HRVATSKA NARODNA BANKA

Currency clause

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Currency clauses may be used in loan agreements and may be negotiated by consumers when negotiating deposits.

A currency clause is a hedging instrument pegging the agreed amount to the exchange rate of a foreign currency and in agreements concluded with a credit institution, it means that the amount granted (loan) or received (deposit/savings) over the term of the agreement is corrected for changes in the value of the exchange rate of the foreign currency to which a particular currency clause is pegged against the domestic currency.

In loan agreements with a currency clause pegged to a foreign currency, the amount of the loan granted is denominated in a foreign currency but all payments associated with such a loan are made in the domestic currency. Therefore, when granting loans denominated in a foreign currency, the amount of loan is paid out in euro using the exchange rate of the foreign currency against the euro applicable on the date of disbursement and the same principle applies to debtors when calculating their due loan repayment rates/loan annuities. Until early August 2013, credit institutions had the option to negotiate different types of exchange rates to calculate disbursement and collection obligations, which very often meant that the buying rate was negotiated for loan disbursements and the selling rate for due obligations. However, under regulatory amendments (Article 302, paragraph (6) of the Credit Institutions Act) introduced in 2013, credit institutions are obligated to apply, to all deposit and credit transactions with consumers agreed with a currency clause, the middle rate of the Croatian National Bank of the relevant foreign currency against the euro applicable on the date of transaction.

In loan agreements with a currency clause, the debtor's obligation is increased if the value of the foreign currency of loan denomination increases against the domestic currency and vice versa, if the value of the foreign currency of loan denomination decreases against the value of the domestic currency, the debtor's obligation decreases.

IMPORTANT: Special attention should be paid to the fact that a currency clause in loan agreements may lead to a considerable change in the amount of your due obligations and that fact should be taken into account when deciding on the amount of a loan with a currency clause since even a small subsequent increase in your obligation, as a result of an increase in the exchange rate of the foreign currency, may affect your ability to settle your obligations as they fall due.