

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 230 American, Croatian and other international companies employing more than 78,000 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 2018. The survey carried out among members of companies' management boards has provided an insight into business results for 2018, as well as the mood of investors regarding future activities.

Methodology, sample and purpose of the survey

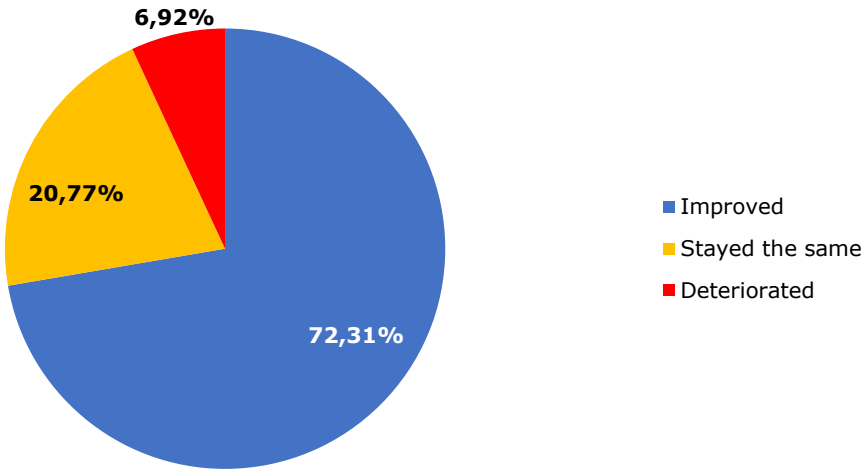
The survey was carried out in the period from December 19, 2018 until February 6, 2019, on a sample of 130 members of management boards of domestic and international companies in Croatia. 33% of companies that participated in the survey belong to the category of small enterprises, according to the number of employees. Approximately 24% were medium-sized companies, 28% were large companies, while 15% were companies with up to 9 employees. The companies that participated in the survey were majority foreign-owned, 53%, followed by 43% of majority domestically owned companies. Only 4% 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 2018

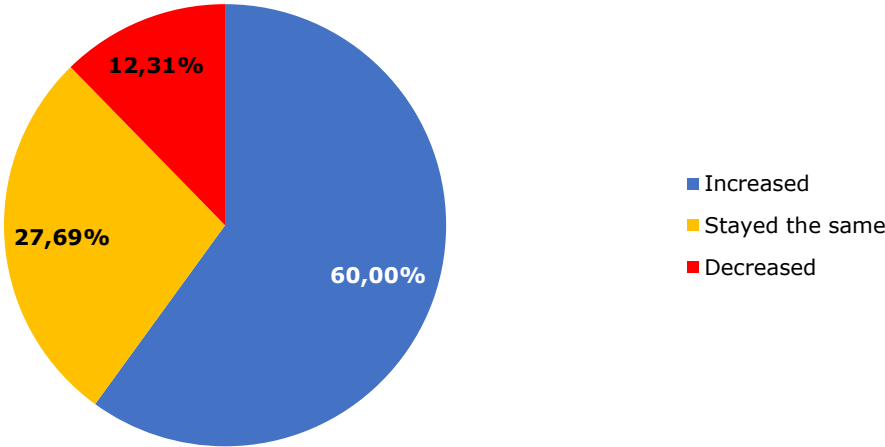
The majority of participants (72%) assessed their business results in 2018 as better than in the previous year.

How has your business situation developed in 2018?



An increase in the number of employees in 2018 was stated by 60% of participants.

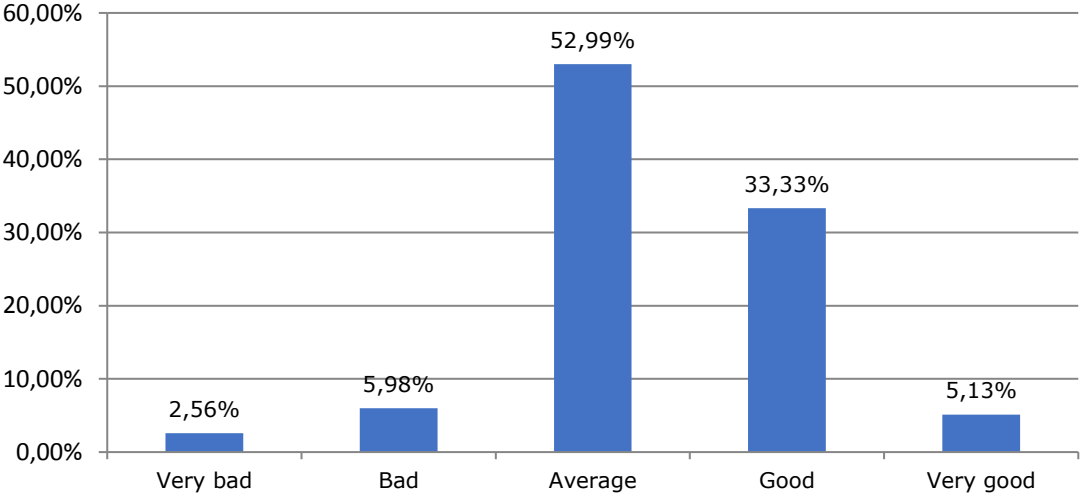
How has the total number of employees in your company changed in 2018?



Business environment

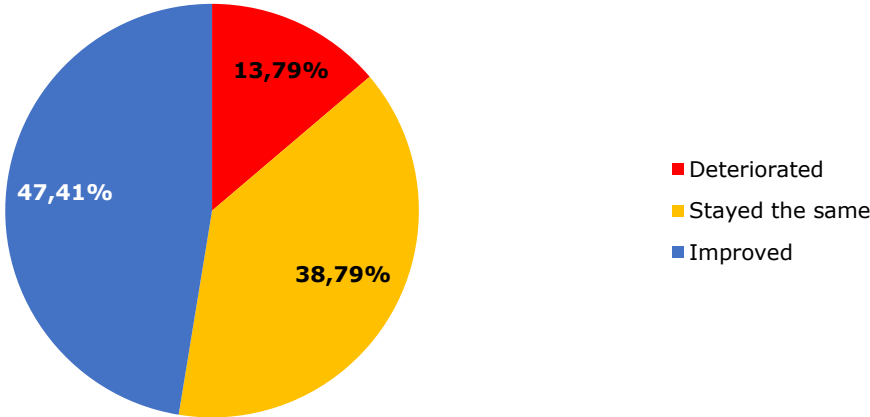
The overall experience of doing business in Croatia was assessed as good or very good by 38% of the participants, as average by 53%, and as bad by 9%.

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



While approximately 14% of participants believe that business conditions in Croatia have deteriorated in the past five years, 47% find that those conditions have improved. 39% 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 2017:

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

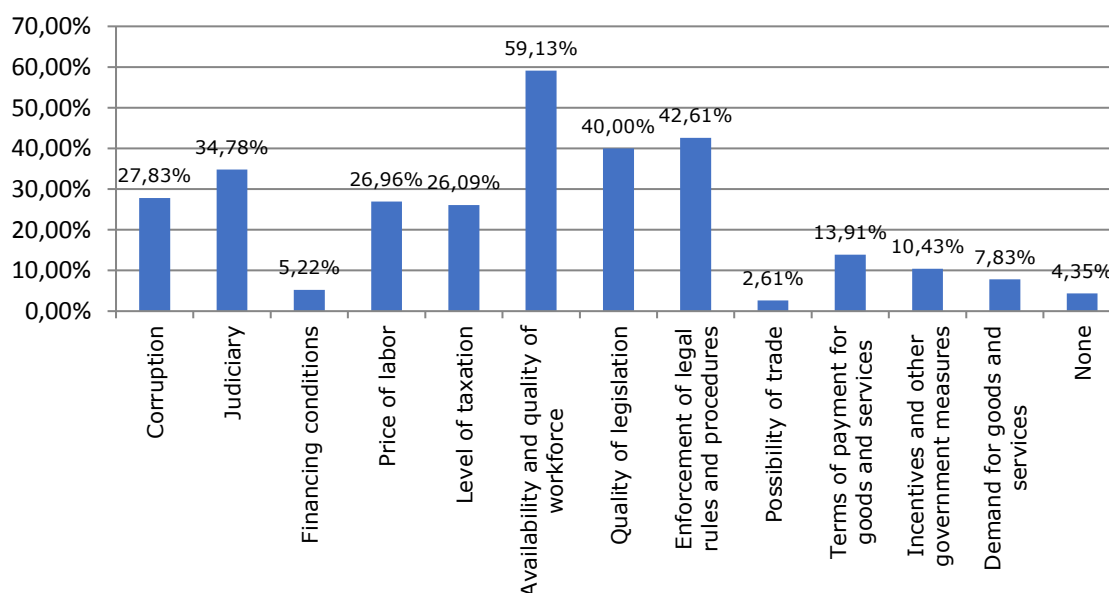
Main limiting factors for doing business in 2018:

- 1) Lack of adequate workforce
- 2) Unstable regulatory framework
- 3) Taxation of labor

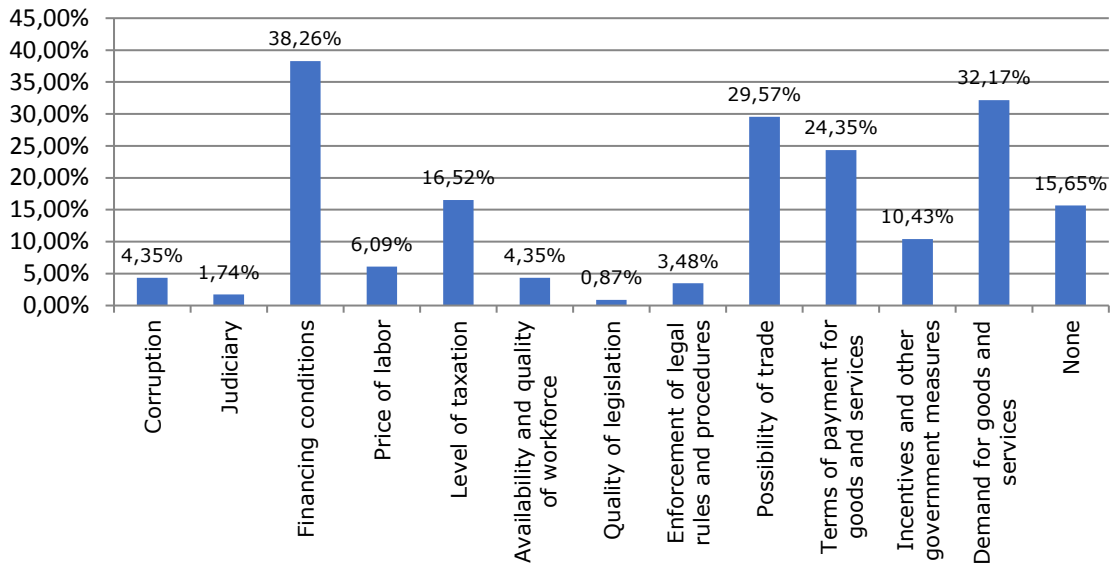
As three main limiting factors for their business in 2018, the participants pointed out the same factors as for the previous five-year period. Lack of adequate workforce undoubtedly stands out as the biggest challenge to doing business in Croatia. Long and complex administrative procedures, which were highlighted as the biggest issue in the survey for 2018, are not among the main three limiting factors in the 2019 survey.

Participants attribute the biggest deterioration of business conditions in the past 5 years to the availability and quality of the workforce, enforcement of legal rules and procedures and the quality of legislation. The biggest improvements in the five-year period are seen in better financing conditions, increased demand for goods and services 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.

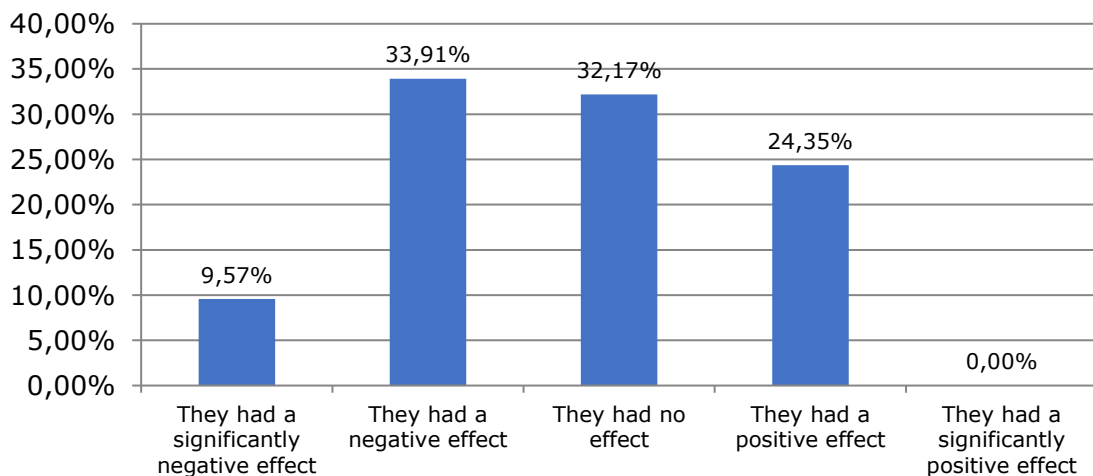


Impact of institutions on the business environment

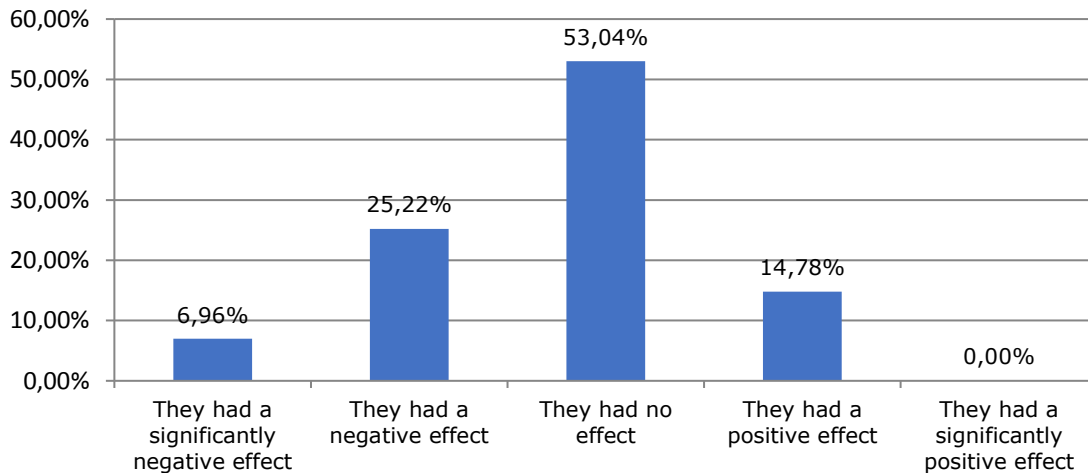
76% of participants perceive the impact of government institutions on business conditions as negative or without effect, which is a 10% decrease compared to the previous year. The percentage of participants who assessed the impact of state administration on the business conditions as primarily negative has decreased from 44% in the last year to 34%, and of those that assess it as primarily neutral by two percentage points, from 34% to 32%. The percentage of participants who find that regulations and operations of state administration have had a significant negative effect on the business conditions has increased slightly: from 9% last year to 10% this year.

Most of the participants (53%) 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?

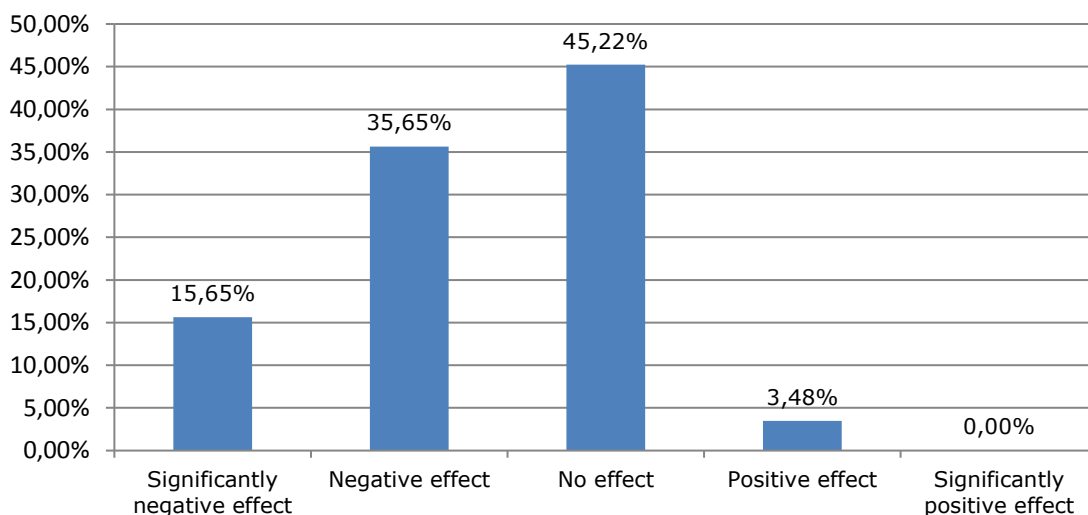


In what way have regulations and administration of local authorities (cities, municipalities, counties) affected the business conditions in the past 5 years?



51% of participants assessed the effect of the working of the Croatian judiciary on doing business as negative or significantly negative. Only 3% of participants highlighted a positive effect of the work of the judiciary on doing business.

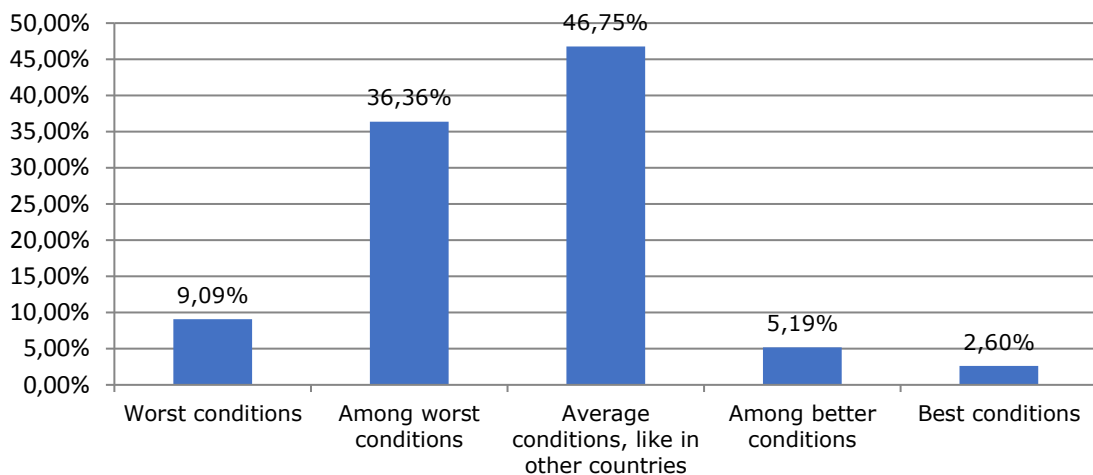
Has the working of the Croatian judiciary had a direct effect on your doing business in the past 5 years?



Comparison with the region

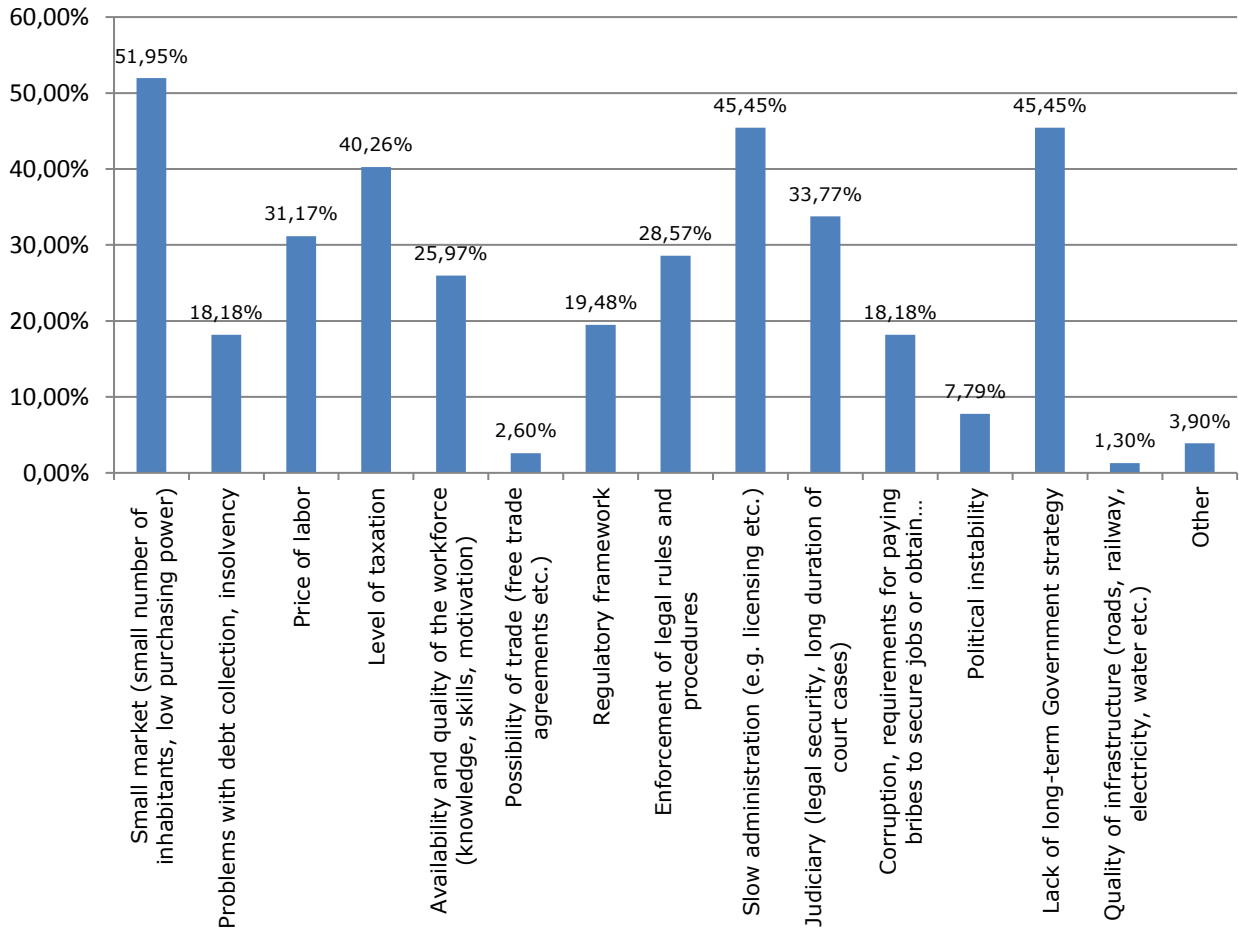
Around 68% of AmCham member companies participating in the survey operate in other countries of Central and Eastern Europe, out of which 65% in more than five countries in the region.

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



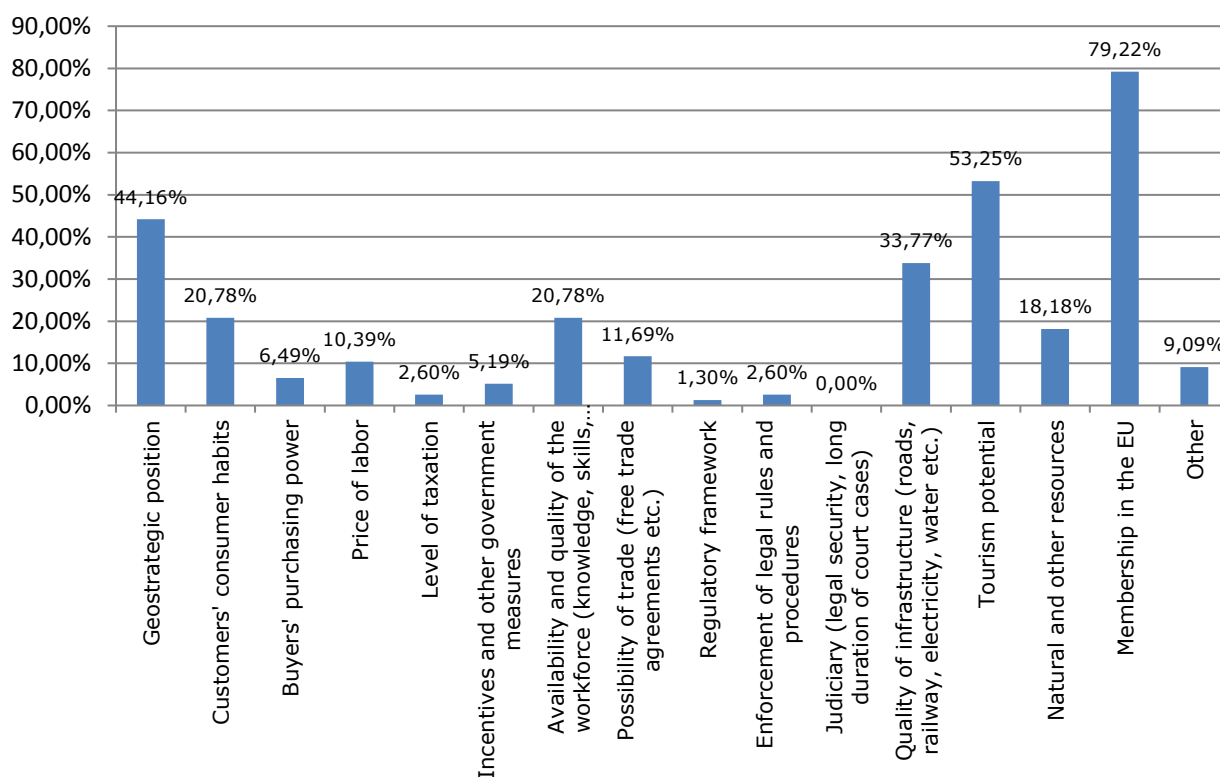
Only 8% of participants are of the opinion that business conditions in Croatia are better than those in other countries of Central and Eastern Europe, while 45% consider them worse than in other countries.

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 the small size of the market and, in equal proportions, slow administration and a lack of a long-term government strategy. Tax burden, highlighted as one of the biggest problems in the last year's survey, came fourth on the list this year.

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?



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

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

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

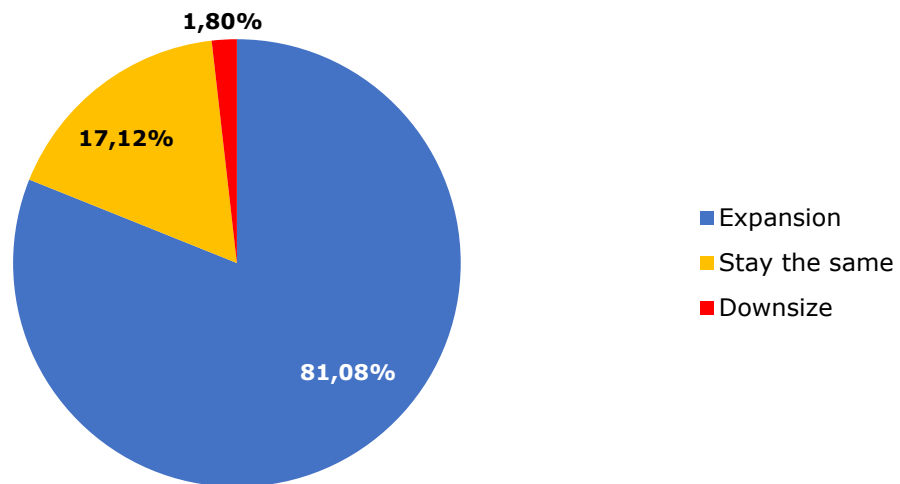
Biggest advantages of doing business in Croatia compared to CEE countries.

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

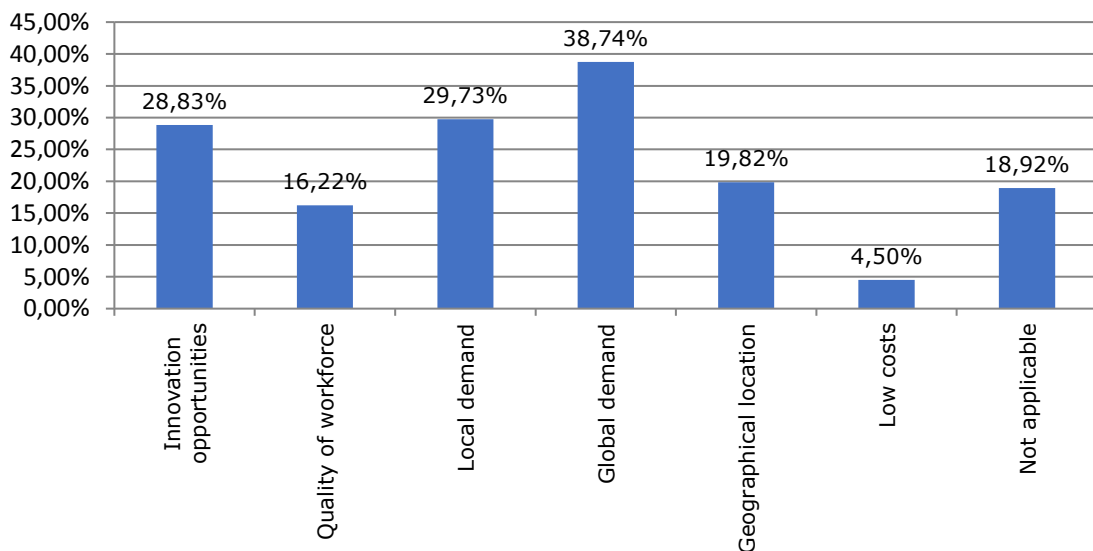
Business expectations

For the upcoming three-year period, 81% of AmCham member companies plan to expand the scope of their business operations in Croatia, while only 2% plan a reduction.

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

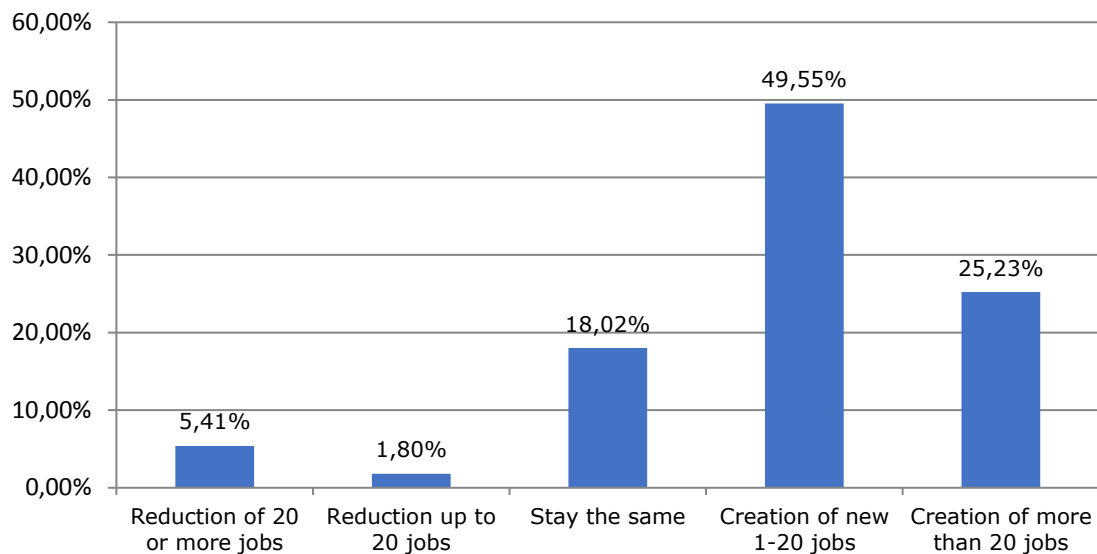


If your company plans to expand/invest in Croatia, what are the key drivers:



Out of the companies planning expansion, 39% are guided by global demand, followed by domestic demand and innovation opportunities (30% and 29%).

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



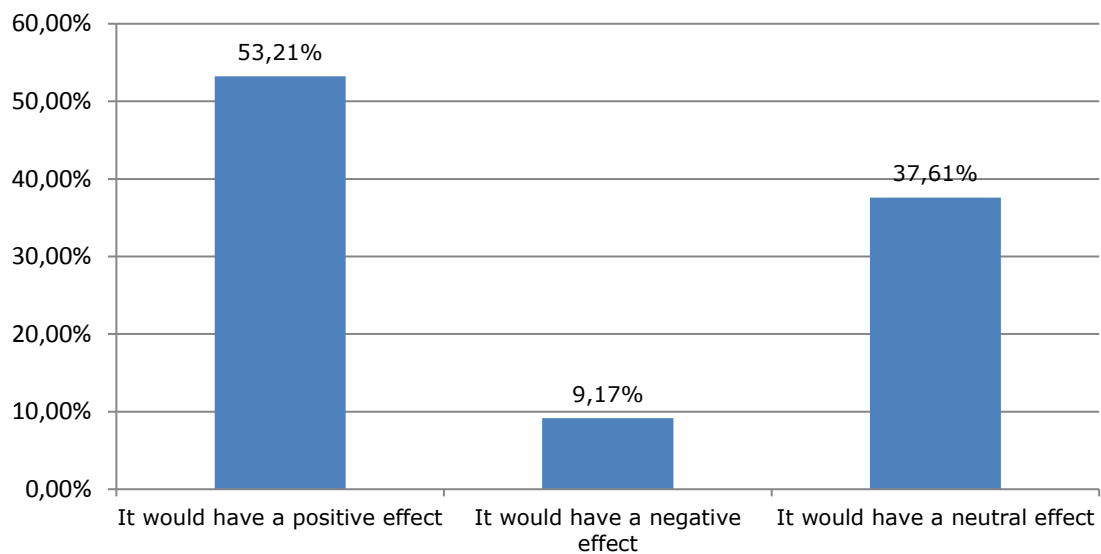
75% of companies plan to hire new employees in the next three years, out of which 25% plan on hiring more than 20 new employees. 7% of companies plan to reduce the number of employees in the next three years.

Introduction of the Euro and access to EU funds

When discussing business conditions, 79% of participants highlighted the Croatian EU membership as its main advantage in comparison to the countries in the region.

91% of participants believe that the introduction of the Euro would have a positive or a neutral impact on doing business.

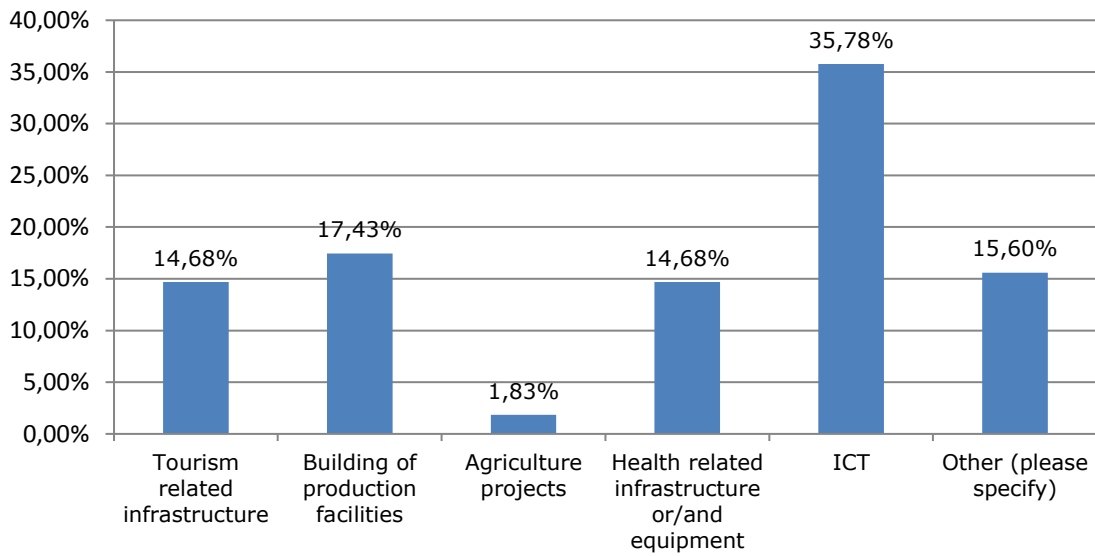
How would the introduction of the Euro in Croatia affect your operations?



In the last year's survey, 49% of participants pointed out the possibility of using EU funds as the third main positive effect of Croatia's EU membership. However, only 11% of companies stated that at the time of the survey they were beneficiaries of EU funds.

Among the participants, there is highest interest for the possibility of applying for EU funds for ICT projects (36%) and building of production facilities (17%).

If you were to apply for EU funding, what type of project would it be?



Conclusion

Results of the last year's survey demonstrated optimism among the business community in Croatia, which continued in this year.

72% of participants gave a positive assessment of doing business in the previous year (compared to 65% the year before). 81% have announced business expansion (compared to 79% for the previous year). Finally, new employment is planned by 75% of participants (which is a 4% growth compared to last year's results).

Dissatisfaction among the representatives of the business community has previously related predominantly to problems requiring systemic reforms, such as the judiciary, administrative burden and the work of the public administration.

Although these topics have remained prominent among the issues identified this year, the lack of work force which has been indicated as an issue in last year's survey, has this year been assessed as the biggest obstacle to doing business in Croatia, and the area in which participants have noticed the biggest deteriorations.

This clearly indicates that the issue of availability and quality of the workforce is of key importance for the Croatian economy and competitiveness in the upcoming period.

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