

# CROATIA

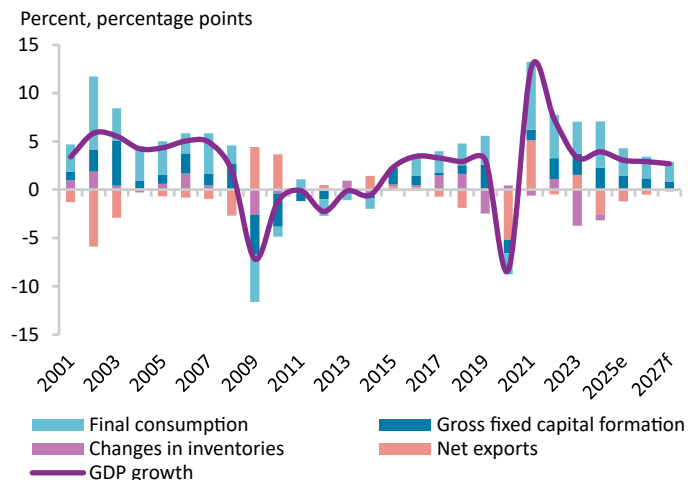
Economic activity in Croatia continued to expand during 2025, reflecting strong domestic demand. GDP growth is expected to remain robust in the medium term as recovery of external demand is likely to offset the slowdown in investment and private consumption. The fiscal deficit remains below 3 percent, supporting a gradual decline in the public debt-to-GDP ratio. Poverty is expected to marginally decline to 1.9 percent in 2025.

## Key conditions and challenges

Croatia's economic performance remains strong, with growth rates surpassing the European Union (EU) average. This positive trajectory is driven by resilient domestic demand, notably increased public and private investment bolstered by EU funds, as well as robust household consumption supported by significant wage growth and historically high employment levels. However, the Croatian economy continues to grapple with several structural challenges that may impact its competitiveness and the sustainability of its growth model. Productivity gains have been modest, while labor costs have risen considerably. The ongoing tight labor market, characterized by record-low unemployment and workforce shortages, has contributed to the upward pressure on wages. These factors raise concerns regarding cost competitiveness, particularly within export-oriented sectors such as manufacturing and tourism.

Risks to growth remain on the downside. Although a recent trade agreement between the US and the EU has alleviated some uncertainty, external conditions remain complex and pose ongoing risks to investment and export activities. Additionally, persistent labor

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Croatian Bureau of Statistics and World Bank staff calculations.

Population <sup>1</sup> million	Poverty <sup>2</sup> thousands living on less than \$8.30/day
3.9	78.5
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
78.5	100.5
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
92.7	23966.7

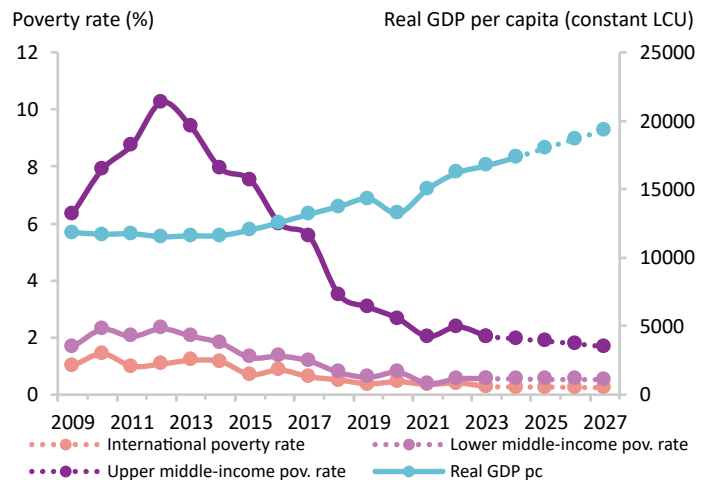
Sources: WDI, MFMod, and official data. 1/ 2024. 2/ 2023 (2021 PPPs). 3/ 2023. 4/ 2022. 5/ 2024. 6/ 2024.

shortages could increasingly constrain growth. As a result, advancing productivity and fostering economic diversification will be essential for sustaining income convergence and enhancing economic resilience over the near to medium term.

## Recent developments

During the first half of 2025, Croatia's economic activity demonstrated continued expansion, with annual real GDP growth recorded at 3.2 percent for the first six months. This growth was primarily driven by robust domestic demand, which compensated for the negative impact of net exports. While private consumption initially declined amid retail chain boycotts, it subsequently rebounded, supported by increasing employment and a significant rise in wages and pensions. In contrast, although goods exports performed well early in the year, their growth decelerated markedly in the second quarter, due to global trade policy uncertainty and economic challenges among Croatia's main trading partners. Exports of services, following a marked reduction in 2024, remained subdued according to early third-quarter data on tourist arrivals, indicating the continuation of this trend. Meanwhile, imports of goods and services remained strong.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in the table on the next page.

Labor market conditions remained stringent, as unemployment rates declined to historic lows in conjunction with ongoing employment growth. Wage gains persisted, influenced by developments in the private sector and substantial public sector pay increases following reform implemented in 2024. These factors contributed to continued inflationary pressures, and the average inflation rate reached 4.5 percent in the first eight months—with a strong rise in prices of food and services. Wages and social benefits rose in early 2025, driving higher government spending and widening the general government deficit. Although revenue growth helped offset some of these costs, it was not sufficient to fully balance them. Even so, the deficit remained contained, and the public debt-to-GDP ratio continued to decline.

Wage gains have not been evenly shared as the at-risk-of-poverty rate for employees rose from 5.8 percent in 2023 to 6.5 percent in 2024. Poverty (\$8.3/day, 2021 Purchasing Power Parity [PPP]) declined modestly from 2.5 percent in 2022 to 2 percent in 2023, yet about one-fifth of Croatians remain at risk of poverty. Income inequality has inched up in recent years but remains below the EU average.

## Outlook

Croatia's economic outlook remains positive, with average growth projected to be around 3 percent annually for the 2025–2027 period. Domestic demand will continue to drive growth, but its pace is expected to slow gradually. In 2025, nominal wage growth has already begun to ease, a trend likely to continue as inflation declines and labor productivity gains remain modest. These factors should

support continued, albeit slower private consumption growth. Moreover, with the completion of investments financed through the Recovery and Resilience Facility in 2026, capital investment growth is forecasted to slow. The reduced contribution from domestic demand will be largely counterbalanced by the expected strengthening of external demand, driven by continued economic recovery in major EU economies, which should bolster exports of goods and services. However, net exports is projected to weigh on overall growth. Inflation is expected to remain elevated in 2025 before converging towards the European Central Bank's (ECB) 2 percent target in subsequent years.

The budget deficit is projected to reach 2.5 percent of GDP in 2025, then decline, to around 2 percent of GDP in 2026 and 2027, as the effects of wage and social benefit increases fade and expenditure growth slows. Although the primary balance will remain negative, robust nominal GDP growth is anticipated to support a continued reduction in the public debt-to-GDP ratio, which is expected to fall below 55 percent by 2027.

Risks to the projected GDP growth are slightly negative, reflecting potentially weaker external demand than currently expected due to higher United States tariffs on EU products and subdued tourism sector activity driven by challenges related to price competitiveness.

Poverty is projected to decline marginally to 1.9 percent by 2026 and then to 1.6 percent in 2027. Slowing wage growth, limited productivity gains, and stagnant non-wage incomes risk reducing real household earnings, widening gaps between groups and increasing inequality.

## Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	7.3	3.3	3.9	3.1	2.9	2.7
Private consumption	6.9	3.0	5.6	3.5	2.7	2.5
Government consumption	2.2	7.1	7.0	3.3	2.9	2.5
Gross fixed capital investment	10.4	10.1	9.9	5.9	4.7	3.2
Exports, goods and services	27.0	-2.9	0.9	1.7	2.3	2.4
Imports, goods and services	26.5	-5.3	5.3	3.7	3.0	2.5
<b>Real GDP growth, at constant factor prices</b>	8.4	3.5	3.6	3.2	2.9	2.7
Agriculture	1.3	2.0	0.4	0.8	0.8	0.7
Industry	5.9	0.6	2.1	2.0	2.0	1.6
Services	9.6	4.5	4.2	3.6	3.3	3.2
<b>Employment rate (% of working-age population, 15 years+)</b>	49.0	49.1	49.4	49.7	49.8	49.9
<b>Inflation (consumer price index)</b>	10.7	8.4	4.0	4.1	2.7	2.2
<b>Current account balance (% of GDP)</b>	-3.5	0.4	-1.2	-1.5	-1.4	-1.3
<b>Net foreign direct investment inflow (% of GDP)</b>	6.1	2.3	2.0	1.5	1.5	1.5
<b>Fiscal balance (% of GDP)</b>	0.1	-0.8	-2.4	-2.5	-2.0	-1.9
<b>Revenues (% of GDP)</b>	45.1	46.0	45.6	46.0	46.2	45.4
<b>Debt (% of GDP)</b>	68.5	61.8	57.6	56.8	55.5	54.5
<b>Primary balance (% of GDP)</b>	1.3	0.5	-1.3	-1.5	-0.9	-0.9
<b>International poverty rate (\$3.00 in 2021 PPP)<sup>1,2</sup></b>	0.4	0.3	0.3	0.3	0.2	0.2
<b>Lower middle-income poverty rate (\$4.20 in 2021 PPP)<sup>1,2</sup></b>	0.6	0.6	0.6	0.5	0.5	0.5
<b>Upper middle-income poverty rate (\$8.30 in 2021 PPP)<sup>1,2</sup></b>	2.4	2.0	2.0	1.9	1.8	1.7
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	1.4	-1.9	1.0	0.8	0.3	-0.3

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on ECAPOV harmonization, using 2024-EU-SILC. Actual data: 2023. Nowcast: 2024. Forecasts are from 2025 to 2027.

2/ Projection using neutral distribution (2023) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.