Responding to the Coronavirus Crisis
Update on Croatia (10/07/20)

Key short-term priorities
Provide liquidity to the economy, particularly SMEs and the tourism sector, as well as revenue support to affected individuals

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.

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 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

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)
Banking sector liquidity injection (% of GDP) 1.6%
Banking sector liquidity injection (% of GDP) est. EUR 10 bn (EU funds)

To learn more about EBRD’s support to Croatia visit: https://www.ebrd.com/croatia.html
Media enquires: Axel Reiserer, axel.reiserer@ebrd.com