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CROATIA — REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This is the seventh specific monitoring report under the macroeconomic imbalances procedure (MIP) for Croatia, which was identified as experiencing imbalances in the 2019 European Semester. The vulnerabilities concern the high levels of public, private and external debt, in a context of relatively low potential growth. The 2019 country-specific recommendations for Croatia are all intended to address the imbalances. This report reviews the latest policy initiatives undertaken by the Croatian authorities that are relevant for the correction of imbalances given the recent economic developments. The cut-off date of the report is 5 November 2019.

The unwinding of macroeconomic imbalances continues, supported by stable economic growth. Economic activity in Croatia should return to its pre-crisis level in 2019 after growing for five years. GDP is expected to grow by 2.9% in 2019 and to moderate thereafter. Domestic demand will likely remain the main driver of growth, as some of Croatia's key trading partners' growth slows. The reduction in the high levels of public, private and external debt was facilitated by stable economic growth. In addition, sustained general government surpluses further reduced public debt. The corporate sector continued deleveraging while household borrowing resumed under more favourable conditions. The low activity rate, despite labour market improvements, along with low productivity growth weigh on potential growth.

The implementation of the reform agenda proceeds at an uneven pace in different policy areas, amid backtracking in the area of pensions. Measures to depoliticise the public administration and harmonise the regulation of state agencies are making progress. The general education curricular reform is being rolled out in all schools, and active labour market policies have been refocused to make them more effective. Measures to improve governance and the management of state-owned enterprises continues, and steps for the reduction of state ownership in companies are being taken. Efforts to reduce the administrative burden led to the abolition and/or simplification of 94 measures, while a review of parafiscal charges is still on-going. A first action plan on the liberalisation of the services market was adopted in October 2019. The strengthening of the fiscal framework requires further action as the Fiscal Policy Commission is still not fully functional and the Budget Act is not yet in place. Croatia is working on improving the consistency, completeness and timeliness of its statistics, in particular national accounts and government finance statistics. The long-due legislation on civil service wage-setting is at a standstill, and progress with improving the healthcare and social benefits systems remains limited. In the justice system, progress with resolving backlogs and older cases is stalling, whereas measures to improve efficiency are proceeding. Corruption risks remain largely unaddressed, most notably at the local level. The Croatian banking sector remains resilient with improving asset quality. However, uncertainty regarding the full impact of the conversion of CHF-indexed loans lingers. Key elements of the reformed pension system aimed at lengthening working lives have been reversed, in response to trade unions' demands. Amendments to the labour law are planned in order to mitigate the negative impact of the pension reform reversal on labour market exit age.

Overall, a more decisive implementation of reform plans remains crucial to increase the resilience of the economy and enable faster real economic convergence. Economic activity is expected to be sustained this year, and to decelerate thereafter towards Croatia's growth potential, and in line with a weakening global demand. The track record of reform implementation is mixed in the policy areas aimed at addressing weak labour utilisation and total factor productivity growth. Reinforcing and sustaining the reform momentum, while avoiding further policy reversals, will be important to lift the growth potential and make the economy more resilient, also in light of Croatia's ambition to join the euro.

Table 1: Key findings on implementation of reforms[1]

On track	Wait-and-see	Action wanted
• Education system reform • Reduction of administrative burden	• Strengthening of fiscal frameworks • Public administration modernisation • Improvement of public assets management • Disposal of state assets • Reform of regulated professions • Reduction of parafiscal charges • Reduction of backlogs in judicial system	• Reform of wage-setting for civil servants • Reduction of fiscal risks in healthcare • Financially sustainable incentives to longer working lives • Improved effectiveness of social protection • Fight against corruption risks

[1] The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. "On track" are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. "Wait and see" are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. "Action wanted" are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1 Introduction

On 21 November 2018, the European Commission presented, in the context of the macroeconomic imbalance procedure (MIP), its eighth Alert Mechanism Report[2] to identify Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent in-depth review in the country report on Croatia – published on 27 February 2019[3] – examined the nature, origin and severity of macroeconomic imbalances and risks in Croatia. In its Communication published on 27 February 2019[4], the Commission concluded that Croatia is "experiencing macroeconomic imbalances". In particular, the Commission emphasised that remaining vulnerabilities are linked to high levels of public, private and external debt, in a context of low potential growth. On 18 April 2019, Croatia submitted its convergence programme[5] and national reform programme (NRP)[6], respectively outlining the fiscal strategy and policy measures undertaken or planned to improve its economic performance and to unwind imbalances. On the basis of an assessment of these programmes, the Commission proposed four country-specific recommendations (CSRs)[7], which were subsequently adopted by the Council on 9 July 2019[8]. The CSRs addressed to Croatia were all considered MIP-relevant. They concern: fiscal frameworks and public administration, education, social protection and wage-setting, investment needs, state-owned enterprises and business environment, anti-corruption and judiciary. The Commission's Structural Reform Support Service provides technical assistance to Croatia in a number of CSR relevant policy areas, including the business environment, governance of state-owned enterprises, and the education system.

For the purpose of the assessment of progress in the delivery of reforms within the framework of the MIP, the Commission conducted a mission to Croatia on 14-16 October 2019. Also based on the findings of this mission, the present report assesses the latest key policy initiatives[9] undertaken by the Croatian authorities[10].

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2 https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1547734121275&uri=CELEX%3A52018DC0758
3 https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-croatia_en.pdf
4 https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-communication-country-reports_en_0.pdf
5 https://ec.europa.eu/info/sites/info/files/business_economy_euro/economic_and_fiscal_policy_coordination/documents/2019-european-semester-convergence-programme-croatia-hr.pdf
6 https://ec.europa.eu/info/sites/info/files/business_economy_euro/economic_and_fiscal_policy_coordination/documents/2019-european-semester-national-reform-programme-croatia-hr.pdf
7 https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1560258276969&uri=CELEX:52019DC0511
8 https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1571840325674&uri=CELEX:32019H0905(11)
9 Details on the policy measures taken can be found in the overview table in the Annex.
10 Previous MIP specific monitoring reports were published in November 2014, February and December 2015, December 2016, November 2017 and November 2018. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/specific-monitoring_en

2 Outlook and recent developments on imbalances

Recent economic developments and outlook

With an estimated growth of 2.9%, economic activity in Croatia is finally expected to reach its pre-crisis level in 2019. In 2020 and 2021, GDP growth will largely be weighed down by the external environment, and is expected at 2.6% and 2.4% respectively. Domestic demand will remain the main driver of economic activity. Household consumption should benefit from ongoing improvements in the labour market, wage growth and low inflation while investment is expected to significantly accelerate on account of better uptake of EU funding by both the private and public sectors. Exports are projected to slow in the upcoming period below the growth rate of Croatia's export markets, thus ending the period of rapid export market share gains. Furthermore, import growth is expected to outpace export growth leading to an overall deterioration in the trade balance. The unemployment rate fell to 8.4% in 2018, its lowest recorded level. It is projected to continue decreasing on account of modest employment growth. Despite unemployment still being relatively high, labour shortages are already becoming apparent in some sectors.

Developments as regards imbalances

<u>General government debt</u>

The public debt ratio continues to decrease on the back of surpluses and nominal GDP growth. From a peak of 84.7% in 2014, the debt ratio decreased to just below 75% in 2018 and is expected to dip below 65% by 2021. In addition, maturing debt is refinanced at record-low and dominantly fixed rates, which reduces the implicit interest rate, and thus current and future financing costs. Exposure to foreign currency remains a risk, but a contained one, given the exchange rate's stability towards the Euro and the use of USD-EUR currency swaps as an integral part of debt management.

<u>Household and corporate debt and the financial sector</u>

Private sector debt continued declining in 2018, reaching 94% of GDP, 30 percentage points below its peak in 2010. The household debt ratio stagnated in 2018 at 34.2% of GDP owing to intensified consumer lending. Consolidated non-financial corporate sector debt declined by 3.8 percentage points in 2018 and stood at 60% of GDP. The largest contribution to the decline of private sector debt came from nominal GDP growth. Other contributing factors, write-offs, price adjustments and the exchange rate appreciation against the Euro contributed less to the decline than in 2017. Total banking sector non-performing loans (NPL) stood at 6.9% of total loans in Q2 2019. The corporate sector NPL ratio remained high at 16.3% in Q2 2019, despite being on a strong downward trend since 2015. NPL sales provided the largest contribution to corporate NPL reduction as credit flows remained subdued. The risk profile of both households and corporates continued improving. Exposure to foreign exchange risk remains significant despite a strong increase in Kuna lending to both households and corporates in 2018 and for the first eight months of 2019. Furthermore, households continued decreasing their exposure to interest rate risk by fixing interest rates on new loans for longer periods.

External liabilities and trade performance

Following a strong pick up in the current account surplus in 2017 (3.3% of GDP), due to a one-off adjustment in the primary income account, the current account balance declined to 1.9% of GDP in 2018. Despite the still ongoing deleveraging by the corporate and government sectors, the trade balance turned negative in 2018 due to recovering domestic demand. Furthermore, the expansion of Croatia's export market share seems to have slowed in 2018 and is expected to turn negative in 2019. Nevertheless, continued current account surpluses have been driving the strong reduction in external liabilities since 2010. The NIIP stood at -57.9% at the end of 2018, 7.8 percentage points higher than in 2017. In the first two quarters the NIIP further increased by 0.4 percentage points. Gross external debt decreased in 2018 by 6.2 percentage points, to 83% of GDP. The current account balance is projected to continue decreasing to 0.3 % of GDP by 2021. The NIIP should continue improving due to still moderate nominal GDP growth.

Potential output

Following a prolonged recession, Croatia's GDP started growing in 2015, above its potential. The output gap closed in 2017 and economic activity is projected to surpass its pre-crisis level in 2019. However, GDP growth is projected to fall below potential by 2021. The labour contribution to potential GDP growth has been positive since the crisis owing to a gradual recovery in the number of employed. However, the labour force participation rate has remained chronically low and broadly stable since the recovery began. The capital accumulation contribution, although positive, is somewhat limited and still not close to pre-crisis levels. Capacity for stronger private sector investment activity remains burdened by still high indebtedness of the corporate sector and a cumbersome business environment. Total factor productivity contribution to potential growth remains low for a catching up economy. Croatia managed to record only marginal improvements when it comes to goods and service market efficiency, and public sector governance. Overall, relatively low potential growth (estimated at 2.1% in 2019) continues to weigh down Croatia's real convergence capacity.

3 Policy implementation and assessment

3.1 Public finances and taxation

The general government balance recorded a second consecutive headline surplus in 2018, but is worsening in structural terms. In spite of taking a hit through the activation of contingent liabilities, the general government balance remained in surplus in 2018, supporting the reduction of the debt ratio. However, the structural balance dove by almost 1 % of GDP. In 2019, agreed increases in public wages continued. Together with the government's intention to cut taxes, this is expected to further run down fiscal space and the structural balance, which should however remain compliant with the MTO. The Fiscal Responsibility Act was adopted, implementing new and improved numerical fiscal rules, but the Fiscal Policy Commission is still not fully functional, after two failed attempts to appoint a Chair. The new Budget Act, which should improve both the short and mid-term budgetary framework at central and local level, has still not been adopted.

Despite the increase in the health contribution rate and higher contribution from growing employment and wages, the healthcare sector continues to accumulate arrears. As of 1 January 2019, the health contribution rate was raised by 1.5 percentage points. Coupled with growing employment and wages, this is projected to increase revenue of the Croatian Health Insurance Fund by 8% in 2019. In spite of this, arrears continue to accumulate at only a marginally lower pace compared to 2018 (when revenues grew by 5.7%). At the same time, strong pressures to increase wages in the sector (which is negatively affected by outmigration) were addressed in September, which will further increase expenditure. Together, these trends accentuate the need to implement efficiency-enhancing measures on the expenditure side.

3.2 Labour market, pension system, social protection and education

The long-due legislation on civil service wage-setting is at a standstill, while active labour market policy measures (ALMPs) have been refocused. New legislation on wage-setting – already postponed several times by the government – has reached a new standstill amid demands for wage increases from several parts of the public sector. The aim of the law is to achieve greater harmonisation of wage setting across the central public administration (and at a later stage in the wider public sector) through the introduction of common wage grids and job complexity coefficients. As for ALMPs, the package of support measures has been refocused from public works, which proved to be ineffective in increasing employability among beneficiaries, to self-employment and employment subsidies. According to the 'Report on the Implementation of Guidelines for ALMPs in 2018', the latter measures show good results especially for the long-term unemployed, with a high share of participants staying in employment 6 months after having taken part in subsidy supported employment programmes.

Key elements of the reformed pension system aimed at lengthening working lives have been reversed. In December 2018, the parliament adopted an important pension reform package, which came into force in 2019[11]. The pension reform was met by strong resistance from the trade unions, who launched an initiative called '67 is too much'. By June 2019, the initiative had collected enough signatures to enable calling for a referendum on the increase in the retirement age and on penalties for early retirement. In October, the government accepted all the requests from the initiative. The relevant amendments to the pension law were adopted by parliament via an urgent procedure, and they included bringing the retirement age back to 65 and decreasing the penalisation for early retirement. These changes, entering into force as of January 2020, not only reverse key features of the most recent reform but also the reform of 2014, which first increased the retirement age to 67.

Planned changes to the labour law aim at mitigating the negative impact of the pension reform reversal on labour market exit age. The authorities announced changes to the labour law that would encourage employees to remain in work until the age of 68. This would complement the bonus of 0.34 % on the pension entitlement for each month worked beyond statutory retirement age, already introduced in January 2019. The choice to work beyond 65 would be given to employees, while employers who do not want to retain a worker older than 65 would still have to comply with the rules on dismissal that apply to all workers, including the obligation to grant severance pay.

Progress with policy measures in the social benefits system remains limited. A fragmented social protection system – also dependent on the fiscal capacity of local government units – remains unable to address the marked regional disparities in terms of risk of poverty. To obtain a clear overview of benefits paid out by all levels of government, the authorities are establishing regular reporting mechanisms from the local to the central government level, following the ESSPROS (European System of integrated Social Protection Statistics) classification. However, the data collected so far have not yet been analysed.

The general education curricular reform is being rolled out according to plans in all schools. Following a pilot phase last year, the curricular reform – aimed at increasing the overall quality of education and teaching – is being progressively implemented in all schools, with a view to introducing all new curricula throughout the primary and secondary grades by 2022. The authorities are also working on the introduction of a whole-day school[12], which will entail significant investment in school infrastructure. In Vocational Education and Training (VET), the experimental programme "Dual Education in VET" (launched in 2018 to provide more opportunities for work-based learning) is being expanded. However, the establishment of occupational standards as part of the Croatian Qualification Framework is proceeding slowly. The new Adult Education Act is due to be adopted by the government by the end of 2019, and aims at increasing quality and relevance of adult education by streamlining existing programmes. Finally, in the area of Early Childhood Education and Care, investment in infrastructure, prolonged opening hours, new hiring of pre-school teachers and subsidies to enrolment fees are intended to increase availability of and access to kindergarten places across the country, including in the most deprived areas.

[11] The main objectives of the reform were threefold: i) to address design inconsistencies, which had resulted in unfair treatment of certain cohorts of pensioners; ii) to accelerate the planned increase in the statutory retirement age to 67 and increase penalties for early-retirement; and iii) to strengthen the institutional setup and performance of the second pension pillar.

[12] Currently school pupils attend school in two shifts: one week in the morning and one week in the afternoon. This arrangement arises in part from lack of school infrastructure, but poses significant limits to instruction time.

3.3 Public administration, the business environment and state-owned enterprises, and judiciary system

Measures to de-politicise the public administration and harmonise the regulation of state agencies are making progress, but the overall modernisation process requires further policy action. In October, the parliament adopted legislation (effective as of January 2020) aimed at the de-politicisation and professionalization of the central state administration through the reduction in the number of politically appointed state officials. In particular, within ministries, certain functions performed by politically appointed officials (such as Assistant Ministers) will soon be carried out by senior civil servants selected through open competition. This measure should ensure increased continuity in the work of the state administration and strengthen the competence of the civil service. The rationalisation of the cumbersome state agencies system, initiated last year, is making progress: 35 out of the 54 selected state agencies-type institutions have been either suppressed or merged with other agencies or within line ministries, without cuts in personnel. A new legal framework regulating the remaining agencies and introducing a higher degree of homogeneity across the system[13] is planned for adoption in November. The authorities have also proceeded with decentralisation plans of the public administration: in July, the parliament adopted legislation for the transfer of competences and staff from branch offices of the central administration (e.g. ministries) to the county administration. It remains unclear whether the measure will bring efficiency gains, because these offices are already operating at local level. No measures have been taken to address the main weakness of the Croatian public administration, which lies at the municipal level, as the numerous small municipalities often lack administrative capacity for the delivery of public services.

Measures to improve governance and the management of state-owned enterprises continue, and steps for the reduction of state ownership in companies are being taken. The State Assets Management Strategy, a strategic plan for the management of state assets over the period 2019-2025, was adopted by the government in October 2019. Despite intentions to intensify divestments of shares and stakes in companies owned by the Republic of Croatia, sales revenue up to September 2019 has been lower than in previous years. The proposal for a Law on Unvalued Construction Land has been prepared and agreed upon by the relevant authorities and is due to become law by the end of 2019. This law will be an important milestone in solving long-standing property rights issues between the Republic of Croatia and private companies, originating from the conversion and privatisation of land property in the 1990s. On-going work to define the criteria for the classification of ‘legal entities of special interest’ is due to be finalised by April 2020. 39 entities are currently listed as being strategically important to the Republic of Croatia, but this number is expected to be reduced. Progress on enhancing and improving governance of state owned enterprises continues. The obligation on government representatives belonging to supervisory and audit committees to attend training sessions will be introduced by the end of 2019. This follows the introduction of obligatory financial and strategic reporting (quarterly financial statement, annual plan, annual report, medium term plan and medium term statement) in 2018.

[13] The new framework would define uniform criteria concerning the establishment, legal status of employees, sources of funding, responsibility and supervision of agency-like public institutions.

Croatia is working on improving the consistency, completeness and timeliness of its statistics, in particular national accounts and government finance statistics. It aims to improve the collection, production and dissemination of statistics by strengthening its institutional and methodological capacity. On 21 October 2019, the Croatian Bureau of Statistics released partly revised annual national accounts for 1995-2017, with improved cross-domain consistency of aggregates. However, for 2018, data are still provisional. Meanwhile, the publication of non-financial sector accounts has not been resumed yet.

Measures aimed at improving the business environment and the competitiveness of the services sectors are advancing. The 2019 Action Plan for alleviating the administrative burden on the economy was published in January 2019. The plan envisages the abolition or simplification of 314 administrative processes and obligations, which would save as much as HRK 627 million (0.16% of GDP) per year. Up to October 2019, 94 such measures have been implemented, thus reducing the administrative burden by approximately HRK 400 million (0.1% of GDP), with 220 measures awaiting implementation. The 2020 Action Plan is due to be published in the first quarter of 2020. The identification of the administrative processes, obligations and red tape carrying the highest burden for the business sector and thus requiring simplification has been supported by increased consultations with stakeholders, also through a new dedicated website (boljipropisi.hr). Regarding the financial burden on the corporate sector, a review of parafiscal charges is on-going and the registry of parafiscal charges should be updated by the end of the year. The estimated burden of parafiscal charges stands at approximately HRK 9 billion (2.4% of GDP). Following an analysis of all relevant data (including the legal basis, methodology used to calculate the charge, and frequency of charge collection), a new Act is planned to be adopted by the government in the first quarter of 2020 aimed at reducing the financial burden on businesses. As regards to the liberalisation of the professional services market, a first Action Plan was adopted by the Government in October 2019. This Action Plan builds on work done in association with the World Bank and contains policy measures aimed at liberalising the services market pertaining to 10 professions.

Reduction of court backlogs and older cases is hindered by the inflow of new cases, whereas measures to improve efficiency in the justice system are progressing. Corruption risks remain largely unaddressed. On aggregate, backlogs of unresolved cases increased, but the rise came largely from municipal courts, driven by a large inflow of new cases. This was mainly due to personal insolvency cases (which are dealt with by insolvency administrators under supervision of courts) and CHF loans cases, which are likely to share factual circumstances. Meanwhile, most higher-instance courts decreased their backlogs. A wider roll-out of electronic communication in courts and implementation of the judicial map reforms are progressing. Documents submitted electronically to all commercial and some municipal courts now include insolvency cases from the public payment agency, and submissions from lawyers, public notaries, court experts, county state attorneys and insolvency administrators. Despite a new Law on the Protection of whistle-blowers, there remain gaps in addressing corruption risks, most notably in SOEs and local government units, where local officials have considerable discretion in decision-making. The existing anti-corruption plan and anti-corruption plan for SOEs focus primarily on soft measures (trainings, guidelines etc.). Meanwhile, a new draft law on the prevention of conflicts of interest is still pending, as is planned legislation on a code of ethics for members of Parliament and lobbying regulation. Rules governing the content and publication of asset declarations for key judicial officials were put in place, but publication is delayed until outstanding data protection issues are resolved.

3.4 The financial sector

Banking sector fundamentals continued to move in the right direction. Progress in reducing non-performing loans was sustained in 2019 thanks to a combination of asset sales and write-offs. The share of Kuna loans in total household loans continued its long-standing upward trend, reaching 53.6% at the end of August (compared to 32.3% at end 2015), thus reducing the exposure of private debt to exchange rate risk. The share of loans granted at fixed interest rates also increased, leading to decreased bank exposure to interest rate-induced risk.

The CNB issued recommendations to banks on granting non-housing consumer loans in February 2019. Annual growth of general-purpose cash loans among households accelerated in 2018. As such, the CNB issued recommendations to all credit institutions to take into account the minimum cost of living when assessing consumers' creditworthiness for non-housing loans with an initial maturity equal to or exceeding five years. This recommendation aims at creating a level playing field when assessing creditworthiness for housing and non-housing loans to consumers with longer maturities, thus avoiding possible arbitrage by borrowers between the two types of loans. The Croatian Credit Registry (HROK), which had closed in May 2018, partially resumed operations in August 2019. The Registry had closed following the implementation of the General Data Protection Regulation (GDPR) so that it could adapt to the new regulatory environment.

Lingering uncertainty regarding the impact of the conversion of CHF-indexed loans remains. A new judgement by the Supreme Court in September 2019 confirmed the violation of consumer rights in the lawfulness of loan contracts denominated in, or indexed to the Swiss franc, thus enabling the affected borrowers to seek compensation from the banks. This development prolongs the legal uncertainty affecting the Croatian banking sector, with the final costs to banks difficult to predict.

4 Annex. Summary Table A

MIP objective: Ensuring stable public finances			
Public finances and taxation			
Fiscal policy and fiscal governance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for September 2019: Adoption of decree on fiscal responsibility statement and reporting on fiscal rules application.	**September 2019**: Adoption of decree on fiscal responsibility statement and reporting on fiscal rules application.		2018 CSR 1: "Reinforce the budgetary framework and monitoring of contingent liabilities at central and local level."
MIP objective: Improving the functioning of the labour market, and the effectiveness of social protection			
Labour market, education and social policies			
Wages & wage setting			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for October 2019: Act on Wages for Civil Service.			2019 CSR 2: "In consultation with the social partners, introduce harmonised wage-setting frameworks across the

			public administration and public services." 2019 NRP
Education system and active labour market policies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for September 2019: Act on Adult Education to increase quality, relevance and appeal of adult education and lifelong learning programmes.		**December 2019**: Establishment and financing of a network of VET Competence Centres. **Ongoing:** Gradual implementation of the comprehensive curricular reform in schools and VET.	2019 CSR 2: "Deliver on the education reform and improve both access to education and training at all levels and their quality and labour market relevance." 2019 NRP
Poverty reduction & social inclusion			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for December 2019: new Social Welfare Act. **Announced for December 2019:** Categorisation and harmonisation of social benefits provided by local units with ESSPROS methodology; establishing technical prerequisites for reporting on social benefits.	**2019 ongoing:** Infrastructure investments and improvements of pre-school institutions/kindergartens. **2019 ongoing:** support activities to local government units in reporting on social benefits according to ESSPROS.		2019 CSR 2: "Consolidate social benefits and improve their capacity to reduce poverty. Strengthen labour market measures and institutions and their coordination with social services." 2019 NRP

Incentives to work, job creation, labour market participation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		Ongoing: Continuous implementation and re-focusing of ALMP measures.	
MIP objective: improving competitiveness, the business environment, and institutional capacity			
Public administration and business environment			
Public administration			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for December 2019: Amendment of the legal framework the regulating establishment of the state agencies system.	**July 2019:** Amendment of the State Officials Act aimed at the depoliticisation of the public administration. **July 2019:** Adoption of the State Administration System Act transferring competences for the central administration to the country-level.	**Ongoing:** Streamlining of the number of legal entities of the agency type.	2019 CSR 1: "Reduce the territorial fragmentation of the public administration and streamline the functional distribution of competencies." 2019 NRP

State-owned enterprises			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for December 2019: Strengthening the supervision of business in state-owned legal entities by improving the competencies of supervisory and audit committees. **Announced for October 2019:** Enactment of the Act on Unassessed Construction Plots **Announced for October 2019:** Enactment of the Amendments to the Act on State Property Management	**October 2019:** Adoption of a Decision on the obligation to introduce a compliance function in SOEs (Business Compliance). **Ongoing:** The proposal for an act amending the State Asset Management Act will be referred to the Government's procedure in the first quarter of 2020; The proposal for a law on the Unestimated Contruction Land has been prepared and agreed with the relevant authorities.		2019 CSR 4: "Improve corporate governance in state-owned enterprises and intensify the sale of state-owned enterprises and non-productive assets." NRP 2019

Business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for January 2020: Adoption of the Second Action Plan for the Liberalisation of the Services Market. **Announced for end of 2019:** Analysis of non-tax payments Registry.	**November 2019**: Adoption of the First Action Plan on the Liberalisation of the Services Market.	**Ongoing:** An analysis and an index of all regulations that entail an obligation to charge administrative fees is being conducted in 2019.	2019 CSR 4: "Reduce the most burdensome parafiscal charges and excessive product and services market regulation." 2019 NRP

Civil justice and anti-corruption			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Announced for May 2019: Introduction of eDelivery of court documents. **Announced for September 2019:** Expansion of eCommunication at the courts. **Announced for March 2019:** Introduction of asset declarations for judges and state attorneys.	**January 2019**: Gradual roll-out of eDelivery. **June 2019**: Ongoing, with pilot eCommunication project under way in two municipal courts. **March 2019:** Rules were put in place regarding the content and publication of asset declarations for judges and state attorneys.	**July 2019**: Implementation of eDelivery ongoing (implemented in all commercial courts, municipal courts, county courts, High Commercial Court and Supreme Court). **September 2019**: Implementation of eCommunication ongoing (substantial increase in number of courts and documents).	2019 CSR 4: "Enhance the prevention and sanctioning of corruption, in particular at the local level. Reduce the duration of court proceedings and improve electronic communication in courts." 2019 NRP
MIP objective: building a stable and resilient financial sector			
Financial sector			
Financial services			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	February 2019: The Croatian National Bank (CNB) issued		

	recommendations to banks on actions to take in granting non-housing consumer loans.		