

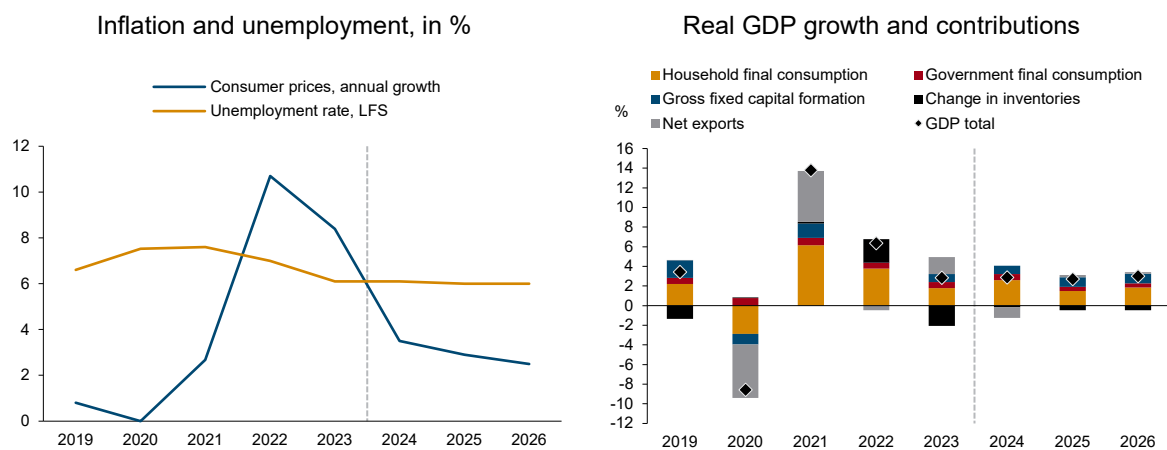


CROATIA: Calm waters ahead

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Croatia's accession to the euro area and the EU's border-free Schengen zone boosted tourism in 2023, with EU-related funds supporting investment activity. The country's full EU integration will continue to stimulate trade and investment in the period 2024-2026. Improving private consumption and strong services exports will ensure robust growth of 2.9% in 2024; we also expect inflation to decline further to 3.5%. Nevertheless, a lack of skilled workers remains an issue and an obstacle to higher GDP growth.

Figure 6.5 / Croatia: Main macroeconomic indicators



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

Thanks to robust household consumption and a solid summer tourist season, as well as better-than-expected growth in Q4 2023 (4.3% year on year), Croatia's economy grew by 2.8% in 2023. While exports of goods declined in 2023 due to weak external demand, strong services exports meant that overall net trade contributed positively to growth. Croatia's GDP growth will remain robust, rising by 2.9% in 2024. Nevertheless, external demand will continue to exude uncertainty, owing to the poor outlook for growth in the EU – and particularly Germany. Downside risks also stem from the war in Ukraine and the global political uncertainty. Consequently, GDP growth in both 2024 and 2025 will likely not exceed the 3% mark.

Croatia's accession to the euro area and the EU's border-free Schengen zone boosted tourism in 2023 and will continue to support the sector in 2024. Croatia saw 20.6m arrivals and 108m overnight stays in 2023. That represents a 9% increase in arrivals and a 3% rise in overnight stays compared to 2022. The 2023 figures are on a par with those of 2019. The Croatian National Tourist Board (HTZ) has

announced that in Q1 2024 Croatia had already recorded 1.1m tourist arrivals and over 3m overnight stays, which is an increase of 16% and 15%, respectively, over the same period of 2023. It should be noted, though, that the country's potential for tourism-related growth is not limitless.

Inflation declined from 10.7% in 2022 to 8.4% in 2023. The annual inflation rate for food, beverages and tobacco stood at 4.7% and for services 6.6%, while energy prices grew by 1.4%. Inflation has continued to moderate, and dropped to 4.1% year on year in March 2024. We expect inflation to decline further to 3.5% in 2024, owing to softer pressure on energy and commodity prices.

Real wages in 2023 increased by 6.2%. We expect nominal and real gross wages in Croatia to continue to grow in 2024, albeit more slowly than in 2023, with pronounced wage growth in the public sector. Public-sector unions signed a collective-bargaining agreement in March 2024 which could mean that some 240,000 employees whose pay comes from the state budget will benefit on average from a 13.5% pay increase in 2024 over 2023 pay levels.

In March 2024, the government adopted its sixth anti-inflation aid package: worth some EUR 503m, it is designed to support local households and the economy in managing rising electricity and gas prices. It may also be regarded as part of the government's spending spree, ahead of the parliamentary and presidential elections this year. The package comes on top of the EUR 3.4bn (5% of GDP) in state aid allocated last year to facilitate investment in energy-efficiency measures and to mitigate the cost-of-living crisis in Croatia.

Croatia's unemployment reached pre-COVID-19 levels. The unemployment rate declined to 6.1% in 2023, down from 7% in 2022, and will likely remain at the same level in the period 2024-2025. Nevertheless, the lack of skilled workers – partly due to the emigration of skilled workers to other EU member states – remains an issue for the economy and presents an obstacle to higher GDP growth. According to the Croatian Employers' Association (HUP), Croatia could lose 6.8% of its active working population by 2030. The government is attempting to address the persistent labour shortages by hiring foreign workers. In 2021 it abolished the annual quota for the employment of foreign nationals. Statistics show that in 2023, some 172,500 residence and work permits were issued by Croatia to workers from third countries: nationals from Bosnia and Herzegovina received the most residence permits (124,000), followed by those from Serbia (24,000) and Nepal (23,500). Most foreign workers are employed in construction, tourism and the catering/hospitality sector.

The government is focusing on investment in Croatia's energy security and decarbonisation of the country's power supply. In February 2024, it announced that it was planning to spend EUR 400m on two new natural gas pipelines, and pledged to utilise EUR 580m from EU funds to upgrade the country's power grid. The EU views Croatia's liquefied natural gas terminal in Omišalj as strategically significant, which is why the terminal received a subsidy of EUR 101.4m after being listed as one of the EU's Projects of Common Interest (PCI). The government also announced that it was to put a total of 1,200MW of solar and wind-power capacity into operation in 2024. Croatia plans to cut its CO₂ emissions by 45% by 2030 and to abandon the use of coal by 2033. In 2023, renewable energy accounted for some 32% of the country's total energy mix; Croatia's National Energy and Climate Plan aims at achieving a 36.4% share for renewables by the year 2030, through large-scale investments.

EU budget support will continue to underpin Croatia's economic growth. According to EU estimates, cohesion policy measures will contribute up to 8 percentage points of Croatia's cumulated GDP growth by the end of 2030. In November 2023, the European Commission revised its maximum grant allocation to Croatia from the Recovery and Resilience Facility for the period 2021-2026 down from EUR 6.3bn to EUR 5.5bn, in order to reflect the fact that Croatia's economic outcome is better than was initially forecast in 2020 and 2021.

Croatia will hold parliamentary and presidential elections in 2024. Parliament was dissolved in March 2024 to pave the way for elections in April, before the June elections to the EU parliament. A broad left-liberal coalition, including the SDP and nine other parties, called 'For a Better Croatia' was established to run against the ruling conservative HDZ party. The HDZ, on the other hand, will likely establish a centre-right coalition with four smaller parties. Polls suggest that the ruling HDZ party will win most seats in the new parliament, followed by the SDP. Even though the HDZ may win the election, it will likely have fewer seats than after the 2020 election, when it received 37.3% of the vote. The newly elected government will probably continue with policies aimed at strengthening the country's energy diversification and countering its brain drain. Owing to the government's pre-election spending spree in the form of wage, pension and social benefit hikes, and its anti-inflation aid packages, Croatia's fiscal deficit is projected to surge to 2% in 2024, up from 1% in 2023.

Table 6.5 / Croatia: Selected economic indicators

	2020	2021	2022	2023 ¹⁾	2024	2025	2026
					Forecast		
Population, th pers., average ²⁾	4,047	3,949	3,857	3,853	3,850	3,849	3,850
Gross domestic product, EUR-HRK m, nom.	50,569	58,408	67,993	75,855	81,000	86,000	91,000
annual change in % (real)	-8.6	13.8	6.3	2.8	2.9	2.7	3.0
GDP/capita (EUR at PPP)	19,450	22,840	25,820	28,200	.	.	.
Consumption of households, EUR-HRK m, nom.	29,095	32,911	39,089	43,481	.	.	.
annual change in % (real)	-5.2	10.7	6.7	3.1	4.5	2.6	3.2
Gross fixed capital form., EUR-HRK m, nom.	11,217	12,294	13,350	14,812	.	.	.
annual change in % (real)	-5.0	6.6	0.1	4.2	4.3	5.0	5.0
Gross industrial production ³⁾							
annual change in % (real)	-2.8	6.3	1.2	-0.3	1.3	2.5	2.7
Gross agricultural production							
annual change in % (real)	1.1	-3.4	-4.2	0.1	.	.	.
Construction output ³⁾							
annual change in % (real)	4.3	9.3	4.0	5.2	.	.	.
Employed persons, LFS, th, average ⁴⁾	1,657	1,678	1,707	1,603	1,630	1,660	1,690
annual change in %	-1.3	1.3	1.7	.	1.5	1.7	1.8
Unemployed persons, LFS, th, average ⁴⁾	135	138	128	104	110	110	110
Unemployment rate, LFS, in %, average ⁴⁾	7.5	7.6	7.0	6.1	6.1	6.0	6.0
Reg. unemployment rate, in %, eop	9.3	7.3	6.7	6.4	.	.	.
Average monthly gross wages, EUR-HRK	1,223	1,274	1,380	1,584	1,700	1,800	1,900
annual change in % (real, gross)	2.4	1.6	-2.3	6.3	3.0	2.5	2.6
Average monthly net wages, EUR-HRK	898	946	1,016	1,148	1,200	1,300	1,400
annual change in % (real, net)	2.6	2.7	-3.1	4.6	2.3	2.5	2.6
Consumer prices (HICP), % p.a.	0.0	2.7	10.7	8.4	3.5	2.9	2.5
Producer prices in industry, % p.a.	-3.5	6.6	18.2	3.5	1.0	1.5	2.0
General governm. budget, EU def., % of GDP							
Revenues	46.7	46.1	45.0	48.0	46.6	46.6	47.0
Expenditures	54.0	48.6	44.9	49.0	48.6	48.0	48.2
Net lending (+) / net borrowing (-)	-7.3	-2.5	0.1	-1.0	-2.0	-1.4	-1.2
General gov.gross debt, EU def., % of GDP	86.8	78.1	68.2	63.0	60.0	59.0	57.0
Stock of loans of non-fin. private sector, % p.a.	3.5	2.3	11.2	8.4	.	.	.
Non-performing loans (NPL), in %, eop ⁵⁾	5.4	4.3	3.0	2.6	.	.	.
Central bank policy rate, % p.a., eop ⁶⁾	3.0	3.0	3.0	4.5	.	.	.
Current account, EUR m	-488	572	-1,894	829	190	900	1,190
Current account, % of GDP	-1.0	1.0	-2.8	1.1	0.2	1.0	1.3
Exports of goods, BOP, EUR m	12,029	14,803	20,563	19,196	19,940	21,100	22,490
annual change in %	-6.2	23.1	38.9	-6.6	3.9	5.8	6.6
Imports of goods, BOP, EUR m	20,879	26,206	38,686	36,499	39,800	43,400	47,300
annual change in %	-10.4	25.5	47.6	-5.7	9.0	9.0	9.0
Exports of services, BOP, EUR m	8,927	14,317	19,702	22,328	24,600	27,600	30,700
annual change in %	-41.9	60.4	37.6	13.3	10.0	12.0	11.4
Imports of services, BOP, EUR m	3,621	4,494	5,771	6,565	6,900	7,100	7,300
annual change in %	-28.8	24.1	28.4	13.8	5.0	2.5	2.5
FDI liabilities, EUR m	1,110	3,952	3,408	2,715	.	.	.
FDI assets, EUR m	372	941	-242	1,261	.	.	.
Gross reserves of CB excl. gold, EUR m ⁷⁾	18,945	25,022	27,771	2,880	.	.	.
Gross external debt, EUR m ⁸⁾	41,293	47,260	49,826	63,999	67,200	69,900	71,900
Gross external debt, % of GDP	81.7	80.8	73.3	84.4	83.0	81.3	79.0
Average exchange rate EUR-HRK/EUR	1.0005	0.9992	1.0001	1.0000	1.0	1.0	1.0

Note: Croatia has introduced the euro from 1 January 2023. Up to and including 2022 all-time series in HRK as well as the exchange rates have been divided for statistical purposes by the conversion factor 7.5345 (HRK per EUR) to achieve euro-fixed series (EUR-HRK).

Introduction of new index 2021=100 (new weights) for gross industrial production, construction and producer prices in industry.

1) Preliminary and wiiw estimates. - 2) From 2021 based on census 2021. - 3) Enterprises with 20 and more employees. - 4) From 2023 according to census 2021. From 2021 new LFS methodology in line with the Integrated European Social Statistics Regulation (IESS). - 5) Loans more than 90 days overdue and those unlikely to be paid. - 6) From 2023 official refinancing operation rate for euro area (ECB), discount rate of CB before. - 7) From January 2023 only foreign currency reserves denominated in non-euro currencies. - 8) From 2023 increase of gross external debt due to euro introduction.

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