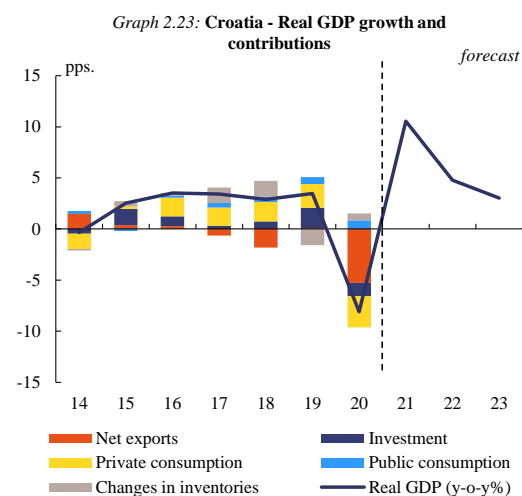


## 2.23. CROATIA

Economic developments in 2021 point to a full V-shaped recovery of the Croatian economy. After a drop of 8.1% in 2020, real GDP is forecast to have grown by 10.5% in 2021, bringing output above its pre-pandemic level. After strong quarterly figures in the second and third quarter, real growth in the fourth quarter is expected to have decelerated, as indicated by developments of short-term indicators of economic activity and rising prices. Looking at the components, the recovery in 2021 was supported by exports of goods and services, with tourism playing a key role as well as private consumption. Strong growth of final demand spurred imports growth, but the overall growth contribution of net exports is expected to have stayed positive.

Growth in 2022 is expected to remain dynamic, at 4.8%, supported by both domestic demand and net exports. Due to the unfavourable epidemiological situation, the economic performance is expected to be weak in the first quarter, but to pick up pace over the rest of the year. While rising inflation is set to weigh on private consumption, favourable labour market developments and relatively mild pandemic containment measures still point to its solid contribution to GDP growth. Investment activity should strengthen on the back of rising demand, expected acceleration of post-earthquake reconstruction in the Banovina region and Zagreb, favourable financing conditions and the implementation of the national RRF plan. The adopted budget indicates that government consumption should have a small positive contribution to growth this year.

On the external side, more muted demand from the main trading partners and a strong base effect suggests that export growth of goods weakens, but remain solid, while exports of services reach their pre-pandemic level, with an expected robust performance of tourism playing the most supportive role. Although the expected performance of final demand points to stronger pressures on imports, net exports is expected to retain its positive, but milder, contribution to the overall growth figure. The balance of risks is tilted slightly to the downside, most notably on account of more persistent problems with the contracting of post-earthquake reconstruction projects, which could negatively affect investment. In 2023, real GDP growth is forecasted start to gradually converge towards the potential growth rate and be around 3%.



After reaching 2.7% in 2021, HICP inflation is expected to accelerate to 3.5% in 2022, mostly due to higher commodity prices. Higher inflation figures in the first half of the year are expected to subside in the rest of the year. As for HICP components, the trajectory of the headline figure should be mostly shaped by energy and unprocessed food prices. Stable inflation expectations, base effects and an expected decline of commodity prices suggests lower inflation figure in 2023, below 2%.