



I. Economic overview

1.1. General economic indicators

Indicators	2002	2003	2004	2005
1. GDP, EUR bln	24.5	26.2	28.4	30.9
2. GDP per capita, EUR	5,507	5,906	6,397	6,972
3. GDP growth rate, %	5.6	5.3	3.8	4.3
4. Industrial production growth rate, %	5.4	4.1	3.7	5.1
5. Annual inflation rate, %	1.7	1.8	2.1	3.3
6. Annual unemployment rate (ILO), %	14.8	14.3	13.8	12.7
7. Current account balance, EUR mln	-2,097	-1,866	-1,458	-1,964
8. Average monthly gross salary, EUR	724	743	799	844
9. Interest rate on long-term loans to companies, %, end of year	6.37	5.76	5.55	5.18
10. Interest rate on short-term loans to companies, %, end of year	7.44	8.02	8.33	7.71
11. Interest rates on savings and time deposits, %, end of year	2.92	3.48	4.17	3.99
12. Gross external debt stock, EUR bln	15.1	19.8	22.8	25.5
13. Foreign exchange reserves, EUR mln	5,651	6,554	6,436	7,438
14. Exchange rate of HRK for 1 EUR, end of year	7.4423	7.6469	7.6712	7.3756

Source: Croatian Bureau of Statistics, Croatian National Bank, Ministry of Finance

1.2. Foreign trade

1.2.1. Foreign trade regime and major regulations

The imports and exports of goods are generally free, with the exception of qualitative restrictions or protective levels that may be introduced in accordance with the WTO rules and regulations (Trade Act).

1.2.2. Customs regime

Since 2000 the customs duties, ceilings and quotas have been abolished for almost all goods originating from Croatia and imported into the EU member states. Since 2001 all quantitative restrictions and customs duties for the import of textile products of Croatian origin into the EU member states have been abolished. A double-check into the EU member states for the most sensitive textile categories (certain cotton products, sweaters, trousers, shirts, coats, etc.) is conducted through export and import licences.

In compliance with the international agreements on the provision of state safety, protection of the environment and lives and health of people, animals and plants, control of import and export of works of art, and of certain precious metals, certain goods are exported and imported on the basis of a licence. Licences for such goods are issued by the relevant ministries.

The customs duties are payable only in case of import of goods, while no customs duties are foreseen for exports (Customs Tariff Act).

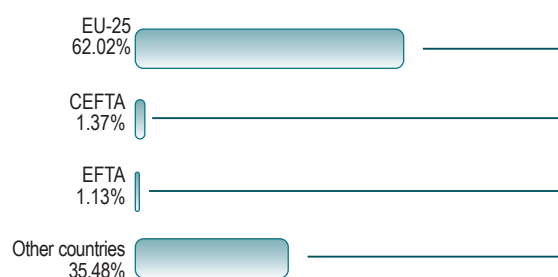
1.2.3. Exports and imports

Trade volume, EUR bln	2002	2003	2004	2005
Exports	5.2	5.5	6.5	7.1
Imports	11.3	12.5	13.4	14.9

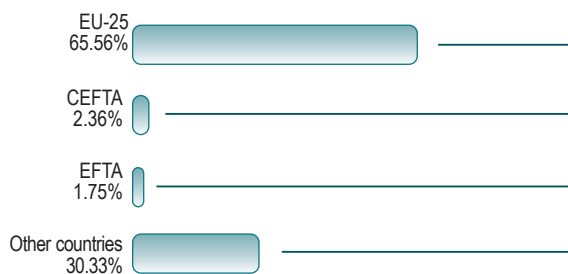
Source: Croatian Bureau of Statistics

1.2.4. Structure of foreign trade by regions

Exports by country groups (2005)



Source: Croatian Bureau of Statistics

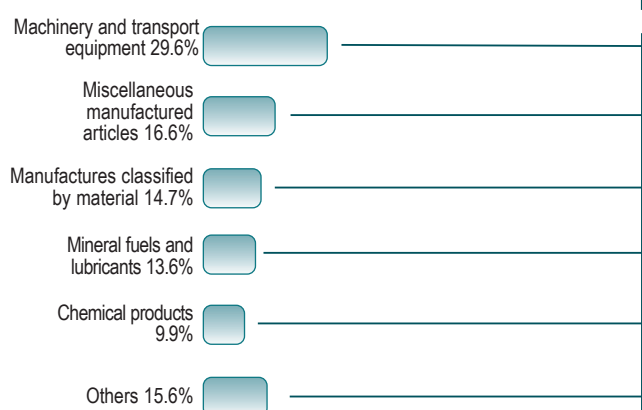
Imports by country groups (2005)

Source: Croatian Bureau of Statistics

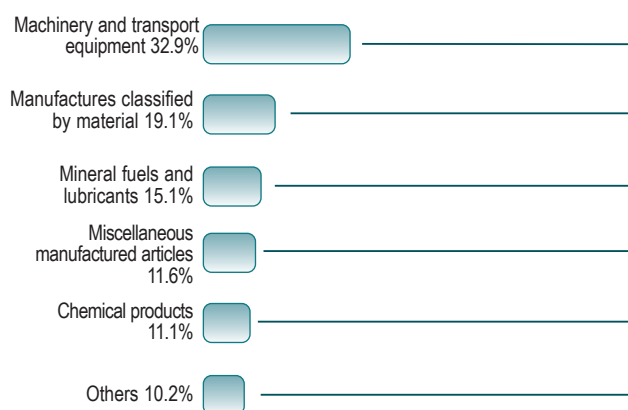
1.2.5. Major trade partners

Top 10 major export partners in 2005: Italy (21.3%), Bosnia and Herzegovina (14.4%), Germany (10.6%), Slovenia (8.1%), Austria (7.1%), Serbia and Montenegro (4.5%), USA (3.5%), Liberia (2.7%), France (2.2%) and Hungary (1.6%).

Top 10 major import partners in 2005: Italy (16.0%), Germany (14.8%), Russia (9.1%), Slovenia (6.8%), Austria (5.7%), China (4.7%), France (4.2%), Hungary (3.1%), Bosnia and Herzegovina (2.4%) and Czech Republic (2.3%).

1.2.6. Structure of foreign trade by commodities**Exports by commodities (2005)**

Source: Croatian Bureau of Statistics

Imports by commodities (2005)

Source: Croatian Bureau of Statistics

1.2.7. Free trade agreements

Croatia has enforced the following free trade agreements:

Country	Enforced
EU-15	January 2002
New 10 EU members	May 2004
CEFTA (Bulgaria and Romania)	March 2003
EFTA	
Switzerland and Liechtenstein	January 2002
Norway	April 2002
Iceland	August 2002
Macedonia	June 1997
Bosnia and Herzegovina	January 2001
Turkey	July 2003
Albania	June 2003
Serbia and Montenegro	July 2004
Moldova	October 2004

1.2.8. Free trade zones

Free trade zones are established in Zagreb, Osijek, Ploce, Rijeka, Split, Krapinsko Zagorska, Splitsko Dalmatinska, Kukuljanovo, Ribnik, Podunavska (Vukovar), Slavonski Brod, Varaždin and Pula; zones in Obrovac and Buje are not operational. The free zones are regulated by the Law on Free Zones (State Gazette 44/1996). Free zones can be established in the area of a seaport, river port, along international roads, and in other areas, in which there are conditions for their operation. They are established on the basis of a concession granted by the Croatian Government through a public tender or a public bid collection. One or more residents may found a free zone. Both domestic and foreign legal entities, as well as natural persons, may be users of a free zone if they carry out an economic activity in it on the basis of a concluded agreement with the

founder of the respective zone. All kind of activities may be carried out within the zone, with the exception of retail trade.

Companies in the free zones benefit from the following incentives:

- Users of a free zone pay profit tax in the amount of 50% of the prescribed rate
- A user of a free zone that invests over HRK 1 million (EUR135,000), after investing these funds is exempt from profit tax in the year of investment and the following 5 years. The exemption is up to the amount of the funds invested.

1.3. Foreign investment (2000-2005)

The total FDI stock over the period 1993 - Q1 2006 has reached EUR 11.6 billion.

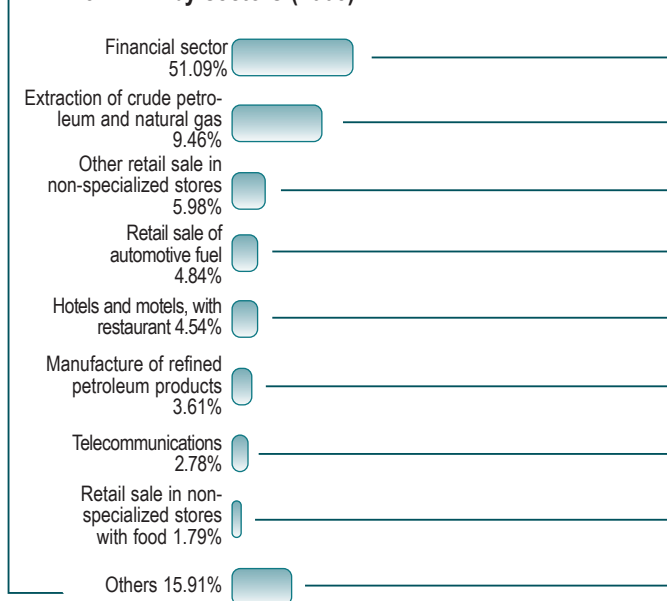
1.3.1. FDI by years and by type of investment

Annual FDI inflows, EUR mln

Year	Equity investments		Reinvested earnings	Other capital		Total
	Claims	Liabilities		Claims	Liabilities	
2000	0.0	755.1	86.8	0.0	302.9	1,144.8
2001	0.0	900.0	187.8	0.1	414.5	1,502.5
2002	0.0	712.1	161.5	-0.3	323.3	1,196.6
2003	0.0	763.2	587.8	-1.5	440.9	1,790.4
2004	-3.0	312.2	291.6	-17.4	402.7	986.1
2005	0.0	743.3	568.7	1.5	67.9	1,381.4
Q1 2006	0.0	87.5	52.6	-0.6	117.4	256.9
1993 - Q1 2006	-3.0	7,054.6	2,080.0	-38.7	2,528.4	11,621.3

Source: Croatian National Bank

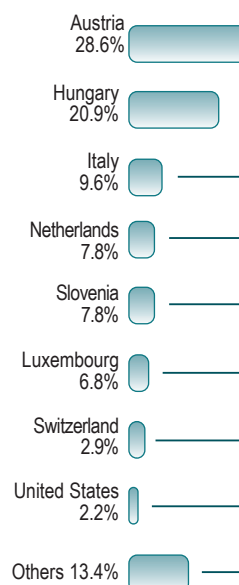
1.3.2. FDI by sectors (2005)



Source: Croatian National Bank

1.3.3. FDI by countries

FDI inflows by countries (2005)



Source: Croatian National Bank

In terms of FDI for the whole period 1993-Q1 2006, Austria is ranked first with 28.7% of the FDI stock followed by Germany (16.3%), the United States (11.3%), Hungary (7.7%) and Italy (7.4%).

1.3.4. Top foreign investors

Investor	Country	Sector
Deutsche Telekom	Germany	Telecommunications
Ericsson	Sweden	Telecommunications
Banca Commerciale Italiana	Italy	Finance
Unicredito Italiano	Italy	Finance
Erste und Steiermarkische Bank	Austria	Finance
Austria Creditanstalt Group	Austria	Finance
MOL	Hungary	Oil
Hofmann and Pankl Beteiligungsgasse	Austria	Minerals processing
Societe Suisse de Cemment Portland	Switzerland	Cement
Heineken	Netherlands	Brewery
Interbrew	Belgium	Brewery
Coca Cola Amatil	Australia	Beverages
Sutivan Investment and Excelsa Anstalt	Liechtenstein	Tourism

1.3.5. Government institutions in the field of foreign investment

Croatian Trade and Investment Promotion Agency was re-established in October 2005 as an institution working under the supervision of the Government of the Republic of Croatia. The Agency acts as a point of contact, assistance and negotiation for investors on behalf of the Croatian government and has the prime responsibility for promotion of Croatia internationally as a location for foreign direct investments.

The Agency's primary focus is on investments in Croatia with foreign majority participation to produce goods or services that are predominantly export oriented and create employment in Croatia. In order to help investors, the Agency will provide each investor with tailor-made solutions for all of the issues, which its business faces on the global market. Croatia offers a wide range of possibilities and the Agency will ensure that investors accomplish their full potential.

The Agency's goal is to provide foreign investors with the needed assistance and to make it possible that investment projects capitalize on the skills and facilities of Croatia. The Agency is specialized in developing investment opportunities primarily in the following sectors: ICT and R&D, international business services, biotechnology and pharmaceuticals.

For export oriented companies the Agency offers guidance and advice during each phase of the investment process (from the initial contact, implementation, through the realization and after-care). The Agency assists in establishing liaison between investors and the government, regional and local institutions, private sector and other relevant institutions.

1.4. Investment opportunities by sectors

1.4.1. Information and communication technologies

Since the early 1960s Croatia has been known for its long tradition in implementation of contemporary information and communications technologies.

The largest European companies in the field of ICT like Siemens and Ericsson have recognized the quality and knowledge of Croatian IT experts which have convinced them to enter the Croatian market. They have established software development centres in the country representing today one of their biggest and most productive centres in Europe with around 600 employees in each development centre.

The quality of education, multilingual skills, productivity, innovation, creativity of IT experts and advanced ICT infrastructure are the main advantages and driving force of Croatian ICT industry. These factors are also relevant for giving Croatia the opportunity to become a regional hub of global ICT companies for all their activities.

One of the characteristics of ICT sector in Croatia is the capability and readiness of Croatian population to accept new technologies. Croatia has one of the highest fixed and mobile telephony penetration rates in SEE region, and equally one of the highest broadband and Internet penetration rates in SEE region. Croatia is also on the way to become one of the first countries in SEE region with available WiMax service. In Croatia services like MPAY, MBanking, and SMS parking are also widely accepted which supports the notion of innovative society. These services are designed and developed in Croatia and are now also offered as products in other countries.

1.4.2. Biotechnology and pharmaceuticals

Pharmaceutical industry in Croatia has a long tradition and know-how which are a guarantee for its further successful development. The most significant pharmaceutical companies in Croatia are Pliva and Belupo, but there are also other smaller domestic companies which are engaged in pharmaceuticals and related sectors, and representative offices of world leading pharmaceutical companies.

It is important to mention that Pliva, as leading pharmaceutical company in Croatia, has based its operations on R&D and innovativeness, which is entirely proven and supported by Pliva's invention Azytromycin successfully placed on the world market. Furthermore, the work of experts in Pliva's research institute resulted with over 380 patents. According to the results accomplished in the field of research, science and patents applied, the existing workforce in Croatian pharmaceutical industry can be put in line with the top of the world scientists. The quality of Pliva's research work was also recognized by many famous companies in the world. This consequently led to the acquisition of Pliva's research institute by GlaxoSmithKline, which now continues with its R&D activities in Croatia.

Biotechnology in Croatia is still in the beginning of its development but due to Croatia's tradition and success in pharmaceutical industry and the quality and innovative approach of Croatian scientists, working in Croatia and abroad, there is a huge potential for this sector's development. For investors interested in this field a project for a high-tech Park in Varaždin is currently under way. The high-tech park will support activities in the pharmaceutical industry, biotechnology and information technology.

1.4.3. Business services

With its highly developed telecommunication infrastructure, stable and transparent fiscal and legal environment, highly educated, efficient and multilingual workforce, Croatia provides all the necessary conditions for companies with business activities including administrative support for clients, business processes support, common services centres, sales and marketing, distribution and many others.

1.5. Foreign investment regime

The Constitution of the Republic of Croatia provides for several guarantees to foreign investors, in particular that rights acquired by investment of capital may not be restricted by law or any other legal regulation and that foreign investors are been guaranteed free transfer and repatriation of the profits and invested capital.

A foreign investor may establish or participate in establishment of companies and may acquire rights and/or obligations under the same conditions as any other domestic investor. Only foreign persons with a seat, i.e. permanent residence in any of the non-WTO countries need to comply with the reciprocity requirement.

National treatment is applied to all forms of foreign investments. It is important to note that foreign investors may agree that certain matters are governed by foreign laws, as long as they are not contrary to Croatian law.

Foreign investor may invest its capital on a contractual basis; in a company or in a bank or insurance company; it may start up as a sole trader or craftsman or may acquire the right to exploit natural resources or other assets of interest to Croatia; finally foreign investor may take part in Build-Operate-Transfer deals and in Build-Own-Operate-Transfer deals.

Foreign investor may invest foreign currency, goods, rights and Croatian Kunas, which according to the Constitution and the Foreign Exchange Law may be repatriated.

Foreign individuals may acquire real estate following approval granted by the Ministry of Foreign affairs. No special conditions are required and permission is granted on a regular basis.

Expropriation is possible only in the interest of the Republic of Croatia. It has to be effected by a special law and the investor is guaranteed return of the market value of its investment.

II. Establishing business in Croatia

2.1. Forms of business and corporate governance

Company Regime	Legal framework: Law on Commercial Companies (published, Official Gazette 111/1993)
Types of companies	General partnership (j.t.d.); Limited partnership (k.d.); Limited liability company (d.o.o.); Joint-stock company (d.d.) In addition, the Law on Commercial Companies permits silent partnerships and economic interest groupings.

Partnerships	Partners: Two or more partners Characteristics: A general partnership is a commercial company whose partners intend to perform business activities under a joint company name. The partners are personally, jointly and severally liable for the obligations of the partnership with all of their property. Each of the partners is authorized to manage the partnership unless otherwise agreed between the partners. In the limited partnership, there is at least one general partner and one limited partner. The liability of the limited partner extends to the amount of its contribution in the partnership.
Limited Liability Company	Members: One or more shareholders. Minimum capital: HRK 20,000 Share and contribution requirements: The minimum contribution of each shareholder cannot be less than HRK 200. The shares can be freely transferred and pledged. Company management: Decisions are made by a majority vote in the General Meeting of Shareholders. The partners have votes in proportion to their contribution. One or more managing directors are appointed by the General Meeting to manage and represent the company. There are no restrictions with regard to the appointment of a foreign national as a managing director. A Supervisory Board may be elected if so provided in the agreement of incorporation. Specific features: Supervisory Board is mandatory in cases: <ul style="list-style-type: none"> • The company has more than 300 employees; or • When prescribed by law in accordance with specific commercial activities.
Joint-Stock Company	Shareholders: One or more shareholders. Minimum capital: HRK 200,000. Share and contribution requirements: The minimum value of each share cannot be less than HRK 10. At least one-third of the cash contributions and all of the contributions in kind have to be paid in at registration. Multiple-vote shares are prohibited. The Law on Securities bans the issuance of share certificates in paper form. Instead, the owners of shares shall have accounts with the Central Depository Agency. Company management: The General Meeting of Shareholders takes decisions by a majority vote. It elects a Supervisory Board with at least 3 members for a period no longer than 4 years. The Supervisory Board appoints a Managing Board for a maximum mandate of 5 years. The Managing Board includes 1 or more members except when otherwise provided by law (e.g. for banks - at least two members). There are no requirements for citizenship to the members of the managing bodies. Specific features: There are higher minimum capital requirements for: <ul style="list-style-type: none"> • Banks - HRK 20,000,000, 40,000,000 or 60,000,000, depending on the scope of activity; • Insurance companies - HRK 4,000,000 - 12,000,000, depending on the scope of activity.
Branches	Foreign and domestic companies and individual merchants may register a branch in Croatia at the relevant court. The persons entitled to represent the branch must have a Croatian residence permit and identification number. The branch does not exist as a separate legal entity remaining part of the foreign person. However the branch must keep accounting books in accordance with the Croatian legislation.

Representative office	Legal Framework: Law on Trade Registration: Foreign persons are entitled to register a representative office in the Register of Representative Offices at the Ministry of Economy. This entity does not have a legal personality and may be active only for investigating the local market, advertising and marketing, but not for carrying out commercial activities.
Bankruptcy	Legal framework: Bankruptcy Law (published, Official Gazette 44/1996, amended - 29/1999)
Anti-trust rules	Legal framework: Law on Protection of Competition (published, Official Gazette 48/1995)

2.2. Foreign exchange regulations

The Foreign Exchange Law regulates transactions between residents and non-residents in foreign means of payment and in HRK, transactions between residents in foreign means of payment, and unilateral transfers of assets from and into Croatia that cannot be considered transaction executions between residents and non-residents.

Residents may keep foreign exchange in foreign exchange accounts or in foreign exchange savings deposits accounts in banks in Croatia. The Croatian National Bank (CNB) stipulates the conditions for and the manner of opening of these accounts. Participants in the foreign exchange market may purchase and sell foreign exchange through spot and forward transactions. The exchange rate of foreign currencies against the HRK is freely determined on the foreign exchange market, on the basis of supply and demand.

Non-residents may open foreign exchange and HRK accounts in banks. CNB prescribes the conditions and the manner governing the opening and managing of the accounts. It may prescribe a monthly limit for HRK and foreign cash withdrawals from and deposits to accounts of non-residents who are not natural persons and may lay down the conditions for issuing approvals for amounts exceeding the prescribed limits. Transfer abroad of profits and balance of assets in liquidation or of the bankruptcy estate made by any nonresident through foreign direct investment are unrestricted, provided that all taxes and other legally prescribed obligations have been met.

2.3. Legislative framework of concessions

Pursuant to the Law on Concessions (published, Official Gazette 89/1992), concessions may be granted for use of renewable natural resources and other goods that are of vital interest for Croatia, as well as for performance of business activities that are of vital interest for Croatia, and construction and use of facilities required for such business activities. Concessions may not be granted for the exploitation of forested areas or some other resources explicitly determined by the law. Concessions may be granted for a maximum period of 99 years. In accordance with the principle of national treatment of foreign investment, concessions may be given to foreign and domestic legal and natural persons.

A decision to grant a concession is made upon a public invitation for bids or upon public competition. It could also be made upon submitting an application, if so prescribed by the law. In the preparation of its proposals, the Government shall take into account: reputation of the bidder, its capability to operate the activities granted by the concession, technical and financial viability and environmental protection.

Concession Contracts are recorded at the unified register for concessions kept with the Ministry of Finance. The real estate concession contracts are recorded in land registers.

2.4. Legislative framework of public procurement

The Croatian Law on Public Procurement (Official Gazette 117/2001) has been recently amended and harmonized with the EU acquis (Official Gazette 92/2005). It provides for a comprehensive and transparent framework for public procurement in Croatia.

The Law outlines basic principles of procurement in Croatia: equal treatment of foreign and domestic suppliers, prohibition of discrimination and unfair competition, and public and transparent procurement procedures.

There are three public tender procedures which may be chosen by the relevant bodies initiating the procedure (Investing body). Tenders may be organised as public tenders in an open tender procedure, tenders on invitation in a limited tender procedure or as direct agreements in a negotiative tender procedure.

The procurement process begins with the establishment of an Expert Commission which will prepare and carry out the process. The start of the procurement procedure must be publicly announced by the Investing body. The terms of the tender process, including the required documentation and the instruction to the bidders, must be unambiguous and transparent.

The criteria for the choice of the best offer must be stated in the tender documentation. The successful bidders are chosen among those whose offer had the lowest price bid or whose offer was economically most viable taking into account the price and additional criteria in accordance with the tender documentation, such as the quality, technical achievement, esthetic, functional or ecological features, etc.

The supervision and enforcement of the procurement is done by the Department for Public Procurement of the Government of Croatia. The unsuccessful bidder may object in the first instance to the investing body and the Investing body must reply within 8 days from the receipt of such objection. If the answer is negative for the Bidder, it may further lodge a complaint to the State Commission for the controlling of the public procurement procedure. The decision of the State Commission is final and the complainant may further challenge such decision by initiating administrative complaint before the Administrative Court.

2.5. Dispute resolution mechanisms

The Law on Arbitration (Official Gazette 88/2001) regulates dispute resolution in Croatia. It liberalizes arbitration practices and covers domestic arbitration, the recognition and enforcement of arbitration rulings, jurisdictional matters and procedures. Arbitration is voluntary and conforms to the UN Commission on International Trade Law (UNCITRAL) procedures. The Croatian Chamber of Economy hosts a permanent Arbitration Court, established in 1965. Investment disputes with the Croatian government may be brought by investors to binding international arbitration as an alternative to domestic courts. In this respect, in 1998 Croatia ratified the Washington Convention - the International Center for the Settlement of Investment Disputes. In addition, Croatia has ratified the following major conventions in the field of international commercial arbitration: the Geneva Protocol on Arbitration Clauses (1923), the Geneva Convention on Execution of Foreign Arbitral Awards (1927), the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (1958), and the European Convention on International Commercial Arbitration (1961). Ratified international conventions prevail over the national legislation.

2.6. Operational costs (2005)

Nominal salary growth, % yoy	1.5
Average gross monthly salary, EUR	844
Public social security as % of monthly salary	17.2% by the employer 20.0% by the employee
Office rent in Zagreb (central area), EUR/sq.m per month	16
Purchase of residential estate in Zagreb (average), EUR/sq. m	1,500 - 3,000
Water charges for industrial use in Zagreb, EUR/m ³	2.59
Telephone installation charges, EUR	82.43
Telephone subscription monthly charge, EUR	Private: 9.90 Business: 11.54
International phone call from Croatia, EUR/minute, VAT not included	Europe: 0.25-0.30 World: 0.47-0.95
Electricity for large industrial users, EUR/kWh (taxes excluded)	38
Natural gas for industrial users, EUR/GJ, taxes excluded	6.42

Source: Croatian Trade and Investment Promotion Agency

III. Taxation

Corporate income tax	20%
Personal income tax	0-45%
VAT (standard rate)	22%
City surtax	0-18%
Withholding tax (may be decreased pursuant to double tax treaties)	15%
Property transfer tax	5%

3.1. Direct taxation

3.1.1. Corporate income tax

Taxpayers	Main categories: <ul style="list-style-type: none"> Resident companies and legal entities that carry out profit-making activities Non-resident entrepreneurs and representative offices Natural persons receiving income from running small business, agriculture and forestry activities as well as independent professions if they make a declaration to pay corporate instead of personal income tax 			
Taxable base	<ul style="list-style-type: none"> Residents - the total profit made in Croatia and abroad Non-residents - Croatian-sourced profit 			
Tax rate	20%			
Tax incentives	<ul style="list-style-type: none"> Taxpayers who carry out their business in the areas of special national concern and employ more than 5 workers, with more than 50% of them living in the area, pay corporate income tax at a rate that can be 0%, 25% or 75% of the prescribed rate Taxpayers who are engaged in a business activity in the City of Vukovar area and permanently employ more than 5 employees, with more than 50% of the employees having living in the City of Vukovar area, or hill and mountain area, or an area of special national concern are exempt from corporate income tax for the period of ten years beginning after the 1 January 2005 Taxpayers who are engaged in a business activity in the hill and mountain area and permanently employ more than 5 employees, with more than 50% of the employees having domicile and habitual residence in the hill and mountain area or an area of special national concern pay corporate income tax in the amount of 75% of the prescribed tax rate Taxpayers with research and development as the only business activity are exempt from corporate income tax 			
Special investment incentives¹	According to the Investment Promotion Law, companies benefit from corporate tax incentives depending on the size of investment and the jobs created, as follows:			
	Size of investment	Corporate income tax rate	Duration of privilege	Minimum number of employees
	1.4	7	10	30
	2.7	3	10	50
	8.2	0	10	75

Note:¹ New Investment Promotion Law is expected to enter in force by January 2007.

3.1.2. Personal income tax

Taxpayers	Resident and non-resident natural persons that realize income in Croatia from: employment or self-employment, property and property rights, capital, insurance	
Taxable income	<ul style="list-style-type: none"> Worldwide income for resident individuals Croatian-sourced income for non-residents 	
Tax rates	Tax brackets ¹	Tax rate, %
	Income up to 2 times the basic personal allowance	15
	Income between 2 to 5 times the basic personal allowance	25
	Income between 5 to 14 times the basic personal allowance	35
	Income over 14 times the basic personal allowance	45
	Income tax is increased by 1-18% surtax introduced by units of local self-government.	
Tax-exempt employment income	<ul style="list-style-type: none"> Reimbursement of accommodation expenses on a business trip up to the amount of actual expenses Reimbursement of travel expenses on a business trip up to the amount of actual expenses Reimbursement of travel expenses to and from work by local public transport up to the amount of actual expenses Reimbursement of travel expenses to and from work by inter-city public Daily allowances for business trips within Croatia up to HRK 170 (in addition to the actual travel and accommodation costs) Daily allowances for business trips abroad up to country-specified amounts Allowances for private car usage for business purposes up to HRK 2 per km driven Education/training provided by the company and connected with the company's activity Compulsory health checks and general health checks if provided to all employees 	
Personal allowances	<ul style="list-style-type: none"> A basic monthly personal allowance of HRK 1,600 Additional allowances if family members are supported, including spouses² and children: + 0.5 of the basic personal allowance for a dependent spouse and the first child; + 0.7 for a second child, + 1.0 for third child, + 1.4 for a fourth child Employee compulsory social security contributions Additional deductions are available for all taxpayers for: <ul style="list-style-type: none"> Donations up to 2% of their previous year income; and Annual deduction³ with respect to costs incurred for: qualifying health services, purchase or construction of the owners' main residence, interest income paid on the basis of qualifying loans for the purchase or construction of the owners' main residence, full amount of rental costs incurred in respect of the main residence, and insurance premiums paid in respect of life insurance, voluntary and additional health insurance, and voluntary pension insurance 	

Note:

¹ A basic monthly personal allowance is HRK 1,600.

² Only one of the spouses may claim additional allowances for children and other dependents of the immediate family.

³ Collectively limited to HRK 12,000.

3.1.3. Withholding taxes

Withholding tax definition	The tax on the profit derived by a non-resident in the Republic of Croatia.
Taxpayers	<ul style="list-style-type: none"> An inland paying agent that pays to foreign entities-recipients (non-residents) who are not natural persons; The permanent establishments of a non-resident entrepreneur, when they pay to the parent company interest, as well as royalties and other intellectual property rights (copyright, patent, licensing, trade mark, design or pattern, production procedure, production formulas, draft, plan, industrial or scientific experience and similar rights). Exceptionally, the withholding tax shall not be paid if considerations are recognized as the revenues of a resident permanent establishment of a non-resident entrepreneur.
Taxable income	<ul style="list-style-type: none"> royalties and other intellectual property rights (copyright, patent, licensing, trade mark, design or pattern, production procedure, production formulas, draft, plan, industrial or scientific experience and similar rights) for which considerations are paid to non-residents who are not natural persons, market research services, tax and business counselling and auditor services paid to non-residents, interest
Tax rate	15%

3.2. Indirect taxation

3.2.1. Value added tax (VAT)

VAT payers	<p>Main categories:</p> <ul style="list-style-type: none"> Entrepreneurs (natural and legal entities) delivering goods or rendering services Importers Exporters (for export of value-added goods) Issuers of invoices (if separate entry for VAT is available on the invoice) Domestic entrepreneurs receiving services provided by enterprises headquartered abroad¹
Tax rate	<ul style="list-style-type: none"> 22% standard rate 0% rate on: <ul style="list-style-type: none"> bread and milk books with scholarly, scientific, artistic, cultural and educational contents organized tourism services paid for by transfers from abroad some medicines 10% on tourism (accommodation, agency fee)
VAT exemptions (main categories)	<ul style="list-style-type: none"> Temporary imports of goods that are exempt from customs duty Export deliveries of goods and processed goods, including transport and all other forwarding services Deliveries of goods to and within free zones, free and bonded warehouses Renting of housing premises Services and deliveries of goods of banks, savings institutions, savings and loan institutions, insurance and reinsurance companies Medical services

3.3. Double taxation treaties

All agreements concluded by the Republic of Croatia are based on the Croatian Draft Agreement on the Avoidance of Double Taxation, in compliance with the model provided by the Organization for Economic Co-operation and Development (OECD).

Double taxation treaties applied by Croatia

State	Subject of the Agreement	Official Gazette, No.	Applied since
Albania	Income and capital	13/95	01.01.1998
Austria	Income and capital	3/01	01.01.2002
Belgium	Income and capital	6/03	01.01.2005
Belarus	Income and capital	3/04	01.01.2005
Bulgaria	Income and capital	3/98	01.01.1999
Canada	Income and capital	12/99	01.01.2000
China	Income	3/01	01.01.2002
Czech Republic	Income and capital	8/99	01.01.2000
Denmark*	Income and capital	53/91	08.10.1991
Estonia	Income	8/03	01.01.2005
Finland*	Income and capital	53/91	08.10.1991
France*	Income and capital	53/91	08.10.1991
Germany*	Income and capital	53/91	08.10.1991
Greece	Income and capital	18/97	01.01.1999
Hungary	Income and capital	11/97	01.01.1999
Italy*	Income and capital	53/91	08.10.1991
Ireland	Income and capital	16/03	01.01.2004
Latvia	Income	3/01	01.01.2002
Lithuania	Income	3/01	01.01.2002
Macedonia	Income and capital	13/95	01.01.1997
Malta	Income	7/99	01.01.2000
Mauritius	Income	10/03	01.01.2004
Netherlands	Income and capital	3/01	01.01.2002
Norway*	Income and capital	53/91	08.10.1991
Poland	Income and capital	13/95	01.01.1997
Romania	Income and capital	11/96	01.01.1997
Russian Fed.	Income and capital	11/96	01.01.1998
Slovakia	Income and capital	11/96	01.01.1997
South Africa	Income	17/97	01.01.1998
Sweden*	Income and capital	53/91	08.10.1991
Switzerland	Income and capital	8/99	01.01.2000
Turkey	Income	5/99	01.01.2001
Ukraine	Income and capital	11/97	01.01.2000
United Kingdom*	Income and capital	53/91	08.10.1991
Yugoslavia (Serbia, Montenegro)	Income and capital	3/03	01.01.2005

Note: * Inherited from the former SFR Yugoslavia

IV. Accounting

4.1. Accounting and auditing legislation

The Accounting Law and the Law on Auditing (Official Gazette No. 90/92) constitute the legal framework for audits accounting issues applicable to companies. These laws have been in effect as of 1 January 2003, without any subsequent modifications.

Under the law, companies (entrepreneurs) with their registered seat in the Republic of Croatia are to maintain their accounting records and prepare their financial statements in accordance with the fundamental principles of bookkeeping.

Parent companies and their domestic or foreign-related and/or associated companies prepare consolidated financial statements presenting the group as a single entity.

The financial statements are prepared in accordance with the International Accounting Standards (IAS) as published in the Official Gazette. The Accounting Law (as well as IAS) additionally defines the fundamental accounting assumptions used in the preparation of the financial statements, which are as follows:

- Going concern
- Consistence
- Accrual basis

When preparing the financial statements, the following fundamental principles of measuring individual positions in the financial statements are to be observed:

- Prudence
- Substance over form
- Materiality
- Individual measurement
- Time connection of balance sheet items

For the purposes of the Accounting Law, an entrepreneur is a legal person carrying out an economic activity to generate profit. An entrepreneur may also be a natural person carrying out a business activity independently for the purpose of earning profit if such a person has been defined as corporate income taxpayer under specific regulations.

The Law also applies to foreign organizational units of an entrepreneur, unless the foreign regulations impose the obligation to such a unit to maintain accounting records and prepare the financial statements. Finally, the Law is obligatory for organizational units of foreign entrepreneurs whose seat is registered abroad and who carry out business activity in the Republic of Croatia (not applicable to representative offices).

4.2. Accounting records

Accounting records have to be kept in accordance with the double-entry bookkeeping principles and consist of the following:

- Journal - a business record serving to enter transactions in chronological order, classified into balance sheet and off balance sheet items
- General ledger - a systematic accounting evidence of changes in assets, liabilities, capital, expenses, income and operating result; consists of balance sheet and of balance sheet entries
- Subsidiary ledgers - they are, as a rule, set up separately

Accounting records are maintained for a business year, which is equal to the calendar year. The general ledger and the journal are to be filed in for a minimum of 10 years, and the auxiliary ledgers - for at least five years.

4.3. Financial statements

The statutory financial statements comprise:

- Balance sheet
- Income statement (profit and loss account)

- Statement of changes in financial position
- Notes to the financial statements

The statutory financial statements have to give a true, reliable and fair view of the assets, liabilities, capital, cash flows, profit or loss for the period, and should be signed by a legal representative of the enterprise concerned.

The statutory financial statements are prepared for a financial year. Accounting records and financial statements are kept, prepared in the Croatian language, using the Croatian national currency.

All large and medium-sized enterprises have the obligation to publish their financial statements if they are incorporated as joint stock companies. A report of an auditor is published together with the financial statement.

V. Donor funded programmes and projects

An elaborate list of the bilateral and multilateral donors in Croatia and their specific projects is available on the web site of the Ministry of Foreign Affairs and European Integration (www.mei.hr).

Useful Internet links

Government	www.vlada.hr
Trade and Investment Promotion Agency	www.apiu.hr
Ministry of Foreign Affairs and European Integration	www.mvpei.hr
Ministry of Economy, Labor and Entrepreneurship	www.mingorp.hr
Ministry of the Sea, Tourism, Transport and Development	www.mmtpr.hr
Ministry of Science, Education and Sport	www.mzos.hr
Ministry of Environmental Protection, Physical Planning and Construction	www.mzopu.hr
Croatian Privatization Fund	www.hfp.hr
Croatian National Bank	www.hnb.hr
Croatian Bank for Reconstruction and Development	www.hbor.hr
Croatian Bureau of Statistics	www.dzs.hr
Croatian Chamber of Economy	www.hgk.hr
Internet Directory	www.hr
HITRO.HR	www.hitro.hr