Responding to the Coronavirus Crisis
Update on Croatia (06/04/20)

Key short-term priorities
Provide liquidity to the economy, particularly SMEs and the tourism sector; revenue support to affected individuals; ensure the stability of the Kuna; alleviate the consequences of the Zagreb earthquake.

**EBRD Policy Comparator**

<table>
<thead>
<tr>
<th>Financial Sector</th>
<th>Direct support to firms</th>
<th>Payment holidays</th>
<th>Temporary controls</th>
<th>Support to individuals</th>
<th>Increased social benefits</th>
<th>Health</th>
<th>External Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy rate</td>
<td>Liquidity increased</td>
<td>Prudential req. loosened</td>
<td>Wage subsides</td>
<td>Tax/social sec. contr. def.</td>
<td>Loan</td>
<td>Guarantees</td>
<td>Insolvency/ austerity suspended</td>
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<td>reduced</td>
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**Economic channels of disruption**

**Tourism, private consumption, goods exports**
- A key channel for disruption is tourism (more than 20% of GDP). Drop of 75% tourist arrivals in March y/y
- Spillover effects from tourism will affect the labour market - 25% of employed in Croatia on temporary contracts.
- Containment measures will exacerbate drop in consumption, especially for social categories and durables (42% of consumption, or 25% GDP)
- Goods exports (30% of GDP) and value chains, will be disrupted given the high exposure to the Italian economy (15% of total exports)
- Rental prices have decreased by 20% and property sales slowed down
- Croatia is still proceeding with the Action Plan on Euro adoption, aiming to enter the ERM2 as early as the second half of 2020.

**Crisis response measures to date**

**Support for firms, healthcare, individuals, banking sector and FX stability**
- Interest-free loans to local governments, Health and Pension Funds, to cover deferred payments; salary increases in healthcare
- Increase in minimum wage of 23% (by ca. 100 EUR) to HRK 4,000 (25 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, decreased the reserve requirement from 12% to 9%, eased the regulatory burden on banks and intervened a number of times to mitigate depreciation pressures.

**Selected crisis response indicators**

- **Crisis response package (% of GDP)** ca 7%
- **Support to employee salaries (% of GDP)** 2.1%
- **Payment holidays for taxes** up to HRK 5,460 (ca. 700EUR)
- **Banking sector liquidity injection (% of GDP)** 1.6%
- **Committed external assistance** EUR 1.16 bn (EU CRII)

**Selected crisis impact indicators**

- **EBRD GDP growth outlook (April 2020)**
  - 2020: recession
  - 2021: strong recovery
- **Economic sentiment (March 2020):** ESI 103.3 (down 9.3 points m/m)
- **Industry sentiment (March 2020):** -1.6 (ESI) (down 8.2 points m/m)
- **CROBEX (April 01 2020):** 1472 (down 26% since January 02)
- **Unemployment indicator:** 13,000 rise in registered UE since March 13