

# Croatia

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RISK & COMPLIANCE REPORT

DATE: March 2018

## Executive Summary - Croatia

<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.

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## 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 2017 (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 women and children subjected to sex trafficking and men, women, and children subjected to forced labor. Croatian women and girls, some of whom respond to false job offers online, are exploited in sex trafficking within the country and elsewhere in Europe. Traffickers target Croatian girls in state institutions and subject them to sex trafficking. Economically marginalized Romani children from Croatia are at particular risk of forced begging in Croatia and throughout Europe. In previous years, Croatian, Bosnian, and Romanian women and men have been subjected to forced labor in the Croatian agricultural sector. Women and girls from the Balkans and Central Europe are subjected to sex trafficking in Croatia. Unaccompanied foreign children, who arrived in Croatia as part of the large migration flow through the Balkan Peninsula, may be vulnerable to trafficking.

The Government of Croatia does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government increased its funding for two NGO-run shelters and identified a similar number of trafficking victims compared with 2014; however, in contrast to previous reporting periods, no victims of forced labor were identified. While the government maintained its overall law enforcement efforts, these remained inadequate, with light sentencing and a large proportion of acquittals upon appeal. The government organized multiple campaigns to raise awareness of trafficking among vulnerable populations, including youth.

### **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

## Bribery & Corruption

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

Corruption, political patronage and inefficient bureaucracy are among the challenges companies may face when doing business in Croatia. Corruption and bribery are especially prevalent in politics, public procurement, and the building and construction sector. In the course of Croatia's EU accession in 2013, the past few years have witnessed a major anti-corruption crackdown with several high-profile arrests. The primary legal framework regulating corruption and bribery is contained in the Criminal Code and the Corporate Criminal Liability Act, which make individuals and companies criminally liable for corrupt practices including active and passive bribery, money laundering and abuse of functions. Facilitation payments are prohibited, and gifts may be considered illegal depending on their value or intent. Companies report that gifts in the form of drinks or food are common bribes and occasionally help to get things done. **Information provided by GAN Integrity.**

### 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 13.4%, Slovenia 12.5%, Germany 11.4%, Bosnia and Herzegovina 9.9%, Austria 6.6%, Serbia 4.9% (2015)

#### **Imports - commodities:**

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

#### **Imports - partners:**

Germany 15.5%, Italy 13.1%, Slovenia 10.7%, Austria 9.2%, Hungary 7.8% (2015)

## 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

Despite continuing challenges, Croatia welcomes foreign investment. The government is willing to meet at senior levels with interested investors and to assist in resolving problems. Strengths in the Croatian economy include low inflation, a stable exchange rate, developed infrastructure, and membership in the European Union (EU). Historically, the most promising sectors for investment in Croatia have been tourism, telecommunications, pharmaceuticals, and banking.

Following a decade of growth from the end of the war in 1995, investment activity in Croatia has slowed substantially since 2008 and has remained under historic levels despite the economy's emergence from recession at the end of 2015. The banking system weathered the global financial crisis well, but has been saddled recently with financial costs related to the government-mandated conversion of Swiss Franc loans into euros. Croatia continues to maintain a large bureaucracy, significant state-owned sector with underperforming state enterprises, low regulatory transparency, and an inefficient judicial system that contributes to poor economic performance and low levels of foreign investment. Croatia became a member of the EU in 2013; this has enhanced stability and should eventually provide new opportunities for trade and investment, but Croatia has yet to access a substantial amount of the available EU funds, so not all direct economic benefits of EU entry have been felt. Like many newer EU member states, Croatia has struggled to put in place the necessary mechanisms and projects to efficiently absorb EU funds that would spur economic development.

The current government of Croatia came into power in January 2016 and has pledged to take legislative and administrative steps to reduce barriers to investment, streamline bureaucracy and public administration, and to program EU funds more efficiently. The new Prime Minister, who previously spent his entire career in the private sector, has signaled a commitment to wide-ranging structural reforms in line with recommendations from the EU and global financial institutions. The Finance Minister is also a business professional and well-regarded former Finance Ministry official. In addition to cutting the 2016 budget deficit to below EU-recommended levels, the Prime Minister has put forward an agenda including privatization of state-owned assets, reducing non-tax "para-fiscal" fees or levies for corporations, improving Croatia's credit rating, reforming government procurement procedures, reaching out to potential international investors, and spurring entrepreneurship through additional financing for small and medium-sized enterprises.

Promised reforms to date, however, have been halting in the face of opposition from vested interests and key groups. Investors continue to complain about high "para-fiscal" fees, rigid labor laws, slow and complex permitting procedures, and a slow, sometimes unpredictable legal system. The government's effectiveness in addressing these issues will play a key part assessing its ability to improve the investment climate in the coming years.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	50 of 168	<a href="http://www.transparency.org/cpi2015#results-table">http://www.transparency.org/cpi2015#results-table</a>
World Bank's Doing Business Report "Ease of Doing Business"	2015	40 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
Global Innovation Index	2015	41 of 143	<a href="http://globalinnovationindex.org/content/page/data-analysis">globalinnovationindex.org/content/page/data-analysis</a>
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$28.3 million	Host government, Croatian National Bank <a href="http://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/inozemna-izravna-ulaganja">http://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/inozemna-izravna-ulaganja</a>
World Bank GNI per capita	2014	\$12.980	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

\*BEA information is not available, Croatian National Bank data is used

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

### Attitude toward Foreign Direct Investment

Croatia is open to foreign investment; the Croatian government continues to prioritize attracting foreign investors. All investors, both foreign and domestic, are guaranteed equal treatment by law. There are no laws or practices that discriminate against U.S. investors, however, bureaucratic and political barriers remain. One of the greatest barriers is 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 under 600,000 pending cases. Because of this large overhang, 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. Corporate income tax legislation and a Strategic Investment Act, which came into force during the last government (2011-2015), were passed with the intention to help investors streamline large projects.

### Other Investment Policy Reviews

The World Bank Group published a "Doing Business" Economic Profile of Croatia in 2016.

### Laws/Regulations on Foreign Direct Investment

There are no specific laws aimed at foreign investment. Both foreign and domestic market participants in Croatia are protected under the same legislation. 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.

### *Business Registration*

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.

The Agency for Investments and Competitiveness ([www.aik-invest.hr/en](http://www.aik-invest.hr/en)) is available to all interested investors for assistance with foreign investment.

According to the Croatian Small Business development promotion act, "Micro businesses" are physical and legal entities that annually on average employ less than 10 employees and achieve total annual revenue equivalent up to \$2.3 million. Small business are defined as employing less than 50 employees and achieve total annual revenue, at the most, of \$11.4 million. Medium business are defined as employing between 50 and 249 employees and achieving revenues between \$11.4 million and to \$57 million.

### *Industrial Promotion*

Croatia's 2014-2020 Industrial Strategy of the Republic of Croatia identifies key industrial activities considered to have the greatest capacity of growth, development and employment. The sectors identified include production of basic pharmaceutical products and preparations; manufacture of computers and electronic and optical products; manufacture of fabricated metal products; computer programming, consultancy and related activities (ICT); manufacture of electric equipment and manufacture of machinery and appliances.

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.

The four key areas of activity defined by the Industrial Strategy are to create a stable investment environment, to promote strategic cooperation of industry and the educational system, public administration restructuring, and capital market development. Each of these priority areas has a defined set of concrete measures to achieve the set objectives.

The Strategy also defines as priority the growth of industrial production volume at an average annual rate of 2.85%; 85,619 newly employed by the end of 2020, of which at least 30% are highly educated; 68.9% labor productivity growth between 2014-2020, and 30% export increase in the same period by, to include focus on products with high added value.

Relevant contact information can be found at <http://www.mingo.hr/page/kategorija/industrijska-strategija-republike-hrvatske-2014-2020>.

Limits on Foreign Control and Right to Private Ownership and Establishment



The Croatian government places restrictions on foreign ownership or control of transportation services for inland waterways, maritime transport, rail transport, air ground-handling services, freight-forwarding, publishing, educational, and ski school services. Otherwise there is no sector-specific legislation that discriminates against market access, apart from certain typical professional (architect, auditor, engineer, lawyer, veterinarian) requirements. Over 90 % of the banking sector is foreign-owned.

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 (USD 35,000) and the nominal value per share cannot be less than HRK 10 (USD 1.75). The minimum initial capital for establishment of a limited liability company is HRK 20,000 (USD 3,500), while individual representation per investor cannot be less than HRK 200 (USD 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.

#### Privatization Program

The country continues to pursue privatizations through the Office for State Asset Management (DUUDI). There are no restrictions against foreigners participating in privatization programs. The banking sector, telecommunications, and Croatia's largest pharmaceutical company were purchased by foreign investors upon privatization. The bidding process is public and terms are clearly defined in tender documentation, however, problems with bureaucracy and timely judicial remedies can significantly slow progress for projects. There is no privatization timeline, however the government does view privatization as a means to reduce budget deficit and increase output, and is working to speed up privatization processes.

Performance of Croatian SOEs is uneven and the International Monetary Fund (IMF) noted in May 2015 that several large problem cases persist, including the state railway and highway companies, as well as Croatia's largest fertilizer manufacturer. In fact, the GoC, according to the publicly available register of state-owned assets, shows state participation in companies ranging from food producers and cured meat producers to the textile companies. All of these companies are 100% state-owned and range in size from 30 to well over 5000 employees. Unlike many other former socialist states in Central Eastern Europe which undertook massive privatizations, Croatia, due mainly to its 1991 – 1995 war for independence, never sought deep and wide-ranging reforms to the state-owned sector, but instead nationalized 2,171 previously 'socially-owned' Yugoslav companies. The latest assessment has the Republic of Croatia owning shares in 413 companies. The estimated value of the state's holdings, per the latest assessment in 2014 in these companies is HRK 144 billion (USD 26 billion). 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)). A list of State-owned property and assets can be found at <https://imovina.gov.hr/>. Information regarding the Office for State Asset Management can be found at [www.duudi.hr](http://www.duudi.hr).

All tenders are published internationally and there are no restrictions on foreign investor participation in privatization. The bidding process is public.

#### Screening of FDI

There are no reviewing or screening mechanisms to exclude 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," providing sector-specific and general reports.

### Competition Law

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 punishing 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). The website includes a "call to the public" inviting citizens to provide information on competition-related concerns.

## 2. Conversion and Transfer Policies

### Foreign Exchange

The Croatian Constitution guarantees the free transfer, conversion, and repatriation of profits and invested capital for foreign investments. Article VI of the U.S.-Croatia Bilateral Investment Treaty (BIT) additionally establishes protection for American investors from government exchange controls. 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. Transfers of currency are additionally protected by Article VII of the International Monetary Fund (IMF) Articles of Agreement (<http://www.imf.org/External/Pubs/FT/AA/index.htm#art7>)

The exchange rate is determined by the Croatian National Bank. The National Bank intervenes in the forex market to ensure the Euro-Croatian kuna rate remains stable as an explicit and longstanding policy. However, the exchange rate of the Croatian kuna, while floating freely, is more tightly linked to the euro than the U.S. dollar. The risk of currency devaluation or significant depreciation is low.

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) in a manner that includes use of retained earnings for new investments/acquisitions, but excludes financial investments made by institutional investors such as insurance, pension and investment funds. The law also allows Croatian entities and individuals to invest abroad.

### *Remittance Policies*

There are not limitations, either temporal or by volume, on remittances. The government does not engage in currency manipulation. The U.S. Embassy in Zagreb has not received any complaints from American companies regarding transfers and remittances.

The Government of Croatia has sufficient mechanisms in place and tools at its disposal to effectively combat money laundering and financial crimes; incidences of these activities remain rare. The Anti-Money Laundering Department, Croatia's financial intelligence unit

(FIU) oversees all non-bank financial institutions and designated non-financial businesses and professions.

Croatia is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body. Its most recent mutual evaluation can be found at:  
[http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Croatia\\_en.asp](http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Croatia_en.asp)

Croatia is also a member of the Egmont group and exchanges information with other member countries on a regular basis. Records of exchange (although in Croatian) can be found in the Anti-Money Laundering Departments annual report at:

<http://www.mfin.hr/adminmax/docs/GODISNJE%20IZVJESCE%20O%20RADU%20UREDA%20ZA%202014.pdf>

### **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 U.S.-Croatia 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 on Expropriation and Compensation gives the government broad authority to expropriate real property under various economic and security-related circumstances, including eminent domain and strategic investments. 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 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. Parties not pleased with the outcome of the Ministry decision can take administrative action against the decision, but no appeal to the decision is allowed.

### **4. Dispute Settlement**

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The legal system in Croatia is Civil and provides for ownership of property and enforcement of legal contracts.

The Commercial Company Act defines the forms of legal organization for domestic and foreign investors. It covers general commercial partnerships, limited partnerships, joint stock companies, limited liability companies and economic interest grouping.

The Croatian constitution provides for an independent judiciary. The judicial system consists of courts of general and specialized jurisdictions. Core structures are the Supreme Court, County Courts, Municipal Courts, and Magistrate/Petty Crimes Courts. Specialized courts include the Administrative Court and High 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.

Civil litigation regarding intellectual property is handled by commercial courts, while criminal litigation is handled by municipal and county courts. In regard to misdemeanor violations of intellectual property right laws, misdemeanor courts are responsible. Administrative courts handle administrative disputes regarding intellectual property rights.

Alternative dispute resolution is 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. 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 World Bank Ease of Doing Business 2016 report commended Croatia for making enforcing contracts easier by introducing an electronic system to handle public sales of movable assets and by streamlining the enforcement process as a whole.

## Bankruptcy

Croatia's 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 Ease of Doing Business 2016 rating for Croatia in the category of resolving insolvency was 59.

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.

#### Investment Disputes

There have been instances of investment disputes involving U.S. companies in Croatia. The GOC has generally been unresponsive to requests from U.S. companies to assist in resolution of long-standing disputes. 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 through alternatives to judicial remedy. The Embassy encourages out-of-court dispute resolution when possible.

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/permanent-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. Additionally, the Chamber has a Mediation Center, operating since 2002; see [en.hgk.hr/about/mediation-centre](http://en.hgk.hr/about/mediation-centre).

#### International Arbitration

Croatia's 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 U.S.-Croatia 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 and currently has two open arbitration cases with a private investor in the national oil company.

#### *ICSID Convention and New York Convention*

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 Washington Convention that established the International Center for the Settlement of Investment Disputes (ICSID).

There is not specific legislation that refers to the ICSID, however 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,” and would be applied after an ICSID ruling.

#### Duration of Dispute Resolution – Local Courts

According to the 2015 edition of the EU Justice Scoreboard, resolution of non-criminal litigation lasts approximately 180 days, which places Croatia somewhere in the middle of all EU countries ([http://ec.europa.eu/justice/effective-justice/files/justice\\_scoreboard\\_2015\\_en.pdf](http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2015_en.pdf)). Investors are often encouraged to seek arbitration over litigation due to duration of domestic procedures. (Note: At the time of writing the 2016 Investment Climate Statement, the EU had not yet released an updated Justice Scoreboard for 2016.)

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### International Arbitration

Croatia's 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 U.S.-Croatia 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 and currently has two open arbitration cases with a private investor in the national oil company.

### *ICSID Convention and New York Convention*

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 Washington Convention that established the International Center for the Settlement of Investment Disputes (ICSID).

There is not specific legislation that refers to the ICSID, however 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," and would be applied after an ICSID ruling.

### Duration of Dispute Resolution – Local Courts

According to the 2015 edition of the EU Justice Scoreboard, resolution of non-criminal litigation lasts approximately 180 days, which places Croatia somewhere in the middle of all EU countries ([http://ec.europa.eu/justice/effective-justice/files/justice\\_scoreboard\\_2015\\_en.pdf](http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2015_en.pdf)). Investors are often encouraged to seek arbitration over litigation due to duration of domestic procedures. (Note: At the time of



writing the 2016 Investment Climate Statement, the EU had not yet released an updated Justice Scoreboard for 2016.)

## 5. Performance Requirements and Investment Incentives

### WTO/TRIMS

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.

### Investment Incentives

The Investment Promotion Act (IPA), amended in 2015, offers incentives to investment projects in manufacturing and processing activities, development and innovation activities, business support activities and high added value services.

Specifically, the Act provides the following incentive measures: tax incentives for microenterprises, tax advantages for small, medium and large enterprises, incentives for eligible costs of new jobs linked to the investment project, incentives for eligible costs of training linked to the investment project, additional aid for development and innovation activities, business support activities and high value-added services, incentive measures for capital costs of the investment project, incentive measures for labor intensive investment projects and investment incentives for newly established enterprises in the minimum amount equivalent to \$ 14.5 million provided that a minimum of 10 new university degree level jobs related to the investment project are created.

Incentive measures can be used by entrepreneurs - natural persons (craftsman) subject to income tax, or a company registered in the Republic of Croatia investing the minimum amount of \$55,800 in fixed assets in addition to creating at least 3 new jobs for microenterprises (companies with up to 10 employees) and \$167,400 in addition to creating at least 5 new jobs for small, medium and large enterprises.

Of particular interest are substantial available reductions in the tax rate on profits depending on the size of the investment and the number of new jobs created. A 50% reduction applies for a maximum of ten years for companies that invest up to \$1.12 million (\$56 thousand for microenterprises) and create at least five new jobs. This reduction increases to 75 percent for companies investing \$1.12 - \$3.35 million and creating at least 10 new jobs, and to 100 percent for companies that invest over \$3.35 million and create at least 15 new jobs.

Incentives for new job creation range from to \$3,350 to \$10,100, depending on the investment. Nonreturnable financial support of 10% of expenses can be used to create new jobs, with support up to \$3,350 per new position opening in counties with unemployment levels up to 10%. This support increases to 20% for opening new positions in counties with unemployment levels from 10 to 20%, with support up to \$6,700. Non-returnable financial support of 30% is approved for expenses intended to create new positions, with support of \$10,100 per new position opening in counties with unemployment levels above 20%.

There are also incentives for covering employee education and training connected to an investment project which can be used to cover up to 50% of the of education and training costs, or up to 60% if training is given to workers with disabilities or the aid is granted to medium sized enterprise or 70% if the aid is granted to small and microenterprises). All further information regarding these types of incentive can be found and calculated at <http://www.aik-invest.hr/en/investment-guide/incentives-calculator/>.

Additional incentives are also available for development and innovation activities that affect the development of new and significantly improving existing products, production series, manufacturing processes and / or production technologies; business support activities such as customer support, outsourced business activities centers or logistics and distribution centers which relate to investment projects in production and processing activities as well as programming and ICT centers; and high added value activities such as hospitality and tourism accommodation facilities categorized as four or five stars, heritage hotels and other types of accommodation created by renovation of cultural and historical structures, supporting services of the aforementioned types of accommodations and health tourism, congress tourism, nautical tourism, cultural tourism, entertainment and/or recreation centers and parks, ecological tourism projects and other innovative projects in tourism with high added value as well as management, consulting and education services, creative services and industrial engineering services.

Incentives for capital costs of investment projects are approved for investments over \$5.6 million, generating 50 new positions within 3 years of the start of the investment. Incentives of 10% of the cost of new factory construction, production facility construction or purchase of new equipment (max amount up to \$0.6 million) in counties where unemployment rate is from 10-20% are also available. This incentive increases to 20% of investment cost (max amount up to \$1.1 million) in counties where the unemployment rate is above 20%, with the condition that at least 40 % of the investment is machines/equipment that at least 50% of those machines/ equipment are of high technology.

Incentives for labor-intensive investment projects apply to labor-intensive investments creating new jobs within three years from the start of the investment. An additional incentive in the amount of 25% of the amount of incentive granted for new jobs is approved for investment projects creating 100 and more positions. The amount of the incentive increases to 50% for creating 300 and more jobs and the incentive in the amount of 100% refers to creating 500 and more jobs.

There are also investment incentives for investment in newly established enterprises in the minimum amount of \$14.5 million, provided that a minimum of 10 new university degree level positions related to the investment project are created.

All further information regarding the types of incentive offered by the Agency for Investments and Competitiveness can be found and calculated at <http://www.aik-invest.hr/en/investment-guide/incentives-calculator/>

The Act on Strategic Investment Projects of the Republic of Croatia went into effect in November 2013. This Act facilitates and accelerates procedures for projects deemed to be of strategic interest for Croatia based on 12 conditions listed in the Act. Strategic projects can include private, public-private or public investments in economy, energy, tourism, transport, infrastructure, electronic communication, postal services, environmental protection, public utilities, agriculture, forestry, water management, fishery, health care,

culture, science, defense, judiciary, technology and education. Private investment projects refer to the investments in Production and Processing Activities, Development and Innovation Activities, Business Support Activities, Activities of High Added Value Services, Activities in Energy Sector, Infrastructure and Activities related to Agriculture and Fisheries. 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 \$22 million. All investments over this amount may be considered as strategic, and will be entitled to accelerated permitting and registration procedures. Investments may also be treated as strategic if they are valued at \$3 million or more, and are implemented in the assisted areas, or in the units of local (regional) self-government of the 1st group or in the units of local self-government of the 1st and 2nd groups, in accordance with the act governing the regional development of the Republic of Croatia or if they are implemented on the islands or are in the agriculture and fisheries sector. If the project has the possibility to be co-financed from EU funds and programs, the minimum amount for investment can be \$11 million.

A guide and application materials for private investors interested in applying for status under the Act on Strategic Investment Projects of the Republic of Croatia can be found at <http://www.aik-invest.hr/en/strategic-investment-projects/>. A provisional translation of the Act is available at <http://www.mingo.hr/public/documents/ZAKON%20O%20STRATE%C3%85%C2%A0KIM%20INV%20ESTICIJSKIM%20PROJEKTIMA%20RH-ENG.docx>, while the amendments are available at: [http://www.mingo.hr/public/investicije/ACT\\_ON\\_STRATEGIC\\_INVESTMENT\\_PROJECTS\\_29-1-15.doc](http://www.mingo.hr/public/investicije/ACT_ON_STRATEGIC_INVESTMENT_PROJECTS_29-1-15.doc)

The Construction Act allows investors to secure permits through an e-licensing system, which is a novelty in an otherwise cumbersome permit acquisition procedure. 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 <https://dozvola.mgipu.hr/> Interested investors looking for an available land for a greenfield investment may find useful Business-zones database operated by the Agency for Investments and Competitiveness at <http://www.aik-invest.hr/en/zone/>.

### *Research and Development*

All foreign and domestic companies can participate in government financed or subsidized research and development programs. Foreign and domestic companies are viewed as equals in legislation that refers to participation on the market, in any form.

### *Performance Requirements*

Croatian law does not impose performance requirements on foreign or domestic investors. Article VII of the U.S.- Croatia 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 [zagreb.usembassy.gov/service/other/entry.html](http://zagreb.usembassy.gov/service/other/entry.html).

#### Data Storage

There are no "forced localization" policies for investors in terms of goods and technology. Foreign IT providers are not required to turn over source code or give access to surveillance. There are no requirements for investors to maintain or store data within the territory of Croatia.

### **6. Protection of Property Rights**

#### Real Property

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, with the caveat that 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. However, buyers of this type of land should be aware of potential unresolved legacy 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 claims by 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.

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.

The World Bank Ease of Doing Business rating for Croatia in 2016 is 60 out 189.

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 ([zagreb.usembassy.gov/service/special-consular-services.html](http://zagreb.usembassy.gov/service/special-consular-services.html)).

### Intellectual Property Rights

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 (<https://www.dziv.hr/en/ip-legislation/national-legislation/>).

Although some areas of IPR protection remain problematic, Croatia is currently not on the U.S. Special 301 Watch List nor is it listed in the notorious market report. 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.

Croatian law enforcement officials keep public records of seized counterfeit goods. According to the latest available report from the Customs Office , in 2015, 269,148 counterfeit goods were seized. Croatian customs officials and Ministry of Interior work together to locate and seize such goods.

As a WTO member, Croatia is a party to the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS). 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).

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/>.

#### *Resources for Rights Holders*

The person at U.S. Embassy Zagreb currently responsible for handling IPR related issues is Diana Matijas Vengar (+385 1) 661-2200. Contact information for the American Chamber of Commerce in Croatia can be found at [www.amcham.hr](http://www.amcham.hr).

See the following website for a list of lawyers: <http://www.hok-cba.hr/en/phonebook>

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

All investors, foreign or domestic, are guaranteed equal treatment under all forms of market related legislation.

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 law requires the publication of all procurement procedures valued at more than HRK 200,000 (USD 34,700) for goods and services and for construction work valued at more than 500,000 HRK (USD 87,000). Currently, complaints from both domestic and foreign investors regarding procurement are that the system does not ensure equitable treatment and efficient processing of all tender bids and that bids are often rejected for purely procedural reasons. Recently, the Ministry of Economy provides information regarding procurement at <http://javnanabava.hr/default.aspx?id=3987> , which includes contact information for seeking advice and information on public procurement procedures. A website detailing all published public procurement transactions can be found at [nabava.vjetrenjaca.org](http://nabava.vjetrenjaca.org), created to draw attention to the procurement procedure and possible controversies surrounding it.

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. There is

currently not an effective and transparent mechanism to address complaints from local businesses about regulatory and bureaucratic inefficiencies.

There are not informal regulatory processes managed by non-governmental organizations or private sector associations in Croatia.

The government introduced the binding tax opinion procedure in July 2015 which serves to eliminate last minute changes to tax legislation that could effect investment costs, for detailed information see <http://www.porezna-uprava.hr/bi/Stranice/Obvezuju%C4%87a-mi%C5%A1ljenja.aspx>

There are a number of so-called non-tax “para-fiscal” fees or levies, 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.

Croatia has been a member of UNCTAD since 1992.

## **8. Efficient Capital Markets and Portfolio Investment**

Croatia’s securities and financial markets are open equally to domestic and foreign investment. There are no policies that hinder the free flow of financial resources. Foreign residents may open non-resident accounts and may do business both domestically and abroad. Specifically, 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 European Union 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.

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 (USD 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.

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

#### Money and Banking System, Hostile Takeovers

The private sector, both domestic and foreign owned, enjoys open access to credit on market terms. The banking sector is now overwhelmingly privatized and consolidated, highly developed, and becoming more competitive. The country has a central bank system and all information regarding the Croatian National Bank can be found at <http://www.hnb.hr/> . More than 90 percent of total banking sector assets are foreign-owned. As of February 2016 there were 27 commercial banks and five savings banks, with assets totaling HRK 408 billion (USD 61.7 billion). The largest bank in Croatia is Zagrebacka Banka, with assets of HRK 111 billion (USD 16.8 billion), for a market share of 26.72 percent of total banking assets in Croatia. Second-largest is Privredna Banka Zagreb, with HRK 71 billion (USD 10.8 billion), or 17.11 percent of total banking assets. The third largest is the Erste Bank, with assets of HRK 63 billion (USD 9.5 billion), for a 15.19 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.

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.

#### **9. 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. It should be noted that companies the GOC deems to be of strategic importance will not be privatized. A list of all stakes in state owned companies can be found at <http://registar-iovina.gov.hr/>

The latest analysis of Croatian SOE's from 2013 showed that there are 831 companies in full state ownership and 589 in public private ownership which earned a total of \$ 30 billion but spent a total of \$28.9 billion. Investment in research and development by SOE's remains insignificant.



Many SOE's are currently struggling to survive the weak economy and are at a disadvantage in terms of restructuring, as constraining collective agreements make it difficult to downsize and rationalize company structure, which makes the companies less competitive than similar privately-owned companies. 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.

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.

#### OECD Guidelines on Corporate Governance of SOEs

Croatia is not an adherent to the OECD Guidelines, however, the EU, which is committed to the implementation and success of the OECD Guidelines, encourages both local and foreign companies to implement and follow the Guidelines within all EU countries.

The Croatian Government adopted a Strategy for the Management of State Assets in 2013, which includes a section dedicated to the governance of state-owned enterprises. The strategy provides medium-term objectives and guidelines for managing state owned assets and is aimed at ensuring long-term efficient and transparent management. The strategy includes OECD Guidelines as a basis for SOE corporate governance in Croatia. SOEs are subject to the same taxation policies as private sector competitors and are required to submit annual reports and to undergo independent audits.

The party that controls the Croatian government has direct influence over appointing both management and supervisory board members, who are responsible to reporting to ministers in the government. Analysts find that the state needs to further professionalize both management and supervisory boards in order to remove political influence from operations. Many economists agree that "professionalization" of SOEs would help stabilize the economy overall. There have not been reports of SOE involved disputes in which the SOE has had favorable treatment by a court.

#### Sovereign Wealth Funds

The Republic of Croatia does not own any sovereign wealth funds.

### **10. Responsible Business Conduct**

There is a general awareness of expectations or standards for responsible business conduct which 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, available from 2013, can be found at [www.hanfa.hr/EN/nav/111/giku---englsih.html](http://www.hanfa.hr/EN/nav/111/giku---englsih.html). There is no legislation that requires private companies to implement a code of ethics.

Croatia is not an adherent to the OECD Guidelines for Multinational Enterprises, however, the EU is committed to their implementation and success and encourages both local and foreign companies to implement and follow the Guidelines within all EU countries.

### **11. 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.

## **12. Corruption**

The business community and others note the existence of corruption in Croatia, especially the health sector, public procurement systems, and the construction sector. During years of intensive reform in preparation for its accession to the EU, Croatia invested considerable efforts in establishing a wide-ranging legal and institutional anti-corruption framework so as to foster a more comprehensive approach. It has put in place a number of anti-corruption strategies, the most recent adopted by the Croatian Parliament in 2015. Croatian prosecutors have secured corruption convictions against a number of high-level former GOC officials, including the former Prime Minister, former ministers, other high-ranking officials, and senior managers from state-owned companies.

The Law on Criminal Procedure grants prosecutors the leading authority to investigate crimes, including organized crime and corruption. Croatian prosecutors and police officers have proven to be proactive, and have developed a good track record of investigations into allegations of high-level corruption. While the high-level investigations signal the political will to prosecute high-level corruption, challenges still remain, notably when it comes to the effectiveness of the institutional framework and internal control mechanisms at both central and local levels, and the inter-institutional coordination, both horizontal and vertical, of anti-corruption policies.

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, all have a proactive role in combating and preventing corruption.

Croatia has adequate laws, regulations and penalties to effectively combat corruption. The Criminal Code and the Criminal Procedure Act define the tools available to the investigative authorities to fight corruption. The criminal code also provides for asset seizure and 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.

Croatian laws and provisions regarding corruption apply equally to domestic and foreign investors. 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.

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.

GONG, a non-partisan citizens' organization founded in 1997, which also acts a government watchdog, 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 GONG can be found at [gong.hr/hr/o-gong-u/kontakt](http://gong.hr/hr/o-gong-u/kontakt)

*UN Anticorruption Convention, OECD Convention on Combatting Bribery*

Croatia has signed and ratified the UN Anticorruption Convention.

Croatia has signed but not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions,

*Resources to Report Corruption*

Contact information for GONG, a civil society organization founded in 1997 to encourage citizens to actively participate in the political processes, can be found at <http://gong.hr/hr/o-gong-u/kontakt/>

### **13. 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; and 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/afd/bit/117402.htm](http://www.state.gov/e/eb/afd/bit/117402.htm) (under "Croatia").

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\*. (\* entered into, but not yet in force)

#### Bilateral Taxation Treaties

Croatia and the United States do not share a bilateral taxation treaty or a free trade agreement. Croatia has entered into bilateral tax treaties with the following countries: Albania, Armenia, Austria, Azerbaijan, Belgium, Belarus, BiH, Bulgaria, Montenegro, Czech Republic, Chile, Denmark, Estonia, Finland, France, Greece, Georgia, Indonesia, Iran, Ireland, Iceland, Italy, Israel, Jordan, South Africa, Canada, Qatar, China, Korea, Kuwait, Latvia, Hungary, Macedonia, Malaysia, Malta, Morocco, Mauritius, Moldova, Netherlands, Germany, Norway, Oman, Poland, Romania, Russia, San Marino, Syria, Slovak Republic, Slovenia, Serbia, Spain, Sweden, Switzerland, Turkey, Ukraine, and Great Britain.

#### **14. Foreign Trade Zones/Free Ports/Trade Facilitation**

There are currently 12 Free Zones operating in Croatia. Contact information for each of the Free Zones can be found at the following website under the Croatia category: [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/procedural\\_aspects/imports/free\\_zones/list\\_freezones.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/procedural_aspects/imports/free_zones/list_freezones.pdf). After Croatia entered the European Union in 2013, many of the Free Trade Zones that operated throughout Croatia were slowly substituted by Industrial/Business zones. Investment incentives are available in these zones. For more information regarding these zones go to <http://www.aik-invest.hr/en/zone/>

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

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	\$50.6 billion	N/A	N/A	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$28.3 million	N/A	N/A	
Host country's FDI in the United States (\$M USD, stock positions)	2015	\$1.1 million	N/A	N/A	N/A
Total inbound stock of FDI as % host GDP	2015	1.3 %	N/A	N/A	N/A

\*GDP at [www.dzs.hr](http://www.dzs.hr), FDI at [www.hnb.hr](http://www.hnb.hr) Q1-Q3 2015 Note: World Bank and U.S. Bureau of Economic Analysis do not have GDP or FDI data available for 2015 at time of publishing.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	33,599.99	100%	Total Outward	6,714.43	100%
The Netherlands	6,716.89	19.99%	The Netherlands	3,172.65	47.25%
Austria	6,637.79	19.75%	Bosnia Herzegovina	1,088.38	16.20%
Germany	2,860.05	8.51%	Serbia	786.62	11.71%
Hungary	2,432.50	7.23%	Slovenia	768.19	11.44%
Luxembourg	2,256.76	6.71%	Switzerland	214.61	3.19%

"0" reflects amounts rounded to +/- USD 500,000.

## 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, IFRCs, 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](#))

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Gary Youinou

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