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International Relations

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

Cooperation with the International Monetary Fund concerning information exchange and IMF support for the Republic of Croatia's economic and financial policy intensified during 2000. Within the framework of this cooperation, numerous contacts were made with the experts from the International Monetary Fund, both through this institution's representation office, which opened in Croatia in 1995, and through repeated visits by the IMF to Croatia.

In addition to the regular annual consultation related to Article IV of the Articles of Agreement of the IMF held in November 2000, especially intensive were contacts with the IMF related to preparations for the new Stand-By Arrangement.¹

The executive director of the IMF Constituency representing the interests of the Republic of Croatia in the decision-making bodies of the IMF also paid a visit to Croatia in June 2000. Representatives of the Republic of Croatia participated in the work of IMF management bodies. In particular, this relates to the participation of Croatian National Bank representatives in the work of the Annual Meeting of the Board of Governors of the International Monetary Fund held in Prague where Croatian representatives held a number of successful meetings with representatives of international financial institutions, commercial banks and investment houses.

In 2000, two major IMF Missions visited the Croatian National Bank in connection with technical assistance in the relationship between the CNB and the Ministry of Finance, the Law on the Croatian National Bank, the Banking Law, instruments of monetary policy, international reserves management, debt management, money market and balance of payments statistics.

3.1.1 Participation of the Republic of Croatia in IMF Activities

In an effort to coordinate its role in the supervision of member countries where there is the need for the timely release of information on these countries, the IMF has reached many decisions and launched a number of projects with the aim of enhancing its own

¹ The new Stand-by Arrangement was approved for the Republic of Croatia on March 19, 2001. In view of Croatia's relatively high level of international reserves, favorable balance of payments outlook and good standing on international capital markets, this arrangement was concluded as a "cautionary measure".

transparency and the transparency of member countries. In line with these efforts, Croatia first joined the project of Special Data Dissemination Standard (SDDS), and then, on a voluntary basis, a project for publishing annual reports on the economies of member countries, published by the IMF on the basis of consultations pursuant to Article IV of the Articles of Agreement of the IMF. The first report of this type on Croatia was published on the IMF web site and the CNB web site at the beginning of 2000.

In joint efforts to strengthen the structure of the international financial system, the IMF and the World Bank launched a project in 1999 entitled the Financial Sector Assessment Program (FSAP). The purpose of this program is to assess the financial sectors of member countries, enable the early detection of weaknesses in their financial systems, ensure coordinated and efficacious dialogue with the national governments and identify development and technical assistance needs of member countries. For the time being, FSAP is only a pilot project joined on a voluntary basis. The Republic of Croatia applied to join the project in November 2000 and the first activities related to the project are expected to take place during 2001.

In anticipation of the new arrangement with the IMF, the financial relief review conducted by the IMF in 2000 with the aim of its adjustment to the global economic environment was especially interesting for the CNB. Within the framework of these activities, the CNB underwent reliability assessment by the IMF in line with the policy introduced by the IMF in 2000 of assessing central bank reliability of countries applying for an IMF arrangement.

3.1.2 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 (henceforth STF, approved in 1994, SDR 130.80m), and the Extended Fund Facility (henceforth EFF, approved in 1997, SDR 353.16m). During 2000, SDR 6.95m in interest was paid on these two arrangements; SDR 21.80m in principal was paid on the STF arrangement. As a member of the Special Drawing Rights Department (of the IMF),

Balance on December 31, 2000

GENERAL RESOURCES ACCOUNT	SDR (million)	% Quota
Quota	365.10	100.00
IMF Holdings	486.37	133.22
SDR DEPARTMENT	SDR (million)	% neto cumulative al.
Net cumulative allocation	44.21	100.00
Holdings of Croatia	113.01	255.64
LIABILITIES PAID IN 2000	SDR (million)	–
Repayment of principal – STF arrangement	21.80	–
Interest payment on all arrangements	6.95	–
SDR Department membership fee	0.01	–
Net cumulative allocation costs	1.89	–

Croatia has regularly repaid its obligations based on the inherited obligations related to the allocation of the special drawing rights. During 2000, SDR 1.89m was paid on this basis.

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

3.2 Activities of the CNB concerning the Relations between the Republic of Croatia and International Development Banks

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 *Narodne novine*, No. 89/1992), the Law on Accepting Membership of the Republic of Croatia in the European Bank for Reconstruction and Development (official gazette *Narodne novine*, No. 25/1993) and the Law on Accepting Membership of the Republic of Croatia in the Inter-American Development Bank (official gazette *Narodne novine*, No. 94/1993), 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 2000, 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.

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 DEM 160m (official gazette *Narodne novine*, No. 17/1997, "International Agreements") have been made through a special account at the Croatian National Bank.

Payments Executed in 2000 on the Basis of Membership of the Republic of Croatia in International Financial Organizations

Name	Amount paid and currency		Balance of promissory notes issued by the Ministry of Finance	
EBRD	EUR	1,133,666.67	EUR	1,107,000.00
IDB	1) HRK	1,769,091.98	USD	429,459.00 (Ordinary Capital)
	2) EUR	205,886.50	DEM ^a	1,985,898.00 (Fund for special operations – FSO Notes)
IBRD			HRK	82,180,412.73
IDA			HRK	437,666.65
MIGA			USD	202,334.00

^a Notes are cashed in euro.

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

The Croatian National Bank continued its cooperation with the Bank for International Settlements in 2000, after having gained full membership in mid-1997. Multilateral negotiations between the representatives of successor states' central banks aimed at resolving the issue of succession to financial assets of the former SFRY with the Bank for International Settlements continued during the year. It is expected that a solution to the issue of succession to shares, deposits and gold of the former National Bank of Yugoslavia will be found in June 2001.

The Governor and the Deputy Governor of the Croatian National Bank attended regular meetings of central banks governors, 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.

The Croatian National Bank participated in the 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 made, and various forms of technical assistance were agreed on in principle.

3.4 Cooperation between the Croatian National Bank and Other International Institutions

The Croatian National Bank cooperated with numerous other international financial institutions during 2000. For instance, the Japanese Center for International Finance, (JCIF) held in Zagreb in June 2000, in cooperation with the CNB, the second seminar on the Japanese financial and banking system, development funding system and bank supervision (the first seminar of this type was held in 1998). The aim of this seminar was to transfer knowledge and share experience on issues which might benefit transition economies such as Croatia. The seminar was entirely sponsored by the Japanese Ministry of Finance.

After many years of preparations and negotiations in which CNB representatives also took part, the Republic of Croatia gained membership in the World Trade Organization in 2000.

3.5 Activities of the CNB concerning the Relations between the Republic of Croatia and the European Union

The relations between the Republic of Croatia and the European Union intensified at the beginning of 2000, following the political changes which took place in the Republic of Croatia at the beginning of the year. The EU-Croatia Joint Consultative Task Force met several times during the year to produce a feasibility study. Representatives of the Croatian National Bank took part in areas of the study covering banking, the foreign exchange system and macroeconomic policy.

After the negotiations on the Stabilization and Association Agreement formally opened in November of 2000, representatives of the Croatian National Bank, within their jurisdictions, took part in the work of technical task forces with the aim of providing technical support to the Negotiating Team of the Republic of Croatia.

3.6 International Payment Operations and Relations with Foreign Banks

3.6.1 International Payment Operations

The scope and dynamics of international payment operations intensified significantly during 2000. 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.

The introduction of the euro as the common currency of the European Union in 1999, led to an increase in international payments in euro. During 2000, the Republic of Croatia consolidated the existing current accounts of the Croatian National Bank kept abroad. Pursuant to the decision by the Committee on International Reserves, accounts in the national currencies of EMU members in three banks were closed (one account in U.S. dollars, one account in French francs and one account in Italian lira) and an account in one bank in the United States of America was also closed (an account in U.S. dollars). The Croatian National Bank has 15 current accounts kept abroad: seven accounts in euro, four accounts in U.S. dollars and one account in each of the following currencies: Austrian schillings, Japanese yens, Swiss francs and British pounds.

In addition to current accounts, the Croatian National Bank has six custody accounts for keeping securities in four states (with central banks, commercial banks and with Clearstream Banking, Luxembourg, the international depository institution), which ensures the more efficient and safer investment of international reserves of the Republic of Croatia in foreign securities.

In view of the planned introduction of the State Treasury in 2001, operative and technical preparations were made to enable the execution of payments abroad on behalf of the Ministry of Finance of the Republic of Croatia and other government bodies on the basis of all the instruments of the international payment system.

3.6.2 Relations with Foreign Banks and Credit and Financial Relations

The Croatian National Bank continued to monitor economic and financial developments in certain countries and regions of special interest for both the Croatian National Bank and the Croatian banking system and the economy as a whole. Countries and financial institutions whose risk and credit rating are monitored can be divided into three different groups. The first group consists of banks (commercial and investment banks) which are business partners and potential business partners of the Croatian National Bank. Economic developments in their home countries are also monitored and lists of financial institutions and countries fulfilling the criteria for cooperation of the Croatian National Bank are also made.

The second group consists of banks fulfilling criteria pursuant to the Decision on the Reserve Requirements of banks and savings banks. This group comprises countries and banks with which the Republic of Croatia, i.e. Croatian commercial banks, maintain good and advanced business relationships, which are further intensifying (CEFTA countries). Closely monitored were also developments and changes in economies and banking sectors of countries with which the Republic of Croatia and the Croatian commercial banks have started establishing economic and business relations again.

After the United Nations sanctions on FRY were lifted and the country became a member of the IMF, the World Bank and the EBRD, international trade between the Republic of Croatia and the Federal Republic of Yugoslavia started again, inevitably calling for the regulation of payment systems between the two countries. In view of these developments, an annex will be added to the Trade Agreement between the Republic of Croatia and the FRY which will regulate that the succession issues be dealt with separately from issues of current payment transactions.

The third group for monitoring credit standing comprises all other countries and their banking sectors 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, as well as for the purposes of cooperation with the Croatian Bank for Reconstruction and Development with which the CNB actively participates in the work of the Interministerial Committee for Export Insurance.

During 2000, over 120 meetings were held with representatives of foreign banks (both central and commercial), investment funds, credit rating agencies, and other institutions including domestic commercial banks and foreign embassies of the most significant partner countries of the Republic of Croatia. Forecasts on Croatia's economic development and development of its financial sector generated large interest and foreign strategic investors also showed increased interest in investment or the purchase of certain Croatian commercial banks.

In addition to resolving the issue of succession to the former SFRY, there were continued efforts to collect and reconcile data related to the settlement of claims of the Republic of Croatia in the clearing accounts against the Russian Federation and the former Czechoslovakia.

With the aim of providing expert support to the Stabilization and Association Agreement between the European Union and the Republic of Croatia, and within the framework of the Stability Pact, representatives of the Croatian National Bank, in line with their responsibilities, actively participated in the work of several task forces which were set up for these purposes.