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Announcement on maintaining the countercyclical buffer rate for the Republic of Croatia of 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. Housing loans continue to grow at stable rates with the residential real estate market recording a further fall in activity. Since the level of accumulated cyclical vulnerabilities remains elevated, the Croatian National Bank has assessed that the countercyclical buffer rate of 1.5% continues to be appropriate for maintaining banking system resilience to a possible systemic risk materialisation or sudden shocks. Relevant information in compliance with Articles 119 and 123 of the Credit Institutions Act is given below.

The indicators of the specific credit gap for the Republic of Croatia (Figure 1) and the composite indicator of cyclical systemic risk (Figure 2), combining a larger group of indicators associated with the developments in the financial cycle, remained elevated in the second quarter of 2024 (Table 1). Strong household lending, with an annual growth rate of 12% in November 2024 (transaction-based) was mostly fuelled by a further expansion of general-purpose cash loans whose annual growth rate stabilised at a high level and stood at 15.8% in November. Housing loans grew 9.1%, reflecting an increase in the average loan amount and a considerable decrease in the number of loans granted. Loans to non-financial corporations recovered slightly, having risen 5.5% on an annual level in November, mostly driven by loans to corporates in construction and trade. The residential real estate market saw a decline in activity, as evidenced by a further fall in the number of transactions and price growth deceleration to 10% on an annual level in the second quarter of 2024 from 17.3% in the last quarter of 2022.

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 and to pursue a macroprudential policy aimed at maintaining banking system resilience. For now, the countercyclical buffer rate remains 1.5%; however, any further deterioration of cyclical vulnerabilities in a favourable macrofinancial environment might call for the buffer's increase. If needed, the CNB will make a timely adjustment of the countercyclical buffer rate in coordination with other monetary policy instruments so as to achieve the optimum combination of measures with regard to the systemic risks to financial system stability.

Table 1 Indicators of cyclical systemic risk and the associated benchmark countercyclical buffer rates for Q2/2024

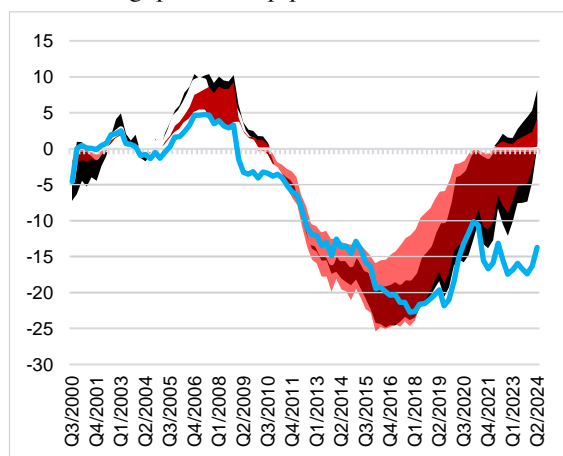
Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	61.5%↓	-13.7 p.p. ↑	0%
Specific credit-to-GDP ratio (absolute gap)	46.4% ↓ (narrow) and 61.5% → (broad)	0.2 p.p. ↑ to 3.5 p.p. ↑	0.06% to 2.17% ↑
Specific credit-to-GDP ratio (relative gap)		0.3% ↑ to 8.2% ↑	0.11% to 2.5% ↑
Composite indicator	0.16 → (66th percentile of distribution)	/	0.90% to 1.22% ↑

Notes: Specific ratio values differ depending on the definition of credit (46.4% 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 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. The arrows indicate the direction of the change in relation to the value of indicators and benchmark rates from the previous quarter.

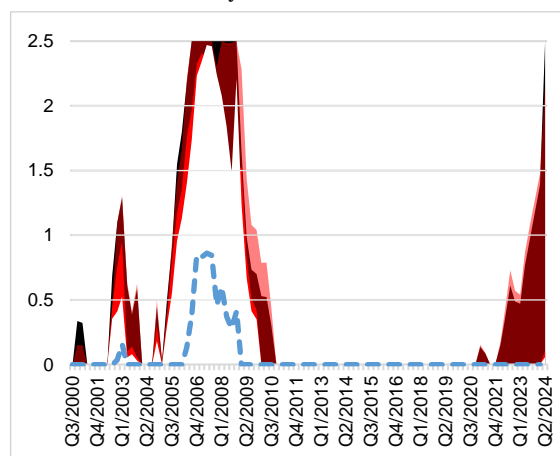
Source: CNB.

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

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



1.b Benchmark CCyB rates

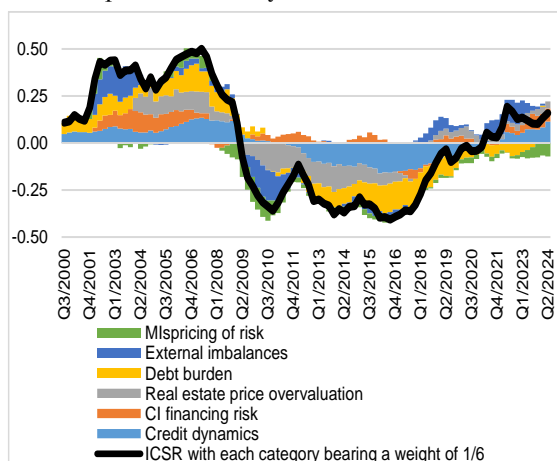


Notes: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right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

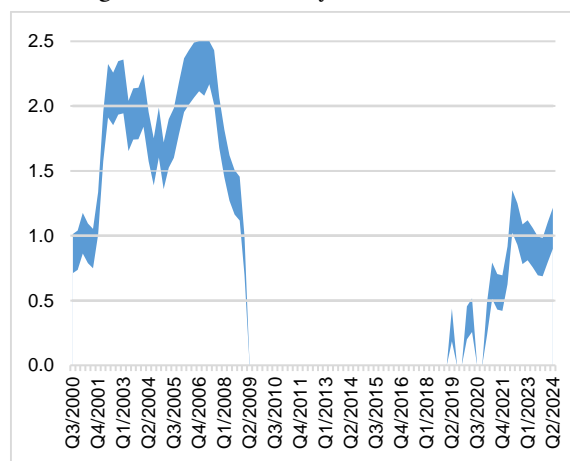
Source: CNB.

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.