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Croatia's Preparation for EU Accession

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Croatia's Preparation for EU Accession





The wiiw Balkan Observatory

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About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



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Croatia's Preparation for EU Accession

Introduction

The aim of the paper is to analyse the present position, achievements, prospects and challenges of Croatia's integration into the European Union in the light of new instruments that are being introduced to the Stabilization and Association Process after the Thessaloniki summit.

After submitting its application for membership in the EU (February 2003) and answering the extensive Questionnaire of the European Commission (October 2003), Croatia is making preparations for the next phase of relations with the EU. The new Government, elected in the parliamentary elections in November 2003, underlined integration into the European Union as a high priority in its programme.

This Government is facing the challenge to complete the already advanced work on the EU accession and Croatia's entry into the EU. A broad consensus to integrate into the EU exists in Croatia. The potentials to fulfil the goal and finalise the preparations for the EU accession by the end of 2006 are supported from two sides: the political will and Croatian citizens. On the level of general political readiness, there is a consensus among political parliamentary parties, which was confirmed by the Parliament's adoption of the Resolution on the Accession to the EU (December, 2002). On the other hand, there is a strong public support in Croatia towards integrating into the EU. All public opinion surveys carried out since 2000 on a six month basis showed that between 73% and 78% of population¹ have positive attitude towards integration.

It is clear that the speed of integration will primarily depend on the ability of the country to implement the internal reforms together with the obligations undertaken within the Stabilization and Association Agreement. The achievement of candidate status is crucial for Croatia in this moment, since the country is facing different needs from those at the stage when the Stabilization and Association Process was created for the region. Therefore, the paper approaches the topic from two sides: external framework (new quality of relations between the EU and the SAP region) and internal preparations in Croatia.

New prospects for integration after the Thessaloniki summit

Croatia's path towards the European Union is grounded within the Stabilization and Association Process. The Stabilization and Association Process (SAP) developed as a

¹ The Ministry for European Integration carries out regular public opinion surveys to examine the level of support, expectations and knowledge on EU integration issues. Until now, seven public opinion surveys have been carried out.

framework to contribute to the long-term security and stability of South-East Europe, bringing the region closer to the European integration, introduced new type of association agreement with the EU. The Stabilization and Association Agreement (SAA) combines provisions similar to those covered by the Europe agreements with the stabilization part, stressing the component of regional co-operation in particular. On the other hand, it opens the possibility of individual progress towards a later stage of membership negotiations.

As it is known, the Santa Maria de Feira European Council (June 2000) confirmed for the first time that the EU objective remained the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilization and Association process, political dialogue, liberalization of trade and co-operation in Justice and Home Affairs². Furthermore, "*a clear prospect of accession*" once the relevant conditions have been met, linked to the progress in regional co-operation, was foreseen at the Nice Summit (December 2000)³. The Copenhagen European Council (December 2002) reaffirmed this perspective, while the Brussels European Council (March 2003) concluded that "*the future of Western Balkans is within the EU*".

The Thessaloniki European Council (June 2003) gathered heads of state and governments of the EU member states, the acceding and candidate countries and the countries of the Stabilization and Association Process, and confirmed the European perspective of the five SAP countries, stating that "*Western Balkans countries will become an integral part of the EU, once they meet the established criteria*"⁴. Thessaloniki made a link between the Stabilization and Association Process and the enlargement, stressing the principles of differentiation based upon "*own merits*" and possibility to "*catch up*" with the present candidate countries. Furthermore, it brought the *enlargement kind* elements into the process, engaging new instruments for the countries of the region.

The SAP will remain the framework of the EU policy for the region until accession, enriched with elements drawn from the enlargement process. It became clear that progress in integration into the EU would depend on the individual performance of the countries in a wide range of reforms of their economies, standards of democracy, human rights, good governance and respect for the rule of law. Therefore the *Thessaloniki Agenda for Western*

² The Presidency Conclusions of the Feira European Council explicitly recognised the countries' vocation as "potential candidates for EU membership. The Union will support the Stabilization and Association process through technical and economic assistance... The European Council encourages the States of the region to increase their regional co-operation, including through regional trade arrangements. The EU is ready to intensify its co-operation with them, including in economic and financial assistance, political dialogue, free trade, approximation of EU legislation and co-operation in other policy areas." Santa Maria de Feira Presidency Conclusions. 19 – 20 June 2000.

³ Nice Presidency Conclusions. 7, 8, 9 December 2000.

⁴ EU-Western Balkans Summit, Declaration, Thessaloniki, 21st June 2003.

Balkans was a significant step in relations with the countries of the region⁵ and, at the same time, it opened the new perspective for Croatia as the new applicant country, which is well advanced in implementing the SAA, preparing for the next stage of integration. Through the *Thessaloniki Agenda* the EU sent a message that it is committed to the Western Balkans as a long-term investment in peace, stability, democracy and economic development⁶.

At the Thessaloniki Summit the European Commission agreed that some important instruments used in the current enlargement process should be used for the countries of the region. Thus, several actions were initiated to strengthen the SAP. These include European Partnerships, strengthened political co-operation in the area of Common Foreign and Security Policy, enhanced support for institution-building, promoting economic development and opening of Community programmes to SAP countries.

The following progress has been made since Thessaloniki:

European Partnerships: Inspired by the Accession Partnerships for the candidate countries, European Partnerships are being drawn for the SAP countries individually, in accordance with the specificities of each country. The European Partnerships will identify priorities for action in supporting efforts to move closer to the EU and will serve as a checklist against which to measure progress. They will more likely reflect the particular stage of development of each particular country and will be tailored to specific needs. In November 2003, the EC adopted a proposal for a Framework Regulation⁷ that will provide the legal base for the Partnerships. It is expected that the Commission will submit the first set of Partnerships to the Council for approval with the next SAP Annual Reports (March 2004). Although the proposal does not exclude the use of pre-accession instruments, it seems that European Partnerships are not so closely linked to EU financial sources, as it was the case with Pre-accession Partnerships. On the other hand, as the countries of the region are progressing in the process of integration, their needs to access the pre-accession funds in the near future are more stressed. This is particularly the case in Croatia and therefore the country very much appreciates the intention of enriching the SAP with new instruments and the idea of European Partnerships, stressing in the same time the need of making a clear link between them and Community financial resources.

⁵ As the European Commission President, Mr. Romano Prodi has stressed in Thessaloniki, "Europe's unification will not be complete until the Balkan countries are members of the Union. ...the enlargement process is one and indivisible. And today I am totally convinced we have set that process irreversibly in motion".

⁶ Heads of States and Governments of EU Member States and SAP countries agreed to hold regular meetings, within the framework of the EU-Western Balkans forum. Their purpose is to discuss issues of common concern, review progress of SAP countries on their way towards the EU, and to exchange views on major developments in the EU.

⁷ Proposal for a Council Regulation on the establishment of European Partnerships in the framework of Stabilization and Association Process. COM(2003) 684 final.

Enhanced support for institution-building: Twinning programmes as a secondment of civil servants from EU Members to work as advisers were originally developed for candidate countries and they are extended to SAP countries. Twinning programmes are already functioning in Albania, Bosnia and Herzegovina and Croatia and they are also announced in other countries. Promoting the inclusion of experts from the candidate countries on the grounds of the *twinning* model was very important, as a direct transfer of know-how and experience of state officials from donor countries contributing also to institution-building. In the first phase twinning could be applied in certain sectors (public administration reform, JHA, public finance and adjustment of laws related to functioning of internal market) but it would be useful to extend it to all fields of the *acquis*. Another important opportunity is the eligibility for the services of the Technical Assistance Information Exchange Office (TAIEX), which was an important instrument in providing targeted technical assistance to the candidate countries' systems in line with Community legislation. TAIEX was opened for Croatia at the end of 2003 and its assistance will be particularly important for legal harmonization in priority areas of internal market, environment protection, transport as well as agriculture and fisheries.

Promoting economic development: To increase the region's export possibilities, extension of pan-European diagonal cumulation of origin to the countries of the region was announced, depending on Western Balkan countries' administrative capacity. The memorandum of Understanding on a Regional Energy market was signed by the countries of South-eastern Europe including Croatia, and the European Commission (December 2003) making the space for the establishment of integrated regional energy market by 2005. The Memorandum of Understanding on development of SEE Core Regional Transport Network should be concluded by 2005. Furthermore, SEE countries were invited to accept and support the principles of the European Charter for Small Enterprises.

Opening of Community programmes and agencies: Countries of the region will have the possibility to take part in the work of some of the EU programmes and agencies. Priority areas include education and training, culture, research, energy, environment, civil society, SME support, and anti-fraud coordination. Recently the Communication was prepared by the Commission setting the framework and time schedule for this initiative (December 2003).

Sharing opportunities. The proposal to open tenders under the pre-accession Community assistance programmes PHARE, ISPA⁸ and SAPARD⁹ was prepared by the Commission

⁸ ISPA - Instrument for Structural Policies for Pre-Accession

⁹ SAPARD - Special Accession Programme for Agriculture and Rural Development

(December 2003). This would stimulate cooperation between companies from the region with the EU operators. The proposal might become operational in the first half of 2004¹⁰.

In short, it could be concluded that the Thessaloniki Summit was a step forward in terms of bringing the SAP countries closer to the EU integration. Hopefully, what Copenhagen European Council in 1993 meant for acceding countries of Central and Eastern Europe, the Thessaloniki Summit held ten years later might mean for the five SAP countries. One of the most important achievements was that a clear European perspective was opened for the region. The summit made a link between the SAP and the enlargement process, stressing the principles of differentiation based upon "*own merits*" and possibility to "*catch up*" with the present candidate countries. Furthermore, it brought the *enlargement kind* elements into the process, envisaging new instruments for the countries of the region.

From the point of view of Croatia, there was an urgent need for additional incentive and the expert support in the process of adjusting the Croatian legislation with the *acquis* within the scope of the CARDS programme¹¹. Having in mind the fact that SAP countries made different progress in legal harmonization and preparation of annual programmes, Croatia supported the idea of developing assistance that should be adapted to dynamics of legal harmonization in each recipient country of the CARDS programme on a case-by-case basis. Therefore Croatia was suggesting investment-type projects to be introduced in the CARDS programme with a view of implementing the *acquis* in fields such as environment protection, transport, technical legislation, market surveillance and the creation of infrastructure for the functioning of the internal market in recipient country¹².

However, only few of the mentioned initiatives are already in the process of implementation and therefore the period of the Irish Presidency is extremely important for Croatia, not only due to the fact that in this period Croatia is expecting the Commission *avis*, but also having in mind that the new initiatives are expected to become operational during the current Presidency. Apart from the announced qualitative changes, at the present level of preparations in Croatia it is of utmost importance to get access to the pre-accession funds (ISPA, SAPARD), which will enable the country to continue the demanding work on legal harmonization and finish the reforms in the same way as it was in the other candidate countries. More generally speaking, there is still strong need to introduce and strengthen the elements of economic and social cohesion in the CARDS programme that could

¹⁰ Proposal for a Council Regulation amending Council Regulations ... in order to allow the SAP countries to participate in tenders organised under the pre-accession Community assistance programmes.

¹¹ Croatia is benefiting from the CARDS programme developed for the SAP countries. Mechanisms for co-ordinating, programming and management of CARDS have been established and the implementation of CARDS is under way. The annual contribution from the CARDS programme is around 60 million euro, allocated to economic and social development, democratic stabilization, justice and home affairs and administrative capacity building.

¹² CARDS programme - preliminary assessment and perspectives of introducing elements of pre-accession strategy for Croatia. Institute for International Relations. Zagreb, May 2003.

stimulate speeding up of adjustment of the countries that have already signed the SAA to European standards.

After the 2004 enlargement which will be formally finalised in May 2004, there will be two groups of countries sharing the goal of being integrated into the EU: Bulgaria and Romania on one side, and the SAP countries on the other. Croatia is at the moment the only applicant country. Another one, Republic of Macedonia, is preparing its application. Bosnia and Herzegovina has received recently the positive Feasibility Study but has to fulfil the preconditions for starting negotiations on the SAA. In January 2003, the negotiations for the SAA between the EU and Albania were officially launched. Serbia and Montenegro have the chance to join the other countries on the way to integrate the EU once they meet the necessary political and democratic preconditions.

On the other hand, Bulgaria with 26 and Romania with 20 provisionally closed chapters¹³ are already long way ahead in the negotiations and in the European integration process in general. The SAP countries have the advantage of learning from the acceding countries, from Bulgaria and Romania, as well as from each other, in this process. This advantage is one of the pillars of the intended *"fast track"* road and Croatia tries to use it to maximum benefit of speeding up the process.

Croatia: towards the candidate status

The Stabilization and Association Agreement between Croatian and EU and its member states was signed in October 2001. The Croatian Parliament ratified the SAA on December 5th 2001, and the European Parliament did so on December 12th. The Agreement will come into force after being ratified by the parliaments of all the EU member states and it is important that the SAA comes into force in spring 2004. The remaining countries for ratification are the UK, the Netherlands and Italy¹⁴. Croatian Government is giving highest priority to the remaining political preconditions (cooperation with ICTY, refugee return, judiciary reform) being aware of the fact that starting negotiations is conditional upon the fulfilment of political criteria.

During his recent visit to Croatia (November 2003), the EU Commissioner Gunther Verheugen welcomed the progress Croatia made in implementing the SAA stating that *"Croatia should join the EU when it meets the accession criteria, and it should not have to wait until the last country in Western Balkans is also ready."* At the same time he

¹³ The status of December 2003.

¹⁴ The status of January, 2004.

underlined that “As in all other cases, the political criteria will play a key role in this context – and Croatia must meet them before negotiations can start.”¹⁵

In the meantime, before the Agreement enters into force, trade and transport provisions of the SAA have been applied as of 1st January 2002, through the *Interim Agreement on trade and related issues between the European Community on one hand and the Republic of Croatia on the other*, which came into force on 1st March 2002. Meetings of the Interim Committee and its five sub-committees as joint bodies¹⁶ of the Republic of Croatia and the European Commission responsible for the supervision of the implementation of the Interim Agreement ensure communication with the EU bodies, as well as an exchange of information on how Croatia is progressing in the implementation of standards and legal regulations of the EU in specific areas. This helps to determine the steps that will be needed in the further implementation process.

Since its signature, Croatia has been meeting the obligations undertaken within the SAA. The detailed Implementation Plan for the SAA was adopted before signing the Agreement, consisting of almost 400 measures with clearly defined deadlines and bodies responsible for implementation. It is been updated regularly with new obligations. The implementation of the SAA has been made transparent through regular monthly and yearly reports submitted to the Government. Reports prepared during 2002 and 2003 showed significant progress in adopting European standards. There were certain delays regarding implementation, but it did not bring into question the deadlines envisaged by the SAA, due to the fact that the Plan followed an accelerated implementation agenda.

Similar to the experience of the candidate countries, the National Programme for Integration of the Republic of Croatia into the European Union has been adopted¹⁷ as a roadmap for legal harmonization. The Programme became the main co-ordinating instrument, focusing on all steps in legal harmonization, starting with the year 2003. The Implementation Plan has been merged with the National Plan of Integration which made a single implementation and monitoring instrument for all areas of adjustment, including legal harmonization.

Using the terminology of the SAA implementation, the following progress has been achieved so far: the mechanism to co-ordinate the process was established within the Croatian government; monitoring and reporting system for the SAA has been developed;

¹⁵ “Croatia in Europe: prospects and opportunities”. Speech by Gunther Verheugen, Zagreb, November 13th 2003.

¹⁶ Before the SAA enters into force and starts operating its own bodies, the Interim Committee is in function together with five subcommittees: Economic and financial matters, Agriculture and fisheries, Internal market, Customs and taxation, Transport).

¹⁷ National Programme of Integration into the EU for 2003 was adopted by the Government on December 12 and by the Croatian Parliament on December 18, 2002. For 2003, 50 legal acts and 33 by-laws were envisaged to be harmonised with the acquis. The plan for 2004 has been prepared and is within the Government procedure.

progress has been made in implementing the political preconditions; mechanisms for co-ordinating, programming and managing of CARDS have been established and the implementation of CARDS is underway; regional co-operation with the SAP countries has been enhanced within bilateral and multilateral framework; trade liberalization has started within the Interim Agreement; legal harmonization is underway; progress has been achieved in analytical work regarding the impact of EU integration, as well as information dissemination, translation, education and training on EU integration issues.

The European Council asked the Commission on April 14, 2003 to start the preparations for the *avis*. Croatia prepared the answers on a comprehensive questionnaire with more than 4500 questions in the period June-October 2003 and submitted to the European Commission. It was a comprehensive material on almost 10000 pages which was a joint exercise of all public administration bodies and a sort of “*self screening*” of the situation in all the areas of society. Based on this, the progress of reforms and the level of readiness for negotiations will be evaluated by the EU side. Croatian application for EU membership is currently under examination by the Commission. The *avis* is expected in April 2004. It will hopefully give Croatia candidate status and open the door for the start of negotiations in autumn 2004.

There are at least three reasons why it is important that Croatia becomes the candidate for EU membership. First, the candidate status will reflect the progress achieved in meeting the goals set by the SAA and at the same time it should enable the country to continue more effectively the internal reforms with the pre-accession support from the EU side. Second, since the EU integration is convincing motive for changes and the strongest cohesion factor in the SEE countries, Croatia's future candidate status has enormous importance for the region - it could motivate the other countries to follow the example and build stable democratic state structures capable of meeting the European Union membership criteria. Finally, it is not less important for the European Union since it will prove that the Stabilization and Association Process is a well-designed process able to generate new candidates for the accession into the EU thus making a link with the enlargement process, relying on the principles of individual merits, differentiation and catching up.

Progress in implementing reforms

Progress in implementation of SAA will be among the most important factors for a positive stance of the EU and the speed of integration will depend on how Croatia will prove its efficiency in implementing reforms and accepting the European standards in practice. The stage of implementation of the SAA, together with the overall macroeconomic picture of the country and the stage of reforms might give an answer to how Croatia could be positioned

regarding the Copenhagen criteria¹⁸. The implementation of the SAA will help Croatia fulfil the criteria that are the preconditions for each candidate becoming an EU member.

In its second Stabilization and Association Report for Croatia (presented in April 2003), the European Commission recognised that the political situation in the country remained generally stable, the economic situation continued to improve while the Government has adopted an ambitious programme for integrating Croatia into the EU. It underlined that the implementation of the SAA is being co-ordinated in a highly efficient and professional way.

Among the most important achievements is the fact that the World Bank Country Economic Memorandum for Croatia (September 2003)¹⁹ underlined high growth rate (in 2003 5,1% of GDP) and the progress in adopting EU market laws and institutions. At the same time, it underlined priority sectors and areas where strengthening of reforms is needed. Judiciary reform, public administration reform, strengthening of the capital market, education reform, working market liberalization, reducing subsidies in agriculture, strengthening property and creditor rights as well as establishing sustainable fiscal environment were stressed as priorities.

In the period after signing the SAA, progress has been made in implementing specific political preconditions. Legal framework for minority rights has been adopted, as well as legal framework for media reform. It is a process in which continued work is necessary, particularly regarding the implementation and law enforcement. Fulfilling the remaining political preconditions before starting negotiations with the EU is a high priority of the country and therefore full co-operation with the ICTY and the finalization of the process of refugee return remains a top priority on the agenda, together with the implementation of judiciary reform.

Regional co-operation with the SAP countries has been enhanced. Through different bilateral and multilateral mechanisms Croatia is contributing to the stability and co-operation in South-Eastern Europe and will continue with these efforts, since the stability of the region is a precondition for its own stability and prosperity, as well. Croatia is making efforts to contribute to that stability by assuming the role of a political and economic model in the region. By advancing in the EU integration process Croatia assumes even greater responsibility for supporting stability and prosperity in the region, thus contributing an added value to the SAP.

Together with economic reforms launched earlier, the implementation of the SAA has significantly contributed to progress towards meeting the economic Copenhagen criteria.

¹⁸ The conditions for EU membership were defined at the European Council Summit meeting in Copenhagen, in June 1993.

¹⁹ Croatia is the first EU non-candidate country for which such a World Bank study has been carried out.

They include both, functioning market economy and the ability to cope with the competitive pressure of the EU. Having in mind the present level of economic development, the maintained macroeconomic stability, level of liberalization of trade and prices, the progress in setting up a regulatory framework related to internal market, as well as development of financial sector, it could be concluded that Croatia could relatively soon be considered as a functioning market economy but it still does not fulfil the second economic criterion due to the present level of competitiveness.

As it was underlined by the EU report, *The Western Balkans in Transition* (2003), Croatia is the largest in economic terms among the SAP countries with the GDP amounting to half of the total GDP of the region (5099 US\$ per capita for 2002). However, the priority remains continuation of structural reforms, including speeding-up of privatization, fiscal consolidation, enterprise restructuring, judiciary and public administration reform, as well as reforms in education, health and other priority areas.

Trade liberalization, which started by entering the WTO, has continued by implementation of the Interim Agreement, as well as other bilateral and multilateral free trade agreements. Currently Croatia has free trade agreements with some thirty countries, meaning that, apart of the SAA, the country has signed agreements with the SAP countries, resulting from the Memorandum on Trade Liberalization and Facilitation concluded within the Stability Pact; the acceding countries and EFTA, and joined CEFTA in March 2003. Regarding trade liberalization within the SAP countries, it was agreed at a ministerial conference in Rome to harmonise the existing bilateral free trade agreements between the countries of the region and to adjust them to the WTO standards thus making the ground for the next steps. The expected access to the pan-European cummulation of rules of origin would facilitate the process of economic integration into the EU. This is important not only for Croatia, but also for the other SAP countries.

The process of establishing institutions necessary for a functioning market economy is well advanced. Most institutions are already established including regulatory councils, while some institutions are still to be established or enhanced (E.g. the existing Agency for Protection of Market Competition should be strengthened having in mind its responsibilities including the independent body for the state aid has been established within its umbrella).

However, the priority remains fulfilment of the second economic Copenhagen criterion – the ability to cope with the competitive pressure and market forces within the Union. Strengthening competitiveness of exports remains the key issue relevant for rising the level and share of Croatian exports in GDP. With the export level of 1100 US\$ p/c Croatia is beyond the EU acceding countries. The EU represents around 55% of total Croatian exports and 56% of imports, which is less than the present average share of EU in exports of acceding countries (between 70% and 80%).

According to the Global Competitiveness Report 2003-2004, Croatia was ranked as 53rd among 102 countries measured by the Growth Competitiveness Index, which evaluates the potential for sustained economic growth over the medium and long term. Croatia is positioned in front of Bulgaria (ranked 64th) and Romania (ranked 75th), both candidate countries for the EU membership, but is lagging behind Slovenia (31), Hungary (33), Czech Republic (39), Slovakia (43) and Poland (45)²⁰. This indicates the need to develop strategies for competitive advancement of the country. As a step forward, the National Competitiveness Council was established in Croatia in 2002 as a body that contains representatives of four different interest groups: the economy, the Government, unions, and education and science.

It should be added to the general picture that with the present level of the retail price inflation (2,2% in 2002 and 1,4% for the first eight months of 2003) and its stable currency, Croatia fits quite well into Maastricht criteria. The level of public debt (51,1% of GDP in 2002) was within the Maastricht margins, although with a tendency of rising. However, the level of budget deficit (4,8% of GDP in 2002 and 4,6% of GDP estimated in 2003)²¹ was above the EU margin. Most of the acceding countries had similar problems, except Slovenia, which keeps within the Maastricht deficit level of 3%.

The third Copenhagen criterion relates to the need to harmonise the legislation with the *acquis communautaire*. Croatia started legal harmonization in areas related to the internal market from the day of signing the agreement. It includes market competition and state aid; intellectual, industrial and commercial property rights; public procurement; technical legislation; consumer protection and some other areas. All future regulations from these areas will have to be harmonised with the corresponding EU regulations while approximation of legislation will gradually extend to other parts of the *acquis*.

Relating to the obligation from the so-called Madrid criterion²², Croatia has to obtain sufficient institutional and administrative capacity to implement the obligations undertaken within the European integration process. This means a huge task of reforming and modernising public administration, reducing public expenditures and strengthening the public management. The reform of public administration is underway, envisaged as a long-term project through which Croatia has to increase its' capacities in order to implement the obligations undertaken not only within the SAA, but also the obligations of the future membership.

²⁰ Croatian Competitiveness Challenge. Annual Report on Croatian Competitiveness 2002. National Competitiveness Council, June 2003.

²¹ Source: Ministry of Finance, Republic of Croatia.

²² The criterion added to Copenhagen criteria at Madrid European Council, 1995.

Conclusion

The success of Croatia in reaching the internal goal – readiness for the accession by the end of 2006 - depends mostly on internal factor, but the external one is not less important. This means that the assessment of Croatia's readiness to integrate into the EU will depend to greatest extent on efficiency of internal reforms, ability and quality of implementation, but the external framework might significantly help the country to pass this exam more easily, and more successfully. Finally, the factor of political willingness of the EU to integrate additional new members should of course not be neglected.

The announced introducing of pre-accession elements into the Stabilization and Association Process might have a positive impact on future integration of Croatia (and other SAP countries) into the EU. Activating the additional instruments aimed for legal harmonization (TALEX, *twinning*) based on experiences of candidate countries is the answer to the needs of Croatia, that is already deep in the process of legal harmonization. The effects of European Partnerships, that mostly follow the pattern of Accession Partnerships, will most probably depend on the extent to which they will be linked to the pre-accession funds. As in the case of candidate countries, inclusion of the goals of economic and social cohesion into the CARDS programme, based on national priorities, would be particularly beneficial. To conclude, introducing mechanisms similar to those that were available to the current candidate countries would significantly help and speed up the preparations for integrating into the EU. It will hopefully enhance Croatia's chances to catch up the mentioned remaining candidates in their efforts to become EU members.

As economically most advanced country of SAP region, Croatia has to continue rapidly with reform agenda and implementation of the SAA. Although significant progress in implementing the SAA was made, there is still a lot of work to be done. Continuing the process of integration is important priority of the new Government, but a serious exam at the same time. The country is making strong efforts to achieve its *internal goal* - reaching readiness for accession by the end 2006. This requires serious work on continuation of accelerated implementing the SAA obligations and internal reforms leading to functioning market economy. Speeding up internal reforms (particularly in judiciary, privatization, public administration, fiscal consolidation, and in some other areas), continuing SAA implementation and law enforcement are the key preconditions for the success of joining the Bulgaria and Romania in the next wave of enlargement.

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