Window into business reality
Croatian CEO Survey 2014

Part of the 17th
Global CEO Survey
June 2014
My sincere thanks to all the corporate leaders from our public and private sector who shared their thoughts with us. We greatly appreciate our respondents’ willingness to free up their valuable time to make this survey as comprehensive and accurate as possible.

The Annual Global CEO Survey is now in its 17th year, and we are proud to present to you the first Croatian edition of the Survey. The following pages provide insight into the Croatian corporate boardroom thinking, and define current issues that these C-level executives face.

I strongly believe we will continue to publish this survey and share CEOs’ insights relevant for the Croatian market. I hope this insight will shed new light on the business sector and be the foundation for further discussions.

Hrvoje Zgombić
Country Managing Partner
PwC Croatia
Introduction

For the first year, we have surveyed the top representatives of leading firms active in the Croatian market. A total of 32 Croatian business leaders participated in this year’s Croatian CEO survey. This report compares and analyses local views with the PwC’s annual Global CEO Survey, presented annually for the last 17 years at the World Economic Forum in Davos, Switzerland.

The Croatian CEO Survey 2014 showed that our CEOs have more optimism than their global peers in terms of global economic growth. Although the majority of them have cost reduction on their restructuring agenda in the upcoming period, they are aware of innovation and regional expansion as the main opportunity to grow their business. The bottom line is: a strong push is necessary in order to catch up with the fast pace of the companies in the surrounding CEE region.

This won’t be easy. However, the CEOs’ increasing confidence indicates that, certain doubts aside, they do believe in success.

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Confidence in growth – A better tomorrow
63% of the Croatian CEOs expect that the global economy will improve in the upcoming 12 months.

Trends & Opportunities – Growth through innovation
88% of the Croatian CEOs believe technological advances will have the biggest transformative effect on their business over the next five years.

Company initiatives – Big plans for the future
72% of the Croatian CEOs plan to execute cost reduction as a type of restructuring activity in the upcoming year.

Stakeholder Trust - Stability
34% of the Croatian CEOs consider that their customers’ level of trust has improved in the past five years.

Threats – Concerns about the future
100% of the Croatian CEOs are concerned about the Government’s response to the fiscal deficit and tax burden and see it as the biggest potential threat to their organisations.

Regulation – Working with the Government
59% of the Croatian CEOs think the Government should focus on developing an innovation ecosystem which supports growth.
Confidence in growth – A better tomorrow

63% of the Croatian CEOs expect that the global economy will improve in the upcoming 12 months
Economic outlook

Globally, twice as many CEOs believe the global economy will improve in the next 12 months, compared to those polled last year. But it’s a fragile optimism because there is only a small rise in confidence about business growth prospects in 2014.

Some emerging economies are still slowing down and it’s becoming increasingly clear that their business fortunes are diverging as each faces its own unique issues. Croatia is showing negative growth rates for the 5th year in a row and clearly falls into the divergent group.

Nevertheless, 63% of the Croatian CEOs responded that they expect the global economy to improve in the next 12 months which should positively impact the business environment in Croatia.

“We do have forward momentum in the economy. But it’s not what it should be. The reason it hasn’t rebounded in a much more vigorous way is that we’re bearing the burden of too much uncertainty in almost every area...”

Stephen A. Schwarzman, Chairman, CEO and Co-Founder, Blackstone, US
Confidence in growth

After five years, it’s time for CEOs to stop brooding on the crisis and fully concentrate on how to be successful in the new reality. The global CEOs’ responses show that they’ve already started.

Over 90% of global respondents answered that they are confident about their company’s revenue growth over the next three years. Last year, this figure was lower.

Overall, the Croatian CEOs are almost as optimistic as their global colleagues this year. 88% of CEOs have responded that they are confident in growth compared to 92% of global CEOs.

On the other hand, the fact that CEE CEOs intend to finance their planned growth mainly through their own capital confirms that there is still some uncertainty in the market.

“How confident are CEOs about their company’s revenue growth prospects over the next 3 years?”

<table>
<thead>
<tr>
<th>Croatia</th>
<th>Global</th>
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<tbody>
<tr>
<td>Not confident at all</td>
<td>6%</td>
</tr>
<tr>
<td>Not very confident</td>
<td>38%</td>
</tr>
<tr>
<td>Somewhat confident</td>
<td>50%</td>
</tr>
<tr>
<td>Very confident</td>
<td>6%</td>
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“How do Central Europe CEOs expect to finance this growth?”

- Internally generated cash flow: 84%
- Bank lending: 41%
- Public funds (incl. grants and EU funds): 13%

“The CEOs’ responses indicate signs of recovery. Yes, companies facing tougher competition and economic turmoil must be more efficient and innovative, but many examples show that one can succeed. The confidence in growth will be further improved once the external environment stabilises. The economic situation over the last several years has been a radical filter for private sector companies although the regulatory framework (e.g. ‘pre-bankruptcy settlement’) had a significant impact on its dynamics.”

Hrvoje Zgombić, Country Managing Partner, PwC Croatia
88% of the Croatian CEOs believe technological advances will have the biggest transformative effect on their business over the next five years.
CEOs think three fundamental external forces will have the most impact on their businesses over the next five years: technological advances, demographic changes and global economic shifts. These trends aren’t new, but what’s changed is the pace at which they’re unfolding and the way they’re colliding to create a completely different environment. The implications for businesses are profound. There will be many new opportunities for growth – and many new challenges – in three key areas: harnessing technology to create value in totally new ways; capitalising on demographic shifts to develop tomorrow’s workforce; and serving consumers in a new economic landscape.

Technology is altering businesses from the inside out, say both global and European CEOs.

The Croatian executives, just like the global ones, recognise technological changes as the single most significant driver which will influence and transform their business in the next five years. Demographic shifts are high on Croatia CEOs agenda indicating their concern regarding the ageing population.

Which of the following global trends do CEOs believe will transform their business the most over the next 5 years?

<table>
<thead>
<tr>
<th>Global trend</th>
<th>CRO</th>
<th>CEE</th>
<th>Global</th>
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</thead>
<tbody>
<tr>
<td>Technological advances</td>
<td>84%</td>
<td>81%</td>
<td>88%</td>
</tr>
<tr>
<td>Demographic shifts</td>
<td>58%</td>
<td>60%</td>
<td>84%</td>
</tr>
<tr>
<td>Shift in global economic power</td>
<td>56%</td>
<td>56%</td>
<td>59%</td>
</tr>
<tr>
<td>Urbanisation</td>
<td>38%</td>
<td>34%</td>
<td>40%</td>
</tr>
</tbody>
</table>

“Historically, technological advances have been the driving force behind transformations in business. Coupled with demographic shifts and global convergence, the incumbents on the market are consolidating their businesses, finding new innovative ways of increasing value for shareholders.”

Dejan Ljuština, Consulting leader, PwC Croatia
Opportunities for growth

The global trends presented in the preceding slides create impact in increasingly shorter timeframes. Preparing for the future is one of the key topics on the CEOs agenda.

So, how are CEOs preparing for the new business landscape?

Both global and Croatian CEOs see product and service innovation as the main opportunity to grow their business. This may have an impact on their R&D, budgets in addition to the uncertainty of cash flows. R&D, whether through product innovation or just design innovation, initially puts pressure on cost followed by the pressure on management to deliver new products and services. Companies have to tightly manage this process in order to minimize risk and ensure return on their investment.

This is followed by betting on new geographic markets. This might indicate their increasing awareness and perhaps readiness for regional consolidation as the logical path towards competitiveness on the EU level.

41% of the Croatian CEOs see product and service innovation as the main opportunity to grow their business.

“Necessity to grow scale through regional consolidation is recognised by few Croatian companies, leaving room for stronger activity. Besides opportunities for synergy through cost efficiency, asset optimisation, portfolio optimisation, cross-sales, joint access to third markets, etc., there are still certain obstacles primarily in the political environment, cost of capital, and in general management’s focus on restructuring activities rather than on expansion activities.”

Mislav Slade-Šilović, Assistant Manager, Consulting, PwC Croatia
Company initiatives – Big plans for the future

72% of the Croatian CEOs plan to execute cost reduction as a type of restructuring activity in the upcoming year
Restructuring initiatives

According to the Croatian CEOs, this year in Croatia will be a hard one when it comes to employment - they expect that more jobs should be closing than opening. Only 28% of the companies are going to recruit new people, whereas more than half of them are planning to decrease the number of employees. These results differ from the CEE and Global CEOs since only one quarter of them plan to decrease the number of employees.

All this indicates that the Croatian companies lag behind CEE regarding operational and financial restructuring as well as company rightsizing. Thus, even though most of the Croatian CEOs already did some sort of cost reduction in the past twelve months, 72% plan to do it in the upcoming year and, as mentioned before, mostly by reducing the number of employees.

However, not all activities in Croatia are aimed at cost reduction; a large part of CEOs plan activities to stimulate growth - 41% of the Croatian CEOs plan to enter into a strategic alliance or joint venture in the next twelve months and 35% of them say they plan on completing an M&A (domestic or cross-border) in the upcoming year. It seems that the Croatian CEOs trust the famous phrase – go bigger or go bust.

"In the past few years, the Croatian companies have been working intensely to increase cost efficiency and this trend will continue in the upcoming year. Untapped potential lies in strategic partnerships and consolidation within the region, which is necessary in order to achieve competitiveness in the EU market."

Ivan Bavoljak, Manager, Consulting, PwC Croatia
The digital revolution has given birth to a new generation of consumers who want ever more accessible, portable, flexible and customised products, services and experiences.

CEOs see a clear opportunity to create value by meeting such needs. As most of them see product and service innovation as the main route to growth in 2014.

Huge economic shifts are resulting in equally momentous changes in consumption patterns. CEOs now have to chase a moving target, as consumers evolve in different ways in different markets. They have to address the needs of more diverse – and demanding – customer segments. And they have to fight off increasingly intense competition.

To respond to these challenges, all surveyed the Croatian CEOs have customer growth and retention strategies at the top of their transformative initiatives (either planned or started), while 97% say the same for organisational redesign and technology investments.

“The digital consumer has been around for a while, and now it’s obvious he can’t be ignored anymore. Even though the Croatian companies are becoming market driven and chasing consumers, for a long-term success, they will have to face a challenge of becoming market drivers by bringing R&D and innovation into action as a core part of their customer strategy.”

Emanuel Tutek, Assistant Manager, Consulting, PwC Croatia
When it comes to organisation readiness, the Croatian CEOs believe their Executive, HR and Finance departments are best prepared to cope with transformative change.

58% of the Croatian CEOs identified their Executives to be the best prepared part of their organisations to capitalise on the transformative global trends which, on the one hand, could be encouraging, but could also indicate the lack of self-criticism and the need for further analysis of the organisation’s management.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?

“The big thing that will continue to impact the global economy is a continuous technological growth, meaning that the companies of tomorrow will increasingly depend on whether they are capable to keep the pace and capitalize on such a trend. Because of that, organisations have to continuously challenge, re-think and refresh their internal capacities since the margin for error is diminishing.”

Dejan Ljuština, Consulting Leader, PwC Croatia
34% of the Croatian CEOs think that their customers’ level of trust has improved in the past five years.
The Croatian CEOs see the biggest improvement in the level of trust with customers and employees

Movements in the level of trust in your industry for the following stakeholders: (%)

### Croatia

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Improved</th>
<th>Deteriorated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>31</td>
<td>13</td>
</tr>
<tr>
<td>Media</td>
<td>28</td>
<td>25</td>
</tr>
<tr>
<td>Customers</td>
<td>34</td>
<td>22</td>
</tr>
<tr>
<td>Providers of capital</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>Government</td>
<td>28</td>
<td>22</td>
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### CEE

<table>
<thead>
<tr>
<th>Stakeholder</th>
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<th>Deteriorated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>Media</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>Customers</td>
<td>48</td>
<td>12</td>
</tr>
<tr>
<td>Providers of capital</td>
<td>43</td>
<td>12</td>
</tr>
<tr>
<td>Government</td>
<td>28</td>
<td>23</td>
</tr>
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</table>

...and at the same time the CEE CEOs gave a similar result, but with deteriorating levels of trust for their governments.

“M&A transactions are dependent on management expectations and establishing a clear communication framework with relevant stakeholders. Media scrutiny over and interest of relevant stakeholders for transactions put more pressure on companies to follow clear and transparent transaction procedure.”

*Siniša Dušić, Partner, Assurance/Advisory-Deals, PwC Croatia*
100% of the Croatian CEOs are concerned about the Government’s response to the fiscal deficit and tax burden and see it as the biggest potential threat to their organisations.
As Croatia becomes a more developed country, so do the local companies seeking higher quality and transparency of the business environment. The Government’s challenge is to increase the CEOs’ trust. When it comes to economic and policy threats, the Croatian CEOs consider the Government’s response to the fiscal deficit to be the biggest threat to their businesses, followed by the increasing tax burden on the state budget revenue side.

The CEOs are dissatisfied with the expenditure side as well, putting bribery and corruption high on the list of business threats.

When considering other business threats, both Croatian and CEE CEOs are mostly concerned about the same issues, although the Croatian ones are more worried about new market entrants, speed of technological change, and shifts in consumer spending and behaviours, which are closely connected to the recent EU accession. On the other hand, CEE CEOs consider availability of key skills to be the biggest business issue for their organisations.

The results of the survey among CEOs in Croatia are not surprising at all, they are in line with the views of the business community in general. When the CEOs’ comments and answers are translated into a less diplomatic language, it appears that the main issues and obstacles for doing business in Croatia can be summed up to insufficient (or inexistent) legal certainty and poor performance of various public authorities (which do not work in favour of a stable and motivating business environment), primarily courts and tax authorities.”

Hrvoje Jelić, Partner, Tax & Regulatory Services, PwC Croatia
59% of the Croatian CEOs think Government should focus on developing an innovation ecosystem which supports growth
CEOs have started to realise that the company’s competitiveness also depends on the quality of the environment in which they operate. Those who were able to prosper in spite of or even thanks to the corruption or poor legislative environment, are now realising that it actually slows them down or harms them.

The Croatian CEOs consider working with the Government as being important: 59% of the CEOs think it’s part of the Government’s job to foster an innovation ecosystem compared to 30% of the Global CEOs. Yet, only 3% of CEOs think the Government has been effective in this respect.

CEOs think Government must take its share of the responsibility for developing the future labour supply. Still, they are generally doubtful about how well Government is doing: 53% of the CEOs think Government is ineffective in respect of creating a skilled workforce, and 78% in respect of creating jobs for young people.

The Croatian CEOs also show general distrust in the Government’s effectiveness when it comes to financial sector stability and creating an effective tax system.

"Inefficiency of the Government’s actions and lack of ideas and initiatives, naturally, very much worry the business community. The CEOs have every right to demand that the Government play a much more active role in creating investment opportunities and, generally, a more business-friendly climate. The message is clear: less talk, more action.”

John M Gasparac, Partner, Territory Assurance Leader, PwC Croatia
Many CEOs remain very worried about over-regulation and the ability of governments to tackle debt and deficit levels. CEE results emphasise that existing regulation should be fairly, transparently and consistently enforced. One of the ways in which Government could improve the policy-setting process is to ensure clear and long-term defined regulatory framework. Global CEO Survey results confirm the same conclusion.

Taking into consideration the above, the Croatian CEOs suggest some additional areas in which the Government could improve the policy-setting process with regard to regulation:

- focus regulation on outcome, not the process;
- decrease the extensiveness of regulation; and
- ensure that the benefits to society outweigh the regulatory cost for businesses.

The Croatian CEOs feel that the Government tax policies and competitiveness of local tax regimes are key factors in making decisions where to operate. Also, the current international tax system has not changed to reflect how multinational corporations operate today and is in need of reform.

**The Croatian CEOs reflect mostly negative opinions in respect of the regulation.**

They are positive only when it comes to increasing quality standards due to regulation impact on their business:

- Pursue a new market opportunity: -50%/34%
- Innovation effectiveness: -41%/28%
- Change in quality standards: -22%/50%
- Change in operating costs: -63%/9%
- Finding/attracting a skilled workforce: -44%/19%

**56% of the Croatian CEOs agree that the Government tax policy and the competitiveness of local tax regimes are key factors in the organisations’ decision about where to operate.**

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<thead>
<tr>
<th></th>
<th>Croatia</th>
<th>CEE</th>
<th>Global</th>
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<tbody>
<tr>
<td>Agree</td>
<td>56%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>25%</td>
<td>39%</td>
<td>42%</td>
</tr>
<tr>
<td>Disagree</td>
<td>16%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Disagree strongly</td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
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“Over-regulation and frequent changes in regulation are indeed a worrying problem, but poor implementation of the regulations might be seen as an even more serious issue. Currently, this is creating high unemployment and very low economic activity in general in Croatia. Unfortunately, such a business environment clearly discourages investments and highly contributes to the long-lasting economic crisis. In order to regain the investors’ confidence and (hopefully) turn Croatia into an attractive investment area, Government must ensure that the ‘rules of the game’ are clear and fair, and they do not change during ‘the game’. This should especially be applied to tax regulation.”

**Hrvoje Jelić**, Partner, Tax & Regulatory Services, PwC Croatia
Industry cut

- Communications
- Retail & FMCG
- Power & Utilities
- Banking & Capital Markets
Sector snapshot: Communications

The communications industry CEOs are looking to product and service innovation to drive their companies forward. Additionally, they’re looking for strategic alliances or joint ventures to propel growth, as well as stepping out of traditional industry boundaries.

Communications industry CEOs are looking to innovate.
The communications industry CEOs know they need to innovate. Product/service innovation was selected by 41% of communications industry respondents when asked what they see as the main opportunity to grow their business (compared to 35% of respondents from the global sample). 49% of the communications industry CEOs said developing an innovation ecosystem that supports growth is a priority over the next three years.

Alliances and partnerships are on the top of the agenda.
In the last twelve months, 62% of the communications industry CEOs entered into a strategic alliance or joint venture, compared to 34% from the global sample. More activity is on the horizon: 54% of the Communications CEOs say they plan to enter into a new strategic alliance or joint venture in the coming twelve months.

The communications industry never sits still.
When asked “what is your current planning time horizon?” 56% of communications industry CEOs answered “three years”. The industry is changing too quickly to predict what will happen in just five years.

The economy is recuperating.
72% of Communications industry CEOs are somewhat or very confident about their company’s prospects for revenue growth over the next twelve months. However, when asked about their confidence level about their company’s prospects for growth over the next three years, a stunning 90% said they are somewhat or very confident. However, in Croatia, the prolonged economic crisis and industry taxes are likely to delay or diminish the growth prospects.

“...industry is being disrupted: while the communication needs are growing, the form of communication is changing and the value is shifting to higher layers, i.e. applications. With industry borders being blurred, telcos are forced to find new business models and develop partnerships and ecosystems that will enable them to capture and retain part of the value.”

Perica Baškarić, Assistant Manager, PwC Croatia
Technology has the potential to transform retail and consumer goods businesses. 80% of the retail CEOs said that ‘technological advances’ are the global trend that will transform their businesses the most over the next five years. As for consumer goods CEOs, 67% said the same. On the other side of the coin, just 34% of the consumer goods CEOs and 38% of the retail CEOs see the speed of technological change as a concern. In this year’s PwC Total Retail survey of global consumers, 41% of the global shoppers bought products using tablets, compared to 28% in 2012, and 43% of the respondents purchased products through smartphones, compared to 30% in 2012. Although smartphone penetration has a steady growth in Croatia, the national retailers still do not see this channel as very relevant one. It is very likely that the Croatians use online shopping mainly for overseas purchases.

Although most of the retail and consumer goods CEOs see a need to change their deal strategies, cost optimisation is still the number one restructuring initiative in the upcoming 12 months. Although over 50% of the CEOs aspire towards executing their strategies around M&A, joint ventures or strategic alliances, only a few have gotten started. Just 24% of the consumer goods CEOs and 18% of the retail ones say a change programme is underway or completed. Even though the effects of the economic crisis are less or no longer felt in some economies, 61% of the CEOs still choose cost reduction initiatives as a priority.

The Croatian CEOs set their priorities; efficiency and deals (M&A) initiatives in focus

The Croatian company Agrokor is a great example of a company oriented towards M&A activity, aiming to achieve the role of the regional consolidator in the retail sector. Once (if) Agrokor’s Konzum succeeds in acquiring Mercator, they will most certainly become the paramount factor in the regional FMCG value chain and a significant player on the EU level. On the other hand, Podravka, a strong regional food and beverage producer, is currently mainly focusing on portfolio optimisation activities, aiming to divest non-core business units. Despite the fundamentally different strategies/initiatives both companies are driving, they should bring them the highest value in the upcoming period.

“The Croatian retail market has experienced a dual path. While certain retail and FMCG companies seek inorganic growth, primarily through acquisitions, others are putting focus on internal efficiency through category management, product portfolio optimisation, procurement, supply chain and sales force efficiency in order to increase profitability and create financial headroom for future growth.”

Mislaw Slade-Šilović, Assistant Manager, Consulting, PwC Croatia
The power & utilities CEOs are counting on technology to help them cope with the looming energy transformation. To succeed, they’ll need to ramp up IT and R&D readiness and get moving to improve customer growth and retention strategies and build customer trust.

Confidence levels are subdued.
The power & utilities CEOs are less confident about revenue growth than their peers across the overall sample, both when it comes to their own companies and for their industry. Indeed, 47% of the companies don’t expect industry revenues to grow over the next 12 months.

Energy transformation is looming and the implications aren’t yet clear.
The power & utilities sector is experiencing a period of intense transformation, partly driven by the implications of resource scarcity and climate change — 76% of the sector CEOs believe that it will radically alter their business over the next 5 years, far more than across the overall sample. Regulation is another source of disruptive change hitting the sector - more than half of the power & utilities CEOs are extremely concerned that over-regulation could slow down growth.

The sector CEOs need to work harder to build trust with customers.
The role of the customer is changing radically as private sector players compete with the traditional state-owned utility companies and a similar pattern is also present in Croatia. Just 35% of the CEOs say that customers and clients have gained more trust in their industry, fewer than across the sample as a whole. The Croatian CEOs are also putting increasing focus on managing customer relationship which can be seen through intense media campaigns often not aligned with their strategies and organisational capabilities – so final results may be worse than expected. In the end, they’ll need to do better – and that means adapting their strategies to cope with the pending energy transformation. 80% of the power & utilities CEOs agree that customer growth and retention strategies will need to change, but only 29% have started the process. And they’ll need to invest, which means changing the course of transactions and technology investments. In both areas, the majority of CEOs see a need for action – but relatively few have begun the process.

Technology stands out as the ‘next big thing’ – but are the power & utilities CEOs ready?
More than four-fifths of the power & utilities CEOs say technological advances will transform their business over the next five years. Sector CEOs are optimistic about their ability to cope with technological change; fewer see its speed as a concern. That said, only one-fifth of the power & utilities CEOs have begun the process of changing their R&D and innovation capacity. And only a minority believes their R&D, HR, and IT departments are well-prepared to execute the needed shifts.

“Along with the Croatian market liberalisation and competition penetration, existing companies have put emphasis on operational and strategic restructuring to ensure cost effectiveness and long-term competitiveness in the market. This is good news for consumers as they will in the short term benefit from reduced cost of electricity.”

Ivan Bavoljak, Manager, Consulting, PwC Croatia
The banking and capital markets CEOs recognise the impact of a rapidly changing competitive landscape also driven by the expected changes in the regulatory environment. But the vast majority has yet to set in train the initiatives to capitalise on the transformation in key areas including talent, technology, distribution and capacity to innovate.

Stable banking sector
Despite the challenging economic environment, the liquidity position of the Croatian banking sector remains comfortable, due to a stable and increasing customer deposit base, further supported by the long-term funding sources which jointly creates a backbone for the overall financial system.

Industry leaders recognise rapid changes in their market.
The banking & capital markets CEOs see technology, demographic changes and shifts in global economic power as the trends most likely to transform their businesses over the next five years. The demand for loans, except in the public sector, is expected to be low, pressuring banks to create new products in the changing environment.

Industry leaders call for more stable regulation.
The banking & capital markets CEOs see over-regulation as the biggest policy threat to growth. An increasing regulatory burden for banks, partially stemming from the implementation of ECB regulations, creates uncertainty for the mid-term business plans. They would prefer regulations that are clear and designed for the long-term.

Changes in payment systems
Electronic and mobile payments might soon create a threat to the usual transaction payment systems. The customers, now more and more technologically advanced, seek to excel in the mobile world which imposes a threat to existing banking sales channels, resulting in unavailability of information on customer spending habits and preferences, which in turn threatens the possibility of offering custom-made products and offers targeted at individual customer groups.

“Success in the market demands leaders who are able to manage through uncertainty and complexity as they seek to deal with regulatory change while preparing for the future. This in turn demands a clear sense of who their key customers and markets are going to be in the future and what investments and changes will be needed to respond. It also requires a forward looking view on how regulation will interact with other transformational trends in areas such as cost, returns, and ability to meet customer expectations.”

Damir Kecko, Manager, Deals, PwC Croatia
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