

# Croatia Business Forecast Report Q2 2014

<https://marketpublishers.com/r/C4AFE6A6B0B7EN.html>

Date: January 2014

Pages: 51

Price: US\$ 1,195.00 (Single User License)

ID: C4AFE6A6B0B7EN

## Abstracts

### Core Views

We hold a below consensus view on Croatia's economic growth prospects in 2014, with a sluggish economic recovery set to be undermined by ongoing deleveraging in the consumer and government sectors. We forecast real GDP to expand by 0.4% in 2014, and caution that lack of progress rebalancing the economy means that risks to our outlook are weighted firmly to the downside.

Croatia's sizeable fiscal deficit will pose one of the most significant risks to the country's economic recovery in 2014, with the government set to struggle to rein in spending and significantly boost revenue growth.

Although we estimate that Croatia's current account reached a record surplus in 2013, driven by robust tourism receipts and lower profit repatriation in the income account, we see the surplus shrinking to just 0.3% of GDP in 2014, due to a widening trade deficit and higher repayments to the EU in the current transfers account.

Easing food prices and low demand-pull inflationary dynamics will ensure that headline inflation remains subdued over the coming months. We forecast inflation to average 1.8% over the course of 2014, although we note that increased consumption during the tourist season should lead to a modest uptick in prices during the summer months.

Banking sector profits will remain weak in 2014, as loan growth is restricted by parent bank deleveraging and deteriorating asset quality. Although the banking sector will shrink further over the coming quarters, sufficient capital buffers imply that the sector is capable of withstanding considerable macroeconomic shocks.

We believe the Croatian kuna will continue heading along a modest depreciatory

trajectory over the next few years, although strong seasonal tourist receipts will ensure that the currency rebounds temporarily over the summer months. We hold to our forecast for the kuna to average HRK7.6400/EUR over the course of 2014.

We believe a referendum result preventing same-sex marriages will modestly damage Croatia's liberal EU credentials, as well as weakening the position of the ruling Kukuriku Coalition. Furthermore, the vote is likely to increase the chances of other referenda being pursued by interest groups, which could further damage Croatia's already strained relationship with the EU.

### **Major Forecast Changes**

We have revised our forecast for real GDP growth to come in at 0.4% in 2014, from 0.6% previously, due to a weaker outlook for private consumption and government spending over the coming quarters.

### **Key Risks To Outlook**

The main risk to our already bearish outlook for Croatia in 2014 is for a slower-than-anticipated recovery in Croatia's main trading partners in Europe. In such a scenario, already weak export demand would be hit further over the coming quarters, widening the trade deficit and putting pressure on the current account surplus. Real GDP growth would likely underperform in this scenario, and a further year of negative economic growth would look like an increasingly likely possibility.

## Contents

Executive Summary  
Core Views  
Major Forecast Changes  
Key Risks To Outlook

### **CHAPTER 1: POLITICAL OUTLOOK**

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Referendum To Damage Political Development

We believe a referendum result preventing same-sex marriages will modestly damage Croatia's international reputation, as well as weakening the position of the ruling Kukuriku Coalition in 2014.

Table: Politics Table

Long-Term Political Outlook

EU Convergence To Pay Dividends Over Long Term

While we expect Croatia's long-term political risk profile to continue improving following its accession to the EU, we caution that further progress and reforms are needed for the country to realise its full potential. We highlight the key challenges that could threaten stability in Croatia over the next 10 years, and outline three possible long-term scenarios for the country.

### **CHAPTER 2: ECONOMIC OUTLOOK**

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Deleveraging To Scupper Recovery

We hold a below consensus forecast on Croatian economic growth in 2014, with a sluggish recovery to be undermined by ongoing deleveraging in the consumer and government sectors.

Table: ECONOMIC ACTIVITY

Balance Of Payments

EU Accession Widening Trade Surplus

Although we estimate that Croatia's current account reached a record surplus of 0.8% of GDP in 2013, driven by robust tourism receipts and lower profit repatriation in the

income account, the surplus will shrink in 2014.

Table: CURRENT ACCOUNT

Fiscal Policy

Public Finances Threaten Recovery

Croatia's sizeable fiscal deficit will pose one of the most significant risks to the country's economic recovery in 2014, with the government set to struggle to rein in spending and significantly boost revenue growth. We forecast the fiscal deficit to come in at 4.6% of GDP in 2014, ensuring that the country will fall short of meeting ambitious deficit reduction targets recently called for by the EU Commission

Table: FISCAL POLICY

Monetary Policy

Deflationary Risk Over Near Term

Easing food prices and low demand-pull inflationary dynamics will ensure that headline inflation remains subdued over the coming months, with negative inflation a possibility over the short term. We forecast inflation to average 1.8% over the course of 2014, although we note that increased consumption during the tourist season should lead to a modest uptick in prices during the summer months.

Banking Sector

Weak Lending To Weigh On Profits In 2014

Banking sector profits will remain weak in Croatia in 2014, as loan growth is restricted by parent bank deleveraging and deteriorating asset quality.

Table: MONETARY POLICY

Table: EXCHANGE RATE

Regional Economic Outlook

Kuna To Weaken In 2014, Despite Summer Strength

Table: BMI Croatia Currency Forecast

FX Forecast

Key Themes For Emerging Europe In 2014

We have identified the three key themes that we expect to dominate each of our three Emerging Europe sub-regions in 2014. In the Central, Baltics and South East region, we expect the recovery in Central Europe to outpace the Baltics, growth to shift from being export-driven to demand-driven, and populism to dominate EU parliamentary elections.

## **CHAPTER 3: 10-YEAR FORECAST**

The Croatian Economy to 2023

EU Membership Underpins Reasonably Positive Long-Term Outlook

With EU membership achieved in July 2013 and some convergence gains still to be realised, we maintain a reasonably positive longterm view on the Croatian economy.

We caution, however, that ongoing difficulties in the eurozone and a more protracted economic recovery present key risks to this outlook over the longer term.

Table: Long-Term Macroeconomic Forecasts

## **CHAPTER 4: BUSINESS ENVIRONMENT**

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

Institutions

Table: BMI BUSINESS AND OPERATION RISK RATINGS

Table: BMI LEGAL FRAMEWORK RATING

Infrastructure

Table: LABOUR FORCE QUALITY

Table: EMERGING EUROPE – ANNUAL FDI INFLOWS

Market Orientation

Table: TRADE AND INVESTMENT RATINGS

Operational Risk

## **CHAPTER 5: KEY SECTORS**

Autos

Table: Auto Sales, 2010-2017

Table: Automotive Fleet, 2010-2017

Food & Drink

Table: Food Consumption Indicators – Historical Data & Forecasts, 2010-2017

Table: Mass Grocery Retail Sales By Format – Historical Data & Forecasts, 2010-2017

Table: Alcoholic Drinks Value/Volume Sales – Historical Data & Forecasts, 2010-2017

Other Key Sectors

Table: Telecoms Sector Key Indicators

Table: Defence and Security Sector Key Indicators

Table: Pharma Sector Key Indicators

Table: Oil and Gas Sector Key Indicators

Table: Infrastructure Sector Key Indicators

Table: Freight Key Indicators

## **CHAPTER 6: BMI GLOBAL ASSUMPTIONS**

Global Outlook

## Momentum To Continue In H114

Table: Global Assumptions

Table: Developed States, Real GDP Growth, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH  
FORECASTS, %

Table: Emerging Markets, Real GDP Growth, %

## I would like to order

Product name: Croatia Business Forecast Report Q2 2014

Product link: <https://marketpublishers.com/r/C4AFE6B0B7EN.html>

Price: US\$ 1,195.00 (Single User License / Electronic Delivery)

If you want to order Corporate License or Hard Copy, please, contact our Customer Service:

[info@marketpublishers.com](mailto:info@marketpublishers.com)

## Payment

To pay by Credit Card (Visa, MasterCard, American Express, PayPal), please, click button on product page <https://marketpublishers.com/r/C4AFE6B0B7EN.html>