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

- **Fertility rate**: 1.4 in 2019, 1.5 in 2030
- **Total population**: 4.0 million in 2019, 3.8 million in 2030
- **Working age population (20-64)**: 2.4 million in 2022, 2.1 million in 2030
- **Old age (65+) dependency ratio**: 35% in 2019, 45% in 2030
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

Unlocking the Full Potential of Croatia: Boost Workforce Participation

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

Croatian employment rate for ages 15-64 is low (65%) vs average EU rate (74%) vs Austria (70%).
Stimulating economic participation and improvements in human capital can bring income convergence with the EU by the 2030s

- 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.

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

Youth NEET = 12%
Youth Unemployment = 18% 15–24 age group

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.
• ¾ of the overall employment rate gap with the EU is accounted for by older workers.
Croatians tend to leave the workforce early and abruptly. A major share of Croatians retire early due to wide early retirement window.

**Figure:** Distribution of Retirement Ages in Croatia

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

- 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

70% of youth enrolled in VET

69% of 15-29 aged unemployed have secondary education
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.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of GDP</th>
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<tbody>
<tr>
<td>Croatia</td>
<td>0.2%</td>
</tr>
<tr>
<td>Finland</td>
<td>0.6%</td>
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<tr>
<td>Austria</td>
<td>0.8%</td>
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<tr>
<td>EU average</td>
<td>0.8%</td>
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<tr>
<td>Netherlands</td>
<td>1.3%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.6%</td>
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</tbody>
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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

**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

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

**Coordinated Incentives**
- 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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