

Croatia

1. Covid-19 Pandemic and National Recovery and Resilience Plans

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|-------------------|---|--|
| Question 1 | Based on early indications, how satisfied or dissatisfied are you with the way your country has started implementing the national recovery and resilience plan? | Satisfied |
| Question 2 | How satisfied or dissatisfied are you with the involvement of social partners in the implementation so far of your national recovery and resilience plan? | Dissatisfied |
| Question 3 | How confident are you that the European Commission will enforce strong implementation of the reforms in the national recovery and resilience plans across the EU? | Somewhat confident |
| Question 4 | How do you judge the overall economic policy response in your country over the past 24 months to the COVID-19 recession? (e.g. furlough schemes, tax deferrals, state aid schemes) | Very Good |
| Question 5 | How do you judge the overall economic policy response from the European Union over the past 24 months to the COVID-19 recession? (e.g. SURE, Recovery and Resilience Facility, single market) | Very Good |
| Question 6 | To what extent has the COVID-19 pandemic and recession led to scarring i.e. permanent structural damage to your national economy? | To a small extent |
| Question 7 | To what extent has the COVID-19 pandemic and recession led to scarring i.e. permanent structural damage to the EU27 economy? | To some extent |
| Question 8 | More specifically, how much lower do you expect GDP in your country to be in 2025 than would have been the case without the crisis? | GDP in 2025 expected to be 0,5 % lower than what would have been the case without the pandemic |

2. Assessment of Country Specific recommendations 2020-2021 in detail

| | | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments |
|-------|--|----------------------------|----------------------------------|--|
| CSR 1 | In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Enhance the resilience of the health system. Promote balanced geographical distribution of health workers and facilities, closer cooperation between all levels of administration and investments in e-health. | Extremely important | Mixed | The recommendation deals with "addressing the pandemic, sustaining the economy and supporting the ensuing recovery" + "pursuing fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment" as well as "enhancing the resilience of the health system", which is all extremely important; however, the reform effort of the Croatian government regarding this recommendation is mixed given that the resilience of the health system is significantly deteriorated. |
| CSR 2 | Strengthen labour market measures and institutions and improve the adequacy of unemployment benefits and minimum income schemes. Increase access to digital infrastructure and services. Promote the acquisition of skills. | Important | Mixed | While the government has managed to preserve jobs, the adequacy of unemployment benefits and minimum income schemes is questionable. |

| | | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments |
|-------|--|----------------------------|----------------------------------|---|
| CSR 3 | Maintain measures to provide liquidity to small and medium-sized enterprises and the self-employed. Further reduce parafiscal charges and restrictions in goods and services market regulation. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on environmental infrastructure, sustainable urban and rail transport, clean and efficient production and use of energy and high-speed broadband. | Extremely important | Unsatisfactory | There has been some support to small and medium-sized enterprises and the self-employed; however, in most cases it only dealt with preserving jobs and not other issues and costs that emerged due the Covid-19 pandemic. There is still room for reduction of parafiscal charges and restrictions in goods and services market regulation. As for the investments, it is still not clear what is promoted. The focus is entirely on the public sector, including the RRF funds, while private sector is in need for funds in order to foster digital and green transition. |
| CSR 4 | Reinforce the capacity and efficiency of the public administration to design and implement public projects and policies at central and local levels. Improve the efficiency of the judicial system. | Extremely important | Unsatisfactory | Some reforms have been announced but nothing has been implemented yet. |

3. Reform Progress in your Member State in 2020 & 2021

How would you assess reform progress in 2020 & 2021, for the following broad areas:

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

Is there any example of an economic reform, specific to your country that BusinessEurope could highlight in its 2022 Reform Barometer?

We need a modern labour legislation with more flexibility for both employers and workers to succeed in the dual – digital and green – transition of the Croatian economy. Labour force is an essential part of that, but also is the dynamism of the entire labour market. The negotiations about changing labour legislation (Labour Act), including the regulation of the remote work, started in the second half of 2020 but the process is rather stalled.

Related to the previous, namely, the lack of adequate workforce on the Croatian labour market needed for the dual transition (due to emigration, but also demographic ageing as well as inadequate education system) – additional income tax reliefs (including social security contributions) are needed in order for employers to retain existing and attract new labour force.

Finally, in order to achieve lower burden on the wages the reform of both the pension and health system is necessary, with the latter being a pressing issue on the agenda.

4. Reform priorities for 2022

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|--|--|--|
| Priority 1 | Making work-pay: interplay of tax and benefit system | Reduce the tax burden (including the social security contributions) on wages | No |
| Priority 2 | Job protection | Make job protection (of indefinite contracts) less strict, but also make working time and working arrangements more flexible in order to dynamize labour market and retain the qualified labour force | Yes |
| Priority 3 | Pension and health care reforms | Due to unsustainability of the current PAYG pension system a complete reform is needed in order to establish the optimal way of financing both current and future pensions (including the level of contributions for those employed) + it is essential to ensure the financial sustainability of the health system through functional integration of hospitals, establishing (cost-) efficient procurement procedure for health institutions and installing new management | No |
| Priority 4 | Public sector efficiency | Increasing the efficiency of the justice system by enhancing the Court Case Management System as well as improving of land register information system and cadaster | Yes |
| Priority 5 | Business Environment - Regulatory barriers to entrepreneurship | Alleviate the administrative burden on entrepreneurs through digitalisation and simplification of procedures | Yes |