

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 220 American, Croatian and other international companies employing more than 70,000 people in Croatia. As the oldest international chamber in Croatia, AmCham has been making a strong contribution to business improvement for the past 20 years, through the 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 attracts mostly foreign investors in Croatia, as well as a significant number of Croatian companies focussed on the international market, AmCham Croatia carried out a survey of the business environment at the end of 2017. The survey carried out among members of companies' management boards has provided an insight into business results for 2017, as well as the mood of investors with regard to future activities.

Methodology, sample and purpose of the survey

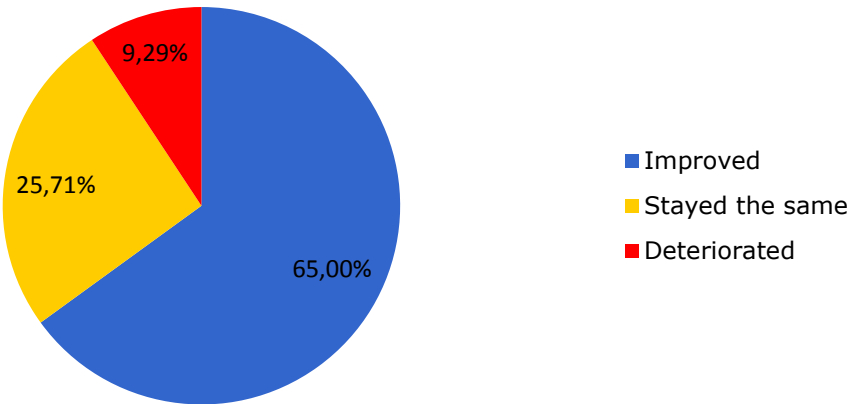
The survey was carried out in the period from December 20, 2017 until January 31, 2018 on a sample of 140 members of management boards of domestic and international companies in Croatia. Both large and small companies, according to the criterion of the number of employees, were equally represented (30%). Approximately 24% were medium-sized companies, while 6% were companies with up to nine employees. An equal number of domestically-owned and foreign-owned companies participated in the survey. The purpose of the survey was to determine participants' attitudes on the general business environment in Croatia.

Survey results

Business results in 2017

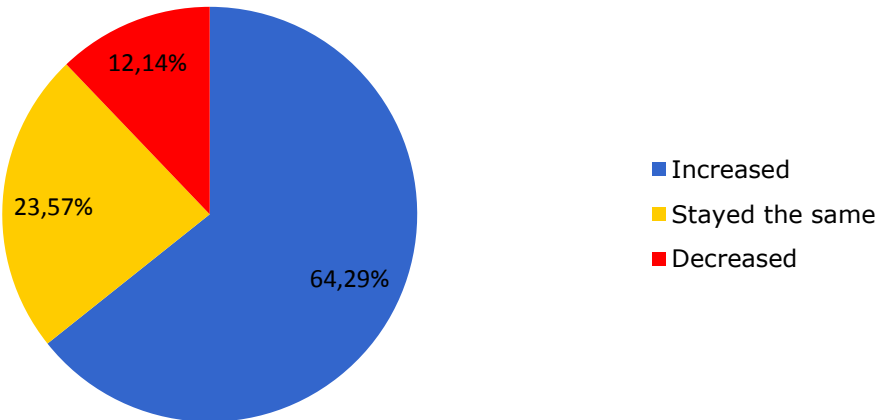
The majority of participants (65%) assessed their business results in 2017 as better than in the previous year.

How has your business situation developed in 2017?



An increase in the number of employees in 2017 was stated by 64% of participants.

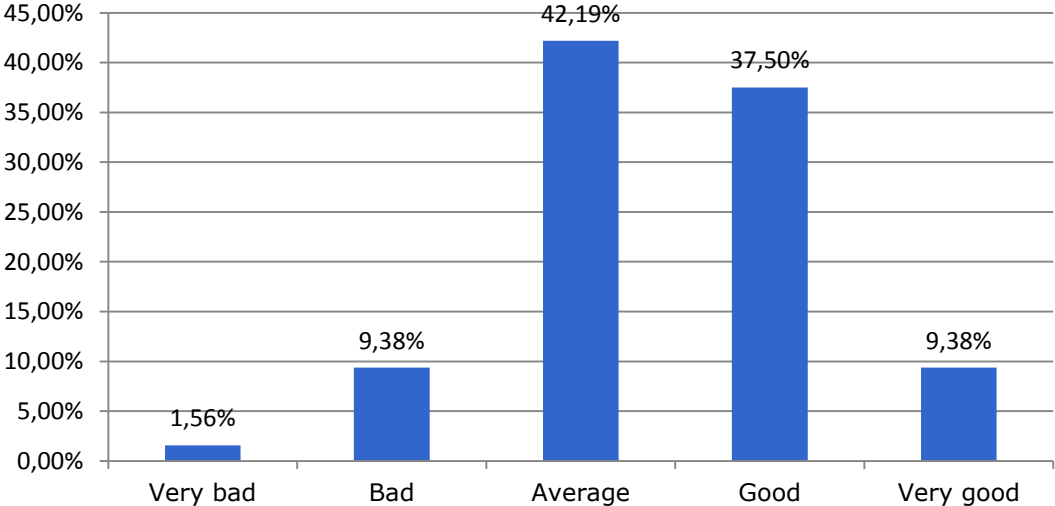
How has the total number of employees in your company changed in 2017?



Business environment

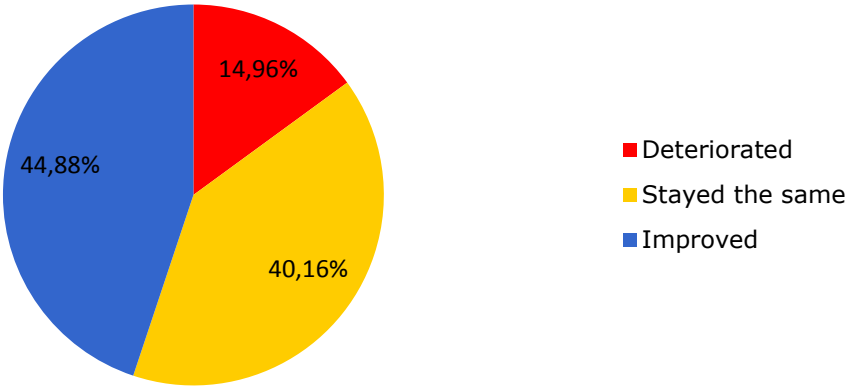
The overall experience of doing business in Croatia was assessed as good or very good by 47% of the participants, as average by 42%, and bad by 11%.

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



While approximately 15% of participants believe that business conditions in Croatia have deteriorated in the past five years, three times as many participants find those conditions to be better. 40% of participants think that business conditions have remained the same.

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



Main limiting factors for doing business in the past five years:

- 1) Unstable regulatory framework
- 2) Long and complex administrative procedures
- 3) Taxation of labor

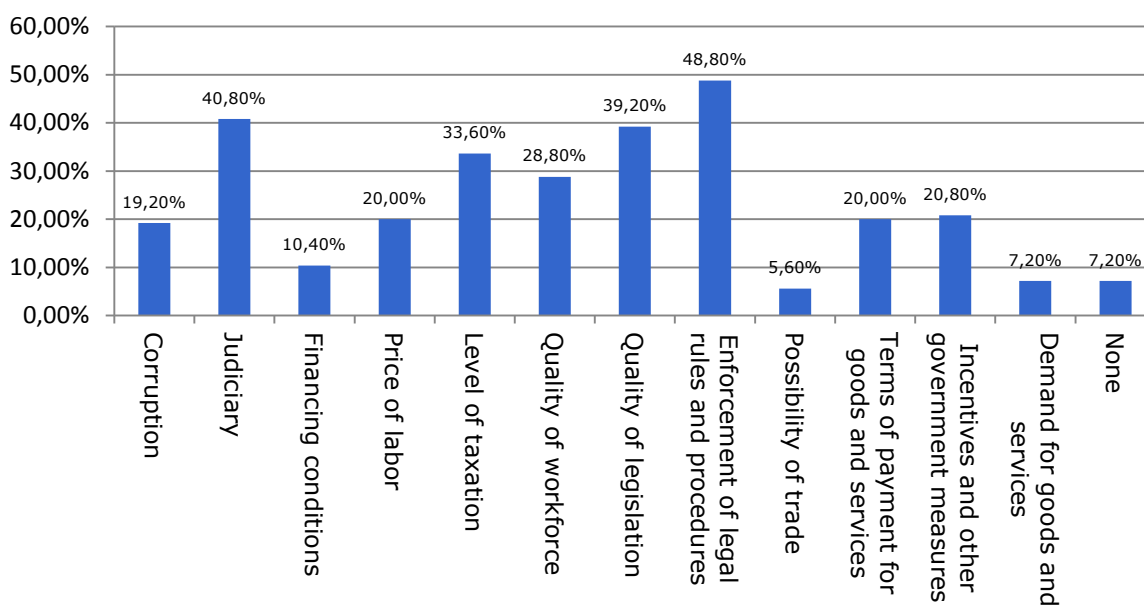
Main limiting factors for doing business in 2017:

- 1) Long and complex administrative procedures
- 2) Unstable regulatory framework
- 3) Taxation of labor
- 4) Lack of suitable work force

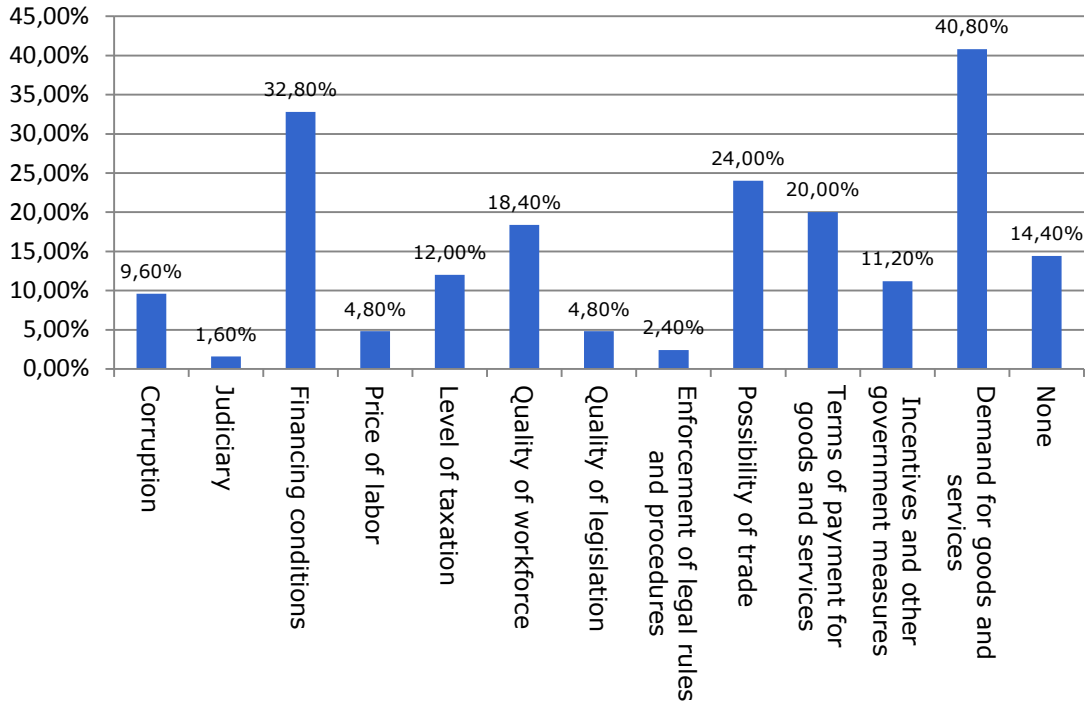
As three main limiting factors for their business in 2017, the participants pointed out the same factors as for the previous five-year period. Long and complex administrative procedures and the regulatory framework undoubtedly stand out as the greatest challenges to doing business in Croatia.

Participants attributed the worst deterioration of business conditions in the past five years to the enforcement of laws and regulations, the judiciary and the quality of legislation. The biggest improvements in the five-year period are seen in increased demand for goods and services, better financing conditions and better conditions for trade.

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



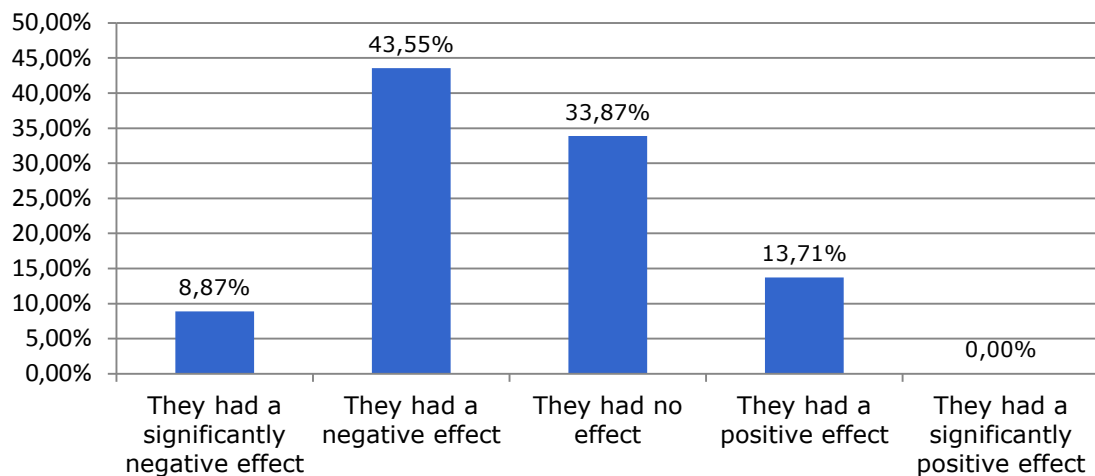
In which areas have you noticed biggest improvements in the past 5 years? You can choose multiple answers.



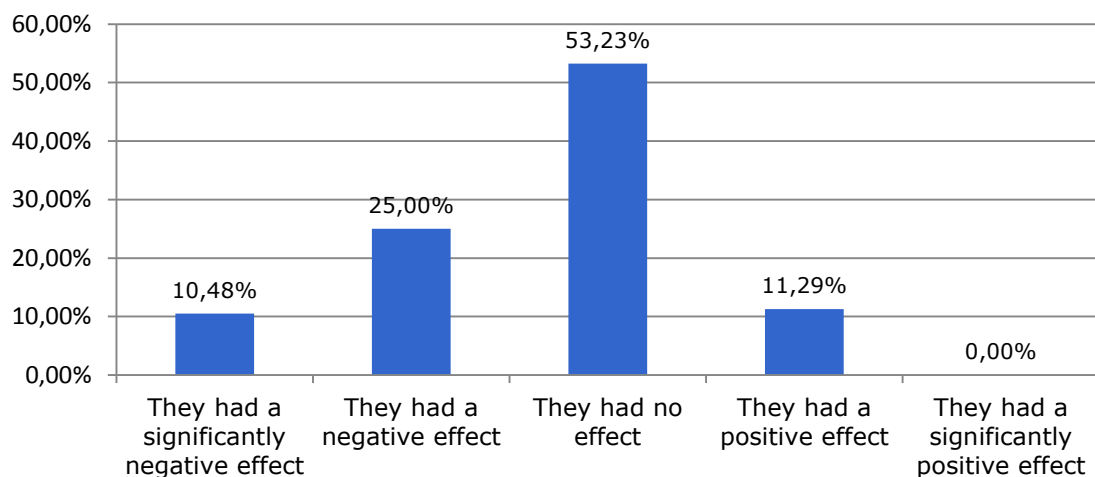
Impact of institutions on the business environment

As many as 86% of participants perceive the impact of government institutions on business conditions as negative or without effect. There is a similar perception with regard to the impact of local institutions.

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



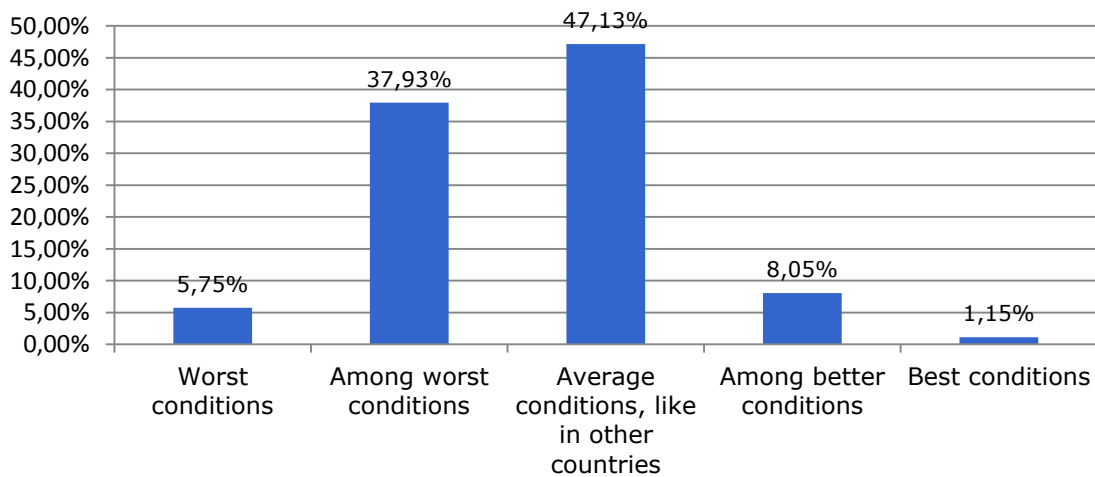
In what way have regulation and administration of local authorities (cities, municipalities, counties) affected the business conditions in the past 5 years?



Comparison with the region

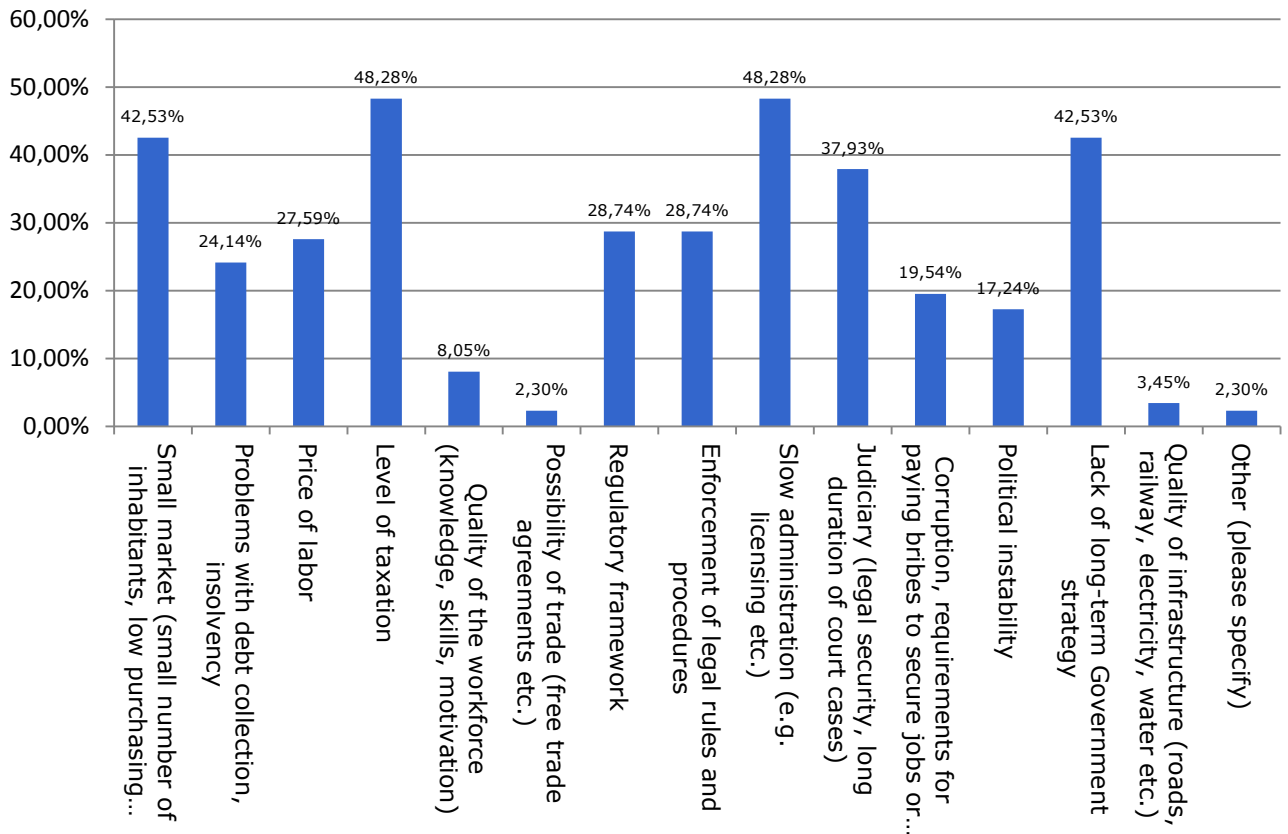
Around 72% of AmCham member companies also operate in other countries of Central and Eastern Europe, out of which 59% in more than five countries in the region.

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



Only 9% of participants are of the opinion that business conditions in Croatia are better than those in other countries of Central and Eastern Europe, while 44% consider them worse than in other countries.

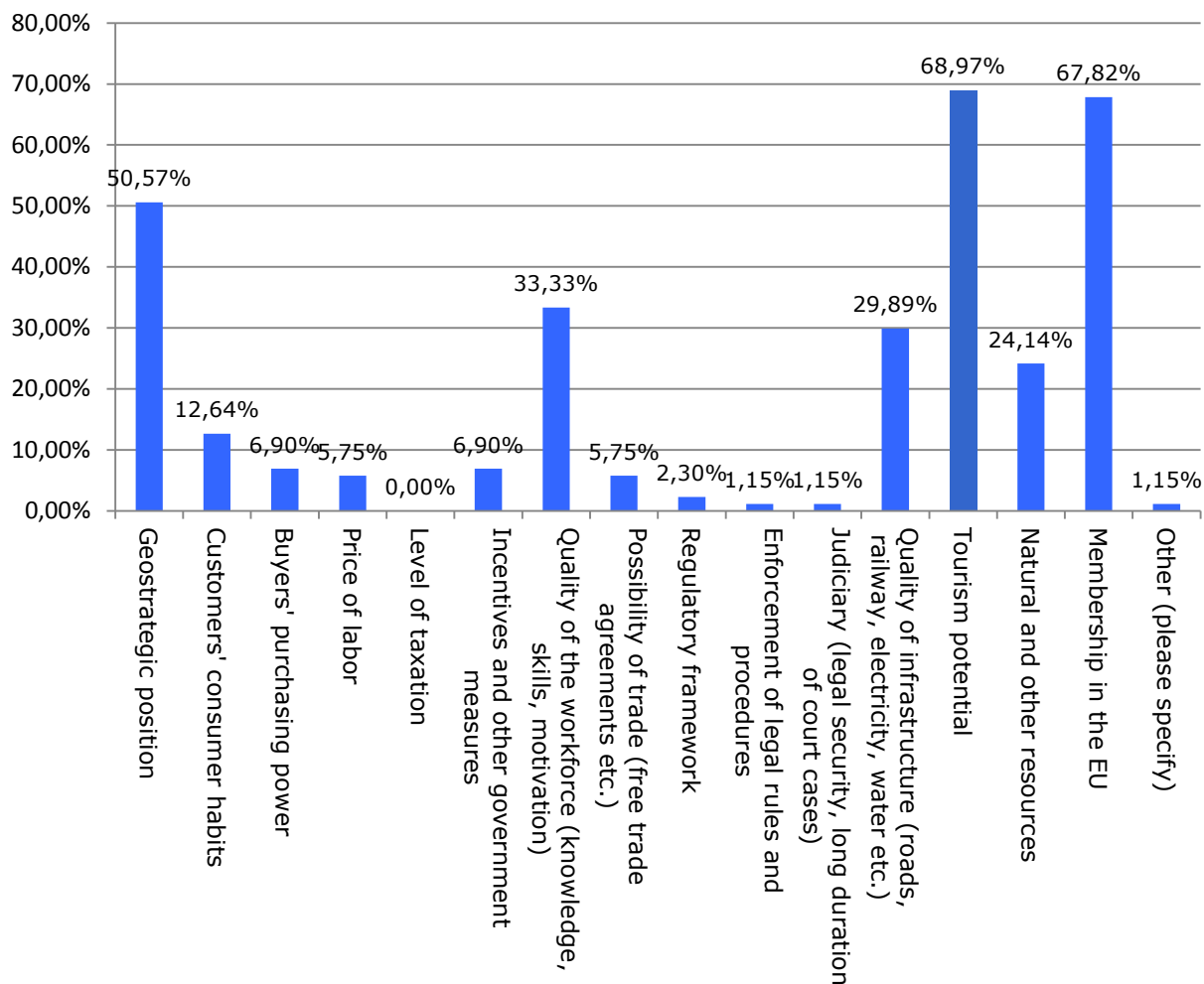
Which 3 of the following problems would you say are the biggest shortcomings when it comes to business conditions in Croatia compared to the countries in the region?



The greatest disadvantages of Croatia compared to other countries are related to slow administration, tax burden and, equally, a lack of a long-term government strategy as well as the size of the market.

The tourism potential of the country, EU membership and geostrategic position are cited as Croatia's biggest advantages.

What are the 3 things you see as an advantage when it comes to business conditions in Croatia compared to the countries in the region?



Biggest disadvantages of doing business in Croatia compared to CEE countries.

- 1) Slow administration
- 1) Tax burden
- 3) Lack of a long-term government strategy
- 3) Small market

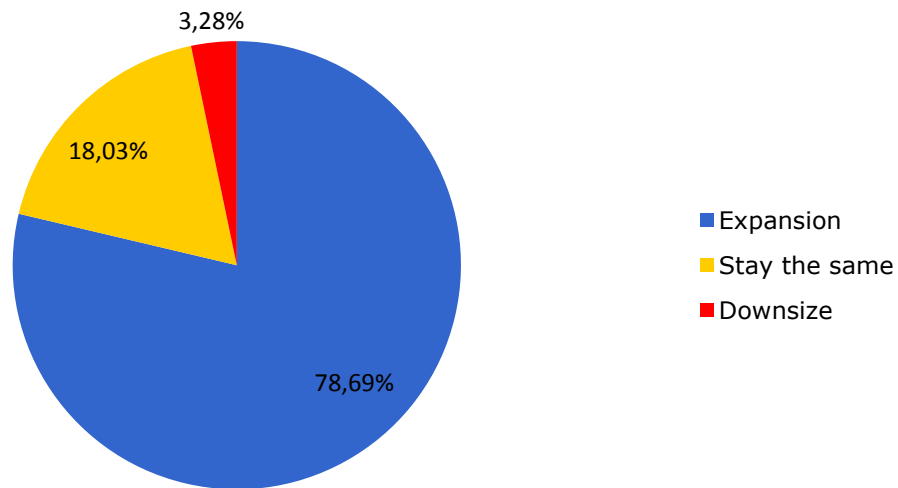
Biggest advantages of doing business in Croatia compared to CEE countries.

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

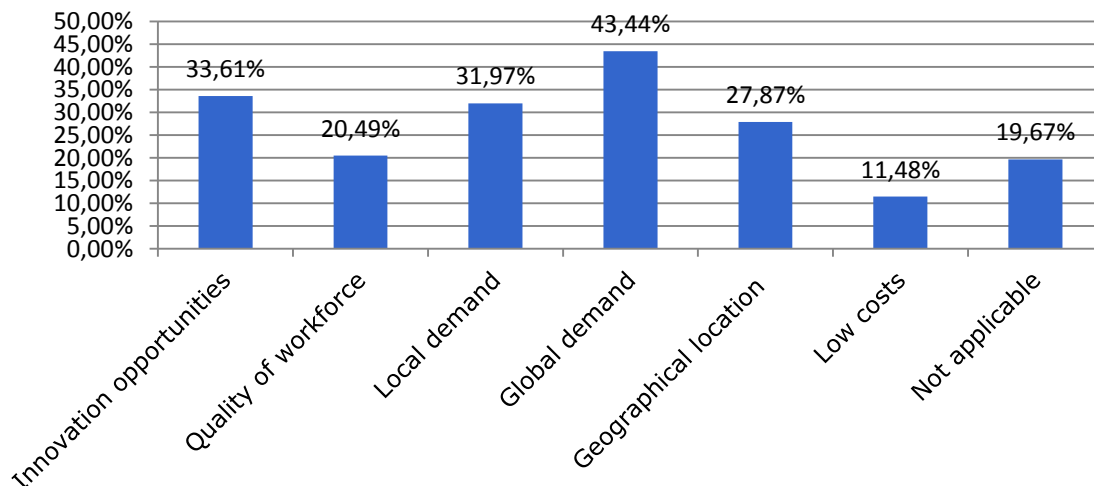
Business expectations

For the upcoming three-year period, 79% of AmCham member companies plan to expand the scope of their business operations in Croatia, while only 3% plan to reduce it.

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

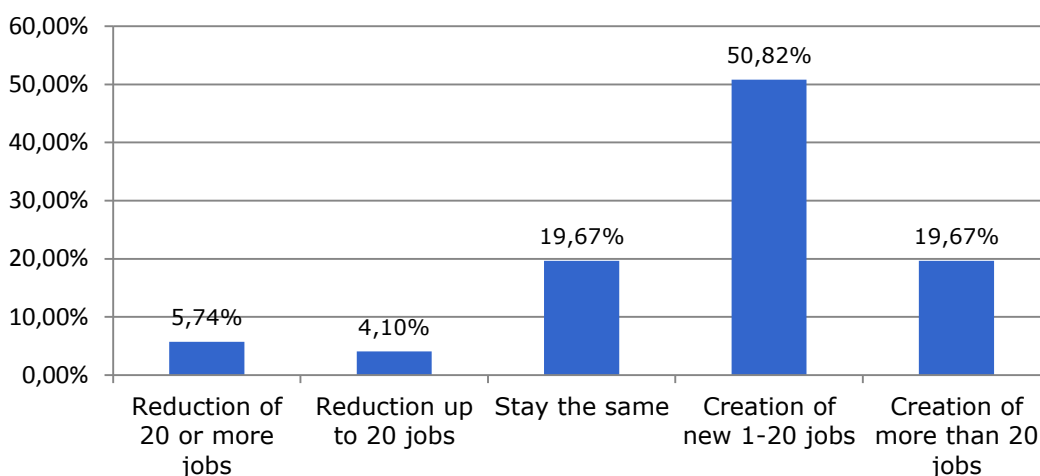


If your company plans to expand/invest in Croatia, what are the key drivers?



Out of the companies planning expansion, 43% are guided by global demand, followed by innovation opportunities (34%) and domestic demand (32%).

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

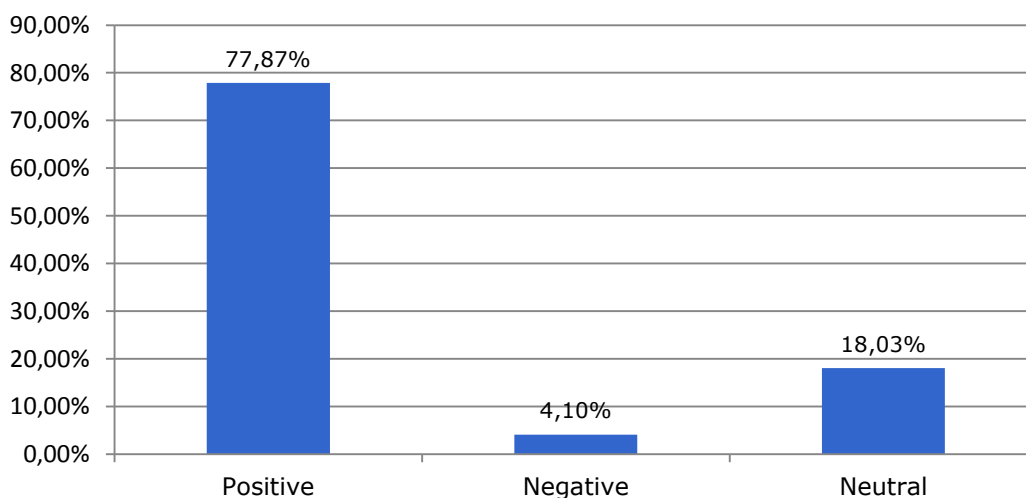


As many as 71% of companies are planning to hire new employees in the next three years, 51% of them up to 20 employees, and 20% of them more than 20 new employees. 10% of companies are planning to reduce the number of employees in the next three years.

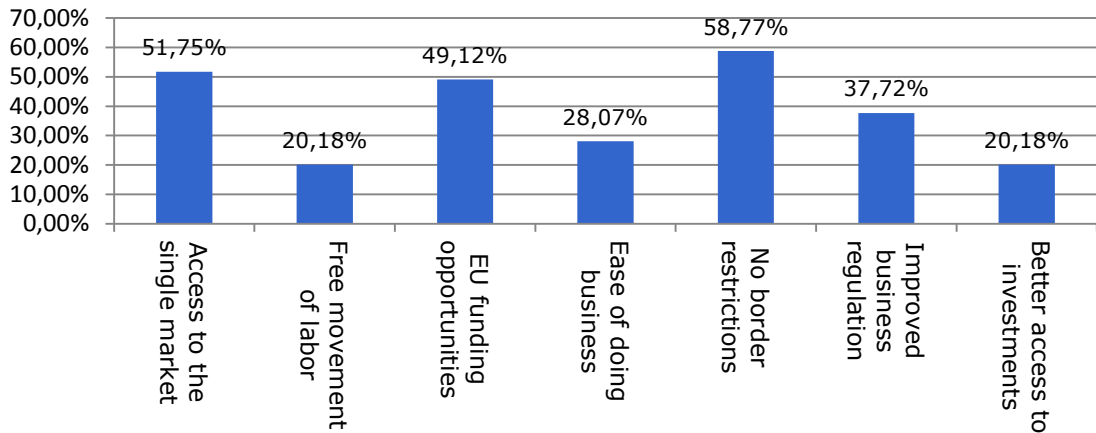
Impact of EU membership on doing business in Croatia

78% of participants find the Croatian EU membership to be positive for doing business. As key advantages of membership, they highlighted free movement, the single market and access to EU funds.

Please rate the effect of Croatia's EU membership on doing business so far.

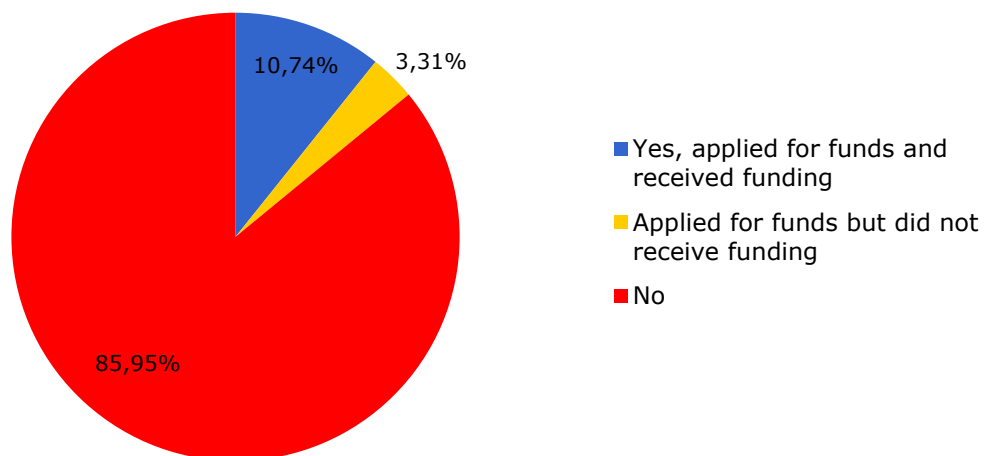


What are the main benefits of Croatian EU membership for doing business from the perspective of your company? You can choose multiple answers.



Even though the availability of EU funds was ranked third among the most significant advantages of EU membership, 86% of participants stated that they were not beneficiaries of those funds, and only 11% have received funds.

Has your company been a beneficiary of EU funds?



Conclusion

Results of the Survey demonstrate optimism among the business community in Croatia. AmCham perceives the predominantly positive assessment of doing business in the previous year (65%), as well as the announcements of business expansion (79%) and new employment (71%) in the upcoming period, as encouraging for the Croatian economy.

Dissatisfaction among the representatives of the business community relates mostly to areas in need of systemic reforms absent for a number of years, and these include the judiciary and respect for the rule of law, complex administrative procedures and further tax unburdening of entrepreneurship. The State therefore must work more actively on resolving these issues, in cooperation and open dialogue with the business community.

EU membership which has enabled easier access to financing and new markets is rated positively by all survey participants, who however find that Croatia is lagging behind comparable countries of Central and Eastern Europe. It is necessary to invest additional efforts for Croatia to make full benefit of EU membership and to catch-up with comparable Central and Eastern European countries, as well as retain the leading position in relation to non-EU member countries in the region, as a desirable location for investment.

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