

Croatia

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IN A NUTSHELL

- Real GDP expanded by 6.2%, while inflation rose to 10.7%.
- House prices increased significantly, especially in urban areas.
- Outstanding mortgage loans rose by 9.5% pushed by the entrance of foreign banks into the domestic market.
- Croatia joined the Euro area on 1 January 2023.

MACROECONOMIC OVERVIEW

GDP expanded by 6.2% largely thanks to a strong first half of the year despite headwinds related to record high inflation of 10.7%, supply side bottlenecks and tighter financing conditions for firms and households. The energy price shock and its pass-through to other goods and services affected the purchasing power of households as the year advanced, with inflation outpacing wage growth. Still, private consumption remained the main growth contributor supported by a steep decline in the household's savings rate. The external sector had a mildly negative impact on growth, as booming exports of goods and services were offset by strong import growth.

The labour market performed well, with employment expanding by 2.3% and surpassing pre-pandemic levels. Construction and trade, transport, accommodation and food services made the biggest gains, supported by the increase in the inflow of foreign workers. The unemployment rate edged down to 7%, the lowest in the last 13 years. Strong wage growth in the face of decelerating inflation is set to lead to mild real income gains already in 2023, with the unemployment rate dropping to 6.6%.

In 2022, fiscal revenues grew markedly on account of both real growth and strong inflation. This supported the return of the general government balance to a surplus of 0.4% of GDP in 2022. The debt ratio is expected to drop significantly from 68.4% in 2022 to 63% in 2023, due to GDP growth and debt-reducing transactions (stock-flow adjustment).

HOUSING MARKETS

The nominal HPI (considering new and existing dwellings) increased by 17.3%, compared to 7.3% in 2021, while HPI increased even more by 22.5% in the capital Zagreb to 193.9 regarding the base year of 2015. Whereas the Adriatic coast residential dwelling prices grew at a rate of 12.9% (8.2% in 2021). The increasing trend of HPI is present for all urban areas in Croatia since 2015 and peaked in 2022.

Despite the decrease in 2020, the number of building permits issued increased in 2021 and 2022 to 16,654 in 2021 and 18,700 in 2022, representing a further 12.3% increase y-o-y in 2022.

MORTGAGE MARKETS

In August 2022, the average interest rate for housing loans indexed to foreign currency stood at 2.57%, down from 2.7% in the previous year and 2.98% two years ago, according to the Croatian National Bank (CNB).

Floating rates and interest rates fixed for up to 1 year indexed to foreign currencies average 2.81%, down from 2.87% a year earlier and 3.17% two years ago. Interest rates over 1 and up to 5 years indexed to foreign currencies averaged 2.57%, down from 2.75% in August 2021 and 2.94% two years ago, while rates over 5 years and up to 10 years were 2.51%, down from 2.54% in the previous year and 2.75% two years ago. Lastly, mortgage interest rates for over 10 year fixed periods were 2.53% fixed to foreign currencies, down from 2.86% a year earlier and 3.1% two years ago.

Rates for housing loans not indexed to foreign currency fixed for up to 1 year average 3.18%, down from 3.23% in August 2021 and 3.52% in August 2020. Interest rates over 1 and up to 5 years non indexed to foreign currencies averaged 2.84%, slightly up from 2.79% a year ago but down from 3.09% two years ago. Not indexed rates over 5 years and up to 10 years: 2.53%, down from 2.66% a year ago and 2.74% two years earlier, while rates over 10 years averaged 3.33%, up from 2.94% in August 2021 and 2.84% two years ago

Only about 11.6% of all new housing loans in August 2022 are floating rate (or with interest rate fixation (IRF) of up to 1 year), while 22.5% have an IRF between 1 and 5 years. The remaining 65.9% of all new housing loans have an IRF of more than 5 years.

Buoyed by very low interest rates, Croatia's mortgage market started to strengthen in 2017, when economic conditions improved. In August 2022, outstanding housing loans rose by 9.5% to HRK 72.7 billion (€9.66 billion) from a year earlier, according to the CNB, following y-o-y increases of 9% in 2021, 8.2% in 2020, 6.3% in 2019, 2.3% in 2018 and 0.6% in 2017.

One interesting trend has been the rise of kuna-denominated loans in the past four years. From a share of below 10% of the total outstanding housing loans from 2010 to 2015, the share of kuna-denominated housing loans not indexed to foreign currencies rose to more than 30% in 2021, according to the CNB. The mortgage market has developed significantly during the past decade, as the old large state-owned banks have been privatised, and commercial banks have been restructured, and Austrian, Italian and German banks have entered the market. There was a significant increase in building societies' share of loans, from 1% in 2003 to 5% recently.

MORTGAGE FUNDING

Mortgages are mainly funded by deposits. According to the Croatian National Bank, retail deposits grew. A covered bond law was introduced for the first time in April 2022, but has not yet been used.

GREEN FUNDING

Amongst the initiatives of the National Recovery and Resilience Plan, Croatia has undertaken the Reconstruction of Building initiative, to contribute to the wave of building reconstruction with energy-efficient and decarbonised building stock.

In the period leading up to 2030, the aim is to increase the rate of renovation to 3%, and to this end the Long-term Strategy for National Building Stock Renovation by 2050 was drafted. Renovation programmes have been envisaged in the Integrated National Energy and Climate Plan for the period 2021 – 2030.

| | CROATIA 2021 | CROATIA 2022 | EU 27 2022 |
|------------------------------------------------------------------|-----------------|-----------------|---------------|
| MACROECONOMIC VARIABLES | | | |
| Real GDP growth (%) (1) | 13.1 | 6.2 | 3.5 |
| Unemployment Rate (LSF), annual average (%) (1) | 7.6 | 7.0 | 6.2 |
| HICP inflation (%) (1) | 2.7 | 10.7 | 9.2 |
| HOUSING MARKET | | | |
| Owner occupation rate (%) (1) | 90.5 | 91.1 | 69.1 |
| Gross Fixed Investment in Housing (annual change)(1) | n/a | n/a | 1.5 |
| Building Permits (2015=100) (2) | 239.6 | 269.1 | 125.8 |
| House Price Index - country (2015=100) (2) | 145.0 | 170.1 | 164.6* |
| House Price Index - capital (2015=100) (2) | 158.3 | 193.9 | 163.8* |
| Nominal house price growth (%) (2) | 7.3 | 17.3 | 10.6* |
| MORTGAGE MARKET | | | |
| Outstanding Residential Loans (mn EUR) (2) | 9,004 | 9,932 | 6,743,197 |
| Outstanding Residential Loans per capita over 18 (EUR) (2) | 2,696 | 3,108 | 18,433 |
| Outstanding Residential Loans to disposable income ratio (%) (2) | 24.9 | 25.9 | 71.5 |
| Gross residential lending, annual growth (%) (2) | 0.2 | 67.0 | -6.5 |
| Typical mortgage rate, annual average (%) (2) | 2.7 | 2.5 | 3.1 |

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, Statistical Tables.

CROATIA FACT TABLE

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|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Which entities can issue mortgage loans in your country? | Commercial banks and housing saving banks. |
| What is the market share of new mortgage issuances between these entities? | Commercial banks dominate the market. |
| Which entities hold what proportion of outstanding mortgage loans in your country? | Commercial banks hold approximately 94.5%, and housing saving banks hold the rest 5.5%. |
| What is the typical LTV ratio on residential mortgage loans in your country? | Between 70 and 80%. |
| How is the distinction made between loans for residential and non-residential purposes in your country? | The 'Consumer Housing Loans Act' defines "housing loan" as a loan: a) collateralised by a security on residential immovable property or a transfer of ownership of residential immovable property for the purpose of securing the loan; or b) the loan the purpose of which is for the consumer to acquire or retain the ownership of residential immovable property. Loans not falling within this description would not be residential. |
| What is/are the most common mortgage product(s) in your country? | Housing and mortgage loans. |
| What is the typical/average maturity for a mortgage in your country? | Between 20 and 30 years. |
| What is/are the most common ways to fund mortgage lending in your country? | Deposits. |
| What is the level of costs associated with house purchase in your country (taxes and other transaction costs)? | Real estate transfer tax (3% of market value, application from January 2019); transaction costs (fees and commissions): up to 2% of market value; and other costs (agency intermediation, public notary, etc.): 2-4% of market value. |
| What is the level (if any) of government subsidies for house purchases in your country? | Low (in the part of government supported "Publicly Subsidized Residential Construction Program", through the governmental incentives for housing savings and through the limited government financial support for first housing property purchase). |