

## A Reversal of State Aid Trends in Croatia and EU

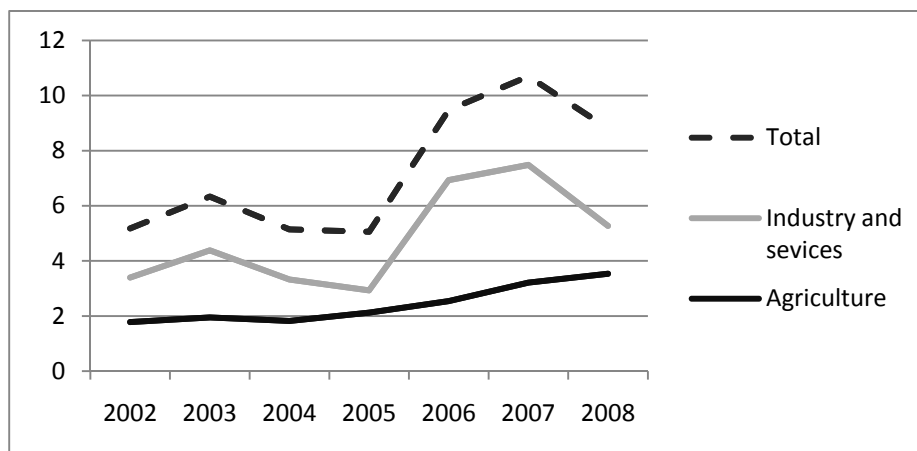
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According to the Annual Report on State Aid for 2008, delivered by the Croatian Competition Agency and discussed in the Parliament on February 24, 2010<sup>1</sup>, there is finally some good news: overall aid is declining. However, the measures to overcome the economic and financial crisis applied in the EU and, since January 2010, also in Croatia, are going to change the trend in state aid. State aid is expected to rise again, which will hopefully be accompanied by economic recovery.

***In 2008, total aid and aid to industry and services decreased, whereas aid to agriculture went up***

After having grown for three years, state aid in Croatia started to fall in 2008. From the peak reached in 2007, when the government spent HRK 10.7 billion on overall support to the economy, state aid dropped to HRK 8.8 billion in 2008, i.e. down about HRK 2 billion. The fall was particularly noticeable in aid to industry and services which contracted 30% in that year. Aid to agriculture grew continuously after 2005, increasing from about HRK 2 billion in the period until 2005 to HRK 3.5 billion in 2008.

Figure 1 State aid in Croatia, 2002-2008 (in billion HRK)



Source: Croatian Competition Agency, Annual Report on State Aid for 2008, November 2009.

<sup>1</sup> Croatian Competition Agency, Annual Report on State Aid for 2008, November 2009. Available at: <http://www.sabor.hr/Default.aspx?art=31737>.

***In Croatia in 2008, a decrease was recorded in aid to steel industry and shipbuilding, as well as to rescue and restructuring***

About two thirds of Croatian state aid to industry and services go to specific sectors, and it is this sectoral aid that underwent the sharpest changes:

- Aid to steel industry disappeared, due to the privatization of Split and Sisak steelworks in 2007.
- Aid to shipbuilding declined by 73%, primarily as a result of reducing state guarantees for shipyard rehabilitation (the guarantees granted in 2007 stood at HRK 1.5 billion, but dropped to a low of HRK 79 million in 2008). However, a possible failure of shipyard privatisation during 2010 and, consequently, the activation of guarantees in the total amount of about HRK 10 billion might in future reverse this downward trend and make shipbuilding aid grow dramatically.
- Rescue and restructuring aid to enterprises dropped by 94%. This form of aid had been mainly provided by the Croatian Privatisation Fund as loans and loan write-offs, which were almost non-existent in 2008. Nevertheless, in 2007, they amounted to HRK 845 million, of which 80% related to debt write-offs for the Šibenik-based company TLM d.d.

*Table 1 State aid to specific sectors in Croatia*

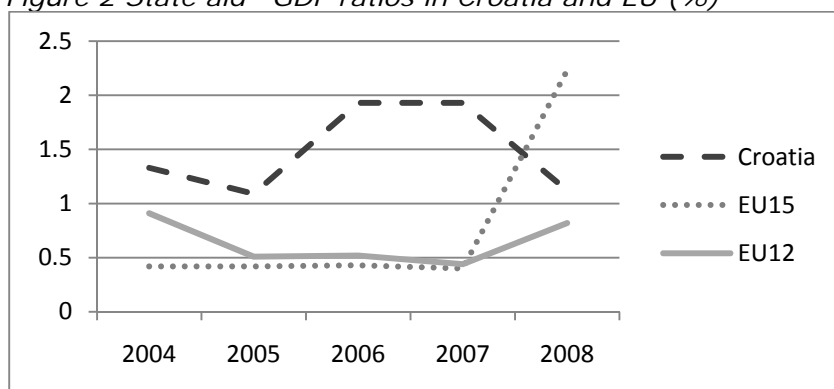
	<b>2007</b> (million HRK)	<b>2008</b> (million HRK)	<b>2008/2007</b> Rate of change
Steel production	196.3	0.0	-100.0
Transport	1,407.1	1,452.7	3.2
Shipbuilding	2,173.5	594.7	-72.6
Tourism	178.4	162.9	-8.7
Radio and TV broadcasting	1,010.6	1,100.0	8.8
Other sectors	40.4	134.7	233.4
Rescue and restructuring	845.6	53.4	-93.7
Specific sectors - total	5,852.0	3,498.4	-40.2

Source: Same as Figure 1

***A reversal of state aid trends in Croatia and EU in 2008***

With its state aid-to-GDP ratio of 1.9% in 2007, Croatia supported its enterprises much more generously than the EU which allocated about 0.4% of its GDP for this purpose. But the year 2008 brought a reversal of this trend: state aid declined sharply in Croatia but shot up in the EU. Specifically, as a consequence of the economic crisis, the demand for state aid, as a support measure for enterprises, strengthened in Europe in that year. As a result, in 2008 state aid went up to 2.2% and 0.8% of GDP in EU15 and EU12 respectively, and it represented crisis relief provided to the financial sector.

*Figure 2 State aid\* GDP ratios in Croatia and EU (%)*



Source: Same as Figure 1, and: European Commission. Available from: [[http://ec.europa.eu/competition/state\\_aid/studies\\_reports/expenditure.html](http://ec.europa.eu/competition/state_aid/studies_reports/expenditure.html)].

\* State aid excluding agriculture and fisheries, and transport.

### ***State aid will grow in the coming years***

Late in 2008, the EU started to combat the crisis in real economy. In mid-December 2008, the European Commission adopted a Temporary Community Framework for State Aid Measures to Support Access to Finance in the Current Financial and Economic Crisis (hereinafter: Temporary Framework)<sup>2</sup>. Based on this document, until end-October 2009, the EU granted EUR 3,632 billion aid to real sector affected by the crisis. It was assessed that this would further accelerate the growth of state aid in the EU over 2009 and 2010, and that its share in GDP would considerably exceed 2.2%, recorded in EU15 in 2008.<sup>3</sup>

However, the European Commission exercises strict control over state aid, so that it can only be granted to enterprises which were not in difficulty as at 1 July 2008 (i.e. before the crisis) but got into it after this cut-off date. Long-standing loss-makers, i.e. enterprises which have been in difficulty for a longer period of time, are not eligible for the new measures which include: non-repayable funds (half a million euros per enterprise), state guarantees for loans at a lower premium, subsidized loans and risk capital aid up to an annual amount of EUR 2.5 million per SME. All the measures are temporary and will apply till the end of 2010.

Croatia adopted the Temporary Framework in May 2009.<sup>4</sup> The economic recovery and development measures, laid down by the Government in January 2010, are based on the measures from the Temporary Framework, applied in the EU to overcome the economic crisis. Therefore, they have the same characteristics as the EU measures, i.e.:

- they include state guarantees and subsidized loans;
- they apply to enterprises which got into difficulty after 1 July 2008;
- enterprises in difficulty are defined pursuant to the regulations on state aid for rescue and restructuring which are applied by the EU;
- total aid cannot exceed EUR 500,000 per enterprise; and
- they apply till the end of 2010.

In Croatia, just like in the EU, measures to deal with the economic crisis will lead to a rise of state aid during 2009 and 2010. Expectations are that they will also contribute to the growth (or at least to a slowdown in the decline) of GDP and employment, thus relieving the burden of these measures in the future.

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<sup>2</sup> European Commission, *Communication from the Commission – Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis*. Available from: [<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:016:0001:0009:EN:PDF>].

<sup>3</sup> European Commission, *State Aid Scoreboard, Report on State aid granted by the EU Member States – Autumn 2009 Update*. Available from: [[http://ec.europa.eu/competition/state\\_aid/studies\\_reports/2009\\_autumn\\_en.pdf](http://ec.europa.eu/competition/state_aid/studies_reports/2009_autumn_en.pdf)].

<sup>4</sup> Decision on the Publishing of the Rules of *Temporary Community Framework for State aid measures to support access to finance in the current financial and economic crisis*, OG 56/209). Available from: [[http://narodnenovine.nn.hr/clanci/sluzbeni/2009\\_05\\_56\\_1327.html](http://narodnenovine.nn.hr/clanci/sluzbeni/2009_05_56_1327.html)].