Responding to the Coronavirus Crisis
Update on Croatia (15/05/20)

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

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><strong>Reduced</strong></td>
<td><strong>Liquidity</strong></td>
<td>Prudential req.</td>
<td>Loans</td>
<td>Utilities</td>
<td>Press</td>
<td><strong>Spills</strong></td>
</tr>
<tr>
<td></td>
<td></td>
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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)

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