

Zagreb, 28 December 2016

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the first quarter of 2018

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 first quarter of 2018.

The Decision on the countercyclical buffer rate (Official Gazette 9/2015) 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 (the ratio of household and corporate loans to aggregate income)¹. In view of slow lending activity, the Decision set 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 cyclical systemic risks, the CNB hereby announces that it shall maintain the same rate, i.e. 0%, which shall be applied in the first quarter of 2018, i.e. as of 1 January 2018. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

The third quarter of 2016 saw a further heightening of economic activity largely attributable to a somewhat more favourable tourist season, faster private consumption associated with the signs of labour market recovery. Business and consumer optimism also remained elevated during that period, but investment demand slowed down after rising significantly in the first half of the year. Lending standards continued to ease and on the supply side there have been no visible restrictions to possible borrowing needs. The first nine months of 2016 saw an effective increase in private sector lending (transactions

¹ See Box 4 for detailed methodological explanations: Financial cycle and countercyclical capital buffer calibration, Financial Stability, No. 13, July 2014.

with credit institutions) and that mainly due to a faster corporate lending (2.7%) than household lending (0.4%). By contrast, the non-financial corporations sector continued to deleverage nominally, mainly as a result of write-offs and sale of irrevocable claims which rose considerably in 2016. The third quarter of 2016 also saw corporate deleveraging towards foreign creditors. Households also reduced their debt nominally. After a somewhat faster nominal household deleveraging recorded at the end of the last year and early this year, mostly determined by the conversion of loans in Swiss francs, this sector's deleveraging over the next three months of 2016 returned to the previous years' level, as a result of growth in aggregate income.

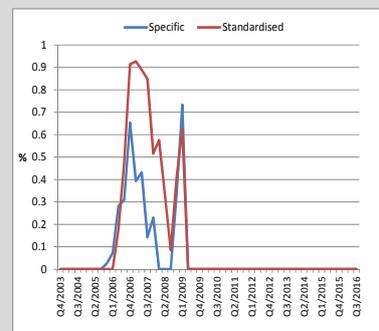
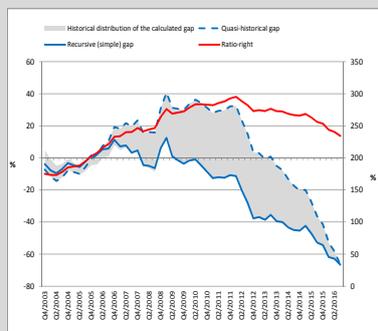
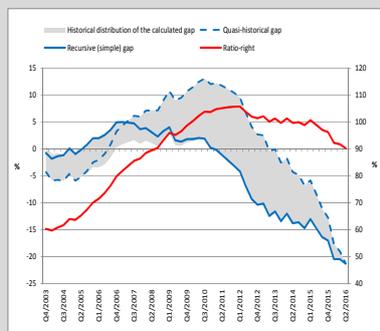
Fast growth in aggregate income and further reduction in the nominal debt of the private non-financial sector resulted in a further reduction in the standardised credit-to-GDP ratio which in the third quarter of 2016 fell to its lowest level since the beginning of the crisis and stood at 90.3%, while the credit gap, calculated on the basis of this standardised ratio continued to be negative and stood at -21.3%. Taking into account the before-mentioned, one can observe potential signals of recovery in lending activity, but they may not be interpreted yet in terms of a potential cyclical pressure that would require corrective action by the regulator through raised countercyclical buffer rate. The buffer guide estimated for the third quarter of 2016 thus stands at 0%. This is also confirmed by the specific indicators of relative indebtedness (based on the narrow definition of credit, which comprises only claims of domestic credit institutions, placed in relation to the quarterly, seasonally adjusted, GDP), Figures 1 and 2.

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 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.

In line with its macroprudential policy and ESRB recommendations², the CNB will regularly monitor the evolution 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

² This primarily refers to the 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 in English only; and Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) – currently available in English only.

aggregates, etc., which are available at the following website: <http://www.hnb.hr/analize-i-publikacije/redovne-publikacije/bilten>.