

# Croatian labor market after EU accession

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Undergraduate Thesis

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Course: Croatian Economy  
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Zagreb, July 2024

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# 1 INTRODUCTION

This paper aims to analyze the Croatian labor market after the EU accession in 2013. And all the effects of the Croatian labor market on the nation's economy, politics, and social and demographic status. We will go through specific numbers, statistical analysis, and future analysis. After Croatia's accession to the European Union (EU), the country experienced significant changes in its labor market dynamics. The EU membership opened up new opportunities for Croatian workers and businesses, allowing for greater labor mobility within the EU member states. The removal of barriers to trade and the adoption of EU regulations led to increased foreign investment, fostering job creation and economic growth. However, the labor market faced challenges, such as adjusting to EU labor standards and competition. Croatia worked to align its labor laws with EU directives, enhancing worker rights and protection. While specific industries benefitted from the expanded market access, others had to adapt to heightened competition.

Overall, the EU accession marked a period of transformation for Croatia's labor market, characterized by both opportunities and adjustments as the country integrated further into the European economic framework. Based on info from April 13, 2023, Croatia is a medium-sized European country geographically located between Central and Southeast Europe. Croatia consists of four regions: Pannonian Croatia, Adriatic Croatia, City of Zagreb, and Northern Croatia, which we will analyze further individually. Based on a labor force survey, it is estimated that in the third quarter of 2022, the working-age population (aged 15 and over) stood at 3 508 000, out of which 1 710 000 people were employed. The unemployment rate in the third quarter of 2022 was 6.7%. In 2022, the economic recovery continued following the crisis caused by the pandemic. It is estimated that the real GDP growth will reach around 5% in 2022. The average net salary in 2022 was EUR 1 018.<sup>1</sup> This topic was chosen because it is a popular topic and one of the main aspects of quality of life. Also, there is a new stigma associated with foreign workers in Croatia. We will analyze and briefly explain why it happened and how it will progress in the future. This paper should be helpful in identifying why an individual should seek opportunities here and what there is to gain from moving abroad.

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<sup>1</sup> EURES – Labor market information. Retrieved April 13th, 2023

## 1.1 LABOR MARKET SITUATION IN CROATIA

The Croatian Employment Service analyzes the labor market needs in Croatia. The labor market is characterized by labor shortages in some occupations, partly due to emigration to other Member States of the European Union. Available jobs: At the national level, the most significant labor shortages have been recorded for the following occupations: concrete layers, welders, plasterers, construction fitters, construction machinery operators, crane operators, etc.

Pannonian Croatia's estimated working-age population amounts to 909,000 people, with 396,000 of them being employed. The unemployment rate in the third quarter of 2022 was 11.1%. Adriatic Croatia's working-age population amounts to 1 204 000 people, with 564 000 of them being employed. The unemployment rate in the third quarter of 2022 was 4.7%. At the beginning of the summer season, there is a high demand for workers in the hospitality and hotel industry due to the influx of tourists. The City of Zagreb is the capital of the Republic of Croatia. It is estimated that the working-age population in the City of Zagreb amounts to 601 000 people, with 315 000 of them being employed. The unemployment rate in the third quarter of 2022 was 6.2%. Northern Croatia's estimated that the working-age population amounts to 795 000 people, with 434 000 of them being employed. The unemployment rate in the third quarter of 2022 was 5.5%.<sup>2</sup>

Although over the past 4 years (see Table 1) there haven't been any drastic changes in the employment and unemployment rates one statistics can be clearly noticed if compared year by year. Mens unemployment rates have been decreasing over the years although the percentages of decrease were small a change is still noticeable while the womens unemployment rates have been rising and falling without a certain trend.<sup>3</sup>

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<sup>2</sup> EURES – Labor market information. Retrieved April 13th, 2023.

<sup>3</sup> DZS – Active population. Retrieved July 5th 2024.

Table 1. Croatian population labor market indicators, 2020-2023

	2020	2021	2022	2023
	<b>Combined</b>			
Work capable population (15+)	3 512	3 508	3 508	3 266
Active population	1 792	1 816	1 835	1 707
Employed	1 657	1 678	1 707	1 603
Unemployed	135	138	128	104
Inactive population (15+)	1 720	1 692	1 673	1 559
	<b>Men</b>			
Work capable population (15+)	1 679	1 678	1 679	1 565
Active population	973	978	978	902
Employed	901	907	918	851
Unemployed	72	71	60	51
Inactive population (15+)	706	700	701	664
	<b>%</b>			
Activity rate	58	58,3	58,2	57,6
Employment rate	53.6	54.1	54.7	54.4
Unemployment rate	7.5	7.3	6.1	5.6
	<b>Women</b>			
Work capable population (15+)	1 833	1 830	1 829	1 700
Active population	819	838	857	805
Employed	757	771	789	752
Unemployed	62	67	68	53
Inactive population (15+)	1 014	992	972	895
	<b>%</b>			
Activity rate	44.7	45.8	46.9	47.3
Employment rate	41.3	42.1	43.1	44.2
Unemployment rate	7.6	8	7.9	6.6

Source: DZS (Croatian Statistical Bureau) (2024).

## 1.2 CHANGES IN THE LABOR MARKET AFTER EU ACCESSION

Croatia's accession to the European Union (EU) in July 2013 marked a significant turning point in the country's economic and social landscape. Among the many areas influenced by this historic event, the Croatian labor market underwent profound transformations. This paper explores the

fundamental changes, challenges, and opportunities that emerged in the Croatian labor market following EU accession.

Before Croatia acceded to the European Union in 2013, the country's labor market grappled with significant challenges. Unemployment rates often exceeded 15%, a stark contrast to the EU average. The complex regulatory environment made it inconvenient for businesses to adapt their workforce, contributing to a lack of flexibility and innovation. Labor mobility within Croatia was limited, with many individuals constrained by family ties and inadequate housing options. Additionally, the informal economy played a notable role, accounting for around 30% of total employment. Gender inequality persisted as women encountered difficulties in accessing higher-paying positions. The education system struggled to align with labor market demands, leading to skills mismatches. As a result of these challenges, the Croatian labor market was characterized by a need for substantial reforms to foster greater efficiency and competitiveness in preparation for EU integration.

One of the most notable impacts of EU accession on the Croatian labor market was the newfound freedom of movement for workers within the EU. This allowed Croatian citizens to seek employment in other EU member states, leading to increased labor mobility. Many Croatians seized this opportunity, seeking jobs in more developed countries with higher wages and better working conditions. Simultaneously, Croatia became an attractive destination for foreign workers, contributing to cultural diversity and skill transfer. This Integration and Mobility led to Croatians being one of the most common workforces in Germany, Austria, Sweden, Switzerland, etc. Although in the first years after the EU accession, there weren't many foreign workers coming to Croatia to seek new opportunities, later on, we will discuss how this changed in the following years.<sup>4</sup>

EU membership facilitated increased foreign investment in Croatia, leading to more significant job creation and economic growth. Removing trade barriers and adopting EU regulations enhanced the country's attractiveness as a business destination. Multinational companies found it easier to establish operations in Croatia, creating new employment opportunities across various sectors. As a result, the labor market experienced a boost in demand for skilled labor, stimulating innovation

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<sup>4</sup> Migracije, Employment and work of foreign citizens in the Republic of Croatia (2023.).

and driving economic advancement. Foreign investment led to economic growth as a lot of foreigners decided to invest in a new merging EU member as well as buying properties for vacation and rental on the coast. This was less effective for the benefit of the labor force, but it for sure had an effect on the economy.

EU accession compelled Croatia to align its labor laws with EU directives, thereby enhancing worker rights, safety, and protection. This harmonization led to improved working conditions, fairer wages, and increased job security. Employees gained access to a broader range of benefits, including parental leave, health coverage, and workplace safety measures. Such changes not only improved the quality of life for Croatian workers but also ensured a level playing field within the EU's single market. This had an effect on workers not wanting to work abroad as they could keep living in Croatia and gain all the rights, although the salaries are still much smaller than in the other EU member states.

The opening of the Croatian labor market to the EU also brought about challenges. Local industries had to adapt to increased competition from more established EU economies. Traditional sectors, such as agriculture and manufacturing, faced difficulties in maintaining competitiveness, leading to potential job losses. Additionally, the brain drain phenomenon emerged as skilled professionals sought opportunities abroad, potentially impacting the country's future workforce and economic development. As mentioned before, the higher-paid jobs for experienced professionals, especially for the workers with the highest degrees of education, varied massively compared to Germany, which is one of the most popular destinations for Croatian workers seeking opportunities. This caused the so-called brain drain phenomenon, leaving Croatia with a shortage of skilled workers. Hence, a lot of older people and students get jobs, although they may be in positions they are not qualified for. This phenomenon will be mentioned more throughout this paper since it is probably the number one reason for troubles within the Croatian labor force. We will also go into more depth on how it can be controlled.<sup>5</sup>

EU accession prompted a shift in the demand for specific skills within the Croatian labor market. The emphasis on innovation, technology, and services required an educated and skilled workforce. As a result, there was a growing need for education and training programs that aligned with these

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<sup>5</sup> Baliija M. (2020.) :Proportions of exodus from Croatia, Prirodoslovno- matematički fakultet Zagreb

evolving labor market demands. Croatian institutions had to adapt their curriculum to equip students with relevant skills and competencies, ensuring the country's workforce remained competitive in the European arena. As technology improved, a lot of Croatian schools kept their old methods due to being underbudgeted, and it meant no up-to-date skills in that department for Croatian students/ future workers.

Croatia's labor market transformation after EU accession reflects a complex interplay of opportunities, challenges, and adjustments. The integration into the EU brought about increased labor mobility, foreign investment, and improved labor standards, positively impacting the lives of Croatian workers. Nevertheless, competition, brain drain, and skill mismatches underscore the need for continuous adaptation and innovation within the labor market. By navigating these challenges and capitalizing on opportunities, Croatia can harness the benefits of EU membership to create a resilient, dynamic, and prosperous labor market for its citizens. We will go into further analysis of how the Croatian government dealt with this case in the past ten years since the accession.

## 2 IMMIGRATION AND LABOR MARKET CONNECTION

Croatia has taken steps to open its doors to foreign workers, aligning its policies with EU standards while addressing domestic labor market needs. As of the last update in a period from January to May 2024 by the Croatian Employment Bureau, non-EU nationals have a higher rate of employment, submitted requests and professions compared to the 2023. and 2022. As of the 2024 we have published data only for the first five months of the year but we can compare how an increase can already be predicted. For example, in 2024. There were already 326 professions, 12.566 employers, and 104.132 applied requests, of which 86.434 were positively processed.<sup>6</sup>

Table 2. Opinions on residence and work permits for foreign workers in Croatia, 2022

<b>01/01-31/12/2022</b>	
Number of professions	496
Number of employers	12.726
Number of applied requests	129.339
Requests processed	124.455
<b>Positive opinion</b>	<b>109.241</b>
<b>Negative opinion</b>	<b>15.214</b>

Source: HZZ (2024)

<sup>6</sup> HZZ – Statistika usluga : Test tržišta rada i radne dozvole. Retrieved June 21<sup>st</sup> , 2024

Table 3. Opinions on residence and work permits for foreign workers in Croatia, 2023

<b>01/01-31/12/2023</b>	
Number of professions	538
Number of employers	15.744
Number of applied requests	190.696
Requests processed	183.853
<b>Positive opinion</b>	<b>160.445</b>
<b>Negative opinion</b>	<b>23.408</b>

Source HZZ (2024)

The most wanted professions so far in 2024. were waiters, construction workers and chef assistants although the highest paid profession is a chef which is 5th on the list of most wanted. And the counties with the highest number of requests were Istarska, Splitsko-Dalmatinska and City of Zagreb.

The Croatian labor market has been intertwined with the country’s economic performance, demonstrating both progress and challenges. The services sector had become the largest employer, reflecting Croatia’s shift towards a more service-oriented economy, followed by industry and agriculture. The labor market’s response to the economy also revealed disparities between regions, as coastal areas benefited from tourism-related opportunities, while inland regions experienced slower development. The relationship between the labor market and the economy underscored the need for continued reforms to enhance flexibility, reduce unemployment, and ensure a more equitable distribution of economic benefits across the country. Immigration for work in Croatia has the potential to stimulate economic growth and development. Foreign workers bring diverse skill sets and expertise that can address labor shortages in specific sectors, thereby contributing to increased productivity and innovation. Skilled immigrants can infuse new ideas, technologies, and business practices into the Croatian economy, promoting competitiveness and sustainability. Their consumption patterns can also boost local businesses and industries, generating economic multiplier effects. Especially since the lower paid jobs that there was a lack of in Croatia, especially in the city of Zagreb, have been recently wholly adjusted with the inflow of workers from Nepal mostly, which we will go into more detail later on.

One of the critical advantages of immigration for work in Croatia is its potential to alleviate labor shortages in vital sectors such as healthcare, information technology, and tourism. As the demand for specialized skills grows, foreign workers can fill crucial gaps, enabling the economy to function smoothly and efficiently. By facilitating a steady supply of skilled labor, Croatia can ensure the delivery of essential services and maintain its competitive edge in the global market. Immigration contributes to the cultural diversity and enrichment of Croatian society. Interaction with individuals from different backgrounds fosters cross-cultural understanding, promotes tolerance, and broadens societal perspectives. This cultural exchange can lead to the creation of vibrant and inclusive communities that celebrate a variety of traditions, languages, and customs. Such diversity not only enriches the social fabric but also enhances Croatia's global image as an open and welcoming nation, which is especially important in promoting Croatia as an inclusive tourist destination for people worldwide. In the past, we had incidents where certain ethnicities might have felt not welcomed. Also, strict regulations must be put in place so that foreign workers are entirely protected from any malversation or mistreatment by employers.<sup>7</sup>

While immigration for work offers numerous benefits, it also presents challenges that need careful consideration. Ensuring the proper integration of foreign workers into the local labor market and society is essential to avoid social tensions and ensure a positive experience for all stakeholders. Measures such as language and cultural training, as well as support networks, can facilitate smooth integration and minimize potential conflicts. There should also be enough social awareness and inclusiveness for others because many workers coming to Croatia seek opportunities from different religious backgrounds.

Immigration for work can influence domestic labor market dynamics, impacting wages, job opportunities, and working conditions. Striking a balance between addressing labor shortages and protecting the rights of domestic workers is crucial. Adequate monitoring, enforcement of labor standards, and fair treatment of foreign and domestic workers are essential to maintaining a harmonious and equitable labor market. Foreigners might feel less represented due to not knowing the language. There should be specific focus on protecting them from potential scams and their treatment through service agencies they can contact.

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<sup>7</sup> IMIN, New immigration country? Retrieved August 25th, 2023.

Croatia also must be mindful of the potential consequences of immigration, including the risk of brain drain. The loss of skilled individuals to other countries can hinder domestic innovation and development. To mitigate this challenge, Croatia should focus on creating an environment that encourages local talent to remain and contribute to the country's progress. Replacing domestic workers to gain financial benefits can be dangerous as well. New workers who immigrate to Croatia have no intrinsic value for Croatia. Their only goal here is money in almost all cases. That harms the benefit they are willing to provide since more than financial motivation is needed.

## **3 LABOR MARKET CHANGES**

### **3.1 GOVERNMENT'S APPROACH TO THE LABOR MARKET**

In the case of Croatia, a country that has undergone significant transformations since its independence from Yugoslavia, the government's stance towards the labor market has evolved over time. This part explores the Croatian government's approach to the labor market, examining its policies, challenges, and achievements in fostering a dynamic and competitive workforce. Historically, Croatia's labor market underwent a profound transition from a centrally planned socialist system to a market-oriented economy after its independence in 1991. During the early post-independence years, the government faced the daunting task of reforming outdated labor regulations and adapting to market demands. Labor market reforms aimed to promote job creation, enhance labor mobility, and align policies with international standards. The government has faced many challenges over the years, such as the 2008 financial crisis, Covid-19 measures and recent high inflation.<sup>8</sup>

One of the primary challenges Croatia faced was high unemployment, particularly among the youth. The government recognized the need to address this issue to ensure the country's economic growth and social stability. To combat unemployment, the Croatian government implemented a range of measures, including labor market flexibility initiatives, education and training reforms, and targeted support for sectors facing skill shortages. Croatia's accession to the European Union in 2013 marked a significant milestone in its labor market development, mobility, and integration with the EU standards. EU membership brought new opportunities and challenges, prompting the government to align its labor market policies with EU standards. The freedom of movement within the EU provided Croatian workers access to employment opportunities in other member states while encouraging the influx of foreign workers into Croatia.

Recognizing the importance of attracting skilled labor, the Croatian government introduced measures to facilitate the entry of foreign workers. Streamlined work permit procedures and initiatives to recognize foreign qualifications were designed to address labor shortages, particularly

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<sup>8</sup> Tomić I., Rubil I., Nestić D., Stubbs P. ( 2019. ), Employment and social situation in Croatia. Policy Department for Economic, Scientific and Quality of Life Policies

in healthcare, IT, and tourism sectors. These policies aimed to strike a balance between meeting labor market demands and safeguarding the interests of domestic workers.

The Croatian government has also taken steps to promote gender equality in the labor market. While challenges remain, such as the gender pay gap and underrepresentation of women in leadership positions, efforts have been made to improve work-life balance, offer parental leave, and combat discrimination. These initiatives reflect the government's commitment to creating a more inclusive and diverse workforce.

The Croatian government's stance towards the labor market has evolved alongside the country's economic and social transformation. From addressing high unemployment rates to promoting labor mobility and attracting skilled foreign workers, labor market policies have demonstrated a commitment to adaptability and competitiveness. While challenges persist, the government's efforts to foster a dynamic and inclusive labor market lay the foundation for continued economic growth and social progress in the years ahead. During COVID, the government introduced grants for preserving jobs in COVID-19-affected sectors, temporary suspension of previous grants for self-employment and employment in order to secure additional funds for preserving jobs in COVID-19-affected sectors, extension of measure for continuous seasonal employees, deferral of payment of financial compensation for all employers of the quota for employment of persons with disabilities and exemptions from the quota for employment of persons with disabilities.<sup>9</sup>

## **3.2 LABOR MARKET CHALLENGES**

Like many others globally, the Croatian labour market faces a range of pressing challenges in the present context. These challenges have been compounded by factors such as economic fluctuations, technological advancements, and societal shifts. This part delves into the current problems affecting the Croatian labor market, analyzing their implications and proposing strategies to address them. First, we must mention the most popular topics: high unemployment and underemployment. The Croatian labor market continues to grapple with relatively high levels of unemployment, particularly among the youth and long-term job seekers. Additionally,

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<sup>9</sup> KPMG – Overview of governments job preservation measures (2022). Retrieved June 21<sup>st</sup>, 2024

underemployment remains a significant concern, where workers are employed in jobs below their skill levels. This leads to wasted human potential and hampers productivity and economic growth.

How does the Croatian educational system relate to skill mismatching in the labor market? The Croatian education system has sometimes struggled to keep pace with rapidly changing industry demands, resulting in skill mismatches between the labor market's needs and the skills possessed by graduates. This gap between education and employment requirements has led to a situation where job seekers may not have the skills needed to secure positions in emerging industries.

Croatia faces a persistent challenge of "brain drain," as mentioned multiple times in this paper, wherein highly skilled individuals seek employment opportunities abroad, often in more economically developed countries. This talent flight can deplete the country's skilled workforce and impede local innovation, adversely affecting the nation's long-term economic prospects. But that brain drain doesn't start at the working age. The educational system shows major holes that, at an early age, cause students to leave to seek better opportunities if they want to get better knowledge, especially in constantly changing industries, such as engineering and informatics... An aging population, low birth rates, and early retirements contribute to a shrinking labor force in Croatia. This demographic trend is accompanied by a reduced supply of skilled workers, potentially leading to labor shortages in various sectors and negatively impacting economic growth. As mentioned in paragraph above, younger generations leave which cause major drops in population and younger generations with specific labor skills.

A significant portion of the Croatian labor market operates within the informal economy, characterized by inadequate job protections, limited social benefits, and a lack of legal recognition. This trend undermines workers' rights and impacts government revenues and labor market stability. These instances are often publicized in the news and, therefore, cause even more public awareness. Gender inequality remains a concern in the Croatian labor market, particularly in terms of wages and representation in leadership roles. The absence of effective work-life balance policies can hinder women's career progression and overall workforce participation. One of the instances that could be noted over the years, but it seriously magnified last year, especially since a series of earthquakes is regional disparity. Disparities in economic development across different regions of Croatia contribute to unequal job opportunities and living standards. This regional imbalance can

perpetuate skilled workers' migration to more prosperous areas, further exacerbating brain drain. It is clear that the eastern part ( Panonian Croatia ) is basically left behind, and it looks both in person and economically on paper like it isn't a part of Croatia. The younger generations left abroad or in Zagreb, and that part was left unattended. However, they have very potent land and a lot of business opportunities that are pretty different from those found in other parts of Croatia. As technology advances, the automation of specific tasks threatens to disrupt traditional job roles and employment patterns. Workers in industries susceptible to automation may face challenges in retraining and adapting to new roles. Croatia should consider implementing a combination of short- and long-term strategies to address these challenges and foster a more robust labour market.

### **3.3 BENEFITS OF THE CROATIAN LABOR MARKET:**

What are the benefits of employing in Croatia if all these points are taken care of to make sure that the labor market is doing well economically and that the workers are satisfied? Croatia, with its stunning landscapes, rich cultural heritage, and strategic location at the crossroads of Central and Southeast Europe, offers a unique and appealing environment for employment. As a member of the European Union (EU) since 2013, Croatia's labor market has undergone transformative changes, presenting a wealth of benefits to both domestic and foreign workers. This part explores the numerous advantages of working in Croatia, supported by relevant statistics that underscore the country's potential as a promising destination for employment.

Croatian economic stability and growth is improving each year. Croatia has made significant strides in achieving economic stability and growth. The country's GDP has been steadily increasing, reflecting its resilience in the face of global economic challenges. According to Eurostat, Croatia's GDP growth rate reached 5.1% in 2021, indicating a robust economy that can provide a stable foundation for individuals seeking employment opportunities.

Tourism and Hospitality Sector is where there is a lot of possibility for progress. Croatia's fantastic coastline and historic cities have established it as a sought-after tourist destination. The tourism and hospitality sector plays a pivotal role in the country's economy, providing significant employment opportunities for workers in areas such as hospitality, travel, and event management.

As of 2021, the tourism sector accounted for around 22% of Croatia's GDP, a testament to its significance and potential for job creation.

Croatia boasts a skilled workforce that is increasingly sought after in various industries. According to the World Bank, the country's commitment to education is evident in its tertiary enrolment rate, which stood at 44.2% in 2020. This indicates a high level of education and a dedication to continuous learning, offering individuals the chance to acquire and refine valuable skills. Croatia is different from other EU countries in its education system, meaning that it is financially acceptable for everybody to enroll and get an education in the field they are interested in. Also, through the years, the Croatian educational system became more inclusive language-wise, accepting people worldwide. Croatia's EU membership has opened up many opportunities for its workers. The freedom of movement within the EU allows Croatian citizens to explore employment options across member states, contributing to a dynamic labor market and fostering cross-cultural experiences. Moreover, EU membership has facilitated foreign investment and trade, stimulating economic growth and diversifying employment prospects.<sup>10</sup>

Although Croatia struggles with inflation and high prices, it still provides fairly affordable living costs such as apartment rental and a good quality of life. Croatia offers a relatively affordable cost of living compared to many other European countries in the West. This affordability is complemented by a high quality of life, with access to healthcare, education, and recreational activities. The 2021 Quality of Life Index ranks Croatia as having a high quality of life, reflecting the country's commitment to ensuring the well-being of its residents. There is a new emerging technological and innovation hub, especially recently, in the automotive industry and AI. Croatia is emerging as a hub for technological innovation and entrepreneurship. The growth of tech startups and initiatives in sectors like information technology and digital services presents opportunities for individuals with expertise in these fields. The startup ecosystem is gaining traction, attracting both domestic and foreign talent to contribute to innovative projects.

Working in Croatia offers various benefits catering to diverse aspirations and ambitions. The country's economic stability, thriving tourism sector, skilled workforce, EU membership

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<sup>10</sup> Butković H., Samardžija V., Rukavina I. (2022.) Foreign Workers in Croatia: Challenges and Opportunities for Economic and Social Development

advantages, and quality of life all combine to create an attractive environment for employment. As Croatia continues to develop and diversify its economy, the opportunities for workers, whether domestic or foreign, are bound to grow. The statistics and trends underscore the immense potential working in Croatia can offer individuals seeking a fulfilling and prosperous professional journey. Although it might not be the most accessible country to find work opportunities or succeed, there are industries in which you can progress considerably if you place yourself correctly.

## 4 STATISTICAL ANALYSIS OF UNEMPLOYMENT

Unemployment is a critical socioeconomic issue that affects individuals, families, and entire nations. As a member of the European Union (EU) and a transitioning economy, Croatia has been grappling with unemployment challenges that have evolved over the years. This part analyses unemployment in Croatia, highlighting key trends, underlying factors, and potential solutions based on data available up to September 2021.

Unemployment trends in the years following Croatia's EU accession in 2013, the country experienced fluctuations in unemployment rates. Eurostat data shows Croatia's unemployment rate stood at approximately 18.1% in 2013 and gradually declined to around 8.6% by 2020. This downward trajectory indicated progress in addressing unemployment, though challenges persisted, particularly among certain demographic groups.

Factors contributing to unemployment were economic structure, i.e., Croatia's economy, which has transitioned from traditional sectors like agriculture and manufacturing to more service-oriented industries. While promoting growth, this shift has led to challenges in adapting the labor force to emerging job opportunities. Skill mismatches were a notable disconnect between the skills possessed by job seekers and the skills demanded by employers. An insufficient alignment between education and the evolving job market has resulted in skill mismatches that hinder employability. Youth unemployment has been a persistent concern in Croatia, with young people facing challenges in entering the labor market due to a lack of experience and skills and fierce competition for limited positions. Regional disparities and unemployment rates have varied significantly across regions in Croatia. Coastal areas, which rely more on seasonal industries like tourism, often experience lower unemployment rates than the inland regions. Potential solutions for addressing unemployment in Croatia require a comprehensive and multifaceted approach. Education and training meant strengthening vocational education and training programs that align with industry needs can bridge skill gaps and enhance employability. Youth employment initiatives (YEI) are a good way to target programs, internships, and apprenticeships for young job seekers to ease their transition into the workforce. Balancing worker protections with labor market flexibility can encourage employers to hire more individuals, potentially reducing unemployment.

Encouraging innovation-driven industries and supporting startups can create new job opportunities and drive economic growth. Entrepreneurship needs to be encouraged more as it multiplies in newfound industries. Investing in infrastructure and economic diversification in underdeveloped regions can help mitigate regional disparities and distribute employment opportunities more evenly. Active labor market policies implemented, such as wage subsidies, job search assistance, and retraining programs, can help re-engage the unemployed in the labor market. Unemployment in Croatia is a multifaceted challenge that requires a combination of strategic policies and collaborative efforts. While progress has been made in reducing unemployment rates since Croatia's EU accession, persistent issues such as skill mismatches and youth unemployment underscore the need for continued action. Croatia can work towards a more inclusive and vibrant labor market that contributes to the nation's economic growth and social well-being by focusing on education, skill development, innovation, and regional development.

According to Eurostat, in the years following the crisis (2016-2018), the average nominal gross wage climbed by 3.5% per year on average, or 10.6% cumulatively, amounting to HRK 8 447 (EUR 1 139) in 2018. The average nominal gross pay climbed cumulatively by 5.3% from 2009 to 2014 (Figure 2). Real wages increased as a result of mild inflation. The median salary has also risen. Wage gains in Croatia in recent years have been driven primarily by increases in public-sector salaries, a reduction in the tax burden on (labor) income, and labor shortages in specific sectors of the economy. According to Eurostat data, while yearly wages in Croatia increased by more than 10% between 2015 and 2018 (the EU-28 average increased by roughly 2.5%), they increased far more in all other Central and Eastern Europe (CEE) Member States except Slovenia (up to 30% in Lithuania). Nonetheless, gross and net earnings in Croatia in 2018 were approximately 35% of the EU-28 average, which is greater than in countries such as Poland, Latvia, Lithuania, Romania, and Bulgaria.<sup>11</sup>

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<sup>11</sup> EURES – Labor market information Croatia. Retrieved on April 13<sup>th</sup>, 2023

## 4.1 SCHENGEN AREA ENTRANCE

Entering the Schengen Area can have a multifaceted impact on a country's labor force, offering both opportunities and challenges. One of the fundamental changes involves enhanced labor mobility, as removing internal border controls simplifies workers' movement across participating countries. This can lead to a more dynamic exchange of skills, knowledge, and expertise, with citizens of the Schengen member country gaining the freedom to seek employment in other member states. This increased labor mobility can benefit both sending and receiving countries. Workers can access a broader range of job opportunities, leading to potential career advancement and wage growth, while countries facing labor shortages can tap into a larger pool of available talent.

However, this increased mobility can also pose challenges. The "brain drain" phenomenon becomes more pronounced as highly skilled workers may be enticed to seek better opportunities in countries with more robust economies and higher wages. This potential talent drain can have a negative impact on the sending country's workforce and economy, leading to skill shortages and a possible loss of innovation and productivity. To mitigate this, governments may need to invest in creating an environment that retains skilled workers by offering competitive salaries, career prospects, and quality of life.

Additionally, entering the Schengen Area requires alignment with specific standards, including security measures and border controls. While the removal of internal borders facilitates the movement of people, it also necessitates stronger cooperation among member states to maintain security and prevent issues such as illegal immigration and criminal activities. This collaborative approach to security can lead to a safer environment for citizens and workers alike.

In summary, entering the Schengen Area can reshape a country's labor force by fostering greater labor mobility, enabling cross-border skills exchange, and presenting both opportunities and challenges for workforce development. How a country navigates these changes depends on its ability to harness the benefits of labor mobility while addressing potential brain drain concerns and maintaining adequate security measures.

## 4.2 CROATIAN CAPITAL FROM ABROAD

Croatian emigrants contributed €5.1 billion to relatives staying in the Balkan country last year, an increase of €880 million or 20.6 percent over 2021 statistics. According to a Croatia Week study, the growth in personal remittances is due to the rise in employee remuneration, which includes the income of sailors as well as daily commuters to neighboring countries, among other things, SchengenVisaInfo.com reports.<sup>12</sup>

These earnings increased by 23.8 percent to a total of €2.7 billion. Personal transfers from emigrants in countries such as Germany, Switzerland, Italy, and the United States increased by 17.1%, totaling €2.4 billion. Even though it was projected that foreign payments would fall as emigration waves weakened, there was a significant increase in inflows from outside. Last year, there was also a rise in the number of Croats interested in working in neighboring countries, with Slovenia experiencing a two-and-a-half-fold increase in cross-border labor migrants from Croatia. According to data from the Croatian National Bank (CNB), Croatia has a comparatively substantial net inflow of personal remittances when compared to other nations with migration histories. Personal remittances have increased significantly since joining the European Union, with their contribution to GDP reaching 6.8 percent in recent years.

According to the Croatian National Bank (CNB) analysis, this tendency is expected to continue, especially with the Balkan countries' entry to the borderless Schengen area, which is expected to increase the everyday flow of workers. The number of people interested in working remotely has increased in Croatia, with citizens working for international companies or returning to the country to work for these companies through an employment contract or founding their own business. According to CNB, younger generations enjoy flexibility and remote work choices and are interested in working remotely for enterprises outside the nation. In addition, Croatia's Digital Nomad visa is one of the most popular in Europe. At the same time, 70% of younger Croats shift jobs within two years, and most prefer working remotely, even for companies outside Croatia.

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<sup>12</sup> Schengen VISA info - €5.1 Billion Brought Into Croatia Last Year From Croats Living Abroad. Retrieved August 10<sup>th</sup>, 2023

According to Trading Economics data, the number of remittances to Croatia increased year after year last year.<sup>13</sup>

It revealed that, despite the continued increase until the third quarter, there was a decrease in the fourth quarter, or more specifically, remittances in this country decreased to €866.80 in the fourth quarter of last year, compared to €931.20 in the third quarter of last year. The rise of online work and remote employment has introduced profound changes to the Croatian labor market, reshaping traditional employment dynamics and presenting both opportunities and challenges. The ability to work online has allowed Croatians to access a global job market and collaborate with international clients and employers without the constraints of geographical location. This has the potential to benefit highly skilled professionals and freelancers by providing them with a broader range of job opportunities and clients. Additionally, the growth of online platforms and digital marketplaces has enabled entrepreneurs and small businesses in Croatia to offer their products and services to a global audience, potentially stimulating economic growth. However, the impact of online work on the labor market is not without its complexities.

While remote work can offer flexibility and reduce geographical limitations, it can also increase competition as individuals from various countries can bid for the same job. This could drive down wages and create challenges for local professionals facing global talent pool competition. Moreover, the shift to online work may exacerbate existing inequalities, as those with limited access to technology and high-speed internet could be disadvantaged. The shift to online work also has implications for traditional office-based industries. Sectors such as hospitality, retail, and administrative services might face challenges as remote work reduces the demand for in-person services and decreases foot traffic.

Additionally, the importance of upskilling and digital literacy becomes evident as workers need to adapt to new technologies and platforms to remain competitive in an evolving job market. In response to these changes, Croatia's labor market policies could evolve to address the specific needs of online workers. This might include initiatives to improve digital infrastructure, offer training in digital skills, and provide support for freelancers and gig economy workers who might

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<sup>13</sup> Schengen VISA info - €5.1 Billion Brought Into Croatia Last Year From Croatians Living Abroad. Retrieved August 10<sup>th</sup> , 2023

face unique challenges in terms of social security and employment benefits. In conclusion, the growth of online work in Croatia has the potential to revolutionize the labor market, offering new avenues for professional growth and economic development. However, a balanced approach is needed to ensure that the benefits of online work are maximized while addressing the challenges it poses to local professionals and traditional industries.

### **4.3 FOREIGN LABOR DEPENDENCE**

The Croatian labor market is increasingly relying on foreign nationals, with nearly as many foreigners registered as job seekers as Croats. Only Zagreb and two counties in other parts of Croatia, Primorje-Gorski Kotar and Split-Dalmatia, have more employees than the total number of foreigners working in Croatia. According to the Novi list, if the number of foreign employees continues to rise at its current rate, it will soon outnumber the number of people working in Primorje-Gorski Kotar County.

There are currently no official numbers on how many foreigners are legally employed in Croatia, or how many of them are among the insured who pay pension contributions. Such data is kept by the Croatian Institute for Pension Insurance, but according to the estimates of the The Ministry of Labour and Pension System, Family and Social Policy, slightly more than 95,000 foreign workers are insured in Croatia, showcasing the gradual permeation of the Croatian labor market with foreign citizens. The number of foreigners who are insured in Croatia, that is, those who pay pension contributions, exceeds the number of insured people in eighteen Croatian counties, which is quite alarming. That statistic is nearly equal in two economically strong counties, Istria and Zagreb, implying that the number of Croatian nationals registered as job seekers is roughly equal to the number of foreigners registered in the same way. Around 8,000 foreign policyholders are nationals or legal residents of the European Economic Area, which includes Norway, Liechtenstein, Iceland, and EU member states. Workers from Switzerland are also included in this group.<sup>14</sup>

The remaining 87,000 foreign-insured persons in Croatia are citizens of third countries, and those from non-EU neighboring countries continue to dominate. It is worth noting that the structure of

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<sup>14</sup> Total Croatia news, Foreign workers will not solve Croatian labor problems (2023.). Retrieved April 20th , 2023

foreign employees has changed dramatically in recent years, and Croatian business owners are increasingly looking for labor. According to estimates, around 28 thousand Bosnian and Herzegovina nationals have pensionable years in Croatia. Serbian workers, totaling roughly 12.7 thousand, are in second position. Nepalese citizens, numbering approximately 7,000, were in third position in terms of pension insurance applications<sup>15</sup>.

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<sup>15</sup> Total Croatia news – Croatian labor market more dependent on foreigners. Retrieved April 20<sup>th</sup>, 2023

## **5 ADDRESSING REPORTS ON THE STATE OF THE CROATIAN LABOR MARKET**

### **5.1 BRIDGE NETWORK COUNTRY REPORT**

Between September 2015 and March 2016, around 700,000 migrants seeking asylum in Western Europe entered Macedonia, Serbia, Croatia, and Slovenia. All four countries functioned as transit points for migrants en route to Austria, Germany, or Sweden. A small number of refugees sought asylum in the four countries. Throughout the migration crisis, the four ex-Yugoslav countries were concerned that Germany and Austria might seal their borders to migrants. None of the countries intended to become a refugee hotspot or welcome refugees for an extended period. Croatia adopted the UN Migration Pact in 2018 amid intense opposition from several right-wing parties who believed that the Pact would encourage migration by designating it as a human right.<sup>16</sup>

The opening of the European labor market to Croatian people resulted in significant labor emigration. According to official Croatian figures, the country lost approximately 200,000 people between 2013 and 2018. Furthermore, new research from statistical sources throughout the EU indicates that the number of Croatian emigrants may be 60% higher than the official national data. This is most likely due to the fact that many emigrants do not notify authorities of their departure. Nearly 100,000 immigrants who have arrived in Croatia since 2013 have compensated for the outflow of people.

The new Immigration Law was passed in November 2020 and went into effect on January 1, 2021. As a result, the government is no longer required to set an annual quota for work permits for third-country nationals. Employers must, however, request a labor market test from the Croatian Employment Service before filing for a residence and work visa for third-country nationals. The labor market test should establish that there are no unemployed Croatians or other EU/EEA citizens who meet the needs of the business. The most liberal component of the new law is the so-called list of occupations that are in high demand and do not require the labor market test. The new

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<sup>16</sup> Hrvoje Butković (2021). Bridge country report.

Immigration Law should make Croatia more appealing to third-country nationals by streamlining the process of obtaining work permits and improving the labor market's relationship between demand and supply.<sup>17</sup>

What was the influence of Brexit? According to a Croatian Chamber of Commerce estimate, Brexit is not projected to have a substantial and direct impact on the Croatian economy and the operation of the country's businesses in 2020. Croatia and the United Kingdom have limited commercial and economic links, with imports from the United Kingdom accounting for less than 2% of total Croatian imports. British tourists in Croatia provide 4.5 percent of the country's tourism industry's foreign exchange earnings. Croatian pharmaceutical companies, which account for 15% of overall Croatian exports to the UK, may face significant difficulties.

## **5.2 CROATIAN LABOR MARKET PARADOX**

The Croatian Chamber of Economy (HGK) article on the quality of workers for tourism from 2022 stated, „The importation of foreign workers is a Croatian reality, but despite this, our education system and vocational education must be the basis for creating a national pool of qualified labor. We in Croatia have a kind of absurdity: we have 130,000 unemployed people and, in parallel, a large deficit of qualified labor. In tourism alone, we are talking about several tens of thousands of workers. This is a consequence of long-standing bad education policies and the fact that a few years ago, we were the country with the lowest rate of lifelong education in the EU.”<sup>18</sup>

This statement shows how great Croatian inequality is. And how the system is not easily fixable. There are problems at the very beginning of education, not only in the lack of jobs. Although one significant factor wasn't mentioned in this statement, which is that the work offered that he mentions tens of thousands of workers are lacking is, in fact, a fair majority of incredibly underpaid jobs with hidden flaws like no benefits, working over the standard asked, and being in lousy management in terms of worker treatment. Let's analyse the first part of this statement. We can basically see how there is not enough labor force for specific industries while there is too much

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<sup>17</sup> Ministry of Interior, Work of third country nationals. Retrieved August 25<sup>th</sup> , 2023

<sup>18</sup> HGK – Quality of labor force. Retrieved April 11<sup>th</sup> , 2024

workers wanting to go in the same industry which results in great unemployment and huge competition on the market.

## 6 FUTURE EXPECTATIONS ANALYSIS

While we cannot provide specific numerical predictions with certainty as it is a constantly changing market, we can offer a general future analysis of the Croatian labor market based on trends and factors that have historically influenced labor markets. It should be noted that this analysis is speculative and not based on real-time or future data.

Croatia's focus on improving education and skill development is likely to continue. As industries evolve and technology advances, the demand for specialized skills will increase. The Croatian labor market will likely see a greater emphasis on technical and digital skills, prompting the need for targeted training programs and educational reforms. Although it is still significantly underfinanced, there should be reforms in the future with the assistance and a bit of a push from the EU. Croatia's efforts to foster innovation and entrepreneurship are expected to grow new businesses and job opportunities. Startups and small businesses could play a significant role in driving job creation, especially in sectors related to technology, renewable energy, and creative industries.

Croatia's aging population will continue to impact the labor market, potentially leading to a shortage of skilled workers in specific industries. To mitigate this, efforts to retain older workers, encourage delayed retirement, and promote flexible work arrangements may be implemented since there are no viable solutions to keep the younger generation here as there is mass inflation and more than the wages are needed to cover their satisfaction for staying here. The balance between labor market flexibility and worker protections will remain a key consideration. Policymakers may find a harmonious approach that encourages job creation while safeguarding workers' rights and social benefits. Like many other economies, Croatia will experience the effects of technological advancements and automation. While specific routine and repetitive jobs may be replaced by automation, new roles, and industries will emerge. Preparing the workforce for these changes through reskilling and upskilling programs will be crucial. Croatia's EU membership will continue facilitating labor mobility, allowing citizens to seek work opportunities in other EU member states.

Conversely, Croatia will also attract foreign workers, contributing to cultural diversity and bringing in specialized expertise as well as lower-paid workers in sectors lacking a workforce.<sup>19</sup>

With growing global awareness of environmental sustainability, Croatia's labor market may experience growth in renewable energy, eco-tourism, and sustainable agriculture sectors. Green Economy and Sustainability are in focus due to EU inclusion and new emission laws. Job opportunities in green technology, conservation efforts, and environmental management could arise. In order to address inequality and inclusion, efforts are needed to reduce gender inequality and promote inclusion that will likely shape the Croatian labor market's future. Initiatives to achieve pay equity, support work-life balance, and ensure equal opportunities for all individuals will gain prominence.

## **6.1 ECONOMIC FORECAST ANALYSIS AND FUTURE PREDICTIONS FOR LABOR MARKET**

Croatia's GDP is expected to increase by 1.6% in 2023 and 2.3% in 2024. Continued real wage growth and decelerating inflation are expected to promote private spending, with European funds and increasing confidence boosting investment. The labor market is predicted to tighten further, with the unemployment rate reaching all-time lows by the conclusion of the forecast period. Despite ongoing services inflation, which is likely to keep core inflation above the headline rate, headline inflation should drop. The general government balance is expected to deteriorate as salary and benefit indexation in the public sector increases spending.<sup>20</sup>

Real GDP growth is expected to reach 1.6% in 2023 as the country takes advantage of its eurozone and the Schengen area membership. Headline inflation is expected to fall, primarily due to lower energy and commodity costs, while ongoing employment and income growth support private consumption. Government consumption is expected to continue favorably contributing to growth, while investment should benefit from increasing confidence and absorption of EU funds. The 2022

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<sup>19</sup> Trading economics, Lack of labor force ( 2023.). Retrieved August 25<sup>th</sup>, 2023,

<sup>20</sup> EUROPEAN COMMISSION – Economic forecast for Croatia. Retrieved on June 15<sup>th</sup>, 2024

terms of trade shock are expected to reverse during the year, improving the trade balance. Overall, growth should be broad-based across domestic demand components, with net exports contributing just slightly to growth.

Real GDP is predicted to rise by 2.3% in 2024, driven by consumption and investment. As inflation approaches the 2% target level and labor market shortages remain, higher real wage gains should stimulate private consumption, while absorption of funds under the Recovery and Resilience Facility should boost growth. Rising imports and increased demand from Croatia's main trading partners are expected to result in a neutral external sector contribution to GDP growth. In 2022, the labor market functioned well, with employment increasing by 2.3% and exceeding pre-pandemic levels. Construction and trade, transportation, lodging, and food services saw the most significant improvements, aided by a surge in the intake of foreign labor. The unemployment rate fell to 7%, the lowest level in 13 years. Strong wage growth in the face of slowing inflation is expected to result in modest real income gains as early as 2023, with the unemployment rate falling to 6.6%. Despite a modest decline in the overall population, the labor force should continue to rise. The increase in activities is expected to support job growth in 2024. Workers transferring to expanding sectors are projected to benefit from upskilling and reskilling initiatives. HICP inflation is expected to fall to 6.9% in 2023 and 2.2% in 2024, as lower energy prices offset some of the continuing price increases in services and non-energy industrial goods. As a result, core inflation is expected to exceed headline inflation, reaching 8% in 2023 and 3% in 2024. The prediction takes into account the impact of the energy measures, which are set to be phased out by September 2023.<sup>21</sup>

In conclusion, the Croatian labor market's future is likely to be influenced by a combination of technological advancements, demographic shifts, policy decisions, and global trends. The key will be adaptability and a proactive approach to addressing challenges while capitalizing on emerging opportunities. To gain a more accurate understanding of Croatia's future labor market trends, consulting expert analyses and official sources is essential. If Croatia were to transition into a new immigration country, it would signify a significant shift in its demographic, economic, and social landscape. The country's historical experience has been marked by emigration, with many

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<sup>21</sup> EUROPEAN COMMISSION – Economic forecast for Croatia. Retrieved on June 15<sup>th</sup>, 2024

Croatians seeking employment and better prospects abroad. Becoming an immigration destination could potentially bring about a range of impacts.

Demographically, an influx of immigrants could lead to a more diverse population, with individuals from different cultural, linguistic, and ethnic backgrounds contributing to the country's social fabric. This diversity could enrich Croatia's cultural tapestry, fostering cross-cultural understanding and enhancing global engagement. Economically, immigration can offer both advantages and challenges. On the positive side, a skilled and motivated immigrant workforce could help address labor shortages in specific sectors, bolstering economic growth and productivity. Immigrants might fill gaps in industries such as healthcare, construction, and technology, thereby supporting these sectors and potentially fostering innovation. However, this transition could also pose challenges. Ensuring the effective integration of immigrants into the labor market and broader society would be critical to maximizing their positive contributions. Adequate language training, recognition of foreign qualifications, and support in navigating the local job market would be essential to promote immigrants' employability and career progression. Socially, a transition to an immigration country could reshape public discourse and policies. It would require a comprehensive approach to address potential issues related to social cohesion, inclusion, and diversity management.<sup>22</sup>

Educational systems need to adapt to meet the needs of a more diverse student population, and public services need adjustments to ensure equitable access for all residents. Government policies would play a crucial role in shaping this transition. Establishing transparent and fair immigration laws, as well as mechanisms for assessing skills and qualifications, would be essential to attract the right talent and manage the immigration process effectively. In conclusion, Croatia's shift towards becoming a new immigration country would carry a range of opportunities and challenges. While it could bring about demographic and economic benefits through a more diverse and skilled workforce, successful integration strategies, supportive policies, and a commitment to social cohesion would be paramount in ensuring the positive outcomes of this transformative journey.

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<sup>22</sup> Total Croatia news, Croatian market revival stronger than ever (2023.). Retrieved May 11th , 2023

## 7 CONCLUSION

Croatian labor has changed drastically within the past few years, especially with the inflow of foreign workers rising yearly as there is lack of workers and brain drain which we analysed in this paper. The labor market can be studied individually in terms of quality of workforce, pay, information about employers, differences after EU accession but if we want to know the cause and effect of so much differences in the labor force we need to take in other aspects like inflation, immigrant assimilation with local population, quality of life of immigrant work population...

The labor market serves as a significant mirror reflecting the social dynamics of society. It is a reflection of the distribution of opportunities, income disparities, and the overall well-being of the population. The state of the labor market can provide insights into various social aspects, including education levels, gender equality, and social mobility. For instance, a robust labor market with great job opportunities often correlates with lower unemployment rates and improved economic conditions, indicating a society's capacity to provide livelihoods for its citizens. The labor market is a lens through which societal values and attitudes toward work, diversity, and inclusivity are observed. It can highlight the extent to which social equity and justice are upheld and expose any inequalities that may exist among different demographic groups. For instance, gender disparities in wages and representation in various professions can reflect the prevailing gender norms and the level of gender equality in a society. What the future of the Croatian labor market is going to look like in reality can only partially be predicted. We can state facts as we did on certain aspects that can be improved, which is a lack of focus, but a lot of factors can't be included in a detailed analysis.

If you personally observe it, it is pretty noticeable in the past few years how many foreign workers there have been. There are many causes of this, and the government still needs to regulate it completely. Working permits are being issued illegally, and a lot of lower-class workers have been overused in their labor. Indeed, in the past few years, events have caused this to happen, like the COVID crisis, a wave of immigrants, and the Ukraine-Russia conflict. In this paper, we only analyze the labor market and economic aspect, but how does the emigration of Croatian workers and foreigners impact society? There are different aspects to be studied, like the safety factor, level

of crime, the prosperity of Croatian workers and their lifestyle, etc. Croatia has become a real international market for labor, especially with the entrance into the EU and, recently, the Schengen zone. Since all of these events are pretty new for precise analysis, we will need to let time pass and see if the foreign workers are here temporarily or if this will be the new normal.

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