

Survey of the Business Environment in Croatia

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Survey of the business environment

Introduction

AmCham Croatia brings together more than 330 American, Croatian, and other international companies that employ more than 95.000 people in Croatia. As the oldest international chamber in Croatia, AmCham has been making a strong contribution to business improvement for 25 years, through advocacy of best business practices and a series of recommendations with the aim of positioning Croatia as an attractive investment destination.

As a Chamber that gathers mostly foreign investors in Croatia, as well as a significant number of Croatian companies operating on the international market, AmCham Croatia carried out a survey of the business environment at the end of 2023. The survey carried out among members of companies' management boards provides an insight into business results for 2023, as well as the mood of investors regarding future activities.

Methodology, sample, and purpose of the survey

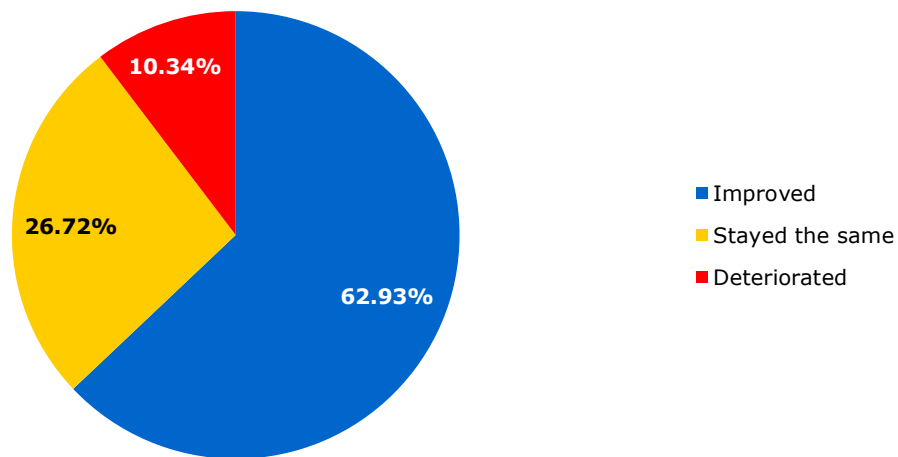
The survey was carried out in the period from December 11, 2023, until February 9, 2024, on a sample of 116 board members of domestic and international companies in Croatia. According to the number of employees, 24% of companies that participated in the survey belong to the category of large companies, 21% to medium-sized companies, 40% to small enterprises and 15% were companies with up to 9 employees. The largest number of companies that participated in the survey are majority domestically owned, 56% of them, followed by 43% of majority foreign-owned companies. Only 1% of participating companies are those with mixed ownership. The purpose of the survey was to determine participants' attitudes on the general business environment in Croatia.

Survey results

Business results in 2023

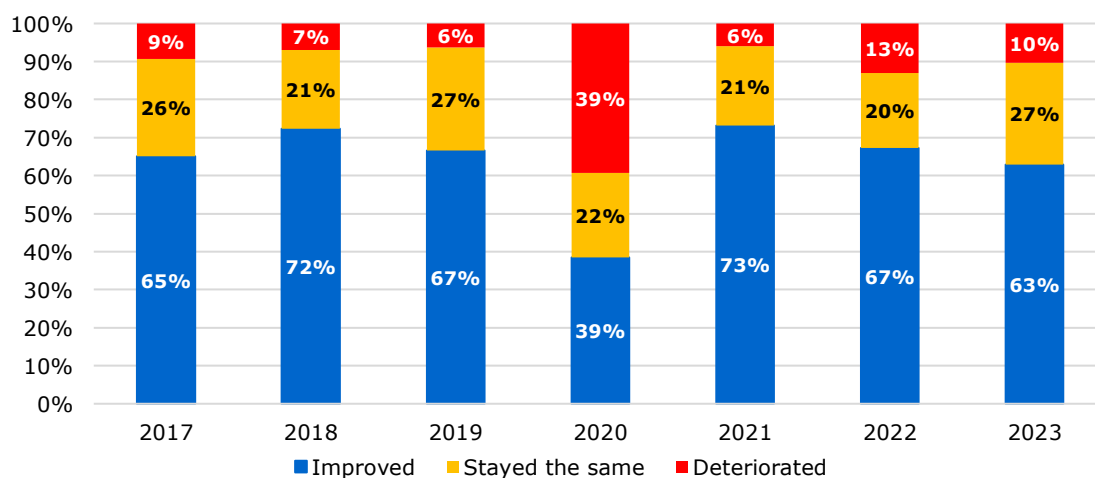
In 2023, 63% of respondents reported improved business results in comparison to the previous year. 10% of companies noted a deterioration in business results, while the results remained the same as in the previous year for 27% of companies.

How has your business situation developed in 2023?



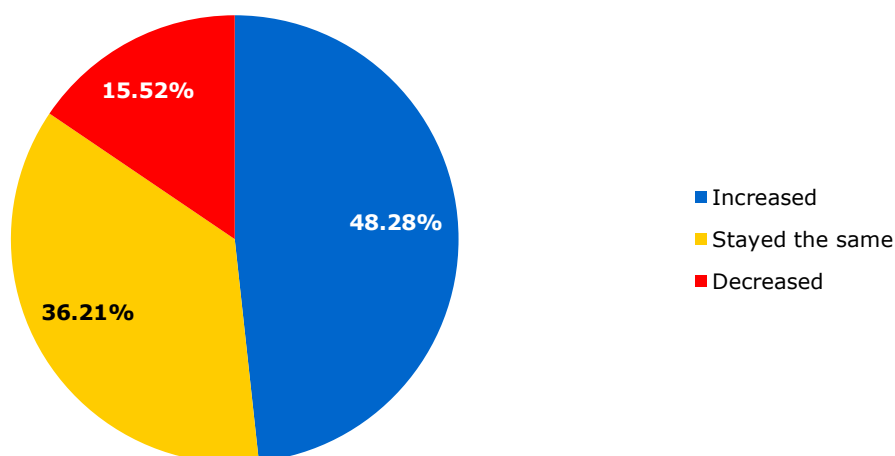
Compared to the previous year, the number of companies whose business situation remained the same as the year before increased from 20% to 27% in 2023.

Business situation over the years



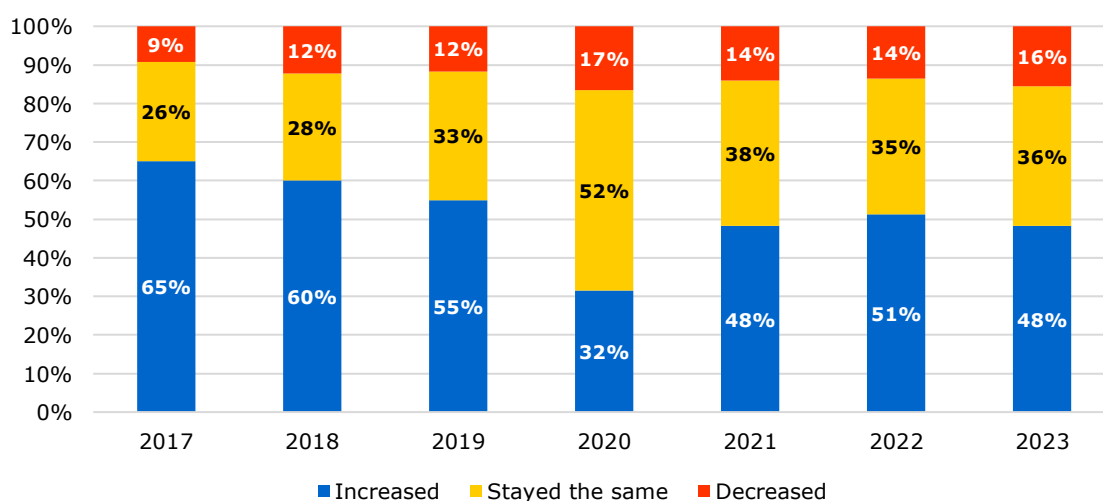
Less than 50% of respondents increased their number of employees, while 36% maintained the same number.

How has the total number of employees in your company changed in 2023?



In 2023, the number of companies that reduced their staff increased slightly (16%), and the number of companies which employed additional staff decreased.

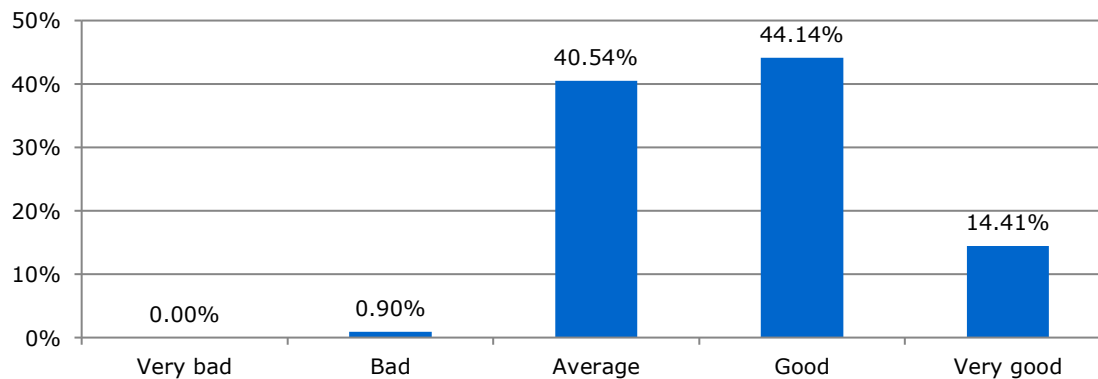
Share of companies according to employment trends in Croatia



Business environment

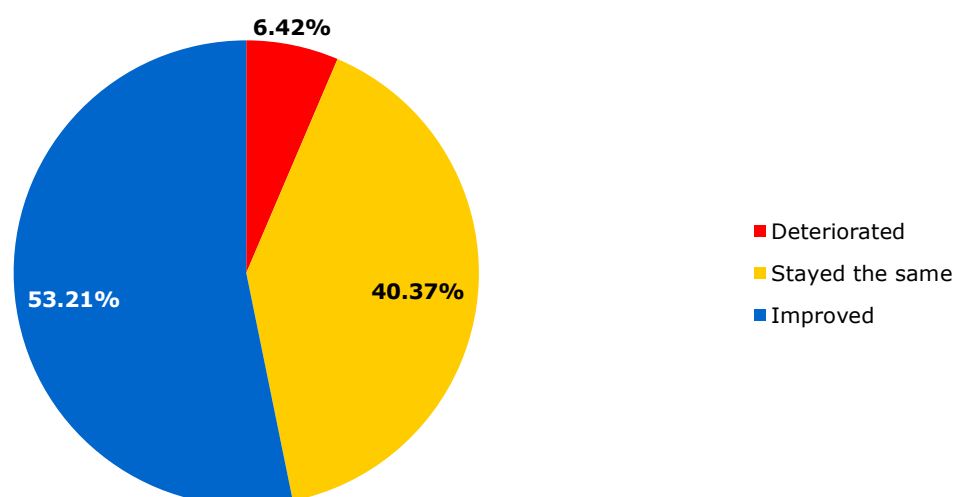
The overall experience of conducting business in Croatia was rated as either good or very good by 59% of respondents, which is the same as last year, while 41% of respondents rated it as average.

How would you rate overall experience with your company's business in Croatia?



53% of respondents believe that business conditions in Croatia have improved in the past five years, 40% believe they have remained the same, while 6% think the conditions have deteriorated.

Would you say that business conditions in Croatia have improved, stayed the same or deteriorated in the past 5 years?



The main limiting business factors in 2022:

- 1) Inflation
- 2) Rising energy costs
- 3) Lack of adequate workforce

The main limiting business factors in 2023:

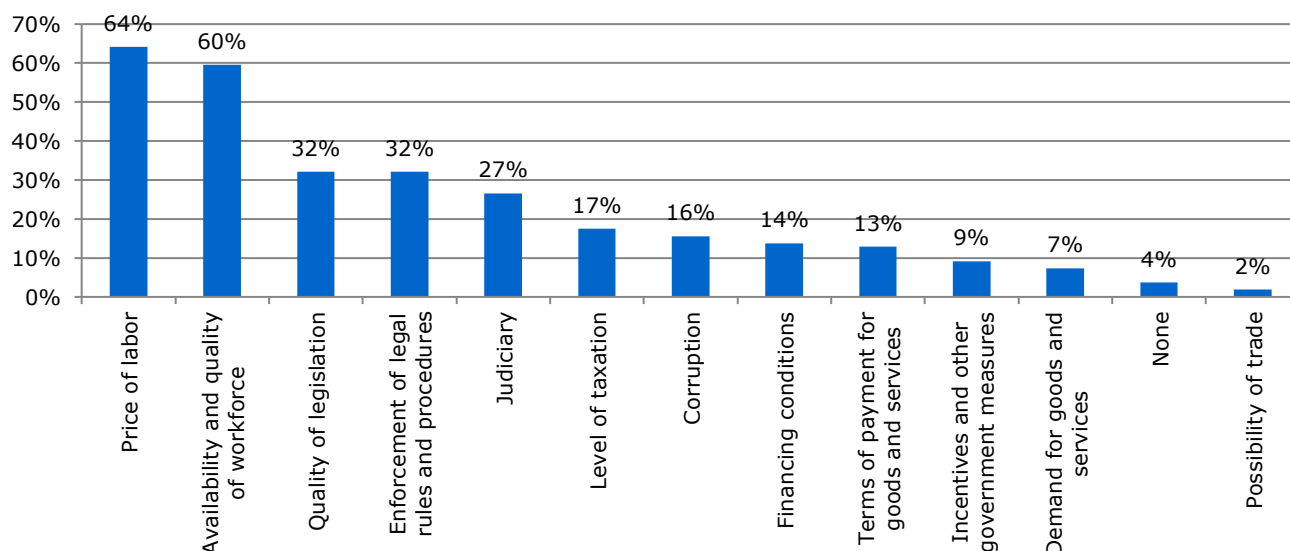
- 1) Lack of adequate workforce
- 2) Inflation
- 3) Labor taxation

Inflation was not in the focus of businesspeople in 2021, while in 2022 and 2023 it is among the main limiting business factors, as expected. The lack of adequate workforce is back in the first place in 2023.

As the three biggest problems their company has faced in the past 5 years, the respondents reported long and complex administrative procedures in the first place, and the lack of adequate workforce and labor taxation in equal proportion. The same challenges were emphasized in last year's survey.

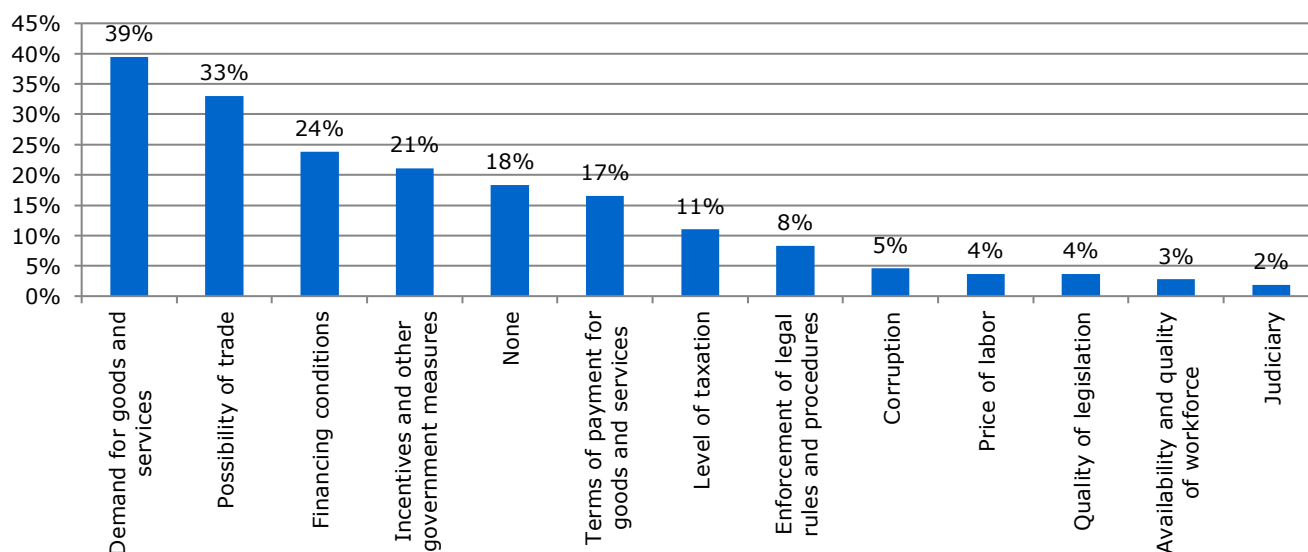
The biggest deterioration in the past 5 years is noticed in the price of labor, along with the availability and quality of the workforce, quality of legislation, enforcement of legal rules and procedures, and the judiciary.

In which areas have you noticed biggest deteriorations in the past 5 years? You can choose multiple answers.



The respondents saw the biggest improvements in the increased demand for goods and services, possibility of trade and financing conditions in the past 5 years.

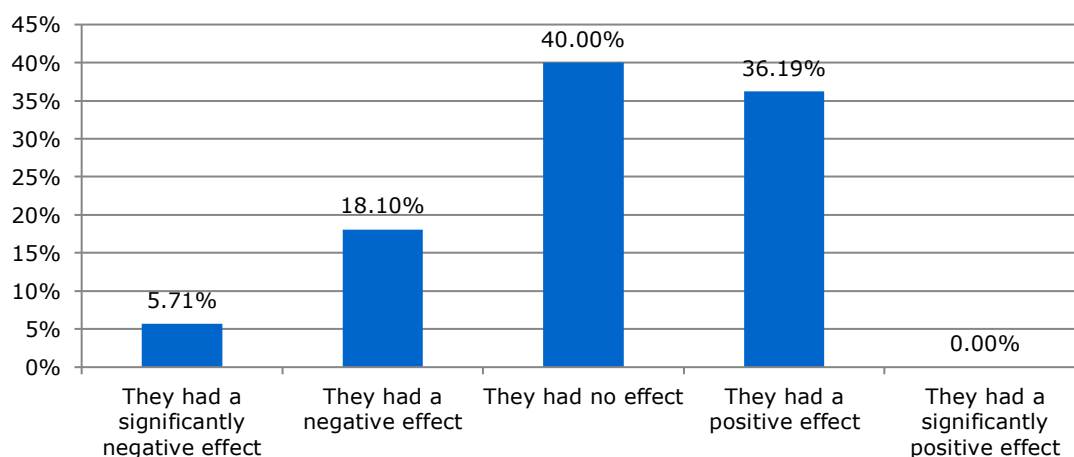
In which areas have you noticed biggest improvements in the past 5 years? You can choose multiple answers.



Impact of institutions on the business environment

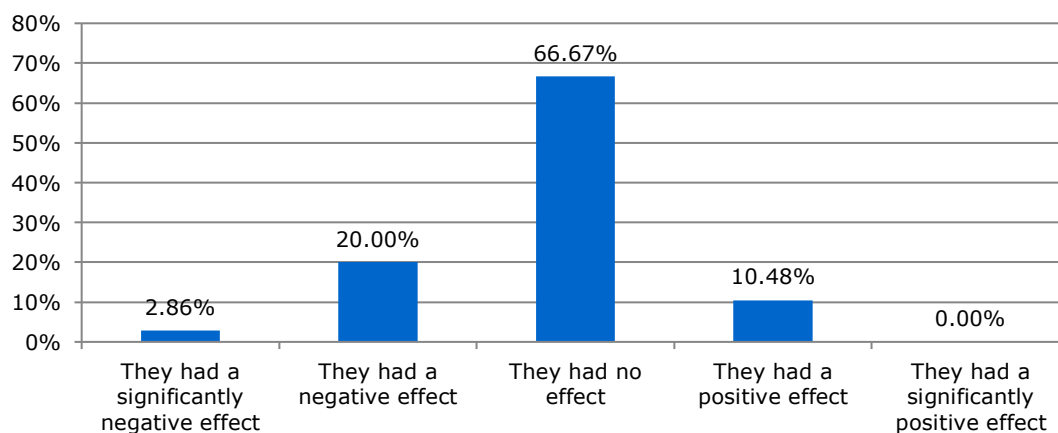
The percentage of respondents who rated the impact as neutral has increased to 40%. There is a decrease in the percentage of respondents who see the impact of the state administration on the business environment as negative or positive.

In what way have government regulations and operations of state administration affected business conditions in Croatia in the past 5 years?



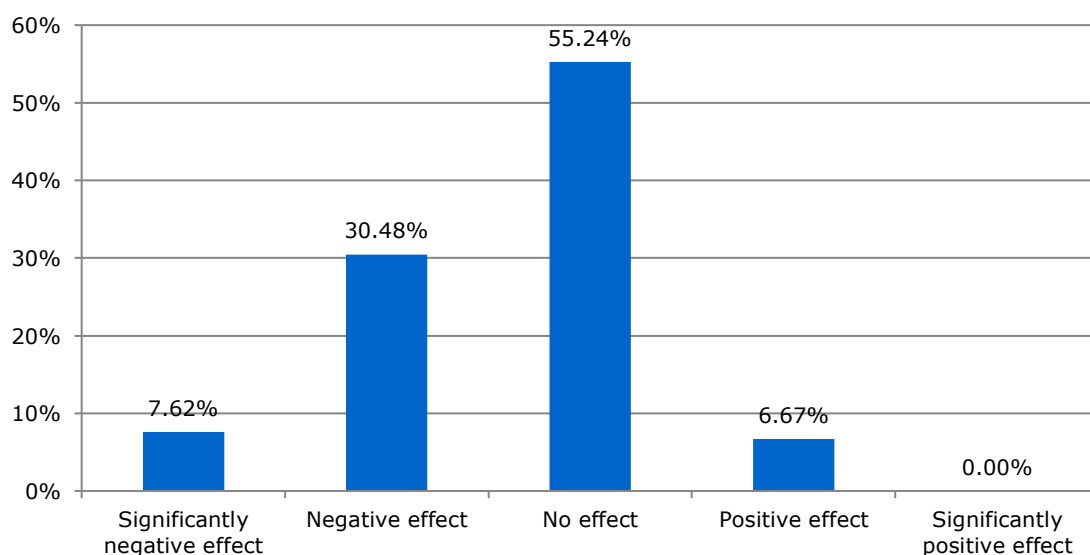
For an increased number of respondents (67%), the regulations and the activities of the local authorities have not impacted the business environment in Croatia in the past 5 years.

In what way have regulations and administration of local authorities (cities, municipalities, counties) affected the business conditions in the past 5 years?



Compared to the previous survey, the number of respondents who rated the influence of the Croatian judiciary on their business as neutral has slightly increased. Likewise, the positive and negative assessments of the influence of the judiciary on business decreased slightly.

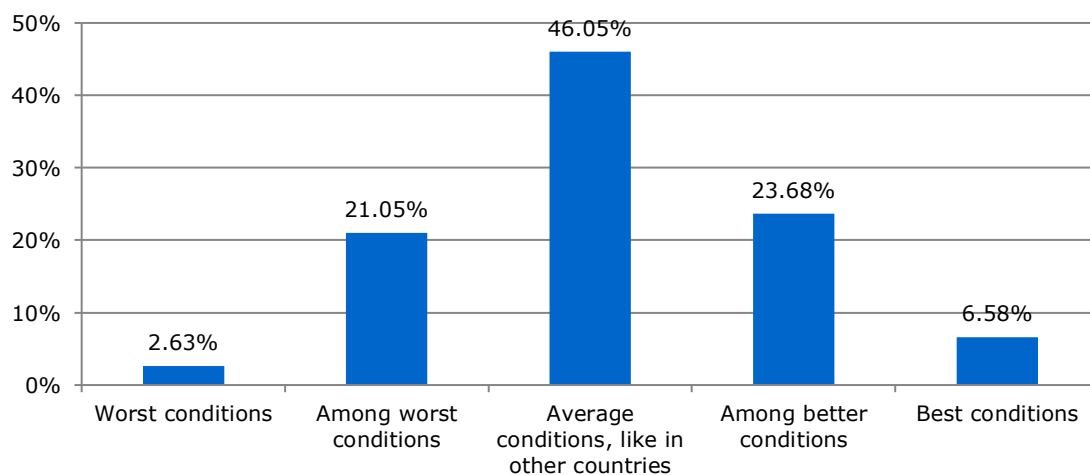
What kind of effect has the Croatian judiciary had on your business in the past 5 years?



Comparison with the region

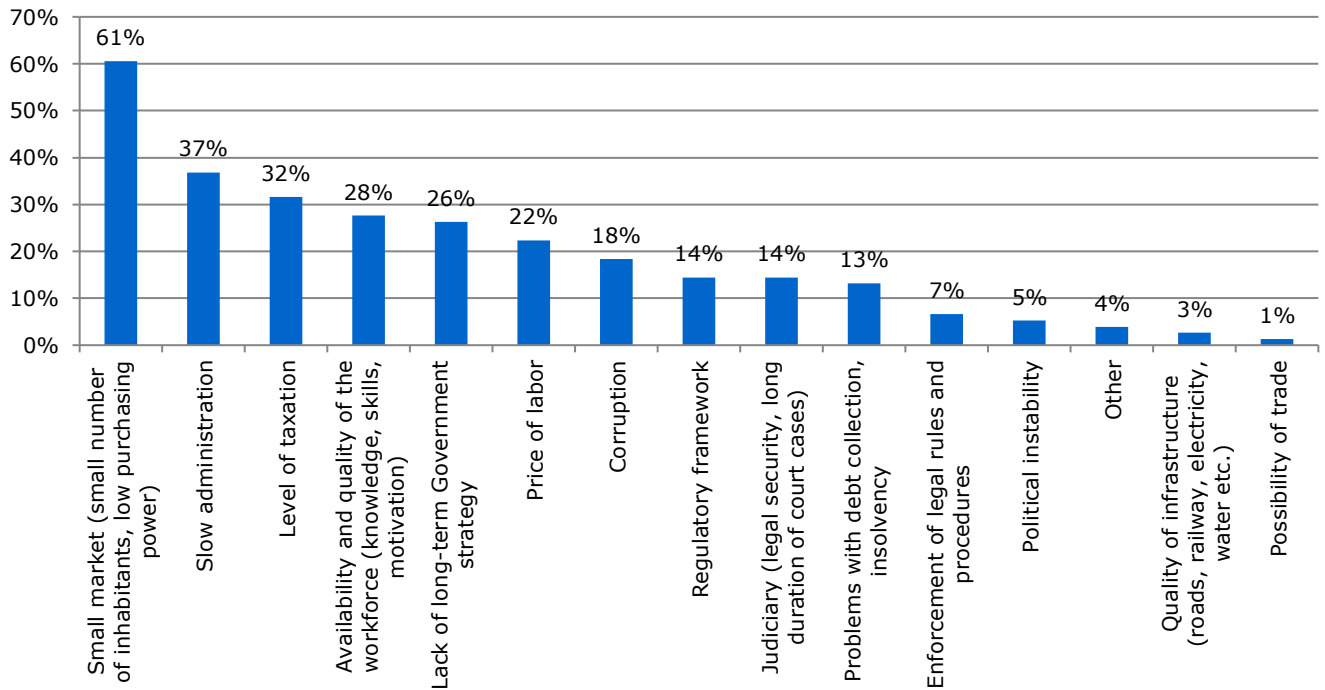
73% of the participating AmCham member companies also conduct business in other countries in Central and Eastern Europe, and 54% of them are active in more than 5 countries in the region.

How would you compare overall business conditions in Croatia with other countries in Central and Eastern Europe in which your company operates?



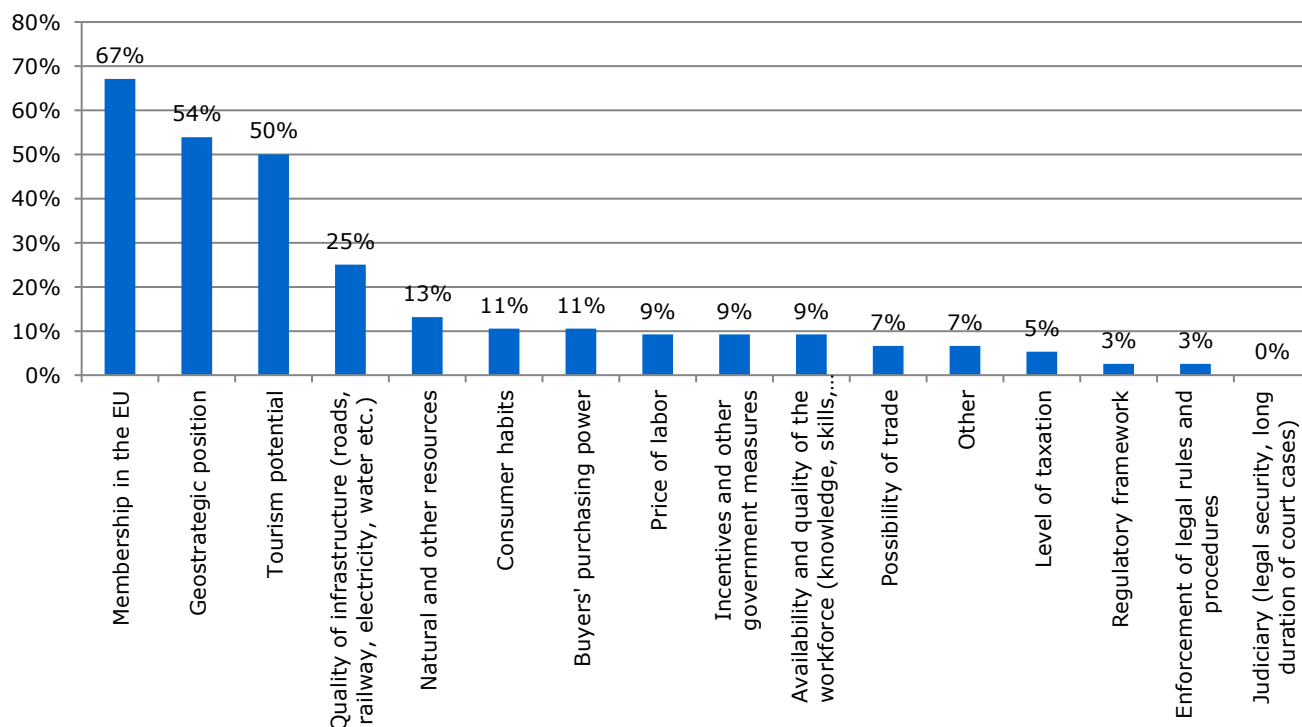
More than 30% of respondents believe the business conditions in Croatia are more favorable than in other Central and Eastern European countries, which is an increase compared to last year (20%). 46% consider them comparable to other countries in the region. Compared to the previous year, the number of negative evaluations decreased.

Which three of the following problems would you say are the biggest shortcomings when it comes to business conditions in Croatia compared to the countries in the region?



The biggest shortcomings in Croatia in comparison to other countries in the region are its small market, slow administration, and the level of taxation which has overtaken the availability and quality of the workforce.

What are the three things you see as an advantage when it comes to business conditions in Croatia compared to the countries in the region?



As the biggest advantages of Croatia, the respondents point out EU membership, the geostrategic position and the country's tourism potential, as in the previous years.

The biggest business shortcomings in Croatia in comparison to other CEE countries

- 1) Small market
- 2) Slow administration
- 3) Level of taxation

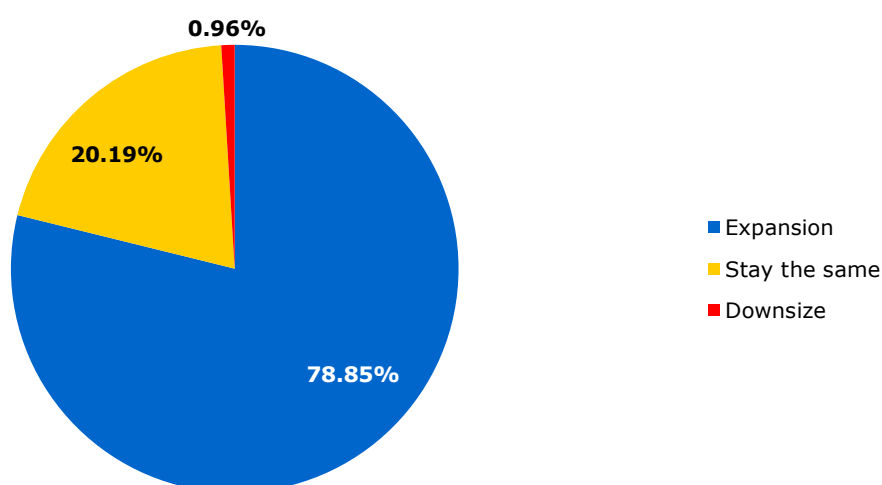
The biggest business advantages in Croatia in comparison to other CEE countries

- 1) Membership in the EU
- 2) Geostrategic position
- 3) Tourism potential of the country

Business expectations

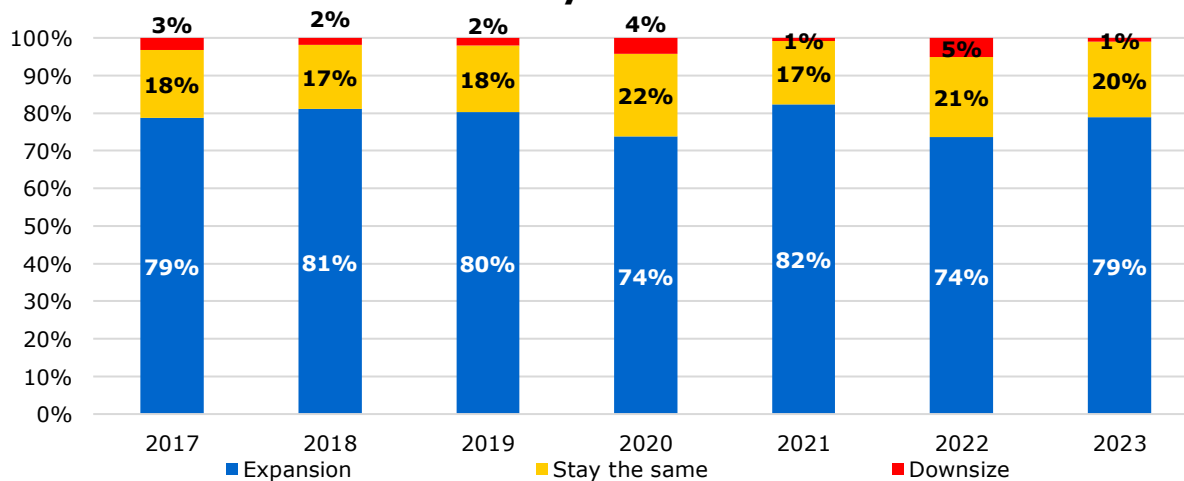
In the upcoming three-year period, around 79% of AmCham member companies plan to expand their business operations in Croatia, which is an increase compared to the previous survey (73%).

What are your company's plans for its Croatian operations in the next 3 years?

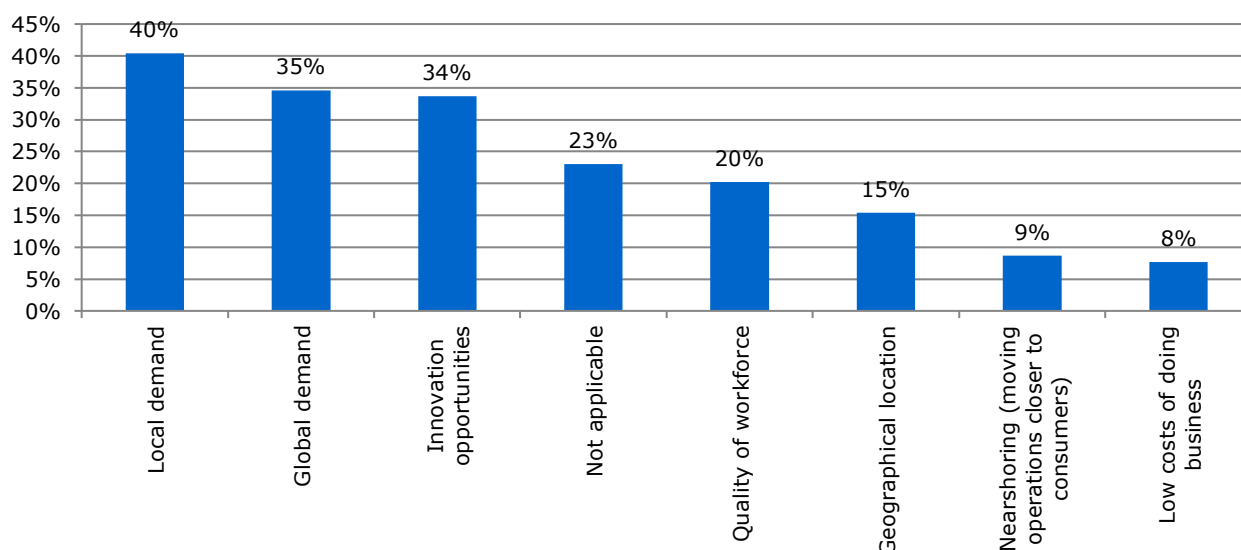


The plans for the upcoming period indicate more optimism after the pandemic 2020, and 2022 which was marked by the aggression against Ukraine and numerous market disturbances.

Company's plans for Croatian operations over the years

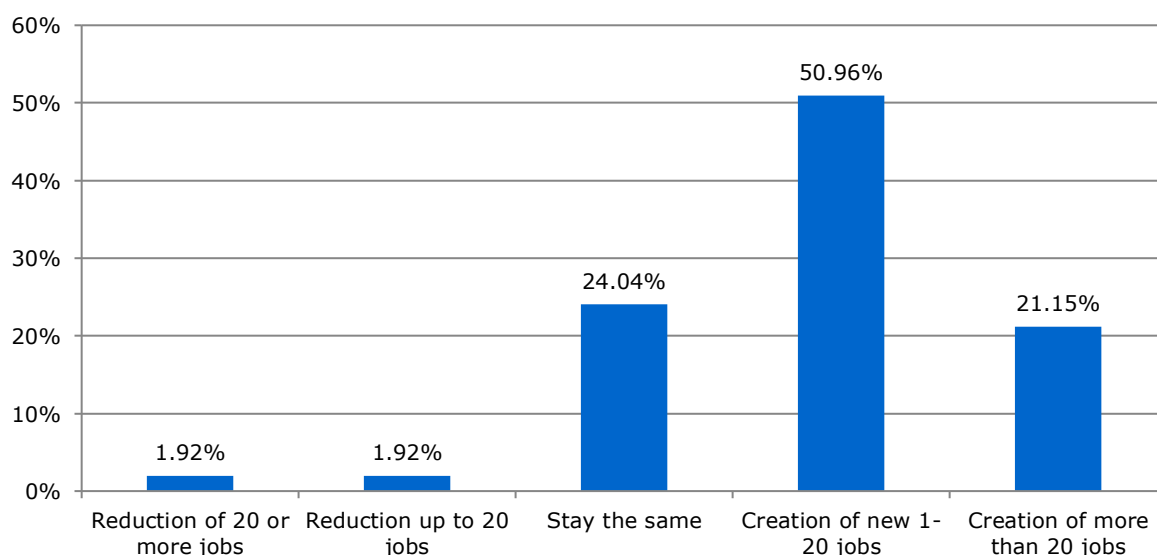


If your company plans to expand/invest in Croatia, what are the key drivers?



Of the companies planning expansion, majority stated local and global demand and innovation opportunities as their key drivers, same as in previous years.

Does your company plan a reduction/creation of new jobs in Croatia in the next 3 years?



As many as 72% of the companies plan to create new jobs in the next three years, and 21% of them plan to hire more than 20 new employees, which is more than in the last survey. Less than 4% of companies plan to reduce the number of employees in the next three years, which is significantly less compared to 14% from last year's survey.

Conclusion

Majority of the surveyed companies performed better in 2023 than in the previous year. There is a noticeable increase in the share of companies whose operations remained the same as in the previous year.

Slightly less than 50% of companies employed additional staff in the previous year. However, their share decreased slightly, while the share of companies that made layoffs increased (16%).

The overall experience of conducting business in Croatia was rated as either good or very good by approximately 59% of respondents, while 53% of respondents notice an improvement of business conditions in the last 5 years.

The lack of an adequate workforce is again in the first place (last year it was inflation) among the main limiting factors of business, followed by inflation and labor taxation.

The price of labor is the biggest deterioration in business conditions in the last 5 years, along with the availability and quality of the workforce, the quality of legislation, enforcement of legal rules and procedures and the judiciary.

More than 30% of respondents rated the business conditions in Croatia as more favorable than in other Central and Eastern European countries, which is an increase compared to the previous year (20%). 46% see them as comparable to other countries in the region. Compared to the previous year, the number of negative evaluations decreased. The biggest shortcomings of Croatia compared to other countries in the region are related to the small market, slow administration, and the level of taxation which has overtaken the availability and quality of the workforce.

In the next three years, about 79% of AmCham members plan to expand their business operations in Croatia, which is more than in the previous survey (73%).

72% of companies plan to hire additional staff in the next three years, of which 21% plan to hire more than 20 new employees, which is an increase compared to the last survey. Less than 4% of companies plan to reduce the number of employees in the next three-year period, which is significantly less compared to last year's survey when it was 14%.

For additional information, please contact:
American Chamber of Commerce in Croatia
Andrea Doko Jelušić,
Executive Director T: +385 01 4836 777
E: andrea.doko@amcham.hr