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29 June 2022

**Announcement of the continued application of the countercyclical buffer rate of 0.5%  
for the Republic of Croatia for the third quarter of 2023**

The regular quarterly assessment of the evolution of systemic risks of cyclical nature points to their further small growth from the already elevated level, which prompted the CNB to maintain the countercyclical buffer rate at 0.5% in the third quarter of 2023. The relevant information pursuant to Articles 119 and 123 of the Credit Institutions Act is given below.

Cyclical systemic risks remained elevated at the start of this year and showed certain indications of a further increase. The main sources of cyclical risks include heightened credit activities of banks and further growth of residential real estate prices, which, according to the last available data (last quarter of 2021) are increasingly diverging from the main macroeconomic determinants. The acceleration in total loans growth during the observed period can largely be attributed to a sharp rise in loans to corporates, whose demand for financing was fuelled by a sharp rise in purchase prices of energy products and raw materials. In the segment of household lending, housing loans continued to rise considerably, putting, together with other factors, additional upward pressure on residential real estate prices, while general-purpose cash loans witnessed only a small growth.

Specific credit gap indicators for the Republic of Croatia and the composite indicator of cyclical systemic risk, which comprises a large group of indicators connected with developments in the financial cycle, continue to suggest its further upward trend. The growth in the value of the composite indicator of the financial cycle is mostly driven by components related to bank lending and residential real estate prices. The rising uncertainty and worsened outlook for the domestic and global economy associated with the war in Ukraine and sanctions imposed on Russia, inflationary pressures and the expected rise in interest rates have thus far not yet slowed down the process of cyclical risks accumulation, so the current rate of the countercyclical capital buffer of 0.5% is considered adequate and will continue to apply in the third quarter of 2023. As the competent macroprudential body, the CNB will continue to monitor regularly the evolution of cyclical systemic risks against the backdrop of domestic and global financial developments, so as to be able to adjust, if needed, the countercyclical buffer rate on time.

Table 1 Relevant indicators of cyclical systemic risk and benchmark CCyB rates

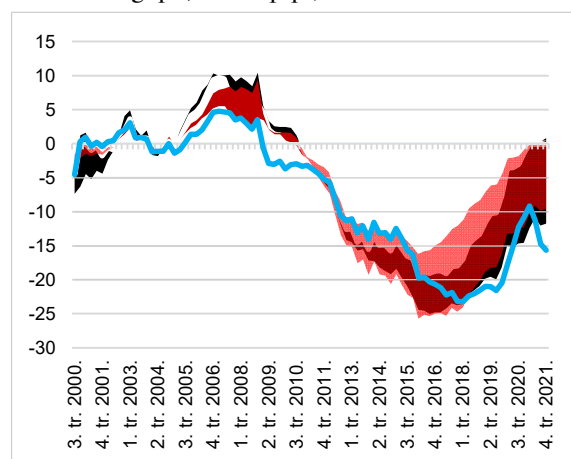
Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	71.8%	-15.7 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	52.9% (narrow) and 71.8% (broad)	-9.6 p.p. to 0.4 p.p.	0% to 0.38%
Specific credit-to-GDP ratio (relative gap)		-11.8% to 0.8%	0% to 0.31%
Composite indicator	0.05 (59th percentile of distribution)	/	0.49% to 0.76%

Note: Specific ratio values differ depending on the definition of credit (52.9% for a narrow definition of credit, which includes only domestic bank credit, and 71.8% 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.

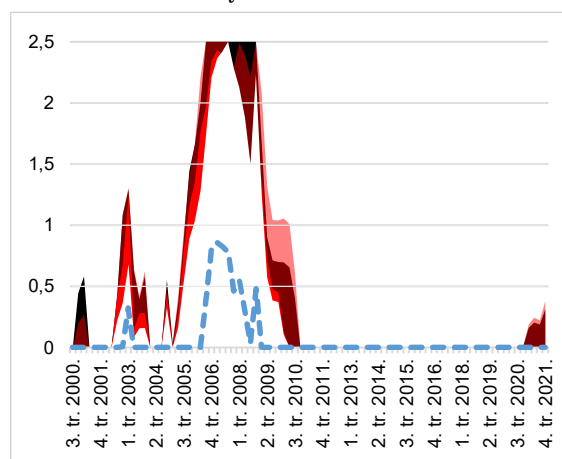
Source: CNB.

Figure 1 Range of credit gap indicators and benchmark CCyB rates

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



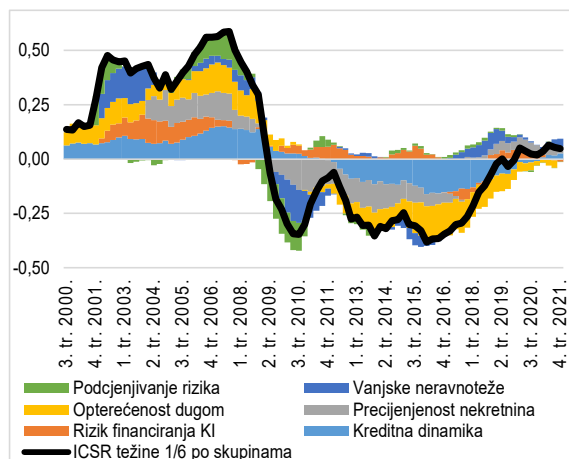
1.b Benchmark CCyB rates



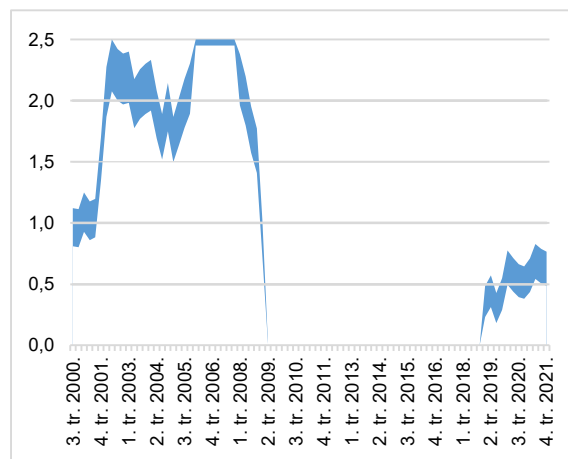
Notes: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right 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 cyclical systemic risk (ICSR) and 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.