

Croatia Country Report

Report for the CONCORD



Economy

The aim of the report is to present official location of Croatia in economy after becoming a part of the European Union.

Economic relations with the EU

In June 2004, Croatia became an official candidate for EU membership. The accession negotiations began on 03.10. 2005 and since then economic cooperation with the EU has been a top priority for Croatia. Croatia's commercial exchange with the EU in 2016 accounted for 73% of the value of trade. Croatia's largest trading partners in the EU are Italy, Germany, Slovenia and Austria. EU countries are also the largest investors in Croatia since 1993, ie the beginning of investing in this country. According to HNB, by the end of 2016, the Netherlands (6.6 billion euro), Austria (3.5 billion euro), Italy and Germany invested the most in Croatia.

Characteristics of the economic situation

In 2015, after six years of recession, the Croatian economy, thanks to the increase in consumption and exports, grew at a rate of 1.6%, and in 2016 - 2.9%. In 2017, the EC assumes GDP growth at the level of 2.9%, and in 2018 at the level of 2.6%. In 2017, the EC envisages: reducing the unemployment rate to 11.6%, reducing the state budget deficit to 1.1% of GDP and reducing the public debt to 82% of GDP. According to forecasts, the economy is to grow thanks to increased exports, consumption levels and tourism. In the opinion of the European Commission, the crisis in the Croatian Agrokor concern may have a negative impact on the Croatian economy.

Level and dynamics of Croatian GDP in 2012-2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------|------|------|------|------|------|
| GDP in current prices (EUR billion) | 44 | 43,5 | 43 | 43,9 | 45,6 |
| GDP, real growth rates (%) | -2,2 | -1,1 | -0,5 | 1,6 | 2,9 |

Source: Croatian National Bank (HNB)

Agriculture, forestry and fishing. The area of individual farms is about 1.1 million ha, and business entities - 213 thousand. ha. (area of an Individual agricultural holding - 4.8 ha, and an economic entity - 95 ha). Meadows and pastures occupy about 25.7% of the arable land. 68% of agricultural land is arable land (895 thousand ha of arable land and gardens).

Croatia is self-sufficient in the production of cereals, sugar, industrial plants and poultry. Vineyards, which are more than 90% privately owned, occupy 32 thousand. ha. 4 thousand entities entitled to commercial fish fishing. Forestry covers 2.7 million ha of forests, 80% of which is state-owned.

Record number of tourists in 2016. In 2016, Croatia visited 15.6 million tourists, generating 78 million nights. In comparison with 2015, this means an increase in the number of tourists by 8.7% and the number of nights by 9%. Most tourists who decided to vacation in Croatia came from Germany, Slovenia, Austria, Italy and Poland. The share of tourism in the GDP of Croatia was 18% (data from 2016).

In March 2017, the average net remuneration was HRK 6,022 (gross HRD 8 109 = approx. EUR 1093). In April 2017, CPI inflation increased by 0.5% compared to March 2017, and increased by 1.4% as compared to April 2017. In April 2017, unemployment reached 13.2%.

State budget for 2016 According to the amendment of the budget act for 2016, the state budget revenues have been increased by HRK 1.5 billion to HR 116.4 billion. The amount of expenses was reduced by HRK 0.7 billion to HRL 121.7 billion. The state budget deficit was set at an amount not exceeding HRK 5.3 billion (1.6% of Croatian GDP), by HRK 2.1 billion less than previously assumed. The reason for reducing the deficit is increased revenues from income tax, excise tax and real estate tax.

The state budget for 2017 The amount of budget expenditures is to amount to 128.4 billion HRK / 17 billion (increase by 5.5% compared to 2016), while budget revenues are to reach 121 billion HRK / 16 billion euro (increase by 4.4%). The state budget deficit is planned at 6.8 billion HRK / 1 billion (1.9% of PBK). In 2017, the government expects Croatian GDP to grow by 3.2%.

Croatia's GDP growth. According to the data of the Croatian State Statistical Office (DZS), the GDP of Croatia in 1Q2017 increased by 2.5%. The biggest impact on the increase in GDP in 1Q2017 had an increase in exports (by 3.4%) and consumption (by 2%). The GDP growth recorded in 1Q2017 is the lowest increase since 3Q2015 and it is also below the expectations of Croatian economists.

Public debt. In February 2017, public debt amounted to 288 billion HRK and was lower by 1.2 billion HRK as compared to February 2017. 37% of public debt is foreign loans, and 63% domestic loans.

In 2017, due payments for servicing Croatia's external debt will amount to 27 billion HRK, while 9 billion HRK of this amount is the value of domestic bonds, and 1.5 billion USD - foreign bonds. In 2017, as much as EUR 1 billion will be due in Hrvatske autoceste (HAC) amounts due, amounting to approximately EUR 4.5 billion.

The use of EU funds

According to preliminary data from the Croatian Ministry of Regional Development and EU Funds, in 2016, Croatia received about 6 billion HRK of funding for projects worth a total of 9 billion HRK as part of EU funds. Most projects co-financed by the EU in the area of Croatia concerning agriculture, transport, environmental protection, development of the enterprise sector, research and culture. In 2016, Croatia paid about 3.3 billion HRK to the EU budget. In 2017, projects worth around 13 billion HRK are expected to be implemented, with EU funds accounting for HRK 10.8 billion, while in 2015, Croatia used only EUR 545 million.

According to the HGK assessment, Croatia used 80% of the EU funds it had at its disposal during the 2007-2013 period. For comparison, other countries used 94% of funds during this period. 2016 was the last year in which Croatia could use the funds for the 2007-2013 period, which is why the HGK data is not yet final. The use of EU funds by ten new EU countries for the period 1990-2003 amounted to 44% - 61%.

Credit ratings. The rating agency Fitch and the Agency Standard & Poor's assess the long-term creditworthiness of Croatia at the "BB" level with a stable outlook. Moody's agency determines Croatia's long-term creditworthiness at the "Ba2" level with a stable outlook.

The assessment of Croatia's economy by the EC. In May 2017, the European Commission recommended Croatia's exit from the EU's excessive budget deficit procedure (EDP). Croatia has been covered by EDP since 2014. Croatia remains subject to the excessive macroeconomic imbalance procedure.

Croatia is in the group of EU countries with the highest standard VAT rate of 25%.

Trade exchange of Croatia

In 2016, foreign exchange of goods from Croatia reached EUR 32 billion. Exports amounted to EUR 12.3 billion and were about 5.7% higher than in 2015, and imports - EUR 19.7 billion - an increase of 7.7%. The trade deficit was 7.4 billion euro, and exports covered 63% of imports. During the first three months of 2017, exports increased by 25%, and imports by 16%.

It is emphasized the beneficial effect of the increase in the level of consumption, especially as a result of a reduction in income tax, fuel prices and an increase in the number of arrivals of foreign tourists. The increase in industrial production is treated as a positive factor.

Statistics on the inflow of foreign direct investment (FDI) to Croatia have been conducted since 1993. FDI reached the highest level in 2008 (EUR 3.7 billion).

The largest investors in Croatia are EU countries. Investments related mainly to the banking sector, trade, real estate and telecommunications services. The unfavorable structure of investment is maintained - a significant advantage of brownfield investment in relation to greenfield. The accumulated value of FDI in Croatia from 1993 to the end of 2016 is EUR 30.8 billion.

Inflow FDI

| Year | FDI in mln euro |
|------|-----------------|
| 2008 | 3 655 |
| 2009 | 2 265 |
| 2010 | 1 066 |
| 2011 | 1 017 |
| 2012 | 1 150 |
| 2013 | 737 |
| 2014 | 2 292 |
| 2015 | 192 |
| 2016 | 1 706 |

Table of main macroeconomic indicators

| | 2013 | 2014 | 2015 | 2016 |
|---|--------|--------|--------|--------|
| GDP growth rate in% | -1,1 | -0,5 | 1,6 | 2,9 |
| Industrial production, in% | -5,3 | 1,3 | 2,6 | 5 |
| Inflation rate, in% y / y | 2,2 | -0,2 | -0,5 | -1,1 |
| The value of FDI inflow in EUR million | 731 | 2 292 | 192 | 1 706 |
| The value of outward FDI in EUR million | -111 | 1 600 | -55 | -253 |
| The total value of FDI in Croatia (inward), in EUR million | 26 578 | 28 870 | 29 062 | 30 768 |
| Cumulative value of Croatian FDI abroad (outward), in EUR million | 4 255 | 5855 | 5 800 | 5 547 |
| Registered unemployment rate,% | 17,3 | 17,3 | 16,3 | 13,1 |
| Tourism - total arrivals, in millions | 13 | 13,1 | 14,9 | 15,6 |

| | | | | |
|---|---------|---------|---------|---------|
| Foreign tourists, in millions | 11,5 | 11,8 | 13,2 | 13,8 |
| Polish tourists | 679.519 | 666.117 | 701.734 | 757.523 |
| The value of foreign trade turnover, in billion | 24,8 | 27,5 | 30 | 32 |
| Exports, in billion | 9 | 10,4 | 11,5 | 12,3 |
| Imports, in billion | 15,8 | 17,1 | 18,5 | 19,7 |
| Gross external debt in EUR billion | 45,8 | 46,4 | 45,4 | 41,7 |
| Foreign debt,% GDP | 105 | 108 | 103 | 91 |
| Ratio of the public finance deficit to GDP,% | 5,3 | 5,5 | 2,7 | 1,2 |

Source: Croatian Statistics Unit (DZS), Croatian National Bank (HNB), Croatian Chamber of Commerce (HGK)

Main sectors of the economy

Croatia's economy is characterized by the predominance of the services sector, which generates approximately 2/3 of GDP. Including tourism, which generates over 18% of GDP, is one of the most important sectors in the Croatian economy. The second important sector of the economy is the processing industry - production of food and beverages, production of tobacco, petroleum products and chemical products.

Main sectors of the economy (with the largest share / importance in GDP), 2014.

| | |
|--|-------|
| Agriculture, hunting, forestry and fishing | 5,1% |
| Processing industry | 14,7% |
| Building industry | 5,2% |
| Wholesale and retail trade, motor vehicle repairs and more | 11,4% |
| Hotels and gastronomy | 5,2% |
| Transport, storage | 4,6% |
| Real estate trading | 10,5% |
| Financial and insurance services | 6,6% |
| Information and Communications | 4,4% |
| Medical and social services | 4,8% |
| Education | 4,6% |
| Public administration, defense and compulsory social insurance | 5,8% |
| Professional, scientific and technical services | 6,0% |
| Other | 11,1% |

Source: Croatian Statistical Department (DZS), Statistical Yearbook