



European Centre of Expertise (ECE) in the field of labour law, employment and labour market policy

Labour Market Policy Thematic Review 2018: An in-depth analysis of the emigration of skilled labour

Croatia



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1 Introduction: the demographic and labour market situation in Croatia

The Croatian population has been continuously decreasing since 1991, reaching 4 284 889 inhabitants in 2011, according to the Census data of the Croatian Bureau of Statistics (CBS). CBS estimates indicate that the population further decreased to 4 174 300 in 2016, while population projections anticipate negative trends to continue over the next four decades.

Demographic trends in Croatia are characterised by a low birth rate and negative natural growth, adverse age structure with the average age of 42.8 years (CBS data for 2016), and a process of general depopulation. This can be attributed to various factors, including general economic and social conditions, a decreasing number of births due to changes in the way of life, as well as long-term and increasing emigration, particularly of working-age and fertile-age population. Migration balance has been negative since 2009, breaking a record in 2016 with -22 451, 4.5 times higher than the average of the previous six years.

The unemployment rate decreased from 17.4 % in 2013 to 13.3 % in 2016. However, the decrease in unemployment did not result in a concurrent increase in employment – data on the number of people with pension insurance decreased by 152 666 between 2008-16, a drop of 9.5 %. Despite the largest drop in the unemployment rate among all member states in 2016, Croatia remained a member state with one of the highest unemployment rates in the EU. The simultaneous decrease in both the number of unemployed and the number of employed people can be attributed primarily to the negative migration balance and the negative natural growth. Available data reflect increases in the number of emigrated Croatian citizens over the years, and significant regional disparities – emigration trends seem to be stronger in Continental Croatia than in Adriatic Croatia.

Regarding decreases in unemployment in 2016, Continental Croatia was the region in the EU to experience the third largest decrease in unemployment, while the Adriatic Croatia was fourteenth. In addition to high total unemployment, youth unemployment is a particular problem in Croatia, evidently contributing to higher emigration. The rate of unemployed younger than 29 years of age decreased from 34.1 % in 2013 to 24.6 % in 2016 which is still very high. The unemployment rate for youth with tertiary level education (ISCED levels 5-8) decreased to 17.6 % in 2016 from 28.3 % in 2013. Although these are positive trends, lack of employment opportunities for young educated people is considered a main reason for the brain drain increase in Croatia.

Emigration trends have intensified since 2013 when Croatia became an EU member state and new labour markets opened for Croatian citizens. While the phenomenon of the brain drain has been recognised as a serious problem in Croatia for some time, statistical data on this issue are scarce and often underestimate the actual emigration flows. For example, Eurostat reports that 29 651 Croatian citizens emigrated in 2015, while the OECD International Migration Database recorded 76 341 emigrants from Croatia in the same year.

The following sections provide an analysis of the recent trends in migration flows in Croatia, their impact on labour market conditions and reactions of the relevant authorities related to development and implementation of policy measures aimed at decreasing the trend of the brain drain and its impact on the Croatian economy.

2 Emigration of skilled labour

The Croatian Bureau of Statistics provides official statistics about immigration and emigration, but its data underestimate real migration flows. In accordance with the new Permanent Residence Act (Official Gazette 144/12 and 158/13) the data (from 2013 onwards) include people absent for more than a year from their permanent residence for a temporary stay outside the Republic of Croatia and reported their absence to the Ministry of the Interior. However, no sanctions are imposed for not reporting such an absence. Moreover, many (particularly younger) emigrants spend time in a 'grey zone' where they are neither permanently in Croatia nor abroad – and these situations are not recorded or researched systematically. For example, such 'semi-emigrants' go abroad to study and/or work. Less skilled workers go abroad often for seasonal or entry level jobs - which may or may not become permanent.

In the past few years, after Croatia became a full member of the EU, more countries opened up their labour markets to Croatian citizens, generating increasing emigration towards EU countries. According to CBS, in 2016, there were 13 985 immigrants to Croatia and 36 436 emigrants from the country, resulting in the highest negative net migration with foreign countries in recent history (-22 451). In 2013, when Croatia joined the EU, there were 15 262 emigrants and negative migration was -4 884 people. In other words, in three years, the number of emigrants increased by almost 2.4 times and the negative net migration by almost 4.6 times. Such a situation entails a reversal of migration trends from the recent past – until 2008 Croatia had positive net migration, primarily due to immigration from Bosnia and Herzegovina.

The data available from international sources, however, report much higher emigration flows from Croatia. For example, according to the OECD International Migration Statistics data, only Germany received 25 772 Croatian citizens in 2013, 46 090 in 2014 and 60 980 in 2015.¹

According to CBS, in 2016, 54.1 % of emigrants were men and 45.9 % were women. 66.1% of them were under 40, and 19.4 % were under 19 (i.e. most of them are children). This indicates that most of the emigration involves younger people. Moreover, whole families are leaving, which is different from previous waves of economic migration from Croatia during the former Yugoslavia (from the late 1960s onwards). Then, men usually went abroad to seek jobs and become 'guest workers' in Western Europe (e.g. in Germany and Austria), but the rest of the family often remained at home.

The primary destination of Croatian emigrants is Germany (58.4 % in 2016), in line with both historical trends and current demand for work in that country. The size of the diaspora and the corresponding personal and professional ties attract new emigrants from Croatia and help them settle into the new environment. Similarly, in Austria (6.1 % in 2016), as the second most prominent EU destination of Croatian emigrants. On the other hand, increasing emigration to Ireland (5.5 % in 2016) indicates a changing structure of emigration. Younger people are attracted to an English-speaking country with a favourable labour market.

According to the CBS, in 2016 the largest share of emigrants from the Republic of Croatia to foreign countries was recorded in the City of Zagreb (13.4 %), followed by

¹ It should be mentioned that on the other hand these data could overestimate the number of Croatian emigrants in Germany due to possible 'double counting' which appear when a person moves in same year from one town/location in Germany to another without de-registering in the first location.

the County of Osijek-Baranja (10 %) and the County of Zagreb (8 %). The largest negative net migration in absolute terms was recorded in Osijek-Baranja County (3 112 persons) and Vukovar-Sirmium County (2 269 people).

When it comes to regions, the counties in eastern Croatia (Slavonia) are most strongly affected by negative migration flows. Emigration of the younger population from these counties to EU countries is a response to high unemployment and unfavourable economic prospects. Instead of seasonal migration towards coastal areas of Croatia, which have traditionally offered low skilled jobs in tourism during the summer, many Croatians from disadvantaged continental areas now seek jobs abroad.

Internal migration patterns within Croatia are fairly stable. Around 30 000 people (less than 1 % of the population) move from one county to another each year. This often includes students who study in larger urban centres and then seek jobs there. The low mobility of the population within the country is due both to economic (e.g. insufficient availability of jobs elsewhere, costs of relocation and rent vs. high share of home ownership) and cultural factors, neither of which are addressed by adequate policy responses.

The official statistics lack information on the educational structure of Croatian emigrants. Župarić-Iljić (2016) obtained additional data from the CBS about the educational profile of emigrants. In 2013, 15.3 % of emigrants had no qualifications or incomplete primary school, 14.8 % had completed primary education, 49.3 % had secondary education qualifications and 10.2 % had obtained higher education degrees. The data for 2015 indicate a worsening educational profile of emigrants. 22.1 % had no qualifications or incomplete primary school and 11.8 % had primary education, compared to 51.4 % with secondary education and 8.2 % with higher education degrees. Based on this limited evidence, the conclusion is that increasing emigration after EU accession is currently not geared towards highly skilled workers. The majority of emigrants have completed secondary education, which corresponds to their largest share in the general population and among the unemployed (Župarić-Iljić, 2016).

Data on student mobility are relatively scarce in Croatia and mostly related to individual programmes through which mobility activities of students are funded. According to the UNESCO data², 8 770 Croatian citizens study abroad, while the number of students hosted in Croatia is significantly lower (821). The largest number of Croatian students has been recorded in Bosnia and Herzegovina (3 197), followed by Italy (965), Austria (891), Slovenia (769) and the United States (532). The outbound mobility ratio was 5.4, while the outbound enrolment ratio is 3.7. Compared to the official CBS statistics on the number of emigrated Croatian citizens, the number of students studying abroad is relatively high, however there is no available data on the number of people who have studied abroad and returned to Croatia or remained abroad.

There are no publicly available data on the number of Croatian researchers who emigrated abroad. However, the issue of top-quality researchers leaving Croatia to live and work abroad is generally recognised as a problem and several funding schemes aimed at reversing the brain drain of scientists have been developed and implemented over the past few years, e.g. through the *Unity through Knowledge Fund* discussed below.

Two professions often mentioned in the context of emigration of highly skilled workers are medical doctors and ICT professionals, who both face favourable job market

² Internet: <http://uis.unesco.org/en/uis-student-flow>

prospects and have easily transferable skills which can be applied in a foreign context. According to the Croatian Association of Physicians³ until the end of 2016, 525 medical doctors left Croatia and more than 1 200 doctors received EU certification needed for work in EU countries (mostly UK, Germany, Ireland, Austria and Sweden). Since ICT professionals are not organised or regulated by a single organisation, it is much more difficult to estimate the size of migration in this sector. Moreover, ICT often revolves around project work (which can be organised in multiple locations and/or as distance work), so the boundaries between professionals who work in Croatia and/or abroad may be blurred.

There is no systematic research into factors influencing the emigration of skilled workers. However, indicative evidence suggests that key factors include availability of jobs (in the case of young unemployed) and salary and working conditions conducive to professional development (for those who have jobs).

The impact of emigration on the economic and demographic future of Croatia has been highlighted in the media and in policy circles. This particularly applies to negative trends observed in eastern Croatia, i.e. in the region of Slavonia. However, the complexity of issues and possible policy responses has not yet been addressed systematically.

3 Emigration of skilled labour and its impact on domestic economies beyond the labour market

Intensified emigration will make worse already negative demographic tendencies including the negative impact on the fertility rate and dependency ratio while the share of the older population who stayed in Croatia will increase and the proportion of the working age population will continue to fall.

The loss of human capital is high and increasing over time. However, the precise long-term effects of emigration of skilled labour on broader economic and social conditions in Croatia are still largely unknown and difficult to estimate because of the lack of reliable data and appropriate models.

Highly skilled migrants are in the minority, but their capability to affect economic and social environment is above-average. Consequently, unless the negative migration trends are reversed and/or compensated by immigration from the EU or third countries, despite some short- and medium-term gains, the Croatian economy is likely to suffer significantly from emigration of skilled workers, particularly long-term.

Emigration has also contributed to the recent decrease in the unemployment rate. Remittances from abroad are increasing and this trend may continue medium-term. According to the Croatian National Bank (2017) data, remittances have been growing since 2013 and reached EUR 280 million in 2016.

However, the negative consequences of emigration will continue over time. Emigration of highly skilled workers such as doctors, researchers, ICT professionals and engineers can lead to negative effects on both potential and actual GDP growth rates. The losses from reduced innovation potential, productivity, GDP and fiscal potential will outweigh the positive effects stemming from remittances and the lower costs of social transfers and social costs of unemployment. Regional disparities will also increase, as the less developed parts of Continental Croatia will lag further behind. Moreover, as the current emigration wave includes whole families, over time the remittances are also

³ Internet: <https://www.hlk.hr/hrvatsku-je-napustilo-525-lijecnika-krajnje-je-vrijeme-za-ozbiljnu-reakciju-hrvatske-vlade.aspx>

likely to reach a limit and/or be reduced. The availability of high quality health may be jeopardised by the lack of medical personnel.

The pension system in Croatia is already overburdened. The reduction of the working age population due to emigration will exacerbate such negative trends. Pension expenditures will be very difficult to finance from the pension fund, due to the increasing dependency ratio, so the demands on state budget will increase which may lead to additional increases in public expenditure medium-term. Effects of lost tax revenues will affect healthcare, social and pension systems (cf. Župarić-Iljić, 2016). Fiscal impacts in the medium term could also be negative while health expenditure could increase due to the growing proportion of the older population.

The lack of proactive immigration policy has not been addressed. Due to economic uncertainties, high unemployment and cultural factors, it may be difficult to devise and implement an effective immigration policy. Bosnia and Herzegovina is the only country from which positive inflows into Croatia have been seen in most years, but these flows have been less in recent years.

4 Emigration of skilled labour and its impact on labour market conditions

According to the literature on endogenous growth models, the loss of a highly educated population reduces human capital in the national economy and causes negative consequences on innovation, technological progress and labour productivity, and overall on current and future economic growth prospects.

Another important negative effect appeared this year in Croatia when economic growth intensified, together with labour shortages. Registered unemployment has gone down, but is still high (10.8 % in July 2017, according to CBS) and there are mismatches between supply and demand, exacerbated by emigration.

However, there are no clear official statistics and projections about possible labour shortages in Croatia. Since late 2014 onwards, the Croatian economy began to recover and economic growth intensified in 2016 and 2017 with increased demand for the workers on the labour market. This was particularly apparent in sectors that experienced strong expansion (e.g. tourism), and in labour-intensive sectors that particularly suffered from the lack of workforce (e.g. construction and partially in agriculture). As explained above, many previous seasonal workers (particularly those based in continental parts of Croatia) in tourism, construction and agriculture opted to move and seek jobs elsewhere in the EU. This affected both skilled and non-skilled work.

On the other hand, Croatian employers did not react to these labour market conditions by offering significantly higher wages, more job security or improvements in working conditions. On the contrary, after labour law flexibilisation through 2013 and 2014 of working conditions there has been a strong increase in temporary employment contracts in Croatia. According to Eurostat⁴, temporary employment in Croatia as a percentage of the total number of employees has increased from 13.3 % in 2012 to 20.3 % in 2015, which placed Croatia among EU leaders in temporary employment growth in this period. After all, it seemed rational for many young workers finding it difficult to get appropriate and reasonably secure employment in Croatia, to seek similar but better paid jobs in Germany, Austria, Ireland and other EU countries.

⁴ Internet: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

Employers (particularly in tourism and construction) acknowledge labour shortages but reacted to them by asking the government to increase the quotas for foreign workers. The government reacted by increasing these quotas from around 2 300 in 2016 to more than 7 000 in 2017. Another increase for the construction sector was approved in July 2017 (an additional 2 000 workers).

Doctors and other medical staff, ICT professionals, young researchers and mechanical engineers are at particularly high risk of 'brain-drain' and labour shortages following the emigration of highly educated people from Croatia in recent years.

Only anecdotal and indicative evidence and rough estimates occasionally exist, as exact data are available only in rare cases (e.g. medical doctors). According to the Croatian Institute of Public Health in 2016, 14 427 doctors were employed in Croatia, 0.3 % less than in 2015, when there were 14 464 medical doctors (CIPH, 2017). According to the data of the Croatian Association of Physicians mentioned above, 4 % of doctors already left Croatia and around 8 % are preparing to leave the Croatian health care system. The response has been to increase placements at universities and medical faculties. The Ministry of Health has also been looking to improve working and living conditions for doctors, offering additional benefits such as housing to encourage doctors to stay in Croatia and, in particular, in smaller cities and municipalities. There are local initiatives along similar lines.

Some estimates for highly educated ICT professional workers in the media⁵ speculated that around 10 000 ICT professionals left Croatia over the past five years, which seems rather high. Unquestionably, however, a high number of ICT professionals left Croatia after 2013, already a significant obstacle to further development of the ICT sector, where there are at least 1 000 vacant positions. That cannot be compensated simply by higher enrolment quotas at higher education institutions specialising in ICT, as the work experience and competencies take time to accumulate. Higher education institutions are responding to demand as best they can and ICT companies are increasingly active in attracting employees from abroad, particularly from neighbouring countries of Southeast Europe to whom they can offer higher salaries. However, taxation of higher salaries in Croatia has been mentioned as an obstacle to competitiveness and attraction of foreign ICT professionals.

Croatia became a full member of the European Union in 2013, so due to a short period of significant emigration it is very hard to distinguish the segment of wage growth which may have resulted due to these trends. Namely, the Croatian economy suffered a long recession between 2008 and 2014. Economic recovery began in late 2014. In 2015, real GDP increased by 1.6 % and in 2016 GDP growth was 2.9 % in real terms. At the same time, average gross wage grew from 1.3 % in 2015 to 1.9 % in 2016 on a yearly basis and could be expected to increase further in 2017 mostly due to the effects of economic growth, rather than labour shortages due to emigration. Employment and wages often react to GDP growth with a delay, and the level of wage growth indicates that emigration played a minor role in that process.

That may well change in the future. In highly skilled professions strongly affected by emigration (e.g. ICT professionals) the wage pressure will further increase; labour shortages due to emigration could accelerate wage growth above the national average. In professions that are regulated and largely publicly financed (e.g. health care), policymakers may also opt for non-wage incentives to motivate professionals to

⁵Internet: <https://dnevnik.hr/vijesti/hrvatska/hrvatsku-u-5-godina-napustilo-10-000-informaticara---442647.html>

stay in Croatia. Medium-term, if these emigration trends continue, the wage inequality gap between high and low skilled workers in Croatia could widen, but this contribution of high skilled emigration on wage inequality will have small to medium impact.

As outlined above, the negative net migration has significantly increased since 2013. The outflows are not counterbalanced by return migration and other inflows, and the gap has widened at an increasing rate. According to the CBS, in 2016 when 13 985 people immigrated into Croatia, 55.3 % of immigrants were Croatian citizens and 44.7 % were foreigners who immigrated into the Republic of Croatia. From all immigrants in 2016, 31.1 % arrived from Bosnia and Herzegovina (mostly Croatian citizens). The data about educational structure of immigrants in Croatia are not available, making it difficult to assess the level of human capital possessed by immigrants into Croatia. Regarding the age structure, the CBS data for 2016 show that 73 % of all immigrants belonged to the working age population (15-64), whereas at the same time 80 % of Croatian emigrants also belonged to the 15-64 age bracket. In other words, Croatia is losing its working age population significantly and there are risks that such negative trends will worsen over time.

5 Actions undertaken by Member States to address the outflows of skilled labour

The Croatian government has initiated several programmes and measures aimed at 'stopping or moderating emigration flows from Croatia' such as the Law on Subsidising Housing Loans introduced in March 2017 and enacted in Croatian Parliament in July 2017⁶. But a systematic strategy with a comprehensive and harmonised set of adequately designed, financed and implemented measures to combat huge emigration flows is still missing.

The current situation involves measures implemented by different ministries, based on the assumption that economic growth, regional development, job creation and improved living standards should be the focus of the efforts against emigration. Consequently, government reforms and measures in which one of the stated goals was 'stopping or moderating emigration from Croatia' included income tax reform in 2016 and the new measure of subsidised housing loans for young families in July 2017.

In December 2016, the Croatian parliament adopted a comprehensive tax reform package to apply in 2017. Tax reform resulted in an increase of non-taxable income for individuals and has changed the income tax brackets and rates. Instead of the three previous rates of 12 %, 25 % and 40 %, from January 2017 income tax is charged at two rates - 24 % on net income from EUR 500 to 2 330 (HRK 3 801 to 17 500) and 36 % on net income higher than EUR 2 330 (HRK 17 500).

Non-taxable income increased by around EUR 160 (HRK 1 200) from EUR 340 (HRK 2 600) to EUR 500 (HRK 3 800). The reform generated an increase in net wage for most employees but the highest gain was for employees in the higher income bracket (who earn more than EUR 20 000 net monthly). The main criticism from the trade unions was that this reform will decrease income tax progressivity and will result in increased economic inequality. On the other hand, some employers (e.g. in ICT sector) claimed that such income tax brackets still do not make them competitive

⁶ *Official Gazette 65/2017 Law on Subsidizing Housing Loans*. Internet: https://narodne-novine.nn.hr/clanci/sluzbeni/2017_07_65_1493.html

enough to attract high quality professionals from abroad. The government argued that that this reform should result in higher net wages for all employees and particularly those professionals with medium and higher wages with the aim to motivate them to stay in Croatia. It is difficult to assess the expected effects of this reform on stopping or alleviating emigration from Croatia, but it is reasonable to assume that they will be minor.

In July 2017, the Croatian parliament adopted the Law on subsidised housing loans. The stated purpose was to encourage demographic renewal of society, urban regeneration of settlements and reduce the emigration of young families. The Law regulates the condition for state subsidies for housing loans which citizens take from credit institutions to purchase an apartment or house or house construction. With the subsidised housing loans the state intends to assist citizens in paying 50 % of their of monthly instalments of loans for the first 4 years through the State Agency for Real Estate Mediation, for which EUR 2.3 million (HRK 17.5 million) have been earmarked in this year's budget. It was estimated that this will cover no more than a thousand loans. Not only is the budget small, but the initiative does not target specific regions or professions particularly affected by emigration. Consequently, its effects on preventing emigration are likely to be minimal.

Croatia is a country with significant emigration flows registered in the past and a significant number of Croats living in neighbouring countries as a national minority. It is estimated that there are around 3 000 000 Croatian immigrants and their descendants living outside Croatia and worldwide, according to the Central State Office for Croats Abroad (CSOfCA). This office was formed in 2011 as a central state administration body responsible for the relations between the Republic of Croatia and the Croats/Croatians living abroad. CSOfCA undertakes and supports various activities and initiatives which can strengthen links between Croatia and its diaspora and motivate and/or prepare some of them to return to Croatia. However, there do not appear to be any initiatives directly targeted at encouraging the return of highly skilled Croatian emigrants to Croatia.

Unity through Knowledge Fund was set up in 2007 with the support of the World Bank as a tool to foster cooperation between Croatian researchers working in Croatia and abroad, facilitate return of high quality researchers from abroad and therefore 'unite scientific and professional potential in Croatia and diaspora in development of the knowledge based society'.⁷ Despite a relatively limited budget, this has been a successful initiative which now operates within the Croatian Science Foundation.

The involvement of non-governmental stakeholders and Social Partners in initiatives reacting to increased emigration and labour shortages could be described as sporadic and unsystematic. Very often social partners defend their short-term interests without considering broader implications of emigration and their impact on the labour market, economy and society in Croatia. That is particularly true in the case of labour shortages in some sectors, where employers reacted by lobbying for increased quotas for foreign workers as the quickest and cheapest solution. At the same time, trade unions claimed that this 'labour shortages campaign' was an exaggeration aimed at enabling access to cheaper workers from neighbouring countries that would assert downward pressure on the wages of Croatian workers. Neither side advocated a win-win solution, such as creating new training programmes to engage the unemployed and help them find future work in the sectors affected by emigration.

⁷ Internet: <http://www.ukf.hr/default.aspx?id=10>

6 Conclusion

Croatia has faced huge demographic, social and economic challenges over the past 10 years. In 2008, a long, six-year recession began that resulted in a cumulative drop in GDP of 13.1 %. In the EU, only Greece registered a higher reduction of GDP in this period. This generated a huge drop in employment and increased unemployment. . The youth unemployment rate was more than 50 % in 2013. In the same year, Croatia became a member of the EU under adverse macroeconomic conditions, which particularly affected the youth population and underdeveloped counties in continental parts of Croatia that do not reap major benefits from tourism.

After joining the EU, many Croatian citizens realised the benefits of free movement of labour as one of the fundamental freedoms in the EU. Emigration from Croatia increased strongly from 2013 until 2016, with negative net migration increasing year by year, reaching 22 451 in 2016. Official statistics underreport emigration from Croatia, as international sources point to much higher figures.

Emigration particularly included the young disadvantaged participants in the labour market, who suffered from high unemployment and low job security, and several professions for which there is high demand in the EU labour market (e.g. doctors and ICT professionals), who realised new opportunities stemming from higher salaries and better conditions for professional development. Primary destinations include Germany and Austria which already have a strong tradition of emigration from Croatia, and new destinations such as Ireland. A key difference to previous emigration waves is that two-thirds of emigrants are under the age of 40, and tend to move abroad with their families.

From 2015 onwards, the issue of emigration and the loss of human capital became an important topic in the Croatian public arena. In 2017, certain measures were introduced aimed at combatting these negative trends, but a comprehensive strategy that tackles the issue is lacking. Social partners still have a narrow view based on their perceived short-term interests that fail to contribute to the public debate that could generate adequate policy responses.

In summary, if the current emigration trends are not addressed and continue in the future, they will likely have significant negative consequences for the demographic and economic situation in Croatia.

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