30 September 2024

Announcement on maintaining the countercyclical buffer rate

for the Republic of Croatia at 1.5%

The domestic financial cycle remains in the mature phase of expansion, which is characterised by the ongoing robust lending to households, especially in the consumption financing segment. By contrast, while housing loans continue to grow at stable rates, the number of transactions in the residential real estate market has decreased, while price growth lost some steam. Given the elevated level of accumulated cyclical vulnerabilities, the Croatian National Bank has assessed that the countercyclical buffer rate of 1.5% continues to be appropriate for preserving banking system resilience to a possible systemic risk materialisation or sudden shocks. However, if cyclical vulnerabilities continue to deepen in the favourable macrofinancial environment, in particular if the growth in general-purpose cash loans picks up momentum, a further increase of the countercyclical buffer rate could be required. 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 first quarter of 2024 (Table 1). Strong household lending, with an annual growth rate of 10.7% in August 2024, (transaction-based) was for the most part the result of a considerable acceleration in the growth of general-purpose cash loans. Their annual growth rate reached 15.5 % in August, the highest in the last thirteen years. On the other hand, the annual growth in housing loans continued to slow down for the fourth consecutive month (to 8.6% in August), mostly due to the base effect related to the large amount of loans granted last year under the government's housing loans subsidy programme. The growth in loans to non-financial corporations also slowed down slightly (to 3.7% in August). The residential real estate market also saw a deceleration, which is reflected not only in the continued decline in the number of transactions but also in the gradual slowdown in the growth of prices for the fifth consecutive quarter, to 9.1% on an annual basis in the first quarter of 2024.

The CNB's macroprudential 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%. 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 the associated benchmark countercyclical buffer rates for Q1/2024

Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	61.7% ↑	−14.4 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	47.2% ↓ (narrow) and 61.5% ↑ (broad)	−1.5 p.p. ↑ to 3.2 p.p. ↑	0% to 1.97% ↑
Specific credit-to-GDP ratio (relative gap)		−2.4% ↑ to 7.2% ↑	0% to 1.85% ↑
Composite indicator	0.16 ↑ (66th percentile of distribution)	/	0.90% to 1.21% ↑

Notes: Specific ratio values differ depending on the definition of credit (47.2% for a narrow definition of credit, which includes only domestic bank credit, and 61.5% 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.
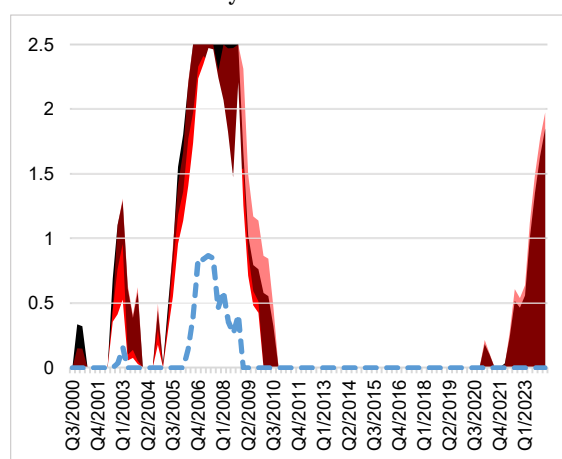Source: CNB.

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

1.a Credit gap (% and p.p.)
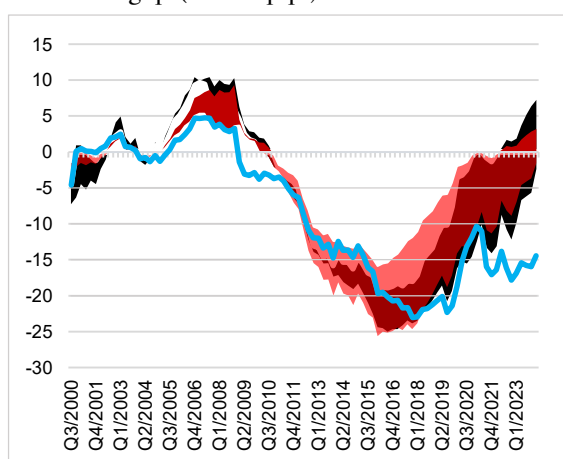
1.b Benchmark CCyB rates

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.

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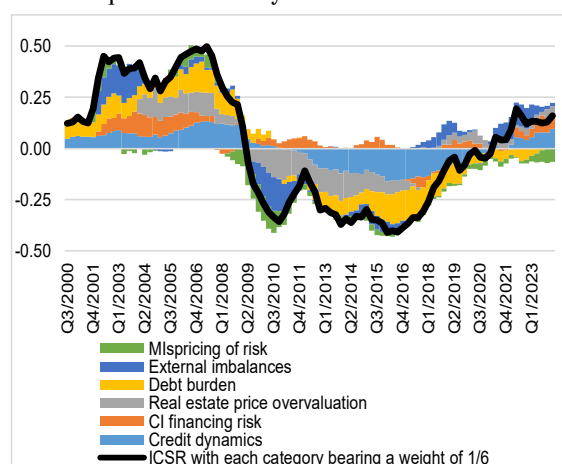
2.b Range of calibrated CCyB rates
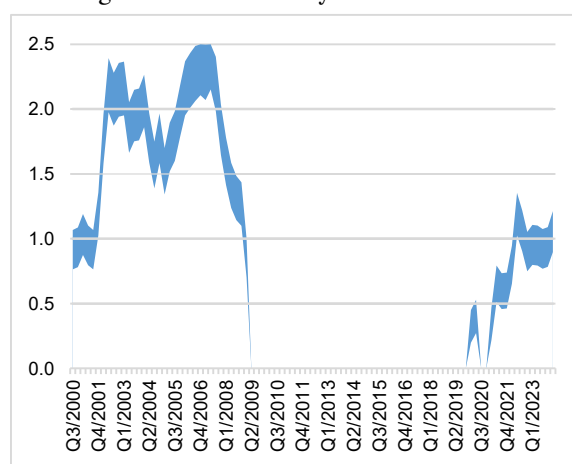
Notes: CI indicates credit institutions. The lower threshold for the calibration of the CCyB rate has been chosen to enable the rate to become positive before indicators included in ICSR calculation (Figure 2.a) reach median level, while the upper threshold is determined by the highest percentiles of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