

HARNESSING HUMAN CAPITAL FOR GROWTH IN CROATIA

Unleashing Potential for Economic
Take-off amid Demographic and
Technological change

Zagreb, April 10, 2024



Croatia's Demographic Landscape: Navigating Challenges of an Aging and Declining Population



Fertility rate



Total population
million



Working age population (20-64)
million

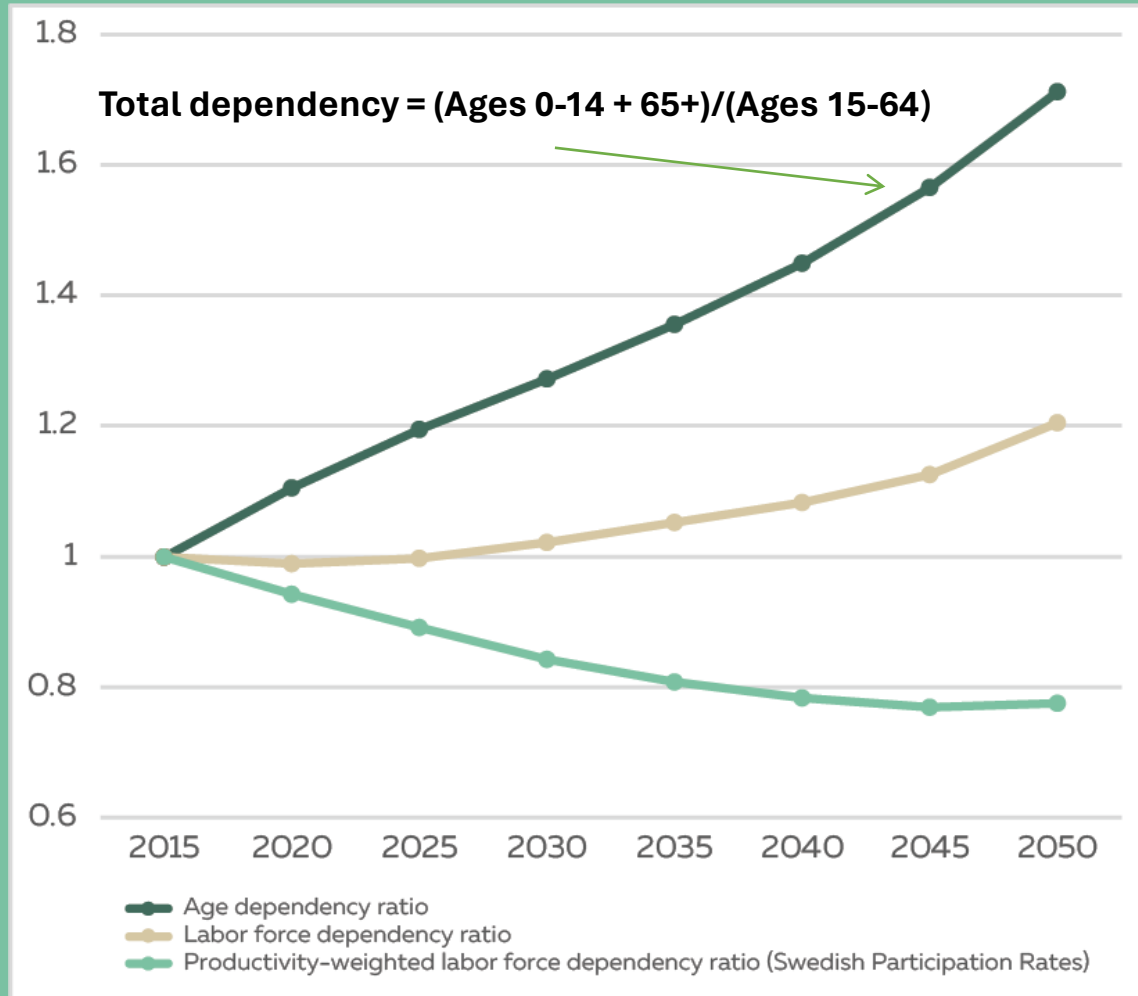


Old age (65+)
dependency ratio



Despite the Demographic Trend Economic Behavior Can Radically Change Social and Economic Outcomes

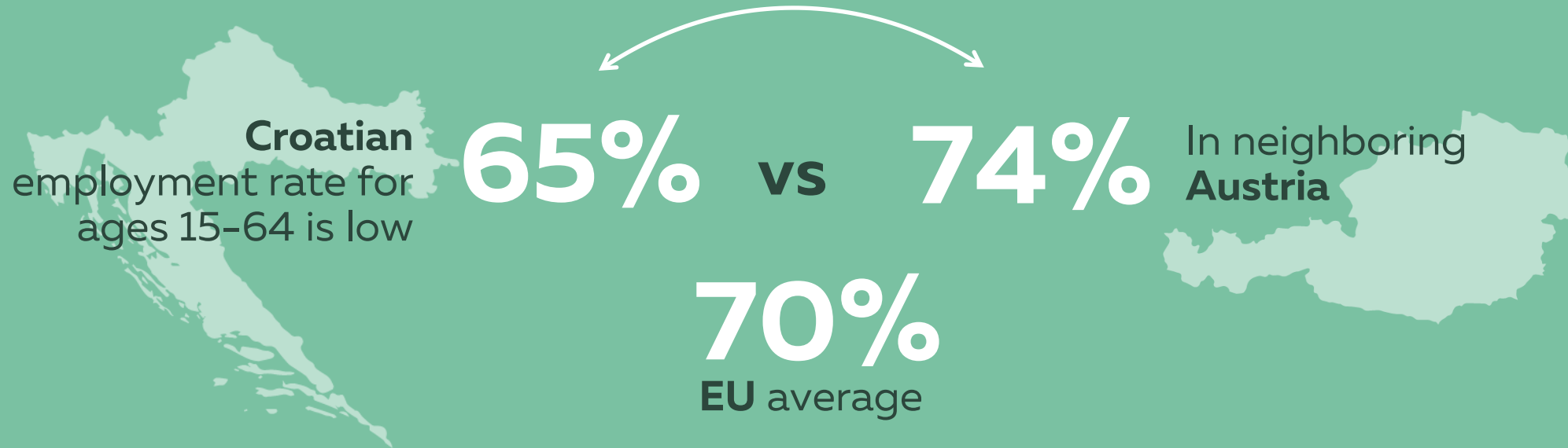
Figure: Three age dependency scenarios for Croatia (%)



- The three total dependency ratio scenarios tell different stories
- Higher participation of human capital can radically change the dependency ratio

Based on Marois G,
Bélanger A, &
Lutz W. (2020)

Unlocking the Full Potential of Croatia: Boost Workforce Participation



- Enabling Croatians to work and shrinking the “gaps” in labor force participation will be key

Stimulating economic participation and improvements in human capital can bring income convergence with the EU by the 2030s



business as usual
scenario

= 1.6%

average per capita GDP
growth 2025-2050



optimistic scenario
if reforms to improve
participation and
human capital

= 3%

average per capita GDP
growth 2025-2050

- The “**business as usual**” growth rate will not be enough for convergence with the EU
- The **optimistic scenario** requires ambitious reforms to increase participation and improve human capital.

GAP 1: High Youth NEET (Not in Education, Employment, Training) and Unemployment rates

Youth
NEET

= 12%

15–24
age group

Youth
Unemployment

= 18%



Risks include:

- Missing out on a key phase of building competencies, identity, and financial independence
- Early on-the-job skill formation is critical for career progression and earnings growth over a lifetime

Causes associated with high NEET among youth?



IMMOBILITY

67% of youth co-reside with parents



SKILLS MISMATCH

16% of firms report skills as the main problem



SCHOOL-TO-WORK TRANSITION CHALLENGES

Only half of youth graduates have secure jobs a year after graduation



GAP 2: Low employment rates among women by age group

15-24



23% vs. **32%** in EU – 27
23% vs. **34%** gap relative to men

25-29



67% vs. **72%** in EU – 27
67% vs. **83%** gap relative to men

50-64



52% vs. **63%** in EU – 27
52% vs. **62%** gap relative to men



**Break down the
barriers: low flexibility
and high care burden
lead to low female
labor participation in
Croatia**

6% vs. 28%

share of women
reporting part-
time employment
compared to the
average in EU

17% vs. 1%

share of women
reporting
inactivity due to
care for children
or other family
reasons compared
to men

8% vs. 14%

self-employment
rate of women vs.
men

GAP 3: Much of Croatia's employment gap and underutilized productive capacity occurs after age 50

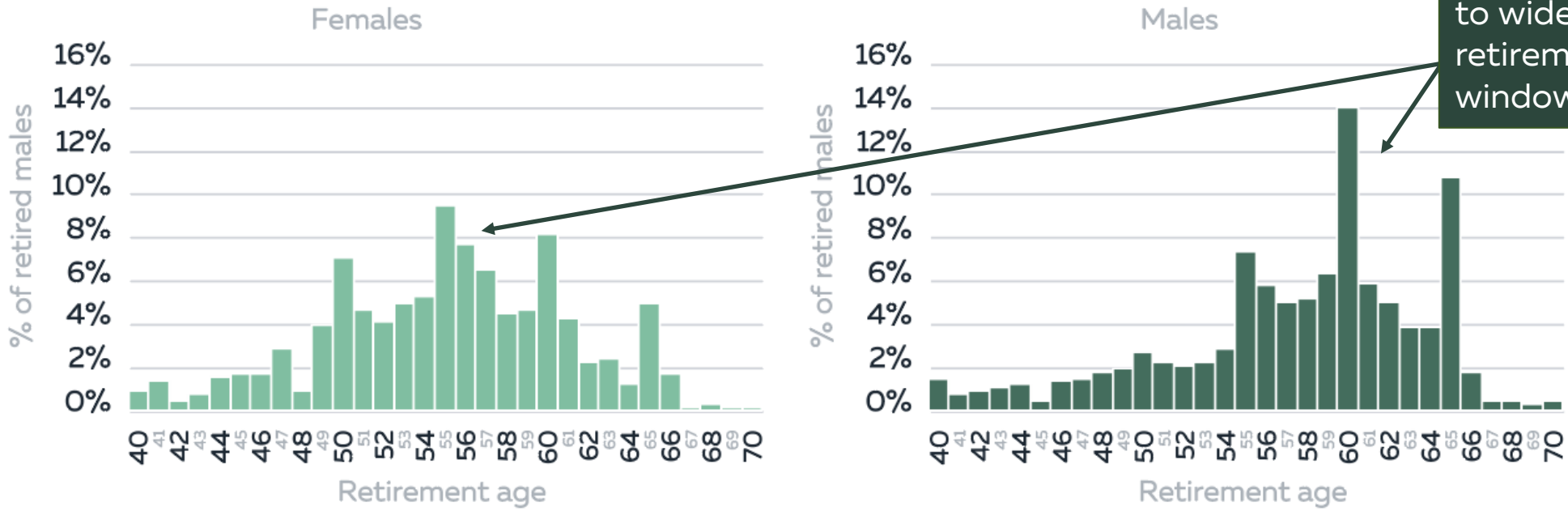
57% vs. 69%

- Croatia's employment rate for workers aged 50-64 compared to the EU average.
- $\frac{3}{4}$ of the overall employment rate gap with the EU is accounted for by older workers



Croatians tend to leave the workforce early and abruptly

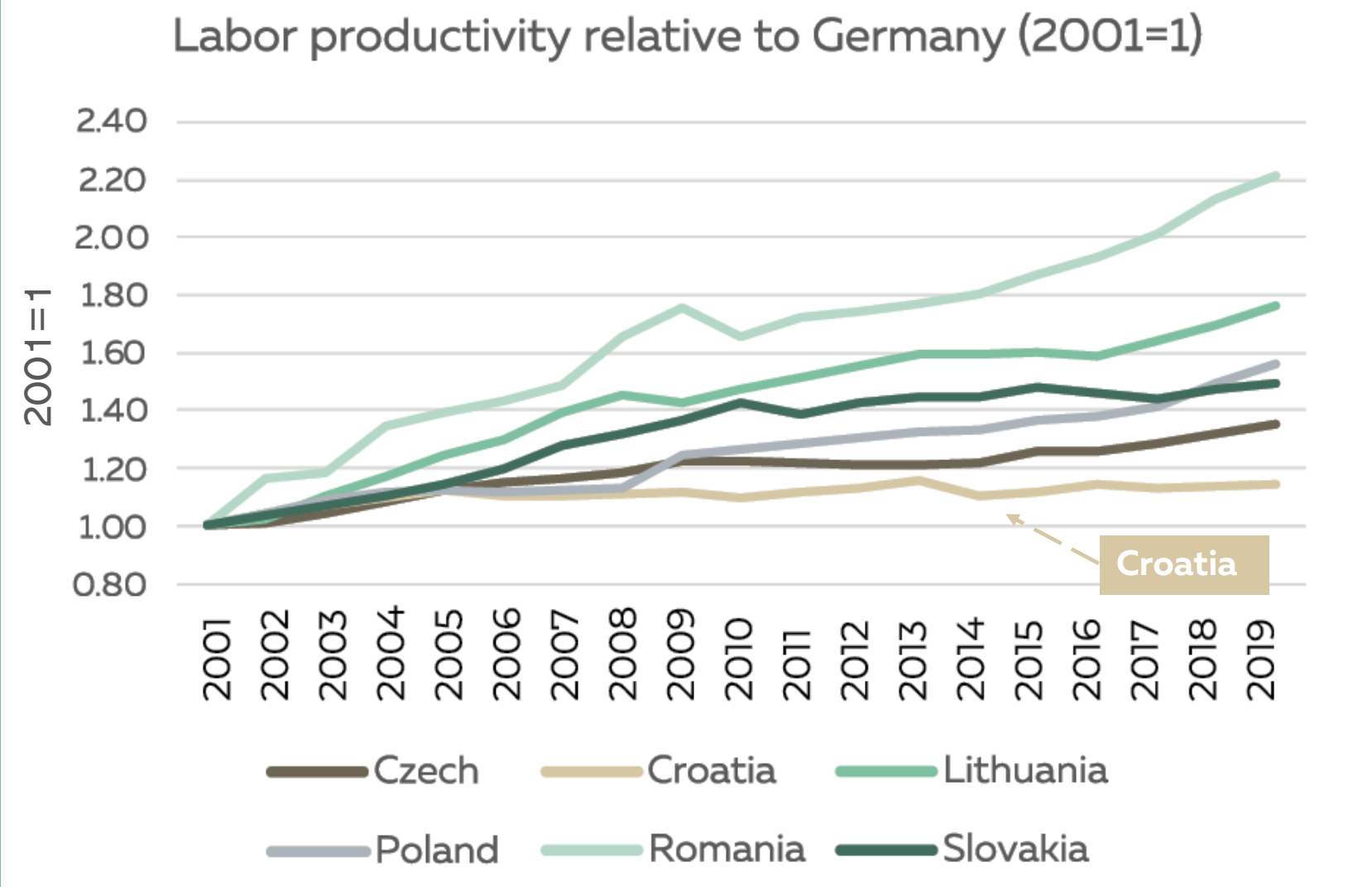
FIGURE: Distribution of Retirement Ages in Croatia



A major share of Croatians retire early due to wide early retirement window

Source: SHARE Wave 6, Börsch-Supan (2022). Survey of Health, Ageing and Retirement in Europe (SHARE) Wave 6. Release version: 8.0.0. SHARE-ERIC. Data set. DOI: 10.6103/SHARE.w6.800.

Croatia lags in productivity and needs to invest in improving the quality of its workforce



Three Pillars for a Coherent Labor and Human Capital Strategy



Competitive Skills



Enabling Conditions



Coordinated Incentives



Pillar 1

Competitive skills



- Fostering a positive feedback loop with technology and physical capital through human capital investments



Enhancing productivity: Quality of labor will be key for the future.

Croatia has a high potential for digitalization and automation



Over 20% of work will be automated by 2030 (McKinsey, 2023)



Key sectors will shift away from the use of physical and cognitive skills toward STEM occupations



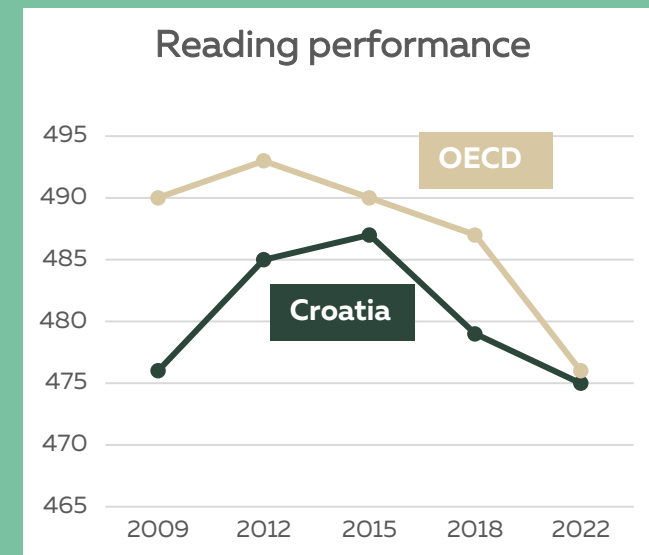
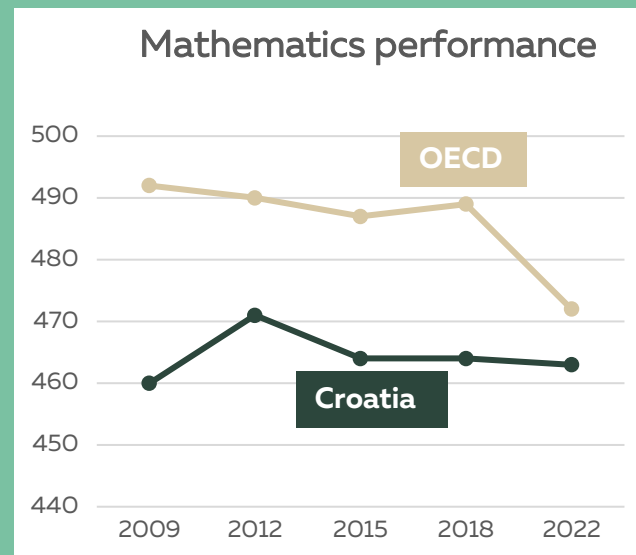
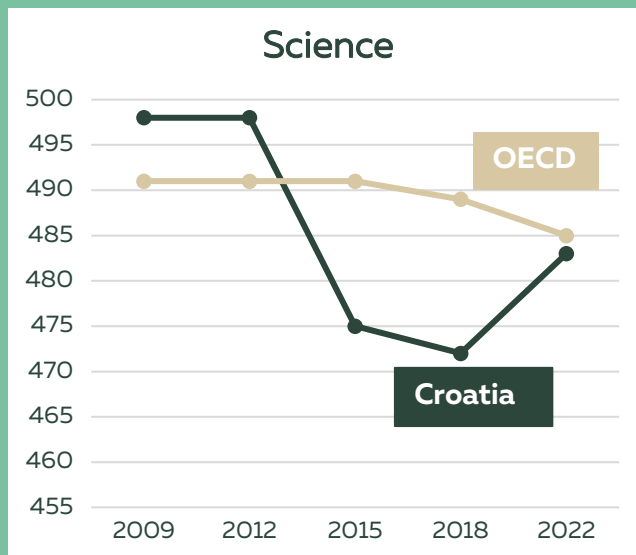
Education will determine to what extent workers seize opportunities and switch to new occupations.



Demand in skills will shift towards: Higher cognition, Socio-emotional, Technological skills

Croatian schoolchildren are catching-up to their peers in the countries from the Organization for Economic Co-operation and Development (OECD)

Croatia vs. OECD: PISA performance in Science, Mathematics and Reading, 2009-2022



Improving the quality of Vocational Education in Croatia is critical for successful school-to-work transition

70%

of youth enrolled in VET

69%

of 15-29 aged unemployed have secondary education

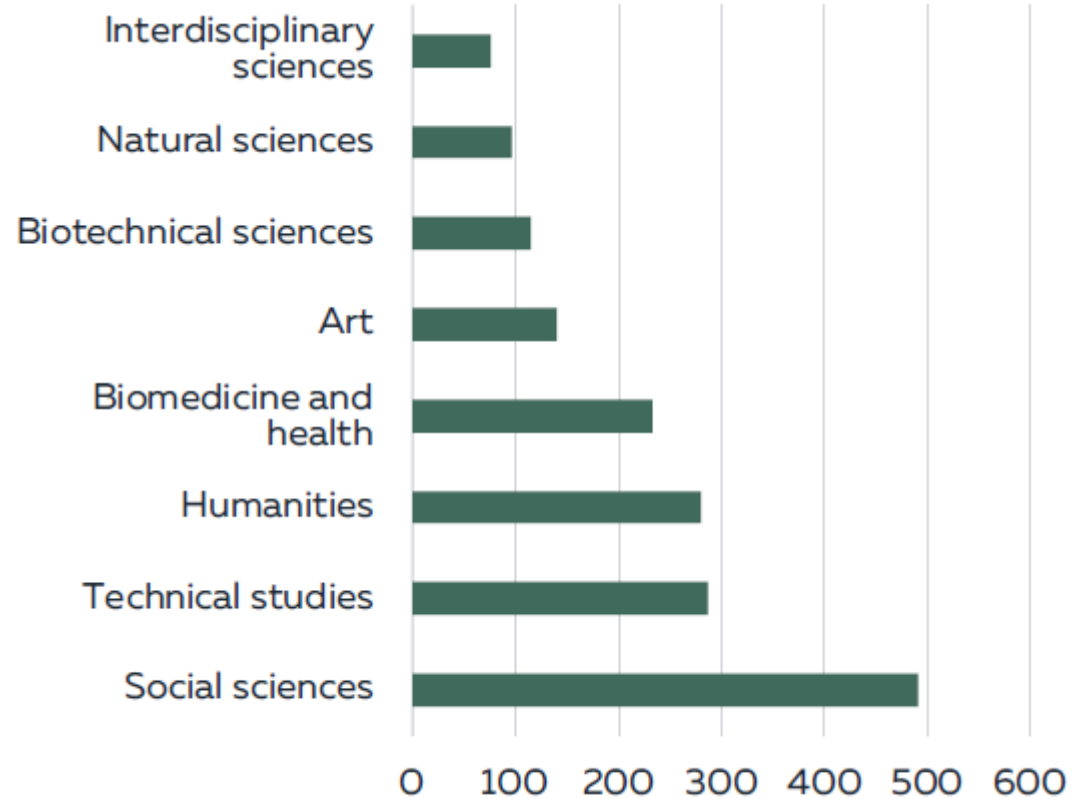
- Enhancing VET is critical for boosting the employment rate for secondary education graduates by...
- ...addressing the discrepancy between the education provided and the skills acquired
- ...integrating with work-based learning, such as apprenticeships



Higher education: The problem of skills mismatches continues

- There is a mismatch between what employers need and the fields of study chosen by students
- Resulting in the lowest employment rate for university graduates among all EU countries
- **9%** (Bachelor) and **18%** (Master) degree holders are unemployed after 1 year of graduation

Number of tertiary programs per field of study in Croatia:
STEM graduates are growing, but other tertiary skills are
in surplus



Source: MOZVAG, 2022, URL: <https://mozvag.srce.hr/preglednik/>

Pillar 2

Enabling conditions



- Role for employment activation and migration policies



Employment services could play a bigger role in addressing NEET challenge

- Active labor market programs (ALMPs) supporting job seekers who have difficulty adapting to the labor market
- Engaging the unemployed, employers, and education providers through employment and training services.
- However, public expenditure and the share of workers who benefit from ALMPs remains low in comparison to the EU.

- **Croatia** spends = on employment services, rehabilitation, and training
- **Finland**
- **Austria**
- **EU** average
- **Netherlands**
- **Denmark**

0.2% ^{of} GDP

0.6%

0.8%

0.8%

1.3%

1.6%

Migration: Multi-dimensional effects and options for leveraging its potential

Migration redistributes human capital

- Destination countries gain labor force
- Origin countries gain remittances and transfer of knowledge (esp. with policy support) but can also lose critical talent

Importance of circular migration

- Diaspora as a source of human capital with high-integration potential
- Requires policies for aligning entry pathways with economic and social needs
- Digitization: integrated case management and other services for migrants
- Development of targeted global skills partnerships

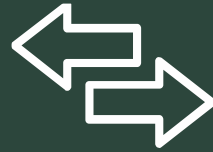
- Croatia has one the **highest shares of emigrants in the EU**
- **23% of Croatian born (1st generation) population lives abroad**



Pillar 3

Coordinated Incentive

- Designing adequate pension systems to encourage productive aging



Pension design shapes Croatians' retirement timing and discourages continued economic participation

- **Current design encourages early retirement**
 - Low early retirement age options
 - Short mandatory service periods (5-6 years lower than peer countries in the EU)
 - Disincentives to participate in the labor force
- **Croatian support ratio (number of workers per retiree) is one of the lowest in the EU**
- Croatia has SR = **1.3** contributors per pensioner vs. SR = **1.62** EU average, and countries such as NL = **2.5**
- Low pension adequacy (~**40%** net replacement rate)
- High pension deficit of around **4%** of GDP



Pillars for promoting and enabling economic participation and human capital accumulation



Competitive skills

Improving skills

- Expand access to early education
- Increase role of apprenticeships
- Strengthen career guidance and LMIS
- Enable learning among older and lower skilled workers



Enabling Conditions

Supporting Economic participation

- Expand childcare and high-quality elderly care
- Promote flexible forms of work
- Enable workers to stay productive longer

Social Protection

- Incorporate incentives for later retirement
- Expand safety nets for low-income households while incorporating incentives for graduation and activation



Coordinated Incentives

Activaton policy

- Strengthen integration with social services
- Increase access for adult re-training
- Increase experimentation with innovative policies and digitalization

Migration

- Encourage circular migration
- Strengthen programs for the diaspora to invest and return
- Create programs for inflow of essential skills aligned with Croatian labor market

Thank you!

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