CENTER FOR POLICY STUDIES

Department of Public Policy

NICK WALLACE

The Crisis and Policy Responses in the Labour Market in Central and Eastern Europe Country Report: Croatia

POLICY RESEARCH REPORTS

2013

Table of Contents

1. The economic context before the crisis

Croatia stands out from the other countries featured in this study due to its experience of war through the first half of the 1990s (Slovenia experienced just 10 days of fighting following its secession from Yugoslavia, while the Croatian war lasted four and a half years). Partly as a result of this, Croatia's transition was slower and its economy took longer to "open-up" than the others in this study, but by the time of the 2008 financial crisis, Croatia is best described as fitting the model of a "small open economy" (Bokan et al, 2009). Unsurprisingly, the war hindered Croatian economic performance relative to other transition countries: Croatia's economy shrank by 10.21% during 1989-1993, but grew by 4.5% during 1993-1999 (Stojcic, 2012:69). Croatia enjoyed growth rates of around 6% in the two years following the end of the war, slowing to 2% in 1998. Besides the initial shock of transition, this can be attributed to the war, which ended in 1995: just as war wreaks havoc on a country's economy, so too is it normal for economies undergoing post-war recovery to exhibit high growth rates during reconstruction. Following a recession in 1999, Croatia succeeded in maintaining stable growth of around 4-5% through the period of 2000-2007. This slowed to 2.5% in 2008, the year the crisis hit[1].

This growth had several key sources. Croatia's industrial sector grew continually during this time, while the agricultural sector fluctuated wildly between growth and recession[2]. Croatia's economy became increasingly reliant on its already-dominant services sector[3]. The agricultural sector's value-added as a percentage of GDP declined 60 percentage-points during the period from 1992 to 2008, while services rose by 15 points during 1993-2008, contributing almost two-thirds of Croatia's economic output. In the immediate post-war period, growth in Croatian exports was modest[4]. However, following recovery from the 1999 recession, exports rose rapidly year-on-year, from $8.6 billion in 2000 to

[1] See Appendix, Figure 1: GDP Growth, 1996-2011(World Bank) Provisional 2012 and Forecast 2013-14 (Eurostat)
[2] See Appendix, Figure 4: Growth by Sector, 1996-2011 (World Bank)
[3] See Appendix, Figure 5: GDP Value Added by Sector, 1990-2011 (World Bank)
[4] See Appendix, Figure 11: Imports and Exports of Goods and Services, BoP, current US$, 1993-2011 (World Bank)

$29.5 billion in 2008, helping to drive the healthy growth rates seen during the same period - exports as a percentage of GDP rose 6.2 points during 1996-2008[5]. Rising international tourism was the main source of this rise in exports[6]. Imports display a similar trend, but with steeper growth in the immediate post-war years of reconstruction, as well as during the war itself. Industrial production rose every year from 1999 until the crisis[7]. To some extent, Croatia was well equipped for recovery: the country's capital stock grew continuously, even during wartime. The rate of gross capital formation tripled during 1990-2008, rising steadily throughout the 1990s and slowing during 1998-2000, before rising to a peak of 30.4% in 2008[8]. Foreign direct investment in Croatia's economy remained low during the war years, but rose steadily during 1995-1999, fluctuating year-on-year after 1999 until reaching a six-year low in 2004, before rising rapidly to a 2008 peak of 8.7%[9]. Overall, we see an erratic picture throughout the 1990s, followed by a relatively stable period of growth and development from 2000 until the onset of the crisis.

Like the rest of Yugoslavia, Croatia experienced hyperinflation during 1989-1994, reaching a high point of 1500% in 1993[10]. Inflation finally settled at around 4% during 1995-2001, with a spike of 6.4% during 1998, before falling to 1.7% in 2002 and rising steadily until the crisis[11]. Following wild fluctuations during the hyperinflation period[12], household expenditure fell steadily until the crisis, with a brief rise following the 1999 recession[13]. Similarly, government spending fell steadily during 2002-2006, rose in 2007, before falling to a low-point of 40.5% in 2008 prior to the impact of the crisis[14]. This steady decline in spending coincided with steady deficit reduction during 2000-2008: Croatia ran a budget deficit throughout the war years (except in 1994), which was finally eliminated in 1998 –

[5] Ibid; See Appendix, Figure13: Exports and Current Account Balance as % GDP, 1996-2012 (Eurostat)
[6] See Appendix, Figure 12: International Tourism as % of Exports, Receipts, % Total Exports (World Bank)
[7] See Appendix, Figure 14: Industrial Production Index, 1998-2012 (Eurostat)
[8] See Appendix, Figure 6: Gross Capital Formation, 1990-2011 (World Bank)
[9] See Appendix, Figure 7: Foreign Direct Investment, 1992-2012 (World Bank)
[10] See Appendix, Figure 2: Inflation, 1989-1996 (World Bank)
[11] See Appendix, Figure 3: Inflation, 1995-2011 (World Bank)
[12] See Appendix, Figure 8: Household Expenditure, %GDP, 1990-2000 (World Bank)
[13] See Appendix, Figure 9: Household Expenditure, %GDP, 1995-2011 (World Bank)
[14] See Appendix, Figure 10: General Government Spending, % GDP, 2002-11, Predicted 2012-13 (IMF)

only to spin out of control again in the recession of 1999[15]. Unsurprisingly, Croatia's external debt rose year-on-year during the same period[16].

Turning to figures specific to the labour market, Croatia's unemployment rate more than doubled during 1997-2001, but steadily declined as the economy began to grow again, with unemployment reaching a record post-war low in 2008[17]. Youth employment, while remaining a great deal higher than the average, followed a similar pattern[18]. Long-term unemployment rose to a peak in 2002, fell to a trough in 2004, before rising again until 2008[19]. The most likely explanation for this is the surge in short-term unemployment during the recession years "diluting" the statistics concerning long-term unemployment. Overall labour participation rates remained steady throughout the period in question, but female participation grew and male participation fell, narrowing the gender gap in participation statistics[20]. However, the percentage-point gap between male and female unemployment tripled during 1998-2008[21]. This may be partially explained by the decline in male participation; it may be reasonable to hypothesise that the men who left the workforce during this period had been unemployed for lengthy periods and had lost hope, although it is not possible to determine causality using this data alone. Real wages rose steadily year on year[22], while the gap between rich and poor in Croatia also appears to have widened during 1998-2008, although the Gini coefficient data is somewhat patchy[23]. A low birth rate means Croatia has a steadily ageing workforce as well as declining demand for education, although an influx of refugees fleeing Bosnia and Herzegovina in the mid-1990s gave Croatia a temporary jolt in fertility (Čepar and Boynec, 2008). The ageing of the population is compounded by the fact that Croatia is experiencing a

[15] See Appendix, Figure 16: Budget Balance, %GDP, 1991-2010 (World Bank)
[16] See Appendix, Figure 17: External Debt as % GDP, 2000-2012 (CIA World Factbook)
[17] See Appendix, Figure 18: Annual Unemployment 1996-2010 (World Bank)
[18] See Appendix, Figure 21: Youth Unemployment, % work force aged 15-24 1998-2010 (World Bank)
[19] See Appendix, Figure 20: Long-Term Unemployment Rate, % Unemployed, 2000-2010 (World Bank)
[20] See Appendix, Figure 22: Labour Participation Rate, 1990-2010, % aged 15-64 (World Bank)
[21] See Appendix, Figure 18: Annual Unemployment 1996-2010 (World Bank)
[22] See Appendix, Figure 24: Average Monthly Wages, 1992-2012, Current Prices, Croatian Kuna (Croatian Bureau of Statistics)
[23] See Appendix, Figure 15: Gini Coefficient, 1998-2010 (World Bank)

significant brain drain among its high-skilled young workers, with emigration rates of college graduates as high as almost 25% in 2000 (Docquier and Rapoport, 2011).

Collective bargaining in Croatia is largely limited to the company level in the private sector but sector-level collective bargaining prevails in the public sector. National-level collective bargaining does not occur. Sector-level bargaining agreements in the private sector require legal extension in order to pass. Prior to the crisis, this was largely a matter of discretion for the minister responsible for labour affairs, who could base his or her decision on the “public interest” as defined in law (Eurofound, 2012).

In comparison to the former Warsaw Pact countries featured in this study (Slovakia and Romania), SR Croatia under communism pursued a greater number of market-orientated policies to complement central planning, and traded with free-market economies to a far greater extent. In fact, trade with market economies made up more than half of Croatia’s overall international trade during the Cold War. Although the means of production were nationalised, management responsibilities were delegated to workers, and the time-limited economic plans typical of communist economies were indicative in Croatia, rather than binding. This environment incentivised initiative and innovation in Croatia’s economy in ways not often found in communist societies, allowing Croatia to enjoy an average annual growth rate of 5.2% between 1952 and 1989, compared to the OECD average of 3.93%. Although Croatia was not immune to the recession that dogged European communism during the 1980s, communist-era macroeconomic policy in Croatia may have rendered the country better prepared than other communist countries to make the transition to liberal capitalism. Unfortunately, war and authoritarian rule during the 1990s meant Croatia’s transition was the roughest and most tumultuous of all the countries in this study (Stojcic, 2012:63-66).

The first laws removing restrictions on private enterprise were passed in 1989, while large-scale privatisation took place during the two years’ following the passage of the law on the Transformation of Socially Owned Assets in 1991. The Croatian banking sector was liberalised through the 1990s. The Croatian National Bank was given autonomy in 1993.

In the same year, there were 25 state-owned banks in Croatia and 18 banks under private domestic ownership. By 2007, there were just two banks still under state ownership, 16 under foreign ownership and 15 domestically owned. All of the major mechanisms required for a market economy had been implemented by the end of the 1990s. However, these reforms brought only partial success and Croatia's economic performance during this period was behind that of other post-communist European countries. This was in no small part due to the fact that Croatia remained isolated in many respects: the war, as well as other political barriers, prevented Croatian accession to various international organisations and trade networks such as the EU, the WTO and the Central European Free Trade Agreement (CEFTA). Following the recession and the political upheavals at the end of the decade, however, Croatia began to integrate into international trade networks, allowing it to catch up with other countries in the region. Croatian accession to the WTO was granted in 2000, while membership of CEFTA was granted in 2003 (Stojcic, 2012: 66-69). Croatia became a full member of the European Union on 1st July 2013 (European Comission, 2013).

The overall picture of Croatian economic history from the fall of communism to the onset of the financial crisis is one of two halves: an erratic and tumultuous period from 1989-1999, culminating in recession, followed by greater stability and progress during 2000-2008.

2. The political context before the crisis

After the death of President Franjo Tuđman in 1999, Croatia adopted a new constitution that replaced its semi-presidential system with a parliamentary system, with substantial executive power being transferred from the President to the Prime Minsiter. Since the abolition of the Chamber of Counties in 2001, Croatia operates a unicameral system (Winder, 2005; USUD, 2006). Members of the Croatian Parliament (*Sabor)* are elected for four year terms; 140 by a closed-list system of proportional representation, representing 10 electoral districts with 14 representatives each, and three more elected by the same system to represent Croatian citizens living abroad (Inter-Parliamentary Union, 2012). A further 8 representatives are elected by simple majority to represent Croatia's 22 recognised ethnic minorities (IFES, 2012).

While Croatia was accepted into the Council of Europe in 1996 during the Tuđman regime (Council of Europe, 2013); much of Croatia's integration into the international community came during the tenure of the 2000-2003 Račan government. Along with gaining accession to the WTO and CEFTA, the Račan government committed to cooperating with the ICTY and NATO's Partnership for Peace.

In 2007, the Sanader government was shaken by a large scandal in the Croatian Privatisation Fund (HFP), when it emerged that senior officials had accepted bribes, sold state assets at discounts without competitive tenders and were guilty of real estate fraud and insider trading (Economist, 2007). Though the government survived the subsequent general election later that year, the case demonstrates that government-level economic activity in Croatia had already lost significant credibility at the time the financial crisis hit in 2008. In 2008, the government was made up of a coalition led by the HDZ and supported by the conservative Croatian Peasant Party (HZS), the Croatian Social Liberal Party (HSLS) and the Croatian Party of Pensioners (HSU) (MacDonald, 2008). The largest opposition party was the Social Democratic Party of Croatia (SDP). Other minority opposition parties included the "Croatian People's Party – Liberal Democrats" (HNS), the liberal Istrian Democratic Assembly (IDS-DDI), the Independent Democratic Serb Party (SDSS), the right-wing populist Croatian Democratic Alliance of Slavonia and Baranja (HDSSB), and the nationalist extra-paramilitary Croatian Party of Rights (HSP) (Izbori, 2007).

3. The crisis

As a small open economy, the Croatian experience of the crisis is best viewed as an external shock coming from foreign markets. This shock came in two forms: smaller capital inflows at higher interest rates (a price shock for the cost of borrowing) and, as the crisis spread to the real sector in the large European economies with whom Croatia conducts most of its trade, a fall in export demand (a demand shock) (Bokan, 2009:2-4). This representation of Croatia's experience as an externality should not permit dismissal of any internal inefficiencies or problems within Croatia's economy that may have exacerbated the effects of these shocks, but rather serves to highlight the starting point for Croatia's experience of the global crisis. As both of these shocks were dependent upon the development of the crisis in Western European markets, the onset of the crisis was somewhat delayed in Croatia: the crisis only began to take hold in the Western Balkans during fourth quarter of 2008 (Arandarenko and Golicin, 2010).

The immediate direct effects of these two shocks are not difficult to trace: a fall in foreign direct investment and exports. FDI had risen to a post-transition high of 8.7% by 2008, but fell by 3.2% to 5.5% in 2009, its lowest point since 2004. FDI continued to fall even further to just 1.4% in 2010, its lowest point since the war[24]. Similarly, Croatian exports had risen steadily year-on-year since 1999 and were also at a post-transition high in 2008, but plummeted by 22.6% in 2009[25].

As well as the initial price and demand shocks, the immobilising effects of fear and low confidence that characterised the banking crisis elsewhere began to infect Croatia's banking system at the end of 2008, when rumours of problems in foreign "mother-banks" undermined confidence in their Croatian subsidiaries, prompting massive deposit withdrawals from many foreign-owned Croatian banks, severely depleting reserves (Bokan et al, 2009). This drop in consumer confidence naturally translated into weak consumption that caused imports to fall even faster than exports, dropping by 28.6% in

[24] See Appendix, Figure 7: Foreign Direct Investment, 1992-2012 (World Bank)

[25] See Appendix, Figure 11: Imports and Exports of Goods and Services, BoP, current US$, 1993-2011 (World Bank)

2009[26](Bokan et al, 2009:4). This discrepancy served to cut Croatia's trade deficit by more than half in 2009[27]. The shocks to the supply and price of both foreign and domestic loanable funds had a stifling effect on investment demand, dramatically slowing the rate of growth in Croatian capital stock from a post-transition high of 30.4% to an 8-year low of 24.9% in 2009[28]. The fall in investment demand combined with weakening consumer demand are likely contributors to Croatia's first annual drop in production since 1999, with the industrial production index dropping by more than 10 points in 2009. Although at first glance the quarterly data appears to suggest that production began to fall in the second quarter of 2008, before the crisis had hit Croatia, the first quarter of 2008 had seen an unusually large rise in production, and the index does not fall below 2007 levels until the fourth quarter of 2008, when the crisis struck the Croatian market. More importantly, the more than 5-point fall in production during the first quarter of 2009 is unprecedented: it is the largest single-quarter fall during the 14-year period for which data is available. Production fell every quarter from Q2-2008 to Q4-2009, the longest sustained fall in production in the dataset[29].

In summary, the immediate impact of the financial crisis was lower capital inflows, higher external interest rates, reduced exports and weakened consumer confidence, which in turn provoked a run on the banks and slashed imports. The reduction of capital inflows and corresponding rise in interest rates, combined with the massive withdrawal of domestic bank deposits, stifled demand for investment, cutting production and slowing capital growth. These effects can be seen as the beginnings of the various chain reactions that drove Croatia's economy into recession and explain the origins of the grim picture presented to us through almost all of the significant macroeconomic and labour market statistics from 2009 onwards.

[26] See Appendix, Figure 11: Imports and Exports of Goods and Services, BoP, current US$, 1993-2011 (World Bank)
[27] See Appendix, Figure13: Exports and Current Account Balance as % GDP, 1996-2012 (Eurostat)
[28] See Appendix, Figure 6: Gross Capital Formation, 1990-2011 (World Bank)
[29] See Appendix, Figure 14: Industrial Production Index, 1998-2012 (Eurostat)

GDP growth had already slowed from 5.1% in 2007 to 2.1% in 2008. In 2009, the economy plunged into its deepest recession since the early 1990s, receding by 6.9%[30]. The source of the 2008 slowdown is not as obvious as that of the 2009 plunge – most macroeconomic statistics for 2008 look relatively healthy: consumption, investment and exports all appear to have risen that year[31]. The industrial and services sectors experienced slowed growth in 2008 compared to previous years, but overall production rose[32]. Unemployment continued to fall at similar rates to the previous six years[33]. The only other variable from 2008 that suggests something may have been wrong was a sudden spike in inflation – the consumer prices index had been held steady at around 3% during recent years, but rose to 6.1% in 2008[34] – although the rise in inflation did not diminish real wages[35]. The Croatian economist Velimir Šonje claims that the Croatian economy had been overheating for several years, operating beyond its natural capacity, arguing that pre-crisis investment focused too heavily on infrastructure and real estate, while possibilities for investment in technology and processes that may have led to long-term advancements in productivity and competitiveness were neglected, meaning that growth was dependent largely upon demand and cheap debt. Consequently, although the description of this crisis as an external shock to Croatia remains valid, it would appear that Croatian economic growth prior to the crisis may have been unsustainable; the shocks from abroad may have served to create a particularly "hard landing" for an economy that was already heading for a fall (Šonje , 2012).

Industry, services and agriculture all declined in 2009; industry being the worst hit with a 10% contraction in the industrial sector, 5% in the services sector and 2.7% in the agricultural sector – although it should be pointed out that the contraction in agriculture

---

[30] See Appendix, Figure 1: GDP Growth, 1996-2011(World Bank) Provisional 2012 and Forecast 2013-14 (Eurostat)

[31] See Appendix, Figure 9: Household Expenditure, %GDP, 1995-2011 (World Bank), Figure 6: Gross Capital Formation, 1990-2011 (World Bank), Figure 11: Imports and Exports of Goods and Services, BoP, current US$, 1993-2011 (World Bank)

[32] See Appendix, Figure 4: Growth by Sector, 1996-2011 (World Bank), Figure 14: Industrial Production Index, 1998-2012 (Eurostat)

[33] See Appendix, Figure 18: Annual Unemployment 1996-2010 (World Bank)

[34] See Appendix, Figure 3: Inflation, 1995-2011 (World Bank)

[35] See Appendix, Figure 24: Average Monthly Wages, 1992-2012, Current Prices, Croatian Kuna (Croatian Bureau of Statistics

followed the same two-year cycle of boom and bust in that sector that had been on-going since Croatia's last recession[36]. Following the aforementioned 10-point drop in 2009, production continued to fall year on year up to and including 2012, the last year for which data is available[37]. The Croatian government's budget deficit had been steadily brought under control during recent years, falling year-on-year from 2000 (except for a slight increase in 2002), and in 2008 the government had almost successfully balanced its books, with a deficit of just 0.8% of GDP. However, in 2009 the trend was reversed and the deficit rose to 3.1% of GDP, followed by 4.4% of GDP in 2010, the largest deficit since the last recession[38]. This corresponded to an acceleration of the growth of Croatia's external debt, which had been rising at a rate of about 3 percentage points per year: in the slowdown of 2008 it jumped by more than 13 percentage points, followed by 8 points in 2009 and again in 2010, reaching 62.4% of GDP[39].

Unsurprisingly, these changes had a dramatic effect on Croatia's labour market. In 2008, unemployment was at a post-war low of 8%, and had been falling year-on-year since the last recession ended. However, after 2008 unemployment began to rise, slowly at first but accelerating to reach 12% in 2010. Male unemployment grew faster than female unemployment, causing the gender gap to narrow: the gap between male and female unemployment was 0.8% in 2010, compared to 3% in 2008[40]. Youth unemployment rose more sharply, with a similar narrowing of the gender gap[41]. If pre-crisis investment was focused heavily on infrastructure and real estate, it is possible that the faster rise in male unemployment could be accounted for by a downturn in construction, an industry where men are typically employed in far higher concentrations than women and are also generally easier to hire and fire. Long-term unemployment as a percentage of the unemployed fell sharply during 2008-2010, a natural result of a sudden influx of newly

[36] See Appendix, Figure 4: Growth by Sector, 1996-2011 (World Bank)
[37] See Appendix, Figure 14: Industrial Production Index, 1998-2012 (Eurostat)
[38] See Appendix, Figure 16: Budget Balance, %GDP, 1991-2010 (World Bank)
[39] See Appendix, Figure 17: External Debt as % GDP, 2000-2012 (CIA World Factbook)
[40] See Appendix, Figure 18: Annual Unemployment 1996-2010 (World Bank)
[41] See Appendix, Figure 21: Youth Unemployment, % work force aged 15-24 1998-2010 (World Bank)

unemployed people altering the structure of Croatia's unemployed workforce[42]. Real wages continued to rise throughout the crisis period, but the curve significantly flattens after 2009[43].

It is noticeable that the rise in unemployment in 2009 was relatively slight compared to the sharp rise in 2010. This change can be seen in closer detail by examining the monthly data[44]. There is a U-shaped trend from 2008-2009 where unemployment dropped and rose again, meaning that unemployment for most of 2009 was only slightly higher than 2008. The unemployment rate only began to rise consistently from October 2009 onwards. Just as Croatia's experience of the crisis was delayed, so too was the time it took for the effects of the crisis on the Croatian economy to hit the labour market. Relatively strict employment protection regulations in Croatia meant firing costs were high (World Bank, 2011 [#1]), discouraging employers from firing workers and thus shielding the labour market from the shocks until such time as laying off workers became cost-effective for employers, even if this involved expensive redundancy packages (World Bank, 2011[#2]:xxii).

Ultimately, the Croatian economy and political arena in 2008 had been lulled into a false-sense of security: there was a significant time delay between the crisis erupting across the rest of Europe and it reaching the Western Balkans, and apparently relatively strong economic performance in Croatia during 2008 added to the false and misguided impression that the country may avoid the crisis altogether. However, this was only the case due to pre-crisis economic overheating; Croatian growth prior to 2008-2009 was not sustainable in the long term, and impressive readings for most key macroeconomic variables covered up the reality of just how exposed Croatia was to the global credit crunch.

[42] See Appendix, Figure 20: Long-Term Unemployment Rate, % Unemployed, 2000-2010 (World Bank)
[43] See Appendix, Figure 24: Average Monthly Wages, 1992-2012, Current Prices, Croatian Kuna (Croatian Bureau of Statistics)
[44] See Appendix, Figure 19: Monthly Unemployment, 2008-2013 (Eurostat)

4. Policy Responses

Policy responses to the crisis were somewhat belated in Croatia. The lateness of the crisis's coming to Croatia did little to provide early warning to policymakers; on the contrary, Croatian policymakers were late in realising that the crisis would hit Croatia. Furthermore, they were late in responding. Even when it became clear that Croatia was going to suffer the effects of the global credit crunch, policymakers were still slow to react. The crisis hit the Western Balkans at a time when most budgets and economic plans had already been written (Arandarenko and Golicin, 2010). The Croatian Ministry of Finance's economic and fiscal policy guidelines for 2009-2011 were published in July 2008 and contained very optimistic predictions for growth during that period (Republic of Croatia Ministry of Finance, 2008).

The 2010-2012 guidelines, the first to recognise the onset of the crisis, weren't published until September 2009, three quarters after the crisis hit (Republic of Croatia Ministry of Finance, 2009). Of course, in such circumstances, emergency measures can be brought about by political will. However, the crisis hit Croatia during the run up to the local and municipal elections of May 2009, making politicians cautious of introducing painful economic policies (Arandarenko and Golicin, 2010). The policy responses can be broken down into four groups: first, the monetary policies of the Croatian National Bank (CNB). The key labour market reforms are to be found in the subsequent three groups. The first is the policy measures implemented by the government during 2009-10. The other two groups are the two broad policy packages introduced during 2010 and 2011, the Economic Recovery Program and the Economic Recovery Development Policy.

Monetary Policies of the Croatian National Bank

The Croatian Kuna is anchored to the Euro. Croatia's exchange rate is not entirely fixed per se, as some degree of fluctuation is allowed in order to deter speculators. Consequently, Croatian monetary policy is by and large dedicated to maintaining stability in the exchange rate, leaving little scope for using monetary policy as a stimulus. The CNB's primary economic influence therefore is largely regulatory in nature, and its capacity to act as the lender of last resort is limited to the extent of its foreign currency reserves (Bokan et al, 2009).

Once the crisis hit, the primary response of the CNB was deregulation. The CNB began by reducing minimum reserve requirements in order to promote lending and support liquidity, and ultimately removed the minimum requirements altogether. However, when investor and customer confidence in Croatian banks began to fall, potentially self-fulfilling expectations about exchange rate depreciation threatened the CNB's monetary policy, and the central bank responded by providing currency through foreign exchange rate interventions, while keeping domestic money market interest rates high by limiting domestic liquidity, boosting demand for the Kuna relative to foreign currencies (Bokan et al, 2009:6).

Labour Market Policies: 2009-2010

Once policymakers were ready to respond, the scope of their options was limited. Rather than attempting to maintain sustainable levels of growth and offset economic overheating during Croatia's growth years, policymakers had enacted pro-cyclical expansionary fiscal policies prior to the crisis, striving for ever-higher growth rates and lower unemployment rates. This limited the "head room" for counter-cyclical fiscal expansion to stimulate the economy after the crisis had hit. Instead, the initial policy response of the Croatian government was pro-cyclical and focused primarily on cutting the budget deficit, introducing new taxes, raising existing taxes, and cutting spending. The immediate post-crisis measures included introducing a "crisis tax" on personal incomes; raising VAT from 22% to 23%; subsidising salaries in firms wishing to reduce working hours; aligning unemployment benefit to the minimum wage for the first 90 days of unemployment; and introducing new rules for calculating public sector wages (Corbanese, 2011:50-51). Most of Croatia's Active Labour Market Policies (ALMPs) were suspended in mid-2009 in order to reduce expenditure; those that survived focused primarily on training and public works, while those that supported vulnerable groups were the most affected by the cuts (Corbanese, 2011:58).

The ALMPs that remained in force throughout this period included seven key measures (Bejaković and Željko, 2011), five of which involved co-financing alongside employers:

1. Employment co-financing of young persons without working experience
2. Employment co-financing of the long-term unemployed
3. Employment co-financing of persons above the age of 50
4. Employment co-financing of special groups of the unemployed
5. Education co-financing for a known employer
6. Education financing for an unknown employer
7. Public works

The 2010-2012 economic and fiscal policy guidelines focused on improving competitiveness. The Ministry of Finance claimed it would achieve this through development of the energy sector, establishing better protections for intellectual property rights, promoting Croatia as an investment opportunity, development of the high-tech sector, and diversification of Croatian exporters. On the labour market side, besides investment in job creation and training, the guidelines placed a strong emphasis on creating a more "flexible" labour market that met the needs of employers (Republic of Croatia Ministry of Finance, 2009). Many of these objectives were clarified and developed in the Economic Recovery Programme the following year.

The 2010 Labour Act introduced more stringent criteria for the granting of legal extensions to sector-level collective bargaining agreements. The act requires that a tripartite commission set up by the Economic and Social Council conduct an impact assessment of the agreement in the context of the public interest and to report its findings to the minister, who then signs the official decision on extension. As the conditions of expired agreements continue until a new agreement is reached, the government attempted to limit the prolonged application of expired agreements in 2010, but this was blocked by the unions (Eurofound, 2012).

Economic Recovery Programme

The Economic Recovery Programme (ERP) was introduced in April 2010. In many respects, it constitutes a new growth model for Croatia, acknowledging the failure of the previous demand- and debt-driven approach. The objectives of the ERP are to promote liquidity, support enterprises, and to improve the effectiveness of labour and social policies. Measures intended to achieve these goals include spending cuts, simplification of the tax system, the reshaping of state subsidies and the promotion of investment that favours long-term growth and competitiveness. Rather than being a short-term antidote to recession, the purpose of the ERP is to implement structural reforms to serve the interests of long-term economic growth (Corbanese, 2011:51). The ERP is best viewed as a structural reform package, rather than an austerity package: although the programme includes a significant amount of fiscal belt-tightening overall and the withdrawal of the state from many areas of economic activity, so too does it seek to increase spending on targeted areas of the economy in order to encourage growth and recovery. Unlike austerity measures, which focus on deficit reduction, the ERP seeks to implement structural reforms in order to alter the long-term functioning of the Croatian economy – although the fiscal consolidation based on spending cuts required in order to implement such structural reforms may indeed necessitate the implementation of austerity policies.

The key policy measures of the Economic Recovery Programme are:

1. The introduction of a Fiscal Responsibility Law, which commits the government to reducing spending by 1% of GDP per year until the primary budget balance is reached
2. Revision of the public-sector wage system, including the abolition of multiple bonuses and the introduction of a merit-based system of performance related pay
3. Reform of social welfare policy:
    a. Introducing a uniform system for benefit targeting,
    b. Establishing consolidated system of administration

   c. Introducing a "one-stop-shop" system of benefits delivery, where all types of benefits claims (e.g. unemployment or disability) can be dealt with in a single location
   d. Linking benefits to the poverty line in order to prevent them falling below it
4. A shift in the government's role from lender of last resort to provider of an "enabling environment", through measures such as:
   a. Removal of administrative barriers to doing business
   b. Combatting corruption
   c. Faster privatisation of non-strategic enterprises
   d. Investment in research and innovation (Corbanese, 2011:52)

Measures specifically orientated to the labour market include:

1. Investment in vocational education and training, with a view to reducing the unemployment rate and increasing the labour participation rate
2. A tiered system of unemployment benefit:
   a. Where full unemployment benefits are time-limited to incentivise the newly-unemployed in their job search
   b. Where benefits are partly conditioned to participation in training programmes
   c. Where some benefits are still available to the long-term unemployed
3. Expansion of apprenticeship, internship and work experience programmes to help young people acquire work experience to increase their perceived value to employers
4. Improvement of the Croatian Employment Service:
   a. By improving its capacity to provide career information, counselling and guidance to job seekers
   b. By improving its capacity to provide a suitable service for disadvantaged groups by enhancing cooperation with the Centres for Social Welfare and the Vocational Education and Training Agency (Corbanese, 2011:52)

World Bank Economic Recovery Development Policy Loan

These policy objectives were expanded and reinforced in April 2011 when Croatia secured a World Bank loan to support its recovery, called the Economic Recovery Development Policy Loan (ERDPL). The loan is €250 million over 15 years. The broad aims of the ERDPL were similar to those of the Economic Recovery Programme: to establish "fiscal sustainability through expenditure-based consolidation" (i.e. to use spending cuts as the primary route to a balanced budget) and to promote private-sector led growth. The EDLP also included the following targets:

1. A reduction in government spending from 43.2% of GDP in 2010 to 40.9% in 2012
2. A reduction in the government wage bill from 10.7% of GDP in 2010 to 9.9% in 2012
3. A reduction in public health spending from 6.9% of GDP in 2010 to 6.2% in 2012
4. A reduction in social benefit spending from 2.6% of GDP in 2010 to 2.3% in 2012
5. A reduction in pensions spending from 10.5% of GDP in 2010 to 9.7% in 2012
6. An increase in the labour participation rate (of persons aged 15-64) from 62.4% in 2009 to 64% in 2012
7. An increase in the Institutions score on the Global Competitiveness Index from 3.6 in 2010-11 to 3.9 in 2012
8. An increase in the private sector share of GDP from 70% in 2009 to 75% in 2012
9. An increase in research and development spending from 0.8% of GDP in 2009 to 1.1% in 2012 (World Bank, 2011 [#3])

Overall, all of the policy packages brought in during 2009-2011 focused on more conservative fiscal policies, deregulation of the banking sector and the labour market, and structural reforms that largely involved the further withdrawal of the state from economic activity. Unlike other European economies and the USA, Croatia did not attempt a fiscal stimulus, largely because pre-crisis fiscal policy had committed the government to a pro-cyclical fiscal policy during the crisis.

5. The consequences of the policies

Economic Outcomes

The delay in the onset of the crisis and the delay in the policy response may naturally also imply a delayed recovery. An assessment of the degrees of success of the policy measures taken in Croatia obviously can only be based on currently available data and forecast data: future developments may require a revision of any assessments made.

Active Labour Market Policy (ALMP) outcomes

The Active Labour Market Policies that were preserved through 2009 and beyond have not succeeded in reducing either the unemployment rate or the inactivity rate. Nevertheless, that is not to say the developments regarding these measures are not relevant: U-shaped trends in the numbers of people who found employment each year through each of the measures listed in the previous section reflect the initial cutbacks in ALMPs in 2009, followed by renewed attempts to curb unemployment and restructure the labour market following the implementation of the Economic Recovery Programme in 2010. The total number of people included in the 7 ALMP measures listed in the previous section declined from 7531 for March-December 2008 to 6296 for May-December 2009, but rose to 13088 in 2010.

However, over 2008-2010 there was a decline for most measures: the number of people included in employment co-financing measures declined from 3350 in 2008 to 692 in 2009, rising to only 2423, well below 2008 levels. “Education co-financing for a known employer” declined each year, from 1105 in 2008, to 644 in 2009, to 614 in 2010. The aggregate increase in the number of people subject to the ALMP measures was brought about by a dramatic rise in the significance of education financing for “an unknown employer” and public works. Education financing for unknown employers rose from 2361 in 2008 to 3025 in 2009 and to 4566 in 2010. The number of people employed in public works projects rose from 715 (of whom 16 were involved in “individual projects”) to 1935 in 2009, and then to 5037 in 2010, the sharpest rise in all of the measures listed. Of all of those involved in occupational training measures, 448 did not commence employment once the programmes were complete (Bejaković and Željko, 2011). This means that 12640 (13088-448) people found work through the ALMP measures in 2010.

Whether or not the ALMPs can be deemed effective is a matter of how we interpret the data. If we combine public works and employment co-financing, we know that at 57% of people (7460) subject to ALMP measures in 2010 found employment directly through ALMP measures, while 39.6% (5170) found work following education programs provided through ALMP measures and 3.4% did not – meaning 96.6% (12640) of those subject to ALMP measures found work. On the face of it, this seemingly impressive employment rate suggests ALMP measures were, when applied, highly effective at getting people into work, even if they were not widespread enough to reduce the aggregate unemployment rate. However, of those who found work, 39.5% (5037, 38.5% of the total number of people subject to the measures and 67.5% of those directly employed through ALMP measures) were employed in public works projects, which are typically temporary forms of employment which end once a given public work has been completed. Furthermore, public works projects do not necessarily constitute *bona fide* employment in the traditional sense: wages for public works projects are just 75% of the minimum wage, or 30% of the average wage, and are generally perceived as an extension of the social welfare safety-net, and do not significantly improve the long-term employment prospects of participants (Bejaković and Željko, 2011). If we do not regard employment in public works projects as constituting real employment, then this reduces the apparent success rate of ALMPs to 60.5% (7423 people).

Now, we must consider the broader aims of the Croatian government in shifting economic output into the private sector. Of those who found *bona fide* employment, 32.6% (2423 people, 18.5% of those subject to ALMPs) did so as part of co-financing projects, where their wages are partly subsidised by the state. While this may improve the long-term employability of these people, it does not constitute *bone fide* employment independent of state assistance. This leaves only the 5170 people who found work following occupational training – 39.6% of the total – as genuine examples of ALMPs getting unemployed people back into independent employment. Consequently, the best that can be said of Croatian ALMPs through the crisis is that they reduced the financial hardships of the vast majority of those who participated in them, but were only successful in getting a minority of people into active and independent employment.

Croatian National Bank policy outcomes

As mentioned in the previous section, Croatian monetary policy is by and large dedicated to maintaining stability in the exchange rate, and therefore the scope for the central bank to offset the effects of the financial crisis were limited. Any evaluation of the Croatian National Bank's policy responses should be understood within this context. At the end of 2009, the bank attempted to evaluate its own immediate responses by comparing the actual effects of the crisis compared to the effects predicted by a Dynamic Stochastic General Equilibrium (DSGE) model of the Croatian economy and by investigating the sources of differences between predicted and actual outcomes. The bank concluded that the positive effects of its policies were very limited, but not negligible (Bokan et al, 2009).

The positive effects of CNB policy can be seen as partially-contributing factors to a less-than-expected rise in domestic interest rates. First, as world interest rates rose and the supply of loanable funds decreased, domestic interest rates in Croatia rose, but far more modestly than the model predicted. The CNB concludes that its policies constitute one of three explanations as to why this was the case: the CNB's decision to reduce regulatory costs made financial intermediation cheaper, which served to dampen the effects of the foreign interest rate shock. The first of the other two likely contributions was the possibility that the model exaggerated the foreign interest rate shock: the model's rise in interest rates was calibrated as the rise in the price of government bonds at the peak of the crisis, but in in reality the price of bonds fell after this peak, meaning many banks may have borrowed from their owners more cheaply than the model assumed, and some foreign firms may have postponed their borrowing in anticipation of a fall in interest rates. The second likely contributor is popular pressure on banks not to impose extortionately high interest rates; as domestic interest rates were already high and Croatian banks had been enjoying large profits in recent years, they had some capacity to absorb some of the impact of the shock, and instead chose to account for the risk of lending by engaging in credit rationing and being more selective about who they lent money to (Bokan et al, 2009).

Economic Recovery Programme/Economic Recovery Development Policy Loan outcomes

The Economic Recovery Programme and the Economic Recovery Development Policy Loan both carried broadly similar objectives, and therefore the same indicators can be used to test the success or failure of each. The World Bank's program document for the ERDPL provides very specific indicators against which both policies can be tested.

The IMF's contemporary calculation of total general government spending in 2010 is 42.89% of GDP, 0.31 points lower than that provided by the World Bank in the ERDLP document of 2011 (43.2%). According to the IMF figures, spending declined to 42.01% of GDP in 2011. Real values for 2012 are not yet available, but the IMF estimates that spending fell to 41.37%. The IMF dataset, published in December 2012, also predicted a rise to 41.55% in the current year of writing, 2013. The data suggests a general decline from 2010 levels, but suggests that Croatia will not meet the ERDPL target for government spending.

Croatia also appears to have failed to raise the labour participation rate: participation fell steadily from the introduction of the ERDPL in Q2 2011 to Q2 2012. There appears to have been a sudden spike in activity in Q3 2012, but this apparent rise preceded an even larger fall, and labour participation in Q4 2012 was at its lowest point in six years[45]. In the World Economic Forum's Global Competitiveness Report for 2012-2013, Croatia scored 3.52 for Institutions (World Economic Forum, 2012), below the 2010-11 level quoted in the ERDPL document of 3.6, suggesting that rather than improving, the Croatian economy is becoming less competitive from an institutional standpoint. The report gave Croatia score of 2.31 for "Wastefulness in Government Spending" (lower scores implying greater wastefulness), a decline from 2.36 in 2010-2011, implying that attempts to address inefficiency in government spending have also been ineffective. Croatia's score for

[45] See Appendix, Figure 23, Labour Participation Rate Q12007-Q4 2012, % aged 15-64, (Eurostat)

"Irregular payments and bribes" (lower scores implying greater irregular payments and bribes) also fell from 3.85 in 2010-2011 to 3.56 in 2012-2013, suggesting corruption is worsening in Croatia (World Economic Forum, 2012). Overall, the ERP/ERDPL measures do not appear to have achieved or come close to achieving their stated goals.

Macroeconomic Indicators

Unemployment continued to rise in spite of the policy responses; unemployment has doubled since 2009, with around half of that increase occurring after April 2011. Youth unemployment also rose significantly during 2011-2012, reaching over 50% at the beginning of 2013[46]. There was a slight rise in the proportion of part-time workers as a percentage of the labour force during 2010 and the first half of 2011, followed by a sharp fall in the latter half of 2011 and throughout 2012[47] – suggesting a shift from full-time work to part-time work as firms reduced working hours in the aftermath of the immediate impact of the crisis, followed by a fall as part-time workers become those at greatest risk of redundancy when job cuts are made.

There was some recovery in the industrial and services sectors after 2009 and in the agricultural sector after 2010[48]. Nevertheless, the economy continued to recede in 2010, although the rate of recession slowed to 0.1%, although Eurostat's provisional data suggests an increase in the rate of recession to 2% for 2012 and predicts a decline of 0.4% for 2013. No growth is expected until 2014, for which Eurostat forecasts a 1% growth rate. This means that Croatia's recession looks set to last for at least five years, an extraordinarily long period of decline[49]. The rate of gross capital formation continued to decline during 2010 and 2011, while the 2012 data is not yet available[50]. Industrial production has fallen every year since the onset of the crisis, and in the final quarter of

[46] See Appendix, Figure 26: Youth unemployment, monthly, % labour force under 25, January 2008-February 2013 (Eurostat)
[47] See Appendix, Figure 25: Part-time Employment, % Employed, Q12007-Q42012 (Eurostat)
[48] See Appendix, Figure 4: Growth by Sector, 1996-2011 (World Bank)
[49] See Appendix, Figure 1: GDP Growth, 1996-2011(World Bank) Provisional 2012 and Forecast 2013-14 (Eurostat)
[50] See Appendix, Figure 6: Gross Capital Formation, 1990-2011 (World Bank)

2012 was showing no signs of recovery[51]. On the more positive side, the downturn in foreign direct investment was reversed in 2011 when it rose to 2.0% from 1.4% in 2010, though 2% is still below any other level recorded from 1996-2009[52]. Croatian exports showed very slight improvement in 2010, but rose significantly in 2011, rising to $26.3 billion, higher than 2007 levels, but still $3.2 billion less than the pre-crisis peak in 2008. Imports continued to fall in 2010, but showed a slight rise in 2011. Exports as a contributor to GDP return to the pre-crisis level of 42.1% in in 2012, exactly the same as in 2008, before falling to 36.6% in 2009. Croatia's trade balance came closer to the 0% balancing point during 2011-2012 than at any point previously recorded since the end of the war.

Overall, evidence of significant policy impacts is scarce. Active Labour Market Policies shows only very moderate degrees of success, and the impact of central bank policies were positive, but minor. There appears to be no evidence of success in achieving the ERP/ERDPL policy, although it may be too soon to evaluate the success of these policies.

Political Outcomes

As is often the case, determining causality with regard to the political outcomes is extremely difficult. The onset of the crisis and the imposition of major budget cuts during 2009-2010 coincided with a major political scandal, as well as national controversy over the extradition of alleged Croatian war criminals, creating a poisonous political environment for any government to operate in.

In July 2009, Prime Minister Ivo Sanader resigned and handed the premiership to his low-profile deputy, Jadranka Kosor, leaving widespread confusion as to what his motives were. At the time, no clear reasons for his resignation were given. Introducing the spending cuts of 2009-2010, following a previous budget that was based on overly-optimistic economic forecasts, was one of the first tasks required of the Kosor government (Economist, 2009). In November, allegations emerged that Sanader had embezzled money from public

[51] See Appendix, Figure 14: Industrial Production Index, 1998-2012 (Eurostat)
[52] See Appendix, Figure 7: Foreign Direct Investment, 1992-2012 (World Bank)

companies (Economist, 2010 [#1]). Sanader fled the country on the 9th December, only to be arrested in Austria the following day (Economist, 2010 [#2]). He was ultimately convicted in November 2012 and sentenced to 10 years in prison (Economist, 2012). Ironically, the investigation that led to Sanader's arrest and conviction was borne from the anti-corruption drive that came as a result of Croatia's EU accession negotiations, which Sanader himself had initiated. A further irony is that after the Kosor government facilitated the investigation into Sanader, this investigation ultimately led back to the HDZ itself as questions emerged regarding the propriety of party funding during the 2003 and 2007 general elections and the 2007 presidential election, when Ms Kosor was a presidential candidate (Economist, 2011 [#1]).

In April 2011, protests broke out in Zagreb following the conviction of two Croatian generals of war crimes at the ICTY in The Hague. Though few would have denied that war crimes took place, the scale of what was uncovered at the ICTY was unexpected, as were the long sentences handed down to the two generals, Ante Gotovina and Mladen Markač[53]. The government had assumed that their sentences would be short, but following the convictions, faced pressure to dispute the sentences – a difficult position to be in, given the significance Croatia's cooperation with the ICTY for its smooth accession to the European Union (Economist, 2011 [#2]).

With a rapidly-developing corruption scandal, the deepest recession since independence, and public anger over the ICTY, the general election of December 2011 could hardly have occurred under less-favourable circumstances for the HDZ. Immediately before the election, Ms Kosor had an approval rating of just 26% (Economist, 2011 [#1]). Unsurprisingly, the HDZ was decimated in the election, losing to the centre left Kukuriku coalition, led by the SDP (Economist, 2011 [#3]).

Ultimately, Croats had many reasons to vote against their government in 2011, but economic factors played no small part in the government's unpopularity, and budget cuts – whether appropriate or not – seldom garner support for an incumbent government.

[53] Gotovina and Markač were both later acquitted by the appeals court in 2012.

6. Conclusion

Prior to the crisis, Croatian economic history since independence can be divided into two halves, separated by a recession: a tumultuous period of erratic economic performance, followed by a period of relative stability and growth in the run up to the crisis. Having said this, Croatia's economy was in need of structural reforms and modernisation prior to the crisis, and may have been overheating by the time the crisis hit Croatia at the end of 2008. Like the other countries in the Western Balkans, the crisis was late in hitting Croatia, taking the form of an external shock which caused interest rates to rise, capital inflows to decline, and overall confidence to fall. The impact of these shocks was worsened by the unsustainable growth model that prevailed prior to the crisis.

The central bank saw some success in slightly reducing the potential impact of the shocks, but ultimately, the crisis hit Croatia's economy hard, plunging it into what looks set to be five continuous years of recession. The efforts of the government, supported by a World Bank loan, have not yet yielded significant positive results in the key macroeconomic indicators. The labour market reforms implemented after the crisis focused on the removal of employment protection methods in order to make hiring a more attractive prospect to employers, and on active labour market policies to get the young- and long term-unemployed back into work. These measures have seen only limited success: both unemployment and youth unemployment have continued to rise, and most of those finding work through ALMP schemes do so only with significant financial support from the state. Overall, Croatia's economic and labour market horizons appear bleak. Having said this, the fact that the impact of the crisis in Croatia was delayed, as too was the subsequent impact on its labour market, *and* as too was the policy response, it may be too soon to dismiss the measures taken by the government.

Bibliography

Arandarenko, Mahil and Golicin, Pavle (2010) "Policy Responses of the Western Balkans Countries to the Global Economic Crisis and Their Social and Labour Market Impact" Paper prepared for presentation at the World Bank International Conference on *Poverty and Social Inclusion in the Western Balkans. WBalkans 2010* Brussels, Belgium, 14th-15th December 2010

Bejaković, Predgrag and Mrnjavac, Željko (2011) "Need for integration of labour market policy and social policy in Croatia" University of Split, Faculty of Economics: *The Ninth International Conference: "Challenges of Europe: Growth and Competitiveness – Reversing the Trends"* http://bib.irb.hr/datoteka/567423.BejakovicMrnjavac.pdf Accessed 12th April 2013, 15:19 Central European Summer Time

Bokan, Nikola; Grgurić, Lovorka; Krznar, Ivo; Lang, Maroje (2009) "The Impact of the Financial Crisis and Policy Responses in Croatia" *Working Papers* W-22, December 2009, Croatian National Bank. ISSN 1331–8586

Čepar, Žiga and Bojnec, Štefan (2008) "Population Aging and the Education Market in Slovenia and Croatia" *Eastern European Economics* Vol. 46, No. 3, May-June 2008, p. 68-86

Corbanese, Valli (2011) *Supporting Strategies to Recover from the Crisis in CROATIA, the former Yugoslav Republic of MACEDONIA and SERBIA: Cross-country report* International Labour Organisation , Working Paper, Decent Work Technical Support Team and Country Office for Central and Eastern Europe

Council of Europe (2013) Croatia: http://hub.coe.int/country/croatia Accessed 6th April 2013, 12:51 Central European Summer Time

Docquier, Frédéric and Rapoport, Hittel (2011) "Globalization, Brain Drain and Development*" IZA Discussion Paper* Number 5590, March 2011 http://ftp.iza.org/dp5590.pdf Accessed 8th April 2013

Economist, The (2007) "Croatian Crackdown" *The Economist* 19th June 2007 http://www.economist.com/node/9356168?zid=307&ah=5e80419d1bc9821ebe173f4f0f060a07 Accessed 7th April 2013, 11:00 Central European Summer Time

Economist, The (2009) “The dilemmas of Diocletian” *The Economist* 9th July 2009, http://www.economist.com/node/13996431 Accessed 22ndh April 2013, 12:54 Central European Summer Time

Economist, The (2010) [#1] “Cordon Sanader” *The Economist* 25th November 2010, http://www.economist.com/node/17578898 Accessed 22nd April 2013, 12:58 Central European Summer Time

Economist, The (2010) [#2] “Nabbed” *The Economist* 10th December 2010, http://www.economist.com/blogs/easternapproaches/2010/12/ivo_sanader_arrested Accessed 22nd April 2013, 13:00 Central European Summer Time

Economist, The (2011) [#1] “Cock a doodle do?” *The Economist* 6th November 2011, http://www.economist.com/blogs/easternapproaches/2011/11/croatia Accessed 22nd April 2013, 13:04 Central European Summer Time

Economist, The (2011) [#2] “Protest days” *The Economist* 19th April 2011, http://www.economist.com/blogs/easternapproaches/2011/04/croatia_and_serbia Accessed 22nd April 2013, 13:05 Central European Summer Time

Economist, The (2011) [#3] “From Vardar to Triglav” *The Economist,* 5th December 2011, http://www.economist.com/blogs/easternapproaches/2011/12/busy-balkans Accessed 22nd April 2013, 13:05 Central European Summer Time

Economist, The (2012) “Outs and Ins” *The Economist* 24th November 2012 http://www.economist.com/news/europe/21567133-political-ramifications-several-judicial-rulings-outs-and-ins Accessed 22nd April 2013, 13:02 Central European Summer Time

Eurofound (2012) *Croatia: Industrial Relations Profile* Dublin: Eurofound. Available at http://www.eurofound.europa.eu/eiro/country/croatia.pdf Accessed 25th May 2013, 17:21 Central European Summer Time

European Comission (2013) “Enlargement – Croatia” http://ec.europa.eu/enlargement/countries/detailed-country-information/croatia/ Last updated 22nd April, 2013. Accessed 25th May 2013, 17:30 Central European Summer Time

IFES Election Guide (2012) Country Profile: Croatia http://electionguide.org/country.php?ID=55 Last Updated 9th May 2012, Accessed 7th April 2013, 13:53 Central European Summer Time

Inter-Parliamentary Union (2012) “CROATIA Hrvatski Sabor (Croatian Parliament)” http://www.ipu.org/parline/reports/2077_B.htm Accessed 7th April 2013, 13:50 Central European Summer Time

Izbori (Electoral Comission of Croatia) (2007) *REZULTATI IZBORA ZA HRVATSKI SABOR 2007. GODINE* (Election Results for the Croatian Parliament, 2007) http://www.izbori.hr/izbori/ipFiles.nsf/0/EEE1D5E6E334687CC1257455003AFF37/$FILE/2007_Hrvatski%20sabor.pdf Accessed 7th April 2013 13:23 Central European Summer Time

MacDonald, Neil (2008) “Croatia set to form coalition government” Financial Times 12th January 2008 http://www.ft.com/cms/s/0/b9fa3ff6-c09e-11dc-b0b7-0000779fd2ac.html#axzz2Pm7lMk9o Accessed 7th April 2013, 13:18 Central European Summer Time

Republic of Croatia Ministry of Finance (2008) *Economic and fiscal policy guidelines for the period 2009-2011* Zagreb, July 2008 http://www.mfin.hr/adminmax/docs/Economic%20and%20Fiscal%20Policy%20Guidelines%202009-2011.pdf Accessed 12th April 2013, 11:13 Central Eurpoean Summer Time

Republic of Croatia Ministry of Finance (2009) *Economic and fiscal policy guidelines for the period 2010-2012* Zagreb, September 2009 http://www.mfin.hr/adminmax/docs/Economic_and_Fiscal_Policy_Guidelines_2010-2012.pdf Accessed 12th April 2013, 11:15 Central European Summer Time

SETimes.com, Croatia Country Info http://www.setimes.com/cocoon/setimes/xhtml/en_GB/infoCountryPage/setimes/resource_centre/countries/croatia?country=Croatia Accessed 7th April 2013, 11:28 Central European Summer Time

Šonje, Velimir (2012) “No More Buying Time: Fiscal Austerity in Croatia” *International Policy Analysis* Berlin: Friedrich Ebert Stiftung , ISBN 978-3-86498-269-9

Stojcic, Nebojsa (2012) “Two Decades of Croatian Transition: A Retrospective Analysis” *South East European Journal of Economics and Business* Vol. 7, No.2, p. 63-76 (ref: p. 69)

USUD (*Ustavni Sud Republike Hrvatske* - Constitutional Court of the Republic of Croatia) (2006) "History of Croatian Constitutional Justice" http://www.usud.hr/default.aspx?Show=c_o_sudu&G1=&G2=&G3=&m1=15&m2=0&Lang=en Accessed 7th April 2013, 11:32 Central European Summer Time

World Bank (2011) [#1] "Employment Protection Legislation and Labour Market Outcomes: Theory, Evidence and Lessons for Croatia" Croatia Policy Notes, July 2011, Reference No. 70226

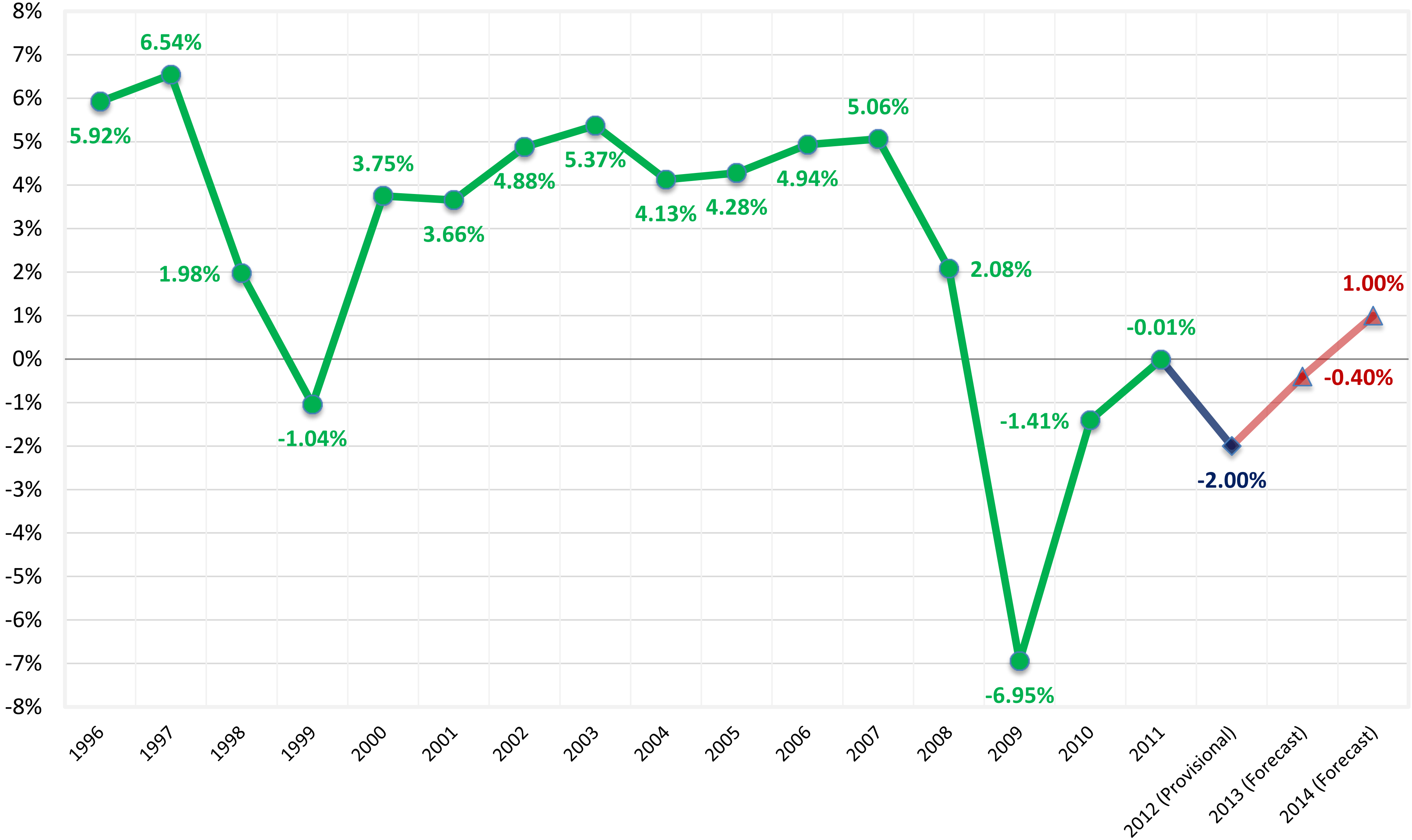
World Bank (2011) [#2] *The Jobs Crisis: Household and Government Responses to the Great Recession in Eastern Europe and Central Asia* New York: World Bank

World Bank (2011) [#3] *Program document for an economic recovery development policy loan in the amount of EUR150 million (US$213 million equivalent) to Croatia* Poverty Reduction and Economic Management, Central Europe and the Baltics Country Unit, Europe and Central Asia Region, Report No. 58226-HR, 4th April 2011

Winder, Jennifer – Princeton University (2005) "Croatia 2000" in *Constitution Writing and Conflict Resolution* http://www.princeton.edu/~pcwcr/reports/croatia2000.html First posted August 2005, Accessed 6th April 2013, 13:35 Central European Summer Time.

Appendix

Figure 1: GDP Growth, 1996-2011 (World Bank, NY.GDP.MKTP.KD.ZG), Provisional 2012 and Forecast 2013-14 (Eurostat, tec00115)



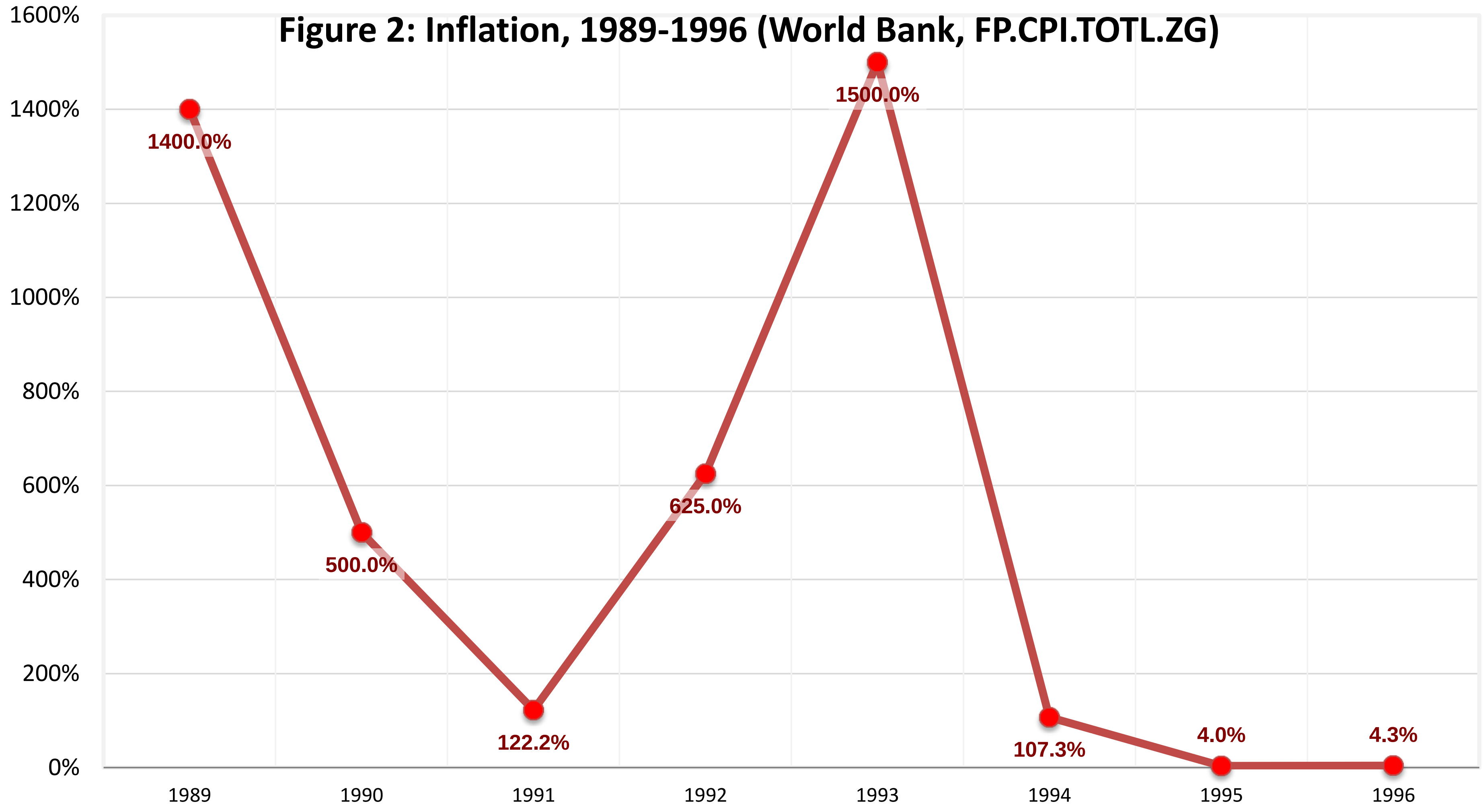


Figure 2: Inflation, 1989-1996 (World Bank, FP.CPI.TOTL.ZG)
1600%
1400%
1200%
1000%
800%
600%
400%
200%
0%
1400.0%
500.0%
122.2%
625.0%
1500.0%
107.3%
4.0%
4.3%
1989
1990
1991
1992
1993
1994
1995
1996

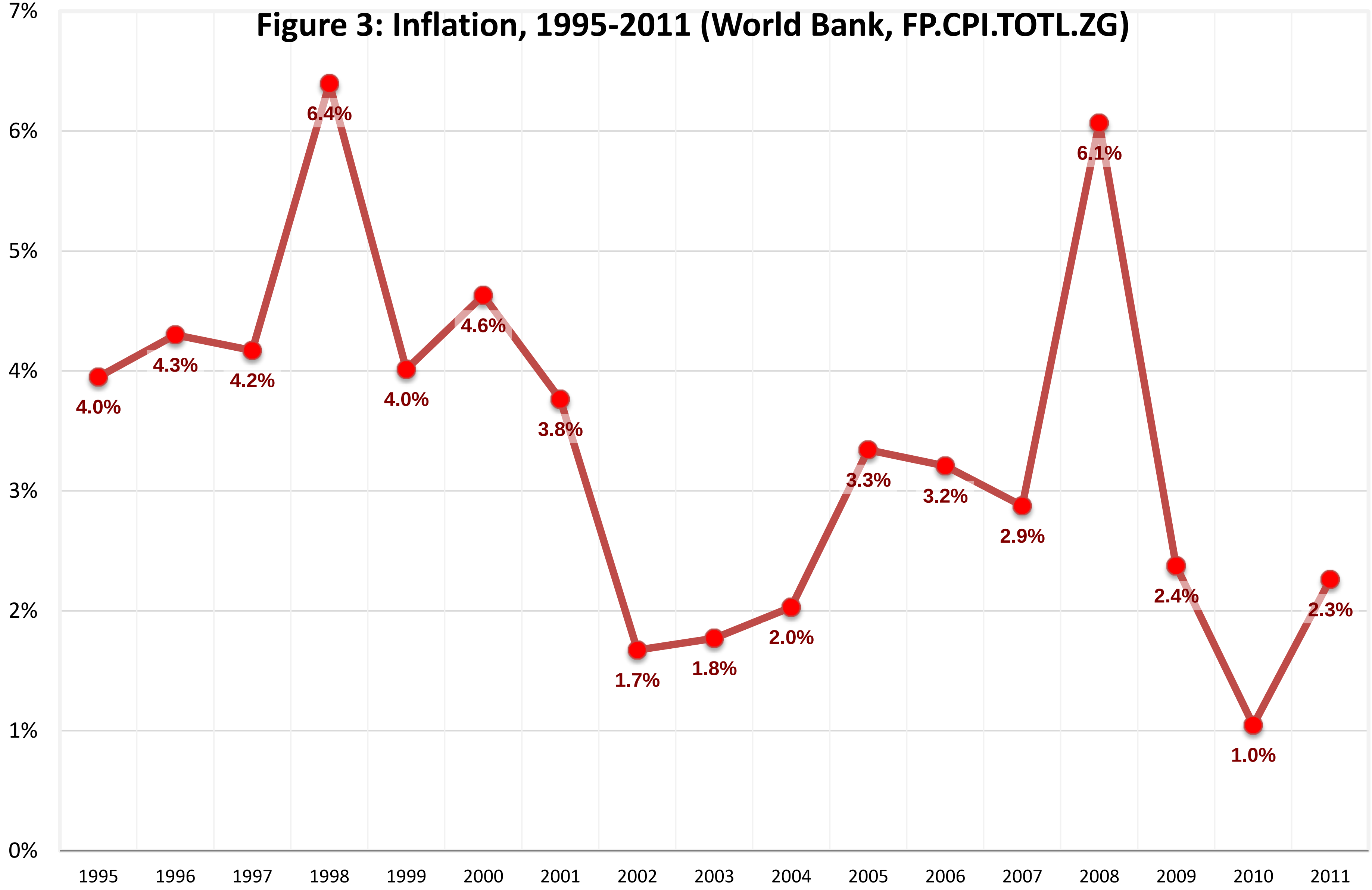


Figure 3: Inflation, 1995-2011 (World Bank, FP.CPI.TOTL.ZG)
7%
6%
5%
4%
3%
2%
1%
0%
4.0%
4.3%
4.2%
6.4%
4.0%
4.6%
3.8%
1.7%
1.8%
2.0%
3.3%
3.2%
2.9%
6.1%
2.4%
1.0%
2.3%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011

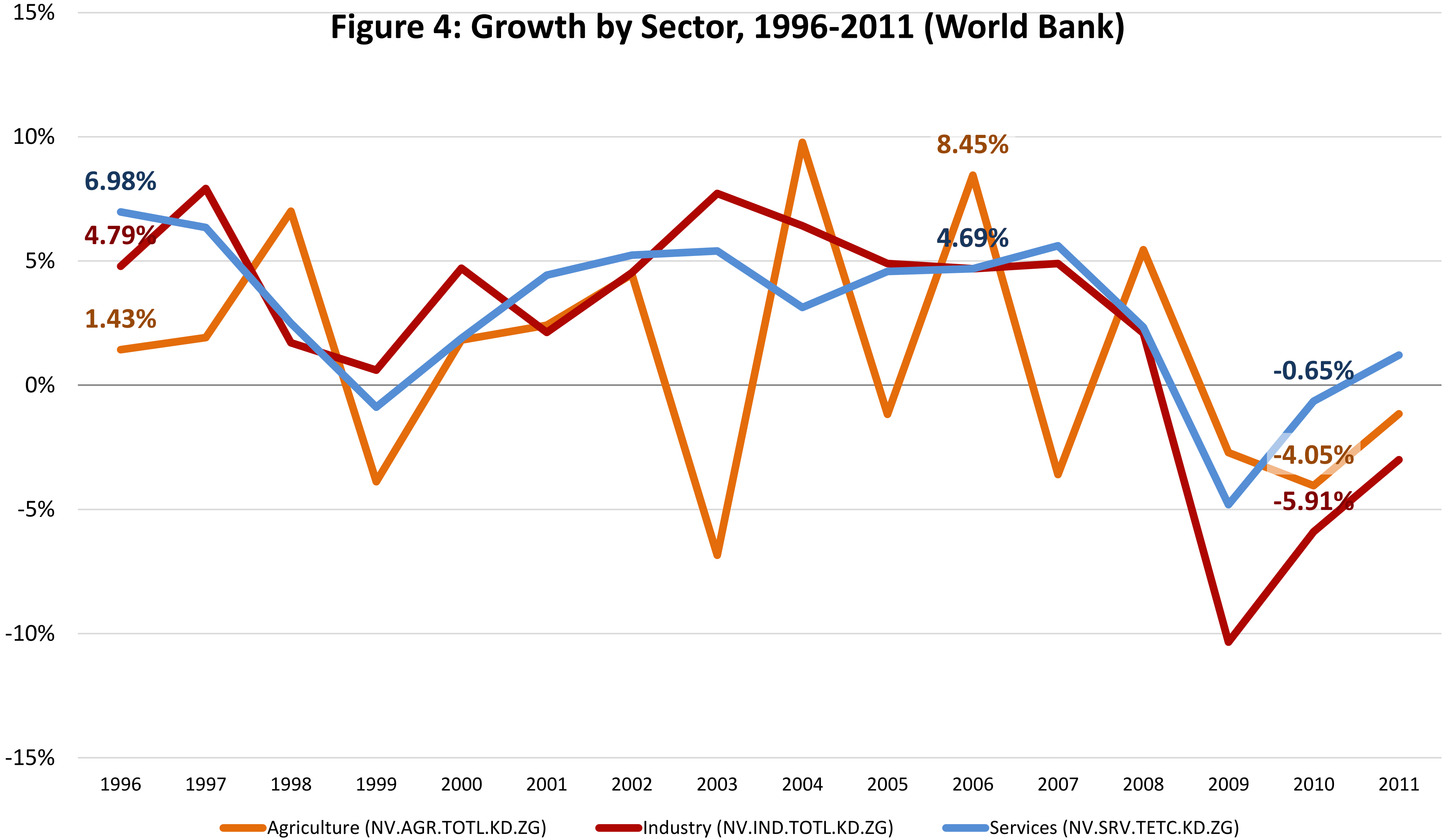


Figure 4: Growth by Sector, 1996-2011 (World Bank)

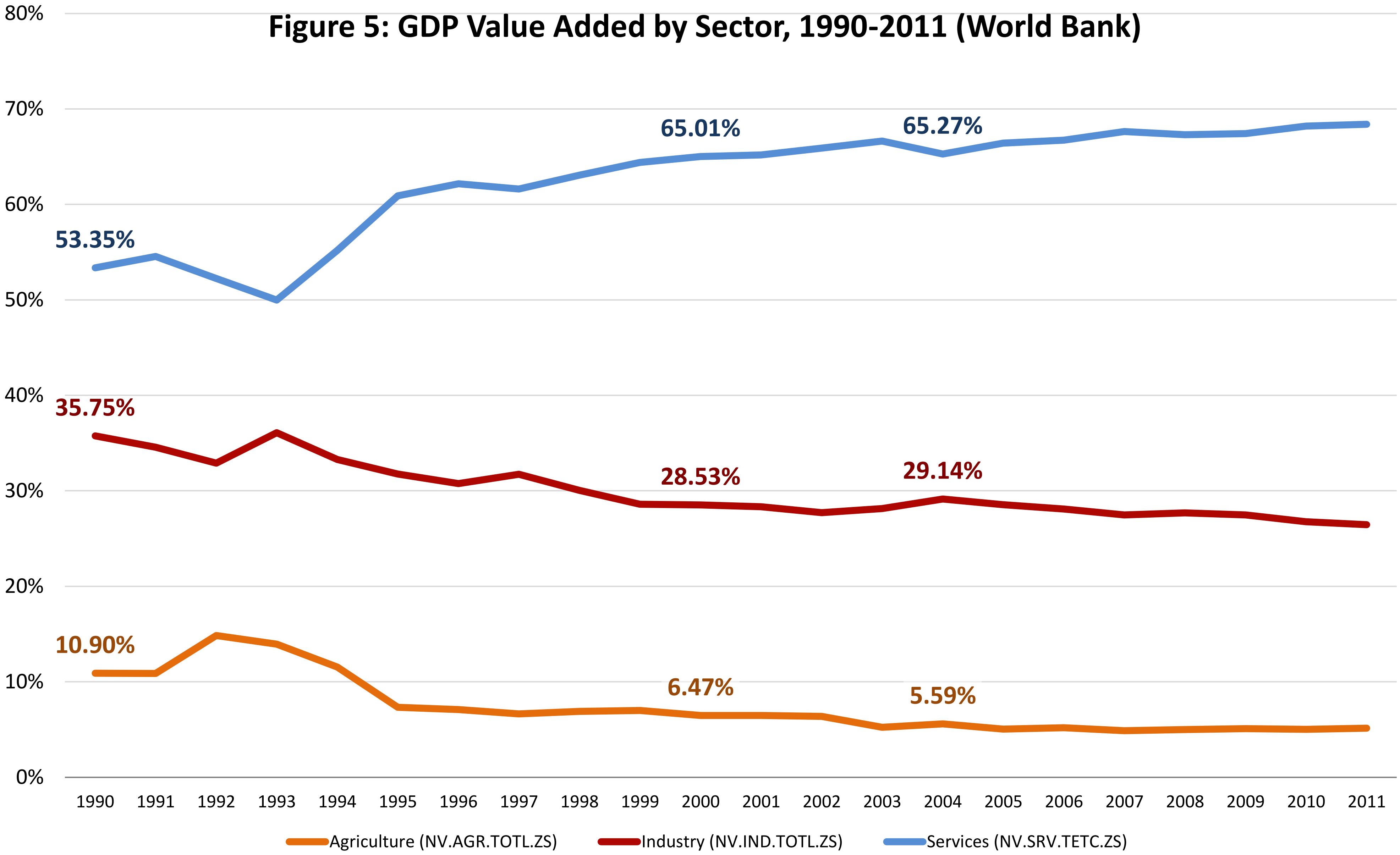
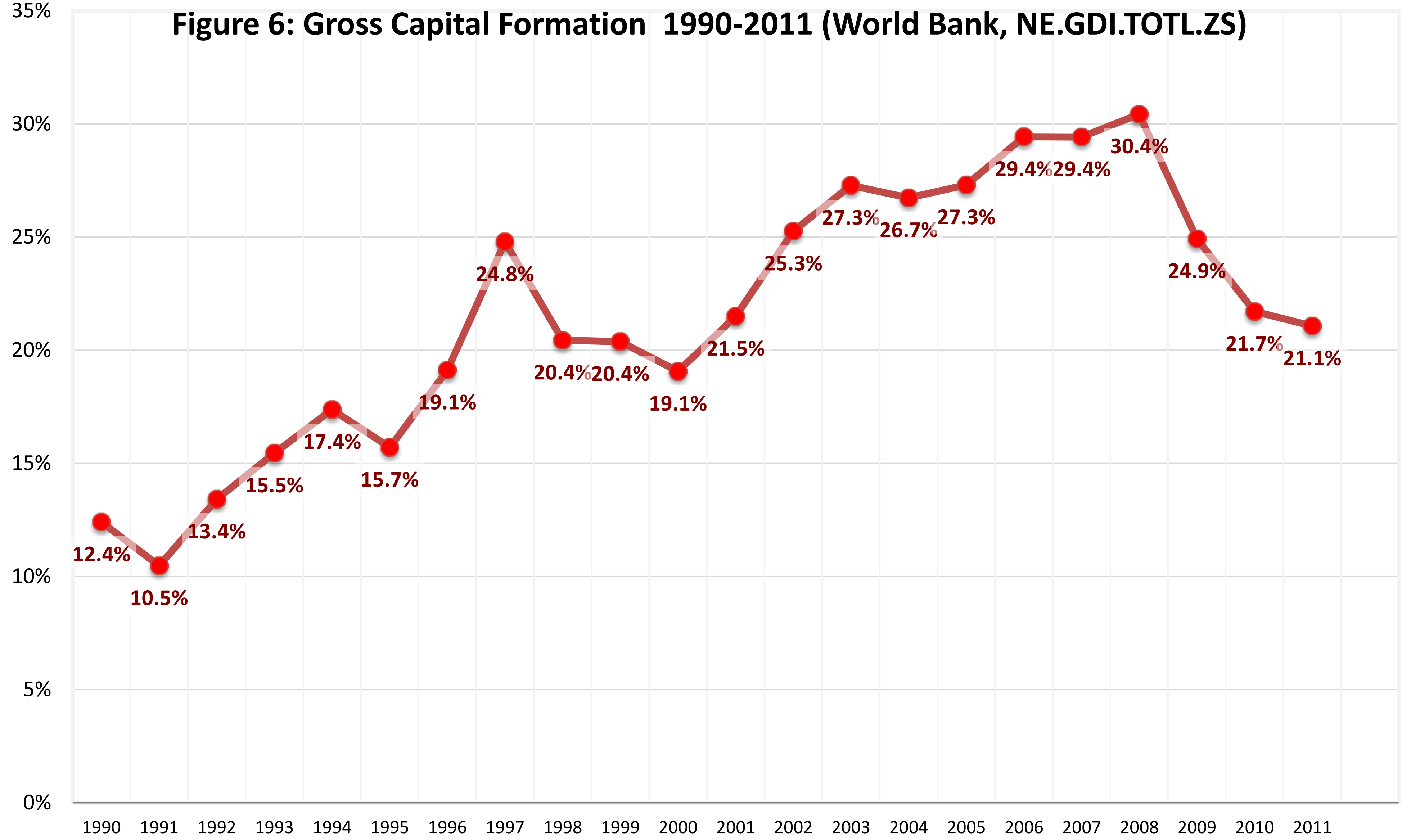


Figure 5: GDP Value Added by Sector, 1990-2011 (World Bank)
80%
70%
60%
50%
40%
30%
20%
10%
0%
53.35%
65.01%
65.27%
35.75%
28.53%
29.14%
10.90%
6.47%
5.59%
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Agriculture (NV.AGR.TOTL.ZS)
Industry (NV.IND.TOTL.ZS)
Services (NV.SRV.TETC.ZS)

Figure 6: Gross Capital Formation 1990-2011 (World Bank, NE.GDI.TOTL.ZS)



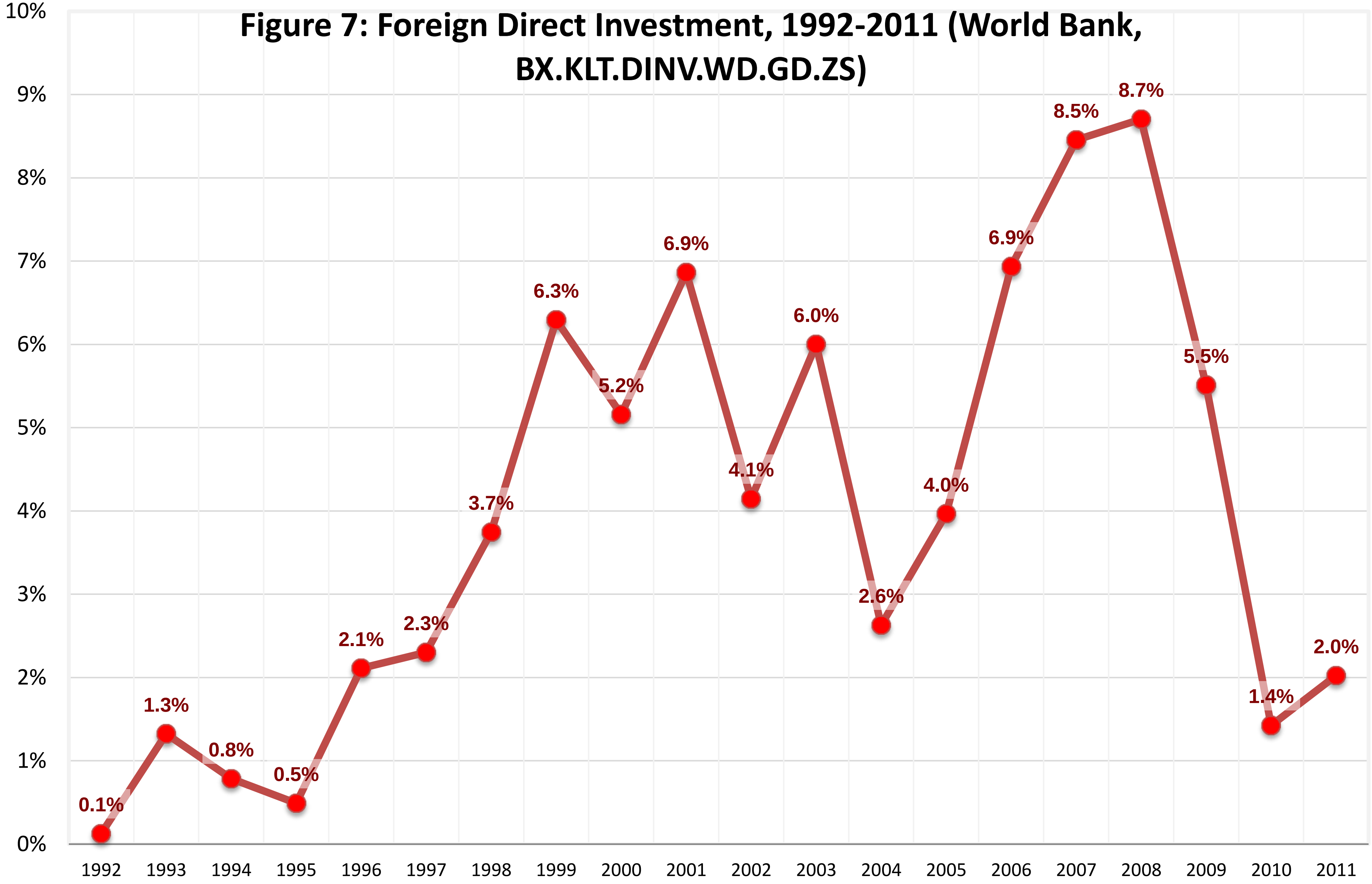


Figure 7: Foreign Direct Investment, 1992-2011 (World Bank, BX.KLT.DINV.WD.GD.ZS)

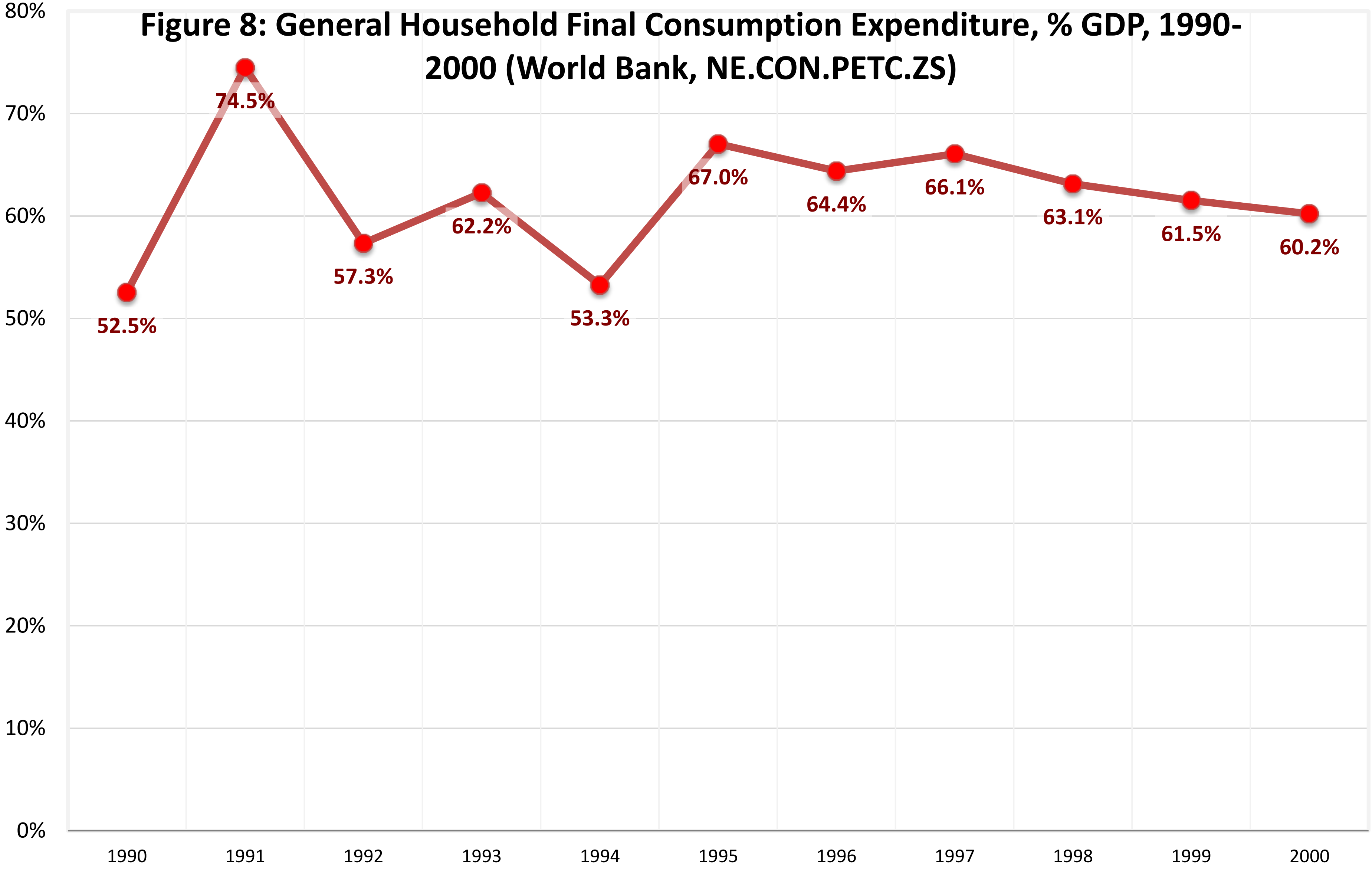


Figure 8: General Household Final Consumption Expenditure, % GDP, 1990-2000 (World Bank, NE.CON.PETC.ZS)
80%
70%
60%
50%
40%
30%
20%
10%
0%
52.5%
74.5%
57.3%
62.2%
53.3%
67.0%
64.4%
66.1%
63.1%
61.5%
60.2%
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000

Figure 9: General Household Final Consumption Expenditure, % GDP, 1995-2011 (World Bank, NE.CON.PETC.ZS)

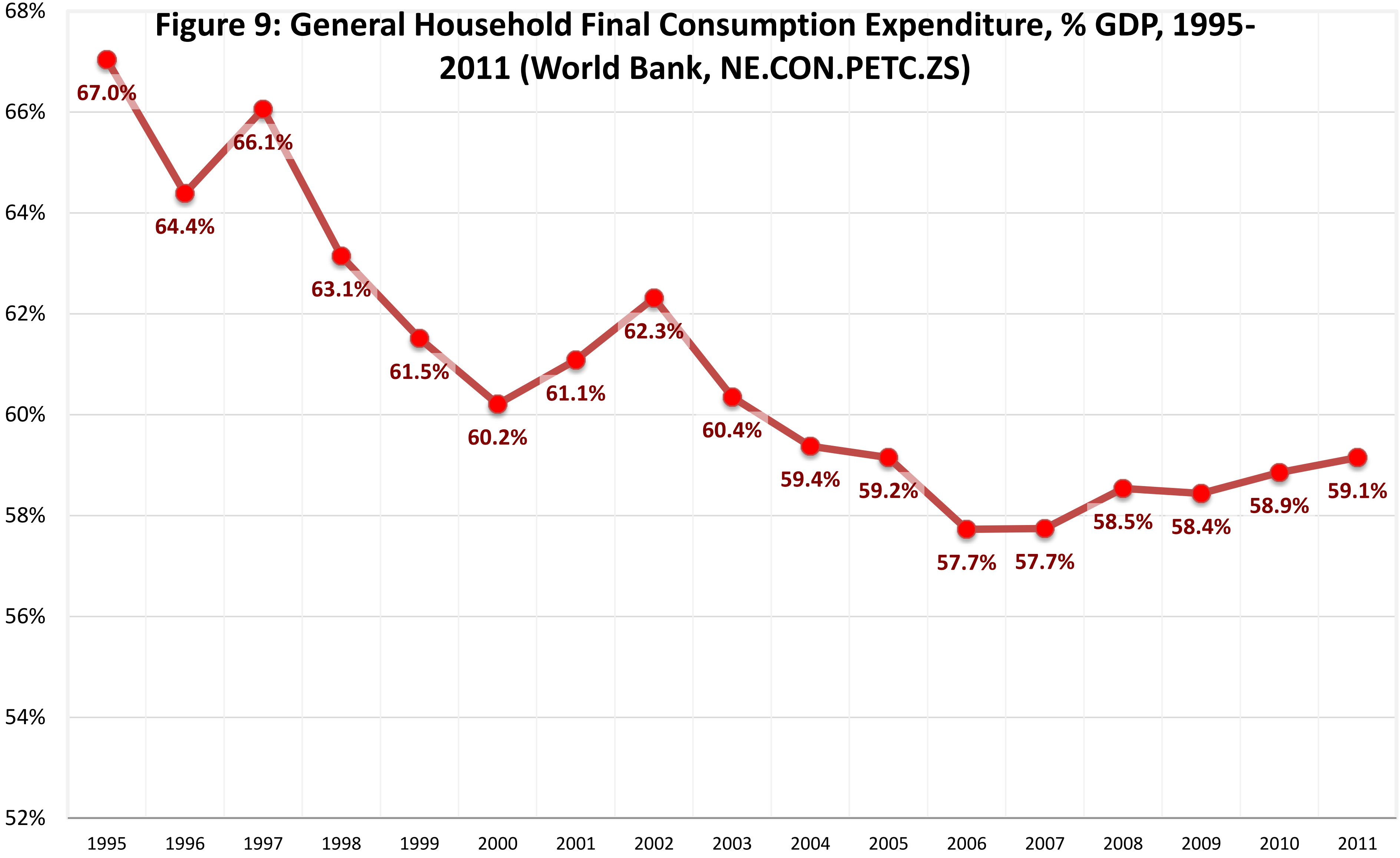


Figure 10: General Government Expenditure, %GDP, 2002-11, Estimated 2012-2013 (IMF)

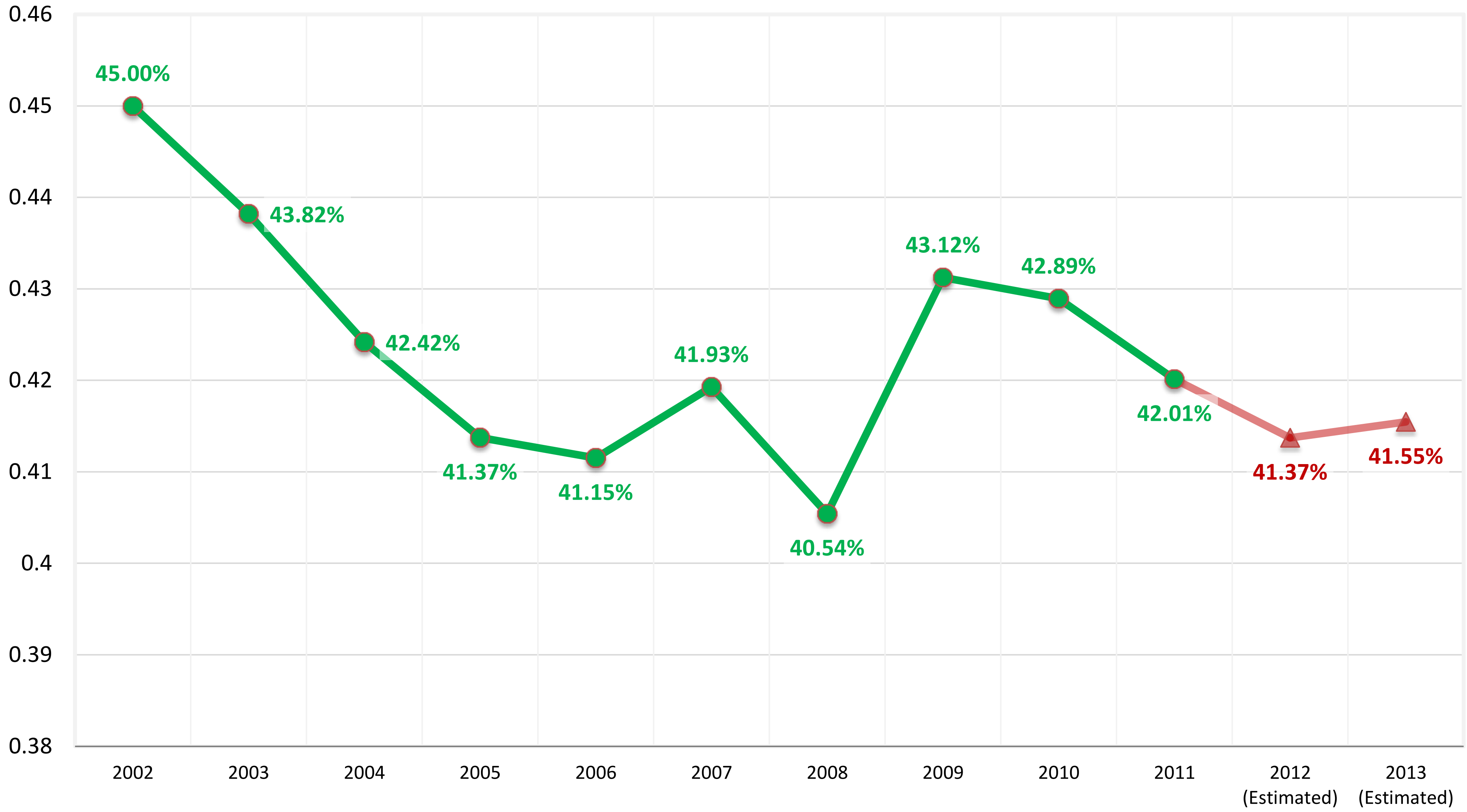


Figure 11: Imports and Exports of goods and services, BoP, current US$, 1993-2011 (World Bank)

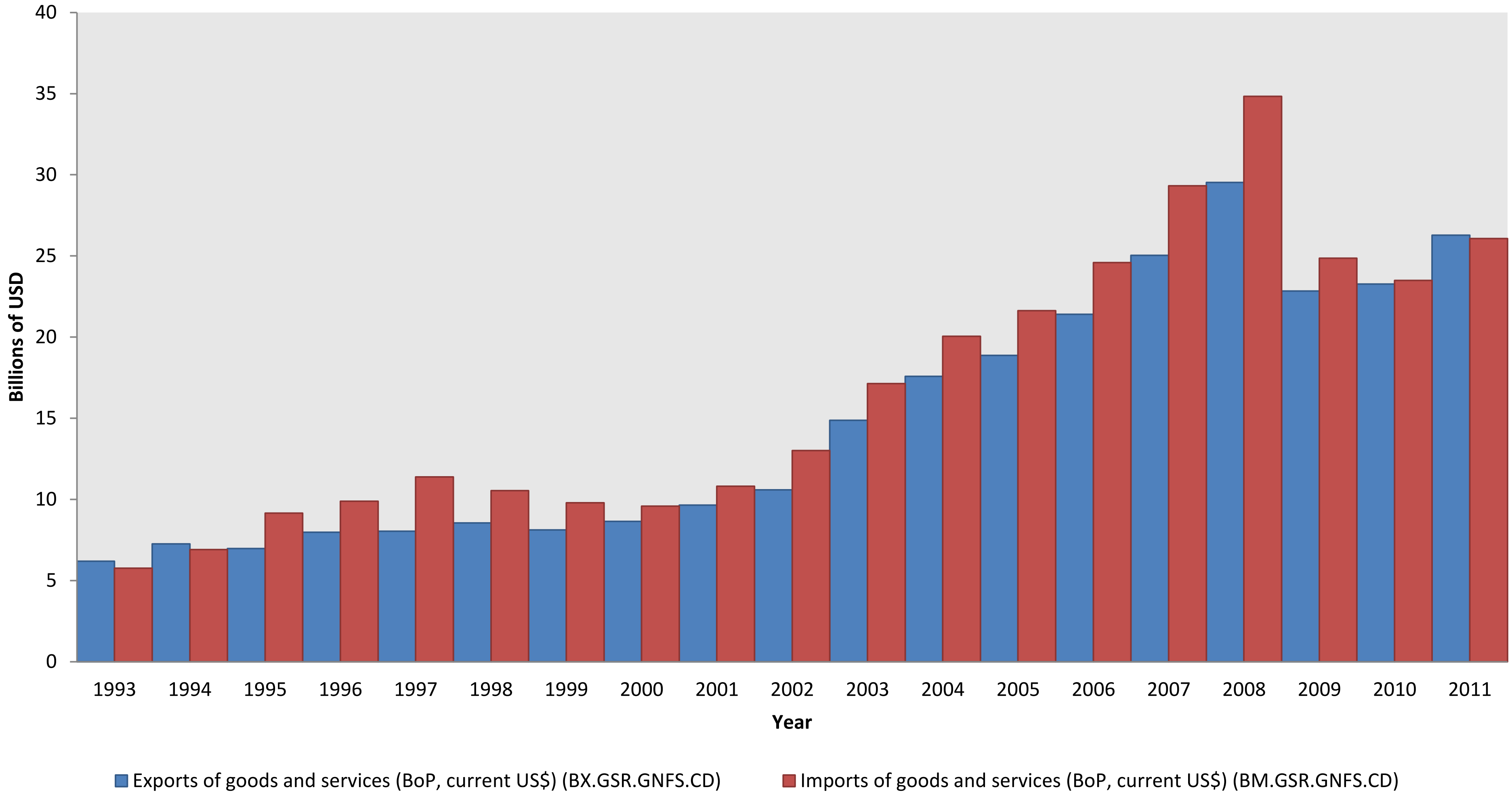
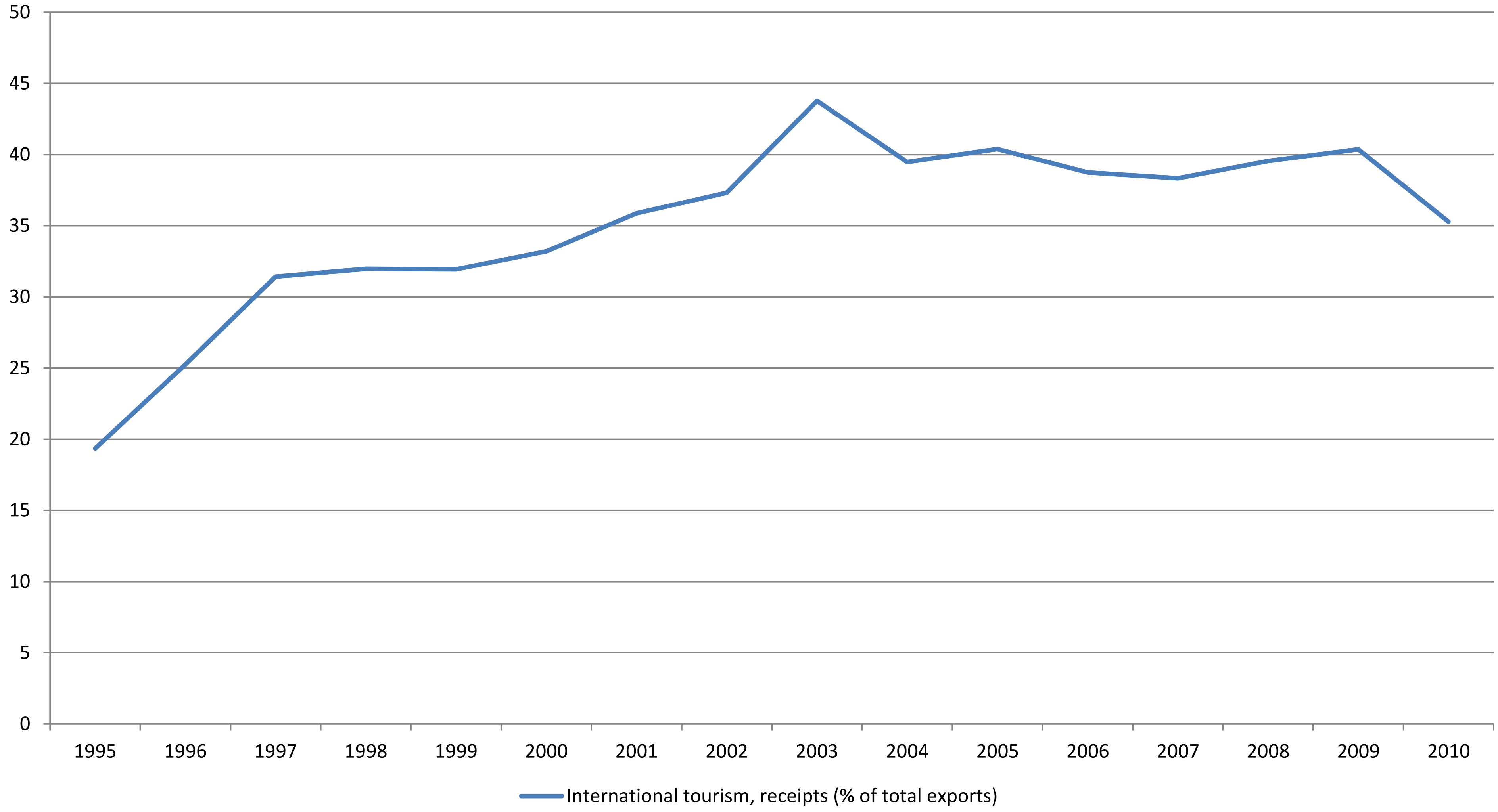


Figure 12: International tourism, receipts, % of total exports (World Bank) (ST.INT.RCPT.XP.ZS)



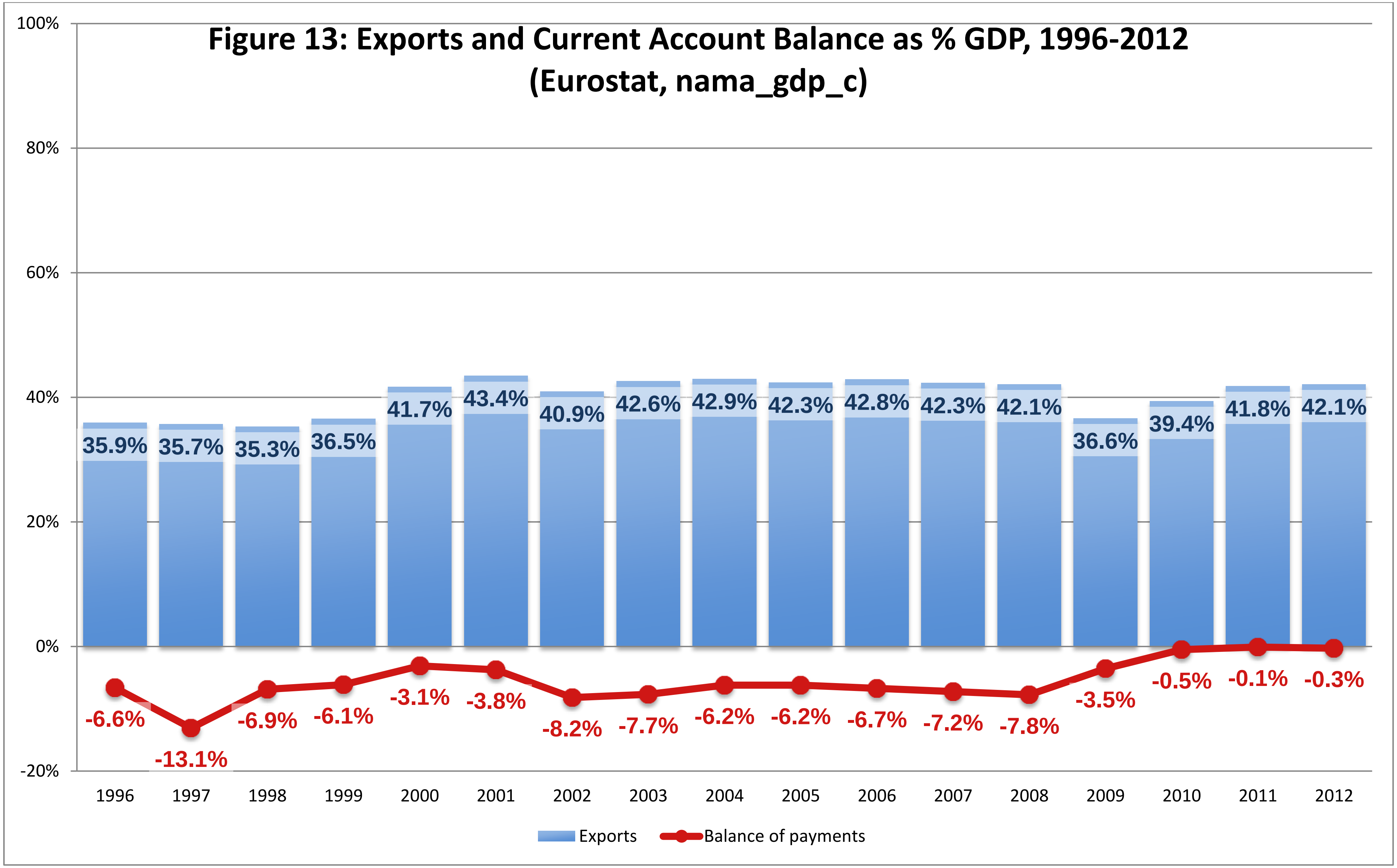
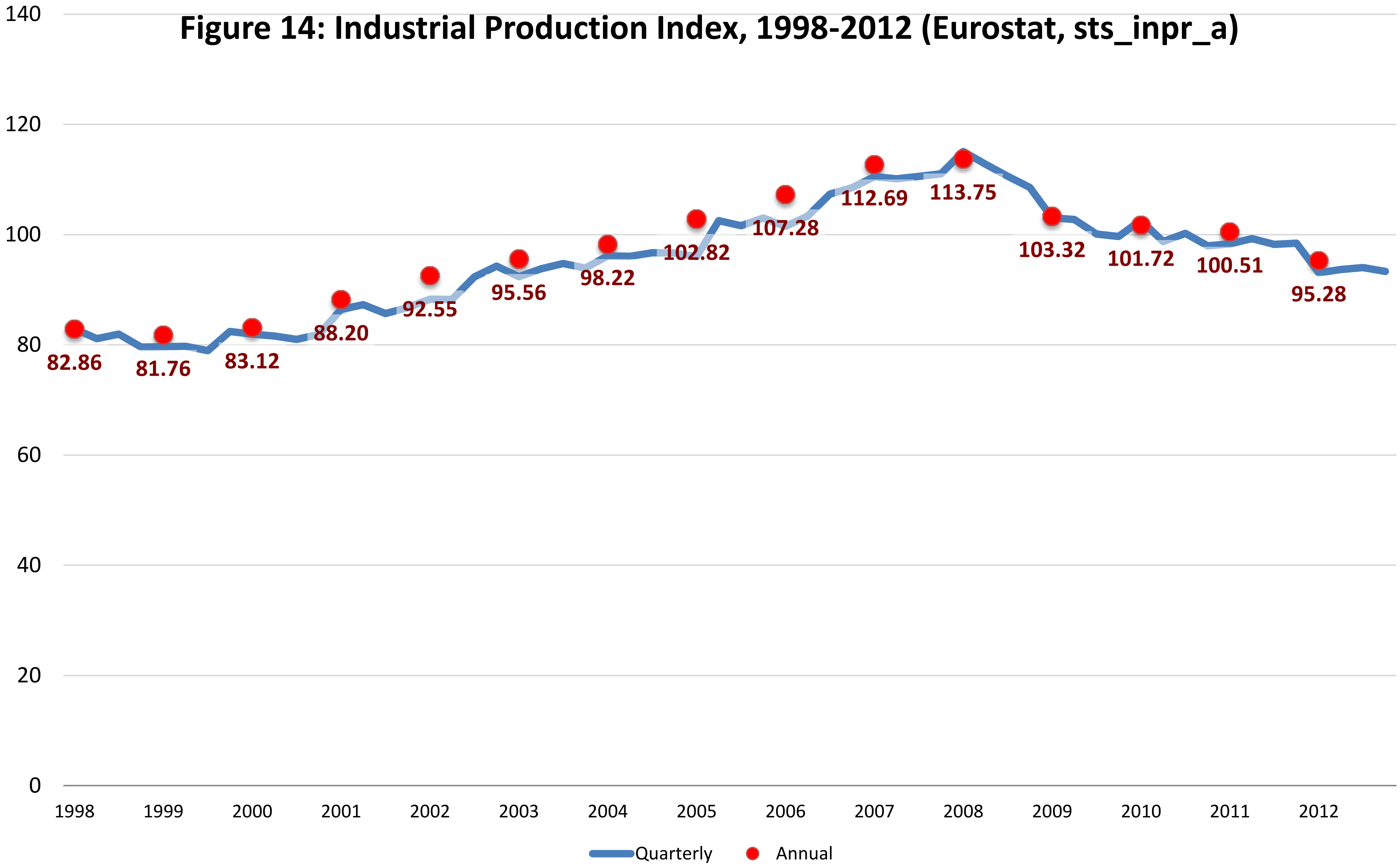


Figure 13: Exports and Current Account Balance as % GDP, 1996-2012
(Eurostat, nama_gdp_c)
100%
80%
60%
40%
20%
0%
-20%
35.9%
35.7%
35.3%
36.5%
41.7%
43.4%
40.9%
42.6%
42.9%
42.3%
42.8%
42.3%
42.1%
36.6%
39.4%
41.8%
42.1%
-6.6%
-13.1%
-6.9%
-6.1%
-3.1%
-3.8%
-8.2%
-7.7%
-6.2%
-6.2%
-6.7%
-7.2%
-7.8%
-3.5%
-0.5%
-0.1%
-0.3%
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Exports
Balance of payments

Figure 14: Industrial Production Index, 1998-2012 (Eurostat, sts_inpr_a)



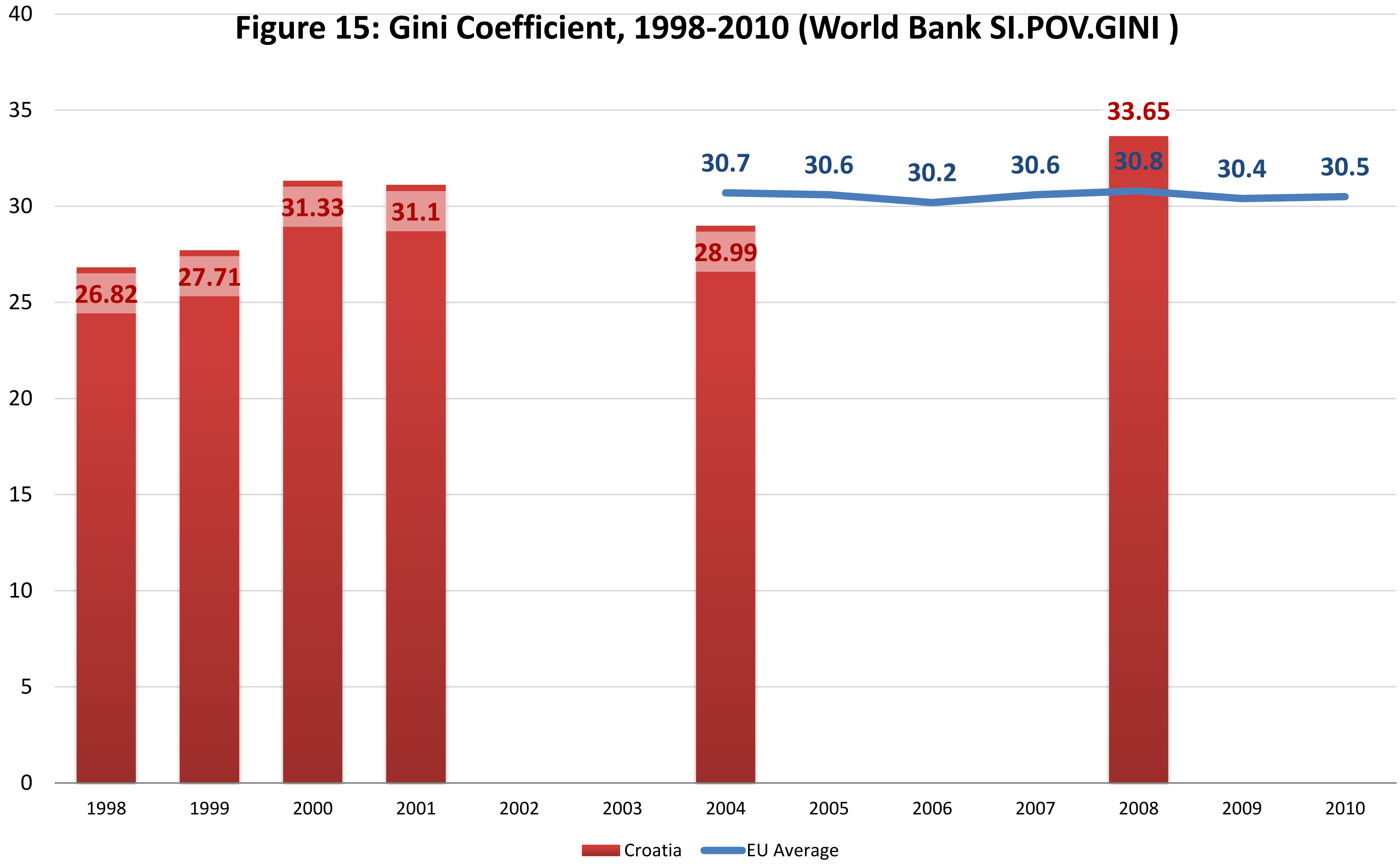


Figure 15: Gini Coefficient, 1998-2010 (World Bank SI.POV.GINI)
40
35
30
25
20
15
10
5
0
26.82
27.71
31.33
31.1
28.99
33.65
30.7
30.6
30.2
30.6
30.8
30.4
30.5
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Croatia
EU Average

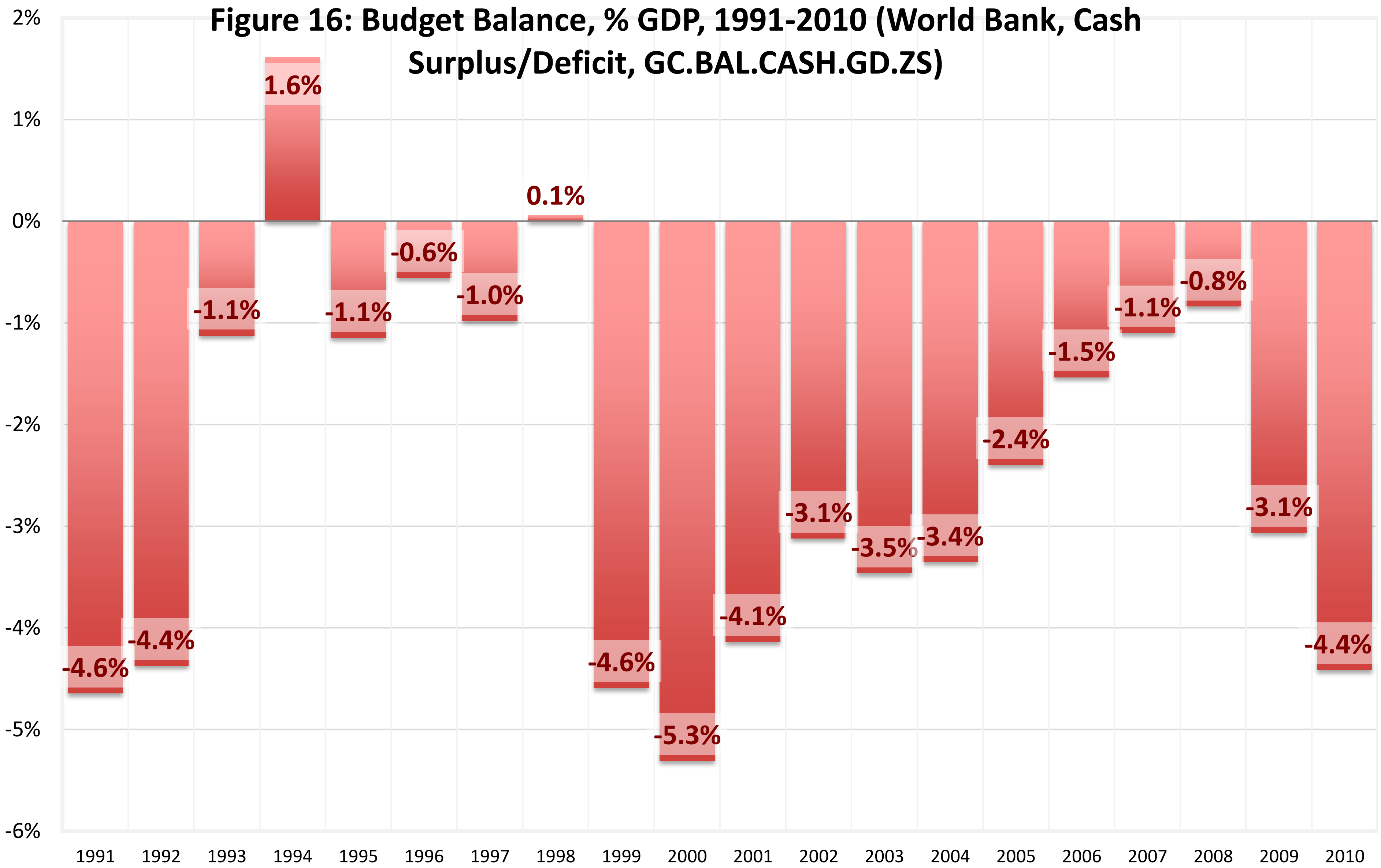


Figure 16: Budget Balance, % GDP, 1991-2010 (World Bank, Cash Surplus/Deficit, GC.BAL.CASH.GD.ZS)
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
-4.6%
-4.4%
-1.1%
1.6%
-1.1%
-0.6%
-1.0%
0.1%
-4.6%
-5.3%
-4.1%
-3.1%
-3.5%
-3.4%
-2.4%
-1.5%
-1.1%
-0.8%
-3.1%
-4.4%
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010

Figure 17: External Debt as % GDP, 2000-2012 (CIA World Factbook)

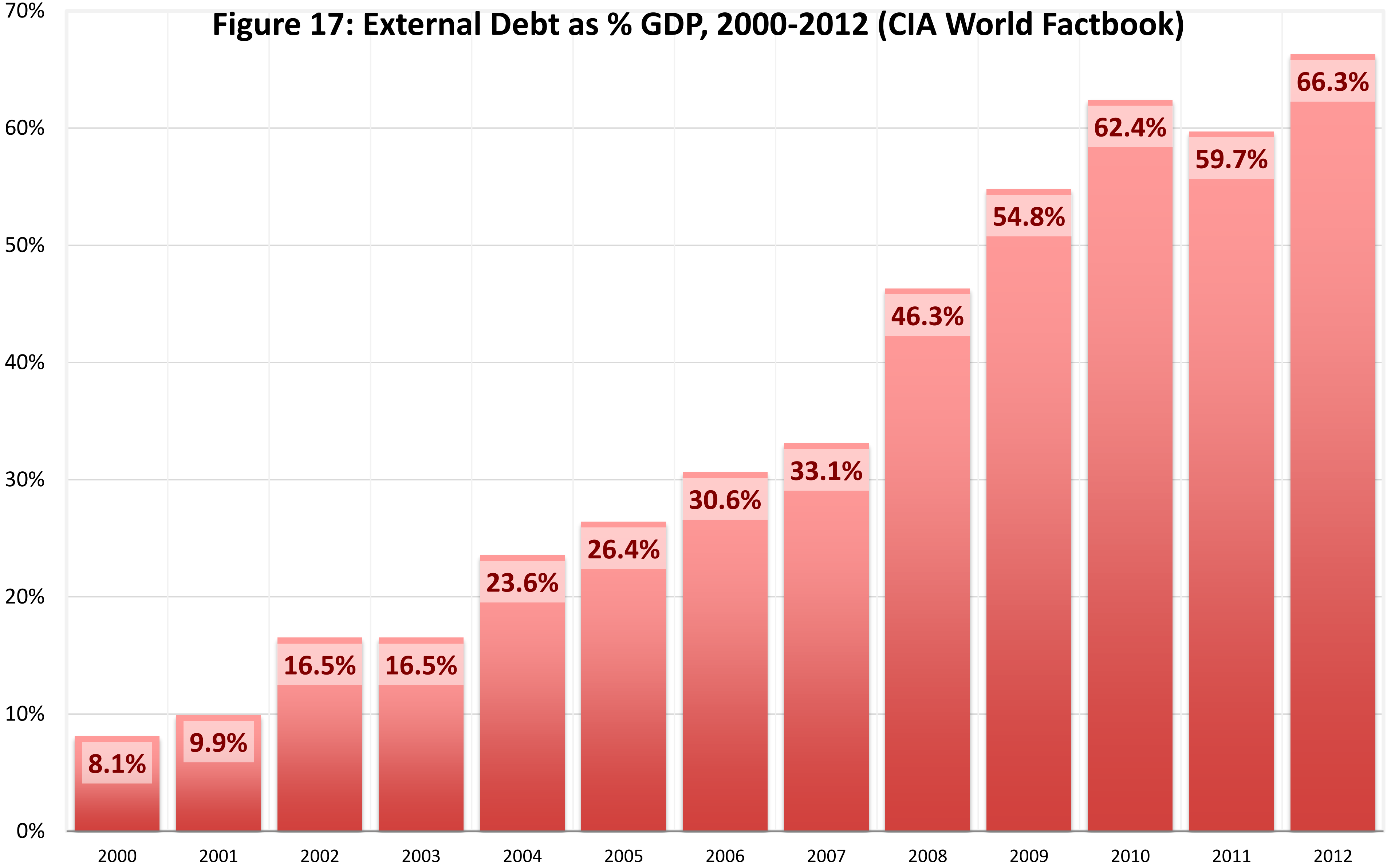


Figure 18: Annual Unemployment 1996-2010 (World Bank)

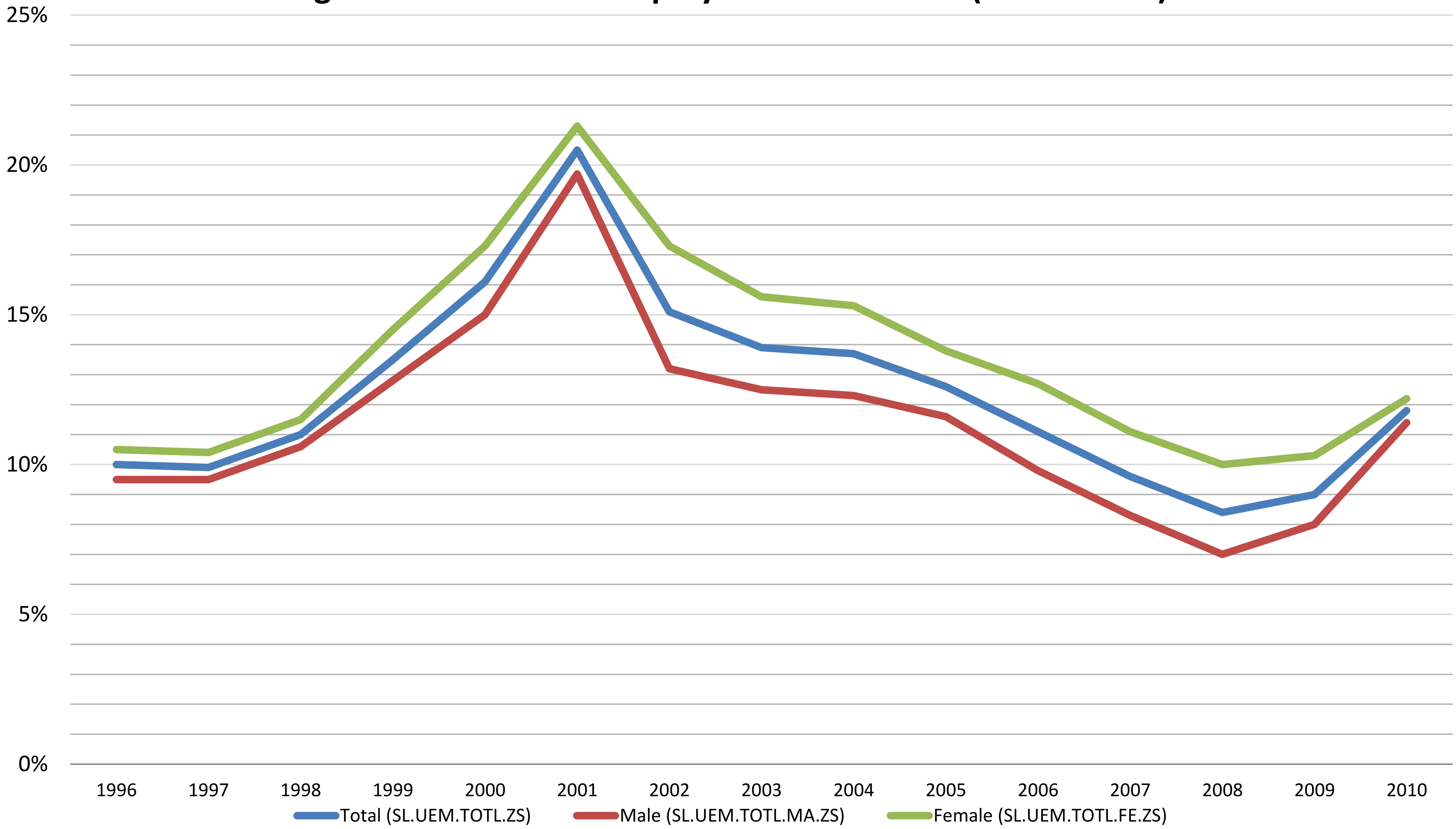


Figure 19: Monthly Unemployment, 2008-2013 (Eurostat, ei_lmhr_m)

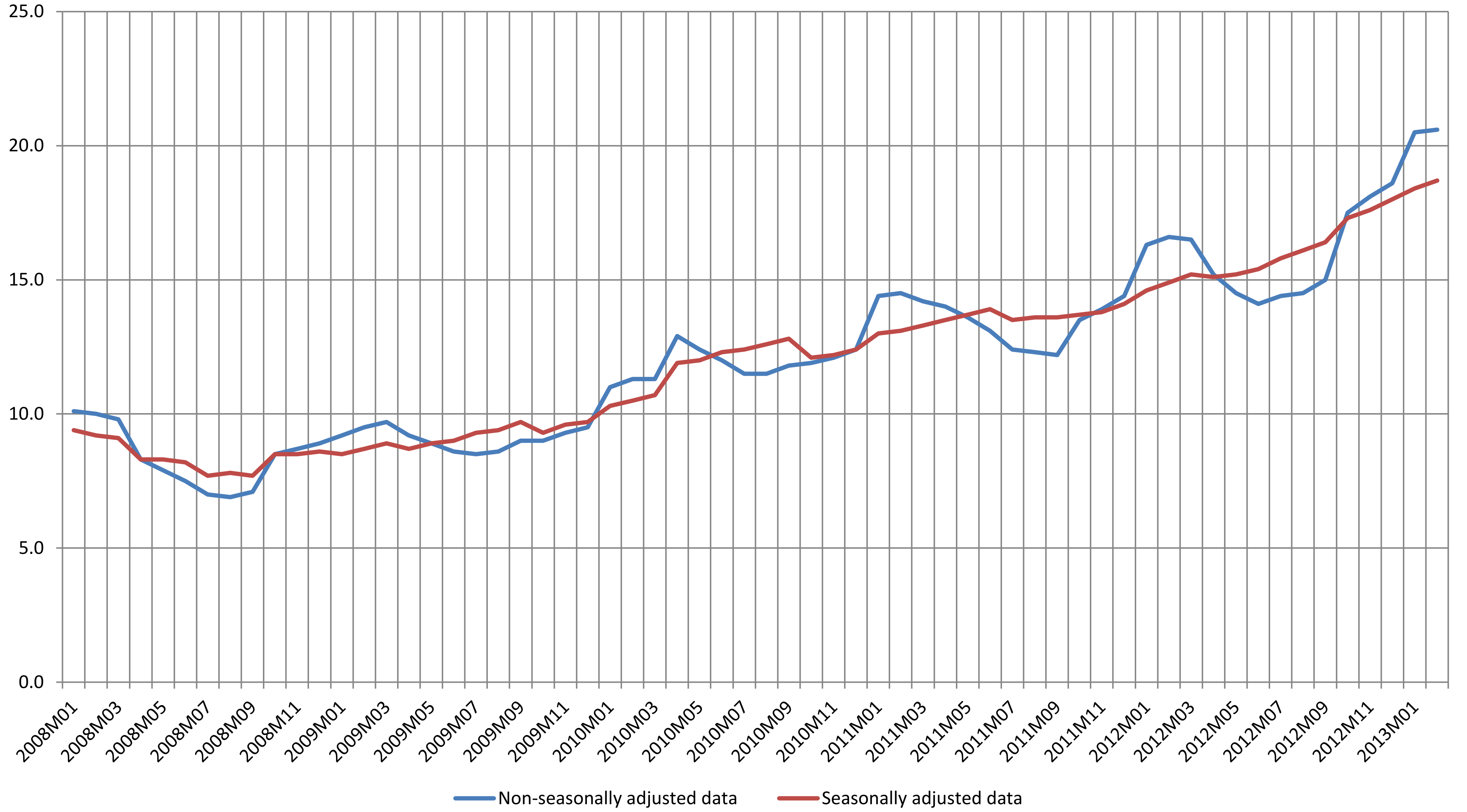


Figure 20: Long-Term Unemployment Rate, % Unemployed, 2000-2010 (World Bank)

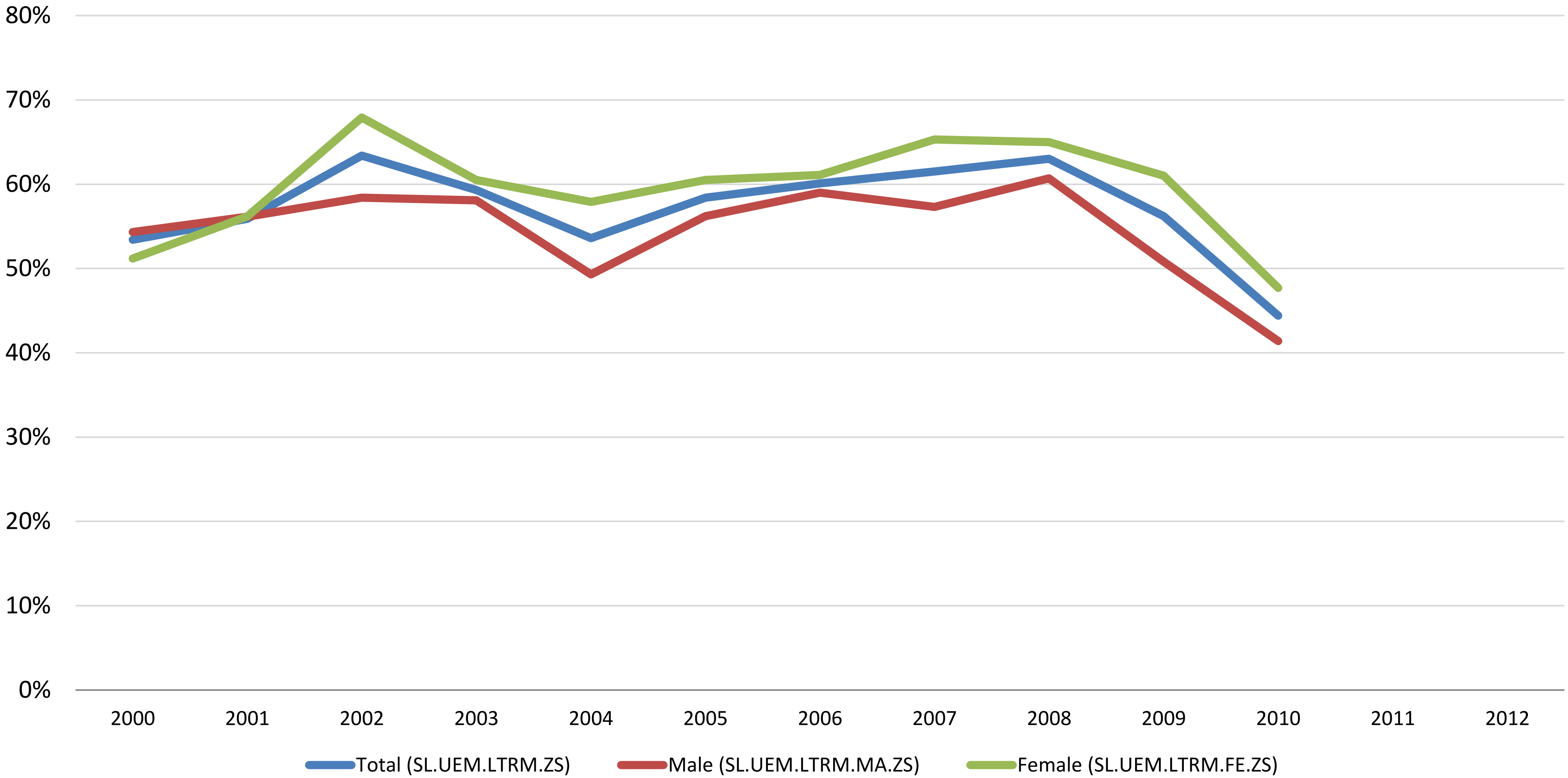


Figure 21: Youth Unemployment, % work force aged 15-24 1998-2010 (World Bank)

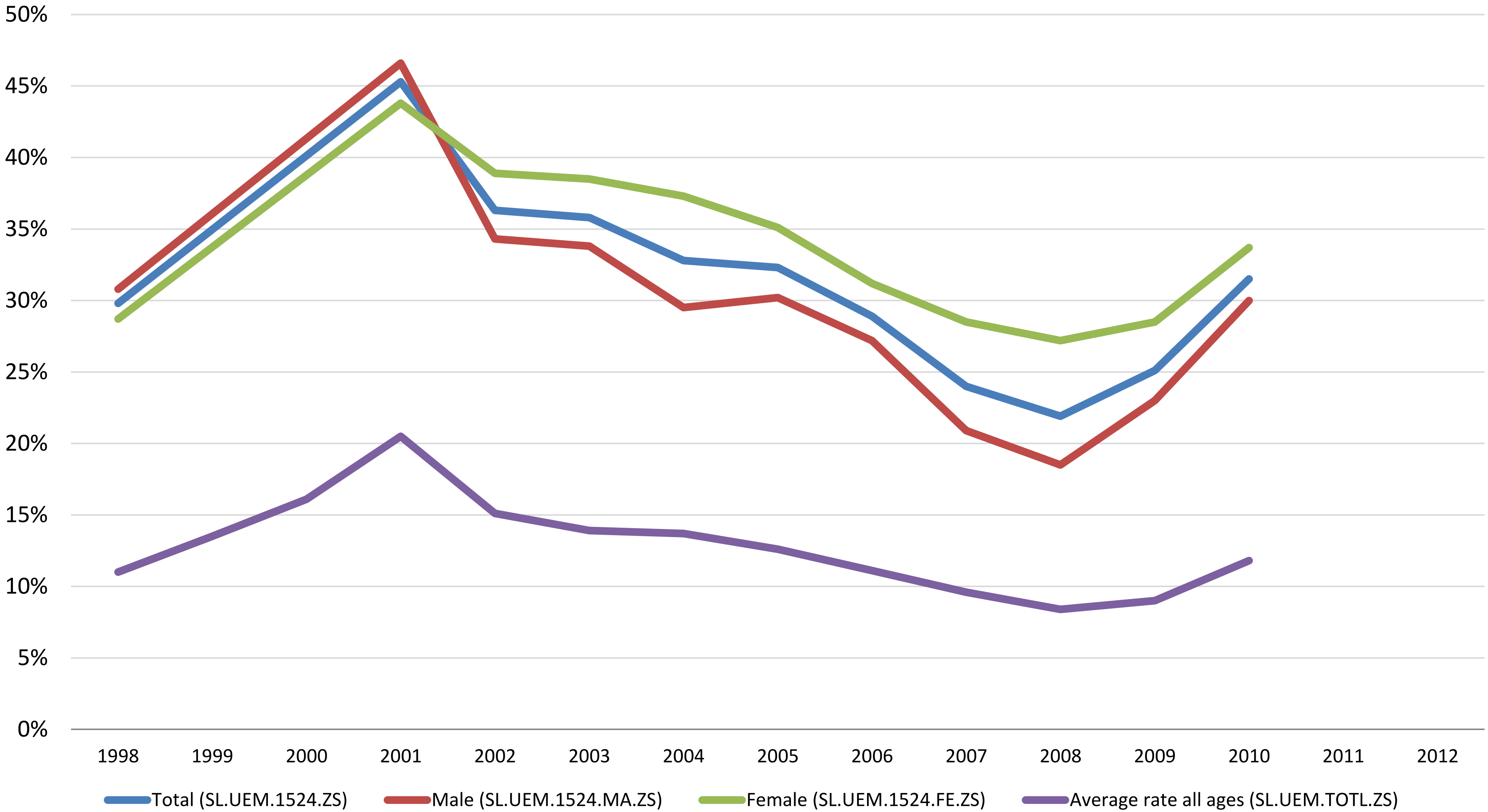


Figure 22: Labour Participation Rate, 1990-2010, % aged 15-64 (World Bank)

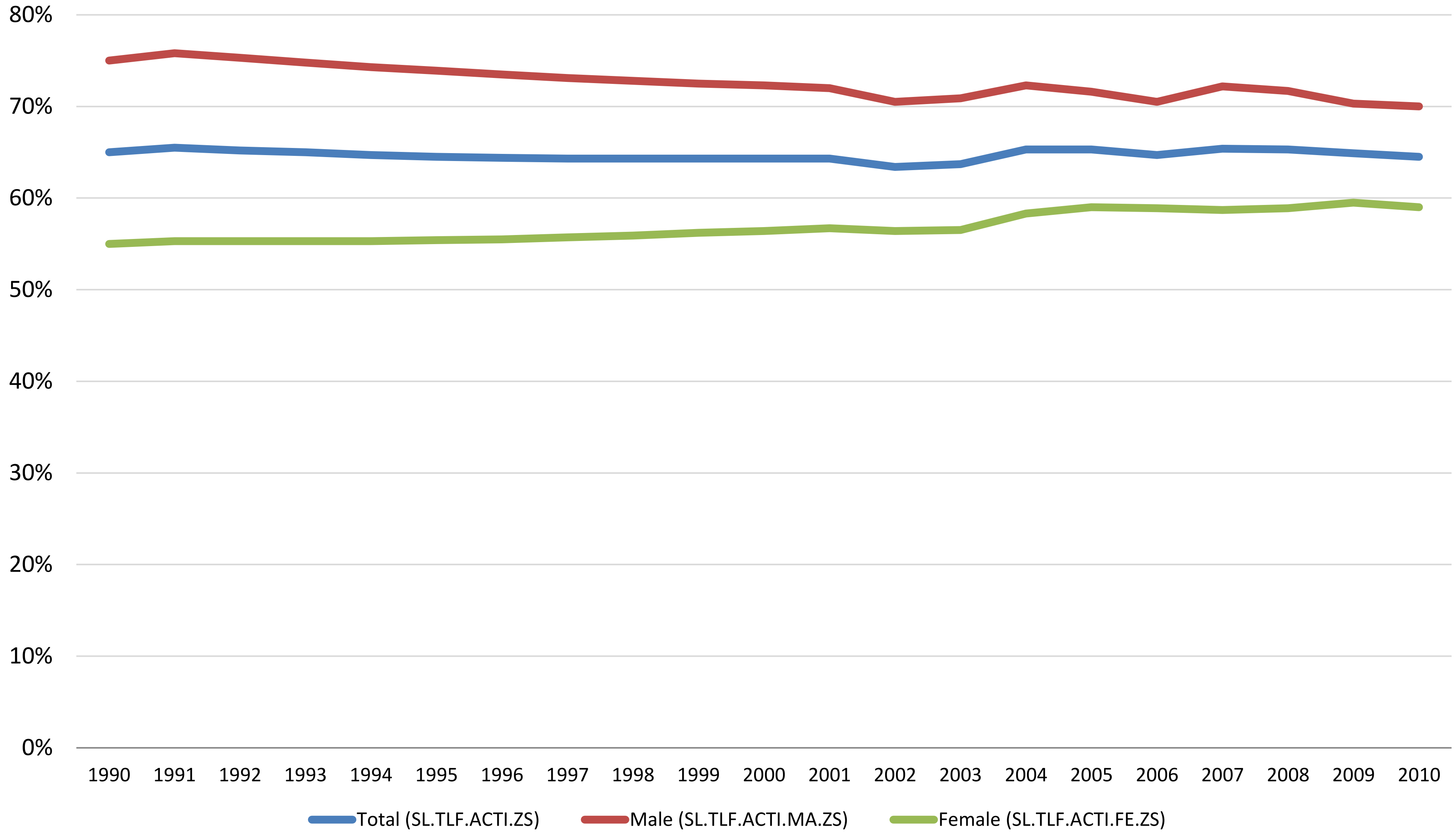


Figure 23: Labour Participation Rate, Q12007-Q4-2012, % aged 15-64 (Eurostat, lfsq_argaed)

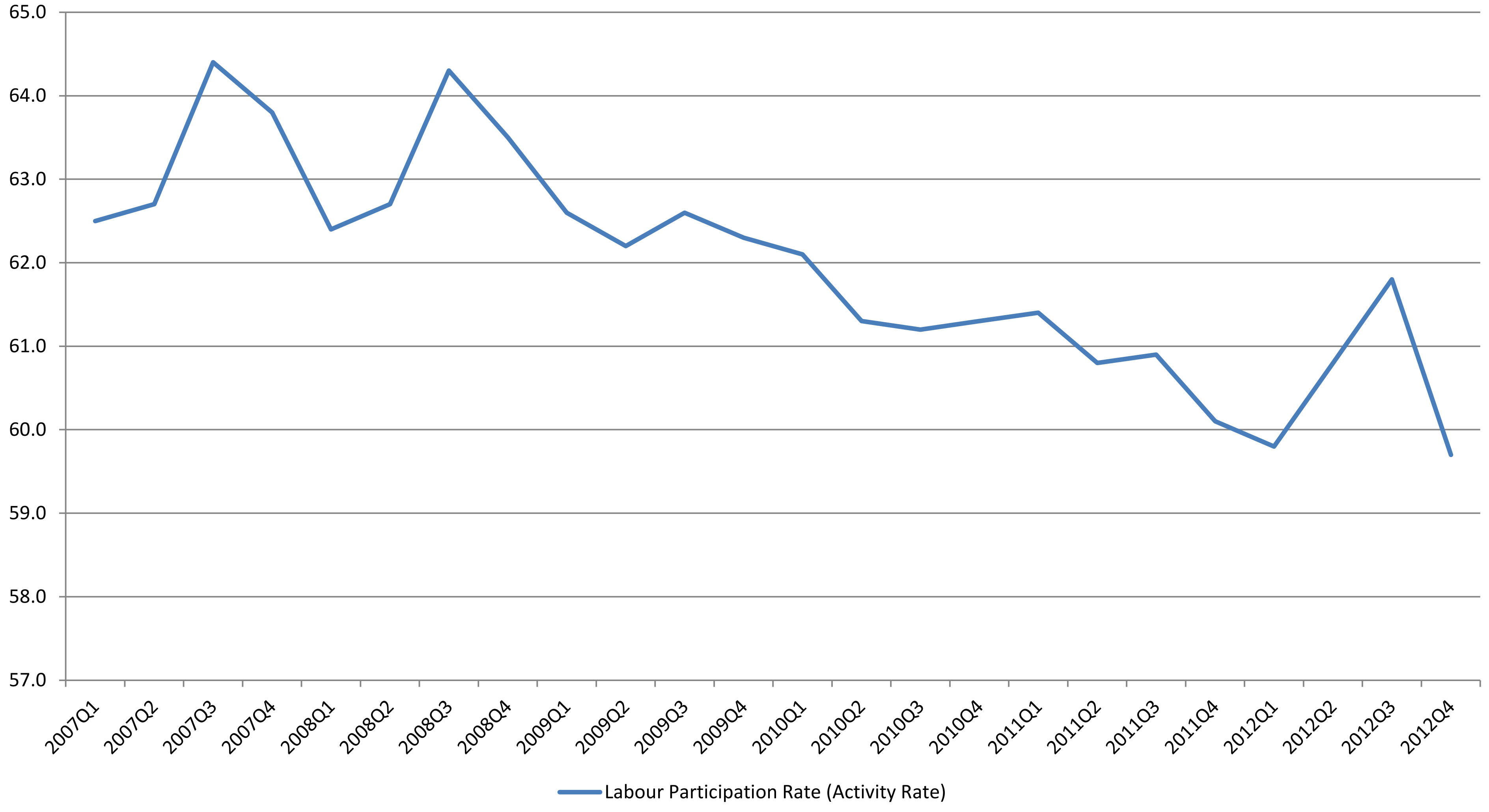


Figure 24: Average Monthly Wages, 1992-2012, Current Prices, Croatian Kuna (Croatian Bureau of Statistics)

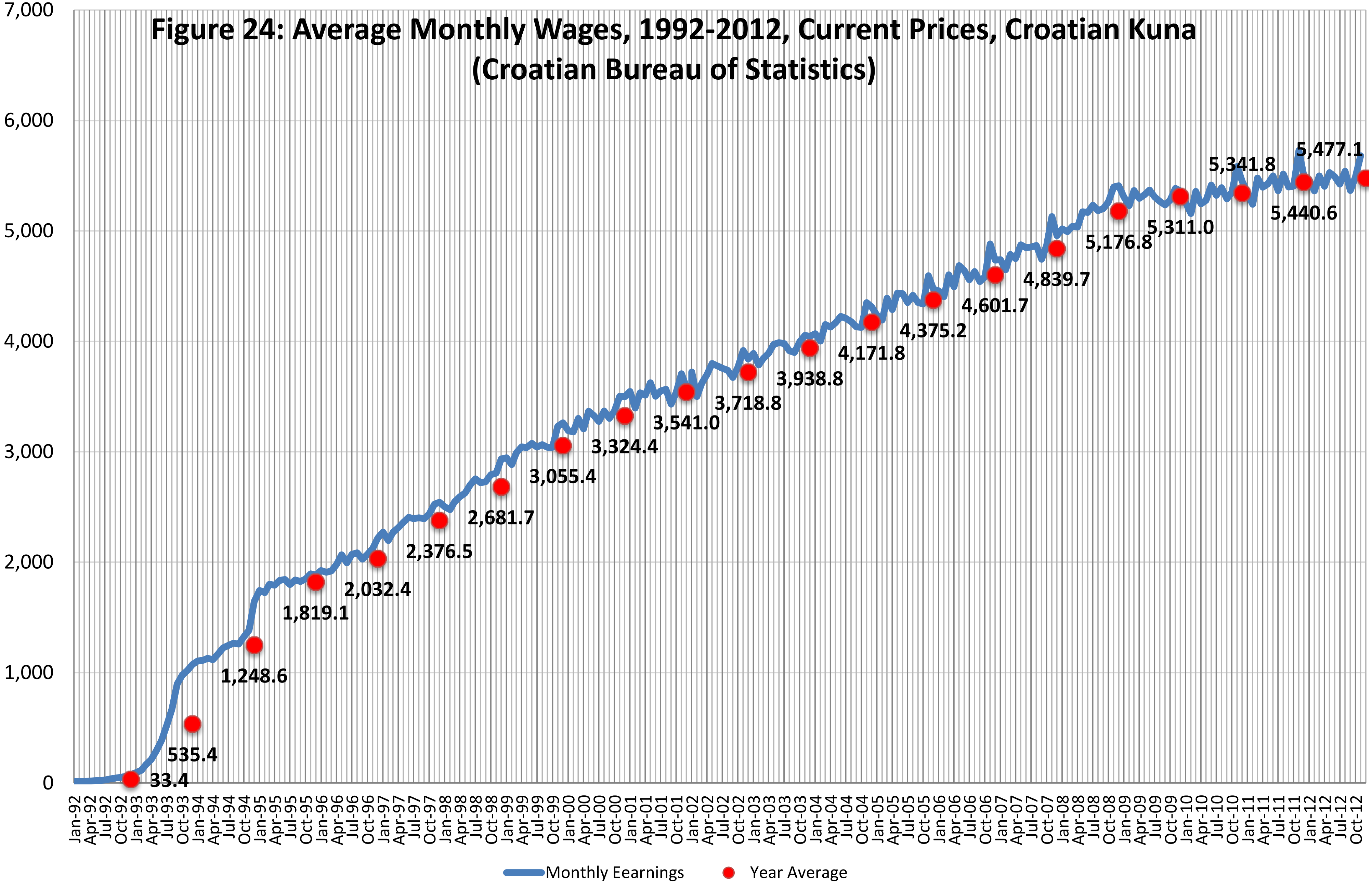


Figure 25: Part Time Employment, % Employed, Q12007-Q42012 (Eurostat lfsq_eppga)

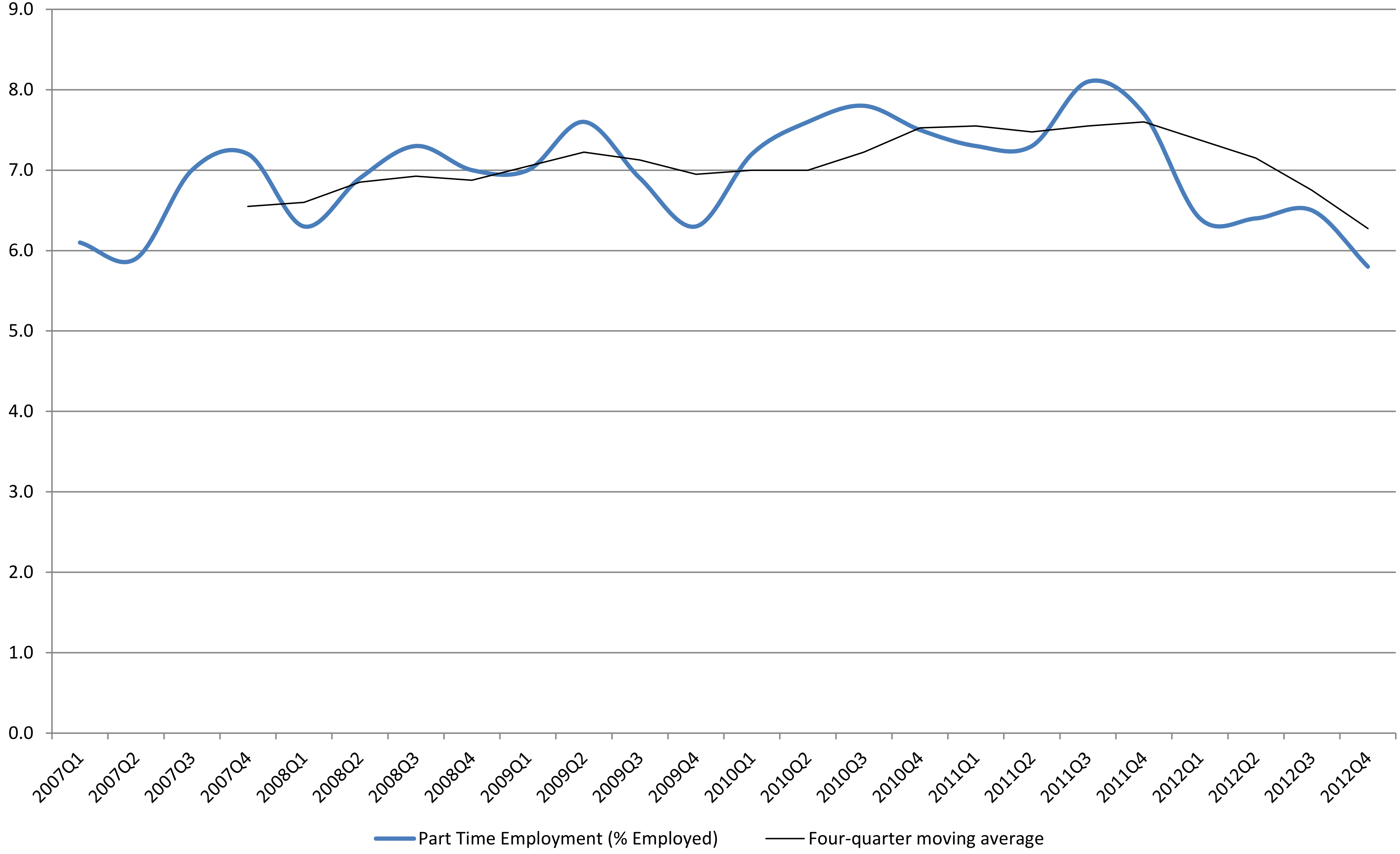


Figure 26: Youth unemployment, monthly, % labour force under 25, January 2008-February 2013 (Eurostat, une_rt_m)