

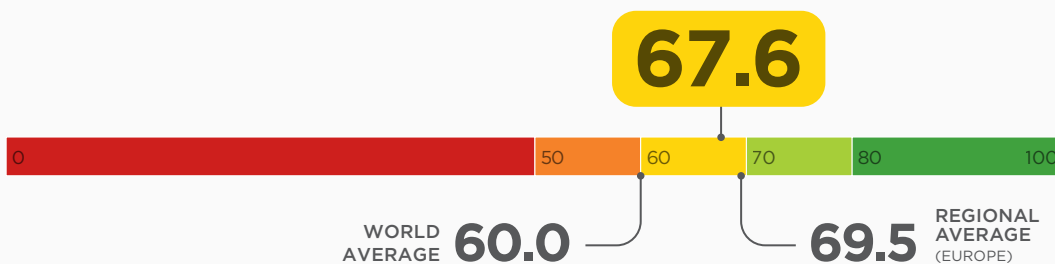
CROATIA

Croatia's economic freedom score is 67.6, making its economy the 45th freest in the 2022 *Index*. Croatia is ranked 27th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

Croatia's economic growth has rebounded from a severe downturn in 2020, and a five-year trend of expanding economic freedom has accelerated. Buoyed by score increases in rule of law and **fiscal health**, Croatia has recorded an 8.2-point overall gain of economic freedom since 2017 and has moved from the lower half of the "Moderately Free" category to the top half. Monetary freedom and **trade freedom** are strong, but **government integrity** is weak, and **government spending** levels are too high.

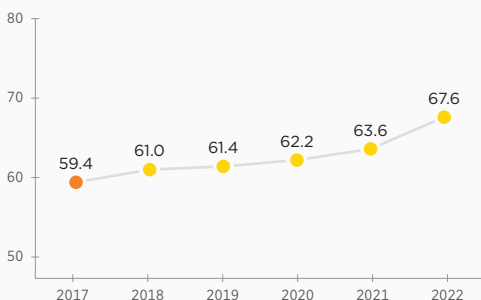
IMPACT OF COVID-19: As of December 1, 2021, 10,967 deaths had been attributed to the pandemic in Croatia, and the government's response to the crisis ranked 99th among the countries included in this *Index* in terms of its stringency. The economy contracted by 9.0 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +19.6

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
4.0 million

GDP (PPP):
\$112.1 billion
-9.0% growth in 2020
5-year compound annual growth 0.7%
\$27,717 per capita

UNEMPLOYMENT:
7.2%

INFLATION (CPI):
0.3%

FDI INFLOW:
\$1.3 billion

PUBLIC DEBT:
87.2% of GDP

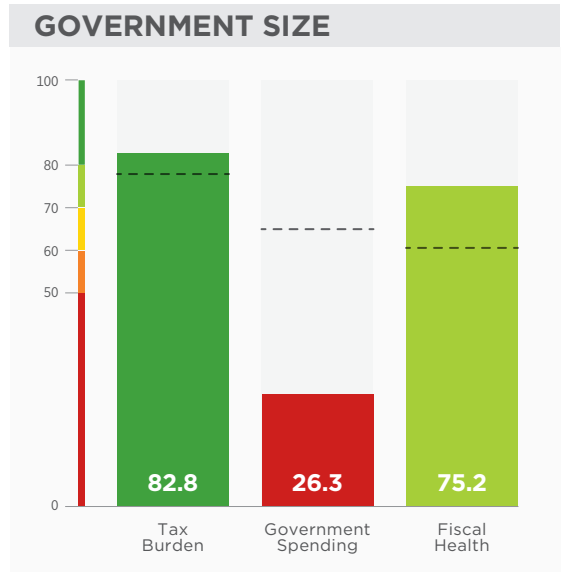
2020 data unless otherwise noted. Data compiled as of September 2021

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's center-right Croatian Democratic Union (HDZ) won the most seats in July 2020 elections and formed a parliamentary coalition with the liberal Croatian People's Party, the People's Party-Reformists, and representatives of national minorities. The government has enacted tax cuts, increases in the minimum wage, and enlarged health care and defense budgets. Shipbuilding and tourism are major industries. A weak export base, emigration, labor shortages, and the slow pace of privatization remain significant challenges. A new liquid natural gas import terminal at Krk Island became operational in January 2021.

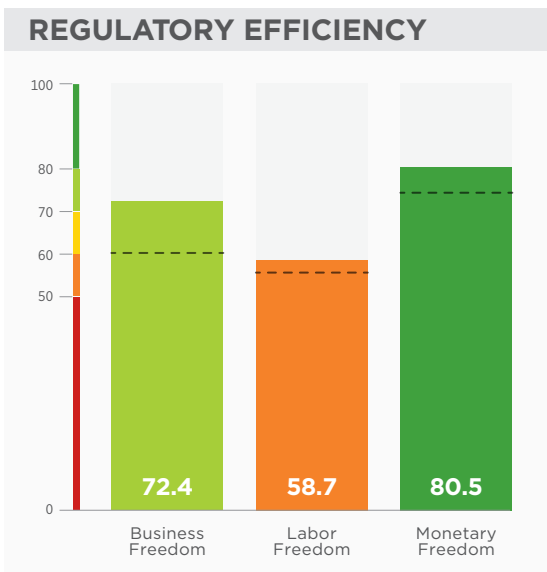
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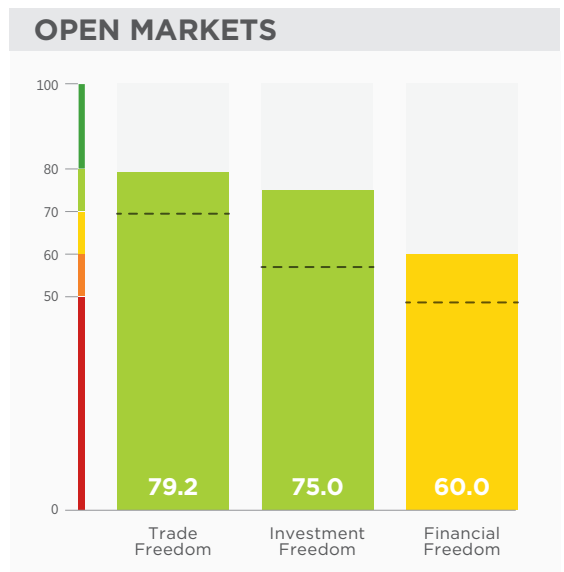
Private property rights are well established, but conflicting claims and legal ambiguity can cloud some title cases. Judicial independence is generally respected. Although reforms are underway, investors often face problems connected with lengthy court procedures, contract enforcement, and judicial efficiency. Corruption and bribery are especially prevalent in the judiciary, public procurement, and the building and construction sector.



The top individual income tax rate has been reduced to 30 percent, and the top corporate tax rate is 18 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 22.2 percent of total domestic income. Government spending has amounted to 49.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.5 percent of GDP. Public debt is equivalent to 87.2 percent of GDP.



The government has pledged to improve business registration and end burdensome business regulations and processes. In 2021, Croatia began to offer visas to so-called digital nomads: digital workers who can work in Croatia and not pay income taxes. The government continues to receive substantial agricultural subsidies from the EU.



As a member of the EU, Croatia has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. Croatia has an additional eight country-specific nontariff barriers. Openness to foreign investment is relatively well institutionalized. The banking sector has undergone restructuring, and the overall financial system remains stable.