

Zagreb, 8 February 2010

SURVEY OF MONETARY POLICY INSTRUMENTS AND MEASURES
No. 1/2010

OPEN MARKET OPERATIONS

- ◆ **Regular operations**
 - reverse repo operations
 - used to increase the system's liquidity
 - conducted every week (on Wednesdays), with a maturity of up to one week
 - conducted at standard offer auctions
 - participants: banks, savings banks and branches of foreign banks fulfilling certain general criteria
 - acceptable collateral: MoF treasury bills with an original maturity of up to one year
- ◆ **Fine tuning operations**
 - repo/reverse repo operations, direct purchase/sale of securities
 - used to increase or decrease the system's liquidity
 - frequency and maturity not standardised
 - conducted at non-standard offer auctions or in a bilateral way
 - limited number of participants: in addition to general criteria for regular operations, participants have to fulfil other criteria
 - acceptable collateral: MoF treasury bills with an original maturity of up to one year
- ◆ **Structural operations**
 - direct purchase/sale of securities and repo/reverse repo operations
 - used to increase or decrease the system's liquidity
 - frequency: regular or irregular
 - maturity not standardised
 - conducted at standard or non-standard offer auctions or in a bilateral way
 - participants: banks, savings banks and branches of foreign banks fulfilling certain general criteria
 - acceptable collateral: government securities
- ◆ legal framework for repo/reverse repo operations: Repurchase Agreement (Repo Agreement) dated as of 7 January 2009 and Annex I to the Repurchase Agreement (Repo Agreement) dated as of 7 January 2009

STANDING FACILITIES

- ◆ **Deposit facility**
 - legal framework: Decision on the deposit facility with the Croatian National Bank (OG 34/2005)
 - banks may deposit surplus funds with the CNB at the end of the day
 - may be used on a daily basis
 - maturity: overnight
 - interest rate: 0.5%
 - deposit facility is not included in the calculation of reserve requirement maintenance
 - may be suspended by a discretionary decision of the CNB
- ◆ **Lombard loan**
 - legal framework: Decision on the terms of granting short-term loans on the basis of pledged securities (Lombard loan) (OG 34/2005, 142/2008, 150/2008 and 33/2009), Intraday and Lombard Loan Agreement dated as of 7 January 2009 and Annex I to the Intraday and Lombard Loan Agreement dated as of 16 February 2009
 - may be used by banks, savings banks and branches of foreign banks
 - granted on the basis of a bank's application at the end of a working day
 - an unpaid intraday loan is considered an application for a Lombard loan
 - may be used on a daily basis
 - maturity: overnight
 - collateralised and may be used in the amount up to 50% of the nominal value of MoF treasury bills with an original maturity of up to one year
 - interest rate: 9%
 - the CNB may suspend the granting of Lombard loans and limit their amount by its discretionary decision
- ◆ **Intraday loan**
 - legal framework: Decision on the terms of granting intraday loans on the basis of pledged securities (OG 34/2005, 142/2008 and 150/2008 and 33/2009), Intraday and Lombard Loan Agreement dated as of 7 January 2009 and Annex I to the Intraday and Lombard Loan Agreement dated as of 16 February 2009
 - may be used by banks, savings banks and branches of foreign banks
 - granted by setting a limit in a bank's settlement account during the day
 - may be used on a daily basis
 - maturity: the end of the day when it was used
 - collateralised and may be used in the amount up to 50% of the nominal value of MoF treasury bills with an original maturity of up to one year
 - interest-free
 - the CNB may suspend the granting of intraday loans and limit their amount by its discretionary decision

RESERVE REQUIREMENTS

- ◆ legal framework: Decision on reserve requirements (OG 203/2003, 145/2004, 34/2005, 64/2005, 136/2005, 146/2005, 112/2008, 137/2008, 139/2008, 3/2009 and 18/2010)
- ◆ the Decision applies to: banks, savings banks and branches of foreign banks
- ◆ reserve requirement rate: 13%
- ◆ calculation base consists of:
 - ⇒ a kuna component, which includes kuna sources of funds, i.e. received kuna deposits and loans (with or without a currency clause), issued debt securities denominated in kuna, hybrid and subordinated instruments denominated in kuna (with or without a currency clause) and other financial liabilities denominated in kuna
 - ⇒ a foreign exchange component, which includes foreign exchange sources of funds, i.e. received foreign exchange deposits and loans, obligations arising from issued securities in foreign currency (excluding banks' equity securities), hybrid and subordinated instruments in foreign currency and other financial liabilities in foreign currency
- ◆ kuna and foreign exchange components of the calculation base are calculated separately, representing the average daily balance of the kuna and foreign exchange sources of funds in a single calculation period
- ◆ 75% of the calculated foreign exchange reserve requirement is included in the calculated kuna reserve requirement and allocated in kuna
- ◆ calculation period lasts from the first to the last day of a calendar month
- ◆ maintenance period lasts from the second Wednesday of a month to the day preceding the second Wednesday of the following month
- ◆ percentage for allocating the kuna component of reserve requirements amounts to 70%
- ◆ percentage for allocating the foreign exchange component of reserve requirements calculated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank amounts to 100%, while the percentage for allocating the remaining portion of the foreign exchange component of reserve requirements amounts to 60%
- ◆ remaining portion of reserve requirements may be maintained by the average daily balances in the accounts of liquid claims
- ◆ currency of the foreign exchange component of reserve requirements: EUR, USD
- ◆ remuneration rate (rate at which the remuneration is paid) on the allocated kuna component of reserve requirements: 0.75%
- ◆ the CNB shall not pay remuneration on the allocated foreign exchange component of reserve requirements.

FOREIGN CURRENCY AUCTIONS

- ◆ based on a discretionary decision of the CNB
- ◆ held to protect the stability of the domestic currency and maintain liquidity of payments in the country and abroad
- ◆ may be two-sided (the CNB buys and sells foreign currency) or one-sided (the CNB buys or sells foreign currency)
- ◆ auction type: multiple-price auction or uniform-price auction
- ◆ access to the auctions is given to banks authorised for payment transactions abroad

CNB BILLS

- ◆ legal framework: Decision on the Croatian National Bank bills (OG 203/2003)
- ◆ non-material, transferable CNB bills denominated in kuna
- ◆ sold at multiple-price auctions at a discount
- ◆ the CNB sets CNB bill auction dates and notifies the participants thereof at least on the auction date
- ◆ maturity: 35 days
- ◆ settlement: T + 0
- ◆ access to the primary market is given to banks, branches of foreign banks and the CBRD
- ◆ Central Depository and Clearing Company serves as depository for CNB bills

MINIMUM REQUIRED AMOUNT OF FOREIGN CURRENCY CLAIMS

- ◆ legal framework: Decision on the minimum required amount of foreign currency claims (OG 59/2008, 17/2009 and 23/2009)
- ◆ the Decision applies to: banks, savings banks and branches of foreign banks
- ◆ minimum required amount of foreign currency claims: 20% of foreign currency liabilities
- ◆ daily obligation to maintain the prescribed percentage
- ◆ according to the Decision, foreign currency claims comprise: foreign currency cash, checks denominated in foreign currency, foreign currency current accounts, foreign currency deposits held with the Croatian National Bank, foreign currency sight deposits, foreign currency deposits with the remaining maturity of up to 3 months, due foreign currency deposits, held-for-trading and available-for-sale securities issued by foreign financial institutions and foreign governments, comprising money market instruments, bonds and other long-term debt instruments, held-to-maturity and carried at fair value through profit and loss (not actively traded) securities in foreign currency issued by foreign financial institutions and foreign governments with the remaining maturity of up to 3 months, comprising money market instruments, bonds and other long-term debt instruments with the remaining maturity of up to 3 months
- ◆ according to the Decision, foreign currency liabilities comprise: ordinary foreign currency accounts, special foreign currency accounts of legal persons, foreign currency accounts and foreign currency sight deposits of households, liabilities arising from issued securities in foreign currency (excluding equity securities), liabilities arising from issued debt securities in kuna with a currency clause (one- or two-way currency clause), received foreign currency time deposits, received kuna deposits with a currency clause (one- or two-way currency clause), received foreign currency loans, received kuna loans with a currency clause (one- or two-way currency clause), hybrid and subordinate instruments in foreign currency, hybrid and subordinate instruments in kuna with a currency clause, other financial obligations in foreign currency
- ◆ reporting period: calendar month
- ◆ reporting deadline: 10 working days following the expiry of the reporting month, for each working day of the reporting month

SHORT-TERM LIQUIDITY LOAN

- ◆ legal framework: Decision on short-term liquidity loans (OG 135/2008 and 153/2009)
- ◆ granted to banks, savings banks and branches of foreign banks with liquidity problems, provided that they are solvent
- ◆ may be used for a period of up to twelve months
- ◆ granted on the basis of the following financial collateral instruments:
 - ⇒ CNB bills
 - ⇒ securities issued by the Ministry of Finance of the Republic of Croatia
 - ⇒ bonds for whose amortisation the Republic of Croatia has taken legal responsibility, or which are guaranteed by the Republic of Croatia
 - ⇒ other collateral instruments that have been recognised as eligible by the Croatian National Bank
- ◆ interest rate equals:
 - ⇒ interest rate charged for the use of the Lombard loan facility increased by 0.5 percentage points for the use of the facility up to three months
 - ⇒ interest rate charged for the use of the Lombard loan facility increased by 1 percentage point for the use of the facility over three months

SURVEY OF THE CNB INTEREST RATES AND REMUNERATIONS*

Lending rates

- Lombard loan ⇒ 9%
- intraday loan ⇒ interest-free
- discount rate ⇒ 9%
- short-term liquidity loan ⇒ up to 3 months: interest rate on Lombard loans + 0.5 percentage points
⇒ over 3 months: interest rate on Lombard loans + 1 percentage point

Deposit rates

- deposit facility ⇒ 0.5%
- remuneration rate on the allocated kuna component of reserve requirements: ⇒ 0.75%.

*The listed lending and deposit rates are governed by the Decision on the interest rates and remunerations of the Croatian National Bank (OG 34/2005, 64/2005, 136/2005, 130/2007 and 126/2009) and the Decision on the discount rate of the Croatian National Bank (OG 132/2007) and reported on an annual basis.