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## The Impact of the Swiss Franc Loans Crisis on Croatian Households

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### Introduction

Between 2000 and 2007 there was a period of extensive expansion in lending to households in Croatia. Due to the deep economic crisis, many households now face problems with the repayment of their significant, barely repayable debt. Among them, the most prominent are those with loans denominated in Swiss francs.<sup>1</sup> The rise in Swiss franc value against the Croatian kuna (HRK),<sup>2</sup> combined with high interest rates, increased the monthly loan payments for these loans by an average of EUR 220 (euros; an average salary in Croatia being EUR 730). In 2011, when the Swiss franc was at its highest value (before the intervention of the Swiss National Bank in September 2011), there were around 100,000 Swiss franc-denominated loans. Most of them – around 75,000 – were long-term housing loans.<sup>3</sup>

The Croatian government has refused to address the problem for two years. In the autumn of 2013 it temporarily fixed interest rates for Swiss franc-indexed housing loans to 3.23, which diminished monthly payments to some extent. In August 2011, bank clients with Swiss franc-denominated loans started an NGO called Franc Association<sup>4</sup> that, together with Croatian Alliance for Consumer Protection, filed a lawsuit against the eight largest Croatian banks.<sup>5</sup> The Swiss franc loans crisis triggered a public debate about the consequences of and responsibility for the debt crisis, which is still ongoing. There are two main positions within this debate. On the one hand, there is a camp that argues that debtors are suffering the consequences of unfair contracts in which all of the risks are transferred to the side of the debtor, while the banks are

earning extra profit. Inadequate regulation of the financial sector and the weak oversight of the banks, it holds, are the main sources of the current debt crisis. According to this position, since the crisis has cumulative social and economic consequences which directly or indirectly affect the whole society, the government should take responsibility and protect the citizens by introducing policies that would alleviate the problem. On the other hand, those who subscribe to the neoliberal position argue that the responsibility lies with the individual debtors. For instance, economist Damir Novotny argues that

It was an individual decision of every citizen. It is true that banks didn't appropriately warn their clients of the fact that the exchange rate could drastically change. But I'm convinced that, for a good part, they were aware of the risks they are taking. It is the same as if you are buying stock shares. Why would the state now jump in to protect the losers?

(Novotny, 2011)

The aim of this chapter is to offer an insight into the sources, the structure and, especially, the consequences of the Swiss franc loans crisis in Croatia. After a brief overview of the socioeconomic factors that led households into debt-repayment problems, the chapter presents both quantitative evidence on the extent of the repayment burden and qualitative evidence on the experience of becoming and being (over)indebted, based on the results of a survey that was conducted in February 2012 among indebted households.

### **From credit boom to Swiss franc loans crisis**

The Croatian post-socialist transition was marked by war and economic crisis. The negative trends in productivity and the labour market, with unemployment reaching 16.1% in 2000, were temporarily stopped in 2001, to be reversed in 2002 (Matković, 2003, pp. 257–258). After 2002, the country experienced a period of economic growth until 2008, when the current crisis started. It developed into an economic depression with no end on the horizon, with an unemployment record of 21.9% in February 2013 and youth unemployment reaching 51.6% in March 2013. With most of industry ruined during the privatisation process, and the agriculture sector characterised by small and dispersed production, Croatian economic growth in the 2000s was a case of