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**Enlargement Strategy and Main Challenges 2011-2012**

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## 1. INTRODUCTION

### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on the 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 October 2010 to September 2011. 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 enables 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 and closed in June 2011. The Stabilisation and Association Agreement between Croatia and the EU was signed in October 2001 and entered into force in February 2005.

### 1.3. Relations between the EU and Croatia

Croatia is participating in the Stabilisation and Association Process.

Following the closure of the remaining chapters, **accession negotiations** with Croatia were closed by a Ministerial Accession conference on 30 June 2011. The Commission has received a strong mandate to closely monitor Croatia's fulfilment of the commitments undertaken.

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

<sup>2</sup> Enlargement Strategy and Main Challenges 2011-2012 - COM(2011) 666.

Work on the finalisation of the **Treaty of Accession** with Croatia is about to be finished and should allow its signature before the end of the year, as provided for by the June 2011 European Council. At the same time as this report is published, the Commission will give its formal favourable Opinion on Croatia's accession, in line with Article 49 of the Treaty on European Union. After the European Parliament has given its consent, Council will take a decision on the admission of Croatia. After signature, the treaty will need to be ratified by the present Member States and Croatia, in line with their constitutional requirements. The target date for Croatia's accession to the EU, as agreed by Member States and included in the Accession Treaty, is 1 July 2013.

The **political and economic dialogue** between the EU and Croatia has continued. Political dialogue meetings were held in Brussels in April at ministerial level. Economic dialogue took place in a bilateral meeting with the Commission and Croatian senior officials in May. 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)** improved markedly. Croatia brought its tax regime on coffee into line with its SAA obligations (*see also Chapter 16 - Taxation*) and complied with State aid rules in relation to the shipyards in difficulty. Croatia should also further reduce import tariffs for its agricultural sector 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 April 2011 and the SAA Committee in December 2010. Six sectoral sub-committee meetings have been held since November 2010. Based on the Accession Partnership, Croatia adopted its national programme for alignment with the *acquis* in February 2011.

**Financial assistance** is provided under the Instrument for Pre-accession Assistance (IPA). The 2011 IPA programmes totalled €156.5 million. This assistance is focused on institution-building and preparing for implementation of the EU's common agricultural policy and cohesion policy. In addition, Croatia continued to benefit from regional and horizontal programmes. Overall, Croatia has demonstrated a satisfactory functioning of the decentralised implementation system under IPA, although some delays were encountered in implementation. The institutional framework for the implementation of EU cohesion policy will build directly on the existing implementation structures of IPA. Follow-up audits on IPA conferral of management confirmed that internal control procedures are broadly satisfactory. The recommendations made have been or are being properly addressed. In order to prepare for the next phase of decentralisation of management powers, namely the waiver of the EU Delegation's *ex ante* controls for IPA by the date of accession, the country continued to implement roadmaps with indicative benchmarks.

EU financial support has been provided for the development of **civil society** under the Civil Society Facility. Croatia's participation in an increasing number of EU programmes (15) 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'; 'Civil Protection Financial Instrument'; 'MEDIA 2007'; 'Community action in the field of health'; 'Marco Polo II'; 'Civil Protection Mechanism', 'Life Long Learning, Youth in Action' and 'ISA - Programme on Interoperable Solutions for Public Administrations'.

## **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 continued to function in accordance with its constitutional role. However, there is scope for the Parliament to improve its scrutiny of the legislative process. In late October 2010, the Parliament adopted the legislation necessary for the implementation of the changes to the Constitution voted in July 2010.

#### *Government*

The government continued to function effectively. A cabinet reshuffle took place in December 2010.

#### *Public administration*

Progress can be reported in the field of public administration reform. The Ministry of Public Administration (MoPA) continued to implement the State Administration Reform Strategy (2008-2011). The Civil Service Human Resources Development Strategy (2010-2013) is being implemented and a new Code of Ethics was adopted regulating the role and responsibilities of the ethics units and commissioners within the state administration. The Civil Service Training Centre under MoPA organised continuous training of civil servants at all levels. A State School for Public Administration was established. However, it is not yet fully operational as the necessary human resources have not yet been provided. Amendments to the Civil Service Act were adopted in April 2011: MoPA's authority in the implementation of recruitment procedures has been broadened and civil servants' liability for minor and serious violation of official duties has been extended. In order to allow full application of the General Administrative Procedures Act (GAPA), the process of harmonising the relevant sectoral legislation has continued, with the majority of acts now adopted by the Croatian Parliament.

However, the legal framework for developing a merit-based professional civil service has still to be completed. The drafting of the law on salaries in the public sector, which is expected to

cover the public service, state bodies and local and regional self-government, has been further delayed. Dismissal procedures need to be further developed. The administrative capacity of MoPA to implement and monitor the complex and demanding public administration reform still remains insufficient. Although new staff has been recruited across the entire administration to prepare for EU accession, persistent structural problems of turnover and retention were reported. High level political support has to be maintained for the successful implementation of the reform.

Measures have been taken to strengthen the position of the Ombudsman's Office including creation of a mechanism for improved follow-up of his recommendations. Greater attention should therefore be paid to the Ombudsman's recommendations to further enhance his role as an institutional counterweight defending the rights of citizens and combating maladministration.

*Overall*, progress can be reported in the area of public administration reform. Further efforts are needed in improving professionalism and ensuring efficient implementation of the relevant legal framework in order to build a modern, reliable, transparent and citizen-oriented public service.

*Judicial system (see also Chapter 23 – Judiciary and fundamental rights)*

Good progress was achieved in the area of the judiciary. Implementation of the judicial reform strategy and action plan has continued, with a large volume of legislation adopted. The Ministry of Justice underwent a major reorganisation with the aim of improving efficiency and making decision-making less politicised. However, Croatia needs to improve human resources planning, including for the long term needs of the judiciary, taking into account the impact of many on-going and planned reforms.

Numerous measures have been taken to strengthen the independence, accountability, impartiality and professionalism of the judiciary, in particular through the implementation of amendments to the Constitution in July 2010 and further amendments to the relevant legislation. As regards *independence* of the judiciary, Croatia has reformed and strengthened the State Judicial Council (SJC) and State Prosecutorial Council (SPC). Other measures have been taken to allow these bodies to function professionally, impartially and without political or other interference. A new system for recruiting and appointing judges and state prosecutors has been established. Systems for the professional evaluation of judges and prosecutors have been introduced to improve career management. As regards *accountability* of the judiciary, legal changes adopted in May 2011 provide for improvements in the disciplinary system for judicial officials. There has been some progress as regards the *impartiality* of the judiciary, with the SJC becoming responsible for the system of assets declarations of judges.

Croatia needs to continue to build up a track record that demonstrates the recruitment and appointment of judicial officials based on merit. The SJC and SPC should also pro-actively apply the improved disciplinary rules and procedures that have been put in place in an efficient, objective and transparent manner. The systematic and accurate checking of judicial officials' declarations of assets also needs to be assured.

Croatia has taken and implemented various measures leading to improved *efficiency* of the judiciary. The merger of courts as part of the court rationalisation process is enabling more efficient allocation of resources for handling case backlogs. A number of measures were adopted to improve the system of enforcement. Croatia has made progress with the physical

infrastructure and computerisation of courts. Between December 2009 and December 2010, the overall number of pending cases before the courts fell from 795,722 to 785,561 cases (-1.3%) and to 781,323 by 31 March 2011 (-1.8%). The backlog of old criminal cases was reduced by 10.6%. However, the backlog of old civil cases increased by 3.8%. The number of pending enforcement cases, including old enforcement cases, increased in 2010 and showed a slight decline in the first quarter of 2011.

Croatia has continued to improve the handling of domestic war crimes cases. A new strategy on impunity was adopted. Priority cases are being identified at the national and regional level. Approximately two dozen trials were on-going in 2010, similar to the situation in 2009. A more balanced approach to trials has continued. Measures have been taken to protect witnesses with improved witness support services at certain courts. Croatia has continued to implement its action plan for the review of *in absentia* cases. Revised legislation has made the four specialised war crimes chambers competent for all new cases, and also facilitates the use in Croatian court cases of evidence collected by the ICTY.

The issue of impunity for war crimes needs to be thoroughly addressed in Croatia, especially where victims were ethnic Serbs or where alleged perpetrators were members of the Croatian security forces. The majority of crimes have not been pursued in court. Implementation of the new Strategy on impunity will be key, as well as the systematic and effective use of the specialised war crimes chambers.

*Overall*, Croatia has made good progress regarding judicial reform. The adoption of new legislation further strengthened judicial independence and the overall case backlog was further reduced. Some challenges remain, especially relating to the further increase of judicial efficiency, and to the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary, especially in terms of judicial appointments as well as disciplinary matters. Croatia has continued to improve the handling of domestic war crimes cases. The issue of impunity needs to be thoroughly addressed.

*Anti-corruption policy (see also Chapter 23 – Judiciary and fundamental rights)*

Good progress can be reported in the prevention of corruption. Croatia has taken a number of measures to strengthen the legal and institutional framework. Measures are being implemented in accordance with Croatia's anti-corruption action plan. Croatia has increased transparency and integrity in its public administration and state owned companies. Amendments to the law on access to information were adopted, which introduce clearer procedures and deadlines for information requests and supervision of the implementation of the law by the Data Protection Agency. Croatia adopted a new law on the financing of political activities and election campaigns, which improves transparency and independent oversight and increases the penalties for non compliance with the law. Changes to the Conflict of Interest Act provide for the depolitisation of appointments to supervisory boards of state-owned companies, as well as of the membership of the conflict of interest commission itself. Sanctions in cases of conflict of interest have also been strengthened. Measures were taken to raise awareness of potential conflicts of interest, in particular at the local level. Amendments to the Labour Act have enhanced protection for whistleblowers.

Further progress is needed to implement the newly adopted legislation in practice. The implementing structures still have to be further strengthened. Given the recent adoption of the law on access to information, particular vigilance is required in terms of its effective implementation. Further strengthening of the State Electoral Commission, which is in charge

of the supervision and control of the regular financing of political parties and of election campaigns, is required in order to ensure full and effective implementation of the new legislation. Effective implementation of the legislation on conflict of interest should be ensured, including more proactive checking of declarations of assets, application of dissuasive sanctions in case of irregularities and greater awareness of conflicts of interest in practice.

As regards the fight against corruption, the operational capacity of the Office for the Fight against Corruption and Organised Crime (USKOK) has been reinforced and the Police National Office for the Suppression of Corruption and Organised Crime (PNUSOK) is now fully staffed. Interagency cooperation has improved, including through the implementation of memoranda of understanding, which has contributed to improved financial expertise. The new Police Act was adopted in March 2011 which aimed at making the police a more professional service and introducing some depoliticising measures. There are a number of mid and high-level corruption cases which are currently being investigated or where indictments have been issued, including against a former Prime Minister. There have also been court rulings in higher level cases, including in cases involving a former Deputy Prime Minister as well as a former Minister of Defence.

However, for most high level corruption and public procurement cases the proceedings are still on-going and they have not yet reached the stage of court rulings. The track record of effective handling of organised crime and corruption cases needs to continue to be built up, especially in respect of high level corruption, local level corruption and including cases related to public procurement and the judiciary.

Overall, substantial progress can be reported in the field of anti-corruption, especially as the law enforcement bodies are addressing the widespread corruption in Croatia. The track record of effective handling of organised crime and corruption cases needs to be further developed, especially in relation to high level corruption, local level corruption and including cases related to public procurement and the judiciary. Further experience is needed in implementing the newly adopted preventive legal framework in practice and the implementing structures remain to be further strengthened.

## **2.2. Human rights and the protection of minorities** (*see also chapter 23 - Judiciary & fundamental rights*)

### *Observance of international human rights law*

Overall, Croatia continued to observe international human rights law.

During the reporting period, the **European Court of Human Rights** (ECtHR) delivered 22 judgments finding that Croatia had violated rights guaranteed by the European Convention on Human Rights (ECHR). A total of 987 new applications were allocated to ECtHR decision bodies since October 2010. In September 2011, a total of 1,726 allocated applications regarding Croatia were pending before the ECtHR. Cases continued to mainly concern the length of proceedings claims, under Article 6 of the Convention. Most of those cases were concluded by an amicable settlement between the government and applicants. The Court also found violations of Article 8 (right to respect for private and family life), Article 46 (binding force and execution of judgements) and article 14 (prohibition of discrimination) in conjunction with article 9 (right to freedom of thought, conscience and religion). In the case of the disappearance of a person of Serbian ethnicity taken by the Croatian police to the

premises of a local police station in late 1991, the Court found a violation of Article 2 of the ECHR (right to life).

As regards **promotion and enforcement of human rights**, Croatia has continued to take various steps to raise public awareness and improve the protection of human rights. Measures to raise awareness of police, prosecutors and courts about human rights law are ongoing. However, enforcement of rights requires continued attention, including in terms of judicial efficiency and access to justice.

#### *Civil and political rights*

With regard to prevention of **torture and ill-treatment**, the Croatian Ombudsman continued to receive complaints about police treatment of citizens including excessive use of force. Under the new Law on Police transparent procedures for establishing police responsibility and regulating police activities will be put in place. Implementation of this law will depend on the secondary legislation which has yet to be adopted.

As regards the issue of **impunity**, there is progress to report in the domestic handling of war crimes cases. However, the issue of impunity for war crimes needs to be thoroughly addressed. The majority of crimes have not been pursued in court (*see under Judicial system above*).

With regard to the **prison system**, work related to the expansion of existing detention and treatment facilities has continued and will be finalised in 2012. In the meantime, problems of overcrowding and inadequate health protection persist.

As regards **access to justice**, there is progress to report with the amendment of implementing legislation that will simplify procedures for legal aid. Legislation was amended in July 2011, following revocation of provisions of the law by the Constitutional Court. Applications forms have been made more user friendly and fees for lawyers to take on legal aid cases have increased. A further review of legal aid procedures is ongoing with the aim of reducing bureaucracy. The approval rate of legal aid applications is increasing.

**Freedom of expression**, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. A new Media Law provides for greater transparency in media ownership. There has been limited progress with investigating cases from previous years of intimidation of journalists working on cases of corruption and organised crime. Few new cases have been reported, however. Economic pressures in particular are hampering the development of investigative reporting. Problems with political interference at local level remain. The public broadcaster HRT continued to face serious difficulties in spite of having selected a new supervisory board and programme council, which has been unable to appoint a new director general.

With regard to **freedom of assembly and association**, the overall situation continued to be satisfactory but requires continued attention, including in terms of the handling of demonstrations by the authorities, to prevent violent incidents such as those occurred during the Gay Pride demonstration in Split.

Civil society organisations (CSOs) are playing an important role for the promotion and protection of human rights, democracy and minorities. An umbrella network of 15 NGOs has been very active in monitoring and reporting on the state of affairs regarding justice and

fundamental rights. However, in particular at the local level, the analytical and financial capacities of CSOs, for monitoring political developments and government decisions continue to be weak. CSOs tend to remain excluded from the policy-making process. Despite the legislation on access to information, CSOs report continuing difficulties in obtaining public documents. Greater efforts are needed to ensure the independence and sustainability of CSOs.

There have been no particular problems with exercising the **freedom of thought, conscience and religion**. The ECtHR has ruled that Croatia violated article 14 in conjunction with article 9 of the ECHR in one case filed by three religious communities in 2007, concerning religious education in public schools and nurseries and state recognition of religious marriages.

*Overall*, civil and political rights continue to be generally well respected in Croatia. Croatia has made progress in the area of civil and political rights. There are some remaining shortcomings around impunity for war crimes, access to justice and freedom of expression.

*Economic and social rights (see also Chapter 19 – Social policy and employment)*

There has been some progress with **women's rights and gender equality**. Provisions on maternity and parental benefits were amended to bring them into line with EU gender equality provisions. The institutional mechanisms for gender equality at central and local government levels are developing. The Ombudsperson for Gender Equality continued to implement the Gender Equality Act. The office has received additional staff members. Legislation adopted in September foresees the merger of the Ombudsperson for Gender Equality with the Office of the Ombudsman.

The legislative framework against domestic violence is being implemented. The police continued to strengthen its capacity to act appropriately in cases of family violence. The work of social welfare centres has improved slightly. However, the protection of women against all forms of violence needs to be strengthened. The number of registered cases of domestic violence has decreased slightly. Victims of family violence continue to have insufficient access to information on their rights and entitlements.

There has been no significant change in the position of women on the labour market. The percentage of unemployed women remains high and wage differences due to gender persist. Fixed-term contracts for women on the labour market remain widespread. Women remain under-represented in economic and political decision-making bodies.

There has been limited progress with **children's rights**. The Ombudsperson for Children became more active in promoting and protecting children's rights. 2,409 new cases were dealt with in 2010, predominantly concerning family violence and violence against children. The Ombudsperson for Children has obtained sufficient office space and has developed regional offices in three counties. Legislation adopted in September foresees the merger of the Ombudsperson for Children with the Office of the Ombudsman. Cases of peer violence and violence against children in educational institutions continued to increase and are not being adequately addressed by the relevant authorities. There is still a lack of prevention programmes and of professional training for educators. Shortcomings in the judicial and social welfare systems continue to contribute to the poor enforcement of children's rights.

There has been some progress on advancing the social inclusion of **socially vulnerable persons and/or persons with disabilities**, notably through the adoption of a new Social Welfare Act. The capacity of the Office of the Ombudsman for Persons with Disabilities has

been strengthened. Legislation adopted in September foresees the merger of the Ombudsman for Persons with Disabilities with the Office of the Ombudsman. There is a lack of information on social welfare, health care and pension insurance rights and entitlements. Application of criteria for the establishment of entitlements remains uneven. The legislation regulating specific rights is fragmented. A National Plan for de-institutionalisation and transformation of social welfare homes has been enacted. The transition from institutional care to community-based care services continues to be slow.

There is low public awareness of the rights of people with disabilities, especially in rural areas. Regulations ensuring physical access to public buildings for people with disabilities are not adequately enforced.

In general, children with developmental difficulties remain excluded from educational institutions. Support in the form of access, transport and teaching assistants remains insufficient. Discrimination against people with disabilities continues on the labour market. The quotas laid down in the Professional Rehabilitation and Employment Act for people with disabilities are not met by the public sector. Marginalisation is even greater in the private sector with employers lacking information, in particular on the incentives that are available.

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

Croatia has begun developing a track record of implementing the **Anti-Discrimination** Law and legislation on hate crimes. Various steps have been taken to raise awareness of this legislation among both the public and law enforcement bodies. The Office of the Ombudsman, which plays a key role in implementing anti-discrimination legislation, is being reinforced. A new mechanism was introduced, giving responsibility to the Government Office of Human Rights to monitor follow-up by the administration of the Ombudsman's recommendations. Legislation adopted in September foresees the merger of the specialised Ombudspersons functions with the Office of the Ombudsman. Law enforcement bodies have started a number of cases under hate crime legislation.

The track record of implementing anti-discrimination and hate crime legislation needs to be further developed. Public awareness regarding the scope of the anti-discrimination law and proposed remedies has not increased significantly. There is still a small number of discrimination complaints, few of which have so far reached the courts. Lesbians, gays, bisexual and trans-gender people (LGBT) have continued to face threats and attacks, in particular during the gay pride event in Split, with limited follow-up by the authorities. More needs to be done to address homophobic and xenophobic sentiment in society. The process of merging the specialised Ombudspersons functions with the Office of the Ombudsman will need to be carefully managed to ensure a more effective system of human rights protection in practice.

With regard to **labour and trade unions rights**, the establishment of a specialised court for work-related disputes in Zagreb represents significant progress towards a more efficient resolve of labour conflicts. Following the renewed participation of trade union organisations, the Economic and Social Council has resumed its work after ten months. Strengthening social dialogue within the decision-making process and in policy design, as well as capacity-building of social partners, remain key issues to be addressed.

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

*Overall*, legal protection for economic and social rights is widely guaranteed. Croatia has made some progress in the area of economic and social rights. However, implementation of women's and children's rights and protection against all forms of discrimination demand further attention.

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

There has been progress as regards the protection of **minorities** and cultural rights. The commitment to the rights of minorities, reaffirming their place in Croatian society, continues to be expressed at the highest level. Cooperation between the political representatives of minorities and the government remains good. The level of funding available for minority organisations has been decreased by only 1.25%, despite more extensive cuts elsewhere. Conditions for the effective implementation of the constitutional act on the rights of national minorities (CARNM) have improved. A plan for minority employment for the period 2011-2014 under the CARNM was adopted in May 2011. Financial support to the local Councils for National Minorities increased and training was provided for local authorities. Awareness of the extent of rights stemming from the CARNM has been raised among civil servants, law enforcement officials and minorities. The number of reported racist or xenophobic incidents has been fairly limited, in particular compared to previous years. Where incidents have occurred, the response at the political and law enforcement level has generally been adequate.

In July 2011 elections to the advisory minority councils took place in 187 counties and municipalities. Voter turn-out was very low.

Despite the ongoing effort to improve conditions for minorities, some persistent problems remain. The CARNM and minority action plans need to be implemented. Due largely to the general ban on recruitment in the civil service, there has been no tangible improvement in the level of employment of national minorities in public sector employment. Significant further strengthening of the monitoring of the employment action plan is required. Further work is needed in the area of schooling, including implementation of planned general human rights education and in particular a review of the role of schooling in reconciliation efforts through reviewing teaching material and the portrayal of minorities.

With regard to the **Serb minority**, reports of ethnically motivated attacks have decreased. However, cases of vandalism against monuments for war victims have continued. Police investigations into such incidents have improved, but few cases have ended in a prosecution. Many cases remain unreported due to lack of confidence in the authorities. Members of the Serb minority, both returnees and those who remained in Croatia during the war, face difficulties in gaining access to employment, especially in the war-affected areas. Cases of discrimination continue, particularly in the public sector at local level.

As for the **Roma** minority, there have been some further improvements in education, particularly in pre-school education. Improvements to the infrastructure of some Roma settlements have continued. However, the Roma still face discrimination, particularly regarding access to education, social protection, health, employment and adequate housing. Segregation persists in some schools. Progress towards ensuring that Roma children complete primary and secondary education has been modest. Extremely high unemployment persists,

despite measures such as adult vocational training for young Roma women. There is scope for improved take-up by the Roma of measures in their favour. For many Roma there is the persistent problem of their unresolved status (residence and citizenship), which creates difficulties when it comes to the provision of services, notably access to education, health care and free legal aid.

There has been good progress on **refugee return** issues. Refugees continued to return to Croatia, with the Croatian authorities having registered over 132,872 returnees in total belonging to the Serb minority, which corresponds to approximately half of those who fled the country up until 1995. It is estimated that 54% of returnees have remained in Croatia. Progress was made with regard to housing issues. Housing care programmes for returnees are being implemented. A purchase option under favourable conditions for housing care beneficiaries and the possibility of new applications in areas not directly affected by the war have been introduced. Regional cooperation under the Sarajevo process has been reinvigorated. Croatia has implemented its Action Plan on the Housing Care Programme for returning refugees/former tenancy rights holders. It has met the target for 2008. The target for 2009 under the action plan for the provision of 2,070 flats has also been met. Croatia has strengthened the administrative capacity for handling rejected applications for housing reconstruction, principally by recruiting legal experts. The backlog of appeals has been reduced. Progress has been made in reconstructing the remaining properties. Implementation of the decision on validating pension rights has continued.

Croatia needs to make continued progress in providing accommodation to other successful applicants beyond the 2009 target. A plan was prepared in March 2011 setting out, *inter alia*, the financial requirements necessary to deal with the remaining 2,500 or so applications. Efforts to create the economic and social conditions necessary for sustainable returns of refugees need to be accelerated.

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

### **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)**. The government's inter-agency task force has explored important new avenues in its investigations aimed at locating or determining the fate of missing military documents requested by the Office of the ICTY Prosecutor. Croatia has been unable to fully account for the missing documents; its efforts should continue. The verdicts of the ICTY of 15 April 2011 against Croatian Generals Gotovina and Markač led to protests in the major Croatian cities. There have been a number of occasions in which public declarations in Croatia, including on a high political level, have not been conducive to the efforts to create a climate in Croatia more fertile for reconciliation and dealing with the legacy of the 1990s.

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

Croatia continued to engage in cooperation on **war crimes** cases at the bilateral and regional levels. Good cooperation between judicial authorities, in particular prosecutors, continued. Although there are continuing problems with the extradition of own nationals in the region, practical steps have been taken to overcome them. Cases have been transferred between Croatia and Serbia so that both Croatia and Serbia have been able to pursue cases against their own citizens sought under war crimes charges originally brought in the other country. However, draft legislation proposed by the government in September 2011, if adopted by parliament, would complicate further cooperation with Serbia in this area. The first cases have been pursued under an agreement with Bosnia and Herzegovina whereby persons sentenced for war crimes in Croatia who fled to Bosnia and Herzegovina can serve their sentence there.

Significant progress was made with regard to the **Sarajevo Declaration Process**, launched through the Sarajevo Declaration of 31 January 2005. Bosnia and Herzegovina, Croatia, Montenegro and Serbia cooperate within this process to find solutions for refugees who were displaced as a result of the armed conflicts in ex-Yugoslavia between 1991 and 1995. Countries have continued to make progress on a number of outstanding issues such as data exchange, civil documentation, public information, pensions and trust fund mechanisms, in the framework of the established regional working groups. Following the meetings of June and September 2011, Bosnia and Herzegovina, Croatia, Montenegro and Serbia agreed on a number of issues, including on the text of a joint declaration to be signed at a ministerial conference in November 2011 in Belgrade. A regional multi-year programme aimed at addressing the needs of the most vulnerable refugees, has also been agreed, together with a donors' conference to be held in the first half of 2012 in Sarajevo.

As regards **missing persons**, as of September 2011, there were still approximately 14,000 people missing from the conflicts in the region. Of these, some 10,000 were related to the conflict in Bosnia and Herzegovina, 2,000 to the conflict in Croatia and over 1,800 to the conflict in Kosovo. Positive developments were noted in relation to the process of resolving the cases of missing persons in Croatia. During this reporting period, around 40 cases were solved, some 35 bodies were exhumed from these gravesites and other such exhumations were announced which could result in resolving over 300 cases. However, there still a large number of unidentified human remains in the morgues. A comprehensive process to review these cases needs to be carried out so as to enable identification and closure. Solving the remaining missing cases in an expeditious manner is important for the reconciliation process in the region.

**Regional cooperation and good neighbourly relations** form an essential part of Croatia's process of moving towards the European Union. In July, the Croatian government adopted and transmitted to Parliament for adoption a declaration on promoting European values in Southeast Europe stating a firm commitment from Croatia that bilateral issues, such as border issues, must not obstruct the accession of candidate countries to the EU from the beginning of the accession process until the Accession Treaty comes into effect.

Croatia continued to participate actively in regional initiatives, including the EU Strategy for the Danube Region, 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. In March, within the framework of the SEECP, Croatia endorsed the *Regional Strategic Document and Action Plan on Justice and Home Affairs 2011-2013*. Croatia continues to actively support the Igman initiative on reconciliation, which brings together NGOs from Bosnia and Herzegovina, Croatia, Serbia and Montenegro, and the RECOM initiative.

**Bilateral relations with other enlargement countries and neighbouring EU Member States** are continuing to improve.

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

Relations with *Bosnia and Herzegovina* intensified. President Josipovic and PM Kosor adopted a joint statement on Croatia's support for Bosnia and Herzegovina's European integration. The Presidency of Bosnia and Herzegovina visited Croatia in January 2011. Croatia and Bosnia and Herzegovina signed an agreement on police cooperation in combating cross-border crime which provides for the exchange of information on investigations and the appointment of police liaison officers. However, limited progress was achieved regarding the outstanding issues (border demarcation, the use of the port of Ploce, refugee return, property relations, dual citizenship). The inter-state Commission for Borders continued to meet but failed to agree on the outstanding border demarcation issues. Two agreements linked to the Sava river were signed. A readmission agreement with a shorter procedure, which replaced the previous agreement from 2002, was signed. The first meeting of a joint working group was held in April 2011 in Sarajevo to discuss the revision of the Local Border Traffic Agreement and the Agreement on free transit through the port of Ploce and the coastal town of Neum in Bosnia and Herzegovina.

Croatia continues to have good relations with *Montenegro*. Croatia and Montenegro signed an agreement on the extradition of citizens sentenced for corruption and organised crime. A number of technical meetings have been held to prepare the joint submission of the Prevlaka border delimitation to the ICJ, but no substantial progress has been achieved to date. The temporary agreement on Prevlaka continues to function smoothly, but achieving a permanent solution is necessary.

Relations with *Serbia* have further improved. The respective visits of the Presidents of Serbia and Croatia opened a new page in Croatian-Serbian relations. However, the issue of investigation and prosecution of war crimes against citizens of the other country have periodically burdened bilateral relations. There have been no tangible results with regard to border demarcation concerning the Danube. The Serbian government's counter-suit against Croatia before the International Court of Justice on genocide allegations remains pending.

Relations with *Kosovo*<sup>3</sup> have been further developed. Visits took place at different levels, including at the level of Prime Minister and Foreign Minister. Croatia and Kosovo signed agreements on cooperation regarding European integration and road transport.

Relations with *Turkey* continue to be good and high-level meetings between the two countries were held.

Croatia continues to have good relations with neighbouring EU Member States *Hungary* and *Italy*.

Relations with *Slovenia* have improved further. The Arbitration Agreement on the border entered into force on 29 November 2010 and was jointly submitted for registration with the Secretariat of the UN on 25 May 2011. Concerning the Ljubljanska Banka/SFRY Succession Agreement (guarantee of foreign currency deposits), Croatia agreed to continue negotiations

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<sup>3</sup> Under UNSCR 1244/1999

on the issue at the Bank of International Settlements in Basel. Croatia and Slovenia have agreed on a solution for the future exchange of fishing rights in coastal waters.

*Overall*, Croatia is continuing to cooperate with the ICTY as well as to play an active part in regional cooperation. At the same time, political leaders should avoid statements and measures that could call into question the importance of reconciliation and the need to serve justice through the prosecution of war crimes. Relations with neighbouring countries have improved, although outstanding issues in particular settlement of border disputes, property issues and return of refugees remain to be solved.

### **3. ECONOMIC CRITERIA**

In examining 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 2011-2013, submitted in January 2011, presented a sufficiently comprehensive and consistent macroeconomic and fiscal framework for economic policies. Progress was achieved in some of the main areas of the 'Economic Recovery Programme', a package of fiscal measures and comprehensive structural reforms launched in April 2010. *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 caused a protracted recession in Croatia which continued through the first quarter of 2011. In 2010 as a whole, real GDP declined by 1.2% after a 6.0% contraction in 2009. GDP per capita in purchasing power terms fell from 65% of the EU-27 average in 2009 to 61% in 2010. Investment continued to fall at a double-digit rate (-11.3%) while the decline in private consumption diminished markedly (by -0.9% compared with -8.5%). Public consumption also declined (-0.8%) in contrast to a small increase in 2009 (0.2%). In the context of the economic recovery in the EU and in other export markets, export volumes increased by 6.0% in 2010 following the sharp contraction in the preceding year (-17.3%). The decline in import volumes, however, continued, albeit at a much slower speed (-1.3% in 2010 against -20.4% in 2009). The contribution by net exports to real GDP growth remained at 3.0%. The mild decline in economic activity continued throughout the winter of 2010/11 and output was 0.8% lower, year on year, in the first quarter of 2011. Available data indicate a slight upturn of economic activity in the second quarter. GDP was 0.8% higher year on year according to the preliminary estimate. Industrial production started to trend upward and its volume level was 0.9% higher year on year in July. Retail sales have increased consistently on a year-on-year basis since April and were 0.9% higher in July. Exports of goods were 6.3% higher in nominal terms in April-July compared to the corresponding period in 2010. Physical indicators of tourism have increased significantly in the first seven months of 2011 compared to the previous year. *Overall*, economic recovery had not yet taken hold in

early spring 2011, but there are indications that economic activity has started to increase since April.

The government launched the Economic Recovery Programme in April 2010, when the economy was not yet recovering from the recession and fiscal trends were more unfavourable than expected. Apart from some fiscal measures which were quickly adopted, the programme is a package of structural reforms seeking to address the structural weaknesses of the economy and 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 fees, 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. Progress has been made on implementing the planned structural reforms in some of the main areas like pension laws, unemployment benefits, civil service employment and non-tax fees. But fundamental structural reforms have not been achieved so far. *Overall*, the measures which have been taken under the Economic Recovery Programme so far have not contributed decisively to improving the growth potential and international competitiveness of the economy.

The current account deficit narrowed to 1.2% of GDP in 2010 from 5.3% in 2009 continuing a cyclical trend which started with the onset of the recession. As in the preceding year, it was again driven by an improving balance of trade in goods. Imports of goods and services declined, but at a much slower rate than in 2009. At the same time, the trade balance benefited from a turnaround to growth in exports, as the recovery took hold in major foreign markets. As a consequence, the trade deficit in goods fell from 16.2% of GDP in 2009 to 12.9% in 2010. The trade surplus for services (mainly tourism and transport) increased slightly from 12.6% of GDP in 2009 to 12.8% in 2010. The deficit on income and transfer payments fell from 1.7% of GDP in 2009 to 1.2% in 2010. The improvement in the current account was sustained in the first quarter of 2011 as continued subdued domestic demand prevented imports from rising more markedly. *Overall*, the current account deficit has been narrowing, mainly as a result of subdued demand for imported goods, but also thanks to rising exports.

Net capital inflows receded in 2010 as a corollary of the declining current account deficit. Excluding changes in international reserves, they fell from 9.6% of GDP in 2009 to 3.3% in 2010. More than half of this decline is accounted for by a sharp fall in inward foreign direct investment (FDI). FDI fell to 0.9% of GDP in 2010 from 4.6% in 2009. After net FDI flows had financed only half of the current account deficit in 2009, they covered close to 100% of the much smaller deficit in 2010 despite dropping sharply. The total stock of FDI in Croatia stood at €24.5 billion (around 53% of GDP) at the end of 2010, about 1 percentage point higher than at the end of 2009. *Overall*, in the context of a declining current account deficit, sufficient external financing was secured by net FDI inflows.

The heavy external debt burden continued to increase in 2010. The stock of gross external debt went up by €1.2 billion to €46.5 billion, which amounts to 102.6% of GDP.<sup>4</sup> The general government increased its foreign debt by around €0.8 billion in the course of 2010 to

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<sup>4</sup> This level of external debt includes debt arising from transactions that were previously considered as round trip transactions and therefore excluded.

€6 billion which is equivalent to about 13% of Croatia's gross external debt. 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.

On the labour market the average annual unemployment rate increased from 9.1% in 2009 to 11.8% in 2010 according to the labour force survey. The rising trend of unemployment continued into 2011. In the first quarter the unemployment rate rose to 14.3% which is 3.1 percentage points higher, year on year. The registered unemployment rate was 0.4 percentage points higher in July 2011 than a year earlier, but this year-on-year increase has declined from 2% last winter. Annual average employment was 4.0% lower in 2010 after a 1.8% decline in 2009. 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. In 2010 the employment and participation rates declined to 54.1% and 61.5% respectively, while youth unemployment surged to 34.4% from 25.1% in 2009. The effective retirement age remained low as there are transitional arrangements on equalising pensionable age. Significant labour supply disincentives persisted. Employment has been negatively affected by Croatia's limited progress on effectively implementing the objective of the Economic Recovery Programme to make the labour market more dynamic and by the lack of incentives structures and the combination of flexibility and security on the labour market. As a result, labour turnover remained low, suggesting limited reallocation of labour resources. Wage movements reflected the weakening of the labour market to some extent. Average gross wages increased by 1.1% year on year in the first half of 2011 in nominal terms and were 1.2% lower in real terms. *Overall*, the labour market situation continued to deteriorate. Major structural weaknesses persist in the labour market (*see also Chapter 19*).

Monetary policy continued to be directed 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. In spite of a slight downward trend of the kuna against the euro, monetary policy was able to maintain an accommodating stance in persisting recessionary conditions. As an additional incentive to bank lending, the central bank released €850 million worth of additional euro liquidity into the banking system in early March 2011 by lowering the minimum reserve requirement on banks' foreign exchange liabilities from 20% to 17%. In the foreign exchange market the kuna depreciated 2.9% against the euro between the beginning of October 2010 and mid-September 2011, viz. from 7.30 to 7.52 kuna per euro. The central bank intervened on four occasions to counter depreciation pressures, twice in November 2010, once in July 2011 and once in September 2011, selling a total of €770 million. Nevertheless, overall foreign exchange operations increased gross international reserves from €11,154 million at the end of September 2010 to €11,233 million at the end of July 2011 which is equivalent to around seven months of imports of goods and services. *Overall*, the central bank maintained an accommodating monetary policy stance in the context of subdued economic activity, while maintaining exchange rate and financial stability.

Following a slight contraction in 2009 domestic credit to the private sector increased by 6.9% in 2010 (or 3.6% excluding exchange rate effects primarily arising from the sharp appreciation of the Swiss franc). This credit expansion was roughly maintained in the first five months of 2011 with an annualised increase of 6.6%. It was exclusively driven by bank lending to the corporate sector which expanded by 9.6% in the course of 2010 and accelerated to an annualised rate of 11.8% in the first five months of 2011. By contrast, lending to private

households (adjusted for exchange rate effects) fell by 1.4% in 2010 and this decline continued into 2011. Bank credit to general government increased by 13.8% in the course of 2010 and accelerated to 27.0% in the first five months of 2011. The government's programme to stimulate corporate financing via the State Development Bank (HBOR) had only a limited impact on bank lending. *Overall*, credit to private households has contracted slightly, lending to the corporate sector has recovered moderately, and the structure of credit has continued shifting towards government financing.

Average annual inflation fell from 2.4% in 2009 to 1.1% in 2010, continuing the trend from the preceding year. The disinflationary process was driven primarily by the growing slack in use of resources transmitted to price- and wage-setting. Since late 2010, however, disinflation has been replaced by a mild upturn in inflation. Higher energy and food prices pushed up headline inflation from 1.2% in November to 2.0% in August. Higher commodity prices have spilled over into areas like transport and, particularly, processed food. Consequently, the central bank's measure of core inflation increased from -0.2% year on year last November to 1.8% in May. *Overall*, the recession-induced decline in inflation has been followed by a mild upturn stemming mainly from rising commodity prices.

Public finances worsened again in 2010 mainly as a consequence of the continuing recession. A budget revision in August 2010 lowered projected general government revenue by 4.5% of GDP and increased expenditure by 0.3% of GDP compared with the original budget. The projection for the general government deficit in 2010 was raised by 1.9 percentage points to 5.2% of GDP compared with a deficit of 4.1% of GDP in 2009. The preliminary outturn shows a lower than planned deficit of 4.9% of GDP. This has only been made possible by keeping public investment expenditure some 0.5 percentage points of GDP below budget appropriations. The stock of general government consolidated gross debt increased significantly from 35.2% of GDP at the end of 2009 to 41.2% at the end of 2010. Adding outstanding State guarantees and the debt of the State Development Bank (HBOR), the level of public debt totalled 57.1% of GDP at the end of 2010. The 2011 budget is based on the assumption of 1.5% real GDP growth and 2.1% inflation in 2011. Revenue is projected to decline by 0.8% in nominal terms compared with 2010. This is primarily a consequence of the phased repeal of the special crisis tax on salaries, pensions and other receivables which had been imposed in mid-2009. Another reason is last year's change in income tax rates and tax brackets which lowered annual revenue by an estimated 0.3% of GDP. Expenditure is budgeted to stay at the same level in nominal terms in accordance with a decision adopted by parliament in August 2010. The overall deficit is projected at 5.5% of GDP. According to the Ministry of Finance, the deficit equalled 2.6% of annual GDP in the first six months of 2011. In an *ad hoc* response to rising oil prices, the government reduced excise taxes on petrol and diesel fuel in March 2011, which will lower revenue by close to 0.1% of GDP on an annual basis. The contraction in output in the first quarter implies a risk of lower-than-projected economic growth and tax revenue and, therefore, a higher-than-projected deficit in the 2011 budget. *Overall*, the authorities made efforts on the expenditure side of the budget to contain the continuing rise of the fiscal deficit. Ensuring medium-term fiscal sustainability remains a key challenge.

Limited progress has been made on rationalisation of public spending. Some further health reforms have been adopted as a major step towards addressing the sector's financial difficulties. These include streamlining of the administration of the hospital network and of the supplementary health insurance system. Some cuts to privileged pensions have been adopted, but in general little progress has been made towards better targeting of social support

in spite of the action announced in the Economic Recovery Programme. *Overall*, little progress has been made towards increasing the efficiency of public spending.

Strategy-based budget planning has improved with the adoption of a Fiscal Responsibility Law on 23 November 2010. This law, which came into force on 1 January 2011, aims to ensure medium- and long-term sustainability, transparency and discipline for public finances and applies to all general government bodies. It contains fiscal rules aiming to stabilise and reduce the ratio of public debt to GDP. They stipulate that total general government expenditure will be reduced by a minimum of 1% of GDP annually. Once the primary fiscal balance has been brought back to zero, it has to be kept in balance (or in surplus) in cyclically-adjusted terms. The fiscal rules have to be applied for the first time in the public budgets for 2012. The law also contains general provisions on financial control, including presentation of annual statements of fiscal accountability. Responsibility for enforcement of the law lies mainly with the Ministry of Finance, but in March 2011 the government established a Fiscal Policy Committee, consisting of non-governmental experts, to monitor implementation of the fiscal rules. *Overall*, the Fiscal Responsibility Law has improved strategy-based budget planning and can be used as an instrument to rein in the high budget deficit.

Implementation of a comprehensive treasury reform strategy has continued with a view to further improving expenditure management and budget control systems. In February 2011 the government adopted the Public Debt Management Strategy for 2011-2013. Its objectives are to stabilise the share of public debt to GDP, to extend the repayment period (currently averaging around five years), to introduce a currency risk protection clause especially for debt denominated in US dollars, to develop the domestic securities markets and to achieve a balanced distribution of public debt between foreign and domestic markets. 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. More progress is required to bring fiscal reporting closer into line with ESA95 standards. Further progress is also required on linking policy priorities to the budget planning process more effectively. *Overall*, analytical and institutional capacity on public finance has continued to improve, but strategy-based budget planning could be strengthened further.

*Overall*, the macroeconomic policy stance has, by and large, been appropriate to address the macro-economic challenges given the existing constraints. Monetary policy maintained exchange rate and financial stability while remaining appropriately accommodating in a context of subdued economic activity. Fiscal policy has, to some extent, contained the negative budgetary consequences of the continuing recession. To achieve medium-term fiscal sustainability, key challenges remaining are to improve the budgetary process further, to strengthen fiscal discipline and to enhance the efficiency of public spending.

#### *Interplay of market forces*

The private sector's share of employment has remained at around 70% and its share of GDP is also estimated at around 70%. Only limited progress was made with privatisation of publicly-held assets. In the period between 15 September 2010 and 30 June 2011 a total of 83 companies were privatised, including through bankruptcy and winding-up procedures. The proceeds of the sales were relatively modest (about €11 million) since many of the companies were liquidated in the process. The remaining portfolio comprises 693 companies, with the State holding majority ownership of 92 of them. The portfolio's nominal value was set at

around €7.7 billion at the end of June 2011, up by about 3% since mid-September 2010. Since the remaining holdings consist predominantly of highly indebted and often loss-making companies, finding strategic partners is a lengthy process, requiring several stages prior to declaring bankruptcy or liquidation. As regards the shipbuilding sector, which generates revenue equivalent to about 2.5% of GDP, restructuring and privatisation continued (*See also Chapter 8*). In December 2010 parliament adopted a Law on State property management which created the Government Asset Management Agency by merging the Croatian Privatisation Fund with the Central Administrative Office for State Property Management. This consolidation should allow better management of all State property and easier access to State property for potential investors by allowing new sales models. *Overall*, very limited progress has been made towards reducing the large role of the State in the economy.

### *Market entry and exit*

The legal framework for companies entering and leaving the market was improved by the adoption of a number of laws (on forfeiture, litigation procedures, bankruptcy and court registering). Preliminary data indicate that the number of newly registered companies declined by 8.6% in 2010, year on year, and the total number of registered businesses declined by 1.9%. A bill on regulatory impact assessment has been enacted by parliament in July 2011. A regulatory impact assessment strategy has been drafted and three pilot projects are under way. The investment climate still suffers from difficulties in obtaining the necessary licences, building permits and other authorisations, as well as from the unpredictability of administrative decisions, in particular at local level. A large number of non-tax fees at national and local levels still burden entrepreneurs although they have been reduced, on average, by about 25% as part of the Economic Recovery Programme. *Overall*, further progress has been made on simplifying company registration, but the investment climate continues to suffer from a heavy regulatory burden, unpredictability of administrative decisions and numerous non-tax fees.

### *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 is still affecting the business environment, which 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*, the judicial system has been improved, although enforcement of property rights is still weak. Improving the business environment should remain a priority in the accession process.

### *Financial sector development*

The financial sector continued to be dominated by banks, which held 75.3% of the total assets of financial intermediaries at the end of 2010. The foreign-owned banks had a market share (i.e. share of total banking assets) of 90.5%. The banking sector is almost completely privatised with only two out of 32 banks remaining State-owned, together holding a combined market share of 4.2%. There were 23 small banks with market shares below 1%, three medium-sized banks with a share of between 1 and 5% and six large banks with market shares

above 5%. The market share of the four largest banks remained practically unchanged and added up to 65.6% at the end of 2010. Market concentration has remained moderate and has generally not hindered market competition.

Banking sector assets increased by 5.2% in 2010 compared with only 2.7% in 2009. About half of the rise was due to increased lending to the private corporate sector and about one third stemmed from increased lending to the government sector. The rise in household lending was due solely to the rising value of the Swiss franc which increased the size of residential loans to the household sector. In terms of GDP, total bank lending rose from 75.8% at the end of 2009 to 81.3% at the end of 2010. *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 remained high at 18.4% at the end of 2010, only slightly down from 19.2% in mid-2010. Subsequently it has climbed back up to 19.1% at the end of March 2011. The profitability of banks recovered somewhat in 2010 after the deterioration in the previous year. The return on average equity increased to 7.0% after having declined from 9.9% in 2008 to 6.4% in 2009. High provisioning costs continued to weigh on banks' profits. The share of non-performing loans continued to increase rapidly in 2010 reaching 11.2% at the end of the year, up from 7.8% at the end of 2009. In the course of the first quarter of 2011 it increased further to 11.5%. The main driving force behind this rise was the deteriorating quality of household loans against the background of deteriorating labour market conditions and the Swiss franc's appreciation against the kuna.<sup>5</sup> The upward trend in the share of non-performing loans continued into 2011 (11.5% as of 31 March 2011) as the banking system continued to face considerable interest- and currency-related credit risks since 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 built up 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 unhedged liabilities of the non-financial private sector.

The share of non-banking financial sector assets in total financial sector assets remained largely unchanged in 2010 on 23.3% at the end of the year. The stock market index rose by 5.3% over the year 2010, following a gain of 16% in 2009, but was still about 60% below the peak in 2007. Market capitalisation of shares listed on the Zagreb stock exchange increased from 40.9% at the end of 2009 to 42.1% at the end of 2010. Market capitalisation of all listed bonds rose from 11.0% of GDP at the end of 2009 to 15.8% in the course of 2010, mainly due to the new domestic bonds issued by the Croatian government. *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 heavy losses during the financial crisis.

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<sup>5</sup> The Swiss franc appreciated 13.4% against the kuna between 1 October 2010 and 19 September 2011). It represented 16% of all foreign-currency-indexed or –denominated bank loans in the first quarter of 2011 (and 12% of all bank lending).

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

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

Croatia is a functioning market economy. The macro-economic policy stance to cope with the continuing recession has, by and large, been appropriate given the constraints on both fiscal and monetary policy. Prudent measures 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.

#### *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. The process of referencing the Croatian Qualifications Framework to the European Qualification Framework is ongoing. 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. 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 Economic Recovery Programme and 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. Structural problems persisted on the labour market, as indicated by the high youth unemployment and low employment and participation rates. *Overall*, structural weaknesses in the labour market remain major challenges.

Investment continued to fall sharply in 2010, mainly due to a drop in construction activity. As a share of GDP, investment fell from 24.9% in 2009 to 21.6% in 2010. The decline in investment in processing and manufacturing industry has harmed the prospects for faster technological change, a more diversified production structure and higher export potential. Public investment slowed down a little, but remained significant, in particular in the motorway network. The largest share of cumulative FDI inflows (over the period 2003-2010) is accounted for by the financial sector (37%), followed by manufacturing (21%) and wholesale and retail trade (17%). The long-standing shortage of greenfield FDI continues. In October 2010 the government put forward a catalogue of 30 public-sector investment projects worth €13.85 billion. The projects should be carried out by public companies and local authorities in the areas of energy, tourism, water management and transport infrastructure. It remains unclear when work on these projects will begin, since the government has secured only a small amount of the financing needed. *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 priority in the accession process. The privatisation of the yards is in its final stage. One shipyard out of five reimbursed the State aid received since March 2006 and is no longer considered a shipyard in difficulty under State aid rules. Implementation of the National Restructuring Programme (NRP) for the steel sector was disrupted by the global economic crisis and is no longer needed. One of the steel mills is

currently subject to a bankruptcy procedure. The private investor in the other steel mill has decided to reimburse the aid (*See Chapter 8*). There has been only limited progress on restructuring the State-owned railway company (staff reductions) and privatising its subsidiaries. The railways continue to receive high levels of budget support. *Overall*, although privatisation of the shipyards has proceeded, further efforts are now required to complete the process. Sustained efforts are required to complete the restructuring of the railways to secure their long-term viability and competitiveness.

The telecommunications industry was further liberalised. The Croatian Telecommunications Agency continued activities with the aim of stimulating competition by improving market access for 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 rules for the gas transport and distribution network 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 dominant services sector increased its share of total gross value added from 68.2% in 2009 to 68.8% in 2010. The share of industry rose from 18.4% to 19.0% and the share of agriculture, forestry and fishing from 5.4% to 5.5%. These gains were made at the expense of construction whose share of total gross value added declined from 8.0% in 2009 to 6.7% in 2010. The share of construction in total employment decreased from 8.8% in 2009 to 7.5% in 2010 and the share of industry from 19.5% to 19.0%, whereas agriculture's share increased from 13.9% to 14.9%.

In the first three quarters of 2010, small and medium-sized enterprises (SMEs) accounted for 67.2% of total employment and 52.2% of total investment. SMEs generated 51% of gross profit and more than 45% of total exports. Except for gross profits, where their share declined, all their indicators improved compared with the previous year. The State Development Bank (HBOR) was further strengthened financially to enable it to increase lending to SMEs on more favourable terms. Still, the sector continued to suffer from the cumbersome regulatory framework and inefficiencies in public administration. Access to longer-term financing remained difficult, particularly for newly established businesses. *Overall*, the government continued to support the SME sector, whose relative share in the overall economy increased.

#### *State influence on competitiveness*

The Competition Agency has been given a stronger role in the antitrust and mergers field. Administrative capacity and enforcement of competition policy continued to improve. Public subsidies remained unchanged at the high level of 2.4% of GDP in 2010 and a large share still went to loss-making companies. Horizontal aid continued to account for only a small share of total subsidies, although it increased relative to sector-specific aid. *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 77% of GDP in 2010. Although this ratio is 2 percentage points higher than in 2009, it is still significantly below the level of 92% in 2008. Apart from exports of machinery and transport equipment (mainly ships), tourism remained the biggest source of export revenue, generating

an unchanged 14% of GDP in 2010. The EU has continued to be Croatia's largest trading partner. Its shares of total Croatian exports and imports remained relatively stable in 2010 at 61% and 60% respectively. CEFTA countries accounted for 10.3% of all Croatian trade in 2010, slightly below their share in 2009. 94% of all FDI stocks stemmed from EU Member States. *Overall*, integration with the EU in the areas of trade and investment remained high.

The average real effective exchange rate deflated by consumer prices fell by 1.4%, year on year, in 2010, mainly due to the nominal depreciation of the kuna against a basket of currencies of major trading partners and partly to a smaller increase in domestic than in foreign consumer prices. However, the average real effective exchange rate deflated by producer prices increased slightly year on year (0.2%), despite the nominal effective depreciation. Using unit labour costs as the deflator, the kuna depreciated by 4.9% year on year in real effective terms in the first three quarters of 2010. Unit labour costs decreased due to the stronger fall in employment than in GDP and falling compensation per employee. *Overall*, standard indicators point, on balance, to some improvement in Croatia's international price competitiveness in 2010.

#### 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 preparation.

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

Good progress can be reported towards alignment on **general principles**. Although Croatia has made headway in the implementation of its action plan for compliance with Articles 34 to 36 of the Treaty on the Functioning of the European Union (TFEU), reporting to the Commission needs to be improved.

In the area of **horizontal measures**, good progress can be reported. The human resources of the Internal Market Co-ordination Department of the Ministry of Economy, Labour and Entrepreneurship have been strengthened with two additional employees. A further revision of the Act on technical requirements for products and on conformity assessment is under preparation in order 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. HZN was chosen as the notifying authority referred to in the Agreement on Technical Barriers to Trade (WTO/TBT).

In the field of *conformity assessment*, some progress can be reported in adopting the relevant ordinances on the CE marking and designation of conformity assessment bodies.

In the field of *accreditation*, there has also been good progress. The Croatian Accreditation Agency (HAA) has prepared all necessary documents required for the regular re-evaluation by the European co-operation for Accreditation (EA) which will be taking place during 2011. So far the HAA has accredited a total number of 247 conformity assessment bodies.

Alignment with the *acquis* in the area of *metrology* is advanced. Transferring responsibility for scientific metrology to the National Metrology Institute (NMI) is still the main outstanding issue in this field. The Statute of the Croatian Metrology Institute (HMI) was adopted in March 2011, but the Director has not been appointed yet.

Regarding *market surveillance*, there has been further progress with the State Inspectorate's administrative capacity and enforcement measures. Alignment in the field of market surveillance is advancing.

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

There has been good progress in relation to the '**Old Approach**' **product legislation**, with a number of regulations being adopted. Further efforts are needed in order to achieve full alignment and implementation of the legislation, in particular in the fields of data exclusivity and absence of financial interest in the pharmaceutical industry by the employees of the Agency for medicinal products and medical devices; clinical trials for medicinal products for human use; good laboratory practice and aerosol dispensers.

Alignment with the '**New and Global Approach**' **product legislation** is well on track. New or revised transpositions have been adopted in many product sectors (e.g. electromagnetic compatibility, explosive substances, machinery and safety of toys). However, further efforts are still needed, particularly on construction products, medical devices, pressure equipment, simple pressure vessels and gas appliances.

Some progress has been achieved on **procedural measures**, where alignment is advanced. The central contact point, established within the Ministry of Economy, Labour and Entrepreneurship to facilitate cooperation between the Ministry and other central State departments and operators, needs to be reinforced. Further efforts are still needed in order 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 the remaining revisions of the horizontal legislation, as well as the 'New' and 'Old Approach' product legislation, in order for the national legislation to be fully in line with the *acquis*.

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

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

Continued progress can be reported towards future participation in the **EURES** (European Employment Services) network. The organisational structure of the Croatian Employment Service (CES) has been adjusted, its administrative capacity strengthened and its IT system adapted to connect to the European Job Mobility Portal upon accession. Various training activities for EURES advisers have been organised. The CES has opened two new Migrant Information Centres in cross-border regions and is intensifying their activities. In this area, preparations are nearing completion.

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. The inter-institutional working group meets on a monthly basis. Croatia continues to participate as an observer in the preparations for the EESSI project (on electronic exchanges of data under the new EU regulations) and has taken the necessary technical decisions to be able to join the EESSI as from accession. Training is systematically provided to staff from the State administration. The required estimate of the additional financial costs of health care to be taken into account in the internal budgetary planning is still expected. Preparations in this area are well advanced.

Preparations continue for the introduction of the **European health insurance card** upon accession.

### *Conclusion*

Continued progress has been made in the field of *freedom of movement for workers*, and preparations to apply the *acquis* are on track. Continued attention must be paid to the strengthening of administrative capacity with regard to the coordination of social security systems.

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

Some progress can be reported in the area of **right of establishment and freedom to provide cross-border services**. In particular, work on transposition of the Services Directive into national legislation is progressing according to the related Action Plan, although further efforts on the implementation of the Directive are still needed.

The preparation of a horizontal law transposing the main principles of the Services Directive is completed. The Services Act was adopted and entered into force in July 2011. The screening of national legislation is completed, although several legislative amendments on sector-specific legislation to the Services Directive are still pending. Preparations for the establishment of the Point of Single Contact (PSC) required by the Services Directive have been initiated.

The administrative capacity of institutions working on the implementation of the Services Directive and cooperation need constant upgrading and strengthening respectively. Most of the competent authorities have appointed delegated coordinators for services. As regards the administrative capacity of the Department for Internal Market Service Development, it is fully staffed in accordance with the current organisational structure of the Ministry of Economy, Labour and Entrepreneurship (MELE). The Department is making efforts to train its own personnel and the personnel of other relevant institutions working on services, in particular those of the Croatian Chamber of Economy, i.e. staff working on the PSC.

As regards the alignment of sector-specific legislation with Articles 49 and 56 TFEU (and with the Services Directive when relevant), some measures have been taken by Croatia. The Law on the Legal Profession has been amended, regulating in more detail the special responsibility of members of a company of attorneys when it is established as a limited liability company. The Amendments to the Law on the Legal Profession also redefine the article regulating cross-border provision of attorney's services. Those provisions apply as of the EU accession. However, several restrictions affecting the exercise of the legal profession for both established and cross-border lawyers remain in the final text adopted, such as requirements of legal form and the six-months and the one-office rules. The Law on Private Protection was also amended.

Some progress has been made as regards **postal services**, where legislative alignment with the *acquis* continues to be well advanced. Although the Croatian Parliament has ratified several international agreements in the area of postal services, further legislative efforts are still needed in order to complete alignment with the *acquis*, especially in relation to amendments introduced by the Third Postal Directive. Furthermore, there is a need for legal certainty as regards the application of the existing national legislation for the benefit of licensed postal services.

Based on its strategic framework, the Croatian Post, which is the designated universal service-provider, adopted a new business plan for 2011, aimed at preparing for full liberalisation of the postal services market. Administrative capacity, in terms of the number and qualifications of personnel, of the Postal Services Department within the Croatian Post and Electronic Communications Agency (HAKOM) is at satisfactory level. However, further training of HAKOM staff is necessary, in particular on very specific regulatory issues such as cost accounting separation and cost allocation.

Good progress has been observed in the field of **mutual recognition of professional qualifications**. Several Acts have been amended in order to align them with the *acquis*, including the Act on Regulated Professions and Recognition of Foreign Professional Qualifications, the Midwifery Act, the Nursery Act and the Legal Professions Act. Furthermore, considerable progress has been made with respect to training curricula, in particular by the University of Zagreb. However, other training programmes need further work. The Act on Architectural and Engineering Tasks requires further amendments.

#### *Conclusion*

Further progress has been made in this chapter, where, in general, alignment with the *acquis* is satisfactory. Continued work is needed in the area of mutual recognition of professional qualifications and on transposition of the Service Directive in order to reach full alignment. Continued strengthening of administrative capacity of the postal services regulator and all institutions implementing the Services Directive is required.

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

Further progress has been made on the **free movement of capital**, where Croatia's legislation is already largely aligned with the *acquis*. Croatia liberalised deposit transactions by residents abroad as of January 2011. However, restrictions remain on acquisition of agricultural land and land in protected nature reserves by EU nationals, and on special government rights.

Good progress can be reported as regards **payment systems**. The new Payment Systems Act and implementing legislation entered into force in January 2011, with the exception of provisions regulating the functioning of the Croatian payment system as an EU Member State, which will apply as of accession. The new Electronic Money Act transposing the Electronic Money Directive (Directive 2009/110/EC) entered into force in January 2011. Relevant secondary legislation was adopted in March 2011.

Some progress can be reported on **anti-money-laundering** measures. Cooperation between the Croatian Financial Intelligence Unit (FIU) and reporting entities has been increased. Joint training activities with the reporting entities continued. (*See also Chapter 24— Justice, freedom and security*)

## *Conclusion*

Further progress has been made in the field of *free movement of capital* as regards payment services, the liberalisation of capital movements and anti-money-laundering. Overall, legislative alignment is almost complete. Continued efforts are needed to complete liberalisation of capital movements and to further consolidate the enforcement of anti-money-laundering legislation.

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

Some progress has been achieved as regards **general principles**. In July 2011 Croatia adopted the new Public Procurement Law (PPL) completing its alignment to the relevant *acquis*. Apart from the Act on the Maritime Domain and Seaports, all the necessary sector regulating acts in the area of concessions have been adopted.

With regard to *administrative capacity*, the Department for the Public Procurement System (DPPS) at the Ministry of Economy, Labour and Entrepreneurship (MELE) together with the other key institutions continued to efficiently implement the public procurement policy. The up-dated Action Plan of the Strategy for the Development of the Public Procurement System was successfully implemented. The transparency and accountability of the system has been enhanced through improved co-ordination mechanisms and training events for key players in the sector. Contracting authorities and entities (in particular the state-owned companies) and economic operators need to further improve capacities and implement procedures efficiently at all levels.

The Ministry of Finance maintained the Concession Registry efficiently and continued to implement the related roadmap. Further efforts are needed in order to finalise the harmonisation of secondary legislation linked to the Concessions Act and to improve the administrative capacity of the Concessions Department.

The process of strengthening the Agency for Public-Private Partnership (APPP) continued. In December 2010 the Ordinance to set up the PPP Registry was adopted. In addition, a PPP Guide has been drawn up and published in line with the new legislative system. The APPP staff participated in training courses in the field of concessions and PPP in co-operation with the other key institutions in the sector.

During its first year of activity, the Central Procurement Office (CPO) gradually built up its capacities. Co-ordination agreements have been signed with several institutions and academics to streamline co-operation and improve the efficiency of procedures. Currently, the CPO employs 14 civil servants (two of whom are temporarily assigned). However, the administrative capacity should be further enhanced and the quality of the tender documents should be improved.

The State Commission for the Supervision of Public Procurement Procedures (SC) continued its efforts in improving the management of the **remedies** system in Croatia. The transparency and accountability of the SC was improved with a new up-dated website. In April, the SC employed three new legal advisors. The SC staff, in co-operation with DPPS and MELE, actively participated in numerous training workshops and seminars. Further efforts are needed to build up capacities of the SC.

## *Conclusion*

Overall, progress has continued in the field of *public procurement*. The alignment with the *acquis* is on track and nearing completion. Special attention should be paid to aligning the secondary legislation with the new Public Procurement Law, maintaining the co-ordination mechanisms, and enhancing the capacities of the institutions in the sector by means of the continuous training and professional development of their staff.

#### 4.6. Chapter 6: Company law

There has been some progress in the field of **company law**. Croatia's legislation is largely in line with the *acquis*. The Companies Act was amended to align the Croatian legislation with the *acquis* in this area. However, some inconsistencies remain, in particular regarding shareholders' rights.

There has been progress in the field of **corporate accounting**. The legislation is largely in line with the *acquis*. The Croatian Financial Reporting Standards Board continues to publish the translated versions of the International Accounting Standards, the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Accounting Regulatory Committee (ARC).

There has been good progress in the field of **auditing**. The Audit Public Oversight Committee (APOC) and the Quality Assurance Team (QAT) continue to make progress in their respective fields. The QAT proceeded from questionnaires to all audit firms to performing initial on-site visits, again to all firms. More selective, regular on site audits will follow after this general review. The QAT now has four highly skilled inspectors and the recruitment of a fifth inspector is ongoing.

The Department for Financial Reporting in the Ministry of Finance, which is providing technical support to APOC, has three employees. In January 2011, the European Commission recognised the equivalence of the audit oversight system in Croatia. Member States can now choose to rely on the supervisory work of the Croatian oversight system.

#### *Conclusion*

Overall, progress can be reported in the field of *company law*. Alignment with the *acquis* is well on track. All institutions need to pursue their tasks and continue to develop their skills and performance.

#### 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**.

Very good progress can be reported in the field of **enforcement**. The inter-agency co-operation is now ongoing and shows particular progress in the field of public awareness. This is in line with the best European practice in the field. The co-operation platform is also making an effort to sustain and develop the collection and analysis of enforcement statistics and operational co-operation. The individual enforcement bodies have stepped up training activities as well as regional and international co-operation in their respective areas.

As regards intellectual property, further emphasis should be put on the capacity of the police and prosecutors to build larger cases and on raising public awareness of intellectual property rights. The State Intellectual Property Office (SIPO) has good administrative capacity.

However, the resources and particularly the funding of the first instance Board of Appeal still need strengthening in order to prevent delays.

### *Conclusion*

Further progress has been achieved in the field of Intellectual property law. Alignment with the *acquis* in the field of *intellectual property law* has reached a very high level. Public awareness of intellectual property rights still needs to be further strengthened.

## **4.8. Chapter 8: Competition policy**

Progress can be reported in the field of **antitrust, including mergers**. The new Competition Act which entered into force in October 2010 provides new tools for the Croatian Competition Agency (CCA) to enforce competition rules in Croatia. A number of implementing regulations were adopted, in particular the Regulation on the criteria for setting fines and the Regulation on immunity from fines and reduction of fines. With 55 employees, the CCA has a good administrative capacity, but it can be further strengthened through management and training, particularly in the fight against cartels and abuse of a dominant position.

Since 1 October 2010, the CCA has adopted 37 decisions in antitrust and merger cases, including 7 on agreements, 3 on a dominant position, 12 on concentrations and 15 opinions. The CCA has continued to provide the government with assessments of draft laws and other expert opinions. Progress has been made in relation to competition and State aid advocacy. Preparations in the field of antitrust, including mergers, are on track.

There has been some progress in the field of **State aid**. The CCA resolved 73 cases, of which 21 involved aid schemes, 10 concerned individual aid measures, 4 covered legal acts involving aid and 38 covered advocacy cases. The main procedural principles of State aid control are in place and in line with the *acquis*.

The new Croatian Broadcasting Act entered into force in December 2010. This Act ensured the compliance of the financing of the public broadcaster HRT with EU State aid rules, in particular on the definition of public service, and the respect of market principles by public service broadcasters.

Regarding the steel sector, one of the two steel mills under State aid rules, Željezara Split, ceased production and has filed for bankruptcy. The other steel mill, CMC Sisak, has voluntarily agreed to reimburse the State aid it has received. The detailed arrangements for reimbursement are still being negotiated with the Croatian authorities

In the shipbuilding sector, Croatia has made good progress. Restructuring plans for all the shipyards in difficulty were drafted and accepted both by the CCA and the Commission. As regards the Uljanik yard, the Commission concluded that it was no longer a shipyard in difficulty. The restructuring plan for Brodosplit and BSO were accepted by the CCA and the European Commission in February 2011. In June 2011 both the CCA and the Commission accepted the restructuring plans for the Brodotrogir, Kraljevica and 3. Maj yards. However, none of the privatisation contracts has been signed yet.

### *Conclusion*

Substantial progress has been achieved in the field of *competition policy*, in particular by the approval of acceptable restructuring plans for the shipyards in difficulty. However, none of the privatisation contracts has been signed. A high level of alignment has been achieved. Further efforts are required in order to continue developing the CCA's enforcement record against cartels following the entry into force of the new Competition Act.

#### **4.9. Chapter 9: Financial Services**

Further progress has been made in the field of **banks and financial conglomerates**. Croatia adopted the Electronic Money Law and the implementing legislation, which entered into force in January 2011, except for the EU membership-related provisions that shall apply by accession. As the alignment of the legislation on winding-up procedures is satisfactory, no further progress is to be reported in this field. Work on alignment with the latest modification of the Capital Requirements Directive (CRR) III is in progress. Overall, legislation in this area has reached a high level of alignment.

Further progress has been achieved in the area of **insurance and occupational pensions**, where the level of legislative alignment with the *acquis* is already quite high. Croatia has amended the Law on Mandatory and Voluntary Pension Funds in line with the relevant *acquis*. The amendments have reduced restrictions on investments by pension insurance funds and created conditions for cross-border activities of closed-end pension funds. They also allowed sponsors of closed-end pension funds to choose the fund's manager and custodian from other EU countries, and allowed companies managing pension funds and financial institutions which act as their custodians, and are headquartered in Croatia, to offer their services to sponsors of closed-end pension funds in other EU Member States. Those provisions are applicable by the time of accession.

In the area of **financial market infrastructure** Croatia's legislation already fulfils the *acquis* requirements.

Some progress can be reported as regards **securities markets and investment services**. The legislative alignment in this area is already very advanced. Croatia continued to adopt the implementing legislation. HANFA (Croatian Financial Services Supervisory Agency) issued several Ordinances and Decisions specifying the requirements set out in the Capital Markets Act and other legislation.

Following the review of the Prospectus Directive, Croatia will need to implement Directive 2010/73/EU amending Directive 2003/71/EC and continue to work on the ongoing and upcoming reviews of several directives on securities markets that remain to be conducted in order to transpose amending directives.

As regards administrative capacity, the Croatian National Bank (CNB) continued with educational programmes for its staff and personnel of supervised entities, in particular as regards CRD. HANFA continued its efforts to strengthen its administrative capacity, by means of training schemes and an increase in personnel (currently 134 employees, including 8 trainees, as compared to 125 at the beginning of 2010). It also prolonged its campaign of raising public awareness and educating the public. The CNB and HANFA have continued their cooperation with domestic and foreign regulators by implementing numerous Memoranda of Understanding (MoU). In 2010, HANFA also signed a new MoU with the Insurance Supervision Agency of the former Yugoslav Republic of Macedonia. Continued strengthening of the administrative capacity of both regulators should be maintained.

## Conclusion

Good progress has been made in the field of *financial services*, both on alignment of legislation and on strengthening of administrative capacity. Alignment is at a high level.

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

Croatia has made good progress with aligning its policy, legislation and regulations with the *acquis* on **electronic communications and information technologies**. Amendments to the Electronic Communications Act were adopted in July 2011 aimed at aligning with the EU 2009 electronic communications reform package. The switchover to digital television broadcasting took place according to plan and was completed in October 2010. Market analysis procedures and regulations are well advanced. However, repeated delays in introducing cost-model based prices are raising concerns.

Croatia has now reached a broadband penetration rate of 25.52% (18% in fixed, mainly ADSL, and 7.5% in mobile), which compares well with the EU average. While companies of all categories are well connected, especially those with mobile broadband, households are still slightly below the EU average. The incumbent retains a strong position, which is shown for instance by its 79% of the broadband market revenues.

The 'crisis tax' introduced in 2009 on mobile operators' revenue remains in force. It mainly affects the latest entrant on the market, as well as any possible new entrants on the market. Despite requests, no analysis of its non-detrimental effects on market liberalisation has been published for public review. Procedures to obtain building permits for mobile infrastructure continue to be slow, despite past efforts on the issue.

Further progress has been made on strengthening the administrative capacity and transparency of the Croatian Post and Electronic Communications Agency. Training has been provided, and significant investment in the further education and training of the employees is planned in the course of 2011. However, continuous management efforts are needed in order to develop the agency into a strategic player endorsing the policy goals of a level playing field, including increased transparency and stakeholder dialogue. Overall preparations in this area are well advanced. However, major efforts are needed in order to increase competition, in particular on the internet broadband market.

Preparations in the area of **information society services** are well advanced. Croatia plays an active role in many of the related EU initiatives. An electronic business council was established to provide private sector input into government policies. Furthermore, a national structure to monitor and implement national actions relating to the European Digital Agenda is being developed. Interest in organising a 'going local' initiative has been expressed. Identified shortcomings in the legal alignment with the e-commerce *acquis* need to be remedied.

Good progress can be reported in the field of **audiovisual policy**. A new Croatian Radio-Television Act was adopted in December 2010, in line with EU State aid rules. Several by-laws implementing the Electronic Media Act have been adopted by the Electronic Media Council. Amendments to the Media Act and to the Electronic Media Act, aimed at ensuring transparency of ownership in the media, were adopted in July 2011. Also amendments to the Act on Audiovisual Activities were adopted in July 2011, introducing a new financial incentive for the production of audiovisual works in Croatia as a production site. The

administrative capacity of the Electronic Media Agency has been strengthened through the recruitment of new expert staff. Continued efforts are also necessary to ensure and promote the independence of the public service broadcaster and to increase its transparency. Attention must also be paid to maintain the decriminalisation of defamation.

### *Conclusion*

Croatia has made good progress in the field of *information society and media* and has achieved a high level of alignment with the *acquis* in this chapter. Further efforts are needed to sustain liberalisation of all segments of electronic communications markets, to further facilitate the development of an 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**

Good progress can be reported regarding **horizontal** issues. Croatia complemented the legislative framework related to agricultural payments, enabling the 2011 campaign to use some procedures aligned with the *acquis*. Additional efforts are needed to complete the legislative framework in order for Croatia to meet its commitment to implement a system of national direct payment similar to the Common Agricultural Policy in 2012.

Good progress can be reported regarding the development of the capacity of the paying agency, as well as the establishment of the integrated administration and control system including a land parcel identification system though there is some delay in recruitment of staff. Efforts are still needed in order to prepare for the implementation of a rural development programme, in particular with regard to procedures, technical specifications and software. Progress can be reported regarding the farm accountancy data network (FADN). Croatia needs to increase human and financial resources so as to ensure full implementation of the FADN.

Good progress was made in the area of the **common market organisation (CMO)**. Croatia further aligned the Act on the organisation of the market in agricultural products with the action plan for harmonisation with the CMO. Croatia needs to continue its efforts to put a fully operational system in place as of accession. Croatia established a vineyard register.

In the area of **rural development**, Croatia started implementing additional measures under the Instrument for Pre-Accession Assistance for Rural Development (IPARD). However, Croatia needs to improve its absorption capacity to allow full use of pre-accession funds and continue its preparations for the implementation of a rural development programme after EU accession.

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

### *Conclusion*

Good progress can be reported in the field of *agriculture and rural development*, in particular on the establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. Overall, preparations are on track. Croatia needs to sustain efforts in all these areas in order to have fully operational and compliant systems in place. Additional efforts are also necessary concerning the alignment of the agricultural support system with the *acquis* and to prepare for

the implementation of rural development programmes after EU accession. Croatia needs to improve the absorption capacity for rural development funds without delay.

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

Good progress continued in the field of **general food safety**. The transposition, implementation and enforcement of the *acquis* for food safety, veterinary and phytosanitary policy is on track. Alignment with the *acquis* is well advanced in all areas of food safety. The proper implementation of new legislation entails a sustained improvement in the administrative and control capacity.

Good progress can be reported in the **veterinary** sector with the adoption of implementing legislation in numerous fields. Additional official veterinarians were recruited and training was provided. Croatia decided to delegate certain official control tasks to approved veterinary organisations. Preparations for construction and equipping of the agreed border inspection posts are under way. However, Croatia needs to continue its efforts, in particular with regard to the setting up of border inspection posts as well as finalising the organisation of the official controls.

Progress was made in the area of **placing on the market of food and feed**. The national plan for the upgrading of establishments for food and feed of animal origin is being implemented. Close monitoring of the completion of the individual upgrading plans in line with the initial timetable is important. Significant efforts remain in the animal by-products sector in particular with regard to intermediate plants and for the handling of high risk materials.

Transposition and implementation of the **food safety rules** and the **specific rules for feed** is well on track.

Good progress continued on **phytosanitary** issues. Implementing legislation has been adopted in the areas of plant health and plant protection products. Croatia needs to maintain these efforts, in particular with regard to setting up border inspection posts and strengthening administrative capacities.

Some progress can be reported in relation to **genetically modified organisms (GMOs)**. Croatia adopted implementing legislation authorising entities to carry out risk assessments for the release of GMOs into the environment.

#### *Conclusion*

Good overall progress can be reported in the field of *food safety, veterinary and phytosanitary policy*, in particular concerning the transposition of EU legislation and the adoption of implementing legislation. Transposition of legislation is reaching completion in several sectors. Preparations are well advanced. Continued efforts are necessary with regard to the upgrading of establishments and its monitoring, the setting up of the border inspection posts and the animal by-products sector. Sustained improvement of the administrative and control capacity is important.

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

Croatia continued its good progress in the areas of **resource and fleet management and inspection and control**. Croatia adopted implementing legislation in the fields of commercial fishing, fishing licences, fleet register as well as data collection. The fisheries monitoring

centre continues to be operational and additional staff has been recruited. Registration of commercial fishing vessels is reaching completion. Croatia needs to maintain efforts with regard to the completion of the satellite based vessel monitoring system and the entry-exit scheme. In particular, the preparation of the required management plans as well as the phasing out of the category of subsistence fisheries require additional attention. The administrative and control capacity is improving, but needs further strengthening, in particular with regard to the recruitment and training of additional fisheries inspectors to carry out checks at sea and on land.

Good progress has been made regarding **structural action**. The administrative bodies to implement the European Fisheries Fund are in place. Croatia is finalising the national fisheries strategy. The operational programme requires additional work.

Good progress can be reported on **market policy**. Collection of information on species, quantities and prices has been further improved. Efforts are needed on establishing producers' organisations and aligning marketing standards. Croatia has aligned its rules on **State aid** with the *acquis*.

In the area of **international agreements**, Croatia continued to implement all the recommendations of the International Commission for the Conservation of Atlantic Tunas (ICCAT) regulating catches, farming and trading. As far as the General Fisheries Commission for the Mediterranean (GFCM) is concerned, Croatia continues to work towards the alignment of its national legal framework with the recommendations adopted by the GFCM.

#### *Conclusion*

Croatia continued its good progress in aligning with the *acquis* in the field of *fisheries*. Overall, preparations are well advanced. The implementation of the legislation requires continued effort, in particular with regard to fleet and resource management, inspection and control and structural policy.

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

Progress can be reported on **road transport**. Amendments to the Act on working time and mandatory rest periods of mobile workers and recording equipment in road transport have been adopted, furthering the alignment with the *acquis*. In addition, Croatia has been working on the enhancement of inspection capacity. Croatia needs to further improve its administrative capacity for implementing the road safety *acquis*. Currently, Croatia applies national rules concerning admission to the occupation of road transport operator, which Croatia committed itself to repeal after accession, as the relevant EU regulation will be then directly applicable.

Good progress has been achieved in the case of **rail transport**. The administrative capacity of the railway regulatory body, which is operational, has been further increased. Croatia's new safety authority needs to develop as a matter of urgency the administrative capacity to implement procedures related to safety certificates of railway undertakings, in particular the approval of safety management systems needed to extend these certificates, vehicle authorisation, train driver licences and registers, the inventory of national safety rules and their reporting to the NOTIFID databank of the European Railway Agency. The accident investigation body is not yet operational. The functional separation between HZ's Infrastructure company and HZ Holding is still incomplete, and it continues to pose risks to market access and fair competition. The rail market is fully open to Croatian undertakings

only, with access for operators licensed in the EU to be granted on the date of accession. Rail access to the maritime and inland waterways ports still remains open only to the existing state-run railway.

There has been progress in **inland waterways transport**, following Croatia's development plan for inland waterways (2007-2012). Croatia is participating in the implementation of the Danube Strategy and in the development of the Sava River. In particular, Croatia is working on the alignment of river banks and other technical matters in close cooperation with the SAVA Commission. Progress has been achieved in the implementation of the River Information System.

The new Law on **combined transport** 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 European Common Aviation Area (ECAA) Agreement has been completed, and work on the second phase is continuing. In the air traffic management field, Croatia has made good progress in transposing most of the Single European Sky legislative framework and is participating in the integration of its airspace into the Functional Airspace Block Central Europe. The amendments to the Aviation Act were adopted by Parliament, ensuring the alignment with the *acquis*.

Good progress can be reported in the area of **maritime transport**. Physical implementation of the vessel traffic monitoring information system (VTMIS) is completed, but is still not fully operational. Croatia is on the 'white list' of the Paris Memorandum of Understanding (MoU). Croatia made good progress regarding administrative capacity for maritime safety. However, the transfer of the flag state functions to the line Ministry, currently being undertaken by the Croatian Register of Shipping, has not yet been finalised.

Croatia intends to take part in the Galileo **satellite navigation** programme.

### *Conclusion*

Further progress has been achieved and, overall, the level of alignment in the field of *transport policy* is good. Additional efforts are still needed, in particular to continue work on the second phase of the ECAA Agreement to complete alignment of the aviation legislation and to ensure the full functioning of the railway safety authority and full operation of the vessel traffic monitoring information system (VTMIS).

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

There has been progress in the area of **security of supply**. As regards building up the mandatory 90 days of emergency oil stocks, Croatia is preparing for the investments needed to implement its plan for security, formation and replenishment of mandatory stocks of oil and oil products, and for their storage and regional distribution. Bilateral intergovernmental agreements for storing compulsory crude oil and petroleum products stocks have been signed with Germany and Hungary. As regards the security of supply of natural gas, Croatia has established a new gas interconnector with Hungary, connecting the gas transportation systems of the two countries. In addition, preparations are underway for the construction of a Liquefied Natural Gas terminal on Krk Island. Croatia continued the construction of the

natural gas supply network toward the south, with the inauguration of the second section of a gas supply corridor from Lika to Dalmatia.

There has been good progress in connection with the **internal energy market**.

The alignment of energy-related legislation to the EU acquis has continued and the legislation aimed at transposing the third internal energy market package is at the stage of stakeholder consultations. Amendments to the Oil and Petroleum Products Market Act were approved and the amendments to the Energy Act, the Act on the Regulation of Energy Activities, the Gas Market Act and the Electricity Market Act are in the process of adoption. Croatia adopted the methodology for performing electricity balancing services. The electricity and gas markets continue to be dominated by single suppliers, but there are now five active electricity suppliers in Croatia. As required by the Energy Community Treaty, Croatia is implementing joint yearly, monthly and daily auctioning of cross-border capacities with Slovenia and Hungary. Negotiations with Serbia and Bosnia and Herzegovina regarding similar joint auctioning are ongoing. There have been no developments in relation to the establishment of regional coordination for capacity allocation and congestion management in electricity. Croatia needs to strengthen the independence and powers of the regulator.

Some progress can be reported in the area of **renewable energy** sources. The government amended implementing legislation related to the incentives for electricity generated from renewable energy sources and cogeneration. The law on biofuels has been amended in order to align it with the 2009 renewable energy directive. Implementing legislation relating to fees for non-placement of biofuels on the market has been enacted. Croatia has made limited progress towards its 2010 target for electricity production from renewable energy sources covered by incentives. Implementing legislation amending the minimal share of incentivised electricity generated from renewable energy sources and cogeneration has been adopted. The complex and lengthy administrative procedures are still a disincentive to increasing investment in renewable energy sources. Alignment of the legislation is advanced, but substantial efforts will be required, particularly with regard to improving the administrative procedures, if Croatia is to achieve its target of meeting 20% of final energy consumption from renewable sources by 2020.

Some progress can be reported in **energy efficiency**. Implementation of legislation on energy audits of buildings and authorisations for energy audits of buildings has continued, in particular as regards the training and accreditation of experts. However, the lack of administrative capacity remains a problem for both the promotion of energy efficiency and renewable energy.

Progress has been made on **nuclear energy, nuclear safety and radiation protection**. The regulatory authorities, which were formally merged under the State Office for Radiological and Nuclear Safety (SORNS), have started to function as a single institution. However, some aspects of inspection are still assigned to the Ministry of Health and Social Welfare, which calls 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. The national emergency plan for nuclear accidents remains to be developed. Several regulations, in particular on medical exposure and occupational exposure, have not yet been implemented. SORNS staff increases for 2011 have been approved and partially implemented, and further increases are foreseen for the period 2012-2013. Croatia should envisage relocating its existing radioactive waste storage facility as the existing facility at the Rudjer Bosković Institute does not meet international standards.

## *Conclusion*

Overall, some progress has been made in the field of *energy*, and the level of alignment is high. Further efforts are needed, in particular regarding the opening of the electricity and gas markets, meeting the EU's targets for renewable energy sources and energy efficiency, as well as nuclear safety. Administrative procedures related to renewable energy projects need to be simplified and administrative capacity strengthened.

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

Some progress can be reported in the area of **indirect taxation**, with the entry into force of the new Act on excise duties for coffee on 1 April 2011, which brought the tax into line with the Stabilisation and Association Agreement. Croatia's legislation is largely in line with the EU *acquis*, but 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 chargeability of duty on coal, gas and electricity and minimum rates. Croatia has also to bring the provisions applicable to car taxation into line with the *acquis*.

Some progress can be reported in the area of **direct taxation**. Croatia has initiated the procedure with a view to entering into bilateral agreements with dependent and associated territories to implement Directive 2003/48/EC.

Limited progress can be reported on **administrative cooperation and mutual assistance**. A revised Tax Administration Strategy for the period 2011 - 2015 was adopted in May 2011. The preparations for administrative cooperation and mutual assistance with Member States are largely in place, including with regard to the setting up of the Central Liaison Office and the Excise Liaison Office. Training of the staff to be assigned to the two departments has continued. Croatia needs to further develop its control capacity in the area of excise duties, in order to be able to effectively implement the recently adopted national excise legislation.

Croatia made limited progress on **operational capacity and computerisation**. The Common Communication Network and Common System Interface (CCN/CSI) was installed and became operational in December 2010 (*see also Chapter 29 – Customs union*). Croatia is well advanced in its preparations for IT interconnectivity, but should continue strengthening the IT capacity of the tax and customs administrations.

## *Conclusion*

Some progress was made in the field of *taxation*. Croatia's level of legislative alignment is very high, but some further efforts are needed, most notably in the field of VAT and excise duties. Croatia should continue strengthening its administrative capacity, including IT interconnectivity.

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

No further progress can be reported in the field of **monetary policy**, since the legislative alignment has been completed.

Some progress has been observed in the area of **economic policy**. The institutional and technical capacity for developing medium-term macroeconomic and fiscal frameworks is continuously improving. The Pre-accession Economic Programme (PEP) for 2011-2013 presents a comprehensive and consistent macroeconomic and fiscal framework for economic

policies. Broad political consensus on the fundamentals of a market economy has been maintained, but efforts to implement the necessary structural reforms need to be intensified. Alignment of fiscal reporting with ESA95 standards needs to be further enhanced. Continued efforts to improve economic policy criteria would be beneficial.

#### *Conclusion*

There has been some progress in the area of *economic and monetary policy* and, overall, the alignment with the *acquis* in this area has been completed. Continued efforts in improving economic policy coordination would be beneficial.

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

Progress can be reported concerning **statistical infrastructure**. Recruitment of additional staff is ongoing. Overall, preparations in this area are well advanced. The responsibilities of the Central Bureau of Statistics (CBS) in the compilation of the Excessive Deficit Notification should be significantly increased and CBS should be encouraged to take the leading methodological role in this exercise.

Further progress can be reported in the field of **classifications and registers**. CBS is working on quality improvements of the business register, particularly by extending the coverage of local units and to a lesser extent by improving the coverage of the enterprise groups. A National Classification of Occupations harmonised with ISCO08 was published. Preparations in this field are on track.

Good progress has been made in the **sector statistics**. The population census was carried out successfully and according to international standards in April 2011. The first preliminary results were published in June. As regards social statistics, data on job vacancy statistics have been collected and transmitted to Eurostat, and a pilot survey on the structure of earnings has been carried out. A survey of income and living conditions has also been carried out. Work on preparing the implementation of Intrastat is well under way. In the area of short-term business statistics work on improving compliance is ongoing. Indices for total industrial output prices and non-domestic output prices have been compiled for the first time. Progress has been made in the area of agricultural statistics, in particular in farm registry, fishery statistics, and economic accounts for agriculture. Agricultural price indices have been calculated for the first time. In the field of science and technology statistics, further alignment with EU regulations has been achieved. Preparations in this area are well advanced.

#### *Conclusion*

Good progress has been made in the area of *statistics*. A good level of alignment has been achieved. Efforts need to continue in order to fully align Croatian statistics with the EU requirements.

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

There has been some progress in the area of **labour law**. Amendments to the Labour Act primarily on working time provisions have been adopted. Alignment of the legislation is advanced, but needs to be completed, mainly in areas falling outside the scope of the Labour Act. The administrative capacity of the Wage Guarantee Agency is being strengthened. A county court for work-related disputes has been established in Zagreb.

Limited progress can be reported in the field of **health and safety at work**. There has been a slight decrease in the number of occupational accidents resulting in death and a decrease in the number of work-related injuries. The current number of labour inspectors dealing with health and safety still falls short of the requirements of the State Inspectorate Act. Labour inspectors were trained on safety of work equipment and on protection against electromagnetic radiation.

Some progress can be reported with regard to **social dialogue**. The Economic and Social Council (ESC) has resumed its work after ten months of suspended activities. A sectoral social council for the forestry and wood processing industry has been set up. However, strengthening social dialogue within the decision-making process and in policy design, as well as capacity-building of social partners, remain key questions to be addressed. The representativeness criteria for the participation of trade unions in collective bargaining have not yet been adopted.

Some progress has been made in the area of **employment policy**. A National Employment Promotion Plan 2011–2012 has been adopted. The follow-up to the Joint Assessment of Employment Policy Priorities (JAP) is largely satisfactory. The mismatch between demand and supply and skills forecasting is being addressed. However, the Economic Recovery Programme has so far had only limited effects in making the labour market more dynamic and in overcoming its structural weaknesses, including actions to address high long-term unemployment and youth unemployment, which have increased substantially (*See also Economic criteria*). The 2011 budget for active labour market measures is lower than last year. An independent evaluation of active labour market measures has not been introduced yet. A strategic framework for lifelong learning has not been adopted, and there has been no further development in applying the flexicurity principle. As regards *undeclared work*, an Act on the Prohibition and Prevention of Engagement in Unregistered Activities has been adopted.

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) continues to work well. Adequate training has been provided, and administrative capacity has been strengthened. However, major efforts should be made to ensure that adequate capacities are in place as soon as possible, especially having in mind that the scope of funding will significantly increase with ESF.

Some progress can be reported on the **social inclusion** of disadvantaged groups. The follow-up to the Joint Inclusion Memorandum (JIM) is largely satisfactory. A Social Welfare Act has been adopted aimed at promoting active inclusion, a closer link between employment and social welfare services, and development of a quality framework on social services, including development of quality community-based services. A Strategy for Social Welfare Development 2011–2016 has been adopted indicating as priorities increased effectiveness of the social benefits system and decentralisation of the social welfare system. A National Plan for de-institutionalisation has also been adopted. However, the share of employment of national minorities in the public sector has decreased. Attention needs to be paid to employment of minorities in the state administration. Preparations for a coherent monitoring and evaluation system to assess policy reforms and results-oriented monitoring of the implementation of the National Plan for Social Inclusion 2011 are still at an early stage. Progress in the field of administrative and fiscal decentralisation of social services remains limited. Significant challenges remain in terms of reducing health and regional inequalities, as well as in terms of inclusive rural development.

The capacity of the Office of the Ombudsman for *Persons with Disabilities* has been somewhat strengthened. However, in general, people with disabilities still face discrimination on the labour market, and children with disabilities still continue to face problems in access to education. In the public sector, employment quotas are not being met. Public awareness of the rights of people with disabilities remains low, especially in rural areas. Regulations ensuring physical accessibility are not being implemented.

There has been some progress in the area of **social protection**. With the adoption of the Social Welfare Act, social spending is being rationalised. The Pension Insurance Act was amended to increase the penalty for early retirement, to increase the old-age pension for those who want to stay longer at work and to equalise the pension age between women and men over a 20-year transitional period. Some progress has also been made in the process of bringing privileged pensions back into the general system. However, more efforts are needed to improve employment of older workers and to protect the elderly without income, as well as to ensure both adequate and sustainable pensions. In the area of health care, re-organisation of out-of-hospital emergency medical assistance and primary health care is ongoing.

Limited progress can be reported in the field of **anti-discrimination**. Further alignment with the *acquis* is required with regard to the exceptions to the principle of non-discrimination. Some steps have been taken to ensure adequate staffing and funding of the Ombudsman's office, but public awareness regarding the scope of the Anti-discrimination Act and the proposed remedies has not increased significantly. Training of judges in this area is also necessary, especially as regards cases on sexual orientation. 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.

There has been some progress in the field of **equal opportunities**. The Act on maternity and parental benefits was amended to bring it in line with the *acquis*. Alignment still needs to be completed in the case of the Act on occupational safety and health. A new National Policy for the Promotion of Gender Equality 2011–2015 has been adopted. The capacity of the office of the Ombudsperson for Gender Equality has been somewhat strengthened. However, conditions for the employment of women are still unfavourable.

### *Conclusion*

Some progress has been made in the area of *social policy and employment*. There is a good level of alignment with the *acquis*. 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. Due attention should be paid to addressing structural weaknesses on the labour market, as well as to the functioning of social dialogue and capacity-building of social partners. Administrative capacity requires continuous strengthening across all areas.

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

Some progress was made with regard to **enterprise and industrial policy principles**. However, the financial and economic crisis had a negative impact on the implementation of the Industrial Policy Strategy. Alignment of Croatia's definition of 'SME' with the EU-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. Administrative and judicial weaknesses continue to adversely affect the business environment.

The Government Legislation Office (GLO) has taken steps in order to be able to conduct regulatory impact assessments with more rigour.

Industrial policy measures were taken to alleviate the effects of the crisis through the Economic Recovery Programme adopted by the government in 2010, which includes measures to improve the business environment and to create a competitive economy (*see also Economic criteria*).

In the area of **enterprise and industrial policy instruments**, Croatia has made some progress and played an active part 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**, such as in the wood processing industry, with the adoption of the new four-year Operating Plan. Also, good progress has been made in the shipbuilding industry with the approval of the individual restructuring plans (*see Chapter 8 – Competition policy*).

#### *Conclusion*

Croatia made some progress in the field of enterprise and industrial policy. 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 SMEs with the EU recommendation needs to be completed. Efforts to restructure the shipbuilding industry need to be further pursued.

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

There has been good progress as regards the development of **transport networks**. Croatia has maintained an active role in cooperation under the Memorandum of Understanding on development of the South-East Europe Core Regional Transport Network and has continued implementation of the multi-annual development plan for 2011-2015 for the South-East Europe Transport Observatory (SEETO). Croatia made some progress on ISPA and IPA railway and inland waterway projects, but implementation needs to be accelerated. Croatia has continued to prepare the Transport Operational Programme for the Cohesion and Structural Funds.

In the case of **energy networks** good progress can be reported. The new double 400 kV Ernestinovo-Pécs (HU) electricity line is operating on a trial basis. Construction of the Croatia-Hungary gas interconnector was finalised, and the connection was inaugurated in August 2011. Preparations for the Adria LNG terminal on the Krk Island are continuing. Progress is also being made on the construction of the gas transmission pipeline on the coast, part of the Energy Community Gas Ring concept, and it will connect the Croatian gas system of Lika and Dalmatia (Bosiljevo – Split – Ploče) with the announced project of the Trans-Adriatic Pipeline.

#### *Conclusion*

Croatia has made further progress in the field of *trans-European networks*, with the development of its transport and energy networks. Alignment with the *acquis* has been completed.

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

The **legislative framework** necessary to ensure full compatibility of operations financed by the Structural and Cohesion funds with EU policies is largely in place. A new law on public procurement, aiming at full alignment with the *acquis*, was adopted in July 2011 and will enter into force in January 2012. Full implementation of the legislative framework at all levels needs to be ensured by further building up administrative capacity.

Good progress has been made with the **institutional framework** which is largely in place. Implementation structures for EU Cohesion Policy in Croatia build significantly on the existing operating structures for IPA. Cohesion policy implementation structures include horizontal bodies and the structures for each operational programme.

Further progress can be reported in the area of **administrative capacity**. An Institutional Development and Capacity Building Strategy was adopted by the Croatian Government in December 2010, together with its Action Plan for Implementation in the period 2010-2013. Amendments to the Civil Service Regulation adopted in January 2011 establish an appropriate rewarding mechanism for civil servants dealing with EU funds. A Government Decision adopted in March 2011 provides for actual staff increases in various bodies. Full and timely implementation of these government decisions related to building up and strengthening administrative capacity needs to be pursued in order to bring the capacity of all relevant bodies to the required level before accession. The track record of implementation under IPA has further improved, in spite of some delays encountered due to an initial lack of quality projects and tender documentation.

Good progress has been made with regard to **programming**. Croatia has prepared an advanced and comprehensive draft of the National Strategic Reference Framework (NSRF) for the programming period until 31 December 2013 and has undertaken public consultations on draft operational programmes for structural and cohesion funds. Further efforts are required in order to ensure the timely development of a pipeline of high quality and mature projects for the implementation of the cohesion policy.

Croatia continued to make progress in the field of **monitoring and evaluation**. A detailed plan and timetable for setting up a Monitoring and Evaluation System for Structural and Cohesion Funds by Croatia, including the setting-up of an electronic management and information system, was submitted to the Commission in September 2010 and is considered appropriate. The monitoring and evaluation system under the Structural and Cohesion Funds will largely build on the system set up for IPA, while upgrading certain aspects of the existing structures and capacities.

Progress can be reported in establishing and implementing an adequate **financial management and control** system (*See Chapter 32 — Financial control*). Follow-up audits on IPA conferral of management confirmed that internal control procedures are broadly satisfactory. The implementation of roadmaps to further strengthen financial management and control systems is continuing. Croatia needs to further strengthen its capacity in these fields so as to comply, upon accession, with the specific financial control provisions applicable to the Structural and Cohesion funds.

## Conclusion

Good progress was made in the field of *regional policy and coordination of structural instruments*, and in all areas Croatia is at an advanced stage of preparations for implementation of the cohesion policy. Further sustained efforts need to focus on effectively implementing Croatia's plans to increase administrative capacity for future cohesion policy implementation and to develop a mature project pipeline.

### 4.23. Chapter 23: Judiciary and fundamental rights (see also *Political criteria*)

There has been good progress in the area of the **judiciary**. Judicial reform has continued. A new Judicial Reform Strategy has been adopted covering the period 2011-2015. Implementation of the strategy and action plan has continued, with a large volume of legislation adopted. The budget available for the judiciary remained more or less stable at approximately €368 million, or 0.8% of GDP. The Ministry of Justice organised and adequately staffed the Department for the implementation of the judicial reform strategy and reinforced the Council for monitoring the implementation of the judicial reform strategy. The new mechanisms that were introduced to ensure improved post legislative scrutiny now need to be implemented. Croatia also needs to improve human resources planning, including for the long term needs of the judiciary, taking into account the impact of many on-going and planned reforms.

There has been good progress as regards the *independence* of the judiciary, which has been further strengthened through the implementation of amendments to the Constitution and the laws on courts, the State Judicial Council, the State Attorneys Offices and the Judicial Academy, and the adoption of the necessary secondary legislation. A new State Judicial Council (SJC) and a new State Prosecutorial Council (SPC) were constituted in February 2011 according to the new Constitutional provisions. These bodies comprise eleven members: seven judges/prosecutors elected by peers, two law professors and two members of Parliament. Both bodies have been strengthened administratively and are carrying out their key tasks based on the new legislation (see below). However, the capacity of the SJC and SPC to carry out their new tasks should be further developed. Overall, it is important that these bodies demonstrate independence and accountability, especially when performing their key functions in the area of appointments, discipline (including declaration of assets verifications) and career management, so that effective self regulation of the judicial profession is ensured.

Progress was also made towards implementing uniform, transparent, objective and nationally applicable criteria for the appointment of judges and prosecutors. The first intake of 60 candidates for the position of judge and prosecutor was admitted to the State School for Judicial Officials in January 2011, with first appointments expected on completion of the school programme and examinations in 2013. From that date, entry to the profession will be exclusively through the school. For appointments in the meantime, the procedure for the selection of new judges and prosecutors was further revised in order to improve the selection criteria and the detailed procedures of the written and oral exams to be conducted by the SJC and SPC. Since October 2010, 99 judges and 60 prosecutors have been appointed. A procedure for appointing a further 71 judges and 34 prosecutors is underway. While this track record needs to be further developed, the systemic provisions are in place. Croatia should ensure the continued proper functioning of the State School, as well as the full and proper implementation of the transitional provisions for the recruitment and appointment of judges and prosecutors by the SJC and SPC. As regards career management, Croatia should ensure

that the professional evaluation of judges takes sufficient account of criteria related to quality of justice and that it is not predominantly based on quantitative assessment criteria.

There has been some progress as regards the *impartiality* of the judiciary, with the SJC becoming responsible for the system of assets declarations of judges. The requisite systematic and accurate checking of judicial official declarations of assets needs to be assured.

Progress has been made as regards the *accountability* of the judiciary. An improved system of disciplinary proceedings has been adopted for both SJC and SPC, which provides for an extended catalogue of disciplinary offences, broader sanctions and the possibility of a separate investigation commission. However, a track record of implementation of the new system of disciplinary proceedings needs to be further developed. It is important that the SJC and SPC pro-actively apply the improved disciplinary rules and procedures in an efficient, objective and transparent manner.

Progress has been made as regards the professionalism and competence of the judiciary. The Judicial Academy is functioning well. Professional training programmes, including initial training and covering matters of EU law, have continued. The Judicial Academy is currently managing and implementing the programme for the first year of the School for Judicial Officials. A new system for publication of case law is now in operation. This work needs to continue.

Progress has been made in relation to the *efficiency* of the judiciary. Between December 2009 and December 2010, the overall number of cases pending before the courts fell from 795,722 to 785,561 (-1.3%) and to 774,718 by 30 June 2011 (-2.6%). The backlog of old criminal cases has been reduced substantially. The percentage share of old civil cases in total municipal court cases is falling slowly. Croatia has adopted and implemented various measures leading to improved efficiency of the judiciary. Reform of criminal procedures is being implemented. The Civil Procedures Act was amended in May 2011 as a first step towards further amendments to prevent repeated or extensive referrals of cases from second to first instance courts. The municipal courts of Zagreb and Split are being reinforced through the recruitment of additional judges, court clerks and court advisors. Croatia terminated a number of proceedings for old cases of small value where the Republic of Croatia is the plaintiff. The new Law on Enforcement of Financial Assets entered into force.

The backlog of old civil cases remains little changed at around 125,571 cases. Some courts, for example the municipal courts in Zagreb, Split and Zadar, continue to suffer from disproportionately large numbers of old civil cases. Problems with the enforcement of court rulings continue to hamper the efficient working of the judicial system. The new enforcement system that was established by the adoption of the new Law on Enforcement and the Public Bailiff Act will be fully applicable in 2012.

There has been good progress in the functional rationalisation of the court network. Physical mergers of the municipal and misdemeanour courts are moving forward in line with existing planning. To date, in the case of municipal courts, 31 courts have been physically merged into 13. In the case of misdemeanour courts, so far 12 courts have been physically merged into 6. Amendments to the Act on the Territorial Jurisdiction and Seats of Courts adopted in December 2010 reduced the number of county courts (and state attorneys' offices) from 21 to 15 and the number of commercial courts from 13 to 7, with effect from 30 December 2010. In all cases the physical mergers will take place gradually until 2019. According to new

legislation which entered into force in September, the number of municipal State Attorney's offices is reduced from 55 to 34.

There has been some progress with regard to the infrastructure and equipment of courts. The integrated case management system (ICMS) is now fully in place in 70 of the planned 103 courts, and will be rolled-out to the remainder in 2012. Croatia has introduced a unified statistical system for the monitoring of cases by connecting the ICMS with other IT systems. However, further improvements are necessary in order to enable improved case management, monitoring of the overall length of proceedings and analysis of the general efficiency of the judicial system, and the productivity of judicial officials. Misdemeanour courts continue to suffer from a shortage of equipment and a very low standard of premises.

As regards the promotion of Alternative Dispute Resolution (ADR), the mediation system has been simplified with the adoption of a new Mediation Act in January 2011. However, the effect of this law remains to be seen. In any event, greater attention should be paid to out-of-court mediation and to ensuring that in-court mediation is not seen as a disincentive in terms of performance indicators for judges.

The system of judicial inspections has produced good results. The number of inspectors has increased from four to eight, and they are responsible for monitoring the work of courts and state attorney's offices.

There has been continuing progress with the application of the new Criminal Procedure Code, which was further fine-tuned in July 2011. Applied to organised crime and corruption cases since 2009, the new criminal procedure has accelerated the investigation and the prosecution stages, with better cooperation between the police and prosecution services leading to more indictments. Preparations for the enforcement of the new code for all other criminal cases from September 2011 continued. Additional police resources had been deployed to deal with the stricter deadlines for interviewing suspects. However, some of these deadlines need to be revised slightly in order to facilitate the work of the police and prosecutors.

Croatia has continued to improve the handling of war crimes cases, with approximately two dozen trials on-going in 2011. A more balanced approach to trials has continued in 2010/2011. Cases involving Croat perpetrators, including members of the Croatian armed forces, were pursued.

In February 2011, a new strategy on impunity was adopted. Priority cases are being identified at the national and regional level, with special investigative teams being established in particularly sensitive cases. The strategy recognises the existence of many hundreds of as yet un-investigated and un-prosecuted crimes involving thousands of victims. In June 2011, criminal charges were raised in 84 such cases. The ICC law was amended in May 2011 to allow systematic use of the four specialised war crimes chambers for new cases, as well as the use of ICTY evidence in Croatian courts. Staffing of the specialised chambers has been reinforced, with 16 investigative judges and 38 trial judges dealing with war crimes cases at the four chambers. In total, 120 police officers and 60 State Attorneys, their deputies and advisors are working on war crimes cases. The State Prosecutor completed his review of potentially questionable *in absentia* verdicts from the 1990s. Re-trials were requested in 15 cases, of which 13 were granted, involving 94 people convicted *in absentia*. Measures have been taken to protect witnesses by means of improved witness support service 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 and needs to be thoroughly addressed, 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 intensified efforts by the police and prosecutors. The majority of crimes – almost 80% of around 1,100 war crimes files - have not been pursued in court. Regional discrepancies remain, especially when it comes to cases in areas such as Sisak, Gospić and Požega. Croatia should fully implement the strategy of February 2011 and make speedier progress with investigations and prosecutions so as to ensure a sustainable track record of handling war crimes cases. Priority cases should be pursued without delay. Implementation of the new Strategy on impunity will be key, as well as the systematic and effective use of the specialised war crimes chambers, including for most pending cases, which are not automatically transferred. Cases overturned by the Supreme Court should be automatically transferred. Croatia should continue to implement the provisions of the Criminal Procedure Code on *in absentia* cases and on renewal of proceedings, and deploy other legal remedies such as protection of legality.

There has been substantial progress in the **fight against corruption**.

Implementation of the anti-corruption strategy and the related action plan has continued, including implementation of the specific anti-corruption programme for State-owned companies. Overall coordination of the implementation of anti-corruption efforts has improved further, with regular meetings of the governmental coordination committee being chaired by the Prime Minister. The national council for monitoring the anti-corruption strategy continued to be proactive and held regular public debates and hearings. However, coordination of anti-corruption efforts needs to be further strengthened. The MoJ anti-corruption sector is still understaffed, and proactive follow-up of implementation issues still needs to be strengthened.

The domestic legal anti-corruption framework has been further improved, including through legislative fine-tuning of the law on the Office for the Fight against Corruption and Organised Crime (USKOK), extending its competence to tax fraud cases and introducing a more transparent mechanism to control the dismissal by the State Prosecutor of criminal reports. Confiscation of pecuniary gains from crime increased significantly, albeit from a low base. The adoption of a new act on the procedure of seizure and confiscation of the proceeds of crime and misdemeanours enables effective management of confiscated assets.

The main legal framework for the prevention of corruption has been either heavily revised (Law on Access to Information) or replaced by new legislation (Law on Financing of Political Activities and Electoral Campaigns; Conflict of Interest Act). The Law on Access to Information has been amended in line with the new Constitutional right on access to information. The new law introduces clearer procedures and deadlines for information requests and supervision of the implementation of the law by the Data Protection Agency (DPA), which becomes the first instance appellate body. So far, the DPA has received 52 appeals. All cases can also be appealed in the Administrative Court, which can carry out a proportionality test in cases where State bodies have classified certain information. The DPA has been strengthened by the recruitment of four additional staff members, with one more to be recruited by the end of 2011.

The legislation on financing of political activities was further amended in May 2011. It improves transparency and independent oversight, and increases penalties for non-compliance with the law. Supervision and control of the regular financing of political parties and of

election campaigns will be carried out by the State Electoral Commission (SEC). Audit of regular annual financing of political parties and the audit of election campaigns will be carried out by the State Audit Office (SAO). In terms of administrative capacity, the SEC, which currently has three staff members working in this area, should be strengthened by the imminent recruitment of two new staff members. The new Conflict of Interest Act provides for the depoliticisation of appointments to supervisory boards of state-owned companies as well as depoliticisation of the membership of the conflict of interest commission (CIC) itself. Provisions exclude companies from participating in tenders where the head of the procuring entity (or his/her family members) has a 0.5% or greater share in the company. Penalties for conflict of interest have also been strengthened. The law provides for more rigorous verification of declarations of assets by public officials. There has been an increase in transparency and integrity in public administration, state-owned companies and in the execution of public procurement contracts.

Further experience is needed in the practical implementation of the newly adopted preventive legal framework and the implementing structures still need to be further strengthened. Croatia needs to pay special attention to the strengthening of the Data Protection Agency, and ensure that the relevant staff are in place, trained and able to rule on the merit of all cases, including those where information was classified. The SEC administrative capacity needs to be further strengthened. As regards conflict of interest, the professional and administrative support available to the Conflict of Interest Commission, and its effective operation, need to be further strengthened. Moreover, delays in the appointment of the new commission itself need to be urgently overcome. Full implementation of the system for monitoring and verification of assets declarations of public officials and judges, including dissuasive sanctions for non-compliance, needs to be ensured.

As regards the suppression of corruption, USKOK continued to be active and issued indictments in some important cases. While the majority of corruption cases concern petty corruption, many more serious cases were pursued, including a number of mid and high-level corruption cases in which investigations are underway or indictments have been issued. There are cases involving senior political figures and former Government ministers, including a former Prime Minister, as well as former mayors, heads of local administrations, judicial officials and state-owned companies. There have also been court rulings in such cases, including in cases involving a former Deputy Prime Minister as well as a former Minister of Defence. The four specialised USKOK chambers at the County Courts have been strengthened by increasing the number of judges dealing with corruption and organised crime cases from 54 to 64 and by taking on more administrative staff. The overall number of court verdicts has also increased. The operational capacity of USKOK has been further reinforced by the recruitment of four additional deputy prosecutors, bringing the total to 28. The National Police Office for the Fight against Corruption and Organised Crime (PNUSKOK) is now fully staffed. The newly adopted Police Act has introduced a new transparent system of evaluation, promotion, transfer and training in the police service, and some depoliticisation measures. Inter-agency cooperation has improved.

However, for most high level corruption and public procurement cases the proceedings are still on-going and they have not yet reached the stage of court rulings. The courts' ability to handle the increased number and complexity of cases has yet to be fully tested. The track record of effective handling of organised crime and corruption cases needs to be developed further, especially in relation to high level corruption, local level corruption and including cases related to public procurement and the judiciary.

There has been good progress on **fundamental rights**.

Some progress was made with regard to the *prison system*. Work relating to the expansion of existing detention and treatment facilities has continued and will be finalised in 2012. In the meantime, problems of overcrowding and inadequate health protection persist. Prison occupancy stands at 155%.

There has been some progress regarding *access to justice*. In the area of administrative justice, preparatory steps to ensure full implementation of the Administrative Dispute Act have been taken, including for the introduction from January 2012 of four first instance courts and of a Higher Administrative Court as courts of full jurisdiction within the meaning of Article 6 ECHR and Article 47 of the Charter of fundamental rights.

Implementation of legal aid system has improved, including by means of simplified application procedures and a narrowing of the gap between legal aid and normal lawyers' tariffs. The Constitutional court revoked some provisions of the Law on Legal Aid in April 2011. Provisions concerning the formulation of eligibility criteria, determination of beneficiaries for legal aid; apportioning of the budget for free legal aid and the refusal by attorneys to take on legal aid cases were subsequently amended in July 2011.

However, further improvements to the system are needed, including in terms of facilitating access to legal aid as well as fostering the role of NGOs. Implementation of the new system of administrative justice needs to be speeded up.

*Freedom of expression*, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. A new Media Law makes provision for greater transparency in media ownership. There has been limited progress with investigating cases from previous years of intimidation of journalists working on cases of corruption and organised crime. Few new cases have been reported, however. Economic pressures in particular are hampering the development of investigative reporting. Problems with political interference at local level remain. The public broadcaster HRT continued to face managerial difficulties in spite of the appointment of a new supervisory board and programme council, which has been unable to appoint a new director general.

There has been some progress with *women's rights* and gender equality. Institutional mechanisms for gender equality are being developed at central and local level. The Ombudsperson for Gender Equality has continued to implement the Gender Equality Act. The number of registered domestic violence cases has decreased only slightly, the position of women in the labour market has not changed significantly and women continue to be under-represented in economic and political decision-making bodies.

There is limited progress to report with regard to *children's rights*. The Ombudsperson for Children became more active in promoting and protecting children's rights and obtained appropriate office space and developed regional offices in three counties. However, cases of peer violence and violence against children in educational institutions continued to increase and are not being adequately addressed by the relevant authorities. There is still a lack of prevention programmes and of professional training for educators. Shortcomings in the judicial and social welfare systems continue to contribute to the poor enforcement of children's rights.

There has been limited progress in 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 has been strengthened. However, information on rights and entitlements in the area of social welfare, health care and pension insurance is lacking. The criteria for establishing entitlements are not applied equally, and the legislative provisions regulating specific rights are fragmented. The transition from institutional care services to community-based care services continues to be slow.

Croatia has begun developing a track record of implementing the 2009 *Anti-Discrimination Law* and legislation on *hate crimes*. Various measures were taken to raise awareness of this legislation among both the general public and law enforcement bodies. Measures have been taken to strengthen the position of the Ombudsman Office as the central body in charge for implementing the Anti-discrimination law, including by increasing the budget and staffing complement. Legislation adopted in September foresees the merger of the specialised Ombudspersons functions with the Office of the Ombudsman.

However, the track record of implementing anti-discrimination and hate crime legislation needs to be further developed. There is still a small number of discrimination complaints, few of which have so far reached the courts. Lesbians, gays, bi-sexual and trans-gender people (LGBT) have continued to be subjected to threats and attacks. Croatia's legislation is not fully aligned with the Framework Decision of the Council 2008/913/JHA on combating certain forms and expressions of racism and xenophobia by means of criminal law. The process of merging the specialised Ombudspersons functions with the Office of the Ombudsman will need to be carefully managed to ensure a more effective system of human rights protection in practice. 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. There has been good cooperation between the political representatives of minorities and the government. Conditions for the effective implementation of the constitutional act on the rights of national minorities (CARNM) have improved. A plan for minority employment for the period 2011-2014 under the CARNM was adopted in May 2011. Croatia increased financial support to the local Councils for National Minorities and provided training to local authorities. Elections were held in July 2011 for members of national minority councils and representatives of national minorities at local and regional self-administration units. Training has been provided both for the media and for the police, aimed at improving the portrayal of minorities and raising awareness of the relevant legislation respectively. The number of reported racist or xenophobic incidents has been fairly limited, especially compared to previous years. Where incidents have occurred, the response at the political and law enforcement level has generally been adequate, although few cases end in prosecution. The Roma minority has continued to receive attention, with improvements in pre-school education in particular.

In July 2011 the Constitutional Court declared as unconstitutional the 2010 amendments to the CARNM. These amendments introduced a new model for election of minority representatives in the parliament including double votes for small minorities.

Despite the ongoing effort to improve conditions for minorities, some problems persist. The CARNM and minority action plans need to be implemented. Due largely to the general recruitment ban in the civil service, there has been no tangible improvement in the level of employment of national minorities in public sector employment, where minorities are underrepresented. Significantly stronger monitoring is required in this area. Croatia needs to continue to foster a spirit of tolerance towards minorities, in particular Croatian Serbs, and to

take appropriate measures to protect those who may still be subjected to threats or acts of discrimination, hostility or violence. Further work is needed in the area of schooling, including implementation of the planned general human rights education and reviewing the role of schooling in reconciliation efforts, including teaching materials and the portrayal of minorities. 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 good progress on *refugee return issues*. Refugees continued to return to Croatia, with the Croatian authorities having registered over 132,872 returnees in total belonging to the Serb minority, which corresponds to approximately half of those who fled the country up until 1995. Progress was made with regard to housing issues. Housing care programmes (HCP) for returnees are being implemented. Croatia has largely implemented its Action Plan on the HCP for returning refugees/former occupancy and tenancy rights holders. It has now met the target for 2008. The target for 2009 under the action plan for the provision of 2,070 flats has also been met. Accommodation in 88 cases has been made available beyond the 2009 target. A plan was prepared in March 2011 setting out, *inter alia*, the financial requirements necessary in the period 2011-2014 to deal with the approximately 2,350 cases remaining for implementation. In order to further facilitate return and reintegration, new purchase options under favourable conditions for certain housing care beneficiaries and the possibility for new applications in areas not directly affected by the war have been introduced. Good progress was made with the reconstruction of damaged houses, as well as with processing the backlog of appeals against rejected applications for reconstruction assistance. Implementation of the decision on validating pension rights has continued, and monitoring to address inconsistencies between different regional offices has improved.

However, additional efforts are needed to help refugees and returnees. Croatia needs to make continued progress in providing accommodation to all remaining successful applicants under the HCP. The estimated 2,350 cases need to be fully processed without delay and housing units made available to the returnees. Some 50 appeals for housing reconstruction are still pending. The current rejection rate of convalidation applications - at 44% - remains high. Problems persisted with cases of owners facing claims for unsolicited investments when they seek to take possession of their property. Full implementation of new legal provisions in this area should now be assured. According to this legislation from June 2011, the State takes over the responsibility for claims by temporary occupants. Efforts to create the economic and social conditions necessary for sustainable returns of refugees need to be accelerated.

There has been good progress concerning the protection of personal data. The Data Protection Agency has increased its supervision and control activities. However, Croatia still needs to fully align its legislation with the Data Protection Directive.

As regards **citizens' rights**, Croatia adopted legislation on the right to vote for EU citizens in European Parliament and local elections in Croatia, as well as amendments to the Aliens Act in order to fully align its provisions 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 from accession.

### *Conclusion*

Croatia has made substantial progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation further strengthening judicial

independence and a further reduction of the case backlog. Judicial reform requires constant attention, especially concerning judicial efficiency and the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary. Croatia has continued to improve the handling of domestic war crimes cases. The issue of impunity needs to be thoroughly addressed. Anti-corruption efforts have been accelerated with positive results, in particular as regards improved legislation and the strengthening of the relevant authorities. The track record of effective handling of corruption cases needs to be further developed, especially in relation to high level corruption, local level corruption, and including cases related to public procurement and the judiciary. Further experience is needed with implementing the newly adopted preventive legal framework in practice. Protection of fundamental rights has been strengthened, but it needs to be further improved in practice, especially for minorities and refugees.

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

In the field of **migration**, progress can be reported. In 2010, 1,946 irregular migrants were apprehended, which is a 20% increase over the previous year. Good cooperation with Montenegro and Serbia regarding the application of readmission agreements with these two countries can be noted. 271 irregular minors were apprehended in 2010 (almost twice the number from the previous year). Despite an adequate legal framework, the support scheme for unaccompanied irregular minors outside the asylum procedure needs to be strengthened. A planned special facility for minors at Jezevo remains to be built. Special attention to the treatment and accommodation of this vulnerable group is needed. A readmission agreement with Bosnia and Herzegovina, aligned with the EU *acquis*, entered into force in August 2011. Negotiations have started with Kosovo. Concerning legal migration, Croatia has already transposed part of the *acquis* in this area, but needs to make further efforts to ensure full alignment with the *acquis* on legal migration notably on conditions of admission of third-country nationals for the purposes of studies. Preparations in this area are well advanced.

Croatia continued to make good progress in the field of **asylum**. Implementing legislation stemming from the Act on Amendments to the Asylum Act was adopted, notably with regard to free legal aid in asylum procedures, accommodation of asylum seekers and subsidiary protection. The Asylum Commission was strengthened, with an additional member taking up duties and through the provision of adequate premises with proper technical and administrative support. The Commission will function as a second-instance body until the Administrative Courts become fully operational in January 2012, thus aligning with relevant European standards.

The new Asylum Act provides for several rights in favour of refugees and persons under subsidiary protection, such as the right to accommodation, to health insurance, to education and vocational training. However, the implementation of these rights in practice remains uneven.

In 2010, the number of asylum requests increased significantly to 259 applications related to 290 asylum seekers, and the trend continued in 2011 (285 applications for 323 asylum seekers, as of 30 June). In May 2011, the Ministry of Interior (MoI) and the Croatian Railways signed an agreement to use the hotel 'Porin', near Zagreb, as an additional location for accommodation of 150 asylum seekers. Training of Ministry of Interior (MoI) staff and of border police officers on asylum has continued. Croatia needs to continue training border police officers and Administrative Court staff in the asylum procedures. Croatia is well advanced in this area.

Limited additional progress was made as regards **visa policy**. A new Aliens Act, aimed at transposing the EU Visa Code, was prepared. As for visa requirements, the 'positive' list was aligned to the corresponding EU visa waivers adopted in 2010. The Croatian Visa Database was rolled out to all Diplomatic Missions and Consular Posts. The database is also available at all international Border Crossing Points where visas can be issued.

Croatia's 'negative' list remains partially aligned. The government adopted a Decision on temporary liberalisation of the visa regime for citizens of the Russian Federation, Ukraine and Kazakhstan for transit through or staying for up to 90 days from 1 April to 31 October 2011 even though these countries are on the 'negative list' of Regulation 539/2001. For the same limited period, the government adopted another Decision facilitating entry for the purposes of tourism to Croatia for nationals of China, Jordan, Qatar, Kuwait, Oman and the United Arab Emirates in possession of a valid Schengen visa. Croatia is well advanced in this area.

There has been good progress with regard to **external borders and Schengen**. The Integrated Border Management (IBM) Action Plan was revised in April 2011 and complemented with the operational Concepts for the Green Border Surveillance, for the Compensation Measures and for the Technical Solutions at the most sensitive locations of the future external border. The Government also adopted the Strategy for the Maritime Police Development that envisages the establishment of the National Maritime Centre by the end of 2012. Delays in the preparations for the Centre and for the 'interim' solution to ensure awareness at sea need to be overcome rapidly. Cooperation with Frontex was enhanced by harmonising the Risk Analysis Model. Discussions with Bosnia and Herzegovina on bringing bilateral agreements in line with the *acquis* have started. Discussions with Serbia on revising the Local Border Traffic Agreement have yet to start.

Croatia has continued to strengthen the Border Police by adding a further 100 staff, thus bringing the total as of May 2011 to 6,026, of which 4,658 are at the future external border. A further 127 officers are due to be hired by the end of 2011. Basic and specialist training for the border police continued, including with extensive use of multipliers in the field of vehicle smuggling and forged documents. The Common Core Curriculum was partly introduced at the Police Academy. 481 of the senior officers remain to complete the specialised border police training. The acquisition of equipment as required in the IBM Action Plan is ongoing, but some delays have occurred. Roll-out of the National Border Management Information System (NBMIS) continued and as of May 2011 it was operational at 38 international Border Crossing Points, 31 of which are located at the future external border.

Attention needs to be directed at the timely implementation of the actions provided for in the revised IBM Action Plan and the related strategies and concepts. An interim solution to increase the Border Police awareness at sea needs to be implemented, while preparations for the establishment of the National Maritime Centre are continuing. Training needs to continue. Croatia also needs to continue working towards ensuring the full application of the Schengen Borders Code by accession, especially at the Neum corridor. Preparations in the area are advanced.

As regards **judicial cooperation in civil and criminal matters**, there has been progress. The extradition agreement signed with Montenegro entered into force and there has been one case of extradition towards Montenegro. In March, Croatia attended the meeting of the contact points of the European Judicial Network in civil and commercial matters in Budapest as an observer. Cooperation facilitated by the cooperation agreement and liaison officer with

Eurojust is good. Croatia used the services of Eurojust to deal with the recent high level corruption cases. Preparations in this area are well advanced.

Some progress was made as regards **police cooperation** and good progress as regards the **fight against organised crime**. Agreements were ratified with Slovakia and Montenegro, and signed with Bulgaria and Italy. The Agreement with Slovenia, Austria and Hungary on the common Police Cooperation Centre in Dolga Vas was ratified. An Agreement on enhanced cooperation in combating serious crime was signed with the United States. An International Law Enforcement Coordination Unit was established in the Ministry of Interior. Croatia has deployed a further four liaison officers to Serbia, Austria, Israel and the Interpol headquarters. Croatia has continued to have good cooperation with Europol. The new Police Law entered into force in April 2011 to ensure a transparent organisation and depoliticisation of the Police. However, several pieces of implementing legislation are still missing, which could help with the delayed implementation of the Strategy for the Human Resource Management at the MoI. Croatia's contribution to Europol's assessment of the threat of organised crime needs to be improved.

The revised law on confiscation has entered into force in 2011. The new Criminal Procedural Code facilitated the swift investigations of the Office for the Fight against Corruption and Organised Crime (USKOK), which also targeted high-level cases. Financial investigations improved and allowed provisional confiscation of assets, including outside Croatia on the basis of international cooperation. USKOK filled the four vacant prosecutors' posts. The National Police Office for the Suppression of Corruption and Organised Crime (PNUSKOK) completed its target staffing in spring 2011. Training in several areas has continued. PNUSKOK drafted the 2011 Organised Crime Threat Assessment for Croatia.

Further efforts are needed in improving the track system of USKOK and Courts to establish the average length of the cases. No progress was recorded in establishing a second instance body to dismiss cases for offences against the public administration. PNUSKOK needs to consider introducing a flexible monitoring mechanism allowing accelerated closure and opening of activities, checking the backgrounds of new market actors, assessing the proportion between investments and profits, and focusing on certain operators (lawyers, accountants, notaries, casinos, etc.) that are barely reporting on suspicious transactions. The four regional PNUSKOK departments are in need of adequate working facilities and equipment.

Some progress can be reported on anti-money-laundering (AML) measures. Inter-agency cooperation has improved, and an agreement was signed between the FIU and USKOK. At the same time, administrative capacity still requires further strengthening (*see also Chapter 4 – Free movement of capital*).

Some progress can be reported in the fight against trafficking of human beings. A Protocol on the integration of victims of human trafficking has been adopted in May 2011. A multi-disciplinary approach, involving all relevant actors across all policy areas including the private sector, needs to be further developed. Identification of victims needs to be improved, especially of children victims of trafficking. In 2010, only 7 victims of trafficking have been identified (one less than last year), including one for labour exploitation. Until July 2011, 12 victims of trafficking have been identified. Efforts to identify victims of labour exploitation and to tackle trafficking need to be intensified. Training sessions delivered by police officers, judges and labour inspectors to judicial academy and health employees continued. Training sessions for State attorneys would be beneficial in prosecuting cases of labour exploitation.

Regional cooperation with neighbouring countries and interdisciplinary cooperation to identify victims of human trafficking should be stepped up. Preparations in the area of police cooperation and fight against organised crime are advanced.

Good progress can be reported in the **fight against terrorism**. The action plan for prevention and suppression of terrorism was adopted in April 2011. Substantial progress has been made in strengthening the capacities of the bomb disposal experts, with specialised bomb-disposal training introduced, multipliers being trained and additional equipment procured. Specialised training was provided on several anti-terrorism topics. Croatia needs to complete the re-examination of the storage facilities for explosives and ammunition in line with the *acquis* and to replace old equipment. Preparations in this area are well advanced.

Croatia has continued to make good progress on **cooperation in the field of drugs**. In December 2010, Croatia signed the agreement enabling its participation in the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). In April 2011, the implementation programme of the Action Plan on Combating Drugs Abuse in Croatia was adopted. The Law on Combating Drug Abuse was adopted in July 2011, allowing the National Contact Point to transmit drug samples and data exchange on profiling synthetic drugs, and the utilisation of the single administrative document to travel within the EU with drugs for treatment purposes.

In 2010, 7,782 offences related to drugs were reported, 5,423 persons were reported and 5,982 seizures of drugs were made (14% more than for 2009). During the first quarter of 2011, the number of criminal offences involving drugs was 23% higher compared to the same period of the previous year; the number of drug seizures was 28% higher and the number of reported persons was 36% higher. This increase was partly due to the stronger focus put by the police on simple possession of drugs. Croatia has a good track record of cooperation in cases of tackling international drug smuggling, and sharing information with other countries to enable better seizures. Training of police officers and provision of the necessary equipment have continued. The Forensic centre has been accredited for nine new methods of work. The cooperation between police and customs in the fight against drugs needs to be further improved.

The national focal point (NFP) for drugs has delivered its fourth annual report to the EMCDDA and this year launched the first general population survey. The NFP has initiated the development of a database on drug demand reduction programmes in Croatia, aimed at increasing their quality as well as at identifying the better ones for co-financing and registration in the EMCDDA database. Preparations in this area are well advanced.

No progress can be reported in the field of **customs cooperation**. Preparations in this area are well advanced.

For the fight against **counterfeiting of the euro**, see chapter 32 –*Financial control*.

### *Conclusion*

Good progress can be reported in the field of *justice, freedom and security*, where the overall level of alignment with the *acquis* is advanced. On asylum, the legal framework was strengthened. Attention needs to be paid to improving the integration of persons granted protection in Croatia, and to the protection of minors among irregular migrants. Alignment with the EU *acquis* on visas needs to continue. Progress has been made as regards external

borders. Strengthening of the Border Police has continued with regard to staffing and equipment. Croatia needs to focus on the timely implementation of the revised IBM Action Plan. Progress has been made in the field of judicial cooperation in civil and criminal matters. Good progress can also be reported in the fight against organised crime and against drugs.

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

Further progress has been made with respect to **research policy**, where the overall level of alignment is already high. However, further efforts are required in order to increase the level of investment in research, in particular by the private sector. The conditions for enhanced cooperation between the private and public sectors need to be further encouraged.

Croatia continued to participate actively in the **Seventh EU Research Framework Programme (FP7)** with a good level of administrative capacity and good knowledge. Participation in the FP7 continues to increase, but the success rate in the Specific Programme 'People' remains low. The level of collaborative research with EU partners and of research to help address global challenges should be further improved.

As regards Croatia's integration into the **European Research Area (ERA)**, alignment with the targets and actions of the ERA has made further progress. With respect to mobility of researchers, a step forward was made with the adoption of a new Action Plan for Mobility of Researchers for 2011–2012, which aims to increase the number of researchers and to ensure better rights for researchers in line with the recommendations of the European Charter for Researchers and the Code of Conduct for the recruitment of researchers. The full use of the national EURAXESS web portal also facilitates effective mobility of researchers. Some actions were also taken to stimulate innovation and prepare for the Innovation Union. However, the level of investment in research and development has stagnated at less than 1% (average of 0.91% of GDP over the last five years).

#### *Conclusion*

Progress in the field of *science and research* has continued, the level of alignment is high, but efforts remain necessary with respect to the key EU research policy objectives related to the level of investment in research and to quality researchers and their rights. Preparations for the Innovation Union should be duly considered and the recommendations of the European Charter for Researchers and the Code of Conduct for the recruitment of researchers (Charter & Code) further implemented.

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

Good progress has been made in the field of **education, training and youth**. Croatia continues to participate in the strategic framework for European cooperation in education and training, ET 2020. As regards early school-leavers and upper secondary completion rates, Croatia's performance remains above the EU-level benchmarks. However, Croatia continues to perform below the EU average for tertiary education attainment and participation in pre-school education, and it lags behind as regards the participation of adults in lifelong learning. A National Team of Bologna experts has been set up to provide a pool of expertise to promote and enhance progress towards higher education reform. National secondary school-leaving exams continue to be carried out. Implementation of a learning outcomes approach at all levels of education remains a challenge. Discussions with a broad range of stakeholders have started on the implementation arrangements for the Croatian Qualifications Framework

(CROQF). The process of referencing the CROQF to the European Qualifications Framework is ongoing. The reform of vocational education and training and adult education has continued.

There has been significant progress in the participation of Croatia in EU programmes. Croatia has fulfilled the requirements for participation in the Lifelong Learning and Youth in Action programmes and became a fully-fledged participant in both programmes as of January 2011. The possibility for cooperation with the EU Member States in the field of education therefore increased considerably. The Accession Partnership priorities in the field of education, training and youth have been met.

Progress can also be reported in the field of **culture**. There has been a steady increase in particular in Croatia's participation in the Culture Programme. Also, the total amount of funds absorbed through the Europe for Citizens Programme and the number of implemented projects have increased substantially.

### *Conclusion*

Good progress has been made in the areas of *education, training, youth and culture*. There is a good level of alignment with the *acquis*. Croatia has participated fully in the Lifelong Learning and Youth in Action programmes since January 2011. Vocational education and training and adult education require continuous attention.

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

As regards the **environment**, some progress has been made on *horizontal legislation*. The transposition process is almost completed in this sector. The law on the right to access of information has been amended. However, implementation of the law, especially as regards procedures, remains insufficient. The public consultation procedure was improved, but insufficient consideration was given to input from the public. Cooperation with the judiciary will require further strengthening to enable access to justice in environmental matters. Efforts to implement strategic environmental assessments (SEA) need to be increased.

There has been progress in the field of *air quality*. Croatia has enacted implementing legislation relating to technical standards for the reduction of emissions of Volatile Organic Compounds from petrol stations.

Croatia has made progress in *waste management*. The waste management plan for the period 2007-2015 has been amended to improve financing and implementation. Implementation of activities aimed at remediation of existing landfills and the construction of new waste management centres are ongoing. Sustained efforts are needed for the management of hazardous waste.

There has been significant progress in the field of *water quality*. Croatia adopted a plan of measures for sudden and unforeseen cases of water pollution. In addition, a set of legislation aimed at further improving the implementation of the new Water Act and the Water Management Financing Act has been adopted. The draft river basin management plan is going through public consultation.

There has been some progress in the field of *nature protection* with the adoption of implementing legislation on the establishment of the Mura-Drava regional park. Gaps remain in the administrative capacity for implementing and enforcing the *acquis* in this field,

especially in the State Institute for Nature Protection and at local level. A number of implementing legislative acts have been adopted in the forestry sector.

Some progress can be reported in the field of *industrial pollution control and risk management*, in particular as regards implementing legislation on Large Combustion Plants and integrated pollution prevention and control installations. There has been good progress in the adoption of legislation on *chemicals*. The administrative capacity at the Ministry of Health and Social Welfare requires significant strengthening for the implementation and enforcement of the *acquis* related to chemicals. Cooperation with the industrial sector and other ministries also needs strengthening.

Further progress is needed in order to implement legislation in the field of *noise*. Noise maps for towns are still to be developed.

Croatia is progressing well in its preparations of civil protection and is part of the European *Civil Protection Mechanism*.

Croatia continues to have a stable policy framework in place in the field of **climate change**.

At the international level, Croatia has put forward a pledge for the post-2012 climate regime of a 5 per cent emission reduction by 2020 compared to 1990 levels. In view of the UNFCCC Conference to be held in Durban, Croatia in August submitted a letter declaring it withdraws its appeal against the decision of the compliance committee. Croatia associated itself regularly with the EU positions in international negotiations. Croatia participated actively in the climate work under the Regional Environmental Network for Accession (RENA).

Croatia continued to take steps towards compliance in so far as the EU Monitoring Mechanism is concerned.

Regarding emissions trading, in October 2010 Croatia amended its implementing legislation on emission quotas and the detailed procedures of trading emission units to further align with the *acquis*. However, further steps are needed to complete the transposition and implementation of the revised EU ETS and aviation Directives, in particular in the areas of aviation, free allocation and registries and auctioning. Croatia continued to take steps to prepare for legislative alignment and implementation of the EU Effort-Sharing Decision. Further capacity building is needed.

Regarding fuel quality, Croatia adopted implementing legislation related to the quality of liquid fuels in February 2011. The transposition of the implementing legislation on the specification of petrol, diesel and gas-oil, and the introduction of a mechanism to monitor and reduce greenhouse gas emissions still needs to be completed.

As regards emissions from road transport, Croatia needs to transpose and implement the *acquis* on emission standards for new cars and vans.

Croatia continued to prepare for the transposition and implementation of the Directive on the geological storage of carbon dioxide.

Croatia continues to implement the Montreal Protocol, but needs to take the remaining steps to align with *acquis* on ozone-depleting substances and fluorinated gases, by adopting a new regulation on these substances. Croatia has associated itself with the Declaration adopted at

the 22nd Meeting of the Parties to the Montreal Protocol on the global transition away from HCFCs and CFCs.

Significant efforts to strengthen Croatia's **administrative capacity** are still needed, in particular in the Ministry of Culture and the Croatian Environment Agency, especially for the areas of climate change and nature protection. Substantial efforts have been made to improve implementation and enforcement of legislation. Coordination between ministries and bodies on environmental protection needs to be further improved.

### *Conclusion*

There has been progress in the area of environment. Overall, Croatia's preparations in the field of environment are nearing completion with regard to both alignment and implementation of legislation, in particular in the areas of water quality and chemicals. Implementation of the horizontal *acquis*, and in particular effective public participation and access to justice in environmental matters, need to be improved. Significant efforts are still required to further strengthen administrative capacity, especially as regards nature protection and climate change. Regarding climate change, significant further efforts are still necessary to complete the legislative alignment and to ensure implementation, in particular in the areas of aviation, free allocation, registries and auctioning.

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

There has been continuous progress in the field of **consumer protection**. Government funding for regional counselling centres has continued. However, the system for out-of-court settlement of consumer disputes is still underused: only 2% of cases are resolved through mediation, mostly because public awareness of existing mechanisms is still low. New initiatives from the private sector, such as the creation of the Banking Mediation Centre, are encouraging, but the public sphere needs to provide more support.

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.

Good progress can be reported in the field of *product safety-related issues*. Legal alignment has been completed through the adoption of amendments to the General Product Safety Act, the RAPEX (Union's Rapid Alert System) guidelines, and also legislation implementing dangerous imitations *acquis* and the Commission decisions relating to products containing the biocide dimethylfumarate, and child-resistant and novelty lighters. The Government's reported level of activity in terms of market surveillance action is satisfactory, with many checks carried out on a wide variety of products.

No developments can be reported in the area of *non-safety-related issues*. The Consumer Credit Act is not yet fully aligned with the *acquis*.

Some progress can be reported in the area of **public health**.

There has been some progress in the area of *tobacco* through measures taken to promote smoke-free environments and prevention of smoking.

Good progress can be reported in the field of *communicable diseases* through the adoption of a National Generic Integrated Plan for Coordination Action in Public Health Emergencies and

the Programme for the Prevention of HIV/AIDS 2011–2015 as well as through revision of national legislation on the basis of new *acquis*.

There has been some progress in the areas of *blood, tissues and cells*. An Institute for Biomedicine and Transplantation has been established inside the Ministry of Health and Social Welfare as the Competent Authority for blood, organs, tissues and cells. Licensing of tissue banks has advanced, and a Plan for Tissue Banking Development has been published. However, due to the lack of an approved timeline for the planned reorganisation of the blood transfusion services, their quality management is still not ensured within a national framework of standards. Legislation transposing the blood *acquis*, including by-laws, needs to be reviewed in order to achieve full alignment with the *acquis*, in particular with regard to the role of the Competent Authority. Hospital-based procurement of blood needs a clear legal demarcation from the hospital use of blood in order to avoid conflict between principles of product liability and ensure protection of consumer rights. An appropriate national haemovigilance system needs to be in place, with clear lines of responsibility between the central and regional levels. In the area of tissues and cells, continued efforts are needed in order to upgrade, restructure and license facilities for handling tissues and cells in accordance with the EU technical requirements. As concerns administrative capacity, a fully operational National Competent Authority structure still needs to be established.

Limited progress can be reported in the field of *mental health*. A Programme for the Prevention of Suicide among Children and Youth has been adopted. However, community-based services remain insufficiently developed as an alternative to institutionalisation. Financial resources allocated to mental health care are still scarce.

In the area of *cancer screening*, efforts have been made to raise awareness of the early detection of cervical cancer, but the cervical cancer screening programme has yet to be implemented. Further efforts are also needed to reach full implementation of breast and colorectal cancer screenings.

### *Conclusion*

There has been some progress in the area of *consumer and health protection*. Alignment with the *acquis* and preparations in the area of consumer protection are well advanced. Sustained efforts are necessary in order to further strengthen the administrative capacity to implement and enforce the legislation and to address the remaining outstanding issues in the area of public health.

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

Some progress has been made in the area of **customs legislation**. The Croatian Customs tariff for 2011 has been aligned with the 2011 EU Combined Nomenclature. Further alignment has also been achieved with regard to the summary declarations on entry/exit, the registration of economic operators and certain provisions on internal transit. Overall, alignment of the customs rules with the *acquis* is very high, but some minor discrepancies still remain in the quota allocation system, inward/outward processing authorisation, end-use and the internal transit arrangements. Croatia should also abolish the fees charged for access to the customs service at cargo terminals where the Customs offices are located.

Croatia continued to strengthen its **administrative and operational capacity**. The Customs Administration started to implement its new Business Strategy for 2010-2012, and continued

to implement its Anti-Corruption Programme. The operational capacity has been reinforced with the deployment of new equipment for customs controls. Further efforts are needed to ensure a sufficient number of qualified personnel for internal controls, mobile teams and post-clearance controls. The construction of the new customs laboratory premises was completed. Work has continued on the upgrade of the automated risk management system. Nevertheless, further efforts are needed, by adopting an overall strategy for controls, further developing risk management modules and tools, monitoring of the performance of the risk system and aligning its practice on selectivity to the EU. Croatia started to use the New Computerised Transit System (NCTS v4.0) at national level in August 2011. The Common Communication Network and Common System Interface (CCN/CSI) has been fully operational since December 2010. The Croatian customs administration still has only limited in-house capacity to guarantee the continuity of its IT services and remains dependent on external companies. Overall, in the area of administrative and operational capacity, Croatia has consistently addressed its targets and priorities.

### *Conclusion*

Croatia continued to make good progress in the field of *customs union*. Legislative alignment in this field is very high and further alignment was achieved during the period. Croatia has continued to reinforce its administrative and operational capacity, upgrading its equipment for physical checks and improving its risk analysis capability. Preparations are also well advanced in the area of IT interconnectivity. Croatia should continue to align its legislation, to reinforce its administrative capacity in the areas of internal controls, post-clearance and risk management, and to prepare for IT interconnectivity.

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

Croatia continued to make progress in the field of the **common commercial policy**. Croatia continued to cooperate and coordinate with the Commission with the aim of aligning itself with EU policies and positions towards third countries and within international organisations, including the World Trade Organisation (WTO). The amendments to Protocol 4 to the SAA which enable Croatia to join the system of diagonal cumulation of origin have come into force.

Croatia continued to align to the EU list of dual-use items, to raise awareness of operators to the issue of *dual-use goods* and to train Customs officers in this field. The Ministry of Economy, Labour and Entrepreneurship has set up a website providing relevant information on dual-use goods. Croatia has reached a very advanced stage of preparations in this area, but should continue to reinforce its administrative, control and reporting capacity for dual-use goods.

Good progress has been made in bringing bilateral trade and investment **agreements with third countries** into line with the *acquis*. Croatia continues to actively participate in the work of the Central European Free Trade Agreement (CEFTA). The Croatian Parliament ratified the Additional Protocol to the CEFTA Agreement, enabling further liberalisation of trade in agricultural and food products between interested parties. Croatia has intensified its efforts to bring bilateral trade, investment and economic cooperation agreements in line with the *acquis*, but further progress is required.

There is further progress to report on **development policy** and **humanitarian aid**. The National Strategy of Development Assistance for 2011 has been adopted and is being

implemented. The staff of the Department for International Development Cooperation has been increased to 5 people and is being regularly trained. Efforts to strengthen financial and administrative capacity in development policy and humanitarian aid area should continue. The alignment of the legal framework in this area is completed. Overall, preparations in this field are advanced.

### *Conclusion*

Croatia continued to make progress in the field of external relations. Croatia has reached an advanced level of alignment in the area of external relations and continues to coordinate and align its positions with those of the EU in international organisations. However, Croatia should step up its efforts to bring its international agreements into line with the EU *acquis* and continue strengthening its administrative capacity in the area 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. (*Concerning relations with other enlargement countries and Member States, see Political criteria 2.3 – Regional issues and international obligations*).

As regards the **common foreign and security policy (CFSP)**, during the reporting period, Croatia aligned itself, when invited, with 66 out of the 67 relevant Council decisions and EU declarations (99 % alignment). It has continued to actively participate in the Barcelona Process – Union for the Mediterranean. Croatia has further developed its administrative capacity to work within the EU CFSP structures.

With regard to *sanctions and restrictive measures* and *conflict prevention*, Croatia adopted the relevant decisions to implement sanction regimes deriving from UN Security Council Resolutions, and has implemented sanctions introduced by the EU.

As regards *non-proliferation*, implementation of the National Strategy and Action Plan for the Control of Small Arms and Light Weapons has continued, including public-awareness activities and measures to collect and destroy weapons. Efforts to strengthen the implementation and enforcement capacity are continuing.

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. Croatia continued to provide support to a wide range of UN and NATO missions, in particular to the NATO Training Mission to Afghanistan (NTM-A). The Croatian Parliament took a decision in December 2010 to increase the number of members of the armed forces engaged in Afghanistan from 320 to 350. (*As regards the International Criminal Court, see Political criteria 2.3 – Regional issues and international obligations*.)

Croatia continued its participation in EU missions to support implementation of the **common security and defence policy (CSDP)**. It has been participating in the EU operation ATALANTA (Somalia) and contributed actively to the development of the EU battle groups. 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 one officer dealing with the rule of law.

## Conclusion

Croatia has made further progress in the field of *foreign security and defence policy*. 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 area of implementation of the legal framework related to **public internal financial control** (PIFC) and the PIFC Development Strategy (2009-2011). An Action plan for further development of a financial management and control system adopted by the Government in December 2010 provides for improved managerial accountability and a better definition of the role of the financial units. The Fiscal Responsibility Act entered into force in January 2011 and aims to strengthen the overall financial management and control system in Croatia. A revised Internal Audit Manual was adopted in November 2010, together with the Instruction on continuous professional training for internal auditors in the public sector. The number of internal auditors has increased and the Central Harmonisation Unit (CHU) has organised regular training sessions for financial controllers and internal auditors, but their professional skills need to be further enhanced through practical experience and continuous training.

Some progress can be reported in the field of **external audit**. The State Audit Office (SAO) continued to implement its Strategic Plan (2008-2012). A new Auditor General has been appointed by the Parliament. The reporting of the SAO has continued to improve, as the SAO's budget execution report was submitted to the Parliament prior to the discharge procedure. In addition, there has been a gradual shift from transaction-based to system-based audits. However, further efforts are needed in order to develop the capacities of SAO in executing performance audits efficiently. Co-ordination between the SAO and the Ministry of Finance (Central Harmonisation Unit) needs to be strengthened so as to establish a common approach to audit practice. A revised law on SAO was adopted by the Croatian Parliament in July 2011. While the new law is a noticeable progress towards full INTOSAI compliance, it does not address quality control on the SAO's performance. Its upcoming strategic programme should contain adequate provisions to ensure the necessary internal and external assessments.

Progress has been achieved in the area of **protection of the EU financial interests**. The Department for Combating Irregularities and Fraud at the Ministry of Finance together with other bodies and institutions from the Anti-Fraud Coordination Structure (AFCOS) system continued to implement the National Anti-fraud Strategy and its Action Plan. To ensure sustainability of reforms, the Department for Combating Irregularities and Fraud at the Ministry of Finance needs to improve its ability to play a leading role in the co-ordination of the overall process of fraud prevention, detection, reporting and follow-up. Further efforts are required in enhancing the quality of reporting of irregularities and providing continuous training on anti-fraud issues at all levels of the public administration.

Some progress can be reported in the field of **protection of the euro against counterfeiting**. The Croatian National Bank (CNB) continued to analyse suspicious banknotes and coins received from the public bodies and private sources. The CNB submitted monthly reports on counterfeit euro banknotes to the European Central Bank. With respect to euro coins, a

cooperation agreement between OLAF and CNB continued to function. Further efforts are needed in order to improve the co-ordination between the CNB and the Ministry of Interior. Training has to be provided on a more regular basis in order to improve the professional skills of Croatian experts at central and local level in detecting and reporting efficiently on cases of counterfeiting.

#### *Conclusion*

Croatia has made further progress in the field of *financial control*. Croatia has reached an advanced level of alignment in the area of financial control. Continuous efforts are needed in order to improve the overall functioning of the PIFC and external audit in Croatia at central and local level.

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

The system of the **traditional own resources (TOR)** has been further improved through the upgrading and continuous testing of the existing IT application, including the production of automatic reports. A training plan and a manual on TOR have been drawn up for relevant staff. Country-wide application of the TOR accounting module is expected by mid 2012. Instructions on the implementation of procedures for the write-off of TOR are currently being updated. However, post-clearance audit requires further strengthening, including the training of skilled auditors. Effective instruments for combating customs duty and VAT fraud have to be applied in order to protect the financial interests of the EU.

As regards sugar levies, various guidance manuals have been developed, but the control mechanism for sugar levies has to be set up and staff have been trained.

Some progress was made with regard to the **VAT-based own resources**. However, administrative capacity has to be further developed in order to calculate the weighted average rate efficiently. The negotiations on the Agreement implementing the Protocol on the Privileges and Immunities of the EU have progressed and need to be finalised.

Further progress has been made with regard to the **GNI resource**, including the compiling of better quality national accounts and GNI calculations.

As regards **administrative infrastructure**, the Department for Co-ordination and Management of EU Own Resources at the Ministry of Finance (Co-ordination Department) is gradually building up its administrative capacity to coordinate efficiently the overall system of own resources after accession, including through elaboration of an own resources manual and improved links between the various key institutions involved. However, sustained efforts are needed in order to further enhance its capacity so as to ensure the correct application of the EU financing rules on accession.

#### *Conclusion*

Good progress can be reported in the field of *financial and budgetary provisions*. Institutional capacity has been further developed, and improvements have been made with the A and B accounts. Overall, there is a good level of alignment and administrative capacity for implementing the acquis. The co-ordination department needs to continue to build up its capacity to coordinate the overall system of own resources efficiently after accession. Capacity building on sugar levies also needs to be stepped up.

## Statistical Annex

### STATISTICAL DATA (as of 30.09.2011)

#### Croatia

<b>Basic data</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (thousand)		4 498s	4 439s	4 445	4 443	4 442	4 444	4 443	4 441	4 436	4 435	4 426
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	56 594
<b>National accounts</b>												
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross domestic product (GDP) (million national currency)	2)	178 118	192 289	208 796	228 932	247 428	266 652	291 044	318 308	345 015	335 189	334 564
GDP (million euro)	2)	23 333	25 738	28 189	30 265	33 009	36 034	39 745	43 390	47 765	45 669	45 917
GDP (euro per capita)	2)	5 272	5 797	6 349	6 816	7 436	8 112	8 951	9 781	10 771	10 311	10 367
GDP (in Purchasing Power Standards (PPS) per capita)		9 500	10 000	10 700	11 300	12 200	12 800b	13 700	15 200	15 900	15 100	15 000
GDP per capita in PPS (EU-27 = 100)		50	51	52	55	56	57b	58	61	64	64	61
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)	2)	3.8	3.7	4.9	5.4	4.1	4.3	4.9	5.1	2.2	-6.0	-1.2
Employment growth (national accounts, % change on previous year)	2)	-0.5	0.5	0.8	3.9	1.5	0.7	3.9	3.5	1.1	-1.8	-5.3
Labour productivity growth: GDP growth per person employed (% change on previous year)	2)	-2.3	10.1	1.9	4.2	1.2	4.9	4.0	3.2	0.8	-4.2	2.9
Real unit labour cost growth (national accounts, % change on previous year)	2)	2.4	-1.6	8.2	4.2	2.5	2.7	0.2	3.2	3.2	-1.3	4.1
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) 3)	6.5	6.5	6.4	5.2	5.6	5.0	5.2	4.9	5.2	5.4	5.5
Industry	2) 3)	23.4	22.8	22.0	21.4	21.8	21.0	20.4	19.8	19.5	18.4	19.0
Construction	2) 3)	5.1	5.6	5.7	6.8	7.3	7.6	7.7	7.7	8.3	8.0	6.7
Services	2) 3)	65.0	65.2	65.9	66.6	65.3	66.4	66.7	67.6	66.9	68.2	68.8
Final consumption expenditure, as a share of GDP (%)	2)	84.2	82.4	83.1	80.6	79.7	79.2	77.6	78.2	77.6	76.9	77.1
Gross fixed capital formation, as a share of GDP (%)	2)	19.0	19.5	21.4	25.0	24.8	24.7	26.0	26.2	27.7	24.9	21.6
Changes in inventories, as a share of GDP (%)	2)	0.1	2.0	3.9	2.2	2.0	2.6	3.4	3.2	3.0	2.2	1.8
Exports of goods and services, relative to GDP (%)	2)	41.7	43.4	40.9	42.6	42.9	42.3	42.7	42.1	41.7	35.4	38.3
Imports of goods and services, relative to GDP (%)	2)	45.0	47.4	49.3	50.4	49.3	48.7	49.8	49.8	49.9	39.4	38.8
<b>Industry</b>												
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Industrial production volume index (2005=100)		80.7	85.5	89.7	92.7	95.6	100.0	104.1	109.3	110.6	100.4	99.0
<b>Inflation rate</b>												
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual average inflation rate (HICP, % change on previous year)		4.5	4.3	2.5	2.4	2.2	3.0	3.3	2.7	5.8	2.4	1.1
<b>Balance of payments</b>												
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance of payments: current account total (million euro)		-531	-776	-2 030	-1 818	-1 357	-1 896	-2 636	-3 119	-4 217	-2 368	-503
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	-7 387	-5 945
Balance of payments current account: net services (million euro)		2 508	3 348	3 337	4 988	4 831	5 382	5 776	6 367	7 075	5 770	5 887
Balance of payments current account: net income (million euro)		-505	-628	-561	-1 080	-656	-943	-1 175	-1 094	-1 568	-1 787	-1 523
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	1 079
of which government transfers (million euro)		25	65	32	71	3	10	-9	-17	-20	-30	-42

Net foreign direct investment (FDI) (million euro)		1 136	1 258	531	1 657	671	1 276	2 562	3 468	3 243	1 190	112
Foreign direct investment (FDI) abroad (million euro)		5	210	607	106	279	192	207	211	973	875	-115
of which FDI of the reporting economy in EU-27 countries (million euro)		-15	152	72	7	14	66	-37	563	738	530	-249
Foreign direct investment (FDI) in the reporting economy (million euro)		1 141	1 467	1 138	1 762	950	1 468	2 768	3 679	4 216	2 065	227
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	1 998	315

<b>Public finance</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government deficit/surplus, relative to GDP (%)		:	:	-4.1	-4.5	-4.3	-4.0	-3.0	-2.5	-1.4p	-4.1p	-4.9p
General government debt relative to GDP (%)		34.3	35.2	34.8	35.4	37.6	38.2	35.4	32.9	29.2	35.2	41.2

<b>Financial indicators</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross foreign debt of the whole economy, relative to GDP (%)	4)	52.6	52.9	53.7	65.7	69.5	71.5	73.7	75.9	83.6	97.7	102.6
Gross foreign debt of the whole economy, relative to total exports (%)	4)	130.2	125.9	136.1	151.3	161.0	168.7	172.3	179.9	200.7	276.1	260.2
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	6 655
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	36 912
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	1.1
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	12.7
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	4.2
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	7.286
Effective exchange rate index (2000=100)		100.0	97.6	96.2	95.3	93.5	92.6	91.4	90.8	89.0	90.0	90.9
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	10 660

<b>External trade</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value of imports: all goods, all partners (million euro)		:	:	11 327.0	10 378.6	13 354.4	14 949.5	17 104.7	18 691.8	19 021.7	15 144.1	15 076.0
Value of exports: all goods, all partners (million euro)		:	:	5 188.2	5 119.1	6 453.8	7 069.4	8 251.6	9 004.1	8 965.1	7 458.5	8 685.9
Trade balance: all goods, all partners (million euro)		:	:	-6 138.9	-5 259.4	-6 900.5	-7 880.1	-8 853.1	-9 687.6	-10 056.6	-7 685.6	-6 390.1
Terms of trade (export price index / import price index)	5)	98.3	94.4	97.8	97.5	109.3b	92.6	100.2	97.5	96.1	109.2	100.9
Share of exports to EU-27 countries in value of total exports (%)		:	:	66.1	71.4	65.8	63.3	64.3	60.3	63.2	60.8	61.7
Share of imports from EU-27 countries in value of total imports (%)		:	:	71.9	68.7	71.0	67.9	67.2	64.5	62.3	62.6	60.3

<b>Demography</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	-1.8	-2.0
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	4.4
Life expectancy at birth: male (years)		:	:	71.2	71.1	71.9	71.8	72.5	72.3	72.4	73.0	:
Life expectancy at birth: female (years)		:	:	78.3	78.1	78.8	78.8	79.3	79.3	79.7	79.7	:

<b>Labour market</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)	6)	62.2	62.2	62.9	62.4	63.7	63.3	62.6	63.2b	63.2	62.4	61.5
* Employment rate (15-64): share of population aged 15-64 in employment (%)	6)	51.3	51.8	53.4	53.4	54.7	55.0	55.6	57.1b	57.8	56.6	54.1
Employment rate male (15-64) (%)	6)	57.4	59.0	60.5	60.3	61.8	61.7	62.0	64.4b	65.0	62.4	59.4
Employment rate female (15-64) (%)	6)	45.5	44.9	46.7	46.7	47.8	48.6	49.4	50.0b	50.7	51.0	48.9

Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)	6)	24.2	23.7	24.8	28.4	30.1	32.6	34.3	35.8b	36.7	38.5	37.6
<b>Employment by main sectors (%)</b>												
Agriculture		:	:	:	:	:	:	:	:	:	13.9	14.9
Industry		:	:	:	:	:	:	:	:	:	20.1	19.8
Construction		:	:	:	:	:	:	:	:	:	8.8	7.5
Services		:	:	:	:	:	:	:	:	:	57.2	57.8
Unemployment rate: share of labour force that is unemployed (%)	6)	17.0	16.3	14.7	14.1	13.6	12.6	11.1	9.6b	8.4	9.1	11.8
Share of male labour force that is unemployed (%)	6)	15.9	14.4	13.2	12.8	12.0	11.6	9.8	8.4b	7.0	8.0	11.4
Share of female labour force that is unemployed (%)	6)	18.2	18.7	16.5	15.6	15.6	13.8	12.7	11.2b	10.1	10.3	12.2
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)	7)	43.1	41.7	34.4	35.8	33.8	32.0	28.8	24.0b	22.0	25.1	34.4
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)	8)	9.1	10.1	8.9	8.4	7.3	7.4	6.7	5.9b	5.3	5.2	6.8
<b>Social cohesion</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average nominal monthly wages and salaries (national currency)	9)	4 869.0	5 061.0	5 366.0	5 623.0	5 985.0b	6 248.0	6 634.0	7 047.0	7 544.0	7 711.0	7 782.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	10)	100.0	99.2	103.2	106.1	112.2b	113.4	116.6	120.4	121.5	121.3	121.2
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)	11)	:	:	8.3	8.4	6.2	4.8	5.1	4.9b	5.3	5.4	4.9
<b>Standard of living</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of passenger cars per 1000 population		250.1	269.3	279.9	291.1	301.1	311.6	323.2	335.7	346.1	345.5	342.4
Number of subscriptions to cellular mobile telephone services per 1000 population		247.3	389.9	526.4	571.1	638.4	821.3	989.3	1 133.6	1 325.4	1 360.8	1 437.5
<b>Infrastructure</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		48.2	48.2	48.2	48.2	48.2	48.2	48.1	48.1	48.1	48.1	48.1
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	1.1
<b>Innovation and research</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	0.8	:
Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	41.0	45.0	50.0	57.0
<b>Environment</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		82.8	86.7	89.9	95.1	95.1	96.3	97.5	102.4	98.5	91.8	:
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	238.8	:
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	42.4	:
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	76.7
<b>Energy</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	4 057	:
Primary production of crude oil (thousand TOE)		1 328	1 232	1 200	1 138	1 079	1 017	985	937	875	821	:
Primary production of hard coal and lignite (thousand TOE)	12)	0	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	2 197	:
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	4 465	:
Gross inland energy consumption (thousand TOE)		7 819	7 959	8 624	8 828	8 842	8 902	8 948	9 323	9 122	8 721	:
Electricity generation (thousand GWh)		10.7	12.2	12.3	12.7	13.3	13.1	13.0	12.4	12.6	13.2	:

<b>Agriculture</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agricultural production volume index of goods and services (producer prices, previous year=100)	13)	88.7	107.4	107.9	91.4	106.9	104.7	104.2	97.3	108.5	100.1	91.8
Total utilised agricultural area (thousand hectare)	14)	1 169	1 178	1 181	1 196	1 176	1 211b	1 230	1 202	1 288	1 300	1 335p
Livestock: cattle (thousand heads, end of period)	15)	427	438	417	444	466	471	483b	467	454	447	444
Livestock: pigs (thousand heads, end of period)	15)	1 234	1 234	1 286	1 347	1 489	1 205	1 488b	1 348	1 104	1 250	1 231
Livestock: sheep and goats (thousand heads, end of period)	15)	608	632	677	673	848	931	783b	738	727	695	705
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		626	674	716	686	708	813	870	883	848	843	809
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	3 007p
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	1 249p
Crop production: vegetables (thousand tonnes, harvested production)		196	208	218	154	150	286	304	281	308	337	246p

: = not available

p = provisional

e = estimated value

b = break in series

s = Eurostat estimate

\* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. 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.

Footnotes:

- 1) Land area; break in series due to improved methodology.
- 2) For the period from 2008 until 2010 data are calculated on the basis of the sum of quarterly values.
- 3) Data are provided according to NACE Rev 1.1
- 4) 2000–2007, gross foreign debt of the whole economy excluding Special Purpose Entities; 2008, gross foreign debt of the whole economy excluding Special Purpose Entities (in December 2008 round-tripping transaction related to SPE amounted to 825.7 million euro and in August 2009 round-tripping transaction related to SPE amounted to 666.5 million euro).
- 5) Calculated on the basis of exports and import values expressed in USD; break in series in 2004, change in methodology as of 1 January 2004.
- 6) Data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 7) 2000-2001, second half of the year; data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 8) 2000-2001, long-term unemployment refers to thirteen months or more; data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 9) 2000-2003, Persons employed in crafts, trades and as freelancers, as well as in the police and defence-related activities are excluded; from 2004 onwards the number of persons employed in the police and defence-related activities are included.
- 10) 2000-2003, 2005-2010, persons employed in crafts, trades and as freelancers, as well as in the police and defence-related activities are excluded; from 2004 onwards the number of persons employed in the police and defence-related activities are included.
- 11) Data used until 2006 refer to half-year periods (second half of the year) and from 2007 onwards data refer to annual average of quarterly data.
- 12) Croatia closed all coal mines in 1999 and 2000 and therefore, there is no production of coal starting with 2000.
- 13) Volume indices of agricultural production have been calculated on the basis of production data for 65 agricultural products since 1977; the moving average of producer's prices in the last three years has been taken as a weighting factor for the calculation of the index.
- 14) Break in series in 2005, up to 2005, data on land areas, number of fruit trees, grapevines, production and home processing by individual family farms were obtained by the estimation method; since 2005, data are obtained by using the interview method done by interviewers on a selected sample; data for 2000-2004 are recalculated.
- 15) 2000 – 2005, data as on 31 December for legal entities and 15 January for private family farms; from 2006 onwards, data as on 1 December for both legal entities and private family farms.