

# The employment and social situation in Croatia

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# The employment and social situation in Croatia



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Directorate-General for Internal Policies  
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## **Abstract**

This study provides an overview of the main developments in the area of employment and social affairs in Croatia, including relevant legislative and policy measures as well as the role of social partners and social dialogue. It also addresses the use of EU funds in combating unemployment in Croatia and the priorities of Croatia's upcoming Presidency of the EU. This document was provided by Policy Department A at the request of the European Parliament's Committee on Employment and Social Affairs.

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## LIST OF ABBREVIATIONS

<b>ALMPs</b>	Active Labour Market Policies
<b>AROPE</b>	At-risk-of-poverty or social exclusion
<b>AROP</b>	At-risk-of-poverty
<b>CEA</b>	Croatian Employers' Association
<b>CEE</b>	Central and Eastern Europe
<b>CBS</b>	Croatian Bureau of Statistics
<b>CES</b>	Croatian Employment Service
<b>CNB</b>	Croatian National Bank
<b>CPII</b>	Croatian Pension Insurance Institute
<b>EPL</b>	Employment Protection Legislation
<b>ESC</b>	Economic and Social Council
<b>ESF</b>	European Social Fund
<b>ETUI</b>	European Trade Union Institute
<b>EU</b>	European Union
<b>FRA</b>	European Union Agency for Fundamental Rights
<b>GAC</b>	General Affairs Council
<b>GDP</b>	Gross Domestic Product
<b>GMB</b>	Guaranteed Minimum Benefit
<b>IIOHS</b>	Institute for the Improvement of Occupational Health and Safety
<b>JQI</b>	Job Quality Index
<b>LCI</b>	Labour Cost Index
<b>LFS</b>	Labour Force Survey
<b>LGBTI</b>	Lesbian, Gay, Bisexual, Transgender/Transsexual and Intersex



<b>LLCG</b>	Lifelong Career Guidance Centres
<b>LMP</b>	Labour Market Policy
<b>MFEA</b>	Ministry of Foreign and European Affairs
<b>MLPS</b>	Ministry of Labour and Pension System
<b>MoSE</b>	Ministry of Science and Education
<b>NEET</b>	Not in employment, education or training
<b>OPEHR</b>	Operational Programme for Efficient Human Resources
<b>PPS</b>	Purchasing Power Standard
<b>YEI</b>	Youth Employment Initiative
<b>YG</b>	Youth Guarantee

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## EXECUTIVE SUMMARY

After a six-year downturn from 2009, the Croatian economy has been on a recovery path since 2015, yet the situation on the labour market is still far from satisfactory. Despite declining overall unemployment, Croatia still has one of the highest unemployment rates in the EU for both the adult and youth population, while both employment and activity rates are among the lowest in the EU (Table 1). The 2013 EU accession opened the EU labour market for Croatian workers resulting in massive emigration and causing labour shortages in some sectors. Employment has shown moderate post-recession growth, but its structure seems to be changing; namely, the share of self-employment in total employment has fallen, while the share of temporary employment has risen.

Undeclared work and discrimination against certain groups, especially women, Roma and LGBTI persons, are still a feature of the Croatian labour market. Working conditions are considered by a large share of workers as bad and worse than at the start of the recession. Almost a quarter of the Croatian population is at risk of poverty or social exclusion, an improvement compared to the time of the crisis (Table 1). Older people, the unemployed and the low-skilled are the most vulnerable groups, and Croatia is one of the countries with the highest share of children living at risk of poverty. The effectiveness of social transfers in reducing (the risk of) poverty is also relatively low, and worsening over time (Table 1).

Table 1: Main labour market and social indicators for Croatia

	Employment rate (% of population aged 20-64)	Youth unemployment rate (% of active population aged 15-24)	People at risk of poverty or social exclusion (AROPE) (% of total population)	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP)
2013	57.2	50.0	29.9	34.3
2018	65.2	23.7	24.9	24.2

Source: Eurostat

Facing many challenges in the spheres of employment and social situation in Croatia, the Government has introduced a number of legislative changes and policy measures. A new *Labour Act* was introduced in 2014, which continued along the path of labour market liberalisation, whereas legislation related to the responsibilities of the Croatian Employment Service (CES), such as employment mediation, unemployment protection or ALMPs, has been subsumed into a single law—*Law on the Labour Market*—as of the beginning of this year. A new *Minimum Wage Act* has also been in effect since 2019.

Although the single minimum income scheme—the Guaranteed Minimum Benefit—has both low adequacy and low coverage, the Government’s plans for the improvement of the social benefits system for the 2018-2020 period is mainly focused on some technical aspects of the system’s functioning, rather than improving its poverty-reduction capacity. In addition, it seems that demographic revival and war veterans’ living standards are prioritised over the poor.

Perhaps the most important policy reform initiative of the incumbent government has been changes to the tax system where three rounds of reforms have already happened and the fourth is on the way. Another important reform was the one of the pension system. While rather all-encompassing and ambitious, the reform was not well accepted by the trade unions, thus the Government decided to revoke the changes proposed to the statutory retirement age and penalties for early retirement.

Social dialogue is mainly established through the national tripartite body Economic and Social Council (ESC), with a number of sectoral tripartite and bipartite social councils, as well as county-level economic and social councils. Recently, there have been some serious disputes between the trade unions and the Government about the functioning of the ESC, but also related to its role in the pension reform, which resulted in trade unions' cancellation of their participation in the ESC.

# 1. RECENT DEVELOPMENTS IN EMPLOYMENT AND SOCIAL INCLUSION

## KEY FINDINGS

Despite the economic revival, followed by recovery on the labour market, Croatia still has one of the highest unemployment rates in the EU for both the adult and youth population, while both employment and activity rates are among the lowest.

Almost a quarter of the Croatian population is at risk of poverty or social exclusion, which is still an improvement when compared to the time of the recent recession.

## 1.1. Main economic developments

Although on a solid growth path in recent years, Croatia is still recovering from a deep and long-lasting recession that started a decade ago. It recorded negative economic growth for six consecutive years (2009-2014), with a cumulative drop in real GDP of 12 %. The recession especially affected public finances and the labour market. There has been a **recovery from 2015–2018**, with **cumulative growth of 11.5 %** (2.9 % on average), but real GDP is still below the 2008 figure. The main drivers of growth were net exports and, especially, private consumption, while investment picked up significantly only this year. Inflation was moderate (with deflation in 2016), while the exchange rate was rather stable. Public finances have stabilised as of 2015 as the deficit-to-GDP ratio significantly decreased and the first general government surplus in 20 years was recorded in 2017 (0.8 % of GDP). The public debt-to-GDP ratio also started to decline due to stronger GDP growth. Nevertheless, negative birth rates and net emigration have led to depopulation, which affects not only the developments on the labour market, but the sustainability of both the health and pension systems.

## 1.2. Employment and the labour market

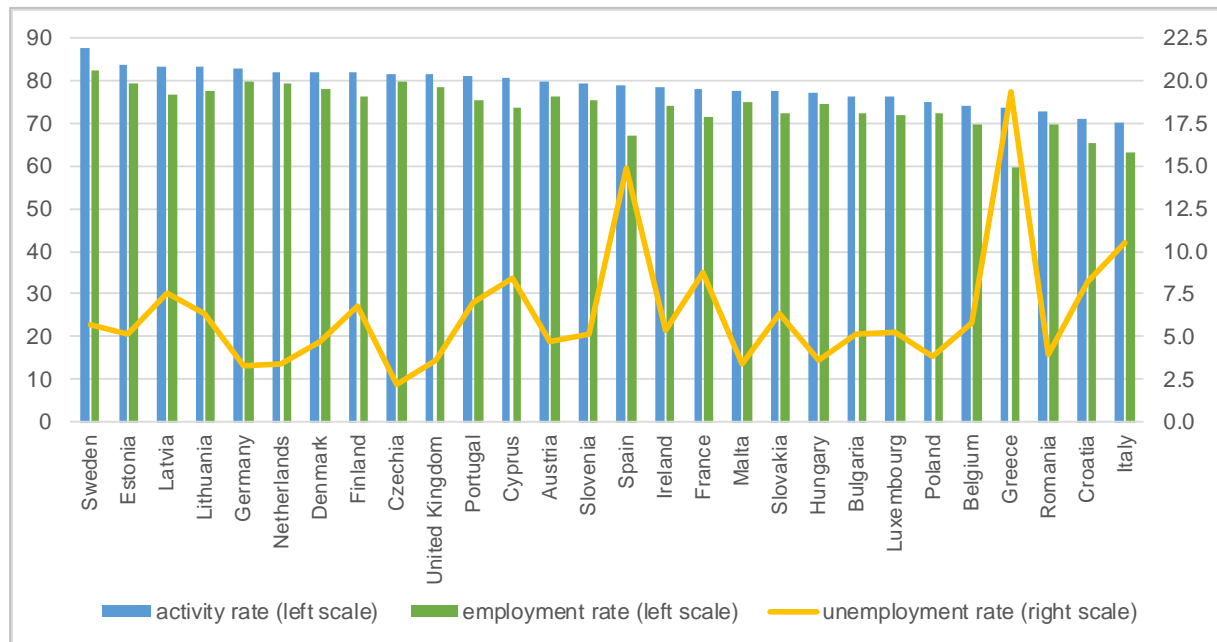
### 1.2.1. Employment and unemployment

The economic recovery has led to a rather slow rise of employment as the employment rate surpassed its pre-crisis (2008) level only in 2018. The overall employment rate in Croatia remains one of the lowest in the EU: only 46.9 % of the population older than 15 and **only 65.2 % in the age-group 20-64** were employed in 2018, higher only than in Greece and Italy. Croatia also faces a rather **low activity rate among the working-age population**. For those aged 20-64 the activity rate stood at **71.0 % in 2018**, the second lowest in the EU (Figure 1), with EU-28 average standing at 78.4 %. Furthermore, the activity rate has not changed significantly in the last decade. Nestić and Tomić (2018) argue that the low activity rate is a result of different factors, including early retirement in the midst of the 1990s privatisation and restructuring of formerly state-owned companies, the possibility of different forms of retirement for special groups of the population (war veterans, people with disabilities), prolonged education, and family/caring responsibilities (mainly related to women). They conclude that Croatia has the lowest workforce potential in the EU, and suggest that employment should be boosted through activation.

The overall **unemployment rate more than halved since its peak in 2013, from 17.3 % to 8.5 % in 2018**, while around 6.9 % of the active population was available for work but not actively seeking it. However, this was still one of the highest unemployment rates in the EU, following Greece, Spain, Italy and France. Slightly **more than 40 % of the unemployed are considered long-term unemployed**. In

addition, there are large regional differences in unemployment and labour market conditions in general, with the Eastern part of Croatia being in the most unfavourable situation (Christiaensen et al., 2019).

Figure 1: Activity, employment and unemployment rates for 20-64 year olds in 2018 (in %)



Source: Eurostat

#### a. Non-standard forms of work

According to Eurostat, the **self-employment rate**<sup>1</sup> stood at **10.8 %** in Croatia in 2018, 5.7 percentage points (hereafter: pp) less than in 2013 and almost 8 pp less than in 2008. The EU-28 average was 14.3 % in 2018. The decrease in self-employment as a part of total employment in Croatia was mainly the result of fewer own-account workers, or those self-employed without employees. Croatian Bureau of Statistics (CBS) data further indicates that in the period 2008-2018 the number of crafts and free-lance activities fell by 27 %<sup>2</sup>, which might be a large part of the reason for the drop in overall self-employment.

On the other hand, the **share of temporary employment** among the total number of employees increased substantially in the same period: from 12.3 % in 2008 to 14.5 % in 2013 and **20.0 %** in 2018, while the EU-28 average remained at about 14 %. Interestingly, more than one third of temporary contracts were up to three months, while almost 80 % were up to one year. Actually, Croatia has the **highest rate of precarious work** ("contracts up to three months") for some time now with 6.8 % of share of precarious employment in 2018 (the EU average was 2.2 %), mostly in agriculture, retail trades, and catering activities. Given the importance of tourism for the Croatian economy and its seasonality, this is somewhat expected. However, other factors, institutional (labour legislation), technological (digitalisation, platform economy), and economic (employers' caution) may have also played a part.

As explained in the study by Vukorepa et al. (2017) the number and character of other non-standard forms of work or the extent of 'bogus' or 'dependent' self-employment, is hard to estimate, although **non-standard contracts are certainly used in some sectors of the economy to reduce total labour**

<sup>1</sup> Percentage of self-employed persons in total employment.

<sup>2</sup> From more than 260 000 to somewhat above 190 000.

**costs.** One prominent example is the IT sector which seems to be using the possibility to pay lower taxes by allowing workers to register as independent craftspersons paying lump-sum taxes<sup>3</sup> through the so-called flat-rate craft scheme (*paušalni obrt*).

#### b. Youth unemployment

After a record-high unemployment rate for those aged 15-24 of over 50 % in 2013 (double the rate in 2008), the youth unemployment rate started to decline along with overall unemployment to reach **23.7 % for those aged 15-24 and 17.6 % for those aged 15-29 in 2018**. However, this is still 8.5 (respectively, 5.6) pp higher than the EU average, which puts **Croatia in fourth place in terms of youth unemployment**, after Greece, Spain and Italy. However, only 33.5 % of those aged 15-24 and 50.2 % of 15-29-olds were participating in the labour market in 2018. Their employment has somewhat improved, mainly due to different policy programs, but youth employment rates (25.6 % and 41.3 % for the age-groups 15-24 and 15-29, respectively) are still below the pre-crisis (2008) level.

The **NEET rate** shows that **13.6 % of the population aged 15-24 or 15.6 % of the population aged 15-29<sup>4</sup>** were not in employment, education or training in 2018. Although this is lower than almost a quarter of the youth population being in NEET status during the crisis, it is still about 3 pp higher than the EU average. Only five EU countries had a higher NEET rate in 2018. Given the non-dual secondary education system as well as the low drop-out rate<sup>5</sup> and the prolongation of higher education in Croatia, it is no surprise that just over half of the NEET population are those unemployed. However, a recent study by Tomić et al. (2018) indicates that there is slow school-to-work transition in Croatia as a majority of those that have finished (or dropped-out of) education are inactive for months after exiting education.

#### c. Labour shortages and migration

Some of the noticeable labour market improvements are not only due to economic recovery, but due to emigration as well. Ever since the start of the crisis in 2009, the net migration balance has been negative in Croatia, further intensifying after joining the EU in 2013. Official CBS data, although an underestimate<sup>6</sup>, indicates that **in the period 2009-2018 more** than 230 000 persons (almost 190 000 since 2013) emigrated, while somewhat less than 120 000 immigrated, resulting in a **negative migration balance of more than 115 000 persons**. The same data indicate that almost half of those emigrating are in the age range 20-39 and 80 % are in the working-age category between 15 and 64, threatening the labour market, especially in Eastern Croatia (Christiansen et al., 2019; Draženović et al., 2018).

<sup>3</sup> The Government reports (<https://vlada.gov.hr/4-krug-porezne-reforme/26478>) that the number of these kind of entities increased from somewhat above 15 000 in 2014 to almost 40 000 in 2018 (44 000 in June 2019), given that the maximum annual limit on income has been raised from HRK 150 000 to HRK 300 000, while the lump-sum tax is much lower than for regular income taxation.

<sup>4</sup> In the context of the implementation of the European Youth Guarantee, the youth NEET population in Croatia is considered to comprise persons in the age group of 15 to 29 who are not working, are not in the system of regular education and are not in the adult education system (MLPS, 2014).

<sup>5</sup> Eurostat reports that the percentage of the population aged 18-24 with at most lower secondary education and not in further education or training was only 3.3 % in Croatia in 2018; the lowest rate recorded in the EU (EU-28 average was 10.8 %). The estimated rates of non-completion at the higher education level, on the other hand, range somewhere between 15 % and 20 % (Matković and Kogan, 2012; Tomić et al., 2018).

<sup>6</sup> The official CBS data on migration are based on the data collected by the Ministry of the Interior which means that only those persons who officially registered as immigrating/emigrating are recorded; however, there is anecdotal evidence that many people do not officially register, mainly because they perceive their movement as of a temporary nature.

This large emigration of the prime-age population caused **labour shortages**, especially in accommodation and food service activities, but also in construction, medical and IT sectors. This has put **pressure on wages**, although not enough to attract new workers to these sectors. The government has tried to overcome this issue by increasing the number of **working permits for foreigners**, mainly in construction and catering activities, but it seems that this was not enough to meet the growing labour demand in these sectors (EIZ, 2018).

### 1.2.2. Wages and labour costs

According to CBS, **in the aftermath of the crisis** (2016-2018<sup>7</sup>) the average **nominal gross wage increased** by 3.5 % on average per year or **by 10.6 % cumulatively**, amounting to HRK 8 447 (EUR 1 139) in 2018<sup>8</sup>. For comparison, from 2009-2014, the average nominal gross wage increased cumulatively by 5.3 % (Figure 2). Due to moderate inflation, real wages also grew. Median wages increased as well. Wage increases in Croatia in the recent period are mainly the result of increases in public-sector wages, lowering of the tax burden on (labour) income, and labour shortages in specific sectors of the economy. Eurostat data suggest that, although annual earnings in Croatia grew by more than 10 % in the period 2015-2018 (the EU-28 average increased by about 2.5 %), in all other Central and Eastern Europe (CEE) Member States except Slovenia they increased by much more (up to 30 % in Lithuania). Nevertheless, **both gross and net earnings in Croatia stood at about 35 % of the EU-28 average in 2018**, which is still higher than in countries such as Poland, Latvia, Lithuania, Romania and Bulgaria.

Rising wages induced a rise in overall labour costs: the labour cost index (LCI) increased by more than 10 % in the period 2016-2018 (about 12 % in the period 2010-2018), which is more than double the EU average increase of 5.2 % in the same period. However, all other CEE countries except Slovenia showed a larger increase in their labour costs. **The level of total labour costs in Croatia was 40 % of the EU-28 average level in 2018**, higher than in Poland, Latvia, Hungary, Lithuania, Romania and Bulgaria. It seems that despite the incumbent Government's efforts to decrease the tax burden on labour income in a bid to increase both the competitiveness of the economy and the purchasing power of the population, labour costs might still present an obstacle to economic growth and convergence with more developed EU countries. However, wage growth was largely covered by productivity growth. **In the period 2010-2017 real labour productivity per person increased by almost 10 %** (average EU-28 increase was 5.7 %), but this was again the second lowest increase of CEE Member States<sup>9</sup>. Given that total labour costs increased by somewhat more than 6 % in the 2010-2017 period, nominal unit labour costs actually decreased in the same period.

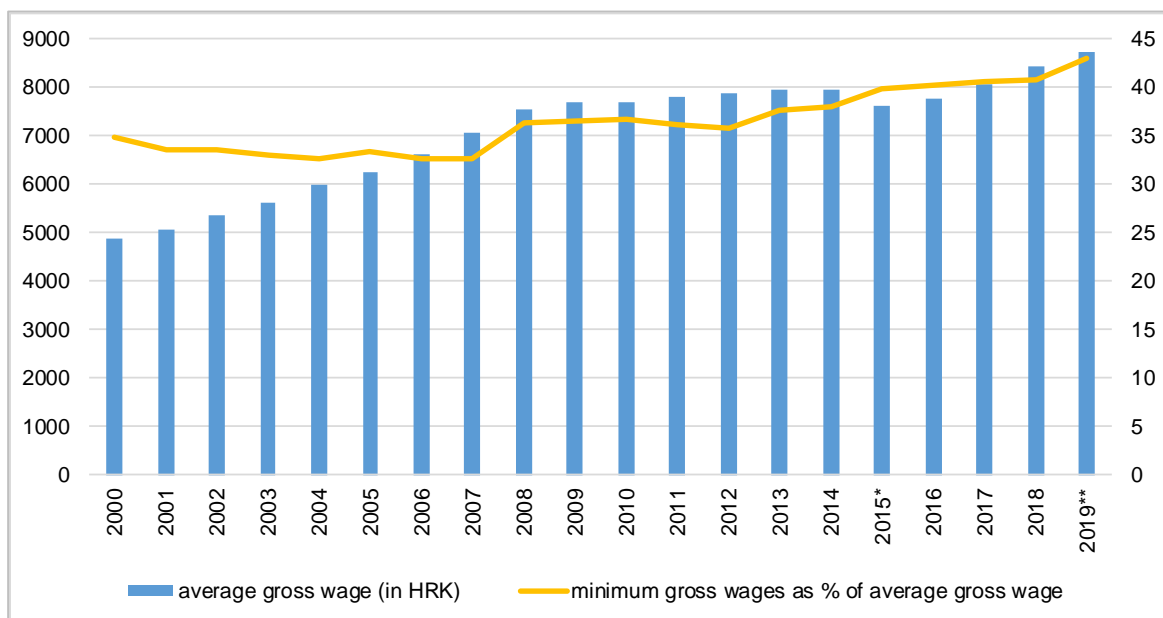
<sup>7</sup> Due to change in the methodology, we do not count the data for 2015 here as it would provide somewhat misleading picture.

<sup>8</sup> Nominal net wages grew by 3.7 % on average and 11.2 % cumulatively, amounting to HRK 6 241 (EUR 842) in 2018.

<sup>9</sup> Real labour productivity per hour worked increased by more than 17 % in the same period (average EU-28 increase was 7.2 %), a larger increase than in Slovakia, Estonia, Slovenia and Czech Republic.



Figure 2: Average wage and minimum-to-average wage ratio



Notes: Minimum wage level as of 1 July of each year

\* break in series due to methodological changes

\*\* average gross wage for the first six months of 2019

Sources: Croatian Bureau of Statistics and relevant minimum wage legislation

#### a. Minimum wages

Croatia has recently undertaken a more active minimum wage policy. In both 2017 and 2018, the minimum wage increased by 5 %. In 2019, it went up by 9 % to reach HRK 3 750 (EUR 508). This suggests that the minimum wage has increased more than the economy-wide average gross wage. In 2018, the **minimum-to-average gross wage ratio reached 40.7 %** (Figure 2), while in net terms it was 44.1 %.

#### b. Public sector wages

On three instances **during 2017** (in January, August, and November), **wages in the public sector were increased by a total of 6 %**. This was based on a signed agreement between trade unions in the public sector (both civil and public servants' unions) and the government during the crisis (in 2009) according to which a 6 % wage increase was supposed to be reinstated once the economy recovers, and after a further deal made between civil servants' unions and the government in December 2016. **In 2019**, after further negotiations between trade unions and the Government, **additional increase of wages in the public sector were set for January and September: by 3 % and 2 %**. Trade unions in specific public sectors, such as health, education and police, asked for a further wage increase. After tough negotiations, this was agreed for health sector workers: 3 % for working conditions for all employees in the health and health insurance sectors and 4 % for health and non-health care workers participating in diagnosis and treatment processes. For education and police, negotiations are due to take place soon.

### 1.2.3. Undeclared work

Reports on undeclared work, or the undeclared economy in general, for Croatia give different estimates of its size, but all agree that the extent of 'grey' activities is substantial<sup>10</sup>. For example, according to a **2013 Eurobarometer Survey** (European Commission, 2014b), about **7 % of respondents in Croatia reported to have carried out some undeclared paid activities**, apart from a regular employment, in the last 12 months (same share as in Sweden and Slovenia), with the EU-27 average being 4 %. Relatively more respondents said they know people who work without declaring (part of) their income: 42 % in Croatia, and 32 % in EU-28. Undeclared work increased during the recession (Bejaković, 2015), and some people—manual workers, unemployed and retired people, low-skilled, males—are more likely to engage in it (Franić and Williams, 2014). A recent study reports that **9.2 % of the adult population in Croatia performed undeclared work in 2015**, while 6.6 % of registered dependent employees received wages in hand (Franić and Williams, 2017). Undeclared work is motivated in Croatia by factors such as the perception of the widespread nature of undeclared work, lack of trust in formal institutions, high unemployment, and low retirement income (Stefanov et al., 2017).

### 1.2.4. Discrimination in the workplace

#### a. Women in the labour market

Women fare worse than men on a number of labour market indicators. According to Eurostat data on **activity rates, 66.1 % of women and 75.9 % of men** aged 20–64 were active in 2018. The difference is large, but smaller than for the EU-28. In 2018, for 58.6 % of inactive women the main reason for inactivity was some type of family or caring responsibility<sup>11</sup>, compared to only 13.1 % of men<sup>12</sup>. Thus, women's inactivity is largely driven by a combination of conforming to traditional attitudes toward gender roles and a lack of out-of-home care facilities such as kindergartens and nursing homes. The 2018 employment rate was also substantially lower for women (60.1 %) than for men (70.3 %), a difference slightly smaller than for the EU-28. The female employment rate has been growing since 2012, from 52 %, and since the male **employment rate** has increased less, **the gender gap has been reduced**. There is no significant gender gap in the quality of employment, at least when measured by the share of temporary employment and precarious employment.

Women are on average paid less than men. The **gender pay gap** was **11.9 % in 2017** and it has **increased since 2010**, when it was 5.5 %. A recent study by Boll and Lagemann (2018), based on the Structure of Earnings Survey 2014, shows that the unadjusted gender pay gap of 5.8 % in Croatia was not due to women's personal characteristics and characteristics of their employers being inferior in comparison to men's, but rather due to women being compensated less than men<sup>13</sup>.

Women lagging behind men on the labour market might be partly due to societal attitudes towards gender roles, which according to the Eurobarometer survey on gender equality from 2017 (European Commission, 2017a), are far from equitable. Although the answers to many questions from Croatian respondents are quite similar to those for the EU-28 on average, in some aspects attitudes are more conservative in Croatia. For example, while in the EU-28 44 % agree that women's most important role is to take care of their homes, in Croatia the share is 60 %.

<sup>10</sup> Bejaković (2015), Franić and Williams (2017). Please refer also to the previous report (Nestić et al., 2013).

<sup>11</sup> Either "family/caring responsibilities" or "looking after children or incapacitated adults" or "other family or personal responsibilities".

<sup>12</sup> For both genders, the most frequently reported main reason for inactivity is (early) retirement (47.3 % for men, 30 % for women).

<sup>13</sup> If women were rewarded the same as comparable men, the gap would be reversed (it would favour women) due to women's more favourable personal and employer characteristics; in fact, women would have 4.7 % higher pay on average.

## b. Minorities and other disadvantaged groups

According to a survey conducted by the Croatian Ombudsperson's Office in 2016 (Ombudsperson's Office, 2017), the group perceived as the most discriminated against were Roma (20.2 %) <sup>14</sup>, followed by LGBT people (11.0 %), persons with disabilities (8.4 %), the poor (8.2 %), Serbs (4.6 %), and others <sup>15</sup>. Slightly more than half of respondents perceived discrimination to be widespread in the workplace and hiring (52.9 %) <sup>16</sup>. These figures suggest that **labour market discrimination of Roma is perceived as a widespread phenomenon**. The share of people perceiving the workplace-and-hiring domain as the one with widespread discrimination had fallen by 10 pp since 2012. It is worrisome, however, that the share of people perceiving ethnicity/nationality, religious affiliation or sexual orientation as bases for discrimination had increased significantly.

In the 2016 EU-MIDIS II survey <sup>17</sup> (FRA 2018), Croatia had the lowest share of Roma aged 16 or more who were employed or self-employed - 8 % - much lower than the average among analysed countries (25 %). The relative disadvantage of Roma is largest in Croatia, where the Roma figure on employment/self-employment is only 33 % of the general population figure. Within Roma, especially disadvantaged are young people, with Roma women more disadvantaged than men.

According to the 2012 EU-LGBT survey <sup>18</sup> (FRA, 2013), **Croatia is among the EU countries with the most widespread labour market discrimination based on sexual orientation**. About a quarter of those surveyed felt discriminated against on the grounds of sexual orientation when looking for a job (EU-28: 20 %). A 2017 World Bank survey in Central and Southeast Europe confirms that discrimination against LGBT people in the workplace is widespread in Croatia (World Bank, 2018a): 93 % of respondents think that discrimination based on sexual orientation is fairly or very common.

Currently <sup>19</sup> there are about half a million people with disabilities in Croatia, which is 12.4 % of the total population, while the share of persons with disabilities among the working-age population is 8.7 % (Croatian Institute of Public Health, 2019). When it comes to the labour market, 18 907 of people with disabilities are employed, and assuming they are all aged 20–64, this gives the employment rate of 8.7 %. This is consistent with an earlier estimate of 10 % (Leutar and Buljevac, 2012). According to a recent population survey, people with disabilities in Croatia are considered to be the third social group most discriminated against, after Roma and LGBT persons (Ombudsperson's Office, 2017) <sup>20</sup>.

## 1.3. Social situation

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

According to a 2014 Eurobarometer survey (European Commission, 2014a), 79 % of respondents in Croatia rated **working conditions** <sup>21</sup> **in the country as bad** (EU-28: 43 %). Regarding satisfaction with their own working conditions, 40 % were dissatisfied (EU-28: 23 %) Moreover, 75 % reported that working conditions **had worsened** over the five years before the survey, and only 6 % reported an

<sup>14</sup> The share of respondents who reported that Roma are the most discriminated against. As respondents were allowed to report only one group, the shares add up to 100 %.

<sup>15</sup> 14.9 % chose "don't know".

<sup>16</sup> The second most frequently reported area, namely the judiciary, was stated by only 23.6 % of respondents.

<sup>17</sup> Second European Union Minorities and Discrimination Survey, conducted by the FRA (European Union Agency for Fundamental Rights) in Bulgaria, Czech Republic, Greece, Spain, Croatia, Hungary, Portugal, Romania, and Slovakia.

<sup>18</sup> European Union lesbian, gay, bisexual and transgender survey, conducted by the FRA.

<sup>19</sup> The latest data refer to May 2019.

<sup>20</sup> Of all respondents, 8.4 % considered people with disabilities as the most discriminated against.

<sup>21</sup> Working conditions comprised working time, work organisation, health and safety at work, employee representation and relation with the employer.

improvement (EU-28: 57 % and 12 %, respectively), perhaps partly due to the prolonged recession. Additionally, according to the ETUI's European Job Quality Index (JQI) on working conditions, Croatia was the country with the sixth worst working conditions, mainly due to low scores on autonomy and physical risks (Piasna, 2017).

Concerning accidents at work, Eurostat reports that the incidence of fatal accidents at work in 2016 was 2.37<sup>22</sup>, which is higher than for the EU-28 (1.69). On the other hand, the incidence of non-fatal accidents at work was 954 in 2016<sup>23</sup>, which is below the EU-28 average (1 571). In recent years, incidence rates have been on the rise for both fatal (since 2013) and non-fatal accidents (since 2012). In 2013, 48.0 % of those employed reported exposure to risk factors affecting physical health, and 20.2 % reported exposure to risk factors affecting mental health<sup>24</sup>. The respective figures for the EU-28 are 50.8 % and 28.2 %. Thus, Croatia is, if anything, no worse than the rest of the EU-28. This seems to contradict the low rank of Croatia in terms of physical risks, as measured by ETUI JQI (Piasna, 2017).

### 1.3.2. Poverty and social exclusion

The latest available Eurostat data show that **24.9 % of the Croatian population in 2018 was at risk of poverty or social exclusion (AROPE)**<sup>25</sup>. In 2017, Croatia had the eighth highest AROPE rate (26.4 %) in the EU, 4 pp higher than for EU-28<sup>26</sup>. While children (aged less than 18) and those aged 18-64 had an AROPE rate slightly below the figure for the total population, the 65+ population had a substantially higher AROPE rate, 32 %, which indicates that the **elderly are the most vulnerable age group**<sup>27</sup>. This is mainly due to low aggregate replacement rate for pensions<sup>28</sup>: in 2017, it was 41 %, substantially lower than in the EU-28 (58 %). Other especially vulnerable groups are the unemployed (AROPE rate of 57.8 %) and the low-skilled (AROPE rate for those with less than primary, primary and lower secondary education was 47.2 %).

Focusing on people at risk of poverty (AROP) only (i.e. without social exclusion), the AROP rate for the total population was 19.4 % in 2018 and 20 % in 2017, compared to 16.9 % in EU-28 (in 2017). The most vulnerable groups are largely the same as those AROPE, namely the elderly, the unemployed and the low-skilled. Among those in employment, the least educated are most disadvantaged, with the in-work AROP rate 14.9 %, while for the most educated the figure was only 1.1 %. In general, there is less in-work poverty risk in Croatia than in the EU-28 as a whole. However, poverty persistence in Croatia is much higher than the average in the EU. In 2017, the persistent-at-risk-of-poverty rate in Croatia was 15.2 %, with the corresponding EU-28 figure at 10.8 %<sup>29</sup>. In addition, Stubbs et al. (2017) indicate that Croatia is among the countries with the **greatest persistency of poverty among children, with such persistency being higher than for the population in general** (see Box 1).

<sup>22</sup> Number of accidents per 100 000 persons employed. The same rate amounted to 2.63 in 2017.

<sup>23</sup> 1 007 in 2017.

<sup>24</sup> The two indicators are available for 2013 only.

<sup>25</sup> If not explicitly stated otherwise, statistics refer to 2018.

<sup>26</sup> The year 2017 is used here because this is the latest year for which the AROPE rate is available for all EU countries, as well as for the EU-28 as a whole.

<sup>27</sup> People aged 65+ overlap largely with retired people, whose AROPE rate was 32.2 %.

<sup>28</sup> It is defined as the ratio of the median individual gross pensions of 65-74 age category relative to median individual gross earnings of 50-59 age category, excluding other social benefits.

<sup>29</sup> As stated by the Eurostat, this indicator measures the proportion of persons with an equivalised disposable income below the risk-of-poverty threshold in the current year and in at least two of the preceding three years.

### Box 1: Living standard and coping strategies of households with children on minimum income scheme

A recent study on child poverty and household coping strategies in Croatia, based on EU-SILC longitudinal data for 2010–2014, showed that, although the share of children living at risk of poverty for one year is close to the EU-28 share, Croatia is among the countries with the highest share of children living at risk of poverty for at least four years. In line with this, the study also showed that most households with school-age children who are beneficiaries of the minimum income scheme termed Guaranteed Minimum Benefit (GMB) are long-term beneficiaries. In addition, the study showed that the living standard of children on the GMB is very low.

Households with school-age children who live on the GMB can cover on average nearly half of their needs. Various coping strategies are used, including: borrowing from relatives and friends; overdue payment of utility bills, causing occasional cut-offs; parents' going hungry to ensure that children do not; selling items from home. Many parents cannot afford some essential items for their children such as: own bed (one quarter); quiet place to do homework (one third); fresh fruits or vegetables daily (one third); new clothes (one third). There are also many things that parents cannot afford and do not deem important for children, but that are arguably important for children's socialisation with the peers, such as school trips or pocket money for going out with friends.

Source: Stubbs, Ledić, Rubil, and Zrinščak (2017)<sup>30</sup>

## 1.4. Social partners and social dialogue

The key tripartite body at the state level is the **Economic and Social Council (ESC)**, established in 2000. The main role of the ESC is **cooperation between the Government, trade unions and employers' organisation(s) in solving economic and social issues and problems**, but it also serves as a consultative and advisory body of the Government, which "gives opinions, proposes and evaluates" certain issues within its scope of work. There are also a number of sectoral tripartite and bipartite social councils, as well as county-level economic and social councils.

There is no official data on trade union membership, only estimates, according to which trade union density is around 35 % (Bagić, 2010; Nestić and Rašić-Bakarić, 2010). It is much larger in the public sector (with state-owned enterprises) (70 %) than in the private sector (17 %). Most membership belongs to one of four large trade union federations and confederations<sup>31</sup>. Estimates of collective agreement coverage by Bagić (2014) indicates that 52.8 % of all employees were covered by collective agreements in 2013, down from 61 % in 2009. The public-private gap is large, with coverage rates of 88 % in public administration (central- and local-level budget users), 75 % in state-owned enterprises, and 35 % in the private sector. There is only one employers' organisation — the Croatian Employers' Association (CEA) — meeting the representation criteria for participation in the ESC. Slightly less than 6 000 CEA members (all voluntary) employ about 46 % of all private sector employees.

<sup>30</sup> Other studies on the living standard of children in Croatia, including those on social assistance, provide similar findings (Šučur, 2015; UNICEF 2017).

<sup>31</sup> The Union of Autonomous Trade Unions of Croatia (SSSH); the Independent Croatian Trade Unions (NHS); the Matrix of Croatian Trade Union (Matica); the Croatian Trade Union Association (HUS).

## 2. RECENT DEVELOPMENTS IN CROATIAN EMPLOYMENT AND SOCIAL POLICIES

### KEY FINDINGS

Facing many challenges in the scope of the labour market and social situation in Croatia, the Government has introduced a number of legislative changes and policy measures in recent years. However, the policies in place do not seem to achieve (all of) the stated goals.

Due to some disputes between the trade unions and the Government about the functioning of the Economic and Social Council (ESC) and the role of social partners in policy design and implementation, social dialogue has been halted on several occasions.

### 2.1. Overview of relevant legislation in the field of employment

The main legislative acts in the field of labour market and employment in Croatia are the *Labour Act*, the *Law on Employment Mediation and Entitlements during Unemployment*, the *Law on the Promotion of Employment*, the *Law on the Labour Market*, and the *Minimum Wage Act*; however, there are a number of other labour-related laws and by-laws<sup>32</sup>. The Croatian legislative system is frequently amended and labour legislation is no exception.

Given the on-going debate on the need to bring more flexibility to the field of employment protection in order to boost employment, the SDP-led Government amended the existing **Labour Act** (from 2009) back in June 2013 by introducing some liberalisation in the field of employment protection but also by harmonising some of the provisions of Croatian labour market regulations with those of the EU. In this instance, part of the legislation related to temporary employment contracts has been liberalised, primarily by introducing the possibility for the first fixed-term contract to last longer than three years (concluding additional successive employment contracts remains limited to a maximum of three years). The amendments also brought some liberalisation in the field of collective dismissals by simplifying some provisions. In July 2014, a new *Labour Act* was introduced that brought further flexibilisation in the field of collective dismissals but also in the area of 'regular' (open-ended) employment contracts<sup>33</sup>. Although some standard indicators, such as the OECD's employment protection legislation (EPL) index show that these changes within the employment protection have contributed to **overall flexibilisation on the Croatian labour market** (Kunovac, 2014; CNB, 2014), **the boom in employment happened mainly in the area of temporary jobs**. Tomić (2019) argues that labour legislation reforms from both 2013 and 2014 induced a significant rise in temporary employment, while the effects on overall employment are clearly visible only in the second case, thus suggesting that easing of temporary employment possibly encouraged the substitution of permanent by temporary work.

<sup>32</sup> A detailed list of relevant legislation in the field of employment and social protection is available at the end of this document.

<sup>33</sup> Such as the simplification of procedures when firing workers on permanent contracts, changes in the organisation of work with respect to working hours, plus potential lowering of the firing costs as the compensation for termination of employment contract in court has been reduced. More details on the changes in *Labour Act* in Croatia in 2013 and 2014 can be found in Kunovac (2014), CNB (2014), Brkić (2015), and Tomić (2020). Amendments to the law from 2017, further harmonised Croatian legislation with EU directives and introduced some changes with regard to co-decisions on specific dismissal procedures including the works council.

*The Law on Employment Mediation and Entitlements during Unemployment*, introduced in February 2017<sup>34</sup>, regulated many issues: from employment mediation, vocational guidance, unemployment insurance, active employment policy measures, to financing, organisation, management and performance of the Croatian Employment Service (CES). *Law on the Promotion of Employment*, in effect from 2012 to 2018, mainly regulated the conditions for hiring the long-term unemployed, use of active labour market programs for “hiring” young people, and simpler ways of hiring seasonal workers for temporary jobs in agriculture. Both of these laws ceased to exist from January 2019 and have been replaced by the *Law on the Labour Market* that covers all previously mentioned aspects<sup>35</sup>.

### 2.1.1. Minimum wage legislation

**A new Minimum Wage Act has been in effect since 1 January 2019.** Although it maintains the key features of the previous legislation, there were a few important changes aimed at making minimum wage policy more predictable and transparent. One change is that those who are self-employed, if the only worker in the entity, are exempt from an obligation to pay the minimum wage. The Act gradually abolishes the deduction on employers’ social security contributions for minimum wage workers introduced in 2018, while it also, just as the previous one, prescribes that the Government sets the minimum wage level once a year for the next calendar year, with the level based on the recommendation of the Minister in charge of labour affairs after consultations with the social partners. Given that the practice in previous years has shown weaknesses in the consultation process, the new Act aims to overcome these by prescribing that the minimum wage level should be determined by 31 October each year, while consultations with social partners have to take place in September and October. In addition, the new Act **introduces a Commission for Monitoring and Analysis of the Minimum Wage** as a new body to assist in the policy process. The Commission is a consultative body to the Minister, analysing recent trends relevant for minimum wage policy and proposing the minimum wage level for the next year.

A relatively high increase in the minimum wage in 2019 was the result of an assessment that the economy was in good shape as well as pressure from trade unions to increase the minimum-to-average wage ratio and prevent in-work poverty. At the same time, the Government has undertaken measures for tax relief for employers and developed programs for subsidising employment in low-wage sectors. These measures should help employers respond to the latest minimum wage increase without negative employment effects. Having in mind the mild reaction of the main employers’ organisation, but also continued increase in employment, as well as labour shortages in certain sectors, one may conclude that recent minimum wage policy has been both beneficial for workers and manageable for the economy.

### 2.1.2. Tax reforms

Ever since taking office in October 2016, **the main economic policy tool of the current Government has been changes in the tax system.** The main aim was to lower the tax burden for both entrepreneurs and citizens so as to increase competitiveness and spending, and ultimately boost economic growth. Along these lines, higher employment was also one of the objectives of tax changes. There have been three rounds of changes in the tax system since late 2016, with a fourth round currently underway. Besides lowering the Value Added Tax rate on some products<sup>36</sup> and decreasing the corporate profit tax rate<sup>37</sup>, coupled with an increased threshold for entry into the VAT register for entrepreneurs, the majority of changes happened **in personal (labour) income taxation**<sup>38</sup>.

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<sup>34</sup> At which point the old *Law on Employment Mediation and Entitlements during Unemployment* (Official Gazette, No 80/2008, 94/2009, 121/2010, 25/2012, 118/2012, 12/2013, 153/2013) ceased to exist.

The Government introduced two income tax rates of 24 % and 36 %<sup>39</sup>, along with increased personal allowances<sup>40</sup> and a higher income threshold for dependency status and larger coefficients applied to tax deductions for dependents, children and those with disabilities in 2017. Restrictions on the possibility of flat-rate taxation of craftspersons have also been abolished within this first round<sup>41</sup>. The Government also introduced reduced rates of pension insurance and health contributions for those performing "other activities" and on the basis of "other income" (non-standard workers). Although the Government says that by introducing reduced contributions for other income and other activities they made labour market conditions equal for all participants, Vukorepa et al. (2017) argue that workers under non-standard contracts (such as a contract for service, author's contract, student contract or occupational training) still pay lower taxes and social security contributions compared to those on either standard employment contracts or contracting as self-employed workers; thus, income from different work arrangements is not treated equally.

Further changes in income taxation include the introduction of non-taxable income up to a certain amount, accompanied by non-taxable costs of accommodation and food for seasonal workers in 2018. In 2019, among other changes, there was an additional increase to the threshold for the application of the higher rate of income tax with the justification that this would help attract and retain skilled workers in the economy. Additionally, contributions for the protection of occupational health and in the case of unemployment have been abolished, while the contribution for health insurance was increased. Within this round of changes, the obligation of contribution of the members of the management boards was homogenised in order to further balance labour market conditions for all workers.

Among the fourth round of changes of the tax system scheduled for late 2019, it is worth noting a **proposed tax change intended for employing the youth population: a reduction of the tax obligation by 100 % and 50 % for those up to 25 years of age and those between 26 and 30 years**, respectively. This proposal is based on the notion that this is the age-group that is most prone to emigrate<sup>42</sup> and this measure should keep them on the domestic labour market by increasing their income. However, there is always a possibility that this change in the tax system will actually be used by employers to reduce labour costs and possibly even substitute some older workers with younger ones due to lower costs. An interesting proposal is the further increase of non-taxable income and other receipts on an annual basis for all workers. There is also an announcement of the changes regarding "flat-rate crafts" so as to eliminate 'bogus' or dependent self-employment and potential tax evasion due to their "privileged" tax position; however, without precise details<sup>43</sup>. Three years in, it seems that in spite of the announcements of the simplification of the Croatian tax system, the changes have gone in the opposite direction.

<sup>35</sup> *Act on Job Retention Subsidies* that prescribed the conditions, amount and the way of granting aid for the preservation of workers' jobs was in effect in the period August 2014 - March 2016, but was abolished with the justification that the main strategic goal of preserving jobs has not been met.

<sup>36</sup> Most notably, for a number of food items, baby equipment and electricity.

<sup>37</sup> From 20 % to 18 % or 12 %, depending on annual income.

<sup>38</sup> Other changes in the tax system included changes to real estate transfer tax, excise duties, special tax on motor vehicles and other administrative and technical simplifications.

<sup>39</sup> From the previous three rates of 12 %, 25 % and 40 %.

<sup>40</sup> From HRK 2 600 to HRK 3 800, after the previous Government increased it from HRK 2 200 to HRK 2 600 back in 2015.

<sup>41</sup> Besides reduced tax obligations, the administrative obligation for these kind of entities has been simplified.

<sup>42</sup> Although, according to official CBS data, the same percentage (about 23 %) of persons between 30 and 40 emigrated in 2018 (similar is true for other years).

<sup>43</sup> Other changes include the decrease of the general value added tax rate from 25 % to 24 % and an introduction of a reduced rate of 13 % for the preparation and serving of food in the catering industry.



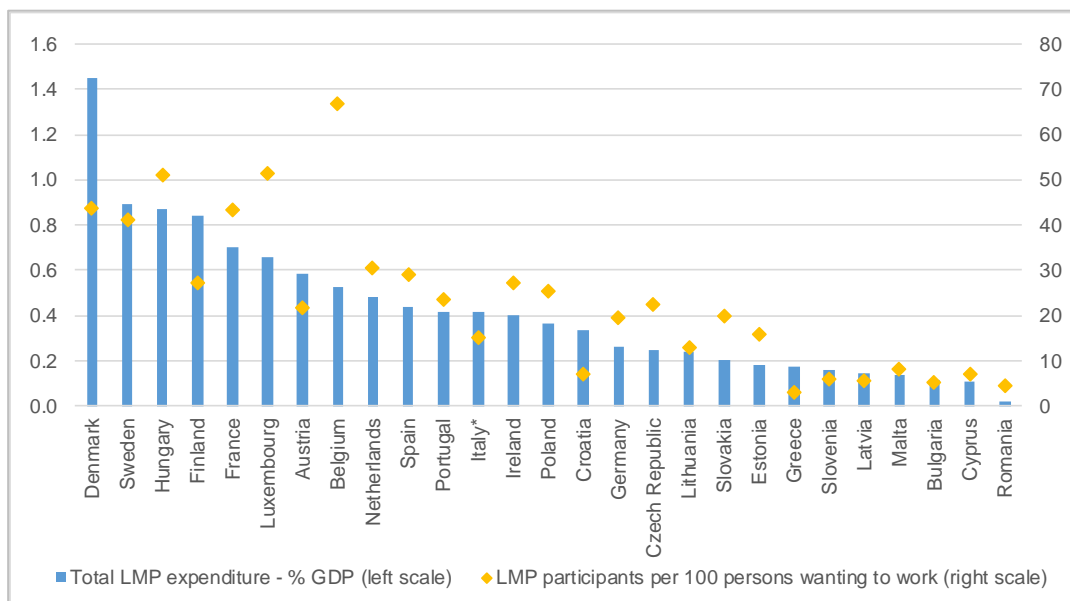
### 2.1.3. Measures to combat unemployment

The main tool on the part of MLPS and CES to combat unemployment is **active labour market policies (ALMPs)**, defined through the *Law on Employment Mediation and Entitlements during Unemployment*, the *Law on the Promotion of Employment*, or the *Law on the Labour Market* as of 2019. Besides ALMPs, several other initiatives to stimulate employment have been implemented in recent years. For example, the Government has opened a number of new Lifelong Career Guidance (LLCG) Centres throughout the country (currently 13) to provide vocational guidance services regarding appropriate education and employment and to contribute to the development of the community and economy at both local and national levels. The CES also introduced Statistical Assisted Profiling (StAP), first as a pilot project, but since 2018 as a general tool included in the operational processes of the CES, providing standard services such as unemployment counselling and employment mediation and ALMP measures. Several other initiatives in the area of activation/employment include the Women’s Employment Programme “Wish for” (*Zaželi*), and “Get a job in Croatia” (*Zaposli se u Hrvatskoj*).

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

Currently, apart from the main legislative framework mentioned previously, the main document defining ALMPs in Croatia is the *Guidelines for the Development and Implementation of Active Employment Policy in the Republic of Croatia for the period 2018-2020* (MLPS, 2017a). **As of March 2017 a new package of ALMP measures called "From Measure to Career" with a total of 9 measures** replaced the previous 41 measures to "achieve ease of understanding and flexibility in implementation"; however, nothing substantially has changed from the previously existing measures. These 9 (groups of) measures include: (i) support for employment, (ii) support for training, (iii) support for self-employment, (iv) education of the unemployed; (v) on-the-job training, (vi) measures to gain first work experience / internship, (vii) public works, (viii) support for job retention, and (ix) “permanent seasonal worker”.

Figure 3: Labour market policy (LMP) in 2016 – measures



Notes: LMP interventions are grouped into three main types of LMP services, LMP measures and LMP supports and then further classified into detailed categories according to the type of action. LMP measures in this respect include the following: training, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives

\* 2015 for expenditure and 2014 for participants

Source: EC Employment, Social Affairs & Inclusion statistical data

*The Report on the Implementation of the Guidelines for the Year 2018* (MLPS, 2019a), passed by the Government in April 2019, indicates that a total of HRK 1.251 billion was paid in 2018 for the implementation of active employment policy measures, with 36 935 newly included persons in different programmes (68 045 persons in total in 2018<sup>44</sup>). Support for both employment and self-employment included more persons than in 2017, while measures to gain first work experience (vocational training without commencing employment) and public works showed a decrease in the number of users in comparison to the previous year. Although these numbers might seem high, in comparison to other EU countries **Croatia is still ranks low both in terms of spending and especially coverage by ALMPs** (Figure 3). In addition, the latest external evaluation of ALMP measures for the period 2020-2013 (CES, 2016) indicates that while Croatia has increased its spending on ALMPs, their short duration and the relative lack of consistency in the programmes implemented remain important issues.

For 2019, more emphasis has been put on measures such as support for self-employment<sup>45</sup>, while the use of the measure to gain first work experience (vocational training without commencing employment) is further restricted by additional criteria for participation. In addition, Croatian returnees and immigrants have been defined as an additional target group for ALMP measures. In order to support the manufacturing industry and preserve jobs, a new Programme of support for job retention in the textile, clothing, footwear, leather and wood sectors has been introduced.

#### b. Measures to combat youth unemployment

After joining the EU in 2013, Croatia became part of the *Youth Guarantee* (YG) scheme in 2014<sup>46</sup>, which mainly extended its use of programmes already in place (Ipsos, 2019). Before this, the Government adopted its first *National Youth Programme 2014-2017*, aimed at dealing with key issues faced by young people when entering the labour market, to be superseded by the **National Youth Programme 2019-2025**. Other than that, already in the *Law on the Promotion of Employment* from 2012, some tax exemptions for employers employing young people were introduced; while according to the *Law on social security contributions* an employer who hires a young person up to the age of 30 on a permanent (open-ended) contract is not obliged to pay employers' contributions for up to 5 years from 2015. The Croatian Pension Insurance Institute (CPII) reports that the number of people using this possibility for employment increased from slightly more than 10 000 in March 2015 to more than 121 000 in August 2019. The Ministry of Demography, Family, Youth and Social Policy continued to support the development of **Regional youth information centres**, in addition to supporting different youth organisations (MLPS, 2017b). Further incentives deal with the education system and policy programmes intended to increase the links between the education system and the world of work – mainly through the *Croatian Qualifications Framework* (CQF) and the “School for life” (*Škola za život*), an experimental programme that introduces new curricula and new forms of working methods and teaching aids in both elementary and secondary schools.

According to the *Report on the Implementation of the Guidelines for the Year 2018* (MLPS, 2019a), **young people up to the age of 30 comprised almost 50 % of total number of participants in ALMP programmes in 2018**. This is not specific to 2018 as ever since the introduction of the *Law on the Promotion of Employment* and the possibility of extending the use of a specific ALMP programme — the

<sup>44</sup> For comparison, the average number of registered unemployed at CES during 2018 was 153 542 persons.

<sup>45</sup> Srhoj and Žilić (2019), for example, found that individuals who received a grant for self-employment have significantly lower probability of returning to unemployment and that grant is particularly effective for individuals coming from inactivity and individuals losing their job due to firm closure.

<sup>46</sup> The final *Implementation Plan for the Youth Guarantee* (MLPS, 2014) was submitted with the *National Reform Program* on 27 April 2014 and the measures were incorporated into the Operational Programme *Effective Human Resources* (OPEHR).

so-called vocational training without commencing employment<sup>47</sup> — to the entire youth population, young people have been the main users of ALMP programmes. Although not officially regarded as employment, it *de facto* became the main form of entrance onto the labour market for young people<sup>48</sup>. Besides some negative effects—such as *dead weight* and *cream skimming*<sup>49</sup>—of this particular programme, already noted in the external evaluation (CES, 2016), Tomić and Žilić (2018) report that the programme has had additional negative effects on labour market outcomes for the youth (18-29) population: there have been no significant effects on their employment and unemployment; however, there is evidence of increased inactivity for the young population (along with decreased average wages).

#### 2.1.4. Measures to combat undeclared work

There has been greater emphasis on combating ‘grey’ activities in the economy in recent years, with the Ministry of Finance, together with Tax and Customs Administration, being the main bodies in charge of this. Their main activities relate to monitoring the implementation of ‘fiscalisation’<sup>50</sup>, especially in activities such as retail trade and catering activities. MLPS, however, has been mainly in charge of the activities related to combating undeclared work. For example, during 2018 MLPS conducted a campaign called “Stop undeclared work!” (*Stop radu na crno!*), as part of the wider EU-financed project “Strengthening policies and capacities to reduce undeclared work”, by encouraging citizens to report such work. The **Labour Inspectorate**, though, has played the **most important role in combating undeclared work** by conducting targeted inspections and acting on received applications. For example, during 2018 the Labour Inspectorate performed a total of 25 645 inspections (in 2017 a total of 32 393, while in the period 2012-2014 an average of 23 025 inspections), with two thirds of inspections in the area of working relations and one third regarding safety at work (MLPS, 2019b). Following the introduction of the *State Inspectorate Act* in 2018, as of April 2019, the State Inspectorate has taken over the inspection tasks in the field of labour and occupational safety from the MLPS/Labour Inspectorate.

## 2.2. Overview of relevant legislation in the field of social protection/inclusion

### 2.2.1. Pension system and challenges

Croatia undertook a **wide-ranging reform of its pension system in 2018** that took effect as of the beginning of 2019. Five key acts regulating the pension system were amended (*Pension Insurance Act*, *Pension Supplement Act*, *Mandatory Pension Funds Act*, *Voluntary Pension Funds Act*, *Pension Insurance Companies Act*) and one new act was introduced to replace the old one (*Law on Extended Service Period*). Although the reform brought important changes, it preserved the main features and problems of the existing pension system.

<sup>47</sup> The Government covers the costs of a small remuneration (in the net amount of HRK 1 600 in 2012 (approx. EUR 210), which increased to HRK 2 400 in 2015 (EUR 315) and to the level of the minimum wage as of 2017) and pension contributions while the employer should ensure a mentor and a working (training) environment so that a young person acquires the necessary work experience.

<sup>48</sup> Tomić and Žilić (2018) report that the number of participants in the programme increased from below 500 in 2010 to 33 366 in 2016, i.e., 49 % of all unemployed persons among 15–29-year-olds and 47 % among all ALMP participants.

<sup>49</sup> Indicating that a large portion of participants would get a position (with the respective employer) even without the involvement of the CES or that those unemployed people from the target group who are more employable in the first place (the ‘cream’) enter the measure more often (CES, 2016).

<sup>50</sup> *The Law on Fiscalisation of Cash Payments* (Official Gazette, No 133/2012, 115/2016, 106/2018) defines ‘fiscalisation for cash payments’ as a set of measures implemented by taxpayers to enable effective monitoring of cash flows.

The Croatian pension system is a three-pillar system framed in the early 1990s, consisting of a public pays-as-you-go scheme (the first pillar) and mandatory and voluntary fully-capitalized schemes (the second and the third pillars, respectively). Contribution rate for the first pillar is set at 20 % or at 15 % of gross wage (depending on age and if contributing only to the first or to both first and the second pillar) and to 5 % of gross wage to one of four privately managed pension funds (if contributing to both pillars). The mandatory privately-managed capitalised scheme in Croatia survived the economic and financial crisis almost untouched unlike similar schemes in some other Eastern European countries.

The 2018 reform proclaims its overarching goal as being to improve future pension adequacy without endangering the pension system's fiscal sustainability. According to the *Pension Adequacy Report 2018* (EC, 2018a), the average Croatian pensioner after 40 years of service up to the legal retirement age can expect a net pension benefit of 55 % of the average net wage in 2016 (one of the lowest rates in the EU), while projections for the next 40 years show continued decline in that rate calling into question the social sustainability of the pension system and raising fears of widespread poverty in older age. In contrast, population ageing, low employment rates and relatively short working careers are likely to increase fiscal pressures in the future.

Among the large number of changes in the legislation, the key ones include: a) bringing forward the increase in statutory retirement age to 67, to be reached in 2033; b) speeding up the convergence of statutory retirement age between men and women, to be reached in 2027; c) replacing the previous contribution-period related penalties in case of early retirement by a single decrement rate of 0.3 % per month of retirement before statutory age, likely to be more stringent on average than previously; d) increase in bonus in case of late retirement to 0.34 % per month (from 0.15 %); e) increase in minimum pension benefit per year of insurance period by 3.13 %, with effect from July 2019; f) possibility to work up to a half of full-time working hours and receive full pension extended to those in early retirement; g) extension of the right to a pension supplement on the first-pillar pension benefit to beneficiaries of two-pillar pensions; h) opt-out option from the second pillar at the time of retirement and choice of mono-pillar pension benefits for all those insured in both mandatory pension pillars, in which case savings accumulated in the second pillar are transferred to the state budget; i) reduced ceiling for management fees of mandatory and voluntary pension funds, relaxed investment rules, ensured better representation of members' interests; and j) allowing a single withdrawal of 15 % of second-pillar savings upon retirement (except for pension benefits below a certain minimum).

Although there was a working group for pension reform consisting of representatives of social partners, academics and NGOs, it appears that key decisions were made outside the group, thus, trade unions have repeatedly expressed their dissatisfaction with the dialogue over the main reform issues. After enactment of the reform, three trade union federations — the Union of Autonomous Trade Unions of Croatia, the Independent Trade Unions of Croatia, and the Association of Croatian Trade Unions — launched the referendum initiative "67 is too Much" (*67 je previše!*). They campaigned to limit the statutory retirement age to 65 years, reduce penalties for early retirement, and slow down convergence of female and male statutory retirement ages. The initiative managed to collect twice as many signatures as needed to trigger a referendum. **The Government** decided to accept all of these demands, meaning that a referendum would not be needed. However, in parallel, it **plans to increase the termination date of indefinite work contracts from 65 to 68 to be implemented in January 2020**. The key result of these changes taken together would be that a worker could take up old-age pension benefit at age of 65 without penalties for early retirement or may continue to work up until age of 68. The leading employers' organisation expressed its dissatisfaction with the proposal. Nevertheless, Parliament is expected to agree the changes by the end of 2019.

The Government is also considering introducing a **national, or social (zero-pillar) pension for older people who do not have the required contribution period** to get a pension. The national pension could be a social policy instrument with coverage and benefit amount somewhere between the GMB (social assistance) and the minimum pension, and is planned to be introduced in 2021, affecting a significant number of older people, particularly women.

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

In 2016, total social benefits in Croatia amounted to 20.9 % of GDP<sup>51</sup> (EU-28: 28.1 %), the 13<sup>th</sup> lowest figure in the EU. Besides, Croatia had the sixth lowest spending per inhabitant, only 48.1 % of the EU-28 average. These figures have been stable over the last decade. About two thirds of benefits were sickness/health care (1/3) and old-age benefits (1/3). The rest were mostly benefits related to disabilities (11 %), survivors (9 %), and family/children (8.6 %). In comparison to the EU-28, Croatia spent relatively more on sickness/health care, disability, and survivors, and less on the elderly. Only 5 % of benefits were means-tested (EU-28: 13 %).

**The effectiveness of monetary transfers (apart from pensions) in reducing (the risk of) poverty is relatively low.** In 2017, transfers were able to reduce the AROP rate by about 25 % (EU-28: 33 %). Only seven EU countries ranked worse. The indicator had improved from 31 % in 2010 to the peak of 35 % in 2014, and has been worsening ever since. It is evident that the social transfers system requires major reforms (European Commission, 2017b, 2018b, 2019a; World Bank, 2018b). The issues relate to both administration and prioritisation among social groups (Stubbs, 2018). Successive governments committed to establishing county-level central points (“one-stop-shops”) for the administration of transfers, but after several deferrals the commitment was *de facto* abandoned. Moreover, there is an **overlap between local and central government transfers**. However, Stubbs (2018) doubts that consolidating transfers would improve significantly their effectiveness, as the local-level social expenditure is small (0.5 % of GDP; Šućur et al., 2016) and highly concentrated in richer areas (2/3 in cities, 1/2 of that in the capital). Concerning prioritisation, demographic revival and war veterans’ (including survivors) living standards seems to be prioritised over the poor (Stubbs, 2018). War veterans’ rights have been expanded by a new law<sup>52</sup>, despite the European Commission’s (2018b) arguing that their “privileges” compromise the system’s capacity for poverty reduction, and account for some 2 % of GDP.

In 2018, the Government adopted the *Action Plan for the Improvement of Social Benefits in the period 2018–2020* (Government of the Republic of Croatia, 2018) which mainly focused on some technical aspects, rather than on improving the adequacy or coverage of social assistance. The European Commission (2018b, 2019a) has recognised improvements in technical aspects, but also the lack of improvements in the poverty-reduction capacity. Substantial pro-poor reforms, paid for, in part, by reducing war veterans’ categorical benefits, would likely spark massive organised opposition (Stubbs, 2018).

There is currently one minimum income scheme, the GMB, introduced in 2014<sup>53</sup>, when it replaced a similar scheme and some smaller benefits. The GMB is a means- and asset-tested national non-contributory scheme. For entitlement, one needs to have income below a certain minimum. A person capable of work may be entitled, without time limits of receipt, provided (s)he is an active job seeker. Upon employment, the benefit is withdrawn gradually over three months. The amount

<sup>51</sup> The 2017 figure is very similar, 20.5 %. Here we are referring to 2016 figures for the sake of comparison with the EU-28, for which the 2017 figure is not available at the time of writing the report.

<sup>52</sup> *Act on Homeland War Veterans and Their Families* (Official Gazette, No 121/2017).

<sup>53</sup> As part of the *Social Welfare Act*.

depends on household composition and an administratively set base (HRK 800, EUR 108, monthly)<sup>54</sup>, and the maximum equals the gross minimum wage. The beneficiaries comprised 2 % of total population, of which 47 % were capable of work (April 2019). In aggregate, the GMB amounted to 0.15 % of GDP in 2018, down from 0.4 % in 2014.

**The GMB has both low adequacy and low coverage.** For a single person capable of work the GMB is only 32 % of the 2018 AROP threshold<sup>55</sup>, and even less for a two-adult two-children family (30.5 %). The adequacy has substantially **worsened since 2014**, when the GMB amounted to 40.4 % of the AROP threshold for single persons capable of work and to 38.5 % for two adults with two children. This is due to the base being fixed at HRK 800, rather than adjusted to keep up with the median income<sup>56</sup>. In 2018, the number of beneficiaries was only 10.6 % of the AROP population, down from 12.3 % in 2014, although targeting is improving (Stubbs and Zrinščak, 2015)<sup>57</sup>. The GMB **does not seem to diminish work incentives**: in 2018, a single person's GMB was only 1/5 of the minimum wage. Despite the conditionality on active job seeking, the link with labour market activation policies is weak, as only a small share of beneficiaries capable of work participate in ALMPs, and those who do, participate mostly in the least effective type of ALMPs, such as public works (Stubbs and Zrinščak, 2015).

### 2.2.3. Measures against discrimination

The *Gender Equality Act* is the key statute for the protection and promotion of gender equality in Croatia. The key policy document is the *National Policy for Gender Equality*, with the last such document covering the period 2011–2015 (Government of the Republic of Croatia, 2011). A new document has been under preparation for some time but has not yet been adopted. However, in the *Programme of the Government of the Republic of Croatia for 2016–2020* (Government of the Republic of Croatia, 2016), gender equality is prioritised in terms of: a) gender equality on the labour market, and in political and public life, and b) protection of the victims of family violence. In implementation, under the ESF financial support, the project Women's Employment Programme "Wish for" (*Zaželi*), administered by the MLPS has recently gained popularity. In the broader policy domain and as a part of its preparation for the Presidency of the Council of the EU, Croatia has signed the *Trio Presidency Declaration on Gender Equality*<sup>58</sup>. The *Declaration* aims to send a strong political message that gender equality is a fundamental value of the EU and its implementation is "an urgent priority in all policy areas", while Croatia in particular commits to addressing issues influencing lower women's labour market participation and to strengthening actions to ensure a dignified working environment and working conditions for women. Overall, as summarised by the last European Parliament report on gender equality policies in Croatia, "many issues in Croatian society are still not recognised as gender equality issues (primarily economic independence, which has spill-over effects throughout a person's life) and some are too politicised (such as the reproductive rights of women)" (Bodiroga-Vukobrat and Martinović, 2017).

<sup>54</sup> Different types of persons receive different fractions of the base: single persons capable of work 100 %, single persons incapable of work 115 %, single parents 100 %, adults in multi-adult households 60 %, children 40 %, and children of single parents 55 % of the base.

<sup>55</sup> Calculated as 60 % of the median equivalised disposable income.

<sup>56</sup> However, even if the base grew at the same pace as the median income, the adequacy would have worsened in real terms, as the base has not been adjusted for the price increase.

<sup>57</sup> This is based on examining the targeting accuracy of the social assistance scheme that was replaced by the GMB and was very similar to the GMB.

<sup>58</sup> Trio Presidency Declaration on Gender Equality, available at:

<https://ravnopravnost.gov.hr/UserDocsImages//dokumenti/Trio%20Presidency%20Declaration%20on%20Gender%20Equality%20RO%20FI%20CRO.pdf>.

Despite the *National Roma Inclusion Strategy 2013–2020* (Government of the Republic of Croatia, 2012), the status of Roma is still unfavourable. There are examples of some successful pilot projects in preschool and primary education in areas with significant Roma population (Međimurje county), but significant large-scale improvements are still lacking. Further, the *National Policy for Gender Equality for the Period 2011–2015* (Government of the Republic of Croatia, 2011) contains various measures, activities and programmes to tackle discrimination against Roma women.

Regarding discrimination based on sexual orientation and gender identity, in a 2013 referendum a majority voted for a constitutional definition of marriage as a union of two persons of opposite sexes, whereby same-sex marriages were effectively ruled out legally. However, in 2014 a new law<sup>59</sup> was introduced which grants same-sex unions the same set of rights as those enjoyed by the traditional opposite-sex marriages, except the right to adopt children.

The legal status of persons with disabilities is primarily regulated by the *Antidiscrimination Act*, the *Act on Protection of People with Mental Impairment*, and the *Convention on the Rights of Persons with Disabilities*<sup>60</sup>. There is also the Ombudsperson for People with Disabilities, the central institution for protection of people with disabilities. In the domain of work and employment, besides the labour regulation that applies to employees in general, more specific rules are set by the *Act on Vocational Training and Rehabilitation and Employment of Persons with Disabilities*. Although regional Centres for Vocational Rehabilitation—with the main aim of better integration of people with disabilities and mental impairments into the labour market—were under the jurisdiction of the local and regional self-government units, at the beginning of this year founding rights were transferred back to the Government in order to balance the positions of the centres and further strengthen their capacities.

In particular, as of 2014 quotas for persons with disabilities have been introduced, and apply to employers with at least 20 employees. Depending on the total number of employees, the quota ranges from 2 % to 6 % of the total employment. An employer may satisfy the required quota in ways other than employing people with disabilities, for example by taking students with disabilities as apprentices, by giving them stipends, and in other similar ways. There are also a number of other incentives for employers to employ people with disabilities, for example wage subsidies, reimbursements of costs of adaptation of workplace and work conditions, and other similar incentives, including ALMPs. Although the quotas and incentives seem to have contributed to a rise of employment of persons with disabilities, their employment rate is still very low, and there is still a lot of room for improvement in this domain.

#### 2.2.4. Policies in the field of working conditions, including health and safety at work

Working conditions are, in principle, regulated by the *Labour Act* which covers working time, type of contract, organisation of work and so on. Health and safety at work are regulated by the ***Act on Occupational Health and Safety***, in effect from 2014. A number of changes were made compared to the older legislation: for the first time the prevention of psychological stress at work and related to work was stipulated. If workers demand it, an employer is required to ensure a health examination once every five years. The Institute for the Improvement of Occupational Health and Safety (IIOHS) was established, and its duties and activities were defined. The work of the Inspectorate for Occupational Health and Safety is directed more toward prevention, and less toward repression. The Act also set the deadline for a number of sub-acts to come into effect, but most still do not exist, breaking the deadline. The 2014 act was **amended in 2018, and some amendments may be considered a step backwards**.

<sup>59</sup> *Act on Life Partnership of Same-Sex Persons* (Official Gazette, No 92/2014).

<sup>60</sup> Official Gazette, International Treaties, 6/2007, 5/2008.

Without prior social dialogue, and despite the opposition of both trade unions and the employers' organisation, the IIOHS was abolished as an independent institution, its job being taken over by the MLPS. The number of mandatory meetings of the Parliamentary Committee for Occupational Health and Safety was halved, from once in three months to once in six months. The number of workers who must have first-aid training was more than halved, from one in 20 to one in 50 employees.

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

The Economic and Social Council (ESC) continues to be the main body for social partners to be consulted and have a role in policy development. However, it has been long regarded as little more than a sounding board. Recently, **there was a serious dispute between the trade unions and the Government over the role of the ESC**. The trade unions left the ESC in April 2019 and have not participated in its work since then. The key issue seems to be the future work of the ESC, with trade unions criticising the lack of influence on policy. They have requested changes in the ESC's constitutive documents to ensure a more active role. The disagreements over pension reform discussed above may also have fuelled resentment.

**NGOs are still not fully represented in policy formulation** although their role as both service providers and as leaders in EU-funded projects has led to a greater voice for some. The work of the Governmental Office for NGOs and the National Foundation for Civil Society Development includes NGOs as development partners and advocates for their greater role in policy formulation. Before undertaking major reforms, working groups tend to be established including all relevant and knowledgeable stakeholders, including social partners, NGOs, and relevant researchers. At the same time, their impact, particularly on issues the Government deems to be political priorities, is rather limited.



### 3. FUNCTIONING OF EU FUNDING IN PRACTICE

#### 3.1. The use of ESF funding and the Youth Employment Initiative in Croatia

After joining the EU in 2013, Croatia took the opportunity to use EU funds in order to combat high unemployment, especially among the youth population. Since, at the time, Croatia had the third largest youth unemployment rate, after Greece and Spain, it met the conditions for access to funds from both the European Social Fund (ESF) and Youth Employment Initiative (YEI)<sup>61</sup> in conducting policies aimed at activating and employing the youth population, mainly through the Youth Guarantee (YG) scheme. MLPS, as the managing authority of the Operational Programme for Efficient Human Resources (OPEHR), is in charge of the coordination of the YG, while the implementation is under the responsibility of the CES.

The basis for accessing funds from both the ESF and YEI is the *Implementation Plan for Youth Guarantee* produced by the MLPS and CES which contains a full description of the reforms and measures that need to be implemented to facilitate the transition of young people from education to the world of work and to establish a YG system<sup>62</sup>. Out of 9 different ALMP measures available at CES, 6 are intended for the youth population within the implementation of the YG<sup>63</sup>. *The Report on the Implementation of the Implementation Plan for Youth Guarantee for 2017* (MLPS, 2017b) reports that 19 279 young persons were included in different ALMP programmes during 2017, which is a decrease of 13.6 % in comparison to 2016. Vocational training without commencing employment was the most popular programme (9 873 participants), but also the programme with the largest decline from 2016 (by 27 %)<sup>64</sup>. As regards the main goals of YG, the *Report* states that slightly more than 26 % of young people had been included in one or other of the programmes within 4 months of registering at the CES. In addition, within the measures aimed at activating and outreach towards young NEETs, a large number of unemployed persons up to 29 years have been provided with individual counselling, joined individual consultations or participated in workshops during 2017 (MLPS, 2017b). During 2017 and 2018, a pilot-project “Establishment of NEET tracking system”, financed by the ESF, was implemented; however, it became clear that before a fully operational tracking system can be implemented, additional work needs to be done on both preparation and analysis of the available data (Tomić et al., 2018). It seems that MLPS has put this issue on hold as the follow-up to the pilot project that had been announced has not yet started.

Most of the costs of implementing YG measures in 2017 stem from the implementation of ALMP measures (CES), with the total financial resources in 2017 coming from the following sources: YEI: EUR 26.8 million; EU/ESF: EUR 3.6 million; state budget (including co-financing): EUR 62.9 million (MLPS, 2017b). Botrić (2017) reports that in 2016, one in four young people participating in an ALMP was funded through the YEI, and that the structure of participants in YEI is similar to the structure of participants in overall ALMP measures. It is also reported that, in the period 2013-2017, a total of EUR

<sup>61</sup> As one of the main EU financial resources to support the implementation of YG schemes, YEI is available to those Member States with regions that had youth unemployment rates of 25 % or higher in 2012 (for the initial allocation) and in 2016 (after the YEI increase). In both Adriatic and Continental Croatia regions unemployment rates for the population aged 15-24 have been larger than 25 % in both 2012 and 2016. It has already been mentioned that in the context of ALMPs the definition of youth population in Croatia extends to the age of 29 (MLPS, 2014).

<sup>62</sup> This is a flexible document that is modified according to changes of circumstances, such as availability of financing, changes on the labour market, effectiveness of individual measures, etc. The latest available *Implementation Plan* is for the period 2019-2020.

<sup>63</sup> Support for employment, support for self-employment, education of the unemployed, on-the-job training, vocational training without commencing employment, and public works.

<sup>64</sup> For more details about this specific programme please refer to CES (2016) or Tomić and Žilić (2018).

101.3 million was allocated from YEI that was matched by the same amount from the ESF (EC, 2019b)<sup>65</sup>. Botrić (2017) additionally explains that YEI addresses emergency youth unemployment issues, while ESF serves as a support to more hard-to-solve or intractable unemployment issues. She further explains that the YG process has influenced policy design in Croatia not only by activating and employing the youth population, but also by increasing the capacity of the administration to deal with the issue (Botrić, 2017). In addition, the project “Implementation of active employment policy measures for young people” of a total value of around EUR 214.9 million and targeting 37 441 young people is being implemented by the CES in the period November 2015 – December 2022 (EC, 2019b).

*Research on the progress measured by longer-term performance indicators with target values for YEI and ESF for 2015-2016 and 2017 and the Evaluation of the Youth Employment Initiative under the Operational Program for Efficient Human Resources 2014-2020 for 2018* (Ipsos, 2017; 2018; 2019) provide additional information on the use of ESF funding and YEI in Croatia. For example, the evaluation report for 2018 (Ipsos, 2019) states that only ALMP measures aimed at integration of young people into the labour market have been implemented, while returning young people to education under the authority of the Ministry of Science and Education (MoSE) is still not in evidence. Besides that, the report states that interventions included exclusively the registered unemployed, whereas the inactive part of the NEET population has mainly remained hard-to-reach, and also that the allocation of funds was directed to the most in-demand programmes (vocational training without commencing employment). The evaluation, based on both survey and internal monitoring data, also found that 6 months after the end of participation, 68 % of participants were employed and about 4 % of them continued education (YEI intervention), thus exceeding the target value of 48 % participants no longer in NEET status, while around 50 % of long-term unemployed participants were employed in the same period (ESF intervention), suggesting that the intervention surpassed the target of 38 % participants no longer in the NEET status in this case as well. Both the descriptive statistics and counterfactual impact evaluation indicate that support for employment is the most successful measure. The analysis of cost-effectiveness of individual measures revealed that the unit cost of the vocational training without commencing employment measure per realised effect in the observed period was 50.0<sup>66</sup>, whereas the unit cost of the employment subsidy for the same period is 3.7 (YEI intervention).

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<sup>65</sup> Botrić (2017) states that the YEI implementation in Croatia has had a relatively late start as it became operative only in 2015 (after the OPEHR was adopted at the end of 2014 and YEI integrated into ESF programming in accordance with the EU Directive 1303/2013, while the financial implementation started only in November 2015).

<sup>66</sup> About 50 unit costs had to be spent per end beneficiary (as much as HRK 1.8 million) to employ one end-beneficiary 6 months after the end of the programme.

## 4. PRIORITIES OF THE UPCOMING CROATIAN PRESIDENCY OF THE EU IN THE FIELD OF EMPLOYMENT AND SOCIAL AFFAIRS

The Republic of Croatia is set to preside over the Council of the European Union in the period from 1 January 2020 to 30 June 2020. The *18-month programme of the Council of the EU for 1 January 2019 - 30 June 2020*, the so-called **trio programme**, endorsed by the Member States at a meeting of the General Affairs Council (GAC) on 11 December 2018, was prepared — in cooperation with the Council of the EU General Secretariat and the European External Action Service — by Croatia, Finland and Romania as the future presiding trio at the time. As reported by the Ministry of Foreign and European Affairs (MFEA) of the Republic of Croatia: “the programme, along with the topics contained within the *EU Strategic Programme*, includes the measures and activities that Croatia has particularly been pushing for in various areas from growth, development and **jobs**, with special emphasis on the issue of **youth unemployment, investing in labour market-adapted education** and promoting transport connections, to security and the EU enlargement”<sup>67</sup>. MFEA also announced that following the *trio programme* and additional national priorities, the Croatian government will prepare the **Programme of Croatian Presidency of the EU Council** which should set out and elaborate in more detail measures and activities that Croatia wants to address as priorities during its Presidency by the end of 2019. The MFEA replied to our request that the harmonisation of the *Programme* is still in progress and that it **will be adopted by the Government just before the start of the Presidency** when it will also be publicly announced; that in producing the document as well as following the *trio programme*, they are also taking into account *A new strategic agenda 2019-2024* of the European Council, and that the final draft of the *Programme* will, if necessary, be further refined upon the establishment of the work programme of the new European Commission, and depending on the results of the Finnish Presidency of the EU Council.

Croatian Prime Minister Andrej Plenković has named several key priorities during Croatia’s Presidency on a number of occasions. For instance, at the beginning of September 2019, at a joint seminar for ministers and state secretaries organised by the Embassy of the French Republic in cooperation with the Office of the Prime Minister and the Ministry of Foreign and European Affairs of the Republic of Croatia and with the support of the French National School of Public Administration (ENA), Mr. Plenković has said that Croatia's chairmanship of the Council of the EU is coming at a challenging time and he emphasised **four points regarding Croatia's political priorities** during its chairmanship of the Council of the EU<sup>68</sup>: (i) a **demographic revival of a growing and developing Europe**, together with strengthening the internal market, competitiveness, the economies of Member States, cohesion and convergence<sup>69</sup>; (ii) **connecting Europe**, implying transport, energy and digital connectivity of the continent; (iii) **protecting Europe**, covering issues of security, respecting rights, European values and a comprehensive approach to migration; and (iv) a **strong, agile and assertive EU role on a global level**, suggesting that Croatia has to also be more assertive and active in this regard. On another occasion, during a session of the Croatian Parliament<sup>70</sup>, he repeated the four priorities but also mentioned that the discussion on the EU budget (2021-2027 Multiannual Financial Framework) is most likely to be held during Croatian presidency.

<sup>67</sup> <http://www.mvep.hr/en/info-servis/press-releases/31866.html>.

<sup>68</sup> <https://vlada.gov.hr/news/pm-croatia-s-chairmanship-of-eu-comes-at-a-challenging-time/26688>.

<sup>69</sup> Stressing the importance for Croatia of the European Council adding demographic revival to its strategic agenda back in June (*A new strategic agenda 2019-2024*), given that 14 of the 28 Member States (Croatia included) have negative birth rates.

<sup>70</sup> <https://vlada.gov.hr/news/croatia-s-eu-presidency-will-be-intense-and-will-require-the-full-involvement-and-contribution-of-all-of-us-together/27809>.

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## ANNEX 1

Table 2: Selected labour market and social indicators comparing Croatia and EU in 2018

Indicator		EU28	HR
Activity rate	<i>% of population aged 20-64</i>	78.4	71.0
	<i>Males</i>	84.4	75.9
	<i>Females</i>	72.4	66.1
Employment rate	<i>% of population aged 20-64</i>	73.1	65.2
	<i>Males</i>	78.9	70.3
	<i>Females</i>	67.4	60.1
Self-employment	<i>% of employed population aged</i>	13.7	10.3
Part-time employment	<i>% of employed population aged</i>	18.5	4.9
Temporary employment	<i>% of employees aged 20-64</i>	13.2	19.3
Unemployment rate	<i>% of active population aged 20-64</i>	6.7	8.2
Long-term unemployment (≥12 mths)	<i>% of the total unemployment</i>	43.5	40.2
Youth unemployment rate	<i>% of active population aged 15-24</i>	15.2	23.7
	<i>% of active population aged 15-29</i>	12.0	17.6
Youth NEET rate	<i>% of population aged 15-24</i>	10.5	13.6
	<i>% of population aged 15-29</i>	12.9	15.6
Labour cost index	<i>2016=100</i>	105.2	110.8
Labour productivity per person employed*	<i>EU28=100 (PPS)</i>	100.0	72.0
	<i>2010=100 (real)</i>	105.7	109.9
Unit labour costs*	<i>2010=100 (nominal)</i>	105.7	89.4
People at risk of poverty or social exclusion*	<i>Thousand</i>	112,979	1,085
	<i>% of total population</i>	22.4	26.4
People living in households with very low work intensity*	<i>Thousand (aged &lt;60)</i>	35,348	367
	<i>% of total population aged &lt;60</i>	9.5	12.2
People at risk of poverty after social transfers*	<i>Thousand</i>	85,299	821
	<i>% of total population</i>	16.9	20.0
People severely materially deprived*	<i>Thousand</i>	33,131	423
	<i>% of total population</i>	6.6	10.3

Note : \* 2017

Source: Eurostat

## ANNEX 2

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

- *Labour Act [Zakon o radu]*, Official Gazette [Narodne novine], No 93/2014, 127/2017.
- *Law on employment mediation and entitlements during unemployment [Zakon o posredovanju pri zapošljavanju i pravima za vrijeme nezaposlenosti]*, Official Gazette [Narodne novine], No 52/2017, (ceased to exist 118/2018).
- *Law on the Promotion of Employment [Zakon o poticanju zapošljavanja]*, Official Gazette [Narodne novine], No 57/2012, 120/2012, 16/2017, (ceased to exist 118/2018).
- *Act on Job Retention Subsidies [Zakon o potpori za očuvanje radnih mjesta]*, Official Gazette [Narodne novine], No 93/2014, (ceased to exist 16/2017).
- *Law on the Labour Market [Zakon o tržištu rada]*, Official Gazette [Narodne novine], No 118/2018.
- *Minimum Wage Act [Zakon o minimalnoj plaći]*, Official Gazette [Narodne novine], No 118/2018.
- *Act on Representativeness of Employers' Associations and Trade Union Organisations [Zakon o reprezentativnosti udruga poslodavaca i sindikata]*, Official Gazette [Narodne novine], No 93/14.
- *Law on Vocational Rehabilitation and Employment of Persons with Disabilities [Zakon o profesionalnoj rehabilitaciji i zapošljavanju osoba s invaliditetom]*, Official Gazette [Narodne novine], No 153/13, 152/14.
- *Law on Croatian Qualifications Framework [Zakon o Hrvatskom kvalifikacijskom okviru]*. Official Gazette [Narodne novine], No 22/2013.
- *Act on Occupational Health and Safety [Zakon o zaštiti na radu]*, Official Gazette [Narodne novine], No 71/2014, 118/2014, 154/2014, 94/2018, 96/2018.
- *State Inspectorate Act [Zakon o državnom inspektoratu]*, Official Gazette [Narodne novine], No 115/2018.
- *Law on personal income tax [Zakon o porezu na dohodak]*, Official Gazette [Narodne novine], No 115/2016, 106/2018.
- *Law on social security contributions [Zakon o doprinosima]*, Official Gazette [Narodne novine], No 84/2008, 152/2008, 94/2009, 18/2011, 22/2012, 144/2012, 148/2013, 41/2014, 143/2014, 115/2016, 106/2018.
- *Pension Insurance Act [Zakon o mirovinskom osiguranju]*, Official Gazette [Narodne novine], No 157/2013, 151/2014, 33/2015, 93/2015, 120/2016, 18/2018, 62/2018, 115/2018.
- *Pension Supplement Act [Zakon o dodatku na mirovine ostvarene prema Zakonu o mirovinskom osiguranju]*, Official Gazette [Narodne novine], No 79/2007, 114/2011, 115/2018.
- *Mandatory Pension Funds Act [Zakon o obveznim mirovinskim fondovima]*, Official Gazette [Narodne novine], No 19/2014, 93/2015, 64/2018, 115/2018.
- *Voluntary Pension Funds Act [Zakon o dobrovoljnim mirovinskim fondovima]*, Official Gazette [Narodne novine], No 19/2014, 29/2018, 115/2018.
- *Pension Insurance Companies Act [Zakon o mirovinskim osiguravajućim društvima]*, Official Gazette [Narodne novine], No 22/2014, 29/2018, 115/2018.

- *Law on Extended Service Period [Zakon o stažu osiguranja s povećanim trajanjem]*, Official Gazette [Narodne novine], No 115/2018.
- *Social Welfare Act [Zakon o socijalnoj skrbi]*, Official Gazette [Narodne novine], No 157/2013, 152/2014, 99/2015, 52/2016, 16/2017, 130/2017.
- *Gender Equality Act [Zakon o ravnopravnosti spolova]*, Official Gazette [Narodne novine], No 82/2008, 69/2017.
- *Antidiscrimination Act [Zakon o suzbijanju diskriminacije]*, Official Gazette [Narodne novine], No 85/08, 112/12.
- *Act on Protection of People with Mental Impairment [Zakon o zaštiti osoba s duševnim smetnjama]*, Official Gazette [Narodne novine], No 76/14.
- *Act on Vocational Training and Rehabilitation and Employment of Persons with Disabilities [Zakon o profesionalnoj rehabilitaciji i zapošljavanju osoba s invaliditetom]*, Official Gazette [Narodne novine], No 157/2013, 152/2014, 39/2018.



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This study provides an overview of the main developments in the area of employment and social affairs in Croatia, including relevant legislative and policy measures as well as the role of social partners and social dialogue. It also addresses the use of EU funds in combating unemployment in Croatia and the priorities of Croatia's upcoming Presidency of the EU. This document was provided by Policy Department A at the request of the European Parliament's Committee on Employment and Social Affairs.

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