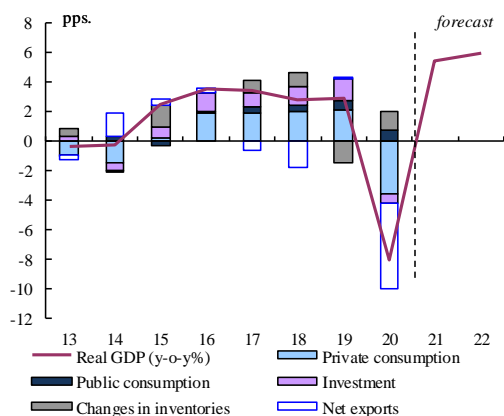


2.23. CROATIA

Croatia's GDP picked up robustly in the first quarter of this year (5.8% q-o-q), continuing the strong performance from the second half of 2020. On an annual basis, real GDP is forecast to grow by 5.4% in 2021 and 5.9% in 2022. This is a slightly faster recovery than anticipated in the spring, largely due to the strong outturn in the first quarter and the positive high frequency indicators concerning consumption, construction, industry and tourism prospects.

Since the spring, the COVID-19 restrictions have been further relaxed in line with the improvements in the health situation, which are partly due to the pick-up in vaccination rates. Consumer sentiment and other high-frequency indicators continued to improve through May, suggesting the resumption of strong economic performance in the second half of the year. Preliminary data show that job creation is on the rise in the hospitality and IT sectors as well as construction, which is in line with the strong performance of investment data. Investment growth is set to accelerate over the course of the forecast horizon, supported by the Recovery and Resilience Plan. The tourist season is projected to remain well below 2019 levels, but substantially stronger than last year. As a result, exports of services should show strong growth. Goods exports are also expected to perform well, driven by strong demand in key trading partners.

Graph 2.23: Croatia- Real GDP growth and contributions



After remaining stagnant in 2020, prices started to rise again in 2021, in large part driven by increasing energy prices. While annual HICP inflation reached 2.4% in May, core inflation remained rather muted at 0.4%. Going forward, inflationary pressures are expected to come from services and processed food. Overall, the HICP is projected to increase by 1.5% this year and 1.3% in 2022.

Consumer price inflation (HICP) remained moderate in 2020 at 0.3%. Since then the surge in certain raw material prices and bottlenecks in certain intermediary products have led to inflationary pressures. The continued recovery in economic activity and higher energy prices are forecast to lead to an increase in consumer price inflation in the second half of 2021. HICP inflation is set to rise to an average of 1.5% in 2021. Stagnating energy prices in 2022 are expected to contribute to a moderation of HICP inflation to 1.3% next year.