

INFORMATION ON THE STRUCTURAL SYSTEMIC RISK BUFFER LEVEL

Pursuant to Article 131 of the Credit Institutions Act (Official Gazette 159/2013) and Article 3 of the Decision on the application of the structural systemic risk buffer (Official Gazette 61/2013), the Croatian National Bank laid down the requirement for institutions with head offices in the Republic of Croatia to maintain a structural systemic risk buffer in the amount of 1.5% or 3% of risk exposure. Taking into account the expected changes to system characteristics and systemic importance of individual institutions and in order to remove the possibility of regulatory arbitrage, the Croatian National Bank adopted a new Decision on the application of the structural systemic risk buffer in August 2017 (Official Gazette 78/2017).

In accordance with Article 129 of the Credit Institutions Act, the Decision on the application of the structural systemic risk buffer is based on the following systemic risk assessment. The analyses of structural elements of financial stability and the comprehensive assessment of economic risk regularly conducted by the CNB¹, indicate that structural vulnerabilities of the system are still at a relatively high level. Accordingly, exposures to systemic risk remained significant. Structural vulnerabilities of the domestic economy are primarily visible in the high external and public debt and the relatively high unemployment rate, and indebtedness of the domestic private sector as compared to the new EU Member States (Figures 1-3). In addition, the Macroeconomic Imbalance Procedure, MIP, as part of the European Commission's in-depth reviews of the economies of EU Member States, as well as the findings of these reviews confirm the existence of material structural imbalances in the domestic economy². At the same time, high concentration in the financial system continued increasing in 2016, greatly surpassing the EU average (Figure 4), which makes the system more susceptible to potential vulnerabilities of some of the banks. In addition, the mentioned process of banking system consolidation is about to continue with the upcoming merger of two systemically important institutions. Finally, the market for real estate property, which constitutes the main instrument of collateral continues to be poorly liquid.

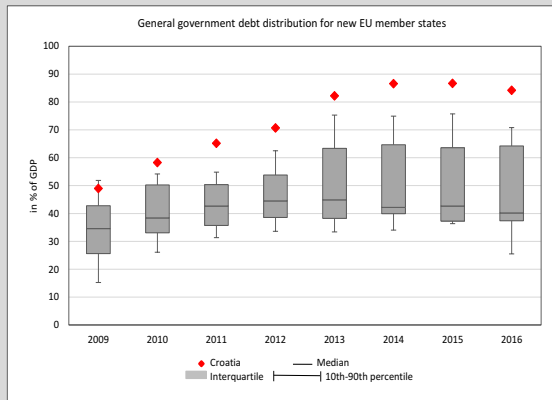
All this indicates the need to maintain a structural systemic risk buffer at previously determined rates for two types of credit institutions, depending on the nature, scope and complexity of their activities as defined in Article 3 of the Decision on the application of the structural systemic risk buffer (Official Gazette 78/2017).

¹ Macroprudential Diagnostics No 2 (available at: <http://www.hnb.hr/documents/20182/1999697/h-mpd-2-2017.pdf/d21414cc-29b5-4b37-a914-e7f6c661ca1>) and Financial Stability No 18 (available at: <http://www.hnb.hr/documents/20182/1972383/h-fs-18-2017.pdf/93e3fd11-df03-4755-a3aa-c02fa7056b22>).

² European Commission: Country Report Croatia 2017 including an in-depth review on the prevention and correction of macroeconomic imbalances (available at: <https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-croatia-en.pdf>).

The Croatian National Bank will continue to regularly monitor the evolution of systemic risks of structural nature and review the structural systemic risk buffer level when necessary and at a minimum once in two years.

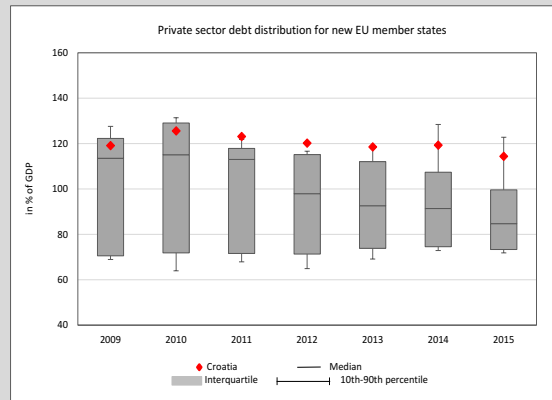
Figure 1 General government debt remains high compared to peer countries



Note: New EU Member States include Bulgaria, Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Source: Eurostat.

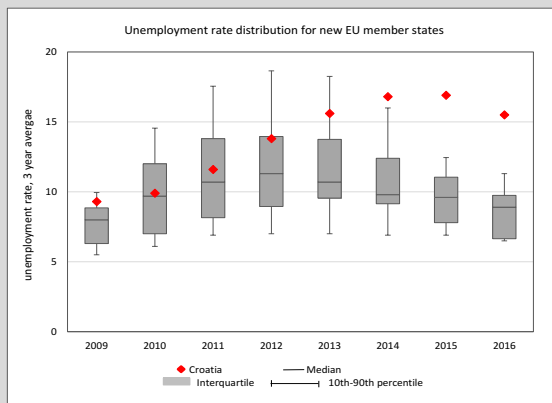
Figure 2 High indebtedness of the domestic private sector



Note: Private sector debt includes liabilities arising from debt securities and loans of private non-financial corporates, households and of non-profit institutions serving households. Data for 2016 are still not available. See Note under Figure 1.

Source: Eurostat.

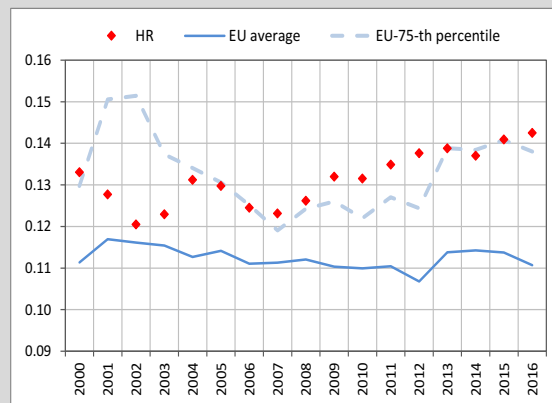
Figure 3 Unemployment rate, despite the decrease, is still high compared to peer countries



Note: See Note under Figure 1.

Sources: Eurostat.

Figure 4 Market concentration is still on the rise



Sources: ECB and CNB.