

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the third 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 third 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)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 will be applied in the third quarter of 2017, i.e. as of 1 July 2017. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed.

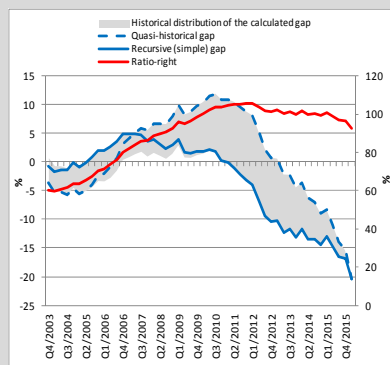
a) The slight increase in total economic activity in 2015 marked the end of the years-long recession, with the economic recovery continuing into the first quarter of 2016. Favourable trends were also reflected in good business results of non-financial corporations in 2015 and the growth in income and employment in the household sector, with the same trends continuing early in 2016. As the favourable macroeconomic signals and the continued relaxation of bank lending standards provided a slight boost to credit demand, the first quarter of 2016 saw an increase in effective lending to the private non-financial sector (in terms of transactions with credit institutions). Nevertheless, nominal deleveraging continued in both the household sector and the non-financial corporate sector. This was strongly influenced by write-offs and sales of non-performing bank loans as well as the kuna appreciation in 2016. As a result, the nominal amount of liabilities of non-financial corporations in the private and public sector to domestic and foreign creditors steadily declined in late 2015 and early 2016. In the same period, household debt in nominal terms was also reduced, which was largely due to the legally provided conversion of Swiss-franc indexed loans. As a result of the nominal decrease in private non-financial sector debt and the growth in aggregate income, the standardised credit-to-GDP ratio continued its downward path at the beginning of 2016, reaching its lowest levels from the beginning of the crisis (standing at 92.5% in the first quarter of 2016). The credit gap calculated on the basis of this standardised credit-to-GDP ratio was still negative (-20.4%) in the first quarter of 2016, clearly indicating 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

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

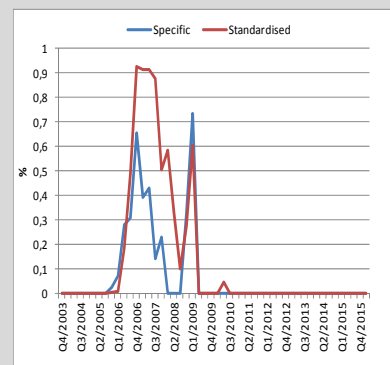
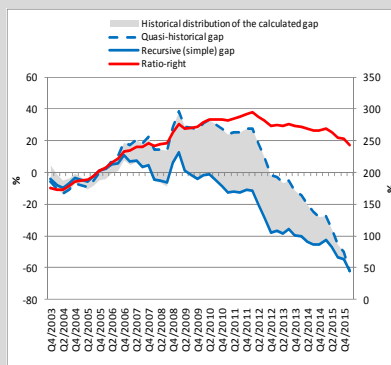
first quarter of 2016 thus stands at 0%. This is also confirmed by the specific credit gap (based on the narrow definition of credit, which comprises only claims of domestic credit institutions, placed in the context of its ratio to the quarterly, seasonally adjusted, GDP), Figures 1 and 2.

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 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 ESRB², 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/en/analyses-and-publications/regular-publications/bulletin>.

² This relates in particular 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) and Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1).