Responding to the Coronavirus Crisis
Update on Croatia (23/11/20)

European Bank
for Reconstruction and Development

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 affecting the labour market - 25% of employed in Croatia on temporary contracts – unemployment decreased to 8.2% in September, after recording 9% during summer months.
- Containment measures are exacerbating the 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 (Sep 2020)	**2020: -8.5%; 2021: 3.5%**
GDP growth y/y, sa (Q1/Q2 2020)	0.3% y/y, -15,5% y/y
Economic sentiment (ESI) (Oct 2020)	88.4 (90.9 in August and 72.3 in April)
Retail sales (Sep/Aug/Apr 2020)	-6.7% y/y, -7.2% y/y, -24.9% y/y
Industrial output (Sep/Aug/Apr 2020)	-1.1% y/y, -1.2% y/y, -11% y/y
Unemployment rate (Sep/Apr 2020)	8.2%, 7.9%
CPI Inflation (Sep 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% to HRK 4,000 (530 EUR) (2.1% GDP).
- Short-time work scheme covering HRK 2000 per employee in affected firms until end-2020 and up to HRK 4000 for firms in most affected sectors (tourism, services).
- 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	Up to HRK 4000 (ca. EUR 530)
Payment holidays for taxes	3 months, may be extended by another 3
Banking sector liquidity injection (% of GDP)	1.6%
Committed external assistance	EUR 22 bn from the next EU budget

Key short-term priorities

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

To learn more about EBRD's support to Croatia visit: https://www.ebrd.com/croatia.html

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