

The World Bank in Croatia Country Snapshot



An overview of the World Bank's work in Croatia

October 2018

CROATIA	2017
Population, million	4.1
GDP, current US\$ billion	55.2
GDP per capita, current US\$	13,383
Life Expectancy at birth, years (2018)	77.4

At a Glance

- Growth slowed to 2.7% in the first half of 2018 compared to 2.9% in 2017. Private consumption was the main driver of growth, together with an improvement in the labor market and increases in disposable incomes.
- Reshaping the state's role in creating the right incentives for enterprises and individuals to prosper should be the cornerstone of the country's reform agenda.
- The World Bank is working to enhance Croatia's competitiveness by providing lending and technical assistance to support structural, institutional, and governance reforms.
- The Bank is also helping Croatia to diversify its sources of growth, catch up to its European Union (EU) peers, and use EU funds more efficiently. The Bank's lending portfolio has a special focus on the transport sector.

Country Context

After a protracted six-year recession, Croatia returned to growth in 2015. By 2017, Croatia's GDP per capita had reached almost US\$13,500, or in purchasing power parity (PPP) terms, US\$22,000 (63% of the European Union [EU] average).

Upon joining the EU in mid-2013, Croatia gained access to the EU internal market, which helped connect part of the economy to global value chains. In addition, tourism has been experiencing historic highs in recent years. Yet these factors are not enough to deliver pre-crisis growth rates, and the country still lags behind the income levels of its peers in the EU.

Growth remained solid in the first half of 2018 at 2.7%, and the poverty rate has continued trending downward to 4.6% as the labor market improved and real net wages and disposable income increased. After a surplus for the first time since independence, only a small general government deficit is expected for 2018 and public debt is firmly on a downward path. However, the accelerated outmigration of labor and slow pace of structural reforms risk undermining Croatia's growth opportunities and hampering the medium-term convergence process.

Croatia could improve its low potential growth by boosting private sector productivity and competitiveness, reforming its justice and regulatory framework, raising the quality of human and physical capital, and modernizing its public services. Without stepping up its reform agenda, Croatia could experience prolonged economic stagnation and a further worsening of social conditions.

The World Bank and Croatia

In 2018, the World Bank marks 25 years of partnership with Croatia. During this period, the Bank has supported more than 50 projects amounting to roughly US\$3.5 billion and provided more than 300 technical assistance activities, studies, and policy notes.

The Bank is currently preparing a new strategy for Croatia, the Country Partnership Framework (CPF) 2019–23, which will define the Bank's engagement in the country over the next five years.

As part of the preparations for the CPF, the Bank's team is holding consultations with numerous stakeholders across the country, including central and local governments, civil society, academia, the private sector, and the European Commission.

Key Engagement

The World Bank's current program includes three large operations in the transport sector. The Bank is working with the Ministry of the 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.

Since the beginning of the early 2000s, the Bank has also been supporting the development of Croatia's key port in Rijeka through the Rijeka Gateway Program, which aims to improve the port's competitiveness by modernizing its strategic facilities and encouraging private sector involvement.

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

WORLD BANK PORTFOLIO

No. of Projects: 6, 1 regional GEF and 1 guarantee
Lending IBRD: \$496 million (investments); \$370.7 million (road guarantee)
20 ongoing knowledge activities, including TAs and Reimbursable Advisory Services

professionals, such as lawyers, accountants, and auditors. The Bank is also working with Croatian companies in different sectors to help them find their niche so that they can compete on global markets.

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

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

In addition, 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.

Recent Economic Developments

In the first half of 2018, GDP growth slightly slowed to 2.7% compared to 2.9% in 2017, primarily because exports of goods and services decelerated. Private consumption was the key driver of growth, mainly due to an increase in disposable income as favorable labor market developments continued.

Investment contributed positively to growth, but solid private investments were partly offset by a reduction in government investment driven by the weak absorption of EU funds.

An economic recovery, coupled with negative migration flows, led to a further decline of survey-based unemployment to 10% by March 2018 (down by 1 percentage point from 2017).

Robust fiscal consolidation was recorded in 2017, with a general government surplus of 0.8% of GDP, down from a deficit of 0.9% in 2016. There was a similar general government surplus of 0.7% of GDP by March 2018. Public debt continued to decline to 73% of GDP in May 2018.

Real per capita income has returned to 2008 pre-crisis levels, though this seems related to negative demographic trends. The poverty rate for 2017 is estimated to stand at 4.6%, suggesting that the reduction in poverty has for the most part leveled off in recent years.

Economic Outlook

Growth is expected to decelerate to 2.7% in 2018 almost entirely on account of the slower growth of exports of goods and services. Available indicators point to a poorer performance of the tourism sector in 2018 than in the previous year. On the other hand, the slowdown in imports is much less pronounced due to the robust growth of personal consumption and capital investment.

For 2019–20, average annual growth is forecast at 2.8%. Although this is only marginally above 2018, the composition of the growth is expected to change, with a higher contribution of capital investment due to the better absorption of EU funds and a slightly lower contribution from final consumption.

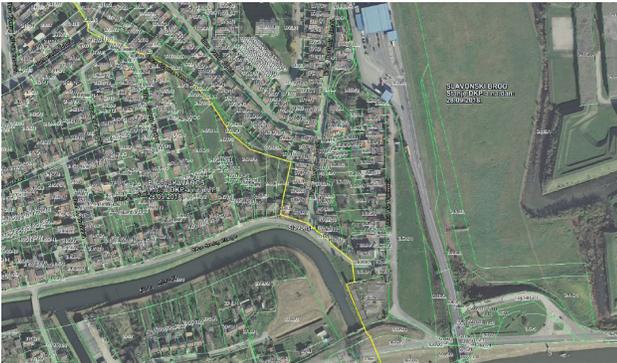
General government finance is expected to be close to balanced in 2018–20, returning to a slight surplus of 0.2% of GDP in 2020 and leading to a further decline in public debt to around 67% of GDP.

Croatia's prospects for higher and more inclusive growth remain weak. Both the low potential growth and the relatively high poverty rates call for a strong reform agenda that needs to include raising the quality of human and physical capital.

Tackling institutional weaknesses and modernizing public services should also be addressed to boost private sector productivity and competitiveness. This would in turn boost economic activity and employment, which are crucial for further reductions in poverty.

Project Spotlight

Integrated Land Administration System Project (ILAS)



One of the greatest achievements of this project was the November 2016 rollout of the Joint Information System, a fully centralized web-based system, to all land registry and cadaster offices.

Over the past decade, Croatia's land administration system has undergone a profound transformation, but significant investments are still necessary to move to a more efficient, paperless, and less costly system and to further expand the Government's e-Services agenda.

In September 2018, additional funding in the

amount of €19.7 million was provided to the Ministry of Justice and the State Geodetic Administration to continue working on the ongoing and well-performing Integrated Land Administration System Project. The project is helping modernize the country's land administration and management system to improve the efficiency, transparency, and cost effectiveness of public services to the benefit of the public, businesses, and government institutions.

So far, the ILAS project has already achieved significant progress. The average time to register mortgages and real property transactions has decreased markedly from 46 to 12 days in land registry offices and from 30 to 8 days in cadaster offices. Croatia's Doing Business ranking in the ease of registering property improved from 111th to 59th out of 190 economies, and the very first e-Services for land administration have been introduced.

One of the greatest achievements under the project was the November 2016 rollout of the Joint Information System, a fully centralized web-based system, to all land registry and cadaster offices. Currently, 28 ministries and agencies are sharing spatial data with the State Geodetic Administration and Ministry of Justice, and this number is set to increase further.



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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>