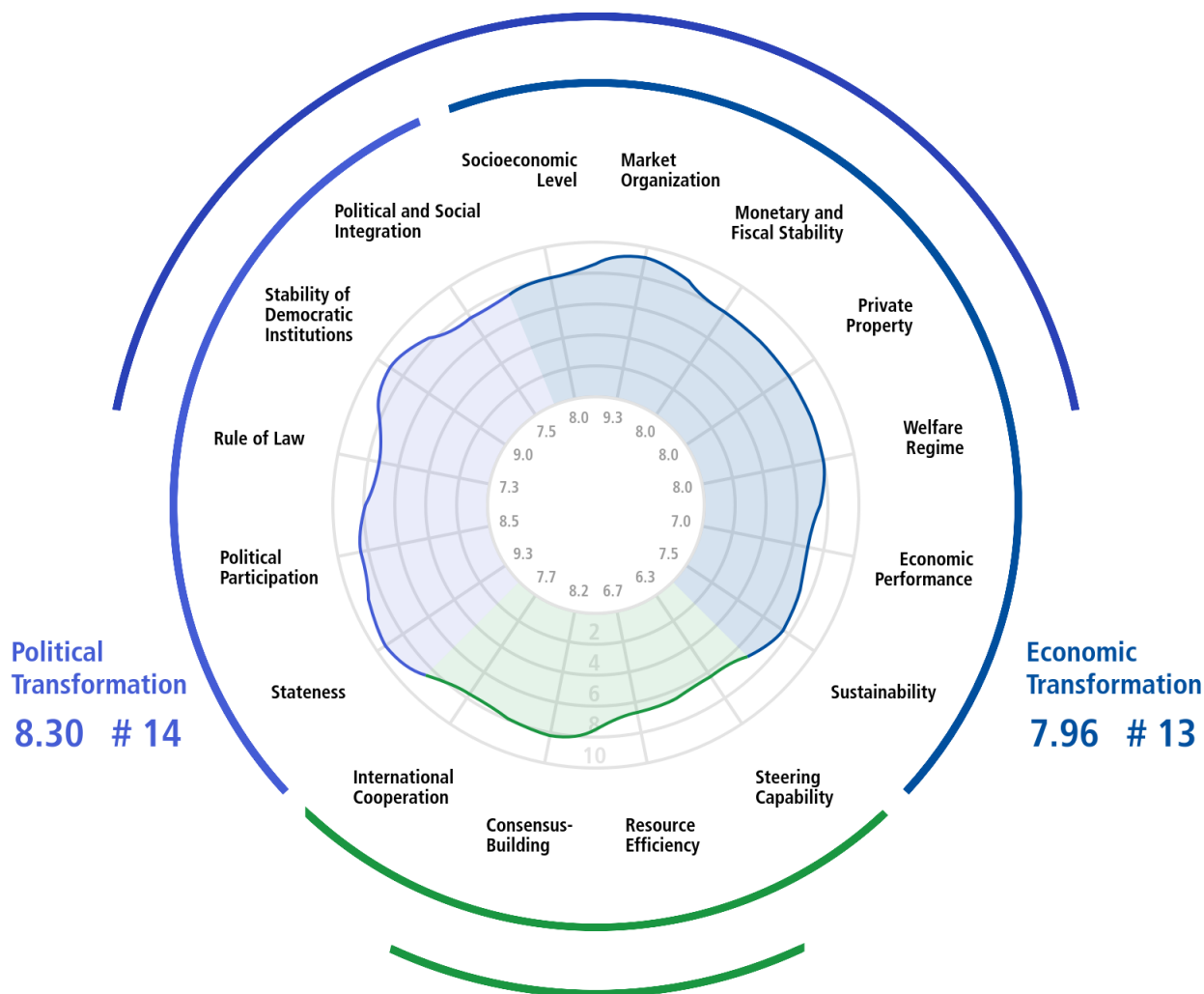


Croatia

Status Index

8.13 # 13

on 1-10 scale out of 137



Political Transformation
8.30 # 14

Economic Transformation
7.96 # 13

Governance Index

5.98 # 25

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Croatia. Gütersloh: Bertelsmann Stiftung, 2022.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	4.0	HDI	0.851	GDP p.c., PPP \$	28504
Pop. growth ¹	% p.a.	-0.4	HDI rank of 189	43	Gini Index	29.7
Life expectancy	years	78.4	UN Education Index	0.805	Poverty ³	% 0.7
Urban population	%	57.6	Gender inequality ²	0.116	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the fall of 2019, Croatia experienced its largest labor strike since its democratic transition, as teacher unions demanded better pay and working conditions. After two months, the government yielded to most of the teachers' demands. Further change followed the presidential election later in 2019, when the former social democratic (SDP) prime minister, Zoran Milanović, beat incumbent Kolinda Grabar-Kitarović (supported by the ruling center-right Croatian Democratic Union, HDZ). Croatia took over the Presidency of the Council of the European Union in January 2020. The government had ambitions to use the presidency to reignite discussions of EU enlargement and to show that it could command influence in the region. This was seen as an important measure of the ruling party's success under Prime Minister Andrej Plenković in advance of parliamentary elections in 2020. Croatia's presidency was derailed by COVID-19 and the government called for an early election in July instead of December 2020.

The run-up to the election was marked by a rise in the popularity of a far-right, nationalist party (the Homeland Movement of Miroslav Škoro) and heightened nationalist rhetoric. However, the election resulted in the victory of the HDZ and the creation of a new government majority, with the HDZ supported by two small liberal parties and representatives of ethnic minorities, most notably the ethnic Serb SDSS party, which was given a deputy prime ministerial position. The election also resulted in the marginalization of the far-right. The government has continued a balanced budget policy, yet has failed to implement any large, structural reforms (e.g., public administration or health care reforms). Further privatization of the numerous partially state-owned enterprises has been slow.

The capital city of Zagreb was hit by a 5.5-magnitude earthquake in March 2020. Meanwhile, Sisak-Moslavina County, a region already plagued by the destructive legacy of the 1990s' war and rapid depopulation in recent years, experienced a 6.4-magnitude earthquake in December. The damage incurred by both regions has destroyed thousands of homes and businesses, creating a pressing public policy issue on top of the ongoing COVID-19 pandemic. The earthquakes have

revealed structural problems in institutional coordination as well as urban planning and the implementation of the building code.

Despite the economic downturn created by the pandemic and the subsequent increase in government spending, there has been no massive rise in unemployment. Meanwhile, prices and the inflation rate have remained stable, with the banking sector showing substantial resilience. Interest rates continue to decline as Croatia entered the ERM II mechanism, with the goal of joining the eurozone in 2023.

Notwithstanding EU membership serving as a catalyst for institutional modernization and the implementation of good governance standards, policy implementation and policy learning remain a challenge. While there are anti-corruption mechanisms in place and many prominent politicians have been indicted, corruption is still very present in both national and local government as well as public administration and the judiciary, with citizens expressing low trust in public institutions, particularly courts.

Instead of proclaiming a state of emergency, the government opted to use the civil defense headquarters, staffed partially by government officials, as the central body for coordinating pandemic-related measures and restrictions. A lockdown was introduced in April and May of 2020, although most restrictions were lifted during the summer to enable the influx of international visitors, as tourism is one of the country's main economic sectors. Many businessowners protested against the restrictive measures that were reintroduced in the fall of 2020. The government has provided financial aid to enterprises to mitigate profit losses and to prevent a massive rise in unemployment. Furthermore, the government has followed a common EU approach to finance and acquire COVID-19 vaccines. However, this has led to a slow rate of inoculation throughout 2021.

History and Characteristics of Transformation

Economic transition started in the late 1980s, while the first multiparty elections were held in 1990. This brought to power the Croatian Democratic Union (HDZ), a nationalist movement led by Franjo Tuđman that wanted full sovereignty for Croatia, outside of the Yugoslav federation. However, the leadership of Serbia under Slobodan Milošević wanted to prevent the breakup of the Yugoslav state and incited parts of the ethnic Serb community in Croatia to armed rebellion against the new government in August 1990. The rebels were aided by the federal Yugoslav army.

In May 1991, Croatia held a referendum on independence. In September, open armed conflict broke out and in October independence was declared. For four years, almost a third of the country was occupied, with tens of thousands of refugees and internally displaced persons. Croatia also became entangled in the war in Bosnia and Herzegovina, including a brief conflict between Croat Bosnian and Bosniak forces from 1993 to 1994, but through U.S. brokerage they

became allies again by late 1994. The war in Croatia ended in the summer of 1995 with the military operation Storm, while the eastern part of the country was peacefully reintegrated through a U.N. peace mission by 1998. After the collapse of the Serb rebel authority in the occupied parts of the country, some 200,000 ethnic Serbs left the country, while many Croat Bosnian refugees settled in Croatia. After 2000, ethnic Serbs started returning, but the majority has permanently resettled.

The country embarked on a program of rapid privatization in the wake of war in 1991, which resulted in the collapse and bankruptcy of many companies, and the loss of many jobs. The public often viewed this process as nontransparent and corrupt, creating a new class of tycoons. During the war years as well as in the late 1990s, Croatia was a semi-presidential republic under the strong leadership of Franjo Tuđman and could be described as a deeply flawed, illiberal democracy with authoritarian tendencies. This particularly pertained to freedom of the state-owned media and independence of the judiciary.

After Tuđman's death in 2000, a new government consisting of a broad center-left coalition led by the Social Democrats (SDP) came to power in parliamentary elections. This allowed processes of Europeanization, democratization and dealing with the war past through the cooperation with the International Criminal Tribunal for Former Yugoslavia (ICTY) to begin in earnest. The form of government also changed from semi-presidential to parliamentary. In 2005, EU accession negotiations began. These negotiations lasted until 2011, as they were often postponed due to a lack of reform efforts regarding the judiciary and anti-corruption policy as well as minority rights. This era was characterized by rapid economic growth financed by cheap loans, under the strongly pro-European Prime Minister Ivo Sanader (HDZ).

Sanader's rule ended with his sudden resignation in 2009, in the midst of a strong downturn following the Global Recession. Sanader went on to face extensive corruption charges resulting in a decade-long legal battle. Starting in 2009 and not abating until today, Croatia has suffered from extensive emigration, resulting in massive population losses and economic stagnation. This has changed the demographics of the country significantly and has exacerbated the urban/rural divide.

Croatia joined the European Union in 2013, which further integrated its economy with Western and Central Europe. In 2015, Croatia experienced a huge influx of immigrants via illegal border-crossings as part of the European migration crisis, yet only as a transit country, since few refugees and migrants claimed asylum in Croatia. Only in 2016 did the country emerge from recession and in 2017 it exited the Excessive Deficit Procedure. In 2017, it applied for OECD membership, but was not given a definitive invitation to join. In the first half of 2020, it held the rotating Presidency of the Council of the European Union. In the second half of that year, the country joined the ERM II mechanism, with a projected plan to become a eurozone member in 2023.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

Question
Score

Monopoly on the
use of force

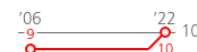
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There are no significant challenges to the legitimacy of the nation-state. It is fairly simple to acquire citizenship for legal foreign residents after eight years and passing a citizenship (language, constitution, culture) test. The government encourages foreign-born people of Croatian descent to acquire Croatian citizenship.

State identity

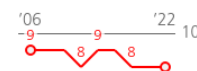
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The constitution provides for the separation of the state from religious communities. All religious communities that are registered with the Ministry of Administration and have a sufficient number of adherents receive state compensation and have tax-free status. However, the Catholic Church, the largest religious community (86% according to the 2011 census), enjoys additional legal and financial provisions due to agreements between Croatia and the Holy See. The Catholic Church remains closely connected with the ruling party (HDZ), and frequently comments on national and political topics. It is directly involved in political life through formal and informal channels.

No interference of
religious dogmas

8



During the COVID-19 pandemic, substantial numbers of journalists and civil rights activists as well as some politicians and representatives of the hospitality industry have objected to exemptions that the Catholic Church has enjoyed regarding public health restrictions to the right of assembly.

The state has a differentiated administrative structure throughout the country, which provides all basic public services. Citizens and businesses often complain about the paperwork needed for administrative purposes. Yet, with the introduction of an e-administration platform in the last seven years, many services and public documents (e.g., citizenship certificates, residency certificates and child benefit paperwork) can be received online in a matter of minutes. During the pandemic, more citizens and businesses have started to rely on these online services, which have been expanded. Consequently, while the general perception of public administration is still somewhat unfavorable (it is perceived as slow and sometimes corrupt), it has substantially improved because the pandemic has accelerated digitalization.

Service provision during the pandemic has maintained its former levels. However, the devastating earthquakes in March 2020 in Zagreb and in December 2020 in Petrinja have revealed problems in coordination between national, regional and local administrative structures. In addition, the earthquake in Petrinja has highlighted vast differences in the quality of infrastructure and services between richer regions (Zagreb and the Adriatic coast) and poorer regions (previously war-damaged parts of the country along the border with Bosnia and Herzegovina).

2 | Political Participation

General elections are regularly conducted for all levels of government (national, county, municipality/city, European). There is universal suffrage, and the ballot is free and secret. A multitude of parties and independent lists run for public office. Election results are not contested by parties.

While the legal framework for financing electoral campaigns is adequate, there are still cases, especially in local elections, where some party expense reports to the State Electoral Commission lack transparency, particularly regarding the financing of online ads.

A decade has passed since a 2010 Constitutional Court conclusion stated that the boundaries of the ten 14-seat electoral districts should be redrawn so that the population in each district deviates no more than 5% from the average. Currently, five districts have a population that deviates 10% from the average. This has caused discontent among smaller parties, which claim that such malapportionment favors larger parties. However, political science research has shown that the actual effects of malapportionment on seat distribution is minimal.

The center-right HDZ-led government called for early parliamentary elections in July 2020, instead of December 2020, which would have been the latest possible date. The HDZ-led government claimed that this was a balanced decision, since the first wave of the pandemic (March–May) had passed and a second wave was expected in September. However, the opposition criticized the government for choosing an earlier date, which would benefit the government given that the

Basic
administration

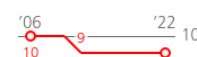
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1

Free and fair
elections

9



1

negative economic effects of the pandemic – which could jeopardize the government’s re-election – would only hit after the election. Legally speaking, the president calls the election. However, the president is bound by a timeframe set by the self-dissolution of the parliament, which was triggered by the HDZ-led majority.

Prior to the July 2020 election, opposition parties as well as civil rights NGOs called for the introduction of postal and online voting, which would make voting more accessible during the pandemic. The government did not oppose such proposals, yet claimed that they could not be implemented in such a short timeframe. Despite the pandemic, the 2020 parliamentary election was free and fair. It was professionally managed by the State Electoral Commission and was highly competitive, with new parties and coalitions taking part in the campaign and the election on an equal footing to established political forces.

Democratically elected political representatives have the effective power to govern. However, during the COVID-19 pandemic, and the ensuing public health measures and temporary restrictions, one could observe that government officials gave preferential treatment to the Catholic Church. The Catholic Church enjoys preferential status due to close links between the Catholic clergy and the prime minister’s party (Croatian Democratic Union, HDZ), and the extensive stipulations outlined in the Treaties of the Republic of Croatia with the Holy See (signed and ratified between 1996 and 1998). As a result, the government has been reluctant to enforce unpopular measures (e.g., restrictions on the number of people allowed to gather in public spaces during the pandemic) on the Catholic Church in equal measure to other parts of the society.

In conclusion, one may say that the Catholic Church is probably the only social actor that can somewhat influence the government and potentially change government policy through its public voice.

Citizens can freely associate in a wide range of civic groups. This is guaranteed by the constitution and is largely respected by all political and social actors. The most common civic groups focus on sports, local culture, religion and the environment. Meanwhile, there are also a number of youth groups as well as watchdog and advocacy NGOs, which try to influence government policy or improve the conditions of specific social groups.

Along with numerous other European counties, Croatia restricted the number of people that could assemble indoors and outdoors due to the public health concerns pertaining to the COVID-19 pandemic. Nevertheless, this has not prevented offline and online protest activities, and civil society engagement. During the period of public assembly restrictions, several protests against COVID-19 restrictions were organized and held in public squares. The police did not try to stop these events, which enabled the protests to broadcast their messages to the public and the media.

Effective power to govern



1

Association / assembly rights

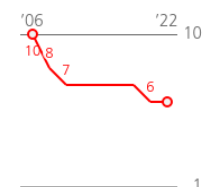


1

Freedom of expression is generally guaranteed against interference or restrictions. A wide range of online and offline media is available. Government officials are regularly scrutinized by journalists, particularly regarding conflicts of interest, corruption cases and the lack of transparency regarding information on the personal property of politicians. However, journalists and professional journalist associations decry current libel laws, which enable wealthy and influential individuals, both from the public and the private sector, to sue journalists for publishing unfavorable and controversial articles that focus on business dealings or discrepancies between reported income, personal property and wealth. There have been several cases in which journalists have been arrested over alleged offenses against state symbols. In addition, public television is by-and-large perceived as prone to the political influence of the parliamentary majority.

Freedom of expression

6

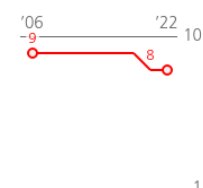


3 | Rule of Law

The government is clearly dominant over the parliament, although public confidence in both institutions is low, according to public opinion polls. The Constitutional Court has become more important in recent years. However, it does not have the necessary tools to make the government comply with the timeframe for implementation of the court's opinions.

Separation of powers

8



The opposition and many prominent constitutional experts demanded that a state of emergency be declared during the pandemic. This would have meant that all pandemic-related restrictions, which pertain to civic rights and liberties (e.g., restrictions to freedom of movement and assembly, and the right to work and do business), would need to be approved by two-thirds of the parliament. Instead, the government passed a law that enabled the civil defense headquarters, which includes the minister of interior and representatives of the Ministry of Health Care, to pass all decisions regarding the COVID-19 crisis. This was questioned before the Constitutional Court, but the court judged such an approach to be constitutional.

During the pandemic, there was a media leak concerning an anti-corruption probe, which involved the head of the state-owned pipeline management corporation. The leak revealed that during the lockdown several cabinet ministers as well as the president socialized in a private club owned by the head of the pipeline corporation. This prompted a prolonged public row between the president and the prime minister regarding the scope of a police investigation into the president and government. The opposition initiated a special parliamentary investigation committee, which would deal with the handling of the police investigation. However, the government majority voted against the creation of such a committee.

Regarding government-sanctioned public health policies and restrictive measures during the pandemic, one can observe increased parliamentary cooperation between ideologically distinct parties. In addition, there was an increase in the number of

appeals submitted by opposition members of parliament to the Constitutional Court that sought to clarify the scope of policy tools available to the government during the pandemic, which did not need parliamentary approval.

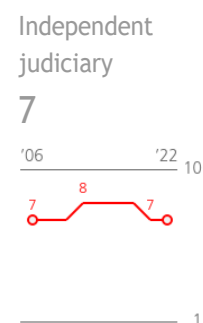
According to Eurobarometer polling data from 2016 to 2020, Croatia had the lowest public confidence in courts and judges, with only 25% of respondents claiming that the independence of the judiciary was very good or fairly good. Among Croatian companies, less than 20% believed that the judiciary was independent of interference from political or private interests.

Apart from the perceived lack of independence regarding political and private interference, Croatian courts show a lack of efficiency. However, there have been improvements due to an increase in the use of IT technology and high levels of media scrutiny of controversial court cases.

According to the 2020 EU Justice Scoreboard, Croatia had the second highest number of pending litigious civil and commercial cases in the European Union, after Italy. Despite low trust in the courts, Croatian citizens often resort to litigation due to low court fees and the relative ease of initiating a court case. Yet, this also creates a backlog of cases, especially in cases concerning property and inheritance law. Numerous appeals and case reviews mean that a single court case can last over a decade. Although there are mechanisms for extrajudicial settlement in place, they are still not widely used.

In early 2021, Zdravko Mamić, a football manager, following the Supreme Court's confirmation of his conviction for tax fraud and embezzlement of profits from the sale of football players, publicly accused a number of judges in his case of having demanded bribes from him. This led to a number of disciplinary investigations and rekindled public debate about the independence and quality of the judiciary.

Parallel to that, there was a prolonged public row between President Zoran Milanović and Prime Minister Andrej Plenković regarding the appointment of the new president of the Supreme Court. The constitution gives the president the right to propose nominees to the parliament, which then have to be approved by an absolute majority in parliament. However, according to the Courts Act, the president is presented with a list of potential nominees by the State Judicial Council following a public call for applications. In the event, the president asserted the constitutional right to independently nominate the new president of the Supreme Court and proposed a candidate who did not submit her application to the State Judicial Council. This was contested by the HDZ-led parliamentary majority and the Constitutional Court ruled in favor of the parliamentary majority. The president publicly claimed that further judicial reform depended on the parliament's willingness to approve his nominee, a criminal law professor with no links to party politics.



Officeholders who break the law and engage in corruption are generally prosecuted, yet this often comes with a time lag or when they are already out of office. In the last decade, numerous anti-corruption court cases have been initiated against cabinet ministers and other senior officeholders. The most prominent example is the indictment of former Prime Minister Ivo Sanader. However, his court proceedings have lasted for a decade, and the first-instance convictions were later overturned or reviewed by the Supreme Court and the Constitutional Court. The fact that high-profile corruption cases involving senior officeholders last so long and rarely produce definitive convictions has a strong impact on the public's trust in the judiciary and the equitable application of rule of law.

The Office for the Suppression of Organized Crime and Corruption (USKOK) has made improvements to its work in recent years, while the State Attorney's Office (DORH) has increased the speed and volume of prosecutions of such cases. However, the indictments drafted by DORH are often voluminous, with thousands of pages of evidence material, which has a grave impact on the efficient handling of such cases by the courts. In addition, the legal defenders of officeholders regularly make use of legal loopholes to appeal first-instance verdicts or to obtain complete revisions of court cases.

Civil rights are codified by law and are generally respected, yet implementation and policy attention lag behind formal adoption of the legal framework.

Despite opposition from several right-of-center parties and Catholic lay NGOs, the Istanbul Convention was ratified and has entered into force, albeit with an interpretative clause passed by the parliament that distances Croatia from so-called "gender ideology." This followed opponents of the convention stating that gender ideology was the main obstacle to their acceptance of the document.

The ombudsman has called upon the government to adopt a new National Program of Protection and Promotion of Human Rights in 2020. Consequently, the government has set up a working group tasked with drafting a new program.

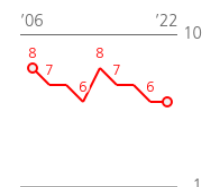
Ethnic minority NGOs report sporadic discrimination and cases of vandalism against cultural and religious buildings pertaining to the Serb minority. A government action plan to strengthen the social, economic and educational inclusion of Roma people is bearing fruit, although several civil rights cases by Roma plaintiffs have been taken to the European Court of Human Rights.

Women's rights groups and ad hoc social media groups have drawn greater public attention to unreported and unprosecuted cases of sexual violence against women.

An NGO representing LGBT families has contested the decision of a social care center to deny foster care status to a same-sex couple before the Administrative Court. After a lengthy legal battle, the court ruled in favor of the same-sex couple, effectively opening up the possibility for same-sex couples to serve as foster parents.

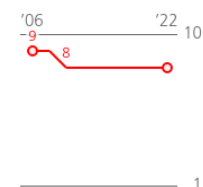
Prosecution of office abuse

6



Civil rights

8



4 | Stability of Democratic Institutions

Democratic institutions are relatively stable and face no noteworthy obstacles in performing their tasks. There is a slow yet increasing process of judicialization. As a result, courts are starting to have greater influence over the correcting and amending of executive and administrative processes. However, the judiciary remains the least trusted of the three branches of government.

Since mayors and local councilors can simultaneously sit in the national parliament, this creates potential conflicts of interest. In addition, there is a disparity between the quality of administrative capacity on national and local levels, whereby the quality of local governance may drastically vary from region to region.

Since the introduction of the Commission for the Prevention of Conflict of Interest (2011), media attention on potential conflicts of interest involving public officials has increased, although the Plenković (2016–2020 and 2020–present) governments have occasionally tried to downplay the importance and role of the commission.

An overwhelming majority of political parties, civil society associations, interest groups and religious organizations accepts the democratic order in Croatia. Many opposition parties and civil society organizations demand greater democracy, particularly more direct democracy. For example, there have been demands to lower the threshold for holding referenda. At present, 400,000 valid signatures are required to be collected within a fortnight to trigger a referendum. However, some fringe political and civic groups showcase a positive attitude toward the legacy of the Ustaša World War II fascist regime. In addition, some politicians and war veteran groups display an ambiguous stance toward public displays of symbols connected to the Ustaša regime.

During the pandemic, some opposition parties criticized the introduction of restrictive measures without a state of emergency having been declared, which would have required the measures to be approved by two-thirds of the parliament, arguing that this was undemocratic.

5 | Political and Social Integration

In the 2019–2020 period, Croatian party politics saw the rise of new challengers on different sides of the ideological spectrum. For example, a singer and entrepreneur, Miroslav Škoro, ran for president on a sovereignist, populist and somewhat eurosceptic platform. Škoro came third, after attracting many HDZ voters who viewed the current HDZ leadership under Prime Minister Plenković as too Europeanist and elitist, and insufficiently rooted in ethnic nationalism and Catholicism. Škoro's participation in the presidential election negatively affected the re-election chances of HDZ-backed incumbent Kolinda Grabar-Kitarović.

Performance of democratic institutions

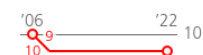
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Commitment to democratic institutions

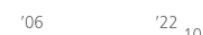
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Party system

7



1

Škoro subsequently founded the Homeland Movement, which came third in the parliamentary elections. However, the Homeland Movement failed to play kingmaker, as HDZ secured another parliamentary majority with the help of two small, centrist liberal parties and representatives of ethnic minorities. This marked a victory for the HDZ leadership over its right-wing competitors both inside and outside the party.

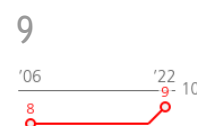
Regarding left-of-center politics, the 2020 election saw a green-left coalition, comprised of environmental and civil rights activists, while some minor anti-capitalist parties, which had for years spoken out against corruption in the local government in Zagreb, came fifth. The social democrats (SDP) and their coalition partners, which pre-election polls indicated would win the election, lost 15 seats, triggering an intraparty struggle within the SDP. Peđa Grbin, a member of parliament, became the new SDP president following an intraparty primary runoff. A new centrist liberal coalition entered parliament as well, led by two female politicians with a strong anti-corruption agenda. Following the 2020 elections, the parliament included many new prominent public personalities from the academic and NGO sectors, while the number of young members of parliament increased. These trends demonstrated a renewal of human resources in the party system.

Since 2015, the party system has slowly, but steadily moved from bipolar competition to more moderate pluralism. However, while the HDZ consolidated and quickly regained its position as the main right-of-center party, the SDP has had difficulties attracting young voters and staying in the race with the HDZ. According to Eurobarometer data, 86% of Croatian respondents did not trust political parties, as opposed to 76% on the EU level. Furthermore, turnout rates have been decreasing since the 2000 election. Yet, the ParlGov dataset reveals relatively low levels of voter volatility and moderate levels of party system polarization. Consequently, the overall assessment of the Croatian party system is that it is rather stable, especially compared to other Central and Eastern European countries.

In the fall of 2019, Croatia saw its largest strike since the fall of communism. Teacher unions demanded pay rises and better working conditions amid a prolonged education reform, and teaching stopped from early October to the beginning of December. The government ultimately yielded to most of their demands, albeit with a prolonged timetable of implementation. The strike was directly and indirectly supported by other trade unions as well as opposition parties. The unions of physicians and nurses also protested over overtime pay and poor working conditions yet did not go on strike due to strike restrictions in the health care sector.

While public sector unions (education and health care unions) demonstrated greater capacity for organizing strikes and protest events, the new Voice of the Entrepreneurs association mobilized new and young small- and medium-sized businessowners who were hitherto not interested in public affairs. Thus, Croatia saw an increase in the variety of interest group mobilization and visibility. The

Interest groups



1

Voice of the Entrepreneurs demanded lower taxes, and a more business-friendly legal and fiscal framework. Further, it called for an end to obligatory membership in the Chamber of Commerce and the Chamber of Artisans. The association has grown in importance and visibility following the introduction of pandemic-related measures that restricted economic activity. They decried the perceived unequal treatment of different economic sectors and received strong support from some junior economic scholars and online media portals. In addition, they engaged in protests against pandemic measures that forced businesses, mostly in the hospitality industry, to temporarily close.

Although there is no serious organized challenge to the democratic norms and procedures or the political system as a whole, Croatian citizens remain largely dissatisfied with key political institutions.

According to Eurobarometer data, the percentage of Croatian respondents that were fairly satisfied with democracy was 32%, as opposed to 47% on the EU level. In addition, 81% of Croatian respondents tend not to trust the national parliament, compared to 60% across the European Union. Furthermore, 67% of Croatian respondents tend not to trust public administration, as opposed to 48% on the EU level.

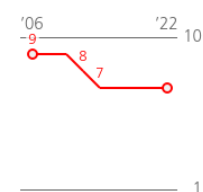
According to a poll conducted by the Faculty of Political Science in Zagreb in early 2020, only 10% of Croatian citizens said that other people could be completely trusted, confirming earlier findings that the level of intra-personal trust in the country is very low.

However, the pandemic has revealed a more mixed picture. On the one hand, many citizens, businesspeople and journalists objected on social media to the government's restrictive measures, claiming that the restrictions infringed on their civil liberties only to benefit a handful of sick and elderly people most endangered by the coronavirus. Parents of school children were especially prominent in objecting to measures that they deemed unnecessary and disadvantageous to them. On the other hand, numerous volunteers offered their help during the pandemic, delivering food and medicine to those in self-isolation or the sick and elderly, while a wide range of innovative, online-based businesses and services sprang up to deliver goods to customers. During the spring lockdown, while greengrocers and food markets in cities were closed, social media groups organized the supply of fresh produce from farmers to urban customers.

In addition, Croatia experienced several major natural disasters in 2020 that have showcased the strength of civil society and the ability of citizens to self-organize. In March, the capital city, Zagreb, was hit by a 5.5-magnitude earthquake, while in July it experienced a flood. In late December, Petrinja, a town in the central part of the country, was hit by a 6.4-magnitude earthquake. In all three cases, citizens – either through the Red Cross or similar organizations, or through ad hoc groups and

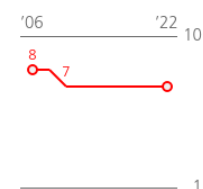
Approval of democracy

7



Social capital

7



facilitated by social media – rapidly self-organized in order to help those in need by providing food, shelter, medicine, building materials as well as substantial amounts of financial help.

II. Economic Transformation

6 | Level of Socioeconomic Development

Croatia ranks among countries with a high HDI score (0.851 in 2019) and low levels of poverty (1.1 in 2017). Yet, poverty levels vary from region to region. Rural regions bordering Serbia, and Bosnia and Herzegovina, which were hit hardest by the 1991–1995 Croatian War of Independence, have a much larger proportion of citizens at risk of poverty and social exclusion than the prosperous regions of the capital city and the Adriatic coast. In addition, the country scores very low for gender equality (0.116 in 2019).

Income inequality is low, with a relatively low Gini index of 30.4 in 2019. However, recent studies conducted by Croatia’s central bank, which account for assets as well as incomes, hint at somewhat higher levels of overall economic inequality in the country.

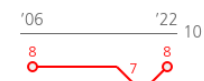
The pandemic-related restrictions and measures have had a greater negative impact on lower socioeconomic classes. For example, children from low-income households had more difficulties participating in online schooling, while blue-collar jobs were more affected by the business lockdowns than white-collar jobs, which could more easily switch to work-from-home arrangements.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	55481.6	61375.2	60752.6	55966.6
GDP growth	%	3.4	2.8	2.9	-8.4
Inflation (CPI)	%	1.1	1.5	0.8	-
Unemployment	%	11.2	8.4	6.6	7.2

Question
Score

Socioeconomic
barriers

8



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Economic indicators		2017	2018	2019	2020
Foreign direct investment	% of GDP	0.9	2.0	1.9	-
Export growth	%	6.8	3.7	6.8	-25.0
Import growth	%	8.4	7.5	6.3	-13.8
Current account balance	\$ M	2102.7	1027.7	1455.6	-532.5
Public debt	% of GDP	77.5	74.3	72.8	88.7
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	0.8	0.4	0.8	-
Tax revenue	% of GDP	21.5	21.8	22.2	-
Government consumption	% of GDP	19.5	19.5	19.7	22.4
Public education spending	% of GDP	3.9	-	-	-
Public health spending	% of GDP	5.6	5.7	-	-
R&D expenditure	% of GDP	0.9	1.0	-	-
Military expenditure	% of GDP	1.7	1.6	1.6	1.8

Sources (as of December 2021): 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

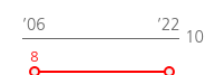
There are no formal constraints on the full functioning of a free, competitive market. However, national and international enterprises that do business in the country complain of slow public administration, excessive red tape, and the uneven implementation of tax and other legal regulations regarding economic activities. This has a negative impact on the overall attractiveness of the Croatian economy for domestic and foreign investors, especially regarding greenfield investments.

In its monthly reports on the state of the economy, the Croatian Employers' Association (HUP) has detected a lack of legal stability (e.g., laws and regulations are frequently amended, which harms long-term business planning) as well as the need for labor market flexicurity, a reduction in unnecessary paperwork to start and run an enterprise, further digitalization, and greater transparency and predictability in public administration procedures.

According to the World Bank's Doing Business Report, the country ranked 40 in 2016, yet in 2019 it ranked 58. In 2020, this slightly improved, as Croatia ranked 51 worldwide. However, a look at Croatia's overall score reveals that the country

Market organization

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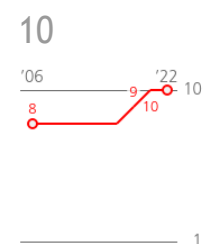
improved by just 0.6 points, from 73 to 73.6, between 2019 and 2020. In 2020, on average, starting a business required 19.5 days, included seven procedures and cost 6.1% of GNI per capita. The costs were slightly reduced over a 10-year period but were still very high compared to other post-communist EU member states, such as Slovenia (0.0) and Slovakia (1.0). The average time decreased, putting Croatia below the average for all transformation economies (21.8) and below Slovakia (21.5).

The country achieved worse results regarding the acquisition of building permits. The process is costly, time-consuming (over 140 days in 2020) and involves a lot of documents. Poor results were also given for accessing credit (it is far easier to get a property loan than a business loan) and revolving insolvency (again, this process is time-consuming and costly). As an EU member state, Croatia achieved its best results for cross-border trade and ease of paying taxes.

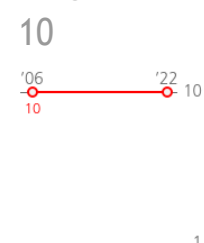
Croatia fully implements rigorous EU regulations regarding competition policy and anti-trust laws. The Agency for the Protection of Market Competition (AZVO) is the main, independent regulatory and supervisory body. However, the government has, with the consent of the European Commission, provided loan assurances to several shipyards, among which the Uljanik wharf in Pula is the largest one. These assurances have been criticized by independent economic analysts and opposition parties, as money has potentially been wasted on failing companies. Yet, the government justified its decision to provide loan assurances to these shipyards, arguing that it was fulfilling the obligations it had inherited from previous governments. In addition, the government promised that the state would no longer extend such help to the shipbuilding industry. In late 2020, the government approved a bailout of the state-owned Croatia Airlines company, which renewed public debate regarding the feasibility of state ownership of such companies and the future of Croatia's airline industry.

Since gaining EU membership in 2013, Croatia has fully liberalized foreign trade, and there has been a significant increase in the volume and diversity of imports and exports. Croatia's main import and export partners are Germany and Italy, which are among the largest markets in the European Single Market. Overall, some 70% of trade is done with other EU member states. Temporary border controls during the lockdown of April and May caused some disturbance for the transport of goods and led to a short period of increased domestic trade and reduced imports. However, by June, the foreign trade balance returned to its pre-pandemic state, which is marked by Croatia's foreign trade deficit toward Western European EU member states.

Competition policy

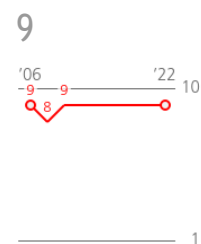


Liberalization of foreign trade



The banking sector in Croatia is strong and diverse, with almost all major banks owned by foreign capital, mostly by parent banks in Austria and Italy. Contrary to the experience of other EU member states that had to deal with a banking crisis in the aftermath of the Great Recession of 2008–2009, Croatia’s banks have withstood several stress tests and represent the most robust part of the national economy. The share of non-performing loans to total gross loans dropped to 6.99% in 2019, a huge decline in comparison to 16.7% in 2015. Croatian banks maintained a high capital adequacy ratio (24.9% at the end of 2020 compared to the EU average of 18%), despite the economic downturn caused by the pandemic and measures that forced businesses to temporarily close. Banks have adapted to the pandemic by offering loan postponement or refinancing measures for private clients and enterprises as well as promoting internet and mobile banking. According to Croatia’s central bank, by the end of 2020, long-term interest rates to non-financial institutions stood at 2.75%, while average interest rates were 3.45% for home loans and 6.55% for consumers loans. By the end of 2020, associations representing borrowers had partially won a series of court battles, which secured compensation from banks regarding interest rates hikes on Swiss franc loans during the recession years (2009–2015). In early 2021, the Constitutional Court dismissed claims made by the banks, which brought a successful end to the collective legal action launched by the associations of borrowers.

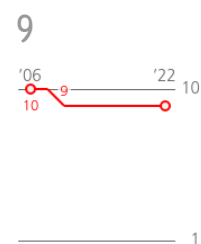
Banking system



8 | Monetary and fiscal stability

The average annual inflation rate in consumer prices increased from -1.1% in 2016 to 0.8% in 2019. In 2020, it rose to 2.0% in January, but fell to -0.7% in December. Thus, the stress put on businesses by the pandemic as well as the increase in government spending to save jobs in industries hit hard during the pandemic did not affect monetary stability.

Monetary stability



The real effective exchange rate (base year: 2010) rose somewhat, from 105.91 in January of 2018 to 108.11 in December 2020.

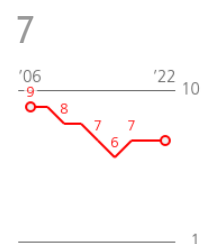
Despite some populist opposition parties demanding a more proactive role in providing stimulus to domestic business, the central bank has been consistent in maintaining its independent role, ensuring the stability of the exchange rate between the kuna and euro. Through targeted measures, the bank has achieved high liquidity in the economy and combated short-term appreciation in the national currency.

According to available polling data for the 2019–2021 period, a majority of citizens did not favor the swift adoption of the euro. Indeed, the major opposition party, SDP, has also shown a reluctance to support membership in the eurozone in the short term. However, the government and the central bank have taken decisive steps toward the adoption of the euro, which was one of the main goals of the central bank during the period under review. Croatia’s central bank has publicly expressed

its support for Croatia's eurozone membership, pointing out that more than three-quarters of savings and loans in the country are in euros, and that the economy is highly oriented toward the European Single Market. Adoption of the euro, planned for 2023 after Croatia joins the ERM II mechanism in 2020, is expected to lead to lower export costs, and lower interest rates for the government, entrepreneurs and consumers.

The government's fiscal policy has shown great stability. The same non-partisan, but HDZ-friendly finance minister has held office since 2015, a period that has spanned three cabinets and two different prime ministers. The current account balance averaged 2.5% of GDP in the 2016–2019 period. In 2020, during the pandemic, it fell to -1.0%. The gross foreign debt was reduced to 75.3% of GDP in 2019, yet it rose again in 2020 to 82.2%. Years of relatively successful fiscal constraint paid off and produced a financial buffer that could be used to intervene during exception circumstances, such as the pandemic. During the lockdown in April and May 2020, numerous enterprises received government relief as a job security and business liquidity measure. Croatia has slightly improved its credit score, which received BBB- (Standard & Poor's, Fitch) and Ba1 (Moody's) ratings, with a stable outlook, in 2021. The government bond yield in the same period was 0.6%, with a decreasing tendency. However, fiscal responsibility is regularly challenged by local politicians who demand targeted interventions as well as opposition parties and trade unions that demand public sector pay rises. In pre-electoral periods, the government might steer from its fiscally conservative course and engage in one-off discretionary spending in underdeveloped parts of the country or on companies in need of public relief.

Fiscal stability



9 | Private Property

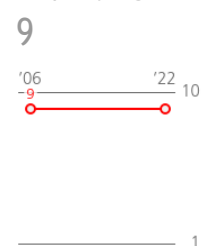
Property rights are well established in Croatia and follow a legal framework that is aligned with common regulations and practices around the European Union.

According to the 2020 World Bank Doing Business Report, the country scored 77.4 out of 100 points on property registration.

However, in the capital city, the ownership of numerous residential and non-residential properties remains unresolved due to incomplete denationalization following the country's communist era. The digitalization of cadaster and land registration databases has greatly reduced this problem.

According to 2019 Eurostat data, almost 90% of Croatian citizens lived in property owned by themselves or their relatives. The Plenković government had announced the introduction of a property tax, a form of taxation that is common in the European Union. However, this tax reform was postponed several times due to widespread public opposition, as many owners, especially the elderly, fear such a tax would force them to sell their real estate.

Property rights



Although privatization started in the late 1980s, before the fall of communism, among post-communist EU member states, Croatia has one of the highest numbers of partially or fully state-owned enterprises. Private enterprises do play a key role on the labor market, yet the consolidated state represents one of the largest employers. Many important enterprises are owned by foreign capital, mostly from Germany, Austria and Italy.

The new Plenković government (since 2020) has merged the previous Ministry of State Property with the Ministry of Construction and Spatial Planning. The new, enlarged ministry holds regular public offerings for shares in state-owned companies and auctions of state-owned real estate. However, there have been no notable large initial public offerings (IPOs) or privatizations of particularly important state-owned enterprises. In addition, the government is trying to rent its numerous residential and commercial properties rather than sell them to private bidders.

Although virtually all parliamentary parties are committed to private property and private enterprise, many political actors, both left-wing and right-wing, are reluctant to consent to further privatization of state-owned enterprises deemed of national interest. However, there is no clear consensus regarding which companies are of national interest. The rapid privatization of state-owned enterprises is mainly advocated by newer centrist parties, some liberal internet media portals and the newly formed Voice of the Entrepreneurs.

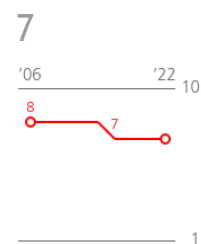
10 | Welfare Regime

Croatia is constitutionally defined as a social state and almost all political parties agree on the basic tenets of a welfare state, including a public health care system and a public retirement scheme. Although the country spends a substantial amount of its GDP on welfare (21.7% as opposed to an EU average of 27.9%), it has one of the highest at-risk-of-poverty rates (19.4% in 2018) in the European Union. This points to a situation where social safety nets are well developed yet fail to cover risks for all strata of the population.

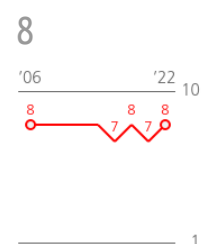
Although universal health care is available throughout the country, there are differences in the quality of service between larger cities and rural areas. Higher earning individuals will often resort to paying for private health care services to avoid waiting lists in public facilities.

According to the latest Crostat (2018) data, the three largest components of welfare expenditures are sickness and health care (33.6%, above the EU average), old-age benefits such as pensions (34%, below the EU average), and disability benefits (10.3%, above the EU average). The high share of disability benefits is linked to the legacy of war and high numbers of war veterans. In contrast, Croatia spends just 2.9% on unemployment benefits. War veteran pensions are calculated according to

Private enterprise



Social safety nets



special legal provisions, a situation which is regularly criticized by center-left, and economically liberal opposition parties and journalists.

The retirement scheme consists of three tiers. The first one is public and mandatory; the second is mandatory, yet privately managed; while the third is supplementary, private and entirely optional. Due to population aging, negative demographic trends (e.g., low birthrates, and high rates of emigration to Ireland, Germany and Austria) and very low immigration rates (mostly from Bosnia and Herzegovina), the first tier cannot be adequately covered by employer insurance payments and must be directly supplemented by the state budget. Of all old-age beneficiaries, 11.2% received a disability pension, while 19.3% of all pensions amounted to survivors' benefits.

Wealthier local governments, especially the capital city and cities on the Adriatic coast, provide additional benefits (e.g., cash and reduced prices for a range of public services) for families, children and the elderly.

During the pandemic-related restrictions on businesses, the government provided cash compensation in order to prevent massive job losses in sectors (e.g., the hospitality industry) severely hit by the government's health care measures. However, the overall registered unemployment rate rose to 9.5% by December 2020.

Public awareness has increased about the need to fully implement the legal framework, largely harmonized with the European Union, which stipulates equality of opportunity provisions. Among the Roma community, school participation rates remain low, while some rural areas populated by ethnic Serb communities are underserved by basic public services and lack quality infrastructure. The December 2020 earthquake in the Petrinja region has further highlighted the poor living conditions of rural Serbs.

Civil society organizations focusing on minority rights still report sporadic discrimination in employment. On the other hand, the Constitutional Law on the Rights of National Minorities provides for an equitable presence of national minority representatives in local and national government. In the 2018–2021 period, media attention on the question of gender-based discrimination and violence has increased, with prominent public personalities organizing support and advocacy groups with the help of social media platforms.

Women, and members of ethnic and other minority groups generally have equal access to education, public office and job opportunities, although more active labor market policies would probably increase the number of Roma in employment. Generally speaking, children in rural areas of all ethnicities have poorer access to education, with many having to rely on expensive school bus services or walking to the nearest secondary school. This is part of a larger problem of unequal regional development in Croatia and the increasing depopulation of the countryside.

Equal opportunity

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Younger women are better educated than younger men, with a 1.3 ratio in tertiary education. However, the share of women in the total work force was 46.6% in 2020 since many older women, especially in rural areas, are unemployed, underemployed or not seeking employment.

11 | Economic Performance

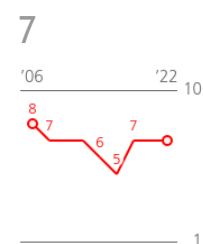
After a prolonged recession, the country started to experience slow yet sustained economic growth. In the 2015–2019 period, the annual real GDP growth rate was 2–3%. Yet, because Croatia’s economy heavily relies on tourism and consumption, the GDP growth rate in 2020 (based on projections by Croatia’s central bank) was -8.9%. While both exports and imports grew at an average annual rate of 6% in the 2015–2019 period, exports fell by 26.4% and imports contracted by 16.3% during the pandemic. The annual employment growth rate was 2% prior to the pandemic but fell by 1.5% in 2020. The unemployment rate, according to ILO methodology, fell from 11.2% in 2017 to 6.6% in 2019. During the May 2020 pandemic-induced lockdown, the unemployment rate reached 8.7%, before falling to 8.0% toward the end of the year.

After leaving the Excessive Deficit Procedure, Croatia maintained a balanced budgetary policy, which slowly but continuously cut its gross foreign debt. Yet, with the onset of the pandemic, the government resorted to budgetary expansion, which returned the gross foreign debt to 82.2% of GDP, the same rate as in 2018.

Relatively stable macroeconomic conditions in previous years have enabled Croatia to handle the economic downturn caused by the pandemic and finance the subsequent job-saving measures (e.g., direct financial help for employers affected by restrictions and/or lockdown) in a successful way.

However, the focus of government economic policy on the pandemic and saving existing jobs has prevented the government from pursuing much needed structural reforms. This would include reforming the management of public companies, further privatizing or monetizing state-owned enterprises and assets as well as improving the financial sustainability of the health care and public pension systems.

Output strength



12 | Sustainability

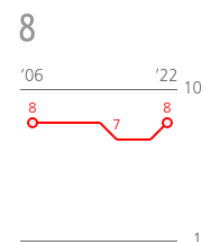
Since joining the European Union, Croatia has introduced strict and comprehensive legislation on environmental protection and sustainable development. It spends 2.4% of its GDP on environmental protection, which is above the EU average. Its share of renewable energy in gross final energy consumption is 28%, which is above the 20% target set by the Europe 2020 agenda. It has also achieved a 25% reduction in greenhouse gas emissions compared to the 1990 base level. However, the country lags behind in implementation of the circular economy and sustainability, particularly regarding water management and waste management. The majority of wastewater is still discharged into the sea. In addition, although Croatia has one of the largest reserves of freshwater of any EU member state, the country's public water supply infrastructure is outdated and poorly maintained, which results in large water losses due to leakages. The implementation of plans for the construction of local and regional waste management and recycling centers is showing slow and uneven progress. In 2019, the recycling rate of municipal waste was 30.2%, as opposed to the EU average of 47.6%. Local environmental protection NGOs regularly advocate for quicker implementation of sustainability goals. While environmental policy is high on the government agenda, there is still a lot of room for progress.

Through the Energy Renewal program, the government provides incentives for private households to upgrade their insulation and heating systems, or to install renewable energy sources (mostly solar). Private producers of wind energy are particularly incentivized, as the government provides a cash bonus for the production of green energy.

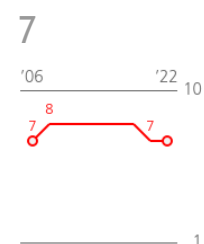
In 2014, the Croatian parliament adopted the Comprehensive Curricular Reform. Yet, by 2018, it had undergone numerous changes under several governments, reflecting opposing ideological approaches to educational reform. After 2018, it was transformed into School for Life, an experimental program with a greatly reduced scope compared to the original intention. The emphasis of the program is to reduce workload (especially in social sciences and humanities), increase IT and presentation skills, and ultimately better prepare pupils for university and the labor market. However, the public education system, from primary schools to universities, is underfunded. Public expenditure on education and training has been around 4% of GDP over the last couple of years, while investment in research and development has amounted to 1.1% of GDP.

Croatia's position on the U.N. Education Index has improved over the last decade. In 2019, it was 0.805, well above the average score of 0.578 for transformation economies, but lower than, for example, Slovenia (0.910). In the latest PISA study results (2018), Croatia's pupils scored 479 in reading (average 487), 464 in

Environmental policy



Education policy / R&D



mathematics (average 489) and 472 in science (average 489). This has highlighted the need to accelerate reform of the education curricular, since Croatia's schools, albeit above average in general terms (U.N. Education Index), fail to equip young people with the necessary practical skills to participate in today's complex society and economy.

In addition, there are notable structural weaknesses at the tertiary level. The education reform did not encompass universities, although the University of Zagreb, the country's oldest and largest university, ranked only between 401 and 500 place on the 2020 Shanghai Ranking List. Furthermore, the university experienced a governance crisis, as the rector engaged in appointments against the wishes of individual faculties and started concentrating power in his own hands, backed by a compliant university senate and shielded by the legally mandated autonomy of the university.

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 led to significant brain drain. In addition, there are stark regional differences between, on the one hand, the wealthy capital city of Zagreb and the tourism-oriented towns on the Adriatic coast, and, on the other hand, the largely rural hinterland, especially in eastern parts of the country where the economic and social consequences of the 1991–1995 war are still clearly visible.

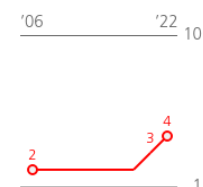
Although the country has managed to avoid massive numbers of COVID-19 infections during the pandemic and prevented its public hospital system from collapsing due to overwhelming demand, the pandemic has revealed a structural weakness of the Croatian economy, which is over-reliant on consumer spending and the inflow of foreign cash from international tourists.

The devastating earthquakes that hit the capital city (5.5 magnitude) and the central Croatian region of Sisak-Moslavina (6.4 magnitude) in March and December 2020 have left thousands without their homes, and numerous hospitals, schools and other public buildings severely damaged. The earthquake in Zagreb has revealed decades of urban planning and conservation mismanagement, while the earthquake in the Sisak-Moslavina region has highlighted the low quality of postwar reconstruction and building projects. Rebuilding will take years, and present a serious financial burden for national, regional and local governments as well as ordinary citizens and businesses. The Sisak-Moslavina region was already in a grave demographic situation, yet the aftermath of the earthquake threatens to hasten patterns of depopulation, especially among younger and better educated citizens.

Croatia has a relatively strong and long tradition of civil society organizations. Environmental, women's rights and human rights organizations have their roots in the second half of the 1980s, while Catholic lay organizations and cultural organizations have a tradition going back to the early 20th century. While the level of active citizenship remains low (9.7% as opposed to an EU average of 19.3%, according to Eurostat), civil society in Croatia is vibrant and diverse. In addition, levels of social capital are lower than on average across the European Union, with 81.2% of respondents in Croatia having someone to rely on compared to 92.7% on the EU level, according to Eurostat data.

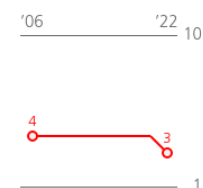
Structural constraints

4



Civil society traditions

3



Many advocacy and watchdog NGOs contribute to public awareness about civil and minority rights and can influence government policy. Civil society organizations largely depend on public money or money coming from EU-funded projects and foreign embassies. War veteran organizations are particularly active and sometimes resort to protests in order to demand more social transfers or to object to the nature of public war commemorations. They are closely linked to the main center-right party (HDZ) and parts of the Catholic clergy. Conversely, many human rights and minority rights NGOs are close to center-left and green-left parties. Several prominent politicians started out as civil rights or war veteran activists. Associations of sports fans, particularly followers of the biggest football clubs in the country, have a strong presence in local communities.

The proactive civic response and rapid self-organization in the wake of the March and December earthquakes demonstrated the strength and scope of civil society organizations.

The main social cleavages in Croatian society run along cultural-religious lines, and the different experiences and interpretations of traumatic historical events and periods.

This means that political parties, the media and civil society organizations can roughly be ordered on a cultural-ideological left-right scale. On the left, one finds more secular and socially liberal, and often more affluent social groups. These groups were less affected by the Croatian War of Independence and have a more favorable view of socialist Yugoslavia and the legacy of the anti-fascist partisan movement during World War II. On the right, one finds social groups that are close to the Catholic Church, more traditional and often represent rural or suburban areas, with a clear anti-communist outlook.

In recent years, the government has taken decisive steps to achieve further reconciliation, and a common remembrance of war victims that is agreeable to both the ethnic Croat majority and ethnic Serb minority. There are sporadic, minor acts of violence, which are ethnically motivated. Meanwhile, ideological and ethnically motivated vandalism (often in the form of graffiti) is not uncommon. Social media is often a platform for hate speech of different ideological shapes and colors.

Conflict intensity

2

'06 '22 10



II. Governance Performance

14 | Steering Capability

The government has adopted a range of long-term strategic documents, including the new National Development Strategy for the 2020–2030 period. The government presented the strategy as visionary, while opposition parties, and many economic and political science policy analysts described it as too general and unrealistic. The strategy builds upon the European Green Deal and the Territorial Agenda 2030. Substantial emphasis has been placed on green transformation, sustainability and greater connectivity both inside the country, and between the country and the rest of the European Union. In addition, the strategy devotes a lot of space to crisis resilience given the experience of the 2008–2009 Great Recession, with economic growth resuming only in 2015, and the 2020–2021 pandemic, which has negatively affected tourism, an industry that the Croatian economy greatly relies on.

One of the major constraints on achieving long-term development goals is the slow and centralized nature of public administration, which is undermined by corruption and the hiring of senior personnel along partisan lines. However, steps have been taken to digitalize administrative databases and services. Digitalization efforts were further accelerated and expanded during the pandemic. Yet, the pandemic has also forced the government to focus on immediate action regarding COVID-19 testing and vaccinations, which has left little room for long-term goals, such as health care reform, and the financial and organizational restructuring of medical facilities. Long-term strategic policy orientations have also been thwarted by parliamentary majorities that rely on the support of several small parties, leading to government policies that cater to the niche interests of particular political and social groups.

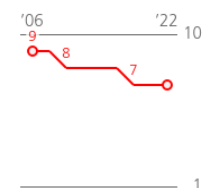
Public policy implementation remains a serious challenge in Croatia. Annual recommendations from the European Commission regularly include public administration reform (efforts to raise efficiency and promote meritocracy), health care and pension system reform (long-term financial sustainability), and reductions in unnecessary obstacles to doing business. These recommendations are formally acknowledged by the executive, yet only about one-fifth of these are implemented.

There is a huge difference in the quality of policy implementation between national, regional and local governments, with problems in effective vertical coordination. In addition, horizontal coordination between government ministries and agencies is suboptimal, which leads to duplication, incoherence and even contradictions in policy processes.

Question
Score

Prioritization

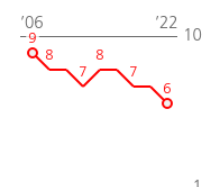
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Implementation

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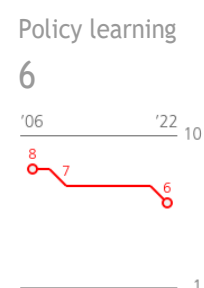
During the pandemic, the government continued its tax reform, which lowered income and enterprise taxes. However, it failed to achieve real progress on its judicial and public administration reform priorities. Meanwhile, the Ministry of Health has been entirely preoccupied with the pandemic, which has left no room for long-term plans to improve public procurement for hospitals, the training and employment of young medical practitioners, and the expansion of services to remote areas. The introduction of a property tax, a government goal for almost seven years, has been postponed due to the pandemic and the unpopularity of such a tax reform.

Limited success in public policy implementation is closely linked with poor monitoring mechanisms. This is exemplified by the fact that the parliament often discusses the annual reports of public institutions several years after the reports are published. Challenges regarding policy implementation are especially evident in the gap between the urgency of the national demographic crisis (low birth rates; high emigration of young individuals and families to Western Europe; and rapid depopulation of rural areas, especially those affected by the 1991–1995 war) emphasized in government documents and the policy measures taken to tackle this issue.

The government continues to fail to recognize the need for more policy innovation, and policy learning from past experiences and best practices. Croatia's slow and incoherent policy learning process has regularly been criticized by the European Commission. Domestic advocacy and watchdog NGOs, which focus on good governance and the promotion of evidence-based policymaking, regularly offer detailed recommendations to the executive. These NGOs are partially involved in the policy process through working groups and public consultations, yet the final policy outcomes show a systemic inability to fully embrace policy innovation.

One of the obstacles to more successful policy learning is the low quality of public administration personnel, and the influence of vested particularistic economic interests and political party interests on policy implementation. The other major hurdle to policy innovation is the inadequate involvement of national and international experts in policy formulation, monitoring and evaluation. Even when experts are fully involved, their recommendations are often trumped by short-term electoral calculations that cater to specific voter groups. Similar to policy prioritization and implementation, the policy learning process is also hampered by a lack of vertical and horizontal coordination.

Although the government assembled a team of national health care experts to provide advice and guidance on policy measures regarding the pandemic, ultimately the executive failed to implement any of the recommendations and objected to the public criticism from some experts.



15 | Resource Efficiency

Government administration remains large in terms of the number of employees and its costs. The low efficiency of public officials compared to their share in government expenses is one of the focal points of critique from business associations and investors and adds to low citizen trust in public institutions.

The efficient use of budgetary resources presents a mixed picture. On the one hand, budgets have continued to be balanced, creating surpluses that were used to finance business stimulation programs during the pandemic. On the other hand, many budgetary components remain politically and legally fixed, with little possibility of renegotiating priorities or reallocating resources. In addition, in periods preceding an election, discretionary fiscal spending increases.

The efficiency of public administration is low because of high centralization, inefficient and fragmented local government, and the poor coordination of government agencies. Reform of public administration, although confirmed as a long-term strategic goal by the 2015 Public Administration Reform Strategy, is yet to be implemented. Meanwhile, all levels of government, especially regional and local government, suffer from poor human resource management, a lack of transparency regarding discretionary spending, and public procurement processes that are prone to corruption and conflicts of interest.

Croatia suffers from poor vertical policy coordination between the government and ministries (as well as national and local public administration), and poor horizontal policy coordination between government ministries. Different government ministries and agencies have their own institutional cultures and procedures, which leads to a lack of inter-institutional communication, coordination and mutual learning through the promotion of best practices. Even when two cabinet members are from the same political party, their ways of managing their respective portfolios and communicating policy priorities to lower-ranking ministry officials is suboptimal. This leads to overlapping competencies and redundant or contradictory institutional practices.

Despite the fact that cabinets in Croatia follow the prime ministerial type, with the prime minister and deputy prime ministers enjoying greater political leverage over other ministers and lower-ranking government officials, individual ministers will often lead their departments with little interest in coordinating with peers or achieving general government policies. In addition, there are few mechanisms for the effective resolution of disputes between different government ministries and agencies. Further, political appointments often extend to lower-ranking positions in the ministries, leading to ineffective leadership within ministries and cases of administrative obstruction along partisan lines.

Efficient use of assets

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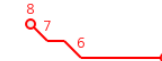


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Policy coordination

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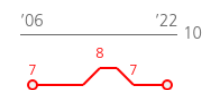
Anti-corruption is a major policy issue for most political parties. EU membership has introduced new capabilities, measures and procedures to prevent corruption. The National Implementation Monitoring Council and the Commission for the Prevention of Conflict of Interest are the two major institutions tasked with implementing anti-corruption policies and monitoring of measures to prevent and sanction corruption. They enjoy public support, especially from journalists that specialize in investigating corruption cases. However, an effective long-term and sustainable policy of preventing corruption at all levels of government remains a challenge. The Commission for the Prevention of Conflict of Interest regularly collects and publicizes data on the private assets owned by government officials. This new visibility has highlighted many cases of incomplete information concerning the private property of politicians. Some of these cases have been pursued by investigative journalists, which has led to public outcry over a lack of transparency and the alleged misappropriation of funds (when private assets greatly outweigh the income of the respective politician). Ultimately, many of these scandals have led to the dismissal or resignation of government officials, indicating an increase in the public's ability to hold officials accountable.

Despite several prominent indictments for corruption – including of a former prime minister, head of the Chamber of Commerce and the sitting mayor of the capital city – anti-corruption court cases are very slow and often thwarted by the inability of the State Attorney's Office to successfully argue its case. The legal teams of the defendants are often able to exploit legal loopholes to stall or overturn convictions. This has had a major impact on public trust in the rule of law and effective sanctioning of wrongdoers. Thus, Croatian citizens show low trust not just in elected officials, who are perceived as often being involved in corruption and conflict of interest scandals, but also the judiciary.

According to national watchdog NGOs as well as GRECO, a Council of Europe monitoring body, the country has serious problems with corruption, particularly within the judiciary, public administration and state-owned companies. Corrupt practices are especially common in local government, which lead to local state capture. Intricate networks of local officials and private companies, which receive preferential treatment in the course of public procurement processes, place a heavy burden on local budgets, diminish the quality of public services, and reduce the trust of citizens in politics in general and local politics in particular.

Anti-corruption
policy

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16 | Consensus-Building

All major political actors accept democracy as an established and normatively desirable form of government. Populist center-right and right-wing parties, such as the Bridge of Independent Lists and the Homeland Movement. Together with many like-minded civil society organizations, particularly Catholic lay organizations, these parties demand greater democracy through the expansion of civil society initiatives and referenda, accusing Croatia's established parties of being elitist and having alienated citizens from democratic institutions. These political actors sometimes question the extent of ethnic minority rights and their inclusion in political decision-making. This shows that there are some differences in the understanding of the liberal aspect of contemporary democracy among political actors in Croatia. In addition, there is no clear consensus among political actors about what constitutes hate speech, with left-of-center parties in favor of broader definitions of hate speech and the expansion of anti-discrimination laws. Meanwhile, on the right-of-center of the ideological spectrum, one can find demands for a more populist, people-centered version of democracy, with less emphasis on diversity and the public visibility of minorities. In addition, right-of-center and right-wing critiques argue that hate speech legislation contradicts freedom of speech and freedom of expression. Finally, demands for more people-centered policymaking and majority rule, coming from right-wing parties and NGOs, may be understood as hinting at a wish to replace liberal democracy with an illiberal, ethnic democracy.

Virtually all political actors accept the market economy, except for a small anti-capitalist party called the Workers' Front. The Workers' Front has one member of parliament in the 2020–2024 parliament and advocates for a transition toward a democratic socialism of the 21st century. However, despite the fact that major political parties agree on the kind of capitalism that they prefer (i.e., a social market economy), they fail to achieve consensus on the exact definition of such an economic framework. Differences in common understandings of a social market economy are especially visible regarding the future course and scope of privatization of state-owned companies, labor market policy, health care policy, and tripartite collective bargaining between trade unions, employers' associations and the government. The narcissism of small policy differences leads to a failure to achieve cross-partisan consensus on economic policy, despite common agreement on the challenges faced by the national economy. The EU accession process (2000–2013, with negotiations lasting from 2005 to 2011) has been the only policy area where broad political consensus was achieved and maintained.

Consensus on goals

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Small, yet sometimes vocal anti-democratic fringe groups in Croatia do not advocate for the abolition of the democratic constitutional order. However, they do promote values and symbols that are antithetical to the country's democratic constitution and have a negative impact on the quality of democracy. These groups pertain to nationalist NGOs and some war veterans' organizations that object to the prosecution of Croatian war veterans for war crimes and the participation of ethnic Serb politicians in the executive branch of government. These organizations also promote an ambiguous relationship toward the public display of symbols associated with the Ustaša fascist collaborationist regime during World War II and call for witch hunts against anyone accused of being sympathetic to the legacy of communist Yugoslavia. These groups find some support among several right-wing members of parliament as well as some journalists and members of the Catholic clergy yet cannot act as veto players or directly influence the government. However, the main center-right party (HDZ), which has been in power since 2016, sometimes turns a blind eye to the inflammatory language used by these groups in order to avoid alienating voters that might agree with the ideas and values displayed by such groups. Yet, the 2020 parliamentary election showcased the ability of Plenković and the HDZ leadership to control and marginalize far-right actors in the party, and inside and outside of parliament.

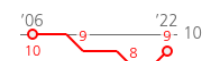
There are no serious societal conflicts regarding the basic tenets of democracy and a market economy. Yet, since Croatia's accession to the European Union in 2013, the country has seen a rise in populist civil society groups and political parties that demand referenda on a range of issues, including complex policy issues such as the electoral system as well as measures to curb minority rights.

The main cleavages in the society and the party system are not based on economic issues or the form of government, but rather on cultural issues. Only a few smaller liberal centrist parties and internet media advocate a transition to a more market-oriented economy in contrast to the current market economy, which is characterized by a large public sector, the state as a major employer and numerous partially state-owned enterprises. The cultural dimension of the cleavage pertains to several elements. The first includes the role of the Catholic Church in society, and its influence on public institutions and the national identity. The second refers to the way citizens remember and evaluate the quality of democracy in the 1990s and the legacy of the 1991–1995 War of Independence. The third element comprises competing narratives about the nature of the Yugoslav communist regime and evaluations of Croatia during World War II (e.g., the crimes against civilians committed during and immediately after the war). Finally, the fourth element refers to competing views about the role and public visibility of ethnic minorities, minority languages and cultural identity markers.

The current center-right government tries to balance different identity claims. On the one hand, the main ethnic Serb party is part of the government. On the other hand, the official remembrance culture of the Croatian War of Independence strives

Anti-democratic actors

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Cleavage / conflict management

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to appease more nationalistic HDZ voters and especially war veterans' organizations. Furthermore, the government is keen to seek public support from the Catholic Church and emphasize its Christian democratic outlook yet does not want to give in to demands to restrict abortions and seeks to maintain a centrist approach to social issues.

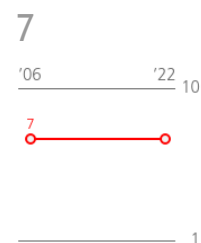
Civil society in Croatia is well developed, yet it shows some structural weaknesses. A general lack of interpersonal trust discourages wider participation in civil society groups. The financing of civil society organizations is heavily dependent on national and local government sources as well as projects financed by the European Union and foreign embassies, while citizen contributions and private charities play a minor role. The use of material resources by civil society organizations lacks transparency, which creates a fertile ground for corruption and conflicts of interest. Despite their widespread presence in society, civil society organizations still suffer from a lack of professionalism, and high levels of informality and clientelism.

There is a lack of cooperation between civil society organizations, while their impact on public policy formulation and implementation is suboptimal. However, with the adoption of the Code of Practice on Consultations with the Interested Public in Procedures of Adopting Laws, Other Regulations and Acts in 2009 (which represents a policy innovation through the influence of EU accession), there has been an increase in the participation of civil society organizations in the policymaking process. Nevertheless, the executive is often only responsive to the proposals and suggestions presented by civil society organizations that resonate with the voter base of the prime minister's party or are able to organize protests or collect signatures for referendum proposals.

Civil society in Croatia reflects the cleavages present in the society at large. For example, NGOs that advocate for human and minority rights are close to center-left parties, while war veterans' associations and family-oriented Catholic lay organizations are close to center-right parties. In addition, there is a revolving door between participation in civil society organizations and standing for election on behalf of a political party, with activists becoming politicians and vice versa.

During the pandemic and especially in the wake of the 2020 earthquakes, civil society organizations demonstrated an ability to organize, pool resources and raise funds for relief, yet were not adequately involved in decision-making processes by the government.

Civil society participation



Reconciliation in Croatia involves two distinct periods. The earlier period pertains to World War II and the communist era, while the more recent period refers to the Croatian War of Independence in the 1990s.

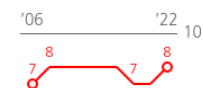
Regarding World War II and the communist era, government policy is ambiguous. Political and civil society actors as well as the media often engage in prolonged memory wars. On the one hand, these disagreements concern the scope and nature of crimes committed by the Ustaša fascist collaborationist regime during World War II. On the other hand, these disagreements concern the scope and nature of crimes committed by the anti-fascist communist-led partisans during and immediately after the war as well as the scope and nature of crimes and human rights violations perpetrated under the communist regime.

Members of different political parties often fail to engage in common commemoration practices or seem to condemn just the crimes committed by one side, while glancing over the responsibility for atrocities by the other. Although anti-fascist resistance to the Ustaša regime is enshrined in the constitution, the vandalism and removal of partisan monuments is widespread. Meanwhile, Ustaša-related symbols, which were partially used by fringe groups during the 1991–1995 war, are treated with ambiguity. Various history textbooks referenced in public schools reflect deep disagreements among historians and public educators about the right way to deal with Croatia's troublesome undemocratic past. Disagreements over Croatia's historic legacy often serve in daily politics as a means of steering public attention away from contemporary policy issues.

The Croatian War of Independence plays a central role in political culture and civic religion and serves as a source of political legitimization for political and social elites. War veterans' organizations often publicly accuse individuals and groups that present a critical or more nuanced narrative about some aspects of the war of being national traitors and a security threat. Before the 2020 election, the use of anti-Serb rhetoric in public by right-wing opposition parties and veteran NGOs increased. However, after the election, the Plenković government, which includes a deputy prime minister from the main ethnic Serb party, SDSS, embarked on a new policy of reconciliation, which includes joint commemorations of civilian war victims from both sides. A series of highly symbolic gestures has paved a new path, which might ultimately lead to greater reconciliation between the ethnic Croat majority and the ethnic Serb minority. Nevertheless, the issue of unresolved cases against former rebel Serbs in absentia for war crimes as well as the question of missing persons, cultural artifacts and archival data taken to Serbia during the war remain obstacles to the full resolution of historic grievances.

Reconciliation

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17 | International Cooperation

EU institutions, especially the European Commission, remain the most important international actors in Croatia, providing policy and financial assistance. However, despite repeated recommendations in European Commission reports, there is a slowness on the part of the Croatian government to fully align its policies with EU policies and implement reform proposals and action plans. In addition, the country has received technical and financial help through World Bank programs, with mixed results regarding policy innovation and the implementation of recommendations.

The political leadership claims both through statements and documents that it fully complies with international standards and follows best practices suggested by the European Commission, although it fails to turn these into action. Watchdog and advocacy NGOs, which specialize in good governance and best practices for public administration, often pressure the government into accelerating reforms and adapting agreed-upon European standards. But results have so far been only partial.

The country has participated in a common European effort to finance and acquire vaccinations in the wake of the COVID-19 pandemic. It has also readily accepted aid and assistance in the aftermath of the 2020 devastating earthquakes and made appeals through members of the European Parliament for additional funds that are needed for reconstruction and relief.

The government is largely seen as a credible international partner, and party to international treaties and conventions. However, there has been an increase in the number of citizens suing the state at the European Court of Human Rights for violations of their rights, which have resulted in the Croatian government paying compensation to citizens.

The government conforms to common EU regulations and policies regarding undocumented border-crossings. However, with the increase in migrants crossing the so-called Balkan Route since 2015, there has been an increase in the number of reports by national and international human rights NGOs involving abuses. These reports include claims that police officers and border control officials mistreated migrants, failed to allow migrants to apply for asylum and violently pushed migrants back. The government has consistently denied any such accusations. Meanwhile, local media in the regions most affected by illegal border crossings present a mixed picture. Local media reports include police violence, violence among groups of migrants and acts of vandalism toward the property of local communities.

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 South Eastern Europe (SEE), Central and Eastern Europe (CEE), and the Mediterranean regions. This involves high-profile meetings and summits of state presidents and prime ministers as well as the development of common projects and initiatives.

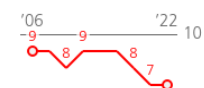
However, there remains a range of unresolved bilateral issues with most neighboring countries. Despite generally good bilateral relations between Croatia and Slovenia, the pending resolution of the border dispute remains an obstacle to full mutual political understanding and cooperation. Croatia does not recognize and does not wish to implement the verdict of a 2017 international arbitration tribunal, since the Croatian government deems the Slovenian side responsible for contaminating the process in 2015 by breaching an agreement and attempting to influence the judges. Different interpretations regarding the implementation of the verdict on the border dispute create daily problems for Croatian fishing boats in the northern Adriatic, as Slovenian coastal patrols issue them with fines for trespassing in Slovenian waters.

Relations with Bosnia and Herzegovina are especially complicated as the Croatian government accuses Bosniak politicians in Bosnia and Herzegovina of institutional obstruction and undermining the constitutional equality of Bosnia and Herzegovina's three ethnic groups (Bosniaks, Serbs and Croats). Meanwhile, Bosniak politicians accuse the Croatian government of providing political and financial support to Croat politicians in Bosnia and Herzegovina, which they argue undermines the sovereignty of Bosnia and Herzegovina. This bilateral issue is closely linked with the internal Bosnian-Herzegovinian constitutional and political crisis regarding opposing ideas about the future of the Bosnia and Herzegovina state: Bosniaks want a unitary state; Serbs vouch for a loose confederation or the secession of the Republic of Srpska, a federal entity within the country; while Croats desire further federalization, which would create a separate Croat federal entity.

Relations with Serbia are burdened by opposing historical narratives and cultures of remembrance as well as unresolved bilateral issues pertaining to the 1991–1995 war. On the one hand, Croatia demands that Serbia actively cooperate regarding information about missing Croatian civilians and soldiers, and the return of cultural artifacts and archival documentation taken during the war, with opposition right-wing parties also demanding war reparations from Serbia. On the other hand, the Serbian government does not want to recognize Serbia's role in the war in Croatia. Instead, the Serbian government emphasizes public displays of Ustaša-related symbolism in Croatia and criticizes the Croatian government for holding public celebrations in memory of the 1995 military operation Storm. Storm ended the occupation and war in Croatia, but also led to the mass exodus of some 200,000 ethnic Serbs who lived in rebel areas, many of whom have never returned to Croatia, despite subsequent efforts by both the Croatian government and international organizations such as the OSCE.

Regional cooperation

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During the first six months of 2020, Croatia held the Presidency of the Council of the European Union. Although the full impact and visibility of the presidency were overshadowed by the pandemic, and lots of official activities and meetings were hosted online, the presidency marked a breakthrough for Croatia's efforts to be a leader of political and economic transformation in southeastern Europe. The government placed further EU enlargement in the Western Balkans at the top of its presidential agenda. During the presidency, in March, Albania and North Macedonia were approved as official candidates for EU membership, despite widespread enlargement fatigue and the open skepticism expressed by some larger EU member states, such as France.

Strategic Outlook

After a long and arduous process of EU accession, Croatia has achieved long-term stability both as a democracy and market economy. It is expected to join the eurozone in 2023, which will increase its competitiveness and exports, while lowering costs and interest rates for businesses and consumers.

Thirty years after Croatia's transition to democracy, citizens express low levels of trust in central political institutions, and public participation in elections and civil society is low. This has a negative impact on the future quality of democracy and increases the state and society's vulnerability to populist challengers who promise quick solutions to complex policy issues through referenda.

Achieving a fully independent, high-quality judicial system remains a lasting challenge to citizen trust in the judiciary. In particular, citizens are concerned about the judicial system's inability to protect their rights and a business-friendly environment and address public perceptions that corruption is not being sanctioned equitably or swiftly. Corruption, clientelism and conflicts of interest in public administration are especially evident in national and local public procurement processes. A sincere reform of both the judiciary and public administration, with clear benchmarks and ethical protocols of behavior and a system of oversight and control, will be needed in the near future if the country is to unlock its development potential and stop state capture by special interests. The appointment of new high-ranking judges in 2021 could mark the beginning of a serious reform of the judicial system. Meanwhile, the pandemic has promoted the digitalization of public administration, which has, in turn, facilitated greater transparency and efficiency.

The 2020–2021 pandemic has revealed the overreliance of the economy and public revenues on tourism. Since the national development agenda is closely linked to EU efforts on energy transformation and a new green deal, the future of tourism policy will have to consider long-term sustainability, and the impact of mass tourism on the environment and local communities. The EU recovery plan for the post-pandemic period has also revealed Croatia's overreliance on EU funds, which have created a potential path of aid dependency. In the future, Croatia will have to use EU funds to achieve qualitative economic changes, and not just for budgetary support and the maintenance of unprofitable state-owned companies, which are prone to clientelism and corruption.

If the current rate of emigration of young and educated citizens to Western Europe continues, this will create serious labor shortages as well as place additional strain on the sustainability of the health care and public pension systems. Thus, Croatia will have to introduce proactive demographic policies oriented toward families with children, persuade Croatian nationals to return from abroad, and develop a streamlined and accessible policy to attract immigrants from third countries.

In future, the government will have to engage a wider range of stakeholders in policymaking and rely more on expertise and evidence-based policies. Orientation toward policy innovation, learning and evaluation should create a framework for developing policy priorities and a national reform agenda, which will unlock possibilities for stronger economic growth and enable Croatia to catch up with other EU member states.