



**COUNCIL OF
THE EUROPEAN UNION**

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ENV 567
EDUC 231
RECH 271
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NOTE

from: General Secretariat of the Council
to: COREPER/COUNCIL

Subject: Draft Council conclusions on Croatia

Delegations will find attached the draft Council conclusions on Croatia, prepared by the Economic and Financial Committee on 13 June 2013.

The Council

1. WELCOMES the 2013 economic programme of Croatia, submitted according to the timetable of the European Semester in April 2013; NOTES that, as an acceding country, Croatia is participating in the 2013 European Semester on an informal and voluntary basis. The Council is not issuing on this occasion country-specific recommendations to Croatia on the economic policies set out in its economic programme nor an opinion on Croatia's fiscal policy plans; against this background, WELCOMES the publication of the Commission staff working document of 29 May 2013 providing a thorough assessment of fiscal and structural challenges of Croatia and UNDERLINES that an analysis of macroeconomic challenges constitutes an important step towards associating and phasing in Croatia in the EU surveillance procedures in the context of the European Semester.
2. RECALLS previous Council Conclusions, in particular those of 22 April 2013 on the Commission's monitoring report on Croatia's accession preparations, and COMMENDS Croatia for meeting the commitments and requirements arising from the accession negotiations and for taking important initial steps to consolidate its public finances and to improve its competitiveness; RECOGNISES that, in 2012, among other reforms, Croatia continued to shift the structure of taxation away from labour towards taxes less harmful for growth, stepped up the fight against the informal economy and reduced the high cost of starting a business; and TAKES NOTE of the policy plans for 2013–2016 and of the national Europe 2020 targets presented in the economic programme, and encourages rigorous implementation of the plans and progress to achieve the targets. Improving Croatia's international competitiveness should be the guiding principle for structural reforms.

3. EMPHASISES that following its accession to the European Union on 1 July 2013, Croatia is expected to progress towards meeting the requirements of the Stability and Growth Pact and to fully align its general government statistics with the standards set out in the European System of Accounts. Embarking on a credible consolidation path, whilst safeguarding growth-enhancing expenditure and ensuring room for co-financing the inflow of EU funds, is key to bolstering confidence and supporting a stable financial and economic environment. In particular, Croatia will need to make further efforts to reduce the general government deficit, which was well above 3% of GDP in 2012. It will need to underpin the consolidation plans for 2014 and beyond with well-specified measures while safeguarding investment and other growth-enhancing expenditure; NOTES that debt developments are subject to risks pertaining to implicit liabilities carried by state-owned enterprises and to a high share of foreign currency debt in the government debt; and UNDERSCORES that Croatia has scope for improving the efficiency of the tax system and for broadening tax bases. On the expenditure side, there is a need for a review of the effectiveness, sustainability and adequacy of expenditure on social protection and pensions, which would also help to alleviate the deteriorating social conditions in Croatia.
4. Further EMPHASISES, that after five years of recession and with the perspective of a solid recovery slipping further away, Croatia needs to urgently adopt and implement additional economic reforms to reduce the rigidity of the labour market, make better use of the potential of the labour force, particularly youth, and to improve the business environment. High hiring and firing costs, together with disincentives created by the benefits system, restrain employment growth and create a large informal economy. Croatia also needs to improve the effectiveness of active labour market policy measures, while matching skills demand and supply; building on the achievements to date, ENCOURAGES further progress on addressing the low efficiency of the judiciary, burdensome business regulation and implementing prevention mechanisms to fight corruption in the public sector; and WELCOMES the effort to facilitate the resolution of non-performing loans and looks forward to seeing further progress on making adequate provisions for foreign currency loans.
5. Finally, CONGRATULATES Croatia for its informal participation in the 2013 European Semester and looks forward to welcoming Croatia as the 28th Member State on 1 July 2013.