The COVID-19 Crisis in Croatia

COVID-19 Update

- Assessment of the health system: On 21 March, Health Minister Vili Beros stated that the country had a total of 800 respirators, of which 500 are stationary and 300 are mobile, claiming that this is far greater than the potential number of seriously ill patients. The Government is working on procuring additional respirators. As of 4 May, the infection curve seems to be flattening, with a decrease in new cases compared to previous weeks. The Government has stated that the epidemiologic situation is under control.

- On 22 March, amid a partial lockdown of the population, an earthquake of a 5.3 magnitude struck Croatia close to the capital of Zagreb, damaging buildings and injuring dozens of people. The government urged the public to maintain social distancing, emphasizing that the coronavirus outbreak is more challenging for the authorities than dealing with the consequences of the earthquake.

Economic Impact

- Short-term indicators: Official data suggests an increase in registered unemployment for the first time since 2013. Due to market instability, the HRK/EUR exchange rate depreciated. As of 27 April, the Croatian Kuna has regained some of its lost value.

- Financial markets: Investor panic did damage to the Croatian financial market, as the Zagreb Stock Exchange’s indicator, Crobex, lost over 32% of its value from 19 February to 19 March. The Crobex resumed growth the following two weeks, possibly due to investor confidence in Government measures and their ability to limit economic damage.

Policy Reactions

- School closure: On 16 March, the Government closed all educational institutions. Distance learning for primary education is delivered through public service broadcasts. Primary education has partially resumed as of 11 May.

- Restrictions on activity and movement: On 19 March, the Civil Protection Authority introduced a ban on public gatherings and closure of all non-essential commercial and social activity including sports events and religious gatherings. On 24 March, it introduced a ban on travel between cities. Teleworking is encouraged for all businesses where possible. 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 hospitality and retail. As of 27 April, businesses selling goods and services may reopen. Libraries, museums, galleries, antique stores, and bookstores may reopen as well.
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, with the exception of the island of Brač, where a new cluster of infections was discovered. Cafes, restaurants, parks, shopping centres and hotels may also reopen from this date provided they follow specifically prescribed sanitary measures.

- **Border:** On 19 March, Croatia temporarily closed its borders to all except nationals and residents. As of 11 May, exceptions have been introduced for EU citizens justifying economic interests in Croatia, their families and those who can justify transit through Croatia for personal reasons. Mandatory self-isolation is no longer enforced, but new arrivals must comply with precautionary measures prescribed by the Croatian Institute for Public Health.

- **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 (around 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 is operating at less than 10% of its capacity.

- **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 per worker to HRK 4 000.

- **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.

- **Efforts to support the tourism industry:**
  - On 27 April, at a video meeting of EU tourism ministers, Tourism Minister Gari Cappelli, who chaired the meeting, presented an initiative to create a joint travel protocol at the EU level, possibly involving a Covid-19 Passport, to support countries whose tourism sectors have been severely hit by the pandemic. The possibility of bilateral agreements has been put forward as well. On 7 May, during a call with his Italian counterpart, Minister Cappelli discussed possibilities to facilitate tourism both at the bilateral and EU level.

- **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.

### 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 disproportionally exposing them to the risk of poverty.

- As in other countries facing lockdown, there is a risk that isolation will lead to an increase in domestic violence in Croatia, the Croatian government is looking into ways to provide victims of abuse with appropriate assistance during the lockdown.

### 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 6.1% in January 2020. 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 20% 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.