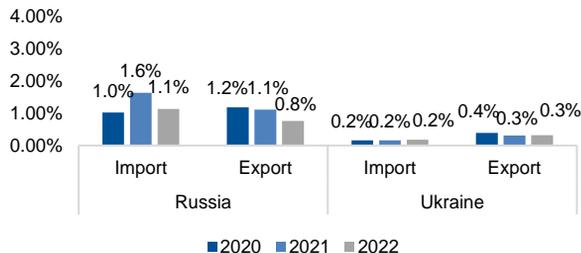
Sources: Government website, Government package February 2022 publication, Government autumn package September 2022 publication, Fourth Government package publication March 2023

(1) Based on forecasted GDP growth of 1.6% in 2023E (2022 GDP EUR 66.9 bn)

Limited Vulnerability to Russia/Ukraine Conflict Impacts

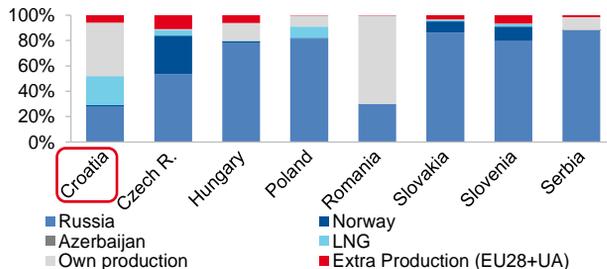


Insignificant Share of Foreign Trade with Russia and Ukraine



Source: CBS

Limited Exposure to Russian Gas



Source: Bruegel

Immaterial Impact on Croatian Tourism



Source: CBS

Comments

- 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
- 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 of 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



Croatia entered the Schengen area

- In addition to joining the euro area, Croatia has also become 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.**



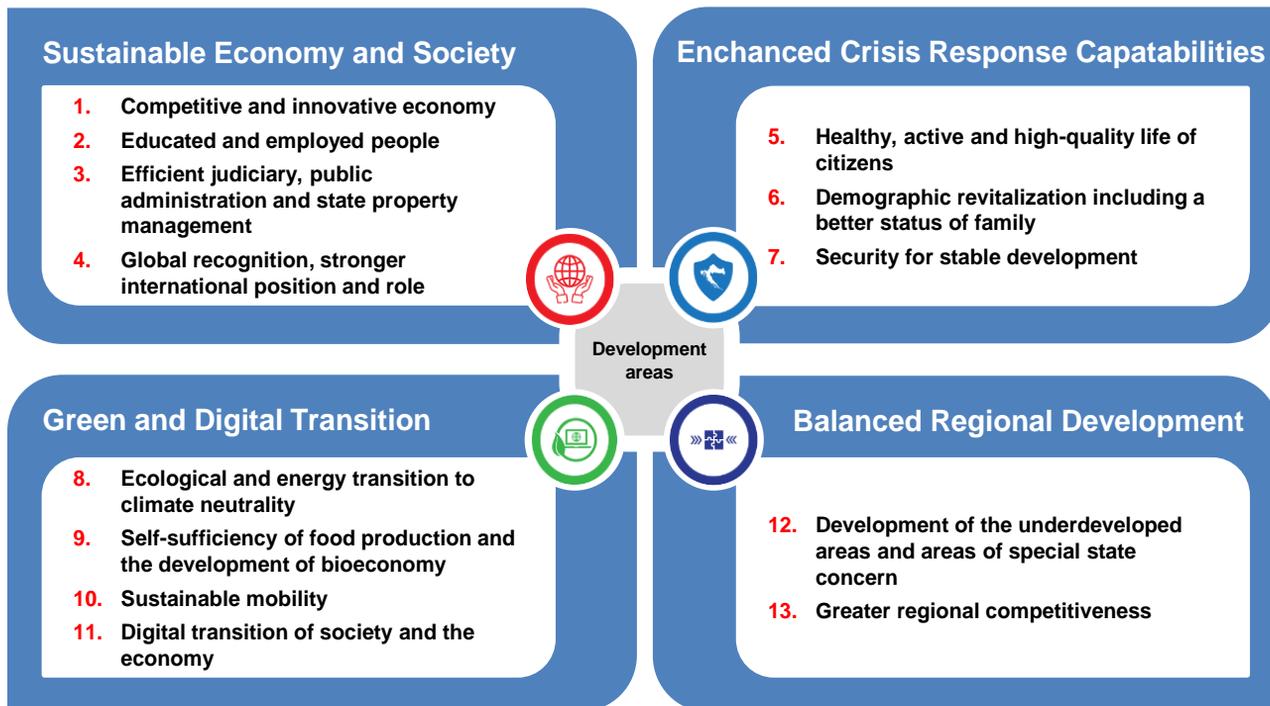
Croatia officially started OECD membership negotiations

- 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**



Intention of the Croatian Government for tax regulations new amendments

- 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**





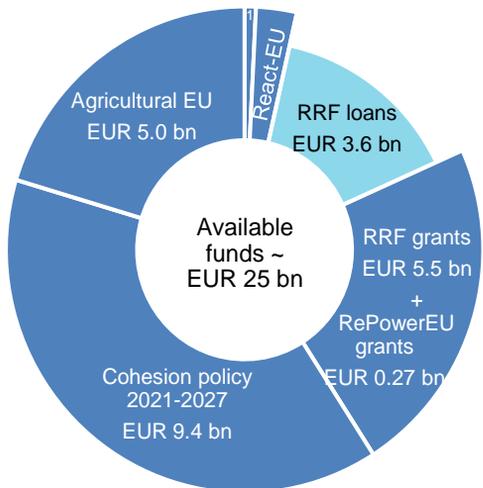
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Funds From EU Funding Mechanisms Available to Croatia by 2027



One of the champion states in EU funds absorption

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

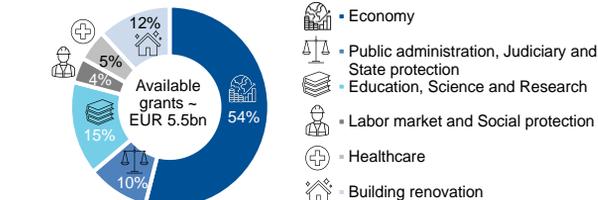


+ Additional EUR 2.1 bn funds from the MFF 2014 – 2020 available, which must be absorbed until 2023

Source: European Commission, MoF

(1) Just Transition Fund EU
 (2) Based on total (original) allocation of The Recovery and Resilience Facility

Allocation of grants available through RRF



Planned Milestones & Targets

227 Investments
145 Reforms

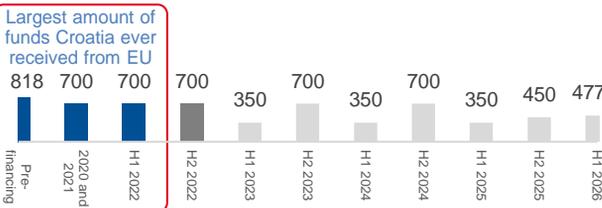
Fulfilled Milestones & Targets

100 Investments
& Reforms

Disbursements

EUR 2.2 bn (40% of allocation)

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

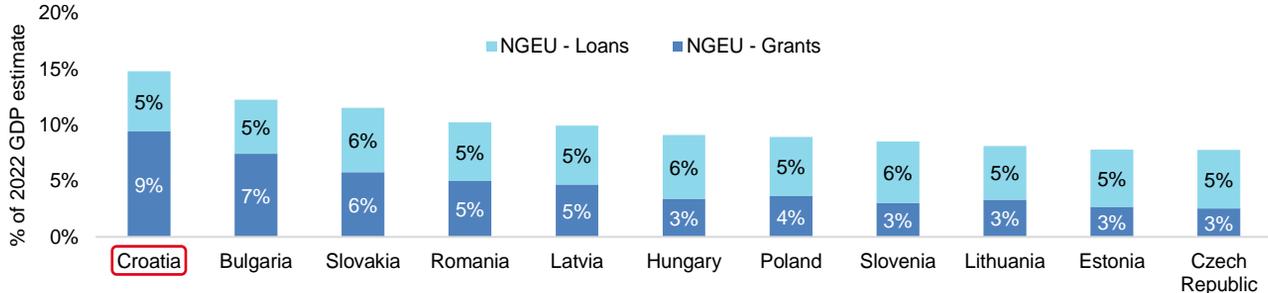


3rd EU country that has fulfilled all requirements, allowing to file (and get approved) for second batch of NGEU funds (EUR 700mn).

Generous Allocation of the EU Package to Support Economy in the Next Decade



Next Generation EU – Allocation of Grants and Loans¹



Croatia is expected to increase absorption of EU funds In the upcoming 2023 – 2025 period

- 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

EU Package Focused on Recovery and Development



Type of package	Total EU Budget ¹	Allocated to Croatia	Purpose	Allocation as % of '22 GDP
1 Next Generation EU Fund (NGEU)	EUR 807 bn	EUR 5.8 bn in grants EUR 3.6 bn in loans	<ul style="list-style-type: none"> COVID-19 pandemic recovery plan for building greener, more digital and more resilient EU, key areas including: <ul style="list-style-type: none"> ✓ 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	<ul style="list-style-type: none"> EU long-term budget for 2021-2027, key areas including: <ul style="list-style-type: none"> ✓ 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	<ul style="list-style-type: none"> Reconstruction of damage caused by earthquakes: <ul style="list-style-type: none"> ✓ Zagreb earthquake: EUR684mn ✓ Sisačko-moslavačka county: EUR319mn 	1.5%

Source: European Commission, MoF, CNB

(1) Current prices

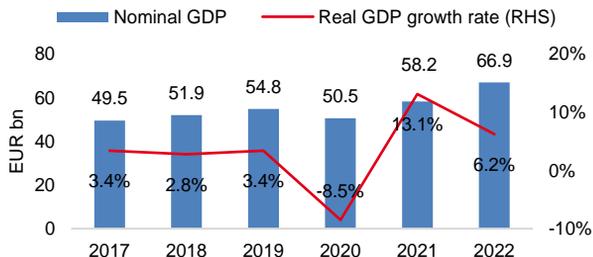


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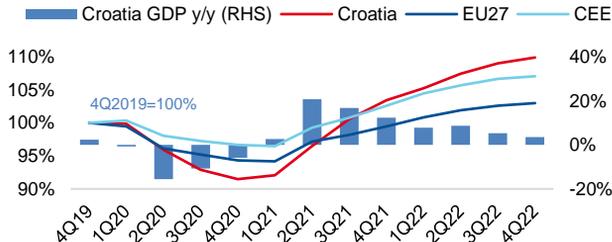
Broad-based Recovery of the Croatian Economy Continued in 2022



Croatia entered the year 2023 with an almost 10% higher level of real GDP compared to the pre-pandemic period



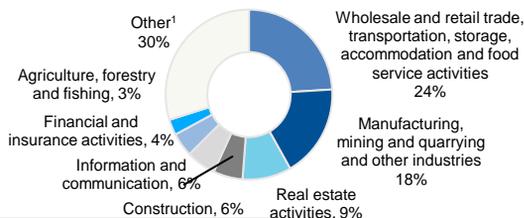
Source: CNB



Source: CNB, Eurostat

Gross Value Added by Sectors (2022)

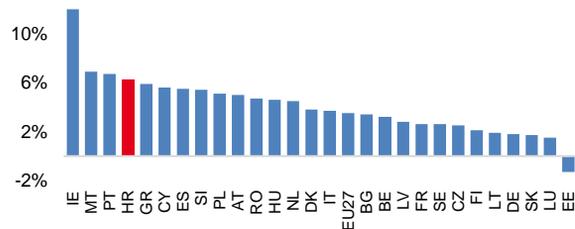
Strong recovery and subsequent growth have been broad-based with a positive contribution to GVA growth from all categories



Source: CBS

GDP Growth Rate (EU Countries, in 2022)

Strong performance of Croatian economy in 2022



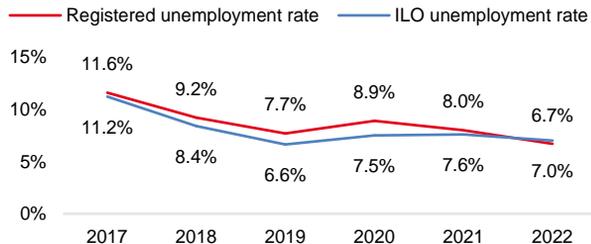
Source: Eurostat

(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

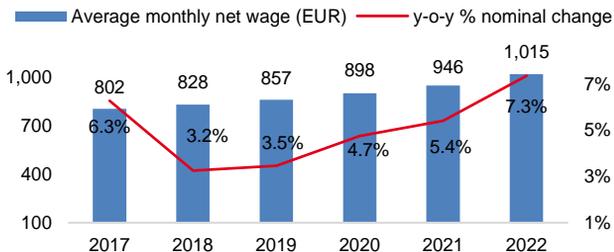


The tight labor market showed resilience in 2022



Source: CBS, CNB

Average monthly net wages continue an upward trend



Source: CBS, CNB

Employment, annual percentage change

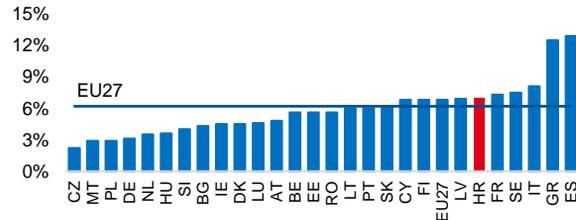
Increase of employment in peer countries (2022, y/y) underpins Croatia's strong position



Source: European Economic Forecast - Spring 2023

Unemployment rate 2022F

Croatia compares favorably among its EU peers

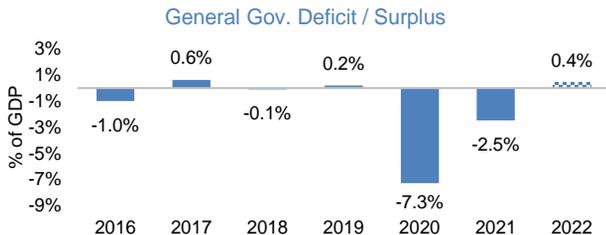


Source: European Economic Forecast - Spring 2023

Further Improvement of Fiscal Metrics, Back to Surplus in 2022



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

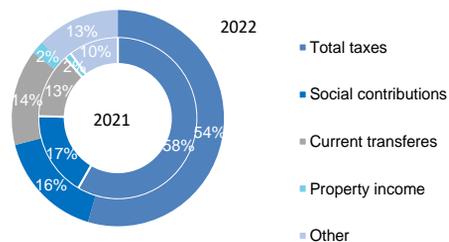


Source: CNB

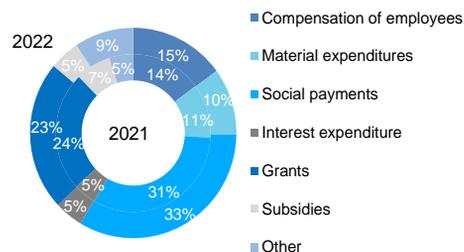


Source: Eurostat

Central government budget components (2021 vs 2022)¹



Source: Ministry of Finance



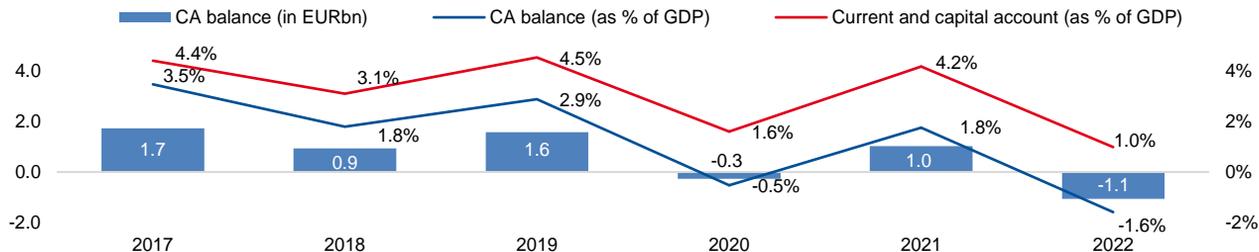
Source: Ministry of Finance

(1) MoF preliminary data for 2022

External Position Remains Strong

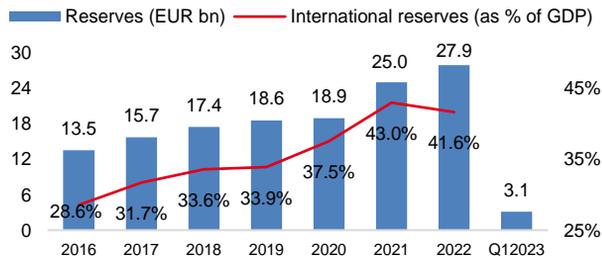


EU inflow to mitigate potential CA imbalances



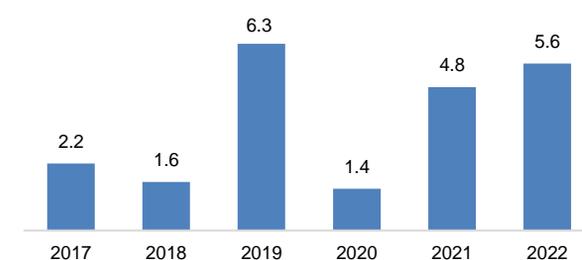
Source: CNB

Reduction of international reserves by entering the euro



Source: CNB

Net FDI (as % of GDP)

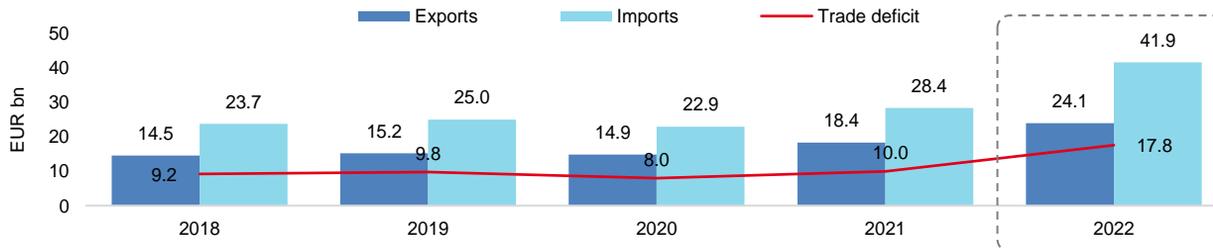


Source: CNB

Exports Well Diversified and Deeply Imbedded Into EU Trade



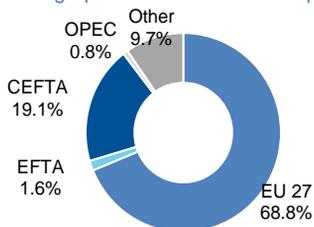
The terms of trade deteriorated substantially from the second half of 2021 onwards, reflecting the surge in energy prices



Source: CBS

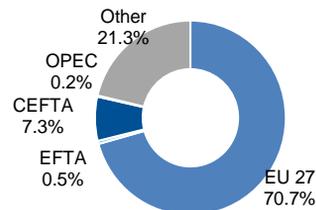
Croatia's main trading partners are Italy, Germany, Slovenia, Hungary and Austria (2022)

Geographical Distribution of Exports



Source: CBS

Geographical Distribution of Imports

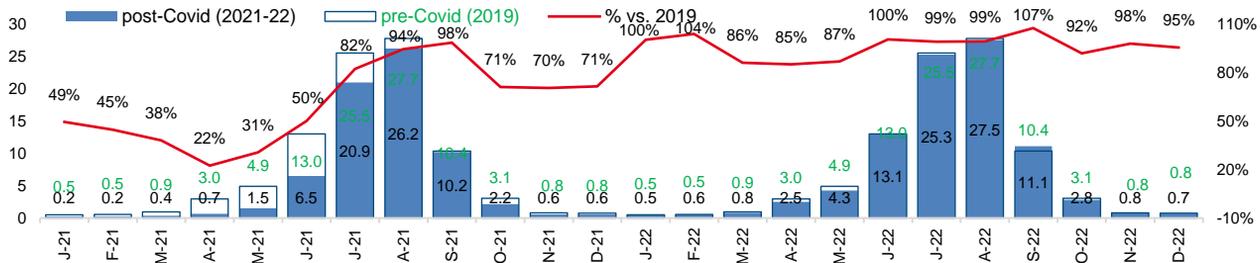


Source: CBS

Tourism Benefiting from Euro Adoption and Schengen Entry



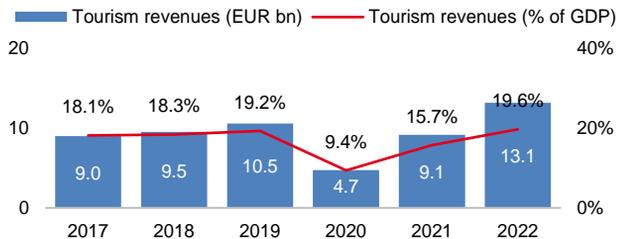
Monthly performance of overnights shows strong improvement, from mid-2021 almost closing the gap to record 2019 levels



Source: Croatian National Tourist Board

Price developments further supported the revenues side

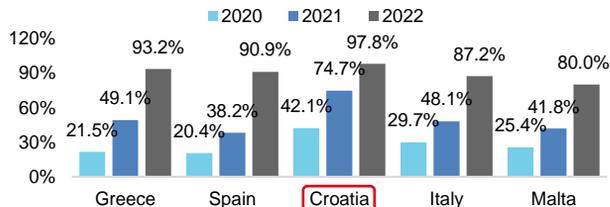
From balance of payments



Source: CNB

Overnights stays of foreign tourists vs. 2019 (indexed)

Continuous outperformance of other Mediterranean countries in overnight stays by foreign visitors

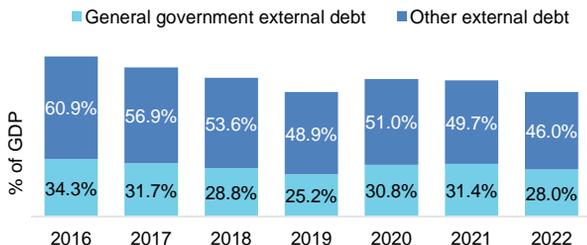


Source: Eurostat

Downward Trajectory of Gross External Debt Continues

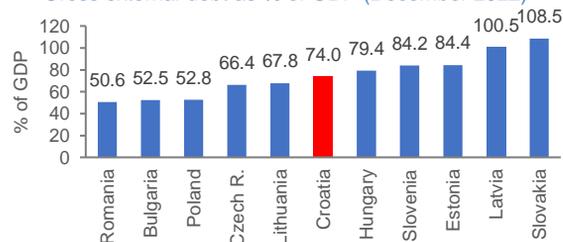


Croatia's gross external debt is back on its downward trajectory and compares favourably among Croatia's peers



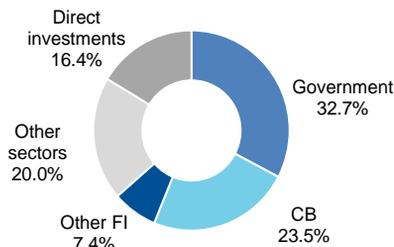
Source: CNB

Gross external debt as % of GDP (December 2022)



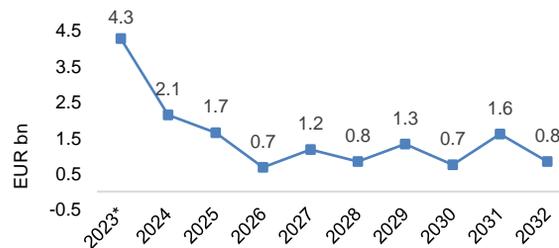
Source: Eurostat

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.

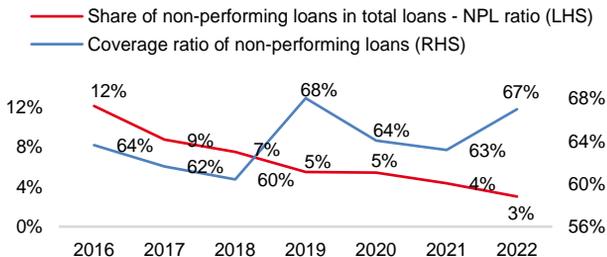


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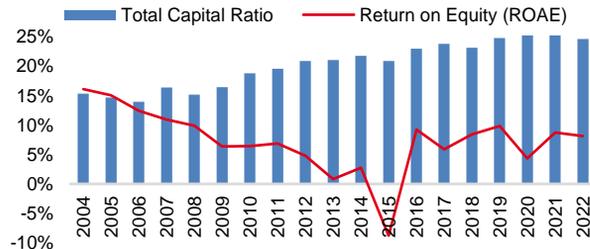
Profitability of Croatian Banks Doubled, with Capital Ratios Above EU Average



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

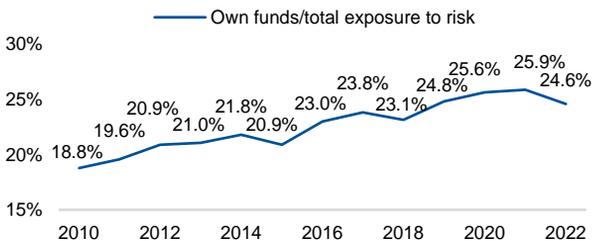


Source: CNB



Source: CNB

Although unrealised losses 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

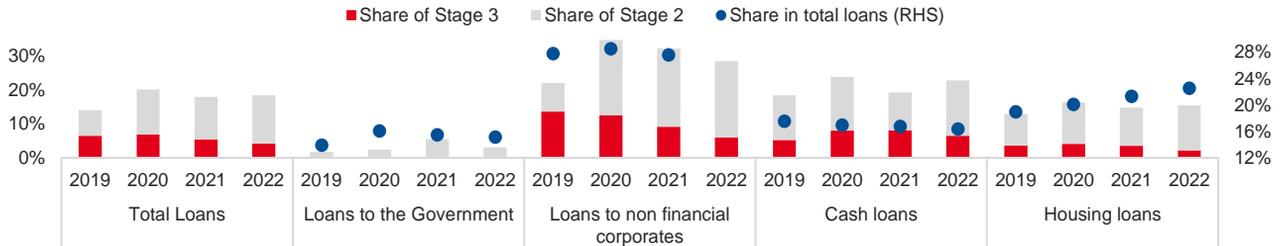


Source: CNB



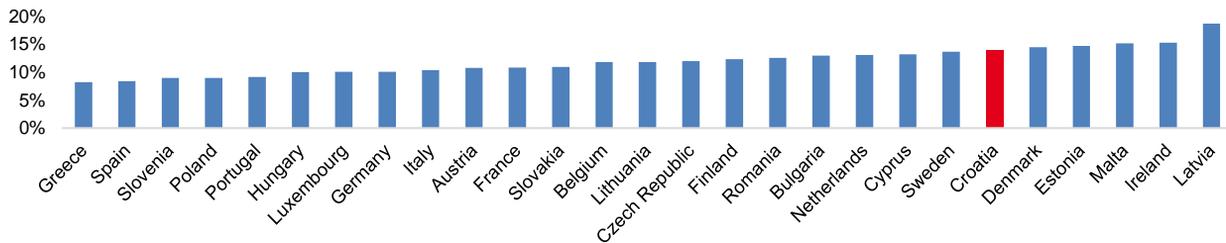
Credit Risk in Performing Exposures Moderates

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)

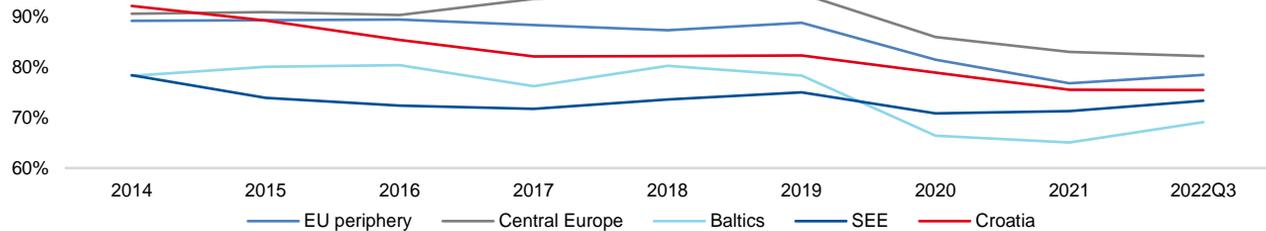


Source: CNB



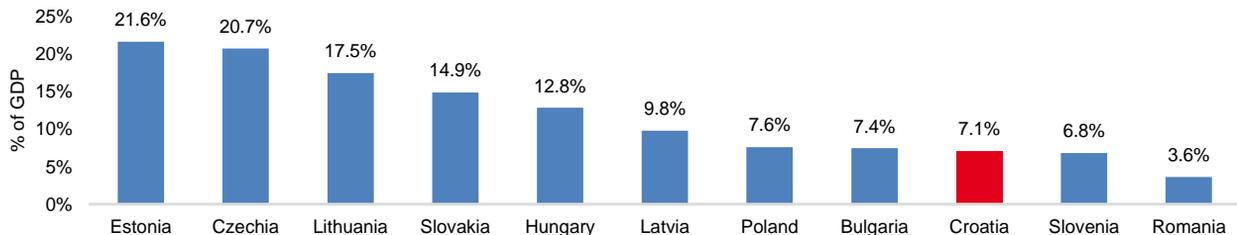
External Deleveraging of Banks Continues

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)

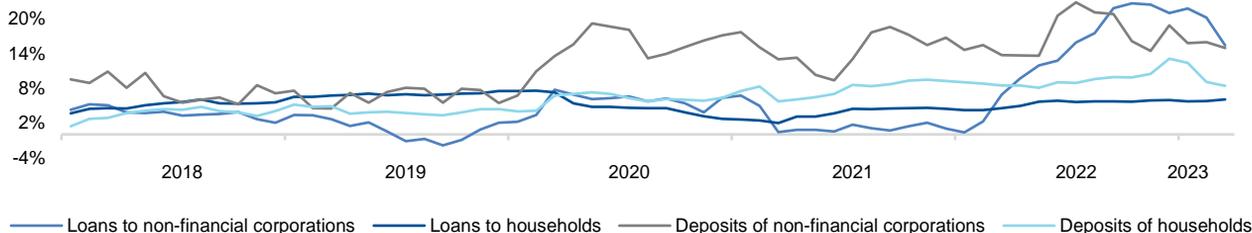


Source: CNB, ECB, Eurostat

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

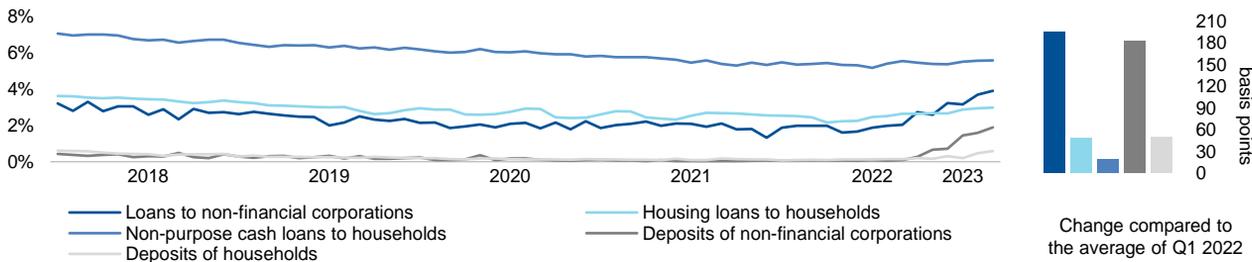


Loans and deposits of non-financial corporations and households¹



Source: CNB

Interest rates on pure new loans and time deposits of non-financial corporations and households²



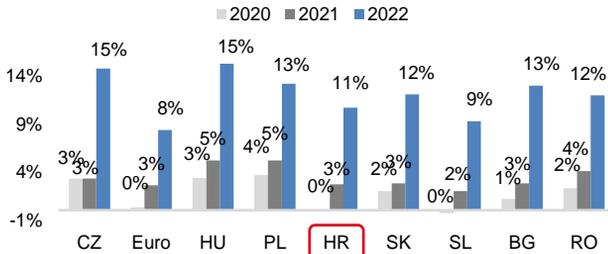
Source: CNB

(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

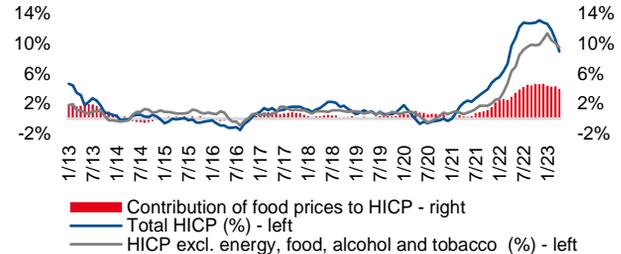


HICP inflation: peer comparison (average y/y)



Source: Eurostat

HICP inflation (y/y)



Source: CNB and CNB calculations

HICP by components (y/y)



Source: CNB, CBS

Inflation return from two-digit levels in the second half of 2022 to single digits in the second quarter of 2023

- 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



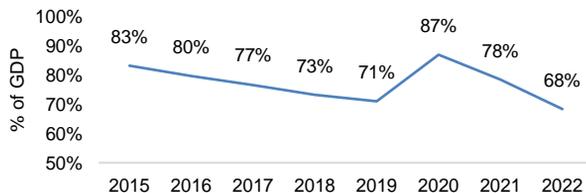
- 1 Country Overview and Key Investment Highlights
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Prudently Managed Government Debt



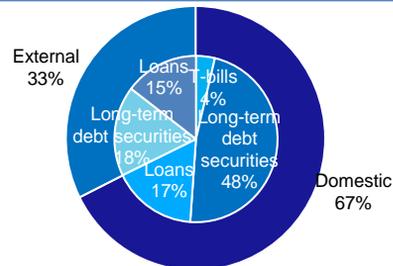
General Government Debt to GDP Ratio (%)

Growth-friendly fiscal policy



Source: CNB

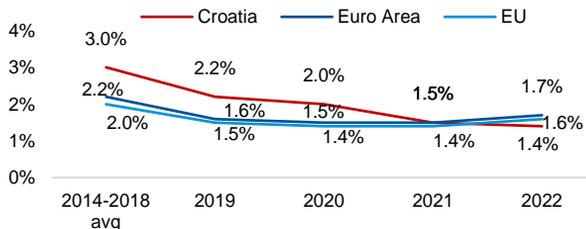
General Government debt structure, December 31, 2022



Source: CNB, in accordance with ESA 2010

General Government Interest Spending to GDP ratio (%)

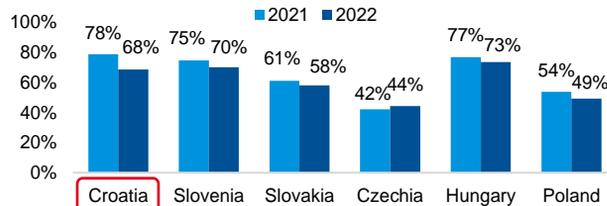
Below EU and Euro Area in 2022



Source: European Economic Forecast – Spring 2023

General Government Debt to GDP ratio (%)

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

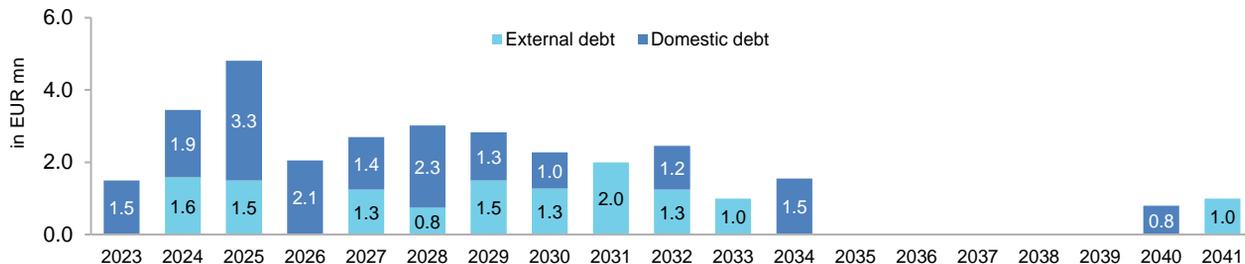


Source: European Economic Forecast – Spring 2023

Central Government Debt Profile Stays Well Managed

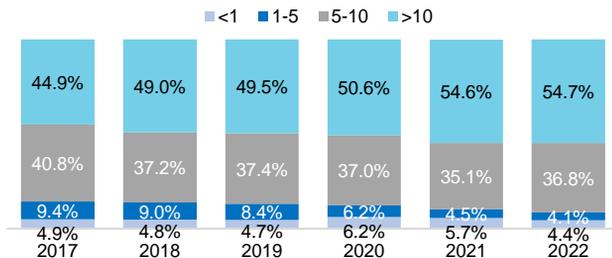


Central government long term debt securities service profile (principal) almost stretches over the next 20 years



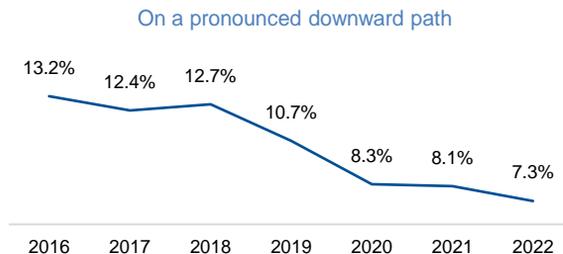
Source: Bloomberg

Central Government Debt by Maturity



Source: Ministry of Finance

T-bills share in Central Government Debt¹

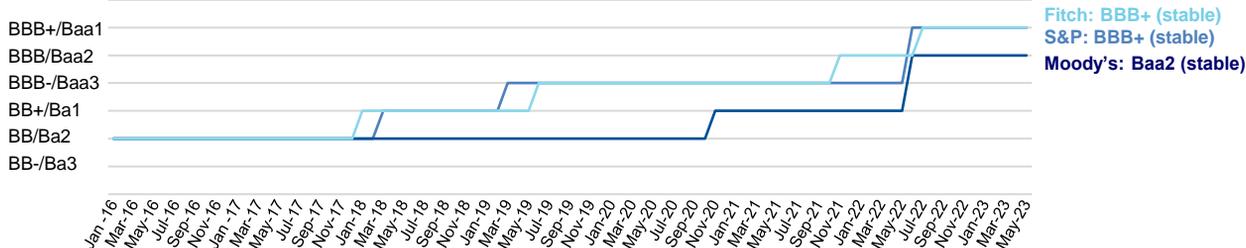


Source: Ministry of Finance

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



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.”

Sovereign	Fitch	S&P	Moody's
Lithuania	A	A+	A2
Slovakia	A	A+	A2
Latvia	A-	A+	A3
Spain	A-	A	Baa1
Croatia 	BBB+	BBB+	Baa2
Portugal	BBB+	BBB+	Baa2
Bulgaria	BBB	BBB	Baa1
Italy	BBB	BBB	Baa3
Hungary	BBB	BBB-	Baa2
Romania	BBB-	BBB-	Baa3
Serbia	BB+	BB+	Ba2



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Terms of the Offering



Issuer	Republic of Croatia
Issuer ratings	Fitch: BBB+ (stable) / S&P: BBB+ (stable) / Moody's: Baa2 (stable)
Currency	Euro
Issue size	Benchmark
Maturity	12 years
Interest payments	Fixed rate, Annual
Use of proceeds	General budgetary government purposes
Governing law	English Law
Format	Reg S Registered
Listing of notes	Regulated market of the Luxembourg Stock Exchange
Target market	Manufacturer Target Market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels)
Clearing system	Euroclear, Clearstream
Denominations	€100,000 + €1,000
Joint Lead Managers	BNP Paribas, J.P. Morgan, Raiffeisen Bank International, Zagrebačka banka / UniCredit

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