

Croatia Watch: Another strong performance

At the beginning of 2024, Croatia continued to record solid growth rates, among the highest in the EU. Although the dynamics of annual and quarterly growth has slowed down slightly, economic activity is still strongly supported by domestic demand. On the other hand, net foreign demand acted in the opposite direction, primarily as a result of decline in exports of services.



In the first quarter, real GDP growth reached 3.9% yoy **1**

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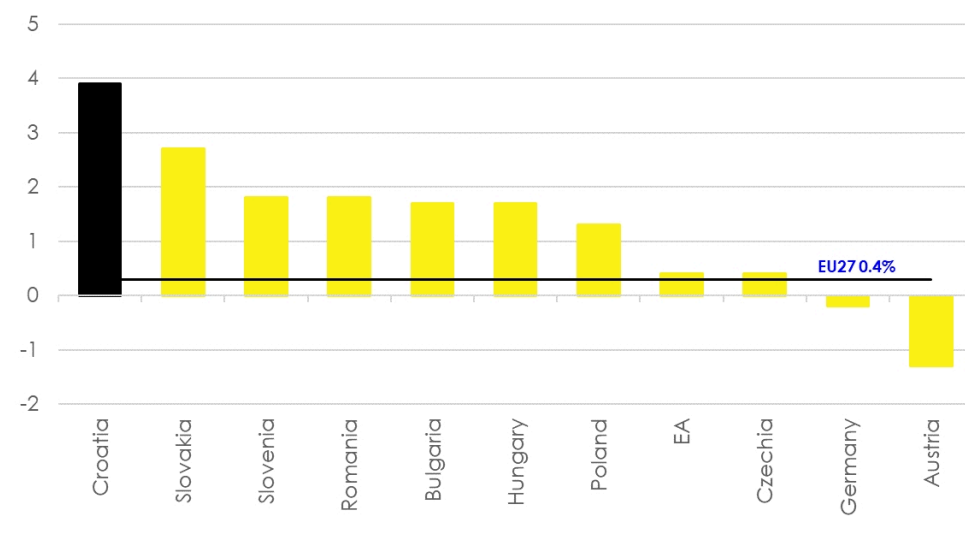
Analyst **7**

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The Croatian Bureau of Statistics published the first estimate of the Q1 2024 GDP data today. In line with the previously published high-frequency indicators, although at a slightly slower pace, economic activity continued to grow in both quarterly and annual terms. According to the seasonally adjusted data, **real GDP grew by 1% qoq**, while, **compared to the first quarter of 2023, GDP increased by 3.9% in real terms** (according to both the original and seasonally adjusted data).

Once again, looking purely at single numbers, Croatia remains one of the best GDP performers among EU countries.

Q1 2024 GDP real growth by country (% yoy)



Seasonally adjusted data

Source: Eurostat, Raiffeisen Research

Economic activity is still strongly supported by domestic demand

The largest component of GDP, **personal consumption**, recorded a real growth rate of 6% (the highest since Q3 2022), mainly influenced by retail trade rise amid the positive

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consumer sentiment, the robust labour market (increase in employment and wages in particular), a rise in consumer lending and a moderately positive outlook for this year's tourist season.

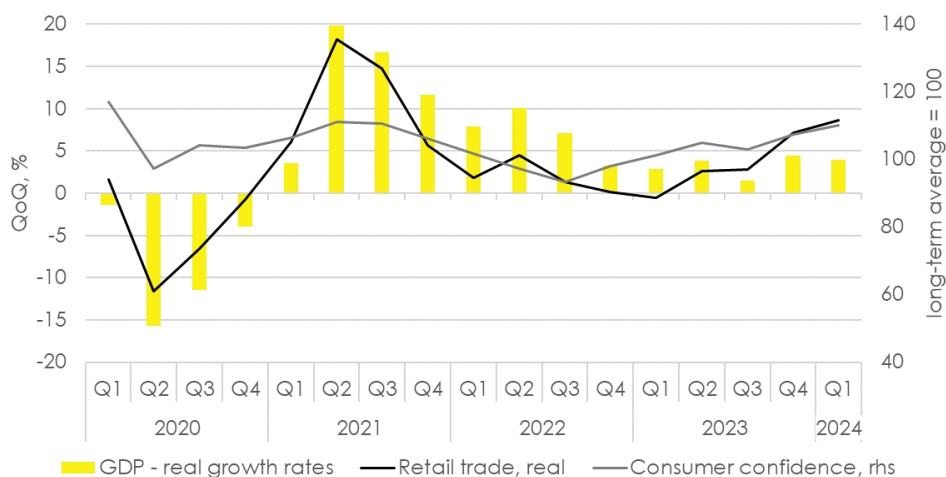
In the respective period, **Government spending** increased by 1.0% yoy in real terms, which is slightly below our expectations. Finally, **the strong real growth** in gross fixed capital formation, i.e. investments (10.8%), is largely due to growth in the construction industry, which, we assume was also supported by the available EU funds.

On the other hand, the first quarter brought a **net negative contribution from foreign demand**, as **export of goods and services fell by 2.0% yoy in real terms**, while **import of goods and services recorded real growth of 2.2% yoy**. According to the official data, the decline in exports was entirely due to the decline in services exports, which is somewhat surprising given the strong increase in tourist overnights in Q1 2024 (+17.2% yoy) and the growth of GVA in other service activities.

The first estimate according to the original data shows that **gross value added (GVA) in Q1 2024 is 3.5% higher** in real terms than in the same quarter of 2023. With the exception of industry and agriculture, the quarterly GVA growth is visible in most groups of activities, but the highest positive contribution certainly came from the activities of wholesale and retail trade, transport and storage, accommodation and food service activities and construction.

On an annual basis, construction recorded the highest real growth rate (13.1%), followed by information and telecommunications (9.9%) and wholesale and retail trade, transport and storage, accommodation, food preparation and services (6.6%). On the other hand, after a brief respite at the end of 2023, industry returned to negative growth rates, as its GVA fell by 1.5% yoy.

Real GDP, retail trade and consumer confidence



Source: CBS, HNB, Raiffeisen Research

Outlook unchanged

We stick to our spring forecast and the outlook for the Croatian economic growth of 3% in 2024 (**Croatia Economic Insights: On the wings of consumption**), which implies that household consumption will be the main driver of growth, supported by the robust labour market, services and construction activity. Investments will continue to find its support in the EU funds, while Government spending is largely under pressure due to the agreed increase in material rights in the public sector (partly under the influence of inflationary pressures from the previous periods and the fact that 2024 is an election year). Finally, despite moderately positive expectations regarding tourism, the results of Q1 2024 call

for caution and encourage expectations that a net negative contribution from foreign demand will be recorded in 2024.

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