



HNB

EUROSYSTEM

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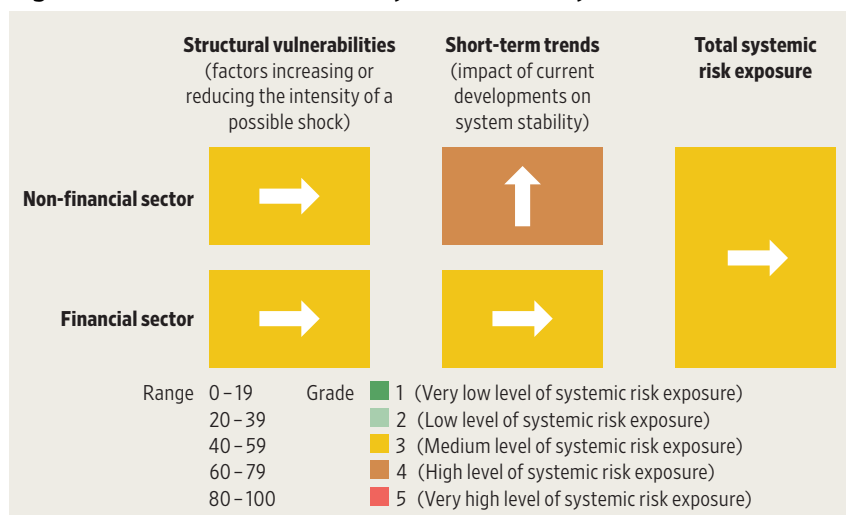
Introductory remarks

The macroprudential diagnostic process consists of assessing any macroeconomic and financial relations and developments that might result in the disruption of financial stability. In the process, individual signals indicating an increased level of risk are detected according to calibrations using statistical methods, regulatory standards or expert estimates. They are then synthesised in a risk map indicating the level and dynamics of vulnerability, thus facilitating the identification of systemic risk, which includes the definition of its nature (structural or cyclical), location (segment of the system in which it is developing) and source (for instance, identifying whether the risk reflects disruptions on the demand or on the supply side). With regard to such diagnostics, instruments are optimised and the intensity of measures is calibrated in order to address the risks as efficiently as possible, reduce regulatory risk, including that of inaction bias, and minimise potential negative spillovers to other sectors as well as unexpected cross-border effects. What is more, market participants are thus informed of identified vulnerabilities and risks that might materialise and jeopardise financial stability.

1 Identification of systemic risks

Against the backdrop of heightened global uncertainty, the exposure of the Croatian financial system to systemic risks remained moderately elevated in the first half of 2026, influenced primarily by strong growth in residential real estate prices and robust lending to the private non-financial sector (Figure 1). Given the openness of the Croatian economy and its dependence on energy imports, heightened global safety and trade uncertainties could quickly spill over to Croatia and lead to the materialisation of systemic risks in the financial system. Although non-financial corporations recorded favourable business results in 2025, their operating margin narrowed slightly over the year, primarily owing to higher labour costs (Figure 3). At the same time, the increase in household disposable income and the robust labour market have had a favourable effect on consumer optimism, reflected in the growth in personal consumption and consumer loans. In such an environment, demand for residential real estate also remains elevated, with prices continuing to rise amid constrained supply. However, the slowdown in the growth of nominal and real wages seen in the first half of 2026 could have an unfavourable effect on the increase in disposable income and consumer optimism.

Figure 1 Risks to financial stability are moderately elevated

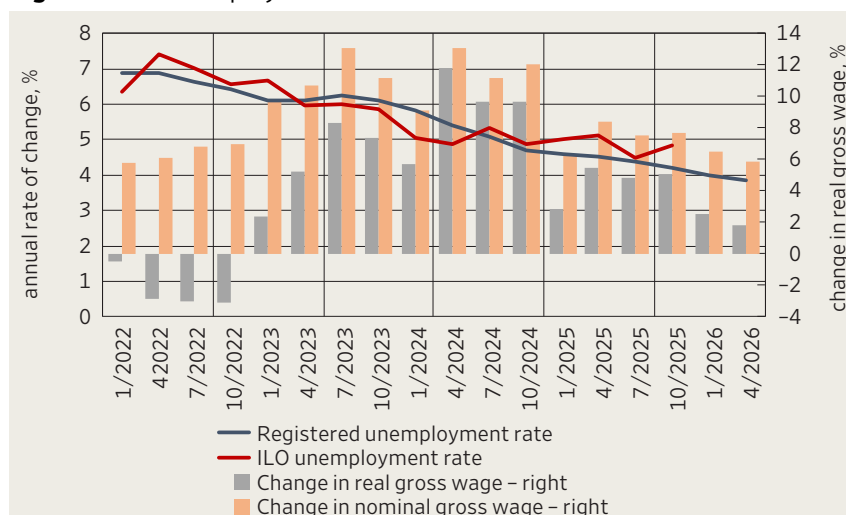


Note: Arrows indicate changes from the risk score published in Macroeconomic Diagnostics No. 28 (February 2026).
Source: CNB.

Strong domestic demand remains the main driver of economic growth amid heightened global uncertainty and has also proved to be a key source of resilience for the Croatian economy, although the deterioration in external imbalances and international competitiveness is weighing on the long-term sustainability of such a growth model. Domestic economic activity stagnated at the beginning of 2026, but annual economic growth remained relatively strong, reflecting the increase in domestic demand from the beginning of the preceding year, driven primarily by personal consumption and investment activity. The structure of growth relying on domestic demand has enhanced the resilience of the economy to external shocks; however, the limited contribution of net exports and private investment coupled with signs of deteriorating cost competitiveness has had an unfavourable effect on the long-term sustainability of such a growth model. The strong growth in wages is intensifying cost pressures and diminishing competitiveness, particularly in export-oriented activities, while import growth driven by strong domestic demand is contributing to the widening of external imbalances. Owing to the resilient labour market and real wage growth over the past three years (Figure 2), household disposable income continued to increase, growing faster than final consumption. As a result, the savings rate increased further from an already elevated level, strengthening households' resilience to financial shocks. Despite historically low unemployment figures, employment and activity rates among the working-age population are lower than in most EU member states, limiting labour supply and contributing to upward wage pressures (Figure 3).

In 2026, fiscal policy shifted towards a more restrictive stance, which had a favourable impact on the long-term sustainability of public finances and mitigated risks associated with the banks' exposure to the government. According to the projections of the Ministry of Finance presented in the

Figure 2 The unemployment rate is at historical lows

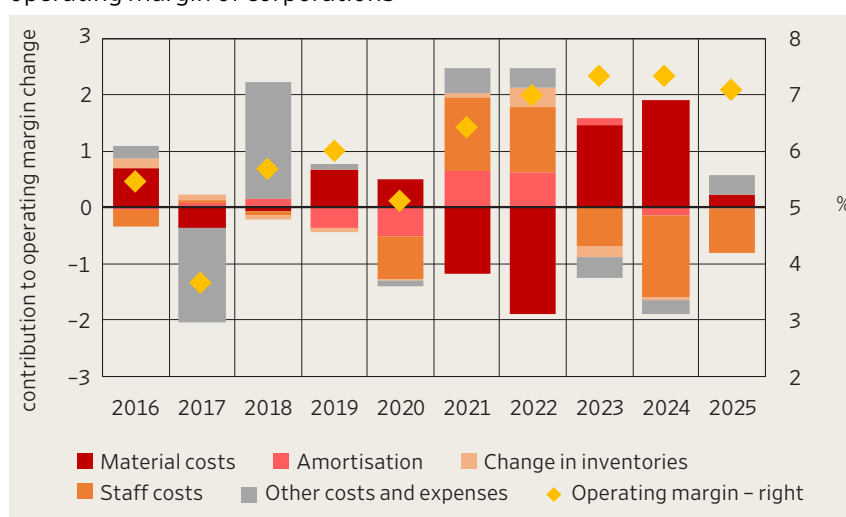


Note: Data for the second quarter of 2026 refer to April.

Sources: CBS, CES, Eurostat and CNB calculations (seasonally adjusted by the CNB).

annual progress report on the implementation of the National Medium-Term Fiscal-Structural Plan of the Republic of Croatia, the structural primary balance is expected to improve, mainly owing to slower growth on the expenditure side of the budget, while the public debt-to-GDP ratio is expected to decline further and remain below the Maastricht threshold of 60%. The implementation of the planned fiscal adjustment nevertheless remains subject to risks, primarily due to increased defence financing needs, while a potential slowdown in economic activity and the resulting adverse effects on budget revenues could further hamper deficit reduction. From the perspective of risks to financial stability, the high exposure of

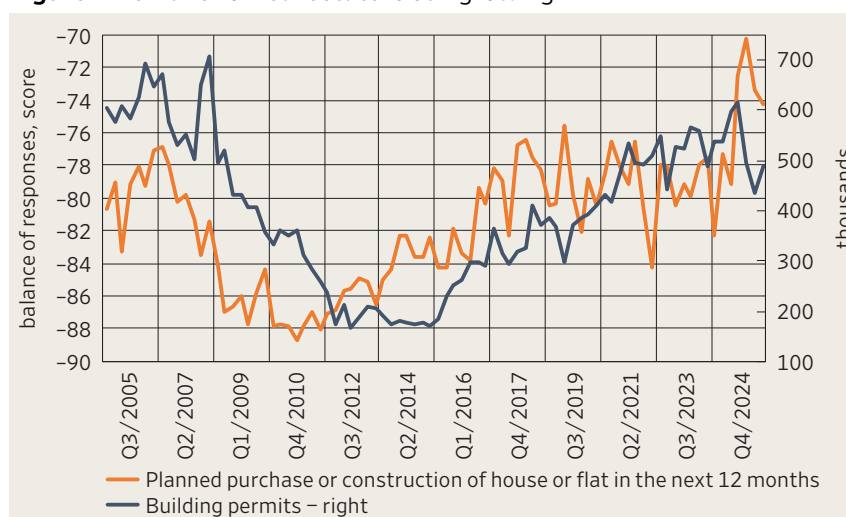
Figure 3 Wage growth in the past period had a negative impact on the operating margin of corporations



Notes: Operating margin refers to the EBIT margin, defined as the difference between operating revenues and operating expenditures. Other costs and expenditures include other costs, value impairments, provisions and other operating expenditures. Positive (negative) contributions to the change in the operating margin indicate a decrease (increase) in the share of a particular item in corporate operating profit. The calculation is based on a sample of firms having at least one employee, more than EUR 100,000 in operating revenues and positive total assets.

Sources: FINA and CNB calculations.

Figure 4 Demand for real estate is still growing



Note: The balance of responses is calculated as the difference between the share of positive and the share of negative answers to the survey question: “Do you intend to buy or build a flat/house in the following 12 months (for yourself, a family member, a holiday home, property for rent, etc.)?”

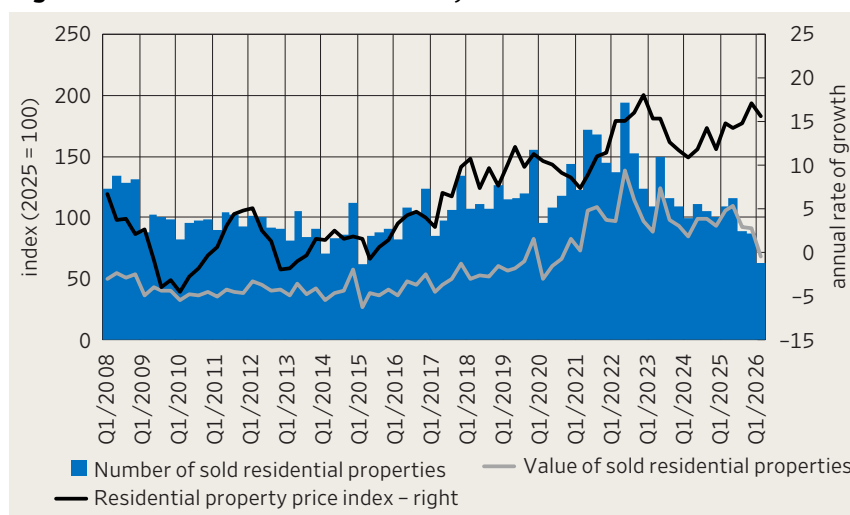
Sources: CBS and the European Commission (Consumer Data Survey).

banks to the central government is of particular importance, as it reflects a strong link between the public and financial sectors and represents a channel through which potential fiscal disruptions could be transmitted to the banking system.

A prolonged period of exceptionally strong growth in residential real estate prices increases the risk of a more pronounced decline. The increase in residential real estate prices, which stood at 14.3% in annual terms in the first quarter of 2026, has been further supported by high employment and wage growth, as well as by low housing loan costs and tax incentives for first-time home buyers. Strong demand for residential real estate is also reflected in the survey-based indicator of intentions to purchase a house or a flat, which remains at a very high level (Figure 4). According to revised CBS data, the number of residential properties sold in 2025 was 4.1% lower than in 2024, while preliminary data for the first quarter of 2026 indicate that the decline in the number of transactions accelerated further¹ (Figure 5). Strong price growth amid declining turnover suggests that the current supply of residential real estate is not keeping pace with strong demand, reflecting the impact of a number of factors, including the relatively long time lag between the initiation of a construction project and the completion of a residential building. Therefore, a potential deterioration in the macroeconomic environment that would significantly reduce demand remains the most significant risk of a reversal in the market.

¹ Revised data for 2025 indicate that the decline in the number of transactions was considerably milder than suggested by the initial estimates based on unrevised data, so that the assessment of developments in 2026 should be interpreted with caution.

Figure 5 The slowdown in sales activity on the real estate market continues

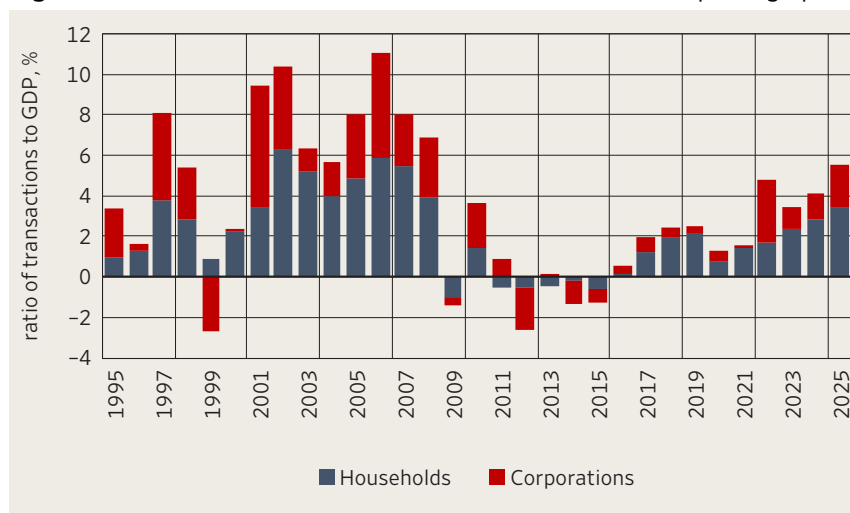


Notes: The Tax Administration continuously processes and updates data on residential property transactions, including those carried out in earlier periods (in some cases, up to several years back). Accordingly, these estimates should be interpreted with caution, particularly those relating to the first quarter of 2026. Subsequent processing of the data may result in an upward revision of the recorded number of residential property transactions.

Source: CBS.

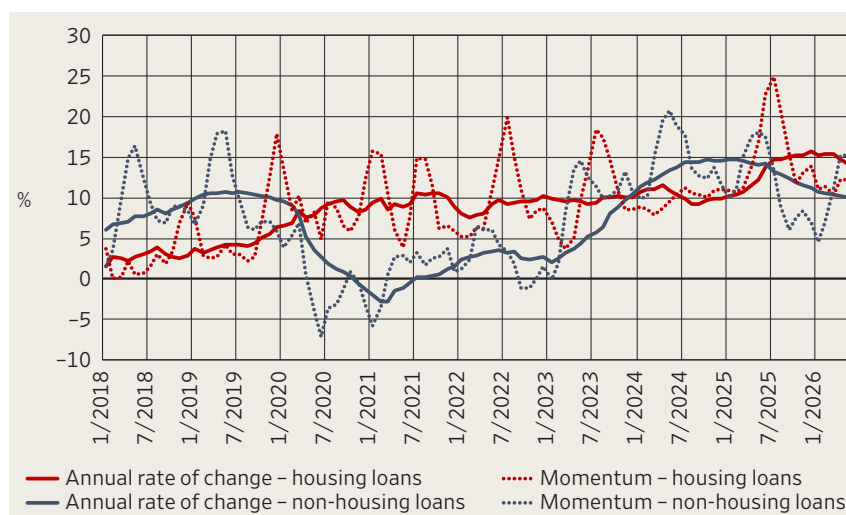
Credit growth to the private non-financial sector slowed down slightly, reflecting both more moderate macroeconomic developments and the effects of the CNB's macroprudential measures. Nevertheless, it remained strong and continued to contribute to the build-up of cyclical vulnerabilities. Increase in loans, measured as the ratio of transactions to GDP, remained elevated despite some moderation for both households and non-financial corporations, with lending to households still contributing the most to the trend (**Figure 6**). The annual growth rate of household lending slowed from around 13% at the end of 2025 to 11.9% in May, although the aggregate moderation masks divergent developments. Following a sharp acceleration in the first half of 2025, housing lending gradually moderated, with the annualised three-month growth rate declining to 12.2% in May and the

Figure 6 The increase in loans to the non-financial sector is picking up



Sources: CNB and Eurostat.

Figure 7 The increase in loans to households moderated slightly in early 2026



Source: CNB.

annual growth rate easing to 14.6%. By contrast, short-term dynamics in non-housing lending picked up from 7% to around 15%, while the annual growth rate moderated slightly, from 11.5% to 10% (Figure 7). The macroprudential restrictions on consumer lending criteria, in application since 1 July 2025, also contributed to the slowdown in household lending (see Financial Stability No. 27).

On the other hand, corporate loans continued to grow at elevated rates, with the fastest growth still observed in cyclically sensitive activities such as construction, trade and tourism. The marked acceleration in short-term growth dynamics to 23.9% in May was highly concentrated and largely reflected a lower number of loans extended to large corporations, rather than a broader shift in credit dynamics. Irrespective of this effect, a substantial share of credit growth continues to be accounted for by the financing of construction projects, supported by strong growth in real estate prices. Lending of this kind remains vulnerable to potential changes in housing demand and residential property prices.

The banking system has remained highly liquid and profitable, while overall risks have remained elevated. Although the profitability of credit institutions has declined, it remains high relative to its historical average, supported in part by low impairment costs. At the same time, heightened geopolitical uncertainty and the strong growth in private non-financial sector debt continue to keep overall risks to the banking system at an elevated level. In addition, the strong expansion of longer-maturity lending over the past four years, together with rising exposures to debt securities, has increased interest rate risk in the banks' balance sheets. Banks have sought to mitigate this risk through more intensive hedge accounting using derivatives, as well as by reintroducing loans with variable interest rates and an initial fixed-rate period (see Box 1 Managing interest rate risk in the Croatian banking system: hedging, costs and hidden exposure).

Box 1 Managing interest rate risk in the Croatian banking system: hedging, costs and hidden exposure

Few factors shape banks' business results as directly as changes in interest rates. However, the impact of interest rate movements on the performance of banks depends on the structure of their balance sheets: for banks in which changes in market interest rates are passed through to assets more rapidly than to funding sources, increases in interest rates increase interest margins, while declines in interest rates reduce them. The opposite holds for banks where changes in market interest rates are passed through more rapidly to funding sources than to assets. Croatian banks belong to the former group, having been characterised by the limited pass-through of market interest rates to funding costs and by substantial excess in short-term liquidity held with the central bank. As a result, during the interest rate hiking cycle between 2022 and 2024, income from assets increased much more rapidly than deposit costs, leading to record-high profitability. The shift in monetary policy and the decline in market interest rates since mid-2024 had the opposite effect, causing net interest margins to narrow gradually. It is precisely this sensitivity of the business results of banks to interest rate movements that exposes them to interest rate risk. Exposure to this risk, one of the key vulnerabilities of the banking system, has increased significantly in recent years.

Banking is based on maturity transformation, which, at the same time, gives rise to interest rate risk. Under the traditional business model, banks engage in maturity transformation by funding themselves with short-term liabilities and investing those funds in long-term assets. Banks' liabilities primarily consist of short-term interest-bearing deposits, while their assets are largely composed of long-term loans and debt securities that generate interest income. Maturity transformation exposes banks to the risk that changes in market interest rates will affect interest income and interest expenses differently. This exposure is measured by the interest rate risk in the non-trading book (IRRBB), typically using two indicators. The first indicator is the change in the economic value of equity (ΔEVE), which shows the extent to which the present value of the balance sheet would change following a shift in interest rates. The sensitivity of ΔEVE increases with the share of longer-term assets having a fixed interest rate. The second indicator is the sensitivity of net interest income (ΔNII), which measures the short-term impact of changes in interest rates on net interest income. Since these two concepts refer to different time horizons, their quantitative results often move² in opposing directions. While ΔEVE

² The regulatory monitoring of the IRRBB is performed via the supervisory outlier test (SOT) referred to in EBA Guidelines on IRRBB (EBA/GL/2022/14). The test sets a threshold of a 15% decline in the economic value of equity and a 5% decline in net interest income, both expressed as a share of

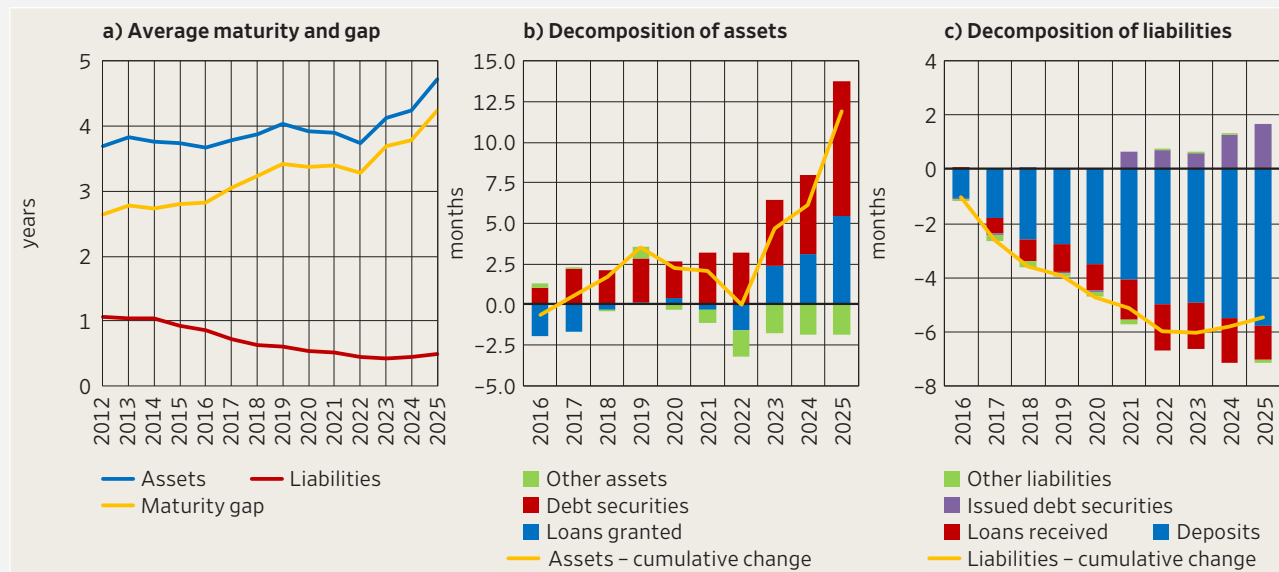
measures the long-term effect of changes in interest rates on the economic value of the balance sheet, ΔNII reflects their short-term impact on net interest income. For example, during the most recent cycle of market interest rate increase, banks experienced an increase in net interest income as interest on the asset side of the balance sheet rose faster than funding costs. At the same time, however, the increase in interest rates reduced the economic value of long-term placements with fixed interest rates due to the decline in their present value.

A bank's exposure to interest rate risk depends on the alignment of the maturity and interest rate structure of its assets and liabilities. For the purposes of regulatory measurement of interest rate risk, the allocation of instruments according to the time remaining until their next interest rate change is key. For instruments having fixed interest rates, this coincides with contractual maturity, as the interest rate remains unchanged until then. By contrast, instruments with variable interest rates are allocated according to their next interest rate reset date, regardless of their contractual maturity. On the asset side, long-term fixed-rate instruments, such as government bonds and housing loans, increase exposure to interest rate risk because their interest rates remain unchanged for an extended period despite changes in market interest rates. On the liability side, the opposite applies: short-term funding sources with more frequent interest rate changes adjust more rapidly to market conditions. Hence, a mismatch between slowly-adjusting assets and rapidly-adjusting liabilities increases a bank's exposure to interest rate risk. Instruments with a variable interest rate adjust to market conditions each time their interest rate is reset, but this adjustment in itself does not eliminate interest rate risk. It is neutralised only if interest rates on both sides of the balance sheet adjust in a coordinated manner, that is, when assets and liabilities are linked to the same or a sufficiently similar reference parameter. Accordingly, interest rate risk comprises both duration (gap) risk, which arises from mismatches in the timing of the maturity and the changes in the interest rates of assets and liabilities, and basis risk, which arises when their interest rates are linked to different reference rates. This distinction is important because although standard regulatory frameworks address gap risk relatively well, basis risk largely remains less visible.

The exposure of domestic banks to interest rate risk as measured under the regulatory framework has increased since mid-2021, reflecting simultaneous increases in its two key components: asset maturity and the share of placements with a fixed interest rate. Asset maturity lengthened as banks extended loans with longer maturities and invested

tier 1 capital, by applying the prescribed shock scenarios to a single reference interest rate curve. Exceeding the threshold does not constitute a breach of the regulatory requirements but does trigger increased supervisory attention.

Figure 1 Widening maturity gap: developments in the average maturity of banks' assets and liabilities and contributions to change

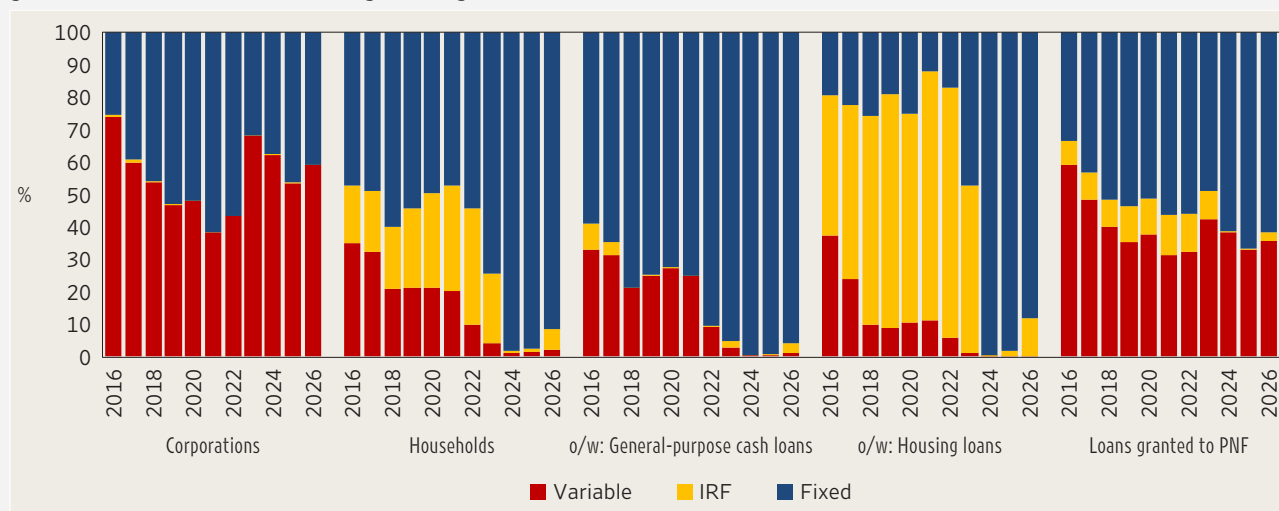


Notes: The overall weighted maturity is defined as $M = \sum_i w_i \cdot \mu_i$, where μ_i is the category's weighted maturity i , and w_i its share in total assets/liabilities. The contributions to changes in the remaining maturity are calculated using the Bennett (Marshall-Edgeworth type) decomposition of the annual change in weighted maturity. Using this method, the annual change is decomposed as: $\Delta M = \sum_i (\bar{w}_i \Delta \mu_i + \mu_i \Delta w_i)$, where $\bar{w}_i$ and μ_i denote the averages over two periods, the term $\bar{w}_i \cdot \Delta \mu_i$ measures changes in maturity within the category, while the term $\mu_i \cdot \Delta w_i$ captures the change in the category's share (mix). The symmetric allocation of the interaction term ensures the absence of residuals. The cumulative is obtained as the sum of the annual contributions from the base year 2015 onward.

Source: CNB.

more vigorously in long-term government bonds (Figure 1a), whose share exceeded one fifth of total assets at the beginning of 2026. A significant contribution also came from the shift towards fixed interest rates and the extension of maturities in the housing loan segment, which, as it carries the longest maturity among balance sheet items, has a particularly strong impact on interest rate risk as measured by the economic value of equity. At the same time, the average maturity of liabilities shortened, primarily due to the strong growth in non-maturity transaction deposits and the declining

Figure 2 New lending to the private sector was marked by the shift towards fixed interest rates and the recent gradual return of IRF in housing lending



Notes: IRF refers to loans with a period of initial interest rate fixation, after which the interest rate becomes variable and linked to a reference parameter. Data for 2026 refer to the period between January and May. PNF refers to loans to the private non-financial sector.

Source: CNB.

share of term deposits. The increase in debt securities issued by banks, with an average maturity of four to five years, has only recently partially offset the shortening of the maturity of liabilities (**Figure 1b**). Consequently, the simultaneous extension of maturity of assets and shortening of maturity of liabilities widened the gap between the two sides of the balance sheet, further increasing banks' exposure to interest rate risk.

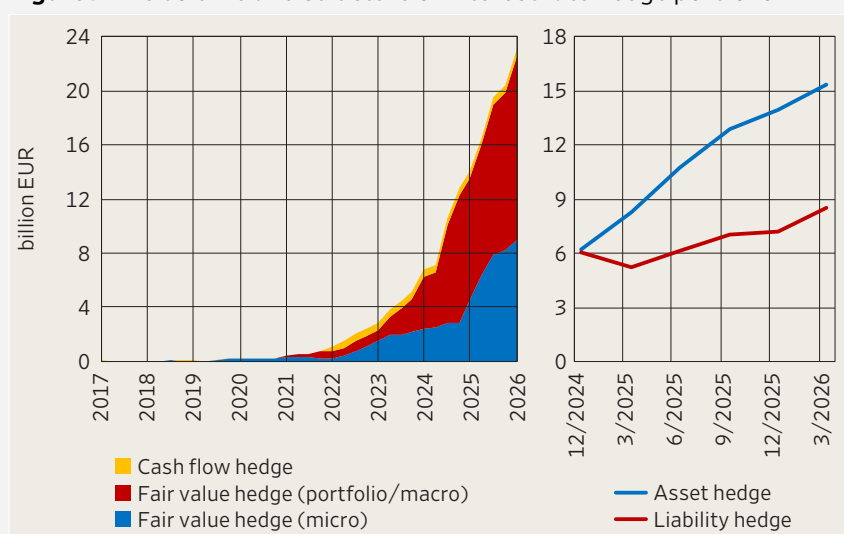
The lengthening of asset maturity was accompanied by a shift towards fixed interest rates, most notably in the housing loan segment. Over the past decade, banks have increasingly offered loans at a fixed interest rate, and borrowers themselves increasingly opted for such products (**Figure 2**). This shift was driven not only by changes in the offer of banks but also by changes in demand. Thanks to the low interest rate premium for the certainty provided by a fixed interest rate (20–30 basis points), borrowing at a fixed interest rate became financially more attractive, motivating borrowers to increasingly favour such loans. The shift was more pronounced in household lending, whereas variable interest rates continued to account for a relatively large share in corporate lending³, although this segment also recorded a gradual increase in the share of fixed interest rate loans (**Figure 2**). The increase in the share of household loans granted at a fixed interest rate was further supported by the CNB's recommendation⁴ of 2017, which encouraged credit institutions to expand the supply of fixed-rate loans and facilitate the conversion from variable-rate to fixed-rate loans for borrowers. In the initial period following the introduction of the recommendation, the increase was driven primarily by loans with interest rates fixed only for an initial period (IRF), while loans with interest rates fixed for the entire repayment period became dominant only from 2023 onwards. This trend was supported by the monetary policy tightening cycle, when the six-month EURIBOR, the most commonly used reference parameter for variable interest rates⁵, approached the statutory cap on the maximum interest rate⁶. This narrowed the room for setting the fixed

- 3 The high share of corporate loans with variable interest rates reflects their shorter maturity and the nature of corporate placements, dominated by working capital and revolving loans linked to the EURIBOR, as well as the absence of a statutory cap on variable interest rates like the one applied to consumer loans.
- 4 Recommendation to mitigate interest rate and interest rate-induced credit risk in long-term consumer loans, CNB, 26 September 2017. The recommendation encouraged banks to extend their offer of loans granted at fixed interest rates and to offer existing debtors with loans having maturities of at least seven years a switch from a variable to a fixed interest rate, free of charge.
- 5 The Consumer Credit Act (Article 11a) and the Act on Consumer Housing Loans (Article 24) define the variable interest rate as the sum of the reference parameter (EURIBOR, etc.) and the fixed component of the interest rate, which may not increase during loan repayment.
- 6 The maximum allowed interest rate on consumer housing loans with a variable interest rate in euro is limited by law to the average weighted interest rate on the balances of such loans increased by one third (Article 25 of the Act on Consumer Housing Loans, OG 128/2022 and 156/2023; for other consumer loans, the limit is set to the average increased by one half, in accordance with Articles 11b–11c of the Consumer Credit Act). Average weighted rates are published by the Croatian National Bank twice a year.

component of the variable interest rate on housing loans, leading banks to almost completely withdraw such loans from their offer.

In the structure of loans with a variable interest rate, the share of the national reference rate (NRR) as the reference parameter that reflects the banks' funding costs has declined, while the share of the EURIBOR, which is relatively weakly linked to funding costs, has increased. A large share of loans with variable interest rates, particularly those extended to households, have traditionally been linked to the NRR. At the end of 2022, the NRR was the predominant reference rate, with loans linked to this parameter accounting for around 70% of the stock of household loans with variable interest rates. As the NRR is constructed on the basis of the average deposit cost, it reflects the developments in the financing costs of the banking system. Consequently, interest income from loans linked to the NRR generally moved in line with changes in the costs of financing, thereby reducing bank exposure to basis risk. However, since 2023, banks have stopped extending loans linked to the NRR, and as the existing portfolio is gradually maturing and being amortised, its share in loans with variable interest rates is declining. As a result, the share of NRR-linked loans in the total loan portfolio dropped from almost 40% in mid-2022 to less than 24% in 2026. At the same time, the share of EURIBOR-linked loans increased, so that such loans now account for almost two thirds of the variable-rate loan portfolio and approximately one quarter of the total loan portfolio. As the EURIBOR is less closely linked to the costs of the banks' sources of financing than the NRR, the gradual shift towards the EURIBOR reduces the natural hedge against basis risk previously provided by the alignment between income and costs of financing in loans linked to the NRR.

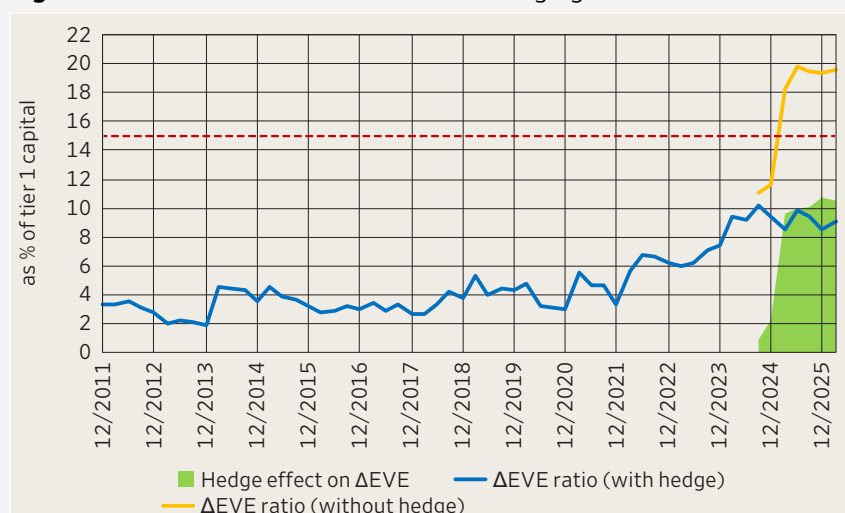
Figure 3 The volume and structure of interest rate hedge portfolio



Note: The left panel (FINREP) shows hedge accounting instruments according to purpose (cash flows and fair values) and level (macro and micro), while the right panel (based on IRRBB templates) shows them according to the side of the balance sheet being hedged (assets or liabilities).

Source: CNB.

Figure 4 Δ EVE indicator before and after hedging



Notes: The indicator of the sensitivity of the economic value of equity (Δ EVE) is shown under the most adverse of the prescribed SOT interest rate shock scenarios. The red dotted line marks the SOT threshold of 15% of tier 1 capital.
Source: CNB.

The increase in interest rate risk has brought some banks close to the regulatory threshold. In addition to the structural effect of higher interest rates, the increase in Δ EVE was also driven by the steeper interest rate curve following the ECB's monetary policy tightening cycle that began in 2022. The significant increase in Δ EVE seen in some banks brought its value close to the regulatory threshold of 15% of common equity tier 1 (CET1) capital. It should be noted, however, that the reported level of Δ EVE depends not only on the interest rate structure of the balance sheet but also on the modelling assumptions applied by banks⁷.

As they approached the regulatory threshold, banks intensified their use of interest rate swaps as key instruments for hedging against interest rate risk. To keep Δ EVE below the regulatory threshold, banks increased their use of interest rate swaps (IRS). The notional amount of these positions increased from less than EUR 1bn at end-2021 to approximately EUR 23bn in early 2026 (Figure 6). The hedging mechanism on the asset side is relatively straightforward: by using interest rate swaps, banks effectively replace fixed interest rates in long-term assets with variable interest rates. This shortens the effective duration of assets and reduces the sensitivity of the economic value of equity to changes in interest rates. On the liability side, the hedge operates in the opposite direction, with banks receiving a fixed interest rate and paying a variable interest rate. In the structure of the hedging portfolio, the share of derivatives used to hedge assets increased

⁷ Banks model non-maturity deposits behaviourally by allocating their stable portion to longer time buckets, thereby extending the modelled maturity of liabilities and reducing the reported Δ EVE. The EBA framework limits this effect (a ceiling is imposed on both the stable portion of deposits and the average maturity of the portfolio). Nevertheless, for some institutions, the differences in Δ EVE with and without modelling are substantial, making modelling assumptions a separate source of risk.

from around one half at end-2024 to almost two thirds in early 2026, while positions used to hedge liabilities grew at a considerably slower pace.⁸ From an accounting perspective, a distinction is made between fair value hedges, used to hedge against changes in the market value of balance sheet items, and cash flow hedges, which hedge against the variability of future cash flows. Virtually the entire increase in the notional amount of interest rate swaps relates to fair value hedges, while cash flow hedges remained limited and broadly unchanged. This suggests that banks primarily hedge against changes in the market value of balance sheet positions rather than against uncertainty in future interest cash flows. The average maturity of swap portfolios is concentrated in the medium to long-term segment⁹, averaging around 7.7 years in the first quarter of 2026. Interest rate swaps have a substantial effect on exposure to gap risk as measured by the Δ EVE indicator, keeping it stable at around 9% throughout the observed period. Without these hedging transactions, the indicator would have exceeded the regulatory threshold of 15% in 2024, reaching approximately 20% of tier 1 capital (Figure 4). The banking system's exposure to gap risk has therefore remained below the regulatory threshold owing to the growing volume of hedging transactions, making banks increasingly dependent on these instruments.

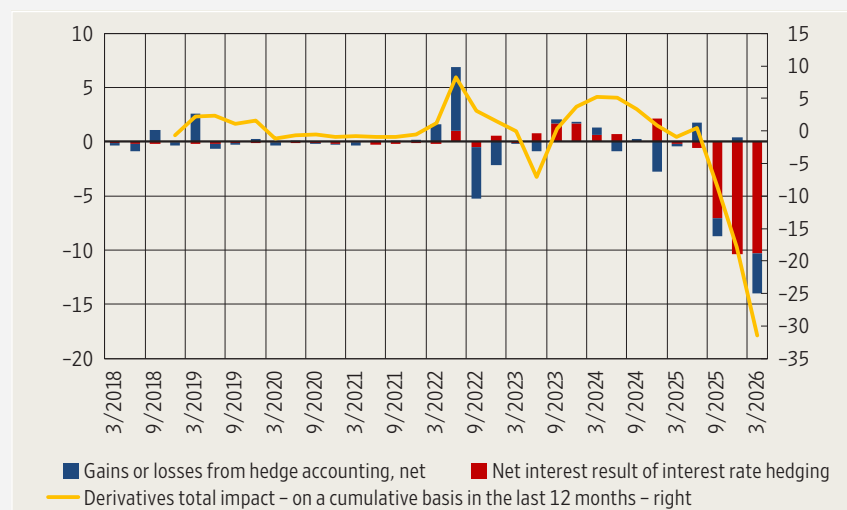
The cost of hedging by interest rate swaps has increased since mid-2024 and has begun to weigh on the financial performance of banks. Entering into interest rate swaps creates a cost that increases with the steepness of the interest rate curve, that is, with the spread between short-term and long-term interest rates. In previous years, when the swap curve was lower and flatter than it is today, the variable interest rate received by a bank was closer to the fixed interest rate that the bank paid, keeping the cost of hedging relatively limited. However, the decline in short-term interest rates since mid-2024 has reduced the EURIBOR received by banks under swap contracts, while the fixed component has remained unchanged. As a result, the difference between the interest rate received and the interest rate paid has increased, leading to a marked increase in hedging costs. Consequently, the contribution of interest rate hedging to the income statement declined from slightly positive levels in previous years to a loss of EUR 32m (on a cumulative basis, over the past 12 months) in the first quarter of 2026. Most of this cost stems from a negative net interest result on swaps, i.e.

- 8 The positions concerned are pay-fixed swaps, which shorten the effective maturity of assets and hedge the EVE against increases in interest rates. A smaller share of derivatives is used to hedge liabilities, with banks receiving a fixed interest rate and paying a variable interest rate, thereby operating in the opposite direction. As these positions are increasing at a much slower pace, the discussion that follows focuses on dominant asset hedging.
- 9 In practice, banks use derivatives mainly to hedge medium and long-term maturities, while the significant gaps that remain in earlier time buckets in the absence of modelling are closed through behavioural assumptions. These include assumptions regarding the behaviour of demand deposits, the prepayment of loans with fixed interest rates and the early redemption of time deposits, which shorten their effective maturities.

from the widening gap between the fixed interest rate paid by banks and the variable interest rate they receive. A smaller share is attributable to the ineffectiveness of the hedge, that is, to the misalignment between changes in the fair value of swaps and those of the hedged balance sheet items (Figure 5). The overall cost also increases with the volume of the portfolio being hedged, so that a further expansion of hedging transactions places additional pressure on financial performance (Figure 6).

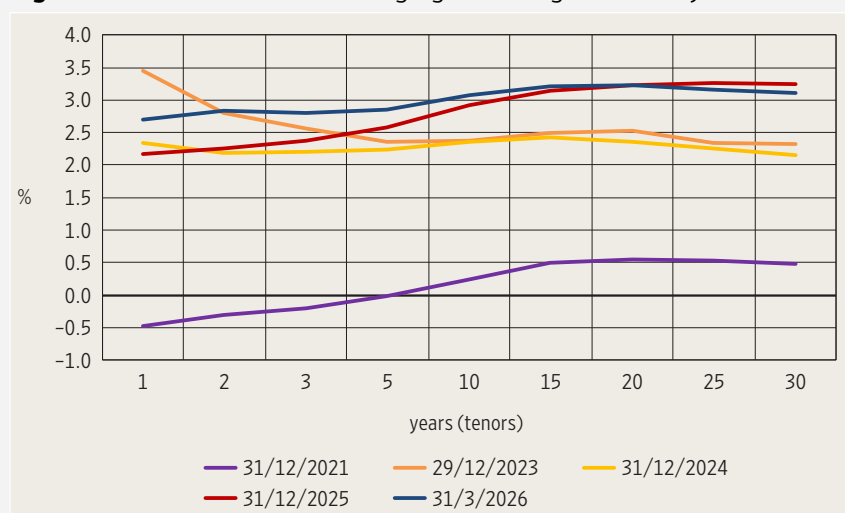
Faced with rising hedging costs, in early 2026, some banks began to return to granting loans at variable interest rates or with interest rate fixation periods shorter than the maturity. The economic rationale behind this is simple: a loan with a variable interest rate reduces interest rate risk exposure in a way that is similar to an interest rate swap on the asset side, as in both cases interest income adjusts to market interest rate movements. Unlike an interest rate swap, however, when granting a loan with a variable interest rate, the bank does not incur the direct cost of entering into a hedging transaction. Accordingly, the spread between interest rates on loans with a fixed interest rate and loans with a variable interest rate should, in principle, reflect the cost of hedging against interest rate risk, which should be reflected in their respective effective interest rates. In this approach, interest rate risk is not eliminated but merely reallocated. In the case of an interest rate swap, the risk is transferred to the counterparty, while in the case of a loan with a variable interest rate, it is borne by the borrower. Should interest rates rise and annuities increase, this risk may indirectly re-emerge in the form of higher credit risk for banks.

Figure 5 Contribution of interest rate hedging (swaps) to the income statement



Notes: Columns show the quarterly impact on the income statement (left axis), broken down into the net interest result from interest rate hedging and gains/losses arising from hedge accounting. The line shows the total impact of derivatives, on a cumulative basis over the past twelve months (right axis). Data for 2026 refer to the first quarter.
Source: CNB.

Figure 6 Cost of interest rate hedging according to maturity



Notes: The chart shows the euro interest rate swap fixed-rate curve (fixed leg against the EURIBOR) for maturities ranging from 1 to 30 years. The level of the curve reflects the marginal cost of entering into new interest rate hedges, while the actual cost of existing hedges depends on the fixed rate agreed for each individual swap.

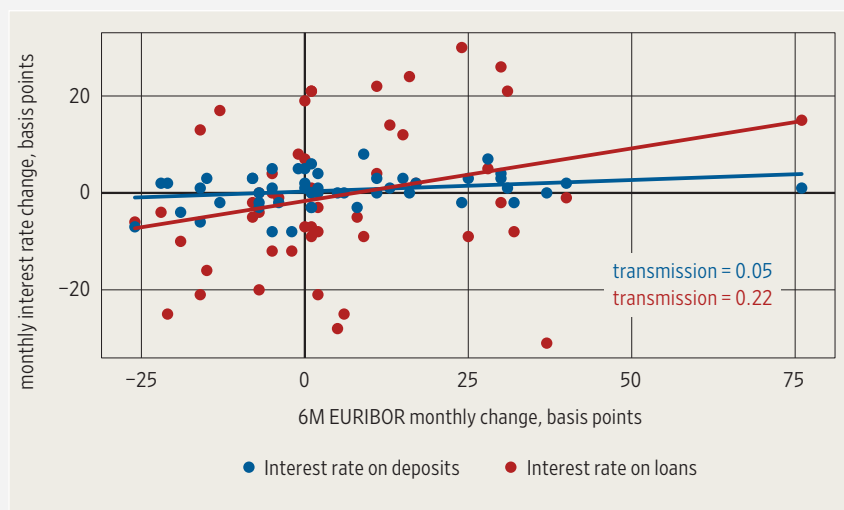
Source: Bloomberg.

By hedging against interest rate risk or granting loans indexed to the EURIBOR, banks improve their regulatory interest rate risk exposure indicators; however the risk itself does not disappear, it merely changes its form. By hedging against interest rate risk, a bank replaces the fixed interest rate that it “locked in” when granting a loan linked to the EURIBOR. Such a substitution makes sense only if the EURIBOR and the cost of deposits move broadly in parallel, as this stabilises the net interest margin. However, this is not the case in the domestic banking system (Figures 7 and 8). Instead, the cost of deposits responds only weakly to changes in market interest rates, both during periods of their increase and of their fall.¹⁰ As a result, interest rate swaps weaken the natural hedge provided by the combination of fixed-income assets and deposits whose cost adjusts only slowly to market conditions. In such a balance sheet structure, one side of the balance sheet carries contractually fixed yields, while the other side, owing to depositor behaviour¹¹, carries a relatively stable cost, thereby allowing the interest margin to remain more stable across different phases of the interest rate cycle. Interest rate swaps transform fixed income into income linked to EURIBOR movements, thereby replacing gap risk,

10 The pass-through of market interest rates to the cost of domestic deposits is structurally weak, particularly in the household deposit segment, and this holds in both phases of the interest rate cycle. See HNBlog by Deskar-Škrbić et al. (2023) and Jukić et al. (2024) and Box 4, Macroeconomic Developments and Outlook No. 20, June 2026, CNB. For more information on the effect of the interest rate cycle on the profitability and the economic value of equity of banks, see Box 1 When the interest rate path is reversed – what follows after profit growth?, Macprudential Diagnostics No. 26, July 2025, CNB.

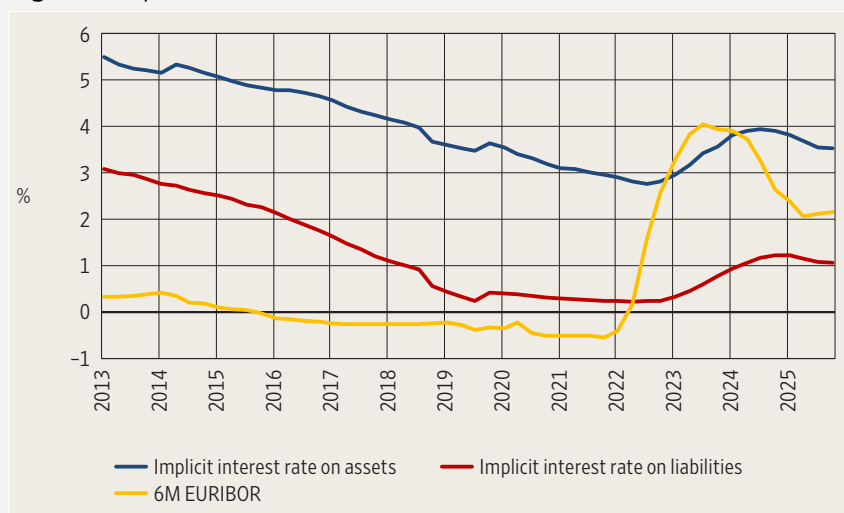
11 The theoretical basis was developed by Drechsler, Savov and Schnabl (2021): *Banking on Deposits: Maturity Transformation without Interest Rate Risk*; market power over deposits makes the cost of liabilities only weakly sensitive to market interest rates, so maturity transformation does not expose banks to interest rate risk but rather protects them against it.

Figure 7 Incomplete and asymmetric pass-through of the EURIBOR to interest rates in new business



Note: Incomplete and asymmetric pass-through of the EURIBOR to interest rates in new business.
Source: CNB.

Figure 8 Implicit interest rates on assets and liabilities and the 6M EURIBOR



Note: Implicit interest rates are calculated as the ratio of interest income and expenses to the corresponding assets and liabilities.
Sources: CNB and ECB.

measured by a regulatory indicator, with basis risk arising from differences between EURIBOR movements and the quasi-fixed cost of deposits, not reflected in regulatory indicators. The EBA guidelines recognise this risk as a distinct sub-type of interest rate risk¹², but they do not quantify it or limit it in any way.

From a financial stability perspective, the key point is that hedging does not necessarily reduce the overall exposure to risk but rather changes its structure. Before hedging, a bank holds fixed-income assets and deposits

12 Banks assess basis risk internally and monitor it through the monthly reports of the Asset and Liability Management Committee (ALCO).

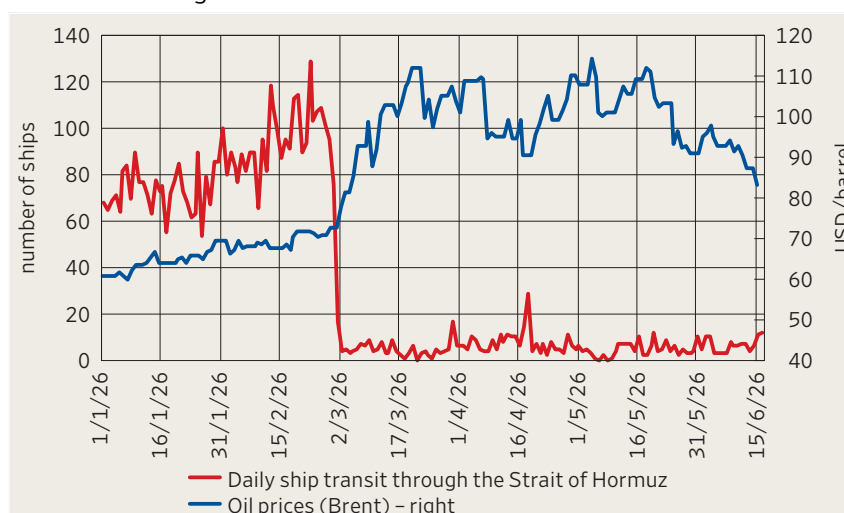
whose cost changes slowly, resulting in a relatively stable interest margin throughout the interest rate cycle, even though regulatory indicators may point to high exposure to gap risk. After entering into a swap, the bank replaces fixed income on the asset side with EURIBOR-linked income, thereby reducing gap risk, but at the same time, it loses part of its natural hedge, as interest income starts to follow market rates while the cost of liabilities remains relatively unchanged. Interest rate swaps would therefore be more favourable for banks in a scenario where deposit costs begin to follow market interest rates more closely, for example due to stronger competition for deposits or changes in depositor behaviour. As the pass-through of market interest rates to deposit costs has thus far been limited, this hedge is not fully effective. At the same time, in the case of a further decline in short-term interest rates, swaps create a relatively predictable cost profile, as income from the applicable variable interest rate declines, while deposit costs have limited room for further reduction due to their already low initial level.

2 Potential risk materialisation triggers

A re-escalation of the conflict in the Middle East is the main potential trigger for a deterioration in global financial stability. The ceasefire between the United States and Iran reached in mid-June proved fragile: conflicts resumed in early July, with further attacks on merchant ships in the Strait of Hormuz and the reintroduction of sanctions on Iranian oil, increasing the risk of renewed energy price increases and inflationary pressures. Traffic through the Strait of Hormuz was disrupted in the first half of 2026 (Figure 8), and given the damage to infrastructure, mined shipping routes and disrupted logistics, full normalisation could take months even after a lasting ceasefire is established. For the Croatian economy, which is heavily reliant on imports of fossil fuels, a renewed increase in energy prices would adversely affect the real income of households and corporate earnings, hampering regular debt servicing.

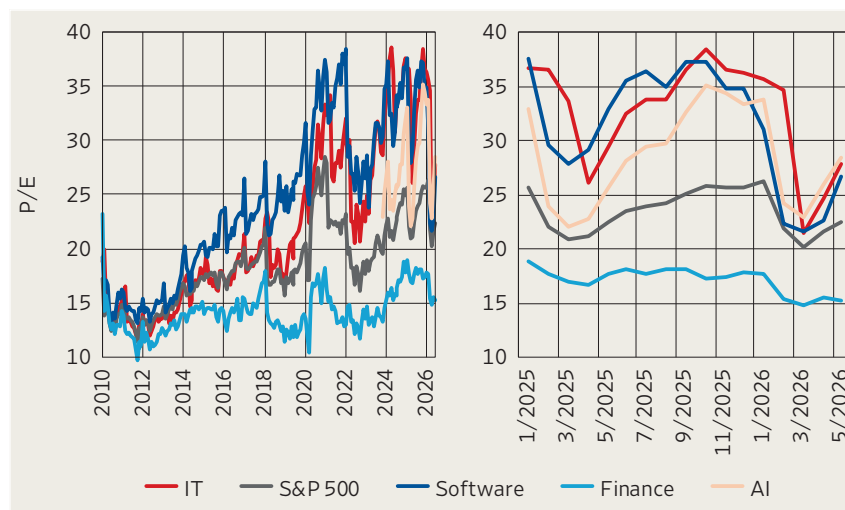
Prices of shares of AI-related technology companies are based on exceptionally high expectations of future earnings, making them vulnerable to any change in such expectations. Optimism regarding future earnings, driven primarily by the expectation that these companies will reap a substantial share of future economy-wide productivity gains in the form of higher revenues, has fuelled strong capital inflows, so that the gap between share prices and the current fundamentals of these companies, such as generated revenues and profits, has continued to widen (Figure 9). A weakening of this optimism could trigger a sharp decline in prices, with an additional risk stemming from the announced substantial increase in share supply through initial public offerings of new companies, following years in which the already listed companies reduced the supply through net

Figure 8 Oil prices remain elevated and sensitive to the course of negotiations, while traffic through the Strait of Hormuz remains far below the average level



Sources: IMF PortWatch (Daily Chokepoints Data), MarketWatch and Polymarket.

Figure 9 Estimated valuations of AI-related sectors continuously stand above the rest of the market



Notes: The figure shows the estimated (forward) P/E ratio, i.e. the ratio of share prices to expected earnings over the next 12 months. Sector series refer to sectors and industry groups within the S&P 500 Index. "AI" refers to the S&P Kensho Artificial Intelligence Index, which comprises global companies exposed to artificial intelligence and is not a subset of the S&P 500 Index.

Source: Bloomberg.

repurchases of own shares. This pressure could intensify once the period during which existing shareholders are prohibited from selling shares in newly listed companies expires. Although the domestic financial system's direct exposure to these shares is limited, a sharp decline in the global equity market would spill over to European markets through heightened volatility and increased risk aversion. Given the narrow spread between corporate and government bond yields, such a shift could lead to a sharp increase in corporate bond yields and noticeably worsen the financing conditions for the economy.

An additional channel through which financing conditions could deteriorate is a review of public debt sustainability, primarily in highly indebted advanced economies. Their fiscal outlook deteriorated as budget deficits failed to narrow contrary to earlier expectations of consolidation, while interest expenditures continued to rise and demands for new budgetary spending intensified. This reduces room for responding to future shocks and increases the risk of a sudden and pronounced revaluation of risk premiums on sovereign debt. A shift in investor perception could push yields upwards, which would, in turn, further weaken the assessment of fiscal sustainability and create additional pressures that could result in the further widening of risk premiums. Although Croatia's public debt remains on a downward trajectory and membership in the euro area mitigates currency and liquidity risks, an increase in global risk aversion and an upward shift in the risk-free yield curve would raise the cost of both new borrowing and the refinancing of existing debt. Given that government bonds account for a substantial share of the banks' assets, a sharp decline in their prices would reduce the value of the banks' portfolios and weaken

their capital position. Finally, higher risk premiums and tighter financing conditions would also increase the cost of lending to the private sector, thereby transmitting the external fiscal shock to the domestic banking system.

Heightened geopolitical uncertainty, the rapid development of artificial intelligence, and the concentration of IT service providers increase the vulnerability of the financial system to cyberattacks. The escalation of geopolitical tensions heightens the threat of state-sponsored attacks targeting critical financial infrastructure. At the same time, the most advanced artificial intelligence models enable attackers to identify and exploit security failures in software in a significantly faster and easier way, thereby increasing the risk of cyber threats. The seriousness of these risks has also been stressed by the European Systemic Risk Board (ESRB), which on 25 June 2026 issued a warning on systemic cyber risks stemming from frontier artificial intelligence models.¹³ An additional source of vulnerability stems from the reliance of a preponderance of financial institutions on the same small number of external IT service providers. Due to the high degree of interconnectedness among financial institutions and the concentration of service providers, the consequences of a cyber incident at a particular institution or service provider could spread rapidly throughout the financial system. In the banking system, such incidents may adversely affect confidence in institutions, business continuity and the protection of confidential data, while more severe incidents could also disrupt the continuity of payment operations, undermine depositor confidence and trigger a sudden outflow of funds.

3 Recent macroprudential activities

The domestic financial cycle is still in a mature phase of expansion, characterised by strong lending activity and residential real estate prices that are rising from an already elevated level. Maintenance of the countercyclical capital buffer rate at 2.0% (effective as of the beginning of 2027) is currently assessed as appropriate to strengthen credit institutions' capacity to absorb potential losses; however, the rate will be increased should cyclical vulnerabilities deepen further. The regular annual analysis

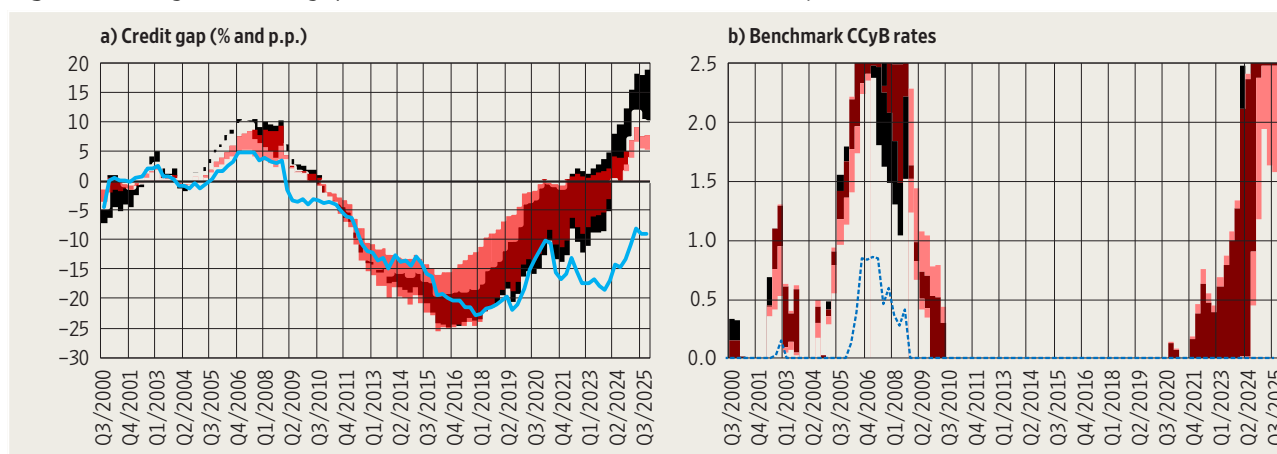
13 European Systemic Risk Board (ESRB): *Warning of the European Systemic Risk Board of 25 June 2026 on systemic cyber risks stemming from frontier artificial intelligence models* (ESRB/2026/3), https://www.esrb.europa.eu/pub/pdf/warnings/esrb.warning260625_on_systemic_cyber_risks_stemming_from_frontier_ai_models~ef424708cf.en.pdf.

confirmed Bosnia and Herzegovina and Montenegro as material third countries for the Croatian banking system, while the macroprudential policy measures in both countries were assessed as commensurate with the level of cyclical risks. EEA member states continued to maintain their existing macroprudential measures, with some countries further strengthening the resilience of credit institutions by tightening existing capital buffer requirements.

3.1 The countercyclical capital buffer rate to remain at 2% for now

Given the continued mature expansionary phase of the financial cycle and elevated cyclical risks, at the end of 2025, a countercyclical capital buffer rate of 2.0% was assessed as appropriate for preserving the resilience of the banking system. Strong lending to the private sector kept credit gap indicators (Figure 10) at very high levels in the fourth quarter of 2025, while the elevated level of the composite cyclical risk indicator (Figure 11) was supported by rising residential real estate prices combined with a likely underestimation of credit and other risks and a widening current account deficit. Against such a backdrop, the countercyclical capital buffer rate of 2.0% (raised in September 2025, applicable as of 1 January 2027) is assessed as appropriate for preserving the resilience of the banking system in the event of the materialisation of cyclical systemic risks, taking into account the complementary effect of the macroprudential restrictions on consumer lending criteria that have been in force since July 2025. However, should cyclical vulnerabilities continue to deepen, these macroprudential measures will be tightened further.

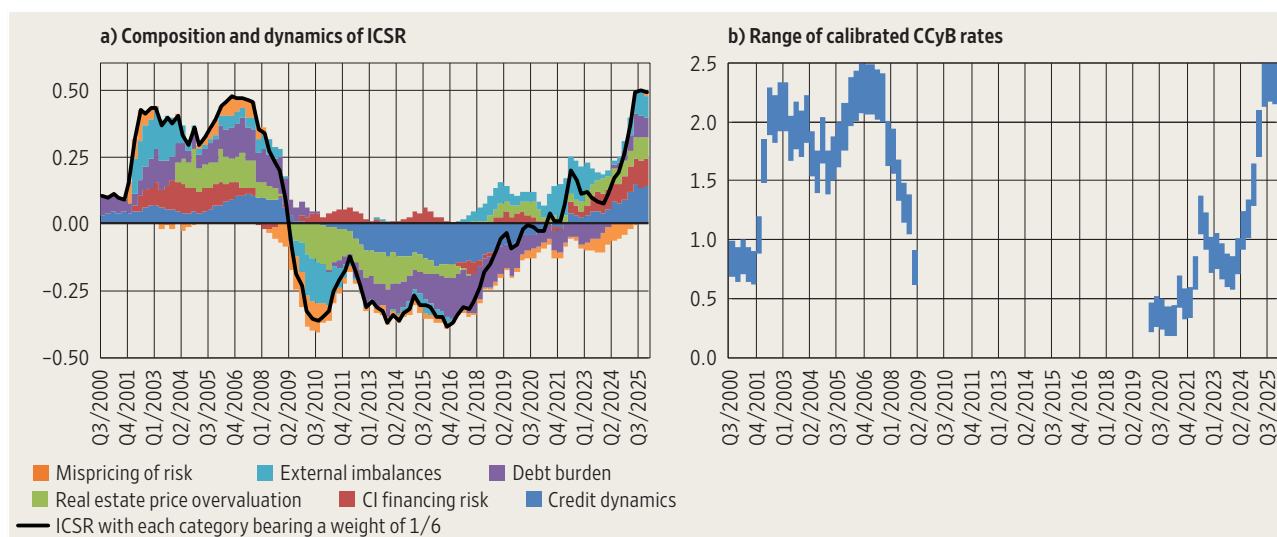
Figure 10 Range of credit gap indicators and affiliated benchmark CCyB rates



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, the black shaded areas indicate relative gaps, while dark red shaded areas indicate overlap. The credit gap is estimated using data up to the latest available quarter (t); however, owing to the properties of the one-sided HP filter, under which the most recent estimate is subject to revision as new data become available, the series is presented only up to quarter (t-1). 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.

Source: CNB.

Figure 11 Composite indicator of the cyclical systemic risk (ICSR) and the affiliated range of benchmark 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 11a) reach median level, while the upper threshold is determined by the highest percentiles of ICSR distribution.

Source: CNB.

3.2 Annual analysis of third-country materiality for the banking system of the Republic of Croatia

Bosnia and Herzegovina and Montenegro remain material third countries for the banking system of the Republic of Croatia. The regular annual analysis of the domestic banking sector's exposures to third countries was conducted in the second quarter of 2026 based on three metrics: total exposure, defaulted exposure, and risk-weighted exposure, in accordance with the methodology prescribed by the European Systemic Risk Board. The exposure of the domestic banking sector to Bosnia and Herzegovina and Montenegro on a consolidated basis refers mainly to the exposure of three domestic other systemically important institutions through their subsidiaries.

The analysis points to further build-ups of cyclical systemic risks in the two countries, which, however, are being adequately addressed by national macroprudential measures. Cyclical risks are primarily reflected in the continued strong growth of bank lending to the private non-financial sector as well as in rising real estate prices. The national regulatory authorities in both countries have identified the strengthening of these risks and implemented macroprudential measures aimed at their mitigation. In Bosnia and Herzegovina, the amount and maturity of cash loans have been limited and stricter risk weights have been introduced for the exposures of certain banks to households since 2017. In addition, in 2025, Bosnia and Herzegovina established a reporting framework for monitoring household

lending standards, which could facilitate the imposition of limits on them in the event of need. Furthermore, since 2023, Bosnia and Herzegovina has applied a capital conservation buffer and a systemic risk buffer ranging from 0% to 3% (institution-specific), while the countercyclical capital buffer rate has been set at 0%. Since 2025, other systemically important banks have also been identified, together with the corresponding capital buffer requirements. In Montenegro, the maturity of unsecured cash loans has been limited since 2021, and since 2026, a countercyclical capital buffer rate of 1% has been in force in response to elevated cyclical risks associated with strong credit growth and rising residential real estate prices. In addition, Montenegro applies a capital conservation buffer (since 2022), a systemic risk buffer of 1.5% (since 2021) and a buffer for other systemically important institutions (since 2022).

3.3 Actions taken at the recommendation of the European Systemic Risk Board

The CNB did not reciprocate the Austrian macroprudential measure recommended by the ESRB due to the low amount of relevant exposures of domestic credit institutions. The measure consists of a systemic risk buffer of 1% applied to all banks' exposures to non-financial corporations in the construction and real estate sectors located in Austria, excluding limited-profit housing associations. The recommendation is supplemented by a materiality threshold of EUR 100m in exposures at the consolidated, sub-consolidated and individual levels. As no credit institution in Croatia reaches this threshold, in February 2026, the CNB decided not to reciprocate the Austrian macroprudential measure by applying the *de minimis* principle.

3.4 Implementation of macroprudential policy in other European Economic Area countries

EEA member states largely maintained their existing macroprudential policy measures during the second quarter of 2026, while a number of countries tightened the measures further in response to the build-up of cyclical and sectoral risks. In the first half of 2026, 25 out of the 30 EEA member states applied a positive countercyclical capital buffer rate. More than half of these countries have adopted a positive neutral rate strategy, maintaining a positive buffer even when cyclical risks are assessed as being at a neutral level, while several countries have set the buffer above the neutral level. **Bulgaria** announced an increase in the countercyclical

capital buffer rate from 2% to 2.25% as of 1 April 2027, with the aim of further strengthening the banking sector's capacity to absorb potential losses in the case of materialisation of cyclical risks, which have continued to accumulate. **The Czech Republic** will increase its countercyclical capital buffer rate from 1.25% to 1.5% as of 1 July 2027, while it has also announced the possibility of further increases should the strong growth in lending to the private sector persist. **Austria** announced an increase in the sectoral systemic risk buffer applicable to banks' exposures to the domestic construction and real estate sectors. The increase will be implemented in two stages: from 1% to 2% as of 1 July 2026, and subsequently to 3.5% as of 1 July 2027. The measure is intended to mitigate risks stemming from the high concentration of exposures to the commercial real estate sector, which is considered a significant source of systemic risk and could directly threaten the stability of the banking system.

Table 1 Overview of macroprudential measures in EEA member countries

	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IS	IT	LT	LU	LI	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK	
Capital and liquidity buffers																															
CCoB	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
CCyB rate applied (%)	0	1.25	2.0	1.5	1.25	0.75	2.5	1.5	0.5	0	1.0	0.25	1.5	1.0	1.5	2.5	0	1.0	0.5	0	1.0	0	2.0	2.5	1.0	0.75	1.0	2.0	1.0	1.5	
CCyB rate pending (%)		2.25			1.50			1.0				0.5	2.0											2.0							
G-SII						●		●			●												●								
O-SII	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
SRB	●		●		●		●			●			●	●		●						●	●	●			●	●			
Sectoral SRB	●					●	●									●		●		●		●				●			●		
Liquidity ratio														●										●				●			
Caps on prudential ratios																															
DSTI	●		●	●				●		●	●	●	●	●		●		●			●	●			●	●	●		●	●	
DTI/LTI							●								●						●			●						●	
LTD																												●			
LTV	●	●	●	●	●		●			●		●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●	●	●	●
Loan amortisation					●															●				●			●				
Loan maturity	●		●		●					●	●		●					●				●	●		●	●	●	●	●	●	●
Other measures																															
Pillar II		●		●																								●			
Risk weights								●					●						●		●		●	●	●		●	●		●	
LGD																															
Stress/sensitivity test				●	●					●					●									●	●		●				
Other measures	●		●				●						●		●										●		●	●		●	●

Notes: The listed measures are in line with Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD V). The definitions of abbreviations are provided in the List of abbreviations at the end of the publication. Green indicates measures that have been added since the last version of the table.

Sources: ESRB, CNB and notifications from central banks and websites of central banks as at 11 June 2026.

For details see: https://www.esrb.europa.eu/national_policy/html/index.en.html and <https://www.esrb.europa.eu/home/coronavirus/html/index.en.html>.

Table 2 Implementation of macroprudential policy and overview of macroprudential measures in Croatia

Measure	Primary objective	Year of adoption	Description	Basis for standard measures in Union law	Activation date	Frequency of revisions
Macroprudential measures implemented by the CNB prior to the adoption of CRD IV						
Prior to the adoption of CRD IV, the CNB used various macroprudential policy measures, of which the most significant ones are listed and described in: a) Galac, T., and E. Kraft (2011): http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5772 b) Vujčić, B., and M. Dumičić (2016): https://www.bis.org/publ/bppdf/bispap86l.pdf						
Macroprudential measures envisaged in CRD and CRR and implemented by the competent macroprudential authority						
CCoB	Credit growth and leverage following Recommendation ESRB/2013/1	2014	Early introduction: at 2.5% level	CRD, Art. 160(6)	1 Jan. 2014	Discretionary
		2015	Exemption of small and medium-sized investment firms from the capital conservation buffer	CRD, Art. 129(2)	17 Jul. 2015	Discretionary
CCyB	Credit growth and leverage following Recommendation ESRB/2013/1 and implementing Recommendation ESRB/2014/1	2015	CCyB rate set at 1.5%; announcement of CCyB rate of 2% to be applied as of 1 January 2027	CRD, Art. 136	1 Jan. 2016	Quarterly
		2015	Exemption of small and medium-sized investment firms from the counter-cyclical capital buffer	CRD, Art. 130(2)	17 Jul. 2015	Discretionary
O-SII	Limiting the systemic impact of misaligned incentives with a view to reducing moral hazard following Recommendation ESRB/2013/1	2015	Seven O-SIIs identified by review in late 2025, with corresponding O-SII buffer rates: 2.5% for Zagrebačka banka d.d., Zagreb, 2.25% for Privredna banka Zagreb d.d., 2.0% for Erste&Steiermärkische Bank d.d., Rijeka, 1.5% for Raiffeisenbank Austria d.d., Zagreb and OTP banka Hrvatska d.d., Split, 1.0% for Hrvatska poštanska banka d.d., Zagreb, 0.25% for Addiko Bank d.d., Zagreb.	CRD, Art. 131	1 Feb. 2016	Annually
SRB	Credit growth and leverage following Recommendation ESRB/2013/1	2014	Two SRB rates (1.5% and 3%) applied to two sub-groups of banks (market share < 5%, market share ≥ 5%). Applied to all exposures	CRD, Art. 133	19 May 2014	Annually
		2017	The level of two SRB rates (1.5% and 3%) and the application to all exposures remain unchanged. Decision (OG 78/2017) changes the method for determining the two sub-groups to which the SRB is applied. Sub-groups are determined by calculating the indicator of the average three-year share of assets of a credit institution or a group of credit institutions in the total assets of the national financial sector (indicator < 5%, indicator ≥ 5%). The review conducted in 2019 determined that the rates for the two sub-groups remain unchanged.	CRD, Art. 133	17 Aug. 2017	At least on a biennial basis
		2020	Under the Decision (OG 144/2020), a uniform buffer rate (SRB) was introduced in the amount of 1.5% of the total amount of exposure. All credit institutions having their head office in the RC have been required to maintain a uniform systemic risk buffer rate since the end of 2020.	CRD, Art. 133	29 Dec. 2020	At least on a biennial basis
Risk weights for exposures secured by mortgages on residential property	Credit growth and leverage following Recommendation ESRB/2013/1	2014	Maintaining a stricter definition of residential property for preferential risk weighting (e.g. owner cannot have more than two residential properties, exclusion of holiday homes, need for occupation by owner or tenant)	CRR, Art. 124, 125	1 Jan. 2014	Discretionary
		2024	In accordance with amendments to the Capital Requirements Regulation (CRR3), the criteria for the application of the preferential risk weight for exposures secured by residential real estate have been adjusted. The more restrictive definition of residential real estate for the application of the preferential risk weight now assumes that the loan user does not own more than two real estate properties and that the real estate property used to secure the exposure is not a holiday home.	CRR, Art. 124, 125	1 Jan. 2025	Discretionary
Risk weights for exposures secured by mortgages on commercial property	Mitigating and preventing excessive maturity mismatch and market illiquidity pursuant to Recommendation ESRB/2013/1	2014	CNB's recommendation issued to banks (not legally binding) on avoiding the use of risk weights of 50% to exposures secured by CRE during low market liquidity	CRR, Art. 124, 126	1 Jan. 2014	Discretionary
		2016	Decision on higher risk weights for exposures secured by mortgages on commercial immovable property. RW set at 100% (substituted CNB's recommendation from 2014, i.e. effectively increased from 50%)	CRR, Art. 124, 126	1 Jul. 2016	Discretionary
		2024	With regard to amendments to the Capital Requirements Regulation (CRR3), the exercised national discretion in the form of the mandatory application of a higher risk weight (100%) to exposures secured by mortgages on commercial immovable property was repealed.	CRR, Art. 124, 126	1 Jan. 2025	Discretionary
Other measures and policy actions whose effects are of macroprudential importance and are implemented by the macroprudential authority						
Consumer protection and awareness	Raising risk awareness and credit-worthiness of borrowers following Recommendation ESRB/2011/1	2013	Decision on the content of and the form in which consumers are provided information prior to contracting banking services (credit institutions are obliged to inform clients about details on interest rate changes and foreign currency risks)		1 Jan. 2013	Discretionary
		2013	Amended Decision from 1 Jan. 2013 (credit institutions were also obliged to provide information about the historical oscillations of the currency in which credit is denominated or indexed to vis-à-vis the domestic currency over the past 12 and 60 months)		1 Jul. 2013	Discretionary
Information list with the offer of loans to consumers aimed at consumer protection and awareness raising	Raising risk awareness of borrowers pursuant to Recommendation ESRB/2011/1 and encouraging price competitiveness in the banking system	2017	The Information list with the offer of loans to consumers, available on the CNB's website, provides a systematic and searchable overview of the conditions under which banks grant loans. With the Information list, standard information available to the consumers are extended with information regarding interest rates.		14 Sep. 2017	Discretionary
Consumer protection and awareness	Financial stability concerns regarding risk awareness of borrowers	2016	Borrowers are strongly recommended (publicly) by the CNB to carefully analyse the available information and documentation on the products and services offered prior to reaching their final decision, as is customary when concluding any other contract		1 Sep. 2016	Discretionary
Recommendation to mitigate interest rate and interest rate-induced credit risk	Mitigation of the interest rate risk in the household sector and the interest-induced credit risk in the banks' portfolios and enhancing the price competition in the banking system	2017	Credit institutions providing consumer credit services are recommended to extend their range of credit products to fixed-rate loans, while minimising consumer costs.		26 Sep. 2017	Discretionary

Measure	Primary objective	Year of adoption	Description	Basis for standard measures in Union law	Activation date	Frequency of revisions
Additional criteria for assessing consumer creditworthiness in granting housing consumer loans	Credit risk management in housing consumer loans pursuant to EBA Guidelines on creditworthiness assessment (EBA/GL/2015/11) and EBA Guidelines on arrears and foreclosure (EBA/GL/2015/12)	2017	Decision on the additional criteria for the assessment of consumer creditworthiness and on the procedure for the collection of arrears and voluntary foreclosure		1 Jan. 2018	Discretionary
Recommendation on actions in granting non-housing consumer loans	Financial stability concerns due to credit risk in banks' housing loan portfolios and protection of consumers excessive debt taking	2019	All credit institutions in Croatia granting consumer loans are recommended to apply, in determining a consumer's creditworthiness for all non-housing consumer loans with original maturity equal to or longer than 60 months, the minimum costs of living that may not be less than the amount prescribed by the act governing the part of salary exempted from foreclosure.		28 Feb. 2019	Discretionary
Decision on collecting data on standards on lending to consumers	Establishment of an analytical basis for the monitoring of systemic and credit risk and the calibration of borrower-based measures and for meeting the requirements from the ESRB recommendations on closing real estate data gaps (ESRB/2016/14 and ESRB/2019/3)	2020	A new reporting system is introduced which provides for a monthly collection of individual data on all newly granted consumer loans at the individual loan level and the annual collection of data on all individual consumer loan balances. The collected data will be used for the analysis and the regular monitoring of systemic risk, the monitoring of credit risk, the calibration of macroprudential measures and, where necessary, the monitoring of actions by credit institutions against which measures have been imposed.		2 Apr. 2020	Discretionary
Decision on consumer lending criteria	Mitigation of excessive consumer borrowing, i.e. excessive risk-taking by banks, which could lead to loan repayment difficulties and create losses for banks, adversely affecting financial stability	2025	The Decision limits the ratio of monthly debt service to consumer income (debt-service-to income, DSTI) to a maximum of 45% for housing loans and 40% for non-housing loans; for loans secured by real estate, the ratio of the total loan amount to the value of the real estate serving as collateral (loan-to-value, LTV) may not exceed 90%. The maturity of housing and non-housing consumer loans secured by real estate is limited to thirty, while the maturity of other non-housing loans is limited to ten years. Based on its own assessment, a bank may quarterly grant up to 20% of housing loans and up to 10% of non-housing loans above DSTI caps, as well as 20% of consumer loans above LTV caps.		1 Jul. 2025	Discretionary
Other measures whose effects are of macroprudential use						
Amended Consumer Credit Act	Financial stability concerns due to interest rate risk and currency risk	2013	Fixed and variable parameters defined in interest rate setting, impact of exchange rate appreciation for housing loans limited, upper bound of appreciation set to 20%		1 Dec. 2013	Discretionary
Amended Consumer Credit Act	Financial stability concerns due to interest rate risk and currency risk	2014	Banks are obliged to inform their clients about exchange rate and interest rate risks in written form		1 Jan. 2014	Discretionary
Amended Consumer Credit Act	Financial stability concerns due to currency risk	2015	Freezing the CHF/HRK exchange rate at 6.39		1 Jan. 2015	Discretionary
Amended Consumer Credit Act	Financial stability concerns due to currency risk	2015	Conversion of CHF loans		1 Sep. 2015	Discretionary
Consumer Home Loan Act	Financial stability concerns due to interest rate risk and currency risk	2017	To establish the variable interest rate, the interest rate structure was defined through reference variable parameters and the fixed portion of the rate; for foreign currency consumer home loans, clients were offered one-off conversion of loans, from the currency a loan was denominated in or linked to, to the alternative currency without additional costs		20 Oct. 2017	Discretionary
Act on Amendments to the Credit Institutions Act	Compliance with the requirements for close cooperation with the ECB and the legal basis for imposing legally binding borrower-based measures	2020	Detailed provisions on the CNB's powers regarding the adoption and implementation of macroprudential measures that for the first time explicitly stipulate borrower-based measures. The ECB may issue instructions to the CNB if it assesses that a Croatian macroprudential measure, which is based on harmonised European rules and aimed at credit institutions, is not strict enough		15 Apr. 2020 (some provisions enter into force on 1 October 2020, with the beginning of close cooperation with the ECB)	Discretionary
Act on Amendments to the Credit Institutions Act	Compliance with CRD V	2020	Regulation of the provisions on capital buffers; increased maximum O-SII buffer rate; sectoral SRB; O-SII buffer and SRB additivity; changes to the notification system; determination of the CNB as the designated authority for the assessment of the adequacy of the risk weights referred to in Article 125(2) or Article 126(2) of Regulation (EU) No 575/2013		29 Dec. 2020	Discretionary
Act on Amendments to the Credit Institutions Act	Text adjustment relating to the RC joining the euro area	2022	Harmonisation of the provisions of the Act relating to the RC joining the euro area and the related changes in the CNB's powers, full membership in the Single Supervisory Mechanism and the Single Resolution Mechanism		1 Jan. 2023	Discretionary
Act on Amendments to the Credit Institutions Act	Harmonisation of legal provisions with the <i>acquis communautaire</i>	2024	The adjustment of the provisions of the Act relating to the implementation of directives governing the digital operational resilience of the financial sector, crypto-asset markets, the provision of crypto-asset services, and requirements relating to credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor. Adjustment of provisions due to the RC joining the OECD. Finally, for the purpose of enhancing the financial literacy of Croatia's citizens, a requirement is introduced for credit institutions to set aside a portion of their operating income each year to finance activities aimed at strengthening financial literacy		21 Dec. 2024	Discretionary

Notes: The definitions of abbreviations are provided in the List of abbreviations at the end of the publication. Green indicates measures that have been added since the last version of the table.

Source: CNB.

Glossary

Financial stability is characterised by the smooth and efficient functioning of the entire financial system with regard to the financial resource allocation process, risk assessment and management, payments execution, resilience of the financial system to sudden shocks and its contribution to sustainable long-term economic growth.

Macroprudential policy measures imply the use of economic policy instruments that, depending on the specific features of risk and the characteristics of its materialisation, may be standard macroprudential policy measures. In addition, monetary, microprudential, fiscal and other policy measures may also be used for macroprudential purposes, if necessary. Because the evolution of systemic risk and its consequences, despite certain regularities, may be difficult to predict in all of their manifestations, the successful safeguarding of financial stability requires not only cross-institutional cooperation within the field of their coordination but also the development of additional measures and approaches, when needed.

Systemic risk is defined as the risk of events that might, through various channels, disrupt the provision of financial services or result in a surge in their prices, as well as jeopardise the smooth functioning of a larger part of the financial system, thus negatively affecting real economic activity.

Vulnerability, within the context of financial stability, refers to structural characteristics or weaknesses of the domestic economy that may either make it less resilient to possible shocks or intensify the negative consequences of such shocks. This publication analyses risks related to events or developments that, if materialised, might result in the disruption of financial stability. For instance, due to the high ratios of public and external debt to GDP and the consequentially high demand for debt (re) financing, Croatia is very vulnerable to possible changes in financial conditions and is exposed to interest rate and exchange rate change risks.

List of abbreviations

bn	billion
b.p.	basis points
CB	central bank
CBS	Croatian Bureau of Statistics
CCoB	capital conservation buffer
CCyB	countercyclical capital buffer
CES	Croatian Employment Service
CHF	Swiss franc
CNB	Croatian National Bank
CRD V	Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms
d.d.	dioničko društvo (joint stock company)
DSTI	debt-service-to-income ratio
DTI	debt-to-income ratio
EEA	European Economic Area
EBA	European Banking Authority
ECB	European Central Bank
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
FINA	Financial Agency
GDP	gross domestic product
G-SII	global systemically important institutions buffer
GVA	gross value added
LGD	loss given default
LSTI	loan-service-to-income ratio
LTD	loan-to-deposit ratio
LTI	loan-to-income ratio
LTV	loan-to-value ratio
no.	number
m	million
OG	Official Gazette
O-SII	other systemically important institutions buffer
O-SIIs	other systemically important institutions
Q	quarter
SRB	systemic risk buffer

Two-letter country codes

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IS	Iceland
IT	Italy
LI	Liechtenstein
LV	Latvia
LT	Lithuania
LU	Luxembourg
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

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