30 June 2023

Explanation for increasing the countercyclical buffer rate
for the Republic of Croatia to 1.5%

The Croatian National Bank adopted a decision on the increase of the countercyclical buffer rate from the currently announced 1% to 1.5%, to be applied as of 30 June 2024. The purpose for the increase in the countercyclical buffer rate is to strengthen bank resilience in the environment of persistent elevated cyclical systemic risks, mostly driven by a strong growth in bank loans to the non-financial private sector and a growth in residential real estate prices. The prices of residential real estate continue to grow at very high annual rates, having risen by 17.3% in the fourth quarter of 2022, the biggest growth since 2004, with their annual growth rate in the first quarter of 2023 standing at 14.0%. Housing loans also continued to grow strongly, having risen by 9.6% on an annual level in May this year, while total household lending rose by 6.6% during the same period. The implementation of the new round of housing loan subsidies that are typically disbursed from May to July will continue to propel strong housing lending in the following months. As regards lending to the non-financial corporations sector, the growth rate of these loans has slowed down slightly since the beginning of the year but persists to stand at elevated levels (13.1% in May 2023). The described developments have kept the indicators of cyclical systemic risk at the levels that indicate the need for a higher countercyclical buffer rate, so as to ensure that timely allocation of additional capital can enhance the resilience of banks, should adverse economic and financial scenarios materialise (Table 1, Figures 1.b and 2.b).

The domestic banking system is stable and profitable and on aggregate maintains significant capital surpluses, which enables capital buffers strengthening without unfavourable impacts on cost and availability of bank financing. At the same time, higher capital buffers will provide more room for CNB action in the case of materialisation of the mentioned systemic risks and the need to support continuity of the credit activity of banks. 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.

Table 1 Indicators of cyclical systemic risk and the associated benchmark countercyclical buffer rates for Q4/2022

Indicator	Ratio/indicator value	Credit gap (deviation from the long-term trend)	Benchmark CCyB rate
Standardised (Basel) credit-to-GDP ratio	65.2%	−17.2 p.p.	0%
Specific credit-to-GDP ratio (absolute gap)	50.3% (narrow definition of credit) and 65.2% (broad definition of credit)	−8.6 p.p. to 1.1 p.p.	0% to 0.76%
Specific credit-to-GDP ratio (relative gap)		−11.7% to 2.2%	0% to 0.64%
Composite indicator	0.23 (65th percentile of distribution)	/	1.17% to 1.51%

Note: Specific ratio values differ depending on the definition of credit (50.3% for a narrow definition of credit and 65.2% 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.
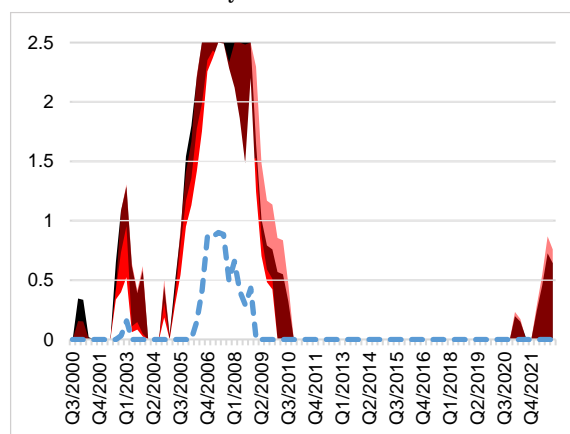Source: CNB.

Figure 1 Range of credit gap indicators and affiliated benchmark CCyB rates
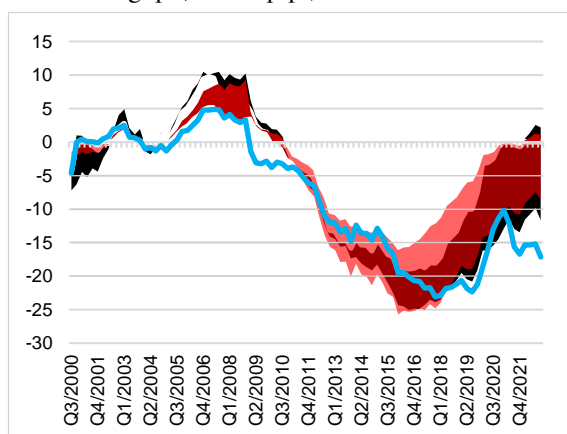
1.a Credit gap (% and p.p.)   1.b Benchmark CCyB rates


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 the cyclical systemic risk (ICSR) and the affiliated range of benchmark CCyB rates

2.a Composition and dynamics of ICSR
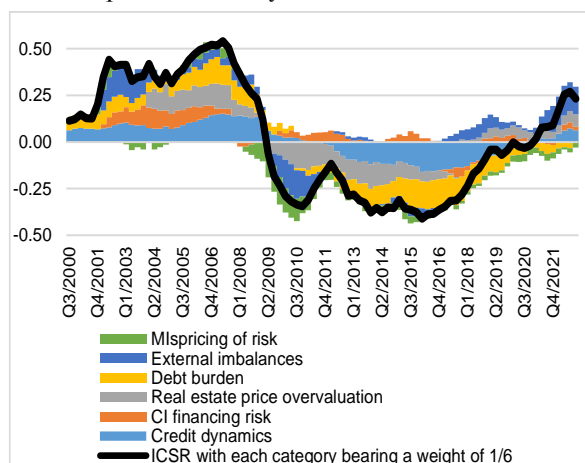
2.b Range of calibrated CCyB rates
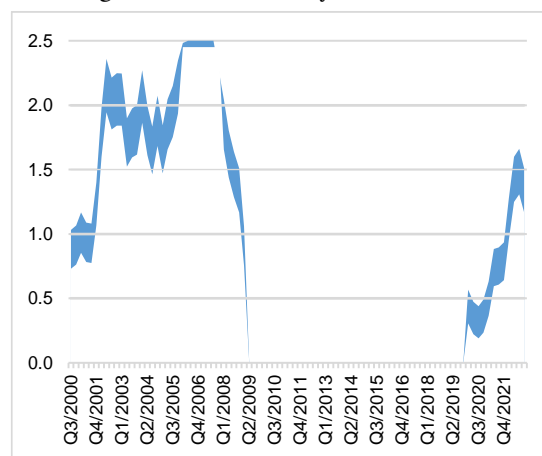
Notes: CI indicates credit institutions. The lower threshold for the calibration of the CCyB rate has been chosen to enable the rate to become positive before indicators included in ICSR calculation (Figure 2.a) reach median level, while the upper threshold is determined by the highest percentiles of ICSR distribution.
Source: CNB.