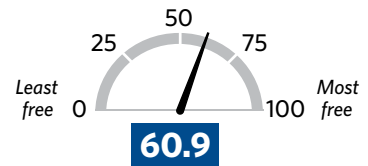


# CROATIA

## Economic Freedom Score



World Rank: **83** Regional Rank: **35**

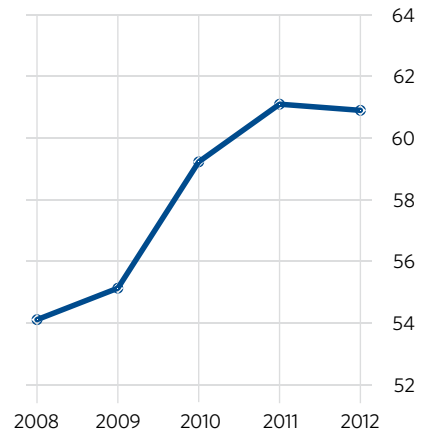
**C**roatia's economic freedom score is 60.9, making its economy the 83rd freest in the 2012 *Index*. Its overall score is 0.2 point lower than last year, with notable deterioration in the management of government spending and in business freedom. Croatia continues to fall behind other emerging economies in the region, and its overall score remains below the regional average.

Despite some significant improvements over the past five years, Croatia's scores on most components of economic freedom remain decidedly average. The lack of an independent and efficient legal framework undermines the foundations of economic freedom, and corruption remains a serious concern, hampering the rule of law and eroding long-term development potential. Inefficient and high public spending has resulted in growing fiscal burdens for the population.

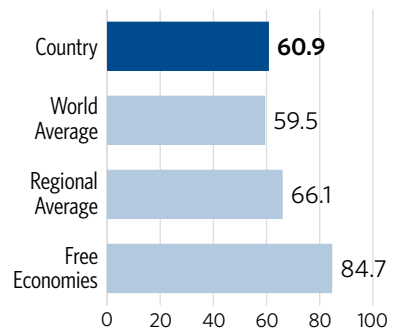
Competitive tax reforms and trade liberalization in earlier years have contributed to modernization of the economy and the emergence of a vibrant private sector. Revitalizing reform efforts will be critical to the country's economic future as its overall progress has been lagging behind that of other emerging markets. GDP growth remained negative in 2010, and the five-year average growth rate is only 1 percent.

**BACKGROUND:** As Communism collapsed throughout Eastern Europe and Yugoslavia began to unravel along ethnic and religious lines, Croatia declared its independence in 1991. Years of conflict between Croats and Serbs ended formally in 1995 with the Dayton Peace Accords. Croatia became a member of NATO in April 2009, completed accession negotiations with the European Union in June 2011, and is expected to become a member of the EU by July 2013. Ivo Sanader, former Prime Minister who was indicted on corruption charges, has been on trial in Zagreb's court. His successor, Jadranka Kosor, is credited with making the final push toward EU accession. Tourism, focused on the Adriatic Coast, developed significantly during the 2000s but was hurt by recession at the end of the decade.

## Freedom Trend



## Country Comparisons



## Quick Facts

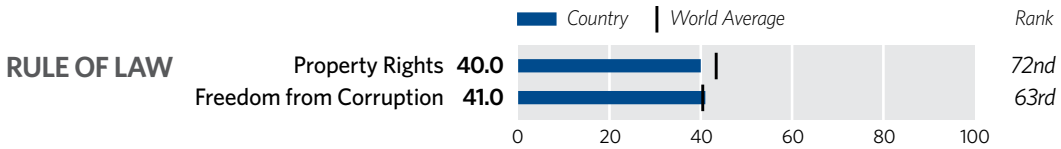
- Population:** 4.4 million
- GDP (PPP):** \$78.1 billion
- 1.4% growth in 2010
- 5-year compound annual growth 1.0%
- \$17,684 per capita
- Unemployment:** 17.6%
- Inflation (CPI):** 1.0%
- FDI Inflow:** \$582.6 million
- Public Debt:** 40.6% of GDP

### How Do We Measure Economic Freedom?

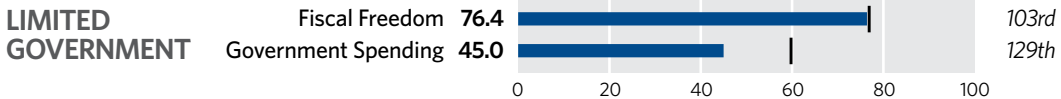
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
Data compiled as of September 2011.

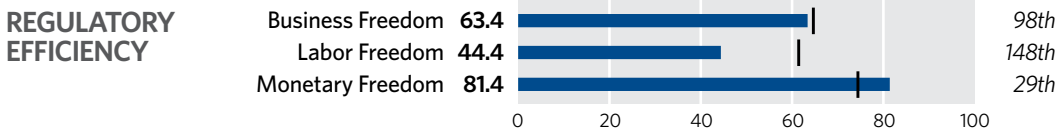
**THE TEN ECONOMIC FREEDOMS**



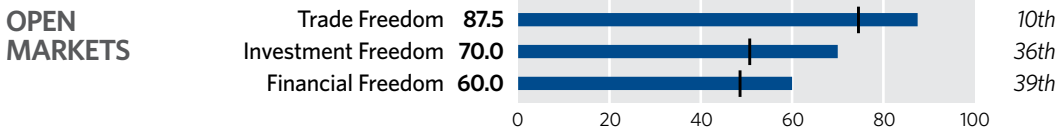
Judicial corruption undermines the rule of law. The court system is cumbersome and inefficient, and backlogs cause business disputes to drag on for years. The government is committed to judicial reform, but much remains to be done. Despite intellectual property rights legislation, piracy and counterfeiting continue. The number of high-profile corruption prosecutions has increased in recent years.



The top income tax rate is 40 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and excise taxes, with overall tax revenue equal to 19.1 percent of GDP. Government spending has increased to 42.8 percent of total domestic output. Public finance management has deteriorated significantly, and the deficit has widened to around 5 percent of GDP. Public debt has increased to over 40 percent of GDP.



Reform measures in recent years have streamlined the procedures to establish a business. Nonetheless, Croatia’s overall regulatory environment remains burdensome and inefficient. The cost and time required to obtain necessary licenses exceed world averages. The labor market remains rigid. Inflationary pressures linger, and the state influences price levels through a still-significant presence of state-owned enterprises.



The trade weighted tariff rate is quite low at 1.2 percent, but lingering non-tariff barriers increase the cost of trade. Despite structural and administrative reforms, inefficient bureaucracy and the unpredictable legal system continue to inhibit investment. The consolidated banking sector is relatively sound and efficient, with over 30 commercial banks in operation. Securities markets are open to foreign investors.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	-1.8	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	-5.3	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+2.9	Financial Freedom	0