

Croatia 2015



Total: 62.88

Political Freedom

Free and Fair Elections : 9.64

In the course of 2014, Croatian citizens were twice called to vote: in May, to the first regular elections for the European Parliament, and in December, to the first round of the regular presidential elections (whose runoff took place in January 2015). Parliamentary elections are scheduled for 8 November 2015. All elections have been carried out in a free and a fair manner, as usual. The level of diversification within political pluralism has increased not just by quantity but also substantially during the last year, as a consequence of the dissatisfaction of voters over the biggest political parties in the country, HDZ and SDP, which used to alternate in running the country ever since its independence in 1991. Presidential elections as of December 2014/January 2015 resulted in the surprise victory of the opposition candidate Ms Kolinda Grabar Kitarović, despite high popularity figures of the sitting president Ivo Josipović. Although the campaign took course in a correct way, by all participants, it was partially overshadowed by the protest of war veterans, who tried to establish themselves as an unconstitutional player per se, with some special rights reserved only for this particular group within the population.

Absence of Unconstitutional Veto Players : 7.5

Croatia doesn't have unconstitutional veto players. When it comes to dealing with corruption, the country is performing much better than the other Western Balkans states. The arrest of the Mayor of Zagreb and of a wealthy tycoon at the end of 2014 represented a continuation of the fight against high-level corruption. However, there is still large space for improvements, especially in the public procurement sector and regarding ties between politicians and private businesses. According to the Eurobarometer Survey, almost 94% of Croatians believe that corruption is widespread in the country. Also, the Catholic Church has significant influence in shaping public opinion in Croatia, which its representatives often use to put pressure on government decisions.

Freedom of Press : 6

The missing progress in improving the situation regarding freedom of media in Croatia led to stagnation in the Freedom House's assessment of media landscape, itself marked as "partly free". The ownership structure of the private media is still non-transparent, while harassment against journalists and self-censorship still happen. Still, the Croatian Journalists' Association is trying to pick up cases and bring them to court. The state media use to reflect the interests of the majority party in parliament. They are still on their way to develop into a non-biased source of information.

However, Reporters without Borders' Press Freedom Index ranks Croatia 58 of 180 countries, putting this Adriatic country seven places higher than in 2014. This might be due to less violence towards journalists.

Rule of Law

Independence of the Judiciary : 2.92

Many domestic, foreign or international observers reported on a considerable progress in gaining independence by Croatia's judiciary, but in the related numerical indexes that has yet to be properly evaluated. The system of justice has to a large degree been reformed to meet the high EU standards. In practice many changes are visible, making the judiciary more autonomous in education and training of judges or prosecutors, as well as in their appointments, promotion and evaluation. However, there is still a backlog of cases, especially regarding the pre-1995 property rights, with consequences onto the minority rights. Justice for war crimes is overall slow and still selective. In the anti-corruption sphere, the appellation case of the most known defendant, former PM Ivo Sanader, sentenced for corruption in the first instance, was by mid-2015 still dragging on without an end in sight.

Corruption : 4.8

Not much has changed regarding corruption in Croatia between 2013/14 and 2014/15. The turnabout cases of the former PM and of the-then ruling party, sentenced for corruption resp. illicit financing, had by mid-2015 still been evaluated by higher courts. But in everyday life the beneficial effects of the reforms implemented prior to the 2013 accession to the EU are felt on every corner. Political party financing has been under better scrutiny of the anti-corruption authorities, civil society and media. Petty corruption has regressed or became less open and visible. However, according to Freedom House, in some towns, notably in Split and Omiš, there was a violent response by the mighty, towards the investigative mood of the local media. In the Transparency International's Corruption Perception Index 2014, Croatia was ranked 60 (of 175). Its score remained 48.

Protection of Human Rights : 6.83

Treatment of minorities in Croatia is variable. Some ethnic minorities (e.g. Italians or Czechs) enjoy rights above the average EU standards. On the other hand, the row over the official use of minority Serb Cyrillic alphabet in multi-ethnic towns in the east continues. Human Rights Watch noted in its World Report 2015 that "Serbs continued to face discrimination ... stripped of tenancy rights during the war, facing ongoing difficulties benefitting from the 2010 government program that permits the purchase of property at below market rates". A number of stateless Roma have difficulties accessing education, health care, social service assistance or welfare. Public manifestations of ethnic hatred, even though prosecuted, do not face across-the-board rejection as an anti-social behaviour. Gender discrimination is losing ground, even though the highly set target

of 40% of women in parliament is still far away from reality (there are 24%). The posts of the President of Croatia and of the Deputy PM are currently held by women. In the otherwise flamboyant political rhetoric in Croatia misogyny is rare. There is an excellent protection of the right to privacy. LGBT Pride Rallies are held peacefully and are larger in the number of participants, while the referendum-installed constitutional ban on same-sex marriages was circumvented by the subsequent law on civil unions. During the first half of 2015, Croatia did not prepare well for the possible future influx of Syrian refugees should Hungary complete its border fence towards Serbia.

Economic Freedom

Security of Property Rights : 5.11

Private property rights are overall well protected in Croatia. However, problems of the judiciary system are similar to the ones in other countries across the region. They are concentrated in weak judicial independence and, partiality, in court proceedings. Still, there is a substantial degree of integrity of the legal system, due to strict implementation of court decisions by authorities. Several high profile corruption cases have been litigated, including the mayor of the city of Zagreb. However, another major problem is the sheer length of litigation processes: enforcement of contracts is a process with many procedures of long duration, especially in the segment of resolving insolvency. The process of legalization of real estate property is underway, making the situation regarding proprietorship of objects clearer and strengthening property rights. Ban on acquisition of agricultural land by foreign nationals is still present, applying even to the EU nationals, for whom it is expected to be lifted after 2020.

Size of Government: Expenditures, Taxes, and Enterprises : 6.07

Public spending in Croatia is broad and lavish. Overall government consumption in 2014 was at 46.9% of the GDP. Recent high deficits and continuing recession since 2008 have accumulated high public debt of 81% of GDP. Because of the elevated deficits, Croatia has been put under the Excessive Deficit Procedure by the European Commission. It is not expected to be terminated any time soon. An encouraging sign is that the year 2015 is the first one with projected economic growth since the wake of the recession in 2008. Although low, the growth is finally expected to moderate due to Eurozone recovery. The increase in exports is not strongly connected to growth, because a lion's share of it is not the result of increased production, but a simple re-export due to the Rotterdam effect, i.e. to the shifting of transportation routes, following Croatia's EU accession. State owned enterprises (SOE) participate in the economy by using a distortive amount of resources. Although the efficiency of SOEs has improved through constraints in the wage bill and in the number of employees, to have minimized the fiscal burden, some of them are still posing a major problem, most notably the motorways and the railway system in the field of public infrastructure, or Petrokemija in other fields. SOE management is under political influences. Companies are used for political gains. Corporate income tax is at 20%, while personal income tax is progressive, with the rates of 12%, 25%, or even 40% for the top bracket earners. VAT is also at

a very high level of 25% (the highest one allowed within the EU), with lower rates of 13% or 5% for certain products. High social security contributions, coupled with the income tax, lead to a high payroll tax wedge of 41%, much higher than the OECD average.

Regulation of Credit, Labour, and Business : 5.29

Economic activities in Croatia are generally liberalized. There are but many areas in which business regulation should be improved in order to diminish administrative procedures which overburden entrepreneurial activities. Getting electricity is costly, while obtaining construction permits is not only costly but also associated with lengthy procedures (10 months on average). Corruption within the system is present, but some progress was made in tackling the problem. On the other hand, to comply with tax regulations is not too demanding, while starting a business is relatively quickly done and is affordable. The Labour Code has had both its flexible and its rigid solutions. The new Code as of August 2014 made the working hours' regulation more flexible. The new regulation abolished mandatory retraining or reassignment of redundancy workers by the employers and abolished the maximum threshold on fixed-term contracts. The workweek maximum length was slightly increased to 50 hours (from 48). The work of those employment agencies that are leasing workforce, which hadn't been recognized by the previous law, was regulated. The minimum wage remains high (52% of the net average wage).

Freedom to Trade Internationally : 8.72

Trade freedom is respected in Croatia. Since July 2013, when Croatia became the newest EU member, it has been implementing the common EU trade policy. Consequently, tariffs on imported goods are low. However, non-tariff trade barriers in the form of regulations and standardization of imported goods continue to pose obstacles to free trade. Trade is hampered by high transportation costs: although the quality of roads is satisfactory, ports and especially railroads pose significant bottlenecks. Although Croatia left the Central Europe Free Trade Area (CEFTA) upon its EU succession, it did not change the treatment of CEFTA goods, due to the signed Stabilization and Accession Agreements, while CEFTA countries were able to apply tariff rates on Croatian goods. Controls on inflow of short-term capital remain in action. Main trade partners of Croatia come from the EU or CEFTA: Italy, Germany, Slovenia, Serbia and Bosnia and Herzegovina.