

CROATIA HUMAN CAPITAL OVERVIEW



**UNLEASHING
POTENTIAL**

for Economic Take-off
amid Demographic and
Technological Change



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Unleashing Potential for Economic Takeoff Amid Demographic and Technological Change¹

When Croatia joined the EU over 10 years ago, the nation’s collective hopes were high for rapid convergence with Western European incomes and living standards. A positive but complex story of economic growth has unfolded. While Croatia has weathered recent economic crises with impressive resilience, the country still has clear untapped potential to not simply overcome but actively take advantage of ongoing demographic and technological megatrends.

This summary provides an overview of the 2023 Croatian Human Capital report, highlighting key actions that can help unleash the country’s economic potential by strengthening its labor force and human capital. In that spirit, it is essential to maximize returns to human capital, remove barriers to working life, and affirmatively promote participation in high-value-added sectors as strategic priorities.

Shifting Challenges to Economic Development

Croatia continues accumulating substantial economic victories despite the COVID-19 and energy crises and is successfully integrating into the Eurozone and Schengen areas. However, in relative terms, GDP per capita and related measures of economic activity are still far off from the Western economies that are frequently used as standards for judging success in Europe.

As of 2022, Croatian GDP per capita was about 73% compared to the EU-27 average, up from 60% in 2014². If trends continue at their current pace, the prospect of income (as well as wealth) convergence remains decades away. In fact, besides a particularly strong post-COVID spike, Croatia’s growth in GDP per capita has roughly mirrored its regional trend among EU and non-EU neighbors alike. However, if more Croatians enter the labor force, equipped with the human capital required to be productive in line with changing technologies, dramatic improvements in GDP growth are possible (see Fig 1), even bringing the prospect of income convergence within reach by the 2030s.

FIGURE 1: Croatia’s “business-as-usual” vs. human capital reform scenarios: potential GDP per capita growth, 2020-2050

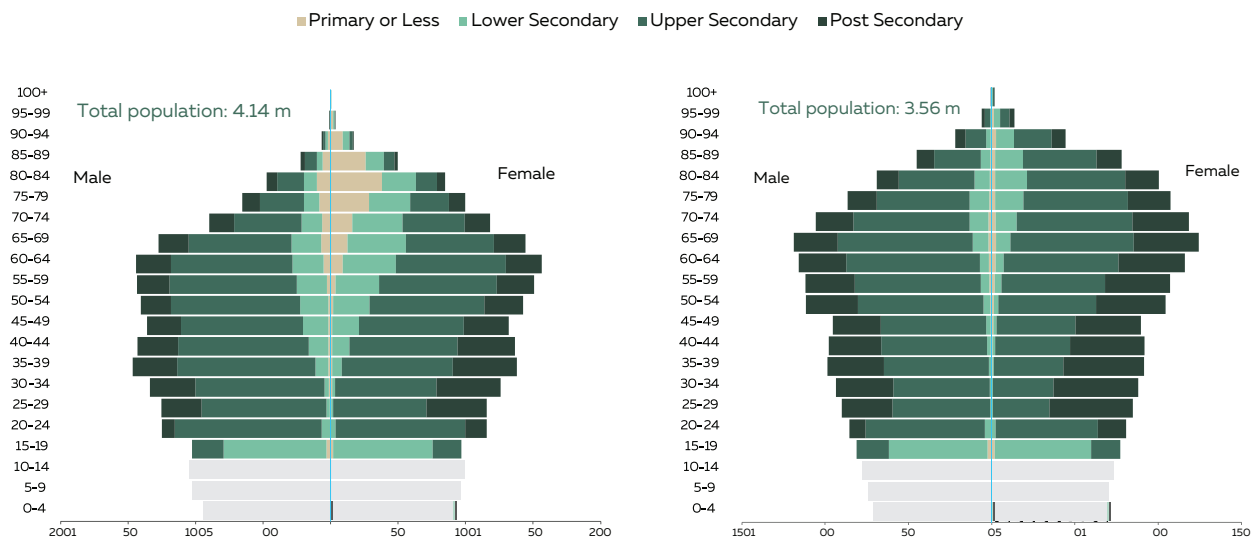


Note: Two growth scenarios are developed based on improvements in the major drivers of GDP growth, including total factor productivity (TFP), labor force participation, education, and the investment rate. The moderate reform scenario targets the 50-75th percentile of the EU27’s distribution for each growth driver. In contrast, the ambitious reform scenario targets the achievements of top-performing economies, especially in CEE. Source: Croatia Country Economic Memorandum (2022). The World Bank.

1 This brief summarizes the Human Capital Review report issued by the World Bank in January 2024.

2 https://economy-finance.ec.europa.eu/system/files/2023-05/HR_SWD_2023_611_en.pdf

FIGURE 2: Croatia, Population by Age, Sex, and Educational Attainment, 2020 and 2050



Source: Lutz et al. 2018

The population is simultaneously becoming older, smaller, and better educated (see Fig 2). In terms of its population, Croatia faces the multi-dimensional change that often comes with the late stages of the Demographic Transition, a near-universal pattern of development. Such changes are a natural byproduct of wealth and people living longer thanks to medical advances and healthier lifestyles, but also due to less favorable trends, such as a continuous drop in birth rates and the large-scale emigration of workers to Germany, Austria, Ireland, and other destinations.

Human capital losses due to emigration undermine positive forces for development in Croatia. The ease of access to EU labor markets paying higher wages has spurred emigration of skilled labor. While high emigration flows have brought in remittance income, they have also stunted domestic productivity and made firms less competitive³. Far from being alone, Croatia shares this basic dynamic with many of its Balkan neighbors and the broad Eastern European region. Croatia rivals Romania and Bulgaria for some of the greatest (proportional) losses of the working-age population in the EU over the last decade, with around 23% (counting only 1st generation) of the population living abroad, according to UN DESA⁴.

The root causes of Croatian emigration lie in the challenging domestic job market. Reflecting these difficulties, among those who remain in Croatia, labor force participation (as a percentage of the population aged 15+) is notably low by high-income country standards—only 52% (vs. 61% in EU-27) in 2022. Total participation has improved, but not at the rates or nearing the absolute levels seen in many of the EU’s other eastern members.

Educational attainment is on the rise in Croatia, which is a promising trend and presents an opportunity to boost the productivity of the economy. Nevertheless, it comes with the risk of further exacerbating skill mismatches in the country unless there is a concurrent growth in the demand for their skills. This will require the economy to shift away from low-value-added services towards skill-intensive, high-value-added sectors such as manufacturing and ICT.

More robust integration of Croatians into the labor force is further complicated by the technology propelling the ‘4th Industrial Revolution’. Although the ultimate scale and character of disruptions from artificial intelligence and automation are impossible to predict, analyses

³ [imfconnect.org/content/dam/imf/Spring-Annual-Meetings/AM16/Documents and Publications/Emigration and Its Economic Impact on Eastern Europe.pdf](https://imfconnect.org/content/dam/imf/Spring-Annual-Meetings/AM16/Documents%20and%20Publications/Emigration%20and%20Its%20Economic%20Impact%20on%20Eastern%20Europe.pdf).

⁴ United Nations. 2019. “International Migrant Stock”, Department of Economic and Social Affairs, Population Division. <https://www.un.org/development/desa/pd/content/international-migrant-stock>

suggest the demand for labor will increasingly shift away from low- and medium-skilled professions while also requiring workers to flexibly adapt to changes throughout their careers.

Maximizing a Population's Productive Potential

Despite the demographic headwinds, Croatians work less than their European counterparts (see Fig 3a). Weak labor force participation directly threatens future economic resilience and the sustainability of social systems by putting the burden of supporting state activities on fewer shoulders.

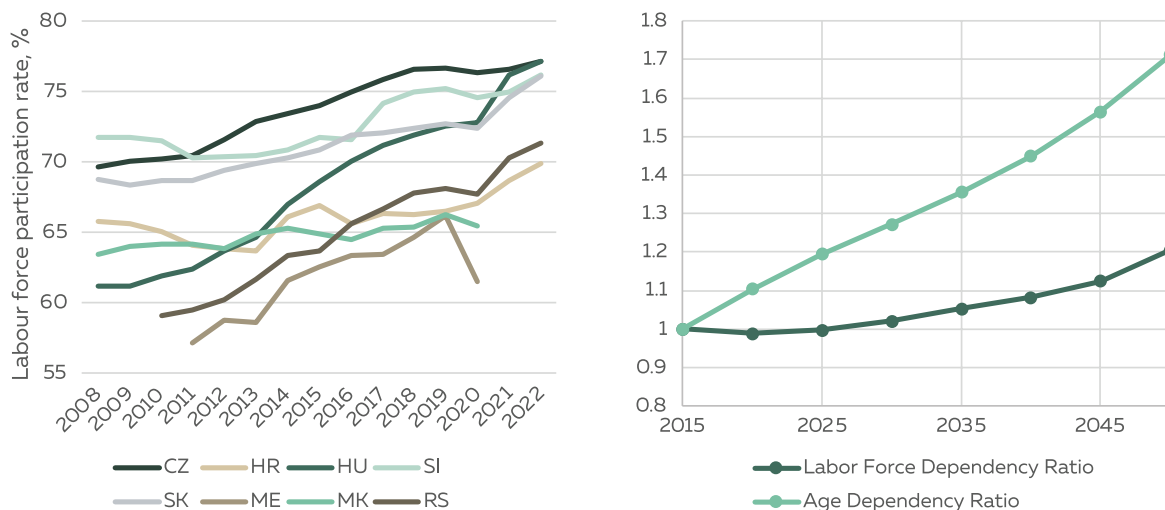
Croatia's Labor Force Dependency Ratio – a measure of the balance between 'non-workers' and 'workers' in society – is expected to see moderate growth in the proportion of dependents in the decades to come (see Fig 3b). While far less alarming than the extreme scenarios suggested

by more simplistic age-based ratios, a 20% increase from 2015 levels will nevertheless materialize by 2050 – if labor force participation rates (LFPRs) fail to improve among lagging groups.

Several sub-demographic groups stand out in Croatia for their relative absence in economic activity – youth, older workers, women, and rural inhabitants. As demonstrated by peer country performances, multiple realistic opportunities exist for strengthening labor force participation.

LFPRs have clear potential for growth, beginning with the country's youth. Most young Croatians either spend 10-14 years in schooling to end and graduate with a VET degree or 15+ years for tertiary education⁵. Despite the critical time, effort, and funding put into these years, school-to-work transitions remain challenging. In fact, the EU's 2018 Eurograduate survey identified Croatia as the producer of the worst employment outcomes for university graduates in the whole Union. A substantial portion of recent graduates (9% bachelor; 18% master) were still searching for work a

FIGURE 3A: Labor force participation (ages 15-64; 2010-2022); FIGURE 3B: Projected change in Croatia's Age-based Dependency Ratio vs. Labor Force Dependency Ratio (2015-2050, 2015 = 1)

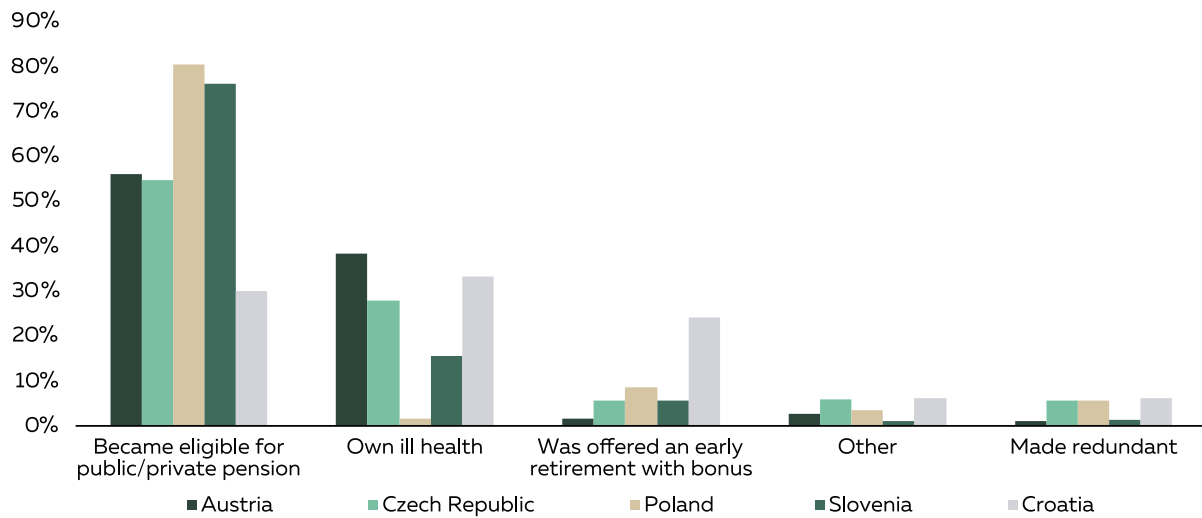


Note: The Labor Force Dependency Ratio is calculated as the proportion of the inactive vs. active populations; the Age Dependency Ratio is calculated as the proportion of the non-working age population (ages 0-14 and 65+) vs. working age population (15-64).

Source: Eurostat and Marois et al. (2020)

5 <https://www.oecd-ilibrary.org/sites/2409b764-en/index.html?itemId=/content/component/2409b764-en>

FIGURE 4: Main Reasons for Retiring



Source: WAVEn 6 (Börsch-Supan 2022.)

year after completing their studies. Even more concerning, five years after graduation, the equivalent rates were only slightly better, at 7% and 10% respectively.

The lack of opportunities also shows up in the high rates of young people not in employment, education, or training (NEETs). Dramatic progress has been made in coming off the NEET peak of nearly 20% in 2014, but even today, more than 13% of young Croatians (aged 15-29) are withdrawn from 'productive' activities. High NEET rates have their origins in the suboptimal quality of education reflected in student performance and inefficient education systems that produce skill mismatches, and do not put scarce state resources to the best use. For individuals, this means delayed financial and social autonomy during what should be a natural phase for establishing themselves. The long-term consequences of unemployment, known as 'scarring,' manifest in lower wages and a higher likelihood of unemployment throughout adulthood.

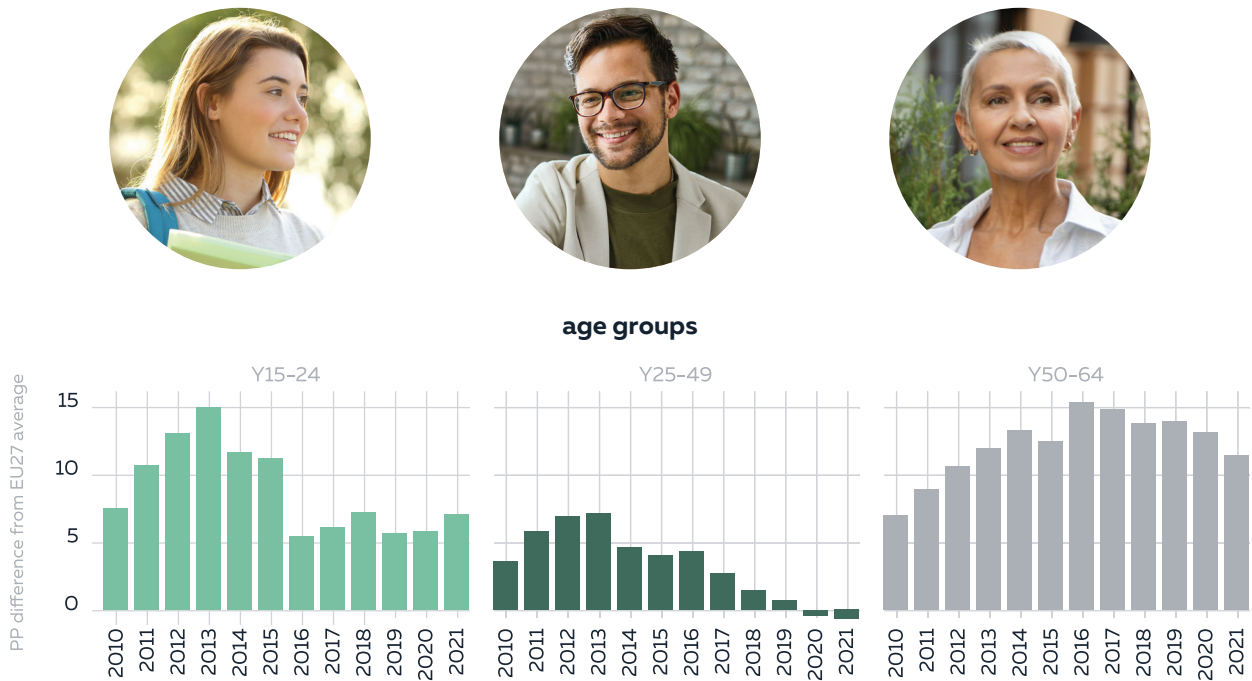
At the other end of the age spectrum, the pension system is encouraging older workers – a group that makes up 3/4ths of Croatia's entire employment gap with the EU-27 – to exit the labor market abruptly.

While a gradual increase in retirement age for women is currently in motion, attractive early retirement options for those aged 55-64 (Fig 4) act as a clear downward force on LFPRs. Insufficient accommodations for part-time work by employers further promotes cutting working life short. Given the changing picture of health, such conditions are particularly hard to justify. For example, 'Healthy Life Expectancy' is on the rise in Croatia – up by 3.2 years over the last two decades, reaching 68.6 by 2019⁶.

While Croatia is steadily approaching EU levels of employment rates among the young and the prime working ages, gaps among older workers remain large. Advanced economies are pulling ahead in successfully incentivizing older workers to stay economically active since they often have much to contribute beyond the traditional retirement ages in either full- or part-time capacities. This trend is particularly true for those with tertiary education, a category that older workers will increasingly fall into with the cycling of generations.

6 <https://www.who.int/data/gho/data/indicators/indicator-details/GHO/gho-ghe-hale-healthy-life-expectancy-at-birth>

FIGURE 5: The employment gap vs. the EU-27



Source: Eurostat

Women represent another important source of untapped human capital. University graduates in Croatia are now majority women, as in a growing contingent of countries. By 2019, women aged 25-39 were 42% more likely to have tertiary education than their male counterparts. Furthermore, men and women now participate in the labor force at almost equivalent rates if they have a university education. However, for women with upper secondary or post-secondary non-tertiary education, LFPRs are more than ten percentage points lower than men with similar education levels.

According to Eurostat, around 20% of non-working women in 2022 left the labor force for caretaking duties. While the LFPRs of women are universally lower than those of men of the same age in all EU-27 countries, due in part to the nature of motherhood and other competing responsibilities, the burdens of care can be reduced by expanding access to child and elderly care services. In many countries, such infrastructure has given women more options, supporting both more economic activity and higher fertility.

Croatia's troubles with low labor market participation also cut along geographical lines, with rural populations lagging behind, especially those in the eastern regions. Rural-urban disparities in economic opportunities are common in almost all countries of the world, but the magnitude seen in Croatia is extreme. The gap in unemployment between Zagreb and some of the worse-off rural counties exceeds 12 percentage points (6.7 vs. 19 percent in 2021). These disparities are particularly pronounced compared to the typical urban-rural employment gaps found in smaller countries, which have an easier time spreading economic opportunities across their urban and rural environments.

Cumulatively, evidence shows that even slight improvements in labor force participation rates among the young, old, women, and rural populations have the power to meaningfully alter the course of dependency burdens and broad economic prospects. Such is certainly true for Croatia if it can lift participation among these sub-populations with effective interventions.

Three Pillars for a Coherent Labor Strategy

A coherent labor strategy requires identifying and overcoming major existing weaknesses. Based on the World Bank’s diagnostic assessment of Croatia’s labor market, the ideal recipe for a stronger labor force calls for the following ingredients: competitive skills, enabling conditions, and coordinated incentives⁷.

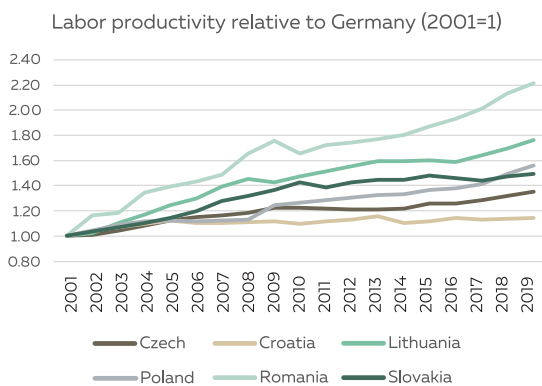
The National Recovery and Resilience Plan (NRRP) has already planned actions in these three domains, some of which, if implemented effectively, could pave the way for major gains in Croatia’s productive potential.



1 Competitive Skills

While the quality of a worker is a function of many factors, the state’s main opportunity to intervene is via the education system. Fixing Croatia’s education–economy disconnect is fundamental to creating a positive feedback loop with human capital and the other two determinants of productivity: physical capital and technology. The consequences of misalignments from the last two decades and the resulting relative stagnation in productivity can be seen in Figure 6.

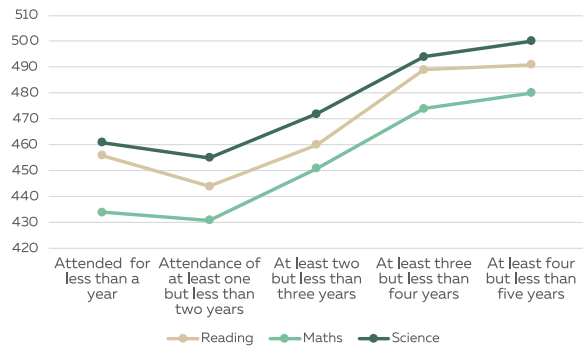
FIGURE 6: Labor Productivity relative to Germany, 2001 = 1



Source: Croatia Country Economic Memorandum, World Bank, 2022

The greatest returns to educational investments come from a strong start during the formative years spent in early education. Children who participated in Early Childhood Education and Care (ECEC) for 3+ years scored considerably higher on reading, math, and science PISA tests than their peers who had spent less time in ECEC (see Fig 7). The PISA tests, taken by 15-year-olds in secondary school, reveal a lasting positive connection between ECEC attendance and academic performance, even years later. The ECEC enrollment of Croatian youth is notably below the EU average (79% vs 92% in 2020), although a turning point may have been reached recently since ECEC has become far more popular among parents of young children (Bouillet and Majcen, 2022). Whether or not this trend can continue depends on the supply of high-quality ECEC keeping pace with demand.

FIGURE 7: Time spent in ECEC and PISA Scores in Croatia, 2022



Source: World Bank calculations based on PISA data (OECD 2023)



Before disruptions from the COVID-19 pandemic, Croatian secondary school pupils scored below the OECD and EU averages on international PISA testing (see Figure 8). Between 2012 and 2015, Croatia saw a sharp decline in science skills, losing its lead in what was previously a high-performing subject for the country. For the other major subjects of reading and math, Croatia had largely maintained its underperformance gap since 2006. However, the most recent results from 2022 indicate that Croatian children coped with learning disruptions better than those in other countries. EU scores declined sharply in the aftermath of COVID-induced lockdowns. In contrast, Croatian students managed either to maintain or improve in absolute terms and now outperform the EU in each of the three major subjects tested.

Aside from the averages, Croatia's PISA scores also indicate challenges at the lower bounds. Gaps in student scores associated with family socioeconomic status are sizeable and in line with the EU average. Most of the worst-performing pupils come from the lowest socio-economic quintile. Critical reforms such as the Whole Day School initiative to improve general primary education include substantially raising the total hours of instruction in line with high-income country standards (for some subjects, almost doubling the time) as well as expanding the focus of curricula to cover not only knowledge but critical thinking and problem-solving skills.

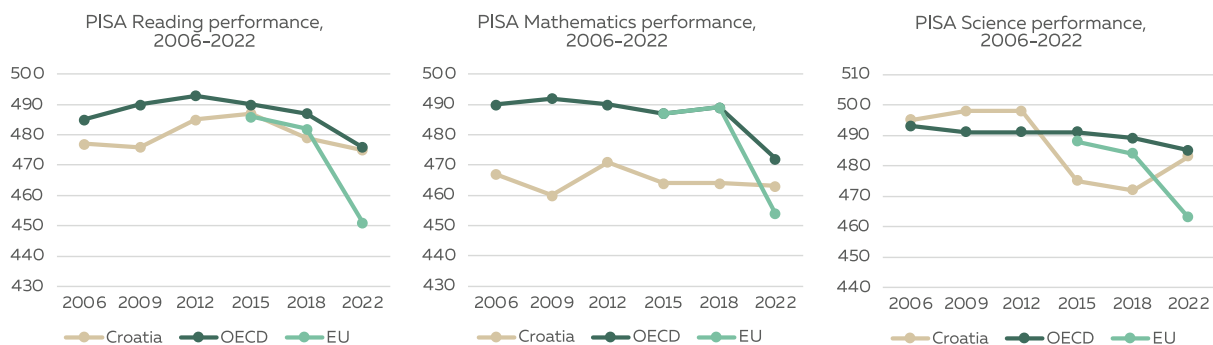
Vocational training (VET) is the top alternative to general secondary education pursued by Croatian youth. The sheer popularity of VET (~70% of secondary pupils) could be an

accomplishment but is meaningless if outcomes continue to stagnate. Only 70% of VET graduates are employed, driven especially by the low-skilled sub-group of VET graduates (42% of whom are employed). Furthermore, according to the latest PISA results, 44% of the students in VET are not achieving minimum learning outcomes as opposed to 8% in the general track. Such low employment and student achievement rates, and by extension, low lifetime earnings, suggest profound mismatches between the skills learned and actual needs of the economy, with the outcomes particularly hurting kids from poorer families who disproportionately look to VET for social mobility.

High-quality VET depends on involving employers in all levels of the process, from curricula design to internships. It is essential to form future-proof critical thinking skills that are complementary to technological change, like automation and digitalization. Furthermore, VET students may benefit from a delayed split from general education to more work-based learning, which serves as a crucial bridge between theory and practice. Currently, the cost of training is a barrier for employers to take on more VET students, making potential government subsidies a logical target moving forward.

Similar to VET, the university system struggles to produce work-ready graduates. As areas of study in Croatia, both STEM and ICT are above the EU averages, yet there is still an oversupply of students with degrees in political science, journalism, and philosophy, and generally the humanities and interdisciplinary studies. Currently, the number of study spots in university programs (Fig 9) does not correspond to

FIGURE 8: Croatia vs. OECD and EU PISA Performance

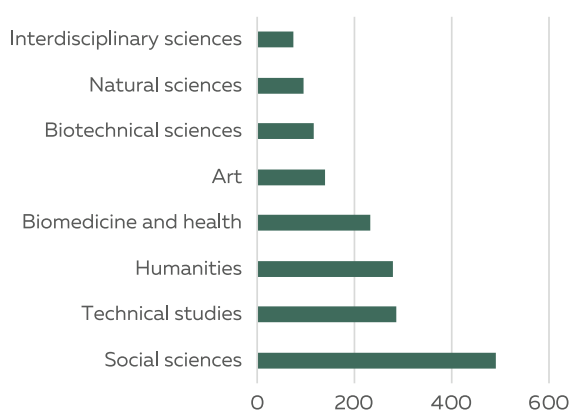


Source: World Bank calculations based on PISA data (OECD 2023)

labor demand, guaranteeing skill mismatches in the labor market. For the demand side, drawing more attention to the career prospects of programs can help ensure students make informed decisions.

The government has taken important steps to boost the employability of university graduates, including reinforcing the law on quality assurance in higher education and science and tasking the Croatian Employment Service to review the workforce relevance of each new study program. While such reforms will improve the quality of higher education in Croatia, the mismatch between the economy and study spots offered by subject appears set to continue from both the supply and demand side unless guided by a better labor market information system.

FIGURE 9: Number of tertiary programs in Croatia by field of study, 2022



Source: MOZVAG, 2022, URL: <https://mozvag.srce.hr/preglednik/>

Ultimately, improving the process of skills formation in Croatia calls for constantly updated curricula (especially for technical subjects) and the active participation of employers in the spirit of dual education systems. Among the impediments to robust private sector growth, Croatia's inadequately educated labor force has been a major factor, second only to taxation⁸. However, recent positive actions by the Government recognize this reality, re-orienting the system to be explicitly goal-oriented in terms of the employability of Croatia's next generation.

⁸ The World Bank. Enterprise Surveys, Year: 2019. DOI: <https://doi.org/10.57966/p48v-xf80>.



2 Enabling Conditions

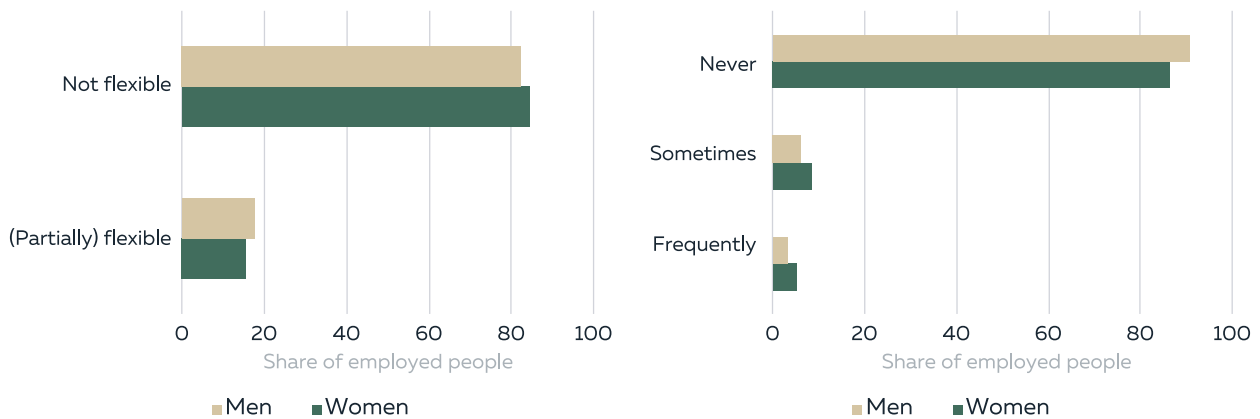
Besides improving skills, Croatia can strengthen its labor force by helping bring more of its population out of inactivity. Accomplishing this requires removing the structural barriers to participation.

Dysfunction in Croatia's housing market has become such an issue that it discourages labor mobility within the country. While Croatians enjoy very high homeownership rates (about 91% of people own their dwellings), mobility is limited by housing shortages and affordability in the economically dynamic urban areas where many high-quality jobs are located. This is partly due to rental property shortages, as many owners prefer to offer short-term rentals to tourists rather than long leases. High transaction costs further complicate matters, although the process can be made more efficient and transparent by the continued digitalizing of the land registry and cadaster.

Inflexible work options also hamper higher labor force participation. Currently, only 5% of those employed can work from home (compared to the EU-27 average of 10%), with workers also reporting broadly rigid working hours (Fig 10). A greater variety of flexible work structures (part-time, telework, entrepreneurial activities) would allow Croatians to avoid an all-or-nothing dilemma and better balance various life priorities. More flexibility from employers would especially benefit women, who also often take on household duties and caring for children in keeping with prevailing social norms.



FIGURE 10: Prevalence of flexible work schedules (left) and work-from-home option (right)



Source: Eurostat

A third enabling factor for labor participation is the availability of caretaking facilities – both for children and the elderly. Without the relief that such facilities provide, employment can be made nearly impossible for many caregivers who are predominantly women. Croatia’s public and private capacities have not kept up with demand, as illustrated by applications for long-term care for the elderly, which have outstripped supply 4:1.

Croatian mothers would like to work more, an apparent economic drive that could be further accentuated if schools continue to expand their daily hours of operation. Elderly care, which can compound the challenges of childrearing and will become more prevalent as the population ages, is associated with underutilized human capital. Specifically, the burden of responsibilities either requires caregivers to withdraw from the labor market or can constrain employed workers from accepting promotions or switching occupations in favor of flexibility.

Together, a better-functioning housing market, more flexible work options, and reduced care burdens represent key barriers to freely pursuing economic activity in Croatia. Removing these barriers would likely increase labor market participation significantly.



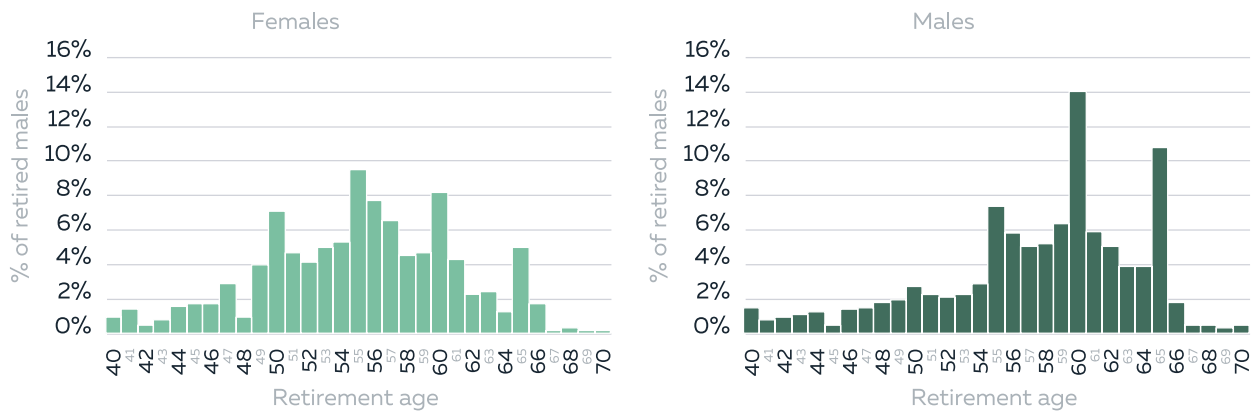
3 Coordinated Incentives

Governments inevitably make decisions that either incentivize or disincentivize various behaviors. This certainly applies to labor force participation in Croatia via its pension system.

Firstly, Croatia’s pension system is the single biggest culprit of low LFPRs in the country (Figure 5). If the current policies that essentially promote retirement can be reversed, the country will already have made significant strides in setting itself up for future success and adapting to the demographic megatrend of population aging.



FIGURE 11: Distribution of Retirement Ages in Croatia



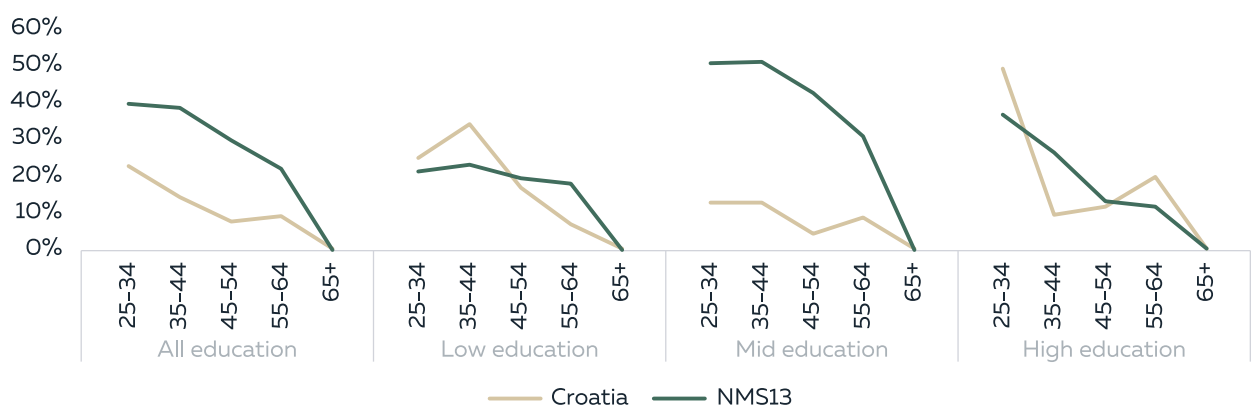
Source: SHARE Wave 6, Börsch-Supan (2022). Survey of Health, Ageing and Retirement in Europe (SHARE) Wave 6. Release version: 8.0.0. SHARE-ERIC. Data set. DOI: 10.6103/SHARE.w6.800.

For those past 65, there is no natural reason why drawing a pension should necessitate quitting work⁹. As such, any legal or structural biases pertaining to age should be eliminated to allow complete freedom of choice. Similarly, early retirement (spikes evident in Figure 11) can be discouraged by shortening the gap between early and statutory retirement ages from 5 to 3 years, making an actuarially fair adjustment to early retirement eligibility,

or increasing the number of contribution years needed before early retirement can be accessed without incurring a downward reduction in benefits. Expanded opportunities for part-time and flexible employment opportunities can also allow older workers to extend their working life and make a soft transition into retirement.

Incentives also come into play in terms of efforts to attract

FIGURE 12: Share of Emigrants in 2010 who had returned by 2014, by Education and Age



Source: DIOC (Database on Immigrants in OECD and Non-OECD Countries), reference years 2010/11, OECD, and EU-LFS ad-hoc module of 2014.

⁹ Eliminating automatic cancellation of the labor contract at the statutory retirement age is common in EU countries; the unrestricted pension benefit while continuing with full time labor contract are found in funded systems. EU countries have considered flexible retirement with amendments to the labor contract and possible pension reduction. The current rules in Croatia allowing work (up to half-time) while receiving pension benefits are a step in the right direction and have room for further improvement.

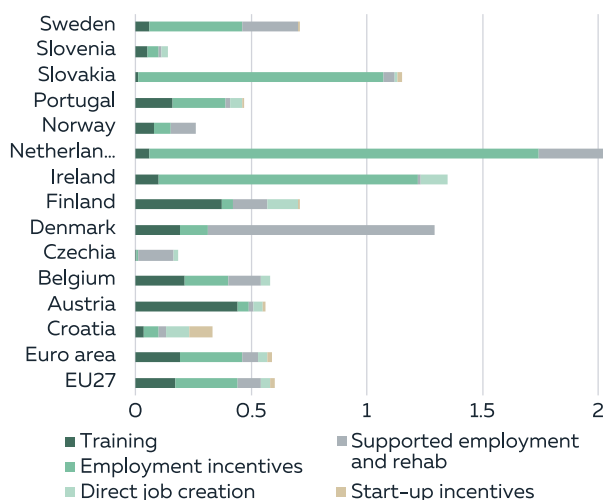
back the diaspora. Croatia has one of the EU's largest diasporas, as well as one of the lowest rates of return migration in Central and Eastern Europe (see Figure 12). While Croatia should re-double efforts to not lose educated workers in the first place – and track the occupations of emigrants to support those ends ultimately – peer countries show that it is within the realm of possibility to attract back a larger share of the diaspora.

According to a 2018 World Bank study, highly educated returnees to Croatia fared particularly poorly when attempting to reintegrate into the domestic labor market¹⁰. Programs aimed explicitly at boosting 'brain circulation' have had only marginal success in Croatia, but these, combined with general economic reforms, are the best bet for incentivizing returns. Countries with large diasporas often set up dedicated agencies (as Croatia did in 2011) to help would-be returnees navigate bureaucratic hurdles such as taxes, getting qualifications recognized, transferring pension contributions, and accessing health care to make reintegration as easy as possible.

Beyond the diaspora, labor force entry (or re-entry) programs can also target the domestic unemployed population. The relevant Active Labor Market Measures (ALMMs) are currently underutilized, with only 27% of job seekers enrolled. While ALMMs from the labor demand side (such as entrepreneurship programs) are on the rise, those designed for disadvantaged workers such as the youth or those adapted for persons with disabilities and older workers could play a bigger role in helping to resolve the country's skills mismatch challenges.

Croatia's ALMMs are generally underfunded, especially in the training component (see Fig 13). Ideally, such programs would include a mix of targeted actions for various demographic groups (at least by age and education) that provide employers with wage or training subsidies to incentivize 'testing' workers risk-free—which may be more cost-effective for the Government than self-employment subsidies.

FIGURE 13: Spending on ALMMs by type of program, selected European countries, 2020 (% of GDP)



Source: Eurostat. https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_EXPSUMM/default/bar?lang=en&category=

Lifelong learning programs share the same basic mission as ALMMs and aim to keep the labor force employable and productive. Paradoxically, those who are most likely to benefit from training are the least likely to participate. Croatia's total uptake of adult learning is low, especially among low-skilled, older, rural-area residents or the long-term unemployed. While such programs are still in their relative infancy, they can be further incentivized with financial support for small and medium-sized enterprises (SMEs).

Overall, coordinated incentives for maintaining and activating human capital can go a long way in closing gaps in employment and advancing the country's broad economic ambitions. Like tributaries converging into a great river, Croatia should ensure its policies on education, labor force, and pensions ultimately flow in the same direction to accelerate the speed and power of their intended impacts on the labor force.

¹⁰ World Bank. 2019. "Migration and Brain Drain" Europe and Central Asia Economic Update (Fall), Washington, DC: World Bank. Doi: 10.1596/978-1-4648-1506-5.

Concluding Remarks and Policy Implications

The insights and lessons featured in this summary draw from an extensive analysis of the labor market, demographic trends, education, and social protection to support Croatia's economic ambitions. A more in-depth analysis can be found in the full report, "Harnessing Human Capital for Growth in Croatia: Unleashing Potential for Economic Takeoff amid Demographic and Technological Change."

The report focuses on the barriers to improved human capital and labor market participation rather than the conditions restricting the number and quality of jobs. While the availability of high-paying jobs is highly desirable for any economy, Croatia has a particular need to grow, activate, and retain its talent. The three pillars outlined above include five policy areas, as shown in Figure 14, related to enhancing skills, supporting economic participation, harnessing the benefits of migration, expanding active labor market policies, and reducing disincentives to work for older workers.

First, the education sector must produce work-relevant skills. Such skills are essential for the dynamic modern workplace with its changing organizational practices and skill needs. Taking a lifecycle approach is essential for sustained success – from investing in early childhood education to providing adult retraining schemes. Priority areas for improving the relevance of curricula include reinforcing foundational skills and higher-order skills (especially problem-solving and teamwork), as well as improving apprenticeship partnerships. Without qualitative changes, there is a high risk that increased educational levels will continue to be underutilized in the current labor market. Some large or disadvantaged sub-populations end their education with relatively poor outcomes and low-skill acquisitions. The positive effects of reducing these educational disparities can extend to impacts on the labor force. By investing in human capital throughout individuals' lives, the state contributes to ensuring economic growth more than compensates for a shrinking workforce, especially amid the uncertainties of future demand for labor and advances in AI and related technologies.

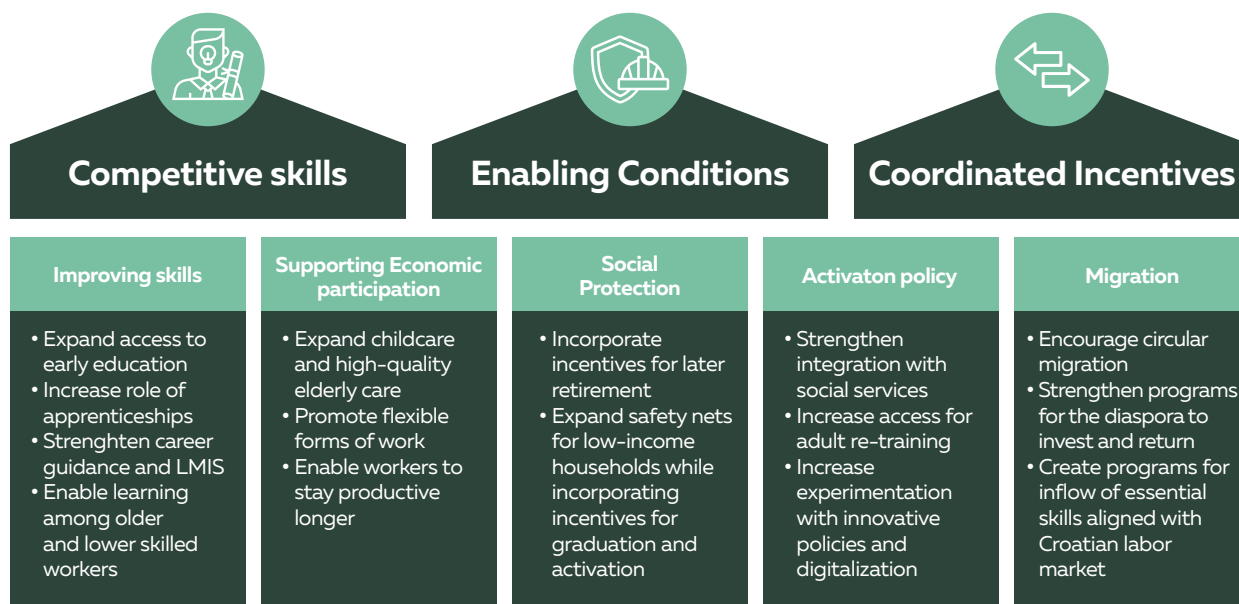
Second, achieving improved conditions for participation requires increasing the availability of high-quality childcare, facilitating the transition from school to work, offering flexible work arrangements, ensuring housing affordability in high-productive areas for reallocation of labor, and providing appealing opportunities for adult training.

Third, social protection policies enable people to remain economically active. As the most impactful action, participation can be more directly promoted in Croatia by ensuring the pension and social assistance systems are free of disincentives to work.

Fourth, Croatia has room to extend and improve active labor market policies (ALMPs) aimed at job matching and retraining measures to upskill and reskill more of the labor force to help them carry out their current roles and develop new capabilities to take on new roles. Existing adult training programs also need to focus more on older and lower-skilled workers, as well as the long-term unemployed, to maximize returns. Better matching existing talent with jobs benefits the individual, with cumulative benefits for the economy and creation of high-paying jobs.

Finally, developing effective migration policies is crucial for fostering a dynamic labor force, particularly in countries like Croatia. Encouraging circular migration can invigorate the economy by allowing workers to move between their home countries and Croatia, facilitating knowledge transfer and skill exchange. Strengthening programs for the diaspora to invest and return not only attracts financial capital but also brings back valuable expertise and experience, contributing to the country's development. Additionally, creating programs for the inflow of essential skills aligned with the Croatian labor market ensures that gaps in expertise are filled efficiently, promoting economic growth and innovation. By addressing these points, well-crafted migration policies can enhance Croatia's competitiveness and sustainability in the global labor landscape.

FIGURE 14: Policies for Enhancing Labor Productivity and Participation in Croatia



The full report explores multiple realistic intervention options in several areas of untapped human potential. Demographic and technological megatrends require adapting with enhanced employment opportunities available to the population, particularly to young people, women, and older workers. Croatia has already demonstrated impressive general economic resilience in recent years, a quality that can be secured in the long run with policies to fully activate the country’s human capital.

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UNLEASHING POTENTIAL

for Economic Take-off
amid Demographic and
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