



THE COVID-19 CRISIS IN CROATIA

19 August 2020

COVID-19 update

- As of 19 August, Croatia counts [1 520 active cases of COVID-19](#), and has had 7 074 total cases since the beginning of the epidemic. 166 deaths from the disease have been reported. Previously, the situation was considered fully under control, with no new cases being reported for several weeks. Since mid-June, the country has seen a sharp increase in new cases amounting to around 100 cases per day. Throughout August the number of cases has been progressing steadily with 219 new cases recorded on 19 August. The [wearing of facemasks was mandatory](#) in most public spaces as of 13 July, and the authorities reintroduced restrictions on gatherings of more than 100 people (see below).
- Parliamentary elections were held in Croatia on 5 July. Voter turnout was [significantly lower](#) than in previous years, at 46.9%, the lowest since the first democratic elections in 1990, most probably due to fear of COVID-19 infection by voters.

Economic impact

- *Short-term indicators:* [Data](#) from the Croatian Employment Institute shows an increase in registered unemployment from 139 924 persons in January to 159 234 persons in April. However, [it has been argued](#) that the real number of unemployed due to the crisis is higher, and is obscured by jobs created in other sectors and the significance of the informal economy. Due to market instability, the HRK/EUR exchange rate depreciated and the Croatian Kuna has [not yet fully](#) regained its lost value still as of early July.
- *Financial markets:* Investor panic did damage to the Croatian financial market, as the Zagreb Stock Exchange's indicator, Crobex, [lost over 32%](#) in the first month of the pandemic. The Crobex resumed growth the following two weeks, possibly due to investor confidence in Government measures and their ability to [limit economic damage](#). As of early July, the Crobex has stabilised, at a loss of around 25% of its pre-crisis value.

Policy reactions

- *School closure:* On 16 March, the Government closed all educational institutions. Distance learning was delivered through public service broadcasts. From 25 May, primary education [resumed in full](#) for grades one to four, although parents may justify their children's absence for various reasons.
- *Restrictions on activity and movement:* From 27 April to 11 May, social and economic activity has gradually started again. As of 27 April, businesses selling goods and services may reopen. Libraries, museums, galleries, antique stores, and bookstores may reopen as well. As of 4 May,

service industries may reopen, including those that involve close human contact, such as barbers and hairdressers, provided they introduce the appropriate protective measures. As of 4 May, religious gatherings have resumed, provided they follow [specifically prescribed safety measures](#). Restrictions on travel within the country have been lifted as of 11 May. Cafes, restaurants, parks, shopping centres and hotels may also reopen from this date provided they follow specifically prescribed sanitary measures. Restrictions on gatherings of people, initially removed, were reinstated on 10 July, as organisers must now register gatherings of more than 100 people in advance and provide the authorities with information on the participants in case any are infected.

- *Border:* All EU/EEA nationals and persons with permanent residence in EU/EEA countries, plus their family members, can enter Croatia freely. However, they are required to provide additional information via the ENTERCROATIA website before entry. Third country nationals may enter the country for business, tourist reasons, other economic interests for Croatia, or pressing personal reasons, if they provide relevant proof. The obligation to self-isolate upon entering Croatia was lifted for all countries.
- *Monetary and financial sector policy:* On 20 March, the Croatian National Bank (CNB) adjusted its regulatory framework and monitoring activities in order to support the liquidity of financial institutions. On 23 March, the CNB reduced its mandatory reserve requirements from 12% to 9%, lowering the total amount of mandatory reserve by HRK 10.45 billion (~EUR 1.3 billion). The CNB also responded by purchasing government bonds and selling foreign exchange to maintain exchange rate stability.
- *Fiscal policy:* On 17 March, [the Government announced measures](#) of a combined worth of over HRK 30 billion (~EUR 3.9 billion) to support the economy in coping with the effects of the pandemic. These include: Interventional procurement of critically important sanitary equipment (disinfection equipment, soap, masks etc.), authorised delays in tax payments, purchasing of surpluses of potentially threatened businesses (agricultural or industrial goods), measures to support the tourism industry and aid for preserving jobs in affected sectors.
 - The Government has promised interest-free loans to local agencies and other public bodies whose revenue will be affected by the delay in payments. On 19 March, in a public address, PM Plenkovic announced that the Government will work to rationalise public spending without affecting healthcare and social services.
 - On 24 March, the Government set up dedicated accounts for the collection of donations and the start of a campaign to assist with relief efforts related to the Zagreb earthquake (Together for Zagreb), and the COVID-19 pandemic (Croatia Against Coronavirus).
 - On 2 April, the Government [announced a new package of measures](#). Tourism Minister Gari Capelli stated that the Government is preparing to inject around HRK 164 million to support the tourism sector, which was operating at [less than 10% of its capacity](#). On 17 May, the Ministry of Tourism announced the allocation of HRK 388 million from the state budget and European Social Fund to finance six regional competence centers.
 - On 1 June, Minister of Labor and Pensions Josip Aladrović [announced](#) that the Government will consult with social partners to explore the possibility of reducing the number of hours worked per employee per week for firms with reduced turnover, with the goal of subsidizing hours not worked and supporting employment. On 29 June, Minister Aladrović and PM Plenković [announced](#) that the measure would be implemented by the Croatian Employment Institute as of 1 July. The measure will be financed primarily from EU SURE and will apply to all sectors and all businesses with over 10 employees.
- *Fiscal measures to support firms – cash support*

- From 23 March, the Employment Agency has made available special subsidies to employers, to cover salaries of full-time and part-time workers in accommodation, food and beverage, transportation and storage and other sectors in which workers are prevented from attending work due to [confinement measures](#). With the April measures, the Government increased this support from HRK 3 250 to HRK 4 000 per worker. According to the Ministry of Labour and Pensions and the Croatian Bureau of Statistics, at the end of May these subsidies [covered 37% of all employees in Croatia](#).
- *Fiscal measures to support firms – liquidity and guarantees :*
 - Within the April package, the Government announced an exemption on payments of income tax and contributions for entrepreneurs with an annual income of less than HRK 7.5 million (representing 93% of firms), whose revenue declined by more than 50%. Companies with an annual income above the threshold will be partially [exempted](#). The Government also announced a deferral on VAT payments until the collection of invoices or payments, applicable to both [small and large businesses](#).
 - The Croatian Small Business Agency (HAMAG-BICRO) [has given loans](#) totalling HRK 343 million (~EUR 93 million), to support liquidity of small businesses, benefitting around 900 businesses so far. The Government plans to expand this programme and continue allocations in the coming months.
 - In late June, the Croatian Bank for Reconstruction and Development (HBOR) announced an extension of its export loan insurance program (extended from EUR 50 000 to EUR 150 000). HBOR will take on 95% of the risk of foreign buyers' non-payments in order to protect the liquidity of SMEs. HBOR can insure short-term export claims by SMEs with an annual export revenue of up to EUR 2 million.
- *Efforts to support the tourism industry:*
 - On 23 May, the Government and the Croatian Tourism Union [announced plans for the opening of the tourist season](#). Measures to gradually facilitate travel from selected countries with similar epidemiologic situations (see list above) were put in place starting from 29 May, and Croatia is gradually opening its borders for inter-EU tourism.
 - Croatian authorities have [set up a website](#) for gathering entry information of arrivals, in order to shorten waiting times at the border.
 - Official statistics released by the Croatian authorities accounted for 722 565 foreign tourists as of late June 2020, compared to 2 851 865 for the corresponding period last year. The main countries from which tourists visit Croatia include Slovenia (~207 000 as of end June), Germany (~204 000 as of end June) and Austria (~72 000 as of late June). In July, the tourism sector operated at approximately [60% of its previous year's results](#), and is operating at an estimated 70% as of early August. Revenues from tourism are expected to amount to around 30% of last year's total.
 - The Government, together with the Tourism Union, [adopted measures](#) to support the industry such as reducing the Union's membership fee and the sojourn tax.
- *Public information:*

Authorities have created a [centralized public information portal](#), and have developed two AI chatbots to provide personalized information to citizens through Whatsapp and Facebook. On 28 July, the Croatian version of the [Stop COVID-19 mobile application was released](#). The application helps users track possible contact with other users who may be at risk of infection or of spreading the disease.

Gender aspect

- The overwhelming majority of Croatia's nurses are women, which puts Croatian women at the frontlines of efforts to contain the pandemic and limit the death toll in the country. This often also means increased psychological stress and increased risk of exposure to the virus.
- The adverse impact on the Croatian tourism industry is likely to predominantly affect women in employment categories such as flight attendants, tour operators, sales assistants, hotel cleaners and hairdressers, hence disproportionately exposing them to the risk of poverty.

Outlook

- Situation Prior to COVID-19: Croatian GDP growth was accelerating, with a growth rate of 2.9% in 2019 (after a slight slowdown from 2017 to 2018). Unemployment was low, registering at 6.9% in 2019. At the end of 2019, the Government budget ran a surplus of 0.9% GDP.
- Croatia's economy strongly relies on the tourism sector, which represents around 25% of the GDP. This could exacerbate economic difficulties as the tourism industry is suffering worldwide as a result of the pandemic. Efforts to support both firms and employees in the sector have been announced by the Government. Difficulties related to reduced export of goods are also expected. A recession of around 9% of GDP is expected for 2020.

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