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### **Announcement on maintaining the countercyclical buffer rate for the Republic of Croatia at 1.5%**

The turn of the year 2023/2024 saw the continuation of the mature phase of the financial cycle, which is characterised by rising residential real estate prices and the ongoing relatively strong growth of bank loans, especially accelerated in the consumption financing segment. While the growth of household income, supported by the economic expansion and strong labour market, adds to household resilience, the strong growth of indebtedness also increases the risk of potential debt repayment difficulties in case macrofinancial circumstances worsen.

Due to the elevated level of accumulated cyclical vulnerabilities, the Croatian National Bank has assessed that the countercyclical buffer rate of 1.5%, which started to be applied at the end of June 2024, remains appropriate for preserving banking system resilience to a possible systemic risk materialisation or sudden shocks. However, the CNB can additionally increase the countercyclical buffer rate if cyclical vulnerabilities continue to deepen in the favourable macrofinancial environment, in particular if general-purpose cash loans continue to grow. Relevant information in compliance with Articles 119 and 123 of the Credit Institutions Act are shown below.

Specific credit gap indicators for the Republic of Croatia (Figure 1) and the composite indicator of the cyclical systemic risk (Figure 2), which comprises a larger group of indicators connected with financial cycle developments, remained elevated in the fourth quarter of 2023 (Table 1). Household lending continued to accelerate, with the result that total household loans grew at an annual rate (transaction-based) of 11.5% in April 2024, with a stable growth of housing loans (11.3%) and a considerably accelerated growth of general-purpose cash loans (13.8%). Lending to non-financial corporations also accelerated slightly from the beginning of the year, with the annual growth rate of these loans standing at 4.1% at the end of April. Residential real estate prices grew at a decelerated rate for the fourth successive month, down to 9.5% annually in the fourth quarter of 2023.

The CNB's monetary policy stance remains focused on maintaining the resilience of the banking system, so that the countercyclical buffer rate will continue to stand at 1.5%, with the start of application at 30 June 2024, announced last year. As the designated macroprudential body, the CNB will continue to monitor regularly the evolution of cyclical systemic risks against the backdrop of domestic and global economic and financial developments, so as to be able to timely adjust, if needed, the countercyclical buffer rate.

Table 1 Indicators of cyclical systemic risk and associated benchmark countercyclical buffer rates for Q4/2023

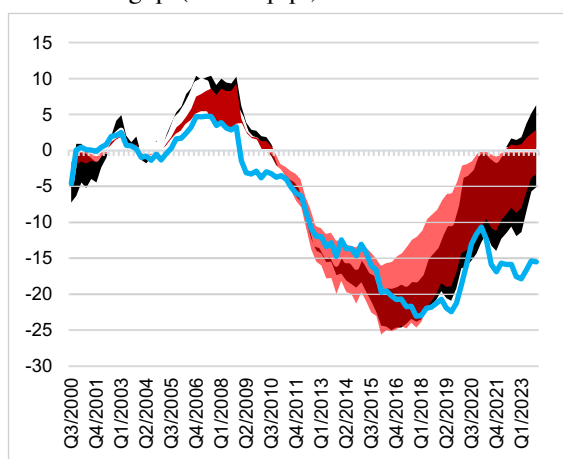
Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	61.4%↓	-15.5 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	47.6% ↓ (narrow) and 61.3% ↓ (broad)	-3.3 p.p. ↑ to 2.8 p.p. ↑	0% to 1.77%↑
Specific credit-to-GDP ratio (relative gap)		-5.1% ↑ to 6.3%↑	0% to 1.63%↑
Composite indicator	0.13 → (63rd percentile of distribution)	/	0.79% to 1.10%↑

Note: Specific ratio values differ depending on the definition of credit (47.6% for a narrow definition of credit, which includes only domestic bank credit, and 61.3% for a broad definition). Differences in gap values arise from different definitions of the gap (the 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.

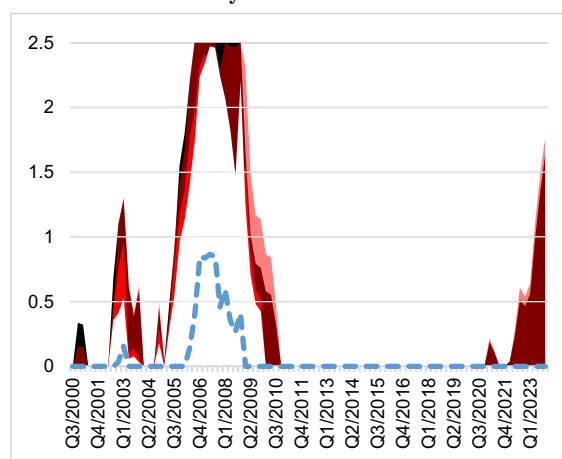
Source: CNB.

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

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



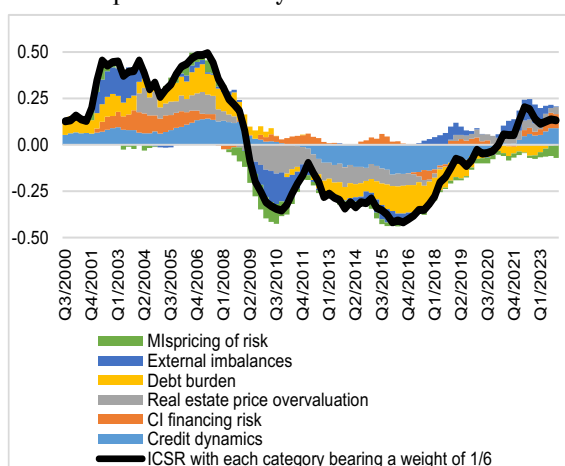
1.b Benchmark CCyB rates



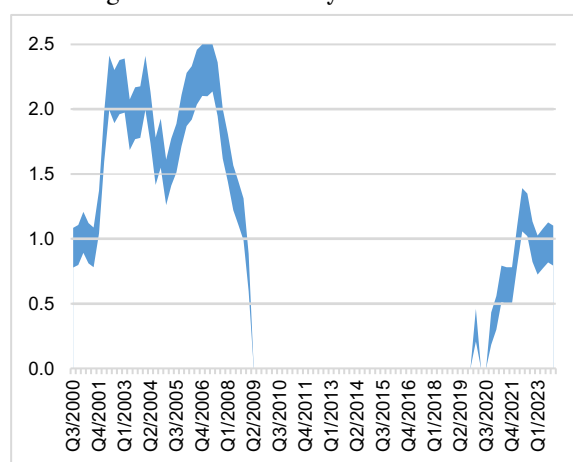
Note: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right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

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

2.a. Composition and dynamics of ICSR



2.b. Range of calibrated CCyB rates



Note: 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.