



HNB

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Zagreb, 13 January 2015

To:

Mr. Francesco Mazzaferro

Head of Secretariat

European Systemic Risk Board (ESRB)

Subject: The notification of the first setting of the countercyclical capital buffer rate for the Republic of Croatia

Dear Mr. Mazzaferro,

In accordance with Articles 119 and 123 of the Credit Institutions Act, Official Gazette, No. 159/2013, after notifying relevant bodies according to Article 160, paragraph 6 of Directive 2013/36/EU about shorter transitional periods for the capital conservation buffer and the countercyclical capital buffer from 15 July 2014 (Ref. number: 884-020/15-07-14/DO) HNB issues

the notification of the first setting of the countercyclical capital buffer rate for the Republic of Croatia at 0% of the total risk exposure.

The Decision on setting the countercyclical buffer rate has been offered for public consultation on 24th of December 2014 (on the official HNB website¹). The adoption of the Decision marks

¹ <http://www.hnb.hr/propisi/savjetovanje-zainteresirana-javnost/otvorena/2015/h-odluka-stopa-protuciklickog-zastitnog-sloja-kanitala.pdf> [Croatian version only]



the beginning of formal monitoring of cyclical systemic risks in Croatia, in accordance with the Credit Institutions Act (Official Gazette 159/2013) and a new set of instruments, which may have a negative effect on financial stability. An analytical assessment of these risks and buffer guides will be published in the Official Gazette and announced on the HNB website at regular quarterly intervals, in accordance with the provisions of the Credit Institutions Act. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the HNB will announce the first countercyclical buffer rate for the Republic of Croatia on the basis of the following analytical assessment²:

The process of deleveraging in the Croatian private sector continued in the second half of 2014, particularly in the household sector due to adverse labour market developments and uncertainties. Generally, such situations postpone the spending on durable consumer goods and real estate investment, which could otherwise generate new borrowing. Despite the slight relaxation of bank lending standards, the corporate sector also continued to deleverage.

As a result, the standardised ratio of total credit to GDP remained at pre-crisis levels (the ratio stood at 104% in the third quarter of 2014). As the credit gap calculated on the basis of this ratio is negative (-13%), which clearly indicates that there are currently no risks of excess credit growth that would have a systemic effect on the functioning of financial markets with potential negative consequences on the real economy, the buffer guide stands at 0%.

This is also confirmed by the specific credit gap (based on the narrow definition of credit, which comprises only claims of domestic credit institutions), which have historically signalled such disturbances more precisely.

In view of the above, the Croatian National Bank has introduced a countercyclical buffer rate of 0%, which is to be applied as of 1 January 2016. It should also be noted that, in line with its macroprudential policy and following ESRB recommendations³, the HNB will regularly monitor the evolution of potential imbalances in financing private sector needs and announce buffer

² For a detailed methodological explanation, see Box 4 Financial cycles and countercyclical capital buffer calibration, Financial Stability, No. 13 July 2014.

³ This primarily refers to Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1); Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) – currently available only in English; Recommendation of the European Systemic



guides and countercyclical buffer rates on a quarterly basis. With reference to this, the HNB will also rely on all other relevant information and indicators that may point to risks of excessive credit growth, such as price developments in segmented markets, the current account deficit, the dynamics of placements and monetary aggregates, etc, which are available at the following website:

<http://www.hnb.hr/publikac/bilten/hbilten.htm>.

Yours sincerely,

Boris Vujčić,

