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Leveraging Immigration for Croatia's Prosperity

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Overview

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Leveraging Immigration for Croatia's Prosperity

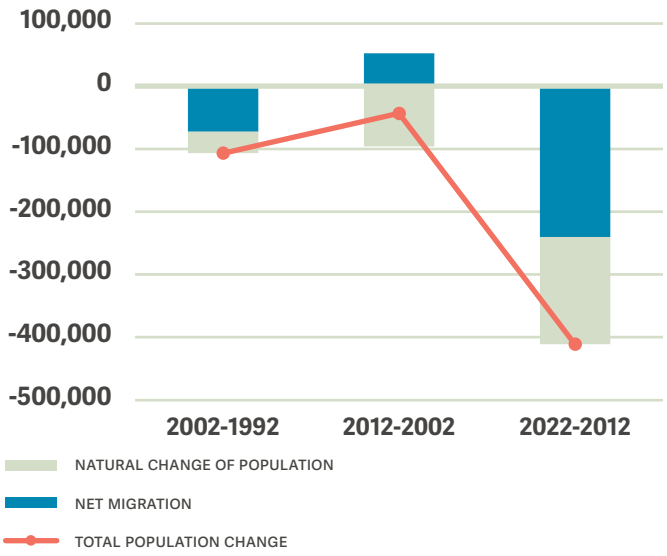
Croatia is at a critical demographic crossroads. Against a backdrop of an aging and declining population, Croatia is transitioning from a country of emigration to one increasingly relying on foreign workers, with profound implications for the nation's economic and social fabric. While recent reforms have strengthened the migration governance structure, significant challenges remain in the selection, employment, and integration of foreign workers. This overview summarizes the report titled "Leveraging Immigration for Croatia's Prosperity", which assesses Croatia's migration system and proposes strategic policy actions to maximize the positive impact of immigration while addressing key challenges for Croatia's economy.

Demographic headwinds are generating labor shortages

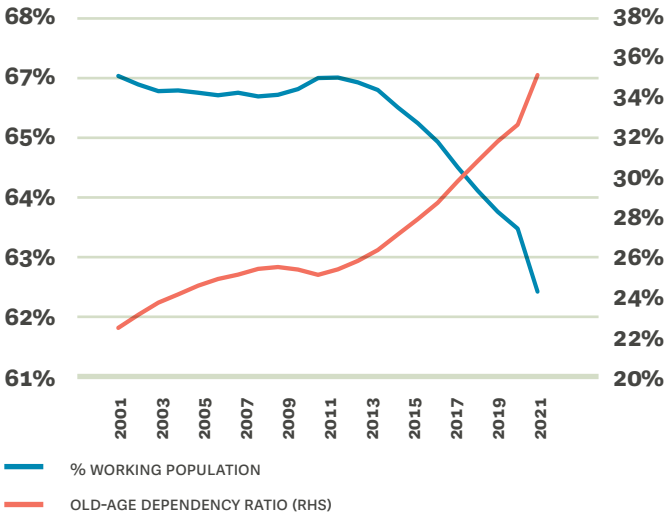
Croatia faces significant demographic headwinds, constrained by continuous population decline and rapid aging. Over the last decade, the country has lost 400,000 residents (figure 1a)—a staggering figure that positions Croatia among the top five of the European Union's most affected nations. This trajectory stems from falling birth rates and sustained net migration outflows, particularly affecting rural and economically disadvantaged regions. If current trends continue, projections suggest a further 19.1 percent drop in population over the next three decades. The demographic decline is compounded by rapid aging. The proportion of elderly people—those aged 65 and older— surged from 17.9 percent in 2012 to 22.5 percent just ten years later, with forecasts indicating it could reach 30 percent by 2050.

Figure 1: Population trends in Croatia

a. Population change by 10-year period



b. Working age population and dependency ratio

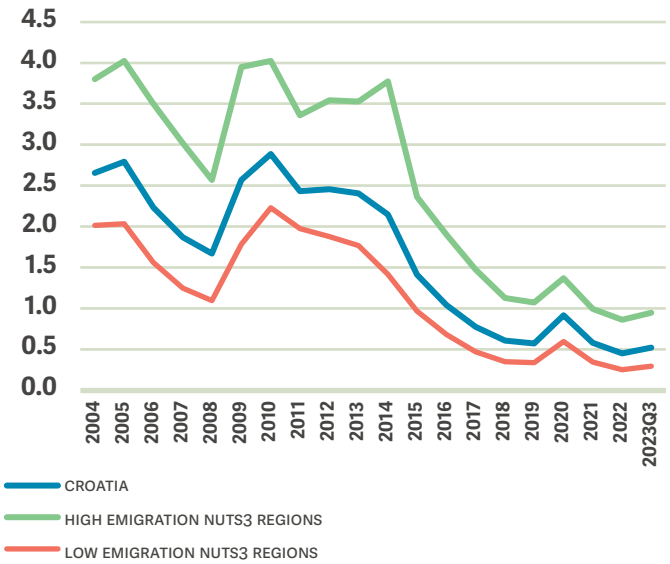


Source: European Commission Eurostat database.

These demographic shifts have created unprecedented pressures on Croatia's labor market, with increasing shortages of workers and skills. The ratio of job vacancies to the registered unemployed population has plummeted in the last decade, indicating continued tightening in the labor market. Since 2016, job openings have consistently outnumbered available unemployed individuals (figure 2), leaving many businesses struggling to fill crucial roles. Recent surveys show that Croatian firms are 50 percent more likely to report difficulty filling positions compared to their peers in Central and Eastern European countries.[1] The situation has been particularly acute in specific sectors, with construction and hospitality experiencing the highest vacancy rates, as well as strategic sectors such as healthcare and research. Firms have increasingly struggled to find cross-cutting digital skills.[2] Geographically, high-emigration regions have seen the largest reduction in the ratio of employed to vacancies (figure 2), particularly Pannonian Croatia. This highlights the link between emigration, particularly of highly skilled workers, and labor and skills shortages.

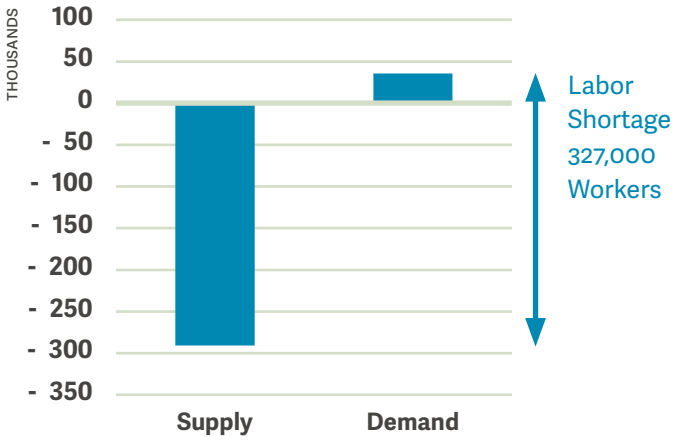
Looking ahead, Croatia might need more than 300,000 workers by 2035. The demand for labor will continue to increase in the coming years fueled by economic growth, although at a moderate pace. Estimates of net job creation based on projections of economic activity show a mild increase of around 36,000 workers between 2022 and 2035.[3] On the other hand, given natural population trends, projections of the labor supply estimate an average annual decline of around one percent during the same period,[4] leading to a cumulative drop in the workforce of 291,000 people by 2035. As a result, Croatia can face an increase in labor shortages of 327,000 workers in the absence of policy changes in the coming decade (figure 3).

Figure 2: Ratio of registered unemployment to job vacancies



Source: Croatian Employment Services (CES) (2004 – 2023).

Figure 3: Projected changes in labor supply and demand in Croatia (2022-35)



Source: Own elaboration based on UN DESA (2024) and CEDEFOP (2023).

[1] European Commission (2023).

[2] World Bank (2022a).

[3] CEDEFOP (2023). Projections based on historical elasticities of employment to GDP growth (0.2) in developed economies (ILO, OECD, and World Bank, 2015), and given the expected long-term economic growth in Croatia during the 2030s (1.7% in per capita terms or 1.1% in absolute terms, World Bank, 2022b), lead to slightly larger cumulative numbers – 65,000 net additional jobs between 2022 and 2035.

[4] UN DESA (2024).

Immigration is being leveraged as a potential solution to address skills needs

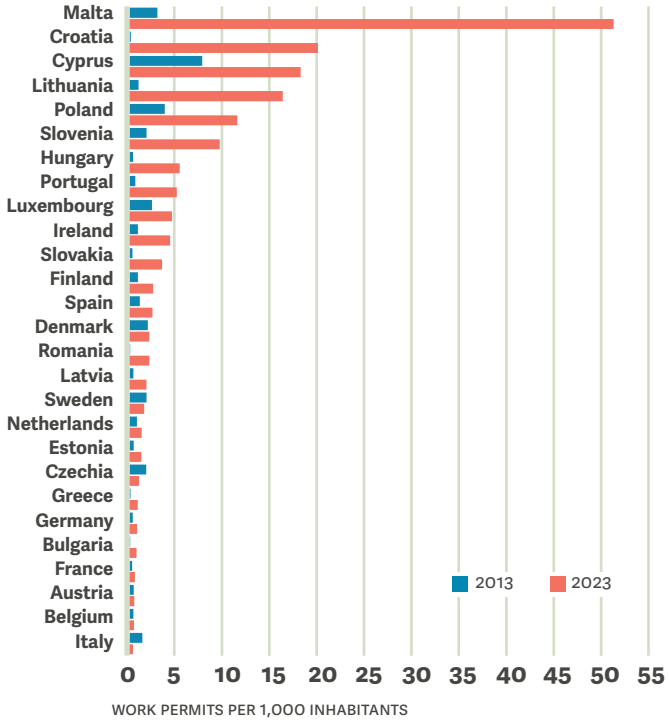
Demographic challenges can be addressed through different channels. Croatia's 2033 Demographic Revitalization Strategy outlines different key prioritizes. One focuses on stimulating the environment for families and youth, in order to help increase the birth rate and labor force participation. Currently, there is an untapped workforce among several groups such as women, youth, and older individuals who work less than their European peers (World Bank, 2024). The 2033 strategy also aims to reduce emigration outflows and promote the return of part of the diaspora and their descendants. However, some of these policies, even if successful, will take time to be effective and will not be enough to fill the large projected gaps in the workforce.

Croatia has increasingly turned to immigration as a solution to these workforce challenges. Foreign-born residents comprise 12.7% of the population, though many are long-term settlers from neighboring countries who have already obtained Croatian nationality. Recent years have witnessed a sharp surge in labor immigration, with annual first-time work permits for foreign citizens rising from under 10,000 before 2016 to close to 80,000 in 2023. In per capita terms, Croatia went from being among the bottom five countries in the EU with the lowest issuance of first-time work permits for migrants by the time of EU accession to now ranking second (figure 4a). The refugee population has also grown significantly, reaching 27,000 in 2023, largely due to displacement from Ukraine following Russia's invasion in 2022. This shift has reversed historical migration patterns, resulting for the first time in a positive net migration balance since 2022 (figure 4b). This means that Croatia now has more individuals coming into the country than leaving.

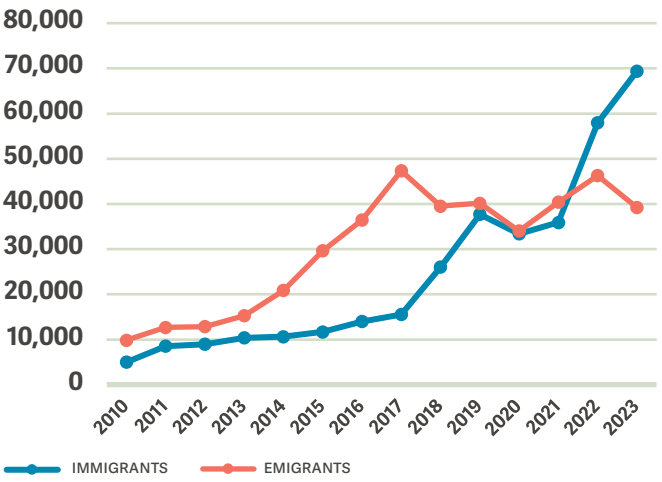
The profile of immigrants has significantly evolved in recent years. While historically dominated by workers from neighboring Western Balkan countries, Croatia is now receiving migrants from more diverse places, with the fastest growing group being South and East Asians, particularly from Nepal, India, the Philippines, and Bangladesh. The new wave of foreign workers is predominantly male in their prime age (figure 5), with an average age of 37.3 years.

Figure 4: Immigration of foreign-born individuals in Croatia

a. First-time work permits per capita

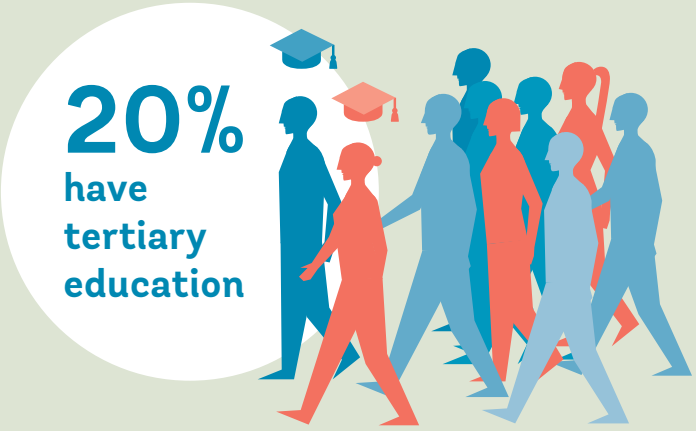


b. Migration inflows and outflows in Croatia



Source: European Commission Eurostat database and CBS (2024).
Note: Immigrants are those arriving in Croatia from abroad and emigrants are those that leave Croatia to reside in a third country.

Figure 5: Profile of foreign-born individuals in Croatia



Migrants provide important economic benefits to Croatia by addressing critical labor shortages and bolstering the welfare system. Foreign workers are actively contributing to the domestic economy. Generally, they have high employment rates — in some cases exceeding those of native Croats — because their legal status is often tied to employment. Immigrants are primarily concentrated in high labor demand sectors, with over 80 percent working in construction, tourism and hospitality, and manufacturing. Beyond their direct labor contributions, migrants stimulate the economy through local consumption and tax payments. Recent simulations suggest that increased immigration yields modest but positive welfare effects for both non-migrant residents and Croatia as a whole (Bossavie et al. 2024).

There are relevant challenges associated with immigration

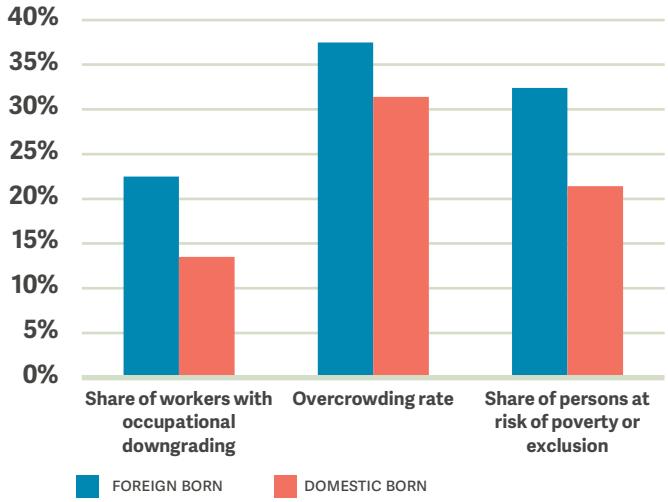
The arrival of an increasingly diverse group of foreign workers may also create challenges if not well-managed. Inadequate information among foreign workers leaves them vulnerable to exploitation and prevents them from reaching their full potential. Many arrive without suitable skills, while language barriers and cultural differences can impede their integration into Croatian society. Evidence suggests substantial skills underutilization in the labor market. Foreign workers are twice as likely as Croatian nationals to work in positions below their qualification level,[5] not only due to limited language skills, but also to imperfect recognition of foreign credentials. Immigrants also face higher risks of poverty, substandard housing conditions, and labor rights violations.

Barriers to immigrants' integration not only have negative repercussions for immigrants themselves but also for Croatia's economy. When immigrants cannot fully utilize their skills and experience, the country suffers reduced productivity. For instance, when an immigrant engineer works as a technician, Croatia loses the opportunity to tap their expertise, particularly valuable in sectors that demand those skills. This underutilization of talent and lower productivity leads to lower earnings, which in turn reduces both tax revenues to finance public services and consumer spending that can support economic growth.

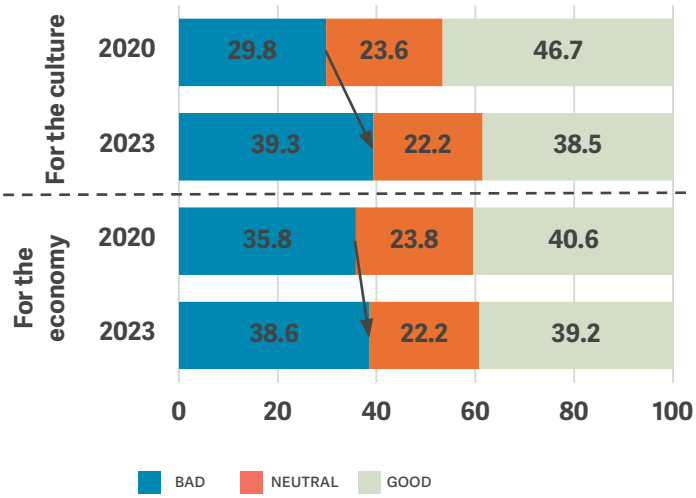
Imperfect integration also affects public sentiment toward immigration, which has become more negative in recent years. Public support for immigration has declined, with only 33 percent of citizens viewing it positively in 2023, down from 42 percent in 2021, placing Croatia below the EU average. This decline coincides with accelerated migration inflows. Attitudes vary significantly across demographic groups, with older, less educated, and rural residents holding more negative views. Recent surveys highlight growing concerns about cultural differences and integration, though many still acknowledge the economic necessity of foreign workers. Without addressing immigrants' integration challenges, public attitudes toward migrants may deteriorate, potentially threatening social cohesion.

Figure 6: Integration challenges and public perceptions

a. Share of vulnerable workers



b. Public opinion on immigration



Source: European Commission Eurostat database and European Social Survey.

[5] 22.5% of foreigners in 2023 were overqualified for their jobs compared to 13.5% of natives, according to Eurostat data.

Croatia has developed its immigration system in recent years

Croatia has made significant strides in developing a comprehensive immigration system over recent decades, with particular emphasis on meeting evolving labor market needs. The country's Strategy for Demographic Revitalization until 2033 aims to achieve a sustainable positive net migration balance, marking a crucial shift in the national policy. The 2020 Aliens Act eliminated the quota system and introduced exemptions from labor market tests for shortage occupations and seasonal work. Further reforms in 2025 aim to extend work permit durations from one to three years, simplify the process of changing employers, and implement stricter employer requirements regarding financial standing, worker qualifications, and domestic-to-foreign employee ratios. Croatia has also been proactively developing bilateral labor and social security agreements with several countries in the OECD, the Western Balkans, and Türkiye to facilitate labor mobility and ensure the portability of benefits for migrant workers.

Croatia's streamlined and partly digitized permit process has become a competitive advantage, particularly in sectors facing labor shortages. The efficiency of the system is evident in its processing times of two to eight weeks for cases not requiring labor market assessment, notably faster than other EU countries such as Germany or Spain, which can last one to six months (IOM, 2024). The expedited processing times is a key reason for migrants increasingly to choose Croatia over other EU destinations despite receiving lower wages.

The country has also made some progress in enhancing migrant services to improve the overall migration experience. Foreign workers with valid documentation receive full access to Croatia's healthcare system, and the Croatian Employment Service offers various active and passive labor market programs to eligible migrants, including access to unemployment benefits. Recognizing language as a crucial barrier to workplace effectiveness, the government has introduced an innovative voucher scheme for Croatian language training. This voluntary program requires employer contributions of 30-50 percent of total costs, demonstrating a collaborative approach to integration support.

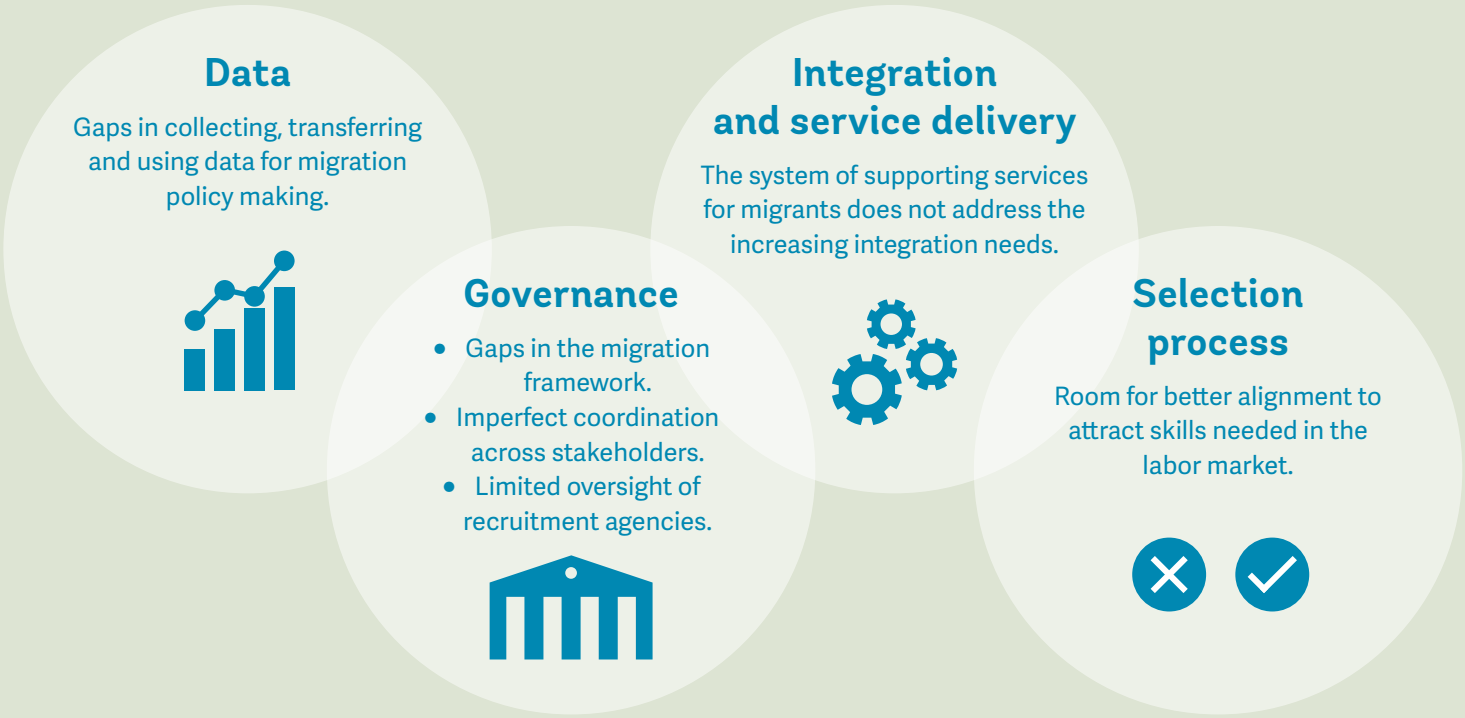
Important gaps in the migration system remain

Challenges remain in several areas that have implications for the foreign workers' labor market outcomes in the country. These challenges include: (i) gaps in the governance frameworks and imperfect coordination between stakeholders; (ii) limitations in the selection process of foreign workers to import the skills needed in the labor market; (iii) limited provision of services to foreign workers that hamper their integration process; and (iv) data gaps that prevent more informed migration policies from being implemented.

Some gaps exist in Croatia's immigration governance framework. An overarching migration strategy to coordinate responsibilities across government and non-government actors is currently not in place. This results in a fragmented system with limited coordination, especially between the national and local levels. The country has also yet to develop key bilateral agreements with major source countries of immigrant workers such as Nepal, India, and Bangladesh, and a stronger oversight of the work carried out by recruitment agencies. The latter generate potential risks for migrants and impact on the availability of the required skills in the labor market. The current system involves recruitment agencies in both Croatia and the source country, which drives up costs for migrants, and could result in indebtedness and the acceptance of substandard working and living conditions by migrants.

The selection process of foreign workers has room for improvement to better align with labor market needs. While progress has been made, a vision for the types of migrants and entry channels required could be further developed. Challenges include delays in responding to labor market needs, limited incentives to attract higher skills, and information asymmetries between firms and workers. This has led to persistent skill mismatches and vulnerabilities for foreign workers.

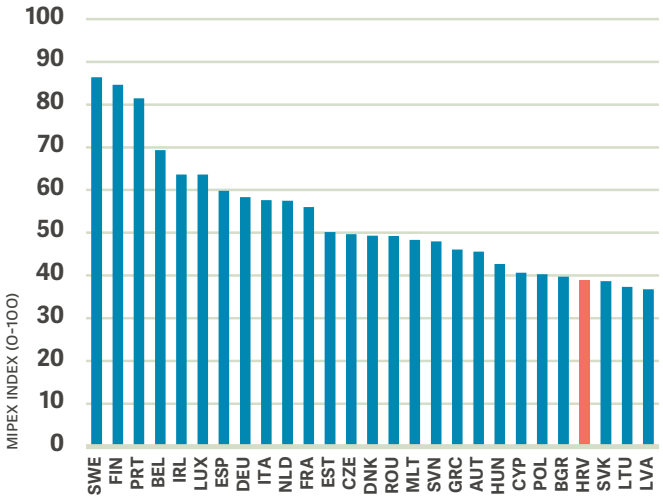
Figure 7: Migration challenges in Croatia



Integration support for foreign workers remains fragmented and underdeveloped. Language training, credential recognition, and navigation of local bureaucracies are key challenges, especially for newcomers from more geographically distant countries of origin. Economic migrants in Croatia heavily rely on support from their employers. In general, services are fragmented across different public and private providers, and migrants face barriers in accessing them due to language, imperfect information, and digital divides. Overall, Croatia lags behind EU countries in terms of integration policies (figure 8). This can negatively impact migrant workers, employers, and broader social cohesion.

Limited data availability hinders the implementation of evidence-based policies. Currently, data on the composition and profile of the migrant population is limited. Challenges include lack of detailed demographic and skills data, fragmentation and limited standardization of data, imperfect interoperability of systems across ministries, and delayed information sharing with local authorities.

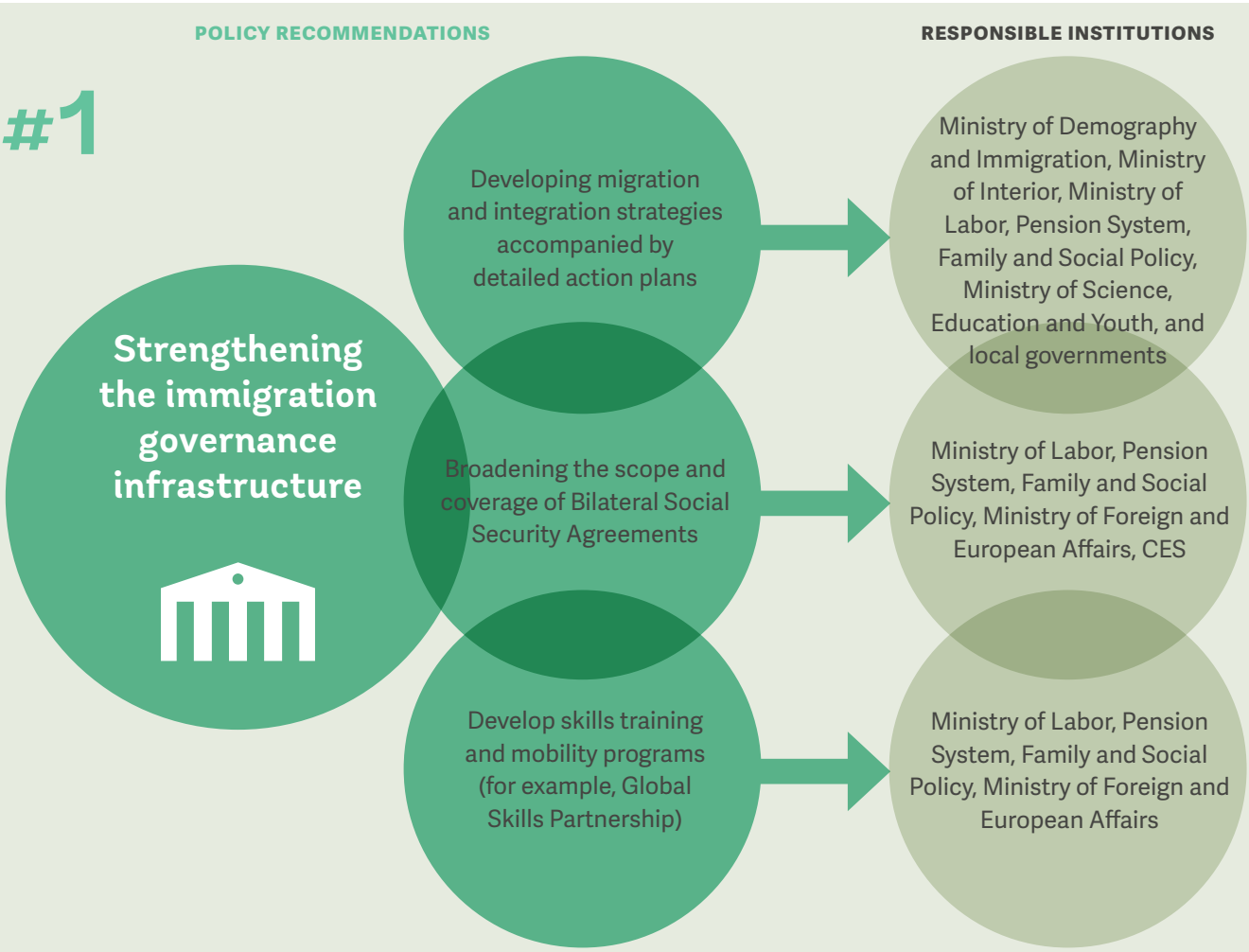
Figure 8: Measure of integration policies across EU countries



Source: MIPEX (2020).
Note: The MIPEX score is based on a set of indicators covering eight policy areas (labor market mobility, family reunification, education, political participation, permanent residence, access to nationality, anti-discrimination, and health). A maximum of 100 is awarded when policies meet the highest standards of equal treatment.

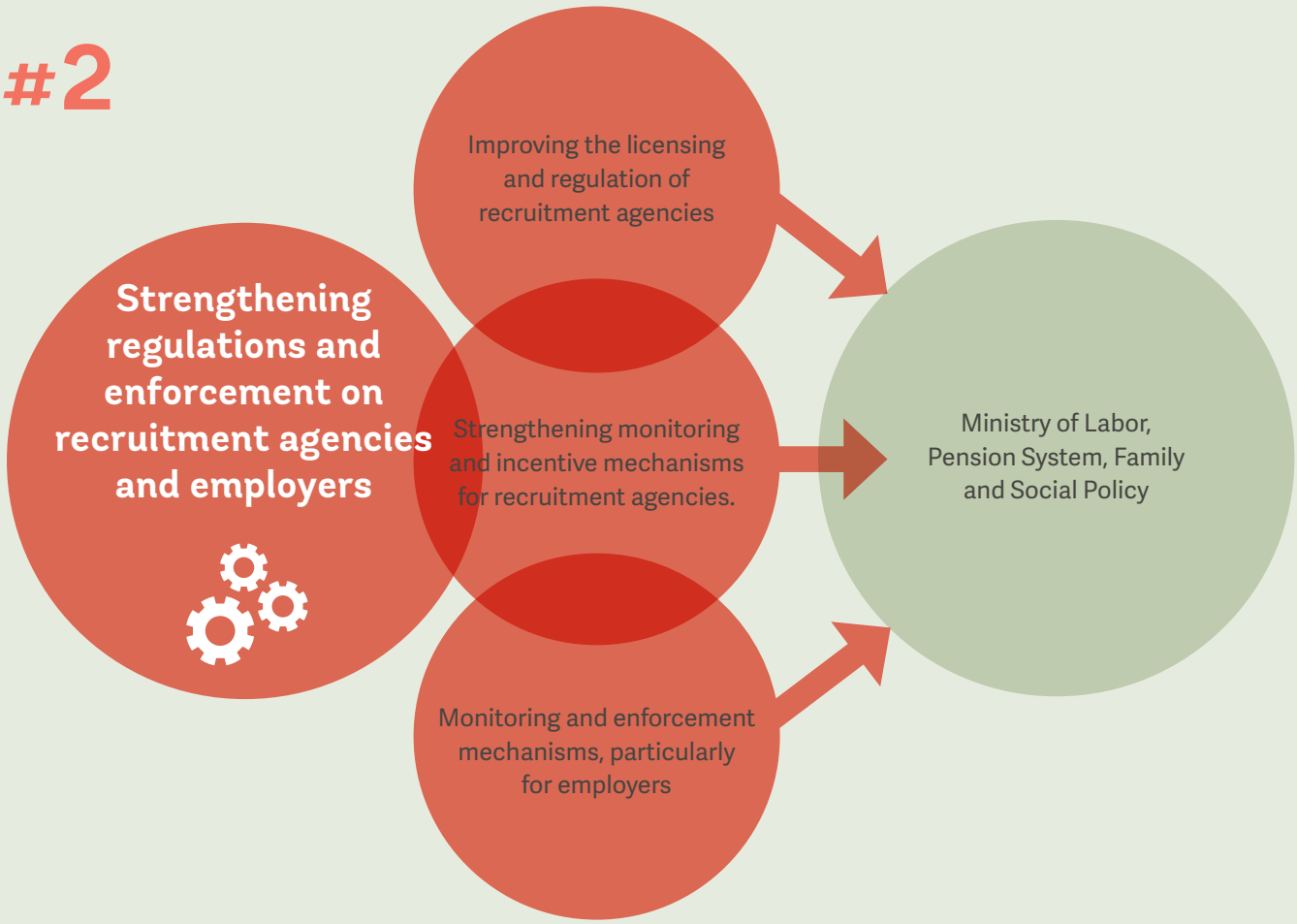
Policymakers can further invest in actions to better harness the potential benefits of immigration

Croatia can strengthen its migration policies, drawing on global practices and innovative models. There are five broad areas where policy makers can focus their efforts to better harness the economic and social benefits of well-managed immigration for long-term economic development: (1) enhancing the governance framework; (2) strengthening regulations on recruitment agencies; (3) better aligning the selection process to economic needs; (4) further investing in integration support for migrants; (5) and better leveraging technology and data to improve the overall migration system.



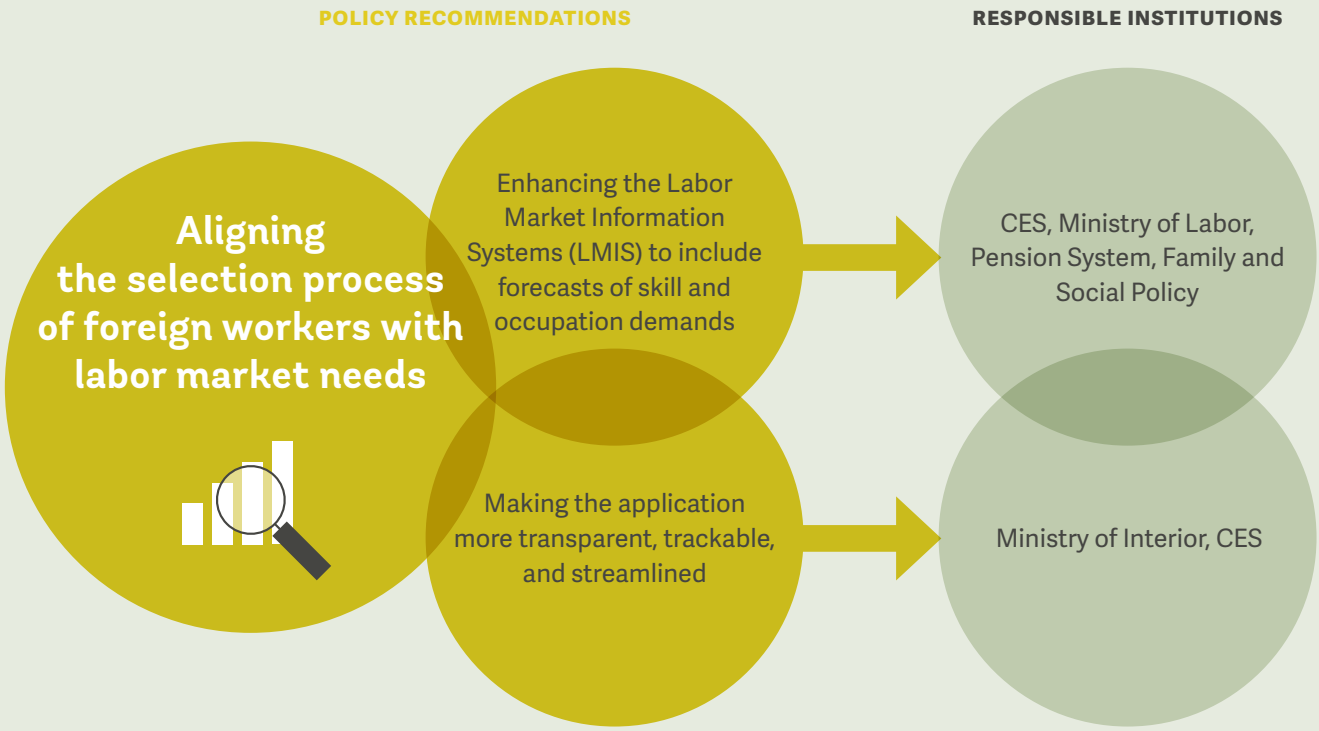
- Croatia can develop a comprehensive migration strategy that identifies priority migrant profiles crucial for its economic development, supported by concrete action plans, timelines, and adequate funding. This strategy should encompass mechanisms to attract, train, and integrate foreign workers effectively, incorporating public awareness campaigns to align public sentiment with national priorities.
- To reinforce formal migration pathways, Croatia can expand its network of bilateral and multilateral labor and social security agreements with key sending countries. These agreements can facilitate data sharing, ensure the portability of benefits, and strengthen legal protection for mobile workers.

- Global Skills Partnerships (GSP) present a particularly promising model for Croatia. This innovative approach involves training workers in their countries of origin, focusing on the skills demanded in both sending and receiving nations. GSPs ensure mutual benefits, addressing brain drain concerns and meeting Croatia's specific skills needs. The GSP framework aligns naturally with Croatia's objectives for a more responsive immigration system to labor market needs. The country can leverage its established shortage occupation list, recent TVET reforms, existing relationships with origin countries, and various financing mechanisms to implement an effective GSP model.

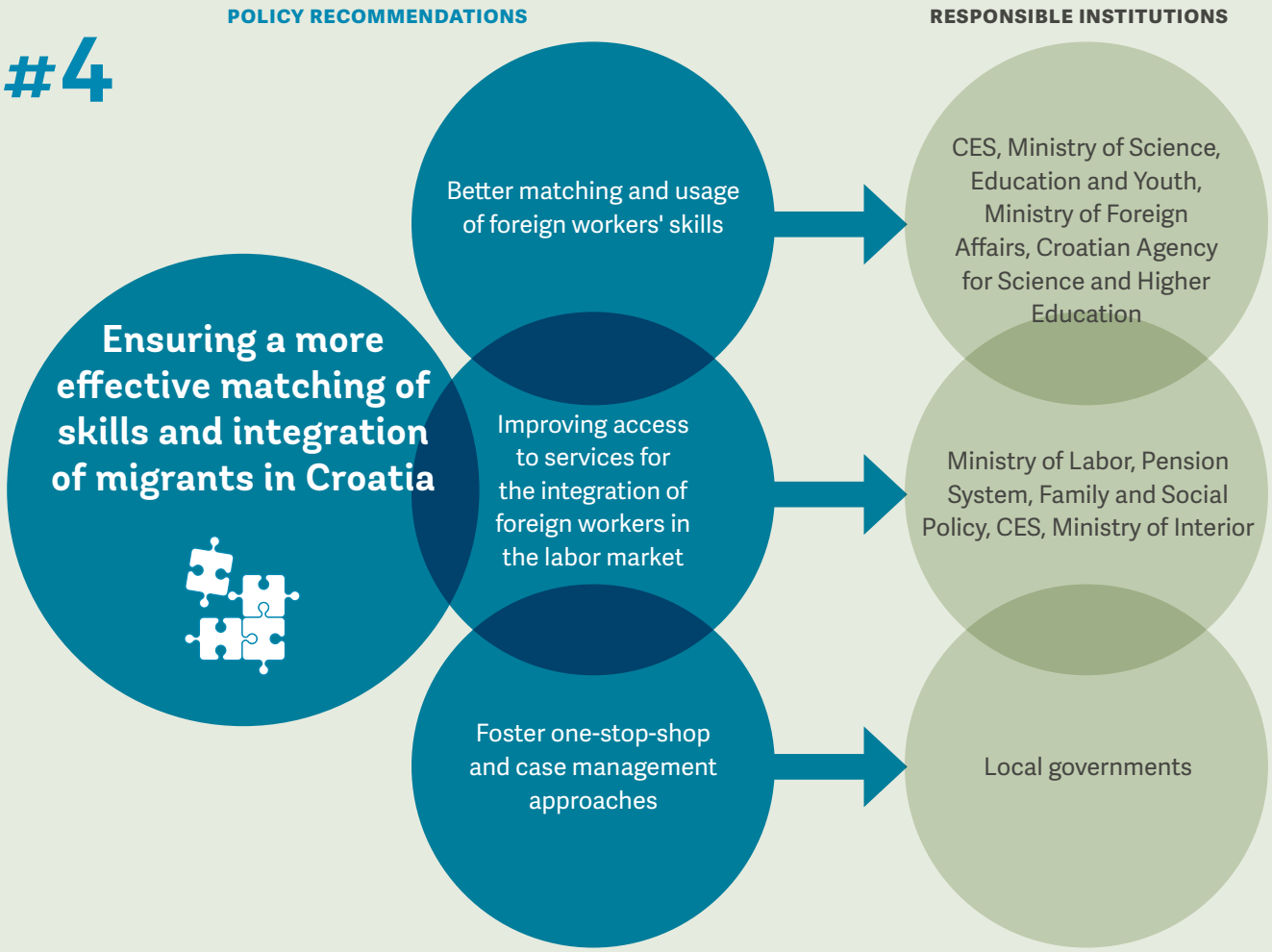


- Croatia needs to establish recruitment agencies' licensing and monitoring to reduce migrants' costs and enhance their legal protection. This includes developing comprehensive training of agencies, improving performance transparency with rating systems, and promoting industry self-regulation through professional associations.
- For employers, Croatia should invest in robust monitoring and enforcement mechanisms to ensure labor law compliance. This requires implementing risk-based inspections and balancing penalties for violations with incentives for compliance.

#3

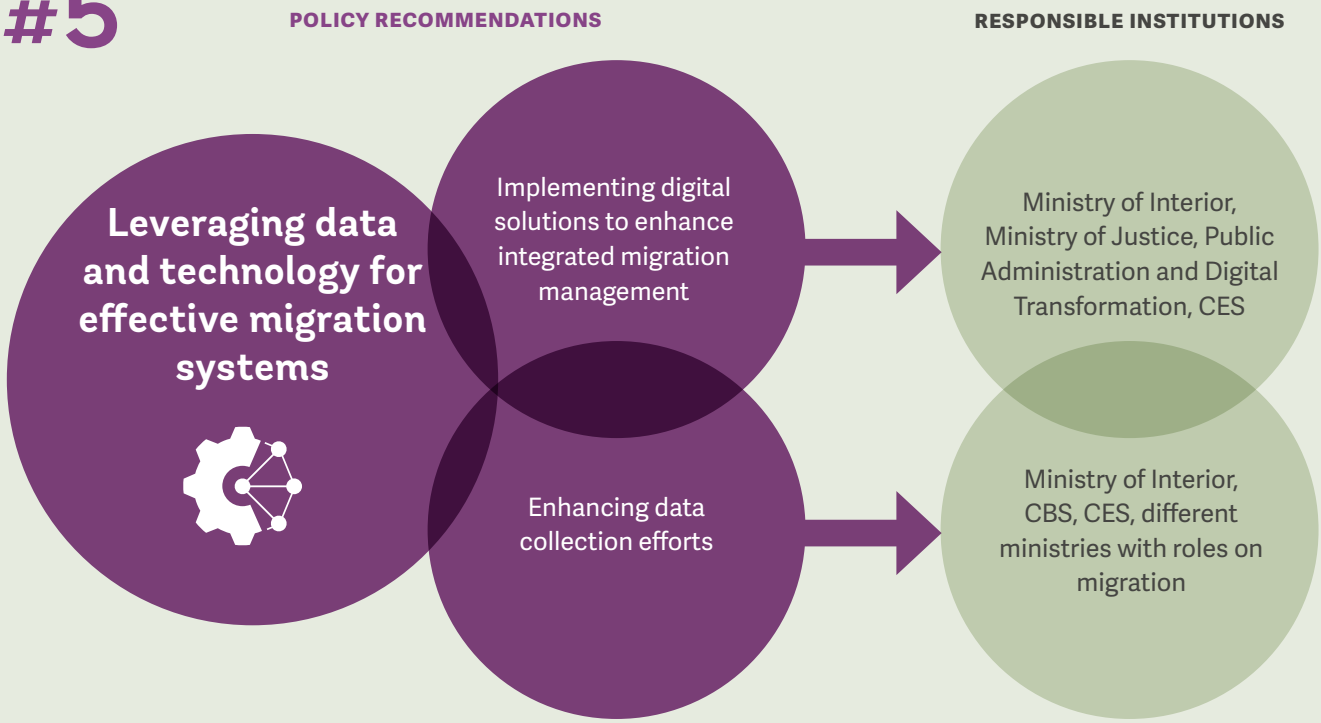


- Croatia can strengthen its labor market information system through comprehensive data collection, advanced analytics, and expanded consultation with employers and unions. A robust system would enable migration policies to better address projected shortages and regional investment plans. The UK's Migration Advisory Committee offers a valuable model for assessing skills needs and informing responsive immigration policies.
- The selection process would also benefit from greater transparency to ensure that both employers and migrants clearly understand the eligibility requirements and evaluation criteria.



- Croatia can improve information provision to migrants during recruitment, offering detailed job information and requirements in migrants' native languages. This approach reduces costs, protects workers, and improves job-skill matching.
- Strengthening systems to recognize foreign qualifications is essential for maximizing migrant employability and addressing skills shortages. This requires enhanced cooperation with origin countries on quality assurance standards.
- Integration support for migrants can be expanded through comprehensive service provision such as orientation programs, language training, and improved access to labor market programs. International evidence shows that language courses integrated into initial training programs significantly improve labor market outcomes.
- One-stop-shop service centers offering centralized information and services through case management models can provide more effective assistance. The delivery can be enhanced by offering services in multiple languages and through various channels. Local authorities can lead outreach efforts and service innovation, while central authorities can encourage local experimentation, evaluating and scaling up successful initiatives.

#5



- Enhanced data collection on immigrants would enable more informed policy making. A centralized dashboard tracking immigrant profiles, skills, and integration outcomes can help optimize service delivery to meet evolving needs. Local authorities can develop tailored monitoring systems that feed into national frameworks.
- Administrative process digitization can streamline procedures, improve service access, enhance inter-agency coordination, and support enforcement efforts. Encouraging migrants' adoption of the Croatian eID is crucial for facilitating digital government interactions.
- A more data-driven, technology-enabled, and coordinated approach to migration governance can position Croatia to better address its evolving labor market and demographic challenges.

Looking ahead: a collaborative future

As Croatia navigates the complexities of immigration, it is essential for both policy makers and citizens to recognize the potential for growth and innovation that a diverse workforce can bring. By embracing immigration as an important human resource strategy, the country can tackle labor shortages and stimulate sustainable economic development.

The policy measures discussed in this overview can help Croatia create a more effective, equitable, and resilient immigration system that benefits both native and foreign-born populations while supporting the country's long-term development goals. Success will require sustained commitment from all stakeholders, but the rewards—a more vibrant, thriving Croatia—are well worth it.

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