

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

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 9/2015), which prescribes the countercyclical buffer rate of 0%, will be applied in the fourth 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 relative 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 same rate, i.e. 0%, which shall be applied in the fourth quarter of 2017, i.e. as of 1 October 2017. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

Further growth in total economic activity in mid-2016 mainly relied on current private sector income, the real dynamics of which was supported by recovery in employment and wages and foreign demand. In addition, also visible are further corporate deleveraging in relation to foreign creditors and further write-off of irrecoverable claims as a part of banks' balance sheet clean-up processes and the effect of other measures mitigating systemic risks to debt sustainability. The process of conversion of loans in Swiss francs and the appreciation of the domestic currency have in the recent period influenced the nominal deleveraging of the household sector after relatively slow changes in this sector's indebtedness over the previous years. The recovery in business activity and the ensuing positive results of non-financial corporations has, coupled with faster private sector balance sheet restructuring, supported the increase in the economic sentiment index. Given that credit standards of banks, relaxed in the previous period, did not change in general, potential signals of recovery in credit activity may be seen, but they may not be interpreted in terms of unsustainable credit growth and excessive level of nominal debt, i.e. potential cyclic pressure that

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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.

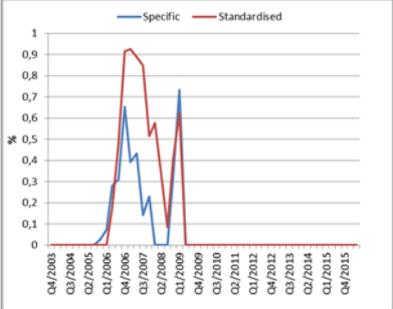
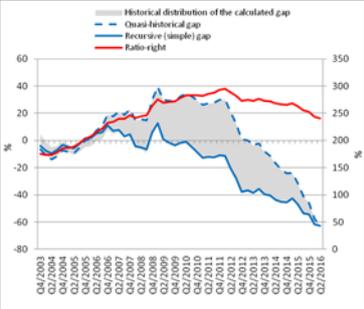
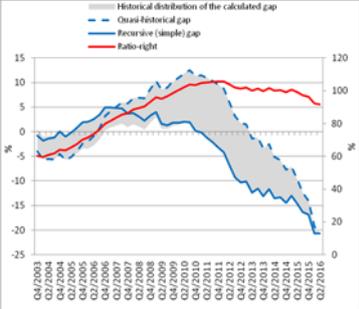
would require corrective action on the part of the regulator in (variable) capital protection. In the second quarter, the total relative debt of households and corporates, observed from the point of view of a standardised and specific indicator of indebtedness for the purposes of calculation of the buffer guides, fell to the lowest levels in the past eight years. The standardised credit-to-GDP ratio stood at 91.6% in the second quarter of 2016 while the credit gap calculated on the basis of this standardised ratio was still negative (−20.6%). The buffer guide estimated for the second quarter of 2016 thus stands at 0%. 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 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)<sup>a</sup>**

**Figure 2 Buffer guide**

1.a Standardised indicator

1.b Specific indicator



<sup>a</sup> 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.

In line with its macroprudential policy and ESRB recommendations<sup>2</sup>, 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/en/analyses-and-publications/regular-publications/bulletin>.

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<sup>2</sup> 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 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.