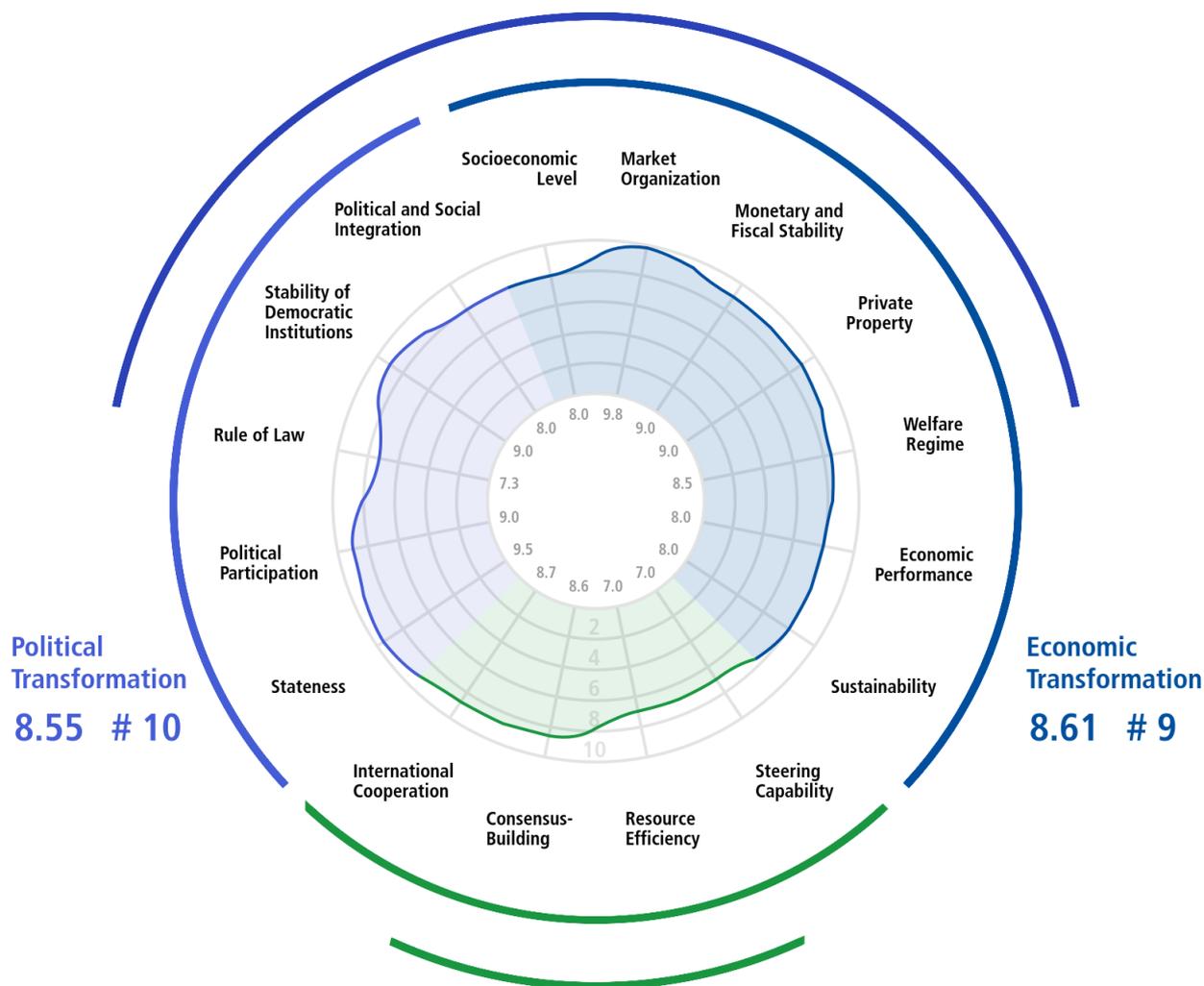


# Croatia

## Status Index

**8.58 # 9**

on 1-10 scale out of 137



**Political Transformation**  
**8.55 # 10**

**Economic Transformation**  
**8.61 # 9**

## Governance Index

**6.45 # 18**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. 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>.

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**Key Indicators**

Population	M	<b>3.9</b>	HDI	<b>0.889</b>	GDP p.c., PPP \$	<b>48575</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.2</b>	HDI rank of 193	<b>41</b>	Gini Index	<b>30.1</b>
Life expectancy	years	<b>78.5</b>	UN Education Index	<b>0.857</b>	Poverty <sup>3</sup>	% <b>0.4</b>
Urban population	%	<b>58.9</b>	Gender inequality <sup>2</sup>	<b>0.074</b>	Aid per capita	\$ -

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. 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

Government coordination in foreign, defense and security policy has been hampered by personal animosity between Prime Minister Plenković and President Milanović. While the government strongly supports Ukraine, Milanović has warned against Croatia's deeper involvement, particularly regarding military training missions.

Croatia joined the eurozone and Schengen area in January 2023. In late 2024, the parliament redrew electoral district boundaries after a Constitutional Court ruling found the previous boundaries unconstitutional because of malapportionment.

The country experienced a super-election year in 2024. The HDZ, a conservative Christian democratic party, won the April parliamentary election, securing a third term for Prime Minister Andrej Plenković with coalition support from the nationalist, Euroskeptic Homeland Movement. President Milanović attempted to run for prime minister, but the Constitutional Court barred him based on the requirement to uphold the separation of powers. The left-of-center opposition campaigned on an anti-corruption platform, criticizing the appointment of Chief State Attorney Ivan Turudić, seen as too close to indicted figures and the ruling party. Despite corruption scandals, including the late 2024 arrest of a sitting health minister, the HDZ remained the country's dominant party. It also secured the most seats in the European Parliament in June (six out of 12), though its presidential candidate, Dragan Primorac, lost to Milanović in early 2025, who won nearly three quarters of the vote, despite a low turnout of 44%.

In late 2024, the government introduced a mild property tax in a country where homeownership exceeds 90% and real estate is a key investment. Property prices continued to rise, especially in major cities and coastal tourist areas. The government maintained a balanced budget, improved Croatia's credit rating and reduced debt. Low unemployment persisted, with increasing reliance on workers from South and Southeast Asia. Inflation began to decline in late 2024, though citizens continued to perceive prices as high, despite government controls on gasoline, basic goods and utilities.

Corruption and an inefficient judiciary remain major obstacles, despite Croatia's strong macroeconomic performance. Digitalization has improved public administration, but trust in institutions remains low. Funding from the European Union Solidarity Fund for post-earthquake relief, and the Recovery and Resilience Facility (NextGenerationEU) has boosted reform efforts, particularly in sustainable development and green energy. Croatia has a relatively high share of renewable energy, but waste management remains problematic, especially in large cities.

Relations with Serbia remain strained because Serbia's government refuses to acknowledge responsibility for the wars of the 1990s. Croatia has actively supported Bosnia and Herzegovina's EU accession efforts, although Bosnia and Herzegovina continues to struggle with necessary pre-accession reforms.

## History and Characteristics of Transformation

In the late 1980s, Croatia embarked on an economic transition, followed by the first multiparty elections in 1990, which were won by the Croatian Democratic Union (HDZ), led by Franjo Tuđman. The HDZ, a nationalist movement, sought to secure full sovereignty outside the Yugoslav federation. However, tensions escalated as Serbia, under the leadership of Slobodan Milošević, sought 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 in 1993/94. However, through U.S. mediation, they reconciled and became allies by late 1994. The war in Croatia concluded in the summer of 1995 with Operation 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 settled in Croatia. Since 2000, some ethnic Serbs have returned, although the majority have permanently resettled elsewhere.

In the aftermath of the war, Croatia embarked on a rapid privatization program that led to the collapse and bankruptcy of numerous companies and widespread job losses. This process was often criticized as lacking transparency and being plagued by corruption, contributing 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 Tuđman's passing in late 1999, 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. The government system transitioned from semi-presidential to parliamentary. EU accession negotiations commenced in 2005 and continued until 2011 because of delays caused by insufficient progress in judicial reform, anti-corruption measures and minority rights. During this period, Croatia experienced rapid economic growth, driven by favorable loans and the leadership of Prime Minister Ivo Sanader, who was strongly pro-European. However, Sanader's tenure abruptly ended in 2009 amid 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 July 2022, the country attained candidate status for OECD membership. Finally, in January 2023, Croatia adopted the euro and joined the Schengen area.

In 2015, Croatia faced a substantial influx of migrants entering the country illegally. However, with the country functioning primarily as a transit point, only a limited number of refugees and migrants sought asylum within its borders. Croatia emerged from the recession in 2016 and exited the Excessive Deficit Procedure in 2017. In the first half of 2020, it held the rotating presidency of the Council of the European Union.

Following the COVID-19 pandemic, the country faced labor shortages as young workers emigrated to Western Europe. At the same time, it received an influx of workers from South and Southeast Asia. At the beginning of 2025, there were about 100,000 third-country workers in the country. Since Russia's invasion of Ukraine in 2022, Croatia has accepted about 25,000 Ukrainian refugees.

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 military, political or social actors who could or 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  
10



1

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

State identity  
10



1

The constitution mandates separation of the state from religious communities. Registered religious communities that meet certain membership criteria are eligible for state compensation and tax-exempt status. 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 relatively 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. One of the main points of contention between supporters and critics of the Catholic Church's position is the role of religious education in public schools.

No interference of  
religious dogmas  
8



1

The state has a functionally differentiated administrative structure in place throughout the country to ensure the provision of essential public services. Citizens and businesses sometimes express frustration over bureaucratic requirements. Nonetheless, over the past 15 years, an e-administration platform has significantly streamlined processes. Many services and public documents – such as citizenship certificates, residency certificates and child benefit paperwork – can 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 Eurostat data from 2020, only 0.7% of Croatian citizens reported a lack of access to basic sanitary facilities, which is below the European Union average of 1.5%. All Croatian households had access to electricity in 2024. However, certain rural areas may face challenges related to the availability of primary health care providers and the 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, municipal and European elections. Universal suffrage ensures all eligible citizens can vote, and votes are cast freely and by secret ballot. 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 April 2024. The election was marked by an increase in voter turnout to 62.31%, an increase of 15.87 percentage points from 2020.

Although the legal framework for financing election campaigns is generally sufficient, there are instances – especially in local elections – where the transparency of party expense reports submitted to the State Electoral Commission is lacking, notably with regard to the financing of online advertisements.

In 2010, the Constitutional Court ordered the redrawing of electoral district boundaries to ensure population deviation in each district did not exceed 5% from the national average. In 2023, the parliament adopted new electoral boundaries. The new boundaries were criticized by several NGOs and research institutes as arbitrary and indicative of gerrymandering. Notably, the new boundaries divide the capital city of Zagreb into three electoral districts, compared with four before the amendment to the Law on Electoral Districts. The Constitutional Court confirmed the new boundaries, affirming their compliance with the principle of equal population representation per member of parliament. Thus, the new electoral boundaries prevent malapportionment but still cut across administrative boundaries of counties and cities – similar to the

### Basic administration

10



1

### Free and fair elections

9



1

previous electoral boundaries used between 2000 and 2020. As such, they do not constitute additional gerrymandering, but neither do they entirely resolve the issue of irregularly shaped districts inherited from previous arrangements.

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 societal actor – and can voice its interests and concerns to the government. Although the government maintains cordial relations with high-ranking Catholic clergy, policy decisions are made solely by the government. The Church cannot prevent decisions that contradict its teachings.

Citizens in Croatia enjoy constitutional guarantees of the rights of association and assembly. These rights are respected by political and social actors without notable exceptions or restrictions. The civil society landscape encompasses a wide range of groups. These groups mostly focus on sports, local culture, religion, animal well-being, 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 collaborate closely with representatives of the European Parliament and the European Commission. They enjoy high public visibility.

Freedom of expression in Croatia is protected from interference or restriction both constitutionally and in practice. The public has access to a diverse range of online and offline media outlets. 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 on multiple occasions led to the dismissal or resignation of cabinet ministers and other high-ranking public officials (e.g., heads of state-owned companies). Effective legislation on freedom of information and the right to access information is in place.

However, journalists and professional journalist associations have expressed concerns about current libel laws, which allow wealthy and influential individuals from the public and private sectors to sue journalists for publishing critical or controversial articles that probe business transactions or discrepancies between reported income, personal assets and wealth. There were no noteworthy cases of threats or harassment against journalists.

Ownership of media outlets tends to be concentrated, especially in the print and radio sectors. State-owned companies and large private enterprises can influence editors through advertising deals that significantly affect media outlets' revenues.

Effective power to govern

10



Association / assembly rights

10



Freedom of expression

7



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

### 3 | Rule of Law

The government dominates the parliament. In recent years, the Constitutional Court has become increasingly important, but it faces challenges in handling a backlog of citizens' constitutional appeals.

In February 2023, the Constitutional Court issued a landmark ruling that struck down the law on electoral districts. As a result, a new law on electoral districts was adopted in October 2023. That decision substantially increased the judiciary's oversight of the executive and legislative branches of government.

However, the Constitutional Court clashed with the state president during the 2024 parliamentary election. The president claimed that his current presidential role did not preclude him from standing as a candidate for prime minister. The Constitutional Court ruled it unconstitutional, stating that the President's Office is incompatible with other public duties, including running for parliament. The center-left opposition coalition that supported the president's potential candidacy criticized the Constitutional Court for acting in favor of the center-right government.

The court system in Croatia consists of three levels – municipal courts, county courts and the Supreme Court. While the judiciary is broadly independent and functional, public trust in the judiciary is low because of its slowness and perceived inefficiency.

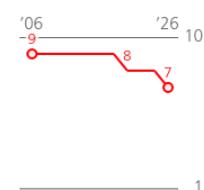
The digitalization efforts in the court system have improved efficiency and, to some extent, public perceptions. It has also increased media scrutiny of controversial court cases.

In 2024, after substantial political wrangling and parliamentary horse trading, the parliament elected 10 new Constitutional Court justices. The new justices are widely seen as an improvement, raising professional standards in the court.

According to autumn 2024 Eurobarometer data, trust in the judiciary among Croatian respondents was only 44% – one of the lowest levels among all EU member states – compared with the EU27 average of 55%. Despite the lack of trust in the courts, Croatian citizens often turn to litigation because of 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 the 2024 EU Justice Scoreboard, Croatia had the second-longest estimated time required to resolve litigious civil and commercial cases in the European Union,

Separation of powers

7



Independent judiciary

8



trailing only Italy. Additionally, Croatia ranked among the EU member states with the highest number of pending cases, after Portugal and Poland. However, Croatia allocated the fourth-highest expenditure to its judiciary as a percentage of GDP and had the highest number of judges in the European Union.

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 involving public funds. This additional scrutiny is expected to help reduce political corruption in Croatia moving forward.

The Office for the Suppression of Organized Crime and Corruption (USKOK) has improved its operations in recent years, and the State Attorney's Office (DORH) has sped up and increased the number of prosecutions in corruption cases. However, DORH's indictments often consist of extensive evidence material – sometimes 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 2024, a new chief state attorney, Ivan Turudić, was voted in by the parliament. The move was heavily criticized by the parliamentary opposition, prompting protests by left-of-center parties. Turudić was deemed too close to prominent former politicians involved in corruption cases as well as other public figures indicted in such cases. He is also perceived as close to the governing party. In late 2024, the health minister, Vili Beroš, had to resign over corruption charges involving public procurement in the health care sector.

These events 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 disenchanting.

#### Prosecution of office abuse

6



1

Civil rights are legally protected and generally upheld, but implementation often lags and issues outlined in the legal framework receive insufficient attention. The National Program of Protection and Promotion of Human Rights (2021 – 2027) serves as the legal framework for civil rights protection.

Citizens have equal and unrestricted access to the court system on all levels (municipal, county and supreme/state) and multiple ombudspersons are 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 known and respected by the public.

Ethnic minority non-governmental organizations (NGOs) report sporadic instances of discrimination and vandalism targeting cultural and religious buildings associated with the Serb minority. The government is implementing 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. Representatives of the Roma community – the most marginalized of Croatia’s ethnic communities – have been part of the governing majority for years, enabling them to influence government policy and the Office of the Ombudsperson. The general public ombudsperson collaborates closely with advocacy and watchdog NGOs, focusing on ethnic minority and LGBTQ+ rights.

#### 4 | Stability of Democratic Institutions

Croatia’s democratic institutions are stable and face no significant obstacles to fulfilling their responsibilities.

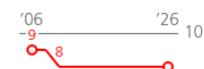
The government is widely regarded by the public as the most influential political institution. Parliament operates as a unicameral body, and cabinet ministers are not allowed to hold seats in parliament, preventing a dual mandate of serving in both the legislature and the executive branch.

The president and the government share responsibility for appointing ambassadors, high-ranking military officers and directors of intelligence agencies. Because of an ongoing political conflict between the president (a former Social Democratic prime minister, 2011 – 2015) and the prime minister, appointments that must be countersigned by both the government and the president (e.g., ambassadorial appointments) are often delayed or obstructed.

There is an ongoing, gradual process of judicialization, whereby courts are gaining influence in correcting and amending executive and administrative procedures. However, the judiciary remains the least trusted of the three branches of government, because the public perceives judges as corrupt and prone to political influence.

#### Civil rights

8



1

#### Performance of democratic institutions

9



1

The practice of mayors and local councilors serving concurrently in the national parliament creates potential conflicts of interest. There is also a disparity in administrative capacity between national and local levels. That discrepancy can produce significant variation in the quality of governance across regions, with wealthier and more urban areas generally enjoying higher standards of governance.

Since the Commission for the Prevention of Conflict of Interest was established in 2011, media attention to potential conflicts of interest among public officials has increased. Over time, however, the government has downplayed the commission's significance and role.

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 increased use of direct democracy. One specific demand is lowering the threshold for holding referendums. Currently, initiating a referendum requires collecting 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 referendums 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, the bill has since been put on hold and remains unaddressed.

Several cities have begun experimenting with citizen budgets, introducing elements of participatory and deliberative democracy. The government has increased its use of citizen consultations through the e-citizens online platform.

## 5 | Political and Social Integration

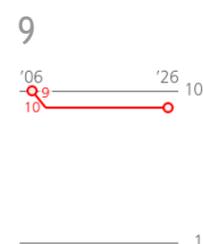
Since 2015, Croatia's party system has gradually shifted from bipolar competition to more moderate pluralism. The Christian democratic and conservative Croatian Democratic Union (HDZ), and the Social Democratic Party (SDP) remain the largest parties.

Major parties, such as the HDZ and SDP, are deeply socially rooted. All parliamentary parties are organizationally institutionalized. Smaller parties do not have local branches in all parts of the country.

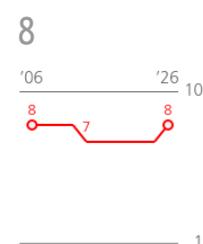
According to Eurobarometer data from autumn 2024, 75% of Croatian respondents expressed distrust in political parties, compared to 71% at the EU level. The ParlGov dataset indicates relatively low levels of voter volatility and moderate levels of party system polarization. Overall, the Croatian party system is considered stable, especially in comparison to other Central and Eastern European countries.

After a party split in 2022, the SDP consolidated behind new party president Siniša Hajdaš Dončić in 2024. The nationalist and somewhat Euroskeptic Homeland Movement experienced a split in 2024, with the minority faction starting a new party, the Home and National Rally.

Commitment to democratic institutions



Party system



As of January 2025, the largest parties in the parliament were the HDZ with 55 out of 151 seats, the SDP with 37 seats, the Green Left We Can! with 10 seats, and the Homeland Movement and the Bridge with seven seats each. The fragmentation among opposition parties has strengthened the dominance of the HDZ and the Plenković government.

Trade union membership has declined, falling from 25.8% in 2018 to 20% in 2023, according to Eurofound data. This reflects increased employment in the private sector, which is less unionized. An increase in guest workers from third countries (mostly Nepal, the Philippines and India) has also decreased union membership. According to a post-election national poll conducted by the Faculty of Political Science in autumn 2024, 24.1% of respondents somewhat or fully trusted trade unions.

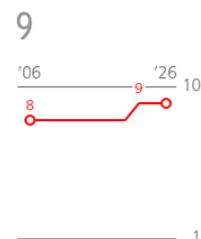
Large companies with more than 250 employees must be members of the Chamber of Commerce, while smaller companies can opt out of membership. Free professions – such as attorneys, dentists and physicians – are organized through influential professional chambers.

Public sector workers tend to be more unionized than those working for private businesses. In 2024, the government significantly increased salaries in the public sector. However, teachers' unions still present a potential for collective grievances, including strikes. According to ILO data, the collective bargaining coverage rate was 46.7%, including both the private and public sectors. Collective bargaining is well established, and includes collective agreements on working conditions, pay increases and regulation of some prices such as gasoline, driven by inflationary pressures caused by COVID-19, the adoption of the euro in 2023 and the war in Ukraine since 2022.

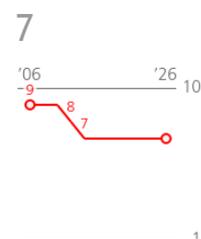
Despite the absence of a serious organized challenge to democratic norms and procedures, Croatian citizens express significant dissatisfaction with the functioning of democracy and exhibit low levels of trust in political institutions. Based on the autumn 2024 Eurobarometer data, only 44% of Croatian respondents reported being satisfied with democracy, compared to 55% at the EU level. Croatian respondents were more satisfied with how democracy works in the European Union (59%), compared with the 53% EU-wide average. Nevertheless, two-thirds of Croatians support democracy under any circumstances (national poll by the University of Zagreb Faculty of Political Science, autumn 2024).

Trust in the national parliament was low, with only 29% of Croatian respondents stating that they trust it, compared with 37% across the European Union. Similarly, trust in the judiciary was relatively low, with 33% of respondents expressing trust in the judiciary, compared with 55% at the EU level.

#### Interest groups



#### Approval of democracy



A wide array of autonomous and self-organized groups, associations and organizations exists in Croatia. The legal framework for establishing NGOs is inclusive and accessible, resulting in a diverse range of associations and organizations that cover various areas, including sports, the environment, culture, religion, minority rights, veterans, retirees and persons with disabilities.

Many NGOs depend on public funding – at the local, national or EU level – instead of relying solely 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 self-organize through social media groups and local initiatives, often centered on issues such as waste management, access to public space, and air and water quality.

According to a post-election national poll conducted by the Faculty of Political Science, University of Zagreb, in autumn 2024, 29.5% of respondents said they somewhat or fully trusted NGOs, while 28% said other people can generally be trusted.

Social capital

8



1

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Croatia scores highly on the Human Development Index (HDI), 0.878 in 2022, ranking 39th in the world. The overall loss of HDI due to inequality was 7.0% in 2022. The country has low levels of absolute poverty (0.4% of the population in 2021). However, poverty levels vary across regions of the country. Rural areas near the Serbian and Bosnian borders, which were heavily impacted by the Croatian War of Independence (1991 – 1995), have a higher proportion of citizens at risk of poverty and social exclusion than the more prosperous regions around the capital city and the Adriatic coast. Elderly people are more at risk of poverty than young people. Income inequality is fairly low, with a Gini index of 28.9 in 2021. Gender inequality is low, as shown by Croatia's Gender Inequality Index score of 0.087 in 2022.

The emigration of young people to Western Europe in search of better-paid jobs has led to labor market shortages. These shortages have attracted guest workers from South and Southeast Asia, and led to rising salaries.

Question  
Score

Socioeconomic  
barriers

8



1

Economic indicators		2021	2022	2023	2024
GDP	\$ M	69006.8	71198.6	84393.8	<b>92526.2</b>
GDP growth	%	12.6	7.3	3.3	<b>3.8</b>
Inflation (CPI)	%	2.6	10.8	7.9	<b>3.0</b>
Unemployment	%	7.6	7.0	6.1	<b>5.2</b>
Foreign direct investment	% of GDP	7.4	5.5	4.0	<b>5.0</b>
Export growth	%	32.7	27.0	-2.9	<b>0.9</b>
Import growth	%	17.3	26.5	-5.3	<b>5.3</b>
Current account balance	\$ M	557.5	-2620.7	636.0	<b>-1049.2</b>
Public debt	% of GDP	78.2	68.5	61.8	<b>57.6</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-2.3	-0.4	-1.5	-
Tax revenue	% of GDP	21.1	21.7	21.5	-
Government consumption	% of GDP	23.1	21.1	21.3	<b>22.6</b>
Public education spending	% of GDP	4.1	-	-	-
Public health spending	% of GDP	6.7	6.1	-	-
R&D expenditure	% of GDP	1.2	1.4	-	-
Military expenditure	% of GDP	2.0	1.8	1.8	-

Sources (as of December 2025): 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 hindering the operation of a free and competitive market in Croatia. Since the COVID-19 pandemic, the government has reduced bureaucratic hurdles and simplified the tax system. These reforms, which have liberalized and dynamized market competition and labor market regulations, are a direct consequence of European Commission prerequisites and recommendations connected to the European Union Solidarity Fund (in response to the 2020 earthquake), and the Recovery and Resilience Facility.

The influence of EU regulations has contributed significantly to the stability of market regulations over time. Declining unemployment has reduced 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. Since 2019, the labor market has seen a rapid growth in recruitment agencies specializing in attracting workers from South and Southeast Asia, focusing mainly on the construction and hospitality industries.

According to 2023 data from the International Labour Organization (ILO), Croatia's share of informal employment was very low – 1.4% overall and 3.1% in the agricultural sector. The share in the agricultural sector has decreased significantly in recent years.

Croatia fully implements rigorous EU regulations on competition policy and antitrust law. 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 stepped up efforts to monitor and curb unfair trade practices, particularly in the food retail sector. Some market players attempted to coordinate prices to undermine competition, but the AZTN's rulings effectively intervened.

Because of new EU regulations, Croatia has pursued further liberalization of its market laws, specifically with respect to independent professions such as attorneys, dentists and auditors.

Since joining the European Union in 2013, Croatia has embraced full liberalization of foreign trade, resulting in substantial growth in the volume and variety of imports and exports. Germany and Italy – two major economies within the European Single Market – are Croatia's key partners for 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 eurozone and the Schengen area in January 2023, trade costs related to banking, shipping and administration decreased when engaging with fellow EU member states. Reforms related to the OECD membership candidacy (since July 2022) include strengthening reporting and official statistics, including foreign trade.

Market organization

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Competition policy

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Liberalization of foreign trade

10



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Croatia's banking sector is strong and diverse, with most major banks under foreign ownership, primarily by parent banks in Austria and Italy. Croatia's banks, unlike those in some other EU member states that faced banking crises in the aftermath of the 2008/09 Great Recession, have demonstrated resilience in stress tests and remain a robust component of the national economy. As an EU member state, Croatia has implemented Basel I and Basel II, and is aiming to meet Basel III regulations.

The proportion of non-performing loans to total gross loans fell to 2.5% at the end of 2024, compared with the EU average of 1.9% – a substantial improvement from the 16.7% reported in 2015. Croatian banks maintain a high capital adequacy ratio, 22.9% in 2024, exceeding the EU average of 17.5%.

Croatian banks have successfully adjusted to the introduction of the euro, offering refinancing options for loans converted from the former national currency, the kuna. Despite inflation's strong impact on consumer prices, interest rates have remained fairly stable. After joining the eurozone in January 2023, banks have modestly increased fees and updated overdraft terms.

At the end of 2024, the Central Bank of Croatia reported that long-term interest rates for nonfinancial institutions were 2.2%. Average interest rates were 2.7% for home loans and 5.7% for consumer loans.

Over the past three decades, Croatia's stock market has grown, with investors actively trading equities on the Zagreb Stock Exchange – particularly in the information technology, tourism, energy and food sectors.

## 8 | Monetary and fiscal stability

The average annual inflation rate in Croatia rose from 0.1% in 2020 to 10.8% in 2022. The country followed a European trend of heightened inflation – attributed to increased public spending during the COVID-19 pandemic and to rising energy prices resulting from the Russian invasion of Ukraine. However, with accession to the eurozone in January 2023 and the anticipated stabilization of energy prices in the European Union through alternative sources, inflation began to stabilize. In 2024, the average annual inflation rate fell to 3%. Since joining the eurozone, the European Central Bank (ECB) has taken over the country's monetary policy.

In April 2024, the harmonized index of consumer prices was 131.06 (2015 = 100); by January 2025 it had risen slightly to 134.60 (compared to 126.04 and 126.71 in the eurozone).

Since Russia's invasion of Ukraine in 2022 and Croatia's adoption of the euro in 2023, the Croatian government has controlled gasoline prices, a range of everyday goods and the prices of utilities (e.g., gas and electricity), citing the need to alleviate pressure on low-income households, especially elderly people. Such measures are

### Banking system

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### Monetary stability

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widely supported and the opposition regularly demands further government intervention in prices. Despite stabilization of inflation rates and government price controls, rising retail prices remain a point of great concern for the majority of citizens.

Polling data from 2024 indicate that citizens were split on the issue of adopting the euro in January 2023. Despite the positive effects of adopting the common currency – such as lower export costs, and reduced interest rates for the government, entrepreneurs and consumers – higher retail prices remain a concern for citizens.

The government has maintained a strong and stable fiscal policy, and the Ministry of Finance enjoys the highest level of public trust.

Croatia's current account balance has been stable and stood at 19.4% of GDP in Q3 2024. The general government gross debt was 60.1% of GDP in Q2 2024, down 2.0 percentage points from Q1, compared with 88.1% in the eurozone.

Net lending/borrowing was stable, decreasing from 22.5% of GDP in Q3 2023 to 19.4% of GDP in Q3 2024. Government consumption also remained stable at 21.1% of GDP in 2023 and 2022. Croatia's total reserves, primarily derived from tourism revenues, slightly decreased from €3,210 million to €3,086 million in December 2024.

Croatia's credit rating has improved. In late 2024, it was at A- (Standard & Poor's, positive outlook) and A3 (Moody's, stable). The 10-year government bond yield decreased from 3.77% in December 2022 to 3.19% in February 2025.

Despite the government's overall prudent approach to fiscal matters, fiscal responsibility is occasionally challenged – by local politicians calling for targeted interventions and by opposition parties and trade unions demanding pay raises in the public sector. During pre-election periods, the government may deviate from its fiscally conservative path and engage in discretionary spending in underdeveloped areas or provide relief to struggling companies. Pay raises in the public sector ahead of the April 2024 parliamentary election were seen by many as a relaxation of budgetary discipline.

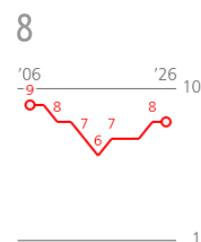
## 9 | Private Property

Property rights in Croatia are well established and governed by a legal framework aligned with European Union regulations and practices.

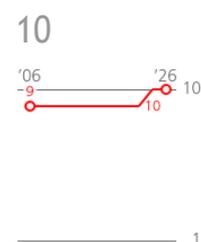
However, in the capital city, unresolved ownership issues remain for numerous residential and nonresidential properties because denationalization was not completed after the communist era. The ongoing process of digitizing cadaster and land registration databases has significantly reduced the problem. While those 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 Eurostat data, 91% of Croatian citizens live in homes owned by them or their relatives, which is one of the highest rates in the European Union.

Fiscal stability



Property rights



After several postponements, in 2024, the government introduced a property tax, a common form of taxation in the European Union. Many property owners, especially elderly people, feared that such a tax would force them to sell their real estate. Additionally, property owners who generate significant income from tourism feared negative economic effects. However, the tax rate is relatively low. Local government can tax property, excluding primary property used for living, at between €0.60 and €8 per square meter.

Investment in real estate remains the most popular way to accumulate and preserve wealth in the country. Property prices along the coast and in major cities, especially in the capital, have risen substantially since the euro was introduced in 2023. Croatia attracts property investment from other EU member states, with 33% of all property sold annually bought by nationals of other EU member states.

Privatization in Croatia began in the late 1980s – prior to the fall of communism – yet the country still has a significant number of partially or fully state-owned enterprises compared with other post-communist EU member states. Private enterprises play a crucial role in the labor market, but the consolidated state (local, regional and national governments) remains one of the largest employers. According to 2020 data from the International Labour Organization (ILO), nearly 30% of workers in Croatia were employed in the public sector.

Many important enterprises – especially in the insurance and finance sectors – are owned by foreign capital, primarily from Germany, Austria and Italy. Domestic credit to the private sector accounted for 47.1% of GDP in 2023, according to the World Bank.

In the early 1990s, Croatia's privatization efforts were often driven by political considerations rather than by market principles. Since joining the European Union in 2013, the country has made significant strides to ensure equal protection for market participants, as well as to simplify business registration, and the acquisition of equity and property.

In recent years, there have been no notable large-scale initial public offerings or privatizations of particularly significant state-owned enterprises. Instead, the government has focused on leasing its many residential and commercial properties rather than selling them to private bidders. The government owns most agricultural land and is reluctant to sell it.

While most parliamentary parties in Croatia are committed to private property and private enterprise, many political actors – both left-wing and right-wing – are reluctant 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 small 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.

Private enterprise

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## 10 | Welfare Regime

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

According to 2022 Eurostat data, the central government allocated 30.0% of gross GDP to social expenditure, above the EU average of 25.7%. The general government spent 44.9% of gross GDP on social expenditure, somewhat below the EU average of 49.4%.

In 2023, 20.7% of Croatian citizens were at risk of poverty or social exclusion, slightly lower than the EU27 average of 21.3%. Although there has been a gradual improvement, public perception continues to reflect concerns that social spending is insufficient and that social safety nets fail to adequately protect people, especially elderly people, rural households, single parents and households with several children.

While universal health care is available nationwide, the quality of services varies between larger cities and rural areas. Higher-income individuals often opt for private health care services to avoid waiting lists in public facilities. There is a shortage of physicians, particularly general practitioners, gynecologists and pediatricians, with shortages especially acute in rural areas, as many young doctors and nurses migrate to Germany and Austria in search of better compensation and working conditions.

According to Eurostat data for 2022, Croatia allocated 36.9% of its social spending to health care (EU27 average: 29.7%), with disability benefits accounting for 8.7% (EU27 average: 6.9%). 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 1.9% of social spending was allocated to unemployment benefits (EU27 average: 5.9%).

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 such as Ireland, Germany and Austria – and limited long-term immigration – primarily from Bosnia and Herzegovina, as opposed to short-term guest workers from South and Southeast Asia – 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 2024 data from the national pension fund, disability pensions comprised 8.9% of all pensions, while benefits for survivors comprised 16.7%.

### Social safety nets

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

Croatia has experienced a decline in unemployment due to a labor shortage, with the unemployment rate reaching 4.5% in December 2024 – slightly below the averages for the eurozone (6.3%) and the EU27 (5.9%).

Although unemployment benefits are easily accessible, they are among the lowest in the European Union. Based on 2022 Eurostat data, unemployment-related benefits in Croatia accounted for just 0.4% of GDP, compared with the EU average of 1.7%.

Civil society organizations focused on minority rights continue to report occasional employment discrimination. However, the Constitutional Law on the Rights of National Minorities ensures fair representation of national minorities in local and national government. School attendance rates within the Roma community remain low, and 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 increase employment rates among the Roma population. Notably, children in rural areas – regardless of their ethnicity – face challenges 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 with younger men – with a ratio of 1:3 in tertiary education. However, the overall workforce participation rate for women was 47.1% in 2023, as many older women, particularly in rural areas, are either unemployed, underemployed or not actively seeking employment. The gender pay gap in 2022 stood at 12.5%, almost equal to the EU average (12.7%), according to Eurostat data.

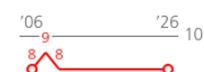
## 11 | Economic Performance

Croatia experienced a strong recovery after the COVID-19 pandemic. However, because of EU-wide trends – and amplified by its accession to the eurozone – the country experienced a sharp rise in inflation. Inflation has affected purchasing power in low-income households.

According to Eurostat data, the quarterly government surplus, seasonally unadjusted, was 3.0% in Q3 2024 (-2.3% in the eurozone), while the quarterly government debt was at 59.7% (88.2% in the eurozone) during the same period. These figures indicate

### Equal opportunity

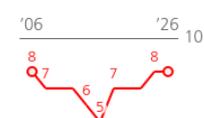
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### Output strength

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a strong decreasing trend when compared to the previous year. The quarterly government deficit was -8.1% in Q3 2023 (-3.8% in the eurozone), with a quarterly government debt of 63.3% of GDP (88.4% in the eurozone) in the same period.

The quarterly current account balance improved significantly, from -5.1% of GDP (2.2% of GDP in the EU27) in Q3 2023 to 19.4% of GDP (2.8% in the EU27) in Q3 2024. 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 3.29 basis points (2.83 basis points in the eurozone) in January 2024 to 3.09 basis points (2.74 basis points in the eurozone) in December 2024.

The trade balance of goods remained relatively stable, moving from -€1,551 million in December 2023 to -€1,536 million in November 2024. The annual net international investment position improved from -33.9% of GDP in 2022 to -26.0% in 2023.

The surveyed unemployment rate was 5.0% in Q3 2024, compared with 5.8% in the same period in the European Union. The registered unemployment rate in December 2024 was 5.1%.

According to the latest available data (2023, Croatian National Bank), nominal GDP per capita was €19,847. In 2023, Croatia's GDP per capita (adjusted for purchasing power parity) was 73 relative to an indexed value of 100 for the European Union and 104 for the eurozone. GDP per capita growth saw a strong recovery after the COVID-19 pandemic, growing 18.0% in 2021, 7.7% in 2022 and 3.1% in 2023.

## 12 | Sustainability

Since joining the European Union, Croatia has implemented rigorous legislation on environmental protection and sustainable development. Government spending on environmental protection was 0.7% of GDP, close to the EU average of 0.8%, according to 2022 data.

Based on 2023 Eurostat data, Croatia's share of energy from renewable sources was 28.1% – exceeding the 20% target set by the Europe 2020 agenda and surpassing the EU27 average of 24.5%.

According to the 2024 EU Climate Progress Report, Croatia's emissions were 14% lower in 2024 than in 2023. By 2030, the country should achieve a 17% reduction compared with 2005 as the baseline year. Overall, Croatia's emissions were almost 30% lower in 2023 compared with 1990 baseline levels.

However, Croatia still faces challenges in implementing circular economy practices and achieving sustainability, particularly in 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

### Environmental policy

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losses from 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 of Zagreb – where closing the main landfill has been on the agenda for years without much progress because of conflicting visions and ideas about new recycling and waste incinerator plants.

In 2022, the recycling rate for packaging waste was 52.4%, below the EU27 average of 65.4%. 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 European Union, has created additional incentives for energy renewal. These initiatives focus on upgrading insulation and heating systems in public and private buildings and providing cash incentives for green energy producers, primarily in the solar, wind and biomass sectors.

Local government utility prices for water, gas and electricity include special green levies that help fund the green transition. In addition, tax refunds are available to households and companies that install solar panels or improve building insulation.

The public education system in Croatia is underfunded, despite significant salary increases for teachers and academics in 2023 and 2024. In 2022, public expenditure on education accounted for 4.8% of GDP (4.7% in the European Union), while research and development expenditure was 1.4% of GDP (2.2% in the European Union).

Croatia's position on the U.N. Education Index has improved over the past decade, scoring 0.843 in 2022. This is well above the average score of 0.599 for transformation economies but lower than that of countries such as Slovenia (0.913).

In the latest PISA study (2022), Croatian students achieved scores similar to the OECD average in all three subjects. 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 greater emphasis on public and private funding for STEM education.

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 2024 Shanghai Ranking List. Education facilities in the capital city underwent significant renewal efforts as part of post-earthquake rebuilding initiatives between 2022 and 2025. While there has been a substantial expansion of study programs, and the development of new universities and polytechnics during the last decade, the poor demographic situation – coupled with limited efforts to attract international students – has resulted in university programs and departments grappling with low enrollment rates.

Education policy /  
R&D

8



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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 in the construction and hospitality sectors have been mitigated by the immigration of guest workers from South and Southeast Asia.

There are stark regional differences between the wealthy capital city of Zagreb, 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 war from 1991 to 1995 are still clearly visible. Rural areas in the eastern part of the country have been particularly affected by the emigration of young people.

In 2024, the country was still grappling with rebuilding – in the capital and in the central Sisak-Moslavina region – after the devastating 2020 earthquakes. The country has received substantial emergency relief funding from the European Union Solidarity Fund. 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 (8.8% compared to the EU average of 12.3%, according to Eurostat 2022 data), civil society in Croatia is vibrant and diverse. Additionally, levels of social capital are above the EU average – 90.2% of respondents in Croatia reported having someone to rely on, compared with 88.8% at the EU level – according to Eurostat's Quality of Life indicators (2022 data). According to Eurostat (2023), interpersonal trust, measured on a 0 to 10 scale, has improved from 3.8 in 2019 to 6.3 in 2023 (5.8 EU27 average).

Numerous advocacy and watchdog NGOs raise public awareness of civil and minority rights and can influence government policy. Civil society organizations largely rely on public funding, either from local and national governments or from the European Union and foreign embassies (the United States, Norway, Switzerland,

Structural  
constraints

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Civil society  
traditions

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and Western European EU member states such as Germany, Sweden and the Netherlands). War veteran organizations are particularly active and occasionally resort to protests to demand increased social transfers or to voice objections to the nature of public war commemorations. They have close ties to the main center-right party (HDZ) and to sections of the Catholic clergy. Conversely, many human rights and 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 soccer clubs in the country, hold a significant presence in local communities.

Croatian society is largely homogeneous in ethnicity, religion and socioeconomic status. The main social cleavages follow cultural and religious fault lines, and stem from differing experiences and interpretations of traumatic historical events and periods.

This division provides a rough ordering of political parties, the media and civil society organizations on a cultural-ideological left-right scale. On the left-wing side, there are more secular and socially liberal groups, often made up of wealthier individuals in larger urban areas. 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, there are social groups closely associated with the Catholic Church that exhibit more traditional values and often represent rural or suburban areas with a clear anti-communist stance. These groups also emphasize the significance of veterans of 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. 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. Both the media and the government have started paying more attention to the role of fake news in spreading hate speech. Academia is actively working to combat the spread of fake news.

Conflict intensity

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## II. Governance Performance

### 14 | Steering Capability

Long-term strategic documents, including the National Development Strategy (2020 – 2030), closely follow the priorities set by the European Commission. The National Development Strategy builds on the European Green Deal and the Territorial Agenda 2030, placing significant emphasis on green transformation, sustainability and enhanced connectivity both within the country and between Croatia and the rest of the European Union.

The NextGenerationEU stimulus package, and co-financing of infrastructure construction and reconstruction by the European Union Solidarity Fund and the Recovery and Resilience Facility have encouraged the government to better plan its spending and investment priorities. The capacity for strategic planning has increased significantly because of the strict framework and priorities set by NextGenerationEU. Additionally, the Ministry of Finance and the national bank have undergone modernization and capacity-building efforts in response to the adoption of the euro.

Overly bureaucratic procedures, public sector corruption and partisan appointments to senior positions are major obstacles to efficient planning, implementation and evaluation of long-term development. However, the aforementioned EU funds, as well as accession to both the Schengen area and eurozone in 2023, have forced public institutions to seriously tackle these issues and modernize their modus operandi. Digitalization of public databases and processes, driven by European Commission priorities, has significantly sped up procedures and increased transparency.

The pursuit of long-term strategic policy orientations has at times been hindered by parliamentary majorities' frequent reliance on support from small parties. This often results in government policies that cater to the niche interests of particular political and social groups rather than broader development goals.

Further efforts are needed to improve integration and cooperation among planning workgroups across government departments, as overlapping jurisdictions sometimes reduce efficiency.

Question  
Score

Prioritization

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Public policy implementation remains a marked challenge in Croatia. 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 20% of them are actually implemented.

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

The Ministry of Health's efforts to advance health care reform have been hindered by the COVID-19 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 or addressing concerns voiced by stakeholders in the sector. A major corruption scandal involving public procurement in state-owned hospitals has led to the dismissal of Health Minister Vili Beroš, who led the country's health care system through the COVID-19 pandemic.

After years of deliberation, the property tax was finally introduced in 2024 – albeit in a very light form. This shows that policy can be implemented when there is consensus in society, coupled with incentives from the European Commission.

Relatively limited success in public policy implementation is 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 people and families to Western Europe and the rapid depopulation of rural areas – especially those affected by the war from 1991 to 1995 – 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 improving the efficiency and transparency of tax code implementation for businesses.

## Implementation

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The Croatian government often 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 and sometimes significant involvement in policymaking through working groups and public consultations, resulting policies still exhibit a systemic resistance to embracing groundbreaking innovation.

Several obstacles impede successful policy learning. First, the quality of public administration personnel is low, and vested particularistic economic interests and political party interests influence policy implementation. Second, 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 because of 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 small but steady improvements. The hiring of younger public administration officials, who are familiar with good governance practices in older EU member states, has enhanced the quality of public administration and the policy process. Additionally, involvement by various stakeholders such as audit companies, watchdog NGOs, the academic community, trade unions and business associations has increased somewhat in the policymaking process. Finally, tying EU funds such as NextGenerationEU to substantial reforms has accelerated acceptance of the need for change.

## 15 | Resource Efficiency

The government administration continues to maintain a large workforce and high costs. The relatively low efficiency of public officials compared with their share of government spending has drawn criticism from business associations and investors and has contributed to low citizen trust in public institutions. Yet, there has been a modest reduction in government size, with government spending decreasing from 48.1% of GDP in 2021 to 46.6% of GDP in 2023, below the EU average of 49.0%. Public sector pay rose significantly in 2023 and 2024.

Budgets have consistently been balanced, producing surpluses that can be allocated to cover unforeseen events. Nevertheless, many budget components remain politically and legally fixed, offering limited opportunity to renegotiate priorities or reallocate resources. Additionally, discretionary fiscal spending tends to increase in the periods preceding elections. Thus, during the 2024 super-election year (including parliamentary elections in April, European Parliament elections in June, and the presidential election between December 2024 and January 2025), spending on social transfers and pay increased.

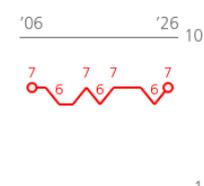
### Policy learning

6



### Efficient use of assets

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High centralization, inefficient and fragmented local government structures and poor coordination among government agencies compromise the efficiency of public administration. Public administration reform has yet to be implemented. Moreover, all levels of government – particularly regional and local governments – 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, fiscal decentralization and the recruitment of new young public officials have had a somewhat positive impact on resource management. In addition, the need for strict reporting on public procurement and on spending of funds allocated from EU-related sources has had a positive impact on overall government efficiency.

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 over the last decade, but it remains relatively slow – exemplified by the fact that reports on public institutions are discussed by parliamentary committees with a two- to three-year lag.

Croatia grapples with poor vertical policy coordination – between the government and ministries and between national and local public administration – and inadequate horizontal policy coordination among government ministries. Different ministries and agencies operate with distinct institutional cultures and procedures, resulting in a lack of interinstitutional communication, coordination and sharing of best practices. Even when two cabinet members are from the same political party, their management approaches and the way they communicate 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 undergone a process of presidentialization, in which effective decision-making has become increasingly centralized. This development has somewhat improved coordination within the government. In addition, the need for frequent reporting to national agencies that allocate EU funding has compelled public institutions to share data and improve coordination.

Anti-corruption is a key policy concern for political parties, with membership in the European Union enhancing efforts to combat it. The National Implementation Monitoring Council and the Commission for the Prevention of Conflicts of Interest are the main institutions responsible for overseeing anti-corruption policies. These institutions, supported by investigative journalists, work to increase transparency, particularly by disclosing the private assets of government officials. This has exposed incomplete financial disclosures, sparking public outrage and prompting resignations or dismissals. However, establishing a long-term, effective anti-corruption policy remains a challenge.

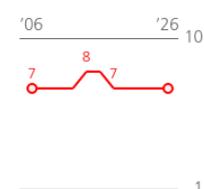
#### Policy coordination

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#### Anti-corruption policy

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Despite numerous indictments for corruption, including those involving cabinet ministers, anti-corruption cases progress slowly because of the inability of the State Attorney's Office to successfully argue them. 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 on 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 in 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 that receive preferential treatment in public procurement 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 2024, changes to the criminal code made it illegal to leak details from ongoing anti-corruption probes to the press, unless journalists could argue a specific public interest. This change was heavily criticized by the media and opposition, who viewed it as a step backward in governmental transparency. In addition, the appointment of the new chief state attorney, Ivan Turudić, prompted left-of-center parties to organize protests, as previous leaks revealed his close personal communication with politicians and businesspeople indicted for corruption. The opposition also accused him of being too close to the governing party. However, later the same year, a joint anti-corruption probe by the State Attorney's Office and the EU anti-corruption agency OLAF led to the dismissal of Health Minister Vili Beroš. The media and the opposition criticized the dual authority of the State Attorney's Office and OLAF in anti-corruption cases, noting that the domestic body may assume control of a case if it determines that no EU funds were misappropriated.

Political parties and election campaigns are mostly funded from the public purse, while private donations from individuals and companies are well regulated and limited. Public procurement remains the main source of public corruption, while financing of election campaigns is relatively free of corruption.

## 16 | Consensus-Building

All major political actors in Croatia support democracy, but they differ in their views on its liberal aspects. Populist right-wing parties – such as the Bridge and the Homeland Movement – along with Catholic lay organizations advocate for expanded use of referenda, accusing mainstream parties of elitism. They have also questioned ethnic minority rights, particularly criticizing the role of the Serb SDSS party in securing government majorities before the 2024 election. Left-of-center parties support broader definitions of hate speech and stronger anti-discrimination laws, while right-wing actors push for a more populist, majority-rule form of democracy with less emphasis on diversity. These demands raise concerns about a shift from liberal to illiberal democracy. However, internal conflicts and party splits following the COVID-19 pandemic have weakened the pro-referendum anti-elitist movement.

Virtually all political actors embrace the market economy, with the exception of an extra-parliamentary, anti-capitalist Workers' Front advocating democratic socialism. Despite major political parties' agreement on a preference for a social market economy, they struggle to reach consensus on its precise definition. Divergent understandings of a social market economy are particularly evident in discussions about the future course and scope of the privatization of state-owned companies, labor market policy, health care policy and tripartite collective bargaining involving trade unions, employers' associations and the government. Even with a shared understanding of the challenges facing the national economy, a focus on minor policy differences hinders cross-partisan consensus on economic policy. The introduction of the euro in 2023 was met with opposition from both left- and right-wing opposition parties but was ultimately realized because the center-right government held a stable majority. During the 2024 election, virtually all parties agreed that a property tax should be introduced, which ultimately led the government to implement the change in the tax code.

There are no anti-democratic groups currently in the parliament or local government, and their election chances are negligible.

The COVID-19 pandemic served as a catalyst for the radicalization of anti-democratic fringe groups in Croatia. These groups typically call for strong leadership, border closures and anti-vaccine activism, and spread fake news and conspiracy theories.

The government, the police, the mainstream media and academia have significantly intensified efforts to combat hate speech and potentially 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

Consensus on goals

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Anti-democratic actors

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with it. These groups often express ambiguous sentiments regarding the public display of symbols associated with 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 has substantial political influence and cannot 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 major societal conflicts over liberal democracy or the market economy in Croatia. However, since the country joined the European Union in 2013, populist civil society groups have pushed for more direct democracy through referenda. Despite this initial momentum, the failure of two major referendum initiatives in 2021 and 2022 – one challenging COVID-19-related public health regulations and another opposing the introduction of the euro – has led to a decline in such efforts, with no new initiatives gaining significant traction.

Political and societal cleavages in Croatia are primarily cultural, rather than economic or related to the form of government. These divisions revolve around deeply rooted historical and identity-based issues. One of the most significant sources of tension is the role of the Catholic Church in society, and its influence on national identity and public institutions. Another contentious issue is how citizens remember and assess the quality of democracy in the 1990s and the legacy of the War of Independence. Additionally, competing narratives about the nature of the Yugoslav communist regime and Croatia's experience during World War II – particularly regarding crimes committed during and immediately after the war – deepen the divide. Ethnic minority rights, the use of minority languages and cultural identity markers further contribute to these divides. In recent years, debates about LGBT rights and abortion have also intensified, though the ruling HDZ tends to avoid taking a strong stance on these issues. While opposition parties on both the left and right actively mobilize around them, the HDZ remains cautious as its internal factions hold differing views.

The HDZ-led government under Prime Minister Plenković attempts to balance a pro-EU centrist image with the nationalist identity politics that appeal to its traditional voter base. While Plenković and his close associates project a liberal and moderate stance, the official culture of remembrance surrounding the Croatian War of Independence remains aligned with nationalist sentiments, particularly to satisfy war veterans' organizations. The government maintains strong ties with the Catholic Church and presents itself as a Christian democratic force but does not fully embrace conservative demands, such as restricting abortion. Despite the leadership's centrist positioning, many HDZ members and supporters lean toward stricter policies on minority rights, often aligning with arguments put forth by right-wing opposition parties such as the Bridge and, after the 2024 election, its coalition partner the Homeland Movement.

Cleavage /  
conflict  
management

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Despite ideological and cultural divisions, both the HDZ and main opposition party, the SDP, support the existing economic system, which is characterized by a large public sector. The state remains a major employer and numerous partially state-owned enterprises are a key part of the national economy.

Civil society in Croatia is well developed but faces some structural weaknesses. Interpersonal trust is generally low, which discourages broader participation in civil society organizations (CSOs). CSOs are financially dependent on national and local government sources, EU projects, and foreign embassies, while citizen donations and private charities play a minor role. This has led to mutual accusations among ideologically opposed CSOs, with some being labeled as government-aligned and others as foreign-influenced. Such divisions hinder effective cooperation and coordination across ideological lines. Additionally, CSOs struggle with a lack of professionalism, and transparency issues surrounding the use of resources increase the risk of corruption and conflicts of interest. A revolving door between civil society activism and political office further complicates the sector's credibility, as activists frequently transition into political careers and vice versa.

Despite their significant presence in society, CSOs rarely cooperate and exert limited influence on policymaking. However, a notable improvement came with the 2009 adoption of the Code of Practice on Consultations with the Interested Public, which strengthened CSO participation in legislative and regulatory processes. The executive branch still tends to be more responsive to proposals that align with the ruling party's voter base or are backed by mass mobilization efforts, such as protests or referendum initiatives. While the government is generally open to accommodating opposing views, it does so primarily when demands are supported by a large number of organized interest groups and CSOs.

Since 2021, citizen consultations on the e-citizens online platform have expanded significantly. This has led to a slight increase in the influence of the academic community, advocacy NGOs and interest groups on policymaking, resulting in more inclusive decision-making. Government working groups responsible for drafting policy documents and legislation have also become more diverse, with broader stakeholder representation. These changes reflect a secondary wave of Europeanization – as EU institutions actively promote such governance practices. Additionally, stakeholders with differing ideological backgrounds have shown a willingness to cooperate when their shared commitment to EU governance principles outweighs their domestic political differences.



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

Government policy is ambiguous regarding World War II and the communist era. Political actors, civil society actors and the media often engage in prolonged memory wars. Disagreements arise over the scope and nature of crimes committed by the Ustaša fascist collaborationist regime during World War II, the crimes committed by the anti-fascist communist-led partisans during and after the war and the crimes and human rights violations under the communist regime.

Members of different political parties frequently fail to participate in joint commemorations, or they condemn only crimes committed by one side while overlooking the other side's responsibility for atrocities. 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 war from 1991 to 1995 – are treated with ambiguity. Various history textbooks used in public schools reflect deep disagreements among historians and educators about the appropriate approach to addressing Croatia's troubled, undemocratic past. Disagreements over Croatia's historical legacy often serve to divert public attention from contemporary policy issues such as property and consumer prices.

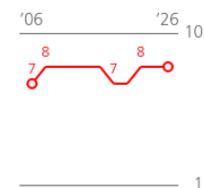
The Croatian War of Independence holds a central role in political culture and civic religion, serving as a source of political legitimacy for political and social elites. War veterans' organizations frequently publicly accuse individuals and groups that are critical of the war or that present a nuanced narrative about certain aspects of the war of being national traitors and security threats. In 2025, Croatia will celebrate the 30th anniversary of Operation Storm – the military operation that liberated a fifth of the country's territory and ended the war. The celebration will include a military parade, similar to the one held in 2015 for the 20th anniversary.

While the former Plenković government included the ethnic Serb minority party SDSS, since the 2024 election, the nationalist Homeland Movement has joined the government majority. Nevertheless, the government remains committed to a strong reconciliation policy between the ethnic Croat majority and the ethnic Serb minority. Unresolved cases against former rebel Serbs tried in absentia for war crimes, as well as issues concerning 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 Serbian government's symbolic policy and its leadership's reluctance to accept responsibility for the wars and war crimes of the 1990s hinder Croatia's progress in overcoming the past.

## Reconciliation

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## 17 | International Cooperation

There have been increased efforts to implement policy recommendations from the European Commission, as the European Union and its institutions remain the most significant international actor in Croatia. The European Union continues to promote good governance practices and reforms in the country. The government has significantly enhanced its capacity to absorb EU structural and cohesion funds, while local and regional governments have created specialized bodies for EU-funded projects.

Two frameworks have facilitated the Europeanization of government standards and practices. First, the NextGenerationEU funding scheme, and the Recovery and Resilience Facility have increased investment in public facilities, including roads, schools and hospitals. Second, the European Union Solidarity Fund has helped Croatia finance reconstruction projects after the 2020 earthquakes. EU funding has promoted the adoption of higher standards for public procurement, as well as planning, reporting and evaluation of public investment.

Watchdog and advocacy NGOs, specializing in good governance and best practices for public administration, often exert pressure on the government to expedite reforms and adopt EU standards that have been agreed upon.

The government is widely regarded as a credible international partner and is a party to various international treaties and conventions. More citizens have filed 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 ombudsperson for human rights have substantially increased their attention to these cases.

Although there have been occasional criticisms from national and European NGOs about 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. Croatia has closely followed changes in EU migration and border security policy.

Since the beginning of the Russian aggression, the government has shown significant support for the Ukrainian war effort and has welcomed around 25,000 refugees from Ukraine. However, NATO and EU allies have sometimes been perplexed by mixed messages from Croatia'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. President Milanović has consistently cautioned against becoming Croatia directly involved in a conflict with Russia and has expressed concern about sending Croatian military officers on joint training missions with the Ukrainian army. Nevertheless, he has supported NATO missions in border countries such as Poland and Lithuania.

Effective use of support

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Credibility

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The government is actively committed to bilateral and multilateral political, legal and economic cooperation in Southeastern 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. The unresolved maritime border issue with Slovenia in the northern Adriatic does not affect good relations within the European Union, including the eurozone and the Schengen area, and NATO. 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 U.N. 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, Croatia has strongly supported Bosnia and Herzegovina in its bid for EU membership. Despite Croatia's diplomatic efforts toward the European Commission and in the European Parliament, Bosnia and Herzegovina still had conditions to meet that prevented opening negotiations in 2024.

Relations with Serbia are strained due to conflicting historical narratives, cultural remembrance and unresolved bilateral issues related to the war from 1991 to 1995. Croatia demands active cooperation from Serbia on information about missing Croatian civilians and soldiers, and on the return of cultural artifacts and archival documents taken during the war. Some opposition right-wing parties in Croatia also call for war reparations from Serbia. In contrast, the Serbian government refuses to acknowledge Serbia's role in the war in Croatia and instead emphasizes sporadic public displays of Ustaša-related symbols in Croatia. The Croatian government is criticized for publicly commemorating the 1995 Operation Storm, which ended the occupation and war in Croatia but also led to the 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.

## Regional cooperation

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Despite the enlargement fatigue felt in some Western European member states, Croatia remains a staunch supporter of EU integration for all Western Balkans countries. In addition, Croatia has been a strong supporter of the Ukrainian war effort in response to Russian military aggression in 2014 and since 2022, and supports Ukraine's aspirations to join the European Union.

## Strategic Outlook

After 12 years of EU membership, Croatia achieved full integration in 2023 with accession to the eurozone and the Schengen area. The country attained OECD candidate status in July 2022 and is expected to become a member in 2026. The combined effects of membership in the eurozone and the OECD should enhance competitiveness and exports over the long run.

Three decades after Croatia's transition to democracy, citizens report low levels of trust in central political institutions. This undermines the quality of democracy and increases vulnerability to populist challengers. However, the government's stability, and strong alliances with EU and NATO partners have somewhat mitigated these challenges.

Developing an efficient judiciary remains an ongoing struggle in Croatia. Citizens are concerned about the judiciary's inability to protect their rights, foster a favorable business environment, and address corruption in a timely and impartial manner. Corruption, clientelism and conflicts of interest in public administration are particularly prevalent in national and local public procurement. Meaningful reforms of the judiciary and public administration – including the introduction of 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 slate of Constitutional Court justices should have an overall beneficial effect on perceptions of the judiciary.

Going forward, Croatia's 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 the leveraging of the NextGenerationEU stimulus plan are expected to foster economic innovation, and promote efficient and sustainable governance. However, there is a risk that overreliance on EU funds could lead to aid dependency. In addition, once EU funds dry up, investment in public infrastructure could fall sharply. Therefore, the government must use these funds smartly and efficiently to jump start the economy, modernize public institutions and avoid merely adding to the state budget.

If the current trend in young, educated citizens emigrating 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. Foreign workers from South and Southeast Asia, who arrived in recent years, are predominately low skilled and do not plan to stay in the country long term. While they do not boost productivity or economic output significantly, they help fill the gap left by the emigration of Croatian workers to Western Europe and the economy's reliance on low value-added services.

Moreover, the government must engage a broader range of stakeholders in policymaking and place greater emphasis on expertise and evidence-based approaches. Prioritizing 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.