

30 September 2015

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the fourth quarter of 2016

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013 and 19/2015), 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%, shall be applied in the fourth 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 fourth quarter of 2016, i.e. as of 1 October 2016. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

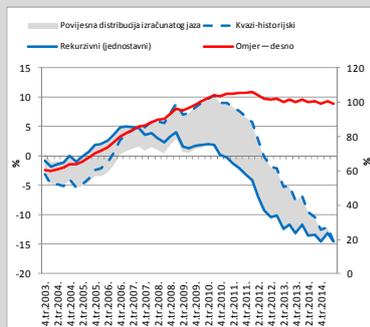
a) The standardised credit-to-GDP ratio has been on a downward path ever since 2012 under the influence of private sector deleveraging. Despite the slight acceleration in economic activity during the second quarter of 2015, supported by the recovery of foreign demand and short-term favourable incentives to domestic demand as a result of the drop in energy prices in the world market and the effects of tax relief, the trend of deleveraging of households and corporates was not reversed. Although ample liquidity in the system and the reduction in borrowing costs, accompanied by the easing of credit standards for approving loans, marked the main changes on the supply side, autonomous domestic demand for credit funds still fails to materialise. Thus the recent increase in aggregate income additionally subdued the mentioned credit indebtedness ratio. The credit gap calculated on the basis of this ratio was still negative (-14.6%) in the second quarter of 2015, 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 estimated for the second 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.

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

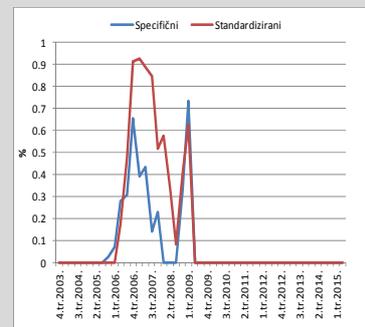
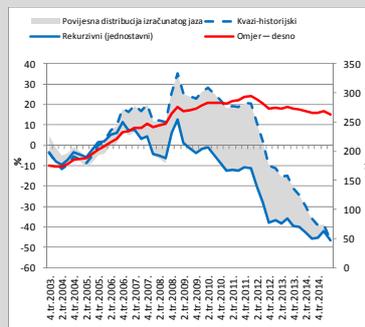
Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)*

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) In line with its macroprudential policy and following 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 aggregates, etc., which are available at the following website: <http://www.hnb.hr/publikac/bilten/hbilten.htm>.

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