

# CROATIA

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## Systematic Country Diagnostic 2024 Update

Autumn 2023





## Vision

- World Free of Poverty on a Livable Planet



## Multilateralism

- Financing development of 189 member countries



## 30 years in Croatia

- More than 100 projects worth 6.5 billion dollars, 330 reports and studies



## Current program in Croatia

- **6 loans:** education, business environment, digitalization, judiciary, land administration, reconstruction
- **8 technical assistance projects:** science, innovation, public sector wages, pensions, social services, poverty, water



# Why an SCD Update for Croatia?

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# Why an SCD Update for Croatia?



1

- It is major analytical diagnostic report of the World Bank Group (WBG)
- Independent view of technical staff
- Based on the analysis of data and existing studies by WBG, external partners, and independent research



2

- Identifies set of constraints and priorities for sustainable reduction in poverty and increase in shared prosperity on a livable planet



3

- Informs strategic engagement of the WBG with Croatia
- Country partnership framework 2025-2030 focuses on:
  - ✓ SCD diagnostics outcomes
  - ✓ WBG comparative advantage
  - ✓ Government priorities

**These complex challenges are also interrelated**



## A. Context for a Systematic Country Diagnostic (SCD)

## B. Croatia's SCD Update 2024:

1

Where does Croatia stand today, and what emerging trends will shape its outcomes?

2

What is holding back Croatia: constraints to inclusive, sustainable, and resilient growth?

3

What are Croatia's priorities to reach its full potential?

1

Where does Croatia stand today, and what emerging trends will shape its outcomes?

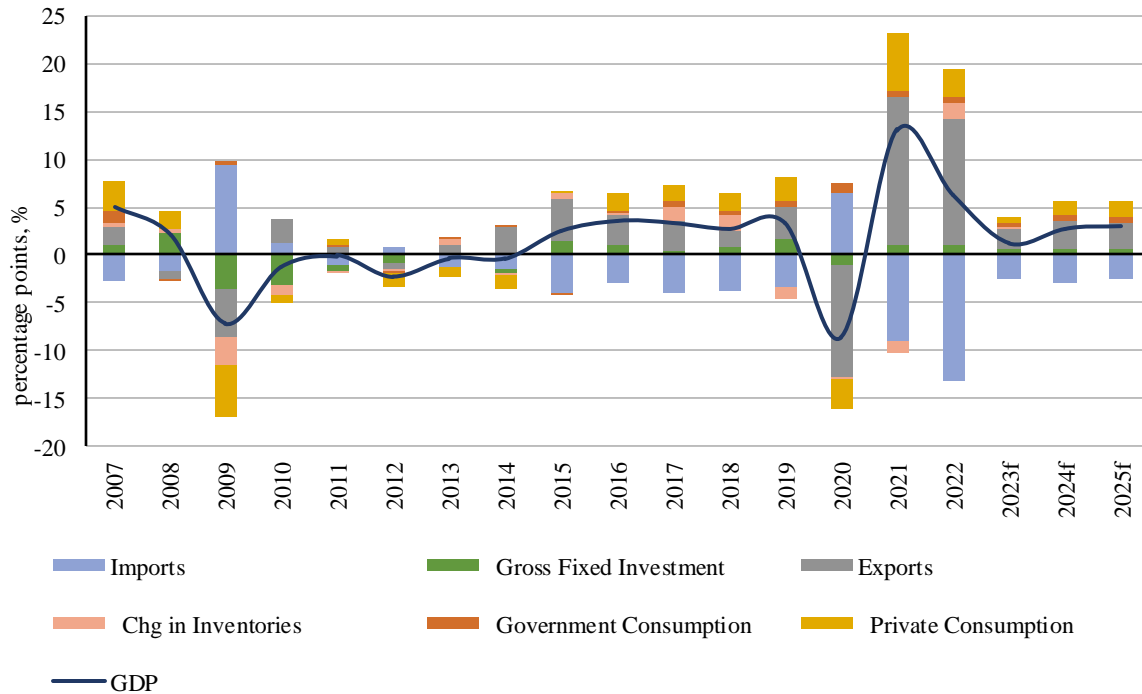


# 1 Where does Croatia stand today?



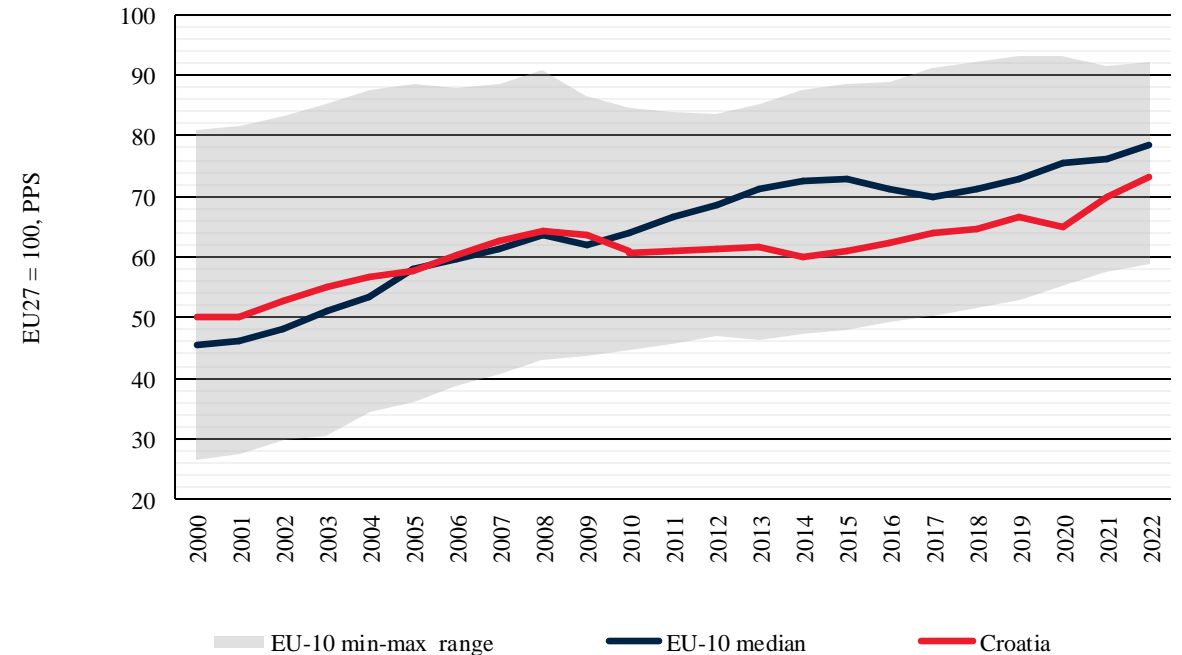
Relatively high growth has accelerated income convergence and supported favorable labor market developments

Strong recovery after COVID-19 pandemic



Source: CBS

Income level has reached 73% of the average EU27 income (in PPS)



Source: Eurostat

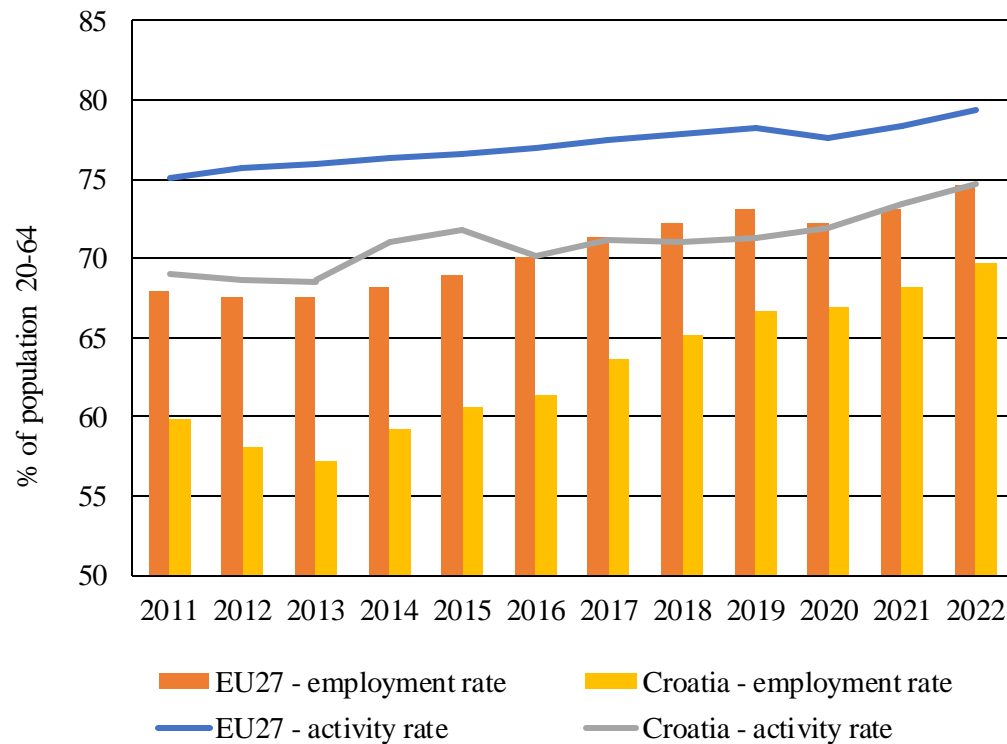
Growth has been robust, and drivers have improved

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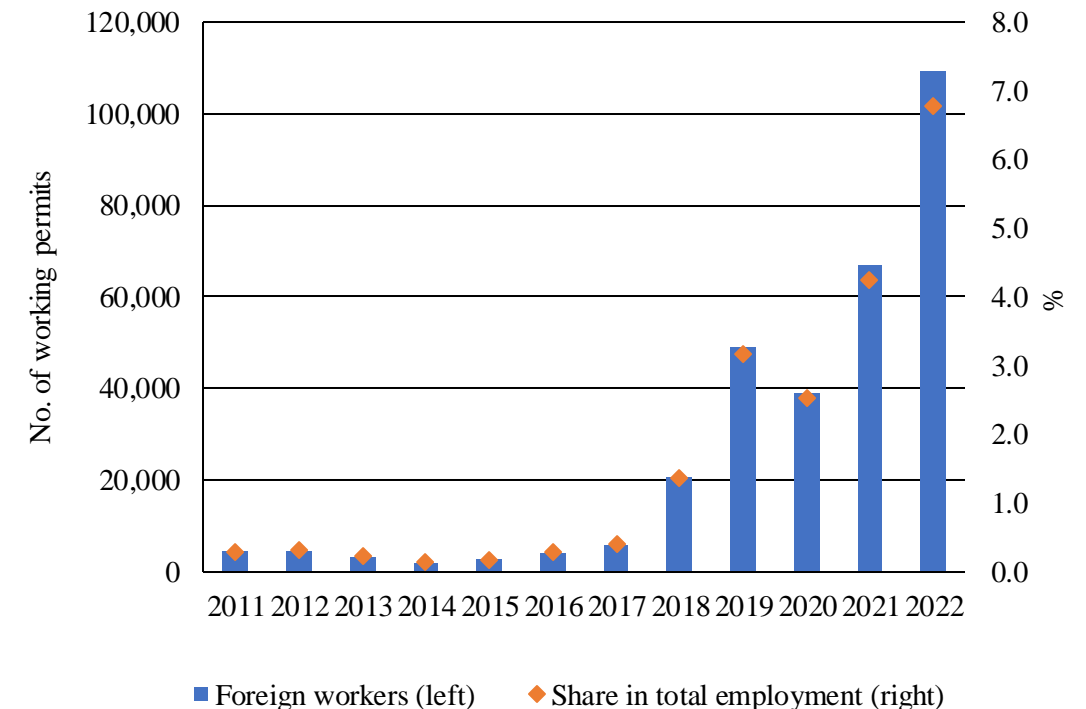
Relatively high growth has accelerated income convergence and supported favorable labor market developments

## Employment has been on a rise



Source: Eurostat

## ...with a strong inflow of foreign workers



Source: MOI

Labor market has been tight and negative migration balance is closing

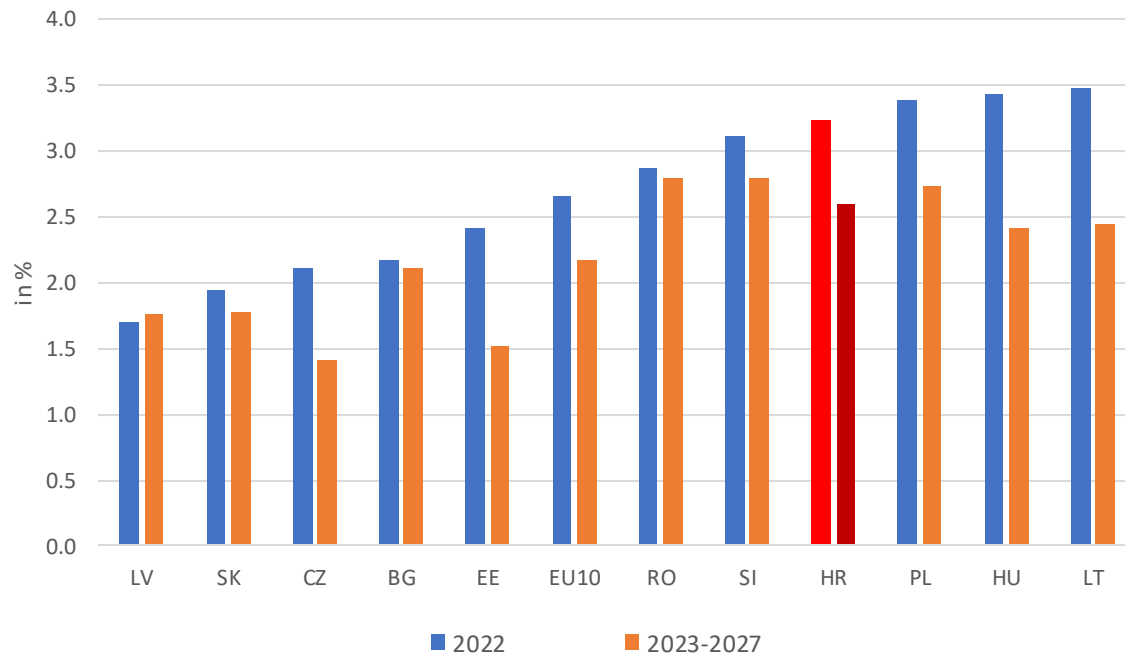


# 1 Where does Croatia stand today?



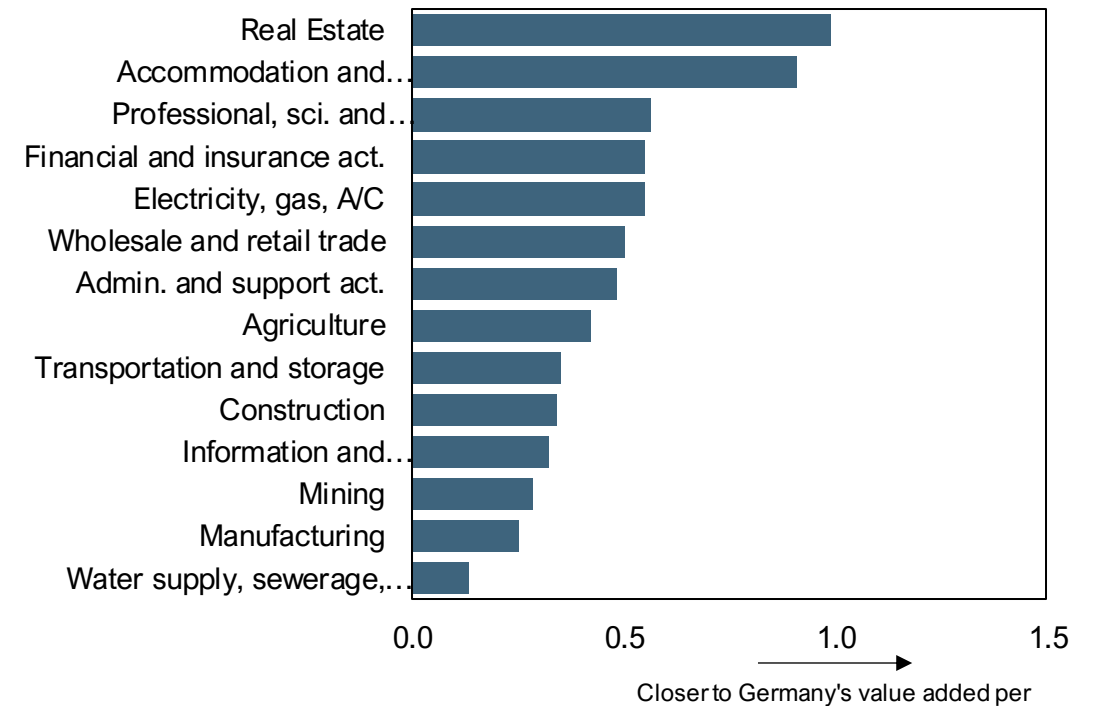
Potential output growth recently improved, but productivity of the economy calls for reform actions

Croatia's potential growth has been on a rise and at 3.2 percent in 2022 has been the third highest in the CEE region. This is in a sharp contrast with the last two decades when Croatia was lagging other countries in the CEE region.



Source: EC

However, labor productivity remains low, and convergence is slow



Source: EC

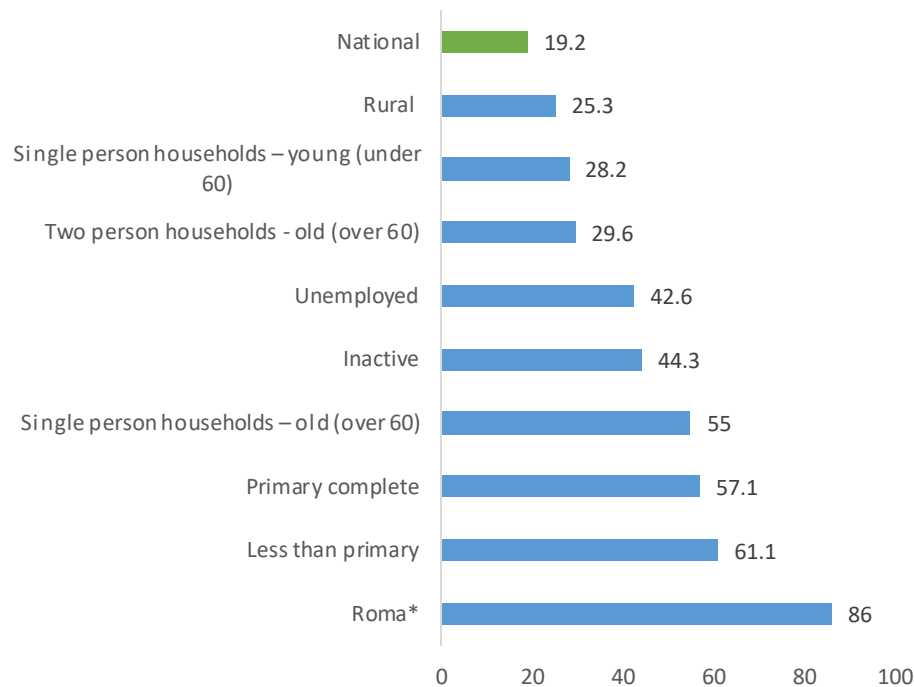
Growth potential is currently on par with peers, but labor productivity remains low

# 1 Where does Croatia stand today?



With robust growth and strong labor market conditions, poverty has declined rapidly. However, pockets of poverty persist.

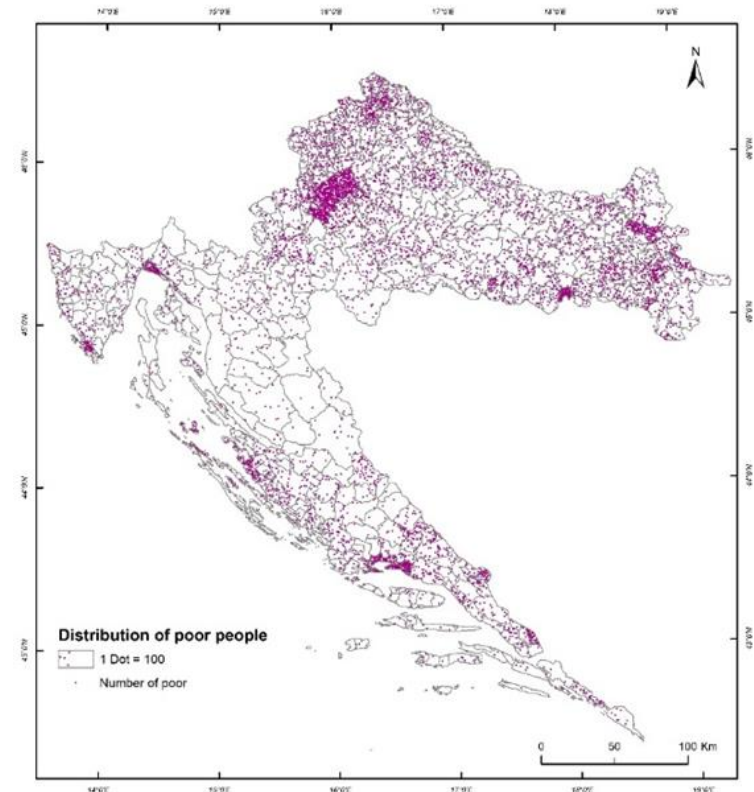
**At-risk-of poverty rate is highest among Roma, people with low education, elderly, and unemployed/inactive**



Source: World Bank calculation based on EU-SILC 2021 data

\*Roma poverty is based on FRA 2021 which might not be compatible to other poverty figures based on EU-SILC

**The majority of the poor concentrates in the Northern part of Croatia**



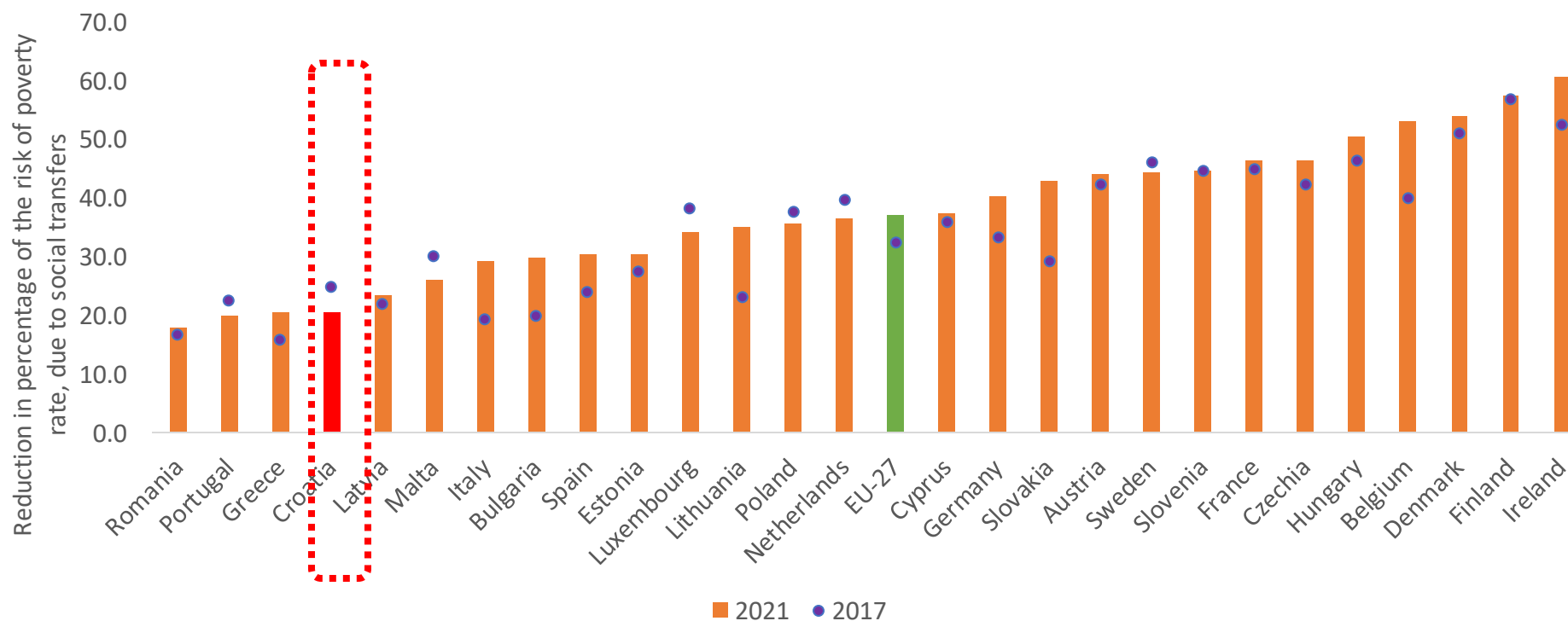
Source: World Bank calculation based on Croatia Poverty Maps (CBS 2016) and Population Census 2021.

Poverty rates are particularly high among elderly, Roma, unemployed, and people with low education.



## Social transfers did little to help

Despite the comprehensiveness of the social assistance system, there is a significant under-coverage of the poor. The impacts of social transfers (excluding pensions) on poverty reduction in Croatia are not only among the lowest in the EU but also on the decline.



Source: Eurostat 2023

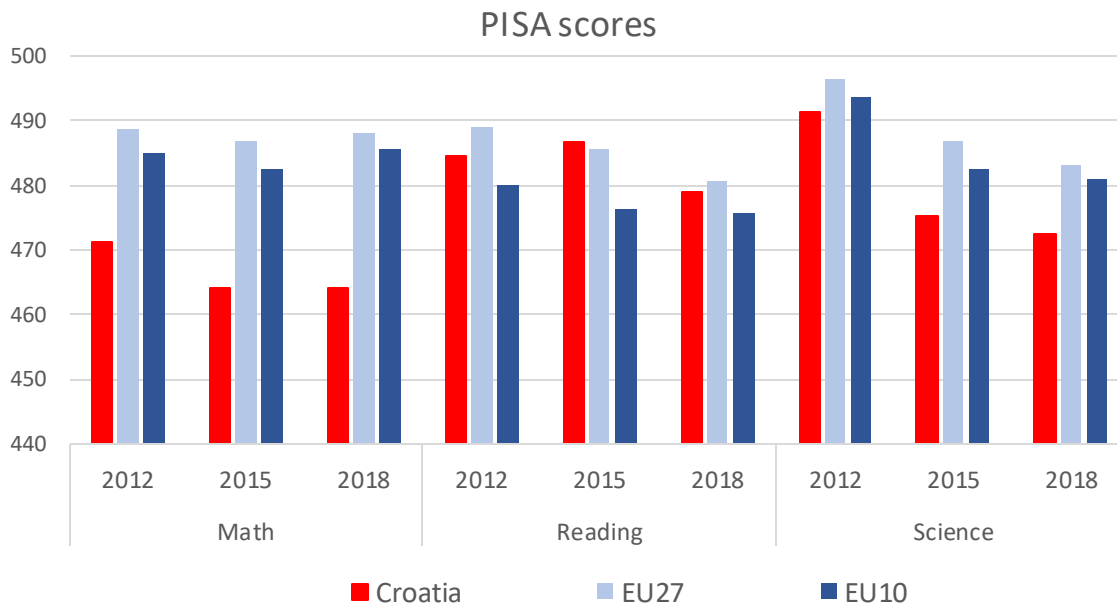
Impacts of social transfers on poverty reduction are among the lowest in the EU

# 1 Where does Croatia stand today?



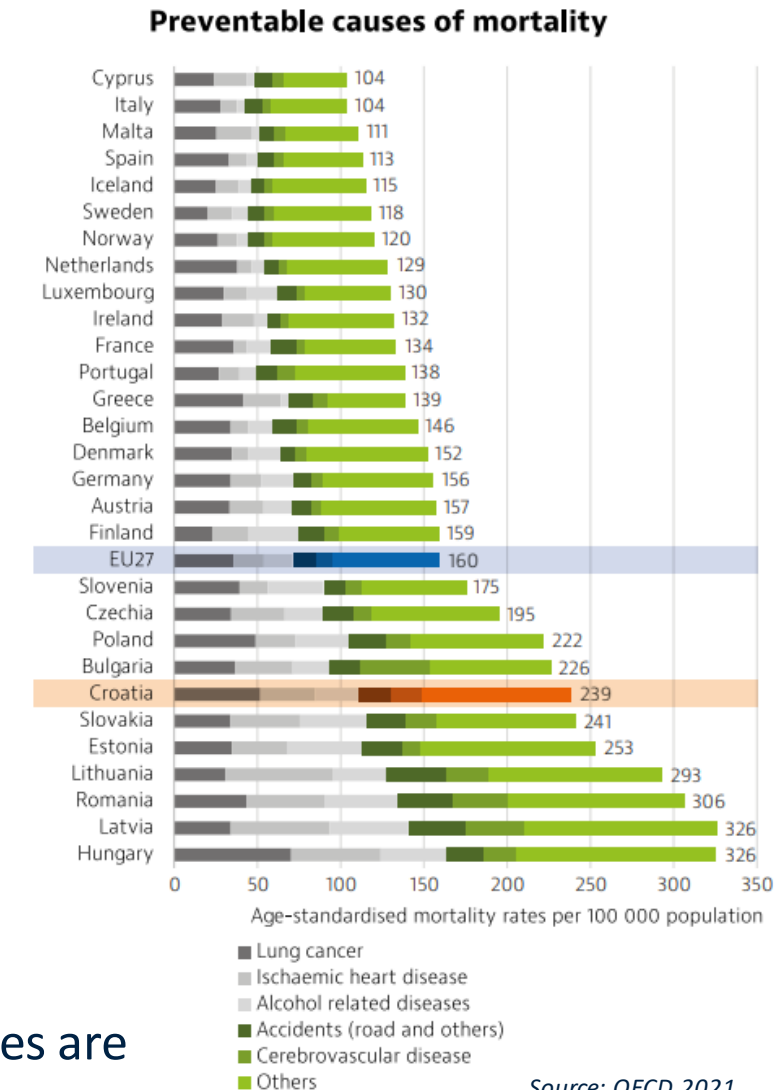
Moreover, Croatia's development outcomes in key areas are still lagging behind EU peers average

While spending on education in Croatia is at EU average, educational outcomes are worse signaling efficiency issues. Croatian students' PISA scores are consistently lower than the EU average, especially in math and science.



Source: OECD 2019

Despite a high share of public financing for all areas of care, mortality from preventable causes in Croatia is far above the EU average, partially due to weak intersectoral policies to address key determinants of ill health



Source: OECD 2021

Despite spending, educational and health outcomes are worse than the EU

# 1 What emerging trends will shape its outcomes?



## Emerging risks and new opportunities for Croatia's inclusive, sustainable, and resilient growth in the medium- and long-term



### 1 EU Funds

- Almost 50% of 2019 GDP available until 2030 from different EU funds
- Shifting the focus from absorption to effectiveness



### 4 Successive shocks

- Improved resilience of the economy has improved
- Social protection system that allows more targeted support measures is missing



### 2 Digitalization

- Croatia ranks 21st of 27 EU countries in the 2022 Digital Economy and Society Index (DESI)
- Digitalization can boost productivity across all sectors and industries
- Without careful design, the transition can deepen digital divide between leading and lagging regions, and between better-off and poor population groups.




### 3 Green transition

- Intensity of GHG emissions is high
- Circular material use rate is among the lowest in the EU
- Solid waste and wastewater management is not in line with EU Directives
- New investments in renewables are stagnant
- It is important to ensure a just transition – leaving no one behind

**These complex challenges are also interrelated**

2

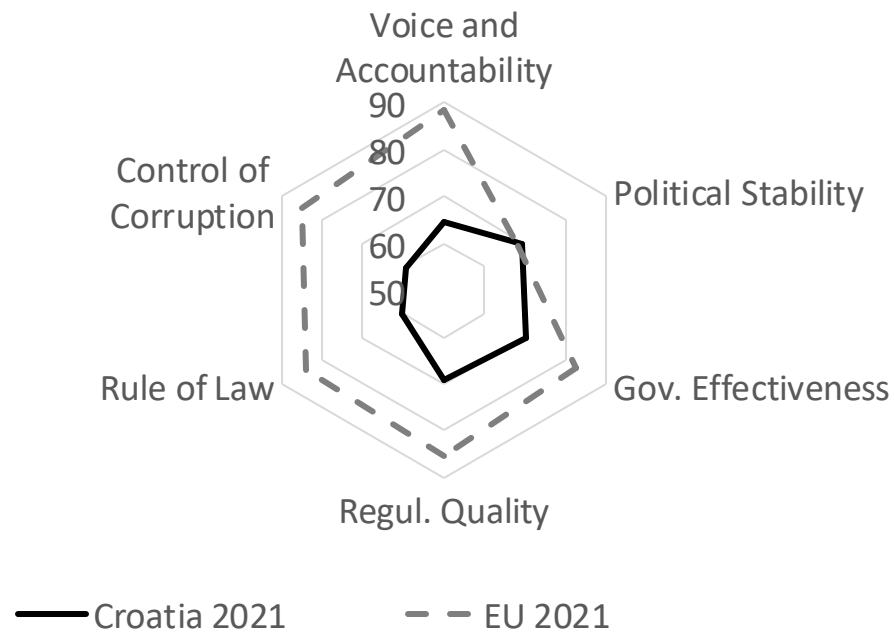
What is holding back  
Croatia: constraints to  
inclusive, sustainable,  
and resilient growth?





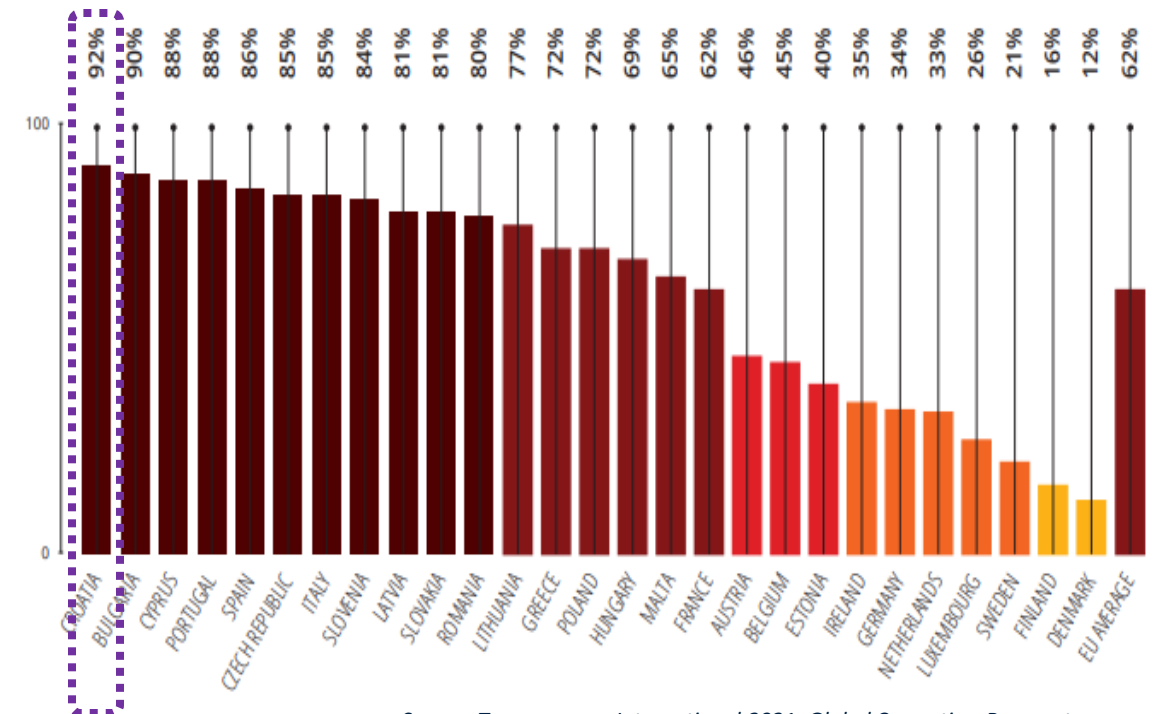
Weak institutions, low administrative capacity at central and local levels

### Croatia lags behind the EU average across all governance indicators



Source: WGI database and Eurostat; data for the EU are a weighted average with respect to GDP.

### Perception of corruption is highest in Croatia



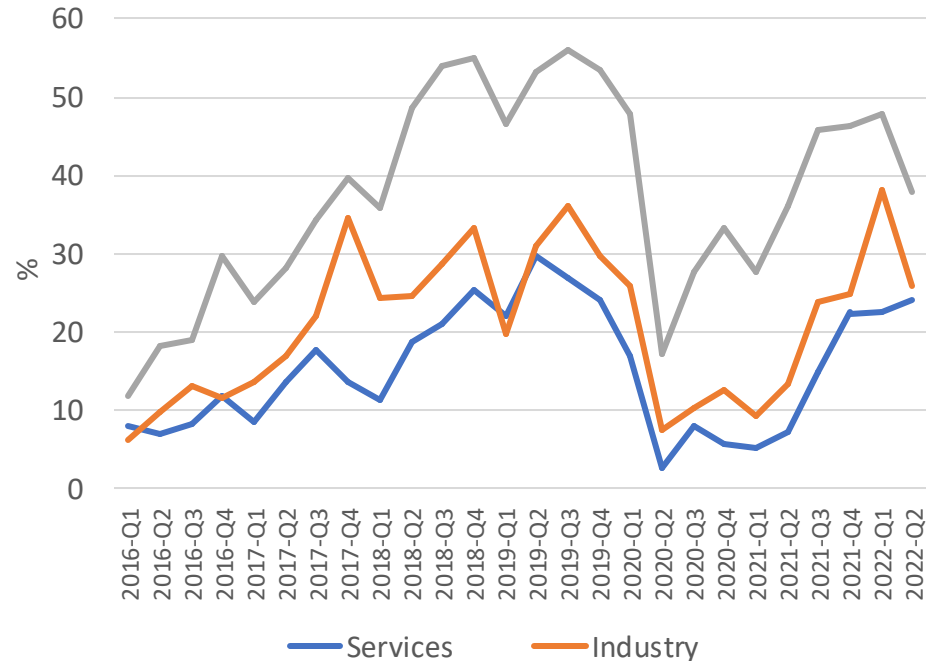
Source: Transparency International 2021. Global Corruption Barometer European Union 2021. Citizens' Views and Experiences of Corruption.

**Low efficiency of the government hampering high quality and equal service delivery to the people**

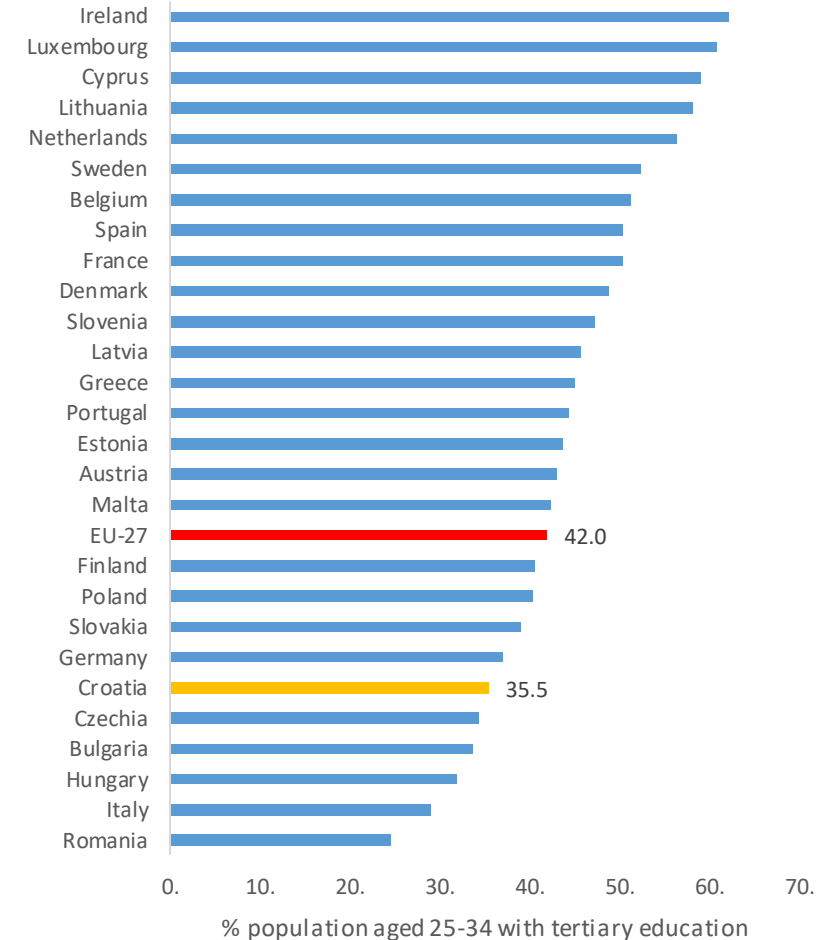


## Labor shortage and human capital deficiencies

**Over 30% of managers in manufacturing and services and more than 50% of managers in construction name labor shortages as a factor limiting their business (production)**



**The workforce's skills base is relatively low compared to EU peers, hindering labor productivity**



Source: WGI database and Eurostat; data for the EU are a weighted average with respect to GDP.

Source: Eurostat 2023

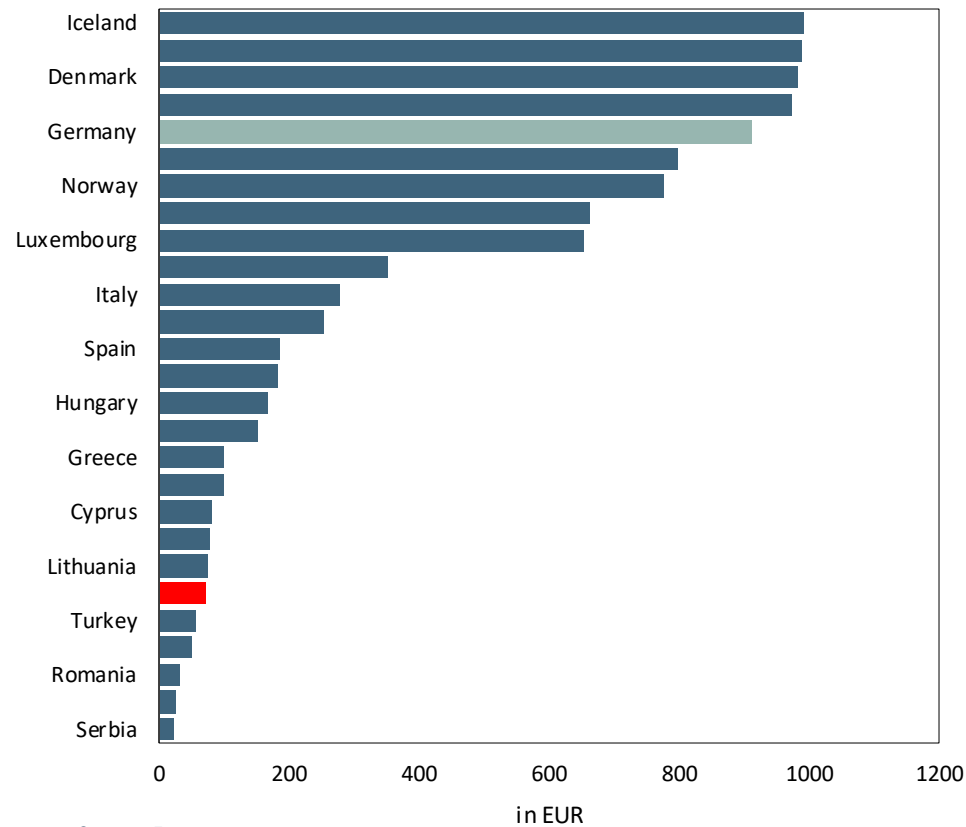
**Labor shortage and human capital deficiencies impeding Croatia's much needed labor supply and productivity**



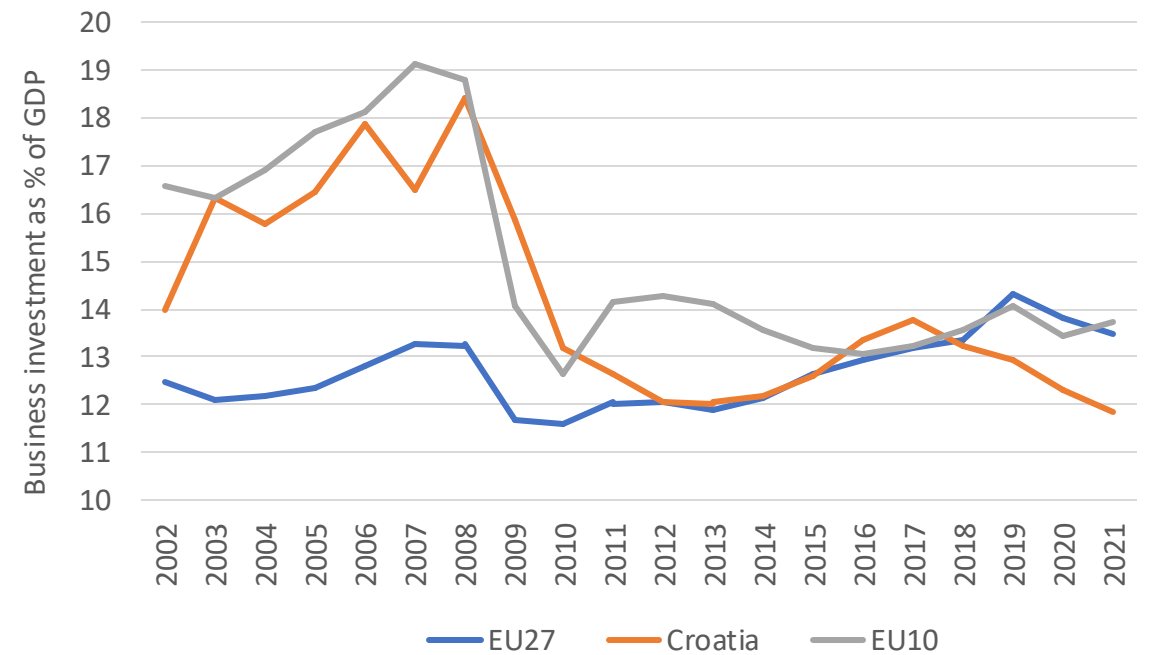


## Low private sector productivity growth

### R&D expenditures per capita



### Business investments are lagging behind the peers

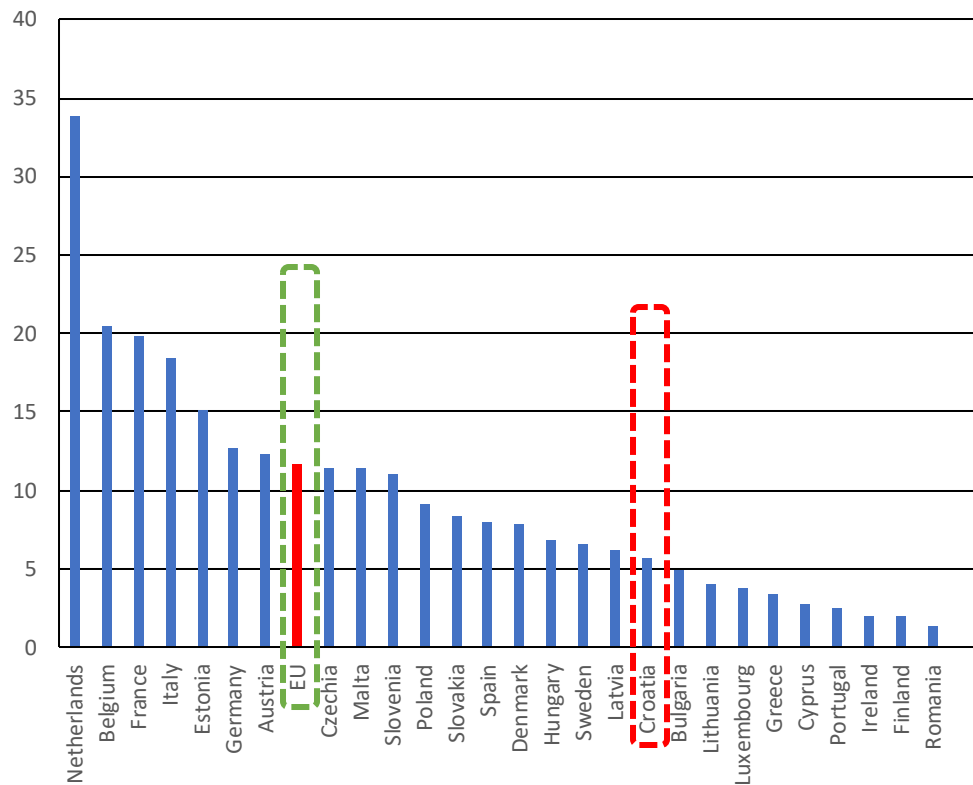


**Cumbersome business environment, lack of competitive markets, and insufficient investments holding back private sector development**



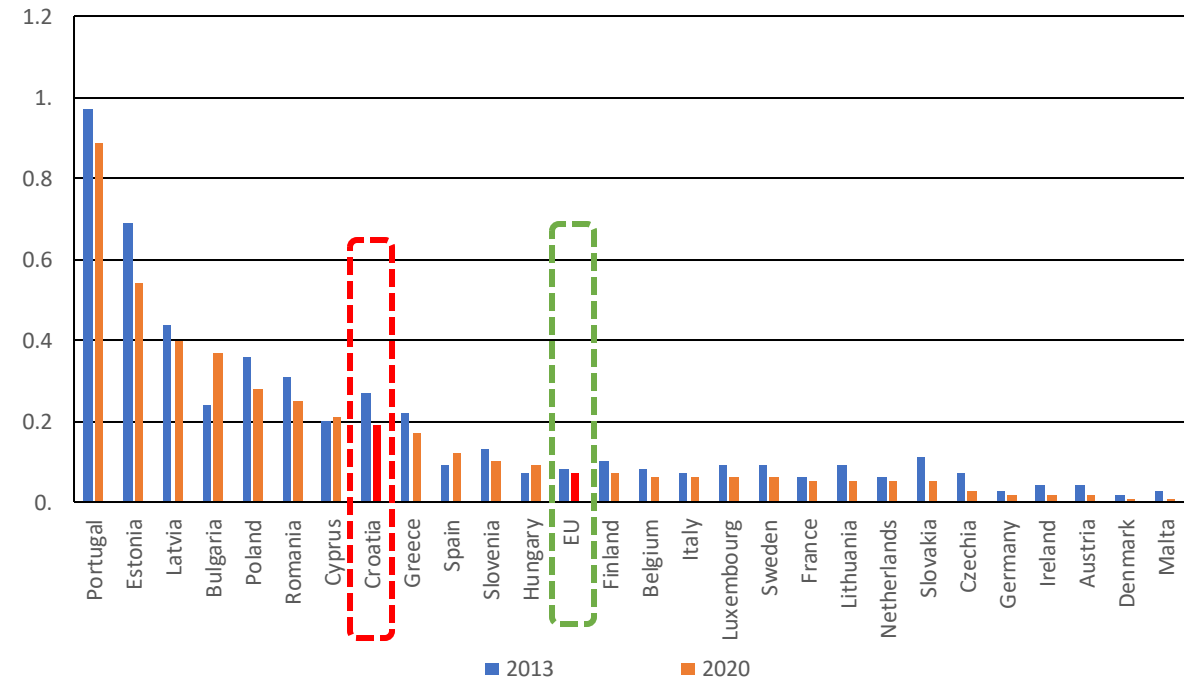
Underdeveloped measures for environment protection and adaptation and mitigation of natural hazards and climate changes

Circular material use rate in the EU, 2021



Source: Eurostat

Air emission intensity from industry



Source: Eurostat

**Major investments and reforms still needed  
in the broad green agenda**



3

What should be Croatia's priorities for inclusive, sustainable, and resilient growth?

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**Inclusive, sustainable, and resilient growth that benefits the poor and vulnerable**



**Effective public service delivery**



**Equal opportunities for all**



**Better paid job**



**Improved environmental sustainability and resilience to climate change and natural disaster**



Inclusive, sustainable, and resilient growth that benefits the poor and vulnerable



Effective public service delivery



Equal opportunities for all



Better paid job



Improved environmental sustainability and resilience to climate change and natural disaster

- Increase effectiveness of public administration and reduce red tape on central and local government level
- Promote justice sector efficiency and implementation of anticorruption strategy



Inclusive, sustainable, and resilient growth that benefits the poor and vulnerable



Effective public service delivery



Equal opportunities for all



Better paid job



Improved environmental sustainability and resilience to climate change and natural disaster

- Improve the quality of human capital and labor market participation, especially for vulnerable groups and in lagging regions
- Adjust the design of social protection system to be adaptive to external shocks (e.g. prices, energy, disasters, etc.) and provide robust assistance to the poor and vulnerable



**Inclusive, sustainable, and resilient growth that benefits the poor and vulnerable**



Effective public service delivery



Equal opportunities for all



Better paid job



Improved environmental sustainability and resilience to climate change and natural disaster

- Support R&D investment and innovation adoption to improve private sector productivity to provide better paid jobs
- Ensure favorable business environment and access to finance, including for start-ups and vulnerable groups (women, SMEs in lagging regions)



Inclusive, sustainable, and resilient growth that benefits the poor and vulnerable



Effective public service delivery



Equal opportunities for all



Better paid job



Improved environmental sustainability and resilience to climate change and natural disaster

- Reduce environmental degradation including improved solid waste and waste-water management
- Promote energy production from renewables and energy efficiency, including in private and public buildings and in the transport sector



# Discussion – we want to hear your views!



- Do the priorities capture what Croatian people need? If not, what is missing?
- What needs to change in your sector in the next 5 years? 10 years?
- Do you have examples of reforms or solutions that are working?

# Next steps

**Face-to-face consultations SCD:  
October – December 2023**

**Publication SCD:  
mid-2024**

**World Bank Country  
Partnership Framework:  
2025**

# THANK YOU

Autumn 2023

