



HNB

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Zagreb, 30 June 2015

To:
Mr. Francesco Mazzaferro
Head of Secretariat
European Systemic Risk Board (ESRB)

**ANNOUNCEMENT OF THE APPLICATION OF THE
COUNTERCYCLICAL BUFFER RATE FOR THE REPUBLIC OF CROATIA
FOR THE THIRD QUARTER OF 2016**

Dear Mr. Mazzaferro,

In accordance with Article 123 of the Credit Institutions Act (Official Gazette 159/2013 and 19/2015), the Croatian National Bank hereby announces that the Decision on the countercyclical buffer rate (Official Gazette 9/2015), which prescribes the countercyclical buffer rate of 0%, shall be applied in the third quarter of 2016 as well.

The Decision on the countercyclical buffer rate (Official Gazette 9/2015) provides an instrument to be used in case it is necessary to limit excessive credit growth; it is a variable capital requirement that depends on the cyclical component of the private sector credit gap (the ratio of household and corporate loans to aggregate income)¹. In view of weak lending activity, the Decision set the countercyclical buffer rate at 0%, which is to be applied as of 1 January 2016. On the basis of a recent analytical assessment of the evolution of cyclical systemic risks, the CNB hereby announces that it shall maintain the rate of 0%, which shall be applied in the third quarter of 2016, i.e. as of 1 July 2016. In accordance with Articles 119, 123 and 380 of the Credit Institutions Act, the following relevant information is disclosed:

¹ For a detailed methodological explanation, see Box 4 Financial cycles and countercyclical capital buffer calibration, Financial Stability, No. 13, July 2014.

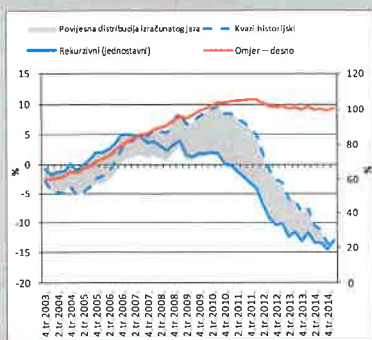
a) The standardised credit-to-GDP ratio has been on a downward path ever since 2012 under the influence of private sector deleveraging. Although occasional fluctuations in this indicator were observed in some periods, there are currently no indications that the trends will change in the short run. Thus, the mild nominal increase in the credit gap early in 2015 was primarily due to the effect of the Swiss franc appreciation on household loans and partly due to substitution in privately owned enterprises of domestic sources of financing by external funding through affiliates. In the same period, the stagnation in aggregate income had a neutral effect on the calculation of the observed credit-to-GDP ratio, which points to a weak economic recovery that will continue to have a restraining effect on the demand for loans. The credit gap calculated on the basis of this ratio was negative (-12.9%) in the first quarter of 2015, which again clearly indicates that there are currently no risks of excessive credit growth that would have a systemic effect on the functioning of financial markets. The buffer guide calculated for the first quarter of 2015 thus 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), Figures 1 and 2.

Figure 1 Credit gap (credit-to-GDP ratio) and short-term gap (relative deviation

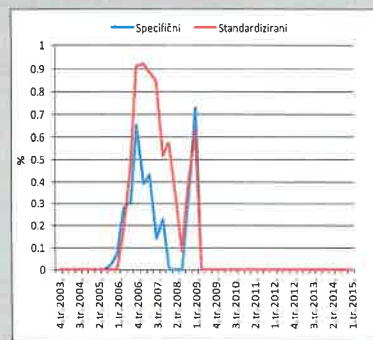
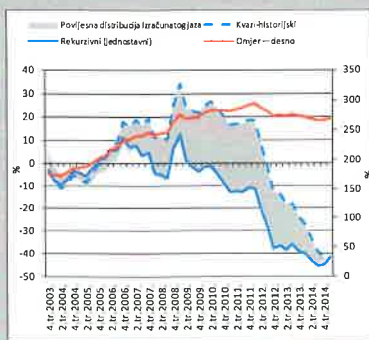
Figure 2 Buffer guide

of the ratio from its long-term trend)

1.a Standardised indicator



1.b Specific indicator



^a Calculations of all relevant ratios and the short-term gap are made on a sample as of 2000. The quasi-historical gap is calculated on the entire sample and the recursive gap is calculated on the right-hand side moving sample (of available data for each quarter), with the last observations being always the same for both gap indicators. Historical series of buffer guides are shown as the function of the short-term (recursive) gap.

Sources: CBS (original series of nominal GDP, seasonally adjusted by CNB); CNB (tables D1, D5 and H15 for time series of credit); time series are subject to revision and available at the CNB website.

b) In line with its macroprudential policy and following ESRB recommendations², the CNB will regularly monitor the evolution of potential imbalances in financing private sector needs and announce buffer guides and countercyclical buffer rates on a quarterly basis. With reference to this, the CNB will also rely on all other relevant information and indicators that may point to risks of excessive credit growth, such as price developments in partial 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,

Tomislav Ridzak

Director of Financial Stability Department

² 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; and Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) – currently available only in English.