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# Croatia's EU Accession and Challenges Ahead

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**Abstract:** It is a matter of congratulation that Croatia was finally admitted to the EU in 2013 after a long process of negotiations, but the author stresses that this country has been facing important challenges. Since 2000, apparently the Croatian economy was steadily developing, but the consumption-led economic development relying on foreign capital intensified the economy's vulnerability to external shocks. In such a situation the global financial crisis dealt the country crucial blows. The economic development involving a huge amount of current account deficit was already unsustainable several years ago. If Croatia continues to depend heavily on tourism, someday the country might face the danger of becoming a second Greece. It is very important for Croatia to develop manufacturing industries. For a long time the shipbuilding industry has been playing a leading role in the development of manufacturing, but its production capacity is greatly restricted after the EU accession. Therefore, the country will be required to make full use of technologies and skills already fostered in the shipbuilding and related industries for new areas of manufacturing.

**Keywords:** Croatia, EU accession, global financial crisis, current account deficit, shipbuilding industry

**JEL Classification Numbers:** F32, O52, P26

## 1. Introduction

Croatia joined the European Union (EU) in July 2013. Croatia is the first Western Balkan country to join the EU. One of the reasons for a delay in the EU membership is that this region was quite unstable due to ethnic conflicts in the 1990s. The EU's Stability and Association Process, which began in June 1999, opened new prospects for their future membership in the EU. Croatia became an EU candidate in 2003. Accession negotiations with the EU began in October 2005. Finally in June 2011 the negotiations were closed, and in December of the same year Croatia's Accession Treaty was signed. It is a matter of congratulation that Croatia was finally admitted to the EU after a long process of negotiations, but I have to point out that this country has been facing important challenges.

After the system change in the early 1990s, in the same way as other post socialist countries, Croatia has implemented liberalization, stabilization and privatization in accordance with prescriptions by the IMF based on the Washington Consensus. Since 2000, apparently the Croatian economy was steadily developing, but it was consumption-led economic development in the same way as with other countries in the Western Balkans. These countries were hit by the global financial crisis in 2008. In Croatia the GDP growth rate turned negative (-6.9 percent) in 2009. Since then the economic slump has been continuing with the GDP growth rate being -1.4 percent, 0 percent and -1.8 percent in 2010, 2011 and 2012 respectively. It is forecast that the growth rate in 2013 is -0.5 percent and will turn positive only in 2014[1]. Croatia is among the Central and Eastern Europe countries which were hardest hit by the global financial crisis. Already before this shock, the model of economic development became nearly unsustainable, and its switchover has become inevitable. In response to the present economic crisis, the government announced an Economic Recovery Program (ER Program) in April 2010.

This paper[2] discusses why Croatia's model of economic development has become nearly unsustainable, focusing on the chronic deficit in the current account balance. If Croatia succeeds in a switchover of her model of economic development in the near future within the framework of the EU, her experience may be a good example for other countries of the Western Balkans. The paper is structured as follows: First, the balance of payment is analyzed. Then causes of structural deficit in current account were examined retrospectively from the early 1990s and causes of the decline in Croatia's international competitiveness are examined. Next, taking the shipbuilding industry as an example, the necessity for export-led development is discussed, and the effectiveness of the ER Program is examined. Finally the paper draws some conclusions.

## 2. A chronic current account deficit

### 2.1. Characteristics of the balance of payments

Let us examine the balance of payments (Table 1) during the period 2005-2010 in order to grasp the serious situation of the current account deficit in this country. From Table 1 we can notice the following points: firstly, Croatia has continuously recorded a deficit in goods trade with the export/import ratio being around 50 percent. Its trade balance deficit reached over 20 percent of the GDP (21.2 percent in 2007 and 22.7 percent 2008). Looking at the breakdown of the current account, although a huge amount of deficit in goods trade has been substantially covered by surplus in service trade, the current account as a whole has recorded a deficit. The share of tourism has been predominantly large in the service trade. In this way, a huge amount of deficit in merchandized trade balance has been compensated mainly by revenues from travel (tourism) and current transfer. Still the country has been recording considerable amount of current account deficit every year, with it reaching 9.2 percent of GDP in 2008. Although deficits in the trade balance and the current account decreased considerably in 2009 and 2010 under the influence of the global financial crisis, the improvement in both accounts seems to be only temporary. Secondly, the amount of financial account has been rather large, of which a substantial amount of direct investment has been recorded every year. In 2007, net FDI inflow

**Table 1 Croatia's Balance of Payments in 2005-2010 (in million EUR)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| A Current account | -1,975 | -2,726 | -3,236 | 4,336 | -2,506 | -654 |
| (in % of GDP) | (-5.5%) | (-6.9) | (-7.6%) | (-9.2%) | (-5.2%) | (-1.4%) |
| Trade balance in goods | -7,518 | -8,344 | -9,434 | -10,794 | -7,387 | -5,945 |
| (in % of GDP) | (-21.0%) | (-21.3%) | (-22.0%) | (-22.8%) | (-16.2%) | (-12.9%) |
| Export | 7,220 | 8,464 | 9,193 | 9,814 | 7,691 | 9,100 |
| Import | -14,738 | -16,808 | -18,626 | -20,608 | -15,089 | -15,045 |
| Service | 4,359 | 4,511 | 5,154 | 5,387 | 4,002 | 3,881 |
| Transportation | 376 | 474 | 542 | 509 | 255 | 302 |
| Travel | 5,394 | 5,709 | 6,035 | 6,694 | 5,649 | 5,635 |
| Other services | -453 | -480 | -310 | -245 | -237 | -171 |
| Income | -1,219 | -3,702 | -1,606 | -2,135 | -2,251 | -2,324 |
| Current transfer | 1,184 | 1,107 | 1,043 | 1,036 | 1,035 | 1,089 |
| B Capital and financial accounts | 3,009 | 3,699 | 4,141 | 5,956 | 3,299 | 1,309 |
| B1 Capital account | 54 | -135 | 29 | 15 | 43 | 36 |
| B2 Financial account (excl. reserves) | 3,777 | 5,246 | 4,834 | 5,611 | 4,152 | 1,357 |
| Direct investment | 1,276 | 2,562 | 3,468 | 3,246 | 1,207 | 593 |
| (in % of GDP) | (+3.6%) | (+6.6%) | (+8.1%) | (+6.9%) | (+2.6%) | (+1.3%) |
| Portfolio investment | -1,188 | -530 | 6 | -627 | 183 | 241 |
| Financial derivatives | -88 | 0 | 0 | 0 | 0 | -253 |
| Other investment | 3,777 | 3,214 | 1,360 | 2,992 | 2,762 | 776 |
| B3 Reserve assets (CNB) | -822 | -1,412 | -722 | 330 | -896 | -84 |
| C Net Errors and Omissions | -1,003 | -973 | -904 | -1,620 | -793 | -655 |
| International reserve of CNB | 7,438 | 8,725 | 9,307 | 9,121 | 10,376 | 10,660 |

Source: CNB Bulletin, No. 169, pp. 48-55.

reached 8.1 percent of GDP, well beyond the current account deficit in that year. In 2010, however, due to the influence of the global financial crisis net FDI inflow drastically decreased to only 17 percent of the level recorded in 2007 (it was only 1.3 percent of the GDP). Thirdly, according to Galinec (2005), portfolio investment includes purchase of shares or equity investment in resident companies by nonresidents and vice versa, where buyers have less than 10 percent of the shares or voting rights. Also it covers transactions with all debt instruments (bonds and debentures). Prior to 1997 the portfolio investments are negligible. In 1997, when

Croatia obtained a sovereign rating, the Government started borrowing on the financial markets through the bond issue. The majority of transactions recorded on portfolio investment accounts is related to government borrowing (Galinec, 2005, p. 13). During the period 2005-2010 portfolio investment shows a sharp fluctuation in amount, but its absolute amount has been small compared with FDI. The amount of financial derivatives has been also negligible. Fourthly, the amount of 'other investment' has been rather large. Looking at the breakdown of liabilities side of 'other investment', we can find that drawing by banks and other sectors (mostly enterprises) have been quite large (*CNB Bulletin,* No. 146, p.80). Fifthly, the amount of international reserve is at a sufficient level covering 5 to 8 months of Croatia's imports of goods. Sixthly, the amount of Error and Omission has been unnaturally large. In 2008 its amount was EUR 1.6 billion, which is equivalent to 3.4 percent of the GDP. There is a study which argues that tourism has been involved in this phenomenon[3].

### 2.2. Importance of balance of payments discipline

When we consider the sustainability of current account deficits, Yamashita (1999), a Japanese specialist of international finance, is very helpful. He puts the greatest emphasis on the concept of balance of payments discipline in the prevention of currency crises. According to him, while the Japanese economy was still in the developmental stage from the beginning of the 1950s through the early 1960, its most important policy was to stick to balance of payments constraints on economic growth. When Japan's economic growth was too high, the country's balance of payments deficits on current account became too large to sustain. Under these circumstances Japan always lowered its economic growth rate by taking restrictive monetary and fiscal policies. Japan's current account deficits were limited within only 2 percent of its GDP by maintaining very prudent macroeconomic policy. Thanks to these policies, Japan was able to avoid currency crisis.

After the so-called Nixon shock in 1971 and the transition to the floating system in the following year, balance of payments discipline became neglected. Consequently economic crises occurred more frequently in this system than in the Breton Woods system. Yamashita (1999) proposes a 3 percent rule for net external borrowing requirements (NEBR; a percentage of GDP, which should be calculated by subtracting the portion of FDI inflows from the country's current account deficit as a percentage of GDP). He claims that in the case of crises in the 1980s and the 1980s every crisis occurred after a country had NEBR in excess of 3 percent of GDP for several consecutive years. Any emerging market economy is allowed to continue its current account deficits up to 6 percent as a percentage of GDP if it is able to compensate half of its deficits by financing in the form of FDI inflows.

In the case of Croatia, as we have seen, it has run a huge amount of current account deficits at the same time financed by a considerable amount of FDI inflows. The NEBR is calculated as follows: -2.1% in 2005, -0.3% in 2006, +0.5% in 2007, -2.3% in 2008, -2.6% in 2009 and -0.1% in 2010. The NEBR was bigger in 2008 and 2009. In 2010 the current account deficit dramatically decreased and accordingly the NEBR also decreased, but the improvement seems temporary[4]. One of causes for concern is that the current account deficit will expand unless the country's international competitiveness improves. As FDI inflows cannot be expected to increase soon because of the Eurozone's stagnation, the NEBR might increase again. Another cause for worry is the accumulated external debt. Croatia's external deficit as percentage of GDP reached 85 percent at the end of 2003. The report of the World Bank Development Finance 2005 degraded Croatia to a 'severely indebted middle-income country'[5] from a 'moderately indebted middle-income country'. This ratio reached almost 100 percent (98.5 percent) in 2009. Taking into consideration the above mentioned problems, it will be more difficult for Croatia to sustain a chronic deficit in the current account.

## 3. Characteristics of the Croatian economy

We will consider causes of the structural deficit in Croatia's current account by tracing them to the early 1990s. At first let us overview the process of the transition to a market economy.

### 3.1. Transition to a market economy

After the regime change in the early 1990s, in the same way as other post socialist countries (transition countries in other words), Croatia had to rely on support by the IMF for economic reconstruction. In accordance with the prescription by the IMF based on the Washington Consensus, Croatian has implemented liberalization, stabilization and privatization. As for privatization of socially-owned enterprises, the process was opaque. The privatization has not led to the modernization of the economy and the improvement of competitiveness[6].

After the Dayton Accord in November 1995 a reconstruction boom began, causing a rapid increase in imports. Concomitantly, the current account deficit jumped from 4.2 percent in 1996 to 12.2 percent – an unsustainable level - in 1997. The government was obliged to adopt tight monetary and fiscal policies. Consequently, the GDP growth rate recorded -0.9 percent in 1999. Except for that year, the Croatian economy apparently continued growing at moderate pace (between 4 percent and 5.5 percent) until the recent global financial crisis. The unemployment rate (LFS) decreased from about 15 percent in 2002 to 8.4 percent in 2008. However, economic growth over the intermediate term has been anemic. The GDP only recovered the 1989 level in 2005 and exceeded 115 percent in 2008 (1989 level = 100). In the meantime the industrial structure has substantially changed. We can confirm this indirectly through changes in the employment structure (Table 2). Outputs of agriculture and manufacturing have regained only three fourths (76.7 percent and 75.4 percent respectively) of their levels recorded in 1989. In contrast, other activities, especially services have remarkably increased. ‘Massive deindustrialization’ (Jurcic and Vojnic, 2009, p. 770) has occurred. The whole process of the economic development from the early 1990s till recent years is characterized by a relative decline in Croatia’s product supply capacity.

**Table 2 Changes in Employment Structure**

| | 1998 | 2006 |
|---|---|---|
| Agriculture, forestry and fishing | 10.8 | 5.4 |
| Industry total | 24.6 | 22.3 |
| Construction | 7 | 8.9 |
| Wholesale, retail trade, hotels, etc. | 20 | 23 |
| Transport and telecommunications | 7.1 | 6.7 |
| Other activities | 30.6 | 33.7 |
| Total | 100 | 100 |

Sources: wiiw (2007) p.126.

### 3.2. Budget deficit

The general government (total of the central government, local governments and social security) has had deficits consistently from the 1990s through recent years. The circumstances can be outlined as follows: The relative size of the general government expanded in the 1990s. According to the World Bank (2001), Croatia’s public sector spending on wages and salaries, at 12.4% of GDP, was excessive. The average for transition countries at that time was about 6% of GDP. Croatia’s public employment share in total employment was not particularly high compared with countries of similar income per capita, nor was the share of public sector employment to total population large compared to other CEE countries. An important factor behind the high level of public sector wages is the fact that public sector real wages increased at an average of 15 percent per year during the period 1997-1999.

The expansion in expenditure and deficit was mainly concentrated in extra-budgetary funds, and in particular pension and health funds. These two funds combined underwent a total expansion equivalent to 8.8 percentage points of GDP between 1994 and 1999, of which more than 6.3 percentage points were due to the pension fund and 2.5 to the health fund. Health spending expanded, reflecting an increase in central government transfers to the health fund. Pension benefits swelled from 10 percent of GDP in 1990 to almost 14 percent in 2001. Revenues from contributions barely covered 60 percent of current spending on pension in 2000. The remaining financing gap was covered by the state budget with central government transfers to the pension fund reaching roughly 6 percent of GDP in 2000. The primary cause of expansion in pension was the use of pensions as a social cushion for layoffs (early retirement system), and the entry of new categories of disabled and survivors' defenders from the 1991-1995 war.

Spending on defence reached 9.4 percent of GDP in 1995. Owing to the end of the war, rationalization and better management, spending on defence gradually decreased to 2.9 percent of GDP in 2000. In 1999 total expenditure and net lending of the consolidated general government amounted to 56.2 percent of GDP while total revenue and grants was 48.2 percent, with overall deficits reaching 8.0 percent. Following the advice of the World Bank, the Croatian government made efforts to decrease the relative size of consolidated general government expenditure. The budget deficit had a tendency to decrease until the onset of the global financial crisis in 2008.

### 3.3. Expansion of consumption

In the first half of the 1990, private consumption was at its worst, but then private consumption expanded. According to Galinec (2005), the following factors influenced the expansion: 1) a substantial increase in real net wages. In October the 1993 Stabilization Program started, price and exchange rate stability was achieved, creating a stable basis for business activity. Simultaneously, the trend of real net wage growth started, resulting in increase of citizens' purchasing power. During the period 1993-2004 real net wages increased by four times, far surpassing productivity growth; 2) more favorable conditions for external borrowing. Rescheduling of the debt obligations against Paris Club and London Club was successfully accomplished in 1996 and 1997 respectively, and Croatia obtained a long-term sovereign rating (BBB-), which widened the access to international financial markets and improved conditions for future borrowings. As a result, the level of Croatian banks interest rate on credits (especially on short-term credits) started to fall; and 3) reduction of custom tariff rates. This resulted in a large increase in merchandise imports (Galinec, 2005, p. 2).

**Table 3 Balance of Investment and Savings (percentage of GDP)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Changes in 2000-2005 |
|---|---|---|---|---|---|---|---|
| Gross domestic savings | 19.2 | 18.1 | 14.0 | 22.4 | 24.5 | 23.3 | 4.1 |
| Gross domestic investment | 21.8 | 21.8 | 22.3 | 29.6 | 29.8 | 29.9 | 8.1 |
| Resource balance | -2.6 | -3.1 | -8.3 | -7.2 | -5.3 | -6.6 | -4.0 |

Source: Kathuria (ed.) (2008) p. 17, 20.

A World Bank report on the Western Balkans and EU integration (Kathuria, ed., 2008) reveals balance of investment and savings in the Western Balkan countries in the period 2000-2005. According to it, in Croatia both domestic savings and domestic investment as a percentage of

GDP increased during the period, but the domestic investment always surpassed the domestic savings causing a shortage of savings. With chronic budget deficits as well as domestic investment exceeding domestic savings, current account deficits have been structurally built in the Croatian economy

### 3.4. Aggressive financing by foreign-owned banks

It is aggressive financing by foreign-owned banks that stimulated the expansion of private consumption. As in other countries in the Western Balkans, the presence of foreign-owned banks in Croatia is remarkable. In Croatia domestic banks were acquired by foreign banks one after another from the end of the 1990s through 2003. Now they account for 90 percent of total assets of the banking sector. Along with 'Kuna credits not indexed to foreign currency', 'Kuna credits indexed to foreign currency' – their interest rates are cheaper – are prevalent. At the same time, also foreign currency deposits have become widespread. That is why people regard the Croatian economy to be euro-ized. While a part of the financial inflow was in the form of FDI, external borrowing increased rapidly with the intermediation by foreign-owned banks. In 2003 the total amount of credits extended to households came to exceed the total amount of credits extended to enterprises (Galinec, 2005, pp. 4-5). Much of the external flows went into consumption and non-tradable sectors (construction, real estate, and wholesale and retail trade), feeding into higher imports (IMF, 2009, p. 6).

### 3.5. Exchange rate regime

The exchange rate regime in this country is officially called the managed floating, but it is practice very close to Euro peg[7]. The practically fixed exchange rate has reduced borrowing risk. Jurcic says that the stability of exchange rate as an instrument has become an objective by itself[8] (Jurcic, 2009, p. 747).

As Jurcic and Vojnic (2009) point out, the exchange rate has been too high[9]. If the exchange rate has been too high, it is an enigma why the monetary authorities in Croatia stick to a high exchange rate of the Kuna. There are three reasons to explanation of the monetary authorities' attitude: 1) because Croatian people have experienced hideous hyperinflation twice, first in 1989 during the period of the former Yugoslav era and second in 1993 after independence, consequently providing stability of prices the first priority, the monetary authorities have been carrying out the policy of allowing only a small fluctuation of the exchange rate, with the Kuna being linked to the most reliable currency (the German Mark and later on the Euro); 2) now Croatia as an EU Candidate aims to adopt the Euro in the near future. Croatian monetary authorities may have followed an advice given by the European Central Bank to keep the present exchange rate; and 3) along with Kuna deposits, households as well as enterprises in Croatia have foreign currency deposits with banks (which are mostly foreign capital-owned) and at the same time borrow money in foreign currency (more accurately, Kuna indexed to Euro; in recent years more often to Swiss Franc). Presumably, the interests of Croatian people have been too entangled to accept depreciation of Kuna.

Uvalic (2011), who studies the Western Balkan economy, argues, "Among the main reason behind the very high trade deficits in the Balkans are the policies of strong currencies that have stimulated a rapid increase in imports and hampered export growth, as well as insufficiently restructured industries" (p. 8). This argument applies exactly to Croatia's case. She says, "The global financial and economic crisis, which hit Eastern Europe very severely from late 2008 onwards, brought up the question whether the economic model of fast trade integration and rapid financial liberalization has been the best among the feasible policy options" (Uvalic, 2011, p. 10). I completely agree with her opinion.

In this way, the Croatian economy has accomplished the consumption-led economic development. In the early 21 century some economists (for example, Jovancevic, 2002), from anxiety about the country, argued for a new economic development model. The switch was not made, leaving Croatia especially vulnerable to the reverberations of the 2008 global financial crisis.

## 4. Structure of exports and imports and a decline in international competitiveness

In 2005 food and feed, agricultural raw materials, and ore and metals account for 10.5 percent, 3.4 percent and 3.8 percent of total Croatian exports respectively. The share of fuels in total exports was rather high and increased from 9.2 percent in 1996 to 13.9 percent in 2005[10]. All manufactured products account for about 70 percent (72.4 percent in 1996 and 68.2 percent in 2005) of the total exports. (Kathuria, 2008, p. 40).

Let us now focus our discussion on foreign trade in manufacturing. Buturac (2009) analyzes the structure of exports and imports of Croatian manufacturing during the period 1993-2007. According to him, in 2007 manufacturing of other transport equipment (mostly shipbuilding) has the highest share in total manufacturing exports of (12.6 percent), followed by manufacture of coal, refined petroleum products (10.7 percent), manufacture of chemicals and chemical products (9.7 percent), manufacture of machinery and equipment n.e.c. (8.3 percent) and manufacture of food products and beverages (8.1 percent).

In the same year the highest shares in total imports were occupied by the three sectors of manufacturing: manufacture of chemicals and chemical products (11.9 percent), manufacture of machinery and equipment (11.8 percent) and manufacture of motor vehicles, trailers and semi-trailers (10.8 percent). These sectors account for one third of total manufacturing imports. Looking at changes in export structure from 1993 and 2007, the greatest changes were recorded by manufacture of clothing. The share of this activity of the total import of manufacturing

**Table 4 Export and Import Structure of Manufacturing from 1993 to 2007**

| | Export structure, % | | Import structure, % | |
|---|---|---|---|---|
| | 2007 | 2007-1993 | 2007 | 2007-1993 |
| D Manufacturing | 100 | - | 100 | - |
| 15 Manufacture of food products and beverages | 8.1 | -1.3 | 7.1 | -1.9 |
| 16 Manufacture of tobacco products | 0.9 | 0.2 | 0.1 | 0.1 |
| 17 Manufacture of textiles | 2.7 | -0.7 | 3 | -1.5 |
| 18 Manufacture of clothing | 3.5 | -13.7 | 2.6 | -1.6 |
| 19 Tanning and dressing leather; manufacture of luggage | 2.9 | -4 | 1.9 | -10.1 |
| 20 Manufacture of wood and products of wood | 4.3 | -1.7 | 1.7 | 0.6 |
| 21 Manufacture of pulp, paper and paper products | 1.9 | -1.3 | 2.7 | -1.4 |
| 22 Publishing, printing and reproduction of recorded media | 0.6 | 0.4 | 0.6 | 0.4 |
| 23 Manufacture of coal, refined petroleum products | 10.7 | 0.8 | 3.8 | 3 |
| 24 Manufacture of chemicals and chemical products | 9.7 | -3.3 | 11.9 | -2.3 |
| 25 Manufacture of rubber and plastic products | 1.6 | -0.1 | 4.1 | 1 |
| 26 Manufacture of other non-metallic mineral products | 4 | 0.9 | 2.7 | 0.6 |
| 27 Manufacture of basic metals | 5.5 | 2.6 | 8.6 | 2.9 |
| 28 Manufacture of fabricated metal products | 4.5 | 2.3 | 5 | 1.7 |
| 29 Manufacture of machinery and equipment n.e.c. | 8.3 | 4.8 | 11.8 | 1 |
| 30 Manufacture of office machinery and computers | 1.1 | 1 | 2.8 | -0.4 |
| 31 Manufacture of electrical machinery and apparatus n.e.c. | 5.8 | 1.8 | 3.6 | -0.6 |
| 32 Manufacture of radio and communication equipment | 3.4 | 1.8 | 4.8 | 2.6 |
| 33 Manufacture of medical, precision and optical instruments | 1.2 | 0.5 | 2.2 | -0.3 |
| 34 Manufacture of motor vehicles, trailers and semi-trailers | 2.2 | 1 | 10.8 | 3.6 |
| 35 Manufacture of other transport equipment | 12.6 | 8.9 | 4.6 | 2.1 |
| 36 Manufacture of furniture | 4.6 | -0.9 | 3.7 | 0.7 |

Source: Buturac (2009) p. 442.

decreased by 13.7 percentage points from 17.3 percent in 1993 to 3.5 percent in 2007. Next to the manufacture of clothing, tanning and dressing of leather and manufacture of luggage, and the manufacture of chemicals and chemical products decreased significantly during the same period by 10.1 percentage points and 3.3 percentage points respectively. It is manufacture of other transport equipment that greatly increased its share in the total manufacturing exports during the same period. This activity increased its share by 8.9 percentage points, followed by manufacture of machinery and equipment n.e.c. (4.8 percentage points) (pp. 441-443).

According to Vidovic and Gligorov (2004), Croatian manufacturing exports to the EU increased only moderately between 1995 and 2002, and Croatian market share on the EU market (excluding intra-EU trade) declined significantly, from 0.42 percent to 0.29 percent (p.30). This means that the international competitiveness of Croatian manufacturing has declined. Why has it declined gradually? In addition to the exchange rate regime which fixed overvalued Kuna, the following factors can be mentioned.

Firstly, there are factors on the supply side. As mentioned above, there has been a process of de-industrialization. Due to insufficient investment in manufacturing its technology has been lagging behind that of other countries, especially East Asian countries. In this connection, inadequate structure of FDI inflow should be mentioned. Let us look at the breakdown of the FDI stock by activities in order to find in which activities foreign investors have invested in. Financial intermediary occupies first place (53.2 percent), followed by manufacturing (23.0 percent), transportation, storage and communication (10.9 percent), wholesale, retail trade, repair of vehicles, etc. (5.3 percent), hotels and restaurants (2.7 percent), real estate, renting and business activities (1.8 percent) (Hunya, 2009, p. 44). According to Vidovic and Gligorov (2004), in contrast to other transition countries, FDI was linked to privatization activities (two thirds of the total). Greenfield investment, which the government and business circles desired earnestly, has been negligible (only 16 percent of the total FDI stock)[11]. Although data is a little bit old (as of 2003), among manufacturing branches which attracted FDI the export-oriented branches are pharmaceuticals (Pliva), other non-metallic products (i.e. cement industry), food and beverages (Coca Cola), rubber and plastics and electrical and optical equipment (Siemens). The remaining branches are oriented toward domestic markets. Foreign investment enterprises account for only 16 percent of total Croatian export.

The situation is quite different from Hungary, the Czech Republic and Poland where foreign investment enterprises have been the driving force behind their exports with the share of foreign investment enterprises in exports being 89 percent, 60 percent and 60 percent respectively (Vidovic and Gligorov, 2004, p. 15). The reasons why FDI inflow to manufacturing industries has been smaller than expected seem to lie in the points that the Western Balkans were politically unstable during the whole of the 1990s and that labor costs in Croatia were already high. In this way, in Croatia FDI inflow has not been accompanied by an improvement of competitiveness and an increase in exports.

Secondly, due to ongoing globalization, products made in East Asian countries, especially China, have been increasingly flowing into European markets (Table 5). It is noteworthy that the unit labor cost in Croatia is not only the highest of all the countries in the Western Balkans but also higher than even some new EU member states such as Bulgaria and Poland.

Manufacturing industries incline heavily toward labor intensive industries. As we have seen, textiles and clothing decreased their share considerably. Thus textile and clothing industries in Croatia have been chased by counterparts in China and other Asian countries with their lower wages as a weapon, and the Croatian industries have had to fight in a tough game in European markets. Croatia finds itself in the 'middle-income country's trap' (Kathuria, 2008).

**Table 5 Unit Labor Costs in the Western Balkans**

PPP adjusted. Austria = 100

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Albania | 33.4 | 30.8 | 28.1 | 28.7 | 29.4 |
| Croatia | 53.3 | 53.3 | 52.6 | 50.5 | 48.3 |
| Bosnia and Herzegovina | 42.8 | 43.3 | 42.8 | 42.6 | 42.1 |
| Macedonia | 33.2 | 37.3 | 37.0 | 36.7 | 36.0 |
| Montenegro | 48.0 | 49.2 | 52.4 | 47.9 | 47.8 |
| Serbia | 52.7 | 40.0 | 35.7 | 36.8 | 35.3 |
| Reference | | | | | |
| Bulgaria | 24.5 | 26.4 | 26.3 | 27.1 | 28.5 |
| Hungary | 40.8 | 38.2 | 37.0 | 37.8 | 38.4 |
| Poland | 50.4 | 40.2 | 43.9 | 43.2 | 40.8 |

Source: Gligorov, et al. (2013) pp. 141-146.

## 5. Necessity for export-led economic development: Case of shipbuilding industry

If Croatia continues to depend heavily on tourism, someday the country might face a danger of becoming a second Greece. It is necessary for Croatia to convert its model of economic development to that of export-led economic development. Therefore, it is very important to develop manufacturing industries. To begin with, let us examine the case of shipbuilding industry.

### 5.1. Case of shipbuilding industry

The reason why shipbuilding industry is examined is that although this industry has been playing a leading role in the development of manufacturing, it is greatly restricted after the EU accession. This industry has a long tradition since the period of the Austro-Hungarian Empire's rule. During the period of the former Yugoslav era, Croatia had 80 to 90 percent of the total production capacity of the whole shipbuilding industry. Now in Croatia there are 6 big shipyards, 14 medium-sized shipyards and 352 small-sized shipyards (Kersan-Skavic, 2009, p. 385). In the world shipbuilding deliveries, in 1989 former Yugoslavia recorded 503 thousand GT (Gross tons), occupying fourth place with its share being 3.5 percent (Japan occupied first place, followed by South Korea and West Germany)[12]. After 1990, however, the Croatian shipbuilding industry has been stagnating due to the fact that it lost an important market like the COMECON countries. In addition, as the Croatian economy declined due to wars resulting from the breakup of the Yugoslav Federation, the shipbuilding industry found itself in difficulties.

After the system change and independence, shipyards were transformed from socially-owned enterprises into state-owned joint stock companies. Although a part of their stocks were sold to private persons (including managers and employees of each shipyard), the state remains the majority stock holder. The Croatian shipbuilding industry gradually recovered and came to record deliveries of 765 thousand GT in 2004 with its share in the world shipbuilding deliveries being 1.9 percent. The Croatian shipbuilding industry has been producing mainly ships of medium complexity including tankers. In this segment, shipyards from the Far East are strong competitors.

If we look at a history of world shipbuilding deliveries between 1964 and 2009, we can find that the Far Eastern countries made great strides. The world total increased almost 8 times from 9,724 thousand GT in 1964 to 77,073 thousand GT in 2009. During the same period deliveries by the Far East increased more than 17 times from 3,764 thousand GT to 70,266 thousand GT while Europe (Western Europe and Eastern Europe) decreased by 18.5 percent from 5,353 thousand GT to 4,362 thousand GT. The Far East surpassed Western Europe in 1966. At first Japan made rapid progress, and then from 1981 South Korea made rapid progress and at last surpassed Japan in 2006. In recent years China increased its deliveries remarkably and surpassed Japan in 2009. South Korea remains the leader in this area. The Far East now has over 90 percent of the market. In this way, Europe as a whole has been obliged to play in a tough game in world shipbuilding deliveries under the pressure from shipbuilders in the Far East. In 2008 Croatia recorded 617 thousand GT, occupying fourth place in Europe (Germany occupied first place, followed by Italy and Poland), but its share in world deliveries was only 0.9 percent. In 2009, Croatia's ranking dropped to fifth place in Europe with its deliveries amounting to 412 thousand GT (its share being 0.5 percent) and it was even surpassed by Romania which had a short history in this area and made rapid progress in recent years using cheaper labor costs as a weapon (www.ShipbuildingHistory.com).

Still shipbuilding is a very important industry which earns 5 percent of the GDP and it accounts for more than 11 percent of total exports of the country (Buturac, et al 2009, p.683). It employs

12,000 workers, and it is estimated that a further 35,000 jobs are directly linked to the industry. There are six shipyards, of which only the Uljanik (Pula) shipyard is profitable. This shipyard has been oriented to produce ships for special purpose and has been realizing positive results with a high level of technological development and rationalization of the number of employees (Kersan-Skavic, 2009, p. 386).

The remaining shipyards are loss-making and continue their operations under the support of the government's subsidy[13]. State support (subsidy and state guarantee) as a percentage of GDP in 2006 and 2007 was 0.88 percent and 0.84 percent respectively. The European Union has tolerated state support of the shipbuilding industry in Europe to a certain extent in order to protect the shipbuilding industry in the EU from dishonest competition which offers damping prices and maintain the level of shipbuilding activities in areas where the shipbuilding industry can be competitive in the present conditions. The 7th Directive of 1990 specifies forms of state support to the shipbuilding industry. There are two kinds of state support: support for production (operating aid) and support for restructuring. Support for production is fixed as a percentage of the contract price of a ship before obtaining support and the ceiling is established by a comparison between the most competitive shipyard in the EU and three competitors in the Far East (Kersan-Skavic, 2009, p. 381). I have repeatedly stressed that shipbuilding has been the most important and the most competitive industry in Croatia, but we should not neglect the fact that this industry has been supported by the state, with subsidies accounting for a massive 10 percent of any ship's contract prices[14].

The EU encourages horizontal support rather than vertical support which is directed to specific industries. Croatia's accession negotiations with the European Commission began in 2005 and were closed in 2011. Privatization of shipyards was a precondition for opening the negotiation on Chapter of market competition. The fact is an important precedent that two Polish shipyards (Gdynia and Szczecin) were instructed by the European Commission to return subsidies which they have received from the government even after the Polish accession to the EU is an important precedent.

There is an excessive production capacity in the shipbuilding industry worldwide. In addition, with cheap labor costs as a weapon South Korea rapidly increased orders for ships at one time and China also does so in recent years. In 2003 the European Commission announced an important document LeaderSHIP 2015, a development strategy for the shipbuilding industry in the EU till 2015. The document points out the necessity to maintain position as a leader in the segment of complex and expensive ships (passenger ships and specialized ships) in order to survive competition in world shipbuilding arena (The European Commission, 2003). The Croatian shipbuilding industry must follow this line. The European Commission proposed the Croatian government a decrease in production capacity by 40 percent along with privatization and a decrease in state support.

In mid July 2009 the Croatian government made a decision to sell 5 shipyards for one kuna each while for the Uljanik shipyard a specific model was prepared. After the European Commission accepted the specific model for the Uljanik shipyard, the Croatian government proposed that the Uljanik shipyard should be privatized in such a way that 59.35 percent of the total stocks should be sold for 300 kuna for one stock while 25 percent should be held for sale to the employees under special conditions. Although 5 shipyards were to be sold for one kuna each, it is considered that the real prices which buyers must pay will amount to 20 to 40 million Euro as these shipyards have accumulated losses, credit obligations and restructuring plans (Kersan-Skavic, 2003, p. 390). In the face of the global financial crisis and subsequent recession, it has been difficult to find buyers[15].

On December 9, 2011 the Treaty of Croatia's Accession to the European Union (Delegation, 2011) was signed by Croatian and the EU Member States. The Republic of Croatia's pledge to restructure shipbuilding industry was included in the Treaty as Annex VIII. The content can summarized as follows: Croatia agreed to carry out restructuring of shipbuilding companies by privatizing them on the basis of competitive tenders. All State aid received by these companies since 1 March 2006 was required to be counted as restructuring aid. The overall production capacity of the companies will be reduced by 21 percent compared with the levels of 1 June 2011. The companies shall not receive any new rescue or restructuring aid until at least ten years have elapsed since the date of signature of the privatization contract. The European Commission shall order Croatia to recover any rescue or restructuring aid granted in breach of this provision, with compound interest. The European Commission shall closely monitor the implementation of the restructuring plans and compliance with the conditions set out in this Annex and will receive six-monthly reports from Croatia until the end of 2020.

### 5.2. Necessity for promotion of a knowledge-based new area of manufacturing

In this way, the production capacity of the Croatian shipbuilding industry is limited. The country can no longer attain economic development relying entirely on the shipbuilding industry. Restructuring naturally entails massive workforce reduction. Therefore, the country will be required to make full use of technologies and skills already developed in the shipbuilding and related industries for new areas of manufacturing. As we have seen, labor costs in Croatia have already been substantially high, and consequently, it is very difficult for Croatia to compete with Asian countries in the area of labor-intensive industries. In the long run it will be necessary for this country to bring up and develop new area of more technology-intensive and knowledge-based manufacturing industry. Currently I have no idea about how new areas of manufacturing will take shape. They will be found by Croatian entrepreneurs in practice. In the long run it will be also necessary to put more emphasis on enhancing the people's levels of education and skill in preparation for the new area of more technology-intensive and knowledge-based manufacturing industry. Let us examine 'Economic Recovery Program' in order to understand in which direction the government aims to develop the economy in the future.

## 6. Economic recovery program

The ER Program (Vlada, 2010) contains both short-term policy measures and mid and long-term policy measures. At first, the Program emphasizes that while creating a stimulatory entrepreneurial environment by its activities the state can only promote economic development and that it cannot replace private initiatives and responsibilities, and appeals to the public, saying "we have to change our conception and habit. As for short-term policy measures, the ER Program proposes fiscal consolidation and rationalization of public administration, and there is nothing new in the Program. Below I will introduce the content from viewpoint of the improvement of international competitiveness.

1) 'Internal devaluation'. Generally speaking, there is devaluation of a national currency as a method of improvement of international competitiveness. However, it would be very difficult for Croatia to adopt devaluation of the national currency. 90 percent of loans to households and three quarters of loans to enterprises are denominated in foreign currencies. If the Kuna is devalued the amount of their foreign currency loans calculated in national currency (Kuna) would increase[16]. In this regard, Croatia's position is similar to the dilemma which Latvia faced in 2009. Instead of (external) devaluation of the national currency (Lat), Latvia has chosen 'internal devaluation', i.e. to curtail wages and pensions and decrease unit labor costs[17]. In the same way, the E R Program proposes 'internal devaluation' without mentioning this term. The proposal to decrease the number of workers in the public sector by 5 percent and to decrease the total payroll of workers in the public sector by 10 percent seems to be a reflection of the government's intention of doing 'internal devaluation'

2) Promotion of privatization. The government will prepare plans to privatize the remaining state-owned enterprises (big-scale enterprises such as Croatian Electric Power, Croatian Insurance, Croatian Railways, etc. are still in state hands).

3) Revitalization of the economy. State intervention in the economy shall be decreased. Start-up businesses shall be encouraged. A new investment cycle with maximum participation from the private sector shall be started. Investment projects shall be stimulated with emphasis on i) energy (renewable energy is attached importance), ii) protection of the environment, iii) education and health, iv) agriculture and irrigation, v) infrastructure. Projects shall be financed first of all by private capital and financial resources from the EU funds, and smaller amounts shall be financed through public enterprises. In order to promote the Croatian economy, the government will make efforts to promote technology transfer and improve competitiveness. The government has made efforts to attract foreign direct investment, but hereafter the government

shall make more efforts to get rid of obstacles to investments and actively attract FDI. Although the E R Program does not explicitly acknowledge the problem, it seems difficult to believe that FDI from the EU Member States will increase considerably, taking account the present credit insecurity in the Eurozone. Rather, Arabic and Asian countries might be more promising investors on the grounds of her geographical location. Croatia's excellent sea ports (especially Rijeka) on the Adriatic coast offer attractive conduits to land-locked neighbors such as Hungary, the Czech Republic, Slovakia and Austria. If port, railway and road infrastructure is improved, it might be possible for Croatia to play an increasingly important role in transit trade between these countries and Middle Eastern and Asian countries, thereby accelerating economic development[18].

4) Labor market. Flexicurity, a term which is often discussed in Nordic countries, is used in this area. It is the concept that the labor market which has been rigid so far shall be made flexible (i.e., dismissal of workers shall become easier), but at the same time it shall be easier for dismissed workers to be employed in new jobs. An emphasis is put on the encouragement of unemployed people as well as the inactive category of the productive population to improve their ability and qualifications in order for them to be employed in a new area.

5) Social security. The economic activity rate as well as the employment rate is lower compared with other countries. The government aims to increase these rates. There is a demographic problem. This country is becoming an aging society too. The average life expectancy is becoming longer, and at the same time the birth rate is declining[19]. It is obvious that the pension system will collapse in the near future unless some measure is taken. It seems that increasing the economic activity rate as well as the employment rate is important not only from a viewpoint of fiscal sustainability but also from a viewpoint of international competitiveness.

6) Insufficient industrial policy. In description of a new investment cycle, The E R Program mentions only private capital and financial resources from the EU funds, etc. as well as FDI and lacks concrete explanation. Croatia has problems of twin deficits, i.e. fiscal deficit along with chronic deficit in the current account. If we take into account the fact that the accumulated national debt amounts to over 50 percent of the GDP and the government has to rely on financing through the international financial market for about a half of the total treasury-bills, it would be understandable that the government cannot rely on funds from the budget[20]. However, there remains an impression that the industrial policy which the E R Program proposes is unsatisfactory.

## 7. Conclusion

After the system change in the early 1990s, in the same way as other post socialist countries, Croatia has implemented liberalization, stabilization and privatization in accordance with prescriptions by the IMF based on the Washington Consensus. Privatization of socially-owned enterprises was implemented in the 1990s, but the process was opaque. FDI went mostly to financial sector, real estate, telecommunication, etc. Neither privatization nor FDI enhanced the competitiveness of Croatia's manufacturing industry. Consumption-led economic development relying on foreign capital intensified the economy's vulnerability to external shocks. In such a situation the global financial crisis dealt the country several crucial blows. The economic development involving a huge amount of current account deficit was already unsustainable several years ago. Croatia is now required to undertake a switchover of the existing model of economic development, i.e. domestic consumption exceeding domestic export, imports exceeding exports and investments exceeding savings.

If Croatia continues to depend heavily on tourism, someday the country might face the danger of becoming a second Greece. It is very important for Croatia to develop manufacturing industries. Since the EU accession, the country is not allowed to subsidize shipbuilding industry, and the production capacity of the shipbuilding industry is limited. The country can no longer attain the economic development relying entirely on the shipbuilding industry. The country will be required to make full use of technologies and skills developed so far in the shipbuilding and related industries for new areas of the manufacturing. As we have seen, labor costs in Croatia are already notably high, and consequently, it is very difficult to for Croatia to compete with Asian countries in the area of labor-intensive industries. Therefore, the country should endeavor to develop more technology-intensive and knowledge-based industries.

The country is required to enhance the export competitiveness of its manufacturing industry. Due to a large amount of the national debt, the government budget cannot afford to finance big-scale national projects. The E R Program requires the Croatian people to accept austerities for a while. The E R Program also stresses the necessity for an increase in employment, production and exports. The problem is in which areas the employment should be increased.

The program stresses that while decreasing state intervention in economic movement the government will encourage start-up businesses and initiate a new investment cycle led by the private sector with long-term effects. These are uneasy challenges. It is yet to be seen whether such an attempt proves successful without strong support by the government.

## Notes

[1] Astrov, et al (2013).

[2] The author is greatly indebted to Dr. Denis Redzepagic, researcher at the Economics Institute Zagreb who kindly answered his repeated questions and provided him with many useful materials. The author would like to express gratitude to Professor Carmen Hannah (Faculty of

Education, Niigata University) for her linguistic assistance. In addition, the author would like to express gratitude to two anonymous referees for their precious comments.

[3] Vuksic (2009) from the Institute of Public Finance in Zagreb examines data on the balance of payment between 1999 and 2007 and views it unnatural that the amount of Net Errors and Omission (NEO) has been large with a positive sign every year. He further examines quarterly data and finds that a considerable amount of positive NEO has been recorded in the third quarter (i.e. high season for tourism) every year (it exceeded EUR 2 billion in 2006 and 2007). He presumes that this represents unrecorded foreign cash which flowed into Croatia as revenues from foreign tourists.

[4] According to additional information, the current account deficit as a percentage of GDP was -0.9% and +0.1% in 2011 and 2012 respectively, and FDI inflows as a percentage of GDP was +2.4% and +2.2% in 2011 and 2012 respectively (Gligorov, et al, 2013, p. 68). Consequently, the NBER was +1.5% and +2.3% in 2011 and 2012 respectively. The decline in the amount of the current account deficit in 2011 and even its turn to positive in 2012 seems to be a temporary phenomenon reflecting Croatia's current economic stagnation.

[5] The World Bank criterion for a country being 'severely indebted' is that either the debt to GDP ratio is above 80 percent or that the ratio of debt to exports of goods and services is above 220 percent. Either condition is sufficient. The case of Croatia corresponds to the former. (Vidovic and Gligorov, 2006, p. 23).

[6] Using expressions such as the classical appearance of 'mafiacracy', 'savage capitalism' and 'primitive accumulation', Dragomir Vojnic criticized the practice of privatization in Croatia (Vojnic, 1999, pp. 17-18). Big-scale and profitable enterprises went into hands of members or supporters of the HDZ (Croatian Democratic Alliance), the ruling party in the 1990s. For understanding of the reality of the privatization in Croatia, Bicanic (1993), Druzic (2006), Kalogjera (1993) are useful.

[7] In the same way as Serbia, Croatia adopts the regime of managed floating, but it is in practice very close to Euro peg. Dr. Zeljko Rohatinski, Governor of the Croatian National Bank, is reported to have said, "The Central Bank will continue the existing policy of maintaining stability of the exchange rate and protect it by all measures at its disposal, i.e. intervention in the foreign exchange market" and "The Croatian National Bank intervenes the market not against a high rate but against intensity of its fluctuation" (Kiseljak, 2010). This is in striking contrast to Serbia's case where it is closer to the flexible exchanged rate. In Serbia after capital inflows suddenly stopped the domestic currency dinar depreciated by 23 percent in the five months starting in October 2008 and then stabilized throughout 2009. It was a controlled depreciation with the central bank's intervention. In the case of Croatia, in contrast, the exchange rate fluctuated within a narrow band between 7.3 HRK/EUR and 7.5 HRK/EUR during the same period. Petrovic, a Serbian economist, says, "Croatia, which is also a highly euro-ized

economy, opted for a much stronger defence of her currency and consequently experienced only a minor depreciation, but also a far larger output decline" (Petrovic, 2010, p. 116).

[8] Jurcic argues, in a certain period of time, stability of exchange rate and a zero budget deficit must be instruments of the economic policy which realize 'superior' objectives, for example, full employment, a balanced international payment, etc. If these objectives are accomplished, then in the next period instruments such as stability of exchange rate and zero budget deficit can be designated as objectives (Okrugli Stol, 2010, p. 495). However, Jurcic (2009) points out, 'stability of exchange rate' and 'zero budget deficit' as instruments have become objectives by themselves (p. 747).

[9] Jurcic and Vojnic (2009) argue that the exchange rate has been too high for the Croatian economy, using indices of deviation of an exchange rate from a rate based on purchasing power parity (pp. 766-767). The extent of over-evaluation of Croatian currency's real effective exchange rate differs depending on methods of its measurement. According to the macroeconomic balance approach, downward adjustment of the real effective exchange rate of 5-6 percent would be required to close the gap between the sustainable level of the current account balance and the underlying current account balance. According to the external sustainability approach, Croatia's real effective exchange rate is overvalued by about 5-11 percent (IMF 2010, Annex I. Assessing Croatia's Real Exchange Rate).

[10] Croatia produces natural gas and crude petroleum but cannot satisfy domestic needs. The country has been importing them from foreign countries. However, as Croatia was placed as a base for refining gas and petroleum during the former Yugoslav era it has more than enough refining capacity. Now the country imports natural gas and crude petroleum well over its domestic needs and exports refined gas and petroleum to neighboring countries.

[11] In this regard, Davor Galinec says, one of the reasons for the lack of "Greenfield" investment is the exclusion of Croatia from the Pan-European Cumulation of Origin (PCO) System, which is a serious barrier for market access (Galinec, 2005, pp.12-13).

[12] According to Horvat and others, Croatia held the third place in shipbuilding in the world during the period of former Yugoslavia (Horvat, 1999, p. 55; *BCE*, May 2000, p. 30), but they do not mention in which year it was. I speculate that it was before 1964.

[13] The shipbuilding industry has been heavily supported by the state, with subsidies accounting for a massive 10 percent of any ship's contract prices. The accumulated losses were in excess of € 719 million as of February 2006 (Croatian Online, Wednesday Column – Croatia Business 3: Shipbuilding Part One, http://croatiaonline.blogspot.com/2006/02/wednesday-column-croatia-business-3.html). Accessed on December 5, 2010.

[14] See note 7.

[15] The government announced a tender on August 1, 2009 for the sale of its six shipyards. Since then there has been a little progress, but due to the global financial crisis the government has not

succeeded in the sale yet *EEM*, October, December 2009 and other issues).

[16] IMF (2010) shows its trial calculation. In the case of a 30 percent real depreciation, it could increase public debt from 44 percent to 58 percent of the GDP and external debt from 99 percent to 142 percent of the GDP (p. 12).

[17] For economic crisis in Latvia, see Koyama (2010).

[18] In his interview with a Japanese reporter, President Josipovic expressed a policy to develop Croatia as a distribution center (using the Rijeka port) which will connect Asia and Europe (Nikkei Shimbun [Japanese Economic Newspaper], October 16, 2010).

[19] Life expectancy at birth is 75.35 years for total population, 71.72 years for male and 79.18 years for female (2009 estimate). Birth rate is 1.42 children born/women (2009 estimate). http://www.economywatch.com/economic-statistics/Croatia/Life_Expectancy_Rate/

[20] For budget deficit and national debt, see Koyama (2011).

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