Critical Housing Analysis
Volume 10 | Issue 1 | 2023 | 50-65
Available online at www.housing-critical.com
https://dx.doi.org/10.13060/23362839.2023.10.1.553

The Role of Mortgage Subsidies in the Croatian Economic Growth Strategy: a Political-Economy Approach to the SSK

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Abstract: *Since 2017, Croatian housing policy has focused on promoting homeownership through the SSK programme – a form of mortgage subsidisation that covers a proportion of housing costs. Although this policy aimed to improve affordability and increase homeownership, a recent economic evaluation has shown that the SSK has in fact contributed to rising house prices and has been ineffective at raising the homeownership rate. While econometric research has identified the impact that the SSK has had on house price volatility and affordability, the underlying factors leading to the implementation of this subsidy, as well as its broader societal impacts, remain under-researched. Through a political-economy lens, this paper analyses the context that led to the inception of the SSK, its core targeting principles, and its impact on the housing market. We ask: How does this subsidy position the Croatian housing market within the national strategy for economic growth and social policy provision? We argue that this policy's impact on housing markets is twofold. First, the SSK reinforces a shift towards financialised growth through increased asset prices. Second, this subsidy shifts the focus of social policy towards mortgage markets, thereby furthering the privatisation of the welfare state and favouring middle-income groups. This paper's contribution resides in critically discussing the SSK beyond its stated goals and contextualising it within the broader model of economic growth dependent on private finance. Through interviews with relevant stakeholders, descriptive data indicators, and a review of policy documents, this paper characterises the Croatian growth strategy as a form of small-scale financialisation that relies on aligning social policy with mortgage markets. Finally, we position the SSK within a wider array of finance-led housing policies and suggest the formulation of a comprehensive housing strategy tailored to the broader segments of Croatian society.*

Keywords: housing policy; financialisation; mortgage subsidy; growth regime; welfare state.

Introduction

In 2017, the Croatian Parliament introduced a new housing loan subsidy programme (Cro. Subvencioniranje Stambenih Kredita – SSK)[1] with the dual objective of increasing affordability and homeownership while also encouraging demographic growth. Using data from 2017 to 2019, a first evaluation of this subsidy's impact on the housing market identified the opposite effect – worsening housing affordability (Kunovac and Zilic 2022). Using an econometric model, Kunovac and Zilic (2022) show how the SSK has resulted in recurrent house price inflation while failing to increase housing supply and homeownership rates. Their evidence suggests that the majority of subsidies have been concentrated in urbanised areas with already developed housing markets, rather than stimulating economic development in less dynamic regions, as originally intended. While this economic evaluation quantified the impact of the SSK on house prices and affordability, the underlying factors leading to the implementation of this subsidy, as well as its broader societal implications remain under-researched. Tackling them requires the problematisation of the role of financial markets in national economic development (Reisenbichler, 2020; Schelkle, 2012).

In recent years, the financialisation of housing markets has strengthened the links between housing policy, economic development, and inequalities (Aalbers & Christophers, 2014). Financialisation has been defined as 'the increasing dominance of financial actors, markets, practices, measurements and narratives at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Aalbers, 2019). Financialisation has generated a rich literature on the integration of housing finance and public spending in Western countries (see, for example, Fikse & Aalbers, 2021). In Croatia, financialisation has resulted in a set of predatory practices, such as foreign currency–denominated mortgages (Mikuš, 2020). During the last decade, the rise in Croatian house prices above European averages (1.A) has been accompanied by a new cycle of debt that raises questions about the risks of the current housing boom (Mikuš, 2022). In Croatia, political economy has served as an analytic lens for examining social protection policies that result in forms of clientelism and a familist welfare state (Stubbs, 2019). This political-economic approach to housing policy problematises mortgages and economic growth and thereby offers a relevant counter-perspective to that of the literature on housing regimes (Kemeny, 1981), which has tended to focus on the comparative analysis of countries in which tenures, such as the private rental sector (Bežovan, 2018), share similar characteristics.

Building on the political-economy approach to housing policy, this paper focuses on the context that led to the inception of SSK, its core targeting principles, and its impact on the housing market. Our objective is to link the literature on financialisation to specific features of the SSK's inception, implementation, and outcomes to examine its broader social and economic objectives. We ask the question: How does this subsidy position the Croatian housing market within the Croatian national strategy for growth and social policy provision? We argue that the impact of this policy on housing markets is twofold. First, the SSK reinforces a shift towards financialised growth by producing an increase in asset prices. Second, this subsidy shifts the focus of social policy towards mortgage markets which deepens the privatisation of the Croatian welfare state favouring middle-income groups.

[1] The subsidy was introduced by the Act on the Housing Loans'[Credit?] Subsidy ('Zakon o subvencioniranju stambenih kredita' – ZSSK) (Official Gazette 65/2017, 61/2018, 66/2019 and 146/2020).

To explore these issues, we first formulate an analytical framework that draws on existing literature, and we identify three key dimensions relevant to our analysis. The main empirical section then builds on these concepts to explore the Croatian context. We mainly draw from semi-structured interviews with relevant stakeholders, such as civil servants, estate agents, mortgage lenders, and academics. We also present secondary data from European and national sources. Furthermore, we include a review of policy documents and an analysis of parliamentary minutes. Finally, we conclude by contextualising the SSK and mortgage subsidisation policies within other finance-led growth strategies across Europe.

Growth strategies and housing policy

A growth strategy, as defined by Hassel and Palier (2020) refers to a 'series of decisions and reforms, taken by either government or producers' groups (…) in order to boost growth and stimulate job creation in a specific national context' (p. 21). This concept calls for a contextual policy analysis that takes into account the economic climate that led to the adoption of a policy, while also considering the social and economic impacts beyond the immediate scope of the policy. Following this approach, Hall (2020) suggests that policies should be seen as part of explicit or implicit strategies that evolve in response to social issues while being embedded in a particular political understanding of economic issues. In this section, we draw on existing literature to identify three key dimensions that examine the role of housing in growth strategies.

First, investment in the housing market plays an instrumental role in finance-led growth strategies by increasing asset prices. Traditionally, housing development has been seen as a conduit for macroeconomic policy, as low interest rates and public spending increase demand and facilitate the creation of construction jobs during recessions (Piazzesi and Schneider 2016). Hofman and Aalbers (2019) note that in the UK investment in existing properties has displaced new construction by the hand of policies that rely on finance-fuelled property markets for economic growth. More recently, Gil García and Martínez López (2023) contextualised the creation of an investor-friendly regulatory framework in Spain after the GFC as part of a broader strategy to increase asset prices and reignite property markets through the privatisation of the social housing stock.

Second, social policies centred on homeownership and mortgage market subsidies amplify the role of housing as a financial asset. Howard (1997) made one of the first attempts to interrogate the subsidisation of homeownership through mortgage interest deductions. Schelke (2012) has argued that since the GFC, financial markets, and mortgages in particular, have become the preferred target of social policy either by fostering existing markets or creating new ones to facilitate access to credit. Easy access to mortgage debt is one of the key features of a finance-led system that allows households to support their consumption while it keeps asset prices high. However, as a result households are exposed exposing to increased borrowing risks (Crouch 2011). This in turn can lead households to negative equity and foreclosures in the event of a market downturn (Mian et al. 2013). Building on the concept of growth regime and drawing on a Germany-US comparison, Reisenbichler (2020) points out how internal demand-led growth complements financialised housing policies, while export-oriented countries tend to be more conservative in their housing finance policies.

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Third, subsidising homeownership boosts prices, which ultimately increases inequalities and worsens affordability. Across Europe, marketised and financialised homeownership policies have been criticised for their failure to deliver affordable housing, reducing access to homeownership and exacerbating price volatility (Arundel & Ronald, 2021). This contradiction between attempts to increase homeownership resulting in worsening affordability (Fikse and Aalbers 2021), could be interpreted as an analogous process to the one identified by Kunovac and Zilic (2022) in their economic evaluation of the SSK described above. Ultimately, within Europe, transitional countries are dominated by systems based on homeownership, familism, and intergenerational solidarity (Stephens, Lux and Sunega 2015). These features make them particularly prone to adopt financialised growth policies that rely on mortgage credit to stimulate the housing market.

A politico-economic approach to the SSK

The following empirical section employs the three dimensions presented above to analyse the context that led to the formulation of the SSK, its core targeting principles, and its impact on housing provision.

A policy for finance-led growth: background and inception

After independence, homeownership came to occupy a central role in Croatia, as housing policy followed the path set by liberalisation in the West. The privatisation and residualisation of social housing through giveaways and right-to-buy initiatives led to an overreliance on ownership as the main tenure (Figure 1.E). In the first decade of transition, the number of public housing units public housing units decreased from 24% in 1991 to 2.6% in 2001, while homeownership increased from 64% to 82.9% (Bežovan 2013). The 2000s saw a significant increase in prices and housing permits (Figure 2.C), as asset prices were boosted by a transfer tax exemption for first-time buyers, the expansion of mortgage markets, mortgage interest deductions, and subsidies for private rental households that continued to be provided until 2010 (Bežovan 2019).

The GFC temporarily brought to an end the era of rising house prices. The credit market froze and, in the face of fiscal contraction, the limited public housing supply also declined, and the number of newly built dwellings plummeted as a result (Figure 2.B). The collapse of the housing and stock markets reduced the financial assets of a generation of Croatian households, while leaving a trail of stagnating property prices and unsold housing units. To reignite the housing market, the government devised a series of fiscal and subsidy measures, such as a state guarantee for the sale of unoccupied dwellings in 2011 (Bežovan 2019). However, despite government efforts, the deep economic crisis had a long-term impact on the housing market and caused chronic stagnation in the number of both permits and completed dwellings that lasted until 2015 (Figures 2.C & B). It was in the context of earlier signs of mild recovery after stagnation that the SSK, the subsidy in question, was formulated.

The SSK Act states that mortgage subsidisation has two specific aims. First, it aims to improve housing affordability for younger households and increase homeownership rates. Second, it assumes a link between housing affordability and higher birth rates, which should ultimately lead to further demographic and economic growth. E-consultations and debates in Parliament during the adoption of this legislation and its amendments highlight some of the concerns raised

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at the time of the SSK's inception.[2] One of the main criticisms levelled when the legislation was being discussed was that the high income requirements meant only 10% of the population would be eligible for the subsidy and the legislation did not full take into account the ability to repay the loan after the subsidised period.[3] This critique calls into question the premise on which the SSK is built – namely, that an increase in debt and ownership among a broad household base will fuel economic and demographic growth. However, in the Croatian case, with only a small proportion of households being mortgage-eligible and a high proportion of outright homeowners, the SSK could only have a limited effect on homeownership rates, which in fact peaked in 2015 (Figure 1.B).

While the SSK builds on an international tradition of mortgage subsidies and deductions (e.g. Howard, 1997), its focus on asset-price growth rather than on access to homeownership is more blatant since Croatia already has extremely high rates of outright ownership (1.E). Effectively, the economic stimulus resulting from the SSK was limited to middle- to high-income households – those with access to asset markets. Sociological research on tenure structure and housing careers has shown Croatia's similarities to other Southern European states: a high degree of homeownership and family-backed housing provision centred on residential inheritance (Rodik et al., 2019). According to Lux, Hájek and Kážmér (2017), inequalities in housing tenure have been replaced by inequalities in residential wealth, making the value of residential property an important determinant of social inequalities and stratification. Ultimately, the SSK was ineffectively targeted as a result of the unequal income distribution, since the privatisation of the social housing stock had already turned a majority of households into homeowners.

The SSK legislation was also criticised proposing instead a reduction or exception from the 3% real estate transfer tax in the case of first-time home-buyers (Bežovan 2019).[4] Moreover, a higher subsidy amount was also proposed for applicants in the less developed parts of the country, which the government initially refused, but later accepted in an amendment to the legislation.[5] Although the legislation that was adopted ultimately took into account geographical inequalities, its regressive targeting in terms of income was not amended. The criticism raised in parliament that characterised the SSK as an economic stimulus aimed at middle- and high-income households through mortgage markets is substantiated by the specific composition of housing tenures in Croatia and by the existence of fiscal measures geared towards housing price appreciation. At the time of its inception, the SSK was already being criticised for its contradictory design, which failed to reach people with lower incomes and

[2] See https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=4492
[3] Phonogram from the parliamentary discussion of the reading of the 'Final bill on subsidising housing loans (link), second reading, P.Z. no. 126; 36, p. 19; Lovrinović, Ivan: '…only 10% of the young people working full time will be eligible to compete for this loan'. See https://edoc.sabor.hr/Views/FonogramView.aspx?tdrid=2013072.
[4] Phonogram from the parliamentary discussion of the reading of the final form of the bill on changes and amendments to the Act on Subsidising Housing Loans (link), urgent procedure, first and second reading, P.Z. no. 8668; 68: p.10; Selak Raspudić, M: 'first property tax … you will receive 3% from the State…'. See https://edoc.sabor.hr/Views/FonogramView.aspx?tdrid=2015139.
[5] Phonogram of the parliamentary discussion of the reading the final form of the bill on changes and amendments to the Act on Subsidising Housing Loans (link), urgent procedure, first and second reading, P.Z. no. 8668; 68: p.11; Selak Raspudić, M: '… the percentage of financing according to the development index is also questionable, since a higher development index requires a higher loan amount'. See https://edoc.sabor.hr/Views/FonogramView.aspx?tdrid=2015139.

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ultimately relied on increasing debt among middle-income households to stimulate asset price growth. This will be covered in greater depth in the next section.

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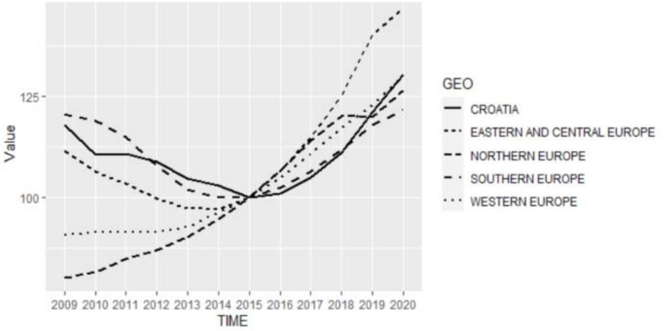
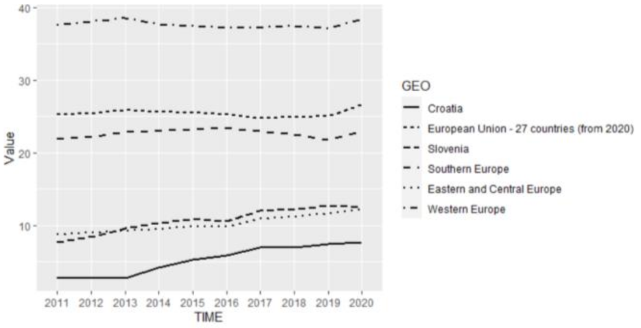
Figure 1: Quantitative Indicators I

Nominal House Prices (1.A)



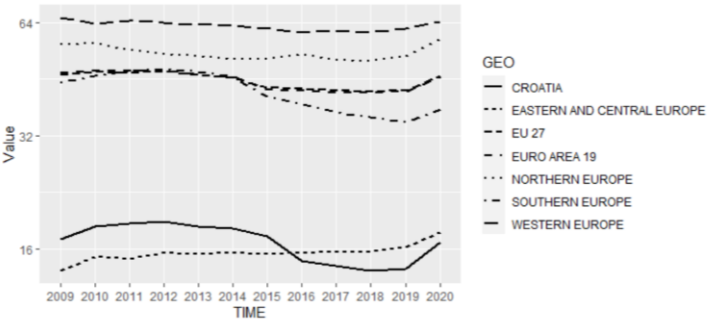
Source: Hypostat 2021 (EMF 2021).

Share of Owners with a Mortgage (1.B)



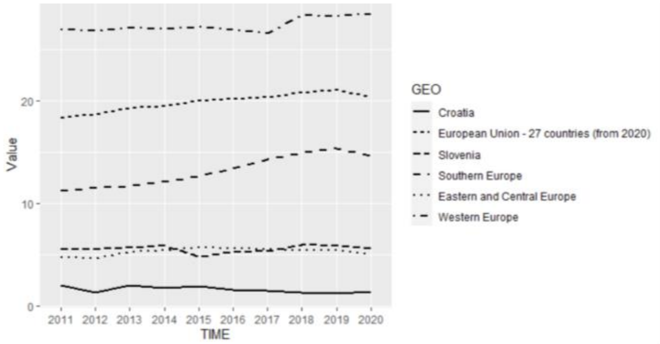
Source: EU-SILC 2021.

Residential Loan to GDP Ratio (1.C)



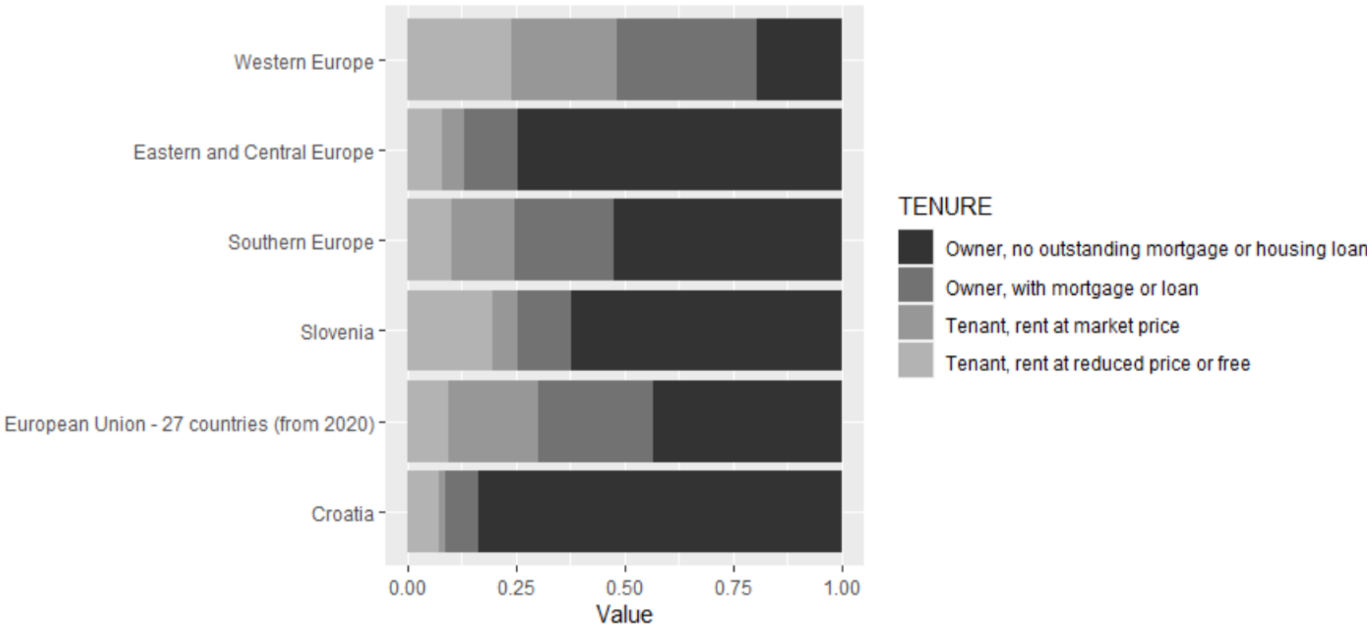
Source: Hypostat 2021 (EMF 2021).

Share of Private Rent Tenants (1.D)



Source: Eurostat 2021.

Tenure Breakdown (1.E)



Source: Eurostat 2021.

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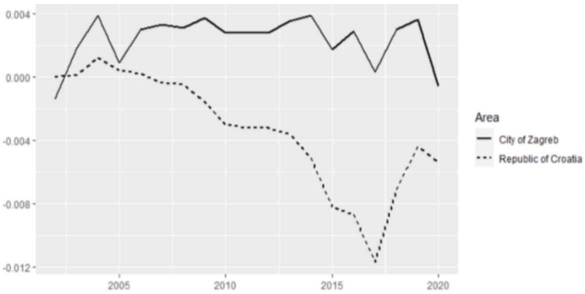
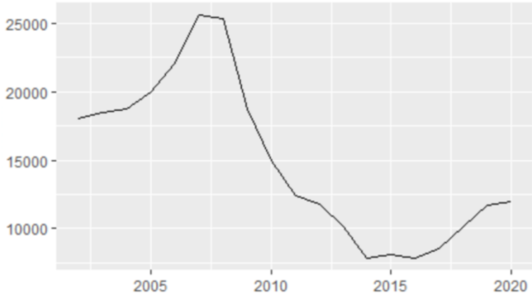
Figure 2: Quantitative Indicators II

Demographic Growth (2.A)



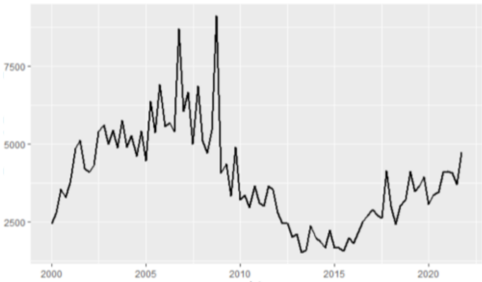
Source: CBS 2021.

Completed New Dwellings (2.B)



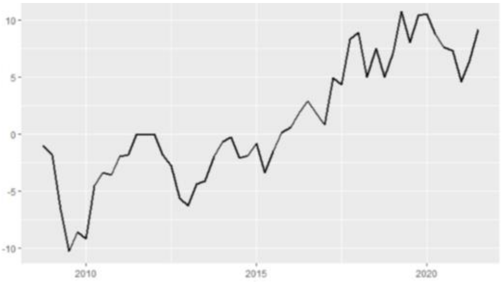
Source: CBS 2021.

Number of Residential Building Permits Issued (2.C)



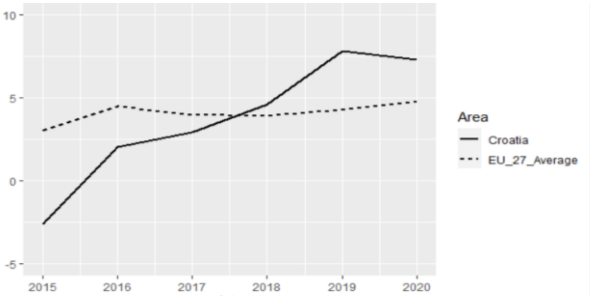
Source: HNB 2021.

Price Growth Rate of Existing Dwellings (2.D)



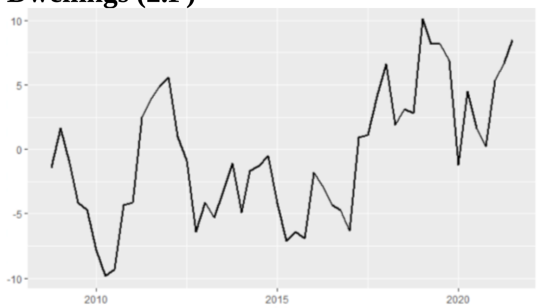
Source: HNB 2021.

Average Growth Rate of House Prices (2.E)



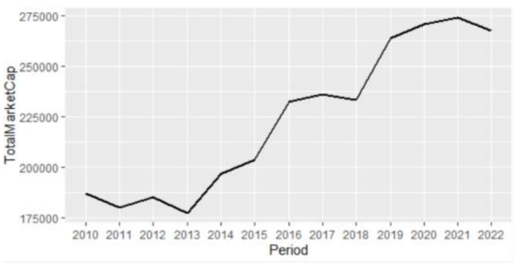
Source: Eurostat 2021.

Annual Price Growth Rate of New Dwellings (2.F)



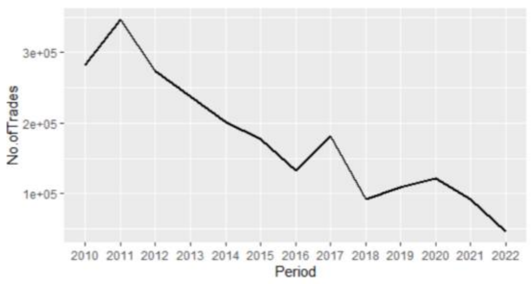
Source: HNB 2021.

Stock Market Capitalisation Rates (Mil HRK) (2.G)



Source: Zagreb Stock Exchange 2022.

Stock Market Number of Trades (2.H)



Source: Zagreb Stock Exchange 2022.

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A social policy for mortgage markets: targeting and implementation

As outlined above, the SSK continues the traditional focus of Croatian housing policy on homeownership. At the time of its first round of implementation in 2017, the SSK's eligibility criteria required applicants to be no older than age 45 and to have successfully applied for a loan with a registered bank for the purchase or construction of a property. The maximum subsidy was capped at 100,000 EUR and the maximum property price eligible was 1500 EUR/m2. The subsidy percentage was also capped at between 30% and 50% of the property's value, with less developed areas of the country being eligible for a higher subsidy percentage. Properties above the 1500 EUR/m2 threshold were still eligible, but the subsidy was only applied to the value below this amount. The minimum duration of the loan was 15 years and the Effective Interest Rate (EIR) during the first five years of its repayment could not exceed 3.75% per annum. The subsidy covered up to half the amount of the monthly instalments or annuities for the first five years. A special feature of the SSK is that, in contrast to other European countries, the mortgage subsidy in Croatia is not 'hidden' in a deduction, but takes the form of a direct payment (Kholodilin et al. 2023). Since this subsidy was designed to encourage demographic growth, households who had children in the five years after first receiving the subsidy had their subsidy extended for two more years per child. In addition, if a member of the household had a 50% or more disability, the subsidy was provided for one additional year. Finally, the SSK forbade recipients from renting out the home within two years of the end of the grant and the property had to be the recipient's registered home address.
[6]

Noticeably, the SSK's eligibility criteria are remarkably high in its upper brackets for age and property value and effectively do not include any top income cap. Indeed, the subsidy was not even restricted to first-time buyers. Income requirements at the lower end are set indirectly through bank lending criteria and macroprudential policies that do not provide any favourable rates for lower- or single-income households. Macroprudential restrictions usually require a 25% debt-to-income ratio for average incomes, which can rise to 50% in the case of two-income households.[7] In our interviews with the four major banks in Croatia, they stressed their confidence in the solvency of their borrowers. From the bank's perspective, these mortgages are a low-risk product as they are based on variable rates and are only accessible to middle- and high-income households. Moreover, the lack of a deed-in-lieu of foreclosure produces an uneven sharing of the risk between borrower and lender.

Our interviews with mortgage lenders also revealed the possibility of obtaining a mortgage of up to 100% LTV, as determined by national lending criteria. However, disparities between asking prices and bank valuations may lead to a lower mortgage amount, as one of the real estate agents we interviewed pointed out:

> *Bank valuations are problematic since they are based on data from prior years and prices actually grow every day. A client asked a bank for a loan and was rejected because their valuation said it was too high but we know that that's the asking price from the market, the prices in the database are the ones that are low. (Real Estate Agent, 2022)*

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[6] Zakon o subvencioniranju stambenih kredita (Act on the Housing Loans'[Credit] Subsidy), *Official Gazette* 65/2017, 61/2018, 66/2019 and 146/2020.
[7] Regulated by Zakon o stambenom potrošačkom kreditiranju (Act on Housing Consumer Loans) 2017.

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This suggests that the pace of house-price growth is actually outstripping projections by bank valuations, a phenomenon directly attributed to the SSK by Kunovac and Zilic (2022). By focusing on ownership with a mortgage as the preferred tenure, the SSK indirectly targets those in middle- to high-income brackets. In its implementation, this creates two contradictions: on the one hand, the lending criteria shift the risk towards beneficiary households and, on the other hand, it is sellers, outright owners, and landlords that benefit from increased property prices. While the Croatian housing market shows signs of mortgage-led financialisation, the absence of other actors such as REITS or practices such as securitisation, highlighted by mortgage lenders during our interviews, turns the Croatian example into a particular case of small-scale financialisation – an idea that will be developed in the next section.

In addition to its eligibility criteria, another key feature of the SSK's roll-out is that it is only open to applications during a specific period each year on a first-come, first-served basis. This produces a crowding of investment into the space of a few months because the subsidy application requires that there first be a mortgage offer from a bank. Consequently, there is a spike in market activity, producing erratic house price growth (Figure 2.D). As one estate agent put it, the application process for the SSK has the effect of periodically igniting the housing market:

> *The SSK is disconnected from new buyers and does not create a new market but instead has an effect over the market as a whole (...). Since it is a time-scheduled measure, it produces disturbances when prices go up because for a moment it is a sellers' market. Every year prices go up and then they don't really come down, and the next year they go up again. (Real Estate Agent, 2022)*

This cyclical pattern provides insight into the relationship between asset appreciation and mortgage subsidisation. This observation was also shared by other real estate agents, who see their workload fluctuate throughout the year. This is exacerbated by a fiscal regime where taxes on rental income are very low and favour buy-to-let (Bežovan 2018). The SSK pursues a selected investment approach, by targeting higher income groups, as explored by Stubbs on other social policy areas (2019), and it is thereby part of a financial growth strategy pushing middle- and upper-income households into overvalued housing. While those in lower income brackets are relegated to low-quality housing, higher income households with easy access to credit become the main risk bearers in this type of financialised growth strategy.

Unintended consequences? Unaffordability and financialization

Ultimately, this growth strategy, which is dependent on real-estate demand, has resulted in capital being diverted from productive sectors. The SSK has strengthened the position of the housing market as one of the main loci of investment, which hinders the development of a mature financial market. As one real estate expert we interviewed put it:

> *Croatians made a series of bad investments in the 2008 crisis. Households lost money in Potemkin-like villages and in the stock market. Stocks were a good option until 2008. Now, there is distrust of new construction and the stock market. (Real Estate Agent, 2022)*

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Since 2015, the capitalisation of the stock market has increased moderately, although the number of trades has decreased (Figures 2.G, 2.H). In fact, Croatia's value of stock traded is low even by the standards of transitional countries (Figure 3). The growth of stock prices has also been sluggish, and the ownership share of income is still low (Eurostat, 2021). However, the annual price growth of existing dwellings has continued to increase steadily over time (see Figure 2.D). House price growth (Figures 1.A & 2.E) and accompanying unaffordability have been two of the key consequences of the SSK (Kunovac and Zilic 2022). While the impact of the programme on house price growth was discussed during the debate on the most recent amendments to the SSK Act in 2020, these concerns were ignored in the final form of the bill that was adopted.[8]

Following Hassel and Pallier (2020), this pattern of house price growth, motivated by low-cost and accessible credit, serves to identify expansionary phases in domestic-led growth strategies. While new construction has been sluggish in line with the demographic trend (Figure 2. A & B), growth in existing house prices has been sustained and even outpaced growth in some areas of Western Europe (Figure 1.A). According to our interviews with real estate experts, this is the result of a combination of direct investment from tourism (Vizek et al. 2022), increased real estate purchases by foreigners, mostly other EU citizens,[9] and accessible credit through government subsidies. As one agent remarked:

> *New buildings and good buildings tend to be bought in cash much more often. 50% of the transactions I do are in cash, mostly income from tourism. Also, about 30% of my buyers are foreigners. Tax on renting is very low and capital gains are expected over 5 to 10 years so people wait before realising losses in a market downturn. Very different from the 2008 crisis where the new builds were being built and not sold. This time there's very little new build. (Real Estate Agent, 2022)*

SSK has contributed to an already unstable, investment-driven housing market. Ultimately, the increased house price volatility also has higher risk implications. In fact, drawing on research by the National Croatian Bank, the European Systemic Risk Board (ESRB) issued a warning in December 2021 suggesting that:

> *a substantial share of new loans had a loan-to-value (LTV) ratio higher than 90% in the first half of 2021. Many of these loans, were government-subsidised loans, whose LTV ratios typically ranged between 90% and 100%. Approximately 10% of new loans had an LTV over 100%, while one-quarter of new loans were also granted with a loan service-to-income (LSTI) ratio over 40%. (ESRB 2021: 3).*

The ESRB identified the growth in household credit, the signs of overvaluation in the real estate sector, and the lack of borrower-based risk mitigation measures as some of the main vulnerabilities of the Croatian housing market. However, the warning also recognised that

[8] Phonogram of the parliamentary discussion of the reading of the final form of the bill on changes and amendments to the Act on Subsidising Housing Loans (link), urgent procedure, first and second reading, P.Z. no. 8668; 68: p. 44, Tomašević, T.: 'we had 10% of real estate price increases in Croatia compared to 4.5% of the average increase in the European Union'. See https://edoc.sabor.hr/Views/FonogramView.aspx?tdrid=2015139.

[9] In 2021, German residents bought 2,637 properties in Croatia, which is an increase of 1,089 sales or as much as a 70% increase compared to 2020; Austrians made 1,109 purchases (472 more properties or an increase of 74% compared to 2020). *Source:* https://www.burza-nekretnina.com/svijet-nekretnina-savjeti/clanak-109-stranci-kupuju-sve-vise-nekretnina-u-hrvatskoj.

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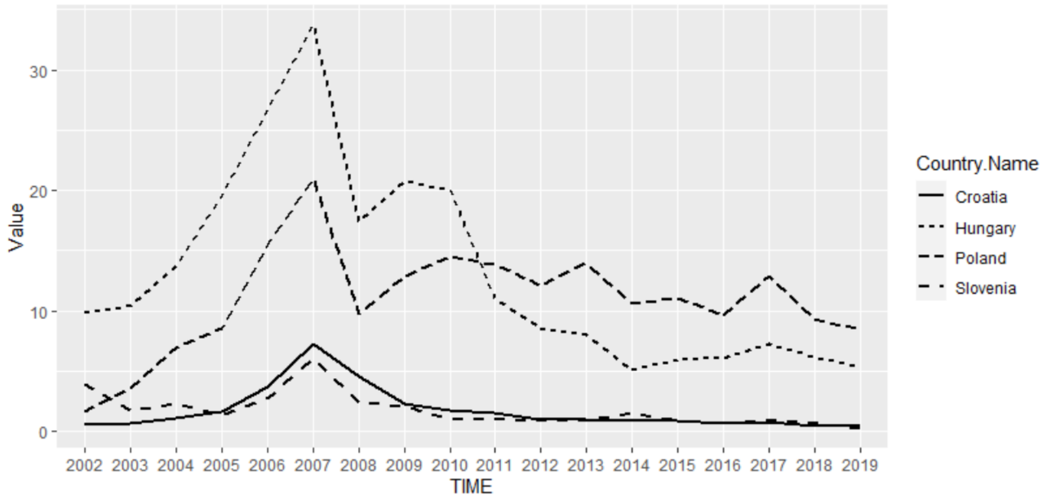
Available online at www.housing-critical.com
https://dx.doi.org/10.13060/23362839.2023.10.1.553

Croatian household indebtedness is low compared to other European countries (Figures 1.B & C) and highlighted the high capitalisation of Croatian banks. The economists we interviewed also pointed out that a major future shock could be related to a rise in interest rates, which will likely reduce the flow of money going into real estate and direct it into savings accounts. In the current market, where some units are overpriced, this poses a risk to developers and mortgagors, who may end up with negative equity. On the household side, the vulnerabilities of a potential market downturn seem limited to a small number of highly leveraged households. This reinforces the characterisation of the SSK as a form of small-scale financialisation driven by easy access to credit for well-off households, which fuels high property prices and locks up capital in real estate without stimulating new construction. The extent of the financialisation is also limited by the tenure composition of the Croatian housing system, which is dominated by outright ownership of housing as a result of the prior privatisation of the social housing stock.

Figure 3: Value of Stock Traded Croatia and Countries in the Region (% of GDP)



Source: World Bank 2022.

Conclusion: the contradictions of domestic-led growth through household debt

The evidence presented in this paper shows that the SSK has followed the path of similar finance-led growth strategies that rely on mortgage debt to fuel asset price appreciation. The Croatian context of very low to negative demographic growth (Figure 2.A) points to house price increases having ultimately been driven by investment and domestic debt than by changes in fundamentals. With the SSK, the government seems to be reinforcing a shift towards finance-led growth by fostering an alignment between social policy and mortgage markets. Ultimately, the mortgage market has become not only one of the main loci of investment, reducing the importance of the stock market and other productive activities, but also a main arena of social policy as the SSK effectively targets well-off households.

One distinct aspect of the Croatian case is that mortgage subsidisation is not ‘hidden’ in a deduction but instead takes the form of a direct payment. The SSK’s eligibility criteria and its overall impact on the housing market of inflating prices demonstrate how social policy now targets middle- and upper-income households. However, this reconfiguration of the housing market has resulted in a contradictory shift of risk towards subsidised households, which is exacerbated by some of the specific lending conditions, such as the lack of a deed-in-lieu of foreclosure and variable mortgage rates. More broadly, while house price growth nominally increases the wealth of a majority of households, this only benefits downsizing households at the expense of those without assets, for whom it is then more difficult to acquire assets.

Finally, the SSK can be interpreted as a form of small-scale, state-led financialisation. It is a particular variant of financialisation that relies on subsidies and retail credit to increase economic growth in the absence of large institutional investors and fully fledge financial markets. This form of financialisation contrasts with that found in other southern European countries, such as Spain, where the privatisation of the social housing stock is what fuelled the post-GFC recovery (Gil García and Martínez López 2023). The failure of the SSK to increase the proportion of households with a mortgage indicates that the price increases were driven by a minority of households with certain equity and higher income, for whom the SSK presents an opportunity to increase their housing wealth. This resembles the wealth-driven dynamics that Hochstenbach and Aalbers (2023) identified in the Netherlands.

Several specific changes to the SSK could lead to better outcomes – for example, better targeting of first-time buyers, lowering the eligibility age limit, using means-testing to define the top income cap, and accepting applications on a rolling basis. However, there is an urgent need for a national strategy to develop coherent housing policies that go beyond the current focus on homeownership. Instead of fostering a debt-fuelled growth strategy, as practised in the US (Schelkle 2012) and the UK (Hofman and Aalbers 2019), Croatia should formulate a needs-based housing strategy. Such a strategy should include measures aimed at formalising the private rental sector, since the share of private tenants is extremely low by European standards (Figure 1.C), and at increasing the supply of social housing to achieve a more diverse tenure breakdown that caters to different income groups. For future evaluation purposes, a housing strategy should set clear, evidence-based targets and indicators and should have monitoring mechanisms to avoid the perpetuation of inefficient policies.

While this paper has provided a critical qualitative analysis of the SSK, it has some important limitations. The lack of longitudinal data on the beneficiaries' finances means it is impossible to conduct an in-depth analysis of consumption and housing wealth or a robust statistical assessment of the demographic aspect of the SSK beyond its eligibility criteria. There is also a lack of qualitative research on the people who access the loans, i.e., 'lived experiences', which could elucidate the familial model this policy advocates through its nativist features. Finally, questioning the gendered and sexual identity dimensions of this subsidy can also lead to a critical interrogation of the family model that is being postulated at the intersection of finance and demographic growth.

Funding

This project has received funding from the European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No 956082.

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