

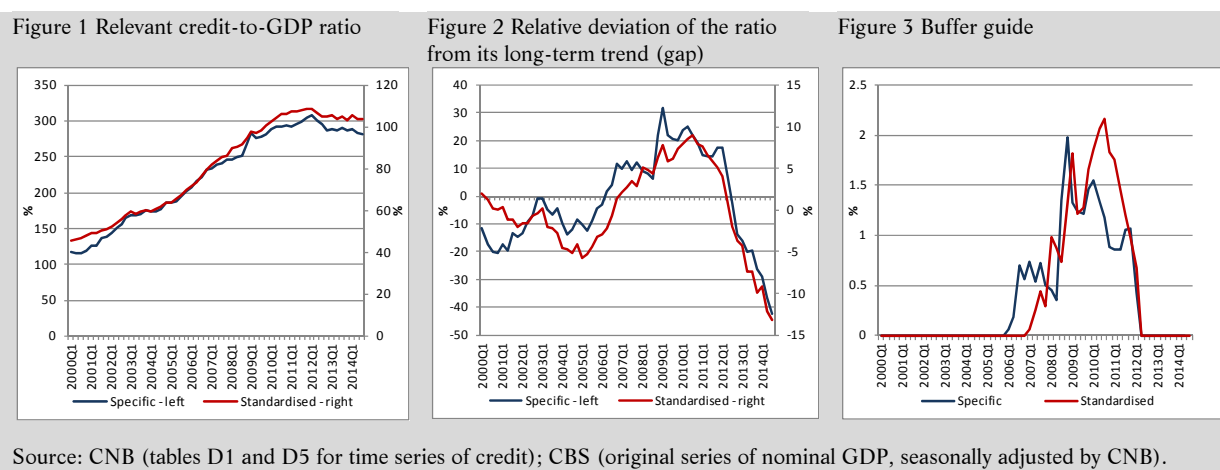
EXPLANATION FOR SETTING THE COUNTERCYCLICAL BUFFER RATE FOR THE REPUBLIC OF CROATIA

The adoption of the Decision on the countercyclical buffer rate marks the beginning of formal monitoring of cyclical systemic risks in Croatia, in accordance with the Credit Institutions Act (Official Gazette 159/2013) and a new set of instruments, which may have a negative effect on financial stability. An analytical assessment of these risks and buffer guides will be published in the Official Gazette and announced on the CNB website at regular quarterly intervals, in accordance with the provisions of the Credit Institutions Act. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the CNB will announce the first countercyclical buffer rate for the Republic of Croatia on the basis of the following analytical interpretation¹:

The process of deleveraging in the Croatian private sector continued in the second half of 2014, particularly in the household sector, on the back of adverse labour market developments and uncertainties. Generally, such situations postpone the spending on durable consumer goods and investments in real estate, which could generate new borrowings. Despite the slight relaxation of bank lending standards, the corporate sector also continued to deleverage.

As a result, the standardised ratio of total credit to GDP remained at pre-crisis levels (the ratio stood at 104% in the third quarter of 2014). As the credit gap calculated on the basis of this ratio is negative (–13%), which clearly indicates that there are currently no risks of excess credit growth that would have a systemic effect on the functioning of financial markets with potential negative consequences on the real economy, the buffer guide 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), which have historically signalled such disturbances more precisely (Figures 1-3).



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

In view of the above, the Croatian National Bank has introduced a countercyclical buffer rate of 0%, which is to be applied as of 1 January 2016. It should also be noted that, 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 segmented 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; Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) – currently available only in English.