

---

**Global Entrepreneurial Development Initiative**  
**“Create Croatia”**

Sandra Švaljek, PhD  
The Institute of Economics, Zagreb

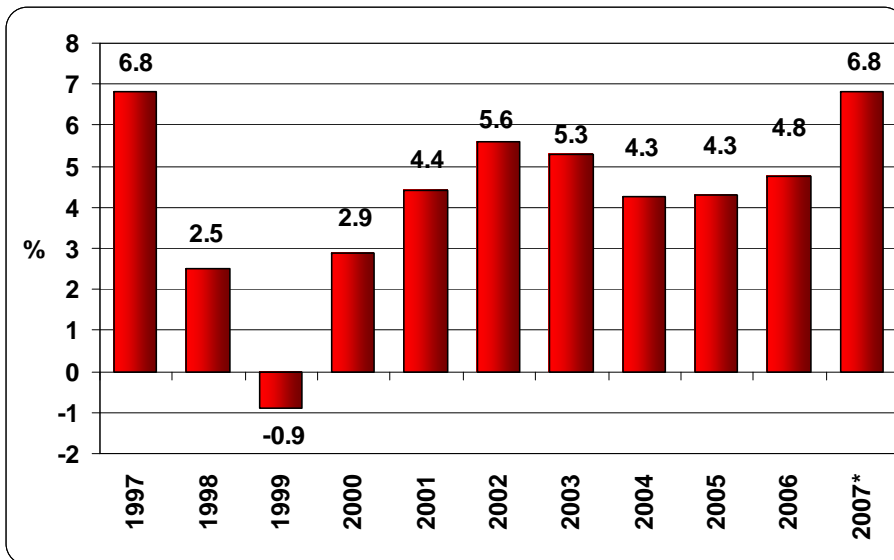
**“Macroeconomic situation and development in Croatia”**

January 4, 2008

- Main economic indicators:
  - real rate of GDP growth
  - GDP
  - CPI inflation
  - government balance
  - current account balance
  - FDI
  - unemployment, employment
- Strategic goals and major reforms
- EU accession and its economic implications

# Main economic indicators (I)

Figure 1 Real GDP growth rates in Croatia



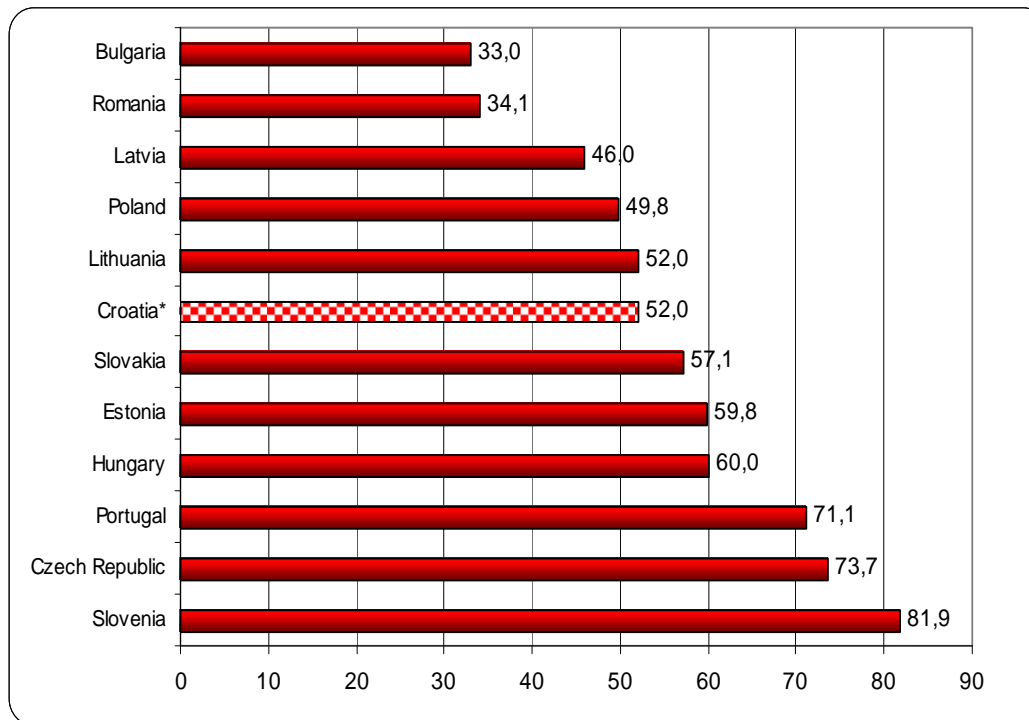
Source: CBS

\* first half year of 2007

Although the real growth of the GDP has been rather high and robust for the last eight years, the 1989 level of GDP was attained only in **2005**.

# Main economic indicators (II)

Figure 2 GDP at PPS in 2005, EU-25=100

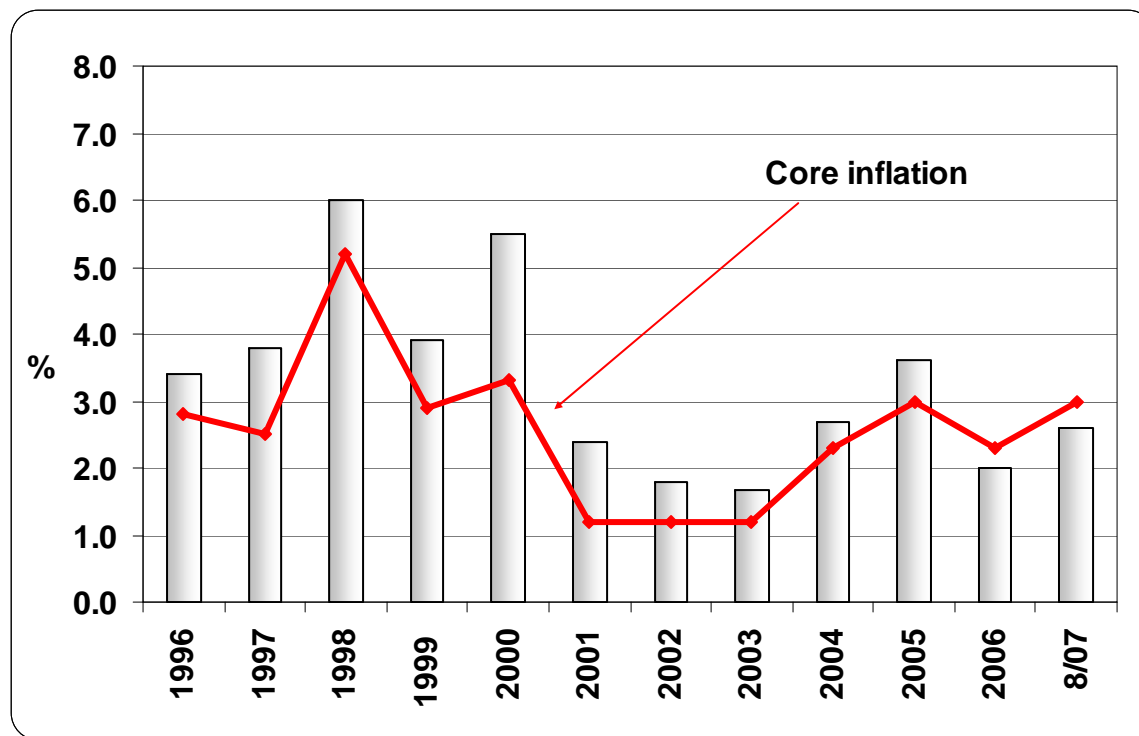


Source: Eurostat

\* preliminary assessment of the shadow economy included

## Main economic indicators (III)

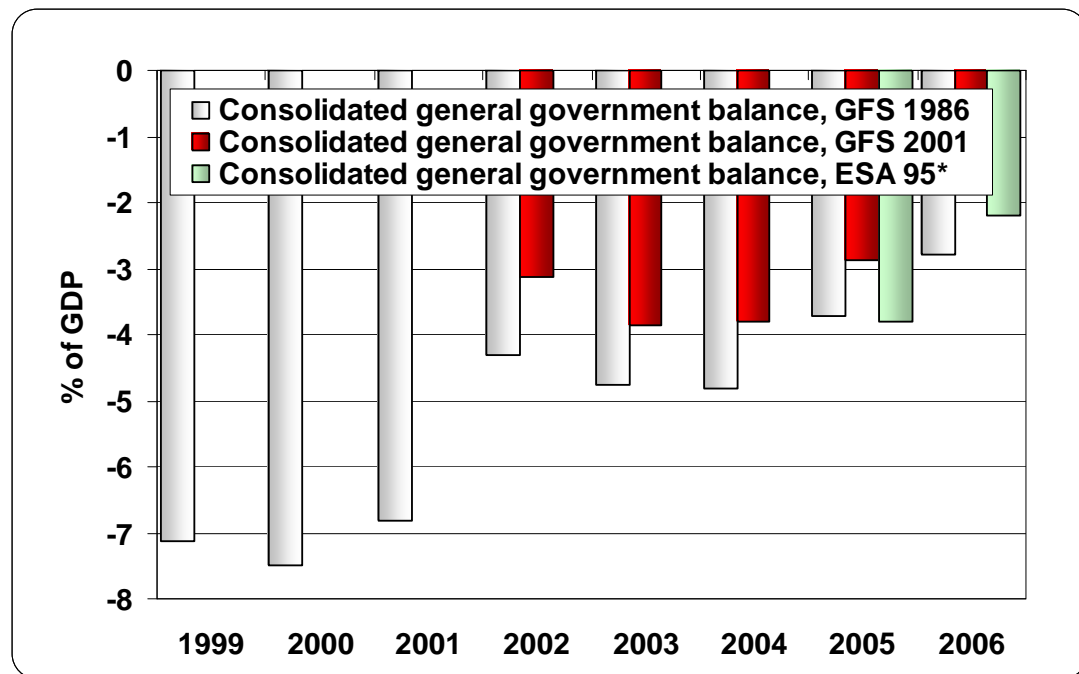
Figure 3 CPI inflation (1996-1998 RPI inflation) and core inflation, end of period, year-on-year rate of change



Source: CBS

# Main economic indicators (IV)

Figure 4 Consolidated general government balance



Source: MoF

Since 2002 the Government was committed to rather strong fiscal consolidation. However, the fiscal consolidation was successful mainly thanks to the high collection of government revenues and not thanks to the cut in government expenditures.

The Government expenditures still reach some 45 percent of the GDP.

# Main economic indicators (V)

Figure 5 Current account balance

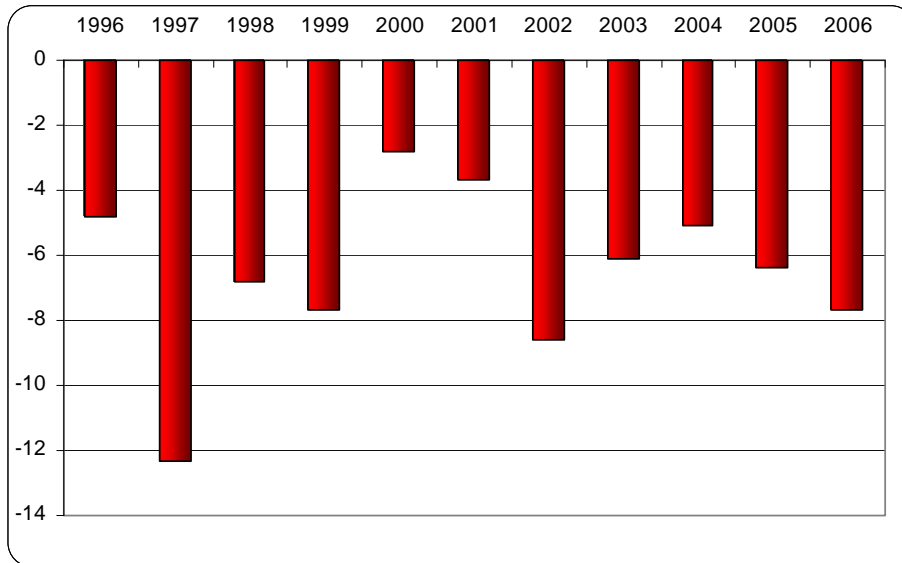
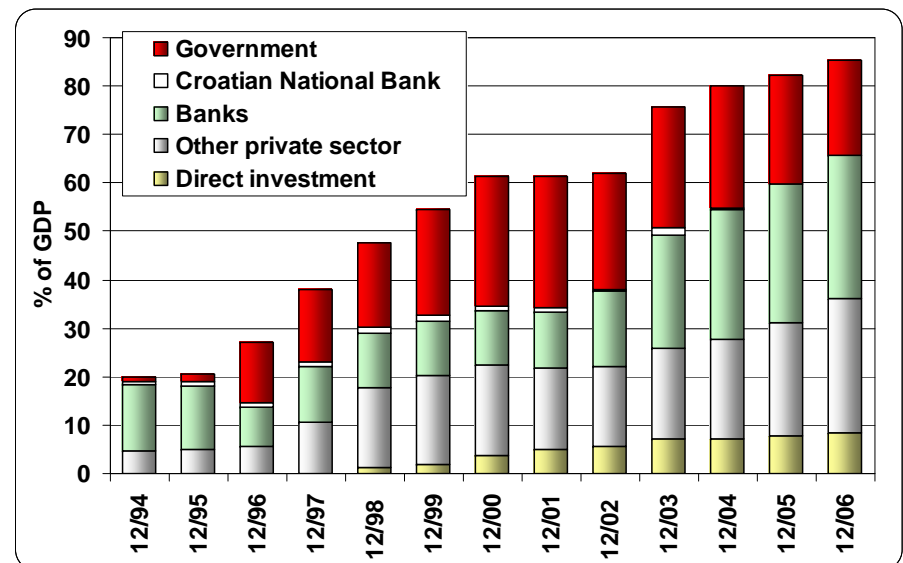


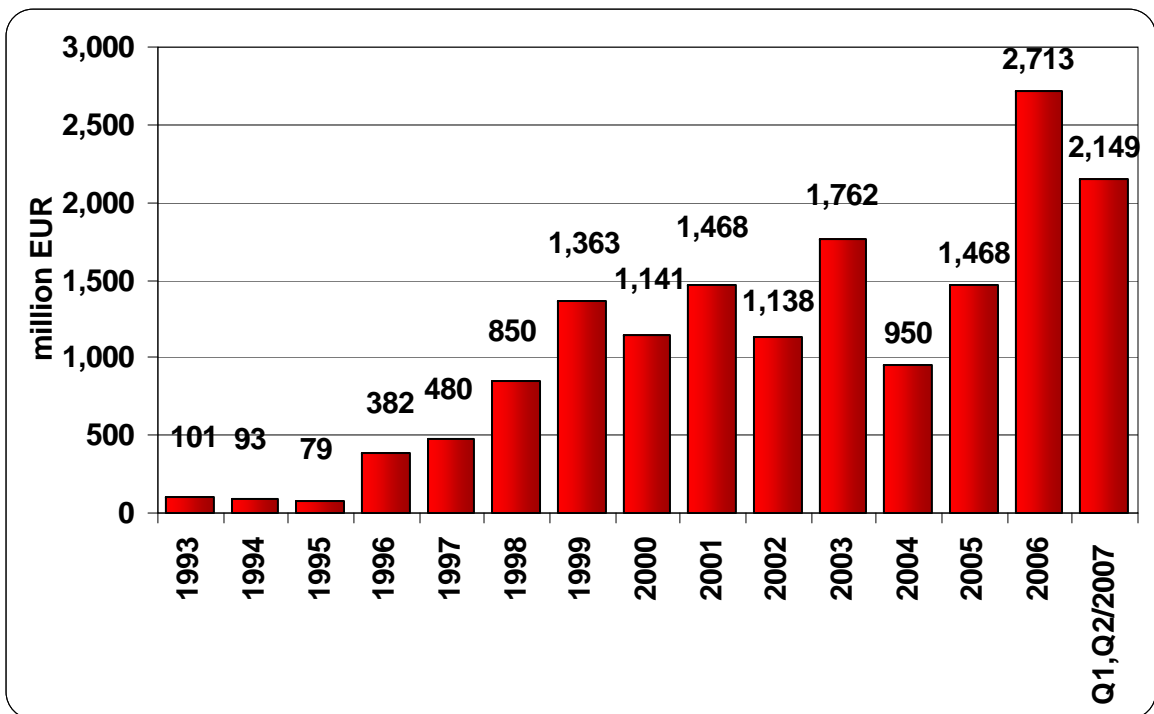
Figure 6 External debt by debtors



Source: CNB

# Main economic indicators (VI)

Figure 7 FDI inflows to Croatia



The FDI inflows increased sharply after the official beginning of the accession negotiation in 2005.

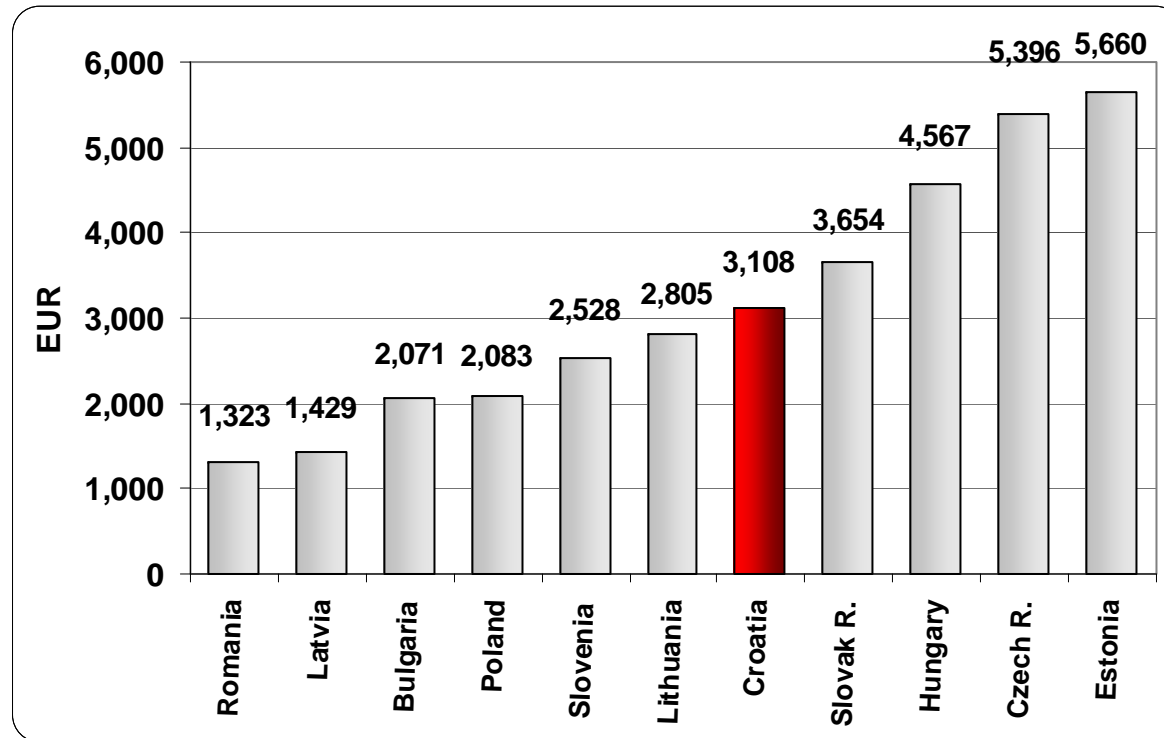
In general, the FDI were mainly concentrated to the service sector (trade, telecommunications and financial services).

There were not many greenfield investments.

Source: CNB

# Main economic indicators (VII)

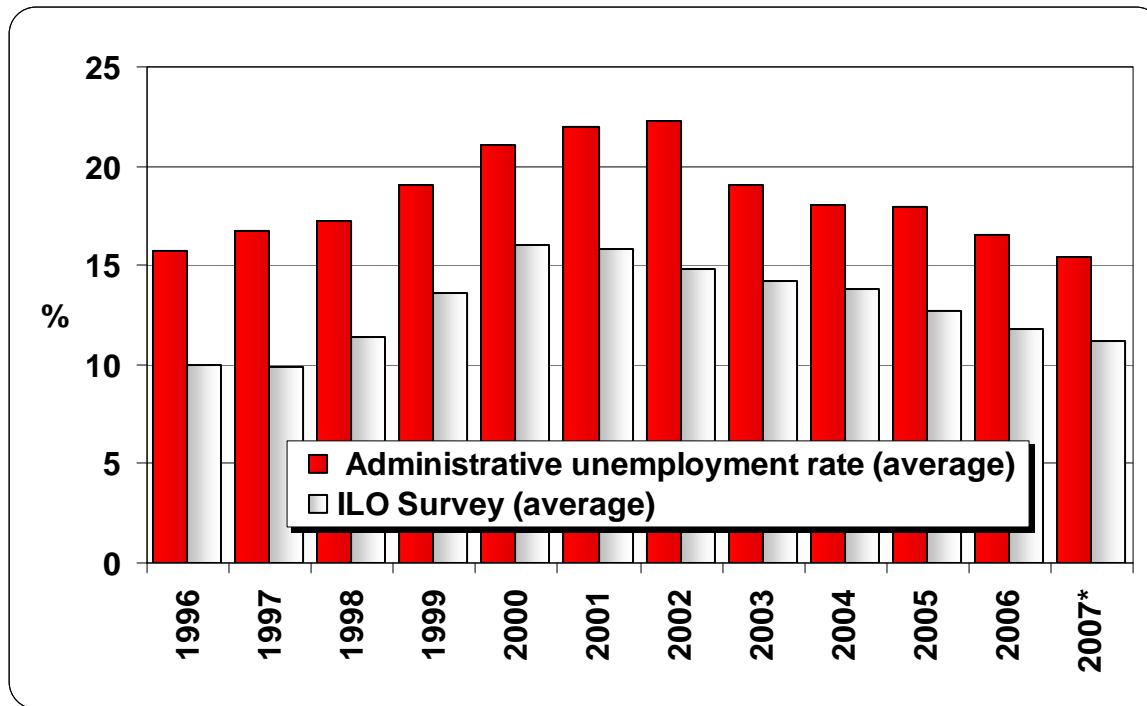
Figure 8 FDI per capita in selected transition economies, 1993-2006



Source: CNB

# Main economic indicators (VIII)

Figure 9 Rate of unemployment



\* CBS figure January - August 2007, ILO Survey for the first quarter of 2007

Source: CBS

The rate of unemployment is among the highest in transition countries.

The share of employed persons in labor force is low – around 55 percent.

# Strategic goals and major reforms

---

- Strategic goals (as defined in the Strategic Framework for Growth)
  - completion of the transition process
  - strengthening of the infrastructure necessary for the development
  - building stable macroeconomic framework, taking care about natural resources and the environment
  
- Major reforms underway (as defined in the Pre-accession economic program)
  - privatization of state owned companies
  - elimination of the administrative obstacles to business development
  - building an efficient and fiscally sustainable public administration
  - labor market reform
  - reform of the educational system
  - reform of the judiciary

# EU accession and its economic implications

---

- The process of the EU accession of Croatia itself has visible economic consequences
  - rise in price level
  - rise in demand for housing coupled with increase in prices of housing
  - increased FDI inflow etc.
- According to the assessment of the Institute of Economics, Zagreb, the EU entrance will have further implications on the economy
  - some additional rise in price level is expected
  - prices of housing will continue to rise
  - tourism demand is going to increase
  - transfers from the EU budget will slightly outweigh the financial outflows into the EU budget
  - the EU accession will speed up many necessary reforms
  - overall macroeconomic implication of the accession will be positive – the rate of real GDP growth could go up by 0.6 percentage points annually