

Mortgage Lending in Southeast Europe:  
Heading for International Best Practice

Bucharest, April 5-6, 2006

# How is the Market doing in Croatia?

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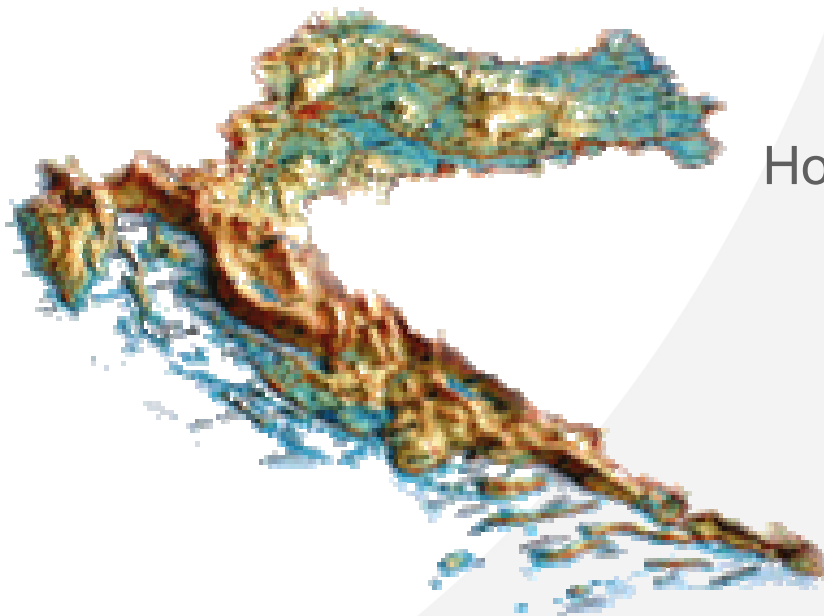
HRVATSKA POŠTANSKA BANKA DD

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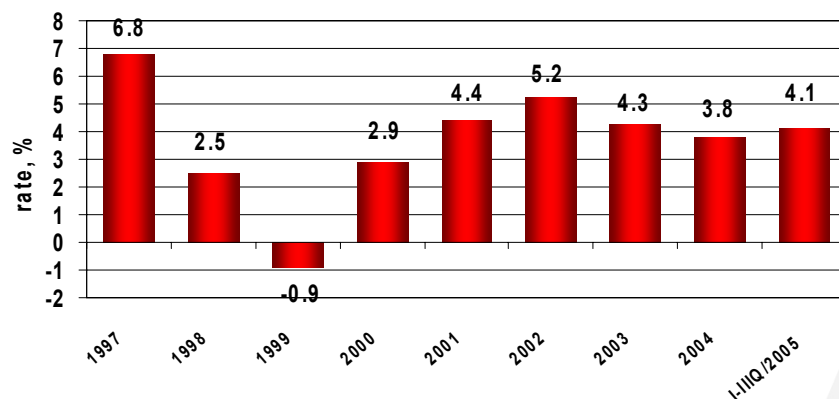
# Introduction – Land Indicators

- Total state area 87,609 km<sup>2</sup>
- Territory area (land) 56,542 km<sup>2</sup>
- Aquatorium area 31,067 km<sup>2</sup>
- Population: 4.442 thousands
- Number of inhabitants per km<sup>2</sup>: 78.6
- Official language and script: Croatian language and Latin script
- National currency: Kuna (HRK)
  
- Location: Geographically situated on the cross-roads between Central Europe and the Mediterranean.
  
- Political system: Parliamentary multiparty Republic
- Territorial organization: 20 counties, City of Zagreb, 123 towns, 425 municipalities
- Capital: Zagreb (779,145 inhabitants - the administrative, cultural, academic and communication centre of the country)

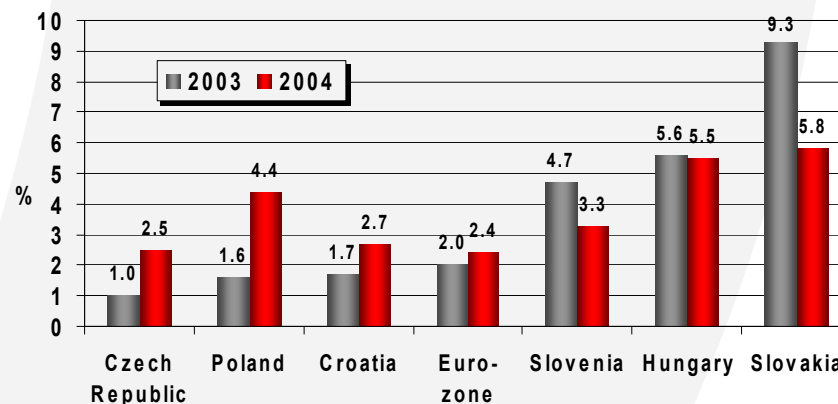


# Introduction – Macro Economy

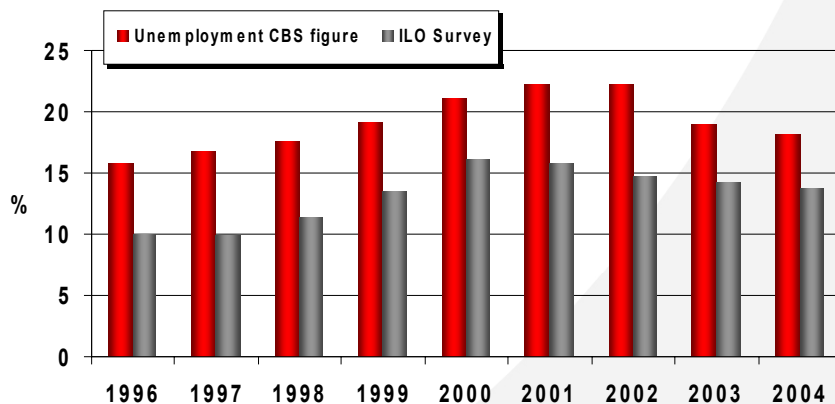
## Real GDP growth



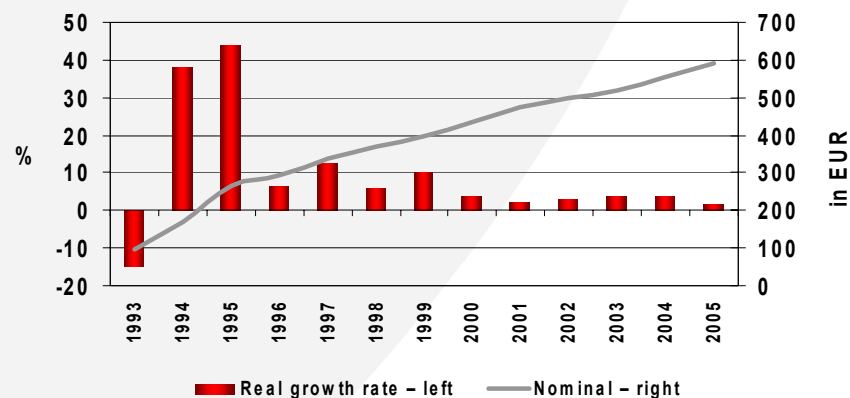
## Inflation



## Total unemployment rate



## Nominal and Real Net Wages



- Croatia started the negotiations on accession to EU in October 2005

# Housing supply and demand

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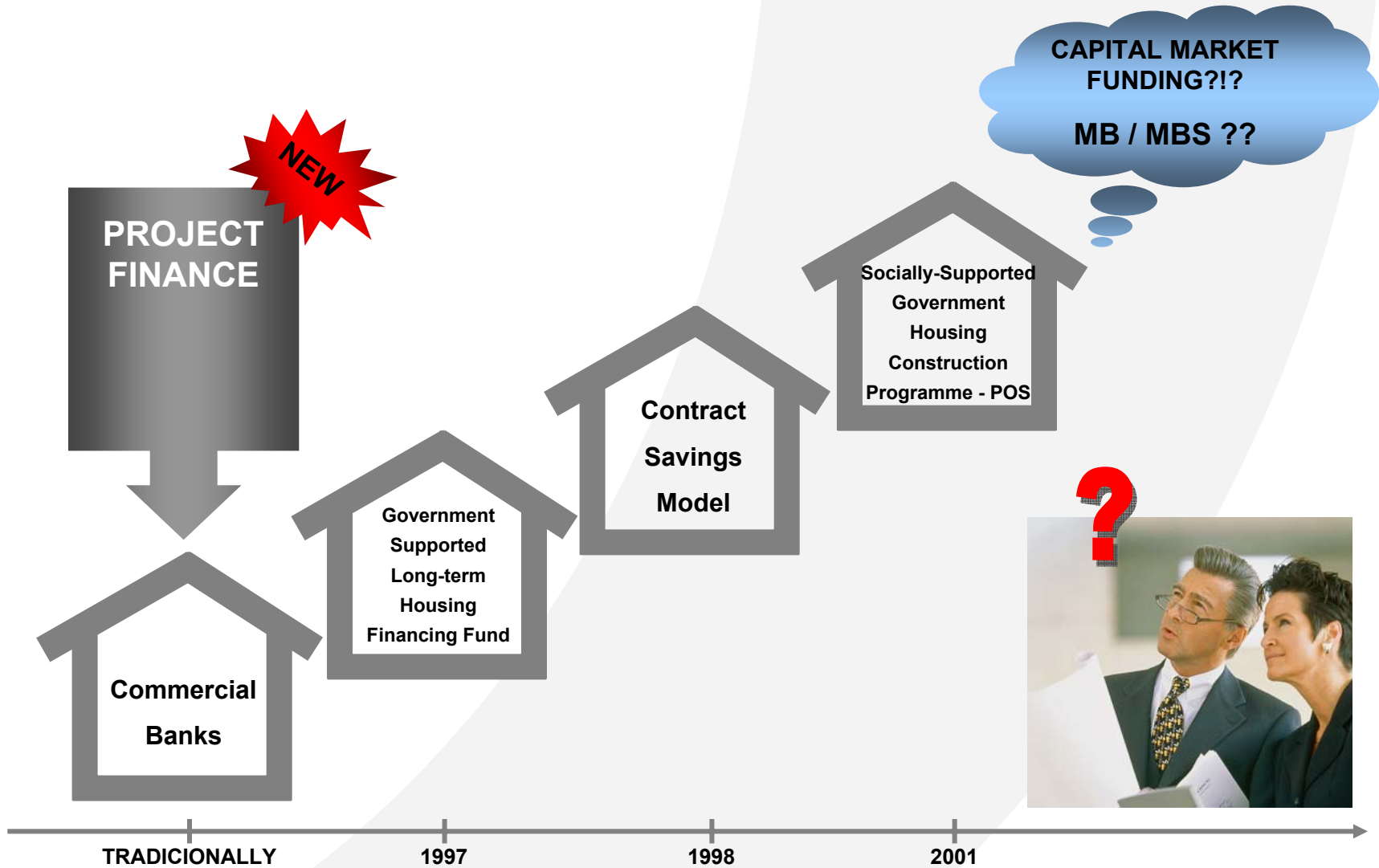
- Marked demand for houses/home financing:
  - Overpopulation of some dwellings
  - Shortage of housing stocks in large towns
  - Low housing standard (27.6 sq m / person in 2001)
  - A number of dwellings/buildings are in need of renovation
  - Marked demand for social housing

 Rented housing market is poorly organized

 Housing prices (and trading volume) are increasing

- Average citizen needs 1.9-2.5 net wages for a sq m of housing
- Products for housing financing are more accessible

# Housing Finance Market and System



# Housing Finance Market and System

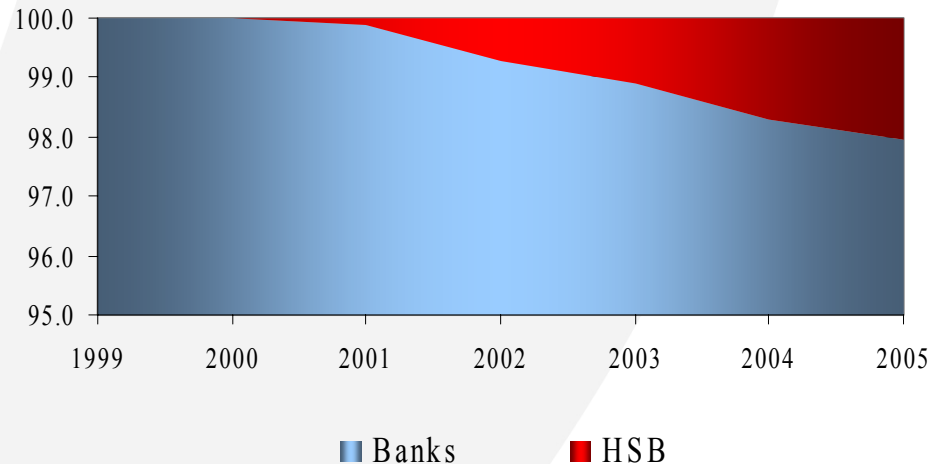
- 98.0% home loans granted by Commercial banks
- 2.0% home loans granted by HSB
- Home loans/GDP = 12.04%

• Most home loans are indexed to EURO (CHF)

• Adjustable interest rates

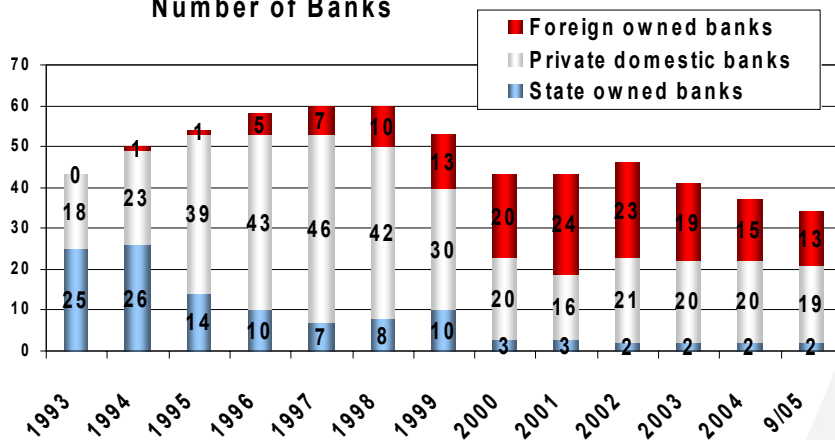
- Maturities: Up to 35 years
- Method of payment: Monthly installments
- Credit register established in 2004 – statements expected in 2006
- Information Exchange System on bad debtors from 2004

**Distribution of Granted Home Loans by Financing Model**

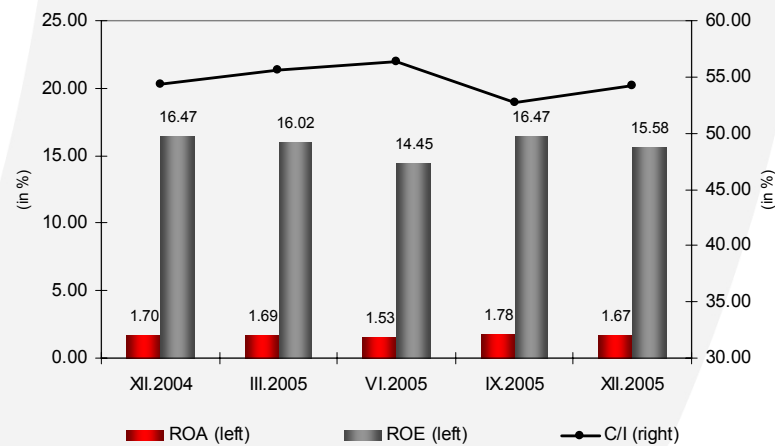


# Commercial Banks – Basic Indicators

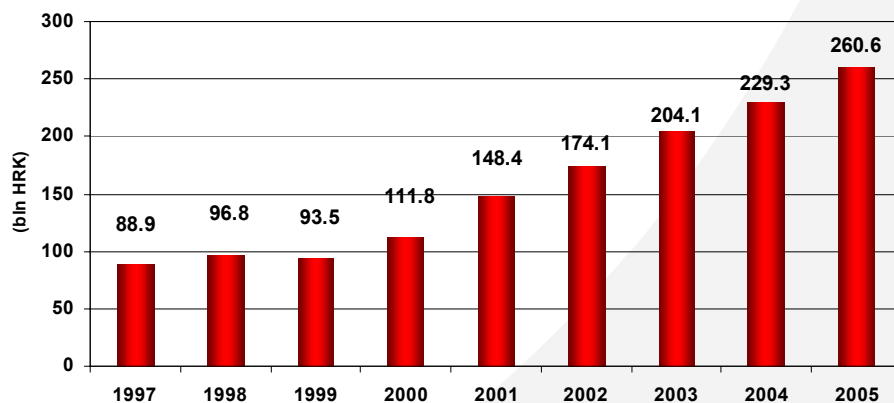
### Number of Banks



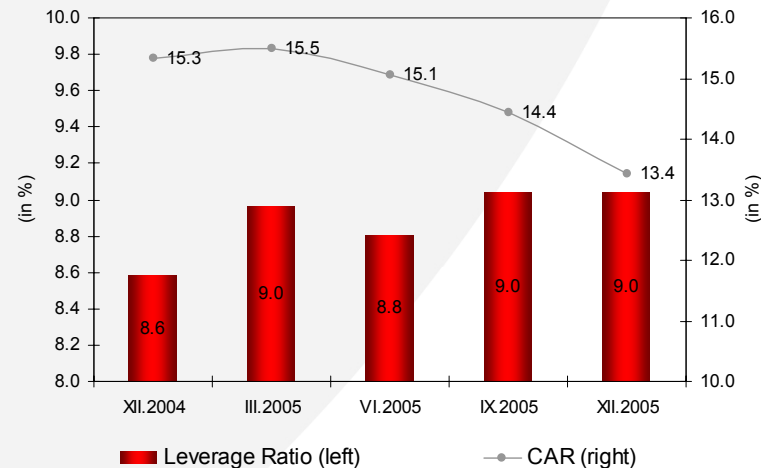
### ROA, ROE and C/I



### Total Assets of the Banking System

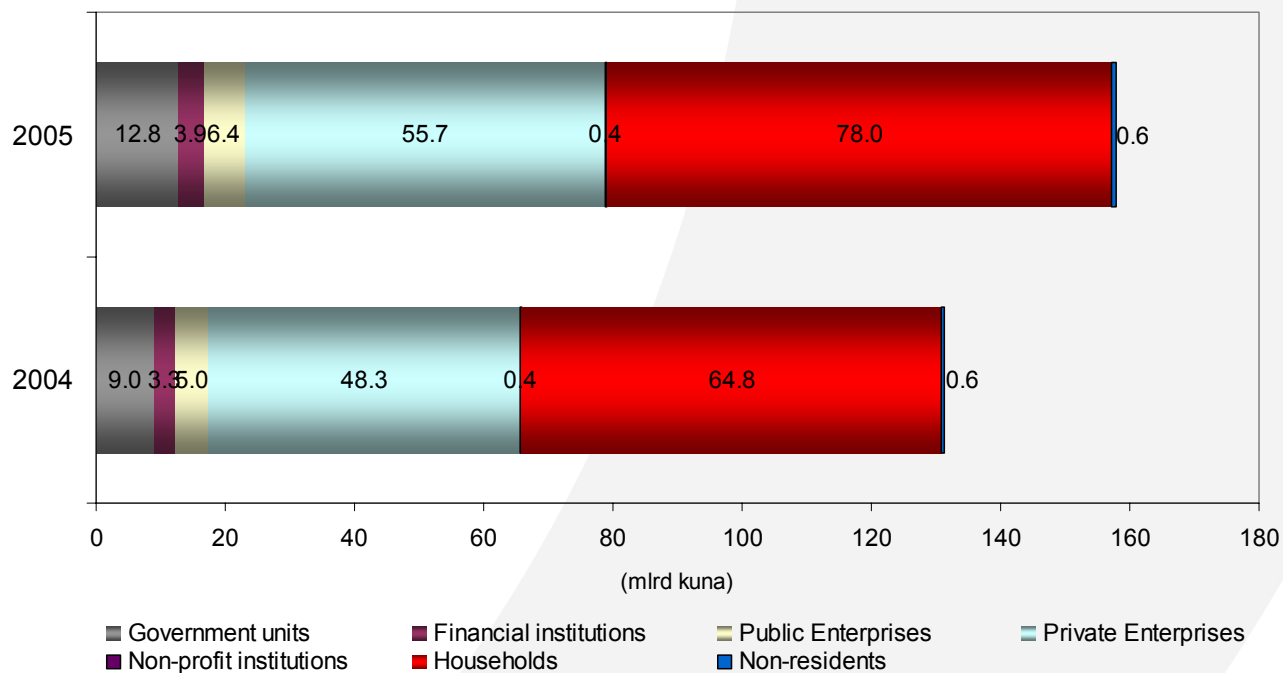


### Leverage Ratio and CAR



# Housing Financing by Commercial Banks

Extended Loans by Institutional Sectors as at 31st December 2005



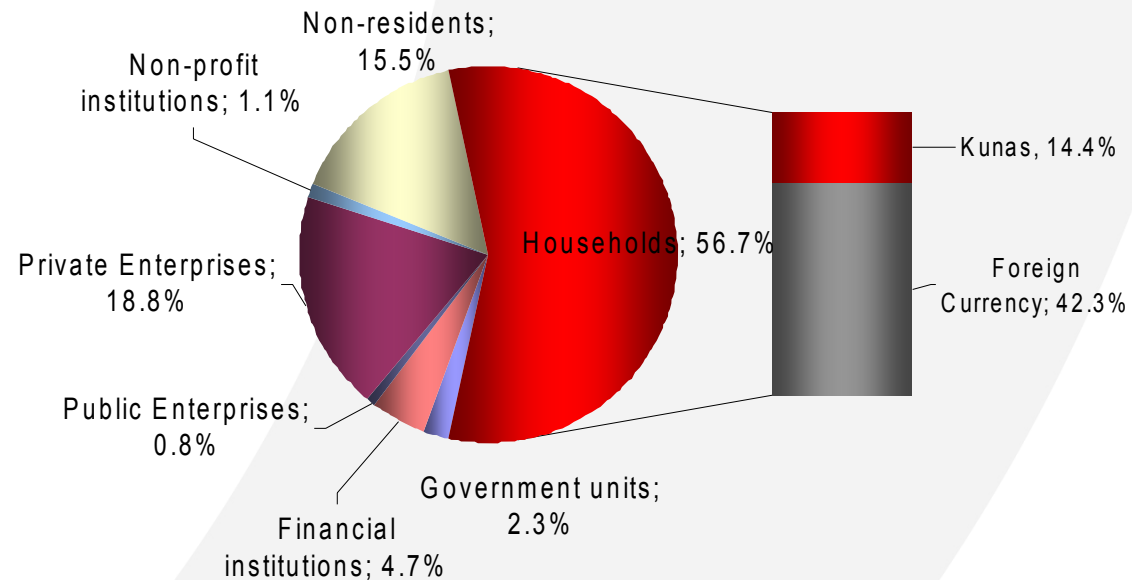
- Commercial banks - Portfolio lenders
- System is **dominated** by 9 largest banks (91% of total assets, 2005)
- The Big 9 granted 97% of total home loans (2004)



Innovations: HL indexed to CHF, Repayment-free model

# Housing Financing by Commercial Banks - Funding

Received deposits by Sectors (2005)



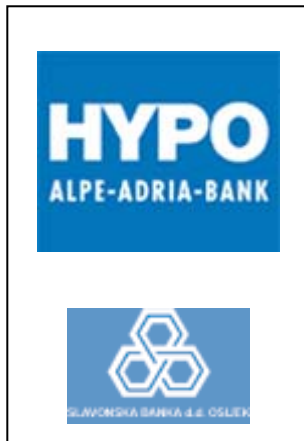
- Funding instruments: Deposits (traditionally), Share capital, EBRD deposits, Syndicated loans...

- Households deposits - mostly denominated in foreign currency

 Deposits are insured in 100% up to 100,000 HRK (13,558 EUR)!

# Housing Financing by Commercial Banks

Biggest banks by assets size in 2005 were >




Bank name	Share in total assets (%)
ZAGREBAČKA BANKA d.d. (ZABA)	24.41
PRIVREDNA BANKA ZAGREB d.d. (PBZ)	18.37
ERSTE & STEIERMÄRKISCHE BANK d.d.	11.68
RAIFFEISENBANK AUSTRIA d.d. (RBA)	11.01
HVB SPLITSKA BANKA d.d.	8.98
HYPO ALPE-ADRIA-BANK d.d.	7.40
OTP BANKA HRVATSKA d.d.	3.34
HRVATSKA POŠTANSKA BANKA d.d.	2.80
SLAVONSKA BANKA d.d.	2.75



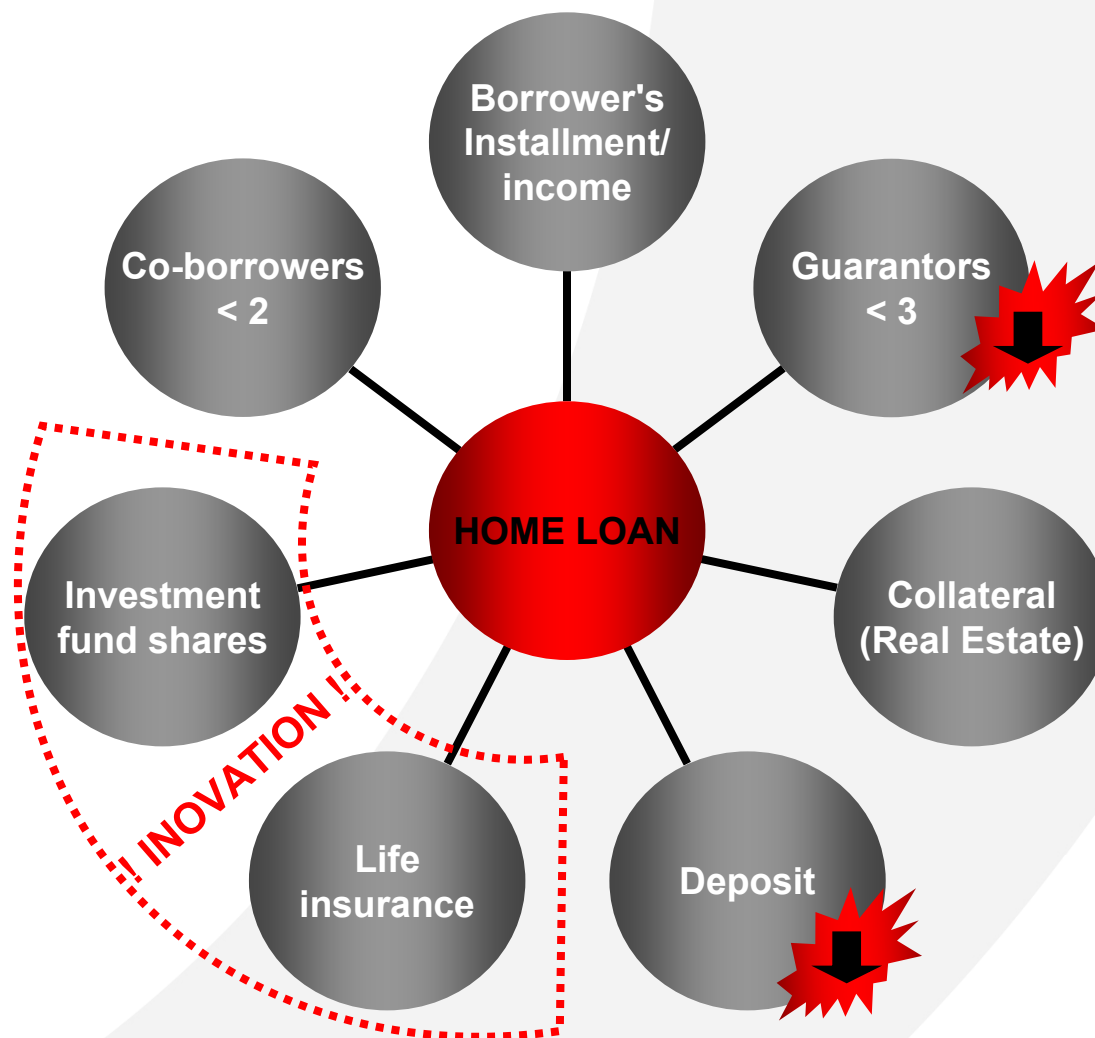
# Housing Financing by Housing Savings Banks (HSB)

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- Introduced in 1998
- Similar to those in Germany & Austria (Ger. *Bausparkassen*)
- Minimum saving period of 2 years is requested for loan application
- Interest rate spread is limited by 3.0 percentage points
- Deposits are insured in 100% up to 100,000 HRK (13,558 EUR)!
- **De-regulated in June 2005**
- Incentives of 102 EUR a year are possible (on deposited 678 EUR)
-  Interim financing of depositors (Bridge-loans) allowed from 2005



# Standards of Primary Housing Financing – Banks & HSB



**Thank you for your attention!**

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