

# Responding to the Coronavirus Crisis

## Update on Croatia (10/07/20)



### EBRD Policy Comparator

Financial Sector			Direct support to firms					Payment holidays			Temporary controls		Support to individuals				Increased social benefits			Health	External Assistance
Policy rate reduced	Liquidity increased	Prudential req. loosened	Wage subsidies	Tax/ social sec. contr. deferred	Loan subsidies	Guarantees	Inspections/ audits suspended	Loans	Rent	Utilities	Prices	Exports	Universal transfers	Self-employed	Pensioners	Low income households	Enhanced sick leave	Enhanced unemp. benefits	Public works	Additional spending	(available or negotiated)
*	*	*	*	*		*		*			*		*	*	*	*				*	*

### Economic channels of disruption

#### Tourism, private consumption, goods exports

- A key channel for disruption is tourism (20% of GDP). Drop of 75-80% tourist arrivals in March y/y, almost a standstill in April and May, and a drop of 71% y/y in June, as the country opened its borders for a number of EU countries, from end of May, including for its main tourist source countries.
- Spillover effects from tourism are already affecting the labour market - 25% of employed in Croatia on temporary contracts - as unemployment rose to 9%.
- Containment measures (imposed from mid-March, although somewhat relaxed from May) are exacerbating drop in consumption, especially for social categories and durables (42% of consumption, or 25% GDP). In addition, the Eurozone recession and Croatia's high exposure to the heavily hit Italian economy (15% of total goods exports), is disrupting exports.
- Croatia is still proceeding with the Action Plan on Euro adoption, aiming to enter the ERM2 as early as the second half of 2020.

#### Selected crisis impact indicators

EBRD GDP growth outlook 2020: -7%; 2021: 6%

GDP growth Q1 2020 0.4% y/y

Economic sentiment (ESI) (June 2020) 84.8 (79 in May and 72.3 in April)

Retail sales (March/April/May 2020) -3.9% y/y, -22% y/y, -4.2% y/y

Industrial output (March/April/May 2020) -3.0% y/y, -10.9% y/y, -14.6% y/y

Construct. output (March/April 2020) -0.9% y/y, -4.7% y/y

Unemployment rate (May 2020) 8.9%, up from 6.2% in Feb

CPI Inflation (May 2020) -0.6% y/y

### Crisis response measures to date

#### Support for firms, healthcare, individuals, banking sector and FX stability

- Interest-free loans to local governments, Health and Pension Insurance Funds, to cover deferred payments; salary increases in healthcare.
- Increase in minimum wage of 23% (by ca. 100 EUR) to HRK 4,000 (530 EUR) costing 2.1% GDP, on top of the full subsidisation of net minimum wages and social contributions for 3 months in the affected sectors (1% GDP).
- Deferral or full exemption of public obligations (i.e. taxes, contributions etc.) for three months (or more) for firms, depending on revenue impact and size.
- Loan repayment moratorium for 3 months; Croatian Bank for Reconstruction and Development (HBOR) to provide liquidity loans and guarantees.
- The CNB provided liquidity to banks via repo transactions, established a swap line with the ECB, in the amount of EUR 2 billion, decreased the reserve requirement from 12% to 9%, eased the regulatory burden on banks and intervened a number of times to mitigate depreciation pressures. In addition, the CNB has introduced a repurchase of government bonds, in a QE like move, to support the crisis response.

#### Selected crisis response indicators

Crisis response package (% of GDP) ca. 7%

Support to employee salaries (% of GDP) 2.1% (ca. 30% of employees to receive aid)

Support per employee salary HRK 5,460 (ca. EUR 700)

Payment holidays for taxes 3 months, may be extended by another 3

Banking sector liquidity injection (% of GDP) 1.6%

Committed external assistance est. EUR 10 bn (EU funds)

### Key short-term priorities

Provide liquidity to the economy, particularly SMEs and the tourism sector, as well as revenue support to affected individuals