

Pursuant to its Decision on a temporary restriction of distributions of 14 January 2021 (Official Gazette 4/2021, hereinafter referred to as: Decision), the Croatian National Bank imposed a restriction on credit institutions' distributions until 31 December 2021, which includes dividend distribution, creation of an obligation to make dividend distribution, redemption of own shares and award of variable remuneration.

The Decision was aimed at enhancing credit institutions' resilience and maintaining the overall stability of the financial system amid heightened uncertainty regarding the impact of the emergency health and economic conditions on the business of credit institutions in the Republic of Croatia.

In accordance with Article 4 of the Decision, in early September 2021 the Croatian National Bank reviewed the existence of the grounds which prompted the adoption of the Decision, and assessed that since the adoption of the Decision, the circumstances have changed sufficiently to justify the early revocation of the Decision as of 1 October 2021.

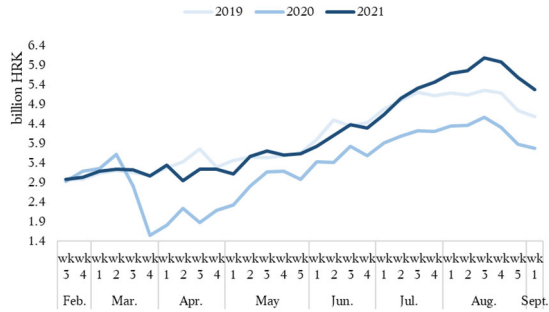
A good progress in population vaccination rollout and generally a more favourable epidemiological situation ahead of summer 2021 paved the way for a relaxation of epidemiological measures. Combined with a good tourist season (Figure 2), this strengthened the economic recovery, especially in terms of the most severely affected activities, which is also evident from the growth in corporate income (Figure 1). In addition, the firms' reliance on fiscal support diminished considerably, while exits of firms from the market remained low (Figure 3). Credit institutions remained well-capitalised throughout the observed period, owing to reinvested earnings, among other things (Figure 6). The stability of the credit institutions' operations enabled unimpeded financing of all domestic sectors (Figures 4 and 5). In the light of the foregoing, the Croatian National Bank assessed that there is no longer a need to pursue a comprehensive macroprudential measure to restrict distributions, and thus decided to revoke the Decision early, as of October 1st 2021.

Instead of a general restriction of distributions, within the scope of regular supervisory assessment of credit institutions' risk profile, work will continue on closely monitoring the exposure to risks, especially credit risk, as well as the capital adequacy level and the dividend policy of each institution. In addition, credit institutions are expected to continue applying prudent dividend policies, ensuring their safety and stability, as well as a long-term sustainability of their operations.

Repealing of the Decision is in line with the activities taken by the European Systemic Risk Board, whose Recommendation on restriction of distributions during the COVID-19 pandemic (ESRB/2020/7 and ESRB/2020/15) will expire on 30 September 2021 and will no longer be extended.

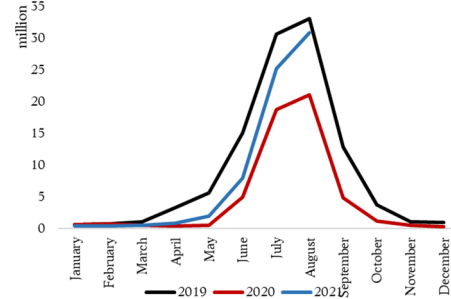
Annex

Figure 1 The amount of fiscalised receipts in all activities



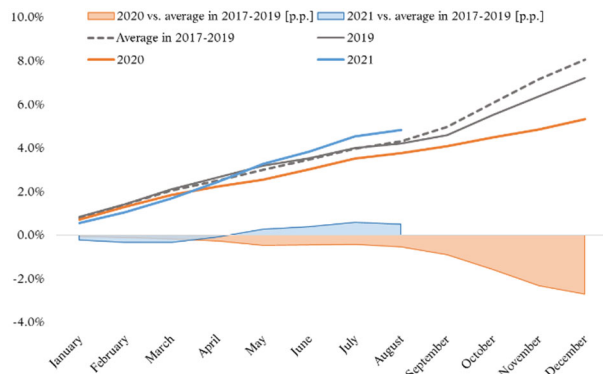
Source: Tax Administration and FINA (processed by the CNB).

Figure 2 Tourist nights



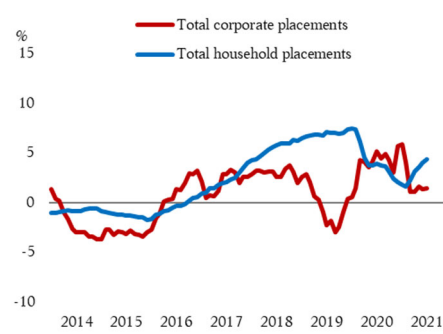
Note: The figure shows total number of guests (domestic and foreign). Source: Croatian National Tourist Board.

Figure 3 Exits of firms from the market



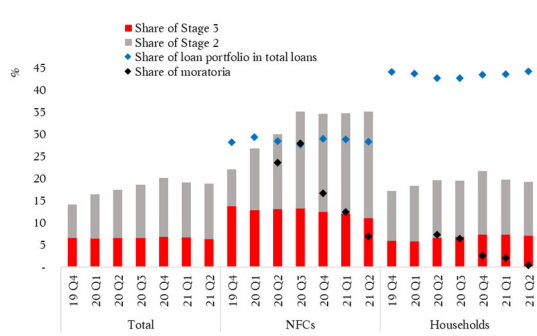
Note: The figure shows bankruptcies, winding-up and dissolutions of firms relative to the total number of active entities in a year. Source: Tax Administration and FINA (processed by the CNB).

Figure 4 Lending to firms and households



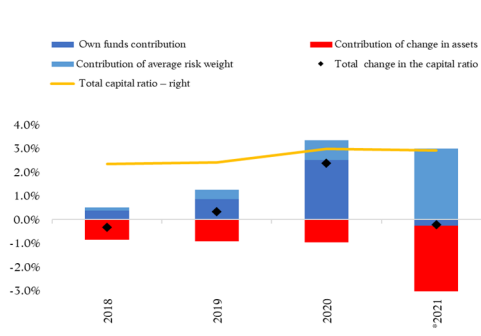
Note: The figure shows annual rates of change in placements based on transactions. Source: CNB.

Figure 5 Loan quality and moratoria



Note: Loans in stage 2 relate to performing loans witnessing a considerable increase in credit risk and loans in stage 3 relate to non-performing loans witnessing a loss. Source: CNB.

Figure 6 Credit institutions' total capital ratio



*Data refer to June of 2021. Source: CNB.