

## **Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the first quarter of 2017**

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013 and 19/2015), 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%, shall be applied in the first quarter of 2017 as well.

The Decision on the countercyclical buffer rate (Official Gazette 9/2015) provides an instrument to be used in case it is necessary to contain excessive credit growth; it is a variable capital requirement that depends on the cyclical component of the private sector credit gap (the ratio of household and corporate loans to aggregate income)<sup>1</sup>. In view of weak lending activity, the Decision set the countercyclical buffer rate at 0%, which is to be applied as of 1 January 2016. On the basis of a recent analytical assessment of the evolution of cyclical systemic risks, the CNB hereby announces that it shall maintain the rate of 0%, which shall be applied in the first quarter of 2017, i.e. as of 1 January 2017. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

a) The recovery in economic activity coupled with a further process of deleveraging of the private sector led in the third quarter to a somewhat sharper fall in the standardised loan to GDP ratio (in the third quarter of 2015 this ratio stood at 97.3%). The domestic financing of enterprises continued to decline in the third quarter and household deleveraging also continued. Particularly pronounced was the decline in long-term home loans and transaction account overdrafts, reflecting the still present insecurity associated with a slow recovery in the labour market. The borrowing gap calculated on the basis of this standardised loan to GDP ratio was still negative in the third quarter of 2015 (-16.3%), which again clearly indicates that there are currently no risks of excessive credit growth that would have a systemic effect on the functioning of financial markets. The buffer guide estimated for the third quarter of 2015 thus stands at 0%. This is also confirmed by the specific credit gap (based on the narrow definition of credit, which comprises only claims of domestic credit institutions, placed in the context of its ratio to the quarterly, seasonally adjusted, GDP), Figures 1 and 2.

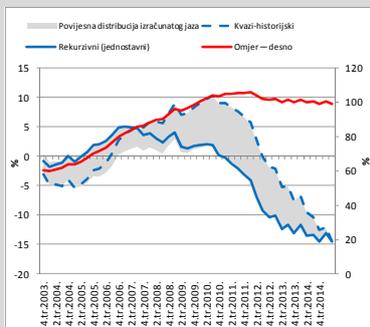
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<sup>1</sup> For a detailed methodological explanation, see Box 4 Financial cycles and countercyclical capital buffer calibration, Financial Stability, No. 13, July 2014.

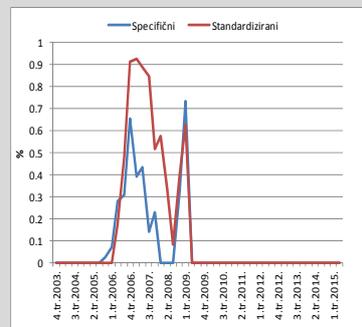
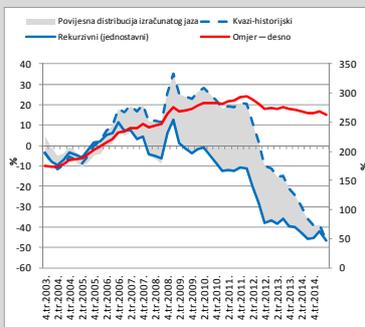
**Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)\***

**Figure 2 Buffer guide**

1.a Standardised indicator



1.b Specific indicator



<sup>a</sup> Calculations of all relevant ratios 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 CNB); CNB (tables D1, D5 and H15 for time series of credit); time series are subject to revision and available at the CNB website.

b) In line with its macroprudential policy and following ESRB recommendations<sup>2</sup>, the CNB will regularly monitor the development of potential imbalances in financing private sector needs and announce buffer guides and countercyclical buffer rates on a quarterly basis. 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 partial markets, the current account deficit, the dynamics of placements and monetary aggregates, etc., which are available at the following website:

<http://www.hnb.hr/publikac/bilten/hbilten.htm>.

<sup>2</sup> This primarily refers to Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1); Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) – currently available only in English; and Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) – currently available only in English.