

2.23. CROATIA

After a weak 2018, real GDP growth in Croatia is estimated to have risen to 3.0% in 2019. Domestic demand strengthened, driven by a noticeable pick-up in investment and government consumption expenditure, while continued improvements in the labour market and low inflation underpinned private consumption. Even though exports rebounded sharply, their growth was outpaced by imports.

Economic growth is expected to moderate as GDP is forecast to expand by 2.6% and 2.3% in 2020 and 2021, respectively. Domestic demand should remain the main driver of growth in both years. Household consumption growth is expected to inch down but remain supported by rising real disposable incomes as unemployment, already at record low levels, is expected to further decline. Investment growth is expected to remain strong, supported by a growing volume of maturing EU-funded projects from the 2014-2020 programming period. Export growth is set to moderate, in line with lower growth in Croatia's main trading partners, trade uncertainties and the limited scope for further growth in the tourism sector. Import growth should be underpinned by still strong domestic demand but is expected to decline in both 2020 and 2021. After improving in 2019, the contribution of net exports to growth is expected to deteriorate in 2020 before stabilising in 2021.

The HICP inflation rate halved in 2019 compared to 2018, due to negative inflation for unprocessed food price, resulting from changes in the applicable VAT rate. With the VAT change effect dissipating, wage pressures in the labour market and strong domestic demand are expected to fuel a pick-up in inflation in both 2020 and 2021, despite the assumed decline in energy prices Core inflation is thus expected to increase even more. Inflation is forecast at 1.5% and 1.7% in 2020 and 2021 respectively.