Croatia

The Croatian banks surveyed account for 91 per cent of the country's total banking assets, with the majority owned by foreign banks (Chart 1).[1] In line with their peers in other economies in central Europe and the Baltic States (CEB), 70 per cent of Croatian banks expect their branch network to shrink over the next five years.

Fewer than half of the Croatian banks surveyed have environmental and climate change-related policies and targets in place, 15-20 percentage points below the other CEB economies, on average. When it comes to lending to small and medium-sized enterprises (SMEs), only a small minority of Croatian banks undertake climate change-related impact assessments before loan approval, one of the lowest levels in CEB. In contrast, Croatian banks are, on average, ahead of their peers in the CEB and other EBRD economies in undertaking corporate governance-related impact assessments (Chart 2).[2]

The share of banks providing loans to improve the energy efficiency of SMEs and/or corporate clients is the lowest of the CEB economies surveyed. However, the share of banks offering such loans for residential housing is on a par with the CEB and higher than the EBRD economies, on average. The proportion of banks providing such loans for commercial real estate slightly lags the EBRD average and leads that of CEB (Chart 3).

Croatia is the only country in BEPS III where the share of banks viewing fintech as an opportunity is lower than the CEB and EBRD average for every single business line (Chart 4). Even in corporate lending, where, on average, more than 60 per cent of banks in the CEB and EBRD economies view fintech as a business opportunity, only a small

Chart 1 Branch presence of surveyed banks

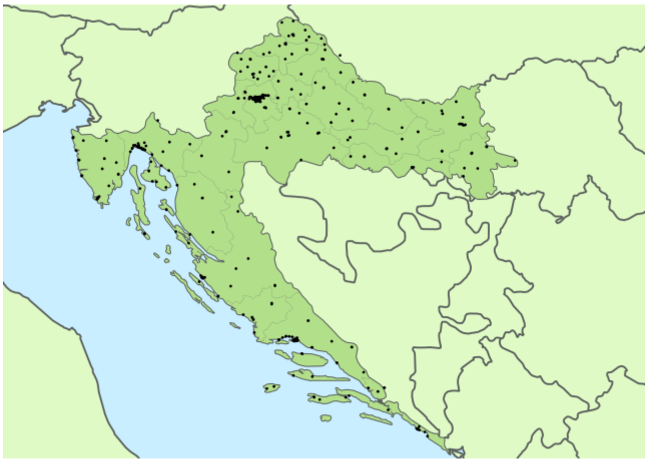


Chart 2 Impact assessment of SMEs before loan approval

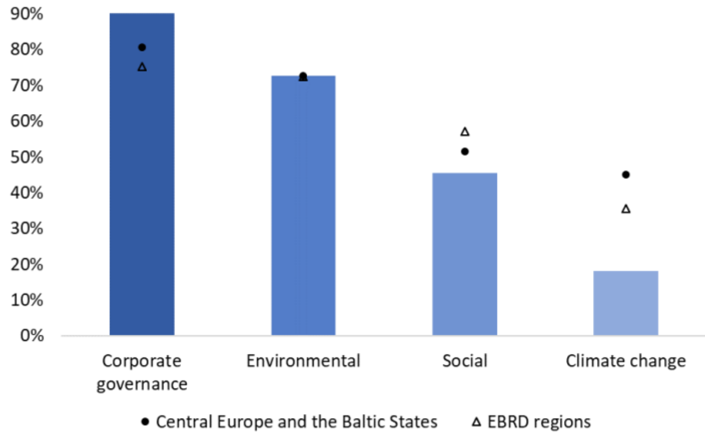


Chart 3 Prevalence of loans to improve clients' energy-efficiency

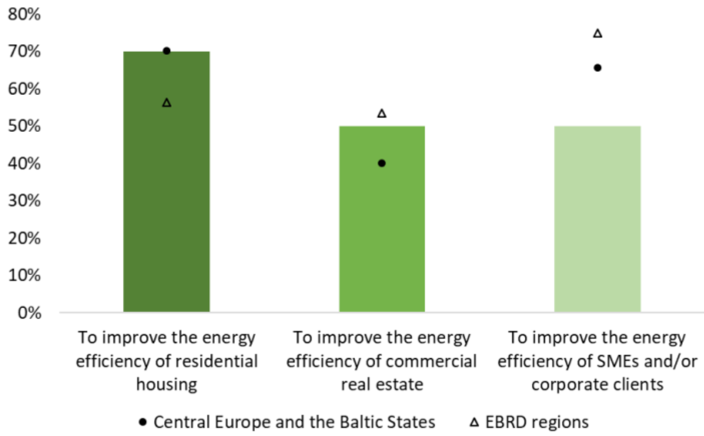
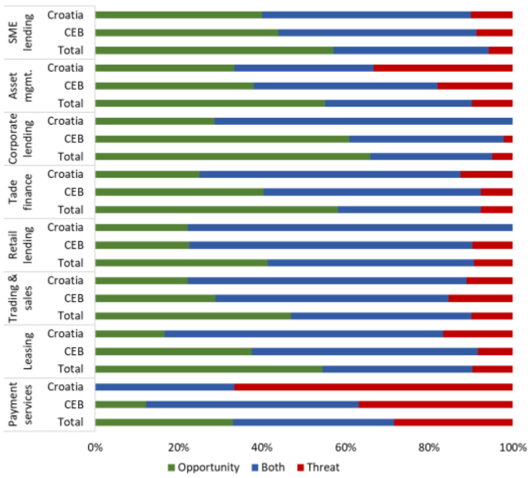


Chart 4 How fintech will affect banks' business lines



[1] Foreign banks make up 92 per cent of the banks covered, by share of assets.
[2] Bars in Charts 2, 3, 6, 7 and 8 correspond to the percentage share of banks in Croatia.

minority of Croatian banks concur. Conversely, just under 40 per cent of banks in the CEB economies, on average, see fintech as a threat to payment services, compared with 67 per cent of Croatian banks.

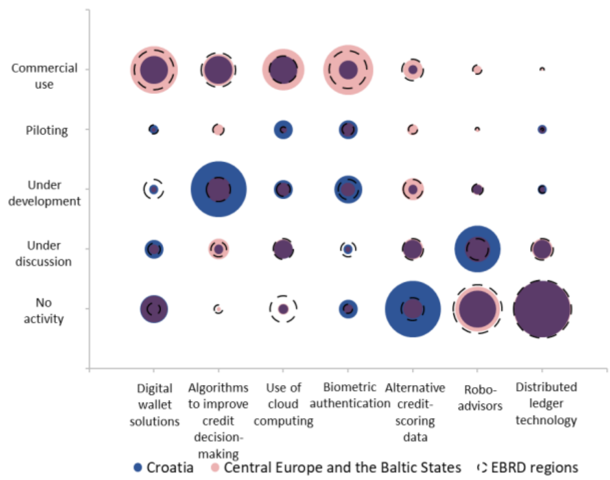
Croatian banks lag the CEB and EBRD economies when it comes to the uptake and commercial use of digital technologies (Chart 5). Close to half of banks surveyed in the CEB economies, on average, have launched the commercial use of biometric authentication for customer identification, digital wallet solutions and algorithms to improve credit decision-making, compared with less than a third in Croatia. This relatively slow pace of adoption is reflected in the share of banks accepting online applications for lending to SMEs. Only a few Croatian banks accept online applications, compared with nearly half of all surveyed banks in the CEB and EBRD economies.

Like most banks in the CEB and EBRD economies, 80 per cent of Croatian banks say they are concerned about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 6). However, half of Croatian banks cite difficulties in identifying and establishing links with fintech companies, double the share of the CEB and EBRD economies, on average.

Loan officers' lack of skills in evaluating credit risk, a lack of sufficient collateral and insufficient demand for credit are among the key constraints Croatian banks face when lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals. However, the main constraint on bank lending to innovative industries – a majority of Croatian banks and more than the CEB or EBRD averages – is a perceived lack of creditworthy customers (Chart 7).

None of the Croatian banks surveyed view the court system as quick and efficient. Moreover, since the previous survey in 2011, fewer banks say the law adequately protects secured creditor rights, enables the efficient creation of security rights or efficiently enforces security rights relating to mortgages – below the CEB and the EBRD regions, on average (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

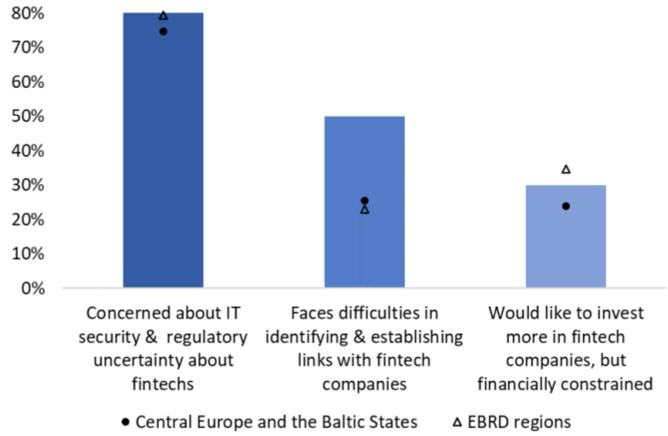


Chart 7 Constraints on lending to innovative industries

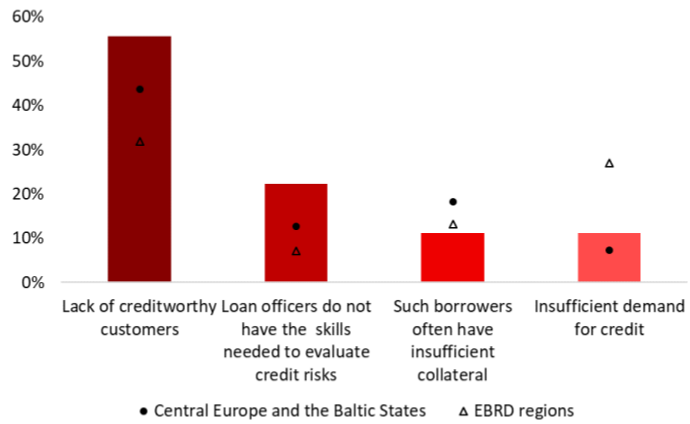


Chart 8 Laws related to mortgages and pledges