

## CROATIA – small country, great opportunities

**Croatia**, officially the **Republic of Croatia**, is a South-Eastern European country at the crossroads between the Pannonian Plain and the Mediterranean Sea. Its **capital** is **Zagreb**.

The geographical location of Croatia on the Adriatic Sea has allowed it to serve as a **prime trade route** for East and West since ancient times.

On 25th of June 1991 Croatia declared itself **independent** from **Yugoslavia**, a move that resulted in the Homeland War (1991-1995). In December 1991 the German government recognized Croatian independence, with the rest of the world quickly following suit.

### 1. ECONOMIC FIGURES

The Croatian economy has a **stable functioning market**. International Monetary Fund data shows that Croatian GDP stood at 39.567 billion Euro or 8,910 Euro per capita in 2007. The IMF forecast for 2008 is 43.438 billion Euro or 10,710 Euro per capita. In **purchasing power parity** terms, total GDP was 55.229 billion Euro in 2007, equivalent to 12,440 Euro per capita.

Macroeconomic Data - 2007	
Population	4,453,500
GDP growth	6.0%
GDP	39.567 bn EUR
GDP/capita	8,910 EUR
Unemployment	14.7%
Inflation	5.8%
Export volume	9.004 bn EUR
Import volume	18.883 bn EUR

According to Eurostat-data, Croatian GDP per capita stood at 57.5 % of the EU average in 2007, and is forecasted to reach 57.8 % in 2008. **Real GDP growth** in 2007 was 6.0%. The official **unemployment rate** was 14.7 % in December 2007.

In 2007, 7.2 % of economic output was accounted for by agriculture, 32.8 % by industry and 60.0 % by the service sector. With an increasing growth rate, the **tourism branch** is the most important economic sector.

47% of all **imported goods** in Croatia in the past year (with a total worth of 10.12 billion Euro ) originated from Italy, Germany, Russia and China. The main export markets were Italy, Bosnia and Herzegovina, Germany, and Slovenia, with a combined total share of 52% and worth 5.06 billion Euro.

The **VAT rate** in Croatia is 22%.

### 2. OPPORTUNITIES FOR INVESTORS

Croatia has enjoyed steady **growth** in **foreign investment** over the last several years, buoyed by a growing economy, low inflation, a stable exchange rate and developed infrastructure. With progress towards **membership** of **NATO** and the **European Union** being in an advanced stage, Croatia has taken a leading position in the region and anticipate further stimulus for investment and growth. Croatia is open to foreign investment and many foreign investors are prospering in this growing market. The Croatian government has set a goal of **increasing foreign investment** and has undertaken incremental measures to **improve** the **investment climate** in the country, hoping to build on recent positive trends that include a stable macroeconomic environment and future NATO and EU membership.



The website of the **Croatian Chamber of Economy** ([www.hgk.hr](http://www.hgk.hr)) provides a useful English-language guide, "How to start up an Enterprise in Croatia," as well as sector-specific and general reports. The Zagreb **Stock Exchange's** website ([www.zse.hr](http://www.zse.hr)) posts English-language translations of key laws in force.

Croatia is an **open market without any limitations** for **foreign investors**. The Croatian Government has committed itself to creating a favourable framework and environment for attracting foreign direct investments, which are indispensable for creating an entirely open, export-oriented and competitive economy. Foreign investments in Croatia are regulated by the Company Act, the Investment Promotion Act and other acts.

**Foreign investors** have the **same rights, obligations** and **legal status** within an enterprise as domestic investors, provided that the condition of reciprocity is met. The Croatian Government has prepared a **package of investment incentives**, according to which foreign investors can acquire rights to additional guarantees which are not given to domestic investors. The Croatian Constitution ensures free repatriation of profits and free repatriation of capital upon disinvestment.

In the year 2007 a **record foreign investment amounting** to 3.62 billion EUR was achieved. The investors were mostly European: Austria, Germany, Luxembourg, the Netherlands, Slovenia, Italy, Sweden etc., but some were also American. They invested most in the telecommunications sector (24.36%), banking transactions (21.24%), the pharmaceutical industry (9.71%), the oil and gas industry (7.28%), the cement industry (3.05%), etc.

**Foreign legal entities** in Croatia are allowed to:

- > invest capital on a contractual basis
- > invest capital in a company
- > invest capital in a bank or insurance company
- > start up as a craftsman or sole trader
- > establish a co-operative
- > acquire the right to exploit natural resources or other assets of interest to Croatia
- > take part in Build-Operate-Transfer (B.O.T.) deals and in Build-Own-Operate-Transfer (B.O.O.T.) deals

There are large differences regarding economic development in specific regions of Croatia. The **NW Region** has the greatest competitive advantage because **Zagreb**, the capital city and **business centre** of Croatia is situated here, and in addition the demographic, health and cultural indicators are very favorable. The other two regions are Central and Eastern Croatia and the Adriatic coast. The **CE region** offers good investment opportunities in **agriculture**, and the **coast possesses** opportunities for **tourism** and **real-estate business**.

**Industry in Croatia** generates around 20% of GDP and employs 25% of the total Croatian work force. The most significant players in GDP generation are the food and beverages industry, oil industry, chemicals, building materials, electrical equipment, paper industry, and shipbuilding. The leading export industries are shipbuilding, oil and gas, chemicals, food and beverages etc. Industrial products represent 97% of Croatian export.

### **3. LABOR MARKET: EDUCATION, PERSONNEL AND EMPLOYMENT**

Primary education in Croatia starts at the age of six resp. seven and consists of eight grades. Secondary education is provided by secondary schools and vocational schools.

The **Croatian higher education system** comprises **six universities**, with some **eighty faculties, art academies**, and **schools of professional higher education; five polytechnics; six independent schools of professional higher education** and **nine private accredited schools of professional higher education**. The mission of universities is scientific, artistic and developmental research, especially



the implementation of scientific research program that are of strategic interest to Croatia; artistic endeavor and professional work, as well as the undergraduate, graduate and postgraduate education upon which this is based. The mission of polytechnics and schools of professional higher education is professional higher education and artistic and professional activities in accordance with the needs of their local community.

Recently conducted research shows that **25 %** of the respondents can actively speak and write **English**, **for German** the figure is **14 %**. As much as 57 % do not know even one foreign language. In a survey, 45 % replied that before accession to the EU it is necessary for the citizens of the Republic of Croatia to know two foreign languages, 96 % believe that every citizen needs to know at least one foreign language. 94 % of respondents considered English as the most important language in this context, followed by German (67 % of respondents), Italian (23 %) and French (18 %).

**Labor availability** in Croatia depends on the region. The NW region offers the most highly educated and skilled employees, while in Central and South Croatia companies may experience difficulties in finding the right employees.

During the first eight months of 2007, the **average Croatian salary** amounted to 715 Euro net/month; this represents an increase of 6.4% as compared to last year. The average monthly net salary in September 2008 amounted to 730 Euro net/month; in Zagreb 858 EUR net/month. Salary costs are thus relatively high with relation to the region, but in compensation the availability of well trained skilled workers, particularly in higher esteemed branches, is very large.

An additional contribution of 17.2% of the employee's salary has to be paid by the employer to cover health insurance, accident insurance and unemployment insurance. The employee is charged 20% of his or her monthly salary in old age insurance contributions. The total cost for the employer, including taxes, insurance and further charges, is - depending on the salary level - up to 100% of the net salary.

There are 8 holidays and 6 bank holidays in Croatia. According to the labour law the minimum paid leave is 18 days.

#### **4. COMPETENT ON-SITE PERSONNEL CONSULTING**

**HILL International Croatia** was **established** in **1996** and has successfully worked with a large number of local and international companies.

HILL International's highly qualified consultants have the knowledge and many years of experience to guarantee high quality services in the search for and selection of appropriate personnel to assist our clients in developing a better and more successful organizational structure.

In the past years our main focus has been on **Personnel Search & Selection**, due to the specific demands of the market, but in reaction to the global crisis we are increasingly offering services such as **Management Audits, Assessment Centers, Outplacement** etc.

Our main clients are in the building, pharmaceutical and chemical industry but we are also collaborating successfully with other companies present in Croatian market.

HILL Croatia is assisted in this by the experience and know-how of the HILL Group. Over 30 years of personnel and management consultancy, scientific methodology, and an extensive network in Europe and Central Asia enables HILL to provide successful consultancy in the areas of personnel and management for numerous firms in diverse branches.



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