

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

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013 and 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 be applied in the second 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 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)<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 will be applied in the second quarter of 2017, i.e. as of 1 April 2017. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed.

a) The economic activity recovery in 2015 continued at a slower pace in the last quarter of the year, influencing private sector deleveraging and directly reducing the denominator of the leverage ratio while indirectly also influencing the still relatively poor demand for loans. Continuous relaxation of lending standards was not sufficient to compensate for the effects of deleveraging. Deleveraging continued in the corporate sector as well as in the household sector. Households deleveraged throughout 2015 despite positive signals from the labour market and the mentioned small relaxation of bank lending standards. At the same time, the reduction in this sector's total debt was influenced by the conversion of loans indexed to the Swiss franc (in December) in accordance with amendments to the Credit Institutions Act and the Credit Consumer Act (published in the Official Gazette 102/2015, the provisions of which entered into force on 30 September 2015). In view of the described trends, the standardised credit-to-GDP ratio continued its downward path, reaching at the end of the year its lowest levels from the beginning of the crisis (standing at 96.5% in the fourth quarter of 2015). The credit gap calculated on the basis of this standardised credit-to-GDP ratio was still negative (-16.9%) in the fourth quarter of 2015, clearly indicating to the absence of any risks of excessive credit growth that would have a systemic effect on the functioning of financial markets. The buffer guide estimated for the fourth 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.

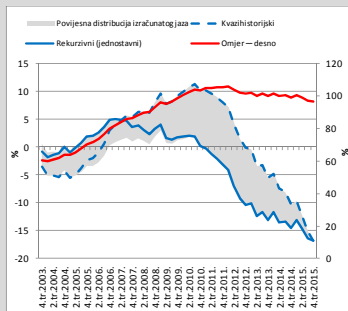
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<sup>1</sup> For a detailed methodological explanation, see Box 4 Financial cycles and countercyclical capital buffer calibration, Financial Stability, No. 13, July 2014.

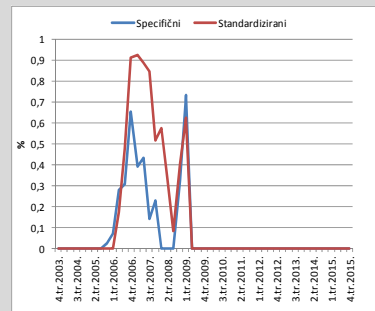
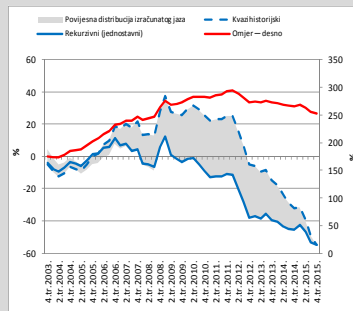
**Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)\***

**Figure 2 Buffer guide**

1.a Standardised indicator



1.b Specific indicator



\* 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) The CNB will, in line with its macroprudential policy and the recommendations of the ESRB<sup>2</sup>, regularly monitor the emergence of possible imbalances in financing private sector needs and publish on a quarterly basis the buffer guides and countercyclical capital buffer rates. 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 relates in particular 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) and Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1).