

Zagreb, 22 March 2017

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the second 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 9/15), which prescribes the countercyclical buffer rate of 0%, will continue to be applied in the second 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 (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 shall maintain the same rate of 0%, which shall be applied in the second quarter of 2018, i.e. as of 1 April 2018. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

The continued growth of economic activity in the fourth quarter is largely attributable to the strengthening in the exports of goods and services, further intensification of private consumption and increase in investment spending from the same period a year earlier. The imports of goods and services intensified as well, which ultimately rendered the contribution of foreign demand negative in net terms. Positive developments in the labour market prevailed, followed by a further increase in employment, across all activities. Positive macroeconomic signals and further relaxation of bank credit standards provided a mild stimulus to credit demand so bank lending to the non-financial sector (measured by transactions) increased in the fourth quarter 2016, with positive developments being noticed at the annual level as well. On the other hand, the nominal decrease of the debt to banks continued at the end of 2016, aided by bank's selling their bad loans and the decrease in debt arising from the conversion of household loans indexed to the Swiss franc.

The growth of gross domestic product and the reduction in the debt of non-financial enterprises and households resulted in a further reduction in the standardised credit-to-GDP ratio which in the fourth quarter 2016 additionally decreased to 89.7%, while the credit gap, calculated on the basis of the standardised ratio continued to be negative (-21.2%). Although credit activity recovered slightly, there is no potential cyclical pressure build-

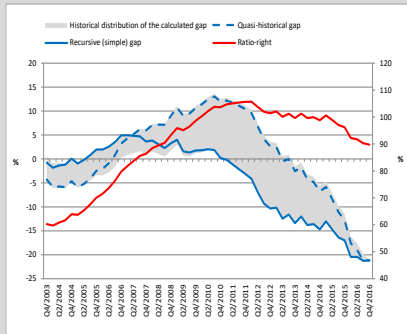
¹ See Box 4 for detailed methodological explanations: Financial cycle and countercyclical capital buffer calibration, Financial Stability, No.13, July 2014.

up requiring corrective action from the CNB via the increase in the countercyclical buffer rate. 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).

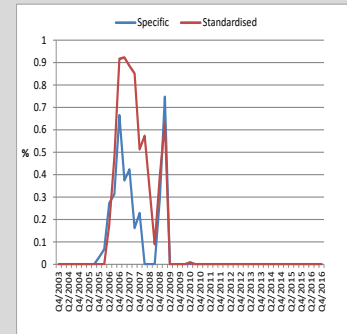
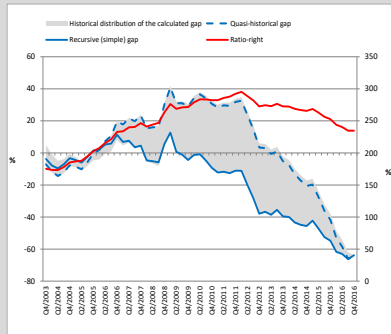
Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)^a

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 evaluation 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 the goods and services markets, the current account deficit, the dynamics of placements and monetary aggregates, etc., which are available at the following website: <http://www.hnb.hr/analize-i-publikacije/redovne-publikacije/bilten>.

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.