

# Croatia

---

RISK & COMPLIANCE REPORT

DATE: January 2017

<b>Executive Summary - Croatia</b>	
<b>Sanctions:</b>	None
<b>FATF list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Compliance with FATF 40 + 9 Recommendations
<b>Medium Risk Areas:</b>	Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b></p> <p>arable crops (wheat, corn, barley, sugar beet, sunflower, rapeseed, alfalfa, clover); vegetables (potatoes, cabbage, onion, tomato, pepper); fruits (apples, plum, mandarins, olives), grapes for wine; livestock (cattle, cows, pigs); dairy products</p> <p><b>Industries:</b></p> <p>chemicals and plastics, machine tools, fabricated metal, electronics, pig iron and rolled steel products, aluminum, paper, wood products, construction materials, textiles, shipbuilding, petroleum and petroleum refining, food and beverages, tourism</p> <p><b>Exports - commodities:</b></p> <p>transport equipment, machinery, textiles, chemicals, foodstuffs, fuels</p> <p><b>Exports - partners:</b></p> <p>Italy 14.9%, Bosnia and Herzegovina 13.2%, Germany 10.6%, Slovenia 8.8%, Austria 6.8% (2012)</p> <p><b>Imports - commodities:</b></p> <p>machinery, transport and electrical equipment; chemicals, fuels and lubricants; foodstuffs</p> <p><b>Imports - partners:</b></p> <p>Italy 16.7%, Germany 12.9%, Russia 7.6%, China 7.1%, Slovenia 5.9%, Austria 4.5% (2012)</p>	

**Investment Restrictions:**

Croatia is open to foreign investment, and the Croatian government continues to prioritize attracting foreign investment. All investors, both foreign and domestic, are guaranteed equal treatment by law. However, bureaucratic and political barriers remain. The greatest of these continues to be the country's inefficient and sometimes unpredictable legal system.

The Law on Ownership and Property Rights establishes procedures for foreigners to acquire property by inheritance as well as legal transactions such as purchases, deeds, and trusts. While EU member state citizens are afforded the same rights as Croatian citizens in terms of purchasing property, the right of all other foreigners to acquire property in Croatia is based on reciprocity.

<b>Section 1 - Background .....</b>	<b>4</b>
<b>Section 2 - Anti – Money Laundering / Terrorist Financing .....</b>	<b>5</b>
FATF status.....	5
Compliance with FATF Recommendations.....	5
Conclusions from latest follow-up Mutual Evaluation Report (2011):.....	5
US Department of State Money Laundering assessment (INCSR) .....	6
Reports.....	9
International Sanctions.....	12
Bribery & Corruption.....	13
<b>Section 3 - Economy .....</b>	<b>19</b>
Banking.....	20
Stock Exchange .....	20
<b>Section 4 - Investment Climate.....</b>	<b>21</b>
<b>Section 5 - Government.....</b>	<b>40</b>
<b>Section 6 - Tax.....</b>	<b>41</b>
<b>Methodology and Sources .....</b>	<b>42</b>

## Section 1 - Background

The lands that today comprise Croatia were part of the Austro-Hungarian Empire until the close of World War I. In 1918, the Croats, Serbs, and Slovenes formed a kingdom known after 1929 as Yugoslavia. Following World War II, Yugoslavia became a federal independent communist state under the strong hand of Marshal TITO. Although Croatia declared its independence from Yugoslavia in 1991, it took four years of sporadic, but often bitter, fighting before occupying Serb armies were mostly cleared from Croatian lands, along with a majority of Croatia's ethnic Serb population. Under UN supervision, the last Serb-held enclave in eastern Slavonia was returned to Croatia in 1998. The country joined NATO in April 2009 and the EU in July 2013.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Croatia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Croatia was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Croatia was deemed Compliant for 3 and Largely Compliant for 12 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 5 of the 6 Core Recommendations.

### Conclusions from latest follow-up Mutual Evaluation Report (2011):

Croatia reported specific measures indicating varying levels of progress on all the core Recommendations, as outlined in the progress report submitted to the MONEYVAL Plenary. From the information available, it appears that Croatia improved its level of compliance with most of the core recommendations, with the exception of SR II where the FT offence needs revisiting. In relation to R.1, the amendments introduced successfully address almost all the deficiencies identified in the MER and strengthen the ML offence. At the same time, Croatia has shown positive developments regarding the effectiveness of the implementation of the ML offence, and the situation as regards the average number of convictions has improved since the mutual evaluation.

Most notably, the AML/CFT Law (2008) has introduced new provisions which strengthen the CDD requirements, and these have been usefully complemented by several implementing rulebooks and guidelines issued by the competent regulatory and supervisory authorities. Measures have also been taken to improve compliance with Recommendation 13 and Special Recommendation IV, though technical deficiencies and implementation issues remain and will need addressing.

In conclusion, as a result of the discussions held in the context of the examination of this first progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update in every two years between evaluation visit (i.e. April 2013), though the Plenary may decide to fix an earlier date at which an update should be presented.

Croatia was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

**Perceived Risks:**

Croatia is not an offshore financial center. Although an EU member country, Croatia has not joined the Eurozone. Croatian authorities consider most money laundering in the country to be of domestic origin, involving the proceeds of illegal domestic narcotics sales and economic crimes, including corruption, fraud, and tax evasion. Although Croatia is part of a transit route for drugs entering Europe, there is little evidence these networks have utilized Croatia's financial system. Money laundering occurs primarily through non-resident accounts, transfers to offshore banks using counterfeit documents, and deposits in foreign currency accounts; it also has been linked to the real estate market and the purchase of luxury automobiles. Public corruption has been linked to money laundering, and several investigations are active. Financial crimes investigations in Croatia are often linked to abuse of power and embezzlement, particularly from state-owned enterprises.

There is not a significant black market in Croatia. Management of Croatia's ports has improved through the EU accession process, and further upgrades are anticipated as Croatia prepares to join the Schengen region. The Export Border Security Office continues to tighten controls and screening to prevent smuggling.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

**CRIMINALIZATION OF MONEY LAUNDERING:**

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes  
Legal persons covered: criminally: YES civilly: YES

**KNOW-YOUR-CUSTOMER (KYC) RULES:**

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES  
KYC covered entities: Banks, loan brokers, and lending companies; savings banks and credit unions; companies that issue payment instruments, rent safe deposit boxes, or perform payment option services; the Croatian Post Office; investment funds and asset management companies; pension companies; financial service companies; insurance companies and brokers; authorized exchange offices; casinos and betting parlors; pawnshops; leasing firms; guarantors; dealers in precious metals, gems, art, or antiques; auctioneers; lawyers, notaries, auditors, accountants, and tax advisors

**REPORTING REQUIREMENTS:**

Number of STRs received and time frame: 705: January – September, 2015

Number of CTRs received and time frame: 39,753: January – September, 2015

STR covered entities: Banks, loan brokers, and lending companies; savings banks and credit unions; companies that issue payment instruments, rent safe deposit boxes, or perform payment option services; the Croatian Post Office; investment fund and asset management companies; pension companies; financial service companies; insurance companies and brokers; authorized exchange offices; casinos and betting parlors; pawnshops; leasing firms; guarantors; dealers in precious metals, gems, art, or antiques; auctioneers; lawyers, notaries, auditors, accountants, and tax advisors

**MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:**

Prosecutions: 2: January – June, 2015

Convictions: 0: January – June, 2015

**RECORDS EXCHANGE MECHANISM:**

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Croatia is a member of the Council of Europe Committee of Experts on the Evaluation of Anti- Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

The Government of Croatia has mechanisms in place and tools at its disposal to effectively combat . The Ministry of Finance formed the Office of Tax Fraud Investigations in November 2014, which has the authority to review domestic and international bank accounts of Croatian citizens. The Anti-Money Laundering Department (AMLD), Croatia’s financial intelligence unit, oversees all non-bank financial institutions and designated non-financial businesses. The AMLD cooperates with other government agencies to track, monitor, and address money laundering issues in Croatia. These institutions include the State Prosecutor’s Office, the Office for the Suppression of Corruption and Organized Crime, the Ministry of Interior, Croatian Intelligence Office, the Croatian National Bank, and the Croatian Financial Services Supervisory Agency. Croatia cooperates with neighboring countries on law enforcement issues and helped establish a regional working group to address money laundering. Croatia has not yet implemented the 2003 U.S.-E.U. Mutual Legal Assistance Treaty.

Trials of several current and former high-ranking officials on charges associated with corruption and financial crimes continued in 2015. Although there is a lack of subject matter expertise in financial crime matters among the police and judiciary, the Law on Criminal Procedure affords both the police and judiciary access to financial experts to investigate and evaluate such cases.

**Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Croatia does not conform with regard to the following government legislation: -

**Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

### **EU White list of Equivalent Jurisdictions**

Croatia is currently on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

Croatia is not considered to be an Offshore Financial Centre

### US State Dept Narcotics Report 2016:

Croatia remains a transit point for illegal drugs trafficked along traditional Balkan smuggling routes. Heroin and high-quality marijuana are trafficked to points west, while precursor chemicals and synthetic drugs originating in Europe are smuggled eastward. Few illegal drugs are produced in Croatia. The availability of illicit drugs within Croatia has increased in recent years, partly resulting from liberalized customs controls and the increased movement of goods and people through the country due to European Union integration. Croatia continues to strengthen border controls in an effort to join the Schengen region.

Possession of certain drugs for personal use is a misdemeanor offense. Croatian officials expressed concern in 2015 regarding the broad availability of new psychoactive substances (NPS), which remain legally available on the internet and in local shops. Croatia has proposed legislative changes to address several such substances, including the ability to temporarily ban sale of NPS compounds for twelve months in order to conduct laboratory testing.

Croatia altered regulations to allow for the sale and use of marijuana-derived products for medical purposes in October 2015. Medicines containing tetrahydrocannabinol (THC), the plant's main psychoactive ingredient, can now be prescribed by doctors to ease health problems associated with several diseases, including cancer, multiple sclerosis, epilepsy, and AIDS. The drugs can be prescribed only for up to 30 days while the overall quantity for the period cannot exceed 7.5 grams. Other marijuana uses remain illegal under Croatian law.

The Croatian government does not facilitate the illicit production or distribution of narcotics or launder proceeds from illegal transactions. Croatia has a well-developed institutional framework to implement preventive and educational programs. Treatment efforts include early detection, rehabilitation, and social reintegration.

In 2015 the Croatian police continued to effectively collaborate with regional neighbors and law enforcement agencies in the United States and the European Union. Croatia continued to conduct joint international investigations and share intelligence with partners. The Ministry of Interior reported 7,242 drug-related seizures during the first nine months of 2015, down slightly (3 percent) from 2014 due to a decrease in marijuana seizures. This trend was not uniform across all categories of drugs, however, and seizures of heroin (400 percent increase), cocaine (300 percent increase), and methamphetamine (70 percent increase) increased considerably over this same period. The United States continues to provide technical assistance to police, customs, and the judiciary to further improve domestic capacity and regional cooperation to detect and prosecute narcotics-related crimes, corruption and organized crime. Discussions continue in an effort to update the 1902 extradition treaty between the United States and Croatia (as a successor state to the Kingdom of Serbia).

### **US State Dept Trafficking in Persons Report 2014 (introduction):**

Croatia is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Croatia is a destination, source, and transit country for men, women, and children subjected to sex trafficking and forced labor. Croatian women and girls, some of whom respond to false job offers online, fall victim to sex trafficking within the country and throughout Europe. Women and girls from Macedonia, Serbia, Bosnia and Herzegovina, and other parts of Eastern Europe are subjected to sex trafficking in Croatia. Children are exploited in prostitution. Roma children from Croatia are of particular risk of forced begging in Croatia and throughout Europe. Women and men, including victims from Romania and Bosnia and Herzegovina, are subjected to forced labor in agricultural sectors. A March 2013 report from the European Commission highlighted Croatia's low number of identified trafficking victims.

The Government of Croatia does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting period the government increased the number of times the Committee for the Suppression of Trafficking in Persons met, increased criminal investigations and prosecutions, and mandated that children in prostitution be treated as victims, not criminals. While the government has an adequate formal anti-trafficking structure, significant gaps in implementation remain. The number of criminal prosecutions of traffickers remains low, and sentences for trafficking offenses were too low to deter criminals from human trafficking. Further, the government provided little specific information about the care provided to the minor victims identified during the reporting period, and experts still believe the true extent of trafficking in Croatia remains considerably higher than that identified by the government.

### **Latest US State Dept Terrorism Report: 2009**

In 2009, Croatia started the drafting process for an action plan to implement its national strategy for the prevention and suppression of terrorism. Croatia expanded its extensive counterterrorism legal framework by passing the Anti-Money Laundering and Terrorist Financing Act, which entered into force in January.

In 2009, Croatia chaired the UN Security Council's Counter- Terrorism Committee (CTC). Croatia supported U.S. efforts in the 1267 Committee. Croatia also advocated providing further financial support to the Counterterrorism Implementation Task Force. The Croatian Interagency Working Group on Suppression of Terrorism amended its mandate adding UNSCR 1624 to the UNSC Resolutions it was already charged with implementing, such as UNSCRs 1267, 1373, and 1566.

Croatia is currently issuing biometric passports. In addition, Croatia signed a number of agreements in 2009 with the United States that strengthened information sharing and cooperation between U.S. and Croatian immigration, law enforcement, and security agencies. Croatia also worked with the State Department's Export Control and Border Security program to improve security along its 750 mile border with Serbia, Montenegro, and Bosnia, as well as to monitor the country's 6,000 miles of coastline.

The multinational Special Forces military exercise “Jackal Stone 09” held in September in Croatia had approximately 1,500 participants from 10 countries, including the United States, and developed the capabilities of the participants in countering terrorism.

During 2009, Croatia chaired the Council of Europe’s Committee of Counterterrorism Experts (CODEXTER). Following up on a Croatian initiative to develop cross-regional cooperation in counterterrorism, the Council, Spain, and the Organization of American States organized a Conference on Cyber Security in Spain in April. Under CODEXTER’s umbrella, Croatia kept an updated self-assessing Country Profile that summarized Croatia’s counterterrorism activities.

Croatia worked closely with the OSCE’s Action against Terrorism Unit. This resulted in a joint Croatian-OSCE workshop addressing cyber-security issues such as terrorist use of the Internet, held in Zagreb in November. More than 140 national representatives, as well as 20 internationally recognized experts from academia, business, and government, participated in this event.

As part of international efforts to counter violent extremists, Croatia participated in the International Security Assistance Force (ISAF) in Afghanistan, contributing approximately 300 troops. Croatia joined NATO in April and began contributing to the Alliance’s counterterrorism efforts.

## International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	49
World Governance Indicator – Control of Corruption	63

### US State Department

The business community and others perceive corruption to be prevalent in Croatia, including major public companies, the health sector, universities, public procurement systems, the construction sector, and land registry offices. Though corruption remains a concern, there have been strong efforts at stamping it out. The scope of prosecutions indicates that the GOC remains serious in its efforts to fight corruption. Investigations have targeted senior members of prior governments, including a former Prime Minister who was convicted in 2012 of taking bribes and sentenced to a ten-year prison term. Significantly, prosecutors have also indicted the chairman and CEO of a foreign company charged with providing these bribes. In addition, the long-time head of the Croatian Chamber of Economy was recently arrested for corrupt behavior, including abuse of position and embezzlement. Croatian prosecutors have secured corruption convictions of a number of high-level GOC officials, including ministers, high-ranking officials, and senior managers from state-owned companies.

The Law on Criminal Procedure grants prosecutors the authority to investigate crimes, including organized crime and corruption. Prosecutors continue to pursue additional corruption-related investigations against former senior government officials.

The State Prosecutor’s Office for the Suppression of Corruption and Organized Crime (USKOK) is tasked with directing police investigations and prosecuting these cases. USKOK is headquartered in Zagreb, with offices in Split, Rijeka and Osijek. In addition, the National Police Office for Suppression of Corruption and Organized Crime (PN-USKOK) conducts corruption-related investigations and is based in the same cities. Specialized criminal judges are situated at the four largest county courts in Croatia, again in Zagreb, Rijeka, Split, and Osijek, and are responsible for adjudicating corruption and organized crime cases. The cases receive high priority in the justice system. The Ministry of Interior, the Office for Suppression of Money Laundering, the Tax Administration, the Anti-Corruption Sector of the Ministry of Justice, and the National Council for Monitoring the Implementation of the National Strategy for Suppression of Corruption all have a proactive role in combating and preventing corruption.

Croatia has laws, regulations and penalties to effectively combat corruption. The Criminal Code and the Criminal Procedure Act define the roles of USKOK and PN-USKOK and define the tools available to authorities to fight corruption. The criminal code also provides for asset forfeiture. If a case falls under USKOK’s jurisdiction, it is assumed that all of a defendant’s property was acquired through criminal offences unless the defendant can prove the legal

origin of the assets in question. Pecuniary gain in such cases is also confiscated if it is in possession of a third party (e.g. spouse, relatives, or family members) and was not acquired in good faith.

The Croatian Criminal Code covers such acts as trading in influence, abuse of official functions, bribery in the private sector, embezzlement of private property, money laundering, concealment and obstruction of justice. In 2010, the legal framework to combat corruption was further improved. The Act on the Office for the Suppression of Corruption and Organized crime provides broad authority to prosecute tax fraud linked to organized crime and corruption cases.

Additional laws for the suppression of corruption include: the State Attorney's Office Act; the Public Procurement Act; the Act on Procedure for Forfeiture of Assets Attained Through Criminal Acts and Misdemeanors; the Budget Act; the Courts Act; the Conflict of Interest Prevention Act; the Corporate Criminal Liability Act; the Money Laundering Prevention Act; the Witness Protection Act; the Personal Data Protection Act; the Right to Access Information Act; the Act on Public Services; the Code of Conduct for Public Officials; and the Code of Conduct for Judges. The Labor Act contains whistleblower protections, but their effectiveness has yet to be proven. Croatian laws and provisions regarding corruption apply equally to domestic and foreign investors.

Croatia has not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, but it is a member of the Group of States Against Corruption (GRECO), a peer monitoring organization that allows members to assess anticorruption efforts on a continuing basis. Croatia has been a member of INTERPOL since 1992. Croatia cooperates regionally through the Southeast European Co-operative Initiative (SECI), the Southeast Europe Police Chiefs Association (SEPCA), and the Regional Anti-Corruption Initiative (RAI). Croatia is a member of Eurojust, the EU's Judicial Cooperation Unit, and is a signatory to the UN Convention Against Corruption.

The Croatian Criminal Code includes penalties for both giving and accepting bribes (at Articles 253, 293 and 294), which range from six months to ten years imprisonment. Trading in influence (Article 295) is punishable by six months to five years imprisonment, and engaging in bribery related to trade in influence (Article 296) by one to eight years. Bribes by a local company to a foreign official are also punishable under Croatian law. If it is established that a local company is engaged in criminal behavior, the company may also be banned from conducting operations, depending on the gravity of the crime.

Transparency International Croatia is the main non-governmental watchdog involved in anti-corruption efforts. In addition, GONG, a non-partisan citizens' organization founded in 1997, monitors election processes, educates citizens about their rights and duties, encourages communication between citizens and their elected representatives, promotes transparency within public services, manages public advocacy campaigns, and assists citizens in self-organizing initiatives. The Partnership for Social Development is another nongovernmental organization active in Croatia dealing with the suppression of corruption.

Contact information for Transparency International can be found at [www.transparency.hr/en/contact](http://www.transparency.hr/en/contact). Contact information for GONG can be found at <http://gong.hr/hr/o-gong-u/kontakt>.

## Corruption and Government Transparency - Report by Global Security

### Political Climate

Since its application to join the EU in 2003, Croatia has undertaken the necessary reforms and legislative adjustments to comply with EU laws. Partly based on good progress in the fight against corruption, as well as judicial and administrative reforms, the negotiations over Croatian EU membership finally concluded in June 2011, and in July 2013 Croatia became a Member State. Corruption constituted one of the main obstacles to Croatia's accession to the EU. Speaking at a round table opening on government transparency in September 2011, Croatian President Ivo Josipović noted that the government is doing much to fight corruption in Croatia, while also recognising it as a problem with an annual cost of USD 1.85-2.1 billion, according to a September 2011 article by OCCRP.

The European Commission's (Commission) Croatia Progress Report 2011 revealed that there has been substantial progress in the fight against corruption. A large number of measures have been taken to strengthen the legal and institutional framework in the country, and law enforcement agencies are addressing corruption in Croatia on a much larger scale than ever before, due in part to better inter-agency cooperation. Other positive developments include improvements in the legal framework on access to information, conflict of interest, political financing and protection of whistleblowers. Government support of the National Police Office for the Fight Against Corruption and Organised Crime (PNUSKOK) has been substantial, to the point where the agency is now fully staffed and investigations of possible high-level individuals are being carried out, with the first high-level cases having been brought before the courts. According to the Commission's 2012 Croatia Monitoring report, the capacity of PNUSKOK has been further strengthened through various ad hoc staff training. The most recent developments include a guilty verdict against a former director of the state-owned power company, and further indictments against local mayors and country court judges for abuse of office and corruption. However, there has been an overall reduction in the number of handled corruption cases. Moreover, Croatia's main anti-corruption agency, the Office for the Fight against Corruption and Organised Crime (USKOK), has been increasingly active in recent years and has increased the number of cases handled, despite the lack of additional resources. Also, the Anti-Corruption Strategy and the 2010 Action Plan is being implemented and an anti-corruption programme for state-owned companies has been adopted.

President Josipović has pledged to combat corruption in the country, and since the beginning of 2010, several high-profile cases have been initiated, most notably against former Prime Minister Ivo Sanader, who was sentenced to 10 years in prison for bribery in November 2012. The past few years have witnessed a major anti-corruption crackdown with many corruption-related arrests of civil servants. See the USKOK webpage (in Croatian) for an updated list of ongoing corruption investigations and cases. Despite considerable improvements in Croatia's fight against corruption, public perceptions confirm that citizens still consider corruption to be a problem in Croatia. For example, according to Transparency International's Global Corruption Barometer 2013, 4% of surveyed households reported having paid a bribe during interaction with different public institutions the previous year, while 37% believed that the government's fight against corruption had been ineffective. Moreover, 14% believed that corruption had increased a lot over the three-year period prior to the survey, while 27% believed that corruption had decreased a lot. Political parties,

Parliament and the judiciary are considered the most corrupt institutions by Croatian households. This is further supported by Freedom House 2013, which notes that despite the progress made by the Croatian government in the fight against corruption, surveys released by the Ministry of Justice and the GONG, a Zagreb-based NGO, indicate that the public still perceives the judiciary, the police and the political parties to be the most corrupt institutions, as well as the most important perpetrators of crime in Croatia.

## **Business and Corruption**

The economy slowed considerably in 2009 and continued to shrink in 2010, partly due to the financial crisis and partly due to structural problems, most notably corruption and a complex bureaucracy. The World Economic Forum's Global Competitiveness Report 2013-2014 confirms these persisting problems and cites inefficient bureaucracy, corruption, policy instability and tax rates as the four most problematic factors for doing business in Croatia. The same report further notes that the level of unethical behaviour of companies constitutes a competitive disadvantage for doing business. However, the new government elected in December 2011 has pledged in 2013 to enhance the transparency of procedures associated with investment by reducing legal and administrative barriers and by fostering development in key sectors, particularly tourism, energy, infrastructure and environment, as reported by the US Department of State 2013.

The US Department of State 2013 further reports that corruption in Croatia is perceived to be prevalent in major public companies, the health sector, universities, public procurement systems, the construction sector, land registry offices and the Agency for Management of State Owned Property. Moreover, it reports that some foreign investors have complained about corruption, saying that it is a general investment barrier. Business legislation is still being used to protect the interests of state-owned companies, which continue to receive preferential treatment over private companies. In fact, 25% of the surveyed executives in Ernst & Young's Fraud Survey 2013 perceive authorities regulate foreign businesses more closely than local businesses. According to the US Department of State 2013, enforcing commercial contracts represents a competitive disadvantage for the country and is diverting investors from the Croatian market.

Corruption continues to thrive in the relationship between companies and public administration. According to Ernst & Young's Fraud Survey 2013, 90% of surveyed business executives find that corrupt practices and bribery are widespread when doing business in Croatia, while 40% of companies included in the survey admitted to resorting to bribery to win contracts. Furthermore, the Global Competitiveness Report 2013-2014 notes that business executives report that the diversion of public funds to companies, individuals or groups due to corruption is quite common. Corruption in the business sector is also reflected in public opinion. According to Transparency International's Global Corruption Barometer 2013, corruption within the business and the private sector is perceived to be widespread, as 50% of household respondents identified the sectors as extremely corrupt. It is recommended that companies develop, implement and strengthen integrity systems and conduct extensive due diligence when planning to invest in or are already doing business in Croatia. In addition, companies are also highly recommended to use a public procurement due diligence tool in order to avoid the costs and mitigate the risk of corruption involving procurement in Croatia.

## **Regulatory Environment**

Croatia has a highly decentralised administrative structure comprised of 20 counties, 126 cities and 429 municipalities. The dispersion of competences between administrative levels is complicated, and it is often unclear whether a certain administrative function should be undertaken by the national or regional authorities. Although the legal framework and regulatory system provides for national treatment of foreign investors, Croatia's ineffective legal system and a lack of transparency within both private and public sectors have presented the greatest challenges for investors, as reported by the US Department of State 2012. Transparency in developing legislation and regulation is often hampered by an inefficient public administration and a lack of intra-governmental coordination. According to the World Economic Forum's Global Competitiveness Report 2013-2014, inefficient government bureaucracy ranks as the most problematic factor for doing business in Croatia, and business executives give the burden of complying with governmental administrative requirements a score of 2.3 (1 being 'extremely burdensome' and 7 'not burdensome at all'). On the other hand, Croatia scores better in the transparency of government policymaking, with business executives giving the availability of information about changes in government policies and regulations a score of 3.7 (1 being 'impossible' and 7 'extremely easy').

Bureaucracy is also a major challenge for foreign investors, although the government has made progress in this area, particularly through the development of its e-government initiatives, such as the hitro.hr internet portal. The government portal has an online business registration component that reduces the time it takes to register a company to four days. According to the World Bank & IFC Doing Business 2013, dealing with licences and permits is regarded as one of the most difficult tasks for companies operating in Croatia, whereas starting a company in Croatia has improved over the past few years and now entails six procedures, taking nine days at a cost of approximately 13 per cent of GNI per capita. The same report also reveals that trading across borders and registering property can be quite cumbersome. The Law on Ownership and Other Property Rights guarantees citizens of EU Member States the right to real property ownership under the same conditions as Croatian nationals, while non-EU citizens are permitted ownership with the approval of the Ministry of Justice and on the basis of reciprocity. Recent reforms and the development of a digitalised land registry for direct internet access to land and property registries have facilitated the acquisition of land records, while at the same time reducing corruption risks.

Another problem for companies is the significant backlog of court cases, which acts as an impediment to investment. According to the US Department of State 2013, many cases have been pending for years in the courts, making dispute resolution via the courts an unviable option for companies. As a result, companies often resort to other means to resolve disputes. However, a reduction in court backlogs has been actively encouraged by the government progress in the physical infrastructure and computerisation of the courts. The aforementioned reports a backlog of nearly 845,000 cases compared to 1.6 million in 2004. Alternative dispute resolution has been implemented at the High Commercial Court, the Zagreb Commercial Court and six municipal courts throughout the country. Arbitration is available voluntarily, but not widely used. There is a Permanent Arbitration Court within the Croatian Chamber of Economy. The Law on Arbitration 2001 and the Rules on Arbitration address domestic arbitration, recognition and enforcement of arbitration rulings, jurisdictional matters and procedures, which can be found on its website. Croatia is signatory to several international conventions regulating the mutual acceptance and enforcement of foreign arbitration, including the New York Convention 1958 and the European Convention on International

Business Arbitration. Croatia also allows for dispute resolution via the International Centre for the Settlement of Investment Disputes (ICSID). Companies are advised to access the Lexadin World Law Guide for a collection of legislation in Croatia. The Zagreb Stock Exchange website posts English-language translations of key laws.

## Section 3 - Economy

Though still one of the wealthiest of the former Yugoslav republics, Croatia's economy suffered badly during the 1991-95 war. The country's output during that time collapsed and Croatia missed the early waves of investment in Central and Eastern Europe that followed the fall of the Berlin Wall. Between 2000 and 2007, however, Croatia's economic fortunes began to improve with moderate but steady GDP growth between 4% and 6% led by a rebound in tourism and credit-driven consumer spending. Inflation over the same period remained tame and the currency, the kuna, stable. Croatia experienced an abrupt slowdown in the economy in 2008 and has yet to recover; economic growth was stagnant or negative in each year since 2009. Difficult problems still remain, including a stubbornly high unemployment rate, uneven regional development, and a challenging investment climate. Croatia continues to face reduced foreign investment. On 1 July 2013 Croatia joined the EU, following a decade-long application process. Croatia will be a member of the European Exchange Rate Mechanism until it meets the criteria for joining the Economic and Monetary Union and adopts the euro as its currency. EU accession has increased pressure on the government to reduce Croatia's relatively high public debt, which triggered the EU's excessive deficit procedure for fiscal consolidation. Zagreb has cut spending since 2012, and the government also raised additional revenues through more stringent tax collection and by raising the Value Added Tax. The government has also sought to accelerate privatization of non-strategic assets, with mixed success.

### **Agriculture - products:**

arable crops (wheat, corn, barley, sugar beet, sunflower, rapeseed, alfalfa, clover); vegetables (potatoes, cabbage, onion, tomato, pepper); fruits (apples, plum, mandarins, olives), grapes for wine; livestock (cattle, cows, pigs); dairy products

### **Industries:**

chemicals and plastics, machine tools, fabricated metal, electronics, pig iron and rolled steel products, aluminum, paper, wood products, construction materials, textiles, shipbuilding, petroleum and petroleum refining, food and beverages, tourism

### **Exports - commodities:**

transport equipment, machinery, textiles, chemicals, foodstuffs, fuels

### **Exports - partners:**

Italy 14.9%, Bosnia and Herzegovina 13.2%, Germany 10.6%, Slovenia 8.8%, Austria 6.8% (2012)

### **Imports - commodities:**

machinery, transport and electrical equipment; chemicals, fuels and lubricants; foodstuffs

### **Imports - partners:**

Italy 16.7%, Germany 12.9%, Russia 7.6%, China 7.1%, Slovenia 5.9%, Austria 4.5% (2012)

## Banking

In the financial system of the Republic of Croatia, the banks play a dominant role. They are the most active of all financial institutions in the country, both in terms of the payment system and their presence on all three financial markets: money, foreign exchange and the capital markets. Their activities are regulated and supervised by the central bank, the Croatian National Bank (CNB).

Kuna is the domestic currency of the Republic of Croatia. All domestic and cross-border payment transactions of individuals and legal entities are conducted through the banks. Interbank payment transactions are conducted through the CNB. The CNB can influence the amount of currency in circulation and it is the institution responsible for the regulation and supervision of the domestic payment system.

The banks engage in interbank lending on the so-called interbank market, while on the money market they trade with other non-bank legal entities. They can do that either directly or through the Zagreb Money and Short Term Securities Market d.d. (also known as the Zagreb Money Market, TNZ). The CNB intervenes on the money market to smooth the interest rate fluctuations and acts as the "lender of last resort".

The banks' role on the capital market is twofold. While directly lending capital to individuals and legal entities that have no direct access to the capital market, they also invest in the capital market instruments issued by legal entities with direct access to that market. Other natural and legal persons can invest in the instruments of the capital market through licensed brokers who trade in such instruments on the Zagreb Stock Exchange (ZB or ZSE, as abbreviated in English). The responsibility for due settlement of securities purchase and sale transactions on the domestic market lies with the Central Depository Agency (SDA). The banks meet the domestic demand for foreign currency as well as foreign demand for Kuna on the foreign exchange market. Authorized currency exchange offices, whose business is regulated by the CNB and supervised by the Foreign Exchange Inspectorate of the Ministry of Finance are also active participants in this market. Authorized currency exchange offices are used for the trade in foreign cash and checks of natural persons, while the banks, in addition to this function, also execute all other types of trade in foreign currency with natural and legal persons. The banks (and the government) sometimes trade in foreign currency with the CNB, either directly or through foreign exchange auctions, used by the CNB to regulate the price of the domestic currency on the foreign exchange market.

## Stock Exchange

Currently, securities are traded on the Zagreb Stock Exchange (ZSE), established in 1991. The Varazdin Stock Exchange (VSE), which was established in 1993 as an over-the-counter (OTC) exchange merged into the ZSE in 2007. The OMX X-Stream trading system is now used on the ZSE.

There are three tiers of securities traded on the ZSE. Companies must meet high disclosure and operating requirements to be fully listed (quotation I).

### Executive Summary

For more than a decade after the end of the war in 1995, Croatia enjoyed steady growth in foreign investment, buoyed by a growing economy, low inflation, a stable exchange rate and developed infrastructure. However, investment activity slowed substantially in 2008 and has not regained momentum, due mostly to structural problems that continue to plague the economy, now in its sixth year of recession. The banking system weathered the financial crisis well, but a bloated and complex bureaucracy, underperforming state enterprises, low transparency, and an inefficient judicial system have all contributed to poor economic performance over the past five years.

The present Government of Croatia (GOC) came into power in December 2011, and has pledged to take urgent legislative and administrative steps to reduce barriers to investment and foster development in key sectors—particularly tourism, energy, infrastructure, and irrigation/environment. In one of the most important reforms, the GOC established a special investment regime with accelerated permitting and other benefits for projects that are considered of strategic importance, such as infrastructure or larger manufacturing investments. Another recent milestone was the announcement in April 2014 of new opportunities for investment in the exploration and production of oil and natural gas, with the first international tender in Croatia's history for offshore exploration licenses in the Adriatic Sea. This represents a significant investment opportunity for U.S. oil and gas companies. In general, however, the new measures have not attracted significant new investments.

Croatia became a member of the European Union (EU) on July 1, 2013. Entry into the EU should enhance stability and provide new opportunities for trade and investment. The GOC is currently working on establishing conditions and improving its administrative capacity to make accessible approximately \$15 billion in EU funds through 2020. Despite some recent progress, however, additional legal and administrative reforms are crucial for Croatia to attract a broader spectrum of investment. Investors still complain about high para-fiscal fees, rigid labor laws, and slow and complex permitting procedures, and a slow, sometimes unpredictable legal system.

Although it is now a member of the EU, Croatia still lags behind many other EU members in certain areas that are important to investors, such as registering property, investor protection, cross-border trade and bankruptcy procedures. It does better, somewhere closer to average among the EU 28, in terms of availability of loans, starting a business, connecting to the power grid and enforcing contracts. The GOC readily admits the country's investment climate needs improvement, but insists it is committed to attracting foreign investment and to making Croatia an attractive destination for all interested investors, foreign or domestic.

### 1. Openness to, and Restrictions Upon, Foreign Investment

Croatia is open to foreign investment, and the Croatian government continues to prioritize attracting foreign investment. All investors, both foreign and domestic, are guaranteed equal treatment by law. However, bureaucratic and political barriers remain. The greatest of these continues to be the country's inefficient and sometimes unpredictable legal system. The backlog of unresolved judicial cases peaked at 1.6 million in 2004 and has slowly been reduced to 773,349 pending cases. Because of the large number of pending cases, even the

simplest matters can take years to resolve. Investors agree that an unpredictable regulatory framework, lack of transparency in administrative procedures and lack of structural reforms weigh heavily upon the investment climate. New corporate income tax legislation and a Strategic Investment Act, which came into force recently, are intended to help investors streamline large projects.

Corruption remains an issue, although there have been strong anti-corruption efforts in recent years, particularly high-profile prosecutions of senior members of prior governments, including a former Prime Minister sentenced to a ten-year prison term in 2012 for taking bribes. The business community believes that in some cases, bureaucratic and permitting procedures suffer delay as officials anticipate extra-legal payments.

The Company Act defines the forms of legal organization for domestic and foreign investors. The following entity types are permitted for foreigners: general partnerships; limited partnerships; branch offices; limited liability companies; and joint stock companies. The Obligatory Relations Act regulates commercial contracts. Croatia published a draft Industrial Strategy in January 2014, which identified key economic sectors including pharmaceutical production, metallurgy, ICT services and electronic equipment. As part of the Strategy, the GOC also listed priorities including strategic cooperation between industry and education, restructuring public administration, stabilizing the investment climate and developing the capital market by creating alternative sources of financing. The Ministry of Economy has the lead on industrial policy, and is open to answering inquiries regarding the application of the strategy. Relevant contact information can be found at [www.mingo.hr/default.aspx?id=3398](http://www.mingo.hr/default.aspx?id=3398).

The country continues to pursue privatizations through the Office for State Asset Management (DUUDI), formerly known as the Agency for Public Asset Management (AUDIO). Information regarding state-owned assets can be found at [www.duudi.hr](http://www.duudi.hr), currently available only in Croatian. Information on selected assets for privatization can also be found at the website of the Agency for Investments and Competitiveness ([www.aik-invest.hr/en](http://www.aik-invest.hr/en)). While foreign investors generally do not face direct discrimination in privatization processes, problems with bureaucracy and timely judicial remedies can significantly slow progress for projects. In addition, state involvement in the economy remains strong, resulting in inefficiency, overstaffing in both state-owned companies and public administration, and heavy resistance to needed structural reforms. The GOC, however, does view privatization as a means to reduce the budget deficit and increase output, and is working to privatize or seek partners in a number of state-owned assets.

There are no reviewing or screening mechanisms to exclude foreign investment, nor are there any restrictions on foreign investment. 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 Competition Act defines the rules and methods for promoting and protecting competition. In theory, competitive equality is the standard applied with respect to market access, credit and other business operations, such as licenses and supplies. In practice, however, state-owned enterprises and "strategic" firms may still be perceived to receive preferential treatment. The Croatian Competition Agency is the country's competition watchdog, determining whether anti-competitive practices exist and issuing sanctions on infringements. It has determined in the past that some subsidies to state-owned firms

constituted unlawful state aid. Information on authorities of the Agency and past rulings can be found at [www.aztn.hr](http://www.aztn.hr).

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings for Croatia.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(57 of 177)	<a href="http://cpi.transparency.org/cpi2013/results/">cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	(87 of 177)	<a href="http://www.heritage.org/index/ranking">www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease of Doing Business"	2013	(89 of 189)	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
Global Innovation Index	2013	(37 of 142)	<a href="http://www.globalinnovationindex.org">www.globalinnovationindex.org</a>
World Bank GNI per capita	2012	\$13,490	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 2. Conversion and Transfer Policies

The Croatian constitution guarantees the free transfer and repatriation of profits and invested capital for foreign investments. Article VI of the U.S.-Croatia Bilateral Investment Treaty (BIT) establishes protection for American investors from government exchange controls that limit current and capital account transfers, and limits on inward transfers made by screening authorities. The BIT obliges both countries to permit all transfers relating to a covered investment to be made freely and without delay into and out of each other's territory. The Croatian Foreign Exchange Act permits foreigners to maintain foreign currency accounts and to make external payments.

The Foreign Exchange Act also defines foreign direct investment (FDI). For example, use of retained earnings for new investments/acquisitions is considered FDI, whereas financial investments made by institutional investors such as insurance, pension and investment funds are not. The law also liberalizes foreign exchange transactions for Croatian entities and individuals, allowing them to invest abroad. Generally, this law liberalized foreign exchange transactions, but it also introduced criteria for the possible imposition of capital controls.

The U.S. Embassy in Zagreb has not received any complaints from American companies regarding transfers and remittances. The risk of currency devaluation or significant depreciation is low. However, the exchange rate of the Croatian kuna is more tightly linked to the euro than the U.S. dollar.

## 3. Expropriation and Compensation

There have been no cases of expropriation of foreign investments by the government since Croatia's independence in 1991. Article III of the BIT covers both direct and indirect expropriations. The BIT bars all expropriations or nationalizations except those that are for a public purpose, carried out in a non-discriminatory manner, are in accordance with due process of law, and are subject to prompt, adequate and effective compensation.

Croatian law gives the government broad authority to expropriate real property under various economic and security-related circumstances, including eminent domain. However, it includes provisions that guarantee adequate compensation, in either the form of monetary compensation or real estate of equal value to the expropriated property in the same town or city. The law includes an appeals mechanism to challenge expropriation decisions by means of a complaint to the Ministry of Justice within 15 days of the expropriation order. The law, however, does not describe the Ministry's adjudication process, and the fact that the Ministry of Justice represents the government, which initiates expropriations, could be an area of potential concern.

#### **4. Dispute Settlement**

The Croatian constitution provides for an independent judiciary. The judicial system consists of courts of general and specialized jurisdictions, and its core structures are the Supreme Court, County Courts, Municipal Courts, and Magistrate/Petty Crimes Courts. Specialized courts include the Administrative Court and High Commercial and Lower Commercial Courts. A Constitutional Court determines the constitutionality of laws and government actions and protects and enforces constitutional rights. Municipal courts are courts of first instance for civil and juvenile/criminal cases. The High Commercial Court is located in Zagreb and has appellate review of lower commercial court decisions. The Administrative Court has jurisdiction over the decisions of administrative bodies of all levels of government. The Supreme Court is the highest court in the country and, as such, enjoys jurisdiction over all civil and criminal cases. It hears appeals from the County, High Commercial, and Administrative Courts. The government continues efforts to reform the judiciary, including reducing the backlog of cases, reforming the land registry, training court officers and reducing the backlog and length of bankruptcy procedures.

Alternative dispute resolution has been implemented at the High Commercial Court, the Zagreb Commercial Court and six municipal courts around the country. An important move to reduce the case backlog is the ongoing redistribution of non-disputed decisions to public notaries. As of last year, there were an estimated 773,349 pending cases in the judicial system. There has been a reduction in the backlog of enforcement cases and the enforcement of judgments, which make up over 10 percent of all pending cases. The Act on Enforcement serves to decrease the burden on the courts by passing responsibility for the collection of financial claims and seizures to the Financial Agency (FINA), which is responsible for paying claimants once the court has rendered a decision ordering enforcement. FINA also has the authority to seize assets or directly settle the claim from the bank account of the person or legal entity that owes the claim. More information can be found at [www.fina.hr](http://www.fina.hr). The Ministry of Justice is also pursuing a court reorganization plan that is intended to increase efficiency, and reduce the backlog of cases.

Article 19 of the Act on Enforcement states that judgments of foreign courts may be executed only if they "fulfill the conditions for recognition and execution as prescribed by an international agreement or the law."

The Bankruptcy Act is internationally harmonized and corresponds to the EU regulation on insolvency proceedings and United Nations Commission on International Trade Law (UNCITRAL) Model Law on Cross-Border Insolvency. The World Bank has estimated that the recovery rate for liabilities of firms in bankruptcy in Croatia is approximately 42.9 percent of the Organization for Economic Cooperation and Development (OECD) average. The Commercial Court of the county in which a bankrupt company is headquartered has exclusive jurisdiction over bankruptcy matters. A bankruptcy tribunal decides on initiating formal bankruptcy proceedings, appoints a trustee, reviews creditor complaints, approves the settlement for creditors, and decides on the closing of proceedings. A bankruptcy judge supervises the trustee (who represents the debtor) and the operations of the creditors' committee, which is convened to protect the interests of all creditors, oversee the trustee's work and report back to creditors. The Act establishes the priority of creditor claims, assigning higher priority to those related to taxes and revenues of state, local and administration budgets. It also allows for a debtor or the trustee to petition to reorganize the firm, an alternative aimed at maximizing asset recovery and providing fair and equitable distribution among all creditors.

The Financial Operations and Pre-Bankruptcy Settlement Act, in force since late 2012, introduced a new "pre-bankruptcy" procedure designed to expedite proceedings that have traditionally been slow and inefficient in Croatia, and establishes timeframes for the initiation of bankruptcy proceedings. One of the most important provisions of pre-bankruptcy is that it allows a firm that has been unable to pay all its bills to remain open during the proceedings, thereby allowing it to continue operations and generate cash under financial supervision in hopes that it can recover financial health and avoid closure.

There have been instances of investment disputes involving U.S. companies in Croatia. As a result of the very long timeframes involved in obtaining judgments in court, in addition to questionable transparency in some cases, companies often try to resolve disputes without seeking a judicial remedy. The Embassy encourages out of court dispute resolution when possible. The GOC has generally been unresponsive to requests from U.S. companies to assist in resolution of long-standing disputes. According to the latest available analysis by the European Council for Efficiency of the Judicial System, civil litigation in Croatia lasts an average of 462 days, compared to the European average of 235 days.

Although underutilized, both mediation and arbitration services are available through the Croatian Chamber of Economy. The Chamber's permanent arbitration court has been in operation since 1965 (<http://en.hgk.hr/about/pemanent-arbitration-court/>). Arbitration is voluntary and conforms to UNCITRAL model procedures. The court received 34 new cases in 2013. There are currently no arbitration matters involving U.S. companies, though one U.S.-affiliated institution has been involved in an arbitration process for over two years. The Chamber's Mediation Center has been operating since 2002; see <http://en.hgk.hr/about/mediation-centre>. The Arbitration Act covers domestic arbitration, recognition and enforcement of arbitration rulings, jurisdictional matters and procedures. Once an arbitration decision has been reached, the judgment is executed by court order. If no payment is made by the established deadline, the party benefiting from the decision notifies the Commercial Court, which becomes responsible for enforcing compliance. Arbitration rulings have the force of a final judgment, but can be appealed within three months.

Article X of the BIT sets forth several mechanisms for the resolution of investment disputes, defined as any dispute arising out of or relating to an investment authorization, an investment agreement, or an alleged breach of rights conferred, created, or recognized by the BIT with respect to a covered investment. Croatia recognizes binding international arbitration, which may be defined in investment agreements as a means of dispute resolution. For example, the GOC currently has two open arbitration cases with a private investor in the national oil company.

Croatia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration: the 1923 Geneva Protocol on Arbitration Clauses; the 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions; the 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions; and the 1961 European Convention on International Business Arbitration. In 1998 Croatia ratified the Convention that established the International Center for the Settlement of Investment Disputes (ICSID).

## **5. Performance Requirements and Investment Incentives**

Croatia's Trade Related Investment Measures (TRIMs) agreement under the World Trade Organization (WTO) went into effect in 2000. Croatia has no trade-related investment measures in place at the present time, nor does the government intend to introduce any such measures in the future. Accordingly, Croatia did not seek to list any measures for elimination under the provisions of the WTO Agreement on TRIMs. Croatia is committed to maintaining measures consistent with the TRIMs agreement, which it has applied from its date of accession.

The Investment Promotion Act (IPA), amended in 2013, offers incentives for micro-enterprises, tax incentives including lower taxes on profits, as well as financial incentives for investments that create new jobs and for training associated with an investment project. These incentives are available for projects valued from \$68,000 to \$4 million. Of particular interest are substantial available reductions in the tax rate on profits depending on the size of the investment. A reduction of 50 percent applies for a maximum of ten years for companies that invest up to \$1.4 million and create at least five new jobs. This reduction rises to 75 percent for companies investing \$1.4-\$4.1 million and creating at least 10 new jobs, and to 100 percent for companies that invest over \$4.1 million and create at least 15 new jobs. Incentives for new job creation range from \$4,500 to \$12,000, depending on the investment.

Incentives are also available for development and innovation activities that improve or modernize products, production series, processes and technologies; business support activities such as customer support or logistics and distribution centers; programming and ICT centers; and activities that create tourism services with high value added, such as accommodations, health tourism, conference tourism, nautical tourism, cultural tourism, as well as entertainment and recreation centers.

Amendments to the IPA have created two new categories. First, incentives now apply for the capital costs of an investment project, such as an investment in long-term assets with a value of at least \$7 million. Second, new incentives apply to labor-intensive investments creating 100, 300 or 500 new jobs within three years from the start of the investment. The full IPA can be found at

[www.minpo.hr/UserDocsImages/Investment%20Promotion%20and%20Development%20of%20Investment%20Climate%20Act.pdf](http://www.minpo.hr/UserDocsImages/Investment%20Promotion%20and%20Development%20of%20Investment%20Climate%20Act.pdf).

A Strategic Investments Act went into effect in November 2013. This Act is intended to facilitate and accelerate procedures for projects deemed to be of strategic interest for Croatia based on 12 conditions listed in the Act. Strategic projects can include private or public investments in energy, tourism, infrastructure, transport, electronic communications, the environment, municipal economy, agriculture, forestry, water management, fisheries, health, or culture. A project may be considered strategic if it contributes to the employment of a large number of people, improves manufacturing or service standards, implements or develops new technologies, offers sustainable growth, or helps advance the competitiveness of the economy.

The minimum amount for an investment to be considered strategic is approximately \$27 million. All investments over this amount are considered strategic, and will be entitled to accelerated permitting and registration procedures. Investments will also be treated as strategic if they are valued at \$3.6 million or more, and are either implemented in geographic areas of special state concern (e.g. underdeveloped or war-affected regions/islands), or are in the agriculture and fisheries sector. A guide for investors interested in applying for status under the Strategic Investments Act can be found at [www.mingo.hr/userdocsimages/Vodici/Zakon%20o%20strate%C5%A1kim\\_vodi%C4%8D\\_eng\\_12.pdf](http://www.mingo.hr/userdocsimages/Vodici/Zakon%20o%20strate%C5%A1kim_vodi%C4%8D_eng_12.pdf). A provisional translation of the Act is available at [www.mingo.hr/default.aspx?id=3221](http://www.mingo.hr/default.aspx?id=3221).

The Act on Spatial Planning and Construction allows investors to secure permits through an e-licensing system, which is a novelty in otherwise cumbersome permit acquisition procedures. The investor may obtain a license valid for three years, which will allow for a three percent change in the dimensions of the project from start to finish. The e-licensing system can be accessed at <http://dozvola.mgipu.hr>.

Croatian law does not impose performance requirements on foreign or domestic investors. Article VII of the BIT prohibits mandating or enforcing specified performance requirements as a condition for a covered investment. The list of prohibited requirements is exhaustive and covers domestic content requirements and domestic purchase preferences, the "balancing" of imports or sales in relation to exports or foreign exchange earnings, requirements to export products or services, technology transfer requirements and requirements relating to the conduct of research and development in the host country. Article VII of the BIT makes clear, however, that a party may impose conditions for the receipt or continued receipt of benefits and incentives.

The Ministries of Economy and Defense operate an offset program for defense procurements worth over EUR 2 million, requiring local sourcing of a portion of the contract. More information on the application and regulation of the offset program can be found at [www.hgk.hr/djelatnost/gosp\\_industrija/offset-program](http://www.hgk.hr/djelatnost/gosp_industrija/offset-program).

Although procedures for obtaining business visas are generally clear, they can be cumbersome and time-consuming. Foreign investors should familiarize themselves with the provisions of the Act on Foreigners. Questions relating to visas and work permits should be directed to the Croatian embassy or a Croatian consulate in the United States. The U.S. Embassy in Zagreb maintains a website with information on this subject at <http://zagreb.usembassy.gov/service/other/entry.html>.

## **6. Right to Private Ownership and Establishment**

Both foreign and domestic legal entities have the right to establish and own businesses and engage in remunerative activity. Foreign investors can acquire ownership and shares of joint stock companies. The lowest amount of initial capital for establishing a joint stock company is HRK 200,000 (\$35,000) and the nominal value per share cannot be less than HRK 10 (\$1.75). The minimum initial capital for establishment of a limited liability company is HRK 20,000 (\$3,500), while individual representation per investor cannot be less than HRK 200 (\$35). The Company Act was amended in 2012 to make it easier and less costly to establish a small business. Article 49 of the Constitution provides that all entrepreneurs have equal legal status, and that monopolies are forbidden.

The government's e-government initiative "Hitro.hr" ([www.hitro.hr](http://www.hitro.hr)) provides an on-line business registration component that reduces the time it takes to register a company to four days. Hitro.hr offices are located in more than 60 Croatian cities and towns. Business registration is the first step in a plan to make more government services available on line in the coming years.

## **7. Protection of Property Rights**

The right to ownership of private property is established in the Croatian Constitution and in numerous acts and regulations. A foreign physical or legal person incorporated under Croatian law is considered to be a Croatian legal person. The Ownership and Property Rights Act establishes procedures for foreigners to acquire property by inheritance as well as legal transactions such as purchases, deeds, and trusts. In order to acquire property by means other than inheritance or as an incorporated Croatian legal entity, foreign citizens require the approval of the Ministry of Justice. Approval often takes months or longer, owing to a lengthy interagency clearance process. While citizens of EU member states are afforded the same rights as Croatian citizens in terms of purchasing property, the right of all other foreigners to acquire property in Croatia is based on reciprocity. Reciprocity exists on a state-by-state basis with the United States. Croatia's Ministry of Foreign and European Affairs has confirmed the existence of reciprocity for real estate purchases for residents of the following states: Alabama, Arizona, Alaska, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Louisiana, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, North Carolina, North Dakota, Rhode Island, Tennessee, Texas, Virginia, Washington, West Virginia, as well as Iowa and Oklahoma (with a condition of permanent residence). Residents of other states could face longer waiting periods while the Ministry confirms that Croatian nationals can purchase real estate in those states without restrictions.

However, a foreign investor, incorporated as a Croatian legal entity, may acquire and own property without ministry approval. The purchase by any private party of certain types of land (principally land directly adjacent to the sea or in certain geographically designated areas) can be restricted. Both Croatian and foreign citizens may mortgage property and pledge real and tangible property.

When purchasing land for construction purposes, potential buyers should determine whether the property is classified as agricultural or construction land. The Agricultural Land Act allows for additional fees of up to 50 percent of the value of the land to be diverted from agriculture due to construction; as such, this law should be considered when purchasing land. The Agricultural Land Agency works with local governments to review potential agricultural land purchases. However, the Agricultural Land Act no longer covers the sale of privately owned farmland, which is now treated solely as the subject of a sales agreement

between the parties. Buyers of this type of land should be aware of potential unresolved issues with land ownership.

Clarifying Croatia's land registry system is an ongoing process. Although Croatia continues to process a backlog of cases, potential investors should seek a full explanation of land ownership rights before purchasing property. Note that Croatia's land records are available on line (see [www.pravosudje.hr](http://www.pravosudje.hr) and [www.katastar.hr](http://www.katastar.hr)). There can be ambiguous and conflicting claims to property, making it necessary to verify that the seller possesses clear title to both land and buildings (which can be titled and owned separately). Inheritance laws have led to situations in which some properties can have dozens of legal owners, some of whom are deceased and others of whom emigrated and cannot be found. It is also important to verify the existence of necessary building permits, as some newer structures in coastal areas have been subject to destruction at the owner's expense and without compensation for not conforming to local zoning regulations. Investors should be particularly wary of promises that structures built without permits will be regularized retroactively. The Act on Legalization of Buildings and Illegal Construction came into effect in August 2012 and should help to resolve ambiguities regarding ownership of real estate. For all these reasons, it is highly advisable to seek competent, independent legal advice in this area. The U.S. Embassy maintains a list of English-speaking attorneys (<http://zagreb.usembassy.gov/service/special-consular-services.html>).

Land ownership is distinct from ownership of buildings or facilities on the land. Investors interested in acquiring companies from the Office for State Asset Management (DUUDI) should seek legal advice to determine whether any deal also includes the right to ownership of the land on which a business is located, or merely the right to lease the land through a concession.

Inconsistent regulations and restrictions on coastal property ownership and construction have also provided challenges for foreign investors in the past. Legislation restricts coastal construction and commercial use within 70 meters of the coastline.

Croatian intellectual property rights (IPR) legislation includes the Patent Act, Trademark Act, Industrial Design Act, Act on the Geographical Indications of Products and Services, Act on the Protection of Layout Design of Integrated Circuits, and the Act on Copyrights and Related Rights. Texts of these laws are available on the website of the State Intellectual Property Office ([www.dziv.hr](http://www.dziv.hr)). Although some areas of IPR protection remain problematic, Croatia is currently not on the U.S. Special 301 Watch List. Problem areas continue to be concentrated in piracy of digital media and counterfeiting. Due to its geographical position, Croatia is also one of the transit routes for various contraband products bound for other countries in the region. There have been no problems reported with regard to registration of intellectual property in Croatia by American companies.

As a WTO member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS). A WTO/TRIPS Working Group in June 2001 accepted Croatia's IPR legislation. Croatia is also a member of the World Intellectual Property Organization (WIPO). For a list of international conventions to which Croatia is a signatory, consult the State Intellectual Property Office's website at [www.dziv.hr](http://www.dziv.hr).

The person at U.S. Embassy Zagreb responsible for handling IPR related issues is Theodore Fisher, tel (+385 1) 661-2200.

The U.S. Embassy maintains a list of English-speaking attorneys (<http://zagreb.usembassy.gov/service/special-consular-services.html>).

Contact information for the American Chamber of Commerce in Croatia can be found at [www.amcham.hr](http://www.amcham.hr).

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

## **8. Transparency of the Regulatory System**

Croatia's adoption of EU laws, norms, and practices has provided pressure for reform in recent years. Nevertheless, bureaucracy and regulation remain overly complex and time consuming.

The Procurement Act makes public procurement more transparent, as it entails strict obligations for disclosure of public procurement on the internet. The law is intended to make the procurement process easier for businesses bidding on public tenders by cutting bureaucratic procedures. The law requires the publication of all procurement procedures valued at more than HRK 70,000 (\$12,200). A website detailing all published public procurement transactions can be found at <http://nabava.vjetrenjaca.org>, a website created to draw attention to the procurement procedure and possible controversies surrounding it.

The tax on corporate profit is a flat 20 percent. A 12 percent tax is charged on dividends and capital gains that exceed HRK 12,000 (\$2,100). For a detailed description of existing tax legislation, please consult the Tax Administration's website at [www.porezna-uprava.hr/en\\_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx](http://www.porezna-uprava.hr/en_propisi/layouts/in2.vuk.sp.propisi.intranet/propisi.aspx). The Institute of Public Finance maintains a useful table of Croatian taxes at [www.ijf.hr/upload/files/file/ENG/taxtable.pdf](http://www.ijf.hr/upload/files/file/ENG/taxtable.pdf). Croatia also maintains a 25 percent value-added tax (VAT). Some companies have had difficulty with the tax authorities due to different understandings of how certain goods and services are affected by VAT. Detailed information about customs can be found at [www.carina.hr](http://www.carina.hr).

Investors have complained that the tax code is not applied equally, nor are tax opinions of a binding nature, which makes it difficult to plan for future costs of investment. There are also a number of so-called "para-fiscal" fees, which are an extra burden to business. The business community is currently working with the government to try to identify which of these fees will be eliminated.

New legislation and changes to existing legislation which could have a significant impact on citizens are made available for public debate. Although Croatia's regulatory system does not specifically discriminate against foreign investors, transparency in developing legislation and regulation is often hampered by an inefficient public administration, lack of intra-governmental coordination, and reliance on expert advice from "national champions," sometimes giving the latter a privileged position in influencing new regulations.

## **9. Efficient Capital Markets and Portfolio Investments**

Croatia's securities markets are equally open to domestic and foreign investment. There are no restrictions that disrupt foreign investment in the securities market and financial markets in Croatia. Foreign residents may open non-resident accounts and may do business both

domestically and abroad. Article 24 of the Foreign Currency Act states that non-residents may subscribe, pay in, purchase, or sell securities in the Republic of Croatia in accordance with regulations governing securities transactions. Non-residents and residents are afforded the same treatment in spending and borrowing. These and other non-resident financial activities regarding securities are covered by the Foreign Currency Act, available on the central bank website ([www.hnb.hr](http://www.hnb.hr)).

The Capital Markets Act regulates all aspects of securities and investment services, and defines the responsibilities of the Croatian Financial Services Supervisory Agency (HANFA). The Act also specifies who is responsible for information listed in a prospectus, and obligates the issuer to publish periodic financial reports as well as information about changes in corporate structure and voting rights. The Act was amended in 2013 to fully harmonize with EU directives on capital markets. The full text of the Act and amendments are found at the HANFA website ([www.hanfa.hr/EN/nav/189/capital-market-act.html](http://www.hanfa.hr/EN/nav/189/capital-market-act.html)), in Croatian language. In 2013, transactions on the Zagreb Stock Exchange totaled HRK 3.8 billion (approximately \$680 million) with an additional HRK 18.24 billion (\$3 billion) in registered OTC transactions. According to the Central Depository and Clearing Company, 857,742 Croatian citizens own stocks.

Only authorized companies (brokerage houses and banks) may deal in securities in Croatia. Such activities must be licensed by HANFA and entered in a court register. A brokerage may only be a private or public limited company based in the Republic of Croatia, and its only permitted activity is transactions in securities. The type of permitted activity depends on the amount of share capital. A brokerage company may establish a branch abroad in order to deal in securities in the respective country. Foreign brokerage companies authorized for transactions in securities may establish a branch in Croatia, provided they obtain a license from HANFA. The Investment Fund Act provides for the establishment of derivative funds, index funds and other funds in accordance with EU legislation.

The private sector, both domestic and foreign owned, enjoys open access to credit on market terms. The banking sector, now overwhelmingly privatized and consolidated, is highly developed and becoming more competitive. More than 90 percent of total banking sector assets are foreign-owned. As of February 2014 there were 29 commercial banks and five savings banks, with assets totaling HRK 411 billion (\$74 billion). The largest bank in Croatia is Zagrebacka Banka, with assets of HRK 106.5 billion (\$19 billion), for a market share of 25.9 percent of total banking assets in Croatia. Second-largest is Privredna Banka, with HRK 66.8 billion (\$12 billion), or 16.2 percent of total banking assets. The third largest is the Erste Bank, with assets of HRK 61 billion (\$11 billion), for a 14.8 percent market share in Croatia.

The government uses the market to finance government expenditure. Government debt instruments must be bought through an intermediary such as a commercial bank, and are tradable on exchanges. Nearly all Croatian workers under age 40 are required to pay five percent of their gross salary into a pension fund of their choice. Additional voluntary savings with government matching of 25 percent has also been introduced.

Securities are traded on the Zagreb Stock Exchange (ZSE), established in 1991. There are three tiers of securities traded on the ZSE. The Securities Act requires that all companies with more than 100 shareholders and share capital of at least HRK 30 million (\$5.5 million) be listed as public stock companies. The intention of this law was to increase transparency and encourage companies to obtain low-cost equity financing, which would result in higher turnover and trading volumes. Companies must meet high disclosure and operating

requirements to be fully listed. A detailed explanation of all requirements is provided at [www.zse.hr](http://www.zse.hr) in English.

Measures governing takeovers are prescribed by the Act on Takeovers of Joint Stock Companies, which has been harmonized with EU requirements. The Act was amended in order to improve shareholders' protection in the takeover process, and to unambiguously spell out the rights and obligations of acquirers. To date, there has only been one attempted hostile takeover on the ZSE, which failed.

## **10. Competition from State-Owned Enterprises**

Legislation provides that private enterprises are allowed to compete with state-owned enterprises (SOEs) under the same conditions with respect to access to markets, credit and other business operations. In practice, however, there are often accusations that political influence in the SOEs has a negative effect on competition and tenders. The State Property Management Act regulates the Office for State Asset Management (DUUDI), which is responsible for all SOEs and their activities in sectors as diverse as railways, electricity, shipbuilding and tourism. The supervisory boards of SOEs are currently structured to include government figures, most often ministers, and the boards often report directly to the government.

SOEs are currently not in a position to invest in R&D at the same rate as their private sector competitors, and the GOC is hoping to privatize shares of SOEs to raise funds for R&D. It should be noted that companies the GOC deems to be of strategic importance will not be privatized.

SOEs are subject to the same taxation policies as private sector competitors. They are required to submit annual reports and to undergo independent audits.

## **11. Corporate Social Responsibility**

The Croatian Business Council for Sustainable Development ([www.hrpsor.hr](http://www.hrpsor.hr)) promotes corporate social responsibility (CSR), and is a member of CSR Europe's Network of National Partner Organizations, Global Compact and the Global Reporting Initiative. The Croatian Chamber of Economy adopted a Code of Business Ethics in 2005 and founded the Community for Corporate Social Responsibility. The Chamber also grants an annual award to companies considered leaders in CSR. Their website includes annual reports by leading companies that detail activities related to corporate social responsibility as well as a list of companies with best practices.

Corporate governance is regulated by law, and a Corporate Governance Code of Ethics was established by the HANFA for the ZSE. Publicly listed companies are required to upload their annual corporate governance reports on the ZSE website. The latest copy of the Corporate Governance annual report can be found at [www.hanfa.hr/EN/nav/111/giku---englsih.html](http://www.hanfa.hr/EN/nav/111/giku---englsih.html).

In addition, the Accounting Act requires large companies to apply International Financial Reporting Standards (IFRS). Small and medium-sized businesses may apply Croatian Financial Reporting Standards.

## **12. Political Violence**

The risk of political violence in Croatia is low. Following the breakup of Yugoslavia and the subsequent wars in the region, Croatia has emerged as a stable, democratic country and is a member of NATO and the EU. Relations with neighboring countries are generally good and improving, although some disagreements regarding border demarcation and residual war-related issues persist.

There is little domestic anti-American sentiment. There have been no reported incidents involving politically motivated damage to American projects or installations in Croatia.

### **13. Corruption**

The business community and others perceive corruption to be prevalent in Croatia, including major public companies, the health sector, universities, public procurement systems, the construction sector, and land registry offices. Though corruption remains a concern, there have been strong efforts at stamping it out. The scope of prosecutions indicates that the GOC remains serious in its efforts to fight corruption. Investigations have targeted senior members of prior governments, including a former Prime Minister who was convicted in 2012 of taking bribes and sentenced to a ten-year prison term. Significantly, prosecutors have also indicted the chairman and CEO of a foreign company charged with providing these bribes. In addition, the long-time head of the Croatian Chamber of Economy was recently arrested for corrupt behavior, including abuse of position and embezzlement. Croatian prosecutors have secured corruption convictions of a number of high-level GOC officials, including ministers, high-ranking officials, and senior managers from state-owned companies.

The Law on Criminal Procedure grants prosecutors the authority to investigate crimes, including organized crime and corruption. Prosecutors continue to pursue additional corruption-related investigations against former senior government officials.

The State Prosecutor's Office for the Suppression of Corruption and Organized Crime (USKOK) is tasked with directing police investigations and prosecuting these cases. USKOK is headquartered in Zagreb, with offices in Split, Rijeka and Osijek. In addition, the National Police Office for Suppression of Corruption and Organized Crime (PN-USKOK) conducts corruption-related investigations and is based in the same cities. Specialized criminal judges are situated at the four largest county courts in Croatia, again in Zagreb, Rijeka, Split, and Osijek, and are responsible for adjudicating corruption and organized crime cases. The cases receive high priority in the justice system. The Ministry of Interior, the Office for Suppression of Money Laundering, the Tax Administration, the Anti-Corruption Sector of the Ministry of Justice, and the National Council for Monitoring the Implementation of the National Strategy for Suppression of Corruption all have a proactive role in combating and preventing corruption.

Croatia has laws, regulations and penalties to effectively combat corruption. The Criminal Code and the Criminal Procedure Act define the roles of USKOK and PN-USKOK and define the tools available to authorities to fight corruption. The criminal code also provides for asset forfeiture. If a case falls under USKOK's jurisdiction, it is assumed that all of a defendant's property was acquired through criminal offences unless the defendant can prove the legal origin of the assets in question. Pecuniary gain in such cases is also confiscated if it is in possession of a third party (e.g. spouse, relatives, or family members) and was not acquired in good faith.

The Croatian Criminal Code covers such acts as trading in influence, abuse of official functions, bribery in the private sector, embezzlement of private property, money laundering, concealment and obstruction of justice. In 2010, the legal framework to combat corruption was further improved. The Act on the Office for the Suppression of Corruption and Organized crime provides broad authority to prosecute tax fraud linked to organized crime and corruption cases.

Additional laws for the suppression of corruption include: the State Attorney's Office Act; the Public Procurement Act; the Act on Procedure for Forfeiture of Assets Attained Through Criminal Acts and Misdemeanors; the Budget Act; the Courts Act; the Conflict of Interest Prevention Act; the Corporate Criminal Liability Act; the Money Laundering Prevention Act; the Witness Protection Act; the Personal Data Protection Act; the Right to Access Information Act; the Act on Public Services; the Code of Conduct for Public Officials; and the Code of Conduct for Judges. The Labor Act contains whistleblower protections, but their effectiveness has yet to be proven. Croatian laws and provisions regarding corruption apply equally to domestic and foreign investors.

Croatia has not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, but it is a member of the Group of States Against Corruption (GRECO), a peer monitoring organization that allows members to assess anticorruption efforts on a continuing basis. Croatia has been a member of INTERPOL since 1992. Croatia cooperates regionally through the Southeast European Co-operative Initiative (SECI), the Southeast Europe Police Chiefs Association (SEPCA), and the Regional Anti-Corruption Initiative (RAI). Croatia is a member of Eurojust, the EU's Judicial Cooperation Unit, and is a signatory to the UN Convention Against Corruption.

The Croatian Criminal Code includes penalties for both giving and accepting bribes (at Articles 253, 293 and 294), which range from six months to ten years imprisonment. Trading in influence (Article 295) is punishable by six months to five years imprisonment, and engaging in bribery related to trade in influence (Article 296) by one to eight years. Bribes by a local company to a foreign official are also punishable under Croatian law. If it is established that a local company is engaged in criminal behavior, the company may also be banned from conducting operations, depending on the gravity of the crime.

Transparency International Croatia is the main non-governmental watchdog involved in anti-corruption efforts. In addition, GONG, a non-partisan citizens' organization founded in 1997, monitors election processes, educates citizens about their rights and duties, encourages communication between citizens and their elected representatives, promotes transparency within public services, manages public advocacy campaigns, and assists citizens in self-organizing initiatives. The Partnership for Social Development is another nongovernmental organization active in Croatia dealing with the suppression of corruption.

Contact information for Transparency International can be found at [www.transparency.hr/en/contact](http://www.transparency.hr/en/contact). Contact information for GONG can be found at <http://gong.hr/hr/o-gong-u/kontakt>.

#### **14. Bilateral Investment Agreements**

Croatia does not have a foreign investment law; foreigners receive national treatment under existing legislation. Investments by American citizens are covered by the U.S.-Croatian

Bilateral Investment Treaty (BIT), which entered into force in June 2001. The treaty fulfills the principal U.S. objectives for agreements of this type. Notably:

- All forms of U.S. investment in Croatia are covered
- Covered investments receive the more favorable option of national treatment or most-favored-nation (MFN) treatment, both while being established and thereafter, subject to certain specified exceptions
- Specified performance requirements may not be imposed upon or enforced against covered investments
- Expropriation is permitted only in accordance with customary standards of international law
- Parties are obligated to permit the transfer, in a freely usable currency, of all funds related to a covered investment, subject to exceptions for specified purposes
- Investment disputes with the host government may be brought by investors, or by their covered investments, to binding international arbitration as an alternative to domestic courts

For further information about BITs and for the text of the U.S.-Croatian BIT please see [www.state.gov/e/eb/ifd/bit/117402.htm%20](http://www.state.gov/e/eb/ifd/bit/117402.htm%20) (under "Croatia").

Croatia and the United States do not share a bilateral taxation treaty or a free trade agreement.

Croatia has signed investment protection treaties/agreements with the following countries, but not all of the agreements have entered into force:

Albania, Argentina, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Cambodia, Canada, Chile, China, Cuba\*, Czech Republic, Denmark, Egypt, Finland, France, Greece, Germany, Hungary, India, Indonesia\*, Iran, Israel, Italy, Jordan, Kuwait, Latvia, Libya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia\*, Morocco\*, Netherlands, Oman\*\*, Poland, Portugal, Qatar\*\*, Romania, Russia\*\*, San Marino, Serbia, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, United States, Zimbabwe\*\*.

\* neither ratified nor in force

\*\* ratified, but not in force

The Ministry of Foreign and European Affairs offers a country by country overview of bilateral treaties that Croatia has signed with each country: [www.mvep.hr/en/foreign-politics/bilateral-relations/overview-by-country](http://www.mvep.hr/en/foreign-politics/bilateral-relations/overview-by-country).

## **15. OPIC and Other Investment Insurance Programs**

Croatia is eligible for financing and political risk insurance coverage from the U.S. Overseas Private Investment Corporation (OPIC). In 2004, OPIC provided \$250 million in political risk insurance to support financing for the construction of a major motorway. For more information about OPIC, see [www.opic.gov](http://www.opic.gov).

Croatia is a member country of the Multilateral Investment Guarantee Agency (MIGA). For more information see [www.miga.org](http://www.miga.org).

The estimated annual U.S. dollar value of local currency used by the U.S. Embassy in Croatia was approximately \$11.3 million for 2013. The Embassy currently purchases local currency from a local commercial bank at the market rate. A major devaluation is considered unlikely.

## **16. Labor**

Croatia has an educated, highly skilled, and relatively high cost labor force compared other countries in the region. The estimated average cost to employers in Croatia was HRK 7,939 (approximately \$1,433) per month as of December 2013, and the average net wage was HRK 5,515 (\$995). The minimum wage is regulated by the Minimum Wage Act, which ensures a continuous minimum wage increase over longer periods of time. Minimum wage increases are calculated from the minimum-to-average wage ratio from the previous year, increased by the percentage of real GDP growth in the previous year.

Amendments to Croatia's labor laws have been aimed at increasing labor market flexibility by shortening the mandatory notification period before employee dismissal, and reducing generous severance package requirements. However, due to strong collective agreements, it is often difficult to dismiss employees who are covered by such agreements, especially in state-owned enterprises. The Act on Representation, which deals separately with collective bargaining, limits the period that collective agreements remain in force once they have expired. Further liberalization of labor legislation has been controversial in Croatia, and labor unions come out strongly against any changes perceived to be detrimental to job security. Unions have a strong role independent of political parties and they have so far been successful in blocking further meaningful reform of labor laws. However, unions mainly represent workers whose salaries are linked to the State budget. Croatia still fares poorly in terms of both the time and expense involved in hiring and firing employees.

The Labor Act regulates employee and employer relations through employment contracts. Full-time employment must not amount to more than 40 hours per week, plus a maximum of eight hours paid overtime, and employees are entitled to at least four weeks of paid annual leave and seven days of personal leave. The Labor Act also provides special protections for workers in dangerous occupations, for those who work at night, and for minors aged 15 to 18.

Workers are entitled by law to form or join unions of their own choosing, and workers exercise this right in practice. In general, unions are independent of the government and political parties. The Labor Act prohibits anti-union discrimination and expressly allows unions to challenge firings in court; however, in general, attempts to seek redress through the legal system are seriously hampered by the inefficiency of the court system.

Articles 73-85 of the Act on Foreigners covers the issuance of work permits for foreigners. While there are quotas (determined annually) for work permits for foreigners, there are no quotas for foreigners who execute key positions in companies or representative offices. Likewise, there are no quotas for business visas.

## **17. Foreign Trade Zones/Free Ports**

Croatia has several Free Trade Zones (FTZs), some of which are in areas affected by war in the 1990s. Special incentives are offered to users of FTZs, although these zones have lost some of their meaning since Croatia joined the EU and its customs area as of July 1, 2013.

The Act on Free Trade Zones allows foreign-owned or domestic companies in FTZs to engage in manufacturing, wholesale (but not retail) trade, foreign trade, banking and other financial activities. The Act also defines the payment structure for profit taxes through 2017. The Act on Profit Tax covers business in FTZs, but users are eligible for tariff waivers on imported products. FTZs are exempted from any Croatian emergency measures or other restrictions pertaining to foreign trade or currency transactions. Users of the zones may freely store their goods and production equipment in the zones, and enjoy simpler customs procedures. Tax and customs exemptions ceased to be valid once Croatia joined the EU on July 1, 2013.

The Ministry of Entrepreneurship is responsible for overseeing the operation of FTZs. The following locations currently have FTZs: Kukuljanovo, Osijek, Rijeka, Slavonski Brod, Split, Splitsko-Dalmatinska, Ploce, Pula, Varazdin, Zagreb. Detailed information regarding the laws and procedures that cover the use of FTZs can be found at [www.croatianfreezones.org](http://www.croatianfreezones.org).

## **18. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

Privatization has been the main source of FDI since Croatian independence. Large state assets such as utilities and banks were sold by the government, usually through international tenders, and in some cases through initial public offerings (IPOs). New or greenfield investments have lagged in recent years. In April 2014, the GOC opened hydrocarbon exploration and production in the Croatian part of the Adriatic Sea, and it hopes this will generate more foreign investment. The Office for State Asset Management, the agency responsible for state asset sales, has shares in 651 companies. The value of the state's holdings in these companies is estimated at HRK 144 billion (\$26 billion). Information regarding the Office for State Asset Management can be found at [www.duudi.hr](http://www.duudi.hr).

According to the Croatian National Bank, total FDI stock in Croatia at the end of 2013 was EUR 26.8 billion (\$37 billion), with investments in the financial, wholesale/retail and real estate sectors accounting for half the total. Croatian FDI stock abroad amounted to just EUR 93 million (\$128 million) at the end of 2013. Net FDI inflows to Croatia in 2013 were EUR 437 million (\$604 million), one of only three years since 1999 in which FDI totaled less than EUR 1 billion.

Austria is the largest source of foreign investment in Croatia, accounting for 26.5 percent of total FDI since 1993. Germany is second with 12.4 percent, followed by the Netherlands with 11.9 percent and Hungary with 8.5 percent. The United States is ranked no. 30, with total FDI in Croatia of just EUR 19 million (\$26 million). However, this figure nets out repatriated profits; American firms have invested billions of dollars in Croatia since 1993. In addition, because transactions are often executed through third countries, and because the Croatian National Bank records country of origin of the final transaction leading to the investment, statistics on the origin of FDI can underestimate U.S. investment in the country. For example, many U.S. corporations have investments in Croatia through West European subsidiaries.

The leading destinations for Croatian outward investment were the Netherlands, Serbia, and Bosnia and Herzegovina. In 2013, Croatian companies invested approximately EUR 33 million (\$46 million) abroad.

### **TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

	Croatian Bureau of Statistics		World Bank		
<b>Economic Data</b>	Year	Amount	Year	Amount	Source of data
Croatian Gross Domestic Product (GDP) ( <i>Millions U.S. Dollars</i> )	2013	\$57.5	2012		<a href="http://www.dzs.hr">www.dzs.hr</a>
	2012	\$56.2		\$59.2	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	National Bank of Croatia		U.S. Bureau of Economic Analysis		Source of data
U.S. FDI in Croatia ( <i>Millions U.S. Dollars, stock positions</i> )	2013	\$18.7	2012		<a href="http://www.bea.gov">www.bea.gov</a>
	2012	-\$5		\$150	<a href="http://www.hnb.hr">www.hnb.hr</a>
Croatian FDI in the United States ( <i>Millions U.S. Dollars, stock positions</i> )	2013	\$22.4	2012		<a href="http://www.bea.gov">www.bea.gov</a>
	2012	\$28.9		\$10	<a href="http://www.hnb.hr">www.hnb.hr</a>
Total inbound stock of FDI as % host GDP	2013	2.4%	2012		
	2012	1.0%			

**TABLE 3: Sources and Destination of FDI**

**Croatia, 2012**

<b>Direct Investment from/in Counterpart Economy Data</b>					
<b>From Top Five Sources/To Top Five Destinations (US Dollars, Millions)</b>					
<b>Inward Direct Investment</b>			<b>Outward Direct Investment</b>		
Total Inward	31,038	100%	Total Outward	4,429	100%
Austria	10,803	35%	Bosnia and Herzegovina	787	18%
Hungary	4,323	14%	Syrian Arab Republic	762	17%
Germany	3,510	11%	Slovenia	660	15%

Netherlands	2,916	9%	Serbia, Republic of	654	15%
Luxembourg	1,873	6%	Liberia	389	9%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org/>

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system influenced by legal heritage of Austria-Hungary; note - Croatian law was fully harmonized with the the European Community acquis as of the June 2010 completion of EU accession negotiations

### International organization participation:

Australia Group, BIS, BSEC (observer), CD, CE, CEI, EAPC, EBRD, EU, FAO, G-11, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, MINURSO, MINUSTAH, NAM (observer), NATO, NSG, OAS (observer), OIF (observer), OPCW, OSCE, PCA, SELEC, UN, UNCTAD, UNDOF, UNESCO, UNFICYP, UNHCR, UNIDO, UNIFIL, UNMIL, UNMOGIP, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO, ZC

## Section 6 - Tax

### Exchange control

For further information - <http://www.hnb.hr/eindex.htm>

### Treaty and non-treaty withholding tax rates

Croatia has entered into double taxation treaties with Albania, Armenia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iran, Ireland, Israel, Italia, Jordan, Korea, Kuwait, Latvia, Lithuania, Macedonia, Malaysia, Malta, Mauritius, Moldova, Montenegro, Netherlands, Norway, Poland, Qatar, Romania, Russia, San Marino, SAR, Serbia, Slovakia, Sweden, Swiss, Syria, Turkey, Ukraine and United Kingdom.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

## **DISCLAIMER**

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

## **RESTRICTION OF LIABILITY**

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

## **RESTRICTIONS ON USE**

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our [Contact Page](#) at KnowYourCountry.com