The World Bank in Croatia

Country Snapshot

An overview of the World Bank's work in Croatia

October 2019

CROATIA	2018
Population, million	4.1
GDP, current US$ billion	60.8
GDP per capita, current US$	14, 876
Life Expectancy at birth, years (2018)	77.8

At a Glance

- The Croatian economy started out strong in 2019 but lost momentum in the second quarter as growth decelerated to 2.4 percent.
- Croatia's growth rates are diverging from those of European Union (EU) peers, and the country is falling behind EU averages in governance, the business environment, and human capital.
- The World Bank's current portfolio includes transport, innovation, the business environment, land administration, and health, as well as support for the preparation of the National Development Strategy 2030, a regional strategy to address the lagging region of Slavonia, and a sector strategy in agriculture and fisheries.
- The new Country Partnership Framework for Croatia focuses on creating opportunities for people and building essential institutional capacity across sectors to speed up the pace of convergence with EU peers.

Country Context

Croatia's economy is recovering from the severe effects of the global financial crisis, with growth averaging around 3 percent over the past three years. Public finances have improved significantly: fiscal imbalances have been reduced and the country's debt profile has improved from its initially very high levels. Joining the European Union (EU) in mid-2013 has helped boost exports from below 40 percent of GDP in 2008 to above 50 percent in 2018.

However, Croatia's institutional challenges are evident in its uneven pattern of development. The country has not fully diversified its sources of growth, relying heavily on tourism, which might be vulnerable to the external environment.

The aging population, increasing levels of outmigration, global trends of technological development, and the changing nature of work make it increasingly critical that Croatia prioritize actions now to improve its long-term growth potential. The prospective growth rate of roughly 2.5 percent over the medium term is not enough to reignite, much less accelerate, the pace of convergence with other countries in the EU.

With the right set of policy actions, Croatia can increase returns on public investment—by effectively using EU grant funds in the current and upcoming EU financing period—and attract strategic private investment to create economic opportunities. With the accession to the Euro Area as part of its medium-term agenda, Croatia is planning to implement ambitious reforms to boost growth, build economic resilience, and maximize the benefits of Euro Area membership.

Critical reform areas include investments in human capital and natural resource management to preserve and leverage the country's natural assets. However, the success of these reforms will ultimately rely on strengthening Croatia's institutions.

The World Bank and Croatia

The World Bank has been a partner to Croatia for more than 25 years. During this period, the Bank has supported more than 50 projects, amounting to over US$3.5 billion, and produced over 300 studies and other forms of technical assistance to help strengthen institutions and support policy making.

In May 2019, the Bank launched a new strategy for Croatia, the Country Partnership Framework (CPF) 2019–24, which defines the Bank's engagement in the country over the next five years.

The new strategy is supporting Croatia on its path toward an inclusive society where communities, businesses, and regions can prosper for the benefit of all Croatians; where public institutions provide effective and efficient services; and where Croatia's rich natural capital is preserved and used in a sustainable manner.

Key Engagement

The World Bank's current program includes two large operations in the transport sector. The Bank is working with the Ministry of Sea, Transport and Infrastructure on implementing projects in support of the restructuring of public roads and railway companies to make them more competitive and financially less reliant on state subsidies and thus less of a fiscal burden.

World Bank activities in Croatia also involve improving the business environment in several areas, including modernizing land registration; promoting entrepreneurship by simplifying the business registration process; and reducing the bureaucratic requirements for starting a business.

As innovation is an important part of economic competitiveness, the Bank is financing research and development projects for innovative companies and researchers while also connecting public research institutions with businesses.

WORLD BANK PORTFOLIO

No. of Projects: 5

Lending: $369 million

18 ongoing knowledge activities, including studies, technical assistance, and Reimbursable Advisory Services

In the health sector, the Bank is supporting the implementation of the Croatian Health Strategy 2012–20 , which focuses on improving access to, and the quality and efficiency of, public health services.

The Bank is working closely with the Ministry of Regional Development and EU funds on the establishment of a strategic planning system and on the preparation of the National Development Strategy (NDS) - Croatia 2030.

The Bank is helping the authorities to identify growth opportunities in the less well-off regions of Slavonia, Baranja, and Srijem to enable the Government to use EU funds more effectively and improve the welfare of the people in these areas.

The World Bank is also providing advisory support to the Ministry of Agriculture in the formulation of a National Agriculture and Rural Development Strategy, as well as a multi-annual fisheries development plan for the post-2020 period of the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) of the EU.

Recent Economic Developments

The Croatian economy started out strong in 2019 but lost momentum in the second quarter as annual growth decelerated to 2.4 percent. This mainly reflects the fall in the export of goods—related to an economic slowdown in Croatia's main trading partners—and a deceleration in the growth of household consumption.

On the other hand, growth of export of services picked up and capital investment as well as government consumption remained robust.

Registered unemployment continued to decline, falling close to 8 percent (seasonally adjusted) in the second quarter of 2019.

On the fiscal side, despite a rise in expenditures of around 10 percent and a tangible reduction in the tax burden due to changes in the value added tax and personal income tax systems, the general government balance remained stable in the first half of 2019.

At the beginning of August, the Government outlined additional tax cuts for 2020, leading to a total tax relaxation of around 0.9 percent of GDP in that year.

Positive labor market developments in more recent years, including strong real wage growth, decreasing unemployment rates among the uneducated, and a decline in the number of youth who are "not in education, employment or training" (NEETs), are expected to support growth in disposable income, particularly among the poor.

Poverty incidence (measured at US$5.5 per day 2011 purchasing power parity) is expected to have further declined from 5 percent in 2016 to 4.2 percent in 2018.

Economic Outlook

Growth is expected to pick up slightly in 2019 to 2.9 percent, with household consumption making the largest contribution to overall GDP. A significant contribution is expected to come from investment activity in both the public and private sectors, partly reflecting a greater absorption of EU funds.

As a result of robust domestic demand, import growth is projected to increase, while export growth might remain at 2018 levels. This will lead to a further deterioration of the trade balance and an increase in the negative contribution of net exports to growth.

Furthermore, after a marked increase in 2019, investment growth is set to moderate in the private and general government sectors, while exports might also edge down on the back of a weak external outlook.

The general government budget is expected to remain close to balanced in the forecast period, as revenues are expected to remain buoyant while interest expenses could further diminish. Public debt could further decline to 64.6 percent of GDP by the end of 2021.

Moderate economic growth should lead to steady income growth for the poor. Assuming that growth from 2019 onward is equally distributed across all individuals, poverty would decrease from 4.2 percent in 2018 to 3.9 in 2019 and further to 3.3 percent by 2021.

Project Spotlight

Country Partnership Framework for the Republic of Croatia

The 2019-24 World Bank Group Country Partnership Framework for Croatia is aimed at promoting faster growth, increasing productivity, and investing in opportunities for people.

The new **2019-24 World Bank Group Country Partnership Framework** (CPF) for Croatia is aimed at promoting faster growth, increasing productivity, and investing in opportunities for people, especially in the less-developed regions.

The new strategy is aligned with the Government's plan for the country's future development as it focuses on accelerating growth and convergence with EU income levels and reducing vulnerabilities and regional disparities.

The new CPF envisages support to Croatia across three focus areas. The first will seek to improve the efficiency of public sector institutions and public service delivery, increase the effectiveness of state-owned enterprises, and create opportunities for people by focusing on the less-developed regions and improving education and skills.

The second area will support the preservation and leveraging of natural capital to address environmental and climate change challenges. These include reducing the energy intensity of the economy by transitioning to a more sustainable energy mix and improving water, wastewater, and solid waste management.

The third area will aim to increase the role of the private sector in the economy by improving the business environment; promoting entrepreneurship, competition, and innovation; and creating more and better jobs.

The five-year program will be selective and focus on high-impact interventions, with the goal of building essential institutional capacity across sectors to better use EU funds and speed up the pace of convergence with EU peers. New projects will target marginalized groups, including the poor and the vulnerable, catalyze private sector investment, and protect regional and public goods.

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Data:
http://data.worldbank.org/country/croatia

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at http://www.worldbank.org/croatia