INVESTMENTS TO CROATIAN WOOD PROCESSING AND FURNITURE MANUFACTURING

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The Republic of Croatia is located in South East Europe with total area over 56 thousand km$^2$ and population of 4.4 mil people. In Croatia wood represents a significant raw material. The share of wood processing and furniture manufacturing in Croatian GDP was about 3% in 2007. Domestic wood consumption in Croatia is over 3.4 mil m$^3$ annually and in the year 2007 the revenues were over 1 bil Euros with over 24 thousand employees.
Industrial production indexes show significant decrease since 2007 until 2009 with tendencies to decrease even more in year 2010. The same goes for wood processing and furniture manufacturing, since those are the first industrial branches which respond to any crisis, especially the global one. The main reason for that is the fact that wood processing and furniture manufacturing in Croatia are highly export oriented. So, any disturbances in global or European market have a significant influence on Croatian wood processing and furniture manufacturing.
Situation in employment is almost the same. Total number of employees in wood processing and furniture manufacturing decrease from 24,000 in year 2007 (which was 9.8% of all employees in industrial sector, and 1.67% of all employees in Croatia) to 21,000 in year 2009 (9% in industrial sector, i.e. 1.41% of all employees) with the tendencies to decrease even more.
Since Croatian wood processing and furniture manufacturing is highly export oriented, it was to be expected for export to decrease as well. The record shows that export of primary and secondary wood products decrease from 400 mil € in year 2007 to 330 mil € in year 2009, with the tendencies to decrease even more. The same goes for furniture manufacturing, since export decreased from 280 mil € in year 2007 to 210 mil € in year 2009. Very similar situation is in import of wood products and furniture.
Total investments to Croatian industry increased from 8 bil € in year 2004 to 13 bil € in year 2008. In first three quartals of year 2009 the investments decreased by almost 1 bil € per quartal. Since the record for year 2009 is not completed yet (just for those 3 quartals), it is to be assumed that total investments to Croatian industry could be approximatelly 11 bil €.

In Croatian wood processing and furniture manufacturing the situation is no different and total investments in sectors C16 (wood processing) and C31 (furniture manufacturing) were growing year after year until approximatelly 72 mil € in year 2007, starting to decrease to 65 mil € in year 2008. If we correlate investments as we did employees and production, predictions are that total investments to wood processing and furniture manufacturing in year 2009 could decrease to approximatelly 45 mil €.
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![Graph showing investments to Croatian wood processing and furniture manufacturing from 2005 to 2009. The graph displays indexes for employment, production, and investments over the years.](image-url)
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![Graph showing the relationship between investments and production with R^2 = 0.980]
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- Croatian wood processing and furniture manufacturing were depending on very few well known buyers and customers in Croatia and abroad in the past. That made a comfortable situation for companies and they were not looking far ahead. Very few of them decided to invest to new technologies. When economic transition started (beginning of 1990-ties) many companies were not prepared for that, big companies transformed to many small or medium ones, and most of them were in a lack of working capital. So, there was no money for investments.

- Situation has changed over the years, but many companies are still struggling for a chance to develop. Global financial crisis have a great impact on them since they are still depending on investments. Number of companies who have their own money to invest is not too big. And if they had that kind of financial resources, it was re-allocated, because consumption of wood products and furniture decrease, production decreased, income decreased, so money reserved for investment had to become working capital.
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- Croatian government is trying to help to solve the problem. Ministry of regional development, forestry and water management is investing to wood processing and furniture manufacturing companies in five year program, ending in year 2010. Ministry had an open soliciting for tenders investing 222 mil Croatian kunas (30 mil €) over 5 years.

Investments made by Ministry of regional development, forestry and water management

<table>
<thead>
<tr>
<th>in mil €</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>foreseen by Program</td>
<td>2.5</td>
<td>5.5</td>
<td>7.5</td>
<td>7</td>
<td>4.9</td>
</tr>
<tr>
<td>secured by government budget</td>
<td>0</td>
<td>5.5</td>
<td>6.3</td>
<td>8.2</td>
<td>8.9</td>
</tr>
<tr>
<td>invested</td>
<td>0</td>
<td>5.5</td>
<td>7.3</td>
<td>8.5</td>
<td>8.9</td>
</tr>
</tbody>
</table>
Croatian wood processing and furniture manufacturing was not entirely prepared for those kind of Programs, so money foreseen in years 2006 and 2008 had to be invested in years 2009 and 2010. That brings up new additional problem of our branche – lack of good investment or development plans. In some interviews we conducted with top and midle managers in wood industry and furniture manufacturing companies, we established that many of them have no development or investment plans. So, when opportunity occurs they are not prepared to take it.
CONCLUSION

- Croatian wood processing and furniture manufacturing is highly export oriented and one of significant industrial branches in GDP and employment. Since it is strongly connected to European and world market, any disturbance on the market, never the less global financial crisis, have a strong impact on that industrial branche.

- Although situation was getting better during last several years, global crisis and market problems starting 2008, and especially in 2009, created a lots of problems for Croatian wood processing and furniture manufacturing. Export decreased for 25 % for furniture and 17,5 % for primary and secondary wood products. Direct consequence of that is decrease of production and that has a direct impact on employment, which decreased for 16 % in the branche.
CONCLUSION

- Some of the companies tried to solve the problem without laying the employees off. They introduced 4-days working week, which means they had working week Monday to Thursday. Managers in wood industry and furniture manufacturing companies, we established that many of them have no development or investment plans. So, when opportunity occurs they are not prepared to take it.

- Along with the global crisis, one of the main problems Croatian wood processing and furniture manufacturing companies have is not sufficient number of good development plans and programs. Problem becomes even bigger if we consider the fact that Croatia is very close to become a European Union member. There are joining admission funds waiting for good and sustainable plans and programs created by Croatian government and companies. Without them significant financial assets will not be used for our development.
CONCLUSION

- All institutions, government, educational and scientific institutions, along with companies themselves, have to get more involved in solving the problem, creating environment for sustainable development of Croatian wood processing and furniture manufacturing companies. Good and quality plans and programs have to be made for application to investment funds.
- Government should find the way to increase the consumption of all products in Croatia, i.e. wood products and furniture. Lower standard of Croatian people had much lower consumption as a consequence. Increasing the consumption should increase production and that should help Croatian economy to survive the crisis.
- Also, banks and financial institutions in Croatia have to make additional efforts to lower the interest on loans, since credits and money in Croatia are much too expensive. Economy needs a chance to apply for some lower cost money for investments and development.
Thank you for attention!