

SPRING 2017 REFORM BAROMETER – CROATIA

European Semester - Overall assessment of 2016 cycle

	To what extent do you agree with these statements:		Detailed comments
1.	The National Reform Programme submitted by your Government (February/November 2016) is appropriate.	To some extent	Major weaknesses of the 2016 NRP are insufficient and lack political courage, ambition and determination to achieve radical change in many critical reform areas such as public administration, public services, judiciary, transformation of public utility companies and the privatization of the state portfolio. The proposed measures neglected the size and dynamics of catastrophic demographic trends in Croatia which have become a very serious economic, social and political threat and risk.
2.	The Commission's country specific recommendations for your country are appropriate.	To a large extent	State budget cost cuts are largely down in the most of 2016 to a temporary financing regime, followed by spending freeze in subsidies, material costs and public capex due to a political deadlock, effectively anchoring spending, despite the lack of the reform content on the expenditure side of the budget.
3.	The Commission assessment of reform implementation the year before is appropriate.	To a large extent	During the political vacuum in 2016, many strategic state companies delayed obligatory restructuring plans or/and efforts or investments without political consequences. The depoliticization of management of the huge state portfolio, as well as, transparent, efficient privatization should also be emphasized in measures. The measures related to better debt management resulted also in positive risks which include lower-than-expected interest rate expenditure and public capex as the Ministry of Finance is actively seeking cheaper (re)financing options.
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	Yes, absolutely	Both public and private debt levels, in particular corporate debt, are high. Private sector debt has also started to decline and, although within the threshold, it remains high in comparison to peer countries. Acceleration of writing-off and sell-off of a loan has recently brought about a reduction in non-performing loans, signalling an easing of credit conditions. The high unemployment rate is also falling, partly due to the rapidly shrinking labour force from an already low basis.



Assessment of Country Specific recommendations 2016 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1	Ensure a durable correction of the excessive deficit by 2016. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio. By September 2016, reinforce numerical fiscal rules and strengthen the independence and the mandate of the Fiscal Policy Commission. By the end of 2016, improve budgetary planning and strengthen the multi-annual budgetary framework. By the end of 2016, start a reform of recurrent taxation of immovable property. Reinforce the framework for public debt management. Adopt and start implementing a debt management strategy for 2016-2018.	Extremely important	Mixed	Budget deficit will slightly decline for the first time in 2016. Windfall gains have not been used for the reduction of the general government debt ratio. Taxation of immovable property is postponed for the year 2018. Comprehensive debt management strategy is still work in progress.
CSR 2	By the end of 2016, take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme. Provide appropriate up- and re-skilling measures to enhance the employability of the working-age population, with a focus on the low-skilled and the long-term unemployed. Consolidate social protection benefits, including special schemes, by aligning eligibility criteria and integrating their administration, and focus support on those most in need.	Helpful (but not a priority)	Unsatisfactory	There has been no further progress in measures to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme. The measures to enhance the employability of youth gave partial results.



		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 3	By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration to improve efficiency and reduce territorial disparities in the delivery of public services. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services. Advance the divestment process of state assets and reinforce the monitoring of state-owned enterprises' performance and boards' accountability, including by advancing the listing of shares of state-owned companies.	Important	Unsatisfactory	Public administration reform was announced at the beginning of the year 2016, but it didn't start. During the political vacuum in 2016, many state companies delayed obligatory restructuring and/or postponed investments without political consequences. No advance has been made regarding the monitoring of state-owned enterprises' performance and boards' accountability.
CSR 4	Significantly reduce parafiscal charges. Remove unjustified regulatory restrictions hampering access to and the practice of regulated professions. Reduce the administrative burden on businesses.	Extremely important	Satisfactory	The additional reduction and elimination of parafiscal levies by a minimum of 0.1% of the GDP is positive change and we expect full implementation by March 2017. Expanding SCM on all existing regulations in the field and results achieved is right step in right direction. Steps of liberalization of some regulated profession have been done.
CSR 5	Take measures to improve the quality and efficiency of the judicial system in commercial and administrative courts. Facilitate the resolution of non-performing loans, in particular by improving the tax treatment of the resolution of non-performing loans.	Extremely important	Satisfactory	There has been no progress in judicial reform. According CPT write-off of debts in accordance with the special legislation regarding bankruptcy is tax deductible. Also as a one-off measure for credit institutions during 2017, write-offs of partly recoverable and fully irrecoverable receivables recorded as at 31 December 2015 will be tax deductible.



Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

Taxation and Public Finances	Mixed
Business environment (regulation/access to markets)	Mixed
Labour market	Unsatisfactory
Innovation and skills	Unsatisfactory
Access to finance and Financial stability	Mixed

Reform priorities for 2017

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 1	Tax Reforms	Quality of the implementation of the accepted comprehensive tax reform.	yes
Priority 2	Business Environment - Regulatory barriers to entrepreneurship	Roll-out of the standard cost model (SCM) to new fields and implementation of regulatory guillotine.	yes
Priority 3	Sector specific regulation (telecom, energy)	Increase potential efficiency gains from the set of structural reforms including new population policy.	no
Priority 4	Consolidation of public expenditures	Increase fiscal stability, responsibility and accountability in order to exit EDP in 2017.	yes
Priority 5	Competition policy framework	Implementation of the new public procurement regulation, and new governance practice for public utility companies.	yes