

Croatia 2017



Total: 64.48

Political Freedom

Free and Fair Elections : 9.64

Croatia has free and fair elections. Political actors are free to operate and express their views without restrictions. Political landscape is pluralistic, with two dominant parties, Croatian Democratic Union (HDZ) and Social Democratic Party (SDP), although a number of other parties and movements emerged in the last few years. After dynamic political times and the dissolution of the government upon the no-confidence vote on the Prime Minister Tihomir Oreškovi, snap elections for Sabor – Croatian unicameral parliament - were held in September 2016. HDZ won the elections and once again formed a government with the party MOST. Although there was a perception that coalition between those two parties, led by a new leader of HDZ Andrej Plenkovi, would bring stability to politics in Croatia, internal disputes led to another reshuffling of the government, in April 2017. Prime Minister Plenkovi dissolved all ministers from party MOST after they had failed to vote against the proposal of no-confidence vote to Minister of Finance, as motioned by the opposition SDP. In June, new Government was elected, comprised of the HDZ and the Croatian People's Party – Liberal Democrats (HNS).

Absence of Unconstitutional Veto Players : 8.33

There are no unconstitutional veto players in Croatia. Democratically elected authorities have power to govern without interference. Inability to make stable government in the last two years significantly reduced efficiency of the decision making processes. Also, there are some actors who are able to influence to certain degree the political decision making. Wealthy businesses often seek to influence government decisions in their favor by establishing close relations with politicians. One such case, allegedly involving the former Deputy Prime Minister and former HDZ leader Tomislav Karamarko, led to dissolution of government in 2016. Catholic Church has significant influence in shaping public opinion and it doesn't hesitate to participate when some sensitive political issues in the country are in question. Other influential actors include war veterans who make a considerable share of population.

Freedom of Press : 5.9

Media landscape in Croatia is pluralistic and diverse. Freedom and independence of broadcast, print and online media outlets is granted by the Constitution, although they are facing several challenges that are limiting this freedom. Government was accused of interfering into independence of state agencies and broadcasters, after president of the Council for Electronic

Media had resigned because of the political pressure, while the director of the Croatian Radio Television HRT was dismissed. Financial dependency from advertising and lack of adequate job conditions for journalists led to more biased coverage in the media. Physical and verbal violence against journalists occur from time to time, and defamation remains punishable by the law. In such environment, journalists often practice self-censorship on sensitive issues.

Rule of Law

Independence of the Judiciary : 4.09

Upon Croatia's entry into the EU, its judiciary has been more tightly monitored also by the European Network of Judicial Councils. In their latest Report on the Independence, Accountability and Quality of the Judiciary, as of 9 June 2017, ENJC especially favorably evaluated organizational autonomy, human rights trials, internal disciplinary measures and non-transferability in Croatian judiciary, while corruption and (lack of) internal independence were perceived as the biggest problems. In the field of accountability, external activities, including those towards the press, were evaluated as especially professional. Corruption was warned at as a challenge also in the 2017 report of the portal GAN, which assessed corruption risks for businesses - when encountering the courts in Croatia - as "high". In war crimes justice, inefficacy to complete some cases (such as of Branimir Glavaš) and occasional selectiveness sometimes overshadow the overall improvement.

Corruption : 4.9

In the case of Agrokor, the biggest private-owned company in Croatia, a giant holding that has collapsed in 2017, all the weak points of economic transition in Croatia since 1991 could be detected, including crony privatizations, state favoritism of certain big companies which were considered as "national projects", lots of false reporting and superficial auditing, undeserved soft loans (without proper collateral), "political banking", unpaid rent for the leased state property, doing business as usual when it was already clear that the company was in trouble, etc, and behind all those a lot of corruption, high level and grand one, between various state and non-state actors, domestic and foreign. In politics, the Agrokor scandal revealed conflict of interest by government officials and led to the crisis of government which was resolved by reconstruction of the ruling majority. Progress which Croatia has made in fighting corruption prior and after its accession to the EU in 2013 has partly been overshadowed by this affair. Portal GAN especially sorts out police as a sector with low corruption risk for companies. Freedom House praises independent state bodies for their take on the highest ranking politicians if there be conflict of interest or corruption, which for instance led to the ousting of the ruling party HDZ's strongman Tomislav Karamarko. But, FNF's field research also showed some disturbing signals of the financing of political parties at county or local level by local companies with clear ties to big foreign companies, while some of the latter have actually been political projects. According to Transparency International's Corruption Perceptions Index 2016, Croatia is, together with Malaysia, ranked as 55th in the world.

Protection of Human Rights : 7.36

Human rights` situation in Croatia, similar to most of the ex-Yugoslav space, is burdened by the legacy of wars, pressure by nationalism and clericalism, as well as lack of post-communist lustration (especially regarding the role of secret services). Ca. 1600 persons are still unaccounted for after having disappeared during the war in 1990s. Despite government actions to suppress it, hate speech, particularly against the Serb minority, parallel to attempts at revision of the WW2 history, is still widely practiced. Minorities have constitutional guarantees of equality and preferential election treatment. Over half of the Serb refugees from war times returned to Croatia, yet many face challenges regarding property rights, or employment, or an overall climate of imposing collective guilt (as demonstrated in the debate on the use of Serb Cyrillic alphabet, which was the problem only in Vukovar, a site of war crimes in 1991 by ex-Yugoslav army and Serb paramilitaries). Gender equality in Croatia is no worse than in neighboring Slovenia or Hungary. LGBT citizens are protected against discrimination, including by legalized unions (vis-a-vis constitutionally banned marriage) and relaxed climate in which Pride rallies are held annually in several towns. During the past year, more financial resources were spared for fighting human trafficking. Croatia accepted some of the asylum seekers assigned by the EU quota. Regarding Roma, there is still discrimination in education, access to healthcare, housing and employment, which sometimes has to do with the problem of statelessness.

Economic Freedom

Security of Property Rights : 5.23

Private property rights are more or less adequately protected in Croatia. However, judicial independence is not always guaranteed due to out-of-court influence and corruption, as well as to occasional partiality in court proceedings. Contract enforcement is not effective due to unreasonable delays, which makes court litigation very slow (almost two years on average) and incurs high costs, though judicial processes are well established. There is no maximum number of adjournments. Automation of court procedures is in its inception. There is still a significant backlog of unresolved cases, which further fuels duration of legal processes, although non-disputed cases were detached to public notaries so as to alleviate the problem. Procedures for resolving insolvency are also very slow, with low recovery rates. Corruption within the state sector remains present, but it is not widespread. It is mostly concentrated in public procurement. The new law on public procurements will expectedly increase their efficiency, introducing the economically most efficient offer as the prioritized one in determining the outcome of the bid. The cadastre service improvement has been a process, underway for some time now, aiming at improvement of the situation regarding proprietorship of real estate and at strengthening the property rights. Land Registry Courts are inefficiently slow, burdening the process of property registration. High real estate transfer tax also poses a burden. Property rights over land and over buildings are separated, which creates complex situations. Acquisition of agricultural land for foreign nationals is restricted, although this does not apply to EU nationals. But, the land can be leased or obtained via legal entity registered in Croatia. There are some restrictions on foreign ownership or control in several industries in the country, the most important ones being in transport and freight sectors, as well as in publishing, education and broadcasting.

Size of Government: Expenditures, Taxes, and Enterprises : 4.91

Size of government in Croatia is excessive. General government consumption reached 48% of GDP in 2016, which is more in line with advanced EU countries than with those at a comparable level of development. Croatia is one of the countries that experienced several recession waves since 2008, now with a solid growth reaching 2.9% due to a good tourist season, growing consumption and rise in investments. High public deficits during previous years accumulated a huge debt, reaching 84% of GDP in 2016, but which was finally put on a downward path. Due to previously recorded high deficits, Croatia was put under the Excessive Deficit Procedure of the European Commission in 2014, with the aim of curbing the deficit below the Maastricht criteria. Current positive fiscal results made the EC issue a recommendation for Croatia's early exit from the EDP. SOEs in the country are still numerous - more than 400 active companies - in many sectors, not confined just to public utilities or transportation. These companies more often than not suffer from inefficient and politically appointed management, with inefficient operation, thus posing a drain on public finances. Ongoing tax reform has slashed taxes on income, decreasing the corporate tax rate from 20% to 18% (with even lower rate, of 12%, for SMEs) as well as the progressive personal income tax rate from 25% to 24% and from 40% to 36% (for the highest earners). The lowest rate of 12% was not reduced, but tax deduction was raised by almost 50%. VAT is set at a very high level of 25%, the highest one allowed in the EU, with lower rates for certain products, of 13% or 5%. The reform raised VAT for hospitality and tourism from 13% to 25%, while the rate was in like manner lowered for electricity. High social contributions, coupled with income tax, lead to a high labour tax wedge, higher than the OECD average.

Regulation of Credit, Labour, and Business : 5.38

Business environment in Croatia is not really considered as entrepreneur-friendly. Partial treatment by government officials remains a problem, while corruption, although not omnipresent, is still widespread. Starting a business takes some time, with high notary fees and paid-in minimum capital. Getting electricity also incurs high cost, due to high fees by the public utility company HEP. Otherwise it is a streamlined and rapid procedure. Obtaining a construction permit is both slow and expensive, with as many as 18 necessary different procedures. Although taxes are mostly administered online, tax regulations are also considered complicated and difficult to implement in practice, with a high number of annual payments. Para-fiscal surcharges are widespread in the economy, contributing to a high tax burden. Little progress has been made in easing licensing restrictions for professional services, and these barriers bar entry to many professions. The educational system, as in many other countries of the region, is inefficient, providing little human capital accumulation, which is especially visible in the field of adult education. Labour code has been amended several times now, which increased labour market flexibility. The latest changes, as of 2014, introduced flexible working hours, eliminated maximum duration of fixed-term contracts and redundancy obligations. But they did not lift all remaining rigidities, since the duration of notice periods and severance pay package increased with the years in tenure, protecting seasoned workers, while fixed contracts have still been prohibited for permanent tasks. Collective bargaining is mostly concentrated in the public sector industries. The biggest obstacles to a more entrepreneurial friendly environment are inefficient government bureaucracy, policy instability and tax regulations.

Freedom to Trade Internationally : 8.74

Freedom of international trade is mostly respected in Croatia, as a member of the World Trade Organization since 2000 and of the European Union since 2013. Therefore, it has mostly liberalized its trade, through implementation of the common EU trade policy. Tariff rates are overall low (average applied one is 5.2%), whereby more pronounced only for agricultural products. However, imported goods` standardization, or other regulation, continues to pose impediment to free trade. Efficient customs office does not burden import and export process with complicated procedures. The quality of road and port infrastructure is satisfactory, but the railroads that are operated by the public company are in a worse condition, creating considerable bottlenecks, hindering trade and elevating freight costs. Main Croatia`s trade partners are EU member states of geographical proximity, or neighbouring Central Europe Free Trade Area (CEFTA) countries: Italy, Germany, Slovenia, Serbia, and Bosnia and Herzegovina. Trade with CEFTA countries is now conducted under respective Stabilization and Accession Agreements. Controls on the flow 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 (HRK). Croatia is expected to join eventually the Schengen Area and the Euro-zone, which is expected to further liberalize flows of people and capital. For that, there are still no clear deadlines set.