

Economics in Brief



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Welcome, Croatia!

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On 1st July 2013 Croatia became the 28th member of the European Union. This shows that in spite of the economic problems in some of its member states the EU has retained its appeal, and becoming a member remains a goal worth pursuing.

Needless to say, Croatia's economic challenges are far from over just because it has joined the EU and made the required reforms, but its level of economic development is below that of other new members. A country of 4.4 million inhabitants, its economic situation is compared with that of new members of similar size from the enlargements of 2004 and 2007 at the time of their accession: Bulgaria (7.3 million), Latvia (2 million), Slovakia (5.4 million) and Slovenia (2 million).

The three latter countries are now euro countries or ready for its introduction, so they represent a benchmark against which a new member state should measure itself. In addition, Slovenia has a similar Yugoslavian past. A comparison with long-standing EU members at the time of their accession is inappropriate because the current accession procedure was not introduced until 1993.

Same level of development, lower economic performance

Croatia is joining in a clearly less favourable economic situation than the states in the 2004 and 2007 accession waves. The country has been in a recession as a consequence of the financial crisis since 2008. But Croatia's level of development is already comparatively high:

- Per capita GDP is 55 % of per capita GDP of the EU-15 (EU prior to the 2004 enlargement). Only Slovenia's share was higher (see figure).

- Croatia's current account is almost balanced; its deficit was -0.5 % of GDP on average over the last three years. This is significantly better than in most other states (SL: 0.1 %, SK: -7.4 %, LV: -7.5 %, BL: -11.9 %).

- The unemployment rate is higher than in the other states, at 15.3 %, with the exception of Slovakia (17.7 %).

- Partly due to the crisis, public finances are in significantly worse shape (public debt 53.7 %, deficit 3.8 % in 2012) than in the other states, but better than in the Eurozone overall.

- The share of the population with less than 40 % of median income available (the so-called at-risk-of-poverty rate) in 2011 was higher in Bulgaria and Latvia than in Croatia (8.9 %) and significantly lower in Slovenia and Slovakia.

- Croatia ranks 84th in the World Bank's current Doing Business Report – mainly because of the indicators "Protecting Investors" and "Dealing with Construction

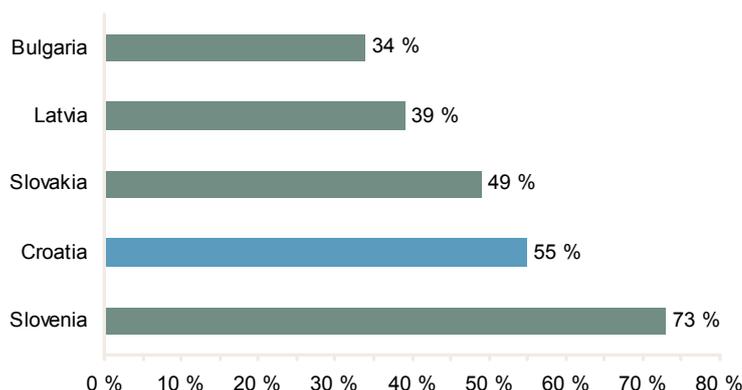
Permits". Bulgaria ranks 66th, the other countries rank higher.

Structural reforms urgently needed

Croatia must still overcome a number of major structural challenges. These include continuing the reform of the justice system, fighting corruption, privatising public enterprises, simplifying the tax system and streamlining and improving the efficiency of public administration. Some diversification away from tourism (revenues from foreign tourists amounted to 16 % of GDP in 2012) would also be desirable. Many of these reforms are in progress, also because initiating them was a requirement for EU accession.

With Croatia the European Union is gaining a new member which still has homework to do in many areas, but is on a higher level of development than some earlier accession countries. The anticipated economic recovery of the Eurozone will make it easier to implement the pending reforms because Croatia will then grow faster as well. Thus Croatia is well equipped to become a successful EU member state. ■

Figure: Per capita GDP (in purchasing power standards) in percent of per capita GDP of the EU-15 each in the year prior to EU accession (exception: Croatia 2011)



Source: Eurostat, own calculations