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

Labour Market Policy Thematic Review 2017: An in-depth analysis of the impact of reforms on inequality

CROATIA

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January 2017
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This publication has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: http://ec.europa.eu/social/easi


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1 Introduction: Overview of inequality in Croatia

According to the Eurostat database (EU-SILC), inequalities in Croatia can be followed from 2010 onwards. The Gini coefficient slightly decreased from 0.316 in 2010 to 0.306 in 2015. The same trend was recorded in income quintile share ratio (S80/S20) which decreased from 5.5 in 2010 to 5.2 in 2015 (see Table 1). The Gini coefficient of income inequality in Croatia is very close to the EU-27 average, which stood at 0.31 in 2015. From the aforementioned data on income inequality one could conclude that Croatia does not deviate much from the European context. But this conclusion is questionable especially if EU regional income inequalities are contextualised. Namely, the average income inequality of the EU-27 is increased by Bulgaria, Romania, the Baltic and southern European countries which recorded the highest indices of inequality within the EU (between 0.35 and 0.38). On the other side of the spectrum with lower income inequalities are Central European countries such as Slovenia, Czech Republic and Slovakia where the Gini coefficient is about 0.25. With these countries Croatia shares a more similar institutional and historical background, including the Austro-Hungarian tradition and experience from the socialist period, than with the previous group of countries.

Table 1. Income inequality in Croatia, 2010-2015

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>S80/S20</td>
<td>5.5</td>
<td>5.6</td>
<td>5.4</td>
<td>5.3</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Gini</td>
<td>0.316</td>
<td>0.312</td>
<td>0.309</td>
<td>0.309</td>
<td>0.302</td>
<td>0.306</td>
</tr>
</tbody>
</table>

Source: Eurostat

Data on total wealth inequalities in Croatia do not exist, only data about inequalities in financial savings in bank deposits are available. Namely, when it comes to financial assets that Croatian citizens have in the form of saving deposits in the banking system in Croatia disparities are very pronounced. According to the data published in the publication 'Financial Stability' by the Croatian National Bank (CNB), the Gini coefficient of concentration of all savings deposits in 2014 was exceptionally high (0.73). The top 1 % of savers possess 25 % of total saving deposits, with average saving deposits per account of the richest 1 % of HRK 4.5 million (around EUR 600 000). The average savings per account on the other side were only about HRK 186 000 (around EUR 25 000). In most countries, the inequalities in the possession of financial and total assets are more pronounced than income inequalities and Croatia is not an exception but nevertheless CNB analysts have expressed the view that financial savings in banks indicate very high wealth inequalities in Croatia. However, according to Eurostat, home ownership rates in Croatia are the second highest in the EU (after Romania), which reduces wealth inequality.

Besides inequalities in the distribution of income and assets in Croatia, there are also high regional (inter-county) economic inequalities. According to the Central Bureau of Statistics (CBS) data for 2013, when inter-county inequalities are measured by GDP per capita, the City of Zagreb, with around EUR 18 000 per capita has three times higher GDP than four counties in eastern Croatia (Slavonia) whose GDP stood at about EUR 6 000 per capita (Vukovar-Srijem, Brod-Posavina, Virovitica-Podravina and Požega-Slavonia) (CBS, 2016). The negative consequences of such spatial economic disparities in Croatia are huge and are reflected in high economic and social inequalities and ‘depopulation’, with loss of working-age population from certain parts of Croatia. The aforementioned situation was additionally confirmed by recent...
research results by CBS on differences in the risk of poverty rates of the population on local levels (municipalities, cities, counties). Some underdeveloped municipalities and cities (mostly in Slavonia) have poverty risk rates higher than 50%, whereas the most developed areas such as the City of Zagreb, Rijeka and some cities and municipalities of Istria and Kvarner recorded poverty risk rates below 10%. It is obvious from the data that Croatia lacks a coherent regional development policy despite the proliferation of strategic measures and plans to combat regional economic inequalities in the last few years. However, regional disparities have deepened since Croatia became an independent country. This problem of high regional economic inequalities leads to high regional social inequalities which are even more pronounced when organization and budgets of social policies and programmes implemented by regional and local self-government units are taken into consideration.

Although most rights in the social welfare system in Croatia are centralised, local and regional self-government units also play a role. Decentralisation in the social sector started with the Social Welfare Act of 1997 (Official Gazette 73/97), i.e. with the stipulation that mandatory insurance be 5% of the budget of local self-government units to finance the social needs of citizens in their area. That Act enabled the regional and local self-government units to develop and finance their own social programmes in amounts greater than the minimum standards if they have financial and organisational capacity.

The consequence of this ‘partial decentralisation’ was that more developed cities, such as Zagreb and Rijeka, developed additional social programmes. Some of these programmes were running in parallel to the national programmes, whereas others played complementary roles, i.e. they filled the gaps and responded to the local social challenges where central government programmes did not provide an adequate response. However, the largest challenge of the decentralisation of social welfare is rooted in unequal financial capacities of regional and local government units across Croatia, due to which decentralisation actually exacerbates inequalities. The more developed regions and larger centres develop and finance specific social programmes much more often than the less developed ones. The less developed areas, which also have higher social needs, are less financially able to respond to the needs of their population due to smaller fiscal capacities and possibilities of financing local social programmes. Thus, as a consequence of the aforementioned ‘partial decentralisation’ the problem of the double inequality has become widespread: economic, as a result of lower level of development and continuous lagging in the development of individual local and regional self-government units, and social inequalities as a result of the inability of less developed units to provide similar levels of ‘social protection’ to their citizens which are offered by more developed local and regional self-government units, such as the City of Zagreb.

Regarding the equality of opportunity, one of the most important challenges in Croatia is to ensure equal access to equal-quality education at all levels. Namely, the existing research in Croatia has demonstrated that the equality of opportunity, as the cornerstone principle of social justice, is seriously weakened in the Croatian education system. Since local government is responsible for pre-school education, the regional differences in fiscal capacity are transformed into significant regional differences and lowest coverage in underdeveloped counties (Matković & Dobrotić, 2013). The research also shows that final outcomes of the education process in Croatia strongly depend on socio-economic status of the family and of pupils/students, education level

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1 Data available at: https://geostat.dzs.hr/
of parents and place of living (urban/rural). Burušić & Babarović (2007) and Burušić, Babarović & Marković (2010) have shown that even in primary education the socio-economic position of the family influences the final results of educational outcome; better results are usually achieved by pupils from families with higher education and better socio-economic positions. Potočnik (2014: 91) has shown that the accessibility of university education in the period between 1999 and 2010 worsened; chances for students from low socio-economic family context to enter university education significantly decreased in 2010 compared to 1999. In 1999 these differences in university education accessibility based on socio-economic status were almost non-existent. Bilić (2012) demonstrated that the level of socio-economic development of local government units significantly influences the access rate to higher education institutions in Croatia; rural and underdeveloped areas have the lowest access rates to higher education institutions.

Social perception and acceptance of inequality in Croatia is not easy to measure. A stream of research has tried to confirm the hypothesis that Croatian society is marked by the ‘egalitarian syndrome’ (Županov, 1970; Štulhofer & Burić, 2016). In that view, the inclination of Croatian citizens towards equality is so strong that it hinders individual initiative and economic development. On the other hand, Dolenec (2014) questioned the theoretical and empirical foundations of the ‘egalitarian syndrome’ hypothesis. This academic debate also received significant media attention.

It can be claimed that Croatian citizens nowadays mostly accept inequalities of market income. Acceptance of inequality is higher when market income or assets inequality stem from a legitimate, legal base and when they are not too high. However, they do not accept inequalities which stem from illegitimate sources, such as the grey economy, tax evasion and rent-seeking through transactions with government, including the negative experiences with outcomes of privatisation. These sources of inequality in contemporary Croatia are likely to be present in a significant scale.

2 Country-specific recommendations and their impact on inequalities

2.1 Country-specific recommendations

Country specific recommendations (CSR) issued by the Council of European Union in 2014, 2015 and 2016 for Croatia have had a serious impact on economic and social policy reform in Croatia with serious influence on economic prospects, social welfare and economic and social inequality. CSRs issued in 2014 (especially CSRs number 3 and 4) resulted in significant reform steps in labour law and in the tax and social benefits system with significant impact on individual social security and inequality trends, with results prolonged to 2015 and 2016.

The implementation of the second phase of the Labour Act reform (directly related to CSR number 3 from 2014) was completed in July 2014, with the adoption of the new Labour Act. The Act was adopted without reaching consensus among social partners which have had diametrically opposed views of the implications of the Labour Act. The new Labour Act opened a way towards further segmentation of the labour market between employees on primary\(^2\) and secondary labour market positions and data from

\(^2\) Primary labour market includes higher quality and more secure jobs with permanent contracts, including the public sector. Secondary labour market includes lower quality and insecure jobs with temporary contracts, part-time jobs and different kinds of flexible working arrangements.
2015 and 2016 confirm this statement. Namely, according to Eurostat data, temporary employment in Croatia as a percentage of total number of employees has been increased from 13.3 % in 2012 to 20.3 % in 2015, which placed Croatia among EU leaders in temporary employment growth in this period. These figures and trends suggest that the Croatian labour market after the reform increased its levels of segmentation, job insecurity and employment status inequality, with a relative decrease of job quality and security. Although results of the aforementioned changes are not reflected in disposable income inequality, they are likely to have implications on future trends in equality, due to increased segmentation on the labour market.

Changes in the Social Welfare Act (SWA) in 2013, 2014 and 2015 partially were induced by CSRs (number 4, 2014; number 3, 2015). The aforementioned SWA change in 2014 came because of CSRs in 2014 but SWA changes in 2015 were a reaction to changes and inapplicability of some propositions from SWA 2013 and SWA 2014. In order to activate guaranteed minimum income (GMI) beneficiaries, SWA from 2013 introduced the rule of a 'social benefits ceiling'. This rule sets the maximum social benefits, which cannot exceed the minimum gross salary in Croatia. In the case of families with more children this produced negative effects in terms of child poverty protection. Namely the calculations suggest that families with three or more children on average lost more than 10 % of previous minimum income benefits, which definitely decreased their living standard with a potentially negative effect on economic inequalities.

SWA changed by the end of 2013 (and again in 2014). In order to increase activation of inactive social assistance beneficiaries, SWA stipulated that: the beneficiary who is able to work could be entitled to a guaranteed minimum benefit for no longer than two years. After the right on GMI ended, a beneficiary who is able to work does not have the right to file a new benefit claim for the next three months after the month in which the right ceased. This change of SWA was apparently inapplicable in the context of the lasting recession with high unemployment. Namely, a significant number of beneficiaries on guaranteed minimum benefits who are able to work would be left without any income if the aforementioned rule were applied. SWA changes in 2015 removed the aforementioned GMI time limit stipulation. Changes of SWA 2015 also increased the GMI for single persons not capable of work and for single parent households with children by 15 % and introduced a new benefit of HRK 200 per month (around EUR 26) for around 73 000 vulnerable energy consumers. This last 2015 SWA change involving the introduction of new ‘poor household energy benefits’ could positively affect disposable income of households from the first income decile group and slightly decrease inequality.

Partially as a reaction to CSR (number 4), the Government of Croatia adopted the amendments to the Income Tax Law at the end of October 2014 with changes in income brackets and introduced saving deposits tax. Main changes were related to the increase of the non-taxable share of the wage from HRK 2 200 (EUR 290) to HRK 2 600 (EUR 340) per month, and increasing the threshold for maximum tax rate of 40 % from HRK 8 800 (EUR 1 160) to HRK 13 200 (EUR 1 740). In the case of pensions, non-taxable monthly pension income has been increased from HRK 3 400 (EUR 445) to HRK 3 800 (EUR 497). This loss of income tax progressivity was in part

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3 The criteria for vulnerable energy consumers were not clear so the Ministry for Social Policy and Youth applied a pragmatic approach and in this category included all GMB beneficiaries and all invalidity benefits beneficiaries.
compensated by the introduction of taxes on saving deposits with 12 % tax rate on interest payments. On the other hand, the introduction of property tax was postponed so the final effect of the aforementioned tax changes in 2014 was a slight increase in disposable income and economic inequality: S80/20 increased from 5.1 in 2014 to 5.2 in 2015 and Gini coefficient from 0.302 in 2014 to 0.306 in 2015.

A more intensive tax reform along similar lines was introduced recently. In December 2016 the Parliament adopted a comprehensive tax reform package that will increase non-taxable income for individuals, and change the income tax brackets and rates. Instead of the three previous rates of 12 %, 25 % and 40 %, from January 2017 income tax will be charged at two rates, 24 % on net income from HRK 3 801 to 17 500 (EUR 500 to 2 330) and 36 % on net income higher than HRK 17 500 (EUR 2 330). Non-taxable income will increase by HRK 1 200 (around EUR 160) from HRK 2 600 (EUR 340) to HRK 3 800 (EUR 500). It is obvious from the numbers that income tax progressivity will decrease significantly after these changes while the higher income bracket employees (who earn more than EUR 2 000 net monthly) will benefit the most while the lower bracket line increased from HRK 13 200 (EUR 1 740) to HRK 17 500 (EUR 2 330) and the tax rate for top earners decreased from 40 % to 36 %. Moreover, the second income, which was so far taxed at reduced rates, will be subject to regular income tax, as well as to 50 % of regular social contribution payments (health contribution of 7.5 %, pension contribution of 10 %). That may have negative effects on citizens whose main sources of income are irregular and based on particular assignments (e.g. freelancers). According to the experience from 2014, tax reform where income tax progressivity decreases is likely to result in increases in disposable income inequality in 2017.

Other important changes adopted by the Parliament include amendments to corporate tax (general corporate tax rate was reduced from 20 % to 18 %, and a 12 % tax rate will be applied to small businesses). Value added tax law was changed intermittently; from the point of view of inequality, the most significant change was a VAT rate increase in the hospitality sector from 13 % to 25 % which will likely increase prices and decrease employment (which already tends to be precarious and subject to seasonal variations). Property transactions tax exemption on first home purchases were annulled (which will have negative effects on young households), but property transactions tax rate has been reduced from 5 % to 4 %. There have also been changes in excise taxes, increase in taxes on motor vehicles, tax consultancy and stamp duties etc.

Regarding economic inequality it could be projected that economic inequality in household disposable income will increase after these tax changes, primarily due to lower income tax progressivity. Namely, according to available projections, employees receiving average wages will at best receive up to 2 % higher wages, whereas those in the last income deciles with monthly net incomes higher than EUR 2 500 per month will gain increases between 7 % and 10%.

2.2 Unaddressed country-specific recommendations and their hypothetical impact on inequality

Political instability in Croatia peaked in 2016 and resulted in early parliamentary elections in September 2016, less than a year after the regular elections held in 2015. For several months Croatia was led by a technical Government, which caused significant delays in implementation of announced reforms, as well as limited progress in addressing the 2015 and 2016 CSRs. Due to political turmoil, a large part of 2015 and 2016 CSRs has been inadequately addressed or have remained unaddressed.
Activities aimed at adjustment of retirement regulations have remained at aligning statutory retirement ages for men and women and their slow increase to 67 years of life. The issue of insufficient adequacy of pensions has been partially tackled with the increase of the non-taxable share of pensions from HRK 3 400 (EUR 445) to HRK 3 800 (EUR 497) in 2015. However, this change did not tackle persons with low pensions and with the highest risk of poverty, thus did not significantly influence the adequacy of pensions. No measures have been implemented to address 2016 CSR 2: ‘By the end of 2016, take measures to discourage early retirement, accelerate transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme.’

In the area of enhancing employability, ALMPs oriented towards youth unemployment (primarily funded within the Youth Guarantee Scheme) are showing results, however coverage of low-skilled workers and long-term unemployed has remained limited. An external evaluation of ALMPs in Croatia over the period 2010-2013, completed with delays in early 2016, brought a list of recommendations related to design and delivery of ALMPs in Croatia. However, there is no available information on implementation of these recommendations in practice. There is also no indication on steps taken to increase the effectiveness, monitoring and evaluation of the Youth Guarantee, nor to increase the participation in lifelong learning.

Consolidation of social protection benefits (2016 CSR No. 2) was not addressed after the latest amendments of the Social Welfare Act introduced in 2015, thus further alignment of eligibility criteria, integrating their administration and ensuring special focus on those most in need was not achieved during 2016. This CSR is especially important in terms of reducing inequalities since the measures which should tackle the social protection benefits directly influence the amount of disposable income of the most vulnerable groups and their quality of life.

Public administration reform has been put on hold, without addressing the 2016 CSR 2: ‘By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration to improve efficiency and reduce territorial disparities in the delivery of public services. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services’. The overall system is still complex and fragmented, with local units strongly reliant of central government transfers, which leaves regional disparities in the provision of public services, as reported in 2016 CSRs. The attempt to facilitate the voluntary merger of local government units was not supported with incentives, and therefore did not result in mergers. This is expected to be addressed in 2017 (please see below).

3 Other important reforms and inequalities

There are several reforms in different stages off implementation that have had or will likely have effects on inequality in Croatia. However, due to political instability which led to elections and changes in government, their pace of implementation has been uneven and, in some cases, it was also interrupted by external events.

The reforms mentioned in this section are:

- Implementation of Youth Guarantee
- Reform of public administration
- Comprehensive curricular reform.
Youth unemployment has been a major source of inequality in Croatia. In addition to active labour market policy measures (ALMPs) designed and implemented before, the implementation of the Youth Guarantee has provided the main reform which tackled the position of youth in the labour market. The Youth Guarantee in Croatia was initiated in 2014, and the actual implementation started in August 2014. Consequently, the implementation was aligned with Operational Programme Efficient Human Resources 2014 – 2020, which provides its major source of funding. The available funds amount to EUR 133 million: EUR 66.36 million from the European Social Fund for the implementation of structural reforms and support systems and EUR 66.18 million from the Youth Employment Initiative (YEI) for the period 2014 - 2015 for education, contributing to employment, and compensation for education or training for the very young people (cf. Bejaković, Vehovec and Mrnjavac, 2015).

Youth Guarantee Implementation Plan envisaged a relatively comprehensive set of reforms, introduction of new policy measures and a systematic approach to providing quality offers to young people. However, the current impact is still limited, as the implementation of structural reforms and policy measures, as well as the adaptation of all education sector and labour market participants occur gradually. Consequently, short-term impacts mostly depend on ALMPs, whose expansion provides the most feasible way to reach young persons who are unemployed or are at risk of unemployment. So far, most of the implemented Youth Guarantee measures are ALMPs, while most of the others have been partially implemented or are being implemented at a slower pace than initially planned. Efficient implementation of the planned measures and activities is especially important in the case of measures tackling the main gaps in the labour market when it comes to youth – harmonisation of the education system with the labour market needs, and outreach to NEETs. Capacities of the Croatian Employment Service (CES) should be further strengthened, with the emphasis on working with youth, implementation of ALMPs, as well as decreasing the workload of CES employees and increasing the overall quality of provided services.

The two measures mostly used in 2015 were subsidies for hiring and ‘occupational training without commencing employment’, both of which demonstrated their first positive effects. However, there are two factors which have likely contributed to some deadweight losses. On the one hand, many beneficiaries have tertiary education. Moreover, recovery of the economy from late 2014 onwards increased demand for work and contributed to decreased unemployment. To sum up, it is likely that the implementation of the Youth Guarantee helps young people enter the labour market and therefore decreases inequality. However, given the regional inequalities outlined above, which put youth in much of continental Croatia (i.e. outside of major urban centres) in a disadvantageous position, at significant risk of long-term youth unemployment, which already contributes to emigration abroad.

Public sector is both a major employer and a provider of services to citizens and enterprises. Its effectiveness and efficiency contribute to equality through a variety of sectors, including education, social welfare, health care and public administration. Many of the challenges in specific sectors which affect equality can be attributed not only to actors and processes within these sectors, but also to the overall frameworks which define or influence the administrative procedures, delivery of services, budgets and other aspects of public sector institutions.

The reform of public administration was envisaged in the Strategy of Public Administration Development 2015 – 2020, and was adopted in the Croatian Parliament.
in June 2015. The accompanying Action Plan for the period 2015 -2017 was also adopted, but it was not adequately implemented. In December 2016, the new Government adopted a new Action Plan for the period 2017 – 2020 (Ministry of Public Administration, 2016); its implementation is to be 85 % co-financed by EU funds (mostly through European Fund for Regional Development and European Social Fund).

Several general objectives (GO) and specific objectives defined in the Action Plan are expected to contribute to equality. These particularly include process improvement and introduction of quality management (GO 2), increased accessibility and transparency of public administration (GO 3), development of human resources management system in public administration and public services (GO 4) and increased level of knowledge, skills and ethical behaviour in public administration and public services (GO 5). The timetable for implementation of specific measures and projects through which specific interventions will be implemented have been defined. Institutional frameworks and responsibilities have been specified and financing has been secured. However, given the complexity and long-term nature of the reform, it is too early to estimate its chances for effective implementation and its effects on equality.

**Comprehensive curricular reform** was initiated as one of the first measures in implementation envisaged by the Strategy of Education, Science and Technology, which was adopted in the Croatian Parliament in October 2014. This reform was expected to address several gaps in the education system, including underperformance on access to and the quality of the education system, which have strong effects on equality. For example, planned introduction of mandatory preschool education would address not only the regional differences in coverage across Croatian counties mentioned above, but also the gap between Croatia and other EU countries; namely, Croatia has the lowest rate of participation in education (71.4 %) in the EU among four to six year olds (EC, 2016). Moreover, curricular reform in elementary school (which was going to last for nine years, instead of the current eight), was expected to address underperformance in terms of basic skills (e.g. numeracy) which have been observed on the basis of PISA testing (OECD, 2013, referenced in EC, 2016). The reform is also expected to link education to the needs of society and economy. Its essential element refers to harmonisation of labour market and the education system, thus contributing to raising chances for providing the future entrants into the labour market with skills and job opportunities which will contribute to equality.

Curricular reform refers to a set of comprehensive interventions in the design and delivery of educational programmes (from pre-school education to secondary school), evaluation, assessment and reporting system, training of teachers and other employees in the education system and the content of textbooks, handbooks and other teaching instruments and contents.

From January 2015 until June 2016, its implementation was co-ordinated by an expert working group. Its main task is to manage the process during the first stage of the curricular reform, to determine the main direction of curricular changes, to coordinate the work of numerous working groups (with over 430 experts and professionals) focused on specific subjects and topics. The results of the work of these professionals

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4 That includes activities related to harmonisation of the wage-setting frameworks across the public administration and public services, mentioned in CSR 2016 no. 2 and above.
(e.g. national framework curriculum, national curricula for particular education levels and areas etc.) were subjected to public consultations, which generated substantial interest and a variety of reactions. However, after the change of government in late 2015, political support to the process became questionable and the process was slowed down. Eventually, the expert working group publicly resigned in May 2016, which was followed by large protests in Zagreb and several other cities. The new leadership of the expert working group was appointed in July 2016. The public debate on the curricular reform is still ongoing, and its future implementation remains uncertain.

4 Conclusions

In 2015, the Gini coefficient of income inequality in Croatia (0.306) was very close to the EU-27 average, which stood at 0.31. This also puts it between the Central European countries, which tend to have lower income inequality and other post-socialist countries and southern European countries which tend to have higher income inequality. Financial savings in banks indicate very high wealth inequalities, but that is somewhat reduced by high rates of home ownership.

Besides inequalities in the distribution of income and assets in Croatia, there are also high regional economic inequalities, which stem from different levels of economic development. Moreover, due to partial decentralisation of financing and delivery of social welfare services, economic inequalities are exacerbated by social inequalities, since underdeveloped municipalities, cities and counties do not have the fiscal resources to provide similar levels of services as in more developed local administration units.

Equality of opportunity depends upon equal access to equal-quality education at all levels. That is jeopardised by two main groups of factors. Access to preschool education is relatively low and depends upon the level of economic development of local/regional government units; the latter also affects the quality of primary and secondary education. Furthermore, the research shows that final outcomes of the education process strongly depend on socio-economic status of the family and of pupils/students, education level of parents and place of living (urban/rural).

Some responses to CSRs have affected inequalities, but have not necessarily contributed to their reduction. The new Labour Act introduced in 2014 opened a way towards further segmentation of the labour market; temporary employment as a percentage of total number of employees grew from 13.3 % in 2012 to 20.3 % in 2015. Since few new jobs were created in that period, these developments contributed to inequalities. The same can be claimed for amendments to the Income Tax Law in October 2014 and December 2016. Since income tax has become less progressive, the expected consequence would be an increase in disposable income inequality in 2017.

There are several other reforms in different stages off implementation that have had or will likely have effects on inequality in Croatia. However, due to political instability which led to elections and changes in government, their pace of implementation has been uneven and, in some cases, it was also interrupted by external events. These include implementation of Youth Guarantee, reform of public administration and comprehensive curricular reform. It can be concluded that the necessary preconditions for successful reforms include political commitment and availability of resources (usually co-financing through EU funds), whereas sufficient preconditions depend upon particular circumstances.
5 Bibliography


### Annex 1: Summary of Reforms Impacting on Inequalities

<table>
<thead>
<tr>
<th>No.</th>
<th>Short title of the reform</th>
<th>CSR-relevant (yes / no)</th>
<th>Policy area (e.g. labour taxation, consumption taxation, social protection, education, healthcare, etc.)</th>
<th>Short description of the reform</th>
<th>Direction of impact on inequality: increasing/decreasing</th>
<th>The magnitude of impact on inequality: strong/moderate/limited</th>
<th>The reform has primarily impact on:</th>
<th>Target groups: are reforms targeted at some particular groups?</th>
<th>Time aspect: impact on inequalities now / expected in the future</th>
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<tr>
<td>1</td>
<td>Labour market reform 2014</td>
<td>Yes</td>
<td>Labour law</td>
<td>Flexibilisation of the Labour law</td>
<td>Increasing</td>
<td>Moderate</td>
<td>- Income inequality</td>
<td>No</td>
<td>Now and expected in the future</td>
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<td>2</td>
<td>Tax reform 2014</td>
<td>Yes</td>
<td>Labour taxation</td>
<td>Income tax rate and brackets changed</td>
<td>Increasing</td>
<td>Limited</td>
<td>Income inequality</td>
<td>No</td>
<td>Now</td>
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<td>4</td>
<td>Tax reform 2016</td>
<td>Yes</td>
<td>Labour and overall taxation</td>
<td>Overall tax reform but most significant changes in labour taxation</td>
<td>Increasing</td>
<td>Moderate</td>
<td>Income inequality</td>
<td>All employees, some specific economic sectors</td>
<td>Expected in the future</td>
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<td>5</td>
<td>Implementation of Youth Guarantee</td>
<td>No</td>
<td>Social protection</td>
<td>Addressing the employability of youth</td>
<td>Decreasing</td>
<td>Moderate</td>
<td>Income inequality</td>
<td>Yes</td>
<td>Now and expected in the future</td>
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<td>6</td>
<td>Reform of public administration</td>
<td>Yes</td>
<td>Public administration</td>
<td>Implementation of Strategy of Public Administration Development 2015 – 2020</td>
<td>Decreasing</td>
<td>Limited/moderate</td>
<td>Inequality of opportunity</td>
<td>No</td>
<td>Expected in the future</td>
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<td>Comprehensive curricular reform</td>
<td>No</td>
<td>Education</td>
<td>Changes in education system</td>
<td>Decreasing</td>
<td>Moderate</td>
<td>Inequality of opportunity</td>
<td>No</td>
<td>Expected in the future</td>
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### Annex 2: Proposed indicators to assess inequalities

<table>
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<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in real GDP per capita</td>
</tr>
<tr>
<td>Growth in real disposable income per capita</td>
</tr>
<tr>
<td>Growth rates of the median disposable income and of the disposable income of the first bottom decile of the income distribution, in real terms (compound annual, over 5 years)</td>
</tr>
<tr>
<td>Gini index of households' income after tax and transfers (source: Eurostat)</td>
</tr>
<tr>
<td>Gini index of households' income after tax and before transfers (source: Eurostat)</td>
</tr>
<tr>
<td>Redistributive impact of taxes and transfers: difference between post-tax and transfer Gini index and market based Gini index (source: OECD, Eurostat)</td>
</tr>
<tr>
<td>Median/mean equivalised disposable income, before/after social transfers/pensions</td>
</tr>
<tr>
<td>Ratio S80/S20 of disposable income, after social expenditures (source: Eurostat)</td>
</tr>
<tr>
<td>Ratios S90/S50 and S50/S10 of disposable income, after social expenditures</td>
</tr>
<tr>
<td>At risk poverty rate before/after social transfers (pensions included in social transfers), for the total population and for the elderly</td>
</tr>
<tr>
<td>Severe material deprivation rate</td>
</tr>
<tr>
<td>At persistent risk of poverty after social transfers</td>
</tr>
<tr>
<td>Indices of wealth distribution</td>
</tr>
</tbody>
</table>

Note: the indicators also include other breakdowns (e.g. by age or type of households).
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