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Fix the roof while the sun is shining: current developments and risks in the Croatian banking sector

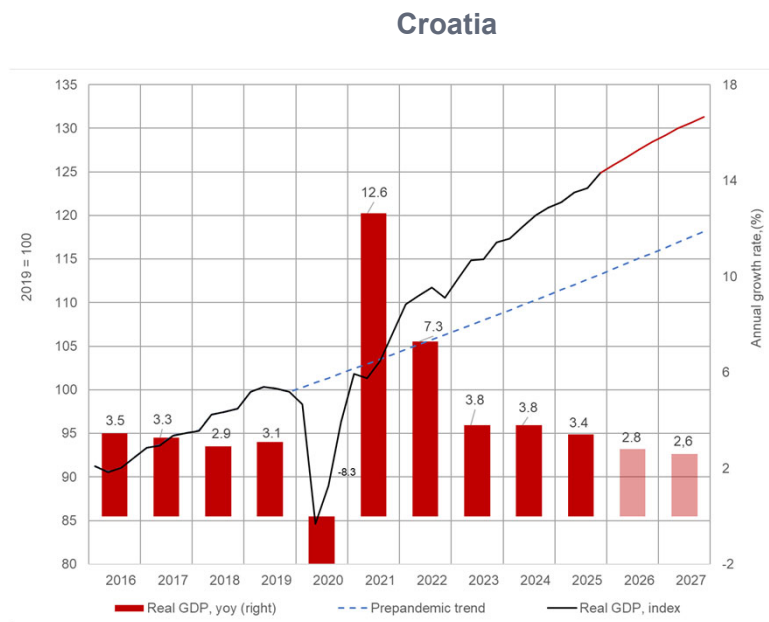
29th 'Financial Market' Conference

Boris Vujčić, CNB Governor

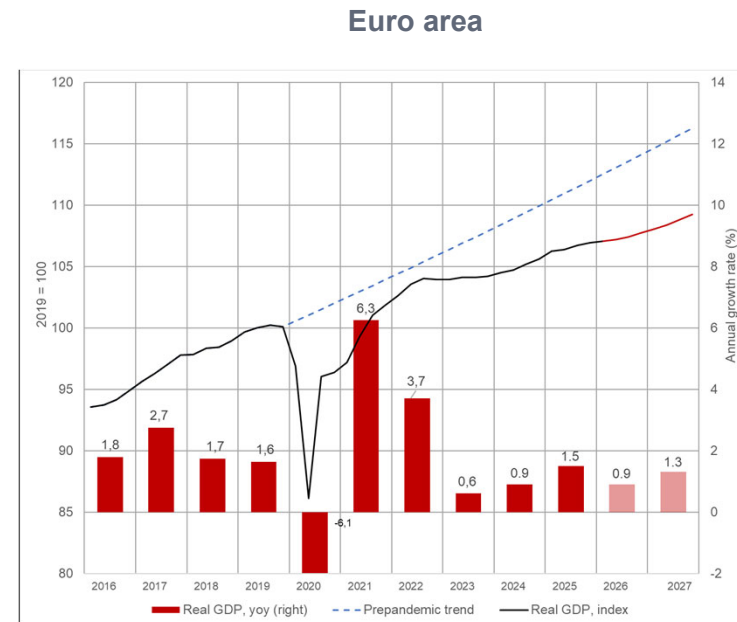
Opatija, 7–8 May 2026



Economic activity in Croatia largely surpasses the pre-pandemic trend



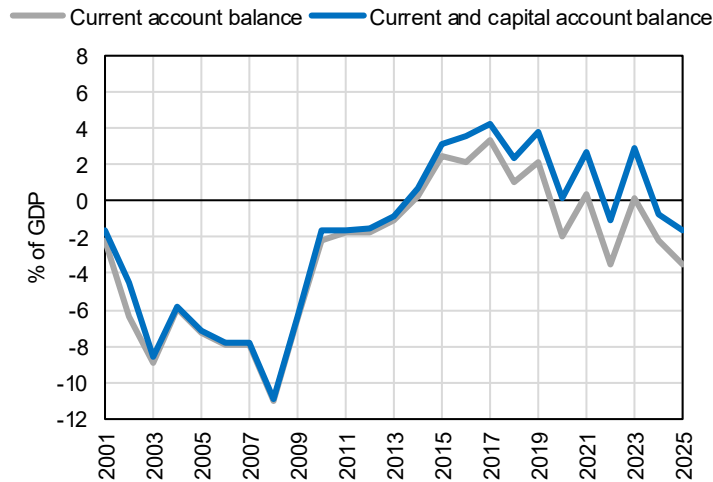
Sources: CNB, Eurostat.



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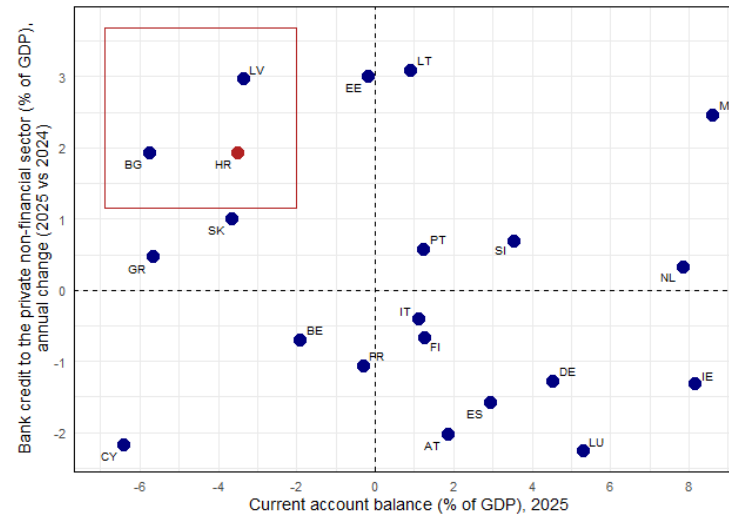
However, macroeconomic imbalances are mounting again

Robust domestic demand is widening the goods deficit, with the foreign trade balance deteriorating



Source: CNB projection.

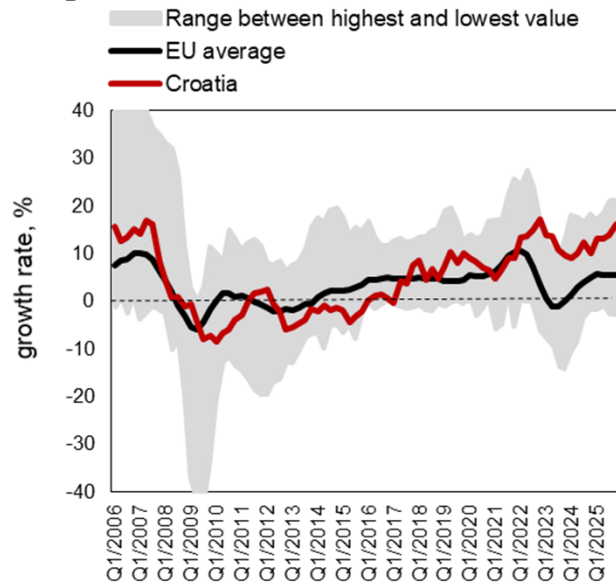
The growth in loans to the private sector in Croatia against the backdrop of current account balance deterioration



Source: ECB (BSI, MNA, BPS)

Croatia among EU countries with the most pronounced combination of fast credit growth and high residential real estate prices to income ratio

Croatia's growth in residential real estate prices is among the fastest in the EU



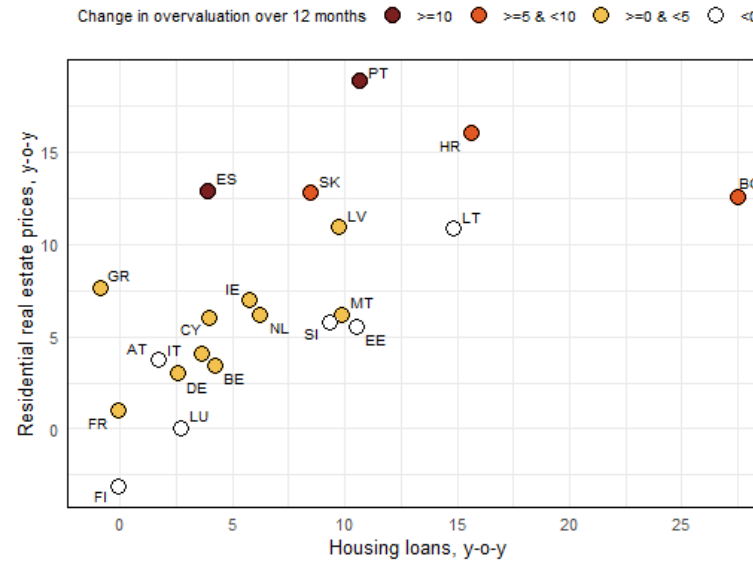
Note: The grey shaded area represents the range between the lowest and highest values of the annual rates of change in the prices of residential real estate in EU member states.

Source: Eurostat.

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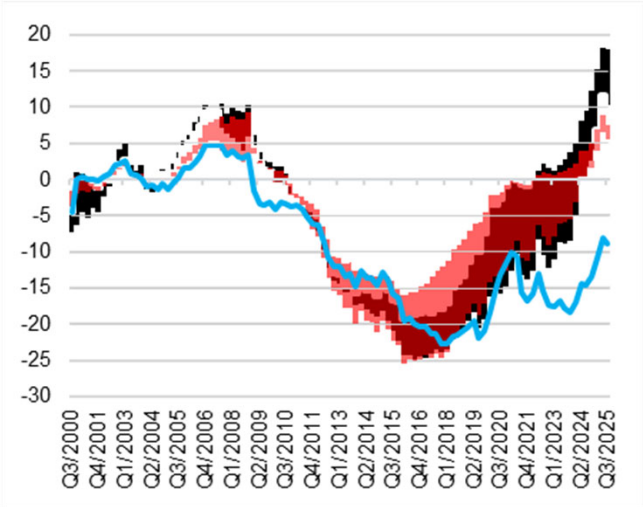
Croatia combines fast credit growth, a two-digit price growth and a further increase in residential real estate prices to income ratio



Note: Residential real estate price overvaluation measured by the price-to-income ratio, as a deviation from the long-term average. Latest observation: Q3 2025 for overvaluation, Q4 2025 for residential real estate price growth, March 2026 for mortgage lending growth. Source: ECB (BSI, RESR, RESV)

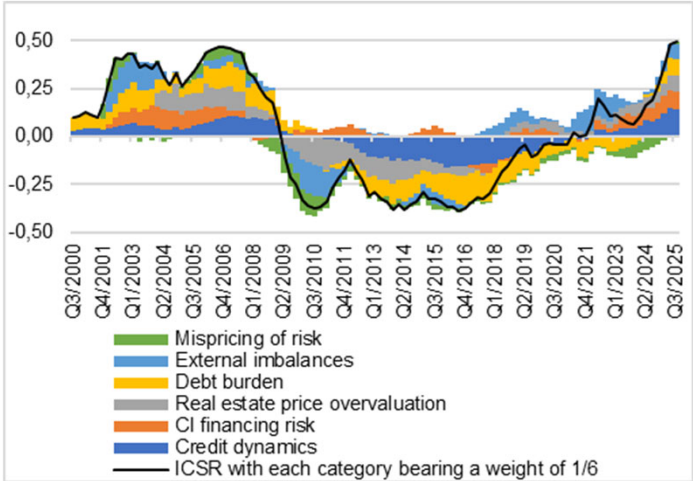
Indicators of cyclical risks point to a build-up of vulnerabilities

Strong credit growth led to the closing of the credit gap and its transition into positive territory



Note: The blue line shows the Basel credit gap and the red and black shaded areas show the range of credit gaps that have a better signalling function than the Basel gap.
Source: CNB.

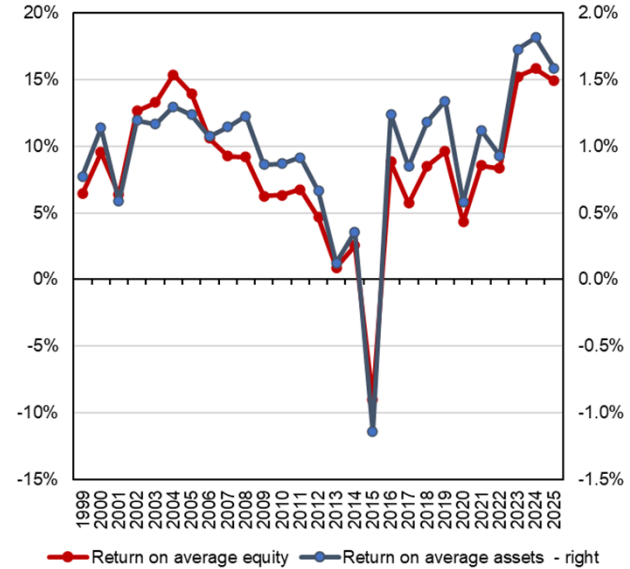
The composite Indicator of cyclical systemic risk (ICSR) has exceeded the levels seen prior to the global financial crisis



Note: Abbreviation CI means credit institutions.
Source: CNB.

Bank profitability and liquidity at historic highs

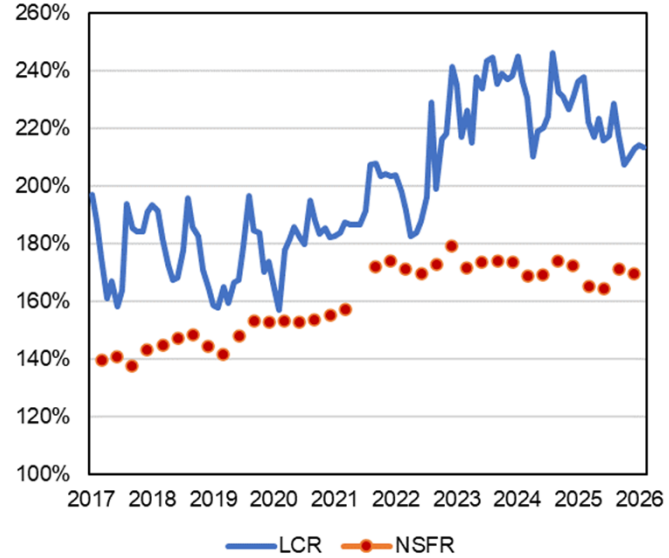
Profitability remains close to historic highs, with gradual easing from the peak of the interest rate cycle



Source: CNB.

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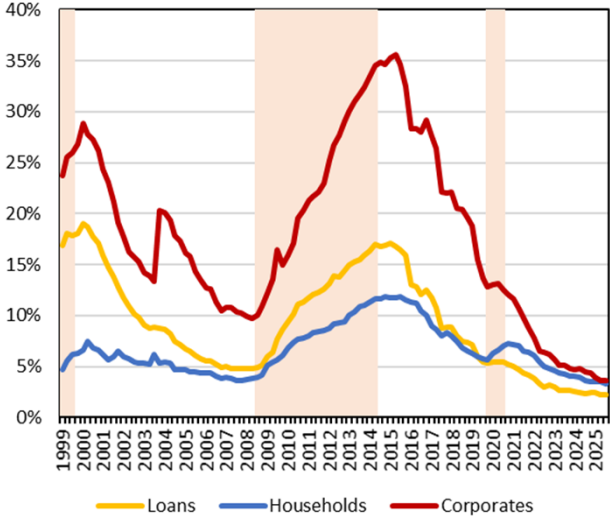
LCR and NSFR steady at levels by far exceeding the regulatory minimum of 100%



Source: CNB.

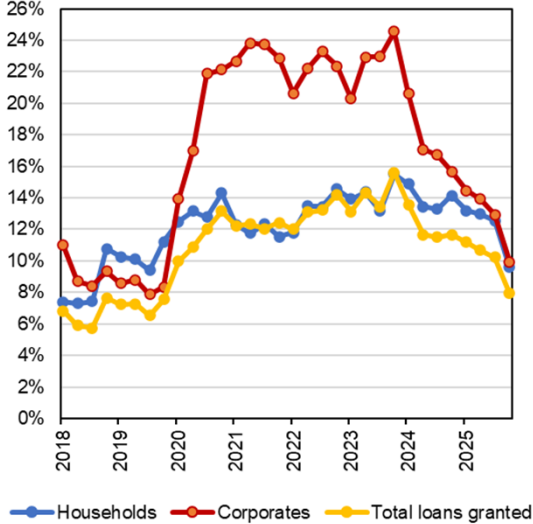
Credit quality at its best in two decades: NPLs at historic lows, with Phase 2 normalising after peaking in 2023

The share of non-performing loans at historic lows in all lending segments



Notes: The figure shows the shares of loan principals classified into risk categories B and C. The shaded area refers to periods in which the annual rate of change in GDP is negative. Sources: Eurostat and CNB.

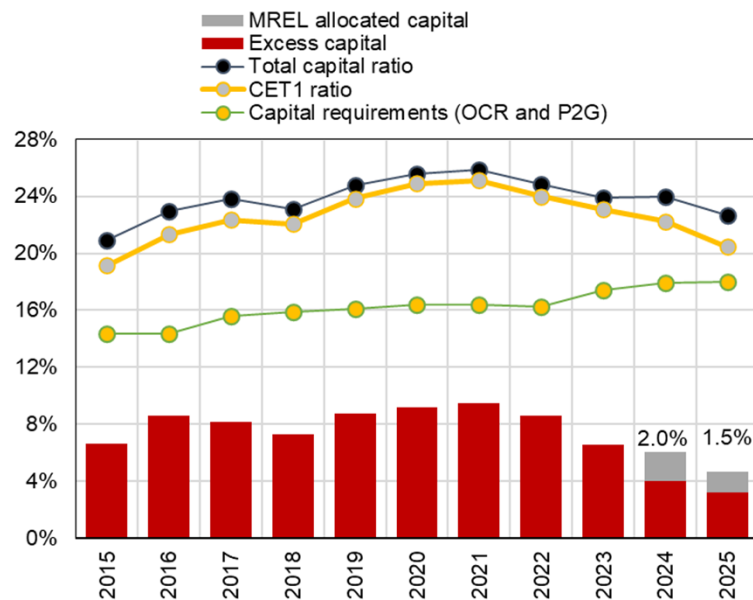
The share of loans in Phase 2 is steadily normalising in all segments, particularly in the corporate portfolio



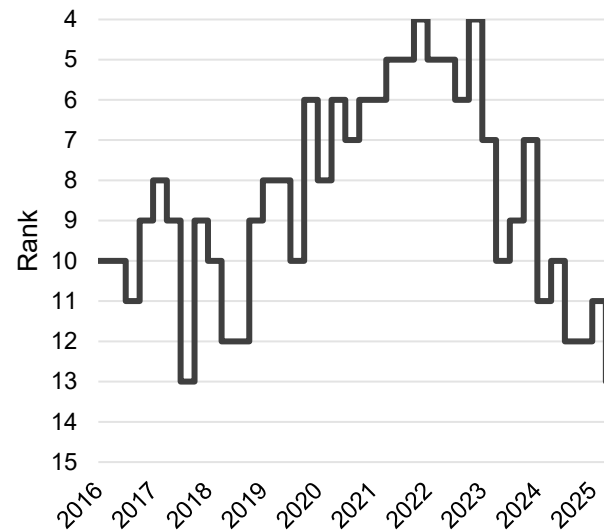
Source: CNB.

Erosion of excess capital despite high profitability – Croatia’s relative position in the EU has been deteriorating since 2023

Capital ratio on a downward trend since 2021, with rising regulatory requirements halving excess capital

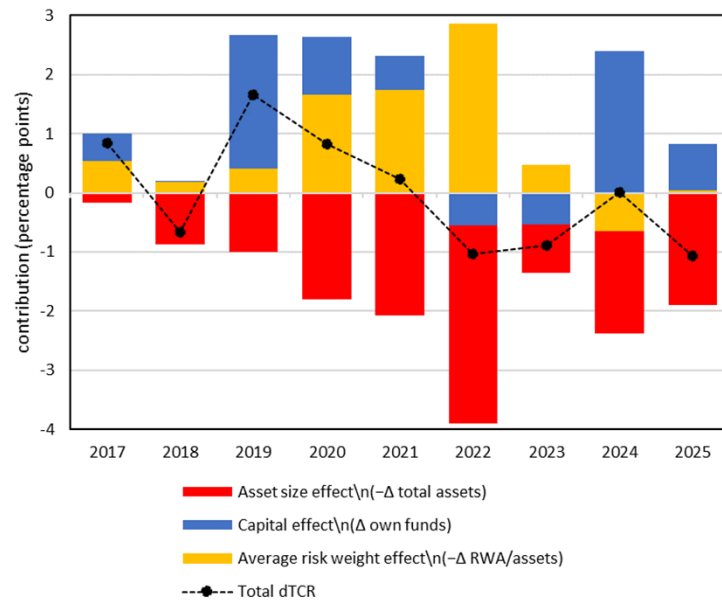


Croatia’s rank drops from the top of the EU-27 distribution towards the middle and lower

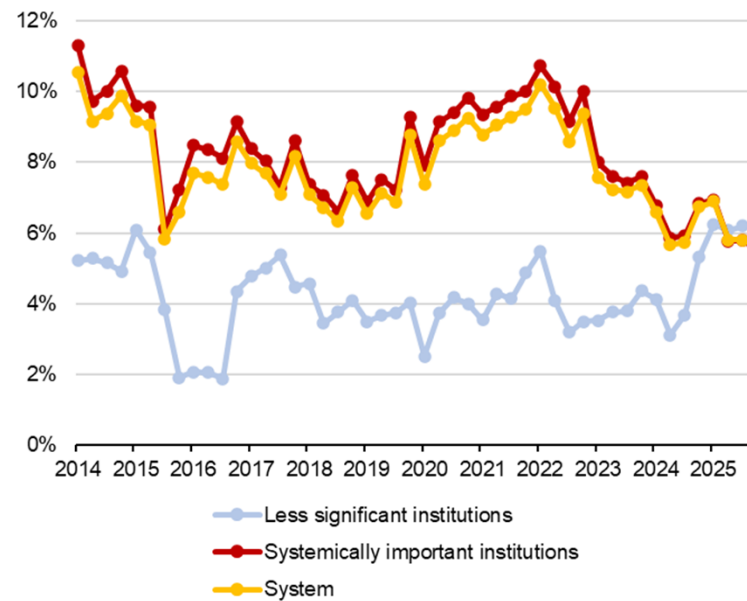


Excess capital reduction shows growth in risk-weighted assets and profit payouts, with divergence among bank groups

Decomposition of the annual rate of change in total capital ratio by factors



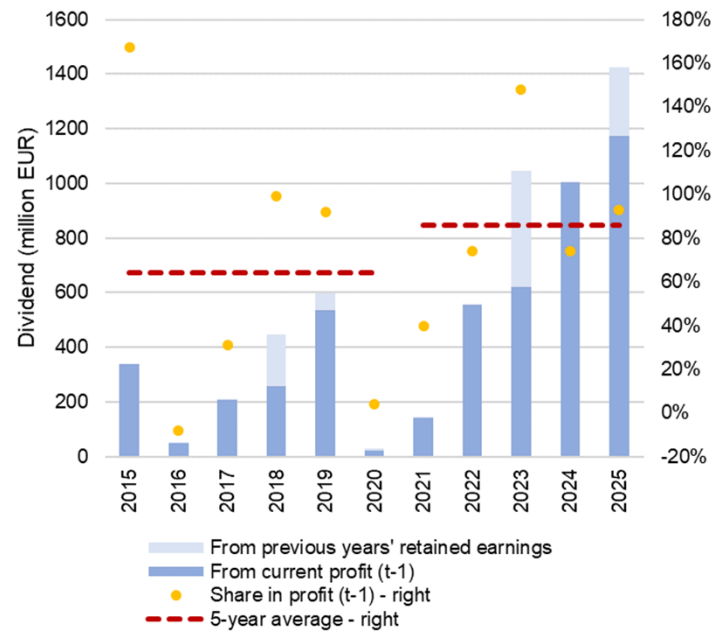
Smaller banks strengthened, systemically important institutions reduced the management buffers



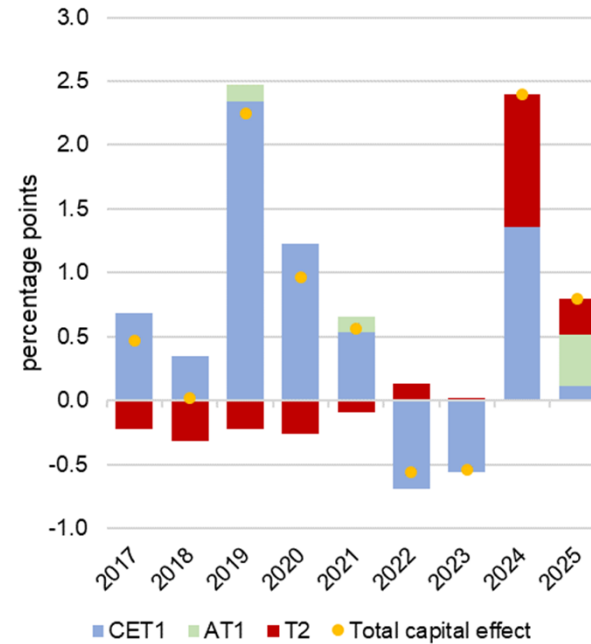
Note: The change in TCR (regulatory capital/risk-weighted assets) has been decomposed using the additive method of the logarithmic mean Divisia index (LMDI) into:
 (i) capital effect: contribution of change in regulatory capital;
 (ii) asset size effect: contribution of change in total assets; and
 (iii) average risk effect: contribution of change in risk-weighted assets to assets ratio, where a decrease in the ratio (lower average risk weight per asset unit) contributes positively to TCR.
 Source: CNB.

Large profit payouts limit organic capital growth, with issuance of additional instruments providing a partial compensation

Large profit payouts after 2022 limit organic capital growth

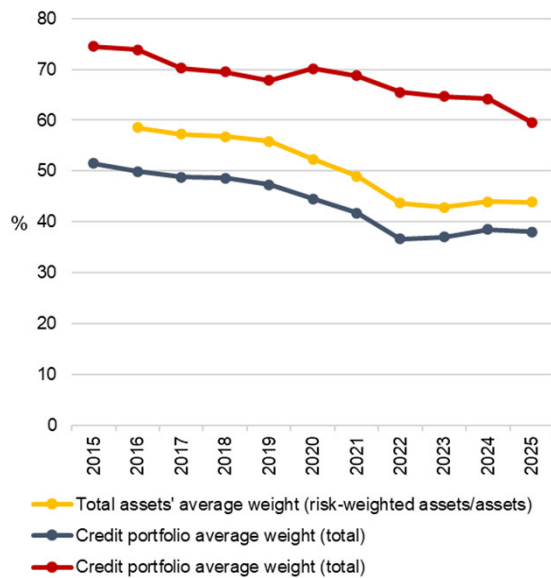


Capital dynamics has shifted from CET1 to regulatory eligible additional instruments



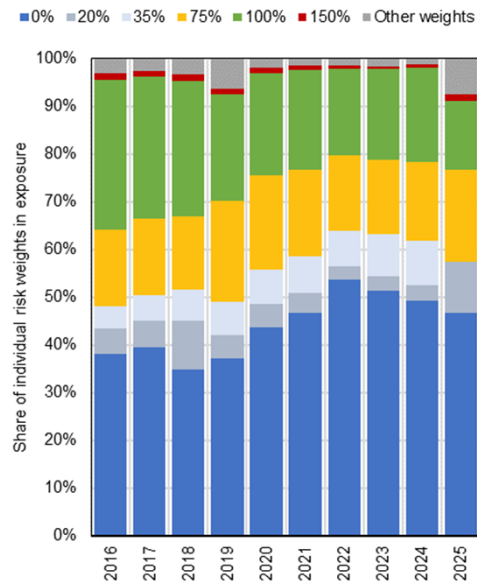
Stabilisation of average risk weights with the growing role of securitisation in balance sheet optimisation

Stabilisation of risk weights in 2024–2025, following their downward trend for many years, is weakening the counterbalance to exposure growth



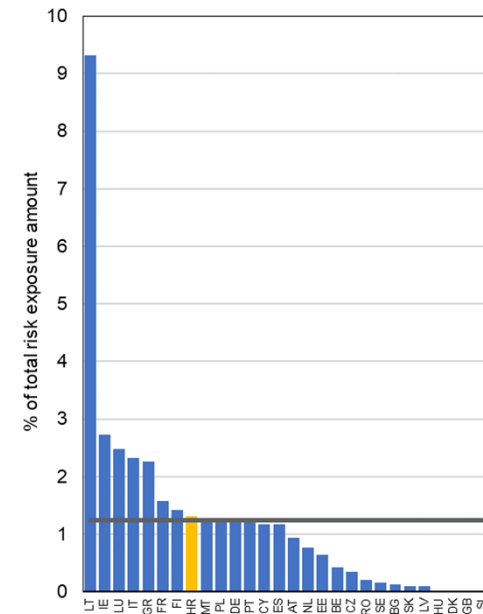
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Almost half of the credit portfolio is classified in 0% risk categories



Note: Distribution of credit risk exposures under the Standardised Approach according to risk weight categories, expressed as a share in total exposure.
Source: CNB.

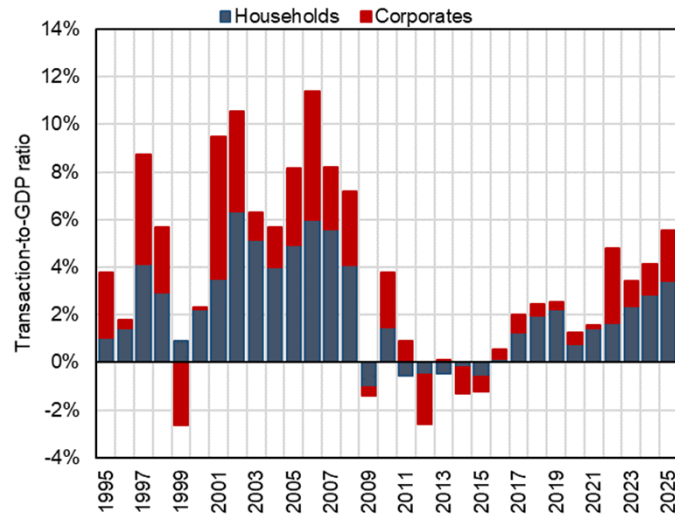
Securitisation started in 2022 and we are already at EU average



Note: Share of securitised exposures in total risk exposure amount of banks (TREA), across EU countries.
Source: ECB (CBD2).

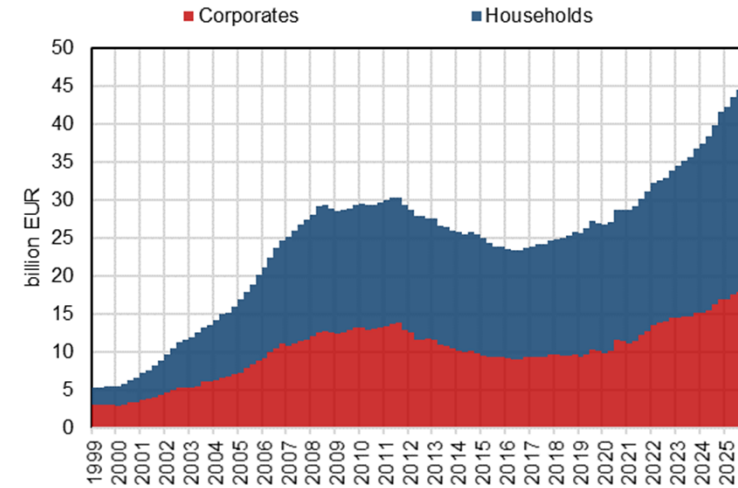
Despite an almost ten-year presence, the credit cycle continues to accelerate

Loan growth is below pre-2008 level



Sources: CNB, Eurostat.

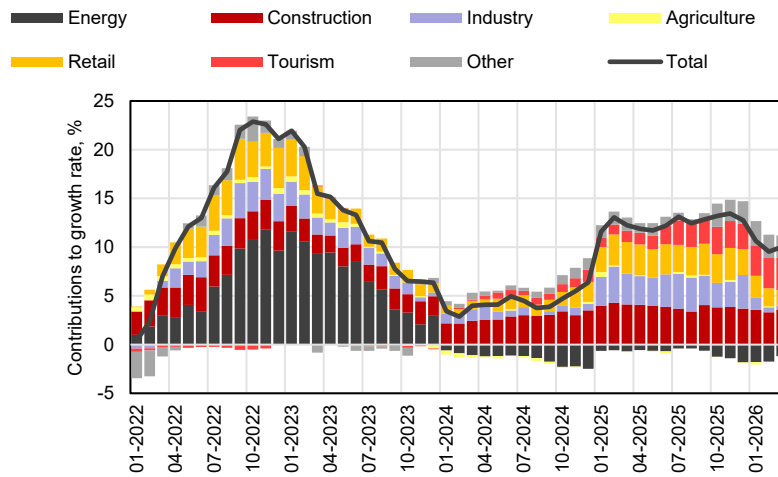
Bank exposure to the private sector up by two-thirds from 2008



Source: CNB.

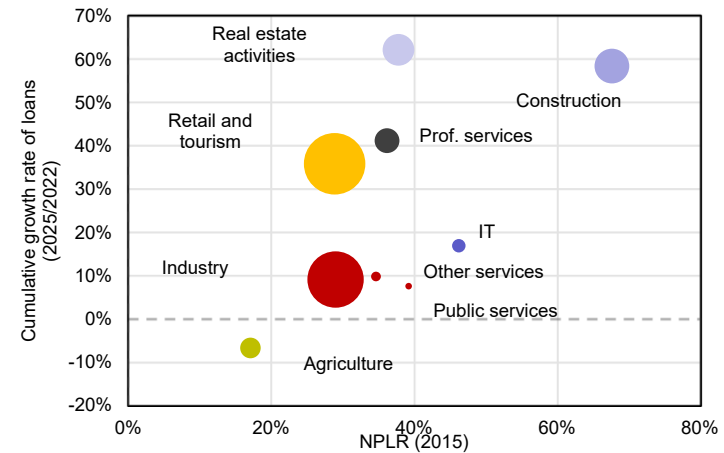
Lending focus on activities with revenues fluctuating strongly with the economic cycle

Further lending to enterprises in procyclical activities...



Note: Change in debt, transaction-based, excluding exchange rate, price and other changes..
Source: CNB.

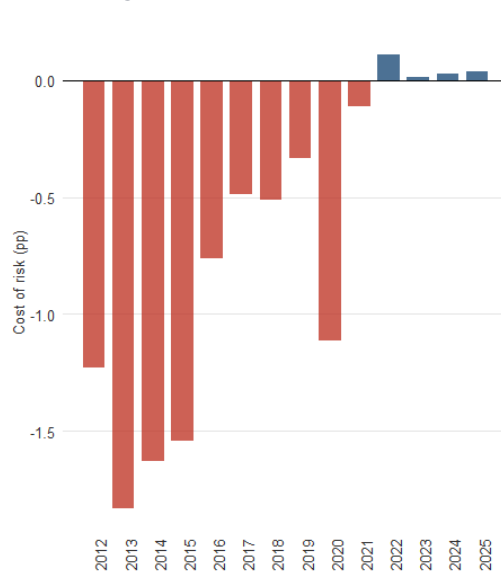
... with the biggest credit losses during the global financial crisis



Note: Bubble size refers to loan balance at end-2025.
Source: CNB.

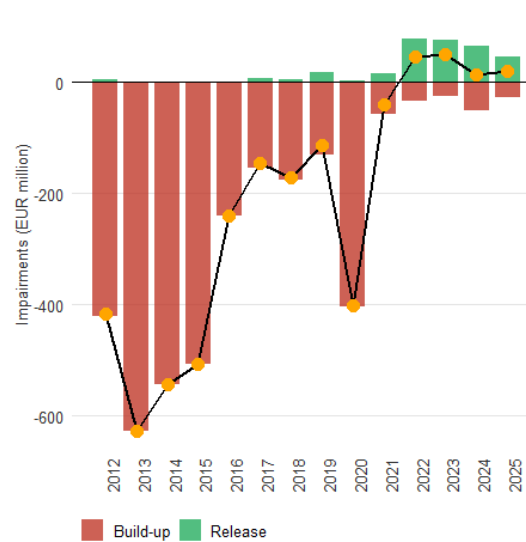
Low cost of risk mirrors the favourable part of the credit cycle, which may mask vulnerabilities

Cost of risk in positive territory in recent years



Note: System-wide CoR: Σ Impairments (flow)/ Σ Loans (stock).
Source: CNB

Gross impairment flows: *build-up* vs. *release*



Bars show gross flows at the level of individual banks:
- red = sum of impairments of banks that were net builders in the year,
- green = sum of impairments of banks that were net releasers in the year.
Black line = net system-wide impairment (sum of both components).
Source: CNB

ROE simulation under CoR scenarios

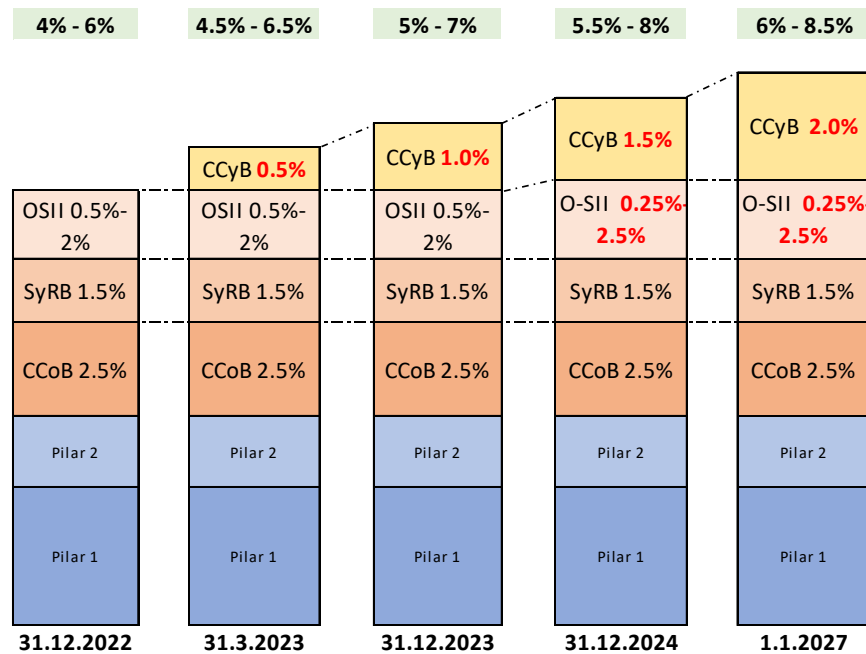
	CoR	ROE	Δ ROE (p.p.)
2025 (p82)	0.05%	14.6%	
p50	-0.33%	12.9%	-1.71
p25	-1.14%	9.2%	-5.38
p20	-1.26%	8.7%	-5.92
p10	-1.73%	6.6%	-8.04
p5	-2.02%	5.3%	-9.35

Methodology; The cost of risk scenario is calculated as the quantile of the CoR from distribution multiplied by the average balance of loans granted and substitutes the amount in 2025. Other items of the profit and loss account remain unchanged; new profit before tax is subject to 2025 effective tax rate, and the capital stays at 31.12.2025 level.

What is the CNB doing?

Strengthening bank resilience	Mitigating systemic risks
<ul style="list-style-type: none">• As regards cyclical systemic risks: countercyclical buffer in accordance with the phase of the financial cycle• As regards structural systemic risks: systemic risk and capital buffers for systemically important institutions• As regards the real estate market risk: a stricter definition of residential real estate for the application of the 20% risk weight	<ul style="list-style-type: none">• Restrictions on consumer lending criteria reduce the risks associated with rapid loan growth and household indebtedness• Recommendation to mitigate interest rate and interest rate-induced credit risk in long-term consumer loans• Recommendation on actions in granting non-housing consumer loans

Much stronger capital buffers since 2022



- The combined capital buffer rose from **4%–6%** to **6–8.5%** from 2022 to 2026
- Additional capital requirements increase bank resilience in case of risk materialisation

Abbreviations:

CCyB – countercyclical capital buffer

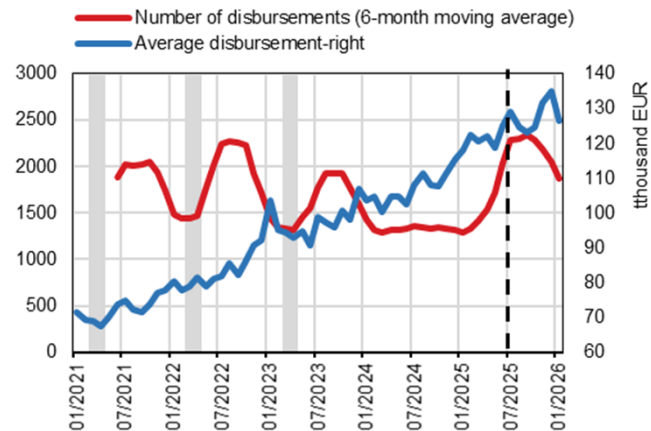
O-SII buffer – capital buffer for other systemically important institutions

SyRB – systemic risk buffer

CCoB – capital conservation buffer

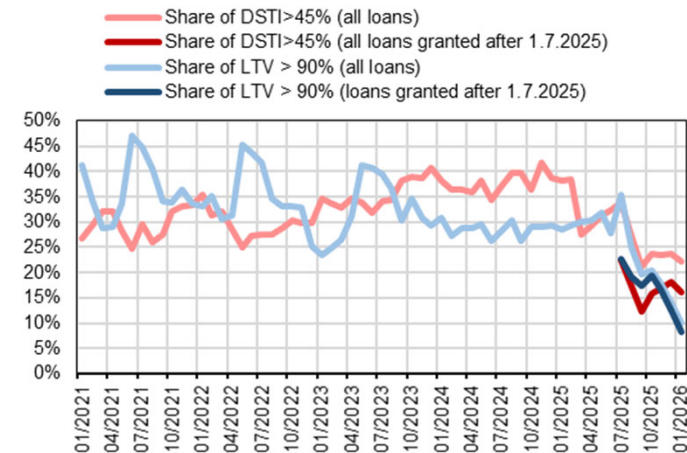
Macroprudential restrictions on lending criteria are working: the share of housing loans with heightened DSTI and LTV ratios has fallen considerably

The number of new housing loans, though smaller than in the first half of 2025 remains elevated



Note: The grey shaded areas denote the periods of government housing loans subsidy programme. The black dotted line shows the month of the beginning of the application of the Decision on consumer lending criteria.
Source: CNB (Consumer lending criteria).

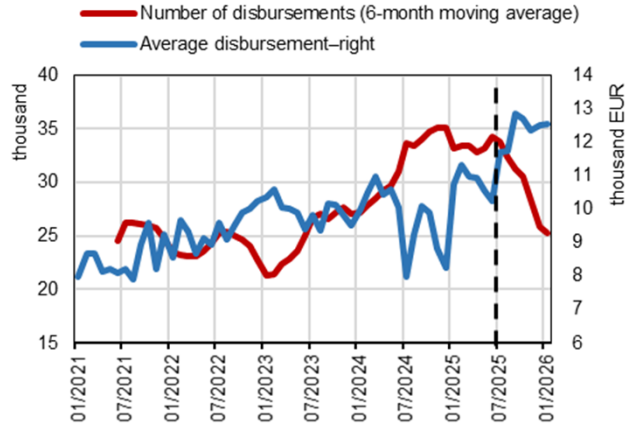
The share of new housing loans with a DSTI or LTV ratio above the limit has fallen considerably



Source: CNB (Consumer lending criteria).

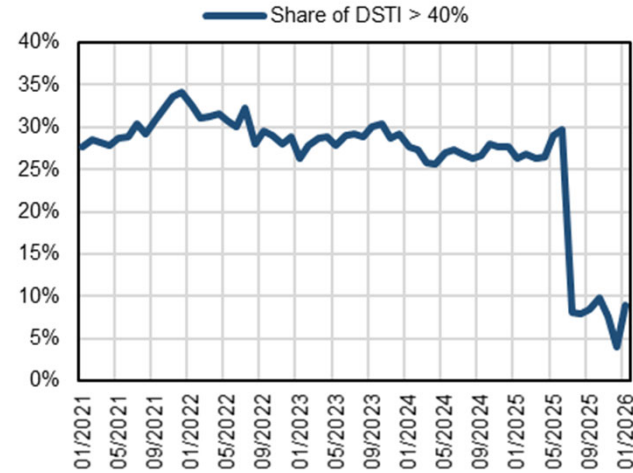
The number of granted non-housing loans fell considerably, with a sharp fall in the share of those with an elevated DSTI ratio

In the second half of 2025, the number of new non-housing loans was below the previous years' average



Note: The black dotted line shows the month of the beginning of application of the Decision on consumer lending criteria.
Source: CNB (Consumer lending criteria).

About 10% of the new non-housing loans have a DSTI ratio above 40%, up from the previous 30%



Source: CNB (Consumer lending criteria).

Financial resilience is built in good times

- In the mature phase of the cycle, the banking sector is highly profitable with the lowest NPL levels; however good times do not last forever
- Cyclical risks have been mounting for a while, while excess capital is decreasing influenced by faster assets growth and profit payouts
- The CNB is pursuing a proactive macroprudential policy but it is up to the banking sector to strengthen resilience while it is possible
- Despite banking sector stability and resilience even in hypothetically very adverse scenarios, poorer capital position of banks in stress periods may make banks less inclined to lend to the economy, which may increase contraction