

Croatian Economy

Potential for doing business?

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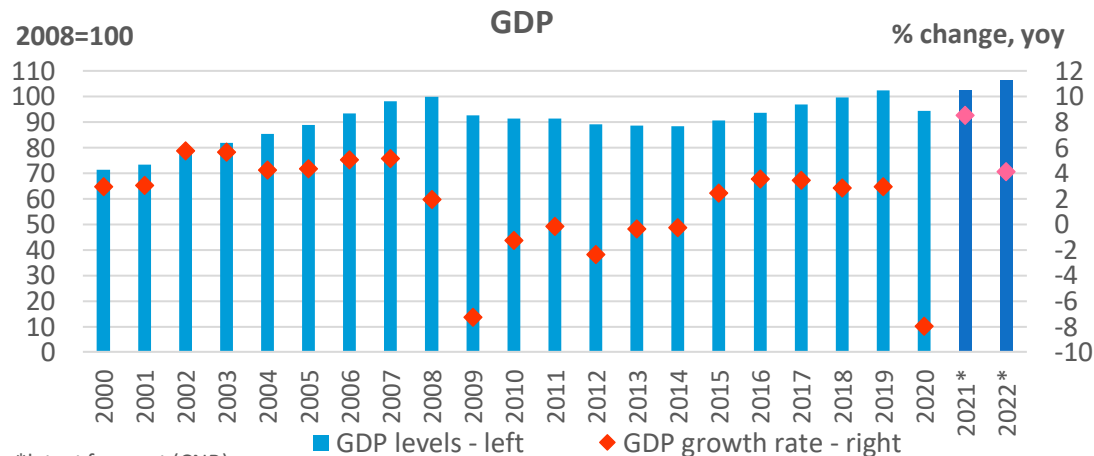
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Economic Growth

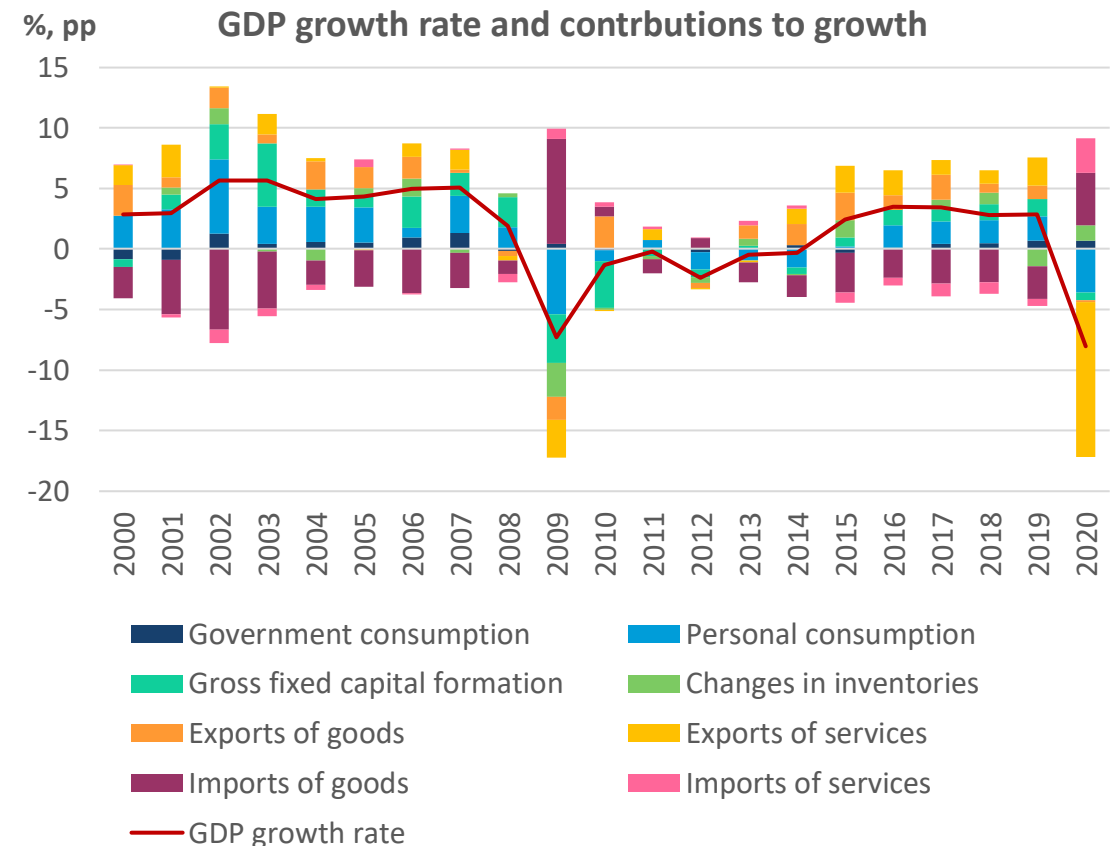


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*latest forecast (CNB).

- Recovery started after long-lasting recession (2009-2014), backed by EU-accession in 2013
 - Based on personal consumption and exports
- Covid-related crisis hit Croatia more than some other countries, but quick recovery is expected (*V-recession*)
 - Travel and tourism were hit hard
 - **Returning on the growth path already in 2021**



Structure of the economy



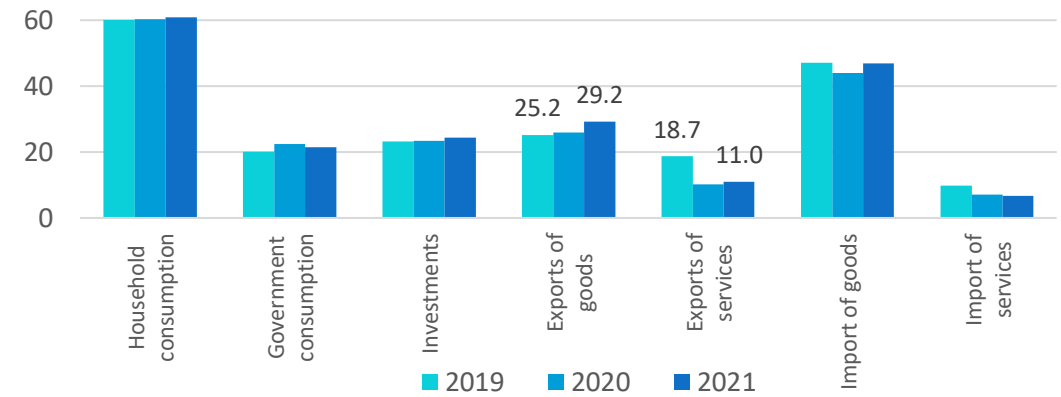
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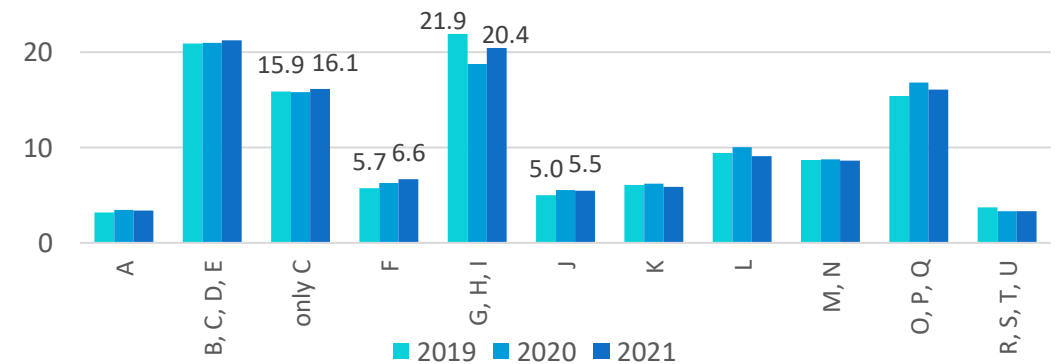
- Will the Covid-related economic crisis change the foundations of economic growth in Croatia?

- Recovery in the first half of 2021 based on **exports of goods** and **investments** (together with personal consumption)
 - Increase in the share of goods exports in total GDP compared to pre-pandemic 2019 with a decrease in the share of exports of services (tourism)
 - Slight growth in the share of investments
- Recovery in the first half of 2021 based on **industry and construction** (with services)
 - Increase in the share of construction and **ICT** (with a decrease in the share of services) compared to the pre-pandemic 2019
 - The public sector (O, P, Q) has a higher share in 2021 compared to 2019

Share of GDP components in the first half of the year (%)



Share of GVA components in the first half of the year (%)



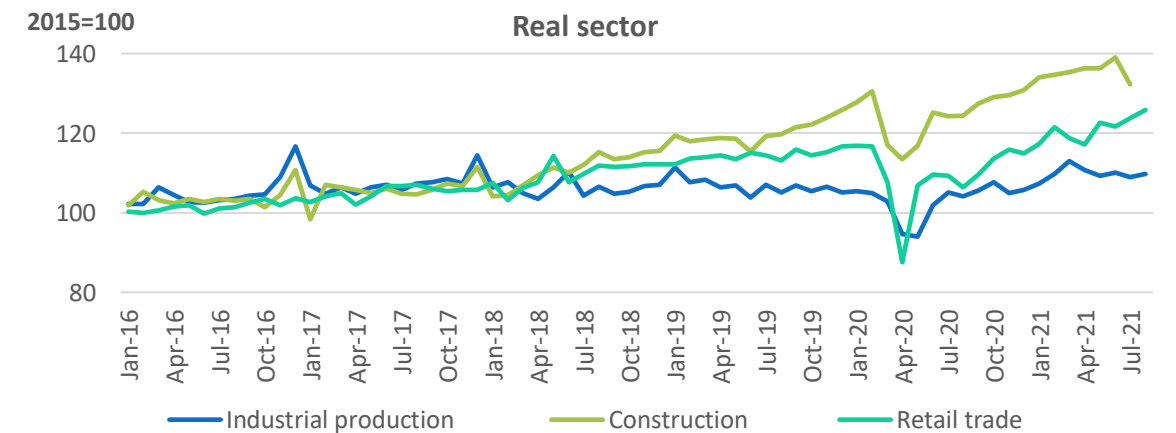
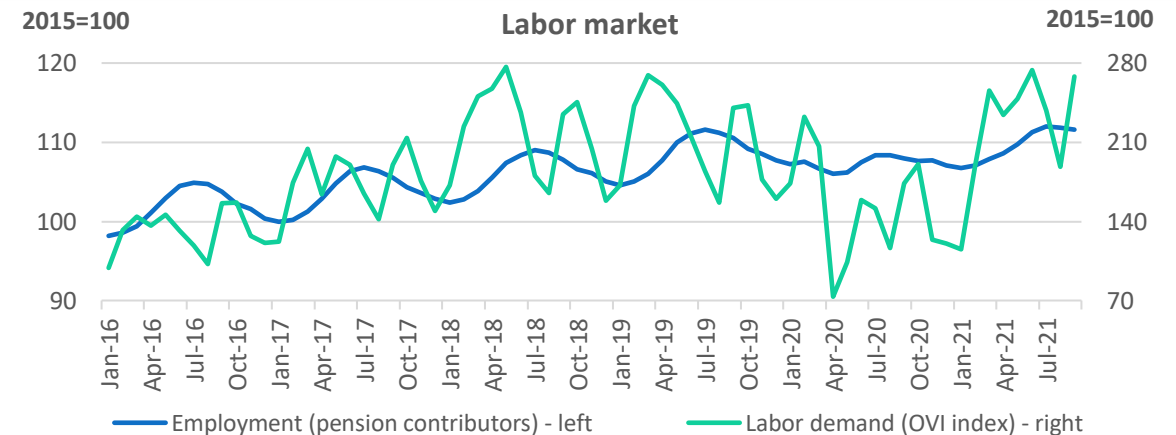
Additional reasons for optimism



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- Visible growth of the employment in the first three quarters of 2021, even compared to pre-pandemic levels
 - Strong growth of labor demand as well
- Robust growth of industry and construction (even during the pandemic)
- Strong recovery of retail and consumption
- Solid recovery of the touristic sector
 - In the first three quarters increase of arrivals by 70.6% and nights spent by 52.7% in comparison to Q1-Q3 2020
 - Still behind the record tourist season in 2019:
 - - 33.0% in arrivals and -22.2% in nights spent in the first 3 quarters



Opportunities to accelerate economic growth (I)



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- **EU funds to support investments and reforms**
 - **Recovery and Resilience Facility (RRF)**: almost 12% of the pre-pandemic GDP (the highest amount relative to GDP in the EU), i.e., 6.3 billion euros in grants
 - An opportunity to transform the economy into **green** and **digital** while implementing the **reforms needed to improve the investment environment**
 - Other funds within the so-called **NextGenerationEU** (more than 11 billion euros in total, including the RRF: 6.3 billion euros in grants and 3.6 billion euros in loans): REACT-EU, the European Agricultural Fund for Rural Development (EAFRD) and the Just Transition Fund (JTF)
 - **EU Solidarity Fund** for post-quake reconstruction: 1 billion euros
 - **2021-2027 multiannual financial framework** (EU's long-term budget): more than 14 billion euros for Croatia

Opportunities to accelerate economic growth (II)



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- **Joining the Euro Area**
 - Croatia part of ERM II since July 2020
 - Plan: to adopt the euro as of 1 January 2023 (achievable)
 - activities in three areas: meeting the convergence criteria, implementing reform measures and practical preparations for currency exchange
 - **Benefits:**
 - elimination of currency risk in financing and international trade (euro area is Croatia's main foreign trade partner)
 - lower transaction costs (international trade, tourism, investments, ...)
 - lower interest rates (high liquidity in the system, investments, ...)
 - greater resilience of the entire economy to crises (lower cyclical volatility of earnings)
- **Joining the Schengen Area**
 - European Commission gave a positive assessment to Croatia on the fulfillment of all preconditions and criteria for membership in the Schengen area
 - Next step: EU Council
 - 2024 as achievable goal?

Why doing business in Croatia?



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- **Main strengths**

- Location
 - connected with the rest of Europe and the world by sea, air and road
- Reliable infrastructure
- Cost competitiveness
 - labor and business costs
- Profit tax rate, with decreasing income tax
 - especially in a lower class of income up to 400.000 euros
- Access to financing
- International trade
- Health and Environment
- Societal Framework
- Prices & cost-of-living
- Education - skilled workforce
- ...

- **Main sectors**

- tourism
- agriculture
- food processing industry
- wood-processing industry
- metal-working industry
- pharmaceutical industry
- textile industry
- oil industry
- chemical industry
- electronics
- energy sector
- building trade / construction
- shipbuilding industry
- shipping trade
- *ICT sector on the rise*
- ...

Thank you.

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