

Responding to the Coronavirus Crisis

Update on Croatia (15/05/20)



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, with a similar drop expected for Q2.
- Spillover effects from tourism will affect the labour market - 25% of employed in Croatia on temporary contracts.
- Containment measures (imposed from mid-March) will exacerbate drop in consumption, especially for social categories and durables (42% of consumption, or 25% GDP).
- Goods exports and value chains, will be disrupted given the high exposure to the Italian economy (15% of total 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.
- Gradual lifting of restrictions started more broadly from early May,

Selected crisis impact indicators

EBRD GDP growth outlook	2020: -7%; 2021: 6%
Economic sentiment (April 2020)	ESI 72.3 (down 31 points m/m)
Retail sales (March 2020)	-3.9 y/y
Issued building permits (March 2020)	-30.4% y/y
CPI inflation (March 2020)	0.6% y/y, 0.5pp lower than target
Registered unemployed (April 2020)	21.5% increase y/y
Fiscal revenues (April 2020)	ca. -33% 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 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, 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% (ca. 30% of employees to receive aid)
Support per employee salary	HRK 5460 (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	EUR 1.16 billion (EU CRII)

Key short-term priorities

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