

The Croatian Government is currently working on defining a package of measures that should mitigate the upcoming impact of rising energy prices on the standard of living of citizens.

According to media, one of the key measures that the Government is considering is lowering the VAT rate on natural gas from the current 25 to 13 %. However, there is a real possibility that the Government will decide on a more significant tax cut, and reduce the VAT on gas to 5 % or even temporarily suspend the collection of VAT on this energy source.

Although the final decision on the extent of tax relief has not yet been made, simulations are currently being made on the impact of each of

these scenarios on the final price of gas paid by consumers, but also on the stability of the state budget. While the Ministry of Finance is more in favor of a more cautious approach, and equalizing the VAT rate on gas with the rate paid on electricity (which is 13 % since 2017), the Ministry of Economy and Sustainable Development is reportedly advocating stronger intervention, arguing by the logic that, at a time when the price of gas on European exchanges is skyrocketing, the state has an obligation to return all the surplus revenues that would be based on this price increase to citizens and businesses who will in any case face a significant increase in costs.

With the abolition of VAT on gas, the projected budget loss would amount to about 66 million euros. These amounts are certainly not an unbearable blow to the budget, especially since any such measure has anti-inflationary effects and indirectly affects GDP growth, but the Government's caution is understandable given that, except in the gas sector, certain interventions will be necessary in the electricity segment as well, where price increases and consequent growth in the number of vulnerable consumers are also expected.