



HRVATSKA NARODNA BANKA

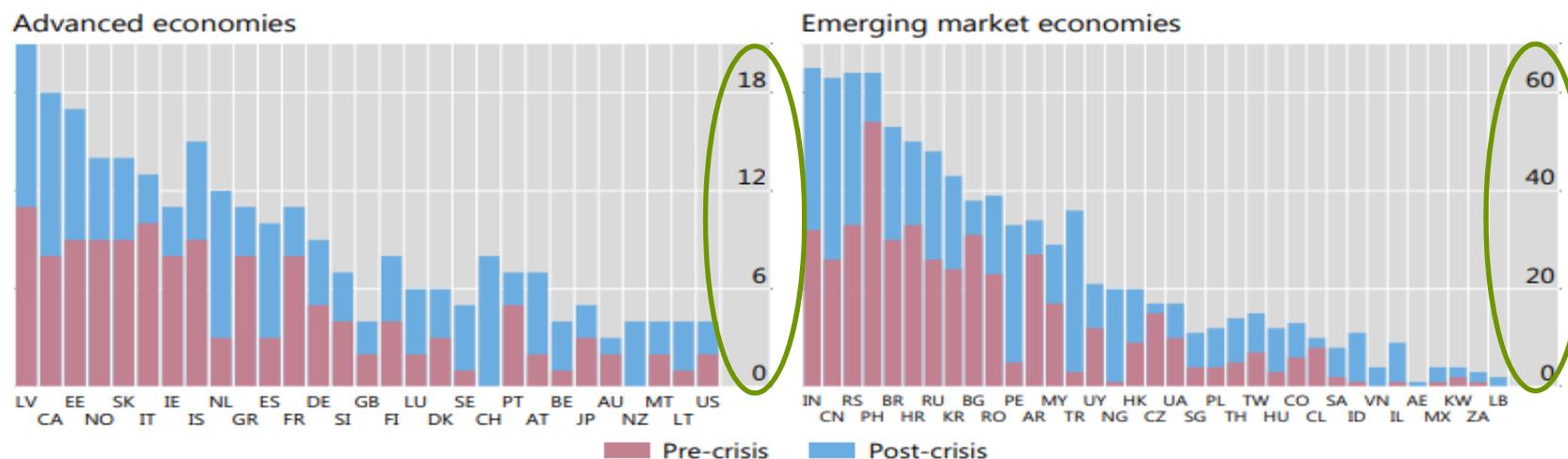
CNB's Macroprudential Policy – Leaning against the wind

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Before the crisis: Macroprudential policy measures conducted primarily by EMs

Number of policy actions



¹ The sample covers 1,149 macroprudential policy actions adopted in 64 countries (29 AEs and 35 EMEs). The database is constructed using information in Cerutti et al (2017b), Kuttner and Shim (2016) and Lim et al (2011, 2013). Data for the pre-crisis period cover the 1990–2007 period, while the post-crisis period refers to 2008–14.

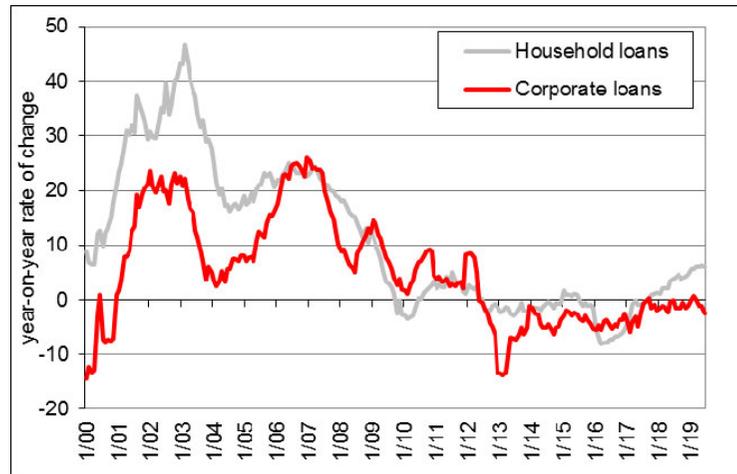
Source: Boar et al. (2017)

CEE countries before the crisis:

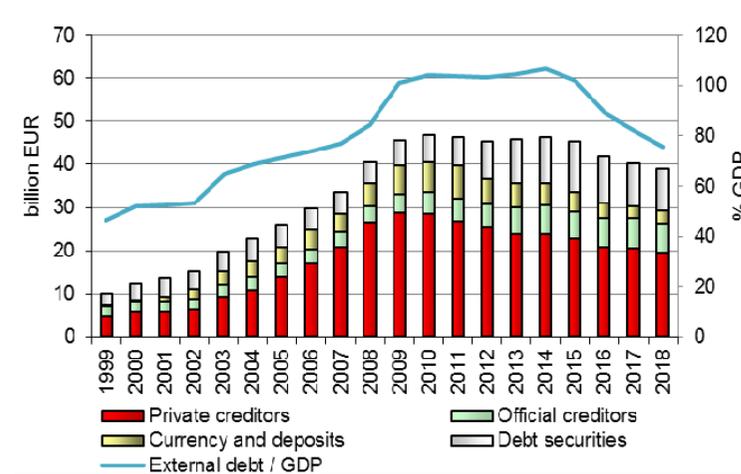
- financial liberalisation
- under-developed regulatory and institutional frameworks
- increased share of foreign banks
- high global liquidity
- low interest rates
- increased risk aversion
- above average growth potential
- EU accession process
- high capital inflows

Most relevant pre-crisis developments

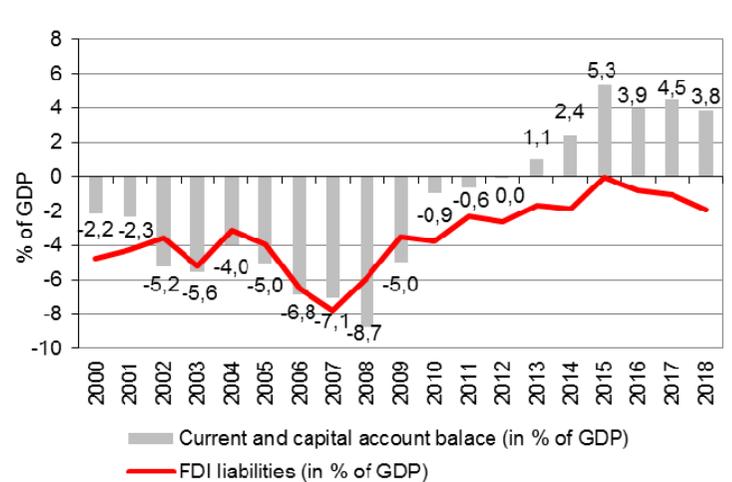
Strong credit growth



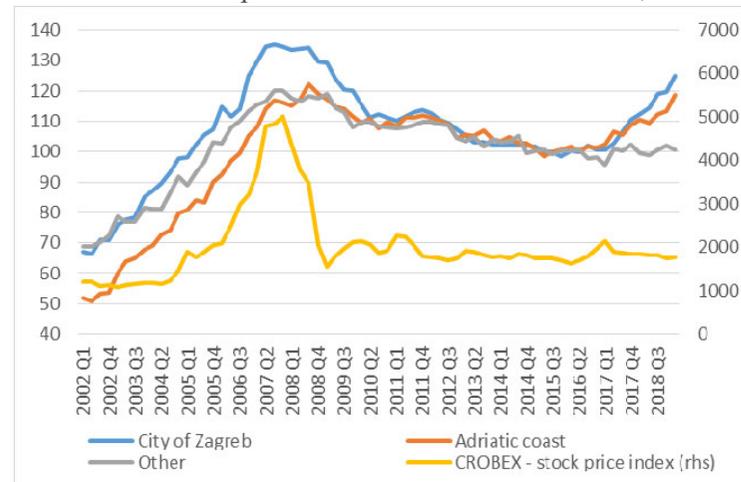
Rapidly growing external debt



Widening CAB and strong capital inflows



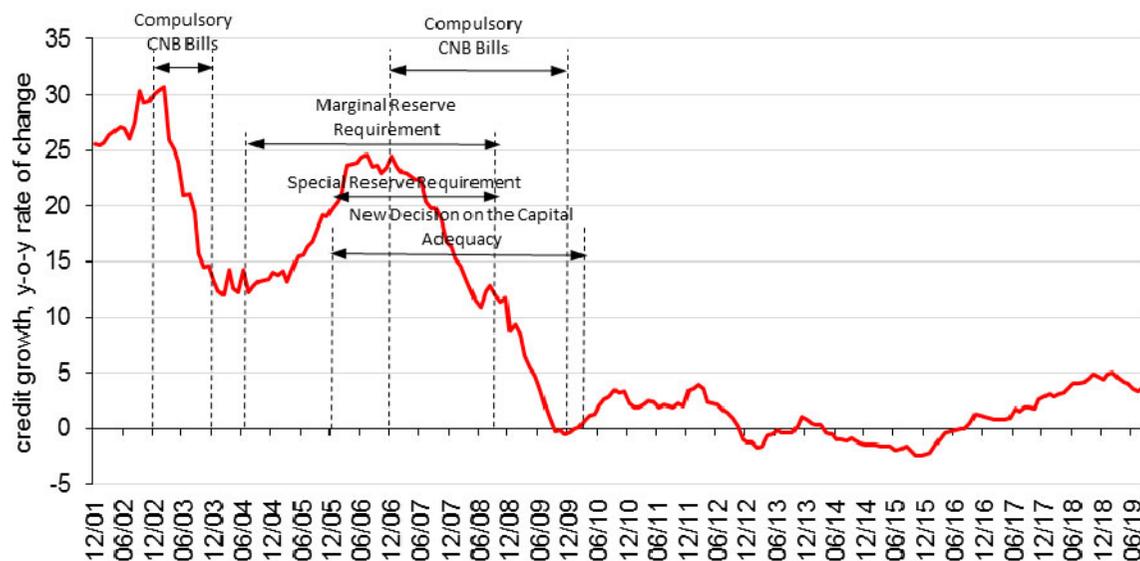
Pressure on asset prices – residential real estate, stocks



Anticyclical macroprudential policy, pre-crisis...

■ Most important pre-crisis measures:

- high level of general reserve requirement (GRR)
- FX interventions - mainly alleviating appreciation pressures
- administrative restriction of loan growth - 16% - 2003, 12% 2007-2009
- minimum required foreign currency claims
- marginal reserve requirements (MRR), special reserve requirement (SRR), *theory of marginalism works in practice*
- increased capital requirements for currency induced credit risk
- increased CAR to 12%

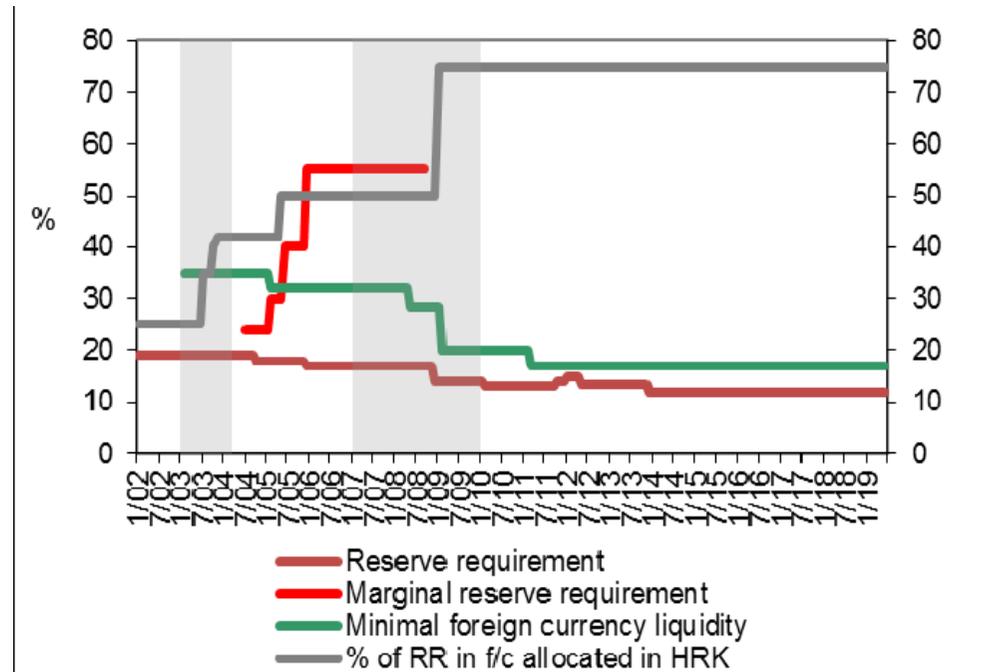


After the onset of the crisis...

- Gradual **release of the system reserves** accumulated in the preceding period
 - MRR abolished, rates of GRR and MRFCC reduced, credit growth restrictions removed

- Results

- significantly improved system liquidity
- ensured smooth servicing of the government's liabilities to foreign creditors
- **preserved EUR/HRK stability and the overall financial stability**
- by the end of 2012 CNB released EUR 6.1 billion (**more than 14% of GDP**)

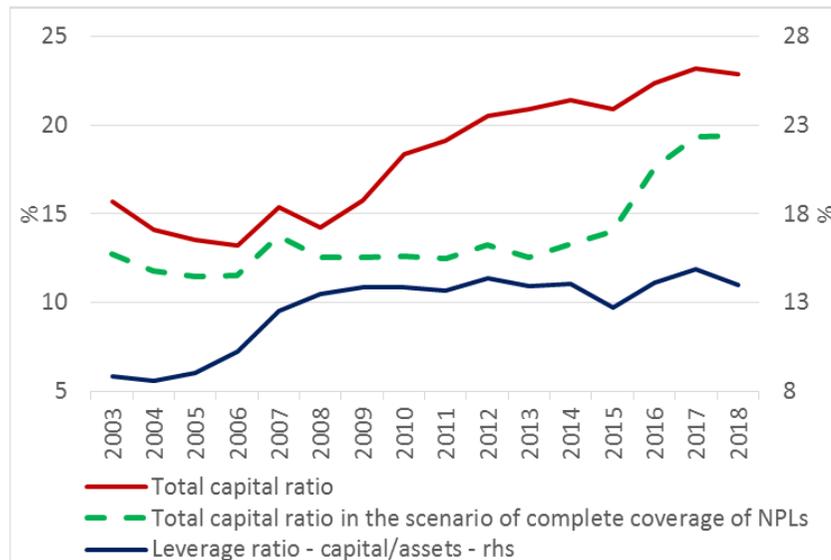


Note: Shaded area represents periods when banks' credit growth was regulated with compulsory CNB bills.

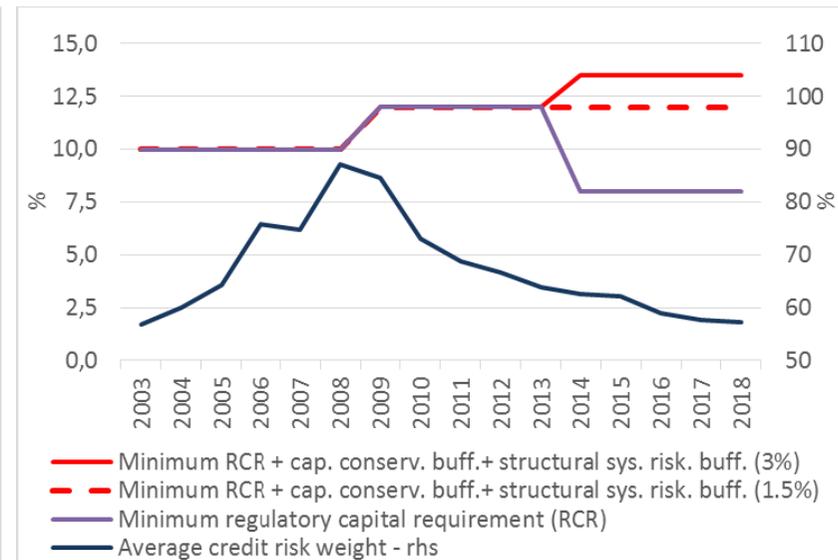
Source: CNB

State of the Croatian banking system

- Banks have remained stable and well capitalized
- For most EU countries Basel 3 has implied an increase in the required capitalization
- But, for Croatia (and some other CEE countries) – „new” measures (mostly) used for preservation of existing capital buffers and/or substitution of previously used measures



Source: CNB



Conclusion

- Even tightly intertwined monetary and MPP may only partially be sufficient to deal with the boom-bust cycle along the convergence path
 - Early action slowed down systemic risk accumulation, importance of being timely and decisive
 - Building up sufficient capital and liquidity buffers enabled counter-cyclical policy, if in wrong place in one sequence of the cycle, MPP, as fiscal, will likely end up in a wrong place in a following one
 - Market participants have been very innovative in circumventing the MPP regulation, so was MPP, loopholes can be closed if there is a determination and decisive action
 - Adequate institutional and regulatory framework –necessary prerequisite for efficient MPP
 - Importance of coordination in fighting "leakages" - both on national and international level

- Some challenges for the future – understanding changing nature of vulnerabilities, coordination with other policymakers, calibration of instruments, assessment of MPP effectiveness

Thank you!