EUROPEAN
COMMISSION

Brussels, 3.6.2026
SWD(2026) 211 final

COMMISSION STAFF WORKING DOCUMENT

2026 Country Report - Croatia

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Croatia

{COM(2026) 211 final}

European Commission

Economic and Financial Affairs

Croatia

2026 Country Report

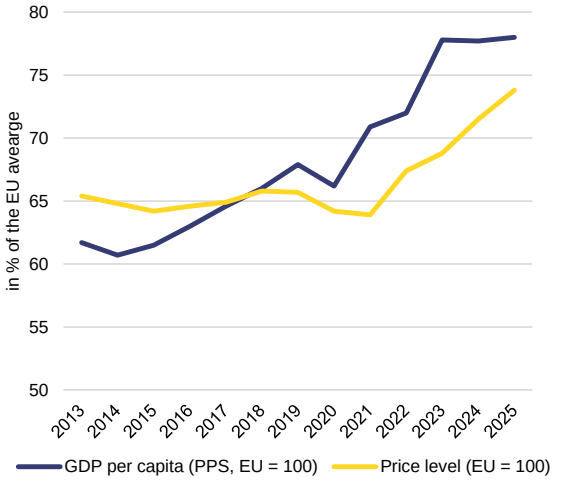
ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

Robust economic momentum at decreasing rates

Croatia's economy continues to grow strongly. Croatia's real GDP grew by 3.4% in 2025 (down from 3.8% a year ago), exceeding growth in the rest of the EU for a fifth consecutive year ([1]). This enabled Croatia to continue converging toward the EU average living standards, a process it started shortly after joining the EU, although the pace of convergence has moderated in the last two years after rapid gains since 2020 (Graph 1.1). This process has been supported by the successive integration into the single market, significant uptake of EU funds, including under the recovery and resilience plan (RRP), accession to the Schengen area and to the euro area in 2023. During most of this period, Croatia's population has fallen, but this trend reversed in 2023 due to stronger immigration flows ([2]). Since 2022, prices have also increased toward the EU average (Graph 1.1). Solid economic growth is projected to continue at gradually decreasing rates. The conflict in the Middle East and heightened geopolitical tensions are expected to weigh on the macroeconomic outlook, dampening domestic demand.

Recent growth has been driven by domestic demand. Economic growth in 2025 remained supported by strong household consumption underpinned by rising income and employment, sustained investment growth and further increases in government consumption. Exports of goods rose significantly despite rising trade protectionism, while exports of services shrank in real terms, likely due to losses in price competitiveness in tourism in recent years. With imports growing, the contribution of net exports to growth turned negative. In future years, domestic demand is set to continue growing but at a slower pace. Exports of goods and services are projected to pick up, leading to a gradual reduction in the drag of net external trade on growth.

Graph 1.1: **Croatia's GDP per capita and price level**



(1) Croatia's GDP per capita and price level
Source: Eurostat

Inflation in Croatia is higher than the euro-area average. In 2025, inflation increased to 4.4% ([3]), firmly above the euro-area average, which fell slightly to 2.1%. The gap with the euro area was mainly driven by inflation in the price of services, which fell only marginally but remained high, as well as by

([1]) Source: Eurostat (nama_10_gdp).

([2]) Population growth continued in 2025. Source: Eurostat, (demo_pjan).

([3]) As measured by the Harmonised Index of Consumer Prices (HICP). According to Croatia's national consumer price index, inflation equalled 3.7% in 2025. The main difference between the two indices is that the national index corrects to account for the consumption by non-residents, i.e. foreign tourists.

Box 1: **UN Sustainable Development Goals (SDGs)**

Croatia continues to make progress on all SDGs related to competitiveness (SDGs 4, 8, and 9), while it still needs to catch up with the EU average on all of them. Croatia is also improving on all SDGs related to macroeconomic stability (SDGs 8, 16 and 17) as well as on most SDGs related to social fairness (SDGs 1, 3, 4, 5, 8), except SDGs 7 and 10.

Overall, Croatia is improving on 11 SDGs, of which seven are below the EU average. SDG 9 (Industry, innovation and infrastructure) shows the strongest improvement, although the gap with the EU average remains wide due to persisting disparities in indicators such as R&D expenditure, patent applications, and the share of households with high-speed internet connections. For the remaining six SDGs, mostly related to sustainability, Croatia is moving away from the target, though only two are below the EU average. In particular SDG 13 (Climate action) presents opportunities for improvement as it has the widest gap with the EU average among the SDGs (Annex 17).

food inflation, which accelerated ([4]). The remaining difference is due to energy price inflation, which picked up due to the phase-out of government energy support measures in 2025. In early 2026, some energy support measures such as fuel price caps were reintroduced to mitigate energy price increases due to the conflict in the Middle East.

Price caps only temporarily slowed down the rise in food prices. In response to high food inflation, Croatia brought in price caps for certain food items in 2022, subsequently expanded in 2023 and 2025 to 100 food and hygiene product categories. These caps seem to have temporarily slowed price growth for food categories containing price-capped products in 2022 and 2023, both compared with other countries and with other foods in Croatia, but since 2024, price increases have converged ([5]). It would be beneficial to reconsider the need for extended food price caps as they may have harmful effects on food supply chains, and to boost efforts to identify and tackle the root causes of high food inflation (Annex 5).

Employment growth is slowing, but the labour market remains tight. The employment rate continued the upward trend that started in 2014, reaching 74.4% in 2025 and thereby reducing the gap with the EU average from 8.5 pps to 1.7 pps over this period. The employment rate of women overtook the corresponding EU average rate in 2025 (71.8% in Croatia vs EU average of 71.3%). Still, employment rates remain low for some vulnerable groups, in particular people with disabilities, low-skilled, and older workers. Labour market participation continued to rise, reaching 72.4% in 2025 and the unemployment rate fell further to 4.9%. Wage growth decelerated from very high rates but remained robust, also in real terms.

Labour shortages stabilised but remain elevated. The number of open vacancies (in industry, construction and services) per thousand people unemployed decreased from the highs reached in 2024 and remains well below the EU average ([6]). Over the past decade, the labour market has transitioned from high unemployment and low vacancy rates to historically low unemployment and relatively high vacancy rates. While this change signals an improved labour market

([4]) Data for recent months indicate that (annual) food inflation has fallen since the 2025 average, with the annual rate of change of food prices (excluding alcohol and tobacco) closer to but still above the euro area rate.

([5]) Own analysis based on mapping the food products subject to price caps to Eurostat HICP 5-digit items.

([6]) Labour shortages in Croatia reported in the BCS survey are more pronounced than for the EU in industry and construction, where they declined slightly in 2025. For services, reported shortages decreased more visibly and came close to EU levels in 2025-Q4.

that more effectively matches job seekers with available posts, persistent high vacancy rates alongside falling unemployment suggest that the labour market remains tight.

Improving the quality of public finances to meet spending needs

Growing fiscal deficits indicate the need for fiscal consolidation. The recent expansionary fiscal stance drove the general government deficit to narrowly exceed the 3% deficit threshold for 2025. The deficit is expected to slightly decrease for the next years (Annex 2). Despite strong revenue collection supported by solid growth in nominal GDP and employment, spending on investments, wages, pensions and social assistance (in particular the inclusive allowance) drove the general government deficit higher. Fiscal commitments by Croatia under its medium-term fiscal structural plan (MTFSP) for 2025-2028 would lead to an improvement of the structural primary balance of 1.1 pps, from -1.3% of GDP in 2025 to -0.2% in 2028. This would in turn ensure that Croatia maintains its debt below the 60% threshold.

With limited fiscal space and competing spending priorities, increasing the efficiency of public spending is key. Croatia conducts spending reviews, which are currently limited in scope and transparency. To increase spending efficiency, sectors such as health and education, where expenditure is relatively high and outcomes are in some cases below the EU average, would be good candidates for coverage by the spending reviews. Croatia's high exposure to climate change risks, combined with a low rate of insurance penetration, also warrants attention. Public administration workforce management could be also reviewed, as public employment has increased sharply in recent years while core structures in the central government remain short-staffed, including the spending review department. A technical support instrument (TSI) project is currently underway to strengthen the limited capacity to conduct spending reviews (Annex 2). It is important to maintain this momentum and develop a framework for conducting regular spending reviews and integrating them into the budgetary process, including at local level. Supplementary pension schemes can also contribute to improving the efficiency of public spending, by increasing pension adequacy while limiting the use of public resources. In Croatia, supplementary pensions play a limited role in providing retirement income. Although take up of the mandatory, privately funded scheme is high and financial depth is broadly in line with the EU average, expanding the role of existing voluntary pension funds would improve the resilience of the pension system (Annexes 2 and 6).

Defence spending in Croatia is expected to increase steadily, bolstered by financial support from the EU. To facilitate an increase in public spending on defence, and at the request of Croatia, the Council has activated the National Escape Clause (NEC) ([7]). Total government expenditure on defence amounted to 1.5% of GDP in 2024 and 2025, while is expected by the Commission to be 1.6% in 2026 (Annex 2). The EU also supports investments in defence. Under the European Commission's ReArm Europe plan, the Council adopted Croatia's request for EUR 1.7 billion in EU loans under the SAFE (Security Action for Europe) initiative for defence procurement. Croatia has allocated approximately EUR 133 million of RRP loans as equity injections for the Croatian Bank for Reconstruction and Development (HBOR) for an investment policy to support strategic defence and security investments. Croatia also receives EUR 275 million from the European Regional Development Fund (ERDF) to support strategic defence (dual-use infrastructure supporting military mobility) and security investments (border surveillance, digital and civil preparedness).

([7]) Activating the national escape clause provides Member States with budgetary flexibility needed to increase defence expenditure, without an immediate need to finance the increase with spending cuts or revenue-raising measures. The flexibility gives Member States the time needed to accommodate higher defence expenditure under national budgets.

A fairer and more efficient tax system

There is scope to broaden property taxes to improve progressivity. Recent tax reforms on immovable property, implemented under the National Housing Policy Plan, were an important step to encourage the utilisation of unused residential properties and promote long-term rentals. However, the property tax applies only to vacant and holiday properties and is based on location rather than market value. This approach is distortive as it effectively favours owners of high-value assets. A sizeable number of dwellings are unoccupied despite a wide gap in supply (Annex 16). Bringing in a market value-based component into the property tax, and gradually extending it to all properties, while considering the ability to pay, would generate more revenue and promote a fairer, more efficient tax structure. It would also provide greater incentives to put unoccupied dwellings on the housing market. The new population register under development by the Croatian authorities could help shape the implementation of property taxation in a progressive way that could account for income levels and socio-economic disparities.

Tax expenditures are sizeable, sometimes ineffective and poorly targeted. Overall tax expenditure came to EUR 3.5 billion in 2023, slightly above 12% of total tax revenue. Two thirds of the tax expenditure are due to VAT reduced rates (EUR 2.2 billion) (Annex 3). Reduced VAT rates can be inefficient and poorly targeted at reducing inequality (by granting benefits to wealthy households). They also created loopholes for tax evasion by misclassified goods and services. Complex conditions can undermine the effectiveness of corporate income tax expenditures. A microsimulation study shows that personal income tax (PIT) expenditures amount to 21% of total PIT revenues, but the impact on the average disposable household income is less than 1% ([8]). Better results could be achieved by reviewing the effectiveness and adjusting tax expenditures, or replacing them, with targeted social spending.

Croatia made progress in digitalising the tax administration to reduce the persisting shadow economy. Croatia has made progress in the digitalisation of its tax administration, with investments under the RRP and underpinned by the Digital Croatia Strategy 2032. The "Fiscalisation 2.0" reform introduced mandatory e-invoicing and real-time transaction reporting. Furthermore, Croatia is currently upgrading and modernising the Tax Administration Information System which will further reduce the administrative burden of taxpayers, related to reporting and record-keeping obligations. Croatia has above-EU-average rates of electronically submitted tax returns from corporate income tax and value added tax. The most recent data on the VAT compliance gap indicates 7.7% of the VAT total tax liability in 2023, a strong improvement compared with 11.4% in the previous year (Annex 3). However, the shadow economy is estimated to account for 29.7% of GDP in 2022, one of the largest in EU (Annex 3), pointing to structural inefficiencies that warrant further investigations.

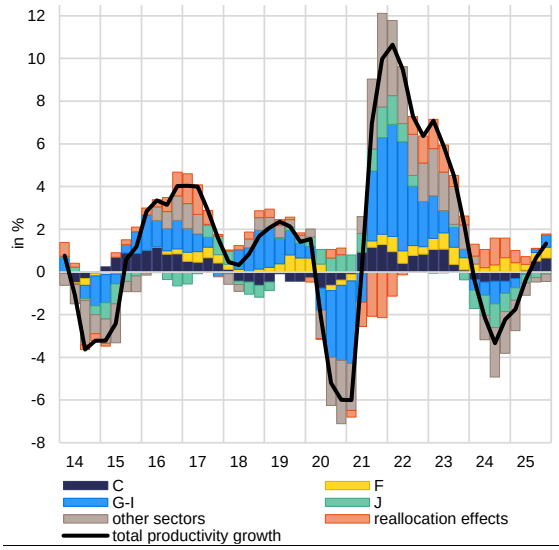
Sustaining growth will require further increases in productivity

Productivity growth in Croatia has been solid but it lags behind several of its peers. Since Croatia joined the EU, labour productivity has been catching up with the EU average, but at a slower pace than in several Member States with similar initial productivity levels. Aggregate labour productivity growth was mainly shaped by improvements in productivity in wholesale and retail trade, transport, accommodation and food service activities, which largely reflected the dynamics of the tourism sector (Graph 1.2). After 2023, the importance of these sectors for aggregate productivity growth subsided, with their contribution temporarily turning negative in 2024. Manufacturing made a relatively modest and volatile contribution to productivity growth, suggesting that

([8]) Turrini et al., (2024), *Tax Expenditures in the EU: Recent Trends and New Policy Challenges*.

productivity-enhancing investment and policies are needed to tap the full potential to achieve higher living standards (Annex 5). Several reforms and investments implemented under the Croatian RRP aim to boost productivity and economic security, although the full extent of their economic impact will only materialise in the medium- to long-term.

Graph 1.2: **Labour productivity growth and sectoral contributions**



(1) Productivity growth: annual change in gross value added per worker (in 2020 prices). C: Manufacturing, F: Construction, G-I: Wholesale and retail trade, transport, accommodation and food service activities, J:Information and communication, other: other sectors, reallocation: effects from reallocation across industries with different productivity levels and growth rates.
Source: Commission calculations based on Eurostat data and the methodology applied in the OECD Compendium of Productivity Indicators 2023.

Wages grew faster than labour productivity in 2025. This led to a further appreciation of the real effective exchange rate (REER) vis-à-vis the euro area, suggesting some loss of competitiveness ([9]). However, when deflated by producer prices, the REER depreciated, indicating that goods exports may have remained more competitive. This is reflected in the continued solid growth of goods exports despite increased trade protectionism in 2025. By contrast, services exports appear to have been more affected by the loss in price competitiveness, declining in real terms but still increasing in nominal terms. Overall, past productivity gains seem to have helped Croatia maintain competitiveness over the medium term despite higher inflation than the level in Croatia's trade partners ([10]).

The Croatian economy benefits from tourism but developing other sources of growth would boost economic resilience. The tourism sector plays an important role in Croatia's economy. It makes the highest direct contribution to GDP in the EU at 11.8%, largely driven by foreign tourists, and tourism-connected sectors contribute around a quarter of gross value added ([11]). Tourism also contributes significantly to government revenues, particularly through VAT, and productivity levels are similar to the overall economy. However, the high degree of dependence on exports of tourism services creates vulnerabilities. For example, it exposes the economy to external shocks and contributes to labour shortages and housing price pressure in coastal areas where tourism is concentrated (Annex 18), thus exacerbating regional disparities. Developing new sources of growth in higher value-added services and industrial sectors could strengthen economic resilience. The industrial plan under preparation is an opportunity for Croatia to build on recent growth of industrial output and increase the low productivity in the manufacturing sector (Annex 5).

Efforts are underway to tackle economic security challenges

Croatia faces challenges related to economic security in various sectors. Croatia has significantly invested in gas infrastructure to diversify supply and increase

([9]) According to several measures of the REER, i.e. deflated by unit labour costs, HICP and GDP deflator.

([10]) Výškrabka M. and Bodea A. 2026, 'After the Inflation Shock. Taking Stock of Price and Cost Competitiveness in the EU', Economic and Financial Affairs European Economy Discussion Paper 240, January 2026.

([11]) Eurostat: Tourism Satellite Accounts (TSA) in Europe – 2023 edition, based on comparison of 2022 TSA data for available countries and Croatian Bureau of Statistics.

regional energy security, but it remains dependent on fossil-fuel imports (Annex 9). Croatia's transport and energy sectors, especially hydropower production, are vulnerable to climate change impacts (Annex 10). Risks could be mitigated by accelerating the roll-out of renewable energy and by further improving climate resilience. Croatia's level of material import dependency has increased in recent years and is above the EU average (Annex 5). Increasing circular material use, which is less than half the EU average (5.9% vs 12.2%), could help reduce dependencies and improve resource productivity.

Making housing more affordable is a policy priority

Housing affordability in Croatia remains a concern despite notable income growth. The long-term increase in house prices accelerated in 2025, with prices rising by 14.1%. Price increases over recent years broadly matched rises in income, hindering affordability improvements (Annex 16). Prices are increasing despite a slowdown in demand, including by foreign buyers, and the increase in supply in response to rising prices. Supply is constrained by a high share of vacant dwellings (nearly 30% of dwellings for permanent living are unoccupied) and short-term rentals. Croatia has acknowledged housing as a policy priority and adopted a national plan for housing policy until 2030 (Annex 16). Croatia already implemented some of the measures, such as the affordable rental program and housing tax reforms (property tax on properties not used for permanent living, partial tax refunds for young buyers), but further reforms are needed to improve the housing market and increase affordability. In addition, Croatia lacks a national-level policy framework for social housing; this is decentralised and managed at local level ([12]).

([12]) Housing affordability and deprivation indicators are less positive for the vulnerable group at risk of poverty and social exclusion than for the general population in Croatia, but more favourable along most dimensions relative to the same group in the EU.

Regional disparities persist in income and public service provision

There are significant regional differences in several important areas. Disparities in GDP per capita levels persist between the more developed capital region, at 131% of the average EU living standards in 2024, and the rest of the country. Average incomes per capita in some counties in the least developed Panonska Hrvatska are less than half the EU average (Annex 18). Employment rates and labour productivity differ similarly at regional level. This reflects several factors including differences in regional economic structures, for example the high level of reliance on tourism in Jadranska Hrvatska, or the relatively strong industrial activity in Sjeverna Hrvatska, which recorded the fastest productivity growth. Other dimensions where deep regional disparities are clearly visible include housing affordability, research and development, digital infrastructure, the capacity of the local public administration and healthcare. These differences undermine economic prospects and residents' right to stay in the regions concerned.

EU funding instruments provide considerable resources to Croatia. They support investments and structural reforms to enhance competitiveness, environmental sustainability, human capital, social fairness and economic security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Croatia with an EU contribution of EUR 3.4 billion under the CAP strategic plan for 2023-2027([13]), while EUR 244 million are allocated

([13]) An overview of Croatia 's formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/croatia_en.

under the Common Fisheries Policy (CFP). A further EUR 511 million are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Croatia, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

Box 2:

Key achievements of the recovery and resilience plan

Croatia's recovery and resilience plan (RRP) has a total envelope of **EUR 10.04 billion**, corresponding to **12.9% of GDP for 2023.** The aim of this funding is to support reforms and investments contributing to the green and digital transitions, strengthening economic and social resilience and addressing long-standing structural challenges identified in the European Semester.

As of 30 March 2026, **EUR 7.3 billion** (around **73%** of the total allocation) have been disbursed to Croatia, of which EUR 2.4 billion in loans, following the satisfactory fulfilment of **253 milestones and targets**. Effective implementation has progressed steadily, with a rising number of reforms and investments already fulfilled and tangible results delivered on the ground.

Highlights and impact of the plan

- **Improved business environment.** A broad-based reform to reduce administrative costs for businesses by cutting parafiscal and non-tax charges, simplifying administrative procedures and easing requirements for regulated professions. Almost 300 simplification measures have been implemented, resulting in direct cost relief to the private sector of around EUR 650 million ([14]). These measures focus on the efficiency of business-to-government services and requirements for different productive sectors.
- **Digital transformation of public administration.** New digital public services for citizens and businesses, such as the digital identity card, supported by comprehensive reforms to improve public administration efficiency via better resources management including 100% state exams and new online civil servant recruitment using a centralised IT system.
- **Improved energy efficiency in buildings.** Energy renovation of over 0.7 million m^2 of multi-apartment buildings and over 1.3 million m^2 of public buildings. This is expected to contribute to an overall 30% increase in primary energy savings, complemented by the creation of one-stop shops on energy renovation and the development of educational programmes to upgrade the skills of construction professionals.
- **Modernisation of healthcare infrastructure.** Renovations or equipment procurement that improve access to and quality of healthcare in 40 hospitals as well as 17 medical centres and their local branches, building on reforms to bring in new hospital management and a telemedicine framework, a funding scheme for specialisation in primary care, as well as joint procurement and functional mergers of hospitals.
- **Improved water management.** Putting in place a water sector regulatory framework and benchmarking system. This will include action to improve the efficiency of water operator companies by merging nearly 200 service providers into 41 regional utilities, supported by investment in renovating and constructing over 1000 km of public water supply and over 850 km of wastewater networks.

([14]) Based on standardised projections.

Box 3:

Contribution of cohesion policy funds

EU cohesion policy funding is supporting Croatia's efforts to boost competitiveness, environmental sustainability, skills and social fairness. In 2021-2027, EU cohesion policy funds([15]) are providing EUR 8.7 billion (amounting to EUR 10.1 billion paired with national co-financing) or 10.1% of 2024 GDP, to Croatia. This makes cohesion policy one of the main sources of public investment in the country. The value of selected projects corresponded to 80.2% of the total allocation as of March 2026, with additional calls for projects in the pipeline.

- **Innovation, business environment and productivity.** Over EUR 1.5 billion are allocated to boost investments in research and innovation, SMEs competitiveness and digitalisation, also though financial instruments expected to support over 2 700 companies and leverage private funding. In addition, it will support companies outside the capital region to accelerate the regional industrial transition pathways, including though upskilling.
- **Decarbonisation, energy affordability and sustainability.** Over EUR 3 billion in EU funding is allocated to accelerate the implementation of the green transition and increase environmental sustainability, with almost EUR 900 million to water management projects. EUR 340 million are earmarked for sustainable urban transport, including for new battery trains, new tram lines, trams and electric buses. Over EUR 650 million is allocated to action to increase energy efficiency in public buildings, housing stock and companies, including through financial instruments for multi-apartment buildings.
- **Skills, quality jobs and social fairness.** Under the European Social Fund, ESF+, EUR 533 million is allocated to improving the labour market relevance of education and training systems, EUR 951 million is allocated to improving access to employment, traineeships, upskilling and reskilling, particularly for vulnerable groups, women and young people. On social policy, EUR 634 million is earmarked to develop community-based social services, in particular long-term care, and to provide social inclusion support for vulnerable groups, while a further EUR 74 million is allocated to action to tackle material deprivation.

The mid-term review ([16]) increased by nearly EUR 688 million the contribution that cohesion policy makes to emerging strategic priorities. Over one third of this amount is earmarked for defence and civil preparedness, particularly dual-use infrastructure to support military mobility. To boost the competitiveness of less developed Croatian regions, Cohesion Funds will support technology development under the Strategic Technologies for Europe Platform (STEP) and manufacturing and STEP-related skills development. Additional investments in the water sector will help improve the water supply and extend wastewater management systems across the county. Additional investments in affordable housing will help mitigate the decline in housing affordability, especially in certain urban areas. The mid-term review also resulted in the need to increase ESF+ investments in priority policy areas by increasing allocations in: active employment policy measures with a focus on vulnerable and inactive groups including upskilling/reskilling, interventions in adult education schemes including quality assurance of the system and preparing to roll out individual learning accounts, and investment in preventing institutionalisation and providing community-based social services, in particular for long-term care. In addition to cohesion policy funding, Croatia will be allocated up to EUR 1.26 billion under the Social Climate Fund over 2026-2032 to help mitigate the social impact of the new emissions trading system (ETS2). This will provide support to vulnerable households, vulnerable transport users and small businesses.

([15]) ERDF, ESF+, CF and JTF.

([16]) Undertaken halfway through the 2021-2027 programming period, the mid-term review is a formal assessment process required under Article 18 of the Common Provisions Regulation to assess the implementation of a programme and, where necessary, propose adjustments to improve its performance, ensure relevance in light of new and emerging needs and maintain coherence with other EU policies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

The 2025 country-specific recommendations (CSRs) for Croatia identified the need to reduce fragmentation in the public research and higher-education system, boost investment in research and innovation, broaden growth financing and deepen capital markets, simplify regulation and reduce the administrative burden for businesses through digitalisation and stronger local administrative capacity. Croatia has made some progress with support from the recovery and resilience plan (RRP) and cohesion funding. However, further action is needed to improve the business environment, extend access to growth financing for SMEs, strengthen the research and innovation system, reduce the administrative burden and tackle the remaining gaps, which are local administrative capacity, the efficiency of the justice system and digital infrastructure.

Boosting productivity and new engines of growth

Creating new engines of growth requires improvements to productivity together with business dynamism. The rate of new business registrations significantly exceeded the EU average between 2021 and 2025, while the rate of bankruptcies fell (Annex 5). The share of public and private investment to GDP has been on the rise and now exceeds the EU average, supported in part by EU funds. By contrast, labour productivity, although increasing, remains well below the EU average (69%), particularly in manufacturing (40%). Strong expansion and productivity increase in the past decade in some medium-high technology industrial sectors such as electrical equipment indicate innovation potential in the manufacturing sector, where low and medium-low technology is predominant. A shift to higher value-added industrial production, including in clean-tech industry, could help develop new sources of growth and diversify the economy, including in less developed regions (Annex 18).

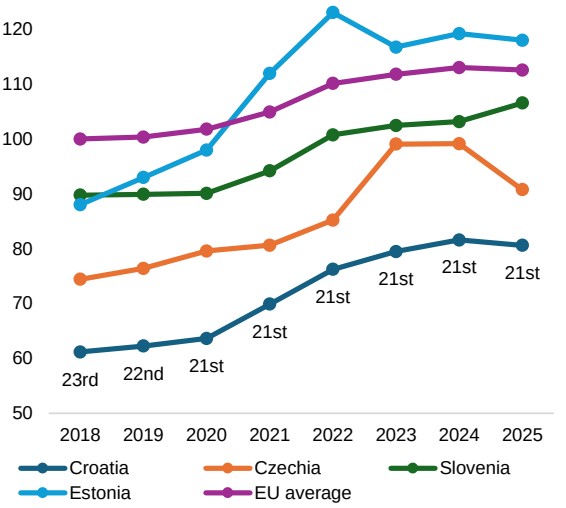
Improving framework conditions for business investment, innovation and expansion is essential to upgrade industry and diversify the economy. Croatia is preparing a national industrial plan for 2027-2034 to increase production, investment and innovation in industry (Annex 5 and Annex 8). For this plan to translate into productivity gains, implementation will need to tackle the practical constraints that companies frequently flag: shortages of skilled staff, availability of growth financing, delays and complexity in the procedures needed to scale up, such as permitting for plant expansion and investment projects. The regional dimension is also important, as the availability of skilled labour, infrastructure, administrative capacity and the speed of procedures can vary based on location. These differences influence where investment can be made and how quickly companies can respond to market developments.

Croatia is making good progress in advancing the research and innovation (R&I) system and activities, but weaknesses persist. According to the 2025 European Innovation Scoreboard ([17]), Croatia has undertaken significant reforms and transition from being classified as an emerging innovator to a moderate innovator (Graph 2.1). However, structural weaknesses continue to hinder its ability to foster

([17]) European Innovation Scoreboard, 2025.

investment in research and innovation([18]), commercialise research and increase competitiveness. There is a significant regional dimension too as most R&I activities are carried out in Zagreb while the main regional university centres show potential to become champion hubs in specific niche areas of the smart specialisation strategy (S3) and potential to drive excellence and competitiveness (Annex 18). Regional impact should be considered taking into account the assessment of programme agreements and industrial transition plans.

Graph 2.1: **European Innovation Scoreboard Index and ranking among EU Member States**



Source: European Innovation Scoreboard 2025

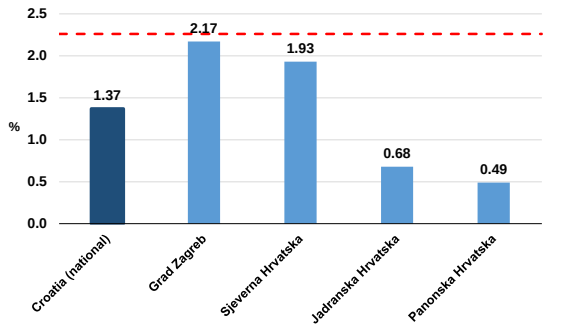
A highly fragmented public R&I system limits performance and limits the potential for excellent research. This challenge is directly covered by the 2025 CSR on fostering investment in research and innovation and addressing fragmentation in the public research system. Under the RRP, Croatia has put in place a reform of the public R&I system, shifting towards research excellence. However, limited action has been taken to reduce the number of public R&I entities, with progress on merging limited to six entities (Annex 4) out of over 120. Moreover, the focus is on public research institutes and polytechnics, leaving out the highly fragmented system of universities and autonomous faculties. This dilutes resources, limits collaboration and hinders the quality of scientific research. Further action, including policy changes and improving the incentive scheme to reduce fragmentation, based on a solid analysis, would help improve Croatia's research performance and competitiveness.

Delays in the governance system for public R&I lead to low levels of coordination and suboptimal design of calls for projects. Croatia put in place the new governance system for the S3 in 2024, but implementation is delayed. The S3 support unit within HAMAG-BICRO is operational, the European Centre for Innovation, Advanced Technologies and Skills Development, a key tool providing analytical support and greater coordination, is only in the process of being set up (Annex 4). Likewise, membership in the thematic innovation councils, paramount for continuous entrepreneurial discovery procedure, has only been confirmed in March 2026. While ministries have ensured that funding from NRRP and Cohesion policy cover all TRLs, coordination across schemes remains a key challenge. With several ministries and agencies involved in the design of public R&I policies and investments, a lack of a proper coordination mechanism prevents regular availability and sequencing of calls across different technology readiness levels, leading to high perceived risk from beneficiaries due to unclarity of future funding. This leads to high perceived risk from beneficiaries due to the lack of clarity of future funding options. The public R&I funding system is evolving towards greater flexibility and design of new funding schemes, however the rigidity of procedures continues to affect the speed of implementation and increases red tape, especially when trying to transfer lessons learnt between calls funded from different sources. Croatia is exploring alternative sources of financing for public R&I, but progress remains limited, especially in terms of leveraging financing from commercial banks. Alternative sources could improve the ownership of projects by beneficiaries and leverage additional private R&I investment.

([18]) Despite strong increases between 2017 and 2022, R&D expenditure as share of GDP remains significantly below EU average and slightly declined between 2022 and 2024.

Increasing productivity will require more business innovation, with effective public support for business R&D and faster uptake of digital technologies. Business expenditure on research & development (R&D) intensity has plateaued over the past three years and remains relatively low at around 0.74% of GDP in 2024, well below the EU average of 1.49%. There are also significant regional disparities (Annex 18). The number of researchers employed by businesses is around a quarter of the EU average and the level of international patent activity is modest (Annex 4). Public support for business R&D is very low, although this may increase following a recent reform under the RRP to improve the tax incentives for R&D. Direct schemes to support business R&D are fragmented and do not always allow firms to plan. Diffusion of digital technologies in businesses is still below the EU average in many areas, especially in SMEs (Annex 4). Encouraging businesses to innovate and adopt new technologies would support the transition to higher value-added manufacturing and services. On total R&D expenditure too, regional differences across the country persist (Graph 2.2).

Graph 2.2: **R&D expenditure as a share of GDP, by Croatian region, 2023**



Source: Eurostat, GERD (gross domestic expenditure on R&D), by NUTS 2 region, 2023.

Simplification, digitalisation and justice: reducing the burden where it matters

The administrative burden in Croatia remains high, and fragmented procedures limit companies' ability to expand, especially for SMEs. This challenge is directly covered by the 2025 CSR on simplifying regulation and reducing administrative burden through digitalisation, and on increasing capacity and efficiency at local level. Almost half of businesses (46% ([19])) report difficulties related to public administration services, leading to operational delays (32%), higher costs (24%) and lost business opportunities (8%). Waiting times and document preparation remain key challenges, with delays in operations reported by 32% of firms, one of the highest shares in the EU. Easing the administrative requirements in the implementation of posting of workers rules could reduce regulatory fragmentation in the single market, facilitate cross-border mobility and foster competitiveness, without undermining worker protection Another major obstacle that companies face is understanding the applicable legislation, and late payments remain a concern. Business-to-business transactions have the longest payment periods in the EU, averaging around 64 days in 2024, reflecting both long contractual payment terms and increasing payment delays (Annex 5). Under the RRP and the Technical Support Instrument, Croatia has pursued successive action plans to reduce the administrative burden (the 5th action plan adopted in March 2024). Implementation has progressed with 44 measures implemented by November 2025. In addition, the number of ex ante impact assessments conducted in 2025 increased compared to 2024, while public consultations have been strengthened and ex post evaluation capacities have been reinforced. This marks progress in reducing the administrative burden. However, the continued complexity of procedures, together with fragmented permitting procedures across authorities, lengthy licensing processes for setting up a business and the limited interoperability of digital systems indicate there is scope to further simplify and integrate administrative processes to better support business activity.

([19]) European Commission, Flash Eurobarometer 567/ 568 on satisfaction with administrative services (2026).

The effectiveness of digitalisation depends on end-to-end redesign and better coordination across levels of government. Croatia's performance in digital public services for businesses remains below the EU average ([20]) (65.3% of the key administrative steps are fully online, against the EU average of 83.2%) and down slightly in recent years, mainly due to weaker cross-border online services. Despite ongoing support for digitalisation under EU funds, businesses also make limited use of online public services (35%, the lowest in the EU, vs 70% on average), relying more on email (74%) and phone (51%) to communicate with public administrations. The benefits of digital public services for businesses remain limited when procedures are split across multiple authorities and where 'once-only' delivery is not yet operational in practice. Progress on tackling specific workflow bottlenecks – particularly in permitting and licensing – would especially aid investment in manufacturing and clean-tech related projects, where the time-to-permit and administrative certainty can be decisive in running and scaling up projects (Annex 5).

Croatia has made significant strides in digital public services for citizens but gaps remain. Notable improvements are evident in the e-citizens platform and in the above-EU-average level of access to e-health records. Despite improvements to the national information infrastructure under the RRP, such as the new central interoperability system, administrative inefficiencies persist. 76% of citizens are still asked for redundant data and 32% of businesses face delays from slow processes, among the highest rates in the EU. The use of e-government fell from 82.9% to 75.3% in 2025, underlining issues with user-friendliness and data reuse (Annex 7).

Although Croatia continues to upgrade its connectivity infrastructure, coverage remains uneven. In 2025, the share of Croatian firms citing digital infrastructure as an obstacle (36%) is now below the EU average (44%) but very high-capacity networks (VHCN) coverage (78.9%) and rural VHCN (49.1%) still trailed the EU benchmarks of 82.5% and 61.9% in 2024. Although fibre-to-the-premises (FTTP) coverage has reached 75.4%, above the EU average, rural FTTP (44.4%) is still below average (58.8%). While overall 5G coverage, at 94.2%, is broadly in line with the EU, mid-band coverage remains limited at 45.2% nationally and only 8.5% in rural areas, compared to EU averages of 67.7% and 26.2% (Annex 5). Progress towards balanced coverage has been stalled by the termination of RRF-funded broadband contracts and by the removal of a major investment under cohesion policy designed to bring broadband backhaul infrastructure to 50.2% of all rural and suburban areas. These investment setbacks significantly delayed overall broadband infrastructure development and access in suburban and rural areas, and the funding gap persists (Annex 5). In addition to issues of funding, complex permitting procedures, spatial planning constraints and the unresolved legal status of legacy infrastructure delay progress. Further policy action would be needed, in particular to roll out broadband in rural areas.

The justice system continues to face efficiency challenges. This challenge was covered in the 2019 and 2020 country reports and Croatia has advanced with reforms, including on the digitalisation of justice (Annex 7) ([21]). However, despite some progress and improvements in recent years, supported by reforms and investments under the RRP, Croatia continues to have one of the longest backlogs and duration of civil and commercial cases in first instance courts in the EU (Annexes 5 and 7) ([22]). This has a negative effect on the business environment and competitiveness. The perception of corruption when doing business also remains high (Annex 7) ([23]). These issues indicate the need to continue to improve the efficiency in resolving

([20]) Report on the State of the Digital Decade 2025. KPI captures online provision of key public services for entrepreneurs, the share of administrative steps that can be completed fully online for major life events.

([21]) 2025 Rule of Law Report on Croatia.

([22]) See also: 2025 EU Justice Scoreboard.

([23]) See also: 2025 EU Justice Scoreboard.

civil and commercial court cases and assess the scope for further action, in particular by implementing additional reforms, for example case management reforms.

Strengthening capital markets to support productivity, innovation and economic diversification

The limited depth and liquidity of capital markets constrain financing sources. The 2025 CSR calls for broader sources of financing, stronger capital markets, easier retail investment (including in the bond market), fewer barriers to listing and stronger corporate governance. Driven by the Strategic Framework for Capital Market Development (2025-2030) and the first related action plan (2025-2026), supported by the RRP, Croatia has taken steps towards regional capital market integration, seeking to achieve market scale and positioning. It has strengthened the corporate governance framework for state-owned enterprises and broader action is underway to raise the investment readiness of companies. In 2025, several successful initial public offerings (IPOs) on the Zagreb Stock Exchange attracted both retail and institutional investors. Strong public take-up of government securities issuances continued. However, further action is needed as Croatian companies still rely heavily on traditional bank funding (Annex 6).

Capital market financing remains relatively underdeveloped for start-ups, SMEs and innovative firms. Venture capital (VC) and private equity (PE) investments remain significantly below the EU average. VC investments averaged 0.015% of GDP in 2022-2024 vs the EU average of 0.064%. PE investments averaged 0.251% in 2022-2024, vs the EU average of 0.487% (Annex 6). Investments rely heavily on international initiatives and support from the Croatian Bank for Reconstruction and Development (HBOR), which plans to create an IPO fund to boost SME growth financing. The VC/PE ecosystem is dominated by relatively small funds that lack the capacity to fund the scale-up of innovative companies (Annex 4 and Annex 6).

Stronger participation of institutional investors and citizens is needed to diversify the funding environment. Investment funds, insurance companies and pension funds play a limited role in providing equity finance due to conservative asset allocation strategies (Annex 4 and Annex 6). The plan to simplify the requirements for investment funds and the recent, (as of 1 January 2024) more flexible rules on portfolio diversification for pension funds could yield positive trends. However, a long-term preference for a prudent approach may play a role. For example, pension funds in Croatia committed 6% of new PE and VC funds raised in the period from 2007-2023, combined with two other central and eastern EU countries (EU average 15%) ([24]). As of 31 October 2025, the exposure of Croatian pension funds to alternative investment funds remains moderate, below the regulatory caps (Annex 6). Croatian households also hold a comparatively high share of their assets in cash and deposits (43.6% of household assets at end-2024 vs EU average of 31.7%, Annex 6), which limits the pool of domestic capital available for market-based financing. Direct investments in additional financial instruments could be further incentivised. For example, investment funds hold only 3.3% of household wealth vs the EU average of 11.1%. Incentives could include schemes to improve financial literacy and an enabling regulatory framework such as the Savings and Investment Accounts tabled under the national strategy.

More efficient local administration for people and business

Regional fragmentation in the public administration reduces efficiency and leads to suboptimal service delivery. This challenge is directly linked to the 2025

([24]) ECMI, 2024, Closing the gaping hole in the capital market for EU start-ups – the role of pension funds, p.2.

country-specific recommendation to improve the capacity and efficiency of local administration, including through mergers. Croatia has 127 cities and 428 municipalities responsible for providing key public services. Under the RRP, Croatia launched reforms to encourage mergers of local government units (LGUs) backed by financial incentives and an IT platform providing analytical data for municipalities considering mergers.

The system to encourage mergers remains lacklustre. Although 135 LGUs are involved in functional mergers, progress on full-scale mergers has not advanced. Stakeholders cite obstacles such as short-lived financial incentives and eligibility rules that restrict cooperation between larger and smaller municipalities. Public reluctance is also a major issue, driven by scant awareness of the benefits of consolidating municipalities and fears of losing specific advantages and identity. Targeted awareness campaigns could reduce resistance and improve local administrative organisation. The current system also lacks a gradual approach to bridge between functional and full-scale mergers ([25]).

Administrative and financial capacities vary across local authorities, especially in smaller and less developed municipalities. Many LGUs face limited human resources and budgetary constraints for strategic planning and investment. The demographic decline in some regions further hampers service delivery (Annex 18). The sharp drop in skilled and working-age residents in some counties is a concern, threatening their economic potential and jeopardising public service delivery ([26]). Most cities have only limited capacity to provide core municipal services, suggesting that regional fragmentation remains continues to curb the local potential for development ([27]).

Translating the well-designed reform of the civil and public service to the local level is a key step to improving the capacity and service delivery. Under the RRP, reforms of the national-level administration brought in competency-based recruitment, evaluation and promotion, as well as a transparent remuneration system. Propagating these changes to the local level could give a further boost to capacity in LGUs and improve the delivery of public services.

([25]) Such approaches have been used in other Member States, such as Germany, with the aim of providing support to LGUs that have already opted for functional mergers in their transition to a full-scale merger.

([26]) Towards Balanced Regional Development in Croatia (EN).

([27]) Slijepcevic, S., Broz, T., & Rasic, I. (2024), The Capacities and Sustainability of Croatian Cities in Performing Municipal Services, Sustainability, 16(17), 7277.

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DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

The 2025 country-specific recommendations (CSRs) for Croatia identified the need to address high electricity prices, further upgrade electricity grids, streamline permitting, to simplify the procedures for installing solar photovoltaic facilities in multi-apartment buildings, accelerate implementation of energy efficiency measures, reduce reliance on fossil fuels in the transport sector, phase out fossil fuel subsidies and revise the rules for biofuels. Significant measures have been implemented to increase the uptake of renewables, upgrade grid storage and smart meters, improve energy efficiency, decarbonise transport and to address the decline in biofuels, but there is still room for improvement.

High electricity prices hinder competitiveness and decarbonisation

Croatia's high wholesale electricity prices continue to hold back competitiveness. The 2025 CSRs identified the need to address high electricity prices for businesses by accelerating deployment and grid connection of renewable energy projects. In 2025, electricity prices for households and industrial consumers stayed below the EU average. However, despite fossil fuels accounting for a decreasing share of electricity generation (23.6% of generation in 2025), they maintain a dominant role in setting wholesale electricity prices, keeping costs elevated. This leads to pronounced price spikes and contributes to Croatia having the sixth highest wholesale electricity prices in the EU (Annex 9). Faster roll-out of new renewable energy capacity, by improving grid connection of renewables, and non-fossil flexibility solutions such as electricity storage and demand response, could help reduce wholesale prices. On 27 April 2026, the Croatian energy regulatory authority adopted updated grid connection fees. This could speed up the deployment of renewable energy and help unblock up to 3.5 GW of utility-scale renewable projects stranded for over three years due to unpredictable charges.

Despite obstacles, Croatia expanded its renewable energy capacity in 2025. Wind generation rose to 25% of total production thanks to strong wind conditions and the opening of two new wind farms. Solar energy also increased, with 417 MW of new capacity added (mostly rooftop installations), bringing the total to 1 255 MW (Annex 9). Despite this progress, Croatia does not make full use of its wind and solar potential, with projects facing lengthy permitting and grid connection procedures as well as grid capacity constraints. The revised recovery and resilience plan (RRP) in 2025 includes an additional EUR 74 million for strategic green investments such as solar, wind and geothermal energy. Investment is also planned under cohesion policy, amounting to EUR 66 million, but this has yet to be implemented.

Industrial decarbonisation is progressing but is slowed down by gaps in the policy toolkit and electricity prices. Greenhouse gas emissions generated by Croatia's manufacturing industry fell by 20% between 2019 and 2024, a greater reduction than the EU average (-16%), but emission intensity remains among the highest, especially due to process-related emissions. Croatia has recognised the potential of carbon-capture and storage (CCS) technologies and renewable hydrogen to decarbonise industry by enabling carbon storage through legislative changes, carrying out feasibility studies under Croatia's RRP, adopting a long-term hydrogen strategy and increasingly supporting projects via EU

funds. To tap the potential, it would also be beneficial to promote demand for low-carbon industrial products, consider using carbon contracts for difference, and to tackle decarbonisation challenges in a more coherent and targeted way in the upcoming industrial strategy (Annex 8). Croatia also has scope to speed up the reduction of energy-related emissions by improving the viability of electrification and green hydrogen, which is constrained by a high electricity-to-gas price ratio, and by developing clean technology manufacturing capacities (Annexes 5 and 9).

Electricity grids and permitting procedures remain bottlenecks

Croatia's drive to expand renewable energy is hampered by persistent grid weaknesses, despite recent improvements. The 2025 CSRs identified the need to further upgrade electricity transmission and distribution grids, invest in electricity storage and advance the roll-out of smart meters. The RES Act in May 2025 eased the rules for electricity storage and hybrid renewable plants, and Croatia has made significant investments under the RRP, such as upgrades of high-voltage lines and submarine cables connecting six islands to the mainland. However, this is not sufficient to tackle the country's grid congestion and high industrial electricity prices. The 400 kV grid - essential for unlocking Dalmatia's wind and solar potential (Annex 18) - remains underdeveloped. Plans for a new 2x400 kV line between Konjsko and Tumbri substations are still at an early stage and ageing infrastructure continues to pose reliability risks (Annex 9).

Enhancing grid flexibility would improve the integration of renewable energy and reduce electricity prices. The roll-out of smart meters is advancing (100 000 installed under the RRP) but it still lags well behind the EU's 80% target. Private user coverage is around 50%, delaying much-needed demand-side flexibility. On electricity storage, some projects are being implemented but progress remains slow. In addition to the existing 270 MW Velebit pumped hydro plant, Croatia is developing a 450 MW Vrdovo pumped storage project, its first grid-scale battery (60 MW/120 MWh), and it launched a EUR 50 million RRP-funded scheme to support 100 MWh of business-led battery storage in October 2025 (Annex 9). Dynamic electricity contracts, which could help consumers and businesses benefit from cheaper off-peak prices and reduce peak consumption, have yet to be introduced. Without long-term plans to invest in the 400kV grid, urgent development of large-scale storage, and full smart meters deployment, the roll-out of renewable energy in Croatia will remain limited.

Croatia has amended its legislation to simplify some permitting procedures, but there are still implementation gaps and bottlenecks that slow down progress. The 2025 CSRs identified the need to streamline permitting, including for energy communities, and to simplify the procedures for installing solar photovoltaic facilities in multi-apartment buildings. Legislative amendments in 2025 clarified the role of energy communities and updated spatial planning rules for certain renewable energy projects. However, operational obstacles seem to remain in place as only three such communities have been registered to date, none are fully operational and there were no new registrations in 2025 (Annex 9). The roll-out of photovoltaic systems on multi-apartment buildings remains negligible and procedures cumbersome, blocking a key route to expand decentralised solar energy.

Decarbonising the building stock warrants private investment

Croatia adopted three key laws to strengthen the legal framework for sustainable construction and energy efficiency. The 2025 CSRs identified the need to accelerate implementation of energy efficiency measures, especially in residential buildings, to reduce dependence on fossil fuels in the heating sector, and to accelerate the use

of efficient and green solutions such as heat pumps. Three laws entered into force in January 2026: (i) the Construction Act, which supports energy efficiency in the building sector; (ii) the Energy Efficiency Act, which brings in stricter energy-saving obligations for public bodies and businesses and embeds the 'energy efficiency first' principle into national policy; and (iii) the Energy Efficiency in Buildings Act, which further aligns national legislation with EU rules on energy performance of buildings and sets a path to decarbonise the building stock by 2050. These measures are supported by EU funding, including the RRP, which allocates around EUR 2 billion to building renovation and energy efficiency measures.

Funding for building renovation is not mobilising sufficient private investment. Further action is needed beyond EU funding to achieve the targets for building decarbonisation, given the high share of the building stock that still requires renovation, especially multi-apartment buildings. Renovation programmes currently focus on grants with a significant private investment gap, partly explaining the limited residential energy savings made between 2019 and 2024 (Annex 9). Reducing overall reliance on grants and shifting to financial instruments would maximise the impact of public funds. In addition, grants could be better targeted to the most vulnerable households and to energy inefficient buildings.

Towards more sustainable transport

Croatia's transport sector continues to rely heavily on fossil fuels. The 2025 CSRs identified the need to reduce reliance on fossil fuels and energy demand in the transport sector by promoting sustainable urban transport, rail and the electrification of road transport, including by reviewing targeted taxation incentives, as well as to revise the rules for biofuels that led to a decline in the share of renewable energy in transport. Emissions from road transport increased by 42% from 2005 to 2024, one of the biggest increases in the EU ([28]). In 2023, 80% of passengers travelled by car, with rail and bus transport accounting for just 3.9% and 8.2% respectively. Despite high levels of EU co-funding for green mobility, progress is uneven and slow. The uptake of electric vehicles uptake stagnated in 2025 (one of the lowest rates in the EU), deterred by high public charging costs, poor interoperability and scarce private charging, especially in multi-apartment buildings (Annex 8).

Decarbonising transport requires action to prioritise zero-emission alternatives. Substantial investments are underway in electric transport and in upgrading of rail infrastructure under the RRP. They include a double-track railway line from Kustošija to Zagreb Glavni Kolodvor, battery trains, 30 new trams, around 200 electric/hydrogen buses, 2 000 electric vehicles (EVs) and 1 300 charging stations, also using other EU funds ([29]). Increasing investment in charging infrastructure for EVs in urban areas, revising company tax benefits for EVs and maintaining the EV incentives could help expand electric road transport. As transport emissions and car ownership are rising, it is necessary to step up action to decarbonise the sector by accelerating the development of rail infrastructure and electrified rolling stock. It is also essential to prioritise public transport, optimise traffic on existing rail lines and integrate rail into urban transport systems. Croatia made significant progress on biofuels as in early 2026, the decree that reduced the penalties for not mixing biofuels was discontinued upon expiry.

([28]) Based on final GHG inventories notified in 2026, Croatia's effort sharing emissions in 2024 were 9.4 % above the levels of 2005. The assessment of progress under the Effort Sharing Regulation will be established after the publication of the European Semester country report.

([29]) The overall amount allocated to decarbonisation of transport under cohesion policy amounts to EUR 340 million.

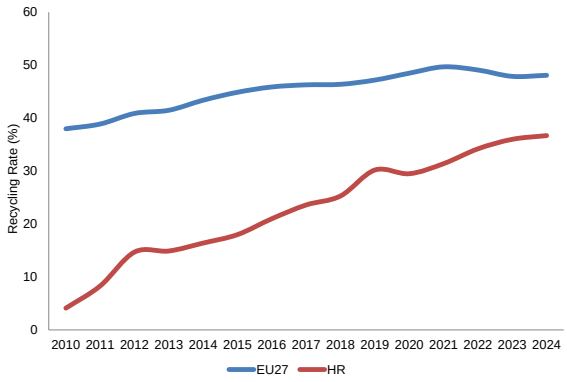
Fossil fuel subsidies

Croatia maintains a significant level of macroeconomically relevant fossil fuel subsidies. The 2025 CSRs identified the need to take concrete steps to phase out fossil fuel subsidies, in particular in the transport sector. Certain progress was made when the government-imposed fuel price caps were phased out in July 2025. However, on 9 March 2026, Croatia decided to reinstate the fuel price cap, amid soaring oil prices due to the conflict in the Middle East. Other significant fossil fuel subsidies, such as partial refunds of excise duties for diesel in commercial transport, continue and there are no plans to phase them out before 2030 (Annex 9).

Better resource management would improve economic resilience

Croatia still makes limited use of its circular economy potential despite reform progress. Croatia is advancing well in terms of reforms to improve circularity and waste management. It has brought in economic instruments, such as a landfilling tax and eco-modulation for fees on different types of packaging materials. Investments have been made in these areas with the use of cohesion and RRP funding. Nonetheless, Croatia's circular material use (at 5.9% in 2024, a drop from 6.2% in 2023) is below the EU average (12.2% in 2024) and it fails to reach the EU recycling and landfilling targets (Annex 8), despite recent progress. Further policy action is therefore needed. It would be beneficial if Croatia could create the conditions needed to invest more into repair and reuse centres, adopt measures and/or incentives to integrate secondary raw materials into new products to reduce import dependency on primary materials. Action on these fronts are needed both at national and local levels to tackle significant regional disparities, including between the coast and mainland (Annex 18).

Graph 3.1: **Recycling rates in Croatia vs EU-27**



Source: Eurostat

Despite significant investment in recent years, water infrastructure is partly obsolete and incomplete. Nearly half of drinking water is lost before it reaches consumers, indicating substantial inefficiencies in the water management system. Croatia has carried out major reforms under the RRP, for example to consolidate water utilities and adopt a national water loss reduction strategy, with regional plans under preparation. However, as recent investments have largely focused on extending the drinking water network to cover rural and remote areas, ageing networks result in high water losses across major urban centres such as Zagreb and coastal cities. On wastewater, Croatia has the lowest level of compliance with the Urban Wastewater Treatment Directive in the EU, although recent and ongoing investments may lead to improvements. There is scope to accelerate investment in water infrastructure, prioritising high-impact areas and to invest in flood protection, which could help the country make greater use of nature-based solutions.

Croatia is highly exposed to climate risks, which are having an increasing impact on the economy. As one of the EU's climate risk hotspots, the country faces growing exposure to heatwaves, droughts, floods and wildfires. For example, the increasing frequency of seasonal water shortages and heatwaves are already affecting ecosystems and the activity and competitiveness of water-dependent sectors. This is particularly acute in agriculture, fisheries and electricity production, while transport infrastructure remains highly vulnerable to extreme weather events (Annex

10). Croatia has the highest number of heat-related deaths in the EU in recent years. Annual investment needs for climate adaptation are estimated at around 0.8% of GDP, above the EU average of 0.5%. Croatia has improved its climate adaptation and disaster risk management framework, but implementation remains uneven across sectors and governance levels. Adopting a specific action plan for priority investments, including public- and private-funded investment, coupled with a comprehensive monitoring and reporting system, would help track progress and boost resilience.

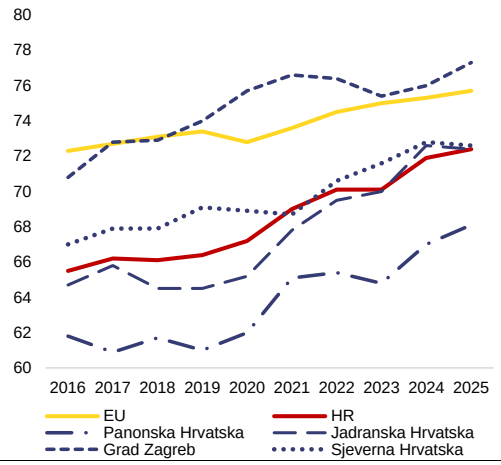
Economic losses from weather- and climate-related events are significant, historically mostly borne by the state budget. Between 1980 and 2023, cumulative losses reached almost 6% of GDP, exceeding levels in most other Member States. At the same time, insurance coverage against climate risks remains very low, at around 2% (against an EU average of 19%), with households and small farmers particularly exposed. Past reliance on state disaster relief may have reduced the incentives for uptake of private insurance. Expanding insurance coverage could help reduce exposure, potentially by expanding mandatory insurance schemes and awareness-raising activities, combined with targeted support for vulnerable households.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

The 2025 country-specific recommendations (CSRs) for Croatia identified the need to tackle skills and labour shortages, ensure stronger educational foundations at every level, enhance upskilling and reskilling, for labour market policies and coordination with social services, reduce poverty and income inequality, and improve access to deinstitutionalised long-term care, promote geographical balance of health workers, invest in e-health and public administration cooperation on health policy. Croatia has stepped up reforms and investments, including under the recovery and resilience plan (RRP), the European Social Fund (ESF+) and European Regional Development Fund (ERDF). However, implementation remains uneven, with new aspects gaining importance and capacity constraints risking slowing delivery and limiting the impact. As a result, there is room for improvement in these policy areas (Annex 1).

Labour market shifts: from shortages to broader participation

Graph 4.1: **Labour force participation**



(1) Age group 15-64
Source: Eurostat

Croatia's labour shortages persist, and employment gaps among underrepresented groups remain a key constraint on inclusive growth. This challenge is covered by the 2025 CSR that calls for Croatia to help vulnerable groups join the labour market. Over the past decade, the labour market has shifted from high levels of unemployment and low job vacancy rates to historically low unemployment and relatively high job vacancy rates. Sustained elevated vacancy rates alongside decreasing unemployment suggest that the labour market remains tight. The employment rate in Croatia reached 74.4% in 2025, reducing the gap with the EU from 8.5 pps to 1.7 pps from 2014-2025. Nonetheless, the employment rates remain low for some vulnerable groups, in particular people with disabilities, low-skilled, and older workers. There are also pronounced regional differences in overall employment rates. The disability employment gap decreased in 2025, but it remains particularly wide (39.7 pp. vs 24.2 pp. in the EU), signalling

that current measures to integrate these groups are not yet sufficiently targeted. While Croatia continues to use active labour market policies and EU-funded measures to support employability and training, it could make the support more effective by putting more emphasis on groups with low labour market participation and by better linking job schemes to related reskilling and upskilling pathways (Annex 11). Policy implementation has advanced through expanded programmes and skills-related measures, including tools linked to the adult learning voucher scheme and the plan to gradually bring in individual learning accounts. However, gaps remain in outreach and take-up among vulnerable groups, limited employer engagement in training offers, and unequal regional access, where provision is more concentrated in urban centres, leaving rural areas and islands underserved (Annex 11). More targeted support and better delivery, such as tailored counselling, closer cooperation with employers and better matching between local demand and training based on enhanced skills intelligence, would help ensure that job schemes translate into stable employment outcomes for people who are furthest away from the labour market.

Wages are rising faster than productivity

Strong wage growth has supported incomes but could weigh on the country's competitiveness. Given the weak productivity dynamics, recent wage growth may increase cost pressures and constrain competitiveness if the gap persists. Wages have increased sharply in recent years, also in real terms (by 4.8% in 2023, 4.3% in 2024 and 6.0% in 2025). Nonetheless, wages remain relatively low compared with other EU Member States, and the recent pace of wage growth has outpaced productivity, contributing to higher unit labour costs. This calls for continued attention on the underlying drivers of productivity and skills, so that wages remain compatible with sustainable competitiveness. Boosting the supply of skills based on more effective skills intelligence, improving the take-up of technology and innovation, and easing the transition to higher value-added jobs would help align wage dynamics with productivity growth over time (Annex 11). It is particularly important to monitor developments across sectors, given Croatia's structural labour shortages and the need to increase employment in higher-productivity sectors, especially in less developed regions (Annex 18).

Increasing education to develop human capital

Challenges at multiple levels of education have a negative impact on human capital development and competitiveness. Comparatively low participation in early childhood education and care (ECEC) (88.7% vs the EU average of 95.0% in 2024) ([30]) undermines the development of foundational competencies as a starting point for basic skills development. Shortages of teachers in ECEC and subject teachers undermine the quality of education in general, in particular in the science, technology, engineering and mathematics (STEM) fields that are increasingly needed to boost the competitiveness of the economy. The level of underachievement in both mathematics and digital skills is high, indicating a clear need for improvement. Underachievement in reading and science, while better than the EU average, is still much higher than the European Education Area target of under 15% by 2030. Implementation is underway of the education reforms under the RRP to increase participation in ECEC and move to single-shift teaching. However, the transition to full-day teaching model is likely to be postponed due to delays in school construction (Annex 13).

There are skills mismatches in STEM and digital areas. More graduates are needed in most study programmes that require stronger

([30]) Croatia measures the third lowest participation rate in ECEC facilities for pupils from age 3 to the starting age of compulsory education at primary level. Source: Eurostat [educ_uoe_enra21].

STEM skills ([31]). Despite initiatives planned in its RRP to improve ICT-related education, Croatia still faces the challenge of increasing student enrolment in specialised ICT and VET programmes to meet long-term targets. Another issue is the significant gender imbalance in the tech sector (18.4% in 2025, against the EU average of 19.5%). There are still mismatches between the number of places offered at different studies, students' interest and labour market needs, producing a negative effect on the economy. Performance agreements signed with all nine public universities this year might help improve the situation in the future.

Education challenges also vary by region, with greater obstacles in remote and rural areas. Teachers' shortages are higher in remote and underdeveloped areas, where unqualified teachers are more frequent. Students in rural areas score significantly lower on basic skills. At tertiary education level, they also face additional challenges of insufficient student housing and high accommodation costs, despite the significant investment made under the ERDF, contributing to educational differences (Annex 18). There are significant regional differences in tertiary education attainment, and the share of young people with a tertiary education in rural areas is significantly smaller. Despite having strong levels of digital proficiency overall, Croatia has a pronounced digital divide in rural areas.

Vocational education and training (VET): bridging the gap between school and work

The recent VET reform increases the quality, attractiveness and labour market relevance of VET. Croatia has one of the highest shares of learners enrolled in vocational programmes (71.2% in 2024 against the EU average of 52.9%), and a relatively high share of VET learners in STEM fields. A comprehensive curricula reform implemented since the 2025/26 school year shifts VET to modular, learning-outcome-oriented programmes aligned with occupational and qualification standards, with support from the ESF+ (Annex 13).

Limited work-based learning remains an obstacle to VET graduate employability. Although the VET reforms mark an important structural step forward, labour market outcomes indicate that implementation challenges remain. The employment rate of recent VET graduates is below the EU average (74.5% in 2025 versus 80.2% in the EU), and participation in work-based learning remains significantly lower (38.7% of VET graduates aged 20-34 in 2025 compared with 66.0%).

Further measures are needed to make the reforms effective in the long term. Croatia plans to expand the network of companies providing work-based learning, strengthen support for in-company mentors and enhance cooperation between VET providers and employers. Ensuring effective delivery will require reducing administrative barriers for companies, creating greater incentives for employer participation and supporting VET institutions in implementing new curricula and profiling programmes in line with regional labour market needs. Further action to improve access for learners with disabilities and other vulnerable groups would also help ensure that the VET system contributes both to the country's competitiveness and social inclusion.

Adult learning: unlocking potential across the workforce

Low rates of participation in adult learning contributes to skills mismatches. This challenge is covered by the 2025 CSR on reducing skills shortages by increasing upskilling and reskilling schemes. Participation in adult learning remains low in Croatia overall (in 2022, 23.3% of adults aged between 25

([31]) https://www.hzz.hr/app/uploads/2024/12/preporuke_24-1.pdf.

and 64 vs 39.5% in the EU)([32]) and particularly among people with low levels of skills, older people, rural populations and the long-term unemployed. These gaps reduce the effectiveness of upskilling and reskilling in tackling labour and skills shortages and risk widening inequalities in access to training.

Further action is needed to boost adult learning. Croatia has taken significant steps, notably with the voucher scheme and reforms that strengthen skills intelligence and training design, supported by the RRP and the ESF+. Nevertheless, the current system still faces constraints: the training offer remains uneven geographically and across occupations; employer involvement in providing and/or co-financing training remains limited; and there are still access barriers for groups most in need of support. Further action to expand the scope of the offer, strengthen guidance and outreach and secure sustainable funding, including by mobilising private contributions, would help the plan to gradually move to individual learning accounts translate into higher rates of participation and greater labour market relevance (Annex 11 and 13).

Social protection: tackling poverty and vulnerability

Inadequate social protection contributes to persistent risks of monetary poverty. This challenge is addressed by the 2025 CSRs on reducing poverty by increasing the adequacy of social benefits. In 2025, social transfers (excluding pensions) only reduced poverty by 23.5%, one of the lowest levels in the EU and well below the EU average of 33.2%. Croatia's low levels and impacts of social benefits hinder progress towards the 2030 poverty reduction target and leave vulnerable groups, including older people, people with disabilities, lower levels of income and rural communities without adequate support. High rates of poverty among these groups highlight the need for a more effective social protection system that can reduce inequalities and tackle the multiple aspects of poverty, including housing (Annex 16).

Croatia has initiated reforms to bolster social welfare. Changes were supported by the RRP and European Social Fund Plus (ESF+) and include revised benefits structures, better targeting and accessibility and new in-kind benefits. However, the system still faces significant constraints. The efficiency and impact of social transfers are limited, spending remains below EU standards, and regional disparities in access persist, particularly affecting rural areas. Action underway to increase the adequacy of benefits through incremental reforms is promising but further measures are needed to extend coverage and increase support. A more far-reaching and comprehensive approach based on strategic and clear policy objectives, better targeting of resources and fuller stakeholder participation would help Croatia lift more people out of poverty. This approach should focus on improving the efficiency and efficacy of the social protection system, increasing adequacy and improving governance, base setting, targeting and coverage of social benefits, including benefits in kind.

Pensions: improving adequacy and ensuring sustainability

Pension adequacy in Croatia remains a challenge. This is evidenced by a persistently low aggregate replacement ratio (ARR) (0.37 in 2025 compared to the EU's 0.6) which contributes to a high risk of poverty among pensioners (36.3% in 2025 vs EU's 15.4% in 2024) and high old-age poverty rates. Factors such as short working lives and limited years of pension contribution are at the root of these issues. Future pension adequacy projections also raise concerns, with a substantial decline expected by 2062. The 2025 country-specific recommendations called for action to reduce poverty and income inequality by increasing the adequacy of pensions, while maintaining fiscal sustainability. Policies to promote healthy ageing, incentivise longer working

([32]) Eurostat: Adult Education Survey - participation in education and training excluding guided on-the-job training.

lives, and tighten early retirement options are important in enhancing labour market participation and overall employment rates among older workers.

The effects of recent reforms are yet to be seen. Croatia has implemented reforms with support from the RRP including an increase in the minimum pension, tax reductions and incentives for deferred retirement. The 2026 Pension Law Amendment brought in further adjustments. It raised the minimum pension, changed indexation methods and provided annual supplements linked to years of insurance. While it is too early to assess the full impact of these gradual adjustments, a EUROMOD simulation indicates a reduction in the rate of pensioners at risk of poverty by 3.3pp compared with the baseline rate ([33]). In Croatia, participation in supplementary pension schemes is significant, offering potential to boost and diversify retirement income (see Annex 2).

Long-term care (LTC): improving access and affordability

Access to long-term care is undermined by significant availability and affordability challenges. The 2025 CSRs identified the need to improve access to formal home- and community-based long-term care. Public spending on LTC is one of the lowest in the EU and predominantly geared to supporting residential care. Community-based and homecare services remain inadequate. The percentage of dependants aged 65 and over and receiving home or residential care is strikingly low compared with the EU average, reflecting high levels of unmet care needs and financial barriers affecting access. 26.4% people report great difficulties in affording homecare (against 8.2% on average in the EU in 2024). Out-of-pocket expenses for LTC are notably high, exacerbating poverty risks for people with severe needs. Croatia has high rates of older people with unmet care needs, as a result of financial constraints and affordability issues.

Implementation of the operational plan for LTC faces challenges. The LTC operational plan adopted in 2025 covers workforce planning, governance frameworks and implementation of LTC services supported by RRP, ESF+ and ERDF funds. Counties have adopted social plans to guide needs assessments and regional development of community-based services. Tackling structural policy challenges in governance, pricing and access and incorporating strategic approaches with social economy actors, could significantly improve effectiveness. Nonetheless, Croatia's LTC system faces workforce challenges, including low staffing ratios and poor working conditions. Overcoming these challenges is essential to improving personal assistance, care and social services.

Croatia's health system continues to grapple with substantial challenges

Reducing preventable mortality is a pressing concern. Preventable mortality rate was high in 2023 and has only slightly improved compared to 10 years ago. The expenditure on prevention as share of total current health expenditure was 4.8% in 2023, remaining slightly above the EU average (3.7%). Treatable mortality is higher than the EU average (126.1 per 100 000 population in 2023) with only a limited improvement achieved over the last 10 years. Cardiovascular mortality, cancer, and suicide rates are one of the highest in the EU. According to 2022 data, Croatia has one of the highest daily smoking rates (22% of adults, above the EU average), the highest mortality rates due to air pollution (6% of all deaths attributed to air pollution), and one of the lowest levels of physical activity outside working time (57% of the population never practice physical activity, vs the EU average of 31.6%). Croatia has taken some measures under the RRP to improve diagnosis and

([33]) Estimations performed by the European Commission, Joint Research Centre, based on EUROMOD version J2.0.

treatability, for example by setting up a national oncology network, an oncology database and procuring cardiological equipment. Further measures should focus on improving treatability, strengthening disease prevention and promoting healthy lifestyles to tackle the high prevalence of non-communicable diseases. This could be complemented by closer cooperation with other parts of the public administration to work with individuals before there is a need to seek medical care.

Shortages of healthcare professionals persist, as do regional disparities. Croatia faces a shortage of healthcare professionals and has a significant urban-rural divide. The number of practising nurses is one of the lowest in the EU, as is the number of general practitioners. Moreover, with 42% of nurses aged 45 or older (2023) generational turnover needs to be monitored. The overall shortage is compounded by regional disparities, with more acute shortages in rural and remote areas (Annex 18). The distance to facilities in remote areas (21.8 km vs 14.4 km EU average) is the main reason for unmet medical needs in Croatia. Additionally, the challenge to meet medical needs is particularly acute for people living below the poverty threshold. These challenges would require building on the measures that have been implemented under the RRP and ERDF, such as the procurement of mobile caravan and boat pharmacies, setting up helicopter emergency medical care and specialised training for healthcare professionals in primary care and emergency medicine. Further action would also be needed to expand the healthcare labour force and increase Croatia's capacity to deliver quality healthcare, in particular in underserved areas.

Croatia is continuing a strong drive for e-health, but gaps remain. Croatia has taken steps under the RRP and ERDF to harness the potential of e-health solutions, bringing in measures such as telemedical services, including Telecordis, remote emergency services, and a pharmacy chronic patient monitoring system. It has begun developing electronic clinical guidelines (eGuidelines) and strengthening its internal referral system (eReferral). Despite these steps, e-health development lags behind other EU countries, with significant regional and socio-economic disparities in access to digital health services. The proportion of individuals using online health services was one of the lowest in the EU in 2024. Further measures are needed to improve access to e-health services, particularly for people with lower levels of education and people in hard-to-reach areas. Further action is also needed to achieve a more effective use of the health workforce by using digital technologies.

KEY FINDINGS

In areas **covered by existing country-specific recommendations**, Croatia would benefit from:

- **improving the effectiveness of the research and innovation system and increasing business innovation and technology uptake** by reducing fragmentation of public research institutions, strengthening coordination of public R&I policies and funding instruments and by promoting digitalisation and private-sector investment in R&D;

- **extending access to growth financing for innovative firms**, particularly SMEs and start-ups, by deepening capital markets and increasing the role of institutional and retail investors;

- **reducing the administrative burden for businesses**, by streamlining permitting and licensing procedures, improving interoperability of digital public administration systems and boosting administrative capacity and cooperation;

- **improving the efficiency of the local public administration** by encouraging mergers of municipalities and tackling capacity constraints affecting service delivery and investment management, especially in less developed areas;

- **addressing the bottlenecks in grid capacity and permitting to reduce wholesale electricity prices** by investing in the power grid, increasing system flexibility and improving grid connections and permitting for renewable energy;

- **improving energy efficiency and the decarbonisation of buildings** by increasing the use of financial instruments for renovation and targeting grants to the most vulnerable households;

- **enhancing sustainable mobility**, by accelerating the shift to electric road transport, phasing out fossil fuel subsidies and expanding rail and urban public transport systems;

- **promoting human capital development by boosting the capacity and quality of the education system,** by expanding early childhood education and care (ECEC), including in less developed regions, remedying teacher shortages, particularly in ECEC and STEM, and continuing education reforms aimed at improving basic skills and increasing the tertiary attainment rate;

- **strengthening the labour-market relevance of education and training and expanding lifelong learning,** by improving skills intelligence, expanding work-based learning, stepping up employer engagement and increasing participation in adult learning and reskilling opportunities, particularly for low-skilled workers, older people and residents of rural areas;

- **increasing the labour market participation rate of underrepresented groups,** particularly persons with disabilities and other vulnerable groups, by better targeting and effectiveness of activation policies and strengthening links between activation measures and related upskilling pathways;

- **further reducing poverty by raising the adequacy of the minimum income scheme and better targeting social benefits**, in particular to older people, people with disabilities, rural communities and low-income households, while improving access to affordable

community-based long-term care, including homecare services, tackling workforce shortages and improving working conditions;

- **improving access to healthcare and outcomes** by increasing the geographical distribution of health workers and facilities, in particular to boost capacity in underserved areas, advancing on e-health, stepping up prevention and improving treatment of chronic conditions, including by promoting healthy lifestyles.

In **other areas**, Croatia would benefit from:

- **improving the quality and efficiency of public spending** by extending the scope and transparency of spending reviews and integrating them systematically into budgetary processes, including at local level;

- **improving the effectiveness and progressivity of the tax system** by scaling back ineffective tax expenditure and improving the design of property taxes;

- **improving housing affordability** by tackling structural supply constraints and their regional dimension, and putting in place a national monitoring framework for social housing;

- **tackling the persistent issue of late payments in business-to-business transactions** by monitoring business-to-business payment performance, fostering mediation and developing standard clauses that can be used in contracts;

- **improving the efficiency of the justice system**, in particular the duration of civil and commercial court proceedings, including through possible case management reforms;

- **closing the remaining gaps in digital and connectivity infrastructure,** notably in rural areas and islands, in very-high-capacity networks and mid-band 5G deployment to support digitalisation and business development across regions;

- **supporting the development of industry to help diversify the economy,** by designing and implementing a strategy to increase the productivity and the added value of the manufacturing sector, including clean technology manufacturing;

- **advancing on industrial de-carbonisation** by removing barriers to investments in decarbonisation and promoting demand for low-carbon industrial products;

- **making infrastructure more climate-resilient** by accelerating priority adaptation investments and increasing insurance coverage to reduce the economic costs and fiscal risks of disasters;

- **improving resource efficiency and circular economy performance**, including by improving infrastructure and providing incentives to use secondary raw materials;

- **modernising water infrastructure and reducing water losses**, while improving compliance with EU wastewater treatment requirements;

- **tackling regional disparities in productivity and innovation capabilities** by accelerating the industrial transition with a focus on regional (smart specialisation) priority niches to diversify the economy.

ANNEXES

LIST OF ANNEXES

A1. CSR implementation 34

Fiscal 42

A2. Fiscal developments and debt sustainability 42

A3. Taxation 47

Productivity 51

A4. Innovation to business 51

A5. Single market and industry 57

A6. Savings, investment and access to finance 67

A7. Effective institutional framework 75

Sustainability 80

A8. Industry decarbonisation, circularity and climate mitigation 80

A9. Affordable energy transition 89

A10. Climate adaptation, preparedness and environment 96

Fairness 105

A11. Labour market 105

A12. Social policies 110

A13. Education and skills 114

A14. Social scoreboard 119

A15. Health and health systems 120

A16. Housing 124

Horizontal 130

A17. Sustainable development goals 130

A18. Competitive regions 133

A19. Transport 139

LIST OF TABLES

A1.1. 2025 CSR Implementation and Commission Assessment 34

A2.1. Fiscal governance database indicators and public accounting maturity 45

A2.2. Projected change in age-related expenditure in 2025-2040 and 2025-2070 45

A2.3. Supplementary pension schemes - Scope for expansion 46

A3.1. Taxation Indicators 48

A4.1. Key innovation indicators 56

A5.1. Single Market and Industry 65
A6.1. Savings and Investments Union summary diagnostic 67
A6.2. Financial sector indicators 74
A7.1. Croatia. Selected indicators on better regulation practices for primary legislation 76
A7.2. Digital Decade key performance indicators: availability of digital public services 77
A8.1. Key clean industry and climate mitigation indicators: Croatia 87
A10.1. Key Adaptation Indicators 104
A14.1. Social Scoreboard for Croatia 119
A15.1. Key health indicators 122
A18.1. Main development trends, challenges and the concentration of resources 134
A18.2. Key regional indicators (at NUTS 2 level) for Croatia 137
A19.1. ERTMS deployment in Croatia. 139

LIST OF GRAPHS

A2.1. Public investment evolution and structure (% of GDP) 42
A2.2. Primary spending evolution (% of GDP) and compositional change 43
A3.1. Tax revenue by economic function in 2024, HR (outer ring) and EU-27 (inner ring) 47
A3.2. Tax wedge for single and second earners as a % of total labour costs, 2025 49
A4.1. Share of publications in the top 10% most-cited publications worldwide, 2012 and 2022. 51
A4.2. Patent applications filed under the Patent Cooperation Treaty per billion of GDP (in purchasing power standards / PPS EUR) in 2022 53
A5.1. Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024 64
A6.1. Composition of non-financial corporations' funding 68
A6.2. Capital markets and financial intermediaries 68
A6.3. Composition of households' financial assets 69
A7.1. Trust in the justice system, regional / local authorities and in government 75
A7.2. Most time-consuming aspects of service delivery 76
A8.1. Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024 82
A9.1. Electricity and gas prices for household and non-household consumers, first half of 2025 90
A9.2. Low-carbon electricity generation vs. electricity wholesale prices, 2025 90
A9.3. Croatia's installed renewable capacity vs electricity generation mix 93
A11.1. Key rates: activity, employment, unemployment, long-term unemployment, youth unemployment, NEET 105
A11.2. Employment by type (permanent, temporary, self-employed), year-on-year changes 108
A12.1. Population at risk of poverty or social exclusion (AROPE) 112
A13.1. Teachers planning to leave the profession within five years (not retiring ones) in HR vs EU 115
A15.1. Treatable mortality 120
A15.2. Healthcare infrastructure investment by year 121
A16.1. House prices, rents and price-to-income evolution in HR and EU27 since 2005 124
A16.2. House supply indicators in HR since 2005 125
A16.3. Housing affordability selected indicators 128
A17.1. Progress towards the SDGs in Croatia 130
A18.1. Labour productivity growth (2024) and labour productivity (2024), Croatia (NUTS 2 regions) 133
A19.1. Croatia's road fatalities per million, 2024 141

A1. CSR implementation 34

Fiscal 42

A2. Fiscal developments and debt sustainability 42

A3. Taxation 47

Productivity 51

A4. Innovation to business 51

A5. Single market and industry 57

A6. Savings, investment and access to finance 67

A7. Effective institutional framework 75

Sustainability 80

A8. Industry decarbonisation, circularity and climate mitigation 80

A9. Affordable energy transition 89

A10. Climate adaptation, preparedness and environment 96

Fairness 105

A11. Labour market 105

A12. Social policies 110

A13. Education and skills 114

A14. Social scoreboard 119

A15. Health and health systems 120

A16. Housing 124

Horizontal 130

A17. Sustainable development goals 130

A18. Competitive regions 133

A19. Transport 139

Table A1.1: **2025 CSR Implementation and Commission Assessment**

Croatia faces challenges in a wide range of policy areas, as identified in the 2025 country-specific recommendations (CSRs). Croatia was recommended, among other things, to address the fragmentation of public research institutes and universities, boost access to finance for business and promote capital markets, simplify regulatory procedures, reinforce the efficiency of public administration, address high energy prices, reduce reliance on fossil fuels and address labour and skills shortages.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Croatia to date*. To do so, the Commission has taken into account the information provided by Croatia in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Croatia for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 1.6% of GDP, corresponding to an increase of 0.2 ppt. compared to 2024. Croatia national defence investment plan financed by SAFE loans was endorsed by the European Commission on 15 January 2025, securing 1.7 billion EUR loan financing for the next years.	Total general government defence expenditure in 2027 is projected at 1.7% of GDP, corresponding to an increase of 0.3 ppt. compared to 2024.	Substantial Progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure.	Cumulated deviation in 2025 amounted to 1.4% of GDP and is only partially explained by the NEC flexibility (0.5 pps. of GDP). Cumulated deviation in 2026 projected at 1.6% of GDP and is only partially explained by the NEC flexibility (0.6 pps. of GDP)		No Progress
3.1 Address the fragmentation of public research institutes and universities by setting goals in performance agreements that promote consolidation, collaboration, and, where relevant, mergers, backed by financial incentives to boost scientific output and public return on R&D investment. Foster investments in research and innovation.	Updated the R&D tax incentive framework, signed programme agreements with 65% of universities and research institutes, and awarded 3,354 STEM/ICT grants to boost graduate employability and mobility. Mapped and reported participation in international research infrastructures (May 2025) and launched a Collaborative Scientific Research call (June 2025). Through RRF, in 2025, MSEY has launched 7 Calls for proposals for various infrastructures, including key projets such as MARBLE and GEOLAB, using various sources of funding including the DIGIT programme under the World bank. Through RRF, funding for institutional research projects was implemented through programme	Study launched on mergers of institutes/polytechnics and RRP-driven consolidations are underway, mainly targeting administrative efficiency. The study provides a comprehensive, evidence-based analysis of structural inefficiencies within the system of public scientific institutes and polytechnics, identifying fragmentation, overlaps in activities, and opportunities for consolidation. However, the study does not cover universities and faculties. New ESIF RDI calls are planned, as well as further projects to support synergies under the World Bank DIGIT programme.	Limited Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	agreements with research organisations. In total, EUR 127.38 million was allocated to support 1,421 institutional research projects across public research institutes, polytechnics, and universities. This funding enabled the strengthening of internal research capacities and supported direct scientific and research activities through competitively awarded institutional calls.		
3.2 Boost access to diverse sources of financing for businesses and promote capital markets by further facilitating the participation of retail investors, including in the bond market, addressing barriers to listing, and strengthening corporate governance to improve the attractiveness of the stock market.	Croatia adopted the Capital Market Strategic Framework and Action Plan under the RRP. Capital market activity picked up in 2025 with three IPOs raising EUR 214 million. Regional market integration and expansion advanced through a cooperation agreement (MoU) between Bulgaria, Hungary, Poland, Romania, Slovakia, Slovenia, North Macedonia, and Croatia, following on the MoU among stock exchanges signed earlier, and a 2026 TSI project to deepen CSEE market connectivity. Notable measures based on the Strategy include easing regulatory burden for investment funds, regulatory amendments targeted at upgrading the market classification, enhancing the standards of corporate governance for state-owned enterprises, and development of a platform for securities lending.	Hanfa and the Ministry of Finance launched "PutNaTržište" (Oct 2025), a sandbox to simulate capital-market financing. The first Action Plan foreseesmeasures to boost capital market activity such as an IPO fund, VC support, digitalisation, market-integration platforms, promotion of bonds/ETFs, and stronger financial literacy and investor participation. Measures announced in the short-term include a cooperation agreement between financial market regulators on integration of capital markets of Southeast European countries, a cooperation agreement between Croatian and Slovenian depositories, introduction of savings and investment accounts, amendments to the Capital Market Act to upgrade the capital market classification and establishment of an IPO fund that will invest in companies in the pre-IPO phase and activities to support the SME growth market managed by the Zagreb Stock Exchange.	Some Progress
3.3 Further simplify regulation, improve regulatory tools and reduce administrative burden through digitalisation to facilitate business creation and expansion.	Croatia advanced digitalisation by upgrading the START system, digitalising key administrative processes, and introducing e-invoicing and online VAT accounting. Single Register of Entrepreneurial Infrastructure (e-JRPI), a publicly accessible database of entrepreneurial zones and entrepreneurial support institutions, has been established. In 2025, reforms reduced administrative burdens, simplified over 50 regulatory requirements for professional services (exceeding 300 measures in the	Announced: Draft 2026–2035 Strategy for managing state-owned assets prepared, alongside updated high-value datasets and continued open-data rollout (2,900+ datasets). Monitoring Operations Center established and national deployment of the European Digital Identity Wallet initiated. The implementation of the Single Digital Gateway Regulation to ensure full online availability of public services for national and cross-border users is in progress, as authorities are progressively	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	multi-year reform effort), delivered in excess of EUR 200 million in administrative relief for enterprises based on the implementation of 43 measures from the 5th Action Plan for administrative burden reduction and promoted private investment. Additional tourism IT tools were deployed to further ease business administration. Strategy for Assessing the Economic Impact of Regulations on the small and medium-sized enterprise (SME) sector by the Croatian Government and the accompanying Action Plan adopted and SME Impact Assessment Test digitalised (SME Test), improving implementation of regulatory impact assessment. A simplified regulatory impact assessment procedure has been introduced through the new Law on Better Regulation Policy Instruments. The e-Consultations portal has been extended to the local level.	being connected to the Once-Only Technical System (OOTS). Further reduction in administrative burden cost through the implementation of the remaining measures in the 5th Action Plan for administrative burden reduction, to reach overall EUR 345 million in savings. Projects launched to analyse life-event public services and digitalise citizens' personal status and state registers. In 2025 Croatia announced the adoption of the National Industrial Development Plan (2027–2035) as a basis for a coherent set of reforms and investments to boost industrial competitiveness and decarbonisation.	
3.4 Reinforce the capacity and efficiency of the public administration at the local level by merging functions and/or municipalities.	Under the RRP (T175, 8th PR), Croatia created a support system to facilitate mergers of local government units (LGUs), combining financial incentives with an upgraded IT tool. The system analyses merger potential across sectors (e.g. water, education, administration) and recommends suitable partners, providing guidance for informed decisions. Furthermore, there has been progress on addressing the fragmentation of local government units in terms of merging functions with over 260 such mergers reported, but no progress on actual mergers.		Some Progress
4.1 Address high electricity prices for businesses by accelerating deployment and grid connection of renewable energy projects.	2025 amendments to the Renewable Energy Sources and High Efficiency Cogeneration Act (Official Gazette No 78/25) to support the RRP reform and ease grid-connection limits for small PV installations; grid-connection requests at distribution level digitalised. Under the RRP, a new renewable self-consumption system was introduced (M406) and an	Full transposition of Renewable Energy Directive III (Directive (EU) 2023/2413) is planned for 2026, aiming to clarify system development, RES integration and market development.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	additional 1,500 MW of RES capacity was connected to the grid (T42). On 27 April 2026, the Croatian energy regulatory authority adopted updated grid connection fees, which could help unblock 3.5 GW of RES projects that were blocked for 3 years.		
4.2 Further upgrade electricity transmission and distribution grids, invest in electricity storage and advance the roll-out of smart meters.	2025 amendments to the Renewable Energy Sources and High Efficiency Cogeneration Act (Official Gazette No 78/25) eased investment in electricity storage, notably for hybrid RES-plus-storage projects, and requires planning of designated network-storage areas; a Modernisation Fund grant supports a 60 MW/120 MWh battery project. Under the RRP, 300 km of high-voltage lines were upgraded (T41) and 40,000 smart meters installed (T43). A revised 10 Year Network Development Plan (2026–2035), approved in 2026, sets the long-term vision for grid upgrades.	Under the RRP, measures include installing 100 MWh of battery storage, deploying 60,000 additional smart meters, and upgrading 250 km of high-voltage lines.	Some Progress
4.3 Streamline permitting, including for energy communities, and simplify the procedures for installing solar photovoltaic facilities in multi-apartment buildings.	2025 amendments to the Renewable Energy Sources and High Efficiency Cogeneration Act (Official Gazette No 78/25) clarify the framework for energy communities, aiming to reduce administrative burden, subject to implementation. Spatial planning rules were amended to simplify installation of certain energy equipment, including floating solar. As of January 1st, 2026, the new Building Act and the new Spatial Planning Act (Official Gazette No 155/25) came into force, which, together form a package of regulations governing issuance of all the permits. The new Spatial Planning Act improves the existing Spatial Planning Information System, which is publicly available to project designers, investors and citizens themselves. Through the upgrading of this system and the development of new application solutions integrated into it, the spatial planning process is largely digitalised which should accelerate and simplify permitting processes. The new Building Act has	Transposition of Renewable Energy Directive III (Directive (EU) 2023/2413)) and full transposition of Directive (EU) 2024/1711 should speed up permitting and deployment via acceleration zones and a digital one-stop shop. Croatia plans to support energy communities through its Social Climate Plan, including 10 pilot projects and an improved regulatory framework.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	simplified the procedure for issuing construction permits for apartment buildings. Solar photovoltaic panels can still be installed on buildings without obtaining any permits.		
4.4 Accelerate the implementation of energy efficiency measures, especially in residential buildings and reduce the dependence on fossil fuels in the heating sector, including by accelerating the use of efficient and green solutions, such as heat pumps.	From 1 January 2026, Croatia enacted a new Construction Act focused on sustainability and energy efficiency, alongside an Energy Efficiency Act with stricter reduction targets and a mandatory "energy efficiency first" principle. The Energy Efficiency in Buildings Act sets the goal for all buildings to become zero-emission by 2050.	RRP and REPowerEU support large-scale energy renovation of public, cultural, and multi-apartment buildings, alongside installation of renewable energy systems. Measures also include adopting at least 60 green urban renewal strategies and completing 20 pilot projects to implement them. In addition, announced project of the New National Children's Hospital in Zagreb (Blato) which is going to be first Carbon Zero Neutral hospital in Europe. Under the RRF Croatia has allocated €51 million for the development of geothermal potential for future heating systems, with an additional €30 million provided through the European Regional Development Fund (ERDF). Four locations in Croatia will be prepared to switch their district heating systems to new, renewable geothermal sources. The Support Program Decarbonization and Modernization of District Heating Systems has been developed and approved. The Call for Proposals MF-2025-4-1 Decarbonization and Modernization of District Heating Systems EUR 80 million is planned to be published.	Some Progress
4.5 Reduce reliance on fossil fuels and energy demand in the transport sector by promoting sustainable urban transport, rail and the electrification of road transport, including by reviewing targeted taxation incentives.	Under the RRP, Croatia upgraded key rail infrastructure, introduced greener airport operations, produced battery-train prototypes, delivered 30 new trams, and completed a study for implementing the Hydrogen Strategy to 2050. Additional steps include funding for zero-emission rail (EUR 56 million), procurement of 10 more trams for Osijek (July 2025 grant), and 20 more trams for Zagreb (December 2025 grant) finalising ongoing tram infrastructure investments, and legislation to deploy alternative fuel	Under the RRP, Croatia is deploying cleaner transport through 173 alternative-fuel buses and co-financing 2,000 electric/hydrogen vehicles. Two €90 million Modernisation Fund programmes will further support high-mileage commercial fleets (one call will co-finance the procurement of taxis and delivery services and car sharing, and the second call will be a financial instrument through HBOR and leasing companies) to decarbonise. Major rail upgrade (Križevci–Koprivnica–Botovo, 42.6 km) is under construction with €241	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	infrastructure such as EV and hydrogen refuelling stations. As part of the EIB loan in 2025, contracts were signed for the purchase of 4 battery trains (for the Split and Istria areas), 4 battery-powered trains (to connect Krapina and Bjelovar with Zagreb) and 2 charging stations (Lupoglav and Velika).	million CEF support, due for completion in H1 2026. As part of the Modernization Fund, a procedure is underway related to the purchase of 6 battery-powered trains and one charging station for charging battery trains and a photovoltaic power plant with energy storage at the Kotoriba station.	
4.6 Take concrete steps to phase out fossil fuel subsidies in particular in the transport sector.	Regulated price caps for gasoline and diesel were abolished in July 2025 but were reimposed in March 2026 (from 23 March only at service stations off motorways) in view of the increased energy prices due in the Middle East conflict. Gas price support has been scaled back in 2025, but further phase-out was postponed until at least October 2026.		No Progress
4.7 Address the recent decline in the share of renewables in transport by revising the rules on biofuels.	Decision effectively abolishing penalties for not mixing biofuels into fuels sold on the market has expired in December 2025 and has not been extended. Amendments to the National Renewable Energy Action Plan and relevant secondary legislation has been addressed in 2025 to update sustainability criteria, increase the allowable share of advanced and second-generation biofuels, and ensure compliance with EU RED II targets.	Croatia will continue supporting clean vehicle uptake and alternative fuel infrastructure beyond the RRP. RRP measures boosting renewables in transport include battery-train prototypes, 30 new trams, 173 clean buses, 2,000 co-financed zero-/low-emission vehicles, and a hydrogen-powered unit for electric locomotives (HERMES).	Full Implementation
5.1 Reduce labour and skills shortages by removing obstacles to labour force participation,	Amendments to the Aliens Act extended work permits to three years and strengthened worker protections, alongside integration measures like language vouchers and targeted employment support. Amendments to the Pension Insurance Act enabled pensioners to be employed full time while receiving 50% of pension. Croatia continues to implement the measures to encourage the return of the Croatian emigrant workers. Under the RRP, the voucher scheme and reforms to Employment Service processes continued, focusing on vulnerable groups and helping address labour shortages and participation gaps.		Some Progress
5.2 ensuring stronger educational	Continued support to vocational	Under the RRP a total of 1318	Limited

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
foundations at every level, in particular for basic and science, technology, engineering and mathematics (STEM) skills,	education, including new-curricula training (Feb 2025) and outreach visits to all 300 vocational schools by July 2025. Kindergarten infrastructure expanded through 43 grants worth €18.5 million for construction and upgrades. Continued support for scholarships for STEM programmes financed from national budget.	classrooms are planned to be finalised until the end of August 2026 to enable the transition to single-shift in primary schools. Additional 52 classrooms should be constructed in general programme secondary schools.	Progress
5.3 strengthening upskilling and reskilling,	Croatia continues providing Croatian-language vouchers for non-EU workers. Under the RRP, an adult education programme on renovation skills was developed and the general voucher scheme continues.	RRP targets include at least 500 participants completing adult training in post-earthquake and energy renovation (M360). A new master's programme on renovation and energy efficiency is to be launched by the end of the RRP (M401).	Some Progress
5.4 better targeting active labour market policies to vulnerable groups,	The Job+ Programme continues to support labour-market integration of vulnerable groups. RRP measures aim to assist at least 5,000 beneficiaries through new active labour market policies and improved support services, backed by upgraded Employment Service tools for profiling, job matching, and monitoring.		Some Progress
5.5 and strengthening efforts to attract, develop and retain talent.	See subpart 1 and 3 In addition, a Memorandum of Cooperation on labour markets with the Philippines entered into force in February 2025, aimed at attracting qualified workers.		Some Progress
5.6 Strengthen labour market policies and their coordination with social services.	See subpart 1, 3 and 4 By the end of 2025, a total of 679 cooperation agreements between the Centres for Career Information and Counselling (CISOK) and various partners had been signed, of which 212 new agreements were signed between 1 January 2024 and 31 December 2025.		Some Progress
5.7 Reduce poverty and income inequality by increasing the adequacy of social benefits, including pensions, while maintaining fiscal sustainability.	Under the RRP, Croatia integrated social benefits through a new normative framework, a national web application, and strengthened capacity for community-based services. Separately, February 2025 amendments to the Maternity and Parental Benefits Act increased parental support, doubled the newborn allowance, and extended paternity leave. Pension reform under the RRP (#M300), entered into force in July	Two action plans are currently being drafted for Government adoption in 2026: one on poverty and social exclusion and one on equalisation of opportunities for persons with disabilities.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	2025, with several measures increasing pension adequacy, but also encouraging longer work.		
5.8 Improve access to formal home- and community-based long-term care.	In February 2025, Croatia and the World Bank concluded a 2023–2025 technical assistance project to transition 38 social welfare institutions to community-based care. The reform aims to expand services such as day care, psychosocial support, personal assistance, early development support, mentoring, and employment aid for persons with disabilities and other vulnerable groups by 2027.	The Operational Plan for the Development of Integrated Long-Term Care (2025-2030) adopted in May 2025 is currently being implemented, which includes the construction of 18 new centers for the elderly to improve care and reduce labour shortages.	Limited Progress
5.9 Promote balanced geographical distribution of health workers and facilities, investments in e-health, and closer cooperation between all levels of public administration on health policy.	On 21 February 2025, the Act on the Implementation of Regulation (EU) 2021/2282 on Health Technology Assessment (HTA) was adopted. Croatia also further strengthened the central healthcare information system (CEZIH). Under the RRP, several initiatives were implemented including the development of four integrated clinical e-Guidelines, designed to enhance evidence-based decision-making in clinical practice, a software solution leveraging blockchain technology to monitor, anticipate, and prevent shortages of medicines, a centralised preparation of parenteral preparations in eight hospitals, a pharmacy-based monitoring system for chronic non-hospital patients, delivery of mobile caravan pharmacies to six counties and a boat pharmacy to one county. Additionally, RRP supported financing of specialist training for doctors at the primary healthcare level, alongside advanced training programmes for nurses and technicians in emergency medicine.	Announced measures include the development of additional guidelines and related documentation, as well as the adoption of an Ordinance on Health Technology Assessment (HTA). The implementation of RRP measures, including measures like the provision of a mobile clinic system comprised of 33 primary care outpatient vehicles, are expected to continue until end of August 2026.	Limited Progress

Source: Croatia's reporting and Commission assessment

ANNEX 2: FISCAL DEVELOPMENTS AND DEBT SUSTAINABILITY

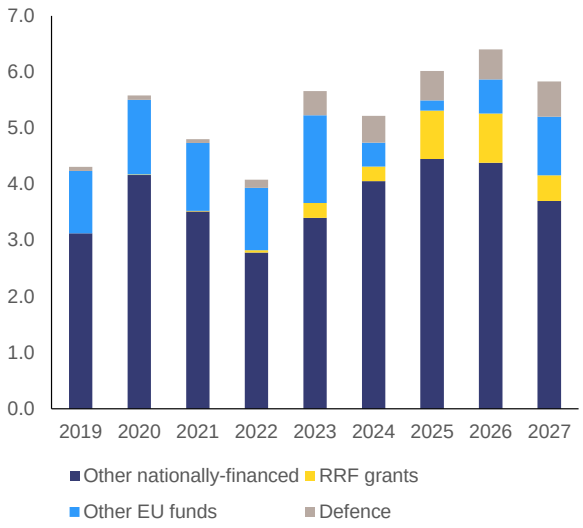
This annex discusses selected topics in public finance and developments on fiscal-structural CSRs addressed to Croatia in July 2025. These include a call to reinforce defence spending and readiness, while implementing a fiscal strategy in line with the Council Recommendation of 21 January 2025 endorsing Croatia's medium-term fiscal-structural plan ([34]). The plan includes a fiscal adjustment spread over four years. On 8 July 2025, the Council activated the National Escape Clause (NEC) for Croatia, to facilitate the transition to higher levels of defence spending ([35]) ([36]).

Developments in government deficit, debt and public expenditure ([37])

Croatia's government deficit widened marginally above the 3% reference threshold, while debt-to-GDP remained stable at end-2025. Based on Commission Spring 2026 forecast, Croatia's government deficit is projected to decrease to 2.9% of GDP in 2026 and 2.7% in 2027. The worsening of the deficit in 2025 was largely driven by an increase in the government general expenditure, which reached 50.1% of GDP, around 1.7pp higher than the previous year. The main drivers of the growth in government expenditure are public investments, wages, pensions and social benefits. Overall government expenditure is expected to slightly increase at 50.4% by end of 2027. General government debt-to-GDP is expected to decrease from 56.3% in 2025 to 55.6% by end of 2027.

Public investment remains supportive of GDP growth. Contrary to previous shocks that led to significant cuts, public investment during the pandemic remained high supported by EU funds and is expected to reach 6.4% of GDP in 2026, up from 4.3% in 2019 (see Graph A2.1). It is expected to slightly decrease to 5.8% of GDP in 2027, due to the phasing out support from the RRF and slower pick up in EU structural funds. Croatia is projected to spend more on nationally financed investment (including defence) than it did prior to the COVID-19 pandemic.

Graph A2.1: **Public investment evolution and structure (% of GDP)**



Source: Spring forecast 2026

While expenditure with a higher impact on GDP had remained broadly stable over three decades, it has slightly increased since 2019. This may be related with the impact of the RRF, which also facilitated a more quality-based fiscal strategy. Zooming in on the composition of spending, social protection accounts for the largest share of total expenditure (around 30%), followed by health at 19%. Economic affairs, education and general public services represent around 10% of total spending. Since 2019, public expenditure on health, which is considered growth-friendly, has increased strongly (See Graph A2.3). Spending on defence, R&D and communication has risen more modestly, with the rise in defence spending reflecting recent security developments. By contrast, spending on education and transport has declined. This trend deserves attention, as these categories are generally considered growth-friendly spending categories.

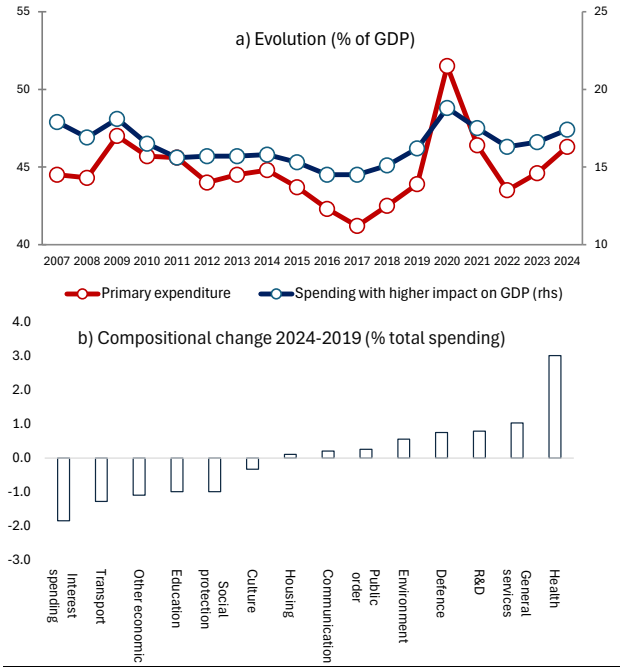
([34]) OJ C, C/2025/638, ELI: EUR-Lex - 32025H00638 – EN – EUR-Lex.

([35]) OJ C, C/2025/3967, ELI: EUR-Lex - 32025H03967 – EN – EUR-Lex.

([36]) Croatia's compliance with the maximum growth rates of net expenditure recommended by the Council is assessed in COM(2026)200.

([37]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables (SWD(2026)200) providing background data relevant for the assessment of the budgetary policies of the Member States.

Graph A2.2: **Primary spending evolution (% of GDP) and compositional change**



Note: Based on economic literature, the categories considered to have the higher growth impact include education, R&D, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).
Source: Eurostat

Croatia's tax revenues as a share of GDP are below the EU average and rely heavily on consumption taxes. In 2025, Croatia's total tax revenues as a percentage of GDP (including compulsory social security contributions) amounted to 39.4%, below the EU average of 39.9%. Total tax revenues are projected to have increased to 39.8% of GDP in 2025 and to 40% of GDP in 2027 according to the Spring 2026 Forecast ([38]). The tax mix in Croatia relies heavily on consumption taxation, while labour and capital taxes contribute a smaller share of total revenues than the EU average. The tax system's progressive impact is limited, due to the high incidence of indirect taxation and a relatively high labour tax burden for low wage-earners compared to the EU average (see Annex 3).

There is scope to expand property taxation, to enhance tax progressivity and address inefficiencies in the housing market. Revenues from immovable property taxation amounted to 0.5% of GDP in 2024, around half of the EU average. At the beginning of 2025 reforms on immovable property taxation were implemented, but the property tax applies only to vacant and holiday properties, and is based on location rather than market value. Meanwhile housing market inefficiencies related to unaffordability and a high supply gap persist, despite a high share of permanent residences being unoccupied (Annex 16).

Cost of ageing

Total age-related spending in Croatia is projected to decline by about 0.5 pps. of GDP by 2040 and by around 1 pp. by 2070 (see Table A2.2**).** The decline mainly stems from a projected fall in pension spending, which more than offsets an expected rise in public healthcare expenditure.

Public pension spending as a share of GDP is projected to decline by about 0.5 by 2040 and by about 1.5 pps. in the long term. By 2070, public pension outlays would represent around 9% of GDP, compared to an EU average of about 12%. However, this coincides with a projected decline in the replacement rate by 2.4 pps. between 2025 and 2040 (Table A2.2 and A2.3) ([39]). In 2025, Croatia received a CSR to increase the adequacy of social benefits, including pensions, while maintaining fiscal sustainability. Relevant recent measures include increases in the minimum and disability pension, a higher top-up for children born, a new annual bonus for all pensioners, higher bonuses for deferred retirement, and limiting the duration of penalties. Croatia pension adequacy remains a challenge evidenced by a persistently low aggregate replacement ratio (ARR) (0.35 compared to the EU's 0.6 in 2024) which contributes to high poverty risks among pensioners (34.2% vs EU's 15.4%). Although the full impact of the pension reform is yet to be observed, EUROMOD simulation of the effects of the pension reform show an expenditure impact of 0.6% of GDP in 2026 and a reduction in the rate of pensioners at-risk-of-

([38]) Data retrieved from the AMECO database (https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en).

([39]) The (gross) replacement rate refers, depending on data availability, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

poverty by 3.3pp compared to the baseline ([40]). To further improve pension adequacy, raising pension contributions could be considered. Currently, Croatia has one of the lowest contribution rates in the EU, with 15% allocated to the first pillar and 5% to the second pillar.

Supplementary pension schemes can enhance the resilience of the pension system by diversifying retirement income sources. In Croatia, uptake remains significant: by end-2024, private pension assets amounted to around 30% of GDP and participation covered around 92% of the working-age population ([41]). The high uptake in the supplementary pension schemes is due to the mandatory private scheme. Further developing occupational and personal pensions would help improve pension adequacy and limit its projected decline. However, the Croatian pension law allows individuals to choose whether to transfer their pillar II savings into pillar I pension entitlements at the moment of retirement. In 2025, around 70% of those eligible for pension rights opted to transfer their savings, receiving only a pillar I pension. This trend is largely driven by a bonus applied at the time of the transfer, which partially undermines the objectives of the pillar II reform. Recent legislative changes related to mandatory pension funds, supported by the RRP, have reduced the administrative fees and improved investment flexibility and scope for improving returns.

Public healthcare expenditure remains below the EU average. It is projected to be 5.8% of GDP in 2025 (6.6% in the EU) and is expected to increase by 0.4 pps by 2040 and by a further 0.3 pps by 2070 ([42]). Public expenditure on long-term care is projected at 0.5% of GDP in 2025 (well below the EU average of 1.7%) and is expected to increase by 0.1 pp of GDP by 2040 and by a further 0.1 pp of GDP by 2070. The projected increase is due to an ageing population but remains low due to underdeveloped long-term care services ([43]).

National fiscal frameworks

The Fiscal Policy Commission (FPC) has a narrow mandate, focusing on the monitoring of compliance with fiscal rules and endorsing/assessing the macroeconomic forecast underlying the budgetary plans of the government (without relying on a forecast of its own). Its work is hampered by the fact that members work full-time for their main employers, leaving them with very little time to devote to their FPC tasks. In addition, although only a fraction of its allocated budget is actually used, the FPC still experienced difficulties recruiting staff to its Secretariat, as it can only hire civil servants and, consequently, it is not free to set the pay level of its staff. Partly linked to these staffing constraints, the FPC has not yet developed any significant outreach activities and the role of the President does not include any external communication tasks. Still a young institution, the FPC has yet to undergo an external review. Some interaction with parliament has taken place, but the policy dialogue with the government is not fully developed.

Spending reviews are in the early stages and a pilot spending review was done for wastewater management. Croatia benefits from a 2025 TSI on the spending reviews' methodological framework, but administrative capacity constraints limit the pace of institutional establishment of spending reviews. A spending review department was created at the Ministry of Finance in 2022. However, the scope of spending reviews is relatively narrow, and their results are not made public. Spending reviews could contribute to increasing the efficiency of spending (European Observatory of Health Systems and Policies, 2024). Sectors like health and education are good starting points for more comprehensive spending reviews, as spending is relatively high and outcomes are below peers ([44]). Public

([40]) Estimations performed by the European Commission, Joint Research Centre, based on EUROMOD version J2.0

([41]) Source: OECD Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([42]) Key performance characteristics, recent reforms to and investment in the Croatian healthcare system are discussed in Annex 15 'Health and health systems'.

([43]) The adequacy and quality of the Croatian long-term care system are covered in Annex 12 'Social policies'.

([44]) Jean-Jacques Hallaert. "Improving Investment in Human Capital in Croatia: Efficiency of Public Spending on Education and Healthcare", Selected Issues Papers 2025, 159 (2025), https://doi.org/10.5089/9798229034906.018.

Table A2.1: **Fiscal governance database indicators and public accounting maturity**

Country Fiscal Rule Strength Index (C-FRSI)	13.93	14.81
Medium-Term Budgetary Framework Index (MTBFI)	0.72	0.72
2025 Public accounting maturity of general government	61%	65%

(1) "The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at country level based on i) the legal basis, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396)."
Source: Fiscal Governance Database, European Commission

Table A2.2: **Projected change in age-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	**change in 2025-2040 (pps GDP) due to:**					**ageing-related expenditure**	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
HR	19.8	*-0.7*	*0.4*	*0.1*	*-0.3*	***-0.6***	19.2	**HR**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	ageing-related expenditure	**change in 2025-2070 (pps GDP) due to:**					**ageing-related expenditure**	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
HR	19.8	*-1.6*	*0.7*	*0.1*	*-0.4*	***-1.1***	18.7	**HR**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.3*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

administration workforce management could be also reviewed, as public employment increased strongly in recent years, despite progress in digitalising public administration. Broadening the scope of spending reviews could help identify efficiency gains and programme overlaps ([45]).

Accrual accounting improves transparency over a public body's financial position and performance and can support sustainability and intergenerational equity. Most (14) Member States have implemented accrual accounting across the general government sector and five are set to do so by 2030 ([46]). Croatia is close to the EU average on public accounting maturity of general government (see Table A2.3) Accounting reforms are underway and expected to improve Croatia's accrual accounting score although the country has not yet reached the 70% threshold for full accrual accounting and is not expected to reach it in the medium term ([47]).

Croatia has strengthened the efficiency of public investment management. Since January 2024, a new standardised methodology for project assessments entered into force for all budgetary and extrabudgetary users and is monitored centrally by the Ministry of Finance. Implementation has also been strengthened by new reporting guidelines for line ministries and a digital monitoring system shared by all line ministries.

([45]) OECD (2026), *OECD Economic Surveys: Croatia 2026*, OECD Publishing, Paris, https://doi.org/10.1787/b52e3ac0-en.

([46]) Report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396). Countries with an accounting maturity of 70% or more in relation to International Public Accounting Standards are deemed to apply accrual accounting.

([47]) Annexes 3.1 and 3.4 of SWD(2025)396

Table A2.3: **Supplementary pension schemes – Scope for expansion**

	Assets in 2024 (% GDP)	**Gross replacement rate at retirement:** (pps change 2025-2040)	**Participation in 2024** (% working-age population)	
HR	29.6	*-2.4*	92.4	**HR**
EU	32.4	*-2.8*	55.9	EU

Source: European Commission.

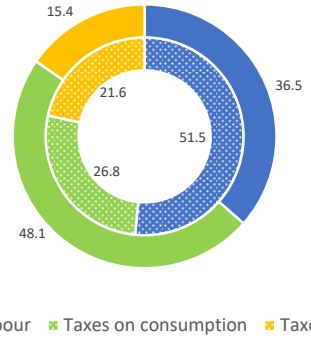
This annex provides an indicator-based overview of Croatia's tax system. It includes information on the tax mix, on competitiveness and fairness aspects of the tax system, and on tax collection and compliance. In the area of taxation, the 2025 country-specific recommendations for Croatia highlighted challenges regarding taxation incentives in the transport sector in view of its fossil fuel reliance and energy demand.

Croatia's tax mix relies strongly on consumption taxes. In 2024, tax revenues in Croatia amounted to 38.4% of GDP, below the EU-27 average of 39.4%. Consumption taxes accounted for 48.1% of total tax revenues, almost double the EU average, reflecting the central role of VAT in revenue generation.

Labour and capital taxes contribute a comparatively smaller percentage of total revenues than the EU average. By contrast, labour taxes accounted for 36.5% of total revenues, well below the EU average, and were largely derived from social security contributions. Personal income tax reforms entering into force in 2025 lowered municipal rate ceilings and increased allowances, and are consequently expected to further reduce the already moderate labour tax burden. Capital taxes also contributed a smaller percentage of revenue than in most Member States (15.4% of total against the 21.6% EU average). Recurrent taxes on immovable property accounted for only 0.5% of GDP in 2023, compared with an EU average of 0.9%, despite reforms entering into force in 2025 aimed at strengthening revenues and improving fairness. This tax structure has remained broadly stable over time.

Tax-related price signals in energy and transport are not always conducive for fostering the clean transition. Environmental taxes in Croatia amounted to around 3.4% of GDP in 2024, above the EU average of 2.1%. Despite this, Croatia's effective carbon rate ([48]) stood at around EUR 62.3 per tonne of CO_2 in 2023, below the EU average of EUR 84.8 per tonne. This indicates that despite the revenues generated due to the high energy intensity of the economy, price signals on carbon emissions are relatively weak. This is in part due to particularly low energy excise duties, such as for diesel for commercial road transport, while diesel for agricultural use is fully exempted from excise duties. Moreover, vehicles older than 10 years are exempted from circulation taxes, despite typically higher emissions. By contrast, there are currently no dedicated tax credits or accelerated depreciation schemes specifically targeted at clean technologies or industrial decarbonisation ([49]). There have been no specific tax reforms to address the respective country-specific recommendation, although relevant investments are being rolled out (see Annex 8).

Graph A3.1: **Tax revenue by economic function in 2024, HR (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

Despite low statutory rates, some features of Croatia's corporate tax system add complexity and limit competitiveness. Croatia has a relatively low statutory corporate income tax rate of 18%, with a reduced rate of 10% for smaller companies (less than EUR 1 million in annual revenues), and a tax expenditure of about EUR 170 million in 2022. The forward-looking effective tax rate is below the EU average, indicating that the tax burden does not undermine investment incentives. Several tax incentives are available under the Investment Promotion Act, but their complex conditions may discourage companies from making full use of them. Tax incentives for research and development have low uptake, although recent reforms under the recovery and resilience plan increased deductible

([48]) The effective carbon rate is the sum of fuel excise taxes, carbon taxes and permit prices under the EU emissions trading system. Electricity excise taxes are not included as they do not distinguish between energy sources and their carbon content.

([49]) See Commission Recommendation C(2025) 4319 final of 2 July 2025 on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State aid Framework.

Table A3.1: **Taxation Indicators**

		Croatia					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	38.4	37.3	36.7	38.4		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	13.4	12.7	12.8	14.0		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	11.1	10.6	10.4	11.3		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	19.4	18.4	18.2	18.5		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	13.3	13.2	13.2	13.3		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	5.6	6.1	5.7	5.9		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	3.5	3.2	3.5	3.9		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	2.3	3.2	2.9	3.1		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	1.1	0.9	0.9	0.8		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	0.7	0.6	0.5	0.5		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	4.2	3.4	3.3	3.4		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	62.3	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	31.5	33.8	35.4	33.9	34.5	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	41.0	40.5	41.4	41.3	41.2	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	14.8	14.8	14.8	14.8		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	7.3	6.2	6.3	5.8		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	15.5	9.4	8.7	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	4.0	11.4	7.7	9.0		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

amounts and simplified procedures, which may improve their effectiveness.

Croatia's tax-benefit system reduces income inequality by less than the EU average (see also Annex 12)**.** In 2024, the reduction in income inequality through the tax-benefit system, as measured by the Gini coefficient, amounted to around 5.8 pps, compared with 7.8 pps on average in the EU ([50]). On the tax side, this reflects the modest role of progressive labour taxation in the overall tax mix. Some of the tax expenditure can be ineffective and poorly targeted. EUROMOD simulation shows, among others, that in particular the VAT reduced rate for hotel and restaurants has a regressive impact. PIT allowances and deduction also have a limited impact on redistribution ([51]). Reducing ineffective tax expenditures and using the revenues for better targeted social assistance would have a better impact on improving social indicators. EUROMOD simulations show that with below 0.4% of GDP targeted expenditure, poverty can be eliminated ([52]).

The tax system's progressive impact is limited, which results in particular from a high tax burden for low wage-earners (see Graph A3.2)**.** In 2025, the labour tax wedge ([53]) was noticeably higher than the EU average for low wage-earners at 50% (34.5% vs 31.6%) and 67% (38.5% vs 35.8%) of the average wage, while only being slightly higher than the EU average at the average wage (41.2% compared to 40.0%). Conversely, the tax wedge for high wage-earners

([50]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

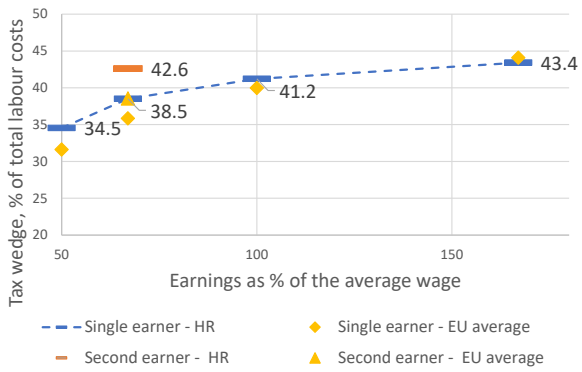
([51]) Turrini et al., (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges.

([52]) Almeida, V., De Poli, S. and Hernandez Martin, A., The effectiveness of Minimum Income schemes in the EU, European Commission, 2022, JRC130676.

([53]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (composed of the net wage, personal income tax, social security contributions, and other mandatory contributions). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

at 167% of the average wage was slightly lower than the EU average (43.4% vs 44.1%). The tax wedge for second earners at 67% of the average wage whose spouses earn the average wage was substantially higher than the EU average. In addition, the tax wedge for second earners was noticeably higher than the tax wedge for single people at the same wage level and this difference was more pronounced than for the EU average. This decreases work incentives for second earners, who are often women. The general tax allowance for dependent family members contributes to this effect.

Graph A3.2: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge shows a household's tax wedge resulting from the wage that a second earner taking up a job at 67% of the average wage receives. It does not show the total tax wedge of the household. The household is assumed to have a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2024), Taxing Wages 2024.
Source: European Commission

Croatia monitors and publishes tax expenditures on an annual basis. The monitoring identifies tax expenditures in VAT, corporate income tax (CIT), personal income tax (PIT) and social security contributions. It sets out a quantification, the purposes, and additional details for each tax expenditure. Croatia also provides this information for tax deductions and exemptions it does not consider as tax expenditures, such as the basic allowance in personal income taxation ([54]).

Reduced VAT rates account for almost two thirds of Croatia's tax expenditures. EUR 2.2 billion of EUR 3.5 billion of Croatia's tax expenditures are in VAT, while social security contributions account for EUR 630 million, PIT for EUR 290 million, and CIT for EUR 360 million. In 2023, Croatia's VAT policy gap ([55]) amounted to around 36.6% of notional ideal revenue ([56]), equivalent to about EUR 7 billion ([57]). Within this, the VAT rate gap was around 15% of notional ideal revenue, above the EU average of 12%. However, the rate gap and the tax expenditures it encompasses also need to be viewed in the context of Croatia's particularly high standard VAT rate, which overall leads to high VAT revenues.

Croatia does not estimate CIT or PIT tax gaps, but tax morale is low and the shadow economy is estimated to be large ([58]). The shadow economy was estimated at 29.7% of GDP in 2022, the second highest percentage in the EU ([59]). Only 45% of citizens in Croatia feel that people pay taxes in proportion to their income and wealth, at least to some extent, which is the lowest figure in the EU ([60]). 57% of individuals also feel that taxes are too high and would decrease them even if it means fewer or lower quality public services, which is the second highest in the EU ([61]). However, EU estimates based on a top-down methodology using national accounts data suggest that Croatia's CIT compliance gap was around 7% of collected CIT revenues in 2019, below the unweighted EU average of 10.9% ([62]).

([54]) Croatian Ministry of Finance, 2025, Catalogue of tax expenditures for 2023.

([55]) The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

([56]) The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

([57]) See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025.

([58]) European Commission, Directorate-General for Taxation and Customs Union, Mind the gap - 2025 report.

([59]) European Parliament (2022), Taxation of the informal Economy in the EU.

([60]) European Commission, Directorate-General for Taxation and Customs Union and Directorate-General for Communication, Citizens' attitudes towards taxation – Eurobarometer report, 2025.

([61]) Citizens' attitudes towards taxation – Eurobarometer report.

([62]) European Commission: Directorate-General for Taxation and Customs Union (2025), The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues, Publications Office of the European Union. The JRC has recently developed a novel approach to estimate the CIT gap based on national accounts and existing data on the

Bottom-up, audit-based estimates could potentially provide a more granular and more accurate picture of the CIT compliance gap.

Digitalisation and simplification measures helped improve collection and compliance. The VAT compliance gap in Croatia was estimated at around EUR 900 million, corresponding to 7.7% of the VAT total tax liability in 2023, below the EU median of 8.2%. This represented a marked improvement compared with a level of around 11% in 2022, reflecting strong VAT revenue growth. Near-universal electronic filing for VAT also supports compliance, combined with advanced digital tools and the rollout of the 'Fiscalisation 2.0 system' (supported by the Recovery and Resilience Facility) introducing mandatory e-invoicing and real-time transaction reporting. Mandatory e-invoicing under Fiscalisation 2.0 started to apply to VAT-registered businesses from January 2026, and to non-VAT taxpayers and will apply to public entities from January 2027. Moreover, the e-invoicing framework for business-to-business transactions includes various measures that reduced the administrative burden of taxpayers, related to reporting and record-keeping obligations. Croatia does not maintain a dedicated e-commerce taxpayer register, but relies on integrated data systems, platform reporting and advanced analytics for its oversight of online sellers, relevant at a time when platform and cross-border transactions are expanding ([63]).

undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to gross operating surplus, gross value added and GDP, that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

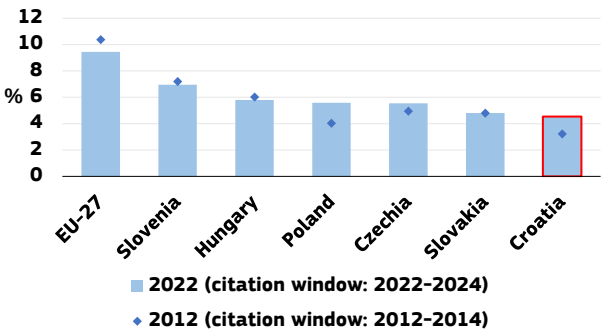
([63]) Ninth Report from the Commission on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89.

Croatia is a moderate innovator and is making steady progress, but fragmentation of the public research landscape still constrains overall performance. According to the European Innovation Scoreboard 2025 ([64]), Croatia has achieved 71.6% of the EU average and has been progressing faster than the EU since 2018. Croatia's R&D intensity increased from 0.84% of GDP in 2017 to 1.35% in 2024, though the indicator has stagnated in the past three years and in 2024 remained below the EU average of 2.24%. The country's research and innovation (R&I) system has strengthened over the past decade, supported by significant public investments and reforms, including those under the recovery and resilience plan (RRP) and cohesion policy. As already highlighted in the 2025 country-specific recommendations (CSRs), sustaining momentum will require: (i) stronger and more effective public and private R&D investments; (ii) efforts to reduce institutional fragmentation; (iii) improved R&I governance; and (iv) a diversity of financing sources for firms to support the development and commercialisation of innovation.

Excellent science

Croatia's public R&D intensity has stagnated in recent years, while the public research system remains fragmented, limiting scientific excellence. Public R&D expenditure rose from 0.49% of GDP in 2018 to 0.65% in 2022, but stalled at 0.61% in 2023 and 2024, slightly below the EU average of 0.72%. The increase in public R&D investment as a share of GDP has been driven by the Recovery and Resilience Facility (RRF) and cohesion policy funding. This underlines the need to further prioritise public R&D funding in the national budget to ensure sustainability and predictability beyond 2026, in line with the 2025 CSR on *fostering investments in research and innovation*. At the same time, Croatia's public research landscape remains highly fragmented, limiting scientific excellence and the efficient use of resources. The system comprises 120 scientific organisations, including more than 25 public research institutes, 12 universities (with over 80 autonomous faculties), and 12 polytechnics. This fragmentation dilutes resources, prevents institutions from reaching the critical mass needed for excellence, and hampers collaborations both within and across institutions ([65]). These structural constraints contribute to modest scientific excellence, with only 4.5% of Croatian publications among the world's top 10% most-cited publications in 2022, compared with the EU average of 9.4% (see Graph A4.1). Fragmentation also limits Croatia's capacity to build strong international scientific networks. This is reflected in the relatively low international co-publication rates compared with peers in Central and Eastern Europe ([66]).

Graph A4.1: **Share of publications in the top 10% most-cited publications worldwide, 2012 and 2022.**



Source: Science-Metrix data using the Scopus database.

Some steps have been taken to address fragmentation and improve scientific impact, but more efforts will be required. The introduction of a performance-based funding model in 2023, supported by the RRF, has focused on strategic planning and result-based allocations

([64]) European Commission, 2025, *European Innovation Scoreboard, country profile: Croatia* https://ec.europa.eu/assets/rtd/eis/2025/ec_rtd_eis-country-profile-hr.pdf. The scoreboard provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared with the EU average). Moderate innovators are countries with performance between 70 and 100% of the EU average.

([65]) See also World Bank, 2019, *Analysis of the quality and coherence of the policy mix*.

([66]) Croatia's international co-publication rate (45.3%) remains below that of most peer countries, notably Slovenia (57.2%), Slovakia (52.7%) and Hungary (52.2%), and is slightly above Poland (43.2%).

to strengthen, for instance, scientific excellence and knowledge transfer. However, the performance-based funding model has not effectively incentivised the consolidation of research capacities. In addition, the continued funding of centres of excellence through cohesion policy, completed by national resources, provides support to public research consortia in strategic research areas. These centres create incentives for institutions to pool resources and strengthen cooperation, helping reduce fragmentation. Additional measures are on the way. New decrees adopted in December 2025 and early 2026 will enable the merger of four polytechnics with universities, with two additional institutions planned for merger in early 2026. This marks a step towards reducing fragmentation, although these institutions have low enrolment and smaller research capacities. In line with the 2025 CSR on *the fragmentation of public research institutes and universities*, improved institutional efficiency will depend on further consolidation through targeted mergers and stronger coordination mechanisms. This will require robust analysis and evaluation to inform decision-making and should include assessing how far the performance-based funding model is effective.

The governance of the R&I system remains complex and fragmented. The R&I policy agenda is shared across several ministries and agencies ([67]), creating challenges for consistent planning and implementation ([68]). The National Innovation Council was re-established in 2025 as the top-level governance and coordination body, bringing together representatives from relevant ministries, implementing agencies and thematic innovation councils ([69]). Making sure the Council is fully operational will be key to improving coordination of R&I policy. This also requires continuous exchanges at working level through bodies such as the Interministerial Working Group. In parallel, the ongoing establishment of the European Centre for Innovation, Advanced Technologies and Skills Development, supported under cohesion policy, is expected to strengthen coordination and serve as a one-stop shop for innovation policy implementation and stakeholder support ([70]). The centre will provide a dialogue platform for each smart specialisation strategy (S3) priority area and monitor S3 implementation by linking indicators to strategic objectives and impacts.

Business innovation

Business R&D intensity remains low and continues to weigh on Croatia's innovation performance. Business R&D stands at 0.74% of GDP in 2024, well below the EU average of 1.49%. After a significant increase from 0.39% in 2016 to 0.77% in 2022, progress has stalled. Significant regional disparities in business R&D persist (see Annex 18). This also reflects structural constraints. The economic structure remains oriented towards medium-low technology manufacturing and services ([71]), which limits the development of complex technologies and high-impact innovation. The private sector's research capacity is structurally weak, with only 1.4 researchers per thousand active population, compared with 5.9 in the EU. These factors explain the weak innovation outputs observed. International patenting activity remains modest, with 0.73 Patent Cooperation Treaty patent applications per billion GDP in 2022, well below the EU average of 2.81. Despite this low performance, Croatia's overall innovation output performance has improved over the last decade, as reflected in the Innovation Output Indicator ([72]) and the Innovation Input pillar of the Global Innovation Index ([73]). This suggests that the policy and business environment is gradually improving.

([67]) Ministry of Science, Education and Youth; Ministry of Regional Development and EU Funds; Ministry of Economy; HAMAG-BICRO; Croatian Science Foundation.

([68]) See for instance European Commission, 2023, *Policy Support Facility (PSF) to support early stages of innovation and science-business linkages in Croatia*.

([69]) Ministry of Science, Education and Youth, 11 April 2025, *'Održana prva sjednica Nacionalnog inovacijskog vijeća'* (Press release for the first constitutive meeting of the National Innovation Council).

([70]) The centre's creation was mentioned in the Croatian government's 2020 national reform programme.

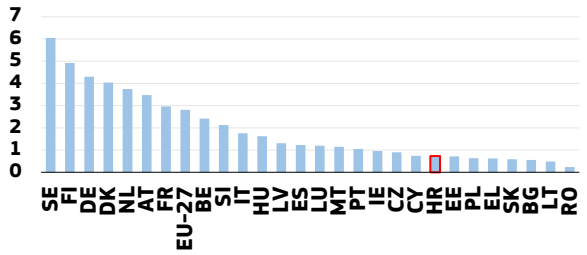
([71]) European Innovation Scoreboard 2024 and 2025, Country Profile: Croatia.

([72]) The Innovation Output Indicator 2024 is a composite indicator measuring countries' capacity to derive economic benefits from innovation by tracking the extent to which innovative ideas reach the market, create knowledge-intensive jobs and increase a country's technological capability.

([73]) World Intellectual Property Organization, 2025, *Global Innovation Index 2025*.

Public support for business R&D is limited and insufficient to address the structural weaknesses of the innovation ecosystem. Total public support for business R&D amounts to 0.06% of GDP, significantly below the EU average (0.2%). Direct support instruments tend to be fragmented, are sometimes implemented in short cycles, and do not always provide the stability companies need to plan innovation projects over the longer term ([74]). Public support for business R&D may improve following recent RRP investments and reforms reorienting the RDI policy mix towards businesses, alongside additional private funding mobilised through the Digital Innovation and Green Technology (DIGIT) project. As part of its RRP, Croatia recently revised its R&D tax incentive scheme adopted at the end of 2024, with a first ordinance entering into force in May 2025. The revision doubles the tax base reduction for R&D project costs, with the objective of increasing R&D expenditure and innovation activity in the private sector. It also reduces the administrative burden by adjusting the reporting timeline. In addition, a new digital platform (eInvestments) has been launched to further simplify procedures and reduce administrative costs for firms under several investment and R&D State aid schemes. The platform digitalises the submission of project applications as well as project monitoring and reporting ([75]). These changes could help stimulate private R&D investment, but the revised R&D tax incentive scheme will need to be evaluated once sufficient implementation data become available.

Graph A4.2: **Patent applications filed under the Patent Cooperation Treaty per billion of GDP (in purchasing power standards / PPS EUR) in 2022**



Source: European Patent Office database, PATSTAT

([74]) OECD, *Economic Surveys: Croatia 2023*, OECD Publishing.

([75]) Ministry of Economy, 20.2.2026, Press Release: 'Ministry of Economy launches fully digital system for state aid and strategic investment support, Invest Croatia'.

Business-science linkages are improving, underpinned by multiple funding schemes, but require continued and consistent support to consolidate progress. Public-private co-publications reached 8.4% of all publications in 2024, now above the EU average. However, technology transfer activities are still hindered by weak incentives for researchers to pursue commercialisation, by the inconsistent performance of technology transfer offices and by under-utilisation of research and technology infrastructures ([76]). Recent initiatives such as the publication of national guidelines for technology transfer, coupled with around EUR 200 million in new funding ([77]) supported through the RRP and cohesion policy, have created positive momentum to strengthen the technology transfer ecosystem, including targeted programmes for spin-off creation. These efforts aim to strengthen collaboration between academia and business by improving the governance and management of technology transfer offices, upgrading research infrastructures and better aligning them with the needs of industry ([78]). Implementation is still under way, and significant and durable results will be reliant on sustained efforts in this area. It would also be highly beneficial to assess the effectiveness of these new initiatives, while ensuring continuity and stability over time ([79]).

Digital uptake among firms is progressing but remains uneven, with persistent gaps in SME digital maturity and the diffusion of advanced technologies. In 2025, 57.1% of SMEs in Croatia had at least a basic level of digital intensity, remaining below the EU average

([76]) World Bank, 2023, *Project Appraisal Document: Digital, Innovation, and Green Technology Project*.

([77]) OECD STIP Compass: International Database on Science, Technology and Innovation Policy.

([78]) In this respect, the centre of excellence for maritime robotics and sustainable blue economy innovation (MARBLE) brings together universities, research institutes and companies to support applied research, technology transfer and the developing of advanced maritime robotics and autonomous systems. Additional efforts to strengthen industry-science collaboration have been undertaken, including the Targeted Scientific Research program from the RRF, Collaborative Scientific Research from cohesion policy, as well as the Challenge, Professionalization of Research Centres, and Technology Scouting programs from DIGIT.

([79]) The importance of continuity has been highlighted in various relevant reports, for instance: European Commission, 2023, *Policy Support Facility (PSF) to support early stages of innovation and science-business linkages in Croatia*.

(71.4%). This is indicative of persistent gaps in SME digital maturity, despite gradual progress (see Annex 7). Uptake of advanced digital technologies remains uneven. Data analytics, despite a strong decline from 51.7% in 2023 to 41.9% of enterprises, remains a relative strength compared with the EU average (39.8%). Cloud adoption increased to 43.3% of enterprises (EU: 46.7%), while AI adoption reached 15.2% (EU: 19.9%), indicating continued barriers ([80]) to wider diffusion of advanced technologies, particularly among SMEs. To support further adoption, Croatia is implementing investments under the RRF, including EUR 27.3 million for grants for digitalisation and EUR 9.95 million for the digitalisation voucher programme, aimed at stimulating SME uptake of cloud and AI solutions. This support is reinforced by four European Digital Innovation Hubs, co-financed by cohesion policy. These provide digital maturity assessments, pre-investment testing environments, training and advisory services to SMEs. Meanwhile, loan instruments for SMEs (EUR 168 million under cohesion policy) are also aimed at supporting digital transition.

Entrepreneurial dynamism

Croatia's start-up ecosystem is expanding, with Zagreb emerging as a regional hub, but Croatia's scale-up potential remains constrained by limited access to risk capital. Zagreb is the main centre of start-up activity in Croatia ([81]) and is home to two unicorns ([82]), Infobip and Rimac Automobili, which contribute significantly to the visibility and development of the national start-up ecosystem. At the same time, there is a growing interest in deep-tech development, as indicated by the emergence of initiatives such as the BIRD Incubator, focusing on AI, machine learning and data analytics, the competence centre for semiconductors (CROCCS), and the deep-tech venture builder Nuqleus ([83]). However, access to risk capital remains a major obstacle to developing a more vibrant start-up and scale-up ecosystem. The Croatian financing landscape still relies heavily on bank loans and internal funds ([84]), with only a small market for risk capital. This limits the availability of funding for start-ups and scale-ups. The equity market remains underdeveloped, and institutional investors such as investment funds, insurance companies and pension funds play only a minor role in providing equity finance. As a result, the venture capital market represents only 0.015% of GDP, well below the EU average of 0.06%. This suggests a need to strengthen risk-capital markets and diversify funding sources for start-ups and scale-ups, in line with the 2025 CSR on *boosting access to diverse sources of financing for businesses* (see Annex 6).

Heavy administrative procedures and regulatory complexity continue to hinder business creation and growth, despite recent improvement in the business environment. Heavy bureaucracy remains an obstacle to business creation, with regulatory procedures perceived as long, complicated and lacking stability and predictability for companies ([85]) (see Annex 5). This weighs particularly on innovative and young firms, which are more sensitive to administrative delays and uncertainty. The adoption of the euro in 2023 has lowered barriers for Croatian start-ups to expand into other European markets by reducing transaction costs and currency risks. However, there is still a need to further streamline regulatory frameworks and administrative procedures to support and develop a more dynamic start-up and scale-up ecosystem.

Skills shortages persist, particularly in STEM and ICT, despite recent initiatives to strengthen entrepreneurial skills. Croatia faces labour and skills shortages. The number of graduates in science, engineering and computing has risen and is now close to the EU average ([86]),

([80]) The Digital Decade 2025 country report for Croatia points to barriers to the wider diffusion of advanced digital technologies. These include shortages of digital skills and labour market mismatches, fragmentation of support instruments, and the absence of a dedicated national strategy to stimulate widespread adoption across sectors.

([81]) Startup Blink, 2025, *Startup Ecosystem Report*.

([82]) New companies with a market capitalisation of over one billion dollars.

([83]) Nuqleus has been supported by the Ministry of Science, Education and Youth, through the DIGIT project to develop the startup ecosystem.

([84]) OECD, 2023, *Improving the business environment to accelerate convergence in Croatia*.

([85]) Startup Europe Network 2025.

([86]) The number of new graduates per thousand population active population in science and engineering and in ICT has

yet firms still report a lack of skilled staff as one of the main barriers to investment ([87]). There is also a need to further develop the entrepreneurial skills of researchers, which are important for knowledge and technology transfer. Further improvements are expected from the reforms and investments implemented under the RRP and cohesion policy, in particular through measures to upskill SME staff in areas linked to S3 and Strategic Technologies for Europe (STEP) priorities and to support entrepreneurial skills for researchers. Ensuring these measures' long-term impact will depend on building on them and ensuring their continuity. This is particularly relevant for measures aimed at improving the quality of R&D careers in STEM and ICT, supporting the career development of young researchers, promoting international mobility and encouraging experience in the private sector. While Croatia has a pool of skilled tech talent, some younger entrepreneurs choose to register their companies abroad, which may reflect a perceived advantage in the business environment elsewhere. To attract international talents, Croatia has introduced a digital nomad visa, but its impact remains unclear, as digital nomads typically do not stay in one location for extended periods.

Entrepreneurship education is a cross-curricular subject in primary and secondary education, but remains more fragmented in higher education. Entrepreneurial skills are mentioned in several strategic and regulatory documents, but there is currently no strategy for entrepreneurship education. Croatia is among the countries that apply a cross-curricular approach, with entrepreneurship identified as one of the seven cross-cutting themes in the national curriculum for primary and secondary education. In 2024, Croatia developed guidelines for the implementation of all seven cross-curricular themes. The guidelines are helping integrate the themes into subject curricula, identify implementation opportunities and improve collaboration between teachers. Within this framework, pupils are encouraged to recognise resource scarcity in their immediate surroundings, develop attitudes towards valuing resources and understand the societal and environmental impact of their actions. Entrepreneurial experiences are further encouraged as extracurricular activities ([88]). Nevertheless, some gaps remain. There is no comprehensive teacher competence framework for entrepreneurship, although there are references to training opportunities in entrepreneurship education for teachers. In higher education, entrepreneurial initiatives tend to be implemented on an ad hoc basis, with limited institutional support or recognition. There are several factors behind this, including underdeveloped human resources management in higher education institutions, strong autonomy at faculty level, and sporadic funding for innovation and entrepreneurship. In most Croatian higher education institutions, centres of expertise are located in faculties of economics and business ([89]), which may limit the diffusion of entrepreneurial skills across other disciplines.

increased over the last decade, from 12.0 in 2013 to 17.0 in 2023 for science and engineering, and from 2.50 in 2013 to 4.05 in 2023 for ICT.

([87]) European Investment Bank, 2025, *EIB Investment Survey 2025: Croatia overview*.

([88]) European Commission/EACEA/Eurydice, 2025, *Entrepreneurship education at school in Europe – 2025. Eurydice Report.*

([89]) Kitagawa, F, 2019, *Supporting Entrepreneurship and Innovation in Higher Education in Croatia*, OECD.

Table A4.1: **Key innovation indicators**

CROATIA	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.73	0.82	1.24	1.42	1.37	1.35	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.41	0.4	0.65	0.65	0.61	0.61	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	3.44	4.19	4.58	4.53	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	3.1	2.9	4.2	3.9	4.2	3.9	:	4.3	:
International co-publications as % of total number of publications	28.64	38.23	42.67	42.73	41.23	45.34	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.32	0.42	0.59	0.77	0.75	0.74	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.14	0.13	0.23	0.30	0.24	:	:	0.47	0.30
Researchers employed by business per thousand active population	0.7	0.6	1.3	1.8	1.5	1.4	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	1.07	0.68	0.74	0.73	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	1.37	1.43	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	55.97	:	57.09	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	51.68	:	41.90	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	40.73	38.55	43.30	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	7.89	11.76	15.19	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	7.87	7.15	8.46	8.20	8.80	8.35	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.03	0.04	0.03	0.02	:	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	0.041	0.000	0.053	0.073	0.061	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	0.031	0.000	0.013	0.003	0.001	:	:	0.10	0.16
BERD financed by the public sector (national and abroad) as % of GDP	0.01	0	0.04	0.070	0.060	:	:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.003	0.006	0.010	0.035	0.027	0.015	:	0.06	:
Seed stage funding share (% of GDP)	0.000	0.000	0.002	0.007	0.006	0.006	:	0.01	:
Start-up stage funding share (% of GDP)	0.000	0.006	0.007	0.012	0.007	0.003	:	0.03	:
Later stage funding share (as % of GDP)	0.003	0.000	0.001	0.016	0.014	0.006	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	:	13.1	18.0	17.1	17.0	:	:	16.8	:
Graduates in the field of computing per thousand population aged 25-34	:	2.7	3.5	3.8	4.0	:	:	3.8	:

(1) EU average for the last available year or the year with the largest number of country data.

Source: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard.

Croatia is taking steps to improve its business environment, but further reductions in administrative burdens remain essential for businesses. At the same time, stronger support is needed to develop new engines of growth beyond tourism, including a competitive and innovative manufacturing sector. The 2025 Country Specific Recommendation (CSR) 3 ([90]) called for measures to further simplify regulation, improve regulatory tools and reduce administrative burden through digitalisation, to facilitate business creation and expansion. Under its Recovery and Resilience Plan (RRP) ([91]), Croatia is implementing the fifth action plan for reducing the administrative burden and has completed the third Action Plan for the liberalisation of services markets, but further simplification of regulation and reduction of the administrative burden remain key for businesses. At the same time, while summer coastal tourism may be approaching its capacity limits, Croatia needs to diversify its engines of growth, including by developing a strong manufacturing sector. However, productivity in Croatian manufacturing remains well below the EU average, reflecting limited innovation and low economies of scale. Business expenditure on research and innovation also lags significantly behind EU levels.

Business dynamics

Business creation has been dynamic. Between 2021 and the end of 2025, business registrations increased by 29.5%, an increase much larger than in the EU (+12.5%). Business creation was particularly dynamic in the sectors of education, human health and social services, as well as in transportation and storage ([92]). Also on a positive note, between 2021 and the end of 2025 bankruptcies decreased by 21%, while they increased by 96% in the EU.

SMEs are growing faster than in the rest of the EU. SMEs are a major component of Croatia's economy: they represent 62.4% of the firms' value added ([93]), which is larger than in the EU (53.6%). In 2024, their inflation-adjusted value added grew by 1.1%, a performance better than in the EU (-0.2%). All size classes experienced growth, with the highest growth seen in micro-enterprises, with 2.0% (1.9% in the EU). Construction, one of the biggest industrial ecosystems in Croatia, saw significant growth: its inflation-adjusted value added grew by 9.6%. Another key ecosystem for the national economy, tourism, thrived as well, with growth rates exceeding 2.3%. In 2025, SME real value added is expected to grow by 3.4% (vs 1.6% in the EU).

Business and public investment are higher than in the EU on average, but business investment in research and development remains low. Business investment has regularly increased over the last years and reached 14.3% of GDP in 2024 (against 12.6% for the EU27 average) (see Table A5.1). However, business expenditure in research and development remains low at 0.74% of the GDP in 2024, with significant regional disparities (see Annex 4 and Annex 18). To promote investment, Croatia designed a strategic framework under its Recovery and Resilience Plan (RRP) ([94]). According to Croatia, the implementation of the Action Plan under this strategic framework is progressing as scheduled. Public investment has also increased since 2021, although less regularly. In 2024, it reached 5.2% of Croatia's GDP (against 3.7% for the EU27 average), boosted by the implementation of the RRP and cohesion policy programmes. In this respect, the IMF warns that one of the highest risks for Croatia stems from possible delays in the implementation of public investments and reforms, considering the administrative capacity constraints, combined with supply disruptions and labour shortages ([95]).

Productivity gains have been uneven across sectors. Croatia's labour productivity is still only at 68.7% of the EU's (see table A5.1). Several factors hamper Croatia's productivity level and

([90]) Council recommendation on the economic, social, employment, structural and budgetary policies of Croatia, 1/7/2025.

([91]) European Commission (EC), Annex to the Commission Proposal for a COUNCIL IMPLEMENTING DECISION, 22/10/2025, measure C1.1.1. R1.

([92]) Eurostat, dataset: sts_rb_q NACE sectors B-S-X-O-S94, index 2021=100, time value =2025-Q4.

([93]) EC, 2025 SME country fact sheet- Croatia.

([94]) EC, Annex to the proposal for a Council Implementing decision, 22/10/2025, measure C1.1.1. R3.

([95]) IMF, Staff report for the 2025 article IV consultation, 20/11/2025.

growth, including the lack of business innovation, the presence of many long-established low productivity firms and small businesses with limited investment capacities. In terms of sectors, productivity gains have been uneven, with stronger performance in construction (boosted by EU transfers) and tourism, while productivity growth has been slower in digital services and in the manufacturing sector. In the manufacturing sector, labour productivity is at around 40% of EU average with only limited convergence, partly due to limited innovation and scale ([96]).

Business environment

The lack of skilled staff remains the main obstacle to business investment. According to the 2025 EIB investment survey ([97]), Croatian businesses find that the main obstacles to investment are the availability of skilled staff (90% find it to be an obstacle vs. 79% in the EU), the uncertainty about the future (84% vs. 83%) and the energy costs (77% vs. 75%). The results are similar to last year. Businesses complain about both the lack of skills and the shortage of workforce. The biggest labour shortfalls are in construction, manufacturing, hospitality, sales, transport and ICT (see Annex 11).

Regulations are less of an obstacle than in the past. According to the 2025 EIB investment survey ([98]), labour regulations and business regulations constitute an obstacle to investment for respectively 66% and 64% of Croatian firms (against 65% and 69% in the EU). The year before, 68% of firms in Croatia found that business regulations were an obstacle to investment (against 66% in the EU). This progress is confirmed by the answers to another question of the same survey: 27% of firms in Croatia find that business regulations are a major obstacle for long term investment, against 27.7% the year before (see the table A5.1). It is well below the EU 27 average (34%), although still slightly above the EU median (26%).

This progress reflects the measures taken by Croatia to reduce administrative burdens. Under its RRP, Croatia adopted a 5th action plan for administrative burden reduction in March 2024 ([99]). It contains 103 measures, with planned financial relief of EUR 364 million, focusing on key economic areas such as tax policy, tourism, the pension system, agriculture and transport. By February 2026, 63 measures were implemented. According to Croatia ([100]), this should result in a financial relief of EUR 346 million. Implementation is ongoing. Croatia plans to have most of the remaining measures completed by the end of the first quarter of 2026, with total financial relief exceeding EUR 350 million.

However, further reductions in administrative burdens remain key for businesses. Despite this improvement, the cost of the administrative burden for businesses is still high: 25% of firms employ staff dedicated to regulatory compliance (vs. 14% in the EU), and 16% of firms need more than 10% of their workforce for compliance tasks (vs. 11% in the EU) ([101]). Particular areas of concern are ([102]): (i) fragmented permitting procedures across different authorities and lengthy licensing processes for business establishment ([103]), (ii) complex reporting obligations and (iii) limited interoperability of digital registries and platforms (see Annex 7). Regarding permitting and licensing, business organisations ([104]) find that the processes are slow, fragmented and sometimes overlapping, especially where local level authorities are involved. They ask for faster procedures, the application of the principle "silence is compliance," a review of the documents required from businesses and the removal of unnecessary additional checks. The World Bank also identified several shortcomings regarding regulations and administrative burden ([105]). The time needed to

([96]) Reply of Croatia to Commission's questionnaire, 12/2025.

([97]) European Investment Survey (EIBIS) 2025, 10/2025, p.30.

([98]) European Investment Survey (EIBIS) 2025, 10/2025, p.30.

([99]) Annex to the Commission Proposal for a COUNCIL IMPLEMENTING DECISION , 22/10/2025, C1.1.1 R1-I2.

([100])Information provided by Croatia on 19/2/2026.

([101])European Investment Survey (EIBIS) 2025, 10/2025.

([102])Reply by Croatia to Commission questionnaire, 12/2025.

([103])Complicated business establishment and operations are one of the ten Single Market barriers that should be addressed in priority (EC, The Single Market: our European home market in an uncertain world, 21.05.2025).

([104])Meeting with business organisations, 12/2025.

([105])World Bank, Business Ready – 2025 economy profile: Croatia.

obtain a construction-related permit (90 days) and an environmental permit (120 days) is particularly long. Digital public services are lacking for environmental permits. Regarding the resolution of commercial disputes, many consider that courts are not independent and impartial and that alternative dispute resolutions, such as arbitration and mediation, are not reliable. The time to resolve a liquidation proceeding is particularly long (35 months). With regards to simplification measures for maritime transport, Croatia has not yet implemented the European Maritime Single Window environment (EMSWe) ([106]), a key tool for efficiency in the shipping sector, applicable since 15 August 2025.

Access to loans is good comparatively to other Member States, while access to equity financing remains slightly more difficult than in the rest of the EU despite significant progress. 44% of Croatian firms report that access to finance is an obstacle to investment, which is in line with the EU average ([107]). Firms in Croatia rely more than the EU average on funding from banks and less on funding from capital markets (see Annex 6). Indeed, access to bank loans is comparatively good as reflected by the EIF index on access to loan (see table A5.1). Access to equity has significantly improved compared to other Member States but is still slightly below the average (see the EIF index on access to equity in table A5.1). In particular, access to risk capital remains limited, with insufficient availability of funding for start-ups and scale-ups representing a key bottleneck to the development of a more dynamic start-up ecosystem (see Annex 4).

Businesses are increasingly suffering from late payments ([108]) from other businesses. According to the EU payment observatory ([109]), the average business-to-business (B-to-B) payment period reached 64 days in 2024, the longest in the EU. The payment period reflects the sum of contractual payment terms and payment delays. In B-to-B transactions, the average contractual payment term reached 46 days, also the longest in the EU. In addition, the average payment delay amounted to 17.8 days, broadly in line with the EU average but representing a significant increase compared to 2021 (from 11.6 days in 2021 to 17.8 days in 2025). Among sectors, construction recorded the worst payment performance in 2024, despite recent improvements.

Despite strong recent progress, risks to the deployment of fibre-to-the-premises (FTTP) and very high-capacity networks (VHCN), as well as persistent gaps in mid-band 5G, could slow Croatia's progress towards building its connectivity infrastructure. 36% of Croatian firms report that digital infrastructure is an obstacle to investment (EU average: 44%) ([110]). VHCN coverage increased from 67.8% in 2023 to 78.9% in 2024, but remained below the EU average (82.5%), while rural VHCN coverage reached 49.1%, still well below the EU average (61.9%). FTTP coverage rose from 62.1% in 2023 to 75.4% in 2024, exceeding the EU average (69.2%), although rural FTTP coverage (44.4%) continued to lag behind the EU average (58.8%). Overall, in 2024, 5G coverage reached 94.2%, broadly in line with the EU average (94.3%), with rural coverage (86.3%) above the EU average (79.6%), while coverage in the 3.4–3.8 GHz band remained limited at 45.2% nationally and 8.5% in rural areas, compared to EU averages of 67.7% and 26.2%, respectively. In 2024, no new measures for VHCN and FTTP roll-out were introduced. Reduction in the scope of the RRF-funded National Framework Programme for Broadband Infrastructure has increased implementation risks, particularly for FTTP and VHCN deployment in suburban and rural areas. Major risks for the development of overall broadband infrastructure, particularly affecting suburban and rural areas, as well as islands, arose from a recent removal of a project on Next Generation Network (NGN) broadband backhaul infrastructure from a cohesion policy programme, which was covering approximately 50.2% of all rural and suburban settlements in Croatia.

([106])EC, European Maritime Single Window environment implementation monitoring survey analysis report, 31/10/2025.

([107])European Investment Bank Investment Survey (EIBIS) 2025, 10/2025, p.30.

([108])Part of the barriers highlighted in the Single market strategy ("Terrible 10") and the 2026 Annual Single Market and Competitiveness Report.

([109])EC, EU payment observatory, annual report 2025, 12/2025.

([110])European Investment Bank Investment Survey (EIBIS) 2025, 10/2025, p.30.

Single Market

The integration of Croatian firms into the Single Market lags slightly behind the EU average. Croatia's trade integration into the Single Market was measured at 38.1% of GDP in 2025 vs. 40.7% in the EU (see Table A5.1).

An efficient national standardisation system ([111]) plays a critical role in providing Croatia's industry with easy market access and improve their competitiveness. As such, Croatia should further support *Hrvatski zavod za norme*, its national standardisation body, in transitioning towards a digitalised process. This is a key requirement to ensure a faster and more inclusive national standardisation process. Moreover, while *Hrvatski zavod za norme* reported in its last annual report that over 1650 Croatian experts take part in the standardisation process, the rise of new technologies, such as Artificial Intelligence and quantum, call for additional resources to support the upskilling of Croatia's experts in these critical sectors.

Although the public procurement framework is competition-friendly, the share of single bids is increasing. According to OECD, Croatia has one of the most competition-friendly public procurement frameworks ([112]). Direct awards represented 5% of the awards in 2025, slightly less than the EU median of 6% (see Table A5.1). However, the share of single bids has increased and is slightly above the EU median with 31% against 27% (see Table A5.1). According to the World Bank ([113]), many firms find it difficult to meet the administrative requirements to participate in tenders. To improve the situation, Croatia adopted several measures, including the publication of SME-specific guidelines on the Public Procurement Portal, the organisation of targeted workshops ([114]) and the upgrading of the national platform for public tenders, including simplified interactive forms for bidders and free notifications to SMEs about procedures of interest ([115]).

However, Croatia's eProcurement landscape and limited lifecycle data highlight the need for interoperable systems, common standards, and stronger data governance. Croatia's centralised eProcurement service allows economic operators to use a single system to access all national public procurement procedures. In addition, Croatia has implemented features within their eProcurement platform that facilitates the participation of foreign suppliers. However, some issues remain that create complexity and barriers to participation for firms of other Member States. Firms from other Member States must use the Croatian system to participate in public procurement procedures. This barrier could be removed by introducing interoperability and common standards. Although Croatia has implemented the once-only principle within its national eProcurement systems and plans to further strengthen this principle through law amendments, buyers across the EU still lack access to relevant evidence. Regarding reporting and monitoring of the public procurement data, Croatia has dedicated services within the Ministry of Economy, but the reporting and monitoring do not fully cover the public procurement lifecycle. Further reinforcement of data collection and analysis would support data driven management of the public procurement lifecycle.

Businesses rate corruption risks in public procurement above the EU average. In Croatia, 78% of companies (EU average: 51%) consider collusive bidding in public procurement procedures to be very or fairly widespread, and 75% (EU average: 58%) consider tailor-made specifications for particular companies to be 'very' or 'fairly widespread' practice. Among companies that have experience in and participated in a public procurement procedure, 27% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([116]). 27% of businesses perceive the level of independence of the public procurement review body (the State Commission

([111])Rigid and outdated standardisation system has been identified as one of the 'Terrible Ten' barriers to the Single Market that have been highlighted in the Single market strategy, 2025.

([112])OECD, 2024, Product Market Regulation Indicators.

([113])World Bank, Business Ready – 2025 economy profile: Croatia.

([114])European Commission, 2024, Article 83 – Public Procurement monitoring reporting.

([115])Croatia's reply to Commission's questionnaire, 12/2025.

([116])EC, Flash Eurobarometer 557, p.133.

for Supervision of Public Procurement Procedures-DKOM) as 'very' or 'fairly good' when it is reviewing public procurement cases ([117]). The Electronic Public Procurement Notice (EOJN) RH platform has been upgraded to simplify processes and make information more accessible to the public and oversight authorities to enhance a level playing field for businesses ([118]).

Croatia is now among the best performers in implementing the Single Market rules. Compared to last year, Croatia drastically reduced its average delay in transposing Single Market directives into national law: it is now well below the EU average (5.5 months vs. 9.7 months in the EU). The percentage of directives not transposed in 2025 (0.9%) remains stable compared to 2024 and is at a level below both the EU average (1.1%) and the 1% target set by the EU Council (see table A5.1). In addition, the percentage of directives incorrectly transposed continues decreasing and is now significantly below the EU average (0.8% vs. 1.1%) (see Table A5.1). Regarding the handling of infringement cases, Croatia is also performing well, with fewer pending Single Market infringements since 2023. In 2025, Croatia had 18 pending infringement cases, against 25 in the Member States on average. In 2025, the resolution rate of SOLVIT cases (93.9%) was even higher than in 2024 and was well above the EU average (84.6%) (see Table A5.1).

Compliance of products circulating in the Single Market ([119]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers. In Croatia, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 98.9 investigations per one million inhabitants, which is lower than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system.

Regulatory restrictions on professions ([120]) are being reduced. 226 professions are regulated in Croatia ([121]), which is more than the EU median (200). In 2023, according to the OECD ([122]), restrictions on regulated professions in Croatia were below both the EU and OECD average, except for notaries and real estate agents. Notaries in Croatia were facing the highest restrictions in the EU. Under its RRP, Croatia has committed to simplifying or removing at least 50 regulatory requirements for professional services, based on the implementation of the second and third Action Plans on liberalisation of services markets ([123]). The Commission found that Croatia had successfully reached this target([124]) , by having implemented 62 measures simplifying or removing regulatory requirements for professional services, including the professions of lawyers, notaries, tax advisors, auditors, pharmacists, physiotherapists, architects, engineers and tourist guides, between February 2020 and September 2025. Those measures have fully or partially addressed several of the World Bank's recommendations ([125]), including several recommendations linked to the registration and membership costs of professional chambers, the fragmented exclusive rights in individual professions, the provision of the post-graduate professional exam and the ownership and management restrictions on tax advisors. However, there is margin for further progress. In its answer to a survey carried out by the European Commission between December 2025 and February 2026, Croatia reported that it had fully implemented only 3 of the 13 Commission recommendations from 2021([126]).

([117])EC, Justice Scoreboard (2025), p. 53; EC, Flash Eurobarometer 555, 1/2025, p. 39.

([118])EC, Rule of Law Report- Country Chapter Croatia (2025), pp. 11-12.

([119])Part of the barriers highlighted in the Single market strategy ('Terrible Ten') and the 2026 Annual Single Market and Competitiveness Report.

([120])Restrictive and diverging national services regulations are one of the ten Single Market barriers that should be addressed in priority. EC, The Single Market: our European home market in an uncertain world, 21.05.2025.

([121])EC, Regulated Profession Database.

([122])OECD, Product Market Regulation Indicators, 2024.

([123])On 6 May 2025, the government adopted the Third Action Plan for the Liberalisation of Services Markets. The plan includes 21 measures to be implemented in 2025.

([124])Commission's positive assessment of Croatia's 7th request payment, target 12, p.34, 1/12/2025.

([125])World Bank, License to Compete - Reforming the Regulation of Professions in Croatia, 2020.

([126])European Commission, 2021, *Communication on taking stock of and updating the reform recommendations for regulation in professional services, COM (2021)385. 9/7/2021*, Eur-lex.europa.eu.

Croatia has set price caps on food, but food prices continued to increase faster than in the EU and euro area until August 2025. In response, Croatia has set price caps on certain essential products (mainly food). The number of capped products increased from 9 items at the end of 2022 to 30 in September 2023, 70 in February 2025 and 100 in December 2025. In addition, Croatia adopted the Act on Exceptional Price Control Measures. This Act has been in force since March 2025. It enables price control measures to be exceptionally introduced to prevent the negative consequences of price changes, mitigate inflation, prevent monopolistic pricing and address other extraordinary circumstances. In addition, two decisions were adopted: (i) the Decision determining the highest prices of certain products ([127]) and (ii) the Decision on publishing price lists ([128]). Price caps are susceptible to undermine free access by traders to the market in conditions of effective competition and disturb the entire supply chain ([129]). Despite the price caps, food prices have continued to increase faster in Croatia than in the EU and the euro area ([130]). First analyses also indicate that the publication of price lists does not seem to have led to a significant change in price levels and price dispersion for food price products, possibly due to limited awareness raising about the available data and comparison possibilities ([131]).

So far, Croatia has not addressed or identified the reasons why food prices have increased more there than in the rest of the EU and euro area. The consumer price index has been increasing faster than the producer price indexes for food products over the past years ([132]), which may suggest a lack of competition in the retail trade, anti-competitive practices in the food supply chain and/or territorial supply constraints ([133]). In the retail trade (covering the distribution of food and other usual consumption products), according to the OECD ([134]), Croatia has imposed high regulatory barriers to entry and competition. These restrictions can lead to higher prices. Regarding the food supply chain, the Croatian competition authority expanded its annual groceries retail market inquiry for 2024([135]), to include potential supply restrictions. In addition, it conducted a sector enquiry into the relations and terms of business between retailers and suppliers in the vertical supply chain for food, beverages and household hygiene products. The enquiry did not identify structural competition concerns in terms of prohibited agreements between market participants, although certain practices, such as potential tying, will be subject to further examination. According to the competition authority, the increase in retail prices was primarily driven by the rise in input and procurement costs, particularly for distributors who, based on the data, more frequently adjusted their price lists. This points to the need to examine all drivers of the inflation of food products, including – but not limited to - the evolution of the costs and productivity of Croatia's agro-industry and wholesale and retail trade sectors.

Croatia remains outside the Unitary Patent system. Unlike 25 other Member States, it does not participate in the enhanced cooperation on unitary patent protection. Joining it would be the first step towards possible integration into the unitary patent system. This has two consequences: firstly, Croatian and non-Croatian companies remain burdened by the significant administrative costs of national validation and maintenance fees for obtaining patent protection in Croatia. Secondly, in Croatia European patents can only be enforced in national courts and so do not benefit from the advantages offered by the Unified Patent Court in terms of centralised litigation. For all these reasons, by refraining from joining the unitary patent system, Croatia may be less attractive, in terms of innovation support, than the Member States already participating in that system. Finally, the fact that several Member

([127])Croatia, Official Gazette 142/2025.

([128])Croatia, Official Gazette 75/2025.

([129])CJEU, case C-557/23, SPAR v Hungary, paragraph 47.

([130])EC, Food price monitoring tool; data available until 12/2025 when this text was written.

([131])EIZ, Why didn't the public announcement of the price list equalize the prices in stores? 10/12/2025.

([132])Eurostat, Harmonised Index of consumer prices and domestic market- producer price index.

([133])Territorial supply constraints are one of the ten Single Market barriers (EC, The Single Market: our European home market in an uncertain world), 21.05.2025.

([134])OECD, Product Market Regulation Country note Croatia, 2024.

([135])Croatia's competition authority, Groceries Retail Market Inquiry for 2024.

States do not participate in the unitary patent system weakens the single market, making the EU less attractive for inventors and innovative entities.

Industry and economic security

Manufacturing faces several challenges. The industry represented only 15% of Croatia's added value, against 19% in the EU on average, in 2024 ([136]). Croatian industry faces several challenges in its path towards higher productivity, competitiveness and decarbonisation, such as outdated production technology in some sectors, the lack of innovation and university-business linkages (despite some good examples – see Annex 4 and Annex 18), the lack of capital and labour, relatively high social welfare contributions compared to its neighbours, among the highest electricity prices for non-household consumers in the EU, and complex and long administrative procedures in some areas, for instance for the approval of plant expansion. Those challenges add to the challenges faced by the EU industry overall, including rising Chinese imports, high gas price and volatile prices of the input materials. However, there are dynamic industrial companies with high added value production, which have found their niches, in particular in the energy sector, electrical equipment, the beverage industry, non-metallic minerals and construction materials.

Croatia has set the objective of increasing the share of manufacturing in GDP, especially in high value-added sectors. The ministry of economy is developing a National Plan for the development of industry for 2027-2034, to increase production, investment, innovation and skills. Croatia wants to connect industry with research and innovation capacities, reduce the innovation gap of critical technologies such as artificial intelligence, quantum technology, biotechnology, encourage cooperation between the private and public sectors, promote the development of the circular economy, strengthen the resilience of supply chains, improve economic security and decrease administrative burdens, to facilitate investment.

Clean technology manufacturing capacities are limited, but there is potential for further growth. These capacities include makers of heat pumps, solar panels, wind energy technologies, storage and batteries, grid components and hydro power equipment ([137]). Croatia's exports in clean tech ([138]) represented less than 0.2% of its GDP in 2022, much less than in Bulgaria, Poland and Romania. Most of those exports related to wind technologies. Simulations conducted by the World Bank ([139]) suggest that due to its low initial export levels and high potential, Croatia could increase its clean energy technology-related exports to other EU countries several times over the 2022 level.

Croatia is increasing its support to clean tech and is making progress in implementing the Net Zero Industry Act. Croatia is promoting clean tech mainly through: (i) financial support in the form of tax credits and subsidies for the implementation of clean technology projects, and (ii) support for investment in research and development for producing energy from renewable sources and storing energy. In the framework of the implementation of the Net Zero Industry Act, Croatia has established a single point of contact for net zero industry and published information on the Ministry of Economy's website. It has applied for a net-zero strategic project, but none is confirmed yet. Croatia has not yet established net-zero acceleration valleys but is working on it ([140]).

Energy-intensive industries are suffering from high energy prices. Croatia's production from energy-intensive industries decreased in 2024, down to slightly above the 2021 level ([141]). Compared to the EU average, Croatia's energy-intensive industries are faring slightly better, despite suffering from the increase in gas prices, notably in 2022, and from the sixth highest wholesale electricity price in the EU, above the EU average (see Table A5.1 and

([136]) Source: Eurostat. Gross value added and income by detailed industry (NACE Rev.2) [nama_10_a64__custom_20588311].

([137]) EC, The net-zero manufacturing industry landscape across the Member States, 1/2025; Bruegel, European clean tech tracker, update: 7/2024, EC, Net zero technologies' monitoring dashboard.

([138]) Electrolysers, electric vehicles batteries, heat pumps, solar, wind.

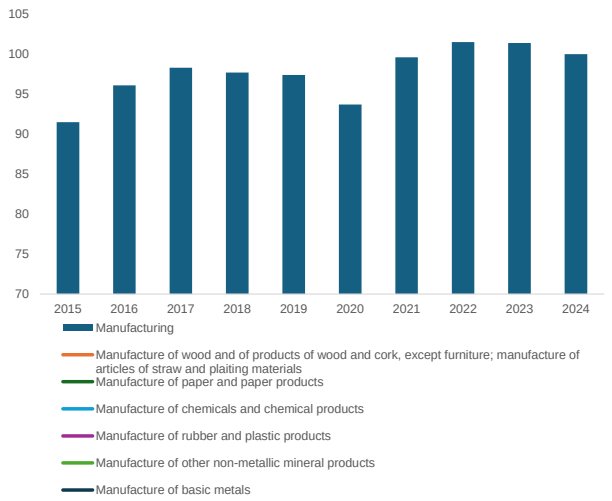
([139]) World Bank, Clean tech value chains, zooming in Croatia, 12/2024.

([140]) Croatia's reply to the EC questionnaire, 12/2025.

([141]) Eurostat, Production in industry – annual data, sts inpr a, production of NACE codes C16, C17, C20, C22, C23; C24.

Annex 9). Croatia has taken measures to support the decarbonisation of its energy-intensive industry (see Annex 8), but the regulatory framework suffers from bottlenecks (see Annex 9).

Graph A5.1: **Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

Industry depends heavily on imports of materials, including critical raw materials. Croatia's material import dependency is higher than the EU average (37.6% vs. 22.4%) and has been increasing over the last years from 35.5% in 2021 to 37.6% in 2024 (see table A5.1). Its dependency reaches 100% for metal ores and 19.7% for non-metallic minerals ([142]). In 2023, the most important non-food, non-fuel raw materials' imports by value included construction materials, wood (mainly from Bosnia-Herzegovina) and fertilisers (mainly from Turkey and Russia). The main critical raw materials imported by Croatia from non-EU countries, in terms of trade values, were aluminium (mainly from Russia and Bosnia-Herzegovina), coking coal (primarily from Kazakhstan, Colombia and Indonesia), and silicon metal (from Bosnia-Herzegovina) ([143]). Croatia has no strategic project approved under the Critical Raw Material Act ([144]).

To reduce its dependency on material imports, Croatia could better recycle materials. Circular material use is significantly below the EU average (5.9% vs 12.2%) and has decreased from 6.8% in 2022 to 5.9% in 2024 (see Table A5.1). Businesses find that incentives for businesses to engage in recycling are lacking. On a more positive note, the recycling rate for e-waste, a key source of critical raw materials, is above the EU average, at 90% in 2021. Croatia is taking measures to strengthen its circular economy (see Annex 8).

([142])Eurostat, dataset: env_ac_mid.

([143])EC, Raw material Information System, country profile Croatia.

([144])EC, strategic projects under the CRMA.

Table A5.1: **Single Market and Industry**

Croatia								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		65.1	66.5	70.9	68.3	68.0	100.0
	Business investment (share of GDP)[1]		11.4	12.9	14.0	14.3	-	12.6
	Public investment (share of GDP)[1]		4.8	4.1	5.7	5.2	-	3.9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		38.7	27.8	29.2	27.7	27.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.43	0.68	0.78	0.91	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.08	0.09	0.11	0.18	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		11.6	13.4	12.9	14.3	17.8	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		10.0	15.2	17.4	9.1	7.9	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	50.9	44.5	47.1
		from public entities in the previous or current quarter	-	-	-	18.3	13.5	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		38.7	45.2	40.3	39.0	38.1	40.7
	EEA Services Trade Restrictiveness index[6]		-	-	-	-	-	0.050
Public procurement	Single bids, % of total contractors[7*]		21	23	22	27	31	27
	Direct awards, % of negotiated procedures[7*]		6	5	5	4	5	6
Compliance	Transposition deficit, % of all directives not transposed[8]		1.4	1.1	0.6	0.9	0.9	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1.4	1.2	1.1	0.9	0.8	1.1
	SOLVIT, resolution rate per country, %[8]		100	92.9	93	88.9	93.5	84.6
	Number of pending infringement proceedings[8]		22	20	22	19	18	25
Industry and economic security								
	Electricity prices for non-household consumers[1]		0.1567	0.2885	0.3557	0.3020	0.2915	0.1462

(Continued on the next page)

Table (continued)

Energy-intensive industries	Electrification (electricity as a share of total energy consumption in industry)[1]	27.3	26.1	26.6	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]	31.3	28.1	28.1	26.7	-	25.2
Critical raw materials	Material import dependency, %[1]	35.5	36.8	36.6	37.6	-	22.4
	Circular material use rate[1]	6.1	6.8	6.1	5.9	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW	#N/A		- Electrolyzer, GW		#N/A	
	- Heat pump assembly	#N/A		- Battery, GW		#N/A	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 29.6% of GDP (32.3% in the EU) 10-year real return of 1.7 (1.4% in the EU)	The high level of pension assets yield a relatively high real return.
Households' financial assets	EUR 27 138 per capita (EUR 85 090 in the EU) o/w 8.4% in listed shares and bonds (7.6% in the EU) o/w 3.3% in investment funds (11.0% in the EU) o/w 2.2% in life insurance (13.4% in the EU) o/w 23.9% in pension claims (13.6% in the EU)	A modest share of households' financial assets is invested in equity and in capital markets. The high level of pension fund assets is primarily due to Croatia's mandatory three-pillar pension system. A savings and investment account (SIA) is not available but is being considered.
Venture capital (VC) **Private equity (PE)**	VC at 0.015% of GDP (0.064% in the EU) PE at 0.251% of GDP (0.487% in the EU)	Low venture capital and modest private equity investments.
Capital taxation	For individuals, capital gains and dividends taxed at 12%. For companies, capital gains taxed at 18%, dividends tax exempt.	Relatively low taxes on capital instruments
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

Croatia is performing satisfactorily in its work to meet the policy goals of the Savings and Investment Union (see Table A6.1). The 2025 country-specific recommendation (CSR) highlighted the challenges in Croatia in: (i) accessing diverse sources of financing for businesses and retail investors; and (ii) capital market development ([145]). Croatian companies rely mostly on internal funding or traditional bank funding. The domestic capital market has limited depth and liquidity but has recently shown renewed issuer confidence and investor appetite, while debt markets mostly channel savings to the government. Croatian households have a conservative approach to managing their financial wealth, and still have ample space to increase their level of direct and indirect participation in capital markets. The Croatian banking sector remains robust. Bank lending to households has grown more rapidly than lending to companies. Non-bank financial intermediaries, which have both the funds and the capacity to drive the development of Croatia's capital markets, prefer very conservative asset allocations that favour debt securities. The insurance sector is small and solvent with a conservative investment portfolio tilted towards bond holdings. Croatian pension funds have an investment focus on debt securities, but continue to grow. High levels of household pension fund assets are primarily due to the mandatory three-pillar pension system established in 2002, which requires contributions to fully funded mandatory pension funds (pillar 2), thus fostering significant capital accumulation. Croatia's fund management sector has nearly half of its assets in debt securities. The country's venture capital ecosystem remains small, and plans by the Croatian Bank for Reconstruction and Development (HBOR) to provide a framework for IPO funds could provide an alternative exit option for start-ups and scale-ups.

Business landscape and company funding

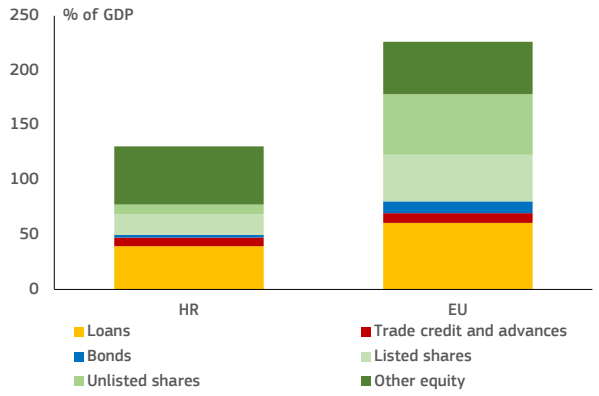
Croatian companies rely mainly on internal financing or traditional bank funding. The size structure of local non-financial corporations (NFCs) in Croatia is more tilted towards micro firms and SMEs (see also Annex 5). This has implications for the funding composition of the country's corporate sector. According to the 2024 EIB Investment Survey, internal financing is the dominant form of investment in the country, with 70% of Croatian firms financing their capital spending from retained earnings (EU average: 67%) ([146]). Owners' equity accounted for 40.7% of the funding of Croatian NFCs, followed by bank loans at 30.2% (EU average: 26.9%) at end-2024. Market based instruments (e.g. listed shares and/or corporate bonds) accounted for a modest 16.3% (EU average: 23.5%) at end-2024, underscoring the fact that Croatia's capital market is relatively undeveloped. The overall level of NFC funding in Croatia was equivalent to 130.6% of GDP, which is

([145])European Commission, 2025, Country specific recommendation. CSR.3.3: 'Boost access to diverse sources of financing for businesses and promote capital markets by further facilitating the participation of retail investors, including in the bond market, addressing barriers to listing, and strengthening corporate governance to improve the attractiveness of the stock market.'.

([146])EIB, 2024, 2024 EIB Investment Survey, p. 29.

substantially lower than the EU average of 226.2% of GDP at end-2024 (see Graph A6.1).

Graph A6.1: **Composition of non-financial corporations' funding**



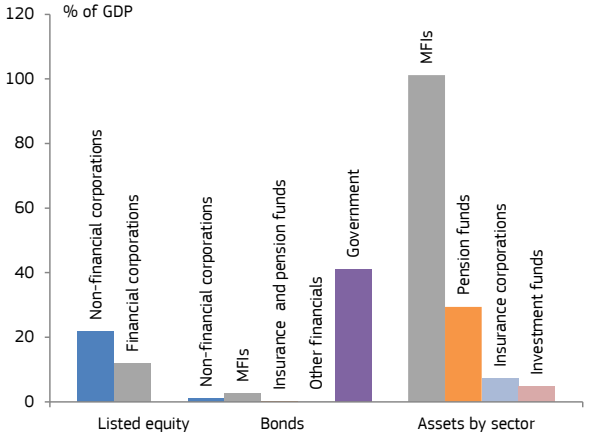
Source: Eurostat. End-2024.

Size and structure of the financial sector

Croatia's financial sector remains predominantly bank-driven, and there is scope for the future development of all non-bank intermediaries. The banking sector's assets were equivalent to 101.0% of GDP in Q3-2025, far below the EU average of 246.1%, but well above the assets of any other part of the domestic financial system. The Croatian banking sector is highly concentrated, with the top five lenders owning 82.4% of total assets (EU average: 50.9%), while 87.7% of the sector was foreign owned in 2024. Pension fund assets were equivalent to about 30.3% of GDP in Q3-2025 (EU average: 23.0%), which makes the pension fund sector the second largest segment of Croatia's financial system after the banking sector ([147]). The insurance sector was equivalent to only 6.9% of GDP in Q3-2025 (EU average: 53.9%). The investment fund sector was equivalent to 5% of GDP in Q3-2025 (see Graph A6.2).

Although the Croatian stock exchange has limited depth and liquidity, it is currently showing renewed issuer confidence and investor appetite. The Zagreb Stock Exchange (ZSE) is the primary platform for equity trading in Croatia. The market capitalisation of listed equity was equivalent to 34.8% of GDP in Q3-2025 (EU average: 69.9%). In November 2025, stocks accounted for 56.2% of that market capitalisation, bonds 43.6%, and exchange-traded funds (ETFs) 0.2% ([148]). NFCs accounted for 65% of that capitalisation at the end of 2024. In 2025, the ZSE had three successful initial public offerings (IPOs) (ING-GRAD, Žito Group, and Tokić), which in total raised EUR 214 million, including around EUR 85 million from retail investors. The ZSE's Progress Market (a multilateral trading platform for SMEs launched in 2019) also saw growth in volume and activity in 2025 ([149]). Overall, the Croatian capital market is mainly characterised by the listing of large traditional-sector companies rather than tech/start-up exits, although retail investor demand is growing.

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO. End-2024.

Measures have been taken to further foster the development of the Croatian capital markets. On the 2025 CSR on promoting capital markets (including the improvement of the attractiveness of the stock market), the Croatian government adopted a strategic framework for capital market (CM) development (2025-2030), and a corresponding action plan (2025-2026), as

([147])The figure for pension fund assets (as a percentage of GDP) provided in Graph A6.2 is based on ECB data on pension funds. It is therefore different from the figure provided in Table A6.1 on the assets of asset-backed pension schemes, which is based on OECD data and includes all pension providers (not only pension funds) and public pension reserve funds.

([148])ZSE, 2025. Market capitalisation.

([149])Progress Market, 2025, Market capitalisation.

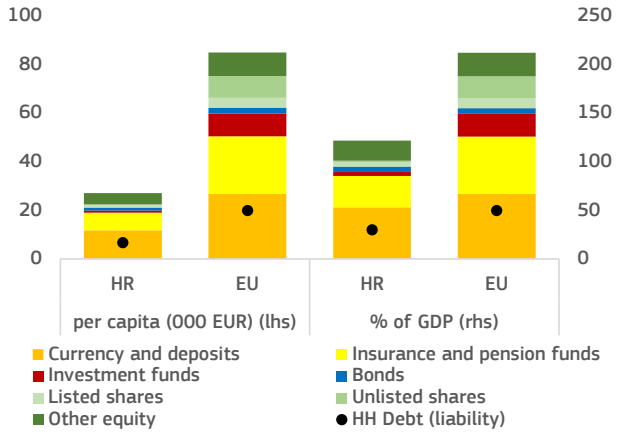
part of the recovery and resilience plan. Recognising the importance of cross-border trading, the ZSE fully acquired the Ljubljana Stock Exchange, and partially acquired the North Macedonian Stock Exchange. To stimulate regional markets, eight central and eastern European stock exchanges (Bratislava, Bucharest, Budapest, Ljubljana, Skopje, Sofia, Warsaw, and Zagreb), signed a memorandum of understanding in November 2024 along with the EBRD to foster the joint development of national capital markets through closer cooperation, regulatory alignment, and increased market integration. This initiative was endorsed by the respective Ministers of Finance with a memorandum of understanding signed in August 2025. In April 2026, the respective regulators also signed a memorandum of understanding, thereby bringing all key institutions to this project. Croatia is trying to position itself as regional financial centre. Strengthening corporate governance for private companies and state-owned enterprises (SOEs) is also a priority in the action plan (action plan, Section 3), as identified in the 2025 CSR. This is because listed companies require strong corporate governance to attract investment, ensure transparency, and hold themselves accountable to investors. In particular, Croatia adopted a new law in 2025 to improve corporate governance and risk management in SOEs, and is now exploring options to promote the issuance of corporate bonds.

Financing through debt securities is dominated by the sovereign. The outstanding volume of debt securities in Croatia stood at 45% of GDP at end-2024. The domestic bond market in Croatia is dominated by government securities, which accounted for 91.5% of the total bonds in issuance as of end-2024 (combining Eurobond issues abroad and large retail national bonds/T-bills domestically). Financial institutions, whether banks or not, accounted for 5.8% of total debt security issuance, while NFCs accounted for the remaining 2.7%. Overall, ESG/sustainability-linked bonds are a new trend, and there are occasional issuances of municipal bonds.

Households' participation in capital markets

Croatian households have a high share of their assets in cash and deposits, which implies that there is scope to further increase their level of direct or indirect retail investment. In aggregate, Croatian households have financial assets equivalent to 121.9% of GDP (EU average: 212.2%). Croatian households have higher-than-average holdings of cash and deposits, which represented nearly half (43.7%) of household assets at end-2024 (EU average: 31.6%), indicating significant liquidity held in bank accounts. Around 38.1% of households' financial assets were held in pension and investment funds or held directly in financial investment instruments (EU average: 46.5%) at end-2024. More specifically, Croatian households have about 26.5% of their financial wealth invested in insurance and pension funds (EU average: 27.8%), 3.3% in investment funds (EU average: 11.0%), 4.7% in bonds (EU average: 2.8%), and 3.7% in listed shares (EU average: 4.9%) (see Graph A6.3).

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

Although financial literacy in Croatia is greater than the EU average, more can be done to deepen the practical knowledge of retail investors. The July 2023 Eurobarometer survey showed that only 20% of Croatians had a high level of financial literacy, 65% a medium, and the remaining 16% a low level, compared with the EU average of 18% for high financial literacy, 64% for medium, and 18% for low ([150]). In Croatia, the overall financial literacy indicator (the average of the financial knowledge and financial behaviour indicators) was 47.7% vs an EU average score of

([150])European Commission, 2023, Flash Eurobarometer Survey - Monitoring the level of financial literacy in the EU, p. 17.

45.5% ([151]). A national strategic framework for consumer financial literacy was implemented for the period 2015-2020, and updated for the period 2021-2026 ([152]). Financial education has also been included in the curricula of primary and secondary schools. Croatia has adopted three guidelines related to financial literacy (one in 2024 and two in 2025), covering the financial sector: credit institutions ([153]), insurance companies ([154]), and pension funds ([155]). These three sectors are required to allocate a portion of their revenue to activities aimed at improving the citizens' financial literacy ([156]). Improving financial literacy across all age groups is one of the key ongoing actions in the strategic framework for the development of the capital market in Croatia 2025-2030 (action plan, Section 4.2).

Further initiatives are aimed at 'facilitating the participation of retail investors, including in the bond market' (a goal set in the 2025 CSR). Firstly, since 2023, the Croatian government has enabled citizens to directly participate in 18 issuances of government securities (treasury bills and bonds), in an effort to familiarise households with direct investment in financial instruments. This has resulted in Croatian households investing more than EUR 12.2 billion. The interest earned on these bonds can be tax-exempt, particularly if the bonds are held for more than two years, making them an attractive alternative to bank deposits. However, this has also created a preferential treatment for these instruments compared with listed shares and other bonds. Today, retail investors hold more than 8.5% of total public debt in Croatia (approximately EUR 4.5 billion). Secondly, the e-Treasury digital platform and the m-Treasury mobile application were both developed to enable Croatians to make simple and safe investments via the internet or on their smartphone, making investing more accessible to the public. Thirdly, the Croatian government is exploring the possibility of introducing a savings and investment account ([157]), which could be a useful tool to help both foster a stronger investment culture among the public and increase capital market liquidity (strategic framework for CM development, action plan, Section 4.1).

The banking sector: resilience and financing of the economy

The Croatian banking sector is resilient and well capitalised, and is thus not constrained in its role of funding the economy. Key capital ratios for the Croatian banking sector are solid and above the EU average, underlining the robustness of the country's banks (see Table A6.2). As of Q2-2025, the aggregate MREL (minimum requirement for own funds and eligible liabilities) stood at 36.2%, which was above the required level ([158]). Profitability, asset quality and liquidity indicators are also above EU average. However, the banks' asset quality outlook is subject to increased uncertainty due to the current conflict in the Middle East and its impact on energy prices and economic growth. Return-on-equity stood at 15.6% in Q3-2025 (EU average: 9.6%), and the aggregate non-performing loans ratio stood at 2.2% (EU average: 1.9%) (see Table A6.2). Croatian banks also maintain very strong liquidity positions thanks to an ample liquidity buffer. The net stable funds ratio was 173.4% ([159]), while the liquidity coverage ratio stood at 222% at the end of March 2025.

Bank lending in Croatia is driven by loans to households, which account for around 61% of all bank loans. As of September 2025, loans to households in Croatia reached EUR 26.8 billion (nearly half for residential mortgage loans) equivalent to 29.1% of GDP. As of September 2025, the aggregate outstanding volume of bank

([151])European Commission, 2025, Overview of CMU Indicators, Indicator 27.

([152])Croatian Ministry of Finance, 2024, Financial Literacy.

([153])Croatian Ministry of Finance, 2025. Guidelines on the fulfilment of the obligation of a credit institution regarding the allocation of revenues for the financing of activities to strengthen the financial literacy of citizens of Croatia.

([154])HANFA, 2025. Guidelines for insurance companies and reinsurance companies for strengthening the financial literacy of citizens of the Republic of Croatia.

([155])HANFA, 2024. Guidelines for pension companies and pension insurance companies to strengthen financial literacy of citizens of the Republic of Croatia.

([156])Commission Communication on a Financial Literacy Strategy for the EU, COM(2025) 681 final.

([157])Commission Recommendation of 30.9.2025 on Increasing the Availability of SIAs with Simplified and Advantageous Tax Treatment and EC SWD 2025, p.17.

([158])EBA, 2025. MREL Dashboard – Q2 2025, p.13.

([159])HNB, 2025. Financial Stability Report (June 2025), p.70.

loans to NFCs had reached EUR 17.2 billion (around 18.7% of GDP). The annual growth rate in loans to households reached 11.6% in April 2025, while the annual growth rate in consumer loans reached 15.3% in April 2025 ([160]). The continued fall in interest rates (below the euro-area average) on new housing and consumer loans at the beginning of 2025 contributed to an increase in demand for loans ([161]). Croatia's central bank, the HNB, has introduced in July 2025 new macroprudential measures to limit consumer lending. The annual growth rate for corporate loans reached 6.4% in 2024, while in the first quarter of 2025, this growth accelerated to 12.2% year-on-year ([162]). The growth in corporate lending can be attributed to construction and real estate corporations, as well as to manufacturing and trade.

Role of non-bank financial intermediaries

Institutional investors have the funds and capacity to further drive the development of Croatia's capital markets. A 2024 paper by CEPS showed that pension funds in Croatia, Slovakia, and Slovenia accounted for only 6% of private equity and venture capital funds raised annually between 2007-2023, a figure that falls substantially short of the 19% for the Baltic states or the 20% shares for Nordic Member States ([163]).

Croatia's insurance sector is growing, solvent, and focused on non-life insurance, while climate change remains an issue of concern. Total premiums collected in the first nine months of 2025 amounted to EUR 1.5 billion (a year-on-year increase of 8.1%), of which 84.2% was related to non-life insurance ([164]) premiums (a 10.2% year-on-year increase), and 15.8% was related to life insurance premiums (a year-on-year decline of 1.9%) ([165]). Efforts are being made to increase financial literacy in this area to encourage the take-up of life insurance products. The sectoral solvency ratio was 233.9% in Q2-2025 (EU average: 246.6%). Moreover, according to EIOPA's 2024 dashboard, Croatia is the European country with the fourth-highest aggregated insurance-protection gap for natural catastrophes (in particular, for floods, earthquakes, and wildfires) ([166]). Insurance premiums for coverage against fire and natural damage increased by 13.3% in 2024, partly due to inflation, but also due to an increase in the number of insurance policies (4.8%) because of climate change risks and increased awareness of these risks ([167]).

Given the high share of non-life business and its specific liability structure, the Croatian insurance sector has a conservative asset allocation, with nearly half of its investment portfolio composed of bonds. The Croatian insurance sector is dominated by fixed-income securities, with government bonds (mostly domestic) accounting for 44.7% of total assets in Q2-2025 ([168]). This conservative approach ensures low risk and predictable stable returns. Equity accounted for 14.8% of total assets, property for 12.3%, investment funds for 10.8% (of which 22.4% was in equity funds and 11.9% in private equity funds), and corporate bonds for 6.6%. Cash and deposits, held mostly for liquidity management, are roughly 6.4% of the allocation. Capital requirements are the main reason that Croatian insurers choose to invest in safe, fixed-income instruments instead of equity. In addition, the country's dominant non-life sector relies less on alternative asset classes due to the long-term investment horizon of alternative assets.

The Croatian fund management industry is small and characterised by rather conservative investment strategies. The net assets of UCITS funds amounted to EUR 3.93 billion at the end of September 2025 ([169]), while alternative investment funds (AIFs) amounted to

([160])HNB, 2025. Financial Stability Report (June 2025), p.35.

([161])HNB, 2025. Financial Stability Report (June 2025), p.37

([162])HNB, 2025. Financial Stability Report (June 2025), p.45.

([163])ECMI, 2024, Closing the gaping hole in the capital market for EU start-ups – the role of pension funds, p.2.

([164])Motor vehicle liability (35.3%), road vehicles (19.5%), against fire and natural disasters (9.5%), and health insurance (8.7%).

([165])HANFA, 2025. 2025 September Monthly Report.

([166])EIOPA, 2025. Dashboard on Insurance Protection for Natural Catastrophes in a Nutshell.

([167])HANFA, 2025. Financial Stability Report, June 2025, p. 41.

([168])EIOPA, 2025. Insurance Statistics (under asset exposures); ECB, 2025. Insurance, Q3-2025.

([169])HANFA, 2025. 2025 September Monthly Report.

EUR 1.2 billion at the end of June 2025 ([170]). Nearly half of the assets of the Croatian fund management industry were allocated to bonds (43%), followed by shares and other equity (38.6%), deposits (11.3%), and investment funds (including money market funds) (5.6%) in Q3-2025 ([171]). The greater offering of UCITS funds (as a result of a strong inflow into money market funds) ([172]) and favourable market developments have stimulated the interest of small investors in domestic investment funds. In 2025, the Croatian Financial Services Supervisory Agency (HANFA) conducted a consultation on the regulatory framework for AIFs and UCITS funds ([173]), and proposed to remove 'gold-plating' (additional national requirements beyond EU legislation) for AIFs ([174]), which is expected to give an additional boost to the market (by reducing administrative burden). For instance, it is now proposed that the small AIF managers would need only registration (and not licencing as before).

Croatia's pension fund market continues to grow. Total net assets of pension funds reached EUR 24.7 billion at end-2024 (14.8% growth year-on-year). Croatia has a basic pay-as-you-go system (pillar 1), fully funded mandatory pension funds (MPFs) based on individualised capitalised savings (pillar 2), and voluntary pension funds (pillar 3) ([175]). In September 2025, MPFs accounted for 94.2% of total pension funds assets in the country, while voluntary pension funds accounted for only 5.8%. Croatia has put in place a centralised tracking platform for pillar 1 and 2, and the platform is expected to cover pillar 3 funds later in 2026 ([176]).

The domestic pension fund industry has a conservative investment profile, placing a greater focus on bonds, with only moderate growth in equity investments. Debt securities accounted for 58.3% of total assets held by pension funds as of Q3-2025. Equities were the second largest investment asset held by pension funds at 24.1%, while investment funds accounted for 10.3%, and bank deposits for 6.6% of their total assets ([177]). The high exposure to bonds reflects their perceived lower level of risk compared with other investment instruments ([178]).

The performance of private pensions has been good. The pillar 2 MPF manages around EUR 23 billion worth of assets for future retirees. The pension fund life-cycle investment model set up A, B, and C fund categories (varying from riskier to safer) to align investments with members' age ([179]) and proximity to retirement (with declining investment risk as retirement approaches). As of 1 January 2024, a new legislative package entered into force that alleviates many requirements for pension funds and allows for a more diversified investment portfolio (including a higher threshold for equities, AIFs, and real estate depending on the category) ([180]). It also increases choice for members, allows greater flexibility in lifecycles, and reduces administrative costs. As of 31 October 2025, the exposure of pension funds to AIFs remains moderate and below the regulatory caps, reflecting a prudent and phased approach. Overall, the revisions made it possible for pension funds to invest in riskier and possibly more profitable assets.

Interest in voluntary pension funds continues to grow, but their full potential has not yet

([170])HANFA, 2025. Financial Stability Report, June 2025, p. 35.

([171])ECB, 2025, Euro-Area Investment Funds, Q3-2025.

([172])HANFA, 2025. Macroprudential Risk Scanner, Nov , p.11.

([173])HANFA, 2025. Eliminating Excess Regulation (Gold Plating) from the Legislative Framework for AIFs and UCITS Funds in Croatia (April 2025); Report on the Consultation (July 2025).

([174])There are three types of alternative investment funds: a full scope AIF manager (large), and two under-the-threshold AIF managers (small and medium).

([175])OECD, 2025. Annual Survey on Investment Regulation of Pension Providers , pp.76-85, 190-193, 307-317, 441-447.

([176])Commission Recommendation of 20.11.2025 on Pension tracking systems, pension dashboards and auto-enrolment C(2025) 9300 final; Commission Communication of 20.11.2025 on Enhancing the capacity of the EU supplementary pension sector to improve retirement income and supply long-term capital to the EU economy, COM(2025) 839 final (also SWD(2025) 367 final).

([177])ECB, 2025, Euro-Area Pension Funds, Q3-2025.

([178])HANFA, 2024, Macroprudential Risk Scanner, p. 24.

([179])At end-September 2025, category B funds had 75.39%, A funds had 21.03%, and C funds had 3.58% of all MPF members. Annual Mirex returns reached 16.35% for category A, 9.94% for category B and 2.68% for category C. HANFA, 2025, Monthly Market Review, Sept 2025.

([180])HANFA, 2025. Financial Stability Report, June 2025, p. 26. For instance, now categories A and B have the obligation to invest a minimum of 5% of net assets in an alternative investment fund with a state guarantee of return on the total investment (overall category A can invest up to 20% in AIF, while category B up to 15%). Category A can invest up to 70% in equities, while category B can invest up to 40%.

been reached despite government incentives, and flexible options for both savings and withdrawing funds. Pillar 3 funds in Croatia manage around EUR 1.4 billion worth of assets (5.8% of the combined assets of pillar 2 and pillar 3) so it is not yet very sizeable. There are two types of voluntary pension funds in Croatia: (i) the closed voluntary pension funds set up by employers (occupational); and (ii) the optional open voluntary pension funds (personal), which cover most pillar 3 assets. As of 1 January 2024, asset allocation also permitted a more diversified investment portfolio in these voluntary funds (including AIFs and real estate, and unlisted covered bonds). The regime is now also more flexible on duration of participation, and on the amount, frequency and timing of contribution to the fund. Voluntary pension funds also benefited from some new incentives such as a contribution subsidy by the government with an annual threshold (the only condition for using the funds is that the beneficiary must first reach 55 years of age). Moreover, the legal amendments also introduced greater investment limits by asset class.

Venture capital ecosystem

The Croatian venture and growth capital ecosystem is not developed enough to meet the financing needs of innovative firms. Venture capital (VC) investments in Croatia averaged 0.015% of GDP in 2022-2024, significantly below the EU average of 0.064% ([181]). Private equity (PE) investments averaged 0.251% in 2022-2024, nearly half of the EU average of 0.487% ([182]) (See Annex 4 for more details). According to HBOR, the Croatian VC market is shallow, with small VC funds (average size EUR 50 million) that are primarily focused on early-stage investments. As start-ups grow, they typically turn to larger pan-European VC funds. The Croatian PE market is also small, with small sized funds (the average size of a first-time PE fund is EUR 60-70 million and second generation is EUR 120 million). The local VC/PE market is also supported by international initiatives (e.g. the European Investment Fund, and the Croatian Bank for Reconstruction and Development (HBOR)). The Croatian recovery and resilience plan included measures to support the financing of start-ups (C1.1.1.R5-I1). The strategic framework for capital market development, mentioned earlier, gives HBOR a dedicated role, along with the Ministry of Finance and HANFA, in exploring ways to stimulate the VC/PE market in Croatia and set up an IPO fund, which could offer successful start-ups an attractive exit option (action plan, Section 3.2).

([181])European Commission, 2025, Overview of CMU Indicators, Indicator 16.

([182])European Commission, 2025, Overview of CMU Indicators, Indicator 11.

Table A6.2: **Financial sector indicators**

		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	113.4	109.1	126.7	118.6	116.1	102.2	101.1	101.0	246.1
	Common equity Tier 1 ratio	20.2	21.7	22.7	23.8	22.1	21.5	20.3	19.7	16.8
	Total capital adequacy ratio	21.1	22.5	23.2	24.4	22.8	22.2	21.7	21.5	20.2
	Overall NPL ratio, % of all loans	7.3	5.2	5.3	4.2	3.0	2.5	2.3	2.2	1.9
	NPL ratio, loans to NFCs	18.5	12.0	11.4	8.9	5.8	4.5	3.9	3.4	3.5
	NPL ratio, loans to HHs	6.5	5.5	6.8	6.2	4.8	4.1	3.6	3.4	2.1
	Return on equity ratio[1]	8.8	9.1	4.7	7.7	9.4	15.7	15.0	15.6	9.6
	Loans to NFCs, % of GDP	21.0	19.8	22.6	19.6	20.4	18.5	18.0	18.3	29.3
	Loans to HHs, % of GDP	31.8	32.4	35.8	32.3	29.4	27.5	28.3	28.9	43.6
	NFC credit growth rate, %	2.0	4.6	6.6	1.8	20.8	6.3	6.3	12.8	2.5
	HH credit growth rate, %	5.6	7.7	2.6	4.6	5.7	9.5	12.0	13.8	2.6
Non-banking sector	Stock market capitalisation, % of GDP	-	-	36.4	32.0	27.0	29.2	33.9	34.8	69.9
	Initial public offerings, % of GDP	0.11	0.00	0.00	0.09	0.00	0.00	0.00	-	0.06
	Market funding ratio	53.1	53.8	52.1	53.0	47.4	46.3	44.8	-	49.7
	Private equity, % of GDP	0.103	0.124	0.213	0.331	0.489	0.410	0.251	-	0.487
	Venture capital, % of GDP	0.005	0.005	0.011	0.030	0.036	0.030	0.015	-	0.064
	Financial literacy, composite index	-	-	-	-	-	47.5	-	-	45.5
	Bonds, % of HHs' financial assets	0.4	0.4	0.4	0.3	0.5	3.2	4.6	-	2.8
	Listed shares, % of HHs' financial assets	4.7	4.9	3.8	3.8	3.5	3.7	3.7	-	4.8
	Investment funds, % of HHs' financial assets	2.8	3.4	2.6	2.9	2.4	2.7	3.3	-	11.0
	Insurance/pension funds, % of HHs' financial assets	25.8	27.4	27.2	27.4	26.6	26.8	26.5	-	27.8
	Total assets of insurers, % of GDP	10.5	10.8	12.1	10.6	8.6	7.7	7.2	6.9	53.9
	Pension assets, bn EUR	-	-	-	19.0	19.0	22.3	25.4	-	5813.8
	Pension assets, % of GDP	-	-	-	32.6	28.1	28.1	29.6	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	2.5	1.7	-	1.4
	Pension funds assets, ECB (% of GDP)	-	-	33.1	32.1	27.5	27.2	29.4	30.3	23.0

1-3 | 4-10 | 11-17 | 18-24 | 25-27 — Colours indicate performance ranking among the 27 EU Member States.

(1) Annualised data. EU data for credit growth and pension funds refer to the EA average.

Source: ECB, Eurostat, European Insurance and Occupational Pensions Authority, DG FISMA CMU dashboard, AMECO.

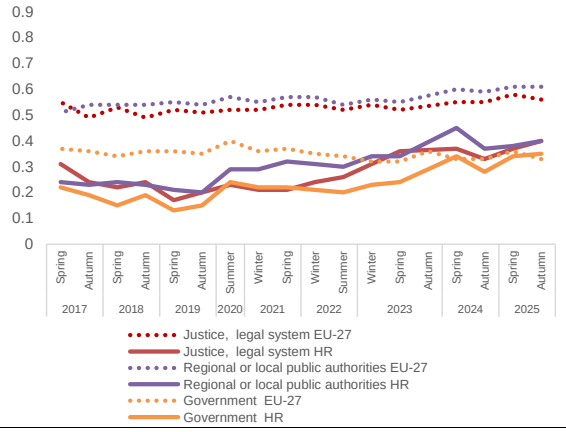
An effective institutional framework is essential for competitiveness. This means public trust built on integrity, high-quality legislation, simplification of regulation and efficient services for businesses and people. In the case of Croatia, the 2025 country-specific recommendations (CSRs) highlighted challenges as regards i) improving the capacity and effectiveness of its public administration at local level and ii) simplifying and improving the regulatory tools to reduce the administrative burden, through digitalisation to facilitate business creation and expansion ([183]).

Croatia is implementing reforms to address the capacity and effectiveness of its public administration at local level. For example, under its recovery and resilience plan (RRP), it has introduced legal frameworks, and a financial-incentive system for functional cooperation ([184]) (See Annex 18**).** There is also and an IT support system aimed at encouraging either mergers of functions between local government units or actual mergers, so far with limited results ([185]).

Public trust

Public trust in government in Croatia is currently slightly above the EU average (Croatia 35%; EU 33%). There has been a slight rise in trust in the justice system since 2024 but it remains well below the EU average (HR 40% vs EU 56%). Since spring 2024 trust in local and regional authorities has fallen from 45% to 40% ([186]). This is combined with insufficient administrative capacity at regional and local level affecting the access and quality of public services for the public and businesses alike ([187]), ([188]). Businesses and people retain confidence in the public administration's ability to handle their data securely and responsibly ([189]).

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

Quality of lawmaking

Croatia's rules on lawmaking demonstrate partial alignment with selected best practices in reducing the regulatory burden and ensuring effective implementation. For example, the ability to monitor the implementation of legislation has been undermined by: i) the absence of a formal requirement for lawmakers to draw up procedures for measuring progress in achieving the objectives of a primary law, ii) the difficulty of identifying potential enforcement mechanisms and iii) a lack of mechanisms for assessing the level of compliance. Additionally, the oversight of better-regulation tools is also weakened by a lack of publicly available analysis of i) the effectiveness of regulatory impact assessments (RIAs) in guiding regulatory proposals

([183])European Commission, 2025, 2025 European Semester: Country Specific Recommendations / Commission Recommendations - European Commission.

([184])Slijepcevic, Suncana, Tanja Broz, and Ivana Rasic, 2024, The Capacities and Sustainability of Croatian Cities in Performing Municipal Services, https://www.mdpi.com/2071-1050/16/17/7277.

([185])Croatia's recovery and resilience plan - European Commission.

([186])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([187])OECD, 2024, Towards Balanced Regional Development in Croatia: From Strategy Design to Implementation, OECD Multi-level Governance Studies, https://doi.org/10.1787/3c0779cf-en.

([188])OECD, 2025, OECD Reviews of Labour Market and Social Policies: Croatia 2025, https://doi.org/10.1787/90b78cc3-en.

([189])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Table A7.1: **Croatia. Selected indicators on better regulation practices for primary legislation**

Tools for smart legislation:	
Share of possible impacts assessed for all primary laws when developing legislation	●
Regulators are required to identify and quantify the benefits of a new primary law	●
Regulators are required to identify and assess the impacts of alternative non-regulatory options	●
Tools for effective implementation: when developing laws, regulators are required to:	
Assess the level of compliance	●
Identify and assess potential enforcement mechanisms	●
Specify the methodology of measuring progress in achieving the law's goals	●
Oversight of better regulation:	
There is an external body responsible for reviewing the quality of RIAs and of ex post evacuations	●
There are publicly available assessments of the effectiveness of RIA in modifying regulatory proposals	●
There are reports on the level of compliance by government department with the requirements of RIA	●
There are indicators on the percentage of ex post evaluations that comply with guidelines	●
The effectiveness of ex post evaluations in improving the regulatory stock has been assessed in the last five years	●

● High / yes / for all primary laws ● Medium / in part / for major primary laws ● Low / for some primary laws ● Very low / no / never

Source: OECD (2025), Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025

and ii) *ex post* evaluations in improving the regulatory stock ([190]).

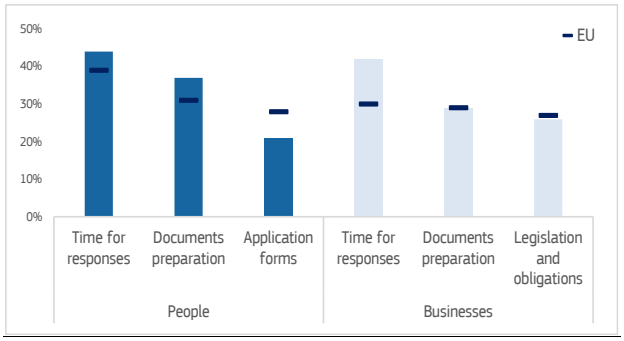
A central body coordinates the better-regulation policy and checks the quality of RIAs. It publishes annual reports on the performance of the better-regulation rules**.** In 2025 RIAs and evaluations of laws were expanded, and a public-consultation portal was introduced at local and regional levels ([191]). Non-regulatory options are considered, and their impact is assessed.

Croatia is using online tools to engage with stakeholders in the development of primary and secondary laws. National, and since 2025 also local and regional authorities have used the online portal for consultations. The length of consultations again improved, however, the share of comments received that remained unanswered increased.

Public service delivery and digitalisation

Croatia has made uneven progress in the digitalisation and user-friendliness of its public services. Overall satisfaction with public administration is around the EU average (45% for people and 46% for companies). However, the proportion of people finding the administration slow in providing services has dropped significantly over the past two years by 19 percentage points and those finding it fast and effective increased by 10 percentage points.

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission. Flash Eurobarometer 567 / 568 on satisfaction with administrative services (2026)

Several challenges in service delivery remain (Graph A7.2**).** Waiting time and collecting and preparing documents is a challenge both for the general public and for businesses. 32% of businesses have experienced delays (one of the highest percentages in the EU). Understanding applicable legislation is another significant obstacle for companies. Most people (76%, above the EU average of 63%) find that government institutions repeatedly ask for the same personal data. These responses indicate inefficient internal

([190])OECD, 2025, Better Regulation Practices across the European Union 2025 https://doi.org/10.1787/6f007516-en.

([191])EUR-Lex - 52025SC0911 - EN - EUR-Lex.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Croatia			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	71	67	75	82
Digital public services for businesses (0 to 100)	67	66	65	86
Access to electronic health records (0 to 100)	86	86	87	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

processes and untapped potential to reuse data and thereby simplify the user's experience ([192]).

Croatia has made progress in providing digital public services for the general public but it is still considerably short of EU targets (Table A7.2**).** Digitalising public services for businesses (65) is lagging behind the EU average (86). Although 70% of people report that digital services save time, 50% would like better quick help and a more user-friendly design. Croatia has adopted a nationally certified eID scheme for accessing public services. According to Eurostat, 38% of Croatian citizens used their eID to access online public services in 2023, close to the EU average of 36%. In terms of access to electronic health records, Croatia's rate was 87%, a modest increase of 1.2%, above the EU average of 83%. Croatia is broadly on track to meet its targets.

The availability of digital public services to business in Croatia has fallen (Table A7.2**).** Companies in Croatia has much less interest in online services than those in the rest of the EU (Croatia 35%; EU 70%) ([193]). Cross-border digital public services for businesses fell from 36% to 32%, contrasting with modest growth in the EU as a whole.

Croatia is addressing the challenges highlighted in the 2025 CSRs. It has set up a one-stop shop with the support of Croatia's RRP ([194]). The purpose of this platform is to harmonise helpdesk services for people and for businesses. In addition, supported by the RRP and supported by the Technical Support Instrument, Croatia has developed a number of digital tools to improve the business regulatory environment, including a digital platform to pay fees and adding more services to the START platform, which is the official government platform for digital business registration (see Annex 5).

In recent years, Croatia has carried out a digital transformation of building-permit process. This has facilitated access to information on use of space, reduced the number of steps and standardised the process across the country. There is still room for improvement in the efficiency of obtaining building permits and occupancy permits; developers require access to a centralised, comprehensive list of pre-approvals required for permit application. If such requirements were publicly available online this would make the process more transparent and predictable. As for environmental permits, throughout the country regulatory compliance benchmarks are applied, digital public services are provided and transparency of information is maintained. The efficiency of environmental clearance practices in Croatia is characterised by uniformity between the five cities examined ([195]).

Croatia has enabled the cross-border exchange of data and documents between authorities through the EU once-only technical system ([196]). As services ([197]) become accessible, people and businesses will no longer have to search for their data or download, and upload documents manually across e-government portals in different Member States. Croatia still

([192])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([193])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([194])Croatia's recovery and resilience plan - European Commission.

([195])World Bank, 2025, Subnational Business Ready in the European Union 2025: Croatia.

([196])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([197])Procedure types under Annex II of the SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

needs to identify the types of documents and data they need to exchange through the system and to explore ways to shift from the submission of unstructured to structured data formats. Currently, Croatia has 4 procedures ([198]) connected in the areas of education, business and working abroad. Croatia has authority registries connected in the fields of population, education, and vehicles.

Civil service

Croatia continues to reinforce its civil service. The proportion of civil servants with higher education is close to the EU average. Since April 2025 Croatia has expanded the use of the general competency framework in recruitment and selection procedures to national agencies, local and regional self-government, and central government. Further efforts are needed to increase skills and knowledge, as the participation rate of civil servants in adult education remains substantially below the EU average (Croatia 10%; EU 19%). A new appraisal system is expected to improve the performance and productivity of civil servants. The first results of the implementation of the appraisal system, as regulated by the Decree on the Evaluation of the Performance of Civil Servants, will be available in the first quarter of 2026. With the support the Technical Support Instrument, Croatia has developed and tested a staff survey model, which reveals that employee engagement increases well-being, management quality and learning and development opportunities ([199]).

Croatia has taken steps to increase the attractiveness of its civil service as employer. In addition to the substantial increase in salaries in 2025 ([200]), the centralised employment system, established with the support of the RRP, has enabled new functionalities for employee management. Other measures enable the monitoring and management of wages: i) the introduction of remote and hybrid work models, with IT support; ii) the digitalisation of strategic planning processes; and iii) an IT platform to support local government units that are merging. The publication of posts will become more transparent, as a new online platform linked to Croatia's e-citizens portal will provide information on current public-administration needs, which will in turn contribute to better talent screening.

Integrity

The perception and experience of corruption when doing business in Croatia remains very high. 90% of companies see corruption as widespread (EU: 63%) and 88% consider too close links between business and politics as a cause of corruption (EU: 76%), pointing to perception. 60% also see corruption as a practical barrier ([201]) (EU: 35%). Sectors that are particularly vulnerable to corruption in Croatia ([202]) the health sector and public procurement (see Annex 5).

Fewer companies than the EU average report being asked for gifts, favours or extra money in exchange for permits, services or procurement (Croatia 8%; EU 10%), yet confidence in enforcement is well below the EU average. Only 16% believe that those caught bribing a senior official are appropriately punished (EU: 33%)([203]), which suggests that the perception is of limited deterrence at high levels.

Croatia is striving to improve its corruption prevention and detection mechanisms. A lobbying law entered into force in October 2024 ([204]), setting restrictions and rules for verification, enforcement and sanctions. There is, however, a lack of specific criteria and practical guidance for public officials on their obligations to disclose, which leads to inconsistent disclosure. A lobbying register is in place, but there is still limited transparency because records of meetings

([198])European Commission, 2026, *Once-Only Services going-live! SDG procedures in production in Croatia: setting up a business, doing an income tax return and applying for studies*, Ec.europa.eu.

([199])OECD, 2025, *Workforce Insights from Central Governments: Findings of the 2024 OECD/EU Survey of Public Servants*, https://doi.org/10.1787/2f9080b1-en.

([200])European Commission, 2025, Croatia Country Report 2025.

([201])European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([202])European Commission, 2025, Rule of Law Report.

([203])European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([204])The Croatian Lobbying Act, Official Gazette 36/2024.

between public officials and interest representatives are not published. New deadlines apply for courts to ensure speedier legal proceedings to protect whistleblowers against retaliatory measures, which aim to address the issue of lengthy proceedings that risk discouraging reporting.

There is a large number of high-level corruption crimes, yet the number of investigations has also risen. The system's impact is undermined by persistently lengthy proceedings and the absence of any convictions for foreign bribery, which suggests that enforcement in such cases remains ineffective ([205]).

Justice

Overall, the justice system continues to face efficiency challenges. At the year-end of 2025, the overall backlog decreased by nearly -3%, while the average length of litigious proceedings in the first instance commercial courts increased to 1 182 days (1 147 days in 2024) and both remained among the highest in the EU. Administrative cases at first instance took shorter to resolve, decreasing to 256 days in 2025 on average (from 278 days in 2024). Croatia performs very well in digital solutions to initiate and follow proceedings in civil/commercial and administrative cases, and in online access for the general public to published judgments. Providing better online access to judicial decisions in a machine-readable format, which can be downloaded in bulk, would improve access to case law and enable its reuse by private companies. ([206]).

([205])For a more detailed analysis of the performance of the justice system in Croatia, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report.

([206])For a more detailed analysis of the performance of the justice system in Croatia, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report.

Croatia faces challenges in decarbonising industry and road transport and complying with effort sharing limits, and its transition to a circular economy is progressing slowly. Croatia supports the decarbonisation of its energy-intensive industry but has significant gaps and bottlenecks in the regulatory framework. It is projected to overachieve its 2030 effort sharing target but is still projected to exceed emissions cumulatively over the decade. For Croatia, the 2025 country-specific recommendations highlighted challenges concerning: (i) its reliance on and subsidies for fossil fuels and (ii) energy demand in the transport sector. Croatia took some measures to address these, but challenges remain, as the modal split continues to be heavily tilted in favour of road transport. Croatia has received significant EU funding for waste management, both from cohesion policy funds and from the Recovery and Resilience Facility (RRF), but a functioning system for the whole country is not yet in place. It faces challenges as a result of lengthy public procedures, appeals, price increases and limited capacity. This results in a high share of landfilling (50,9% of municipal waste in 2024) and diverts funds from investment in the higher levels of the waste hierarchy and more innovative circular economy projects that increase the reusability and recyclability of products.

Industry decarbonisation

Greenhouse gas emissions from industry

The emission intensity of Croatia's manufacturing sector is high and is dominated by emissions from industrial processes([207]). Greenhouse gas (GHG) emissions from manufacturing represent around 13% of Croatia's total emissions and have declined by 20% in the five years to 2024 (compared with 16% in the EU as a whole) ([208]). At around 500 g CO_2eq per euro of gross value added, the emission intensity of the manufacturing sector is among the highest in the EU. The biggest share comes from emissions from industry process and product use rather than energy use. It is driven, in particular, by chemical and cement production. Between 2018 and 2023, the energy-related GHG emissions intensity of manufacturing production declined by 14 % (EU average: 20%).

Policies to promote industry decarbonisation

Croatia has a solid set of measures to advance industry decarbonisation and relies heavily on EU funds to do so. Since 2022, Croatia has a long-term hydrogen strategy in place ([209]), with the aim of achieving 70 MW of green hydrogen production capacity by 2030, backed up by a plan for industry and transport. In 2023, together with Italy and Slovenia, it launched the 'North Adriatic Hydrogen Valley' project with support from the RRF and other funds. The aim of the project is to build transnational hydrogen ecosystems by supporting 17 pilot projects for hydrogen production, distribution and use across sectors, including industry and transport. In addition, by end of 2026, Croatia plans to build an electrolyser capacity of at least 10 MW in the Rijeka refinery and to invest in an additional 20 MW of renewable hydrogen power production capacity and is deploying 'hydrogen-ready' gas pipelines with support from the RRF and cohesion policy funds. Concerning carbon capture and storage, Croatia has put in place legislation ([210]) to allow storage of CO_2 on its territory. By end of 2026, the authorities plan to finalise the feasibility studies to identify potential storage sites and capacities, with support from the RRF. The aim is

([207])This Annex discusses the transition of Croatia's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Croatia's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report - Croatia, Commission staff working document, SWD (2025) 211 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation.

([208])Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([209])Hrvatska Strategija za vodik do 2050. godine, Official Gazette No 40/22.

([210])Official Gazette No 52/18, 52/19 and 30/21.

to become a regional leader in carbon capture and storage. In parallel, major players in the cement industry, such as Holcim and NEXE, are using the Just Transition Fund and the Innovation Fund to decarbonise their processes via carbon capture and storage. These initiatives have received strategic project status under existing law ([211]), which should speed up implementation. To improve energy efficiency and support the use of renewables in manufacturing industries, Croatia is also relying on the RRF ([212]), on the European Regional and Development Fund ([213]) and increasingly on the Modernisation Fund. Recently, the focus has been shifting towards supporting batteries and on-site generation, given that regulatory uncertainty, long permitting processes and infrastructure constraints continue to impede a faster shift to renewables ([214]). A new Environmental Protection Act and amendments to the Regulation on Environmental Impact Assessment are being drawn up to simplify and speed up the permitting procedures, which should also accelerate decarbonisation ([215]).

Despite ongoing efforts, there are significant gaps and bottlenecks in Croatia's policy toolkit for industry decarbonisation. In 2023, Croatia set up a state aid scheme worth EUR 104 million to reduce the electricity consumption levy imposed on energy-intensive companies. It is set to run until the end of 2028 but has so far not been used. At the moment, biomass and biogas potential to replace fossil fuels remains untapped, but in January 2026 the government presented the long-awaited strategy for the bioeconomy until 2035 to the Croatian Parliament. Overall, there has been limited willingness to scale up low-carbon production technologies in Croatia. This due to a combination of: (i) high operating costs (i.e. high energy prices and almost non-existent use of power purchase agreements – see Annex 9); (ii) capital expenditure; (iii) low and fragmented demand (due to a lack of incentives to buy 'green products' domestically and in the region); (iv) underdeveloped storage options; (v) a lack of industrial clusters and decarbonisation pathways; and (vi) long and overlapping permitting procedures ([216]). The national industry plan and the accompanying 2027-2034 action plan to be adopted in 2026 could provide a real opportunity to address the above shortcomings in a coherent way. A close dialogue with the industry and the Commission for Intersectoral Coordination for Policies and Measures for Mitigation and Adaptation is warranted to avoid fragmented and misaligned policies and to identify priorities and targeted measures for energy-intensive industries.

Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

Croatia is projected to overachieve its effort sharing target in 2030, but its emission allocations for 2021-2030 appear insufficient to cover its effort sharing emissions in the entire period ([217]). In 2024, GHG emissions from Croatia's effort sharing sectors are expected to have been 4.3% above those of 2005([218]). By 2030, with current and planned policies and measures, these emissions are expected to decrease by 21.3%, resulting in a

([211])Official Gazette No 29/18.

([212])Croatia is supporting small, medium-sized and mid-cap companies from energy-intensive sectors with EUR 252 million of grants to decarbonise and to boost energy production from renewable sources.

([213])In 2026, Croatia will start disbursing loans amounting to EUR 275 million (EUR 150 million from the ERDF) to entrepreneurs to invest in energy-efficiency measures under a cohesion policy financial instrument scheme.

([214])See Annex 9 for details.

([215])See Annex 9 for details.

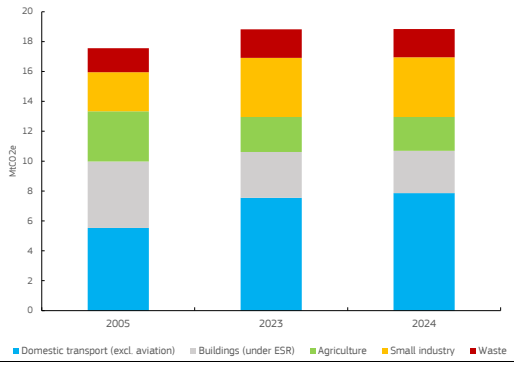
([216])See Annex 5 for details.

([217])The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Croatia's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26.

([218])Based on final GHG inventories notified in 2026, Croatia's effort sharing emissions in 2024 were 9.4% above the levels of 2005. The assessment of progress under the Effort Sharing Regulation will be established after the publication of the European Semester country report.

surplus of 4.6 percentage points relative to the 2030 target (16.7%). However, Croatia is projected to exceed its effort sharing emission limits temporarily in the 2021-2030 period. It could bridge part of the gap with own unused annual emission allocations from other years but would also need transfers of allocations from other Member States to comply with the Effort Sharing Regulation. In 2025, Croatia aligned its climate legislation with the EU framework by including the climate neutrality and the 2030 effort sharing targets. Furthermore, under the amended legislation ([219]), to meet the 2030 target the government can decide on sectoral targets, while the ministries are responsible for putting in place corrective measures and for securing financial resources.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency.

Sustainable transport

In 2024, 42% of Croatia's effort sharing emissions came from road transport, an increase of 42% from 2005 levels – one of the biggest increases in the EU ([220]). Continuing the trend in previous years, GHG emissions were considerably higher in 2024 than the year before. The strong and continuous increase in road transport emissions is driven by a heavy reliance on passenger cars ([221]), which are largely second hand, and on trucks and buses. In 2023, more than 80% of passengers used passenger cars and only a minority used coaches (8.2%) or rail (3.9%) ([222]). In 2024, the share of electric vehicles in newly registered cars continued to be among the lowest in the EU ([223]). In 2025, the number of newly registered hybrids and plug-in increased considerably, but there was a drop in the number of newly registered electric cars ([224]). The availability of public charging infrastructure is comparatively strong, with public charging capacity already exceeding indicative EU fleet-based benchmarks. There was also a clear increase in the number of fast chargers in 2025. However, faster take-up seems to be hampered by the high cost of charging in public spots. This is linked to high operational costs, lack of interoperability and their malfunctioning, in combination with the relatively scarce number of considerably more affordable private charging spots. This is especially the case for residents in multi-apartment buildings([225]). As regards freight, the majority (65.5%) of all freight in 2023 was transported by road, as opposed to only 20.2% by rail, which, moreover, is on a downward trend. Lastly, in 2024, the overall share of renewable energy in transport ([226]) was by far the lowest in the EU.

Croatia is investing heavily in EU co-funded green mobility initiatives but would benefit from a greater focus on promoting sustainable travel alternatives. For Croatia, the 2025 country-specific recommendations highlighted challenges concerning reliance on fossil fuels and energy demand in the transport sector, specifically pointing to the need to promote rail and sustainable urban transport and to electrify road transport. This could be done by reviewing tax incentives and revising rules on biofuels, addressing fossil fuel subsidies in the transport sector. Croatia took some measures to address these challenges, including investing in sustainable urban transport and electrification of

([219])Official Gazette No 67/25.

([220])See Graph A8.1, and Table A8.1 at the end of this Annex.

([221])Since 2021, the motorisation rate (number of passenger cars per 1 000 inhabitants) has increased faster than in the EU as a whole, Eurostat.

([222])Statistical pocketbook 2025.

([223])In 2024, the share of newly registered electric cars was just about 5 % (battery electric vehicles: 2.8%; plug-in hybrids: 2.3%). Source: European Environment Agency.

([224])In line with EU Regulation (EU) 2023/1804 of the European Parliament and of the Council of 13 September 2023 on the deployment of alternative fuels infrastructure, Target tracker European Alternative Fuels Observatory.

([225])New buildings are not necessarily equipped with charging infrastructure.

([226])Close to 1% (close to the 2004 level), compared with an EU average of around 11% in 2024; see Eurostat.

road transport and reversing more lenient rules on the mixing of biofuels. More specifically, Croatia is rolling out several major investments with EU co-funding ([227]). These include: (i) a targeted support scheme to cofinance electric vehicle purchases worth EUR 90 million ([228]); (ii) a call to finance 2 000 electric and/or hydrogen road vehicles, 1 300 charging stations of at least 50 kW two hydrogen charging stations along TEN-T corridors; and (iii) calls for the procurement of around 200 buses in cities and towns, 30 new trams, several battery- and hydrogen-powered trains and supporting charging infrastructure; and (iv) a double-track railway line from Kustošija to Zagreb Glavni Kolodvor. New electro-diesel trains are being financed through a European Investment Bank loan of almost EUR 120 million. The green public procurement decision([229]), in force since 2025, stipulated that by 2028 at least 50% of new vehicles must either be electric or satisfy low-emission criteria. In 2026, the emergency decree introduced as part of crisis measures to reduce sanctions for not mixing biofuels with diesel and petrol ceased to apply. In the heavy-duty sector, Croatia does not yet support the uptake of zero-emission trucks by exempting them from the infrastructure charge component of road tolls ([230]), which is a demand-side economic incentive allowed under EU law until June 2031. It also did not carry out the optional assessment referred to in Article 7(4) of Directive 1999/62/EC on the application of CO_2-based toll rates on existing motorway concessions, adopting only the minimum requirements ([231]). Finally, there is a lack of awareness, promotion and education regarding the attractiveness of car alternatives, with an emphasis on active and sustainable modes of travel.

([227])The RRF, Cohesion Funds and Modernisation Fund.

([228])Half of which for taxi, delivery and car-sharing services, and other half via financial instruments for electric vehicle purchases by private and legal persons as well as entrepreneurs (corporate fleets and such).

([229])Official Gazette No 137/24.

([230])Applicable toll rates: https://www.hac.hr/en/toll/toll-rates.

([231])The Tolling (Eurovignette) Directive provides for price signals to accelerate the renewal of the fleet towards cleaner vehicles.

Sustainable industry

Circular economy industry

Croatia is increasing its efforts to promote transition towards a circular economy. To this end, the government is developing two new strategies. The 2027-2034 national plan for the development of industry is expected to encourage growth and investment in the transition to a circular economy, while the envisaged 2026-2032 national plan for the development of a circular economy ([232]) aims to make changes along the value chain, from the design stage throughout the life of a product, and to promote behavioural change. The national plan for the development of a circular economy is expected to be adopted in 2026. Croatia draws generously on RRF and cohesion policy funds to invest in new waste management infrastructure, such as waste sorting facilities, biowaste treatment facilities, waste transfer stations, etc. Nonetheless, performance on key waste and circular economy indicators is not yet optimal. In 2024, only 36,7% of municipal waste (EU average: 48%) and 28.2% of plastic packaging (EU average: 42%) were recycled. By contrast, the recycling rate for construction and demolition waste is slightly better at 75,5% in 2024 ([233]). The indicators are improving but not at a satisfactory rate (for regional disparities see Annex 19). One of the reasons is that only 4 of the 11 planned waste management centres serving the whole country are currently operational. Despite cohesion policy investment and close monitoring, bottlenecks in procurement procedures, multiple appeals, price increases and limited capacity are among the key reasons for the delays. While Croatia has adopted positive measures in some areas, for example to improve the legal framework for the use of biowaste by-products such as fertilisers and compost, more efforts are needed to speed up the circular transition. No patents related to recycling and secondary raw materials were recorded between 2017 and 2020 and only a negligible number were

([232])Ministry of Economy of the Republic of Croatia, Nacionalni plan razvoja kružnog gospodarstva Republike Hrvatske za razdoblje od 2026. do 2032.

([233])Ministry of Environmental Protection and Green Transition of the Republic of Croatia, Report on construction waste 2024.

recorded ([234]). Coupled with the low numbers of EU Ecolabel licences and products awarded (76) and the fact that only three companies are registered in the Eco-Management and Audit Scheme (EMAS) register, this reveals a low level of innovation and competitiveness in the circular economy sector in Croatia.

Progress towards a circular economy remains slow and per capita material consumption is increasing at a slower rate than the EU average. Despite a 12% increase in the number of people now employed in the sector ([235]) and the fact that the circular economy sector accounted for 3.9% of total employment in 2023 (EU average: 2%), the transition to circularity remains slow. While per capita material consumption has continued to increase over the past five years by 8.8% ([236]), resource productivity remained at EUR 1.6 per kg, which is far below the EU average of almost EUR 3 per kg. Moreover, the gap is increasing because the rate of increase is slower in Croatia than in the rest of the EU (only 27% between 2019 and 2024, compared with 37% for the EU as a whole).

Waste generation has increased steadily over the last 10 years, but secondary material use grew only marginally, from 4.6% to 5.9%, in the same period ([237]), underscoring a persistent reliance on primary resources and a significant increase in material import dependency ([238]). Reuse and repair centres could help reduce waste generation and pressure on resources. Such centres are still rare in Croatia and there is scope for national and local administrations to create the conditions for their development. On the positive side, green public procurement has been extended to additional products and has been made compulsory for public administrations, and the deposit refund system has been extended to beverages.

Croatia's fiscal tools for circular practices have potential to reduce waste and provide revenues. Total environmental tax revenue has increased in real terms to EUR 2.29 billion in 2023 ([239]) but has fallen as a percentage of GDP. Environmental taxes represented 3.3% of GDP in 2022 (more than the EU average of 2%) ([240]). Out of these, taxes on pollution and resources form a significant share of the total (0.7% of GDP; EU average: 0.08%) but are decreasing in GDP terms.

The legal framework for collecting revenue from the waste sector in Croatia has been improved recently, for example by incorporating an eco-modulation criterium into the fee system for different types of packaging materials and designs and by reforming the waste disposal fees as part of a recovery and resilience plan measure. These improvements have not immediately translated into a rapid improvement in waste management and recycling, such as could be achieved by introducing mechanisms to enforce waste targets for producers, particularly for packaging. A mandatory deposit-return system exists for aluminium drink cans and glass and plastic drinking bottles, but not for plastic crates and wooden packaging. While separate collection systems, pay-as-you-throw schemes and extended producer responsibility for packaging are in place, they seem to not work optimally yet ([241]).

To conclude, Croatia's expenditure on waste management and the circular economy is not yet sufficient and project implementation is slow. An additional EUR 118 million per year is estimated to be needed to make Croatia's economy more circular ([242]).

Bioeconomy industry

The overall picture with regard to Croatia's bioeconomy is one of a dynamic sector set

([234]) Patents related to recycling and secondary raw materials, Eurostat.

([235]) The circular economy sector covers the recycling sector, the repair and reuse sector and the rental and leasing sector. Eurostat definition code [cei_cie011].

([236]) Eurostat, Material footprints, 2024.

([237]) Eurostat, circular material use rate.

([238]) Decision on the Implementation of Green Public Procurement (Official Gazette No 137/2024).

([239]) European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. et al., Greening the European Semester – Resource and pollution taxes. Annex 6, Country factsheets, Publications Office of the European Union, 2026.

([240]) 2025 Environmental Implementation Review (SWD(2025) 303 final), country report – Croatia.

([241]) European Environment Agency, Waste Management Country Profile, Croatia, 2025.

([242]) 2025 Environmental Implementation Review (SWD(2025) 303 final), country report – Croatia.

against a challenging broader employment backdrop. Bioeconomy value added has grown broadly in line with domestic GDP ([243]), with bio-based chemicals and plastics emerging as a standout performer, at 21.5% average value-added growth between 2018 and 2023, followed by wood products and furniture at 7.8% ([244]). Overall bioeconomy employment has fallen considerably, largely driven by a contraction in the primary production workforce, yet both bio-based chemicals and plastics and wood products and furniture bucked this trend with positive employment growth of 16.7% and 1.7% respectively ([245]) ([246]). This compositional change is reflected in a marked productivity improvement, with labour productivity rising from 69.9% of the national average in 2018 to 86.8% in 2023 ([247]). The principal area of concern is R&D, where bioeconomy-relevant subsectors have significantly lagged behind overall national R&D growth (5.1% compared with an average of 16.1% between 2018 and 2023) ([248]). Structurally, Croatia's bioeconomy is anchored by food and beverages, wood products (leveraging the country's extensive forest coverage), and an emerging bio-based chemicals and plastics segment focused on food waste-derived biopolymers and bio-based pharmaceuticals. These developments are guided by Croatia's national bioeconomy strategy until 2035, which has earmarked EUR 200 million to boost sustainable production and circularity ([249]). Croatia has used its recovery and resilience plan to promote the bioeconomy, for example by increasing the use of advanced biofuels in transport.

([243])Joint Research Centre, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU.

([244])Ibid.

([245])Bioeconomy subsectors: food and beverages; bio-based textiles; wood products and furniture; bio-based chemicals and plastics.

([246])Joint Research Centre, Business expenditure in Research and Development (R&D) in the EU bioeconomy.

([247])Ibid.

([248])Joint Research Centre, Business expenditure in Research and Development (R&D) in the EU bioeconomy.

([249])Joint Research Centre, Business expenditure in Research and Development (R&D) in the EU bioeconomy.

Zero-pollution industry

Over the past decade, Croatia has made some progress in reducing key air pollutants through cleaner energy production, more efficient heating systems and tighter vehicle emission standards. However, Croatians are still the third most exposed to fine particle pollution in urban areas in the EU ([250]).

The rate of natural deaths attributable to long-term exposure to fine particles above 5 µg/m³ is estimated to have been reduced by 53.8% between 2005 and 2023 ([251]). In particular, air pollutant emissions (NOx, NMVOC, PM10 and SOx) in kg per capita fell by 15% in 2023 ([252]). Despite this progress, Croatia continues to grapple with significant air pollution costs. In 2022, it ranked among Europe's worst performers, with some air quality zones exceeding ozone and PM10 targets. Annual damage costs were estimated at EUR 7.1 million per year for ozone alone ([253]). This underscores the need for further action, particularly for transport and household heating. Levies on pollutants, such as NO_2 and SO_2, were introduced in 2004, but practically suspended in 2015. This has resulted in opportunities being missed to protect public health and the environment and to raise additional revenues to be used for that purpose ([254]).

Water pollution from industry remains a challenge. Industrial heavy metal releases (cadmium, mercury, nickel and lead) to water have increased by 53% since 2010, while total organic carbon emissions have decreased slightly since 2022, as reported under the Industrial Emissions Directive ([255]). The status of surface water bodies

([250])European Environment Agency, Average exposure indicator.

([251])Air pollution quick country facts | Air pollution country fact sheets 2025 | European Environment Agency (EEA).

([252])Eurostat, Air emissions accounts.

([253])Report: Update of the costs of not implementing EU environmental law. The damage cost is calculated in terms of value of a life-year (VOLY).

([254])European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. et al., Greening the European Semester – Resource and pollution taxes. Annex 6, Country factsheets, Publications Office of the European Union, 2026.

([255])European Environmental Agency (EEA), Water pollutant releases changes from 2010 to 2022 for the EU Member States.

is rather good, as only 19.40% of them failed to achieve good chemical status, while only 8% of groundwater bodies have poor chemical status ([256]).

The total economic cost of industrial pollution in Croatia was EUR 1.7 billion per year in 2021, a significant decrease since 2017. Costs include healthcare expenses, lost productivity and environmental degradation ([257]). Yet, investment still falls short. To meet national and EU targets for pollution prevention and control, Croatia would need to spend an additional EUR 226 million per year (about 0.34% of GDP), largely in relation to clean air and noise ([258]).

([256])Third River Basin Management Plan for Croatia 02/2025.

([257])The cost to health and the environment from industrial air pollution in Europe, 2024 update. EEA. The costs reported are calculated in terms of value of a statistical life (VSL).

([258])2025 Environmental Implementation Review (SWD(2025) 303 final), country report – Croatia.

Table A8.1: **Key clean industry and climate mitigation indicators: Croatia**

Climate mitigation	Croatia							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	706	698	676	610	542	572	502	↘	330	-
Share of energy-related emissions in industrial GHG emissions (2)	41.6	40.5	39.8	40.4	41.6	41.1	-	↗	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	419.0	410.3	402.0	368.2	346.4	360.1	-	↘	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	30.1	29.1	29.2	29.9	28.6	28.9	29.8	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ (4)	1.92	1.88	1.99	1.81	1.58	1.63	1.61	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (5)	11.70	13.45	14.61	14.42	12.19	13.20	13.43	↘	-	-
GHG emissions intensity of production in sector [..], g/€ (6)										
- paper and paper products (NACE C17)	385	335	300	224	652	712	555	↗	722	619
- chemicals and chemical products (NACE C20)	4,610	3,454	2,859	14,199	9,108	15,047	12,500	↗	-	-
- other non-metallic mineral products (NACE C23)	7,034	7,801	6,211	4,303	5,078	5,344	5,274	↘	2,495	2,352
- basic metals (NACE C24)	1,609	773	1,733	1,614	972	395	377	↘	2,842	3,099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				-4.0	-0.5	3.9	4.3			
- domestic road transport	15.4	18.6	4.5	12.9	21.4	36.7	42.2	↗	-1.4	-5.6
- buildings	-27.4	-29.6	-27.9	-24.2	-28.1	-31.2	-36.3	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	18.1			17.3	18.0	18.8	18.8	-16.7%	-8.2%	-21.3%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**		**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	0.30	0.44	1.77	3.18	2.87	2.56	1.85		↗	1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	417	780	1093	1074	1839	2305	↗	446956	n/a
Share of electrified railways, % of total (9)	37.25	37.07	37.07	37.98	38.02	38.71	38.71		↗	55.47	56.49

Sustainable industry	Croatia							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	15.2	15.6	14.8	16.1	15.0	15.6	16.9	↗	14.8	13.7
Circular material use rate, %	5.0	5.4	5.5	6.1	6.8	6.1	5.9	↘	11.6	12.2
Resource productivity, €/kg	1.2	1.3	1.1	1.3	1.5	1.6	1.6	↗	2.1	3.0
Employees in circular economy	4.0	4.6	4.5	4.6	4.0	3.9	-		2.1	2.0
Patents in circular economy	0	-	-	-					12.3	12.0
Recycling rate	25.3	30.2	29.5	31.4	34.2	36.0	36.7		46.40	48.1
Plastic recyling	37%	36%	34%	34%	35%	28%	-		41%	42%
Construction and demolition waste (CDW) recovery	78	-	89						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	3,720	3,978	3,764	4,421	5,048	5,523	-	6.8%	642,438	863,436
Employment, total number of people employed	201,879	180,769	183,100	186,801	179,996	166,467	-	-3.2%	17,649,040	17,085,642
Productivity										
Valued added per worker, thousand EUR	18.4	22.0	20.6	23.7	28.0	33.2	-	10.3%	36.4	50.5
Valued added per worker, % of national average	69.9	78.7	78.9	80.6	83.0	86.8	-	-	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	39	37	38	20	55	53		5.1%	15,672	23,335
Total R&D business expenditure	241	294	300	337	521	591	-	16.1%	196,587	259,525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	2.4	2.0	1.8	1.7	-	-	-		414.9	352.7
Water industrial pollutants releases	Cd, Hg, Ni, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	291	no data	4,168,400	no data	46,080	no data	362,280	no data		
Water chemical status		Good	1,590	Good (%)	0.8		Poor	384.0	Poor (%)	19%

Sources and notes: **Industry decarbonisation:** All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. **Reduction of effort sharing emissions:** Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. **Sustainable road transport:** (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). **Sustainable industry**: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

This annex outlines the progress made and the ongoing challenges faced in increasing energy affordability, while advancing the transition to net zero. It reflects the implementation of past energy-related country-specific recommendations.

Croatia's 2025 energy-related country-specific recommendations highlighted the need to address the country's high electricity prices by accelerating the deployment of renewables (including by unlocking grid connections), upgrading transmission and distribution grids and improving non-fossil flexibility through the roll-out of storage solutions and smart meters. The recommendations also called for procedures on permitting, energy communities and multi-apartment solar installations to be streamlined, the uptake of energy efficiency measures and decarbonisation of heating and cooling in buildings to be improved, and harmful fossil fuel subsidies to be phased out.

Croatia's progress towards achieving its country-specific recommendations on energy remains uneven. While investment is underway in transmission infrastructure, storage and smart meters and while steps have been taken to streamline permit-granting procedures and recognise energy communities, there are continued barriers to the deployment of renewables, especially solar installation projects in multi apartment buildings, due to outstanding issues with grid connection rules and fragmented permitting procedures. Progress on energy efficiency and the decarbonisation of heating and cooling, particularly in residential buildings, also continues to be slow. At the same time, Croatia has failed to take concrete steps to phase out fossil fuel subsidies.

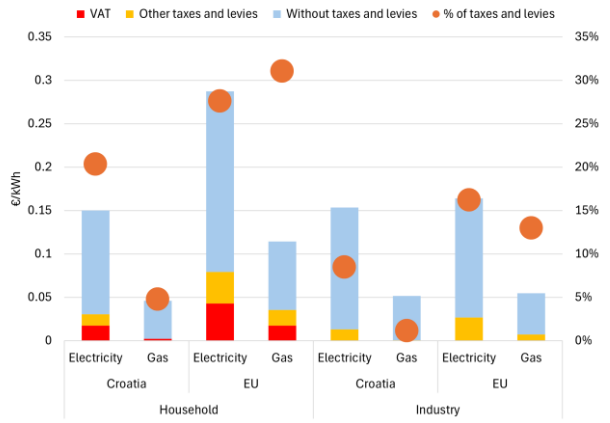
Energy prices and costs

While government intervention has managed to keep household energy bills in Croatia well below the EU average, and electricity prices for industrial consumers have dipped below the EU average since 2024's second semester, disproportionate fiscal burden on electricity still distort price signals and undermine electrification. In the first half of 2025, household gas and electricity prices were stable and well below the EU average, at EUR 46/MWh and EUR 150/MWh respectively. On the other hand, while industrial consumers paid some of the highest prices in the EU back in 2024, electricity prices for industrial consumers (EUR 153/MWh) followed a decreasing trend 2025, dipping below the EU average (EUR 164/MWh) ([259]). Gas prices for industrial consumers remained below the EU average, despite slightly increasing in the first semester of 2025. While wholesale costs account for 74% of the industrial electricity price, network costs, carbon costs, and taxes represent 12%, 6% and 7% respectively of electricity bills for industrial consumers ([260]). Overall, gas prices in Croatia remain considerably cheaper than electricity, partially due to the higher taxation rate applied to electricity compared to gas, with taxes and levies (excluding VAT) accounting on average for 8% of electricity bills for non-household consumers compared to 1% for gas. As a result, electricity was 3 times more expensive than gas for large industrial consumers during the first half of 2025, falling to 2.7 if taxes are excluded. For households the reduction is even greater, with the electricity-to-gas price ratio decreasing from 3.3 to 2.7 if taxes are excluded.

([259])This contrasts with Croatian wholesale electricity prices, which are among the highest in the EU. A possible explanation is the growing deferential in network and fiscal costs borne by Croatian industrial consumers relative to the EU average (Eurostat). This could imply that grid investment costs and fiscal burden may be deferred onto other actors (or simply neglected when it comes to grid investments), rather than reflecting genuinely cheaper energy procurement.

([260])European Commission own calculations based on Eurostat.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

In 2025, Croatia's wholesale electricity prices averaged EUR 106/MWh, compared to an EU average of EUR 85/MWh, making them the sixth highest in the EU. Despite fossil fuels accounting for a decreasing share of electricity generation, they still accounted for 23.6% of generation in 2025, maintaining their structural role as the dominant marginal price setting technology and keeping costs elevated (48% of price setting hours for 26% of electricity generation). Driven by rising natural gas procurement costs ([261]), average day ahead electricity prices in Croatia increased by 12% in 2025. Croatia also remains exposed to severe price spikes during peak demand hours, reflecting the decline in solar output in the evening and early morning combined with limited non-fossil flexibility. This then requires thermal generation to be ramped up significantly in order to balance supply and demand, either domestically or through neighbouring markets. As a result, price spreads ([262]) in Croatia averaged EUR 139/MWh in 2025, well above the EU average of EUR 121/MWh ([263]).

Graph A9.2: **Low-carbon electricity generation vs. electricity wholesale prices, 2025**

Unavailable data for Cyprus and Malta. Wholesale price is given as average of day-ahead electricity prices over 2025. EU-27 average is calculated as consumption-weighted. EU low-carbon share is calculated out of total EU electricity generation. Low-carbon share by country is calculated out of total public electricity generation. Low-carbon includes renewables and nuclear.
Source: Eurostat, ENTSO-E, GME, Bloomberg, S&P Global Platts

Flexibility and electricity grids

While Croatia has established a 2022-2025 action plan to improve compliance with the EU requirement to ensure a minimum availability of 70% of capacity for cross-zonal electricity trading ([264]), there is still scope for further action. Available estimates suggest that capacity made available for cross-zonal electricity trading decreased in 2024 ([265]), moving Croatia further away from the 70% requirement. Croatia is a net electricity importer. It is a net exporter with Serbia and Bosnia-Herzegovina, but net importer with Slovenia and Hungary. Croatia's action plan is focused on increasing capacity with Hungary and Slovenia

([261])Short run marginal costs of gas in the EU increased from EUR 96 EUR MWh in 2024 to nearly EUR 103 per MWh in 2025. Short run marginal costs are the sum of the variable costs associated with producing electricity using hard coal and fossil gas. These are fuel costs, carbon costs and variable operating and maintenance costs.

([262])Spread refers to the difference between the highest and lowest hourly day-ahead electricity prices in a single day.

([263])Source: Ember.

([264])TSOs are required under EU law to make 70% of transmission capacity available for electricity trading with neighbours by the end of 2025.

([265])ACER Monitoring Report on cross-zonal electricity trade and congestion management in the EU (2025).

through network development and optimisation, and on improving congestion management.

Although Croatia has seen a decrease in allocated capacity at its border connection points, its electricity interconnection level has remained well above the EU target ([266]), standing at 36% as of 2026. Since 2023, Croatia, together with Slovenia and Austria, has been implementing 'GreenSwitch', a smart grid project of common interest, supported by the Connecting Europe Facility, which is intended to modernise and digitise the electricity grids of all three participating countries, while increasing their hosting capacity.

Croatia has taken a limited number of measures to address the 2025 country-specific recommendation on further upgrading electricity transmission and distribution grids. It will only be possible to enable the uptake of renewables and improve grid flexibility and resilience by further strengthening the national grid. Under its recovery and resilience plan (RRP), Croatia is investing in its national grid. Investments include an ongoing upgrade of 550 km of the high voltage network (220/110 kV), the replacement of electricity transformers and reconstruction of electrical substations, an upgrade of 96 km of submarine cables for the distribution network, and an upgrade of underground cables connecting six islands to the mainland grid. Furthermore, under the RRP and the Modernisation Fund, Croatia is promoting the uptake of battery storage systems. Key to unlocking Croatia's full wind and solar potential is a project to expand Dalmatia's 400 kV transmission capacity along its main north-south axis. While the technical details and final scope of this project are still under consideration, it is expected to at least include the construction of a 2x400 kV transmission line running between the Konjsko and Tumbri substations, additional 400 kV reinforcement of the Melina substation and in the Dubrovnik and Istria regions, and the reinforcement and expansion of transformer stations ([267]). Croatia is also faced with the challenge of its ageing transmission infrastructure, particularly its 110 kV and 220 kV lines ([268]).

Croatia has taken measures to address the 2025 country-specific recommendation on investing in electricity storage, however there is scope to increase demand-side response and consumer empowerment. In addition to the 270 MW Velebit pumped storage hydro plant that is currently in operation, Croatia has plans for a new pumped storage plant (Vrdovo 450 MW project) and is currently developing its first grid-scale battery and virtual power plant (VPP) system with a 60 MW/120 MWh capacity near Šibenik. Using RRP co-financing, Croatia also launched a public call in October 2025 worth EUR 50 million to support businesses in installing batteries at existing and/or planned solar power plants (target of 100 MWh installed capacity). In 2026, Croatia is also planning to launch an integrated call for supporting citizens with investments in micro-solar panels and energy storage, financed by the European Regional and Development Fund.

In theory, Croatia's regulatory framework allows all new actors and distributed energy resources (DERs) to access day-ahead and intra-day markets as well as to participate in ancillary services and provide congestion management services (except energy communities). In practice, however, the absence of a dedicated independent aggregator framework limits DERs' access to wholesale markets. While the number of licensed aggregators in Croatia has been gradually increasing (in March 2025, ENNA Next become the latest new aggregator to provide balancing services), Croatia continues to have one of the most concentrated retail energy markets in the EU ([269]), with its national market having the second lowest number of active electricity suppliers in the EU ([270]).

([266])The EU set an interconnection target of at least 15% by 2030 under Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.

([267])Draft NDP published in public consultation by Croatian Energy Regulatory Agency (HERA - Savjetovanja).

([268])Integrated national energy and climate plan for the Republic of Croatia 2021-2030 (541625de-25ba-4eca-b027-a4aec50f1d80_en).

([269])Source: Rewarding flexibility: How retail contract choice can help unlock consumer flexibility - 2025 Retail Monitoring Report. Note: market concentration measured using the Herfindahl-Hirschman Index.

([270])2024 Market Monitoring Report on Energy Retail and Consumer Protection, ACER-CEER.

Croatia has taken measures to address the 2025 country-specific recommendation on advancing the roll-out of smart meters, but still lags behind the EU average in terms of consumer empowerment and market participation. In terms of consumer empowerment, the share of household consumers that switched supplier increased to 6.26% (up from less than 2% in 2023) which indicates increased consumer participation in the market. For non-household consumers, the full scale roll-out of smart meters (95%) was completed in 2024, enabling the bi-directional flow of information. 34% of final household consumers had smart meters in 2024 ([271]), representing an increase of 10% compared to 2023. This was achieved thanks to Croatia's nationwide roll-out of smart meters co-financed by its RRP which saw 100 000 smart meters installed in 2025. Nevertheless, Croatia is still far behind the EU target to roll out smart meters to 80% of final customers and has been impeding uptake of dynamic price contracts. Development of energy communities is still low in Croatia, with only nine communities currently established ([272]), meaning Croatia is still lagging considerably behind the rest of the EU in this regard.

In 2024, electricity accounted for 20.0% of Croatia's final energy consumption (FEC) (slightly below the EU average of 23.4%), a share which has remained largely unchanged over the last decade ([273]), partly due to an unfavourable electricity-to-gas price ratio that disincentivises electrification and cost-effective decarbonisation. Electricity accounts for 26.5% and 25.8% of household and industrial FEC respectively (see Annex 8). In the transport sector, the share of FEC accounted for by electricity remained negligible at 0.9%. Further progress in electrification across sectors would help to cost-effectively decarbonise the economy and bring the benefits of affordable renewable generation to consumers.

Renewables and long-term contracts

In 2025, renewable electricity generation in Croatia was driven by from historically strong hydro capacity, greater rooftop solar adoption, and higher wind output, which together led to a record share of renewables in the electricity mix (76.4% in 2025 vs 73.7% in 2024) ([274]). Hydro represented 39.9%, biomass 6.5% and solar 7.8% of the electricity mix. Wind power represented 22.2% of all generation in 2025, up from 17.8% in 2024, thanks to favourable weather conditions and the commissioning of two new wind farms, namely Opor (27 MW) and Boraja II (45 MW). Installed capacity for renewables represented 5,051 MW in 2025. Installed capacity for wind energy grew to 1.4 GW in 2025 (compared to 1.3 GW in 2024, +5.5%), whilst installed capacity for solar grew strongly (+46.2% compared to 2024), reaching 1.3 GW. Nevertheless, Croatia still has untapped solar and wind potential, especially at utility scale. The investment policy presented in Croatia's revised RRP from 2025 included an additional measure that will ensure EUR 74 million for strategic green investments, such as solar, wind and other renewables, including geothermal. Under the EU's Technical Support Instrument, Croatia is currently developing a policy framework which is designed to help unlock offshore wind energy potential and thus further accelerate the deployment of renewables.

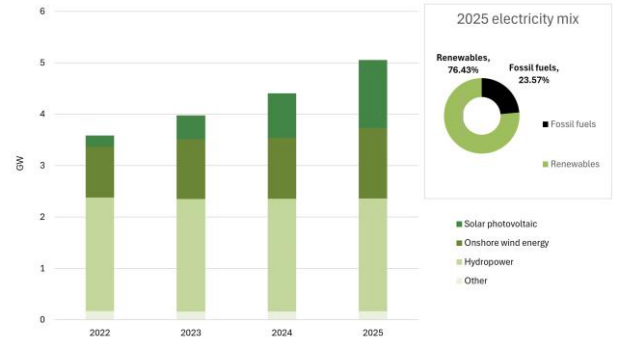
([271]) Rewarding flexibility: How retail contract choice can help unlock consumer flexibility - 2025 Retail Monitoring Report.

([272]) Out of which only three were officially approved by the national regulator.

([273]) The CAGR (compound annual growth rate) was -0.17% between 2015 and 2024. The minimum/maximum shares were 20% and 20.8% respectively. (Source: Eurostat).

([274]) ENTSO-E.

Graph A9.3: **Croatia's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Croatia has taken some measures to address the 2025 country-specific recommendation on accelerating deployment and grid connections for renewable energy projects. In April 2026, HERA adopted its long-awaited new grid connection fee ([275]). While this may partially unlock the situation, the grid connection rules themselves have not been updated and continue to present barriers to renewable energy deployment ([276]). For years, the absence of updated fees had held up to 3.5 GW of grid-scale renewable projects, and for some, energy permits have since expired. With the help of EUR 30 million in financing from the European Regional Development Fund, Croatia intends to further support the development of geothermal energy in 2026, at locations previously identified by the RRP, by investing in four geothermal exploration wells at two locations. Under its RRP, Croatia carried out a major reform of self-consumption in 2025, introducing a new system and creating incentives for self-consumption as well as for consumers to become self-consumers.

Croatia has taken measures to address the 2025 country-specific recommendation on streamlining permitting, including for energy communities, and simplifying procedures for installing solar photovoltaic facilities in multi-apartment buildings. In May 2025, Croatia amended its Renewable Energy Sources and High-Efficiency Cogeneration Act ([277]). This strengthened the legal framework for permitting by clarifying procedural rules, reinforcing transparency and proportionality, and formally recognising renewable energy communities in national law. Simplified procedures for small-scale installations, including the continued use of positive administrative silence, remain in force. However, without a fully operational one-stop-shop, Croatia's permitting procedures are still fragmented, limiting the overall impact of its legislative changes. However, this could improve following Croatia's upcoming transposition of the Renewable Energy Directive III.

After delivering a successful renewable energy auction in 2024 which allocated support to more than 400 MW of solar project capacity, no new auction was held in 2025. No new schedule on the expected allocation of support for renewables had been published on the Union Renewables Development Platform as of the end of 2024.

Croatia recorded its first two power purchase agreements (PPAs) in 2025, which kickstarted the country's PPA market. Regulatory barriers and the constraint to the pipeline of renewable energy projects are preventing a sufficient supply of PPAs and thus a solid PPA market from forming.

Overall, renewables as a share of gross final energy consumption (based on the Renewable Energy Directive methodology) continued their downward trend in 2024, falling to 26.7% (vs an EU average of 24.5%), the same level recorded in 2012, after their peak in 2021 at 31.3% ([278]).

([275]) HERA - Obavijesti

([276]) Pravila o prikljucenju na prijenosnu mrezu - čistopis 14.7.2023.pdf

([277]) Croatia updates Act on Renewable Energy Sources and High-Efficiency Cogeneration - Interreg Central Europe.

([278]) Eurostat.

Energy efficiency

Croatia has not taken sufficient measures to address the 2025 country-specific recommendation on accelerating the implementation of energy efficiency measures, especially in residential buildings and reduce the dependence on fossil fuels in the heating sector, including by accelerating the use of efficient and green solutions, such as heat pump. Several relevant acts were adopted and entered into force on 1 January 2026: the Construction Act, whose general objectives include sustainability and energy efficiency; the new Energy Efficiency Act which introduces stricter requirements for public authorities and businesses to reduce energy consumption by 2030 and to cut greenhouse gas emissions by 2050. The Act establishes the mandatory application of the "energy efficiency first" principle. Nevertheless, Croatia's final energy consumption (FEC) in 2024 was not in line with the trajectory for meeting its expected contribution by 2030. In 2024, FEC increased by 4.1% on 2023 to 7.4 Mtoe, continuing the generally upward trend since 2019. Progress in industry, services and the residential sector was eclipsed by significant underperformance in the transport sector which consumes more energy than any other sector in Croatia. While FEC has decreased slightly since 2019 in industry (-1.3%), services (-5.8%) and the residential sector (-1.2%), it has increased considerably in the transport sector (+22.9%).

Croatia has again seen no significant improvement in the energy efficiency of its residential sector ([279]) despite this being a key policy focus and the subject of a country-specific recommendation. Limited access to metering data for consumers, notably regarding heating, and a lack of significant market signals were behind the low levels of energy efficiency improvements and electrification of domestic heating needs. Final energy consumption in Croatia's residential sector remained largely unchanged between 2019 and 2024 ([280]). Consequently, there is still more work to be done to achieve a highly energy efficient and decarbonised building stock by 2050. Substantial investments are nonetheless being made in post-earthquake reconstruction process and in energy renovation projects, supported by the Recovery and Resilience Plan (RRP) with around EUR 2 bn, to be completed by end-August 2026.

Croatia has submitted its draft national building renovation plan, demonstrating the country's clear commitment to creating a predictable pathway towards achieving an energy efficient and decarbonised building stock which, at present, is responsible for 40% of total final energy consumption. The plan therefore acknowledges the importance of the sector for improving the country's energy efficiency. Heating and cooling account for 80% of Croatia's residential final energy consumption, with renewables supplying 34.8% ([281]) of total energy used for heating and cooling across all sectors. Electricity in Croatia was 3.2 times more expensive than gas in the first half of 2025. This means that end users who choose a heat pump for heating save energy but end up paying more.

Security of supply and diversification

Croatia has invested heavily in its gas infrastructure in order to better diversify supply and improve regional energy security. The Central and South-Eastern Europe Energy Connectivity Action Plan on Gases identified four REPowerEU projects in Croatia. These projects, of which some are complete and others pending completion, are of critical importance: (i) the Krk LNG terminal expansion, increasing capacity to 6.1 bcm/y (completed), (ii) Zlobin-Bosiljevo pipeline (completed), (iii) the Bosiljevo-Sisak-Kozarac pipeline (scheduled for completion in mid-2026), (iv) the Lucko (Croatia)-Zabok (Slovenia) interconnection (scheduled for completion in mid-2026) which is of major importance for diversification. Concerning renewable gases, Croatia still has to further define its hydrogen and biomethane needs and plan the necessary

([279]) CSR.4.2025: Accelerate the implementation of energy efficiency measures, especially in residential buildings and reduce the dependence on fossil fuels in the heating sector, including by accelerating the use of efficient and green solutions, such as heat pumps.

([280]) Eurostat, 2025.

([281]) Eurostat, 2025.

infrastructure in line with the requirements of the hydrogen and decarbonised gas market package.

As lower natural gas and coal consumption was offset by an increase in demand for oil and petroleum products, the share of renewables in Croatia's energy mix stagnated in 2024 as the country continued to be exposed to the harmful effects of imported fossil fuels. Oil and its derivatives accounted for 44.6% (up from 41.4% in 2023) of gross inland consumption, natural gas for 24.2% and coal for 2.7% (down from 4% in 2023) ([282]). Renewables (including biofuels) contributed 27.6% ([283]).

In response to the regional crisis in the Middle East, Croatia has capped maximum retail fuel prices (e.g., ~€1.62/litre for petrol) and introduced a €450 million support package, including a 2-cent excise duty cut on diesel, €70/month aid for vulnerable households, and 5-10% compensation on electricity costs for energy-intensive industries. Households continue to benefit from annual savings of €53 on electricity, €48 on gas, and €56.91 on heating due to existing measures. Croatia contributed to the IEA collective action to release 400 million barrels of emergency oil reserves.

Fossil fuel subsidies

Croatia has failed to take measures to address the 2025 country-specific recommendation on taking concrete steps to phase out fossil fuel subsidies, in particular in the transport sector. In 2024, environmentally harmful ([284]) fossil fuel subsidies without a planned phase-out before 2030 decreased, mainly thanks to the planned phase out of government-imposed fuel price caps. However, such subsidies still represented 0.33% ([285]) of Croatia's GDP ([286]), close to the EU weighted average of 0.32%. However, on 9 March 2026, Croatia chose to reimpose a fuel price cap due to soaring oil prices triggered by the conflict in the Middle East. It also maintains a regulated price cap on household gas supply (alongside a reduced VAT rate of 5% on energy products in force until 31 March 2027) which has been continuously renewed since the 2022 energy crisis and currently extended until 30 September 2026. Furthermore, it continues to operate other fossil fuel subsidies without a planned phase-out before 2030 which do not specifically address energy poverty or genuine energy security concerns, such as partial excise duty refunds on diesel in commercial transport and an excise duty exemption on gasoil for agriculture, fisheries and aquaculture. Additionally, Croatia's 2023 Effective Carbon Rate ([287]) averaged EUR 62.3 per tonne of CO_2, below the EU weighted mean of EUR 84.80 ([288]).

([282])Electricity and heat are excluded in order to avoid double-counting. The focus is on primary energy sources.

([283])Gross inland consumption (Eurostat).

([284])Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([285])European Commission calculation based on underlying data from the *Study on energy subsidies and other government interventions in the EU – 2025 edition,* Enerdata.

([286])2024 Gross Domestic Product at market prices, Eurostat.

([287])The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([288])OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Croatia's high exposure to climate risks and increasing pressure on its natural resources call for rigorous implementation of policies, significant investment and limiting fiscal exposure to preserve its competitiveness. A comprehensive and legally binding framework for climate adaptation is in place, but actual implementation and monitoring remain issues at all levels. Croatia would benefit from significant investment in enhancing resilience in different sectors (including in key infrastructure) and limiting macro-fiscal impacts with a combination of measures. In addition, Croatia is rich in water resources, but inefficiencies in water management could jeopardise water resilience in the long term and impact sustainable economic growth. The risk of seasonal water scarcity and droughts is increasing, while water leakages are among the highest in the EU and the ecological status of surface waters is declining. Reversing these trends will require continuing investment in water infrastructures, in nature-based solutions for water retention and in measures that maintain the aquatic ecosystem's good status. On a positive note, nature-based solutions are slowly gaining ground across sectors. Finally, the future 2026-2035 forest management plan will play a key role by spelling out additional measures that will be needed to meet the 2030 target for land use, land-use change and forestry (LULUCF).

Climate adaptation and preparedness

Croatia is highly exposed to climate change impacts that will require significant investment across sectors. Croatia is in two of the three regions that have been identified as hotspots of climate risks: southern Europe and low-lying coastal regions ([289]). It is particularly exposed to heatwaves, droughts, floods ([290]) and wildfires ([291]). These are increasingly affecting agriculture ([292]) and water management in particular, but also the fisheries and aquaculture ([293]), land use and forestry, energy and tourism ([294]) sectors (as shown in the 2025 analysis ([295])). Croatia recorded a lower number of fires and area burnt in 2025 than in the past ([296]), but it is increasingly evident that wildfires are no longer confined to the summer months. In 2022-2024, Croatia had one of the highest heat-related mortality rates in the EU ([297]). Croatia estimates that the cost of implementing all the measures listed in its national climate adaptation strategy will be EUR 3.6 billion by 2040. Almost 50% concern agriculture ([298]) while the transport sector is not covered at all. A recent study ([299]) commissioned by DG CLIMA estimates that Croatia will need to invest almost EUR 885 million per year up to 2050 (0.8% of annual GDP and significantly more than the EU average of 0.5%), primarily in infrastructure retrofitting and reinforcement (more than 55% of the total), followed by ecosystems restorations (around 25%) and health (around 12%) ([300]) while investments in the resilience of agriculture play a relatively smaller role when comparing to other Member States.

([289])EEA, 2024, European Climate Risk Assessment.

([290])Croatia's 2021 flood risk management plan identifies two key challenges of climate change: sea-level rise and an increased frequency of urban flooding due to storms.

([291])Croatia's annual share of land mass burned by wildfires is among the highest in the EU (see EFFIS).

([292])Croatia's agricultural production is dominated by rain-fed crops. Croatia has a smaller average size of farm units than in the EU as a whole, an ageing workforce and a low share of irrigated land.

([293])The increasing climate and environmental pressures directly undermine the fish stock recovery in the Adriatic Sea, thereby threatening the fishing sector.

([294])Croatia risks becoming a less attractive destination due to high temperatures and issues with water availability.

([295])European Commission, 2025, 2025 Country Report – Croatia, COM(2025) 211 final.

([296])According to the EFFIS, the number of fires and the area burnt were considerably lower in 2025 than the 2006-2024 average.

([297])Janoš, et al., 2025, Heat-related mortality in Europe during 2024 and health Emergency forecasting to reduce preventable deaths.

([298])Followed by the water sector (20%) and forestry (20%).

([299])European Commission, 2026, Assessment of EU and Member States adaptation investment needs, Table 25. The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

([300])Typical investments in ecosystems include soil restoration, wildfire prevention, biodiversity protection and coastal ecosystems restorations. Typical investments in health are linked to occupational health and safety, wastewater treatment facilities upgrade and wildfire disaster response.

A comprehensive and legally binding, top-down policy framework is now in place, but implementation and monitoring are still an issue. Croatia has in recent years strengthened its adaptation and disaster-risk management policy framework ([301]) at the national level by adopting legally binding acts and strategies, by mainstreaming adaptation into sectoral policy documents ([302]) and updating its national vulnerability and risk ([303]) assessments (see the 2025 country report ([304])). As per the Ministry, around half of the activities planned in the national adaptation strategy ([305]) have been completed, but the proportion is considerably smaller for measures in the agriculture, forestry, fishing and aquaculture, and energy sectors. However, given that the long overdue action plan for adaptation has still not been adopted and that a comprehensive monitoring, reporting and evaluation methodology and system have not been rolled out yet ([306]), it is difficult to credibly assess progress in terms of reducing vulnerabilities and improving resilience. That said, in 2025 Croatia started to set up the National Centre for Climate Adaptation and reinforced the administrative capacities within its ministry in charge of climate adaptation. This should help improve governance, coordination and monitoring. The decision to establish a commission for intersectoral coordination of policies and measures has been adopted. This could not only strengthen implementation but also help increase the political visibility and engagement of relevant stakeholders in 2026. At the sub-national level, around 63% of the population was covered by adaptation measures ([307]), even though all counties and large cities are legally required to adopt an adaptation programme. In 2025, the focus shifted from funding the development of regional and local adaptation plans, reports and green infrastructure measures to strengthening sub-national capacities (e.g. for climate-proofing). The network of climate officers has still not been set up, even though this would strengthen technical capacities to integrate climate goals into projects, strategic and planning documents. The share of Croatia's population covered by the EU Covenant of Mayors has been steadily increasing and stood at 55% (EU-27: 34%) in 2024. Furthermore, 26% of signatories have submitted a sustainable energy and action plan (SECAP) on time (i.e. within two years of their initial commitment to the EU Covenant) and 10% of signatories ([308]) submitted at least one monitoring report within the recommended timeframe (i.e. at least two years after submission of their SECAP). This indicates a growing commitment among Croatian municipalities to increase climate resilience but also shows that implementation of policies is lagging behind at the local level.

Climate risks have a direct and significant effect on Croatia's economy, while insurance coverage remains low. Between 1980 and 2024, Croatia recorded EUR 4.7 billion in economic losses ([309]) caused by weather-related and climate-related extreme events. It has one of the highest ratios of natural catastrophes damages to GDP ([310]). The latest studies show that extreme weather events are likely to have a prolonged and intensifying impact on economic activity in Croatia ([311]), with significant regional impacts and seasonal variations. However, Croatia's 2% rate of insurance coverage against weather-related and climate-related events is one of the lowest in the EU (EU-27: 19% ([312])). Households and small

([301])The Croatian Disaster Risk Management Strategy until 2030 and the National Disaster Risk Assessment adopted in 2024.

([302])The national adaptation strategy sets out a number of measures for agriculture, forestry, water management, fishing and aquaculture, biodiversity, energy, tourism, health, spatial planning and risk management.

([303])There is currently only a statutory requirement to perform a climate risk assessment (CRA) at the national level with the implicit requirement for CRA updates to be done as part of the process of revising the strategy, which is legally required every five years.

([304])European Commission, 2025, 2025 Country Report – Croatia, COM(2025) 211 final.

([305])These measures are mostly linked to general actions, risk management, spatial planning, tourism, health, biodiversity and water management

([306])The methodology needs to be developed under the national adaptation plan measure on the 'development of impact indicators of the implementation of the adaptation strategy for vulnerable sectors and society'.

([307])National information database.

([308])European Commission.

([309])EEA, 2024, Economic losses from weather- and climate-related extremes in Europe.

([310])ECB and EIOPA, 2024, Towards a European system for natural catastrophe risk management, Chart 2. This figure includes earthquakes which happened in 2020-2023.

([311])Usman, Parker and Vallat, 2025, Dry-roasted NUTS: early estimates of the regional impact of 2025 extreme weather.

([312])EEA, 2024, Economic losses from weather- and climate-related extremes in Europe.

farmers are particularly exposed ([313]). Forest fire prevention has been considerably strengthened in recent years ([314]). Croatia has developed a rather holistic approach to flood risk management ([315]). However, it is currently not mandatory to have insurance coverage for the two highest risks (floods and fires) ([316]). In the event of a disaster, compensation is granted on an ad hoc basis. Some initial steps have been taken to explore the role that insurance companies can play in covering flood-related damages, but there seems to be a lack of awareness about climate risks, both among businesses and general population. The fact that disaster-related damages are covered from the state budget seems to have reduced incentives to purchase private insurance. There is currently no national insurance scheme ([317]) in place that could improve insurance coverage and reduce the insurance protection gap ([318]). In 2026, Croatia plans to mainstream the green budgeting methodology, but public finances currently seem to be very exposed to climate risks.

To ensure the resilience of key infrastructure, significant investment in systematic climate-proofing is necessary. Croatia recognises that its energy sector is very vulnerable to climate change. It has assessed the consequences of future water availability and risks (e.g. insufficient or disrupted water supply for hydropower generation, additional cooling needs and flood damages ([319]). The national adaptation strategy states that almost EUR 250 million will need to be invested in this sector by 2040. The transport vulnerability index of the TEN-T network to climate change is one of the highest in the EU. This is mainly due to the transport sector not being mainstreamed into the national adaptation strategy, limited logistic capacity and limited availability of adequate funds to effectively respond to climate-related disruptions ([320]). Croatia's transport infrastructure was particularly exposed to floods in the past, but extreme temperatures are likely to have an important impact in the future. The highest costs are expected for adaptation to coastal floods and heatwaves. An estimated total of EUR 1.4 billion will need to be invested until mid-century in TEN-T, mostly in maritime ports (EUR 694 million) and railways (EUR 477 million) ([321]). Croatia has reported the highest investment in TEN-T adaptation in the EU until 2023 and plans to invest around EUR 2 billion until 2035 ([322]). The share of companies that have invested in improving their resilience against physical climate risks is below the EU average ([323]) and experience shows that the topic is not well understood overall. The new Climate Act ([324]) requires strategic documents and implies that investment in infrastructure needs to apply climate-proofing ([325]) as part of the assessment. In addition, in 2025 Croatia developed national climate proofing guidelines for projects co-financed by EU funds, organised training programmes and developed materials to increase awareness.

Nature-based solutions (NbS) are increasingly deployed, especially in urban areas. Nature-based solutions and prevention play a key role in increasing resilience. In Croatia, they are typically used in the context of fluvial floods actions and 'to the extent possible' (e.g. the

([313])Up to 25% of the population or companies find insurance unaffordable.

([314])European Commission, 2025, 2025 Country Report – Croatia, COM(2025) 211 final.

([315])This is thanks to continuous and significant investments and modernisation efforts in infrastructure, water retention, monitoring and early warning systems combined with various risk assessments and mapping exercises linked to water management and floods. The new river basin management plan (2028-2033) also includes measures related to drought management.

([316])The estimated protection gap score for 2025 is 3 (high) for floods and 2.5 for forest fires (medium high). EIOPA, 2025, Dashboard on insurance protection for natural catastrophes.

([317])This type of schemes supplements private insurance cover for natural catastrophes by improving risk awareness and prevention, while increasing insurance capacity through more affordable (re)insurance.

([318])ECB and EIOPA, 2024, Towards a European system for natural catastrophe risk management.

([319])European Commission, Staff working document accompanying the EU-wide assessment of the final updated national energy and climate plans Delivering the Union's 2030 energy and climate objectives, NECP assessment, COM(2025) 274 final.

([320])Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network, Publications Office of the European Union, 2024.

([321])Ibid.

([322])Ibid.

([323])EIB, Investment survey 2024.

([324])Official Gazette 67/2025.

([325])As a minimum assessment of climate change exposure, sensitivity, vulnerability, risks and proposal of countermeasures.

Drava river management transboundary project, which is financed by LIFE ([326]), or the Sava-Kupa large-scale project, which is co-financed by the Cohesion Policy), or in the context of disaster risk management (e.g. fire protection). The new RBMPs (river basin management plans) up to 2027 build on the VEPAR project and strongly advocate NbS in the context of flood management. NbS have not been deployed widely and systematically across other sectors so far, but there has recently been a shift in the urban context ([327]) from pilots to larger and more permanent projects co-financed by EU funds. Croatia is currently developing a catalogue with examples by sector and this could further help mainstream and accelerate the uptake of NbS.

Water resilience

Croatia faces seasonal water scarcity, particularly in the Adriatic coast and *karst* regions, where water availability varies sharply during the summer tourist season. Agriculture, water utilities and energy production are among the most water-dependent sectors ([328]). The national water exploitation index plus (WEI+) ([329]) indicates low overall pressure thanks to abundant renewable freshwater resources. However, the persistence of large regional disparities is evidenced by the JRC European Drought Risk Atlas, which shows that inland Croatia (Slavonia) has one of the highest risks of drought impact on agriculture in the EU ([330]). Water scarcity can disrupt many sectors of the economy, reducing crop yields in agriculture, reducing production from freshwater aquaculture, reducing power generation from hydropower and thermal energy, and creating problems for water-intensive processes in industry.

Water productivity in Croatia ([331]) stood at EUR 82 per m³ of abstracted water in 2022, below the EU-27 average of EUR 151 per m³. This reflected inefficiencies in abstraction-heavy sectors like energy and public water supply, despite an upward trend. These inefficiencies impair competitiveness, especially during peak seasons. In 2023, public water supply accounted for 65% of freshwater abstraction, with energy production at 27% ([332]). Since 2014, abstraction has risen by 25%, driven by increased reliance on surface water (40% of abstraction in 2023) rather than groundwater.

The good ecological status of Croatia's surface water bodies has declined steadily. It fell between the first, second and third river basin management plans (RBMPs) from 50% to 42% to 33% ([333]). This decline is mainly driven by persistent pressures (e.g. discharges from areas not connected to sewerage networks, diffuse agricultural pollution and physical alterations of water bodies).

Chemical status is a critical challenge. This is particularly the case for coastal and transitional waters, which are affected by pollution (95% and 97% of them fail to achieve good limiting access to high-quality water for industrial and agricultural use). It is equally worrying that, compared with the previous RBMP cycle, the number of heavily modified water bodies has almost doubled (from 135 to 256) – particularly for lakes and rivers.

Croatia's ageing infrastructure is exacerbating challenges for its water sector. Nearly half of all drinking water is lost ([334]), with a

([326])LIFE 3.0 – LIFE14 NAT/HR/000115, Link.

([327])A number of policy tools have been developed (e.g. a mapping methodology and handbooks) and green infrastructure has been included in the spatial development strategy and programmes. In major urban areas, however, adaptation measures have not been fully integrated into spatial planning and general preparedness could be better.

([328])EEA, 2025, Water abstraction by economic sector, 2000-2023.

([329])Eurostat, Water Exploitation Index, plus. WEI+ indicates how much water is used compared with the total renewable freshwater resources available for a given territory and period.

([330])Rossi, et al. (JRC), 2023, European Drought Risk Atlas, Publications Office of the European Union. See also the European Drought Observatory.

([331])Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

([332])EEA, 2024, Water abstraction by economic sector, 2000-2023.

([333])WISE, Surface water Bodies: ecological status or potential. Note that the deterioration can be due to more accurate monitoring rather than a genuine decline of parameters.

([334])European Commission and the World Bank, 2023, Technical assistance on support to reduce water loss within the reform of the water sector in Croatia.

particularly critical situation in the capital Zagreb and in coastal counties that are also affected by seasonal demand spikes. Croatia is addressing these issues by investing significantly in the sector using the recovery and resilience plan (RRP) and cohesion policy funding. Croatia's RRP reforms include the adoption of a national water loss reduction action plan in June 2024. This includes measures to improve system data, active leakage control (identification and remediation of leaks), water meter replacement, pipeline planning and replacement and staff training ([335]). Water loss reduction action plans are about to be adopted at water operator level. One RRP reform integrated water operators, reducing their number from 200 to 41. Additionally, further to cohesion policy investments ([336]) in the water sector, the RRP aims to cut water losses and improve monitoring through public water supply and digital metering projects, as well as by building and renovating water supply systems. This should significantly reduce Non-Revenue Water and improve seasonal resilience.

Croatia has slightly increased its compliance rate with the Urban Waste Water Treatment Directive (UWWTD). Its compliance rate was 7.3% in 2022 (up from 5.4% in 2020), the lowest in the EU. Significant load is not yet collected and treated or is collected and discharged without treatment ([337]). Croatia is investing in wastewater infrastructures through the RRP and cohesion policy. An amendment to the cohesion policy operational programme adopted in 2025 has increased its allocation for water infrastructures by 20%, bringing the total investment in the sector to over EUR 1 billion. The annual cost of new and renewed urban wastewater infrastructure between 2024 and 2032 is expected to reach EUR 299 million for collection systems and EUR 128 million for urban wastewater treatment plants. Altogether, this represents a significant investment of EUR 111 per inhabitant each year ([338]). In general, Croatia still needs to invest around EUR 680 million to achieve its objective of guaranteeing water protection ([339]).

Nature restoration

Croatia's economy is structurally exposed to nature loss because has one of the highest dependencies on ecosystem services in the EU ([340]). More than half of gross value added (GVA) relies directly on the ecosystem (59%) – well above the EU average of 44%. This vulnerability is particularly acute in the tourism sector, which contributes around 20% of GDP and depends directly on healthy coastal, marine and terrestrial ecosystems. Other key sectors like agriculture, forestry, fishery, mining, water utilities and healthcare are heavily dependent on ecosystems ([341]). Their degradation might directly impact the competitiveness of companies working in these sectors.

Croatia has an exceptionally rich biodiversity (38.2% of its territory is designated as a protected area ([342])), but habitat degradation is increasingly widespread. Almost a third of its GDP is dependent on natural systems. Wetlands that deliver essential water-retention and climate-regulation functions are among the most threatened ecosystems. Natural water bodies are quickly becoming artificially modified. However, healthy aquatic habitats provide vital ecosystem services in Croatia, so their protection and the reduction of hydro-morphological pressures is key for Croatia's economic sustainability ([343]). More positively, Croatia has extended the area of its marine protected areas up to approximately 32% in order to meet the requirements of the 2030 EU Biodiversity Strategy ([344]). Croatia is also supporting the establishment of fisheries

([335])Croatian Ministry of Economy and Sustainable Development, 28 June 2024, National Action Plan for Reduction of Water Losses in the Republic of Croatia.

([336])Croatia increased its allocation for drinking water and wastewater infrastructures with an amendment to its cohesion policy operational programme. This brings the total investment in the sector to over EUR 1 billion.

([337])Internal documents, implementation of Directive 91/271/EEC (UWWTD), 2022.

([338])Ibid.

([339])European Commission, 2025, Environmental Implementation Review, Croatia country report.

([340])Hirschbuehl et al. (JRC), 2025, The EU economy's dependency on nature, Vasilakopoulos, P., editor(s), European Commission.

([341])Ibid.

([342])Eurostat, Protected Areas Indicator; Bioportal – Nature Protection Information System (web GIS platform).

([343])European Commission, 2025, Environmental Implementation Review, Croatia country report.

([344])Croatian Marine Protected Area Network.

restricted areas in order to protect nursery and spawning grounds at the national and Adriatic sea-basin levels (e.g. Kvarneric and Jabuka/Pomo Pit). Improved monitoring, data collection and fisheries control are key to preserving Croatia's marine biodiversity and to supporting the resilience and livelihoods of fisheries-dependent coastal regions.

Croatia has recently taken steps to align with the EU Biodiversity Strategy objective of making at least 25 000 km of rivers free-flowing by 2030. In 2024, Croatia launched its first projects to remove obsolete river barriers ([345]). These efforts support the objectives of the Water Framework Directive of restoring freshwater ecosystems and the natural function of rivers and mitigating the impact of floods. A good example is the VEPAR project, which is co-funded by the European Regional and Development Fund. This has modernised flood risk management by introducing guidelines on the socio-economic feasibility of green infrastructure measures (including nature-based solutions) and by upgrading over 650 hydrological monitoring stations that digitalise flood protection infrastructure and thus significantly improve Croatia's capacity to predict, manage and reduce the risk of floods ([346]).

Nature degradation is further amplified by invasive alien species. 28 invasive alien species of EU concern were recorded in Croatia in 2024, causing an estimated EUR 170 ([347])). Eutrophication (a threat to ([348])). Nitrogen deposition from agriculture and industrial combustion remains a critical driver of this degradation.

These positive developments contrast with a persistent biodiversity finance gap. Croatia faces an estimated EUR 592 million shortfall in funding for its conservation priorities, despite cohesion policy investment of up to EUR 200 million. This shortfall underscores the need for increased investment in habitat restoration ([349]).

Sustainable agriculture and land use

Croatia's carbon removals fall short of the level of ambition needed to meet its 2030 target for land use, land-use change and forestry (LULUCF). Croatia is one of the most heavily forested countries in the EU, but net carbon removals in the LULUCF sector have been declining since 2005. This has recently been driven by sanitary logging due to wind-throw events and forest fires, which have sharply increased reforestation costs because the scale of damages makes natural regeneration difficult. To meet its 2030 LULUCF target, additional carbon removals of 0.6 million tonnes of CO_2 equivalent (CO_2-eq) are needed ([350]). The latest available projections show a gap to target of 1.2 $MtCO_2$-eq for 2030 ([351]). Additional measures are therefore needed in the land sector to reach the 2030 target. In addition to increasing LULUCF net removals, further investment in healthy forests and soils is key to building resilient, biobased product value chains and enabling a growing, competitive EU bioeconomy. In particular, continued improvements in the monitoring system of net removal data and projections will play a crucial role in supporting timely and effective action in the sector.

The future forest management plan (2026-2035) is crucial for helping to meet the 2030 target. While measures are relatively cost-efficient in this sector, the sector currently suffers from a number of factors: (i) a lack of financial incentives and business models to encourage carbon sequestration; (ii) regulatory hurdles that prevent afforestation of abandoned agricultural land; (iii) somewhat fragmented ownership ([352]);

([345])Open Rivers Programme, eight barrier removals in Plitvice Lakes National Park, Croatia.

([346])VEPAR Project – Improvement of Non-Structural Measures of Flood Risk Management in the Republic of Croatia.

([347])Neobiota, 2021, Economic cost of invasive alien species across Europe. European Commission, Directorate-General for Environment, EMRC, Logika Group and RPA Europe; European Commission, 2025, *Environmental Implementation Review, Croatia Country Report*, Link.

([348])EEA, 2024, Eutrophication caused by atmospheric nitrogen deposition in Europe.

([349])European Commission, 2025, Environmental Implementation Review, Croatia country report.

([350])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([351])Climate action progress report 2025.

([352])Around three quarters of Croatian forests are publicly owned and managed by a state-owned company (Hrvatske Šume),

(iv) labour shortages ([353]); and (v) a generally low level of awareness about this sector's contribution to decarbonisation. In 2025, Croatia continued its efforts to address some of the challenges in the sector by planting new trees ([354]), finalising its second national inventory of forest resources in Q1 2026 and improving the accuracy of its net removal data through targeted projects (e.g. CROLIS co-financed by LIFE). The new forest management plan (2026-2035) that is currently in preparation will be key to addressing the remaining challenges. In January 2026, the government presented its long-awaited strategy for bioeconomy until 2035 to the parliament.

Croatia's share of agricultural land that is organically farmed is gradually increasing. Between 2012 and 2024, the share rose from 2.4% to 9.0% ([355]). At this rate, Croatia will probably meet its national target of 12% of its agricultural land being organically farmed by 2030. However, this national target is much lower than the EU's 25% target. 6.9% of Croatian agricultural land features landscape elements like woods and grasslands, with a slightly lower figure of 5.8% of those elements specifically on arable land ([356]). The estimated rate of soil loss by water erosion is above the threshold of 2 t/ha ([357]). However, Croatia is not affected to the same degree by wind erosion and tillage erosion.

Croatia faces environmental and public-health risks due to persistent agricultural pollution pressures and the rapid transfer of contaminants into groundwater systems. Croatia's functional urban area has considerably expanded in the last few years. Net land taken between 2018 and 2021 accounted for 433 parts per million per year of Croatia's total urban surface. Most land has been taken from arable land. This ongoing 'land take' and the associated soil-sealing makes ecosystems less resilient, decreases carbon sequestration and impairs flood protection ([358]).

Water quality pressures are intensifying. Under the EU Nitrates Directive, 12% of Croatia's groundwater monitoring stations recorded average nitrate concentrations in excess of 25 mg/l (and 1.5% above 50 mg/l, the EU threshold for safe drinking water) between 2016 and 2019 ([359]). This trend underscores systemic agricultural pressures, despite Croatia's relatively low livestock density of 0.5 livestock units per hectare in 2020 ([360]) (EU average: 0.75). A 16% reduction in agricultural ammonia emissions between 2018 and 2023 ([361]) underscores improvement in emission control. Croatia is projected ([362]) to meet its reduction commitments to be achieved by 2030. However, the persistence of nitrate pollution indicates gaps in nutrient management strategies.

Pesticide contamination remains an issue. 33% and 17% of rivers and lakes water bodies, exceeded regulatory thresholds for pesticide residues between 2018 and 2023 ([363]). These figures are similar to the equivalent EU figures of 27% and 18%. Groundwater bodies are better preserved by pesticide contamination, with only 5% of them exceeding the threshold (EU average: 19%). Pesticides not only threaten aquatic ecosystems but also pose long-term risks to human health through contaminated drinking water and food chains. Croatia ranks the best in the EU for soil contamination, as the concentration of pesticides in all samples does not exceed

but a large majority of private owners own only 1-2 hectares of forest each.

([353])These labour shortages are due to ageing of the workforce in the sector itself. This is compounded by a general decline in population in rural areas. The resulting reduction in active forest management due to labour shortages could reduce forests' long-term resilience.

([354])The action plan adopted in 2024 includes the goal of planting 1 000 000 additional trees per year by 2030.

([355])Context indicator C.33, agricultural area under organic farming.

([356])The Croatian CAP Strategic Plan 2023-2027 – Context indicator C.21.

([357])European Commission, EUSO Soil Degradation Dashboard.

([358])EEA, 2022, Land take and land degradation in functional urban areas.

([359])EEA, 2025, Nitrate in groundwater in Europe.

([360])Eurostat, *Livestock density index*, Link.

([361])EEA, Air pollutant emissions data viewer (Gothenburg Protocol, Air Convention) 1990-2023.

([362])EEA, 2025, Magnitude of emission reductions (percentage) required by EU Member States to meet their emission reduction commitments for 2030 onwards, based on 2023 data.

([363])EEA, 2024, Pesticides in rivers, lakes, and groundwater in Europe.

0.05 mg kg ([364]), whereas this occurs 57% of the times at EU level.

([364])Vieira et al. (JRC), 2023, Pesticides residues in European agricultural soils – Results from LUCAS 2018 soil module, Publications Office of the European Union.

Table A10.1:**Key Adaptation Indicators**

Climate adaptation and preparedness:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	0.07	1.92	3.09	31.86	0.05	-	2.76
Forest fires burned area (1) *[burned area in ha. per year]*	11,818	27,477	9,342	32,943	2,768	15,886	354,510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	-	66	-	383	160	19	40,452
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	2	2	2	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	32	35	38	41	50	55	34

Water resilience:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Water Exploitation Index Plus, WEI+ (3) *[total water consumption as % of renewable freshwater resources]*	0.20	0.25	0.24	0.34	0.23	-	4.53
Water productivity *[EUR per m^3]*	77	72	80	82	82	-	151
Water abstraction							
Water abstraction by source (% from surface water)	39.42%	38.63%	39.76%	41.18%	40.32%		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Construc-tion	
	4.14%	27.37%	3.12%	65.08%	0.29%	0.00%	
Status of water bodies (4) *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	33%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	98%	93%

Nature restoration:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	59%	-	-	44%
Protected area *[% of terrestrial protected areas]*	38	38	38.2	38.2	38.2		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	28	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	0.17		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				261	261		295

Sustainable agriculture and land use:							EU-27
			2012-2018		2018-2021		latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*			118		433		670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*							
Arable land					32%		
Complex and mixed cultivation					0%		
Forests					14%		
Herbaceous vegetation associations					25%		
Open spaces with little or no vegetation					1%		
Pastures					26%		
Permanent crops					2%		
Water					0%		
Wetlands					0%		
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater (5) *[mgNO_3/l]*	:	:	:	:	:		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.61			0.54		0.75
Ammonia emissions *[% of total utilised agricultural area]*	91%	88%	91%	94%	94%	-	94%
Pesticide contamination on rivers and lakes water bodies *[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]*				rivers	33%		27%
				lakes	17%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg^{-1}]*					0%		57%
Net greenhouse gas removals from LULUCF (6) *[ktCO_2-eq]*	-5723.4	-5657.0	-5762.7	-4866.5	-5525.7	-	-198,421

(1) The data show the average for the timespan 2006-2024 based on reporting from EFFIS - European Forest Fire Information System. (2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires, windstorms, and the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes. (3) Measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20 % are generally considered to be a sign of water scarcity, while values equal or greater than 40 % indicate situations of severe water scarcity. (4) European Commission, 2024, 7th Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans). (5) Indicator refers to concentrations of nitrate (NO3) in groundwater, measured as milligrams per litre (mg NO3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mg NO3/L to avoid threats to human health. (6) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.

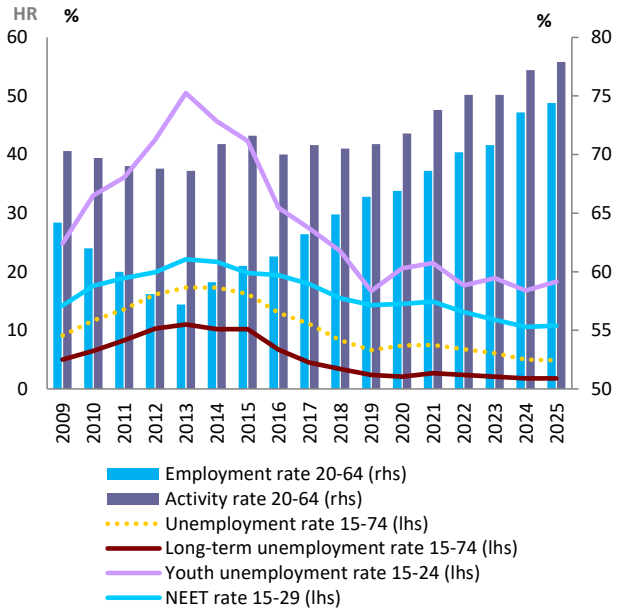
Source: Eurostat, EEA, JRC

Croatia's labour market has strengthened markedly, yet structural challenges persist. Employment and unemployment have reached historically favourable levels. While Croatia is on track to reach its 2030 employment rate target, achieving a more inclusive labour market and robust economic growth will require: (i) reaching the 2030 skills target; (ii) activating underrepresented groups (particularly older people, low-skilled workers and persons with disabilities) and better using their potential; (iii) addressing skills mismatches through improved skills intelligence and relevant labour market training with stronger employer involvement and (iv) reducing regional disparities.

The 2025 country-specific recommendations for Croatia highlighted the need to reduce labour and skills shortages by: (i) removing obstacles to labour force participation; (ii) better targeting active labour market policies to vulnerable groups; (iii) attracting, developing and retaining talent; and (iv) strengthening labour market policies and their coordination with social services.

Labour market outcomes continue to improve and are approaching EU averages, but regional disparities remain. The employment rate reached a record high of 74.4% in 2025 (EU: 76.1%), very close to the country's 2030 employment target of 75%. The unemployment rate has steadily declined since 2014 (17.3%) and is now historically low, well below the EU average (4.9% vs 6%). Strong economic activity and labour demand led to record low long-term unemployment in 2025 (1.8%). Labour market slack ([365]) decreased to 6.8% in Q4-2025, remaining significantly below the EU average (11.0%). However, youth unemployment remains above the EU average (18.3% vs 15.2% in 2025), and labour force participation, although increasing in recent years, is still below the EU average (72,4% vs 75.7% in 2025). Moreover, the macroeconomic skills mismatch, which arises when the skills of available workers and those who get hired differ, is relatively high (23.3% vs EU: 19.2% in 2025). Regional disparities in labour force participation are substantial, ranging from 77,6% in the City of Zagreb region (Q4-2025) to 68.3% in the Pannonian region, well below the national average of 72.3% ([366]).

Graph A11.1: **Key rates: activity, employment, unemployment, long-term unemployment, youth unemployment, NEET**



Activity rate and employment rate (% of population), total, ages 20-64
Unemployment rate and long-term unemployment rate (% of labour force), total, ages 15-74
Long-term unemployment rate (% of labour force), total, ages 15-74
Youth unemployment rate (% of labour force), total, ages 15-24
NEET: Young people neither in employment nor in education and training (% of population), total, ages 15-29

Source: Eurostat, LFS [lfsi_emp_a, une_rt_a, lfsi_neet_a, une_ltu_a, lfsi_emp_a]

Despite overall increase in labour market participation, older people and low-skilled workers remain underrepresented in the labour market. While some progress has been made in recent years, Croatia still has one of the lowest employment rates for older workers (55-64) in the EU, at 54.9% in 2025 (EU: 66.4%), with an even lower employment rate for those aged 60-64 (40.9% vs EU: 53.1% in 2024). These gaps partly reflect historically high retirement rates, driven by early retirement ages and the

([365])The labour market slack is the underuse of labour resources, including unemployment, underemployment, and those available for work but not actively seeking employment.

([366])Source: Croatian Bureau of Statistics - Labour force statistics.

widespread use of early retirement schemes among specific population groups. Policy and legislative measures are being developed to encourage people to stay in the workforce for longer. Working pensioners are concentrated in cities (almost 40% in the City of Zagreb and Split-Dalmatia counties alone), while participation is much lower in rural areas. The employment rate for low-skilled workers (20-64) is also well below the EU average (42.0% vs 58.2% in 2025) and lags significantly behind the employment rates for medium-skilled (72.3%) and high-skilled (88.1%) workers. This gap largely reflects skills profiles that are unsuitable for labour market needs.

The employment situation for persons with disabilities remains challenging. The disability employment gap decreased to 39.7 pps in 2025, but it still remains well above the EU average (24.2 pps). Only 46.5% of persons with some or severe disabilities are active in the labour market, compared with 64.4% in the EU ([367]). Nearly half of young persons with disabilities are not in employment, education or training, the second highest rate in the EU (46% vs EU: 28%). Since 2019, the number of persons with disabilities employed through the Croatian Employment Service (CES) mediation has been steadily increasing. However, there are regional disparities: more than 40% of all unemployed persons with disabilities registered with CES are in just 3 out of 21 counties (City of Zagreb, Osijek-Baranja and Split-Dalmatia). Participation of persons with disabilities in active labour market policies (ALMPs) has been expanded in 2026 with the possibility of employing people with disabilities on the part-time basis through employment support. Employers often deny the right to reasonable adjustments to working conditions and work organisation ([368]). This indicates the need to further promote the employment of persons with disabilities, particularly through awareness raising.

Efforts are made to improve the situation of persons with disabilities. Croatia is implementing the National Plan for Equalising Opportunities for Persons with Disabilities 2021-2027, and personal assistance services are regulated through the Law on Personal Assistance, with support from the European Social Fund Plus (ESF+). Under the Technical Support Instrument (TSI), Croatia is working to improve the assessment of remaining work capacity of persons with disabilities to support their inclusion in the labour market. Further policy initiatives, for example on flexible working arrangements and targeted ALMPs, would be beneficial expanding employment and training opportunities and improving labour market inclusion.

The lack of an institutional or regulatory social economy framework constrains the development of social economy organisations, including work integration social enterprises. Croatia does not have a specific social economy strategy or framework law in place, and no dedicated tax incentives or procurement preferences have been introduced for social enterprises. As a result, the social economy operates under general regulations for associations, cooperatives, foundations and institutions. In the absence of an agreed definition and common recognition criteria, identifying eligible bodies for targeted support remains challenging, limiting policy effectiveness and access to finance for social enterprises that support vulnerable groups' labour market integration. Social economy organisations therefore compete on equal terms with profit-oriented firms despite their focus on producing social value. Work on a national social economy strategy has started, but its effective implementation will require increased capacity among stakeholders at national and regional levels, as well as stronger commitment and cross-cutting coordination across ministries and funding programmes.

Croatia's shrinking working-age population poses challenges to the labour market. Croatia's population is expected to decrease and age, driven by declining birth rates and rising life expectancy. According to the 2021 census, the population is projected to decrease by 22% to 3.01 million by 2070. Labour force participation and employment rates among the working-age population are projected to rise throughout this period, partly reflecting the increase in the retirement age for women, which affects both early and statutory retirements (see below). Nevertheless, the absolute size of the working-age population is projected to decline, and life expectancy is expected to rise significantly. As a result, the old-age dependency ratio (the ratio of

([367])European comparative data on persons with disabilities - data 2023 - European Commission.

([368])Croatian Ombudsman for Persons with Disabilities (2025), Report of the Ombudsman for 2024.

people aged 65 and over to those aged 20-64) is set to grow from 38.9% in 2022 to 62.2% by 2070, which will put additional pressure on an already strained healthcare system (see Annex 15). To tackle these challenges, Croatia has introduced a pension reform, including a gradual increase in the pensionable age for women (by three months every year), reaching 65 in 2030, and the possibility of combining pension rights with employment.

Limited capacities of the Croatian Employment Service (CES) may reduce effectiveness of labour market integration of vulnerable people. The ESF+ is financing ALMPs aimed at activating, reskilling and upskilling groups under-represented in the labour market. Labour market integration of these groups may require further strengthening CES capacities to: (i) provide targeted, integrated and innovative services at national and regional levels; (ii) regularly monitor and review ALMPs; and (iii) better coordinate policy measures with social services, training providers and key labour market players.

The working conditions and integration of migrant workers are becoming increasingly important issues. The employment rate of non-EU nationals is higher than that of the overall population, standing at around 80% (EU: 65.2%). Amid persistent labour shortages in some economic sectors, promoting legal migration and attracting and retaining talent, including those from non-EU countries, is becoming increasingly pressing. In March 2025, Croatia amended its Foreigners Act to facilitate the hiring and retention of non-EU nationals in the labour market and to improve their social protection and inclusion. Complementary measures include access to Croatian language training at all levels through a skills voucher system, including shorter non-formal learning programmes. In addition, since 2025, non-EU nationals with temporary residence permits have been able to register as unemployed and access CES advisory services.

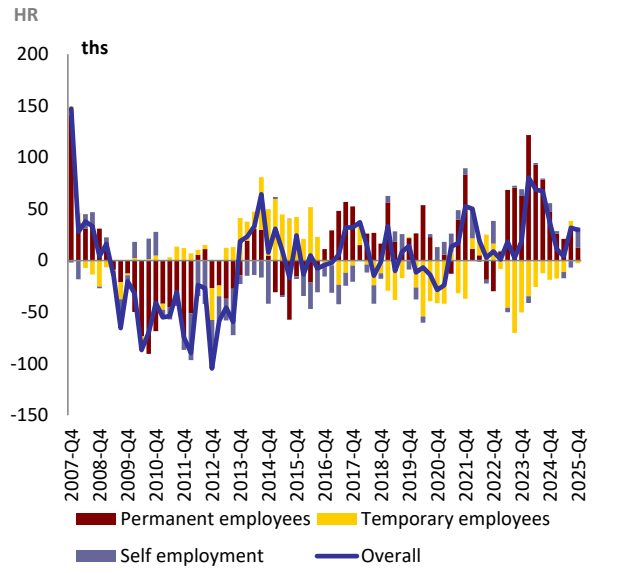
Croatia faces an imbalance between an increasing number of people obtaining higher education qualifications and the limited number of new jobs for high-skilled roles. Unlike most advanced economies facing 'job polarisation' (i.e. an increase in both high-skilled and low-skilled occupations, with a decrease in mid-skill occupations), Croatia is experiencing a different trend. The share of employment in high-skilled occupations is falling, while the share of workers in low-skilled occupations is already above the EU average and has increased since the COVID-19 pandemic. This points to a structural reliance on low-skilled employment.

Skills mismatches continue to constrain the labour market, with workforce shortages in many sectors. Croatia's recent efforts in upskilling and reskilling initiatives are supported by the Recovery and Resilience Facility and the ESF+, including steps to create individual learning accounts. However, participation in adult learning remains limited, with particularly low rates among vulnerable groups (see Annex 13). Skills mismatches contribute to labour shortages, the underuse of qualifications and fewer employment opportunities for medium-skilled workers and low-skilled. The job vacancy rate remained stable at 1.5% in Q4-2025 and below the EU average of 2.1%, consistent with its pre-pandemic level (1.4% in Q4-2019). However, this aggregate figure masks important differences across sectors, with the highest shortages being reported in 2025 in areas such as postal and courier activities, construction, machinery repair and installation, food and beverages, and recruitment agencies ([369]). In October 2025, the share of employers expecting labour shortages to limit their production was around, higher or significantly higher than the EU average in several sectors: it was 22.5% for companies in the services sector (EU: 23.1%), 40.5% for companies in industry (EU: 17.5%) and 48.9% in the construction sector (EU: 27.5%). A breakdown by occupation ([370]) shows that shortages are most acute in elementary occupations and among hospitality workers, sales workers and transport workers. The declining working-age population risks further exacerbating labour shortages, especially among people with lower qualifications, undermining Croatia's economic competitiveness. Strengthening adult education and training coverage and labour market relevance through initiatives such as individual learning accounts (ILA) would help mitigate these risks.

([369])Business and Consumer Surveys (ECFIN).

([370])EURES - Demand for occupations | Cedefop.

Graph A11.2: **Employment by type (permanent, temporary, self-employed), year-on-year changes**



(1) Employment (thousand), total, ages 20-64, year-on-year change based on non-seasonally adjusted data. Self-employment is defined as the total of self-employed persons and contributing family workers.
Source: Eurostat, LFS [lfsq_egaps, lfsq_etgaed]

Wage growth remains strong. After a significant increase of more than 13% in 2023, nominal wage growth rose by 8.9% in 2024 and by 10.9% in 2025. It is projected to grow again, by 7% in 2026, above the EU average for all five years. Real wages have grown at a rapid pace as well (4.8% in 2023, 4.3% in 2024, 6.0% in 2025 and a projected 2.2% in 2026), supported by robust nominal wage growth and rapid disinflation. The statutory minimum wage increased by 56% between January 2022 and January 2025, a rise of 21% in real terms. However, wages remain low compared with other Member States.

Collective bargaining in Croatia is decentralised in the private sector and is mostly centralised in the public sector. The collective bargaining coverage rate stood at 65.3% (2024) ([371]). The most common type of collective bargaining encountered in the private sector is a traditional system of sectoral collective agreements. Larger companies also conclude in-house collective agreements. While the public sector (including the civil and public service) and state-owned enterprises are almost entirely covered by collective agreements, a large number of workers in private sector lack coverage, predominantly in low-wage sectors. It would be beneficial for social partners to build up their capacity. In January 2025, the Croatian government set up the Office for Social Partnership to promote social dialogue and partnership. The Office will work with social partners to develop measures to be included in the future action plan for promoting collective bargaining.

Concerns about potential downward pressures on competitiveness are emerging. Although Croatia has made some progress, labour productivity remains relatively low with pronounced regional differences (see Annex 18), posing a significant challenge to sustainable economic growth. Over the past decade, wage growth has consistently exceeded the levels suggested by standard macroeconomic drivers of wage growth ([372]). As a result, unit labour costs have increased significantly in recent years: they grew by 11.3% in 2023 and 10.8% in 2024 and were forecast to increase by 8.9% in 2025. While export market shares have risen (2021-2023), continued strong wage growth could weigh on competitiveness in the future.

The green and digital transitions are facing bottlenecks. Employment in energy-intensive industries increased to 2.4% of total employment in 2025 (vs EU: 3.5%). In 2025, shortages were reported for several occupations relevant to the green transition, including construction professions, such as air conditioning and refrigeration mechanics, electrical mechanics and fitters or insulation workers. At the same time, participation in education and training within energy-intensive industries decreased slightly, from 9.5% in 2015 to 8.4% in 2024, and remains below the EU average (11.7%). Croatia's recovery and resilience plan includes a revised national skills development plan, which aims to encourage people to acquire green skills as part of Croatia's energy efficiency and renovation plan.

ICT sector in Croatia is strengthening. ICT specialists account for 4.9% of those in total employment in 2025, marginally down from 5.0% in 2024, and in line with the EU average of 5.0%. The share of female ICT specialists was estimated at 18.4% in 2025, below the EU average of 19.5%,

([371])OECD/AIAS ICTWSS v2.0.

([372])Wage benchmarks are predicted by developments in inflation, productivity and the unemployment rate.

so women remain under-represented overall. Demand for ICT specialists remains strong across sectors, but supply continues to lag behind demand. Croatia performs slightly above the EU average in terms of digital skills among the broader population, with 63.4% of individuals aged 16–74 having at least basic digital skills in 2025, compared with the EU average of 60.4%. However, this level remains well below the Digital Decade 2030 target of 80%. The recovery and resilience plan aimed to tackle upskilling and acquiring new skills related to the green and digital transitions by introducing new ALMPs for long-term unemployed people and people from disadvantaged groups by using the voucher system for adult education. ESF+ funding also contributes to green skills and jobs, adding to Recovery and Resilience Facility investments and aligning vocational education and training with the green transition's labour market needs.

Croatia continues to face significant social policy challenges. Inadequate social protection, low pension adequacy and high poverty risks for vulnerable groups, especially older people, people with disabilities, rural communities and low-income households, have resulted in slow progress towards the 2030 poverty reduction target. The 2025 country-specific recommendations addressed the adequacy of social benefits, which remains relatively low, including for pensions. Increasing the efficiency and efficacy of the social protection system could improve its capacity to reduce poverty. The 2025 recommendations for Croatia also called for improving access to formal home-based and community-based long-term care, which remains insufficient given the rising demand and increasing pressures on residential care. Addressing these challenges will contribute to improving Croatia's inclusive growth and competitiveness.

Croatia's progress towards the 2030 national poverty reduction target is slow. The percentage of people at risk of poverty or social exclusion (AROPE) reached 20.7% in 2025 (20.9% EU) ([373]). This was mainly driven by monetary poverty, with the at-risk-of-poverty (AROP) rate at 19.5% in 2025, substantially higher than the EU average of 16.3% . Progress towards the national 2030 target of reducing the number of people at risk of poverty or social exclusion by 298 000 compared with 2019 continues to be limited, with only 64 000 fewer people at risk in 2025 compared with 2019. Tackling the various types of poverty and achieving the national anti-poverty target will require a comprehensive approach, as set out in the EU anti-poverty strategy. Croatia has a 2021-2027 national plan to fight poverty and social exclusion, supported by the European Social Fund Plus (ESF+), and a new action plan for its implementation is to be adopted soon. Clear objectives for the measures contained in the action plan and their swift implementation will be required to allow Croatia to speed up progress towards the 2030 poverty reduction target.

Certain groups face disproportionately high risks of poverty. 32.9% of people over 55 were at risk of poverty or social exclusion in 2025 (19.8% EU), and for those over 65 this number was even higher at 40% (18.8% EU). The relative median at-risk-of-poverty gap was 28% in 2025 (22.5% EU), and the persistent at-risk-of-poverty rate was especially pronounced for those over 65, at 32.5% in 2025 (10.9% EU). In 2025, 39.8% of persons with disabilities faced risks of poverty or social exclusion (28.8% EU) and the gap when compared with persons without disabilities was 24.2 percentage points (pps), one of the highest in the EU. In addition, poverty rates for long-term unemployed people and inactive groups are also comparatively higher. The Roma population, albeit small, faces extremely high poverty risks, at 86% according to the latest available data ([374]).

Regional disparities in poverty rates are pronounced. The AROPE rate climbed to 30% in Pannonian Croatia, compared with 12.4% in the city of Zagreb. 25.7% of the population living in rural areas was at risk of poverty in 2025, compared against 14.8% in the cities. After deducting housing costs, the AROP rate of people living in rural areas stood at 30.9% compared with 18.4% in the cities.

Child poverty has decreased in Croatia. In 2025, the AROPE rate for children was 15.7% (24.3% EU) and the number of children at risk of poverty decreased by 25 000 in comparison with 2024. Croatia seems to be on track to reach its target to reduce the number of children at risk of poverty and social exclusion by 94 000 by 2030 (from the 2019 figure of 134 000), by 2025 it managed to reduce the number by 34 000. The country is implementing the European Child Guarantee (ECG) according to its 2023 action plan, supported by the recovery and resilience plan (RRP) and the ESF+**.** The 2024 ECG national report notes improvements, especially in the introduction of free school meals for all pupils in primary schools and early childhood education and care, yet major gaps persist across several domains, especially regarding healthcare and the integration of children of vulnerable groups, minorities and non-EU nationals. Croatia benefits from technical support through the Technical Support Instrument for the implementation, monitoring and evaluation of the national action plan for the ECG.

The limited spending and effectiveness of the social benefit system remains a considerable challenge. In 2025, social benefits (excluding pensions) reduced poverty only by

([373])Break in time series.

([374])Roma survey 2021 | European Union Agency for Fundamental Rights.

23.5%, one of the lowest levels in the EU, well below the EU average of 33.2%. The impact is even lower in Pannonian Croatia, standing at 22.91%**.** Expenditure on social protection benefits as a share of GDP is at 21.6% in 2024. Croatia allocates 42% of total social benefit spending to old-age and survivor benefits, while disability benefits account for 10.7%. Spending on unemployment benefits and social exclusion benefits is comparably low, at 0.2% and 0.1% of GDP ([375]). Only 5.3% of social benefits were means-tested in Croatia, compared with 10.9% in the EU in 2023, and only 3.5% of disability benefits were means-tested compared with 27.2% in the EU. In 2025, only 50.4% of people aged 18-64 at risk of poverty received benefits, compared with 72.2% in the EU in 2024, and the gap is even higher for those with low work intensity (68.1% vs 83.1% in the EU).

Croatia made changes to its social welfare law and benefits structure. Several measures were introduced to increase the adequacy of social benefits. The national minimum income scheme was reformed under the RRP to gradually increase the basic amount (to EUR 170 in 2025, from EUR 106 in 2021), make it more targeted and ease eligibility conditions. A national basic benefit for citizens without a pension was introduced in 2020 and expanded in 2024; similarly to the minimum income benefit, the basic amount is set at EUR 150, reaching 20 000 recipients in 2025. Disability benefits underwent a reform that combined several benefits into a single benefit, increasing the adequacy and changing the scope, which significantly increased the coverage of the different levels of the benefit, but also raises questions about the efficiency and sustainability of this benefit. The unemployment benefit was amended in the Labour Market Act (2024) to increase the amount to 35% of the base (from 30%) for days 91 to 180 of unemployment. With these reforms, Croatia made changes to different social benefits with a view to increase their adequacy. However, the effectiveness of these reforms is still to be assessed ([376]).

The minimum income scheme does not protect people at risk of poverty. Despite recent reforms, the adequacy indicator for the minimum income benefit is among the lowest in the EU, at 30.8% of the poverty threshold (56.3% EU) in 2023 ([377]) and at 29% of the minimum wage in 2024, down from 32.9% in 2021 (50% EU). Compared to median income, the adequacy of the minimum income benefit for a single-person household is at only 19% and reaches 26% for a household with two adults and two children ([378]). The method for setting the minimum level of benefits does not follow a specific methodology ([379]), though it has been subject to conditional indexation since 2025. In addition, coverage is low: only 9% of the population at risk of poverty were recipients of the minimum income benefit in 2024.

Croatia faces significant challenges in terms of pension adequacy. Its aggregate replacement ratio is persistently among the lowest in the EU (0.37 in 2025 vs EU 0.6) contributing to high at-risk-of-poverty rates among pensioners (36.3% in 2025 vs 15.4% EU average in 2024) and high old-age poverty rates (see above). Pensions are particularly low for self-employed workers such as farmers. The low aggregate replacement ratio is attributed to short working lives with limited contribution years (see 2025 country report) although the substantial increase in average earnings among the working-age population also played a role recently. The outlook for future pension adequacy is also a source of concern. The theoretical replacement rate is expected to be significantly lower in 2062 compared to 2022, with a projected 9.6 pp. decrease for a 40-year career with average earnings ([380]). Given the currently low average contribution periods, extending working life to accrue additional pension rights could help ensure adequate pension levels, especially as life expectancy increases. Increasing the average retirement age, promoting healthy and active ageing and reducing early retirement options could significantly lift the average age of labour market exit while increasing the employment rates of older workers.

([375])Faces of poverty country report.

([376])CSR 2025.5.1: Reduce poverty and income inequality by increasing the adequacy of social benefits, including pensions, while maintaining fiscal sustainability.

([377])DG EMPL data based on Eurostat and OECD TAX-BEN model data ('smoothed over 3 years' poverty threshold).

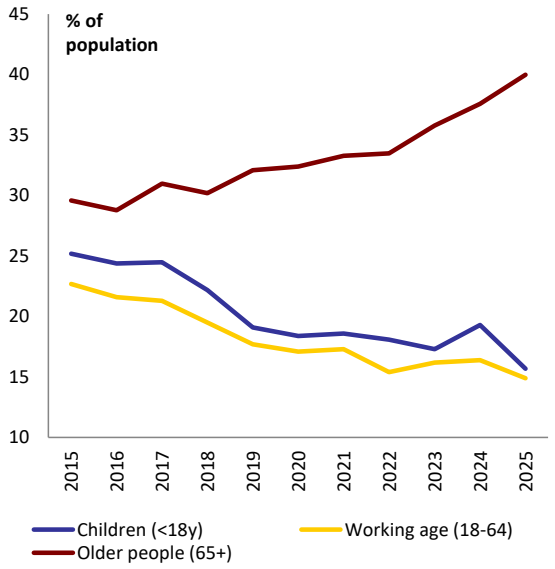
([378])OECD Data Explorer • Adequacy of minimum income benefits.

([379])The minimum levels are based on the opinion of the National Council for the Development of Social Policies.

([380])2024 Pension Adequacy Report.

Croatia made several adjustments to its pension system. Under the RRP, Croatia increased the minimum pension (by 3%) and the survivor's pension and introduced the combination of an old-age or disability pension with a partial survivor's pension as of 2023. Since 2017, income tax has been reduced by 50% for all pensioners. Incentives for working past age 65 were introduced, such as an increased pension accrual factor for deferred retirement (from 0.34 to 0.45), as were incentives making it easier for employers to retain older workers. In 2025, a new pension law amendment was introduced: (i) the minimum pension was increased by an additional 3%; (ii) the pension indexation ratio between the wage index and the consumer price index was modified from 70:30 to 85:15, assigning greater weight to the index that is more favourable to pensioners; (iii) an annual pension supplement linked to years of contributions was introduced for all pension beneficiaries (iv) the added period has been extended from 6 to 12 months per child and will be added to the total contribution period for new pensioners retiring from 1 July 2025. (v) the disability pensions were increased by 10%, effective from 1 January 2026. (vi) the penalty for early retirement has been abolished for early old-age pension beneficiaries, once they reach the age of 70, effective from 1 January 2026. ([381]).

Graph A12.1: **Population at risk of poverty or social exclusion (AROPE)**



Source: Eurostat, EU-SILC [ilc_peps01n]

Access to long-term care is hampered by availability and affordability challenges, leading to high unmet needs. The long-term care (LTC) system is fragmented and underfunded, with public spending among the lowest in the EU (0.5 % of GDP against 1.7 % EU average in 2022) and significantly skewed towards residential care ([382]). This results in an insufficient availability of community-based and home-based LTC services. The share of potential dependants aged 65 and over receiving public home care and residential care is very low (1.3% for home care and 3.7% for residential care compared with 29.6% and 17.7% respectively in the EU in 2022). Out-of-pocket costs for LTC are more than three times the EU average for people with severe needs, leading to high poverty risks ([383]). The share of older people with self-reported unmet care needs was the highest in the EU in 2019 (71.0% of those aged 65 and over vs 46.6% in the EU). 16.3% of Croatians in need of LTC cite financial reasons as a barrier to accessing home care (vs 10.6% on average in the EU in 2024) and 26.4% of people report great difficulties in affording home care (vs 8.2% on average in the EU in 2024). Furthermore, the governance, structure and access mechanisms of residential care, community-based care and home care lack transparency and operate inefficiently. The process of deinstitutionalisation

([381])CSR 2025.5 Reduce poverty and income inequality by increasing the adequacy of social benefits, including pensions, while maintaining fiscal sustainability.

([382])Ageing Report 2024.

([383])OECD 2025.

and expanding the provision of community services is progressing very slowly. Since the beginning of the drive to move from residential care to home care, only a few LTC homes for persons with disabilities have been completely transformed into providers of services rather than long-term accommodation, and the total number of people placed in such residential care homes in Croatia has not significantly decreased ([384]). The lack of community-based services to support ([385]). In addition, the Croatian LTC system is understaffed and faces labour shortages. The workforce ratio stands at 1.6 workers per 100 people aged 65 and over, half of the EU average of 3.3 in 2024. The LTC and personal assistance workforce faces considerable challenges due to poor working conditions: low pay, high workload, insufficient training, and a lack of occupational health and safety standards application ([386]).

Croatia recently adopted a new LTC strategy. The operational plan for long-term care was adopted in 2025. The focus is now on LTC workforce planning, setting up a governance framework at national and regional level and stepping up the effective implementation of the operational plan, supported by funding from the ESF+ and European Regional Development Fund. The operational plan together with the social plans developed by all counties (adopted in 2025) are expected to serve as a basis for a needs assessment and the development of community-based services in a targeted and regionally balanced way. Exploring structural policy changes in social services and LTC could improve the effectiveness of these plans. By considering aspects like governance, structure, pricing and access, and integrating a strategic approach to social economy actors, outcomes might be notably improved ([387]).

Energy and transport poverty remains moderate and has been improving, including for vulnerable households. The percentage of the population unable to keep their homes adequately warm was below the EU average (4.2% in 2025 vs 8.8% EU). The share of households that faced arrears on utility bills was still above the EU average but has been trending in the right direction (7.3% in 2025 vs 6.9% in the EU in 2024). Energy poverty is likely to remain relatively contained under the EU emissions trading system for buildings and road transport (ETS2). From 2026, the Social Climate Fund will help mitigate these impacts through targeted energy-efficiency investments. Transport poverty is currently less of an issue, with only 2.6% unable to afford a car in 2025. ETS2 is nevertheless expected to increase transport fuel expenditure, meaning that tackling the affordability and availability of public transport ([388]) may become essential.

([384])Eurofound (2024), Paths towards independent living and social inclusion in Europe, Publications Office of the European Union, Luxembourg.

([385])According to data from the Ombudsman for Persons with Disabilities, the most common reason why a person with a disability is placed in an institution is that their family cannot provide adequate support (Ombudsman (2025) Report for 2024).

([386])European Semester 2025-2026 country fiche on disability equality Croatia, European Disability Expertise.

([387])CSR 2025.5. Improve access to formal home- and community-based long-term care.

([388])No data on public transport accessibility in Croatia exists on the Commission's Transport Poverty Hub because the data on Croatia's National Access Point (set up as part of Delegated Regulation (EU) 2017/1926 (the MMTIS Delegated Regulation)) covers only parts of the country.

The challenges facing the Croatian education and training system pose a risk to human capital formation and future economic growth. Croatia is carrying out a comprehensive reform to improve education outcomes, but implementation delays and teacher shortages (especially for early childhood education and care (ECEC), mathematics and physics) create obstacles. Students' mathematics and digital skills are below the EU average. Large share of teachers, especially those under 30, intend to leave the profession within the next five years. Improving labour-market relevance of vocational education and training (VET) and ongoing adult education and training reforms aim to reduce skills mismatches and persistent labour shortages in some economic sectors. The participation rate in adult learning remains low, jeopardising the country's potential, productivity growth, and competitiveness. The 2025 country-specific recommendations highlighted the need for ensuring stronger education at every level and strengthening provision of relevant skills to reduce skills shortages.

Participation in ECEC is increasing, but staff shortages remain an issue. In 2024, the participation rate of children between the age of three and the start of primary education was 88.7%, 3 percentage points (pps) higher than in 2023, but still among the lowest in the EU (EU average 95%) ([389]). This also has a negative effect on women's employment and career; the percentage of women employed in managerial positions was the second lowest in the EU in 2024. While recent state co-financing aims to reduce regional disparities in ECEC, teachers working conditions and salaries still vary by location, negatively affecting the attractiveness of the profession. Severe staff shortages in ECEC ([390]) often lead to work being done in large groups many ECEC centres ([391]), impacting the quality of ECEC. The number of enrolment places for ECEC teacher studies increased between 2019 and 2023, but interest in them has decreased since 2022 (with the proportion of unfilled places at higher education increasing from 17% in 2022 to 21.5% in 2023) ([392]).

There is a lack of specialists both in ECEC and in schools to support the education of children with special needs (SEN). ECEC centre leaders highlight the lack of specialists such as educational rehabilitators ([393]) and speech therapists, often limiting enrolment opportunities for children with SEN ([394]). More psychologists, speech therapists and other support staff are needed in schools ([395]), and 28.6% of teachers report a need for more training for working with children with SEN (vs EU 24.6%). In primary and secondary school, 8.5% of all pupils have SEN. According to Croatian law, the term 'SEN' encompasses both gifted pupils and pupils with difficulties. Work with gifted pupils should be organised within mainstream education and according to their preferences, abilities ([396]). Almost all students (99% or more) are enrolled in mainstream education in schools ([397]).

Teachers are dissatisfied with certain working conditions and the recognition they receive from society, and a large share of them plan to leave the profession within five years. The share of teachers satisfied with their salaries is one of the lowest in the EU (22.5%; EU average: 37.3%), and has decreased by 2.5 pps since 2018. Only 9.5% of teachers believe that their profession is valued by society (EU average: 15.4%). Teachers' workload (43.5 hours) is significantly higher than the EU average of 39

([389])Eurostat (educ_uoe_enra21).

([390])Number of vacancies for ECEC teachers grow significantly above total number of vacancies for the education sector. Number of vacancies for ECEC teachers in 2025 grew by 108% since 2016, while total number of vacancies for education sector grew only 31% in the same period. (Source: Hrvatski zavod za zapošljavanje - Statistika On-Line - Slobodna radna mjesta).

([391])*Education and Skills in Croatia*, OECD, 2025.

([392])Domović, V. & Drvodelić, M. (2024). Teacher shortage in Croatia – a challenge for educational policy, initial teacher education and educational institutions. *European Journal of Teacher Education*, 48(1), 64-80.

([393])Specialist who recognises the child's developmental difficulties, works with the child on removing them, and determines the child's special needs and the adaptations needed.

([394])Office of the Ombudswoman for Children (2025). *Annual report for 2024*.

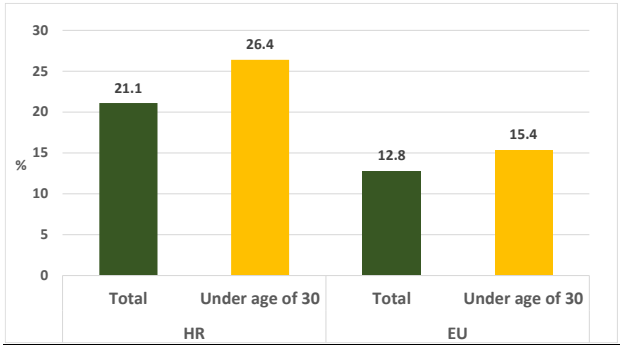
([395])Bakić et al. (2024). *From Perspectives from Croatia. Empowering Teachers Across Europe to Deal with Social, Emotional and Diversity-Related Challenges*, 81.

([396])https://www.european-agency.org/activities/legislative-definitions.

([397])EASIE Cross-Country Reports, based on the 2019/2020 and 2022/2023 school years. https://www.european-agency.org/activities/data/cross-country-reports.

hours and has increased by 0.9 hours since 2018. However, more teachers have permanent contracts (92.2%) and receive induction (78.3%) than the EU average (82.3% and 66.0%, respectively) ([398]). Digitalisation of education records is in its early phases, with paper records often still maintained in parallel, increasing the workload While fewer principals state that they lack qualified teachers (17.7%) than the EU average (20.4%), this share has increased by 10.6 pps since 2018. A much higher share of all teachers plans to leave the profession in the next five ([399]) years (after adjusting for the ones that will retire), than the EU average (every fifth teacher vs every eighth teacher) ([400]). Among teachers under the age of 30, 26.4% plan to leave the profession in the next five years, far more than the EU average of 15.4% ([401]). Young teachers mainly plan to leave for a job outside education (63% of them).

Graph A13.1: **Teachers planning to leave the profession within five years (not retiring ones) in HR vs EU**



Source: OECD TALIS 2024

Teacher shortages put the quality of education at risk, especially for science, technology, engineering and mathematics (STEM) skills. Croatia faces a persistent shortage of qualified subject teachers in secondary education, especially in STEM subjects. The teacher shortage is especially pronounced in remote, depopulated and underdeveloped areas ([402]). Qualified STEM teachers are also lacking in primary schools, lacking the interest to enter education sector due to comparatively lower salaries ([403]). Hiring of unqualified teachers results in inadequate knowledge quality, which hinders enrolment in physics studies ([404]) and negatively affects mathematics and digital skills of students. The underachievement rate is high in mathematics (32.9%; EU average: 29.5) ([405]). Students in rural areas score 57 to 63 points lower in basic skills than those in cities, depending on the skill (see Annex 18 for other regional challenges). More eighth grade students do not reach a basic level of digital skills than the EU average (47% vs 43%) ([406]). In 2022, Croatia introduced scholarships for students studying to become STEM teachers (with the condition that recipients work in schools for as long as they have received the scholarship). This has reduced the drop in enrolments for most STEM studies, but not for many two-subject teaching programmes that include physics ([407])). In May 2025, two thirds of former recipients of such scholarships who had graduated started working in schools. Databases for monitoring demand and supply, numbers of unqualified teachers and attrition rates would help better analyse the teacher shortage situation and provide valuable insights for policymakers ([408]).

Primary school reforms intended to improve basic skills are expected to be delayed due to delayed infrastructure investments. All primary schools were planned to start working in single shift from 2026/2027, and to introduce whole-day schooling from 2027/2028. The State Audit Office reported considerable delays in contracting of relevant infrastructure projects ([409]). Some larger cities, including Zagreb, have problems finding locations for constructing new

([398])Data from TALIS 2024 survey.

([399])Croatian national TALIS 2024 report.

([400])This group might also include recently graduated STEM teachers with a teaching obligation due to the earlier scholarship, as their obligation would end within five years.

([401])This group might also include recently graduated STEM teachers with a teaching obligation due to the earlier scholarship, as their obligation would end within five years.

([402])Bakić et al., 2024.

([403])*PROGRAM POLITIKE 'PUT U DIGITALNO DESETLJEĆE 2030'*, Zagreb. Official Gazette 38/2024.

([404])Erceg et al., 2023. *Causes of the Shortage of Physics Teachers in Croatia*. Education Sciences, 13(8): 788-805.

([405])OECD, 2023, PISA.

([406])IEA, ICILS 2023.

([407])During 2019-2023, 81% of places in combined mathematics/physics studies remained unfilled (Domović and Drvodelić, 2024).

([408])Domović and Drvodelić, 2024.

([409])State Audit Office (2025). *Report on the performance audit: Use of funds available from the Recovery and Resilience Facility in the Republic of Croatia.*

schools. Only 4% of students are attending schools working in single shift ([410]) (see also Annex 18), far below the 100% needed to introduce whole-day school. The whole-day school reform is in its third year of experimental implementation; while monitoring exists, no official evaluation results have been published. This prevents public insight, in contradiction to the OECD's recommendation for Croatia to strengthen governance by improving the collection, analysis, use and communication of education data ensure long-term success of school reforms ([411]).

Croatia has made significant efforts to increase the quality, attractiveness and labour-market relevance of VET. The share of learners in medium-level education that are enrolled in vocational programmes is one of the highest in the EU (71.2% in 2024; EU average: 52.9%). 41.7% of VET pupils in Croatia were enrolled in STEM fields in 2024 (EU average: 36.6%). 18.1% of these pupils were female (EU average: 15.9%). However, the employment rate of people who have recently completed VET lags behind the EU average (74.5% vs 80.2% in 2025). A comprehensive VET curricula reform, in place since the school year 2025/2026, focuses on aligning VET with labour market needs by a shift from outdated subject-based to modular learning-outcome-oriented curricula based on occupational and qualification standards. Developed with support from the European Social Fund Plus (ESF+), these modular curricula promote problem-based teaching and learning by integrating theory and practice. Optional modules make it possible to tailor learning to the local context and individual learners' needs.

However, the supply of work-based learning and continuous support lags behind, amid ongoing VET reforms. In 2025, participation in work-based learning was still below the EU average, at only 38.7% of people aged 20-34 who had completed VET (EU average: 66.0%) . Croatia plans to expand the network of companies offering work-based learning by providing incentives for companies, supporting in-company mentors with teaching methodologies and resources, and enhancing the quality of work-based learning in companies. VET providers require support in: (i) implementing new curricula; (ii) programme profiling; and (iii) aligning the educational offer with the needs of learners and the economy, specifically by strengthening their autonomy and flexibility, improving access for learners with disabilities and other vulnerable groups, and investing in infrastructure, including regional centres of competence.

Tertiary educational attainment (TEA) rate is below the EU average. In 2025, the TEA rate among people aged 25-34 was 42%, still slightly lower than the EU average of 44.8%. There are gaps according to the gender and the urban-rural divide (see Annex 18). There are currently no national data on dropout, but national estimates are high: 40-45% and exceeding 50% in some studies ([412]). Croatia has started a project to improve career guidance, monitor the progression of studies, establish dropout rates and the reasons for dropout, reduce dropout rates, and improve the TEA. The project is supported by the European Commission's Technical Support Instrument and implemented by the OECD. Student accommodation is insufficient to cover the needs (see Annex 18).

The implementation of recovery and resilience plan (RRP) reforms in higher education is progressing. In 2025, the employment rate of recent higher education (HE) graduates (20-34 years) was 81.8% (EU average: 87%). The mismatch persists between the number of places offered in various study programmes, students' interests, and labour market needs. More graduates are needed from STEM and teaching studies, and fewer from design and economics studies. The above-mentioned project and performance agreements should help to better align places, interests and needs in the future ([413]). In November 2025, nearly three years after the adoption of the relevant law, performance agreements were signed with all nine public universities (see also Annex 4). The new information system for registers in HE has been established. It consists of four registers, now all

([410])ŠER, https://app.powerbi.com/view?r=eyJrIjoiZWE3YTE4OWQtOWJmNC00OTJmLWE2MjktYTQ5MWJlNDNlZDQ0IiwidCI6IjJjMTFjYmNjLWI3NjEtNDVkYi1hOWY1LTRhYzc3ZTk0ZTFkNCIsImMiOjh9 , p. 17.

([411])OECD, 2025, Education and Skills in Croatia.

([412])OECD, 2025, Education and Skills in Croatia.

([413])https://www.hzz.hr/app/uploads/2026/01/preporuke_25-1.pdf.

functional, which will enable graduate tracking and help in the design of higher education policies.

Efforts have been made to meet the needs for advanced digital skills and information and communications technology (ICT) specialists against the background of digital transitions. The share of workers (25-64) with at least basic digital skills is significantly higher than the EU average (76.0% vs 68.9% in 2025) and the share of ICT specialists (4.9%) was very close to the EU average of 5.0% in 2025. However, women are under-represented in the sector (18.4% in 2025; EU average: 19.5%). In rural areas, 34% of individuals have only basic overall digital skills and only 22% have above-basic overall digital skills . Croatia has taken steps to address these challenges, such as initiatives under its RRP to improve ICT-related education and promote digital upskilling. Nevertheless, increasing the enrolment of students in ICT higher education and VET programmes and strengthening workforce participation in ICT roles would allow Croatia to further progress towards the EU's Digital Decade targets.

Policy attention to development of basic adult skills has been increasing. In the area of basic adult skills, the results of the PIAAC 2023 survey show performance only slightly below the OECD average in literacy and numeracy, but significantly lower in adaptive problem-solving. Digital skills of adults stand out as a relative strength, while adult participation in civic life is comparatively low. The share of adults with at least basic digital skills increased to 63.4% in 2025 (EU average: 60.4%) ([414]). Targeted measures for developing new basic skills training programmes for adults are planned under the skills voucher scheme.

Skills development is essential for competitiveness and fairness, especially in light of labour shortages and skills mismatches. Croatia faces a mismatch between the increasing number of people obtaining higher education qualifications and the limited creation of high-skilled jobs. In 2024, the macroeconomic skills mismatch remained above the EU average (23.8% vs 19.2%). Shortages in Croatia are emerging in legal, social, cultural and ICT professions, while hiring difficulties are anticipated for elementary occupations and certain technical roles. The main drivers of skills shortages are: (i) the mismatch between education and labour market needs: (ii) the digital and green transitions; (iii) the emigration of high-skilled workers; and (iv) the ageing population. Skills mismatches result in fewer employment opportunities, especially for low-qualified workers, who often require upskilling or reskilling to meet labour market needs. The employment rate for low-qualified people was only 42.0% in 2025, among the lowest rates in the EU. To address these gaps, the RRP and the ESF+ support upskilling and acquisition of skills through a national skills development plan, active labour market policies, and a voucher system for adult education. Continuing the upskilling and reskilling measures and investments currently financed under the RRP and the ESF+, including with a view to creating individual learning accounts (ILAs), could help reduce skills mismatches.

Ensuring human capital development for a competitive and resilient economy requires enhanced skills intelligence. Skills intelligence reforms have progressed through the transfer of forecasting responsibilities to the Ministry of Labour, Pension System, Family and Social Policy, and through the launch of ESF+-supported projects to improve data integration, develop Croatian Qualification Framework tools and pilot a model for ILAs. The current voucher system has already introduced some important aspects of ILAs**.** Key next steps include widening the scope of the training offer and expanding the scheme by ensuring sustainable funding including private funding components, as well as ensuring the transferability and accumulation of training entitlements. Moreover, there is still an insufficient level of involvement of employers in providing and/or funding training and in forecasting skills needs.

Adult learning participation remains low, particularly among vulnerable groups, highlighting the need for targeted efforts. Despite good progress in developing a high-quality, labour-market-relevant adult learning system, only 23.3% of adults took part in education and training (EU average: 39.5%) in 2022. The participation rate remained particularly low among low-skilled people, older people, rural population and long-term unemployed people. While similar trends also exist in other EU countries, such inequalities are more pronounced

([414])Eurostat: isoc_sk_dskl_i21.

in Croatia, indicating that there is scope for more targeted strategies for these vulnerable groups. Low participation in adult learning is affected by several factors: (i) systemic barriers, such as financial constraints and geographical accessibility; (ii) individual challenges, including low motivation, lack of information, and insufficient support from employers; and (iii) institutional issues, like the shortage of educators and advisers or the complexity of programmes. Around one third of adult learning providers are located in the two counties with the biggest cities, i.e. the city of Zagreb and Split-Dalmatia, with no providers located on islands. Reaching the national 2030 target of at least 55% of all adults participating in training every year would help increase the economy's growth potential. Expanding the existing voucher system to transform it into ILAs, as planned, and ensuring its sustainability may help achieve these goals.

Skills gaps and shortages create obstacles to the green transition. In 2025, shortages were reported for several occupations relevant to the green transition, including construction professions, electrical mechanics and fitters, and insulation workers. At the same time, in energy-intensive industries, workers' participation in education and training slightly decreased from 9.5% in 2015 to 8.4% in 2024 and remains below the EU average (11.7%). To address these gaps, the RRP supports upskilling and acquisition of green skills through a national skills development plan, active labour market policies, new adult learning programmes in construction for workers from non-EU countries, and the voucher system for adult education. RRP investments in green skills are being further reinforced by Just Transition Fund interventions and through broader initiatives supported by the ESF+.

Table A14.1:**Social Scoreboard for Croatia**

Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	23.3
	Early leavers from education and training (% of the population aged 18-24, 2025)	2.1
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	63.4
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	10.8
	Gender employment gap (percentage points, population aged 20-64, 2025)	5.0
	Income quintile ratio (S80/S20, 2025)	4.78
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	74.4
	Unemployment rate (% of the active population aged 15-74, 2025)	4.9
	Long term unemployment (% of the active population aged 15-74, 2025)	1.8
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	138.1
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	20.7
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	15.7
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	23.5
	Disability employment gap (percentage points, population aged 20-64, 2025)	39.7
	Housing cost overburden (% of the total population, 2025)	3.2
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	32.5
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	1.4

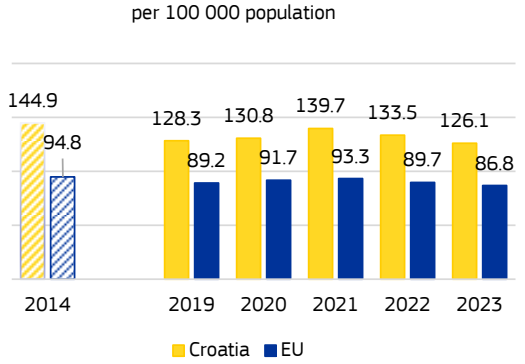
Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).

Source: Eurostat

Croatia's health system faces significant challenges. These need to be addressed to improve the health of its population, social fairness and productivity, while boosting the competitiveness of the economy. Challenges include low life expectancy, resulting from high treatable and preventable mortality, and limited access to care. These issues are mainly caused by: (i) an insufficient focus on disease prevention and low health investments; (ii) shortages of healthcare workers; and (iii) uneven geographical access to healthcare. The 2025 country-specific recommendations (CSRs) highlighted the need for *balanced geographical distribution of health workers and facilities, investments in e-health and closer cooperation between all levels of public administration on health policy*.

Graph A15.1: **Treatable mortality**



Age-standardised death rate - mortality that could be avoided through optimal quality healthcare.
Source: Eurostat (indicator: hlth_cd_apr)

Life expectancy at birth in Croatia was still low compared with the EU average in 2024, and 2023 avoidable mortality – preventable and treatable – was high. In 2023, treatable mortality was high compared with the EU average, suggesting shortcomings in the effectiveness of the health system, despite showing some improvement over the last 10 years (see Graph A15.1). Diseases of the circulatory system (cardiovascular diseases, or CVDs) and cancer remain the leading causes of death, with the former accounting for more than 39% of all deaths in Croatia in 2023, the latter 25%. Standardised death rates from cancer were one of the highest in the EU. Croatia recorded one of the largest gaps by gender in the share of people dying from CVDs. Suicide rates have decreased over time in Croatia but are still among the highest in the EU.

Preventable mortality was also high in 2023 and has only slightly improved compared with 10 years ago. The expenditure on prevention as share of total current health expenditure was 4.8% in 2023 but remains above the EU average (3.7%). A national oncology network and oncology database are being set up to enable standardised care in line with guidelines at all levels.

Preventable mortality in Croatia is closely linked to environmental and behavioural risk factors. Behavioural and environmental risk factors accounted for 38% of all deaths in Croatia in 2021, which was higher than the EU average of 29% ([415]). Mortality linked to air pollution is among the highest in the EU (see Annex 8). In 2022, both adults and adolescents reported one of the highest smoking rates in the EU (22% of adults vs 18% in the EU on average). Alcohol consumption in Croatia is also above the EU average (11 vs 10 litres per person in 2022). Adults in Croatia also have one of the lowest levels of physical activity outside working time of all EU countries (57% of the population reported never practising such activity in 2022 vs 31.6% for the EU). Levels of obesity are high, with 17% of adults being obese in 2022 (vs 15% EU average). Also, the rate of overweight and obese 15-year-olds increased from 17% in 2014 to 24% in 2022, above the 21% EU average in 2022 ([416]). Croatia has adopted an obesity prevention action plan for the 2024-2027 period, providing a framework for addressing rising overweight and obesity rates ([417]).

Poor health outcomes negatively affect Croatia's workforce and hence its productivity and competitiveness. In Croatia, mortality at working age as a proportion of total mortality is similar to the EU average, exacerbating the effects of population ageing on a shrinking labour force (see Annex 11). Gains in health status from further prevention investment could alleviate this impact. As regards non-communicable diseases (NCDs), it is estimated that up to 80% of CVDs and type 2

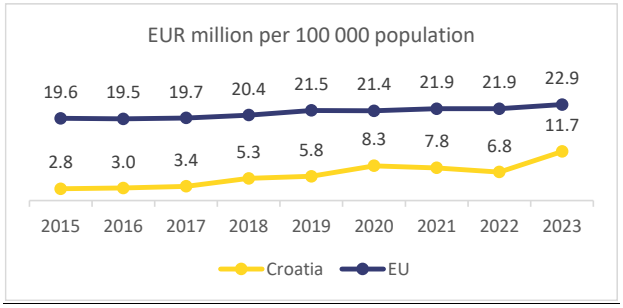
([415]) OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Croatia. State of Health in the EU*.

([416]) *Country Health Profile 2025: Croatia* – see earlier footnote.

([417]) Banadinović M, Vocanec D, Džakula A (2024), Action Plan for Obesity Prevention 2024-2027: policy analysis. European Observatory on Health Systems and Policies.

diabetes, up to half of cancer cases and most chronic lung diseases worldwide can be prevented ([418]). For example, preventing all deaths from NCDs in Croatia – in particular cancer– would result in a 1.3% gain in working-life years from 2022 to 2040. The gain in working-life years is a significant potential increase and would save about 447 500 life years in Croatia over 2022-2040. This increase would mitigate an otherwise expected 8.9% reduction of the workforce due to demographic ageing of the 2022 population (7% for the EU) ([419]).

Graph A15.2: **Healthcare infrastructure investment by year**



Source: Country Health Profiles - Dashboard

Health expenditure in Croatia focuses on outpatient care despite its expenditure being one of the lowest in the EU. Health spending per inhabitant in Croatia remained one of the lowest in the EU in 2023. Croatia's largest share of health spending is on outpatient care (close to a third of total health expenditure), with close to another third on hospital services. Medical goods (retail pharmaceuticals and therapeutic appliances) accounted for slightly more than a fifth of health spending. Croatia's number of hospital beds in 2023 is close to the EU average (472 per 100 000 population). Despite significant investments through the European Regional and Development Fund (ERDF), the trend of low infrastructure investment in the health sector continued. Croatia had close to half of the EU's average level of health infrastructure investment per capita in 2023 (see Graph A15.2). Another significant challenge for hospitals in particular is antimicrobial resistance and related multi-resistant infections. Croatia's consumption of antibiotics in the community and hospital sector increased between 2023 and 2024. More efforts would be needed to keep on track with the 2030 recommended national target ([420]). Under EU4Health, Croatia has been participating in the EU-JAMRAI 2 joint action ([421]) since 2024, which supports the implementation of measures to monitor, prevent and manage antimicrobial resistance across human, animal and environmental health, while strengthening national action plans.

Challenges in accessing healthcare persist, particularly in rural areas. Comparatively high unmet needs for medical care are reported in Croatia's rural areas (see Annex 18). The main reason for unmet medical needs is distance with one of the highest self-reported unmet needs in the EU due to travel time. For example, the number of people within a 10-minute drive of a hospital differs greatly between rural and urban areas in Croatia ([422]). Croatia also has a major gap in unmet needs between people living above and people living below the poverty threshold. Croatia has taken several measures to address the 2025 CSR on *balanced geographical distribution of health workers and facilities*. Under its recovery and resilience plan (RRP), Croatia has improved access to pharmacy care and medicines in hard-to-reach areas by purchasing six mobile caravans and two boat pharmacies. A helicopter emergency medical service and maritime emergency medical services with high-speed vessels have also been introduced with EU and state funding. Also, 33 mobile clinic services in primary healthcare are in the final phase of implementation under the RRP.

Croatia's pharmaceutical sector plays a relatively modest role. Both employment in pharmaceutical manufacturing and the number of clinical trials have decreased since 2018 and are currently below the EU average. Regarding trade and commercialisation, Croatia's pharmaceutical industry accounts for a rather modest share of

([418])NCD Alliance (2025): Noncommunicable Diseases (NCDs) overview | NCD Alliance.

([419])EC/OECD, *State of Health in the EU: 2025 Synthesis Report.*

([420])National target set by the Council Recommendation on stepping up EU actions to combat antimicrobial resistance in a One Health approach, 2023/C 220/01.

([421])EU-JAMRAI 2 | Joint Action on Antimicrobial Resistance and Healthcare-Associated Infections.

([422])TomTom Multinet 2022, Geostat population grid 2021, Eurostat-GISCO hospital locations 2023, as reported by Eurostat.

Table A15.1:**Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	303.9	308.2	302.4	303.4	n.a.	0.90	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	590.9	601.3	591.7	524.1	n.a.	0.77	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	1 506	1 866	1 868	2 032	n.a.	1.91	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	84.2	85.5	85.3	84.9	n.a.	1.02	80.6 (2023)
Spending on prevention, % of current health expenditure	3.1	4.4	5.3	4.8	n.a.	1.66	3.7 (2023)
Available hospital beds per 100 000 population***	490	482	488	472	n.a.	0.90	440 (2023)
Doctors per 1 000 population*	3.6	3.8	4.0	4.0	n.a.	1.20	4.3 (2023)*
Nurses per 1 000 population*	2.0	2.2	2.4	2.5	n.a.	1.96	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	15.1	15.2	14.3	15.2	14.2	0.81	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	15.7	18.2	20.2	21.2	22.0	1.12	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.
** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.
***'Available hospital beds' covers somatic care, not psychiatric care.
Source: Eurostat

extra-EU exports: 7.2% in 2025 vs an EU average of 13.8%.

Persistent shortages of health professionals limit the provision of healthcare. In 2023, the number of practising nurses per 1 000 population was one of the lowest in the EU. Moreover, 42% of nurses are aged 45 or older. Croatia also has a comparatively low number of nursing graduates in relation to its population. These elements combined pose a significant challenge to the long-term accessibility of health services and, more broadly, the care system (see Annex 12). A significant urban-rural divide persists, where urban centres attract nurses, while rural and eastern counties face persistent shortages. Zagreb County shows the highest demand for medical doctors and nurses, reflecting its concentration of healthcare facilities. Counties like Lika-Senj and Virovitica-Podravina report minimal availability of specialised staff, with ratios exceeding 4:1 for certain roles. The density of doctors in Croatia (4 per 1 000 population in 2021) was below the EU average in 2023. Around 23% of doctors were 55-64 years of age. The number of general practitioners (GPs) per inhabitant is among the lowest in the EU, and their share among all doctors is low. The remuneration of GPs is also relatively low. Virtually all counties show a shortage of medical doctors, some facing particularly acute shortages due to high demand and very low supply. Croatia has taken measures to increase the attractiveness of the nursing profession, for example through the adoption of the Civil Service and Public Service Salaries Act in 2024, which increased the wages paid from the state budget. Particular attention is also given to increasing the wages of primary-care doctors. New measures focus on relieving administrative burdens through digitalisation and providing the opportunity for primary-care doctors to contract preventive services such as check-ups.

Croatia has yet to embrace the opportunities offered by e-health, especially for hard-to-reach areas. Croatia is strengthening its central healthcare information system (CEZIH) for internal referrals (eReferral), emergency medicine and private healthcare providers. Other measures included the integration of electronic health records (EHRs) within the hospital information system and clinical guidelines (eGuidline). Staff training was conducted in 63 hospitals with the aim of raising awareness of the obligation to send electronic clinical assessments. Investments to boost the digital transformation of Croatia's health sector, potentially improving the effectiveness of and access to healthcare, are planned under the 2021-2027 cohesion policy and the RRP. For example, under the Croatian RRP a software solution has been developed to track and monitor usage of certain medicines; while telemedicine services (Telecordis) in rural and remote clinics have been implemented to improve equity of access (see Annex 18). These could help support the implementation of the 2025 CSR to invest in e-health. Meanwhile, Croatia's health system digitalisation and its uptake of e-health still lag behind other EU countries and remain uneven across the population. The shares of people using

online health services (excluding phone) without needing an in-person doctor or hospital visit were among the lowest in the EU in 2024. The use of EHRs by patients is close to the EU average (see Annex 7). However, there are major differences according to people's socio-economic background and region (see Annex 18). Croatia receives EU4Health funds for the establishment of the Croatian health data centre and the expansion of MyHealth@EU Digital Service Infrastructure (eHDSI).

Housing in Croatia is characterised by high home ownership, a small long-term rental market and an absence of social housing, resulting in low mobility and housing shortages. Croatia has a high rate of home ownership (91%) ([423]) and very little land available for construction. Limited social housing is provided outside the scope of affordable housing policy, under the country's social policy. Housing demand, albeit decreasing, is high in cities, especially Zagreb, and in tourist and coastal areas, where there is a high share of short-term rentals. Despite an estimated supply gap of around 230 000 homes, nearly 30% of the existing dwellings for permanent residence are unoccupied.

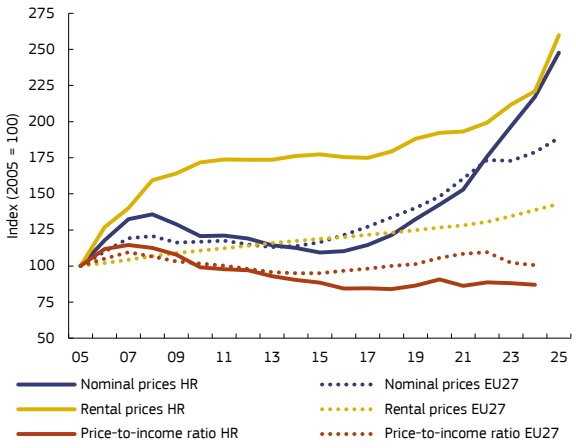
High numbers of holiday homes and short-term rentals and its high shares over the residential stock are recorded in the coastal and island municipalities, competing with demand for long-term rental. In these areas, short-term rentals are often the only available type of tourist accommodation, especially where the local community heavily relies on income from tourism. Coastal and island municipalities also have the highest share of real-estate sales to non-Croatian nationals.

Croatia adopted its first comprehensive plan for affordable housing in 2025 and has started a rapid implementation process. The national plan for housing policy is accompanied by an action plan outlining specific steps to be implemented between 2025 and 2027, which requires close monitoring to assess its progress and its impact on housing supply and on target and vulnerable groups.

Housing market developments

A decade-long trend of rising house prices continues strongly. Following the 2008-09 crisis, house prices fell for several years, both in nominal terms and relative to income. As the economy began recovering in the mid-2010s, prices started to increase, driven by rising incomes, demand from non-residents, favourable financing conditions and damaged housing stock in Zagreb and a neighbouring region following two earthquakes in 2020. Price growth peaked at 14.9% in 2022, after which it decelerated only mildly, despite some slowdown of demand (also from non-residents) and rising supply. The house prices also show signs of overvaluation, of around 17% in 2025 (based on standard European Commission methodology). With price increases broadly matching income growth, the price-to-income ratio has remained rather stable over the last decade at a low level of affordability ([424]). Regional differences in price levels remain pronounced. In 2023 higher prices were recorded in Zagreb and in coastal regions with strong tourism and a high share of housing stock used for short-term rent ([425]). Rental prices were stable during most of 2010s, with recent growth starting in 2018 ([426]).

Graph A16.1: **House prices, rents and price-to-income evolution in HR and EU27 since 2005**



Source: Eurostat

The construction of new dwellings has increased in response to rising house prices. Investment in dwellings has been growing since the late 2010s, with a temporary decline in 2023. It reached record-high levels in 2025, although it remains lower than the EU. In 2023, 4.3 new dwellings per 1 000 inhabitants were completed, up from the low of 1.8 in 2014, but still below the 5.9 of 2007-08. Consequently, the growth in

([423])Eurostat (2025), Distribution of population by tenure status.

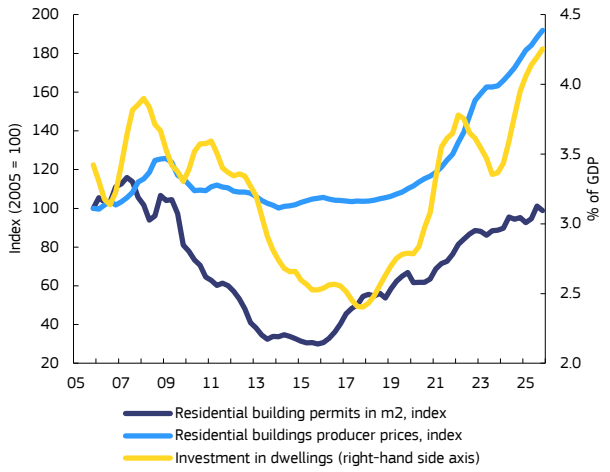
([424])As suggested by the Commission's preliminary estimate and measured by the number of years of average income needed to buy 100 m2 of a newly built dwelling.

([425])See Section 3 and Table 3.2 in: EIZG 2024. 'Pregled tržišta nekretnina Republike Hrvatske 2023'.

([426])Note that the size of Croatia's rental market for housing is small, due to the high home-ownership rate of 91%. The acceleration in 2025 is due to a monthly increase of 35% in August. Still, in 2025-Q3, the rent-to-income ratio was well below the long-term average.

housing stock has accelerated, with the annual increase between 2021 and 2023 exceeding the 2011-21 average by 46%. The high and rising number of residential building permits issued (Graph A16.2) suggests that the strong growth in housing supply is likely to continue. However, despite these supply increases and almost 600 000 unoccupied dwellings for permanent living in 2021([427]), it is estimated that, by 2030, the housing supply gap will amount to around 230 000 units, with the number of unoccupied dwellings for permanent living expected to increase to 620 000 by that year ([428]).

Graph A16.2: **House supply indicators in HR since 2005**



(1) 4-quarter moving sums (averages for prices)
Source: Eurostat

Productivity in construction is relatively low but improving quickly. Despite rising producer prices of dwellings, the price level of residential construction investment in Croatia remains the lowest in the EU at 42.3% of the 2024 EU average. As expected in 2025 gross value added per hour worked in construction was low, at 61% of the aggregate EU value, but it has converged strongly in real terms over the last decade. There are severe labour shortages in construction.

Demand for housing is slowing down, which could restrain further house prices. Credit flows for housing purchases have been increasing, fuelled by (i) favourable borrowing costs that recently became lower than those of the euro area ([429]), and (ii) increased borrowing capacity due to rising household incomes. At the same time, the number of apartment and house purchases has been declining since 2022, including by non-residents ([430]). Overall, increasing housing supply and decreasing demand, despite real income growth, low household debt and low borrowing costs, may indicate that there is limited potential for house prices to grow further.

Structural policies

Croatia has recognised housing as a priority and is implementing a broad range of measures to address housing issues. The national plan for housing policy establishes a set of objectives and a new institutional framework. This includes: (i) regulations to strengthen financial instruments; (ii) programmes to increase housing supply and create a residential rental market; and (iii) interministerial cooperation in the field of affordable housing. The aim of the plan is to increase affordable and sustainable housing through several key measures including: (i) a refund of half of the VAT paid and a refund of the real estate transfer tax paid by first-time homebuyers below the age of 45 for the acquisition of a first residential property (under certain conditions); (ii) launching an affordable rental programme for vacant properties; and (iii) supporting the construction of state-subsidised housing units.

The 2025-2027 action plan is being implemented and legislative measures were adopted in 2025. The action plan sets the following objectives: (i) 3 450 new affordable housing units available by 2027; (ii) 48.5% of the population covered by local housing programmes; and (iii) 20 local housing programmes

([427])Croatian Bureau of Statistics 2023. 'Census of population, households and dwellings in 2021 – housing units – by towns/municipalities'. There are significant differences across counties, with the share of unoccupied dwellings for permanent living ranging from 21% to 50%.

([428])EIZG 2024. 'Modeliranje i projiciranje ponude i potražnje za stambenim jedinicama u jedinicama lokalne samouprave Republike Hrvatske', Zagreb, September 2024.

([429])In 2025-Q3, the interest-rate-adjusted price-to-income ratio was lower than the long-term average by around 30%, reflecting the improved affordability for buyers using credit financing.

([430])According to tax administration data.

developed ([431]). In late 2025 and early 2026 implementing legislation was adopted: (i) the Act on Amendments and Additions to the Act on Socially Incentivized Housing, a subsidy scheme for young families buying a residence for the first time; (ii) an update of the Physical Planning Act, limiting the expansion of building areas if they are not equipped with basic infrastructure, banning the conversion of condominiums in tourist buildings, and reintroducing urban land consolidation; (iii) the Building Act for the digitalisation of procedures, a mandatory building management plan, and simplification of building permits for single-family homes; (iv) the affordable rental programme activating privately owned housing units that have not been in use for an extended period; (v) the Act on Building Management and Maintenance introducing restrictions regarding the introduction of short-term rentals in multi-family buildings; and (vi) the Spatial Planning Act to prevent uncontrolled development and unnecessary expansion of construction zones, which has faced criticism from professional associations and academics regarding its long-term implications for spatial and urban development.

The Affordable Housing Act (adopted in April 2026) aims to provide affordable housing to vulnerable groups and citizens who are not creditworthy. It modernises the current Act on State-Subsidised Housing Construction and introduces the definition of affordability into the housing legal system and the first model for non-profit housing cooperatives. It also regulates housing construction, the acquisition of residential real estate financed or cofinanced through public funding, and the management of housing stock ([432]). The Act defines the target groups entitled to receive subsidies or housing assistance covering people with lower incomes, persons who do not own an adequate residential property, and at the same time are individuals with income that cannot exceed 2.5 times the regional median net salary for a single person, and for each additional member of the immediate family, the limit of their total income is increased by 0.5 times the regional median net salary, young people, families with children, persons over 65 years of age, persons with disabilities, families in which a member of the immediate family is a person with a disability or a child with developmental difficulties, former protected tenants, police officers, active military personnel and other scarce state and public officials and employees, persons with scarce professions, persons who work for another natural or legal person in such a way that the work is performed based on a fixed-term employment contract, seasonally or based on a contract for work, or work is performed through a craft. The prerequisite is that they do not own adequate (i.e. corresponding to the household's size and needs) residential real estate. The term affordable housing refers to housing where the rent price or the loan instalment, together with the average utility and maintenance costs, does not exceed 30% of net household income in a local self-government unit.

Croatia has also enacted a new tourism and property-rental law to reduce the rapid growth of short-term rental apartments along its coast. The share of legal short-term rental properties in the entire housing stock in Croatia is less than 4% (out of a total share of holiday homes of 9.7%). The measures include tighter controls on licensing for tourist rentals, efforts to shift properties into long-term lease markets and stronger enforcement against illegal short-term use. The legislation introduces stricter regulation for private holiday rentals and encourages the conversion of units into longer-term housing. The law targets the booming sector of private holiday apartments along Croatia's coastline, where surging rental supply has been linked to rising housing costs and infrastructure stress. Early feedback from local authorities reports a noticeable drop in applications for new tourist accommodation but official data are not yet available.

Croatia has started implementing tax measures to incentivise the use of dwellings for permanent living. On 1 January 2025, Croatia introduced recurrent taxation on real estate and housing units not used for permanent living ([433]), and increased taxes on income from

([431])Ministry of Spatial Planning, Construction and State Property (2025), *Akcijski plan za provedbu Nacionalnog plana za razdoblje 2025. - 2027* (Action Plan for the Implementation of the National Plan for the Period 2025–2027), https://mpgi.gov.hr/UserDocsImages/dokumenti/NPSP/2025_03_26_Akcijski_plan_NPSP.pdf Subsequent mentions: Action Plan for the Implementation of the National Plan (2025).

([432])Ministry of Spatial Planning, Construction and State Property - Affordable Housing Act open for public consultation.

([433])Dwellings used for the owner to live in permanently and those rented for the purpose of permanent living (at least 10

short-term rent. The design of the recurrent taxation on real estate gives local authorities the possibility to set the amount of tax (per m^2) within a certain range, while the level of short-term rental tax is determined on the basis of the tourism development index, so that, for instance, the short-term rental income in high-tourism-development areas is taxed more heavily.

Inadequate supply, matched with an increasing demand for short-term rentals, might trigger rising real estate prices and declining affordability ([434]). Expanding the availability of existing dwellings for residential use by reactivating unused dwellings and building new units intended solely for affordable housing is now a priority of the national housing policy. Previous government-supported loan programmes have also fuelled housing price inflation. At the same time, complex planning and permitting procedures restrict new construction, while continued efforts to clarify cadastral records have the potential to encourage investment ([435]).

Vulnerable groups

Official national data on social housing, housing for vulnerable groups, persons with disabilities and homelessness are not available. Comprehensive data on the current living conditions and residential distribution of persons with disabilities, as well as other vulnerable groups, are very limited. A small survey conducted by associations of persons with disabilities in 2021 showed that 84.2% of persons with disabilities believed that their housing needs were only partially or not at all met, given their household income levels. The new national housing policy plan and its accompanying action plan set out a legal and strategic framework that addresses housing issues affecting persons with disabilities. However, certain areas remain insufficiently regulated, such as the accessibility of buildings and housing units. Although clear objectives and indicators have been set in most areas, close monitoring of the implementation of these strategic documents and related legislation remains essential, together with an assessment of their impact on the living conditions of persons with disabilities across all types of housing and regions of the country.

Croatia lacks a national policy for social housing, which remains outside the scope of affordable housing. When the Republic of Croatia became independent, citizens were given the opportunity to purchase the social housing apartments in which they lived from the state under favourable conditions (Act on the sale of social housing NN 43/92 and subsequent amendments) ([436]). As a result, the state lost its housing stock, and housing was entirely left to the market, except for social cases covered by local self-government units and special cases of protected tenants. Today, social housing falls within the country's social policy, which falls under the remit of several ministries ([437]). Affordable housing addresses policies and measures related to housing costs for families that have below-average income levels and are above the poverty line. The normal affordability ceiling is total housing costs that do not exceed 30% of the household's net income ([438]) and the bottom line represents the poverty gap, i.e. the activation of social assistance mechanisms.

Technical assistance programmes, cohesion policy and the Social Climate Fund are used to increase the supply of social and affordable housing. To partially fill the social housing gap, plans with pilot projects for social and affordable housing are being developed in Zagreb, Split, Rijeka, Osijek and Varaždin with the support of the European Investment Bank. Croatia is also making the use the Social Climate Fund to invest in the construction and renovation of energy-efficient affordable and social housing for households that cannot afford adequate housing.

months a year) are not subject to recurrent taxation. See: https://porezna-uprava.gov.hr/hr/porez-na-nekretnine-4814/4814, also for further exemptions.

([434])EiZ 2024.

([435])OECD country report 2023.

([436])ZAKON o prodaji stanova na kojima postoji stanarsko pravo.

([437])The Ministry of Spatial Planning, Construction and State Property is in charge of protected tenants, the Ministry of Labour, Pensions, Family and Social Policy takes care of vulnerable people and citizens who cannot afford to live in their homes for social and health reasons, and the Ministry of Croatian Veterans' Affairs is responsible for housing assistance for war veterans and their family members.

([438])OECD (2021), Building for a better tomorrow: Policies to make housing more affordable.

Graph A16.3: **Housing affordability selected indicators**

		EU27				HR							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	92.9	91.6		YoY%	-0.6	-1.4	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	78.7	73.4	79.6	YoY%	-5.6	-6.8	8.4
Overburden rate, total	%	9.9	8.8	8.2		6.1	4.0	3.7	3.2	PPS/y	0.2	-0.3	-0.5
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		35.7	38.3	29.2	19.8	PPS/y	16.8	-9.1	-9.4
Overvaluation gap	%					1.9	10.4	13.9	16.8				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	99.1	109.1	113.8	118.1	YoY%	-3.8	4.7	4.3
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	399.8	544.4	568.6	592.4	YoY%	4.9	4.4	4.2
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	3.4	3.4	4.0	4.3	YoY%	-5.6	17.6	7.5
Share of ownership	%	70.0	69.1	68.4		90.2	91.2	91.0	91.4	PPS/y	0.1	-0.2	0.4
Share of people living in overcrowded homes	%	17.7	16.8	16.9		38.5	31.3	31.7	31.8	PPS/y	-1.4	0.4	0.1

Source: Eurostat and European Commission calculations. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

Since 2025, a Technical Support Instrument multi-country project is available to Croatian authorities with recommendations and tools for increasing the levels of investment in affordable and social housing and for improving the institutional and administrative capacity to implement housing policy.

Housing affordability and deprivation indicators are below the EU average but are more prominent for vulnerable groups at risk of poverty or social exclusion. The share of rent in disposable household income was 15.4% in 2025, lower than the EU average of 22.5% in 2024 ([439]), and decreased from 18.2% in 2024. For vulnerable groups at risk of poverty or social exclusion, the indicator decreased to 23.3% in 2025 (33.5% EU in 2024), leaving vulnerable groups relatively more burdened with rent costs than the general population, but less than EU average. The index of house-price-to-income ratio stood at 98.4 in 2024, below the 105.7 for the EU (2015 = 100). The share of people facing housing cost overburden has been decreasing since 2016 and is, at 3.2%, lower than EU average (7.7%) ([440]), but it remains higher for households at risk of poverty (14.9%) in comparison with average households. In 2023, housing deprivation – defined as homes with a leaking roof, damp walls, floors or foundations or rot in window frames or floors – was at 5.6% (vs EU 15.6%). The rate increased to 10.4% for single persons over 65 years, and to 12.1% for households at risk of poverty. The share of people at risk of poverty not able to keep their homes adequately warm is about seven times higher (13.7%) than for other households (1.8%) ([441]) and overcrowding rates are among the highest in the EU, reaching 31.8% of the population in 2025 vs an EU average of 16.8%.

Numerous local social housing programmes, actions and procedures against forced evictions are in place, along with efforts to build shelters for the homeless. According to the latest census, a total of 1 433 445 households were living in occupied dwellings, 1.0% of which had the status of tenant with protected rent. The number of homeless persons was estimated at approximately 500 persons in 2021 (0.01% of the population), but data collection is not systematic, with NGOs warning that the total number of homeless persons is much higher, especially when including people living in institutions.

Despite the efforts made, the level of institutionalisation remains high. The current legal framework (under the Ministry of Labour, Pensions, Family and Social Policy) supports groups of citizens who cannot afford to live in their homes for social and health reasons and provides affordable housing for Croatian citizens. The Croatian operational plan for deinstitutionalisation, prevention of institutionalisation and transformation of social service providers was adopted in 2025 to speed up the deinstitutionalisation process (still around 80% of adults with mental health difficulties and 20% of children in need live in institutions). Between 2016 and 2024, 37 contracts on public housing

([439])Eurostat (2026) [ilc_mded02] Share of rent related to occupied dwelling in disposable household income, by type of household and income group https://ec.europa.eu/eurostat/databrowser/view/ILC_MDED01/default/table.

([440])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([441])Eurostat (2026), Inability to keep home adequately warm.

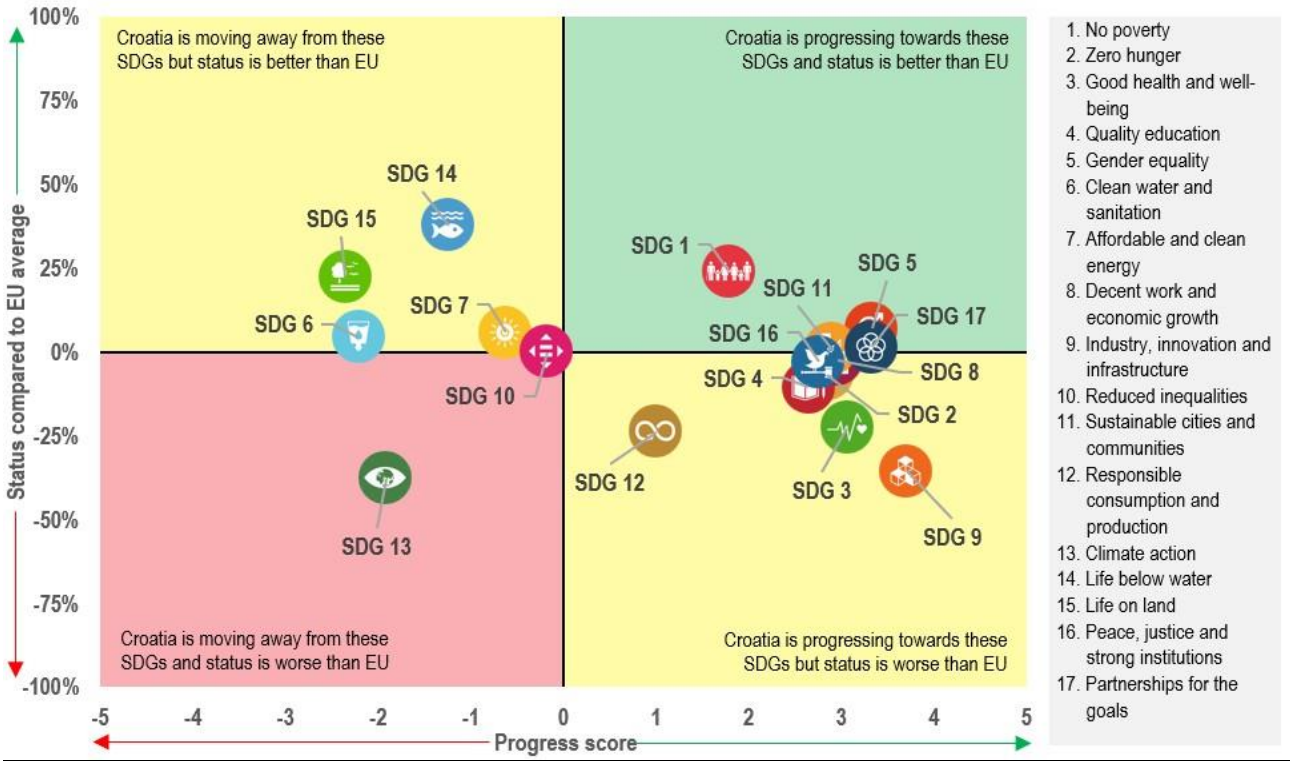
provision and 10 contracts for the purposes of deinstitutionalisation were signed (see Annex 19 for the regional dimensions of institutionalisation).

This annex assesses Croatia's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Croatia is improving on all the SDGs related to *competitiveness* but still needs to catch up with the EU average on all of them (SDGs 4, 8, 9). For SDG 4 on quality education, Croatia is improving across most indicators but is still lagging behind the EU for several of them. Participation in early childhood education (88.7% of children aged 3 and over in 2024; EU average: 95.0%) and adult participation in learning (6.5% of the population aged 25-64 in 2025 vs EU average of 13.7%) are areas where Croatia still needs to catch up to the EU average. A significant part of the recovery and resilience plan (RRP) investments is earmarked for schools and kindergarten construction and renovation, as well as vouchers for adult learning, which will contribute to further improving these indicators.

SDG 9 (Industry, innovation and infrastructure) shows the strongest improvement among the SDGs, but the gap with the EU average remains significant for several indicators. Croatia is lagging behind on the percentage of households with a high-speed internet connection and on all the R&D indicators,

Graph A17.1: **Progress towards the SDGs in Croatia**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

most notably on patent applications (19 applications to the European Patent Office per million inhabitants in 2025 vs EU average of 156), as well as R&D personnel and R&D investments. To help tackle this, the RRP has measures dedicated to increasing broadband access for households and stimulating R&D investments.

Almost all indicators for SDG 8 (Decent work and economic growth) have improved in recent years. Some indicators such as investment share of GDP are now clearly above EU average, partly due to support from the RRP and other EU funds. The employment rate is closer to the EU average after an increase to 74.4% in 2025 (EU average: 76.1%) and the percentage of young people neither in employment nor in education improved from 14.3% in 2019 to 10.8% in 2025, below the EU average of 11.0%.

Croatia is moving away from several SDGs related to *sustainability* (SDGs 6, 7, 13, 14, 15) and it still needs to catch up with the EU average on SDG 13. It is performing worse than the EU average on SDG 13 on climate action and is moving away from the target. This reflects, amongst others, movements counter to EU trends for greenhouse gas emissions per capita and the share of renewables in the energy mix as well as slow reductions in emissions from new cars. Croatia is performing better than the EU average on SDG 7 on affordable and clean energy, though slightly moving away from the target, partly due to increases in energy consumption and energy import dependency. Similarly, Croatia performs better than the EU average on SDG 6 on clean water and sanitation, SDG 14 on life below water and SDG 15 on life on land. However, it is moving away from the targets, partly due to increases in pesticides in rivers, small decreases of indicators related to coastal health, as well as increasing drought impact and soil erosion risk, although, except for the latter, it still has a better performance than EU average in those indicators.

While improving on the remaining SDGs related to *sustainability* (SDGs 2, 9, 11 and 12), it still needs to catch up with the EU average on SDGs 2, 9 and 12. For SDG 9 on industry, innovation and infrastructure, Croatia is improving but still significantly below the EU average. This is mostly due to the R&D related indicators, but also due to lower performance for indicators linked to sustainable industry such as air pollution from industry. Croatia needs to catch up on SDG 12 (Responsible consumption and production), where it is struggling with low circular material use rate and high material footprint with 16.9 tonnes per inhabitant (EU average: 13.7). Croatia also performs better than EU average on SDG 11 on sustainable cities and communities, however, further efforts are needed to catch up to the EU average rates for recycling municipal waste (see Annex 8) and reduce premature deaths due to fine particulate matter. The RRP envisages measures to improve some of these shortcomings, with a dedicated component to improve waste management and recycling, and investments to boost the green transition and the circular economy. Croatia is improving but still lagging behind the EU average on SDG 2 (Zero hunger), including due to a slightly higher obesity rate and lower performance for some sustainable agricultural production indicators.

Croatia is improving on most SDGs related to *social fairness* (SDGs 1, 3, 4, 5, 8), while moving away from SDGs 7 and 10, but it still needs to catch up with the EU average on SDGs 3, 4, 8, and 10. Croatia performs above EU average for SDG 1 (No poverty) and improved on some indicators, including the severe material and social deprivation rate, which at 2% is well below the EU average of 6.4%. However, other indicators like persons at risk of poverty or social exclusion or the in-work at-risk-of poverty rate increased from below the EU average in 2019 to levels above EU average in 2024, possibly also due to high inflation recorded in recent years in Croatia. Croatia is performing better than the EU average on SDG 5 (Gender equality), partly due to a significantly lower gender pay gap (6.6% in Croatia vs 11.1% in the EU in 2024) and employment gap, as well as increased representation of women in national parliament and government. While for SDG 7 (Affordable and clean energy) Croatia is moving away from the target, it is at the same time improving and performing better than the EU average on access to affordable energy: 4.6% of the population were unable to keep their home adequately warm in 2024, compared with an EU average of 9.2%.

Although Croatia has made improvements, it is still performing below the EU average on SDG 3 (Good health and well-being), SDG 8 (Decent work and economic growth) and SDG 10 (Reduced inequalities). For SDG 3, healthy life expectancy lower than in the EU (70.7 years in 2023 vs EU average of 75.3 years), while

smoking prevalence and avoidable mortality rates are significantly higher than EU average (see Annex 15). The RRP envisages measures to tackle these issues through a dedicated component on healthcare. Croatia is slightly moving away from SDG 10, with indicators such as the income quintile share ratio and the urban-rural gap for risk of poverty or social exclusion being higher than EU average and increasing between 2019 and 2024.

Croatia is improving on SDGs related to *macroeconomic stability* (SDGs 8 , 16, 17) but still needs to catch up with the EU average on SDGs 8 and 16. It has made significant progress in almost all indicators under SDG 8 (Decent work and economic growth), with real GDP per capita increasing by over 25% between 2019 and 2024, though it is still well below the EU average. The long-term unemployment rate decreased to 1.8% in 2024, below the EU average of 1.9%. Access to justice and the corruption perception indicators under SDG 16 (Peace, justice and strong institutions) such as the perceived independence of the justice system are showing improvements but remain well below the EU average and point to structural issues linked to these areas. The Commission is monitoring this through different channels including the Rule of Law Report. In addition, the RRP has two components dedicated to modernising the justice system and preventing and combating corruption. General government gross debt, part of SDG 17 (Partnerships for the goals), was 56.3% of GDP in 2025, below the EU average of 81.7%. The debt-to-GDP ratio is expected to continue to decrease in 2026, driven by nominal GDP growth that also supports government revenues (see also Annex 2).

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

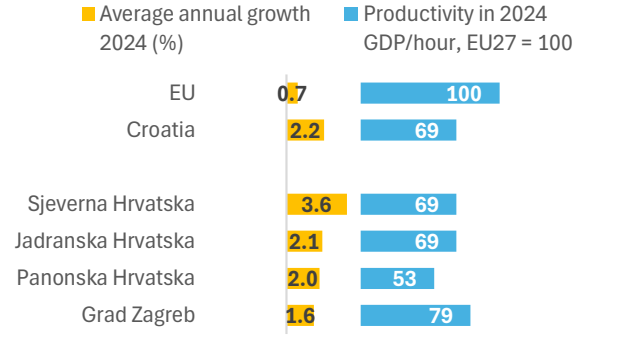
Croatia has combined robust convergence with the EU average in terms of GDP per head (PPS) since joining the EU with a reduction in gaps between its regions. Following a relative stagnation lasting until 2016, Croatia is experiencing a period of rapid convergence, which has brought its GDP per head close to 78% of the EU average in 2024, up from around 62% in 2013, when Croatia joined the EU. Significant disparities persist between the more developed capital region Grad Zagreb and the other three less developed regions (see Map A18.1). Internal disparities have gradually narrowed since 2013, with all non-capital regions growing on average faster than Grad Zagreb. The strongest gap remains between the capital region (131% of the EU average) and Panonska Hrvatska (53% of the EU average), with some of its eastern counties falling below 50%.

Map A18.1: **GDP per head compared with the EU average.**

2021-2023 average GDP per head in purchasing power standard compared to the EU average.
Source: Commission calculations based on 16 July 2026 Eurostat data.

Despite all regions growing faster in terms of GDP than the EU average, substantial regional productivity gaps remain. In 2024, productivity (GDP per hour worked) at national level was 69% of the EU average. It was highest in the capital region at 79%, and lowest in Panonska Hrvatska, at 53% (see Graph A18.1). Real productivity growth has been the strongest in Sjeverna Hrvatska, due to its relatively low baseline, but it can also be partially explained by a process of relocation of activities from the capital city to the neighbouring counties. On the other hand, productivity growth has been the weakest in the capital region, showing a growth rate significantly lower than the national average.

Graph A18.1: **Labour productivity growth (2024) and labour productivity (2024), Croatia (NUTS 2 regions)**



Source: Commission calculations based on JRC data

Human capital patterns mirror gaps in regional competitiveness and productivity. Though the combined share of employment in knowledge-intensive services and high-technology sectors in Croatia is close to the EU average, employment in these sectors in the capital region is almost twice that of Panonska and Sjeverna Hrvatska. While the share of employment in knowledge-intensive services remained relatively stable between 2018 and 2024 in all regions, the growth of high-technology sectors has been robust across the country, with a peak of 10.2% in Sjeverna Hrvatska, contributing to its large productivity growth rate.

Differences in regional sectorial composition present opportunities and challenges for regional competitiveness. Despite the capital city specialisation in services focusing on financial, professional, scientific and technical activities, industry remains non-negligible at 13.2%. Meanwhile Panonska and Sjeverna Hrvatska have the highest shares of employment in industry (23.6% and 30.3% respectively, compared with an EU average of 15.4%), while Jadranska Hrvatska is increasingly reliant on tourism. In terms of recent sector dynamics, the period 2019-2023 saw overall growth in the employment share in services

Table A18.1:**Main development trends, challenges and the concentration of resources**

Main development trends	
Less developed regions (population 3.06 million)	Despite strong and above-average real GDP growth in the last decade, three less developed Croatian regions are characterised by productivity standing far below the EU average and lagging behind in competitiveness. The gap reflects persistent gaps in demographic dynamics, labour productivity, investment attraction as well as employment and education opportunities. These three regions continue to face significant challenges in strengthening their competitiveness and moving towards a more competitive and higher value-added economy. Sjeverna Hrvatska stands out in terms of productivity growth (at 69% of the EU average) thanks to strong manufacturing and above EU average business sector R&I spending. While Jadranska Hrvatska is overly reliant on tourism, Panonska Hrvatska (at 53% of the EU average) shows the most challenges due to having the lowest employment rate, a shrinking population, and a higher concentration of workers in agriculture (15% of employment).
More developed region (population 0.8 million)	The average annual growth of GDP per capita (in PPS) in Zagreb has been above the EU average and has reached 131% in 2024. The region benefits from higher labour productivity, a more diversified economic structure and a greater concentration of knowledge-intensive services and innovative activities. While productivity is higher than in other Croatian regions and counties, it is only 79% of the EU average and annual productivity growth over the past decade has been below national average. Increasing productivity gains will require continued investment in skills, digitalisation and innovation, while additional support is needed to address congestion, waste and water management challenges.
Specific territories	Rural and sparsely populated areas of Panonska Hrvatska and Dalmatian hinterland – the least developed areas according to national developments index - are facing structural challenges, exacerbated by ageing and declining population, lower rates of educational attainment and economic activity, and where delivery of basic services is particularly challenging to ensure (heath, education, social, transport, connectivity). Limited availability and uptake of public transport reinforce car dependency and reduce accessibility of services. Urban areas, particularly the capital region and coastal cities, face increasing pressures related to housing affordability, congestion, commuting flows and infrastructure capacity, which weigh on quality of life and functional efficiency. Meanwhile, islands face distinct territorial challenges related to connectivity, both transport and digital, service delivery, climate risks and strong impact of high seasonality of the predominant economic activity - tourism. In addition, counties (Istria and Sisak-Moslavina) face higher structural adjustment transition challenges linked to the decarbonisation of industry (cement, chemical) and phasing out of coal-fired power generation. These processes require long-term investment in climate-neutral technologies in addition to economic diversification, while using the potential of the local workforce. The Just Transition Fund supports economic diversification in these counties by investing in SMEs, including incubators, and upskilling.
National cohesion aspects	Overall, Croatia faces substantial investment needs to meet and sustain compliance with EU standards in transport, waste and water infrastructure. Connectivity is largely dependent on road transport, even in urban areas, while rail connectivity is lagging far below EU average. Greening the transport sector presents an opportunity to counter the last decade's increasing greenhouse gas (GHG) emissions. Despite progress in water and wastewater investments, access to water services remains uneven across regions, with significant challenges related to non-collected urban wastewater and high-water losses. Regional disparities remain in waste management as well as flood protection and climate risk mitigation.

Source: European Commission based on Eurostat data; categories of regiona based on Map 18.1.

and a decline in manufacturing and logistics activities. Overall, there is a potential for building on existing sectorial strengths and clear regional specialisations are emerging ([442]). These sectorial strengths include agri-food and wood processing industry in Panonska Hrvatska, the blue economy (focused on coastal tourism**,** fisheries and aquaculture) in Jadranska, in addition to health sector, which is also present in Sjeverna Hrvatska. with strong potential in advanced manufacturing.

Key challenges for regional competitiveness

Regional competitiveness and innovation performance, although improving, are lagging outside the capital region. In terms of the R&I spending ([443]), the territorial pattern is polarised between Grad Zagreb and its

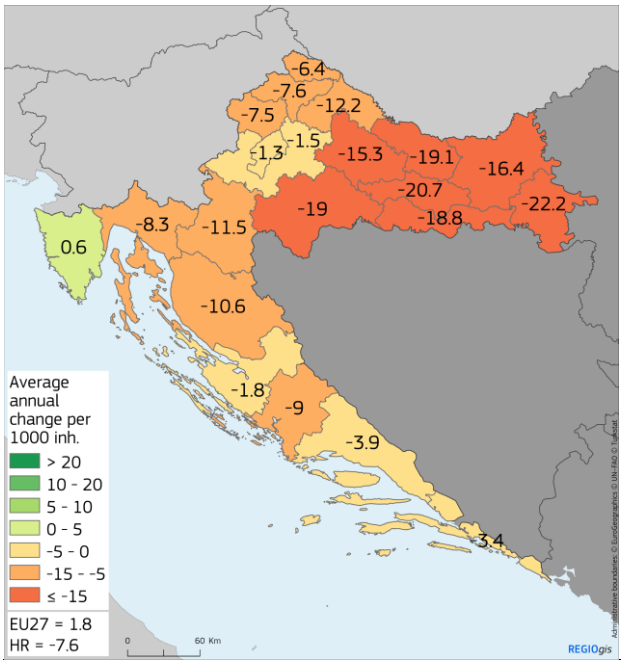
([442])Industrial transition plans of Panonska, Sjeverna and Jadranska Hrvatska.

([443])Only Grad Zagreb is in the Moderate+ performance group, while least performant is Panonska Hrvatska. Regional Innovation Scoreboard 2025.

surrounding region of Sjeverna Hrvatska (respectively above and close to 2% of GDP) and the rest of the country (below 0,7%), Sjeverna Hrvatska saw large growth from 2018 to 2025 in numerous indicators, including business R&D expenditure ([444]), the dimension where Zagreb shows one of the strongest decreases despite generally outperforming other Croatian regions, given the concentration of public research capacities. Additionally, the below average cooperation between academia and industry (see Annex 4), particularly in Panonska and Jadranska Hrvatska, mirrored by stagnant business R&D expenditure in those regions, hinders technology transfer and researcher mobility. It also points to a lack of integration between regional university hubs and innovation ecosystems.

Regional smart specialisation priority niches present an opportunity to boost competitiveness in less developed regions. Leveraging traditional sectors in line with regional industrial transition plans, along with ICT and defence, can create new sources of growth and employment in less developed regions ([445]). Despite continuous support to the network of business support organisations, prominent innovation cluster activity facilitating integration of businesses into global value chains and investments in high-tech sectors, has not emerged yet ([446]) (see Annex 5). Over the last decade, private investments including Foreign Direct Investments (FDI) ([447]) have been concentrated in the capital region and Jadranska Hrvatska, the latter predominantly tourism related. By contrast, Panonska Hrvatska attracted only 3% of total national FDI, constrained by lower business density ([448]), lack of targeted investment promotion and skilled workforce (see Annex 11). In particular, the least developed counties and municipalities struggle to attract investment and retain talent.

Map A18.2: **Average annual population change at NUTS 3 level (2015-2024)**



Source: Eurostat and JRC

Demographic decline is a major concern in Croatia, most notably in some of the less developed regions. A shrinking workforce affects local economic growth and competitiveness while weakening the fiscal capacity of local self-government units and hampering delivery of basic services (see Annex 7). Croatia has experienced a population loss of over 9% between 2011 and 2021, driven by natural decrease and migration losses. The least developed municipalities and counties in Croatia, classified in its national development index as least developed assisted areas ([449]), face the most critical situation, with strong population decreases and isolated pockets of poverty. Notably, in Panonska Hrvatska, 31% of the population is at risk of poverty (see Annex 12) while the region also experiences the sharpest decline in the country, especially in the population aged 15-39. Panonska Hrvatska also has the lowest employment rate (67.2%).

([444])Ibid.

([445])Industrial transition plans of Panonska, Sjeverna and Jadranska Hrvatska.

([446])Croatian network of business support organisations.

([447])OECD - FDI Qualities Review of Croatia: Advancing the Strategic Framework for Investment Promotion and Facilitation (2023).

([448])National bureau of Statistics - NUMBER AND STRUCTURE OF BUSINESS ENTITIES IN 2024 BY COUNTY.

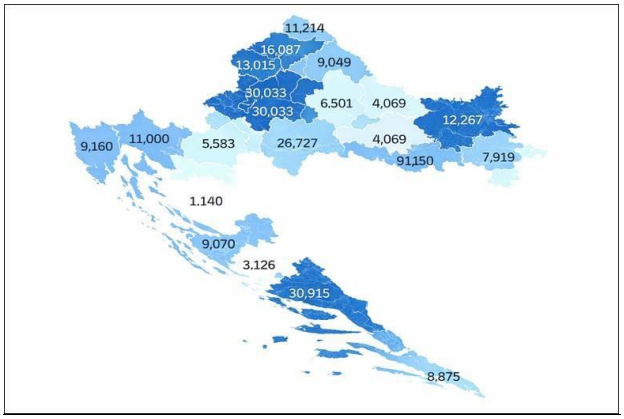
([449])Assisted areas—municipalities and counties scoring below national development averages, as defined by the Regional Development Act. There are four categories for counties and eight categories for municipalities. Development is measured periodically using an index composed of six indicators: unemployment rate, income per capita, income of local/regional budget per capita, population change, rate of education, ageing index.

Access to primary education is becoming increasingly difficult in some less developed regions. Declining numbers of school-age children have led to primary schools' closures, reducing accessibility of primary education - particularly in Sjeverna and Panonska Hrvatska - with many areas falling below the 15-minute walking distance threshold). In parallel, urban areas face pressures from multi-shift schooling. Most three-shift schools are in Splitsko-dalmatinska county, with a smaller number in Zadar and Zagreb. While the upgrades and the transition to single-shift operation are underway with strong support from EU funding, significant infrastructure gaps remain, with hundreds of schools still operating in multiple-shifts ([450]) (see Annex 13).

Health facility density varies significantly across Croatia, with central Croatia, particularly Zagreb, having far greater concentration than rural, eastern, hilly-mountainous areas and islands. Healthcare workforce distribution mirrors these disparities, resulting in acute shortages of primary care practitioners in underserved territories ([451]), which is being partly addressed with the provision of mobile health infrastructure (see Annex 15). There is scope to expand telemedicine and develop sustainable long-term medical services for emergency and specialised care in those areas.

The availability of affordable housing is increasingly challenging in the capital region and in coastal counties, impacting access to education as well. Jadranska Hrvatska and Zagreb are particularly affected by decreasing housing affordability. Due to a high housing overcrowding rate (34.4%), coupled with deteriorating housing affordability since 2020 (since 2012 in Zagreb and coastal counties) ([452]) as well as high share of short-term rentals, certain segments of the population cannot afford to either buy or rent a housing unit (see Annex 16). The largest housing gaps are recorded in the county of Splitsko-dalmatinska, the city of Zagreb, the counties of Zagrebačka and Osječko-baranjska (see Map A18.4). It also lead to a shortage of student accommodation and rising rents, particularly in the four biggest university cities (Zagreb, Rijeka, Split and Osijek). The situation is most acute in Zagreb, which hosts around half of the country's student population. Given that around 70% of students in the Zagreb region come from other regions of the country ([453]), limited access to affordable accommodation risks deepening regional inequalities in educational attainment, especially for students from disadvantaged backgrounds.

Map A18.3: **Housing gap 2023. Croatia (NUTS 3 regions)**



Source: Economic Institute of Zagreb, 2025.

Tertiary education attainment and adult learning opportunities are limited outside the capital region. Regional disparities in tertiary education attainment and adult learning, in addition to stark urban-rural divide, persist**.** Gaps remain pronounced, with the tertiary education attainment rate among young people in cities being 22.1 percentage points higher than among those in rural areas, and this gap has been widening since 2023 ([454]). Regional differences are also substantial, with the capital region recording a tertiary education attainment rate of more than double that of Panonska Hrvatska. This points to barriers in access to higher education and fewer upskilling opportunities outside urban centres (see Annex 12), resulting in a shortage in skilled workers that weakens regional competitiveness and productivity.

([450])EC, Directorate-General for Education, Youth, Sport and Culture, Education and training monitor 2025 – Croatia, Publications Office of the European Union, 2025

([451])OECD/European Observatory on Health Systems and Policies (2025), Country Health Profile 2025: Croatia. State of Health in the EU, OECD Publishing, Paris.

([452])National Plan for Housing Policy Plan, 2025.

([453])OECD (2025), Education and Skills in Croatia, Reviews of National Policies for Education, OECD Publishing, Paris.

([454])European Commission: Directorate-General for Education, Youth, Sport and Culture, Education and training monitor 2025 – Croatia.

Table A18.2:**Key regional indicators (at NUTS 2 level) for Croatia**

	GDP per head (PPS, index)	Real GDP growth	Employed with high educational attainment	Employment in high-technology sectors	Employment in knowledge-intensive services	R&D expenditure	R&D expenditure in business enterprise sector (BERD)	Access to primary schools - Rural areas
	EU27=100	Average annual % change	% of employed aged 25-64	% of total employment	% of total employment	% of GDP	% of GDP	Children under 15 within 15-minute walk to primary school (%)
	2024	2014-2024	2025	2025	2025	2023	2023	2023
EU	100	1.6	41.5	5.1	41.7	2.24	1.51	34
Croatia	78	3.3	36.1	5.4	39.0	1.37	0.75	26
Panonska Hrvatska	53	2.5	26.2	3.4	36.0	0.49	0.23	21
Jadranska Hrvatska	73	3.3	35.5	2.8	39.0	0.68	0.23	34
Grad Zagreb	131	3.3	55.9	12.2	50.2	2.17	0.94	
Sjeverna Hrvatska	64	4.3	25.9	4.4	30.2	1.93	1.84	17

Dark green - the indicator is 120% or more of the EU average.
Light green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red - the indicator is 75% or more, but less than 90% of the EU average.
Dark red - the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed.
Source: EUROSTAT and JRC

The coastal region Jadranska Hrvatska accounts for most of the tourism in Croatia. In 2024, Panonska Hrvatska accounted for only 3.5% of tourists compared with 86.5% in Jadranska Hrvatska ([455]). Tourism spatial and temporal concentration generates additional pressure on the environment and the infrastructure in coastal areas, which is already suffering from the impacts of climate change (see Annex 10). This creates negative externalities and significant congestion problems. Enhancing island connectivity and decarbonising maritime transport present opportunities for the stagnating Croatian shipbuilding sector in the region ([456]). Strengthening the economic viability and generational renewal of small-scale fishers by supporting investments and addressing pressures from reduced fish stocks retains diverse employment opportunities in coastal areas and islands. Alongside boosting sustainable aquaculture, these sectors ([457]) could contribute to diversifying tourism-oriented economic activity in Jadranska Hrvatska.

Solid waste management in Croatian municipalities – predominantly reliant on landfills - poses particular challenges in the capital region and Jadranska Hrvatska. The rate of separate collection of municipal waste, although improved thanks to recent reforms and ongoing investments, was only 49% in 2024, with stark differences at county level (see Map A18.3) ([458]). Correspondingly, Croatian regions remain at a very early stages of exploiting the potential of the circular economy (see Annex 8). The lowest rates for both waste recycling and recovery are found in Jadranska Hrvatska where tourism generates a high proportion of waste ranging from 12% to 33% in coastal counties, in stark contrast to below 1% in continental counties.

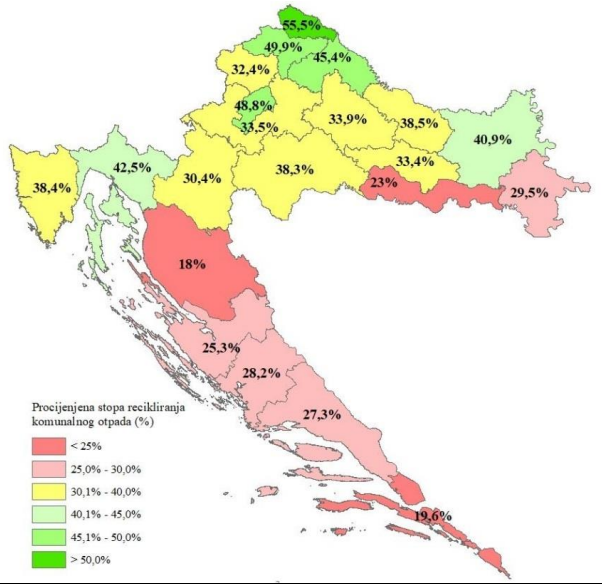
([455])National bureau of Statistics, Tourism, 2024, Statistical Reports ISSN 1331-341X, Zagreb, 2025. In 2024 Croatia recorded the highest seasonality in the EU, reflecting heavy reliance on the summer season, with Jadranska Hrvatska ranking third among EU regions with the highest seasonality.

([456])WB report, Croatia: Environment-Friendly Transport Solutions (Maritime Industry), 2021. ; OECD Peer review of the Croatian shipbuilding industry (2024).

([457])World Bank. 2024. Charting Croatia's Blue Economy Pathways. Washington.

([458])Ministry of Environment and Green Transition, National Municipal waste Report for 2024, Zagreb, 2025.

Map A18.4: **Estimated recycling rates of municipal waste by county in 2024. Croatia (NUTS 3 regions)**



Source: Croatian Municipality Waste report for 2024

Administrative and regulatory barriers hinder the development of renewable energy in less developed regions. The potential of the clean energy generation for economic diversification, decarbonisation and regional competitiveness, especially in Jadranska and Panonska Hrvatska, is largely untapped. Despite ongoing investments and recently introduced reforms, the development of solar and wind generation along the coast ([459]), as well as of geothermal potential in the continental counties, is hampered by delayed investments and administrative and regulatory barriers (see Annex 9), including constraints on grid connection and to the establishment of energy communities.

Uneven administrative capacity across the counties and municipalities limit investment readiness and long-term planning, while increasing transaction costs for local businesses and investors. Coupled with various levels of public service digitalisation, it contributes to uneven application of spatial planning and permitting procedures across territories ([460]). Weak integration between planning and budgeting, combined with constraints linked to fiscal and functional decentralisation ([461]), drive local and regional authorities to focus on managing individual projects rather than steering longer-term development trajectories. This limits the development of coherent investment pipelines, the mobilisation of private investment and the capacity of regions to support productivity growth and economic diversification.

Significant territorial differences in living standards and service delivery persist across a highly fragmented administrative structure of 556 local self-government units. While administrative and functional integration has been encouraged (in line with the 2025 Country Specific Recommendations related to the capacity and effectiveness of local level administration), high fragmentation: (i) exacerbates structural challenges; (ii) constrains the functioning of local administration; and (iii) limits the efficiency and quality of public service delivery and investment ([462]). Despite existing support measures ([463]), public services delivery remains uneven, particulary in Panonska Hrvatska and the Dalmatian hinterland.

Limited integration and cooperation between municipalities prevents fiscally weaker municipalities ([464]) from achieving the scale and professional capacity needed to deliver complex investments. As a result, subnational governance weaknesses both reinforce the concentration of economic activity and investment in a limited number of municipalities and hinder convergence in lagging territories. Experience with cohesion policy territorial instruments, including urban and island development, with enhanced role of regional coordinators, illustrates the potential of territorially differentiated interventions to strengthen local competitiveness and to boost cooperation between municipalities ([465]).

([459])JRC (2024), Renewable Energy production and potential in EU Rural Areas.

([460])Subnational B-READY Report Croatia, World Bank, 2024.

([461])Fiscal Decentralization in Croatia; World Bank Group. 2025. Croatia Subnational Public Finance Review.

([462])Towards Balanced Regional Development in Croatia | OECD; The Capacities and Sustainability of Croatian Cities in Performing Municipal Services.

([463])Ministry of regional development and EU fonds, Programme for sustainable social and economic development of assisted areas.

([464])Towards Balanced Regional Development in Croatia | OECD.

([465])Ex Post Evaluation of the ERDF and the Cohesion Fund (2014-2020), 2025, WP13 Country Fiches.pdf; MRRFEU, Evaluation of small ITI supported under Cohesion Policy in 2014-2020, 2025.

This Transport Annex presents the state of play, and the challenges Croatia is facing with the implementation of the trans-European transport network (TEN-T), the European railway traffic management system (ERTMS) and road safety.

Three European transport corridors traverse Croatia (Mediterranean, Baltic – Adriatic and Western Balkans – Eastern Mediterranean). The TEN-T in Croatia comprises 2 048 km of rail (618 of which are on the core network) and 1 968 km of road (1 138 of which are on the core network). Croatia has seven airports (one core), 19 ports (five core) and five urban nodes. Croatia is also traversed by 541 km of inland waterways ([466]).

The main capacity bottlenecks on the Croatian TEN-T railway network involve the connection of the Port of Rijeka with its hinterland. The construction of a new railway line (lowland alignment) from Rijeka to Zagreb is a priority. Given the scale of investments resulting from Croatia's difficult topography, various sections set to undergo modernisation will have to draw on different funding programmes.

The ERTMS is essential to digitalising the railways and modernising and harmonising railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. Finally, the ERTMS enhances network capacity and operational efficiency, increasing the competitiveness of the rail sector.

The ERTMS was operational on 2.6% of Croatia's TEN-T rail network by the end of 2024 ([467]). To meet its national plan's ERTMS roll-out target by 2035, Croatia aims to deploy it along a further 356 km of track with estimated costs of EUR 85 million.

A long period of underinvestment has resulted in a slow and outdated rail network in Croatia. Infrastructure modernisation will require significant funding for the maintenance of existing lines and the development of new lines.

Tender procedures often take longer than planned due to the **lack of quality of the supporting documentation.** Complaints and appeals often lead to additional delays in project implementation. This means that addressing difficulties in preparing and processing public procurement, reducing lengthy permitting procedures, and developing a mature project pipeline remains important. Moreover, harmonising technical and operational rules with the minimisation of national rules in line with the EU directives on rail interoperability and safety remains critical to ensure seamless cross-border rail transport A fragmented system with different state actors and strong reliance on the national budget creates few incentives to increase cost efficiency and service quality. The railway infrastructure manager has a shortage of qualified staff. Moreover, for Croatia, it is vital to provide to the National Safety. Authority with the powers to fully operate, as it still faces challenges to its independence, the availability of competent resources for key tasks, and the overall effectiveness of supervision.

Table A19.1:**ERTMS deployment in Croatia.**

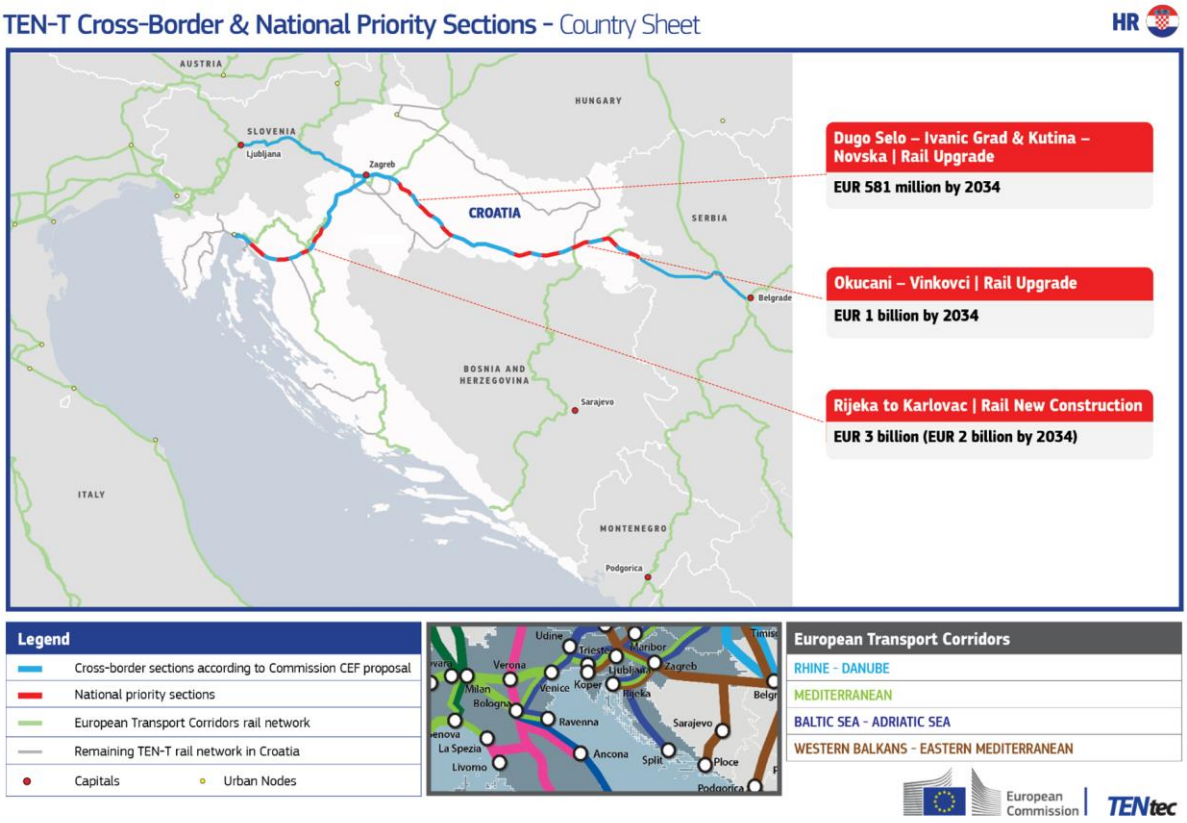
ERTMS in Croatia				
TEN-T rail network	ERTMS (trackside) in operation			Min. estimated cost of additional deployment until 2035
	year	length	% of total TEN-T	
2 048 km	end 2024	54 km	2.6 %	
	by 2035	410 km	20 %	EUR 85 million

([466])TENtec Information System, according to Reg. 2024/1679.

([467])Based on ERTMS – Third work plan of the European coordinator Matthias Ruete.

Source: Based on ERTMS – Third work plan of the European Coordinator Matthias Ruete.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Croatia.**



Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments ([468]).

In 2024, Croatia was 24th of the 27 EU countries, with 62 road fatalities per million inhabitants, which is well above the EU average (45). Compared to 2019, a decrease of 20% in road fatalities was achieved.

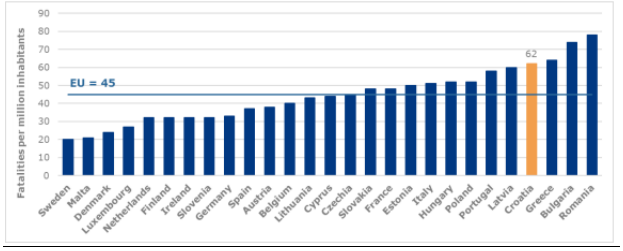
In 2024, 3 238 people were seriously injured in road crashes, which is 30% higher than the respective figure for 2019. Compared to the EU average, the distribution of fatalities in Croatia showed a relatively high proportion of fatalities on urban roads, especially for passenger car occupants.

Based on the latest available data for 2024, Croatia is close to being on track to meet the 2030 target of halving the number of road fatalities. However, Croatia still has one of the highest fatality rates in the EU and more efforts are needed to reach the additional general targets set. A possible way to address this could be to review the degree of implementation of the various actions in the national road safety plan and consider improving and adapting the road safety measures. It could also explore any other relevant activities with emphasis on urban road infrastructure, vulnerable road users and post-crash care ([469]).

([468])Report on the implementation of the EU Road Safety Policy framework at the Mid-Point, COM(2026) 77 final.

([469])More details in Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Croatia, SWD(2026) 36 final.

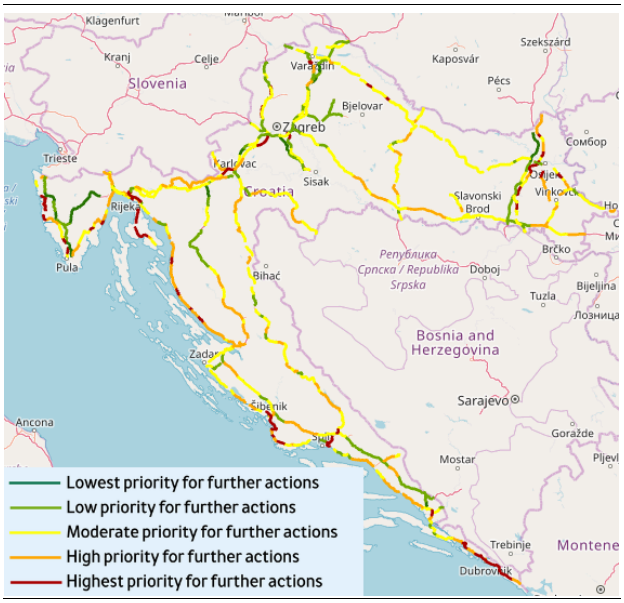
Graph A19.1: **Croatia's road fatalities per million, 2024**



Source: Report at the Mid-Point - Croatia, SWD(2026) 36 final.

The map A19.2 presents the roads where infrastructure safety is poor and where urgent action is therefore required.

Map A19.2: **Croatia's road safety map**



Source: TENtec Information System and TEN-T map library – European Commission