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ECONOMIC AND SCIENTIFIC POLICY



Economic and Monetary Affairs



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# The Social and Employment Situation in Croatia

NOTE





**DIRECTORATE GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY**

# **The Employment and Social Situation in Croatia**

## **NOTE**

### **Abstract**

This briefing paper assesses the central questions concerning employment and social issues in Croatia. After an overview of the main developments in the labour market and in the sphere of social affairs, emphasis is given to the most relevant legislative and policy measures, especially those introduced after the onset of the crisis. The role of social partners and social dialogue during the process is also discussed. To conclude, the paper addresses current important issues in these areas in the public domain.

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## LIST OF ABBREVIATIONS

- ALMP** Active Labour Market Policy
- CBS** Croatian Bureau of Statistics
- CEE** Central and Eastern Europe
- CES** Croatian Employment Service
- CICC** Centre for Information and Counselling on Careers
- CNB** Croatian National Bank
- CQF** Croatian Qualifications Framework
- EC** European Commission
- ECGR** European Court of Human Rights
- EEA** European Economic Area
- EIZ** Institute of Economics, Zagreb
- ESC** Economic and Social Council
- ESF** European Social Fund
- ESSPROS** European System of Integrated Social Protection Statistics
- EU27** European Union - 27 countries
- EWC** European Works Councils
- EWCS** European Working Conditions Survey
- GDP** Gross Domestic Product
- HDZ** Croatian Democratic Union
- HR** Croatia
- HRK** Croatian Kuna
- IPA** Instrument for Pre-Accession Assistance

- JAP** Joint Assessment of the Employment Policy Priorities of the Republic of Croatia
- JIM** Joint Memorandum on Social Inclusion of the Republic of Croatia
- LFS** Labour Force Survey
- MLPS** Ministry of Labour and Pension System
- MSPY** Ministry of Social Policy and Youth
- NEPP** National Employment Promotion Plan
- NGO** Non-Governmental Organisation
- NUTS** Nomenclature of territorial units for statistics
- PPS** Purchasing Power Standards
- SDP** Social Democratic Party of Croatia
- SILC** Survey on Income and Living Conditions
- UNDP** United Nations Development Programme
- WB** World Bank



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## EXECUTIVE SUMMARY

The recession that started in the second half of 2008 continues to have negative consequences on the labour market and social situation in Croatia. Both employment and activity rates in Croatia are among the lowest in the EU, while unemployment rates have been rising appreciably since 2009, especially for the younger population. Structural issues such as an ageing population, relatively high labour costs, high share of undeclared work, and poor working conditions are also important. In addition, compared to the rest of the EU, Croatia is characterised by relatively high risks of poverty and social exclusion with 32.7% of the Croatian population at-risk-of-poverty and/or social exclusion in 2011. However, maybe surprisingly, in its *2013 Economic Programme*, the Croatian government sets rather unambitious targets for both the employment rate as well as for reducing the risk of poverty and/or social exclusion by 2020 (Table 1).

**Table 1: Europe 2020 social and employment indicators for EU27 and Croatia**

Indicator	EU27 in 2012	EU27 2020 target	HR in 2012	HR 2020 target
Employment rate (% of population aged 20-64)	68.5	75	55.4	59
People at risk of poverty or social exclusion (in thousands)	119,820*	decrease by 20 million people	1,382*	1,282

\* - 2011

**Source:** Eurostat, *2013 Economic Programme of Croatia* for HR2020 targets

The government has introduced a number of legislative changes and policy measures in the area of employment and social policy and it has further reforms scheduled. A new *Labour Act* was enacted in 2009, with further amendments in June 2013 and planned for later in 2013, to promote the further flexibilisation of the labour market. A *Law on the Promotion of Employment* was introduced in 2012, which, through ALMPs, exerted some impact in combating unemployment, while the *Act on Job Retention Subsidies*, introduced in 2009, did not fulfil expectations. Besides the *Labour Act*, additional reforms are expected in the *Law on Occupational Safety* by the end of 2013, and structural adjustments with regard to public sector employment are also likely.

A new *Law on Social Welfare* was introduced in 2012, while additional amendments are set for this year. Reform priorities include: the establishment of a common database for welfare beneficiaries, streamlining of social benefits and reduction of fraud, increased collaboration between centres for social welfare and bureau for employment, and the transformation of residential care institutions through the expansion of alternative family care and community-based services. Whilst strategies exist to improve the situation of people with disabilities and minorities, including Roma, these have been slow to translate into positive outcomes in practice. Croatia's three-tier pension system continues to face problems of sustainability, equity and adequacy, and changes in the *Pension Insurance Act* are also expected by the end of 2013.

Social dialogue at the national level is secured primarily through the tripartite Economic and Social Council (ESC). Notwithstanding disagreements between trade unions and the government, the ESC will remain important in discussing further reforms.

# 1. GENERAL OVERVIEW OF THE EMPLOYMENT AND SOCIAL SITUATION IN CROATIA

## KEY FINDINGS

- Prolonged recession in Croatia has caused massive disruptions on the labour market.
- Employment and activity rates are among the lowest in the EU while unemployment is continuously rising, especially among young people.
- Unfavourable developments on the labour market, combined with demographic trends and institutional deficits, have led to almost a third of the population being at-risk-of-poverty and/or social exclusion.

## 1.1. Main economic developments

Croatia has been **in recession or stagnation for four consecutive years**, with negative prognoses for 2013 as well (EIZ, 2013). After the turbulent, war-affected, 1990s, the average growth rate of real GDP in the pre-recession period (2000-2008) amounted to 4.3%. This brought an increase in both employment and real wages, and given that GDP grew faster than employment, productivity also increased. Growth was based mostly on domestic demand, notably private consumption, investments and government consumption, while net exports was negative. The beginning of the crisis in the second half of 2008 revealed the unsustainability of this situation. The cumulative fall of real GDP in the period 2009-2012 amounted to 11.2%, with an average annual growth rate in the same period of -2.8%. Nevertheless, due to similar movements in the EU, GDP per capita as a percentage of the EU27 total (based on PPS) has not changed much in the last decade, being on average around 60% (61% in 2012).

However, the crisis led to a decrease in consumption and a deterioration of the situation on the labour market. Fortunately, inflation has remained relatively low while the exchange rate of the Croatian kuna against the Euro has been stable for many years. Though, due to past growth based on heavy borrowing, public finances faced problems. Hence, the government was forced to introduce austerity measures. Up to now, the government opted to bring public finances in order more through increases in taxes than through expenditure cuts, although there was a moderate wage reduction for public sector employees.

## 1.2. Demographic trends

As in many European countries the **population in Croatia is ageing**, due to a simultaneous increase of life expectancy and falling fertility rates. This has an impact not only on the labour market via changes in work-force size and structure but also on the overall social protection system and the long-term sustainability of public finances.

The results of the 2011 population census reveal that in a decade total population decreased by approximately 150,000 people<sup>1</sup> and there was an increase in the average age of the population by 2.4 years, with the average age of the population in 2011 standing at 41.7 years. Population projections (CBS, 2011) indicate that in the next decades this trend

<sup>1</sup> Though there was a change in the definition of resident population applied in the 2001 and 2011 censuses and some of the decrease in the population is due to this change, the major cause is strictly demographic.

will continue, with both population ageing and shrinking. For instance, according to population projections (CBS, 2011) the share of people above age 65 in the total population will rise from 17% in 2010 to 27% in 2060, while the share of the working-age population (15-64) will decline from 67% in 2010 to 59% in 2060.

Although statistics are not completely reliable, after the end of war-related migration around 2000, Croatia now has rather low levels of both in- and out-migration even though the wish of some young educated people to leave is revealed in several surveys (Mežnarić and Stubbs, 2012). The effects of joining the EU on migration trends should not be significant, at least in the short-term. The recession still continues in many EU countries and some 13 countries have imposed restrictions on employing Croatian workers for a period of at least two years. Foreign workers in Croatia, on the other hand, are limited by the same factors: high unemployment on the Croatian labour market and reciprocal restrictions for EU member countries, respectively.

### 1.3. Employment and the labour market

The labour market situation in Croatia has been continuously deteriorating since 2008. Even though the global financial crisis has led to job losses on a massive scale all over the western hemisphere, the absence of signs of recovery indicates that there are internal structural factors present on the Croatian labour market that may mean that the current unfavourable situation will continue for many years. The causes of this situation lie in a number of factors. Vehovec and Tomić (2012) emphasise that the main cause of the lack of the dynamics on the labour market is the lack of labour demand. The absence of domestic and foreign investments, rigid employment protection laws and high tax burdens, make it almost impossible for firms to create new jobs and expand overall labour demand. Gotovac (2011) suggests that the mismatch between labour supply and labour demand is a key obstacle to improved labour market performance.

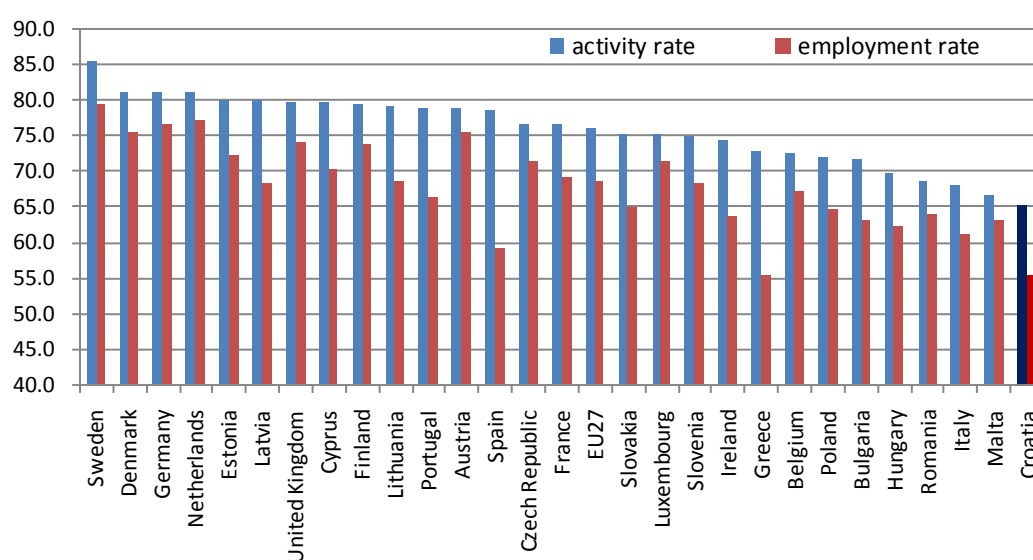
#### 1.3.1. Employment and unemployment rates

The employment rate in Croatia is currently one of the lowest among all EU countries (Figure 1). Namely, **only 55.4% of the population aged 20-64 had a job in 2012**. In the EU27 on average this amounted to 68.5%, with a lower employment rate than in Croatia observed only in Greece (55.3%). The trend is particularly worrying as the employment rate in Croatia was 62.9% in 2008. The Government, in its *2013 Economic Programme*, **sets target for this indicator for 2020 at 59%**, or 16 percentage points lower than the EU target. This suggests that the Government expects employment to remain at low levels for a longer period of time, which could cause further problems in the economy and on levels of poverty and social exclusion. The recession has had differing impacts on different groups in the labour market. Men were hit more than women, those employed in the private sector more than those who work in the public sector and the younger population more than the middle-aged and older population.

Employment rates are particularly low for the two end age-groups: the younger and older population. Even though the employment rate for the older population (50-64) was only 45.9% in 2012, this is quite an increase in comparison to a decade before (35.8% in 2002), but still lower by almost 13 percentage points than in the EU27. Changes in the demographic structure of the population as well as changes in legislation concerning the retirement age caused an increase in the employment rate for the older population. Younger generations, on the other hand, are struggling on the labour market ever since the start of the crisis, since they are the first to be laid off, mostly because of first-time-fixed-contracts, and the last to get employment, mostly because of the lack of experience. The

employment rate for the population aged 15-24 in 2012 was only 16.9% in comparison to 32.9% for the EU27. The breakdown by gender shows that the gap between Croatia and EU in employment rates for men and women is more or less the same as for the overall population. However, the crisis had more impact on male employment, since those sectors which experienced the highest reduction in employment are male-dominated industries and the construction sector. In general, agricultural employment has a much larger share in Croatia than in the EU27, while the proportion employed in service industries is lower. The less educated, as may be expected, are experiencing lower employment rates, particularly as a result of the crisis. In Croatia, in comparison with most EU countries, part-time employment is much lower, which suggests lack of flexibility on the labour market. Temporary contracts, on the other hand, are becoming more widespread, with almost 13% of all employment in Croatia being on temporary terms in 2012.

**Figure 1: Activity and employment rates for the age group 20-64 in 2012**



**Source:** Eurostat

In a period of four years the LFS **unemployment rate** for the working-age population (15-64) almost doubled in Croatia; it increased from 9.7% in the first quarter of 2009 to **18.4% in the first quarter 2013**.<sup>2</sup> Most of the unemployed are now long-term, being unemployed for more than 12 months. LFS data reveal that in 2012 almost 65% of all unemployed in Croatia were long-term unemployed while for the EU on average this amounted to 44.4%. This group forms the most vulnerable cohort among the unemployed because they lose connection with the labour market which consequently leads to the threat of social exclusion and poverty. In addition, there are huge regional differences in unemployment while labour mobility within the country is low (Tomić, 2012) which poses additional challenges in reducing unemployment.

Even though unemployment is quite high, due to very low employment, Croatia has low activity rates as well (Figure 2). In the age group 20-64 **Croatia had the lowest activity rate among the EU countries in 2012** with only **65.4%** of the population being either employed or unemployed. The average for the EU27 is 76.2%. This information is no

<sup>2</sup> Besides LFS data on unemployment, there are also official (registered) unemployment data taken from the Croatian Employment Service (CES). As a rule, the unemployment rates based on the registry data are somewhat higher, for instance the administrative unemployment rate was 21.7% in the first quarter of 2013.

surprise given different possibilities of early retirement in Croatia, especially for Homeland war veterans. Other explanation for relatively low activity rate in Croatia can be found in the relatively higher share of undeclared work.

### **Youth unemployment**

In 2012 the **unemployment rate for the age group 15-24 was 43%** in Croatia in comparison to 22.8% for the EU as a whole. Higher youth unemployment rates were observable only in Greece (55.3%) and Spain (53.2%). However, in the first quarter of 2013, youth unemployment rate in Croatia continued to increase, overtaking Spain's position (57.2%) and reached 59%, only one percentage point behind Greece. Within this group, hardship is particularly observable in the age-group 15-19 where 65.9% of the active population was unemployed (28% in the EU27), while for the age group 20-24 the unemployed population formed 37.2% of the active population in that age group (21.2% in the EU27). An indicator that shows the ratio of unemployed compared to the total population in this age-group (15-24), the youth unemployment ratio, suggests a somewhat better relative position for Croatia. In 2012 this ratio amounted to 12.7% (9.7% in the EU27), lower than in Spain (20.6%), Greece (16.1%) and Portugal (14.3%), and only slightly higher than in the UK and Sweden (12.4%) and Ireland (12.3%). Additionally, for the age-group 15-24 the share of temporary contracts among the employed is almost 50% (47.4% in 2012) which is higher than the EU27 average (42.1% in 2012).

#### **1.3.2. Wages and productivity**

Despite the fall in employment and activity rates and a sharp increase in overall unemployment, the average **wage more-or-less stagnated or even somewhat increased since the start of the crisis**. According to the CBS, in the period 2008-2012 the average gross wage increased by 4.4%. This implies that the burden of labour market adjustment in the crisis was more on the employment than on the wage side. This is not surprising given that preserving wages was much more important for trade unions than the employment level ever since the beginning of transition (Tomić and Domadenik, 2012). However, due to a rise in consumer prices, there was a slight **fall in wages in real terms** in the same period, by -0.7%. A fall in real wages coupled with a large decrease in the number of employed persons means that there was a fall in the overall real disposable income as well as in the living standard of the population since 2008. Eurostat data (*Structure of earnings survey 2010*) for 2010 indicate that monthly earnings in Croatia stood at 44.6% of the average EU27 monthly earnings, higher than in all post-communist EU member states, except Slovenia.

However, total labour costs are crucial for the overall competitiveness of the economy. In this respect, Croatia does not stand well among the Central and Eastern Europe member states since Eurostat data show that only Slovenia had higher total labour costs in 2012. Tomić and Grdović Gnip (2011), by analysing the tax burden on labour income for an 'average worker', show that among EU countries Croatia is somewhere in the middle, below most of the most developed EU countries, but above most of the post-communist member states. Besides wages or labour costs, the level of productivity is also very important for international competitiveness. Eurostat data indicate that in this respect Croatia does not fall behind the EU that much (80.2% of the EU27 labour productivity per person employed in PPS), with a rise in productivity after 2005. This is confirmed by a fall in real unit labour costs in the same period. However, one has to remember that the rise in productivity for Croatia is almost completely based on the fall in employment, and not on an increase in output.

## **Minimum wages**

Following the 2013 *Minimum Wage Act*, minimum wage in Croatia since 1 June 2013 is HRK 2984.78 per month, a moderate increase from minimum wage of HRK 2814.00 that was valid since 1 June 2009. Converted to Euros at current exchange rate, actual minimum wage is around EUR 400 per month in gross terms (before pension contribution and income tax). Although this level is relatively low, it is higher than in any other Central and Eastern Europe EU member country except Slovenia, as Eurostat reported. According to Eurostat, the minimum wage in Croatia amounts to **35.6% of the mean monthly wage**, which is one of the lowest ratios among EU countries. Yet, this ratio has been pretty stable since 2008. Some researches (for instance, Nestić, 2010) indicate that the incidence of minimum wage earners in Croatia is higher for women, the young, the low-educated and those with fixed term contracts.

### 1.3.3. Undeclared work

Estimates regarding the size of the undeclared economy in Croatia differ significantly, primarily depending on the estimation methodology. For instance, Ott (2002) reports that different methods suggest a fall in the unofficial economy as a percentage of the GDP from the record-high of 37% of GDP in 1993 to only 7% of GDP in 2000. Regardless of the methodology, the study concludes that there was a reduction in the unofficial economy in Croatia by the beginning of the new millennium as well as that 'moonlighting' is its main source. Newer studies also provide different results. For instance, CBS (2009), in its revision of GDP from 1995 to 2005 based on Eurostat methodology, reports a declining trend of the shadow economy, from 9.5% of GDP in 1995 to 7.3% of GDP in 2005. Švec (2009), using the labour approach, estimates that unofficial employment fell from around 6-7% in 2004 to only 2-3% in 2007, which is a significant decrease from around 20% in the mid-1990s. Similarly, Klarić (2011) found that in 2009 the annual undeclared work income relative to official GDP was 4.18%. Even with these figures **the share of unofficial employment was larger than in most EU countries**. The newest estimates (Schneider, 2013),<sup>3</sup> although demonstrating somewhat higher share of grey economy in GDP, show a decrease in the size of the shadow economy in Croatia, but suggest it is still well above all the EU countries except Romania and Bulgaria. Additionally, the undeclared economy is present in some sectors of the economy more than in others. Barić and Williams (2013) provide results of the concentration of the undeclared economy in Croatia mostly in agriculture and associated areas, followed by manufacturing and retailing.

### 1.3.4. Working conditions, including health and safety at work

Research by Šverko and Galić (2009) reveals that in the period 1993-2008 the overall quality of working life has increased in Croatia, whereas Galić and Plečaš (2012) indicate that **the quality of working life in Croatia deteriorated during the recent recession (2008-2010)**. They explain that the decline was mainly related to extrinsic job aspects such as adequate and fair pay and job security. According to the study, lower educated employees were hardest hit by the recession. Similar trends are reported in the 2005 and 2010 *European Working Conditions Survey (EWCS)* where Croatian workers work longer hours than the average EU27 worker and also have relatively inflexible working schedules. Survey results also show that autonomy in the workplace is low and consultation about work organisation rare. Physical risk exposure, as well as threats of various forms of physical violence and harassment, is higher than in the EU27.

<sup>3</sup> Based on the MIMIC (Multiple Indicators and Multiple Courses) estimation procedure.

As far as health and safety at work is concerned, the Croatian Institute for Health Protection and Safety at Work reports that the rate of work-related injuries per 1,000 workers was 11.3 in 2012 which is a decrease from 12.9 in 2011. At the same time, the number of registered occupational diseases for the year 2012 was 305, which is a significant decrease compared to the year 2011 when there were 488 registered occupational diseases. Eurostat data show that the incidence rate of serious accidents at work (the number of persons involved in accidents at work with more than 3 days' absence per 100,000 persons in employment) was 812.5 in Croatia in 2010 in comparison to 1,742 in the EU27. Only some of the CEE member states had lower rates. This favourable position of Croatia among EU countries does not necessarily mean that health and safety conditions are better, but more likely that the structure of the economy is somewhat different (with less industry) or that some accidents at work in Croatia are unreported. The incidence rate of fatal accidents at work (the number of persons with fatal accidents at work per 100,000 persons in employment) was 2.8 in comparison to 2.6 in the EU27.

### 1.3.5. Discrimination on the labour market

There are few studies dealing with discrimination on the labour market in Croatia. Even trade unions are much more concerned with pay and working time in general whereas questions regarding discrimination and health and safety at work come pretty low on their agenda. Usually, when discussing discrimination on the labour market, gender issues are on the table, while discrimination of immigrants or minorities is examined less. In 2010, CES, within the project *Supporting Equality in Croatian Labour Market*, conducted survey research on the *Distribution and characteristics of the discrimination in the Croatian labour market*. The main results of the research point out that the most frequent is **age discrimination**, followed by discrimination based on **disability** and on **gender**, while discrimination on other grounds (ethnic, religious, and based on sexual orientation) is less widespread.

#### a. Women

**Activity and employment rates are lower** for women in the Croatian labour market. Eurostat data reveal that reasons for inactivity are somewhat different since the main reason for women's inactivity in the age group 20-64, besides retirement, is *other family or personal responsibilities* while for men this is *education*. This indicates that general stereotypes about the roles of men and women are still present in Croatia. Hazl et al. (2011, p. 163) in the report on *the Current Position of Women in the Croatian Labour Market* show that the main barriers to women's equal participation in the Croatian labour market are **practical barriers**, such as access to affordable and flexible childcare and flexible working arrangements, and **cultural barriers**, which, among other things, imply continuation of a working culture in which women are not expected to succeed.

The same report emphasises that a disproportionate number of women have temporary, insecure or informal jobs, which makes them more vulnerable to poverty and external shocks, such as the recent economic crisis. Yet, the crisis exerted more pressure on male employment since female-dominated sectors, such as education, health and social work or financial and insurance activities, have not experienced a significant fall in employment. The proportion of women in total unemployment, according to CES data, has been decreasing ever since the start of the recession; it dropped from 62% at the end of 2008 to 53% at the end of 2012. CBS (2013b) reports, based on its regular yearly survey on employment and wages, that the average monthly gross wage of women stood at 90% of the average wage of men in 2011, which is about the same difference observed for the last



decade. However, Eurostat data based on the *Structure of Earnings Survey* suggests that in 2011 the unadjusted gender-pay gap amounted to 17.6% for Croatia vs. 16.2% for EU27.

## b. People with disabilities

A recent study (Leutar and Buljevac, 2012) suggests that **the rate of employment of persons with disabilities** in Croatia is around **10%**, putting Croatia firmly in the group of EU countries with low employment rates of people with disabilities, alongside Slovakia (9.2%), Bulgaria (5.3%) and Romania (2.9%). Croatia utilises all four elements of traditional support for labour market participation for people with disabilities, namely: employer subsidies, quotas, sheltered workshops and support for self-employment, so that the gap between policy and practice is significantly large in this case. In a sample of 391 persons with disabilities, the study found only 11.3% employed, 42.2% unemployed and 38.5% receiving a disability pension.

## c. Minorities

Two minority groups are widely recognised as suffering from discrimination in Croatia, including discrimination in the labour market. These are **Roma** and **ethnic Serbs**, particularly returnees. However, the cumulative nature of discrimination against these groups, together with a general reluctance to engage in ethnic monitoring, means that both baseline data and reliable evidence of discrimination in the labour market is absent.

For Roma, discrimination in the education system, through delayed enrolment, use of remedial classes, placement in special schools or programmes, and segregated classes (ECHR, 2010), combined with lower value placed on education in some Roma households, leads to higher dropout and significantly lower educational attainments. This, then, creates a situation where the ability to access the labour market is already limited. Useful data can be gathered from a recent UNDP/WB/EC survey conducted in May-July 2011 on a random sample of Roma and non-Roma households living in areas with higher density of Roma populations in Croatia. Approximately 750 Roma households and approximately 350 non-Roma households living in proximity were interviewed (UNDP/WB/EC, 2011). The total employment rate for the Roma sample aged 15-64 was 14% (7% for women) compared to a rate of 49% (and 41% for women) amongst non-Roma. The Roma unemployment rate at 65% was almost three times the rate for non-Roma. At the same time, 40% of Roma had experience of informal employment compared to only 6% of the non-Roma sample.

With regards to the Serbian minority, one key issue relates to employment in the civil service and in local and regional self-government in areas of a significant Serbian population. Under the *Constitutional National Minorities Rights Act*, the Government has a commitment for 5.5% of all those in the public service to be from national minorities by 2014. In fact, figures from the last *JIM Implementation Report* from September 2012 show that the proportion of ethnic minorities in the civil service fell from 4.2% in 2009 to 3.4% in 2011. Whilst general numbers of public servants declined, even more minorities lost their jobs although this may be related to age and type of contract more than to discrimination. The number of ethnic minority civil servants of Serbian origin is only available for 2011, totalling 1,267 or 2.4%.

## 1.4. Social situation

Compared to the rest of the EU, Croatia is characterised by a **relatively high risk of poverty and social exclusion**. The at-risk-of-poverty rate, the rate of severe material deprivation, and the population share of people living in households with low work intensity

(the three Europe 2020 indicators) all indicate that **social conditions in Croatia are comparatively unfavourable**.

The available data, based on EU-SILC methodology, show that in 2011 the at-risk-of-poverty rate after social transfers was as high as 21.1%. The EU27 average was 16.9%. There were only four countries where the at-risk-of-poverty rate was higher: Spain, Bulgaria, Romania, and Greece. As regards material deprivation, the rate of severe material deprivation was also comparatively high. In 2011, it amounted to 14.8%. The average for the EU27 was lower, 8.8%, and as in the case of the at-risk-of-poverty, only four countries – Hungary, Romania, Latvia, and Bulgaria – had higher values on this indicator. As many as 17.0% of the population, lived in households with very low work intensity. Of EU Member States, only Ireland had a higher rate for this indicator. Compared to figures for 2010, the percentage risks across all three indicators rose, significantly so in terms of the proportion living in very low work intensity households, rising from 15.4% to 17.0%

In 2011, almost a third of the Croatian population was at risk in terms of at least one of the above three indicators. The **at-risk-of-poverty or social exclusion rate**, measuring the population share of people at-risk-of-poverty or severely materially deprived or living in very low-work-intensity households, was **32.7%**. The overall rate increased from 31.3% in 2010, the first year that EU-SILC data was available. The respective figure for the EU-27 was substantially lower, 24.2%. According to this indicator, only Romania, Latvia, and Bulgaria had higher rates than Croatia. Based on the *2013 Economic Programme of Croatia*, the government's intention is to reduce the number of people at risk of poverty or social exclusion by 100,000, or 7.2% by 2020. For comparison, the overall EU target for reduction is 20 million or, equivalently, 16.7%. In light of this fact, the **Croatian target** has been described as "**not sufficiently ambitious**" in view of the social challenges Croatia is facing (EC, 2013, p. 21). Unfortunately, no targets have been set for the sub-indicators within the indicator of the risk of poverty or social exclusion, so it is far from clear who is being targeted in terms of reduction of those at risk.

Not all social groups are equally likely to be at risk-of-poverty and/or social exclusion. Concerning the risk of poverty, the following groups are more likely to be at risk of poverty than the population as a whole: the population aged 65 or more, particularly women, the unemployed, single-person households, single-person households where the person is 65 or older, and single parents. The data for 2011 shows that those aged 65 or more had an at-risk-of-poverty rate of 27.3%, compared to 21.1% for the population as a whole. This is partly due to the non-existence of a so-called 'social pension' for those over 65 who are neither beneficiaries of a regular pension nor claimants of social assistance (at least 35,000 people). The at-risk-of-poverty rate of 27.3% for those over 65 is substantially higher than the EU-27 average of 15.8%. As regards the other four groups, their respective at-risk-of-poverty rates were more than twice the figure for the entire population. The highest rate, 46.6%, was recorded for the group of single-person households where the person concerned is 65 years old or older.

Besides the five mentioned vulnerable social groups, there are other vulnerable groups on which there are no comparable data on the extent of the risk of poverty and social exclusion. The *Joint Inclusion Memorandum of 2007* (JIM), a joint agreement between the Croatian government and the European Commission, lists four main vulnerable groups: persons with disabilities; returnees, refugees, and displaced persons; Roma; and other vulnerable groups such as homeless persons, drug addicts, and victims of domestic violence. The Croatian National Institute of Public Health (2012) reported that there are about half a million people with disabilities, disproportionately men, which comprise about 12.1% of the population. More than half of these people are of working age, suggesting the potential importance of measures directed towards improving the employability of those

people. According to the Government of the Republic of Croatia – Ministry of Social Policy and Youth (2012), there are about 354,000 people registered as returnees, of which about 38% are Serbs who fled to Serbia or Bosnia and Herzegovina during the war. One of the most important issues they face concerns housing. Although data is lacking, it can also be argued that members of the Serbian minority, particularly those who live in war affected areas and are returnees having fled Croatia during or after the war, also face a higher risk of social exclusion. Although census figures, based on self-reported ethnicity, are problematic, it is worthy of note that the self-declared Serbian population in Croatia at the 2011 census was 186,633 (4.36%), compared to 201,631 (4.54%) in 2001 and 581,663 (12.16%) in 1991. Perhaps more tellingly, the average age of ethnic Serbs in Croatia in 2011 was 53.1 years, compared to 41.7 for Croatia as a whole and 41.0 for ethnic Croats.

Roma are arguably the group facing the most severe exclusion. At the 2011 census 16,975 people (0.4% of the population) declared themselves to be Roma. Whilst this is a significant increase on 2001 figures (where 9,466 declared themselves as Roma), it is widely agreed that the true figures for Roma in Croatia are at least 45,000 (or 1% of the population) and may be higher (UNDP, 2006). Data from the UNDP/WB/EC *Regional Roma Survey 2011* (UNDP/EU/WB, 2011) show that the poverty rate for Roma people in Croatia is twice the national poverty rate. In addition, the living conditions are especially low: the average area of their dwellings is almost three times smaller than the national average, more than a third of them live without running water, and more than half of them do not have an indoor toilet or bathroom. Besides these basic living conditions, Roma are disadvantaged in terms of education, having significantly lower enrolment rates at all levels of education. As a consequence, only 15% of the working-age Roma participate in the formal labour market. They also have difficulties accessing the healthcare system services. One of the best indicators of the degree to which Roma are disadvantaged is the fact that although their population share is less than 0.5%, about 13.5% of all social assistance beneficiaries were Roma in 2003 (National Programme for Roma, 2003), even though the precise nature of the calculations behind this often quoted figure is hard to find.

In its *2006 Social Development Report*, devoted to the topic of social exclusion in Croatia, the UNDP recognizes two additional vulnerable groups: sexual minorities and HIV-infected persons. Another group at risk of social exclusion are institutionalised populations, particularly children lacking parental care, children and adults with disabilities, young people in conflict with the law, and persons with mental health issues. Accurate, comparable, statistics are not available in this area and Croatian statistics tend to understate the true extent of the problem by excluding those institutionalised in health or educational facilities. UNICEF's TransMONEE database (UNICEF, 2013) suggests a rate of children in residential care in Croatia in 2010 of 4.7 per 100,000 of the relevant population. This is high by Western Balkan standards, but low compared to many CEE member states. Although the rate has decreased from a level of 6.3 per 100,000 in 2008, rates are similar to those in the mid-1990s.

The spatial aspect of the risk of poverty and social exclusion is especially pronounced in Croatia. There are large spatial disparities in the level of economic development between the 21 counties (NUTS 3 regions). In 2010, the GDP per capita ranged from EUR 5,357 in Brod-Posavina county (eastern Croatia) to EUR 18,545 in the City of Zagreb. According to a recent World Bank study (WB, 2010) in 2008 more than half (about 60%) of the poorest 10% of the total population lived in counties of central and eastern Croatia. Another recent study (Rubil, 2013) found large spatial disparities in the risk-of-poverty rate, which ranged in 2010 from 3.9% in Istria county to as much as 47.5% in Virovitica-Podravina county in the east. The incidence and the risk of poverty is higher among rural than among urban population (WB, 2010; Nestić and Vecchi, 2007). A particular issue in Croatia is the migration of younger people, particularly those with higher levels of education, from rural,

war-affected, and isolated areas (including the Croatian islands) to larger urban centres (Mežnarić and Stubbs, 2012). This creates a situation where development in these areas, and access to employment and key services, is increasingly limited.

## 1.5. Social partners and social dialogue

At the national level, social dialogue is primarily established through the tripartite counselling body, the **Economic and Social Council** (ESC), while bipartite and sectoral dialogues outside the public sector are rather poor. The ESC was founded in 1994 with the aim to provide opinions, suggestions, initiatives and evaluations on various issues of common interest between the main social partners in the economy - the government, employers and trade unions. The majority of trade unions are affiliated within five<sup>4</sup> trade union confederations that are representative enough to participate in the work of the ESC while the Croatian Employers Association is the only employer's organisation that satisfies the criteria for representation in the ESC. Although the ESC went through 'trials and tribulations' since its start in 1994, its influence on policy-making via regular consultations within the body is quite important. In 2001 the government formed the Office for Social Partnership as professional and logistic support to the Council, as well as an intermediary in case of disputes. At the end of 2011 the Independent Service for Social Partnership of the Ministry of Labour and Pension System replaced the Office for Social Partnership. Furthermore, in order to develop tripartite dialogue at local level, economic and social councils are also founded at the regional (county) level.

Different studies (Bagić, 2010; Nestić and Rašić-Bakarić, 2010) indicate that trade union density in Croatia is around 35%, but with a declining trend. However, there are huge differences between the public and the private sectors, with density in the private sector being only 17% while in the public sector, inclusive of state-owned enterprises, it is around 70%. The coverage rate of collective agreements is estimated at 60%; again with large differences between the public (70%) and the private sectors (45%). Relatively high coverage rate compared to trade union density in the private sector is the result of legal extensions of most sector-level agreements to all workers in the sector made by Government decree. However, due to more stringent criteria for extension following the 2009 *Labour Act* and due to termination of the sector-level collective agreement for distributional trade, the actual coverage rate in the private sector is lower than stated in the abovementioned assessment. The central issues within collective agreements, i.e., pay and working time, are settled at the company level in the private sector, while sectoral collective agreements prevail in the public sector.

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<sup>4</sup> The Union of Autonomous Trade Unions of Croatia (SSSH); the Independent Croatian Trade Unions (NHS); the Matrix of Croatian Trade Unions (Matica); the Croatian Trade Union Association (HUS); the Association of Workers' Trade Unions of Croatia (URSH). These associations cover around 90% of trade union membership in the country. In the last assessment of the representativeness for participation in the ESC, the URSH did not satisfy the representativeness criteria and was left out of the Council, but it established rather close relations with the HUS and remains a respectable social partner at the national level.

## 2. OVERVIEW OF SOCIAL AND EMPLOYMENT LEGISLATION AND POLICY

### KEY FINDINGS

- The labour market in Croatia is usually considered to be rigid mostly due to labour legislation.
- The economic crisis suggests the need for many legislative changes and policy measures in the field of employment and social policy.

### 2.1. Relevant legislation in the field of employment, social protection and working conditions

The key labour legislation in Croatia is the **Labour Act**. It was first introduced in 1995, and amended several times before the new *Labour Act* was enacted in 2009. Its latest revision occurred in June 2013 with the main aim of further harmonisation with EU legislation. However, the Croatian labour market is still considered to be among the most rigid in Europe with one of the strictest employment protection regulations (Matković and Biondić, 2003; Rutkowski, 2003; Tonin, 2009; WB, 2011). CNB (2013) in its latest report, before the mentioned amendments took place, states that the main reasons for labour market rigidities in Croatia are legal limitations in application of fixed-term contracts, complicated procedures with lay-offs, regulation of collective dismissals and the inflexibility of current reasons for regular termination of employment contracts.

Besides the *Labour Act*, labour relations in Croatia are governed by other legislative procedures, including the *Law on Occupational Safety*, *Minimum Wage Act*, *Law on employment mediation and entitlements during unemployment*, and other regulations directly or indirectly connected with the labour market (see Annex). As far as working conditions are concerned, most issues are resolved in the *Labour Act*, while some additional provisions are determined by collective agreements. People with disabilities are employed under general and special conditions, regulated by the *Law on Vocational Rehabilitation and Employment of Persons with Disabilities*, while their pension is regulated by the *Law on Extended Service Period*, the same law that regulates pension rights for special and hazardous occupations. Main issues within the pension system are regulated by the *Pension Insurance Act* as well as by the *Law on Mandatory and Voluntary Pension Funds*.

During 2012 the newly formed government adopted several regulations affecting the labour market. For example, in mid-2012 the *Act on the Criteria for Participation in Tripartite Bodies and Representativeness for Collective Bargaining* was introduced, which abolished the unlimited application of legal rules from expired collective agreements in cases where new agreements have not been concluded. It also repealed some provisions of the *Labour Act* regarding parties to a collective agreement and on the trade union collective bargaining committee. The *Law on the Promotion of Employment* was also introduced in 2012, while in the early 2013 the new *Minimum Wage Act* has been introduced. It introduced moderate changes compared to the 2008 Act that are mainly reflected in an increase in the initial level of minimum wage from 1 June 2013 and a new adjustment method. Instead of automatic adjustment by a formula based on GDP and wage growth, the new regulation stipulates that the Government will determine minimum wage each year after consultations with social partners and by considering the ratio of minimum to average wage.

A new **Law on Social Welfare** was introduced in 2012, replacing a previous law introduced by the preceding Government in 2011. Crucially, the new Law defines more clearly rights to social assistance, the nature of the means test, and the levels of benefit. It also more clearly defines the nature of decentralisation and abolishes a new regional tier of the governance of centres of social welfare introduced in the 2011 Law. Importantly, the new Law aims to support the process of the transformation of institutional care reflected in the *Master Plan for Deinstitutionalisation and the Social Welfare Strategy 2011-2016*.

## 2.2. Overview of employment and labour market policy, especially during the crisis

### 2.2.1. Tax reforms

Besides rigidities on the labour market, the relatively high level of labour costs is often perceived as a reason for the weak external competitiveness of the Croatian economy and low job creation (Tomić and Grdović Gnip, 2011). In any case, taxes and social security contributions are relatively high in Croatia.

The previous HDZ-led government, in the first phase of the crisis (2008-2011), chose to increase labour and consumption taxation to keep public finances under control. In July 2009, it temporarily introduced a so-called 'crisis tax' levied on the net income of households in a progressive manner. The government also abolished all tax reliefs in the personal income tax system. It also increased excise duties on tobacco and fuel as well as the standard VAT rate from 22% to 23%. In June 2010 the government made further changes to the *Law on personal income tax* by decreasing the number of tax brackets from four to three and by reducing the lowest tax rate (from 15% to 12%).

In order to help boost employment the new SDP-led government, in power since December 2011, decided **to shift even more the tax burden from labour onto consumption and property**. In March 2012 the government further increased the standard VAT rate from 23% to 25% while at the same time reforming income taxation by increasing the personal deduction and thus changing tax brackets in order to benefit low-income earners. In addition, the government decreased health insurance contributions from 15% to 13%. The introduction of a comprehensive property tax is currently being discussed in public although there appears to be no clear consensus amongst coalition partners.

In order to maintain public finances in order, some additional measures were introduced in the public sector employment and wages spheres, with objections from public sector trade unions. In 2009, all new employment in public administration was frozen, even though later on it became evident that this 'measure' was not implemented fully. In 2012, additional restrictions on overtime, temporary service contracts and fixed-time contracts were introduced. Christmas and holiday bonuses were abolished in 2012 and 2013, together with some restrictions on travel allowances. Public sector wage cuts occurred already in May 2009 when they were returned to their December 2008 levels and frozen temporarily. In 2009, 10% wage cuts for state officials and 5% cuts for managers in public companies were introduced. In March 2013 gross wages in the entire public sector were reduced by 3%.

### 2.2.2. Measures to combat unemployment during the crisis

Several legislative provisions have been introduced since the start of the crisis in order to combat unemployment. The most important are the *Act on Job Retention Subsidies* and the *Law on the Promotion of Employment*. While in the first case conditions for support were

unclear and thus firms showed almost no interest (Vehovec and Tomić, 2012), the second legislation, through ALMPs, exerted some impact in combating unemployment. In July 2013 the MLPS opened a number of Centres for Information and Counselling on Careers (CICC) throughout the country to support and encourage people looking for opportunities for learning and work, but also to set long-term goals for individuals in terms of lifelong learning and sustainable employability.

#### **a. Active labour market policies (ALMPs)**

In April 2008 the government, with the European Commission, adopted the *Joint Assessment of the Employment Policy Priorities* (JAP). This document presented a set of employment policy goals necessary for transforming the country's labour market and preparing the country for accession to the EU. This implies both employment policies and institutional adjustment for implementing the *European Employment Strategy* in the future. The adoption of the JAP, together with the *Joint Memorandum on Social Inclusion* (JIM), initiated a new cycle of active employment measures in Croatia and both 2009-2010 and 2011-2012 *National Employment Promotion Plans* (NEPP) were based on JAP and JIM goals.

The Croatian Employment Service (CES)<sup>5</sup> is the institution responsible for developing and implementing ALMP measures. Following the strategic objectives and measures set out in the NEPP, the measures within the jurisdiction of the CES are divided into support for employment and training and measures that are not considered as state aid, but are aimed at training the unemployed according to labour market needs, on-the-job training without actual employment for persons without previous work experience, hiring long-term unemployed persons to undertake public works and the preservation of jobs in circumstances where the employer introduces a programme of full-time work for less than 40 hours a week. With the new series of active measures contained in the *NEPP 2011-2012*, the CES introduced some new measures tailored to the impact of the crisis, such as subsidised hiring for shared workplaces, employment subsidies for replacement workers, vocational training without actual employment and aid to preserve jobs.

The CES reports that expenses for active employment programmes comprise approximately 10-16% of total expenditures of the Service, with a significant increase in the last three years. However, even with this increase Vehovec and Tomić (2012) report that **ALMP expenditure was lower in Croatia than in other EU countries**. Further, in the years preceding the crisis, the coverage rate for active programmes was slightly over 3%, and it fell to 2.5% in 2009 while in 2011, in an attempt to fight the impacts of the crisis on the labour market, the coverage rate for the unemployed increased to 12% (Tomić, 2012). In 2012, the measures of active employment policy covered 41,555 people,<sup>6</sup> out of which 28,807 were newly included. In 2011, 33,972 people were included in the measures. The amount of resources devoted to ALMPs in 2012 was 366,881,225 HRK (about €49.25 m.), or 17.6% of total CES expenditures. Measures that are directly targeted at unemployed people achieve better implementation results in general. Namely, out of the total number of persons included into ALMPs in 2012 public works included 13,778 people, on-the-job training without actual employment for persons without previous work experience included 9,583 people and the education of unemployed persons 5,096 people.

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<sup>5</sup> With Croatian accession to the EU, the Croatian Employment Service has become part of a European network of Public Employment Services (EURES) and Croatian citizens are able to use employment services in other EU countries.

<sup>6</sup> The average number of registered unemployed in 2012 was 324,324.

There is a noticeable **increase in the number of persons covered in 2012**, which was expected due to the increase in the number of unemployed and the extended duration of unemployment of certain groups of unemployed, especially the groups identified in the JAP and NEPP whose unemployment rate is above average. Nevertheless, active labour market measures can offset negative trends only partly, because the measures are limited in scope as are the financial resources devoted to them (Matković et al., 2012). They cannot replace, or mitigate, the lack of demand for labour, which has led to a rapid growth of inflows into unemployment. Additionally, developing a culture of evaluation of ALMPs, one of the measures proposed in Croatia's JIM, to demonstrate the long-term impacts on human capital and employability, is still very much needed in Croatia.

## **b. Measures directed to fight youth unemployment**

Recently, increased attention has been paid to the problem of youth unemployment. Within the *Law on the Promotion of Employment*, ALMP special measures intended for young people were introduced. Young people without work experience in a specific occupation, who have a legal obligation of professional examination or of work experience, can gain the necessary work experience for professional examination or employment through a programme of **on-the-job training without actual employment for persons without previous work experience**. This measure existed earlier, but in 2012 it was extended to the private sector and the upper-age limit was extended over 29 years of age. The costs of pension contribution and monetary compensation in the amount of student scholarship (HRK 1,600) for this group have been covered by government funds. It is expected that through the training programmes young people should acquire the necessary work experience to increase their employability and competitiveness in the labour market.

On joining the EU on 1 July 2013, Croatia became part of the **European Youth Guarantee**. Within the Guarantee the government plans to further increase the range of measures aimed at youth. Also, within the regional CES office in Zagreb, a Youth Centre has been opened recently, to be replicated nation-wide in the future. It will deal with activities of preparation for employment and career planning of youth, working with employers and other interested partners in the local area in order to define and implement an active policy of youth employment. Importantly, the Government announced that the Guarantee will be equally applied to the youth up to 29 years of age, thereby raising the upper age limit by 5 years above the original EU-level agreement.

### **2.2.3. Measures to combat undeclared work**

The study by Baric and Williams (2013) reinforces a widely held view that Croatia has relatively weak institutional infrastructure for tackling undeclared work and pursues only a narrow range of policy measures. For instance, there is no single agency responsible for the fight against undeclared work nor is there a central coordinating body responsible for coordinating different bodies tackling undeclared work in Croatia. Indeed, the fight against undeclared work in Croatia is shared between many departments in different ministries or even separate agencies. This is also stated in Ivanov (2011) where she explains that due to the lack of an adequate system for combating the grey economy as well as a high inclination to tax avoidance in Croatia, a great number of people engage in some kind of informal work. Further, Barić and Williams (2013) suggest that the **dominant policy approach to fight undeclared work is deterrence**, although recently greater attention has been given to enabling policy measures, with an emphasis on preventive measures. The use of supply-side measures, especially incentives to encourage those working undeclared to formalise, has been limited, while the adoption of measures to improve commitment to tax responsibility has been introduced only recently.



Nevertheless, the new government has been determined to decrease the share of undeclared work in the overall economy. Besides **improving tax discipline**, especially in accommodation and catering activities, the new government introduced additional **measures with the goal to reduce undeclared seasonal work**. Namely, the MLPS introduced the so-called 'voucher system' in agriculture, with the intention to extend it to tourism, household services and other seasonal activities in the near future. The 'voucher system' functions in a way that employees get a daily voucher for each recorded day of work. In this way employers have incentives for declaring seasonal work which was not the case before since they were obliged to pay monthly contributions for all registered workers even if they worked only a couple of days during the month.

## 2.3. Overview of social policies in place

### 2.3.1. Pension system and challenges

The pension system in Croatia is based on two mandatory pillars plus a third, voluntary, pillar. The first pillar is the most important pillar operating as a public pension scheme based on the pay-as-you-go and defined-benefit principles financed by contributions paid out of gross wages. The **public pension scheme is highly imbalanced** and its **deficit is rising** which is covered from the central government budget. The mandatory second pillar is based on individual capitalized accounts and defined-contribution principles and governed by private pension funds. Pension insurance contributions are paid in the amounts of 15% of gross wage for the first pillar and 5% for the second pillar.<sup>7</sup>

Clearly, the current labour market situation negatively affects a pension system dominated by the pay-as-you-go scheme. Low employment rates imply a low number of insured people and at the same time there is additional pressure for retirement due to the individual risk of unemployment. This, in turn, leads to a high number of pension beneficiaries which implies a high system dependency ratio (the number of pensioners per 100 of insured people) and a fall in contribution revenues. The system dependency ratio increased sharply, leading to the highest ever level of 85 pensioners per 100 insured in 2012, up from 71.6 in 2008. The share of pension expenditures in GDP was almost 11% in 2012. The deficit amounted to 4.8% of GDP in 2012, which is an increase of 1.1 percentage points from 2008. Yet, in a study by the Institute of Economics, Zagreb (EIZ, 2011) it is emphasized that, due to the built-in trend of a declining benefits to wages ratio in the public pension scheme, **in the longer-term the greater problem is the adequacy of pension benefits rather than its fiscal sustainability**. However, the prolonged recession combined with negative demographic developments pose additional threats to the financial sustainability of the Croatian pension system as well.

The study (EIZ, 2011) drew attention to some additional issues in the Croatian pension system, such as the big difference in pension benefits between pension beneficiaries insured only under the first pillar and those insured in both mandatory pillars. This difference is mostly the consequence of the *Law on Pension Supplement earned under the Pension Insurance Act* that was introduced in 2007 and insured a supplement on the pensions from the first pillar by as much as 27%. The study also emphasises the problem of numerous legislative provisions concerning retirement as well as their frequent changes

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<sup>7</sup> The second and third pillars were introduced in 2002 as the second phase of the pension reform initiated by the 1998 *Pension Insurance Act* with the first phase of the reform centred on thorough changes in the public pension scheme. In 2002 all employees under 40 years of age were obliged to participate in both mandatory pillars, while those between 40 and 50 years of age had the right to choose whether to continue to participate only in the first pillar or pay contributions to both pillars. In 2011 the government enabled all those eligible for retirement who participated in both mandatory pillars to 'return' to the first pillar and receive pensions as if they always contributed only to the pay-as-you-go system.

in the past, but also the existence of several different groups eligible for pensions under favourable conditions, including war veterans. There were 15 different categories of pension beneficiaries that were eligible for pensions under favourable conditions and special regulations in 2012. This comprises 14% of all pension beneficiaries and as much as 19.5% of all expenditures for pensions or 2.1% of GDP was transferred from the budget to finance these pensions. In addition, over 20% of all pensions are comprised of disability pensions.

### 2.3.2. Measures to combat poverty and social exclusion

As of 2010, total social spending (expenditures on pensions, health, unemployment, social security, and social assistance as defined in the ESSPROS statistical framework) amounted to 20.8% of GDP. Croatia was, in comparison to the EU27 average of 29.4%, a low social spender. Yet, in comparison to the former communist countries, Croatian social spending-to-GDP ratio was higher than for most of those countries, with Slovenia (24.8%) and Hungary (23.1%) as exceptions. Social spending has not been affected much by fiscal constraints imposed by the economic crisis.

**The structure of total social spending is not favourable from the perspective of the poor and/or socially excluded.** Only 2% of GDP is devoted to social assistance (non-contributory-based spending on social welfare), which is lower than the EU27 average of 3.3%. No EU country had a higher share of total social spending devoted to non-social assistance functions, namely sickness/healthcare and disability. Whilst the figure for Croatia as of 2010 was 51.5%, the EU27 average was 37.4%. There is some evidence (WB, 2010; Bađun, 2011) that this is due to a large amount of pensions paid to war veterans and transfers to their survivors. There are also many other categorically targeted transfers, a number of which overlap. Thus relatively little remains for the allocation of means-tested transfers to the most needy. In 2011, poverty risk before social transfers was 30.7%, with the rate after social transfers being 21.1%. The social assistance system as a whole is in general poorly targeted.

Another problem of social policy concerns the accessibility of community-based social services, particularly for the most vulnerable groups. According to the UNDP Human Development Report (UNDP, 2006), besides the fact that the amounts of social assistance are often too low, there are also problems due to unequal geographical distribution of quality services, barriers for persons with disabilities trying to access centres for social welfare, lack of information provision to potential beneficiaries, and insufficiently trained staff in centres for social welfare. Although efforts have been made to reduce reliance on institutional care, the provision of community-based services and appropriate funding of sustainable services, as well as appropriate assessment and referral mechanisms, have been slow to develop.

An important aspect of social policy is the accessibility of child day-care, especially in the contexts of improving parents' employability and achieving greater gender equality. In that respect, Croatia is lagging significantly behind the EU standards. While in Croatia, as of 2011, only around 10% of pre-school children participated in day care, the EU27 average is far greater, around 37%. These rates also hide significant regional variations.

The *Social Welfare Strategy 2011-2016* and new *Social Welfare Acts* have provided a broad basis for system reform backed up by a number of externally- and internally-funded reform projects. Reform priorities include: the establishment of a common database for welfare beneficiaries, streamlining of social benefits and reduction of fraud, increased collaboration between centres for social welfare and bureau for employment, and the transformation of residential care institutions through the expansion of alternative family care and community-based services. Strategies and Action Plans exist to challenge the exclusion of

persons with disabilities or Roma and to increase the proportion of minorities employed in central and local government. However, as noted during the JIM process, the development of meaningful baseline data, clear targets and indicators and, above all, timely, accurate and relevant evaluation, has not always been fit for purpose.

## **2.4. The role of social partners and NGOs in policy design and implementation**

The Economic and Social Council (ESC) is designed to provide necessary insight and influence of social partners to policy design and implementation. It has broadly fulfilled its role as a **consultative forum**, while trade unions and employers expressed dissatisfaction with their actual influence on legislation and policy implementation. For instance, trade unions suspended their participation in this body between May 2010 and March 2011. The formal reason was related to their objections to procedures and voting rules within the ESC, but the underlying reason was the government's attempt to change the *Labour Act* concerning the issue of the indefinite prolongation of expired collective agreements. As the Government decided against legislative changes at that time and new rules of procedure for the ESC were adopted, regular meetings of the ESC were re-established as of March 2011. However, **relations between social partners remained strained**, and there is an impression that they have recently become more conflictual. The prolonged crisis requires tough policy measures that often are unlikely to receive support from trade unions. Unilateral policy decisions, such as a reduction in public sector wages by 3% regulated by two Government decrees, made things worse. Some measures, especially in the field of tax policy, were challenged also by the employers' organisation. It is expected that austerity measures will remain the main topic of discussion among social partners in the near future, especially concerning the public sector where significant reforms are still expected to come.

Although there is evidence of 'welfare parallelism' in Croatian social policy (Stubbs and Zrinščak, 2009), with NGOs offering alternative welfare services insufficiently integrated with other providers (notably central, regional and local government), there has been an improvement in recent years. The JIM process clearly opened up a greater space for consultation with NGOs (Stubbs and Zrinščak, 2013) and this has spread to most aspects of policy formulation in social policy. NGOs are involved in policy formulation within relevant Ministries but also through participation in the work of the *Governmental Office for Co-Operation with NGOs* as well as the national *Foundation for Civil Society Development* which also has regional sub-offices. Although not yet based on clear and transparent criteria, NGOs are increasingly involved as service providers at national and local levels. One issue which remains problematic is the relative lack of involvement of service users in consultative processes although some progress has been made regarding the participation of groups representing people with disabilities as well as national minorities.

### 3. LIST OF CURRENT IMPORTANT ISSUES IN EMPLOYMENT AND SOCIAL AFFAIRS

The economic and financial crisis that started in 2008 served to highlight deeper problems in the sphere of employment and social policy in Croatia. With a sharp increase in the number of unemployed and a tightening of the state budget it became evident that many reforms are needed concerning both the labour market as well as social policy. However, the timing and the path of reforms have not always been easily agreed between social partners. Even now, five years after the start of the crisis, some of the necessary legislative changes and policy measures are stalled due to a lack of consensus between the government, trade unions and employers' associations. Though the new government seems more committed to reforms and after several legislative changes and new policy measures in 2012 it has further changes on its agenda in 2013 and 2014. In this section, we mention only reforms officially announced or discussed in public. Space precludes detailed analysis of the size and direction of the changes, or their eventual impacts.

The Ministry of Labour and Pension System (MLPS) announced **changes in several key legislative provisions** under its authority by the end of 2013. Currently, discussion is opened regarding changes to the *Pension Insurance Act* and the *Law on Occupational Safety*. Accompanying changes in these two laws, the *Law on Extended service Period* is also going to be reformed. The new *Pension Insurance Act* is expected to tackle issues of the legal retirement age (increase to 67 years of age or 41 years of service), conditions of early retirement, benefit valorisation and indexation but above all to confirm commitment to development of a multi-pillar pension system. The Ministry also opened public discussion on the draft of the *Law on the part-time and temporary jobs*. After some amendments made in June 2013, the government plans to further change the *Labour Act* by the beginning of 2014, with public discussion open until mid-September. Within the same law, the reform of severance pay is also on the agenda. The Ministry has also announced a new *Act on Job Retention Subsidies* in the near future. According to information from the Ministry the main goals of these legislative reforms are smoothing the process of employment, reducing the grey economy and increasing the compliance of workers' rights.

Both the trade unions and the employers' association have strong, if opposing, views regarding the above mentioned reforms, especially in relation to changes to the *Labour Act*. Trade unions reject further flexibilisation while employers oppose the suggested system of severance pay, where employers should pay contributions for all workers into a severance pay fund, believing that this would further increase labour costs. As far as the reform of the *Pension Insurance Act* is concerned, trade unions as well as pensioners' associations favour strengthening the first pillar and increasing the level of pension benefits whereas the initial idea of the pension reform and the political programme of the current government includes an intention to gradually strengthen the multi-pillar system.

Additional **reforms are expected with regards to public sector employment**. There is a need for structural adjustment in a number of large state-owned companies (including Croatian Electricity Company (HEP), Croatian Postal Service, Croatian Railways and Croatian Airways). The reform of the 'core' public sector is also expected in the future, but this will require strong political will since strong trade unions in the public sector are opposing all suggestions that go in the direction of either employment or wage cuts, or both. Further privatisation of the state-owned companies is also on the agenda, the Croatian insurance company and Croatian postal bank being the first on the list.

An additional problem present on the Croatian labour market is the mismatch between supply and demand, especially in terms of skills. In this respect, the reform of the educational system is needed, on all of levels. The government plans to deal with this problem by applying the *Law on Croatian Qualifications Framework* that has been introduced earlier this year. **Croatian Qualifications Framework (CQF)** should have **vital role in reforming the education system**, which includes educational programs based on learning outcomes and aligned with the needs of the labour market, transparent criteria for assessing learning outcomes, development of criteria and procedures for the assessment of outcomes of non-formal and informal learning, strengthening of lifelong learning and quality assurance in the gaining of all qualifications. Special emphasis should be given to the life-long learning since in this aspect Croatia greatly lags behind the other EU member countries. *Law on Adult Education* should be further strengthened in this respect as well.

The Ministry of Social Policy and Youth (MSPY) plans **amendments to the Law on Social Welfare**. Amendments to the Law are planned for 2013 which, taken together with the earlier laws, is meant to provide a significant and comprehensive reform of the social welfare system. Planned amendments are said to relate to a clearer commitment to a minimum income guarantee scheme and to greater co-operation between different bodies working on employment, social welfare and social protection. These changes are meant to streamline and simplify the whole system of social benefits, improve co-ordination through the introduction of a shared database, and reduce fraud. Changes are expected to strengthen collaboration between social welfare and employment centres, with a concerted effort to support training and increase the employability of young people. As a note of caution, many of these changes have been suggested for at least a decade or more but have proved difficult to introduce with the system exhibiting a strong resistance to change.

Croatia's initial commitments regarding the employment and poverty reduction targets under the Europe 2020 agenda have been seen widely as lacking in ambition. The two areas are clearly linked since, without a significant increase in employment rates, it is hard to see how rates of poverty and social exclusion will be reduced. A new strategy on poverty and social exclusion is currently being developed although, at this stage, it is not clear whether the targets set in the Government's *2013 Economic programme* will be revised.

The pressure on unemployment could partly be alleviated by joining the EU which might stimulate emigration of the unemployed. However, given that most of 'traditional' labour markets for Croatian workers (Austria, Germany, and Italy) introduced restrictions on the employment for Croatian citizens this is not expected to yield visible changes in the short-term. What is more, it might actually have negative consequences in the long-term by inducing the best-educated and potentially most productive citizens to leave the country.

An opportunity for further improvements in the area of employment and social situation for Croatia after joining the EU lies in the use of the resources from the ESF, building on some of the positive experiences from the later stages of IPA funding. Priorities include increasing the employability of vulnerable groups and continuing the process of improving access to community-based social services. At this point in time, there seems little prospect of an increase in funds for key aspects of employment and social policies, although the Government has a commitment to increasing spending on ALMPs. Although some savings may be made as a result of improved assessment of eligibility for social benefits and more frequent review, issues of both the adequacy and coverage of social assistance remain problematic. Distortions in spending as a result of commitments to war veterans and their families appear unlikely to be resolved in the near future.

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## ANNEX

### THE MOST IMPORTANT LABOUR MARKET AND SOCIAL INDICATORS COMPARING CROATIA AND THE EU

Indicator		EU27 in 2012	HR in 2012
Activity rate	% of population aged 20-64	76.2	65.4
	<i>Male</i>	83.0	71.8
	<i>Female</i>	69.5	59.1
Employment rate	% of population aged 20-64	68.5	55.4
	<i>Male</i>	74.6	60.6
	<i>Female</i>	62.4	50.2
Unemployment rate	% of population aged 15-64	10.6	16.3
	% of population aged 15-74	10.4	15.9
Youth unemployment rate	% of population aged 15-24	22.8	43.0
	% of population aged 15-19	28.0	65.9
	% of population aged 20-24	21.2	37.2
Youth unemployment ratio	% of total population aged 15-24	9.7	12.7
Long-term unemployment (12 months or more)	% of the total unemployment	44.4	64.6
Labour cost index	2008=100	108.1	99.4
Labour productivity per person employed	EU27=100 (PPS)	100*	80.2*
	2005=100 (real)	103.7	105.6
Real unit labour costs	2005=100	100.6	97.9
People at risk of poverty or social exclusion	<i>Thousand</i>	119,820*	1,382*
	% of total population	24.2*	32.7*
People living in households with very low work intensity	<i>Thousand</i>	38,542*	534*
	% of total population	10.2*	17.0*
People at risk of poverty after social transfers	<i>Thousand</i>	83,472*	890*
	% of total population	16.9*	21.1*
People severely materially deprived	<i>Thousand</i>	43,430*	625*
	% of total population	8.8*	14.8*

\* - 2011

Source: Eurostat

## THE LIST OF RELEVANT LEGISLATIVE PROCEDURES IN THE AREA OF EMPLOYMENT AND SOCIAL SECURITY

- *Labour Act [Zakon o radu]*, Official Gazette [Narodne novine], No 149/2009, 61/2011, 82/2012, 73/2013.
- *Act on the Criteria for Participation in Tripartite Bodies and Representativeness for Collective Bargaining [Zakon o kriterijima za sudjelovanje u tripartitnim tijelima i reprezentativnosti za kolektivno pregovaranje]*, Official Gazette [Narodne novine], No 82/2012, 88/2012 – corrigendum.
- *Law on Occupational Safety [Zakon o zaštiti na radu]*, Official Gazette [Narodne novine], No 59/1996, 94/1996, 114/2003, 100/2004, 86/2008, 116/2008, 75/2009, 143/2012.
- *Minimum Wage Act [Zakon o minimalnoj plaći]*, Official Gazette [Narodne novine], No 39/2013.
- *Law on employment mediation and entitlements during unemployment [Zakon o posredovanju pri zapošljavanju i pravima za vrijeme nezaposlenosti]*, Official Gazette [Narodne novine], No 80/2008, 94/2009, 121/2010, 25/2012, 118/2012, 12/2013.
- *Act on Job Retention Subsidies [Zakon o potpori za očuvanje radnih mjesta]*, Official Gazette [Narodne novine], No 94/2009, 88/2010.
- *Law on the Promotion of Employment [Zakon o poticanju zapošljavanja]*, Official Gazette [Narodne novine], No 57/2012, 120/2012.
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- *Pension Insurance Act [Zakon o mirovinskom osiguranju]*, Official Gazette [Narodne novine], No 102/1998, 127/2000, 59/2001, 109/2001, 147/2002, 117/2003, 30/2004, 177/2004, 92/2005, 43/2007, 79/2007, 35/2008, 40/2010, 121/2010, 130/2010, 139/2010, 61/2011, 114/2011, 76/2012.
- *Law on Mandatory and Voluntary Pension Funds [Zakon o obveznim i dobrovoljnim mirovinskim fondovima]*, Official Gazette [Narodne novine], No 49/1999, 63/2000, 103/2003, 177/2004, 140/2005, 71/2007, 124/2010, 114/2011, 51/2013.
- *Law on Extended Service Period [Zakon o stažu osiguranja s povećanim trajanjem]*, Official Gazette [Narodne novine], No 71/1999, 46/2007, 41/2008.
- *Law on Pension Supplement earned under the Pension Insurance Act [Zakon o dodatku na mirovine ostvarene prema Zakonu o mirovinskom osiguranju]*, Official Gazette [Narodne novine], No 79/2007, 114/2011.
- *Law on personal income tax [Zakon o porezu na dohodak]*, Official Gazette [Narodne novine], No 177/2004, 73/2008, 80/2010, 114/2011, 22/2012, 144/2012.
- *Law on Social Welfare [Zakon o socijalnoj skrbi]*, Official Gazette [Narodne novine], No 33/2012.

## **NOTES**



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