

# National Recovery and Resilience Plan: Croatia

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### Abstract

Croatia's Recovery and Resilience Plan (RRP), adopted by the Council on 20 July 2021, encompasses reforms in three main areas: green transition, digital transition, and economic and social resilience. The Plan in general is expected to foster economic growth and create jobs. The article analyses the social and labour dimension of the RRP, also in light of implementation of the European Pillar of Social Rights and the country-specific recommendations issued by the European Commission.

**Keywords:** NGEU, Croatian RRP, Covid-19 Pandemic, European Pillar of Social Rights, Social Scoreboard, Country-Specific Recommendations, European Semester.

### 1. General framework.

The key macroeconomic challenges for Croatia's economy include low employment and activity rates, a burdensome and complex business environment, low efficiency and high fragmentation of the public administration and judiciary, a fragmented and ineffective social protection system and low quality of education. These challenges weigh on potential growth and employment. Croatia's Recovery and Resilience Plan (hereinafter: RRP) was adopted by the Council on 20 July 2021.<sup>1</sup>

As emphasised by the Commission, the Croatian labour market took a relatively mild hit from the pandemic and is expected to recover gradually. After several years of falling unemployment, the onset of the Covid-19 crisis led to a decrease in employment of 1.2 per

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<sup>1</sup> See European Commission, *Croatia's recovery and resilience plan*, available at [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/croatias-recovery-and-resilience-plan\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/croatias-recovery-and-resilience-plan_en), accessed 10 June 2022.

cent. The unemployment rate increased slightly to 7.5 per cent, which can be attributed to the relatively brief and mild nature of the Covid-19 containment measures and incentives offered to employers by the Croatian government to retain workforce. The proportion of the population at-risk-of poverty or social exclusion declined pre-Covid-19, albeit remaining above the EU average (23.3 per cent vs the EU27's 20.9 per cent in 2019).<sup>2</sup>

The Covid-19 crisis had a particularly detrimental impact on the Croatian economy, which contracted by 8 per cent in 2020, the steepest drop among peer countries. On the other hand, policy measures cushioned the impact on household incomes.<sup>3</sup>

Structural rigidities in the Croatian economy include an inefficient public administration, a cumbersome business environment, the substantial presence of the state in the economy, an inefficient allocation of labour resources and skills shortages, and low investment in R&D and digital infrastructures.<sup>4</sup> Croatia's research and development intensity remains low.<sup>5</sup>

A further challenge is the high fragmentation of the public administration. The wage-setting framework lacks consistency and transparency across the public administration and the civil service. This affects equality of treatment and hinders central control over the public wage bill. Therefore, setting up a standardised wage-setting framework across the public administration and public services seems to be essential.<sup>6</sup>

Labour market challenges have a negative effect on economic growth and resilience. Challenges include low labour market participation, pronounced labour shortages, high regional disparities in employment and social outcomes, and high incidence of undeclared work. Croatian employment and activity rates are among the lowest in the EU. Despite high unemployment, some sectors of the economy (industry, construction, services) suffer from labour shortages mainly as a result of skills gaps, but demographic ageing, emigration and low job quality also play a role. Croatia has a high incidence of undeclared work, caused by various factors (such as low quality of job offers and the high share of precarious employment). In order to raise productivity, close skills gaps and encourage declared employment, the acquisition of adequate skills, including digital skills, during initial education and training, and later reskilling and upskilling, is needed.<sup>7</sup>

Regarding the position of the Croatian government vis-à-vis EU action (and, in particular, the NGEU) in the aftermath of the Covid-19 crisis and during the relevant political negotiations (summer and winter 2020), it should be noted that the government insisted that due note be taken of Croatian circumstances in the drafting of the EU budget and the three-year budget rule. Among the arguments it used during the intensive negotiations were the importance of tourism for Croatian economy, the unsatisfactory economic and demographic situation in eight Croatian counties, and specific problems caused by a number of

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<sup>2</sup> European Commission, *Analysis of the recovery and resilience plan for Croatia. Accompanying the document Proposal for a Council implementing Decision on the approval of the assessment of the recovery and resilience plan for Croatia*, 8 July 2021, SWD (2021) 197 final, 6.

<sup>3</sup> *Ibidem*, 5-6.

<sup>4</sup> *Ibidem*, 8.

<sup>5</sup> *Ibidem*, 9.

<sup>6</sup> *Ibidem*, 8.

<sup>7</sup> *Ibidem*, 9.

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catastrophic earthquakes. In general, the government expressed its satisfaction with the results achieved in the negotiations.<sup>8</sup>

## 2. The Croatian RRP: overview.

### 2.1. Amount requested (grants/loans).

Croatia's Recovery and Resilience Plan consists of 222 individual measures (146 investments and 76 reforms). They will be supported by €6.3 billion in grants and €3.6 billion in loans (€9.9 billion in total).<sup>9</sup> The plan in general is expected to foster economic growth and create jobs. As stated, it will raise Croatia's GDP by between 1.9 and 2.9 per cent by 2026. This boost to the economy will create jobs for up to 21,000 people.

### 2.2. Major reforms and investments.

The relevant reforms encompass three main areas: green transition, digital transition and economic and social resilience. The majority of reforms and investments are directed towards the climate and digital transitions: as 40.3 per cent of the plan will support climate objectives and 20.4 per cent will foster the digital transition.<sup>10</sup> Concerning the social and labour dimensions, 15 per cent of funding will go to supporting education, science and research, 5 per cent to health care, and 4 per cent to the labour market and social security. Croatia's RRP is structured around five priorities: (i) the economy, (ii) public administration, judiciary and the state, (iii) education, science and research, (iv) labour market and social security, and (v) health care, with one initiative for renovating buildings.<sup>11</sup>

### 2.3 Impact of the reforms.

As already mentioned, the plan in general is expected to foster economic growth and create jobs. Reforms that can be said to have an impact on the labour market – by creating new jobs – are projected in each of the three mentioned areas.

Key measures for the first area, green transition (in other words, climate and environmental policies), supported by the plan include various investments that can create

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<sup>8</sup> Government of the Republic of Croatia, *Report of Prime Minister Plenković to the Croatian Parliament*, 29 July 2020, <https://vlada.gov.hr/vijesti/hrvatskoj-na-raspolaganju-22-milijarde-eura-europskih-sredstava-kao-snazna-i-dodatna-poluga-za-gospodarski-razvoj/30041>, accessed 18 August 2022.

<sup>9</sup> European Commission, nt. (2), 2. According to SWD 2021, €6.4 billion.

<sup>10</sup> In line with Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021, *establishing the Recovery and Resilience Facility*, OJ L 57, 18 February 2021, 17–75, available at <https://eur-lex.europa.eu/eli/reg/2021/241/oj>.

<sup>11</sup> European Commission, nt. (2), 2; *see* European Commission, nt. (1).

new jobs, particularly in the construction industry.<sup>12</sup> These are investments in (a) energy efficiency and post-earthquake reconstruction of buildings (in the City of Zagreb, Krapina-Zagorje county, Zagreb county, Sisak-Moslavina county and Karlovac county); (b) sustainable and innovative mobility, notably in upgrading railway lines; (c) improving waste and water management; (d) the low-carbon energy transition (by modernising energy infrastructure, supporting investments for the production of advanced biofuels and renewable hydrogen, and financing innovative carbon capture and storage projects); and (e) supporting businesses for green transition and energy efficiency (underpinning their projects aimed at boosting the green economy, sustainable tourism and investing in green technologies).<sup>13</sup>

In the second area, digital transition, the plan includes investments and reforms concerning the digitalisation of public administration and higher education, and the digital connectivity of rural areas. Key measures therefore include: (i) investment in the digital transition of the public administration (digitalisation of the justice system, deployment of the Digital Identity Card and creation of a one-stop-shop for all public administration' online services); (ii) increasing national broadband coverage with gigabit connectivity in rural areas and construction of electronic communications infrastructure for a 5G network, thereby increasing the digital connectivity of rural areas; and (iii) digitalisation of higher education through investing in e-learning and digital teaching tools. These activities will probably increase job creation among workers with different qualifications, such as ICT specialists, electrical engineers and technicians.

As regards economic and social resilience, the key measures aimed at tackling the abovementioned macroeconomic challenges for Croatia's economy (see Section 1 above) are directed towards job creation in general, as well as jobs in education (including early-childhood education and care) and research. Key measures in reinforcing economic and social resilience include: (i) redesigning active labour market policies to boost employment and self-employment; (ii) reskilling and upskilling; and (iii) investment in education and research, including improvement of access to early-childhood education and care.<sup>14</sup>

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<sup>12</sup> Dokonal T., *Što hrvatski građevinari mogu dobiti kroz Plan oporavka i otpornosti*, in *Minera & Gradnja*, 23 September 2021:

<https://www.mineral.com.hr/6460/Sto-hrvatski-gradjevinari-mogu-dobiti-kroz-Plan-oporavka-i-otpornosti>, accessed 15 June 2022.

<sup>13</sup> European Commission, *Guidance to Member States Recovery and Resilience Plans*, 22 January 2021, SWD(2021) 12 final, 24-26. According to Guidance to Member States for the RRP, Part 1, due attention should be paid to “*job creation potential, the development and deployment of research and innovation, as well as to the provision of trainings and acquisition of the skills that are necessary to address those objectives and accelerate the deployment of the technologies needed for the green transition*”. For example, “*investments in upgrading skills in construction and other relevant sectors; curricula reforms, setting up graduate tracking systems and modular vocational education and training programmes. Investments in biodiversity and nature-based solutions to increase resilience against natural disasters and climate change (restoration of ecosystems such as forests, wetlands, peatlands, free-flowing rivers and coastal ecosystems; improving infrastructure in protected areas and investing in nature-tourism; planting trees; greening urban spaces)*”.

<sup>14</sup> For example, by creating 22,500 new kindergarten places, it will be ensured that every child after the age of 4 has a guaranteed place. The reform will provide for additional specialised teachers and include a new financing model to ensure the long-term sustainability and increased affordability of kindergartens.

Measures that can have an impact on employment protection include reinforcing economic and social resilience through reskilling and upskilling.

A key measure in reinforcing economic and social resilience concerns improving the provision and adequacy of social benefits and services. They include a guaranteed minimum benefit as the main benefit for reducing poverty, the introduction of new social services, such as social mentorship and family assistants, aimed at preventing social exclusion and institutionalisation, as well as improving long-term care measures.

In the area of economic and social resilience, a key measure targets investment in education and research, including improvement of access to early-childhood education and care, and to the health-care system.<sup>15</sup>

### 3. Social and labour dimensions of the RRP.

#### 3.1 Evaluation of the plan by the Commission and the Council (with particular regard to social and labour policies).

According to both the Commission SWD (2021) and the Council,<sup>16</sup> Croatia's plan, to a large extent, represents a comprehensive and adequately balanced response to the economic and social situation, therefore contributing appropriately to the six policy pillars referred to in Article 3 of the Regulation.<sup>17</sup> The Commission holds that “numerous components of the plan contribute to smart, inclusive and sustainable growth” and, overall, the plan addresses many of the country's core problems in the areas of labour market, productivity, business environment, and competitiveness challenges.<sup>18</sup>

In the RRP, social cohesion is strengthened mainly through active labour market policy measures that, among other things, provide support for appropriate skills development tailored to vulnerable groups, through education and social policies aimed at reducing poverty.<sup>19</sup>

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<sup>15</sup> See: *infra* 3.3.

<sup>16</sup> Council of the European Union, *Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Croatia*, 20 July 2021, 10687/21, point 7. It is emphasised that “the RRP includes measures that contribute towards all of the six pillars, with a significant number of components of the RRP addressing multiple pillars. Such an approach helps to ensure that each pillar is comprehensively addressed in a coherent manner” (point 8).

<sup>17</sup> The ‘six pillars’ are: (i) green transition; (ii) digital transformation; (iii) smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong small and medium enterprises (SMEs); (iv) social and territorial cohesion; (v) health, and economic, social and institutional resilience with the aim, among other things, of increasing crisis preparedness and crisis response capacity; and (vi) policies for the next generation, children and young people, such as education and skills (the scope of application of the Facility).

<sup>18</sup> European Commission, nt. (2), 4. Council of the European Union, nt. (16), point 8: the RRP includes a significant number of components addressing multiple pillars that contribute to ensuring that each pillar is addressed comprehensively and coherently. Moreover, given the specific challenges faced by Croatia, the particular focus on smart, sustainable and inclusive growth and on economic and institutional resilience, along with the overall weighting across pillars, is considered to be adequately balanced.

<sup>19</sup> European Commission, nt. (2); Council of the European Union, nt. (16), point 10.

According to the Commission, “investments in education, research and innovation target specifically children and youth and are therefore essential to support the education and future of the next generation”.<sup>20</sup> These important measures are expected to visibly improve education outcomes. They are aimed at, for example, increasing participation in early-childhood education and care through investment in infrastructure, enabling one-shift schooling and increasing mandatory teaching hours in primary schools, reviewing curricula and modernising higher education.<sup>21</sup> Moreover, reforms are expected to reduce the fragmentation of public research institutions, moving to results-oriented research and innovation funding, and improve research career progression.<sup>22</sup>

Targeted reforms and investments in education should improve processes at the Public Employment Service<sup>23</sup> and help to increase participation in the labour market by adopting active labour market policies (ALMP),<sup>24</sup> establishing vouchers for training and upskilling programmes,<sup>25</sup> and amending labour law.<sup>26</sup> The measures aimed at facilitating inclusion (of vulnerable groups) in the labour market, such as funding of different types of vouchers, have the potential to increase labour competitiveness and employability in line with labour market needs and with a particular focus on the activation of the long-term unemployed and the inactive population. The objective of the proposed labour-law reform is to establish a clear and modern legislative framework aimed at improving working conditions and work–life balance, better regulating new forms of work and encouraging transitions from fixed to open-ended contracts and from undeclared to declared work.

One of the challenges facing the Croatian public administration is its high fragmentation, including across the country. The wage-setting framework lacks consistency and transparency across public administration and civil service, thus affecting equality of treatment and hindering central control over the public wage bill. Therefore, reforms setting up a standardised wage-setting framework across public administration and public services are essential.<sup>27</sup>

The RRP addresses the challenges of the Croatian social welfare system as regards improving the coverage and adequacy of social benefits, as well as the development of new social services.

Increasing the basic amount and coverage of the Guaranteed Minimum Benefit (the main [national level] benefit for the reduction of poverty), as well as the merger of benefits with the same functions, is planned to improve the coverage, adequacy and targeting of social

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<sup>20</sup> European Commission, nt. (2), 2–3.

<sup>21</sup> European Commission, nt. (2), 4. Envisaged digitalisation efforts that will be further embedded in a new strategic framework “Croatia’s 2030 Digital Strategy” seem to be important for education, but also businesses in the cultural and creative sectors.

<sup>22</sup> Council of the European Union, nt. (16), point 11.

<sup>23</sup> *Hrvatski zavod za zapošljavanje*, Croatian Employment Service (CES).

<sup>24</sup> Here it should be emphasised that the RRP envisages the adoption of ALMP to boost employment and self-employment linked to the green and digital transitions.

<sup>25</sup> Introduction of different vouchers (system) is planned for the education of employed and unemployed people to provide skills related to the green and digital transitions, for accredited adult education.

<sup>26</sup> Council of the European Union, nt. (16), point 16; European Commission, nt. (2), 34.

<sup>27</sup> European Commission, nt. (2), 9; Council of the European Union, nt. (16), point 15.



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benefits.<sup>28</sup> The RRP also envisages the development of new social services (social mentorship and family assistants) in order to prevent institutionalisation and social exclusion. Long-term care is likewise supported by the RRP with measures to increase the availability, accessibility and quality of home- and community-based services, as well as of institutional care exclusively for people who depend on it.

It is assessed that the combination of these measures should help reduce poverty, prevent social exclusion and develop social services tailored for vulnerable groups, thereby building a more resilient society.<sup>29</sup>

The health sector is specifically supported by a component in the RRP. The improvement concerns the necessary structural reforms, as well as infrastructure and medical equipment requirements. Moreover, measures are envisaged to achieve full territorial coverage of primary health care and medicine availability, thereby improving the health system's resilience and preparedness.<sup>30</sup> The main measures include: improving the digitalised system of joint procurement, purchasing new medical equipment, increasing the number of physicians, nurses and other health professionals, the introduction of a new care model for patients, the functional integration of hospitals and the strengthening of day hospitals at secondary and tertiary level. The reform aims to improve the efficiency, quality, accessibility and financial sustainability of the health system.<sup>31</sup>

To conclude, the Council emphasises that “investments in education, healthcare and labour market skills are expected to have long-term positive effects on human capital”.<sup>32</sup> The implementation of RRP reforms and investments should help Croatia to address its economic weaknesses, such as its comparatively low employment and growth potential: “upskilling could improve the competitiveness of the workforce and reduce skills gaps and mismatches on the labour market ... while substantial investments in education should help improve learning outcomes. All those measures should raise human capital, labour productivity and hence increase the labour contribution to potential growth.”<sup>33</sup>

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<sup>28</sup> Digitalisation of the social benefit system will thus provide simplified access and an overview of the social benefits that beneficiaries are entitled to receive at the national level and the level of local and regional government units.

<sup>29</sup> European Commission, nt. (2), 34.

<sup>30</sup> European Commission, nt. (2), 3; Council of the European Union, nt. (16), point 11.

<sup>31</sup> European Commission, nt. (2), 34.

<sup>32</sup> Council of the European Union, nt. (16), point 37.

<sup>33</sup> Council of the European Union, nt. (16), point 20. The RRP features measures aimed at improving the employability of the most vulnerable people, thus reducing social exclusion and poverty. The risk of poverty and social exclusion in Croatia is closely linked to unemployment and inactivity (point 22).

### 3.2 RRP and the implementation of the European Pillar of Social Rights and the Social Scoreboard.

As emphasised by the Commission, “the recovery and resilience plan submitted by Croatia addresses a multitude of employment and social challenges relevant for the implementation of the Pillar”.<sup>34</sup>

Concerning the implementation of the European Pillar of Social Rights (hereinafter: EPSR), the Council assesses that the Croatian “RRP is expected to have a high impact on strengthening the growth potential, job creation, and economic, social and institutional resilience of Croatia, thus contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth ...”,<sup>35</sup> and that “The RRP includes various interventions to contribute to the implementation of the European Pillar of Social Rights, aimed at, among other things, expanding access to early childhood education and care, developing digital solutions to exchange data on social benefits, and introducing social mentoring services to promote employment and social inclusion, especially for young people”.<sup>36</sup>

The Croatian RRP has mainly addressed the following principles of the EPSR: 1. education, training and lifelong learning; 4. active support for employment; 11. childcare and support to children; 14. minimum income; 16. health care; and 18. long-term care. The other principles tackled in the RRP are: 2. gender equality; 9. work-life balance;<sup>37</sup> 13. Unemployment benefits (will be increased and its duration prolonged), 15. old age income and pensions (increase of the minimum pension and survivor’s pension), and 17. inclusion of people with disabilities (for example, through the introduction of the social service called “social mentorship”).<sup>38</sup>

The aspects of the Social Scoreboard mostly addressed by the RRP are: (a) equal opportunities and access to the labour market;<sup>39</sup> (b) dynamic labour markets and fair working conditions;<sup>40</sup> and (c) social protection and inclusion.<sup>41</sup>

<sup>34</sup> European Commission, nt. (2), 47.

<sup>35</sup> Council of the European Union, nt. (16), point 19. *See* European Commission, nt. (2), 46.

<sup>36</sup> Council of the European Union, nt. (16), point 23.

<sup>37</sup> Council of the European Union, nt. (16), point 49. The planned labour reform is expected to help to increase female labour market participation, to facilitate work-life balance, to indirectly reduce the gender pay gap and to address the high gender pension gap.

<sup>38</sup> Council of the European Union, nt. (16), point 49; European Commission, nt. (2), 42. Moreover, the RRP provides several measures to address specific needs of persons with disabilities: to ensure physical accessibility to buildings and housing, to provide adequate mobility services, to promote hybrid access to a workplace and to ensure access to digital public services.

<sup>39</sup> The plan envisages a new strategy for adult learning and modernisation of the upskilling and reskilling system.

<sup>40</sup> The plan envisages significant investments in ALMPs that will complement activation programmes supported by the ESF, especially targeting the inactive population and those facing multiple employment barriers. Further, it is important to develop a comprehensive activation strategy and to strengthen an integrated approach to providing employment and social services. These measures would be complemented by labour law reform in order to improve labour market functioning and establish a framework for fighting undeclared work.

<sup>41</sup> European Commission, nt. (2), 47. The measures include, as already mentioned, expanding access to early-childhood education and care, developing digital solutions to exchange data on social benefits, introducing social mentoring services to promote employment and social inclusion, and increasing long-term care capacity.



Regarding the different policies and legislation, in the period after adopting the NGEU, several important documents and legislative acts have been adopted, such as the National strategy of development of the Republic of Croatia until 2030;<sup>42</sup> new Social Care Act;<sup>43</sup> and the amended Act on Maternity and Parental Benefits,<sup>44</sup> etc.

The most important novelties introduced by the Social Care Act are the following: a) the amounts of some benefits (such as the guaranteed minimum benefit, etc.) have been increased; b) the circle of the persons that can provide a personal care to persons with disabilities has been enlarged and the amount of the benefit has been increased for certain categories of persons with disabilities; c) new social services has been introduced (e.g. social mentorship, professional assessment, some types of psycho-social treatments etc.); d) the procedure of the contracting out of social services has been simplified; e) three new institutions have been established: the Croatian Institute for Social Work (as a public institution, with the headquarter and local branches, that has replaced the existing centres of social care, what, according to legal scholars, represents a hyper centralisation of social care in Croatia<sup>45</sup>); the Family Centre (as an autonomous institution in charge of the prevention programmes and individual and group advising for different groups of users); the Academy of Social Care (with the aim of providing continuous professional education in the field of social care), etc.

The most important novelty in the Act on Maternity and Parental (amended in July 2022) concerns the introduction of the paternity leave of employed or self-employed father of 10 working days for one child and 15 working days on the occasion of the birth of twins, triplets or the contemporaneous birth of more children. This right the father can use until the child's sixth month. Moreover, the amount of parental benefit has been increased.<sup>46</sup>

Several laws are expected to be adopted in the near future: a new Higher Education and Science Activity Act, as well as amendments to the Labour Act (after a two-year process of drafting a new Act was abandoned). The draft novelties of the Labour Act concern: (i) the new limitations of successive fixed-term employment contracts; (ii) employment contracts of indefinite duration for permanent seasonal jobs; (iii) contracts of employment at alternative workplaces (at the worker's home or outside the employer's premises); (iv) so-called additional work performed for another employer (one proposal is to remove the existing limitation of a maximum period of up to 180 hours a year); (v) introduction of carers'

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An overall strategic framework and ambition are necessary for strengthening access to and adequacy of social benefits and services and improving the efficiency of the current complex system of social protection. Reform proposals aimed at tackling the critically low adequacy of pensions are expected to induce only a limited positive impact.

<sup>42</sup> *Nacionalna razvojna strategija Republike Hrvatske do 2030. godine*, *Narodne novine* 13/2021.

<sup>43</sup> *Zakon o socijalnoj skrbi* (*Narodne novine*, 18/22, 46/22), in force from 16 April 2022.

<sup>44</sup> *Zakon o roditeljskim i roditeljskim potporama* (*Narodne novine*, 85/08, 110/08, 34/11, 54/13, 152/14, 59/17, 37/20, 85/22).

<sup>45</sup> Potočnjak Ž., Berc G., Marčetić G., *Ukidanje pravne osobnosti centara za socijalnu skrb neće donijeti ništa dobro*, in *Novi List*, 19 November 2021, <https://www.novolist.hr/novosti/ukidanje-pravne-osobnosti-centara-za-socijalnu-skrb/>, accessed 19 August 2022.

<sup>46</sup> With the aim of positively influencing the strengthening of families' material standards and quality of life, consequently encouraging the parenthood and family enlargement, especially taking into account the negative demographic situation in Croatia. See Government of the Republic of Croatia, <https://vlada.gov.hr>.

leave; (f) the right to a notice period and severance pay for workers reaching 65 years of age and 15 years' entitlement for a retirement pension are proposed to be removed; and (g) the regulation of digital platform work.

### **3.3 RRP and implementation of the Country-specific recommendations formulated in the European Semester cycles 2019 and 2020.**

In the context of the European Semester cycles 2019 and 2020 the Council recommended that Croatia take all measures necessary to effectively address, among other things, issues concerning: (i) the health care system: “to enhance the resilience of the health system; and promote balanced geographical distribution of health workers and facilities, closer cooperation between all levels of administration and investment in e-health”; (ii) labour market measures and institutions: “to strengthen labour market measures and institutions and their coordination with social services, while also consolidating social benefits and improving their capacity to reduce poverty”; and (iii) education reform: “to deliver on education reform and improve access to education and training at all levels as well as their quality and labour market relevance, while also promoting the acquisition of skills”. The Council also recommended that Croatia (iv) “introduce, in consultation with the social partners, harmonised wage-setting frameworks across the public administration and public services”; and (v) “focus investment-related economic policies on research and innovation”.<sup>47</sup> In order to face the challenge of poverty reduction and social inclusion, it was recommended to improve employment measures and the legal framework for a modern labour market; develop and improve the pension system and improve the social welfare system.<sup>48</sup>

Both the Commission SWD (2021)<sup>49</sup> and the Council Decision<sup>50</sup> conclude that the RRP addresses all or a significant number of the country-specific recommendations (the economic and social challenges) identified in the European Semester (2019 and 2020), by setting up, among other things, the reforms concerning: (a) active labour market policy measures;<sup>51</sup> (b) education (by improving access to education and its quality and labour market relevance; skills especially for vulnerable groups);<sup>52</sup> (iii) health-care system (addressed by measures to

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<sup>47</sup> Council of the European Union, nt. (16), 3-4. Also, to focus investment on sustainable urban and railway transport, clean energy, renewables and environmental infrastructure, as well as on green and digital transitions, while taking into account regional disparities.

<sup>48</sup> European Commission, nt. (2), 39.

<sup>49</sup> European Commission, nt. (2), 3.

<sup>50</sup> Council of the European Union, nt. (16), 11.

<sup>51</sup> European Commission, nt. (2), 33. The ALMP measures aim to boost employment and self-employment linked to the green and digital transitions, to facilitate the inclusion of vulnerable groups in the labour market, including through the vouchers system for accredited adult education, training and upskilling programmes to acquire the skills needed in the labour market, focusing on the long-term unemployed and the inactive population.

<sup>52</sup> European Commission, nt. (2), 33-34. The RRP includes measures aimed at: improving access to early-childhood education and care; increasing the quality of teaching and learning outcomes; and necessary infrastructure investments, including in digital infrastructure. The measures will help to promote the acquisition

improve its efficiency, quality, accessibility and financial sustainability). Furthermore, the plan contains measures to support investment in and the policy relevance of research and innovation.<sup>53</sup>

#### 4. Lessons from the previous crisis?

Concerning the fiscal/macroeconomic recommendations for Croatia in the context of the in-depth reviews carried out by the Commission since the Covid-19 pandemic, the 2021 Alert Mechanism Report concluded that an in-depth review should be undertaken for Croatia to examine further the persistence of imbalances or their unwinding. Croatia faced “excessive imbalances” from 2014 to 2018, and “imbalances” from 2019 to 2021.

It should be noted that in February 2020, at the outset of the pandemic, under the previous annual cycle of surveillance under the Macroeconomic Imbalances Procedure, the Commission identified macroeconomic imbalances in Croatia related to high levels of external, private and government debt in a context of low potential growth. In its SWD 2021 the Commission<sup>54</sup> concluded that “the analysis shows that these vulnerabilities remain”,<sup>55</sup> but the context of the assessment of vulnerabilities in 2021 in-depth review (IDR) for Croatia was markedly different from the previous year.

On 20 July 2020 the Council recommended that Croatia “in 2020 and 2021 take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery”. Furthermore, it recommended that it pursue fiscal policies aimed at achieving prudent medium-term positions and ensuring debt sustainability, while enhancing investment.<sup>56</sup> Croatia’s fiscal policy response supported the economic recovery in 2021. The discretionary measures adopted in 2021 included reductions in personal income and corporation tax, totalling 0.5 per cent of GDP.<sup>57</sup>

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of skills (including by a voucher system) and the digital transformation of higher education, and to facilitate e-learning. *See. supra* 3.1.

<sup>53</sup> European Commission, nt. (2), 3.

<sup>54</sup> European Commission, *In-Depth Review for Croatia in accordance with Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. Accompanying the Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy*, 2 June 2021, SWD(2021) 406 final. Available at: [https://ec.europa.eu/info/sites/default/files/7\\_en\\_autre\\_document\\_travail\\_service\\_part1\\_v3.pdf](https://ec.europa.eu/info/sites/default/files/7_en_autre_document_travail_service_part1_v3.pdf).

<sup>55</sup> *Ibidem*, 2.

<sup>56</sup> Council of the European Union, *Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Croatia and delivering a Council opinion on the 2020 Convergence Programme of Croatia*, 2020/C 282/11, 68–73. Further, the Council recommended that Croatia: enhance the resilience of the health care system; strengthen labour market measures and institutions, and improve the adequacy of unemployment benefits and minimum income schemes; promote the acquisition of skills; and maintain measures to provide liquidity to SMEs and the self-employed.

<sup>57</sup> European Commission, *Recommendation for a Council Recommendation on the 2022 National Reform Programme of Croatia and delivering a Council opinion on the 2022 Convergence Programme of Croatia*, 23 May 2022, COM(2022) 613 final, 4-5.

In the Commission's 2022 country report for Croatia (published on 23 May 2022)<sup>58</sup> the Commission assessed Croatia's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Croatia's implementation of the Recovery and Resilience Plan, building on the Recovery and Resilience Scoreboard. The country report identified gaps concerning those challenges that are not or only partially addressed by the RRP, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Croatia's progress in implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

In its In-depth Review<sup>59</sup> the Commission concluded that Croatia is no longer experiencing macroeconomic imbalances and that important progress has been made in reducing private indebtedness and net external liabilities, while government debt remains high but has resumed the downward trajectory that delivered marked improvements before the pandemic.

In its 2022 Country-Specific Recommendations the Commission recommended that in 2022 and 2023 Croatia – among other things – implement measures of “continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine”, while ensuring the growth of nationally-financed current expenditure in line with an overall neutral policy stance. Croatia should “stand ready to adjust current spending to the evolving situation”. Subsequently, Croatia has to proceed with implementation of its RRP.<sup>60</sup> As already mentioned, it includes active labour market policy measures aimed, among other things, at the appropriate skills development tailored to vulnerable groups (vouchers for training and upskilling programmes) and amendments to labour law. Furthermore, the RRP is concerned with improving the Croatian social welfare system (regarding social benefits, development of new social services and long-term care). Measures are also needed in education, research and health care.

Parliamentary elections were taking place in Croatia when the European Council introduced the 750-billion-euro NextGenerationEU (NGEU) package in July 2020 in order to stimulate economic recovery from the Covid-19 pandemic. Despite the diverse political landscape compared with previous elections,<sup>61</sup> two major parties, HDZ and SDP, continued

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<sup>58</sup> European Commission, nt. (57).

<sup>59</sup> European Commission, *In-depth review for Croatia in accordance with Article 5 of Regulation (EU) No. 2011/1176 on the prevention and correction of macroeconomic imbalances. Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank 2022 European Semester - Spring Package*, 23 May 2022, SWD (2022) 633 final. Available at: [https://ec.europa.eu/info/sites/default/files/economy-finance/croatia\\_swd\\_2022\\_633\\_7\\_en\\_autre\\_document\\_travail\\_service\\_part1\\_v1.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/croatia_swd_2022_633_7_en_autre_document_travail_service_part1_v1.pdf).

<sup>60</sup> European Commission, nt. (57); European Commission, nt. (59). Other recommendations mainly concern the expansion of public investment for the green and digital transitions and for energy security.

<sup>61</sup> The previous parliamentary elections were held on 11 September 2016, when the Croatian Democratic Union (HDZ) and its allies won 61 seats, the Social Democratic Party of Croatia (SDP) and its People's Coalition partners 54 seats. Eight seats were reserved for national minorities, while the remaining 28 seats were won by six other parties or coalitions. HDZ formed a coalition government with Most and the MPs representing

to dominate. What is more, they have formed the basis of all governments since Croatian independence. Nevertheless, shortly before the elections new parties were established, such as the right-wing Homeland Movement (*Domovinski pokret*) and the left-green We Can! (*Možemo!*), which won parliamentary seats for the first time.

At the parliamentary elections in July 2020, the two biggest parties achieved the following results: HDZ won 66 seats, and SDP and its allies (*Restart koalicija*) 41 seats. The elections were also characterised by the emergence of some new populist movements, but they did not do particularly well.<sup>62</sup> Generally speaking, the adoption of the NGEU appears to have had no significant impact on the Croatian political landscape.

During the pre-electoral campaign, the NGEU issue was a topic of various political debates. The HDZ government emphasised its efforts to procure NGEU funds. When after the elections Croatian government representatives reported on the RRP draft to the Croatian Parliament, the opposition expressed strong criticism. Criticisms included the point that the opposition, as well as the business sector, had no opportunity to participate in drafting the RRP, that the RRP included projects already included in previous national strategies but never implemented, and that resources had been allocated without a preliminary assessment.<sup>63</sup>

The RRP was first presented to the representatives of trade unions and the Croatian Employers' Association (hereinafter: CEA)<sup>64</sup> in the form of a draft summary, at the meeting of the Economic-Social Council<sup>65</sup> on 29 March 2021, eight months after the preparatory work, in which all government departments took part, began. On that occasion both the trade unions and CEA expressed their satisfaction with the RRP, which they assessed as “encouraging” (mainly because of its generous budget), and their hope that they would be participating in the formal process of its elaboration, including public and e-consultations. Trade unionists emphasised the important link that should be achieved between the RRP's financial resources and such issues as emigration from Croatia and transformation of the economy. They pointed to the importance of the social aspect of the RRP and the need to decrease social inequalities. They were satisfied with the amount that would be allocated for education (15 per cent), but also for public health, green economy, digitalisation and so on, emphasising the importance of the quality of investments.<sup>66</sup>

On the other hand, representatives of the SSSH trade union were quite critical, saying that social recovery was not addressed sufficiently in the draft. Quality jobs were not mentioned,

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national minorities. In June 2017, most left the government, followed by the Croatian People's Party – Liberal Democrats (HNS), who had previously been part of the SDP-led coalition during the 2016 elections.

<sup>62</sup> Such as *Domovinski pokret*, *Most* and *Možemo*. For statistical data see Croatian Parliament, <https://www.sabor.hr/hr/zastupnici/statisticki-pokazatelji>, accessed 18 June 2022.

<sup>63</sup> See Croatian Parliament, <https://www.sabor.hr/informacija-o-sazetku-nacrta-nacionalnog-plana-oporavka-i-otpornosti-2021-2026-podnositeljica-vlada?t=124462&tid=209426>, accessed 19 August 2022.

<sup>64</sup> The biggest Croatian employer association.

<sup>65</sup> A tripartite dialogue body involving the government of the Republic of Croatia, trade unions and employers' associations with a view to resolving economic and social issues.

<sup>66</sup> Independent Union of Science and Higher Education, *GSV s Plenkovićem raspravljao o Nacionalnom planu za oporavak i otpornost*, <https://www.nsz.hr/novosti-i-obavijesti/sindikalne-vijesti-i-socijalno-partnerstvo/gsv-s-plenkovicem-raspravljao-o-nacionalnom-planu-za-oporavak-i-otpornost/>, accessed 17 June 2022.



while the proposed reforms did not ensure more social cohesion, and thus less poverty and social inequality. Furthermore, they complained that there had been no discussion of establishing a national Tripartite Foundation for a Fair Transition as a body of continuous and strong support for workers who would lose their jobs as a result of the green and digital transitions in order to prepare them for finding new jobs. They argued also that the draft RRP did not mention gender equality, nor the implementation of the 20 EPSR principles, and that the 4 per cent of funding allocated in the RRP for the component “Labour market and social protection” demonstrated that social recovery was not addressed adequately.<sup>67</sup>

After the Commission had approved Croatia’s RRP, CEA representatives depicted it as an opportunity for Croatia, faced with the demographic problems of a declining number of young people and an increasing number of pensioners. Their opinion was that the creation of 60,000 to 100,000 quality jobs through investments in the private sector was the only viable generator of economic growth and social development. Finally, they expressed their expectation that they would continue to participate in the management of the RRP through its rebalancing process.<sup>68</sup>

Regarding the role of the social partners in the implementation of the RRP so far, CEA participated in the drafting of various tenders, such as for tourism (in cooperation with the Ministry of Tourism and Sport); for vouchers for development of the skills of employed and unemployed people (in cooperation with the Ministry of Labour, Pension System and Social Care); and for the creative and culture industries (in cooperation with Ministry of Culture and Media).<sup>69</sup> No data are available on trade union participation in RRP implementation, although they did take part in the process of drafting a new Labour Act.

Croatian workers have been hard hit by austerity measures imposed during economic crises since 2008. As in other EU Member States, in Croatia public sector employment was suspended because new hirings were halted, wages frozen and services often outsourced as a result of budget consolidation.<sup>70</sup> Because of low wages and precarious working conditions many workers have been leaving the public sector. Labour shortages are especially visible in the health sector<sup>71</sup> and education. We should not forget how heavy a burden these two sectors carried during the depths of the Covid-19 crisis, and they continue to do so. The

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<sup>67</sup> Federation of Independent Trade Unions of Croatia, *Savez samostalnih sindikata Hrvatske*, 29 March 2021, <https://www.sssh.hr/hr/vise/nacionalne-aktivnosti-72/gsv-o-nacionalnom-planu-oporavka-i-otpornosti-hoce-li-hrvatski-radnici-osjetiti-boljitak-4728>, accessed 17 June 2022.

<sup>68</sup> HUP, *EK potvrdila hrvatski plan za oporavak i otpornost – HUP: Efekt na oporavak gospodarstva kroz NPOO neće biti dovoljno velik bez stvaranja 60.000-100.000 novih radnih mjesta*, 8 July 2021, <https://www.hup.hr/ek-potvrdila-hrvatski-plan-za-oporavak-i-otpornost--hup-efekt-na-oporavak-gospodarstva-kroz-npoo-neece-biti-dovoljno-velik-bez-stvaranja-60000-100000-novih-radnih-mjesta-v2.aspx>, accessed 17 June 2022.

<sup>69</sup> HUP, *Provedba Nacionalnog plana oporavka i otpornosti: natjecaji za poduzetnike u 2022. Godini*, 16 March 2022, <https://www.hup.hr/provedba-nacionalnog-plana-oporavka-i-otpornosti-natjecaji-za-poduzetnike-u-2022-godini.aspx>, accessed 18 June 2022.

<sup>70</sup> Glassner V. and Watt A., *Cutting Wages and Employment in the Public Sector: Smarter Fiscal Consolidation Strategies Needed*, in *Intereconomics*, 45, 4, 2010, 212-219. Available at: <https://www.intereconomics.eu/contents/year/2010/number/4/article/cutting-wages-and-employment-in-the-public-sector-smarter-fiscal-consolidation-strategies-needed.html>.

<sup>71</sup> A high number of medical staff (doctors and nurses) have left Croatia for other EU Member States, seeking better wages and working conditions.



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public sector in Croatia is generally depicted by employers (and ‘public opinion’) as too large, inefficient and “costly”, and public sector workers as “unfairly advantaged”.

## **5. Final considerations.**

Croatia’s RRP includes a range of reforms and investments in the three main areas – green transition, digital transition and economic and social resilience – that are expected not only to foster economic growth, but to create jobs, improve education outcomes, help increase participation in the labour market, address some of the challenges of the Croatian social welfare system and help improve the health-care system.

Even though the RRP covers, to various extents, many important social and labour aspects, some seem to be underdeveloped (such as decent wages, social dialogue, work–life balance, and a healthy, safe and well-adapted work environment or “fair working conditions”, as defined in EPSR). This creates the impression that they are expected to emerge as an indirect result of other measures, with no need to give them the appropriate weight. This points to the conclusion that the RRP social aspects still neglects the social dimension.

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