



CROATIAN NATIONAL BANK

Improving Financial Stability in Croatia

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Croatian national bank

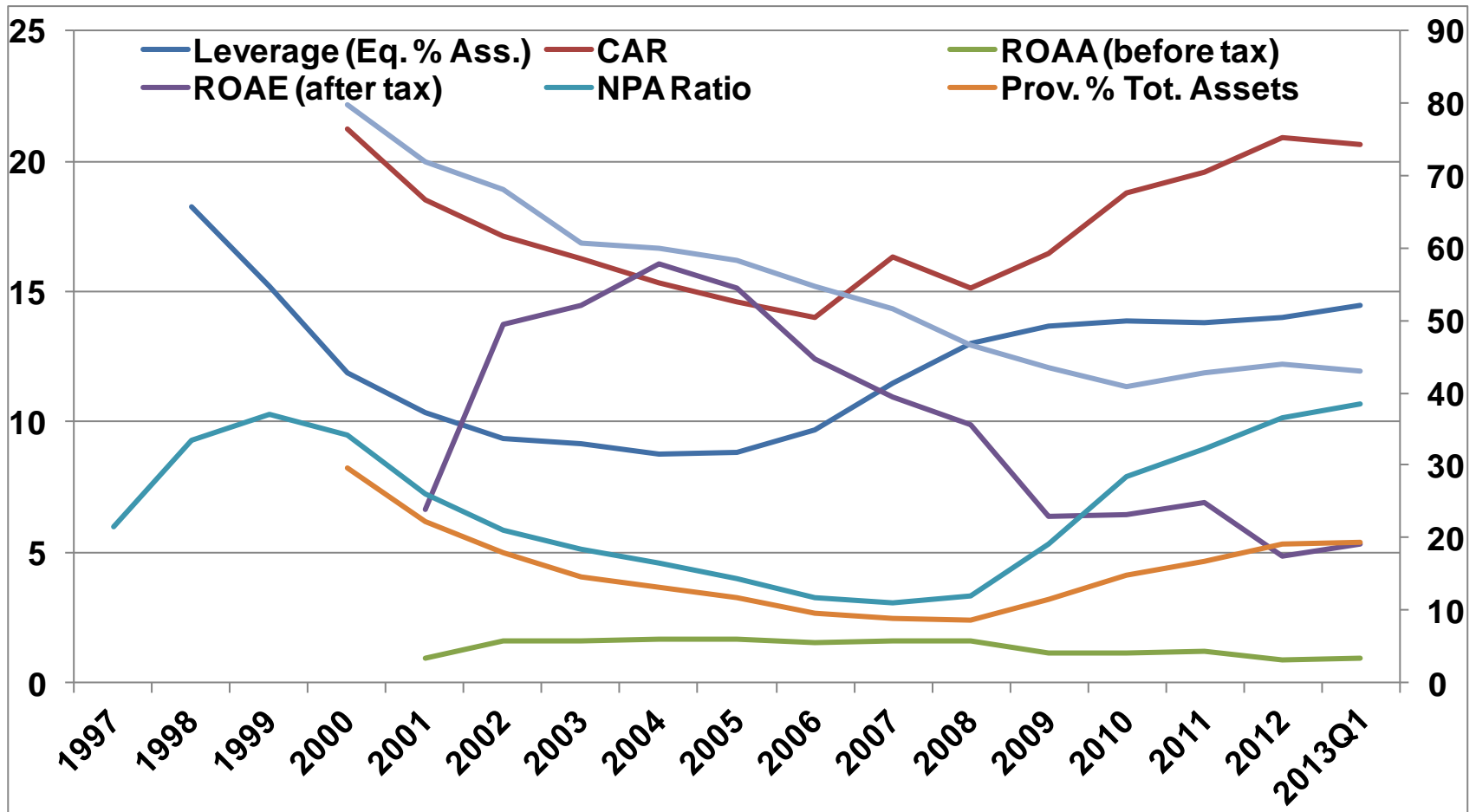
**73 rd East Jour Fixe of the OeNB: “Croatia – The 28th EU Member State”
Vienna, June 17, 2013**

The views expressed in this presentation are those of the author and do not necessarily reflect those of the Croatian National Bank and its management.

Great Recession & Credit Institutions (CIs)

	2008	2009	2010	2011	2012
GDP growth (%)	2,1	-6,9	-2,3	0,0	-2,0
Unemployment (%)	8,4	9,1	11,8	13,5	15,8
CI loan growth (%)	11,6	-0,7	6,2	5,6	-3,3
CI's NP assets (%)	3,3	5,3	7,9	9,0	10,1
CI's CAR (%)	15,2	16,4	18,8	19,6	20,5
CI's ROA (%)	1,6	1,1	1,1	1,2	1,0
CI's ROE (%)	9,9	6,4	6,5	6,9	6,0

Credit Institutions' Soundness (FSIs)



FSIs – International Comparison

#1: Hi Capital

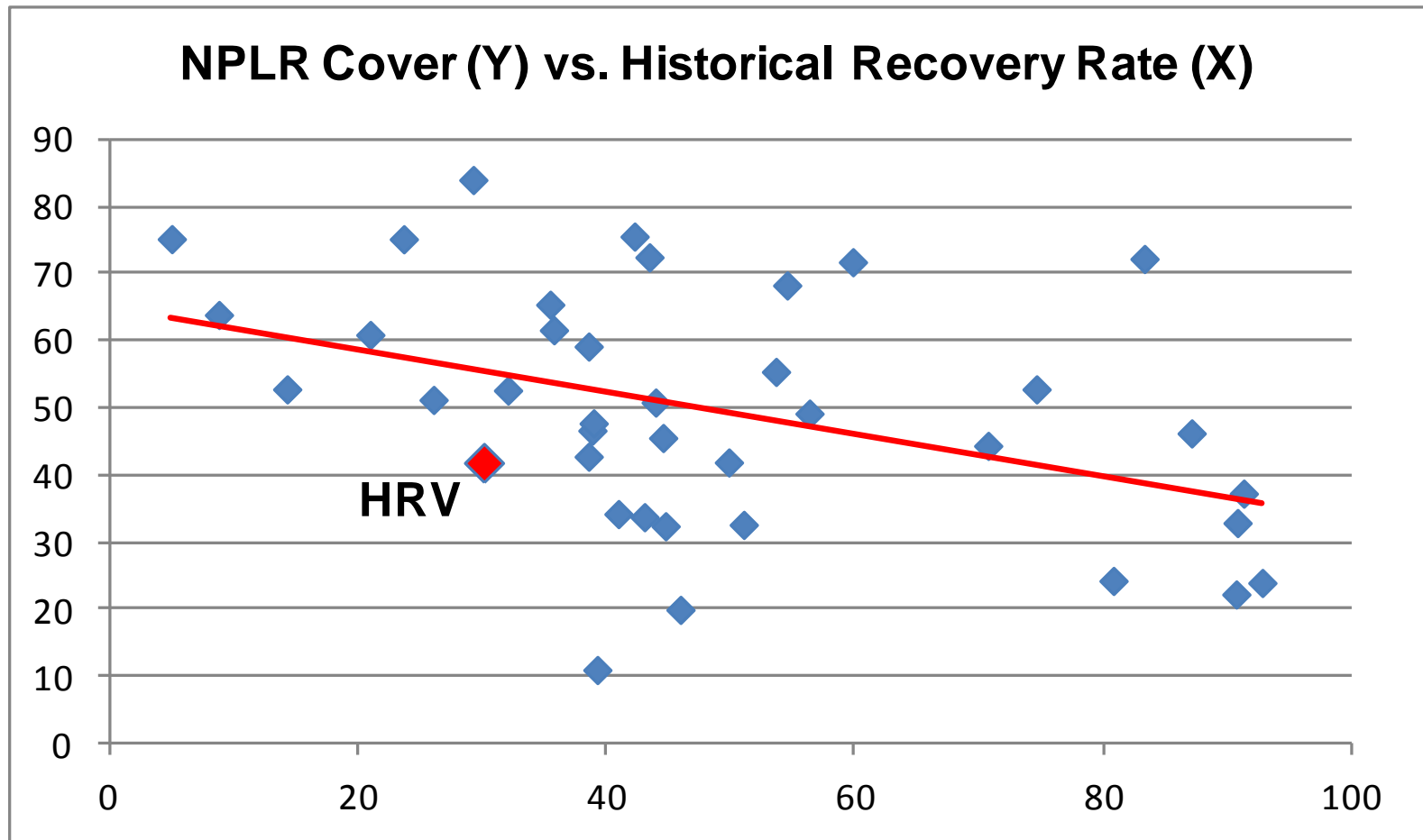
#2: Moderate NPLs & Profits

#3: Lo **NPL Coverage** & Deposit Base

#4: Hi **Financial Euroization** (FE) Level

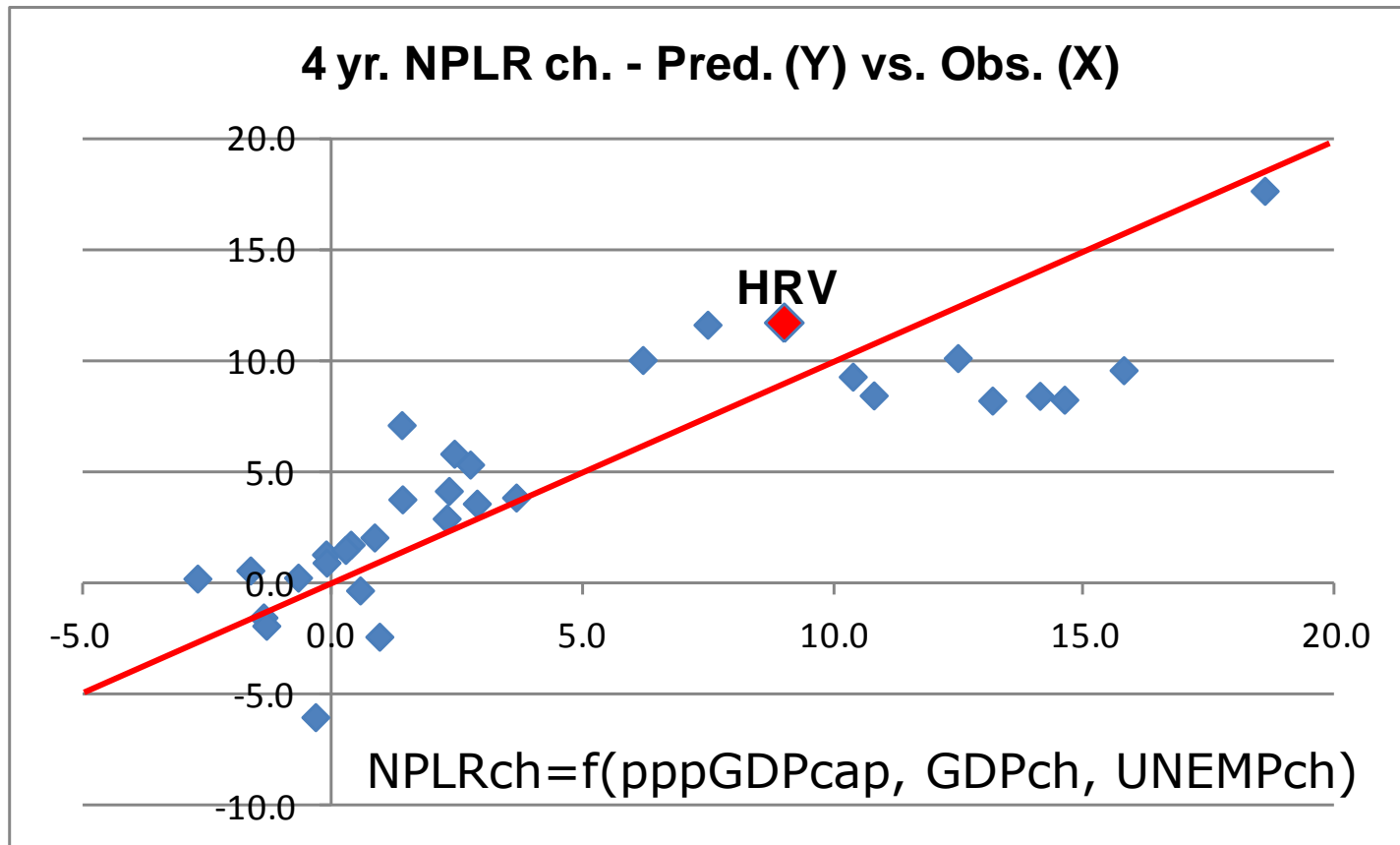
#4: Delayed **CI Deleveraging**

NPL Coverage: Second Glance at Cover



Source: WB Doing Business Indicators, IMF FSI Database

NPL Coverage: Second Glance at NPLs



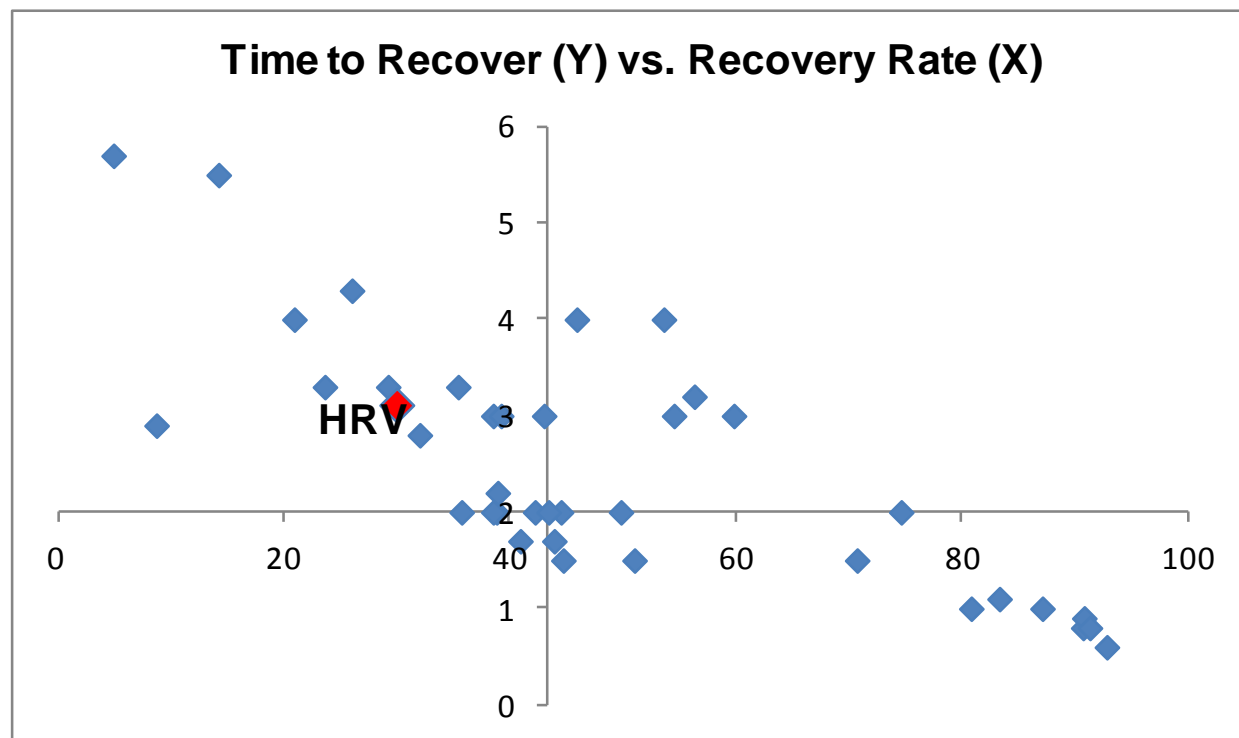
Source: IMF FSI & WEO databases, own calculations

NPLs: Structure and Trends

Share of Non-Performing Loans (% loans in category)	12/2008	12/2009	12/2010	12/2011	12/2012	12 / 08
TOTAL	4,94	7,80	11,23	12,43	13,81	2,52
Gov. Units	0,31	0,20	0,28	0,31	0,18	0,99
NFCs	7,47	12,87	18,06	20,13	24,68	2,69
HHs	3,97	5,80	7,81	8,61	9,45	2,17
<i>Home Ls</i>	1,70	2,73	4,46	5,22	6,17	3,06
<i>Other RE-sec. Ls</i>	9,71	11,93	22,45	21,46	23,67	2,21
<i>Car Ls</i>	2,88	4,23	4,13	4,00	4,97	1,39
<i>CC Ls</i>	1,86	3,04	3,98	4,00	4,44	2,15
<i>Other Ls</i>	6,19	8,97	11,13	12,15	12,71	1,96
Oth. Sectors	2,11	5,69	6,76	4,46	4,61	2,11

NPLs: Obstacles to Resolution

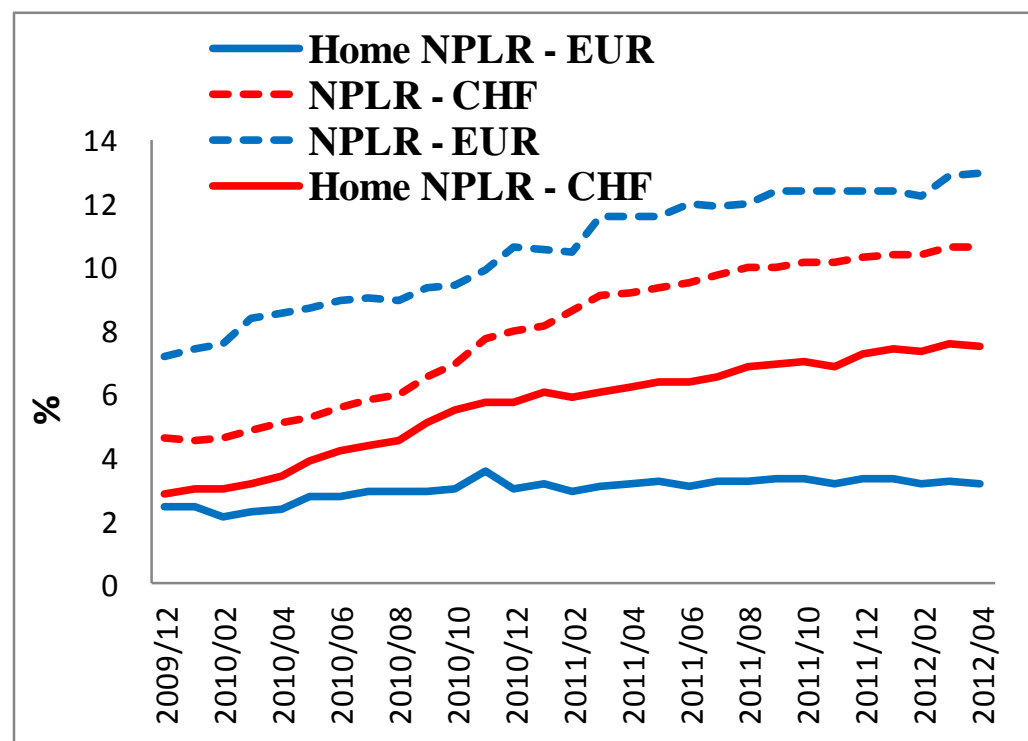
- S.T.: CIs need to find optimal balance between early collection and restruc. of NPLs
- L.T.: Gov. needs to improve court adm. of NPL coll.



Source: WB Doing Business Database

FE: Credit Euroization & NPLs

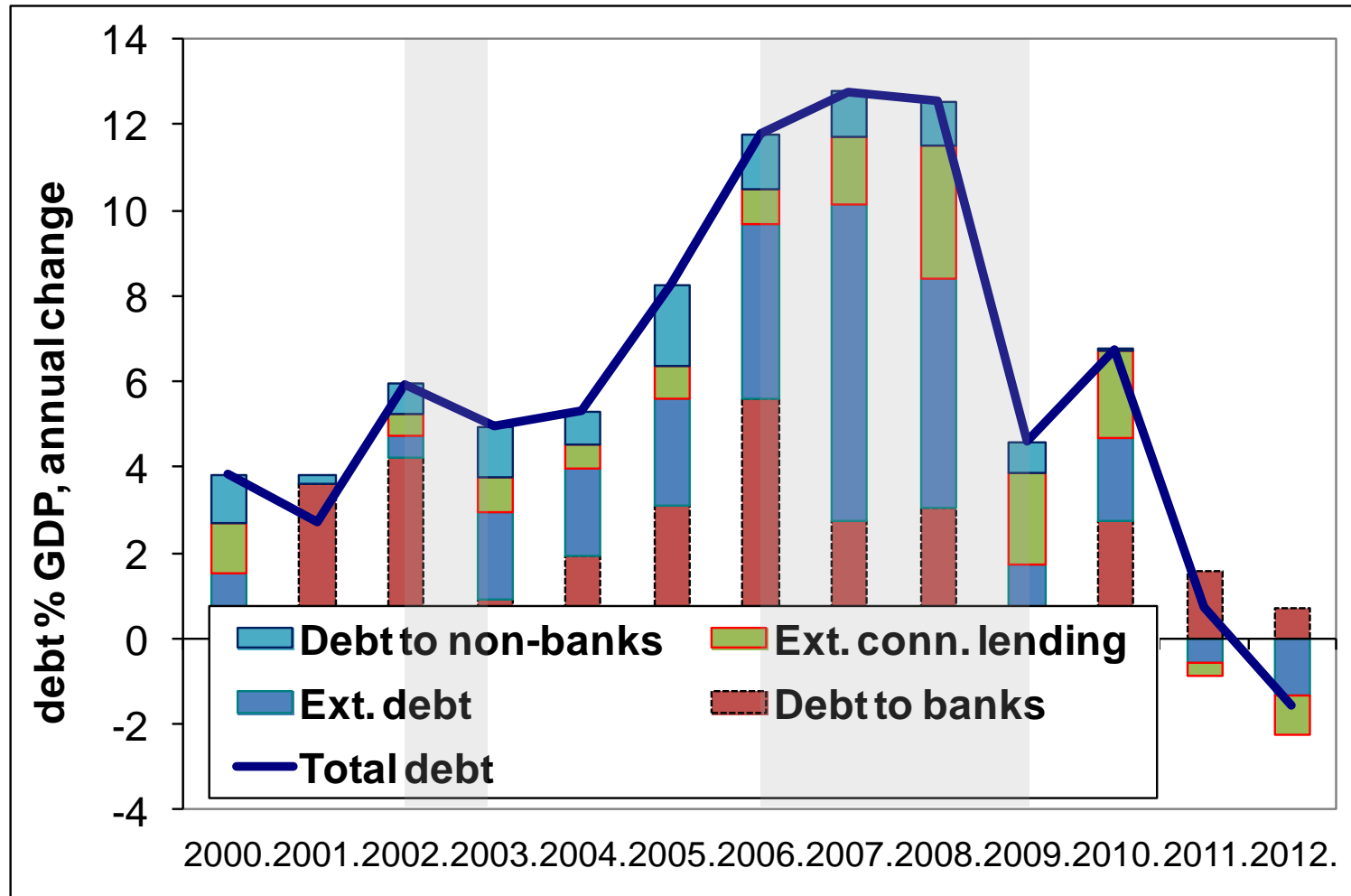
Share of Non-Performing Loans (% loans in category)	12/2011	12/2012
Total	12,43	13,81
HRK	16,81	16,46
EUR	11,08	12,82
HHs	6,93	7,40
<i>Home Ls</i>	3,29	3,67
CHF	11,16	13,14
HHs	8,00	9,98
<i>Home Ls</i>	7,27	9,15
<i>Car Ls</i>	1,77	2,77
<i>Oth. Ls</i>	23,44	25,98
NFCs	40,24	49,67
Other Sectors	12,41	14,30
Oth. Currencies	7,13	15,12



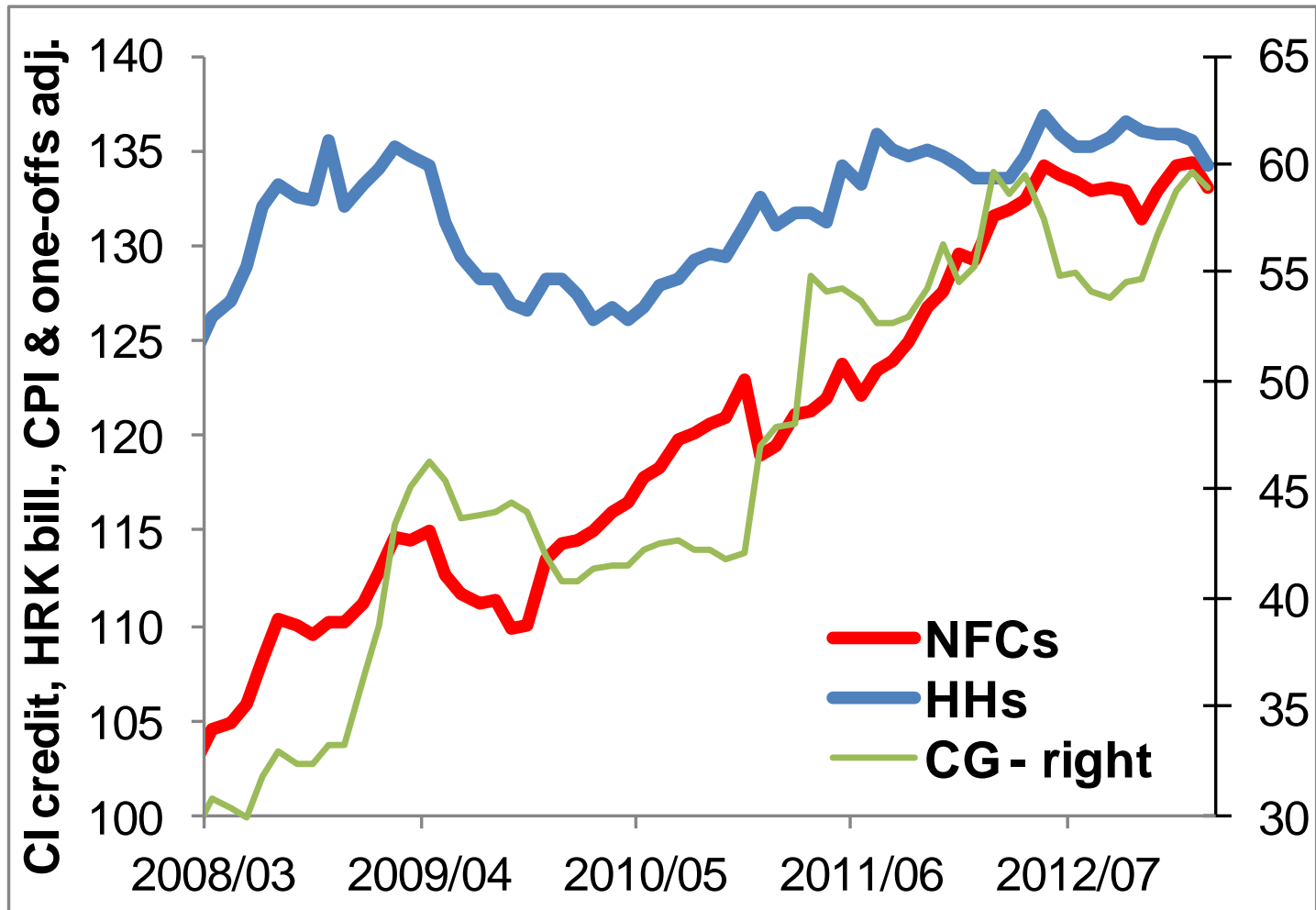
FE: Macroprudential Response

- ❑ Croatia has had “persistently” high DE for historical reasons -> Reducing CE level difficult (measures to address high FE during 2004-2008 were only effective partly & temporarily)
- ❑ ESRB recommendations already implemented are: A) Improved disclosure of FX risks to borrowers (July), B) Stricter underwriting of FX loans, D) Improved internalization of FX risks, E) Holding more capital against FX risks
- ❑ ESRB recommendations which may be implemented (again) in the future: C) Required reserves on FX loans, F) Limits on FX funding (the main driver of CE in Croatia)

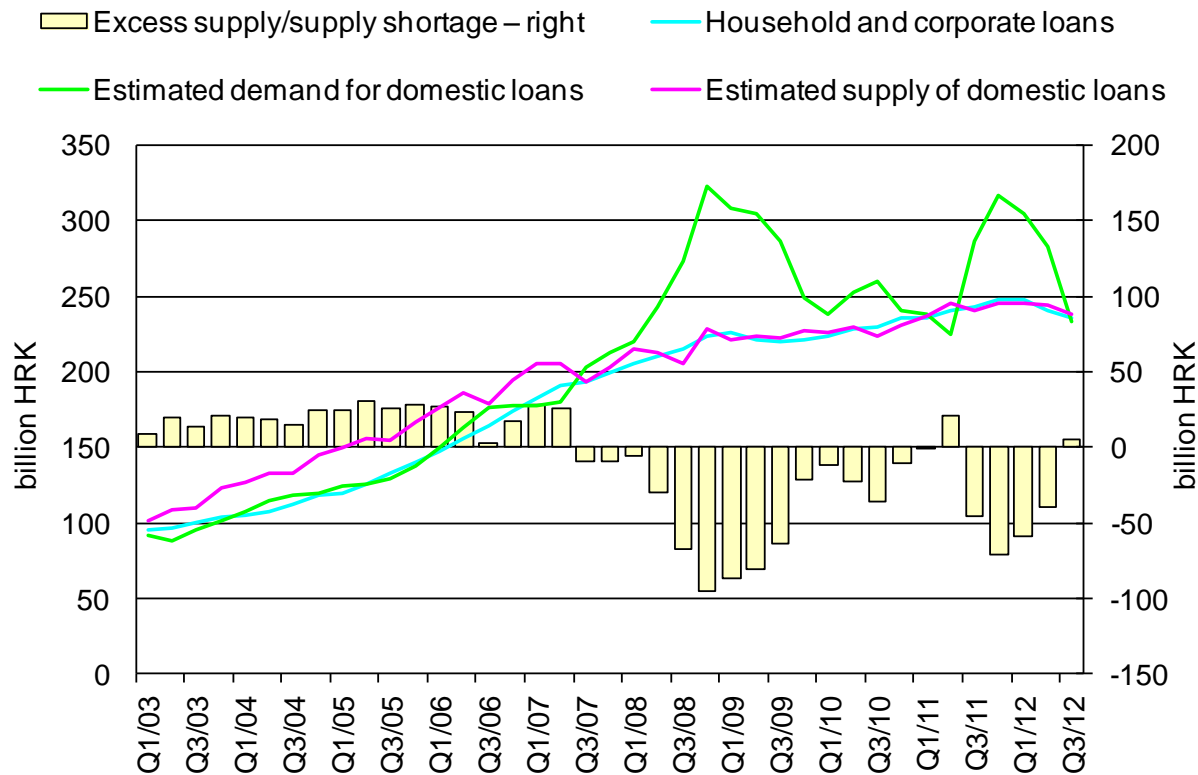
Credit Growth: Decomposition & Trends



Credit Growth: Adjusted Stock of CI Credit

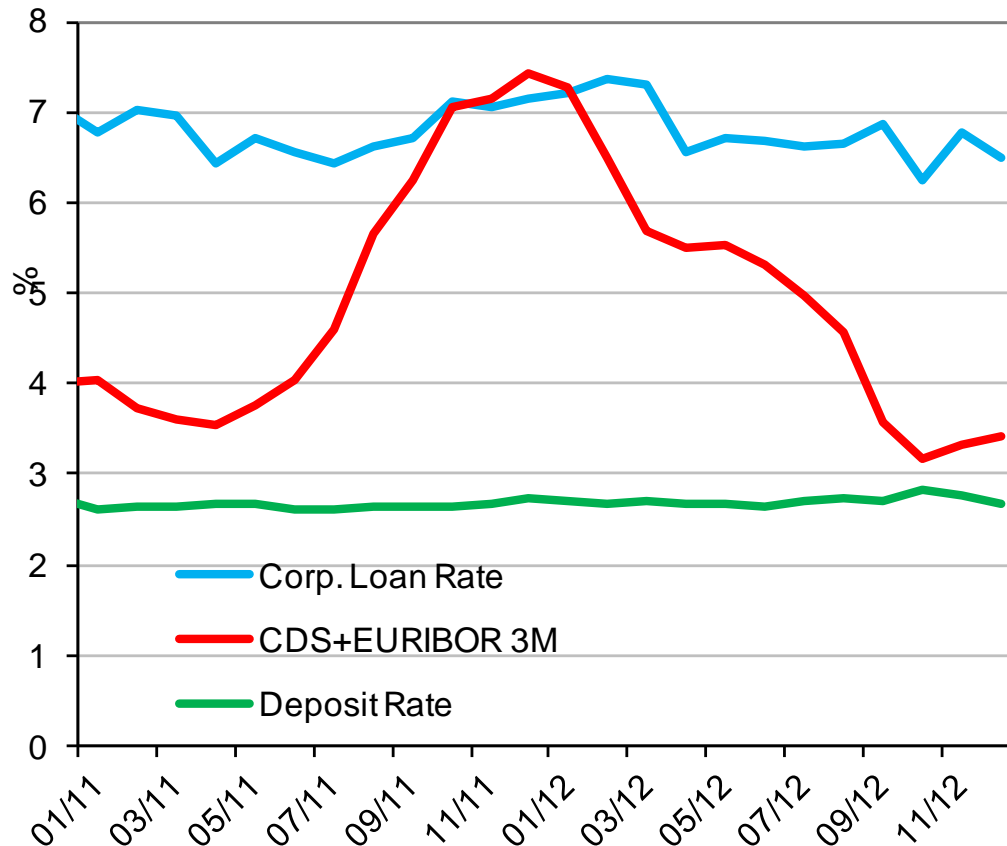


Credit Growth: Demand vs. Supply



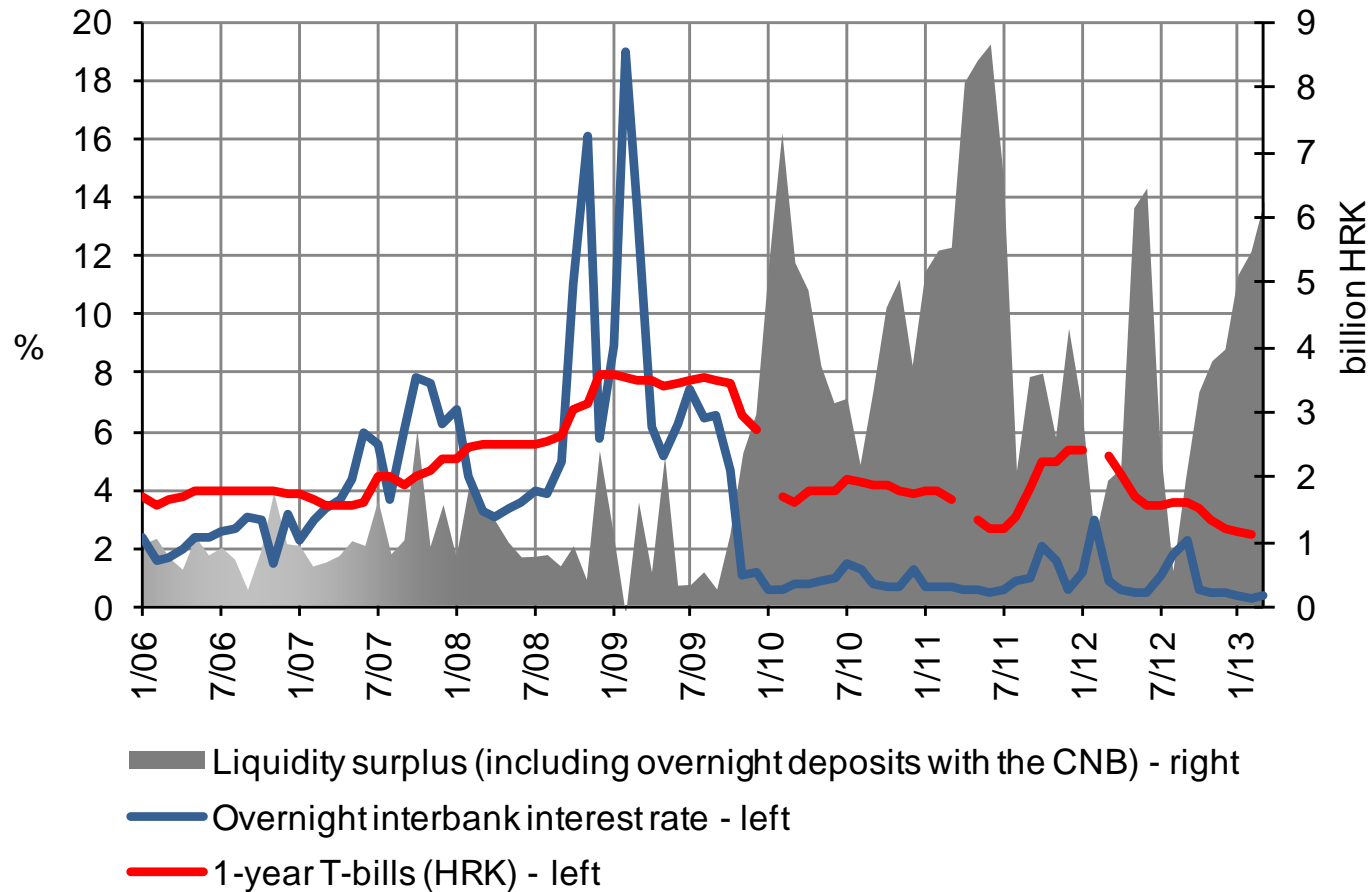
- ❑ Credit supply is a problem, occasionally
- ❑ But, lending standards have tightened, too

Credit Growth: Cost of Borrowing



- High funding costs (also due to LLSFR?) keep loan rates high despite of decreasing CDS prices

Credit Growth: Recent Policy Response



+ Special prime-rate lending “schemes” for NFCs adm. by CBRD

Credit Growth: Looking Forward

- All proposed micro-prudential CB measures are checked for pro-cyclicality & all outside policy proposals sent to the CB for the opinion are assessed against this criterion + CBRD lending schemes will be revised & continued.
- But, CIs also have to do their part – there is plenty of capital & liquidity in the system, and there must be creditworthy clients in pockets of the credit market with low NPLs.

Conclusion: Points for Discussion

#1: Credit Growth is Stalling – What to Do ?

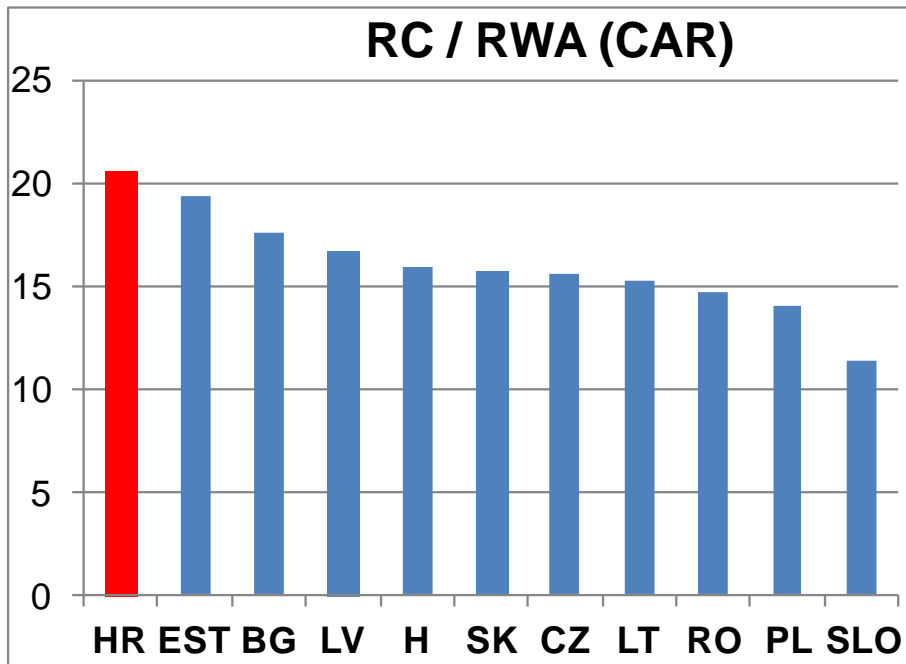
#2: Is Adequacy of the NPL Coverage In the Eye of the Beholder, and How to Improve NPL Collection ?

#3: Is FE different in Croatia, and should this affect the Measures to Reduce the FE level ?

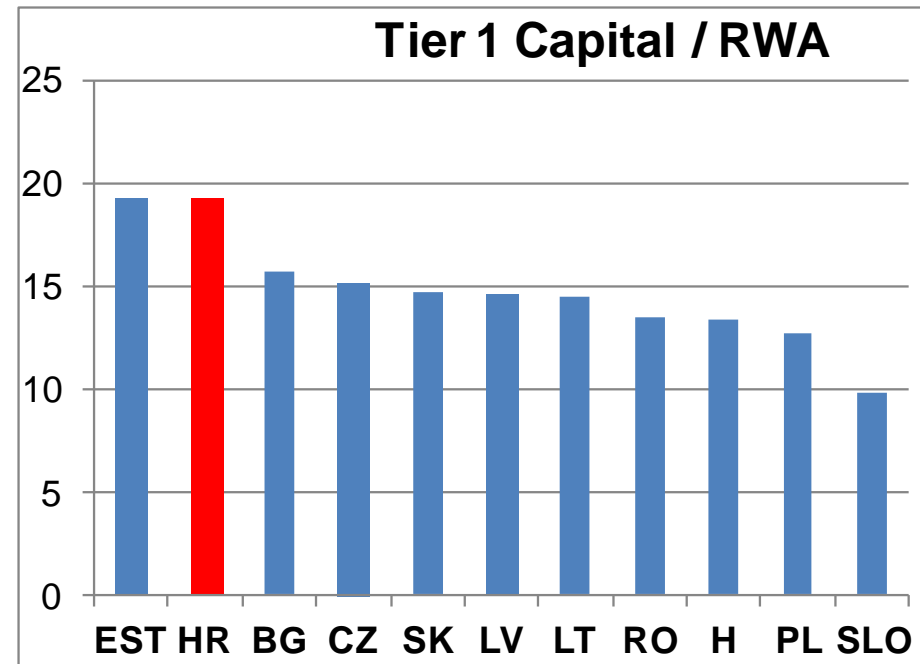
Appendix: International Comparison Graphs

- 1: Capital
- 2: Earnings
- 3: Asset Quality
- 4: NPL Coverage
- 5: Funding
- 6: Euroization

Credit Institutions – Capital Base

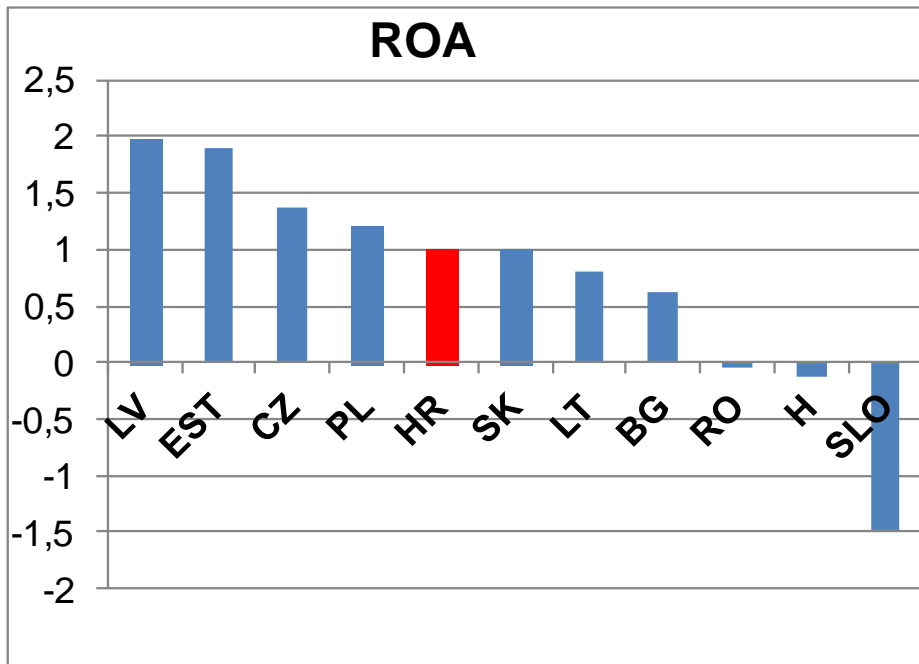


Source: IMF (FSI)

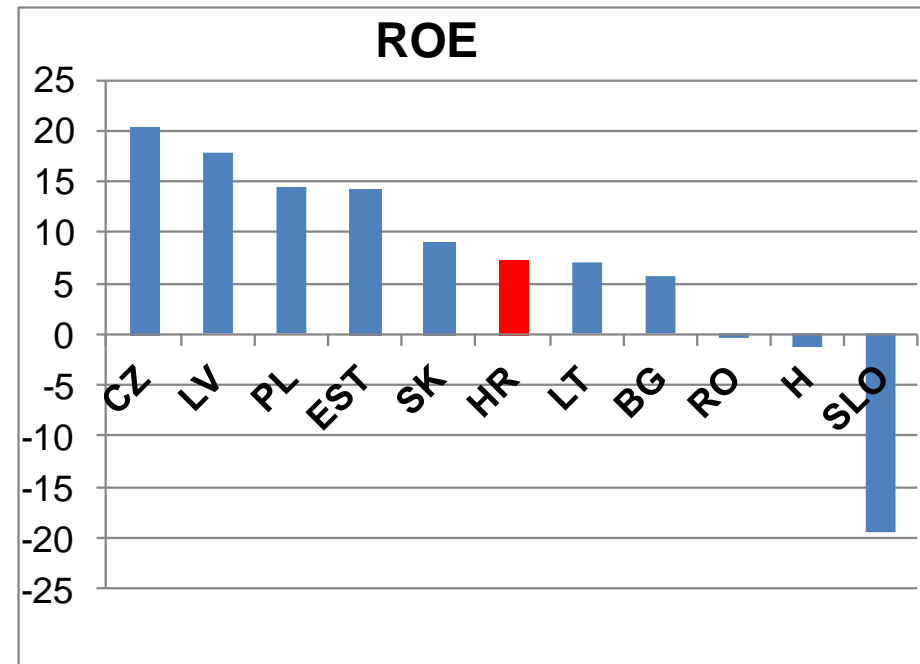


Source: IMF (FSI)

Credit Institutions - Earnings

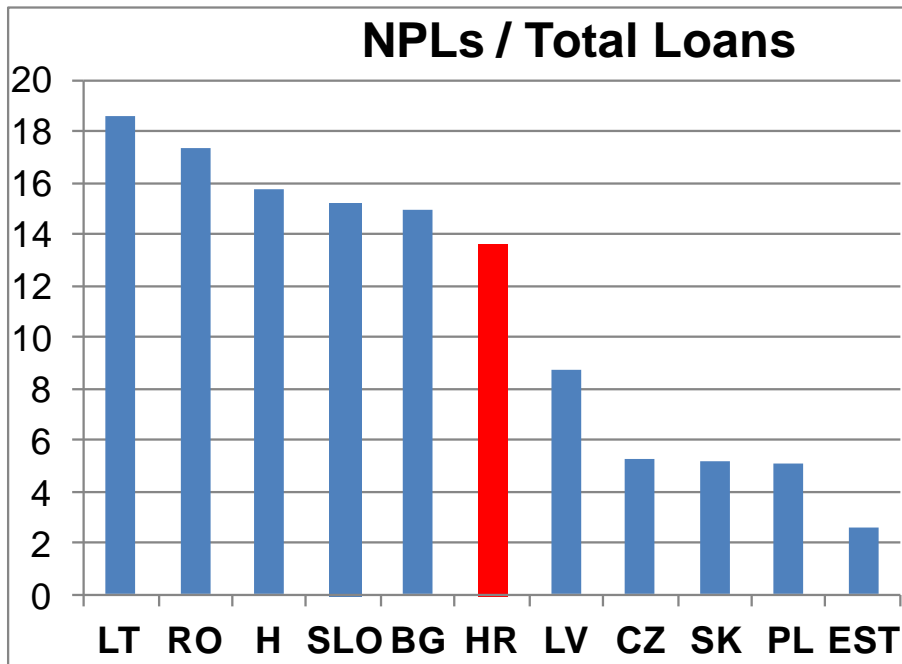


Source: IMF (FSI)

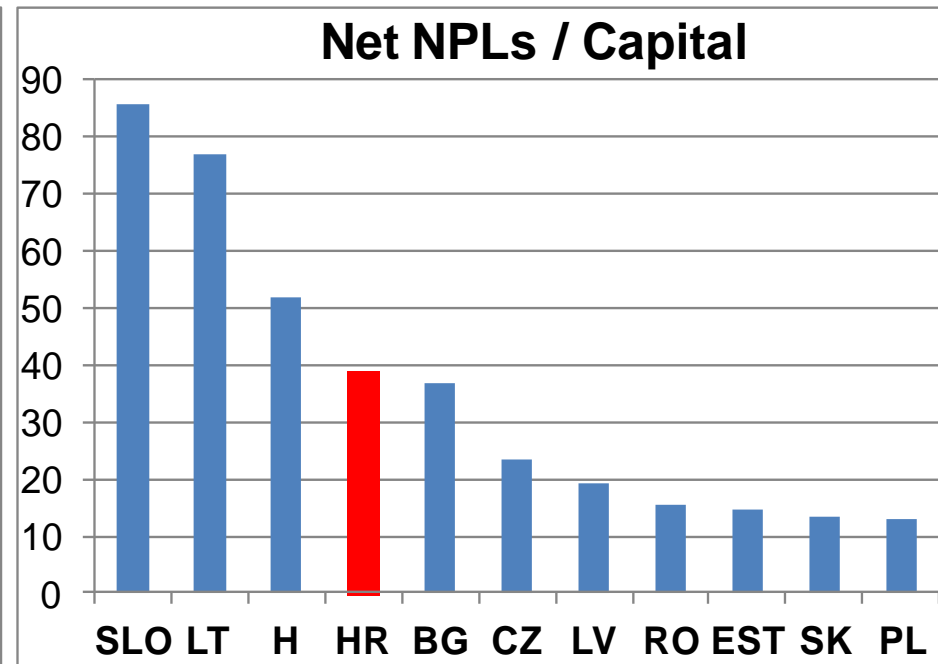


Source: IMF (FSI)

Credit Institutions – Asset Quality

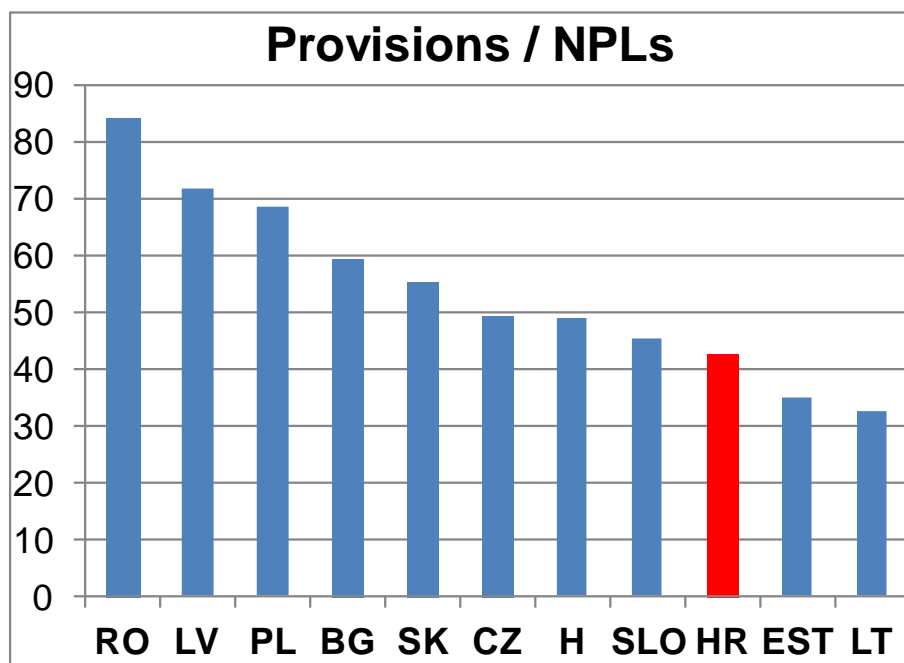


Source: IMF (FSI)

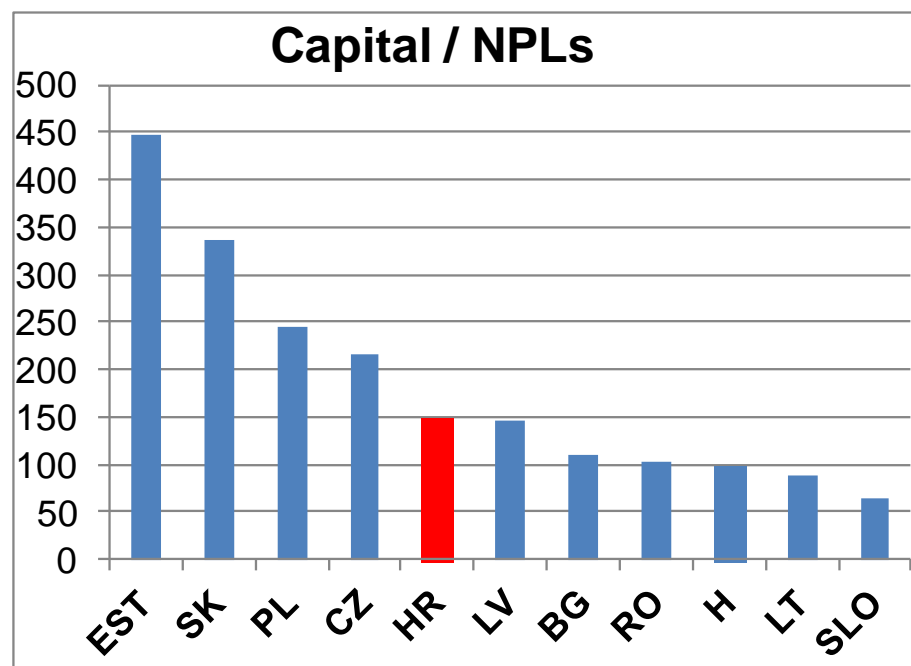


Source: IMF (FSI)

Credit Institutions – NPL Coverage

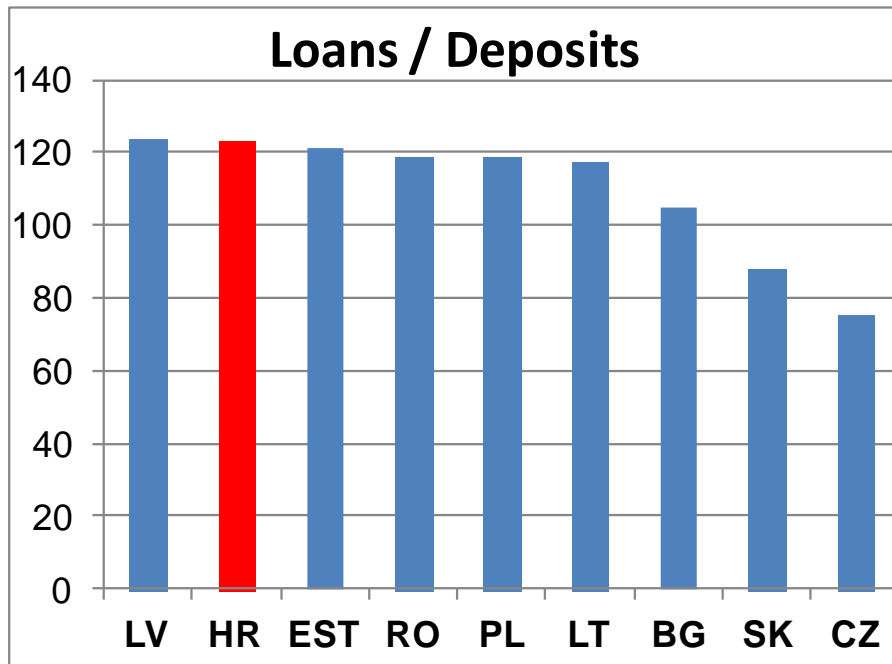


Source: IMF (FSI), own calculation

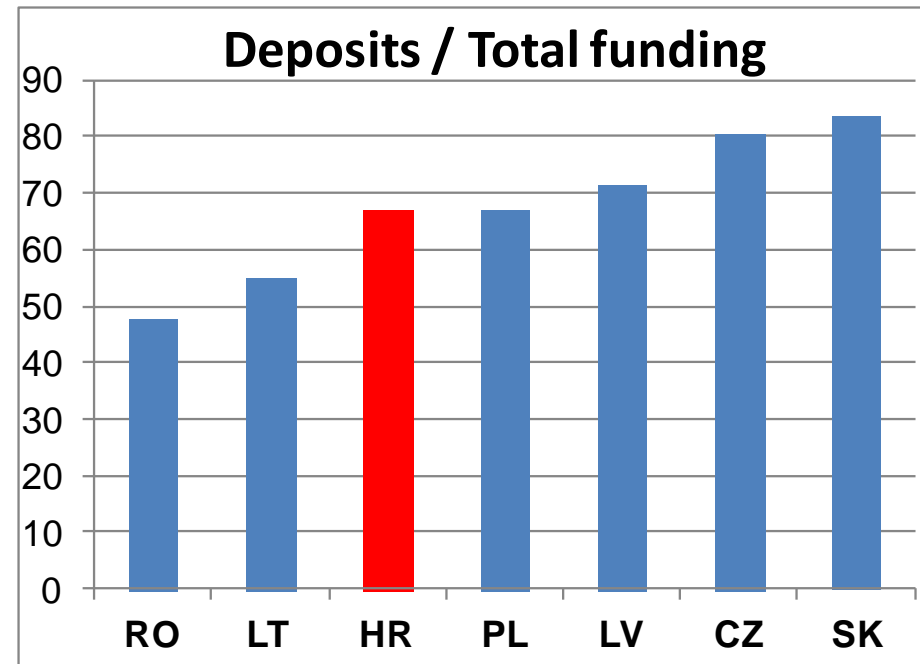


Source: IMF (FSI)

Credit Institutions – Funding

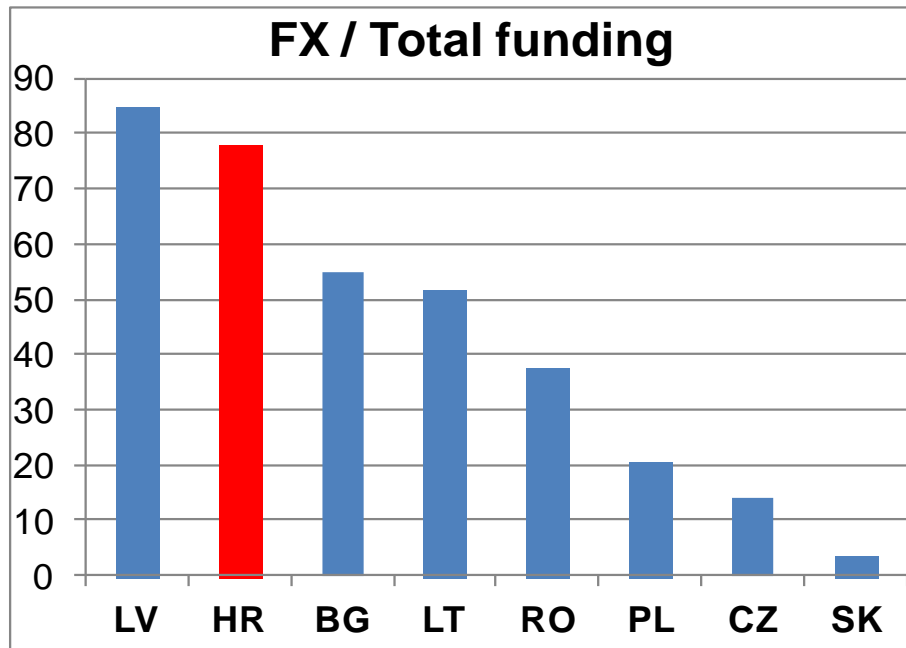


Source: IMF (FSI)

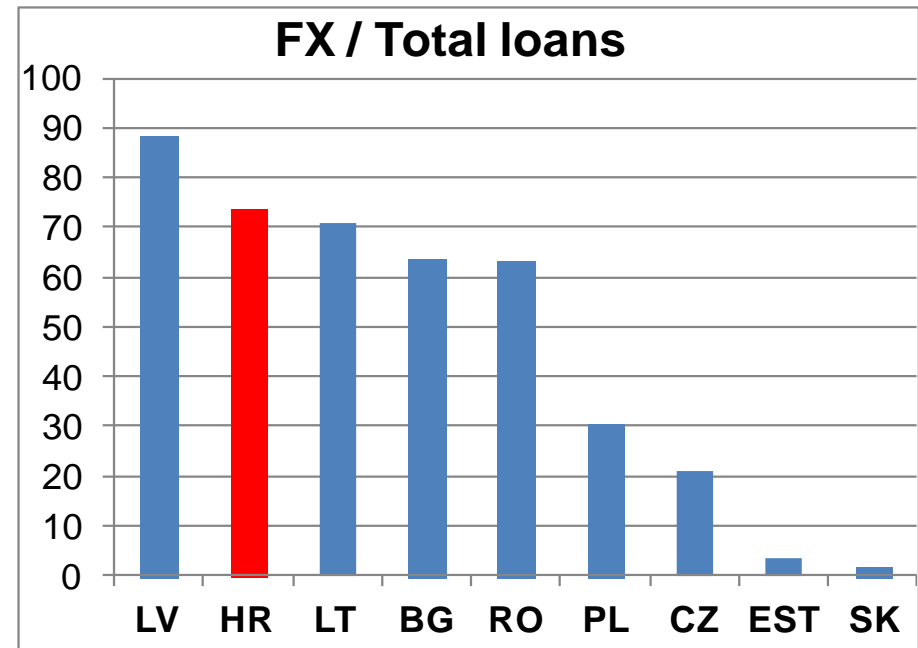


Source: IMF (FSI)

Credit Institutions – Financial Euroization



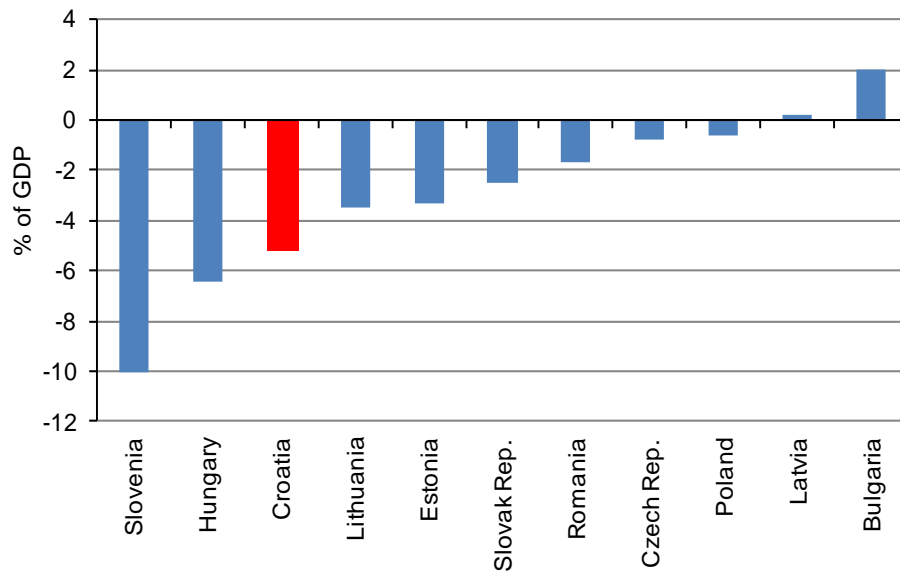
Source: IMF (FSI), own calculation



Source: IMF (FSI)

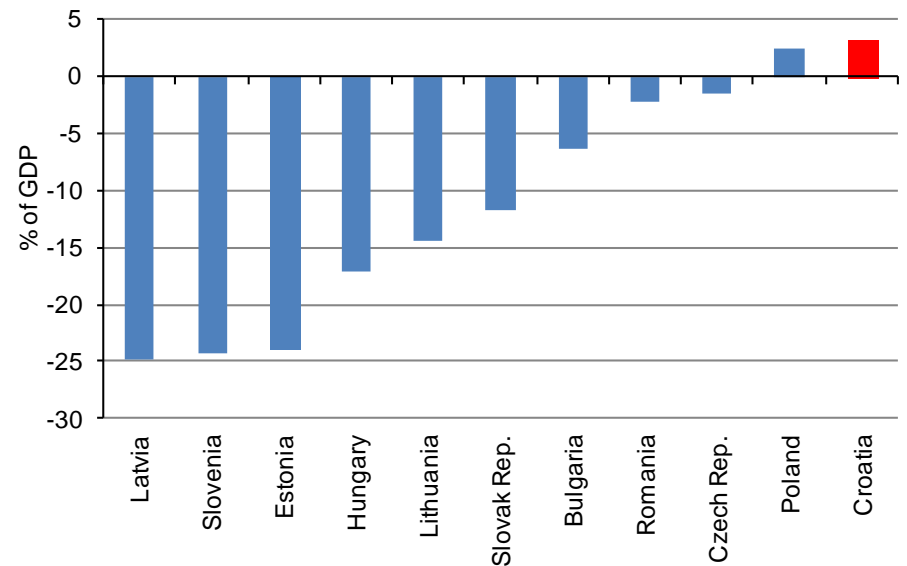
Credit Institutions – Deleveraging

Deleveraging of CEE banks in 2012



Sources: CNB and national central banks.

CEE Deleveraging 12/2012 - 09/2008



Sources: CNB and national central banks.