Croatia

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IN A NUTSHELL

- → The economy grew by 3.2%, continuing a long term trend of outperformance of eurozone peers.
- → House prices continue to rise significantly in real terms (+6.4%, or 10.4% in nominal terms).
- → As new building increased by 4.9%, the construction industry grew and is now 4.2% of GDP.
- → Similarly, the mortgage market continued to grow in its long term 8 – 10% range.

MACROECONOMIC OVERVIEW

The economy continued to grow rapidly with GDP increasing by 3.2% (from 3.1% in 2023), continuing a long term trend of growth in excess of 2.5% interrupted only by Covid. Particular divers of growth this year included consumer spending – as wage growth significantly exceeded inflation – fiscal stimulus, inflows of EU funding and the construction sector.

EU funding under the Recovery and Resilience Facility is expected to reach EUR 10bn, equivalent to 11.7% of GDP and, according to Fitch, will be 'an important growth driver for Croatia until 2030'[1].

Unemployment fell to 5% from 6.1% at the end of the previous year. Several sectors, including tourism and construction face significant labour shortages which are at least partially mitigated by an increase in the number of immigrant workers, mainly from other former component states of Yugoslavia and Ukraine. The strong labour market, combined with real wage growth of 5.9% (nominal of 10%), and falling interest rates there was a significant increase in private sector consumption, including of housing.

In line with other eurozone countries, inflation continued to fall rapidly from the 2022 peak. At year end it was 4%, down from 8.4% a year previously. Service costs and food, beverage and tobacco rose more rapidly than average whilst durable goods and energy prices increased more slowly.

The government fiscal deficit of 2.4% (a surplus of 0.8% in 2023) was below GDP growth resulting in the debt:GDP ratio falling to 57.6%, below the Growth and Stability Pacts targeted 60%.

LOOKING AHEAD

Growth is expected to continue, at 3.2% according to a forecast by the European Union, significantly above the average forecast growth for the eurozone, consequently unemployment is forecast to continue to fall, to 4.5% by year end. Despite this the EU forecasts that inflation will fall further to 3.4%.

Direct trade exposure to the US is low limiting the downside risk of trade wars to second order effects[2].

HOUSING MARKETS

House prices continued to rise, in nominal terms by 10.4% from 11.9% in the previous year but, with the slowdown in inflation this represented an increase in the rate in real terms. This continues a long term trend with house prices having nearly doubled (+98%) since 2015. The rate of growth in nominal terms is nearly double that in the EU as a whole (which rose by 4.9% over the year). Quarterly data indicates that the rate of growth peaked in Q2 and slowed slightly towards the end of the year.

To meet the demand, building permits granted during the year increased by 4.9% (from 4.3%, measured in terms of sq m of new building permitted).

There are significant regional disparities in property prices, demonstrating the importance of tourism driven buying. Properties in areas popular with tourists such as Dubrovnik and Split average in excess of EUR 3,000 per sq m, whilst those inland such as Osijek are only EUR 731 per sq m. Even in Zagreb property prices are only EUR 1,400 per sq m[3].

Drivers of house prices included falling eurozone interest rates making new loans more affordable, although the largely fixed rate nature of the market means that the benefit of lower rates has not yet reached all borrowers.

Unsurprisingly, given the growth in construction activity and labour shortages in the sector, the cost of housing production grew at a greater rate then general inflation, 8.5%, up from 4.7% a year previously. The construction sector is a more important component of the overall economy than ever before, representing 4.2% of GDP, up from 3.7% last year and the highest proportion on record.

Although falling slightly (to 91% from 91.2% at end of 2023), home ownership remains amongst the highest in the European Union (behind only Hungary, Romania and Slovakia).

MORTGAGE MARKETS

The mortgage market has continued its post-pandemic strong growth with outstandings up by 9%, in line with the 8 –10% range since 2021. It is possible that there is some front loading of loan growth due to the announcement of measures by the CNB to slow mortgage market expansion. These measures, which come into effect on 1 July 2025 include a limit on loan-to-value ratios of 90% and on debt service/income ratio for new consumer loans of 40% and for mortgage loans of 45%. Up to 20% of mortgage loans originated in any quarter can exceed this. The restrictions are designed to slow the rapid growth in general-purpose consumer loans, which accelerated to an annual rate of 15% in 2024 (2023: 11%), and mortgage loans.

[1] https://www.fitchratings.com/research/sovereigns/fitch-affirms-croatia-at-a-outlook-stable-14-03-2025

[2] ibid

[3] Source: Real Estate Croatia

Commercial banks continue to dominate new mortgage lending with Housing Savings Banks constributing a small (less than 10%) share of total lending.

Non-performing loans in general in the banking sector remained at series-long low of 2.4% but mortgage specific NPL data is not available.

MORTGAGE FUNDING

Mortgage lending continues to be overwhelmingly deposit funded. Croatia's entry into the eurozone entry has boosted domestic banks' lending capacity due to reductions in the minimum reserve requirement.

The CNB raised the countercyclical capital buffer that banks must hold to reflect the increased risks to 1.5% of risk-weighted assets at end-1H24, from 1% at end-2023, 0.5% at end-1Q23, and 0% before that.

The Croatian banking sector remains stable, with solid capitalisation (total capital ratio at 23.9% in 2024), improving asset quality (non-performing loan ratio at 2.4% in 2024 vs. 2.6% in 2023) and solid profitability (return on assets at 1.9% in 2024 vs. 1.8% in 2023).

The banking market continues to be dominated by foreign owned banks which account for 90% of total banking assets and is characterised by very low loan to deposit ratios, negligible use of wholesale funding and relatively small mortgage exposure (approximately 20% of total balance sheets).

Although a covered bond law has been in place since 2022 it is as yet unused.

GREEN FUNDING

In 2024 a green bond was issued by a Croatian bank for the first time, by Erste Croatia, This was not however used to fund mortgages. Several banks offer loans to their customers to enhance the energy efficiency of their homes but these have not yet been used to back a green covered bond or securitisation.

	CROATIA 2023	CROATIA 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	3.3	3.9	1.0
Unemployment Rate (LSF), annual average (%) (1)	6.1	5.0	5.9
HICP inflation (%) (1)	8.4	4.0	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)	91.2	91.0	68.4
Gross Fixed Investment in Housing (annual change) (1)	n/a	n/a	-4.3
Building Permits (2015=100) (2)	144.2	147.8	136.9
House Price Index - country (2015=100) (2)	186.2	198.5	179.8
House Price Index - capital (2015=100) (2)	n/a	n/a	171.5
Nominal house price growth (%) (2)	9.5	6.6	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	10,840	11395	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	2,815	2,951	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	71.3
Gross residential lending, annual growth (%) (2)	1.5	-9.5	3.9
Typical mortgage rate, annual average (%) (2)	3.26	3.73	4.34

(1) Eurostat Data
(2) European Mortgage Federation - Hypostat 2024, Statistical Tables
* Eurostat Reviewed
** EU 2024 to be confirmed

CROATIA FACT TABLE

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 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?	'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 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).