

# How to build a resilient economy?

Day of Great Plans - Keynote presentation

September 25, 2019





**Next recession – not a matter of “if”, but “when”**

**“Recession risks rise for Germany as industrial orders plunge”**

Reuters, Sep 04, 2019

**“3 out of 4 economists predict a U.S. recession by 2021, survey finds”**

Washington Post, Aug 19, 2019

**“Are we near a recession? The godfather of the inverted yield curve says it’s ‘code red’”**

Fortune, Sep 09, 2019



**Are you ready for the downturn?**

# National authorities can pull multiple levers to build resilience in the economy and get ready for the next recession

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**1**

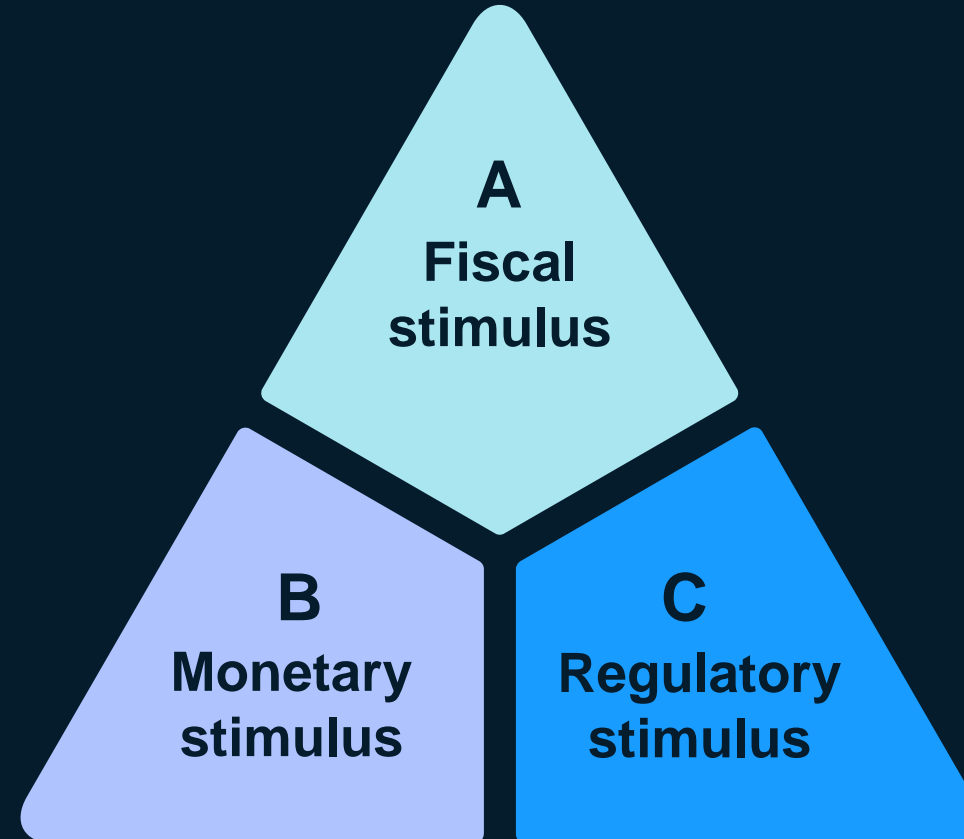
Short-term stimulus

**2**

Fiscal sustainability

**3**

Labor market resilience



# Like many EU countries, Croatia has somewhat limited tools to stimulate the economy against recession



2008

2018

2018

Public Debt / GDP, %<sup>1</sup>

39

75

80

Central Bank  
discount rate, %<sup>2</sup>

9.0

3.0

-0.5 / 0.0

Inflation rate, %<sup>3</sup>

6.1

0.7

1.6

1. 2018 data

2. 2018- to-current, for EU values shown are ECB deposit rate and main refinancing operations rate (Eurozone only)

3. Average for Jan-Jul 2019

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**Proactive  
approach to  
fiscal stimulus  
can ignite  
growth and  
build  
resilience**

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**Reactive**

Focus on  
what  
amount to  
spend?

“Putting out  
fires” and quick-  
spend projects

Slow  
recovery and  
debt  
overhang



**Proactive**

Focus on  
what to  
spend on?

Strategic bets  
and their  
enablers

Faster  
recovery and  
stimulus  
“paying for  
itself”

# Italy launched a successful public spending review program, using saved resources to reduce tax burden and increase spend on public services



## Impact

**>25bn EUR**

Confirmed annual government spend reduction

**1.5%**

Increase in GDP spent on public services

**2 p.p.**

Reduction in government spend as % of GDP

**4%**

Headcount reduction in public administration, via hiring freeze

**1 p.p.**

Reduction in fiscal deficit as % of GDP





# We have some recommendations on what Croatian public sector could do to build resilience and prepare for the next crisis

|  | KPI   |  |  |
|--|---|---|---|
| <b>Increase public sector quality and efficiency</b> | Public sector compensation, as % public expenditures <sup>1</sup> | <b>25.2</b>   | <b>21.6</b>   |
| <b>Improve ease-of-doing-business</b>                | World Bank ease-of-doing-business score <sup>2</sup>              | <b>71.4</b>   | <b>75.9</b>   |
| <b>Optimize the tax system</b>                       | “Shadow” economy, as % GDP <sup>3</sup>                           | <b>24.5</b>   | <b>18.6</b>   |
| <b>Transform SOE operations</b>                      | ROA for state-owned enterprises, % <sup>4</sup>                   | <b>0.7</b>  | <b>4.0</b>  |

Due to data limitations, some of the KPIs are potentially dated, but are still illustrative of both the need and the room for improvement

1. 2017 data



2. 2018 data, simple averages for EU average

3. 2014 data

4. 2012-14 data for Croatia and CEE countries (POL, CZE, SLO, HUN)



# We also have some recommendations on what Croatian private sector could do to build resilience and prepare for the next crisis

|                            | KPI  |  |  |
|----------------------------|--|---|---|
| Increase investment in R&D | Private sector spend on R&D, as % GDP <sup>1</sup>                             | 0.37  | 1.16  |
| Digitize business          | Growth of Croatian digital sector, CAGR % <sup>2</sup>                         | 0.6   | 4.7   |
| Automate production        | Multipurpose industrial robots per 10,000 manufacturing employees <sup>3</sup> | 13  | 150   |
| Diversify export markets   | Share of exports to non-EU markets, % <sup>4</sup>                             | 33  | 36  |


Due to data limitations, some of the KPIs are potentially dated, but are still illustrative of both the need and the room for improvement

1. 2016 data

2. 2012-16 data

3. 2015 data

4. Jan-Jul 2019 data

A person in a dark suit and white shirt, seen from behind, stands in the center of a vast, complex maze made of tall, light-colored concrete walls. The maze extends far into the distance, creating a sense of depth and complexity. The sky above is filled with soft, white clouds, and the overall lighting is bright and even. The person is holding a dark briefcase in their right hand.

**The time to start  
preparing is now...**

**...what are you  
going to do?**