

## Croatia Trade Brief

### Trade Policy

Croatia was one of the most developed republics of former Yugoslavia and is now classified as a high-income country. With its trade liberalization encouraged by the WTO accession in 2000, Croatia today, based on its 4 percent MFN Tariff Trade Restrictive Index (TTRI)<sup>1</sup>, has a trade regime very similar to that of the average high-income non-OECD or high-income country (4 and 3.9 percent, respectively). Based on the MFN TTRI, it ranks 22<sup>nd</sup> out of 125 countries (where 1<sup>st</sup> is least restrictive). Croatia's trade barriers for agricultural goods (12.8 percent) are higher than those for non-agricultural goods (3.2 percent). The country's simple average MFN applied tariff is 5 percent, but, taking into account preferences, the applied tariff is 4.3 percent. The maximum MFN applied tariff (excluding alcohol and tobacco) is 60.6 percent, which is lower than the regional average of 112.5 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has not changed much in recent years and was 1.4 percent in 2008. Based on the extent of its commitment to trade liberalization in services, Croatia ranked 28<sup>th</sup> out of 148 countries on the GATS Commitment Index.

In the context of rising food prices and in an attempt to increase domestic availability and to stabilize domestic grain prices, Croatia placed temporary export taxes on wheat and corn,<sup>2</sup> which lasted until July 31, 2008, and a temporary export tariff on oil rape from August till end of 2008. Also, at the beginning of 2009, in the context of the global economic downturn, the government adopted a set of anti-recession measures, including measures to strengthen the tourism sector

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Croatia Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at <http://www.worldbank.org/wti>.

(the main component of Croatia's service export) and to attract FDI. The government also announced that the control of imported goods will be stepped up.<sup>4</sup> Croatia introduced safeguard duties on several cheese imports in June 2009.<sup>5</sup>

### External Environment

Judged by its 3.2 percent Market Access TTRI<sup>6</sup> (including preferences), Croatian exports have worse access to international markets than those of an average high-income non-OECD country (2.7 percent), but better access than those of an average high-income country (3.6 percent). The weighted average rest of the world tariff (including preferences) faced by Croatian exports is 2.5 percent, corresponding to 15.1 percent for agricultural products and 0.8 percent for non-agricultural products. In nominal terms, the Croatian kuna appreciated by 8 percent against the U.S. dollar in 2008.<sup>7</sup> However, there was a marked depreciation in the second half of the year, which has been followed by a gradual appreciation during 2009. In respect to the euro, the kuna has in nominal terms steadily appreciated for most of 2008, until it started depreciating from November 2008. However, it has again appreciated in 2009, and since June has gone back to approximately the same exchange rate as in the beginning of 2008.<sup>8</sup>

Croatian exports benefited from good access to the EU market under the trade provisions of the Stabilization and Association Agreement since 2002, and before that through the Autonomous Trade Preferences (ATPs) which were granted by the EU in 2000. EU accession remains a priority for the country, and the negotiations have been ongoing since 2005. Croatia has been a party to the Central European Free Trade Agreement (CEFTA) since 2003, thanks to which it is in a free trade area with its second biggest export market, Bosnia and Herzegovina (BiH). However, its agricultural exports might be adversely affected in the near future as the BiH parliament has adopted a law that re-imposes MFN duties on agricultural products from Serbia and Croatia. For now, the application of tariffs is suspended as the BiH Constitutional Court is reviewing the constitutionality of the law.<sup>9</sup>

## Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Croatia ranked 103<sup>rd</sup> out of 183 countries in the 2010 Ease of Doing Business index. Croatia's Logistics Performance Index score, which reflects the extent of trade facilitation in the country, is below the income group average, reflecting a less conducive climate for trade. Croatia scores 2.71 on a scale of 1 to 5, with 5 being the highest score, while the average for the high-income group is 3.67. Croatia is ranked 63<sup>rd</sup> out of 150 countries in the world. Its strongest logistics indicator is the timeliness of shipments in reaching their destinations, while its weakest one is the efficiency and effectiveness of customs and other border procedures.

## Trade Outcomes

Croatia's trade growth, in real (constant 2000 U.S. dollars) terms, dropped from an average rate of 5.4 percent over the 2005–07 period to 2.8 percent in 2008, and is expected to turn negative in 2009, with trade falling by 1.3 percent. The slowdown was affected by a fall in both import and export growth (from 5.9 percent in 2007 to 3.6 percent in 2008 and from 4.8 to 1.7 percent, respectively). The two are expected to decline further in 2009, with a steeper fall in imports, as the economy cools.

In nominal U.S. dollar terms, trade growth was the same in 2008 as the year before (18.2 and 18.3 percent, respectively). A marginal drop was recorded in the nominal growth rate of imports of goods and services (from 19.5 percent in 2007 to 18.7 percent in 2008), but this was offset by a marginal increase in the nominal growth rate of exports (from 17.1 percent in 2007 to 17.6 percent in 2008). National statistics point to goods imports growing by 18.9 percent in 2008 (compared to 20.9 percent in 2007) and export growth slowing to 14.2 percent (compared to 19.1 percent in 2007).<sup>10</sup> While growth of goods trade decelerated, growth of services trade accelerated in 2008, in comparison to 2007. This is due to growth in Croatia's tourism industry, which saw 9.3 million tourist arrivals in 2007 and was the 24<sup>th</sup> most popular tourist destination. However, due to the global economic slowdown, it is projected that nominal trade of both goods and services will follow a similar downward pattern in 2009, with the steeper decline in imports causing a contraction of the trade deficit. Already in the last quarter of 2008 and first quarter of 2009, Croatian exports recorded negative growth on a year-on-year basis, after constantly recording positive

growth since the second quarter of 2002. Imports followed a similar negative trend, contracting even more than exports in nominal U.S. dollar terms in the first half of 2009 (by 37 percent, as compared to the 29.5 percent contraction of exports).<sup>11</sup> As projected, the service sector is also affected, with tourist arrivals dropping by 5 percent in the first seven months of 2009, compared to the same period in 2008.<sup>12</sup> Top commodity exports in 2008 were ships, heavy petroleum, electric power transmitting equipment, furniture, and manufactured fertilizers; while the main destination markets included Italy, Bosnia and Herzegovina, Germany, Slovenia, and Austria. The EU was the destination for 61 percent of exports in 2008, but there was a significant drop in exports to new EU member states. FDI as a share of Croatia's GDP fell to 6.3 percent in 2008 from 8.5 percent the year before.

## Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. World Bank, June 5, 2008, p. 21.
3. Hina, February 26, 2009.
4. Government of the Republic of Croatia, June 19, 2009.
5. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
6. IMF, August 2009.
7. Wemer Antweiler, 2009.
8. Global Trade Alert, July 2, 2009.
9. Croatian Bureau of Statistics, 2009.
10. Croatian National Bank, 2009.
11. Ministry of Tourism of the Croatian government, August 7, 2009.

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