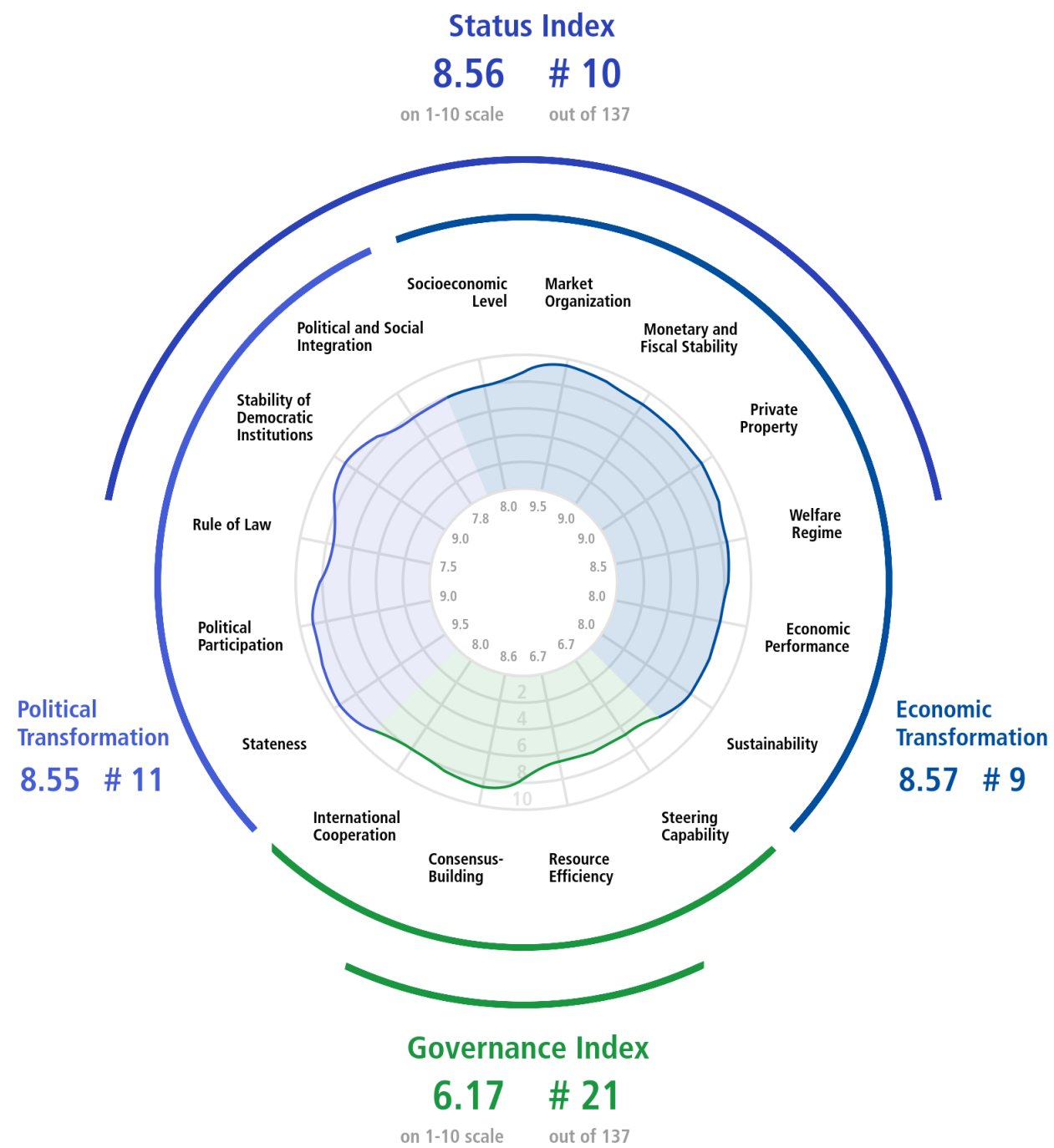


Croatia



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2024 Country Report — Croatia. Gütersloh: Bertelsmann Stiftung, 2024.

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Key Indicators

Population	M	3.9	HDI	0.858	GDP p.c., PPP \$	40380
Pop. growth ¹	% p.a.	-0.6	HDI rank of 189	40	Gini Index	29.5
Life expectancy	years	76.4	UN Education Index	0.826	Poverty ³	% 0.7
Urban population	%	58.2	Gender inequality ²	0.093	Aid per capita	\$ -

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Despite numerous corruption scandals, including the arrest of a sitting minister, the center-right coalition government led by Andrej Plenković has maintained a stable majority. His party, the Croatian Democratic Union (HDZ), still leads in the polls, garnering the support of a third of voters. This stable government position was aided by the fragmentation of the opposition. The main opposition party, the Social Democratic Party (SDP), experienced a split over a conflict between supporters of the current and former party presidents, resulting in the creation of a new party called Social Democrats. This new party instantly became the second-largest party in parliament. The right-wing populist and nationalist Homeland Movement, led by pop singer Miroslav Škoro, also experienced a split, with him and his supporters breaking off from the party under new leadership.

Since the beginning of the Russian invasion of Ukraine, Croatia has been one of the most vocal supporters of the Ukrainian cause. However, the country's president, Zoran Milanović, often presented dissenting opinions on the issue, sending mixed messages to allies and partners abroad. Several unsuccessful referendum initiatives have taken place, while new laws to better regulate civic referendum initiatives and correct malapportionment through electoral district reforms are still pending.

The government has maintained a balanced budget policy but has failed to implement any significant structural reforms, such as public administration or health care reforms. The privatization of partially state-owned enterprises has been slow. Croatia has improved its credit score and reduced government debt. In January 2023, it joined the euro area and the Schengen area, which are expected to have a positive impact on its macroeconomic position and create new investment and tourism opportunities. Unemployment has remained low, while inflation rose in 2022, following European-wide trends, due to increased public spending during the pandemic and rising energy prices triggered by Russia's invasion of Ukraine.

Corruption and the low efficiency of the judiciary remain problems that hinder Croatia's progress and contrast with its relatively good macroeconomic indicators. Digitalization efforts have somewhat improved the quality of public administration, but public trust in both public administration and the judiciary remains low. National and local government authorities have been slow in rebuilding after the devastating 2020 earthquakes in the capital city of Zagreb and the central Sisak-Moslavina region. The European Commission has allocated a special relief fund for rebuilding efforts, yet the implementation of EU-funded building projects is lagging.

The NextGenerationEU stimulus package has created new opportunities for reform and increased efforts toward sustainable development and green transformation. Croatia is among the EU member states with a relatively high share of renewable energy sources. However, sustainable waste management, particularly in larger cities, remains a major issue.

There has been no significant progress in relations with neighboring Serbia, as the Serbian government has shown unwillingness to address its responsibility for the 1990s wars.

History and Characteristics of Transformation

In the late 1980s, Croatia embarked on an economic transition, which was followed by the country's first multiparty elections in 1990. Taking the reins of power was the Croatian Democratic Union (HDZ), led by Franjo Tuđman. The HDZ, a nationalist movement, sought to secure full sovereignty for Croatia outside of the Yugoslav federation. However, tensions escalated as Serbia, under the leadership of Slobodan Milošević, aimed to prevent the breakup of Yugoslavia. In August 1990, an armed rebellion erupted among ethnic Serbs in Croatia, with support from the federal Yugoslav army.

In May 1991, Croatia held a referendum on independence, which was followed by armed conflict in September and the declaration of independence in October. Over the course of four years, nearly a third of the country was occupied, resulting in the displacement of tens of thousands of refugees. Croatia also became embroiled in the war in Bosnia and Herzegovina, with a brief conflict between Croat Bosnian and Bosniak forces from 1993 to 1994. However, through U.S. mediation, they reconciled and became allies by late 1994. The war in Croatia concluded in the summer of 1995 with the military operation known as Storm, while the eastern part of the country was peacefully reintegrated through a U.N. peace mission by 1998. Following the collapse of Serb rebel authority in the occupied regions, around 200,000 ethnic Serbs left the country, while many Croat-Bosnian refugees found settlement in Croatia. Since 2000, some ethnic Serbs have returned, although the majority have permanently resettled elsewhere.

In the aftermath of the 1991 war, Croatia embarked on a rapid privatization program that resulted in the collapse and bankruptcy of numerous companies and widespread job losses. This process was often criticized as lacking transparency and being plagued by corruption, which contributed to the rise of a new class of wealthy individuals. Throughout the war years and the late 1990s, Croatia operated as a semi-presidential republic under the strong leadership of Franjo Tuđman. This period was characterized by a flawed democracy with authoritarian tendencies, particularly evident in restrictions on state-owned media and the judiciary's lack of independence.

After Tudman's passing in 2000, a broad center-left coalition led by the Social Democrats (SDP) assumed power in parliamentary elections. This shift enabled Croatia to pursue European integration, democratization and reconciliation efforts with the International Criminal Tribunal for the former Yugoslavia (ICTY). The government system transitioned from semi-presidential to parliamentary. EU accession negotiations commenced in 2005, extending until 2011 due to delays caused by inadequate reforms in the judiciary, anti-corruption measures and minority rights. During this period, Croatia experienced rapid economic growth, driven by favorable loans and under the leadership of Prime Minister Ivo Sanader, who held strong pro-European sentiments.

However, Sanader's tenure abruptly ended in 2009 during a severe economic downturn following the global recession. He faced extensive corruption charges, leading to a protracted legal battle that continued for a decade. Since 2009, Croatia has faced significant emigration, resulting in considerable population loss and economic stagnation. This trend has amplified the urban-rural divide within the country.

In 2013, Croatia became a member of the European Union, further aligning its economy with Western and Central Europe. In 2015, Croatia faced a substantial influx of migrants crossing its borders illegally as part of the European migration crisis. However, the country primarily served as a transit point, with only a limited number of refugees and migrants seeking asylum within its borders. Croatia emerged from the recession in 2016 and exited the Excessive Deficit Procedure in 2017. Although Croatia applied for OECD membership in 2017, a definitive invitation has not been extended. In the first half of 2020, Croatia assumed the rotating presidency of the Council of the European Union. Finally, in January 2023, Croatia adopted the euro and joined the Schengen area.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

There are no political, military or social actors that would challenge the state’s monopoly on the use of force. There are no paramilitary forces or guerrillas.

Question
Score

Monopoly on the
use of force

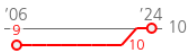
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The legitimacy of the nation-state faces no significant challenges. Acquiring citizenship for legal foreign residents is relatively straightforward, requiring eight years of residency and successfully passing a citizenship test covering language, constitution and culture. The government actively encourages individuals of Croatian descent who were born abroad to obtain Croatian citizenship. Moreover, the naturalization process has been streamlined since 2022.

State identity

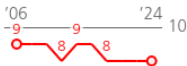
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The constitution mandates the separation of the state from religious communities. Registered religious communities that meet certain membership criteria are eligible for state compensation and tax-exempt status. However, the Catholic Church, which constitutes the largest religious community in Croatia (83.2% according to the 2021 census), enjoys additional legal and financial privileges through agreements between Croatia and the Holy See. The Catholic Church maintains a close relationship with the ruling party (HDZ) and frequently weighs in on national and political matters. It actively participates in political, social, cultural and educational spheres through formal and informal channels.

No interference of
religious dogmas

8



In spite of a prior decision by the Constitutional Court to strike down a labor law that mandated shop closures on Sundays, the government has proposed a new labor law that partially restricts Sunday opening hours for shops. This move has been interpreted by opposition parties and critical media outlets as an attempt by the government to curry favor with the Church.

The state has a functionally differentiated administrative structure in place throughout the country to ensure the provision of essential public services. However, citizens and businesses often express frustration over the bureaucratic requirements for administrative purposes. Nonetheless, over the past nine years, the implementation of an e-administration platform has significantly streamlined processes. Many services and public documents, such as citizenship certificates, residency certificates and child benefit paperwork, can now be obtained online within minutes. The COVID-19 pandemic has further accelerated the adoption of these online services, resulting in expanded offerings. As a result, the speed and quality of public administration have greatly improved due to enhanced digitalization efforts.

According to the latest data from Eurostat in 2020, only 0.6% of Croatian citizens reported a lack of access to basic sanitary facilities, which is below the European Union average of 1.6%. Additionally, all Croatian households had access to electricity in 2020. However, certain rural areas may face challenges related to the availability of primary health care providers and high transportation costs for children commuting to school.

2 | Political Participation

Regular general elections are held at all levels of government in Croatia, including national, county, municipality/city and European elections. Universal suffrage ensures that all eligible citizens can vote, and the ballot is conducted freely and secretly. A diverse range of political parties and independent lists participate in the electoral process, and election results are generally accepted without dispute.

The most recent parliamentary election took place in July 2020. While the election was considered free and fair, the voter turnout was relatively low at 46.44% due to the ongoing COVID-19 pandemic.

Although the legal framework for financing electoral campaigns is generally sufficient, there are instances, particularly in local elections, where the transparency of party expense reports submitted to the State Electoral Commission is lacking, particularly regarding the financing of online advertisements.

It has been over a decade since a 2010 Constitutional Court ruling that called for the redrawing of electoral district boundaries to ensure that the population deviation in each district does not exceed 5% from the average. Currently, five districts have a population deviation of 10% from the average, causing dissatisfaction among smaller parties who argue that such malapportionment favors larger parties. However, research in political science has shown that the actual impact of malapportionment on seat distribution is minimal.

Basic administration

10



1

Free and fair elections

9



1

In 2022, several NGOs and research institutes have proposed their own recommendations for achieving a more equitable electoral district design. In January 2023, the government announced its intention to introduce a new bill on electoral districts, expected to be presented in September. However, the government clarified that the proposed changes would only address minimal corrections required by the Constitutional Court, disregarding academic proposals that aimed to address not only malapportionment but also the issue of gerrymandering. This includes the fact that the capital city of Zagreb is currently divided into four different electoral districts.

Democratically elected political representatives hold the authority to govern without any de facto veto power granted to individuals or groups. However, the Catholic Church wields significant influence as a powerful societal actor and can effectively voice its interests and concerns to the government. While the government maintains regular communication with high-ranking Catholic clergy, policy decisions are ultimately made solely by the government. The Church does not possess the ability to effectively prevent decisions that contradict its teachings.

Citizens in Croatia enjoy the freedom to associate with various civic groups and organizations, as guaranteed by the constitution. This right is generally respected by all political and social actors. The civic landscape encompasses a wide range of groups, with the most common focusing on sports, local culture, religion and environmental concerns such as air quality, water supply and waste management. Additionally, numerous youth groups exist, along with watchdog and advocacy NGOs that strive to shape government policy and enhance the well-being of specific social groups. These watchdog and advocacy NGOs often maintain close collaborations with representatives from the European Parliament and the European Commission.

Freedom of expression is generally protected from interference or restrictions in Croatia. A diverse range of both online and offline media outlets are available to the public. Journalists play a crucial role in scrutinizing government officials, particularly regarding conflicts of interest, corruption cases and the transparency of information related to politicians' personal assets. In fact, investigative journalism pieces on high-profile political corruption have resulted in the dismissals and resignations of cabinet ministers on multiple occasions.

However, journalists and professional journalist associations express concerns about current libel laws, which provide an avenue for wealthy and influential individuals, both from the public and private sectors, to file lawsuits against journalists for publishing critical and controversial articles that delve into business transactions or discrepancies between reported income, personal assets and wealth.

Public television is often perceived as susceptible to political influence from the parliamentary majority, with the editorial focus of its daily news programs reflecting the overall government policy.

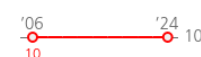
Effective power to govern

10



Association / assembly rights

10



Freedom of expression

7



3 | Rule of Law

According to public opinion polls, both the government and the parliament face low levels of public confidence, with the government exerting clear dominance over the parliament. In recent years, the Constitutional Court has gained significant importance; however, it faces challenges in handling a backlog of citizen constitutional appeal cases.

In February 2023, the Constitutional Court made a landmark ruling by striking down the law on electoral districts. As a result, the government was compelled to propose a new law to the parliament that would ensure a more equitable distribution of votes and seats in the country's list proportional systems, which consist of 10 large multi-member electoral districts. This decision has substantially increased the judiciary's oversight over the executive and legislative branches of the government.

According to July 2022 Eurobarometer data, trust in the judiciary among Croatian respondents was only 26%, the lowest among all EU member states, compared to the EU27 average of 52%.

The court system in Croatia consists of three levels: municipal courts, county courts and the Supreme Court.

The digitalization of courts has enhanced efficiency and somewhat improved public perception. It has also enabled increased media scrutiny of controversial court cases.

In the 2022 EU Justice Scoreboard, Croatia had the second-longest estimated time required to resolve litigious civil and commercial cases in the EU, trailing only Italy. Additionally, Croatia ranked among the member states with the highest number of pending cases, following Portugal, Poland and Greece. However, Croatia allocated the third highest expenditure to its judiciary and had the second highest number of judges.

Despite the lack of trust in the courts, Croatian citizens often turn to litigation due to low court fees and the relative ease of initiating a court case. However, this contributes to a backlog of cases, particularly in matters related to property and inheritance law. Numerous appeals and case reviews result in protracted court proceedings that can extend over a decade. While mechanisms for extrajudicial settlements exist, they are not widely utilized.

In 2022, disciplinary investigations led to the suspension of several regional-level (county-level) judges who were found to have accepted bribes from Zdravko Mamić, the former owner of football club Dinamo Zagreb (currently evading authorities in neighboring Bosnia and Herzegovina).

Separation of powers

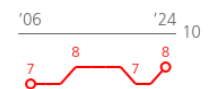
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Independent judiciary

8



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Following a public dispute between President Zoran Milanović and Prime Minister Andrej Plenković over the appointment of a new president for the Supreme Court, Radovan Dobronić was elected as the new Supreme Justice in July 2021. Dobronić has been well-regarded by fellow judges and commands respect from the general public. His appointment is expected to contribute to increased confidence in the judiciary system.

Officeholders who engage in illegal activities and corruption are generally subject to prosecution, although there is often a time lag and cases may be pursued after they have left office. Numerous court cases have been initiated against cabinet ministers and other senior officials for corruption. However, the protracted nature of these high-profile corruption cases and the rarity of definitive convictions significantly undermine public trust in the judiciary and the fair application of the rule of law.

Corruption among officeholders primarily involves public tender irregularities, nepotism in employment and procurement, and kickbacks from national and international investors.

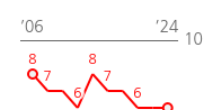
The management of EU-funded development projects, particularly in the renewable energy sector, such as onshore wind farms, has drawn the attention of European anti-corruption authorities, including the European Anti-Fraud Office (OLAF). When domestic institutions fail to address corruption, European institutions step in to uncover abuses and corruption involving public funds. This additional level of scrutiny is expected to have a positive impact on reducing political corruption levels in Croatia moving forward.

The Office for the Suppression of Organized Crime and Corruption (USKOK) has made improvements in its operations in recent years, and the State Attorney's Office (DORH) has increased the speed and number of prosecutions in corruption cases. However, DORH's indictments often consist of extensive evidence material running into thousands of pages, which poses challenges to the efficient handling of these cases by the courts. Additionally, legal defense teams representing officeholders frequently exploit legal loopholes to appeal first-instance verdicts or request complete retrials.

In 2022, several cabinet ministers resigned due to potential corruption charges, while Darko Horvat, the former construction and public planning minister (2020 – 2022), was arrested for corruption while in office. These developments have further eroded public trust in political parties and officeholders. However, the willingness of the prime minister to compel resignations in response to corruption allegations, along with the role of investigative journalism by critical media outlets in exposing corruption and influencing resignations, indicates a level of government responsiveness to public scrutiny. Nevertheless, the slow and inefficient court system means that high-level political corruption often goes unpunished until much later, leaving the public dissatisfied and disenchanted.

Prosecution of office abuse

6



1

Civil rights are legally protected and generally upheld, but there is often a lag in implementing policies and giving sufficient attention to the issues outlined in the legal framework.

The National Program of Protection and Promotion of Human Rights for the period from 2021 to 2027 has been adopted.

Ethnic minority non-governmental organizations (NGOs) report instances of sporadic discrimination and cases of vandalism targeting cultural and religious buildings associated with the Serb minority. The government has implemented an action plan to enhance the social, economic and educational inclusion of the Roma community, which has yielded positive results. However, some civil rights cases involving Roma plaintiffs have been brought before the European Court of Human Rights.

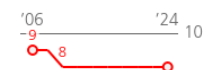
Women's rights groups and social media movements have brought greater public awareness to unreported and unpunished incidents of sexual violence against women. Additionally, in 2022, women's rights groups protested against unequal access to abortion services.

Citizens have equal access to the court system, and there are multiple ombudspersons appointed to address various areas of rights, including children's rights, the rights of people with disabilities, gender equality and a general public ombudsperson. The institution of the ombudsperson is well-recognized and respected by the public.

The general public ombudsperson collaborates closely with advocacy and watchdog NGOs focusing on ethnic minority and LGBTQ+ rights.

Civil rights

8



4 | Stability of Democratic Institutions

Democratic institutions in Croatia are relatively stable and face no significant obstacles in fulfilling their responsibilities.

The government is widely regarded as the most influential political institution by the public. The parliament operates as a unicameral body, and cabinet ministers are not permitted to hold seats in parliament, preventing the dual mandate of being a member of both the legislature and the executive branch.

The president and the government share responsibilities for appointing ambassadors, high-ranking military officers and directors of intelligence agencies.

There is an ongoing but gradual process of judicialization, whereby courts are gaining increasing influence in correcting and amending executive and administrative procedures. However, the judiciary remains the least trusted among the three branches of government.

Performance of democratic institutions

9



The practice of mayors and local councilors concurrently serving in the national parliament creates potential conflicts of interest. Moreover, there is a disparity in administrative capacity between the national and local levels. This discrepancy can result in significant variations in the quality of governance across different regions, with wealthier and more urban areas generally enjoying higher standards of governance.

Since the establishment of the Commission for the Prevention of Conflict of Interest in 2011, media attention on potential conflicts of interest involving public officials has grown. However, the Plenković government has attempted to downplay the significance and role of the commission.

The democratic order in Croatia is widely accepted by almost all political parties, civil society associations, interest groups and religious organizations. However, many opposition parties and civil society organizations advocate for enhanced democracy, particularly through increased direct democracy. One specific demand is the lowering of the threshold for holding referenda. Currently, a referendum requires the collection of 400,000 valid signatures within a two-week period. Several referendum initiatives have failed to meet this threshold. In 2022, the government announced a new bill on referenda that would make it easier to initiate them, while also clarifying the involvement of the parliament and the Constitutional Court in vetting referendum proposals. However, this bill has since been put on hold and remains unaddressed.

Certain fringe political and civic groups exhibit a positive attitude toward the legacy of the Ustaša fascist regime from World War II. Additionally, some politicians and war veteran groups maintain an ambiguous stance regarding public displays of symbols associated with the Ustaša regime. However, these phenomena are increasingly less prominent in the broader political and societal landscape.

5 | Political and Social Integration

Since 2015, Croatia's party system has gradually shifted from bipolar competition to a more moderate pluralism. While the Croatian Democratic Union (HDZ) has consolidated its position as the main right-of-center party, the Social Democratic Party (SDP) has struggled to attract young voters and compete effectively with the HDZ. According to Eurobarometer data from summer 2022, 88% of Croatian respondents expressed distrust in political parties, compared to 75% at the EU level. Moreover, voter turnout has been declining since the 2000 election. However, the ParlGov dataset indicates relatively low levels of voter volatility and moderate levels of party system polarization. Overall, the Croatian party system is considered stable, especially in comparison to other Central and Eastern European countries.

However, the SDP experienced an internal split between factions supporting current party leader Peđa Grbin and former party leader Davor Bernardić. In July 2022, the faction supporting Bernardić formed a new party called the Social Democrats. This new party gained the majority of social democratic MPs and became the second-largest faction in parliament (including five MPs who did not join the new party but agreed to caucus with them).

Commitment to democratic institutions

9



1

Party system

7



1

The nationalist and somewhat Euroskeptic Homeland Movement, founded by pop singer Miroslav Škoro, also faced internal leadership struggles in 2021 and 2022, resulting in Škoro and a few other MPs leaving the party.

The fragmentation among both left-wing and right-wing opposition parties has strengthened the dominance of the Croatian Democratic Union and the Plenković government.

As of March 2023, the largest parties in parliament were the Croatian Democratic Union with 65 out of 151 seats, the Social Democratic Party with 13 seats, the Social Democrats (a splinter group of the SDP) with 12 seats, the Bridge of Independent Lists with eight seats, the Homeland Movement with seven seats and the Green-Left Coalition with six seats.

Throughout 2021 and 2022, the government and trade unions representing teachers and health care workers engaged in negotiations concerning pay increases and working conditions. The trade unions announced multiple strikes but eventually reached a settlement with the government. Under the law on trade union representativity, new collective agreements for public services were established, resulting in salary increases, despite some minor unions not accepting the government's terms. However, union representatives have periodically expressed discontent due to inflationary pressures.

Representatives of young health care workers organized protests to highlight their vulnerable status.

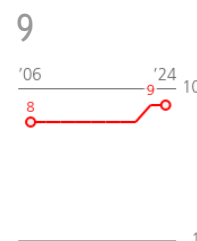
Several smaller industrial plants declared bankruptcy, prompting workers to self-organize and demand unpaid wages.

In the capital city, trade unions representing local service workers, particularly waste management workers, engaged in prolonged negotiations with the city government. A brief strike, not officially supported by the main trade union but by self-organized workers, compelled the mayor to make concessions.

Entrepreneurial representatives, notably the Voice of Entrepreneurs association, publicly criticized the government's introduction of short-term taxes on excess profits. These taxes targeted companies that had seen above-average profits due to price spikes caused by the pandemic and the Russian invasion of Ukraine.

Different trade unions often collaborate in collective actions advocating for labor rights, particularly within the public sector. No particular interest group holds dominance.

Interest groups



Democracy enjoys widespread support in Croatia, with 85% of Croats believing it is important to live in a democratically governed country, according to the 2017 World Values Survey. However, despite the absence of a serious organized challenge to democratic norms and procedures, Croatian citizens express significant dissatisfaction with the functioning of democracy and exhibit low levels of trust in political institutions.

Based on Summer 2022 Eurobarometer data, only 37% of Croatian respondents reported being satisfied with democracy, compared to 68% at the EU level. Similarly, 58% of Croatian respondents expressed satisfaction with how democracy works in the EU, matching the EU-wide percentage.

Trust in the national parliament was low, with only 21% of Croatian respondents tending to trust it, compared to 34% across the EU. Trust in public administration was also relatively low, with 34% of Croatian respondents tending to trust it, compared to 50% at the EU level.

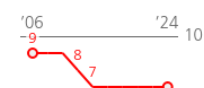
A wide array of autonomous and self-organized groups, associations and organizations exist in Croatia. The legal framework for establishing NGOs is inclusive, resulting in a diverse range of associations and organizations that cover various areas, including sports, environment, culture, religion, minority rights, veterans, retirees and persons with disabilities. Many NGOs rely on public funding, whether it be at the local, national, or EU level, rather than solely relying on voluntary contributions. Notably, organizations such as the Red Cross, Caritas and the Croatian Mountain Rescue Service enjoy high levels of public trust.

Citizens frequently engage in self-organization through social media groups and local initiatives, often centered around issues such as waste management, public spaces, and air and water quality.

According to the most recent available Eurobarometer data from 2020 (Eurobarometer 93.1), 68% of Croatian respondents expressed either complete trust or a tendency to trust other people, in contrast to the EU-27 average of 71%.

Approval of democracy

7



1

Social capital

8



1

II. Economic Transformation

6 | Level of Socioeconomic Development

Croatia boasts a high Human Development Index (HDI) score, reaching 0.858 in 2021, and demonstrates low levels of poverty, with a score of 0.6 in 2019. However, the prevalence of poverty varies across different regions of the country. Rural areas near the Serbian and Bosnian borders, which were heavily impacted by the Croatian War of Independence from 1991 to 1995, have a higher proportion of citizens at risk of poverty and social exclusion compared to the more prosperous regions along the capital city and the Adriatic coast.

When it comes to income inequality, Croatia exhibits low levels, as reflected in a relatively low Gini index of 28.9 in 2021. Moreover, income inequality has shown a declining trend in recent years. However, recent studies conducted by Croatia's central bank, which take into account both assets and incomes, suggest slightly higher levels of overall economic inequality in the country. In terms of gender equality, Croatia receives positive assessments in the Gender Inequality Index, achieving a score of 0.093 in 2021.

Despite these positive indicators, concerns raised by women's rights groups persist regarding hiring discrimination against young women and pregnant women. Some employers tend to terminate the employment of women after their maternity leave or show a preference for hiring men. Additionally, minority rights groups have highlighted the reluctance of many employers to employ Romani individuals.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	61329.3	57624.9	68843.7	70964.6
GDP growth	%	3.4	-8.6	13.1	6.3
Inflation (CPI)	%	0.8	0.2	2.6	10.8
Unemployment	%	6.6	7.5	7.6	6.7
Foreign direct investment	% of GDP	6.4	2.2	6.8	5.2
Export growth	%	6.8	-23.3	36.4	25.4
Import growth	%	6.6	-12.4	17.6	25.0
Current account balance	\$ M	1700.4	-184.8	2082.1	-1464.5

Question
Score

Socioeconomic
barriers

8



10

1

Economic indicators		2019	2020	2021	2022
Public debt	% of GDP	71.0	86.9	78.3	68.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	0.1	-0.8	-0.3	-
Tax revenue	% of GDP	2.8	2.7	2.7	-
Government consumption	% of GDP	20.7	24.0	22.2	20.5
Public education spending	% of GDP	4.0	4.4	5.2	-
Public health spending	% of GDP	5.6	6.4	-	-
R&D expenditure	% of GDP	1.1	1.2	-	-
Military expenditure	% of GDP	1.6	1.7	2.0	2.2

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

There are no formal barriers to hinder the operation of a free and competitive market in Croatia. However, both domestic and international companies operating within the country often express dissatisfaction with the slow pace of public administration, excessive bureaucratic processes, and inconsistent implementation of tax and legal regulations related to economic activities. These issues have a negative impact on the overall appeal of the Croatian economy for both domestic and foreign investors, particularly in terms of greenfield investments.

The Croatian Employers' Association (HUP) has consistently highlighted these concerns in their monthly reports on the state of the economy. They have identified a lack of legal stability, with frequent amendments to laws and regulations impeding long-term business planning. HUP also advocates for greater labor market flexicurity, a reduction in unnecessary paperwork for business establishment and operations, increased digitalization, and improved transparency and predictability in public administration procedures.

Market
organization

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The influence of EU regulations has gradually contributed to the stability of market regulations over time. Additionally, declining unemployment rates have led to a decrease in informal employment, which was already relatively low. Since joining the European Union in 2013, market entry has become more deregulated, with no preferential treatment given to public or domestic capital. According to 2021 data from the International Labour Organization (ILO), the overall share of informal employment in Croatia stood at 3.4%, with 2.9% in the non-agricultural sector and 15.8% in the agricultural sector.

Croatia fully implements rigorous EU regulations regarding competition policy and antitrust laws. The main regulatory and supervisory body responsible for this area is the Agency for the Protection of Market Competition (AZTN), which operates independently. In recent years, the AZTN has increased its efforts in monitoring and controlling unfair trade practices, particularly in the food retail sector. Some market players attempted to coordinate prices in a manner that would undermine competition, but the AZTN's rulings effectively intervened in such cases. Notably, the agency's actions led to the acquisition of the Billa retail chain by Spar, consolidating the market while also preventing the emergence of harmful oligopolies.

Furthermore, Croatia has pursued additional liberalization of its market laws, specifically in relation to independent professions like attorneys, dentists and auditors, among others.

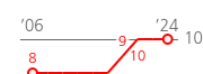
Since joining the European Union in 2013, Croatia has embraced full liberalization of foreign trade, resulting in substantial growth in both the volume and variety of imports and exports. Germany and Italy, two major economies within the European Single Market, stand as Croatia's key partners in terms of imports and exports. In fact, approximately 70% of Croatia's trade is conducted with other EU member states. With the country's accession to the euro area and the Schengen area in January 2023, it is anticipated that trade costs related to banking, shipping and administration will decrease when engaging with fellow EU member states. This development is expected to provide an additional boost to Croatia's economic performance.

The banking sector in Croatia boasts strength and diversity, with most major banks being under foreign ownership, primarily by parent banks based in Austria and Italy. Unlike some other EU member states that faced banking crises in the aftermath of the 2008/2009 Great Recession, Croatia's banks have demonstrated resilience through various stress tests and serve as a robust component of the national economy.

The proportion of non-performing loans to total gross loans decreased significantly to 5.7% in 2021 (compared to the EU average of 2.08%), marking a substantial improvement from the 16.7% reported in 2015. Croatian banks maintain a high capital adequacy ratio, standing at 25.9% in 2021, exceeding the EU average of 19%.

Competition policy

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Liberalization of foreign trade

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Banking system

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Croatian banks have successfully adjusted to the introduction of the euro, offering refinancing options for loans that were converted from the former national currency, the kuna. Despite inflation affecting consumer prices, interest rates have remained stable, with the possibility of further declines following the adoption of the euro. The accession to the euro area is anticipated to enhance the stability and strength of Croatia's banking sector.

According to the central bank of Croatia, as of the end of 2022, long-term interest rates for non-financial institutions stood at 0.45%. Average interest rates were reported at 3.5% for home loans and 6.4% for consumer loans.

In December 2022, the Supreme Court issued a decision that partially favored the banks and partially satisfied associations representing borrowers in Swiss francs who converted their loans to euros, addressing concerns regarding interest rate differences. This ruling marked the resolution of a long-standing issue pertaining to Swiss franc loans in Croatia after multiple court cases.

As an EU member state, Croatia has implemented Basel I and Basel II regulations and is expected to follow the Council of the EU's decision in November 2022 to adopt Basel III regulations.

Over the past three decades, Croatia's stock market has experienced growth, with investors actively trading stocks on the Zagreb Stock Exchange, particularly in industries related to information technology, tourism, energy and food.

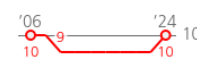
8 | Monetary and fiscal stability

The average annual inflation rate in consumer prices in Croatia experienced an increase, rising from 0.8% in 2019 to 2.6% in 2021. In 2022, the country followed a European trend of heightened inflation, reaching 12.7% in December 2022, attributed to increased public spending during the pandemic and the impact of rising energy prices resulting from the Russian invasion of Ukraine. However, with the accession to the euro area in January 2023 and the anticipated stabilization of energy prices in the European Union through alternative sources, such as the United States and Gulf states, replacing Russia as providers of oil and gas, it is expected that inflation in Croatia will decrease throughout 2023.

Despite calls from certain populist opposition parties for more proactive stimulus measures for domestic businesses, the central bank has remained steadfast in maintaining its independent role and ensuring the stability of the exchange rate between the kuna and the euro, thereby facilitating Croatia's accession to the euro area. Through targeted measures, the bank has effectively managed liquidity in the economy and mitigated short-term appreciation of the national currency.

Monetary stability

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Polling data from 2021 indicates that a majority of citizens were not in favor of the swift adoption of the euro. Even the major opposition party, the SDP, displayed hesitation in supporting membership in the eurozone in the near future. However, the government and central bank successfully achieved the adoption of the euro in 2023. The introduction of the euro is anticipated to bring about lower export costs and reduced interest rates for the government, entrepreneurs and consumers.

The Croatian government has maintained a strong and stable fiscal policy, with the Ministry of Finance enjoying the highest level of public trust. In July 2022, Zdravko Marić, a non-partisan finance minister who had been in office since 2015, stepped down and was replaced by Marko Primorac, a young economics professor from the HDZ party. Primorac continued the fiscal discipline of his predecessor and worked toward Croatia's accession to the euro area in 2023.

According to Eurostat's Euro Indicators, Croatia's current account balance improved from -3% of GDP in Q4 2020 to +21.7% of GDP in Q3 2021. The annual government debt also decreased from 87% in 2020 to 78.4% in 2021.

Net lending/borrowing experienced a decline from 0.7 in 2019 to -6.4 in 2020. Government consumption slightly decreased from 24.0 in 2019 to 22.4 in 2020. Croatia's total reserves, primarily derived from tourism revenues, saw a moderate change, rising from 23,253.8 in 2020 to 28,308.8 in 2021.

Croatia has witnessed an improvement in its credit rating, with Standard & Poor's, Fitch and Moody's upgrading the country's rating to BBB+ and Baa2, respectively, in 2022, all with a stable outlook. However, the 10-year government bond yield increased from 0.61% in December 2021 to 3.5% in December 2022. The introduction of the euro is expected to lower the bond yield in the near future.

Despite the government's overall prudent approach to fiscal matters, fiscal responsibility is occasionally challenged by local politicians calling for targeted interventions, as well as opposition parties and trade unions demanding pay raises in the public sector. During pre-electoral periods, the government may deviate from its fiscally conservative path and engage in discretionary spending in underdeveloped areas of the country or provide relief to struggling companies.

Fiscal stability

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9 | Private Property

Property rights in Croatia are well established and governed by a legal framework that aligns with regulations and practices across the European Union.

However, in the capital city, there are unresolved ownership issues surrounding numerous residential and non-residential properties as a result of incomplete denationalization following the country's communist era. The ongoing process of digitizing cadaster and land registration databases has significantly reduced this problem. While digitalization efforts began a decade ago, in 2022, they entered a new phase of database integration and improved accessibility for citizens and businesses.

According to 2021 Eurostat data, 91% of Croatian citizens lived in properties owned by themselves or their relatives.

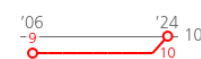
The Plenković government had previously announced plans to introduce a property tax, a common form of taxation in the EU. However, the implementation of this tax reform has been repeatedly postponed due to widespread public opposition. Many property owners, especially the elderly, fear that such a tax would force them to sell their real estate. Additionally, property owners who generate significant income from tourism have interests that conflict with the introduction of a property tax. Furthermore, investment in real estate remains the most popular means of wealth accumulation and preservation in the country.

While privatization in Croatia began in the late 1980s, prior to the fall of communism, the country still has a significant number of partially or fully state-owned enterprises compared to other post-communist EU member states. Private enterprises do play a crucial role in the labor market, but the consolidated state, consisting of local, regional and national governments, remains one of the largest employers. Many important enterprises are owned by foreign capital, primarily from Germany, Austria and Italy.

During the early 1990s, privatization processes in Croatia were often driven by political considerations rather than strictly adhering to market principles. However, since joining the European Union in 2013, the country has made significant strides in ensuring equal protection for market players and simplifying business registration and the acquisition of equity and property.

In recent years, there have been no notable large-scale initial public offerings (IPOs) or privatizations of particularly significant state-owned enterprises. Instead, the government has focused on leasing its numerous residential and commercial properties rather than selling them to private bidders.

Property rights 10



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Private enterprise 8



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According to 2020 data from the International Labour Organization (ILO), nearly 30% of workers in Croatia were employed in the public sector. Domestic credit to the private sector accounted for 59.5% of GDP in 2020, according to the World Bank.

While most parliamentary parties in Croatia are committed to private property and private enterprise, there is reluctance among many political actors, both left-wing and right-wing, to further privatize state-owned enterprises deemed of national interest. However, there is no clear consensus on which companies fall under the category of national interest. Rapid privatization of state-owned enterprises is primarily advocated by newer centrist parties, some liberal internet media portals and the Voice of the Entrepreneurs, a business interest group that serves as an alternative to the Chamber of Commerce.

10 | Welfare Regime

Croatia's constitution defines the country as a social state, and the majority of political parties in the country agree on the fundamental principles of a welfare state, including a public health care system and a public retirement scheme.

According to 2020 Eurostat data, Croatia allocated 23.8% of its GDP to social expenditure, which was below the EU average of 30.4%. In 2021, 20.9% of Croatian citizens were at risk of poverty or social exclusion, slightly lower than the EU27 average of 21.7%. Although there has been gradual improvement, the public perception remains that social expenditure is insufficient and that the social safety nets fail to adequately protect people.

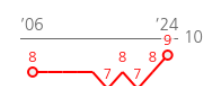
While universal health care is available nationwide, there are discrepancies in the quality of services between larger cities and rural areas. Higher-income individuals often opt for private health care services to avoid waiting lists in public facilities. Additionally, there is a shortage of medical professionals, particularly in rural regions, as many young doctors and nurses migrate to Western Europe in search of better compensation and working conditions.

According to Eurostat 2020 data, Croatia allocated 33.09% of its social expenditure to health care (EU27 average: 29.1%). Disability benefits accounted for 9.52% (EU27 average: 7.34%). The higher proportion of disability benefits is linked to the legacy of war and the significant number of war veterans. War veteran pensions are determined by specific legal provisions, a situation that is often criticized by center-left and economically liberal opposition parties and journalists. In contrast, only 4.16% of social expenditure is allocated to unemployment benefits (EU27 average: 7.32%).

The retirement scheme in Croatia consists of three tiers: a mandatory public tier, a mandatory privately managed tier and an optional supplementary private tier. Due to population aging, negative demographic trends (such as low birth rates and high emigration rates to countries like Ireland, Germany and Austria), and limited

Social safety nets

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immigration (primarily from Bosnia and Herzegovina), the first tier of the retirement scheme cannot be adequately supported by employer insurance payments alone and requires direct supplementation from the state budget. According to December 2022 data from the national pension fund, 13.3% of all pensions were disability pensions, while 18.6% were survivors' benefits. Since 2021, elderly individuals who were not receiving old-age benefits have started receiving a special minimum universal benefit.

Wealthier local government authorities, particularly the capital city and cities along the Adriatic coast, provide additional benefits, such as cash assistance and reduced prices for various public services, to families, children and the elderly.

Croatia has experienced a decline in unemployment due to a labor shortage, with the unemployment rate reaching 6.5% in November 2022, slightly below the rates for the euro area and the entire EU, both at 6.6%.

Although unemployment benefits are easily accessible, they are among the lowest in the European Union. Based on 2017 Eurostat data, unemployment-related benefits in Croatia accounted for just 0.4% of GDP, compared to the EU average of 1.3%.

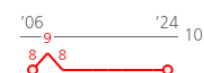
Civil society organizations focused on minority rights continue to report occasional instances of discrimination in employment. However, the Constitutional Law on the Rights of National Minorities ensures fair representation of national minority representatives in local and national government. Within the Roma community, school attendance rates remain low, while certain rural areas inhabited by ethnic Serb communities lack adequate public services and infrastructure.

In general, women and members of ethnic and other minority groups have equal opportunities for education, public office and employment. However, implementing more active labor market policies could potentially increase employment rates among the Roma population. Notably, children in rural areas, regardless of their ethnicity, face challenges in accessing education, often relying on costly school bus services or walking long distances to reach the nearest secondary school. This issue is part of a larger problem of regional disparities and the ongoing depopulation of rural areas in Croatia.

Younger women have higher educational attainment compared to younger men, with a ratio of 1.3 in tertiary education. However, the overall workforce participation rate for women was 46.2% in 2021, as many older women, particularly in rural areas, are either unemployed, underemployed, or not actively seeking employment. The gender pay gap stood at 11.2%, which was below the EU average of 13%, according to 2020 Eurostat data.

Equal opportunity

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11 | Economic Performance

Following the pandemic-induced economic contraction across the EU, Croatia made a strong recovery, with notable GDP growth in Q3 2021 at 16.9% (euro area 3.9%) and 5.5% in Q3 2022 (euro area 2.3%). Inflation rates also rose significantly, mirroring European trends. In August 2022, inflation reached 12.6% (9.1% in the euro area), and by December 2022, it stood at 12.7% (9.2% in the euro area). However, despite a temporary increase in consumer prices, the country's accession to the euro area in January 2023 is expected to have an overall positive impact on inflation levels and general economic trends.

According to Eurostat data, the quarterly government surplus (seasonally unadjusted) reached 6.6% in Q3 2022 (-2.9% in the euro area), while the quarterly government debt was at 70.4% (93% in the euro area) during the same period. These figures indicate a strong decreasing trend compared to Q3 2021 (81.5%). The annual government deficit was -2.6% in 2021 (-5.1% in the euro area), with an annual government debt of 78.4% of GDP (95.4% in the euro area) in the same year.

The current account balance demonstrated improvement, rising from -19.3% of GDP in Q1 2022 to +21.7% in Q3 2022. The enhanced stability and strength of the Croatian economy also led to a decline in bond yields, with long-term government bond yields decreasing from 4.02 points in October 2022 to 3.36 points in December 2022.

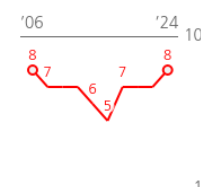
The trade balance of goods remained relatively stable, recording -1467 million euros in November 2022. Moreover, the net international investment position experienced growth, moving from -37.4% of GDP in Q1 2022 to -25.9% in Q3 2022.

Unemployment rates decreased to 6.5% in November 2022 (equivalent to the euro area average), while youth unemployment stood at 17.5% in September 2022 (compared to 15.2% in the euro area).

According to the latest available data (2021, World Bank), nominal GDP per capita was \$17,685.33, while real (PPP) GDP per capita was \$34,535.

Output strength

8



12 | Sustainability

Since joining the EU, Croatia has implemented rigorous legislation on environmental protection and sustainable development. The country allocates 2.3% of its GDP to environmental protection, surpassing the EU average of 2.0%.

Based on 2021 Eurostat data, Croatia's share of energy from renewable sources reached 31.3%, exceeding the 20% target set by the Europe 2020 agenda and surpassing the EU27 average of 21.8%.

According to the Global Carbon Project, Croatia has successfully reduced CO₂ emissions per capita from a peak of 5.6 tons in 2007 to 4.4 tons in 2021. The country has also achieved a significant decrease in total greenhouse emissions, from 6.7 to 4.3 tons. In comparison to the 1990 baseline levels, Croatia has achieved a notable reduction in production-based emissions (-26.6%) while experiencing a modest increase in consumption-based emissions (+7.7%). Remarkably, this has been accomplished alongside a substantial GDP growth of 56.6%, signifying a decoupling of economic growth from emissions growth.

However, Croatia still faces challenges in the implementation of circular economy practices and sustainability, particularly in the areas of water and waste management. The majority of wastewater is still discharged into the sea, and the country's public water supply infrastructure is outdated and poorly maintained, leading to significant water losses due to leaks. Progress in the construction of local and regional waste management and recycling centers has been slow and uneven, especially in larger cities, including the capital city.

In 2021, the recycling rate for packaging waste was 54.2%, slightly below the EU27 average of 64.3%. Environmental NGOs consistently advocate for accelerated progress toward sustainability goals. Although environmental policy is a priority for the government, there is ample room for further improvement.

The NextGenerationEU stimulus package, along with post-earthquake relief funds provided by the EU, have created additional incentives for energy renewal. These initiatives focus on upgrading insulation and heating systems in both public and private buildings, as well as providing cash incentives for green energy producers, primarily in the solar, wind and biomass sectors.

Local government utilities prices for water, gas and electricity include special green levies that contribute to funding the green transition. Additionally, tax refunds are available for households and companies that install solar panels or improve building insulation.

Environmental
policy

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The public education system in Croatia is faced with underfunding, although there have been slight salary increases for teachers and academics in 2021 and 2022.

In 2020, public expenditure on education accounted for 5.4% of GDP (5.0% at the EU27 level), while research and development expenditure was 1.24% of GDP in 2021 (2.26% in the EU).

Croatia's position on the U.N. Education Index has shown improvement over the past decade, reaching a score of 0.826 in 2021. This score is well above the average of 0.578 for transformation economies, but lower than countries like Slovenia (0.917).

In the latest PISA study results from 2018, Croatian students achieved scores of 479 in reading (average: 487), 464 in mathematics (average: 489) and 472 in science (average: 489). These results have highlighted the need for accelerated curriculum reform in the education system. While Croatia's schools perform above average in general terms (according to the U.N. Education Index), there is a recognized gap in equipping young people with the practical skills necessary to thrive in today's complex society and economy. The government has placed increased emphasis on public and private funding for education in the STEM field.

At the tertiary level, there are notable structural weaknesses. The education reform did not encompass universities, and the University of Zagreb, the country's oldest and largest university, ranked between 401st and 500th on the 2022 Shanghai Ranking List. However, the election of a new rector at the University of Zagreb has instilled renewed confidence in the quality of governance. Education facilities in the capital city are undergoing significant renewal efforts as part of post-earthquake rebuilding initiatives.

Education policy / R&D

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Governance

I. Level of Difficulty

The country's negative demographic situation, which has led to labor shortages and rising numbers of pensioners, remains a structural problem for Croatia. The emigration of young, educated individuals as well as entire families has resulted in significant brain drain. Labor shortages have been mitigated by the immigration of guest workers from Nepal.

There are stark regional differences between the wealthy capital city of Zagreb and the tourism-oriented towns on the Adriatic coast, and the largely rural hinterland, especially in the eastern parts of the country where the economic and social consequences of the 1991–1995 war from 1991 to 1995 are still clearly visible.

In 2022, the country was still grappling with the rebuilding process in the capital city and the central region of Sisak-Moslavina after the devastating 2020 earthquakes. The country has received substantial emergency relief funding from the EU; however, slow administration has protracted the rebuilding process.

Croatia has a relatively strong and long tradition of civil society organizations. Environmental, women's rights and human rights organizations trace their roots back to the second half of the 1980s, while Catholic lay organizations and cultural organizations have a tradition dating back to the early 20th century. Although the level of active citizenship (participation in civil society) remains low (5.6% compared to the EU average of 11.9%, according to Eurostat), civil society in Croatia is vibrant and diverse. Additionally, levels of social capital are below the EU average, with 87.6% of respondents in Croatia reporting having someone to rely on, compared to 93.2% at the EU level, according to Eurostat's Quality of Life indicators.

According to the European Quality of Life Survey (2016), interpersonal trust in Croatia was relatively low (3.8, compared to 5.2 at the EU level).

Numerous advocacy and watchdog NGOs contribute to public awareness about civil and minority rights and can influence government policy. Civil society organizations largely rely on public funding or funds from EU-funded projects and foreign embassies. War veteran organizations are particularly active and occasionally resort to protests to demand increased social transfers or voice objections to the nature of public war commemorations. They have close ties to the main center-right party (HDZ) and sections of the Catholic clergy. Conversely, many human rights and

Structural
constraints

3

'06 '24 10



Civil society
traditions

3

'06 '24 10



minority rights NGOs align with center-left and green-left parties. Several notable politicians began their careers as civil rights or war veteran activists. Associations of sports fans, especially those supporting the largest football clubs in the country, hold a significant presence in local communities.

The main social cleavages in Croatian society align along cultural-religious lines and stem from diverse experiences and interpretations of traumatic historical events and periods.

This division allows for a rough ordering of political parties, the media and civil society organizations on a cultural-ideological left-right scale. On the left-wing side, one finds more secular and socially liberal groups, often comprising wealthier individuals. These groups were less affected by the Croatian War of Independence and hold a more favorable view of socialist Yugoslavia and the legacy of the anti-fascist partisan movement during World War II. On the right-wing side, one encounters social groups that are closely associated with the Catholic Church, exhibit more traditional values and often represent rural or suburban areas with a clear anti-communist stance. These groups also emphasize the significance of war veterans from the Croatian War of Independence.

In recent years, the government has taken decisive steps to foster further reconciliation and establish a shared commemoration of war victims that satisfies both the ethnic Croat majority and the ethnic Serb minority. There have been sporadic incidents of minor ethnically motivated violence. Additionally, acts of ideological and ethnically motivated vandalism, often in the form of graffiti, are not uncommon, particularly in areas heavily impacted by the war. Social media frequently serves as a platform for hate speech expressed through various ideological lenses. The police and the courts have intensified their efforts to address hate speech in the digital sphere.

Conflict intensity

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II. Governance Performance

14 | Steering Capability

The government has adopted a range of long-term strategic documents, including the new National Development Strategy for the period 2020–2030. While the government has presented the strategy as visionary, opposition parties and many economic and political science policy analysts have criticized it as too general and unrealistic. The strategy builds upon the European Green Deal and the Territorial Agenda 2030, with significant emphasis placed on green transformation, sustainability and enhanced connectivity both within the country and between Croatia and the rest of the EU.

Question
Score

Prioritization

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The NextGenerationEU stimulus package has injected new momentum into government policy planning in Croatia and has highlighted the importance of better balancing priorities.

One major obstacle to achieving long-term development goals is the sluggish and centralized nature of public administration, which is hampered by corruption and the appointment of senior personnel based on partisan affiliations. However, steps have been taken to digitize administrative databases and services, and these digitalization efforts have continued even after the pandemic, resulting in improved efficiency in public administration.

The capacity for strategic planning has somewhat increased due to the strict framework and priorities set by NextGenerationEU. Additionally, the finance ministry and the national bank have undergone modernization and capacity-building efforts in response to the adoption of the euro.

The pursuit of long-term strategic policy orientations has at times been hindered by the fact that parliamentary majorities frequently rely on the support of small parties. This often leads to government policies that cater to the niche interests of specific political and social groups rather than broader development goals.

Further efforts are required to enhance the successful integration and cooperation of various planning workgroups across different government departments, as overlapping jurisdictions occasionally impact efficiency.

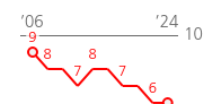
Public policy implementation remains a significant challenge in Croatia. The annual recommendations from the European Commission consistently address public administration reform, health care and pension system reform for long-term financial sustainability, and the reduction of unnecessary business obstacles. While the executive formally acknowledges these recommendations, only about one-fifth of them are actually implemented.

There is a stark disparity in the quality of policy implementation among national, regional and local governments, featuring issues with effective vertical coordination. Additionally, horizontal coordination between government ministries and agencies is suboptimal, resulting in duplication, incoherence and even contradictions in policy processes.

The health ministry's efforts to advance health care reform have been hindered by the pandemic. Long-term plans aimed at improving the financial sustainability of public hospitals through better public procurement, as well as reforms in the training and employment of young doctors, are still lagging. Partial reforms have been introduced without sufficient planning and without addressing concerns voiced by stakeholders in the sector.

Implementation

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Despite being on the agenda for years, the introduction of the property tax has yet to materialize. Limited success in public policy implementation is closely tied to inadequate monitoring mechanisms. This is evidenced by the parliament's discussions of annual reports from public institutions several years after their publication. Challenges related to policy implementation are particularly evident in the disparity between the urgency of the national demographic crisis, which encompasses low birth rates, high emigration of young individuals and families to Western Europe, and the rapid depopulation of rural areas – especially those affected by the 1991 to 1995 war – as emphasized in government documents, and the actual policy measures taken to address these issues.

The process of implementing European Commission recommendations to reduce unnecessary business obstacles, such as superfluous registration forms, permits, fees and levies that increase business startup costs, has been slow. The tax authority has made progress in enhancing the efficiency and transparency of tax code implementation for businesses.

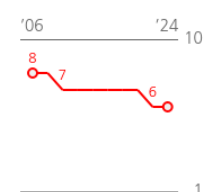
The Croatian government consistently neglects the significance of policy innovation and learning from past experiences and best practices. The European Commission has repeatedly criticized Croatia for its slow and disjointed policy learning process, while domestic NGOs advocating for good governance and evidence-based policymaking provide detailed recommendations to the executive. Despite their partial involvement in policymaking through working groups and public consultations, the resulting policies still exhibit a systemic resistance to embracing innovation.

Several obstacles impede successful policy learning. Firstly, the quality of public administration personnel is low, and vested particularistic economic interests and political party interests influence policy implementation. Secondly, the insufficient engagement of national and international experts in policy formulation, monitoring and evaluation limits policy innovation. Even when experts are involved, their recommendations are often disregarded due to short-term electoral considerations that cater to specific voter groups. The policy learning process is further hindered by a lack of vertical and horizontal coordination.

Nevertheless, there have been some improvements. The hiring of younger public administration officials, who possess familiarity with good governance practices in older EU member states, has gradually enhanced the quality of public administration and the policy process. Additionally, the involvement of various stakeholders, such as audit companies, watchdog NGOs, the academic community, trade unions and business associations, has somewhat increased in the policymaking process.

Policy learning

6



15 | Resource Efficiency

The government administration continues to maintain a large workforce and high costs. The low efficiency of public officials in proportion to their share of government expenses is a focal point of criticism from business associations and investors, contributing to low citizen trust in public institutions. However, there has been a modest reduction in government size, with government spending decreasing to 49.2% of GDP in 2021, slightly below the EU average of 51.6%.

Budgets have consistently been balanced, resulting in surpluses that can be allocated for unforeseen events. Nevertheless, many components of the budget remain politically and legally fixed, offering limited opportunities for renegotiating priorities or reallocating resources. Additionally, discretionary fiscal spending tends to increase in the periods preceding elections.

The efficiency of public administration is compromised by high centralization, inefficient and fragmented local government structures, and poor coordination among government agencies. The implementation of public administration reform is still pending. Moreover, all levels of government, particularly regional and local government, struggle with inadequate human resources management, a lack of transparency in discretionary spending, and public procurement processes that are susceptible to corruption and conflicts of interest. However, the processes of fiscal decentralization and the recruitment of new, young public officials have had a somewhat positive impact on resource management.

Although recruitment in the public sector has become more competitive in the past decade, it is still partially influenced by party politics, particularly concerning the promotion of public servants. The auditing process has become more thorough in the last decade but remains relatively slow.

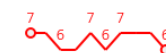
Croatia grapples with poor vertical policy coordination between the government and ministries, as well as between national and local public administration. Furthermore, there is inadequate horizontal policy coordination among government ministries. Different government ministries and agencies operate with their own distinct institutional cultures and procedures, resulting in a lack of inter-institutional communication, coordination and the sharing of best practices. Even when two cabinet members belong to the same political party, their management approaches and communication of policy priorities to lower-ranking ministry officials remain suboptimal. Consequently, there are instances of overlapping competencies and redundant or conflicting institutional practices.

Under Prime Minister Plenković, the government has witnessed a process of presidentialization, wherein effective decision-making becomes increasingly centralized. This development has somewhat improved coordination within the government.

Efficient use of assets

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Policy coordination

7

'06 '24 10



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Anti-corruption is a significant policy concern for most political parties. EU membership has brought forth new capabilities, measures and procedures to combat corruption. The National Implementation Monitoring Council and the Commission for the Prevention of Conflict of Interest are the two major institutions responsible for implementing anti-corruption policies and monitoring measures to prevent and punish corruption. They enjoy public support, particularly from journalists who specialize in investigating corruption cases. However, establishing an effective, long-term and sustainable policy to prevent corruption at all levels of government remains a challenge. The Commission for the Prevention of Conflict of Interest regularly gathers and discloses data on the private assets owned by government officials. This increased visibility has exposed cases of incomplete information regarding the private property of politicians. Some of these cases have been pursued by investigative journalists, leading to public outrage over a lack of transparency and allegations of fund misappropriation when private assets far exceed the respective politician's income. Ultimately, many of these scandals have resulted in the dismissal or resignation of government officials, indicating a growing public capacity to hold officials accountable.

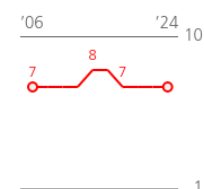
Despite numerous indictments for corruption, including those involving cabinet ministers, anti-corruption court cases progress slowly and are frequently impeded by the State Attorney's Office's inability to successfully argue its case. The defendants' legal teams often exploit legal loopholes to delay or overturn convictions. This has had a profound impact on public trust in the rule of law and the effective punishment of wrongdoers.

According to national watchdog NGOs and GRECO, a Council of Europe monitoring body, the country faces serious corruption issues, particularly within the judiciary, public administration and state-owned companies. Corrupt practices are especially prevalent in local government, leading to local state capture. Elaborate networks of local officials and private companies, which receive preferential treatment in public procurement processes, place a significant burden on local budgets, compromise the quality of public services and erode citizens' trust in politics, especially at the local level.

In October 2021, a new anti-corruption strategy for the period from 2021 to 2030 was adopted, along with a new law on the prevention of conflicts of interest. Additionally, immunity for cabinet ministers was removed, enabling prosecution for corruption crimes. As a result, Darko Horvat, the minister of construction, physical planning and public property, was arrested in February 2022 for abuse of position.

Anti-corruption policy

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16 | Consensus-Building

All major political actors acknowledge democracy as an established and normatively desirable form of government.

Populist center-right and right-wing parties, such as the Bridge of Independent Lists and the Homeland Movement, along with several like-minded civil society organizations, particularly Catholic lay organizations, are making demands for more democracy through the expanded use of referenda. They accuse Croatia's established parties of elitism and of alienating citizens from democratic institutions. These political actors sometimes question the extent of ethnic minority rights and their involvement in political decision-making. This reveals variations in the understanding of the liberal aspect of contemporary democracy among political actors in Croatia. Moreover, there is no clear consensus among political actors regarding the definition of hate speech, with left-of-center parties favoring broader definitions and the expansion of anti-discrimination laws. On the right-of-center of the ideological spectrum, demands for a more populist, people-centered version of democracy are observed, with less emphasis on diversity and the public visibility of minorities. Lastly, demands for more people-centered policymaking and majority rule from right-wing parties and NGOs may hint at a desire to replace liberal democracy with an illiberal, ethnic democracy.

However, since 2021, leadership disagreements within the Homeland Movement have hindered its cooperation with like-minded parties and groups, thus weakening the demand for a more people-centered democracy, including the expansion of the role of referenda and public consultations. Overall, since the pandemic, the political influence and strength of anti-elitist parties have declined.

Virtually all political actors embrace the market economy, with the exception of a small anti-capitalist party called the Workers' Front. The Workers' Front, represented by one member of parliament in the 2020 to 2024 term, advocates for a transition toward a democratic socialism of the 21st century. Despite major political parties agreeing on their preference for a social market economy, they struggle to reach a consensus on its precise definition. Divergent understandings of a social market economy are particularly evident in discussions about the future course and scope of state-owned company privatization, labor market policies, health care policies, and tripartite collective bargaining involving trade unions, employers' associations, and the government. Even with a shared understanding of the challenges faced by the national economy, the focus on minor policy differences hinders cross-partisan consensus on economic policy. The EU accession process (2000 to 2013, with negotiations lasting from 2005 to 2011) stands as the only policy area where broad political consensus was achieved and maintained. The introduction of the euro in 2023 was also met with opposition from both left-wing and right-wing opposition parties but was ultimately realized due to the stable majority held by the center-right government.

Consensus on goals

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The pandemic has served as a catalyst for the radicalization of fringe anti-democratic groups in Croatia. The culmination of this trend was an attempted terrorist attack on the government building in July 2021. Subsequently, the government and the police have significantly intensified their efforts to combat hate speech and potential unconstitutional activities, both online and offline.

The ruling party, the Croatian Democratic Union (HDZ), has made efforts to distance itself from its right-wing faction and war veteran organizations associated with it. These groups often express ambiguous sentiments regarding the public display of symbols linked to the Ustaša fascist collaborationist regime during World War II and call for witch hunts against individuals accused of sympathizing with the legacy of communist Yugoslavia.

None of these fringe anti-democratic groups possess substantial political influence and are unable to shape government policies or act as veto players. Democracy remains firmly established as the preferred form of political regime for nearly all relevant political and societal actors.

There are no significant societal conflicts centered around support for liberal democracy and a market economy. However, over the past decade since Croatia's EU accession in 2013, there has been a rise in populist civil society groups and initiatives that challenge the political elite, calling for increased popular democracy through referenda. Two referendum initiatives in the 2021/2022 period failed – one questioning the legality of pandemic-related public health regulations and restrictions and the other regarding the protection of the national currency, specifically demanding a referendum on the introduction of the euro.

The main divisions within society and the party system are not primarily based on economic issues or the form of government but rather on cultural matters related to religion and history. Only a few smaller liberal centrist parties and online media outlets advocate for a transition to a more market-oriented economy, diverging from the current system characterized by a sizable public sector, the state as a major employer and numerous partially state-owned enterprises. Both the Christian Democrats (the ruling HDZ) and the Social Democrats (the main opposition party, SDP) support a larger state, higher taxes and government involvement in the economy.

The cultural dimension of these divisions encompasses several key elements. Firstly, it involves the role of the Catholic Church in society and its influence on public institutions and national identity. Secondly, it pertains to how citizens remember and assess the quality of democracy in the 1990s and the legacy of the War of Independence (1991 – 1995). The third element involves conflicting narratives about the nature of the Yugoslav communist regime and evaluations of Croatia's experience during World War II, including crimes committed during and immediately after the war. Lastly, the fourth element encompasses contrasting views on the role and public

Anti-democratic actors

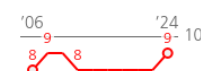
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Cleavage / conflict management

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visibility of ethnic minorities, minority languages and cultural identity markers. In recent years, the cultural divide has also extended to debates about LGBT rights and abortion regulations, although HDZ does not have a unified stance on these issues and attempts to avoid them, while both left-wing and right-wing opposition parties actively mobilize around these topics.

The current center-right government strives to strike a balance between different identity claims. On one hand, the main ethnic Serb party is part of the government. On the other hand, the official culture of remembrance surrounding the Croatian War of Independence aims to appease more nationalistic HDZ voters, particularly war veterans' organizations. Additionally, the government seeks public support from the Catholic Church and emphasizes its Christian democratic outlook but does not intend to yield to demands to restrict abortion and maintains a centrist approach to social issues. However, while the HDZ leadership, led by Prime Minister Plenković, follows this centrist path, ordinary party members and supporters may lean more toward supporting the restriction of minority rights and aligning with arguments put forth by right-wing opposition parties like the Bridge of Independent Lists and the Homeland Movement.

Civil society in Croatia is well developed, but it exhibits certain structural weaknesses. A general lack of interpersonal trust discourages broader participation in civil society groups. The funding of civil society organizations relies heavily on national and local government sources, as well as projects financed by the European Union and foreign embassies, while citizen contributions and private charities play a minor role. The utilization of material resources by civil society organizations lacks transparency, creating fertile ground for corruption and conflicts of interest. Despite their widespread presence in society, civil society organizations still struggle with a lack of professionalism, high levels of informality and clientelism.

Cooperation among civil society organizations is limited, and their impact on public policy formulation and implementation is suboptimal. However, the adoption of the Code of Practice on Consultations with the Interested Public in Procedures of Adopting Laws, Other Regulations, and Acts in 2009 (a policy innovation influenced by EU accession) has increased the participation of civil society organizations in the policymaking process. Nonetheless, the executive branch is often responsive only to proposals and suggestions that align with the voter base of the prime minister's party or are backed by protests or collected signatures for referendum proposals.

Civil society in Croatia reflects the societal cleavages at large. For instance, NGOs advocating for human and minority rights align with center-left parties, while war veterans' associations and family-oriented Catholic lay organizations are aligned with center-right parties. Additionally, there is a revolving door between participation in civil society organizations and running for office on behalf of a political party, with activists transitioning into politicians and vice versa.

Public
consultation

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In the 2021/2022 period, the government has increased the use of citizen consultations through the e-citizens online platform. The impact of input and proposals from the academic community, interest groups and advocacy NGOs has somewhat increased, leading to more inclusive policymaking. Moreover, working groups within government departments responsible for drafting policy documents and bills have become more diverse, with members representing different stakeholders. This positive change can be viewed as a form of secondary Europeanization, as EU institutions actively promote such an approach and their influence on national policymaking in Croatia. Additionally, stakeholders who may differ in ideological backgrounds tend to cooperate if they agree on EU-related principles of good governance.

Reconciliation in Croatia encompasses two distinct periods: World War II and the communist era and the more recent Croatian War of Independence in the 1990s.

Regarding World War II and the communist era, government policy exhibits ambiguity. Political actors, civil society actors and the media often engage in prolonged memory wars. Disagreements arise on the scope and nature of crimes committed by the Ustaša fascist collaborationist regime during World War II, as well as the scope and nature of crimes committed by the anti-fascist communist-led partisans during and after the war, along with the crimes and human rights violations under the communist regime.

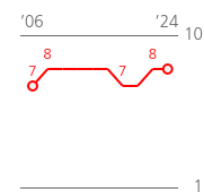
Members of different political parties frequently fail to participate in joint commemoration practices or appear to condemn only the crimes committed by one side, while overlooking the responsibility for atrocities committed by the other. Despite the constitutional recognition of anti-fascist resistance to the Ustaša regime, vandalism and the removal of partisan monuments are widespread. Meanwhile, Ustaša-related symbols, partially used by fringe groups during the 1991 to 1995 war, are treated with ambiguity. Various history textbooks used in public schools reflect deep disagreements among historians and educators regarding the appropriate approach to address Croatia's troubled, undemocratic past. Disagreements over Croatia's historical legacy often serve as a means to divert public attention away from contemporary policy issues.

The Croatian War of Independence holds a central role in political culture and civic religion, serving as a source of political legitimacy for political and social elites. War veterans' organizations frequently publicly accuse individuals and groups critical of or presenting a nuanced narrative about certain aspects of the war as national traitors and security threats.

The Plenković government, which includes a deputy prime minister from the main ethnic Serb party, SDSS, has embarked on a new reconciliation policy that involves joint commemorations of civilian war victims from both sides. Symbolic gestures have paved the way for potential greater reconciliation between the ethnic Croat majority and the ethnic Serb minority. However, unresolved cases against former

Reconciliation

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rebel Serbs in absentia for war crimes, as well as the issues of missing persons, cultural artifacts and archival data taken to Serbia during the war, remain obstacles to fully resolving historical grievances. In areas with mixed populations of Serbs and Croats, levels of structural segregation and social distance remain high.

The symbolic policy of the Serbian government and its leadership's reluctance to accept responsibility for the wars and war crimes of the 1990s hinder the progress of overcoming the past in Croatia.

17 | International Cooperation

There have been increased efforts to implement policy recommendations from the European Commission, as the European Union (EU) and its institutions remain the most significant international actor in Croatia. The government has focused on enhancing its capacity to absorb EU structural and cohesion funds, while local and regional governments have established specialized bodies for EU-funded projects.

Two frameworks have facilitated the Europeanization of government standards and practices. First, the government had to adhere to the stipulations set by the NextGenerationEU financing scheme, particularly concerning good governance, sustainable development, waste management and greenhouse gas emissions reduction. Second, following the devastating earthquakes of 2020, Croatia received a special relief fund from the EU, which necessitated increased reform capabilities to qualify for funding for specific reconstruction projects.

Due to slow administrative preparations, the government obtained extensions for the application deadlines for the relief fund. Nevertheless, the European Union continues to promote good governance practices and reforms in the country.

Watchdog and advocacy non-governmental organizations (NGOs), specializing in good governance and best practices for public administration, often exert pressure on the government to expedite reforms and adopt European standards that have been agreed upon.

The government is widely regarded as a credible international partner and a party to various international treaties and conventions. There has been an increase in the number of citizens filing lawsuits against the state at the European Court of Human Rights, resulting in the Croatian government paying compensation to affected individuals. Both the government and the Ombudsman for Human Rights have started to allocate more attention to these cases.

Although there have been occasional criticisms from national and European non-governmental organizations regarding the treatment of migrants at undocumented border crossings, Croatia officially joined the Schengen area in January 2023. The police force has implemented internal audits to address allegations of inappropriate behavior by border officials.

Effective use of support

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Credibility

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Since the beginning of the conflict, the government has shown significant support for the Ukrainian war effort and has welcomed around 15,000 refugees from Ukraine. However, NATO and EU allies have sometimes been perplexed by mixed messages from the country's president, Zoran Milanović, who has frequently contradicted the government's position and expressed concerns about Croatia's military involvement in the conflict through the provision of military aid.

The government is actively committed to bilateral and multilateral political, legal and economic cooperation in South Eastern Europe (SEE), Central and Eastern Europe (CEE) and the Mediterranean regions. This involves high-profile meetings and summits of state presidents and prime ministers, as well as the development of joint projects and initiatives.

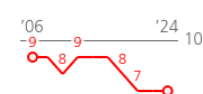
However, there are several unresolved bilateral issues with neighboring countries. Despite generally good relations between Croatia and Slovenia, the ongoing border dispute poses a challenge to full mutual understanding and cooperation. Croatia refuses to recognize and implement the 2017 international arbitration tribunal verdict, citing breaches of agreement and attempted influence on the judges by the Slovenian side in 2015. Different interpretations of the verdict on the border dispute create daily problems for Croatian fishing boats in the northern Adriatic, as Slovenian coastal patrols issue fines for trespassing in Slovenian waters. Nevertheless, the border dispute has not affected Slovenia's support for Croatia's accession to the euro area and the Schengen area.

Relations with Bosnia and Herzegovina are particularly complex, with the Croatian government accusing Bosniak politicians of obstructing institutions and undermining the constitutional equality of the country's three ethnic groups (Bosniaks, Serbs and Croats). In return, Bosniak politicians accuse the Croatian government of providing political and financial support to Croat politicians in Bosnia and Herzegovina, which they argue undermines the country's sovereignty. This bilateral issue is closely tied to the internal constitutional and political crisis in Bosnia and Herzegovina, where differing visions for the future of the state exist among Bosniaks, Serbs and Croats. The Croatian government and Croatian Members of the European Parliament have actively advocated for electoral reform in Bosnia and Herzegovina to ensure constitutional equality. The UN/EU High Representative in Bosnia and Herzegovina enforced a partial electoral reform package in October 2022, resulting in praise from Croatia and outrage from Bosniak politicians. However, the new government in Bosnia and Herzegovina is expected to open up new avenues for cooperation and understanding with Croatia.

Relations with Serbia are strained due to conflicting historical narratives, cultural remembrance and unresolved bilateral issues related to the 1991 to 1995 war. Croatia demands active cooperation from Serbia regarding information about missing Croatian civilians and soldiers, as well as the return of cultural artifacts and archival documents taken during the war. Some opposition right-wing parties in Croatia also

Regional cooperation

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call for war reparations from Serbia. On the other hand, the Serbian government refuses to acknowledge Serbia's role in the war in Croatia and instead emphasizes public displays of Ustaša-related symbols in Croatia. The Croatian government is criticized for holding public commemorations of the 1995 military operation Storm, which ended the occupation and war in Croatia but led to the mass exodus of around 200,000 ethnic Serbs, many of whom have not returned to Croatia despite subsequent efforts by the Croatian government and international organizations.

Public statements from members of the Serbian government, including President Aleksandar Vučić, further strain relations between the two countries.

Despite the enlargement fatigue felt in some Western European member states like the Netherlands, Croatia remains a staunch supporter of EU integration for all Western Balkans countries.

Strategic Outlook

After 10 years of EU membership, Croatia has achieved full integration with the accession to the euro area and the Schengen area in 2023. Membership in the eurozone is expected to enhance competitiveness and exports, while reducing costs and interest rates for businesses and consumers.

Three decades after Croatia's transition to democracy, citizens exhibit low levels of trust in central political institutions, and participation in elections and civil society is limited. This negatively affects the future quality of democracy and increases vulnerability to populist challengers who promise quick solutions through referenda, such as the Bridge of Independent Lists and the Homeland Movement. However, the stability of the current government and its strong alliances with EU and NATO partners have somewhat mitigated these challenges.

Establishing an independent and high-quality judiciary remains an ongoing struggle for Croatia. Citizens are concerned about the judiciary's inability to protect their rights and provide a favorable environment for businesses, as well as the perception that corruption is not promptly or fairly addressed. Corruption, clientelism and conflicts of interest in public administration are particularly prevalent in national and local procurement processes. Meaningful reforms of the judiciary and public administration, including clear benchmarks, ethical protocols and robust oversight mechanisms, will be crucial in unlocking the country's development potential and preventing capture by special interests. The appointment of a new Supreme Justice could serve as a positive step toward judicial reform.

In the future, the Croatian economy should diversify beyond its reliance on tourism and consumer spending. Continued development of the IT industry, investment in green technologies and energy generation, and leveraging the NextGenerationEU stimulus plan are expected to foster economic innovation and promote efficient and sustainable governance. However, there is a risk of overreliance on EU funds leading to aid dependency. Therefore, the government must pursue smart policymaking to utilize these funds for jumpstarting the economy, modernizing public institutions and avoiding mere additions to the state budget.

If the current trend of emigration of young and educated citizens to Western Europe persists, it will exacerbate labor shortages and strain the sustainability of health care and public pension systems. Croatia will need to implement proactive demographic policies targeting families, encourage the return of Croatian nationals from abroad and establish an accessible framework for attracting immigrants from third countries.

Going forward, the government must engage a broader range of stakeholders in policymaking and rely more on expertise and evidence-based policies. Emphasizing policy innovation, learning and evaluation will facilitate the development of sustainable priorities, foster stronger economic growth and enable Croatia to catch up with other EU member states.