



HNB

Measures of the Croatian National Bank to alleviate the economic consequences of the pandemic

Boris Vujčić
Governor

17 March 2020

Contents

- Expected economic consequences of the pandemic and the CNB's response
- Maintaining the continuity of key functions of the CNB
- Maintaining the continuity of operations of credit institutions
- Monetary policy measures
- Supervisory measures

Expected economic consequences of the pandemic and the CNB's response

- sharp and short-term economic contraction is expected to result from the measures to prevent the virus spreading – a supply shock accompanied by a demand shock → monetary policy impact on such shocks is limited
- focus of monetary and supervisory measures – maintenance of favourable financing conditions in efforts to preserve jobs and facilitate recovery
- stress in Croatia is concentrated on the foreign exchange and bond markets, so that monetary policy measures are aimed at mitigating the turmoil in these markets
- as corporate liquidity is also expected to deteriorate due to the fall in income, supervisory measures are aimed at facilitating the rescheduling of loans

Maintaining the continuity of key functions of the CNB

- implementation of measures to ensure the smooth and regular performance of all the key functions
 - payment operations function
 - currency department operations (cash supply)
 - monetary policy implementation
 - international reserves and foreign currency liquidity management

Maintaining the continuity of operations of credit institutions

- The CNB has required credit institutions to review their business continuity and crisis management plans, in particular with regard to:
 - measures to prevent contagion spreading
 - provision of technological and human resources for teleworking
 - implementation of activities to ensure smooth and safe functioning of IT systems
 - implementation of activities to ensure smooth functioning of the ATM and EFTPOS networks
 - examination of possible negative risks for lending activities

Monetary policy measures

OBJECTIVES		MEASURES	DESCRIPTION
MAINTENANCE OF FAVOURABLE FINANCING CONDITIONS	STABILISATION OF THE FOREIGN EXCHANGE RATE AND PROVISION OF FOREIGN CURRENCY LIQUIDITY	FOREIGN EXCHANGE INTERVENTIONS	<ul style="list-style-type: none"> 9 – 17 March – four foreign exchange interventions at which a total of EUR 1.625bn was sold to banks Exchange rate stabilised at around EUR/HRK 7.57 Level of international reserves (total reserves at EUR 19.1bn; net reserves at EUR 16.9bn, as at 16 March 2020) sufficient for further stabilisation
	PROVISION OF KUNA LIQUIDITY FOR THE ONGOING FINANCING OF THE ECONOMY	STRUCTURAL AND REGULAR OPERATIONS	<ul style="list-style-type: none"> 16 March 2020 – regular and structural operations; creation of HRK 750m of short-term liquidity and HRK 3.8bn of long-term liquidity (5-year maturity, interest rate of 0.25%) Daily liquidity surplus was HRK 32.8bn as at 16 March 2020
	SUPPORTING THE STABILITY OF THE GOVERNMENT BOND MARKET	PURCHASE OF GOVERNMENT BONDS	<ul style="list-style-type: none"> 13 March 2020 – the first auction for a direct purchase of Republic of Croatia bonds – HRK 211.2m purchased Under the decision of the CNB Council, the circle of counterparties that are entitled to participate in the purchase and sale of securities has been expanded to include pension funds, companies for the management of open-ended investment funds with a public offering and insurance companies Announcement that auctions for the purchase of bonds will continue from 18 to 23 March, expected purchase of another HRK 1.6bn

Supervisory measures

- suspension of certain supervisory activities
 - supervisory stress testing
 - on-site inspections, except in justified circumstances
 - reduction of additional supervisory capital requirements (P2G)
- postponed implementation of supervisory measures
- supervisory expectations – reduction of the requirements regarding the liquidity coverage ratio and the classification of exposures to clients in risk category A whose operations have been or will be affected by the pandemic
- response in alignment with the positions of the EBA and the ECB