

# Croatia Watch: Solid growth goes on

In Q3 Croatia continued to record solid GDP growth rates, ranking among the highest in the EU. Economic activity remains strongly supported by domestic demand, particularly personal consumption and investments, while net foreign demand continues to exert a counterbalancing effect.



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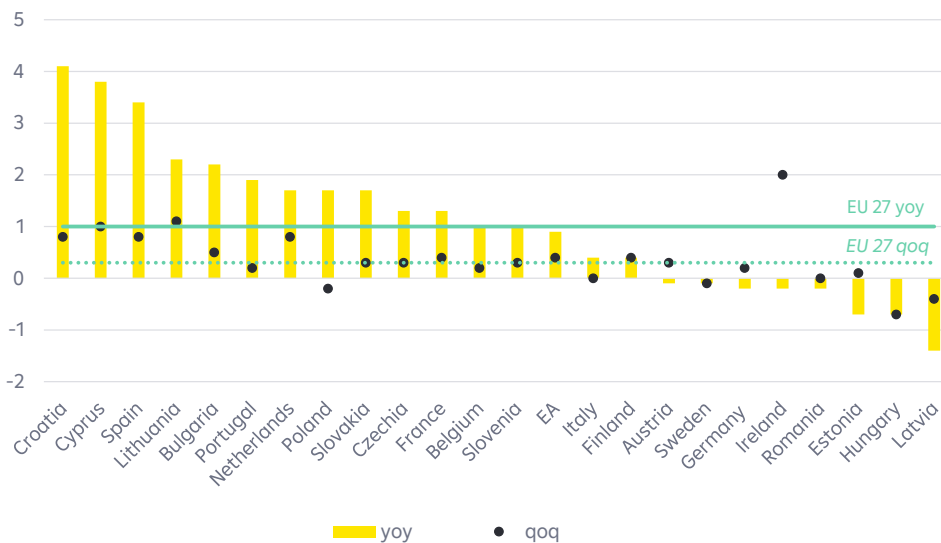
## Strong rise in economic activity

This morning, the Croatian Statistics Office released its preliminary Q32024 GDP estimate. As expected, based on previously published high-frequency indicators, economic activity has continued to grow. Moreover, the growth rate, both quarterly and annually, is among the highest within the EU.

According to **seasonally adjusted (SA) data, real GDP growth slowed slightly compared to Q2**, recording an increase of 0.8% qoq. On the other hand, **compared to Q3 2023, the real growth rate was relatively high at 4.1% yoy.**

The original (NSA) data also confirmed an acceleration in the annual growth rate, as the increase of 3.8% yoy in H124, was followed by 3.9% yoy real GDP in Q3 2024. Gross value added (GVA) reported an increase of 3.7% compared to the same period in 2023.

## Real GDP growth in Q3 2024 (in %)



Seasonally adjusted data

Source: Eurostat, RBI/Raiffeisen Research

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## Growth driven by personal consumption and investments

A closer look at the national accounts statistics confirms that **growth has been heavily reliant on and led by domestic demand, particularly personal consumption and investments**. Conversely, for the third consecutive quarter, the contribution of net foreign demand remained negative, as the growth in imports of goods and services (4.1%) outpaced the growth in exports (1.5%).

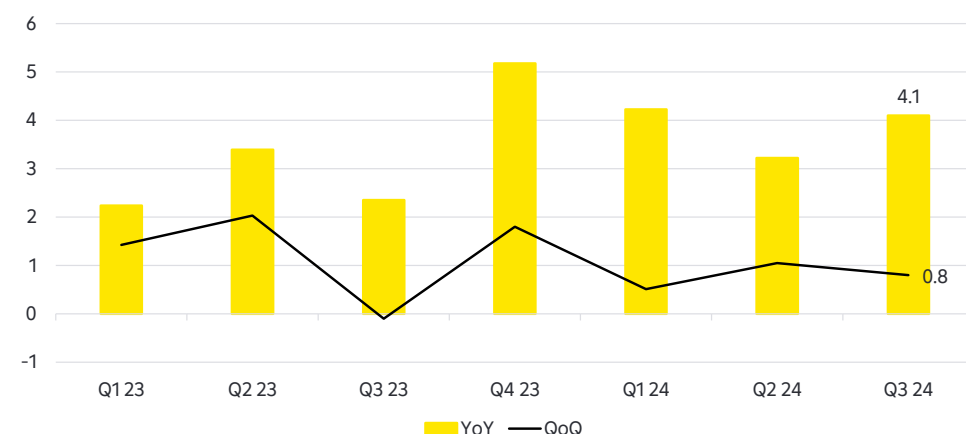
On the supply side, measured by GVA, the largest contribution to growth came **from activities linked to trade and tourism as well as construction**.

**Households' consumption** increased by 5.5% yoy, which is unsurprising given the high level of consumer optimism fueled by rising employment, declining unemployment, and double-digit wage growth. Additionally, previously published data on the continued robust real growth of retail trade and service revenues, along with solid tourism results despite stagnant overnight stays, suggested that personal consumption would remain the key driver of positive economic trends for the fourth consecutive quarter.

Although preliminary data for the final quarter of this year are expected later this week (on Friday, November 29, retail trade and industrial production data for October will be published), we anticipate that economic growth toward the year's end will moderate slightly while remaining predominantly reliant on personal consumption.

Gross value added in wholesale and retail trade, transportation and storage, accommodation, and food services increased by 3.7% in real terms annually.

### Development of real GDP (in %)\*



\*Seasonally adjusted data

Source: CBS, RBI/Raiffeisen Research

### Investments in strong growth trend

**Investments** sustained a solid growth trajectory, increasing by 9.2% yoy. Since early 2022, high—and often double-digit—real growth rates have been a consistent feature. This trend, evident once again in the observed period, likely reflects both private and public investment growth. A key indicator of this momentum is the robust double-digit increase in gross value added (GVA) within the construction sector. GVA in construction surged by an impressive 15.9% year-on-year, marking the highest rate in the past three years.

While investment growth is expected to continue in the upcoming quarters, a more moderate pace is anticipated.

### Government spending adds a boost

A positive contribution also came from government spending, the final component of domestic demand, which accelerated to a robust real growth rate of 5.3%, further bolstering the economy.

### Net foreign demand still a challenge

For the third consecutive quarter, net foreign demand remained a drag on growth, as imports of goods and services grew by 4.1%, outpacing the modest 1.5% increase in exports of goods and services.

The negative trend was driven primarily by the services sector, where exports declined by 1.8% yoy, while imports surged by a notable 9.6% yoy in real terms. In contrast, the goods segment provided a silver lining: exports outpaced imports, growing by 6.3% compared to a 3% rise in imports.

Despite the challenges in net foreign demand, strong domestic investment and government spending continue to anchor economic growth, reinforcing positive trends across key sectors.

With the release of today's data and assuming a mild slowdown toward the end of the year, **the projected economic growth rate of 3.6% for 2024 is subject to upward risks**, potentially exceeding expectations by approximately 0.3pp.

### Positive Outlook for 2025

The economic outlook for 2025 **remains favorable**, with a similar growth pattern expected. Domestic demand, particularly personal consumption and investments will continue to be the main drivers. However, the growth momentum is likely to moderate due to base effects.

With the easing of monetary policy and the recovery of key foreign trade partners, exports of goods and services are anticipated to make a stronger contribution.

That said, several downside risks could affect the export sector. These include the potential introduction of U.S. tariffs on EU products, structural challenges in the industrial sector both in Croatia and among its main trading partners, and ongoing geopolitical uncertainties. As a result, the export sector poses the highest risk to achieving the forecasted real GDP growth rate of 2.9% in 2025.

Furthermore, as a small and open economy, Croatia remains vulnerable to external shocks, with unfavorable global developments capable of quickly spilling over into its economy. These risks highlight the importance of vigilance in navigating potential challenges in the years ahead.

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