Abstract

Excessive credit growth is often considered to be an indicator of future problems in financial sector. Basel III regulatory package has introduced countercyclical capital buffer to improve stability of the banking sector and proposed using credit-to-GDP gap as an indicator for calibrating the buffer. In BCBS methodology, Credit-to-GDP gap is counted as a difference between current value and a long term trend obtained from data series using Hodrick-Prescott filter. In this work we used out of sample estimation method to create models for a determination of equilibrium credit to households' assets ratio and applied the results to compute the deviation from the long term equilibrium. We found that these alternative indicators can give signals different to credit to GDP gap, computed by using HP filter or OOS method, and sometimes they could even identify accumulation of risk in cases, where credit to GDP fails. The indicators were especially superior to using HP filter on CEE countries. The weakness is, however, the determination of a clear threshold for the indicator, when the credit growth should be classified as excessive.