



HNB

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**Announcement of the continued application of the countercyclical buffer rate of 1.0%
for the Republic of Croatia**

The regular quarterly assessment of developments in systemic risks of a cyclical nature suggests a continued upward phase of the financial cycle in the Republic of Croatia, with the increase in risks continuing to be largely associated with the increase in the prices of residential real estate and bank lending. The CNB estimates that the currently announced countercyclical buffer rate of 1.0% is adequate and will continue to be applied after 31 March 2024. The relevant information in accordance with Articles 119 and 123 of the Credit Institutions Act is given below.

The indicators of the specific credit gap for the Republic of Croatia (Figure 1) and the composite indicator of cyclical systemic risk (Figure 2), combining a larger group of indicators associated with the developments in the financial cycle remain elevated, suggesting a countercyclical buffer guide rate of between 0% and 1.54% (Table 1). The main factors contributing to cyclical risks accumulation continue to lie in the further growth of credit activities of banks and accelerated growth in residential real estate prices. The growth in bank lending is driven by a strong demand for loans by non-financial corporations, with the loans to corporates in January 2023 rising 21.8% on an annual level, largely mirroring the increased demand for working capital financing due to rising prices of some raw materials and energy. Household lending continued to grow steadily, led by housing loans that rose 10% in January 2023 on an annual level. Price growth on the residential real estate market further accelerated, reaching 14.8% from the same period of the year before according to the last available data in the third quarter of 2022, and exhibiting signs of further acceleration in their growth towards the end of the year.

Taking into account all these factors and the high level of uncertainty associated with developments in the international financial markets, the CNB continues to pursue a macroeconomic policy aimed at preserving banking system resilience, and will keep the announced countercyclical buffer rate of 1.0% after 31 March 2024. As the designated macroprudential authority, the CNB will continue to monitor regularly the evolution of cyclical systemic risks in the light of domestic and global economic and financial developments, so as to be able to make a timely adjustment to the countercyclical buffer rate. Accordingly, in the event of cyclical vulnerabilities continuing to rise amid relatively favourable macrofinancial circumstances, the countercyclical buffer rate might be further increased. In contrast, a clear and strong materialisation of systemic risks might induce a reduction or cancellation of the countercyclical buffer rate, if necessary, to support the continuity of the credit activity of banks.

Table 1 Indicators of cyclical systemic risk and benchmark CCyB rates

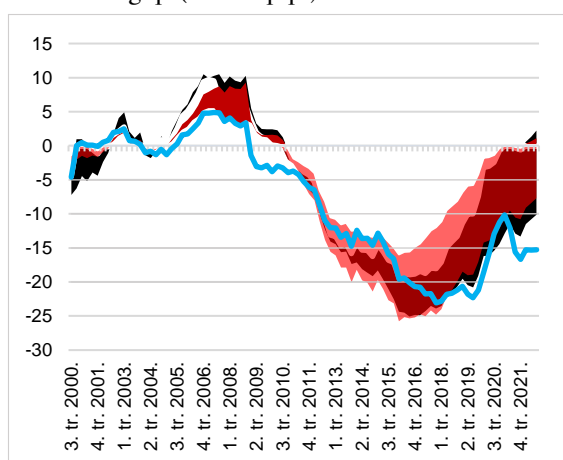
Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	68.3%	-15.3 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	51.3% (narrow) and 68,1% (broad)	-7.7 p.p. to 1.1 p.p.	0% to 0.77%
Specific credit-to-GDP ratio (relative gap)		-10.1% to 2.2%	0% to 0.65%
Composite indicator	0.24 (68th percentile of distribution)	/	1.20% to 1.54%

Notes: Specific ratio values differ depending on the definition of credit (51.3% for a narrow definition of credit, which includes only domestic bank credit, and 68.1% for a broad definition). Differences in gap values arise from different definitions of gap (absolute gap is calculated as the difference while the relative gap is calculated as the ratio of the following variables: the credit-to-GDP ratio and its trend) and estimated statistical trends.

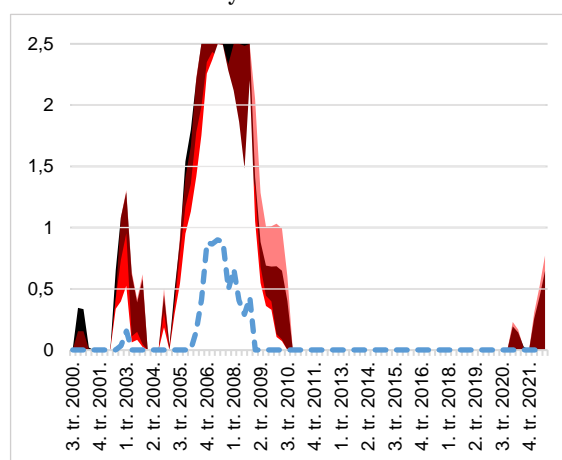
Source: CNB.

Figure 1 Range of credit gap indicators and affiliated benchmark CCyB rates

1.a Credit gap (% and p.p.)



1.b Benchmark CCyB rates

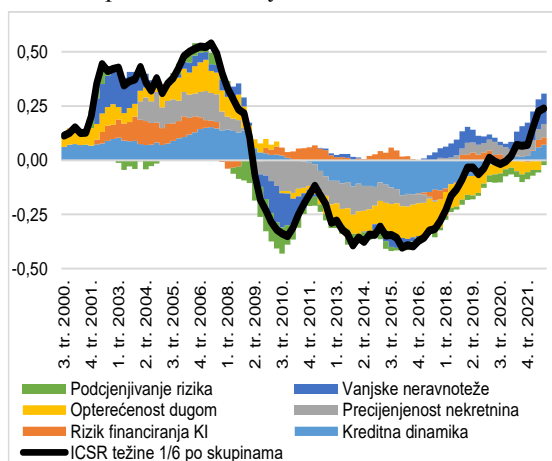


Notes: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of

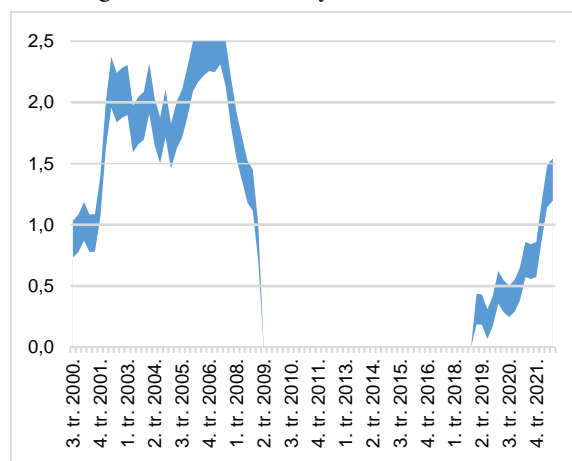
absolute gaps, while the black shaded areas indicate relative gaps. The right panel shows the range of CCyB rates calibrated on the basis of the gaps in the left panel. The blue dashed curve indicates the calibration based on the Basel gap given in the left panel. For details on the methodology used to estimate credit gaps, see [Box 2](#) Improvements in the methodology of countercyclical buffer identification and calibration in Croatia, Macroprudential Diagnostics No. 16.

Figure 2 Composite indicator of the cyclical systemic risk (ICSR) and the affiliated range of benchmark CCyB rates

2.a Composition and dynamics of ICSR



2.b Range of calibrated CCyB rates



Notes: CI indicates credit institutions. The lower threshold for the calibration of the CCyB rate has been chosen to enable the rate to become positive before indicators included in ICSR calculation (Figure 2.a) reach median level, while the upper threshold is determined by the highest percentiles of ICSR distribution.

Source: CNB.