INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/329

# REPUBLIC OF CROATIA

December 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Croatia, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis following discussions that ended on November 4, 2025, with the officials of the Republic of Croatia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 20, 2025.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
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PRESS RELEASE

PR 25/417

# IMF Executive Board Concludes 2025 Article IV Consultation with Republic of Croatia

**FOR IMMEDIATE RELEASE**

- The Croatian economy has performed well, driven by domestic demand, but imbalances are emerging which need to be curtailed

- Real GDP growth is expected to moderate slightly in the near term amid a weak external environment and elevated global uncertainty, with inflation moving toward the ECB's target in late 2026 or early 2027.

- Policies need to address the emerging imbalances early on and safeguard stability, build buffers, and improve productivity.

**Washington, DC – December 11, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the 2025 Article IV consultation for Republic of Croatia,[1] considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2] The authorities have consented to the publication of the Staff Report prepared for this consultation.

The economy has continued to grow rapidly, still among the highest in the euro area, but imbalances are emerging. The increases in fiscal deficit driven by spending during strong economic growth have exacerbated demand pressures, contributing to higher inflation and current account deficits. Credit growth has been rapid and housing prices have increased strongly. Against a weak external environment and elevated global uncertainty, staff projects growth to moderate to a still solid pace of around 3 percent in 2025–26 with inflation moving toward the ECB's target in late 2026 or early 2027. The current account deficit is expected to widen in the short run before improving while the fiscal deficit is projected to average marginally below 3 percent of GDP during the projection horizon.

Risks to growth are broadly balanced while risks to inflation are tilted to the upside. Growth would be weaker if external demand, particularly in the tourism sector, were to weaken considerably, including because of worsening geopolitical or trade tensions, or lower growth of major trading partners. Global shocks could also result in higher inflation, notably through energy and food prices. Domestically, there is a risk of protracted overheating, as continuation of accommodative fiscal policy and higher-than-expected wage and credit growth could fuel

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

domestic demand and stall disinflation. On the upside, faster implementation of reforms could ease supply side constraints, raising actual and potential growth.

**Executive Board Assessment**

**The economy has continued to grow strongly but imbalances are emerging, which need to be curtailed.** The procyclical fiscal policy driven by expenditure has exacerbated aggregate demand pressures, contributing to higher inflation and worsening the current account. The external position in 2024 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies. Against a weak external environment and elevated global uncertainty, growth is projected to moderate to a still solid level of about 3 percent in 2025–26, supported by private consumption and EU-funded investment. Inflation is projected to move towards the ECB's target in late 2026 or early 2027 and the current account deficit is expected to widen in the short run before improving. Risks to the growth outlook are broadly balanced while risks to inflation are tilted to the upside.

**Stronger and faster fiscal consolidation is key to dampening domestic demand pressures and reducing inflation, thereby addressing the emerging imbalances early on.** It is also essential for strengthening the country's competitiveness and building buffers against future shocks and large spending needs. In the short term, restraint in public salary growth, improving VAT compliance, ending the remaining cost of living support measures, and strengthening fiscal discipline at local government units can underpin the consolidation. Over the medium term, there is considerable scope to broaden the tax base and improve the tax system, notably through reviewing and rationalizing VAT exemptions and reduced rates and moving to value-based taxation on property. On expenditure, measures should focus on (i) reducing the high wage bill building on a review of public sector employment; (ii) improving the efficiency of spending, notably healthcare and education spending, and better targeting social spending; and (iii) ensuring pension sustainability, notably by extending the effective retirement age. The authorities should continue to strengthen corporate governance of SOEs and enhance public investment management.

**Heightened risks call for continued vigilance and close monitoring to preserve financial stability.** Cyclical systemic risks have risen but remain moderate and manageable, as the banking system remains highly profitable, well capitalized, and highly liquid. Stress tests suggest that it would remain overall resilient under adverse scenarios. Further vigilance remains nonetheless warranted given the buildup of vulnerabilities and risks, particularly in the housing sector, as well as structural risks including relatively high sovereign-bank nexus and concentration of corporate loans. The authorities appropriately tightened macroprudential policy through capital and borrower-based measures. As macro-financial conditions evolve, they should continue to monitor the macroprudential stance and adjust if warranted. In particular, tightening of the BBMs might be needed in case cyclical risks persist. Given the high share of cash-financed property acquisition and foreign demand, complementary measures to boost housing supply and reduce speculative demand, notably through strengthening taxation on property and short-term rental income, are highly recommended.

**Fostering potential growth in the context of population aging, labor shortages and skill mismatches, as well as subdued productivity, calls for healthcare and education reforms to boost human capital without increasing costs.** Healthcare reform needs to reduce geographical inequality in healthcare access, promote prevention and healthy living, review the central role of hospitals in the system, and improve the use and distribution of pharmaceuticals. Education reform should aim at reducing skills mismatches, complemented by measures to increase participation in adult learning. Better integration of foreign labor would magnify its role in supporting growth and welfare.

## Croatia: Selected Economic Indicators, 2020–30

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Projections* | | | | | |
| **Output, unemployment, and prices** | *(Percent change, annual average, unless otherwise indicated)* | | | | | | | | | | |
| Real GDP growth | -8.3 | 12.6 | 7.3 | 3.8 | 3.8 | 3.1 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 |
| Contributions: | | | | | | | | | | | |
| Domestic demand | -2.9 | 7.5 | 7.9 | 2.0 | 7.4 | 5.3 | 3.2 | 2.9 | 2.9 | 2.9 | 2.9 |
| Net exports | -5.4 | 5.1 | -0.6 | 1.7 | -3.6 | -2.2 | -0.5 | -0.2 | -0.3 | -0.4 | -0.4 |
| Unemployment rate | 9.0 | 8.1 | 6.8 | 6.2 | 5.3 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| HICP inflation (avg.) | 0.0 | 2.7 | 10.7 | 8.4 | 4.0 | 4.4 | 2.8 | 2.5 | 2.5 | 2.5 | 2.5 |
| **Saving and investment** | *(Percent of GDP)* | | | | | | | | | | |
| Domestic investment | 23.5 | 21.8 | 26.2 | 24.7 | 24.4 | 25.1 | 24.7 | 24.7 | 24.9 | 24.9 | 25.0 |
| Domestic saving | 21.6 | 22.1 | 22.7 | 24.8 | 22.2 | 22.3 | 21.5 | 21.9 | 22.6 | 23.1 | 24.0 |
| Government | -1.9 | 1.9 | 5.0 | 4.5 | 4.0 | 3.5 | 3.2 | 2.6 | 2.4 | 2.3 | 2.3 |
| Nongovernment | 23.5 | 20.2 | 17.7 | 20.2 | 18.2 | 18.8 | 18.3 | 19.3 | 20.2 | 20.8 | 21.7 |
| **Government sector (ESA 2010 definition)** | | | | | | | | | | | |
| General government revenue | 46.5 | 45.6 | 45.2 | 45.5 | 46.1 | 47.2 | 48.0 | 47.1 | 46.6 | 46.5 | 46.6 |
| General government expenditure | 53.8 | 48.2 | 45.0 | 46.3 | 48.0 | 50.2 | 50.9 | 50.0 | 49.4 | 49.1 | 49.1 |
| General government balance | -7.2 | -2.6 | 0.1 | -0.8 | -1.9 | -2.9 | -2.9 | -2.9 | -2.8 | -2.6 | -2.5 |
| Structural balance [1/] | -5.7 | -3.2 | -1.1 | -1.8 | -3.0 | -3.7 | -3.5 | -3.2 | -2.9 | -2.7 | -2.5 |
| Structural primary balance [1/] | -3.8 | -1.9 | 0.1 | -0.5 | -2.0 | -2.8 | -2.4 | -2.1 | -1.9 | -1.7 | -1.5 |
| Structural primary balance excl. net EU grants [1/] | -7.2 | -5.5 | -2.8 | -4.3 | -4.4 | -5.2 | -5.2 | -4.4 | -3.9 | -3.5 | -3.5 |
| General government debt [2/] | 86.5 | 78.2 | 68.5 | 60.9 | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 |
| **Balance of payments** | *(Percent of GDP)* | | | | | | | | | | |
| Current account balance | -1.9 | 0.3 | -3.6 | 0.1 | -2.2 | -2.8 | -3.2 | -2.8 | -2.3 | -1.8 | -1.0 |
| Capital account | 2.1 | 2.4 | 2.5 | 2.8 | 1.4 | 2.2 | 2.3 | 2.1 | 1.4 | 1.2 | 1.0 |
| Financial account | -0.1 | -1.6 | 2.3 | -5.1 | 0.2 | 0.7 | 0.9 | 0.7 | 0.9 | 0.6 | 0.0 |
| **Debt and reserves** | | | | | | | | | | | |
| Gross official reserves (*billions of euros*) | 18.9 | 25.0 | 27.9 | 2.9 | 3.2 | … | … | … | … | … | … |
| In months of imports in goods and services (*based on next year level*) | 9.3 | 9.8 | 7.5 | 0.8 | 0.8 | … | … | … | … | … | … |
| Total external debt (*percent of GDP*) [3/] | 81.3 | 81.1 | 73.8 | 76.9 | 66.4 | 63.1 | 60.7 | 58.3 | 56.6 | 54.9 | 53.2 |
| Total external debt excl. CNB share (percent of GDP) | 79.6 | 75.0 | 67.5 | 55.7 | 56.9 | 54.3 | 52.3 | 50.3 | 48.9 | 47.6 | 46.2 |
| **Money and credit** | *(End of period unless otherwise indicated, change in percent)* | | | | | | | | | | |
| Broad money (*M3*) | 11.5 | 15.0 | 10.7 | 21.3 | 4.5 | … | … | … | … | … | … |
| Claims on other domestic sectors [4/] | 3.3 | 2.6 | 10.0 | 7.7 | 9.1 | … | … | … | … | … | … |
| **Interest rates** | | | | | | | | | | | |
| 12-month average T-bill rate (*in kuna until 2023, then euros*) | 0.1 | 0.0 | 0.1 | 3.1 | 3.5 | … | … | … | … | … | … |
| 10-year government bond yield | 0.6 | 0.1 | 2.8 | 3.7 | 4.0 | … | … | … | … | … | … |
| **Exchange rate** | | | | | | | | | | | |
| Real effective exchange rate (*percent, "-" = appreciation*) | -0.8 | 0.7 | 0.8 | 3.1 | 0.5 | … | … | … | … | … | … |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (*billions of euros*) | 50.7 | 58.3 | 67.6 | 79.2 | 85.9 | 92.2 | 97.5 | 102.3 | 107.3 | 112.3 | 117.6 |

Sources: Croatian authorities; and IMF staff estimates. Unemployment rate is from Croatian Bureau of Statistics and Haver Analytics.

1/ Based on a simplified approach to the cyclically-adjusted balance, in percent of potential GDP. Includes the one-offs related to the COVID-19 package in 2020-2021 and the energy crisis in 2022-2024.

2/ Gross debt as defined by the EU under the Maastricht Treaty.

3/ With the entry of Rep. of Croatia into the euro area in January 2023, there was an increase in gross foreign debt for the amount of liabilities related to the distribution of euro banknotes within the Eurosystem.

4/ Comprises claims on households and non-financial corporations.

INTERNATIONAL MONETARY FUND

# REPUBLIC OF CROATIA

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

November 20, 2025

## KEY ISSUES

**Context and outlook.** Croatia has continued to grow rapidly, still among the highest in the euro area, but imbalances are emerging. Procyclical fiscal policy driven by rising spending has exacerbated demand pressures, contributing to higher inflation and current account deficit. Credit growth has been rapid and housing prices have risen strongly. Against a weak external environment and elevated global uncertainty, staff projects growth to moderate to a still solid pace of around 3 percent in 2025–26, with inflation moving toward the ECB's target in late 2026 or early 2027. The current account deficit is expected to widen in the short run before improving over the medium term while the fiscal deficit is projected to average marginally below 3 percent of GDP during 2025–30. Risks to growth are broadly balanced while risks to inflation are tilted to the upside.

**Fiscal policy.** Stronger and faster fiscal consolidation is key to dampening domestic demand and reducing inflation, thereby addressing the emerging imbalances early on. It is also essential for strengthening competitiveness and building buffers against future shocks and rising spending needs. There is scope to strengthen tax collection, broaden the tax base, and further rebalance the tax system. Expenditure measures should focus on (i) reducing the wage bill, starting with a review of public sector employment and restrained salary growth; (ii) improving spending efficiency notably in education and healthcare while safeguarding public investment and better targeting social spending; and (iii) ensuring pension sustainability, notably by extending the effective retirement age. Efforts need to continue to strengthen corporate governance of SOEs and public investment management.

**Financial policy.** Albeit still moderate, cyclical systemic risks have risen. Asset quality has improved amid a robust economy, but further vigilance is warranted given the buildup of vulnerabilities and risks, particularly in the housing sector, as well as structural risks. Despite somewhat declining profits, banks would remain overall resilient under adverse scenarios. The authorities appropriately tightened macroprudential policy through capital and borrower-based measures. Further adjustment of the macroprudential policy stance may be warranted as macro-financial conditions evolve. In particular, tightening of the borrower-based measures might be needed in case cyclical risks persist.

**Structural policies.** Investing in human capital and skills is critical to addressing subdued productivity and aging. Healthcare reform needs to reduce geographical inequality in healthcare access, promote prevention and healthy living, review the central role of hospitals in the system, and improve the use and distribution of pharmaceuticals. Education reforms should reduce skills mismatches, complemented by measures to increase participation in adult learning. Better integration of foreign labor would magnify its role in supporting growth and welfare.

Approved By
**Uma Ramakrishnan (EUR) and Geremia Palomba (SPR)**

Discussions were held in Zagreb during October 22–November 4, 2025. The team comprised Mses. Y. Sun (head) and M. Comunale, and Messrs. J.J. Hallaert and T. Jardak (all EUR). Mses. E. Cohn Bech, N. Gonzales, and E. Park (all EUR) assisted in the preparation of the report. Messrs. Clicq and Sušić (OED) attended some meetings. The mission met with Minister of Finance Mr. Primorac, the Deputy Governor of the Croatian National Bank Ms. Švaljek, officials from key ministries, private sector representatives, and trade unions.

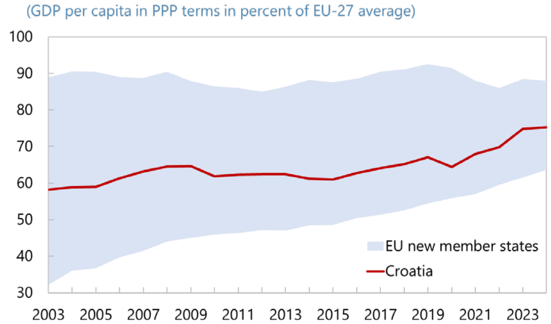
# CONTENTS

**ANNEXES**

# CONTEXT

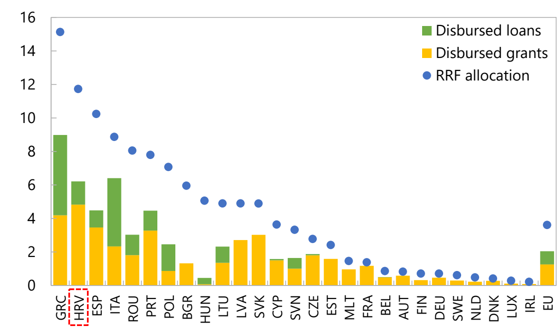
1. **Rapid growth has accelerated Croatia's income convergence to advanced Europe in recent years, but there are emerging imbalances since 2024 while structural challenges remain.** Supported by tourism, strong real income growth, rapid implementation of the reforms and investments of the National Recovery and Resilience Plan (NRRP), and the euro adoption in January 2023, growth has been robust post-pandemic, resulting in an accelerated income convergence. FATF removed Croatia from its grey list in June 2025. However, since 2024 disinflation has slowed and inflation is among the highest in the euro area, the current account has shifted to a deficit, competitiveness indicators have worsened, credit growth has been rapid, and the fiscal deficit has grown, though public debt has fallen below 60 percent of GDP. Additionally, Croatia continues to contend with subdued productivity, labor shortages and skill mismatches, and green and digital transitions. Against a global environment of elevated uncertainty and structural shifts, policies need to address the emerging imbalances early on and safeguard macroeconomic and financial stability, build resilience and buffers, and improve productivity.

**Income Convergence Has Picked Up in Recent Years**
(GDP per capita in PPP terms in percent of EU-27 average)



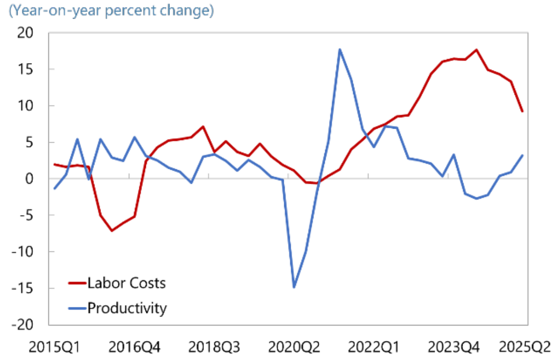

Sources: World Development Indicators; and IMF staff calculations.
Note: EU new member states excluding Croatia are: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.

**RRF Allocated and Disbursed Funds**
(Percent of GDP)



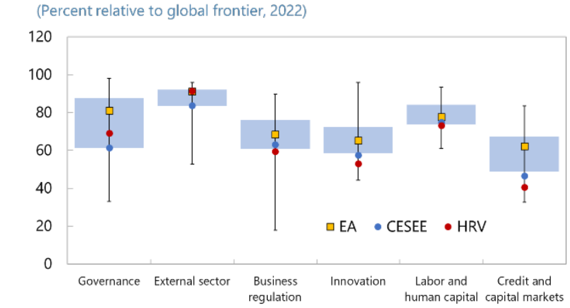

Sources: European Commission; AMECO database; and IMF staff calculations.
Note: Disbursed funds as of late-October 2025. Values against 2024 GDP from AMECO database.

**Labor Costs and Productivity**
(Year-on-year percent change)




Sources: Haver Analytics; and IMF staff calculations.

**Distance to Frontier in Selected Structural Policy Areas**
(Percent relative to global frontier, 2022)



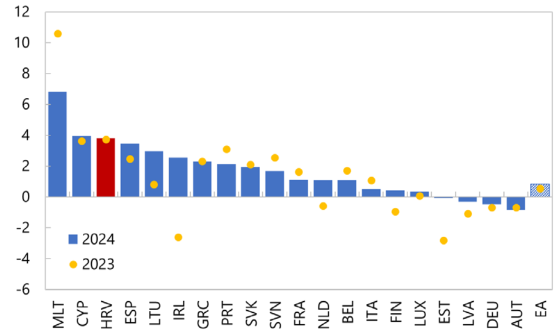

Sources: Budina et al. (2025) and IMF staff calculations.
Note: The frontier is defined as the average of top 2 of European countries and USA. Frontier=100. Regional numbers are simple average. The whiskers represent the range between min/max, while the bars indicate the 25/75th quartiles.

# RECENT DEVELOPMENTS

**2. The economy has been resilient.** Growth accelerated to 3.8 percent in 2024 as strong wage growth and moderating inflation supported real consumption and EU funds boosted investment (Figure 1). It slowed slightly to 3.4 percent annualized in 2025H1 amid rising global uncertainty and continued to be driven by domestic demand. The direct impact of the US tariffs has been limited, as the US accounts for just 2½ percent of Croatia's goods exports. In Q3 tourist arrivals stabilized y/y while other high-frequency data pointed to some softening of activity.

**Real GDP Growth Comparison**

(Year-on-year percent change)

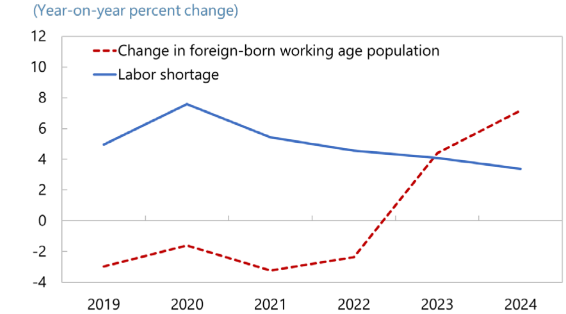



Sources: Eurostat; and Haver Analytics.

**3. Although still tight, the labor market has shown signs of cooling, and wage pressures have started to ease following the rapid wage growth in 2024.** Unemployment inched up from historical lows to about 4.6 percent while employment stabilized near an all-time high at 68.5 percent in 2025Q2 (Figure 2). Job vacancies decreased sharply by almost 9 percent y/y in 2025Q1:Q3, following an annual increase of 1.3 percent in 2024. The unmet demand for labor reflects skills mismatches and an aging population, only partially eased by inflows of migrants. The public sector's real wages increased more than private sector real wages (about 19 percent on average compared to 7½ percent), driving the overall wage growth in 2024. Wage pressures appear to have tapered so far in 2025, with public wage growth normalizing and private sector wages growing at a steady pace.

**Labor Shortage and Foreign-Born Population**

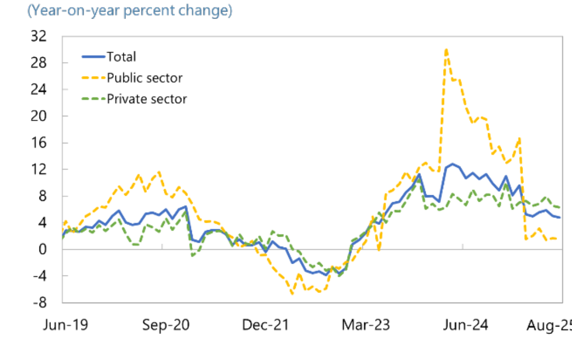
(Year-on-year percent change)




Sources: Croatian Employment Service; Eurostat; and IMF staff calculations.
Note: Labor shortage is defined as the ratio of unemployed workers to job openings. Foreign-born working age population is ages 15-64.

**Average Real Wage Growth**

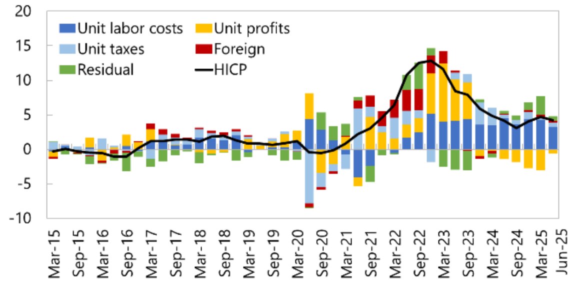
(Year-on-year percent change)




Sources: Croatian Bureau of Statistics; Eurostat; Haver Analytics; and IMF staff calculations.
Note: Public sector refers to public administration and defense, compulsory social security, education, and human health and social work activities. Using seasonally adjusted data.

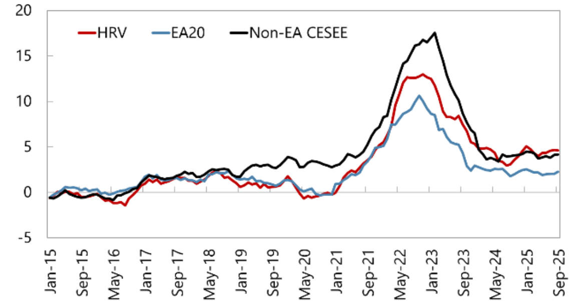
**4. Disinflation has slowed.** HICP inflation (4.6 percent y/y in September and 4 percent in October flash estimate) has edged higher from late 2024 and remains among the highest in the euro area, mainly driven by labor costs (Figure 3). Core inflation remains sticky, due to sustained services inflation (7½ percent y/y on average so far in 2025). Inflation expectations remain anchored.

**Decomposition of HICP**
(Year-on-year percent change)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: The private consumption deflator is decomposed into the GDP deflator, the import deflator ("Foreign"), and a residual via ordinary linear regression (R-square of 0.924). Then the GDP deflator is decomposed into unit labor cost (change of nominal compensation of employees in percent of real GDP), unit profits (change of nominal operating surplus and mixed income in percent of real GDP), and unit taxes.

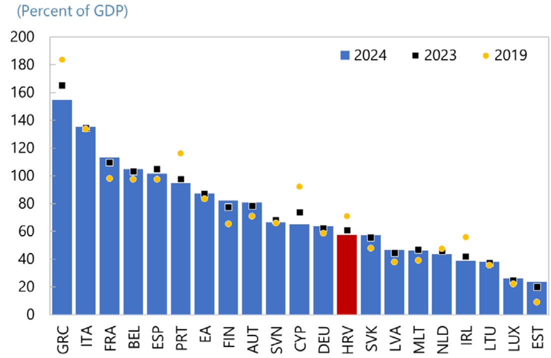
**HICP Inflation**
(Year-on-year percent change)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Non-EA CESEE countries include Czech Republic, Hungary, Poland, and Romania that have independent monetary policy.

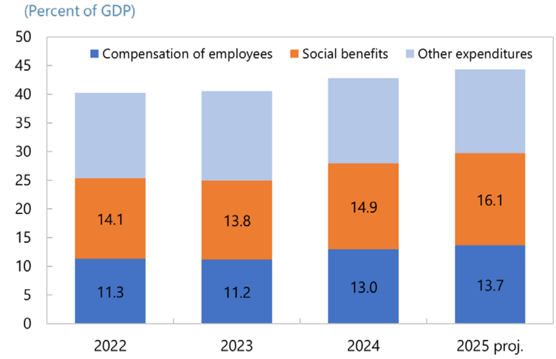
5. **Despite strong economic growth, fiscal deficits increased further in 2024–25.** The general government overall deficit widened from 0.8 percent of GDP in 2023 to 1.9 percent of GDP in 2024. Gross public debt fell below 60 percent of GDP, helped by strong nominal GDP growth. The main credit rating agencies raised Croatia's sovereign debt rating again in late 2024. A revised 2025 budget was adopted in October and increased the deficit to about 2.9 percent of GDP. The increase in the deficit during 2024–25 is explained by large increases in social benefits, wage bill, and investment that outpaced the increase in revenue (Figures 4 and 5).

**Public Debt**
(Percent of GDP)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.

**Fiscal Expenditures in Croatia**
(Percent of GDP)

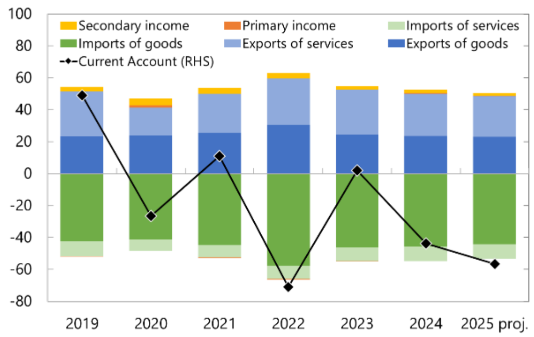



Sources: Croatian authorities; Haver Analytics; and IMF staff projections.

6. **The current account and competitiveness have worsened.** The current account shifted from a surplus of 0.1 percent of GDP in 2023 to a deficit of 2.2 percent of GDP in 2024. The competitiveness of the tourism sector has been hit by persistent services inflation. The decline in tourism exports as a share of GDP contributed to the decline in the services balance of 2.5 percent of GDP (Figure 6). Quarterly data in 2025 show some further current account deterioration, driven by a continued decline in the surplus of trade in services. Moreover, with wage increases outpacing productivity growth, unit labor costs rose faster than in euro area peers, undermining competitiveness.[1] The external position in 2024 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies (Annex II).

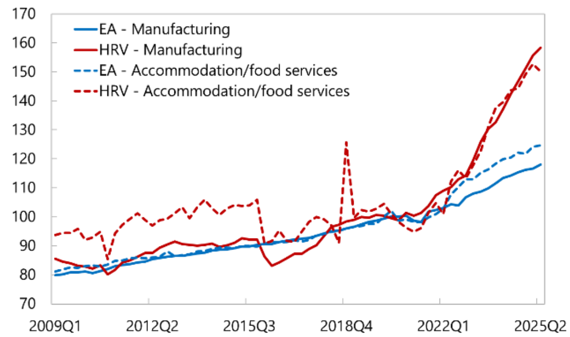
[1] The euro area absorbs about half of Croatia's exports of goods.

**Current Account**
(Percent of GDP)




Sources: Croatian authorities; Haver Analytics; and IMF staff projections.

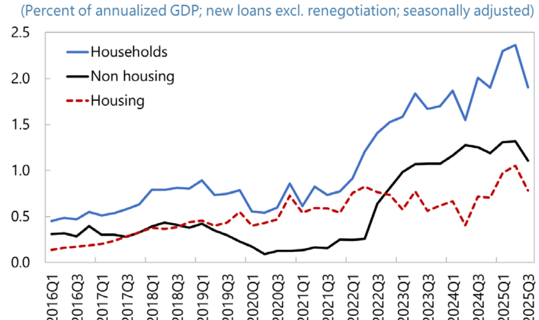
**Unit Labor Cost**
(Index 2020=100; seasonally and calendar adjusted; EA19)




Source: Eurostat.

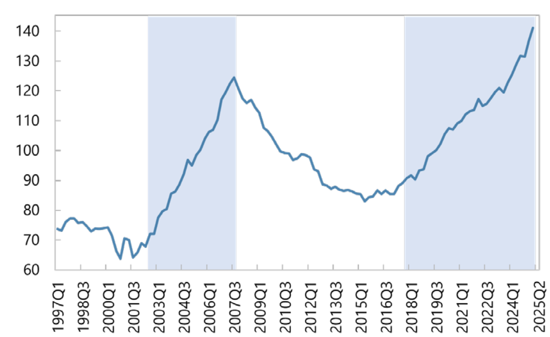
**7. Buoyant income growth, lower lending rates, and accommodative lending standards have underpinned robust credit and real estate price growth.** Deposit and lending rates fell following the ECB monetary easing, with a stronger pass-through for corporate loans. Lower remuneration of banks' excess liquidity has contributed to greater competition between banks and lenient lending criteria to households (e.g., lower margins, high DSTI, and long maturities). Household credit growth accelerated to about 14 percent y/y at end-September 2025, as higher borrowing capacity—reflecting robust income growth—and frontloading ahead of the implementation of borrower-based limits on July 1 boosted demand for loans (¶25). Credit to non-financial corporations (NFCs) also picked up (12.8 percent y/y at end-September 2025 versus 4.9 percent a year ago), driven by construction, real estate, and tourism. Credit intensity has risen well above historical averages, signaling emerging imbalances (Figures 7–9). House prices accelerated in real terms to 8.6 percent y/y in 2025Q2, while transactions volume regained momentum. Rising construction activity only partly offsets strong housing demand. While price-to-income ratio has declined, other indicators of house price misalignment suggest some overvaluation.[2] In the commercial real estate sector, limited supply and low vacancy rates have supported yields and prices.

**Credit Intensity**
(Percent of annualized GDP; new loans excl. renegotiation; seasonally adjusted)




Sources: Croatian National Bank; Haver Analytics; and IMF staff calculations.
Note: Data for 2025Q3 are based on IMF staff estimates.

**Residential Housing Price Cycle**
(Phases of the cycle, boom periods highlighted)



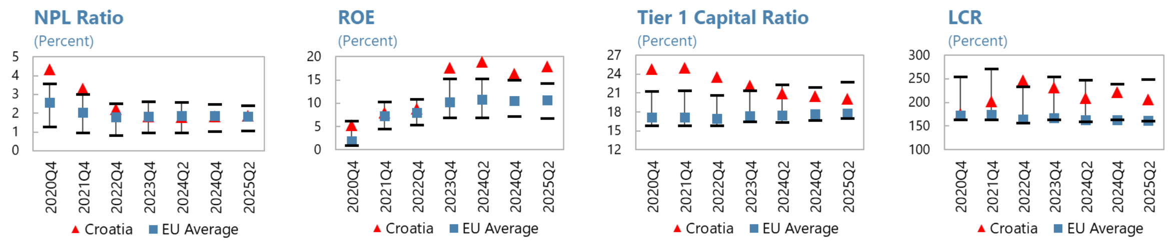
Sources: Albuquerque et al. (2025); and IMF staff calculations.

**8. Banking indicators remain strong, though profitability has somewhat declined from recent highs.** Asset quality continued improving, with the NPL ratio at 2½ percent and a drop in

[2] ECB's estimates show an increase of house price overvaluation, reaching 18 percent on average in 2025Q2.

stage 2 loans for the first time in years. However, NPL coverage has declined. Returns on equity dropped from their peak in mid-2024 but remained high as the increase in credit activity helped partially absorb the effect of falling interest rates and rising operating costs. The CET1 ratio declined for a third year (to 22¼ percent at end-2024), reflecting higher risk weights and large dividend payouts, though it remains well above capital requirements and the EU average. Liquidity remains ample, albeit down from prior peaks. The liquidity coverage ratio stood at 215.6 percent in 2025Q2, with excess liquidity estimated at around 13 percent of GDP.

**Selected Financial Soundness Indicators**




Source: EBA Risk Dashboard.
Note: Whiskers indicate the interquartile range.

# OUTLOOK AND RISKS

**9. Staff projects growth to moderate with gradual disinflation.** The strong post-pandemic growth is expected to moderate to a still solid pace of about 3.1 percent in 2025 and 2.7 percent in 2026. The direct impact of trade tensions is projected to be negligible in the baseline. Strong domestic demand supported by household real incomes, lower interest rates, and EU-funded investment would more than offset potential adverse effects from elevated global uncertainty and still subdued growth of trading partners as well as lower price competitiveness of Croatia's services sector. Over the medium term, growth would approach its potential of 2½ percent, as productivity-enhancing investment under the NRRP balances the drag from demographic headwinds. The fiscal deficit is projected to average marginally below 3 percent of GDP during 2026–30 (¶12). Inflation is projected to move toward the ECB's target of 2 percent in end 2026 or early 2027, as growth slows, wage pressures continue to moderate, the fiscal deficit stabilizes, and the recent euro appreciation and the Croatian National Bank's (CNB) borrower-based macroprudential measures help disinflation. The current account deficit will continue to widen in the short run before improving over the medium term as domestic demand growth eases.

**10. Risks to the growth outlook are broadly balanced while risks to inflation are tilted to the upside.** Downside risks are mostly external. Growth would be weaker if external demand, particularly in the tourism sector, were to weaken, including because of worsening geopolitical or trade tensions, or lower growth of major trading partners. Global shocks could also result in higher inflation, notably through energy and food prices. In a downside scenario (calibrated to the October 2025 WEO, Box 1.2, Scenario A), indirect spillovers through tariffs and expectations under higher uncertainty could reduce real GDP by ½ percentage point on average relative to staff's baseline over the projection horizon. Domestically, there is a risk of protracted overheating, as continuation of accommodative fiscal policy and higher-than-expected wage and credit growth could fuel domestic demand, stall disinflation, and hurt competitiveness. On the upside, faster implementation of reforms could ease supply side constraints, raising actual and potential growth (Annex III).

***Authorities' Views***

**11. The authorities broadly shared staff's assessment of the outlook and risks.** They highlighted the resilience of the Croatian economy but agreed that imbalances in the economy are emerging. In the context of a weak external environment, the authorities expect growth to slow and disinflation to continue, pointing to signs of labor market cooling and normalization in wage growth as well as policy measures already taken and in the pipeline (¶12, ¶25). They recognized the risk of protracted overheating if fiscal policy were to remain expansionary. The authorities agreed with staff's external sector assessment, highlighting the worsening services sector competitiveness.

# POLICY DISCUSSIONS

*The consultation focused on policies to address the emerging imbalances and safeguard macroeconomic and financial stability, build buffers, and invest in human capital and skills for higher potential growth. Unwinding the emerging imbalances early on warrants stronger and faster fiscal consolidation that shields public investment, as the latter is key to dampening demand pressures and reducing inflation during the cyclical upswing. Continued vigilance is needed to limit vulnerabilities and risks in the financial system and real estate market. Boosting human capital and skills requires healthcare reform, reducing skills mismatches and enhancing adult learning, and better integration of foreign labor.*

## A. Addressing Emerging Imbalances and Building Fiscal Buffers

**12. Under current policies, it is unlikely for the authorities to reach their objective of a structural primary balance over the medium-term.** Taking into account the recently adopted 2026 budget and incorporating consolidation measures already in train (notably restoration of healthcare contribution rates for the young and an increase in excise on tobacco products), expiration of the remaining cost of living support, completion of earthquake reconstruction, and higher defense spending,[3] staff projects the general government deficit to remain slightly below 3 percent of GDP over the projection horizon. The estimated structural primary deficit shows a modest decline in 2026. However, taking account of the expected higher financing by EU grants, which is deficit neutral, staff estimates little withdrawal of fiscal stimulus in 2026. A moderate fiscal consolidation is projected to start from 2027. The debt-to-GDP ratio would increase slightly, approaching 60 percent by 2030. Croatia's sovereign stress risk is assessed to be moderate (Annex I), reflecting moderate medium-term and long-term risks.

[3] Croatia announced an increase in military spending of about 1 percent of GDP by 2030 and activated the national escape clause of the EU fiscal rules.

**13. Three consecutive years of expansion during strong economic growth have made fiscal policy procyclical.** The increase of the fiscal deficit was driven by rapid increases in social benefits (2.0 ppts of GDP) and wage bill (2.3 ppts of GDP) as well as public investment (1.2 ppts of GDP). Staff analysis finds that fiscal expansion, particularly public wage increases, has played a notable role in inflation since 2024.[4] Moreover, the rapid growth of permanent spending related to wages and social benefits has further worsened budget rigidity, leaving investment, which relies heavily on EU funding, vulnerable to cuts in the event of adverse shocks.

**Table 1. Croatia: Indicators of Fiscal Performance**

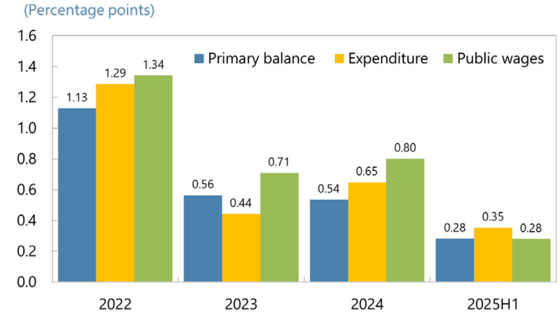
(Percent of GDP)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Level** | | | | | | | | | | | |
| Overall balance | -7.2 | -2.6 | 0.1 | -0.8 | -1.9 | -2.9 | -2.9 | -2.9 | -2.8 | -2.6 | -2.5 |
| Structural balance | -5.7 | -3.2 | -1.1 | -1.8 | -3.0 | -3.7 | -3.5 | -3.2 | -2.9 | -2.7 | -2.5 |
| Structural primary balance | -3.8 | -1.9 | 0.1 | -0.5 | -2.0 | -2.8 | -2.4 | -2.1 | -1.9 | -1.7 | -1.5 |
| Structural primary balance excl. net EU funds | -7.2 | -5.5 | -2.8 | -4.3 | -4.4 | -5.2 | -5.2 | -4.4 | -3.9 | -3.5 | -3.5 |
| Public Debt | 86.5 | 78.2 | 68.5 | 60.9 | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 |
| **Change** | | | | | | | | | | | |
| Overall balance | -9.6 | 4.7 | 2.7 | -0.9 | -1.2 | -1.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 |
| Structural balance | -7.9 | 2.5 | 2.1 | -0.7 | -1.2 | -0.8 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 |
| Structural primary balance | -8.0 | 1.9 | 2.0 | -0.6 | -1.5 | -0.8 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Structural primary balance excl. net EU funds | -9.1 | 1.7 | 2.6 | -1.5 | -0.1 | -0.7 | 0.0 | 0.8 | 0.5 | 0.4 | 0.0 |
| Public Debt | 15.6 | -8.3 | -9.7 | -7.6 | -3.6 | -0.5 | 0.4 | 0.8 | 0.6 | 0.5 | 0.3 |

Sources: Eurostat; and IMF staff calculations.

**Contribution of Fiscal Shocks to Headline HICP Inflation**

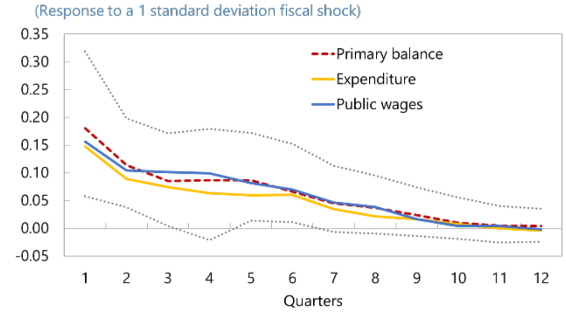
(Percentage points)




Sources: Haver Analytics; and IMF staff calculations based on Nguyen et al. (2023).
Note: Fiscal shock is expansionary, i.e, is a decrease in primary balance over GDP, an increase in public expenditure over GDP, or in public wage growth by 1 std. dev.

**Headline HICP Response to Fiscal Shocks**

(Response to a 1 standard deviation fiscal shock)




Sources: Haver Analytics; and IMF staff calculations based on Nguyen et al. (2023).
Note: 95 percent confidence intervals, dashed is for primary balance. Fiscal shock is expansionary, i.e., is a decrease in primary balance over GDP, an increase in public expenditure over GDP, or in public wage growth by 1 std. dev.

**14. Staff recommends an additional and faster consolidation of 1½ percent of GDP to reach a structural primary balance by 2030.** With monetary policy set at the euro area level and taking advantage of Croatia's current economic upswing, a stronger and expedited fiscal consolidation is key to dampening demand pressures and reducing inflation, thereby addressing the emerging imbalances early on. It is also essential for strengthening competitiveness by lowering unit labor costs and facilitating the adjustment of the external position, generating resources for investment as the importance of EU funding recedes, and building buffers against future shocks and mounting spending pressures related to defense, aging, and green and digital transitions.[5] This

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[4] See accompanying SIP: "Inflation in Croatia: The Role of Fiscal Policy."

[5] See 2023 SIP Energy Security And Climate Change: Challenges and Opportunities For Croatia.

would buttress fiscal credibility by ensuring that Croatia's hard-won reduction in the debt ratio will be sustained even when shocks hit. The consolidation should focus on current spending and tax revenue, and fiscal discipline at local government units should be enforced and strengthened to prevent deterioration in their financial position. Staff recommended reducing the general government deficit to about 2½ percent of GDP in 2026, mostly by strengthening VAT collection and restraining public salary growth.[6] Together with structural reforms, public investment should be preserved to mitigate the growth impact of consolidation and boost potential growth. If downside risks materialize, Croatia could accommodate the deterioration in fiscal deficits in the short run while implementing reforms to address fiscal vulnerabilities (¶15–16). Automatic stabilizers should be allowed to work fully while any discretionary support should be temporary and well targeted, leveraging the new household registry expected in 2026.

**Consolidation Options and Yields**
(Percent of GDP)

| | Total | For 2026 |
|---|---|---|
| Strengthen VAT compliance | 0.5 | 0.3 |
| Reduce VAT exemptions and review reduced rates | 0.5 | 0.1 |
| Enhance taxation on property and rental income | 0.3 | |
| Reduce public wage bill | 0.2 | |
| Enhance spending efficiency in education 1/ | 0.5 | |
| Enhance spending efficiency in healthcare | 0.5 | |

Source: IMF staff estimates.
1/ Most of the gain is expected in reduction of wage bill.

**15. There is significant scope to improve spending efficiency.**

- Already 2.8 percent of GDP higher than the EU average in 2024, **the wage bill** is expected to increase further to about 13¾ percent of GDP in 2025, reflecting the recent comprehensive public wage reform[7] and, to a lesser extent, an increase in employment, notably at the local government level. The authorities should conduct a review of public employment focusing on the healthcare and education sectors and strengthen actual or functional mergers of local government units.

- **Public spending on education and healthcare** each exceeds the EU average by about ½ percent of GDP. Reforms (¶27–30) could yield significant saving in the medium term: education spending could be reduced by up to 1 percent of GDP and health spending by up to 3½ percent of GDP, while achieving the same outcomes. Alternatively, reforms could aim at improving outcomes without increasing spending.[8]

- **Better targeting of social spending** will help limit spending growth while still supporting the most vulnerable.

[6] Staff estimates that an increase in tax revenue of 0.4 percent of GDP could reduce the HICP inflation by around 0.3 ppt on average in 2026.

[7] See Staff Report for the 2024 Article IV Consultation.

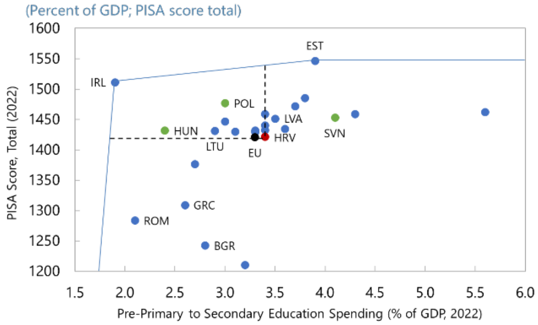
[8] See accompanying SIP "Improving Investment in Human Capital: Efficiency of Croatia's Public Spending on Education and Healthcare."

- **Efforts should continue to enhance public investment management,** through a more centralized framework for appraisal, processing, and monitoring of public investment projects.

## Efficiency of Education Spending

**PISA Score and Pre-Primary to Secondary Education Spending, 2022**

(Percent of GDP; PISA score total)




Sources: Eurostat; and OECD.

**Potential Efficiency Gains, 2022**

| If Croatia's education system was as efficient as | Fiscal saving (percent of GDP) |
|---|---|
| Hungary | 1.0 |
| Poland | 0.5 |
| EU | 0.1 |
| Slovenia | -0.6 |
| | **Increase in overall PISA Score (percent)** |
| Hungary | 43 |
| Poland | 18 |
| EU | 3 |
| Slovenia | -15 |

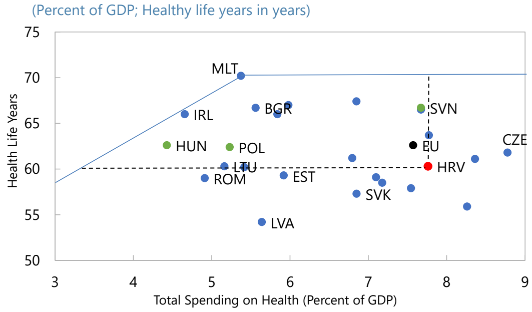
Sources: Eurostat; and OECD.

Note: Hungary, Poland, and Slovenia are used as comparators. All three countries are Newer Member States (NMS). Hungary and Poland have similar GDP per capita as Croatia and Slovenia is a neighboring country.

## Efficiency of Healthcare Spending

**Healthy Life Years and Healthcare Spending, 2022**

(Percent of GDP; Healthy life years in years)




Sources: Eurostat; OECD; and IMF staff calculations.
Note: Healthy Life Years measures the number of years that a person is expected to live without any severe or moderate health problems.

**Potential Efficiency Gains in Healthcare, 2022**

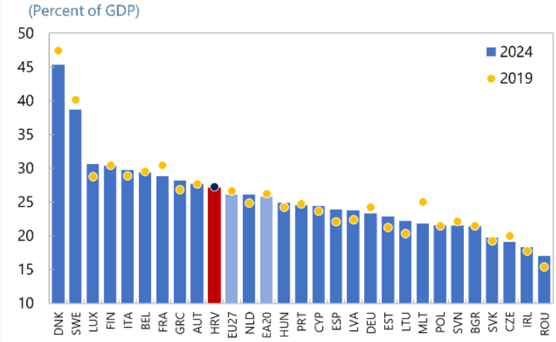
| If Croatia's healthcare system was as efficient as | Fiscal saving (ppt of GDP) |
|---|---|
| Hungary | 3.5 |
| Poland | 2.7 |
| Slovenia | 0.8 |
| EU | 0.5 |
| | **Increase in HLY (Years)** |
| Hungary | 49 |
| Poland | 32 |
| Slovenia | 7 |
| EU | 4 |

Sources: Eurostat, OECD, and IMF staff calculations.

16. **Notwithstanding the authorities' recent efforts, tax reforms are warranted to broaden the tax base and reduce distortions.** The authorities introduced in 2025 a superficies-based property tax on residential properties vacant or for short-term use, replacing the vacation home tax, and increased the lump sum tax on short-term rental income, which are steps in the right direction. Although Croatia's total tax revenue is slightly above the EU average, it remains below

**General Government Total Tax Receipts**

(Percent of GDP)




Source: Eurostat.
Note: Data for European Union, Euro Area, Hungary, Malta, Netherlands, and Poland is from 2023 due to availability.

pre-pandemic levels and there is room to improve the tax system and reduce distortions. In particular, VAT accounts for about half of the tax revenue but the efficiency of the system has been eroded considerably in recent years. Stronger compliance combined with a review of exemptions and reduced rates have the potential to broaden the tax base and enhance collection.[9] Staff reiterated the recommendation to move to value-based property taxation and align taxation on short-term rental income with that of other forms of income, which will also help reduce speculative housing investment. Finally, Croatia could consider introducing a carbon tax in parallel to the ETS and removing explicit and implicit subsidies on fossil fuels. This would help finance the green transition,[10] conditional on targeted support to the most vulnerable.

**Table 2. Croatia: VAT System Efficiency**
(Percent of VAT revenue) 1/

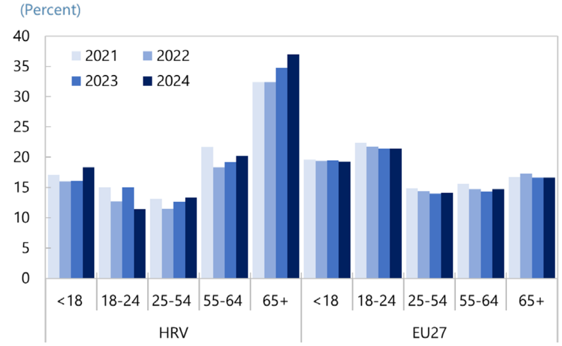
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Compliance gap | 8.0 | 1.2 | 11.3 | 12.3 | 13.7 |
| Actionable policy gap | 18.6 | 28.2 | 28.4 | 28.7 | 31.7 |

Source: IMF staff calculations based on VAT Gap in the EU: 2024 Report.

1/ VAT revenues can be lower than their potential due to compliance issues (compliance gap) and to policy choices to exempt certain goods and services from VAT or tax them at a reduced rate (actionable policy gap). Measures implemented from 2023 are expected to have reduced VAT efficiency further, for example, the reduced VAT rate on energy products and the VAT refund for home buyers under age 45.

**17. Decisive pension reforms are imperative to raise pension adequacy, improve intergenerational equity, and ensure sustainability of the system.** Pension adequacy has been gradually eroding and 37 percent of the elderly were at-risk-of-poverty in 2024. Croatia also has among the lowest working life duration (34.8 years) in the EU. A new Pension Insurance Law was adopted in 2025 to raise adequacy, including a change in the pension indexation formula and an annual pension supplement.[11] But in the absence of other reforms, it will further increase the public financing of a system already facing large deficits—the deficit of the pay-as-you-go (pillar 1) pension is projected to exceed 3½ percent of GDP in 2025. To achieve adequacy,

**At-Risk-of-Poverty Rate by Age Group**
(Percent)




Source: Eurostat.
Note: Cut-off point: 60% of median equivalised income after social transfers.

[9] VAT standard rate is 25 percent with reduced rates at 13, 5, and 0 percent.

[10] See Staff Report for the 2024 Article IV Consultation.

[11] The package also encourages retirees to work by allowing them to work full-time while receiving a half pension. It eliminates early retirement penalties when reaching the age of 70.

sustainability, and equity objectives, reforms should focus on narrowing the numerous early retirement options, raising the retirement age and linking it to life-expectancy, and increasing the minimum contribution years.[12]

**18. The authorities should continue to strengthen corporate governance of state-owned enterprises (SOEs).** SOEs constitute a significant source of fiscal risk. As part of the OECD accession process, Croatia has undertaken significant reforms. In July 2025, the Parliament adopted a new legal framework on SOEs governance introducing performances indicators and goals for management, regulating board composition, and providing framework for more active management by the state. Regulations for the implementation of the law need to be adopted soon and regular assessments and disclosure of fiscal risks stemming from SOEs need to be introduced.

***Authorities' Views***

**19. The authorities reaffirmed their commitment to fiscal prudence.** While acknowledging the pitfalls of injecting fiscal stimulus during strong growth, the Ministry of Finance explained that they had to increase public spending to accommodate investment and the government's policy to raise living standards through reforms of public wages and social benefits, particularly low pension adequacy. They highlighted that Croatia has fully complied with the EU fiscal rules, with rapid reduction in public debt to below 60 percent of GDP in 2024. The Ministry of Finance reaffirmed their commitment to fiscal sustainability, stressing that they will keep the headline deficit below 3 percent of GDP in the medium term and reduce the debt ratio to about 50–55 percent of GDP in the long run. Though recognizing that inflation remains a near-term challenge, the Ministry of Finance does not think fiscal policy is the only tool for reducing inflation.

**20. The Ministry of Finance also highlighted their efforts to strengthen fiscal policy.** They concurred that given increasing spending pressures, raising the efficiency of public spending is warranted. They have taken steps to initiate a review of public employment to contain wage bills. A household registry is expected to be completed by mid-2026, which will allow for better targeting of social benefits and support future implementation of value-based real estate taxation. They agreed with staff's recommendations to strengthen VAT compliance and requested Fund's TA to help analyze VAT compliance gaps as a first step.

## B. Bolstering Resilience of the Financial System

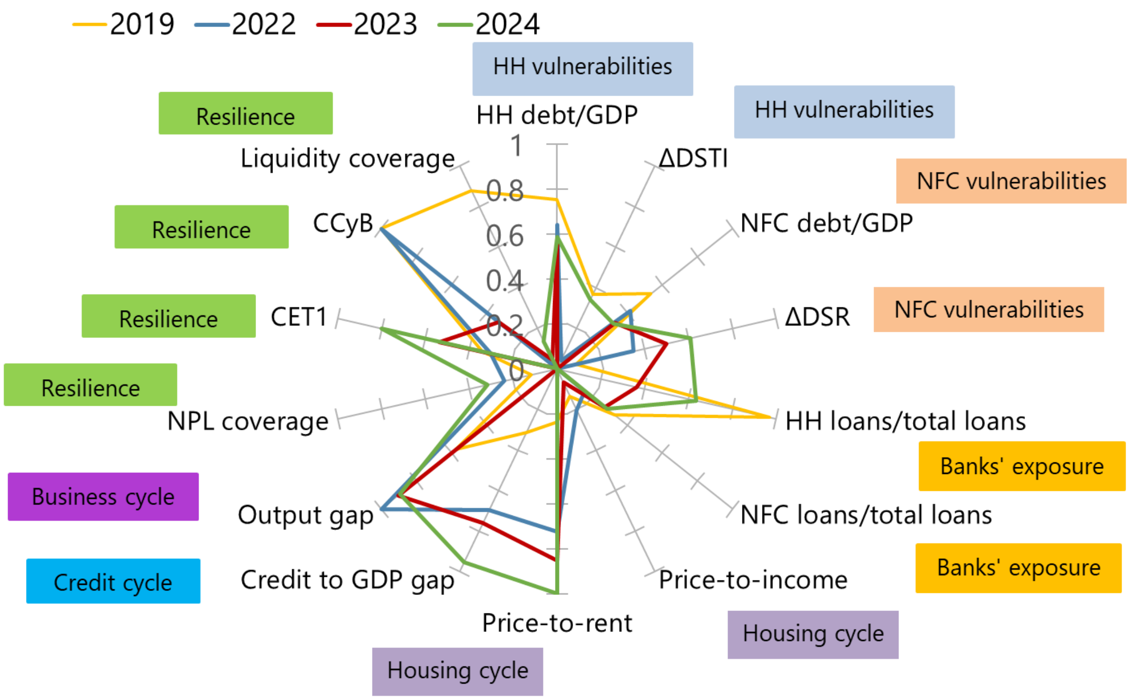
**21. Albeit still moderate, cyclical systemic risks have risen since the last consultation.** The large increases in real incomes combined with lower interest rates could further fuel the synchronized rapid increase in credit and house prices and heighten the risk of reversal in case of negative shocks, particularly in an environment of elevated global uncertainty. Moreover,

[12] See Report on the Analysis of the Long-Run Pension Adequacy and Sustainability in the Croatian Pension System, with the Focus on Policy Options for its Improvement (World Bank 2024).

competition among banks amidst lower interest rates and excess liquidity seems to have contributed to procyclical lending behavior and lenient lending criteria for new loans.

**Heatmap of Systemic Risk in Croatia**

(Indicator: 1 = high risk (low resilience); 0 = low risk (high resilience)




Sources: Croatian National Bank; Eurostat; OECD; and IMF staff calculations.
Note: The chart shows quantitative measures for systemic risk components (upper, right, bottom and bottom left), as well as resilience (left, upper left). Indicators are bucketed from 2000 (or latest) to allow for comparable weighting across indicators. This transformation normalizes the value of each indicator between 0 and 1, with low values signaling low risk (or high resilience) and high values showing high risk (or low resilience).

**22. Households and corporates resilience have strengthened in recent years, moderating credit risk in the near-term, but further vigilance remains warranted given downward risks.**

- *Households.* Large wage increases and lower unemployment have contributed to reduced household indebtedness, and the large share of the stock of loans at fixed rate or indexed to the national reference index has limited the impact of the monetary policy tightening cycle on debt servicing capacity. However, the high debt service-to-income (DSTI) on loans in recent years make borrowers vulnerable to income shocks.[13] Similarly, the high share of unsecured loans, typically contracted by lower income households, and the high share of mortgages with elevated loan-to-value (LTV) ratios expose banks to large impairment costs in case of defaults. Household assets

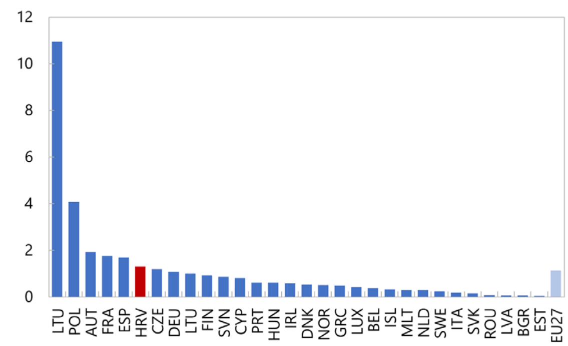
[13] On average, 47 percent of new housing loans granted since 2021 have a DSTI exceeding 40 percent and about one third have an LTV higher than 90 percent.

could only partially mitigate potential losses, as they are dominated by illiquid assets while more liquid assets (currency and deposits) are highly concentrated.[14]

- *Corporates*. Since the GFC, corporate debt-to-GDP has steadily declined before stabilizing in 2024. Robust domestic demand and tourism growth as well as inflation helped improve the financial position of NFCs and asset quality. However, the debt service ratio has recently increased, and the share of stage 2 loans remains high and concentrated. Elevated global uncertainty, exposure to input cost pressures, and concentration in cyclical sectors such as construction, manufacturing, and tourism may pose future risks. Corporate vulnerabilities should continue to be closely monitored, including by developing corporate stress tests and pursuing ongoing efforts to understand dynamics of intercompany loans.

**23. Banks also face structural vulnerabilities.** After record levels in 2023 and early 2024, profitability has declined, and this trend is likely to continue due to lower interest rates. Operational risks (including due to growing cybersecurity and climate risks), investment needs in digitalization as well as competition from traditional and digital banking/Fintech could weigh on profitability and capital going forward. With more than 19 percent of assets in direct exposures to general government (against 13 percent in the EU), the bank-sovereign nexus is relatively elevated, but risks are limited at this stage given Croatia's relatively low public debt level and high bank capital and liquidity. The swift implementation of the Digital Operational Resilience Act would be key to containing these risks and reducing potential losses.

**Total Losses due to Operational Risks, 2023**
(Percent of CET1)

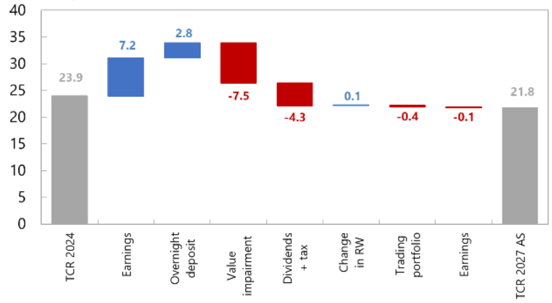



Source: EBA risk assessment report (November 2024).

**24. Banks would remain overall resilient under adverse scenarios.** CNB's recent solvency stress test shows that in the scenario of increasing geopolitical tensions leading to higher inflation and interest rates, recession and lower real estate prices, bank capital would remain above 21¾ percent with a capital depletion of about 2 percent of risk-weighted assets. However, 5 small banks (representing 2 percent of total assets) would need to use their combined capital buffers. Although banks remain highly liquid, it would be beneficial to develop stress tests that consider solvency-liquidity interaction.

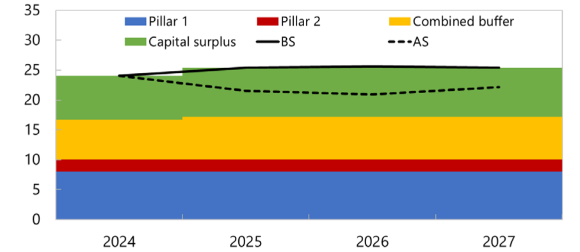
[14] Around 20 percent of debtors with the bulk of liabilities to banks own a very small share of total deposits.

**Decomposition of Change in the Capital Ratio in the Adverse Scenario**
(Percent)




Source: Croatian National Bank.
Note: TCR 2027 AS the total capital ratio under the adverse scenario.

**Capital Ratio Under Baseline and Adverse Scenario with Respect to Minimum Prudential Capital Requirements**
(Percent)

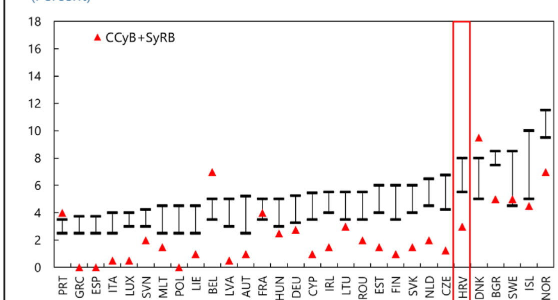



Source: Croatian National Bank.
Note: Pillar 1: minimum capital requirements (blue area); Pillar 2: own funds requirements appropriate to overall system average (red area); the combined buffer consists of SRB (yellow area); TCRBS: total capital ratio under the baseline scenario (black line); TCRAS: total capital ratio under the adverse scenario (black dashed line); Capital surplus in the baseline (green area).

**25. In response to the buildup of risks, the authorities appropriately tightened macroprudential policies in line with past article IV recommendations (Annex IV).**

- **Capital-based measures.** The counter-cyclical capital buffer (CCyB) was raised in June 2023 to 1.5 percent (effective June 2024) while the systemic risk buffer has been maintained at 1.5 percent. This raised the combined capital buffers to 8 percent and releasable buffers to 3 percent, one of the highest in Europe.[15] Recently, the CNB has announced a further increase of the CCyB to 2 percent effective in January 2027, which will strengthen the banking system's resilience and expand releasable buffers in the event of shocks.

**Combined Capital Buffers (CCoB+CCyB+max SII)+SyRB**
(Percent)




Sources: ESRB, macroprudential measures, March 2025.
Notes: CCoB - capital conservation buffer; OSII - other systemically important banks; SyRB -systemic risk buffer. Black whiskers indicate the upper and lower bounds of combined buffer requirement. SyRB buffers differ across countries in terms of coverage of exposures. Where a band is applied, the upper limit is used.

- **Borrower-based measures (BBMs).** In response to strong household credit growth, the CNB introduced explicit BBM limits, effective in July 2025. Key components include limits on the LTV ratio for loans secured by real estate (90 percent) and the DSTI ratio (40 and 45 percent, respectively for household non-housing and housing borrowing). An exemption of 20 percent for DSTI on housing loans and LTV (10 percent of DSTI on cash loans) has been granted as flexibility for banks. While the DSTI limit is broadly in line with the majority of European countries, the "speed limit" for DSTI is at the higher end of the distribution. The LTV limit is also aligned with the level applied in several countries and practice suggests greater differentiation by category of homebuyers (Box 1). Given the calibration of the BBMs, they will likely be more binding for cash loans than for housing loans. Going forward, as macro-financial conditions evolve, the authorities should continue to monitor the effectiveness of BBMs (e.g., controlling for potential leakages) and consider recalibrating them if warranted, including by reducing the exemptions and the LTV for buy-to-let and investment housing loans in case cyclical risks persist. Coordination with housing policy

[15] According to CNB estimates, the implementation of CRR3 has limited impacts on capital requirements, with banks not needing transitional arrangements.

measures is desirable. Specifically, measures to support demand should be carefully calibrated to avoid undermining the effects of macroprudential measures while actions to further boost supply are highly recommended.[16]

### Box 1. Borrower-Based Limits in Selected European Countries

| Country | DSTI Limit | DTI/LTI Limit | LTV Limit | Maturity Limit | Flexibility |
|---|---|---|---|---|---|
| **Austria** | 40% | _ | 90% | None | Up to 20% of loans exempted (for banks' total portfolio). |
| **Croatia** | 45% (housing loans), 40% (non-housing loans) | _ | 90% | 30 years | UP to 20% DSTI, LTV, maturity exceptions quarterly. Effective 1 Jul 2025. |
| **Czech Republic** | 45 % (50% if <36 yrs) | 8.5x income (9.5x if <36 yrs) | 80% (90% if <36 yrs) | _ | 5% of volume exempt per quarter. |
| **Estonia** | 50% | _ | 85% (90% with guarantee) | 30 years | 15% of new loans may breach DSTI. |
| **Finland** | 60% (stressed) | (4.5x LTI proposed, not adopted) | 85-90% | 25 years | 15% of loans may exceed DSTI or maturity limits. |
| **France** | 35% (stressed) | _ | _ | 25 years | 20% of new loans may exceed DSTI/maturity thresholds. |
| **Greece** | 50% for FTB; 40% for others (at origination DSTI-O) | _ | 90% for FTB; 80% for others (LTV-O) | _ | 10% quarterly exemptions. Applicable from 1 Jan 2025. |
| **Ireland** | _ | 4x income (3.5x for BTL) | 90% FTB, 80%SSB, 70% BTL | 25 years (for credit unions only) | LTI applies only to new residential mortgages. |
| **Portugal** | 50% (stressed) | _ | 90% | 40 years | 15% flexibility on DSTI. |
| **Slovakia** | 60% | _ | 90% | 30 years (effective cap via DSTI calc.) | 5% of new loans can exceed DSTI. |
| **Slovenia** | 50% | _ | 80-90 % (age-dependent) | _ | 10% of loans may exceed DSTI. |

Sources: ESB; and national central banks.

### *Authorities' Views*

**26. The authorities broadly concurred with staff's assessment of systemic risks and recommendations.** While agreeing that systemic risks have risen, they stressed that solid household and corporate financial positions as well as the banking system's large capital and liquidity buffers would cushion potential shocks. Moreover, the CNB pointed out that they have taken proactive measures, both capital- and borrower-based, to tackle rising systemic risks and strengthen the resilience of banks. Regarding the recently introduced explicit BBMs, the CNB noted that they are structural in nature and consider them adequate at this stage. That said, they remain prepared to take further action should the risk assessment change. They also highlighted that the effect of macro-prudential measures on inflation is indirect, with the primary objective being financial stability. Finally, the authorities pointed that only about ⅓ of house purchases are financed by bank

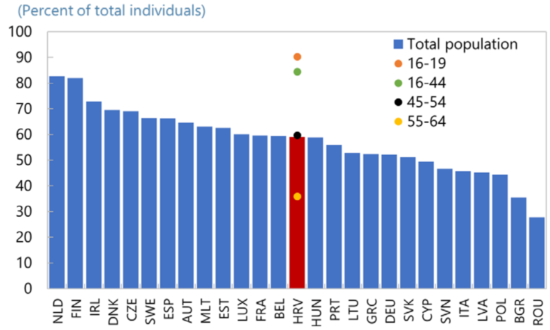
[16] See Selected Issues Paper 2024: Addressing housing affordability in Croatia.

loans and agreed that addressing real estate vulnerabilities and risks will also hinge on implementing policies to curb speculative demand and increase housing supply.

## C. Investing in Human Capital and Skills

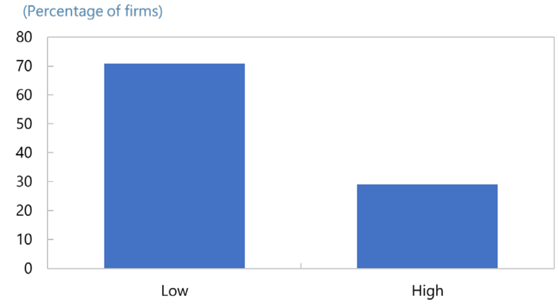
**27. Human capital and skills are critical to addressing Croatia's subdued productivity and adverse demographics.** The recent acceleration of income convergence with the EU was driven mostly by capital and labor accumulation while total factor productivity (TFP) gains were subdued (Annex V).[17] Croatia's human capital index also lags the EU average. Furthermore, while the population's digital skills are above the EU average, the development and use of individual skills are constrained by the low level in mathematic proficiency and limited post-education training. A large share of Croatian firms have low digital intensity and innovation capacity. Therefore, Croatia's capacity to use of Artificial Intelligence is relatively limited and its potential gains from AI is lower than that of peers. Additionally, Croatia's population, already among the oldest in the region, is projected to continue aging rapidly. Investing in human capital and skills through healthcare and education reforms will be key to sustaining Croatia's income convergence.

**Individuals with Basic or Above Basic Overall Digital Skills, 2023**
(Percent of total individuals)




Source: Eurostat.

**Digital Intensity Index (DII), 2024**
(Percentage of firms)




Sources: Eurostat; and IMF staff calculations.
Note: DII is based on 12 criteria and a score from 0 to 12. Low (0-6) and high (7-12). The criteria includes the use of internet for business, high-speed internet, e-commerce, ICT security practices, ICT skills and ICT specialists employed, usage of AI, and remote working.

**28. Reform in the healthcare sector should aim at both reducing costs and improving outcomes.**[18] Croatia dedicates a larger share of its resources to healthcare (as a share of GDP and total government spending) than peers, in part reflecting higher public financing of health spending. Thanks to the near universal and relatively generous insurance system, unmet medical needs are comparatively low. However, health outcomes lag those of peers across various metrics. Efficiency-enhancing reforms should reduce geographical inequality in access to healthcare services as remote and rural areas face inadequate medical infrastructure. This could be achieved by developing telemedicine and primary care outside hospitals. Furthermore, the central role of hospitals in the healthcare system should be reviewed, notably in the provision of outpatient care, with a view to reducing costs and freeing resources to prepare for the reorganization that is needed to adjust to the needs of an aging population. Increasing prevention has the potential to significantly improve

[17] Staff analysis on firm-level data up to 2021 also indicates stagnant TFP.

[18] See accompanying SIP "Improving Investment in Human Capital: Efficiency of Croatia's Public Spending on Education and Healthcare."

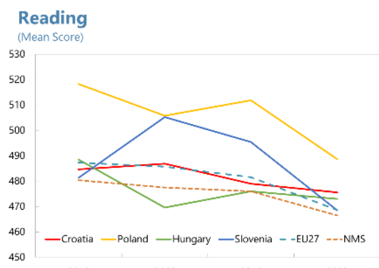
the population well-being and health outcomes while, eventually, reducing spending and mitigating the fiscal cost of aging by fostering healthy aging. Finally, better use and distribution of pharmaceuticals could reduce healthcare costs for public finances and the population.

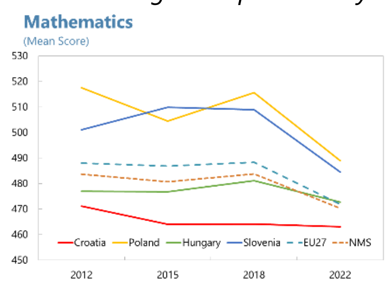
**29. Despite the relatively high public spending on education, educational outcomes are, at best, comparable to peers' and are particularly weak in mathematics.** High spending is driven by the wage bill, which in part reflects the large number of small schools. Moreover, the number of compulsory years of education is among the lowest in the EU. A strong focus on vocational training from a relatively early age, de facto, limits enrollment and success in tertiary education.

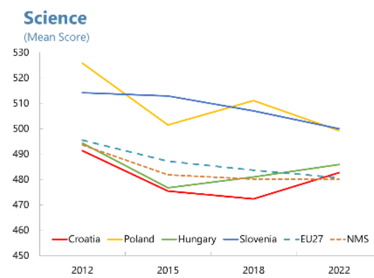
**30. Education reform aimed at reducing skills mismatches would help improve human capital and foster higher employment.** This would require (i) a reorganization of the educational system to foster a better allocation of teachers and to increase the mandatory teaching time, allowing to foster the acquisition of basic skills; (ii) a revision of the curricula to better align education with labor market needs; and (iii) promoting tertiary education that is increasingly needed to acquire the necessary skills in an information-based economy and to adjust to rapid technological changes. These reforms would eventually increase employment, creation and diffusion of innovation, and productivity.

## Efficiency of Education

*Educational outcomes are lower than a decade ago and particularly weak in mathematics.*

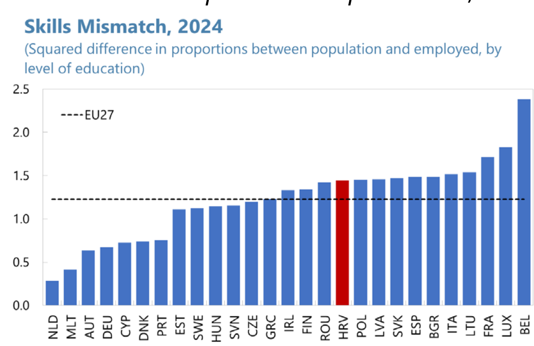


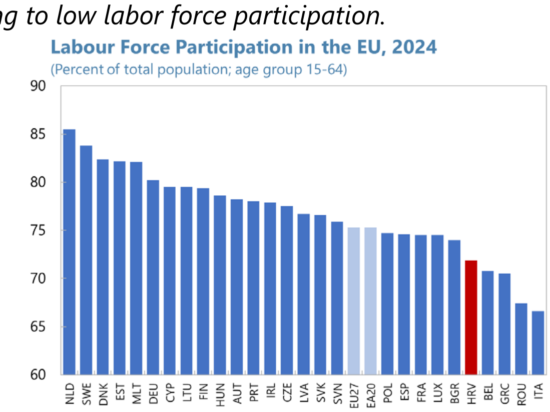




Sources: Eurostat; OECD; Haver Analytics; and IMF staff calculations.
Note: EU27 (simple average) excluding Luxembourg due to data availability. NMS= newer member states (simple average).

*Education does not provide adequate skills, contributing to low labor force participation.*



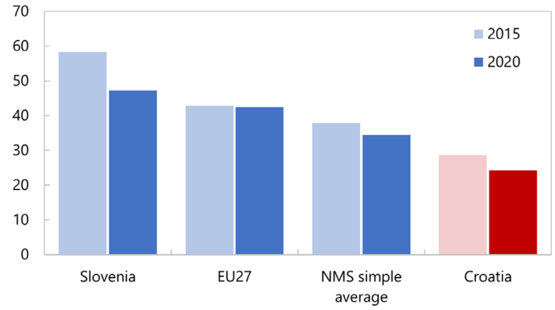

Sources: Eurostat; and IMF staff calculations.
Note: Measured for working age population (15 to 64) considering three levels of education: 1) low skill (less than primary, primary and lower secondary education), 2) medium skills (upper secondary and post-secondary non-tertiary education), and 3) high skills (tertiary education).




Source: Eurostat.

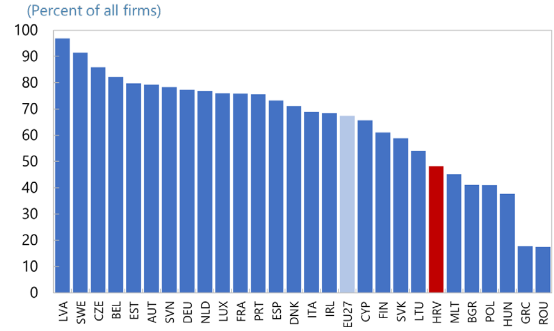
**31. Education reform should be complemented by measures to increase participation in adult learning.** Efforts should target the low-skilled and long-term unemployed whose labor participation is low. This would require expanding the range of training programs offered, ensuring their quality and affordability, enhancing accessibility in rural and remote areas, and providing firms with incentives to train employees.

**Participants in Continuing Vocational Training**
(Percent of persons employed)




Sources: Eurostat; and IMF staff calculations.
Note: NMS=new member states include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

**Enterprises Providing Continuing Vocational Training Courses, 2020**
(Percent of all firms)

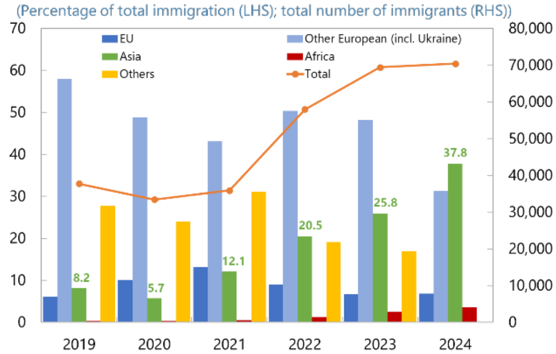



Source: Eurostat.

**32. Immigration has provided important benefits to Croatia by tackling labor shortages and aging, and better integration is needed to realize its full potential.** Croatia has recently experienced an immigration surge, notably from non-EU countries, with foreign born population accounting for 13.5 percent of the total population in 2024 (vs. 12.2 percent in 2022).[19] It shifted to positive net emigration in 2022 for the first time. Despite the authorities' significant steps to improve the immigration system, gaps remain in the data on the composition and profile of the migrant population, governance framework, and provision of services to foreign workers (World Bank, 2025). To maximize the impact of immigration on growth and welfare, policies need to further support labor market integration of the increasingly diverse workforce in the most productivity-enhancing way possible (e.g., adequate language training and help with administrative procedures), better match and use immigrant skills, and strengthen recognition of foreign qualifications (Caselli et al., 2024). The provision of public services, including at local levels, should keep up with demographic changes, and improving rental housing affordability is a priority.

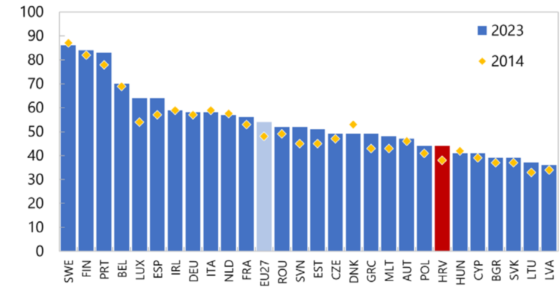
[19] New immigrants are predominantly employed in low-skilled jobs, despite one-quarter of them having completed tertiary education. Around 60 percent of people working in the construction sector are non-EU nationals (World Bank, 2025).

**Immigration to Croatia by Country of Origin**
(Percentage of total immigration (LHS); total number of immigrants (RHS))




Sources: Croatian Bureau of Statistics; and IMF staff calculations.

**Migrants Integration Policies Index**
(MIPEX index 0-100)




Source: MIPEX (2025).
Note: Score 0-100, with 100 awarded when policies meet the highest standards of equal treatment. The score is based on 8 policy areas: labor market mobility, family reunification, education, political participation, permanent residence, access to nationality, anti-discrimination, and health.

### *Authorities' Views*

33. **The authorities acknowledged the challenges of subdued productivity growth and agreed that education and healthcare reforms can ease fiscal pressures and enhance human capital and skills.** They stressed that reform options need to take account of Croatia-specific characteristics such as geographic dispersion and that it will take time to build consensus.

- On healthcare, the authorities recognize the challenges of a fast-aging society and increases in the costs of medical equipment and drugs. They acknowledged the need to reform to preserve a healthcare system that provides near universal and comparatively generous coverage.

- On education, the ongoing move to the "whole day school" in primary education is expected to improve acquisition of basic skills and reduce needed teachers. Primary school teachers are offered the possibility to become early childhood educators, which will help ensure adequate, high-quality staffing of the ongoing expansion of early childhood education facilities. The authorities expect that their strong investment in early childhood education infrastructure will eventually increase educational outcomes and allow for starting mandatory schooling earlier in life. They also indicated that a recent reform of vocational education training and curriculum would better align student skills with firms' needs, helping to lower skills mismatches.

34. **The authorities indicated that they have been taking measures to regulate and facilitate the integration of foreign labor, in line with the EU directives.** They adopted an amendment to the Alien Act in March 2025 to clarify rules for employers to hire foreign labor and ease administrative procedures for issuing work permits. The slowdown in overall employment growth is reflected in the slowdown of growth of foreign workers. The authorities also highlighted the importance of encouraging the return of Croatian diasporas. In 2024 they adopted a strategy for demographic revitalization, and a national plan for migration is being prepared with assistance from the World Bank.

# STAFF APPRAISAL

**35. The economy has continued to grow strongly but imbalances are emerging, which need to be curtailed.** The procyclical fiscal policy driven by expenditure has exacerbated aggregate demand pressures, contributing to higher inflation and worsening the current account. The external position in 2024 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies. Against a weak external environment and elevated global uncertainty, growth is projected to moderate to a still solid level of about 3 percent in 2025–26, supported by private consumption and EU-funded investment. Inflation is projected to move towards the ECB's target in late 2026 or early 2027 and the current account deficit is expected to widen in the short run before improving. Risks to the growth outlook are broadly balanced while risks to inflation are tilted to the upside.

**36. Stronger and faster fiscal consolidation is key to dampening domestic demand pressures and reducing inflation, thereby addressing the emerging imbalances early on.** It is also essential for strengthening the country's competitiveness and building buffers against future shocks and large spending needs. In the short term, restraint in public salary growth, improving VAT compliance, ending the remaining cost of living support measures, and strengthening fiscal discipline at local government units can underpin the consolidation. Over the medium term, there is considerable scope to broaden the tax base and improve the tax system, notably through reviewing and rationalizing VAT exemptions and reduced rates and moving to value-based taxation on property. On expenditure, measures should focus on (i) reducing the high wage bill building on a review of public sector employment; (ii) improving the efficiency of spending, notably healthcare and education spending, and better targeting social spending; and (iii) ensuring pension sustainability, notably by extending the effective retirement age. The authorities should continue to strengthen corporate governance of SOEs and enhance public investment management.

**37. Heightened risks call for continued vigilance and close monitoring to preserve financial stability.** Cyclical systemic risks have risen but remain moderate and manageable, as the banking system remains highly profitable, well capitalized, and highly liquid. Stress tests suggest that it would remain overall resilient under adverse scenarios. Further vigilance remains nonetheless warranted given the buildup of vulnerabilities and risks, particularly in the housing sector, as well as structural risks including relatively high sovereign-bank nexus and concentration of corporate loans. The authorities appropriately tightened macroprudential policy through capital and borrower-based measures. As macro-financial conditions evolve, they should continue to monitor the macroprudential stance and adjust if warranted. In particular, tightening of the BBMs might be needed in case cyclical risks persist. Given the high share of cash-financed property acquisition and foreign demand, complementary measures to boost housing supply and reduce speculative demand, notably through strengthening taxation on property and short-term rental income, are highly recommended.

**38. Fostering potential growth in the context of population aging, labor shortages and skill mismatches, as well as subdued productivity, calls for healthcare and education reforms**

**to boost human capital without increasing costs.** Healthcare reform needs to reduce geographical inequality in healthcare access, promote prevention and healthy living, review the central role of hospitals in the system, and improve the use and distribution of pharmaceuticals. Education reform should aim at reducing skills mismatches, complemented by measures to increase participation in adult learning. Better integration of foreign labor would magnify its role in supporting growth and welfare.

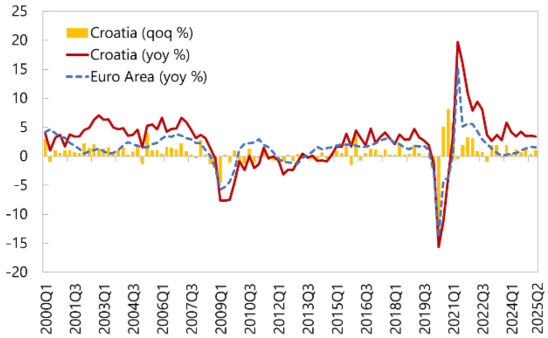
**39. It is expected that the next Article IV consultation will take place on the standard 12-month cycle.**

## Figure 1. Croatia: Real Sector Developments

*Growth has remained strong post-pandemic…*

**Real GDP Growth**

(Year-on-year percent change; quarter-on-quarter percent change)

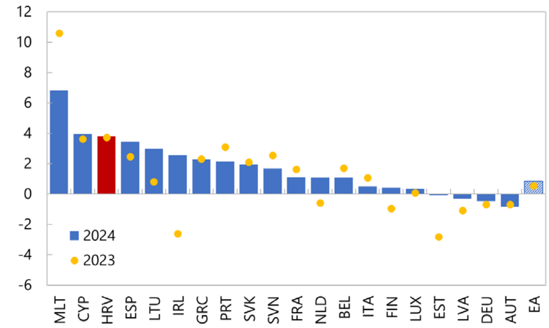



Sources: Eurostat; and Haver Analytics.

*…and continued to outperform most eurozone countries.*

**Real GDP Growth Comparison**

(Year-on-year percent change)

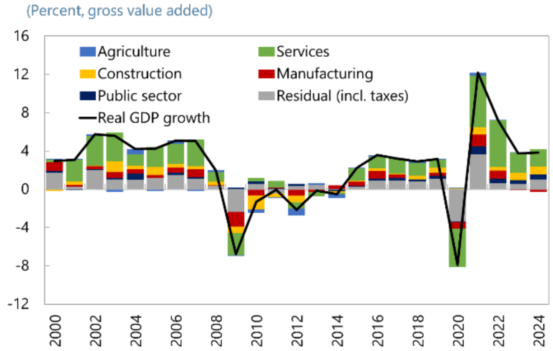



Sources: Eurostat; and Haver Analytics.

*Services and construction were the main growth drivers, while manufacturing lagged.*

**Real GDP Growth: Production Side**

(Percent, gross value added)

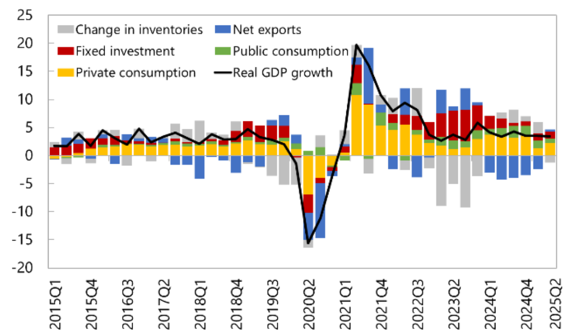



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*Growth was supported by resilient consumption and investments.*

**Contribution to Real GDP Growth**

(Year-on-year percent change)

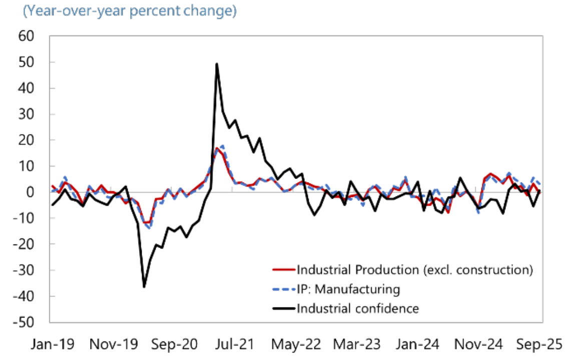



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*In the latest months, industrial production decreased …*

**Industrial Production and Confidence**

(Year-over-year percent change)

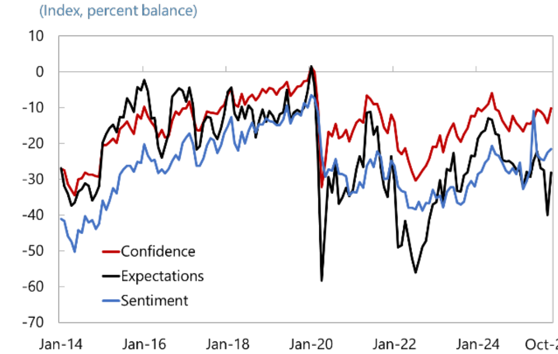



Sources: Eurostat; Croatian Bureau of Statistics; Haver Analytics; and IMF staff calculations.

*…and consumer confidence indicators point to a mixed picture.*

**Consumer Confidence**

(Index, percent balance)

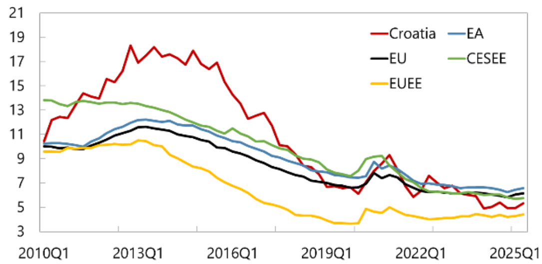



Sources: European Commission; Ipsos Puls; Croatian National Bank; and Haver Analytics.

## Figure 2. Croatia: Labor Market Developments

*Unemployment fell to its lowest levels since Croatia joined the EU and recently edged up.*

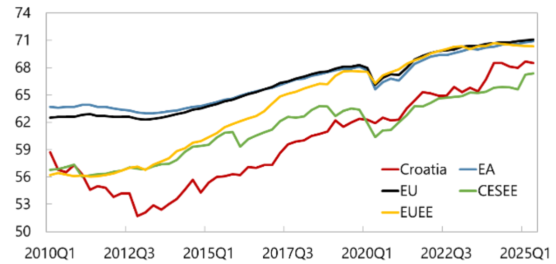
**Unemployment Rate**
(Percent; seasonally adjusted)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Chart shows unemployment data from Eurostat's Labor Force Survey for comparative purposes across European countries. CESEE=Central, Eastern and Southeastern Europe; incl. Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine; EA=Euro Area; EU=European Union; EUEE=selected emerging economies from European Union group includes Bulgaria, Hungary, Poland, and Romania.

*The employment rate has stabilized and remains lower than in the eurozone.*

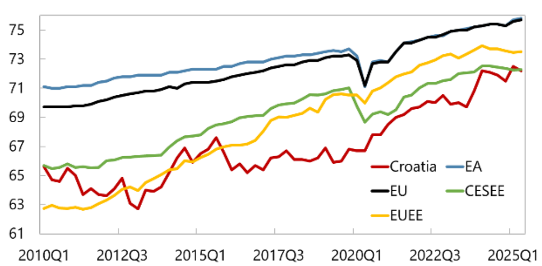
**Employment Rate**
(Percent; seasonally adjusted)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Chart shows employment data from Eurostat's Labor Force Survey for comparative purposes across European countries. CESEE=Central, Eastern and Southeastern Europe; incl. Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine; EA=Euro Area; EU=European Union; EUEE=selected emerging economies from European Union group includes Bulgaria, Hungary, Poland, and Romania.

*Labor force participation has increased since the pandemic, although it is still lower than in peer countries.*

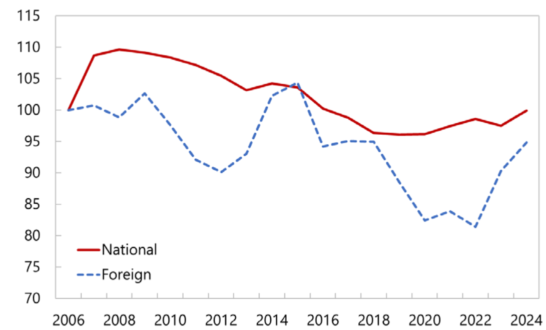
**Labor Force Participation Rate**
(Percent; seasonally adjusted)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Chart shows labor force participation data from Eurostat's Labor Force Survey for comparative purposes across European countries. CESEE=Central, Eastern and Southeastern Europe; incl. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine; EA=Euro Area; EU=European Union; EUEE=selected emerging economies from European Union group includes Bulgaria, Hungary, Poland, and Romania.

*Foreign labor force increased faster in the last 2 years.*

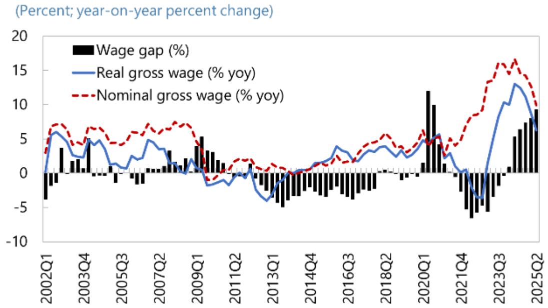
**Persons in the Labor Force by Country of Birth**
(Index 2006=100; 15 years and over)




Sources: Eurostat; and IMF staff calculations.

*Real wages have grown faster than productivity since the third quarter of 2023…*

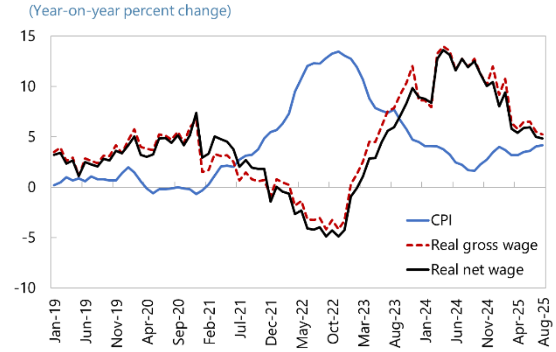
**Wage Growth and Wage Gap, 2002Q1-2025Q2**
(Percent; year-on-year percent change)




Sources: Haver Analytics; and IMF staff calculations.
Note: Wage gap is defined as the residuals where nominal wages are regressed to productivity and a time trend, following the November 2023 REO.

*…but their growth rates have declined recently.*

**Changes of Real Wage and CPI**
(Year-on-year percent change)

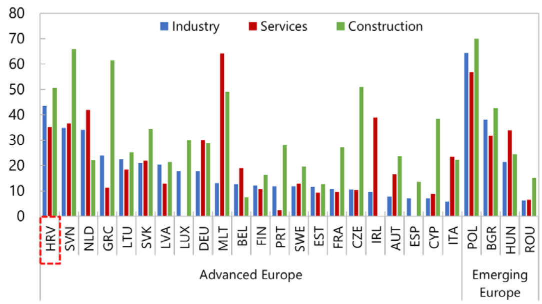



Sources: Haver Analytics; and IMF staff calculations.

## Figure 2. Croatia: Labor Market Developments (Concluded)

*The labor market remains tight, especially in the construction sector.*

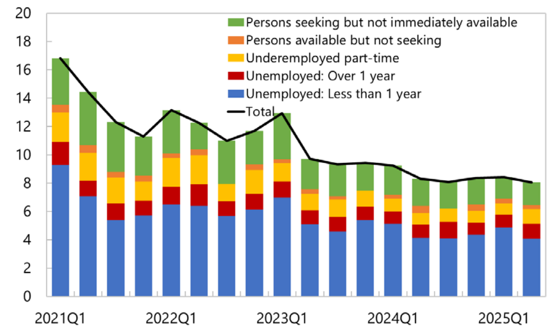
**Labor Shortages, 2025Q2**
(Percent balance; seasonally adjusted)




Source: European Commission Business and Consumer Survey; and IMF staff calculations.
Note: Percent balance corresponds to the percent of respondents claiming that labor is a factor limiting production/business minus the percent of respondents reporting that it is not.

*Labor market slack has stabilized in recent quarters.*

**Labor Market Slack**
(Percent of labor force)

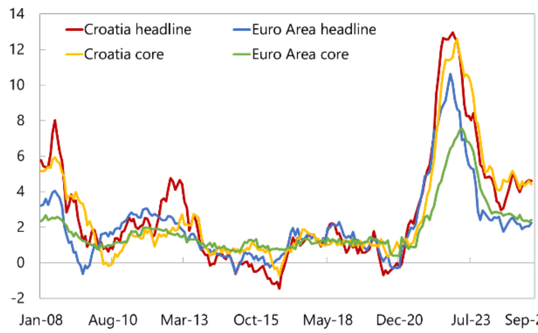



Sources: Croatian Bureau of Statistics; Eurostat; Haver Analytics; and IMF staff calculations.

## Figure 3. Croatia: Inflation Developments

*Inflation has rebounded since late 2024 and remains higher than the eurozone average.*

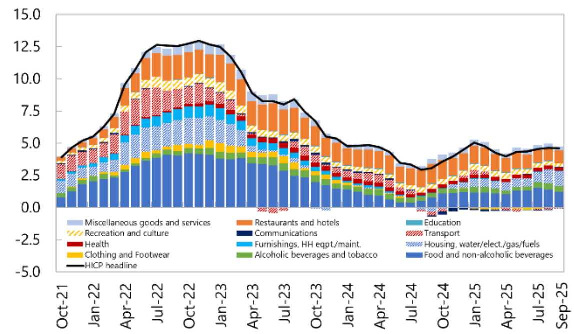
**HICP Headline and Core Inflation**
(Year-on-year percent change)




Sources: Eurostat; and Haver Analytics.

*Headline inflation was kept at elevated levels by food, energy, and tourism-related inflation...*

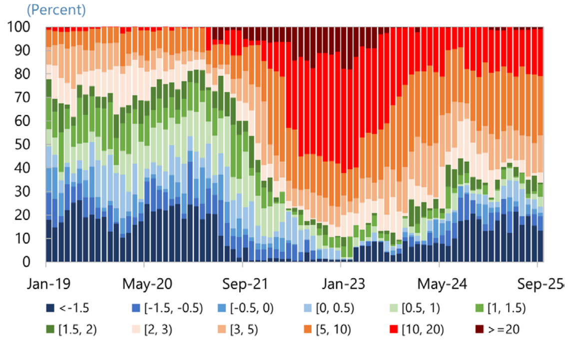
**Contribution to HICP Inflation**
(Year-on-year percent change)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*...but the high-inflation segments narrowed since 2023.*

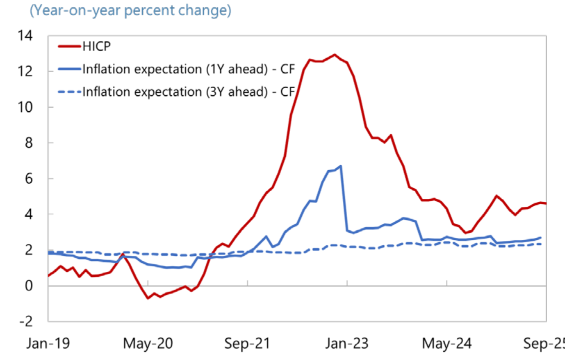
**HICP Inflation Dispersion**
(Percent)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Share of consumption basket within each inflation band.

*Both short-term and medium-term inflation expectations remained stable.*

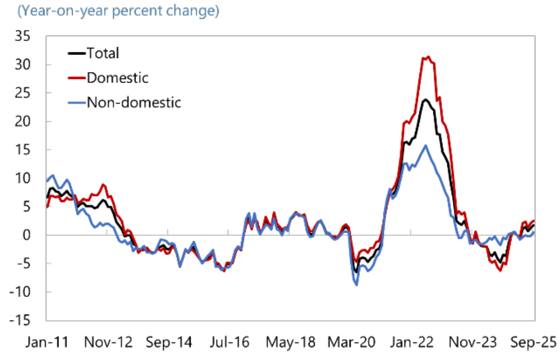
**HICP Headline Inflation vs. Inflation Expectations**
(Year-on-year percent change)




Sources: Consensus Forecast (CF); Eurostat; Croatian Bureau of Statistics; and Haver Analytics.

*Producer price indices normalized after a decline at the beginning of 2024...*

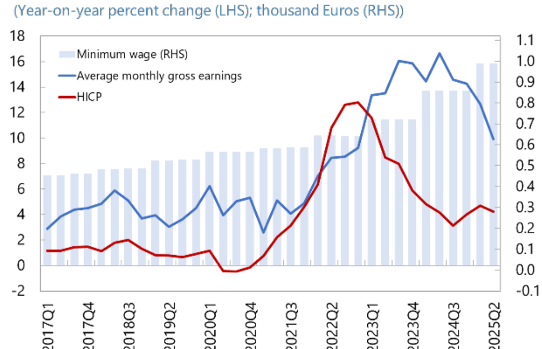
**Producer Price Index**
(Year-on-year percent change)




Sources: Croatian Bureau of Statistics; Haver Analytics; and IMF staff calculations.

*...nominal wage growth has declined but remained high.*

**Inflation and Wages**
(Year-on-year percent change (LHS); thousand Euros (RHS))

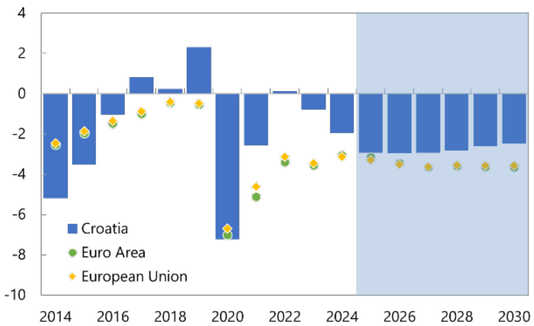



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

## Figure 4. Croatia: Fiscal Developments and Projections

*Headline fiscal deficit is expected to further widen in 2025…*

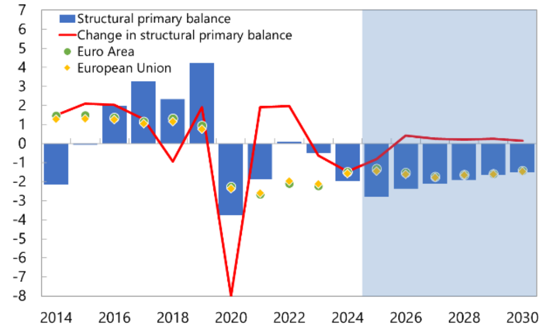
**General Government Overall Balance**
(Percent of GDP)




Source: IMF World Economic Outlook.

*…and structural primary balance to also deteriorate.*

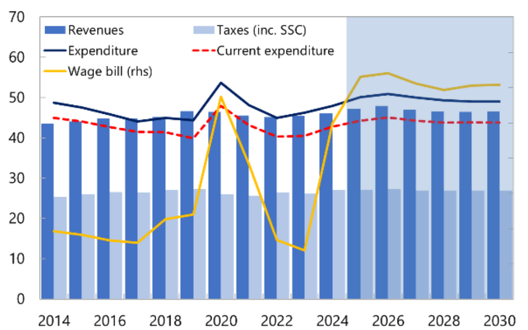
**Structural Primary Balance**
(Percent of Potential GDP)




Sources: IMF World Economic Outlook; and IMF staff calculations.

*Increasing expenditures drives the deterioration in the fiscal balance…*

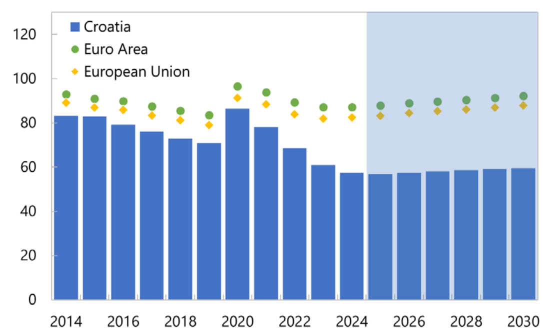
**Revenues and Expenditures**
(Percent of GDP)




Sources: IMF World Economic Outlook; and IMF staff calculations.

*…but public debt continues to decline before rising in the medium term.*

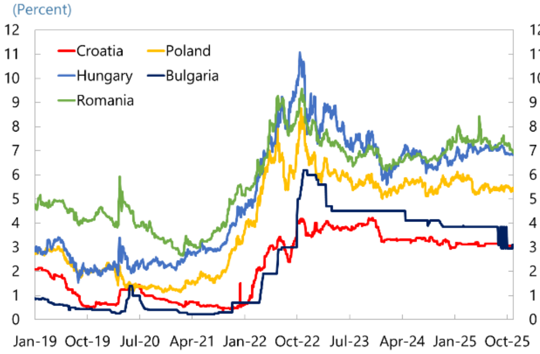
**General Government Gross Debt**
(Percent of GDP)




Sources: Eurostat; IMF World Economic Outlook; and IMF staff calculations.

*Government bond yields remain lower than those of NMS peers.*

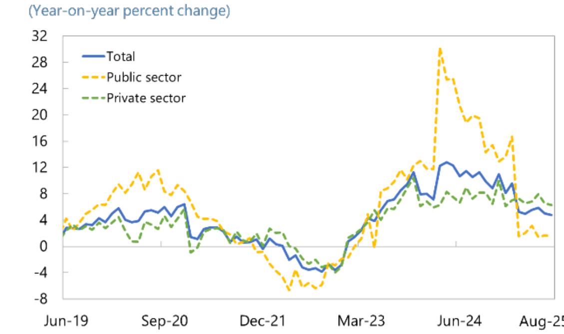
**Benchmark Government Bond Yields (10-year)**
(Percent)




Sources: Refinitiv; and Haver Analytics.

*Public sector has led the wage increase in 2024…*

**Average Real Wage Growth**
(Year-on-year percent change)



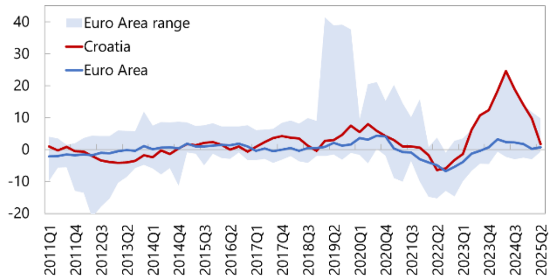

Sources: Croatian Bureau of Statistics; Eurostat; Haver Analytics; and IMF staff calculations.
Note: Public sector refers to public administration and defense, compulsory social security, education, and human health and social work activities. Using seasonally adjusted data.

## **Figure 4. Croatia: Fiscal Developments and Projections** (Concluded)

*…with public real wage growth being the highest in the euro area before normalizing recently.*

**Real Wages and Salaries Growth, Public Sector**

(Year-on-year percent change, seasonally adjusted)

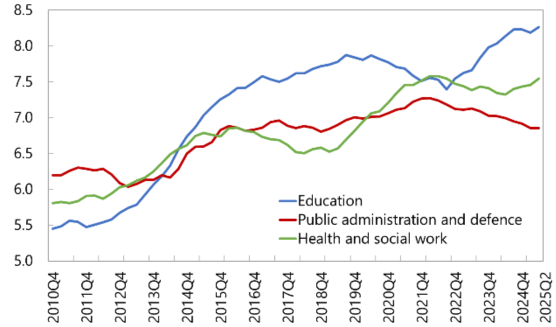



Sources: Croatian Bureau of Statistics; Eurostat; Haver Analytics; and IMF staff calculations.
Note: Public sector refers to public administration and defense, compulsory social security, education, and human health and social work activities. From 2019Q1, some of Lithuania's social contributions that used to be payable by the employer are now due to be paid by the employee. The payslip includes those social contributions under the gross earnings paid to the employee.

*The rise in public employment is driven by the education sector.*

**Government Employment in Selected Sectors**

(Percent of total employment; seasonally adjusted; 12-quarter moving average)

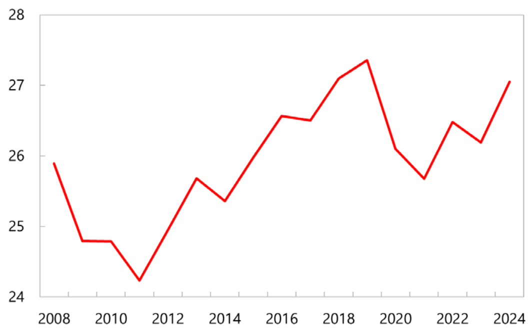



Sources: Haver Analytics; and IMF staff calculations.

## Figure 5. Croatia: Tax Revenues

*Tax revenue improved in 2024 but remains below pre-pandemic levels…*

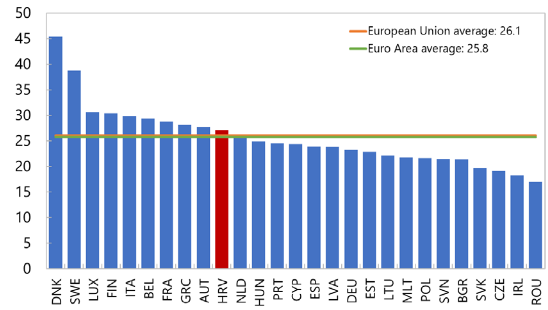
**General Government Revenue: Taxes**
(Percent of GDP)




Sources: Eurostat; and IMF staff calculations.

*…with the tax-to-GDP ratio around the EU and EA average.*

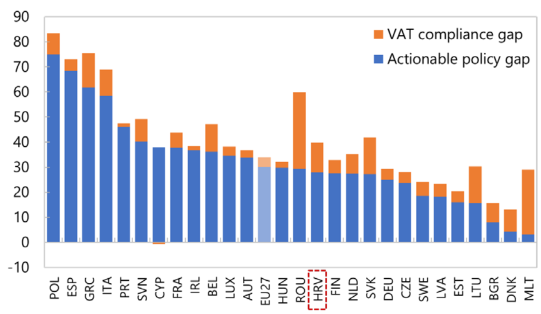
**General Government Total Tax Receipts, 2024**
(Percent of GDP)




Source: Eurostat.
Note: Data for European Union, Euro Area, Hungary, Malta, Netherlands, and Poland is from 2023 due to availability.

*The total VAT gap deteriorated and is above the EU average.*

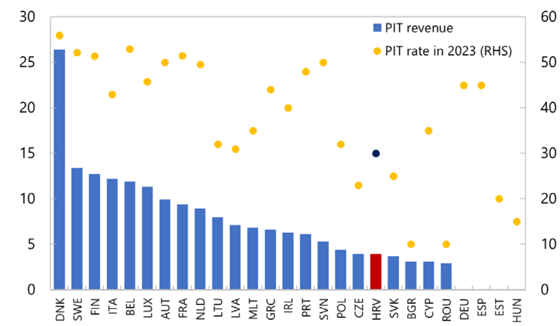
**VAT Compliance and Policy Gap, 2022**
(Percent of VAT Total Tax Liability (VTTL))




Sources: European Commission: Directorate-General for Taxation and Customs Union, Center for Social and Economic Research (CASE), Oxford Economics, Syntesia, Bonch-Osmolovskiy, M. et al., VAT gap in the EU – 2024 report, Poniatowski, G.(editor), Publications Office of the European Union, 2024; and IMF staff calculation.

*Revenue from the taxation of income is considerably lower than that of peers.*

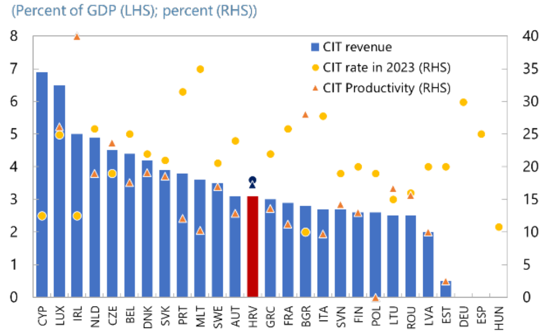
**PIT Revenue and Top Combined Rate, 2024**
(Percent of GDP (LHS); percent (RHS))




Sources: Eurostat; European Commission; IMF World Economic Outlook; and IMF staff calculations.
Note: PIT revenue for Malta, Netherlands, and Poland refers to 2023 due to data availability.

*Corporate income tax also has low productivity, reflecting multiple rates and exemptions.*

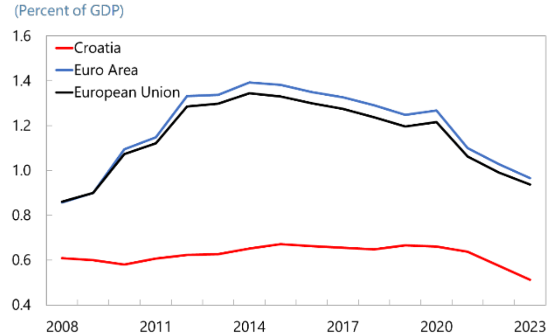
**CIT Revenue, Top Combined Rate and Productivity, 2024**
(Percent of GDP (LHS); percent (RHS))




Sources: Eurostat; European Commission; IMF World Economic Outlook; and IMF staff calculations.
Note: CIT productivity is calculated as (CIT revenue) / [(CIT rate) * (GDP)]. CIT revenue for Malta, Netherlands, and Poland refers to 2023 due to data availability.

*Revenue from property taxes is comparatively low but is expected to increase following the 2025 tax reform.*

**Taxes on Property**
(Percent of GDP)



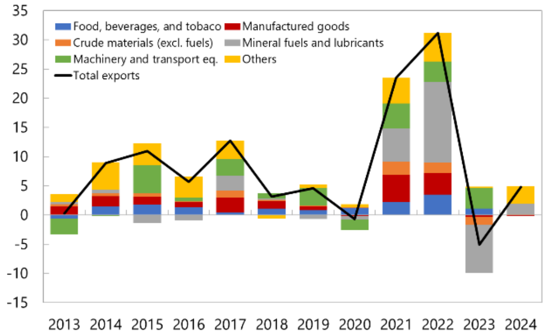

Sources: Eurostat; and European Commission.
Note: Recurrent taxes on immovable property.

## Figure 6. Croatia: External Sector Developments

*Goods exports grew moderately in 2024…*

### Contribution to Export Goods Growth

(Year-on-year percent change; percent)

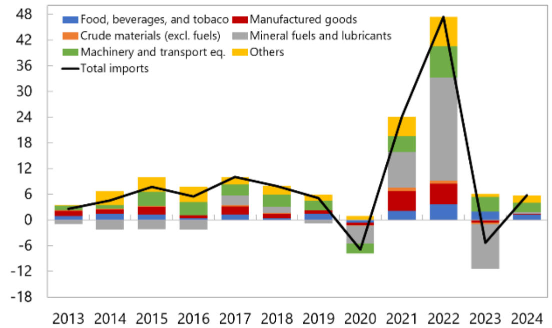



Sources: Croatian Bureau of Statistics; Haver Analytics; and IMF staff calculations.

*…as did imports.*

### Contribution to Import Goods Growth

(Year-on-year percent change; percent)

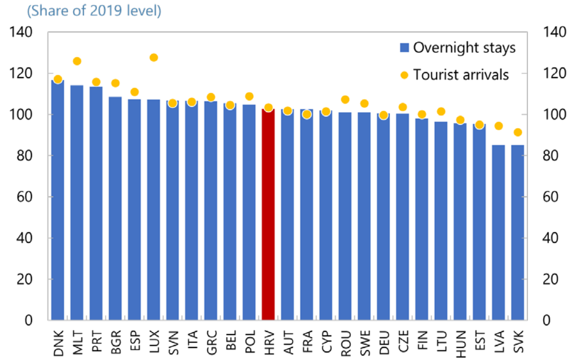



Sources: Croatian Bureau of Statistics; Haver Analytics; and IMF staff calculations.

*Tourism recovered from the pandemic…*

### Tourist Arrivals and Overnight Stays, 2024

(Share of 2019 level)

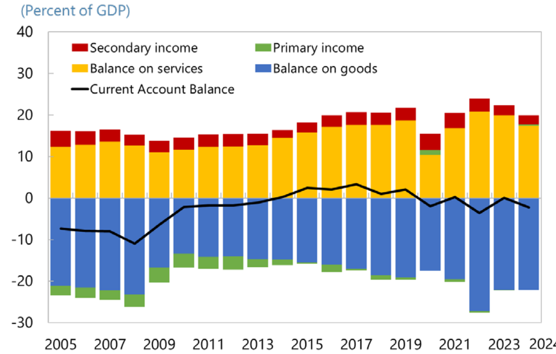



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*…driving a significant surplus in the balance of services which offsets a large deficit in the trade of goods.*

### Current Account Balance

(Percent of GDP)

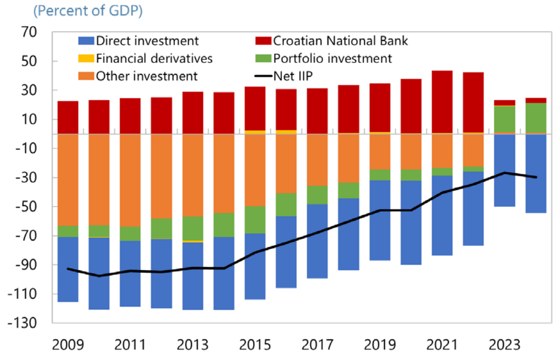



Sources: IMF World Economic Outlook; and IMF staff calculations.

*The NIIP slightly declined in 2024.*

### Net International Investment Position

(Percent of GDP)

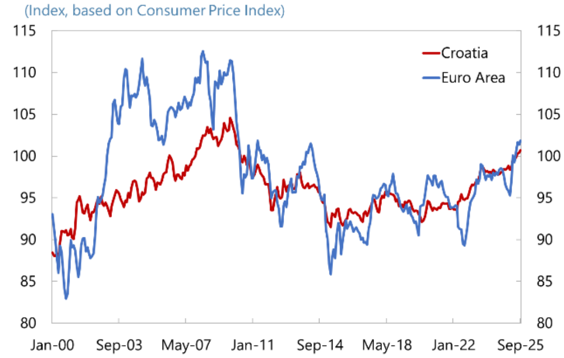



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*Consumer price-based REER continued to appreciate.*

### Real Effective Exchange Rate

(Index, based on Consumer Price Index)



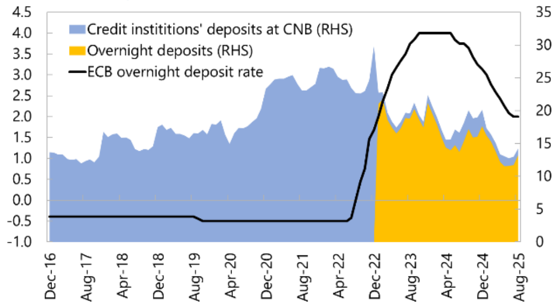

Sources: IMF Information Notice System database (INS).

## Figure 7. Croatia: Monetary Stance and Credit Developments

*Amidst ample, though declining, banks liquidity…*

### Overnight Interest Rate and Bank Liquidity

(Percent (LHS); percent of annualized GDP (RHS))

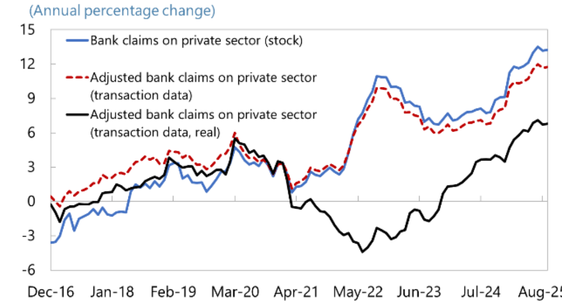



Sources: Croatian National Bank (CNB); Haver Analytics; and IMF staff calculations.
Note: Credit insititutions' deposits at CNB include both the required and excess reserves. Annualized GDP is 12 months cumulated GDP of quarterly GDP split equally into month.

*…credit growth has accelerated in 2024 and early 2025…*

### Bank Claims on Private Sector, 2016-September 2025

(Annual percentage change)

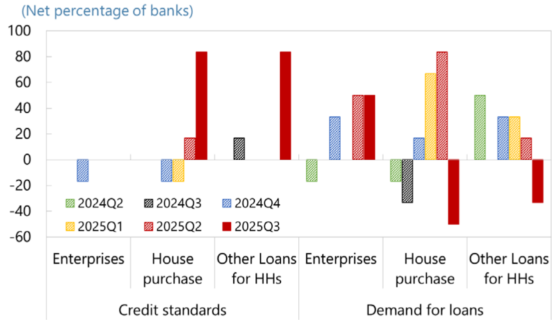



Sources: Croatian National Bank; and IMF staff calculations.
Note: Claims on private sector include claims on households, non-financial corporations, and local governments. Dotted line based on transaction data, i.e. adjusted for exchange rate changes, sales and write-offs of NPLs. For details, see Annex 1 in *CNB Monthly Bulletin No. 221*, February 2016, Croatian National Bank. The real series is deflated by HICP.

*…mainly reflecting sustained demand in H1…*

### Credit Standards and Demand for Loans, Past 3-Month

(Net percentage of banks)

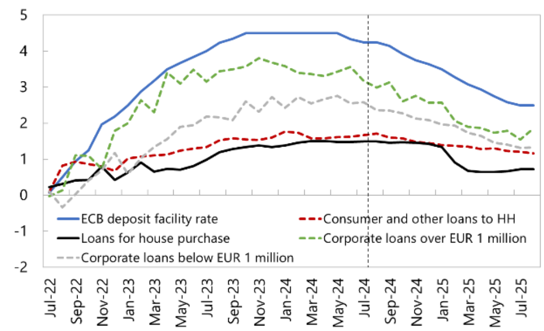



Source: Croatian National Bank: Bank Lending Survey.
Note: For credit standards, positive value = tightening, negative value=easing. For demand for loans, positive value=increased demand, negative value=decreased demand.

*…that has benefited from favorable economic conditions and more recently lower lending rates.*

### Lending Rates (New Loans)

(Cumulative percentage point change of average weighted rates from June 2022)

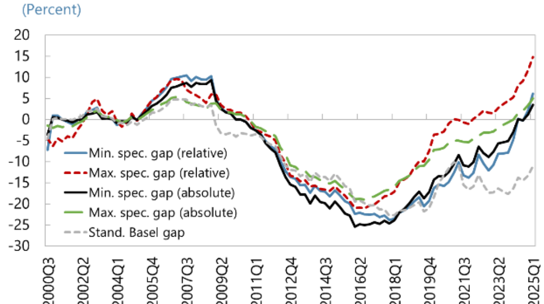



Source: Croatian National Bank.

*Most measures of the credit-to-GDP gap turned positive…*

### Credit-to-GDP Gap

(Percent)

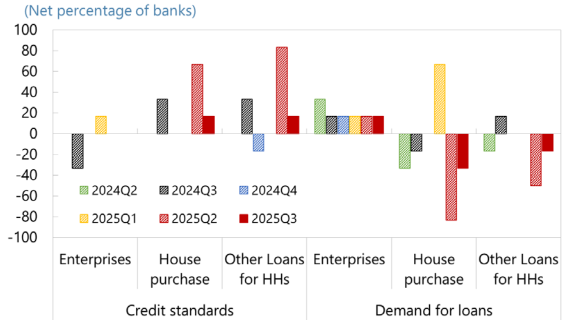



Source: Croatian National Bank.
Notes: Credit gap refers to filtered credit to GDP gap using different smoothing parmaters and credit definitions. The absolute gap is calculated as the difference between the credit ratio and its trend, while the relative gap is calculated as their ratio reduced by 1 and multiplied by 100.

*…but near-term expectations point to a slowdown in loan demand.*

### Credit Standards and Demand for Loans, Next 3-Month

(Net percentage of banks)



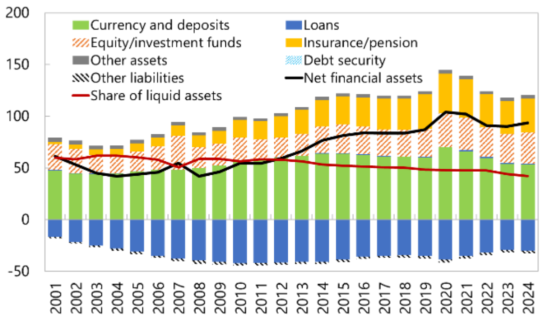

Source: Croatian National Bank: Bank Lending Survey.
Note: For credit standards, positive value=tightening, negative value=easing. For demand for loans, positive value=increased demand, negative value=decreased demand.

## Figure 8. Croatia: Households and Corporate Vulnerabilities

*Households' net financial positions remain strong. Yet, the share of liquid assets has declined in the last 2 years.*

**Balance Sheet Decomposition of Households**

(Percent of GDP)

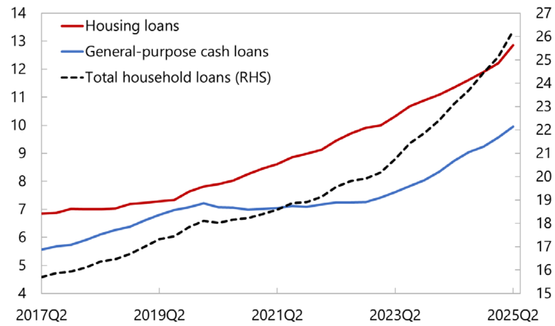



Sources: Eurostat; and IMF staff calculations.
Note: Positive values denote assets; negative values denote liabilities.

*Moreover, the rapid increase in new borrowing, especially unsecured general-purpose cash loans...*

**Loans to Households**

(Billion euros)

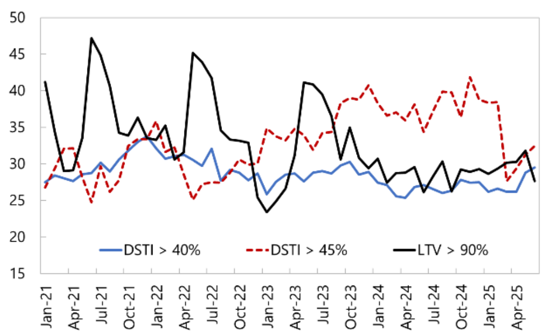



Source: Croatian National Bank (CNB).

*...and loose credit standards point to the buildup of some vulnerabilities.*

**Risky Borrowing**

(Percent of total loans)

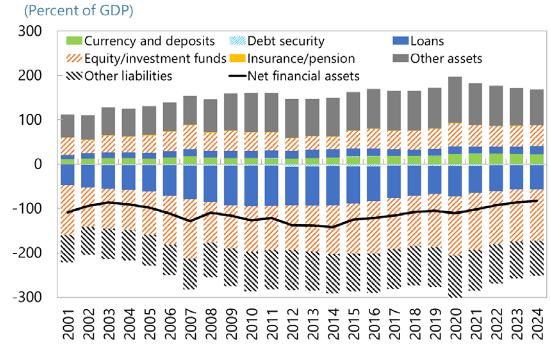



Source: Croatian National Bank.

*For NFCs, the net financial position continued to improve...*

**Balance Sheet Decomposition of NFCs**

(Percent of GDP)

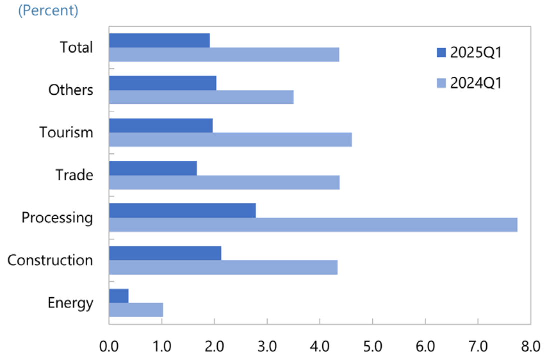



Sources: Eurostat; and IMF staff calculations.
Note: Positive values denote assets; negative values denote liabilities.

*...as well as asset quality.*

**NPL Ratio by Sector**

(Percent)

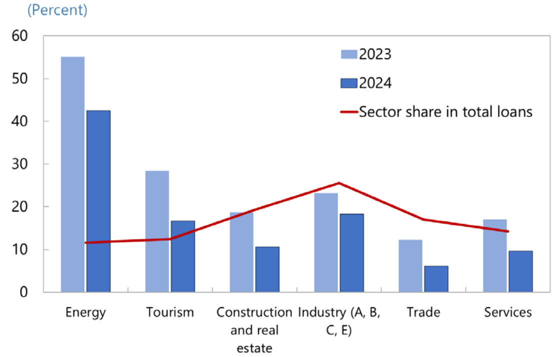



Source: Croatian National Bank.

*However, stage 2 loans are still high, and corporate credit is concentrated in cyclically sensitive activities.*

**Ratio of Stage 2 Loans by Sector**

(Percent)

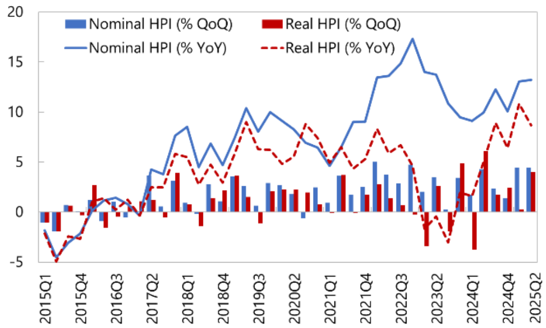



Sources: Croatian National Bank.

## Figure 9. Croatia: The Real Estate Sector

*Sustained house prices growth continued both in nominal and real terms.*

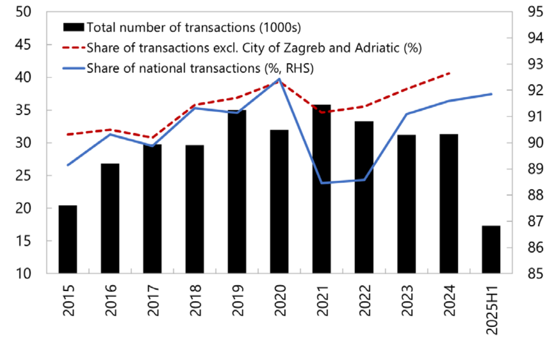
### House Prices
(Percent change; seasonally adjusted)




Sources: Croatian Bureau of Statitics; and IMF staff calculations.

*Demand increased in recent quarters by nationals and foreigners…*

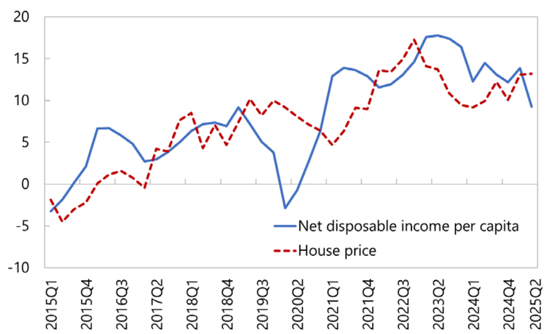
### Transactions Breakdown
(Thousand transactions, Total (LHS); percent (LHS); percent (RHS))




Sources: Croatian National Bank; and IMF staff calculations.

*…supported by robust growth in disposable incomes…*

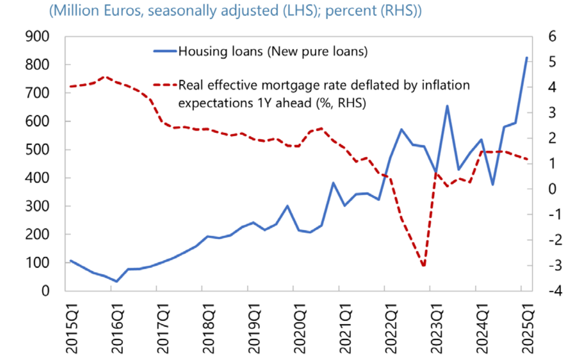
### House Prices and Households Income
(Year-on-year percent change)




Sources: OECD; Croatian Bureau of Statitics; and IMF staff calculations.

*…and credit driven by lenient lending criteria and demand frontloading ahead of the introduction of BBMs.*

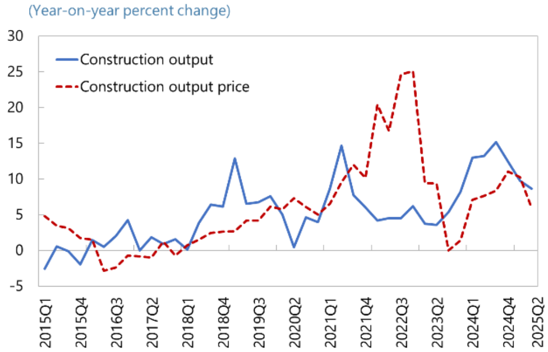
### New Mortgages and Interest Rates
(Million Euros, seasonally adjusted (LHS); percent (RHS))




Sources: Croatian National Bank; Croatian Bureau of Statistics; and IMF staff calculations.

*Supply has picked up, but construction costs have also accelerated.*

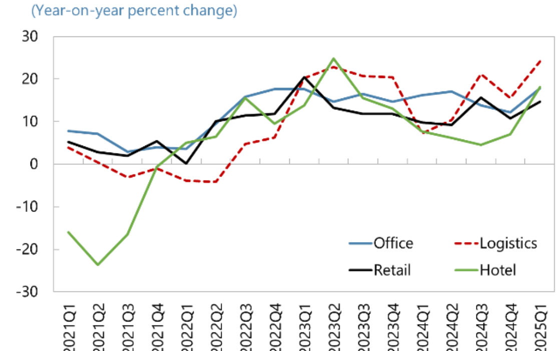
### Supply Indicators
(Year-on-year percent change)




Sources: Eurostat; Haver Analytics; and IMF staff calculations.

*Unlike in other EU countries, CRE price growth remained buoyant on account of limited supply.*

### Asking CRE Prices
(Year-on-year percent change)




Source: Croatian National Bank.

## Table 1. Croatia: Selected Economic Indicators, 2020–30

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Projections* | | | | | |
| **Output, unemployment, and prices** | *(Percent change, annual average, unless otherwise indicated)* | | | | | | | | | | |
| Real GDP growth | -8.3 | 12.6 | 7.3 | 3.8 | 3.8 | 3.1 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 |
| Contributions (*percent*): | | | | | | | | | | | |
| Domestic demand | -2.9 | 7.5 | 7.9 | 2.0 | 7.4 | 5.3 | 3.2 | 2.9 | 2.9 | 2.9 | 2.9 |
| Net exports | -5.4 | 5.1 | -0.6 | 1.7 | -3.6 | -2.2 | -0.5 | -0.2 | -0.3 | -0.4 | -0.4 |
| Unemployment rate | 9.0 | 8.1 | 6.8 | 6.2 | 5.3 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| HICP inflation (avg.) | 0.0 | 2.7 | 10.7 | 8.4 | 4.0 | 4.4 | 2.8 | 2.5 | 2.5 | 2.5 | 2.5 |
| **Saving and investment** | *(Percent of GDP)* | | | | | | | | | | |
| Domestic investment | 23.5 | 21.8 | 26.2 | 24.7 | 24.4 | 25.1 | 24.7 | 24.7 | 24.9 | 24.9 | 25.0 |
| Domestic saving | 21.6 | 22.1 | 22.7 | 24.8 | 22.2 | 22.3 | 21.5 | 21.9 | 22.6 | 23.1 | 24.0 |
| Government | -1.9 | 1.9 | 5.0 | 4.5 | 4.0 | 3.5 | 3.2 | 2.6 | 2.4 | 2.3 | 2.3 |
| Non-government | 23.5 | 20.2 | 17.7 | 20.2 | 18.2 | 18.8 | 18.3 | 19.3 | 20.2 | 20.8 | 21.7 |
| **Government sector (*ESA 2010 definition*)** | | | | | | | | | | | |
| General government revenue | 46.5 | 45.6 | 45.2 | 45.5 | 46.1 | 47.2 | 48.0 | 47.1 | 46.6 | 46.5 | 46.6 |
| General government expenditure | 53.8 | 48.2 | 45.0 | 46.3 | 48.0 | 50.2 | 50.9 | 50.0 | 49.4 | 49.1 | 49.1 |
| General government balance | -7.2 | -2.6 | 0.1 | -0.8 | -1.9 | -2.9 | -2.9 | -2.9 | -2.8 | -2.6 | -2.5 |
| Structural balance 1/ | -5.7 | -3.2 | -1.1 | -1.8 | -3.0 | -3.7 | -3.5 | -3.2 | -2.9 | -2.7 | -2.5 |
| Structural primary balance 1/ | -3.8 | -1.9 | 0.1 | -0.5 | -2.0 | -2.8 | -2.4 | -2.1 | -1.9 | -1.7 | -1.5 |
| Structural primary balance excl. net EU grants 1/ | -7.2 | -5.5 | -2.8 | -4.3 | -4.4 | -5.2 | -5.2 | -4.4 | -3.9 | -3.5 | -3.5 |
| General government debt 2/ | 86.5 | 78.2 | 68.5 | 60.9 | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 |
| **Balance of payments** | | | | | | | | | | | |
| Current account balance | -1.9 | 0.3 | -3.6 | 0.1 | -2.2 | -2.8 | -3.2 | -2.8 | -2.3 | -1.8 | -1.0 |
| Capital account | 2.1 | 2.4 | 2.5 | 2.8 | 1.4 | 2.2 | 2.3 | 2.1 | 1.4 | 1.2 | 1.0 |
| Financial account | -0.1 | -1.6 | 2.3 | -5.1 | 0.2 | 0.7 | 0.9 | 0.7 | 0.9 | 0.6 | 0.0 |
| **Debt and reserves** | *(Percent of GDP, unless otherwise indicated)* | | | | | | | | | | |
| Gross official reserves (*billions of euros*) | 18.9 | 25.0 | 27.9 | 2.9 | 3.2 | ... | ... | ... | ... | ... | ... |
| In months of imports in goods and services (*based on next year level*) | 9.3 | 9.8 | 7.5 | 0.8 | 0.8 | ... | ... | ... | ... | ... | ... |
| Total external debt 3/ | 81.3 | 81.1 | 73.8 | 76.9 | 66.4 | 63.1 | 60.7 | 58.3 | 56.6 | 54.9 | 53.2 |
| Total external debt excl. CNB share | 79.6 | 75.0 | 67.5 | 55.7 | 56.9 | 54.3 | 52.3 | 50.3 | 48.9 | 47.6 | 46.2 |
| **Money and credit** | *(End of period unless otherwise indicated, change in percent)* | | | | | | | | | | |
| Broad money (*M3*) | 11.5 | 15.0 | 10.7 | 21.3 | 4.5 | ... | ... | ... | ... | ... | ... |
| Claims on other domestic sectors 4/ | 3.3 | 2.6 | 10.0 | 7.7 | 9.1 | ... | ... | ... | ... | ... | ... |
| **Interest rates** | | | | | | | | | | | |
| 12-month average T-bill rate (*in kuna until 2023, then euros*) | 0.1 | 0.0 | 0.1 | 3.1 | 3.5 | ... | ... | ... | ... | ... | ... |
| 10-year government bond yield | 0.6 | 0.1 | 2.8 | 3.7 | 4.0 | ... | ... | ... | ... | ... | ... |
| **Exchange rate** | | | | | | | | | | | |
| Real effective exchange rate (*percent, "-" = appreciation*) | -0.8 | 0.7 | 0.8 | 3.1 | 0.5 | ... | ... | ... | ... | ... | ... |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (*billions of euros*) | 50.7 | 58.3 | 67.6 | 79.2 | 85.9 | 92.2 | 97.5 | 102.3 | 107.3 | 112.3 | 117.6 |

Sources: Croatian authorities; and IMF staff estimates. Unemployment rate is from Croatian Bureau of Statistics and Haver Analytics.

1/ Based on a simplified approach to the cyclically-adjusted balance, in percent of potential GDP. Includes the one-offs related to the COVID-19 package in 2020-2021 and the energy crisis in 2022-2024.

2/ Gross debt as defined by the EU under the Maastricht Treaty.

3/ With the entry of Rep. of Croatia into the euro area in January 2023, there was an increase in gross foreign debt for the amount of liabilities related to the distribution of euro banknotes within the Eurosystem.

4/ Comprises claims on households and non-financial corporations.

## Table 2. Croatia: Medium-Term Baseline Scenario, 2020–30

(Percent of GDP, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Projections* | | | | | |
| Real GDP (*percent change*) | -8.3 | 12.6 | 7.3 | 3.8 | 3.8 | 3.1 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 |
| HICP inflation (*average*) | 0.0 | 2.7 | 10.7 | 8.4 | 4.0 | 4.4 | 2.8 | 2.5 | 2.5 | 2.5 | 2.5 |
| HICP inflation (*end-of-period*) | -0.3 | 5.2 | 12.7 | 5.4 | 4.5 | 3.8 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| HICP Core inflation (*average*) 1/ | 0.8 | 1.8 | 9.1 | 9.5 | 4.7 | 4.4 | 2.9 | 2.5 | 2.5 | 2.5 | 2.5 |
| GDP deflator (*percent change*) | 0.8 | 2.0 | 8.0 | 12.9 | 4.5 | 4.1 | 2.8 | 2.2 | 2.2 | 2.2 | 2.2 |
| **Real sector (*percent change*)** | | | | | | | | | | | |
| Domestic demand | -2.8 | 6.9 | 7.7 | 2.0 | 7.3 | 5.0 | 3.0 | 2.7 | 2.7 | 2.7 | 2.7 |
| Consumption, total | -2.7 | 8.4 | 5.6 | 4.2 | 6.4 | 4.6 | 3.2 | 1.8 | 1.5 | 1.7 | 1.4 |
| Gross fixed capital formation, total | -6.3 | 4.9 | 10.7 | 22.7 | 5.3 | 4.6 | 2.7 | 2.6 | 2.3 | 2.0 | 2.1 |
| **Saving and investment** | | | | | | | | | | | |
| Domestic investment | 23.5 | 21.8 | 26.2 | 24.7 | 24.4 | 25.1 | 24.7 | 24.7 | 24.9 | 24.9 | 25.0 |
| Domestic saving | 21.6 | 22.1 | 22.7 | 24.8 | 22.2 | 22.3 | 21.5 | 21.9 | 22.6 | 23.1 | 24.0 |
| **Balance of payments** | | | | | | | | | | | |
| Current account balance | -1.9 | 0.3 | -3.6 | 0.1 | -2.2 | -2.8 | -3.2 | -2.8 | -2.3 | -1.8 | -1.0 |
| Exports of goods, f.o.b. | 23.7 | 25.4 | 30.4 | 24.3 | 23.6 | 23.1 | 23.0 | 22.8 | 22.8 | 22.8 | 22.9 |
| Imports of goods, f.o.b. | 41.1 | 44.9 | 57.6 | 46.4 | 45.7 | 44.3 | 44.2 | 43.6 | 43.0 | 42.7 | 42.8 |
| Capital and financial account | 2.0 | 0.8 | 4.8 | -2.3 | 1.7 | 2.8 | 3.2 | 2.8 | 2.3 | 1.8 | 1.0 |
| *Of which*: FDI, net | 2.3 | 6.2 | 6.0 | 2.4 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Gross external debt | 81.3 | 81.1 | 73.8 | 76.9 | 66.4 | 63.1 | 60.7 | 58.3 | 56.6 | 54.9 | 53.2 |
| **General government finances** | | | | | | | | | | | |
| Revenue | 46.5 | 45.6 | 45.2 | 45.5 | 46.1 | 47.2 | 48.0 | 47.1 | 46.6 | 46.5 | 46.6 |
| Expenditure | 53.8 | 48.2 | 45.0 | 46.3 | 48.0 | 50.2 | 50.9 | 50.0 | 49.4 | 49.1 | 49.1 |
| Balance | -7.2 | -2.6 | 0.1 | -0.8 | -1.9 | -2.9 | -2.9 | -2.9 | -2.8 | -2.6 | -2.5 |
| Government debt | 86.5 | 78.2 | 68.5 | 60.9 | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (*billions of euros*) | 50.7 | 58.3 | 67.6 | 79.2 | 85.9 | 92.2 | 97.5 | 102.3 | 107.3 | 112.3 | 117.6 |
| Output gap | -4.0 | 1.9 | 3.5 | 2.8 | 2.7 | 2.1 | 1.3 | 0.6 | 0.3 | 0.1 | 0.0 |
| Potential GDP growth | -4.2 | 6.1 | 5.7 | 4.5 | 3.9 | 3.7 | 3.5 | 3.4 | 2.9 | 2.7 | 2.5 |

Sources: Central Bureau of Statistics; Croatian National Bank; Ministry of Finance; and IMF staff estimates.

1/ HICP Core inflation excludes energy and unprocessed food.

## Table 3a. Croatia: Statement of Operations of General Government, 2020–30

(Percent of GDP, ESA 2010)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| **Revenue** | **46.5** | **45.6** | **45.2** | **45.5** | **46.1** | **47.2** | **48.0** | **47.1** | **46.6** | **46.5** | **46.6** |
| Taxes | 26.1 | 25.7 | 26.5 | 26.2 | 27.1 | 27.2 | 27.2 | 27.0 | 27.0 | 27.0 | 27.0 |
| Income tax | 5.9 | 5.2 | 6.5 | 6.5 | 7.2 | 7.2 | 7.2 | 7.0 | 7.0 | 7.0 | 7.0 |
| VAT | 12.5 | 13.1 | 13.2 | 13.2 | 13.3 | 13.3 | 13.4 | 13.4 | 13.4 | 13.4 | 13.4 |
| Excise | 4.4 | 4.4 | 3.9 | 3.6 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Import duties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other taxes | 3.3 | 3.0 | 3.0 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Social contributions | 11.5 | 11.1 | 10.8 | 10.6 | 11.4 | 12.4 | 12.6 | 11.8 | 12.5 | 12.5 | 12.5 |
| Other revenue | 5.3 | 5.2 | 4.4 | 5.6 | 4.5 | 4.6 | 4.9 | 4.4 | 4.1 | 4.0 | 4.1 |
| Grants 1/ | 4.5 | 4.5 | 3.8 | 4.7 | 3.4 | 3.3 | 3.5 | 2.9 | 2.6 | 2.5 | 2.6 |
| Property income | 0.8 | 0.7 | 0.6 | 0.9 | 1.1 | 1.3 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| *Of which* : interest receivable | 0.2 | 0.1 | 0.2 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Sales of goods and services | 3.5 | 3.6 | 3.4 | 3.2 | 3.0 | 3.1 | 3.3 | 3.1 | 3.0 | 3.0 | 3.0 |
| **Expenditure** | **53.8** | **48.2** | **45.0** | **46.3** | **48.0** | **50.2** | **50.9** | **50.0** | **49.4** | **49.1** | **49.1** |
| Expense | 48.0 | 43.2 | 40.3 | 40.6 | 42.8 | 44.3 | 45.0 | 44.3 | 43.8 | 43.9 | 43.8 |
| Compensation of employees | 13.4 | 12.4 | 11.3 | 11.2 | 13.0 | 13.7 | 13.7 | 13.6 | 13.5 | 13.5 | 13.5 |
| Use of goods and services | 8.7 | 8.4 | 7.8 | 7.7 | 7.6 | 7.6 | 7.7 | 7.7 | 7.8 | 7.8 | 7.8 |
| Interest, payable | 2.0 | 1.5 | 1.4 | 1.6 | 1.6 | 1.5 | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 |
| Subsidies | 3.4 | 2.2 | 1.9 | 2.0 | 1.6 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Current grants 2/ | 2.3 | 2.4 | 2.1 | 2.3 | 2.0 | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| Social benefits | 16.9 | 15.2 | 14.1 | 13.8 | 14.9 | 16.1 | 17.0 | 16.8 | 16.8 | 16.8 | 16.8 |
| Other expenses | 1.3 | 1.1 | 1.7 | 2.0 | 2.2 | 2.1 | 1.8 | 1.3 | 1.0 | 1.0 | 1.0 |
| Net acquisition of nonfinancial assets | 5.8 | 5.0 | 4.7 | 5.7 | 5.2 | 5.9 | 5.9 | 5.7 | 5.6 | 5.2 | 5.2 |
| **Overall Balance** | **-7.2** | **-2.6** | **0.1** | **-0.8** | **-1.9** | **-2.9** | **-2.9** | **-2.9** | **-2.8** | **-2.6** | **-2.5** |
| *Memorandum items:* | | | | | | | | | | | |
| General government gross debt 3/ | 86.5 | 78.2 | 68.5 | 60.9 | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 |
| General government net debt 4/ | 69.5 | 63.1 | 53.4 | 44.1 | 45.4 | 45.7 | 46.7 | 48.0 | 49.1 | 50.0 | 50.7 |
| Structural balance 5/ | -5.7 | -3.2 | -1.1 | -1.8 | -3.0 | -3.7 | -3.5 | -3.2 | -2.9 | -2.7 | -2.5 |
| Primary balance | -5.5 | -1.2 | 1.4 | 0.5 | -0.9 | -1.9 | -1.8 | -1.9 | -1.8 | -1.6 | -1.5 |
| Structural primary balance 5/ | -3.8 | -1.9 | 0.1 | -0.5 | -2.0 | -2.8 | -2.4 | -2.1 | -1.9 | -1.7 | -1.5 |
| Structural primary balance excl. net EU grants 5/ | -7.2 | -5.5 | -2.8 | -4.3 | -4.4 | -5.2 | -5.2 | -4.4 | -3.9 | -3.5 | -3.5 |

Sources: Eurostat; and IMF staff estimates.

1/ Mostly EU structural and investment funds.

2/ Non-capital transfers financed by the EU structural funds and national co-financing.

3/ Gross debt as defined by the EU under the Maastricht Treaty.

4/ Net debt is calculated as gross debt minus deposits, loans and debt securities as reported by Eurostat.

5/ In percent of potential GDP. Includes capital transfers to public enterprises, payment of guarantees of Uljanik shipyards in 2019, the COVID-19 package in 2020-21 and the energy crisis in 2022-24.

Note: Components of expenditures and revenues may not add to the total due to rounding.

## Table 3b. Croatia: Statement of Operations of General Government, 2020–30

(Billion of Euros, ESA 2010)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| **Revenue** | **23.6** | **26.6** | **30.5** | **36.0** | **39.6** | **43.6** | **46.8** | **48.1** | **50.0** | **52.2** | **54.8** |
| Taxes | 13.2 | 15.0 | 17.9 | 20.7 | 23.2 | 25.1 | 26.5 | 27.6 | 29.0 | 30.3 | 31.8 |
| Income tax | 3.0 | 3.0 | 4.4 | 5.1 | 6.1 | 6.7 | 7.0 | 7.1 | 7.5 | 7.8 | 8.2 |
| VAT | 6.3 | 7.6 | 8.9 | 10.5 | 11.4 | 12.3 | 13.1 | 13.7 | 14.4 | 15.1 | 15.8 |
| Excise | 2.2 | 2.6 | 2.6 | 2.9 | 3.2 | 3.5 | 3.7 | 3.9 | 4.1 | 4.3 | 4.5 |
| Import duties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other taxes | 1.7 | 1.7 | 2.0 | 2.2 | 2.4 | 2.6 | 2.7 | 2.9 | 3.0 | 3.1 | 3.3 |
| Social contributions | 5.9 | 6.5 | 7.3 | 8.4 | 9.8 | 11.4 | 12.3 | 12.1 | 13.4 | 14.0 | 14.7 |
| Other revenue | 2.7 | 3.1 | 3.0 | 4.4 | 3.9 | 4.3 | 4.7 | 4.5 | 4.4 | 4.4 | 4.8 |
| Grants 1/ | 2.3 | 2.6 | 2.6 | 3.7 | 2.9 | 3.1 | 3.4 | 3.0 | 2.8 | 2.8 | 3.1 |
| Property income | 0.4 | 0.4 | 0.4 | 0.7 | 1.0 | 1.2 | 1.4 | 1.5 | 1.6 | 1.6 | 1.7 |
| *Of which* : interest receivable | 0.1 | 0.1 | 0.1 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| Sales of goods and services | 1.8 | 2.1 | 2.3 | 2.5 | 2.6 | 2.8 | 3.2 | 3.2 | 3.3 | 3.4 | 3.6 |
| **Expenditure** | **27.3** | **28.1** | **30.4** | **36.6** | **41.2** | **46.3** | **49.6** | **51.1** | **53.0** | **55.1** | **57.7** |
| Expense | 24.3 | 25.2 | 27.3 | 32.1 | 36.8 | 40.9 | 43.9 | 45.3 | 47.0 | 49.3 | 51.6 |
| Compensation of employees | 6.8 | 7.2 | 7.7 | 8.9 | 11.2 | 12.6 | 13.4 | 13.9 | 14.4 | 15.2 | 15.9 |
| Use of goods and services | 4.4 | 4.9 | 5.3 | 6.1 | 6.5 | 7.0 | 7.5 | 7.9 | 8.4 | 8.8 | 9.2 |
| Interest, payable | 1.0 | 0.9 | 0.9 | 1.3 | 1.3 | 1.4 | 1.6 | 1.6 | 1.6 | 1.7 | 1.8 |
| Subsidies | 1.7 | 1.3 | 1.3 | 1.6 | 1.4 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 |
| Current grants 2/ | 1.2 | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.3 |
| Social benefits | 8.6 | 8.9 | 9.5 | 10.9 | 12.8 | 14.8 | 16.6 | 17.2 | 18.1 | 18.9 | 19.8 |
| Other expenses | 0.6 | 0.6 | 1.2 | 1.6 | 1.9 | 1.9 | 1.8 | 1.4 | 1.0 | 1.1 | 1.1 |
| Net acquisition of nonfinancial assets | 2.9 | 2.9 | 3.2 | 4.5 | 4.5 | 5.4 | 5.7 | 5.9 | 6.0 | 5.9 | 6.2 |
| **Overall Balance** | **-3.7** | **-1.5** | **0.1** | **-0.6** | **-1.7** | **-2.7** | **-2.9** | **-3.0** | **-3.0** | **-3.0** | **-2.9** |
| *Memorandum items:* | | | | | | | | | | | |
| General government gross debt 3/ | 43.9 | 45.6 | 46.3 | 48.3 | 49.3 | 52.5 | 55.8 | 59.3 | 62.9 | 66.4 | 69.9 |
| General government net debt 4/ | 35.3 | 36.8 | 36.1 | 34.9 | 39.0 | 42.2 | 45.6 | 49.1 | 52.6 | 56.1 | 59.7 |
| Structural balance 5/ | -2.9 | -1.9 | -0.8 | -1.4 | -2.5 | -3.5 | -3.4 | -3.3 | -3.1 | -3.0 | -2.9 |
| Primary balance | -2.8 | -0.7 | 0.9 | 0.4 | -0.8 | -1.8 | -1.8 | -1.9 | -1.9 | -1.8 | -1.7 |
| Structural primary balance 5/ | -1.9 | -1.1 | 0.1 | -0.4 | -1.7 | -2.6 | -2.3 | -2.2 | -2.0 | -1.9 | -1.8 |
| Structural primary balance excl. net EU grants 5/ | -7.2 | -5.5 | -2.8 | -4.3 | -4.4 | -5.2 | -5.2 | -4.4 | -3.9 | -3.5 | -3.5 |

Sources: Eurostat; and IMF staff estimates.

1/ Mostly EU structural and investment funds.

2/ Non-capital transfers financed by the EU structural funds and national co-financing.

3/ Gross debt as defined by the EU under the Maastricht Treaty.

4/ Net debt is calculated as gross debt minus deposits, loans and debt securities as reported by Eurostat.

5/ In percent of potential GDP. Includes capital transfers to public enterprises, payment of guarantees of Uljanik shipyards in 2019, the COVID-19 package in 2020-21 and the energy crisis in 2022-24.

## Table 4. Croatia: Monetary Accounts, 2020–25 1/

(Million of Euros, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | 2024 | Sep-25 |
|---|---|---|---|---|---|---|
| **Monetary survey** | | | | | | |
| Net Foreign Assets: | 24.8 | 31.9 | 35.6 | 52.0 | 46.7 | 48.0 |
| Croatian National Bank | 19.7 | 26.6 | 30.2 | 45.0 | 36.5 | 34.5 |
| Other monetary financial institutions | 5.1 | 5.2 | 5.3 | 7.0 | 10.2 | 13.4 |
| Net domestic assets | 49.7 | 50.7 | 54.7 | 58.3 | 61.0 | 67.6 |
| Claims on domestic sectors | 46.8 | 47.8 | 51.1 | 53.6 | 56.6 | 63.2 |
| Of which: Claims on general government, net | 15.9 | 16.1 | 16.2 | 16.1 | 15.6 | 18.1 |
| Claims on other domestic sectors | 30.9 | 31.7 | 34.9 | 37.5 | 41.0 | 45.1 |
| Broad money (M3) | 43.7 | 50.3 | 55.6 | 67.5 | 70.5 | 75.0 |
| Narrow money (M1) | 35.6 | 42.0 | 47.4 | 53.6 | 54.3 | 57.7 |
| Currency in circulation | 4.5 | 4.8 | 1.9 | 10.3 | 9.7 | 9.8 |
| Overnight deposits by domestic residents | 30.6 | 36.7 | 44.9 | 42.7 | 44.1 | 47.4 |
| **Balance sheet of the Croatian National Bank** | | | | | | |
| Net foreign assets | 19.7 | 26.6 | 30.2 | 45.0 | 36.5 | 34.5 |
| Of which: Net international reserves | 18.9 | 25.0 | 27.9 | 2.9 | 3.2 | 3.3 |
| Claims on domestic sectors | 3.3 | 2.9 | 2.6 | 2.4 | 2.3 | 1.7 |
| Claims on general government (net) | 2.7 | 2.5 | 2.2 | 2.0 | 1.9 | 1.6 |
| Claims on banks | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.1 |
| Claims on other domestic sectors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 0.2 | 0.1 | 0.1 | 0.4 | 0.3 | 0.4 |
| Liabilities | 23.1 | 29.6 | 32.9 | 47.7 | 39.2 | 36.7 |
| Of which: | | | | | | |
| Banknotes and coins in circulation | 5.5 | 5.9 | 3.5 | 12.4 | 11.5 | 11.5 |
| Credit institutions' deposits | 11.8 | 15.5 | 20.2 | 17.7 | 17.3 | 13.6 |
| General government deposits | 2.6 | 2.5 | 2.8 | 3.9 | 3.2 | 4.2 |
| Foreign liabilities | 0.9 | 3.6 | 4.2 | 11.6 | 4.5 | 4.6 |
| **Year-on-year percent changes** | | | | | | |
| Monetary survey: | | | | | | |
| Net domestic assets | 10.4 | 1.9 | 8.0 | 6.6 | 4.7 | 12.0 |
| Claims on domestic sectors | 11.3 | 2.2 | 6.9 | 5.1 | 5.5 | 12.8 |
| Of which: Claims on general government, net | 31.1 | 1.3 | 0.6 | -0.6 | -3.0 | 11.6 |
| Claims on other domestic sectors | 3.3 | 2.6 | 10.0 | 7.7 | 9.1 | 13.3 |
| Broad money (M3) | 11.5 | 15.0 | 10.7 | 21.3 | 4.5 | 8.2 |
| Narrow money (M1) | 18.1 | 18.2 | 12.7 | 13.0 | 1.4 | 8.7 |
| *Memorandum items:* | | | | | | |
| Nominal GDP (*billions of euros*) | 50.7 | 58.3 | 67.6 | 79.2 | 85.9 | 92.2 |
| Broad money (*percent of GDP*) | 86.1 | 86.1 | 82.3 | 85.2 | 82.1 | 81.3 |
| Claims on other domestic sectors: stock (*percent of GDP*) | 92.1 | 81.9 | 75.5 | 67.7 | 65.9 | 68.5 |
| Claims on private sector (*transactions, annual change, percent*) 2/ 3/ | 3.6 | 3.4 | 10.5 | 7.2 | 9.1 | 9.4 |

Source: Croatian National Bank.

1/ Based on new definition in conformation with the ECB following the adoption of euro on January 1, 2023.

2/ Comprises claims on households and enterprises. Excludes other banking institutions (household savings banks, savings and loan cooperatives, and investment funds) and other financial institutions.

3/ Transaction data exclude the effects of exchange rate changes, securities price adjustments and write-offs, including sale of placements in the amount of their value adjustments.

## Table 5. Croatia: Financial Soundness Indicators, 2020–25

(Percent, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 | | | | 2024 | | | | 2025 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Regulatory capital to risk-weighted assets | 24.3 | 25.6 | 24.6 | 23.5 | 23.2 | 23.3 | 23.6 | 23.3 | 22.9 | 23.0 | 23.8 | 24.2 | 23.1 |
| Regulatory Tier I capital to risk-weighted assets | 24.3 | 25.1 | 24.0 | 23.0 | 22.6 | 22.7 | 23.0 | 22.7 | 22.2 | 22.2 | 22.3 | 22.7 | 21.7 |
| | | | | | | | | | | | | | |
| Nonperforming loans to total gross loans | 7.6 | 5.7 | 4.3 | 4.1 | 3.8 | 3.5 | 3.6 | 3.3 | 3.2 | 3.2 | 3.1 | 3.1 | 2.9 |
| Provisions to Non-performing Loans | 83.3 | 88.0 | 101.7 | 102.7 | 67.0 | 68.7 | 69.0 | 69.4 | 68.8 | 68.0 | 66.3 | 65.9 | 65.0 |
| Nonperforming loans to total gross loans 1/ | 5.4 | 4.3 | 3.0 | 3.2 | 3.0 | 2.7 | 2.6 | 2.6 | 2.6 | 2.5 | 2.4 | 2.5 | 2.4 |
| Coverage ratio of non-performing loans and advances 1/ | 64.1 | 63.2 | 67.0 | 67.8 | 67.0 | 68.8 | 69.0 | 69.4 | 68.8 | 68.0 | 66.4 | 65.9 | 65.0 |
| | | | | | | | | | | | | | |
| Return on assets | 0.7 | 1.4 | 1.2 | 1.9 | 2.3 | 2.3 | 2.1 | 2.6 | 2.5 | 2.4 | 2.3 | 2.2 | 2.2 |
| Return on equity | 4.5 | 8.7 | 8.2 | 14.0 | 16.8 | 16.9 | 15.5 | 18.1 | 18.2 | 17.6 | 16.4 | 15.4 | 16.7 |
| Interest margin to gross income | 61.2 | 54.1 | 53.5 | 68.1 | 67.1 | 67.9 | 68.5 | 70.6 | 69.2 | 67.9 | 66.4 | 66.1 | 64.3 |
| Noninterest expenses to gross income | 59.2 | 54.3 | 58.0 | 51.4 | 47.0 | 45.7 | 46.6 | 43.6 | 44.4 | 44.8 | 45.3 | 46.0 | 46.0 |
| | | | | | | | | | | | | | |
| Liquid assets to total assets 2/ | 36.1 | 32.1 | 38.1 | 34.7 | 34.4 | 36.5 | 37.8 | 34.9 | 34.4 | 38.0 | 38.5 | 36.8 | 35.7 |
| Liquid assets to short-term liabilities 2/ | 48.1 | 37.5 | 43.6 | 40.0 | 44.9 | 47.3 | 50.1 | 47.2 | 44.8 | 49.1 | 50.1 | 48.1 | 46.6 |
| Liquidity Coverage Ratio | … | 202.5 | 242.4 | 226.2 | 233.7 | 235.4 | 238.1 | 230.5 | 220.2 | 232.6 | 230.9 | 222.2 | 215.6 |
| Net Stable Funding Ratio | … | 173.5 | 179.0 | 171.5 | 173.3 | 173.9 | 173.4 | 168.8 | 169.2 | 173.8 | 172.2 | 165.1 | 164.2 |
| | | | | | | | | | | | | | |
| Residential real estate prices, end of period (*annual increase*) | 7.7 | 7.3 | 14.8 | 14.9 | 15.0 | 14.0 | 12.0 | 10.8 | 9.9 | 10.2 | 10.4 | 11.4 | … |
| Commercial Real Estate Loans to Total Loans | … | 13.1 | 13.7 | 13.2 | 12.3 | 12.2 | 12.4 | 12.3 | 12.2 | 12.3 | 12.6 | 13.4 | 13.3 |
| Residential Real Estate Loans to Total Loans | … | 20.0 | 21.3 | 21.0 | 21.1 | 21.1 | 22.1 | 21.5 | 21.2 | 21.5 | 21.8 | 22.2 | 22.2 |

Sources: Croatian National Bank and the IMF's Financial Soundness Indicators (FSI).

1/ As defined by the CNB.

2/ Liquid assets are on a net basis. They include deposits at banks and at the central bank, short-term government and central bank paper and overnight loans extended; less required reserve funds, central bank loans received, and overnight loans received.

## Table 6. Croatia: Balance of Payments, 2020–30 1/

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Projections* | | | | | |
| | | | | | | *(Million of Euros)* | | | | | |
| **Current Account** | **-965** | **185** | **-2,401** | **82** | **-1,880** | **-2,616** | **-3,111** | **-2,868** | **-2,424** | **-1,980** | **-1,141** |
| Goods trade balance | -8,850 | -11,403 | -18,359 | -17,520 | -18,986 | -19,568 | -20,630 | -21,197 | -21,669 | -22,303 | -23,463 |
| Exports f.o.b. | 12,029 | 14,803 | 20,563 | 19,205 | 20,281 | 21,297 | 22,402 | 23,356 | 24,483 | 25,655 | 26,880 |
| Imports f.o.b. | 20,879 | 26,206 | 38,922 | 36,725 | 39,267 | 40,865 | 43,032 | 44,553 | 46,151 | 47,957 | 50,343 |
| Services trade balance | 5,302 | 9,820 | 14,054 | 15,824 | 15,008 | 15,082 | 15,921 | 16,873 | 17,927 | 19,139 | 21,166 |
| Export of services | 8,928 | 14,319 | 19,711 | 22,422 | 22,793 | 23,384 | 24,465 | 25,534 | 26,713 | 28,090 | 29,698 |
| Imports of services | 3,626 | 4,499 | 5,657 | 6,598 | 7,785 | 8,302 | 8,544 | 8,661 | 8,786 | 8,952 | 8,532 |
| Primary income balance | 598 | -377 | -258 | -85 | 254 | 170 | -42 | -87 | -131 | -188 | -242 |
| Credit | 2,835 | 3,269 | 3,912 | 5,173 | 6,546 | 6,871 | 6,919 | 7,039 | 7,165 | 7,281 | 7,404 |
| Debit | 2,237 | 3,646 | 4,171 | 5,258 | 6,291 | 6,702 | 6,961 | 7,126 | 7,296 | 7,469 | 7,647 |
| Secondary income balance | 1,985 | 2,146 | 2,163 | 1,864 | 1,843 | 1,701 | 1,640 | 1,544 | 1,448 | 1,372 | 1,398 |
| Credit | 3,827 | 4,157 | 4,370 | 4,827 | 5,070 | 5,144 | 5,305 | 5,436 | 5,573 | 5,734 | 6,005 |
| Debit | 1,841 | 2,012 | 2,207 | 2,963 | 3,226 | 3,443 | 3,665 | 3,892 | 4,125 | 4,363 | 4,606 |
| **Capital Account** | **1,068** | **1,395** | **1,668** | **2,230** | **1,230** | **1,996** | **2,250** | **2,190** | **1,504** | **1,330** | **1,119** |
| **Financial Account** | **43** | **943** | **-1,558** | **4,019** | **-208** | **-620** | **-861** | **-678** | **-920** | **-650** | **-22** |
| Direct investment | -1,151 | -3,638 | -4,090 | -1,878 | -1,599 | -1,817 | -2,020 | -2,170 | -2,276 | -2,383 | -2,495 |
| Assets | 319 | 826 | -384 | 1,379 | 2,583 | 2,773 | 2,930 | 3,075 | 3,226 | 3,377 | 3,536 |
| Liabilities | 1,469 | 4,464 | 3,706 | 3,258 | 4,182 | 4,591 | 4,951 | 5,244 | 5,502 | 5,760 | 6,032 |
| Portfolio investment | -110 | -76 | 1,765 | -822 | 2,287 | 2,226 | 2,901 | 2,858 | 2,890 | 3,013 | 3,214 |
| Assets | 578 | 1,149 | 626 | -1,096 | 3,048 | 3,472 | 3,069 | 3,311 | 3,473 | 3,693 | 3,786 |
| Liabilities | 688 | 1,225 | -1,139 | -275 | 761 | 1,246 | 168 | 453 | 583 | 680 | 572 |
| Other investment | 1,028 | -1,133 | -1,723 | 8,673 | -123 | -133 | -729 | -405 | -585 | -292 | 232 |
| Assets | 1,307 | 2,586 | 1,918 | 20,337 | -6,156 | 97 | -1,402 | -3,659 | -1,433 | -1,793 | -1,921 |
| Liabilities | 280 | 3,719 | 3,641 | 11,664 | -6,033 | 229 | -672 | -3,254 | -849 | -1,502 | -2,153 |
| Financial derivatives | -328 | -240 | -461 | -1,141 | -1,009 | -870 | -1,007 | -962 | -946 | -972 | -960 |
| Reserve assets (-= increase) 2/ | -603 | -6,031 | -2,949 | 813 | -237 | 26 | 5 | -1 | 3 | 16 | 13 |
| **Net Errors and Omissions** | **-60** | **-637** | **-825** | **1,708** | **442** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net International Investment Position** | **-26,545** | **-23,568** | **-23,419** | **-21,222** | **-25,421** | **-23,916** | **-24,006** | **-24,746** | **-25,710** | **-26,386** | **-26,431** |
| **External Debt (incl CNB share) 2/** | **41,272** | **47,322** | **49,883** | **60,892** | **57,033** | **58,247** | **59,136** | **59,625** | **60,672** | **61,660** | **62,550** |
| | | | | | | *(Percent of GDP)* | | | | | |
| **Current Account** | **-1.9** | **0.3** | **-3.6** | **0.1** | **-2.2** | **-2.8** | **-3.2** | **-2.8** | **-2.3** | **-1.8** | **-1.0** |
| Goods trade balance | -17.4 | -19.5 | -27.2 | -22.1 | -22.1 | -21.2 | -21.2 | -20.7 | -20.2 | -19.9 | -19.9 |
| Exports f.o.b. | 23.7 | 25.4 | 30.4 | 24.3 | 23.6 | 23.1 | 23.0 | 22.8 | 22.8 | 22.8 | 22.9 |
| Imports f.o.b. | 41.1 | 44.9 | 57.6 | 46.4 | 45.7 | 44.3 | 44.2 | 43.6 | 43.0 | 42.7 | 42.8 |
| Services trade balance | 10.4 | 16.8 | 20.8 | 20.0 | 17.5 | 16.3 | 16.3 | 16.5 | 16.7 | 17.0 | 18.0 |
| Export of services | 17.6 | 24.5 | 29.2 | 28.3 | 26.5 | 25.3 | 25.1 | 25.0 | 24.9 | 25.0 | 25.3 |
| Imports of services | 7.1 | 7.7 | 8.4 | 8.3 | 9.1 | 9.0 | 8.8 | 8.5 | 8.2 | 8.0 | 7.3 |
| Primary income balance | 1.2 | -0.6 | -0.4 | -0.1 | 0.3 | 0.2 | 0.0 | -0.1 | -0.1 | -0.2 | -0.2 |
| Credit | 5.6 | 5.6 | 5.8 | 6.5 | 7.6 | 7.4 | 7.1 | 6.9 | 6.7 | 6.5 | 6.3 |
| Debit | 4.4 | 6.2 | 6.2 | 6.6 | 7.3 | 7.3 | 7.1 | 7.0 | 6.8 | 6.7 | 6.5 |
| Secondary income balance | 3.9 | 3.7 | 3.2 | 2.4 | 2.1 | 1.8 | 1.7 | 1.5 | 1.3 | 1.2 | 1.2 |
| Credit | 7.5 | 7.1 | 6.5 | 6.1 | 5.9 | 5.6 | 5.4 | 5.3 | 5.2 | 5.1 | 5.1 |
| Debit | 3.6 | 3.4 | 3.3 | 3.7 | 3.8 | 3.7 | 3.8 | 3.8 | 3.8 | 3.9 | 3.9 |
| **Capital Account** | **2.1** | **2.4** | **2.5** | **2.8** | **1.4** | **2.2** | **2.3** | **2.1** | **1.4** | **1.2** | **1.0** |
| **Financial Account** | **0.1** | **1.6** | **-2.3** | **5.1** | **-0.2** | **-0.7** | **-0.9** | **-0.7** | **-0.9** | **-0.6** | **0.0** |
| Direct investment | -2.3 | -6.2 | -6.0 | -2.4 | -1.9 | -2.0 | -2.1 | -2.1 | -2.1 | -2.1 | -2.1 |
| Assets | 0.6 | 1.4 | -0.6 | 1.7 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Liabilities | 2.9 | 7.7 | 5.5 | 4.1 | 4.9 | 5.0 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| Portfolio investment | -0.2 | -0.1 | 2.6 | -1.0 | 2.7 | 2.4 | 3.0 | 2.8 | 2.7 | 2.7 | 2.7 |
| Assets | 1.1 | 2.0 | 0.9 | -1.4 | 3.5 | 3.8 | 3.1 | 3.2 | 3.2 | 3.3 | 3.2 |
| Liabilities | 1.4 | 2.1 | -1.7 | -0.3 | 0.9 | 1.4 | 0.2 | 0.4 | 0.5 | 0.6 | 0.5 |
| Other investment | 2.0 | -1.9 | -2.5 | 11.0 | -0.1 | -0.1 | -0.7 | -0.4 | -0.5 | -0.3 | 0.2 |
| Assets | 2.6 | 4.4 | 2.8 | 25.7 | -7.2 | 0.1 | -1.4 | -3.6 | -1.3 | -1.6 | -1.6 |
| Liabilities | 0.6 | 6.4 | 5.4 | 14.7 | -7.0 | 0.2 | -0.7 | -3.2 | -0.8 | -1.3 | -1.8 |
| Financial derivatives | -0.6 | -0.4 | -0.7 | -1.4 | -1.2 | -0.9 | -1.0 | -0.9 | -0.9 | -0.9 | -0.8 |
| Reserve assets (-= increase) 2/ | -1.2 | -10.3 | -4.4 | 1.0 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Errors and Omissions** | **-0.1** | **-1.1** | **-1.2** | **2.2** | **0.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Net International Investment Position** | **-52.3** | **-40.4** | **-34.6** | **-26.8** | **-29.6** | **-25.9** | **-24.6** | **-24.2** | **-24.0** | **-23.5** | **-22.5** |
| **External Debt (incl CNB share) 2/** | **81.3** | **81.1** | **73.8** | **76.9** | **66.4** | **63.1** | **60.7** | **58.3** | **56.6** | **54.9** | **53.2** |

Sources: Croatian National Bank; and IMF staff estimates.

1/ Based on BPM6.

2/ In January 2023, Croatia joined the euro area. As a result, there was an increase in gross foreign debt for the amount of liabilities related to the distribution of euro banknotes within the Eurosystem and, starting in 2023, reserves assets are only assets in currency other than the euro.

# Annex I. Sovereign Risk and Debt Sustainability Assessment

## Annex I. Table 1. Croatia: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | Moderate | The overall risk of sovereign stress is moderate. While the level of vulnerability is low in the short term, it is moderate in the medium- and long-term horizons due to a slight increase in the debt-to-GDP starting in 2026, relatively low average residual maturity as well as population aging and climate mitigation. |
| **Near term 1/** | | | |
| **Medium term** | Moderate | Moderate | Medium-term risks are assessed as moderate, consistent with the mechanical signals. |
| Fanchart | Moderate | ... | |
| GFN | Moderate | ... | |
| Stress test | | ... | |
| **Long term** | ... | Moderate | Long-term risks are moderate as aging-related expenditures on health and social security as well as on climate mitigation feed into debt dynamics. Pensions in Croatia remain inadequate (World Bank, 2024) and any measures aimed at improving pension adequacy, in presence of unfavorable demographics should preserve the fiscal sustainability of the system. Public expenditure on healthcare in Croatia is above EU average (7.8 percent of GDP in 2023). According to the 2024 Ageing Report, under the baseline, health care expenditure is projected to increase by 0.8 ppt of GDP between 2024 and 2070. Under the "risk scenario", which reflects the impact of excess cost growth from technological innovations in the health care sector as well as increased access and improved quality to health services, public health care spending in Croatia would increase by 1.3 ppts of GDP by 2070, relative to its 2024 level. Finally, climate mitigation will put additional pressures on long run sustainability of public finances (EIB Investment report, 2020/2021). |
| **Sustainability assessment 2/** | Not required for surveillance countries | Not required for surveillance countries | |
| **Debt stabilization in the baseline** | | | No |

### DSA Summary Assessment

After increasing at the onset of the pandemic, Croatia's debt-to-GDP ratio declined sharply in 2021-2024 as the economy recovered strongly and inflation surprised on the upside. Under current policies, the debt-to-GDP ratio is expected to increase slowly starting in 2026. Medium-term risks are moderate based on the GFN financeability and debt fanchart modules. In the medium term, Croatia should aim at a faster fiscal consolidation to address emerging imbalances and build fiscal buffers. Long-term risks are also assessed as moderate. Over the longer run, Croatia should continue with reforms to tackle risks arising from population aging on healthcare and long term care, social security, and the pension system. However, the long time horizon at which these risks would materialize and the authorities' planned reforms under the NRRP will help contain risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Annex I. Figure 2. Croatia: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| | | | | | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budgetary central government | Yes | Not applicable |
| | | | | 2 | Extra budgetary funds (EBFs) | Yes | |
| | | | | 3 | Social security funds (SSFs) | Yes | |
| | | | | 4 | State governments | Yes | |
| | | | | 5 | Local governments | Yes | |
| | | | | 6 | Public nonfinancial corporations | No | |
| | | | | 7 | Central bank | No | |
| | | | | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | **IPSGSs 3/** |
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |
| **5. Debt consolidation across sectors:** | | Consolidated | | Non-consolidated | |

: chosen coverage | Missing from recommended coverage | Not applicable

**Reporting on Intra-Government Debt Holdings**

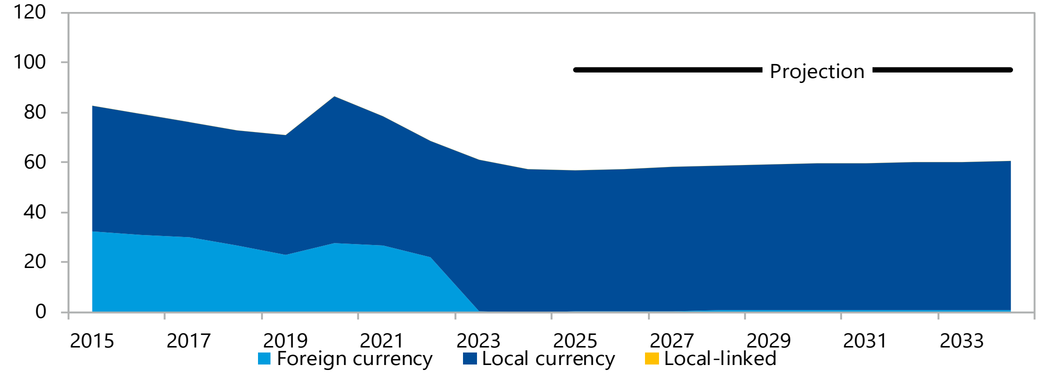
| | | | | | Holder / Issuer | Budget. central govt | Extra-budget. funds | Social security funds | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budget. central govt | | | | | | | | | 0 |
| | | | | 2 | Extra-budget. funds | | | | | | | | | 0 |
| | | | | 3 | Social security funds | | | | | | | | | 0 |
| | | | | 4 | State govt. | | | | | | | | | 0 |
| | | | | 5 | Local govt. | | | | | | | | | 0 |
| | | | | 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| | | | | 7 | Central bank | | | | | | | | | 0 |
| | | | | 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | | | | | Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Croatia's debt coverage and disclosure are consistent with standard recommendations. Debt guaranteed by the government is not included in public debt.

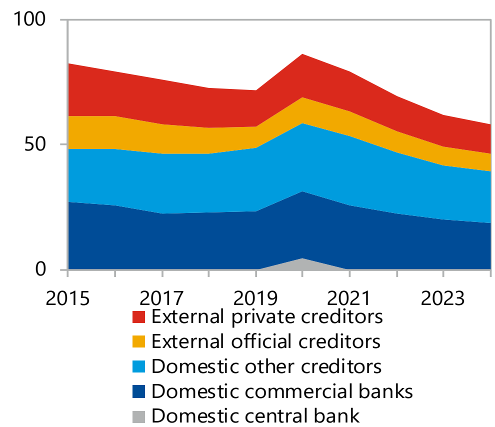
## Annex I. Figure 3. Croatia: Public Debt Structure Indicators

**Debt by Currency (Percent of GDP)**



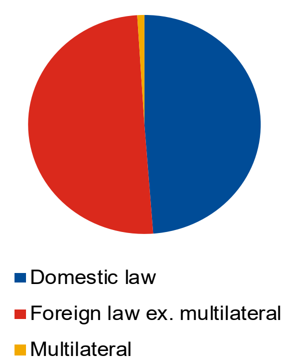

Note: The perimeter shown is consolidated public sector.

**Public Debt by Holder (Percent of GDP)**



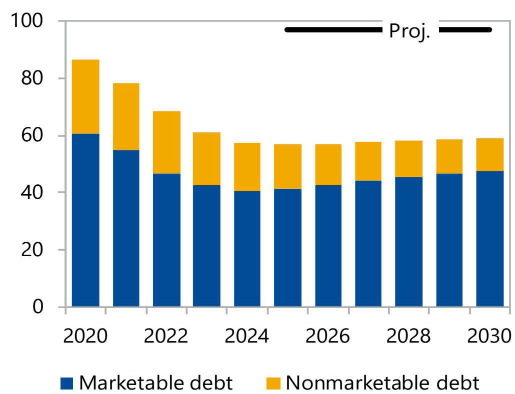

Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2024 (percent)**



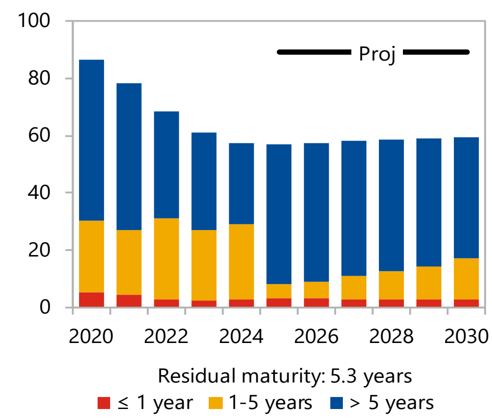

Note: The perimeter shown is general government.

**Debt by Instruments (Percent of GDP)**




Note: The perimeter shown is general government.

**Public Debt by Maturity (Percent of GDP)**




Note: The perimeter shown is general government.

Commentary: The majority of public debt is owned by EU residents. At about 5½ the average residual maturity is the lowest in the euro area. The average matuiry of central government debt reaches 6.9 years for international bonds and 4.7 years for domestic bonds. No international bond will mature in 2026.

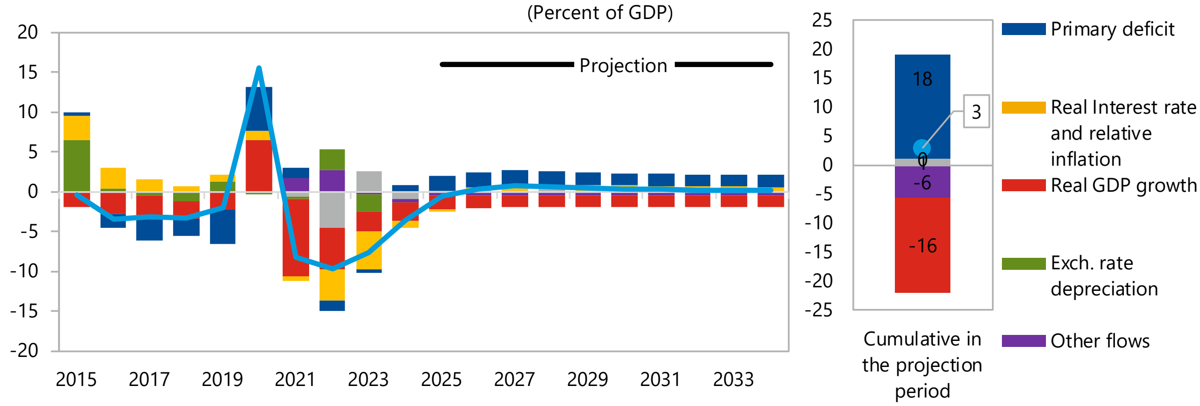
## Annex I. Figure 4. Croatia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| Public debt | 57.4 | 56.9 | 57.3 | 58.0 | 58.6 | 59.1 | 59.5 | 59.7 | 60.0 | 60.2 | 60.3 |
| Change in public debt | -3.6 | -0.5 | 0.4 | 0.8 | 0.6 | 0.5 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 |
| Contribution of identified flows | -2.7 | -0.6 | 0.2 | 0.6 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 |
| Primary deficit | 0.9 | 1.9 | 1.8 | 1.9 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Noninterest revenues | 45.6 | 46.7 | 47.5 | 46.6 | 46.1 | 46.0 | 46.1 | 46.1 | 46.1 | 46.1 | 46.1 |
| Noninterest expenditures | 46.4 | 48.7 | 49.3 | 48.4 | 47.9 | 47.6 | 47.6 | 47.6 | 47.6 | 47.6 | 47.6 |
| Automatic debt dynamics | -3.1 | -2.0 | -1.1 | -0.8 | -0.9 | -0.7 | -0.7 | -0.8 | -0.8 | -0.9 | -0.9 |
| Real interest rate and relative inflatio | -0.9 | -0.3 | 0.4 | 0.7 | 0.5 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 |
| Real interest rate | -0.9 | -0.3 | 0.4 | 0.7 | 0.5 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 |
| Relative inflation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real growth rate | -2.2 | -1.7 | -1.5 | -1.5 | -1.5 | -1.4 | -1.4 | -1.5 | -1.5 | -1.5 | -1.5 |
| Real exchange rate | 0.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Other identified flows | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Other transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | -0.9 | 0.1 | 0.2 | 0.2 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| | | | | | | | | | | | |
| Gross financing needs | 3.0 | 4.5 | 6.1 | 6.4 | 6.5 | 6.9 | 7.2 | 7.9 | 9.0 | 10.8 | 11.1 |
| of which: debt service | 2.6 | 3.1 | 4.8 | 5.0 | 5.3 | 5.8 | 6.2 | 7.0 | 8.1 | 9.8 | 10.1 |
| Local currency | 2.5 | 3.0 | 4.7 | 5.0 | 5.2 | 5.8 | 6.2 | 6.9 | 8.0 | 9.7 | 10.1 |
| Foreign currency | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 3.8 | 3.1 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Inflation (GDP deflator; percent) | 4.5 | 4.1 | 2.8 | 2.2 | 2.2 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Nominal GDP growth (percent) | 8.5 | 7.4 | 5.7 | 4.9 | 4.9 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| Effective interest rate (percent) | 3.0 | 3.5 | 3.6 | 3.5 | 3.2 | 3.4 | 3.4 | 3.3 | 3.3 | 3.2 | 3.1 |

**Contribution to Change in Public Debt**

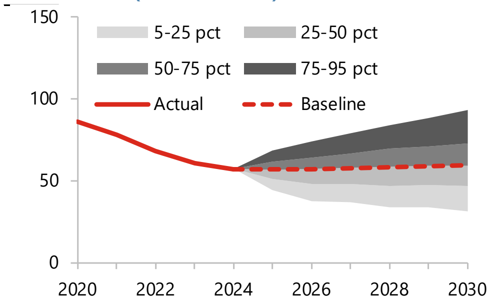
(Percent of GDP)




Commentary: Public debt-to-GDP is projected to continue to decline in 2025 but is projected to increase slowly over the medium-term due to stabilization of the primary deficit amidst a normalization of growth and lower EU grants.

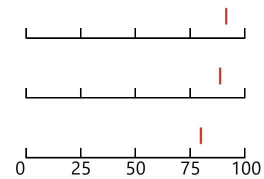
## Annex I. Figure 5. Croatia: Medium-Term Risk Assessment

**Final Fanchart (Percent of GDP)**

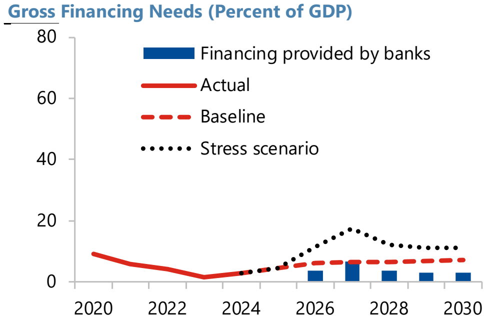



**Debt fanchart module**

| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| Fanchart width *(percent of GDP)* | 61.5 | 0.9 | |
| Probability of debt non-stabilizaiton *(percent)* | 70.3 | 0.6 | |
| Terminal debt-to-GDP x institutions index | 24.7 | 0.5 | |
| **Debt fanchart index (DFI)** | | 2.0 | |
| **Risk signal: 3/** | | **Moderate** | |

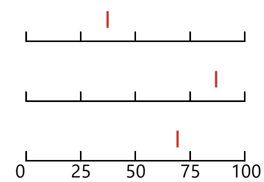



**Gross Financing Needs (Percent of GDP)**




**Gross financing needs (GFN) module**

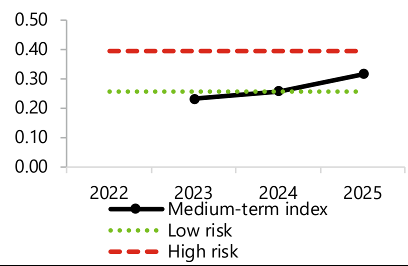
| | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| Average baseline GFN *(percent of GDP)* | 6.3 | 2.1 | |
| Initial Banks' claims on the gen. govt *(pct bank assets)* | 15.8 | 5.1 | |
| Chg. In banks' claims in stress *(pct banks' assets)* | 6.7 | 2.2 | |
| **GFN financeability index (GFI)** | | 9.5 | |
| **Risk signal: 4/** | | **Moderate** | |




Triggered stress tests (stress tests not activated in gray)

Banking crisis    Commodity prices    Exchange rate    Contingent liab.    Natural disaster

**Medium-Term Index (Index Number)**




Medium-term risk analysis

| | Value | (normalized) | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 2.0 | 0.45 | 0.5 | 0.2 |
| GFN finaceability index | 9.5 | 0.18 | 0.5 | 0.1 |
| **Medium-term index** | | 0.32 | | |
| **Risk signal: 5/** | | **Moderate** | | |
| **Final assessment:** | | **Moderate** | | |

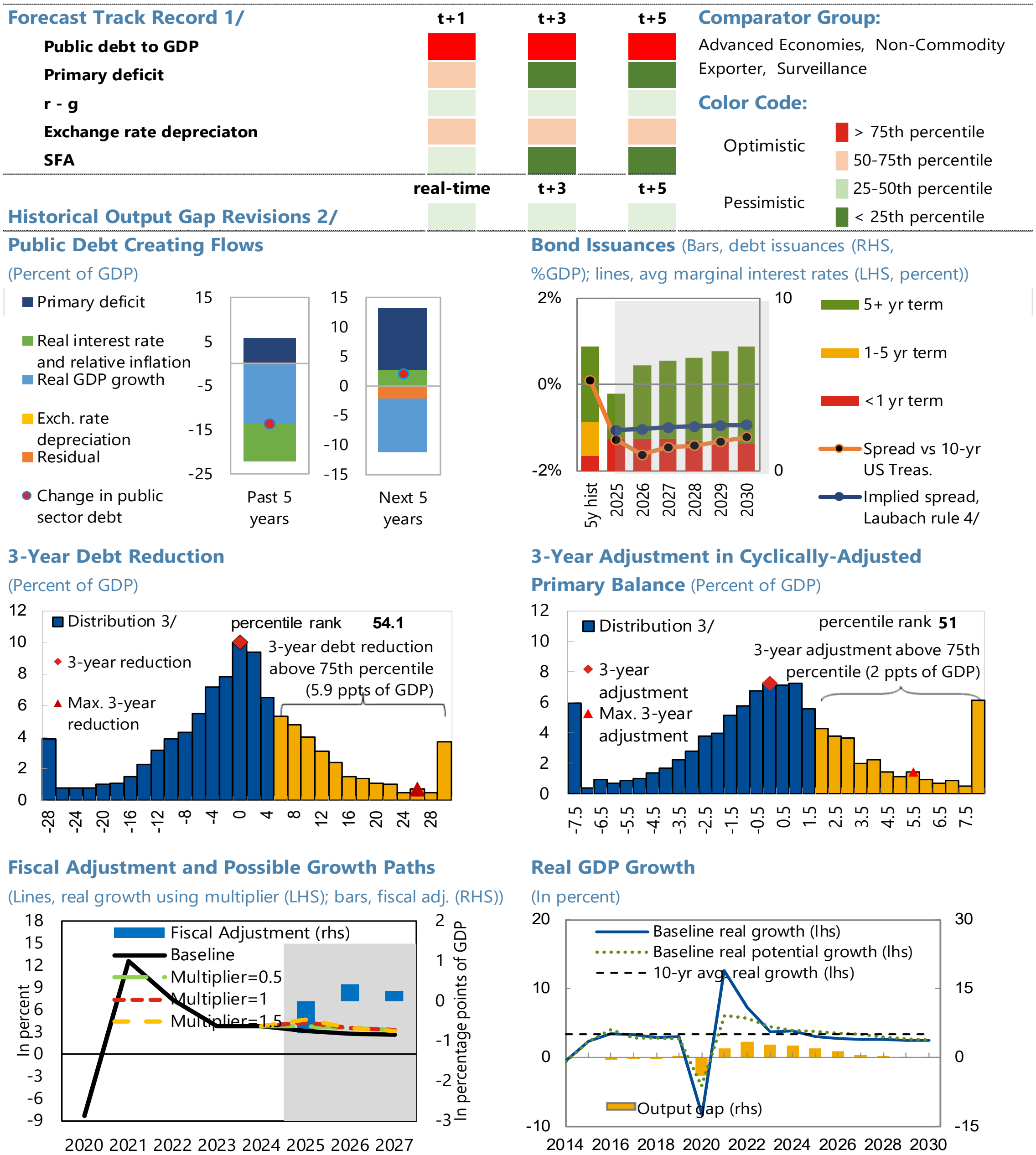
Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 25.0 pct.

Commentary: Medium-term risks are assessed as moderate consistent with the results of the various modules.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

## Annex I Figure 6. Croatia: Realism of Baseline Assumptions




Commentary: The realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms. Baseline assumptions of most debt drivers do not point to a systematic bias in the forecast track record, which is broadly in line with those observed in peer surveillance countries.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

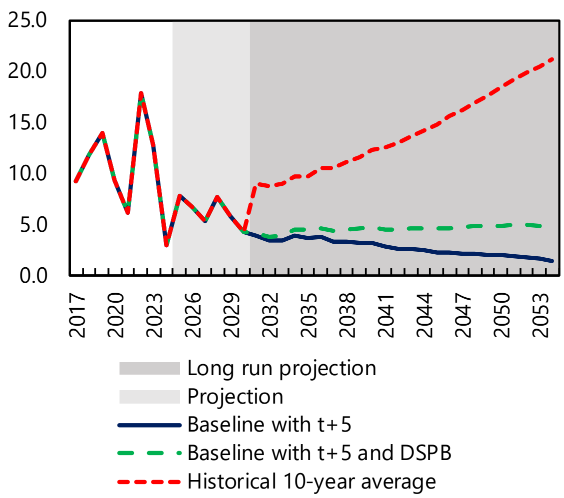
## Annex I. Figure 7. Croatia: Triggered Modules

| | | | |
|---|---|---|---|
| Large amortizations | Pensions | Climate change: Adaptation | Natural Resources |
| | **Health** | Climate change: Mitigation | |

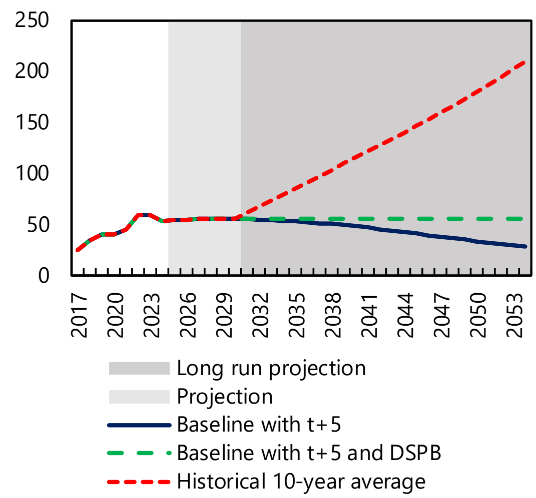
### Long-Term Assessment: Large Amortization

| **Projection** | **Variable** | **Risk Indication** |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |
| Historical average assumptions | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |
| Overall Risk Indication | | |

**GFN-to-GDP Ratio**




**Total Public Debt-to-GDP Ratio**




Commentary: The long term risks are mostly related to the fiscal cost of aging. Public expenditure on healthcare in Croatia is above EU average (7.8 percent of GDP in 2023 versus 7.3 for the EU). According to the 2024 Ageing Report, under the baseline, health care expenditure is projected to increase by 0.8 ppt of GDP between 2024 and 2070. Under the “risk scenario”, which reflects the impact of excess cost growth from technological innovations in the health care sector as well as increased access and improved quality to health services, public health care spending in Croatia would increase by 1.3 ppts of GDP by 2070, relative to its 2024 level.

# Annex II. External Sector Assessment

**Overall Assessment:** Staff assesses that the external position of Croatia in 2024 is moderately weaker than the level implied by fundamentals and desirable policies. As a share of GDP, the current account (CA) balance switched to a deficit in 2024, reflecting a deterioration in the balance of trade in services, while the balance of trade in goods remained broadly stable. Over the medium term, the current account is projected to remain in a deficit.

**Potential Policy Responses:** Reducing fiscal deficits while advancing structural reforms to raise private investment and potential growth would enhance competitiveness. Closely monitoring bank lending to non-tradable sectors such as the real estate market and continuing to calibrate macroprudential policies appropriately as macro-financial conditions evolve will help safeguard macro-financial stability.

**Foreign Assets and Liabilities: Position and Trajectory**

**Background.** The NIIP deteriorated from -26.8 percent of GDP in 2023 to -29.6 percent of GDP in 2024, following years of steady improvement. Gross external debt declined in nominal amount and as a share of GDP relative to 2023, primarily reflecting a reduction in gross external debt held by the central bank.[1]

**Assessment.** External vulnerabilities have been reduced with the strengthening of the NIIP over time. The NIIP is substantially stronger than in 2010, when it stood at around -100 percent of GDP, thanks to periods of current account surpluses. EU funds absorption, and strong GDP growth also helped improve NIIP. The current path of the NIIP, which is considerably above -60 percent of GDP, does not imply high risks to external sustainability or a need for substantial adjustment.

| | | | | | |
|---|---|---|---|---|---|
| 2024 (% GDP) | NIIP: - 29.6 | Gross Assets: 94.3 | Debt Assets: 71.2 | Gross Liab.: 123.8 | Debt Liab.: 66.4 |

**Current Account**

**Background.** The overall current account (CA) balance moved from 0.1 percent of GDP in 2023 to a deficit of 2.2 percent of GDP in 2024. This is mainly due to a decline in tourism exports relative to GDP, while the balance of goods in percent of GDP remained broadly stable. Croatia's current account remains susceptible to external shocks, including a slowdown in Europe through the indirect effect of trade tensions.

**Assessment.** The current account in 2024 is moderately weaker than the level implied by fundamentals and desirable policies. The widening fiscal deficit, including higher wage growth, has fueled domestic demand and imports of services and undermined competitiveness. Adjusting for cyclical contributions, the adjusted CA is estimated to be -1.8 percent against the EBA-lite derived CA norm of 0.1 percent. This implies a negative CA gap of 1.9 percent of GDP. The difference with the norm is driven by a variety of factors, although these estimates are subject to uncertainty.

[1] With Croatia's entry into the euro area in 2023, there was an increase in gross foreign debt for the amount of liabilities related to the distribution of euro banknotes within the Euro system.

**Annex II. Table 1. Croatia: EBA-Lite Model Results, 2024**

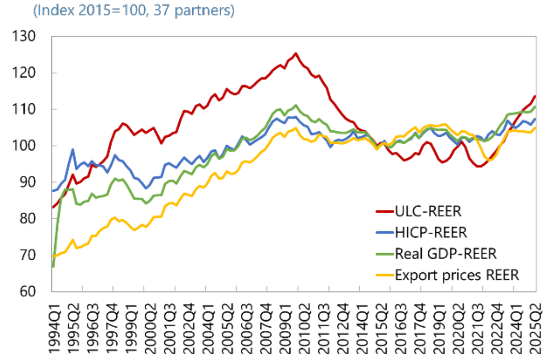
| | CA model 1/ | REER model 1/ |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual** | **-2.2** | |
| Cyclical contributions (from model) (-) | -0.4 | |
| **Adjusted CA** | **-1.8** | |
| **CA Norm** (from model) 2/ | **0.1** | |
| Adjustments to the norm (+) | 0.0 | |
| **Adjusted CA Norm** | **0.1** | |
| **CA Gap** | **-1.9** | **-2.3** |
| o/w Relative policy gap | 0.5 | |
| Elasticity | -0.3 | |
| **REER Gap** (in percent) | **5.8** | **7.1** |

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

## Real Exchange Rate

**Background.** The real effective exchange rate has remained relatively stable in recent years. In 2024, the CPI-based REER appreciated by 0.4 percent y-o-y because of higher inflation in Croatia compared to its trading partners. The appreciation is more evident using different deflators, for instance, ULC-based REER appreciated by 3.2 percent compared to 2023. This is mostly due to an increase in domestic ULC driven by higher wages.

**Croatia: Price Competitiveness**
(Index 2015=100, 37 partners)




Sources: EU Commission, Price and Cost Competitiveness.

**Assessment.** Using standard elasticities of -0.33 of trade to the CPI-REER, the REER gap implied by the CA model points to a 5.8 percent REER overvaluation (after adjustments). Separately, the REER model suggests an overvaluation of 7.1 percent. This indicates a loss in price competitiveness in 2024.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The capital and financial accounts stood at 1.4 and -0.2 percent of GDP, respectively, in 2024. Rising disbursements of NGEU funds have underpinned capital account movements and helped to finance the current account deficit. Inward FDI flows, averaging 5.5 percent of GDP over 2021-24, reflect rising real estate activities and profits of banks and non-financial corporations in foreign ownership. The government, banks, and non-financial corporates all saw increases in investment liabilities in 2024; however, only the corporate sector experienced a commensurate rise in external assets. Nominal gross external debt, *excluding* the CNB's share, increased to about 44.1 percent of GDP compared to 41.8 percent in 2023.

**Assessment.** The government has been able to borrow on favorable terms benefiting from euro adoption and improved credit ratings. While FDI inflows remain a source of strength, the growing reliance on debt-creating flows—if persistent—could increase the economy's vulnerability to shifts in global financial conditions.

## FX Intervention and Reserves Level

**Background.** The euro has the status of a global reserve currency.

**Assessment.** Reserves held by the euro area are typically low relative to standard metrics. The currency floats freely.

# Annex III. Risk Assessment Matrix[1]

| Source of Risks and Likelihood | Impact on Croatia | Recommended Policy Response |
|---|---|---|
| **Global Conjunctural Risks** | | |
| **Geopolitical Tensions**. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains. **High** | Geopolitical tensions may cause disruptions to trade and investment and undermine tourism and confidence. Croatia's energy external dependence is below the EU average, but high volatility of international energy prices could affect domestic inflation. **Medium** | Advance structural reforms to diversify the economy and strengthen competitiveness; continue with good implementation of RRF and reforms; build fiscal buffers; redouble efforts together with other EU countries to deepen the single market and complete its architecture. |
| **Escalating Trade Measures and Prolonged Uncertainty.** Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge — especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang. **High** | The direct impact of the US tariffs is limited, due to the small share of the US in Croatia's exports of goods. The indirect impact through lower growth of key trade partners can be large. **Medium** | Advance structural reforms to diversify the economy and strengthen competitiveness; continue with good implementation of RRF and reforms; allow automatic stabilizers to work fully in case of a large negative impact, provide temporary and targeted support where essential; redouble efforts together with other EU countries to deepen the single market and complete its architecture. |
| **Commodity Price Volatility.** Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability. **High** | Croatia's energy external dependence is below the EU average. However, high volatility of international energy prices could affect domestic inflation expectation and increase uncertainty which could dampen household consumption and firm investment. **Medium** | Provide temporary and targeted fiscal support where essential; tighten further overall fiscal policy stance if higher inflation threatens second-round effects and risks de-anchoring inflation expectations; speed up the green transition to increase energy efficiency and use of renewable energy. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

| Source of Risks and Likelihood | Impact on Croatia | Recommended Policy Response |
|---|---|---|
| **Global Structural Risks** | | |
| **Cyberthreats.** Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability. **High** | Severe cyber incidents, such as a payments system outage, could temporarily dampen consumption and trade, as well as disrupt banking operations. This could weaken confidence and increase financial volatility. **Medium** | Continue to enhance infrastructure and reduce cyber risks; strengthen preparedness. |
| **Climate Change.** Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability. **Medium** | More severe and extreme climate events hurt economic activities and can cause severe economic damage. A disorderly energy transition disrupts domestic economic activities and could give rise to social discontent. **Medium** | Build fiscal buffers; implement the RRF green investments to mitigate and adapt to climate change; continue to invest in climate transition and resilience; build social consensus regarding climate mitigation and transition benefits and risks; implement the recommendations of Climate-PIMA. |
| **Labor Supply Gaps.** Tighter restrictions to migration could worsen labor shortages in aging economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. **Medium** | Croatia has experienced an immigration surge, notably from non-EU countries, with very limited backlash so far. **Low** | Facilitate access to housing, support integration of the increasingly diverse population, and better recognition of foreign qualifications. |
| **Domestic Risks** | | |
| **Overheating.** Recent strong growth turns out to be more cyclical. A continuation of fiscal expansion and/or strong credit growth aggravates emerging imbalances and slows down disinflation. **Medium** | Higher deficits and stronger credit growth could fuel domestic demand, add to inflationary pressures, and undermine competitiveness. This would result in lower potential growth. **Medium to high** | Further tighten fiscal and macroprudential policies as needed; advance structural reforms to reduce supply-side constraints. |
| **Real estate market correction.** A sharp correction of housing prices could temporarily weaken households and banks' balance sheets and trigger abrupt real estate market correction. **Medium** | A large decline in house prices could adversely affect banks' asset quality, leading to tighter lending standards for the rest of the economy. An abrupt market correction could adversely affect selected households' balance sheets, hit construction activity, and weaken confidence and domestic demand. **Medium** | Continue close monitoring of housing market developments and implement necessary macro prudential policies as needed; build fiscal buffers. |
| **Delays in public investment and reforms.** Capacity constraints combined with supply disruptions and labor shortages delay the implementation of key public investment projects and reforms. **Medium** | Delays in implementation of public investment and reforms would negatively affect raising potential growth. **High** | Improve absorption and avoid reform fatigue, invest in new technologies, and improve labor force skills. |

## Annex IV. Implementation of 2024 Article IV Recommendations

| | 2024 Article IV Advice | Actions since 2024 Article IV |
|---|---|---|
| **Fiscal** | Reduce the fiscal stimulus in 2024, meaningfully cut the deficit in 2025 and return to a structural primary balance by 2027. | Fiscal policy was expansionary in 2024–25. The planned return to structural primary balance has been delayed. |
| | Broaden the tax base, including by introducing a value-based property tax and removing the excessively favorable taxation on short-term rental income. | Reform of real estate taxation is at the core of the 2025 tax reform. The property tax remains surface-based, pending the completion of a registry (expected in 2026) that is necessary for a value-based taxation. |
| | Immediately withdraw broad-based cost-of-living measures | Some measures were extended in September 2024 and in March 2025. |
| | Rationalize the public wage bill and ensure sustainable pension and healthcare systems. | The wage policy reform resulted in a large increase in the wage bill compounded by an employment increase. Measures were taken to improve pension adequacy without measures to increase dedicated revenue. |
| | Strengthen corporate governance and fiscal risk management of state-owned enterprises. | A new law was passed in 2025 on the SOEs governance. |
| **Maintaining financial stability** | Continue to assess the need for introducing explicit borrower-based measures. | Borrower-based measures have been introduced and became effective in July 2025. |
| | Continue to diligently monitor credit risks and ensure banks have adequate capital. | Close monitoring of credit risk continues. The authorities have gradually raised the CCyB to 1.5 percent in June 2024 in addition to the existing systemic risk buffer of 1.5 percent. A further increase of the CCyB to 2 percent is scheduled for January 1, 2027. |
| **Advancing structural reform implementation** | Boost housing supply, including better use of the sizable existing vacant stock and | The tax reform implemented in 2025 and the Housing Plan until 2030 aim to incentivize homeowners to rent vacant housing stock for longer time. Work to harmonize the land registry and cadaster is ongoing. |

| | 2024 Article IV Advice | Actions since 2024 Article IV |
|---|---|---|
| | modernizing and streamlining regulations. | |
| | Address AML/CFT deficiencies to exit the FATF's grey list. | FATF removed Croatia from its grey list in June 2025. |
| | Implement broad-based reforms to reduce barriers to entry, improve the regulatory framework and the quality of institutions, and expand financing options for innovative projects. | Croatia adopted a strategic framework for the development of capital market in March 2025 and put in place a plan for 2024–25 to reduce administrative burden for businesses. |
| | Reach the EU's climate mitigation goals via economy-wide carbon pricing, reinforced by sectoral policies and targeted support to the vulnerable. | Croatia submitted its final National Energy and Climate Plan (NECP) on March 31st, 2025, following the launch of an infringement procedure by the European Commission. The country has taken steps to address recommendations under the Effort Sharing Regulation and improve energy efficiency in buildings. |

# Annex V. Convergence and Productivity in Croatia

*Analysis of the convergence process in Croatia shows a mixed picture. While income per capita has been growing rapidly since the mid-2010s, labor productivity still lags that of peer countries, reflecting slow reallocation towards the most productive sectors and lower Total Factor Productivity (TFP) growth. Worsening competitiveness, supply side constraints, in particular labor and skills, and lower preparedness to benefit from artificial intelligence and other technological advances pose risks to the convergence path going forward. As such, safeguarding macroeconomic and financial stability and steadfast implementation of structural reforms are critical to sustaining recent gains.*

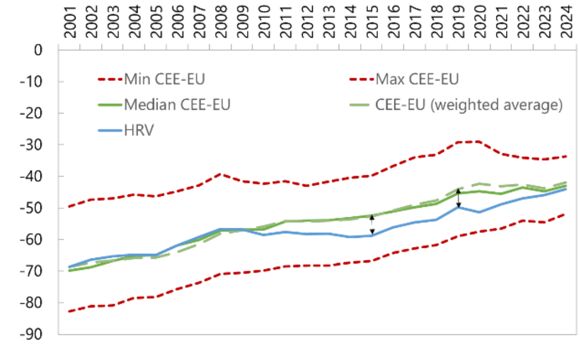
***Overview of the Convergence Process: A Mixed Picture***

**1. After being muted in the wake of global financial crisis (GFC), Croatia's convergence process has gained momentum since 2015, notably in the aftermath of the pandemic.** The income convergence process has in general followed the CEE-EU new member states (CEE-EU NMS) peers[1], with a decoupling following the GFC that has affected deeply the Croatian economy. Since 2015, as in the CEE-EU peers, robust growth performance, combined with a significant drop in population (by an average of 0.7 percent per year over 2015–24, one of the highest in the CEE-EU countries), contributed to close one quarter of the income gap vis-à-vis the U.S. Unlike other CEE-EU countries, the pace of convergence sustained post-pandemic in Croatia, reflecting both structural and cyclical factors. These include greater reliance on tourism which has rebounded swiftly after the COVID, expansionary fiscal policy, a relatively muted monetary tightening cycle due to the euro adoption, and large EU funds absorption.

**2. Relative income gains have been mainly supported by labor and capital accumulation.** In most CEE-EU countries, income convergence has been accompanied by a catch up in TFP. In contrast, Croatia's relative TFP remained constant at about two-third of the U.S. level and explains about 60 percent of the income gap. This suggests that TFP growth has been lower than in the CEE countries. Labor input contributed positively to the convergence—the impact of emigration outflows on labor supply (quantity) has been offset by higher utilization of the labor force since 2014, with increasing participation and employment rates, and more recently accelerated inflows of foreign labor helped reverse the decline in working age population. Capital accumulation is also converging, benefiting from higher investment especially by government and households. Yet, it remains lower than in other advanced economies.

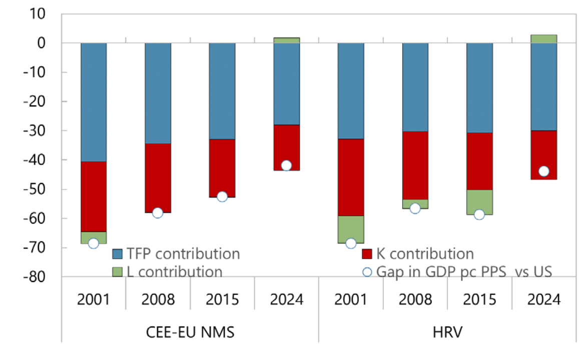
[1] CEE-EU new member states include Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia, and Slovenia.

**GDP (in PPS) per Capita Gap vs US**
(In percent)




Sources: AMECO, WEO and IMF staff calculations

**Contributions to GDP (in PPS) per Capita gap vs US**
(In percent)




Sources: AMECO, WEO and IMF staff calculations

3. **Despite steady growth, labor productivity remains comparatively low, with overall limited reallocation towards more productive sectors.** Except for the post-pandemic period, the growth of gross value added per hour worked has in general lagged that of the CEE peer countries. The good news though is that labor productivity dynamics have been steadily improving since the GFC, reaching about 2 percent per year over 2019–24. This contrasts with the secular slowdown trends observed in the EU and some peers that may have been further exacerbated by labor hoarding in recent years due to tight labor market. Despite these positive developments, productivity levels remain comparatively low. Sector level analysis (using shift share decomposition[2]) shows that labor productivity developments (excluding public services and real estate activities) have been predominately driven by within sector improvements, in particular in tourism-related subsectors as well as construction. Contribution of the industrial sector has declined overtime and the growth acceleration of the sector in 2019–23 appears to be stalling more recently. The reallocation effects, measured by some of the static shift and dynamic shift effects, have increased around the EU accession (2008–18) with a shift toward more productive services (IT, professional, scientific and technical activities), but the effect reversed after the pandemic, mainly driven by the financial sector. Overall, preliminary data for 2024 and early 2025 suggest that the acceleration of labor productivity is losing steam or even reversing in some sectors (e.g., ICT, financial sector, tourism, and industry). In addition to weaker external demand, this could potentially signal increasing capacity constraints and/or competitiveness challenges.

---

[2] Shift–share analysis of labor productivity (see for example McMillan and Rodrick, 2011) is a decomposition method used to understand the sources of aggregate productivity growth. This method identifies whether the change is due to improvements within sectors or to reallocation of resources across sectors. Aggregate labor productivity at time t can be expressed as:

$$P_t = \Sigma_i \theta_{i,t} * p_{i,t}$$

where $p_{i,t}$ is labor productivity in sector i at time t (e.g., output per hour worked) and $\theta_{i,t}$ is the employment (measured by hour worked) share of sector i at time t.

The change in aggregate productivity between period 0 and 1 is decomposed as:

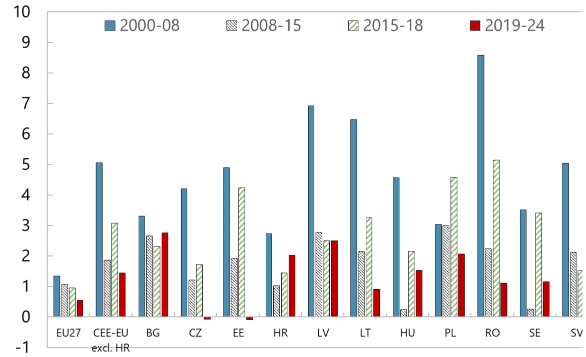
$$\Delta P = \Sigma_i \theta_{i,0} \Delta p_i + \Sigma_i \Delta\theta_i (p_{i,0} - P_0) + \Sigma_i \Delta\theta_i \Delta p_i$$

- Within-sector effect: $\Sigma_i \theta_{i,0} \Delta p_i$
- Between-sector (static shift) effect: $\Sigma_i \Delta\theta_i (p_{i,0} - P_0)$
- Interaction (dynamic shift) effect: $\Sigma_i \Delta\theta_i \Delta p_i$

## Annex V. Figure 1. Croatia: Labor Productivity

### Labor Productivity (GVA per Hour Worked)

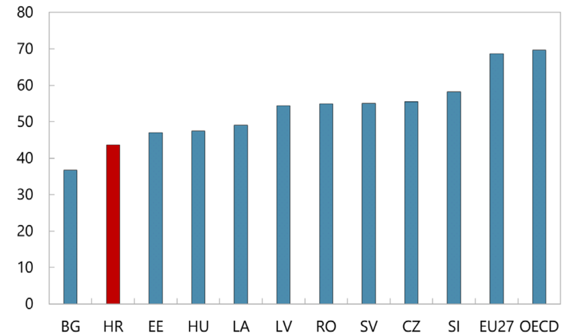
(Compound annual growth rate, in percent)




Sources: Eurostat and IMF staff calculations

### GVA per Hour Worked

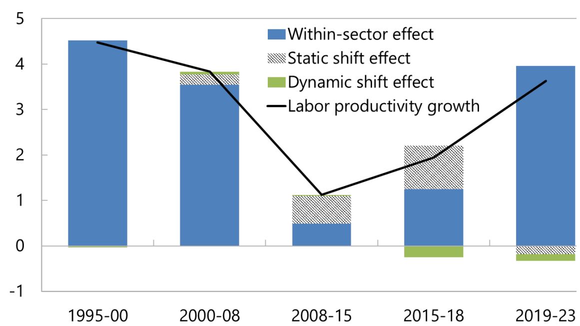
(US dollars per hour, PPP converted, Current prices, PPP converted)




Sources: OECD productivity database

### Decomposition of Labor Productivity Growth

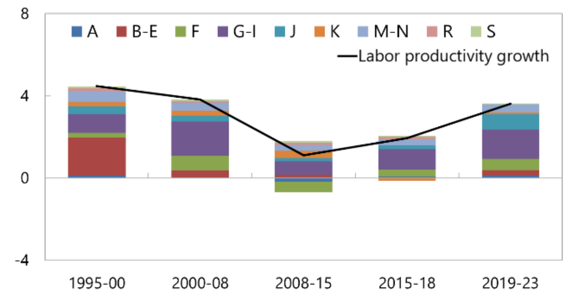
(Percentage points)




Sources: Eurostat and IMF staff calculations.
Notes: The shift share analysis exclude sectors with NACE codes L, O, P, Q, T and U.
There is a break in labor statistics in 2019.

### Industry Contributions to Labor Productivity Growth

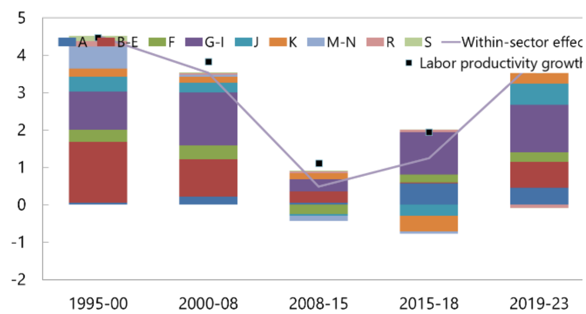
(Percentage points)




Sources: Eurostat and IMF staff calculations.
Notes: The shift share analysis exclude sectors with NACE codes L, O, P, Q, T and U.
There is a break in labor statistics in 2019.

### Industry Contributions to Within-sector Effect

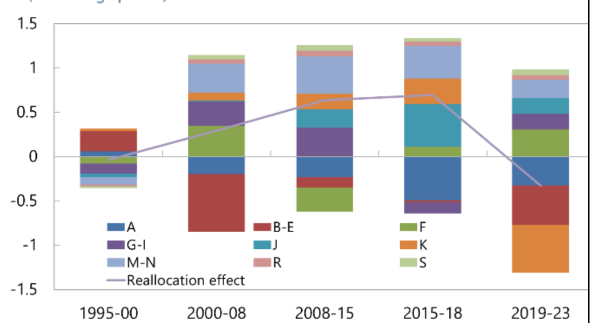
(Percentage points)




Sources: Eurostat and IMF staff calculations.
Notes: The shift share analysis exclude sectors with NACE codes L, O, P, Q, T and U.
There is a break in labor statistics in 2019.

### Industry Contributions to Overall Reallocation Effect

(Percentage points)



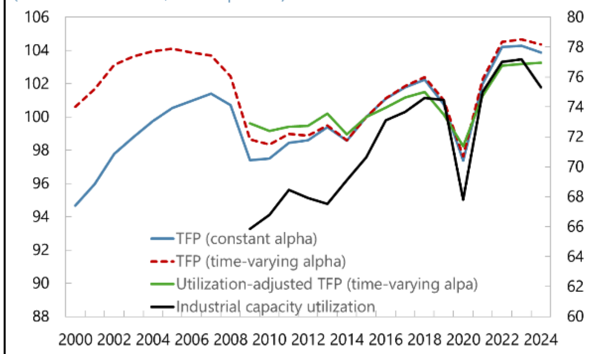

Sources: Eurostat and IMF staff calculations.
Notes: The shift share analysis exclude sectors with NACE codes L, O, P, Q, T and U.
There is a break in labor statistics in 2019.

Notes: NACE codes are as follows: A-Agriculture; B-E industry excluding construction; F-construction; G-I wholesale and retail trade, transport, accommodation and food service activities; J-information and telecommunication; K-Financial service, M-N professional, scientific and technical activities; administrative and support service activities; R-arts, entertainment and recreation; S: other services.

**4. Notwithstanding significant measurement uncertainty, TFP growth seems positive but low.** Growth accounting using the standard Cobb-Douglas production function suggests that TFP growth has accelerated since the GFC, although still low relative to that of peers. These developments could reflect an increase in capacity utilization, which is partly cyclical. Moreover, potential underestimation of foreign labor calls for caution in overinterpreting these results. In the 2024 Article staff report, staff analysis using firm-level data found that TFP was stagnant over 2008–21 and pointed to weak business dynamism and financial constraints for innovative projects as obstacles to productivity growth.

**TFP and Capacity Utilization**

(LHS: index 2015=100, RHS: in percent)



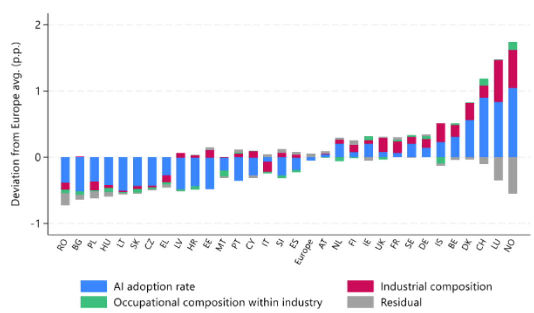

Sources: AMECO, eurostat and IMF staff calculations

***Sustaining Convergence***

**5. Looking ahead, the convergence momentum faces a number of challenges.**

- **Technological divergence:** Faster adoption of artificial intelligence and digital technologies in frontier economies and their economic structure put them in a better position to benefit from this advancement. Despite the EU funding, Croatia's innovation ecosystem and regulatory framework remains underdeveloped, with limited private-sector R&D and slow technology diffusion. Moreover, human capital seems also to be a key constraint. Staff analysis suggests that barring reforms, TFP losses compared to the EU could reach 0.5 percent in the next five years.

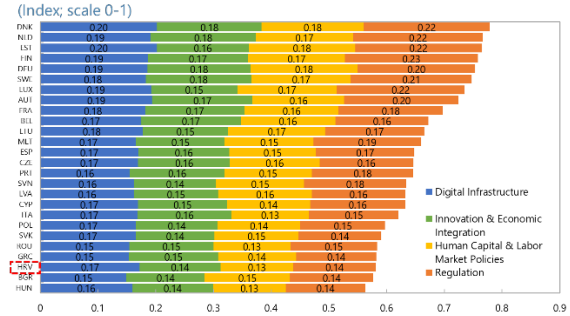
**5-year Medium-term TFP Gains due to AI**




Sources: Eurostat, EU LFS, EU SILC, and IMF staff calculations.
Note: The bars decompose the deviations of each country's cumulative medium-term productivity impact from the European average under the preferred scenario. The decomposition contains three components: AI adoption rates, the composition of industries in value added, and the composition of occupations within industries. The gray bars report the residual from the decomposition. 'Europe' refers to the average of the countries in our sample.

**AI Preparedness Dimensions Across Europe**

(Index; scale 0-1)




Sources: Cazzaniga and others, 2024.
Note: The figure shows the contribution of digital infrastructure, innovation and integration, human capital and policies, and regulation and ethics to AI preparedness by country. The length of the bar indicates AI preparedness score.

- **Demographic challenges and brain drain:** Skilled labor emigration could further undermine labor quality and innovation potential, putting a drag on labor productivity. At the same time, effects of emigration on labor supply could become more important, given tighter labor market (low structural unemployment), larger skills mismatches, and aging population.

- **Real appreciation and competitiveness risks:** Buoyant domestic demand and wage pressures have contributed to real appreciation of ULC-based effective exchange rate (13 percent since 2021), undermining external competitiveness. The rapid rise in real estate prices could exacerbate these trends, hinder labor mobility, and contribute to inefficient allocation of capital.

# Annex VI. Data Issues

## Annex VI. Table 1. Croatia: Data Adequacy Assessment for Surveillance

| Data Adequacy Assessment Rating 1/ | | | | | | | |
|---|---|---|---|---|---|---|---|
| A | | | | | | | |
| Questionnaire Results 2/ | | | | | | | |
| **Assessment** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
| | A | A | A | A | A | A | A |
| Detailed Questionnaire Results | | | | | | | |
| **Data Quality Characteristics** | | | | | | | |
| Coverage | A | A | A | A | A | | |
| Granularity 3/ | B | | A | A | A | | |
| | | | A | | A | | |
| Consistency | | | A | A | | A | |
| Frequency and Timeliness | A | A | B | A | A | | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund are adequate for surveillance. |
| B | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |
| C | The data provided to the Fund have some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |

**Rationale for staff assessment.** Data provision to the Fund is adequate for surveillance purposes. National accounts have strengthened in recent years. The breakdown of gross fixed capital formation into private and public components is published on Eurostat (annual frequency). Various bases of reporting are used for budgetary, financial, and statistical reports. Croatia produces general government statement using the ESA10 framework; however, the State and Local budgets are still based on the national Chart of accounts. The consolidation process involves several adjustments to the source data. Fiscal reporting can be improved (see below).

**Changes since the last Article IV consultation. There is no major change since the last Article IV consultation**

**Corrective actions and capacity development priorities**. The authorities are working to expand the quarterly account coverage (public vs. private investment, income). Technical assistance financed by the European Commission and provided by the IMF has been covering the modernization of accounting and state budget execution processes. Specifically, this ongoing FAD CD project supports the Ministry of Finance in Croatia to plan for reforms in their accounting framework and IT-system that will better support fiscal reporting on a cash and accrual basis (financial, budgetary and statistical) in line with international guidelines and standards. The current phase of the project is about supporting planning of the reforms and only in a follow-up phase will the actual implementation take place.

**Use of data and/or estimates different from official statistics in the Article IV consultation**. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

**Other data gaps**. Croatia has no major data gaps on climate or any other topic relevant for Fund surveillance not covered by the previous analysis (there are efforts to collect more granular data at the EU level); it regularly reports data to Eurostat when required to do so; there are no discrepancies in data reporting compared to other EU countries. Data gaps are however present on the composition and profile of the migrant population.

## Annex VI. Table 2. Croatia: Data Standards Initiatives

Croatia subscribes to the Special Data Dissemination Standard (SDDS) since May 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

## Annex VI. Table 3. Croatia: Table of Common Indicators Required for Surveillance

(as of November 3, 2025)

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expected Frequency[6,7] | Croatia[8] | Expected Timeliness[6,7] | Croatia[8] |
| Exchange Rates | Oct-25 | Oct-25 | D | D | D | ... | ... | ... |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Sep-25 | Oct-25 | M | M | M | M | 1W | NLT 1M |
| Reserve/Base Money | - | - | - | - | M | M | 2W | 2W |
| Broad Money | - | - | - | - | M | M | 1M | 1M |
| Central Bank Balance Sheet | Sep-25 | Oct-25 | M | M | M | M | 2W | 2W |
| Consolidated Balance Sheet of the Banking System | Sep-25 | Oct-25 | M | M | M | M | 1M | 1M |
| Interest Rates[2] | Oct-25 | Oct-25 | M | M | D | ... | ... | ... |
| Consumer Price Index | Sep-25 | Oct-25 | M | M | M | M | 1M | NLT 3W |
| Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4] | 2025Q1 | Jul-25 | Q | Q | A | Q | 2Q | NLT 4M |
| Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government | 2025Q2 | Oct-25 | M | Q | M | A | 1M | NLT 5M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | - | - | - | - | Q | Q | 1Q | 1Q |
| External Current Account Balance | 2025Q2 | Sep-25 | Q | Q | Q | Q | 1Q | 1Q |
| Exports and Imports of Goods and Services | 2025Q2 | Sep-25 | M | M | M | M | 8W | 1M |
| GDP/GNP | 2025Q2 | Oct-25 | Q | Q | Q | Q | 1Q | 1Q |
| Gross External Debt | 2025Q2 | Sep-25 | Q | Q | Q | Q | 1Q | 1Q |
| International Investment Position | 2025Q2 | Sep-25 | Q | Q | Q | Q | 1Q | NLT 1Q |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

# REPUBLIC OF CROATIA

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 20, 2025


Prepared By

European Department in Consultation with Other Departments


## CONTENTS

# FUND RELATIONS

(As of November 14, 2025)

**Membership Status:** Joined: December 14, 1992; Article VIII

| **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 717.40 | 100.00 |
| Fund holdings of currency (Exchange Rate) | 682.14 | 95.08 |
| Reserve Tranche Position | 35.47 | 4.94 |

| **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 1,034.94 | 100.00 |
| Holdings | 1,035.02 | 100.01 |

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Aug 04, 2004 | Nov 15, 2006 | 99.00 | 0.00 |
| Stand-By | Feb 03, 2003 | Apr 02, 2004 | 105.88 | 0.00 |
| Stand-By | Mar 19, 2001 | May 18, 2002 | 200.00 | 0.00 |

**Projected Payments to Fund**[1]
**(SDR Millions; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Principal | 0 | 0 | 0 | 0 | 0 |
| Charges/Interest | 0 | 0 | 0 | 0 | 0 |
| **Total** | 0 | 0 | 0 | 0 | 0 |

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Exchange Rate Arrangements:**

The currency of Croatia is the euro. The exchange rate arrangement of the euro area is free floating. Croatia participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Croatia has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

**Anti-Money laundering and Financing of Terrorism:**

The 5$^{th}$ Anti-Money Laundering Directive of the EU was transposed in 2019. In June 2023, Croatia was added to the list of countries under increased monitory (the so-called grey list). The country has been removed from the list in June 2025 (FATF monitoring June 2025).

**Article IV Consultation:**

The previous Article IV consultation with Croatia was concluded on July 26, 2024 (IMF Country Report No. 2024/246): Republic of Croatia: 2024 Article IV Consultation-Press Release and Staff Report (imf.org). Croatia is on the 12-month consultation cycle.

**FSAP:**

An FSAP Update mission took place in October–November 2007. The FSSA Update was published (IMF Country Report No. 160: http://www.imf.org/external/country/hrv/index.htm).

The original FSAP was concluded with the completion of the 2002 Article IV consultation on August 5, 2002, on the basis of missions that took place in April 2001 and September 2001. The FSSA was published (IMF Country Report No. 02/180: http://www.imf.org/external/country/hrv/index.htm).

**Technical Assistance 2000–present:**[2]

| Department | Timing | Purpose |
|---|---|---|
| FAD | April 2000 | Implementation of Single Treasury Account |
| | May 2000 | Tax Policy |
| | September 2001 | Fiscal Decentralization |
| | March 2002 | Fiscal Management (with STA) |
| | September 2003–March 2004 | A Resident Advisor on Fiscal Reporting |

[2] Technical assistance during 1992–99 is listed in Annex I of IMF Country Report No. 03/27.

| | |
|---|---|
| February 2004 | Public Debt Management Program (with World Bank) |
| May 2004 | Public Expenditure Management |
| May 2004 | Fiscal ROSC |
| April 2005 | Review of Indirect Tax Performance and Tax Administration |
| June 2006 | Regional Public Financial Management (PFM) Advisor |
| February–March 2007, July 2008, February–March 2009 | Revenue Administration (with World Bank) |
| April 2007 | Public-Private Partnerships |
| May 2007 | Tax Policy (with World Bank) |
| January–February 2008 | Short-Term Expenditure Rationalization |
| February 2010 | PFM (long-term advisor visit) |
| October 2010 | Regional expert participation on seminar on Croatian budget management and fiscal policy |
| March 2011 | Short-term expert visit on Tax Administration Reform |
| June 2011 | Short-term expert participation at OECD meeting |
| June 2012 | Options for Modernizing the Property Tax Government Opportunities for Strengthening the Tax Administration (HQ mission) |
| October 2012 | Short-term expert visit on phasing in a modern Compliance Risk Management Model |
| October 2012 | Short-term expert visit on improving tax administration governance and organization structures |
| April 2013 | Public Financial Management: Budget Procedure |
| April–May 2013 | Fiscal Rules |
| June 2013 | Strengthening Tax Administration Governance |
| December 2014 | Workshop on Public Expenditure Review (Expert visit) |
| October 2019 | International Public Sector Accounting Standards Gap Analysis and Budgetary Linkages |
| September 2021 | Public Investment Management Assessment (PIMA) and Climate-PIMA pilot |
| | PIMA Follow Up |
| September 2023 | State-owned enterprises (SOE) Oversight and Risk Management (HQ mission) |

| | | |
|---|---|---|
| | October–November 2023 | |
| | September 2024 | Modernizing Budgetary, Accounting, and Statistical Reporting—As-Is Analysis |
| | January–March 2025 | Accounting Gap Analysis and Cash-flow Statement |
| | April 2025 | IPSAS Gap Analysis and Budget Cash Management & Modernizing Accounting and State Budget Execution Processes & Modernizing Budgetary, Accounting, and Statistical Reporting Project: Accounting Standards, Reporting Formats, and IT Framework Analysis |
| | September 2025 | Modernizing Accounting and State Budget Execution Processes & Developing a Roadmap for Fiscal Reporting Reforms |
| STA | March 2000 | Quarterly National Accounts |
| | September 2000 | Balance of Payments |
| | October 2000 | Real Sector Statistics |
| | April 2001 | Monetary and Banking Statistics |
| | November 2001 | Regional Visit on Reserves Data Template |
| | October 2002, June 2004 | Government Finance Statistics |
| | | Monetary and Financial Statistics |
| | September 2006 | LTE: Government Finance Statistics |
| | December 2007 | |
| MCM | May–June 2000 | Coordination between CNB and the Ministry of Finance, Central Bank Law, Banking Law, and Money and Securities Markets |
| | March–April 2001 | Central Bank Accounting |
| | December 2001 | Monetary Policy Instruments |
| | April 2003 | Stress Testing and FX Reserve Management |
| | | Monetary Policy Instruments |
| | February 2004 | Macro-Financial Modeling and Forecasting |
| | January 2007–continuing | Macro-Financial Modeling and Forecasting |
| | May 2007 | Modeling and Forecasting |
| | June 2007 | Modeling and Forecasting |
| | September 2007 | FSAP Update |
| | October 2007 | Modeling and Forecasting |
| | November 2007 | Modeling and Forecasting |
| | March 2008 | |

| | | |
|---|---|---|
| | August 2008<br>February 2009<br>July 2009<br>May 2010<br>November 2011<br>March 2013 | Macro-Financial Modeling and Forecasting<br><br><br>Macro-Financial Modeling and Forecasting<br>Macro-Financial Modeling<br>Monetary Policy and Modeling<br>Macro-Financial Modeling and Forecasting<br>Macro-Financial Modeling and Forecasting<br>Macro-Financial Modeling and Forecasting |
| LEG | January 2010–April 2011 | AML/CFT—Risk based supervision in non-financial sectors |
| | May 2011–April 2012 | AML/CFT—Strengthening the FIU and risk-based supervision in non-financial sectors |
| | December 2011–April 2013 | AML/CFT—Preliminary National Risk Assessment |

# WORLD BANK RELATIONS

Croatia has been collaborating with the World Bank Group.

Further information can be obtained from the following hyperlink.

| International Financial Institution | Hyperlink |
|---|---|
| The World Bank Group | https://www.worldbank.org/en/country/croatia |