

A Decade of Achievement: Celebrating Croatia's 10th Anniversary of EU Accession



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Croatia has been on quite a journey – from the initiation of its European Union (EU) accession process in 2000, to its 10th anniversary celebration as a full EU member in 2023. The accession process involved overcoming historical challenges, such as transitioning from socialism, defending against aggression, and addressing issues related to war crimes and reconciliation. Despite facing hurdles, Croatia successfully joined the EU in 2013, marking a turning point in its economic landscape.

The economic transformation post-accession is evident in positive changes, including workforce growth (from 1,364,298 in 2013¹ to 1,653,778 in 2023², thus a little under 290,000 people), reduced unemployment rates (from 20.2% in 2013³ to 6.5% in 2023⁴), and increased average net salaries (from EUR 732 in 2013⁵ to EUR 1,191 in 2023⁶). The industrial sector experienced robust growth, contributing to an 11.2% increase in the size of the Croatian industry

¹ Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

² Državni zavod za statistiku (2024) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

³ Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

⁴ Državni zavod za statistiku (2024) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

⁵ Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

⁶ Državni zavod za statistiku (2024) *Prosječne mjesečne neto i bruto plaće zaposlenih za prosinac 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58119> [in Croatian]

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by 2022⁷. Croatia's GDP witnessed the second-fastest growth in the EU (third after GDP revision), fueled by significant EU funds and membership in the Schengen area and Eurozone⁸.

Croatia's journey to EU membership has resulted in notable economic improvements and challenges, showcasing its commitment to European integration and the ongoing efforts required for sustained growth and development. In light of these developments, it is useful to examine Croatia's economic transformation post-accession, emphasizing workforce growth, decreased unemployment rates, and increased average net salaries.

Moreover, it is crucial to understand Croatia's accession to the Schengen Area and Eurozone, highlighting economic advantages, the impact on tourism, and the challenges associated with border management and immigration. Finally, let us address current and future challenges –

⁷ Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

⁸ Šonje, V. (2023) *I nakon revizije BDP-a Hrvatska je pri europskom vrhu u ovom desetljeću*. [in: Arhivaanalitika.hr. Available [online]: <https://arhivaanalitika.hr/blog/i-na-kon-revizije-bdp-a-hrvatska-je-pri-europskom-vrhu-u-ovom-desetjecu-ali/> [in Croatian]



ANOTHER INNOVATION WAS INTRODUCED INTO THE CROATIAN ACCESSION PROCESS – PRE-ACCESSION MONITORING

including the 2024 elections, immigration issues, and the geopolitical impact of Russia's aggression on Ukraine. Despite challenges, Croatia has experienced improved living standards, economic growth, and integration into the European project, making it a successful EU member.

CROATIA'S JOURNEY TO EU MEMBERSHIP AND ACCESSION PROCESS

On July 1, 2023, Croatia celebrated its 10th anniversary of being a full member of the European Union. It was a major foreign policy milestone, which made independent Croatia rejoin the cultural circle of European countries it left almost exactly a century ago, following the beginning of World War I. Croatia's accession process lasted over a decade.

The journey began with its first step in November of 2000, in the form of a summit in Zagreb. It gathered fifteen heads of states and governments of the European Union to open negotiations for the Stabilization and Association Agreement, which was signed

on October 29, 2001⁹. Croatia applied for membership to the European Union on February 21, 2003. A total of thirteen meetings of the Intergovernmental Conference on the accession of the Republic of Croatia to the European Union were held at the ministerial level, and the negotiations were formally concluded on June 30, 2011, with the closing of all 35 negotiation chapters¹⁰. The referendum on Croatia's accession to the European Union was held on January 22, 2012, with 67% of citizens voting in favor of membership in the EU. On July 1, Croatia formally joined the European Union¹¹.

The Croatian path to Europe was neither easy nor comparable to any other. Defending against a militarily stronger aggressor, transitioning from socialism to a market economy, building democratic institutions, implementing reforms, and joining NATO and the EU were significant challenges. Croatia embarked on a distinctive path initially seen as unrelated to other potential EU candidates. Nevertheless, it ultimately resulted in Croatia obtaining EU candidacy.

However, Croatia missed the second, smaller wave of EU expansion in 2007, when Bulgaria and Romania joined. The experience of that expansion, revealing issues with corruption, weak judiciary, and insufficient protection of fundamental rights¹², raised the criteria for Croatia's accession

⁹ Sabor.hr: *Kronologija važnijih datuma u procesu pristupanja Hrvatske Europskoj uniji*. Available [online]: <https://www.sabor.hr/hr/europski-poslovi/sabor-u-procesu-pristupanja-eu-u/kronologije/kronologija-vaznijih-datuma-u-procesu> [in Croatian]

¹⁰ Ibid.

¹¹ Grubiša, D. (2012) *The European Referendum in Croatia: Controversies, Doubts and Lessons*, p. 5. Available [online]: <https://hrcak.srce.hr/file/151812>

¹² https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law/assistance-bulgaria-and-romania-under-cvm/reports-progress-bulgaria-and-romania_en

negotiations. Chapter 23, focusing on judiciary and fundamental rights, posed a substantial hurdle for Croatia¹³. Another aspect, related to processing war crimes, reconciliation, regional cooperation, and good neighborly relations, shaped the negotiations and depended on collaboration between Croatian governments and the Hague tribunal¹⁴.

Croatia was scheduled to commence negotiations on March 17, 2005. This date was contingent on full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), specifically in the effort to apprehend then-fugitive General Ante Gotovina¹⁵. The commencement of negotiations was delayed due to this objective, resulting in further loss of time. The ICTY continued to be a source of sluggishness in the process. The so-called artillery logs, sought by the Hague prosecution, led to a protracted blockage of the Judiciary and Fundamental Rights chapter for months.

Another innovation was introduced into the Croatian accession process – pre-accession monitoring. In this way, it was ensured that the country that completes the negotiations does not abandon work on reforms, which regularly happened in the past after signing the accession agreement. This development made it possible for the process of its ratification to be not a mere confirmation in the parliaments of

¹³ https://neighbourhood-enlargement.ec.europa.eu/screening-report-croatia-chapter-23-judiciary-and-fundamental-rights_en

¹⁴ Organization for Security and Co-operation in Europe (2004) *Background Report: EC Recommends That EU Membership Negotiations Begin with Croatia*. Available [online]: <https://www.osce.org/files/f/documents/6/c/31052.pdf>

¹⁵ Šeperić, D. (2011) *To Europe and Back – The Croatian EU Accession Process and Its Outcomes*, [in]: *SEER: Journal for Labour and Social Affairs in Eastern Europe*, Vol. 14(4), pp. 463–480. Available [online]: <http://www.jstor.org/stable/43293436>



THE MAJOR REASON CROATIA TOOK SO LONG TO RECOVER FROM THAT ECONOMIC DOWNTURN WAS THE LACK OF CRUCIAL REFORMS IN THE PUBLIC SECTOR, LABOR MARKET, HEALTH SECTOR, JUDICIAL SYSTEM, AND BURDENSOME TAXATION REGULATION

the member countries, but an effective instrument for pressure to continue with the reforms until the accession to membership.

Despite all these obstacles, Croatia was firmly committed to joining the European Union. Progress was happening, albeit slowly, but it was going forward. Finally, after the longest and most stringent accession process in EU's history, Croatia became a member in 2013.



THE AVERAGE NET SALARY IN CROATIA HAS WITNESSED A SUBSTANTIAL INCREASE SINCE JOINING THE EUROPEAN UNION

POSITIVE CHANGES SINCE CROATIA JOINED THE EU

In 2013, Croatia's accession to the European Union marked a significant turning point in the country's economic landscape and a major foreign policy milestone. Access to the EU's single market, and easier movement of goods, services and people for over ten years has contributed to the improvement of the overall economic stability. Through a decade of membership in the EU, Croatia has experienced a significant transformation in its workforce and employment rates.

To begin with, according to the 2022 data of the Croatian Statistics Office¹⁶ (DZS), Croatia's workforce in 2022 reported 1,619,969 people, compared to 1,364,298 in 2013, which points to an 18.7% increase – and in 2023, that number

has risen to 1,653,778¹⁷. The unemployment in 2013 was at a staggering 20.2% level, which meant that every fifth person in the country was unemployed¹⁸. These problems have been present for decades and are not the direct consequences of the world of the economic crisis, but because of it they were potentiated¹⁹.

However, the major reason Croatia took so long to recover from that economic downturn was the lack of crucial reforms in the public sector, labor market, health sector, judicial system, and burdensome taxation regulation, which prevented quick economic recovery.

In 2024, according to the latest available data, the unemployment rate was reported at 6.8%²⁰, reflecting a decade of steady decrease, despite a brief spike in 2020 due to the COVID-19 pandemic. For comparison, in November of 2007 – right before the effects of the upcoming recession fully took hold of Europe – the unemployment rate already stood at 14.5%²¹. Naturally, a multitude of economic factors can affect a particular country's economic performance; however, there is no doubt that a decade

¹⁷ Državni zavod za statistiku (2023) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

¹⁸ Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

¹⁹ Croatian Chamber of commerce (2014) *Hrvatsko gospodarstvo 2013 godine*, p. 38. Available [online]: <https://www.hgk.hr/documents/hrvatsko-gospodarstvo-2013godine58edfb7aedf73.pdf> [in Croatian]

²⁰ Državni zavod za statistiku (2024) *U siječnju 2024. broj zaposlenih pao za 1,1% u odnosu na prethodni mjesec*. Available: [online]: <https://dzs.gov.hr/vijesti/u-siječnju-2024-broj-zaposlenih-pao-za-1-1-u-odnosu-na-prethodni-mjesec/1809> [in Croatian]

²¹ Državni zavod za statistiku (2007) *Zaposleni po djelatnostima u studenome 2007*. Available [online]: https://web.dzs.hr/Hrv/publication/2007/9-2-1_11h2007.htm [in Croatian]

¹⁶ Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

of EU membership, fueled by the deluge of EU funds, liberalization of the market economy, and eurozone membership, in large part, contributed to the betterment of the country's workforce numbers. This development resulted in economic growth in 2023, exceeding 75% of the EU development average regarding the purchasing power parity (PPP)²². In 2013, the first year Croatia was a member of the EU, the country's development level was only 62%²³ of the EU average.

When it comes to industry growth, in 2013, the size of the Croatian industry was around EUR 54.9 billion, whereas, in 2022, it amounted to EUR 66.2 billion²⁴ (adjusted for inflation), with a record growth of 11.2%²⁵. Moreover, Croatian GDP in the period 2021-2023 had the second fastest growth in the European Union (after Ireland)²⁶. Croatia also entered the Schengen area on January 1, 2023, lifting internal border controls with other Schengen countries. Its EU integration was complete on the same day when it introduced euro as an official currency, becoming the 20th

²² Eurostat (2023) *GDP Per Capita, Consumption Per Capita and Price Level Indices*. Available [online]: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=GDP_per_capita_consumption_per_capita_and_price_level_indices

²³ Eurostat (2024) *GDP Per Capita in PPS*. Available [online]: <https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en>

²⁴ World Bank (2024) *Data bank: Croatia*. Available [online]: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=HR>

²⁵ Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

²⁶ Vlada.gov.hr (2023) *Hrvatska ima drugi najbrži rast BDP-a u EU, rast prosječne plaće nadmašio je i Vladina obećanja s početka mandata*. Available [online]: <https://vlada.gov.hr/vijesti/hrvatska-ima-drugi-najbrzi-rast-bdp-a-u-eu-rast-prosjecne-place-nadmasio-je-i-vladina-obećanja-s-pocetka-mandata/40634?lang=is> [in Croatian]



DESPITE THE CHALLENGING GEOPOLITICAL AND ECONOMIC ENVIRONMENT IN RECENT YEARS, CROATIA HAS MANAGED TO QUICKLY RECOVER THANKS TO THE MONEY FROM THE EUROPEAN FUNDS

member state to join the Eurozone, the monetary union of the EU.

Finally, one of the most important metrics when measuring the economic well-being of a country is the element of salaries. It is also a crucial metric for most individuals when they are asked if joining the EU was a good step forward and a rock-solid answer to the question of tangible benefits of joining the European Union.

The average net salary in Croatia has witnessed a substantial increase since joining the European Union. In 2013, this value stood at EUR 732²⁷, while in 2024, the

²⁷ Narodne Novine (2014) *Državni zavod za statistiku: Prosječna mjesečna neto plaća po zaposlenome u pravnim osobama rRepublike Hrvatske za 2013*. Available [online]: https://narodne-novine.nn.hr/clanci/sluzbeni/2014_03_32_596.html [in Croatian]

average net salary of a full-time single worker without children amounts to EUR 1,213²⁸. Now, the events of the last few years (COVID-19, Russian war in Ukraine, subsequent energy prices, and overall energy outlook) have been putting a significant pressure on salaries in terms of costs of living and rise in inflation, which is the case in the majority of the countries in the EU. Growth in salaries came after the government abolished the surtax on income tax on the levels of local self-government as a latest move²⁹, but mostly it has been fueled by a shortage of labor and private consumption³⁰.

Despite the challenging geopolitical and economic environment in recent years, Croatia has managed to quickly recover thanks to the money from the European funds. According to official sources, money allocated to Croatia for the financial period 2021-2027 in current prices amount to almost EUR 14 billion from the MFF³¹ (Multiannual Financial Framework) and a little over EUR 11 billion from the NGEU³² (Next Generation EU), created during the COVID-19 pandemic. Total funds allocated from the MFF amount to EUR 1,074.3 billion, while EUR 750 billion is financed from the NGEU instrument. Of the EUR 750 billion allocated from the NGEU, EUR

²⁸ Eurostat (2023) *Annual Net Earnings of A Full-Time Single Worker Without Children Earning an Average Wage*. Available [online]: https://ec.europa.eu/eurostat/databrowser/view/earn_nt_netft/default/table?lang=en

²⁹ Vlada.gov.hr (2023) *Vlada Saboru uputila paket porezne reforme*. Available [online]: <https://vlada.gov.hr/vijesti/vlada-saboru-uputila-paket-porezne-reforme-predloženo-povećanje-poreznog-opterećenja-dohotka-od-kapitala-i-imovine/38953> [in Croatian]

³⁰ Večernji list TV (2023) *Glavna prepreka ekonomskom rastu idućih godina bit će manjak radne snage*. Available: [online]: <https://www.youtube.com/watch?v=9hvTRO-Jy8Ak> [in Croatian]

³¹ Europski strukturni i investicijski fondovi, EU fondovi 2021–2027. Available [online]: <https://strukturnifondovi.hr/eu-fondovi/eu-fondovi-2021-2027/>

³² Ibid.



CROATIA IS IN A SUPER-ELECTION YEAR, WHEN THE ELECTORATE WILL VOTE IN PARLIAMENTARY, EUROPEAN, AND PRESIDENTIAL ELECTIONS

390 billion are grants, while EUR 360 billion are loans to member states³³.

With over EUR 25 billion³⁴ at its disposal over this financial period, one can argue that Croatia bases its growth very much at the expense of EU's wealthier states, while still failing to address the main problems within its own borders. According to the 2023 World Bank's Economic Memorandum, strengthening government institutions, public administration, the judiciary, reforming the labor market, health system, education, pension system, and further improving the business environment to attract more foreign investments – remain major obstacles to achieve more robust GDP growth³⁵. Such reforms are even more

³³ Ibid.

³⁴ European Structural and Investment Funds: *EU Funds 2021–2027*. Available [online]: <https://strukturnifondovi.hr/en/eu-fondovi/eu-fondovi-2021-2027/>

³⁵ World Bank (2023) *Croatia Country Economic Memorandum—Laying the Foundations: Boosting Productivity to Ensure Future Prosperity in Croatia*. Available [online]: <https://www.worldbank.org/en/country/croatia/publication/croatia-cem>



THE ECONOMIC ADVANTAGES OF SCHENGEN ACCESSION ARE SUBSTANTIAL

unlikely to occur in 2024 due to the fact Croatia is in a super-election year, when the electorate will vote in parliamentary, European, and presidential elections.

SCHENGEN AND EUROZONE: COMPLETE EU INTEGRATION

Croatia's recent entry into the Schengen Area and full integration into the Eurozone signify the final steps in its journey toward complete EU integration. Joining the Schengen Area streamlines the movement of goods and services, fostering an efficient economic environment, and boosting the tourism sector. Simultaneously, entering the Eurozone has positively impacted Croatia's credit rating, providing access to lower interest rates, and enhancing competitiveness.

Despite the economic advantages, challenges such as increased illegal border crossings have emerged in the Schengen Area, demanding robust security measures. The adoption of the euro raised concerns about relinquishing monetary sovereignty, but its introduction did not lead to anticipated price increases. Croatia's comprehensive transformation prompts discussions on immigration, security, and the broader implications of these integration measures on the nation's future.

SCHENGEN AREA

Croatia's accession to the Schengen Area on January 1, 2023, marks a pivotal milestone in the country's integration into the European Union. The Schengen Agreement, initially signed in 1985, established a zone without internal borders, enabling the free movement of people across participating member states. Croatia's inclusion in this area signifies not only a tangible step towards European integration, but also carries significant implications for the nation's security, economy, and overall connectivity.

The economic advantages of Schengen accession are substantial. The removal of internal border controls streamlines the movement of goods and services, reducing administrative burdens, and fostering a more efficient and integrated economic environment. Croatia's businesses gain access to a broader market without the hindrance of border checks, encouraging cross-border trade and investment. Moreover, Schengen accession enhances Croatia's position as a strategic transportation hub. Additionally, becoming a part of the Schengen area had a significant impact on one crucial element of the Croatian economy – tourism. According to the last available information, tourism accounted for 19.5% of the entire GDP of Croatia in 2022³⁶.

However, joining the Schengen Area is not only about open borders, but also entails collaborative security measures. Becoming the defender of the 'hard EU border', comes with a whole different sets of challenges. According to the latest available report by the Croatian Ministry of the Interior, since the beginning of 2023, for

³⁶ Ministarstvo turizma i sporta Republike Hrvatske (2022) *Turizam u brojkama*. Available [online]: https://mint.gov.hr/UserDocsImages//2023_dokumenti//230804_turizam_u_brojka_2022_hrv.pdf [in Croatian]



TOURISM ACCOUNTED FOR 19.5% OF THE ENTIRE GDP OF CROATIA IN 2022

the first ten months, the Croatian police recorded 62,452 actions related to illegal border crossings in the Republic of Croatia. This figure is 73.2% higher than the same period last year, when 36,059 procedures were recorded. The most represented citizens are from Afghanistan (21,195), Turkey (10,512), Morocco (5,970), Pakistan (5,100), Iraq (3,706), and Bangladesh (2,645)³⁷.

As a result of the increase in illegal migration, the number of expressed intentions for international protection has also increased. In the ten months of 2023, the Republic of Croatia registered 60,440 expressed intentions to seek international protection, which is almost five times higher than in the whole previous year (2022 – 12,872)³⁸. Even though the numbers seem to be in a slight decline overall³⁹, by entering the Schengen area, the topic of immigration skyrocketed in the national discourse, and it is slowly becoming a major issue in the upcoming elections – both at home and abroad.

³⁷ Ministarstvo unutarnjih poslova (2023) *Report on the Situation of Illegal Migration in the Territory of the Republic of Croatia for the Period Since the Republic of Croatia's Entry into the Schengen Area*. Available [online]: [https://vlada.gov.hr/UserDocsImages/2016/Sjednica/2023/Studenti/261%20\(telefonska\)%20sjednica%20VRH/261%20-%203.docx](https://vlada.gov.hr/UserDocsImages/2016/Sjednica/2023/Studenti/261%20(telefonska)%20sjednica%20VRH/261%20-%203.docx) [in Croatian]

³⁸ Ibid.

³⁹ Ibid.

Concerning immigration, Schengen accession brings forth both opportunities and challenges. The free movement of people allows for easier travel within the Schengen Area, fostering cultural exchange, and facilitating business and educational endeavors. However, it also necessitates a robust border management system to address potential challenges related to illegal migration and security concerns, especially when you have a 1,400-kilometer-long outer EU border.

EUROZONE

Croatia became fully integrated into the European Union when it became the 20th member of the Eurozone, a circle of EU countries sharing the common currency. The transition period with dual-price systems ended on January 1, 2024. Croatia, like all member states that joined the EU after 1992, when the Treaty on European Union (Maastricht Treaty) was signed, was obliged to introduce the euro as an official currency at some point in the future.

Entry into the Eurozone followed several years of negotiations and meeting the provisions of the Maastricht Treaty⁴⁰:

- 1. Fiscal Responsibility:** Entry into the Eurozone required Croatia to adhere to stringent fiscal criteria outlined in the Maastricht Treaty. The annual fiscal deficit of the state must not surpass 3% of the gross domestic product (GDP).
- 2. Debt Limitation:** Another crucial provision mandates that the general state debt should not exceed 60% of the GDP. This limitation aims to ensure sustainable financial practices within the Eurozone framework.

⁴⁰ https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en

3. **Interest Rate Stability:** Croatia needed to maintain stability in its long-term interest rates. The state's interest rate during an observed year must not increase by more than 2 percentage points, surpassing the rates in the three member states with the most stable prices.
4. **Exchange Rate Stability:** To integrate smoothly into the Eurozone, Croatia had to ensure stability in its exchange rate. This involved staying within the fluctuation range defined by the European exchange rate mechanism (ERM II) for at least two recent years.
5. **Inflation Alignment:** Aligning with the Eurozone's economic principles, Croatia had to manage its inflation rates. The average inflation rate of the state during an observed year must not exceed the inflation rate in the three member states with the most stable prices by more than 1.5 percentage points. This is aimed at preventing inflationary discrepancies within the Eurozone.

Croatia met all the necessary criteria for joining the Eurozone, and the only challenge at that moment was rising inflation⁴¹. The conditions⁴² for entering the Eurozone state that inflation in the candidate country must not exceed 1.5 percentage points compared to the 'best performing' members. At the same time, three members – that is, the countries with the lowest inflation in the EU – are excluded from the calculation. The reason for this exception is to avoid the absurdity where a candidate

⁴¹ Falagiarda, M. and Ch. Gartner (2022) *Croatia Adopts the Euro*, [in]: *ECB Economic Bulletin*, Issue 8. Available [online]: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208_02~15fd36600a.en.html

⁴² https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en



AS A RESULT OF THE INCREASE IN ILLEGAL MIGRATION, THE NUMBER OF EXPRESSED INTENTIONS FOR INTERNATIONAL PROTECTION HAS ALSO INCREASED

for entry into the Eurozone should have lower inflation than the average of countries that already use the euro as their currency, which would be meaningless. This approach ensures that the three 'best performing' members are not taken into account in order to prevent unrealistic inflation expectations of the candidate country.

Thus, entry into the Eurozone was relatively 'painless'. Croatia introduced the euro, went through a period of dual price reporting, and from January 1, 2024, it completely said goodbye to the Croatian kuna, a currency that surprised many with its stability over thirty years⁴³. The introduction of the euro as the last step towards full integration into the European Union brought Croatia into the monetary union, where the main reasons against

⁴³ Croatian National Bank (2022) *Exchange Rate List Archive*. Available [online]: <https://www.hnb.hr/en/statistika/statisticki-podaci/financijski-sektor/sredisnja-banka-hnb/devizni-tecajevi/arhiva-hrk-tecajeva/arhiva-tecajnih-lista>

it were the relinquishment of part of the monetary sovereignty, and price manipulations by various service providers⁴⁴.

The introduction of the euro had positive short-term effects already in the following two years. Three global credit agencies (Standard&Poors, Fitch, and Moody's) have repeatedly raised Croatia's credit rating to levels that Croatia has never had in history, with stable prospects⁴⁵. They attributed the increase in large part to joining the Eurozone. Croatia thus gained access to lower interest rates when borrowing, and its competitiveness increased. However, in this last segment, the biggest obstacles remain the unpredictable tax policy and the slowness of the judiciary.

In addition to the previously mentioned argument of renouncing monetary sovereignty, the public was most afraid of 'price rounding' – a situation in which the public is afraid of price increases by service providers who want to take advantage of the moment when the currency changes and thus increase their prices and thus earn unfairly. Although these fears have not been new since 2002, when Germany exchanged marks for the euro, it turned out that they were unjustified⁴⁶.

⁴⁴ Falagiarda, M. and Ch. Gartner (2022) *Croatia Adopts the Euro*, [in]: *ECB Economic Bulletin*, Issue 8. Available [online]: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208_02~15fd36600a.en.html

⁴⁵ Vlada.gov.hr (2022) *Plenković: Članstvo u europskoj dručju podiže kreditni rejting i reputaciju Hrvatske na međunarodnim tržištima*. Available [online]: <https://vlada.gov.hr/vijesti/plenkovic-clanstvo-u-europo-drucju-podize-kreditni-rejting-i-reputaciju-hrvatske-na-medjunarodnim-trzistima/35800> [in Croatian]

⁴⁶ Pufnik, A. (2017) *Effects of the Adoption of the Euro on Consumer Prices and Inflation Perceptions: An Overview of Experiences and Assessment of the Possible Impact in Croatia*. Available [online]: <https://www.hnb.hr/repec/hnb/survey/pdf/s-027.pdf>



ENTRY INTO THE EUROZONE WAS RELATIVELY 'PAINLESS'. CROATIA INTRODUCED THE EURO, WENT THROUGH A PERIOD OF DUAL PRICE REPORTING, AND FROM JANUARY 1, 2024, IT COMPLETELY SAID GOODBYE TO THE CROATIAN KUNA

The only interesting thing about the introduction of the euro in Croatia was the fact that it was done at a time of high inflation in the Eurozone⁴⁷. According to the data from the European Central Bank (ECB) from March 2023, the consumer price index (HICP) for January and February 2023 shows that inflation in Croatia continued its slowing trend on an annual basis, falling from 12.7% in December 2022, to 12.5% in January 2023, and to 11.7%

⁴⁷ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Consumer_prices_-_inflation

in February 2023⁴⁸. Monthly inflation in January 2023 was 0.3%, which is lower than in some other Eurozone countries. In particular, the prices of food and services rose, while the prices of energy and non-energy industrial products fell compared to December 2022, which means that the introduction of the euro did not cause an increase in prices for the population.

CURRENT AND FUTURE CHALLENGES

When talking about current challenges Croatia faces as a member of the European Union, perhaps one should start with the most current one – “Super elections 2024”. This year, Croatia will vote in parliamentary, presidential, and European elections. Even though elections in 2024 will happen outside of a decade we have been analyzing throughout this article, the current situation can be traced back to the first day Croatia joined.

In the latest Eurostat research, Croatia was the 23rd out of 27 EU member states when it comes to quality of life and overall experience of life⁴⁹. In Croatia, the degree of satisfaction in the ten years of membership in the European Union increased by 0.5 points – from 6.3 at the time⁵⁰ to 6.8 at present⁵¹. In light of events of the last few years, populist parties will not waste even a second to tap into discontent which has risen, fueled mostly by rising energy prices, higher costs of living,

⁴⁸ Falagiarda, M. et al. (2023) *Has the Euro Change-over Really Caused Extra Inflation in Croatia?*. Available [online]: <https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog.230307--1669dec988.en.html>

⁴⁹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality_of_life_indicators_-_overall_experience_of_life

⁵⁰ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Life_satisfaction,_by_age_group_and_country_\(mean_rating\),_2013.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Life_satisfaction,_by_age_group_and_country_(mean_rating),_2013.png)

⁵¹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality_of_life_indicators_-_overall_experience_of_life



IN THE LAST ELECTIONS, CROATIA ELECTED A COUPLE OF CANDIDATES WHO WERE BASING THEIR CAMPAIGN PURELY ON ANTI-ESTABLISHMENT AND ANTI-EU RHETORIC (SUCH AS IVAN VILIBOR SINČIĆ AND MISLAV KOLAKUŠIĆ)

and overall inflation numbers which still remain above the 2% mark⁵². According to the Eurostat, inflation in December of 2023 was at 3.4%, while in the euro area it was slightly lower – at 2.9%⁵³. In the last elections, Croatia elected a couple of candidates who were basing their campaign purely on anti-establishment and anti-EU

⁵² Eurostat (2023) *Annual Inflation up to 2.9% in the Euro Area Up to 3.4% in the EU*. Available [online]: <https://ec.europa.eu/eurostat/documents/2995521/18343103/2-17012024-AP-EN.pdf/9d885442-f323-cdde-e149-17ed99a63a6f>

⁵³ Ibid.



UNPROVOKED RUSSIAN AGGRESSION IN UKRAINE IN FEBRUARY OF 2022 SHEDS SOME LIGHT ON THE NON-EX- ISTENT EURO- PEAN COMMON DEFENSE POLICY AND EUROPE'S TO- TAL DEPENDENCY ON THE UNITED STATES THROUGH THE NATO ALLIANCE

rhetoric (such as Ivan Vilibor Sinčić and Mislav Kolakušić)⁵⁴. These elections will see some of them reelected, and a further rise in poll numbers of the far-right will

⁵⁴ European Parliament (2019) *Rezultati prema državnoj stranici: 2019. – 2024. Hrvatska – Službeni rezultati*. Available [online]: <https://www.europarl.europa.eu/election-results-2019/hr/drzavni-rezultati/hrvatska/2019-2024/> [in Croatian]

further mirror voters' discontent with the EU policies, who they see as a main culprit⁵⁵. In this regard, the EU still has some work to do if it wants to connect with an average citizen in the country.

The second issue is immigration. Over the last ten years, Croatia's problems have become the EU's problems. A huge influx of illegal immigrants⁵⁶ is now creating frictions among various EU states, wanting to reform the EU immigration rules⁵⁷, each in their own way. But that conversation has also shifted into a much bigger one about reforming the European Union itself. However, any changes regarding how the EU functions on a broader level will not happen until after the European elections in June, and after the new European Commission steps into light. For Croatia, this means fighting among the other 26 states for its own voice and making sure the outcome is in line with its national interests and ensures it can defend its own borders and those of the EU. Anything but a small feat.

Finally, unprovoked Russian aggression in Ukraine in February of 2022 sheds some light on the non-existent European common defense policy and Europe's total dependency on the United States through the NATO alliance. The current electoral cycle in the United States might further complicate things in Europe. The EU is now facing a dilemma on how exactly to achieve

⁵⁵ <https://www.politico.eu/article/brussels-braces-for-far-right-wave-as-eu-election-looms/>

⁵⁶ <https://www.pewresearch.org/global/2019/11/13/europes-unauthorized-immigrant-population-peaks-in-2016-then-levels-off/>; <https://www.europarl.europa.eu/topics/en/article/20170627STO78419/countering-irregular-migration-better-eu-border-management>

⁵⁷ https://home-affairs.ec.europa.eu/policies/migration-and-asylum/irregular-migration-and-return_en



THERE IS
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the ability of Europe to defend itself⁵⁸. Russia's aggression spreads through Europe not just with the devastation of a sovereign European states, but through propaganda, fake news, disinformation, and misinformation⁵⁹. The influence on Croatia's neighbor, Serbia, is evident, and there is no doubt that Russia seeks to establish an even stronger

presence and influence in Serbia to further drive it away from the path of joining the European Union⁶⁰. The challenge Croatia now faces is this: it must be able to deter all possible threats to its national security and sovereignty, but such long-term policy move will have to be in line with a future European defense policy, regardless what shape that might take.

Croatia has been fully integrated in the European project for over a year now. Despite all challenges that currently affect the EU, the life of an average Croatian citizen has improved, even if only in the short term. The consumer standard has now reached 73%⁶¹ of that of the European Union average and it will continue to rise. Croatia is very successful in its own decarbonization efforts, and thanks to the euro and Schengen milestones, it can continue to grow its economy due to a vast single market, standardized set of rules, and lower interest rates on its future debts. It has an opportunity to finally implement much needed reforms and become a truly free market economy.

CONCLUSIONS

For ten years, Croatia has been among the countries to which it historically and culturally belongs. Fully integrated into the European Union, a full member of the NATO alliance, and in the process of joining the OECD as the last major foreign policy goal, Croatia is an example of a country that is an ally of the European Union and the transatlantic partnership in the full sense of the word.

⁵⁸ Monaghan, S. (2023) *Solving Europe's Defense Dilemma: Overcoming the Challenges to European Defense Cooperation*, [in]: Center for Strategic & International studies. Available [online]: <https://www.csis.org/analysis/solving-europes-defense-dilemma-overcoming-challenges-european-defense-cooperation>

⁵⁹ <https://www.state.gov/russias-pillars-of-disinformation-and-propaganda-report/>

⁶⁰ European Parliament (2023) *Russia and the Western Balkans Geopolitical Confrontation, Economic Influence and Political Interference*. Available [online]: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747096/EPRS_BRI\(2023\)747096_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747096/EPRS_BRI(2023)747096_EN.pdf)

⁶¹ <https://www.worldbank.org/en/country/croatia/overview>



CROATIA STILL HAS A LONG WAY TO GO. UNFORTUNATELY, IT DID NOT YET FULLY UTILIZE ALL THE POTENTIAL THAT WAS PROVIDED TO IT BY JOINING THE EUROPEAN UNION

Today, Croatia is one of the fifteen democracies in the world that are members of NATO, the EU, the euro area, and the Schengen area. Membership helped Croatia not only by implementing the acquis of the European Union and raising the standard of living, but also changed the attitudes of younger generations who saw all the benefits of living under the roof of the single market. The freedom to study, travel, live, and do business while enjoying legal equal treatment and status fundamentally changes society. The generation that was born after July 1, 2013 is now already ten years old, and in the next ten years they will enter the labor market and for them the EU will be the only known environment. The real changes in Croatia are yet to come.

Despite the obvious economic indicators that speak of a better situation now than ten years ago, Croatia still has a long way to go. Unfortunately, it did not yet fully utilize all the potential that was provided to it by joining the European Union, primarily by implementing key reforms that are necessary for strong growth. The Croatian economy is neither sufficiently exportable nor competitive. As a result, Croatia could sink into long-term stagnation after the abundant aid from EU funds dries up. Croatia must also move away from the use of EU funds and base its growth on exports, industry, and creation, as well as increasing the productivity of the population, as well as faster implementation of the EU legislation and taking a proactive stance in Brussels.



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