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2022/0293 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) 2020/1348 granting temporary support under Regulation (EU) 2020/672 to the Republic of Croatia to mitigate unemployment risks in the emergency following the COVID-19 outbreak

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Reasons for and objectives of the proposal**

Council Regulation (EU) 2020/672 (“SURE Regulation”) lays down the legal framework for providing Union financial assistance to Member States, which are experiencing, or are seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. Support under SURE serves for the financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self-employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace.

On 6 August 2020, Croatia requested financial assistance from the Union and on 25 September 2020, with its Implementing Decision (EU) 2020/1348, the Council granted financial assistance to Croatia with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers.

On 25 July 2022, Croatia requested again Union financial assistance under the SURE Regulation.

In accordance with Article 6(2) of the SURE Regulation, the Commission has consulted the Croatian authorities to verify the sudden and severe increase in actual expenditure directly related to Croatia’s labour market measures caused by the COVID-19 pandemic. In particular, this pertains to the existing measures referred to in Council Implementing Decision (EU) 2020/1348:

(a) The existing measure providing co-financing of workers’ salaries to businesses that experience a drop in revenue compared with 2019, on condition that the employment relationship is not terminated. For March 2020, the amount of support is set at HRK 3 250 per full-time employee, and starting from the month of April 2020 the monthly amount of support is set at HRK 4 000 per full-time employee. The amount of support per employee remains unchanged over the period the measure remains active, but sectors that are eligible for support change over time, depending on economic conditions. For the period November 2020 – June 2021, companies that are in lockdown by decision of the national authorities receive support per full-time employee depending on the number of days of lockdown but not higher than HRK 4 000 for a full month of lockdown. The measure was discontinued at the end of June 2022.

(b) The existing measure providing support for the temporary reduction of working time¹ in the period between June 2020 and December 2022 to businesses employing 10 or more employees operating in any sector, on condition that the employment relationship is not terminated. Up to HRK 2 000 per month per employee can be financed by the measure. The measure is planned to be enforced until the end of December 2022.

Croatia provided the Commission with the relevant information.

¹ Decline in the aggregate monthly working hours (i.e. of all workers) of at least 10% compared to the similar month of previous year for the period of June to December 2020. Starting from January 2021, the decline in monthly working hours needs to be of at least 20% compared to the similar month of the previous year.

Taking into account the available evidence, the Commission proposes to the Council to adopt an Implementing Decision to grant financial assistance to Croatia under the SURE Regulation in support of the measures above.

- **Consistency with existing policy provisions in the policy area**

The present proposal is fully consistent with Council Regulation (EU) 2020/672, under which the proposal is made.

The present proposal comes in addition to another Union law instrument to provide support to Member States in case of emergencies, namely Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (EUSF) (“Regulation (EC) No 2012/2002”). Regulation (EU) 2020/461 of the European Parliament and of the Council, which amends that instrument to extend its scope to cover major public health emergencies and to define specific operations eligible for financing, was adopted on 30 March 2020.

- **Consistency with other Union policies**

The proposal is part of a range of measures developed in response to the current COVID-19 pandemic such as the “Coronavirus Response Investment Initiative”, and it complements other instruments that support employment such as the European Social Fund and the European Fund for Strategic Investments (EFSI)/InvestEU. By making use of borrowing and lending in this particular case of the COVID-19 outbreak for supporting Member States, this proposal acts as a second line of defence to finance short-time work schemes and similar measures, helping protect jobs and thus employees and self-employed against the risk of unemployment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this instrument is Council Regulation (EU) 2020/672.

- **Subsidiarity (for non-exclusive competence)**

The proposal follows a Member State request and shows European solidarity by providing Union financial assistance in the form of temporary loans to a Member State affected by the COVID-19 outbreak. As a second line of defence, such financial assistance supports the government’s increased public expenditure on a temporary basis in respect of short-time work schemes and similar measures to help them protect jobs and thus employees and self-employed against the risk of unemployment and loss of income.

Such support will help the population affected and helps to mitigate the direct societal and economic impact caused by the present COVID-19 crisis.

- **Proportionality**

The proposal respects the proportionality principle. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be adopted in a timely manner by the Council, a stakeholder consultation could not be carried out.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

4. BUDGETARY IMPLICATIONS

The Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State requesting financial assistance under the SURE instrument.

In addition to the provision of Member State guarantees, other safeguards are built into the framework in order to ensure the financial solidity of the scheme:

- A rigorous and conservative approach to financial management;
- A construction of the portfolio of loans that limits concentration risk, annual exposure and excessive exposure to individual Member States whilst ensuring sufficient resources could be granted to Member States most in need; and
- Possibilities to roll over debt.

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COUNCIL IMPLEMENTING DECISION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak², and in particular Article 6(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) Further to a request from Croatia on 6 August 2020, the Council, by means of Implementing Decision (EU) 2020/1348³, granted financial assistance to Croatia in the form of a loan amounting to a maximum of EUR 1 020 600 000 with a maximum average maturity of 15 years, and with an availability period of 18 months, with a view to complementing Croatia's national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of that outbreak for workers.
- (2) The loan was to be used by Croatia to finance the short-time work schemes and similar measures, as referred to in Article 3 of Implementing Decision (EU) 2020/1348.
- (3) The COVID-19 outbreak has immobilised a substantial part of the labour force in Croatia. This has led to a still sudden and severe increase in public expenditure in Croatia in respect of the measures referred to in Article 3 (a) and (b) of Implementing Decision (EU) 2020/1348.
- (4) The COVID-19 outbreak and the extraordinary measures implemented by Croatia in 2020, 2021 and 2022 to contain that outbreak and its socioeconomic and health-related impact have had a dramatic impact on public finances. In 2020, Croatia had a general government deficit and debt of 7.3% and 87.3% of gross domestic product (GDP) respectively, which narrowed to 2.9% and 79.8% respectively at the end of 2021. According to the Commission's 2022 spring forecast, Croatia is forecasted to have a general government deficit and debt of 1.8% and 73.1% of GDP respectively by the end of 2022. According to the Commission's 2022 summer interim forecast, Croatia's GDP is projected to increase by 3.4% in 2022.

² OJ L 159, 20.5.2020, p. 1.

³ Council Implementing Decision (EU) 2020/1348 of 25 September 2020 granting temporary support under Regulation (EU) 2020/672 to the Republic of Croatia to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 159, 20.5.2020, p. 1.

- (5) On 25 July 2022 Croatia requested further financial assistance from the Union in the amount of EUR 550 000 000 with a view to continuing to complement its national efforts undertaken in 2020, 2021 and 2022 to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers. In particular, Croatia further extended and amended the short-time work schemes and similar measures set out in recitals 6 to 7.
- (6) On the basis of the Labour Market Act⁴, Croatia introduced a measure that provides co-financing of workers' salaries to businesses that experience a drop in revenue compared with 2019⁵, on condition that the employment relationship is not terminated. For March 2020, the amount of support is set at HRK 3 250 per full-time employee, and starting from the month of April 2020 the monthly amount of support is set at HRK 4 000 per full-time employee. The amount of support per employee remains unchanged over the period the measure remains active, but sectors that are eligible for support change over time, depending on economic conditions. For the period November 2020 – June 2021 companies that are in lockdown by decision of the national authorities receive support per full-time employee depending on the number of days of lockdown but not higher than HRK 4000 for a full month of lockdown. The measure is an extension of the measure described in Article 3(a) of Council Implementing Decision (EU) 2020/1348, as provided for in the Administrative Council of Croatia Employment Service (CES) Decision adopted on 20 March 2020 and amended on 25 March, 7 April, 9 April, 6 May, 28 May, 18 June, 25 June, 10 July and 29 July, 7 September, 22 October, 4 November and 4 December 2020. Subsequent amendments by the CES were also adopted in 2021 through decisions taken on 8 January, 21 January, 3 March, 15 April, 30 April, 31 May, 23 July, 25 August, 29 September, 15 October, 4 November, and in 2022 through decisions taken on 27 January and 31 May⁶. The measure was discontinued at the end of June 2022.
- (7) Additionally, on the basis of the 'Labour Market Act', Croatia introduced a measure that provides support for the temporary reduction of working time⁷ in the period between June 2020 and December 2022 to businesses employing 10 or more employees operating in any sector, on condition that the employment relationship is not terminated. Up to HRK 2 000 per month per employee can be financed by the measure. The measure is an extension of the measure described in Article 3(b) of Council Implementing Decision (EU) 2020/1348, as provided for in the Administrative Council of Croatia Employment Service (CES) Decision adopted on 29 June 2020 and amended on 10 July and 22 October 2020, amended further on 8 January 2021 and 27 January 2022⁸. The measure is planned to be enforced until the end of December 2022.
- (8) Croatia fulfils the conditions for requesting financial assistance set out in Article 3 of Regulation (EU) 2020/672. Croatia has provided the Commission with appropriate evidence that the actual public expenditure has increased by EUR 2 220 567 523 as of

⁴ OG 118/18, 32/20

⁵ The drop in revenue criteria is of 20 % in the period March to May 2020, 50 % in the period June to December 2020, and starting from January 2021 there needs to be only a decrease in revenues compared to the similar month from 2019.

⁶ Decisions available at: https://www.hzz.hr/o-hzz/upravno-vijece/upravno-vijece_sjednice-2021.php

⁷ Decline in the aggregate monthly working hours (i.e. of all workers) of at least 10% compared to the similar month of previous year for the period of June to December 2020. Starting from January 2021, the decline in monthly working hours needs to be at least 20% compared to similar month of the previous year.

⁸ Decisions available at: https://www.hzz.hr/o-hzz/upravno-vijece/upravno-vijece_sjednice-2021.php

1 February 2020 until the end of April 2022 due to the national measures taken to address the socioeconomic effects of the COVID-19 outbreak. This constitutes a sudden and severe increase because it is also related to an extension or amendment of existing national measures directly related to short-time work scheme and similar labor market measures that cover a significant proportion of undertakings and of the labour force in Croatia. Croatia intends to finance EUR 631 536 540 of the increased amount of expenditure through Union funds and EUR 18 430 983 through its own financing.

- (9) The Commission has consulted Croatia and verified the sudden and severe increase in the actual public expenditure directly related to short-time work schemes and similar measures, as referred to in the request of 25 July 2022, in accordance with Article 6 of Regulation (EU) 2020/672.
- (10) Financial assistance should therefore be provided with a view to helping Croatia to address the socioeconomic effects of the severe economic disturbance caused by the COVID-19 outbreak. The Commission should take the decisions concerning maturities, size and release of instalments and tranches in close cooperation with national authorities.
- (11) Given that the availability period indicated in Implementing Decision (EU) 2020/1348 has expired, a new availability period for the additional financial assistance is needed. The availability period for financial assistance granted by Implementing Decision (EU) 2020/1348 shall be extended by 21 months and as a consequence the total availability period should be 39 months starting from the first day after Implementing Decision (EU) 2020/1348 has taken effect.
- (12) Croatia and the Commission should take this Decision into account in the loan agreement referred to in Article 8(2) of Regulation (EU) 2020/672.
- (13) This Decision should be without prejudice to the outcome of any procedures relating to distortions of the operation of the internal market that may be undertaken, in particular pursuant to Articles 107 and 108 of the Treaty. It does not override the requirement for Member States to notify instances of potential State aid to the Commission under Article 108 of the Treaty.
- (14) Croatia should inform the Commission on a regular basis of the implementation of the planned public expenditure, in order to enable the Commission to assess the extent to which Croatia has implemented that expenditure.
- (15) The decision to provide financial assistance has been reached taking into account existing and expected needs of Croatia, as well as requests for financial assistance pursuant to Regulation (EU) 2020/672 already submitted or planned to be submitted by other Member States, while applying the principles of equal treatment, solidarity, proportionality and transparency,

HAS ADOPTED THIS DECISION:

Article 1

Implementing Decision (EU) 2020/1348 is amended as follows:

- (1) Article 2 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. The Union shall make available to Croatia a loan amounting to a maximum of EUR 1 570 600 000. The loan shall have a maximum average maturity of 15 years.’;

(b) paragraph 2 is replaced by the following:

‘2. The availability period for financial assistance granted by this Decision shall be 39 months starting from the first day after this Decision has taken effect.’

(c) paragraph 4 is replaced by the following:

‘4. The first instalment shall be released subject to the entry into force of the loan agreement provided for in Article 8(2) of Regulation (EU) 2020/672. Any further instalments shall be released in accordance with the terms of that loan agreement or, where relevant, be subject to the entry into force of an addendum thereto, or of an amended loan agreement concluded between Croatia and the Commission replacing the original loan agreement.’;

(2) Article 3 is replaced by the following:

‘Article 3

Croatia may finance the following measures:

(a) the job preservation subsidies in sectors affected by COVID–19, pursuant to Articles 35 and 36 of the ‘Labour Market Act’ and as provided for in the Croatian ‘Employment Service decision of 20 March 2020’ and subsequent amendments through the decisions taken on 25 March, 7 April, 9 April, 6 May, 28 May, 18 June, 25 June, 10 July and 29 July, 7 September, 22 October, 4 November and 4 December 2020. Subsequent amendments by the Croatian Employment Service were also adopted in 2021 through decisions taken on 8 January, 21 January, 3 March, 15 April, 30 April, 31 May, 23 July, 25 August, 29 September, 15 October, 4 November; and in 2022, through decisions taken on 27 January and 31 May; and ;

(b) the aid for reduced working hours, pursuant to Articles 35 and 36 of the ‘Labour Market Act’ and as provided for in the Croatian ‘Employment Service decision of 29 June 2020’ and subsequent amendments thereof on 10 July and 22 October 2020, amended further on 8 January 2021 and 27 January 2022.’;

Article 2

This Decision is addressed to the Republic of Croatia.

Done at Brussels,

*For the Council
The President*