

Croatia 2016



Total: 63.28

Quick facts

Population:	4.221 million
Unemployment rate:	16.9 %
GDP:	45.772 billion EMU
GDP growth rate:	1.6 %
GDP per capita:	10 840 EMU

Political Freedom

Free and Fair Elections : 9.64

Croatia had a very intense electoral year. Presidential elections and electing of Kolinda Grabar Kitarovi for President, showed a continued domination by two major political parties, namely Social Democratic Party (SDP) and Croatian Democratic Union (HDZ), and indicated possible trend of public support for political parties at November parliamentary elections, respectively. Elections were free and fair. The process was professionally and effectively carried out. HDZ won elections by a narrow margin once again, gaining 59 seats, while SDP gained 56. The third party was the newly created MOST, which benefited from social dissatisfaction with politics in Croatia. None of the parties had enough seats to form the government and MOST had a decisive power. After lengthy negotiations they formed a government with HDZ. However, elected government didn't last long, due to corruption scandals. It was voted no confidence in June 2016. Since nobody was able to rebuild a majority, President scheduled new parliamentary elections for September. Minorities are represented in the parliament, with three reserved seats for Serb ethnic minority and five seats for all others.

Absence of Unconstitutional Veto Players : 8.33

Power of the Croatian authorities to independently make decisions and govern the country isn't endangered by any interest group or individual. It's rather that corruption and strong business interest by politicians can undermine democratic procedures. Recent overturn of conviction of former HDZ Prime Minister Ivo Sanader, as well as an easy release from the pretrial detention by

some other high ranking officials, questioned independence of judiciary from political influence, and thus the effectiveness of the system of checks and balances in the country. Although it is not veto power in the country, the Catholic Church in Croatia has significant impact on public opinion and doesn't hesitate to express opinion on domestic political issues either directly or via proxy organizations. Also, war veterans that make up the ninth of the population can indirectly influence some political processes.

Freedom of Press : 5.8

Freedom of the press in Croatia is granted by the Constitution. However, in practice wide variety of media outlets are only partly free to independently express their views. Due to the struggle for economic survival and poor job conditions most of the journalists, while reporting, are taking into account owners' preferences, their political interests or preferences of the advertisers. Defamation is punishable by the law with large fines and up to three years in prison. Transparency of media ownerships remained blurred throughout the observed period. Several cases of harassment and attacks on journalists happened. They often went by with impunity.

Rule of Law

Independence of the Judiciary : 2.92

Improvements in the independence and professionalism of the judiciary mostly owe to the reforms carried immediately prior to Croatia's accession to the EU in 2013. As compared to any neighboring country, the situation is now either similar or better. Judicial efficiency and efficacy are, however, still a problem. There is a considerable backlog of cases. In a litmus-test case, against former PM Ivo Sanader, for alleged grand-scale corruption, the Constitutional Court overturned the initial guilty- verdict and ordered re-trial, while the Supreme Court ordered his release on bail. War crimes' justice is still selective, but at least staged trials are matter of the past. The currently most important trial in the field - against a well known Serb rebel commander as of 1991/1992 - is so far running *lege artis*. Except for the (EU-mandated) "Perkovi Case", nothing is done to abolish the *de facto* impunity for the pre-1990 political terror against dissidents by communist secret services.

Corruption : 5.1

In political as well as everyday life, the beneficial effects of the reforms implemented immediately prior to Croatia's 2013 accession to the EU are increasingly felt. 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. Court procedures for high level corruption (such as against former PM Ivo Sanader) are dragging on, but at least societal pressure against politicians who disobey the rules is much stronger. Thus, in June 2016, the coalition HDZ-Most government fell, new elections were called and the leader of the biggest party HDZ (himself a vice-premier) Tomislav Karamarko resigned due to his obvious conflict of interest and possible corruption. In the Transparency International's Corruption Perception Index 2015, Croatia improved as compared to 2014. It was ranked as 50th (of 168). Its score rose from 48 to 51.

Protection of Human Rights : 6.98

Some of the human rights in Croatia (notably minority rights) are hostage to ideological disputes and political strife between the centre-left (former communists) and the centre-right (former hard line nationalists). Denial of one or another set of war or other state-facilitated crimes, be it during the WW2, or in the communist period, or during the Homeland War, is - selectively - practiced by almost every political party. Recently, human rights advocates had reasons to fear. In two election campaigns, as of 2015 and 2016, the main players revisited and revised history, practiced or tolerated hate speech, or polarized society over issues that should normally be a matter of widely accepted human rights (minorities, LGBTs, women`s rights). However, the change on the top of HDZ and the likely change on the top of the SDP are promising a halt to this hate-speech contest. Some analysts reckon that Croatia has avoided its own "Orbanization". The position of women is better than in neighboring Slovenia or Hungary. The attempt to introduce almost full marriage equality fell at a referendum, but, instead, same-sex partnerships were legalized, albeit against the enduring opposition of the religious Right. Anti-abortion vigilantism is tolerated by authorities at various levels, whereby vast majority of public prefers the (pro-choice) status quo. Secularism is endangered in education, where sex-ed - but other curricula as well - are under pressure from religionist lobbies. Concerning rights and treatment of refugees, according to Freedom House, "Croatian authorities generally complied with international standards". Refugees were the occasion but not the cause of the two-days` long trade-and-customs "war" between Croatia and Serbia in September 2015, whereby the EU successfully facilitated reconciliation.

Economic Freedom

Security of Property Rights : 5.12

Private property rights are overall adequately protected in Croatia. However, inefficiency within the judiciary system creates problems very similar to the ones prominent in other countries in the region: judicial independence is not guaranteed and there is partiality in court proceedings. Legal enforcement of contracts is very slow and incurs high costs, although judicial processes are well established. There is still a significant backlog of unresolved cases, which further fuels duration of legal processes. However, redistribution of non-disputed cases to public notaries was a positive step in alleviating this problem. Another positive step was introduction of an electronic system for sales of movable assets. Procedures for resolving insolvency are also very slow, with low recovery rates. The process of cadastre service improvement is underway, in order to make the situation regarding proprietorship of objects clearer and strengthening property rights. Registering property is burdened not only by inefficient Land Registry Courts, but also by a very high property transfer tax. Property rights over land and over buildings are separated, which could create complex situations. Acquisition of agricultural land for foreign nationals is restricted, but it can be leased or obtained via legal entity registered in Croatia. There are also restrictions on foreign ownership or control in several areas in Croatia, most notably in transport and freight sectors, as well as in publishing and broadcasting.

Size of Government: Expenditures, Taxes, and Enterprises : 5.23

Size of government in Croatia is very broad, and general government consumption reached 47% of GDP in 2015. Croatia is one of the countries that experienced several recession waves during past couple of years, finally registering economic growth in 2015. Still, the growth rate is sluggish, fuelled mostly by a moderate growth of exports and tourism. High public deficits during previous years accumulated a high growth rate reaching 86.7% of GDP in 2015. Deficits led Croatia to enter the Excessive Deficit Procedure of the European Commission in 2014, aiming to curb the deficit below the Maastricht criteria. Very good public finance performance, which decreased the deficit from more than 5.5% to 3.2% of GDP in the previous year, is attributed to higher revenue due to growth, lower investment of public-owned enterprises and some fiscal adjustments, thus making room for Croatia to leave the EDP soon. The privatization program in Croatia is not yet completed, since there are still many government enterprises active, in many sectors, not confined just to public utilities or transportation. Some of those companies operate inefficiently and pose a heavy drain on public finances. Corporate income tax in Croatia stands at 20%, while personal income tax has progressive rates of 12%, 25% and even 40% for the highest earners. VAT is also at a very high level of 25% (the highest level allowed within the EU), with lower rates for certain products, of 13% and 5%. High social contributions, coupled with the income tax, lead to a high labour tax wedge of 41%, much higher than the OECD average.

Regulation of Credit, Labour, and Business : 5.42

Market regulation in Croatia does not provide a business environment conducive to entrepreneurial activities. Inefficient government bureaucracy and policy instability remain the biggest obstacles, coupled with high tax rates. Starting a business takes some time, but also includes high paid in minimum capital. Getting electricity also incurs high cost due to high utility fees, although it is a streamlined procedure. Obtaining a construction permit is both slow and expensive, with as many as 19 necessary different procedures. Tax regulations are also complicated and difficult to implement in practice, with a high number of annual payments. Prevalence of corruption among public officials remains among the problems, allowing for biased treatment of economic actors. Para-fiscal surcharges are widespread and high, while licensing restrictions pose barriers to entry to many professions. Labour code has been amended several times now, aiming to increase flexibility in the labour market, but some of the rigidities remain. Major changes in 2014 introduced flexible working hours, eliminated maximum duration of fixed-term contracts and redundancy obligations. Duration of notice periods and severance pay package increase with the years in tenure, providing security for more seasoned workers, but also imposing cost on their employment.

Freedom to Trade Internationally : 8.74

Trade freedom in Croatia is mostly respected. Croatia has been a member of the World Trade Organization since 2000 and a member of the European Union since 2013. Therefore, it has been implementing the common EU trade policy, with overall low tariffs (average applied tariff rate is 5.3%), which are more pronounced only for agricultural products. However, non-tariff trade barriers in the form of regulations and standardization of imported goods continue to pose obstacles to free trade. Efficient customs office does not burden import and export process with complicated procedures, thus promoting trade. While the quality of road and port infrastructure is satisfactory,

bad condition of railroads poses significant bottlenecks, hindering trade and elevating freight costs. Trade with other countries of the region, with whom Croatia had established the Central Europe Free Trade Area (CEFTA) prior to its EU succession, has subsequently been implemented under respective Stabilization and Accession Agreements. Main trade partners of Croatia are other EU member states of geographical proximity, or CEFTA countries from the region: Italy, Germany, Slovenia, Serbia and Bosnia and Herzegovina. Controls on inflow of short-term capital remain in action by the National Bank, which is mostly connected to the exchange rate policy of the national currency, the kuna. In September 2015 there was an incident in which Croatian - Serbian border was closed down due to political issues, but after an intervention from Brussels it came to a quick conclusion.