



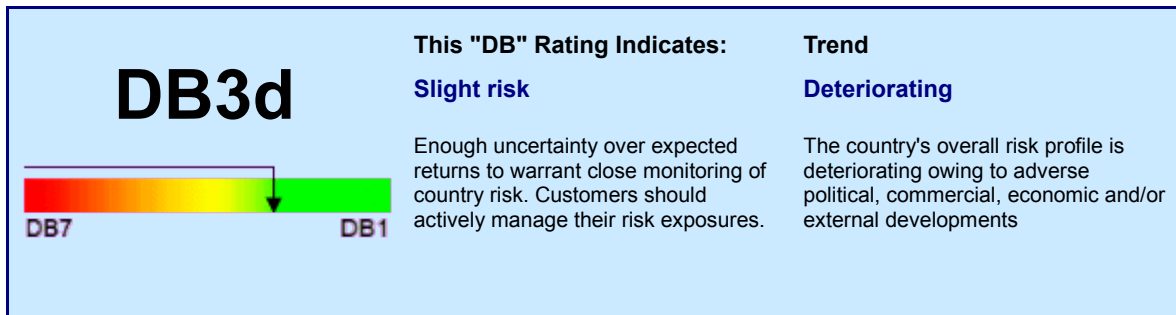
Decide with Confidence

CROATIA

Region : Eastern Europe

Edition : April 2011

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	4.4m
Surface area (sq km):	56,542
Capital:	Zagreb
Timezone:	GMT +01:00
Official language:	Croatian
Head of government:	Prime Minister Jadranka KOSOR
GDP (USD):	60.3bn
GDP per capita (USD):	13,675
Life expectancy (years):	75
Literacy (% of adult pop.):	98.1

Country Overview:

Croatia, one of the former Yugoslav republics, is located in South-eastern Europe between Slovenia and Bosnia & Herzegovina; it also borders the Adriatic Sea, Hungary and Serbia. There are plains along the Hungarian border, with mountains and highlands near the Adriatic coastline and islands.

Once one of the wealthiest of the Yugoslav republics, Croatia's economy suffered badly as real GDP fell by two-fifths between 1989 and 1993 owing to the war that accompanied the break-up of Yugoslavia. By 1997 GDP had recovered to 75% of the 1989 level and by 2005 had reached the 100% mark. Croatia has established a record of solid growth and low inflation since the mid-1990s, despite a recession in 1998-99, led by a rebound in tourism and credit-driven consumer spending. With credit terms generally tighter, lack of financing will act as a drag on growth in the short term. Meanwhile, economic policy is driven by the need to meet EU accession standards, including withdrawal of the state from the economy through privatisation and further fiscal consolidation. However, entry before 2011 remains unlikely.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	LC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-60 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-1 month
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

The government has proposed a draft law that aims to reduce the size of Croatia's informal economy by giving inspectors the right to enter business premises without the consent of the owner. Until now this has been a major impediment to controlling the problem of unregistered businesses, particularly in sectors such as tourism. Estimates of the size of Croatia's 'grey' economy vary significantly, with the World Bank estimating it to be as much as 35% of total GDP. However, even the lowest estimates suggest that Croatia's grey economy is significantly larger than the average for Central Europe. Reining in unregistered economic activity will have positive benefits in terms of rising tax revenues, greater consumer protection and a level-playing field for law-abiding employers.

Export Credit Agencies

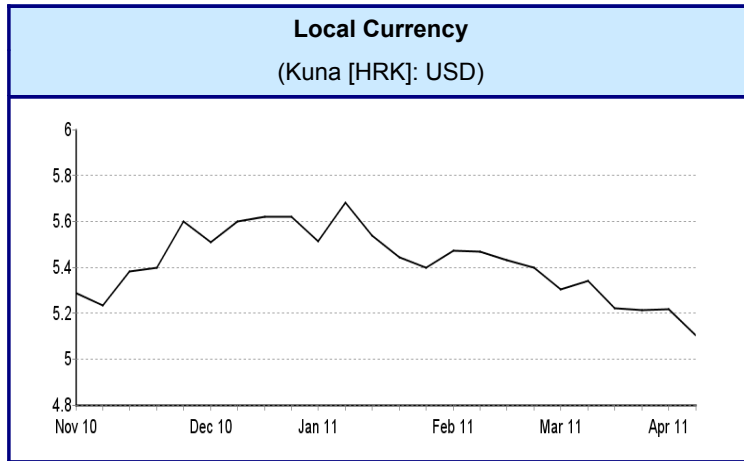
US Eximbank	Cover available on all risks
Atradius	ST cover available, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	2.2	-6.0	-1.2	1.5	2.2
Inflation, annual ave, %	6.1	2.4	1.0	2.0	2.3
Govt balance, % GDP	-1.4	-4.1	-4.0	-6.0	-5.5
Unemployment, %	8.4	9.1	11.8	12.5	11.0
C/A balance, % GDP	-6.2	-4.0	-1.1	-1.0	-1.0

Currency Information

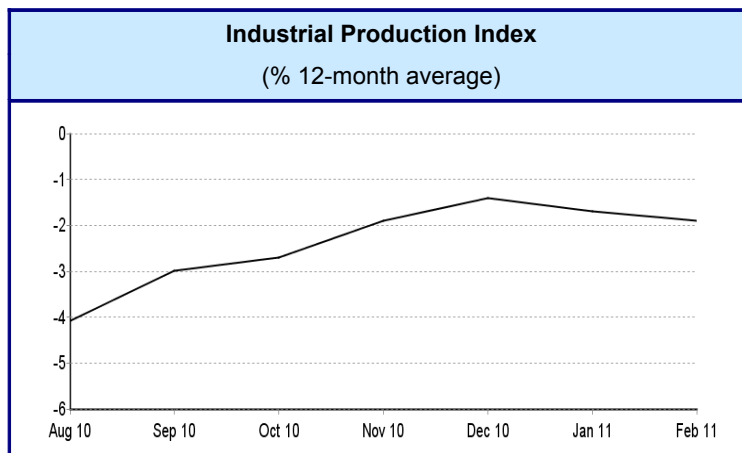
Exchange Rates	
(London, 11 Apr 11)	
EUR	7.3648
GBP	8.3592
JPY*	6.0002
USD	5.102
*(x 100)	



Local Currency
(Kuna [HRK]: USD)

	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11
Week 1	5.286	5.507	5.512	5.472	5.305	5.216
Week 2	5.233	5.600	5.682	5.468	5.341	5.102
Week 3	5.383	5.621	5.536	5.432	5.220	
Week 4	5.397	5.618	5.443	5.399	5.213	
Week 5	5.601		5.398			

Industrial Production Index



Data Table

Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11
-4.08	-2.98	-2.71	-1.9	-1.4	-1.7	-1.9

Risk Factor

It is looking increasingly unlikely that Croatia will conclude negotiations for EU membership in June, posing a serious risk to its accession to the union in 2012. Although Croatia has closed 28 of the 35 policy chapters which aspirant states must negotiate, a report by the European Commission in March warned that much more needed to be done. The main unresolved issues are reform of the judiciary, especially relating to corruption, outstanding war crimes cases and refugee returns; and restructuring and privatising Croatia's ailing shipyards.

Missing the June deadline could have several negative consequences. Italian Foreign Minister Franco Frattini said in March that the EU is suffering from 'enlargement fatigue' and added that if Croatia does not accede quickly it could be trapped in a 'situation of uncertainty' (i.e. have its entry delayed until its Balkan neighbours are ready, several years from now). Croatia could also miss out on EUR1.5bn in EU cohesion funds because in 2012 the EU will finalise its budget for the period 2014-20; if Croatia is not a member by then, it cannot be incorporated into budgetary calculations and only receive lower, temporary funding upon joining. Missing the deadline also poses a risk to government stability. Demonstrations across Croatia calling for the government to resign are putting massive pressure on Prime Minister Jadranka Kosor to complete negotiations in June. President Ivo Josipovic has intervened, saying that Croatia should hold elections if the June deadline is not met, and the opposition may rescind its offer not to press for early elections if the deadline is missed. Early elections could not only delay EU accession further (as the administration takes time to reconstitute itself) but pose a risk that general support to join the EU will decline (according to polls carried out in March less than 50% of society is now in favour of Croatia's EU membership). However, this is still a rather unlikely scenario, and D&B believes that even if accession is delayed, Croatia will eventually join the EU.

Positively, the economic risk outlook has improved. Data for 2010 indicate that the economy contracted by 1.2%, less than the 1.5% D&B previously estimated. Meanwhile, as a result of the weak kuna, Croatia's external deficits have been declining further: the current account deficit of USD1.4bn in Q4 2010 was down by a third in comparison to the same period in 2009, while the trade deficit in January 2011 was 11.8% lower year on year (due to more robust export growth). As such, D&B has raised its growth forecasts to 1.5% for 2011 and 2.2% for 2012. However, an unemployment rate which is now at an eight-year high will continue to constrain private consumption, while efforts to bring public spending under control will limit government consumption, posing downside risks to our forecast.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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