

McKinsey
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How to build a resilient economy?

Day of Great Plans - Keynote presentation

September 25, 2019

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Next recession – not a matter of “if”, but “when”

“Recession risks rise for Germany as industrial orders plunge”

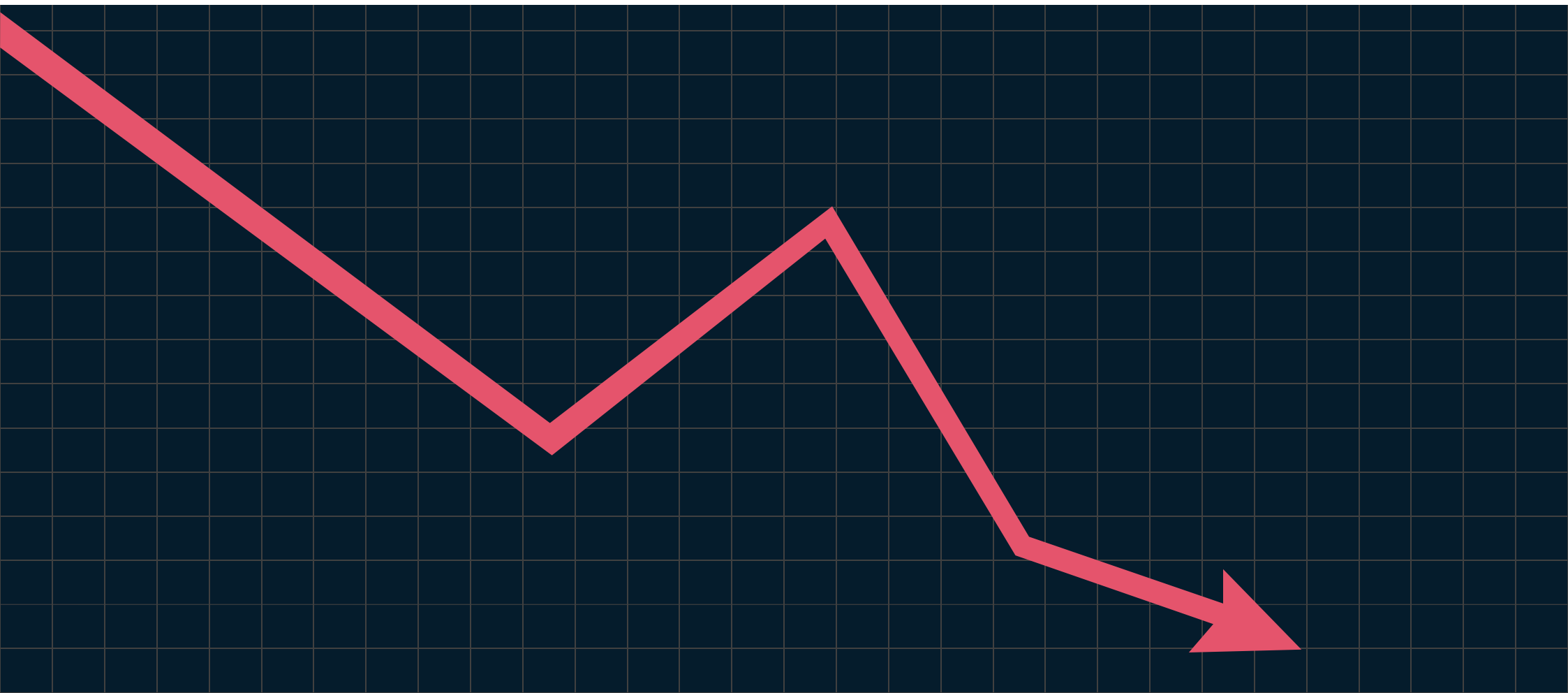
Reuters, Sep 04, 2019

“3 out of 4 economists predict a U.S. recession by 2021, survey finds”

Washington Post, Aug 19, 2019

“Are we near a recession? The godfather of the inverted yield curve says it’s ‘code red’

Fortune, Sep 09, 2019



Are you ready for the downturn?

National authorities can pull multiple levers to build resilience in the economy and get ready for the next recession

1

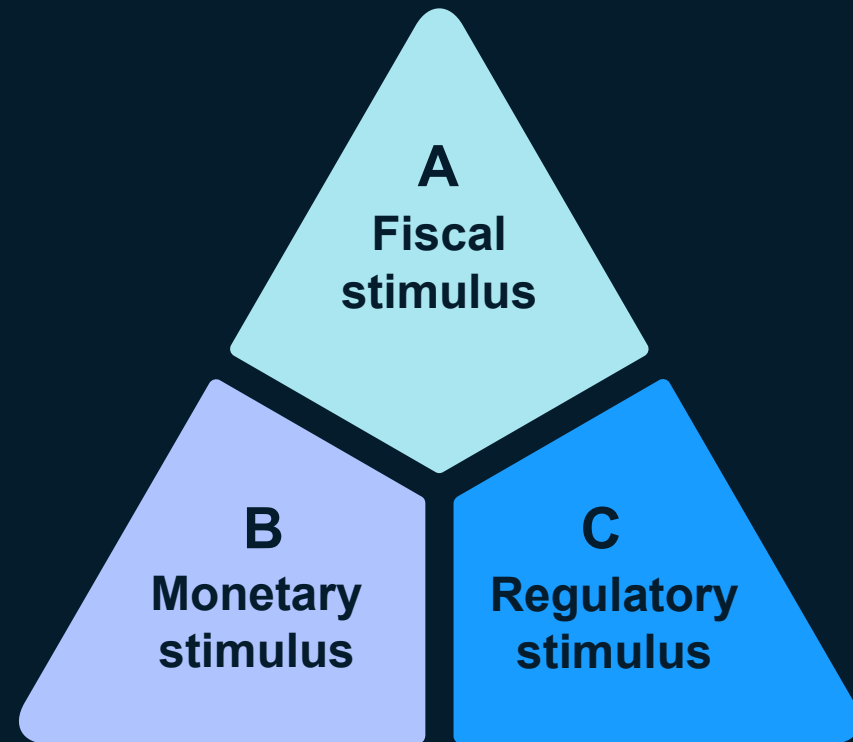
Short-term stimulus

2

Fiscal sustainability

3

Labor market resilience



Like many EU countries, Croatia has somewhat limited tools to stimulate the economy against recession



2008

2018

2018

Public Debt / GDP, %¹

39

75

80

Central Bank
discount rate, %²

9.0

3.0

0.0

Inflation rate, %³

6.1

0.7

1.6

1. 2018 data

2. 2018- to-current, for EU value shown is ECB main refinancing operations rate (Eurozone only)

3. Average for Jan-Jul 2019

**Proactive
approach to
fiscal stimulus
can ignite
growth and
build
resilience**



Reactive

Focus on
what
amount to
spend?

“Putting out
fires” and quick-
spend projects

Slow
recovery and
debt
overhang



Proactive

Focus on
what to
spend on?

Strategic bets
and their
enablers

Faster
recovery and
stimulus
“paying for
itself”

Italy launched a successful public spending review program, using saved resources to reduce tax burden and increase spend on public services



Impact

>25bn EUR

Confirmed annual government spend reduction

1.5%

Increase in GDP spent on public services

2 p.p.

Reduction in government spend as % of GDP

4%

Headcount reduction in public administration, via hiring freeze

1 p.p.

Reduction in fiscal deficit as % of GDP



We have some recommendations on what Croatian public sector could do to build resilience and prepare for the next crisis

	KPI		
Increase public sector quality and efficiency	Public sector compensation, as % public expenditures ¹	25.2	21.6
Improve ease-of-doing-business	World Bank ease-of-doing-business score ²	71.4	75.9
Optimize the tax system	“Shadow” economy, as % GDP ³	24.5	18.6
Transform SOE operations	ROA for state-owned enterprises, % ⁴	0.7	4.0

Due to data limitations, some of the KPIs are potentially dated, but are still illustrative of both the need and the room for improvement

1. 2017 data

2. 2018 data, simple averages for EU average

3. 2014 data

4. 2012-14 data for Croatia and CEE countries (POL, CZE, SLO, HUN)

We also have some recommendations on what Croatian private sector could do to build resilience and prepare for the next crisis

	KPI		
Increase investment in R&D	Private sector spend on R&D, as % GDP ¹	0.37	1.16
Digitize business	Growth of Croatian digital sector, CAGR % ²	0.6	4.7
Automate production	Multipurpose industrial robots per 10,000 manufacturing employees ³	13	150
Diversify export markets	Share of exports to non-EU markets, % ⁴	33	36

Due to data limitations, some of the KPIs are potentially dated, but are still illustrative of both the need and the room for improvement

1. 2016 data

2. 2012-16 data

3. 2015 data

4. Jan-Jul 2019 data

A person in a dark suit and white shirt, seen from behind, stands in the center of a vast, complex maze. The maze is constructed from light-colored concrete walls and extends far into the distance under a cloudy, overcast sky. The person is holding a briefcase in their right hand. The overall mood is one of uncertainty and the need for a clear path forward.

**The time to start
preparing is now...**

**...what are you
going to do?**