

ANNOUNCEMENT OF THE APPLICATION OF THE COUNTERCYCLICAL BUFFER RATE FOR THE REPUBLIC OF CROATIA FOR THE SECOND QUARTER OF 2016

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013 and 19/2015), the Croatian National Bank 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 second quarter of 2016 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 limit 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)¹. 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 second quarter of 2016, i.e. as of 1 April 2016. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

(i) The standardised credit-to-GDP ratio has been on a downward path ever since 2012 under the influence of private sector deleveraging. The credit gap calculated on the basis of this ratio was negative (–14%) in the fourth quarter of 2014, 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 calculated for the fourth quarter of 2014 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), Figures 1 to 3.

(ii) At the end of January 2015, the Croatian National Bank began to publish monetary statistics data in accordance with the new European System of National and Regional Accounts (ESA 2010), which, among other things, affected the revision of data on allocation of credit assets by sector, above all enterprises². As a result, specific and standardised indicators of private sector indebtedness from 2008 on have been revised downwards (debt level has been lowered by 3% on average). As short-term variations in these series remained nearly unchanged, this mostly affected the differences in the first years of revision,

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

² Particularly noteworthy is the reclassification of Croatian Motorways (HAC) and Rijeka – Zagreb Motorway (ARZ), which were reclassified into the government sector in 2008 and 2010, respectively. For more details, see CNB Bulletin, No. 211, XXI, February 2015: *Annex 1 Implementation of the ESA 2010 standard and related improvements in monetary statistics.*

while recent developments have been less affected. The same holds for the calculation of buffer guides (Figure 3).

Figure 1 Relevant credit-to-GDP ratio

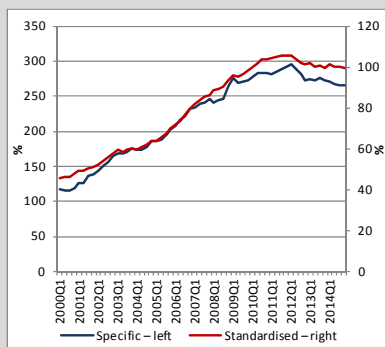


Figure 2 Relative deviation of the ratio from its long-term trend (gap)

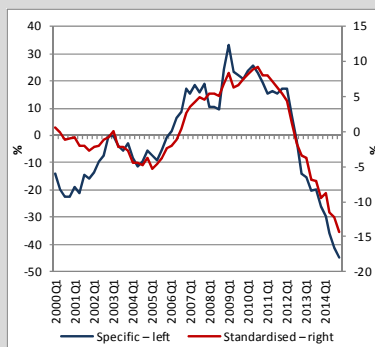
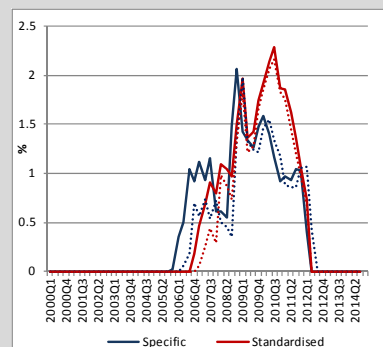


Figure 3 Buffer guide^a



^a The dotted lines show the time series of buffer guides before the revision of statistical data (from the explanation of the Decision on the countercyclical buffer rate, Official Gazette 9/2015).

Sources: CBS (original series of nominal GDP, seasonally adjusted by CNB); CNB (tables D1, D5 and H15 for time series of credit).

(iii) In line with its macroprudential policy and following ESRB recommendations³, 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 aggregates, etc, which are available at the following website:

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

³ 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; Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) – currently available only in English.