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Increase of the countercyclical buffer rate for the Republic of Croatia to 2%

The regular quarterly assessment of cyclical systemic risks indicates the need for an increase of the countercyclical buffer rate to 2%. As announced earlier, the CNB intends to use the increased rate to further strengthen banking sector resilience to a possible materialisation of systemic risks, which have been rising as a result of a further expansion of the financial cycle. The higher countercyclical buffer rate is planned to enter into force on 1 January 2027.

The expansion of the financial cycle is seen in a strong and broad-based credit activity of the domestic non-financial sector and in a further robust growth in the prices of residential real estate, further fuelling the already heightened cyclical vulnerabilities. The prices of residential real estate rose by 13.1% on an annual level in the first quarter of 2025, faster than in most EU member states. Household lending accelerated additionally in the second quarter of 2025, growing annually 14.2% (transaction-based) in July, with housing and general-purpose cash loans growing at a similar pace. Corporate lending stabilised at a very high level, growing 13.1% on an annual level in July. The biggest credit growth was seen in manufacturing, trade and accommodation and food service activities.

The acceleration in household loans growth in the first half of 2025 was partly fuelled by promotional housing loans introduced by banks in response to the announced tightening of consumer credit standards. This prompted consumers to contract loans earlier and led to a small fall in household lending in July and August, once the promotional loans were no longer available. However, in the conditions of robust economic growth, a pronounced rise in real income and relatively low interest rates, credit activity is expected to remain relatively strong. The new limits on lending criteria are expected have some impact on consumer credit and a very small expected impact on housing lending.

In light of such trends, credit gap indicators and the composite indicator of cyclical systemic risk rose further in the first quarter of 2025, suggesting the need for a higher countercyclical buffer rate (Table 1). All available indicators for the first half of 2025 point to a rise in cyclical risks to a level that requires an additional increase in that capital buffer. The relative indebtedness of the domestic private sector, measured by debt-to-GDP ratio, after falling for many years, started rising towards the end of 2024, widening the credit gap specific for the Republic of Croatia¹ (Figure 1). The sharp increase in the composite indicator that combines a broader set of indicators of cyclical risks earlier this year mirrored primarily a strong credit activity and a rising debt burden of households and corporates (Figure 2). Individual components of the

¹ Credit gap measures the deviation of the relative indebtedness of the private domestic sector relative to the long term trend of indebtedness. One of the measures of the credit gap is the Basel credit gap, identified by the European Systemic Risk Board in its recommendation ESRB/2014/1 as the reference starting point for determining the required level of the countercyclical buffer rate. In addition to the standard Basel indicator, member states are also advised to use other indicators of credit gap that can better reflect the dynamics of the financial cycle in their countries. The indicators of the credit gap specific for the Republic of Croatia have been selected on the basis of their better ability to predict financial crisis in the Republic of Croatia than the standardised Basel indicator. For more information on the methodology for determining specific credit gaps for the Republic of Croatia, see Macprudential diagnostics No. 16, [Box 2](#) and CNB Working Papers [1-69](#) New Indicators of Credit Gap in Croatia: Improving the Calibration of the Countercyclical Capital Buffer, 2022.

composite index, for which recent data are available, suggest a further increase in the index in the second quarter. This continues the trend of growth of cyclical risks present for many years and prompted the CNB to respond on several occasions in 2022 and 2023 by raising the countercyclical buffer rate (Figure 3) to the present 1.5% and by tightening consumer credit standards as of 1 July 2025.

The domestic banking system is profitable and maintains significant capital surpluses, which enables the increase in capital buffers without unfavourable impacts on cost and availability of bank financing. The strengthening of the capital position of banks through a countercyclical capital buffer complements the new macroprudential Decision on consumer lending criteria aiming to alleviate the risks arising from rising household indebtedness. This also mitigates the accumulation of risks and strengthens the resilience of banks and consumers and thus upholds financial system stability.

The CNB will continue to monitor closely the evolution of cyclical vulnerabilities in light of domestic and global economic and financial developments and continue to adjust macroprudential measures as needed so as to achieve their optimal combination and ensure long-term stability of the financial system. Depending on the circumstances, this may include a further increase in the countercyclical buffer rate in case of a further rise in cyclical risks but also its instant release (in full or in part) or a withdrawal from the announced increase in case of a significant worsening of economic and financial conditions.

Public consultations on the draft Decision on amendments to the Decision on the countercyclical buffer rate will be held in October, and the planned date for the beginning of application of the new countercyclical buffer rate is 1 January 2027, after expiry of the legally prescribed period of 12 months.

Information in accordance with Articles 119 and 123 of the Credit Institutions Act is given below.

Table 1 Indicators of cyclical systemic risk and the associated benchmark countercyclical buffer rates for Q1/2025

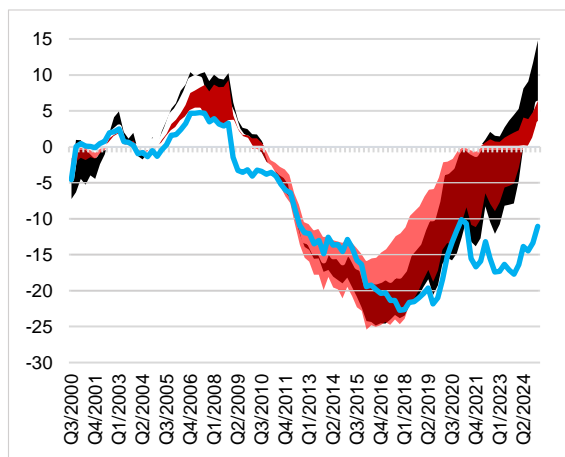
Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	60.7% ↑	-11.1 p.p. ↑	0%
Specific credit-to-GDP ratio (absolute gap)	47.5% ↑ (narrow) and 60.6% ↑ (broad)	3.5 p.p. ↑ to 6.4 p.p. ↑	1.04% to 2.50% ↑
Specific credit-to-GDP ratio (relative gap)		6.1% ↑ to 14.8% ↑	2.07% to 2.50% ↑
Composite indicator	0.38 ↑ (83rd percentile of distribution)	/	1.72% to 2.12% ↑

Notes: Specific ratio values differ depending on the definition of credit (47.5% for a narrow definition of credit, which includes only domestic bank credit, and 60.6% for a broad definition). Differences in gap values arise from different definitions of gap (absolute gap is calculated as the difference while the relative gap is calculated as the ratio of the following variables: the credit-to-GDP ratio and its trend) and estimated statistical trends. The arrows indicate the direction of the change in relation to the value of indicators and benchmark rates from the previous quarter.

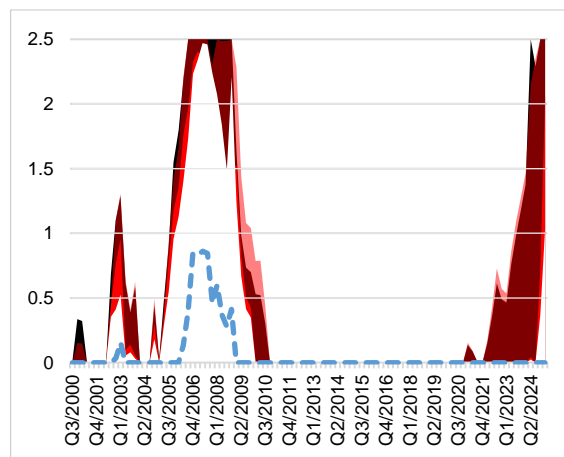
Source: CNB.

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

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



1.b. Benchmark CCyB rates

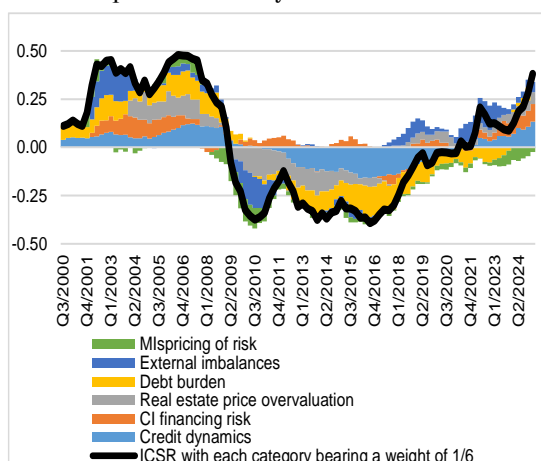


Notes: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right panel shows the range of CCyB rates calibrated on the basis of the gaps in the left panel. The blue dashed curve indicates the calibration based on the Basel gap given in the left panel. For details on the methodology used to estimate credit gaps, see [Box 2](#) Improvements in the methodology of countercyclical buffer identification and calibration in Croatia, Macroprudential Diagnostics No. 16.

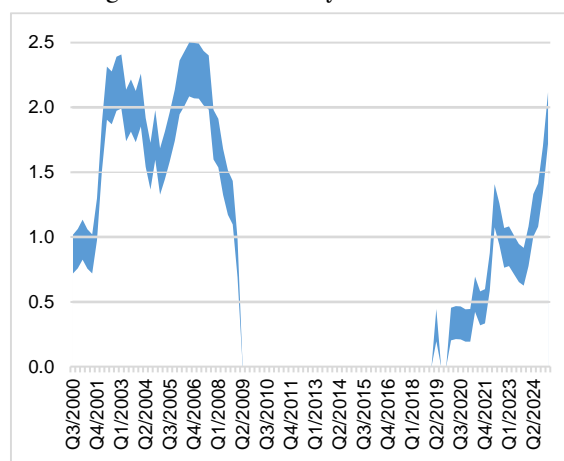
Source: CNB.

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

2.a. Composition and dynamics of ICSR



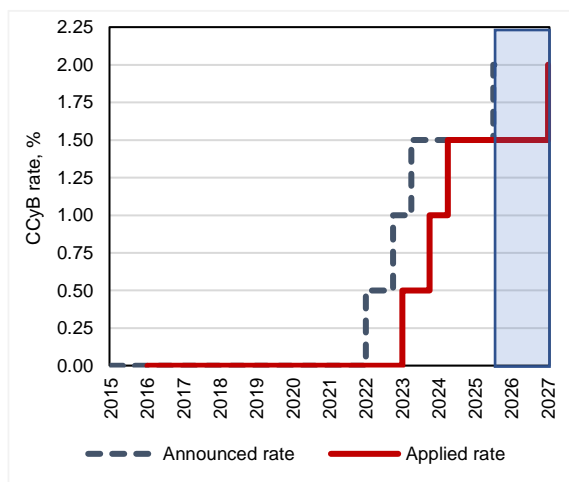
2.b. Range of calibrated CCyB rates



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

Source: CNB.

Figure 3 Countercyclical buffer rates



Note: The shaded area indicates the period from the 4th quarter of 2025 to the 1st quarter of 2027 when the new rate enters into force.

Source: CNB.