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Explanation for the increase of the countercyclical buffer rate for the Republic of Croatia to 1.0%

The Croatian National Bank adopted a decision on the increase of the countercyclical buffer rate from the currently announced 0.5% to 1%, to be applied as of 31 December 2023. Amid steady financial upturn and the associated increase in cyclical systemic risks, the decision was adopted in accordance with the [announcement](#) made in the previous cycle of cyclical risks assessment at the end of August to ensure a timely allocation of additional capital and thus enhance the resilience of banks in the event of adverse economic and financial scenarios materialising. In the environment where the economic outlook deterioration has not yet started to affect credit institutions' profitability and level of capitalisation, and where credit institutions overall maintain considerable surplus capital, higher capital requirements are not expected to adversely impact the costs and availability of bank credit.

Cyclical systemic risks in the first nine months of 2022 were mostly fuelled by accelerated growth in the prices of residential property and bank lending. The prices of residential property continued to rise steeply and in the second quarter of 2022, similarly as in the quarter before, were up 13.6% from the same period of 2021, their fastest increase since the outbreak of the global financial crisis. Nevertheless, market activity remained stable, recording a small increase in the number of sale transactions on an annual level. Total loans to the private non-financial sector rose considerably, mostly driven by a fast acceleration in corporate lending, spurred by the actual and expected future increase in operating costs as a result of the increase in the prices of energy and raw materials (the annual growth rate of total loans in September stood at 11.2% and that of enterprises at 21.9%). Household lending continued to grow steadily, with housing loans accounting for the largest share of the increase and rising 9.4% on an annual level at the end of September 2022. The described developments have brought the indicators of the cyclical systemic risk to levels that indicate the need for a further increase in the countercyclical buffer rate (Table 1, Figures 1.b and 2.b). The surge in loans to the private sector supported further gradual closing of the credit gap (Figure 1.a), while the composite indicator of cyclical risks deviated further from its median, driven also by the soaring prices of residential real estate amid the still very favourable financing conditions (Figure 2.a).

Higher capital buffers will also provide manoeuvring space needed by the CNB to support the operation and lending activity of banks in the event of systemic risks materialisation, as urged also by the European Central Bank and the European Systemic Risk Board¹. If it assesses it as necessary, in the case of a significant worsening of economic and financial conditions, the CNB may instantly release the countercyclical buffer (in full or in part) or withdraw from its announced increase.

The information in accordance with Articles 119 and 123 of the Credit Institutions Act is given below.

¹ ECB [Governing Council statement on macroprudential policies](#) of 2 November 2022 and Warning of the European Systemic Risk Board of 22 September 2022 on vulnerabilities in the Union financial system ([ESRB/2022/7](#)),

Table 1 Indicators of cyclical systemic risk and benchmark CCyB rates

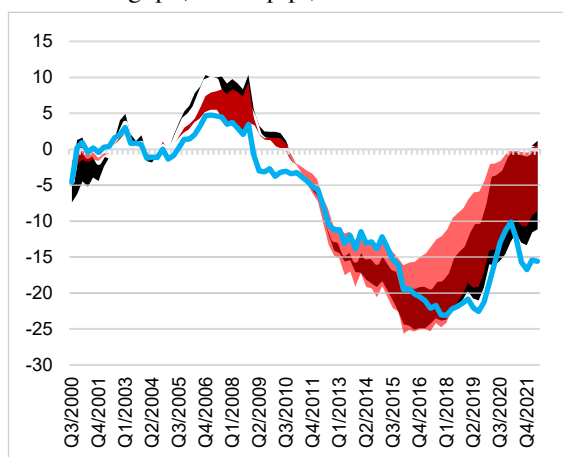
| Indicator | Ratio/indicator value | Credit gap (deviation from the long-term trend) | Benchmark CCyB rate |
|---|--|---|---------------------|
| Standardised (Basel) credit-to-GDP ratio | 68.8% | -15.6 p.p. | 0% |
| Specific credit-to-GDP ratio (absolute gap) | 51.5% (narrow definition of credit) and 68.9% (broad definition of credit) | -8.6 p.p. to 0.6 p.p. | 0% to 0.48% |
| Specific credit-to-GDP ratio (relative gap) | | -11.1% to 1.2% | 0% to 0.40% |
| Composite indicator | 0.19 (65th percentile of distribution) | / | 1.0% to 1.32% |

Note: Specific ratio values differ depending on the definition of credit (51.5% for a narrow definition of credit and 68.9% 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.

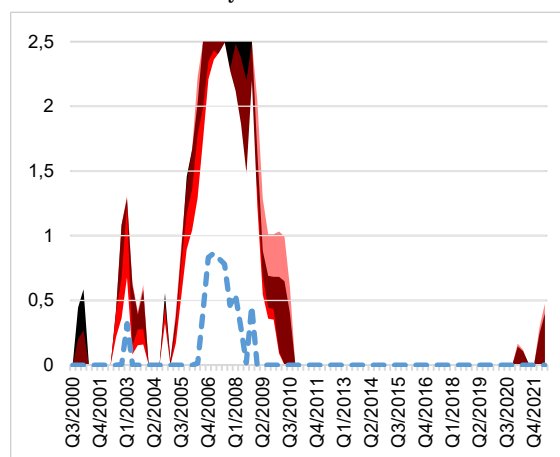
Source: CNB.

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

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



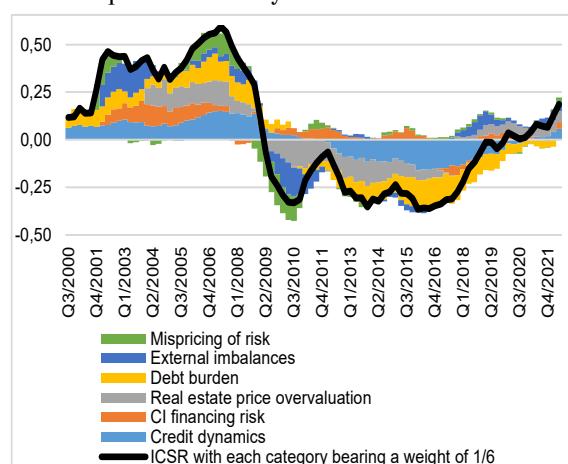
1.b Benchmark CCyB rate



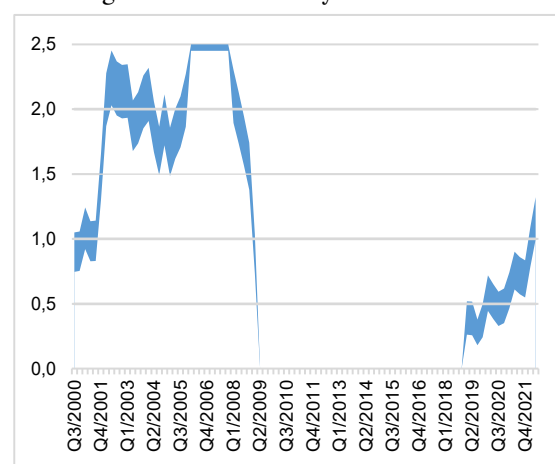
Note: The left panel shows the Basel gap (blue curve) and the range of 12 credit gap indicators which have better signalling properties for the Republic of Croatia than the Basel gap. The red shaded areas indicate the range of absolute gaps, while the black shaded areas indicate relative gaps. The right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



Note: 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.