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Croatia economy briefing:

A Preview of 2021 Key Economic Events in Croatia

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A Preview of 2021 Key Economic Events in Croatia

Summary

Late November of 2020 marked another set of restrictive measures being introduced by the Government in Croatia in order to contain the coronavirus outbreak, but this time the Government decided to close bars, cafes, restaurants, gyms, sporting facilities, fairs. On 8th January, the restrictions were prolonged to last until the end of the month. In the meantime, a major earthquake struck Sisak-Moslavina county and caused further damage as well as the need to reshuffle the state's budget. The Government intervened with HRK 120 million and many neighboring countries and the European Union member states offered their help and support. With 2020 finally being behind us, the Prime Minister and the Minister of Finance have not been rewarded for Christmas; rather they are about to encounter further headaches.

Introduction

On 8th January, the Croatian Government decided to extend the restrictions that were introduced at the end of November to contain the COVID-19 outbreak and to mitigate the potential risk of having couple of thousands new coronavirus cases each day as a result of holiday gatherings. The restrictions are now mandated to last until the end of January and the public is still unsure on the criteria necessary to consider the measures relaxation. At first, many were questioning the timing of this decision due to a fact that most of other European countries have introduced restrictive measures several weeks or even a month before Croatia. Others were arguing that restrictions should not be nation-wide; rather they have to take into account regional and sector specificities. The only ban that was eventually lifted was the one regarding free movement and traveling from one county to another, as a consequence of late December earthquake in Sisak-Moslavina county.

However, it appears that the health situation is slowly stabilizing with lower number of infections and hospitalizations. The Minister of Health, Vili Beroš, recently commented: "The pressure on the healthcare system is gradually easing. The lower numbers point to the responsibility of Croatian citizens as well as to the full logic of our measures". Nevertheless, he warned not to relax given the possibility of the third wave of the pandemic. Still, Croatian people will hardly relax due to a recent earthquake and constant ground-shakings. Many have lost their homes and public property has been demolished, giving additional headaches to the Prime Minister and Minister of Finance on how to stabilize the county's economy when the damage caused by both major earthquakes, Zagreb and Sisak-Moslavina county, is by each day more and more financially demanding.

A Look at Economic Indicators

We shall begin this outlook by providing several interesting facts about Croatian economy in 2020 that were published only a few days ago by National Bureau of Statistics and were referenced in Croatia Week portal. According to the data "Croatia exported HRK 101.6 billion worth of commodities in the first eleven months of 2020, a decrease of 2.3% compared with the same period of 2019, while imports fell by 9.2% to HRK 156.2 billion (…) In January-November 2020, compared with the same period of 2019, the foreign trade deficit was reduced by 19.7% to HRK 54.6 billion". It is also worth noting that Croatian export to European countries also decreased if we differentiate between the European Union partners and non-EU countries. Thus, exports to EU member states dropped by only 0.2% to HRK 70.95 billion, while export to non-EU countries was estimated to drop by 6.8 billion to HRK 30.65 billion. The EU import also fell by 8.9%, but overall, it holds at HRK 125.67 billion. The problem of high import dependency was also highlighted by the Minister of Finance, Zdravko Marić, who said that regardless of current economic trends and circumstances some major shifts have to be made in order to change the structure of the country's economy. Nonetheless, Marić said that 10% decline of GDP in third quarter of 2020, as it was reported by National Bureau of Statistics, is expected, however, domestic consumption fell somewhat more that it was projected.

However, Croatian agricultural sector seems to have benefited during the COVID-19 crisis, according to consulting firm Smarter. The firm reports that "Croatia ended the year with an increase in the value of agricultural production, with excellent results of crop production and record-high disbursements of various forms of aid to farmers while reducing the foreign trade deficit". Furthermore, the data from National Bureau of Statistics confirms positive trends in Croatian agriculture with "agricultural production in 2020 increased by 4.7% from the previous year, or from HRK 17.9 billion to 18.8 billion, while net value added and productivity rose by nearly 10%.", as referenced in Croatia Week portal. Arguably, the agricultural sector still has more than enough room for improvement, yet it is necessary to adapt all the sector's resources to nurture further economic growth. For example, the Smarter's report underlines that the level of self-efficiency stands at 70%, while there is export potential in several agricultural sectors that has not been exploited.

The Position of Private Sector

Perhaps the most vocal opponent of the Government at this stage is private sector. Understandably, the entrepreneurs were shocked when the Government announced that Christmas benefits and salary raises for public sector are unquestionable, while at the same time many entrepreneurs have already lost their jobs, have restricted working conditions, or they are facing with minimum net wages for themselves as well as their employees. Thus, the often-debated reform of public sector gets even more heat considering the fact that many offices have successfully transformed their businesses during the COVID-19 crisis towards the long-awaited online model of providing services. Yet, the people in Croatia should not hold their breath and hope that such model can be long-term. Unfortunately, various studies have concluded that citizens have widespread perception of corruption and nepotism in public sector, therefore, it is easier and more convenient to preserve "face to face" system, rather than online model, to keep on with such praxis in public administration, especially on local and regional level. Figuratively speaking, we have to avoid the simplicity of manichaean understanding that public sector is either productive or not. In order to tackle such reform in upcoming years, one has to understand that there is a lot of grey area that needs to be taken into account which makes the reform impossible to deal with overnight.

Probably we will not have to wait for a long time to see the effect of the latest aid package that the Government introduced at the end of November to support private sector. Prime Minister Andrej Plenković once again summarized that his Government managed to keep 630.000 jobs and helped more than 100.000 companies during the "first halftime" of the coronavirus battle. When referring to the upcoming period, he said that the Government will continue with the measure of monthly allowance in amount to HRK 4.000 per worker during the lockdown and exemption from payment contributions which would overall estimate around HRK 470 million. The second measure will continue to help businesses with their fixed costs such as the costs of rent, utilities, accounting and bookkeeping services etc. in case if their turnover in December shows a decline of at least 60% compared to last 2019 December. This will cost around HRK 250 million. Lastly, the Prime Minister announced a new package of COVID loans that will estimate HRK 1.3 billion and is targeted directly to help small and medium enterprises. With these measures, the Prime Minister emphasized, the goal is to help primarily those who are affected the most by the restrictive measures.

Instead of Conclusion: The Need for EU Money

Since it was obvious that economic crisis is at our doorstep, everyone including the members of the Government, put their faith in money coming from EU funds. Many economic analysts commented that without this money Croatia would not be able to endure the crisis and that EU membership is finally proving its worth. From the EU Resilience and Recovery Facility, a cornerstone of €750 billion worth EU Next Generation fund, and instrument created to help member states in recovering from economic and social damage, Croatia expects around €9.6 billion, while from the EU Solidarity Fund Croatia already got €88.9 million in August aimed at post-earthquake reconstruction of Zagreb and surrounding areas. The overall amount of help estimates €683.7 million. However, regardless all the help Croatia can get, the core problem can only be solved within Croatian borders with much-needed reforms and further institutional development.