

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 260 American, Croatian, and other international companies employing more than 91,000 people in Croatia. As the oldest international chamber in Croatia, AmCham has been making a strong contribution to business improvement for over 20 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 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 2020. The survey carried out among members of companies' management boards has provided an insight into business results for 2020, as well as the mood of investors regarding future activities.

Methodology, sample, and purpose of the survey

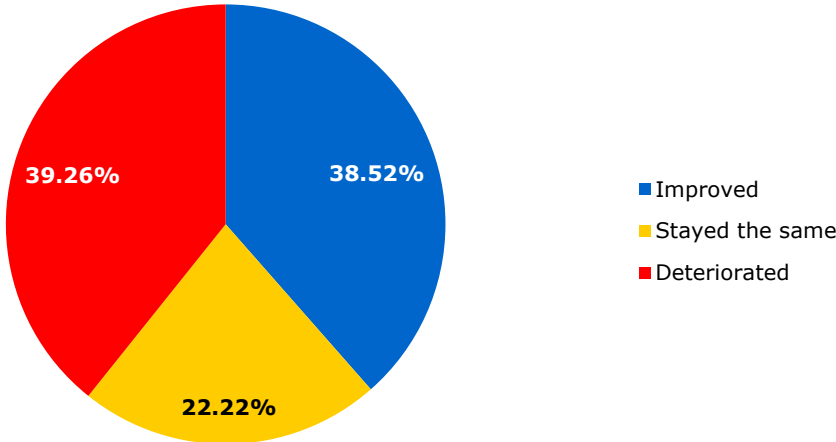
The survey was carried out in the period from December 17, 2020 until February 1, 2021, on a sample of 135 members of management boards of domestic and international companies in Croatia. 29% of companies that participated in the survey belong to the category of small enterprises, according to the number of employees. Approximately 25% were medium-sized companies, 29% were large companies, while 17% were companies with up to 9 employees. The companies that participated in the survey were majority foreign-owned, 53%, followed by 45% of majority domestically owned companies. Only 2% of participating companies were 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 2020

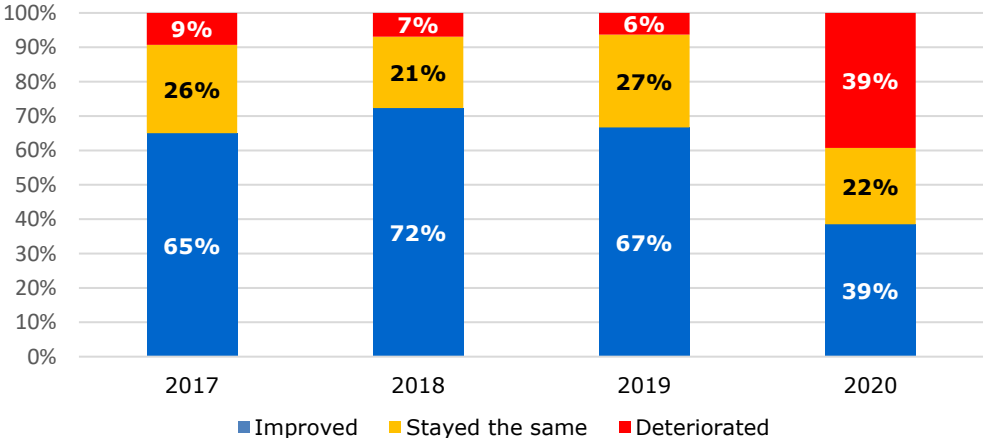
39% of participants assessed their business results in 2020 worse than in 2019. 38.5% of participants reported improved business results in comparison with 2019.

How has your business situation developed in 2020?



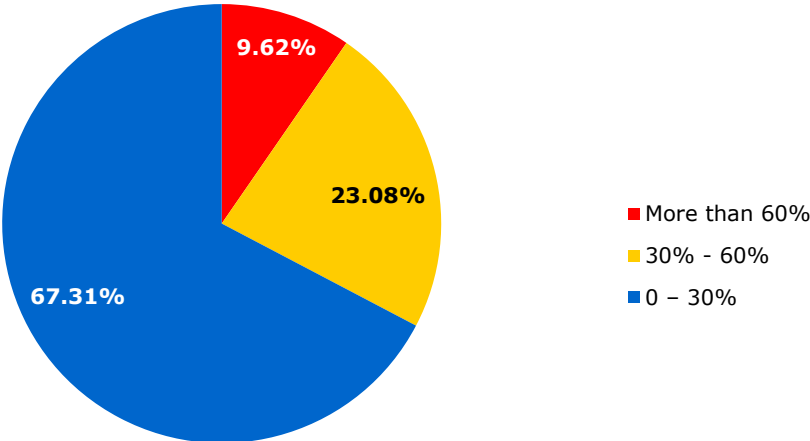
In 2019 the majority of participants (67%) assessed their business results better than in 2018 when 72% of participants reported improved business results. In 2017 65% of participants assessed their business results as improved than in 2016.

Business situation over the years



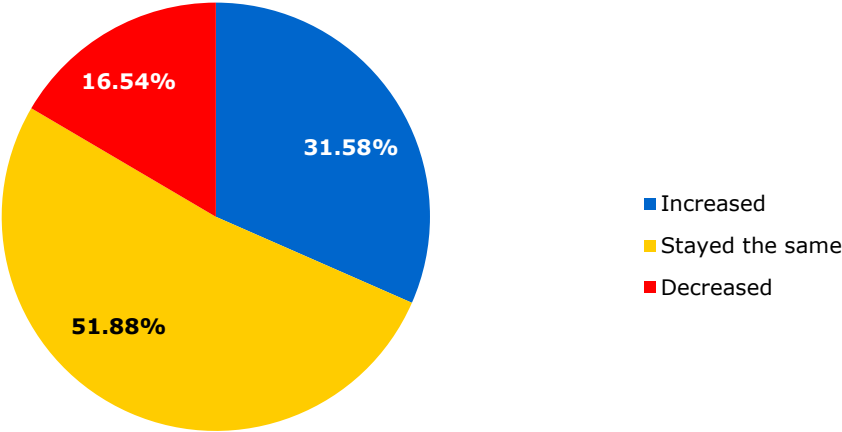
From those reporting deteriorated business results in 2020, the majority (67%) report a decrease up to 30%.

If deteriorated, how much?



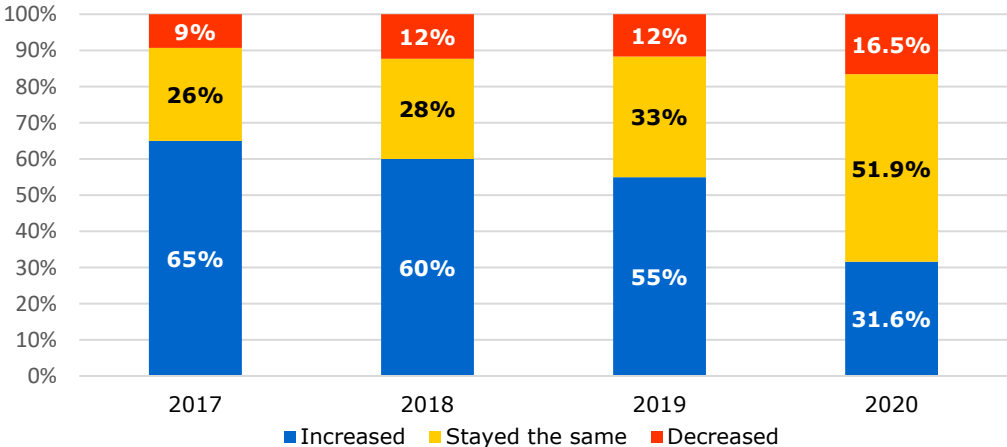
The majority of participants (52%) report that the total number of employees in their company stayed the same, while 31.6% stated that it has increased.

How has the total number of employees in your company changed in 2020?



Although in the period from 2017 till 2019 majority of companies reported new employments, the share of those companies has decreased. 2020 was marked by a significant decrease in new employments.

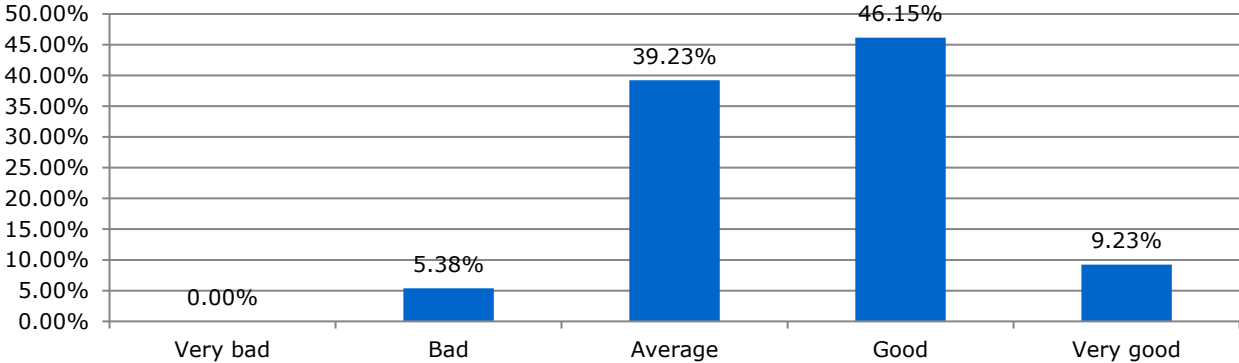
Share of companies according to employment trend in Croatia



Business environment

The overall experience of doing business in Croatia was assessed as good or very good by more than 55% of the participants. 39% respondents found it to be average and slightly more than 5% bad.

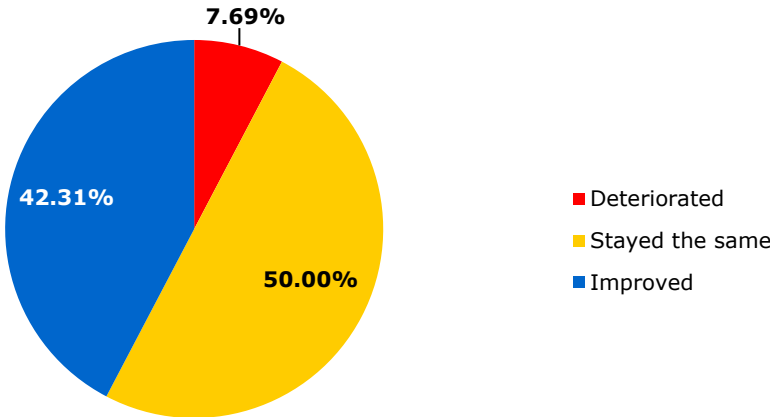
How would you rate overall experience with your company's business in Croatia?



Despite numerous challenges in doing business in 2020, compared to the previous three years, there is a slight increase in share of companies reporting business overall experience of doing business in Croatia as average and good or very good.

Half of the participants believe that the business conditions in Croatia have remained the same in the past five years, 42% find that those conditions have improved, while approximately 8% of participants think that the business conditions have deteriorated.

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 2019:

- 1) Taxation of labour
- 2) Lack of adequate workforce
- 3) High taxation on doing business

Main limiting factors for doing business in 2020:

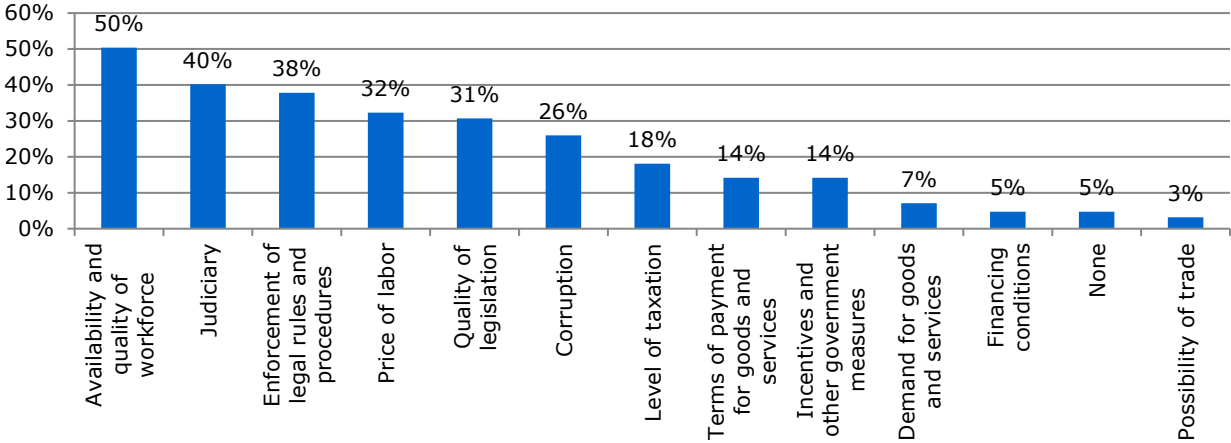
- 1) Insufficient demand (due to pandemic or other reasons)
- 2) Lack of adequate workforce
- 2) Taxation of labour

Three main limiting factors for their business in 2020 include insufficient demand (due to pandemic or other reasons), lack of adequate workforce and taxation of labour. In the fourth place, participants reported high taxation on doing business.

When asked to specify the three biggest problems their company has faced in the last five years, participants report lack of adequate workforce and lengthy and complex administrative procedures. In the third place, they highlighted in the same percentage taxation of labour and high taxation on doing business.

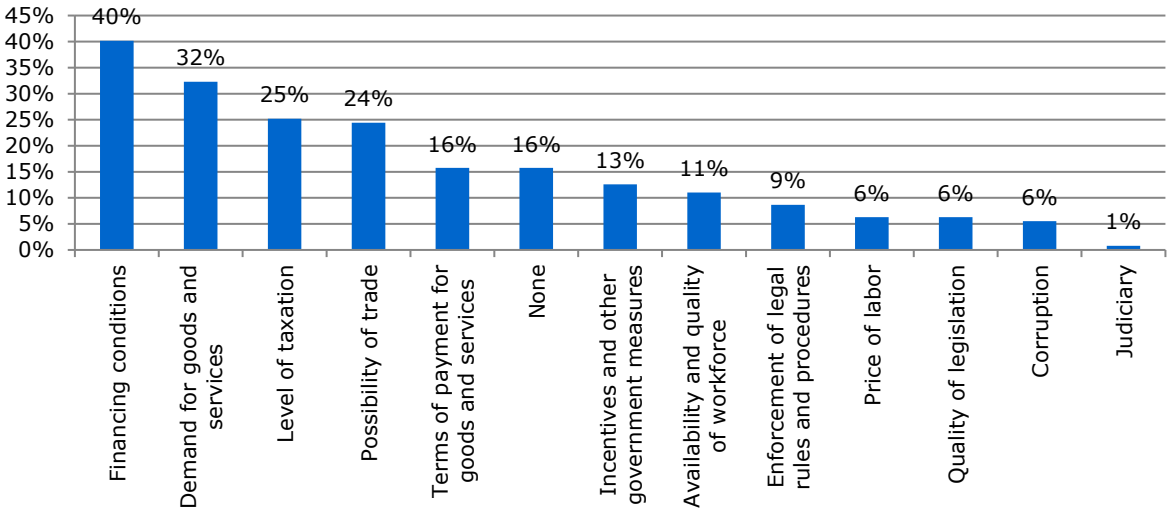
Participants attribute the biggest deterioration of business conditions in the past 5 years to the availability and quality of workforce, judiciary and enforcement of legal rules and procedures.

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



The biggest improvements in the five-year period are seen in better financing conditions, increased demand for goods and services and level of taxation. These improvements correspond to those from the previous surveys. Compared to the previous surveys, this is the first time that the level of taxation has been ranked among first three improvements.

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

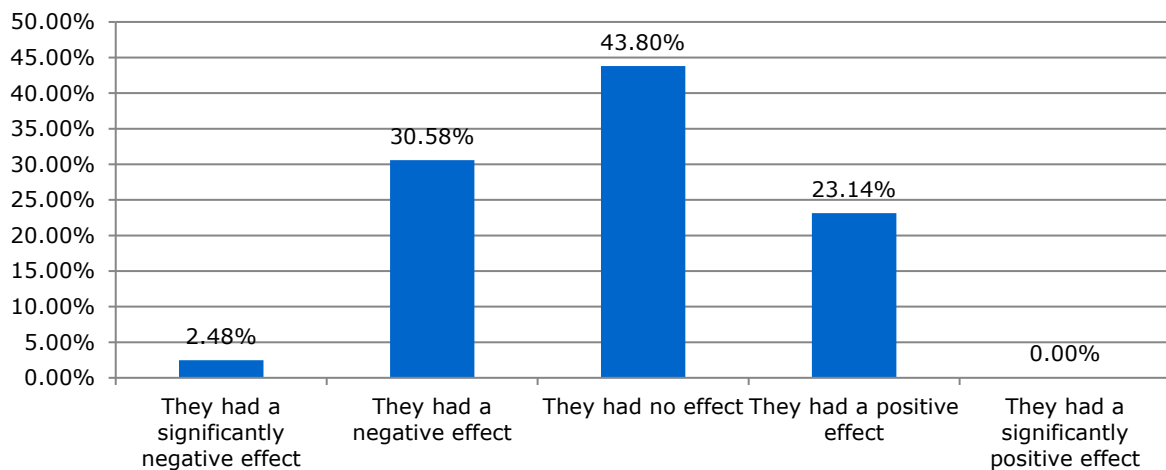


Impact of institutions on the business environment

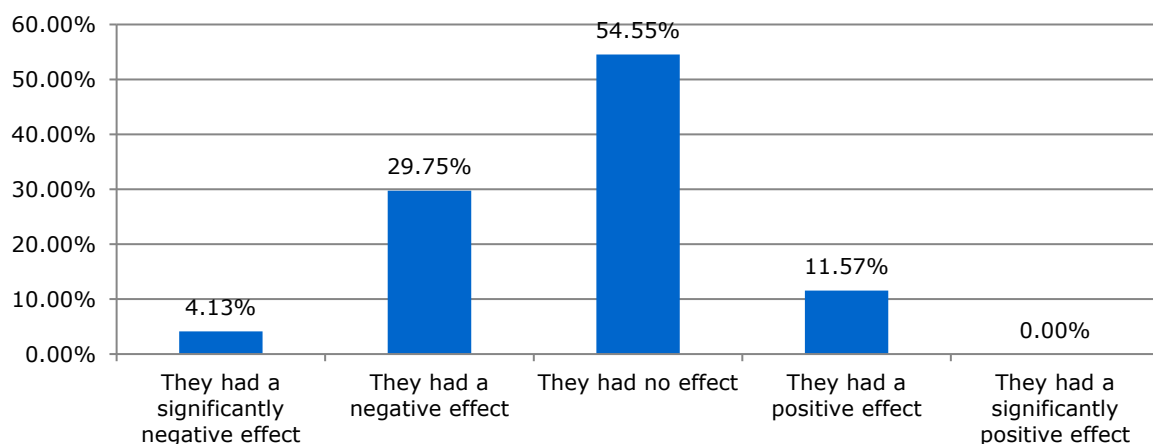
33% of participants perceive the impact of government institutions on business conditions as negative. The percentage of participants who assessed the impact of state administration on the business conditions to be without effect is 44%. The percentage of participants who find that regulations and operations of state administration have had a positive effect is 23%.

Most of the participants (55%) find that the regulations and administration of local authorities (cities, municipalities, counties) have not had any influence on the business conditions in Croatia in the past 5 years.

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

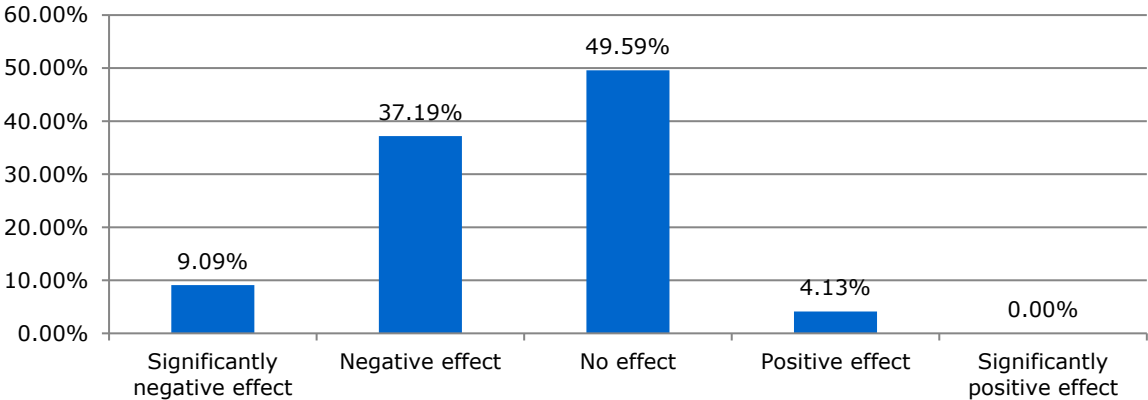


In what way have regulations and administration of local authorities (cities, municipalities, counties) affected the business conditions in the past 5 years?



46% of participants assessed the effect of the working of the Croatian judiciary on doing business as negative or significantly negative. Only 4% of participants highlighted a positive effect of the work of the judiciary on doing business.

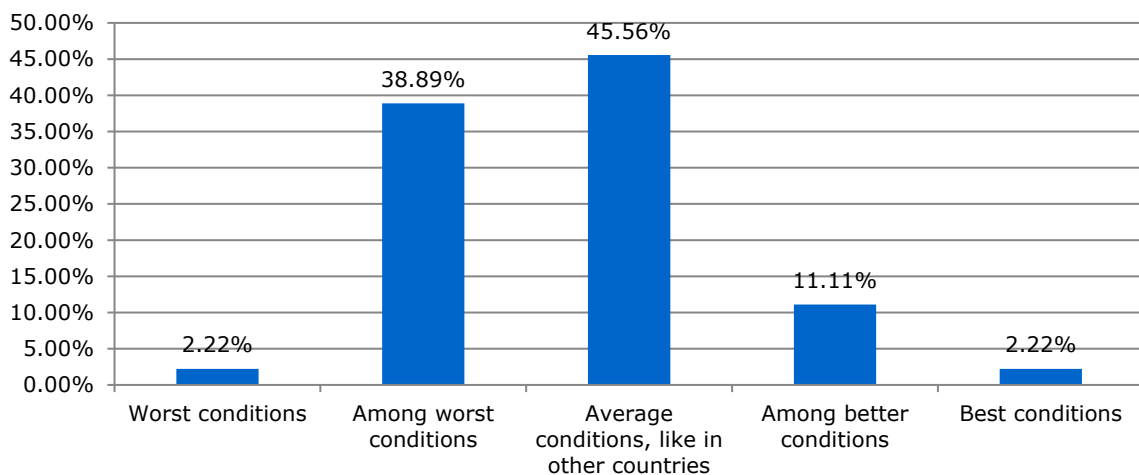
What kind of effect has the Croatian judiciary had on your business in the past 5 years?



Comparison with the region

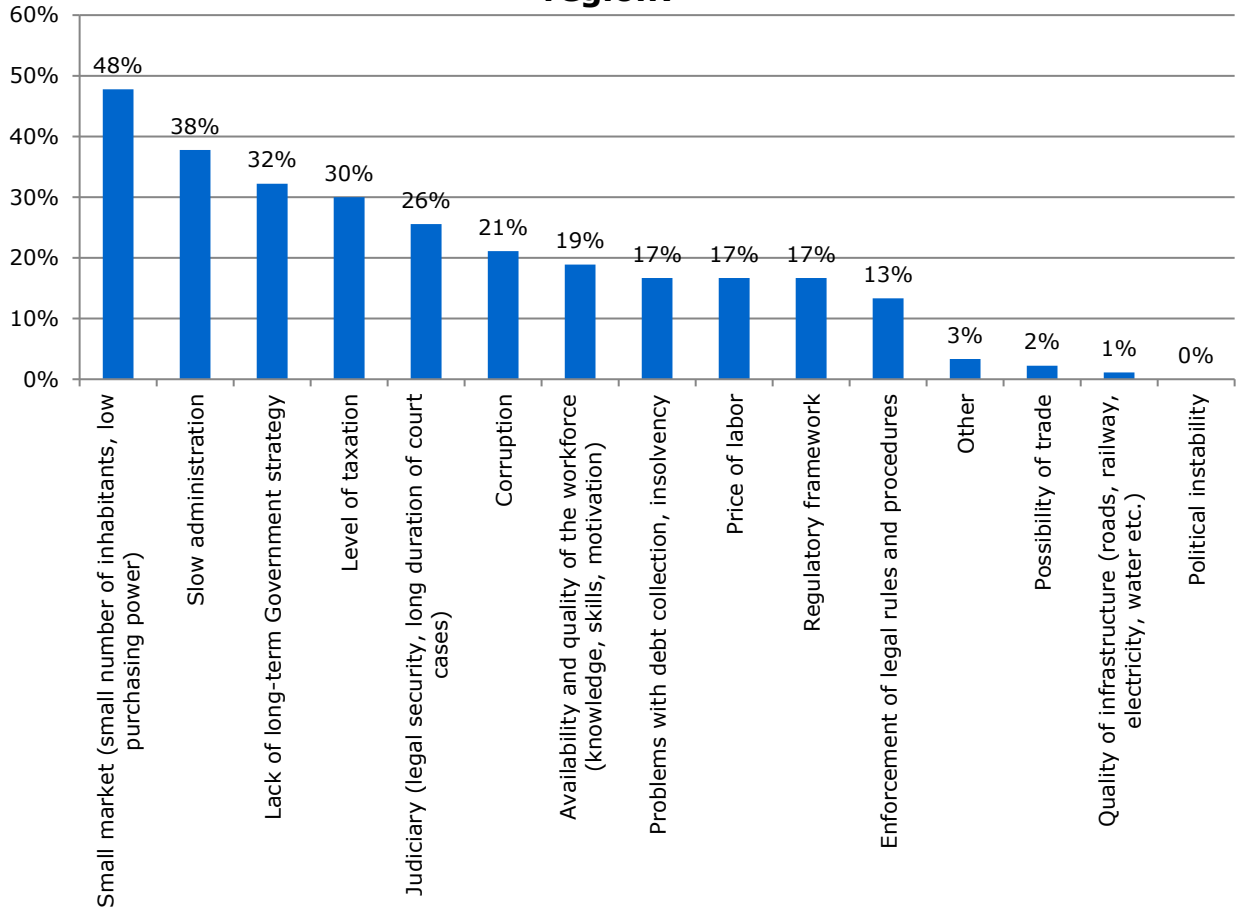
Around 76% of AmCham member companies participating in the survey operate in other countries of Central and Eastern Europe, out of which 50% in more than five countries in the region.

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



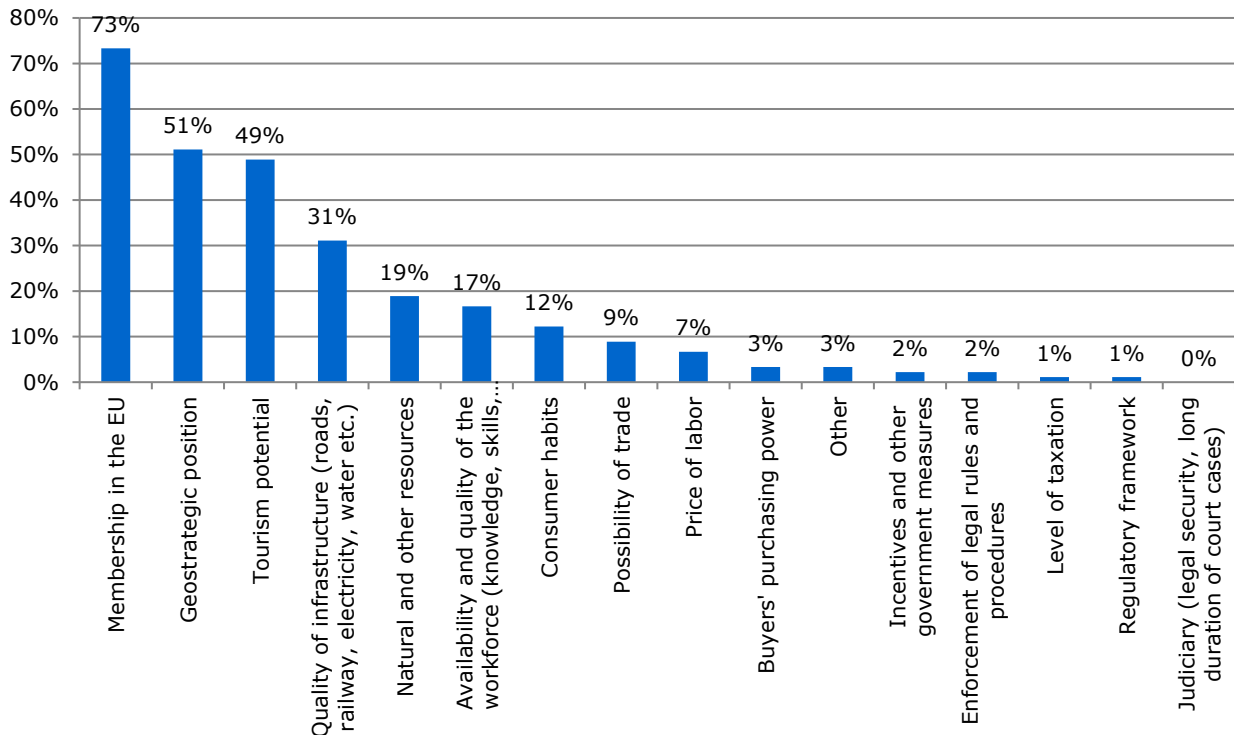
13% of participants are of the opinion that business conditions in Croatia are better than those in other countries of Central and Eastern Europe, while 41% consider them worse than in other countries.

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 greatest disadvantages of Croatia compared to other countries from the region are the small size of the market, slow administration, and lack of long-term Government strategy on the third place. The level of taxation came in second on the list last year, while in this year's survey it is on the fourth place.

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 in previous years, EU membership, country's geostrategic position and tourism potential are cited as Croatia's biggest advantages.

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

- 1) Small market
- 1) Slow administration
- 3) Lack of long-term Government strategy

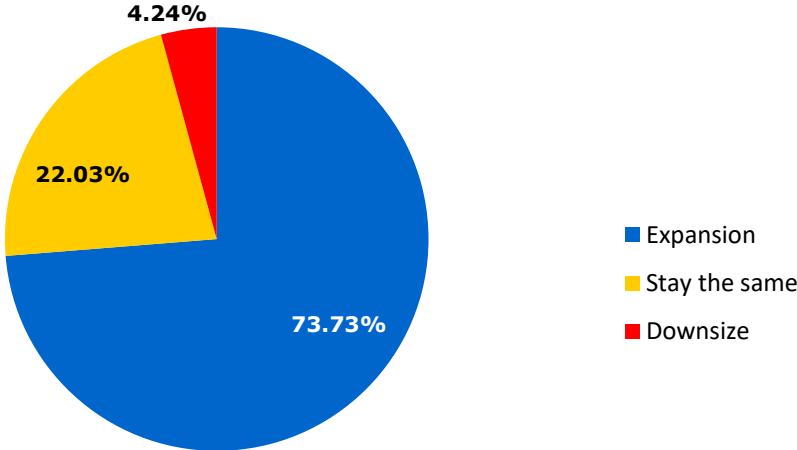
Biggest advantages of doing business in Croatia compared to CEE countries.

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

Business expectations

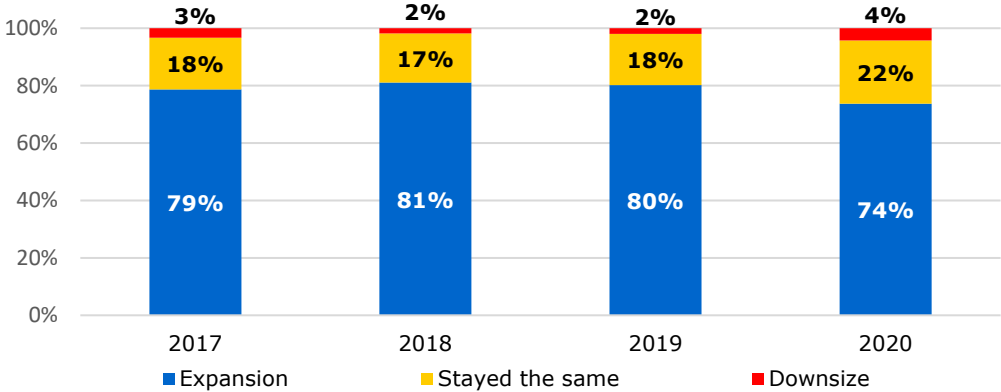
For the upcoming three-year period, 74% of AmCham member companies plan to expand the scope of their business operations in Croatia, while only 4% plan a reduction.

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

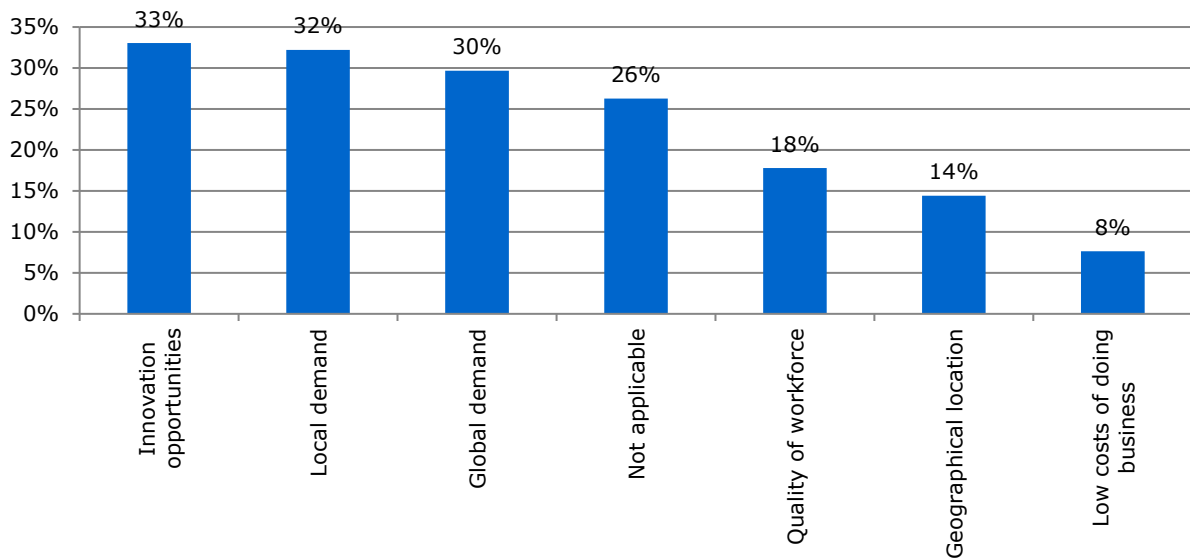


If we look at the four-year trend, with a minor contraction in 2020, AmCham member companies have continuously planned expansion of their business in Croatia.

Company's plans for Croatian operations over the years

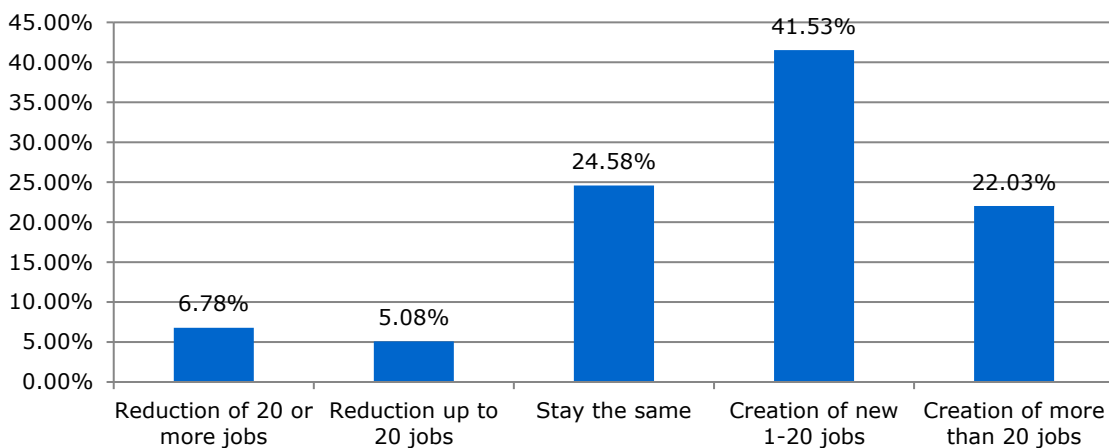


If your company plans to expand/invest in Croatia, what are the key drivers?



Out of the companies planning expansion 33% are driven by innovation opportunities, followed by domestic (32%) and global demand (30%).

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

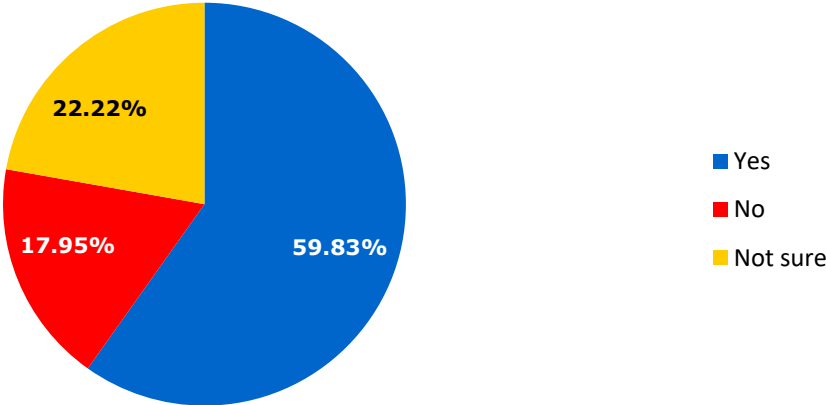


Nearly 64% of companies plan to hire new employees in the next three years, out of which 22% plan on hiring more than 20 new employees. 12% of companies plan to reduce the number of employees in the next three years. Compared to last year's survey where 71% of companies planned to hire new employees, this year's results indicate a moderate contraction of plans.

Influence of coronavirus on doing business

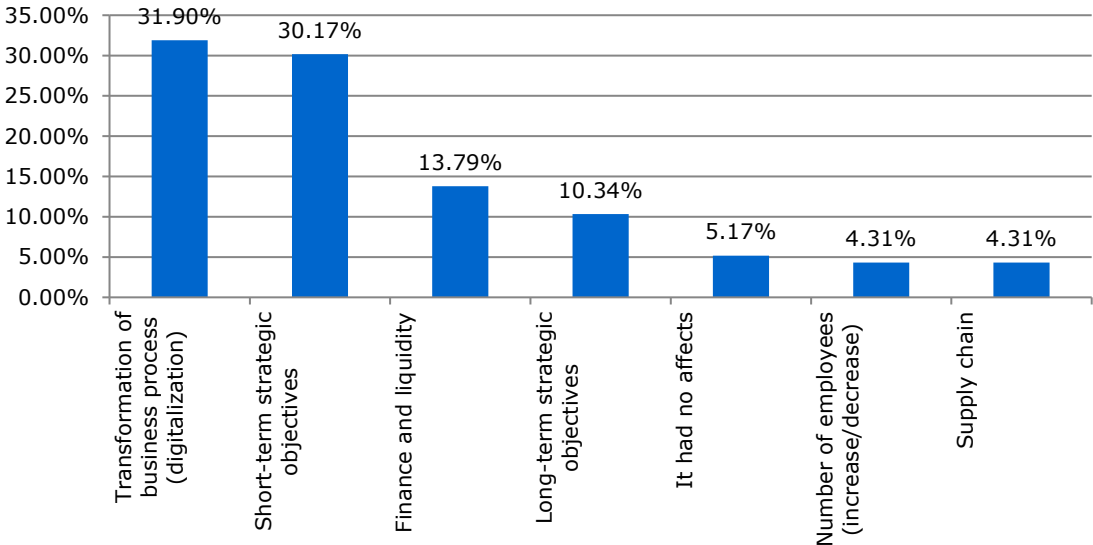
Majority of participants (60%) intend to provide the opportunity to their workers to continue working from home after the pandemic is over.

Do you intend to provide the opportunity to your workers to continue working from home after the pandemic is over?



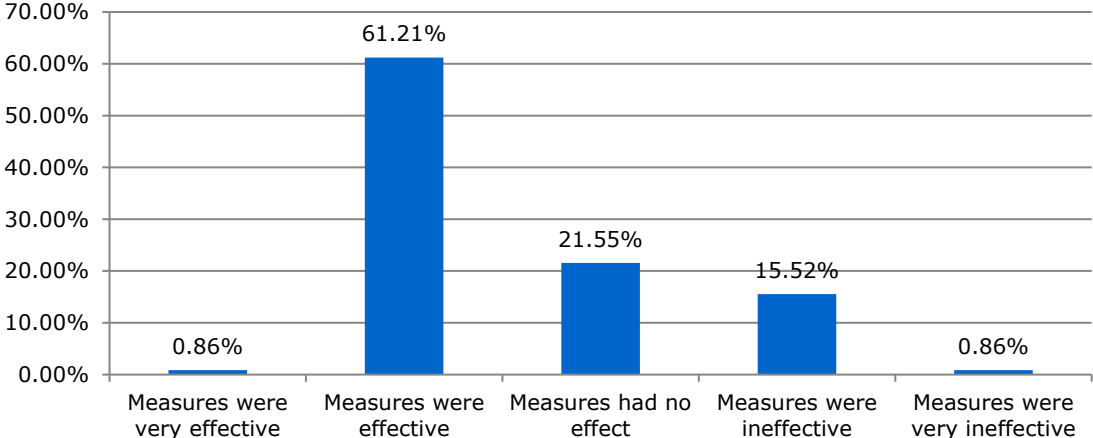
According to survey results, the COVID-19 outbreak has affected the most transformation of business process (digitalization of business), short-term strategic objectives, finance and liquidity.

Which of the following categories has COVID-19 outbreak affected the most?



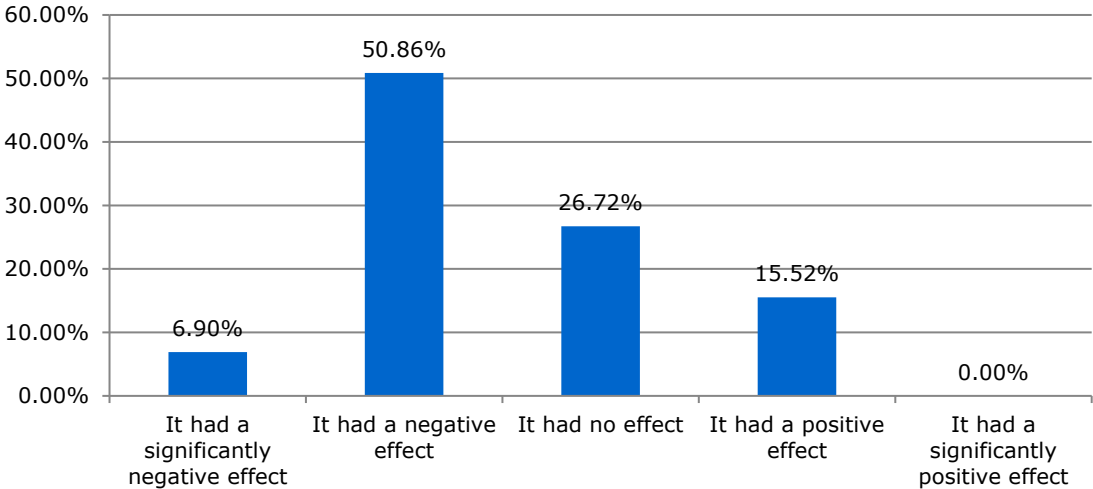
Regarding the Government's support measures aimed at helping the economy overcome the crisis caused by COVID-19, 62% of participants has evaluated them as effective. 16% of the participants consider the measures ineffective.

How do you evaluate the Government’s support measures aimed at helping the economy overcome the crisis caused by COVID-19?



58% of the participants stated that they expect negative effect of coronavirus on their business to last for the next two years.

How has the pandemic affected your business perspectives in the next two years?



Conclusion

39% of participants assessed their business results in 2020 worse than in 2019. Almost equal share of participants (38.5%) reported improved business results in comparison with 2019.

After a three-year positive trend when participants mostly reported improved business results compared to the year before, 2020 is marked by a contraction. From those reporting deteriorated business results in 2020, the majority (67%) report a decrease up to 30%. Regarding the total number of employees, most participants (52%) report that it stayed the same.

A significant number of participants (39%) have found the overall experience of doing business in Croatia average, while 55% of respondents have assessed it as good or very good. Compared to 2019 a slight increase of average and positive experience of doing business in Croatia has been noticed.

42% of participants have noticed improvement in business conditions in the last five years. As the three main limiting factors for their business in 2020 respondents highlighted insufficient demand (due to pandemic or other reasons), lack of adequate workforce and taxation of labor.

Comparing Croatia with other CEE countries, 13% of respondents consider the business conditions in Croatia better, while 41% consider them worse than in other countries. The greatest disadvantages of Croatia compared to other CEE countries include the small size of the market, slow administration, and lack of long-term Government strategy.

In the next three years, 74% of the AmCham member companies plan to expand their business in Croatia, while only 4% plan a reduction. Looking at the four-year trend, with a minor contraction in 2020, AmCham member companies have continuously planned expansion of their business in Croatia. As for job creation, 64% of the companies plan to hire new employees in the next three years.

Majority of participants (60%) intend to provide the opportunity to their workers to continue working from home after the pandemic is over. The COVID-19 outbreak has affected the most transformation of business process (digitalization of business), short-term strategic objectives, finance, and liquidity. Regarding the Government's support measures aimed at helping the economy overcome the crisis caused by COVID-19, 62% of participants has evaluated them as effective. It is expected that for 58% of the participants the negative effect of coronavirus on their business will last for the next two years.

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