

Job Preservation Grant

Urban, Ivica

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PRESS RELEASES

Job preservation grant

IVICA URBAN, Institute of Public Finance, Zagreb

At its 214th and 222nd sessions held in the period from mid-March to early April, the Croatian Government adopted more than 70 measures to mitigate the adverse economic consequences of the coronavirus pandemic. Among these measures, the strongest economic and budgetary effects will be produced by the so-called **job preservation grant for sectors hit by the coronavirus**. The grant will protect jobs and maintain the living standards of numerous employees and self-employed persons. However, part of employees as well as citizens belonging to other economic groups, whose living conditions might deteriorate sharply in 2020, will not be covered by this measure. In order to help them too, the social protection system needs to be adjusted.

The grant in brief

Due to the coronavirus pandemic, a large number of businesses are temporarily closed, or work at a reduced capacity. How to pay wages to the workers in a situation of a sharp decline in, or a complete loss of market revenues? In order to do as much as possible to prevent the collapse of companies and SMEs and a massive influx of the unemployed to the Employment Agency, the government has decided to compensate for a partial loss of earnings through a 'job preservation grant' (hereinafter: grant).

Eligible for the grant are the following: (a) entrepreneurs unable to operate due to the Civil Protection Command's decisions; (b) entrepreneurs engaged in accommodation and food and beverage service activities, transportation and storage activities and labour-intensive activities within the manufacturing industry (textiles, clothing, footwear, leather, wood and furniture); and (c) other businesses able to provide evidence of being affected by "special (COVID 19-related) circumstances".

Entrepreneurs are considered to be companies (legal entities) and self-employed persons (tradesmen and freelancers). In the case of companies, the grant is paid to employees, whereas the self-employed can obtain the grant for themselves and their employees. Entrepreneurs who have violated certain rules (e.g. failed to pay salaries for February 2020, or performed their business activities despite the Civil Protection Command's ban) are not eligible for the grant.

The grant will be paid over a period of three months (from March to May), in a net monthly amount of HRK 3,250 in March and HRK 4,000 in April and May.¹ In addition to the net grant, government has also committed itself to settling mandatory insurance contributions, the amounts of which are calculated as in the case of normal wage calculation, but in reverse direction (see table 1). The grant does not represent an employee's only income, as employers are expected to continue paying their

¹ The above-mentioned amounts relate to full-time work throughout the month and are reduced in proportion to the actual hours worked.

employees a difference between the amount of grant and the commonly agreed amount of the wage, including contributions on that 'difference'.²

Table 1 Calculation of contributions related to job preservation grant

| | March | April | May |
|---|-------|-------|-------|
| Net amount of grant | 3,250 | 4,000 | 4,000 |
| Gross amount of grant (contribution base) | 4,063 | 5,000 | 5,000 |
| 1 st pillar pension insurance contribution (15%) | 609 | 750 | 750 |
| 2 nd pillar pension insurance contribution (5%) | 203 | 250 | 250 |
| Health insurance contribution (16.5%) | 670 | 825 | 825 |
| Total grant costs | 4,733 | 5,825 | 5,825 |

Source: Author's calculation.

Interested entrepreneurs should contact the Croatian Employment Agency whose [official website](#) provides detailed information on that measure and instructions for obtaining the grant.

A grant or a 'minimum wage'?

In Croatia, gross and net minimum wages for 2020 amount to HRK 4,062.51 and HRK 3,250 respectively. As shown in table 1, the amount of the job preservation grant in March was identical to that of the net minimum wage, i.e. HRK 3,250. Therefore, shortly after the grant had been introduced, the term used in the media was 'minimum wage' rather than 'grant'. However, the real problem with using such terminology occurred after the grant for April and May had been set at HRK 4,000. It could then be read and heard that the 'minimum wage'³ had been raised, which was confusing for both domestic and international analysts, as the minimum wage actually remained unchanged and only the job preservation grant rose.

Examples with 'hypothetical workers'

The amount of grant for April and May (HRK 4,000) has not been set randomly, as it equals the basic personal allowance within the personal income tax, effective as of January 2020. Of course, such size matching of different fiscal parameters should not pose a problem. Regardless of that, however, the HRK 750 increase in grant (from HRK 3,250 to HRK 4,000) creates an interesting situation for employees whose net wage before the crisis was *lower* than HRK 4,000, i.e. their income goes up compared with the pre-crisis period.

To illustrate such situation, let us give the example of two workers with a pre-crisis wage of HRK 3,500. The first worker's employer gets the grant, while that of the second worker does not. In April, the first worker receives grant in the amount of HRK 4,000, whereas the second one continues to receive his wage of HRK 3,500. It is further assumed that the first worker does not work due to a temporary closure of his or her firm, based on the Civil Protection Command's decision, while the second worker continues to work. Let us now imagine a third worker with the same pre-crisis net wage of HRK 3,500 who was dismissed from work in March and is not eligible for the grant. If that worker is entitled to *unemployment benefit*, he or she will receive HRK 2,625 in April. If the worker is not entitled to the benefit, but qualifies for the *guaranteed minimum benefit*, he or she can receive HRK 800.⁴ Should the person not even satisfy the guaranteed minimum benefit requirements, he or she will be left without income.

The point of this brief analysis of hypothetical employees is to show that some workers and self-employed persons will be left without protection in this crisis, or will receive government aid in a considerably lower amount than the job preservation grant. Moreover, besides employees and self-

² Example: A worker's net wage amounts to HRK 6,000. In April, the employer pays him/her HRK 4,000 as a grant and the remaining HRK 2,000 from own funds, plus contributions on the latter amount (personal income tax and surtax should also be taken into account here).

³ See the headline of a [Government of the Republic of Croatia](#) press release in English: 'Net minimum wage to be increased to HRK 4,000 as of April'.

⁴ For the sake of simplicity, the person from our example is a single person eligible for the guaranteed minimum benefit, the compensation for a vulnerable energy consumer, in the amount of electricity costs (up to HRK 200 per month), and the housing benefit up to HRK 400 per month (provided that the person resides in the City of Zagreb).

employed persons, there are other groups of citizens whose living standards will deteriorate during the crisis, especially from March to May, but also throughout 2020 and thereafter. It is therefore necessary to consider how to protect them, too.

Praise, criticism and recommendations

According to the **Government of the Republic of Croatia** data, the grant covered over half a million employees in March, with the number of recipients expected to even grow in April and May. Assuming 550,000 grant recipients during all the three months, it is easy to calculate the total net amount of the grant to be paid from the national budget, which is HRK 6.2 billion, including an additional HRK 2.8 billion for mandatory contributions. Of the latter amount, HRK 390 million should be allocated for the 1st pillar pension insurance contributions. Accordingly, the grant is enormously expensive.

The beneficial effect of the grant will be that numerous company bankruptcies and mass dismissals will be avoided, thus preventing social instabilities. This measure is therefore welcomed by various economy stakeholders.

Some challenges of the measure implementation have also been discussed, such as vague and inaccurate rules, but they could be effectively overcome by providing additional explanations at the Croatian Employment Agency's website. Given the huge interest of foreign analysts in the economic coronavirus pandemic-related measures, it would be useful to additionally provide key information on the grant in the English language.

Recently, an **opinion** appeared that the grant may reduce market flexibility, stimulate unprofitable businesses and increase 'invisible unemployment'. Fortunately, the grant should be implemented for only three months, so that its negative effects should not be pernicious.

As suggested by its name, the grant is intended for 'the preservation of jobs' and it will surely help to maintain the living standards of numerous employed and self-employed persons, but not all those faced with difficulties. A fall in living standards will also be experienced by citizens from other economic groups. In order to help them all, it is necessary to strengthen the social protection system (for example, by temporarily increasing unemployment benefits, relaxing eligibility conditions for guaranteed minimum compensation, and raising **support for families with children** coming from lower- and medium- income groups).