

Zagreb, 27 September 2017

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the fourth 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 9/2015), which prescribes the countercyclical buffer rate of 0%, will continue to be applied in the fourth 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 fourth quarter of 2018, i.e. as of 1 October 2018. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

Economic growth in Croatia picked up pace in the second quarter of 2017 owing to stronger domestic demand (above all personal and government consumption), so that the annual rate of real GDP growth went up to 2.8%. The increase in personal consumption was influenced by the ongoing favourable developments in the labour market, favourable amendments to income tax laws and a slight increase in private sector wages. The labour market saw steady favourable trends accompanied by a further increase in total employment, with the strongest seasonal growth being recorded, as expected, in private sector service activities associated with tourism. Unemployment figures continued to drop due to stronger outflows from the CES register, but it should be noted that this was only partly due to new employment, while some of it was the result of clearings from the records due to non-compliance with legal provisions and stronger emigration of the working-age population following Croatia's accession to the European Union, also affecting labour force movements.

Positive macroeconomic signals supported a mild recovery in lending, so that placements of monetary institutions to domestic sectors (excluding the government) continued to grow in the second quarter of 2017 (based on transactions). Placements to non-financial enterprises and households went up 2.8% and

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

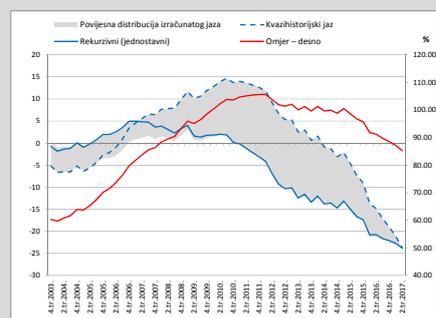
2.3%, respectively, on an annual basis. By contrast, nominal placements to domestic sectors continued to shrink, which was the consequence of the sale of non-performing placements and, to some extent, of the strengthening of the kuna against the euro which reduced the kuna value of placements indexed to the euro.

The growth of gross domestic product and the steady reduction in the nominal debt of non-financial enterprises and households resulted in a further reduction in the standardised credit-to-GDP ratio, which dropped to 85.2% at the end of the second quarter of 2017. The credit gap, calculated on the basis of the standardised ratio, continued to be negative (−23.8%). Although credit activity has been showing signs of recovery for some time, there is currently no cyclical pressure build-up that would require corrective action from the CNB, so that the buffer guide estimated for the second quarter of 2017 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 relation to the quarterly, seasonally adjusted, GDP (Figures 1 and 2).

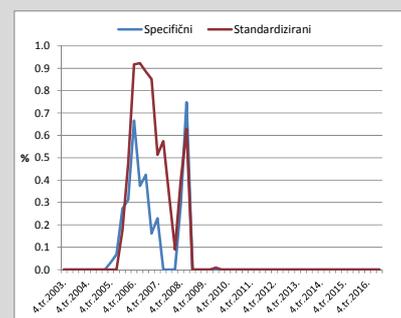
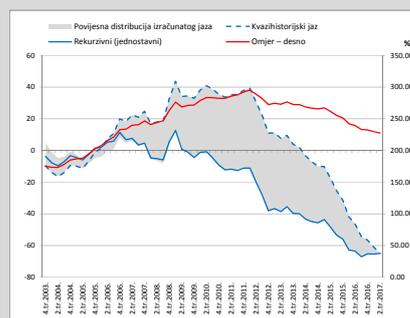
Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation of the ratio from its long-term trend)^a

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, 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 the goods and services markets, real estate price developments, the current account deficit, the dynamics of placements and monetary aggregates, etc., which are available at the following website: <http://www.hnb.hr/analyses-and-publications/regular-publications/bulletin>.