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**Croatia 2010 PROGRESS REPORT**

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**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2010-2011**

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# COMMISSION STAFF WORKING DOCUMENT

## 2010 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on progress made by the countries of the Western Balkans region.

This report on progress made by Croatia on preparing for EU membership largely follows the same structure as in previous years. The report:

- briefly describes relations between Croatia and the Union;
- analyses the situation in Croatia in terms of the political criteria for membership;
- analyses the situation in Croatia on the basis of the economic criteria for membership;
- reviews Croatia's capacity to assume the obligations of membership, that is the *acquis* expressed in the Treaties, the secondary legislation and the policies of the Union.

This report covers the period from early October 2009 to the end of September 2010. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are being prepared or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of Croatia, the EU Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

The Commission has drawn detailed conclusions regarding Croatia in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

#### 1.2. Context

The June 2004 European Council granted the status of candidate country to Croatia. Accession negotiations with Croatia were opened in October 2005. The Stabilisation and Association Agreement between Croatia and the EU was signed in October 2001 and entered into force in February 2005.

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<sup>1</sup> The rapporteur for Croatia is Mr Hannes Swoboda.

<sup>2</sup> Enlargement Strategy and Main Challenges 2010-2011 (COM(2010) 660 of 9.11.2010).

### 1.3. Relations between the EU and Croatia

Croatia is participating in the Stabilisation and Association Process.

**Accession negotiations** with Croatia have continued and are now entering their final phase. Negotiations have been provisionally closed on 25 out of 35 chapters and remain to be closed on *competition; agriculture; fisheries; regional policy; judiciary and fundamental rights; justice, freedom, security; environment; foreign, security and defence policy; budget; and 'other issues'*.<sup>3</sup>

In December 2009, based on the Commission's recommendation, a working group was set up to draft the Treaty of Accession with Croatia. Work is progressing well.

The **political and economic dialogue** between the EU and Croatia has continued. Political dialogue meetings were held in Brussels in March 2010 at ministerial level. Economic dialogue took place in a bilateral meeting with the Commission and Croatian senior officials in June 2010. Moreover, the multilateral economic dialogue between the Commission, EU Member States and Candidate Countries in the context of the pre-accession fiscal surveillance continued, including a meeting at Ministerial level in May in Brussels. These meetings focused on the main challenges posed to Croatia by the Copenhagen political and economic criteria and reviewed the progress made towards fulfilling the Accession Partnership priorities.

Implementation of the **Stabilisation and Association Agreement (SAA)** has been mixed. Full liberalisation of short-term capital movements, which Croatia postponed in 2009 invoking the safeguard clause in Article 60(4), was achieved on 1 July 2010. With regard to State aid, the tendering procedure for shipyards in difficulty was completed in June 2010. However, Croatia adopted safeguard measures on some types of semi-hard cheese and cheese supplements, in breach of WTO procedures. The measures on cheese supplements were revoked in November 2009, whereas those on hard cheeses were confirmed and expired in January 2010. Certain tax provisions on coffee and coffee-based products have to be reviewed and amended. Croatia should also further liberalise its agricultural sector, in accordance with Article 29, to pave the way for integration into the EU internal market upon accession.

The EU is providing guidance to the authorities on reform priorities under the **Accession Partnership**. Progress on these reform priorities is encouraged and monitored by the SAA bodies. The SAA Council met in March 2010 and the SAA Committee in December 2009. Six sectoral sub-committee meetings have been held since November 2009. Based on the Accession Partnership, Croatia adopted its national programme for EU accession in early 2010.

**Financial assistance** has been provided under the Instrument for Pre-accession Assistance (IPA) since 2007. The 2010 IPA programmes totalled €154 million. This assistance is focused on institution-building and preparing for implementation of the EU's common agricultural

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<sup>3</sup> Negotiations have been provisionally closed on the following chapters: science and research; education and culture; enterprise and industrial policy; external relations; economic and monetary policy; intellectual property law; information society; trans-European networks; customs union; company law; statistics; free movement of workers; financial services; energy; consumer and health protection; right of establishment and freedom to provide services; social policy and employment; free movement of goods; public procurement; taxation; food safety, veterinary and phytosanitary policy; financial control; institutions; free movement of capital; and transport)

policy and cohesion policy. In addition, Croatia continued to benefit from regional and horizontal programmes, including an **IPA crisis response package** created in 2008. The country has taken significant steps to address weaknesses identified by the Commission in Croatia's management of pre-accession aid. These measures are meant to prepare the country for the next phase of decentralisation of management powers, namely the waiver of the EU Delegation's *ex ante* controls for IPA components I to IV. However, a track record of improved implementation is needed.

EU financial support has been provided for development of **civil society** under the Civil Society Facility. In addition, a €16 million contribution under the cross-border cooperation programmes with Italy, Slovenia, Hungary, Serbia, Montenegro and Bosnia and Herzegovina, combined with participation in European Regional Development Fund (ERDF) programmes, will promote dialogue with local and regional authorities. Croatia's participation in an increasing number of EU programmes (13) is also a valuable opportunity to put civil society dialogue into action.

Croatia participates in the following **EU Programmes**: 'Seventh Research Framework Programme'; 'Competitiveness and Innovation Framework Programme' (including 'Entrepreneurship and Innovation Programme', 'Information Communication Technologies Policy Support Programme' and 'Intelligent Energy Europe Programme'); 'Progress'; 'Culture'; 'Europe for Citizens'; 'Fiscalis 2013'; 'Customs 2013'; 'Interoperable Delivery of European eGovernment Services to public Administrations Business and Citizens' (IDABC); 'Civil Protection Financial Instrument'; 'MEDIA 2007'; 'Community action in the field of health'; 'Marco Polo II'; and 'Civil Protection Mechanism'.

## **2. POLITICAL CRITERIA**

This section examines the progress made by Croatia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

### **2.1. Democracy and the rule of law**

#### *Parliament*

Parliament functioned in accordance with its constitutional role. However, the capacity of parliament to scrutinise the legislative process needs enhancing. It adopted amendments to the Constitution necessary for progress in the accession negotiations.

The Presidential elections went smoothly and complied with OSCE standards. However, efforts are still necessary to address outstanding issues such as consolidating and harmonising the legal framework, reforming the election administration and updating the voter register.

#### *Government*

The government continued to function effectively, including after the Croatian Social Liberal Party (HSLP) left the ruling coalition in July. A number of cabinet reshuffles took place.

## *Public administration*

Limited progress can be reported with public administration reform, which is a key Accession Partnership priority. The legal basis for building a modern and professional civil service is still incomplete. The Law on salaries of local and regional self-government units has not been adopted. A unified approach to salaries throughout the county has not yet been introduced. A civil service registry still has not been put in place.

The revised General Administrative Procedures Act (GAPA) entered into force. Its aims are to support establishment of service-oriented and professional administrative practices and develop an administrative system based on simplified and transparent procedures. However, implementation of the GAPA is at an early stage and there have been delays in harmonising the various sectoral legal acts related to it.

The Law on administrative disputes was adopted and is due to enter into force on 1 January 2012. Closer coordination between the Ministry of Public Administration (MoPA) and the Ministry of Justice will be needed to ensure efficient implementation of the legal framework.

As regards the civil service, a human resources development strategy (2010-2013) and its associated action plan were adopted. The strategy envisages new methods for recruiting and retaining a sufficient number of qualified civil servants in the public administration. Preparation of the reform of the remuneration system in the public sector, including in agencies and institutions, has started. To identify inefficiencies, a detailed analysis of the functions of the public agencies is being prepared. However, the human resources strategy covers only civil servants and not all state officials at both central and regional levels, thus limiting the impact of the reforms. Significant further efforts in terms of adoption and implementation of underlying legal acts are required to establish a merit-based promotion and reward mechanism, to accelerate depoliticisation, decrease employee turnover and attract qualified personnel.

The capacity of public administration at central, regional and local levels to manage decentralisation reforms has still to be significantly strengthened. A decentralisation strategy remains to be developed. The role of the Local Democracy Academy in training local and regional government officials is to be further strengthened.

The MoPA, along with staff needed for EU accession, were exempt from the government Decision halting recruitment of new civil servants because of the economic crisis. However, the administrative capacity of the MoPA needs to be further improved so that it can implement efficiently the complex tasks related to public administration reform. Although new staff have been recruited in the MoPA and across the entire administration to prepare for EU accession, considerable structural problems of turnover and retention remain.

The role and effectiveness of the People's Ombudsman is being increased. However staffing is still insufficient. Greater attention need to be paid to the Ombudsman's recommendations to further enhance his role as an institutional counterweight defending the rights of citizens and combating maladministration.

Continuous training throughout the State administration was provided by the Civil Service Training Centre of the MoPA. However, enhanced capacity to fulfil its key role in improving the professional knowledge, skills and performance of civil servants is required.

Overall, limited progress can be reported on the public administration reform. In order to achieve tangible results, stronger political commitment and closer coordination between the key stakeholders at central, regional and local levels are required. Considerable further efforts are needed to finalise the legal framework and to implement it efficiently across the board.

### *Judicial system*

Implementation of judicial reform has continued, although the main expected results of the reform process are yet to be seen. The Ministry of Justice underwent a major reorganisation to make it more efficient.

Amendments to the Constitution along with a package of related legislation strengthening judicial independence have been adopted. As a result, the appointment procedure to the State Judicial Council (SJC) has been improved and it is now the SJC and no longer the Ministry of Justice which appoints Presidents of courts. The President of the Supreme Court will have greater control over court management, the five-year probation period for judges has been abolished and the Judicial Academy has been made independent of the Ministry of Justice and seen an increase in its staffing. A new selection procedure and improved criteria for selecting judges and prosecutors have also been introduced, including the establishment of a school for judicial officials.

However, the new system has yet to be tested in practice. The same applies to transitional criteria applicable until the first graduates from the school are appointed to judicial positions in 2013. Some criteria remain unclear and shortcomings remain in the functioning of both the SJC and the State Prosecutorial Council (SPC). Overall, it is important that these bodies demonstrate independence and accountability, especially when performing their key functions in the area of appointments, discipline and career management, so that effective self regulation of the judicial profession is assured.

Judicial efficiency has improved with the backlog of cases before the courts further reduced by 10%, including good progress on reducing the number of cases older than three years. The legal basis for a new system of administrative justice was introduced. However, the backlog of cases has been reduced unevenly across the various courts and overall remains high. Problems with enforcement of court rulings continue to hamper the efficient working of the judicial system. The handling of administrative cases continues to pose particular challenges. The infrastructure and equipment of courts, including case management systems, remains underdeveloped.

Croatia continued to try war crimes with approximately two dozen trials on-going in 2009/2010. A more balanced approach to trials has continued. More cases involving Croat perpetrators, including members of the Croatian armed forces, were pursued. The State Prosecutor continued reviewing potentially questionable *in absentia* verdicts from the 1990s. Measures have been taken to protect witnesses. There have been some attempts to remedy misapplication of the Amnesty Law in cases which could be considered war crimes.

However, impunity for war crimes remains a problem, especially where the victims were ethnic Serbs or the alleged perpetrators were members of the Croatian security forces. Many hundreds of cases remain to be investigated and prosecuted, despite recent action by the police and prosecutors. Problems persist in certain localities. Insufficient use is being made of the specialised war crime courts, although an increased willingness to use this possibility is evident recently. Where convictions are obtained, sentences in war crimes cases are, in

general, considerably lighter than those imposed for the equivalent underlying crimes not classified as war crimes. Work on reviewing questionable *in absentia* verdicts from the 1990s should continue.

Overall, the reform of the judiciary has continued, but significant challenges remain, in particular application of objective and transparent criteria for the appointment of judges and prosecutors, reduction of the case backlog, the excessive length of proceedings and enforcement of court decisions.

*(See Chapter 23 - Judiciary and fundamental rights)*

#### *Anti-corruption policy*

There has been good progress in the fight against corruption. Implementation of the anti-corruption strategy and the related action plan has continued. A specific anti-corruption programme for State-owned companies was adopted. Overall coordination of anti-corruption efforts has improved. The legal framework to combat corruption has been further improved. However, the anti-corruption sector is understaffed and further coordination and pro-active follow-up of implementation issues are needed. Legislation on prevention remains under-developed.

The Office for the Fight against Corruption and Organised Crime (USKOK) continued to be active and issued indictments in some important cases. The overall number of cases being handled by USKOK has increased, despite the lack of additional resources. USKOK has begun to investigate possible high-level corruption involving senior political figures. Other medium and high-level cases are under investigation and prosecution, often involving state-owned companies. The number of court verdicts has increased. The first high level cases are before the courts. The National Police Office for the Fight against Corruption and Organised Crime (PNUSKOK) was reinforced.

However, corruption is still prevalent in many areas. The recently upgraded legal and administrative structures have yet to be fully tested in practice, particularly the courts' ability to handle the increased number and complexity of cases. The administrative capacity of State bodies involved in the fight against corruption still needs improvement. The increasing number of cases has highlighted some deficiencies in PNUSKOK's and USKOK's capacity to deal with sophisticated financial crimes. A culture of political accountability for the corruption cases which are coming to light is lacking.

There has been limited progress in the prevention of corruption. The office of the commission for the prevention of conflicts of interest has been restructured to give the commission further independence from Parliament. Legal provisions have been introduced to depoliticise appointments to supervisory boards of state-owned companies. However, these measures are not yet operational. There has been limited progress in preventing conflicts of interest and legal sanctions remain weak. There has been no improvement in application of the legislation on access to information. Shortcomings remain in the financing of political activities and election campaigns, particularly regarding transparency and independent oversight. There is insufficient scrutiny of and transparency in the execution of public procurement contracts.

Overall, good progress has been achieved in the fight against corruption, which is receiving greater attention than in the past. However, corruption remains prevalent in many areas. A track record of effective investigation, prosecution and court rulings remains to be

established, especially for high level corruption. Preventive measures such as improved transparency in public spending need to be strengthened.

(See Chapter 23 - Judiciary and fundamental rights)

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

As for **ratification of human rights instruments**, Croatia ratified the European Convention on the exercise of children's rights.

The ECtHR delivered 24 judgments on violated rights guaranteed by the European Convention on Human Rights (ECHR) concerning Croatia. A total of 912 new applications were made to the ECtHR since October 2009. In September 2010, 1,437 cases against Croatia were pending before the **European Court of Human Rights (ECtHR)**. The Court continued to find violations regarding the right to a fair trial and length of proceedings under Article 6 of the Convention. It has also examined the length of enforcement proceedings. The ECtHR has found violations of Article 13 in cases of a lack of an effective remedy. Such cases involved local courts failing to issue verdicts following previous judgments on violations of the right to a fair hearing and length of proceedings at the higher courts. The ECtHR concluded that the remedies provided in the domestic legal system in the form of recourse to the higher courts were not effective in those cases.

The ECtHR has also found violations of Article 6 relating to access to court in cases of conflict of jurisdiction between municipal and administrative courts. The Court warned about the excessively formalistic approach taken by the administrative courts with regard to the applicant's human rights.

**As regards promotion and enforcement of human rights** the government continued to take various measures to raise public awareness of human rights issues. However, enforcement of rights continues to be compromised by the persisting shortcomings in administration of justice, especially the length of proceedings.

### *Civil and political rights*

With regard to **prevention of torture and ill-treatment and the fight against impunity**, the Ombudsman continued to receive numerous complaints about police treatment of citizens, including excessive use of force. Transparent procedures for establishing police responsibility and regulating police activities are still not in place.

As regards impunity, many war crimes are still unprosecuted, in particular those where the victims are ethnic Serbs. The issue of double citizenship in the region continues to create conditions for impunity. The amendment to the Agreement on mutual enforcement of sentences between Croatia and Bosnia and Herzegovina is a significant step towards reducing impunity: the convicted person's agreement is no longer necessary for a sentence delivered in one country to be executed in the other. Extradition agreements were signed with both Serbia and with Montenegro to allow extradition of their citizens who are indicted for certain serious crimes. These agreements are a significant contribution towards reducing impunity within the region. Their impact could be further increased in due course by extending such agreements to war crimes.

As regards **access to justice**, a new Law on Administrative Court disputes provides for introduction, with effect from January 2013, of four first-instance courts with full jurisdiction for the purposes of Article 6 of the European Convention on Human Rights plus a Higher Administrative Court. The Law on legal aid has been implemented with mixed results. Measures have been taken to simplify the procedure and to increase the fees for lawyers to take on legal aid cases. However, procedures remain complicated and the overall level of aid provided is low.

With regard to the **prison system**, legislation foreseeing a new system of probation from 2012 was adopted. However, Croatian prisons remain overcrowded and provide inadequate health protection.

**Freedom of expression**, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. However, editors and journalists continue to report undue political pressure. There has been limited progress with investigating threats against journalists working on cases of corruption and organised crime, with the notable exception of one prominent murder case. Problems with the independence of local media remain. The public broadcaster HRT continues to face serious managerial difficulties following several unsuccessful attempts by the HRT Programme Council to elect a new director of HRT. This is affecting HRT's functioning.

With regard to **freedom of assembly and association**, the overall situation is satisfactory.

**Civil society organisations** (CSOs) continue to play a prominent role in promoting and protecting human rights, democracy and minorities. The code for consulting the public in decision-making and the relevant by-laws and implementing procedures have been adopted. However, this has not led to significant changes, as CSOs tend to remain excluded from the policy-making process. Their participation in the legislative process is mostly non-obligatory and the new system for including the public remains vague. With a few notable exceptions, the analytical and financial capacities of CSOs for monitoring political developments and government decisions remain weak. The Ministry of Public Administration retains control over the registration and internal governance of foundations. Efforts remain to be done to ensure the independence and sustainability of CSOs.

There have been no particular problems with exercising the **freedom of religion**.

Overall, civil and political rights continue to be generally well respected in Croatia. However, shortcomings remain with impunity for war crimes, access to justice and freedom of expression.

#### *Economic and social rights*

There has been some progress with **women's rights** and gender equality. The institutional mechanisms for gender equality at central and local government levels have been established. The Ombudsperson for Gender Equality continued implementing the Gender Equality Act. The capacity of the office is currently being strengthened.

The legislative framework to combat family violence has improved. The Act on protection against domestic violence is being implemented. In general, the police continued to act appropriately in cases of family violence. There have been slight improvements in the work of social welfare centres. However, there has been an increase in the number of cases registered,

including the number of women killed as a result of family violence. Victims of family violence do not have sufficient access to information on their rights and entitlements.

The position of women on the labour market has not changed significantly. There has been a slight decrease in the percentage of unemployed women. However, unemployment amongst women remains high and there are still persistent gender wage differences. Widespread use is still made of fixed-term contracts for women on the labour market. Women continue to be under-represented in economic and political decision-making bodies. (*See Chapter 19 - Social policy and employment*)

There has been limited progress with **children's rights**. The Ombudsman for Children became more active in promoting and protecting children's rights, dealing with 2,217 new cases in 2009, predominantly on family violence and violence against children. Cases of violence in educational institutions continue to occur and are not properly addressed by the relevant authorities. Shortcomings in the judicial and social welfare systems, combined with the lack of programmes for prevention of violence, are continuing to have a negative impact on exercising children's rights. The Ombudsperson for Children lacks appropriate office space and staff to carry out its mandate. There was only a marginal budget increase in 2010.

There has been some progress on advancing the social inclusion of socially vulnerable groups and/or persons with disabilities. The capacity of the Office of the Ombudsman for Persons with Disabilities is being strengthened but needs to continue, notably in view of extending representation in the regions. There is, however, a lack of information on social welfare, health care and pension insurance rights and entitlements. Criteria for establishment of entitlements are not equally applied and legislation regulating specific rights is fragmented. The transition from institutional care to community-based care services has progressed slowly.

Public awareness of the rights of persons with disabilities remains low, especially in rural areas, and there are not enough campaigns against prejudice and stereotypes. Regulations ensuring physical access for persons with disabilities have been passed.

Children with developmental difficulties remain generally excluded from educational institutions. There is insufficient support in the form of access, transport and teaching assistants. Persons with disabilities still face discrimination in the labour market. The Professional Rehabilitation and Employment Act sets minimum quotas for employment of persons with disabilities. However, the quotas set are not met by the public sector. Persons with disabilities are even more marginalised in the private sector where employers lack information, in particular on existing incentives (*See Chapter 19 – Social policy and employment*).

People with mental health problems generally remain in psychiatric institutions which are not professionally regulated or adequately equipped. There is insufficient assistance to allow a greater number of patients to stay with their families or live independently.

With regard to **labour and trade unions rights**, the climate for social dialogue has deteriorated as a result of the economic crisis. (*See Chapter 19 – Social policy and employment*) Trade union organisations have temporarily suspended their work in the Economic and Social Council. Labour and trade union rights are still adversely affected by a weak labour inspectorate and poorly functioning judiciary.

Implementation of the new **Anti-Discrimination** Law has begun. Some steps have been taken to raise public awareness of the law. However, knowledge of its scope is limited among authorities and citizens and only a small number of discrimination complaints reach court. The People's Ombudsman still faces resource constraints to fulfil all new functions envisaged by the law.

There has been some progress with implementation of hate crime legislation. Awareness raising measures have been carried out and some cases initiated. However, there has been no conviction for the criminal offence of instigation of racial or other hate crimes. LGBT people have faced threats and attacks, with limited follow-up by the authorities.

**Property rights** are generally safeguarded. However, some cases of delayed repossessions and problems with compensation for use of private property taken under the war legislation from the 1990s persist.

Overall, legal protection for economic and social rights is largely guaranteed. However, implementation of women's and children's rights and protection against all forms of discrimination requires further attention.

#### *Respect for and protection of minorities, cultural rights*

There has been some progress with **respect for and protection of minorities, cultural rights**. High-level public expressions of commitment to the rights of minorities, reaffirming their place in Croatian society, have continued. A more positive focus on minority issues can be reported in a context of improved relations in the region, particularly between Croatia and Serbia. The revised Constitution now explicitly lists all 22 national minorities. Provisions of the constitutional law on the rights of national minorities on minority representation in parliament were strengthened. Training has been provided for the media and the police with the aim of improving the portrayal of minorities and raising awareness of the relevant legislation respectively. The Roma minority has continued to receive attention, with improvements in pre-school education in particular. The level of funding available for minority organisations has only been marginally reduced, despite the austerity measures.

However, many problems remain for minorities. Croatia needs to continue to foster a spirit of tolerance towards the Serb minority in particular and to take appropriate measures to protect those still potentially exposed to threats or acts of discrimination, hostility or violence. Minorities continue to face particular difficulties in the area of employment, in terms of under-representation in the State administration, the judiciary and the police and in the wider public sector. There has been no improvement in the level of employment of minorities in bodies covered by the Constitutional Law on the rights of national minorities. Monitoring of implementation of recruitment plans for national minorities has been weak. Legal provisions and programmes need to be implemented with more determination and adequate monitoring ensured, especially in the case of employment. The Roma minority still faces particularly difficult living conditions. Challenges also remain in the areas of education, social protection, health care, employment and access to personal documents.

Despite increased financial support, the councils for national minorities are not sufficiently recognised as advisory bodies by the majority of local authorities. They remain financially dependent on the local authorities, affecting their independence and influence. The statutes of certain local self-government bodies have not been aligned with the Constitutional Law. Little progress has been made with production and/or broadcasting of programmes for minorities in

their own language by public radio and TV stations, as envisaged under the Constitutional Law. With regard to cultural rights, the education provisions of the Constitutional Law and other laws relevant to minorities are generally continuing to be implemented satisfactorily. Negative stereotyping of national minorities in the media has decreased. The broadcasting of anti-minority slogans on national television during a football match highlighted the lack of a reflex to condemn such attitudes.

With regard to the **Serb minority**, there have been fewer reports of ethnically motivated attacks. However, cases of vandalism against monuments for war victims have been reported in 2010. Police investigations into such incidents have improved, although few cases end in prosecution. Many cases remain unreported for lack of confidence in the authorities. Members of the Serb minority, both returnees and those who remained in Croatia during the war, face difficulties gaining access to employment, especially in the war-affected areas. Discrimination continues, particularly in the public sector at local level.

As for the **Roma minority**, improvements in education, particularly in pre-school education have been made. Some infrastructure improvements to Roma settlements have continued. Problems remain, however, with participation by the Roma community in the education system, even when specific programmes are available. Segregation persists in some schools. Progress towards ensuring Roma children complete primary and secondary education has been modest.

Access to adequate housing, social protection and health care remain persisting problems for Roma. Unemployment remains extremely high, despite measures such as adult vocational training for young Roma women. The living conditions of Roma communities in some suburban areas need to be improved by providing adequate housing and infrastructure. Coordination between Roma groups remains limited, as does their expertise for effective implementation of measures in their favour. Many Roma still face the problem of unresolved status (residence and citizenship) which creates difficulties when it comes to provision of services, notably access to education, health care and free legal aid.

There has been some progress on the various outstanding issues regarding **refugees**. Refugees continued to return to Croatia, with the Croatian authorities having now registered over 132,600 returnees in total belonging to the Serb minority, which corresponds to approximately half of those who fled the country up until 1995. Some progress was made with regard to housing issues. The government met its self-imposed 2008 benchmark of providing 1,400 housing units to former occupancy and tenancy rights holders, partially by transferring cases to reconstruction programmes. A revised action plan has been adopted for faster implementation of the 2009 target of providing 2,070 accommodation units, with the aim of full implementation in 2011. Administrative monitoring has been improved, including with the involvement of the United Nations High Commissioner for Refugees. A purchase option under favourable conditions for housing care beneficiaries outside the areas of special state concern has been introduced. Progress was made with reconstructing damaged houses and with processing the substantial backlog of appeals against rejected applications for reconstruction assistance. Some 900 houses were included in the 2009/2010 programme. Implementation of the decision on validating pension rights has continued. Monitoring to address inconsistencies in implementation between different regional offices has improved.

However, many problems remain for refugees and returnees. Lack of housing remains a key obstacle to sustainable return. Progress towards meeting the 2009 benchmark has been delayed with implementation at around 31%. Moreover, 2-3,000 applications not covered by

the action plans have yet to be fully processed and housing units made available to returning refugees. Sufficient budgetary funding should be made available accordingly. Some 6,000 appeals for housing reconstruction are still pending. The current rejection rate of convalidation applications is still high at 44%. A more consistent approach by regional offices is required. Efforts to create the economic and social conditions necessary for sustainable returns of refugees need to be stepped up.

Overall, the position of minorities in Croatia is continuing to improve. However, many problems remain for the Serb and Roma minorities. Some progress was made on outstanding refugee return issues, but efforts to provide housing and ensure the sustainability of returns need to be accelerated.

(See Chapter 23 - Judiciary and fundamental rights)

### **2.3. Regional issues and international obligations**

Compliance with the **Dayton/Paris and Erdut Peace Agreements** has been ensured, overall.

Croatia continues to cooperate with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. This is a key Accession Partnership priority. Problems with access to important documents remain. The special task force set up by the government needs to continue its work to locate or determine the fate of missing artillery documents requested by the Office of the ICTY Prosecutor.

The Supreme Court confirmed the verdict in the Ademi/Norac war crimes case, the first ICTY trial transferred to Croatia. However, it reduced Norac's prison sentence, taking his war record as a mitigating factor, despite another separate conviction for war crimes.

Croatia's policy regarding the **International Criminal Court (ICC)** is aligned with the EU Common Positions on the integrity of the Rome Statute and related EU guiding principles.

Fresh impetus was given to the **Sarajevo Declaration process** following the ministerial meeting in Belgrade in March 2010. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia which agreed to work together to clarify refugee statistics. They also committed themselves to work towards solutions to a number of outstanding issues by the end of the year. However, there are a number of difficult issues, in particular that of occupancy and tenancy rights, which still need to be tackled with the objective of finding mutually acceptable solutions. The Sarajevo Process was initially launched through the Sarajevo Declaration of January 31, 2005. Bosnia and Herzegovina, Croatia, Montenegro and Serbia cooperate within this process to find solutions for refugees and other persons which were displaced as a result of the armed conflicts in ex-Yugoslavia 1991 - 1995.

In August 2010, a total of 14,631 persons were still missing as a result of the conflicts in the region. Of these 10,402 cases were related to the conflict in Bosnia and Herzegovina; 2,392 cases to the conflict in Croatia and 1,837 cases to the conflict in Kosovo according to figures provided by the International Committee of the Red Cross (ICRC). The process for solving these cases has been very slow. Only 110 cases per year have been solved in the past three years in Croatia. Solving the remaining cases within a reasonable time limit is essential for the reconciliation process. In Croatia, exhumations at known gravesites are still to take place. The number of unidentified cases remains high. More efforts need to be made in matters related to DNA analysis. The Commission on Missing Persons – a bilateral forum set-up between

Belgrade and Zagreb to deal with the issue – meets only irregularly. The fate of 1,024 Croatian citizens who are still missing from the 1991-1995 conflict remains to be ascertained.

**Regional cooperation and good neighbourly relations** form an essential part of Croatia's process of moving towards the European Union. Croatia continued to participate actively in regional initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement (ECAAA). The newly-elected Croatian President has been taking a pro-active approach to regional cooperation. He also participated, with his counterparts from Serbia and Montenegro and the Chair of the Presidency of Bosnia and Herzegovina in the summit of the Igman initiative, held in Sarajevo in May. This year marked the 10<sup>th</sup> anniversary of the initiative, involving more than 140 NGOs from the region and aimed at promoting and facilitating local and regional cooperation. Croatia participated in the EU-Western Balkans High-Level Meeting in Sarajevo on 2 June 2010.

**Bilateral relations with other enlargement countries and neighbouring EU Member States** are continuing to develop. Progress has been made towards settlement of the border disputes, which is a key Accession Partnership priority. Croatia has contributed to progress in tackling organised crime in the region, *inter alia* through amendments to its constitution allowing extradition of its nationals.

Croatia continues to have good relations with *Albania* and *the former Yugoslav Republic of Macedonia*.

Bilateral relations with *Bosnia and Herzegovina* remain stable and contacts have intensified. The Croatian President visited Bosnia and Herzegovina three times. A joint session of the Bosnia and Herzegovina Council of Ministers and the government of Croatia was held in June. Croatia and Bosnia and Herzegovina signed an amendment to the Agreement on the mutual enforcement of court decisions in criminal matters in February. The aim was to close the impunity gap and prevent citizens holding dual citizenship evade justice in one country by seeking the protection of the other. A bilateral agreement on police cooperation was signed in September. Some progress was made on border issues with the Inter-state Cooperation Council meeting in July for the first time in several years. However, there has been no progress on ratification of the 2005 Agreement on demarcation of the land and river borders, the Pelješac bridge project and the Agreement on use of the Port of Ploče. Other unresolved issues include property and refugee return and the lack of ratification by Bosnia and Herzegovina of the agreement on dual citizenship.

Croatia continues to have good relations with *Montenegro*. A bilateral extradition agreement was signed in September, enabling the two countries to extradite their nationals to each other for criminal proceedings or enforcement of prison sentences in cases of organised crime and corruption. A political agreement with Montenegro on joint submission of the Prevlaka border delimitation issue to the International Court of Justice has not yet been followed up by a formal agreement on the terms of the submission. Nevertheless, the temporary border arrangement, settled by the 2002 Protocol, is continuing to function smoothly.

Relations with *Serbia* have gained new impetus with the taking of office of the new Croatian President. There have been a number of meetings of the two Presidents and other senior officials. A Serbian parliamentary delegation visited Zagreb in February 2010 and a return visit was made by the Croatian parliament in June 2010. The Croatian President visited Serbia

in July 2010. Croatia and Serbia signed agreements on military cooperation and on inland water navigation. A Police Cooperation Agreement entered into force in May 2010. Croatia and Serbia signed an extradition agreement in June, enabling the two countries to extradite their nationals to each other for criminal proceedings or enforcement of prison sentences in cases of organised crime and corruption. The Inter-State Border Commission set up to delimit the border met again in April after seven years of inactivity. In December 2009, the Serbian government lodged a counter-suit against Croatia before the International Court of Justice on genocide allegations. The issue of missing persons is still problematic.

Diplomatic relations were officially established with *Kosovo*<sup>4</sup> and embassies were opened in Pristina and Zagreb respectively.

Croatia continues to have good relations with *Hungary* and *Italy*.

Relations with *Slovenia* have improved significantly, in particular following the signing of the Arbitration Agreement on the border in November 2009. Both parliaments have ratified the agreement. Contacts at the highest level have been on-going aimed at resolving other open issues. Concerning the Ljubljanska Banka/SFRY Succession Agreement (guarantee of foreign currency deposits), Croatia agreed to continue negotiations on the issue at the Bank of International Settlements in Basel.

Relations with *Turkey* intensified as a result of the establishment of regular tripartite meetings between Croatia, Turkey and Bosnia and Herzegovina, the first of which was held in January 2010.

*Overall*, Croatia is continuing to cooperate with the ICTY, although problems with access to important documents remain. Croatia is continuing to participate actively in regional cooperation. Relations with neighbouring countries have improved, although outstanding issues remain, in particular settlement of border disputes, property issues and returns of refugees.

### **3. ECONOMIC CRITERIA**

In examining the economic developments in Croatia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

Croatia is participating in the EU pre-accession fiscal surveillance procedure. The Pre-accession Economic Programme (PEP) for 2010-2012, submitted in January 2010, presented a sufficiently comprehensive and consistent macroeconomic and fiscal framework for economic policies. In April 2010, in response to the continuing recession, the government launched the 'Economic Recovery Programme' consisting of some fiscal measures and comprehensive structural reforms to be implemented over ten years. Broad political consensus on the

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<sup>4</sup> Under UNSCR 1244/1999

fundamentals of a market economy was maintained. *Overall*, consensus on the fundamentals of a market economy was maintained, but efforts need to be intensified to implement the necessary structural reforms.

### *Macroeconomic stability*

The global financial and economic crisis hit the Croatian economy most severely in the first quarter of 2009, when real GDP dropped 6.7% year-on-year. For 2009 as a whole, GDP declined 5.8% compared to 2.4% annual growth in 2008. GDP-per-capita in current prices rose to 43.2% of the EU-27 average in 2009 from 42.5% a year before. Private consumption fell sharply (from 0.8% growth in 2008 to a drop by 8.5% in 2009) and investments fell even more (from 8.2% growth in 2008 to a drop by 11.8% in 2009). In comparison, the deceleration of public consumption was relatively mild (from 1.9% growth in 2008 to 0.2% in 2009). As economies contracted worldwide, exports from Croatia suffered a sharp contraction (from 1.7% growth in 2008 down to -16.2% in 2009). The decline in imports was even more pronounced (from 3.6% growth in 2008 to a drop by 20.7% in 2009). As a consequence, the contribution of net exports to growth turned positive which offset much of the negative contribution from domestic demand. The decline in economic activity eased in the course of 2009, but output was still contracting in the first half of 2010. Real GDP is estimated to have been 2.5% lower year-on-year in both the first and second quarters of 2010. Similarly to GDP, the downward trend in industrial production started to flatten out in mid-2009 following a 10% decline in the preceding twelve months. In August 2010 industrial production was only 0.7% lower year-on-year. *Overall*, economic recovery had not yet taken hold by mid-2010 although the rate at which the economy was contracting had receded over the preceding twelve months.

The government launched the Economic Recovery Programme in April 2010 when incoming data showed that the economy was not yet recovering from the recession and fiscal trends were more unfavourable than expected. Apart from some fiscal measures, the programme is a package of structural reforms which seek to address the structural weaknesses of the economy and aim to create an environment encouraging sustainable economic growth. It encompasses basically all existing strategy papers and development documents and provides a new basis for economic policy in the country. The programme includes 131 measures in ten areas to be implemented over ten years. Among other things, it aims at reducing the number of public-sector employees, privatising state-owned enterprises and cutting non-tax revenue, but it also includes a vast number of measures in other fields such as labour market policy, education and science policy, social security, export and investment promotion, government asset management, environmental protection, etc. *Overall*, the contribution which the Economic Recovery Programme makes to improving the economy's growth potential and international competitiveness will depend on its effective implementation.

The current account deficit narrowed to 5.4% of GDP in 2009 from 9.2% in 2008. This was driven by an improving balance of trade in goods. Since the recession led to a stronger decline in imports than in exports of goods, the trade deficit in goods fell from 22.8% of GDP in 2008 to 16.3% in 2009. The trade surplus for services (mainly tourism and transport) declined from 14.7% of GDP in 2008 to 12.5% in 2009. The deficit in the income balance increased slightly, from 3.3% of GDP in 2008 to 3.9% in 2009. Like in 2008, this mainly reflects higher debt servicing costs in an environment of tighter external financing constraints and lower foreign revenues. In the first half of 2010, the current account deficit continued to narrow as imports of goods and services decreased by 6.6% year-on-year while exports increased by 6.2%. The recent turnaround in exports reflects the recovery in major export markets. In the 12-month

period to the end of June 2010 the current account deficit amounted to 3.1% of GDP. *Overall*, the current account deficit has been narrowing in the recession mainly as a result of lower demand for imported goods, but recently also thanks to rising exports.

Net capital inflows receded in 2009 and the first half of 2010 as a corollary of the declining current account deficit. Excluding changes in international reserves, they fell from 11.7% of GDP in 2008 to 9.2% in 2009. In the 12-month period to the end of June 2010 they amounted to 3.7% of GDP. This decline is to a large extent accounted for by a sharp fall in inward foreign direct investments (FDI), but borrowing abroad has also decreased, particularly in the first half of 2010. Inward FDI almost halved in absolute terms and, as a share of GDP, fell from 8.8% in 2008 to 4.7% in 2009. Outward FDI remained stable at 2.0% of GDP over the same period. While net FDI flows covered 74% of the current account deficit in 2008, this figure fell to 49% in 2009. The structure of FDI remained unchanged, i.e. dominated by equity investments, including some recapitalisations in the banking sector. In the first half of 2010, FDI inflows declined by 32.0% year-on-year. The total stock of FDI stood at €24.4 billion (around 54% of GDP) at the end of March 2010. *Overall*, in the context of a declining current account deficit, sufficient external financing was secured despite lower net capital inflows.

The heavy external debt burden continued to increase in 2009. The stock of external debt went up by €4 billion to €43.1 billion (excluding round-tripping transactions), equivalent to 95.0% of GDP compared with 82.6% at the end of 2008. The rise in external indebtedness was mainly driven by corporate borrowing, but the central government also increased its foreign debt by around €1 billion. The fact that the non-tradable sector accounts for around 40% of gross foreign debt remains a cause for particular concern. *Overall*, the high and growing level of external debt and the relatively large exposure of the non-tradable sector to currency risks remain key external vulnerabilities of the Croatian economy.

The average annual unemployment rate was 9.1% in 2009. The quarterly data from the labour force survey show that the unemployment rate started rising in the last quarter of 2009 and reached 12.4% in the second quarter of 2010, up from 8.7% in the third quarter of 2009. Data on the number of people registered as unemployed confirm this change of trend. This measure of the unemployment rate rose from 13.2% in 2008 to 14.9% in 2009 and stood at 16.4% in August 2010. Total employment was 4.8% lower year-on-year in the second quarter of 2010 according to the labour force survey. The Croatian labour market continues to suffer from major structural weaknesses, such as low employment and participation rates along with high rates of youth and long-term unemployment. The employment and participation rates declined to 56.6% and 62.4%, respectively, while the youth unemployment rate increased to 25.1% in 2009. The effective retirement age remained low and significant labour supply disincentives persisted, including generous early retirement rules and the predominance of categorical social welfare benefits. Employment has been negatively affected by Croatia's limited progress on improving incentives structures and the combination of flexibility and security in the labour market. As a result, labour turnover remained low, suggesting limited re-allocation of labour resources. Wage movements reflected the weakening of the labour market. Average gross wages still increased by 3.0% from 2008 to 2009, but then recorded a year-on-year decline of 0.6% in the first half of 2010. In real terms, average gross wages increased by 0.6% in 2009, but fell by 1.3% year-on-year in the first half of 2010. *Overall*, the labour market situation deteriorated significantly as a result of the recession. Major structural weaknesses persist in the labour market.

Monetary policy continued to be oriented towards a tightly managed kuna/euro exchange rate with little variability, but without a formal peg to the euro. This monetary policy framework anchors inflation expectations and reduces exchange rate-related credit risks in a highly euroised economy. Under the recessionary conditions of 2009, with intermittent upward pressure on the kuna, it allowed a slight easing of monetary policy. The central bank expanded domestic kuna liquidity in line with available foreign exchange resources. It released significant foreign exchange liquidity to the domestic banking system by removing the 12% annual credit growth limit and by relaxing reserve and liquidity requirements. The central bank intervened in the foreign exchange market on six occasions between October 2009 and July 2010 to counter appreciation pressures on the kuna, purchasing a total of around €869 million. Overall foreign exchange operations in 2009 increased gross international reserves by 13.8% to €10.4 billion at the end of 2009. Their rise continued in 2010, reaching €11.4 billion at the end of August which is equivalent to around seven months of imports of goods and services. The average daily exchange rate fluctuated within a relatively narrow range between 7.19 and 7.33 kuna per euro. *Overall*, the central bank has adopted an accommodative monetary policy stance during the recession, while maintaining exchange rate and financial stability.

The growth rate for domestic monetary and credit aggregates fell sharply in 2009. Growth of domestic credit to the private sector decreased from 10.5% in 2008 to -0.6% in 2009. Lending to private households was significantly lower (-2.9%) whereas lending to the corporate sector still increased (2.0%). These diverging trends continued in the first seven months of 2010. While loans to households remained stagnant, corporate loans showed a mild recovery with an annual increase of 5.4% at the end of July. Almost half of the recent increase in corporate loans was related to the government's programme to stimulate corporate financing through the State Development Bank (HBOR). Lending to the government sector has increased markedly. *Overall*, credit growth to private households has fallen to close to zero, lending to the corporate sector has shown signs of recovery, and the structure of credit has continued shifting towards government financing.

Average annual inflation fell sharply from 5.8% in 2008 to 2.2% in 2009. The disinflationary process was primarily driven by the growing slack in the use of resources transmitted to price- and wage-setting. Additional reasons were the collapse in oil prices between mid-2008 and the second quarter of 2009 and the worldwide decline in food prices. The slowdown in inflation in 2009 was mitigated by significant increases in the regulated prices for gas, tobacco products and medical services. Core inflation, as defined by the central bank, declined from 5.7% in 2008 to 2.8% in 2009. Notwithstanding a rebound in energy prices, disinflation has continued in 2010. The July readings of overall consumer price inflation and core inflation stood at, respectively, 1.0% and -1.4% year-on-year. *Overall*, inflation has practically vanished in the context of the prolonged recession.

Public finances continued to be under pressure from weaker-than-expected economic activity in the final months of 2009 even after three budget revisions earlier in the year. Although current spending was cut at short notice, the target for the 2009 general government fiscal deficit was missed by a wide margin (-4.1% of GDP compared with -3.4% in the third budget revision). Revenues continued to fall short of government projections in the first half of 2010 as the recession dragged on for longer than expected, forcing the government to increase its borrowing programme. The 2010 budget adopted in December 2009 had projected a general government fiscal deficit equivalent to 3.3% of GDP, but it soon became clear that the deficit would rise rather than fall compared with 2009. In addition to the prolonged recession, a number of fiscal measures adopted in the first half of 2010 were projected to have the net

effect of widening the deficit somewhat. On the revenue side, the 2% special crisis levy was lifted and tax rates were lowered, partly offset by the abolishment of numerous tax exemptions. On the expenditure side, several benefits were reduced (including privileged pensions and supplementary health insurance benefits paid from the budget). In view of the worsening fiscal outlook, a budget revision was adopted at the end of August, this time based on the assumption of a 1.6% decline in real GDP in 2010. The revised budget lowered projected revenues of general government by 4.5% of GDP and increased expenditures by 0.3% of GDP compared with the original budget. The projection for the general government deficit was raised by 1.9 percentage points to 5.2% of GDP. As part of the budget revision, excise taxes on tobacco and petrol were raised, increasing annual revenues by 0.15% of GDP. Furthermore, it was decided that total budget expenditures in 2011 and 2012 would not exceed the revised expenditure level for 2010. According to the latest data submitted by Croatia in September 2010, the stock of general government consolidated gross debt increased significantly from 29.3% of GDP at the end of 2008 to 35.4% at the end of 2009 and 37.0% in mid-2010. When outstanding state guarantees and the debt of the State Development Bank (HBOR) are included, the level of public debt amounted to 53.5% of GDP in mid-2010. *Overall*, the authorities made limited efforts to contain the continuing rise of the fiscal deficit. Weaknesses remain in budget planning, posing a risk that budget outcomes will continue to diverge significantly from budget projections. Ensuring medium-term fiscal sustainability remains a key challenge.

Limited progress has been made on rationalisation of public spending, which is a key Accession Partnership priority. Some further health reform measures have been adopted as a major step towards addressing the sector's financial difficulties. These include streamlining the hospital network and the supplementary health insurance system. No specific action has been taken so far to achieve better targeting of social support, but this is now planned under the Economic Recovery Programme. Some mandatory benefits have been reduced, but they still account for the large majority of social spending. A first step has been made on reforming the pension system with the adoption of a law on privileged pension reduction. *Overall*, apart from some key measures to reform health care, little progress has been made towards increasing the efficiency of public spending.

Implementation of a comprehensive treasury reform strategy has continued with a view to further improving expenditure management and budget control systems following the entry into force of the 2008 Budget Law which has improved the legal basis for strategic and multi-annual budget planning. Progress continued on enhancing the institutional and analytical capacity for setting up medium-term macroeconomic and fiscal frameworks. However, further progress on streamlining procedures is needed to link the policy priorities set to the budget planning process more effectively. The fiscal notification was submitted in April 2010, but little progress was made towards bringing this reporting more in line with ESA95 standards. Fiscal transparency remains a concern, due to the non-inclusion in the general government accounts of some quasi-fiscal operations (the State Development Bank and the Motorway Company) and a large number of municipalities. *Overall*, analytical and institutional capacity on public finance has continued to improve, but strategy-based budget planning needs to be strengthened further.

Overall, the short-term macroeconomic policy response has, by and large, been appropriate to address the domestic consequences of the global economic and financial crisis. Within the constraints ensuing from the high degree of euroisation, monetary policy succeeded in preserving exchange rate and financial stability while alleviating liquidity pressures. Fiscal policy has, to a limited extent, tried to contain the negative budgetary consequences of the

recession. To achieve medium-term fiscal sustainability, key challenges remaining are to improve the budgetary process and discipline and to enhance the efficiency of public spending.

#### *Interplay of market forces*

Privatisation of assets held under the State Privatisation Fund made only limited progress. As regards the shipbuilding sector which generates revenues equivalent to about 2.5% of GDP, a restructuring and privatisation is ongoing (*see also Chapter 8*). The only significant privatisation executed in the reporting period was the sale of a food-processing enterprise. A number of calls for tenders have not been successful, partly due to lack of interest among potential investors and, in some cases, rather unrealistic sale conditions. The portfolio of the Privatisation Fund still comprised 768 companies, with the state keeping a majority holding in 79 of them. The overall size of the Fund's portfolio has remained virtually unchanged. Since the remaining holdings of the Fund consist predominantly of highly indebted and loss-making companies, finding strategic partners is a lengthy process, requiring several stages prior to declaring bankruptcy or liquidation. However, adoption of the Economic Recovery Programme and the transfer of all the state's minority share-holdings (below 25%) to the Privatisation Fund should help to speed up the privatisation process. Also, some initial steps have been taken to restructure the Fund into a new Property Management Agency that would combine and ensure better management of all state property. The private sector's share of employment has remained at around 70% and its share of GDP is also estimated at around 70%. *Overall*, very limited progress has been made towards reducing the large role of the state in the economy.

#### *Market entry and exit*

Company registration procedures were further simplified in November 2009. Nevertheless, preliminary data indicate that the number of newly registered companies declined by 14% in 2009 year-on-year and the number of active businesses remained practically unchanged compared with a 12% growth rate in the preceding year. The regulatory impact assessment authority came into operation in late 2009 and a set of measures to improve the investment climate have been adopted as part of the Economic Recovery Programme. The investment climate, however, still suffers from difficulties in obtaining necessary licences, building permits and other authorisations. In addition, a large number of para-fiscal taxes at national and local levels still burden entrepreneurs although some of them have been reduced in tourism, forestry and the cultural heritage sector. The business environment also continues to suffer from inefficiencies in the public administration. Foreign direct investment is held back by the various shortcomings in the business environment. *Overall*, further progress has been made on simplifying company registration, but the investment climate continued to suffer from a heavy regulatory burden and numerous para-fiscal taxes. Improving the business environment remains a key Accession Partnership priority.

#### *Legal system*

Further progress was made in speeding up court procedures. However, the length of proceedings before the courts remains generally excessive and problems persist with enforcement of court decisions. The weaknesses of the judicial system continue to undermine effective enforcement of creditor and property rights. Land registration has improved, but remains incomplete in parts of the country. Investors still suffer from lengthy procedures to register property. Corruption is being tackled more vigorously but still affects the business

environment. *Overall*, the judicial system has been improved although the enforcement of property rights is still weak. The business environment is also affected negatively by other remaining inefficiencies.

### *Financial sector development*

The financial sector continued to be dominated by banks which held around 77% of total assets of financial intermediaries in 2009. The banking sector is almost completely privatised with 91% foreign ownership in terms of net assets. Out of 32 banks (down from 33 in the previous year following the merger between two banks), two remained state-owned. The market share of the four largest banks remained at around 65% by March 2010. Market concentration has remained at a moderate level and has generally not hindered market competition.

Banking sector assets continued to grow, but at a slower pace, and the structure of assets changed considerably. This is due to a reduction of banks' foreign assets and reserves with the central bank, as a result of regulatory changes. Lending to the private sector slowed, particularly to households, reflecting lower demand and higher risk awareness on the part of banks in the context of the global financial crisis. However, lending to the government sector increased strongly, more than offsetting the overall decline in lending to the private sector and resulting in 2.3% growth in total bank lending over 2009. In terms of GDP, total bank lending rose from 72.1% at the end of 2008 to 75.8% at the end of 2009. In the first seven months of 2010, total bank lending increased by 4.7% although lending to households remained almost stagnant. *Overall*, the largely private and foreign-owned banking sector remained the dominant part of the financial sector as a whole, with a moderate degree of market concentration.

The banking sector remained well capitalised as a result of previous prudential and supervisory measures to address potential macro-financial vulnerabilities. The capital adequacy ratio increased from 15.9% in mid-2009 to 19.2% in mid-2010. This was partly caused by the adoption of Basel II standards regarding the calculation of the capital adequacy ratio and partly a consequence of the relative shift in lending from the private to the government sector. The profitability of banks declined in parallel with business conditions and pre-tax income was 20% lower year-on-year in the first half of 2010. The share of non-performing loans increased significantly from 4.9% at the end of 2008 to 7.8% by the end of 2009 and 9.5% in mid-2010. At the same time, the banking system continued to face considerable interest- and currency-related credit risks as the majority of loans are based on variable interest rates and denominated in (or indexed to) foreign currencies, predominantly the euro. Developments affecting the stability of the financial sector have been kept under close watch by the central bank, which enhanced its institutional and analytical capacity to produce assessments of the stability of the sector. *Overall*, the banking sector remained relatively resilient to shocks, but significant risks are posed by largely un-hedged liabilities of the non-financial private sector.

The share of non-banking financial sector assets in total financial sector assets declined from 26% at the end of 2008 to 23% at the end of 2009. This was largely due to the poor performance of investment funds which suffered significant share price falls and cash withdrawals in the context of the global financial crisis. At the same time, leasing companies and the insurance sector gained in both absolute and relative terms. After losing almost 70% in 2008, the stock market index recovered by 16% in 2009. Over the first nine months of 2010 the index has declined by about 4%. Market capitalisation of shares listed on the Zagreb stock

exchange totalled 53% of GDP at the end of 2009 compared with over 100% before the financial crisis. Market capitalisation of all listed bonds rose from 10% of GDP to 11% in the course of 2009, as a result of a slight increase in bond prices and some new bond issues. *Overall*, notwithstanding the growth of some market segments, financial intermediation by the non-banking sector remained relatively modest. The stock market has only partially recovered from the sharp losses during the financial crisis.

### **3.2. The capacity to cope with competitive pressure and market forces within the Union**

#### *Existence of a functioning market economy*

The policy response to the global economic and financial crisis has, by and large, been appropriate. A prudent response by the monetary authorities and efforts, albeit limited, to contain the fiscal deficit have helped to anchor the expectations of economic operators and supported market mechanisms. The country has a functioning market economy.

#### *Endowment with human and physical capital*

Educational reforms have continued under the 2005-2010 development plan for the education system. Further steps were taken to improve the quality of education at all levels, including in the form of training of teachers. Additional efforts have been made to develop a national qualifications framework. Higher education has been further aligned with the principles of the Bologna process, although tertiary education generally continues to suffer from inefficiencies, poor governance and lack of funding. Further progress has been made towards developing a knowledge-based economy. The ICT infrastructure is relatively well developed, with high internet and broadband penetration rates.

The government continued to implement labour market policies on the basis of the National Employment Promotion Plan. Measures include training and employment subsidies for young people without work experience, the long-term unemployed, older persons and vulnerable groups. On top of this, a set of measures were adopted under the Economic Recovery Programme to make the labour market more dynamic. Some of these have already been implemented by May/June 2010, for example the introduction of a system of volunteering, apprenticeships, work practice and internships. However, structural problems persisted, as indicated by the high rate of youth unemployment and low employment and participation rates. *Overall*, in spite of various policy measures, structural weaknesses in the labour market remain major challenges.

Investment declined sharply in 2009 and in the first half of 2010, mainly due to a slowdown of construction activity. As a share of GDP, investment fell from 27.6% in 2008 to 24.7% in 2009. The decline in investments in processing and manufacturing industry has harmed the prospects for faster technological change, a more diversified production structure and higher export potential. Public investments slowed down a little, but remained significant, in particular in the motorway network. The largest share of cumulative FDI inflows is accounted for by the financial sector (37%), followed by manufacturing (25%) and wholesale and retail trade (16%). The long-standing shortage of greenfield FDI remains. *Overall*, investment declined in the context of the recession and continued to concentrate on transport infrastructure and the services sector.

#### *Sector and enterprise structure*

Restructuring the shipyards in difficulty is a key Accession Partnership priority. The tendering procedure for the yards was completed in May 2010. Implementation of the National Restructuring Programme (NRP) for the steel sector has been disrupted by the global economic crisis. Therefore, the NRP, as well as individual business plans, will have to be revised (*see Chapter 8*). Very limited progress has been made with restructuring the large loss-making railway company and privatising subsidiaries. Only two out of eight subsidiaries were privatised and one underwent bankruptcy procedures. The railways continue to receive high levels of budget support. *Overall*, although the tendering of the shipyards for privatisation has proceeded, considerable further work will have to be done by the state to restructure or liquidate the yards that are no longer viable. Sustained efforts are required to complete the restructuring of the steel industry and railways to ensure their long-term viability and competitiveness.

The telecommunications industry was further liberalised. The Croatian Telecommunications Agency continued activities aimed at stimulating competition by improving market access to new service-providers. This led to further price reductions and to a larger choice of tariff packages for customers. Liberalisation of the energy sector continued gradually and network rules for gas transport and distribution have been enacted. However, gas and electricity markets remain dominated by single suppliers, preventing effective competition. The restructuring of the large electricity company has not advanced. *Overall*, despite further legal and regulatory adjustments, competition in network industries remains constrained by dominant incumbent suppliers.

The already large services sector increased its share of total gross value added from 65.0% in 2008 to 66.0% in 2009, the share of industry fell from 20.2% to 19.1%, the share of construction decreased slightly from 8.3% to 8.0%, and the share of agriculture, forestry and fishing increased from 6.4% to 6.7%. While the share of construction in total employment remained practically unchanged at just below 9%, the share of industry declined from 21.6% to 20%. Agriculture's share of employment increased slightly from 13.6% to 14.1%.

In 2009, small and medium-sized enterprises (SME) accounted for around 40% of the corporate sector's total assets, 66% of total employment and 46% of total investment. SMEs generated 55.7% of GDP<sup>5</sup> and more than 42% of total exports. Except for investment where the share declined from 65%, those indicators remained virtually unchanged compared with the previous year. In order to support the SME sector, the government adopted an operational plan for 2010 and a set of measures under the Economic Recovery Programme. The State Development Bank (HBOR) was further strengthened financially to increase lending to SMEs on more favourable terms. Still, the sector continued to suffer from a cumbersome regulatory framework and inefficiencies in public administration. Access to longer-term financing remained difficult, particularly for newly established businesses. *Overall*, while the SME sector continued to benefit from significant government support, its share in the overall economy has not increased.

#### *State influence on competitiveness*

The role of the Competition Agency in monitoring and controlling state aid has been strengthened. Administrative capacity and enforcement of competition policy continue to improve. Public subsidies remained unchanged at the high level of 2.4% of GDP in 2009 and

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<sup>5</sup> Measured according to the Croatian definition of SMEs, this share is 44%, unchanged from last year.

a large share still went to loss-making companies. Although horizontal aid has increased relative to sector-specific aid, it still accounts for only a small share of total subsidies. *Overall*, state intervention in the enterprise sector remained substantial.

#### *Economic integration with the EU*

Croatia is an open economy with total trade in goods and services accounting for around 75% of GDP in 2009. This ratio declined significantly from 92% in 2008 due to the worldwide contraction of trade. Apart from exports of machinery and transport equipment (mainly ships), tourism remained the biggest source of export revenue, generating 14% of GDP in 2009. The EU has continued to be Croatia's largest trading partner. Its share of total Croatian exports and imports remained at around 60% and 63% respectively. CEFTA countries accounted for 10.5% of all Croatian trade in 2009, but this share decreased to 9.7% in the first seven months of 2010. Over this period, CEFTA countries generated 5% of total imports into Croatia and 18% of all exports from Croatia. Around 95% of FDI inflows originate from EU Member States. *Overall*, integration with the EU in the areas of trade and investment remained high.

The average nominal effective exchange rate for the kuna was 2.7% lower in 2009 than in 2008 mainly due to a significant fall in the average exchange rate between the kuna and the US dollar. However, since inflation was higher in Croatia than among its main trading partners, the nominal depreciation was not turned into a noticeable, if any, improvement in the international competitiveness of the Croatian economy. In annual average terms, the kuna's real effective exchange rate was 0.5% lower year-on-year when using consumer prices as deflator and 2.8% higher when using producer prices. Unit labour costs suggest a slight depreciation of the kuna in real effective terms in 2009. *Overall*, standard indicators point to no significant change in Croatia's international price competitiveness.

## **4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP**

This section examines Croatia's ability to assume the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses Croatia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises the country's overall level of preparations.

### **4.1. Chapter 1: Free movement of goods**

Good progress can be reported towards alignment on **general principles**. Croatia has almost completed implementation of its action plan for compliance with Articles 34 to 36 of the Treaty on the Functioning of the European Union (TFEU).

In the area of **horizontal measures**, good progress can be reported. Adoption of a revised Act on technical requirements for products and on conformity assessment further aligned the Croatian legislation with the *acquis*. Further improvements are necessary to align the Croatian legal framework fully with the new horizontal *acquis*.

As regards *standardisation*, good progress can also be reported. The Croatian Standards Institute (HZN) has transposed nearly all European standards (ENs). The HZN became a full member of the European Committee for Standardisation (CEN) and of the European Committee for Electrotechnical Standardisation (CENELEC) in January 2010.

In the field of *conformity assessment*, no further developments can be reported.

Good progress has been made in the area of *accreditation*. The Croatian Accreditation Agency (HAA) has so far accredited a total of 193 conformity assessment bodies. In April 2010, HAA became a signatory to the European Cooperation for Accreditation Multilateral Agreements (EA MLA) in the eight main fields.

Alignment with the *acquis* in the area of *metrology* is advanced. Collaboration has been set up between the State Office for Metrology and the new National Metrology Institute (NMI). Transferring responsibility for scientific metrology to the NMI remains the main outstanding issue in this field.

Regarding *market surveillance*, there has been further progress with the State Inspectorate's administrative capacity and enforcement measures. Activities on market surveillance have intensified. An e-register system is compulsory for inspectors. Training has been provided to inspectors. Alignment in the field of market surveillance is well advanced. However, further measures are still needed to fulfil all the market surveillance requirements of the *acquis*.

Overall, as regards horizontal measures, basic structures for harmonisation with EU legislation are in place.

There has been good progress in relation to the **old approach product legislation**, with the adoption of a number of regulations. As regards medicinal products, Croatia has continued to transpose the *acquis*. It has adopted implementing legislation establishing the procedures and criteria on price-setting, inclusion of medicinal products in the reimbursement lists and marketing authorisation. These ordinances, which entered into force in January 2010, provide for alignment with the procedural obligations imposed by the *acquis*. Further efforts are needed to achieve full alignment and implementation of the legislation (in particular in the fields of textiles, footwear, pre-packaging and aerosol dispensers) and proper implementation and to ensure the necessary administrative capacity.

Alignment with the **new and global approach product legislation** is well on track. Regulations have been adopted in many areas. However, further efforts are still needed, particularly on toy safety, machinery, recreational craft, non-automatic weighing instruments and eco-design requirements for energy-using products.

Some progress has been achieved on **procedural measures**, for which alignment is advanced. The Regulation on notification procedures in the field of standards, technical regulations and regulations on information society services was revised. This further transposed key elements of the *acquis*. A central contact point has been established within the Ministry of Economy, Labour and Entrepreneurship to facilitate cooperation between the ministry and other central State departments and operators. Alignment of procedural measures is advanced, but further efforts are still needed to transpose fully the *acquis* governing acquisition and possession of *weapons*.

### *Conclusion*

Good progress has been made in the field of free movement of goods. Alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary, particularly on conformity assessment, metrology and specific legislation on product safety. Croatia needs to complete alignment with the *acquis* and to strengthen its capacity in order to ensure effective implementation and enforcement of the *acquis* upon accession.

## 4.2. Chapter 2: Freedom of movement for workers

Croatia largely fulfils the *acquis* requirements on **access to the labour market**.

Continued good progress can be reported towards future participation in the **EURES** (European Employment Services) network. As regards services related to mobility and free movement of labour, the organisational structure of the Croatian Employment Service (CES) is being adjusted and administrative capacity strengthened. Various training activities – including on language skills – for EURES advisers have been organised. The CES is also intensifying the activities of its Migrant Information Centre. In this area, Croatia is well on track.

Good progress has continued in the area of **coordination of social security systems**. Further efforts have been made to strengthen the administrative capacity to apply the *acquis* in this field. An interinstitutional working group has been established Croatia is participating as an observer in the preparations for the EESSI project (on electronic exchanges of data under the new EU regulations) and has nominated a coordinator. Training is systematically provided to staff from the State administration. Preparations in this area are well on track.

Preparations are being made for introduction of the **European health insurance card** upon accession.

### *Conclusion*

Good progress has been made on this chapter. Additional efforts are needed to strengthen administrative capacity, in particular with regard to coordination of social security systems.

## 4.3. Chapter 3: Right of establishment and freedom to provide services

Limited progress can be reported on the **right of establishment**, as Croatia's legislation is largely already aligned with the *acquis*. However, several restrictions to the right of establishment, such as authorisation systems and the one-office-rule are still in place.

There has been little progress on **freedom to provide cross-border services**. Progress has been made on implementation of the Services Directive. In October, an action plan for implementation of the directive was adopted. Further work is needed to complete the exhaustive screening of national legislation in time. Sectoral legislation to complete alignment with the Services Directive remains to be adopted. More administrative resources need to be allocated to this task. Two additional staff were employed in the Chamber of Commerce to work on establishing the Point of Single Contact foreseen in the Services Directive. Work on administrative cooperation has been initiated and needs to continue. Progress on implementation of the Services Directive needs to be intensified. Croatian legislation still contains rules contrary to Article 56 of the TFEU.

Further progress has been made in the field of **postal services**, where alignment of the legislation with the *acquis* is well advanced. Implementing legislation regulating provision of universal postal services was adopted. In January 2010, Croatia further reduced its price limits and narrowed down the scope of the reserved area to items of correspondence (not more than 50 g), in line with the requirements of the Second Postal Directive. However, full alignment with the *acquis* (the Third Postal Directive) has not yet been achieved.

To develop Croatia's postal policy further and provide legal certainty, it is important to ensure coherence in the regulatory practice of the competent authorities. The Croatian Post, the designated universal service-provider, adopted a business plan, based on its strategic framework, aimed at preparing for full liberalisation of the market. The number of staff in the Postal Services Department of the independently financed Croatian Post and Electronic Communications Agency (HAKOM) and their professional qualifications are appropriate. Thanks to the interconnection between the Postal Services Department, the Legal Department and the Department for User Protection in HAKOM, the administrative capacity is satisfactory. However, additional training is necessary, in particular on separation of accounts.

Good progress has been made on **mutual recognition of professional qualifications**. The Act on regulated professions and recognition of foreign professional qualifications was adopted in October 2009. Amendments to the Legal Profession Act and the Ordinance on conditions to engage in activities not relating to direct exposure to dangerous chemicals were adopted, removing most of the remaining inconsistencies with the *acquis* in those areas. Good progress was made on the work on curricula for nurses. Professional and academic titles in the dental profession have been aligned with the *acquis*. However, further action is required to align the minimum training requirements for the remaining medical professions with the *acquis*. Amendments to the Midwifery Act and remaining adjustments to the Legal Profession Act have yet to be adopted. A national coordinator for the approximation with the professional qualifications directive has been nominated and the Agency for Science and Education was appointed as the national contact point.

### *Conclusion*

Progress has been made, in particular on mutual recognition of professional qualifications and on postal services. Overall alignment with the *acquis* is satisfactory. Increased efforts are required to complete alignment, in particular in the area of mutual recognition of professional qualifications, and to transpose the Services Directive. Further work is also needed to set up the Point of Single Contact. Work on improving administrative capacity needs to be continued.

## **4.4. Chapter 4: Free movement of capital**

Further progress has been made on **free movement of capital**, where Croatia's legislation is largely already aligned with the *acquis*. Restrictions remain on acquisition of agricultural land and land in protected nature reserves by EU nationals, on deposit transactions by residents abroad and on special government rights.

Croatia has abolished provisions of the Foreign Exchange Transactions Act regulating protective measures by the Croatian National Bank with effect from Croatia's accession to the EU. On 1 January 2010, Croatia liberalised transfers abroad, ranging from gifts and grants to transactions with derivatives, use of loans from abroad via accounts abroad, payments and collection in foreign cash, taking cash into or out of the country, transfers of materialised securities into or out of the country and transactions on foreign exchange markets abroad. Granting of short-term financial loans to residents was fully liberalised on 1 July 2010. The amendments to the Act on housing savings and State investment for housing savings removed the remaining discriminatory provision concerning use of assets in building societies. With effect from Croatia's accession to the EU, any physical person resident in Croatia will be allowed to be a building society depositor (and, consequently, recipient of a housing loan).

Croatia has further postponed liberalisation of deposit transactions by residents abroad until January 2011.

As regards the special government rights in privatised companies, Croatia has revoked the Law on privatisation of HEP (the State electricity company), including the provision allowing the State to retain 51% ownership of the company. However, the ‘golden shares’ which the government still retains in some privatised companies also need to be abolished by the date of accession.

Substantial progress can be reported as regards **payment systems**. The new Payment Systems Act and implementing legislation have been adopted. This legislation transposes the Payment Services Directive into Croatia’s national legislation. The act will come into force in January 2011, with the exception of the provisions regulating the functioning of the Croatian payment system as an EU Member State, which will apply with effect from Croatia’s accession to the EU.

Some progress can be reported on **anti-money-laundering** (AML) measures. The new Act on organisation of games of chance and other AML-related implementing legislation entered into force. Cooperation between the Croatian Financial Intelligence Unit (FIU) and reporting entities on supervision activities is now supported by detailed statistics. Joint training activities have been held with the reporting entities. Supervision and monitoring of anti-money-laundering obligations have been tightened up, but more needs to be done, especially outside the banking sector. Inter-agency cooperation has improved, but also still requires further strengthening.

### *Conclusion*

Further progress has been made as regards the *acquis* on payment services, liberalisation of capital movements and anti-money-laundering. Overall, alignment is advanced. Continued efforts are needed to complete liberalisation of capital movements and to consolidate the enforcement of the AML legislation.

## **4.5. Chapter 5: Public procurement**

There has been good progress as regards **general principles**. Under the Public Procurement Act (PPA), the relevant implementing legislation was adopted, largely aligning the Croatian legal framework with the *acquis*. Apart from Act on Maritime Domain and Seaports, all the necessary sector regulating acts have been adopted.

With regard to *administrative capacity*, the Department for the Public Procurement System (DPPS) in the Ministry of Economic Affairs, Labour and Entrepreneurship (MELE) has considerably improved inter-institutional coordination. This has ensured more efficient implementation of public procurement policy. The Strategy for the Development of the Public Procurement System is still being implemented successfully, based on an updated action plan. Transparent and timely exchanges of information and data with all registered procurement entities are ensured. Enforcement of the PPA is monitored by the DPPS to fight irregularities and prevent corruption. In July MELE signed with USKOK a co-operation agreement on exchange of information and training.

Good progress has been made on **award of public contracts**. Since 1 January 2010, at least one person who has completed a new specialist training programme and passed an exam on procurement must be involved in each procurement procedure exceeding a set value. An

intensive training programme covering public administration at central and local levels is under way. It is also open to economic operators and NGOs. However, the capacity of the contracting entities to apply the public procurement legislation correctly, efficiently and transparently needs to be further enhanced.

The capacity of the Ministry of Finance has been improved by developing and applying the relevant methods and regulating the definitions of concessions, calculations of contract value, fiscal impact and risk assessment. The Ministry of Finance continued to provide support to all concession donors. The concession registry is functioning well. The process of improving the overall performance of the Agency on Public-Private Partnership (APPP) continued. Implementing legislation and guidelines have been drafted for supervising, monitoring and facilitating evaluation, contracting and implementation of PPP projects.

The Central Public Procurement Office (CPPO) was established as a government office carrying out procurement tasks for central State bodies. The head of the office was appointed and recruitment of staff started. The CPPO published the notice launching the first centralised public procurement procedure. However, further efforts need to be made to achieve efficient operation of the CPPO.

Progress can be reported in the **remedies** system. The new Act on the State Commission for the Supervision of Public Procurement Procedures came into force in February 2010. The State Commission (SC) considerably improved its capacity to manage remedies on concessions and PPPs. However, the effectiveness of the remedies system is still hampered by the long delays in judicial review, by the Administrative Court, of decisions taken by the SC.

### *Conclusion*

Good progress can be reported, in particular on improving the capacity of the main stakeholders to coordinate and implement public procurement policy. The political commitment to the reforms needs to be maintained. The capacity to apply the implementing legislation and the methods and tools efficiently still needs to be further enhanced at all levels of the procurement system, including amongst economic operators.

## **4.6. Chapter 6: Company law**

There has been some progress in **company law**. Croatia's legislation is largely in line with the *acquis*. The Companies Act was amended to align the Croatian legislation with the Directives on mergers and divisions and on shareholders' rights. However, some inconsistencies remain in alignment with the Directive on shareholders' rights. The Amendments to the instruction on electronic communication between the Court Register and companies with limited liability (Ltd) allow on-line applications ('e-register'). Relevant departments within the Ministry of Justice remain understaffed.

There has been some progress in the field of **corporate accounting**. The legislation is largely in line with the *acquis*.

The Croatian Financial Reporting Standards Board updated the rules, in line with the latest International Financial Reporting Standards (IFRS). It continued to publish the translated versions of the International Accounting Standards, IFSR and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

There has been some progress in the field of **auditing**. The rules of procedure for implementing the Audit Act were adopted. Further steps have been taken to ensure the full functionality of the Audit Public Oversight Committee (APOC), as work on implementation of the Accounting Action Plan continued. The APOC signed a cooperation agreement with the Croatian Chamber of Auditors to exchange data on the audit profession and on quality assurance. The Public Oversight Implementation Plan and the Quality Assurance Implementation Plan were adopted. The Department for Financial Reporting in the Ministry of Finance, which is providing technical support to APOC, hired a third employee. Its overall resources have yet to be allocated.

The Quality Assurance Team (QAT) is understaffed due to budgetary constraints on the Chamber of Auditors, undermining the audit oversight system as a whole. The QAT has initiated on-the-spot visits to audit entities. Targeted full inspections are expected to start in 2011.

#### *Conclusion*

Overall, some progress can be reported in this chapter. Alignment with the *acquis* is on track. Further efforts are needed in the area of auditing to ensure that the new legal provisions are implemented and strengthen the administrative capacity.

#### **4.7. Chapter 7: Intellectual property law**

Croatia already largely fulfils the *acquis* requirements in the field of **copyright and neighbouring rights** and **industrial property rights**. However, public and government awareness of intellectual property right (IPR) protection remains low.

Good progress can be reported in the field of **enforcement**. The revised National Strategy for the Development of the Intellectual Property System for the period 2010-2012 and the relevant action plan were adopted in April. Important work has been done to formalise inter-agency cooperation on both strategic activities and operational enforcement. Croatia is continuing its work to develop enforcement statistics and the risk-analysis approach further. The Ministry of the Interior, the Ministry of Science, Education and Sports and the Croatian Academic and Research Network concluded a cooperation agreement on prevention and settlement of computer incidents and other forms of computer crime.

However, violations of intellectual property are a growing concern for the health and safety of consumers. Public awareness of those topics remains low. Involvement of organised crime groups in IPR violations is increasing. Measures are therefore required to strengthen the capacity of the police and prosecutors. The State Intellectual Property Office (SIPO) has good administrative capacity. However, the resources of the Board of Appeal, providing the right to appeal against first-instance decisions by the SIPO, need to be improved to prevent delays.

#### *Conclusion*

Alignment with the *acquis* has reached a very high level and progress can be reported with enforcement. Overall awareness of intellectual property rights remains to be strengthened, in particular with regard to the health and safety of consumers and the involvement of organised crime groups.

#### 4.8. Chapter 8: Competition Policy

Significant progress can be reported in the field of **antitrust, including mergers**. The new Competition Act adopted in June 2009 entered into force on 1 October 2010, empowering the Croatian Competition Agency (CCA) to impose fines and to conduct a leniency programme, thereby strengthening the agency's deterrent effect and enforcement policy, in particular against cartels. To protect the rights of defence, the Act introduces the obligation for the agency to submit statements of objection to the parties. It also makes decisions by the CCA subject to review by the High Administrative Court. The CCA needs further strengthening due to its additional tasks arising from the new Competition Act.

The CCA took 18 decisions in antitrust and merger cases, including six on agreements, two on a dominant position, eleven on concentrations and four opinions. The CCA has continued to provide the government with assessments of draft laws and other expert opinions. Preparations in the field of antitrust, including mergers, are well on track.

There has been some progress in the field of **State aid**. The CCA resolved 23 cases, of which 20 involved aid schemes and three concerned individual aid measures. More remains to be done on competition advocacy, particularly at regional and local levels. Legislative alignment is almost completed and the main procedural principles of State aid control are in place and in line with the *acquis*. As regards **state aid** in the transport sector, Croatia has published a decision establishing the main rules on State aid, in line with the *acquis*.

In October 2009, the Croatian authorities initiated the process of amending the Radio-Television Act. A draft was submitted for public consultation. Substantial comments were made by the CCA regarding the public financing to be received.

Croatia's steel industry faced difficulties due to the global economic and financial crisis. Production at the Željezara Split steel mill is still suspended. The Croatian authorities are currently seeking a new buyer for this mill. At the CMC Sisak steel mill, deviations from the original plan were observed, while at the same time new investments were launched. The national restructuring plan (NRP) and the individual business plans adopted by the government in June 2008 have therefore become obsolete and urgently need to be revised.

In the shipbuilding sector, Croatia has made substantial progress. The tendering procedure for the six yards was completed in May 2010 following a one-month extension of the deadline. The tender documentation was in line with the SAA State aid rules and the *acquis*. Bids were submitted for three yards. The restructuring plans presented by the bidders are being analysed by the CCA. Restructuring the steel and shipbuilding industries in Croatia is a key element of the accession negotiations in this chapter.

#### *Conclusion*

Significant progress has been achieved, in particular towards the privatisation and restructuring of the shipyards. Overall, a good level of alignment has been achieved. However, further efforts are still required to improve the CCA's enforcement record against cartels, to improve administrative capacity further, in particular in the area of antitrust, to complete alignment of the Croatian Broadcasting Act, to update the NRP for the steel industry and to adopt restructuring plans in line with the state aid *acquis* for the shipyards in difficulty.

#### 4.9. Chapter 9: Financial Services

Substantial progress can be reported in the field of **banks and financial conglomerates**. Croatia amended the Credit Institutions Act (which has entered into force) and the implementing legislation transposing the revised Capital Requirements Directive (CRD). It also transposed other relevant EU directives. The Deposit Insurance Act was further aligned with the *acquis*, by shortening the compensation periods with effect as of Croatia's accession. Croatia is monitoring changes to the CRD and preparing for transposition. Home-host supervisory coordination is continuously being enhanced. However, cross-sector cooperation and cross-border coordination for crisis preparedness and management require further strengthening. The Croatian National Bank (CNB) signed memoranda of understanding with Banque de France, the German supervisory agency (BaFin) and the financial supervisor of San Marino. A new memorandum with the financial supervisor of Montenegro facilitates cooperation between home and host supervisors. In response to the global financial crisis, the Croatian Agency for Supervision of Financial Services (HANFA), the Ministry of Finance and the CNB signed a memorandum of understanding on managing financial crisis. No progress can be reported with winding-up procedures, where alignment of the legislation is satisfactory. Overall, preparations in this area are well on track.

With regard to **insurance and occupational pensions**, further progress has been made in the field of insurance, reaching a high level of alignment with the *acquis*. Implementing legislation has been adopted in many areas. However, there are still minor inconsistencies in implementation of the EU legislation on life and non-life insurance. HANFA has put considerable effort into training insurance and reinsurance companies on implementation of the legislation, particularly on Solvency II issues. Preparations for transposition of Solvency II requirements have commenced. Some alignment of the implementing legislation has taken place in the case of pension insurance, regarding financial reports of pension funds and pension companies, investment criteria and limitations for pension funds and registration of insured persons in mandatory pension funds. However, further action is needed to complete alignment in this field, including with Directive 2003/41/EC regarding voluntary pension insurance. Amendments to legislation to complete alignment with the Institutions for Occupational Retirement Provision (IORP) Directive are still outstanding. Action is also needed to guarantee proper functioning of the insurance and occupational pensions markets.

No progress has been made in the area of **financial market infrastructure**. Croatia's legislation on such infrastructure is appropriate.

Some progress can be reported in the areas of **securities markets and investment services**, where alignment of the legislation is already very advanced. Croatia has adopted a substantial volume of implementing legislation. An IT application has been developed for transaction reporting for investment companies and for the register of prescribed information for issuers.

As regards administrative capacity, the CNB improved the capacity of the Prudential Regulation and Bank Supervision Departments by redeploying staff within the bank. It also introduced new IT support for monitoring and reporting on changes in EU legislation. The CNB organised a series of workshops with banks on implementation of the Credit Institutions Act. Measures to strengthen the administrative capacity of HANFA and its cooperation with foreign supervisors have continued. HANFA continues to be active in raising public awareness and training all interested parties (investors, police, State attorneys and journalists). Measures to enhance the administrative capacity of HANFA need to continue.

## *Conclusion*

Substantial progress can be reported on this chapter, both on alignment of legislation and on strengthening administrative capacity. However, further strengthening of the administrative capacity of the regulators is needed to improve their supervisory activities and consultations and cooperation with service providers on the financial markets.

### **4.10. Chapter 10: Information society and media**

Croatia has made significant progress with aligning its policy, legislation and regulations with the *acquis* on **electronic communications and information technologies**. Market analysis procedures and regulations are well advanced, including preparation of cost models and accounting separation imposed on dominant (SMP) operators. The switchover to digital television broadcasting has also been handled successfully and a full digital transition is planned for end 2010. However, in spite of the regulations in place, competition on the fixed broadband market remains limited. In June 2010, the fixed broadband penetration rate was 16%, with the incumbent holding 86% of the market. Mobile internet had grown to 6% by July 2010. The mobile penetration rate is steady at 136%.

The ‘crisis tax’ introduced in 2009 on mobile operators’ revenue remains in force. No analysis of its non-detrimental effects on market liberalisation has been published for public review, since the measure mostly affects the latest entrant on the market. Further progress has been made on strengthening the administrative capacity of the Croatian Post and Electronic Communications Agency. However, continuous training and management efforts are needed in order to develop the agency into a strategic player endorsing the policy goals of a level playing field. The agency’s role vis-à-vis operators needs to be reinforced. Work to increase the transparency of decisions is ongoing and needs to continue. Overall preparations in this area are well advanced. However, major decisions to increase competition still lie ahead, in particular on the internet broadband market.

Preparations in the area of **information society services** are nearing completion. However, it is necessary to continue to follow up EU policy developments closely, for instance regarding the safer internet programme. Information society policies need to be further integrated into all government policies. Political awareness needs to be further improved to identify the full societal benefits of the information society, including the need for faster competition in all segments of the market.

Good progress can be reported in the field of **audiovisual policy**, in particular with transposing the Audiovisual Media Services Directive. The Electronic Media Act entered into force and the Council for Electronic Media adopted four by-laws aiming to implement the Law. The Electronic Media Council has also been further strengthened. However, interference in the media landscape by economic and political interest groups persists. Anti-competitive State aid to the national broadcaster has continued. (*See Chapter 8 – Competition*) Both are harming liberalisation of services and development of the sector.

## *Conclusion*

Croatia has made significant progress and has achieved a high level of alignment with the *acquis* in this chapter. However, continued efforts are needed to strengthen the capacity of the two national regulators to apply the legal framework correctly. Political will and technical efforts are needed to sustain liberalisation of all segments of electronic communications markets, to yield tangible results in terms of development of the information society and to

promote competition on the broadcasting market and the independence of the public service broadcaster.

#### **4.11. Chapter 11: Agriculture and rural development**

Progress was achieved with regard to **horizontal** issues. Croatia adopted an agricultural policy framework for 2010-2013 on the reform of the national support system and further alignment with the common agricultural policy (CAP). Croatia's agricultural policy is based on a high level of coupled payments, in particular in the dairy sector and for cattle fattening, tobacco, pigmeat, sheep and goats. Croatia has adopted a Law on State support for agriculture to reform the current system. Croatia needs to step up efforts to achieve full alignment with the *acquis*.

Good progress was made towards setting up the *paying agency* and establishing an integrated administration and control system (*IACS*) including a land parcel identification system (*LIPS*) which are key elements for the accession negotiations in this chapter. Croatia adopted the plan for the establishment of the *IACS* (including *LPIS*) and the *paying agency* and made good progress in its implementation. Croatia needs to continue its efforts to have a fully operational *IACS* system and paying agency in place with effect from accession.

Progress was made on implementation of the farm accountancy data network (*FADN*). Additional human and budgetary resources need to be allocated to the *FADN*.

Good progress was achieved with regard to the **common market organisation (CMO)**. Croatia adopted the Act on the organisation of the market in agricultural products and an action plan for harmonisation with the CMO which is a key element for the accession negotiations in this chapter. Croatia needs to continue its efforts to have a fully operational system in place with effect from accession. Croatia adopted an implementation plan to establish a fully functional vineyard register by the end of 2010.

In the area of **rural development**, Croatia completed the SAPARD programme leaving half of the funds available to the country unused. Croatia started implementing certain measures under the Instrument for Pre-Accession for Rural Development (*IPARD*). Croatia needs to step up its efforts to improve absorption capacity for rural development funds.

Croatia is advancing on alignment with the *acquis* in the areas of **quality policy** and **organic farming**.

#### *Conclusion*

Overall, good progress can be reported in this chapter, in particular on establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. Croatia needs to undertake considerable efforts in all these areas in order to have fully operational and compliant systems in place upon accession. Efforts are also needed to align the agricultural support system fully with the *acquis*. Croatia needs to increase the absorption capacity for rural development funds.

#### **4.12. Chapter 12: Food safety, veterinary and phytosanitary policy**

Good progress can be reported on implementation of the strategy for transposition, implementation and enforcement of the *acquis* for food safety, veterinary and phytosanitary policy. As regards **general food safety**, Croatia has adopted implementing legislation based

on the Food Act aligned with the *acquis*. Croatia needs to continue strengthening its administrative and control capacity.

Good progress was made in the **veterinary** sector with the adoption of several additional pieces of implementing legislation, based on the fully aligned Veterinary Act. Croatia has recruited additional official veterinarians. Croatia needs to continue these efforts, in particular with regard to setting up border inspection posts and official controls.

Significant progress can be reported in the area of **placing on the market food and feed**. Croatia has adopted the national programme for upgrading establishments for food of animal origin and animal by-products. The number of non-compliant establishments continued to decrease. Croatia needs to continue implementing the national programme for upgrading establishments. In the area of **animal by-products (ABP)**, deficiencies need to be addressed, in particular for intermediate plants and for handling category 1 materials.

There has been progress in the area of **genetically modified organisms (GMOs)** with the adoption of implementing legislation relating to conditions for laboratories involved in testing, control and monitoring. In addition, the Law on GMOs and implementing legislation on monitoring of GMOs have been amended. Further efforts will be required in order to achieve full alignment. Laboratories and administrative capacity need to be further strengthened in order to implement and enforce the legislation.

Good progress continued on **phytosanitary** issues, with the adoption of several additional pieces of implementing legislation in the fields of plant health, plant protection, seeds and planting material and registration of varieties of agricultural plants. Croatia needs to continue these efforts, in particular with regard to setting up border inspection posts and training staff.

### *Conclusion*

Good overall progress has been made, in particular with the adoption and implementation of secondary legislation. Transposition of the *acquis* is well advanced in all sectors. Significant progress has been made through the adoption of the national programme for establishments upgrading food of animal origin and animal by-products. Continued efforts are required regarding the programme's implementation, as well as on strengthening administrative and control capacity, and setting up border inspection posts.

### **4.13. Chapter 13: Fisheries**

Croatia has made good progress in the areas of **resource and fleet management** and **inspection and control** which are key elements for the accession negotiations in this chapter. It has continued to implement legislation on landing declarations and sales notes. The fisheries monitoring centre (FMC) is operating and additional staff have been recruited. As for statistics, Croatia is nearing completion of its alignment with the *acquis* on collection and processing of fisheries data and statistics on fishing vessels. Registration of commercial fishing vessels is well advanced, but needs to be fully harmonised with the *acquis*. The installation of the satellite based vessel monitoring system (VMS) has not been completed yet. An entry-exit scheme is lacking. The administrative and technical capacity of the fisheries inspectorates is improving, but still needs further strengthening. This implies, in particular, recruitment and training of additional fisheries inspectors to carry out checks at the coast.

There has been good progress on **structural action**. Croatia designated the administrative bodies to implement the European Fisheries Fund which is a key element of the accession

negotiation in this chapter. Efforts are needed to finalise the national fisheries strategy. Croatia needs further to align **state aid** with the *acquis*.

Good progress can be reported on **market policy**. Collection of information on species, quantities and prices is continuing. Croatia made further progress on alignment with the *acquis* by adopting the Act on structural support and market organisation for fisheries which is a key element for the accession negotiations in this chapter. Greater effort is needed on establishing producers' organisations and aligning marketing standards.

In the area of **international agreements**, Croatia transposed and implemented all the recommendations of the International Commission for the Conservation of Atlantic Tunas (ICCAT) regulating catches, farming and trading. However, more effort needs to be made on adjustment of fleet and farming capacity.

### *Conclusion*

Croatia has made good progress in aligning with the *acquis* in the field of *fisheries*. Preparations are well advanced. Croatia needs to increase the efforts on implementation of the legislation, in particular with regard to fleet management, inspection and control and structural policy. Croatia also needs to follow up implementation of its international agreements.

## **4.14. Chapter 14: Transport policy**

Progress can be reported on **road transport**. Improvements have been made as regards implementation of the digital tachograph, which is now fully operational. In addition, inspection capacity has been enhanced, by providing specialised equipment and further training, and the number of inspections has increased. Croatia needs further to improve its administrative capacity for implementing the road safety policy, including social *acquis*.

Good progress has been achieved in the case of **rail transport**. The administrative capacity of the railway regulatory body has been increased. The Market Regulatory Agency is fully operational. Progress has been made with railway safety legislation. Safety training has been provided to employees of HZ Infrastruktura and the HZ railway undertakings. The safety authority and the accident investigation body have been established, but respective management bodies are not yet appointed and agencies are not yet functioning. Progress has been made with transposition and implementation of EU railway legislation. The functional separation between HZ Infrastruktura and HZ Holding is under implementation, based on the amended Railway Act. The rail market is fully open for Croatian undertakings only and rail access to the maritime and inland waterways ports is still only for the existing state-run railway. Since 2009, HZ Infrastruktura publishes the Network Statement and path application forms in Croatian and English.

There has been progress in the legislation on **inland waterways transport**, following Croatia's development plan for inland waterways (2007-2012). Croatia is participating in preparing the Danube Strategy and actively participates in the improvement of the Sava River development, in particular concerning alignment of river banks and other technical matters in close cooperation with the SAVA Commission.

In November 2009, Croatia adopted a new Law on **combined transport**, which needs to be revised slightly in order to comply with the *acquis*.

There has been good progress in the area of **air transport**. The Civil Aviation Agency is functioning well. Implementation of the first phase of the ECAA Agreement has been completed. In the air traffic management field Croatia has made good progress transposing most of the single European sky legislative framework and is participating in integration of the region's airspace into a functional airspace block and is participating in integration of the region's airspace into a functional airspace block. However, the Aviation Act needs to be amended and further action is necessary to ensure full alignment with the aviation acquis.

Good progress can be reported in the area of **maritime transport**. Implementation of the vessel traffic monitoring information system (VTMIS) is still in progress. Croatia is on the 'white list' of the Paris memorandum of understanding. Croatia made good progress regarding administrative capacity for maritime safety.

Croatia intends to take part in the Galileo **satellite navigation** programme made of European Navigation Overlay System (EGNOS) and Galileo.

### *Conclusion*

Further progress has been achieved and, overall, the level of alignment in this chapter is good. Additional efforts are still needed to implement and enforce the *acquis*. This applies, in particular, to continued implementation of the first phase and work on the second phase of the ECAA Agreement, completion of alignment of the aviation legislation and full functioning of the railway safety authority and accident investigation body.

## **4.15. Chapter 15: Energy**

Croatia adopted a new Energy Development Strategy for the period up to 2020 in October 2009.

There has been some progress in the area of **security of supply**. As regards the establishment of the mandatory 90 days of emergency oil stocks, Croatia has adapted its plan for security, formation and replenishment of mandatory stocks of oil and oil products and for storage and regional distribution thereof to bring it into line with the new Oil Stocks Directive. In May 2010, the oil stocks management agency signed long-term storage contracts for 480,000 m<sup>3</sup> of crude oil and 120,000 m<sup>3</sup> of petroleum products. These contracts will allow for the construction of new storage capacities in Croatia. The Croatian Regulation on the security of gas supplies was amended in December 2009 in order to define in more detail the measures for reducing or cutting natural gas supplies to individual customers in the event of a crisis. Implementing legislation on concession fees for gas distribution and for construction of the gas system has been enacted. In the area of security of supply, Croatia continues to partly meet its targets.

There has been some progress in connection with the **internal energy market**. Croatia has adopted joint auctioning rules with Hungary. The electricity and gas markets are still dominated by single suppliers. In July 2010, upon a governmental proposal, the Parliament dismissed the members of the board of the regulator (HERA), on the ground that HERA had undermined market stability by violating the principle of efficiency and economy that is to be applied in administrative matters. Croatia needs to strengthen the independence and powers of the regulator. The Croatian TSO delays the process establishing a regional coordination for capacity allocation and congestion management in electricity.

Some progress can be reported in the area of **renewable energy sources**.

The government adopted the National Renewable Energy Action Plan in June 2010, as foreseen under the new Renewable Energy Directive. Feed-in tariffs for electricity produced from RES and cogeneration have been amended. Implementing legislation on incentives for use of biofuels in transport has been enacted. Croatia will not meet its 2010 target for electricity production from renewable energy sources covered by incentives. The complex, lengthy administrative procedure is a disincentive to increasing investment in RES. Alignment of the legislation is advanced, but substantial efforts will be required if Croatia is to achieve its target of meeting 20% of final energy demand from renewable sources by 2020.

Progress can be reported in the **energy efficiency**. Implementing legislation on energy efficiency in buildings and the method for calculating energy savings in final consumption have been enacted. The government adopted the document on national cogeneration potential in January 2010. The first National Energy Efficiency Action Plan was adopted in April 2010. Alignment with the *acquis* is advanced.

Good progress has been made on **nuclear safety and radiation protection**. The Law on radiological and nuclear safety entered into force. The functions of the two regulatory authorities have been formally united under the State Office for Radiological and Nuclear Safety, yet the merger is not yet fully operational. In addition, the inspection functions are still assigned to the Ministry of Health and Social Welfare, which could call into question the independence of the regulatory body for radiation protection. The Euratom directives on public information and on shipment of radioactive waste and substances have not yet been transposed. No national emergency plan for nuclear accidents has been developed yet. Several regulations, in particular on medical exposure and occupational exposure, have not yet been implemented. Administrative capacity in this area needs strengthening.

### *Conclusion*

Further progress has been achieved and, overall, the level of alignment in this chapter is high. Additional efforts are still needed to implement and enforce the *acquis*, in particular to open the gas and electricity markets, on capacity allocation for electricity, and to meet the EU's targets for RES and energy efficiency. Furthermore, the administrative procedures related to RES need to be simplified. Significant efforts are needed to secure the administrative capacity and independence of the energy sector regulatory authorities.

#### **4.16. Chapter 16: Taxation**

Limited progress can be reported in the area of **indirect taxation**, as Croatia's legislation is largely in line with the *acquis*. However, further alignment is required in the field of VAT, notably on the scope of the reduced rates and of exemptions, free zones and special schemes, and in the field of *excise* duties with regard to duties on coffee and coffee products, and to chargeability of duty on coal, gas and electricity, minimum rates and small producers. The provisions applicable to car taxation have yet to be aligned with the *acquis*.

In the area of **direct taxation**, Croatia started preparations for the bilateral Savings agreements providing for the same measures as those in the Directive 2003/48/EC, to be concluded with the relevant Member States' dependent or associated territories. In this area, Croatia's legislation is largely in line with the *acquis*.

Some progress can be reported on **administrative cooperation and mutual assistance**. The personal identification is now mandatory for tax returns and for tax collection and refunds. The preparations for administrative cooperation and mutual assistance with Member States

are largely complete, including setting up the Central Liaison Office and the Excise Liaison Office.

Croatia has made good progress on **operational capacity and computerisation**. The preparations for developing the national application of the VAT Information Electronic System (VIES) and the Excise Movements Control System (EMCS v3) were completed. Full testing could take place once the network connection is activated. Further efforts are required to reinforce the IT capacity of the tax and customs administrations and complete the IT applications required upon accession.

#### *Conclusion*

Progress was made in this chapter, in particular on operational capacity and computerisation. Croatia's legislation in the field of direct and indirect taxation is largely in line with the *acquis*. Nevertheless, some further alignment is required, most notably in the fields of VAT and excise duties. Efforts to strengthen administrative capacity, including on IT interconnectivity, need to continue.

#### **4.17. Chapter 17: Economic and Monetary Policy**

Substantial progress can be reported on alignment in the field of **monetary policy**, which was completed by the amendment to the Constitution ensuring the full independence of the Central Bank.

Some progress has been made in the area of **economic policy**. The institutional and technical capacity for developing medium-term macroeconomic and fiscal frameworks is continuing to improve. The Pre-accession Economic Programme (PEP) for 2010-2012 presented a comprehensive and consistent macroeconomic and fiscal framework for economic policies. Due to the unexpected persistence of the economic crisis in the country, the relevance of the PEP as a core document for economic policy-making has significantly diminished. The government has developed a comprehensive Economic Recovery Programme setting out a medium- and long-term structural reform strategy. Implementation started in 2010 and is foreseen to be completed by 2020. A broad political consensus on the essentials of a market economy has been maintained. Fiscal reporting still needs to be brought in line with ESA95 standards.

#### *Conclusion*

There has been further progress in the area of economic and monetary policy and, overall, alignment with the *acquis* in this area is completed. However, policy coordination requires further improvement.

#### **4.18. Chapter 18: Statistics**

Good progress can be reported concerning **statistical infrastructure**. The number of employees at the Central Bureau of Statistics (CBS) increased slightly. Integration of the regional offices into the CBS took effect on 1 January 2010. The work of the regional offices is being reorganised. This Accession Partnership priority has been met. The objectives of the statistical master plan have, so far, been achieved. Cooperation with other official statistics providers has further improved and the exchange of administrative data has increased. A dissemination strategy has been adopted and is being implemented. The responsibilities of the CBS in the compilation of the Excessive Deficit Notification should be significantly increased

and CBS should have the leading methodological role in this exercise. Preparations in this area are well on track.

Good progress can be reported in the field of **classifications and registers**. The CBS has established a classification database. The NACE Rev. 2 classification of economic activities is in use. The coverage and quality of the business register has further improved. Preparations in this field are on track.

Good progress has been made in the **sector statistics**. The preparations for the next population and housing census are advancing well. As for social statistics, the first regular survey of income and living conditions was conducted. In the case of the national accounts, significant progress has been made. The organisation of tasks has been clarified and a detailed work plan exists. Work on establishing external trade statistics in accordance with the Intrastat system is well under way. In the area of short-term business statistics, new indicators have been produced. Statistics on industrial production (Prodcom), energy and transport now fully comply with the *acquis*. Substantial progress has been made in the area of agricultural statistics, in particular in the form of increased use of administrative data sources, statistics on orchards and vineyards and economic accounts for agriculture. In the field of science and technology statistics, further alignment with EU regulations has been achieved. Preparations in this area are well advanced.

### *Conclusion*

Substantial progress has been made on modernising the statistical infrastructure. Overall, a good level of alignment has been achieved. Efforts need to continue in order to align Croatian statistics fully with EU requirements.

## **4.19. Chapter 19: Social Policy and employment**

There has been good progress in the area of **labour law**. The new Labour Act entered into force. Alignment of the legislation is advanced, but needs to be completed. The Wage Guarantee Agency has become operational, but is not yet fully staffed. The liaison office for posting of workers within the Ministry of the Economy, Labour and Entrepreneurship (MoELE) has been established.

Progress has continued in the field of **health and safety at work** through consolidation of the capacities of the Occupational Health and Safety department of the MoELE, the State Inspectorate, the Institute for Health Protection and Safety at Work and the Institute for Occupational Health and Safety Insurance. The current number of labour inspectors dealing with health and safety still falls short of the requirements of the State Inspectorate Act.

With regard to **social dialogue**, there has been little progress. Some improvements can be reported in the voting system of the Economic and Social Council (ESC) and in the setting up of three sectoral councils. However, strengthening social dialogue within the decision-making process and in policy design remains a key question to be addressed. The climate of tripartite social dialogue has deteriorated during the reporting period, as trade union organisations considered that new legislation was not properly processed through this body. This resulted in a temporary suspension of their participation: the ESC has not yet resumed its work. The capacity of social partners remains weak. The representativeness criteria for participation of trade unions in collective bargaining have not yet been adopted. Preparations in this area need to continue.

Some progress has been made in the area of **employment policy**. The follow-up to the Joint Assessment of Employment Policy Priorities (JAP) is largely satisfactory. An ambitious Economic Recovery Programme has been adopted, which includes measures aimed at making the labour market more dynamic (*see Economic criteria*). The introduction of the flexicurity principle needs to be underpinned by mapping out a specific pathway. Structural weaknesses on the labour market such as the low employment rate persist. Improving the education system has received some attention, but initiatives on lifelong learning have not yet resulted in a strategic approach.

Good progress has been made in the preparations for the **European Social Fund**. The operating structure responsible for the Operational Programme for IPA component IV (human resources development) has been working well. Adequate training has continued. However, delays have been noted in recruitment of staff.

Some progress can be reported on **social inclusion**. The follow-up to the Joint Inclusion Memorandum (JIM) is largely satisfactory. Coherent monitoring and evaluation systems to assess policy reforms in this field need to be further developed. Progress in the field of administrative and fiscal decentralisation of social services remains limited. The transition from institutional to community-based care has continued at a slow pace, particularly for people with mental disabilities. The full impact of the economic crisis on poverty remains to be assessed, with children being the most vulnerable group. Adoption of the Social Welfare Act has been delayed further, without any clear justification.

The highest number of complaints received by the Ombudsman for *Persons with Disabilities* relate to entitlement to social rights. In the public sector, employment quotas are not met. Budgetary constraints are still preventing the Ombudsperson Office from strengthening its representation at regional and local levels.

Croatia made some progress in the area of **social protection**. Steps have been taken to equalise the pension age between men and women. More efforts to improve employment of older workers and to protect elderly without income are needed. The support ratio and the deficit of the public PAYG scheme worsened in the wake of the economic crisis. Croatia needs to continue a comprehensive health care reform. The social benefits reform to improve targeting of social spending is still pending.

There has been good progress in the field of **anti-discrimination**. The relevant directives have been transposed. However, some provisions require further alignment with the *acquis*, with regard to the exceptions to the principle of non-discrimination. Budgetary constraints and insufficient staff resources continue to limit the capacity of the Ombudsman to carry out the full range of tasks assigned by the Anti-discrimination Act. Monitoring of cases of discrimination has been established but needs fine-tuning. National minorities are still not proportionally represented in public bodies or services, including at local and regional levels. (*See Political criteria – Economic and social rights*)

Overall, there has been good progress in the field of **equal opportunities**. Alignment is well advanced, but needs to be completed in the case of the Act on maternity and parental benefits and the Act on occupational safety and health. Good progress was achieved on establishing the gender dimension in public policy and in anti-discrimination legislation. The capacity of the office of the Ombudsperson for Gender Equality is being strengthened. Progress was made on implementation of the national policy to promote gender equality for 2006-2010. As regards the labour market, considerable improvements have been made in compliance of job

vacancies with the Gender Equality Act. Awareness-raising activities on gender equality have continued. However, the conditions for employment of women are still unfavourable

### *Conclusion*

Overall, good progress has been made on this chapter and preparations are generally on track. There is a good level of alignment with the *acquis* and preparations are on course. However, some gaps remain in alignment of the legislation, notably on transposing labour law directives outside the scope of the Labour Act, and in the fields of anti-discrimination and gender equality. The Social Welfare Act remains to be adopted. Due attention should be paid to the functioning of social dialogue. Administrative capacity requires further strengthening.

#### **4.20. Chapter 20: Enterprise and industrial policy**

Some progress was made with regard to **enterprise and industrial policy principles**. Further efforts were made on implementation of enterprise policy principles, particularly of the Small Business Act for Europe. The government adopted a development strategy to promote entrepreneurship among women. Alignment of Croatia's definition of 'SME' with the *acquis* recommended definition is not yet completed. Further progress has been made in the area of business registration, especially in the form of introduction of the e-register online application but is not yet fully functioning.

Further to the decision on abolition of the Regulatory Impact Assessment Office, the government adopted a decree amending the structure and functions of the Government Legislation Office (GLO) which was appointed as the body responsible for regulatory impact assessment (RIA) in Croatia. The GLO has taken steps in order to be able to conduct professionally regulatory impact assessments.

Industrial policy measures were taken to alleviate the effects of the crisis. In April 2010, the government adopted the Economic Recovery Programme, which includes measures to improve the business environment and create a competitive economy (*see Economic criteria*). However, an assessment of the efficiency of measures in the existing industrial strategy was not done

In the area of **enterprise and industrial policy instruments**, Croatia has made some progress, mainly thanks to active participation in the EU's Competitiveness and Innovation Programme (CIP). Croatia participates in the Europe Enterprise Network.

There has been some progress in the field of **sector policies**, like in the shipbuilding industry, where the tendering procedure was finalised in May (*see Chapter 8 on both steel and shipbuilding*). Further work was carried out in the area of tourism, with the adoption of legislation implementing the Law on tourist boards and on promotion of Croatian tourism.

### *Conclusion*

Croatia made progress in this chapter, particularly with regard to policy principles and instruments. Overall, alignment with the *acquis* in this chapter is very advanced. Further sustained efforts need to focus on improving the business environment, by reducing the administrative burden, and on innovation and skills. Alignment of the definition of SME with the *acquis* needs to be completed. Efforts to restructure the steel and, particularly, shipbuilding industries need to be pursued.

#### 4.21. Chapter 21: Trans European Networks

There has been good progress with development of **transport networks**. Croatia has maintained active cooperation under the memorandum of understanding on development of the South-East Europe Core Regional Transport Network and has continued implementing the multi-annual development plan for 2010-2014 for the South-East Europe Transport Observatory (SEETO). Croatia made good progress on implementation of ISPA and IPA railway and inland waterway projects and has started to prepare the Transport Operational Programme for the Cohesion and Structural Funds.

In the case of **energy networks**, the new double 400 kV Ernestinovo-Pecs (HU) electricity line is currently operating on a trial basis. Construction of the Croatia-Hungary gas interconnector is in progress. Preparations for the Adria LNG terminal on the KRK island are continuing, however, the project sponsors decided before the summer to postpone the investment decision. Progress is being made on the construction of the gas transmission pipeline on the coast, towards the south (to Ploce), which is part of the Energy Community Gas Ring concept.

As regards the **telecommunications networks** Croatia is actively participating in the Information and Communication Technologies pillar of the Competitiveness and Innovation Framework Programme (CIP).

#### *Conclusion*

Croatia made further progress with development of its transport, energy and telecommunications networks in 2010. Alignment with the *acquis* has been completed.

#### 4.22. Chapter 22: Regional policy and coordination of structural instruments

Further progress has been achieved and the **legislative framework** necessary to ensure full compatibility of operations financed by the Structural Funds with EU policies and legislation is now largely in place. However, full implementation of the legislative framework at all levels needs to be ensured by further building up administrative capacity and by providing guidance documentation for those who need to implement the legislation.

Preparations in this area are advanced.

There has been progress with the **institutional framework**. Croatia has adopted advanced individual organisational development strategies for key organisations involved in management and implementation of cohesion policy. On the basis of these strategies, Croatia adopted the designation of the institutional set-up for managing structural instruments. Preparations in this area are advanced.

There has been some progress in the area of **administrative capacity**. An Institutional Development and Capacity-Building Strategy, including a career planning and salaries strategy for civil servants involved in management of EU funds, has been submitted to the Commission. In February, a decision was adopted to increase staffing by nearly 300 and step up training activities for IPA structures by the end of 2010. However, preparations for implementing the cohesion policy need to be significantly strengthened by enhancing administrative capacity and project preparation (especially on transport and the environment). Both the programming stage and setting-up of the institutional system under the IPA were accomplished well, but the track record of implementation under IPA so far is mixed, notably

due to limited administrative capacity in certain IPA bodies. Implementation of major projects is lagging behind, due to low quality of projects applications and tender documentation. To achieve a smooth transition from the IPA to the more comprehensive funding under the Structural and Cohesion Funds, further efforts are required to build up necessary expertise and ensure transfer of know-how between the relevant authorities. Commitment and ownership on the part of the line ministries, staffing and staff retention policy need to be enhanced. Preparations in this area are advancing.

Good progress has been made with **programming**. A Ministerial Commission on use of EU funds was established with top-level political participation. Croatia revised its National Strategic Reference Framework (NSRF), which is now an advanced and comprehensive document outlining the key priorities and expected results of cohesion policy assistance. In June 2010, Croatia embarked on public consultations on the NSRF. Drafts of operational programmes for structural funds and cohesion funds have been developed. Progress with preparing an adequate, mature project pipeline needs to be enhanced. Preparations in this area are fairly advanced.

There has been good progress in the area of **monitoring and evaluation** of the IPA operational programmes. Further advances have been made with setting up and operating the monitoring and evaluation system for the Structural Funds, including an electronic management and information system which is operational under IPA. Croatia is also using an IT tool (LOTHAR) to monitor absorption of funds. Preparations in this area are fairly advanced.

Some progress can be reported in the area of **financial management and control**. (*See Chapter 32 — Financial control*) The implementation of roadmaps to further strengthen financial management and control systems is continuing. Follow-up audits on IPA conferral of management confirmed that internal control procedures are broadly satisfactory. Croatia needs to build up its capacity in these fields. Preparations in this area are advancing.

### *Conclusion*

Good progress was made under this chapter, notably on preparing strategic documents and designating the institutions and mechanisms to implement the EU cohesion policy. Administrative capacity was further strengthened by recruiting and training staff. Croatia is at an advanced stage of preparations for cohesion policy and needs to complete its preparations by focusing on establishment of a mature project pipeline and absorption of funds.

## **4.23. Chapter 23: Judiciary and fundamental rights**

There has been some progress in the area of the **judiciary**.

There has been good progress as regards the independence of the judiciary, which has been strengthened through amendments to the Constitution and the laws on the state judicial council (SJC), the state attorneys offices and the courts. According to the new Constitutional provisions, the SJC will in future comprise eleven members, seven judges to be elected by peers, two law professors and two members of Parliament. Similar arrangements will apply for the State Prosecutorial Council (SPC). Other provisions further reduce the risk of political interference in the judiciary: the SJC rather than the Ministry of Justice (MoJ) will now appoint Presidents of courts, the President of the Supreme Court will have greater control over court management and the five-year probation period for judges is abolished. However, shortcomings remain in the functioning of both the SJC and SPC. Overall, it is important that

these bodies demonstrate independence and accountability, especially when performing their key functions in the area of appointments, discipline and career management, so that effective self regulation of the judicial profession is assured.

Progress was also made towards the introduction of uniform, transparent, objective and nationally applicable criteria for the appointment of judges and prosecutors. A completely new selection system is in the process of being established based on a school for judicial officials under the judicial academy (JA). From October 2010 candidates for judge and prosecutor positions will need to pass a competitive entry exam to the school for judicial officials, followed by 2-year initial training and a final exam. For appointments in the meantime, a revised selection procedure for new judges was introduced. Implementing regulations introducing improved selection criteria were also adopted, including written and oral exams to be conducted by the SJC.

However, both selection systems remain to be tested in practice. There is no track record of appointments based on the revised criteria. The criteria for assessing the oral exam are vague and it is not clear how these will be applied in practice. Further implementing rules are required. The SJC does not have sufficient capacity to carry out its new tasks, although adopted legislation will exonerate members of 50% of their normal work and stronger support services for the SJC will be established. Careful management of the two selection procedures (under the SJC and the JA) will be required, not least as these are expected to run in parallel until January 2013.

Some progress has been made as regards the impartiality of the judiciary. The SJC has adopted a more transparent methodology for the local judicial councils to evaluate judges for the purposes of promotion. The State Judicial Council conducted fourteen disciplinary proceedings in 2009. However, five of these were not admissible because they had been launched by acting rather than permanent presidents of courts and six are still pending. Disciplinary proceedings resulted in only one fine, one acquittal and one judge resigning after the procedure was launched. No disciplinary proceedings were conducted by the State Prosecutorial Council (SPC) in 2009. Disciplinary proceedings against attorneys and judges continue to lack transparency. Further improvements are needed to ensure the accuracy of declarations of assets by judges and prosecutors are systematically checked.

Good progress has been made as regards professionalism and competence of the judiciary. The Judicial Academy has become an independent institution from the MoJ, with its own budget and increased staffing. Permanent premises have now been made available to the JA and are in the process of renovation. In the meantime, alternative, improved accommodation has been made available, also to the SJC and SPC. Professional training programmes have continued, including initial training and covering matters of EU law. Implementing legislation necessary to set-up the school for judicial officials was adopted. More generally, improved publication of and access to court decisions is called for in view of the development of case law and in the interest of public dissemination.

Progress has been made in relation to the efficiency of the judiciary. The backlog of cases was further reduced by 10% (796,000 in December 2009 compared to 887,000 in 2008). Good progress was made in reducing the number of cases older than 3 years. Old civil cases were reduced by 17% to 84,251 and old criminal cases by 16% to 3,667. In general, courts have increased their productivity. However, the backlog of cases has been reduced unevenly among the various courts. Some courts continue to suffer from disproportionately large numbers of old civil cases, for example the municipal courts in Zagreb, Split and Zadar. Certain

categories of cases also remain problematic. The number of enforcement cases has been increasing and constitute 40% of all civil cases. Problems with the enforcement of court rulings continue to hamper the efficient working of the judicial system. The Law on Private Bailiffs and the amendments to the Law on Enforcement remain to be adopted. The economic crisis has triggered many bankruptcy proceedings (increased by 22%) which have overburdened the commercial courts. The handling of administrative cases continues to be slow, to lack transparency and is not in line with European standards. The backlog of cases has remained constant for the last two years (36,460 in 2009 compared to 36,802 in 2008) and the average duration of cases is longer than 3 years.

There has been some progress in the rationalisation of the court network. The first physical mergers of municipal courts have occurred. Amendments to the Law on Misdemeanours were adopted, reducing the number of misdemeanour courts from 114 to 63. However, none of the misdemeanour courts have been physically merged yet, with full physical mergers planned to be complete only by 2019. The Ministry of Justice department supervising the rationalisation process is understaffed. There is a lack of clarity as to the financial impact of court rationalisation which puts into question its implementation in practice. Further steps are needed to extend rationalisation to the county courts, states attorneys' offices and commercial courts.

With regard to the infrastructure and equipment of courts, there has been limited progress. The integrated case management system (ICMS) is in the process of being rolled-out to all commercial, county and some of the municipal courts. ICMS is now in place in 69 out of a planned 103 courts. A special case tracking system was also tested in two prosecution offices. However, the budget allocated to court IT infrastructure remains insufficient to cover the needs and may delay further roll-out of ICMS. Misdemeanour courts continue to suffer from a shortage of equipment and a very low standard of premises. The lack of a unified statistical system related to case management remains an obstacle to the adoption of appropriate, tailor made measures for tackling the case backlog. Further improvement to random case allocation in courts is needed.

The system of judicial inspections has shown good results. The inspectors have improved their internal organisation and developed checklists. The number of inspections planned for 2010 was increased to 22 compared to 5 in 2009. The number of inspectors has also increased to four. However, judicial inspections are still performed only in courts and not in prosecution offices.

There has been good progress with application of the new Criminal Procedure Code. Applicable to organised crime and corruption cases since 2009, the new procedure has accelerated the investigation phase, with better cooperation between the police and prosecution services leading to more indictments. However, there are now about 200 cases pending at the four specialised USKOK chambers at County Courts. The 54 judges working in these specialised chambers have not been relieved of their previous duties. Preparation for the enforcement of the new code for all other criminal cases from 2011 is continuing. The new procedures provide for stricter deadlines for interviewing suspects, which will require additional police resources.

As regards alternative dispute resolution (ADR), a code of ethics of mediators was adopted. A mediators' register was also established. Specific training was provided to judges and private mediators. The success rate of mediation cases has improved and is currently between 50-60% in commercial courts and 30-40% in out of court mediation. However the strategic study

adopted in 2009 did not achieve the predicted results as there has been a sharp decline in the number of cases referred to court mediation (about 40%). This reflects the lack of incentive given to judges to use ADR. The extent of out-of court mediation remains limited. Further simplification of mediation is necessary.

Implementation of the judicial reform strategy has continued. A new action plan and a large volume of new legislation was adopted. The MoJ underwent a major reorganisation with the aim of improving efficiency. The number of directorates was reduced and management responsibilities transferred from state secretaries to heads of directorates in order to improve efficiency. However, adequate monitoring of reform measures remains problematic due to limited administrative capacity. The MoJ lacks the capacity to plan the human resource needs of the courts. It has failed to take into account the impact of the rationalisation process and other reforms, for example the criminal procedure reform abolishing the role of the investigative judge. There is no systematic assessment of the impact of new measures. Post-legislative scrutiny remains very weak.

Croatia continued to try war crimes with approximately two dozen trials on-going in 2009/2010. A more balanced approach to trials has continued. More cases involving Croat perpetrators, including members of the Croatian armed forces, were pursued. The State Prosecutor continued reviewing potentially questionable *in absentia* verdicts from the 1990s. Re-trials were requested in 15 cases, of which 14 were granted involving 90 people convicted *in absentia*. In most cases, the original verdicts were overturned. Measures have been taken to protect witnesses with improved witness support services at certain courts. There have been some attempts to remedy misapplication of the Amnesty Law in cases which could be considered war crimes.

However, impunity for war crimes remains a problem, especially where the victims were ethnic Serbs or the alleged perpetrators were members of the Croatian security forces. Many hundreds of cases remain to be investigated and prosecuted, despite recent action by the police and prosecutors. Problems persist in certain localities. Insufficient use is being made of one powerful weapon for impartial prosecution of war crimes – the specialised war crime courts, although an increased willingness to use this possibility is evident recently. Where convictions are obtained, sentences in war crimes cases are, in general, considerably lighter than those imposed for the equivalent underlying crimes not classified as war crimes. The use of mitigating factors in sentencing gives rise to different treatment linked to ethnicity. Work on reviewing questionable *in absentia* verdicts from the 1990s should continue, including by making use of protection of legality provisions and overcoming problems with presentation of new facts.

The legacy of incorrect application of the Amnesty Law continues to have a negative impact, preventing families of victims from obtaining compensation. Transparency in this area is also lacking. Initial attempts to remedy the situation show limited results. Further efforts are required to ensure defendants are provided with an adequate defence, including by making greater use of the list of defence attorneys, which is used in only around two thirds of *in absentia* cases. Implementation of legislation to protect witnesses and witness confidentiality needs to be improved.

There has been good progress in the fight against corruption.

The political will to fight corruption has been further strengthened. Implementation of the anti-corruption strategy and related action plan has continued. The action plan was revised

and, following numerous scandals involving public companies, the government adopted a specific anti-corruption programme for trading companies in state ownership (2010-2012). Overall coordination of the implementation of anti-corruption efforts has improved. The governmental coordination committee to monitor the implementation of the anti-corruption action plan has been upgraded to ministerial level, directly chaired by the Prime Minister. This has increased the authority of the anti-corruption unit of the Ministry of Justice which is in charge of coordinating the implementation of the anti-corruption action plan. The national council for monitoring the anti-corruption strategy continued to be proactive and regularly held public debates and hearings. However, coordination of anti-corruption efforts needs to be further strengthened. The MoJ anti-corruption sector is understaffed and proactive follow-up of implementation issues are needed.

The legal framework to combat corruption has been further improved. Amendments to the USKOK Act extend USKOK's remit to tax fraud cases linked to organised crime and corruption. The new Labour Act lays down new provisions to protect whistleblowers. These include no "just cause for dismissal" of the whistleblower and the reversal of the burden of proof in cases of alleged discrimination following whistle blowing on corruption cases. Legislation for the suppression of corruption is basically sound. However, legislation in the area of prevention remains under developed (see below).

As regards the suppression of corruption, the office for the fight against corruption and organised crime (USKOK) continued to be active and issued indictments in some important cases. The overall number of cases being handled by USKOK has increased. USKOK has begun to investigate possible high level corruption, initiating investigations involving senior political personalities. Other medium and high level cases are under investigation and prosecution, often involving state-owned companies. The first high level political cases are before the courts. Police effectiveness and inter-agency cooperation has improved. The number of police officers available to the regional PNUSKOK (the national police office for the suppression of corruption and organised crime) offices has increased from 52 to 82. USKOK has been reinforced with the appointment of three further prosecutors. Competence for managing confiscated assets has been granted to the central state office for the management of state property.

However, corruption is still prevalent in many areas. The recently upgraded legal and administrative structures remain to be fully tested in practice, particularly in terms of the courts' ability to handle the increased number and complexity of cases. The number of court verdicts has increased but this mainly concerns petty corruption cases. There have been no final court rulings in serious political corruption cases. The administrative capacity of State bodies for fighting corruption continues to need improvement. USKOK has been coping well with the increased number of cases, but is starting to look stretched and will need to make full use of its on-going reinforcement. A high number of reported cases are dismissed after pre-investigation, with insufficient scrutiny.

The increasing number of cases related to financial crimes has highlighted some deficiencies in PNUSKOK and USKOK's capacities to deal with sophisticated financial crimes. International cooperation on the collection of admissible evidence needs to be improved. Investigation and prosecution of tax fraud related to corruption activities needs to be reinforced. The prosecution of money laundering needs to be strengthened within corruption cases. Croatia will need to pay particular attention to implementation of new provisions for the management of confiscated assets.

There has been limited progress in the area of prevention of corruption. The right to information has been introduced as a constitutional right. The internal structure of the office of the commission for the prevention of conflicts of interest has been changed in order to give the commission further independence from the Parliament. Provisions have been introduced in an amended Conflict of Interest Act to depoliticise appointments to supervisory boards of state-owned companies. This law also provides for strengthened verification of the assets declarations of public officials. However, these measures are not yet operational. Some awareness raising measures were taken but the concept of conflict of interest is still little understood in Croatia, especially at local level. There is limited monitoring of legal compliance and the sanctions available are ineffective. There has been no improvement in the application of access to information legislation. Supervision of the law is weak, and access to redress for citizens is overly complicated. In order to prevent corruption, greater transparency in public administration is required, particularly in the area of public spending. It is extremely difficult for citizens to obtain information on the final execution costs of public procurement contracts, especially at local level. Shortcomings remain with regard to the financing of political activities and election campaigns, where there is no fully effective independent oversight.

*(See also 2.1. Democracy and Rule of law)*

As regards **fundamental rights**, there has been some progress.

There has been good progress concerning the protection of personal data. The Data Protection Agency has given its opinion on numerous laws and regulations, and increased its supervision and control activities. However, full alignment with the Data Protection Directive and the Council of Europe instruments remains to be completed.

As regards access to justice, there has been some progress. In the area of administrative justice a new law on Administrative Court Disputes foresees the introduction from January 2013 of four first instance courts and of a Higher Administrative Court. This reform provides for courts of full jurisdiction in the meaning of Article 6 of the European Convention on Human Rights. In the area of legal aid, implementing legislation has been amended to simplify procedures and to increase the fees for lawyers to take on legal aid cases.

However, planning for implementation of the new system of administrative justice is at an early stage. Procedures for legal aid remain complicated and the overall level of aid provided is low. In practice, access to justice for vulnerable persons with insufficient means remains difficult. The provisions of the law on legal aid are still interpreted narrowly and are not enforced uniformly among the twenty county offices responsible for implementation. The number of applications for legal aid has been considerably lower than expected. Between February 2009 and April 2010, a total of 5,152 requests were received, of which 3,536 were approved. NGOs continue to be the main providers of free legal advice and have ten times as many cases than those covered under the national system. However, they are experiencing a decline in funding.

Some progress was made with regard to the prison system. Legislation foreseeing a new system of probation from 2012 was adopted and a probation directorate was established within the Ministry of Justice. Work related to the expansion of existing detention and treatment facilities has started and will be finalised in 2012. In the meantime, Croatian prisons remain overcrowded and provide inadequate health protection. Prison occupancy stands at 150-160%. The number of detainees in pre-trial procedure is increasing.

*Freedom of expression*, including freedom and pluralism of the media, is provided for in Croatian law and is still generally respected. However, editors and journalists continue to report undue political pressure. Problems with local media remain.

There has been some progress with regard to *women's rights* and gender equality, but the number of registered cases of domestic violence has increased, the position of women in the labour market has not significantly changed and women continue to be under-represented in economic and political decision-making bodies.

Limited progress can be reported with regard to *children's rights*. The Ombudsman for Children became more active in promoting and protecting children rights, but it lacks appropriate office space and staff resources to carry out its mandate.

There has been some progress in the area of *socially vulnerable and/or persons with disabilities*. The Office of the Ombudsman for Persons with Disabilities is now adequately staffed. There is, however, a lack of information on rights and entitlements in the area of social welfare, health care and pension insurance. Criteria for the establishment of entitlements are not equally applied, and legislative provisions regulating specific rights are fragmented. The transition from institutional care to community-based care services has progressed slowly.

Some steps have been taken to raise awareness of the new *anti-discrimination* law. However, knowledge of its scope is limited and only a small number of discrimination complaints reach the court. There has been some progress in the implementation of hate crime legislation. Awareness raising measures have been carried out and some cases initiated. However, implementation is at an early stage. LGBT people have faced threats and attacks, with limited follow-up by the authorities.

There has been some progress with regard to minorities. High-level public expressions of commitment to the rights of minorities, reaffirming their place in Croatian society, have continued. Improved relations in the region, particularly between Croatia and Serbia, have allowed for a more positive focus on minority issues. The revised Constitution now explicitly lists all 22 national minorities. Provisions of the constitutional law on the rights of national minorities (CLRNM) on minority representation in parliament were strengthened. Training for the media as well as the police has been provided aimed at improving the portrayal of minorities and raising awareness of relevant legislation respectively. The Roma minority has continued to receive attention, with improvements particularly in pre-school education. The level of funding available for minority organisations has been decreased by only 1.25% to €5.7m in the revised budget, despite more extensive cuts elsewhere.

However, many problems remain for minorities. Croatia needs to continue to foster a spirit of tolerance towards the Serb minority in particular and take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. Minorities continue to face particular difficulties in the area of employment, both in terms of under-representation in state administration, the judiciary and the police as well as in the wider public sector. There has been no improvement in the level of employment of minorities in those bodies covered by the CLRNM. Implementation of the law has been complicated by general limits on recruitment introduced as part of the recession measures. Monitoring of the implementation of recruitment plans for national minorities has been weak. Legal provisions and programmes need to be implemented with more determination, and adequate monitoring assured, especially in the area of employment. The Roma minority faces particularly difficult

living conditions and challenges remain in the areas of education, social protection, health care, employment and access to personal documents.

There has been some progress on refugee return issues. Refugees continued to return to Croatia, with the Croatian authorities having now registered over 132,600 returnees in total belonging to the Serb minority, which corresponds to approximately half of those who fled the country up until 1995. Some progress was made with regard to housing issues. The government's self-imposed 2008 benchmark for the provision of 1,400 accommodation units to former occupancy and tenancy rights holders under its housing care programme has been met, partially by transferring cases to reconstruction programmes. A revised action plan has been adopted for implementation of the 2009 target of providing 2,070 accommodation units, with the aim of full implementation in 2011. Improved administrative monitoring has been introduced, including the involvement of the United Nations High Commissioner for Refugees. A purchase option under favourable conditions for housing care beneficiaries outside the areas of special state concern has been introduced. Progress was made with reconstruction of damaged houses, as well as with processing the substantial backlog of appeals against rejected applications for reconstruction assistance. Some 900 houses were included in the 2009/2010 programme. Implementation of the decision on validating pension rights has continued and monitoring to address inconsistencies between different regional offices has improved.

However, many problems remain for refugees and returnees. Lack of housing remains a key obstacle to sustainable return. Progress towards meeting the 2009 benchmark has been delayed and implementation is at around 31%. Moreover, 2-3,000 applications not covered by the action plans still remain to be fully processed and housing units made available to returning refugees. Sufficient budgetary funding should be made available accordingly. Some 6,000 appeals for housing reconstruction still remain pending. The current rejection rate of convalidation applications is still high at 44% and a more consistent approach by regional offices should continue to be strived for. Efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated.

As regards **citizens rights**, Croatia adopted legislation on the right to vote for EU citizens in European Parliament and local elections in Croatia. Further measures will be needed to achieve full alignment with Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

### *Conclusion*

Croatia has made good progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation strengthening judicial independence and a further reduction of the case backlog. However, judicial reform remains a major undertaking and significant challenges remain, especially relating to judicial efficiency, independence and accountability. Anti-corruption efforts have been stepped up with some positive results but corruption remains prevalent in many areas. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. Preventive measures such as improved transparency of public spending need to be strengthened. Protection of fundamental rights has been strengthened but need to be improved in practice, especially for minorities and refugees.

#### 4.24. Chapter 24: Justice, freedom and security

Progress can be reported in the field of **migration**. In October 2009, the ministries of the Interior and of Health have signed a protocol defining the standard operating procedure for reception and return of unaccompanied minors. However, nomination of guardians for this vulnerable group, in line with the internationally recognised principle of the best interest of the child, is uneven. The Ministry of the Interior (MoI) has amended the rules on travel documents and visas for foreigners with a view to aligning them with the Law on foreigners.

The number of police officers dealing with irregular migration has increased from 339 to 350. A total of 3,219 irregular migrants have been apprehended in 2009 (1,546 at the border), which amounts to a 20% decrease over 2008. In all, 461 migrants have been detained in the Ježevo deportation centre and 1,019 have been deported. Also, 132 irregular minors have been apprehended, and 25 of them have been placed at the Ježevo centre. Eighteen of them have applied for asylum. Activities aimed at the construction of a special facility for minors at Ježevo have started. Special attention needs to be paid to the treatment and accommodation of this vulnerable group. New readmission agreements with Serbia and Montenegro have entered into force on 1 May 2010. Readmission agreements have been signed with Slovakia and Malta. Negotiations have started with Kosovo.

Significant progress can be reported in the field of **asylum**. The Act amending the Asylum Act entered into force in July 2010, fully aligning Croatia's legislation with the *acquis*, in particular with regard to interviews of asylum-seekers in the accelerated procedure, free legal aid at second instance, terminology and the duration of subsidiary protection. The independence of the Asylum Commission, which will function as a second-instance body until March 2012, has been significantly improved, including by providing for an additional member from the judiciary. It has continued to interview all asylum-seekers, although interviews only have become compulsory after the amendments to the Asylum Law were adopted. A fast judicial review has been introduced for asylum-seekers in detention. Full access is given to the UNHCR at border crossing points and in the transit zone. Croatia has also improved the conditions to ensure better integration of refugees into society, including by providing access to Croatian language courses. Continued attention needs to be paid to practical integration of refugees in Croatia and to coordination between the relevant authorities.

In 2009 Croatia has received 120 asylum requests for 147 persons. In response, by April 2010 it has granted 14 people refugee status and six subsidiary protection status. Between 1 January and 30 September 2010, 155 applications for asylum have been submitted to Croatia. It is positive to note that the number of asylum-seekers brought before the misdemeanour courts to be charged with irregular entry has dropped by 90%. Training of MoI staff and of border police officers on asylum has continued. Croatia needs to continue paying attention to training border police officers and Asylum Commission as well as Administrative Court staff on the asylum procedure. Establishment of a second reception facility should be considered.

Good progress has been made on **visa policy** and the security features of Croatian travel documents. Biometric passports have been issued at all police stations since January 2010 and at all diplomatic missions and consulates except Tripoli since July 2010. Further alignment with the *acquis* on travel documents for aliens and on visa forms has been achieved. Legislation aligning the visa sticker to the EU requirements on the uniform format of visas has entered into force on 1 September 2010 and the new sticker has been introduced at diplomatic missions and consulates; old stickers continue to be used until depletion of existing

stock. The Croatian visa database has been rolled out at all diplomatic missions and consular posts except Tripoli and at 44 border crossing points. The Ministry of Foreign Affairs has become the central State body in charge of issuing visas. Further alignment is still required, notably with regard to the uniform procedure for issuing visas and the new EU Visa Code.

The EU ‘positive’ list of non-EU countries not requiring a visa and the ‘negative’ list remain partly aligned. An Agreement on mutual travel by nationals has been signed with the Russian Federation. The government has adopted a decision on temporary liberalisation of the visa arrangements for citizens of the Russian Federation, Ukraine and Kazakhstan for transit through Croatia or stays of up to 90 days between 1 April and 31 October 2010, which is not in line with the EU *acquis*. For the same limited period, the government has adopted another decision facilitating entry to Croatia for the purposes of tourism for non-EU nationals holding a Schengen visa or a residence permit issued by a Schengen state and based on a number of additional set criteria.

There has been progress with regard to **external borders and Schengen**. The Integrated Border Management (IBM) Action Plan and the Schengen Action Plan have been revised in March 2010 and needs to be regularly updated. The roadmaps for establishing the SIRENE (supplementary information request at the national entry) office and the national system for the Schengen Information System (SIS II) have been adopted. Further efforts are needed for the timely implementation of these roadmaps. Croatia has established a national focal point for exchanges of information with Frontex and has adopted a Cooperation Plan for implementation of the working arrangement. Croatia participates in the Frontex developed Western Balkans Risk Analysis Network.

The Border Police has been substantially reinforced with the addition of 600 new police officers who graduated from the academy in March 2010, thus bringing the total border police force to 5,875. Staff shortages suffered at border crossing points (BCPs) and police stations in previous years were addressed and performance on the ground improved. So far 3,800 border police officers have been given specialised training. However, around 1,000 officers have yet to complete the specialised training for border police. Acquisition of the equipment required by the IBM Action Plan is under way, but has suffered some delays. The National Border Management Information System (NBMIS) has continued to be rolled out and is operational at 18 BCPs. Police officers have access to Interpol databases.

The IBM Action Plan needs to be revised to include calculations for the staff and equipment complements for the blue border, reinforce green border surveillance and introduce the new concept for the Metkovic/Neum BCPs and a joint operational centre for maritime surveillance. Training needs to continue. Inter-agency cooperation on IBM is ensured by means of formal working groups and procedures but needs to be enhanced at both regional and local levels.

In the case of **judicial co-operation in civil and criminal matters**, there has been further progress. Croatia has adopted implementing legislation laying the foundation for practical and operational judicial cooperation with Eurojust and has appointed a liaison officer. In 2009, over 90% of the 1,469 requests for recognition/enforcement of decisions by foreign courts and arbitration decisions have been dealt with within one year. Attention needs to be paid to avoiding any build-up of a backlog at municipal courts.

Following the amendment to the Constitution allowing extradition of Croatian citizens, the Act on judicial cooperation in criminal matters has been amended in July 2010. The European

arrest warrant and the European enforcement order can therefore be implemented from the date of accession. An Extradition Agreement was signed with Montenegro. The Extradition Agreement with Serbia has entered into force in June 2010, and for the first time a person arrested in Croatia was extradited to Serbia. The Agreement with Bosnia and Herzegovina on mutual enforcement of judgments in criminal matters has been amended to facilitate enforcement of rulings.

Some progress has been made as regards **police co-operation**. Agreements have been signed with Poland, Israel and Malta. An Agreement on combating cross-border crime was signed with Bosnia and Herzegovina. The Agreements with Greece and Serbia have entered into force. A Europol National Unit has been established in the MoI. Memoranda of understanding have been signed with the United States of America and Kosovo and Interpol. Croatia has deployed a fourth police representative to the EULEX mission in Kosovo. Cooperation with Serbia on fighting organised crime has been enhanced, through exchanges of police officers. Croatia continues to be active in international police cooperation. The Police Law and the implementing legislation on police salaries and on the internal organisation of the MoI need to be amended in order to increase flexibility in organisational decisions within the police.

Progress can be reported in the **fight against organised crime**. The National Police Office for the Suppression of Corruption and Organised Crime (PNUSKOK) has been fully operational since September 2009. Four regional operational departments have started work. High-profile cases of organised crime have been investigated swiftly. The Ministry of the Interior has drawn up an organised crime threat assessment (OCTA) for 2009, based on the European crime intelligence model. The ministry, in cooperation with the Office for the Suppression of Corruption and Organised Crime (USKOK), has drawn up the Plan for Priorities in the Suppression of Organised Crime and has started implementing it. USKOK has been active in prosecuting high-profile cases of organised crime. However, further efforts in this area are necessary, particularly as regards use of the new legislative framework and international agreements in practice. An agreement establishing a regional office for improving cooperation in the fight against organised crime was signed in October 2010 with Albania, Bosnia and Herzegovina, Montenegro, Serbia and the former Yugoslav Republic of Macedonia.

Some progress has been achieved in the fight against trafficking of human beings. The Protocol on proceedings during the voluntary return of human trafficking victims has been adopted. Amendments have been made to the Protocol on identification of, help to and protection of victims of trafficking in human beings to harmonise it with the Aliens Act and the Protocol on proceedings during voluntary return of victims. In 2009, eight victims of trafficking have been identified while the regional trend points towards a decrease in trafficking of human beings. Efforts to identify victims of labour exploitation need to be intensified. Training of police officers, judges, labour inspectors and health employees has been organised. Regional cooperation with neighbouring countries and interdisciplinary cooperation to prevent and identify victims of human trafficking need to be intensified.

Limited progress on the fight against money laundering can be reported. Croatia's results in investigation and prosecution of money laundering cases remain steady but in low numbers. . The coordination of the competent national authorities and the establishment of the Integrated Criminal Intelligence System are important achievements. However, the recent Threat Assessments produced by Europol and the SECI Centre (Southeast European Cooperative Initiative) show the clear need for Croatia to step up its efforts and reach concrete results in this area. Overall, Croatia is moderately advanced in this area. (See Chapter 4: Free movement of capital.)

Progress can be reported in the **fight against terrorism**. The MoI has adopted the Maritime Anti-terrorism Plan, but the action plan for prevention and suppression of terrorism has yet to be adopted. Little progress has been made on strengthening Croatia's administrative and operational capacity. Inter-agency coordination also needs to be enhanced. Training for bomb disposal experts needs to be introduced on a permanent basis and experts' practice needs to be coordinated by law. Some of the older X-ray equipment is not in line with EU standards. Croatia needs to complete re-examination of the storage facilities for explosives and ammunition in line with the *acquis* and to replace old equipment.

Progress has continued in the **fight against drugs**. The 2010 programme for implementation of the Action Plan on Combating Drugs Abuse in Croatia has been adopted. An amendment to the Drug Abuse Prevention Act revised the checks on trade in precursors, aligned the list of precursors with the EU *acquis* and shortened the time limits for destroying seized drugs. The police have targeted their activities on organised criminal groups rather than on small street-dealers. Training of police officers and provision of the necessary equipment have continued. The national focal point (NFP) has delivered its third annual report to the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and has been able to report on four of the five indicators. Two new permanent posts for the national focal point have been advertised and one of them has already been filled. However, the results in investigation and prosecution of drug related crime need to be considerably enhanced. Croatia remains on one of the main trafficking routes for drugs to the EU.

In 2009, a total of 7,934 persons have been treated by the national drug addiction institutes. From 2010 on, as one of the measures to upgrade their standards, every therapeutic community has to provide data on treated patients to the Office for Drugs. The government has adopted a National Programme for Prevention of Drugs amongst Youth with a view to updating the existing programmes.

No progress can be reported on **customs cooperation**.

*(For counterfeiting of the euro see chapter 32 – financial control.)*

### *Conclusion*

Overall, Croatia made substantial progress in this chapter. The asylum system has been significantly improved and the Asylum Commission strengthened. Attention needs to be paid to integrating persons granted protection in Croatia and to protecting minors amongst irregular migrants. Good progress has been made in the field of visas, with the introduction of the uniform visa format and the setting-up of the Croatian visa database. However, alignment with the *acquis* on visas needs to continue. Progress has been made in the field of external borders, notably in terms of staffing of the Border Police. However, several aspects of the IBM Action Plan need to be amended and the upgrading of equipment needs to be stepped up. Significant progress was made in the field of judicial cooperation in civil and criminal matters, notably with the amendments to the legal framework which will allow implementation of the European arrest warrant with effect from accession and with the signature of an extradition agreement with Serbia. Progress also continued in the counter-narcotics policy, but results in investigations and prosecution of the drug cases need to be enhanced.

#### 4.25. Chapter 25: Science and research

Further progress can be reported with respect to **research policy** where, overall, the level of alignment is already high. However, private-sector involvement and the success rate in the Specific Programme on 'People' and, more specifically, in the Marie Curie fellowships, remain low.

Croatia continued to participate actively in the EU's **Seventh Framework Programme (FP7)**. Croatia also strengthened its administrative capacity by reviewing the nominations to the FP7 management committees and providing training to the national contact points. The action plan to stimulate participation in FP7 has produced good results, but the economic and financial crisis has put a temporary end to financial incentives.

With respect to its future integration into the **European Research Area (ERA)**, Croatia has made further progress in aligning its research policy with the targets and actions of the European Research and Innovation Area. On mobility of researchers, the Ordinance on the Register of Researchers has been amended opening funding from the State budget also to non-Croatian scientists. Research job vacancies have started to be advertised on Euraxess job portal. The Act on the National Foundation for Science and Higher Education is being implemented, except the provisions concerning financing research projects in a more competitive way, based on scientific excellence. No progress was made on the overall level of investment in research which has been stagnating since 2007 at about 0.9% of Croatia's GDP. Involvement of industry and SMEs in research activities is still weak.

#### *Conclusion*

Progress in this chapter has continued, but has slowed down as a result of the economic and financial crisis. Implementation and monitoring of commitments remain crucial. Efforts are needed to further improve the administrative and research capacity. Investment in research, through the involvement of industry and SMEs is to be increased.

#### 4.26. Chapter 26: Education and culture

There has been good progress in the field of **education, training and youth**. The education reform has continued under the Education System Development Plan for 2005–2010. Croatia is participating in the strategic framework for European cooperation in education and training, ET 2020. Croatia's performance is still above the EU-level benchmarks in relation to early school-leavers and upper secondary completion rates. It improved but is still two thirds of the EU average for tertiary education attainment and participation in pre-school education. Adult participation in lifelong learning remains very low. The plan of activities for development of a national qualifications framework (NQF) is being implemented. National secondary school-leaving exams have been introduced. Implementation of the Bologna process in higher education has continued. Remaining challenges include implementing structural reform of universities and of their funding, implementing a learning outcomes approach and adoption and self-certification of the Croatian Qualifications Framework. The reform of vocational education and training and adult education is being implemented.

The National Agency has kept implementing preparatory measures, including management of pilot projects, with a view to fully participate in the Life-long Learning and Youth in Action programmes. A declaration of assurance on the functioning of the National Agency has been provided. The Accession Partnership priorities in the field of education, training and youth have been by and large met.

Progress can also be reported in the field of **culture**. Additional efforts have been made to further promote Croatia's participation in the EU Culture and Europe for Citizens programmes.

### *Conclusion*

Further progress has been made in the areas of education, training, youth and culture. There is a good level of alignment with the *acquis*. Croatia needs to continue its efforts to prepare for the management of the Lifelong Learning and Youth in Action Programmes. Adult education requires continuous attention.

## **4.27. Chapter 27: Environment**

Some progress has been made in the **horizontal legislation**. The transposition process is almost completed in this sector. Efforts to implement environmental impact assessment (EIA) and strategic environmental assessment (SEA) need to be increased. Implementation of provisions on public participation and access to justice in environmental matters remains insufficient. In this respect, cooperation with the judiciary needs to be strengthened.

There has been good progress in the field of **air quality**. Croatia has produced a programme for a gradual decrease in emissions of certain air pollutants up to the end of 2010 with emission projections for the period 2010–2020. Transposition of the new *acquis* on ambient air quality and cleaner air for Europe is pending.

There has been little progress in **waste management**. Sustained efforts for remediation of existing landfills and hot-spots and further establishment of systems for collection and management of different categories of waste are needed.

In the field of **water quality**, a significant step forward was taken with the adoption of the new Water Act and the Water Management Financing Act. Implementing legislation relating to bathing water quality was also enacted. Investment in this sector is currently insufficient. Monitoring and reporting also need to be improved. Significant efforts are still needed in this area, including finalisation of a river basin management plan.

There has been some progress in the field of **nature protection** with the adoption of implementing legislation on nature impact assessments. Preparations for drafting a list of marine Natura 2000 sites have started. Gaps remain in the administrative capacity for implementing and enforcing the *acquis*, especially in the State Institute for Nature Protection and at local level. In the forestry sector, activities to implement the existing Croatian legal framework have continued.

Alignment is well advanced in the area of **industrial pollution control and risk management**. Efforts have been made on further developing the European Pollutant Release and Transfer Register (EPRTR). Activities for alignment of existing installations with the requirements of the Integrated Pollution Prevention and Control and Large Combustion Plants Directives have been intensified. Significant financial resources and efforts will be required to ensure sufficient administrative capacity in this sector.

Alignment with the *acquis* has further progressed in the field of **chemicals**, with the amendment of the Law on biocides and the adoption of the list of limited or banned dangerous chemicals. Efforts to implement and enforce legislation on chemicals and SEVESO II need to be stepped up.

As regards **climate change**, good progress can be reported. Croatia associated itself with the Copenhagen Accord. The country also continues to fulfil its reporting obligations under the UNFCCC and the Kyoto Protocol. While Croatia is making steady progress in aligning with climate change *acquis*, further efforts are needed, in particular to complete the implementation of the EU Emissions Trading Scheme, fuel quality requirements and EU *acquis* adopted after 2009. However, Croatia has lodged an appeal against the decision of the Compliance Committee of the Kyoto Protocol regarding Croatia's compliance.

Full transposition of the noise abatement legislation has been achieved. **Noise** maps for towns and municipalities have yet to be adopted.

Croatia joined the European **Civil Protection** Mechanism in 2009. It pays the costs out of its own budget. Croatia has been advancing well in its preparations as regards civil protection.

Efforts to strengthen Croatia's administrative capacity have slowed down. Further efforts are still needed in this area to allow proper implementation and enforcement of the legislation. Channels for coordination between ministries and bodies involved in environmental protection need to be improved.

### *Conclusion*

Overall, good progress has been made in this chapter as regards both alignment and implementation of the legislation. Overall, Croatia's preparations are nearing completion. Legislative alignment in the field of water quality and also, to a certain extent, climate change needs to be completed. Administrative capacity, especially at local level, needs further strengthening, in particular in the fields of nature protection and industrial pollution control and risk management. Implementation of the horizontal *acquis*, most notably on EIA, SEA and access to information and justice in environmental matters, and cooperation with non-governmental organisations active in the field of environment needs to be improved.

## **4.28. Chapter 28: Consumer and health protection**

There has been progress in the field of **consumer protection**. Government funding for regional counselling centres has continued. Public awareness of the system for out-of-court settlement of consumer disputes remains low. Training for judges is continuing. A new collective redress system for consumers has been put in place. Similar provisions have been introduced to give traders the same rights to collective protection against unlawful advertising.

A National Consumer Protection Programme for 2009–2012 was adopted. Use of the existing system to collect consumer complaints has substantially increased, but needs to be improved. About 30,000 market inspections on consumer issues were carried out, including some in response to complaints by consumers. The inspections highlighted the need to improve price labelling and use of the warranty and to consolidate traders' legal obligation to facilitate and address complaints. Administrative capacity needs to be further strengthened. The support for the consumer movement needs to be continued and consumers' access to justice further improved with the aid of effective implementation of the National Consumer Protection Programme.

Some progress can be reported in the field of *product safety-related issues*. Coordination and cooperation between market surveillance authorities is in place. Market surveillance activities were given a sound legal basis and have become more effective (*See Chapter*).

There has been some progress in the area of *non-safety-related issues*. Implementing legislation on retail price labelling was adopted. Further revision of the Consumer Credit Act is necessary to achieve full alignment with the EU legislation.

Good progress can be reported in the area of **public health**. Progress has been moderate in the area of *tobacco*. The revisions of the Tobacco Act have softened certain conditions, but remain in line with the *acquis*.

Good progress has been made in the field of *communicable diseases* where Croatia meets the requirements of the *acquis*. On pandemic influenza, a new computerised network connects hospitals, county public health institutes and the Croatian National Institute for Public Health. The Ministry of Health and Social Welfare adopted a new National Generic Integrated Plan for coordinated action in public health emergencies.

Good progress can be reported in the area of *blood, tissues and cells*, where by-laws have been adopted with the aim of completing alignment of the legislation. The reorganisation of the transfusion services is continuing. However, quality management of all blood transfusion centres is not yet ensured. Facilities for handling tissues and cells have not yet been upgraded, restructured and licensed in accordance with the EU technical requirements. In the field of reproductive cells, implementing legislation was adopted. As regards administrative capacity, the newly established Department for the Inspection and Monitoring of Blood, Tissues and Cells has begun to process applications for authorisations for assisted reproductive technology (ART) establishments, but not yet for blood and tissues/cells establishments.

Some progress can be reported in the field of *mental health*. The Mental Health Promotion Strategy was adopted. A network of 45 teams working on mental health care, addiction prevention and out-patient treatment was set up in public health institutes. However, community-based services remain insufficiently developed as an alternative to institutionalisation. Financial resources allocated to mental health care are still scarce. The Accession Partnership priority in this field has therefore not been met yet. Preparations in this field have started.

In the area of *cancer screening*, the national programme for early detection of cervical cancer has been adopted. The national programmes for early detection of colorectal cancer and of breast cancer are producing results. However, education of the targeted population and investment in equipment are still needed to increase coverage. Preparations in these areas are well on track.

### *Conclusion*

There has been good progress in the area of consumer and health protection. Alignment with the *acquis* is well advanced. Sustained efforts are necessary in order further to strengthen the administrative capacity to implement and enforce the legislation.

## **4.29. Chapter 29: Customs Union**

Some progress has been made in the **customs legislation**. The new Regulation on the customs tariff for 2010 entered into force, aligning the Croatian tariff with the 2010 Combined

Nomenclature. Further alignment with the EU provisions on security aspects has been achieved. The new system for relief from customs duties entered into force. Overall, alignment of the customs rules with the *acquis* is very high, but minor discrepancies remain in the allocation of tariff quotas and the internal transit arrangements.

Good progress can also be reported on **administrative and operational capacity**. The customs administration adopted its new Business Strategy 2010-2012 in July and continued implementing its Anti-Corruption Programme, including an awareness campaign and the policy of systematic rotation of staff. The capacity and role of the internal control unit have been strengthened. Preparations for developing the national application of the Integrated Tariff Management System (ITMS) and the New Computerised Transit System (NCTS v4.0) were completed. Full testing could take place once the network connection is activated. The Croatian customs administration still has very limited in-house capacity to guarantee the continuity of its IT services and remains heavily dependent on external companies. Overall, in the areas of administrative and operational capacity, Croatia has continued to address its targets and priorities consistently.

### *Conclusion*

Good progress has been made in this chapter. Croatia's customs legislation is aligned with the *acquis* to a very large extent and additional alignment was achieved over the reporting period. Croatia has also continued to make progress on its administrative capacity, notably in the area of IT interconnectivity, where preparations for two key IT systems were completed. Further progress towards removing the last discrepancies in Croatia's legislation, implementing the Anti-Corruption Strategy and preparing for IT interconnectivity is required.

### **4.30. Chapter 30: External relations**

Further progress has been made in connection with the **common commercial policy**. Croatia continued to cooperate and coordinate with the Commission with the aim of aligning with EU policies and positions towards non-EU countries and within international organisations.

After the *WTO* investigation on the provisional safeguard measures introduced in June 2009, Croatia withdrew the safeguard measures on cheese supplements and started to reimburse the duties paid by importers. The measures on hard cheeses (Edam and Gouda) were confirmed in November 2009 and expired in January 2010. Croatia needs to ensure full compliance with its international obligations when resorting to the safeguard measures allowed under the Stabilisation and Association Agreement and the *WTO* rules. Croatia furthermore needs to ensure a swift reimbursement of the duties paid by importers on cheese supplements during the period for which the provisional measures were applied.

Croatia continued aligning with the EU list of dual-use items and raising operators' awareness of the issue of *dual-use goods*. It continued to train customs officers in this field. The administrative, control and reporting capacity for dual-use goods needs to be further enhanced, in particular with the aid of training. Preparations in this area are nearing completion.

In the area of **bilateral agreements with non-EU countries**, Croatia continued to implement its action plan to bring international agreements into line with the *acquis*, but further efforts are required, in particular with regard to bilateral investment treaties. Preparations in this area are on track.

Some progress can be reported on **development policy** and **humanitarian aid**. Work continued on the programme to implement the National Strategy for Development Cooperation for the period 2009-2014. Further efforts are required to complete the legal framework in this area and to reinforce the administrative capacity. Overall, preparations in this field are on track.

### *Conclusion*

Some progress has been made in this chapter. Overall, Croatia has reached an advanced level of alignment in the area of external relations and is continuing to coordinate and align its positions in international fora. However, Croatia needs to pay attention to fully complying with its international obligations when resorting to safeguards. Further strengthening of administrative capacity is needed in the areas of development policy and humanitarian aid.

## **4.31. Chapter 31: Foreign, Security and Defence Policy**

The regular **political dialogue** between the EU and Croatia continued to cover foreign policy issues. (*As regards neighbourly relations with other enlargement countries and Member States, see Section 2.3 under Political criteria.*)

As regards the **common foreign and security policy (CFSP)**, Croatia has continued to align itself when invited, with all relevant Council decisions and EU declarations. It has been actively participating in the Barcelona Process – Union for the Mediterranean. Croatia has further developed its administrative capacity to work within the EU CFSP structures. The post of Political Director in the Ministry for Foreign Affairs and European Integration is being established.

There have been no particular developments with regard to *sanctions and restrictive measures* or on *conflict prevention*.

As regards *non-proliferation*, implementation of the National Strategy and Action Plan for the Control of Small Arms and Light Weapons has begun. Public-awareness activities have continued, including measures to collect and destroy weapons. Efforts to strengthen the implementation and enforcement capacity are continuing. These are key elements for the accession negotiations in this chapter.

With regard to *cooperation with international organisations*, Croatia has, as a member of the UN, the OSCE, the Council of Europe and NATO, maintained its involvement in the policy-making of these organisations. In December 2009, Croatia completed its two-year term as a non-permanent member of the UN Security Council. During this period Croatia chaired the Security Council's Counter-Terrorism Committee. (*As regards the International Criminal Court, see Political criteria — Regional issues and international obligations.*)

There have been no particular developments with regard to *security measures* (classified information).

Croatia reinforced its participation in EU missions to support implementation of the **common security and defence policy (CSDP)**. It has been participating in the EU operation off the Somali coast (EU NAVFOR Somalia - ATALANTA). Croatia continued to provide logistical support to the EUFOR Althea mission in Bosnia and Herzegovina. The country remains committed to participating in the EU battlegroups. Administrative capacity-building measures

have continued, including training for and participation by Croatian officials in the appropriate fora with EU counterparts.

Croatia continued to support EU civilian missions. Croatia is participating in the EU rule of law mission (EULEX) in Kosovo and the EUPOL mission in Afghanistan with a total of five police officers and three judicial and administrative officials.

Croatia has continued to take part in NATO missions, with 320 members of the armed forces engaged in two missions in Afghanistan and in Kosovo.

### *Conclusion*

Croatia has made further progress in this chapter. It has continued to participate in several EU CSDP missions. Overall, Croatia has reached a high level of alignment in the area of foreign, security and defence policy. Croatia needs to continue strengthening implementation and enforcement of arms control, including the transparency of arms-related information.

## **4.32. Chapter 32: Financial Control**

Further progress has been made in the implementation of **public internal financial control (PIFC)**. The Central Harmonisation Unit (CHU) in the Ministry of Finance continued to oversee implementation of the PIFC strategy for the period 2009-2011. In September 2009, the CHU issued guidelines for conducting a risk management procedure to assist budget users. Based on the contributions of budget users at the state and local level, the CHU elaborated a consolidated 2009 annual report on the PIFC system and presented it to the government. The administrative capacity of the CHU and all budget users at central and local levels needs to be further strengthened, including on risk management. Implementation of the internal auditor's training plan continued. A Programme Council for professional training of internal auditors in the public sector was established in February 2010.

Good progress can be reported in the field of **external audit**. The State Audit Office's (SAO) independence was consolidated, after parliament adopted amendments to the Constitution in June 2010. Reporting by the SAO to parliament improved, as in May 2010 the SAO submitted its first audit report on budget execution to parliament prior to the discharge of the budget. However, parliament should further strengthen its ownership and follow-up to SAO reports. Implementation of the SAO's strategic development plan for the period 2008-2012 is continuing. So far, the SAO's approach to audits remains primarily transaction-based. More focus needs to be placed on a systems-based audit approach and further development of performance audit work. With this in mind, auditors need to be continuously trained on modern audit techniques.

Progress has been made on **protection of the EU's financial interests**. The institutional and legislative set-up for coordinating cooperation between OLAF and the Croatian national authorities is in place. An anti-fraud strategy for protection of the EU's financial interests for the period 2010-2012, including an action plan, was adopted by the government in January 2010 and regular information is provided about the measures taken to implement it. The operational independence of the Anti-Fraud Coordination Structure (AFCOS) is described in this document. The Department for Combating Irregularities and Fraud in the Ministry of Finance needs to improve its performance in its key role of coordinating the AFCOS network. Operational cooperation of the Croatian authorities with the Commission is considered smooth.

Progress can be reported on protection of the **euro against counterfeiting**. Following consultations with OLAF, Croatia transposed the most recent EU legislation in March 2010, i.e. the two Council regulations on protection of the euro against counterfeiting and on medals and tokens similar to euro coins.

#### *Conclusion*

Overall, progress can be reported in this chapter. Efforts need to focus on the sustainability of the reforms. Croatia needs to continue updating its PIFC policy paper regularly. The bodies involved in the AFCOS system need to enhance their efforts on implementing the anti-fraud strategy efficiently. Parliamentary ownership of the SAO's reports needs to be enhanced.

### **4.33. Chapter 33: Financial and budgetary provisions**

There has been further progress in the area of financial and budgetary provisions.

With regard to **traditional own resources (TOR)**, the simulation exercise for A and B accounts for the last quarter of 2009 was completed. Workshops on the methods of establishing, accounting, book-keeping and making available and reporting on TOR were held in the customs administration. However, there have been delays in preparing the IT module for managing the A and B accounts. Work on a system for writing off irrecoverable debts has to be accelerated. Post-clearance auditing needs to be strengthened. Further measures need to be taken to establish the relevant legal and administrative framework and control mechanisms for sugar levies. Effective instruments for combating customs duty and VAT fraud have to be applied to protect the financial interests of the EU.

With regard to the **VAT resource**, further simulations of the VAT base have been carried out and analytical capacity improved. Efforts will be needed to develop further the statistical basis and capacity for calculation of the weighted average rate. Croatia needs to ensure implementation of the protocol on privileges and immunities of the European Communities.

With regard to the **GNI resource**, the Croatian authorities have achieved good results with application of the ESA95 method. Further efforts will be needed to improve the quality of the national accounts and GNI calculations.

As regards **administrative infrastructure**, the Department for Coordination and Management of EU **own resources** in the Ministry of Finance has improved its capacity for developing and coordinating an effective EU own resources system. Experience has been gained from establishing direct contacts with EU Member States, from continuous training and from implementation of the own resources twinning light project.

#### *Conclusion*

There has been further progress in this chapter. The institutional capacity for applying the rules on own resources has been further developed. Overall, Croatia has reached a good level of alignment with the *acquis* and capacity to implement it, except in the case of sugar levies. Croatia needs to further enhance its coordination capacity and put in place the rules and procedures still pending.

## Statistical Annex

### STATISTICAL DATA (as of 14 October 2010)

#### Croatia

##### Basic data

|  | Note | 2000   | 2001   | 2002   | 2003    | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   |
|--|------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|
| Population (thousand)                        |      | 4 498e | 4 439e | 4 445  | 4 443   | 4 442  | 4 444  | 4 443  | 4 441  | 4 436  | 4 435  |
| Total area of the country (km <sup>2</sup> ) | 1)   | 56 542 | 56 542 | 56 542 | 56 594b | 56 594 | 56 594 | 56 594 | 56 594 | 56 594 | 56 594 |

##### National accounts

|  | Note | 2000     | 2001     | 2002      | 2003     | 2004     | 2005      | 2006     | 2007     | 2008     | 2009     |
|--|------|----------|----------|-----------|----------|----------|-----------|----------|----------|----------|----------|
| Gross domestic product (GDP) (million national currency)                                       | 2)   | 176 690  | 190 796  | 208 223   | 227 012  | 245 550  | 264 367   | 286 341  | 314 223  | 342 159  | 333 063  |
| GDP (million euro)   | 2)   | 23 146   | 25 538   | 28 112    | 30 011   | 32 759   | 35 725    | 39 102   | 42 833   | 47 370   | 45 379   |
| GDP (euro per capita)  | 2)   | 5 229    | 5 752    | 6 331     | 6 759    | 7 380    | 8 043     | 8 807    | 9 656    | 10 683   | 10 246   |
| GDP (in Purchasing Power Standards (PPS) per capita)   |      | 9 400.0e | 9 900.0e | 10 700.0e | 11 200.0 | 12 100.0 | 12 700.0b | 13 500.0 | 15 000.0 | 15 700.0 | 15 100.0 |
| GDP per capita in PPS (EU-27 = 100)  |      | 49.2     | 50.0     | 52.2      | 54.1     | 55.8     | 56.4b     | 57.0     | 60.2     | 62.5     | 64.0     |
| Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year) | 2)   | 3.0      | 3.8      | 5.4       | 5.0      | 4.3      | 4.2       | 4.7      | 5.5      | 2.4      | -5.8     |
| Employment growth (national accounts, % change on previous year)                               |      | 4.0      | -5.4     | 4.2       | 0.6      | 1.7      | 0.8e      | -0.6e    | 3.5e     | 1.1e     | -1.8     |
| Labour productivity growth: GDP growth per person employed (% change on previous year)         |      | -0.9     | 9.8      | 1.2       | 4.3      | 2.5      | 3.4       | 5.4      | 1.9      | 1.3      | -4.1     |
| Real unit labour cost growth (national accounts, % change on previous year)                    |      | -3.4     | -4.2     | 1.3       | -7.3     | 6.7      | -0.4      | -10.2    | -0.7     | 1.4      | -1.3     |
| Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)          |      | 61.3e    | 66.5e    | 66.6e     | 68.6e    | 69.5e    | 70.4e     | 73.8e    | 75.7e    | 76.6e    | :        |
| Gross value added by main sectors (%)  |      |          |          |           |          |          |           |          |          |          |          |
| Agriculture and fisheries  | 2)   | 8.4      | 8.4      | 8.2       | 6.8      | 7.2      | 6.5       | 6.3      | 6.1      | 6.4      | 6.7      |
| Industry   | 2)   | 23.4     | 22.8     | 21.9      | 21.4     | 21.8     | 20.9      | 20.6     | 20.4     | 20.2     | 19.1     |
| Construction   | 2)   | 4.9      | 5.4      | 5.5       | 6.6      | 7.1      | 7.4       | 7.7      | 7.7      | 8.3      | 8.1      |
| Services   | 2)   | 63.2     | 63.4     | 64.4      | 65.3     | 63.9     | 65.2      | 65.3     | 65.8     | 65.0     | 66.0     |
| Final consumption expenditure, as a share of GDP (%)   | 2)   | 84.6     | 82.7     | 83.1      | 81.4     | 80.4     | 80.2      | 78.9     | 78.7     | 77.7     | 76.7     |
| Gross fixed capital formation, as a share of GDP (%)   | 2)   | 18.8     | 19.4     | 21.2      | 25.0     | 24.6     | 24.6      | 26.1     | 26.2     | 27.6     | 24.7     |
| Changes in inventories, as a share of GDP (%)  | 2)   | -0.2     | 1.7      | 4.0       | 1.5      | 1.3      | 1.7       | 2.0      | 2.7      | 3.2      | 2.0      |
| Exports of goods and services, relative to GDP (%)   | 2)   | 42.0     | 43.8     | 41.0      | 42.9     | 43.3     | 42.6      | 43.4     | 42.8     | 41.9     | 36.1     |
| Imports of goods and services, relative to GDP (%)   | 2)   | 45.3     | 47.6     | 49.4      | 50.8     | 49.6     | 49.1      | 50.4     | 50.4     | 50.3     | 39.4     |

##### Industry

|   | Note | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Industrial production volume index (2000=100) | 3)   | 100.0 | 106.0 | 111.8 | 116.3 | 120.6 | 126.7 | 132.4 | 139.8 | 142.1 | 129.0 |

##### Inflation rate

|   | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Annual average inflation rate (HICP, % change on previous year) |      | 4.5  | 4.3  | 2.5  | 2.4  | 2.1  | 3.0  | 3.3  | 2.7  | 5.8  | 2.2  |

| <b>Balance of payments</b>  | Note | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008    | 2009   |
|---|------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| Balance of payments: current account total (million euro)                 |      | -568   | -821   | -2 099 | -1 889 | -1 434 | -1 976 | -2 715 | -3 236 | -4 338  | -2 448 |
| Balance of payments current account: trade balance (million euro)         |      | -3 492 | -4 595 | -5 958 | -6 971 | -6 724 | -7 518 | -8 344 | -9 434 | -10 794 | -7 398 |
| Balance of payments current account: net services (million euro)          |      | 2 470  | 3 303  | 3 285  | 4 933  | 4 769  | 5 318  | 5 705  | 6 267  | 6 958   | 5 676  |
| Balance of payments current account: net income (million euro)            |      | -505   | -628   | -578   | -1 095 | -670   | -959   | -1 183 | -1 113 | -1 572  | -1 761 |
| Balance of payments current account: net current transfers (million euro) |      | 959    | 1 099  | 1 152  | 1 245  | 1 192  | 1 184  | 1 107  | 1 043  | 1 071   | 1 036  |
| of which government transfers (million euro)                              |      | 25     | 65     | 32     | 71     | 3      | 10     | -9     | -17    | -20     | -31    |
| Net foreign direct investment (FDI) (million euro)                        |      | 1 136  | 1 258  | 531    | 1 657  | 671    | 1 276  | 2 557  | 3 403  | 3 203   | 957    |
| Foreign direct investment (FDI) abroad (million euro)                     | 4)   | -5     | -210   | -607   | -106   | -279   | -192   | -208   | -267   | -989    | -919   |
| of which FDI of the reporting economy in EU-27 countries (million euro)   |      | 15     | -152   | -72    | -7     | -14    | -66    | 37     | -563   | -738    | -528   |
| Foreign direct investment (FDI) in the reporting economy (million euro)   | 4)   | 1 141  | 1 467  | 1 138  | 1 762  | 950    | 1 468  | 2 765  | 3 670  | 4 192   | 1 875  |
| of which FDI of EU-27 countries in the reporting economy (million euro)   |      | 916    | 1 344  | 1 063  | 1 498  | 919    | 1 439  | 3 500  | 3 687  | 3 242   | 1 842  |

| <b>Public finance</b>                                   | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| General government deficit/surplus, relative to GDP (%) | 5)   | :    | -6.5 | -4.1 | -5.5 | -4.3 | -3.5 | -3.0 | -2.5 | -1.4 | -4.1 |
| General government debt relative to GDP (%)             | 5)   | :    | 40.1 | 40.0 | 40.9 | 43.2 | 38.3 | 35.5 | 32.9 | 28.9 | 35.3 |

| <b>Financial indicators</b>  | Note | 2000  | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   |
|--|------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross foreign debt of the whole economy, relative to GDP (%)                               | 6)   | 53.0  | 53.3   | 53.9   | 66.3   | 70.0   | 72.1   | 74.9   | 76.9   | 82.6   | 95.0   |
| Gross foreign debt of the whole economy, relative to total exports (%)                     | 6)   | 126.0 | 121.7  | 131.2  | 154.3  | 161.8  | 169.2  | 172.5  | 179.7  | 197.1  | 263.1  |
| Money supply: M1 (banknotes, coins, overnight deposits, million euro)                      |      | 2 373 | 3 216  | 4 148  | 4 432  | 4 505  | 5 263  | 6 606  | 7 901  | 7 539  | 6 458  |
| Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)            |      | :     | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Money supply: M3 (M2 plus marketable instruments, million euro)                            |      | :     | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Total credit by monetary financial institutions to residents (consolidated) (million euro) |      | 9 483 | 11 891 | 15 119 | 16 526 | 18 417 | 22 836 | 27 274 | 30 863 | 34 756 | 34 700 |
| Interest rates: day-to-day money rate, per annum (%)                                       |      | 6.9   | 3.0    | 1.3    | 4.3    | 5.9    | 3.4    | 2.4    | 5.6    | 6.6    | 7.8    |
| Lending interest rate (one year), per annum (%)  |      | 20.6  | 19.5   | 16.5   | 15.0   | 14.4   | 13.1   | 12.1   | 12.1   | 12.2   | 12.6   |
| Deposit interest rate (one year), per annum (%)  |      | 8.2   | 6.6    | 5.4    | 3.8    | 3.8    | 3.9    | 4.0    | 4.2    | 4.8    | 5.3    |
| euro exchange rates: average of period - 1 euro = ... national currency                    |      | 7.634 | 7.471  | 7.407  | 7.564  | 7.496  | 7.400  | 7.323  | 7.336  | 7.223  | 7.340  |
| Effective exchange rate index (2000=100)   |      | 100.0 | 98.5   | 96.6   | 95.0   | 92.3   | 91.0   | 89.9   | 88.5   | 85.8   | 88.1   |
| Value of reserve assets (including gold) (million euro)                                    |      | 3 783 | 5 334  | 5 651  | 6 554  | 6 436  | 7 438  | 8 725  | 9 307  | 9 121  | 10 376 |

| <b>External trade</b>   | Note | 2000 | 2001 | 2002     | 2003     | 2004     | 2005     | 2006     | 2007     | 2008      | 2009     |
|---|------|------|------|----------|----------|----------|----------|----------|----------|-----------|----------|
| Value of imports: all goods, all partners (million euro)            |      | :    | :    | 11 327.0 | 12 509.9 | 13 354.4 | 14 949.5 | 17 104.7 | 18 686.5 | 20 761.9  | 14 806.1 |
| Value of exports: all goods, all partners (million euro)            |      | :    | :    | 5 188.2  | 5 438.9  | 6 453.8  | 7 069.4  | 8 251.6  | 8 854.7  | 9 342.1   | 7 393.6  |
| Trade balance: all goods, all partners (million euro)               |      | :    | :    | -6 138.9 | -7 071.0 | -6 900.5 | -7 880.1 | -8 853.1 | -9 831.8 | -11 419.8 | -7 412.5 |
| Terms of trade (export price index / import price index)            |      | 98.3 | 94.4 | 97.8     | 97.5     | 109.3b   | 92.6     | 100.2    | 97.5     | 96.1      | 109.2    |
| Share of exports to EU-27 countries in value of total exports (%)   |      | :    | :    | 66.1     | 68.3     | 65.8     | 63.3     | 64.3     | 60.9     | 62.1      | 61.0     |
| Share of imports from EU-27 countries in value of total imports (%) |      | :    | :    | 71.9     | 73.3     | 71.0     | 67.9     | 67.2     | 64.8     | 64.2      | 62.3     |

| <b>Demography</b>  | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)     |      | -1.5 | -1.9 | -2.4 | -2.9 | -2.1 | -2.1 | -2.0 | -2.4 | -1.9 | :    |
| Infant mortality rate: deaths of children under one year of age per 1000 live births |      | 7.4  | 7.7  | 7.0  | 6.3  | 6.1  | 5.7  | 5.2  | 5.6  | 4.5  | 5.3  |
| Life expectancy at birth: male (years)   |      | 70.5 | 71.1 | 71.2 | 71.4 | 72.0 | 71.8 | 72.5 | 72.3 | 72.4 | 72.9 |
| Life expectancy at birth: female (years)   |      | 77.8 | 78.1 | 78.3 | 78.4 | 79.0 | 78.8 | 79.3 | 79.2 | 79.6 | 79.6 |

| <b>Labour market</b>  | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)        | 7)   | 62.2 | 62.2 | 62.9 | 62.4 | 63.7 | 63.3 | 62.6 | 63.2 | 63.2 | 62.4 |
| Employment rate (15-64): share of population aged 15 to 64 that is in employment (%)                  | 7)   | 51.3 | 51.8 | 53.4 | 53.4 | 54.7 | 55.0 | 55.6 | 57.1 | 57.8 | 56.6 |
| Employment rate male (15-64) (%)  | 7)   | 57.4 | 59.0 | 60.5 | 60.3 | 61.8 | 61.7 | 62.0 | 64.4 | 65.0 | 62.4 |
| Employment rate female (15-64) (%)  | 7)   | 45.5 | 44.9 | 46.7 | 46.7 | 47.8 | 48.6 | 49.4 | 50.0 | 50.7 | 51.0 |
| Employment rate of older workers (55-64): share of population aged 55 to 64 that is in employment (%) | 7)   | 24.2 | 23.7 | 24.8 | 28.4 | 30.1 | 32.6 | 34.3 | 35.8 | 36.7 | 38.5 |
| Employment by main sectors (%)  |      |      |      |      |      |      |      |      |      |      |      |
| Agriculture   | 7)   | 11.7 | 15.6 | 15.5 | 16.9 | 17.0 | 17.3 | 14.2 | 13.0 | 13.6 | 14.1 |
| Industry  | 7)   | 22.7 | 23.1 | 22.6 | 22.1 | 21.4 | 20.5 | 20.9 | 21.8 | 21.6 | 20.0 |
| Construction  | 7)   | 5.9  | 6.3  | 7.2  | 8.1  | 8.2  | 8.2  | 8.4  | 8.8  | 8.9  | 8.7  |
| Services  | 7)   | 59.6 | 55.0 | 54.6 | 52.8 | 53.2 | 54.0 | 56.3 | 56.4 | 55.9 | 57.3 |
| Unemployment rate: share of labour force that is unemployed (%)                                       | 7)   | 17.0 | 16.3 | 14.7 | 14.1 | 13.6 | 12.6 | 11.1 | 9.6  | 8.4  | 9.1  |
| Share of male labour force that is unemployed (%)   | 7)   | 15.9 | 14.4 | 13.2 | 12.8 | 12.0 | 11.6 | 9.8  | 8.4  | 7.0  | 8.0  |
| Share of female labour force that is unemployed (%)   | 7)   | 18.2 | 18.7 | 16.5 | 15.6 | 15.6 | 13.8 | 12.7 | 11.2 | 10.1 | 10.3 |
| Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)        | 8)   | 43.1 | 41.7 | 34.4 | 35.8 | 33.8 | 32.0 | 28.8 | 24.0 | 22.0 | 25.1 |
| Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)      | 9)   | 9.1  | 10.1 | 8.9  | 8.4  | 7.3  | 7.4  | 6.7  | 5.9  | 5.3  | 5.2  |

| <b>Social cohesion</b>  | Note | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
|---|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Average nominal monthly wages and salaries (national currency)  |      | 4 869.0 | 5 061.0 | 5 366.0 | 5 623.0 | 5 985.0 | 6 248.0 | 6 634.0 | 7 047.0 | 7 544.0 | 7 711.0 |
| Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)                                      |      | 100.0   | 99.2    | 103.2   | 106.1   | 112.2   | 113.4   | 116.6   | 120.4   | 121.5   | 121.3   |
| Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%) | 10)  | :       | :       | 8.3     | 8.4     | 6.2     | 4.8     | 5.1     | 3.9     | 3.7     | 5.4     |

| <b>Standard of living</b>   | Note | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007    | 2008    | 2009    |
|---|------|-------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| Number of passenger cars per 1000 population                                      |      | 250.1 | 269.3 | 280.0 | 291.1 | 301.1 | 311.6 | 323.2 | 335.7   | 346.1   | 345.5   |
| Number of subscriptions to cellular mobile telephone services per 1000 population |      | 247.2 | 390.0 | 520.4 | 571.0 | 638.3 | 821.4 | 989.2 | 1 133.7 | 1 325.4 | 1 360.7 |

| <b>Infrastructure</b>  | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Density of railway network (lines in operation, per 1000 km <sup>2</sup> ) |      | 47.8 | 47.8 | 47.8 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 | 47.7 |
| Length of motorways (thousand km)  |      | 0.4  | 0.4  | 0.5  | 0.6  | 0.7  | 0.8  | 0.9  | 1.0  | 1.0  | 1.1  |

| <b>Innovation and research</b>  | Note | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Spending on human resources (public expenditure on education in % of GDP) |      | 4.5  | 4.2  | 4.3  | 4.5  | :    | :    | :    | :    | :    | :    |
| Gross domestic expenditure on R&D in % of GDP                             |      | 1.1  | 0.9  | 1.0  | 1.0  | 1.1  | 0.9  | 0.8  | 0.8  | 0.9  | :    |
| Percentage of households who have Internet access at home (%)             |      | :    | :    | :    | :    | :    | :    | :    | 41.0 | 45.0 | 50.0 |

| <b>Environment</b>   | Note | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)                          |      | 82.4  | 86.4  | 89.4  | 94.8  | 94.9  | 96.7  | 98.1  | 102.8 | 99.1  | :    |
| Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)           |      | 286.0 | 280.3 | 288.1 | 281.0 | 269.9 | 260.8 | 250.4 | 247.3 | 235.4 | :    |
| Electricity generated from renewable sources in % of gross electricity consumption |      | 40.0  | 42.7  | 33.9  | 29.4  | 41.0  | 40.4  | 36.1  | 25.4  | 30.3  | :    |
| Road share of inland freight transport (% of tonne-km)                             |      | :     | 75.9  | 76.4  | 76.1  | 76.7  | 75.9  | 74.8  | 74.0  | 76.5  | 77.7 |

| <b>Energy</b>  | Note | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Primary production of all energy products (thousand TOE)   |      | 3 562 | 3 730 | 3 689 | 3 727 | 3 852 | 3 781 | 4 128 | 4 037 | 3 964 | :    |
| Primary production of crude oil (thousand TOE)             |      | 1 328 | 1 232 | 1 200 | 1 138 | 1 079 | 1 017 | 985   | 937   | 875   | :    |
| Primary production of hard coal and lignite (thousand TOE) | 11)  | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | :    |
| Primary production of natural gas (thousand TOE)           |      | 1 355 | 1 642 | 1 732 | 1 789 | 1 796 | 1 854 | 2 204 | 2 349 | 2 217 | :    |
| Net imports of all energy products (thousand TOE)          |      | 4 174 | 4 166 | 4 967 | 4 985 | 5 090 | 5 234 | 4 866 | 5 315 | 5 491 | :    |
| Gross inland energy consumption (thousand TOE)             |      | 7 819 | 7 959 | 8 624 | 8 828 | 8 842 | 8 902 | 8 948 | 9 323 | 9 122 | :    |
| Electricity generation (thousand GWh)                      |      | 10.7  | 12.2  | 12.3  | 12.7  | 13.3  | 13.1  | 13.0  | 12.4  | 12.6  | :    |

| <b>Agriculture</b>  | Note | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agricultural production volume index of goods and services (producer prices, previous year=100) |      | 88.7  | 107.4 | 107.9 | 91.4  | 106.9 | 107.4 | 103.4 | 97.3  | 108.5 | 100.1 |
| Total utilised agricultural area (thousand hectare)   |      | 1 169 | 1 178 | 1 181 | 1 196 | 1 176 | 1 211 | 1 230 | 1 202 | 1 288 | 1 300 |
| Livestock: cattle (thousand heads, end of period)   |      | 427   | 438   | 417   | 444   | 466   | 471   | 483   | 467   | 454   | 447   |
| Livestock: pigs (thousand heads, end of period)   |      | 1 234 | 1 234 | 1 286 | 1 347 | 1 489 | 1 205 | 1 488 | 1 348 | 1 104 | 1 250 |
| Livestock: sheep and goats (thousand heads, end of period)                                      |      | 608   | 632   | 677   | 673   | 848   | 931   | 783   | 738   | 727   | 695   |
| Production and utilisation of milk on the farm (total whole milk, thousand tonnes)              |      | 626   | 674   | 716   | 686   | 708   | 813   | 870   | 883   | 848   | 838   |
| Crop production: cereals (including rice) (thousand tonnes, harvested production)               |      | 2 312 | 2 829 | 3 080 | 2 014 | 3 067 | 3 039 | 3 034 | 2 534 | 3 726 | 3 442 |
| Crop production: sugar beet (thousand tonnes, harvested production)                             |      | 482   | 965   | 1 183 | 678   | 1 260 | 1 338 | 1 560 | 1 583 | 1 270 | 1 217 |
| Crop production: vegetables (thousand tonnes, harvested production)                             |      | 196   | 208   | 218   | 154   | 150   | 286   | 304   | 281   | 308   | 337   |

: = not available

p = provisional value

e = estimated value

b = break in series

1) Land area; break in series due to improved methodology.

2) Since 2006, data is calculated on the basis of the sum of quarterly values.

3) Gross series; include NACE Sections C to E.

4) The balance of payments sign conventions are used. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

5) Data as received by Eurostat in the framework of the annual fiscal notification procedure in spring each year.

6) Gross foreign debt of the whole economy excluding Special Purpose Entities.

7) 2000 to 2001, second half of the year; data used until 2006 refer to half-year periods and from 2007 used data refer to quarter periods.

8) For 1996-2006, data refer to the second half of the year; data used until 2006 refer to half-year periods and from 2007 used data refer to quarter periods.

9) 1996 to 2001, second half of the year; for 1996-2001, long-term unemployment refers to thirteen months or more; data used until 2006 refer to half-year periods and from 2007 used data refer to quarter periods.

10) Second half of the year; data used until 2006 refer to half-year periods and from 2007 used data refer to quarter periods.

11) 2000-2008: Croatia closed all coal mines in 1999 and 2000 and therefore, there is no production of coal starting in 2000.