

*Economic effects of Croatian EU accession*

VIKTÓRIA ENDRŐDI-KOVÁCS \*

*(Abstract)* Croatia joined the European Union on 1<sup>st</sup> July 2013 and became its 28<sup>th</sup> member. Through its history, the country was one of the most developed republics of Yugoslavia (besides Slovenia). In spite of this, Croatia just submitted its application for EU membership in 2003 and after 8 years from the start of accession negotiations became its member. The main question of this paper is that Croatia's economic performance hindered the process of accession or another factors? The aim of this study is to present the process of Croatian accession and its regional position from economic point of view. The study analyzes Croatia's current economic situation, problems and challenges.

*Keywords:* Croatia, economy, accession, European Union, Western Balkans.

*OUTLINE OF ARTICLE*

Introduction – timeline of Croatian accession

Hindering factors of Croatian accession

Croatia's regional position

Economic problems, challenges

The economic effects of Croatian accession

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In conclusion, it is worth to keep in mind that Croatia's accession confirms the European Union's policy after the 1990's to bring peace, stability, democracy and to ensure EU membership to the Western Balkan region (European Commission 2011). The Croatian accession proved that the EU membership is reachable for the Western Balkan countries<sup>1</sup>, although the question is how much these countries are willing to wait for membership. In the case of Croatia we could observe that in spite of some shortcomings, the country in general fulfilled the accession criteria before 2013, from several aspects its economic performance was better than the Romanian or Bulgarian economic performance. The delay can be originated from the experience of previous waves of enlargement, which made the European Union cautious, but also the accession was delayed by other factors (mainly by the economic crisis and the euro zone crisis).

Croatia was hit hardly by the economic crisis and the recovery is just begun. A slight 0,9% economic growth is expected for 2015, which will continue: according to the EBRD (2015) the Croatian economy will grow by 1,5-1,5% in 2016 and 2017. The economy is benefiting from lower oil prices, a good tourist season (because of migrant crisis) and some improvement in euro zone demand. The recession has also affected the unemployment rate, it was increasing sharply and reached 15,5% in August 2015 with a high rate of youth unemployment (EBRD 2015). As a result of this we can observe that the movement of Croatian work force to the European Union has increased in spite of restrictions. The main target countries are Austria, Germany and Slovenia. The main reason of this that the Croatian people fill positions where there are skill shortages. Italy is another country, which is very popular among Croatian people, but in the recent years the migration toward Italy has not increased.

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\* The author: *Viktória Endrődi-Kovács PhD*, assistant professor of Corvinus University of Budapest, Institute for World Economy, Faculty of Social Sciences. Title of her dissertation: *The economic integration maturity of the Western Balkans*. Research area: The economic integration maturity of the Western Balkans, relationship between FDI and corruption.

<sup>1</sup> For Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia and the Former Yugoslav Republic of Macedonia.

According to a survey from 2014, most of the Croatians (60%) do not plan to leave the country in order to work or study abroad. Nevertheless, we can observe a downward trend: in 2009 even the 80% of respondents thought this way (Vidovic – Mara 2015). Basically, compared to other states in the region (such as Bosnia and Herzegovina and Albania) the role of remittances is not significant in Croatia and below the region's average, 3.8% of GDP (World Bank 2016).

Despite all of these, it is very important to state that the Croatian economy highly depends on the economy of the European Union: the growth and prospects of Croatian export and tourism highly depends on the European demand; Croatia's most important trade partners are the members of the European Union (in average the EU accounts for 60% of Croatia's exports and imports value – Eurostat 2016). If the country continues its ongoing reforms, improves its business environment, this dependency is expected to be deepened through further investments, too. However, this will take several years. Among the country's most important economic challenges the fiscal sustainability must be highlighted: it is very important to decrease the budget deficit and public debt through increasing incomes and decreasing expenditures. The accession procedure and the EU accession had a catalyst role for the Croatian economy: helped the Croatian economy to catch up, to complete (albeit slowly) the ongoing reforms and to strengthen the financial and banking system (Murgasova et al 2015). However, now the country faces several economic challenges; a few years after the accession it is very important to gain experiences from the membership, to cope with competition within the European Union and to improve efficiency of draw downs from the Structural Funds (EBRD 2015).

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