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THE SIGNS OF DUTCH DISEASE IN CROATIA

Abstract:

Croatia is the EU member specific by the highest share of tourism in GDP, making one-fifth of it. As tourism is prone to various external factors that are out of state control (clearly visible in the current coronavirus pandemic), along with its growing share in Croatia, the question of Dutch disease arises. The Dutch disease phenomenon refers to the state where one booming sector (e.g. natural resources, which are impersonated by tourism in this case) causes adverse effects on other sectors (e.g. manufacturing sector, industry) which finally leads to the decline in the economy's international competitiveness and deindustrialization. A core model of Dutch disease explains that a large inflow of foreign money will appreciate real exchange rate and cause both the spending and reallocation of resources between non-tradable and tradable sectors thus causing deindustrialization. The aim of this paper is to investigate whether the increasing tourism sector in Croatia has caused resource movement from other sectors towards the tourism sector which would confirm the presence of Dutch disease. Based on Croatian data in period 1995-2019 we conclude that (i) Croatia is highly specialized in tourism with (ii) tourism being a more important growth factor than industry and (iii) a highly important export category; also, (iv) there is a positive relationship between the tourism revenues growth and a number of employees in the tradable sector, and negative between the tourism revenues growth and a number of employees in the non-tradable sector; finally (v) the growth of tourism revenues did not lead to an appreciation of the real effective exchange rate. We conclude that Croatia is not sick with the Dutch disease but if the rapid growth of the tourism sector in Croatia continues, there could be negative effects of the Dutch disease in the future.

Keywords:

Dutch disease, Tourism, Exchange rate, Croatia

JEL Classification: F31, L83, P28