

# Croatia

## Competitive banks, slow courts

Croatian cities and villages are served by both foreign – mainly Italian and Austrian – and domestic universal banks serving a broad client spectrum (Chart 1). Foreign bank subsidiaries are regarded as strong competitors in the retail, small and medium-sized enterprise (SME) and large corporate segments. Most parent banks set explicit credit growth targets for these subsidiaries. The majority of Croatian banks mention that participation in lending programmes of the government or international agencies to support micro, small and medium-sized enterprise (MSME) credit has been important in attracting new customers (Chart 2).

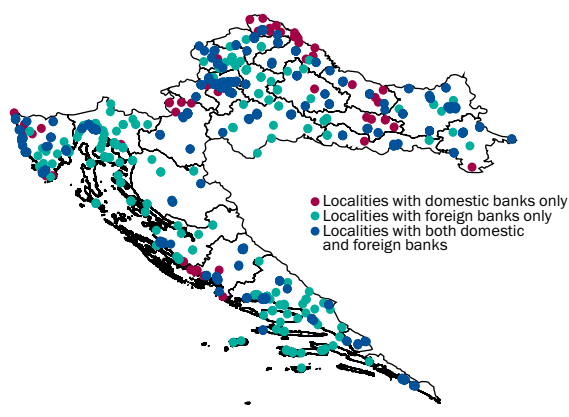
In the wake of the global financial crisis, Croatian banks are readjusting the currency structure of their lending. While some banks are decreasing their FX lending, other banks (about a third of those interviewed) are increasing the proportion of FX and FX-indexed lending, two-thirds of whom are foreign-owned banks. The most important reason cited for this increase was the

increased supply of foreign currency deposits and increased availability from parent banks.

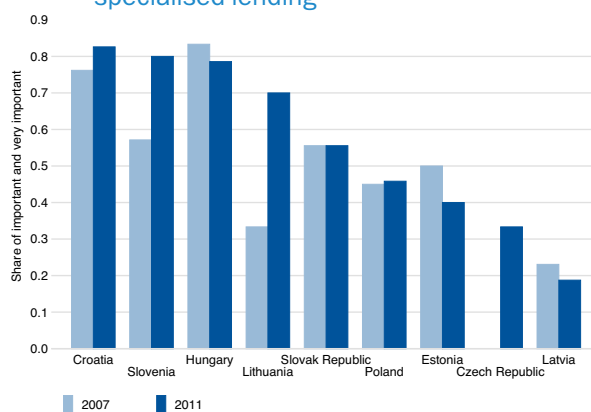
Croatia is one of the EBRD countries where levels of bank lending have decreased most over the last few years. According to Chart 3, this can be mainly explained by a lack of credit demand from both SME and larger firms. In contrast, compared to 2007, Croatian banks are complaining much less about a lack of funding. Banks now also think loan officers are better able to access borrower information and assess risks. For example, in 2007 only about half of the banks obtained information on the credit histories of potential borrowers from credit information registries or bureaus; in 2011 almost all Croatian banks did so.

Croatian banks score relatively low on questions pertaining to the ability of the court system to adequately protect secured creditor rights (Chart 4). Whereas banks think that the law provides an adequate scope for security, the efficient day-to-day enforcement of creditor rights relating to mortgages and pledges leaves much to be desired. Croatian courts are seen as slow and inefficient.

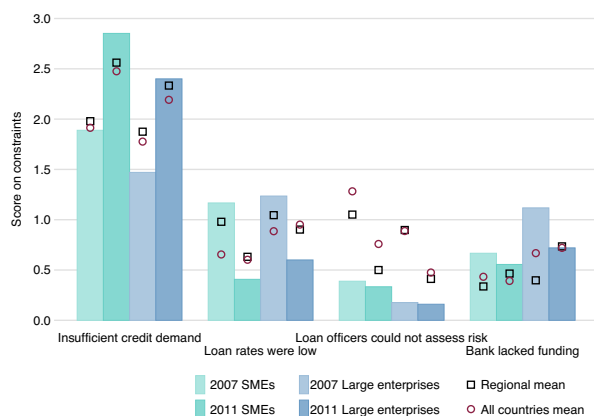
**Chart 1** Bank localities by ownership



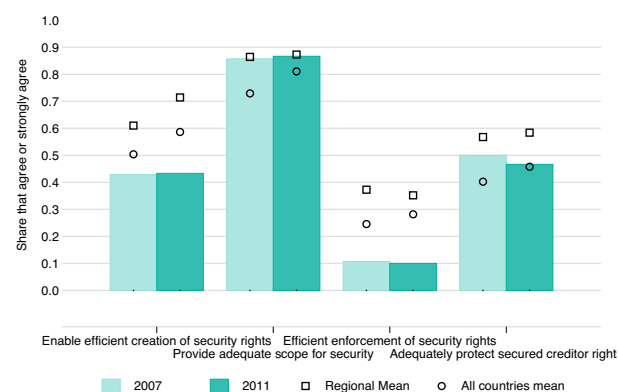
**Chart 2** Attracting new customers with specialised lending



**Chart 3** Main constraints to lending\*



**Chart 4** Laws related to mortgages



\*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint.