29 December 2023

Announcement on maintaining the announced countercyclical capital buffer rate

for the Republic of Croatia at 1.5%

The regular quarterly assessment of systemic risks of a cyclical nature suggests that the financial cycle continues to be in a mature phase. Lending to households remains strong, with the increasingly fast increase in general-purpose cash loans. The residential real estate market is still on an upward trajectory, albeit recording slightly lower turnover and showing signals of slower price growth. **As cyclical vulnerabilities remain elevated, the Croatian National Bank estimates that the countercyclical buffer rate of 1.5% announced in June continues to be appropriate to preserve the resilience of the banking system in the event of systemic risks materialisation or sudden shocks.** 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, remained elevated in the second quarter of 2023 (Table 1). The rise in placements to the non-financial private sector reflects the robust growth in household loans, whose annual rate of change (transaction-based) grew to 8.6% in October. At the same time, new loans to corporates remained subdued, with their annual rate of change slowing to 6.5%, after being perceptibly higher. Lending to households was driven by the faster increase in general-purpose cash loans, whose annual rate of change rose by 9.5% in October, while housing loans continued to grow steadily at a rate of around 10% per year. The annual growth of residential real estate prices continues to be exceptionally strong, so the data for the second quarter of 2023 showed that they were 13.7% higher than in the same period last year, supported largely by the latest round of the government housing loan subsidy programme. However, CNB's preliminary assessments suggest that real estate prices became stable in the third quarter, with their growth slowing down on an annual level, which, coupled with slower market activity in the last several quarters, indicates a possible trend reversal in the near future.

Taking into account the foregoing, the CNB will continue to pursue its macroprudential policy aimed at preserving the resilience of the banking system. Accordingly, the announced countercyclical buffer rate of 1.5% that becomes effective after 30 June 2024 remains unchanged. 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.

Table 1 Indicators of cyclical systemic risk and the associated benchmark countercyclical buffer rates for Q2/2023

Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	63.3%	−16.5 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	48.5% (narrow) and 63.1% (broad)	−5.7 p.p. to 1.8 p.p.	0% to 1.15%
Specific credit-to-GDP ratio (relative gap)		−8.3% to 3.8%	0% to 1.02%
Composite indicator	0.17 (62nd percentile of distribution)	/	0.94% to 1.26%

Notes: Specific ratio values differ depending on the definition of credit (48.5% for a narrow definition of credit, which includes only domestic bank credit, and 63.1% 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.)
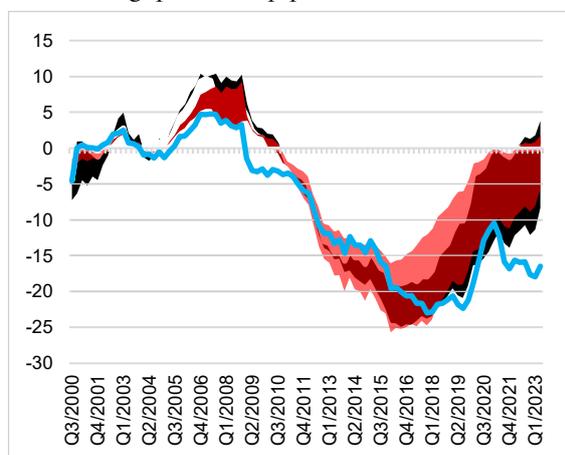
1.b Benchmark CCyB rates
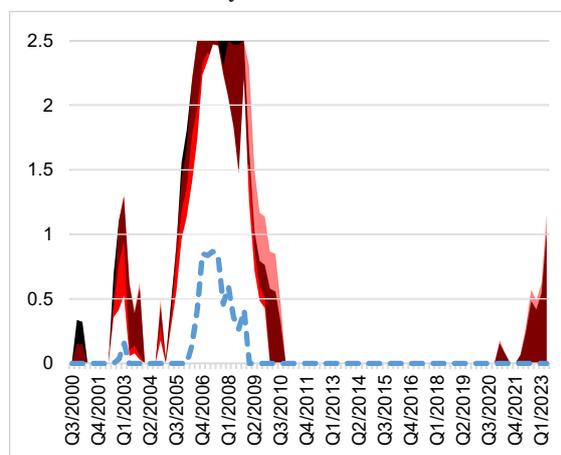
Notes: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right 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
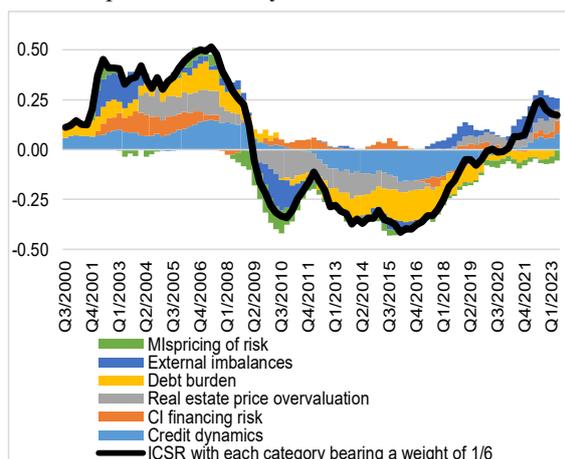
2.b Range of calibrated CCyB rates
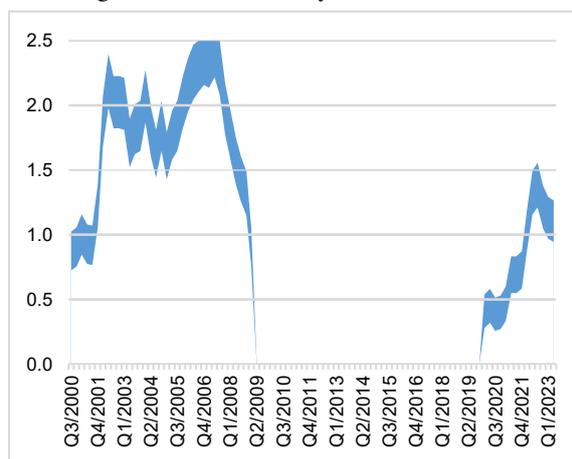
Notes: CI indicates credit institutions. The lower threshold for the calibration of the CCyB rate has been chosen to enable the rate to become positive before indicators included in ICSR calculation (Figure 2.a) reach median level, while the upper threshold is determined by the highest percentiles of ICSR distribution.
Source: CNB.