

The World Bank in Croatia Country Snapshot



An overview of the World Bank's work in Croatia

April 2019

CROATIA	2018
Population, million	4.1
GDP, current US\$ billion	60.8
GDP per capita, current US\$	14,878
Life Expectancy at birth, years (2018)	78.1

At a Glance

- Growth in Croatia continued to moderate to 2.6 percent in 2018, mainly as exports of goods and services slowed.
- Weak potential growth, low productivity and labor market participation, and high levels of outmigration call for a strong structural reform agenda.
- The World Bank's current engagement focuses on transport, health, innovation, the business environment, and land administration.
- The Bank is also supporting the preparation of the National Development Strategy 2030, a regional strategy in the lagging region of Slavonia, and a sector strategy in agriculture.
- The Bank is helping Croatia to diversify its sources of growth, catch up to its European Union (EU) peers, and reinitiate real convergence with the EU.

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. 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.

Positive economic trends, underpinned by government action on public financial management, have created an environment in which further reforms can be successful. But while current conditions support potential growth rates of around 2.5 percent over the medium term, this is not enough to reignite or accelerate the pace of convergence with other EU countries.

Croatia can both increase returns on public investment—by more effectively using EU grant funds—and attract strategic private investment to create economic opportunities. With the accession to the Euro Area on its agenda, Croatia is planning to implement ambitious reforms to boost growth, build economic resilience, and maximize the benefits of Euro Area membership.

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

The World Bank and Croatia

In March 2019, the World Bank celebrated 25 years of partnership with Croatia. During this period, the Bank has supported more than 50 projects amounting to over US\$3.5 billion and produced over 300 studies and technical assistance to help strengthen institutions and support policy making.

The Bank is finalizing a new strategy for Croatia, the Country Partnership Framework (CPF) 2019–24, which will define the Bank’s engagement in the country over the next five years.

The new strategy is envisaged to continue 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 to the people; and where Croatia’s rich natural capital is preserved and used in a sustainable manner.

A central aspect of the partnership strategy is continuous investment in people.

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 include improving the business environment in several areas, including land registration modernization; promoting entrepreneurship by simplifying the business registration process; and reducing the bureaucratic requirements for certain professionals, such as lawyers, accountants, and auditors.

WORLD BANK PORTFOLIO

No. of Projects: 5 and 1 guarantee
Lending: \$369 million (investments);
\$370 million (road guarantee)
20 ongoing knowledge activities, including technical assistance and Reimbursable Advisory Services

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.

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 to 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 continued its growth in 2018 at 2.6 percent, although some momentum was lost compared to the 2.9 percent growth in 2017, mainly as exports of goods and services slowed.

The strongest contribution to growth came from private consumption at 2 percentage points, supported by the rise of disposable income as favorable labor market developments continued. Investment recovery is still subdued despite solid private investment growth, as government investment plunged due to the delay in the absorption of EU funds.

The economic recovery has led to new employment, resulting in a 3 percent increase in the employment rate in 2018. But the accelerated outmigration is also causing labor shortages in some sectors.

Real per capita disposable income has increased and finally reached the pre-crisis 2009 level. Inequality has decreased and is now at its lowest level since 2009.

Public debt continued to decline to an estimated 74 percent of GDP in 2018. The Government has also introduced a tax reform package in the amount of 0.7 percent of GDP to reduce the overall tax burden.

The improved fiscal outlook and stable economic recovery helped Croatia regain investment grade status as of March 2019.

Economic Outlook

Growth is expected to remain moderate at an average of 2.5 percent in the 2019–21 period due to the slowdown in exports of trade and services, while private consumption is expected to remain robust as real wages continue to grow and the Government reduces some of the tax burden. Better absorption of EU funds will give a boost to investment spending.

General government finance is expected to be in a surplus of an average of 0.4 percent of GDP in 2019–21, leading to a further decline in public debt to below 64 percent of GDP by the end of 2021. Continued positive labor market developments are expected to support the growth of disposable income for all segments of the welfare distribution.

The continued recovery of the economy is expected to contribute to the further decline in the absolute poverty rate (measured at the US\$5.5 at 2011 purchasing power parity) to 3.2 percent by 2021.

On the other hand, government debt is still high and subject to interest rate risk. And a sounder fiscal position has resulted in a slight fiscal expansion, reducing reform momentum that will impact growth over the medium term.

As such, Croatia's current medium-term growth outlook is insufficient to accelerate real convergence with the EU.

The reform agenda should aim to address low productivity through raising the quality and mobility of human and physical capital, revising the cumbersome business environment related to an inefficient public sector, and improving the low rate of labor market participation. This would lead to higher and more inclusive growth, which would further reduce poverty rates in Croatia.

Project Spotlight

Croatia and the World Bank Group – 25 Years of Partnership



Over the past 25 years, the Bank has worked with Croatia on post-conflict reconstruction, social and economic recovery, economic stability, and Croatia's preparation for EU accession.

The World Bank and the IFC have supported over 80 projects at a total of €4.8 billion, produced over 300 research studies, and provided a wide range of technical assistance to help strengthen Croatia's institutions and support policy making.

Results

The removal of landmines after the war, with help from the World Bank, allowed for the reconstruction of bridges, roads,

and railway lines; the restoration of irrigation and flood protection systems in Eastern Slavonia; the revitalization of agricultural production; the development of tourism in areas of special state concern; and the safe return of displaced people to their land.

The Bank provided funding for over 400 community infrastructure and economic revitalization projects, including the construction of kindergartens, schools, and community centers; repairs to water supply systems; and grants to small and medium enterprises, artisans, businesses, and cooperatives in war-affected areas.

Over 230,000 people in 23 coastal municipalities have benefited from the better provision of efficient and sustainable water services through the construction or upgrading of wastewater collection, treatment, and disposal systems along the Adriatic coast. The Bank provided financial support to companies during the recent economic crisis. As a result, the level of exports of supported companies increased by 19 percent through improved access to finance during the economic slump, while financed companies increased their exports by €225 million.

The Bank also helped transform Croatia's two largest international seaports at Rijeka and Ploče into gateways to European corridors by introducing long-term concessions by private investors as well as expanding current terminals and building new ones. The modernization of the land administration system brought about a major reduction in case backlogs and reduced the transaction time for mortgages from 46 to 12 days in Land Registry Offices, and from 30 to eight days in Cadaster Offices.

Over 100 innovative companies and 40 research groups were awarded research and development financing to improve their products and services, increase their presence in the market, and find new market niches.



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More about the World Bank in Croatia

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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>