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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 report is the first specific monitoring report under the Macroeconomic Imbalances Procedure (MIP) for countries experiencing excessive macroeconomic imbalances. It reviews the latest economic developments and the main policy measures targeted at the correction of imbalances taken by Croatia since the adoption of the country-specific recommendations (CSRs) in July 2014.

Croatia's economy continues to be in recession. GDP has been falling since 2009 and, although the pace of decline is gradually abating, is set to contract further in 2014. Unemployment started to decrease in the second half of 2014 but trends in employment are still ambiguous. Falling output and weak adjustment capacity are slowing down the rebalancing of the economy. While deleveraging through negative credit flows is continuing amongst both households and NFCs, adjustment in the relatively high labour costs is proceeding slowly. On the positive side, the recovery observed among some of Croatia's trading partners is helping to offset the drag from domestic demand and contributing to consolidate the trade account surplus. Going forward, deleveraging pressures, fiscal consolidation, tight credit conditions, inadequate competitiveness and weak labour market perspectives are likely to continue to weigh on growth.

Progress on measures to address macroeconomic imbalances has been highly uneven across policy areas. The main findings of this monitoring are:

- i) Progress on important fiscal structural reforms appears piecemeal and there are pronounced implementation risks. Only very limited steps to align budgetary projections to ESA standards have been taken so far. Preparation of the expenditure review has been put in motion but a timeframe for the implementation of its findings has not been set. Changes to the legal framework of the Fiscal Policy Commission are being prepared. Preparatory steps to introduce a recurrent property tax are being taken but it is still uncertain whether it will be in effect as of January 2016. Policy measures to improve the sustainability of the pension system are yet to be outlined. The ambition of measures to improve cost-effectiveness in health care in the near term is limited;
- ii) There has been progress on improving the functioning of labour markets, notably with the adoption of the labour law reform. Further measures to tackle obstacles to job creation are, however, still to be defined based on the findings of ongoing reviews;
- iii) The business climate is likely to benefit from the planned enhancements of the early rescue framework and the reform of regional state administration. Conversely, progress on removing para-fiscal levies is considerably slower than expected. Only limited steps are planned to be taken to improve the governance of state-owned enterprises and their restructuring is falling behind plans. Reforms of the public administration and of the anti-corruption framework risk being delayed.

Overall, there is a clear need to step up the reform momentum. While the process has been set in motion with the approval of several reforms and the adoption of a timeline for

further policy measures to respond to the CSRs, significant political and administrative effort will be required to deliver in full and effectively on the needed structural reforms. EU structural funds can be used to support this effort.

1 Introduction

On 13 November 2013, the European Commission presented, as part of the Macroeconomic Imbalances Procedure (MIP), its third Alert Mechanism Report (AMR) which concluded that an in-depth analysis was required to understand whether macroeconomic imbalances exists in Croatia. The nature and severity of macroeconomic developments and risks was examined in the subsequent “in-depth review” (IDR), published on 5 March 2014.¹ The Commission concluded that *"Croatia is experiencing excessive macroeconomic imbalances, which require specific monitoring and strong policy action. In particular, policy action is required in view of the vulnerabilities arising from sizeable external liabilities, declining export performance, highly leveraged firms and fast-increasing general government debt, all within a context of low growth and poor adjustment capacity. The Commission will put in motion a specific monitoring of policy implementation, and will regularly report to the Council."*²

On 24 April 2014, the Croatian authorities submitted the Convergence Programme and the National Reform Programme, respectively outlining updated fiscal targets and planned policy measures to restore economic growth and help unwind imbalances. After assessing the two documents, on 2 June 2014 the Commission proposed a set of policy recommendations³ to address macroeconomic imbalances which were adopted by the Council⁴ on 8 July 2014. The recommendations related to the MIP cover (i) fiscal policy, the fiscal framework and budgetary processes, the effectiveness of public expenditure, taxation and the long-term sustainability of public finances; (ii) the functioning of the labour market and the performance of the education system; and (iii) structural measures to boost growth and competitiveness, including improving the effectiveness of public administration. In addition, a specific financial-sector recommendation aims at improving the understanding of bank balance sheets. On 30 July 2014, the government adopted a plan on the implementation of CSRs (hereafter referred to as the "implementation plan"). An overview of the recommendations related to the MIP and of the commitments communicated in the implementation plan is provided in Annex 1.

The present report assesses the main policy measures taken by Croatia since July 2014.⁵ For this purpose, a first specific monitoring mission to Croatia was conducted on 22-24 September 2014. An update of the present report is planned to be published in January 2015 based on the findings of a second specific monitoring mission. Regarding fiscal policy, on 2 June 2014, the Commission published its assessment of effective action in the framework of

¹ http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp179_en.pdf

² http://ec.europa.eu/economy_finance/economic_governance/documents/2014-03-05_in-depth_reviews_communication_en.pdf

³ http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_croatia_en.pdf

⁴ http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_croatia_en.pdf

⁵ The cut-off date for this note is 13 October 2014.

the Excessive Deficit Procedure, based on a report on action taken submitted by Croatia in the context of its Convergence Programme. Though also MIP relevant, these issues will not be covered in this report, in order to avoid an overlap of surveillance processes.

2 Macroeconomic context

The Croatian economy continues to struggle to return to positive GDP growth. Annual growth has been negative since 2009, though the contraction currently forecast for 2014 would be milder than in 2012 and 2013. In the second quarter of 2014, seasonally adjusted GDP decreased by 0.3 % over the previous quarter and by 1.0 % year-on-year.

The rebalancing of the economy is progressing, with external demand strengthening its positive contribution to growth. In the second quarter of 2014, the contribution of domestic demand to GDP growth was negative (2.9 percentage points), while the contribution of net exports was positive (2.1 percentage points). Gross fixed capital formation and particularly construction continued to act as a drag on GDP, while manufacturing and exports of goods contributed positively. Exports of goods and services increased by 7.9 %, due primarily to the 16.0% rise in exports of goods while exports of services decreased by 0.1 %. Imports of goods and services also started to increase again (by 2.2 %).

Despite the turnaround in the trade account negative dynamics in the balance of incomes and transfers slow down the adjustment of the large negative net international investment position. After having reached a peak value of -99.5% of GDP in the first quarter of 2011, the NIIP decreased to -91.4 % of GDP in the last quarter of 2013, on the back of positive valuation effects and the narrowing of the trade deficit since the crisis. In the first quarter of 2014, however, the value of the stock of liabilities increased again, and also due to GDP contraction, the NIIP to GDP ratio increased to 94.9% of GDP. In the context of a relatively stable kuna (both with respect to the euro and in terms of nominal effective exchange rate), valuation effects have so far reflected a deterioration of confidence in the Croatian economy as well as the good performance of most EU stock markets in the first semester of 2014. The income balance, moreover, continues to weigh heavily on the dynamic of the NIIP given net external debt above 60 % of GDP at the end of 2013, and the repatriation of earnings.

Despite falling unemployment rates, the picture provided by the employment data is mixed. Croatia's registered unemployment rate fell to 17.5 % in August 2014, the sixth straight month of a decrease, while the comparison with previous year seasonal profile suggests that the decrease is not only driven by the typical uptake of employment in the summer months. Yet, in August 2014, the number of persons in paid employment decreased by 2.1 % year-on-year and the cumulative drop since January averaged 1.9 %. This markedly contrasts with employment creation signalled in the recent Labour Force Survey.

Real wage adjustment is hindered by the negative price dynamics. In the period from January to June 2014, the average monthly gross earnings amounted to HRK 7940 (EUR 1042). This represents a nominal decrease of 0.1 % and a real increase of 0.2 %, as compared

to the same period of 2013. Price dynamics continued to be subdued, with the HICP index falling by 0.1 % year-on-year in July 2014.

In the short run, deleveraging pressures continue to weigh on both households and non-financial corporations. In the first quarter of 2014, total household debt decreased by another 1.6 pp of GDP, with the impact of negative credit growth partly offset by the GDP contraction. According to recent estimates, with a stock of outstanding debt below 40 % of GDP, residual deleveraging pressures in the household sector are relatively contained. Yet, in the short-term, adverse labour market dynamics and uncertainty are likely to support a further downward adjustment in the balance sheets. Data for non-financial corporations is difficult to interpret due to the on-going reclassifications of state-owned enterprises (SOEs) into the general government sector. Following a mild decline in 2012 and 2013, non-financial corporation's debt-to-GDP ratio increased to 84.6 % in the first quarter of 2014, as opposed to 82.7 % at the end of 2013. Moreover, average developments hide significant heterogeneity, namely a strong deleveraging in the construction sector and the highly-leveraged SOEs.

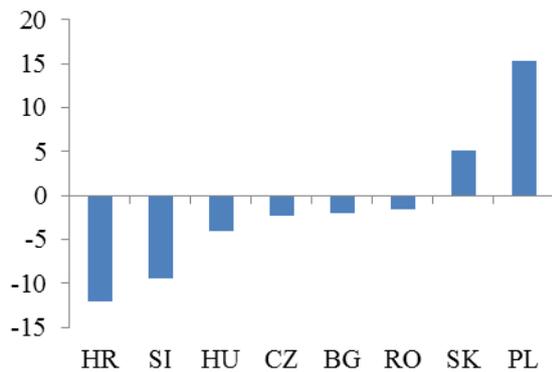
The financial sector has withstood the recession, though credit flows to the private sector could be constrained by the accumulation of impaired assets and growing government debt. By the end of March 2014, the share of non-performing loans (NPL) reached 16.1 %, up from 15.3 % in September 2013. The corporate sector was the main contributor to the rise in the NPL ratio (the NPL rate amongst NFCs almost reached 29% by March 2014). Although bank capital buffers are judged adequate by regulatory authorities, balance sheet vulnerabilities are likely to hamper credit growth, including to the financially sound households and enterprises. The bank lending survey shows a tightening of the standards for granting loans to corporations. Growth in credit to the private sector was recently partly crowded-out by the increasing exposure of the banking sector towards government debt. Going forward, however, the domestic banking sector may face limits in its capacity to absorb further government debt.

Risk premia are gradually returning to pre-crisis levels, but credit conditions remain tight. Abundant liquidity coupled with institutional reforms aiming at progressive implementation of the banking union have encouraged investors to resume investments in the sovereigns of peripheral countries. CDS spreads continued to decrease and returned to pre-crisis levels. Credit conditions nevertheless remain tight, also due to the rising share of non-performing loans.

The adjustment in real-estate prices came to a halt in the second quarter of 2014. The real-estate price index is now broadly back to the value reached at the end of 2004, thus fully offsetting the sharp increase registered before the crisis. The increase between the first and second quarter of 2014 reflects a quite strong rebound in the price of real-estate along the Adriatic coast (7.7 % q-o-q), whereas the Zagreb index continued to contract. In year-on-year terms, nevertheless, the index contracted also at the Adriatic coast and hence on the aggregate.

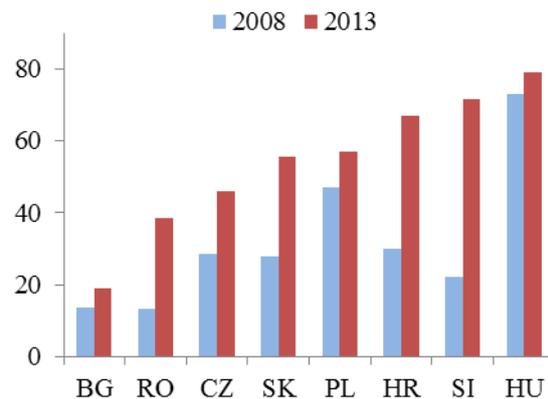
All in all, recent indicators point to a mixed picture regarding economic prospects. The process of internal devaluation is delivering some fruits, specifically in terms of external rebalancing, but this is happening only slowly in a context of pronounced nominal and real rigidities and obstacles to the reallocation of resources. Moreover, strong headwinds stemming from the deleveraging needs in parts of the private sector and in the public sector (including SOEs) still hamper the recovery in internal demand.

**Cumulative real GDP growth
2008 - 2013 (% change)**



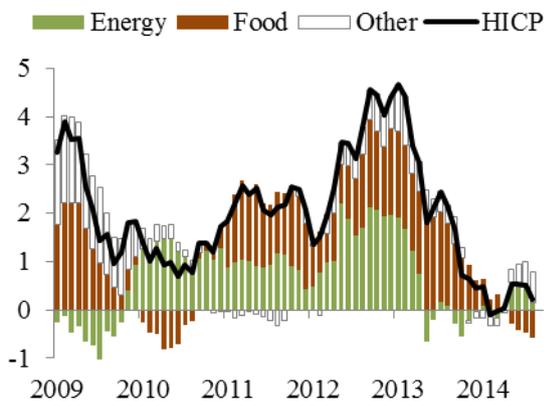
Source: Eurostat

**General government debt
(% of GDP)**



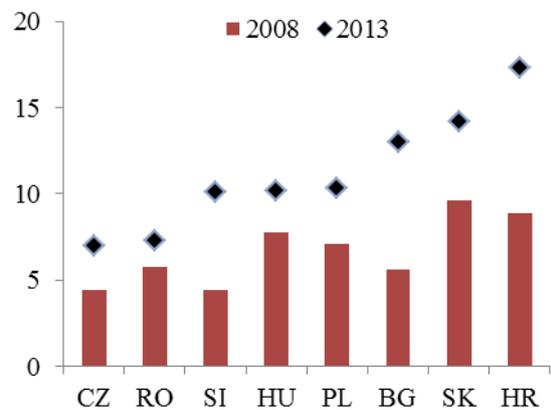
Source: Eurostat, ESA 1995

**Inflation
(year-on-year growth)**

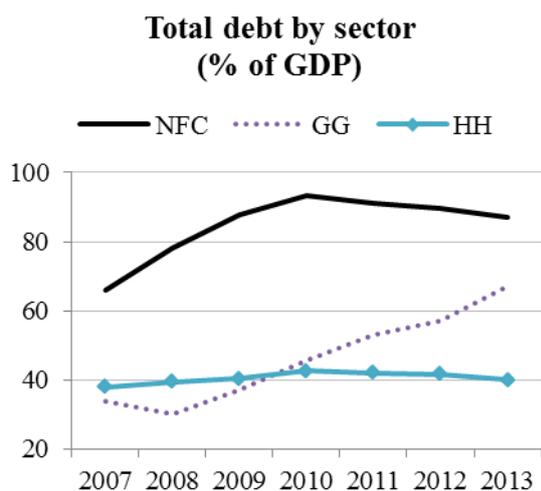


Source: Eurostat

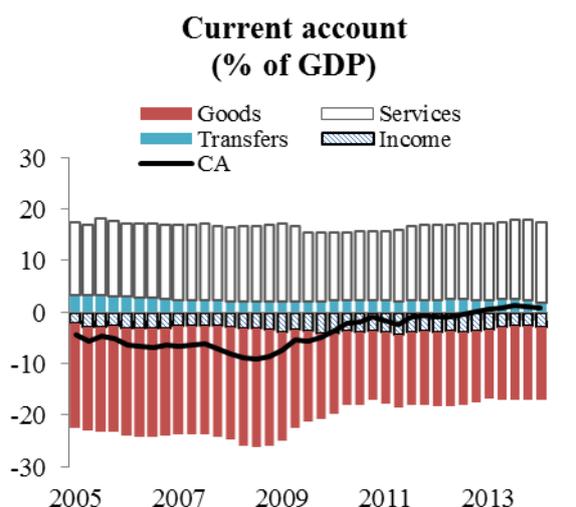
**Unemployment rate
(%)**



Source: Eurostat



Source: Eurostat ESA 1995, 2013 - forecast



Source: Eurostat

3 State of play with MIP-related reforms

This section gives an update of policy measures taken since the issuance of the Country Specific Recommendations to Croatia in July 2014. More details by single reform item can be found in the table annexed to this report.

3.1 Measures to enhance the quality and long-term sustainability of public finances

Progress on important fiscal structural reforms appears piecemeal and with pronounced implementation risks. It has to be noted that certain fiscal structural measures have been introduced earlier in 2014 and prior to the publication of Country Specific Recommendations.⁶ Relevant policy domains to be reviewed on progress made in the implementation of policy measures include the following: i) activities related to the alignment of budgetary projections with European System of Accounts (ESA) standards; ii) the process of the expenditure review; iii) work on the new draft law on Fiscal Policy Commission; iv) changes to the Fiscal Responsibility Law and v) analysis of VAT compliance risk. Finally, vi) steps taken towards the introduction of the recurrent property taxation by January 2016.

- i) **Only very limited steps towards increasing the alignment of budgetary projections to ESA standards have been taken.** In order to tackle the issue of reconciling the differences between ESA definitions and national budgetary definitions, the Croatian Ministry of Finance has hosted a workshop, joined by Eurostat, European Commission, Croatian Central Bank and Croatian Bureau of Statistics representatives. Several differences in terms of coverage and delimitation

⁶ After the excessive deficit procedure for Croatia was opened in January 2014 the authorities have implemented a number of measures aimed at reducing the budget deficit, such as an increase of the social security contributions and cuts in certain expenditure categories, such as subsidies and in use of goods and services. Although the short- and medium-term fiscal consolidation strategy can provide a relevant contribution to the unwinding of macroeconomic imbalances, it will be examined separately, under the corrective arm of the Stability and Growth Pact. In this report the focus is on structural measures to strengthen public finance management and to contain longer-term adverse fiscal dynamics.

between data used for budgetary statistics by the Ministry of Finance and data used in the production of ESA fiscal statistics have been identified. Publication of a note on this issue has been delayed. The authorities currently aim to have first ESA-aligned projections ready for the 2015 convergence programme. The authorities have also stated the intention to align the national budgetary timeline set in the Budget Act with the European Semester cycle. Increased effort in this whole area is clearly warranted, including genuine advancement of co-operation between the Ministry of Finance and the Bureau of Statistics on the development of the reconciliation table mapping the budgetary figures in ESA terms, as requested by the Budgetary Frameworks Directive (No. 2011/85/EU).

- ii) **Preparation of the expenditure review has been put in motion but a specific timeframe for the implementation of its findings has not been set.** A draft government decision on expenditure review has been prepared, which foresees the establishment of several working groups, each responsible for designing options for potential savings in their policy areas.⁷ The authorities plan to review spending in state-budget wages, health care, public subsidies, operations of agencies and tax expenditures. The authorities plan to co-operate with several public research institutes. Some conceptual issues (in particular its methodology and the delivery guarantees for the implementation phase) still need to be defined. Importantly, a clear commitment to implement the findings of the review has not yet been made.
- iii) **Changes to the legal framework defining the role and the status of the Fiscal Policy Commission (FPC) are being prepared.** Despite recent steps taken to make the FPC more independent, a further upgrade of its status is warranted. The authorities have proposed amendments to the existing legal framework but there are considerable uncertainties regarding their planned adoption by October 2014, given that the parliamentary procedure has not yet started.
- iv) **Changes to the fiscal responsibility law are pending.** The application of current fiscal rules remains challenging and they are also not defined in terms of variables which are aligned with the fiscal targets stemming from EU rules.
- v) **The tax administration has prepared a preliminary analysis of VAT compliance risks but a specific action plan has not been finalised yet.** The VAT is the most important revenue component in Croatia. The analysis focuses on further improving tax compliance and increasing the efficiency and effectiveness of tax collection, while lowering the compliance burden for tax payers. However no specific timeline for further measures has been presented.
- vi) **Introduction of recurrent property tax from Jan 2016 is still clouded by uncertainty.** The authorities have presented a timeline, defining envisaged steps to

⁷ The government hosted in mid-September a high-level workshop on expenditure reviews organised by the World Bank and involving participants from a few EU countries with relevant recent experience.

introducing the tax including a pilot project. However, logistical and technological issues, such as creation of a supporting database, might delay the timely introduction of the tax. In addition, it appears that the political endorsement for the measure is still pending.

Overall, significant challenges in the fiscal structural area remain. The implementation of the above-mentioned measures will need to be closely monitored and followed by additional steps. In addition, strong implementation action is yet to be demonstrated as regards strengthening the budgetary planning, including the improvement of the budgetary forecasts, and reinforcing control over expenditures.

Policy measures to improve the sustainability of the pension system are yet to be outlined. The implementation plan announced i) a reform of pension entitlements of persons working in arduous or hazardous professions, including a transfer of their pension assets to the pay-as-you-go pillar, and ii) a harmonisation of special pension rights of military and police officers.⁸ Both reforms are due in December 2014 but concrete plans have not been disclosed yet, which gives rise to considerable uncertainty as to their timely adoption. Early retirement continues to be widespread but the incentives to prolong working lives, and thus improve the adequacy of pensions, are not expected to be strengthened at this point. Regarding disability pensions, the authorities plan to use the recently set-up Unique Medical Assessment Body to implement the obligatory re-assessment of disability pensions legislated in 2013, with the aim to check about 10 000 pension claims annually. A decision on other steps to improve the sustainability and adequacy of pensions has been postponed to February 2015, after the results of projections undertaken in the context of the 2015 Ageing Report are known. One of the measures under consideration is the possible extension of the 27% pension supplement, currently granted only to 1st-pillar pensioners, to all future pensioners for the qualifying periods acquired before the introduction of the funded pillar in 2002.⁹ The fiscal cost of this measure would need to be carefully assessed.

A number of measures are being prepared to improve the cost-effectiveness in the healthcare sector by 2016 but the overall ambition remains limited. They include i) a financial separation of the healthcare budget from the central Treasury, which should inter alia prevent further build-up of arrears, ii) the adoption of the National Development Plan for Hospitals and iii) a set of other measures, including a new model of contracting for hospital care, designed to strengthen the efficiency of spending. No progress is expected to be achieved on reducing the coverage of the supplementary insurance for the co-payments in health care.

⁸ Future steps on harmonising special and general-system pensions will need to reflect the August ruling of the Constitutional Court, which declared unconstitutional the retroactive removal of special pension rights for MPs and high-level state officials.

⁹ The supplement was introduced in 2007 so as to reduce differences in the level of pensions between pensioners who retired before the 1999 reform and pensioners who retired thereafter. The level of the supplement is 4 % for pensions acquired in 1999 and 27 % for those acquired in and after 2010. The current supplement does not accrue to pensioners who are insured under the second pillar or belong to special categories.

- i) **The build-up of arrears is being addressed mostly by increasing the budget envelope.** Despite their sizeable financial rehabilitation in 2013, at the end of the year arrears stood at close to 1 % of GDP again. The government implementation plan indicates that the authorities are undertaking an in-depth analysis of both arrears and the financial control mechanisms, which should be presented in October 2014. On current information, arrears have emerged because the budget-control and performance-management tools have not been effective enough to implement the recent cuts in the overall budget at the level of individual hospitals. The solution put forward by the authorities is to remove health contributions from the central Treasury, as of January 2015, and earmark them to the Health Insurance Fund. This would in practice increase the hospital budget, thereby decreasing the risk of arrears, but also to an extent remove the pressure to improve cost-effectiveness of hospitals.
- ii) **The National Development Plan for Hospitals can bring improvements in the provision of care but faces important implementation risks.** The plan outlines a functional integration of hospitals and a reduction and re-distribution of hospital services away from acute care towards day care and outpatient services. It targets average bed occupancy of 80-85 % and a reduction of the average length of hospital stay by 10-40 % by 2016. By implementing the plan, the authorities expect to achieve savings of around 0.4-0.6 % of the overall hospital budget in 2015 and 2016. The plan was adopted in June by the government and its strategic part, with the above-mentioned global efficiency targets, is planned to be adopted in November by Parliament. Operational targets at hospital level will not be put for a Parliament adoption, leaving more flexibility in adapting them over time. The authorities expect that the change in contracted services could result in a reduction in the number of acute beds by around one third but it will be up to the hospital management to design the appropriate adjustment in individual hospitals, which underlines the importance of close monitoring of the plan's implementation. A dedicated team reporting to the Minister of Health has been set up to analyse and mitigate the implementation risks.
- iii) **The authorities have put forward a number of other measures strengthening the efficiency of healthcare spending but the expected savings are relatively limited.** A new model of contracting for hospital care, based on procedures rather than activities, is planned to be introduced in January 2015. This is a welcome step, which could motivate hospitals to catch up with modern trends in the provision of care. The authorities also plan to use EU funds to strengthen primary care so as to reduce referrals to secondary and tertiary care in particular for patients with chronic diseases. Other measures include further development of centralised procurement, an improved tracking system for sick leave applications, re-tendering medications to achieve lower prices, a greater emphasis on preventive care and pooling of health institutions' bank accounts. The authorities expect that these measures could generate savings of around HRK 370m in 2015, i.e. about 10 % of the 2013 level of arrears. However, health care is one of the areas selected for the 2015 expenditure review, the findings of which are expected to lead to further efficiency improvements.

3.2 Measures to improve the functioning of the labour market, education and the effectiveness of social protection

A recent major policy development in the labour market area was the adoption of the second phase of the labour market reform. The reform was adopted by Parliament on 15 July 2014 and entered into force on 7 August 2014. It has four main objectives: increasing flexibility in working time arrangements and in overtime work across employers; facilitating employment through temporary work agencies; and streamlining company-restructuring procedures. To this end, the key elements of the reform are: i) working time is increased to a maximum of 50 hrs/week or an average of 48 hrs/week over a period of four months, and to a maximum of 60 hrs/week if negotiated through collective agreements; ii) flexible working time arrangements can be used by any employer; iii) full-time workers may take up additional contingent work with a different employer up to 8 hours a week; iv) the maximum notice period in case of dismissal is set at 6-months and some procedural aspects are streamlined; v) a number of restrictions regulating temporary work agencies are lifted, including the assignment duration period which can be extended up to a maximum of three years; vi) internal staff reallocation within affiliated companies in Croatia and abroad is now allowed; vii) in case of unfair dismissals the compensation is capped at 8 statutory or contractual salaries; viii) collective dismissal procedures are simplified and the notice period is shortened to 38 days; ix) new provisions regulate the extension of scope and cancellation of collective agreements. Most secondary legislation has already been adopted, and the remaining ordinances will enter into force by the end of the year. The government is now working with social partners and the chambers of commerce and crafts on establishing the implementation and monitoring framework.

Measures announced in the government's implementation plan include a number of analytical reviews, strengthening of the institutional framework for education and several medium-term actions. The reviews are expected to cover i) wage-setting practices, ii) the tax and benefit system with a view to improving incentives to work and the effectiveness of social policy, and iii) undeclared work. A sufficiently concrete roadmap on the follow-up actions is yet to be outlined. In addition, in the coming months the authorities are planning to iv) implement the Croatian Qualifications Framework and adopt the Strategy for Education, Science and Technology. The medium term plans include: v) improving the performance of active labour market policy measures, and vi) advancing with the restructuring of the Croatian Employment Service.

- i) **A review of structural weaknesses in wage-setting institutions and practices is planned to be released in December.** Relatively high labour costs compared to Member States with similar levels of productivity have a negative impact on employment and on overall economic performance. The authorities' preliminary analysis of the wage structure in Croatia as well as of the impact of collective agreements on the wage system highlights problems with the long duration of outdated collective agreements, their extension rules, implementation and enforcement especially in the private sector, which create legal uncertainties for employers and employees. The full review should address wage setting in the

government sector, in state-owned enterprises and in the private sector, with the purpose of informing a tripartite discussion on the wage setting mechanism to be initiated in December. Both institutional settings and wage outcomes are expected to be covered. The results should contribute to devise policies aimed at improving the responsiveness of wages to economic condition.

- ii) **The authorities have presented a plan for the progressive consolidation of the fragmented social benefits system which interacts with incentives to work; however, its implementation is dependent on achieving full inter-institutional agreement and political endorsement.** The first pillar of the plan consists of progressively merging more social benefits¹⁰ under the Guaranteed Minimum Benefit (GMB)¹¹. In cooperation with the United Nations Development Programme, the authorities are conducting a thorough mapping of the remaining benefits (more than 70) provided at central and local level, with a view to preparing an action plan at the beginning of 2015 for the revision of the system. The second pillar of the plan is taking further steps in the establishment of a one-stop-shop that serves as the single administrative point for the provision of social services, and an electronic system called MISSOS¹² which keeps record of all beneficiaries via a joint inter-institutional database. Ultimately, the one-stop-shop should manage both the GMB and all the other benefits. MISSOS should be accessible by local authorities and should allow having an overview of all benefits granted at all levels of government, thus imposing a cap on the benefits received by a single individual or household. The taxation part of the review is yet to be outlined. If implemented, these steps should enable the authorities to devise measures to tackle the inactivity traps that currently exist in the system, realise considerable savings and assure better targeting of social policy.
- iii) **In August 2014 the Government of Croatia has established a 'Commission to combat undeclared work' composed of all relevant ministries and public institutions.** Over the past years various institutions have introduced dedicated measures to combat undeclared work. The newly established Commission is in charge of reviewing and assessing the effectiveness of existing measures by end December 2014, and proposing necessary amendments and further plans to address the issue.
- iv) **In the field of education, the implementation of strategic policies and legislation will require realistic planning and a strong partnership among stakeholders.** The implementation of the Croatian Qualifications Framework (CROQF) as a key tool for aligning education with the needs of the labour market is underway. The inter-sectoral National Council for Development of Human Potential responsible for governing the reform has been formed and the establishment of sectoral councils to provide labour

¹⁰ These include the unemployment allowance, the child allowance and 5 different maternity benefits.

¹¹ The 2013 Social Welfare Act merged 4 of the more than 70 existing social benefits at national level into the new Guaranteed Minimum Benefit (GMB). A cap on the cumulative amount of benefits that each citizen is entitled to under GMB was set at the level of minimum wage in Croatia.

¹² Management Information System One Stop Shop.

market information for six priority economic sectors is on track. The modernisation of vocational school curricula is progressing slowly in its seventh year of implementation and the next challenge will be to align the curricula with the CROQF. The Strategy for Education, Science and Technology is expected to be adopted by Parliament before the end of the year and among others, it includes measures to monitor graduate employment outcomes and introduce performance-based funding in higher education. A pilot project for tracking labour market outcomes of higher education graduates in 47 professional study programmes has recently been launched.

- v) **The 2015-2017 Guidelines for the development and implementation of active labour market policies (ALMP) are being prepared by an interdepartmental working group established by the government.** The working group will set implementation, monitoring and reporting standards, as well as a methodology for the development of annual plans for all institutions involved in providing ALMP. A comprehensive external evaluation of the 2010-2013 ALMP measures is to be contracted by the end of the year. The outcome should inform the design of future measures. The authorities are also setting up a database for the tracking of NEETs and a 'Labour Market Information System'. The new monitoring framework should help in identifying and addressing the skill mismatches, designing targeted policies and monitoring their outcomes.

- vi) **The Croatian Employment Service is undergoing a lengthy restructuring aimed at modernising and strengthening administrative capacities at the local and regional level.** The action plan indicating the next steps is still in a draft form. Its main components include: (i) recruitment and training programmes for specialised counsellors; (ii) further expanding the network of local offices to include youth centres, career counselling centres, and self-employment centres; (iii) improvement of online e-services and e-counselling; (iv) building the analytical and statistical capacities for monitoring and evaluation of services. The whole process – planned to last until 2017 – should be significantly supported by the European Social Fund, and it is contingent upon the absorption and implementation capacity of EU funded projects.

3.3 Structural measures to promote growth and competitiveness

A cumbersome business environment and low efficiency of public administration, including in the justice system, are widely recognised as major obstacles to Croatia's competitiveness.¹³ The most relevant policy initiatives announced in the authorities' implementation plan include the following: i) initiation of an assessment of administrative burdens, ii) a further decrease in para-fiscal levies, iii) planned enhancement of the administrative capacity for the management and absorption of EU funds, and iv) a revision of the Bankruptcy Act. The authorities have also announced a roll out of an electronic

¹³ See for instance the recent edition of the Global Competitiveness Index (World Economic Forum).

construction permit to all areas in Croatia by December 2014; an electronic registration of trades should be operational by December 2015.

- i) **The authorities are taking steps to initiate a measurement of administrative burdens.** A pilot project is expected to be carried out by December 2014, following which a set of measures and a specific target for decreasing administrative burdens should be announced. The authorities co-operate closely with experts from Romania, where a similar project has recently been undertaken.
- ii) **Progress on removing or decreasing para-fiscal charges is considerably slower than expected, with most charges being removed from their register due to an incorrect initial classification.** A catalogue of para-fiscal charges was created at the beginning of 2013 when a screening exercise undertaken by selected ministries detected 244 para-fiscal charges levied on businesses. By the end of 2013, the authorities removed or reduced 41 of them and a further 58 charges were announced to be removed or reduced in 2014, with an expected decrease in the para-fiscal burden of HRK 517m or close to 0.2 % of GDP. However, only 7 charges (HRK 57m) have actually been removed or reduced so far and a further 9 charges (HRK 120m) are planned to be addressed by the end of the year. The remaining payments, which are no longer classified as para-fiscal charges, will be removed from the register but companies will continue paying them. The process seems to rely on the initiative of individual ministries with little guidance as to the number/volume of charges to be removed and their prioritisation. The authorities also planned to reduce the administrative burden associated with paying the charges by reducing the number of individual payments but the plan has been abandoned because the receipts turned out to be earmarked by specific regulations, which seems to render their merging infeasible. Further steps are expected to be announced in December 2014.
- iii) **The authorities are undertaking a number of steps to improve strategic planning of EU funds and increase administrative capacity.** Deep weaknesses have been identified in the current system of management of EU funds, which hinder the absorption capacity. In order to address them, the authorities are: (i) developing a methodology to ensure consistency and efficiency in the management of funds across institutions; (ii) setting up an IT-platform to address the fragmentation of the system and to improve the coordination between stakeholders; (iii) mapping administrative capacity gaps in ministries and preparing to recruit qualified staff. The Ministry of Regional Development and EU Funds is undergoing an internal reorganisation in the course of the 2014-2020 programming process. Plans for strengthening capacities in other ministries however are still unclear. The authorities have expressed the intention to establish a link between the European Semester and the process of strategic planning for the use of funds. Uncertainties remain in the identification of priority projects, and most importantly in ensuring the adequate allocation of resources in the State Budget for pre-financing and co-financing.

- iv) **Amendments to the pre-insolvency and insolvency framework are planned to be adopted by December 2014.** The amendments integrate the pre-insolvency and insolvency procedures under a common framework of the Insolvency Act and give a stronger role to commercial courts in the pre-insolvency procedure as regards verifying the reported claims and validating restructuring plans. Discussions are still ongoing on the key issue of addressing the rights of creditors who will not enter the settlement agreement on a voluntary basis. The reform also sets the maximum duration of the pre-insolvency procedure before a commercial court (120 days). The authorities have initiated a review of the test of insolvency/illiquidity currently required to initiate pre-insolvency proceedings. The main novelties in the insolvency procedure concern limiting the effects of parallel cases on the insolvency proceeding and streamlining the process of asset liquidation, which could contribute to speeding up the lengthy procedure. The authorities also envisage introducing personal bankruptcy to allow natural persons to discharge their debts.

There is limited progress in the area of public administration reform. Improving efficiency and reducing fragmentation at local level remains elusive. In early September the government approved a draft law which envisages the merger of the management structures of regional administration offices (from 20 to 5). In the general context, this is a limited but welcome step. The draft Strategy for Modernisation of Public Administration 2014 – 2020 defines broadly the reform objectives in the areas of (i) the allocation of responsibilities at the central/regional/local level of government units, (ii) the provision of public services and (iii) the management of human resources in the public administration. Within this wide set of reforms, a review of the complex decision-making and accountability framework across various levels of government with a view to removing duplications of functions remains a priority. The reform process should take into account the administrative weaknesses of the Croatian local authorities. The text of the strategy is currently under public consultation and should be adopted in December. An ambitious plan for the establishment and implementation of the Joint Information System for the land register and cadastral offices has been rolled out. The plan presents a number of risks and it is questionable whether the necessary infrastructure will be in place by the end of 2015 for the introduction of the recurrent property tax. The upcoming amendments to the Public Servants Act aim at simplifying recruitment and dismissal procedures in the civil service, as well as redefining decision-making procedures concerning the rights, duties and accountability of servants. Plans for the rationalisation of state agencies currently lack a clear timeline for adoption and implementation. The e-Citizen online project was launched in June 2014 and has seen an exponential growth in users since. This modern platform provides a range of public services¹⁴ to citizens accessible by means of electronic identity.

¹⁴ These include: requesting birth or marriage certificates; accessing the voters register; selecting doctors; ordering the European Health Insurance Card; requesting the electronic employment certificate; checking paid contributions to the pension scheme; checking tax-forms etc.

There remain significant uncertainties on achieving progress on preventing and fighting corruption and improving the public procurement framework. The National Reform Programme announced that a new anti-corruption strategy would be adopted in 2014, but at this point there is no clarity neither on the exact timing nor on the measures it should deliver. In particular, it is not clear whether the measures singled out in the EU Anti-corruption Report and the CSR will be addressed. As regards public procurement, the authorities continue extending the share of public institutions using the services of the Central Procurement Office (from 34 to 624) for four categories of expenditure: electricity, fuel, mobile and fixed telecommunication services. Relying on centralised services is a positive step, which could improve the transparency and efficiency of these tenders. However, other measures aiming at reinforcing the control mechanisms in the general public procurement framework, which would help achieve more advantageous outcomes and reduce corruption risks, have not been announced.

Improving the quality and efficiency of the justice system remains a challenge, despite some positive developments. While in the first half of 2014 shorter disposition time and a reduced number of pending cases have been reported at first-instance civil and commercial courts in litigious cases and at the High Administrative Court, the situation has worsened at first-instance administrative courts and the High Commercial Court. Achieving tangible progress in these areas, including through improving business processes at courts and close monitoring of the effects of the past amendments to the Civil Procedure Act (a report is planned to be released in December) and other legislation in the area of administration of justice, will be instrumental for improving Croatia's business environment. According to the authorities, efficiency gains could be made by enhancing mediation in small-value commercial cases and through the ongoing reform of municipal, misdemeanour and county courts. An upgraded ICT system at courts should be introduced by the end of the first quarter of 2015 in all municipal, country and commercial courts. Some courts will remain outside the new ICT system, particularly the administrative courts.

The government implementation plan includes the following steps to improve transparency and accountability of state-owned enterprises: i) a timely adoption of a management plan for 2015, and ii) envisaged strengthening of the competency requirements for presidents of management boards, including making public the register of appointees. The authorities are also planning to revise guidelines on annual reporting by SOEs, which should improve the quality of their monitoring. Taking further steps to enhance the wider governance framework for state-owned enterprises, notably as regards defining long-term financial expectations for individual companies and increasing the transparency of the nomination process for board membership is not envisaged at this stage.

- i) **The 2015 asset management plan is expected to be adopted in October 2015, as envisaged by law; however, implementation of annual plans has so far been weak on several important dimensions.** Presenting the plan within the legal timelines is an improvement compared with 2014 and a welcome step, which helps anchor expectations and sets a benchmark for their ex-post assessment. However, the track record on implementing the annual plans needs to be significantly reinforced to ensure

that the negative spillovers from the SOEs' financial overleverage and their wage-setting framework to the rest of the economy are effectively and timely tackled. On current information, a significant part of the ambitious restructuring plans presented in the 2014 assets management plan are being spread out to the following year(s), in particular as regards the planned adjustments in the labour force and reducing losses of loss-making companies.¹⁵ Efforts to attract bidders or strategic partners also face considerable difficulties. Progress on privatising/liquidating the large portfolio (500+) of smaller ownership stakes, initially planned to be completed by 2016, is lagging behind partly due to unresolved insolvency cases. At this point, the authorities expect that only about 50 % of the portfolio could be divested by 2016. Adoption of the new bankruptcy act may speed up the process.

- ii) **The authorities published a register of board members in SOEs and plan to make limited steps to tighten the competency requirements for members of the SOEs' boards.** A register of appointments has been made public and is available at the website of the Croatian Information-Documentation Referral Agency. As regards competency requirements on board members, currently only general criteria apply to the background of nominees but these do not relate to expertise in the particular field of activity of a company or experience on private-sector boards. The planned strengthening of competency requirements, announced for October 2014 but likely to be delayed to 2015, is expected to focus on management boards and could prescribe, among others, the use of professional staffing agencies for the nominations of their presidents. This is considered a good practice and may improve the quality of the search process. However, there seems to be no agreement at this stage to reinforce appointments to supervisory boards, which considerably limits the ambition of the authorities' efforts.

3.4 Monitoring financial sector stability

Croatia's largely foreign-owned banking sector has been stable in recent years, but the economy continues to weigh on banks' profitability. Non-performing loans (NPLs) have been steadily increasing since 2008, notably in the corporate sector. In June 2014 the overall NPL ratio was 16.6% (up from 15.7% at end-2013), while corporate NPLs reached 29.6% (up from 28.3%) on the back of worsening asset quality and some reduction in credit volumes. As subsidiaries of euro area banking groups, the four largest Croatian banks – representing 65% of the sector – are currently participating in the comprehensive assessment exercise organised by ECB in view of the imminent establishment of the Single Supervisory Mechanism. In line with the Council recommendations, the Croatian National Bank will also perform additional supervisory scrutiny on a larger group of banks. This work stream began at the end of September 2014.

¹⁵ Progress has been reported in two of the major SOEs: The redundancy programme in the railway company HZ Cargo is expected to be completed by the end of 2014. Significant wage cost reductions were achieved in the first half of 2014 and non-wage labour costs are being partially reduced. By end-June 2014, Croatia Airlines provided 70% of its expected contribution to the 2011-2015 restructuring programme.

4 Annex Table

Main components of CSR	Measures announced in the CSR Implementation Plan ¹⁶	Deadline in the CSR Implementation Plan	Progress
1: Measures to enhance the quality and long-term sustainability of public finances			
Align programme projections with ESA standards and Stability and Growth Pact requirements.	1. Preparation of a new account plan	September 2014	Amendments to the Ordinance on Budgetary Accounting are being prepared.
Take measures to reinforce control over expenditure.	1. Introduction of interannual limits for certain categories of expenditures 2. Regular monitoring and reporting on the risks of exceeding particular budget allocations	01/01/2015 First quarter of 2015	
By March 2015, carry out a thorough expenditure review.	1. Preparing a methodology for a detailed analysis of budget expenditures 2. Preparing a priority list of users and categories of expenditures for detailed analysis 3. Establishing teams for the analysis of particular budget expenditures 4. Workshop for high-ranking government officials regarding the detailed expenditure analysis 5. Decision by the Government of the Republic of Croatia defining the priorities, the teams and the deadline 6. Preparing a detailed analysis of priority categories of expenditures 7. Detailed analysis of other users and expenditures	August 2014 September 2014 September 2014 September 2014 September 2014 March 2015 -	In <u>09/2014</u> the government hosted a high-level workshop on expenditure reviews. The government decision on expenditure review is being prepared.

¹⁶ Measures outlined in this column (including the deadlines) refer to the steps envisaged to be taken by the government in the areas covered by the CSRs. The plan was adopted on 30 July 2014.

<p>Reinforce the budgetary planning process, in particular by improving the accuracy of macroeconomic and budgetary forecasts and strengthening the binding nature of the annual and medium-term expenditure ceilings and improve the design of fiscal rules.</p>	<ol style="list-style-type: none"> 1. Improving the framework for preparation of macroeconomic and fiscal projections 2. Adopting the Act on Amendments to the Budget Act 3. Adopting the Act on Amendments to the Fiscal Responsibility Act 	<p>-</p> <p>-</p> <p>September 2014</p>	<p>Amendments to the Fiscal Responsibility Act and Budget Act are being prepared.</p>
<p>By October 2014, ground in law the newly established Fiscal Policy Commission, strengthen its independence from all budgetary authorities, broaden its mandate, in particular with respect to the monitoring of all fiscal rules and the ex ante and ex post assessment of forecasts, and ensure adequate resourcing.</p>	<ol style="list-style-type: none"> 1. Analysis of possible solutions concerning the status of the Commission and consultations with the European Commission 2. Adoption of the Act on Amendments to the Fiscal Responsibility Act 	<p>September 2014</p> <p>October 2014</p>	<p>Amendments to the Fiscal Responsibility Act are being prepared.</p>
<p>Building on plans outlined in the National Reform Programme, present a concrete strategy to reform recurrent property taxation.</p>	<ol style="list-style-type: none"> 0. Adopting the Decision of the Government of the Republic of Croatia on the introduction of the real estate tax 1. Analysing the existing system and preparing a document on the real estate taxation reform 2. Establishing the tax base, tax rate and tax exemptions 3. Establishing the necessary administrative adjustments 4. Establishing a control system 	<p>-</p>	

<p>Initiate a process of reporting and reviewing of tax expenditures.</p>	<p>0. Creating a methodology for catalogue preparation 1. Preparing a catalogue of tax expenditures 2. Establishing the chronological and qualitative monitoring of tax expenditures 3. Establishing the method of reporting on the amount of tax expenditures</p>	<p>August 2014 September 2014 - -</p>	<p>A catalogue of tax expenditures is being prepared.</p>
<p>Improve tax compliance, in particular by further enhancing the efficiency of the tax administration; present an action plan to this end by the end of 2014.</p>	<p>1. Establishing control over the implementation of tax discipline measures 2. Improvement of corporate management through TA reorganization 3. Informatisation</p>	<p>-</p>	<p>In 09/2014, the authorities carried out a preliminary analysis of VAT compliance risks.</p>

<p>Reduce access to early retirement. Adopt legislation by March 2015 to accelerate the planned harmonisation of statutory retirement ages of women and men and to advance the planned increase of the statutory retirement age to 67 years. Ensure enforcement of tighter disability pensions assessments and controls and accelerate the integration of pensions under special schemes into the general pension system.</p>	<p><i>Early retirement:</i></p> <ol style="list-style-type: none"> 1. Improving vocational rehabilitation system 2. Reform of pensions rights for arduous and hazardous professions (insurance periods with increased duration), including changes in the compulsory funded pillar 	<p>December 2014</p> <p>December 2014 – January 2015</p>	<p>The amendments to the list of arduous and hazardous professions are being prepared.</p>	
	<p><i>Disability pensions:</i></p> <ol style="list-style-type: none"> 1. Continuous implementation of controls over the newly acquired disability pensions and of ad hoc controls of pensions acquired earlier 2. Standardisation of expert evaluation criteria 	<p>Ongoing</p> <p>December 2014</p>		<p>In <u>06/2014</u> the Act on the Single Expert Evaluation Body (an institution tasked with examination of disability claims) was adopted.</p>
	<p><i>Special pensions:</i></p> <ol style="list-style-type: none"> 1. Harmonising criteria for pensions of active military persons, police officers and authorised official persons 	<p>December 2014</p>		
	<p><i>Other steps:</i></p> <ol style="list-style-type: none"> 1. Preparing data and calculations for the production of the Ageing Report 2015 and the Adequacy Report 2. Decision on further steps 	<p>October-November 2014</p> <p>February 2015</p>	<p>In <u>10/2014</u> work on long-run projections was progressing according to plan.</p>	

Strengthen the cost-effectiveness of the healthcare sector, including hospitals.	<ol style="list-style-type: none"> 1. Review of arrears and financial control mechanisms in health care 2. Development of the hospital system in the Republic of Croatia (Hospital Master Plan) 3. Development of e-Health 4. Establishing a new model of referral to the secondary/tertiary health care level 5. Using business intelligence (BI) systems for sick leave expenditure control 6. Public tender for the determination of reference medicine prices 7. Analysis of the present state and the possibilities of financial separation between the Croatian Institute for Health Insurance and the state treasury 	<p>October 2014</p> <p>October 2014 (likely: November 2014)</p> <p>November 2014</p> <p>December 2014</p> <p>September 2014</p> <p>December 2014</p> <p>December 2014</p>	<p>In <u>06/2014</u> the government adopted the National Development Plan for hospitals, which aims at improving the quality, availability, and efficient provision of hospital care. The Plan will be discussed in Parliament in 11/2014.</p> <p>Work is ongoing on the implementation of the new referral model and on the new tender for medicines.</p> <p>Plans to transfer the healthcare budget to the Health Insurance Fund are being prepared.</p>
2: Measures to improve the functioning of the labour market, education and the effectiveness of social protection			
Implement the second phase of the labour law reform, following consultation with the social partners, in particular as regards conditions for dismissals and working time, and with a view to preventing further labour market segmentation including for young people, by March 2015.	1. Change of labour legislation	September 2014	On <u>15/07/2014</u> the Parliament adopted the new Labour Act, which is in force as of 07/08/2014 (National Gazette 93/14).
Review the wage-setting system with a view to better aligning productivity developments and wage conditions. Present the conclusions of this review by the end of 2014.	1. Analysis of the existing salary determination system (wage-setting)	December 2014	In <u>09/2014</u> the authorities have started the analysis of the wage structure and wage setting practices in Croatia.

<p>Strengthen the effectiveness and reach of active labour market policies by reinforcing the administrative capacities of the public employment services, including at regional level, and by increasing the coverage of the young, long-term unemployed and older workers.</p>	<ol style="list-style-type: none"> 1. Croatian Employment Service restructuring and strengthening of administrative capacities at the local and regional level 2. Improving the effectiveness and reach of Active Labour Market Policies (ALMP) 	<p>December 2014</p> <p>March 2015</p>	<p>On <u>21/08/2014</u> a Government Decision established a Working Group on the Development and Implementation of ALMP Guidelines for the period 2015-2017.</p> <p>On <u>26/08/2014</u> the tender for the "External Evaluation of Active Labour Market Policy" was announced.</p> <p>In <u>09/2014</u> a draft Action Plan for the restructuring of the Croatian Employment Service and a Plan for ALMP coverage was prepared.</p>
<p>Prioritise outreach to non-registered youth and mobilise the private sector to offer more apprenticeships, in line with the objectives of a youth guarantee.</p>	<ol style="list-style-type: none"> 1. Implementation of the Youth Guarantee (YG) Implementation Plan 2. Establishment of a monitoring system of NEETs 3. Encouraging the private sector to provide occupational training/apprenticeship and high-quality traineeship/internships 4. Analysis of the presence of practical training at all levels of the educational system 5. Analysis of the employers' needs for practical skills 6. Preparation of new vocational curricula based on market needs 	<p>December 2014</p> <p>March 2015</p> <p>March 2015</p> <p>January 2015</p> <p>January 2015</p> <p>New vocational curricula to be implemented in the school year 2015/2016.</p>	<p>On <u>14/07/2014</u> the Council for the Youth Guarantee Implementation Plan was established.</p> <p>In <u>09/2014</u> the implementation plan for the NEETs trucking system was prepared.</p>
<p>Outline plans, by the end of 2014, to address undeclared work.</p>	<ol style="list-style-type: none"> 1. Establishment of an undeclared work prevention framework 2. Analysis of undeclared work 	<p>August 2014</p> <p>December 2014</p>	<p>On <u>20/08/2014</u> the Government adopted the Decision on the establishment of the Commission to combat undeclared work.</p>

<p>Implement measures to improve the labour market relevance and quality of education outcomes by modernising the qualification systems, by putting in place quality assurance mechanisms and by improving school-to-work transitions, in particular through strengthening vocational education and work-based learning.</p>	<ol style="list-style-type: none"> 1. CROQF implementation system development 2. Qualification system modernisation 3. Career development information exchange system 4. Student monitoring system development 	<p>December 2014</p> <p>January – March 2015</p> <p>March 2015</p> <p>February 2015</p>	<p>On <u>22/05/2014</u> the Ordinance on the CROQF register was adopted.</p> <p>In <u>06/2014</u> the inter-sectoral National Council for Development of Human Potential was formed.</p> <p>25 school curricula were approved for experimental implementation in the school year 2013/14 and 2 revised school curricula have been introduced.</p>
<p>Review tax and benefits systems by the end of 2014, and present an action plan to improve the reactivation of inactive and unemployed persons.</p>	<ol style="list-style-type: none"> 1. Analysis of the existing tax and benefit system 	<p>December 2014</p>	
<p>Strengthen the effectiveness and transparency of the social protection system by further consolidating benefits, unifying eligibility criteria and linking data from all relevant levels and government entities in the ‘one-stop shop’. Improve the effectiveness and adequacy of social assistance benefits through their better targeting.</p>	<ol style="list-style-type: none"> 2. Consolidation of social benefits through the Guaranteed Minimum Benefit 3. Consolidation of social benefits through the One Stop Shop (OSS) 4. Connecting data from all relevant levels and state authorities through the OSS 	<p>According to the Action Plan for Consolidation of Social Protection System.</p> <p>June 2015</p>	<p>In <u>09/2014</u> the Ministry of Social Policy and Youth prepared the Basic Strategic Directions for Consolidation of the Social Protection System and the One Stop Shop project.</p>
<p>3: Structural measures to promote growth and competitiveness</p>			
<p>Take further measures to improve the business environment. In particular, by March 2015 set a target for considerably lowering administrative requirements, including para-fiscal charges.</p>	<p><i>Para-fiscal charges:</i></p> <ol style="list-style-type: none"> 1a. Removal or reduction of 58 para-fiscal charges in 2014 1b: Plan for the reduction of administrative burdens associated with para-fiscal charges 1c: Para-fiscal charges: Plan for their reduction/removal for 2015 	<p>December 2014</p> <p>September 2014</p> <p>December 2014</p>	<p><u>10/2014</u>: 7 para-fiscal charges were removed or reduced by Sept 2014; further 9 are planned by Dec 2014.</p> <p>The plan to reduce administrative burdens associated with para-fiscal fees has been abandoned.</p> <p>The government decision on the measurement of administrative burdens is being prepared.</p>

	<p>2. Reduction of administrative burdens</p> <p>3. Abolishment of the obligation of applying for entry in the craft register in paper form</p> <p>5. Introduction of e-licenses and education of their users</p>	<p>September 2014 – March 2015</p> <p>December 2015</p> <p>December 2014</p>	<p>In <u>10/2014</u> the e-construction permit system was operational in part of Croatian cities and counties.</p>
<p>Address the high level of fragmentation and overlapping responsibilities by streamlining administrative processes and by clarifying the decision-making and accountability framework across various levels of government and at central government level between ministries and agencies.</p>	<p>1. Rationalisation of administrative procedures</p> <p>2. Determination of clear decision-making and responsibility scopes at all levels of management, as well as at the level of central government, among ministries and agencies</p> <p>3. Amendments to the Civil Servants Act</p> <p>4. Implementation of e-apprenticeship</p> <p>5. Computerisation and digitisation of the land registry system</p>	<p>September 2014</p> <p>September 2014</p> <p>September 2014</p> <p>August 2014</p> <p>December 2015</p>	<p>In <u>06/2014</u> the e-Citizen portal was launched.</p> <p>On <u>04/09/2014</u> the government adopted the revised State Administration Act, reorganising regional administration offices.</p> <p>In <u>09/2014</u> an overview of state agencies was completed.</p> <p>In <u>09/2014</u> plans on the implementation of the Joint Information System for the land register and cadastral offices are being prepared.</p> <p>In <u>10/2014</u> the draft Strategy for Modernisation of Public Administration was put under public consultation.</p>
<p>Improve administrative capacity and strategic planning of units entrusted with the management of European Structural and Investment Funds and provide them with adequate and stable staffing levels.</p>	<p>1. Improving the overall human capacities and the process of managing human capacities in organisational units involved in the management and use of EU funds</p> <p>2. Securing the adequate amount of state budget resources for the pre-financing and co-financing of EU projects</p> <p>3. Identification of key projects and preparation of absorption plans</p>	<p>December 2014</p> <p>March 2015</p> <p>November 2014</p>	<p>On <u>06/08/2014</u> the Amendment to the 2014 recruitment plan for the civil service was adopted.</p> <p>On <u>18/09/2014</u> the government adopted the Regulation on the internal reorganization of the Ministry of Regional Development and EU Funds.</p>

<p>Present, by October 2014, a detailed plan for public property management for 2015. Ensure that companies under state control are governed in a transparent and accountable manner, in particular, strengthen the competency requirements for members of management and supervisory boards nominated by the State and introduce a public register for appointments.</p>	<ol style="list-style-type: none"> 1. Present the State Property Management Plan for 2015 2. Intensifying the competency requirements for executives and monitoring committees 3. Introducing a public register of appointments 4. Improving annual reporting on the business activities of trading companies majority-owned by the government 	<p>October 2014</p> <p>December 2014</p> <p>October 2014</p> <p>December 2014</p>	<p>In <u>09/2014</u> the register of appointments in SOEs was made public.</p> <p>The 2015 State Property Management Plan and amendments to the competency requirements of SOEs' executives are being prepared</p> <p>Work is ongoing on improving the annual reporting.</p>
<p>Reinforce prevention of corruption in public administration and state-owned and state-controlled enterprises, including by increasing the verification powers of the Conflict of Interest Commission. Strengthen transparency and efficiency of public procurement at both central and local levels, and the capacity to monitor implementation and to detect irregularities.</p>	<ol style="list-style-type: none"> 1. Increasing the power of the Commission for Identification of the Conflict of Interest to carry out inspections 2. Defining anti-corruption measures 3. Integrating public procurement 	<p>-</p>	<p>In <u>09/2014</u> the extension of central procurement services to all planned new users was completed and tenders for 2 out of 4 centrally purchased items were in progress.</p>
<p>By the end of 2014, reinforce the role of commercial courts in the monitoring of transparency and legality in the application of the corporate pre-bankruptcy procedure. Review the compulsory test of insolvency/illiquidity to access pre-bankruptcy settlement proceedings and streamline the insolvency/liquidation process to reduce its length.</p>	<ol style="list-style-type: none"> 1. Strengthening the role of commercial courts in pre-insolvency procedure 2. Re-examination of the obligatory illiquidity/insolvency test in the context of pre-insolvency procedure. 3. Rationalisation of the insolvency procedure 	<p>December 2014</p> <p>December 2014</p> <p>December 2014</p>	<p>Amendments to the Insolvency Act are being prepared.</p> <p>The authorities have initiated a review of the test of insolvency/illiquidity currently required to initiate pre-insolvency proceedings.</p>

<p>Improve the quality and efficiency of the judicial system, in particular by providing incentives to resolve proceedings in litigious civil and commercial cases and in administrative cases in a timely manner and to resort to out-of-court settlement especially for smaller claims.</p>	<p>1. Reorganizations of the networks of municipal courts and municipal state attorney's offices</p> <p>2. Informatisation of the justice sector through the continuation of the project of upgrading the implementation of ICMS and CTS, as well as the continuation of the process of connecting via the WAN network</p> <p>3a. Advancement of civil proceedings: Enhancing mediation in small claims</p> <p>3b. Advancement of civil proceedings: Results of the analysis of the Civil Procedure Act with regard to recently introduced legal institutes</p>	<p>September – December 2014</p> <p>December 2014 – Q1 2015</p> <p>April 2015</p> <p>December 2014</p>	<p>On <u>18/09/2014</u> the blueprints of the relevant laws were approved by the government.</p> <p>The roll out of the upgraded ICT system (ICMS) proceeds according to plan. By the first quarter of 2015, it should be introduced in all municipal, country and commercial courts and the High Commercial Court. Some courts will remain outside the new ICT system, particularly the administrative courts.</p>
<p>4: Monitoring financial sector stability</p>			
<p>Complement the 2014 European Central Bank's asset quality reviews and stress test exercises, undertake a comprehensive portfolio screening exercise designed specifically for the Croatian financial sector, with a focus on important portfolios that are not covered by the European Central Bank exercise and including key mid-size and smaller banks.</p>	<p>1. A supervisory bank portfolio review supplemented by ECB methodology</p>	<p>December 2014</p>	<p>Work is progressing according to plan.</p>