Croatia economy briefing:
Rising Energy Prices and Crisis Package
Introduced by Croatian Government
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Summary

This paper will provide a short overview of the latest economic developments in Croatia, more precisely, it will discuss the inflation rate that hit the country during the last several months. Furthermore, it will present the Government’s response, measures introduced and structure of the crisis package that will become effective from 1 October and will last until 31 March 2023. All this is taking place during an ongoing conflict in Ukraine which further complicates the situation at energy markets, and causes energy prices to go upwards.

Introduction

In early September, the Croatian Government introduced a new set of economic measures to tackle the consequences of the ongoing energy crisis and inflation that reached its peak in August. According to Prime Minister Andrej Plenković, the package is strong, fair and all-inclusive, and should support and protect the Croatian households, companies, and non-governmental organizations from economic and social uncertainties expected in second half of 2022, as well as in early months of 2023. The package is a response to the increasing prices of consumer goods and services that rose by 12.1% compared to June 2021, as reported by the National Statistical Office (DZS). While the Government is keeping its head high and remains optimistic (at least when communicating new measures to the wider public), the opposition’s reaction to the package was somewhat reserved and ambivalent. They welcomed the Government’s response, but consider it too late and shortsighted.

A Brief Overview of the Latest Economic Developments

In line with the European Classification of Individual Consumption according to Purpose (ECOICOP) classification, the highest increase in prices of consumer goods and services was recorded “in Transport, of 19.2%, followed by Food and non-alcoholic beverages, of 18.3%, Restaurants and hotels, of 16.8%, Furnishings, household equipment, and routine household maintenance, of 14.1%, Recreation and culture, of 10.0%, Housing, water, electricity, gas and other fuels, of 9.7%, Miscellaneous goods and services, of 7% and Clothing and footwear, of
Before the package of measures was introduced, Raiffeisen bank Austria analysts gave their opinion on the DZS data and predicted that the increase in prices will continue at least until the end of 2022 when it is expected that in general the prices could stabilize, while those prices related to energy sector will continue to grow in 2023, but in a slower pace. This is, to a large extent, expected taking into account the current geopolitical and geoeconomic developments, that is, the ongoing war in Ukraine, and subsequent Russian threats to limit the exports of fossil fuel to the European countries which caused further uncertainties in the energy market.

Speaking of Russia, this all comes in a span of couple of weeks, after the data of Kremlin’s revenues during the War in Ukraine became public. It was announced that Russia earned 158 billion EUR from fossil fuel export since the beginning of the war, and that the European Union (EU) is still the largest importer with 85 billion EUR worth imports. Only a week later, while speaking at an economic forum held in Vladivostok, Vladimir Putin called the plan introduced by G7 finance ministers to impose a price cap on Russian oil and gas, stupid and that Russia will halt the supply of fossil fuel if that happens. When translated to the micro level of rising prices and energy bills at peoples’ households or discussed from the position of entrepreneurs who also face an increase in monthly expenses and utility bills, it was reasonable that they decided to seek help from national governments. In mid-August, a Croatian NGO Glas Poduzetnika (Voice of Entrepreneurs), often critical of governmental measures, asked for quick reaction from decision-makers, claiming that entrepreneurs need help to go through this unstable period.

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The Crisis Package Introduced by the Croatian Government

But before we tackle with the crisis package that was introduced by the Croatian Government, it is worth noted that temporary emergency measures to mitigate the risks of high prices, especially in the energy sector, were discussed at the European level, between the EU energy ministers during the Extraordinary Transport, Telecommunications and Energy Council held on 9 September. The meeting ended up with ministers suggesting four key areas in which the European Commission should put its efforts. The suggested measures are “capping the revenues of electricity producers that face low production costs; a possible price cap on gas; measures for a coordinated electricity demand reduction across the EU; measures that would help to solve the issue of decreased liquidity”\(^6\). Furthermore, ministers presented the planned direction of their respective countries, that is, measures that were already implemented at national level or measures that are about to be carried out by their governments to prepare the economies for uncertainties during winter months. In general, both short- and long-term suggestions were discussed, mainly the idea that EU needs to reduce its dependency on Russian oil and gas, that further actions are needed to accelerate the process of EU decarbonization, as well as the work on developing LNG infrastructure, including LNG networks and transport routes.

As far as Croatia is concerned, Prime Minister Plenković introduced the crisis package as a response to the above-mentioned inflation that hit the country during the previous months. The package, as presented by Plenković, takes into account the needs of not only households, but private sector, that is small and medium sized enterprises and companies, as well as non-governmental organizations. Moreover, it was underlined that this package should not be considered merely as a short-term solution to current challenges, but as a comprehensive plan that aims to speed up the transition to renewable sources of energy. When it comes to the price of electricity, the Government decided to create a new category that would encompass kindergartens, schools, non-governmental organizations, hospitals, municipalities, cities and utility companies, for which the price of electricity will be set at 62 EUR per MWh, rather than considering all of them as legal entities. As for the price of electricity for households, if they consume up to 2,500 kWh, the price will be 59 EUR per MWh, but if they consume more than 2,500 kWh, the price will go up to 88 EUR per MWh. The businesses, on the other hand, will pay the price of 70 EUR per MWh for total consumption up to 250 MWh, 180 EUR per MWh.

for consumption between 250 MWh and 2.5 GWh, and 230 EUR per MWh for consumption that exceeds 2.5 GWh\(^7\).

All these actions are in place starting from October 1 to March 31, 2023. However, as a long-term goal, the Government decided to financially help companies in order to give them boost to produce electricity from renewable sources. Apart from the measures related to electricity, a cap has been “set on the prices of cooking oil, milk, sugar, wheat, pork and chicken meat”\(^8\). Also, Plenković pointed that the Government once again showed its social responsibility, meaning the manner in which it treats those who are in danger of social exclusion, especially in these times. To this end, the Government introduced one-time fee for retired citizens depending on their monthly pensions, as well as the financial support for unemployed people and students whose monthly stipends will grow, including the larger number of stipends that will be distributed to students. Taking into account droughts and wildfires happening at the Croatian territory, a portion of financial support has also been provided to farmers and fishermen who are continuously losing their income.

**Conclusion**

The measures undertaken by the Government were generally welcomed by the Opposition; however, some representatives that publicly commented on Government’s actions claimed that measures could have been more elaborated, others commented that measures are mere attempt to shift the public attention from corruption to social affairs, while some praised the willingness of Government to put cap on prices. To conclude, the crisis package will help Croatian citizens, companies and non-governmental organizations to go through Fall and Winter months, but it is still debatable whether such package could have been introduced earlier. As pointed by economic analysts, the prices should stabilize at the end of year, but when it comes to food and energy prices, everything is still very much dependable on the situation at East and the ongoing conflict between Ukraine and Russia.

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