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THE SOCIAL DIMENSION IN SELECTED CANDIDATE COUNTRIES IN THE BALKANS: COUNTRY REPORT ON CROATIA

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The Social Dimension in Selected Candidate Countries in the Balkans: Country Report on Croatia

Predrag Bejaković, Zoran Šučur and Siniša Zrinščak*

Abstract

This study gives an overview of the economic and social development of Croatia, covering its economy, labour market, education, demographic trends, income distribution and poverty. It discusses in detail the country's social protection system, its governance structure and civil society development, as well as specific issues concerning war veterans, war victims and areas of special state concern.

In demographic terms, Croatia is a small country with a declining population. During the 1990s, Croatia had a highly centralised government structure, which has slowly been changing alongside a deepening of the democratisation process and civil society development. Economically, although recent years have shown encouraging trends in GDP growth and employment, Croatia still lags behind the new member states of the EU. Still, despite significant rises in income inequality and poverty in the post-communist period, the level of income inequality is identical to the EU level and the poverty rate is only somewhat higher. Croatia spends about a quarter of its GDP on social protection, mainly on pensions and healthcare. In addition, following Croatia's war of independence (1991–95), the country must look after war veterans, war victims and internally displaced persons, as well as areas that had been seriously affected by the war.

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Executive Summary

Trends in the economy, labour market and education

- 1) Croatia experienced a substantial drop in its GDP at the beginning of the 1990s and only regained its pre-transition level in 2003. In 2005, the GDP per capita was €6,972 or 46.7% of the EU-25 average when measured in purchasing power standards. Since the 2001 crisis, the banking system has stabilised and the tax system generally complies with EU standards. Unfortunately, in light of EU accession, these positive aspects have been outweighed by shortcomings: the low share of the private sector in the economy (representing 60% of employment and 75% of GDP) and the high levels of the budget deficit and public debt. Furthermore, there is a relatively strong degree of dependence on state subsidies, which are much higher than are those in the EU.
- 2) Employment dynamics during the transition exhibited a pronounced decline followed by a partial recovery. There is a high share of the long-term unemployed and there are few employment possibilities for job seekers with a lower level of education. Most of the working-age individuals who are not employed have either little education (primary school) or limited skills (vocational school graduates). At the same time, a rapid upgrade is also needed in the professional skill levels of those who are employed (especially in public administration). Thus, it is important to enhance the knowledge and skills of the entire labour force (employed and unemployed) to improve labour force competitiveness and employability in general.
- 3) The creation of an adequate entrepreneurial and investment climate is crucial. The foundation for such a climate requires improved governance, incentives for economic openness towards foreign direct investment and foreign trade, and the establishment of an adequate organisational infrastructure that enables investment.
- 4) Croatian society is in general poorly educated, although the educational level of the younger generation is much better compared with society as a whole. Approximately 16% of the population falls into the group of those aged 25-39 with completed post-secondary education. The main challenges for the educational system are not only to increase the educational level of the population, but also to bring the educational system closer to the needs of the labour market and to stimulate lifelong learning. It is of great importance that the government continues with the educational reforms underway, and gives more attention to those who have dropped out of the school system with respect to enhancing their skills and employment prospects.

Demographic trends

- 5) Croatia is a relatively small country with 4.4 million inhabitants (2003). Unfavourable population ageing trends are high on the public agenda. These trends are clear in the negative natural increase of the population, the high old-age dependency ratio and low fertility rates. The average family size was 3.1 in 2001 and 58% of couples had children, while 15% of families entailed single parents. Adverse trends are particularly evident in certain areas of Croatia, which makes any projections about the future development of these areas rather unrealistic. Although consecutive governments have embarked on various demographic programmes, these trends have remained unchanged.
- 6) The migration balance has been positive in the last 10 years, although its overall level has recently declined. So far, the migration pattern has been mainly connected with the political processes of former Yugoslavia, as a majority of immigrants have been Croats coming from the former Yugoslavian republics.

- 7) Population projections suggest that the decline of the population will continue even if expectations about the positive trends in migration are taken into consideration. It is also hard to expect any significantly higher fertility rates in the future. Obviously, any future demographic programmes should be closely linked with the reform of the labour market, as well as with the expansion of public services for children and the elderly. In this regard, there is a need to better define the country's immigration policy.

Income distribution and poverty

- 8) The Gini coefficient in Croatia is identical to that in the EU-25 (0.29) (remaining unchanged since 2002). Wages contributed the most to income inequalities. In relation to the population as a whole, the poor earn their income in the labour market to a much lesser extent. In the last 15 years, the shares of pensions and other social transfers in their total income has steadily increased. Pensions are the most important source of income for the poorest 10%.
- 9) Using an international poverty standard of \$4.3 per day per person (at purchasing power parity), the incidence of absolute poverty is low (less than 5%). According to this measurement, Croatia has a much lower poverty rate than many transitional countries. Relative poverty rates are higher. Using the EU's official poverty line, the poverty rate in 2005 was 17.5% (2.5 percentage points higher than that in the EU-25). Poverty in Croatia has been stagnating or slightly decreasing. It is predominantly a rural problem (rural poverty rates are three times those of urban areas). The poverty profile is dominated by the elderly and persons with low levels of education. Other groups with a relative poverty risk above average are the unemployed, single-parent families and families with three or more children, persons with disabilities, internally displaced persons (IDPs) and the Roma. The poor not only have a lower income, they are also more deprived in terms of access to goods and services in comparison with the general population.
- 10) Social expenditures are not well targeted. It seems that schemes with the highest shares of social protection expenditures have contributed disproportionately little to alleviating poverty and reducing inequality. Those transfers that are best targeted on the poor are social welfare and unemployment benefits. It is also necessary to expand the coverage of the pension system. In the long run, a solution could be the introduction of a state pension for all older persons based on a means test. In addition, poverty is unlikely to be alleviated without wider prospects in the labour market and investment in the education and human capital of the poor.

Social protection system

- 11) The system of social protection is extensive. A considerable share of the population depends on social transfers. Total public social spending is slightly above 23% of GDP and when combined with expenditures for war veterans and IDPs it totals around 26% of GDP. Since 2001, however, there has been a downward trend in social spending. This trend stems from falling pension expenditures and faster economic growth. Central government expenditures make up more than 99% of total social protection spending. Pension and healthcare schemes absorb more than 80% of the total expenditures. Capital accumulation in the partially privatised pension system amounts to about 5% of GDP, but pensions from these funds have not yet been paid. Private expenditures in the healthcare system were between 1% and 1.3% of GDP in the period 1998–2004.

- 12) About 4% of total social protection expenditures are devoted to administration and other costs (including staff salaries). The Croatian transfer system is as effective as the average EU-25 transfer system at reducing the poverty rate. Other social transfers (if old age and survivors' pensions are excluded) are actually more effective than are those in the EU-25.
- 13) Pension and healthcare schemes are having much difficulty with respect to achieving financial sustainability. The ratio between pensioners and the insured is 1:1.4. According to estimates, about 14% of the population aged 65 and over do not receive any pension benefits (pensions from abroad, and military and war veterans' pensions are not taken into account). The replacement rates for all types of pensions are relatively low. In spite of the reforms undertaken, the evasion of contributory payments has remained a significant problem. It is crucial to channel atypical work into the contribution system.
- 14) Access to healthcare services is another issue that needs to be addressed. Many people, even though they are covered by health insurance, do not have access to healthcare services in adequate time. There also is much corruption in the system. Meanwhile, there are various points of view regarding healthcare reform (the basket of basic healthcare services, the method of financing them and so forth).
- 15) In comparison with other EU countries, a small fraction of the registered unemployed is covered by unemployment benefits (between 15% and 24% in the last 10 years). About 6% of Croatian citizens are social welfare beneficiaries, with half of them receiving permanent assistance. About 45% of expenditures on non-contributive schemes were means-tested in 2004 and 2005.

Governance structures and civil society development

- 16) During the 1990s, Croatia had a highly centralised government structure. Owing to changes in the legislation after 2001, some state responsibilities (including those for education, health and social welfare) were transferred to the level of regional and local governments.
- 17) An important aspect of the democratisation of society is connected with social dialogue and civil society development. Social dialogue has mainly occurred through the activities of the tripartite Economic and Social Council and similar councils at the county level, and through the procedure of collective bargaining. These councils are only advisory bodies. Civil society organisations frequently articulate the needs of marginalised segments of the population and can stimulate public debates and raise awareness. Still, the levels of formal membership in voluntary organisations and participation in voluntary work are considerably low.

War veterans, war victims and areas of special state concern

- 18) Unlike EU countries, Croatia has recent memories of war (1991–95), from which new groups of vulnerable persons emerged – war veterans and IDPs. Since 2000, expenditures on war veterans have been about 1.5% of GDP. Many veterans and war victims still suffer from trauma. Many IDPs and returnees are living in so-called 'areas of special state concern', which were directly affected by the war. These areas are disadvantaged and deprived in many respects (with destroyed infrastructure, economic underdevelopment and high levels of unemployment, limited social services, depopulation, land that has not been cleared of mines, etc.). How to reduce regional disparities and foster economic growth in war-affected areas that suffer multiple deprivations remains a major challenge.

1. Introduction

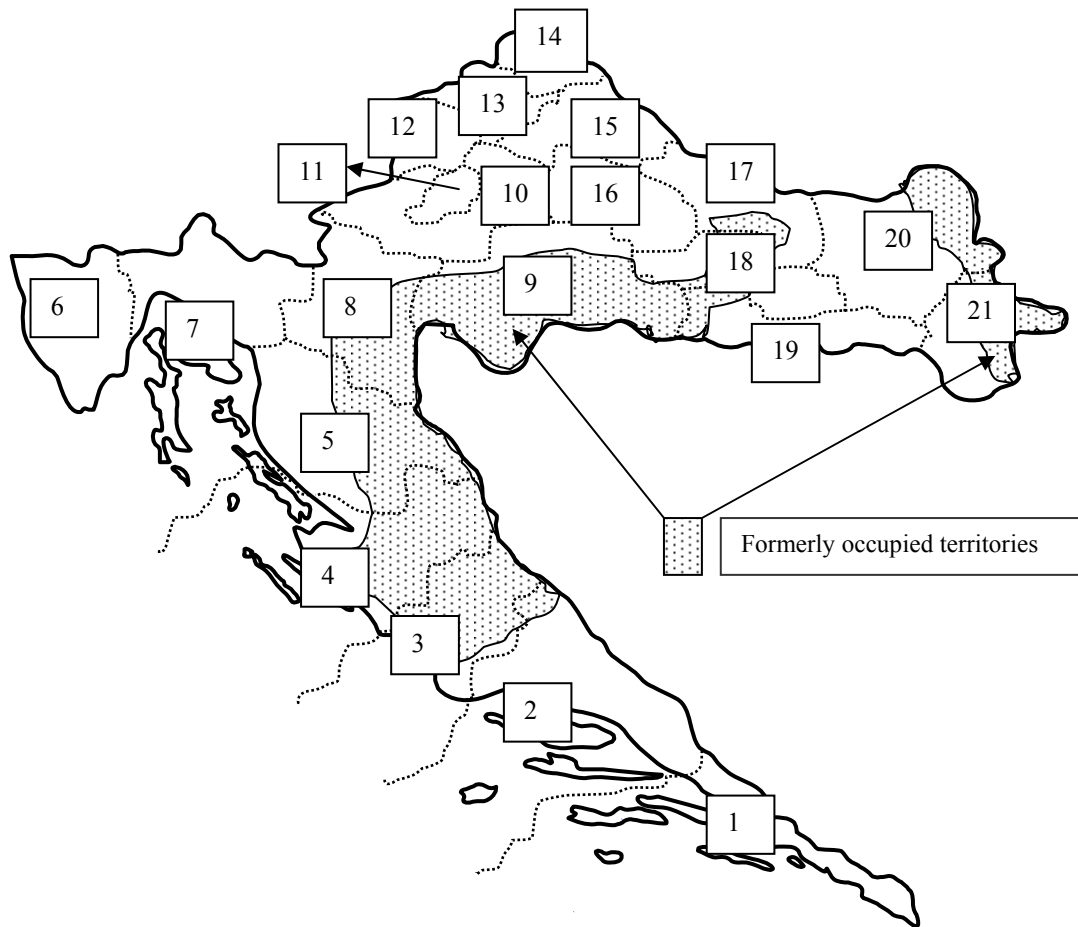
Croatia is a relatively small country in south-eastern Europe, surrounded by Slovenia, Hungary, Serbia, Montenegro, Bosnia and Herzegovina and (across the sea) Italy. It has 56,542 km² of land area and 31,067 km² of coastal sea. The length of the seacoast is just over 5,835 km, of which 69.5% belongs to the islands. Geographically, Croatia is a diverse country, which can be divided into at least two contrasting parts: a continental one and a coastal one. Croatia had 4.4 million inhabitants in 2003, with 780,000 living in the capital, Zagreb. Three other major cities, situated in three different areas of Croatia are Rijeka (144,000 inhabitants), Split (189,000 inhabitants) and Osijek (115,000 inhabitants). Croatia has not yet defined its NUTS2 regions, but administratively it is divided into 21 counties, 124 towns and 426 municipalities. Counties are equivalent to the NUTS3 level (see the country map in Figure 1).

Recent Croatian history has been almost completely overshadowed by three political upheavals: the fall of communism (the first free elections were held in 1990), the declaration of independence from former Yugoslavia (1991) and the war of independence (1991–95), which ended with Croatia regaining much of its occupied territories by military force. The war, which started as a rebellion of Croatian Serbs subsequently backed by the Yugoslavian army and the Milošević regime in Serbia, left serious consequences in human and material losses. Thus, the problems of transition coupled with those of the war resulted in the country experiencing a slower democratisation process than many other post-Communist countries. Croatia became a member of the Council of Europe in 1996, and it was not until 2001 that the country established its relations with the EU by signing the Stabilisation and Association Agreement. It was granted EU candidate status in 2004 and the negotiation process with the EU began in October 2005, after Croatia had met all the preconditions.

Population ageing is one of the main challenges in Croatia and among the most debated public issues. In 2003, the natural population increase was negative and the fertility rate was 1.33. In 2001, the median age was 39.3 (41.2 for women and 37.3 for men). The old-age dependency ratio was 24.5 in the same year. Regional differences in this respect are considerable, as in some counties (such as Karlovac, Lika-Senj, Šibenik-Knin or Sisak-Moslavina) negative demographic trends are particularly discernible. In ethnic terms, the majority of inhabitants are Croats (89.63%). The largest ethnic minority are Serbs (4.54%). During the war, many Serbs left the country and many Croats from other former Yugoslavian republics arrived, so the increase of Croats and the decrease of Serbs represent the most important changes in Croatia's ethnic composition in the last 15 years.

Croatia experienced a huge drop in its GDP at the beginning of the 1990s and only regained its pre-transition level in 2003. GDP per capita was €6,972 in 2005, or when measured in purchasing power standards (PPS) it was 46.7% of the EU-25 average. Political stabilisation and economic reforms have contributed to favourable economic trends. The average growth rate was 4.7% and the average inflation rate was 2.8% in the period 2001–05. The exchange rate of the national currency with the euro has been stable. Yet there are some worrying indicators. Gross foreign debt has been on the rise in recent years and amounted to 80.2% of GDP in 2005. Public debt amounted to 52.1% of GDP. The Croatian economy is service-oriented. Service accounted for 74.6% of the total value added in the economy in 2005, while the share of industry was 18.9% and that of agriculture 6.5%.

Figure 1. Country map of Croatia



Legend

- | | |
|---------------------------------|---------------------------------|
| 1. Dubrovnik-Neretva County | 12. Krapina-Zagorje County |
| 2. Split-Dalmatia County | 13. Varaždin County |
| 3. Šibenik-Knin County | 14. Međimurje County |
| 4. Zadar County | 15. Koprivnica-Križevci County |
| 5. Lika-Senj County | 16. Bjelovar-Bilogora County |
| 6. Istria County | 17. Virovitica-Podravina County |
| 7. Primorje-Gorski Kotar County | 18. Požega-Slavonia County |
| 8. Karlovac County | 19. Brod-Posavina County |
| 9. Sisak-Moslavina County | 20. Osijek-Baranja County |
| 10. Zagreb County | 21. Vukovar-Sirmium County |
| 11. City of Zagreb | |

Positive macroeconomic trends in recent years have not been reflected so far in employment, which has remained at a low level. The total participation rate was 49.6% and the total employment rate was 43.2% in 2005. The youth unemployment rate is exceptionally high and the labour force participation of older persons is relatively low. The unemployment rate has been on the decline in recent years, but it is still 12.7%. In some counties, the unemployment rate is significantly higher.

Absolute poverty rates have been relatively low in the past five years (less than 5% in relation to an international poverty standard of \$4.3 per day per person at purchasing power parity (PPP), and 10-11% according to the food energy intake method – see section 4.1). Using the EU's official poverty line (60% of median equivalent income), the poverty rate in 2005 was about 17.5% (just 2.5 percentage points higher than the average for the EU-25). As regards poverty dynamics, poverty has stagnated or decreased slightly. Income inequalities (measured by the Gini coefficient) are the same as those in the EU-25 (0.29). Yet, there is a general public perception that income and wealth inequalities are too high in Croatia.

There are major regional disparities between those areas that were affected by the war and those that were not. Many war-affected areas are depopulated, economically underdeveloped, lacking in or suffering from destroyed infrastructure, have lands not cleared of mines, etc. Such areas can be found particularly in eastern Slavonia and the Dalmatian hinterland. Moreover, the return of internally displaced persons (IDPs) and refugees has not yet been completed (forecasted for the end of 2006). Significant resources are required for this purpose, especially in terms of housing, communal infrastructure and (re)construction.

2. General economic trends

2.1 Macroeconomic developments

2.1.1 Real sector and external trade

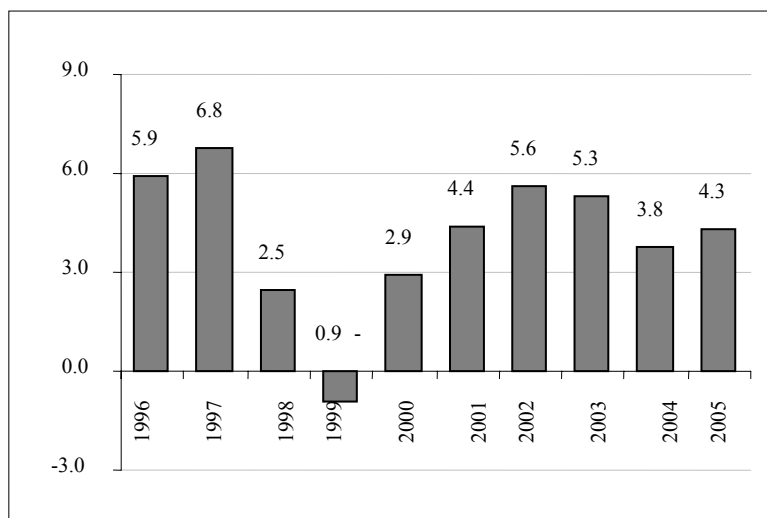
In the 1990s, GDP and industrial production levels plummeted, primarily owing to the war. The GDP in Croatia cumulatively fell by 36% between 1990 and 1993 and only regained its pre-transition level in 2003.

In 2005, GDP per capita was just below €6,972 or 46.7% of the average GDP per capita for the EU-25 (PPS), a significant improvement from below 40% in 1996 (data from the Central Bureau of Statistics, henceforth CBS, and the Croatian National Bank).

The state of the economy in the years 2000–05 was characterised by the growth of economic activity and at the same time the decrease of the current account deficit, the deceleration of external debt growth and price stability. The average annual GDP growth rate was 4.7% in the period 2001–05 (Figure 2). The kuna versus euro exchange rate was stable and fluctuated within narrow margins during the whole period from the late 1990s until 2005.

The sectors providing the most important contributions to gross value added (GVA) are the following: manufacturing (around 20%); trade, repairs of motor vehicles and household goods (around 12%); real estate, leases and business services (around 11%); and transport, storage and communications (around 10%) (CBS). While the shares of primary economic sectors (agriculture, hunting and forestry, and fishing), as well as secondary ones (manufacturing) in GVA have been falling over the last six or seven years, the share of services (real estate, leases and business services, hotels and restaurants, trade, repairs of motor vehicles and household goods) has been rising.

Figure 2. Annual GDP growth rate



Source: CBS.

In the period 1998–2005, exports of goods and services increased their share in GDP from 39.8 to 49.4%. Simultaneously, the growth of imports slowed, although the share of imports in GDP increased from 49.1 to 56.4%. For the Croatian economy as a whole, the tourist industry¹ (primarily hotel and restaurant activity, including accommodation, food and beverages and other services) is very important. The industry has seen a rise in the number of foreign tourist arrivals and tourist night-stays over the last 10 years. In comparison with 1995, in 2005 the number of foreign tourist arrivals had increased by five times, while the number of foreign tourist night-stays had grown by almost six times.

The shadow economy comprises both unreported and under-reported activity. The Institute of Public Finance in Zagreb has researched the shadow economy in Croatia for the 1990–2000 period. Different methods of estimation provide various results. The shadow economy accounted for about 25% of GDP in the first half of the 1990s and around 10% of GDP on average during the 1996–2000 period. Thus, the shadow economy declined in the 1990s, but still had a value of over €1.53 billion. While unreported activity is larger, under-reporting is significant and depends rather more on the size of the tax burden (Madžarević-Šujster, 2002; Ott, 2002). According to the estimation of Lovrinčević & Mikulić (2005), the share of the shadow economy in the GDP in recent years has ranged from 13.9 to 36.5% (Table 1).

Table 1. Estimated share of the shadow economy in GDP (%)

Method year	1998	1999	2000	2001	2002
Nat. account (N1-N7)					
Lower estimation	17.0	15.7	16.6	16.1	15.6
Higher estimation	36.5	33.7	35.7	34.6	33.6
Eurostat	15.4	13.5	14.9	14.3	13.9

Source: Lovrinčević & Mikulić (2005).

¹ Given Croatia's favourable natural endowments – an extensive coastline with a warm Mediterranean climate and numerous scenic islands – tourism is one of the most important sectors of the economy, providing an estimated 317,000 jobs in 2004, or around 14% of total employment, and contributing indirectly to about one-quarter of GDP.

The main factors preventing economic agents from registering their activities are the weak legal system, weak institutions (e.g. tax and customs administration), administrative control and discretionary decision-making in the economy, a high tax burden, government arrears, sectoral and institutional restructuring and significant (and frequent) changes in the tax system (see section 6.1.2). As a part of the National Action Employment Programme, measures are proposed for reducing shadow employment. This scheme is especially oriented towards the widespread phenomenon of undeclared cash wages, where the social contribution system loses a huge amount of money through tax evasion, with workers being worse off as a result.

The current account has fluctuated in recent years with the lowest deficit recorded in 2000 (2.4% of GDP) and the peak in 2002 (8.6% of GDP). More recently, the current account deficit has been in the range of 5-7% of GDP. Significant growth in household consumption has tended to induce import growth, which has in turn resulted in large current account deficits and a rising external debt stock. For the year 2006, according to the projection by the Institute of Economics (2006) the current account deficit is to remain relatively high, above 6% of GDP.

2.1.2 Consumer prices and inflation

When compared with other Central and Eastern European (CEE) countries, Croatia was among those with the lowest level of inflation. In the period from 2000 to 2005, consumer prices grew on average by 3.0% annually. The average consumer price index for goods was 2.4%, while for services it was higher (5.3%). If one looks at disaggregated inflation in the period 2001–04, the highest price increases were within the sectors of healthcare services and goods (23.1%), catering and accommodation services (11.2%) and housing, water, energy, gas and other fuels (10.6%). In the past two years, the driving forces behind inflation have been the costs of some public services such as water supply and the costs of medical services. Yet there were also increases in energy prices, which may generate some pressure on inflationary developments throughout the year.

2.1.3 General fiscal trends

Faster economic growth has certainly contributed to better budget revenue; however, it has not been enough to reach the planned cut in the fiscal deficit to 4.2% of GDP in 2005. The real fiscal deficit in 2005 was 6.3%. The planned deficit cut in 2006 to 3.5% of GDP will primarily depend on the strict control of public expenditures and the implementation of reforms, above all those in the health sector.

Gross foreign debt in 2005 was €25,541 million or 82.5% of GDP. A 12% increase in comparison with the end of 2004 (€22,781 million or 80.2% of GDP) can be attributed to the ever-increasing indebtedness of the corporate sector, which represents more than one-third of total foreign debt. The government's share of foreign debt shrank in 2005, as it switched to the domestic capital market and bank loans for financing.

According to data from the Ministry of Finance, the share of general government revenues in the GDP declined from a peak of 53% in 1999 to around 42% in the 2002–04 period. The expenditures of the consolidated general government as a percentage of GDP rose to 55% in 1999 and fell afterwards to around 45% on average during 2002–04 and to around 40% in 2005. The largest share of total expenses of the consolidated central government (46.3%) was taken by social benefits, followed by compensations to employees (27.8%), use of goods and services (7.9%) and debt servicing (5.0%).

Central government debt consists of domestic and external debt. At the end of 2005, the domestic debt of the central government amounted to around €7.44 billion, which, together with the external debt of the central government of €6.99 billion amounted to 46.6% of GDP.

2.1.4 Regional economic characteristics

Regional differences, which were heavily influenced by the locations of large industrial complexes, income levels and the development of small firms, have been amplified by the damages of the war and the low degree of labour mobility. At present, there are only a few regions – such as the counties of Zagreb, Istria and Primorje-Gorski Kotar – that are experiencing strong economic growth and labour demand, while in other counties the situation is reversed. Difficulties are not confined to the traditionally rural areas; the islands also suffer comparative disadvantage, as do war-torn and peripheral localities. Moreover, there are substantial differences between individual counties regarding their popularity among tourists. The counties of Istria, Primorje-Gorski Kotar and Split-Dalmatia account for more than two-thirds of total night-stays by foreign tourists. Areas in inland Croatia, especially in Lika, Kordun and eastern Slavonia lag behind in this respect. Croatia has not taken a decision regarding its regional organisation, thus there are no data about GDP and unemployment at the regional level, but only at the county [*zupanija*] level. According to the available data in 2002, the GDP per capita in the richest county – the City of Zagreb, at HRK 71,111 or €9,597 – was more than threefold larger than that in the poorest the poorest county – Vukovar-Sirmium at HRK 23,400 or €3,158.

2.2 Labour market trends and main issues

2.2.1 Main trends (employment, unemployment and economic activity)

The analysis of the main trends in employment, unemployment and economic activity should not be limited to the last 10 years. The reason for this is that over the past 15 years Croatia has been characterised by U-shaped trends regarding GDP, strong and persistent declines in employment rates and stagnant unemployment pools in spite of the rapid structural changes taking place.

There are two sources of indicators of employment and unemployment in Croatia: the registered unemployment processed by the Croatian Employment Service (CES) and the Labour Force Survey (LFS), which has been carried out each year since 1996 by the Central Bureau of Statistics (CBS). The LFS methodology has been brought in line with the rules and instructions of the International Labour Organisation (ILO) and Eurostat. The first LFS in Croatia was undertaken in 1996, thus for the previous period one has to use the census data. According to the census data in the period from 1991 to 2001, the total population fell by 62,000 (1.4%), while the active population declined by 87,000 (4.3%). Simultaneously, the share of the active workforce in the total population decreased from 45.3% in 1991 to 44.0% in 2001. This reduction was mostly the consequence of a fall in the number of employed persons, with many of those losing jobs withdrawing from the labour force into inactivity. LFS data show that the activity rate for the total population fell from 56.2% in 1996 to 49.6% in 2005. For the population aged 15-64, the participation rate of 61.6% in 2001 rose to 63.2% in 2005, while at the same time, the employment rate increased from 51.6 to 55.0%.

The employment dynamics in Croatia during the transition exhibited a pronounced fall followed by a partial recovery, which was typical for all of the CEE transition countries. Nevertheless, the relative magnitude of the Croatian fall in employment depends on the way it is measured. If the decline is measured using the administrative data on employment, it appears to be substantial. Based on that source, employment decreased by about a quarter between 1990 and 2001 – the year in which employment reached its lowest level. On the other hand, the census data, which are more similar to the ILO's methodology, reveal a modest fall of the employment rate for persons of working age (15-64) from 57.7 to 52.3%, corresponding to an employment decline of

roughly half the size of that shown by the administrative data. Briefly, according to the LFS, while the participation rate for the total population significantly decreased, for persons of working age (15-64) it slightly increased. Similar trends are found with the employment rate: it fell for the total population until 2001 and rose afterwards, while for persons of working age it increased significantly after 2001. The relatively low unemployment rate in 1995 of 10.0% for the total population had risen and reached its peak in 2000 (16.1%) but declined afterwards.

There were several distinctive features of the labour market transition in Croatia. Because of the more decentralised nature of decision-making in enterprises and certain market elements of the system, there was significant unemployment even before the start of the transition. The unemployment rate according to the 1981 census was 4.9%, and by 1991 it had risen to 9.7%. Even a modest decrease in employment, measured by the standard of CEE countries, brought the Croatian unemployment rate into the upper part of the range observed in these countries as it reached 14.9% in the 2001 census. Unemployment in Croatia, according to both administrative and survey sources reached its highest level during early 2001 and started to drop thereafter.

The slow and prolonged employment decline was the consequence of a delayed restructuring process and many enterprises operating under soft budget constraints until the late 1990s. A lower activity rate than in the rest of the CEE transition countries, even before the transition, is the final important distinguishing feature of the Croatian labour market. Among the reasons for the lower activity rate could be a relatively low share of persons active in private agriculture, and the almost non-existence of part-time jobs in the public and private sectors. In addition, there is the relatively low statutory age for full old age pensions, the possibility of old age retirement after 40 years of insurance (for men) or 35 years of insurance (for women) regardless of age and a loose definition of disability, with incentives for many to retire early. Although the employment rate did not decline to the same extent in some of the other CEE transition countries, the employment rate in 2001 was considerably lower owing to a lower employment rate at the beginning of the transition.

According to CES figures, in the period 1991–2001 the number of persons unemployed increased by more than 126,000 or nearly 50%. A particularly high rise was recorded in 1991 (almost 60%), when the number of the unemployed reached a level of 254,000. A certain revival of economic activity in the second half of the 1990s (the GDP in 1996 rose by 6% and in 1997 by as much as 6.5%) was not accompanied by increased and more rapid hiring; instead, the number of unemployed persons continued to rise considerably. One could guess that in the aforementioned period there were still relatively high labour *surpluses*, thus there was no need for new employees. Furthermore, this period also featured a strong unofficial economy, so most of the newly employed persons were working off the books. After a decade-long decline in the number of employed persons, this trend reversed in 2001 and employment began to grow – irrespective of the source of data used. Since the first quarter of 2002, unemployment has continually declined, dropping to 308,000 or 17.9% at the end of 2005, according to administrative sources. Increased unemployment was mainly the result of large inflows on the register. The LFS data indicate a significantly lower unemployment rate of approximately 13%. This difference in the LFS probably stems from the share of persons who are registered with the CES yet who are not considered unemployed according to the ILO definition – but instead unavailable for work. Such persons include women who are in an advanced stage of pregnancy or mothers with small children, who are at the same time registered with the CES as a condition for acting upon their rights to obtain some social allowances from the welfare system. According to the law, able-bodied recipients of these allowances should be registered with the CES. In addition, another segment of the unemployed are registered with the CES as a condition for enrolling as part-time students in tertiary education, supported either by themselves or by their parents. CBS data reveal that around one-fourth of all students enrolled in institutions of higher education are part-time students. Finally, there is no doubt that administrative sources are

unable to capture all employed persons – such as those working in the unofficial economy – but they can be included in the LFS.

An important reason for the relatively high unemployment rates could be high labour costs. Real wages in Croatia in 1993 fell to only one-third of their pre-transition level. After the successful stabilisation of the economy in that year, a process of rapid recovery began, so real wages reached 80% of the initial level by the late 1990s. Despite large fluctuations of the average wage, it seems that the wage structure was stable during the transition period, with only a slight increase in dispersion in the late 1990s. On the other hand, wage stability seemed to fuel substantial employment adjustments of workers with only basic or vocational education. Real gross wage growth slowed sharply in late 2004 and early 2005. The average monthly net salary per employee paid at the end of 2004 and 2005 was about €600.

Relatively high wages in Croatia are not justified by proportionately higher labour productivity (World Bank, 2003). Using gross national income (GNI) per capita as a proxy for labour productivity, it turns out that wage differentials between Croatia and other transitional economies are larger than productivity differentials.² Croatia does not enjoy a productivity advantage that would warrant the existing level of wages. In other words, productivity-adjusted wages are high in Croatia compared with other countries (see section 2.2.2). Nevertheless, the increase in productivity in the period 2001–05 was significant and average growth was 7.2%.

2.2.2 Structure of employment and wages

The general process of structural change in successful transition countries has involved relative shifts in employment away from agriculture and industry towards service industries. Croatia had an initial advantage in this process since it had the highest share of employees in services of all transition countries at the beginning of the transition process. Moreover, most of the change in the employment structure in Croatia during the transition was in the ‘right’ direction, if the employment structure of the EU countries is considered a target of the restructuring process. At the same time, the rebalancing process in Croatia took place almost entirely through job losses in agriculture and industry with few expanding activities in the service sector until very recently. Although at the beginning of the 1990s, the shares of persons employed in agriculture and industry were above 10% and 35% respectively, by 2005 these had reached levels comparable with the EU countries (CBS). In 2005, the level of employment in manufacturing was 31.4%, close to the EU average, while the share of persons employed in agriculture had continually dropped and was 6.1% that year, which is comparable to some EU member states. The high share of employment in services (62.5% in 2005) in Croatia is a result of many workers employed in the wholesale and retail trade sectors, along with repairs, transport, hotels and restaurants.

Relatively recent advances in privatisation and the increased number of jobs generated by small private companies brought a further decline in the share of public sector employment, which reduced from more than 42% in 1998 to 39% in 2005. The ratio of employees with elementary school and lower education declined significantly, while the share of employees with secondary, college and university education grew. This resulted in increased participation in education at all levels and in the subsequent decimation of jobs for persons with lower educational qualifications (reflecting the growth in demand for an educated labour force), which is why the latter have become discouraged and simply left the labour force.

² Clearly, GNI per capita is a very rough proxy for manufacturing productivity (output per worker), and accordingly the results presented are gross approximations. Nonetheless, given cross-country correlations between GNI per capita and productivity, the scope for large errors regarding the ranking of countries with respect to unit labour costs seems limited.

Important changes in the structure of the labour force based on the level of educational qualifications can be seen only during a longer period 1981–2003 (Table 2). While in 1981, almost two-fifths of the employed had only elementary school education or less, in 2003 this category accounted for merely 17% of all employed persons.

Table 2. Structure of the labour force based on the level of educational qualifications (%)

	Employed			Unemployed	
	1981	1986	1996	2003	2003
Total	100	100	100	100	100
Elementary school and less	40	37	30	17	30
Secondary school	48	49	53	59	63
College	5	6	7	8	3
University and art academy level	7	8	10	16	4

Note: For 1981 and 1986 only workers in the public sector were cited, while 1996 and 2003 includes persons employed by legal entities (public and private).

Source: CBS.

The educational structure of the labour force is obviously better than the educational structure of the entire population. According to the 2001 census, the population as a whole consisted of 40% of persons with elementary school and less, 47% with secondary education, 4% with college and 8% with university and art academy level (1% is unknown). There is an obvious cohort effect – education at higher levels gradually became more popular after World War II.

The share of employed persons who had completed secondary school, which was less than 50% of all employed persons at the beginning of the 1980s, accounted for almost three-fifths of the employed in 2003. The growth in the number of persons with college and university qualifications was particularly high, having doubled from 12% in 1981 to 24% in 2003.

The age of persons employed by legal entities (public and private) in 2001 was as follows: out of all employees, 18.4% were younger than 29, while 17.9% were over 50. This situation did not change significantly in 2004, with these shares at 19.5% and 19.6%, respectively.

A breakdown by sector shows that average wages are highest in the financial intermediation sector (approximately 60% higher than the national average), while wages are above average in the healthcare and social security sectors, as well as in transport, storage and communications (at around 20%). Wages in fishing are far lower than average (approximately 30%), along with those in agriculture, hunting and forestry (approximately 20%).

During the second half of the 1990s, the return on investment in education grew by almost half. In 1996, the rate of return on investment in additional years of education was approximately 7.6%, while in 2001 it grew to 10.5%. The rate of return on investment was lower in the public sector, although the gap between the rate of return in the private and public sectors had declined to less than 1 percentage point in 2001 (Šošić, 2004).

Wages are high in Croatia – higher than in virtually all the other transition economies of Central and Eastern Europe (World Bank, 2003). Rutkowski (2003) underlines that an average manufacturing worker received close to €400 per month in Croatia in 2000, which was from 50 to 100% higher than in Croatia's closest competitors such as the Czech Republic (€270), Hungary (€250) or Slovakia (€200) and almost five times as much as in Bulgaria or Romania (€90). As previously noted, however, wage differentials do not reflect productivity differentials.

2.2.3 Structure of unemployment

Unemployment in Croatia mainly stems from an overall deficiency of jobs, but is also structural in nature, i.e. it is the consequence of a mismatch between labour supply and demand with respect to the occupations, education, training and skills of job seekers and the requirements of existing jobs. Once someone has lost a job, the chances of re-employment are slight, especially if s/he is older, uneducated or has outdated skills. This situation is exacerbated by the inappropriate education and qualification characteristics of the unemployed, that is, their failure to have the knowledge and expertise being sought, as well as limited opportunities for relocating to areas where there are certain possibilities of employment. In addition, there are other labour market restrictions conditioned by a relatively developed underground economy and psychological barriers (such as indecisiveness and incapacity for work because of long-term unemployment, attitudes towards and the ability to undertake training, and the acceptance and application of new knowledge).

Unemployment is not only rather high in Croatia, it is also often of a long-term nature – very similar to what is observed in the new member states (NMS) and Bulgaria and Romania. Half of the unemployed wait for a job for more than a year and some 30% remain unemployed for more than two years. There is significant evidence that long-term unemployment itself reduces the prospects of obtaining work. Most working-age long-term unemployed individuals have either very little education (primary school level) or narrowly formed skills (vocational school). The relatively high level of long-term unemployment in Croatia is the consequence of more restricted labour flows and the lower number of the newly employed, as well as a slightly lower number of the employed who quit their jobs in comparison with other southern and Eastern European transition countries (Rutkowski, 2003; Rutkowski et al., 2005).

Labour market data indicate that rising unemployment has mostly hit first-time job seekers, particularly those with secondary education. The number of all first-time job seekers in the period 1990–2001 increased from 67,000 to 104,000, while the share of those with secondary education was stable at around 62%. This suggests that unemployment is predominantly the result not only of economic restructuring, but also the country's inability to create jobs fast enough to accommodate new entrants into the labour force. It may also reflect the willingness of educated youth to wait for jobs in the formal and public sectors to open up and to register themselves as unemployed in the interim, as well as the failure of the educational system to provide its students with the kinds of skills needed for private sector jobs.

Young persons are particularly disadvantaged. Participation in the labour market is haphazard for many individuals who do not have regular full-time jobs. They appear to change seamlessly between inactivity, different kinds of activity and status depending on opportunity and relative reward. The large informal economy provides them with an attachment to the world of work and, in many cases, the kind of flexibility and variety of working patterns not available to them in the formal economy. Although unemployment rates are very high for young persons (aged 15-24) (according to the LFS 41.5% in 2001 and 32.6% in 2006), the chances of young persons leaving the unemployment register are much greater than for any other group. Their duration of unemployment is far less than that of older persons. In 2003 (the only year for which the data about the duration of unemployment by age group is available), 90% of all unemployed persons aged 15-19 and almost 75% of unemployed persons aged 20-24 found jobs in less than one year. On the other hand, only 58% of persons aged 50-59 and 54% of persons older than 60 found jobs in less than one year. Older persons are less likely to become unemployed (the unemployment rate for persons aged 50-64 was 8.8% in 2005), but are also much less likely to leave the unemployment register and are more likely to become long-term unemployed. Unemployed persons over age 50 represent a special problem in Croatia. They now comprise an important proportion of all unemployed persons (more than 20%), and are seriously exposed to

long-term unemployment. Thus, the share of younger persons (aged 15-29) among all the registered unemployed in the period 1999–2005 fell from 46 to 33%, while simultaneously the share of unemployed persons over the age of 50 increased from 10 to 23%. Based on LFS data, the unemployment rate in the period 2001–05 for persons aged 15-24 fell from 41.5 to 32.6%. In the same period, the unemployment rate for persons aged 50-64 increased from 8.1 to 9.0% in 2003 and then declined to 8.1% in 2005.

LFS data show that women have much lower participation (in 2005, 42.7%) and employment rates (36.8%) than men (57.3% and 50.6%, respectively). Women have a higher unemployment rate (13.0%) than men (11.7%) and they fall into long-term unemployment more often. They represent almost 60% of unemployed persons and their share is even larger in long-term unemployment. Among all the unemployed, the share of the long-term unemployed (longer than one year) increased from 51.3% in 1996 to 56.1% in 2001, with further growth to 58.0% in 2005. In the same year, 60% of women and 55% of men had been looking for a job for more than one year.

In the last several years, looking at the figures for the unemployed by educational background, the highest share in total unemployment is taken by those who have three-year secondary school and vocational education (around 40%), followed by persons with four-year secondary school and grammar school (25.0%) and persons with primary school (23.5%). Those with no education and with incomplete primary school (around 6%), with university degrees (4%) and with college degrees (3.0%) have lower shares in total unemployment.

2.2.4 Regional and ethnic variations

There are significant differences among Croatian counties in terms of economic and employment performance (Table 3). The unemployment rates range from the highest rates (28.1%) in Šibenik-Knin followed by Vukovar-Sirmium and Osijek-Baranja, to the lowest rates in Krapina-Zagorje, Varaždin and Istria. As expected, counties with the lowest unemployment rates in general have the highest employment rates. The findings seem to be very consistent. The central and western parts of Croatia, together with the City of Zagreb, offer many employment opportunities and have a good economic performance. By contrast, parts of eastern Croatia together with counties in the Dalmatian hinterland (such as Šibenik-Knin) have the worst employment indicators. Differences in employment and unemployment follow economic differences. Concerning GDP level, variations among the counties (with Croatia = 100) range from 57.5 in both Vukovar-Sirmium and Brod-Posavina to the highest levels of 179.2 in the City of Zagreb and 137.5 in Istria. Thus, the difference between the richest and poorest counties is more than threefold. It should be noted once again that the counties with the worst employment and economic indicators are at the same time those that have been the worst affected by the war.

There are also significant differences in terms of employment structure by economic activity, although these differences cannot explain the variations in employment. Coastal counties and the City of Zagreb are more service-oriented, while agriculture and industry prevail in the central and eastern parts of Croatia.

Because of the lack of data regarding labour mobility among different parts of Croatia, it is not possible to comment on this aspect. In general, Croatia seems to have a somewhat higher degree of job stability compared with other transitional countries; labour market flexibility is confined to employees in the new private sector, mostly in small and medium-sized enterprises (SMEs), with a stronger chance of fluctuation between employment and unemployment (World Bank, 2006).

Table 3. Ranking of countries by economic and labour market indicators

	GDP current prices (2003)	Employment rate (2002–04)	Unemployment rate (2002–04)	Employment structure by economic activity (2003)		
				Agriculture	Industry	Services
Counties with the highest rankings (descending)	City of Zagreb Istria Prim.-G. Kotar	Krap.-Zagorje Lika-Senj Varaždin	Šibenik-Knin Vuk.-Sirmium Osijek-Baranja	Bjel.-Bilogora Kopr.-Križ Vir.-Podravina	Varaždin Sisak-Mosl. Kopr.-Križ.	Dubr.-Neret. City of Zagreb Zadar
Counties with the lowest rankings (ascending)	Brod-Posavina Vuk.-Sirmium Šibenik-Knin	Vuk.-Sirmium Šibenik-Knin Brod-Posavina	Krap.-Zagorje Varaždin Istria	City of Zagreb Prim.-G. Kotar Istria/Split-Dal.	Dubr.-Neret Lika-Senj Zadar	Kopr.-Križ. Bjel.-Bilogora Krap.-Zagorje

Notes: Concerning unemployment, the highest ranking indicates the highest unemployment rate; the estimations of employment and unemployment data are based on LFS data.

Sources: World Bank (2006) and LFS.

There are very few indicators relating to the situation of the various ethnic groups. It can be observed, however, that some counties (although not all of them!) with the highest ratio of minorities (particularly Serbs) have higher unemployment rates. There is no doubt that the worst situation in that respect pertains to the Roma population.

2.2.5 Employment institutions and policy

The CES is in charge of the process of mediation in the labour market, providing job placement services, counselling, promoting the adaptability of enterprises, facilitating redeployment and restructuring. The CES also maintains passive and active labour market policies, facilitates new job creation by participating in local development initiatives and provides capacity support for international cooperation and reforming the labour market in Croatia. The majority of the active labour market policy (ALMP) is financed through the Croatian Fund for Development and Employment, while all the money for unemployment benefits is paid through the CES. The Ministry of Economy, Labour and Entrepreneurship (MELE) is responsible for the policy.

Employment protection regulation in Croatia was assessed in 2002 as being among the strictest in Europe (Biondić et al., 2002). The inflexibility of the Croatian labour market was reflected in a high value attributed to it by a composite index on the strictness of employment protection legislation (EPL) developed by OECD.³ When compared with other countries, Croatia had the second highest value of the index (3.6), which was significantly higher than the OECD average (2.0), that for EU countries (2.4) and that of the transition countries for which the data exists (2.2). This situation changed with the revisions to the labour code in 2003, which have caused a decrease of the EPL index from 3.59 to 2.76. All three major components of the EPL index became more flexible, yet the introduction of the regulation for temporary work agencies has had the strongest influence on the overall change of the Croatian EPL index. The current reform has detached Croatia from the group of countries with the most protective EPL ratings – yet it is still ranked among the most-protected transitional labour markets (Matković & Biondić, 2003).

There has been no statutory minimum wage in Croatia since 1 January 1996; however, there is a 'lowest wage' (the lowest rate to be paid for full-time work and the threshold for paying social

³ The EPL index is calculated as a weighted average of 22 indicators that quantify different procedures, costs, limitations and terms related to the cancellation of the employment contract.

contributions). It is determined by a government decision at the beginning of the year and is currently around €280 per month, which is around 45% of the average net wage or 33% of the average gross wage. According to CBS data for 2004, the share of employees who received average, monthly net earnings of less than €300 (€20 higher than the previously mentioned threshold) was 15.5%.⁴

An employee, as a party to an indefinite-term employment contract, who is dismissed by an employer after two years of continual service, is entitled to special compensation calculated based on the length of service with the employer. Employees are not entitled to such compensation if they have been dismissed for reasons related to their behaviour. The amount of severance pay depends on the previous working period with the current employer. Unless the law, collective agreement, employment rules or labour contract stipulate otherwise, the total amount of severance pay may not exceed six average monthly salaries earned by the worker in the three months prior to the termination of the labour contract.

Concerning termination procedures, either an employer or an employee may terminate the employment relationship. If there is a justified reason to do so, the employer may legally terminate the employment relationship basis on the prescribed or stipulated dismissal period (e.g. owing to economic, technical or organisational reasons, or if the employee is not regularly able to fulfil his/her employment obligations because of certain behaviours or incapacities). Dismissals for business and personal reasons are allowed, only if the employer is unable to give the employee other work or retrain the employee for the latter (with the exception of employers hiring fewer than 20 persons). An employer who has dismissed an employee for economic, technical or organisational reasons may not assign the same job to another employee for a period of six months. A worker may cancel the employment contract subject to the prescribed or stipulated notice period without stating the reason for doing so.

The notice period for collective dismissals (more than 20 employees) is 90 days. The specific notice periods (applicable to the employer) depend on the employee's length of service (Table 4). A collective agreement or an employment contract may determine a shorter notice period for an employee than for an employer, if the employee terminates the employment contract. If that is the case, the notice period may be no longer than a month, unless there is a particularly important reason.

The categories of employees who are protected from dismissal include women who are pregnant or on pregnancy leave, or who are taking a 15-day period of leave after the end of a pregnancy; parents or adoptive parents utilising the right to shorter hours; and workers suffering from a work-related injury or work-related illness.

The total tax wedge on labour in 1995 amounted to 48% of total labour costs, which was exceptionally high, even by the standards of the 'old' EU member states and transition countries. By 2001, the tax wedge had fallen to 41% and its decreasing tendency has since continued. A consistent policy over many years in Croatia of cutting non-wage labour costs reduced the labour tax wedge to about 39% in 2005 (Svaljek, 2005).

⁴ A significant proportion of employers – mostly in the building industry, hotels and catering, and the retail trade – report paying wages and contributions for their employees at the lowest level and less than those actually paid. The difference between reported and actual wages is paid in cash. In this way, they evade paying the full social contribution required.

Table 4. Employer notice periods

Length of service (years)	Notice period (months)
Less than 1	0.5
1-2	1.0
2-5	1.5
5-10	2.0
10-20	2.5
More than 20	3.0
Workers older than age 50	(+) 0.5
Workers older than age 55	(+) 1.0

Source: Labour Law, Zakon o radu, Official Gazette 137/04

The right to unemployment benefits can be realised by individuals who have worked for 9 months out of the previous 24 at the time of employment termination. The maximum period of drawing unemployment benefits is 15 months (with certain exceptions). The minimum benefit level is HRK 887 (about €120 per month), and the maximum is HRK 1,000 (about €135). In 2005, the average unemployment benefit level totalled about a quarter of the average net salary and the beneficiaries accounted for 23.6% of all the unemployed (CES, 2006) (see also section 5.4).

The expenditure levels on ALMP measures in Croatia do not differ significantly from those in advanced transition countries, but their structure does. During recent years, the main emphasis in Croatia's ALMP has been on wage subsidies, measures stimulating self-employment and small enterprises as well as job-search assistance, while in the OECD and transition countries various training programmes, job-search assistance and public works dominate (Dar & Tzannatos, 1999).

Taking into account the situation in the labour market and the need for enhancing the employment of certain target groups of unemployed persons with lower levels of employability, in 2002 the Croatian government adopted the Employment Promotion Programme. This programme was implemented from March 2002 to August 2005 and it comprised six sub-programmes/measures. During the period 2002–05, 80,371 persons were employed from the unemployment register, out of which women accounted for 47.2% or 37,950. Problems with the programme have mostly been linked with its relatively poor targeting (almost 95% of all the unemployed were eligible candidates for one of its six sub-programmes). While the imprecise definition of target groups can somewhat increase the overall employment outcomes, it often leads to the insufficient creation of employment prospects for the most vulnerable groups. In the period 2002–05, the total expenditure for the ALMP amounted to HRK 1,321.2 million (€184 million). During that same period, the share of unemployed persons participating in the programme rose from 6% to above 9% of all the unemployed.

2.3 Structural reforms – Level, current pace and plans

2.3.1 Identification of main structural problems/challenges

The main issues in this context remain the advance of negotiations with the EU, fiscal control, privatisation and external debt performance. Furthermore, there are important issues related to the strengthening of market institutions, judicial reform, enhancing the business climate, improving public administration and social sector efficiency, and supporting the infrastructure and environment. The process of policy coordination, planning and monitoring in Croatia, while generally following legal requirements, is rather haphazard. Policy coordination is centrally

managed at the political level. The preparation for decision-making at the expert level is variable and often inadequate. The bureaucratic level involved in policy-making is politicised. There are no real forums for addressing cross-sectoral issues or negotiating cross-sectoral priorities.

Although the state has cut back its direct subsidies to individual branches of the economy or firms, it still plays a large role in creating the business climate. In public administration, there is a serious lack of career prospects for young qualified staff, enforced by an absence of incentives for horizontal mobility and weak accountability mechanisms. Owing to relatively low salaries in public administration, the civil service has problems in recruiting and retaining qualified staff. Graduate recruits to the civil service tend to leave quickly, since the strict seniority principle restricts their career opportunities and there are few other incentives (pecuniary, responsibilities/job content) for them to remain.

2.3.2 Ownership structure and privatisation

The private sector has grown considerably in size and scope over the period of transition since the early 1990s. Yet the increase in the share of private SMEs in employment and GDP owes more to the decline of the large enterprises than to a strong pace of new firm formation and growth of the SME sector as such (Vehovec & Domadenik, 2002). Moreover, the stagnation of Croatia's exports and the growth of foreign debt have fuelled a growing concern about Croatia's international competitive position, understood as the ability of the economy to produce sustained economic growth alongside a broadly balanced external payments position. The low rate of new firm entry and SME growth (entrepreneurship) in recent years has had a direct adverse impact on Croatia's ability to combine economic growth, job creation and the external balance of payments (competitiveness).

Over the last decade and a half, the private sector in Croatia has played an important role in industrial restructuring and generating new employment. It has been able to absorb and offer employment opportunities to many of the workers laid off by the large firms, which have undergone a continual trend of downsizing employment levels. In 1991, large firms employed 75% of the labour force in Croatia, a figure that had dropped to about 35% by 2003. The private sector share of the GDP increased from 40% in 1995 to 75% in 2005, while its share in employment grew from 48 to 60% (EBRD, 2006).

In the last few years, some major privatisations have been realised. The privatisation process regained some momentum in early 2005 with the sale of several food-processing companies and the successful privatisation of some tourist resorts. In the whole period from 1995 to 2005, the EBRD index of small-scale privatisation in Croatia was 4.3⁵ and did not change. The EBRD index of large-scale privatisation changed from 3.0 in the period 1999–02 to 3.3 thereafter. After an increase in 1996 (from 2.0 to 2.7), the EBRD index of enterprise reform was stable until 2004, at which time it grew to 3.0. Complacency should be cautioned, however, because the relatively slow privatisation process of the 1990s, which favoured insiders, along with the lack of transparency surrounding some privatisation transactions involving the privileged

⁵ The EBRD index ranges from 1 (little private ownership) to 4+ (standards and performance typical of advanced industrial economies). For large-scale privatisation, 4+ indicates that more than 75% of enterprise assets are in private ownership and there is effective corporative governance; for small-scale privatisation 4+ means that there is no state ownership of small enterprises and there is effective tradability of land. A rating of 4+ is given for a score above 4.5. For comparison, the EBRD index of large-scale privatisation for Hungary has been 4.0 over the last seven years, for Latvia it has been 3.7 over the last four years, for Lithuania it has been 4.0 over last two years and for Poland it has been 3.3 over the last seven years.

treatment of individuals (tycoons) who are well connected to the political elite and reports of corruption have together raised concerns on the part of potential investors.

2.3.3 Institutional and legal reforms (regulatory framework, corruption and governance)

While there is almost no competition in the energy and utilities sectors because everything is provided by public (mostly inefficient and expensive) providers, in the banking and financial sector competition is clear and has positive results for the users: better services, lower (but still relatively high) interest rates, various credit arrangements, etc. The banking system is almost fully privatised and is largely in foreign ownership.

The judicial system in Croatia has been in a state of permanent crisis for more than a decade, for several reasons. The legal system in Croatia has been subjected to the influence of the executive branch and politics. The courts have been under political pressure and they remain so overloaded with unsettled cases that the right of citizens to settle their problems through the courts has been seriously compromised. To enhance the expertise of judges already in office, it is necessary to work out a programme for their ongoing training and increase their independence.

Corruption is intimately connected with the ability of civil servants to act according to their discretion. Up to 2000, those in whom power was vested in Croatia did not undertake any active measures for the suppression of corruption. Since that time, the National Programme for the Fight Against Corruption (OG 34/02) has been adopted and the Office for the Suppression of Corruption and Organised Crime (known as USKOK) has been founded (OG 88/01). The Law on the Prevention of Conflict of Interest in the Performance of Public Office has been passed (OG 163/03) as has the Law on the Right of Access to Information (OG 172/03) and anticorruption conventions have been ratified. The existence of these necessary laws and the involvement of the international community stir optimism about the suppression of corruption in Croatia. Nevertheless, very few of the indictments filed on charges of corruption have actually ended in guilty verdicts. These outcomes are certainly widely at odds with the public perception of the extent of corruption in the country (see section 6.1.2). The Corruption Perception Index, which has been continually on the decline since 2001, is also indicative, suggesting that businesspersons and analysts perceive no positive movements in the fight against corruption in Croatia.

Regarding democracy, transparency and legal reform, Croatia has made significant advances in the last few years, but is still significantly behind the EU. Freedom House (2006) evaluates Croatia as a “free” country, although compared with EU countries and the candidate countries it lags where political rights are concerned. Still, progress can be seen in comparison with the period 1993–2000, in which the country was classified as “partly free”. According to the latest rankings for 2005, Croatia was given the rating of 2 (“free”) in political rights and civil liberties, on a scale ranging from 1 (best) to 7 (worst). Croatia also demonstrated an upward trend owing to the second smooth transition of power since 1999 and the improved cooperation of the new government with the International Criminal Tribunal for the Former Yugoslavia.

The lack of transparency, inefficiency and corruption in public procurement has been a huge problem. A Law on Croatian Public Procurement was adopted in 2001, which represents a first step towards aligning the Croatian legal framework with the European Commission’s requirements by providing additional transparency, competition and accountability mechanisms.

Some improvements were made by introducing a one-stop-shop approach for procedures and licences for starting business activity, through the launch of the governmental programme and website HITRO.hr, but the situation remains far from satisfactory. HITRO.hr enables citizens

and entrepreneurs to have quicker, simpler access to information and services in one location. The key service among those of HITRO.hr is the establishment of limited liability companies. The process of establishing a firm through HITRO.hr takes three to five days instead of the usual more than 40 days. Based on government data, more than 10,000 persons visited the website and 8,500 citizens used it to establish their firms or business activities. A further 200 firms owned by foreign investors were established through the website.

In subsequent institutional and legal reforms, Croatia will face the following challenges: downsizing the presence of the state in the business sector (a large number of public and state-owned enterprises still need to be privatised or liquidated), improving the business climate, strengthening the rule of law and improving the efficiency of public spending.

2.3.4 Education

The Croatian educational system has a long tradition based on divisions into pre-school education (from one to six or seven years of age), compulsory elementary education (which lasts for eight years), secondary education (three or four years, together with some lower level educational programmes) and higher education at universities and polytechnics. Despite several attempts to introduce change, the educational system remained largely unaltered in the transition period, which eventually contributed to its poor performance and ineffectiveness. In addition, Croatia has not yet participated in any international research that measures educational outcomes and it has very poor educational statistics, which makes any meaningful analyses almost impossible.

The first warnings about poor educational outcomes came from the 2001 census, which showed that 18.6% of the population had less than primary school education and that 21.8% had completed primary school (ISCED 2) (CBS data). Some 47.1% of the population had secondary education (ISCED 3) and only 11.9% had post-secondary education (ISCED 5 and 6). Although the educational level of the younger age groups was much better than that of the older groups (in the age group 20-24, 83.92% of the population had secondary education compared with 65.92% in the 25-29 age group), it was obvious that the educational system needed overall reform. The educational level of women was significantly lower than that of men: as much as 24.2% of women had less than primary education compared with 12.5% of men, and 23.7% of women had only completed primary school compared with 19.5% of men. The important thing is that this difference no longer exists, as in the age group 20-24 both genders have very similar levels of education, with women even slightly higher at the ISCED levels of 3, 5, and 6.

From the available data, 43% of pre-school children were included in pre-school education in 2004, while all children were included in the year prior to starting school, in either regular kindergarten programmes or separate pre-school programmes. There are no data about regional differences, although there is a ground for the conclusion that the participation rate is much higher in urban and developed areas. The data about enrolment in different levels of education have not been systematically analysed and published. In the context of important reform steps, the Ministry of Science, Education and Sports (MSES) has recently published data that shows that in 2004 the net enrolment ratio in primary school education was 96.5% and in secondary school education 79.2% (MSES, 2005a, p. 41). The CBS has calculated data (not yet officially published) with different results for enrolment at the beginning of the school year 2004–05 with net enrolment in primary education at 92.2% and gross enrolment at 95.8%, while the net and gross enrolment in secondary education was 78.9% and 87.8% respectively. Another serious problem concerns multiple shifts – classes in the morning one week and in the afternoon another, as according to estimations of the ministry 82.5% of primary school pupils and 88.0% of secondary school pupils attend multiple shifts.

In order to address the issues outlined above, in 2005 the government began far-reaching educational reforms that, among other things, tend to improve teaching and learning in schools through the development of national educational standards (MSES, 2005b). These standards were experimentally introduced in 5% of schools in the school year 2005–06. It is planned that grammar school pupils will pass the national school graduation examinations in 2009 and four-year vocational and arts students will do so in 2010. The reform has also aimed at increasing the very low level of lifelong learning (the participation rates have been about 2 to 2.3% in recent years) and at raising competencies in information and communications technology among both teachers and students. The ministry also announced that Croatia would participate in the PISA project (Programme for International Student Assessment) in 2006 and 2009.

3. Demography

3.1 Population trends and structure

Croatia is a relatively small country with 4,441,800 inhabitants in 2003 (CBS data), among which 51.9% were women and 48.1% were men. From 1991 to 2001, the number of inhabitants decreased by 2.4%. The decline is mainly attributable to the lack of natural population growth, which showed negative rates of growth in the 1990s, except in 1996 and 1997. More specifically, the natural population growth was -0.6% in 1991, -1.5% in 2000 and even -2.1% in 2004. The age structure in 2003 was as follows: 16.4% under age 15, 13.5% aged 15-24, 27.8% aged 25-45, 25.9% aged 45-64 and 16.4% aged 65 and older. This trend in population decline is also reflected in the ratio of persons over 65 in comparison with those aged 0-14, which was 103.1% in 2004, and in the old-age dependency ratio (persons over 65 in comparison with those aged 15-64), which was 24%. Therefore, population ageing is a major concern and is very visible throughout most of Croatia. Out of 21 Croatian counties, 16 have more than 15% of their population represented by the oldest age group. The counties with the oldest population and the lowest natural increase rates are Karlovac, Lika-Senj, Šibenik-Knin and Sisak-Moslavina. These counties are also those that were most severely affected by the Croatian war; they are additionally less developed and more rural than other counties.

In relation to the natural population increase, the fertility rate merits comment. The total fertility rate was 1.5 in 1995 and 1.33 in 2003. Thus, as with many other European countries, Croatia has faced a steady drop in the fertility rate, which reached 2.2 in 1960; that being stated, the current fertility rate is even lower than the European average (1.5 in 2000). The mean age of mothers at the first birth was 25 in 1995 and 26.1 in 2003.

Table 5. Basic demographic information, 2003

Population measure	
Total population	4,441,800
Women (%)	51.9
Men (%)	48.1
Ratio of those over age 65 to those aged 0-14 (%)	99.8
Total fertility rate	1.33
Average age of mothers at birth	26.1
Life expectancy at birth, women	78.4
Life expectancy at birth, men	71.4
Average family size (2001)	3.1
Single-parent households (%) (2001)	15.0

Source: CBS.

Demographic trends have been among the main issues featuring high on the public agenda since Croatia declared its independence in 1990. Public discussions have mainly had nationalist motivations (referring to the ‘strength of the Croatian nation’) although in recent years economic and developmental factors have also become prominent (Puljiz & Zrinščak, 2002). The first National Programme for Demographic Development was passed in 1996. It anticipated many pro-demographic measures, yet only a few have actually been implemented – mainly those that encourage mothers to accept a three-year paid maternity leave for the third child or more. The government that came to power in 2000 initiated work on a new family policy, with the aim of developing a more modern approach to making it easier for parents to combine family and work obligations; but basically, the measures have not been implemented. The subsequent government (which came to power in November 2003) has begun work on a new demographic programme. It is obvious that demographic development largely depends on the situation in the labour market (women’s participation rate, work in the unofficial economy, the possibilities for realising workers’ rights, etc.) and on the development of family services. Meanwhile, the programmes for demographic development have been unable so far either to change the unfavourable economic situation or to increase the share of available services (mainly in the field of pre-school education).

Population projections do not offer any optimistic expectations.⁶ According to a study by Gelo, Akrap & Čipin (2005, pp. 211–52), all possible scenarios (medium fertility with and without migration, low fertility, high fertility and constant fertility) result in Croatia having a significantly smaller population in 2050 as compared with current figures. The authors of that study hold that the most likely scenario is one that includes medium fertility coupled with a positive migration balance. In that case, by 2050, Croatia would have around 3.68 million inhabitants, the old-age dependency ratio would be 43% and the ratio of the old to children would be 459%. The assumed total fertility rate is 1.35 in the period 2045–49. This rate is at the same time the most positive scenario. Almost the same projection of inhabitants comes from the scenario with high fertility (in which migration is not included). The worst scenario is the one with low fertility (and without the migration component), according to which Croatia would only have 3 million inhabitants.⁷

In 2003, life expectancy at birth was 78.2 years for women and 71.2 for men. That was approximately three years less for women and four years less for men than in the EU-15. Another interesting aspect is the difference in life expectancy between women and men, which amounts to seven years. Croatian statistics do not calculate life expectancy at 60, while the European health for all database of the World Health Organisation shows that life expectancy at 65 was 16.05 years.⁸ Life expectancy has obviously been influenced by the transition process and the Croatian war, as the data show there were several decreases in life expectancy during the 1990s, however it has risen continually since 1998.

Family structure shows slow, yet remarkable changes. The total number of families grew from 1.2 million in 1971 to 1.38 million in 1991 and fell to 1.25 million in 2001 (CBS). In the same way, the total number of households fell from 1,544,892 in 1991 to 1,477,377 in 2001. Yet among these, the share of single households showed a strong rate of growth, from 274,744 in

⁶ There are a few different population projections for Croatia, including the UN’s World Population Prospects (retrieved from <http://esa.un.org/unpp>). In this paper, we have relied on a recent study by Gelo, Akrap & Čipin (2005), which offers detailed analyses based on different possible scenarios. It should be stressed nonetheless that all projections come to very similar conclusions.

⁷ It should be noted that the authors start the projections with their calculation of the population in the country, which was 4,207,689 inhabitants in 2000.

⁸ For further information, see the European health for all database of the World Health Organisation Regional Office for Europe (retrieved from <http://data.euro.who.int/hfad/>).

1991 to 307,089 in 2001 or from 17.8 to 20.8% of all households, and that rise can be expected to continue. Average family size was 3.2 in 1991 and 3.1 in 2001, which indicates a slow decline. Among families, 27% of the couples had no children, 58% had children and 15% were single parents. Only 9.7% of families had three or more children. Single-parent families can be further subdivided into 12.5% consisting of mothers with children and 2.5% of fathers with children. The number of single-parent families in Croatia is still rather low in comparison with most EU countries. The share of single-parent families is somewhat higher in urban centres.

In connection with the changes in family structure, it is interesting to note the changes in marriages. Croatia had 5.0 marriages per 1,000 inhabitants in 2003, which is not that different from many Central European countries. On the other hand, the gross rate of divorce (per 1,000 inhabitants) was 1.1, which is approximately the same as it was in 1960 and 1980 (1.2). That once again points to the traditional character of Croatian society – a tendency that has strengthened as a consequence of the war, economic hardship and the policy of re-traditionalisation of Croatian society in the 1990s. A slightly different picture is provided by the relationship between the numbers of marriages and divorces, as since the share of marriages has declined, the ratio of divorces to marriages has slightly risen from 15% in 1970 to 20% in 2000. The number of children born out of wedlock amounted to 9% in comparison with 7% in 1991.

With respect to the ethnic structure of the population, Croatia is a country of many different nationalities, although because of the war in the early 1990s the total number of ethnic minorities living in the country declined considerably (this applies particularly to Serbs). The Croatian constitution lists several national minorities with autochthonous status (Serbs, Czechs, Slovaks, Italians, Jews, Germans, Austrians, Ukrainians and Ruthenians), but all other nationalities can also realise their rights. Based on the data available from the 2001 census, there are 22 listed nationalities, amounting to 7.47% of the population, with many other nationalities listed together in the category “other” (0.49% of population). There are 4.54% of Serbs, 0.47% of Bosnians, 0.44% of Italians, 0.37% of Hungarians, 0.34% of Albanians, 0.30% of Slovenians, 0.24% of Czechs, 0.21% of Roma, etc. Major changes in ethnic composition occurred during the 1990s, as in 1991 the number of various nationalities was 18.1%. The greatest alteration can be noticed among the Serbs, who constituted 12.6% of the population in 1991. Owing to the war (after Croatia regained its territories occupied by Serbs), an estimated 300,000 Serbs left the country. Some of them have returned to Croatia in recent years, so it is thought that their number is higher today than it was in 2001, but it is difficult to confirm their actual number.⁹ The Serbs are mostly (more than 10%) concentrated in the counties of Sisak-Moslavina, Karlovac, Lika-Senj and Vukovar-Sirmium. The category “other” was also significantly higher in 1991, as the category “Bosnians” did not exist at that time; hence, Bosnians opted for the category “Muslims” recorded under other. In 1991, a segment of the population chose the category “Yugoslavs”, which was also recorded as other. By county, the Czechs are mostly concentrated in Bjelovar-Bilogora, the Italians in Primorje-Gorski Kotar and Istria, the Hungarians in Osijek-Baranja and Vukovar-Sirmium, and the Bosnians in Istria and Dubrovnik-Neretva. The total number of the Roma population is not high in Croatia, although there are estimations that their actual number is three or four times higher than that reported (about 30–40,000 instead of the registered 9,463) (Pokos, 2005). The only county in which their share is higher than 1% of the population is Medjmurje; half of the Roma population lives in Medjmurje and the City of Zagreb.

⁹ According to the Office of the UN High Commissioner for Refugees, at the end of November 2005 123,000 Serbs who had left the country in 1995 had returned. In September, the OSCE estimated that of the total returnees over one-third left soon afterwards owing to a lack of employment opportunities or means to support themselves (US Department of State, 2005).

3.2 Migration

Throughout its history, Croatia has been very open to migration; however, migration patterns after 1990 have mainly been influenced by the political processes linked with the dissolution of Yugoslavia and the war of independence (Lajić, 2002). In the last 10 years, Croatia has had a positive migration balance – in both 1995 and 2004, immigration was three times higher than emigration, although the actual extent of migration was much lower in 2004 than in 1994 (CBS data). The balance of migration was 26,613 in 1995 and only 11,571 in 2004, which indicates that the factors influencing migration patterns are diminishing. These factors partly stem from ethnic composition and the country of origin, as the majority of immigrants are Croats. In 2004, 91.7% of immigrants were Croatian citizens,¹⁰ and only 8.3% were foreign citizens, among whom 60.6% were from Bosnia and Herzegovina. Immigrants belong to all age groups, although there were 43% in the age group 20-39. Among those who emigrated, the majority went to Serbia and Montenegro (27.6%) and Bosnia and Herzegovina (18.3%). Regarding age structure, emigrants also belong to all age groups, but we find here a slightly higher proportion of the older population: in 2004, there were 13% in the age group of over 60. No data has been published on the educational level of migrants. A very recent phenomenon is Chinese immigration, and while their number is not so high, their sudden visibility together with unfavourable demographic trends has stimulated debates about future migration trends and the need to better define immigration policy.

In the absence of defined NUTS regions, internal migration can only be broken down by county. In 2004, 79,800 inhabitants changed their place of residence, which was 1.79% of the population. The majority (47.9%) were in the 20-39 age group. The largest internal migration within the same county occurred in Split-Dalmatia and in Međimurje, while the largest intercounty migration took place within the City of Zagreb and Zagreb County. The highest positive migration balances occurred in Zagreb (1,906 persons) and Zadar (703 persons) and the most negative in Vukovar-Sirmium (-814 persons) and Brod-Posavina (-740 persons). These levels indicate economic reasons for migration – with the most negative balances in those counties that are less developed or most damaged by the war.

There are no official and reliable data pertaining to a ‘brain drain’. Some estimates speak of between 5,000 and 10,000 persons with a high level of education having left the country in the period 1991–2000 (Adamović & Mežnarić, 2003).

4. Living conditions: Key developments and dynamics

4.1 Income distribution

4.1.1 *Income inequality*

Until the late 1990s, issues of income distribution and economic inequalities were neglected. No appropriate statistical data relating to the distribution of total income and the whole population were available. Similar to poverty research, only with the introduction of the Household Budget Survey (HBS) have the data on income been collected regularly (annually). Rare pre-1998 studies showed a trend of slightly rising income inequalities during the transition period of the 1990s (Nestić, 2003). This growth in inequality was an expected consequence of the shift to a market economy. Since 2001, the Gini coefficient, the most frequently used indicator of income

¹⁰ Croats born outside Croatia can obtain Croatian citizenship simply based on their ethnicity. Therefore, almost all Croats who immigrate to the country already have Croatian citizenship. The CBS published data about migration based on the citizenship of migrants and the country of previous residence.

inequalities, has not changed (0.29); neither has the S80/20 quintile share ratio, which was 4.5. It can be stated that income inequalities in Croatia are not essentially different from those in other transition countries or in EU countries (the average for the EU-25 is also 0.29). These data are incongruent with the widespread opinion that inequalities in Croatia are too high. This opinion can be linked to perceptions of unfair origins of the inequalities and the experience of low inequalities during the socialist period. Many people consider existing inequalities to be the result of illegitimate and illegal activities. There is a strong belief among the public that many irregularities and misuses occurred in the processes of privatisation.

An analysis of income distribution by decile at the turn of the 1990s shows that the relative share of decile groups in the lower part of the distribution decreased a little, while that of upper decile groups increased. The share of the top decile remained unchanged (23% of the total income in the population in 2002) (Nestić, 2005). Thus, the share of the poorest decile in the total income decreased from 3.5% in 1998 to 3.1% in 2002. Something similar happened to the shares of deciles 2 and 3. The shares of deciles 4-6 remained the same, while the relative shares of deciles 7-9 rose progressively. Still, the slight decline in the share of the bottom deciles in total income did not influence the Gini coefficient (in general, the Gini is more sensitive to changes taking place in the middle of the distribution).

Important changes have occurred in the structure of income since the end of the 1980s (Nestić, 2005). During the 1990s, the share of wages dropped substantially (from 55.1% in 1988 to 45.3% in 1998), which can be explained by the war, falling employment rates, population ageing and the extension of social rights related to the war. Since 1998, the share of wages in total income has been rising, such that now it makes up about 50% of total income (CBS data). On the other hand, in the past 15 years the shares of pensions and other social transfers in total income have also continually been increasing (in 2002 the share of pensions and other transfers was 27.4% of total income, which is twice the share from 1988).

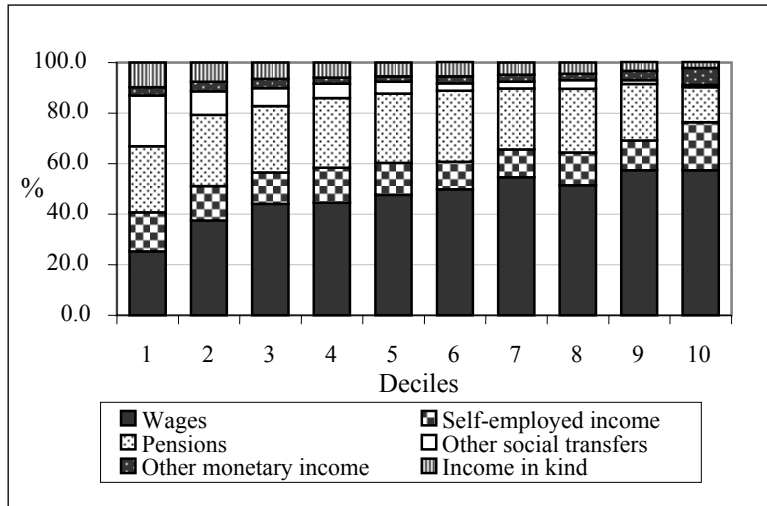
Wages contribute most to income inequalities. Inequality in the distribution of wages in 2002 accounted for more than 60% of inequalities in the distribution of total income (Nestić, 2005). In the period 2000–02, the contribution of pensions to total inequality doubled (from 8.1 to 16.5%), which was influenced by a non-linear rise in pensions based on the law on refunding debt to pensioners, which came about in the early 1990s because of the non-indexing of pensions. This rise in pensions did not cover those of individual farmers, who receive the lowest pensions. Moreover, owing to the manner of debt calculation, minimum pensions did not increase either. In contrast to pensions, the contribution of self-employed income to inequality fell after 1998. The composition of income differed between the upper and lower deciles (Figure 3).

In 2002, pensions were the most important source of income for the poorest tenth of the population (representing 26.1% of their income), followed by wages (25.3%) and other social transfers (20.2%). In-kind income made up almost 10% of the total income of the bottom decile. Upper decile groups had, as a rule, an increased share of wages in total income. In the two top deciles, wages make up about 57% of income. Income from self-employment was more important for the poorest and richest deciles.

Yet, while individual agriculture was the main source of self-employed income in the bottom decile, in the top decile it was income from crafts. Pensions in all deciles (except in the top two deciles) comprised over one-fourth of income (in the top decile it was less than 14%). For the lower groups in the distribution, other social transfers were more important, particularly for the poorest decile, where these amounted to one-fifth of total income. In relation to the whole population, the poor earned their income to a much lesser extent from the market (wages, self-employed income and property income) – in the first decile, market income represented less than half of total income. The share of market income in total income has been rising in the

upper decile groups (the richest 10% of households obtained just under 80% of their income from the market).

Figure 3. Income composition by deciles (2002)



Note: Other social transfers include social welfare, unemployment benefits and those for family and children.

Source: Nestić (2005).

In the period 1998–2002, the share of the lower deciles in total income and in total social transfers reduced. Thus, in 1998 the poorest tenth received 6.2% of total social transfers, while in 2002 this level decreased to 5.4%. Also, the share of pensions received by this decile group fell from 5% in 1998 to 3.5% in 2002. In the same period, the first decile group obtained a greater share of other social transfers (social welfare, unemployment benefits, benefits to family and children). So, it should be stressed that the share of the poorest tenth has been decreasing in both the distribution of wages and the distribution of pensions.

The CBS does not publish inequality indicators based on consumption. World Bank studies (World Bank, 2000 and 2006) have shown that consumption-based inequalities were lower than were those based on income. The Gini coefficient based on consumption was about 2-3 percentage points lower than was that based on income distribution.

4.1.2 Poverty

The first national research on poverty in the post-war period was conducted in 1998 by the World Bank and the CBS (World Bank, 2000), prior to which there was no research that could be used for comparability. In the 1998 research, an absolute poverty line was used, based on the food energy intake (FEI) method.¹¹ The poverty rate was low by absolute standards. Measured by the poverty line of \$4.3 per day per person (at PPP), 4.8% of the population was poor in 1998 (World Bank, 2000). If the FEI method is used the poverty rate was about 10%. A follow-up study (World Bank, 2006) has shown that absolute poverty rates have not changed

¹¹ This method is based on the food basket and the recommended minimum diet. In other words, the FEI method finds the level of total consumption (including non-food items) at which households spend just enough on food to meet the minimum recommended energy intake. The method consists of two steps: first, one needs to define the food and energy requirements for each family; and second, it is necessary to run a regression that relates the food intake to the total equivalent consumption (for details see Ravallion, 1994).

substantially. Using a poverty line of \$4.3 per day per person, the poverty rate in 2004 was also less than 5%. Using consumption as a welfare indicator and the FEI method (OECD-II equivalence scale), poverty rates in 2002 and 2004 were 11.2% and 11.1% respectively.

In order to compare poverty over a given period, it is necessary to have a representative sample, to use the same poverty lines, the same equivalence scales and similar questionnaires. These requirements have been met only for the period after 2000. In the period 1999–2000, discontinuity occurred because it was not possible to obtain a sample that would be representative. During the 1990s, the sample frame was disputable. The size and structure of the population changed because of migrations and the war. Therefore, the 1991 census could not be used as the sample frame. Consequently, the CBS began to publish poverty indicators in 2001, based on income and the Eurostat methodology (the data source has been the HBS harmonised with Eurostat requirements).

The move from consumption to income as a resource base brought about changes in the selection of the poverty line as well. Instead of an absolute poverty line, a relative poverty line is now used (according to the EU Laeken indicators methodology). Given the official EU poverty line (60% of the median national equivalent income, OECD-II equivalence scale), the poverty rates in the period 2001–05 ranged between 17% and 18% (if cash and in-kind income are taken into consideration) (CBS). In the period 2001–04, the poverty rate decreased slightly, but in 2005 it was about 1 percentage point higher than in 2004. Relying on these data, we may say that poverty in Croatia has been stagnating; however, poverty dynamics have not been well researched. We have no exact information on how long people remain in poverty and what happens to them during that period. There is only one qualitative study dealing with survival strategies of the poor (Gomart, 2000). Many poor households survive thanks to various credit cards, deferred payments and an overdraft facility in their current accounts. Different coping mechanisms have been developed relating to food (receiving food from relatives, utilising land in town and food storage for winter), housing (regrouping families in three-generation households or occupying vacant houses during the war) and public utilities (using electricity when it is cheapest or using wood instead of electricity or gas). The poor largely rely on networks that ensure day-to-day assistance between relatives and friends. Yet these networks have diminished and today tend to be scanty.

There is a mismatch between objective and subjective poverty. Subjective poverty rates have been significantly higher than objective ones, although the results considerably depend on the subjective welfare question. During the 1990s, the Centre for Marketing Research of Zagreb (now the Centre for Market Research) regularly published data on household income and consumption based on the subjective perceptions of homemakers. According to these data, subjective poverty rates in the 1990s ranged between 84% and 90% (Vučinić-Palašek, 1998). In 2003, about 82% of respondents declared their monthly income insufficient to cover “basic household needs”.¹² On the other hand, according to the 2004 representative research carried out by the Croatian Caritas and the Croatian Centre for the Promotion of Social Teachings of the Church (CPSTC) only 15.6% of the respondents considered themselves completely or mainly poor, while 31.8% of them believed themselves to be poor from time to time (Šućur, 2006).¹³ It is evident that the respondents’ subjective perceptions have been influenced by their aspirations, which means that citizens are hardly able to rise above their reference group. More precisely,

¹² For further information, see the website of the Centre for Market Research (<http://www.gfk.hr>).

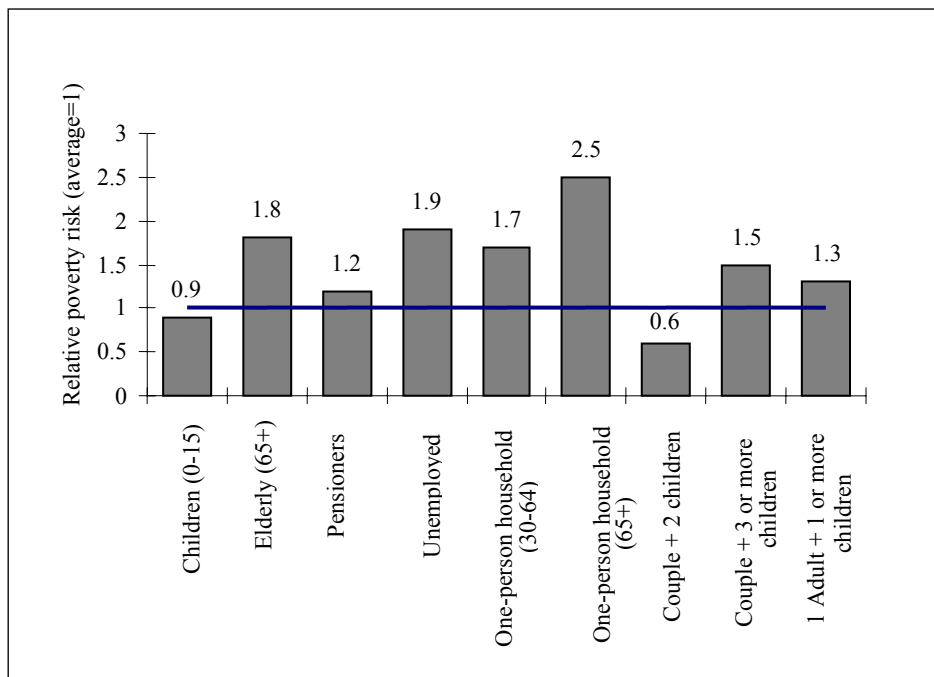
¹³ According to the first Quality of Life Survey in Croatia, which was undertaken from March to May 2006 by the UNDP Croatia, 31.2% of respondents reported that their households were able to make ends meet “with difficulty” or “with great difficulty”. In addition, 35% of households were only able to make ends meet “with some difficulty”.

subjective perceptions of welfare are more strongly correlated with the patterns of the imitation of reference groups than with financial capacity. This could also be explained by the earlier experiences of the Croatian population and increased insecurity (job loss and a sense of personal insecurity).

The poverty profile in Croatia has been dominated by households headed by persons with a low level of education (elementary school or less), households with an unemployed or inactive head, as well as households with a retired head (World Bank, 2000; Šućur, 2005a and 2006). Vulnerable groups that should be singled out are as follows: 1) pensioners and the elderly, 2) the unemployed, 3) persons with a low level of education, 4) single-parent families and families with three or more children, 5) refugees and displaced persons (see section 7), 6) persons with disabilities and 7) the Roma. These groups also have a higher relative poverty risk¹⁴ (Figure 4).

Regarding gender poverty rates, in 2004 the poverty rate of women was higher than that of men, but the difference between gender poverty rates has been on the rise over the last three years (in 2002 it was less than 1 percentage point, while in 2004 it was exactly 3 percentage points). A significant difference in gender poverty rates emerges only in old age. The relative poverty risk of women over the age of 64 is almost 50% higher than the relative poverty risk of men in the same age group. While children up to 15 years of age have a poverty risk below average (10% less than the average), persons older than 64 have a poverty rate almost twice as large as the poverty rates of other age groups. Older persons are 80% more likely to be poor than the average Croatian citizen.

Figure 4. Relative poverty risk by subgroup (2004)



Source: CBS.

¹⁴ Relative poverty risk is defined as the ratio of the poverty rate of a given group and the overall poverty rate in society. For example, a group for which the relative poverty risk is 1 has an average poverty risk. When members of a group have a poverty risk higher than 1, their risk is above average. In contrast, a poverty risk of less than 1 indicates that a group's risk is below average.

Pensioners make up about one-third of the poor in Croatia. Older persons without any pension benefits are in the worst situation (their relative poverty risk is four to five times higher than the average). With the exception of that portion of older persons who do not receive pensions (about 14%), more than half the pensioners in 2004 received pensions that were below the absolute poverty line (based on the FEI method).

The unemployed suffer an extremely high risk of poverty among population groups (almost twice as high as the average). Yet, it seems that unemployment has a more adverse impact on the material status of men than that of women, with the unemployed among the rare groups in which men have a much higher poverty risk than women (in 2004 the relative poverty risk of men was 2.4% and that of women was 1.5%).

In Croatia, one-person households have the highest poverty risk. In 2004, the relative poverty risk for this category was more than twice the average. Poverty risk is much higher in those one-person households where older persons live. Living in single-parent families or families with three or more children is also correlated with a higher poverty risk.

The regional distribution of poverty has not been well researched. Since NUTS2 regions have not been defined yet, only the counties can be used as official regions; nevertheless, the HBS has not been representative at the county level. That being said, the World Bank studies (2000 and 2006) have shown that poverty in Croatia is predominantly a rural phenomenon. According to the World Bank (2006), poverty rates in rural areas were three times as large as poverty rates in urban areas (6.2% in relation to 18.3%). Poverty is concentrated in the rural areas of eastern Croatia (Slavonia), which were directly affected by the war, and in the midlands of Croatia, where more than 50% of the poor live. The smallest share of the poor is to be found in Istria and in Zagreb. The situation in Dalmatia is not uniform. Poverty is a more frequent problem in the Dalmatian hinterland than in the coastal areas. The prevalence of poverty in rural areas is certainly correlated with the main economic activities of rural residents. Those rural residents who base their lives around traditional and inefficient agriculture are much more likely to face poverty. A great many of them live in households consisting of one or several older members.

If social welfare beneficiaries are taken as an indicator of the regional distribution of poverty, once again we can see that the number of beneficiaries is above average in the counties directly or indirectly affected by the war (Šibenik-Knin, Sisak-Moslavina, Brod-Posavina, Virovitica-Podravina, Karlovac and Osijek-Baranja). Šibenik-Knin has the largest number of beneficiaries (three times larger than the Croatian average). The only county not affected by the war with an above-average proportion of beneficiaries is Medjimurje, where the concentration of the Roma population accounts for a larger number of beneficiaries. It should also be stressed that while richer regions (like Zagreb and the northern Adriatic region) have lower poverty rates, they have a relatively high share of the population covered by social welfare. This finding might be explained by the better availability of welfare funds from local sources (see more about “local welfare states” in section 5.1.5).

There have been no national (official) data on the distribution of poverty among ethnic or religious minorities. As regards the Roma, we can refer to international studies. Based on the study by the United Nations Development Programme (UNDP) (with the poverty line of \$4.3 per day per person, PPP), the poverty rate among the Roma was about twice as large as the poverty rate of the non-Roma majority living in close proximity to them (13% and 5% respectively) (UNDP, 2006a). Undoubtedly, the difference between the Roma poverty rate and the poverty rate of all non-Roma would be much greater. The material and financial circumstances of the Roma population are far worse than are those of Croatian citizens living in absolute poverty. The subjective perceptions of the Roma of their material situations do not differ significantly from objective poverty measures (Šućur, 2005b). Moreover, additional factors influence the increased vulnerability of the Roma population. First, the Roma have low

levels of education and lack professional skills – factors that determine their position in the labour market. The single-breadwinner model of the Roma family (the role of men as breadwinners, while women are reserved a place at home with many children) amplifies Roma poverty. In 65% of Roma households one person at the most ensures a means for livelihood, while in 64% of households there are no women among the “earners” (Šućur, 2005b). Social welfare is a very important source of income for the Roma (for almost three-quarters of households, social welfare is the only or additional source of income). During the period 1998–04, the number of households living on social welfare increased dramatically. Poverty and unemployment among the Roma are frequently a permanent state (many of the Roma are never formally employed during their active period of life in the labour market).

4.2 Access to goods and services

Along with income and poverty indicators, when analysing living conditions one should also take into consideration the level of deprivation, which can be measured through access to infrastructure or through the possession of certain durables. As can be seen from Figure 5, in 2004 1% of Croatian citizens (according to the Quality of Life Survey, it was 2%) were not yet connected to the electric grid.¹⁵ An analysis at the county level discerns that the number of citizens without electricity is above average in Sisak-Moslavina, Bjelovar-Bilogora, Lika-Senj, Brod-Posavina, Zadar, Šibenik-Knin and Split-Dalmatia (UNDP, 2006b). The largest numbers of citizens without electricity are in Split-Dalmatia (5.4%) and in Bjelovar-Bilogora (4.6%). It is expected that all households will be connected to the electric grid over the next few years because major investments in the electricity system are projected in some areas. There are more households without electricity among the poor than among the whole population. About 20% of Roma households do not have electricity; however, there are major differences among Roma settlements in this respect.

As shown in Figure 5, in 2004 approximately 60% of all households were not connected to the natural gas system (among the poor it was 70%). About 7% of households in Croatia had no access to the water supply system and 23% of households were not connected to the sewage system. In the counties of Vukovar-Sirmium, Virovitica-Podravina and Bjelovar-Bilogora, more than 40% of households were not connected to the sewage system. The share of households without sewage among the Roma was over 70%. About 8% of all households did not have a landline telephone, as compared with 14% of poor households and 60% of Roma households (similarly, 56% of Roma households did not have a mobile phone).

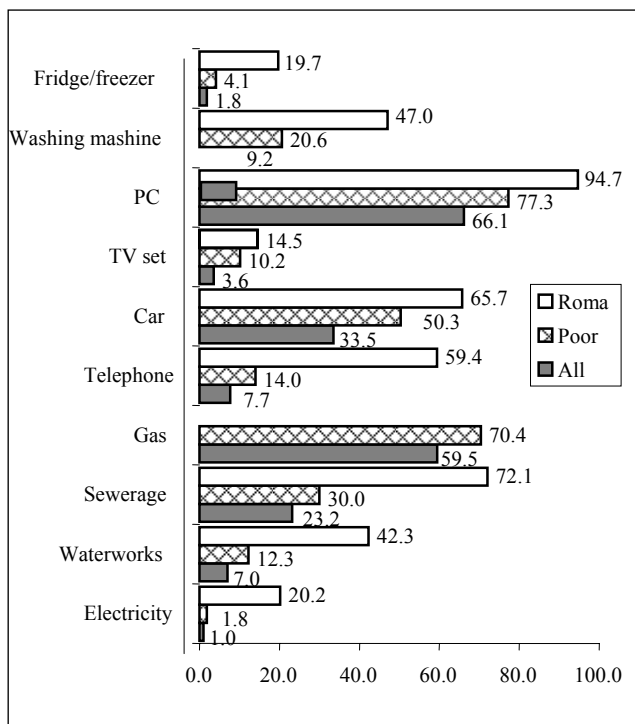
Some citizens have difficulties in paying utility bills or rent. About 7% of Croatian citizens have admitted that they have been in arrears on rent or mortgage payments for accommodation during the last 12 months (UNDP, 2006b).

By county, the largest number of citizens with rent arrears is in Vukovar-Sirmium (13.4%). Those in Primorje-Gorski Kotar, Požega-Slavonia and Brod-Posavina make up about 10%. A much higher share of citizens is unable to pay utility bills (electricity, water and gas, etc.) as scheduled (20.5%). This percentage is highest in Sisak-Moslavina (38.6%), followed by Vukovar-Sirmium and Krapina-Zagorje (32%), and Brod-Posavina and Virovitica-Podravina

¹⁵ Comparisons between all citizens, the poor and the Roma are based on the Poverty Monitoring Study (carried out in 2004 by Croatian Caritas and the CPSTC) and on the research dealing with living conditions of the Roma, conducted in 2004 by the Institute of Social Sciences Ivo Pilar. The former research was representative for Croatia and comprised 1,216 respondents. The latter research consisted of 986 respondents from more than 40 Roma settlements. Comparisons among counties are based on the UNDP study (2006b).

(30%). It seems that citizens in Vukovar-Sirmium struggle most with utility and rent arrears (this county also has the highest unemployment rate).

Figure 5. Fraction of households without access to facilities or durable goods in 2004 (%)



Note: Poor individuals are defined according to the EU official poverty line (60% of the median national income).

Sources: Šućur (2006) and Štambuk (2005).

Concerning telecommunications and computer technology, in 2004 and 2005 71% of households in Croatia did not have Internet access.¹⁶ According to the UNDP (2006b), 64% of Croatian citizens have not used the Internet at all in the last 12 months. The largest shares of citizens not using the Internet at all were in Požega-Slavonia (over 80%), Lika-Senj (77%), Bjelovar-Bilogora (77%), Virovitica-Podravina (77%) and Krapina-Zagorje (76%). A little less than 23% of citizens used the Internet everyday.

In addition, a large number of households do not have a personal computer (in 2004 the figure was 66%). According to research from 2006 (UNDP, 2006b), that percentage fell to 52%. Counties in which 60 to 70% of households do not have a personal computer are Vukovar-Sirmium, Požega-Slavonia, Lika-Senj, Bjelovar-Bilogora, Karlovac and Sisak-Moslavina. With regard to the Roma, they are quite excluded from using computer technology (about 95% of households did not have a personal computer in 2004).

An important difference between the poor and all citizens concerns the possession of a washing machine, which is nowadays considered an element of the minimum standard of living. About 9% of all households and more than 20% of the poor do not have a washing machine. As many as 47% of the Roma are without this durable good. More than 50% of poor households do not have a car. In the 1998 study (World Bank, 2000), little more than 10% of the poor in absolute terms (using the FEI method) had a car.

¹⁶ For further information, see the website of the Centre for Market Research (www.gfk.hr/press/trado2.htm).

4.3 Work/life balance

Although the difficulties in balancing work and life have featured in different public debates, particularly from the perspective of women, currently Croatia has no research data concerning these issues. According to the Quality of Life Survey (UNDP, 2006b), 33.6% of respondents reported spending more than 48 hours per week at their workplace, but more men (39.2%) did so than women (27.5%). Some 7.2% of the respondents reported additional work – 8.5% of men and 5.3% of women. A very disturbing fact is that the majority (51.3%) of both men and women thought that their job was too demanding and stressful. In congruence with this finding, many of the respondents (27%) said that several times a week they came from work too tired to do some of the household jobs that needed to be done and 17.1% said that it was difficult for them to fulfil their family responsibilities owing to the amount of time they spent on the job. This situation is very much in accordance with that in other CEE countries in 2003, as in the NMS 29% of the respondents also reported that they were too tired and 15% had difficulties in fulfilling family responsibilities.¹⁷ When we add the number of those who reported being in such a situation several times a month to the first category, we come up with 56.7% of the population and in the second category with 39.3%. Women share these feelings a little more, among whom 30.3% reported that they came home from work too tired several times a week and 19.5% of whom faced difficulties in fulfilling their family responsibilities.

Although the feeling of difficulties in combining work and household responsibilities is almost equally spread between the genders, it is obvious that women actually perform household activities to a much greater extent. For example, 35% of women are involved in caring for and educating children on a daily basis in comparison with 22.6% of men. As many as 80.7% of women undertake household chores every day in comparison with only 32.8% of men. The proportion of women who tackle household chores every day in Croatia is high, but that is similar to other European countries. Caring for elderly or disabled relatives is not widespread and only 6.7% men and 9.8% women report doing so on a daily basis. If they are included in domestic responsibilities, more men than women take care of children up to five hours per day (71.6% and 59.5% respectively) and 78.2% of men and 71.8% of women report up to five hours per day for household chores. Women nevertheless more often spend more than five hours per day on domestic responsibilities. That is also confirmed by responses to the question of whether their share of household work is more than a fair share – this response was given by 5.1% of men and 18.9% of women.

These results concerning work/life balance are also reinforced by the findings of the European Values Survey conducted in Croatia in 1999. This survey suggests a sharp distinction between those who support the traditional role of women (as homemakers) and those who think that women also need to be economically independent (Črpić, Bišćan & Aračić, 2005). It is interesting to note that the traditional role of women is more supported by men and older women, in contrast to younger women who tend to opt for a modern view of women.

4.4 Housing and local environment

Although Croatia has witnessed considerable improvements in housing conditions since the end of World War II, they still cannot be deemed particularly good (Bežovan, 2004a). According to the 2001 census, the average square metre (m²) of housing per inhabitant was 27.2, and the average number of rooms per house was 2.74 (CBS data). Based on available rooms, the housing structure is not appropriate, as a large share of homes consists of two-room flats, which together with one-room flats amount to 45.64% of the entire housing stock. It is also worth

¹⁷ See the report of the European Foundation for the Improvement of Living and Working Conditions (2004) (retrieved from <http://www.eurofound.eu.int/pubdocs/2004/105/en/1/ef04105en.pdf>).

noting that 10.6% of flats have no toilet, 11.6% have no bathroom, 6.4% of flats have no water-supply system and 7.3% have no indoor plumbing. There are also considerable differences among the various counties. In six counties, the proportion of flats with no toilet exceeds 20%: Krapina-Zagorje, Koprivnica-Križevci, Bjelovar-Bilogora, Virovitica-Podravina, Požega-Slavonia and Brod-Posavina. The 2001 census has also shown that through extensive privatisation of the housing stock private ownership prevails (82.93%).

The Quality of Life Survey (UNDP, 2006b) reveals a similar picture, as 78.2% of the citizens said that they owned their accommodation (either with or without mortgage). It is interesting to note that similar to Croatia, the NMS have in general a higher share of homeowners than is the case in the EU-15.¹⁸ In addition, 11.5% reported that their accommodation was provided rent-free. The survey also reveals that a majority of flats have up to three rooms (69%), while a further 17.4% of flats have four rooms. Those who reported a shortage of space made up 19.6% of the respondents. It can be concluded that the Croats have more problems with the quality of housing and the possibility for regular improvements: 31.2% reported problems with rot in the windows, doors or floors; 19.3% reported issues with damp or leaks; 21.3% attested to a lack of sewerage; and 4.4% revealed the lack of an indoor flushing toilet. These problems are generally higher in the NMS than in the EU-15. Concerning rot in the windows, doors or floors, Croatia is more similar to Bulgaria, Romania and Turkey (30%), than to the NMS (25%), but concerning damp or leaks, it is more similar to the NMS (19%), than the three candidate countries (30%). By contrast, concerning the lack of indoor flushing toilets Croatia is more similar to the EU-15 (1%), than to the NMS (10%) or to Bulgaria, Romania and Turkey (21%).

The housing conditions of the Roma population are particularly bad. A survey in 2004 showed that only 4% of the households had all the necessary equipment and facilities, such as connections for running water, electricity, indoor plumbing and a bathroom and toilet in the house (Miletić, 2005). According to the UNDP study (2005), only 43% of the Roma population had indoor showers or bathrooms in comparison with 96% of the majority living in close proximity to them. Some 60% of the Roma did not have improved sanitation and there was only 14 m² per Roma household member in comparison with 33 m² for the majority.

For the majority (60.5%) of respondents included in the Quality of Life Survey (UNDP, 2006b), the physical distance from home to work did not exceed 30 minutes (by typical modes of transportation), while 27.1% needed up to 60 minutes and 11.2% more than 60 minutes. These findings are inconsistent with overall level of satisfaction with the immediate neighbourhood of home. In principle, more than 60% did not find reasons for complaining about noise or air pollution, the lack of access to recreational or green areas, or water quality. Those stating that it was very safe to walk around in their area at night made up 55.5% of respondents and an additional 30.8% thought that it was rather safe.

Regional differences can be noticed here as well. Problems with rot in the windows, doors or floors were more widespread in the following counties: Karlovac, Bjelovar-Bilogora, Lika-Senj, Brod-Posavina and Šibenik-Knin. Damp or leaks was the biggest problem in Karlovac and Brod-Posavina, the lack of sewerage in Sisak-Moslavina, Koprivnica-Križevci, Bjelovar-Bilogora, Virovitica-Podravina and Vukovar-Sirmium, and the lack of indoor flushing toilets in Bjelovar-Bilogora, Virovitica-Podravina and Brod-Posavina. It is obvious that some counties are in a particularly bad position in this respect. On the other hand, noise and air pollution were the biggest problems for the City of Zagreb, as was the lack of access to recreational or green areas for (more urban) Primorje-Gorski Kotar, Split-Dalmatia and the City of Zagreb. As can be expected, the feeling of insecurity was most widespread in the City of Zagreb, followed by Bjelovar-Bilogora, Primorje-Gorski Kotar and Vukovar-Sirmium.

¹⁸ Ibid.

5. Tax/benefit systems and policy approaches

5.1 Institutional system of social protection

The social protection system in Croatia consists of contributive (social insurance) and non-contributive schemes. There are three social insurance schemes: pension insurance, health insurance and unemployment insurance. In addition to insurance schemes, the main non-contributive schemes are social welfare and the system of benefits for families and children. The above-mentioned schemes cover different functions. Pension insurance assists individuals with income deficiencies arising from old age, disability or the death of a main provider and fosters professional rehabilitation. Health insurance provides services/benefits in cases of illness, injury at work or giving birth. The unemployment protection system provides benefits to unemployed persons and the system for the protection of families and children covers services and transfers to children, mothers and families. Social welfare provides income support in case of poverty and other contingencies. The system of social protection is predominantly public and highly centralised. The role of subnational authorities in funding social protection rights is not very important with the exception of a few of the largest cities (see section 5.1.5).

In addition to the regular social protection schemes, Croatia was forced to develop specific schemes for war victims and similar groups. Here, two subsystems of social protection are important: the first one assists war veterans and their family members and the second one aids refugees and IDPs (see section 7). They provide beneficiaries with different benefits and services. The social protection system for war veterans and their family members is expected to demand significant resources in the future, because the number of beneficiaries has increased in recent years (in particular the number of disability pensioners). On the other hand, expenditures on refugees and IDPs are on the decline, because most refugees and IDPs have returned to the places they had previously lived. Nevertheless, significant resources are needed for the reconstruction of destroyed or damaged homes or for the return of the remaining refugees and IDPs.

5.1.1 Pension system

The pension system is the main scheme of social security, which consists of public and private components. Since 1999 (when the new Law on Pension Insurance came into force), public pension insurance has been run by the Croatian Pension Insurance Institute (CPPI). The Institute is a result of a merger of three different bodies administering pension and disability insurance in Croatia: the Pension Insurance Institute for Workers (employees), the Pension Insurance Institute for the Self-Employed (artisans) and the Pension Insurance Institute for Farmers. The largest was the Pension Insurance Institute for Workers, covering 87% of all insured persons and 91% of all pensioners (Bejaković, 2004). The Pension Insurance Institute for the Self-Employed covered about 6% of the insured and 2% of pensioners, while the Pension Insurance Institute for Farmers had about 8% of the insured and 7% of the pensioners. There were significant disproportions among these three pension subsystems in terms of beneficiaries, the insured and funds, and different laws regulated their affairs. Until 1999, the pension system was a mono-pillar, completely public, mandatory, pay-as-you-go (PAYG) scheme with defined benefits. The coverage of the system was even extended in the socialist period, when all employees and self-employed persons (including farmers) were covered by pension insurance (almost the entire active population). In the pre-2002 period, however, professional and private pension schemes did not exist (except for a few quasi-professional schemes).

Partial privatisation of the pension system began in 2002. New institutions in the pension system were established, such as the Central Register of Insured Persons (REGOS), the Croatian Agency for the Supervision of Financial Services (HANFA), pension funds and pension

insurance companies. The function of REGOS is to maintain the system of individual capitalised savings and to collect data on all types of contributions. HANFA is responsible for the surveillance and regulation of pension funds (it protects the interests of pension fund members and of participants in voluntary pension insurance schemes).

Mandatory pension insurance comprises all employees, the self-employed and farmers who cite agriculture as their sole or main occupation. In 2004, 1.2 million persons (about 85% of the insured) were covered by mandatory private pension insurance, while in 2002 this decreased to 65% (Vuković, 2005). At the end of 2005, there were 4 private mandatory pension funds and 14 voluntary pension funds (of which 8 were closed funds). Voluntary pension insurance is still underdeveloped because very few employees are members of voluntary pension funds (in 2005, there were about 56,000 members, which was 4% of all employees).

The pension system has long been faced with the problem of collecting funds for pension benefits. As the share of contributions in pension revenues has diminished, revenues from the budget have become increasingly important. About 42% of the total monthly revenues needed for the payment of pensions come from the budget, while the remaining amount comes from contributions.

Difficulties in funding pensions are partly the consequence of pension privileges. Pensions or a portion of the pension benefits of persons with privileged pension rights have been financed from the state budget. At the end of 2005, about 174,000 persons (around 16% of all pensioners) received privileged pensions (CPII). War veterans from World War II and the Croatian war are the largest group with pension privileges, making up approximately 72% of all persons with privileged pension rights. Other groups with pension privileges are members of the police and Croatian army (16%), members of the former Yugoslavian army (7.8%), former political prisoners (3.3%), parliamentary representatives, etc. These groups receive pensions that are higher than the average pension in Croatia. At the end of 2005, expenditures on privileged pensions amounted to 25% of the total expenditures on pension benefits.

5.1.2 *Healthcare system*

According to the structure and type of financing, the Croatian healthcare system is based on universal access to primary and secondary healthcare, and can be regarded as a Bismarckian model because about 80% of costs are covered by contributions (data from the Ministry of Health and Social Welfare or MHSW). The balance is covered by tax revenues (on the national and county levels), donations, voluntary health insurance and the direct contributions of users. Contributions were collected and distributed through the separate Croatian Institute for Health Insurance (CIHI), but from 2002 onwards, it became a part of the state budget in financial terms. Therefore, contributions are collected by the state authorities and distributed to the CIHI, which further distributes money to institutions (including private doctors) with which the fund is connected.

About 97% of Croatian citizens are covered by the public health system. The lack of full coverage is in many cases related to the failure of meeting the registration deadlines. Private general practitioners and dentists who have contracts with the CIHI mainly perform primary care. By the end of 2004, 6,764 private practice units (doctors' offices, laboratories and pharmacies) were registered. Out of these, 44% were private physicians' practices, and out of this figure, 69% were 'private rentals', i.e. practices that work in previously state-owned units and have a contract with the CIHI. There were 2,463 private dentists' offices, out of which 47% were private rentals (CNIPH, 2005). Secondary and tertiary care is performed by the state health institutions. Teaching hospitals, clinical hospital centres and state institutes of public health are state-owned, and health centres, polyclinics, general and special hospitals, institutions for

emergency medical aid, home care institutions and county institutes of public health are county-owned.

One of the most significant problems of the Croatian health system has to do with the fact that the role of primary care has shrunk and 49% of all consulting specialist services are performed by clinical hospitals, which among other things contributes to long waiting lists. For this reason, the population living far from the largest cities have more problems in exercising their rights to adequate healthcare. The Quality of Life Survey (UNDP, 2006b) revealed that access to adequate healthcare was a problem for the elderly, the poorly educated and those with a lower income as well as those who live in rural areas. Nearly 12% of Croatian citizens reported that the distance from ambulances or hospitals made their access to healthcare very difficult. In this respect, four counties should be singled out – Bjelovar-Bilogora, Lika-Senj, Zadar and Sisak-Moslavina – as 20-29% of their citizens indicated that the distance from ambulances and hospitals was a serious problem. Bjelovar-Bilogora has the highest share of the agricultural population in Croatia (about four times larger than the Croatian average). One of the main features of Lika-Senj is the low population density. In southern Dalmatia, 140,000 citizens are more than 40 km from the nearest hospital. Over half of them are two hours or more away from the first general or clinical hospital (and access to a hospital is a problem in particular for citizens of certain islands).

Concerning the burden of out-of-pocket healthcare costs, the research from 1994 showed that low income groups reported more co-payments than did high income groups. Respondents in that research also reported informal payments to healthcare providers such as gifts (14%) and “gratitude money” (8%) (Mastilica & Božikov, 1999). The most recent adult health survey from 2003 also confirmed significant inequalities: individuals reporting poor health and low incomes used significantly fewer specialist services than those reporting poor health but higher incomes (Mastilica & Kušec, 2005).

5.1.3 Unemployment protection

Unemployment protection falls within the competence of the CES. Alongside the CES, the Ministry of the Family, Veterans’ Affairs and Intergenerational Solidarity (MFVAIS) conducts employment incentive projects aimed at war veterans and their family members. Legal amendments from 2002 allow private organisations and agencies to act in the employment sector. Private agencies are less interested in those with low employability, however, as they are searching for highly skilled persons who are in great demand in the labour market. The benefits and measures administered by the CES are financed by contributions, which are transferred from the budget to the CES. The ALMP is predominantly funded from the budget.

5.1.4 Protection for families and children

Protection of the family and children and the pro-birth policy are the responsibilities of the Department for Family in the MFVAIS. In addition, other institutions play an important role in providing benefits and services to families and children: the CIHI (maternity benefits and one-off payments for newborns) and the CPII (child allowances). Mandatory maternity leaves lasts up to six months, and maternity benefits during this period are determined in relation to the average wage during the last six months of pregnancy. Additional maternity leave may last from six months to one year, or extend up to three years for mothers who give birth to twins or to a third child and every subsequent child after that, which is financed from the budget. Unemployed mothers are also entitled to maternity benefits financed from the budget (previously only unemployed mothers who gave birth to twins were entitled to receive maternity benefits). One-off payments for newborns are available to all mothers and do not depend on means testing.

The right to a child allowance is inherited from the socialist period, during which only the children of employed parents were entitled to this right as the allowance was financed from the contributions of employees. Moreover, the right to a child allowance was subject to a means test. The Law on the Child Allowance from 1999 expanded the right to a child allowance to all children, regardless of the employment status of their parents. Along with the children of employed parents, the new law covers the children of farmers, the unemployed and artisans. Also, the financing of the child allowance changed from a contribution- to a budget-based system. This new law has maintained the means test – that is, eligibility for receiving this benefit is subject to family income.

Childcare services are decentralised. Institutions for daily childcare are funded from the budgets of local authorities, meaning that there are large regional differences in terms of the supply of childcare (in particular between rural and urban settlements). Local authorities subsidise childcare services in pre-school institutions, however, and parents may contribute depending on the decisions of local authorities. In addition to this, non-governmental organisations (NGOs), private and religious organisations also play an important role in providing childcare services (kindergartens, nurseries, etc.). In spite of the increasing number of institutions and services provided by private organisations and NGOs, the increased demand for childcare services have not been sufficiently met.

5.1.5 Social welfare

The system of social welfare has been regulated by the Law on Social Welfare since 1997. Institutions responsible for this segment of social protection are the MHSW, centres and homes of social welfare. The standard rates for all social welfare benefits are completely funded from the central budget, with the exception of housing and fuel allowances, which are funded from county and city budgets. County and local authorities may finance a portion of the benefits above standard amounts or introduce new rights. Even though social welfare and services come under the competence of local authorities according to the constitution and the Law on Local Self-Government, the system of social welfare is highly centralised because, among other things, the fiscal preconditions for decentralisation and the delegation of competences to regional and local authorities have yet to be established. It is true that decentralisation in some way started with the Law on Social Welfare and amendments thereto in 2001. Thus, since 2002 founding rights and the financing of homes for elderly and infirm persons have been delegated to the counties. Counties or lower local units may establish other institutions of social welfare, such as aid and care centres. In addition, local self-governments finance a portion of the running costs of centres for social welfare and participate in the decision-making process.

There are significant differences between local authorities in terms of funding additional entitlements to social welfare (Bežovan & Zrinščak, 2001). In particular, larger cities (Zagreb, Rijeka and Split), which have broader financial capacities, have developed their own social welfare schemes, which can be labelled (because of their scope) ‘local welfare states’. These cities evaluate social needs before undertaking social policy interventions. The City of Zagreb has the highest share of social expenditures in its budget. If we include in social expenditures healthcare costs, social welfare expenditures (income support for the elderly, pensioners, families/children or the poor in general) and expenditures on war veterans and their family members, then in 2005 these expenditures made up 9% of the budget in the City of Zagreb, 7% in Split and 5% in Rijeka. Yet, if we add to these expenditures pre-school education costs, expenditures on pupils and students (dormitories, school meals, textbooks and transport to school) and subsidies for public city transport, then total expenditures in the City of Zagreb amounted to 24% of the budget (in 2006 the budget size is expected to be about HRK 6.5 billion or €0.9 billion). By contrast, a study on social programmes in 74 towns showed that in some

welfare spending was only 0.36% of their budgets (Bežovan & Zrinščak, 2001). Local (city) authorities spend most on children (school meals and transport to school) and housing. It should be mentioned that the City of Zagreb also has developed a kind of additional child allowance, to which all children are entitled (in contrast to the governmental child allowance, which is means-tested). Additionally, all elementary school children have the right to schoolbooks free of charge.

Services that have been provided through the system of social welfare are intended for the different categories of beneficiaries: children without parental care, children and youth with behavioural disorders, elderly and infirm persons, persons with disabilities, drug addicts, ex-prisoners, victims of violence, migrants, refugees, etc. The role of the third sector in social welfare is becoming more and more important, in particular in the provision of services. The Law on Social Welfare allows for profit and non-profit organisations to found institutions of social welfare. The trend of opening new homes for social welfare by different non-governmental founders (private persons, religious and humanitarian organisations, and associations) is evident. Social services are highly institutionalised and the number of persons placed in institutions has been increasing. The market for social services is poorly developed in relative terms, and the demand for institutional services exceeds the supply. Even though efforts towards deinstitutionalisation can be observed, this process is developing very slowly.

5.2 Recent and planned institutional reforms in social protection

5.2.1 Pension reform

During the 1990s, the reform of the pension system began. At that time, the number of insured persons decreased while the number of pensioners increased. The replacement rate for pensions declined as well. These trends in the 1990s were linked to rising unemployment rates (a fall in the number of those insured), early retirement policies, demographic processes (population ageing, diminishing fertility rates and prolonged life expectancy) and war-related circumstances. Intense debates on the reform of the pension system have been held since the mid-1990s. The World Bank and its model of pension reform have had a significant influence on these debates with respect to the changes needed to meet the difficult challenges facing the pension system. The Law on Pension Insurance, which contained two reform packages, was passed in 1998. These two packages are known as small-scale and large-scale pension reforms. The goal of the former was to reorganise and rationalise the existing pension system (reducing pension costs and forging a clear link between pensions and contributions). Thus, the law gradually increased the retirement age (for women from 55 to 60 and for men from 60 to 65). The model on which pensions were calculated was also changed. In 2008, after the transition period expires, pension calculations will be carried out based on the entire working life, not on the 10 most favourable years. The model of pension indexation was modified, too. It was accepted that pensions were to be indexed partly according to the growth of wages and partly according to the growth of prices. The definition of disability was revised and disability pension terms were made stricter, as was the criteria for early retirement. Certain institutions that were part of the former pension system (representing the interests of specific groups) were abolished and transferred to the social welfare system, where their benefits are allocated based on means testing.

The second reform, which began in 2002, has had aims that more radical, related to the privatisation of pension schemes and the introduction of a multi-tier system. In addition to the first tier of intergenerational solidarity (PAYG), an additional two tiers were established: a first tier of mandatory, individual capitalised savings and a second tier of voluntary, individual capitalised savings. The second tier included all those insured who were younger than 40 at the time and those between 40 and 50 who voluntarily decided to enter the second tier. The insured

could and still can choose a private pension fund that invests their savings. The pension contribution rate is divided into two parts: the first (now 15% of gross wages) goes to the tier of intergenerational solidarity, while the second (5% of gross wages) goes to the tier of mandatory individual capitalised savings. This formula means that every insured person is obliged to pay some contributions to the fund and some to social security. The transition costs for the pension reform have been financed through international loans. In annual reports, all of the mandatory pension funds, transactions and investments have been estimated as positive. Yet so far, these funds have only collected contributions and have not begun paying out as pensions (the first pensions from the second tier are expected to be paid out in 2013). The long-term goals of the reform are to consolidate the system, increase the level of pensions, influence economic growth through increased national savings and reduce budget expenditures. Some advantages of the reform can be noticed already. It has strengthened individual responsibility and made the system of paying contributions more transparent. For example, since 1999 the revenues from contributions have continually risen. The nominal growth index of contribution revenues in 2002 was 9.3% and in 2003 it was 12.7% (Vuković, 2005). The pension insurance based on voluntary funds has been open to all persons with residency status in Croatia. Voluntary pension insurance has been further stimulated by state subsidies and tax allowances.

Of course, there were some disadvantages to the pension reform in the transitional period. Pensions realised after the new Law on Pension Insurance came into force (1 January 1999) have been lower by almost one-fourth compared with pensions realised before that date (Vuković, 2005). The main reasons for this can be found in the increased retirement age and changes in the composition of pensioners (see section 5.4). Also, the reform abolished some pension supplements that were previously included in the pension base. After 1999, many pensioners (almost half of them) have realised the minimum pension as the most favourable one.

5.2.2 Reform of the healthcare system

The reform of the Croatian healthcare system has just begun. Based on proposals from the MHSW, in July 2006 parliament passed the National Strategy for Health Development and four bills, on healthcare, basic health insurance, voluntary health insurance and the protection of health at the workplace. The significance of this strategy comes from the fact that it is the first document of its kind since 1990. The strategy and bills began with statements that the healthcare system is uneconomical, poorly managed and that despite its high costs citizens are largely dissatisfied with its performance. To improve the healthcare system the strategy proposed many measures for enhancing territorial and temporal access to healthcare, making the system more integrated (more effectively linking primary, secondary and specialist care), building incentives for primary healthcare to resolve at least 80% of medical cases and making the system more economical by categorising hospitals and standardising medical procedures. Nevertheless, the main motivation of the reform is to stabilise the system financially and hence the ministry proposed cuts in public spending and increased private spending. The main instrument for this is the division between the basic healthcare services (covered by basic health insurance) and additional services (financed by additional, private insurance). The reforms define who is entitled to healthcare without any additional fees (such as children up to age 18, pregnant women and poor persons) as well as the kinds of medical cases that also qualify for free treatment (such as HIV or other infectious diseases). Outside this scope are persons/cases whose treatment would involve fees or payments from additional private insurance. The reforms also propose two drug lists, the basic one (which would mainly contain generic drugs) and an additional one covering drugs that require payment by the recipients (mostly brand-name drugs). Public reaction to these proposals has been negative, with the response basically having been formulated by oppositional political parties and trade unions, which have stated that there

are no guarantees that the poor (or those who cannot pay for additional insurance) would receive the same quality of the healthcare.

5.2.3 Reforms in other social protection schemes

As regards non-contributive schemes, the MHSW (in collaboration with the World Bank) is preparing the social benefit reform strategy for 2006–08. The main goal of the strategy is to investigate the possibilities for reducing the share of expenditures on social benefits as a proportion of GDP and for raising the share of expenditures based on means testing among total social spending. More concretely, the objectives of the strategy are to

- reduce the number of benefits;
- better target social benefits (through wider uses of means testing);
- provide faster and less complicated access to social entitlements (through the introduction of a uniform register of social benefits);
- simplify the administration of social benefits; and
- avoid the accumulation and overlap of social entitlements.

In the system of protection for family and children, reforms have been aligned with a pro-birth policy and the improvement of the situation of families with children. During the 1990s, some measures were linked to a trend towards the retraditionalisation of the family. In 1996, the National Programme of Demographic Development was adopted. This programme contained a range of policy measures, which were primarily intended to change unfavourable demographic trends in Croatia. These measures included generous child and family allowances, ‘pro-birth housing loans’, additional benefits for families with three and more children, paid maternity leave for a duration of three years, an additional year of service at retirement for every born child and the paid status of so-called ‘mother-educators’. The institution of the mother-educator was especially perceived as an attempt to focus policy on traditional family models. Namely, it was proposed that mothers with four or more children receive a salary and other entitlements as a result of their full-time ‘work’ of staying home and raising children. The proponents believed that in such a manner more families would decide to have more children. Conservative attitudes on family policy also became prominent in public debates on abortion, when those opposed to it were especially vociferous. Nonetheless, most citizens did not share these attitudes and abortion was not prohibited. Some promoters of the new traditionalisation of the family tried to impose an idyllic picture of a traditional, patriarchal family with many children and a mother who stays at home. The National Programme of Demographic Development was never carried out, although some of the policies proposed have been adopted (paid maternity leave up to three years for the mothers of twins or for mothers who give birth to the third child and every child thereafter). Large funds were needed for its implementation but some of its basic, traditional standpoints were not in accordance with the dominant social values and trends in Croatian society, particularly among its younger segments. At present, the two main-provider model is supported.

In the near future, an increase in funds for child allowances is not planned (perhaps only some redistribution through the introduction of more income brackets). In order to improve the position of families with children, it has been proposed that child allowances and alimony payments not be regarded as income when applying for social welfare. In accordance with EU legislation, maternity leave is expected to be separated from parental leave (additional maternity leave will be legally renamed to parental leave), in order to eliminate discrimination against fathers in this branch of social protection. In the future, it will be important to extend the network of childcare services and providers to enable parents to reconcile professional work and

parenthood. It may be supposed that more intense state interventionism will continue in family policy, because it deals with the crucial issue of population growth.

The Law on Social Welfare from 1997 changed the structure of benefits and introduced new ones. The principle of subsidiarity has been highlighted to affirm more strongly the responsibility of the individual and the family for their own social security. Additionally, the law has opened wider possibilities for private and non-profit organisations to act in the social sector. That notwithstanding, the present social welfare system has many shortcomings, among which the following can be singled out:¹⁹

- The system is insufficiently transparent (with a lack of information about beneficiaries, schemes or efficiency).
- Citizens are poorly informed about their social rights.
- There is an absence of objective criteria for the implementation and evaluation of schemes.
- The system is highly centralised and there is little adaptation to local needs.
- A high degree of institutionalisation persists.
- There is insufficient collaboration with NGOs.
- It is inefficient in terms of integrating the poor into society and the labour market.
- Professional staffing is inadequate, as are the levels of training.

The decentralisation of the social welfare system has been taking place very slowly. An important reason for that is the territorial structure of Croatia. Small local units (municipalities) have been formed but without fiscal or human resources to take responsibility for social welfare. Therefore, cooperation among municipalities will be necessary for combating similar social problems, as well as financial support from the central government to these otherwise resourceless municipalities.

At present, the MHSW is preparing or conducting a few reform projects in social welfare. In order to harmonise social welfare with EU standards and criteria, the Social Welfare Development Project is underway (in collaboration with the World Bank). Its aim is to establish a more efficient system targeted at socially vulnerable groups. The project envisages

- the further decentralisation and delegation of authority to regional and local self-government (to enhance the accessibility of services to citizens);
- systematic financial support for NGOs and humanitarian associations;
- the better targeting of cash benefits;
- the provision of higher quality services within and outside of institutions (by taking into account the specifics of certain areas or styles of living, and the needs and interests of beneficiaries);
- improved access to information about social entitlements; and
- computerisation of the system.

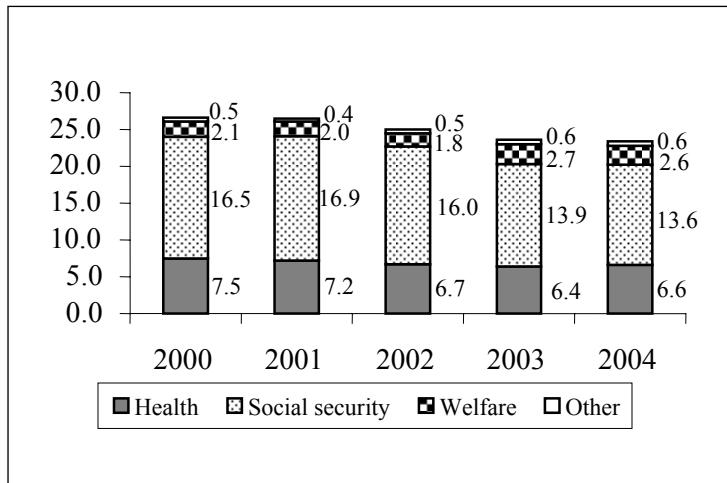
Moreover, work on preparing a new law on social welfare is going to commence soon, which will take into consideration the reform requirements outlined in these projects.

¹⁹ See Ured za strategiju razvitka Republike Hrvatske [Office for the Strategy of Development of the Republic of Croatia] (2002) and Šućur (2004).

5.3 Public social expenditure

According to the Ministry of Finance, total public social spending in 2000 amounted to HRK 40.5 billion (€5.3 billion at the official exchange rate) and in 2004 it increased to almost HRK 50 billion (€6.7 billion). The share of social protection expenditures in GDP in 2003 and 2004 was less above 23% (Figure 6). In contrast to EU countries, Croatia has been forced to allocate considerable funds for war veterans and war victims.

Figure 6. Social expenditures (as a % of GDP)



Note: Based on the government's Finance Statistics, 1986 classification.

Source: Ministry of Finance.

The share of expenditures for war veterans, refugees and IDPs in 2003 and 2004 was approximately 3% of GDP (out of which half was expenditures for war veterans). From a comparative point of view, Croatia's social expenditures are higher than are those of any other new EU member state (except Slovenia).

It is clear that the total social expenditures (measured as a share of GDP) have been decreasing in particular since 2001 (the share in 2004 was 3 percentage points lower than in 2001). The greatest reductions took place in 2002 and 2003. This downward trend was influenced most by the cut in pension expenses. Pension system expenditures in 2004 were 12.2% of GDP and have been slowly reducing since 2001 (in 2004 the share was 1.5 percentage points less than in 2001). The decrease in pension spending is the result of delayed pension indexation with wage increases and living costs, as well as lower pensions realised after 1999, when the reform of the pension system began. An even more pertinent reason for the reduction is the strong economic growth after 2001, which caused a faster GDP growth rate in comparison with pension expenditures.

Expenditures by the consolidated central government²⁰ represent more than 99% of total social protection spending (Ministry of Finance data). Although the share of expenses of the local and county governments has increased since 2000 (in 2003 and 2004 it almost doubled in comparison with the previous years), these expenses are irrelevant (about 0.5% of GDP or 2.3% of total social expenditures) in comparison with the expenses of the central government. These data reveal a highly centralised system of social protection. Expenditures from social security funds in 2002 were 1.7% of GDP and 0.8% in 2004. Such a low share of social security funds in

²⁰ For further details about the consolidated central government and its revenues and expenses, see section 5.5.

total social protection expenditures reflects the fact that the contribution revenues and expenditures of social security funds have been largely incorporated into the central government budget (the CPII from 1 July 2001 and the CIHI and the CES from 1 January 2002). Prior to that (in 1999 and 2000), the share of expenses of social security funds in total social expenditures was over 23%. That means that the social protection expenditures of the central government are almost completely central budget expenditures. That notwithstanding, social security funds are independent of the government (only the tax office collects social security revenues) and are administered by a board consisting of representatives of different groups or institutions.

Based on the methodology of the International Monetary Fund (government Finance Statistics, 1986 classification), healthcare (aside from cash benefits the system provides for sickness and maternity leave) in 2004 represented slightly more than 28% of the total social protection expenditures. Measured as a percentage of GDP, the share of healthcare expenses has somewhat decreased since 2000, thus it was under 7% of GDP in the last three years (Figure 6).²¹ The structure of healthcare costs has not changed very much. The most significant costs are those related to hospitals and their services, followed by those for ambulance and primary healthcare, then drugs, medical prostheses and equipment. Also, expenses for social security affairs and services fell from 17% of GDP in 2001 to 13.6% in 2004. Only social welfare expenses rose from 2% in 2001 to 2.6% in 2004.

According to the data obtained by ministries and institutions that are in charge of particular schemes (ILO, 2005), the structure of social protection expenditures for 2003 suggests that pension and healthcare expenditures absorbed more than 80% of the total public spending on social welfare policies, while expenditures of the pension system represented more than a half of the total (51.2%). Social welfare spending was 5.4% and spending on child allowances comprised 3.3% of the total expenditures. Spending on unemployment benefits was 1.7% of the total. The expenditures on benefits for war veterans and the reconstruction costs in the areas of special state concern (where the majority of IDPs, refugees and returnees live) are estimated at 8.9% of the total social protection outflows.²²

²¹ If one takes into account total public healthcare expenses (including maternity and sick leave), then these expenses in 2004 were about 7.5% of GDP, which is a significant decline in comparison with 2000, when they represented about 10% of GDP (CBS, Statistical Yearbook of the Republic of Croatia). Total public and private healthcare costs were 11.1% of GDP in 2000 and 8.6% in 2004 (Matković & Zrinščak, 2006).

²² At present, governmental institutions in Croatia do not collect data on social expenditures according to the EU's ESSPROSS methodology. Owing to the fact that there are no official data, we can only use ESSPROSS classifications prepared by the authors of this report. Using the data of the Ministry of Finance and the ILO (2005), the structure of expenditures on social benefits in 2003 was somewhat different from that in the EU. For example, the expenditure under the disability category was 14.3% in Croatia and 8% in the EU-25. On the other hand, the expenditure for the old-age category was 11% higher in the EU-25 than that in Croatia. These differences can be explained by the fact that Croatia has a larger number of different disability benefits (because of the war and flexible disability pension terms) and also by the fact that recipients of disability pensions who are above the retirement age have not been classified as old age pensioners. Nevertheless, the expenditures under the survivors' category are 2.6 times the survivor's expenditures in the EU-25. The shares of expenditures under the health/sickness category are similar in Croatia and in the EU-25. The unemployment category accounted for 1.7% of expenditures on benefits in Croatia and for 6.6% in the EU-25. Still, unemployment expenditures in Croatia did not comprise the costs of the ALMP. Expenses on benefits to family/children in the EU-25 were almost twice those in Croatia, but in Croatia childcare expenditures were not included. Expenditures for housing benefits are very low in Croatia if housing expenses for IDPs and war-affected areas are excluded.

Private expenditures are more important in the pension and health systems.²³ Owing to the fact that the privatisation of the pension system began in 2002, pensions from the second tier (mandatory funded pension savings) will not be paid out until 2013. That means that private pension funds for now only collect contributions and invest them for the realisation of profit. Mandatory pension funds at the end of 2005 had net assets in the value of HRK 11.7 billion (about €1.5 billion), which represented 5.1% of GDP. The contributions represented 87% of net assets. Furthermore, voluntary pension funds at the end of 2005 had net assets in the value of HRK 230 million (about €31 million). If the entry fees transferred to pension funds and pension societies (which in the period 2002–05 amounted to 6% of net assets) are subtracted from total mandatory and voluntary pension fund assets, it turns out that by the end of 2005 mandatory pension funds and voluntary pension funds had net assets totalling 4.9% of GDP (HANFA data).

In spite of the high share of healthcare expenditures in the GDP, the health system is facing significant financial problems. The data about private healthcare expenditures are ambiguous. In the World Bank study (2004), private healthcare expenditures in the period 1999–2002 were estimated at 2% of GDP. Yet, the methodology for the estimate used in that study is not clear (or available). On the other hand, according to CBS data (based on the annual HBS), private healthcare spending in the period 1998–2004 was 1–1.3% of GDP. In the period 2002–04, the level of private expenditures of the total healthcare expenditures ranged between 15% and 17.6%. If absolute amounts of public and private healthcare expenditures are analysed, then their continual growth has been evident since 2002, but the relative share has not changed owing to stronger GDP growth. Average public healthcare spending per citizen in Croatia in 2004 was about €400. Average private healthcare spending in 2004 was about €73 (Matković & Zrinščak, 2006).

According to the data collected from the responsible ministries (the social benefit reform strategy 2006–08), about 45% of expenditures on non-contributive schemes in 2004 and 2005 were means-tested.²⁴ The only two ministries that use the means test are the MHSW and the MFVAIS. Means testing has mostly been used by the MHSW, where almost all benefits are means-tested. The ILO (2005) found that almost 60% of non-contributory programmes were subjected to a means test (but that study excluded from its analysis schemes for war veterans, non-contributory in-kind programmes, insurance-based additional maternity benefits and the like).

5.4 Social protection provisions

Among social protection benefits, pensions are of particular importance (here, we refer to pensions that the CPII have been paying, without the pensions of military persons or war veterans). Almost one-fourth of the Croatian population receives some form of the three types of pensions (the number of pensioners at the end of 2005 was just below 1.1 million) (CPII). The most numerous are old age pensioners, who make up about 55% of all pensioners, then disability pensioners (about 23%) and survivors (about 22% of all pensioners). Since 2000, the

²³ Furthermore, there are private organisations in the social welfare sector. They provide care services and other benefits (in cash or in-kind). Yet, with the exception of Croatian Caritas (a charity of the Catholic Church), these organisations are predominantly financed by public sources. It is hard to assess the share of their expenditures in total social welfare spending.

²⁴ In the strategy, all schemes financed from the budget were considered non-contributive ones: war veterans' schemes (except pensions), schemes for civil and military invalids from World War II, schemes for refugees and IDPs, non-contributory in-kind schemes, all additional maternity benefits and social welfare. In addition, unemployment benefits as a contributory scheme were included in the strategy.

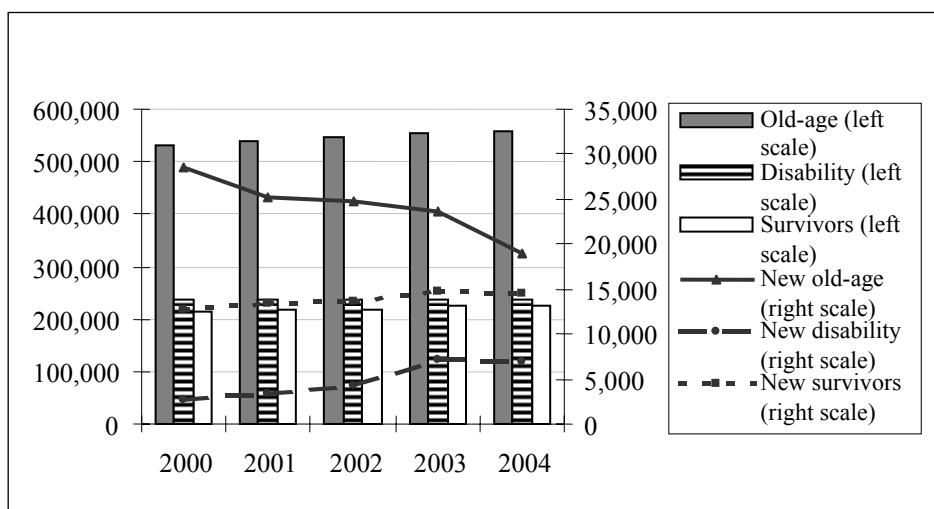
share of the population of active age (15-64) receiving disability pensions has been about 13%. It should be mentioned that disability pensioners who are above the retirement age have been recorded as disability pensioners, not old age pensioners. In the same period, the old age pension coverage (old age pensioners/population aged 65+) was 76%, or 71% without early retirement pensions. In general, in 2005 about 86% of the population over age 64 in Croatia received some sort of pension benefits. In other words, about 14% of the population over 64 was without domestic pensions (pensions from abroad along with military and war veterans' pensions are not taken into consideration). Still, in 1988 the ratio between pensioners and the insured was 1:3.5. In 1990, this ratio was 1:3, but in 1995 it had halved (1:1.8), while since 2001 it has been 1:1.4 (CPII).

Since 2000, the number of old age and survivors' pensioners has slightly risen (Figure 7). The growth index of old age pensioners in the period 2000–03 was between 1% and 1.5%, and in 2004 it decreased to 0.5%. The growth index of survivors' pensioners in the period 2000–04 was 1-1.4%. The number of disability pensioners in 2000 and 2001 remained unchanged, and then decreased in 2002 by 1%. Since 2002, the number of disability pensioners has recorded a growth rate of less than 1%. The share of women among old age pensioners in 2002 and 2003 was 48%, among disability pensioners 38% and among survivors 82-83%.

In the period 1999–2004, the number of new old age pensioners declined continually (in 1999 it amounted to 31,700, in 2002 it was 24,800 and in 2004 the number was 19,000). The trend among new disability pensioners was a little different.

By far the largest number of new disability pensioners was recorded in 1999 (37,100), subsequently dropping to 2,700 the next year. In 2003 and 2004, the number ranged around 7,000. The main reason for the inflow of a large number of new disability pensioners in 1999 was the new Law on Pension Insurance, which transferred over 35,000 persons who had temporary papers on disability pensions into the pension system (persons who by that time had received temporary benefits from employers). The inflow of new survivors' pensioners does not indicate significant oscillations. Between 13,000 and 14,500 new survivors' pensioners enter the system annually. According to the data from 2003, the shares of women and men among old age pensioners were the same. On the other hand, men prevailed among new disability pensioners (in 2003 they comprised over 70%).

Figure 7. Pension beneficiaries

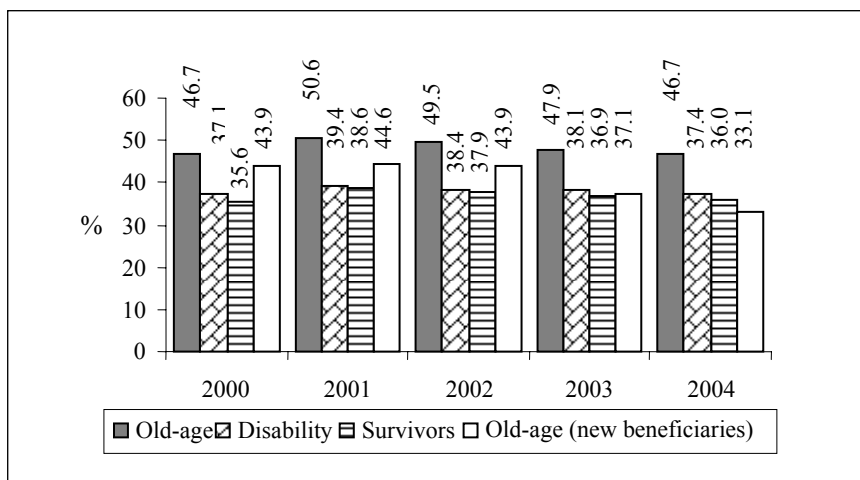


Source: CPII.

After the new Law on Pension Insurance came into force (1999), average pensions have been rising in absolute terms expressed in local currency or euros (in 2005 the average old age pension amounted to €273, the average disability pension to €219 and the average survivors' to €212).

By contrast, if the pension levels are compared with the average wage (the replacement rate), then, as can be seen from Figure 8, the replacement rates of all three types of pensions increased in 2001, but thereafter they have been on a continual decline. In 2005, the replacement rate for old age pensions was 46% of the average wage, for disability pensions it was 37% and for survivors it was 36%. The rise in 2001 was a result of the law on the increase of pensions in order to eliminate the differences in the amount of pensions realised prior to 1999.

Figure 8. The average pension benefit (as a % of the average net wage)



Source: CPII.

After 2001, the share of average pensions in the average wage has shown a downward trend, because the Law on Pension Insurance revised the formula for pension calculations. Since then the calculations have been carried out on the basis of an increasingly extended accounting period (in 2004 it was 25 years, in 2005 it was 28 years and in 2006 it is 31 years). That is why pensions realised after 1 January 1999 are almost a quarter less than those realised before that date.

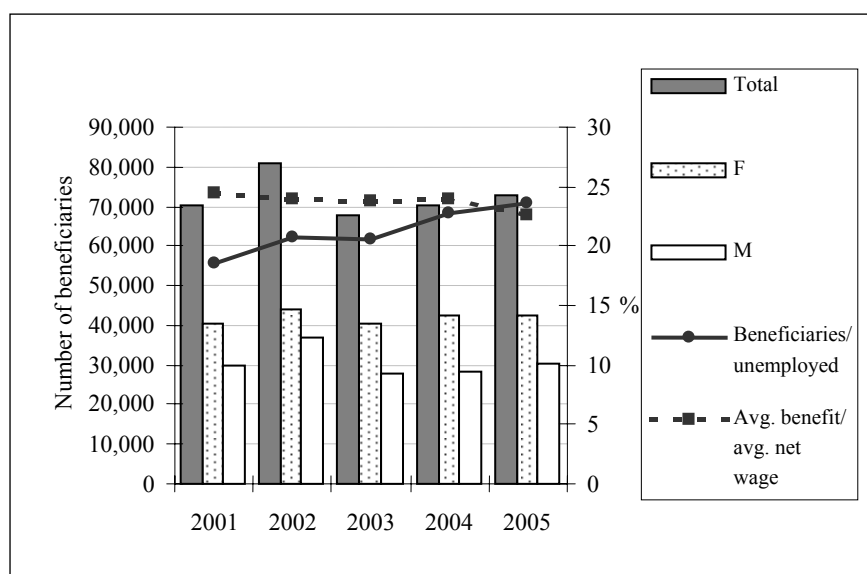
The decrease in the average pensions of new pensioners is confirmed by the fact that the replacement rate for new old age pensions in 2004 was 13.6% less than that for old age pensions as a whole. Nevertheless, the previously mentioned decrease in replacement rates has been influenced by the changes in the composition of pensioners since 1999. For example, there are many more farmers, who began to receive pensions for the first time at the end of the 1990s (as pension insurance for them was introduced in 1980). Their pensions are considerably lower, but they also pay half the contribution rate. In addition, the number of disability pensioners with low pension benefits has increased as well. After 1999, a uniform pension calculation formula for men and women was accepted, whereas in the past the method of pension calculation for women was more favourable than it was for men (e.g. women received five years of service when retired).

Moreover, the relevance of the minimum pension in the new law, which plays a very important redistributive role, should be pointed out. In the period 1999–2005, more than 46% of pensioners realised the minimum pension as the most favourable one (in 1999 the share was

over 66%). This kind of pension is of particular importance for farmers (because over 99% of them receive the minimum pension) and for women.

The portion of recipients of unemployment benefits among the registered unemployed in the period 1995–2005 ranged from between 15% and 24%. From 1995 until 2001, this portion was less than 20%, and after 2001, it ranged between 21% and 24% (Figure 9). These data show that unemployment benefit coverage is quite modest in relation to many countries in the EU. The relatively poor coverage of unemployment benefits is a result of a large number of long-term unemployed and of young persons entering the labour market for the first time, as they are not entitled to such benefits.

Figure 9. Unemployment benefits – Beneficiaries and replacement rates



Source: CES.

The insufficient number of jobs and weak dynamics in the labour market make it difficult for the unemployed to change their status. The number of women among those who receive unemployment benefits has risen steadily since 1995, when women made up about 28% of beneficiaries. Yet in 2000, the share of women among beneficiaries was over 55%, and in 2004, it exceeded 60%. In 2005, about 58% of the beneficiaries were women. The reason for this increased share of women among unemployment benefit recipients is most likely linked to the fact that in the early 1990s, sectors employing mostly men (the building industry, the production of machines, steel, etc.) were hit harder by the closing of firms and restructuring.

This trend was accompanied by the demobilisation of soldiers in the Croatian army and the staff reductions at the Ministry of Defence. In the second half of the 1990s, restructuring was predominately oriented towards sectors employing mostly women (the textile and garment industry, services, the public sector and the like). Also, women wait longer for jobs.

The level of unemployment benefits in 2005 amounted to a little more than €130 per month. If we compute the replacement rate for unemployment benefits, then we notice a continual decline in the replacement rate (from 34% in 1997 to 23% in 2005). Frequently, the levels of benefits go down when the number of beneficiaries goes up. Furthermore, there is a very narrow span between the highest and the lowest levels of benefit (less than €15).

Regarding benefits to family and children, the largest number of beneficiaries is represented by the group receiving child allowances (in 2005 about 440,000 children). A considerable rise in

child allowance beneficiaries occurred in 2001 (the number of beneficiaries was 45% larger than in the previous year), which was caused by an extension of the right to a child allowance to all children and by new income thresholds in the system for the allowances. But the government lowered the income threshold the following year in order to reduce the number of beneficiaries and the level of expenditures (at present the right to a child allowance is available to those households with an income per household member below 30% of the average net wage). The average amount of the child allowance has been a little less since 2001 (now it is €37 per month). Each newborn is entitled to a one-off payment of HRK 1,360 (€188), which has not changed over past 10 years. The average mandatory maternity benefit is about €450 (the benefit cannot exceed €587) and monthly amounts of additional maternity benefits range between €221 and €345. Unemployed mothers are entitled to maternity benefits, which are set at the same amount throughout their entire maternity leave (€221).

Childcare services (nurseries and kindergartens) are under the remit of local government. About 43% of children aged 3-7 are covered by institutional childcare services. It should be stressed that in addition to child allowances and one-off payments financed from the central budget, local authorities may introduce their own benefits intended for families and children, and some local authorities have done so (Zagreb and others). The levels of local funds vary to a large degree.

The number of social welfare beneficiaries in the period 2000–04 ranged between 4% and 6% of the Croatian population. A slow upward trend in the number of beneficiaries has been evident, such that in 2004 almost 6% of the Croatian population received some kind of material support or care services. The number of permanent social welfare recipients (support allowance) at the end of 2004 was a little less than 3% of Croatian citizens. There was a noticeable upward trend in the number of recipients from the introduction of this scheme in the beginning of 1998 until 2002, when the number of beneficiaries stabilised at about 121,000 (52,500 households). There is no difference in the gender composition of beneficiaries. The support allowance is the most important benefit in the social welfare system. In 2004, expenditures on this benefit made up approximately one-fourth of total social welfare expenditures and more than 45% of total spending on social welfare benefits. The standard rate of permanent social welfare for an able-bodied person is HRK 400 (about €54) or 9% of the average net wage.

5.5 Taxation

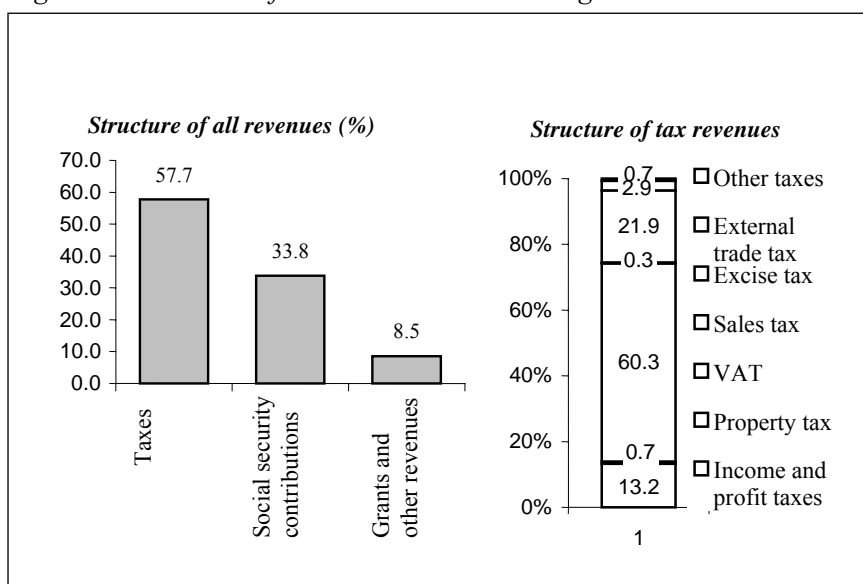
The consolidated central government consists of the budgetary central government, three social security funds (the CPII, the CIHI and the CES), two extra-budgetary funds (Croatian Waters, and the Environment Protection Fund) and four agencies (Croatian Motorways, Croatian Roads, the State Agency for Deposit Insurance and Bank Rehabilitation and the Croatian Privatisation Fund), whose revenues and expenses are consolidated. According to Ministry of Finance data, consolidated general government revenues totalled HRK 103.1 bn (€13.9 bn) in 2005. The greatest contributions to the rise of consolidated general government revenues in 2005 came from VAT revenues, social security contributions and profit taxes, which make up nearly 70% of all revenues at this level of government. Tax revenues, which make up nearly 60% of total consolidated general government revenues, grew by 7.3% in 2005 year-on-year. The growth of revenues from VAT, profit taxes, excise taxes and income taxes added most to this rise. Personal income and company taxes exist but they are less important as sources of public revenues and comprise approximately 20% of all tax revenues (or less than 10% of GDP).

Social security contributions, which make up nearly one-third of the revenue structure of the consolidated general government, went up by 6.2% year-on-year in 2005. This rise was primarily owing to the growth in the average monthly gross wage. Employees' contributions versus employers' contributions in percentages fell slightly during the 2003–05 period from

86.1 to 83.0%, although the opposite is expected in 2006. Meanwhile, the share of employers' contributions increased in 2004 and 2005 (9.9% and 6.1% respectively). The governmental share increased in 2004 by 16.7% and slightly decreased in 2005 by 1.9%. The share of contribution revenues in the total expenses of social security funds fell from 75.7% in 2003 to 74.2% in 2004 and returned to the previous level in 2005. For the year 2006, it is expected that the share of contribution revenues in the total expenses of social security funds will be 77.8% (see also section 6.1.3).

Figure 10 again illustrates that taxes are the most significant source of revenues. Taxes on the consumption of goods and services (among which VAT and excise taxes are the leading items) are the largest components of the tax revenues. Taxes on international trade and transactions showed a nominal decrease in revenues in comparison with the previous years, which is a consequence of developments in international cooperation and international trade liberalisation. On the other hand, taxes on property have experienced significant growth (especially compared with the pre-2004 period), which has primarily stemmed from a rise in prices and trade in the real-estate market. In 2005, local (regional) government revenues made up about 10% of consolidated general government revenues and they grew nearly twice as fast (12.3%) year-on-year as consolidated central government revenues (6.5%). In July 2001, Croatia embarked on a partial decentralisation of its public finance. Thus, the total revenues of local governments in the period 2002–05 rose by 25%. Local government revenues from taxes increased during this same period and in 2005 they were around 58% of total local government revenues. The share of non-tax revenues was around 30% of the total, in which revenues from assets were around 8% and administrative fees and other revenues were around 20%.

Figure 10. Revenues of the consolidated central government



Source: Ministry of Finance.

As social security contributions are an important source of public revenues (and a heavy burden for taxpayers), it is necessary to analyse the tax burden and causes of tax evasion for the whole system of taxes and social contributions. The evasion of paying taxes and contributions is a widespread phenomenon in Croatia (but it is extremely difficult to estimate precisely the scope of the evasion). Sanja Madzarevic-Sujster (1997) found that such evasion in Croatia most often involves declaring lower tax bases and the payment of wages in cash, through unions or in kind, hence evading the payment of taxes and surtax. The amount of unpaid tax and contributions is

very much conditioned by the source of the income, that is, by the industrial sector in which the person is employed. Using simulations, Madzarevic-Sujster (2002) estimated that in the period 1994–2000 the extent of income tax and surtax evasion grew by 1-1.5% of GDP. Thus, a large portion of income goes unreported and untaxed. An obvious impact tax evasion is the erosion of the tax base. Tax evasion also affects the government's ability to distribute the tax burden fairly: individuals who underreport their income may be unfairly receiving benefits that the government has aimed at providing only to those who earn less than a certain amount.

5.6 Gender equality and anti-discrimination

Given their unfavourable position in the labour market, the difficulties of reconciling work and household activities and the general influence of the traditional image of women in society, it is not surprising to note the low level of participation of women in public life. As European gender statistics have not covered Croatia so far, the most relevant source of gender statistics are those compiled by the UN's Economic Commission for Europe.²⁵ This source reveals that the share of women in Croatia's national parliament in 1995 was only 7.9% and among government ministers, it was 10%. The situation improved after 2000, with the share of women in parliament in 2005 having risen to 21.7% and to 26% among government ministers.

Several recent reports have shown that further efforts are needed to raise the political participation of women and to ensure that women's representation reaches the 30% deemed necessary by the government's national policy on gender equality for 2001–05 (see *Ženska mreža Hrvatske* [Women's Network Croatia], 2006, and the analysis made by Croatia's Gender Equality Ombudsman).²⁶ Some studies also point out the low numbers of women in higher positions: women represent 6% of managers, 30% of entrepreneurs, 39% of school headmasters and 28% of managers of healthcare institutions (Milidrag Šmid, 2005).

Against this background, government policies concerning gender equality have improved over the last 10 years. In 1997, along with setting out the national policy for gender equality, the government also established a Committee for Gender Equality and openly highlighted the low level of women's participation in higher political bodies. After the general elections in 2000, amendments were made to the constitution stating that gender equality is a basic value. Very important steps were taken in 2003, when parliament passed the Law on Gender Equality, and when the Gender Equality Ombudsman and the government's Office for Gender Equality were established. The concept of gender mainstreaming also came onto the public agenda. Activities towards gender equality have been closely linked to the laws and policies on domestic violence and particularly violence against women. The public has become more sensitive to these issues, although a high incidence of domestic violence is still present. In its latest conclusions on Croatia, the UN's Committee on the Elimination of Discrimination against Women stated that while noting Croatia had enacted a package of anti-discrimination laws, the Committee was concerned that insufficient measures had been put in place to ensure their speedy, consistent and effective implementation.²⁷ Croatia is currently drafting a new national policy on gender equality for 2006–10, which is based on improvements made during the recent period, but also the acknowledgment that gender equality is far from realised.

²⁵ See the website of the United Nations Economic Commission for Europe (retrieved from <http://w3.unece.org/pxweb/Dialog/Saveshow.asp>).

²⁶ Data derived from the website of the Gender Equality Ombudsman (retrieved from <http://www.prs.hr>).

²⁷ Data derived from CEDAW (2005) (retrieved from <http://www.un.org/womenwatch/daw/cedaw/cedaw32/conclude-comments/Croatia/CEDAW-CC-CRO-0523910E.pdf>).

The protection of national minorities and particularly of the Serb minority is one of the main issues in Croatia's post-war development. In this regard, Croatia created the government Office for Human Rights in 2001, signed various important international agreements (such as the European Convention on Nationality) and passed several laws. The Law on the Rights of National Minorities that was passed in 2002 guarantees the human, cultural, economic and educational rights of minorities and their adequate representation in political bodies. It also established the Council of National Minorities and respective councils in municipalities, towns and counties. This framework has proven important in cases where the violation of the rights of minorities has persisted (although it occurs to a lesser extent than during the war or immediately following it).

The need for the effective implementation of respective laws and programmes is of special interest for the Roma, whose living conditions have been repeatedly discussed in this country report. Some encouraging signs come from the fact that the National Programme for the Roma was passed in 2003 and in 2005 the Action Plan for the Decade of Roma Inclusion for 2005–15 was adopted. It should be stressed that the Roma are the only minority group who cannot fulfil their constitutional right to have education in their own language (because of a lack of teachers who are proficient in the Romani language, the non-standardised character of the language and a lack of textbooks).

Improving life for persons with disabilities, as well as their active social involvement is promoted by the national strategy for an integral policy for disabled persons for 2003–06. The government also adopted some measures for increasing their employment possibilities. They have the right (based on their abilities) to be included in the educational system, which has a duty to facilitate their inclusion. Nonetheless, the Quality of Life Survey (UNDP, 2006b) identifies them as among those persons who face different kinds of discriminatory attitudes in daily life.

Anti-discrimination provisions are included in various other laws (such as penal or labour laws), banning any kind of discrimination based on race, colour, gender, sexual orientation, nationality, social or health status, family obligations, etc. Much attention has been devoted to child protection, with the Office of the Ombudsman for Children being established in 2003. Since 2004, the Croatian Penal Code has also contained regulations related to human trafficking. There are several other programmes to promote anti-discrimination in the fields of youth, protection against violence, sex workers and the treatment of persons with HIV/AIDS, etc. Still, and although it is committed to doing so, the government has not yet passed the proposed national strategy for the elimination of discrimination, which should further develop anti-discrimination practices in Croatia.

6. Governance structures

6.1 Governance efficiency in general and in the social protection system in particular

6.1.1 Structure of the government

The Croatian constitution from 1990 together with respective laws from 1992 created a legal framework for the development of local self-government in Croatia. Contrary to this, the entire administrative system was highly centralised and local governments did not even have the power to perform their constitutional tasks. In this respect, the Croatian situation was in opposition to the European Charter of Local Self-Government.

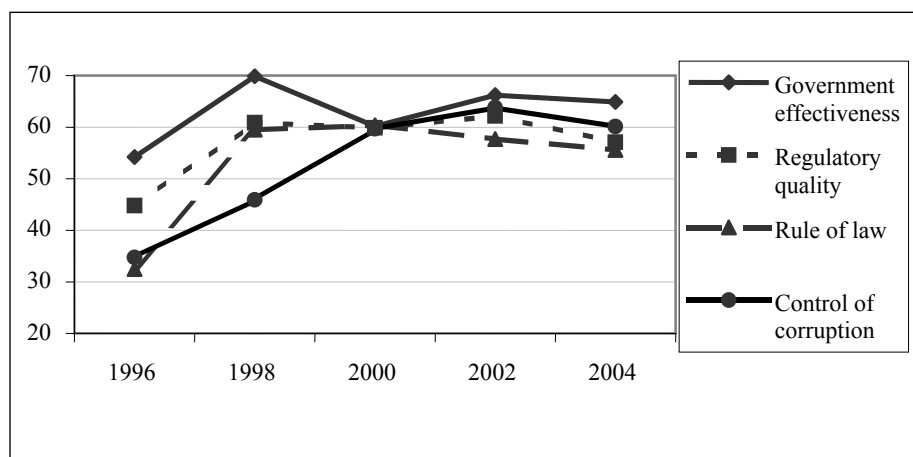
Various legal changes made in 2001 enabled the greater and more appropriate role of regional (21 counties) and local governments (124 towns and 426 municipalities). Counties undertake tasks that are of regional importance in the fields of education, healthcare, spatial and urban planning, economic development, traffic management, and the planning and development of educational, welfare and cultural institutions. County competencies can be transferred to towns that have more than 30,000 inhabitants and meet certain requirements. Local governments perform tasks of local importance, particularly those connected with housing, spatial and urban planning, protection and development of the environment, childcare, primary education, welfare, primary healthcare, culture, sports and consumer protection.

Thus, based on these changes, funding and management rights were transferred to the counties for primary and secondary schools, dormitories, elderly care homes and some of the costs for health and social care. The financing system was also considerably altered. For example, until the year 2000, the share of the different levels of government in the disbursement of revenues from income tax was as follows: municipalities and towns 25%, counties 5% and the central government 70% (the only exception was the City of Zagreb with a share of 45%). From July 2001, the share of the central government in the income tax declined to 25.6%. Still, the financial capacity of the less developed counties is far from appropriate for their needs. Based on minimal financial standards, the government decides each year on the disbursement of financial help to local governments that cannot meet those standards. The key differences are noticeable among local governments that have problems in satisfying minimal needs and the richest counties (such as the City of Zagreb), which can set significantly higher standards and social benefits. Another problem concerns the relatively large number of municipalities that do not meet the essential preconditions for the establishment of separate municipalities, but which have been founded primarily because of different political interests.

6.1.2 Governance efficiency indicators

According to different governance indicators (Figure 11), Croatia ranked at around 60% in 2004, which indicates the need and room for considerable improvement.²⁸

Figure 11. Governance indicators



Source: World Bank (retrieved from http://info.worldbank.org/governance/kkz2004/sc_chart.asp).

²⁸ Data derived from the World Bank (retrieved from http://info.worldbank.org/governance/kkz2004/mc_chart.asp).

The indicator of government effectiveness, which reflects the quality of public provision, the quality of bureaucracy, the competence of civil servants, the independence of the civil service from political pressure and the credibility of the government's commitment to policies, ranked at 54.2% in 1996 and at 64.9% in 2004.²⁹ The crucial challenge here is how to reduce political control over the civil service and how to make the civil service attractive for younger and educated persons, who could apply their expertise.

The indicator of regulatory quality, which reflects the incidence of market-unfriendly policies and burdens imposed by the excessive regulation of foreign trade and business development, was rated at 44.8% in 1996 and 58.1% in 2004.

The rule of law, as a third indicator, is one of the main issues stressed in numerous policy papers, particularly those connected with the integration of Croatia in the EU. The reform of the judiciary is still a major priority, which has been repeatedly emphasised by the European Commission.³⁰ This indicator measures the extent to which agents have confidence in and abide by the rules of society and it includes perceptions of the incidence of crime, the effectiveness and predictability of the judiciary and the enforceability of contracts. The value was 32.5% in 1996 and 55.6% in 2004. Croatia has obviously made considerable improvements since 1996, but it should be noted that this is the lowest value among others mentioned here, and that the value of around 50% is not a particularly high one. The indicator for control of corruption is also very important for overall economic and social development. It measures perceptions of corruption, which is defined as the exercise of public power for private gain. This indicator had a value of 34.7% in 1996 and 60.1% in 2004.

Additional detailed insight into corruption, as well as the connection between the perception of corruption and other government effectiveness indicators, most notably the rule of law, can be drawn from Transparency International's Corruption Perception Index and the data provided by Transparency International, Hrvatska (2005).³¹ With the value of 3.4 (on a scale from 1-10 with 10 being the best), in 2005 Croatia ranked 70th in the world. About 89% of respondents thought that corruption was present or widespread in Croatia. As in the case of other indicators, Croatia made significant steps forward in 2000, and after that, a slow but worrying decline has been observed. The value of the Corruption Perception Index was as high as 3.9 in 2001. In this respect, Croatia was similar to Bosnia and Herzegovina, where a negative trend was observed from 2003 to 2005, and these two countries were the only ones with a negative trend among the neighbouring countries of Slovenia, the Czech Republic, Hungary, Slovakia, Serbia and Montenegro, and Macedonia. Among all CEE countries, the respondents from Croatia and Bosnia and Herzegovina expressed the greatest concern about the impact of corruption on the business environment and in Croatia the justice system was seen as that most endangered by corruption.

A very interesting feature to note is the change recorded over time for all the government indicators. The usual pattern is to start from a very low level in 1996 with declines commencing from 2000 or from 2002 to 2004. Decreases in recent years may relate to the change of government in 2000 and the very high expectations of it in various social fields. Namely, that was the first change of the party in power since 1990 and the public in general had very high

²⁹ The description of indicators and methodology is drawn from Kaufmann, Kraay & Mastruzzi (2005).

³⁰ In the *Croatia 2005 Progress Report* (European Commission, 2005), the European Commission stated that the backlog of cases before the courts and the excessive duration of legal proceedings affect access to justice and the right to an effective remedy within a reasonable time.

³¹ For further details, see the website of Transparency International (<http://www1.transparency.org/cpi/2005/cpi2005.sources.en.html> and http://www.transparency.hr/dokumenti/istravanja/omnibus_04_2005_korupcija.pdf).

expectations that quickly (partly) proved somewhat unrealistic. On the other hand, it seems that the willingness of the government (both the previous and the current one) to make considerable changes in some fields usually linked with corruption or the rule of law is not as strong as it should be. One of the most widely discussed issues in recent years is the law on the financing of political parties, which should build a mechanism for the prevention of non-transparent financing and reduce financing from public companies. In this respect, the government has recently passed some important measures (like the introduction of the one-stop-shop HITRO.hr for starting a business or the visible attempts to make improvements in the cadastre system), which will hopefully be reflected in the indicators for 2006.

Another thing meriting comment is the fact that the values of all the indicators (except for the control of corruption) were higher in 1998 in comparison with 2004. This is something that cannot be understood from the political and social processes at the end of the 1990s. It is hard to believe that, for example, the independence of the civil service from political pressure or the effectiveness of the judiciary were at that time better than today. In the late 1990s, Croatia had serious problems in democratic and overall social development and had no relations with the EU, as in the EU's estimation Croatia was neither a fully democratic state nor a functioning market economy. From that point of view, the results from 1998 should be taken with caution.

The need to make improvements in government efficiency and transparency are also apparent from the comparison between Croatia and other CEE countries. Usually, Croatia is behind countries such as Slovenia, Hungary, Slovakia or the Czech Republic and is roughly at the same level or is doing slightly better than countries like Bulgaria, Romania and Turkey. On the other hand, while Croatia is situated at around 60%, the majority of the OECD countries have scores of between 80% and 90%.

6.1.3 Performance of the social protection system and poverty reduction

It is quite clear that contributive (social insurance) schemes depend on the level and method of collecting contributions. In Croatia, since the middle of 1991 all social insurance contributions have flowed into the Treasury, from where they are transferred to the institutions, such as the CPII, CIHI and CES. Before that, contributions for health, pension and unemployment insurance were directed towards separate funds. The shift to the Treasury model was motivated by the desire for better collection and control of contributions. Pension and health systems face great financial difficulties. The share of contributions in total pension revenues decreased dramatically. Collecting contributions is still an important issue. The evasion of paying contributions has been taking place in various ways. During the 1990s, a considerable number of employers did not pay wages to their employees (wages were in arrears for months or even years). According to the estimates of trade unions, at present about 40,000 employees do not receive wages or receive them with long arrears. On the other hand, many employers register their employees at the minimum wage and thus pay contributions on the minimum contribution base. This practice will influence the pensions that will be paid from the second tier of individual savings, which will depend only on contribution amounts and the regularity of their payments. As employers pay contributions on behalf of their employees, before the changes in the pension system it was extremely difficult to determine whether they had done so. Based on the data from mid-2003, about 11.4% of those insured by mandatory pension insurance paid contributions that were below the minimum contribution base for employees (Bejaković, 2004). It is also very difficult to estimate arrears in paying contributions. Such data are not available, in particular since the CPII ceased to inspect this problem. Now, the tax authorities are obliged to control and enforce contributions (including contributions to the second tier).

It should be pointed out that some forms of atypical work (part-time work, externally contracted work, etc.) have been regulated by amendments to the law, for which contributions has been

paid. Efforts have been made to cover some vulnerable groups of employees by pension insurance and to increase the contribution revenues.

The fraction of the active population not included in the pension system is relatively small. If one compares the number of insured persons with the number of employed persons (according to the LFS), then the percentage of those excluded has decreased (e.g. in 2000 it was 11%, and in 2005 it was 5%) (CPII and CBS). The data show that contribution compliance has improved since 2000. The ratio between the effective contribution rate and the statutory rate for all insured persons reached 78.4% of the maximum attainable amount in 2000 and in 2002 it was 81.2%. If one compares the covered wage bill with the actual wage bill, it turns out that contribution compliance improved at the turn of the 1990s. In 2001, this ratio was 91.4% (Bejaković, 2004). The data from 2004 show that it had not changed essentially (90.9%) (CPII and CBS).

If we analyse the expenditures by the social protection system as a whole (including schemes for war veterans and their family members), then expenditures on benefits in 2003 came to 96% of total expenditures (the same percentage as in the EU) (Eurostat). The remaining expenses refer to salaries and allowances, running expenses of the administrative offices and other costs. If we are confined to the pension system, administrative and other costs (including staff salaries) were 2.6% of total pension expenditures in 2004, with personnel costs making up 1.3%.

A simple way to determine how social security transfers (separately or combined) influence the reduction of the poverty rate is to compare pre-transfer and post-transfer income. Pre-transfer income is defined as actual disposable income less the actual social security transfers received, while post-transfer income is equal to disposable income (including all transfers). Social security transfers are divided into two categories: pensions and 'other social transfers'. Pensions here include only old age and survivors' pensions for the sake of comparability with EU countries. Pensions are separated from other social transfers because pension costs represent the largest part of social expenditures. Other social transfers include benefits related to unemployment, maternity, newborns, children, sick leave, welfare assistance, physical impairments, the rehabilitation or employment of persons with disabilities, scholarships and housing. If pensions and other transfers were excluded from income, then the poverty rate would be 41.4% in 2004 instead of 16.7% (CBS). If pensions were considered part of income before transfers, the poverty rate would be 33.7%. The overall effectiveness of social protection transfers is measured by the poverty rate reduction (the reduction of the poverty rate owing to transfers is expressed as a percentage of the poverty rate before transfers). In 2004, the poverty rate was reduced by 60% owing to pensions and other social transfers. The poverty-rate reducing potential of other social transfers (with old age and survivors' pensions included in pre-transfer income) was more than 50%. Comparing poverty rates before and after social transfers shows that the Croatian transfer system is as efficient as the average transfer system of the EU-25 (Šućur, 2005a). If old age and survivors' pensions are included in pre-transfer income, other social transfers in Croatia are more efficient (in terms of poverty reduction) than those in the EU-25. A relatively high efficacy of the transfer system as a whole is combined with a relatively ineffective system of old age and survivors' pensions (in terms of poverty rate reduction), which accounts for more than 40% of social protection expenditures. Poverty rate reduction owing to old age and survivors' pensions is on average half the poverty rate reduction in most EU countries. In 2003, the poverty rate reduction stemming from old age and survivors' pensions was 20.5% in Croatia and 37.5% in the EU-25 (Eurostat). The reasons for such a difference are the low levels of pensions and inappropriate coverage by the pension system. In 2004, the average old age pension amounted to only 106% of the general poverty line (calculated by the FEI method).

The transfers that are best targeted on the poor are social welfare and unemployment benefits. According to the World Bank study from 1998 (World Bank, 2000), the poorest 20% of the

population received (in the form of transfers or services) 14% of total social expenditures, including education expenditures. For example, shares of the poorest 20% in pension and health expenditures were 16% and 6% respectively. When the targeting of benefits is analysed (how much the poor received), in 2004 about 70% of social welfare expenditures and about 40% of unemployment benefit expenditures were received by persons who were by their incomes among the poorest 20% (World Bank, 2006). In the 1998 study (where the sample was not quite representative), this share was 50% for both benefits. Then, the poorest 20% received less than 30% of the expenditures on benefits for children and families. In general, coverage by social benefits (the percentage of the population receiving benefits) is very low, even in the case of social welfare. In 2004, about 4% of the population and 12% of persons from the two bottom deciles received social welfare (World Bank, 2006). In addition, 5% of the population and 9% of the citizens from the two bottom deciles took up unemployment benefits, while about 20% of the population and 20% of the poorest two deciles received child allowances. Croatia spends relatively modest funds on social welfare benefits (0.7% GDP) in relation to other schemes, but even these funds are a considerable income source for the poor, because they cover more than a quarter of poor households' expenditures (World Bank, 2000). The targeting of child allowances is not satisfactory; nevertheless, the government also wants child allowances to become a tool of a pro-birth policy.

6.2 The character and capacity of the social partners and social dialogue

The history of social dialogue in Croatia can be traced back to 1993, when the government made an agreement with the Economic Chamber (later replaced by the Croatian Employers' Association) and three trade unions.³² In 1994, the tripartite Economic and Social Council (ESC, or in Croatian *GSI*) was established and the new Labour Law in 1995 provided an important legal framework for social partnership and social dialogue at the national and regional levels and the level of particular industrial branches. The ESC consists of 18 members (6 presidents of trade union confederations, 6 representatives of employer associations, 4 government ministers and 2 deputy prime ministers) and it mainly has an advisory role. Separate laws have stipulated that social partners are involved in the governing boards of the CES, Croatian Pension Institute, the Croatian Health Institute and the Fund for Professional Rehabilitation and Employment of the Disabled.

Contrary to the established legal framework, social dialogue did not actually exist, particularly at the level of industry. A new impetus came in 2001, however, when the government signed the so-called Partnership for Development with four trade unions. Yet, the agreement with the trade unions soon failed, as the trade unions officially declared their dissatisfaction with the level of social dialogue with the government. The Office for Social Partnership was also established in 2001 in order to facilitate the work of the ESC. Based on the financial assistance granted by the US Agency for International Development, it helped to set up ESCs at the county level (18 of them were created, each with 18 members), promote social dialogue and foster learning from foreign experience, say from Ireland or the Netherlands. The National Competitiveness Council was also formed, consisting of five government ministers, nine business leaders, four leaders of trade union confederations and four university professors.

Although important achievements have been accomplished, dissatisfaction with the work of the ESC and the regional ESCs is widespread. The ESC is mainly seen as an ineffective body, with little or no impact on policy formulation. In some counties, ESCs have collapsed because of a

³² Data drawn from the websites of the Croatian Employers' Union (retrieved from www.hup.hr), the Office for Social Partnerships (retrieved from www.socijalno-partnerstvo.hr), Lowther & Sever (2006) and Zrinščak (2005).

lack of interest from the local government but some are very active. It also seems that the current government does not pay much attention to social dialogue, as the Office for Social Partnership exists, but without any important projects or an official role.

One of the most crucial issues in the development of social dialogue is connected with collective bargaining. At present, there are several collective agreements concluded at the level of economic sectors, which have been supported by trade union federations, the Chamber of Commerce and employers' federations, as well as the county ESCs. Still, the system of collective bargaining in Croatia remains to a large degree decentralised and confined to negotiations with a single employer. There are no reliable data about the coverage of workers by collective agreements. Some estimates speak of the coverage of 60% of workers, which is related to the practice of extending concluded agreements to all workers (irrespective of their membership in trade unions) or to all workers within the same branches of industry. At the same time, there are many employers who create obstacles for trade unions or workers' representatives, and who usually do not see any merit in promoting social dialogue. The competition among different trade unions is also a problem, and there are no official data about trade union membership.

6.3 Civil society organisations

Civil society is a new phenomenon in Croatia, which became prominent after the fall of communism. Although we cannot talk about civil society in the Communist period, it has to be noted that associational activities were partly autonomous with respect to sports, cultural and professional organisations. In the 1980s, a few new organisations emerged, such as women's and green organisations, and they contributed to the democratisation of society. During the 1990s, civil society development was mainly connected with the humanitarian crisis and many international and new domestic organisations began to operate in Croatia. At the same time, the 1990s did not greatly favour civil society development, given the many political, legal and tax barriers (Bežovan, 2004b). The Law on Associations passed in 1997 proved to be very restrictive, and even the Constitutional Court found it unconstitutional in 2001. Although this unfavourable legacy cannot be overcome in a short period, important improvements have taken place since 2000: the restrictive provisions of the Law on Associations have been changed, several tax laws have been revised by the government (improving the position of the non-profit sector) and in general the government has shown a willingness to cooperate with civil society. There were about 20,000 registered associations in 1998 (according to the procedure prescribed by the law from 1997), whose number rose to almost 30,000 in 2006. That being said, almost half of these are sports (35%) and cultural (13%) organisations.

One aspect of the societal legacy can be found in more developed, informal contacts with relatives or friends in comparison with activities through formal organisations. That has been proven by the Quality of Life Survey in 2006 (UNDP, 2006b), which shows that regular face-to-face contacts are spread outside the household, but mainly occur with family members and friends. Assistance in various instances (such as illness, the need for advice about a serious personal or family matter, etc.) is also predominately expected from family members and to a lesser extent from friends. Formal organisations and voluntary activities through such organisations is of much less importance. Only 5.7% of respondents reported that they had attended a meeting of a charitable or voluntary organisation over the past month and only 4.8% had served on a committee or performed voluntary work for voluntary organisations. Attendance of meetings of trade unions or political parties, action groups or any other kind of political activity was reported by 8%. Croats are not in the habit of contacting politicians or public officials. Meanwhile, the image of Croatia as a highly religious country is not overestimated, although church attendance was lower than the number of religious persons.

Regular attendance (once a week or more) was reported by 24.7% of respondents and less regular but still high levels of attendance (once or twice a month) were reported by 17.1%. These rates are slightly lower than those reported in 1999 (the European Values Survey), when attendance at least once a week was reported by 31.4% and at least once a month by 21.1% (Črpić & Zrinščak, 2005a).

The results of the European Values Survey from 1999 also showed that Croats usually spent time with friends every week, and only a minority (12%) did so with persons in clubs or voluntary organisations (Črpić & Zrinščak, 2005b). The same study revealed that while membership in voluntary organisations was not high, membership was more widespread in religious or church organisations, sports and recreational associations, trade unions, educational and cultural organisations. Some 60% of respondents were not members of any organisation and almost 80% did not perform any voluntary unpaid work.

Important insights into the state of civil society came from the research conducted in 2004 and 2005 by the Centre for Development of the Non-Profit Sector (Ceraneo), on the basis of the comparative methodology developed by CIVICUS (World Alliance for Civil Citizenship), which was undertaken in 60 countries around the world (Bežovan, Zrinščak & Vugec, 2005). The research showed that the willingness of citizens to donate for humanitarian reasons is on the rise, but not voluntary work. There is a great deal of mistrust among civil society organisations, which tend to balk at networking. The overall low level of trust in society is also a factor inhibiting their contribution to civil society. These organisations are concentrated in larger cities and in the developed parts of the country with a higher share of educated persons. The main obstacles to their development can be found in inadequate financial resources and non-transparent state funding to different organisations. In general, their influence in the process of policy formulation and implementation is very limited. On the other hand, they satisfy the needs of marginalised segments of the population and can provoke and have an impact on important public debates. In addition to the shortcomings mentioned above, it should be noted that this research also confirmed improvements in civil society development in comparison with similar research conducted in 2001. These improvements are mainly visible through the ability of civil society organisations to raise some crucial social issues and to make an impact, such as it is, in the fields of domestic violence, human rights or environmental protection. There are also signs that relations between the local governments, the business sector and civil society organisations are improving.

7. Specific issues

7.1 Social protection system for Croatian war veterans and their family members

The system of social protection for Croatian war veterans and their family members falls under the competence of the MFVAIS. In addition to this ministry, the activities related to the rights of veterans and their family members are performed by the state administration offices in the counties. Veterans' entitlements are based on body damage incurred in the Croatian war, the loss of family members, the material and other necessities of war veterans and their family members, and are regulated by a set of laws.

The expenses of the protection system for war veterans and their family members in the period since 2000 have represented around 1.5% of GDP. The relative share of these expenses in the GDP has tended to stagnate or rise slowly. In the future, it is possible to expect a slight increase, not owing to the growth in benefit amounts but to the inflow of new beneficiaries in the system (the status of some war veterans has yet to be resolved). Also, it can be expected that some war

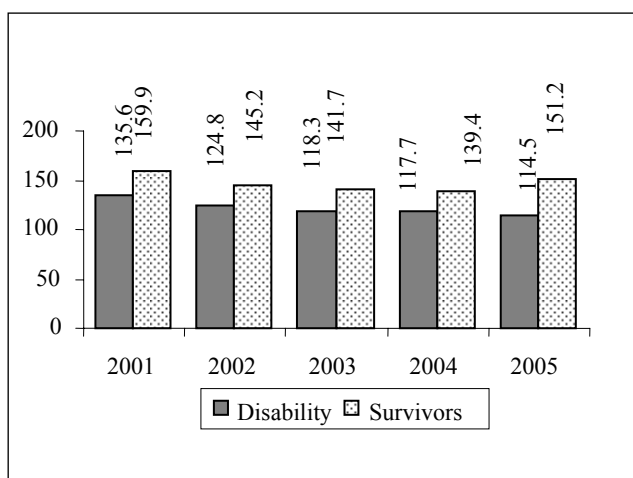
veterans who are currently employed by the Ministry of Defence will be transferred to this system, given the fact that the pensions of war veterans are significantly higher than the pensions of military staff.

There are three basic groups of beneficiaries: 1) war veterans; 2) disabled war veterans; and 3) family members of killed, missing and deceased veterans. Each of these groups of beneficiaries is entitled to obtain various benefits. The system of social protection for war veterans is very complex and consists of many benefits (more than 30 entitlements).

Among the numerous rights of war veterans and their family members, the rights to disability and survivors' pensions should be highlighted. The expenses of these two benefits in last few years have come to represent more than 70% of the total benefit expenses for war veterans and their family members. On the other hand, personal and survivors' disability allowances (compensation for the body damage incurred) represent about 15% of total benefit expenses. Excluding housing and tax and customs allowances, the expenses for other entitlements represent less than 1% of the total expenses for war veterans.

As can be seen from Figures 8 (see section 5.4) and 12, the replacement rates (the share of the average pension in the average wage) for the pensions of war veterans and their family members are substantially higher in comparison with those of all pensioners. In 2004, the ratio of the replacement rate of war veterans' disability pensions and the replacement rate of all disability pensions was 3.1:1, while this ratio for survivors' pensions was 3.9:1.

Figure 12. Average pension benefits for war veterans (as a % of the average net wage)



Source: CPII.

Nevertheless, it should be noted that the replacement rates for war veterans' pensions have been falling since 2001 (with the exception of survivors' pensions in 2005). The reason for the fall is that veterans' pensions have not increased in nominal (absolute) amounts; they are not adjusted (indexed) according to rises in wages or the costs of living. Veterans' pensions are adjusted according to the base amount determined by the government, which has remained unchanged since 2001.

The healthcare expenses of the veterans' population are also significant, but these costs are financed by the MHSW. A considerable share of the veterans' population suffers from various war traumas, which affect their social functioning, particularly post-traumatic stress disorder. Furthermore, the veterans' population is without doubt the group with the highest suicide rate. That is the why in 1999 the government implemented the national programme for psychosocial

aid. It aims at enhancing the quality of life and improving the social integration of persons who were victims of the war. The system of psychosocial assistance is organised at the national, regional and county levels.

Various activities have been undertaken with the aim of including war veterans (who are mostly young persons) and their family members in mainstream economic and social life, to shift the focus away from these groups being passive recipients of welfare benefits. Because of the war, many veterans lost their jobs or discontinued their education. For diverse reasons, a segment of the veterans' population is less easily employed (especially those with disabilities). The CES has designed a number of programmes with the goal of employing war veterans. In addition, the MFVAIS has established a set of policies for professional training and employment, as well as for introducing veterans to the system for facilitating SME entrepreneurship. The necessary financial resources for these programmes are allocated in the budget.

7.2 Displaced persons and areas of special state concern

As a consequence of the outbreak of the war in mid-1991, new socially vulnerable groups appeared – IDPs and refugees. These persons were forced to leave their homes, and many of them subsequently lost their homes or family member(s) or both. At the end of 1991, there were more than 550,000 IDPs in the Republic of Croatia (Office for Refugees, Returnees and Internally Displaced Persons). During the war, Croatian citizens expressed deep solidarity with IDPs and refugees (e.g. 80% of IDPs and refugees were accommodated in private houses/apartments and 20% of them were housed in state facilities and institutions). The social welfare system at that time was unable to look after such a huge number of persons; hence, a parallel system of protection for IDPs and refugees was established at the end of 1991, which still exists today (but in much narrower scope). When the war erupted in Bosnia and Herzegovina in mid-1992, a large number of refugees found shelter in Croatia. Thus, at the end of that year, Croatia was obliged to take care of 700,000 displaced persons (400,000 IDPs and 300,000 refugees). Refugees and IDPs represented 15% of the total population. This phenomenon was something akin to Germany looking after 10 million refugees.

A set of laws was adopted that regulates the rights of IDPs and refugees with regard to housing, nutrition, psychosocial help, financial aid, the education of children, healthcare, etc. After the start of the return process of IDPs and refugees, a new category of so-called 'returnees' emerged. IDPs and refugees who return to their area can obtain the status of returnees, which can last for six months. Once this status expires, they can switch from the special benefit programme to the regular welfare system. Today the provision for the remaining IDPs and refugees falls under the Administration for IDPs, Refugees and Returnees, which is incorporated into the Ministry of Sea, Tourism, Transport and Development. The aid to refugees has mostly been financed from the state budget and partly from international humanitarian aid and loans. In addition, NGOs have had a very important role in helping displaced persons and refugees (in terms of material and psychosocial assistance).

The socio-economic situation of the majority of IDPs and refugees is adverse. Poverty surveys indicate that the poverty rate of IDPs and refugees is much higher when compared with that of the local population. If a relative poverty line is used (60% of the median per capita national income), the poverty of these population groups is about three times higher than the Croatian average (UNDP, 2005). The loss of property, inadequate housing, unemployment and irregular income are the main sources of their poverty. The unemployment rates of IDPs and refugees are also two to three times higher than the national average. Also, many IDPs and refugees face other problems connected with access to healthcare and social services, pension entitlements, acquiring necessary documents, tenants' rights, war-related trauma, isolation, illness, etc.

The process of return began in the mid-1990s. In the period from 1995 to 2005, 340,000 returnees registered (65% of them were Croatian citizens and 35% were ethnic and national Serbs who were also Croatian citizens). The number of returnees who are willing to return to Croatia is not available. The number of potential returnees who live in Serbia and Bosnia and Herzegovina is estimated at 20-25,000 persons. In Croatia, there are still slightly over 7,000 persons willing to return to the cities and villages in which they lived before the war.

From 1995 to 2004, HRK 25.2 billion (which equated to 11% of GDP in 2005) was spent on the return of IDPs and refugees, of which 92% were resources from the central budget. Annual expenditures for IDPs, refugees and returnees in the period 1996–2002 represented about 1.5% of GDP (since 2002, this share has been decreasing because the number of IDPs and refugees has been falling).

There are many problems associated with the process of return: inadequate or destroyed infrastructure, weak economic activity and the deficit of private initiative (unemployment and economic underdevelopment), unavailable or limited social services, depopulation, land areas that still have not been cleared of mines, etc. Social integration is a problem at the local level and in neighbourhoods, particularly in ethnically mixed communities. Among the ethnic group of Serb returnees older persons dominate (few persons are aged 18-40 or younger than 18), although this trend partially changed after 2002. The majority of returnees are faced with the difficulties of ruined assets, a lack of income and unemployment.

The areas of special state concern were defined by government law with the goals of eliminating the repercussions of the war, rebuilding production and the infrastructure, enhancing the return of the population, averting negative demographic trends, re-establishing mutual trust and providing incentives for growth and equal development. These areas were affected directly or indirectly by the war (mostly in eastern Croatia and the Dalmatian hinterland). During the war, 26% of the territory was occupied and 54% was affected by war operations. The law on areas of special state concern primarily sets out policies for accommodation and the reconstruction of the housing stock, owing the fact that dwelling capacity was largely devastated by the war. Furthermore, various tax exemptions are stipulated for citizens living in these areas, as well as for the investors and local government administrations associated with them. The project for rebuilding the communal infrastructure in the areas of special state concern, with a value of around €100 million, began in 2004 with an expected completion date by 2007. It involves the revamp of communal services, local roads, council housing and other communal works. Unfortunately, government programmes and measures directed towards areas of special state concern have not yet been evaluated thoroughly. Some of the measures have not been implemented and thus many of the adverse trends in these areas have not been arrested (very high levels of unemployment, a lack of investment, depopulation, welfare dependency, etc.).

The intention of the government is to end the parallel welfare system for displaced persons and to complete the process of their return as quickly as possible. Based on an arrangement from January 2005, Croatia, Bosnia and Herzegovina, Serbia and Montenegro are obliged to complete the process of return by the end of 2006. In that context, the budget financing of the separate system for IDPs, refugees and returnees is to be phased out in the next year. Because of this change, groups of displaced persons and refugees will lose some of their entitlements and benefits, and hence their inflow into the welfare system can be expected. Thus, it is necessary to forecast a higher welfare budget and more local government resources to accommodate this shift.

Glossary of Abbreviations

ALMP	Active labour market policy
CBS	Central Bureau of Statistics
CEE	Central and Eastern European (countries)
CES	Croatian Employment Service
CIHI	Croatian Institute for Health Insurance
CNIPH	Croatian National Institute for Public Health
CPII	Croatian Pension Insurance Institute
CPSTC	Centre for the Promotion of Social Teachings of the Church
ESC	Economic and Social Council
EPL	Employment protection legislation
FEI method	Food energy intake method
GNI	Gross national income
GVA	Gross value added
HANFA	Croatian Agency for the Supervision of Financial Services
HBS	Household budget survey
HRK	Hrvatska kuna [Croatian kuna]
IDPs	Internally displaced persons
ILO	International Labour Organisation
ISCED	International Standard Classification of Education
LFS	Labour Force Survey
MELE	Ministry of Economy, Labour and Entrepreneurship
MFVAIS	Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity
MHSW	Ministry of Health and Social Welfare
MSES	Ministry of Science, Education and Sports
NGOs	Non-governmental organisations
NMS	New member states
NUTS	Nomenclature of territorial units for statistics (Eurostat)
OECD	Organisation for Economic Cooperation and Development
PAYG	Pay-as-you-go pension system
PPP	Purchasing power parity
PPS	Purchasing power standards
REGOS	Central Register of Insured Persons
SMEs	Small and medium-sized enterprises
UNDP	United Nations Development Programme

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Annex to BALKANDIDE Croatia country report

Croatia - additional indicators

Annex 3.1	Economy, labour market
Annex 3.2	Demography
Annex 3.3	Living conditions
Annex 3.4	Tax-benefit general
Annex 3.5	Tax-benefit ESSPROS
Annex 3.6	Tax-benefit IMF1986
Annex 3.7	Governance
Annex 3.8	Croatian defenders

Annex 3.1: Economy, labour market

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Inflation rate		Till the end of 1997 the price index series were presented according to UCEA (the Uniform Classification of Economic Activities), and in later year according to NCEA (National Classification of Economic Activities).													
		Till 1998 inflation rate was measured with costs of living indices. for 1999-2004 with consumer price indices. For 2006. estimation by The Institute of economics. Zagreb - in Croatian													
aggregate CPI	Statistical Yearbook 2005	Economic Outlook Quarterly				4.3	4.1	6.4	4	4.6	3.8	1.7	1.8	2.1	3.3-3.5
goods CPI	Statistical Yearbook 2005					3.6	3.9	5.2	2.9	4.5	3.4	0.3	1.5	1.7	
services CPI	Statistical Yearbook 2005					9.2	5.6	12.9	8.1	5.1	5.3	7.3	2.6	3.3	
Foreign Direct Investment															
euro	Croatian National Bank	for 2005 Q1.Q2.Q3 - WIIW estimation million for 2005. 1328 million EUR	euro	84	394	477	843	1,369	1,142	1,503	1,195	1,788	981	1,245	
Productivity															
Labour productivity per person employed (GDP in Purchasing Power Standards (PPS) per person employed relative to EU-25 (EU-25 = 100).	Eurostat														
	for 2006, first two months														
average nominal monthly wage. EUF	CBS Average Monthly Gross Earnings of Persons in Paid Employment	Used official exchange rate by Croatian National Bank, gross wage				483	544	599	638	678	724	744	797	815	879
nominal average wage growth. local currenc;	Statistical Yearbook 2005. 7-1. Average Monthly Paid Off Net And Gross Earning Per Person In Paid Employment In Legal Entities, For 2004-2006, CBS Average Monthly Paid net Earnings of Persons in Paid Employment	gross wage		113.1	112.3	113.1	112.6	110.2	107	103.9	106	104.8	104.2	104.4	106.1

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Macroeconomic policies & other indicators															
		Data are shown for Consolidated General Government Revenues according to economic classification and as a share of the gross domestic product. Expenditure includes all unredeemable and capital payments with or without counter-obligation, as well as paid off grants and transfers to others. Lending minus repayments is in connection with claims from third parties coming out from public policy													
general government revenues; % of GDI	Ministry of Finance			48.2	50.7	49.0	52.9	53.0	48.9	47.5	41.8	41.8	42.0		
general government expenditures; % of GDI	European Bank for Reconstruction and Development: Transition Report 2003 - Integration and regional cooperation (2003) and Transition Report 2004 - Infrastructure and Transition Report update. Transition Report 2005 Business in transition			44.9	45.3	44.4	46.7	56.6	52.7	50.7	51.4	52.7	52.0		
average interest rate - official. for major monetary policy instrument	Croatian National Bank - www.hnb.hr	CNB Discount rate		8.5	6.5	5.9	5.9	7.9	5.9	5.9	5.6	4.5	4.5	4.5	
3 month interbank offered interest rate	Croatian National Bank - www.hnb.hr	average of monthly rates, Average lending interest rates - Short-term corporate loans without a currency clause	year	20.5	20.9	9.8	10.7	12.8	12.3	10.2	9.6	9.5	9.5	9.3	
average annual exchange rate - local currency per 1 euro	Croatian National Bank - www.hnb.hr			6.76	6.8	6.96	7.14	7.58	7.64	7.47	7.41	7.56	7.5	7.4	
Balance of payments															
current account	Croatian National Bank - www.hnb.hr, Ministry of Finance - www.mfin.hr		million euros				(-1 305)	(-1 312.9)	(-489.8)	(-817.7)	(-2 097.2)	(-1 866.2)	(-1 445.2)	(-1 963.6)	
worker remittances	The World Resources Institute Current US dollars		million USD	506	603	524	520	453	537	568	666	787			
capital and financial account	Croatian National Bank - www.hnb.hr		million euros					2,250.9	1,244.7	1,051.1	2,732.0	2,996.5	2,267.1	2,896.1	
direct investment in reporting country	Croatian National Bank - www.hnb.hr		million euros	-4.1	-18.8	-174.5	-89.9	-54.4	-1.5	-175.6	-597.8	-93.0	-280.2	-142.7	

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
employment rate															
female	Labour Force Survey, CBS				43.5	42.7	40.6	38.9	36.4	34.9	36.7	36.3	36.7	36.8	
age 15-64					:	:	:	:	:	44.7	46.7	46.9	47.9	48.6	
age 15-24					31.1	30.1	28.5	27.8	22.8	21.9	22.5	21.0	21.7	21.4	
age 24-55															
age 55-64															
unemployment rate															
female	Labour Force Survey, CBS				10.5	10.4	13.0	14.5	17.3	18.1	16.6	15.8	15.7	13.0	
age 15-64					:	:	:	:	:	18.4	17.0	16.3	16.3	14.5	
age 15-24					27.0	26.9	30.1	38.3	41.1	40.7	36.7	38.2	38.3	35.6	
age 24-55															
age 55-64															
number of unemployed															
in Labour Force Survey	Labour Force Survey, CBS, Publication: Persons in Employment by Activity and by Seks, 2005/9-2-7 <a href="http://www.dzs.hr/hrv/priopece
nja/PrFrameH.htm">http://www.dzs.hr/hrv/priopece nja/PrFrameH.htm	for the 1996 and 1997 whole year, for other years second part of the year, First labour Force Survey was performed in 1996.			170,000	175,000	204,000	251,000	322,000	290,000	259 000	259 000	246 000		
registered by Croatia Employment Service	Croatia Employment Service - Monthly Statistics Bulletin			240,601	261,022	277,691	287,762	321,866	357,872	380,195	389,741	329,799	309,875	308,738	
number of unemployed obtaining unemployment benefit	Croatia Employment Service - Monthly Statistics Bulletin			36,183	52,912	55,171	44,779	54,257	63,396	70,369	80,795	67,977	70,467	72,801	
Active Labour Market Policies															
number of unemployed taking part in ALMP	Croatia Employment Service	Number for 1998 is valued for the period June 1998 till February 2000, number for 2001 covers only period of the last quarter of the year, for 2002- 2005 number of people that were employed through ALMP	million	16,180	5,493	-	18,226	see notes	see notes	8,227	16,998	25,031	23,857		
expenditures on ALMPs	Croatia Employment Service		HRK	125.6	44.1	1.3				80	6.87	338.11	329.19	255.86	
Self-employment															
rate of self-employed persons in employment all sectors	CBS: Source: Statistical Yearbook 2005, Table 6-17 Persons in employment by sectors of ownership, status in employment	second part of the year	%					12.8	17.6	16.7	19.2	20.7	21.1		

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Legislative and regulatory framework															
EBRD rating of legal extensiveness:	http://www.ebrd.com/country/sector/law/cla/croatia.pdf and http://www.ebrd.com/country/sector/law/about/assess/locallafor1997-1997LISOverallw.pdf	Commercial Law Indicator:				4	3	3+	4	4-					
EBRD rating of legal effectiveness:	http://www.ebrd.com/country/sector/law/cla/croatia.pdf and http://www.ebrd.com/country/sector/law/about/assess/locallafor1997-1997LISOverallw.pdf								3.3	4-					
Transparency International corruption index	http://www.transparency.org/publications/gcr/download_gc	in bracket position of Croatia										3.8 (51st out of 102)	out of 133)	out of 146)	out of 158)
Privatisation and private sector development															
EBRD index of small-scale privatisation	EBRD - Transition report			4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of large-scale privatisation	EBRD - Transition report			3	3	3	3	3	3	3	3	3.3	3.3	3.3	3.3
EBRD index of enterprise reform	EBRD - Transition report			2	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	3	3	3
EBRD index of competition policy	EBRD - Transition report			2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Doing Business'. Dealing with licenses - time	http://www.doingbusiness.org/ExploreTopics/StartingBusiness/		days												278
Doing Business'. Starting a business - duration	http://www.doingbusiness.org/ExploreTopics/StartingBusiness/	percentile rank										49	49	49	
Doing Business'. Starting a business - no. Of procedures	http://info.worldbank.org/governance/kkz2004/mc_indicator.asp											12	12	12	
WB Regulatory Quality from Governance Indicator	http://info.worldbank.org/governance/kkz2004/mc_indicator.asp		standard deviation in bracket		44.8 (0.26)		60.9 (0.24)		59.9 (0.29)		62.2 (0.17)		58.1 (0.18)		
WB Government Effectiveness from Governance Indicators			standard deviation in bracket		54.2 (0.19)		69.9 (0.22)		60.2 (0.20)		66.2 (0.14)		64.9 (0.14)		
Structure of the economy															
Value added by sector (% of total value added in the economy)	Statistical Yearbook														
Industry				22.8	21.6	21.9	21.1	20.7	20.7	20.7	19.8	19.4	19.2	18.9	
Services				68.6	70.0	70.3	71.9	71.2	71.9	72.2	73.3	73.8	74.2	74.6	
Agriculture				8.6	8.4	7.8	7.9	8.1	7.4	7.1	6.9	6.8	6.6	6.5	

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Value added by sector - annual growth rate:	CBS 2005. Quarterly Gross Value Added And Gross Domestic Product, at current prices, http://www.dzs.hr/hrv/priopce/nja/PrFrameH.htm	since 2000, yearly current prices													
Industry									6.4	18.5	16.1	15.2	7	11.3	
Services									3.2	0	6.9	11	8.1	7.5	
Agriculture									(-2.3)	11.1	4.4	1.7	5.9	3	
Private sector share in: gross value added.															
employment, investments, imports and exports by sectors															
share in employment	EBRD: Transition report		%	48	53	54	54	58	60	60	60	60	60.0	60	
share in GDP	EBRD: Transition report		%	40	50	55	55	60	60	60	60	65	75	75	
Financial sector															
EBRD index of banking reform	EBRD: Transition report			2.7	2.7	2.7	2.7	3	3.3	3.3	3.7	3.7	4	4	
EBRD index of reform of non-banking financial institutions	EBRD: Transition report Croatian National Bank www-hnb.hr			2	2	2.3	2.3	2.3	2.3	2.3	2.7	2.7	2.7	2.7	
Interest rate spread (GCR)						16.93	11.13	10.63	8.3	6.32	11.2	10.05	9.87	9.58	
Domestic credit and loans as share of GDP (including consumer loans and mortgages)	EBRD: Transition report			22.9	21.4	25.3	26.6	22.1	27.8	33.7	44	48.5	52.1	:	
Education															
enrolment rates at various stages of formal education:	Central Bureau of Statistics	Although different data are published about enrolment rates because of the unreliable source the Central Bureau of Statistics does not calculate them and provided only data for the school year 2004/2005.													
in primary education			%												
total - net enrolment													92.2		
total - gross enrolment													95.8		
in secondary education															
total - net enrolment													78.9		
total - gross enrolment													87.8		

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Regional labour market															
		Unemployment rate is calculated as unemployed /employed and unemployed. The total number of employed includes persons employed in legal entities and by natural persons, craftsmen and free lance professions, as well as farmers.													
Unemployment rate by county	Analytical Bulletin No. 4 from 2004 from the Croatian Employment Services, Croatian Bureau of Statistics														
Zagreb													16.9		
Krapina-Zagorje													14.6		
Sisak-Moslavina													30.9		
Karlovac													26.4		
Varaždin													14.6		
Koprivnica-Križevci													16.7		
Bjelovar-Bilogora													24.2		
Primorje-Gorski kotar													12.7		
Lika-Senj													21.7		
Virovitica-Podravina													28.9		
Požega-Slavonia													20.0		
Brod-Posavina													29.1		
Zadar													20.7		
Osijek-Baranja													26.7		
Šibenik-Knin													26.8		
Vukovar-Srijem													32.9		
Split-Dalmatia													22.5		
Istria													6.1		
Dubrovnik-Neretva													15.9		
Međimurje													16.1		
City of Zagreb													7.8		
Croatia													18.0		

Annex 3.2: Demography

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Population structure by age and gender	Croatian Bureau of Statistics												
total							4,501,000	4,554,000	4,381,000	4,439,600	4,443,200	4,441,800	
female							2,338,000	2,365,000	2,276,000	2,302,600	2,304,700	2,304,100	
male							2,163,000	2,189,000	2,105,000	2,137,000	2,138,500	2,137,700	
<15							895,000	901,000	867,000	754,600	743,100	729,300	
15-24							612,000	620,000	595,000	606,500	604,100	599,600	
25-45							1,347,000	1,362,000	1,308,000	1,245,500	1,239,900	1,236,200	
45-64							1,092,000	1,108,000	1,063,000	1,132,900	1,140,600	1,148,500	
over 65							555,000	563,000	548,000	700,100	715,500	728,200	
Fertility	Council Of Europe												
average age of mothers at first birth				25	25	25.2	25.4	25.4	25.5	25.7	25.9	26.1	
Migration	Croatian Bureau of Statistics												
total immigration				42,026					29,385	24,415	20,365	18,455	18,383
total emigration				15,413					5,953	7,488	11,767	6,534	6,812
Family structure and changes	Statistical Yearbook of the Republic of Croatia 2004 + Census Data 2001		%					1991					
average family size								3.2		3.1			
single households								17.8		20.8			
single-parent households								12.4		15.0			
couples with no children								27.1		27.0			

Annex 3 | Croatia - other indicators

	source	notes	1991	
Ethnic minorities				
ethnic structure of the population; % of total population	Croatian Bureau of Statistics, Census data			
Croats			78.10	89.63
Albanians			0.25	0.34
Austrians			0.00	0.01
		In 1991 the ethnic category "Bosnians" did not exist (in the 1991 Census they declared as Muslims and are under category "other")		
Bosnians			.	0.47
Bulgarians			0.01	0.01
Montenegrins			0.20	0.11
Czechs			0.27	0.24
Hungarians			0.47	0.37
Macedonians			0.13	0.10
Germans			0.06	0.07
Polish			0.01	0.01
Roma			0.14	0.21
Romanians			0.02	0.01
Russians			0.01	0.02
Ruthenians			0.07	0.05
Slovaks			0.12	0.11
Slovenians			0.47	0.30
Serbs			12.16	4.54
Italians			0.45	0.44
Turks			0.01	0.01
Ukrainians			0.05	0.04
Vlachs			0.00	0.00
Jews			0.01	0.01
Other			3.19	0.49
Ethnically uncommitted			2.48	2.01
Unknown			1.32	0.41
Total			100	100

Annex 3 | Croatia - other indicators

	source	notes				
	Gelo, J., Akrap, A., Čipin, I. (2005) Basic Characteristics of Demographic Development of Croatia (In Croatian language). Zagreb: Ministry of Family, Defenders and Inter-Generational Solidarity.					
Projections - 4 scenarios			2000	2010	2025	2050
Total population-medium fertility (with migrations)			4,207,689	4,101,146	3,918,436	3,677,585
Total population-medium fertility (without migrations)			4,207,689	4 101 146	3,822,549	3,135,441
Total population-low fertility			4,207,689	4,095,824	3,789,195	3,012,362
Total population-high fertility			4,207,689	4,109,128	3,939,785	3,683,541
Total population - constant fertility			4,207,689	4,098,078	3,842,405	3,239,197
			2000-2004	2010-2014	2025-2029	2050-2054
Medium fertility			1.44	1.48	1.33	1.4
Low fertility			1.44	1.4	1.25	1.1
High fertility			1.44	1.6	1.85	2.1
Constant fertility			1.47	1.47	1.47	1.47

Annex 3.4: Tax-benefit general

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Exchange rate (average annual exchange rate of national currency; to euro)	Croatian National Bank			6.76	6.81	6.96	7.14	7.58	7.64	7.47	7.41	7.56	7.5	7.4	
Social protection provisions															
old-age	Croatian Pension Institute	Old-age and anticipatory pensions are included		442,985	457,554	477,544	495,677	518,039	531,483	539,650	546,606	553,985	556,748		
											262,593	268,472			
											284,013	285,513			
		For the 1999-2001 period the number of persons over 64 is from the Census 2001, while for 2004 it is from the Croatian Pension Institute and estimate for 2003 (see coverage Croatian Bureau of Statistics Demography)						74.0	75.9	77.1	76.4	76.1	76.5		
								1,475	1,554	1,793	1,841	1,889	1,947	2,023	
								195	203	240	248	250	260	273	
								48.3	46.7	50.6	49.5	47.9	46.7	46.2	
				28,980	20,359	21,271	30,614	31,671	28,624	25,091	24,764	23,742	18,996		
												11,800			
												11,942			
								1,327	1,460	1,578	1,634	1,463	1,383		
								175	191	211	221	194	184		
								43.4	43.9	44.6	43.9	37.1	33.1		
disability	Croatian Pension Institute	Only disability pensions are included (without pension benefits of Croatian defenders)		190,231	191,425	198,021	201,152	235,400	237,497	237,614	235,538	236,132	238,165		
											90,361	90,154			
											145,177	145,978			
								1,173	1,235	1,395	1,430	1,502	1,559	1,619	
								155	162	187	193	199	208	219	
								38.4	37.1	39.4	38.4	38.1	37.4	37	
				16,154	9,667	7,041	14,234	37,112	2,675	3,406	4,196	7,188	6,948		
												2,063			
												5,125			
survivors	Croatian Pension Institute	Without survivor's benefits of Croatian defenders.		190,981	191,608	198,809	206,477	210,293	213,003	216,696	219,282	224,264	227,369		
											180,247	186,012			
											39,035	38,252			
								1,120	1,183	1,366	1,411	1,452	1,503	1,572	
								148	155	183	190	192	200	212	
								36.7	35.6	38.6	37.9	36.9	36.0	35.9	
								13,821	12,785	13,265	13,590	14,734	14,569		

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
unemployment															
	number of beneficiaries, total	Croatian Employment Service		36,183	52,912	55,171	44,779	54,257	63,396	70,369	80,795	67,977	70,467	72,801	
	number of beneficiaries, female	Croatian Employment Service		10,269	14,756	18,562	21,493	28,932	35,075	40,595	43,985	40,204	42,385	42,370	
	number of beneficiaries, male	Croatian Employment Service		25,914	38,156	36,609	23,286	25,325	28,321	29,774	36,810	27,773	28,082	30,431	
	average benefit in local currency	Croatian Employment Service		618	672	802	830	836	853	866	891	937	996	988	
	average benefit in euro	Croatian Employment Service		91.4	98.7	115.2	116.2	110.3	111.6	115.9	120.2	123.9	132.8	133.5	
	average benefit as percentage of average net wage	Croatian Employment Service		34	33.1	33.7	30.9	27.4	25.7	24.4	24	23.8	23.9	22.6	
Public social expenditure															
consolidated general government expenditure in local currency	Ministry of finance	consolidated central government + unconsolidated local government	thousand HRK						40,661,953	43,842,878	45,303,770	46,989,413	49,752,094		
consolidated general government expenditure as percentage of GDP	Ministry of finance	consolidated central government + unconsolidated local government							26.7	26.5	25.0	23.7	23.4		
family and children															
number of cases, total		sum of annual number of beneficiaries of 4 benefits (below)						498,865	496,929	656,404	595,966	591,875	580,139	558,217	
total expenditures		total annual expenditures on 4 benefits (below)						2,493,074,266	2,622,421,045	3,563,991,415	2,600,431,012	2,454,311,202	2,598,839,166	2,796,118,009	
<i>Child allowance</i>															
number of beneficiaries, total	Croatian Pension Institute	average number of children						378,303	377,743	546,200	494,371	487,627	462,915	439,616	
average benefit in local currency	Croatian Pension Institute							237	262	369	285	265	267	271	
average benefit in euro	Croatian Pension Institute							31	34	49	38	35	36	37	
<i>mandatory maternity benefit</i>															
number of beneficiaries, total	Croatian Institute for Health Insurance	up to 6 months		25,735	28,858	38,412	32,648	32,681	32,615	30,562	29,370	30,697	32,807	33,297	
average benefit in local currency	Croatian Institute for Health Insurance			1,392	1,766	1,829	2,316	2,397	2,623	2,751	3,039	2,956	3,095	3,326	
average benefit in euro	Croatian Institute for Health Insurance			206	259	263	324	316	343	368	410	391	413	449	
<i>additional (non-mandatory) maternity benefit</i>															
number of beneficiaries, total	Croatian Institute for Health Insurance	It refers to maternity benefits from 6 months to 1 or 3 years, benefits to foster parents, salary compensation to a part-time employed parent		23,167	38,183	51,530	44,835	43,990	44,273	39,448	33,558	32,605	44,677	43,936	
total expenditure on additional benefit in local currency	Croatian Institute for Health Insurance			295,657,932	568,555,134	711,222,098	824,607,638	887,470,632	863,976,903	586,297,603	321,562,492	306,248,790	452,387,116	645,751,365	

Annex 3 | Croatia - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>provision of necessary items for newborn babies</i>															
	Croatian Institute for Health														
number of beneficiaries, total	Insurance			41,499	42,245	44,540	46,489	43,891	42,298	40,194	38,667	38,946	39,740	41,368	
	Croatian Institute for Health														
average benefit in local currency	Insurance			1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	
	Croatian Institute for Health														
average benefit in euro	Insurance			201	200	195	190	179	178	182	184	180	181	184	
Taxation															
composition of total tax revenues by source	Ministry of finance, Annual Report, www.mfin.hr	real amount, for 2006 estimation	million HRK												
labour												3,114	3,128	3,106	3,448
capital												3,074	3,131	3,950	4,008
consumption												36,651	38,602	41,323	46,549
tax wedge size and structure															
employees' contributions:												12,334	13,139	13,857	16,930
employers' contribution:												14,323	15,737	16,695	16,697
employees' contributions versus employers' contributions in %												86.1	83.5	83.0	101.4
share of contribution revenues to total expenses in social security funds															
contribution revenues:												27,416	29,477	31,301	33,627
total expenses												36,204	39,730	41,358	43,206
share of contribution in %												75.7	74.2	75.7	77.8
revenues by source															
employers' contribution:												14,323	15,737	16,695	16,697
contributions by protected person:												759	600	748	0
transfer from government:												8,788	10,253	10,057	9,579

Annex 3.5: Tax-benefit ESSPROS

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Aggregate social expenditure in local currency, ESSPROSS classification																
		There are no official data based on ESSPROSS classification. These data are author's calculations based on ILO-Social Security Inquiry.														
Expenditures on																
sickness/health care												13,494,264,014				
disability		Benefits to Croatian defenders are included										6,360,163,727				
old age		Elderly disabled persons are under the function "disability", and elderly survivors are under survivors' function										13,358,313,393				
survivors		Benefits to Croatian defenders are included										5,358,024,680				
family		This function comprises: child allowance, maternity benefits, one-off payment for newborn babies. Costs of child day care services are not included because they are in competence of local (city) authorities.										1,993,402,381				
unemployment		Included: unemployment benefits and other benefits to unemployed people.										766,000,100				

Annex 3.6: Tax-benefit IMF1986

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Aggregate social expenditure in local currency, IMF Government Finance Statistics 1986 classification												
Expenditures on ... by consolidated general government	Ministry of finance	Consolidated central government + unconsolidated local government										
health		thousand HRK						11,476,579	11,921,296	12,207,651	12,781,932	14,083,679
social security and welfare affairs and services, of which ...		thousand HRK						29,185,374	31,921,582	33,096,119	34,207,481	35,668,415
social security		thousand HRK						25,235,842	27,934,329	28,972,781	27,540,540	28,936,557
welfare		thousand HRK						3,167,532	3,253,873	3,196,790	5,441,117	5,540,109
other		thousand HRK						782,000	733,380	926,547	1,225,824	1,191,749
Expenditures on ... by central government	Ministry of finance											
health		thousand HRK						11,401,000	11,815,560	11,731,070	12,240,969	13,581,958
social security and welfare affairs and services, of which ...		thousand HRK						28,929,000	31,609,730	32,609,510	33,669,283	35,025,631
social security		thousand HRK						25,130,000	27,813,740	28,755,123	27,311,421	28,726,082
welfare		thousand HRK						3,017,000	3,062,610	3,060,367	5,282,274	5,311,497
other		thousand HRK						782,000	733,380	794,019	1,075,588	988,052
... of which expenditures on ... by social security funds	Ministry of finance											
health		thousand HRK						11,103,000	11,547,000	1,285,410	919,341	862,208
social security and welfare affairs and services, of which ...		thousand HRK						25,130,000	17,010,000	1,838,791	2,020,698	754,822
social security		thousand HRK						25,130,000	17,010,000	1,329,300	1,472,945	205,014
welfare		thousand HRK						0	0	0	13,910	3,408
other		thousand HRK						0	0	509,491	533,843	546,400
Expenditures on ... by local governments	Ministry of finance											
health		thousand HRK						75,579	105,736	476,581	540,963	501,721
social security and welfare affairs and services, of which ...		thousand HRK						256,374	311,852	486,609	538,198	642,784
social security		thousand HRK						105,842	120,589	217,658	229,119	210,475
welfare		thousand HRK						150,532	191,263	136,423	158,843	228,612
other		thousand HRK						0	0	132,528	150,236	203,697

Annex 3.8: Croatian defenders

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Croatian defenders: pension benefits														
disability pension		Croatian Pension Institute												
number of beneficiaries, total												18,741	21,360	25,766
average benefit in local currency								4,671	4,764	4,799	4,643	4,661	4,910	5,009
average benefit in euro								616	624	642	627	617	655	677
average benefit as percentage of average net wage								152.9	143.2	135.6	124.8	118.3	117.7	114.5
survivors pension		Croatian Pension Institute												
number of beneficiaries, total												11,760	12,097	12,123
average benefit in local currency								5,878	5,925	5,661	5,403	5,583	5,818	6,616
average benefit in euro								775	776	758	729	738	776	894
average benefit as percentage of average net wage								192.4	178.1	159.9	145.2	141.7	139.4	151.2
Temporary benefit to defenders who have been waiting for final decision about their disability pension.		Croatian Pension Institute												
number of beneficiaries, total												7,601	7,079	5,814
average benefit in local currency												3,520	3,597	3,873
average benefit in euro												466	480	523
average benefit as percentage of average net wage												89.3	86.2	88.5
total expenditure on defenders in local currency		Croatian Pension Institute, Ministry of finance and Ministry of family, defenders and intergenerational solidarity	thousand HRK							2,070,440	2,634,346	2,788,473	3,431,578	3,757,880
...of which expenditures on benefits			thousand HRK							2,016,865	2,516,385	2,691,982		
total expenditure on defenders as percentage of GDP										1.2	1.5	1.4	1.6	1.6
total expenditure on defenders as percentage of total public social expenditure										4.7	5.8	5.9		

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