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Announcement of the level of the structural systemic risk buffer rate

Taking into account the forthcoming entry into force of the Act on the Amendments to the Credit Institutions Act (hereinafter referred to as 'the AACIA'), which introduces changes in the field of buffers, the Croatian National Bank is adopting a new Decision on the application of the structural systemic risk buffer (hereinafter referred to as 'the Decision', OG 144/2020), which prescribes that all credit institutions with head offices in the Republic of Croatia are required to maintain a structural systemic risk buffer equal to **1.5%** of total risk exposure.

On the date of the entry into force of the Decision, the former Decision on the application of the structural systemic risk buffer (OG 78/2017), which prescribed different buffer rates (1.5% and 3.0%) for two groups of credit institutions, depending on the nature, scope and complexity of their activities, shall cease to have effect. More specifically, as the AACIA provides that the buffer for systemically important institutions and the structural systemic risk buffer are to be added together, there is no longer a need that systemic risks arising from the size of individual credit institutions and banking sector concentration are covered by a higher rate of the systemic risk buffer as those risks are to be covered by the buffer for other systemically important credit institutions.

A decision on the level of the structural systemic risk buffer rate is based on regular analysis of the structural elements of financial stability and systemic risk in the economy. Structural vulnerabilities of the system and exposures to systemic risks that had held steady at a moderately high level in preceding periods, have further increased after the outbreak of the coronavirus pandemic. The level of public debt has risen abruptly due to the expenditure on the measures to mitigate the adverse effects of the pandemic and a cyclical decrease in revenues, while the sharp increase in financing provided by the domestic banking sector and other financial intermediaries has raised the risks to financial stability arising from the already high interconnection between the government and the financial sector. Despite their deleveraging in previous years, the debt level of non-financial corporations was relatively high on the eve of the crisis, with insolvency risk being currently most pronounced in the segment of small and medium-sized enterprises that have been hit harder by the

virus containment measures in place. Though financial vulnerabilities in the household sector are less pronounced than in the corporate sector, there are particularly severe macroeconomic imbalances in the labour market.

The further evolution of structural vulnerabilities and debt sustainability of all sectors will depend on the dynamics and structure of economic recovery. An important role in this regard will be played by the banking sector, which was highly capitalised and liquid when the crisis struck and which may contribute to faster recovery of the domestic economy by continuing its lending activities. As a result, the Croatian National Bank has decided to keep the structural systemic risk buffer rate at 1.5% of the total amount of risk exposure for all credit institutions. From the entry into force of the AACIA, institutions identified as other systemically important credit institutions will be required also to meet their individual buffer requirements for other systemically important institutions.

The Croatian National Bank will continue to monitor regularly the increase of systemic risks of structural nature triggered by the coronavirus pandemic crisis and will when necessary adjust the systemic risk buffer and other macroprudential policy instruments.