

CROATIA

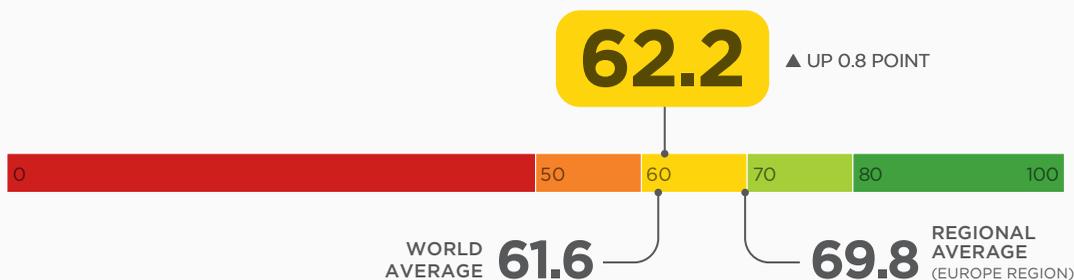
Croatia's economic freedom score is 62.2, making its economy the 84th freest in the 2020 *Index*. Its overall score has increased by 0.8 point due to an increase in the score for **government integrity**. Croatia is ranked 39th among 45 countries in the Europe region, and its overall score is well below the regional average and slightly above the world average.

This year, Croatia's economy moved a little higher in the moderately free category, where it has been for eight years during the past decade. That progress has been accompanied by solid growth of GDP.

To expand economic freedom in Croatia, the government needs to accelerate implementation of its structural reform package so that it can reduce government spending and improve the functioning of the judicial system and labor markets. An aging population, increasing outmigration, global trends of technological change, and the evolving nature of work combine to make that task even more difficult.

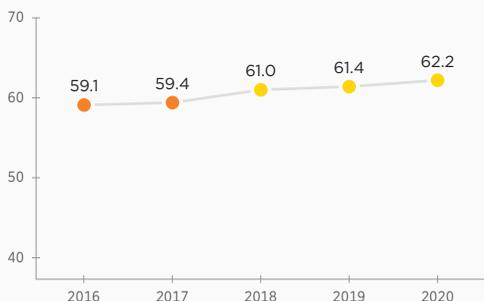


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +14.2

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
4.1 million

GDP (PPP):
\$107.4 billion
2.7% growth in 2018
5-year compound annual growth 2.3%
\$26,221 per capita

UNEMPLOYMENT:
8.9%

INFLATION (CPI):
1.5%

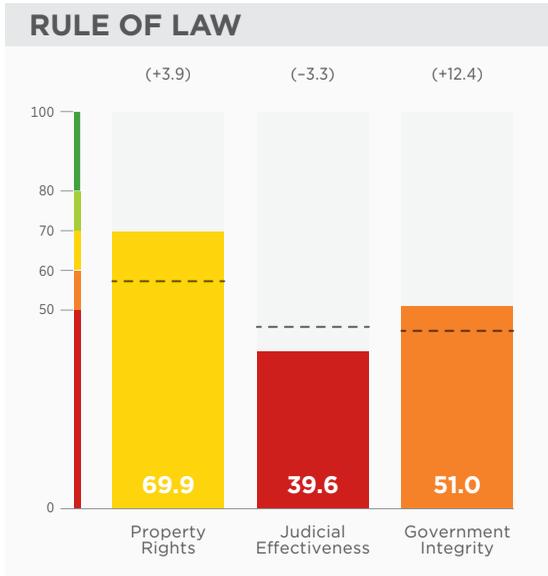
FDI INFLOW:
\$1.2 billion

PUBLIC DEBT:
73.9% of GDP

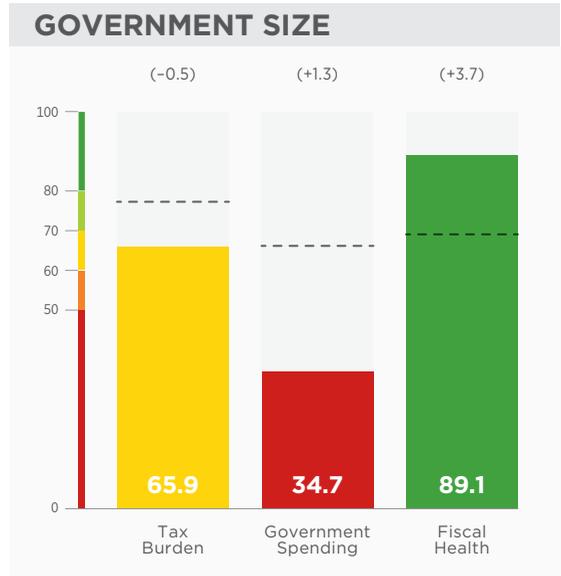
2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: Croatia's declaration of independence in 1991 contributed to the breakup of Yugoslavia along ethnic and religious lines. Croatia joined NATO in 2009 and the European Union in 2013. Prime Minister Andrej Plenkovic of the center-right HDZ party formed a coalition with the liberal Croatian People's Party and several smaller parties in 2017. Political uncertainty hinders economic progress. Shipbuilding and tourism are major industries. A 2018 agreement to avoid bankruptcy positioned a Russian bank as the principal shareholder in Croatia's largest private company, Fortenova Group. A weak export base, emigration, labor shortages, and the slow pace of privatization remain significant challenges. Construction of a liquid natural gas import terminal at Krk Island began in 2019.

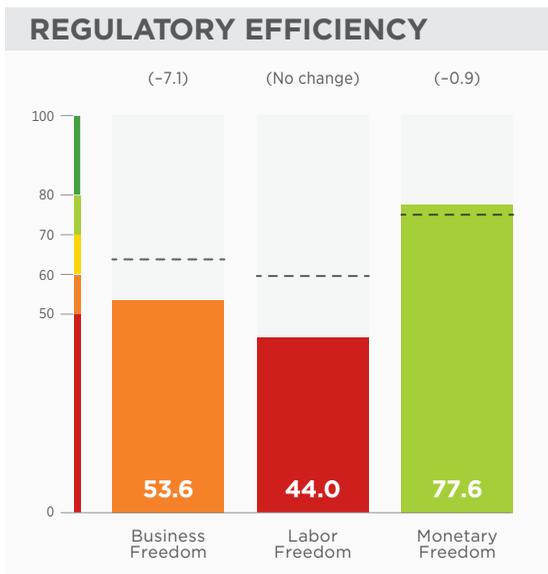
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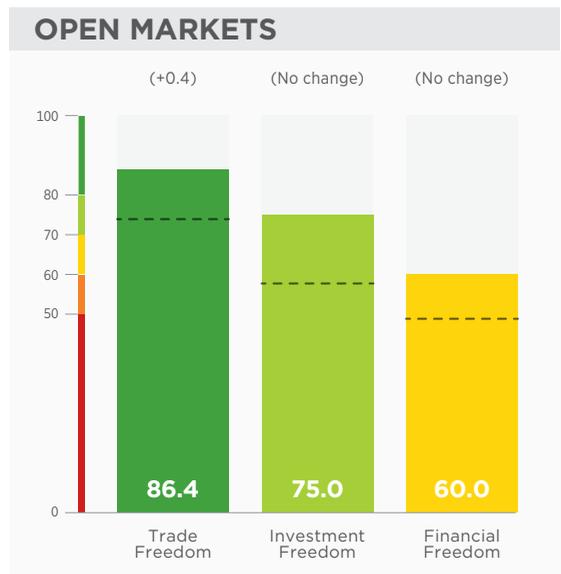
Private property rights are well established, but conflicting claims and legal ambiguity can cloud some title cases. Judicial independence is generally respected. Although reforms are underway, investors often face problems related to lengthy court procedures, legal certainty, contract enforcement, and judicial efficiency. Corruption in Croatia's public sector is perceived as widespread and getting worse according to Transparency International.



The top personal income tax rate is 40 percent, and the top corporate tax rate has been cut to 18 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 38.6 percent of total domestic income. Government spending has amounted to 46.6 percent of the country's output (GDP) over the past three years, and budget surpluses have averaged 0.2 percent of GDP. Public debt is equivalent to 73.9 percent of GDP.



The overall regulatory environment is burdensome and inefficient; the dispute resolution structure is weak, and reforms to improve the business climate are nascent. Migration and aging have led to labor shortages in certain professions. Structural unemployment is high. Progress has been slow on European Commission-mandated structural reforms to reduce subsidies and privatize state-owned enterprises.



The total value of exports and imports of goods and services equals 101.1 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. Croatia has an additional eight country-specific nontariff barriers. In general, government policies do not interfere significantly with investment. The banking sector is relatively well developed and open to competition.