Zagreb, 28 December 2018

Announcement of the continued application of the countercyclical capital buffer rate for the Republic of Croatia for the first quarter of 2020

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015 and 15/2018), the Croatian National Bank 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 2020.

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 corporations 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 cyclical systemic risks, the CNB hereby announces that it will maintain the same rate of 0%, which will be applied in the first quarter of 2020, i.e. as of 1 January 2020. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed.

Continuing real economic growth in the third quarter of 2018 was accompanied by an increase in the placements of monetary financial institutions. The bulk of the increase, transaction-based, was generated by placements to the household sector, with placements to non-financial corporations also increasing slightly. Among household sector placements, non-collateralised general-purpose cash loans recorded the highest growth, and housing loans continued to rise slightly. Residential real estate prices continued to rise at an annual rate of 4.5% in the second quarter of 2018. Banks continued to sell their placements in the third quarter, mostly placements to non-financial corporations, so that the stock of these placements slightly decreased as a result. Gross external debt of non-financial corporations and households remained almost unchanged from the previous quarter.

The standardised indicator of relative indebtedness (ratio) decreased further as the rise in the balance of total domestic and external claims on the non-financial sector was accompanied by a stronger growth in nominal gross domestic product. A decrease was also recorded in the specific indicator of relative indebtedness (the ratio of loans of domestic credit institutions to the quarterly seasonally adjusted GDP). The credit gap calculated on the basis of the standardised ratio remained in the negative area at –24.9%, coming only slightly closer to its long-term trend (Figure 1.a). The negative credit gap calculated on the basis of the specific indicator, based on the narrow definition of credit, which comprises only domestic credit institutions' loans to the non-financial sector placed in relation to the quarterly seasonally adjusted GDP, also continued to decrease (Figure 1.b). As there is still no cyclical pressure build-up that would require corrective action on the part of the CNB, the buffer guide estimated for the fourth quarter of 2019 remains 0%.

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[1] For detailed methodological explanations, see Box 4: Financial cycles and countercyclical capital buffer calibration, Financial Stability No. 13, July 2014.

Figure 1 Indicators of relative indebtedness (the credit-to-GDP ratio) and the short-term gap (the relative deviation of the ratio from its long-term trend)[a]

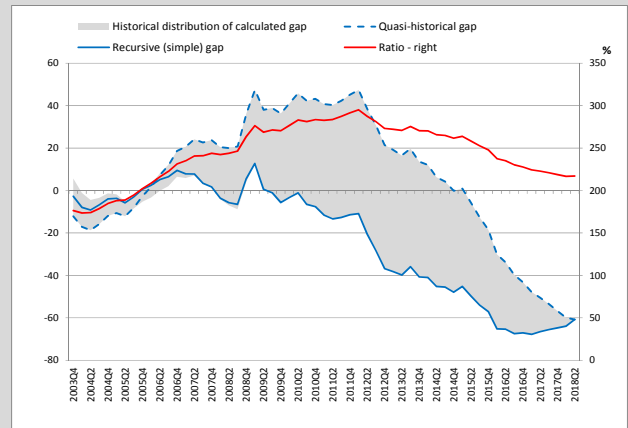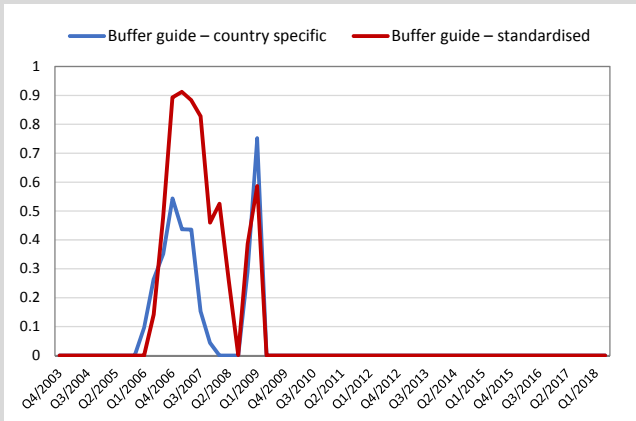1.a standardised indicator
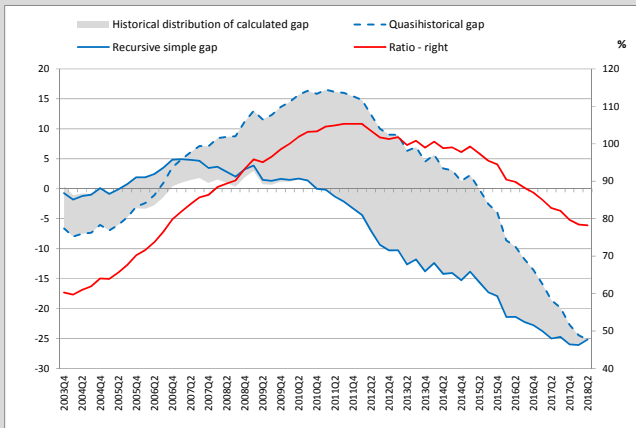
1.b specific indicator

Figure 2 Buffer guide

[a] *The calculations of all relevant ratios (the standardised ratio is the ratio of total placements, i.e. domestic placements and external debt, to nominal annual GDP, while the specific ratio is the ratio of loans of domestic credit institutions to the quarterly seasonally adjusted GDP) and the short-term gap are made on a sample as of 2000. The quasi-historical gap is calculated on the entire sample, while 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. The historical distribution of the calculated gap is the area between the lowest and highest value of the gap calculated by moving the sample to the right. The 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.

As the competent macroprudential authority, 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. 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, real estate price developments, the current account balance, the dynamics of placements and monetary aggregates, etc., which are presented in CNB's regular and other publications and at the CNB's website.