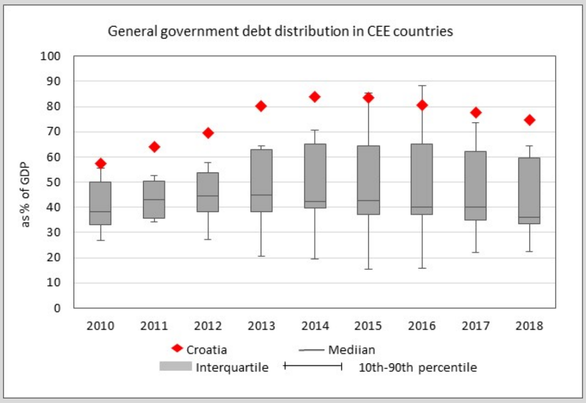
Announcement of the application of systemic risk buffer

Pursuant to Article 131 of the Credit Institutions Act (OG 15/2018) and Article 3 of the Decision on the application of the structural systemic risk buffer (OG 78/2017), the Croatian National Bank has prescribed a systemic risk buffer to be maintained by all credit institutions with head offices in the Republic of Croatia in the amount which, depending on the nature, scope and complexity of activities of credit institutions, equals 1.5% of total risk exposure or 3% of total risk exposure if a credit institution is identified as systemically important under the criteria of the share of assets of an individual credit institution in total assets calculated based on audited consolidated data for the national financial sector. This data constitutes an integral part of information disclosed on the Croatian National Bank website in accordance with supervisory disclosure practices. In accordance with Article 131 of the Credit Institutions Act, this obligation is reviewed at least once every two years.

The analysis of the structural elements of financial stability and systemic risk in the economy, regularly conducted by the CNB, shows that structural vulnerabilities of the system and exposures to systemic risks have held steady at a moderately high level. Despite the fact that further economic growth mitigated structural imbalances and prompted the European Commission to announce in February 2019 that macroeconomic imbalances in Croatia were no longer excessive and the fact that two out of three rating agencies announced Croatia's investment grade re-entry, public and private sector debt and external imbalances are still significant and greater than in other countries of Central and Eastern Europe (CEE) (Figures 1 and 2). In light of a relatively high level of debt, the Croatian economy remained sensitive to possible changes in financing conditions on the international markets. In addition, a prolonged period of low interest rates may boost risk appetite in search of higher yields, which may additionally increase the vulnerabilities in the financial and non-financial sector. Such excessive accumulation of risks enhances the unfavourable effect of the possible worsening of financing conditions on the international markets which could spill over to Croatia. A small and open economy such as Croatia's which also carries the burden of accumulated structural imbalances is particularly exposed to global developments, so the effects of a slowdown in the economic activity in the neighbouring and other countries can relatively quickly, directly and indirectly spill over to Croatia. Also noted should be unfavourable demographic and migration trends which led to a fall in labour force supply, which has an unfavourable effect on growth potential of the Croatian economy and debt sustainability of all sectors (Figure 3). The unemployment rate has been falling for several years, partly influenced by the mentioned migration trends, although it still remains noticeably higher than in other CEE countries (Figure 4). In the financial sector, further banking sector consolidation in 2017 and 2018 led to an increase in the already high financial system concentration, which is visibly higher than the European average (Figure 5) and increases system sensitivity to potential vulnerabilities of some of the banks.

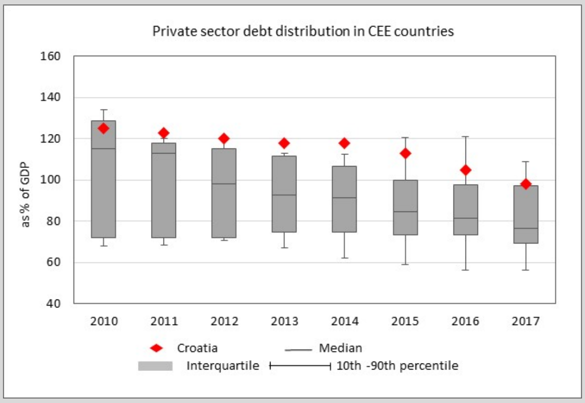
The analysis made supports further application of the systemic risk buffer at the previously determined rate for two groups of credit institutions, as defined under Article 3 of the Decision on the application of the structural systemic risk buffer (OG 78/2017). The Croatian National Bank will continue to monitor regularly the evolution of systemic risks of structural nature and will review the systemic risk buffer when necessary, and at least once in every two years.

Figure 1 General government debt continues to be relatively high compared to peer EU countries



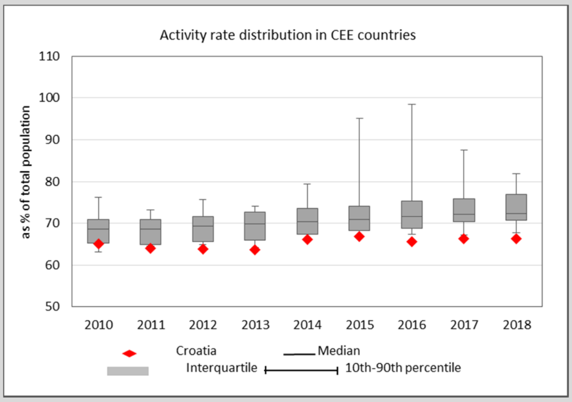
Source: Eurostat.

Figure 2 Relatively high debt of the domestic private sector



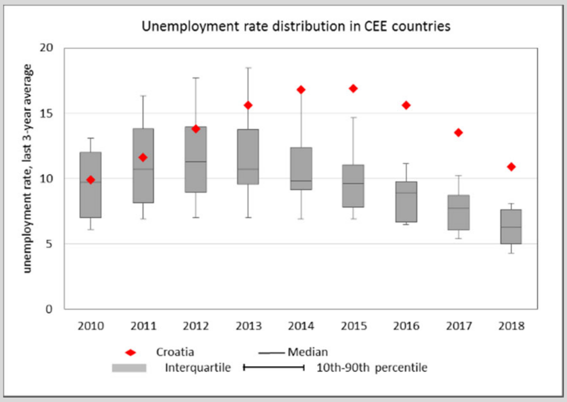
Note: Private sector debt includes liabilities based on debt securities and loans of private non-financial corporations, households and non-profit institutions serving households. Complete data for 2018 have not been released yet. Source: Eurostat.

Figure 3 Activity rate is among the lowest of all CEE countries



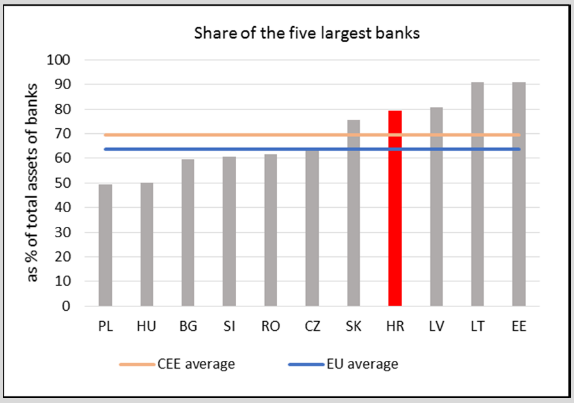
Note: Active population is defined as the sum of employed and unemployed persons. Source: Eurostat.

Figure 4 Unemployment rate, despite the fall, is still among the highest of all EU peer countries.



Source: Eurostat.

Figure 5 Banking sector concentration measured by market share of the five largest banks (2018)



Source: ECB.