

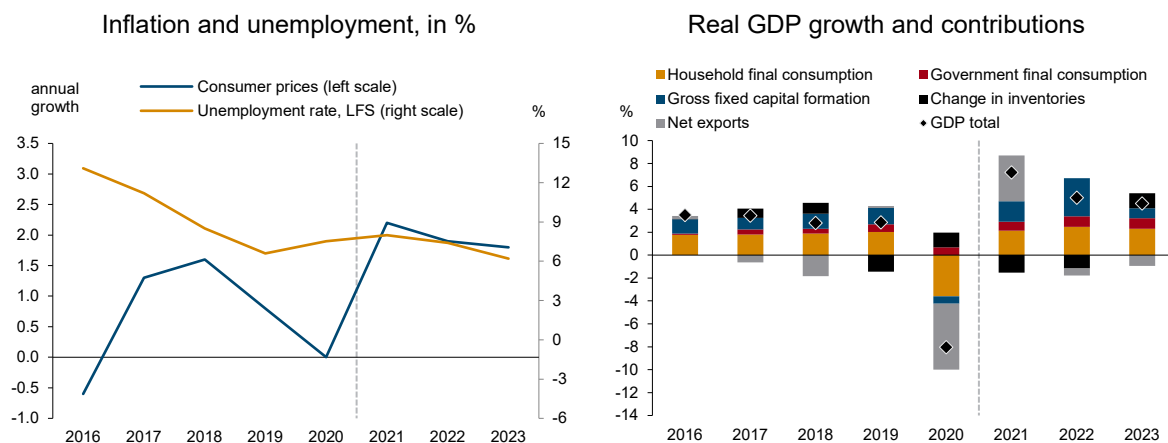


CROATIA: Back on track

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In 2021, Croatia's GDP will grow more strongly than that of most EU-CEE member states, after the government succeeded in maintaining COVID-19 infections at a relatively low level during the summer season, which allowed tourism to do better than expected. With the economy further bolstered by a solid recovery in private consumption and by the influx of EU funds, we expect Croatia's GDP to rebound by 7.2% in 2021.

Figure 4.5 / Croatia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

A bumper tourist season and a surge in private consumption, as well as entirely unexpected 16.1% year-on-year GDP growth in Q2 2021, will help Croatia's GDP to bounce back in 2021. The country recorded a 46% increase in overnight stays from January to August, compared to the same period last year. Overnight stays in the first nine months of 2021 also surged to a promising 77.7% of the figure for 2019. It is expected that revenue from tourism in 2021 will reach 70% of the takings in the record season of 2019. In the first eight months of 2021, German tourists alone accounted for 23.3% of the total number of overnight stays, showing yet again Croatia's dependence on EU arrivals. In turn, the increased revenues from tourism fuelled household consumption, which grew by 18.4% year on year in Q2 2021, providing a further sound base for Croatia's economic recovery.

One of the reasons for the solid recovery of tourism was the government's successful pandemic management during the country's vital summer season. In order to prevent COVID-19 clusters, the health authorities set up an additional 350 testing centres across the country. The Tourism Ministry further ensured the distribution of over 1m COVID-19 tests at affordable prices for any tourist who decided to spend three nights or more in commercial accommodation across the country. In order to

minimise pandemic-related travel restrictions and boost the country's inoculation rate, the government also undertook the vaccination of tourists and foreign nationals with permanent residence in Croatia, as well as of people without Croatian health insurance. Thanks to the government's successful COVID-19 crisis management in 2021, Prime Minister Plenković's cabinet moderated the risk of a snap election, maintaining the country's focus on membership of the European Monetary Union and its quest to join the Schengen area.

Solid export figures have provided further growth impetus in 2021. Boosted by the normalisation of tourist activity and the general economic recovery across the EU, exports of goods and services rose sharply – by some 41% year on year in Q2 2021. Imports also increased by 30.3% in Q2 2021, partly thanks to the successful launch of the country's tourist season, which led to an increase in demand for imported goods. Supported by a surge in exports, Croatia's current account surplus is expected to rise to 0.6% of GDP in 2021.

The influx of EU funds and investments will additionally boost recovery. In July, the European Commission finally approved a EUR 6.3bn grant (12.8% of Croatia's 2020 GDP) from the EU's Recovery and Resilience Facility (RRF) for the period 2021-2026, to support Croatia's COVID-19 recovery plan. Thanks to those funds, a gradual pick-up in long-term investment projects is expected in 2021 and 2022 (such as the modernisation of the Zagreb–Rijeka railway, which should be completed by 2027). An integral part of Croatia's National Recovery and Resilience Plan for 2021-2023 is financing for the reconstruction of earthquake-damaged infrastructure in the Zagreb, Krapina-Zagorje, Sisak-Moslavina and Karlovac counties. In September, the European Commission allocated an advance of EUR 818.4m from the RRF. The government also announced that it was to issue EUR 48m in interest-free loans to earthquake-hit counties for infrastructure repairs, adding that part of this loan would be covered by the EUR 683.7m allocated from the EU Solidarity Fund in 2020.

The government's fiscal support measures led to record levels of state debt in 2020, but they have so far successfully mitigated the fallout in the country's tourism-dominated labour market. In order to cushion the impact of the COVID-19 pandemic, Croatia put together a substantial support package in 2020, including wage subsidies, tax deferrals or waivers, access to cheap financing, and a short-time work scheme. Those labour support measures led to a 7.4% budget deficit and to record high state debt (which surged to 88.7% of GDP in 2020). In order to finance its 2021 fiscal support measures, the government will still post a 4.5% deficit this year. Nevertheless, in 2022, we expect the country's debt-to-GDP ratio to narrow to 83%, due to the stronger GDP growth. The state deficit in 2022 will also contract – back to within Maastricht's 3% requirements – helped by Croatia's fiscal consolidation efforts to facilitate the adoption of the euro by 2023.

Croatia's unemployment rate in 2021 will remain higher than the pre-COVID level, despite the strong recovery in the country's tourism industry. The recovery in tourist activity led to an increase in the number of people employed during Croatia's vital summer period. The effects of this were especially visible at the end of August, when the unemployment rate stood at 7.3% – the lowest since March 2020. While total employment reached pre-pandemic levels during this year's summer season, we still expect the country's 2021 unemployment rate to remain at above 2019 levels, at some 8%.

Croatia's economic recovery from 2020 still depends on the extent to which the COVID-19 Delta variant spreads in the region: with only 54% of the country's adult population fully vaccinated, COVID-19 related uncertainties remain high. Despite the inclusion of citizens without Croatian health insurance in the nationwide COVID-19 vaccination campaign, pronounced vaccine hesitancy has meant that the government has so far been unable to motivate the majority of the country's population to have the jab.

Higher energy prices have continued to exert pressure on inflation in 2021. In the first eight months of 2021, inflation averaged 1.6%. However, consumer prices in August rose by 3.1%, compared to the same month in 2020; this was the highest monthly inflation rate since April 2013. Due to the increase in energy prices and in the cost of food and non-alcoholic beverages, as well as to pandemic-related supply-chain disruptions, we expect inflation to remain elevated, averaging 2.2% in 2021.

Thanks to stronger investments and an increase in service exports and private consumption, as well as to the astonishing GDP growth recorded in Q2 2021, we have raised our 2021 GDP growth forecast for Croatia to 7.2%, from 5.1%. Even though revenue from this year's tourist season is projected to remain at below 2019 levels, it will still be substantially stronger than in 2020. Pre-pandemic levels of economic activity will likely be reached in 2022, with funds from the EU's RRF further boosting Croatia's GDP growth by some 5%.

Table 4.5 / Croatia: Selected economic indicators

| | 2018 | 2019 | 2020 ¹⁾ | 2020 January-June | 2021 | 2021 Forecast | 2022 Forecast | 2023 |
|---|--------|--------|--------------------|----------------------|--------|------------------|------------------|--------|
| Population, th pers., average | 4,091 | 4,067 | 4,047 | . | . | 4,000 | 3,995 | 3,990 |
| Gross domestic product, HRK bn, nom. | 385.4 | 402.3 | 371.5 | 177.2 | 195.3 | 407 | 436 | 464 |
| annual change in % (real) | 2.8 | 2.9 | -8.0 | -7.2 | 7.5 | 7.2 | 5.0 | 4.5 |
| GDP/capita (EUR at PPP) | 19,350 | 20,310 | 19,100 | . | . | . | . | . |
| Consumption of households, HRK bn, nom. | 218.4 | 228.0 | 214.0 | 104.6 | 115.0 | . | . | . |
| annual change in % (real) | 3.3 | 3.6 | -6.4 | -6.8 | 8.5 | 3.7 | 4.3 | 4.0 |
| Gross fixed capital form., HRK bn, nom. | 78.5 | 84.6 | 82.6 | 40.1 | 45.1 | . | . | . |
| annual change in % (real) | 6.5 | 7.1 | -2.9 | -6.3 | 11.2 | 8.0 | 15.0 | 4.0 |
| Gross industrial production ²⁾ | . | . | . | . | . | . | . | . |
| annual change in % (real) | -1.0 | 0.6 | -2.7 | -5.7 | 9.0 | 7.0 | 3.3 | 2.5 |
| Gross agricultural production | . | . | . | . | . | . | . | . |
| annual change in % (real) | 6.4 | -0.5 | 4.1 | . | . | . | . | . |
| Construction output ²⁾ | . | . | . | . | . | . | . | . |
| annual change in % (real) | 4.9 | 8.3 | 4.4 | 3.1 | 12.2 | . | . | . |
| Employed persons, LFS, th, average ³⁾ | 1,655 | 1,680 | 1,657 | . | . | 1,680 | 1,710 | 1,740 |
| annual change in % | 1.8 | 1.5 | -1.3 | . | . | 1.3 | 1.5 | 1.5 |
| Unemployed persons, LFS, th, average ³⁾ | 152 | 119 | 135 | . | . | 150 | 140 | 120 |
| Unemployment rate, LFS, in %, average ³⁾ | 8.5 | 6.6 | 7.5 | . | . | 8.0 | 7.4 | 6.2 |
| Reg. unemployment rate, in %, eop | 8.9 | 7.8 | 9.3 | 9.0 | 7.5 | . | . | . |
| Average monthly gross wages, HRK ⁴⁾ | 8,448 | 8,766 | 9,216 | 9,182 | 9,532 | 9,600 | 10,000 | 10,400 |
| annual change in % (real, gross) | 3.3 | 3.0 | 2.3 | 1.6 | 2.6 | 2.0 | 2.5 | 2.5 |
| Average monthly net wages, HRK ⁴⁾ | 6,242 | 6,457 | 6,763 | 6,725 | 7,086 | 7,100 | 7,400 | 7,700 |
| annual change in % (real, net) | 2.8 | 2.7 | 2.6 | 1.7 | 4.1 | 2.1 | 2.2 | 2.2 |
| Consumer prices (HICP), % p.a. | 1.6 | 0.8 | 0.0 | 0.4 | 1.5 | 2.2 | 1.9 | 1.8 |
| Producer prices in industry, % p.a. | 2.2 | 0.8 | -3.2 | -2.8 | 4.3 | 6.0 | 4.0 | 2.4 |
| General governm.budget, EU-def., % of GDP | . | . | . | . | . | . | . | . |
| Revenues | 46.3 | 47.5 | 48.0 | . | . | 49.0 | 46.0 | 46.0 |
| Expenditures | 46.1 | 47.2 | 55.4 | . | . | 53.5 | 49.0 | 48.5 |
| Net lending (+) / net borrowing (-) | 0.2 | 0.3 | -7.4 | . | . | -4.5 | -3.0 | -2.5 |
| General gov.gross debt, EU def., % of GDP | 74.3 | 72.8 | 88.7 | . | . | 85.5 | 83.0 | 80.5 |
| Stock of loans of non-fin.private sector, % p.a. | 2.3 | 3.9 | 3.5 | 4.1 | 1.6 | . | . | . |
| Non-performing loans (NPL), in %, eop ⁵⁾ | 7.5 | 5.5 | 5.4 | 5.5 | 5.1 | . | . | . |
| Central bank policy rate, % p.a., eop ⁶⁾ | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Current account, EUR m | 993 | 1,682 | -54 | -1,828 | -2,101 | 340 | 220 | -180 |
| Current account, % of GDP | 1.9 | 3.1 | -0.1 | -7.8 | -8.1 | 0.6 | 0.4 | -0.3 |
| Exports of goods, BOP, EUR m | 12,230 | 12,867 | 12,192 | 5,677 | 7,021 | 13,840 | 14,970 | 15,870 |
| annual change in % | 4.4 | 5.2 | -5.2 | -8.0 | 23.7 | 13.5 | 8.2 | 6.0 |
| Imports of goods, BOP, EUR m | 21,872 | 23,318 | 20,890 | 10,118 | 12,144 | 22,200 | 24,500 | 26,800 |
| annual change in % | 8.5 | 6.6 | -10.4 | -14.1 | 20.0 | 6.5 | 10.5 | 9.5 |
| Exports of services, BOP, EUR m | 13,873 | 15,375 | 8,938 | 2,839 | 3,515 | 10,800 | 11,900 | 13,000 |
| annual change in % | 7.4 | 10.8 | -41.9 | -43.9 | 23.8 | 21.0 | 10.0 | 9.0 |
| Imports of services, BOP, EUR m | 4,648 | 5,072 | 3,642 | 1,750 | 1,850 | 3,900 | 4,000 | 4,100 |
| annual change in % | 13.0 | 9.1 | -28.2 | -29.5 | 5.7 | 8.0 | 3.0 | 3.0 |
| FDI liabilities, EUR m | 1,077 | 3,477 | 1,046 | 647 | 1,696 | 1,100 | . | . |
| FDI assets, EUR m | 236 | 80 | 373 | 135 | 842 | 200 | . | . |
| Gross reserves of CB excl. gold, EUR m | 17,438 | 18,560 | 18,943 | 17,311 | 21,540 | . | . | . |
| Gross external debt, EUR m | 42,589 | 40,285 | 40,083 | 41,376 | 44,199 | 41,600 | 43,300 | 44,600 |
| Gross external debt, % of GDP | 82.0 | 74.3 | 81.3 | 84.0 | 81.9 | 77.0 | 75.0 | 73.0 |
| Average exchange rate HRK/EUR | 7.4182 | 7.4180 | 7.5384 | 7.5340 | 7.5508 | 7.5 | 7.6 | 7.6 |

1) Preliminary. - 2) Enterprises with 20 and more employees. - 3) From 2021 the new LFS methodology is applied in line with the Integrated European Social Statistics Regulation (IESS). - 4) From 2020 employees expressed in full-time equivalents (FTE). - 5) Loans more than 90 days overdue and those unlikely to be paid. - 6) Discount rate of CB.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.