

# Croatia Business Forecast Report Q3 2014

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## Abstracts

### Core Views

Croatia's economy will shrink for a sixth consecutive year in 2014, with the outlook for private consumption set to show barely any improvement over the coming quarters.

Although structural and competitiveness issues will keep a lid on export growth, weak domestic demand will ensure Croatia's current account remains in surplus over the next few quarters. We forecast the current account to come in at 0.1% of GDP in 2014.

Croatia's fiscal position poses one of the most significant threats to the country's economic recovery. Weak revenue growth will ensure that ambitious EU deficit reduction targets are missed, casting further doubts over the credibility of Croatia's sovereign credit risk profile. Inflationary pressures will remain subdued over the coming quarters, averaging just 1.8% in 2014. Although absent demand-pull pressures will keep price growth dangerously close to deflation, increased spending during the summer tourist season should avert a potential deflationary spiral.

Regional tensions will remain elevated in 2014, due to Croatia's ongoing disputes with both Serbia and Hungary. Croatia's relationship with the EU is also likely to remain under strain, as the country's position within the bloc comes under pressure from the fallout from a difficult first year as a member state.

### Major Forecast Changes

We have revised down our real GDP forecast to -0.3% in 2014, from 0.4% previously, against the backdrop of an increasingly bleak outlook for consumer spending over the coming quarters. We now forecast the current account surplus to come in at 0.1% in 2014, from a previous forecast of 0.3%

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Regional tensions will remain elevated in 2014, due to Croatia's ongoing disputes with Serbia and Hungary. Croatia's relationship with the EU is also likely to remain under strain, as the country's position within the bloc comes under pressure from the fallout from a difficult first year as member.

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