

# Croatia 2013



**Total: 62.95**

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## Quick facts

Population:	4.3 million
Population growth:	-0.11 %
Unemployment rate:	15 %
GDP:	79.69 billion \$
GDP growth rate:	-2 %
GDP per capita:	18100 \$

## Political Freedom

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### Free and Fair Elections : 9.64

The last elections from 2011 were generally seen as a free and fair and the results were not disputed. Political participation is generally free and unrestricted, with a strong influence of NGOâ€™s and civil society on the electoral process and on political development in general. The Parliament is elected every four years, and the President of the republic â€” who has a predominantly ceremonial role - every five. The current government has undertaken some serious measures to undercut the illegal political funding which allegedly influenced the outcome of the elections in 2007. The case ended in the court process against the former Prime Minister Ivo Sanader.

The Croatian electoral system favors the representatives of national minorities and the parties with strong regional representation. Media coverage of the election campaign is professional, mostly impartial and of mostly high quality.

### Absence of Unconstitutional Veto Players : 7.5

There are no traditional unconstitutional veto players in Croatia. As an EU member, Croatia has proper legal and institutional frameworks in place, which guarantee the independence of the government. Shortly before EU accession the country adopted an extradition law which does not comply with EU standards and indicates a network of interest among former employees of the

secret service.

Croatia has a fully professional army under civilian control and has been a NATO member since 2009.

The Catholic Church is an important social and political player in Croatia. Catholicism is a cornerstone of Croat identity. In the 1990s, Croatia became one of the most Catholic countries in Europe. During the country's struggle for independence, the Catholic Church emerged as a respected and influential organization. Due to strong ties to the former HDZ government, the church was able to root itself deep into Croatian society. The church lost influence and power when the HDZ lost the parliamentary elections in 2011 and became an opposition party.

## **Freedom of Press : 6**

The press in Croatia is partly free. Besides self-censorship, politicians try to influence media. Although the ownership structure of the media is transparent, it has not led to the application of higher journalistic standards. Croatia's public broadcaster HRT threatened to dismiss journalists being critical of the situation surrounding press freedom. Investigative journalists receive death threats writing about war crimes. There is no self-regulatory body of the press due to lack of political will.

## **Rule of Law**

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### **Independence of the Judiciary : 2.83**

A constitutional amendment in 2010 has allowed the judiciary to act more autonomously. The independence of the state judicial and prosecutorial councils has been strengthened. These institutions can now independently select judges and prosecutors and evaluate their performance. The presidents of the courts are appointed by the State Judicial Council - a former privilege of the Ministry of Justice. A number of landmark court decisions (such as the conviction for corruption of a former Prime Minister and a judgment against the former ruling party for illicit financing) hint at a gradual emergence of an independent judiciary. Furthermore, education and training of judges have been improved, despite other areas of concern. Past political misuses of the process of post-communist lustration and the cronyism of the 1990s still affect judicial independence. Outside influence (be it political, economic, or even by organised crime) is still present.

### **Corruption : 4.6**

Corruption remains a serious but under control problem in Croatia, both at the national and local levels. Croatia ranked 62 of 176 in Transparency International's Corruption Perception Index 2012 - just slightly "cleaner" than the world average. Corruption is present in political parties, post-privatization management, major infrastructural investments, subsidy policies, health care and numerous other fields. Notable breakthroughs were made in prosecuting highest level cases, such as against a former Prime Minister, then the biggest political party. That owes to timing the one hand (Croatia's full-member accession to the EU); and to the gradual emergence of specialized investigation units (themselves autonomous from the executive) on the other hand.

An increased independence of the judiciary facilitates successful prosecution of cases, even though there is still corruption in the judiciary itself. At the local level, the most corruption-vulnerable area is investment. Media and CSOs play an increasingly active role in dealing with political corruption at all tiers of government, due in part to Croatia's new constitutional right to information.

## **Protection of Human Rights : 6.86**

Croatia has no problems with kidnappings or extrajudicial killings. Torture or other ill treatment in custody or prison is rare, while security forces are well trained and generally respect human rights. Yet refugees and IDPs face various administrative or other problems upon return. Trade unions have a bit more operational space and influence than elsewhere in the region, with their presence in media is especially notable. A number of State supported Ombudsmen as well as numerous CSOs monitor human and civil rights. Gender rights and freedom of expression are somewhat protected, but minority rights are still in very bad shape. A notorious case is the row over the use of Serb Cyrillic alphabet in multiethnic places in eastern Croatia. Hate speech is still widespread and it is all too often treated as socially acceptable behavior. War crimes prosecution is painstakingly slow but increasingly fruitful. Impunity for human rights abuses during communist era persists. There was a drop in homophobic violence between 2012 and 2013.

## **Economic Freedom**

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### **Security of Property Rights : 5.65**

In some aspects private property rights are highly protected in Croatia, but still the judiciary system, as in other regional countries, remains a major problem. Within Croatia's sub-score, the worst is the absence of sufficiently independent and impartial courts. However, the sub-score mark might not reflect reality because of the time lag within the recorded data. With recent high level anti-corruption legal cases and several reforms in line with EU accession, we can expect that overall independence and credibility of the judiciary system will result in better scores in future Freedom Barometer scores.

The legalization process of real estate property around Croatia will form a new basis for more secure and transparent property sales and purchases, which will allow for the abolishment of some trade of property restrictions. With perceivable reforms of the judiciary system, the major problem for future protection of property rights will be enforcement of contracts. Commercial law cases are still sluggish and ensuring legal compensation is still relatively uncertain.

### **Size of Government: Expenditures, Taxes, and Enterprises : 5.28**

The general government consumption is not at drastically high level, although it did top during the recession at 43.1% of GDP in 2010. Recent deficits, high welfare spending and Croatia's general desire to fulfill Maastricht standards pushed political leadership toward relative spending. Deficits hover between 4 and 5 percent of GDP, but short term leaning towards significant decreases of

government borrowing and, ultimately, decreasing public debt, are encouraging signs.

The government plays a significant role in the economy. There are still many publicly owned companies that need huge subsidies to cover losses. Trends are showing the government's dedication to fully solve this problem, preferably with selling or liquidating these companies. An ability to do so may see better scores in this element in the future.

The greatest obstacle for private consumption and savings and the main reason for relatively bad sub-scores for the Size of Government comes from the high levels of tax. Government revenues are only around 38% of GDP in past 5 years, but relatively large portions of that comes from income taxes. Corporate income tax is capped at 20% while the top marginal tax rate for personal income is 40%. This puts Croatia in the group of top income taxing countries of Europe. Also, VAT is at a very high level of 25%. With decreasing direct role of government in the economy and keeping spending under control, there will be opportunity for tackling the problem of over-taxation.

## **Regulation of Credit, Labour, and Business : 7.01**

Economic activity in Croatia is generally liberalised. This is especially the case for the credit market and somewhat for elements of the labor market. Business regulation is not too harmful but the implementation of administrative procedures and bureaucracy costs place a significant burden on private business. Corruption is an important issues and obstacle, especially regarding the administration, though this problem is not as present as in other regional countries.

The main disadvantage for the business environment in Croatia is the rigidity of labor laws regarding hiring and firing regulations. Minimum wage is at very high level of 54% of net average wage in the country [1]. Both factors contribute to high costs of labor in Croatia relative to GDP per capita and its current development stage.

## **Freedom to Trade Internationally : 7.58**

Trade freedom is at very high level in Croatia. Joining the EU in July 2013, Croatia made the final step on the way to economic integration in the EU. Now, it is a member state of customs union and its trade policy is accordingly defined, with complete liberalisation of inner EU trade. Tariffs, quotas and other prohibitive measures are at low levels and they will decrease further in the future. Still, during the process of adjustment to the accession, Croatia yet has to do minor reforms in regulatory framework and control of immigration. Also, the government had to impose some new measures to trade partners in line with overall EU policy that might harm some trade relations in the short term.