

## 3.1 International Monetary Institutions

### 3.1.1 Relations between the Republic of Croatia and the International Monetary Fund (IMF)

#### Financial Transactions

As the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund, the Croatian National Bank keeps the deposit accounts of the International Monetary Fund and regularly services the obligations based on the arrangements that the Republic of Croatia concluded with the IMF: the Systemic Transformation Facility - STF (approved in 1994, special drawing rights (henceforth: SDR) 130.80 million)), the Stand-By Arrangement (approved in 1994, SDR 65.40 million) and the Extended Fund Facility - EFF (approved in 1997, SDR 353.16 million). During 1999, SDR 6.33 million of interest was paid on all three arrangements combined; SDR 22.89 million of principal was paid on the Stand-By and EFF arrangements, while the Stand-By Arrangement was repaid in full. As a member of the Special Drawing Rights Department (of the IMF), Croatia regularly repaid its obligations based on the inherited obligations related to the allocation of the special drawing rights. During 1999, SDR 1.53 million was paid on this basis.

Within the efforts of the broader international community to organize the provision of assistance to the poorest and heavily indebted countries through the Initiative for Heavily Indebted Countries (HIPC Initiative) and the related IMF facility for the restructuring of economies of low-income countries (Enhanced Structural Adjustment Facility - ESAF), the Republic of Croatia also participated in financing the Initiative. Pursuant to the Resolution of the Government of the Republic of Croatia of October 7, 1999, the contribution of the Republic of Croatia consists of an interest-free loan of SDR 519,161, i.e. the total amount allocated on behalf of the Republic of Croatia to the special SCA-2 Account. Funds held in this account, opened by the IMF for the purpose of financing the HIPC Initiative, have been previously collected from the member countries that paid increased charges and fees on financial facilities.

Table III.1 Balance on December 31, 1999

GENERAL RESOURCES ACCOUNT	SDR *(million)	% Quota
Quota	365.1	100
IMF Holdings	508.18	139.19
SDR DEPARTMENT	SDR (million)	% net.cum.al.
Net cumulative allocation	44.21	100
Holdings of Croatia	138.06	312.3
LIABILITIES PAID IN 1999	SDR (million)	-
Repayment of principal - Stand-By Arrangement	6.54	-
Repayment of Principal - STF Arrangement	16.35	-
Interest payment on all arrangements	6.33	-
Costs of EFF Arrangement	0.81	-
SDR Department membership fee	0.01	-
Net cumulative allocation costs	1.53	-

\*SDR = special drawing rights

Since the Republic of Croatia's admission to IMF membership, all its obligations towards the IMF have been regularly fulfilled, in accordance with existing legal provisions.

In 1998, the Republic of Croatia gained the right to increase its quota in the IMF by an additional SDR 103.5 million, following the Resolution of the Board of Governors of the IMF on Increases in Quotas of Fund Members - Eleventh General Review (Resolution No. 53-2). The legal precondition for the subscription of the increased quota was fulfilled upon the issue of the Decree on the Adoption of the Increase in Quota of the Republic of Croatia in the International Monetary Fund (Official Gazette, No. 163/98). The increase in quota became effective on February 10, 1999. Following the increase in quota effected pursuant to the Eleventh General Review, the new quota of the Republic of Croatia in the IMF amounts to SDR 365.1 million.

### **Other Forms of Cooperation**

In recent years, the IMF has taken a number of actions aimed at enhancing the recognizability of its activities and the transparency of its members. Croatia is one of the countries that voluntarily joined the projects initiated by the IMF.

Croatia has joined the project of Special Data Dissemination Standard (SDDS) and publication of the summary of the IMF annual report on the Republic of Croatia (Public Information Notice - PIN). In 1999, the IMF started publishing detailed reports on the economies of its member countries, prepared on the basis of consultations pursuant to Article IV of the Articles of Agreement of the IMF. The Republic of Croatia has voluntarily joined this project as well. Hence, after the Executive Board of the IMF adopted the IMF Mission's annual report on the Republic of Croatia for 1999, it was published at the beginning of 2000.

Within the activities aimed at enhancing transparency, the IMF adopted the Code of Good Practices on Transparency in Monetary and Financial Policies in 1999. The Code is a collection of recommendations to central banks and financial institutions and it primarily relates to the public disclosure of data on these institutions' operations in implementing monetary and financial policy. Representatives of the Croatian National Bank have actively participated in the preparation of instructions for the implementation of the Code.

During 1999, Croatia maintained regular contacts with the IMF experts. Three IMF missions visited Croatia in 1999, headed by the newly appointed Mission Chief for Croatia. Along with regular annual consultations pursuant to Article IV of the IMF Articles of Agreement, the Mission's visits were related to negotiations for the potential new financial arrangement between the Republic of Croatia and the IMF, as well as consultations on macroeconomic policy.

The executive director of the IMF Constituency representing the interests of the Republic of Croatia in the decision-making bodies of the IMF also visited Croatia for several days in June 1999.

For the purpose of improving the central bank accounting system, commercial bank supervision system, balance of payments statistics and international reserves

management, the IMF provided additional technical assistance through repeated visits of foreign experts in these areas.

Regular Croatian participation in the work of the IMF management bodies (Constituency, Interim Committee and the Board of Governors) was continued in 1999. Representatives of the Croatian National Bank participated in the Annual Meeting of the Board of Governors of the International Monetary Fund in Washington, holding a number of successful meetings with representatives of international financial institutions, commercial banks and investment houses.

In addition, the Governor of the CNB attended the IMF conference: "A Decade of Transition: Achievements and Challenges", held in Washington in February 1999.

### **3.2 Relations between the Republic of Croatia and International Development Banks**

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#### **The World Bank Group (IBRD, IFC, IDA, MIGA), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB)**

a) Pursuant to the Law on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations on the Basis of Succession (Official Gazette, No. 89/92), the Law on Accepting Membership of the Republic of Croatia in the European Bank for Reconstruction and Development (Official Gazette, No. 25/93) and the Law on Accepting Membership of the Republic of Croatia in the Inter-American Development Bank (Official Gazette, No. 94/93), the Croatian National Bank is the depository, i.e. it keeps all deposit accounts owned by these international financial organizations, in the name and on behalf of these financial institutions, and performs financial transactions with these organizations as the payment agent of the state – the Republic of Croatia. During 1999, the Croatian National Bank regularly executed payments for shares for which the Republic of Croatia assumed obligation according to the repayment plan accepted by each international financial organization.

Table III.2 Payments Made in 1999 on the Basis of the Republic of Croatia's Membership in International Financial Organizations

Name	Amount paid and currency		Balance of Promissory Notes Issued by the Ministry of Finance	
1. EBRD	EUR	1,365,334.00	EUR	1,215,666.67
2. IDB	a) HRK	1,476,847.58	USD (Ordinary Capital)	651,426.00
	b) DEM	27,500.00	DEM (Fund for Special Operations-FSO)	2,388,576.00
3. IBRD			HRK	73,555,334.73
4. IDA			HRK	437,666.65
5. MIGA			USD	202,334.00

b) The use and repayment of the loan pursuant to the Agreement signed on June 4, 1997 between the Republic of Croatia and the International Bank for Reconstruction and Development on the Enterprise and Financial Sector Adjustment Loan (EFSAL) of USD 160 million (International agreements published in Official Gazette, No. 17, October 22, 1997) have been made through a special account at the Croatian National Bank.

c) Representatives of the Croatian National Bank actively participated in the work of the governing bodies of international financial institutions – the World Bank and its affiliates (IBRD, IFC, IDA, MIGA), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB), as well as the work of particular missions of these institutions. The new director of the EBRD Constituency to which Croatia belongs made his initial visit to Croatia in July 1999, during which he visited the Croatian National Bank.

Consistent with the general development of automation and information technology, BOLD (Board On-Line Documents) software for the use of the EBRD on-line database was installed in the CNB (International Financial Relations Area and Library and Documentation Center within the Research and Statistics Area) in June 1999. This software allows access to all documents in the EBRD database, search of the base and electronic communication among users, considerably reducing costs of publication and distribution of documents.

In regular transactions with international financial institutions, the Croatian National Bank cooperates with the Government of the Republic of Croatia, the Ministry of Finance and other government bodies.

### **3.3 Relations between the Croatian National Bank and the Bank for International Settlements (BIS)**

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The Croatian National Bank continued its cooperation with the Bank for International Settlements in 1999, after having gained full membership in mid-1997. However, the issue of succession of shares, deposits and gold of the former National Bank of Yugoslavia has not yet been solved due to lack of cooperation on the Yugoslav side.

The Governor of the Croatian National Bank attended regular monthly meetings, as well as the Annual General Meeting, making numerous important contacts with senior officials of the BIS and other central banks that are the members of the BIS.

Representatives of the CNB attended the Extraordinary General Meeting of the BIS in November 1999 at which the following amendments of the Bank's Statutes were approved: the statutory minimum number of meetings of the Board of Directors each year was reduced, the scope of the immunities from jurisdiction and execution enjoyed by the Bank was expanded, and the definitions of country and central bank were expanded. The definition of central bank was expanded in order to permit membership in the BIS of the European Central Bank.

The Croatian National Bank participated in activities of the Bank for International Settlements aimed at coordinating technical assistance provided by the G-10 central banks to the central banks in Central and Eastern Europe. Several bilateral contacts were opened, and various forms of technical assistance were agreed on in principle.

Furthermore, representatives of the Croatian National Bank participated in the work of regional groups of the Basel Committee on Banking Supervision and the Committee on Payment and Settlement Systems.

### **3.4 Cooperation between the Republic of Croatia and Other International Institutions**

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In 1999, the Croatian National Bank continued its participation in the work of the Government's Interdepartmental Working Group for Accession of the Republic of Croatia to the World Trade Organization, especially regarding issues of the banking system, foreign exchange system and macroeconomic policy. However, it should be noted that major adjustments of Croatian legislation and other regulations in this area to the principles of the World Trade Organization (the principle of non-discrimination, the principle of the most-favored nation – the MFN clause) have already been made. The end of the negotiation process is expected during 2000.

The Croatian National Bank cooperated with other international financial institutions as well. Representatives of the Japan Center for International Finance (JCIF) and the Institute for International Finance (IIF) visited Croatia again this year. The aim of these visits was to acquire information on the state of the Croatian economy and prepare the corresponding report.

## **3.5 International Payment Operations and Relations with Foreign Banks**

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### **3.5.1 International Payment Operations**

The scope and dynamics of international payment operations continuously increased during 1999. Orders for payments abroad were executed daily, both for the purposes of the CNB and the Ministry of Finance (nostro and loro remittances). The inflows to the Croatian National Bank from abroad (loro remittances) resulted from the sale of coins and commemorative coin editions.

Due to the introduction of the euro as the common currency of the European Union member countries, the Republic of Croatia has consolidated the existing current accounts of the Croatian National Bank kept abroad. Pursuant to the decision by the Committee on International Reserves, parallel accounts in national currencies of the EMU members in banks with which a euro account was opened (accounts in Deutschemarks and Belgian francs) have been closed. The Croatian National Bank has 19 current accounts kept abroad: eight accounts in euro, five accounts in American dollars, and one account in each of the following currencies: Austrian schillings, French francs, Italian liras, Japanese yens, Swiss francs and British pounds. The accounts in Swedish kronor, Danish kroner, Norwegian kroner and Canadian dollars have also been closed.

During 1999, expert bodies of the Croatian National Bank analyzed offers submitted by central banks and commercial banks on the basis of which custody accounts were opened with central banks, commercial banks and the international depository institution Clearstream Banking, Luxembourg. This ensured more efficient and safer investment of international reserves into foreign securities. The Croatian National Bank has six custody accounts in four countries.

Preparations for the entry into the new millenium posed a great challenge due to problems and difficulties that could have appeared in the use of computers and communication equipment, programs, data and documents. At the beginning of 1998, SWIFT made a preparation program for the year 2000, giving users a specified time limit to test the whole package. The Croatian National Bank successfully tested this program.

A document entitled "Internal Procedures – the CNB Contingency Plan for Y2K" was drafted as part of the CNB preparations for the "Year 2000 Problem " (Y2K problem). It detailed the procedures for sending and receiving international financial messages via post, telex or fax in case there was no connection with SWIFT during the critical transitional period.

For safety reasons, all telegraphic keys with domestic and foreign banks were tested (40 telegraphic keys with banks in 12 countries), and many of them were replaced. The lists of authorized signatories of these banks were also updated.

In conducting external transactions, the Croatian National Bank uses the SWIFT network and IBM operational system MERVA/2 OS2. Since IBM and SWIFT have concluded an agreement to switch from the MERVA/2 OS2 product and start using the SWIFT Alliance product, the International Financial Relations Area started preparations to replace the currently applied software with the new one. The time limit for the replacement being January 2001, an agreement on internal procedures for the procurement of necessary hardware and software was reached in co-operation with other areas of the CNB, and experts made proposals for the implementation of the new operational system.

### 3.5.2 Relations with Foreign Banks

Because of disturbances in the world financial markets, especially in Russia and transitional countries, and continuing political pressures on the economies of certain countries and regions, the International Banking Department increased its activities in monitoring economic and financial developments in certain countries and regions. Special attention was given to analyzing banking systems and the degree of correlation between countries/regions and the Republic of Croatia, especially Croatian banks and institutions, with the purpose of integrating Croatian banks into the world financial flows. Within these activities, the credit standing of countries, banks and other institutions was regularly monitored for the purposes of the Croatian National Bank and the Croatian government and for the special purposes of domestic banks. This comprehensive and challenging task of monitoring the risk and credit standing of countries and banks (risk management) can be divided into three degrees of priority.

The highest priority group consists of countries and banks (commercial and investment) in which the Croatian National Bank keeps international reserves (12 countries and 50 banks). Representatives of the International Financial Relations Area in the Committee on International Reserves actively participate in the work of this Committee and propose a list of countries, banks and investment banks in which the Croatian National Bank can keep international reserves.

The second priority group comprises countries and banks in which domestic banks keep a part of their reserve requirements pursuant to the Decision on the Obligatory Reserves of Banks and Savings Banks. Countries and institutions with which the Republic of Croatia maintains good neighborly and business relationships (e.g. Bosnia and Herzegovina, Slovenia, Macedonia, transitional countries, CEFTA countries, etc), as well as countries with which the Republic of Croatia wishes to regulate economic and political relations (e.g. SR Yugoslavia, especially Montenegro) are also in this group.

The third priority group for monitoring credit standing comprises countries and banks monitored by the Croatian National Bank for its own purposes or on demand by the Croatian government and its ministries, the Croatian Parliament and its committees (Committee on Finance and Government Budget and Committee on the Economy), as well as for the purposes of cooperation with the HBOR. Multiple sources of data are used in regular monitoring of countries and banks' credit standing: daily and monthly reports by internationally recognized credit rating agencies (Fitch IBCA, Moody's, Standard & Poor's, Dun & Bradstreet), foreign banks' financial reports, daily press, the Internet, the International Financial Relations Area's internal records, the CNB's archive, ministries and agencies.

The banking crisis in the Republic of Croatia, ranging from the appointment of temporary administrators to the initiation of bankruptcy proceedings, has initiated a series of requests from foreign central and commercial banks. Correspondence with these banks has, therefore, been more intensive and regular.

The Department has continuously followed the work of the International Chamber of Commerce in Paris as well as changes in international standards (ISO standards) and prepared the Instruction on the Use of Abbreviations and Numerical Symbols of Countries and Currency Units in External Payment Operations. All changes and amendments in 1999 were published in Official Gazette (ISO 4217 – List of Currency Units and Other Means of Payment, and their Symbols; and ISO 3166 – List of Countries and their Symbols).

Activities concerning the timely and regular provision of information to foreign countries have been intensified in order to protect the image of Croatia, faced with an increased number of false representation and numerous attempts at fraud, as well as unauthorized taking out of currency outside the Republic of Croatia. Close co-operation in this area has been established with the Ministry of Finance's Office for Preventing Money Laundering, as well as with foreign correspondent banks.

Because of continuous changes in the banking system of the Federation of Bosnia and Herzegovina, and in relation to numerous questions and a growing interest among Croatian commercial banks' clients, regular contacts have been maintained with the Banking Agency of the Federation of Bosnia and Herzegovina and the Central Bank of Bosnia and Herzegovina. Data thus obtained (lists of authorized banks, banks' credit ratings and reports, changes concerning bank mergers, etc) were distributed to Croatian banks authorized for external operations.

In 1999, more than 140 meetings were held with representatives of foreign banks (central and commercial), investment funds, foreign embassies, other financial institutions, and domestic banks and institutions. The privatization process of domestic banks and public enterprises has generated strong interest among foreign investors and other intermediaries for the current macroeconomic, economic and political situation, as well as for forecasts on Croatia's economic developments in 2000. Data on foreign banks and financial institutions' performance have been collected for the purposes of these meetings. The data includes general data on a foreign bank or financial institution (ownership, legal status), data on correspondent and current account relations with the CNB, credit relations of a foreign bank or financial institution with Croatian commercial banks and institutions, and the analysis of a bank's or financial institution's financial reports.

Specific activities of the International Financial Relations Area included participation in the work of several intergovernmental commissions and committees of the Ministry of the Economy, Ministry of Finance, the Office for European Integration, Croatian Chamber of Commerce and other government bodies established for the purpose of promoting co-operation with the European Union countries and transitional countries (Romania, Slovakia, the Czech Republic, Bulgaria, Russia). Representatives of the International Financial Relations Area participated, as regular members, in the work of the Croatian Committee on Accounting Standards, International Chamber of Commerce

in Paris, Interministerial Council for Exports Insurance of the Croatian Bank for Reconstruction and Development (charged with promoting and providing insurance for Croatian exports), and Management Board of the Institute for Payment Transactions.

The International Financial Relations Area has been especially active in the work of various committees and teams of experts dealing with the succession of rights and obligations of the former SFRY, as well as remaining issues of foreign debt reprogramming (Paris and London clubs). Croatia has signed bilateral agreements with 14 members of the Paris Club, while data are still being confirmed with Italy. Despite the fact that the Republic of Croatia is a legal successor in the succession process, the Croatian National Bank participates, as an expert body, in the preparation of material, data and proposals concerning remaining issues of foreign debt reprogramming, claims against the Russian Federation arising from unsettled balance in the clearing account with the former National Bank of Yugoslavia, gold and foreign exchange deposited with the BIS, international reserves of the former National Bank of Yugoslavia held abroad, and all unsolved cases of succession concerning domestic banks' claims against or debts to the former SFRY.

In May 1999, pursuant to the Law on the Method of Liquidation of the Main Branch of Jugobanka, d.d., Beograd, the Government of the Republic of Croatia established a Working Group for the Dissolution of Debtor-Creditor Relations of Liquidated Branches of Jugobanka, d.d., Beograd. The Working Group was formed primarily to determine relations between branch offices and the head office of Jugobanka, d.d., Beograd, the National Bank of Yugoslavia, JUBMES, and legal entities headquartered outside Croatia, but within the former SFRY. Since the Croatian National Bank was one of the main participants, representatives of the Department were directly involved in the work of the Working Group. In cooperation with the Area of Control and Supervision, Legal Department and Statistics Department, various researches were conducted and solutions proposed for disputed issues concerning Jugobanka, d.d., Beograd.

Publications of the Croatian National Bank (Bulletins, Annual Report, etc) were regularly sent to more than 200 destinations in 50 countries worldwide.