

Croatia Infrastructure Report Q1 2012

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Abstracts

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BMI View: The outlook for the Croatian infrastructure sector continues to remain grim in the face of slackened economic growth both domestically and within the region.

Although the government's pledge to inject EUR13bn into the country's infrastructure sector and Croatia's accession to the EU by 2013 clearly creates room for optimism, BMI leans on the cautious side.

We forecast that Croatia's construction sector is poised for a further 0.4% year-on-year (y-o-y) contraction in real terms in 2012 – its fourth consecutive year of decline – as businesses remain cautious about making new investments, and the government postpones existing projects. Thereafter, we expect the market to return to positive territory, with growth averaging 2.8% y-o-y, taking construction value to US\$4bn by 2016.

Contributions to the forecast include:

Following the European Union's approval to Croatia's accession to the EU in July 2011, we expect infrastructure activity to speed up, as the country now has access to funding in order to support such projects. The European Investment Bank (EIB) estimates that it has provided some EUR2.5bn in loans (including current loans) to Croatia since 2001, to help implement projects that will support its accession. Another EUR85mn was provided by the EIB in September 2011 alone to help support infrastructure projects in the country.

In February 2011, the government announced plans to invest over EUR13bn in the country's infrastructure sector. Energy projects are expected to receive the lion's share, worth EUR3.85bn, while transport projects are forecast to receive

EUR4.27bn.

In March 2010, Croatia signed an agreement to join the Russian-led South Stream Pipeline project. Energy projects look set to dominate in the medium-term, as the government focuses on improving existing infrastructure and capitalising on the country's prime geographical location as a connector with Western Europe.

The renewable sector in Croatia is also attracting increasing attention from international developers, mostly owing to its aspirations to EU membership and the very limited role played by non-hydro renewables sources in its power mix. German leading utilities RWE and E.ON are reportedly considering investing in Croatia's power sector, with new projects focusing on gas-fuelled plants and new wind farms.

While favourable base effects certainly put upside risks to our outlook, we believe that slackened growth in the region and poor government revenues will make robust growth in the sector unlikely. In fact, our macroeconomic team expects the incoming government to implement fiscal austerity during 2012, in an attempt to bring the budgetary shortfall to below the Maastricht-imposed limit of 3.0% of GDP by 2013. Moreover, with ongoing concerns about Balkan countries' exposure to the eurozone crisis, signs of a weak patch in US growth and Croatia's own weak economic outlook, we expect that investment in the country will continue to suffer.

However, Croatia's business environment remains a strong point for the country, placing it far ahead of Turkey, Hungary and Romania. Much of the boost to its score in the past came from the capital investment and government spending prior to the global financial crisis, and we certainly see more upside as recovery gathers pace.

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Regional Infrastructure Risk/Reward Ratings

Company Monitor

Konstruktor Inzenjering

Ingra

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Infrastructure Finance In 2012: Deja Vu?

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New Infrastructure Data Sub-sectors

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Capital Investment

Construction Sector Employment

Infrastructure Business Environment Rating

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