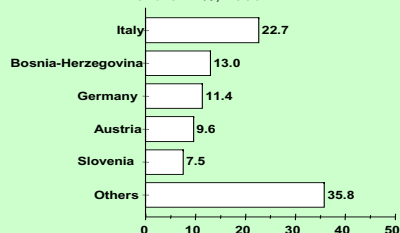


Croatia

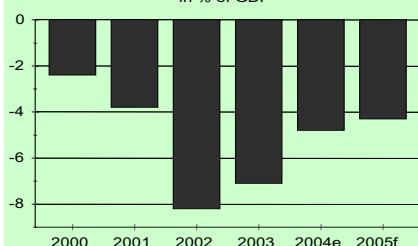
Export by countries

- share in %, 2003 -



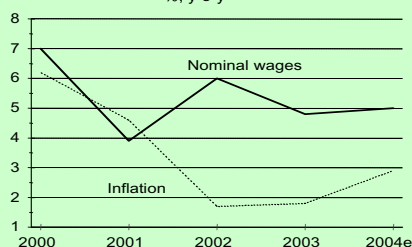
Current account balance

- in % of GDP -



Nominal wages and inflation

- %, y-o-y -



Political situation

- ▶ Since end of 2003 minority government of the conservative Croatian Democratic Community (HDZ) as well as the election pact consisting of the Social Liberal Party and the Democratic Center. The government gains parliamentary majority by support from the small parties.
- ▶ Generally broad consensus on reform, economic policy geared to joining EU. Accession candidate since June 2004, with negotiations scheduled for the beginning of 2005. National legislation adopted to EU laws to a large extent. Fundamental reforms in process of implementation.

Domestic economy

- ▶ Modest slowdown due to weaker private consumption. Public sector investment also likely to fall in order to ease pressure on the budget. In 2004 we expect real GDP growth of just under 4 %.
- ▶ Despite the rigid cost-cutting measures of the government and a smoothly running economy only gradual decrease in budget deficit. Attributable to heavy spending on infrastructure projects. In the years ahead consolidation measures should help rein in the budget deficit.
- ▶ Consolidation of the banking system almost complete, following privatization the banks are mainly under foreign ownership, bulk of bank deposits in euros.

External sector

- ▶ EU most important trading partner. Germany the most important supplier after Italy.
- ▶ Large current account deficit in relation to GDP owing to buoyant domestic demand. More than half the deficit is covered by foreign direct investment. Major exports are transport equipment, chemical products, foodstuffs and textiles.
- ▶ Liquidity position good owing to a comfortable level of currency reserves and stable direct investment. Import cover just under five months. Foreign debt moderate in relation to exports of goods and services.

CROATIA	2001	2002	2003	2004e	2005f
Population (m)	4.4	4.5	4.4	4.4	4.4
GDP (US\$ bn)	19.5	22.6	28.1	33.1	35.2
GDP per capita (US\$)	4,399	5,082	6,334	7,466	7,935
GDP change in % (real)	3.8	5.2	4.3	3.9	3.7
Inflation in % (annual average)	4.6	1.7	1.8	2.9	3.3
Budget balance in % of GDP	-6.8	-4.8	-6.3	-4.6	-3.8
Merchandise exports (US\$ bn)	4.8	5.0	6.3	7.3	8.1
Merchandise imports (US\$ bn)	8.9	10.7	14.2	16.3	18.0
Current account balance (US\$ bn)	-0.7	-1.9	-2.0	-1.6	-1.5
Current account balance in % of GDP	-3.8	-8.2	-7.1	-4.8	-4.3
Foreign direct investment (US\$ bn)	1.6	1.1	1.7	1.2	1.1
Foreign direct investment in % of GDP	8.2	4.9	6.0	3.6	3.1
Gross foreign debt (US\$ bn)	11.3	15.4	23.6	26.0	28.5
Foreign debt in % of exports *	113	138	155	144	143
Foreign exchange reserves (US\$ bn)	4.7	5.9	8.2	8.5	9.0
Import cover (months) *	4.8	5.0	5.3	4.8	4.7
Exchange rate year-end (Kuna per EUR)	7.59	7.35	7.48	7.65	7.78
Exchange rate annual average (Kuna per EUR)	7.64	7.48	7.41	7.58	7.70
* goods, services and income					e = estimate; f = forecast

Croatia

Basic conditions for foreign investors

General legal system:

Free-market oriented; needs to be further adapted to the EU standards, especially the segments labor law, insolvency law and competition law. Beginning of 2004 a new corporate law entered into force. Administrative hurdles and legal uncertainty, especially in land registration. Investment legislation does not differentiate between local and foreign investors.

Possible company structures/minimum capital requirement:

Joint stock company (Croatian: d.d.)/200.000 kuna, private limited company (Croatian: d.o.o.)/20,000 kuna, general commercial partnership (Croatian: j.t.d.), limited commercial partnership (Croatian: k.d.), dormant partnership (Croatian: t.d.). For foreign investors also branch and representative office.

Permissible holding:

Up to 100 %. Restrictions only in important strategic sectors. Foreign investors may participate in privatization through the state-owned privatization fund (internet address: www.hfp.hr) by voucher, auction, public tender or direct purchase.

Approval/establishment procedures:

Commercial register entry for all individual proprietorships, unincorporated and incorporated companies as well as branch offices. Foreign agencies have to be registered with the Department of Trade and Industry.

Capital contribution:

Foreign investors can bring in financial or real capital (machinery, basic commodities, patents, licenses). Financial capital either in Croatian currency or in foreign exchange.

Land/real estate acquisition:

For foreign legal persons and individuals acquisition of land and real estate is permitted and at free disposal. However acquisition via formation of a company in Croatia is much easier. According to the new building law as of January 1, 2004 and the „Law on changes and additions to the building law“ as of July 9, 2004 inter alia approval of the local authority (lokacija dozvola), a building license (gradevinska dozvola) and an approval of use (uporabna dozvola) are necessary. Important to check whether all required permissions are available. Property rights partly unclear, as land register is not yet completely updated. Foreigners are also allowed to obtain rights of lien on immovable property.

Qualification of labor force:

Well-trained and qualified workforce, high standard in technical professions, especially in the IT sector; low linguistic barriers. Official languages: Croatian, German, English.

Labor costs (per hour worked, national average):

5.5 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage: 1,900 kuna.

Average monthly gross wage: 6,084 kuna.

Average monthly net wage: 4,226 kuna.

Considerable sectoral fluctuations and substantial differentials between big cities and rural areas. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

803 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 17.2 % of gross wages

(15 % health insurance, 1.7 % unemployment insurance, 0.5 % work injury insurance).

Employee's contribution: 20 % of gross wages

(15 % pension scheme, 5 % on supplementary pension scheme as second pillar).

Legal forms to protect foreign investments:

Investment promotion law (July 2000).

Agreement with European Union:

Stabilization and Association Agreement signed October 29, 2001, due to enter into force end of 2004. Application for membership in February 2003. In June 2004 granted candidate status. Accession negotiations scheduled to begin in early 2005. Target: Membership in 2007.

Profit and capital repatriation:

Free for foreign investors after taxes.

Taxation (without application of bilateral agreements):

Income tax: 15-45 % as well as surtaxes (prirezi) between 6.5-18 % in big cities.
Profit tax: 20 %.
VAT: 22 %.
Withholding tax: 15 % (on dividends, interest).
Land transfer tax: 5 % of the basic assessment on the real estate.

Customs tariff:

The new customs law of January 1, 2002 largely in line with the standards of the Harmonized System (HS) of the European Union. WTO member since November 2000. Free Trade Agreement with Albania, Bosnia and Herzegovina, Lithuania, Macedonia as well as Serbia and Montenegro. CEFTA member since March 2003.

Special economic zones:

14 duty-free zones in Zagreb-Jankomir, Buje, Krapina-Varazdin, Obrovac, Osijek, Ploce (port), Pula (port), Rijeka (port), Duro Dakovic in Slavonski Brod, Split (port), Splitsko-dalmatinska, Kukuljanovo in Bakar, Varazdin and Vukovar.

Tax concessions for foreign investors:

Free zones enjoy tax concessions up to 50 %. Profit tax exemptions for 5 years on infrastructure projects for investments of minimum of 1 million kuna. Government grants and tax concessions on staff-related investments (creation of new jobs, vocational professional training), minimum amount 10 million kuna.

Foreign exchange regulations:

Managed floating of the Croatian currency, high degree of convertibility. Restrictions on capital transactions still exist, but these are to be further reduced. Domestic and foreign individuals and legal persons may buy or sell kuna against foreign exchange at the commercial banks without any limit.

Inflow of foreign direct investment (gross, 2003): 1.427,5m euro

Main countries of origin:

Hungary (30.5 %), Austria (23.6 %), USA (19.4 %), Germany (8.8 %), Netherlands (6.1 %).

Main sectors:

Refined oil products (60.9 %), wholesale and retail trade (8.3 %), financial sector (5.8 %) and tourism (9.5 %).

Forthcoming privatizations:

In the sectors energy, telecommunications, tourism, shipbuilding. Impetus needs to be laid on the ongoing but sluggish progress in privatization. Visit internet address: www.hfp.hr for current privatization offers.

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