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Economic Crisis and State Aid in Croatia

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In view of the economic crisis, the European Commission has temporarily relaxed the rules enabling Member States to grant state aid to companies. As Croatia fully applies the EU aquis communautaire relating to state aid, it is also among the countries allowed to implement the new measures. However, despite being permitted, it is questionable to what extent the new state aid measures will be applicable in Croatia, given the scarcity of budgetary resources as the main constraint.

At its session held on May 7, 2009, the Government of the Republic of Croatia enacted a decision on publishing the Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis (hereinafter: Temporary framework) adopted by the European Commission and published in the Official Journal of the EU on April 7, 2009[1]. By signing the Stabilization and Association Agreement, Croatia has undertaken the commitment to implement the rules on control of state aid which are applied in the European Union. Accordingly, the entire EU aquis communautaire in the field of state aid has been translated and published in the Official Gazette, thus becoming binding on all government authorities in Croatia responsible for granting state aid, as well as on the Croatian Competition Agency which approves and controls state aid. Therefore, as soon as they are published in the Official Gazette, the new EU state aid measures, included in the Temporary framework, will be applied to state aid in Croatia. The Government will thus have another instrument at its disposal to deal with the consequences of the crisis in the real sector. Below is a brief question-and-answer presentation of the idea and content of the Temporary framework.

Is state aid permitted in the EU?

Basically, there is a ban on state aid in the EU. However, the ban does not apply universally or unconditionally, so that state aid may be allowed and justified under some circumstances, which is governed by detailed rules. The implementation of state aid rules in the EU is monitored by the European Commission, and in Croatia, until its accession to the EU, by the Croatian Competition Agency.

[1] Croatian translation available at: http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2009/81_sjednica_vlade_republike_hrvatske . English text available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:083:0001:0015:EN:PDF.

Should the use of state aid be expanded during the crisis?

The global financial market crisis and its impact on the real economy have raised the question of how strictly the European Commission should apply the state aid rules, or how far it should go in relaxing their implementation in order to mitigate the recession consequences. The Commission decided to adopt the Temporary framework in order to enable Member States to use additional state aid to cope with the shortage of credit and its effects on the real economy. The companies' access to finance is a precondition for investment, growth and job creation by the private sector. However, as a consequence of the financial market crisis, banks have become much more risk-averse than in the previous years, thus obstructing access to credit. Such circumstances could also affect healthy companies which would be faced with shortage or even unavailability of credit. This Temporary framework introduces a number of measures enabling Member States to facilitate the companies' access to finance.

Why not simply lift state aid control during the crisis?

Such difficulties could also affect healthy companies which will be faced with a shortage or even unavailability of credit. This temporary framework introduces a number of measures enabling Member States to provide companies with easier access to finance.

Why not simply lift state aid control during the crisis?

State aid control is important during the financial and economic crises, because Member States could be strongly tempted to grant aid to companies within their own territories, thus threatening the operations of companies on the single EU market, i.e. distorting market competition. In such a case, given the distorted internal market, the crisis would even grow worse. The state aid control also helps avoid the so-called 'subsidy race', which is particularly detrimental to smaller Member States having less abundant funds to compete in such 'races' than big Member States.

What measures does the Temporary framework include?

It includes the following:

- lump sum of aid up to EUR 500,000 per company for the next two years (instead of the current EUR 200,000);
- state guarantees for loans at a reduced premium;
- subsidised loans, in particular for the production of "green products"; and
- risk capital aid up to EUR 2.5 million per SME per year (instead of the current EUR 1.5 million).

The legal basis for these measures is laid down in the EC Treaty allowing Member States to use state aid to remedy serious disturbances in their respective economies. The current financial crisis can certainly be considered as a serious disturbance, and consequently, the described state aid is permitted.

What is the deadline for the application of these measures?

All the measures are temporary and are applicable until 2010. In fact, the Commission envisages that lending to undertakings will resume its normal levels in the near future, and that the need for these measures will disappear. However, should the problems persist, the Commission will consider extending the measures beyond 2010.

Do the measures cover all companies in difficulty?

There are undertakings which have sound business plans but, owing to rigid credit market conditions, their access to capital is limited. According to the Temporary framework, it is exactly these companies that are eligible for state aid. Accordingly, pursuant to the rules of the Temporary framework, an undertaking which was not in difficulty on July 1, 2008 (i.e. before the financial crisis), but got into difficulty after that date, is entitled to state aid according to the new rules. Long-standing loss-makers or undertakings which have been in difficulty for a longer period of time are not entitled to use the new measures.

How many measures under the Temporary framework have been approved by the European Commission?

By April 22, 2009, the Commission granted 29 aid measures in twelve Member States, aimed at stabilizing companies and saving jobs in the real economy. The measures were granted to Austria, Belgium, France, Germany, Hungary, Ireland, Latvia, Luxembourg, the Netherlands, Portugal, Spain and Great Britain. The first two measures were granted to Germany, namely a credit program worth EUR 15 billion to ensure liquidity of undertakings facing credit crisis, and, after that, a non-repayable grant scheme of up to EUR 500,000 per undertaking to be administered by local, regional and state authorities.

What does the Temporary framework mean for Croatia?

As it has applied the acquis communautaire in the field of state aid even before the accession to the EU, Croatia is also allowed to implement the new measures. The extent to which the measures will be implemented basically depends on two things: first, the availability of budgetary resources, and second, political consensus. Specifically, the economic crisis has adversely affected the already tight state budget which is likely to be revised again in autumn. Given the limited funds, new state aid can only be financed through the reallocation of funds among budgetary users. However, this requires a general political consensus.