



PROVERITY

ADVISORY & RISK ANALYSIS

CROATIA RISK REPORT

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EXECUTIVE SUMMARY

A country of 4.5 million in Central Europe, Croatia emerged from the war that led to the dissolution of Yugoslavia with a commitment to market reform and democratic governance. Its political scene is largely stable and has become less autocratic following the death of strongman Franjo Tudjman in 1999. All major political parties agree on the goal of obtaining membership in the European Union. The political direction of the country did not change following parliamentary elections in November 2007. Nationalist sentiment turning Croatia against EU membership is assessed as improbable.

Croatian GDP growth was 5.6% in 2007. The central bank has instituted successful policies of price and exchange-rate stability. The current account deficit is high at 8% of GDP. Croatia is a net importer and conducts 85% of its trade within Europe. Lagging economic performance in European countries could have a negative impact on Croatia's economic growth prospects.

Croatia's ability to attract foreign direct investment has been uneven. While foreign companies enjoy the same rights as national firms, and movement of capital is not restricted, bureaucratic obstacles and corruption impede investment. At the same time, the government has enacted policies such as tax-advantaged development zones and worker training subsidies to promote FDI. Croatia has high-quality technical professionals and better developed infrastructure than some of its neighbors. Costs like commercial real estate rental are also relatively low.



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