

Survey of the Business Environment in Croatia

Zagreb, March 2023



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 300 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 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 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 2022. The survey carried out among members of companies' management boards has provided an insight into business results for 2022, as well as the mood of investors regarding future activities.

Methodology, sample, and purpose of the survey

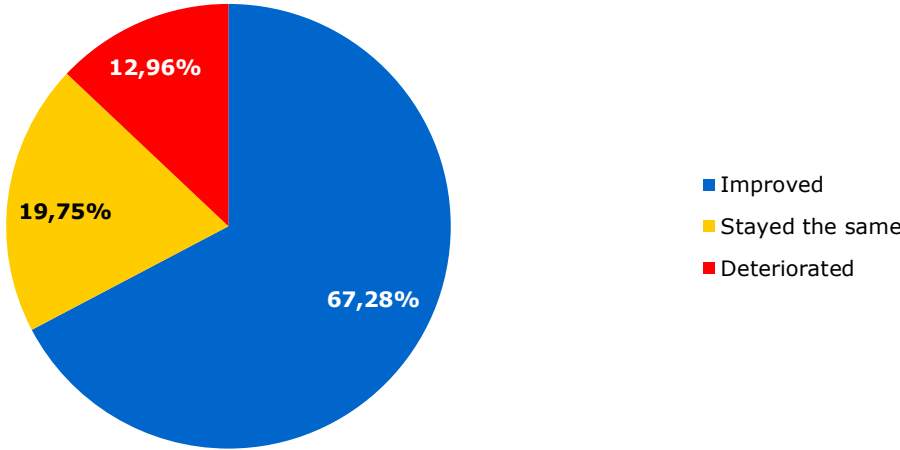
The survey was carried out in the period from December 12, 2022, until January 25, 2023, on a sample of 162 members of management boards of domestic and international companies in Croatia. 28% of companies that participated in the survey belong to the category of large companies, according to the number of employees, same as (28%) medium-sized companies. 30% were small enterprises, while 14% were companies with up to 9 employees. The companies that participated in the survey were majority domestically owned, 55,5%, followed by 43% of majority foreign-owned companies. Only 1,5% 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 2022

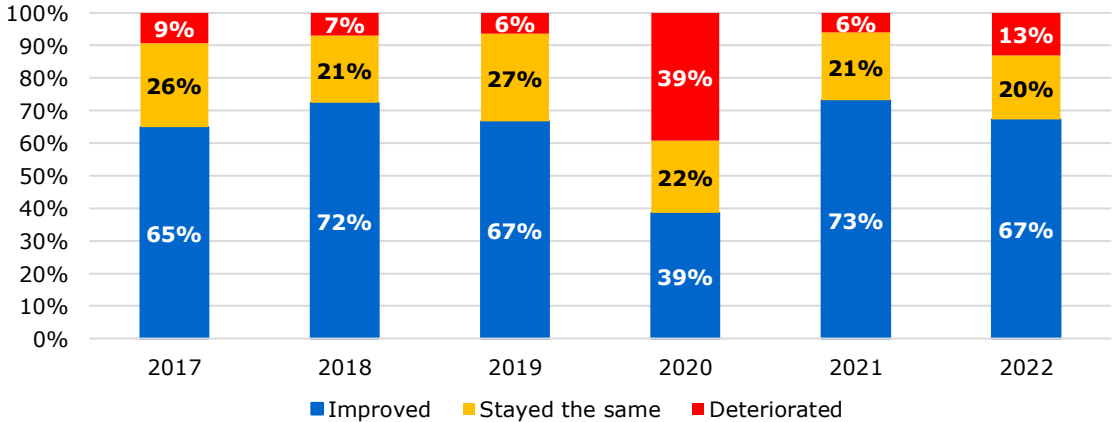
In 2022, 67% of respondents reported improved business results in comparison to the previous year. 13% of companies noted a deterioration in business results, while for 20% of companies the results were the same as in the previous year.

How has your business situation developed in 2022?



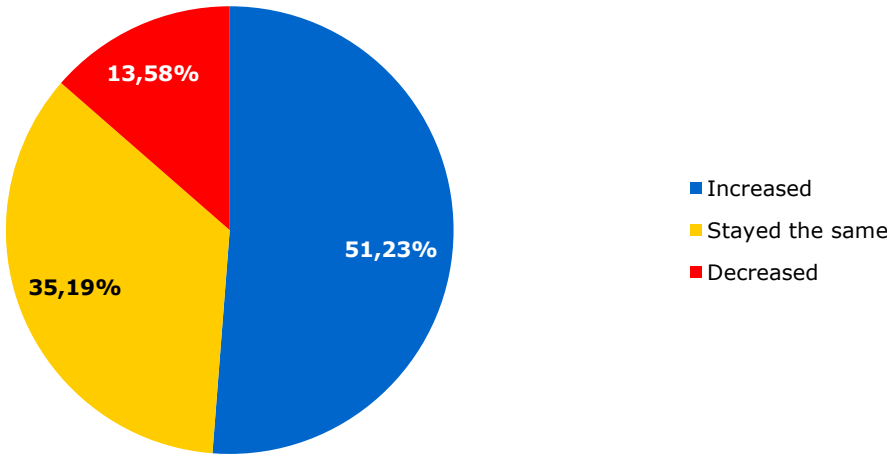
When comparing the past few years, if we leave out 2020, which was marked to the greatest extent by the pandemic, in 2022 the number of companies recording a deterioration of their business situation increased.

Business situation over the years



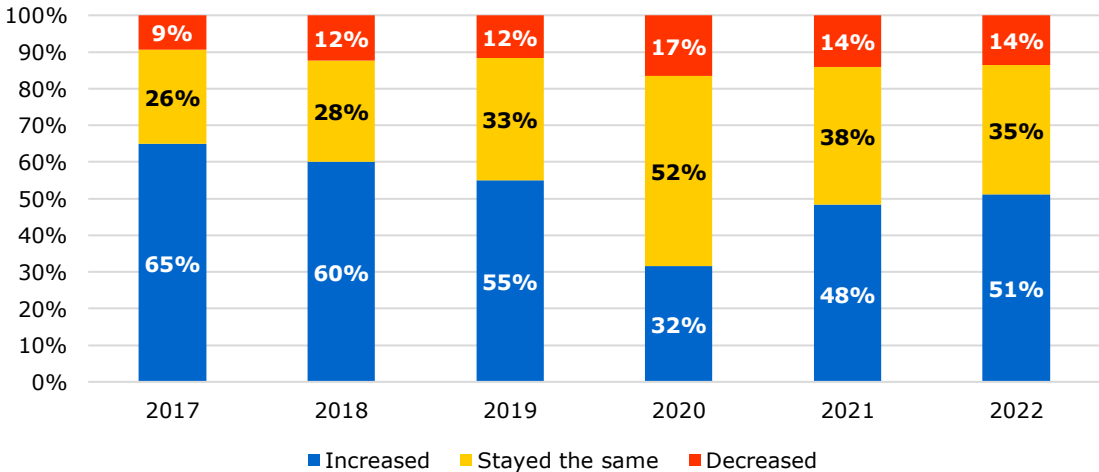
Most respondents (51%) increased their number of employees, while 35% maintained the same number.

How has the total number of employees in your company changed in 2022?



In 2022, the number of companies employing additional staff grew in comparison to the previous year.

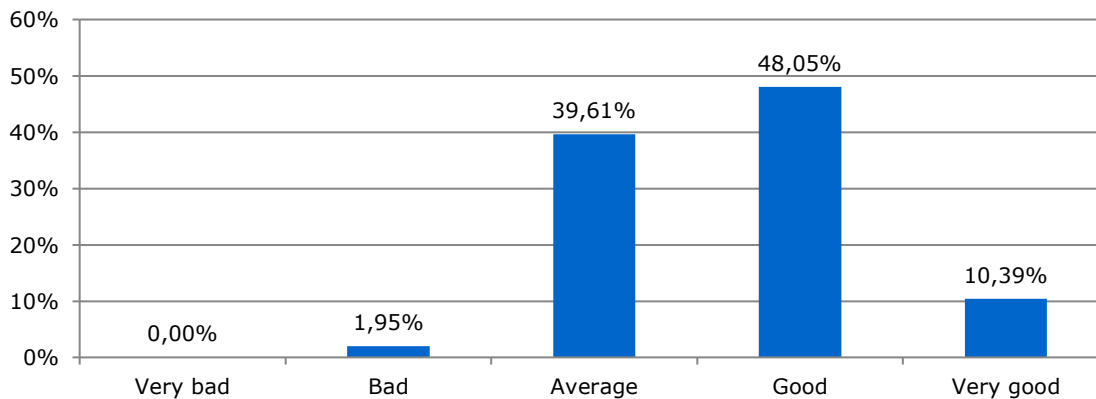
Share of companies according to employment trends in Croatia



Business environment

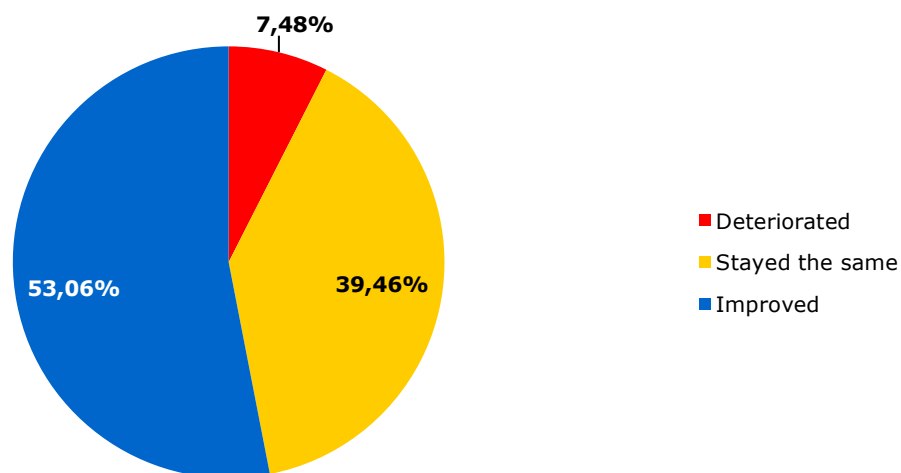
The overall experience of conducting business in Croatia was rated by 59% of respondents as either good or very good.

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



53% of respondents believe that business conditions have improved in the past five years, 39% believe they have remained the same, while 7% think they 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 2021:

- 1) Lack of adequate workforce
- 2) Taxation of labor
- 3) Disturbance in the supply chain (increased costs, shortages and delays)

The main limiting business factors in 2022:

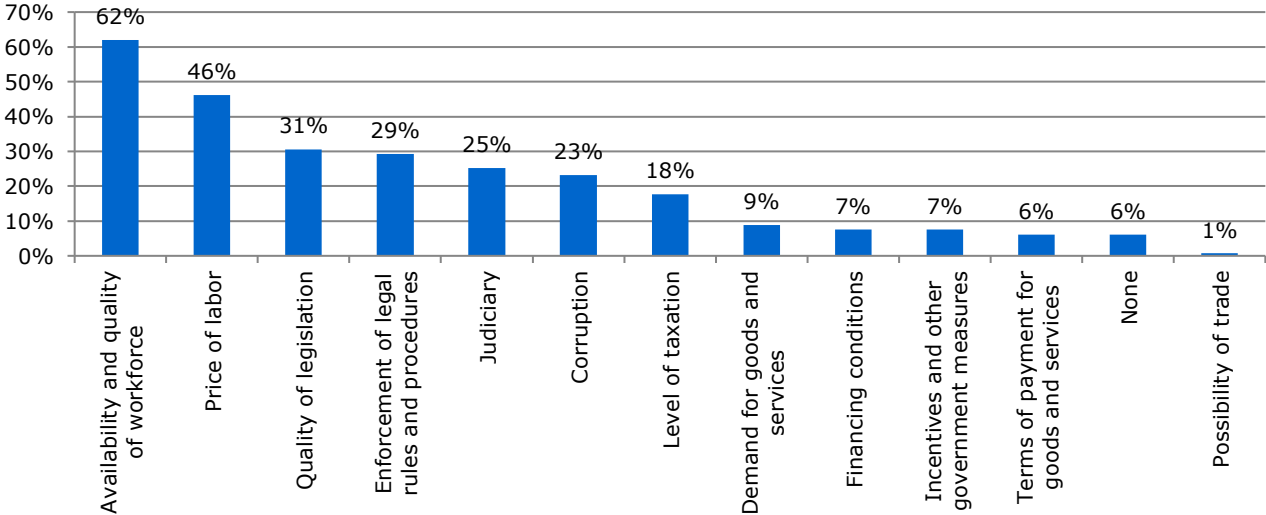
- 1) Inflation
- 2) Rising energy costs
- 3) Lack of adequate workforce

Inflation and rising energy costs were not in the focus of businesspeople in 2021, but in this year's survey they have taken the spotlight as the main limiting business factors. The lack of adequate workforce, which was in the first-place last year, has now taken the third place.

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

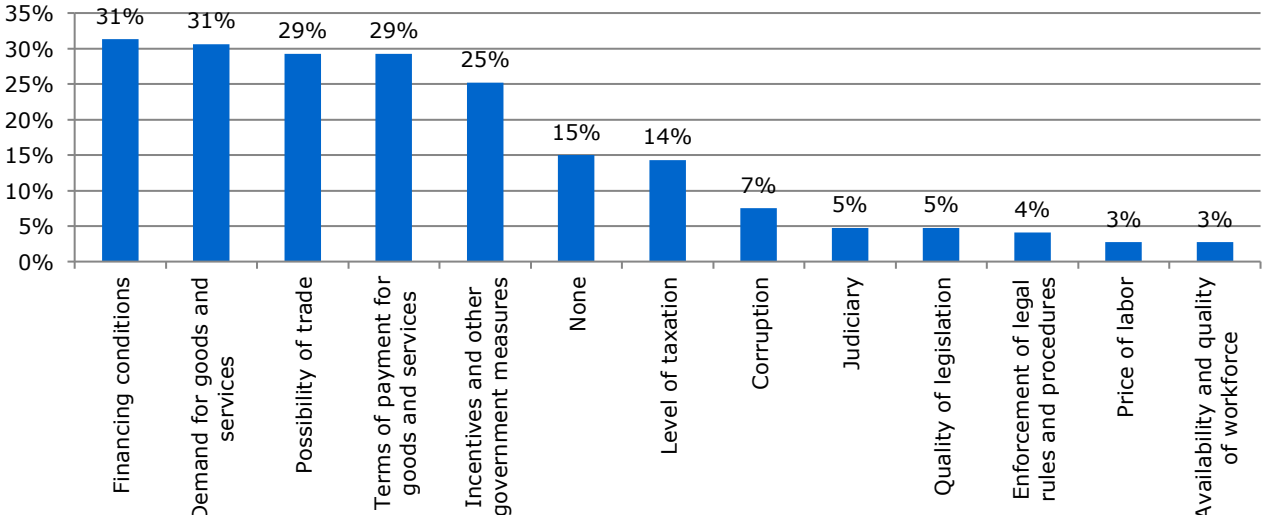
In the past 5 years, the respondents have noticed the biggest deterioration in the availability and the quality of the workforce, price of labor and quality of legislation.

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



The respondents saw financing conditions, increased demand for goods and services, as well possibility of trade and terms for payment for goods and services, as the biggest improvements.

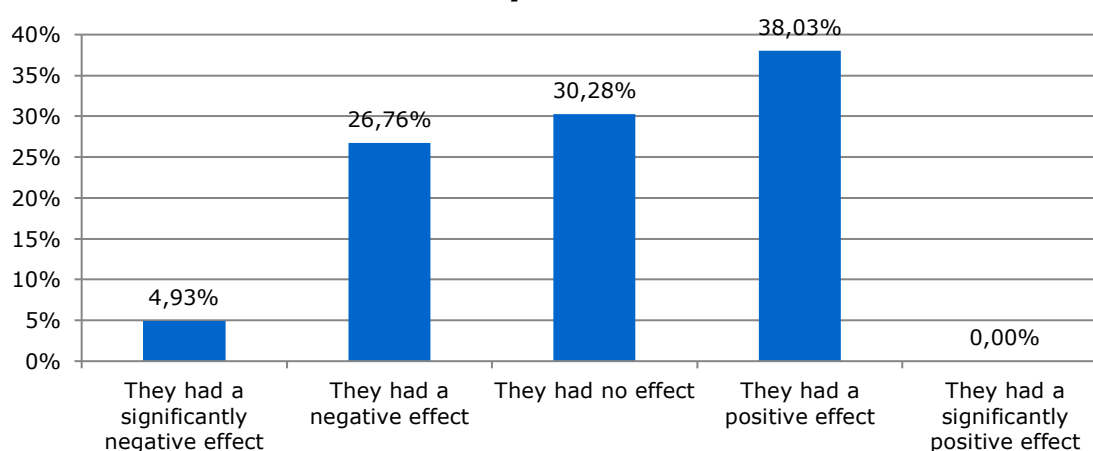
In which areas have you noticed biggest improvements in the past 5 years? You can choose multiple answers.



Impact of institutions on the business environment

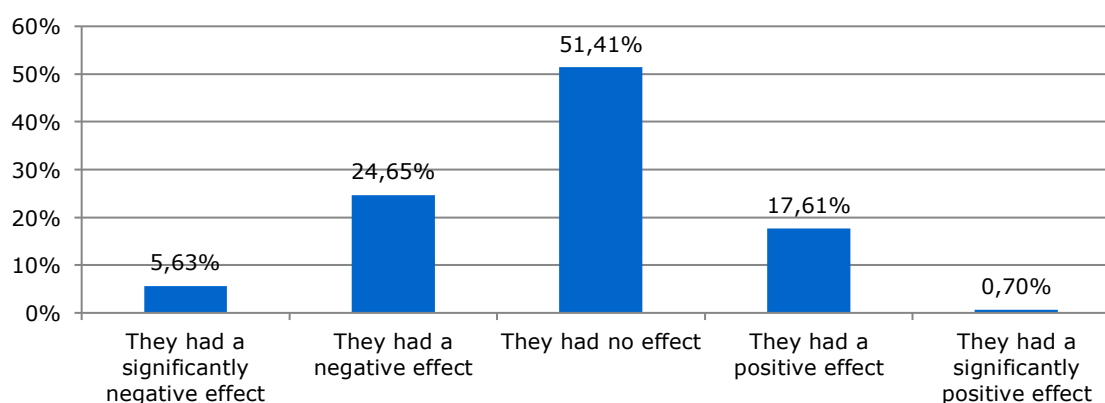
32% of respondents believe that the government administration has a negative effect on the business environment. 30% of respondents rated it as neutral. 38% of respondents assessed the regulations and the activities of public administration as having a positive impact on business. In relation to the past two years, a part of negative assessments turned positive.

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



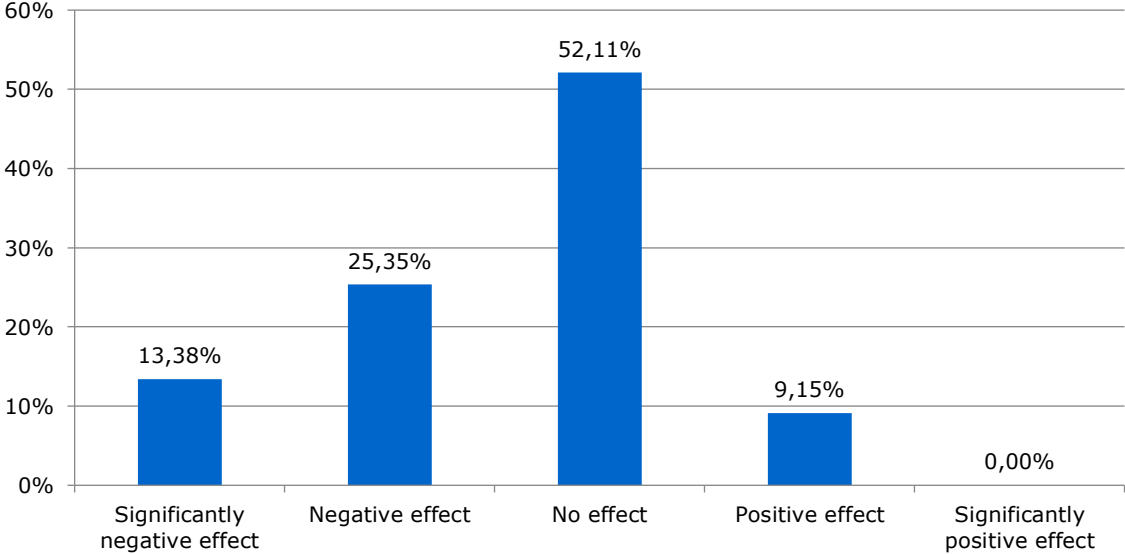
In the opinion of most respondents (51%), the regulations and the administration of the local authorities have not impacted the business environment in Croatia in the past 5 years.

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 year when 57% of respondents rated the influence of the Croatian judiciary on business as negative or significantly negative in this year's survey that share has reduced to 39%. Croatian judiciary had no effect on 52% of respondents, in contrast to last year's 41%. The positive effect of the Croatian judiciary was noted by 9% of respondents, compared to last year's only 2%.

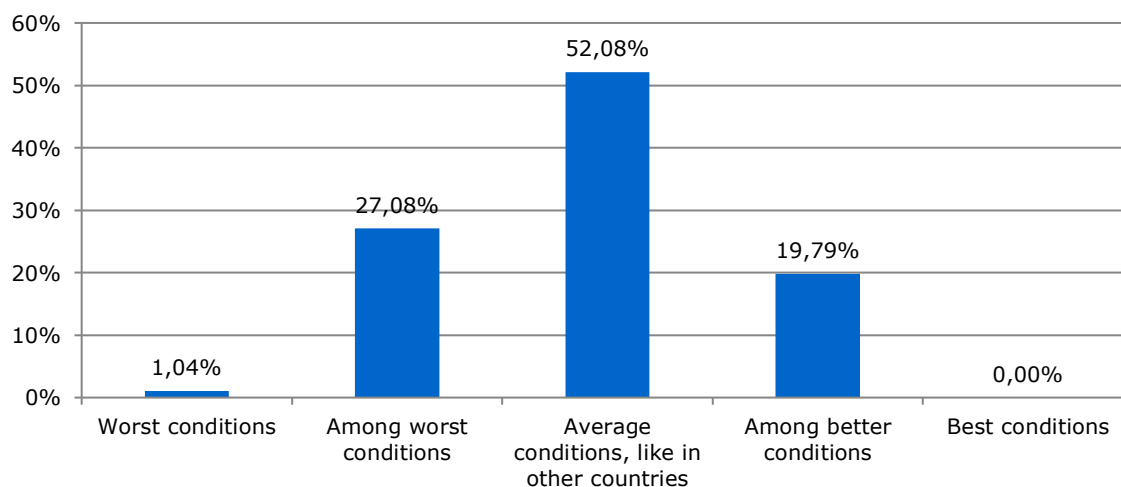
What kind of effect has the Croatian judiciary had on your business in the past 5 years?



Comparison with the region

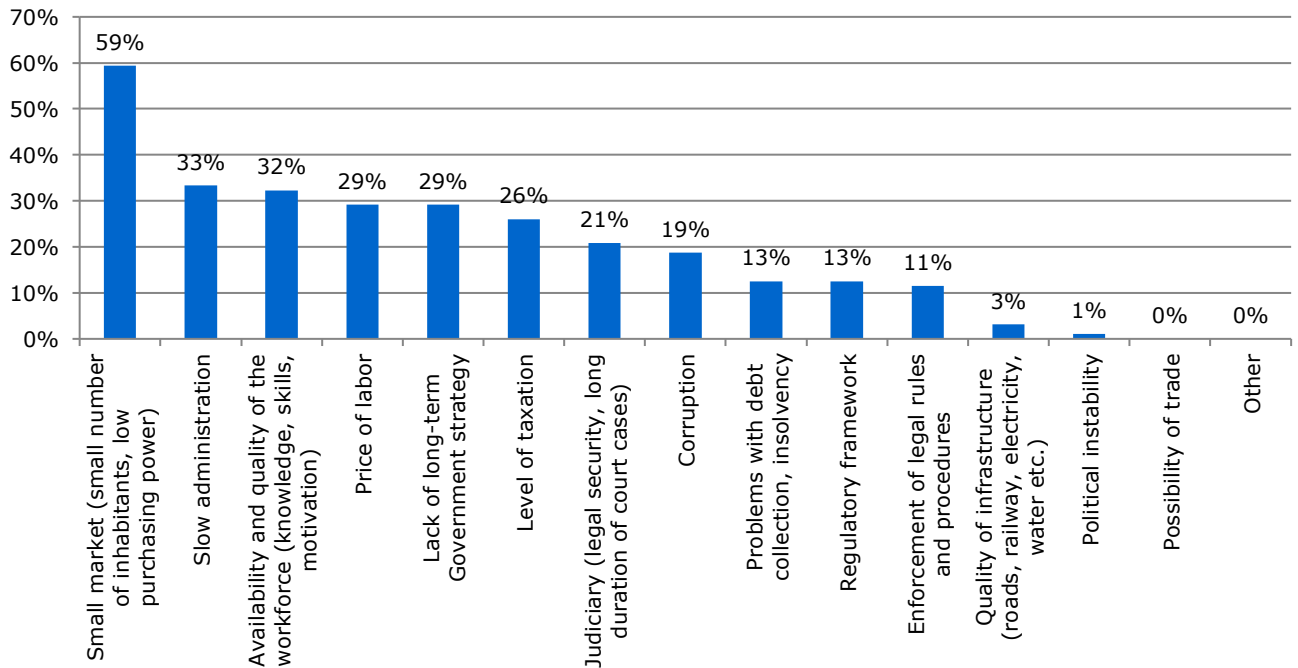
71% of the participating AmCham member companies also conduct business in other countries in Central and Eastern Europe, and 57% of them are active in more than 5 countries in the region.

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



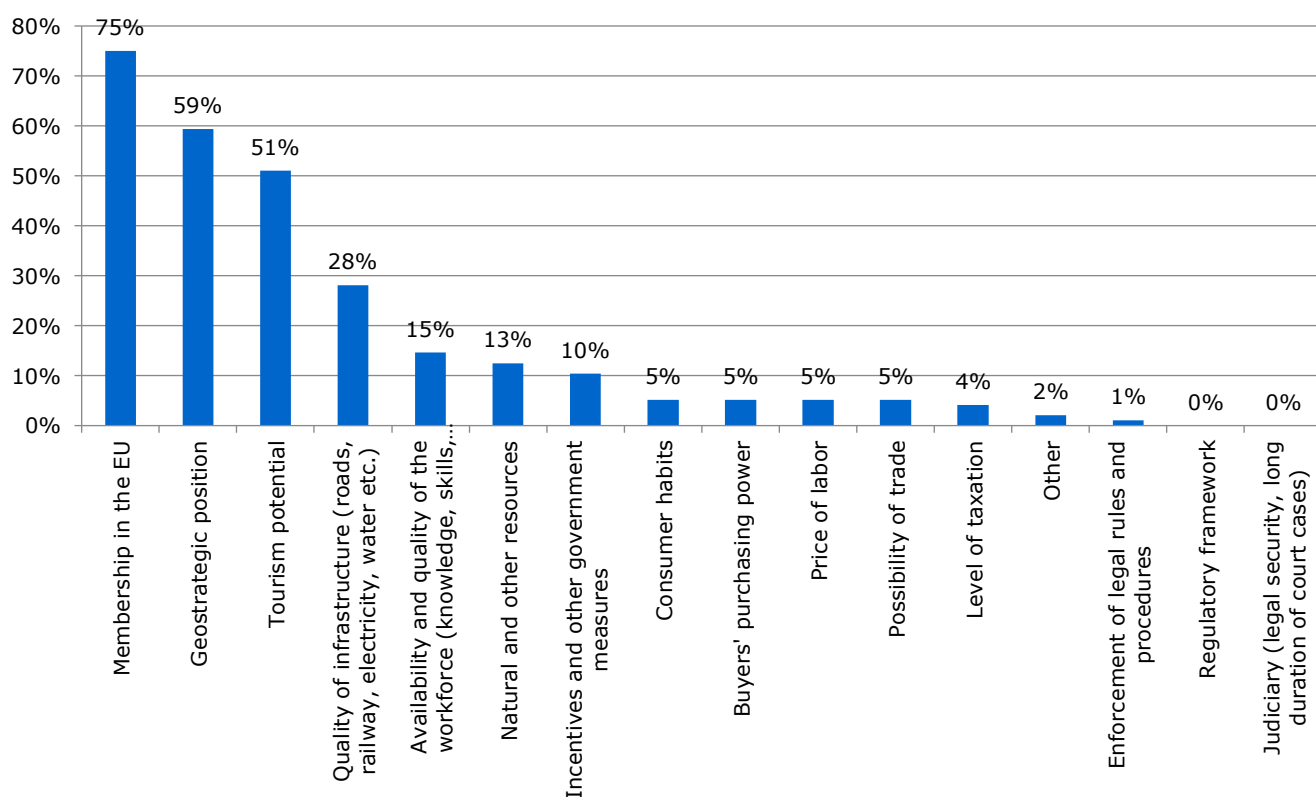
A total of 52% of respondents believe the business conditions in Croatia are comparable to those in other Central and Eastern European countries, 28% consider them worse, and 20% consider them better.

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 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 have named membership in the European Union, its 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) Availability and quality of the workforce

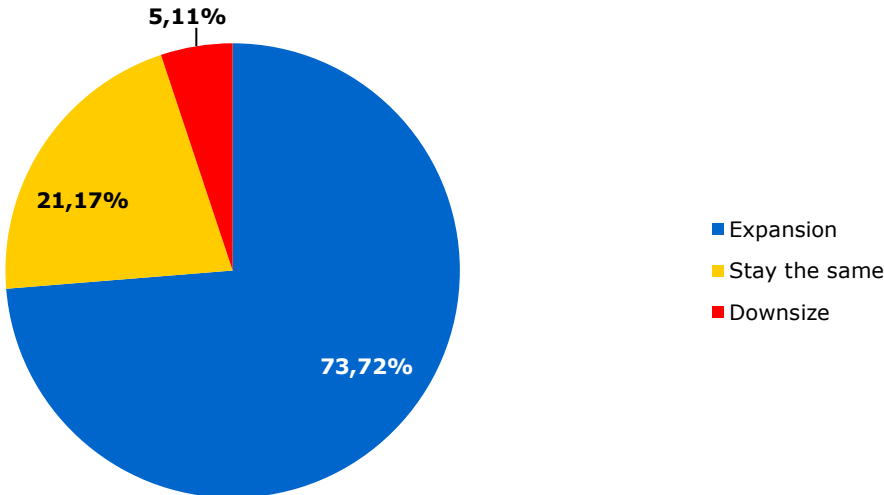
The biggest business advantages in Croatia in comparison to other CEE countries

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

Business expectations

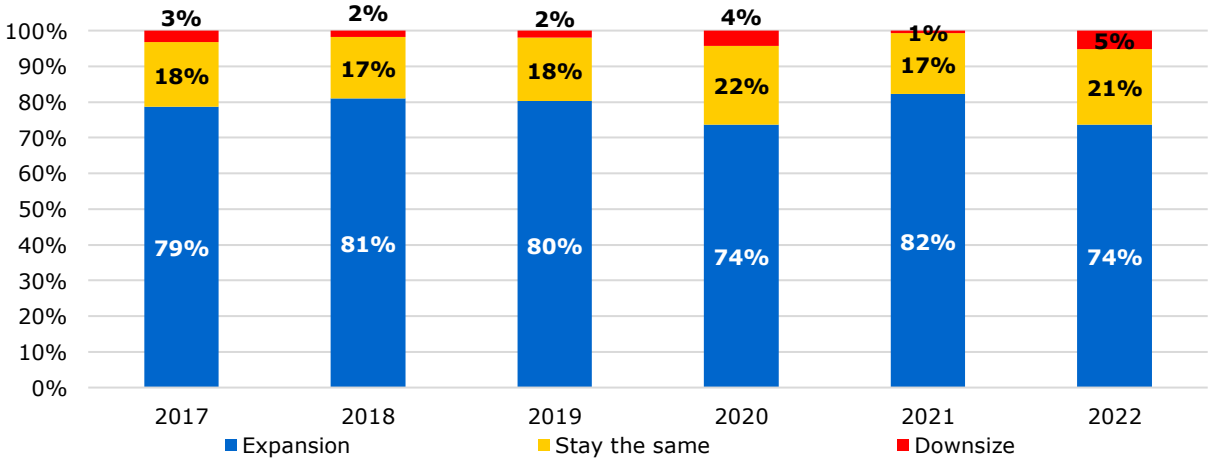
In the upcoming three-year period, around 74% of AmCham member companies plan to expand their business operations in Croatia.

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

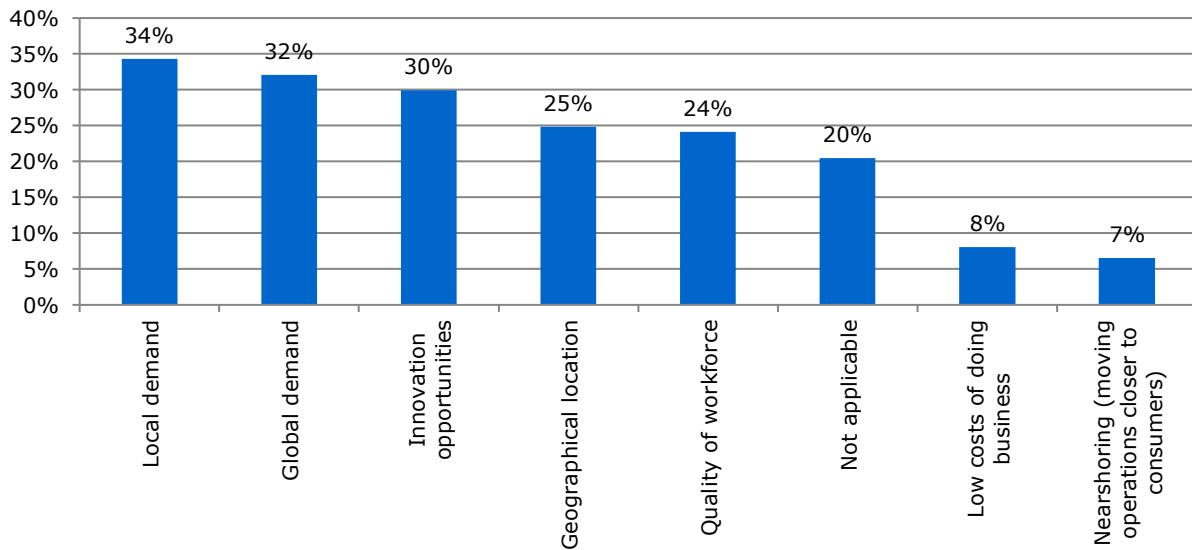


The results for the year 2022 are similar to the pandemic year of 2020, which indicates the increased caution of businesses and the expectation of possible negative impacts on business.

Company's plans for Croatian operations over the years

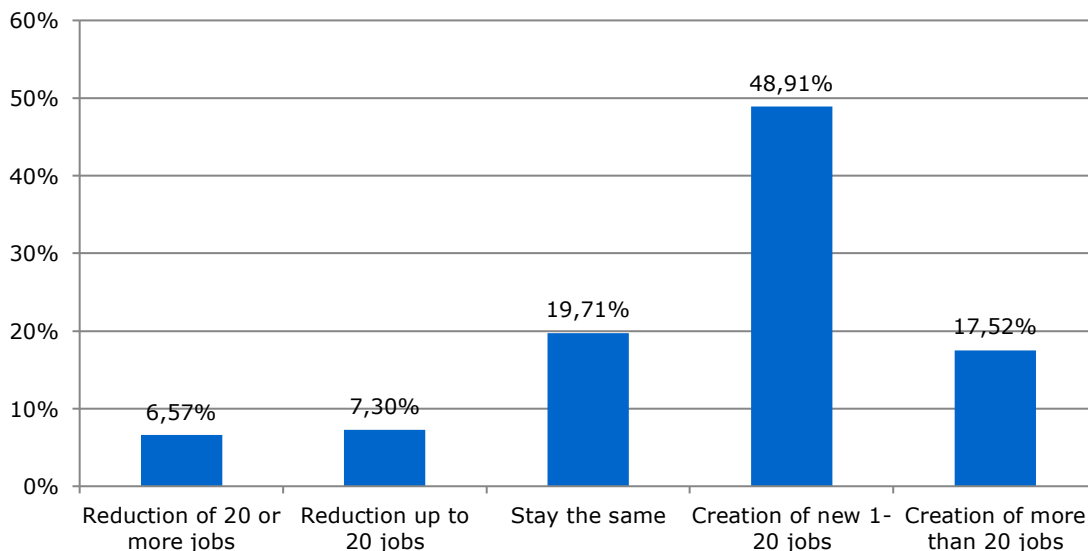


If your company plans to expand/invest in Croatia, what are the key drivers?



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?

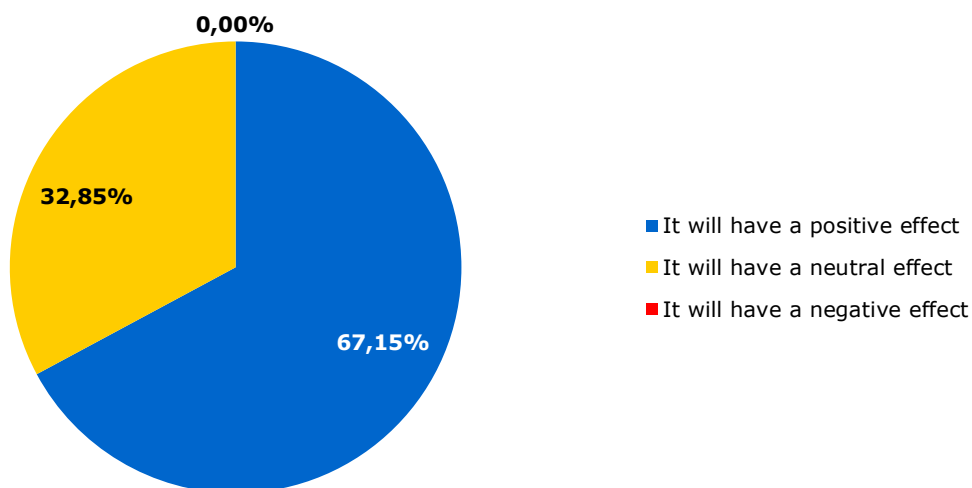


As many as 66% of the companies plan to create new jobs in the next three years, and 17,5% of them plan to hire more than 20 new employees. Nearly 14% of companies plan to reduce the number of employees in the next three years, which is a significant rise compared to 6% in the previous year.

Schengen area, introduction of the euro and EU funds

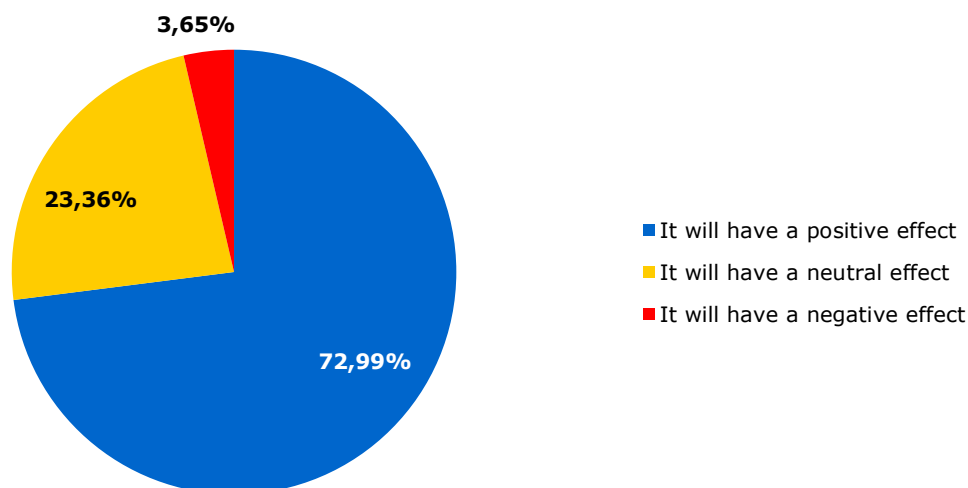
67% of respondents believe that Croatia's entry into the Schengen area will have a positive effect on their business. Not a single respondent mentioned a negative effect of joining to the Schengen area.

How will Croatia's accession to Schengen Zone reflect on your business?



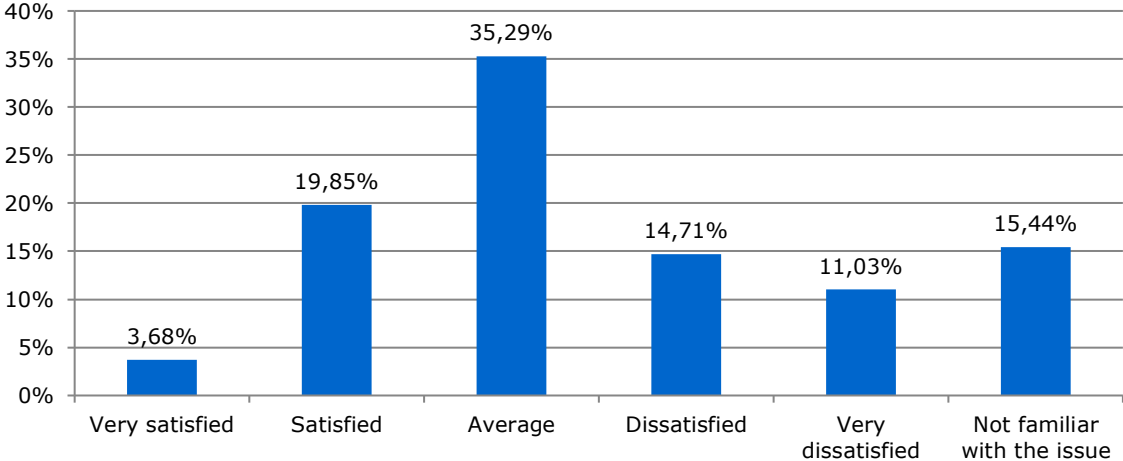
73% of respondents believe that the introduction of the euro in Croatia will have a positive effect on their business, while only 4% consider it negative.

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



23,5% of respondents are satisfied or very satisfied with the availability and the pace of usage of EU funds for businesses, 35% of them are moderately (average) satisfied, and 26% are dissatisfied or very dissatisfied. 15,5% of respondents are not familiar with the issue.

Are you satisfied with the availability and the pace of usage of EU funds for businesses (directly or indirectly by being contracted by public institutions)?



Conclusion

In the past year, business results have improved for 67% of respondents. When comparing the past few years, if we leave out 2020, which was marked to the greatest extent by the pandemic, in 2022 the number of companies recording a deterioration of their business situation increased. In 2022, the number of employees has increased for most respondents (51%), which is an increase compared to 2021 (48%).

The overall experience of conducting business in Croatia was rated by 59% of respondents as either good or very good.

A total of 53% of respondents have reported an improvement in the business conditions in the past five years. Inflation and rising energy costs were not in the focus of businesspeople in 2021, but in this year's survey they have taken the spotlight as the main limiting business factors. The lack of adequate workforce, which was in the first-place last year, has now taken the third place.

In comparison to other CEE countries, 20% of respondents rated business conditions in Croatia as better, while 28% believe them to be worse, and 52% described them as comparable. The biggest shortcomings of conducting business in Croatia compared to CEE countries are the slow administration, and availability and quality of the workforce.

In the next three years, 74% of AmCham members plan to expand their business operations in Croatia, while 5% plan on reducing them. The results for the year 2022 are similar to the pandemic year of 2020, which indicates the increased caution of businesses and the expectation of possible negative impacts on business.

67% of respondents believe that Croatia's entry into the Schengen area will have a positive effect on their business. Not a single respondent mentioned a negative effect of joining to the Schengen area. 73% of respondents believe that the introduction of the euro in Croatia will have a positive effect on their business, while only 4% consider it negative. 23,5% of respondents are satisfied or very satisfied with the availability and the pace of usage of EU funds for businesses, 35% of them are moderately (average) satisfied, and 26% are dissatisfied or very dissatisfied. 15,5% of respondents are not familiar with the issue.

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