



**Fiscal Policy Commission**

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**To the:**

**SPEAKER OF THE CROATIAN PARLIAMENT  
PRIME MINISTER OF THE REPUBLIC OF CROATIA  
DEPUTY PRIME MINISTER AND MINISTER OF FINANCE OF  
THE REPUBLIC OF CROATIA  
COMMITTEE ON FINANCE AND CENTRAL BUDGET OF  
THE CROATIAN PARLIAMENT  
MEDIA**

**5<sup>th</sup> Position of the Fiscal Policy Commission  
on the economic and fiscal consequences of the COVID-19 epidemic and on the  
implementation of fiscal rules during the crisis period**

**The COVID-19 disease pandemic caused by the SARS-CoV-2 virus and measures to curb its spread are a major shock to the global and the Croatian economy and the state of public finances.** A major slowdown in economic activity will lead to a sharp decline in public revenues. At the same time, the implementation of necessary health interventions, the rescue and support of a troubled economy during and after the epidemic will also affect the increase in public spending. All this will lead to a significant increase in the budget deficit and public debt.

**The Commission recalls that the Fiscal Responsibility Law and the rules of the European Union's Stability and Growth Pact recognize the possibility of similar disruptions and allow an appropriate fiscal policy response to mitigate the negative effects of the crisis.** Thus, the Fiscal Responsibility Law Article 10 (3) provides for the possibility to temporarily postpone the implementation of fiscal rules in the event of extraordinary circumstances, in accordance with EU rules, provided that this does not endanger fiscal sustainability in the medium term. The rules of the Stability and Growth Pact allow for a temporary increase in the budget deficit in two cases, provided that this does not endanger fiscal sustainability in the medium term. The first case refers to the occurrence of events outside the control of the state, in which it is allowed to finance additional activities directly related to that event. The second case, now activated for the first time, concerns the state of deep economic crisis at European Union level and provides for a stronger and more coordinated fiscal response across the European Union.

The Commission holds that by the adoption of the Decision on declaring the COVID-19 epidemic caused by the SARS-CoV-2 virus of 11 March 2020 the existence of extraordinary circumstances under Article 10 of the Fiscal Responsibility Law has been recognised and calls

on the Government of the Republic of Croatia to adopt a Decision on the temporary postponement of the implementation of fiscal rules.

Temporarily postponing the implementation of fiscal rules will allow the Croatian Government to take measures to eliminate the health, social, economic and any other consequences of this epidemic, which will almost certainly adversely affect public finances in the short term. Notwithstanding the temporary delay in the implementation of fiscal rules, **the Commission emphasizes that in such a complex situation it is still necessary to take account of the long-term sustainability of public finances.**

The fiscal policy measures related to the epidemic can be divided into three groups. The first concerns the financing of health care interventions to combat the epidemic. The second group of measures refers to the necessary financial support for employees and business entities who are particularly affected by the epidemic in order to retain the potential of the Croatian economic sector and to activate them as soon as possible after normalization. The third group of measures is intended to increase public spending and investment in order to stimulate domestic activity during the slowdown of the epidemic. Such measures may, in the short term, additionally burden the state budget, but they are necessary to reactivate economic activity and ensure the long-term sustainability of public finances.

**The Commission also points out that the Government, when adopting measures during extraordinary circumstances, may deviate from the target level of the budget deficit and reducing public debt, but these measures must at the same time be of short term and targeted in order to address the social and economic consequences of the epidemic as soon as possible.**

**In this regard, the Commission calls on the Government of the Republic of Croatia, local government units and other public sector bodies to consider changing the planned activities in the State Budget and other financial plans for 2020 as soon as possible in order to make best use of the limited fiscal potential for funding the necessary measures to combat the effects of the epidemic.**