

Zagreb, 27 December 2019

**Announcement of the continued application of the countercyclical buffer rate
for the Republic of Croatia for the first quarter of 2021**

Pursuant to Article 123 of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018 and 70/2019) the Croatian National Bank hereby announces that the Decision on the countercyclical buffer rate (Official Gazette 9/2015), which prescribes the countercyclical buffer rate of 0%, will continue to be applied in the first quarter of 2021.

The Decision on the countercyclical buffer rate provides an instrument to be used, if necessary, to strengthen the resilience of the banking sector and curb excessive lending activity, which is often related to the accumulation of systemic risks; it is a variable capital requirement that primarily depends on the evolution of cyclical systemic risks. The Decision sets the countercyclical buffer rate at 0%, to be applied as of 1 January 2016. Based on a recent analytical assessment of cyclical systemic risk evolution, the CNB announces that the same rate of 0% will continue to be applied in the first quarter of 2021, i.e., as of 1 January 2021. Pursuant to Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed.

The acceleration of real economic growth in the third quarter of 2019 was accompanied by a slightly slower growth in the placements of monetary financial institutions to the private sector, both stock-based and transaction-based. This growth was mainly driven by a rise in household placements, primarily in non-collateralised general-purpose cash loans, but also by a slight acceleration in housing loans. In contrast, placements of monetary financial institutions to the non-financial corporate sector decreased considerably, both stock-based and transaction-based, reflecting the impact of the sale of placements and one-off effects related to the implementation of the Agrokor settlement deal as well as the activation of government guarantees in the shipbuilding sector. At the same time, the annual growth of gross external debt of non-financial corporations and households decelerated.

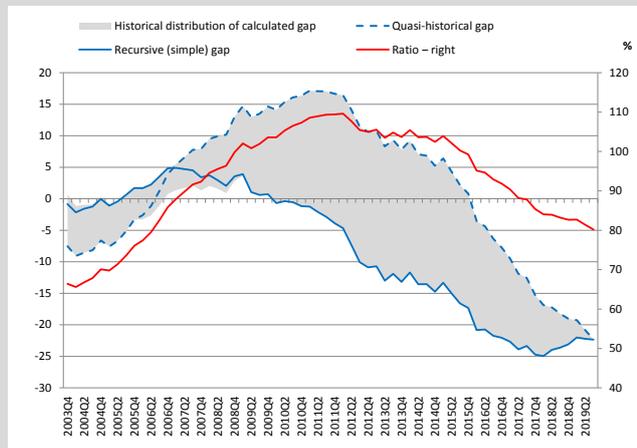
The downward trend in the standardised indicator of relative indebtedness¹ continued into the third quarter of 2019, with the result that the credit gap calculated on the basis of that indicator remained negative (Figure 1.a). The specific indicator of relative indebtedness, i.e. the ratio of loans of domestic credit institutions to the non-financial sector to quarterly, seasonally adjusted GDP, also declined, with the credit gap calculated on the basis of that indicator (Figure 1.b) also remaining negative. Since there is still no cyclical pressure requiring corrective action by the CNB, the

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

reference indicator for the required level of the countercyclical capital buffer estimated for the first quarter of 2021 is set to remain at a level of 0%.

Figure 1 Relative indebtedness (credit-to-GDP ratio) and short-term gap (relative deviation from its long-term trend)^a

1.a Standardised indicator



1.b Specific indicator

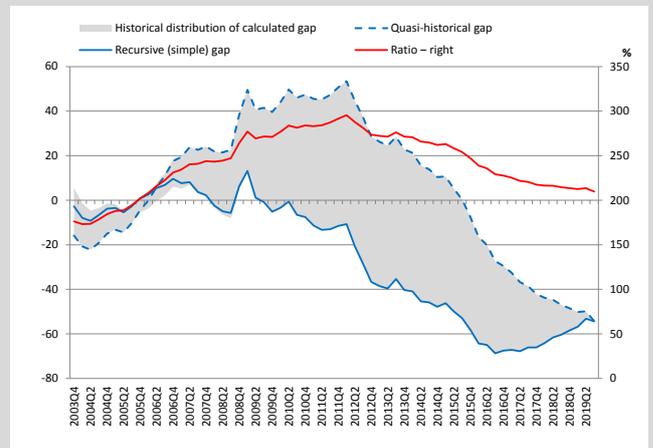
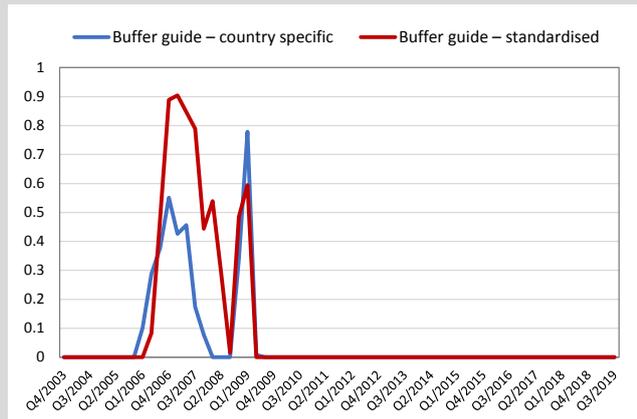


Figure 2 Buffer guide



^a Calculations of all relevant ratios (standardised ratio is the ratio of total placements, i.e. domestic placements and external debt, to nominal annual GDP, while the specific ratio is the ratio of loans of domestic credit institutions to quarterly, seasonally adjusted, GDP) and the short-term gap are made on a sample as of 2000. The quasi-historical gap is calculated on the entire sample, while the recursive gap is calculated on the right-hand side moving sample (of available data for each quarter), with the last observations being always the same for both gap indicators. The historical distribution of the calculated gap is the area between the lowest and the highest value of the gap calculated by moving the sample to the right. Historical series of buffer guides are shown as the function of the short-term (recursive) gap.

Sources: CBS (original series of nominal GDP, seasonally adjusted by the CNB); CNB (tables D1, D5 and H15 for time series of credit); time series are subject to revision and available on the CNB website.

As the competent macroprudential authority, the CNB will continue to regularly monitor the evolution of potential imbalances in financing non-financial sector needs and announce countercyclical buffer rates on a quarterly basis. With reference to this, the CNB will also rely on all other relevant information and indicators that may point to risks of excessive credit growth, real estate price developments, the current account balance, the dynamics of placements and monetary aggregates, etc., which are presented in CNB's regular and other publications and on the CNB website.