



## **Joint Assessment of the Employment Policy Priorities of the Republic of Croatia**

In line with the Accession Partnership, the Government of the Republic of Croatia, Ministry of Economy, Labour and Entrepreneurship has prepared together with the European Commission, Directorate General for Employment, Social Affairs and Equal Opportunities a Joint Assessment of Croatia's employment policy priorities. This document presents an agreed set of employment policy objectives necessary to advance the country's labour market transformation, and prepare for accession to the European Union, in particular by adapting the employment system so as to be able to implement the European Employment Strategy in the future. The assessment analyses the economic and labour market situation as well as Croatia's employment policies and sets out, on this basis, employment challenges and priorities for action in Croatia. Progress in the implementation of these priorities will be monitored in the follow-up process to the Joint Assessment of the Employment Policy Priorities, taking account of developments in the EU labour market policies.

Damir Polančec

Vice Prime Minister and  
Minister of Economy, Labour  
and Entrepreneurship of  
the Republic of Croatia

Mr Vladimir Špidla

Member of the European Commission  
responsible for Employment, Social Affairs  
and Equal Opportunities

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## INTRODUCTION

The Employment Title of the EC Treaty provides for EU policy coordination on employment through a European Employment Strategy. The European Guidelines for the employment policies of the Member States are integrated with the guidelines for macro- and micro-economic policies in the Lisbon strategy for growth and jobs. Full employment, quality and productivity at work, and social and territorial cohesion are the three mutually supportive employment policy objectives. Attracting and retaining more people in employment, improving the adaptability of workers and enterprises, and increasing investment in human capital through better education and skills, are the three key priorities.

In accordance with the provisions of the Accession Partnership and with a view to supporting Croatia's preparations for implementing the European Employment Strategy, the European Commission – Directorate-General for Employment, Social Affairs and Equal Opportunities – and the Government of Croatia carry out a joint review of employment policies in Croatia. The objective of this joint process is to help Croatia in its efforts to establish a well-functioning labour market capable of supporting a dynamic economy while ensuring competitiveness and sustained economic and employment growth, and to develop a strategic approach for employment addressing its specific employment challenges in line with EU policies and practices.

Agreement on this Joint Assessment Paper (JAP) concerning the employment situation and the challenges and priorities shaping employment and labour market reforms in Croatia, from the perspective of EU membership and participation in EU policy coordination, is an important stage in this process. The JAP also provides policy context for the human resources development priorities and the planning and programming of action to be supported by the EU pre-accession financial instrument.

The JAP is organised under four sections. Section 1 presents a brief overview of economic performance. Section 2 examines the labour market situation in terms of the three overarching objectives for employment set out in the Lisbon Strategy. Section 3 reviews policies which impact on the labour market. Section 4 draws conclusions from the review in terms of challenges, defines concrete priorities for action and sets out the follow-up process aimed at ensuring effective implementation of the agreed priorities.

# 1. ECONOMIC SITUATION, DEVELOPMENTS AND CHALLENGES<sup>1</sup>

## 1.1 Recent economic developments

### *Output and prices*

After the taming of hyperinflation in the early 1990s and the recovery from war in the mid-1990s, macroeconomic developments in Croatia in the late 1990s and early 2000s were still marked by considerable fluctuations of economic growth. During the past few years, however, GDP growth has stabilised, reaching annual rates mostly in the range of 4-6% since 2001. For example, a solid growth rate of 4.8% was achieved in 2006 and the near-term outlook points to a continuation of this trend<sup>2</sup>. Economic growth has been driven primarily by strong domestic demand, in particular investment spending, both public and increasingly also private. The net contribution from trade has continued to be mostly negative.

Over the period from 2000 to 2006, the average rate of economic growth in Croatia was considerably higher than in the European Union – 4.5% vs only 2.2%. That has brought Croatia closer to the EU average. According to Eurostat's estimates, Croatia's GDP per capita in purchasing power standards increased from 40.9% of the EU average in 2000 to 48.9% in 2006. The process of convergence is expected to continue, as the forecasts for 2007 and 2008 are 50% and 51.2% respectively<sup>3</sup>.

Consumer price inflation has been reined in significantly during recent years, contributing to overall macroeconomic stability, with the annual CPI moving in a relatively tight range around 2% between 2002 and 2004. In 2005 and 2006, the CPI increased to over 3%, mainly as a result of higher energy prices and also due to increases in administrative prices. Since there is still some price regulation in Croatia<sup>4</sup>, unexpected and sudden increases in prices of energy-generating products on the global market have the biggest effect on the administrative regulated prices.

### *External accounts*

High current account deficits have been a feature of the economy over the past few years. They averaged 6.2% of GDP in the period 2001-2006, driven mainly by the very high merchandise trade deficits (23.9% of GDP on average), and were not fully offset by high surpluses of the service balance (16% of GDP), mainly reflecting the importance of tourism. The current account deficits from 2002 to 2006 fluctuated between 5% and 8.5% of GDP and are expected to stay at around 7% during the next couple of years.

Net inflows of foreign direct investment, mostly to the services sector (banking, telecommunication), have been quite strong over the past few years, averaging 4.4% of GDP and providing for significant coverage (70%) of the current account deficits.

Gross external debt has continued to grow in recent years, reaching 85.3% of GDP by the end of 2006, up from 82.4% one year earlier. This increase has been driven

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<sup>1</sup> Throughout the assessment, mentioning of EU is defined as EU25 except otherwise stated

<sup>2</sup> European Commission: Autumn 2006 Economic Forecast.

<sup>3</sup> Idem.

<sup>4</sup> In general there is free price formation in Croatia, with a few exceptions where price formation is controlled by government bodies. The purpose is prevention of monopolies and protection of consumers, especially those with low income. The areas concerned are liquefied oil gas UNP, transport of passengers in inland railway transport, public transportation in regular coastal naval transportation on state lines, mail delivery of standard letters, postcards and official forms, and certain public services, such as central heating, water supply, drainage, urban sanitation, gas distribution, and public transport.

mainly by private sector (banks) borrowing abroad, while the public sector external debt has declined somewhat as a result of a shift from external to domestic borrowing. The central bank has introduced or strengthened several measures to discourage foreign borrowing by private banks. It remains to be seen whether those efforts to contain foreign borrowing and stabilise foreign debt have had the desired effect.

### *Structure of the Economy*

The structural composition of the economy has been shifting from agriculture towards trade and services. Over the period from 1998 to 2006, the share of agriculture, forestry and fishing decreased from 9.8% to 7.3% of total value added in constant prices. The share of industry (including mining, manufacturing and utilities) slightly increased from 27.5% to 27.9%, while the share of services increased from 55.5% to 57.5%<sup>5</sup>

Entrepreneurial activity has been increasing lately. Over the period from December 2001 to December 2006, the number of active firms increased by 36.2%. In absolute terms, the number of firms has increased most in the sector comprising real estate, renting and business services, then in construction and retail sales, but also in manufacturing.

## **1.2 Economic policies**

### *Fiscal policy*

The Government has been reducing the fiscal deficit and directing public borrowing to the domestic financial market. The fiscal deficit fell to 3.9% of GDP in 2005 and further to 2.2% in 2006; government projections expect it to fall further to 1.8% in 2007. Positive fiscal trends have been supported by stronger than expected economic growth, resulting in strong revenues. Strong revenue performance recently allowed for an expansion of spending without compromising the planned reduction of budget deficits. However, longer-term fiscal consolidation will require a significant acceleration of key structural reforms, in particular in the area of social benefits, healthcare financing, pensions and state aid to enterprises.

While government debt has been on the rise during the period up to 2004, the fiscal consolidation has stabilised the general government debt which has decreased to 40.8% of GDP in 2006.

The pension reform has introduced a three-pillar pension system where there will also be an individual contribution and the benefits will be linked more closely to this contribution. The retirement age will change to 60 for women and 65 for men (previously 55 for women and 60 for men). The first payments from the new system will be in 2013. The pension reform, which dates back to 1999, has caused some inequalities in the replacement rates of pre- and post-1999 pensioners. In order to remove these inequalities as well as improve the material and social security of pension beneficiaries, two new acts have been adopted, one of which reduces the differences in the amount of pension obtained for the same length of service upon retirement, while the other increases the level of the early old-age pension, disability pension due to occupational incapacity and the lowest pensions. The first act leads de facto to a higher average pension and may incur higher pension deficits in the first

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<sup>5</sup> Source: Croatian Bureau of Statistics.

pillar. The second act might cause an increase in the number of persons taking early retirement.

In 2006 a "National Health Development Strategy 2006-2011" document was adopted, putting the focus on the financing of the health system. The aim is to improve the efficiency and quality of the healthcare services delivered and reduce the share of public healthcare spending in relation to GDP<sup>6</sup>. Also, a social benefits reform strategy 2007-2008 has been developed. The objectives of this strategy are to reduce the social spending-to-GDP ratio while ensuring an increase in the share of means-tested benefits. The strategy is additionally designed to bring about a more rational, efficient and decentralised system that will be better targeted. However, the recent adoption of a national population policy partly runs counter to these objectives. It has to be noted in this context that one of the key challenges in the Joint Memorandum on Social Inclusion of the Republic of Croatia (JIM) is to "financially stabilise the health system without jeopardising equal access to health services"<sup>7</sup>.

#### *Monetary and exchange rate policies*

Tight monetary policy has contributed significantly to overall price stability. Price stability represents a key objective of the monetary policy and has been achieved through a tightly managed float exchange rate by the central bank. As a result, the kuna/euro exchange rate has been fairly stable, fluctuating within a very narrow band during recent years.

Over the past two years, the central bank has repeatedly intervened in the market to curb the kuna appreciation pressures stemming from strong capital inflows driven largely by the positive expectations connected with the EU accession process. During the same period, the central bank has also several times increased the marginal reserve requirements in order to limit the fast growth of foreign borrowing by the commercial banks. Despite these efforts, the growth of credit continued to accelerate throughout 2005 and 2006, pushing the average money-market interest rate from 5.11% in 2004 to 2.3% in 2005 and 1.6% in 2006. The lowering of nominal interest rates has probably contributed to the lowering of expected long-term real interest rates that, in turn, has probably stimulated investment.

#### *Entrepreneurship, industrial and trade policies*

The Croatian government has strongly promoted entrepreneurship by various measures: establishing a one-stop shop for fast firm registration, supporting the establishment of entrepreneurial zones in cooperation with local governments, and offering counselling, training and financial support for potential entrepreneurs. It has also been supporting industrial marketing and other production services, and formation of industrial clusters.

In order to reduce the trade deficit in goods, the government launched the "Croatian Export Offensive" at the beginning of 2007. The goals of the project are to increase the number of exporters, to shift the export structure towards products with high value added, to create six export clusters, and to substitute the import of semi-products. The project is supported by a newly established office within the Ministry of Economy, Labour and Entrepreneurship.

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<sup>6</sup> Pre-Accession Economic Programme of Croatia 2005 (covering 2005-2008).

<sup>7</sup> Joint Memorandum on Social Inclusion of the Republic of Croatia, p. 57.

### **1.3 Structural Reforms by state-owned enterprises**

The Pre-Accession Economic Programme (PEP) of Croatia sets as one of the key aims behind the structural reform in Croatia the strengthening of competition and state aid control. Emphasis in the Croatian programme is put on the acceleration of privatisation and enterprise restructuring especially for railways, shipbuilding and the steel sector. The aim is to increase the private sector's share of GDP to 70% by the end of 2008 as compared to 60% in 2005. Croatia has established a Privatisation Fund (CPF) which is responsible for selling the state's minority shares and privatising companies with majority state ownership.

The **shipbuilding** industry accounts for 12-15% of Croatia's exports but relies heavily on government subsidies. A "one-off" state aid of 4.2 billion HRK was given to this industry, 1.48 billion of which was given in 2006 and the rest in 2007. Privatisation of the first shipyard was planned for 2005 but has been postponed because four out of the five shipyards are facing financial problems and restructuring is necessary in order to be able to sell them. At the beginning of 2007, the draft National Programme of the Croatian Shipbuilding Industry and proposed Draft Individual Restructuring Plan for each shipyard were sent to the European Commission and the Croatian Competition Agency for comments. In the first half of 2006, the authorities prepared a programme proposal for the restructuring of Croatia's **steel** industry and submitted it to the European Commission, which gave its recommendations and suggestions. Simultaneously with the adoption of the National Restructuring Programme, the authorities will continue with the process of privatisation of both ironworks. Tender conditions for privatisation have been prepared in cooperation with EC consultants and the Croatian Competition Agency, in compliance with the criteria determined under the SAA regarding competition rules and Protocol 2 regarding steel products. Also, the restructuring of the **railway** company is under way. Here the legal basis for the separation of the railway company is in place. The procedure to tender for the sales has been closed and a bid was made for only one of the three companies. Therefore the second round in the procedure to tender at a lower price is soon expected for the companies for which no bids were received. The liberalisation of the **telecommunication** sector is well advanced but the sale of the remaining government shares in the telecom company has been delayed. The restructuring and liberalisation of the **energy** sector is still in progress. There has been a delay in the sale of some of the state shares in the INA oil company and the restructuring of the electricity company has not started yet.

It seems in general that the restructuring of large state-owned companies has not made the expected progress.

## **2. LABOUR MARKET SITUATION, DEVELOPMENTS AND CHALLENGES**

### **2.1 Population, labour force, employment and unemployment**

#### **2.1.1. Population and labour force participation<sup>8</sup>**

At the time of the 2001 Census, Croatia had 4,437,460 inhabitants. In recent years, the number of live births has been lower than the number of deaths, leading to

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<sup>8</sup> The figures and percentages mentioned for Croatia refer to mid-year population

negative natural population growth. On the other hand, immigration has been higher than emigration, particularly from Bosnia and Herzegovina, thus offsetting the negative natural population growth. Therefore the estimated population in mid-2006 was somewhat larger – around 4,440,700 inhabitants. However, net immigration has slowed down since 2004.

The trend in the age structure of Croatia largely mirrors the trend in the age structure of the EU, with the share of the older population growing and the share of the young declining, i.e. the ageing of the population. The picture in Croatia is that the share of older and retired people (age 65+) increased from 11.8% to 15.7% over the period 1991-2001. Comparing the old-age group with the active population (age 15+), the share of the former becomes even bigger and is rising over time, from 18.4% in 1998 to 24% in 2005. The ageing of the population is projected to continue and some demographic forecasts indicate that by 2031 the share of old people in Croatia will be between 20% and 25% of the total population<sup>9</sup>. The expectation of further population ageing is based on the fact that younger demographic cohorts are less numerous than older ones. It is estimated that, in 2006, there were around 333,000 people aged 45-49, but only 300,000 people aged 30-34 and only 272,000 aged 15-19. Consequently, the number of young persons entering the labour force has been falling and will fall further in the future. Both the growth in the older population and the shrinking of the working-age population have been, and will be, a great problem for the system of social security transfers and public healthcare spending. In order to keep benefits at a similar level for the increasing number of beneficiaries, a higher rate of labour force participation will be needed. Positive net immigration can have a positive effect on the age structure of the Croatian population and thus offset some of the effects of the current ageing of the population. The main source of immigration of younger people is Bosnia-Herzegovina, but the number of immigrants from that country is falling.

According to comparable estimates based on the labour force survey (LFS), the activity rate of the population aged 15-64 increased from 61.6% in 2001 to 63.5% in 2004. However, the activity rate fell in 2005 to 63.2% and continued to fall to 62.2% in 2006, reflecting mostly the ageing of that population group but also some other factors.

A breakdown of the activity rates by sex and age groups shows that the activity rate for the 15-24 age group decreased between 2001 and 2006 (from 40.8% to 35.4%), and the decrease has been more pronounced for women than for men. Growing numbers of younger women participating in tertiary education could account for their declining activity rate.

During the period 2001-2005, the activity rate for the prime age group 25-49<sup>10</sup> has been stable at around 83.0% overall. The activity rate for men in this age group is higher than for women, at around 88% for the period in total, with a tendency to decrease slightly from 2005 onwards. The activity rate for women is at a lower level than for men (around 78.5%), but with a slight tendency to increase.

For the 50-64 age group, the activity rate increased by 10 percentage points from 2001 to 2006. There is not much doubt that the pension reform has contributed considerably to the large increase in the labour force participation of older people.

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<sup>9</sup> Joint Memorandum on Social Inclusion of the Republic of Croatia.

<sup>10</sup> Reference to this age group is used throughout this paper. It is different to the one normally used in European statistics for the prime working-age group (25-54) due to the breakdown in the Croatian statistical database.

However, the increase in the activity rate for those aged 50-64 has barely been large enough to offset the effects of population ageing on the activity rate of the overall age group 15-64, and it is expected that those effects will be even stronger in the future. For that reason, a further increase in the activity rate of the population aged 50-64 and a significant increase in the activity rate of the population aged 25-49, particularly among females, are needed to completely offset the effects of population ageing.

## 2.1.2 Employment

The overall employment rate in Croatia has been on an upward trend in recent years. According to labour force survey estimates, the employment rate of the population aged 15-64 increased from 51.6% in 2001 to 55.4% in 2006<sup>11</sup>. A similar trend is recorded in registered employment, which is estimated from the establishment survey, particularly in 2006, when it increased by 3.3%. Additionally, it is expected that the employment rate will continue to increase in both 2007 and 2008 (by 1.8 and 0.8 percentage points respectively)<sup>12</sup>.

The development of employment rates for most age and sex groups has followed a similar pattern over recent years, largely reflecting the impact of fluctuations in economic growth. In particular, the employment rate of prime-age males and females (25-49 age group) has been strongly correlated with economic growth. The acceleration of growth after the 1999 recession brought an increase in the prime-age male employment rate from 76% in 2000 to almost 79.5% in 2006, and the rate for prime-age women rose from 65% to 69.5% in the same period. Breaking down the female employment rate for this age group according to educational levels shows that the increase for the period 2001-2006 was mainly driven by women with tertiary education and to some extent by women with upper secondary education, whereas for women having less than upper secondary education the employment rate has fallen. Lately the employment rate of persons aged 50-64 has been constantly growing. It went up from 36.2% in 2000 to 45.2% in 2006, reflecting not only accelerated economic growth but also the increased retirement age. The employment rate of older persons today is considerably higher than it was before the 1999 recession, and it is expected to grow further mainly because of the higher retirement age that will be fully in force by 2008.

Despite the previously described positive trends, Croatia is still lagging behind the average level of employment in the EU. According to the LFS, in 2006 the average employment rate for the population aged 15-64 in the EU amounted to 64.7%, while in Croatia it was 55.4%, more than 9 percentage points lower. The difference was higher for men (61.6% vs. 72%) than for women (49.4% vs. 57.3%). Also, the employment rate of the population aged 50-64 was low in comparison with the EU, just 45.2% versus 54.6%. The relatively low level of employment in general is mostly a consequence of disinvestment and the outright destruction of physical capital during the war, and restructuring due to privatisation, opening to foreign competition and changes in demand and technology. In addition, high wage growth compared to

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<sup>11</sup> There are two sources of data on employment and unemployment - the labour force survey (LFS) and administrative sources. The latter refer to registered employment and unemployment. The primary source of data in the following analysis is the LFS, while the data from administrative sources are used to support and complement the LFS data. The LFS data are published by the Croatian Bureau of Statistics and by Eurostat.

<sup>12</sup> European Commission Spring 2007 Economic Forecast.

productivity growth in some periods (especially in the 1990s) and sectors (like industry) contributed to low employment.

The structure of employment by sector at the top level did not change much over the period 1998 to 2006. According to the LFS data, the share of the employed in industry (including mining, manufacturing, construction and utilities) decreased slightly from 29.8% to 28.5% and the share of the employed in services increased slightly from 53.5% to 54%. However, further disaggregation shows that the share of the employed in manufacturing decreased by 3 percentage points, while the share of the employed in construction increased by 1.8 percentage points. The increase in employment in services has been mainly concentrated in wholesale and retail trade, real estate trade, renting and business services, education, and other social and personal services. However, in comparison with the EU, Croatia still has a much lower share of services, particularly non-market services (education, public administration and social security, and other services). On the other hand, the share of employment in industry is one percentage point higher, and in agriculture is 12.4 percentage points higher than in the EU<sup>13</sup>. In that respect, Croatia is very similar to Poland and some other new EU Member States. However, it can be expected that further economic growth, particularly productivity growth in manufacturing together with shrinking of the agriculture share, will bring about a sectoral structure more like that in the EU, with a notably higher share of services.

The labour force survey data also show considerable growth of the private-sector share of employment in recent years, a consequence of both privatisation of state-owned firms and employment growth in the private establishments. The share of employment in the private sector increased from 53.8% in 1998 to 68.3% in 2006. This partly reflects the increase in the share of the self-employed from 18.5% to 22.5% (the share of unpaid family workers has been decreasing), but mostly the increase in the private-sector share of employees, which went up from 38.6% to 57.8%.

Most of the new jobs have been created within small and medium-sized enterprises. Their share in terms of total employment went up from 55.6% in 2001 to 59.3% in 2006.

It can be concluded that the Croatian population is ageing and that developments in labour force participation and particularly employment have been strongly affected by economic fluctuations, education and the pension reform. Meanwhile, services are playing a greater role in the structure of employment and the private-sector share of employment has been growing steadily. Most new jobs have been created in small and medium-sized enterprises. Despite a considerable increase of the employment rate in recent years, particularly among older persons, the overall employment rate is still significantly lower in comparison with the EU. The participation and employment rates of women and older persons should increase in the medium term, to offset the effects of the ageing of the population on the overall employment rate.

### **2.1.3 Unemployment**

The unemployment rate developments over recent years have largely been the opposite of the employment rate trends, reflecting changes in labour demand.

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<sup>13</sup> A reason for the high level of employment in agriculture might be that disadvantaged groups use the subsistence economy as a coping strategy.

According to the national labour force survey, the unemployment rate of the population aged 15+ decreased from 16.1% in 2000 to 11.2% in 2006. Registered unemployment moved in the same direction, particularly in 2006 when the number of the unemployed decreased by 5.5%. Furthermore, both the LFS unemployment rate and registered unemployment continued to fall in 2007. The unemployment rate is expected to steadily decrease in the coming years<sup>14</sup>.

The trend in the unemployment rate of various age and sex groups was similar. The unemployment rate of men in the prime age group of 25-49 decreased from 13.4% in 2000 to 8.2% in 2006. The unemployment rate of females in the same age group also decreased, from 15.4% in 2000 to 13.3% in 2006. The unemployment rate of the younger population (age 15-24) fell steeply – from 41.5% in 2001 to 28.9% in 2006 – reflecting the relatively small numerator in the youth unemployment rate.

Croatia remains above the EU average on basically all indicators of unemployment. The share of the unemployed in the labour force aged 15-64 in Croatia in 2006 was 11.5% while in the European Union it was 8.3%. Eurostat data show that the share of the long-term (a year or more) unemployed in the total labour force amounted to 7.6% in Croatia compared with 4.1% in the EU. The share of the long-term unemployed in the total number of the unemployed was 58.9% in Croatia versus 45.3% in the EU and this difference was larger for women than for men. Additionally, more than 40% of the unemployed are out of work for more than two years. Detailed data on registered unemployment show that long-term unemployment is related to the level of education. For example, 65% of the unemployed with completed basic education have been unemployed for a year or more, while the figure for the unemployed with tertiary education is 40.6%. The long-term unemployed are also more prevalent among older persons. Eurostat data show that their share among the unemployed aged 25-49 was 61.6%, while among the unemployed aged 50-64 it was 76.4%. The figures for the EU are 47.1% and 61.3% respectively. Data on registered unemployment confirm that the share of the long-term unemployed is higher among older persons. The flow analysis shows that older persons tend to leave the unemployment register later than the younger ones, even with the same level of education. It seems that their skills are obsolete and unsuited to new labour market demands. Additionally, the human capital of people who become unemployed is liable to depreciate if it is not kept up to date during the unemployment spell.

Regarding youth unemployment, the share of the unemployed in the total youth population (the youth unemployment ratio) amounted to 12.3% in Croatia and 8.4% in the EU in 2005. While the Croatian youth unemployment levels remain significantly higher than the EU average, the recent trend has been more positive in Croatia. The youth unemployment ratio has been steadily declining in Croatia, from 14.4% in 2002 to 12.3% in 2005, whereas the ratio has been constant in EU-25 for the same period. The data on outflow from registered unemployment show that young persons with no previous work experience have difficulties in finding a job. However, young people with initial work experience find a job much more easily. To have initial work experience is particularly important for the employment chances of unemployed young persons with basic or secondary education.

Generally, the unemployment rate in Croatia strongly responds to employment rate fluctuations. Although the unemployment rate has been decreasing in recent years, the level of unemployment in Croatia is still relatively high. The problems of long-term

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<sup>14</sup> European Commission Spring 2007 Economic Forecast.

unemployment and youth unemployment are particularly pronounced. Long-term unemployment is more prevalent among less educated and older unemployed persons, while youth unemployment is connected with the lack of initial work experience. Both further reduction of the overall unemployment rate and reduction of those particular problems are priorities for the next period.

## **2.2 Quality and productivity at work**

### **2.2.1 Wages and productivity**

Overall real wage growth has been moderate in comparison to productivity growth in recent years. Over the period from 2000 to 2006, the average real gross wage (i.e. the nominal wage deflated by implicit GDP deflator) in firms and institutions increased by 12.1%, while real GDP per worker increased by 20.9%. In other words, real unit costs significantly decreased. That is in contrast to the 1990s, when real wage growth was much higher than productivity growth. It is very likely that relatively moderate real wage growth in recent years contributed positively to registered employment, which increased by 9.5% over the above-mentioned period.

Despite significant productivity growth (at the annualised rate of around 3.2%), Croatia still lags behind the EU. According to Eurostat estimates, GDP per worker in Croatia in 2006 was 59.3% of the EU average. However, that was an improvement of almost 10 percentage points in comparison to the year 2000. In other words, a process of convergence of productivity levels has been taking place. It should be mentioned that productivity convergence by technology absorption can probably be accelerated by greater investment in education, particularly in the technology sector of higher education.

Regarding economic sectors, productivity growth (measured by change in real value added per worker) in broad industry (including mining, manufacturing and utilities) was strong (4.6% a year) over the period 2000-2006, reflecting post-recession recovery as well as technological improvement and capital accumulation. Productivity growth in industry has not brought more employment, but it has provided a basis for the expansion of employment in the service sector. Productivity growth has been even stronger in the transportation and telecommunications sector (6.4%), influenced by the spreading of new telecom technologies. It also seems that large hypermarkets and shopping malls have brought significant productivity growth in the wholesale and retail trade sector (5.9%).

Annualised nominal wage growth in firms and institutions over the period 2000-2006 was particularly high in construction (7.3%), reflecting the influence of a strong recovery and large public orders, but it was also relatively high in manufacturing (6.6%), wholesale and retail trade (6.6%), and other market sectors. Nominal wage growth in all market sectors has been significantly lower than the growth of nominal value added per worker, thus contributing to lower real unit labour costs.

Nominal wage growth was much lower in the public sectors than in the market sectors. It amounted to 4% a year in education, 3.4% in health care and social welfare, and only 1.5% in the sector comprising public administration, national defence and social security. However, it seems that government wage policy will bring more pronounced wage growth in the public sector in 2007. The average wage

in the public sectors is higher than in the market sectors, but that is mostly explained by a higher level of education of employees in the public sectors.

That raises the issue of wage growth by education level. Over the period 1999-2004 (more recent data are not available), net wages for most skill/education groups rose between 6% and 7%. In other words, relative wages have not changed much. For example, the average wage of non-manual workers with secondary education was 57% of the average wage of workers with university education both in 1999 and in 2004. The only exception has been the very large growth of the average wage of highly skilled manual workers (7.6%), particularly in manufacturing (8.4%), probably reflecting strong post-recession productivity growth. However, longer time-series of data are needed to identify trends regarding wage distribution by education.

It can be concluded that real wage growth in recent years was moderate in comparison to productivity growth, thus reducing real unit labour costs and contributing to employment. Productivity growth was significant, but it can be accelerated by greater investment in education. Wage differentials between education groups did not seem to change much. Wage growth was relatively higher in the market sectors than in the public sectors, but wage growth in the public sectors is expected to accelerate in 2007. Keeping overall wage growth moderate in comparison to productivity growth will be a main aim for the near future.

## 2.2.2 Flexible forms of employment

Fixed-term and part-time work represent two forms of employment, which help introduce more flexibility into the labour market, but also bring about an increased risk of labour market segmentation with flexibility only at the margin. The cost of these contractual arrangements could lie in reduced employment and income security, and poor career prospects, for the large group of workers involved. These concerns are common to both the EU and Croatia, and will need to be addressed.

The extent of **fixed-term** work in Croatia is similar to that of the EU. According to Eurostat's estimates, the overall share of fixed-term contracts in 2006 was 12.9% in Croatia compared with 14.9% in the EU. It seems that fixed-term contracts are equally distributed between men and women in Croatia, as is the case in the EU. However, data from the Croatian Employment Service show that most persons who leave the unemployment register are hired on a fixed-term contract. That is usually first-time jobseekers and other newly employed persons. Additionally it concerns seasonal employment, which accounts for a significant part of total employment, particularly in the coastal area of the country. It also seems that fixed-term contracts are mostly used in what is called the *de novo*<sup>15</sup> private sector<sup>16</sup>. A recent analysis suggests that fixed-term contracts in Croatia tend to be for very short periods (less than 6 months) and that it is mainly young people and low-skilled people who are in this type of employment, resulting in increasing segmentation of the labour market.<sup>17</sup>

**Part-time** employment is used to a lesser extent in Croatia than in EU-25. In 2006, part-time employment constituted 9.4% of total employment compared to 18.8% in the EU. As in the EU, part-time work tends to be predominantly a female

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<sup>15</sup> It is defined as newly established private companies and does not include the former public enterprises that have been privatised.

<sup>16</sup> Šošić, V.: Regulation and Flexibility of the Croatian Labour Market, June 2004.

<sup>17</sup> Cazes, S & Nesporova, A: Combining flexibility and security for employment and decent work in the western Balkans. South-East European Review for Labour and Social Affairs 2/2006. Hans Böchler Stiftung.

phenomenon in Croatia, albeit at lower absolute levels. The share of men in part-time employment is at the same level in Croatia and EU-25 (7.5% vs. 7.7%). In the EU 32.7% of employed women worked part-time in 2006, while in Croatia it was only 11.7%, but the share has been growing from 10.5% in 2002. The possibility to work part-time is a key factor in raising female employment. However, the growing demand for childcare services in Croatia is not met, which presents an obstacle to women's labour market participation. Another obstacle may lie in costs related to work, like transport and childcare, which could mean that the expected net return from part-time work is still too low<sup>18</sup>. On the other hand, it is necessary to be careful when analysing part-time work as approximately 20% of the women working part-time in the EU countries in 2005 and about 30% of the women working part-time in Croatia in 2006 would like to work full-time. The use of part-time workers can thus also lead to segmentation of the labour market.

Obstacles to use of part-time work also exist for employers through the way the social security and health insurance contributions are calculated. In Croatia, the lowest employer contributions are based on the minimum wage of a full-time employee and thus a part-time employee on a low wage becomes more expensive than a full-time employee.

In conclusion it can be said that the share of employees on fixed-term employment contracts is comparable to the EU and that type of employment is mainly prevalent among the newly employed. In contrast, the share of the employed working part-time, particularly women, is relatively low, and the reasons seem to be insufficient supply of childcare. Finding an effective way to increase part-time employment without decreasing full-time employment will be a part of the future employment policies. Further analysis of the reasons for the low share of part-time work could cast some light on the obstacles and possible solutions but also on the need for part-time work. As steps have only recently been taken to introduce more flexible working arrangements, it will be necessary to monitor the impact on employment and unemployment in order to analyse the risk of possible segmentation of the labour market.

### **2.2.3 Informal sector**

By its very nature, the size of the informal sector is difficult to estimate. Both defining the informal sector and selecting the method of its estimation are very difficult tasks. In addition, there are no estimates of the size of the informal sector in Croatia more recent than 2004. Some estimates for the period 1990-2000 based on indirect methods have shown an increase in the size of the informal sector in the early 1990s, due to war and hyperinflation, and then a decrease in the second half of the decade where it was estimated to be 10.4% of GDP<sup>19</sup>. Comparing the estimates for Croatia with those of the EU 15 and new Member States shows that the level of the informal economy in Croatia is significantly above the level estimated for most EU15 countries, where the level of the informal economy is in the range 1-6% except Greece (over 20%) and Italy (16-17%), but it compares relatively favourably with most of the new Member States, where most of the countries have informal

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<sup>18</sup> See also Joint Memorandum on Social Inclusion of the Republic of Croatia.

<sup>19</sup> Ott, K. (2002): The underground economy in Croatia. The measurement was based on the discrepancy in the national accounting, which uses the level of household consumption as estimate of income made but not reported.

employment in the range of 13-19% (e.g. Poland, Slovenia, Hungary to name a few).<sup>20</sup>

Also, analyses aimed at estimating the share of employment in the informal sector seem to suggest that this sector remains relatively stable. An analysis using 2002 LFS data estimated that informal employment in Croatia constituted 12%<sup>21</sup> of total employment. Other available analyses based on direct survey methods point to very similar results. In a survey<sup>22</sup> based on interviews carried out in 2004, it was found that 11% of Croatian citizens aged 15+ worked in the informal sector. In broad terms and bearing in mind the different definitions of informal sector applied, the above estimates would point to a relatively stable amount of employment in the informal economy in Croatia at a level around 11-12%. From the various estimations of the informal sector in Croatia it seems<sup>23</sup> that it is more pronounced in retail sales, construction and agriculture<sup>24</sup> but to a lesser extent in industry, and also that the tourist sector has a significant share of informally employed workers.

Analyses carried out in 2004 by Croatian government bodies responsible for monitoring the implementation of certain laws in Croatia support the research mentioned above as they show that the most common type of unregistered commercial activity is unregistered employment and sales of goods in the informal sector as well as underreporting of wages and salaries.

#### **2.2.4 Skill and educational structure of labour force**

In comparison to the EU, Croatia has a considerably lower share of highly skilled workers in the total number of the employed. The share of highly skilled non-manual workers (including managers, professionals and technicians) in 2005 was 38.6% in the EU, but only 28.4% in Croatia. Moreover, in this respect Croatia is seriously lagging behind even some transition countries. The fact that agriculture still accounts for a large share of the employed is one of the reasons for that. Another, more general reason is a low share of the highly educated. There has been some progress in recent years in the share of the employed with tertiary education - the LFS data show that the share has increased slightly from 17.2% in 1998 to 19.2% in 2006.

The level of education strongly affects labour force participation. According to Eurostat estimates for 2006, the activity rate of the Croatian population aged 25-54 with tertiary education was 93.9%, with upper secondary education 82.3%, and with lower than that 63.0%. In comparison, the respective rates for the EU were 92.3%, 86.1% and 74.1%. It is interesting that the activity rate of the highly educated is slightly higher in Croatia than in the EU.

A higher level of education is also related to a lower level of unemployment. The unemployment rate of persons aged 25-54 with tertiary education amounted to 5.4%, with upper secondary education 10.0%, and with lower than upper secondary 14.3%.<sup>25</sup> The respective rates for the EU were 4.1%, 7.4% and 10.7%. Again, the difference between Croatia and the EU in the unemployment rate of the highly

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<sup>20</sup> Undeclared work in the European Union; European Commission, DG Employment and Social Affairs; May 2004; pp 105-139.

<sup>21</sup> Šošić, V. (2004): Regulation and Flexibility of the Croatian Labour Market.

<sup>22</sup> ETF Country Analysis 2006, Croatia.

<sup>23</sup> No official estimates are available.

<sup>24</sup> Mainly explained through the above-mentioned existence of subsistence economy.

<sup>25</sup> The unemployment rate is calculated from the employment rate and the activity rate.

educated is not large. Thus the lack of education puts an individual member of the labour force at a serious disadvantage on the labour market both in Croatia and in the EU, but the impact of education on an individual's labour market position is much stronger in Croatia than in the EU.

The differences in the unemployment rate between labour force groups with different levels of education reflect mostly a mismatch between the skill structure of labour supply and the skill structure of labour demand. The share of the less educated in overall labour supply is much higher than their share in overall labour demand. Thus the relative unemployment rate of the less educated can be reduced by the shrinking of their share in overall labour supply. In other words, the share of the highly educated in labour supply needs to be increased in order to improve the labour market position of the less educated.

Another form of mismatch is the differences in the labour market position among members of different occupations at the same level of education. An analysis of the flow from registered unemployment to registered employment indicates that such differences exist and that they are in some cases large, both at the upper secondary and at the tertiary level of education. Persons educated for some occupations (and those with only general education) leave the register much later than persons educated for some other occupations. For example, graduates in information technology, pharmacy, engineering, construction and some other technological subjects seem to find a job much sooner than graduates in subjects like sociology, political sciences, social work and journalism. However, a more precise statistical picture and forecast of this form of mismatch at the level of local labour markets is needed, based on more accurate, reliable and comprehensive databases.

It can be concluded that Croatia has a relatively low share of highly educated and skilled workers, and that progress in that respect has been rather slow. Regarding the population in general, highly educated groups tend to have higher activity rates and lower unemployment rates. A difference in the unemployment rate reflects a form of skill mismatch between labour supply and labour demand, which needs to be addressed through efforts to increase the general educational attainment of the workforce. Large differences in labour market position among occupations at the same level of education constitute another form of skill mismatch. One of the most important tasks will be to precisely identify and forecast those differences, and to find and implement appropriate measures to reduce them.

### **2.2.5 Equal opportunities**

According to Eurostat's data, the difference between the employment rate of men aged 15-64 and the employment rate of women of the same age in 2006 amounted to 11.2 percentage points in Croatia. This compares quite favourably to the EU average of 14.7 percentage points. The difference between the sexes in full-time equivalent employment in the EU is even larger than indicated because the share of women employed part-time is much lower in Croatia than in the EU.

Regarding the structure of employment by occupation in Croatia, the share of employed women in highly skilled occupations is similar to the share for men, as is the case in the EU too. Among the less skilled, women are employed more in non-manual occupations. Sectoral analysis shows that a larger share of employed women work in the expanding service sector both in Croatia and the EU.

According to LFS estimates in the first half of 2006, there were 202,000 self-employed men and 120,000 self-employed women. In other words, women tend to be more in dependent employment. In addition, 28,000 women worked as helpers of family members, in contrast to only 8,000 men.

Gender disparities exist also in terms of earnings. The average gross wage paid based on legal persons (i.e. firms and institutions) in 2005 for men was 11.5% higher than the average wage for women. This gap is, however, small in comparison with the EU, where full-time working women are paid less than 80% of male wages<sup>26 27</sup>. Although part of the difference is explained by the difference in the number of hours worked and differences in the characteristics of jobs, sectors and human capital, precise measurements of those factors are not available and more research would be needed to establish the relative weight of different factors behind the existing wage gap in Croatia.

Education level also has an impact on the relative employment rates of women. The difference between men and women in the employment rate declines with the level of education. According to Eurostat, the difference between the employment rates of men and women aged 25-54 in 2006 was 19.8 percentage points at the level of basic education (65.5% for men, 45.7% for women), 10.6 percentage points at the upper secondary level of education (79.0% for men, 68.4% for women), and 1.7 percentage points at the tertiary level of education (89.7% for men, 88.0% for women). In comparison, the respective figures for the EU were 27.3, 14.2 and 7.8 percentage points. In addition, the data show that women in the 25-49 age group with no more than upper secondary education have a much higher unemployment rate than men and than women with tertiary education.

In this respect, it is interesting to note that women in Croatia achieve higher tertiary education attainment in comparison with men. According to the 2006 LFS estimates, the share of persons with tertiary education in the male population aged 25-39 was 13.0%, while the share for women amounted to 20.2%. Moreover, the difference is expected to grow further as the number of female graduates from tertiary education is much higher than the number of male graduates. For example the number of male graduates in 2006 was 7,972, while the number of females was 11,594, almost 45% more.

To summarise, the employment rate of women in Croatia is lower than that of men, but the difference is smaller than in the EU. Similar shares of the employed of both sexes work in highly skilled occupations, while women work more in non-manual occupations, in services and in dependent employment. Wage disparities exist between men and women in Croatia, but the wage differential seems lower than the EU average. The sex difference in the employment rate disappears with higher education. In addition, there is a greater number of highly educated women, particularly younger ones, than men, and also the number of graduates is much higher for women than for men. Education policy thus strongly affects the labour market position of women. Measures to increase the number of higher education graduates even further, together with the enlargement of the service sector, will

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<sup>26</sup> Employment in Europe 2005 pp.175-176.

<sup>27</sup> The comparison is based on data on wages in firms and institutions not including small trades and does not include working hours in Croatia. Therefore, it is necessary to be cautious making the comparison. But it shows that there is a tendency for Croatia to have a lower wage gap.

increase the employment rate and earnings of women, and thus should reduce the difference between the sexes further.

## **2.2.6 Health and safety at work**

The total number of injuries at work in 2006 was 24,932 (17,656 men and 7,276 women). The number of working days lost as a result of injuries at work was 1,110,208. The number of injuries per 1000 employees is more stable for the period as a whole and is in the neighbourhood of 17-18.

Looking at the trends between the years (using index with 1998=100), the actual number of injuries at work has been increasing since 2003 by at least 8%, whereas between 1998 and 2002 the numbers were decreasing<sup>28</sup>.

The highest number of injuries relating to the number of employed persons was in construction, forestry and shipbuilding. For 2006 injuries in construction accounted for 11.1% of the total number of injuries. For forestry it was 2% of the total number of injuries. In most cases the injuries were caused by working procedures which did not conform to the rules set out in the Law on Occupational Safety and Health. Heavy injuries constituted 4.6% of the total number of injuries for that year. The highest number of heavy injuries occurred in industry.

Fatal injuries at work and work-related deaths are in general very low in number (under 50 persons per year for fatal injuries and fewer than 70 for work-related deaths), which means that even small changes in the numbers will have a big impact on the trends. It seems that for both types of incidents the number is more or less stable throughout the whole period. Breaking down the number of fatal injuries into sectors in 2006 shows that 50% were in construction.

The number of occupational diseases decreased in the period 1998-2006, with 2003 and 2004 being exceptions where there was a substantial increase, but in 2005 they returned to the level of 2002. According to a report from the Croatian Medicine Institute for Occupational Disease, only 43 cases were reported in 2006 (30 men and 13 women). The Institute is of the opinion that only 25% of occupational diseases are reported. This shortcoming is believed to be due to lack of awareness and some confusion about which institute to report to.

The indices for serious accidents in total and fatal accidents at work in total in EU-25 both decreased between 1998 and 2004<sup>29</sup>. Comparing the indices for fatal accidents at work between EU-25 and Croatia shows that Croatia has a rising trend compared to the EU's negative trend. As the numbers in Croatia are very low, even small changes will have a big impact on the trend. The same is not the case for EU-25. This makes comparison for fatal accidents difficult. The main conclusion is that the index for this type of accident is fluctuating but that the level is low.

The number of injuries in Croatia can be compared to serious accidents in EU-25, where the trend since 2003 has been rising in Croatia but has been decreasing in EU-25.

The field of health and safety at work has been covered by law and monitored since 1996 and a substantial amount of statistics exists. The total number of injuries has

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<sup>28</sup> Increase or decrease in the reporting of injuries related to occupations in one year is not necessarily linked to higher number of accidents but more to the fact that people do report.

<sup>29</sup> Latest available year from Eurostat.

increased since 2003 but the ratio of injuries per 1000 employed persons has remained stable. It is estimated that only 25% of occupational diseases are reported. The area needs further monitoring and more analysis is necessary with regard to general trends in the number of injuries. Attention should also be paid to awareness-raising and clear rules for reporting.

## **2.3 Social and territorial cohesion**

### **2.3.1 Vulnerable and disadvantaged groups**

Certain groups such as persons with care duties and labour market outsiders (people with disabilities, young people without previous working experience, or the elderly) are vulnerable to exclusion from the labour market. National and ethnic minorities are facing difficulties getting access to employment as highlighted in recent reports<sup>30</sup>.

There are no comprehensive, recent and readily available statistical data on the labour market position of various vulnerable groups, which makes designing adequate and effective policy responses to this issue extremely difficult.

Members of the Serb minority, including those who remained in Croatia during the war, face major difficulties concerning access to employment, especially in the war-affected areas. According to the European Commission's 2007 Progress Report, discrimination continues particularly in the public sector<sup>31</sup>.

Although Croatia does not have a large **Roma** community, its members face the same sort of problems as those in many other European countries. According to the 2001 census, 0.2% of the total population in Croatia were ethnic Roma persons, although their number is 3 to 4 times larger according to estimates by the Council of Europe. One factor explaining the discrepancy in the figures could be the reluctance of Roma to have their ethnic origin publicly recorded for fear of discrimination.

Roma often suffer from poverty, low levels of education and exclusion from formal work (high unemployment), and many of them perform their economic activities in the shadow economy. Roma continue to face discrimination and prejudice on the part of the majority population, for example in employment, education and housing. On the other hand, particular Roma cultural traditions and practices also contribute to their social exclusion.<sup>32</sup> A particularly large obstacle to the improvement of the Roma position in the labour market seems to be the lack of motivation for prolonged education.

According to the 2001 census, 9.7% of the population in Croatia had **disabilities**, with 70% of that group being older than 50 and 10% related to the Homeland War. People with disabilities encounter great difficulties in finding employment even though the law guarantees them the right to professional rehabilitation and training for an appropriate job. At the end of 2006, people with disabilities made up 2% of all the unemployed<sup>33</sup>.

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<sup>30</sup> "Human Development Report Croatia, 2006: Unplugged: Faces of Social Exclusion in Croatia" by UNDP, Croatia Progress Report 2007 by European Commission, and "Croatia: A decade of disappointment continuing obstacles to the reintegration of Serb returnees" by Human Rights Watch, September 2006.

<sup>31</sup> European Commission's Croatia 2007 Progress Report, p.13

<sup>32</sup> Joint Memorandum on Social Inclusion of the Republic of Croatia, section 4.4.3.

<sup>33</sup> The issue of people with disabilities will be addressed further in chapter 3.

According to the last review of the register, there are nearly half a million persons with the recognised status of a homeland defender (**war veteran**). In other words, war veterans make up a large part of the adult population, particularly male. The number of war veterans who are registered as unemployed has decreased significantly over the years. It dropped from 45,225 in 1997 to 26,770 in 2005 and to 24,721 in 2006, which is an overall fall of 45.3%. The unemployment rate of the war veterans has not fluctuated since 2002 and follows the trend in unemployment in general. Many of them have quite a low level of education – 38% completed only elementary education or less, and 43% completed only shorter vocational education. This is mostly inadequate for the requirements of today's labour market. This group will therefore need special attention together with the other vulnerable groups indicated above.

It is clear that addressing the position of the vulnerable groups in the Croatian labour market remains a challenge for the coming years. Especially the inclusion of the national and ethnic minorities in Croatia will require special efforts. The means to address this have to be effective and stigmatisation of beneficiaries must be avoided.

### **2.3.2 Regional disparities**

Croatia is administratively divided into 21 counties. Some of them have a relatively large population and others have a relatively small population. The City of Zagreb, which has the status of a county, had nearly 780,000 inhabitants in 2001, while the County of Lika-Senj had only about 54,000. Moreover, the City of Zagreb and the County of Zagreb together make a relatively strongly interconnected metropolitan area with more than a million inhabitants, many of whom regularly commute to a job or to school. Daily commuters in the County of Zagreb make up 36% of the population aged 10+. In contrast, in some smaller counties with relatively large territories, because of their very nature as sparsely populated agricultural areas, there is not much commuting within them. For example, in the County of Lika-Senj only 10% of the population commute daily.

In addition to usual migration patterns, severe disruption caused by war and its consequences in the 1990s has impacted on migration of the population between Croatia's counties as well as on migration from and to other countries. Thus net migration has contributed to population changes in counties. There were only four counties out of 21 in which a population increase was recorded over the period 1991-2001, and of those only the County of Zagreb saw a significant increase. In all other counties the population shrank, considerably in some of them, like in those hit by the war.

Some counties are more rural, with a significant part of the population engaged in agriculture, while others are more urban. For example, the share of individual farmers or helping family members in the male population of working age ranges from almost 18% in the County of Bjelovar-Bilogora to 0.4% in the City of Zagreb. Some counties in the coastal area have been (re)developing their sectoral structure on the basis of natural and other resources for seasonal tourism. On the other hand, there are some inland towns in which old devalued industry capacities still prevail and in which investment in different physical capital has been insufficient to significantly change the sectoral structure of a local economy, mostly due to the war disruption and its consequences. However, the sectoral structure (and output) of a local economy within some counties has been rapidly changing thanks to improved infrastructure in

general and transportation infrastructure in particular (new motorways and roads), and expanding entrepreneurial zones, which have brought new private investment in physical capital.

There are big differences among counties regarding the education level of the population. In the counties in the central and eastern parts of Croatia the share of low-skilled people is higher than in the rest of Croatia (40% vs. 25%). According to 2001 Census data, the share of the population with tertiary education was four times higher in the City of Zagreb than in the County of Krapina-Zagorje. The share of the highly educated is strongly correlated with non-agricultural employment, particularly among women, even after controlling for the employment rate of the population with secondary education. That correlation confirms the assumption that education strongly affects labour market participation, especially of women. The share of the highly educated among the employed also explains some of the differences in the average wage among counties. The average wage of male workers in the County of Medjmurje amounts to two thirds of the average wage in the City of Zagreb. Additionally, the overall average wage in the City of Zagreb is 20% higher than the national average<sup>34</sup>. The lowest earnings seem to be in the central and eastern parts of Croatia.

The level of employment and the average productivity of labour together determine the level of GDP per capita. According to 2004 estimates, GDP per capita in the City of Zagreb was more than three times that in the counties Vukovar-Sirmium and Slavonski Brod-Posavina.

In March 2007, the registered unemployment rate ranged from 7.2% in the City of Zagreb and 8.9% in Istria, to 33.1% in the County of Vukovar-Sirmium, which is the county that suffered most during the war. A high level of unemployment reflects a low level of labour demand due to low quantity (value) of physical capital and natural resources per member of working-age population. In addition, insufficient wage flexibility turns low labour demand into high unemployment. Although the differences seem to be persistent, the unemployment rate in some counties, particularly coastal, has lately been reduced more than in others.

There are large disparities among counties regarding employment, unemployment, average wage and output per capita. Most of them reflect differences in the quantity and structure of physical capital, human capital and natural resources. Investment in infrastructure and other forms of physical capital has brought structural changes within some counties. Although higher investment can raise the level of development of a region, development disparities among regions will be very hard to reduce because that would require different rates of investment, higher in the less developed regions. To achieve that is a rather challenging task.

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<sup>34</sup> Luo, X.: Regional disparities in labour market performance in Croatia: The role of individual and regional structural characteristics. World Bank Research Paper 4148, March 2007.

### **3. EMPLOYMENT POLICIES: SITUATION, DEVELOPMENTS AND PRIORITIES**

#### ***3.1 Human resources development***

##### **3.1.1 Pre-school and basic education**

Enrolment in pre-school<sup>35</sup> facilities is not only important for children's development, but also represents a key factor influencing labour market participation of their mothers. In 2006, there were 596 pre-school institutions, mostly founded and subsidised by local governments. Nearly 98,000 children were included in regular kindergarten care. It is estimated that about 43% of children are included in pre-school facilities.

By the age of six, children are enrolled in compulsory basic education at the primary and lower secondary level (ISCED 1 & 2), which lasts eight years in total. The number of pupils enrolled in basic education has been steadily falling in the last ten years, reflecting the decreasing size of the young population. It fell from 423,165 in the school year 1997/98 to 387,952 in 2005/06. In this year 95% of all children were enrolled in basic education. Over the same period, the number of teachers increased from 26,199 to 29,420, thus implying a decrease in the pupils/teachers ratio in total basic education from 16.2 to 13.2. In special education the ratio is about 3. In addition, the average class size in regular education decreased from 22.9 pupils in 1997/98 to 21 pupils in 2005/06.

The Croatian National Educational Standard (CNES) was created as a basis for the changes in the teaching programme and work methods in basic education. The goal is to develop the "school tailored to pupils" where their workload is reduced and redundant programmes are abandoned, and by introducing modern teaching methods where the pupils are working both on an individual and a group basis interchangeably based on research-like activities, and applicable knowledge and skills. The CNES was experimentally introduced in 5% of elementary schools in the school year 2005/06. After evaluation of the effects, the CNES was introduced in all elementary schools in 2006/07.

On the other hand, material conditions in basic education are still not satisfactory. For example, too many elementary schools, nearly two thirds of them, have more than one shift and many do not have the option of full-day attendance. In addition, in many EU Member States the basic education lasts nine years and in the neighbouring countries basic education has been increased or decisions have been taken to increase it to nine years. In this respect, the eight years of basic education might in the future no longer be sufficient.

In conclusion, one can say that the enrolment in basic education, the pupils/teachers ratio, and the average class size has been decreasing in recent years. A reform of the curriculum has reduced the pupils' workload and modernised teaching methods. Regarding material conditions, a main priority is to increase the number of schools with one shift and with the option of full-day attendance. Also, the enrolment of children in kindergartens and pre-school activities need to be increased. That will

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<sup>35</sup> The age of pre-school children is 1-5 years

contribute not only to the quality of education, but also to the labour force participation of mothers with (pre-)school children.

### **3.1.2 Upper secondary education**

After completing their compulsory basic education, pupils can choose between vocational schools, art schools and grammar schools, so-called gymnasiums, at the upper secondary level. Gymnasium programmes prepare for tertiary education, while vocational programmes prepare for the labour market and some of them prepare for tertiary education too. General education programmes last four years, while vocational programmes last four or three years or less. Most of the vocational programmes that last four years are called technical programmes.

The total number of pupils enrolled in upper secondary education decreased by 5.1% between the school years 1997/98 and 2005/06 due to demographic developments. However, within this overall trend, there have been strongly differentiated sub-trends. While the number of those enrolled in gymnasiums has increased by 4.3% and the number enrolled in 4-year technical programmes has increased by 7.2%, the number enrolled in 3-year vocational programmes for industry and crafts has decreased by 27.6%. Of all students at the beginning of the school year 2005/06, 44.5% of them were in 4-year technical programmes, 25% in 3-year vocational programmes, 2.5% in art schools, 27% in grammar schools and 0.9% in special schools.

The number of graduates from 3-year vocational programmes decreased by 29.3% between 1997 and 2005, while the number of graduates from 4-year technical programmes increased by 10.6%. The ratio of graduates at the end of the school year 2004/05 to students enrolled in the first grade in 2001/02 in 4-year technical programmes amounted to 88.5%, while the ratio of graduates in 2004/05 to students enrolled in the first grade in 3-year vocational programmes in 2002/03 amounted to 80.4%. In comparison, the graduation ratio in grammar schools amounted to 96.2%. However, those figures are only approximate indicators of the graduation ratio because of students repeating the grade and because of students who completed programmes of shorter duration. More accurate and reliable indicators, based on comprehensive administrative databases, are needed.

According to Eurostat LFS data the problem of early school leavers does not seem to be more pronounced in Croatia than in the EU, which is also supported by the fact that the early school leavers in the population aged 18 to 24 in 2006 is estimated to be 15.1% in the EU but only 5.3% in Croatia. However, that share may be underestimated. An analysis of administrative data by the Ministry of Science, Education and Sports shows that 15.6% of children do not enrol in or drop out from upper secondary education. For that reason and for reasons of social cohesion and inclusion, the Croatian government takes action to decrease their share further, e.g. the provision of free school books, transportation and lodging in students' dormitories.

In Croatia there was and to some extent still is an excessive specialisation in vocational education, particularly in three-year programmes, which is a remnant of the previous system. This was significantly reduced recently and the number of vocational programmes was reduced from 330 to 199. The final goal is to reduce their number to approximately 150.

The current development of upper secondary education in general and vocational education in particular is based on the priorities and goals set out in the Education Development Plan 2005-2010.

Many schools are operating in two shifts, which can be prejudicial to educational quality. In order to modernise vocational education and make it more suited to the needs of the labour market, the Agency for Vocational Education was established in 2005. The Agency developed a strategic framework for the vocational education reform. The main activities were designed to connect education with labour market and local community needs. It helped to establish sectoral councils based on partnership relations, which work on different tasks such as occupational standards, defining qualifications, results of learning and modern curriculum. The Agency carried out a labour market analysis and a training needs analysis for teachers in vocational programmes and schools, and developed a pilot methodology for modern VET curriculum based on results of learning and competencies. It also contributed to the development of the National Qualifications Framework (NQF) which will be compatible with the European counterpart. The starting document was accepted by the Croatian government in June 2007, and the Ministry of Science, Education and Sport is responsible for developing the NQF in partnership with many stakeholders.

The Council for National Curriculum was established to work on the national curriculum development strategy, and it has proposed the first draft. The strategy will cover the curriculum for both basic and upper secondary education. The final goal is to achieve a modern national curriculum which would promote the acquisition of skills needed in a knowledge-based economy.

Furthermore, the Sectoral Councils, which will enable employers to influence the curriculum of vocational schools, were established within the framework of the CARDS projects. Other recently established bodies also initiated within a CARDS project are the "Local Partnerships for Employment", which will enable employers' associations, local governments and development agencies, offices of the Employment Service and other stakeholders to influence school enrolment policy at the local level. Their activity is expected to help in reducing mismatch between the occupational structures of labour supply and demand. However, regional coverage by both the Sectoral Councils and Local Partnerships has to be expanded and their activities and functioning more firmly anchored in the overall institutional structure. It should be mentioned that the influence of local stakeholders on education is also supported by decentralised financing of (basic and) upper secondary education.

To conclude, the overall number of students in vocational education has decreased for demographic reasons, but enrolment in 4-year programmes has increased. The institutional basis for modernisation of vocational education and its adjustment to labour market needs has been set up. One of the priorities is to prolong compulsory education and to increase the share of graduates for reasons of stronger social inclusion and cohesion. On the other hand, further concrete steps have to be taken towards adjustment of vocational education to the needs of the labour market.

### **3.1.3 Tertiary education**

At the beginning of the school year 2006/07, there were 136,129 students enrolled in tertiary education (ISCED level 5), with two thirds of them in university study (ISCED 5A) and one third in vocational study (ISCED 5B). In addition to universities, tertiary

education, particularly vocational study, is provided by polytechnics and schools of higher education.

The number of students in tertiary education increased by 51% between the school years 1997/98 and 2006/07. That is a considerable increase in the relative participation in tertiary education, and it has probably brought Croatia closer to the EU average. Eurostat's data for 2004 (more recent data are not available) show that the participation of 20-year-olds in tertiary education (ISCED levels 5-6) in Croatia (35%) was similar to the EU (34.3%). However, the participation of 22- and 24-year-olds in Croatia (23% and 9.9%, respectively) was significantly lower than in the EU (28.9% and 19.1%). Eurostat's estimates show that in 2004 the median age of students in the EU was 22.1 but only 20.5 in Croatia, which indicates that the student population is younger in Croatia.

The rise in enrolment was matched by an increase in the resources available to the higher education sector. The budget for higher education has been increased by 46.4% since 2003. In the same period the government has financed loans worth over 220 million euro for the construction of new university campuses and has established 1280 new positions for researchers. The increase in the number of researchers means that the number of teachers has increased as well, as the researchers are teaching part-time. Between the school years 1997/98 and 2006/07, the number of teachers increased by 109%. The number of teachers with high qualifications has also increased, e.g. the number of teachers with a doctorate is 66% higher.

The number of graduates at ISCED level 5 increased by almost 71% between 1997 and 2006, which probably brought Croatia closer to the EU average. However, the graduation ratio does not seem satisfactory. There are no exact data, but it is estimated that only around 55% to 60% of the students complete their education, and some estimates are even lower. To accurately identify the overall graduation ratio and the graduation ratio by field and type of study, a comprehensive database on students and graduates is necessary. That will become even more important with the new form of three-cycle higher education introduced by the Bologna process reform.

The structure of graduates by subject is also not satisfactory. The share of graduates in subjects particularly important for modern technology absorption and development is low. For example, in 2004, according to Eurostat's data, the share of graduates (ISCED 5-6) in science, mathematics and computing was 10.5% in the EU but only 5.6% in Croatia. The share of graduates in engineering, manufacturing and construction was just slightly lower in Croatia (12.3%) than in the EU (13.1%), but their good position in the labour market implies a need for it to be increased. They are also needed for faster productivity growth in manufacturing as a key component of economic growth. However, assessments of the current and future labour market position of particular graduates by field of study, and particular policy measures based on those assessments, should be based on precise statistical analysis of data from comprehensive, reliable and mutually linked databases, as well as on consultations with all the systemic stakeholders.

The share of the highly educated in the population, particularly younger, is growing, but it seems that Croatia is still far behind the EU. According to Eurostat's estimates, the share of population aged 25-39 with completed tertiary education in Croatia amounted to 16.5% in 2006, while in the EU-25 it was 28.6%. A realistic and comparable goal as regards the share of the highly educated in the younger population should be set up and its attainment monitored.

Croatia signed the Bologna Declaration in 2001 and, since 2003, it has been involved in an intensive reform of its higher education system in line with its national needs and European standards. New laws on higher education, incorporating the Bologna Declaration principles, have been adopted. In December 2004, five ordinances covering the field of higher education were adopted. They regulate establishment of higher education institutions, measures and criteria for evaluating the quality and efficiency of institutions and study programmes, the content of student databases, and the content of student documents and diplomas. During this period the Agency for Science and Higher Education and the National Council for Higher Education, two independent bodies that oversee the development and quality of the higher education system, were established. The first phase of the Bologna process was completed in 2005. An evaluation of about 800 undergraduate and graduate programmes was carried out, and the evaluation of postgraduate programmes began at the end of 2005. The first phase of the Bologna process also included the establishment of a quality assurance system. The Agency for Science and Higher Education will perform the evaluation of the quality assurance system and units at higher education institutions. Finally, the Bologna process has introduced new educational levels which need to be recognised by employers. The new Act on the Academic and Professional Titles that is currently being drafted will regulate the issue of coordinating the new and old academic titles.

To conclude, the analysis shows that the number of students and graduates in tertiary education has grown strongly in recent years. The participation rate is relatively high but the graduation ratio seems to be low and the structure of graduates is not satisfactory. In order to increase the quality and efficiency of tertiary education, a major reform has taken place under the Bologna process. In addition to the continuation of the reform, there are several policy priorities of particular relevance for the labour market: to increase the number of higher education institutions in less developed regions, particularly polytechnics and schools of vocational higher education; to significantly increase the number of graduates; and to increase enrolment in technological study programmes. Finally, a comprehensive and reliable database on students and graduates, at both tertiary and lower levels, is an indispensable basis for statistical analysis and information, and its construction and development, which is already taking place, is given high priority.

### **3.1.4 Adult education and training**

At the beginning of the school year 2005/06, there were 44 public schools and 21 private schools providing adult vocational education and training. There were 3,753 adult students in public schools and 1,128 in private schools. Adult education and training is also provided by the 437 people's universities that are traditional institutions which offer various programmes of adult education mostly at the upper secondary level. Finally, there are private firms which offer courses in foreign languages, informatics, etc<sup>36</sup>.

A programme called the "Decade of Literacy" started in 2003, offering literacy and elementary occupation education to adults. Around 3,000 persons were participating by September 2006. The programme was organised and financed by the Ministry of Science, Education and Sport, and also many local governments had similar programmes.

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<sup>36</sup> Comprehensive data for people's universities and private firms is not available

According to Eurostat's estimates based on the LFS data, the share of population aged 25 to 64 participating in formal and informal education and training in spring 2005 was 11% in the EU, but only 2.3% in Croatia. Although those estimates are probably not wholly accurate, and maybe underestimate the true size of adult participation in education and training, they indicate a large gap.

The Commission for Adult Education was established, and it drafted the Strategy for Adult Education in 2004. The strategy addresses individual learning needs as well as those of society in general and the labour market in particular, and it creates legal and professional prerequisites for establishing adult education as an integral part of the education system. The overall objectives are to expand and develop lifelong learning where a system of adult education offering equal opportunities and quality learning is essential. In addition, yearly action plans have been adopted, and the Council for Adult Education and the Agency for Adult Education were established in 2006. The Agency has the task of monitoring, regulating and developing adult education activities. Finally, the Law on Adult Education was adopted in February 2007.

In 1995 the Law on Value Added Tax was introduced, with the result that VAT was levied on the adult learning institutions. Thus the prices for the courses can be relatively high and become an obstacle to participation in these types of courses, especially if participation is on the employee's own initiative.

Formal education and training of adults takes place in public and private schools, popular learning facilities and private educational firms. Complete data on those activities are missing, but estimated overall participation of adults in formal and informal education seems to be relatively low. A new institutional and legal framework for expansion of adult education was set up. However, further strengthening of the recently established institutions is necessary to enable them to function effectively and to develop models of adult education and its financing which will satisfy both needs of an individual and needs of the labour market. In general, the development of an integrated Lifelong Learning strategy is important.

## **3.2 Wages, taxes and benefits**

### **3.2.1 Wage formation**

Collective bargaining is regulated by the Labour Law that came into force in 2003<sup>37</sup>. It takes place at firm and branch level. There are 35 branch-level employer associations and 254 branch-level union associations. It is estimated that between 50% and 60% of the employed are covered by collective contracts. However, the coverage is much higher in the public sector than in the private sector.

Wages and other workers' rights in the government administration are regulated by the Collective Agreement for Government Officials and Clerks, while wages in the public services are regulated by the Fundamental Collective Agreement for Public Officials and Clerks and by separate branch collective agreements (education (by level), social welfare, culture, health care). Government and public officials and clerks are completely covered by collective agreements.

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<sup>37</sup> See section 3.4.1 for further description

The minimum wage is regulated by the Collective Agreement on the Minimum Wage and now covers all employers. The level of the minimum wage is tied to the minimum base for social security contributions. In 2006, the amount of the minimum wage was nearly 2,170 kunas (approximately EUR 295), equivalent to approximately one third of the average gross wage. The amount increased by 6% for 2007.

Collective bargaining takes place at firm and branch level. More than half of all employees are covered by collective agreements, whereas all government and public officials and clerks are covered by them. Future activities will be oriented towards the conclusion of a common agreement. The minimum wage has been relatively low, but any increases are likely to be moderate in order to avoid negative effects on the employment of low-skilled workers, particularly in less developed regions and low-wage sectors.

### **3.2.2 Taxes and social security contributions**

In Croatia, both the employees and the employers contribute to social security. The distribution between employees' and employers' contributions was introduced when the new Labour Law entered into force in 2003. The overall contribution is 31.7% of the total labour cost (wages + contributions to social security). The employees' contribution is 20% of the gross wage and covers contributions to old-age and disability insurance. The employers' share is 17.2% of the gross wage, which covers contributions to health, occupational accident, unemployment insurance and employment services.

The tax system in Croatia is based on progressive marginal tax rates that are applied on the taxable income. The taxable income in Croatia is the net wage after payment of social contributions and further reduced by a personal deduction (1,600 kunas), deductions for dependents (spouse and children), and other deductions. The tax rates that are applied range from 15% to 45%. In some areas, like the Zagreb region, surtax is charged.

The contributions to social security and the tax payments seen in relation to the total labour cost provide an indicator for the level of the tax wedge. The tax wedge in Croatia is 37.3% for a low-wage employee<sup>38</sup>. The tax wedge in the EU, according to Eurostat, was 39.4% in 2005. Thus the tax wedge in Croatia is slightly lower than in the EU. However, a tax wedge cut would probably reduce labour costs and thus strengthen producers' international competitiveness, slow down inflation and increase the quantity of labour demanded.

In order to promote employment in particular geographical areas, the Government has lowered the profit tax rate for employers operating in areas that were most affected during the war, and in mountain areas. Under some conditions and in some of those areas, employers pay no tax on profit for a period of ten years. Also, the personal deduction in income tax is higher for inhabitants of those areas.

To summarise, social security contributions make up almost one third of total labour costs, but income tax on low wages is very low itself as a low wage is either not taxed or taxed at a low rate. Thus the total tax wedge does not seem to be overly

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<sup>38</sup> Social security contributions in Croatia are 31.7% of total labour costs and the income tax should be added to get the overall tax wedge. The income tax on a low wage (2/3 of the average) is low in itself because a personal deduction and low tax rate (15%) are applied. The share of the income tax in the total labour costs is 5.6% and the final figure is 37.3%.

high, particularly for low-wage workers. However, the possibility of a cut in employers' social security contributions, in order to reduce labour costs and increase competitiveness and employment, could be considered if fiscal circumstances allow.

### **3.2.3 Income support for the unemployed**

Unemployed persons registered with the Employment Service are entitled to unemployment compensation if they worked in a regular job for at least 9 months in the last 24 months, provided they did not leave the job voluntarily and were not dismissed through any fault of their own. Unemployed persons are expected to actively search for a job and be available to take up employment. The potential duration of unemployment compensation is determined by the duration of previous employment. It ranges from 78 days (not including Sundays) if a person spent up to 2 years in work, to 390 days if they spent more than 20 years in work. Persons with more than 30 (women) or 35 (men) years of previous employment have a right to unemployment compensation until they find a job or fulfil the conditions for retirement. An unemployed woman with a child aged less than one year at the moment of termination of her employment has a right to compensation until the child reaches one year of age.

The unemployment compensation is suspended if the unemployed person gets a service contract and receives income. The duration of suspension depends on the amount of income divided by the maximum amount of compensation. The payment is completely terminated if unemployed persons do not contact the Employment Service for two months or if they refuse an offered job or training.

Minimum and maximum levels of unemployment compensation are laid down. The maximum amount of monthly unemployment compensation is currently limited to 1,200 kunas, while the minimum cannot be lower than 20% of the average wage, which is currently 976.60 kunas. Thus the minimum and maximum amounts do not differ a lot.

About 35% of the newly registered unemployed qualify for unemployment compensation, but their benefits quickly expire, so the share of recipients out of the total number of unemployed is relatively low. At the end of December 2006, there were 64,902 unemployment compensation recipients, which was only 22% of the total number of unemployed. Unemployment benefit recipients are mostly older persons with many years of previous service.

Unemployed persons with longer previous tenure are also entitled to a one-time supplement that is paid at the beginning of an unemployment spell.<sup>39</sup> This is paid to persons with more than 20, 25 or 30 years of service with the previous employer, amounting to 2, 4 or 6 monthly unemployment compensation payments, respectively. There were 2,871 recipients of that benefit in 2006.

For the purpose of financing self-employment, an unemployed person may be eligible for a one-off payment of potential unemployment compensation in order to start their own business. In 2006 there were more than 600 such cases.

After unemployment compensation expires, an unemployed person has a right to receive social assistance benefits if he or she fulfils the eligibility conditions in respect

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<sup>39</sup> This was introduced as a kind of compensation for lower statutory severance pay, reduced within the Labour Law reform in 2003.

of family income and status. However, social assistance benefits are lower than unemployment compensation, thus providing no serious income protection in the event of prolonged involuntary unemployment.

Only those who become unemployed involuntarily can receive unemployment compensation, the duration of which depends on the length of previous employment, with the maximum amount being limited to a relatively low level and the number of recipients being relatively small. Thus it seems that unemployment compensation does not create a serious “unemployment trap”. Even one-time supplements for workers with many years of previous service do not produce a disincentive effect because they are paid at the beginning of an unemployment spell. Therefore, there is scope for increasing the maximum amount of unemployment compensation, if fiscal circumstances allow. In addition, the possibility of differentiation of unemployment compensation by reference to family conditions has to be considered in order to make it more helpful and appropriate to specific household circumstances.

### **3.2.4 Child benefits**

Persons with children, including unemployed persons, have the right to receive a child allowance if they fulfil certain conditions. In December 2006, there were 221,288 recipients of the child allowance, receiving benefits for 416,177 children, which was about 40% of the population below 20 years of age. Households with income lower than 1,330 kunas (in 2006) for each member of the household also including children are eligible for child allowance. That eligibility threshold is about 30% of the average net wage. In addition, the benefit amount also depends on the level of income and on family and health conditions, and it ranged from 191 to 374 kunas a month for a healthy child in 2006. In 2007, the eligibility threshold is being increased and a lump sum (500 kuna) for the third and fourth child is to be introduced as a population policy measure.

Child benefits can have a negative (substitution) effect on labour market participation and employment, particularly among women with low skills. However, as the activity rate of this group is generally low, the effect is likely to be slight. In addition, child benefits have important social welfare and population policy functions.

## ***3.3 Employment services and active labour market programmes***

### **3.3.1 Public employment service and its participation in CARDS projects**

The Croatian Employment Service (CES) is a state-owned but independent public institution whose activity is regulated by the Employment Mediation and Rights during Unemployment Act, and it is managed by a tripartite Managing Board. In addition to the Central Office, it has 22 regional offices and 94 local offices, currently with 1197 employees. The CES provides mediation and selection services to the unemployed and employers, and career guidance to students and trainees. It also manages unemployment compensation and implements active labour market policies. Finally, it publishes analytical reports on various labour market issues and provides statistical reports.

The CES provides employment mediation for a very large number of persons. The number of the newly registered unemployed was 233,163 in 2006 and employers reported 130,517 vacancies. Although employers are not obliged (any more) by the

law to report vacancies to the CES, an employers survey shows that it is still among the most frequently used methods for getting job candidates (second only to personal acquaintances). In addition, if requested by employers, the CES provides psychometric testing and selection of candidates. The matching process is supported by information technology tools that have been developed and improved in the last few years. Electronic databases contain data on relevant characteristics of the unemployed and vacancies. In addition to basic data on education and previous work experience of an unemployed person, they contain data on employability, individual action plans and mediation activities.

An unemployed person is expected to actively search for a job and to be available for work. If unsuccessful, an in-depth interview takes place after six months of unemployment. Additional job-seeking opportunities are provided in equipped job clubs, for instance. The CES also offers mediation services to job seekers who are not actually unemployed but want to change their job, etc. On the other hand, a more proactive approach towards employers has been taken, including visits to employers in order to strengthen contact, communication and vacancy reporting.

The CES provides information services regarding education/career choices to pupils, students and unemployed persons by supplying written material and organising presentations to groups and individuals. In 2006 the CES published 113,000 leaflets and brochures and organised presentations for 40,000 persons. It also provides individual counselling based on psychometric testing. About 19,000 persons were counselled in 2006, one quarter of whom were unemployed and other job seekers, and three quarters were pupils and students. In addition, 1,107 workshops for the unemployed and job seekers on job-search methods, self-presentation and self-assessment were organised. The CES was also busy informing and counselling employers about human resources issues. The quality of methods and procedures in respect of career guidance was increased and standardised within a project financed by the European Commission. Computer software for self-service career information and counselling, CASCAiD, has been adjusted to Croatian circumstances, and that was financed within the CARDS 2001 project.

The CES participated in the CARDS 2001 project "Restructuring of the Labour Market", which took place between April 2004 and November 2005. Its results included an overview of labour market information sources and methods, the methodology of qualitative employers' surveys, the strategy of career counselling, the education of special councillors for the disabled, and acquisition of new information equipment and software. In addition, restructuring units were established within some large firms and organisations with redundant workers.

The CES staff also participated in the CARDS 2002 project "Local Partnerships for Employment" that started in October 2004 and ended in April 2006. The objective of the project was to adjust vocational education to current and projected labour market needs at the local level. The project entailed cooperation between the CES, local stakeholders and various educational institutions in four counties. The programme sought to improve labour market knowledge at county level, to foster human resource development, and to improve knowledge about the principles, mechanisms, rules and procedures of the European Social Fund. The project continued with the CARDS 2004 "Local Partnerships for Employment – phase II" project and was extended to four new counties.

Another CARDS 2003 project on “*Decentralisation and Reorganisation of the Croatian Employment Service*” was finalised by the end of October 2007. The aim of the project was to strengthen regional and local competence of the CES by improving the skills, know-how and experience necessary for decentralised work of the CES, which will result in more direct involvement in local development needs and initiatives. Decentralisation of the CES is a part of the long-term strategy, which will be carried out following the standardisation of the CES's business activities and the provision of technical support by information technology.

The main components of the project were as follows:

- Analysis of the current mode of operation and organisational structures of the CES that will enable further decentralisation of standardised business activities within the CES;
- Recommendations on how to improve the existing procedures and achieve the decentralisation of the CES;
- Assessment of training needs for the staff in regional offices and in the central office concerning the skills and know-how and experiences necessary for the implementation of further decentralisation (for instance, skills and know-how and experience in connection with: project management, funding, public relations, development of analytical services, supervision and evaluation of services and the organisation of work, etc.);
- Training of staff in regional offices and the central office of the CES on the basis of results from the training needs assessment.

The CES provides employment mediation and career guidance services. Its IT support and working methods have been significantly improved in recent years. However, the capability of the CES to perform evaluations both ex-ante and ex-post on the ALMP needs to be upgraded. Additionally, the CES has to play a more pronounced role in reducing skill mismatch on the labour market. First of all, a more accurate and consistent classification of education and skills of the unemployed is needed, and its framework has to be improved in cooperation with educational authorities. Data of higher quality can then serve as a basis for reliable statistical and analytical reports and forecasts which, together with qualitative data from mediation counsellors, can be used for career guidance.

More importantly, data from the social security database and the database on graduates have to be linked and used for the purpose of skills mismatch analysis to provide complete coverage in a consistent way. The existence of large differences in the labour market position of graduates by their previous education has to be emphasised more in informing and counselling young people in order to guide their educational and career choices, thus contributing to the reduction of skill mismatch. In addition, this kind of information can serve as a basis for designing educational and training measures implemented by the CES, for activities within Local Partnerships for Employment, and for educational enrolment and scholarship policies. In order to fulfil those tasks, to improve the mediation performance, and to upgrade the functioning of the CES in general, reorganisation and decentralisation of the CES is needed and steps in this direction were taken under the above-mentioned CARDS projects.

To summarise, the CES's main tasks are employment mediation for both unemployed persons and ordinary job seekers, and provision of career guidance. In order to improve its capacity to carry out its functions, the CES has participated in

several CARDS projects, especially promoting local partnership, labour market information and counselling, and a project analysing the possible decentralisation and reorganisation of the CES. The CES's ability to provide accurate evaluations of labour market measures needs to be enhanced. It is equally important that its role in reducing the skills mismatch become more pronounced.

### **3.3.2 Private employment services and temporary employment agencies**

As a consequence of the Labour Law reform in 2003, the conditions for private mediation in the labour market were liberalised and both private employment agencies and temporary employment agencies were established. Today, in addition to the public employment service, there are 17 private employment services and 8 physical persons that offer mediation services on the labour market. However, the total number of their clients seems to be relatively small because they have entered the market recently and because many of them tend to specialise in head-hunting services. Some of them have Internet sites with posted vacancies.

The 2003 Labour Law reform also introduced the possibility to start up a temporary employment agency. There are 16 registered temporary employment agencies today, some of them international. There are no readily available data on the number of workers the agencies currently employ or on the number of workers that were employed by them. Those numbers are probably not large at the moment, but they are likely to grow.

It can be concluded that a relatively low number of private labour market mediators were established after the liberalisation but it is expected that more will come into being.

### **3.3.3 Active labour market programmes**

A programme of active labour market measures, mostly in the form of employment subsidies, was implemented by the CES from March 2002 to September 2005. The hiring of about 80,000 persons was subsidised and nearly 900 million kunas was spent. In the years of full implementation (2003 and 2004), the subsidised hiring amounted to about 17% of total hiring and the spending amounted to 0.17% of GDP. At first glance, the programme seemed to be targeted at special groups: youth with no work experience, older persons, the disabled, and war veterans. However, it also included a general "introduction-to-a-job" measure in which almost all unemployed persons could participate. Two thirds of the participants were hired through that general measure, and the programme therefore did not have a significant net impact on the total flow from unemployment to employment as the participants would have been hired even without subsidies, which is supported by macroeconomic evaluation. The main reason for the inefficiency and high deadweight costs seems to be the above-mentioned lack of appropriate targeting. In addition, the programme put too little emphasis on specific and formal training, retraining and skills upgrading of the unemployed.

In 2006, the Government introduced a new set of active labour market measures within the Annual Employment Promotion Plan, which is based on the National Employment Action Plan for the period 2005 – 2008. The measures implemented by the CES include employment subsidies for young persons without work experience, the long-term unemployed, older persons, and other special groups, including hard-

to-place persons, the disabled, single parents and parents with four or more children, women who return to the labour market after the third childbirth, war veterans and children and spouses of deceased soldiers, female victims of family violence or trafficking, asylum seekers, former addicts, and former convicts. The amount of subsidy was lower for larger employers and higher for hiring persons with good educational qualifications. The amount of a hiring subsidy ranges from 625 to 3,000 kunas a month, and its duration ranges from 12 to 18 months. Subsidised employment had to entail a net increase in the firm's total employment for 2 or 3 years. The measures also included subsidised training for the newly employed and the long-term unemployed, and retraining for employed persons threatened by unemployment and for unemployed persons willing to work in seasonal jobs and occupations in short supply. A training subsidy could last up to 9 months, with coverage ranging from 25% to 80% of training costs. Apart from subsidised training of the newly employed with known employers, there was also training of the unemployed for the general labour market. All the long-term unemployed and those willing to work in seasonal jobs or in construction and shipbuilding could apply for training. Finally, the CES subsidised local governments' public works for targeted groups. By December 2006, more than 4,800 persons had participated in the measures, almost two thirds of them in subsidised hiring. Most of those hired were long-term unemployed and young persons with no work experience. Subsidised hiring was relatively insignificant in general as it amounted to just 2.1% of total hiring.

The number of participants from vulnerable groups was small, but the CES participates in the PHARE 2005 project entitled "Active Employment Measures for Groups Threatened by Social Exclusion". The overall objective of this project is to strengthen economic and social inclusion of the most vulnerable groups in Croatian society by raising their level of employability. This project will also serve to strengthen the abilities of different actors in the Croatian labour market in implementing the active labour market policy measures intended for groups threatened by social exclusion, and the measures will be tailored to their needs.

In addition to the measures from the Government Plan, the CES implements its "own" training measures, financed and organised alone or in cooperation with local governments. In 2006, around 1,800 unemployed persons participated in computer and foreign language courses and in courses for particular occupations in short supply. Furthermore, there is a set of measures implemented by the CES within the Decade for Roma Inclusion programme, including public works, training for the general labour market and subsidised employment. By December 2006, about 220 persons of the Roma minority had participated in those measures, mostly in public works. In addition, special job-search facilities and vocational counselling were provided.

Some other institutions also implement active labour market measures. The Ministry of Family, Homeland Defenders and Intergenerational Solidarity, for instance, subsidises training, self-employment, loans and projects for unemployed war veterans and children of deceased soldiers. The Fund for Professional Rehabilitation and Employment of Disabled Persons subsidises employment of the disabled in cooperation with the CES, which provides administrative services and mediation by specially trained counsellors. A refund of health and unemployment insurance contributions is given to employers for keeping persons with disabilities in employment. The Ministry of Economy, Labour and Entrepreneurship subsidises trade/craft registration, training, and interest on loans for self-employment and

entrepreneurship. The Ministry of Sea, Tourism, Transportation and Development gives subsidies and loans for establishment of small family hotels and pensions, etc.

It can be concluded that the active labour market measures implemented by the CES between 2002 and 2005 did not have a significant net impact due to lack of appropriate targeting. The new set of measures is better targeted and puts more emphasis on training. However, the overall number of participants is much lower. Higher spending, less restrictive conditions and less complicated design are needed to increase the number of participants, particularly in training and retraining measures. Higher participation in that kind of measures is necessary to renew and upgrade skills of the unemployed, to alleviate the problem of skill/occupation mismatch, and to reduce the problem of dropouts with no vocational education. In addition, microeconomic and, if possible, experimental evaluation of their effects should be applied. Regarding measures for special groups, the effect of stigmatisation should be avoided. It should also be ensured that active labour market measures implemented by other institutions are consistent with and complementary to measures implemented by the CES. Finally, active labour market measures have to follow the terminology and classification used by Eurostat's Labour Market Policy database in order to make participation and expenditure statistics clear and internationally comparable.

### ***3.4 Legal provisions, employment protection legislation, and labour Inspection***

#### **3.4.1 Labour Law**

The new Labour Law entered into force in 2003 in Croatia. It amended the former labour act and covers both the public and private sectors. The Law mostly follows the EU acquis but will be amended in the future to bring it fully into line with the acquis. The new provisions in the Law mainly concern the easing of the rules for severance pay and notice period in order to make employment protection less strict and the labour market more flexible. Also, various kinds of discrimination are prohibited under the Labour Law, which covers inter alia the principle of equal opportunities. Health and safety at work is another integral part. In the future the Law will have to be amended with regard to annual leave, which currently falls below the required level stipulated in the EU acquis. Also, the Labour Law does not apply to employees of foreign employers. Additionally, various shortcomings need to be addressed with regard to fixed-term and part-time work, transfer of undertakings, collective redundancies and employers' insolvency.

#### **3.4.2 Anti-discrimination**

Croatia currently does not have a separate act, national policy or strategy on combating discrimination, but the national strategy to combat discrimination is under preparation. Discrimination is at present tackled in a number of laws, programmes and strategies, especially the Labour Law.

The Labour Law covers all areas of discrimination specified in Article 13 of the EC Treaty plus additional areas, and it defines direct and indirect discrimination and exemption from prohibition of discrimination. It prohibits harassment in general and sexual harassment in particular and also shifts the burden of proof to the employer, if a worker or a job seeker presents facts that suggest that the employer may have

acted in a discriminatory manner. However, assistance to victims in filing complaints is only foreseen in the Gender Equality Act.

In 2003 the Government adopted the Strategy of Integration Policy for Disabled Persons 2003-2006, to improve the standard of living of this population group. Apart from this, several programmes were launched with the aim of promoting employment of disabled persons, which proved to be ineffective. Consequently, government bodies and public services have an obligation to employ disabled people and their share of employment in these services should be at a level of 6% by 2020 as provided by law. Croatia signed and ratified the United Nations Convention of Rights of People with Disabilities and its Optional Protocol in March 2007. In line with its international commitments and following up the earlier strategy, the National Strategy for Equal Opportunities for Persons with Disabilities 2007-2015 was adopted in June 2007. It is based on human rights, non-discrimination and accessibility.

Given that the sectoral legislation does not ensure efficient and complete protection against discrimination, the draft National Strategy to Combat Discrimination, which is to be forwarded into parliamentary procedure, provides for detailed analysis of the existing legislative framework and the adoption of a single anti-discrimination law. The Croatian Government has given the go-ahead for a draft law to be prepared by the Ministry of Family, Veterans' Affairs and Inter-Generational Solidarity, as the exponent and co-ordinator of an inter-portfolio working commission that will be appointed at a level no lower than assistant minister, while administrative, technical and secretarial support will be offered by the Government's Human Rights Office.

To conclude, work on anti-discrimination is moving slowly ahead and further changes will be incorporated in the future.

### **3.4.3 Equal opportunities**

The basic legislation in this field is largely in place. Equal pay is regulated in the Labour Act and pertains to all employees including civil servants. All types of discrimination or any type of harassment in relation to access to employment and working conditions, to vocational training and to promotion are prohibited. The applicable instruments are the Labour Act, the Gender Equality Act and the Same-Sex Unions Act. Job vacancies must be advertised in such a way that persons of both genders can apply. Women are especially protected during pregnancy and motherhood, and employers cannot reject a woman for reasons of pregnancy, cancel her employment contract or transfer her to another job during pregnancy. The parents retain the right to return to the same workplace after parental leave. In cases of discrimination based on sex, the burden of proof falls on the employer and the courts determine the amount of damages and compensation.

The main problems women encounter in the labour market relate to child care and maternity care. These rights are guaranteed by law but are not consistently enforced.

Some of the more problematic areas will be addressed in the future to handle difficulties faced by pregnant women and mothers with small children. Further measures appear necessary with respect to different retirement ages for women and men in the police, military and civil service. Certain shortcomings concerning parental leave, maternity benefits and excessive compulsory maternity leave will also be addressed. Legal adjustments will include removal of overprotection of women in relation to night work, physically heavy work, underground and underwater work. A

further main objective is to establish equal opportunities institutions that can ensure that the principle of equal treatment is applied. These institutions need to be able to engage in any judicial or administrative procedure under legal provisions providing for deterrent and dissuasive compensation in cases of discrimination.

Besides drafting a new separate Act on combating discrimination pursuant to the National Demographic Policy, the Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity will coordinate the creation of a special act governing family and parental leave and benefits, which should partly be based on the amendments to the labour legislation. Also with the aim of promoting gender equality, in October 2006 the Croatian Government adopted the National Policy for the Promotion of Gender Equality in the Republic of Croatia for the period 2006 – 2010.

The Gender Equality Ombudsman was appointed in 2003 and the Office for Gender Equality (a government body) was established in 2004 in order to enforce the Gender Equality Act. It is proposed to amend the legislation on the Ombudsman for Gender Equality to enable it to function as the gender equality body required by the *acquis*. As in the field of anti-discrimination, it is important to ensure that the gender equality body is able to carry out independent surveys and reports and provide independent assistance to victims of discrimination. It can be concluded that some work has been done in the area of equal opportunities. Most of the laws and national policies and programmes were adopted only recently and the outcome still needs to be monitored.

### **3.4.4 Health and Safety at Work**

The Occupational Safety and Health Act was adopted in 1996 and entered into force in January 1997, and the draft National Health and Safety at Work Programme should be submitted to the Parliament for discussion shortly. As regards the framework on health and safety at work, the application of safety rules and related health protection measures must not entail any cost for workers. The basis for the application of occupational health and safety is the preparation of a risk assessment by the employer with input from the employees as required by the *acquis*. Training for employee representatives should be provided as well as regular medical check-ups and all workers, except for the armed forces, police and domestic servants, are covered.

Workplace is defined in the legislation adopted in 2005, and existing premises need to conform with this definition within four years and new buildings within three years from the date of entry into force. Legal provisions exist on use of work equipment as well as on personal protective equipment. The employer must provide the appropriate personal equipment and ensure that the employees use them while working. Legislation on safety signs, manual handling of loads and display screen equipment was adopted in 2005. The deadline for compliance with the provisions of the Ordinance on manual handling of loads is three years from the date of entry into force. Under the provisions on display screen equipment, the employer needs to make a risk assessment within two years from the introduction of new workstations and within four years for an existing workstation. All costs are borne by the employer.

The legislation for some dangerous substances and a few other areas (e.g. temporary or mobile construction sites) is not yet in place. The time frame for adoption of remaining legislation in the area of health and safety at work is 2007-2009 as set out in the Action Plan for the alignment of the legislation and the creation

of necessary capacities for the application and implementation of the *acquis* for Chapter 19.

It can be seen that health and safety at work has been an issue in Croatia since 1997. Some legislation is not yet in place and will require further work. The implementation and enforcement capacity will require considerable and sustained attention, as capacity will need to be substantially improved if the *acquis* in this field is to be properly applied. Sufficient funding of implementation is important in this respect.

### **3.4.5 Employment protection legislation (EPL)**

Stringent EPL contributes to more stable employment relationships but it also tends to favour insiders and worsen the employment prospects of those groups that are most likely to face problems of entry into the labour market (young people, women, long-term unemployed)<sup>40</sup>. This may increase labour market segmentation, i.e. the gap between “insiders” (workers in regular jobs enjoying high employment security) and “outsiders” (those in irregular jobs, such as fixed-term, seasonal or any type of informal employment, as well as unemployed jobseekers, persons not covered by EPL).

Judged by international comparison, employment protection legislation was very strict in Croatia until recently. The table in the annex illustrates this by presenting summary EPL indicators for selected CEE countries using the OECD methodology.

As mentioned, in order to increase labour market flexibility, the Labour Law was reformed in 2003, particularly the parts regulating dismissal of permanent workers. Severance pay and notice period were reduced, and the threshold for the collective dismissal procedure increased. The minimum severance pay amounts to one third of the monthly wage for every year of previous service, and the minimum notice period ranges from 2 weeks for a worker with 1 year of service to 3 months for workers with 20 years of service. For a collective dismissal of 20 workers, the employer has to consult the workers’ council and the regional office of the employment service. The fixed-term contract allows the employer to terminate an employment relationship without incurring any costs, but conclusion of such a contract is justified only in extraordinary circumstances, and it can be renewed for a maximum of 3 years. Following these amendments to the Labour Law the value of the EPL index was reduced from 3.6 to 2.8, moving close to the average EU level<sup>41</sup>.

Before the adoption of the new Labour Law in 2003, the Croatian EPL was rather strict. After the new law was introduced the EPL index fell to a level closer to, though still above, the EU level.

### **3.4.6 Informal sector and labour inspection**

The diminution of the informal sector in general and undeclared work in particular is targeted through the "Short- and Long-term Strategy to Combat the Grey Economy" for the period from December 2004 to December 2007. At the beginning of this period the most common types of unregistered activity were analysed in order to determine the action that needed to be taken. The main reason for not registering an

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<sup>40</sup> Employment in Europe 2006, chapter 2.

<sup>41</sup> See the table in the Annex.

activity was the burden resulting from taxes and contributions to social insurance<sup>42</sup>. In general, the reinforcement of the Labour Inspectorates by the Law on the Amendments and Supplements to the Government Inspector's Office Act adopted in 2005 gives tougher sanctions for commercial activities conducted without being registered in the Business Register, or without the minimum technical conditions required, approval or licences; other penalties are imposed for employees who are not registered with the health and pension insurance authorities, or for employing foreign citizens without work permits.

Before the end of 2005, labour inspectors responsible for employment relations carried out a large number of inspections each year (about 13,000 in 2005), and the number of illegalities found in the field of employment relations is extremely high and worrying. For instance, over 19,000 violations (mainly illegal overtime and night work, work without a contract or no social security registration, fixed-term contract without justification) were found and processed both in 2004 and 2005. Such a high detection rate for these violations was the result of increased efforts by labour inspectors, good cooperation between inspectors in all departments within the State Inspectorate and with other supervision bodies, primarily the Ministry of the Interior, as well as improved cooperation with workers' and employers' organisations. In the course of the year, 5,419 illegally employed persons were detected, of whom 1,373 were foreigners working in the Republic of Croatia without a work permit.

The new powers given to the labour inspectors following adoption of the new Act include the power to impose a temporary ban on business operations of employers for a period of 30 days, when illegalities are detected during inspection supervision in relation to the work of foreigners without a work permit or in relation to the work of workers who are not properly registered with pension and health insurance authorities. Immediately following the implementation of the new Act in 2005, large numbers of illegal workers were found (5419 cases uncovered in 2005). In 2006 the number was almost halved (to 2715 cases). With the number of reported cases in the last two months of 2005 and the first two months of 2006 having stabilised at a lower level equally distributed over the four months, it is expected that the number of cases will stay low.

With a view to closer supervision of the implementation of employment regulations, the State Inspector's Office will establish an integrated system of labour inspection, which will be significantly enhanced during 2007 and 2008. In general, therefore, the efforts of labour inspectors in suppressing undeclared work and thus reducing the size of the informal economy have been stepped up and their powers enhanced. It seems that those measures have significantly reduced undeclared work. In addition, an integrated system of labour inspection will be established, and a significant increase in the number of inspectors is planned for the next two years.

The quality of statistical analysis on the frequency and extent of the informal sector measured by GDP is being improved. In that regard, as part of the CARDS 2002 programme, the introduction of business registers is seen as being vital for this segment. Apart from the ongoing statistical research, there is a need for new forms of statistical research and these are being gradually introduced, including the national

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<sup>42</sup> The types of unregistered legal activities could be divided into the following groups; no registration of income or salaries in order to avoid paying taxes (or paying less tax); deduction of employees' allowances in salaries in order not to pay tax; physical exchange of goods and services not involving any monetary transaction.

accounts exhaustiveness adjustments, commonly known as the grey economy. Research is conducted according to recommendations by international institutions developing the methodology for the System of National Accounts.

The Croatian Government Commission to Combat the Grey Economy was set up in November 2006. The commission's duty is to co-ordinate the activities of all government bodies relating to inspections with the aim of combating illegal labour. The commission will, where necessary, oblige certain inspectors – government bodies – to implement supervision of certain segments of the economy where activities in the informal sector occur.

In order to combat the informal sector and undeclared work several measures were taken: the strategy to combat the grey economy including more power to labour inspectorates, creation of a statistical business register, and establishment of a commission to combat the grey economy. The effectiveness of these initiatives still needs to be monitored.

### **3.5. Good governance**

Good governance should be a basic principle behind all policy-making not only in Croatia but in the EU in general. This involves five building blocks; openness, participation, accountability, effectiveness and coherence. In short, good governance is defined as a process which is open and where there is wide participation of stakeholders and partners. The process needs to be clear and effective and coherence should be sought. In order to achieve this, there is a need for sufficient capacity in the administration managing the process, for good cooperation between the labour market institutions, for a well-established social dialogue and for a strategy behind the policy proposals. These issues in relation to the labour market will be discussed in the following section.

#### **3.5.1 Capacity-building**

A lack of institutional capacity still hampers employment policy in Croatia. Measures to address this have been set out in the Croatian Action Plan in response to the Opening Benchmark of the accession negotiations on Chapter 19 Social Policy and Employment.

The main administrative body responsible for labour legislation and employment policy is the Ministry of the Economy, Labour and Entrepreneurship, specifically the Directorate for Labour and Labour Market, which employs 14 civil servants in its four departments. In order to enhance the capacities of the Directorate, the organisational structure will be changed and additional personnel hired in 2007 and 2008 to achieve full systematisation, up to the total number of 42 civil servants. Civil servants in the Labour Law Department (5) and the European Integration Department (5) will work on complete alignment of legislation and co-ordination of tripartite working groups. Also, the new Department for Social Partnership, Collective Agreements and Associations will provide capacities for monitoring and international co-operation in the field of transnational provision of services (6).

Within the framework of institutional preparations for Component IV of the IPA Pre-accession Programme (human resource development), an Operating Structure will be set up (with five civil servants) for the purpose of co-ordinating a special inter-

ministerial managing body<sup>43</sup> to be established within the Directorate for Labour and Labour Market. The Operating Structure will be headed at the level of state secretary, and the staff who will manage Component IV in the areas of labour market, education and social inclusion have been appointed and a precise schedule for completion of individual tasks has been established. Under the direct responsibility of the Head of the Operating Structure, a single operational programme for human resources development will be devised under Component IV. In line with the ongoing development of the Operating Structure, technical assistance will be provided under this OP in support of project preparation and programming capacity.

In order to achieve the highest possible quality of analysis and evaluation of active employment measures, the Directorate for Labour and Labour Market will increase the number of personnel by establishing the Department of Labour Market and Employment (6 civil servants), that will co-ordinate the activities of the interdepartmental group preparing the annual employment plans, as well as continued work on the JAP process. All civil servants will be continuously trained at seminars and workshops organised by the Ministry of Foreign Affairs and European Integration, as well as through bilateral and multilateral technical assistance. In addition to this the civil servants will receive further training within the framework of the technical bilateral assistance of the Ministry of Economy and Labour of the Republic of Austria. Their L&R Social Research Institute will participate in the analysis and evaluation of active employment measures in the Republic of Croatia.

According to the new organisational scheme of the Directorate for Labour and Labour Market, three additional civil servants will be hired in the Safety at Work Department of the Ministry of the Economy, Labour and Entrepreneurship in first half of 2008. The activities of this Department will concern mostly the legislative initiatives and supervision of the operations of the new State Institute. The supervision of the occupational medicine field stays under the responsibility of the Ministry of Health and Social Welfare.

For the purpose of systematic monitoring of the situation in the field of safety at work, the State Institute for the Protection of Health and Safety at Work will be established in 2008, through the merger of the Croatian National Institute of Occupational Medicine and the Institute for Safety at Work within the Ministry of the Economy, Labour and Entrepreneurship. It will employ 40 experts in occupational medicine and safety at work. The Institute will comprise two organisational units, the Occupational Medicine Service and the Safety at Work Service. Once established, the State Institute will provide significant administrative professional support not only in the normative area, but also in establishment of capacities for efficient advisory and preventive work. In addition to that, based on the adopted Occupational Health and Safety Insurance Act, the Croatian Institute for Occupational Health and Safety Insurance has been established and its acting director appointed.

Implementation of legal obligations is supervised by the State Inspectorate. In accordance with the Ordinance on the internal organisation of the State Inspectorate, the systematisation of workplaces in the area of safety at work provides for 107 positions of labour inspectors and senior labour inspectors, in addition to the head of department posts, of which 82 were filled by the end of April 2007. In the area of labour relations the systematisation provides for 117 positions of labour inspectors

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<sup>43</sup> Ministry of Science, Education and Sports; Ministry of Health and Social Welfare and Ministry of Economy, Labour and Entrepreneurship.

and senior labour inspectors, of which 97 were filled by the end of April. For the purpose of intensifying supervision over the implementation of employment regulations, the staff in the State Inspectorate will be increased following the amendments to the Regulation on the internal organisation of the State Inspectorate in 2007 and 2008, through the following activities:

- Hiring of 180 labour inspectors (about 90 in the employment area and about 90 in the safety at work area). In the field of labour relations, all prospective employees will have a university degree – bachelor of law,
- Intensified vocational training of the currently employed and newly hired inspectors,
- Leasing additional offices and improving the working conditions in terms of procurement of the necessary office furniture and equipment, IT and communications equipment, and 90 additional official vehicles.

On top of that and with the aim of organising and implementing additional education and specific specialisation in the field of occupational inspections, a special section is to be set up within the State Inspector's Office, which will be responsible for organising and monitoring the implementation of further education programmes and specialised training. The State Inspectors' Office will thus be equipped with the appropriate capacity to supervise the application of the new legislation conforming to the EU acquis. The current State Inspector's Act regulates criteria for the administrative capacity of the State Inspector's Office and provides that there should be one inspector for every 4,000 employees.

The main administrative body competent for employment is the Croatian Employment Service, which was designated as the implementing body for Component IV of the IPA concerning employment and social inclusion. A new section was therefore created within the Director's office of the Central Office. The section is responsible for commissioning projects and will be involved in the duties of the implementing body as well as tasks delegated by the Operating Structure. Although responsibility for Component IV of the IPA rests with the Head of the Operating Structure within the Labour Directorate of the Ministry of Economy, Labour and Entrepreneurship, the implementing body will be responsible for delegated tasks concerning evaluation and selection of projects; signing contracts with beneficiaries, i.e. contractors; financial control of payment requests and checks; supervision at project level including field inspections for cases where irregularity is suspected. The section will be entirely independent and operationally separated from the already existing organisational structure of the Section implementing International Projects, which has until now been responsible for the CARDS and PHARE programmes in the capacity of a final recipient of funding. Given that the Croatian Employment Service and its branch offices will be recipients of funding for Component IV of the IPA and with the aim of strengthening administrative capacities to the level of recipients, the Directive on the Internal Organisation and Systemisation of Positions with Complexity Coefficients at the Croatian Employment Service has been amended in such a way that the Section to Implement International Projects will employ 10 staff in the Central office (instead of the current 4) in the first half of 2008. A further two staff members will be employed in each of the four large branch offices in Zagreb, Split, Osijek and Rijeka (instead of the current 1), as well as one staff member for each of the 18 smaller branch offices which did not have a position of this profile in their job descriptions. The next change occurring in the coming period is that 36 staff members will be employed in the Croatian Employment Service. The positions defined in the above-

mentioned Directive, in the Section to Implement International Projects and the Central Office and branch offices, will be filled according to need. These sections will be responsible for preparing projects, signing contracts with contractors, implementing projects according to their respective contracts, participating in inspections, reviews and evaluations, and regularly submitting reports and archiving relevant documentation.

In the area of anti-discrimination and equal opportunities within the framework of the adopted conclusions, a draft of a unique anti-discrimination law is being prepared that amends the Law on the Public Attorney's Office and determines its obligations as an independent umbrella body for equal opportunities in line with the EU directive on Equal Opportunities. The new law would legally encompass the entire area of relevant functions pertaining to this unique, independent body. Taking into account the need for active involvement and participation in the previously established European network of unique equal opportunity bodies, it will be necessary to enhance capacities of this office and, in that regard, to increase planned funding for its work. Analysis of regulations on anti-discrimination will be carried out and put in conformity with the newly amended Law on the Public Attorney's Office. This will include special regulations particularly on vulnerable groups (i.e. the Children's Attorney and the attorney's office for disabled persons). It will be necessary to boost the staffing level and funds will be made available from the State Budget.

To summarise, Croatia has built up its capacity in various labour market institutions in recent years and will continue to do so. The capacity-building entails an increase in the number of employees and applies to the Directorate for Labour and Labour Market, labour inspectors and the area of health and safety. In addition, more staff will be employed to handle the IPA Component IV and to follow up the JAP. Some of the capacity-building has taken place and the Action Plan for Chapter 19 in the field of social policy and employment adopted by the Croatian government aims at advancing the capacity-building.

### **3.5.2 Cooperation between the labour market institutions**

The Directorate for Labour and Labour Market is the main administrative actor for employment policy. The Directorate's Labour Market and Employment Department carries out the following activities: normative regulation of labour market and employment, follow-up of active employment policy, follow-up of equal treatment in the area of employment and labour (including special rights for disabled persons), monitoring the exercise of rights during the unemployment period, providing legal interpretation with respect to application of labour market and employment regulations, administrative proceedings related to application of labour market and employment regulations, providing professional assistance to entities, employers, workers and unemployed persons, administrative control in the area of labour market and employment and administrative management of the Croatian Employment Service.

The CES is managed by the Management Board, which is composed of representatives from the government, trade unions and employers' organisations. Each group has three representatives. The government of the Republic of Croatia appoints three members and the members from the trade unions and employers' organisations are appointed by the Economic and Social Council of the Republic of

Croatia. The State Secretary for the Ministry of Entrepreneurship, Labour and Economy chairs the board.

The Croatian Employment Service is the implementing body acting on behalf of the Ministry. Its main tasks are to implement adopted regulations, policies and measures relating to employment and unemployment. The structure between the Central Office, branch offices and units is fairly centralised. In order to ensure efficient guidance of job seekers and unemployed persons, the CES in general needs to strengthen its ability to monitor the movements and recognise the needs of the labour market. This calls for the decentralisation of the CES and stronger local partnership to ensure higher quality responses to local problems and situations. The relations between local offices of the CES and regional development agencies become crucial.

There are six established regional development agencies. They are information disseminators and coordinators, so that a maximum number of small local companies can operate with the status of suppliers of large, often multinational firms. The mission of development agencies should be to complement the market and connect stakeholders in places where, due to a lack of market or inadequate spontaneous coordination, potential development opportunities are not exploited. They cooperate with each other and use regional development experts applying the newest principles of regional policy. In addition, they liaise with large national and international companies to promote investment.

Under the preparations relating to pre-accession IPA programmes and in particular the creation of an institutional framework for managing Component IV and its related co-ordinating activities, an inter-ministerial decision will establish an 'inter-portfolio' working commission, which will operate at two levels. The first - decision-making level - consists of State Secretaries responsible for labour and employment, science and education, and social welfare, as well as the Assistant State Secretary for development strategy. The second - operational level - consists of two appointed representatives from the Ministry of Economy, Labour and Entrepreneurship and the Central State Office for Development Strategy and Co-ordination of European Union Funds.

Recognising the need for complementarity between Components III & IV (human resources development and regional development), the Operational Programmes under these components will be linked through local employment partnerships already established in eight counties, which will be progressively 'rolled out' to all counties.

Under this process, projects will focus on employment guidance counselling as well as developing know-how and skills that will be connected to established business zones or via ICT clusters linked to qualified councils. These councils are established via the Agency for Professional Training.

Finally, full cooperation of institutions responsible for managing employment, social insurance and education databases has to be ensured in order to create a comprehensive, detailed and reliable statistical foundation for informed and facts-based policy-making.

To conclude, the structure of the labour market institutions consists of the ministry that is responsible for employment policies, the central CES that implements the employment policies in close co-operation with the local employment services, and the regional development agencies. Successful implementation depends on co-

operation between the local employment services and the regional development agencies, and decentralisation of the employment service is therefore important.

### **3.5.3 Strategic approach to employment policy**

The key policy document regarding development and economic growth is the Strategic Development Framework for 2006–2013, adopted in August 2006. The key message of this strategy is that growth, development, employment, social inclusion and fairness can be ensured only by harmonised and simultaneous action in a number of strategic areas. One of the key features of the Croatian labour market is the relatively weak link between the education system and labour market needs. This is especially noticeable in the differences in employment between members of different professions at the same level of education. The promotion of quality and the relevance of knowledge and skills for the labour market and for new professions should be a continuous requirement for the educational institutions. In particular, the development of generic skills is of key importance, as it supports flexibility and smoother labour market transitions.

The following instruments and actions have been put in place in recent years:

- Decentralisation of the Croatian Employment Service and stronger local partnership to ensure higher quality responses to local problems and situations. Success in the performance of this task will largely depend on the relationship between local offices of the CES and regional developmental agencies<sup>44</sup>. The goal of this activity is to strengthen the active role of the labour market institutions in the process of balancing labour force supply and demand.
- Strategy for Adult Learning, Action Plan for Implementation of the Strategy adopted in 2005, aiming at increasing the availability and flexibility of adult learning. The implementation of this strategy is expected to promote lifelong learning, increase social inclusion and reduce long-term unemployment.
- The implementation of the Educational Sector Development Plan 2005 – 2010 should bring a reform of national qualification frameworks, modernise vocational education in line with labour market requirements and extend the duration of compulsory education. A better flow of information from the labour market towards the educational system has to be ensured, as well as the opening of the educational system towards knowledge and skills that increase the ability to learn, that is “teach how to learn”.
- A special challenge in education for the knowledge-based society is the tertiary education system. The implementation of the Bologna process and opening of Croatian higher education towards European standards, as well as the systematic measures intended to encourage enrolment and timely graduation from higher education institutions, are steps in this direction.

It can be concluded that the main areas for the current and future employment policy are the decentralisation of the CES and a better education strategy in order to meet the needs of the labour market.

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44 (National Action Plan for Employment for 2005 – 2008).

### 3.5.4 Social dialogue

Social dialogue is an important prerequisite for the definition and implementation of economic and social policy at national, regional and local levels. In this context one of the aims of tripartite social dialogue is to foster employment-friendly labour cost developments and wage-setting mechanisms by encouraging the social partners, within their own areas of responsibility, to set the right framework for wage bargaining in order to reflect productivity and labour market challenges at all relevant levels, and avoid gender pay gaps<sup>45</sup>. Croatia has set up an institutional framework for social dialogue, comprising in particular the Economic and Social Council as an advisory body to the Croatian Government, the Governmental Office for Social Partnership, the economic and social councils at county level, the representatives of the social partners in three working bodies within the Croatian Parliament, the Social Insurance Fund and other public institutions. At the level of companies, institutions and particular branches and industries, social dialogue is developed through the activities of the trade-union associations and employers' associations, in concluding collective agreements and facilitating trade-union activities in companies and in employee councils and supervisory boards.

The criteria for the representation of all the relevant social partners in economic and social councils are to be established through the Economic and Social Council, at both national and regional levels. The Economic and Social Council is responsible for determining on a case-by-case basis how many representatives from the various stakeholders, especially regarding unions and employers' organisations, will be present for specific negotiations. There are at the moment no clearly defined criteria for social partner representation at any level of the social dialogue, and there is fragmentation of trade unions.

Various governmental policy proposals are regularly discussed in the Economic and Social Council before they enter the Parliamentary procedure. The Economic and Social Council has several commissions for the following topics: wage policy and the tax system, employment and social policy, collective bargaining, privatisation, education and labour market, legislation, regulation implementation and legal protection, international relations and accession, national budget, pension and health care, and alternative resolution of labour disputes.

Social partner representatives participate in the managing councils of several public funds and institutions: the Pension Insurance Administration, the Employment Service, the Institute of Health Insurance, the Council for Media, the Vocational Training Agency, the Advisory Council of the Fund for Development and Employment, the Fund for Professional Rehabilitation and Employment of People with Disabilities, and the Commission for Adult Education.

Initiatives which have been carried out in this area include the conference "Collective bargaining in Croatia" and the ongoing project "Mediation in Individual Labour Disputes". Following on from the conference, the Office for Social Partnership is striving to promote and enhance the autonomous bipartite social dialogue, as well as collective bargaining, in the Republic of Croatia. The project has mainly been concentrated around training for mediators from the public and state sector and four awareness-raising events for representatives of employers' organisations and trade unions. A new project "Strengthening the Social Dialogue and Partnership at the

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<sup>45</sup> European Employment Guideline no. 22

Local Government Level" has recently been started. The aim is to train one representative of employers' organisations, trade unions and local governments from three local economic and social councils at a location in Belgium with the objective of implementing the best practices from the study visit afterwards.

In addition, the Joint Consultative Committee (JCC), composed of representatives of the European Economic and Social Committee (EESC) and the social partners in the Republic of Croatia, has been established. The EU-Croatia Civil Society Follow-up Committee was established at the 431<sup>st</sup> plenary session of the EESC in Brussels, held on 13 and 14 December 2006. The Committee's first meeting was held in Brussels on 12 March 2007, during which the working programme for the period 2007-2008 was accepted. The role of this Committee is to allow civil society organisations from both sides to monitor the accession negotiations from the point of view of civil society and to prepare the accession of Croatia. The Follow-up Committee will also play an essential role in disseminating information both in the EU and in Croatia and in initiating debates on issues of common interest among citizens.

Despite established institutional mechanisms and some positive examples of active participation by the social partners in the formulation and implementation of individual policies (e.g. during the vocational education reform or the preparation of the national employment programme), there is still a lack of sufficiently developed social dialogue at all levels (national, regional, sectoral and local) since such positive practices are still more the exception than the rule. Especially critical is the social dialogue at the level of particular industrial branches and companies, because obstruction of the work of trade-union councillors and workers' representatives is a frequent practice. In many companies, not only those that do not register their workers, violation of workers' rights is a frequent occurrence in the absence of appropriate preventive mechanisms. One other major concern is the competencies of the social partners that need to be enhanced in order to create an environment for constructive dialogue and intensify bipartite social dialogue. In general, the influence of social dialogue on the decision-making process and policy design remains weak. The contribution made by the tripartite dialogue remains modest.

To summarise, the key institutions of social dialogue are the Economic and Social Council at the national level and similar bodies at the regional level. The Economic and Social Council regularly discusses various policy proposals and it has a set of commissions for particular issues. In addition, social partner representatives participate in the managing boards of several public institutions and funds. Various projects and conferences have been and are being carried out in order to establish a better social dialogue. Although the institutional foundation of social dialogue is in place, the quality of the dialogue and the level of social responsibility have to be further increased. In particular, the criteria for participation in the various councils need to be established. In this respect the progress report 2007, while highlighting limited progress, notes that the main pending issues for social dialogue in Croatia are: the lack of a sufficiently developed bipartite dialogue, poor social dialogue at sectoral level, scarce capacity on the part of the social partners, unclear representativeness criteria for the social partners and fragmentation of trade unions. In general, the influence of social dialogue on the decision-making process and policy design remains weak. The contribution made by the tripartite dialogue remains modest.

## 4. EMPLOYMENT CHALLENGES AND PRIORITIES FOR ACTION

The previous chapters provided an overview of the Croatian labour market and employment policies. As the EU experience shows, labour market challenges cannot be tackled in isolation, they are closely interrelated with the macro- and micro-economic challenges faced by the country, which means that also the policy response and strategy for reform has to be comprehensive, taking into account all of these factors. Achieving a good mix of macro-economic, micro-economic and employment policies is necessary to keep Croatia on track for sustained, non-inflationary economic growth maintaining the country's competitiveness and generating employment growth.

Further labour market reforms are crucial for acceleration of Croatia's progress towards full employment, higher quality and productivity of work and social and territorial cohesion. These overarching objectives of the European Employment Strategy, which is currently preparing for a new 3-year cycle covering the period 2008-2011, are mutually supportive and need to be pursued in a balanced manner. Hence, taking into account the previous analysis of the Croatian labour market and the main employment policy instruments, priorities for action are formulated in this chapter in line with the three key employment policy priorities identified in the revised Lisbon agenda for growth and jobs, namely

- (i) Attract and retain more people in employment, increase labour supply and modernise social protection systems;
- (ii) Improve adaptability of workers and enterprises;
- (iii) Increase investment in human capital through better education and skills.

Additionally, the European Employment Guidelines stress that good governance of employment policies is a precondition for progressing toward the Lisbon goals and this chapter also reviews priorities for action in this area.

This chapter therefore first provides a brief summary of the main challenges Croatia's labour market is facing, as identified in the previous analysis and, in the final section, formulates the priorities for policy action taking account of the above Lisbon employment priorities.

### ***4.1 The main challenges of the current labour market in Croatia***

The labour market in Croatia is characterised by an **employment rate** that is significantly lower than the EU average, though it has been on a gradual upward trend in recent years. This would seem to point to the existence of a substantial reserve of unused labour with considerable scope for raising the employment rate further. Although this applies essentially to all age, sex and skill groups of the Croatian working-age population, it appears necessary to focus on two groups, namely **women** in the prime-age group, particularly those with low or inadequate skills, and **older people** in general, which show large employment gaps compared to the EU averages.

Perhaps the only exception is the group of highly skilled women, which shows a fairly high employment rate even exceeding the EU average for this group. Mainly because of this, the overall gender employment gap in Croatia compares reasonably favourably with the EU 27 average. In fact, the employment rates of high-skilled

women are close to those of high-skilled men. However, the **gender employment gap for the low-skilled** is significantly wider in Croatia than in the EU.

The low employment rates in Croatia are the result of both low activity rates and high unemployment rates. In particular, **long-term** and **youth unemployment** are persistently at very high levels in Croatia. The main group at risk of long-term unemployment appears to be the low-skilled in general and low-skilled women in particular. Low-skilled women find themselves significantly more likely to be long-term unemployed than low-skilled men. This illustrates the need for a strong focus on skills, which seem to have a very strong (even compared with the EU) correlation with labour market outcomes, particularly in the case of women. Croatia will therefore face the key challenge of getting more people enrolled in higher education and boosting the education levels amongst the population in all age groups in order to lower their risk of becoming unemployed and assure their strong attachment to the labour market.

**Youth unemployment** represents another serious challenge for the Croatian labour market. The roots of youth unemployment appear to lie mainly in the lack of previous work experience of the young job applicants. The permanent inclusion of young people in the labour market needs to be assured. Reaching this objective depends on the general promotion of a life cycle approach to work, better matching of labour market needs and adaptation of the education and training systems in response to new skill requirements. In particular this means that more effort should be made to build employment pathways for young people and to reduce youth unemployment. Also, more and better investments in human capital are crucial for improving young people's opportunities.

Another important cause of Croatian underperformance in employment appears to be the **skills mismatch** existing in the labour market. Apart from the insufficient supply of highly skilled people compared with the demand in the labour market, there seem to be serious discrepancies between supply and demand for certain educational and skills profiles in many sectors, which can be exemplified by the lack of IT-related professionals.

In an ever-changing global economy, there should be sufficient room for adaptation to the demand for and supply of labour. From this point of view, the recent Croatian policy initiatives, including the 2003 Labour Code, made an important contribution to increasing the adaptability of the country's labour market, notably by making provision for employment on fixed-term contracts and for the establishment of private and/or temporary employment agencies. However, it is crucial that attempts to improve adaptability do not lead merely to 'flexibility at the margin' with subsequent **segmentation of the labour market** creating groups of workers in precarious jobs with low career prospects. It appears that most of the people leaving the unemployment register, many of them being first-time jobseekers, are employed on fixed-term contracts. While this in itself may not constitute a major problem, it will be vital to ensure that these fixed contracts become a stepping stone to more permanent and secure jobs and do not lead to a succession of precarious jobs.

Some national and ethnic minorities continue to face difficulties in education and on the labour market. Members of the Serb minority, including those who remained in Croatia during the war, face major difficulties concerning access to employment, especially in the war-affected areas.

Among the Roma, unemployment remains endemic. Discrimination of Roma in Croatia continues, whether in terms of access to employment, in schooling, or in general attitudes in society. Finally, the problems facing the Croatian labour market are exacerbated by the considerable **regional disparities** existing in the country as a result of slow development of some remote areas and particularly the areas which were badly damaged during the war. These regions are lagging far behind in comparison, particularly, with the Zagreb region and the coastal areas rich in natural resources.

## **4.2 Priorities for action**

### **Attract and retain more people in employment, increase labour supply and modernise social protection systems**

It is essential that Croatia increase its low employment rate in order to sustain economic and social development and progress towards full employment as required by the Lisbon Strategy. This is a very broad and challenging task, which will require coordinated efforts across a large number of employment and also educational policies. Nevertheless, some of the most pressing priorities can be identified as a result of the previous analysis. Addressing the very low employment and participation rates of two groups in particular, namely prime-age women (especially those with low or inadequate skills) and older workers, should be amongst the main priorities. Another key priority will be to tackle the high youth unemployment rate, as well as the long-term unemployment rate.

Increasing the participation rates for **prime-age women**, particularly those with low or inadequate skills, will require deeper analysis of the existing obstacles preventing them from entering and remaining in the labour market. In addition to the availability of education and training opportunities, reconciliation between work and family life appears to be an important issue; in particular the availability of affordable child care and flexible work arrangements.

#### **Priorities:**

- Review the existing labour market policies to ensure they are well suited to increasing the labour market participation of lower-skilled women, with special emphasis on boosting their motivation to participate in continuing education and training.
- Provide more education, training and work-practice programmes geared to the needs and circumstances of prime-age women (in particular those with low or inadequate skills) returning to the labour market.
- Increase the availability of affordable child care and review the child benefit system in order to analyse whether it would be possible to establish policies that combine the child benefit system with the child care system. In addition, increase the number of one-shift schools to facilitate women's participation in the labour market.
- Examine, in cooperation with the social partners, ways to increase the availability of flexible working arrangements.

The need to improve the labour market participation of older people has become one of the key priorities for the EU in recent years as a result of the ageing population.

Croatia is no exception in this respect and its low employment rate for older workers only increases the urgency of this problem. Raising the employment rate for older workers is essential in order to alleviate labour shortages by making fuller use of the available resources. Reform of the labour market should go beyond the retirement aspect and concentrate on creating conditions encouraging older workers to stay longer on the labour market. This is at the heart of the EU policy approach known as **active ageing**.

**Priorities:**

- Develop policies to support active ageing and ensure that adequate incentives exist for the workers to continue on the labour market while at the same time discouraging early retirement.
- Review and adequately address financial incentives and disincentives for employers to hire and keep older workers.
- Promote access to training for older workers as a part of lifelong learning strategies.

The main objective of youth policies is to ensure that **young people** can make the most of the opportunities they have. For young job-seekers the main difficulty lies in their typically limited experience in the labour market and linked lower level of specific job-related skills, which requires potential employers to invest in their training.

**Priorities:**

- Provide young first-time job-seekers with adapted support and measures that could facilitate labour market entry, such as general employment counselling, counselling particularly focused on first steps in job-seeking, additional training to facilitate easy entry to the labour market, early and personalised support.
- Provide work-practice programmes that would give the young more opportunities to gain work experience.

The importance of enhancing the access to the labour market of vulnerable groups and addressing the **long-term unemployment** problem in Croatia goes beyond the objective of increasing the employment rate and has social implications. The long-term unemployed are highly vulnerable to the depreciation of human capital, social marginalisation and ultimate exclusion from the labour market. Difficulties in accessing the labour market and long-term unemployment tend to disproportionately affect certain vulnerable groups such as people with disabilities, ethnic and/or national minorities, and people living in regions that are lagging behind.

**Priorities:**

- Review and evaluate the existing programmes for the long-term unemployed and people at risk of becoming long-term unemployed and, based on the results of the evaluation, develop an effective policy strategy in this area.
- Provide adequate training for the unemployed and others at risk of becoming unemployed.
- Implement more effectively the current programmes for the vulnerable groups in the labour market and expand them, in particular with a view to making a significant impact on employment of the Serb minority, the Roma and other minorities. In this context,

- Launch separate studies to analyse and monitor the employment situation of the Serb national minority and Roma minority, assessing the risks they face and identifying appropriate policy responses
- Develop and implement an appropriate regional development policy strategy aiming at ensuring more balanced development across the country, while taking into account social inclusion and anti-poverty strategies.

The ability to adequately analyse the demand and supply structure of the Croatian labour market is crucial in order to develop policies aimed at diminishing the mismatch existing in the labour market. Such capacity needs to be further developed in Croatia. This would also improve the guidance available to young people in their choice of education, as well as the design of education and the labour market policies. In this respect, it is very important that the Ministry of Science, Education and Sport work closely with the Ministry of Entrepreneurship, Labour and Economy and, in particular, with the Croatian Employment Service as the institution responsible for implementing the labour market policies and career guidance. This cooperation will be necessary to ensure that both the education and labour aspects are integrated. The ongoing revision of the education curricula is an important step in the process of limiting the **skills mismatch** on the labour market.

***Priorities:***

- Develop institutional prerequisites and capacities to analyse and anticipate labour market skills needs at all levels.
- Improve the organised guidance system for young people in their choice of education and provide better information on labour market needs.

**Improve adaptability of workers and enterprises**

In order to achieve the objectives of the renewed Lisbon Strategy for Growth and Jobs, especially more and better jobs, there is a need to modernise the labour market. The integrated policy strategy of flexicurity is such an instrument which, at the same time, includes modernisation of the European social models. Flexicurity aims at enhancing simultaneously the flexibility of labour markets and work organisation as well as employment and social security, thus improving adaptability of workers and enterprises.

Flexicurity also aims at counteracting the segmentation of labour markets between protected and unprotected categories of workers. This should be undertaken by reviewing overly strict Employment Protection Legislation (EPL) for regular workers ("insiders") and by enabling "outsiders" (i.e. workers under atypical contracts) to progress into more stable forms of employment. Hence, flexicurity is mainly associated with successful transitions from job to job and from unemployment/inactivity to employment as well as with upward mobility and skill development. On the other hand, security should no longer be conceived as keeping the same job throughout working life but, rather, as equipping workers with the tools and skills which are needed to successfully cope with labour market transitions. This encompasses unemployment benefits which, on the one hand, provide adequate income support to the unemployed and, on the other hand, appropriately balance rights and responsibilities of benefit recipients so that the right incentives are in place to encourage smooth re-employment. However, income support needs to be complemented with effective active labour market policies, such as training

opportunities and job search assistance, for all workers, especially the low-skilled and older workers. Finally, given that flexicurity policies may have significant distributional effects and considerable budgetary implications, social consensus is an indispensable precondition for their design and effective implementation, while taking into account public finance constraints.

In Croatia, the recent introduction of private Temporary Work Agencies (TWA), as part of a strategy aimed at enhancing labour market flexibility, has triggered an increase in the share of workers employed under contracts of limited duration, particularly among young people experiencing their first job. However, temporary contracts should not simply provide entry points in the labour market but should also act as stepping stones towards stable and high-quality jobs.

***Priorities:***

- Define a policy strategy aimed at improving the existing combination of flexibility and security in Croatia's labour market, taking into account the principles and pathways laid down for flexicurity (EC Communication "Towards Common Principles of Flexicurity: More and Better Jobs Through Flexibility and Security" (27.06.2007 Brussels, COM(2007) 359 final)) adopted by the European Council on 5 December 2007.
- Implement particular incentives and measures to increase participation of adults in training under two components of the flexicurity concept: comprehensive LLL strategy and effective active labour market policies.
- Develop and implement policies aimed at improving the chances of workers in temporary jobs to progress towards obtaining a regular contract.
- Actively involve the social partners in discussions and development of the above policy solutions.

**Increase investment in human capital through better education and skills**

Higher and more effective investment in education and training is crucial for Croatia, not only to enhance access to employment for all groups of the working-age population, but also to maintain and further improve Croatia's competitive position in the global economy over the coming years. It is a well-known fact that people with low skills find it more difficult to enter and remain in the labour market and Croatia is no exception in this respect, as the figures presented in this paper demonstrate. But the policy focus must expand beyond simply increasing the skills level of the population; the existing skills mismatch problem indicates that also the structure of investment in human capital can be improved and made more efficient.

***Priorities:***

- Integrate the needs of the labour market in education policies at all levels.
- Continue to increase the share of graduates at the upper secondary and tertiary education levels.
- Improve the quality and availability of continuing VET and investigate possible incentives aimed at increasing participation in continuing VET.
- Provide adequate support and create incentives for employers to invest in continuous education of their employees.

- Develop an integrated LLL strategy and extend the duration of compulsory education.

## **Good governance**

Good governance must become a cornerstone of Croatia's labour market reform strategy, as a prerequisite for progress towards the Lisbon objectives in the area of employment.

As the European employment guidelines make clear, establishing a broad partnership for change by involving parliamentary bodies and stakeholders, including those at regional and local levels, is essential for good governance. The social partners, the representatives of employers and workers, have a central role in this process and it is important that sufficient provision be made for social dialogue in accordance with the EU *acquis*. However, the previous analysis shows that the social dialogue in Croatia suffers from serious deficiencies such as the lack of a sufficiently developed bipartite dialogue, poor social dialogue at sectoral level, scarce capacity on the part of the social partners, unclear representativeness criteria for the social partners and fragmentation of trade unions. In general, the influence of social dialogue on the decision-making process and policy design remains weak. The contribution by the tripartite dialogue remains modest. Significant efforts will be needed to address these shortcomings in an effective manner.

### **Priorities:**

- Closely involve the social partners in the implementation of the JAP.
- Develop a strategy for the bipartite dialogue and the social dialogue at sectoral level.
- Establish clear criteria for representativeness of the social partners in the various economic and social councils.
- Establish a programme to enforce the capacities of the social partners' organisations.

In order to ensure effective design, implementation and monitoring of employment policies, it is important that sufficient capacities are put in place. In this respect, good governance also requires greater efficiency in the allocation of administrative and financial resources.

However, in view of the existing inadequacies in this area, it is vital that Croatia should concentrate on increasing both the quantity and quality of the staff and resources needed for the administration of employment policies and in the employment services, as well as enhancing coordination between the labour market institutions.

Resources available through the EU's financial instrument for pre-accession (IPA), and in particular its Component IV on Human Resources Development, will substantially support the recommendations set out in the JAP, as has been highlighted in the Operational Programme<sup>46</sup>. The IPA instrument is designed to assist the candidate countries in policy development and to prepare them for the implementation and management of the Community's Structural Funds, including the

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<sup>46</sup> Operational Programme for Human Resources' Development 2007-2009 (2007HR05IPO001) Instrument for Pre-accession.

European Social Fund. Hence, administrative capacity-building necessary for handling the IPA instrument is of additional importance.

**Priorities:**

- Establish sufficient administrative capacity for policy development, planning, implementation and monitoring in all relevant public bodies and agencies involved at central, regional and local levels. In particular, implement the planned increase of staff in the various labour market institutions in good time to ensure the implementation of the recommendations from the JAP.
- Put in place training and recruitment policies ensuring adequate qualifications for the staff in the various labour market institutions.
- Ensure adequate staffing for the administration and management of the IPA instrument in due time.
- Ensure adequate communication and coordination between the various institutional actors and levels.

The Commission and the Government of the Republic of Croatia intend that the preparation of this Joint Assessment should form the first stage in the process of their joint pre-accession co-operation in the field of employment. Further co-operation will concentrate on the joint monitoring of progress in addressing the priorities identified in the JAP, based on regular follow-up through bilateral exchanges, thematic seminars involving all relevant stakeholders, and reporting on progress by Croatia. In this context, agreement on a "Partnership for economic development" between the Croatian Government and the social partners could be beneficial.

**Priorities:**

- There will be JAP follow-up seminars, the first one in 2008 addressing particularly the role of the social partners in the implementation of the JAP (possibly organised by TAIEX).
- The Croatian Government will present to the Commission a first report on the implementation of the JAP twelve months after its signature.
- On this basis, the Commission and the Croatian Government will discuss progress in the follow-up to the JAP, which may result in a review of its priorities if appropriate.

The follow-up will be carried out in such a way as to ensure consistency between the various processes and instruments in the context of the accession process, particularly as regards policies relating to social inclusion (and notably the implementation of the Joint Inclusion Memorandum) and financial support through the EU Instrument for Pre-accession Assistance (IPA).

## ANNEX

Indicator	2000	2001	2002	2003	2004	2005	2006
GDP per capita (EUR)	4560	4998	5507	5906	6461	7038	7706
GDP, real growth (%)	2.9	4.4	5.6	5.3	4.3	4.3	4.8
GDP, nominal growth (%)	7.7	8.6	9.4	9.5	8.3	7.6	8.3
Exports (% of GDP)	47.1	48.4	45.3	47.1	47.5	47.1	47.9
Imports (% of GDP)	52.3	54.5	56.4	57.9	56.4	55.5	56.8
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40	7.32
Gross external debt (% of GDP), eoy	60.6	60.7	61.5	75.5	79.4	81.7	84.8
Industrial physical output, growth (%)	1.7	6.0	5.4	4.1	3.7	5.1	4.5
Retail sales volume, real growth (%)	14.4	10.0	12.5	3.7	2.6	2.8	2.1
Construction projects vol., growth (%)	-9.1	3.6	12.8	22.8	2.0	-0.8	9.3
Nights spent by tourists, growth (%)	47.0	11.0	3.0	4.0	2.0	7.6	3.1
Producer prices, growth (%)	9.7	3.6	-0.4	1.9	3.5	3.0	2.9
Consumer prices, growth (%)	4.6	3.7	1.7	1.8	2.1	3.3	3.2
Registered employment, eoy	1321476	1340504	1351364	1387910	1397416	1417158	1467398
Registered unemployment, eoy	378544	395141	366162	318684	317577	307851	293153
Gross average wage, growth (%)	7.0	3.9	6.0	4.8	6.4	4.4	6.2

Source: Croatian Bureau of Statistics, *Monthly Statistical Report*, various issues; Ministry of Finance, *Statistical Review*, various issues; Croatian National Bank, *Bulletin*, various issues.; Croatian Employment Service, *Monthly Statistical Bulletin*, various issues.

Year	Live births	Deaths	Natural increase	Immigration	Emigration	Net immigration	Population est.
2000	43746	50246	-6500	29389	5953	23432	4381000
2001	40993	49552	-8559	24415	7488	16927	4437000
2002	40094	50569	-10475	20365	11767	8598	4443000
2003	39668	52575	-12907	18455	6534	11921	4442000
2004	40307	49756	-9449	18383	6812	11571	4439000
2005	42492	51790	-9298	14230	6012	8218	4442000
2006	41446	50378	-8932	14978	7692	7286	4440000

Source: Croatian Bureau of Statistics, *Monthly Statistical Report*, various issues.

Year	Yearly average			
	Employment rate (age 15+) (%)	Unemployment rate (age15+) (%)	Registered employment	Registered unemployment
2000	42.6	16.1	1,340,957	357,872
2001	41.8	15.3	1,348,308	380,195
2002	43.3	15.2	1,359,015	389,741
2003	43.1	14.1	1,392,514	329,799
2004	43.5	13.8	1,409,634	309,875
2005	43.3	12.7	1,420,574	308,738
2006	43.6	11.2	1,467,876	291,616

Source: Croatian Bureau of Statistics, *Monthly Statistical Report*, various issues.

Year 2006	Employment rate (%)					
	Age 15 - 64			Age 55 - 64		
	Total	Men	Women	Total	Men	Women
Croatia	55.6	62.0	49.4	34.3	44.4	25.7
EU-25	64.7	72.0	57.4	43.5	52.8	34.9
EU 2010 goal	70.0	-	min 60.0	min 50.0	-	-

Year 2006	Unemployment rate (15-74) (%)			Long-term unemp. rate (%)			Share of long-term unemployed (%)			Unemployed among the young (%)		
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
Croatia	11.1	9.8	12.7	6.7	5.8	7.7	60.1	59.0	61.1	10.4	10.9	9.8
EU-25	7.9	7.1	9.0	3.6	3.2	4.0	44.9	45.1	44.8	7.8	8.2	7.4

Year 2005	Share of total employment (%)			
	Agriculture	Industry	Market services	Non-market services
Croatia - total	17.3	28.5	32.6	21.5
EU-25 - total	4.9	27.5	37.4	30.2
Croatia - men	16.0	37.6	31.8	14.5
EU-25 - men	5.7	38.0	37.1	19.2
Croatia - women	18.9	17.5	33.6	29.9
EU-25 - women	3.9	14.2	37.7	44.2

Year 2006	Employees with limited duration contract (% of all)			Share of part-time in total employment (%)		
	Total	Men	Women	Total	Men	Women
Croatia	12.9	13.1	12.6	9.4	7.5	11.7
EU-25	14.9	14.4	15.5	18.8	7.7	32.7

Year 2005	Share in total employment (%)			
	Highly skilled non-manual	Low skilled non manual	Skilled manual	Elementary occupations
Croatia - total	28.4	25.7	38.2	7.7
EU-25 - total	38.6	24.9	26.8	9.7
Croatia - men	28.9	16.4	48.1	6.6
EU-25 -men	37.3	13.7	40.5	8.4
Croatia - women	27.8	36.7	26.4	9.1
EU-25 - women	40.2	38.9	9.7	11.2

Year 2005	Population with at least level ISCED 3-4 (%)					
	Population 25-64			Population 20-24		
	Total	Men	Women	Total	Men	Women
Croatia	72.9	79.5	66.6	93.9	93.5	94.4
EU-25	68.9	70.7	67.2	76.9	74.4	79.5

Year 2005	Early school leavers (18-24 years) (%)			Participants in education or training (25-64 years) (%)		
	Total	Men	Women	Total	Men	Women
Croatia	4.8	5.6	3.8	2.3	2.3	2.3
EU-25	15.2	17.3	13.1	11.0	10.1	11.9

Sources for the data in the tables at this page: Eurostat, *Labour Force Survey – Principal Results 2005* (no later publication available); Eurostat's electronic database, various dates of extraction.

Age: 15+	Activity rate (%)			Employment rate (%)			Unemployment rate (%)		
	Year / semester	Total	Men	Women	Total	Men	Women	Total	Men
1998/I	53.2	61.5	45.9	47.2	54.7	40.7	11.2	11.1	11.3
1998/II	52.9	60.6	46.3	46.8	54.2	40.4	11.6	10.7	12.6
1999/I	51.8	59.2	45.5	45.3	52.0	39.5	12.6	12.1	13.2
1999/II	51.9	59.3	45.3	44.3	51.3	38.2	14.5	13.5	15.7
2000/I	50.4	57.8	43.8	42.8	49.7	36.6	15.1	14.1	16.3
2000/II	51.1	59.0	44.2	42.4	49.6	36.1	17.0	15.9	18.2
2001/I	49.0	57.1	41.8	41.5	49.2	34.7	15.3	13.9	17.0
2001/II	50.3	58.7	43.0	42.1	50.3	35.0	16.3	14.4	18.7
2002/I	50.9	58.7	43.9	43.1	50.8	36.2	15.2	13.4	17.4
2002/II	50.9	58.5	44.1	43.5	50.7	37.1	14.4	13.3	15.8
2003/I	50.3	58.5	42.9	43.2	51.0	36.1	14.1	12.8	15.8
2003/II	50.2	58.1	42.3	43.0	50.3	36.5	14.4	13.3	15.7
2004/I	51.1	59.3	43.7	44.0	52.0	37.0	13.8	12.4	15.4
2004/II	49.9	57.2	43.4	43.0	50.4	36.4	13.8	11.9	16.0
2005/I	49.9	57.3	43.3	43.3	50.2	37.3	13.1	12.4	13.9
2005/II	49.2	57.2	42.1	43.2	51.0	36.2	12.3	11.0	14.0
2006/I	48.3	55.7	41.8	42.6	49.9	36.1	11.8	10.3	13.5
2006/II	49.8	56.5	43.8	44.5	51.2	38.6	10.5	9.3	11.9

Source for this and the following tables: Croatian Bureau of Statistics, *Labour Force Survey Results*, various issues.

Age: 15-24	Activity rate (%)			Employment rate (%)			Unemployment rate (%)		
	Year / semester	Total	Men	Women	Total	Men	Women	Total	Men
1998/I	41.3	43.8	31.7	28.3	28.5	28.1	31.4	34.9	27.7
1998/II	44.2	45.5	42.8	30.5	32.1	28.9	31.0	29.5	32.5
1999/I	41.2	41.2	41.2	27.3	27.4	27.2	33.8	33.6	33.9
1999/II	43.3	44.1	42.5	26.4	28.3	24.3	39.2	36.0	42.7
2000/I	40.4	41.5	39.1	26.8	29.2	24.3	33.6	29.8	37.9
2000/II	40.1	41.7	38.3	22.8	24.1	21.3	43.1	42.1	44.3
2001/I	39.6	42.5	36.6	23.3	26.3	20.1	41.2	38.2	45.0
2001/II	41.9	43.3	40.5	24.4	25.2	23.7	41.7	41.9	41.6
2002/I	37.6	41.3	33.7	23.8	27.1	20.3	36.6	34.3	39.8
2002/II	39.9	42.6	37.1	26.2	27.6	24.6	34.4	35.1	33.6
2003/I	37.8	41.7	33.7	24.3	27.6	20.7	35.9	33.8	38.7
2003/II	38.4	42.4	34.2	24.7	27.8	21.3	35.8	34.3	37.7
2004/I	39.5	43.9	34.6	26.5	30.9	21.7	32.9	29.7	37.3
2004/II	38.5	41.1	35.6	25.5	28.9	21.7	33.8	29.7	39.2
2005/I	37.2	41.5	32.4	24.9	28.8	20.5	33.1	30.6	36.8
2005/II	38.2	42.3	33.8	26.0	29.6	22.2	32.0	30.2	34.4
2006/I	32.8	36.7	28.7	23.4	27.1	19.4	28.7	25.9	32.5
2006/II	38.0	41.1	34.5	27.0	29.5	24.2	29.0	28.2	30.0

Age: 25-49	Activity rate (%)			Employment rate (%)			Unemployment rate (%)		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	83.2	89.1	77.6	75.7	81.6	70.0	9.0	8.4	9.7
1998/II	83.0	88.3	77.9	75.1	80.7	69.8	9.5	8.6	10.4
1999/I	82.7	87.4	78.2	73.9	78.6	69.4	10.6	10.0	11.3
1999/II	83.4	88.3	78.8	73.7	78.8	68.8	11.7	10.7	12.8
2000/I	82.0	86.7	77.5	70.6	75.2	66.1	13.9	13.3	14.7
2000/II	83.3	88.6	78.3	71.1	76.7	65.8	14.6	13.4	16.0
2001/I	82.7	88.2	77.4	72.1	78.1	66.3	12.8	11.5	14.3
2001/II	82.4	88.1	76.9	70.7	77.9	63.7	14.2	11.5	17.2
2002/I	83.5	88.5	78.6	72.1	78.4	65.9	13.7	11.4	16.2
2002/II	83.3	88.1	78.6	72.6	78.4	66.9	12.9	11.0	14.9
2003/I	82.7	88.0	77.6	72.5	78.7	66.5	12.4	10.6	14.4
2003/II	83.2	88.6	78.0	72.6	78.6	66.7	12.8	11.3	14.5
2004/I	83.7	88.7	78.7	73.1	78.9	67.3	12.7	11.1	14.6
2004/II	83.3	87.8	78.9	72.7	78.5	67.0	12.7	10.6	15.0
2005/I	84.0	87.2	80.8	74.3	78.0	70.6	11.6	10.6	12.6
2005/II	83.2	87.3	79.1	74.2	79.7	68.6	10.9	8.7	13.3
2006/I	81.8	85.9	77.7	72.8	78.2	67.4	11.0	8.9	13.3
2006/II	83.7	87.2	80.2	76.1	80.7	71.6	9.0	7.5	10.7

Age: 50-64	Activity rate (%)			Employment rate (%)			Unemployment rate (%)		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	39.2	51.6	28.5	36.8	48.5	26.8	6.0	5.9	6.1
1998/II	38.0	49.6	28.1	36.0	47.3	26.4	5.3	4.6	6.2
1999/I	38.2	49.9	28.1	36.1	46.7	26.9	5.6	6.4	4.4
1999/II	38.7	50.3	28.3	35.9	46.3	26.7	7.2	8.1	5.7
2000/I	39.2	51.1	29.0	36.0	46.7	26.7	8.3	8.5	9.7
2000/II	40.2	53.1	28.6	36.3	48.0	25.9	9.7	7.9	9.7
2001/I	37.7	52.3	25.0	34.7	48.3	23.0	7.9	7.8	8.0
2001/II	40.9	54.1	29.3	37.5	49.5	27.0	8.1	8.3	7.8
2002/I	40.6	52.0	30.4	37.0	47.7	27.5	8.8	8.3	9.6
2002/II	43.0	55.4	32.5	39.3	50.6	29.8	8.5	8.6	8.3
2003/I	43.0	56.2	31.1	39.2	51.2	28.3	8.8	8.8	8.9
2003/II	44.2	55.1	34.5	40.2	50.1	31.4	9.0	9.2	8.8
2004/I	46.0	58.4	35.1	42.1	53.5	32.1	8.4	8.3	8.5
2004/II	46.6	57.6	36.6	42.8	53.4	33.2	8.1	7.3	9.3
2005/I	47.4	59.4	37.1	43.0	53.9	33.6	9.4	9.3	9.4
2005/II	48.2	61.0	36.6	44.3	56.0	33.7	8.1	8.3	7.8
2006/I	49.3	61.2	38.5	45.3	56.2	35.3	8.2	8.2	8.2
2006/II	48.5	58.2	39.9	45.0	54.7	36.3	7.3	6.1	8.9

Age: 15-64	Activity rate (%)			Employment rate (%)			Unemployment rate (%)		
	Year / semester	Total	Men	Women	Total	Men	Women	Total	Men
2001/I	61.0	68.5	53.8	51.4	58.7	44.4	15.8	14.3	17.5
2001/II	62.2	69.3	55.5	51.8	59.0	44.9	16.8	14.8	19.2
2002/I	62.3	68.8	56.0	52.6	59.4	46.0	15.6	13.7	17.9
2002/II	62.9	69.6	56.5	53.6	60.1	47.4	14.8	13.6	16.1
2003/I	62.2	69.3	55.3	53.2	60.2	46.3	14.5	13.1	16.3
2003/II	62.4	60.1	56.1	53.2	59.6	47.0	14.9	13.8	16.2
2004/I	63.8	70.9	56.8	54.7	61.8	47.8	14.2	12.8	16.0
2004/II	63.2	69.1	57.4	54.3	60.7	47.9	14.2	12.2	16.5
2005/I	63.2	69.3	57.2	54.6	60.4	49.0	13.5	12.8	14.4
2005/II	63.1	69.9	56.4	55.0	62.0	48.2	12.7	11.3	14.5
2006/I	61.7	68.0	55.6	54.2	60.8	47.8	12.1	10.6	14.0
2006/II	63.5	68.9	58.2	56.6	62.3	51.0	10.9	9.6	12.4

Age: 15-24	Employment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
	Year / semester	Total	Men	Women	Total	Men	Women	Total	Men
1998/I	17.1	21.4	13.2	59.0	59.4	58.5	58.7	58.2	58.9
1999/I	15.2	17.7	12.4	59.1	60.1	58.2	74.2	68.6	77.5
2000/I	14.4	17.0	11.4	56.2	57.8	54.4	88.2	86.2	88.9
2000/II	14.4	18.6	8.8	55.0	57.8	52.3	69.1	64.3	71.9
2001/I	8.2	10.4	5.9	32.8	36.5	28.7	32.8	36.5	28.7
2001/II	10.3	11.8	8.5	32.0	33.3	30.7	32.0	33.3	30.7
2002/I	8.2	11.8	4.4	33.6	36.6	30.3	42.5	-	37.8
2002/II	7.0	9.9	3.7	36.9	38.5	35.3	56.0	46.6	62.3
2003/I	7.2	9.3	5.0	35.3	40.2	30.0	50.2	42.6	56.4
2003/II	8.0	10.5	5.4	33.9	37.4	29.9	58.0	-	61.7
2004/I	7.5	10.6	4.3	37.2	42.4	31.3	51.3	46.0	54.8
2004/II	4.7	5.8	3.3	36.7	42.6	30.0	47.4	-	49.5
2005/I	5.5	8.0	2.9	35.8	41.0	29.7	58.9	-	65.1
2005/II	5.8	6.3	5.2	36.9	42.4	30.7	54.8	54.1	55.1

Notes: The CBS's data for 2006 are not yet available. Data for some categories are not reliable due to small sample.

Age: 25-49	Employment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	69.3	83.2	59.9	85.9	89.7	81.7	93.9	94.2	93.6
1999/I	69.5	81.1	61.3	85.1	87.9	82.0	93.1	93.1	93.1
2000/I	70.0	81.2	61.5	84.0	87.9	79.6	92.5	89.5	95.2
2000/II	64.7	76.4	56.9	86.3	90.7	81.4	93.8	92.8	94.5
2001/I	55.3	65.1	69.4	75.0	79.9	69.4	86.5	87.5	85.6
2001/II	56.1	71.0	66.5	72.6	78.1	66.5	85.6	86.7	84.6
2002/I	58.6	71.1	48.4	73.7	79.1	67.8	85.2	85.7	84.7
2002/II	57.0	67.3	49.1	73.7	79.3	67.4	88.0	88.2	87.9
2003/I	56.8	68.0	48.6	74.4	79.4	68.6	88.3	90.1	86.9
2003/II	56.1	66.2	48.9	74.5	80.3	68.0	87.0	87.0	87.0
2004/I	58.8	72.0	48.7	74.0	78.9	68.5	87.7	87.4	88.0
2004/II	57.1	70.9	47.2	74.5	78.7	69.7	87.5	87.5	87.5
2005/I	61.6	69.3	55.7	75.0	78.4	71.0	88.4	87.0	89.5
2005/II	59.6	70.2	52.0	74.7	80.0	68.6	89.1	88.5	89.7

Note: The CBS's data for 2006 are not yet available.

Age: 50-59	Employment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	37.0	57.8	27.5	51.1	61.2	36.9	74.1	83.6	63.2
1999/I	39.8	60.0	30.1	47.5	60.4	31.0	73.9	76.5	70.6
2000/I	39.7	58.5	30.8	47.2	60.6	30.6	75.7	79.2	70.1
2000/II	34.0	53.2	26.3	54.1	63.3	41.2	75.8	81.9	67.7
2001/I	34.8	57.0	23.9	44.2	53.6	30.4	73.3	81.0	61.6
2001/II	34.9	55.5	25.2	51.2	63.6	34.0	72.1	74.2	69.9
2002/I	33.8	48.4	26.8	49.7	61.3	34.1	73.3	78.0	68.2
2002/II	35.9	52.0	28.0	50.1	60.3	36.7	73.0	76.1	69.9
2003/I	36.6	55.0	26.7	49.6	63.1	30.4	79.9	81.9	77.5
2003/II	40.7	55.7	32.4	49.2	61.8	33.5	75.2	76.1	74.1
2004/I	40.0	56.3	31.3	54.4	65.1	40.5	75.5	78.3	72.6
2004/II	42.0	56.2	34.0	53.0	63.6	39.3	77.9	80.5	74.9
2005/I	39.9	60.1	30.7	52.4	63.2	38.8	74.5	78.5	70.6
2005/II	40.6	56.8	32.4	53.6	64.8	38.0	76.8	77.1	76.5

Note: The CBS's data for 2006 are not yet available.

Age: 15-59	Employment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	45.3	56.4	37.8	74.8	78.6	70.4	87.9	90.6	85.3
1999/I	45.7	53.5	39.9	73.1	77.3	68.7	87.9	87.9	87.9
2000/I	45.6	53.6	39.6	71.1	76.0	65.6	87.3	85.7	89.0
2000/II	40.8	48.0	35.5	73.4	78.4	67.7	88.2	88.4	88.0
2001/I	36.1	43.6	30.8	59.9	65.3	53.7	81.5	84.0	79.1
2001/II	37.4	46.9	30.4	59.5	65.7	52.6	80.3	81.4	79.3
2002/I	37.2	45.8	30.5	60.6	66.5	54.0	80.8	82.7	79.2
2002/II	36.3	43.3	30.9	61.2	66.9	54.8	82.8	83.4	82.4
2003/I	36.7	44.0	31.1	61.2	67.8	53.4	84.8	86.0	83.7
2003/II	37.7	44.7	32.6	60.4	66.9	53.0	82.8	82.6	83.0
2004/I	38.6	47.5	31.9	62.2	68.1	55.2	83.0	83.3	82.7
2004/II	38.3	44.8	33.1	61.8	67.7	55.0	82.9	83.9	82.0
2005/I	38.2	44.6	33.4	61.8	66.9	55.6	82.7	82.9	82.6
2005/II	37.7	43.8	33.3	61.9	68.4	54.0	83.9	83.6	84.2

Note: The CBS's data for 2006 are not yet available.

Age: 15-59	Unemployment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
Year / semester	Total	Men	Women	Total	Men	Women	Total	Men	Women
1998/I	12.3	12.9	11.7	13.5	13.2	13.9	5.2	4.1	6.3
1999/I	12.2	12.8	11.7	15.0	14.0	16.1	8.4	7.0	9.8
2000/I	15.2	14.4	16.0	17.2	15.4	19.6	12.2	12.3	12.1
2000/II	18.7	20.9	16.6	19.3	17.2	22.1	11.3	9.6	12.7
2001/I	16.2	15.5	16.8	18.4	16.4	21.2	7.6	6.4	8.9
2001/II	16.6	15.5	17.8	19.1	16.3	22.8	10.1	9.4	10.7
2002/I	16.6	13.6	19.8	17.4	15.1	20.3	9.4	8.8	10.0
2002/II	16.4	15.5	17.4	16.8	15.1	19.1	7.8	7.3	8.2
2003/I	17.5	17.0	17.9	16.1	13.9	19.2	7.7	6.5	8.8
2003/II	16.9	17.6	16.1	16.7	14.5	19.7	8.4	7.9	8.8
2004/I	17.1	15.9	18.3	15.7	13.4	18.7	8.1	8.5	7.7
2004/II	16.1	14.8	17.5	15.7	13.0	19.4	7.8	6.9	8.7
2005/I	14.4	15.0	13.7	15.6	13.8	18.1	6.5	6.7	6.3
2005/II	13.7	12.9	14.5	14.7	12.4	17.9	6.5	6.2	6.8

Note: The CBS's data for 2006 are not yet available.

Age: 25-49	Unemployment rate by educational attainment level (%)								
	Less than upper second.			Upper secondary			Tertiary		
	Year / semester	Total	Men	Women	Total	Men	Women	Total	Men
1998/I	12.1	11.6	12.6	9.1	8.6	9.8	5.3	4.0	6.5
1999/I	12.6	11.7	13.4	10.6	10.4	10.9	8.6	7.1	10.1
2000/I	15.9	13.6	18.1	14.1	12.6	15.8	11.5	15.4	8.4
2000/II	19.4	21.0	17.9	14.2	12.4	16.6	12.3	10.8	13.3
2001/I	15.4	15.2	15.6	13.4	11.6	15.7	8.0	6.7	9.1
2001/II	17.4	14.1	20.9	14.4	11.5	17.9	9.9	8.5	11.0
2002/I	16.2	11.7	21.0	13.9	11.9	16.5	9.9	8.7	10.8
2002/II	17.0	15.3	18.6	13.4	11.0	16.3	7.6	6.8	8.3
2003/I	16.0	14.4	17.7	12.6	10.6	15.1	7.9	6.2	9.2
2003/II	16.8	17.2	16.4	12.8	10.4	15.8	9.2	8.3	9.8
2004/I	17.4	14.9	20.2	13.0	10.9	15.5	7.5	7.7	7.2
2004/II	17.5	15.3	19.7	12.7	10.0	15.9	7.9	7.9	8.0
2005/I	15.1	14.9	15.4	12.0	10.2	14.1	4.5	7.4	5.6
2005/II	14.4	11.1	17.4	11.3	8.9	14.4	6.2	5.5	6.7

Notes: The CBS's data for 2006 are not yet available. Data for some categories are not reliable due to small sample.

Sector NACE Rev. 1.1	Share of the employed - LFS (%)									
	Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	
A	16.5	16.3	14.2	15.3	14.9	16.5	16.1	17.0	14.0	
B	0.2	0.1	0.4	0.2	0.4	0.3	0.4	0.3	0.3	
C	0.6	0.6	0.5	0.6	0.6	0.7	0.6	0.6	0.5	
D	21.0	21.8	20.0	20.8	20.5	19.1	19.3	18.0	19.1	
E	1.9	1.8	2.0	2.0	1.8	1.8	1.9	1.9	1.5	
F	6.4	6.5	6.5	6.6	6.9	8.1	8.2	8.2	8.4	
G	13.4	13.2	14.2	14.4	14.0	13.9	13.8	14.0	14.8	
H	5.4	5.0	5.1	5.3	5.7	5.5	5.6	5.3	5.7	
I	7.2	6.8	7.0	7.0	7.0	6.6	6.6	6.6	6.6	
J	2.2	2.4	2.4	2.0	2.3	2.1	2.0	1.8	2.5	
K	3.9	3.8	4.4	4.1	4.1	4.2	4.0	4.8	5.1	
L	7.1	7.1	8.0	7.2	7.3	6.3	6.6	6.4	6.3	
M	4.9	5.4	5.7	5.2	5.8	5.4	5.8	5.6	5.8	
N	6.0	6.0	5.9	5.7	5.4	5.7	5.6	5.4	5.4	
O	3.4	3.0	3.8	3.3	3.4	3.5	3.7	4.0	4.1	
P	0.3	0.2	0.2	0.3	0.4	0.3	0.2	0.3	0.3	
Q	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Source: CBS, *Labour Force Survey Results*, various issues; authors' calculations. Note: the figures are yearly averages.

Sector	Share in real GDP (%)								
	1998	1999	2000	2001	2002	2003	2004	2005	2006
AB	8.1	7.9	7.8	7.6	7.4	6.4	6.8	6.5	6.4
CDE	22.6	23.4	23.6	23.5	22.9	23.1	23.2	23.5	23.5
F	5.9	5.3	4.8	4.7	4.9	5.7	6.0	5.9	6.1
G	10.2	9.1	9.2	10.3	12.1	13.1	12.7	12.7	12.5
H	2.6	2.6	2.9	2.8	2.9	3.1	3.0	3.0	3.0
I	7.5	7.1	7.3	7.8	7.4	7.4	7.7	7.8	8.1
JK	12.0	12.6	12.3	11.9	11.6	11.5	11.4	11.6	12.1
LMNOP	16.5	17.1	16.9	16.1	15.2	14.3	13.9	13.5	13.1
FISIM	3.2	3.1	3.0	3.0	2.9	2.9	2.8	2.9	3.1
GVA	82.1	82.2	81.8	81.7	81.5	81.7	81.8	81.6	81.6
TAX - SUB	17.9	17.8	18.2	18.3	18.5	18.3	18.2	18.4	18.4
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CBS, *Monthly Statistical Report*, various issues; authors' calculations. Note: GVA = gross value added; FISIM = financial intermediation services indirectly measured; TAX – SUB = taxes on final products less subsidies.

Sector	Registered employment			Nominal gross value added per worker (HRK)			Nominal average gross wage (HRK)		
	2000	2006	Change (%)	2000	2006	Change (%)	2000	2006	Change (%)
AB	118689	79581	-32.9	94701	196064	107.0	4224	5623	33.4
CDE	324488	327944	1.1	97196	156795	61.3	4248	6188	45.7
F	88749	130375	46.9	66209	114286	72.6	3663	5593	52.7
G	198309	251155	26.6	66361	106337	60.2	3875	5701	47.1
H	74960	85981	14.7	56257	92509	64.4	3859	5639	46.1
I	96503	98388	2.0	128752	223757	73.8	5461	7948	45.5
JK	96584	133448	38.2	195301	299712	53.5	6153	8350	35.7
LMNOP	339401	358143	5.5	89393	112625	26.0	5921	7033	18.8

Source: CBS, *Employment and Wages*, various issues; CBS, *Monthly Statistical Report*, various issues; authors' calculations. Note: Employment: legal persons and small trades and crafts, the sector AB includes individual farmers; the average gross wage: legal persons.

Sector denotation:

A – agriculture, hunting and forestry

B – fishing

C – mining and quarrying

D – manufacturing

E – electricity, gas and water supply

F – construction

G – wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods

H – hotels and restaurants

I – transport, storage and communication

J – financial intermediation

K – real estate, renting and business services

L – public administration and defence; compulsory social security

M – education

N – health care and social work

O – other community, social and personal services

P – activities of households

Q – extra-territorial organizations and bodies

County	Unemployment rate (%)		Population	GDP per capita (HRK)
	March 2003	March 2007	March 2001	2004
County of Zagreb	21.7	16.1	309696	36200
Krapina-Zagorje	17.1	12.8	142432	33195
Sisak-Moslavina	33.0	28.8	185387	36064
Karlovac	29.8	25.5	141787	35784
Varaždin	15.6	12.4	184769	41478
Koprivnica-Križevci	18.4	16.0	124467	43891
Bjelovar-Bilogora	26.2	24.8	133084	35832
Primorje-Gorski Kotar	15.2	13.0	305505	55080
Lika-Senj	22.9	22.9	53677	61431
Virovitica-Podravina	32.1	29.4	93389	35264
Požega-Slavonija	24.6	21.2	85831	34436
Slavonski Brod-Posavina	33.0	29.1	176765	28161
Zadar	27.5	22.5	162045	38088
Osijek-Baranja	29.3	26.0	330506	37238
Šibenik-Knin	35.0	26.4	112891	34786
Vukovar-Sirmium	37.1	33.1	204768	27482
Split-Dalmatia	26.6	22.9	463676	38426
Istria	9.9	8.9	206344	66280
Dubrovnik-Neretva	23.0	19.4	122870	45747
Međimurje	17.0	14.4	118426	37645
City of Zagreb	9.3	7.2	779145	87396

Source: Croatian Employment Service, *Monthly Statistical Bulletin*, various issues; Pension insurance Institute, *Statistical Information*, various issues; CBS, *GDP Estimates by Region*; CBS, *Statistical Yearbook*, various issues; authors' calculations.

Participants in ALMP implemented by CES from March 2002 to December 2005								
County	TOTAL	A	B	C1	C2	D	E	F
County of Zagreb	2 686	204	105	266	1 614	228	9	260
Karpina-Zagorje	2 871	75	75	243	2 138	117	20	203
Sisak-Moslavina	2 924	73	92	196	1 970	229	4	360
Karlovac	2 271	98	79	133	1 293	182	13	473
Varaždin	6 773	241	259	491	4 920	266	40	556
Koprivnica-Križevci	2 448	53	112	185	1 731	92	20	255
Bjelovar-Bilogora	3 441	84	56	221	2 552	187	0	341
Primorje-Gorski Kotar	3 277	622	48	330	1 510	347	12	408
Lika-Senj	1 173	28	7	32	831	99	0	176
Virovitica-Podravina	2 956	59	44	161	2 171	104	0	417
Požega-Slavonija	1 614	70	30	130	1 177	46	3	158
Slavonski Brod-Posavina	2 221	85	60	56	1 469	184	0	367
Zadar	1 764	175	47	84	1 040	122	4	292
Osijek-Baranja	7 670	313	171	434	4 950	793	13	996
Šibenik-Knin	3 255	107	44	155	2 242	262	11	434
Vukovar-Sirmium	3 490	61	25	78	2 480	375	0	471
Split-Dalmatia	8 386	650	103	729	5 171	763	40	930
Istria	3 221	259	81	258	2 209	217	12	185
Dubrovnik-Neretva	2 342	219	48	266	1 075	177	6	551
Međimurje	3 832	99	110	234	2 901	163	25	300
City of Zagreb	11 756	2 170	278	1 927	4 991	1 263	107	1 020
TOTAL	80371	5745	1874	6609	50435	6216	339	9153

Source: Croatian Employment Service, *Monthly Statistical Bulletin*, December 2005.

Subprogrammes:

Programme A: "From College to Work" – all university graduates not older than 27 who have earned their degree within an average studying period established for a particular faculty for the past year and without internship completed,

Programme B: "From the Classroom to the Workshop" – young skilled persons with no work experience who are registered with the CES for not less than six months or students who will finish their vocational school during the year,

Programme C: "From Education to Work for All"

C1 – Persons with no work experience of less than 30 years of age, registered with the CES for more than 30 days,

C2 – All unemployed persons on the CES register for longer than 30 days,

Programme D: "With Experience to Profit" – women above 45 and men above 50 years of age for at least six months on the CES register,

Programme E: "Chance for Us, Also" – disabled persons whose invalidity status was diagnosed before they were 15, all other unemployed persons with disabilities and hard-to-place persons,

Programme F: "Jobs for Veterans" – unemployed defence-war veterans, children and spouses of killed and missing veterans,

Participants in ALMP implemented by CES in 2006										
County	Total	1	2	3	4	5,1,1	5,1,2	5,2	6	
County of Zagreb	95	29	36	24	6	0	0	0	0	
Karpina-Zagorje	212	57	30	7	9	0	45	59	5	
Sisak-Moslavina	307	48	91	33	21	0	1	98	15	
Karlovac	112	20	25	10	8	0	0	17	32	
Varaždin	300	98	100	41	13	10	31	6	1	
Koprivnica-Križevci	144	29	43	8	4	0	7	33	20	
Bjelovar-Bilogora	309	24	35	11	8	0	46	139	46	
Primorje-Gorski Kotar	172	48	41	36	7	0	6	34	0	
Lika-Senj	29	2	13	2	7	0	0	0	5	
Virovitica-Podravina	189	22	39	22	13	1	10	44	38	
Požega-Slavonija	68	18	27	7	4	0	0	12	0	
Slavonski Brod-Posavina	167	27	50	14	15	0	0	61	0	
Zadar	66	25	16	20	5	0	0	0	0	
Osijek-Baranja	483	67	158	62	31	0	0	73	92	
Šibenik-Knin	170	16	49	19	14	0	29	8	35	
Vukovar-Sirmium	282	28	97	28	28	1	0	19	81	
Split-Dalmatia	454	92	111	56	24	0	32	96	43	
Istria	51	26	10	14	1	0	0	0	0	
Dubrovnik-Neretva	82	19	12	16	5	0	0	26	4	
Međimurje	301	72	80	24	12	1	60	41	11	
City of Zagreb	812	257	175	125	33	0	95	107	20	
Total	4805	1024	1238	579	268	13	362	873	448	

Source: Croatian Employment Service, *Monthly Statistical Bulletin*, December 2006.

Measures:

Measure 1: Employment co-financing of young persons without work experience

Measure 2: Employment co-financing of long-term unemployed

Measure 3: Employment co-financing of women above the age of 45 and men above the age of 50

Measure 4: Employment co-financing of special groups of the unemployed

Measure 5,1,1: Education co-financing for the known employer - new employment

Measure 5,1,2: Education co-financing for the known employer - job retaining

Measure 5,2: Co-financing of educational activities for an unknown employer

Measure 6: Public works

**Employment Protection Legislation strictness**

<b>Country</b>	<b>Regular Employment</b>	<b>Temporary Employment</b>	<b>Collective Dismissals</b>	<b>Overall Indicator</b>
Bulgaria	2.3	2.8	4.4	2.8
<b>Croatia</b>	<b>2.8</b>	<b>3.9</b>	<b>5.0</b>	<b>3.6</b>
<b>Croatia after labour law</b>	<b>2.6</b>	<b>2.6</b>	<b>3.5</b>	<b>2.7</b>
Czech Rep.	3.0	0.5	4.3	2.2
Estonia	2.9	1.3	4.1	2.4
Hungary	2.1	0.8	3.4	1.8
Poland	2.3	1.0	3.9	2.0
Slovakia	2.6	1.2	4.4	2.3
Slovenia	3.4	2.5	4.8	3.3
<b>EU average</b>	<b>2.4</b>	<b>2.1</b>	<b>3.2</b>	<b>2.4</b>
<b>OECD average</b>	<b>2.0</b>	<b>1.7</b>	<b>2.9</b>	<b>2.0</b>

Sources: Vedran Šošić (2004).

**Injuries at work and fatal accidents at work (index)**

1998=100	1998	1999	2000	2001	2002	2003
No of injuries	100,00	99,34	96,02	94,68	92,24	100,34
No of fatal accidents	100,00	50,00	69,05	73,81	71,43	111,90

Sources: State Inspectorate - Directorate for labour and health and safety on workplace.