Zagreb, 26 June 2018

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the third quarter of 2019

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013, 19/2015 and 102/2015), the Croatian National Bank (CNB) hereby announces that the Decision on the countercyclical buffer rate (Official Gazette 9/2015), which prescribes the countercyclical buffer rate of 0%, will continue to be applied in the third quarter of 2019.

The Decision on the countercyclical buffer rate provides an instrument to be used, if necessary, to limit excessive credit growth; it is a variable capital requirement that depends on the cyclical component of the private sector relative credit gap (i.e. the ratio of loans to households and non-financial enterprises to gross domestic product)[1]. The Decision sets the countercyclical buffer rate at 0%, to be applied as of 1 January 2016. On the basis of a recent analytical assessment of the evolution of systemic risks, the CNB hereby announces that it will maintain the same rate of 0%, which will be applied in the third quarter of 2019, i.e. as of 1 July 2019. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed.

The slight acceleration of economic activity in the first quarter of 2018 was coupled by a strengthening growth in the domestic placements of other monetary financial institutions (to domestic sectors, excluding the central government), based on transactions. However, the stock of total domestic placements remained almost unchanged on an annual level, primarily due to the continuing sale of non-performing placements and, to a smaller extent, because of the strengthening of the kuna exchange rate. The balance of domestic placements to non-financial enterprises continued to decline, while placements to the household sector grew, mostly due to an increase in housing loans. In addition to these trends, residential property prices recorded a first long lasting recovery after the crisis, further accelerating growth at the end of the previous year (to 7.4% annually in the fourth quarter of 2017). Furthermore, non-financial enterprises and
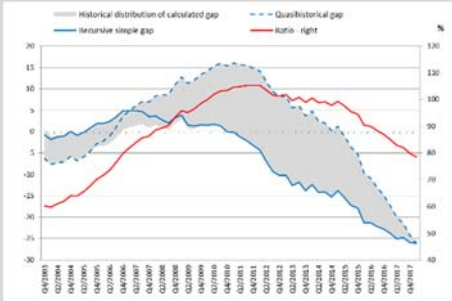
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[1] For detailed methodological explanations see Box 4 Financial cycle and countercyclical capital buffer calibration, Financial Stability, No.13, July 2014.

households continued to deleverage abroad, which is evident both in terms of transactions and in terms of external debt stock.

As the balance of total domestic and external claims on the non-financial sector (non-financial enterprises and households) continued to decline in the first quarter of 2018, coupled with an increase in nominal gross domestic product, the standardised indicator of relative indebtedness continued to decrease. At the end of the first quarter of 2018 this indicator fell to 78.5%, while the credit gap, calculated on the basis of the standardised ratio remained negative at –26.1% (Figure 1.a). The specific indicator of relative indebtedness, based on the narrow definition of credit, which comprises only domestic credit institutions' loans to the non-financial sector, placed in relation to the quarterly, seasonally adjusted GDP (Figure 1.b) also declined further, with a negative credit gap. As there is still no cyclical pressure build-up that would require corrective action on the part of the CNB, the buffer guide estimated for the third quarter of 2019 remains 0%.

Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)[a] **Figure 2 Buffer guide**
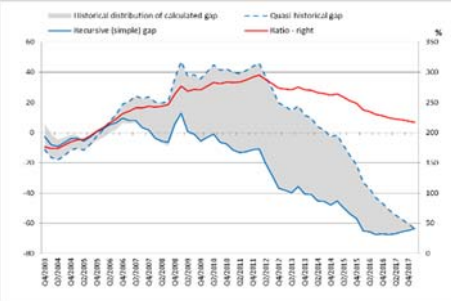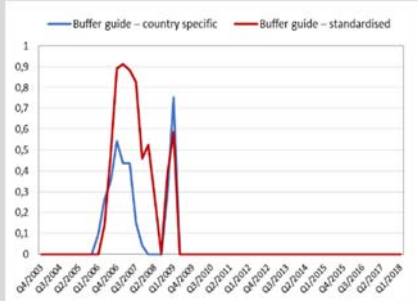
1.a Standardised indicator   1.b Specific indicator

[a] *Calculations of all relevant ratios (standardised ratio is the ratio of total placements, i.e. domestic placements and external debt, to nominal annual GDP, while the specific ratio is the ratio of loans of domestic credit institutions to the quarterly, seasonally adjusted, GDP) and the short-term gap are made on a sample as of 2000. The quasi-historical gap is calculated on the entire sample and the recursive gap is calculated on the right-hand side moving sample (of available data for each quarter), with the last observations being always the same for both gap indicators. Historical series of buffer guides are shown as the function of the short-term (recursive) gap.*

Sources: CBS (original series of nominal GDP, seasonally adjusted by the CNB); CNB (tables D1, D5 and H15 for time series of credit); time series are subject to revision and available at the CNB website.

As part of its macroprudential policy, the CNB will continue to regularly monitor the evolution of potential imbalances in financing non-financial sector needs and announce countercyclical buffer rates on a quarterly basis as well as buffer guides needed for their calculation. With reference to

this, the CNB will also rely on all other relevant information and indicators that may point to risks of excessive credit growth, such as price developments in the goods and services markets, real estate price developments, the current account balance, the dynamics of placements and monetary aggregates, etc., which are available at the following website: http://www.hnb.hr/analyses-and-publications/regular-publications/bulletin.