

Croatia 2014



Total: 62.57

Quick facts

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| Population: | 4.24 million |
| Unemployment rate: | 17 % |
| GDP: | 57.16 billion \$ |
| GDP growth rate: | -0.4 % |
| GDP per capita: | 13490 \$ |

Political Freedom

Free and Fair Elections : 9.64

There was no general election in Croatia in 2013, but on the level of regions and local communities, which were held in a free and a fair way. Although the elections have been widely seen as the most important instrument of the citizens' participation in the political life, some influential and predominantly conservative-populist NGOs tried and in one case succeeded to fulfil the conditions for calling a national referendum on highly disputable questions such as restriction of minority rights. The Union of the Independence War Veterans tried to call for national referendum on allowing the use of language and alphabet of minorities only in those local communities where they make up more than half of the population, instead more than one third as it is now.

The level of political pluralism increased substantially in the last year, since in 2013 the political scene saw the establishment of some new political parties left, right and in the middle of the political spectrum. Public opinion polls suggest that they may have chances of entering the parliament following the next elections which are scheduled for the end of 2015.

Absence of Unconstitutional Veto Players : 7.5

There are no traditional unconstitutional veto players in Croatia. Croatia has legal and institutional frameworks in place, which guarantee the independence of the civilian government. Within those boundaries interest group wield soft powers.

The Croatian Catholic Church (HKC) is a very influential institution in Croatia. It is able to influence social and political processes in the country. The HKC played a decisive role in the allowing for a constitutional referendum, held in December 2013. The proposed change defined a marriage as a matrimony between a woman and a man. The amendment was confirmed by a two-third majority of votes – effectively setting in place a constitutional prohibition of same-sex marriages. In addition, same-sex couples are prevented from legally adopting children. However, Croatian law allows them to form lifelong partnerships. International reactions to the outcome of the referendum were mainly negative. The petition and the campaign in favor of the amendment was mainly carried by the Catholic citizens' group – "On behalf of the Family" (Obitelj). The HKC has strong ties to the group and is its main supporter. A lack in funding transparency lead to controversy and speculations about the extent of HKC support and about the genuity of citizen activism.

The military complies with the rules set by a civilian government. Croatia became member of NATO on April 1st 2009, together with Albania.

Freedom of Press : 6

Although Croatia has a top rank among the surveyed countries, press freedom has not changed for the better. The Croatian press can be considered as only partly free. According to a report by Freedom House, journalists still occasionally face threats and violence when their reporting collides with political interests. It remains to be seen whether Croatia's EU membership (the country joined the EU in July 2013) will have a positive impact.

Rule of Law

Independence of the Judiciary : 2.92

EU accession and adjacent constitutional and legal reforms created a completely new climate in the judiciary. Independence of the highest judicial bodies was strengthened, as well as their authority to select senior magistrates. The executive branch lost lots of leverage for exercising control over the judiciary. Yet along the implementation of European standards, lots of dilemmas are still debated, such as whether or not it violated the principle of separation of power if judges were temporary active as officials of the Ministry of Justice and then returned to courts. The changed position of the judiciary, which to its part resulted in a few landmark verdicts, such as against a former prime minister, his deputy and his political party, has awoken lots of hope across society. However, the Global Corruption Barometer 2013 showed that 70% of citizens still thought the judiciary was corrupt, even though it was not any more on the very top of the list of the most corrupt institutions. A serious problem is also the backlog, estimated at nearly one million cases, many of them to do with property rights. Some of those have been pending for 20 or more years. In human-rights sensitive cases such as a proposed referendum on the parallel use of the Serb Cyrillic alphabet in the multi-ethnic towns in eastern Croatia, the constitutional court has proved as capable of dismissing the pressure by the prevailing hostile public opinion in the disputed places. It protected minority rights by banning such referendum.

Corruption : 4.8

According to Transparency International's Global Corruption Barometer 2013 Croats perceived the judiciary and political parties as the most corrupt entities in the country. But there were several positive developments, too. The prison sentence on corruption charges handed to a former Prime Minister Ivo Sanader in 2012 has drawn the attention of the general public to the problem of wide-spread corruption. The coalition government has promised to create "society free of corruption", yet abuse of power and secret "behind-the-scenes" deals still do happen. Foreign investors have warned of the inverse relationship between corruption and foreign investment. A law on lobbying has been discussed by the government but the process has stalled. On the other hand, access to information has become easier. Financing regular political activities has generally improved, while campaign financing is at least better monitored. Political parties have to submit more accurate annual reports. With the "EU accession race" completed, lawmakers need to carry the laws more carefully and consistently, coupled with an increased fiscal transparency and better corruption-risk assessment. In 2013, Croatia improved its CPI (from 46 to 48), getting up to the rank of the 57th of 177 monitored countries of the world.

Protection of Human Rights : 6.79

The human rights situation has considerably improved as compared to the 1990s or prior, mainly due to reforms facilitated by the EU accession process completed in 2013. Security forces generally respect human rights. There are no extrajudicial killings, while torture in custody or prison is rare. The return of refugees from Balkan wars was partially successful, yet unnecessary administrative obstacles that they face are too slowly removed. Likewise, minority including linguistic rights are painstakingly breaking through. The row goes on over the parallel official use of Serb Cyrillic alphabet in multi-ethnic towns in eastern Croatia. The issue is often manipulated for political ends. Opposition to the use has often been violent. The constitutional court banned the referendum on the issue, thus stating that human rights could not be open for vote. Discriminatory campaigns by the political right did not confine to minority alphabets but extended to sexual minorities, especially prior to the referendum in December 2013 which banned same sex marriages. The centre-left government which includes liberals responded by carrying and applying the law on civil unions. Meanwhile, LGBT pride rallies are peacefully held in Zagreb, Split and Osijek. Those or other human rights are well monitored and cared for by a strong and influential civil society. The media are sensitive for gender equality, inclusion of the disabled or similar issues. Prosecution of war crimes continues while impunity for those has been ever less. However, both the political left and right have protected the pre-1989 human rights` violators from lustration. The extradition of a former secret service agent to Germany for a political assassination committed in 1980s was made only upon heavy pressure from the EU.

Economic Freedom

Security of Property Rights : 5.76

Private property rights are overall highly protected in Croatia. However, the weaknesses of the judiciary system remain a major problem, similarly to other countries in the region. Impartiality of

courts and judicial independence are seldom present. Although several high profile corruption litigations were carried out successfully against important political figures and state officials, these sub-scores do not show much progress. However, they should increase the credibility and independence of the judiciary system in the future.

The legalization process of real estate property in Croatia, (most notably in the coastal area), will define the new basis for more secure and transparent property sales and purchases which will allow for the abolishment of some trade of property restrictions. Along with Judiciary reform, the major problem for future protection of property rights will be the enforcement of contracts. Commercial law cases are still time consuming and ensuring legal compensation is not always certain.

Size of Government: Expenditures, Taxes, and Enterprises :

5.06

The general government consumption is not at drastically high level though it was increased during the recent recession and stood at 43.7% of GDP in 2013. Recent deficits and high welfare spending in Croatia build up foreign debt. Consolidated government deficit hovered between 5% and 4% of GDP, but the short term perspectives are very encouraging towards significant decrease of government borrowing and, ultimately, decreasing the public debt, which reached 60% of GDP at the end of 2013.

Government Enterprises and Investment sub-score are at the highest score 10, reflecting successful stabilization and liberalization policies that took place during the EU accession. However, the government still is very present in the economy through the number of publicly owned companies that drive huge transfers to cover their losses, and numerous subsidies that government provides for particular industries. The government has been tackling this important issue, but with no great success although important breakthroughs can be made in the future via liquidation process or privatization.

The greatest burden for private consumption and savings, and the main reason for relatively bad score for the Size of Government is the level of tax rates. Government revenues have been only approximately 38% of GDP in past 5 years, but a relatively large portion comes from the income taxes. Corporate income tax is at 20% and top marginal tax rate for personal income at 40%, which puts Croatia in the group of top income taxing countries of Europe. Consumption taxation, for example the VAT is also at very high level of 25% (the highest level allowed within the EU). Should the government decrease the role of the state within the economy, and lower the spending, free space to redefine fiscal policy and lower tax rates could appear.

Regulation of Credit, Labour, and Business : 5.36

Economic activities in Croatia are generally liberalized, most of all the credit market and somewhat less the labor market. Business regulation is not too much harmful but the implementation of overwhelming administrative procedures and bureaucracy costs are a significant burden for private business. This is especially reflected in Administrative Requirements sub-score which is at the minimum score in the region of 2.22 in the latest EFW report. 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 of the business environment in Croatia is the high level of rigidity of

labor law regarding hiring and firing regulation. Minimum wage is at very high level of 54% of net average wage in the country. Both factors contribute to high costs of labor in Croatia relative to GDP per capita and development stage.

Freedom to Trade Internationally : 8.74

Trade freedom is at a high level in Croatia, the country that has just recently become a full EU member. This led to complete trade liberalization with other member states on the EU common market and the trade policy has been transplanted from the national decision making and moved to Brussels. Tariffs, quotas and other prohibitive measures are at low level. Due to the EU accession, Croatia had to leave CEFTA which made some of its products less competitive in the Western Balkan, but it did not make any changes on treatment of goods from CEFTA countries due to their signed SAA. However, Croatia yet has to do implement minor reforms in regulatory framework and control of immigration. Freedom to Trade Internationally