

## CROATIA

### Business Conditions Snapshot

- Before COVID-19, Croatia recorded steady economic growth of close to 3 per cent. The 2019 GDP growth rate of 3.0 per cent was largely driven by exports, tourism receipts (which amount to around 20 per cent of GDP) and consumer spending. However in 2020 GDP is expected to drop by 10 per cent – the sharpest pace in more than 25 years. This is expected to recover in 2021 and 2022 on the back of reviving foreign demand and strengthening domestic activity. However the uncertain trajectory of the pandemic and its impact on the tourism industry is a key risk to the general outlook.
- A severe economic recession triggered by the COVID-19 pandemic is reversing the income gains, poverty reduction, and fiscal sustainability that Croatia achieved over the past five years. The March earthquake in Zagreb also strained the functioning of public institutions and caused extensive damage that will take years to repair.
- Even though the country joined the European Union (EU) in 2013, it has had the lowest level of greenfield investments among new member states in central and south-eastern Europe. With its currency effectively pegged to the Euro, the Government is planning to adopt the Euro as soon as it meets the criteria, which is expected after 2023.
- The unfavourable demographic trends are due in part to out-migration. The rapidly ageing population also present risks to growth and fiscal sustainability. Labour shortages have acted as a constraint on investment and growth in some Croatia industries, including construction, hospitality and the health system. The government is currently liberalising access to the labour market for non-EU nationals.
- The government's key priorities associated with stronger investment growth include increasing the effectiveness of public institutions, making better use of EU funds and improving the business environment.

#### Key facts and figures

- Population: 4.1 million (2018)
- GDP growth: 3.0 per cent (2019)
- GDP per capita: US\$14,949 (2019)
- Political system: parliamentary democracy
- Two-way trade A\$172.6 million (2019) electric power machinery & parts; non-electric engines & motors; edible products & preparations
- Two-way investment: A\$140 million (2018)

### Trade and Investment Opportunities

- Given Croatia's size and distance from Australia, trade and investment links are not significant.



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- COVID-19 has halted activities at the Croatian–Australian Business Council and Croatian Chamber of Commerce. Business delegations to Australia will be resumed when the situation improves.
- Most major new investment projects planned by the Croatian Government will be co-financed through EU funds, including the new operational program for 2021–2027.
- There are opportunities for Australian businesses and investors in tourism, infrastructure (ports, transport and broadband infrastructure) and education.
- Our latest major initiatives to capitalise on commercial opportunities include a very successful Australia–EU Free Trade Agreement (Australia-EU FTA) event organised in December 2019.
- Since then it has been difficult to follow up with similar promotional events due to COVID-19.
  - DFAT is helping Australian companies looking for opportunities in the Croatian market, including by building awareness of opportunities, providing advice, collaborating and connecting Australian and Croatian businesses, and promoting the benefits of an Australia-EU FTA.

## Trade Policy Focus

- As a member of the EU, Croatian trade policy is set in the EU. As an open economy, Croatia has been a supporter in principle of an Australia-EU Free Trade Agreement. Its final position will depend on the balance of cost and benefits for Croatia achieved in the final package.
- Post uses every opportunity to promote Australia's economic success and the benefits of a comprehensive and ambitious Australia-EU Free Trade Agreement to key business leaders and decision makers.

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*Insight current as at December 2020.*



Australian Government

Department of Foreign Affairs and Trade