

## **6.1 The Council of the Croatian National Bank**

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According to article 65 of the Law on the Croatian National Bank (Official Gazette, No. 35/95 - amended version), the Council of the Croatian National Bank and the Governor of the Croatian National Bank comprise the governing bodies of the Croatian National Bank.

The Council of the Croatian National Bank consists of the Governor, Marko Škreb, Ph.D., Deputy Governor, Zdravko Rogić, M.Sc., and Vice-Governor, Relja Martić, who are members of the Council by virtue of their office, as well as no more than eight independent experts. The number of independent experts sitting on the Council must exceed the number of the Council members appointed by virtue of their office. The appointment of independent experts to the period of six years, as well as their dismissal, comes within the competence of the Parliament. Pero Jurković, Ph.D., Mate Babić, Ph.D., Vlado Leko, Ph.D., Gorazd Nikić, Ph.D. and Ivan Milas are the independent experts sitting on the Council. The Council of the Croatian National Bank and each of its members report to the Croatian Parliament for performing the functions and tasks of the Croatian National Bank.

The field of activity of the Council is determined by article 67 of the Law on the Croatian National Bank. The Council of the Croatian National Bank makes decisions at its meetings, while the Governor of the Croatian National Bank is responsible for their implementation.

The decisions of the Council are made by a two-thirds majority vote of its members. In the event that the required agreement is not reached, the Governor, having assessed that it is otherwise not possible to perform the tasks of the Croatian National Bank, makes a temporary decision and notifies the Parliament of the Republic of Croatia, which makes the final decision.

The chairman of the Council of the Croatian National Bank is the Governor of the Croatian National Bank.

According to the Law on the Croatian National Bank, the central bank is responsible for the stability of the national currency. The CNB independently establishes the targets of monetary and foreign exchange policy, as well as the measures, within the framework of its rights and obligations, to meet these targets.

Once a month, the members of the Council discuss economic and monetary developments at their meetings. Furthermore, they discuss the quarterly forecasts of developments in monetary policy, information on the condition of the banking system and the report on the management of the international reserve.

Following amendments to the Domestic Payment System Law, the Croatian National Bank is authorized to operate banks and savings banks' accounts and manage the Croatian Large Value Payment System (CLVPS). The authorization is based on the Decision on the Transfer of Banks and Savings Banks' Accounts from the Institute for Payment Transactions to the Croatian National Bank and Putting Into Operation the Croatian Large Value Payment System.

In managing the Croatian National Bank, the Council of the Croatian National Bank establishes the monetary and foreign exchange policy and sets measures for their implementation, and establishes the basis for and the amount of reserve requirements of banks, as well as the method, conditions and time-limits for their calculation and allocation. In addition, the Council decides on issuing CNB bills, establishes the amount, time-limits for use and repayment as well as other conditions for granting short-term loans to banks, establishes the interest rates of the Croatian National Bank, decides on restrictions on the volume and growth dynamics of loans to banks and on the issue or withdrawal of banks' operating licenses. The Council also makes decisions on all other matters lying within its competence.

During 1999, 27 meetings of the Council were held. Many important decisions were made relating to the implementation of monetary and foreign exchange policy. Pursuant to the authorization granted to the Croatian National Bank by the Banking Law, the Council made decisions on regulations regarding its implementation. Some of the decisions are published in the Official Gazette, while some are of an internal nature. The Council took numerous decisions related to the prudential control of banks, such as the Decision on the Chart of Accounts of Banks, the Decision on the Classification of Placements and Risky Off-Balance Sheet Items and the Assessment of Bank's Exposure, the Decision on the Method for Calculating Bank's Capital, the Decision on the Method for Calculating Capital Adequacy and Risk-Weighted Assets of Banks, and the Decision on the Amount and Method for Forming Specific Provisions to Ensure Against Potential Losses of Banks.

Many decisions relating to the implementation of monetary and foreign exchange policy were also made, e.g. the Decision on Overnight Interbank Trading, the Decision on the Terms and Conditions for Granting Short-Term Intervention Loans, the Decision on the Interest Rates of the Croatian National Bank, with subsequent amendments, the Decision on the Obligatory Reserve of Banks and Savings Banks, with amendments, and many others.

During 1999, the Council of the Croatian National Bank made decisions on initiating bankruptcy proceedings in seven banks and three savings banks. The Council appointed temporary administrators in eight banks and put forward a proposal for the rehabilitation of CROATIA BANKA d.d., Zagreb to the Government of the Republic of Croatia. At its meetings, the Council of the Croatian National Bank gave a number of approvals concerning the appointment of chairmen or members of banks or savings banks' management boards and the acquisition of more than 10 percent of voting shares at banks' general meetings. The Council also gave judgement on granting licenses to savings and loan co-operatives and granted licenses to fourteen banks for performing transactions under articles 35, 36, and 37 of the Banking Law. The Zagreb representative office of KREDIT SCHWEITZER BANK d.o.o. Sarajevo was removed from the Register of Representative Offices of Foreign Banks in the Republic of Croatia.

The Council of the Croatian National Bank marked the fifth anniversary of the introduction of the kuna as the Croatian currency, stressed the importance of finalizing

the procedures for establishing the Croatian Register of Credit Commitments and agreed on the establishment of the Croatian Banking Association as a legal entity.

At its 11<sup>th</sup> meeting, the Council endorsed the following official documents of the Institute for Payment Transactions: the Annual Report for 1998, the Financial Statement for 1998, the Work Program for 1999 and the Income and Expenditures Estimate for 1999.

At its meeting held on May 19, 1999, the Council endorsed the Annual Report of the Croatian National Bank for 1998, the Decision on the Annual Financial Statement for 1998, as well as the Decision on the Financial Plan of the Croatian National Bank for 1999.

In addition, the Council made decisions in the area of numismatics, including the Decision on Issuing a Numismatic Set of the Kuna and Lipa Coins of the Republic of Croatia. The coins bear the inscription "1999", the year in which they were minted.

## **6.2 Internal Audit**

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Since its foundation in 1995, the Internal Audit has functioned as an independent organizational unit, reporting directly to the Governor of the Croatian National Bank. The basic task of the Internal Audit has been to audit the Bank's areas and departments, especially those generating potential risk.

In 1999, the Internal Audit mostly dealt with examining and evaluating the Bank's business performance, focusing on its compliance with legal provisions and internal regulations and procedures. Improvements have been made in these areas. The Internal Audit has acted as a mediator in resuming work on establishing internal procedures for the functioning of the Bank's organizational units, which has improved the quality of the control function within the Bank.

During the year, the Internal Audit conducted 52 audits, in accordance with the Governor's decisions and its own work plan. The audits have shown that no irregularities were found in the functioning of the Bank's areas and departments and that laws and other regulations, as well as internal rulebooks and internal procedures, have been complied with.

As in previous years, the Internal Audit has focused most of its activities on the highest-risk areas, following the principle that the dynamic of audits has to conform to the extent of risk exposure. With this in mind, special emphasis was placed on the management of the international reserve through regular monthly audits and occasional targeted audits. The Internal Audit also focused on the functioning of the Treasury Department, the timely and well-documented recording of business transactions, banking supervision and the internal expenses of the Croatian National Bank.

Taking into account the importance of having expert, highly educated internal auditors of the Bank, further training of the members of the Internal Audit was continued during 1999 through contacts with foreign experts and specialized courses in Croatia and abroad.

### **6.3 Organization and Computerization**

An important change in the organizational structure of the Bank in 1999 was the establishment of the Public Relations and Publishing Department within the Research and Statistics Area. In addition, a proposal was made for the organization of the Office of the Governor and the reorganization was initiated of the Accounting Department and the Accounting, Treasury, and Payment Operations Area. The establishment of three divisions within the On-Site Supervision Department was analyzed as a way of improving the efficiency of the Department's operations. It was proposed to dissolve the Administrative Division within the Personnel Department.

Within the scope of its activities, the Organization Planning Department contributes to introducing legislation within the Bank. During 1999, the Department drafted final versions of the proposal for the System of Business Operation, the Rulebook on the Planning of the Operations of the Croatian National Bank and the Ethics Code of Conduct of the Employees of the Croatian National Bank. The Department contributed to drawing up the Decision on the Requirements for Skilled Personnel in the Croatian National Bank, the Instructions for Relations with the Media and the Decision on the Form for the CNB Examiners' Identity Card.

The Department has formulated a proposal for the Project of the Visual Identity of the Croatian National Bank and took part in outlining the Plan for Introducing Savings and Improvement Measures.

In relation to improving the operating system and maintaining the quality system, the Department delegated a representative to the Second Croatian Annual Quality Conference, held in Cavtat, which dealt with recent developments in international standards and the possibilities of their application in Croatia.

During 2000, the Information Technology Department has been engaged in:

- solving "the problem of 2000"
- continuing to build up the CNB information system
- current, operational tasks

Most of the activities related to the preparation and testing of the CNB information system's compatibility with "the problem of 2000" (application and system support - software and hardware) were completed by the end of June 1999. Moreover, the Croatian National Bank took an active part in supervising the methods for solving the problem used by other participants in the banking system. These activities were successfully brought to an end and the year 2000 was welcomed in without a slightest incident.

Numerous activities continued in 1999 related to the computerization of the CNB operating system that was commenced in 1998. The Accounting and Finance informational subsystem was introduced, within the envisaged scope, in keeping with the reorganization of accounts and the new Chart of Accounts. The application for monitoring CNB bills was adapted to this system late in 1999. Hardware and software was installed for the Croatian Large Value Payment System, as a finished product. As an addition to the System, the applications for overnight trading and monitoring the turnover and the balance in reserve requirements and obligatory deposits accounts were developed. The application for monitoring loans granted and taken abroad was completed. Due to the importance of data on external debt, complex reports based on various criteria are in the process of construction. A new application for calculating and distributing exchange rate lists replaced the existing one.

Computerization of the acceptance and processing of Statistical Reports of Banks (Official Gazette, No. 57/99) started in 1999 as a new activity. This allows the data to be used for the supervision and control of banks and for monetary statistics.

This computerization strengthens the role of immediate users in receiving, processing and using data. Consequently, the Information Technology Department has made a gradual shift away from these tasks and towards developing the system and its applications, improving and maintaining existing resources and providing direct support to users.

The application supporting the control of foreign exchange transactions related to the exports and imports of goods and services was reorganized, as well as the application supporting external payments. At the same time, the groundwork was laid for a new project, as required by the introduction of the common customs declaration and the amendments to the Instruction for the Implementation of the Decision on the Method for Executing External Payments and Supplying Data on External Payments. The local computer network was extended in accordance with operational changes and requirements, enabling employees at all four locations in Zagreb to use common resources. New equipment was purchased, mainly including PCs and printers, together with two servers, one for the Internet and the other for the Croatian Large Value Payment System.

## **6.4 Payment Operations**

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In 1999, the Payment Operations Department continued its work on the transformation of the domestic payment system.

- a) The Department completed the first phase of the reform with the introduction of the Croatian Large Value Payment System, and the accounts of banks and savings banks were transferred from the Institute for Payment Transactions to the Croatian National Bank.
- b) The Department made preparations for banks to execute payments through the accounts of legal entities.

Re. a)

- The Croatian Large Value Payment System (CLVPS) began functioning on April 6, 1999. The CLVPS is a system that allows interbank payment transactions through accounts of banks and savings banks at the Croatian National Bank in real time and on the gross settlement principle. This means that every payment transaction is executed individually when it is presented. The prerequisite for the execution of the payment is sufficient cover on the paying bank's account, which completely avoids the risk of non-payment. The introduction of the CLVPS brings the payment system in Croatia close to the payment systems of the members of European economic and monetary union for it follows the basic principles of TARGET, the system for settlements through the accounts of banks in the EMU member countries.

On 3 April 1999, the settlement accounts, required reserve accounts and obligatory deposit accounts of foreign exchange deposits of banks and savings banks that are technically and technologically equipped for executing payments through the CLVPS were transferred from the Institute for Payment Transactions to the Croatian National Bank.

Re. b)

- The Unified Register of the Accounts of Business Entities was established, aimed at facilitating the transfer of business entities' accounts from the Institute for Payment Transactions to banks. The Register keeps records of the accounts of all business entities in Croatia. By means of the identification number of a business entity, it is possible to locate every account opened by the entity with institutions authorized to perform payment operations. In this way, the collection of public revenues is secured, as well as collection from all funds the debtor keeps at the accounts of the authorized institutions through which it performs business transactions.

- Regulations prescribing the procedures for opening and keeping an account with a bank were enacted.

In 1999, efforts were made to improve the existing domestic payment system. Changes and additions were made to the regulations and the technology used to perform payments. In this period, the execution of payments at authorized institutions was monitored through direct inspections and regular contacts with these institutions. Thirteen inspections were conducted at the branches of the Institute for Payment Transactions, three at the Croatian Post and Telecommunications and one at a bank.

## **6.5 Legal Affairs**

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In 1999, the Legal Department provided expert legal advice and council to organizational units of the Croatian National Bank, above all regarding the feasibility of taking measures against banks, in conformity with the Banking Law.

The Department also provided legal assistance related to granting liquidity and intervention loans and prescribing collaterals for ensuring their repayment. The Department has kept records of all concluded contracts.

The Legal Department focused its activity, as in the previous years, on monitoring, examining and proposing laws and regulations governing the activities of the Croatian National Bank and banks in general, together with controlling the consistent implementation of legal and other regulations. In relation to this, it should be mentioned that, on the basis of the Examination Report, the Legal Department made several requests for initiating legal procedures, citations for violations of foreign exchange regulations and business violations, and proposals for initiating bankruptcy proceedings.

With the authorization of the Governor, the Legal Department handled legal cases and represented the Croatian National Bank in courts and other government institutions.

The legal experts of the Croatian National Bank participated in drafting decisions for the meetings of the Council and are responsible for their legality.

## **6.6 Personnel Management**

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In 1999, the personnel structure in the Croatian National Bank continued to change. There was an increase in the number of employees, and extensive education and training was provided, especially to managers, which contributed to raising the qualification level of the employees.

The number of employees increased by 5.66 percent, from 549 (late 1998) to 580 (late 1999). The growth in the number of employees in 1999 was considerably larger than the growth in 1988. This was the result of more new employees, particularly trainees, mostly in the areas of banking supervision, foreign exchange asset management and public relations and publishing. There was only one case of a unilateral termination of employment, compared to seven in 1998. The number of departures from the CNB was half that of 1998, 17 as opposed to 36; most departures were due to retirement (9), expiration of temporary employment and unpaid leave. The fact that there were 50 new employees in 1999 (including two returning from completing their military service) confirms the intensity of change.

The rise in the qualification level was brought about by the change in personnel structure. The number of employees holding a university degree increased from 256 to 290 (an increase of 34 or 13.28 percent), while the number of employees holding a master's degree increased from 24 to 30.

The average age of employees is close to 41. The average total work experience is about 17 years. The average work experience within the Bank is 12 years. There are 132 employees below the age of 30 and 133 above the age of 50. Given the age and work experience of the employees, an extensive natural outflow is not to be expected in the next few years.

The CNB employees' pattern of skills is presented in the following table:

	PhD	MS	BA	2 yr.	Sec.	Qualified	Unqualified	Total	Women
Number	4	30	290	45	163	11	37	580	397
Share	0.7	5	50	7.8	28.1	1.9	6.4	100	68.4

55.7 percent of employees at the CNB hold a university degree, including master's and doctor's degrees. This figure rises to 63.5 percent when employees holding a two-year degree are included, which is fitting for the nature of work and what is expected of an institution such as the Croatian National Bank.

### 6.6.1 Education and Training of Employees

The successful performance of the Bank's functions largely relies on the skill of its personnel in fulfilling their tasks. By providing its employees with various forms of advanced training, the Croatian National Bank has created the personnel prerequisites for the further development and improvement of the Bank's operations within the majority of its areas and departments.

The personnel basis has been created through hiring trainees and providing them with expert training, as well as by intensive advanced training of many of the Bank's employees.

Although the Bank had formed a team of highly skilled professionals in the area of banking supervision, the need was felt to increase their number due to the rising number of banks and savings banks. Therefore, a number of new employees were hired, including some experts but also a group of trainees for whom a new advanced training program was designed, starting in December 1999. In addition, 36 percent of those who received further training at seminars in Croatia were trained in the field of banking supervision, which is an indication of the efforts put into improving the skills of the employees in this area. Because of the nature of the fieldwork of its staff, the Area of Control and Supervision organizes seminars and workshops for its staff so that they can exchange practical experiences and discuss topics related to their profession in a pleasant working atmosphere.

The following table shows the types and number of educational and training programs in 1999 and the number of participants.

TITLE-CONTENT OF PROGRAM	NUMBER	PARTICIPANTS
Seminars in Croatia	117	286
Seminars abroad	75	90
Courses in foreign languages	19	153
Trends in modern management	1	32
CNB strategy	1	30
Computer training	4	11
Post-graduate studies in Croatia (new)	6	14
Post-graduate studies abroad	1	1
Total	224	617

Foreign language classes for trainees continued, with two specialized English courses focusing on work at the central bank, and three general English classes. For other employees, one-to-one classes at foreign language schools were organized as well as two group classes in German.

Fourteen trainees completed the Central Banking training program, while twelve trainees completed the Introduction and Orientation Program, aimed at familiarizing them with the organization and functioning of the CNB.

In 1999, six CNB employees received their master's degrees, one of them in Great Britain. One scholarship for postgraduate studies in Great Britain was granted. The Bank will bear the costs of doctoral studies for two employees.

In 1999, the number of participants in seminars and workshops in Croatia increased considerably compared to 1998, while the number of participants in courses abroad slightly decreased. Management training has been intensified.

In 1999, as in previous years, the CNB used services and educational programs organized by the Bank for International Settlements, the International Monetary Fund in Washington and at the Joint Vienna Institute, and the central banks of Great Britain (CCBS), Germany (DBb), France (IBFI), Netherlands, Austria (OeNB), Switzerland (Studiumzentrum Gerzensee) and others.

### 6.6.2 Salaries

Employee salaries rose in keeping with the wage policy in Croatia. There were also individual promotions and salary increases aimed at improving employee motivation and efficiency.

### 6.6.3 Social and Other Features

Housing loans, intended primarily for young employees, are increasingly being used. The extension of these loans was aimed at helping employees resolve this important issue and ensuring that highly skilled personnel remain at the Bank.

7.37 percent of the total expected annual fund of hours were lost on sick leave, 3 percent at the expense of the Bank and 4.37 at the expense of the Croatian Health

Insurance Institute. The rate of sick leave is not high compared to other occupations and is slightly lower than the previous year. 31 employees received lump sum assistance for sick leaves exceeding 90 days, 24 percent more than last year. 3 employees received lump sum assistance for specific purposes. There were 9 injuries at work, one more than in the previous year. At their request, full-time employment was granted to 5 employees, terminating the half-time status they had been previously awarded by the Croatian Institute for Pension Insurance.

Blood donations were organized on three occasions. 105 employees participated and another 18 donated blood at the Blood Bank.

140 employees participated in sports programs organized by the Bank, and 211 took advantage of special offers on tickets for cultural events.

#### 6.6.4 Survey of CNB Employee Work Satisfaction

In spring 1999, an anonymous survey was carried out for the first time at the Croatian National Bank regarding the CNB employees' satisfaction with their work.

The survey covered 70 percent of the employees, who evaluated various internal and external factors affecting their work satisfaction. The results of the survey confirmed some positive achievements and set the course for adjustments that should be made in order to improve working conditions and the implementation of the Croatian National Bank's business policy.