



Weekly Briefing

**Croatia economy briefing:
'Panic buyers' and how they are affecting the
Croatian economy in a time of global turmoil
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‘Panic buyers’ and how they are affecting the Croatian economy in a time of global turmoil

Summary

Croatia is, once again, experiencing a wave of ‘panic buying’, a phenomenon which we have all become accustomed to within the last few years. Indeed, the uncertainty caused by the coronavirus pandemic in 2020 resulted in people across the world emptying shelves in shops in anticipation of shortages and the restriction of the number of trips allowed out of the house. Now, with the war in Ukraine, a similar story is unfolding in Croatia. The war has certainly impacted many economies, with the rapid increase of food and energy prices. However, the Croatian population has become particularly uneasy considering the context of the country’s impending adoption of the euro in combination with this increase in prices and the general anxiety caused by the conflict in Ukraine. As a result, the ‘panic buying’ of both euros and (cooking) oil has been reported throughout the country.

Introduction

Croatia has been a member of the ERM II (European Exchange Rate Mechanism) for almost two years and is scheduled to adopt the euro as its national currency in 2023 upon receiving consent from the European Union this summer. There are many conflicting views regarding whether Croatia’s adoption of the euro will be beneficial. Some believe that the change of currency will stabilize Croatia’s economy and that the country will be “provided with better protection in the case of crisis.”¹ Others disagree and have expressed their concerns regarding the adoption of the euro because the “7.53HRK exchange rate for the euro”² has resulted in Croatia depending on imported goods, rather than domestic production. Therefore, some economists stress that Croatia has not invested in its domestic industry enough to depend on it and the adoption of the euro will mean that buying imported goods will be more expensive than before³. Regardless of which view one might take, the impending adoption of the euro has

¹<https://www.euronews.com/next/2022/01/18/croatia-to-display-prices-in-both-kuna-and-euro-from-september-5>

²<https://www.balcanicaucaso.org/eng/Areas/Croatia/What-will-the-Euro-effect-be-in-Croatia-205473>

³Ibid.

certainly prompted a discourse regarding the economic pros and cons of changing the national currency. In this way, the adoption of the euro has created an atmosphere of uncertainty among Croatian citizens, thus explaining the recent surge in the demand for euros in Croatia to an extent.

Additionally, the recent conflict in Ukraine has plunged the world into an era of both political and economic instability. Food prices were already at a “record high”⁴ in Europe after COVID-19. Indeed, the pandemic resulted in a decrease in both energy supplies and the transportation of energy because the restriction of movement increased the cost of shipping also⁵. Therefore, the current drastic increase in food prices can be explained by the notion that the economic situation, even prior to Russia’s invasion of Ukraine, was not ideal. Further worsening the economic situation for many countries was that, two weeks into the Russian invasion, Ukraine made the decision to stop the export of food in order to better deal with their humanitarian crisis and give precedence to their own citizens in this time of suffering⁶. While this is certainly understandable, the decision has already had significant effects on economies worldwide.

Indeed, Ukraine is “the EU’s fourth biggest external food supplier,”⁷ providing EU countries with much of their cereal, vegetable oil and corn imports⁸ and, thus, many EU countries have been indirectly impacted by the conflict. Croatia is certainly not exempt from these food-related, economic consequences. In fact, as a result of the war, there has not only been an increase in the demand for euros in Croatia, but also in the demand for cooking oil. It has been reported that families are stocking up and buying litres of cooking oil in case of further inflation and shortages.

Moreover, it is important to understand how this extreme ‘panic buying’ of euros and oil in Croatia is effecting the economy. Some maintain that ‘panic buying,’ whether one deems it necessary or unnecessary, is seriously impacting Croatia’s economy. On the other hand, others

⁴<https://www.euronews.com/my-europe/2022/03/17/global-food-prices-had-already-hit-record-high-then-russia-invaded-ukraine>

⁵Ibid.

⁶Ibid.

⁷<https://www.politico.eu/article/ukraine-the-food-factor-energy-trade-war-agriculture-market/>

⁸Ibid.

have expressed that, while they regard panic buying as an irrational reaction, the economic consequences caused by this mass buying of euros and oil are not dire. Either way, ‘panic buying’ is undoubtedly worsening an already difficult situation.

The impact of the ‘panic buying’ of euros

Aforementioned, the demand for euros in Croatia can be explained both by the forthcoming adoption of the euro as the national currency and the recent war in Ukraine. Newspaper *Novi List* reported that between the 24th of February and the 18th of March banks were, on average, selling 20.9 million euros a day⁹. The average increase of euros sold daily prior to the Russian invasion of Ukraine and after has been 8.5 million euros.

The effect of this ‘panic buying’ of euros is certainly impacting individuals. This is because the high demand for euros has weakened the kuna, a currency which will still be used in Croatia for at least another eight months. This ‘panic buying’ could, therefore, result in the further increase of prices. In this way, the quality of life might worsen for many. Additionally, in a time of global political and economic chaos, the repercussions of ‘panic buying’ could, if anything, exacerbate sentiments of doubt and anxiety among the Croatian population. The notion of panic is evident since citizens are unnecessarily paying exchange rates now, despite the government’s assertion that, in 2023, Croatians “will be able to exchange kunas for euros free of charge”¹⁰

Nevertheless, while the effects of the current situation have and might continue to negatively affect individuals to some extent, the national economy is not greatly threatened by this surge in the mass buying of euros. Indeed, inflation is one of the criteria needed for Croatia to be allowed to adopt a euro. Therefore, from the perspective of the Croatian government, who have expressed their support for and desire of the adoption of the euro, the current wave of panic buying is not entirely negative. The present situation also enables the government to argue that they have every reason to speed up their plan to adopt the euro because the high demand

⁹<https://www.novolist.hr/novosti/gospodarstvo/hrvati-kupuju-eure-kao-da-nema-sutra-hnb-pokusava-spasiti-tecaj-kune/>

¹⁰<https://www.euronews.com/next/2022/01/18/croatia-to-display-prices-in-both-kuna-and-euro-from-september-5>

for the currency indicates that the people also support this decision¹¹. It has been reported that many citizens are, in fact, against the adoption of the euro. Thus, from the perspective of the government's agenda, the recent events have been somewhat useful.

The Governor of the Croatian National Bank, Boris Vujčić, has expressed little concern regarding the recent 'panic buying' of euros, explaining that people are in need of the foreign currency because they are preparing for tourist season and for the adoption of the euro. Interestingly, Vujčić made no mention of the impact of Russia's invasion of Ukraine on the increased demand for euros¹².

Regardless of the notion whether this panic buying is having a drastic impact on the economy or not, it has been expressed that such high demand for euros is unnecessary.

The impact of the 'panic buying' of cooking oil

Aforementioned, families in Croatia are also buying unnecessary amounts of cooking oil. Although, "88 percent of Europe's sunflower oil comes from Ukraine"¹³ there is no need for a single family to stock up on months' worth of oil. It has been reported that some families have been buying up to 40 litres¹⁴ of cooking oil in response to both the increase in prices and Ukraine ceasing its food exports. Food chains in Croatia have reassured customers that they are not experiencing shortages as a result of the situation in Ukraine. Nevertheless, 'panic buying' is somewhat threatening the supply of cooking oil in supermarkets, which may lead some to follow the example of supermarkets in other European countries and restrict the amount of oil one can buy in a single shopping trip¹⁵. These restrictions might not only be necessary for supermarkets to ensure they do not run out of cooking oil, but also for other individuals because the actions of these 'panic buyers' are further increasing oil prices for others.

¹¹<https://www.novolist.hr/novosti/gradani-pohrlili-po-devize-u-mjenjacnice-stednja-u-kunama-pada-u-eurimara-raste/>

¹²<https://www.total-croatia-news.com/business/61473-croatian-national-bank-governor-ukraine-war-to-slow-croatia-s-gdp-growth-and-push-up-inflation>

¹³ <https://www.politico.eu/article/ukraine-the-food-factor-energy-trade-war-agriculture-market/>

¹⁴ <https://www.jutarnji.hr/vijesti/hrvatska/obitelji-kupuju-po-40-litara-ulja-trgovci-dobro-smo-opskrbljeni-zasad-nece-biti-restrikcija-15172268>

¹⁵ibid.

Conclusion

Therefore, the recent 'panic buying' in Croatia has not drastically affected the country's economy, but is certainly causing further stress and anxiety for other individuals. Evidence suggests that there is currently no reason for panic in Croatia. The impending adoption of the euro is going according to plan and the country is not expecting to experience food shortages. Similarly, although Croatia is experiencing the inflation rate rising, this issue has currently a global cause, not a national one. Moreover, considering the context of the time, the economic situation in Croatia is decent and there is certainly no need for panic buying behaviour in shops, banks or money exchanges.