

Zagreb, 28 December 2017

Announcement of the application of the countercyclical buffer rate for the Republic of Croatia for the first quarter of 2019

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 first quarter of 2019.

The Decision on the countercyclical buffer rate 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 first quarter of 2019, i.e. as of 1 January 2019. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

Economic growth in Croatia accelerated in the third quarter of 2017 owing to an increase in total exports and personal consumption, and the annual rate of real GDP growth went up to 3.3% at end-September 2017. Economic growth was boosted by all components of domestic demand, with a continuation of favourable trends in the labour market, albeit at a slower pace than in the previous quarter. In addition to real GDP growth, a mild increase was seen in total placements (based on transactions) of credit institutions to domestic sectors (excluding the central government, which recorded a stagnation), with the annual growth rate reaching 1.9% at the end of September 2017. The strongest impetus to credit growth (in terms of transactions) in the non-financial corporate sector came from the increase in investment loans, working capital loans and syndicated loans, while in the household sector (also in terms of transactions), the strongest increase was recorded in any-purpose cash loans. Housing loans recorded neither an annual increase in nominal terms nor significant growth in terms of transactions. On the other hand, nominal

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

placements to non-financial enterprises and households continued to stagnate, in part due to the ongoing sale of banks' non-performing placements and loan write-offs.

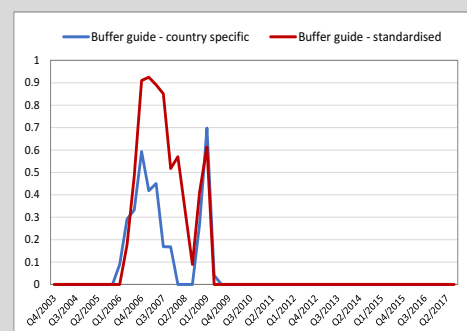
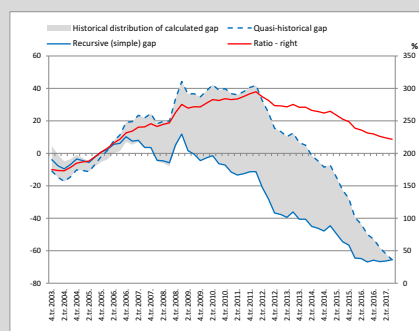
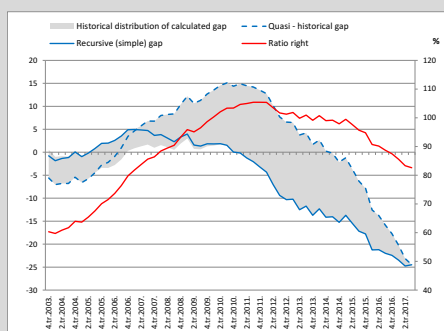
The growth of gross domestic product and the downward trend in the nominal debt of non-financial enterprises and households resulted in a further reduction in the standardised credit-to-GDP ratio, which fell to 82.6% at the end of the third quarter of 2017. The credit gap, calculated on the basis of the standardised ratio, continued to be negative (−24.5%). Although credit activity has been showing signs of a mild 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 first quarter of 2019 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 continue to regularly monitor the evolution of potential imbalances in financing non-financial sector needs and announce countercyclical buffer rates on a quarterly basis as well as buffer guides needed for their calculation. 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>.