

Croatia Watch: Risks are turning to the upside

The Q1 GDP results brought both annual and quarterly growth. With the economic environment proving to be more resilient, the avoided recession in EA and investments that are yet to see a stronger flywheel from EU money, risks to our forecasts are turning to the upside.



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Positive contribution of net foreign demand, but industry suffering

Today's GDP release brought somewhat positive surprises. Namely, the first **Q122 GDP results showed an acceleration of economic activity** on a quarterly basis. According to the seasonally adjusted data in comparison to Q422, GDP grew by 1.4% thus putting the annual real change at 2.6% yoy (+2.8% according to original NSA data).

Growth continued to be **broad-based in Q1 as well**, with real growth in all components of GDP, except for the import of goods and services where the annual decline of 0.8% was recorded. On the other hand, the export of goods and services continued to grow with a 9.1% yoy increase in services, encouraging our expectations of another successful tourist season. Consequently, the contribution of net foreign demand was positive. The **continued growth of GFCF (gross fixed capital formation) capital for the fifth quarter** in a row is undoubtedly the result of the more successful use of EU money. Strong pressure on wage growth, a still resilient labour market, and positive trends in tourism contributed to a **slight acceleration of household consumption increase** (+1.4% yoy compared to 1,3% in Q422). Finally, government spending slowed to 2.2% yoy.

Looking into more details on the **supply side** and gross value added, the only component that clearly reflects the uncertainty is the industry. Namely, in the respective quarter, only manufacturing reported negative developments and dropped by 2.8% yoy in real terms. On the other hand, the first estimate shows that GVA increased in real terms by 3.1% yoy driven by a significant increase in service activities.

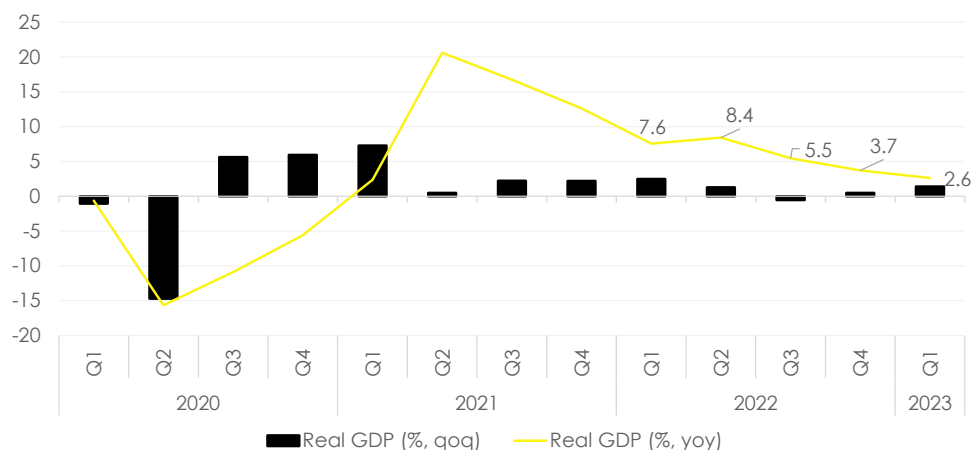
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GDP development (s.a. real growth rates)



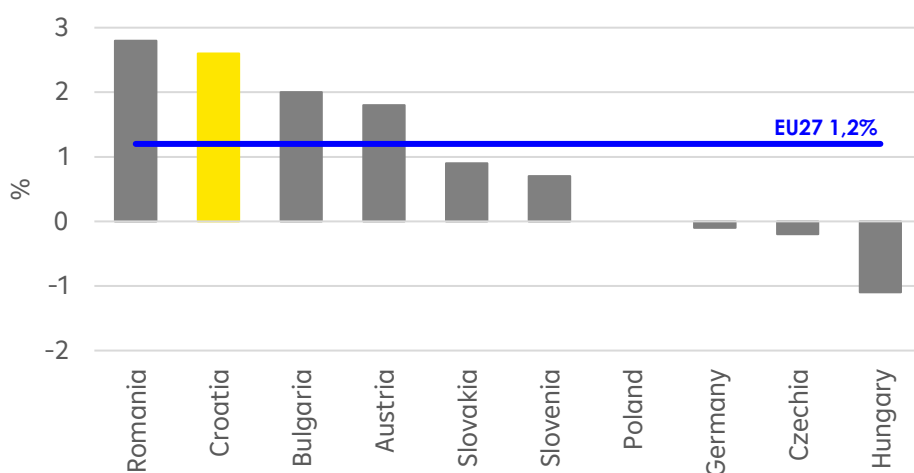
Source: CBS, RBI/Raiffeisen Research

What about the future?

For the whole 2023, **our projection** and expected GDP growth **are exposed to positive risks**. The economic environment has proven to be more resilient, the euro area has avoided recession (for now), and investments are still expecting a stronger flywheel due to the withdrawal of European funds. Moreover, we remain very optimistic about this year's tourism results. In addition, the strong labour market and wage growth reduce the negative effects of still relatively strong inflation.

The already published physical indicators in tourism for April, as well as the announcement of retail trade figures, **support moderately optimistic expectations**. Namely, April's reading showed a real retail trade growth of 4.2% compared to April 2022. This is also the highest real annual rate in the last ten months. However, the decline of the industry and its negative contribution to GVA and the environment of high uncertainty **call for caution**. Moreover, according to the latest data, the volume of industrial production in April recorded a decline both on a monthly (-2.4%) and annual (-3.5%) level.

Q1 GDP real annual change, %, s.a.



Source: Eurostat, RBI/Raiffeisen Research

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Symbol	Date	Recommendation	Company
HR	27.04.2023	Under Revision	Croatia
HR	04.10.2022	Under Revision	Croatia

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Symbol	Date	Recommendation	Company
HR	27.04.2023	Not rated	Croatia
HR	04.10.2022	Not rated	Croatia

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and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council (“special services”) have been provided in the past 12 months (column B).

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