

CROATIAN NATIONAL BANK

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# 5

## International Relations

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

Within the framework of co-operation with the International Monetary Fund, numerous contacts were made in 2002 with experts of the IMF, both through this institution's representative office and through repeated IMF visits to Croatia.

In addition to the regular annual consultation related to Article IV of the Articles of Agreement of the IMF concluded in August 2002, especially intensive were contacts with the IMF related to preparations for and implementation of financial arrangements.

### 5.1.1 Financial Arrangements

A stand-by arrangement, which the IMF and the Republic of Croatia concluded as "precautionary" in March 2001 and which expired in May 2002, was the first arrangement with the IMF that was completed successfully and within the programmed period. Preparations for another stand-by arrangement began in the second half of 2002. The arrangement was also concluded as "precautionary", i.e. the funds approved are not purchased but may be used if the need arises.

The Executive Board of the IMF approved a 14-month arrangement in the amount of SDR 105.88m on 3 February 2003. For the Republic of Croatia, this arrangement is primarily a precautionary measure and an international confirmation of credibility of its commitment to further fiscal consolidation and structural reforms, especially with regard to public debt stabilization, increased labor market flexibility and further privatization.

To show that the arrangement is concluded as precautionary, and in view of its comfortable international reserves position, favorable balance of payments outlook, and easy access to international capital markets, the Republic of Croatia repurchased the entire amount of IMF credit outstanding at the end of 2002.

### 5.1.2 The IMF – World Bank Constituency Meeting in Zagreb

The Republic of Croatia is a member of the IMF and World Bank Constituency that is headed by the Netherlands. The Constituency, which accounts for 4.85% and 4.48% of total votes in the IMF and World Bank respectively, includes Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine.

The Constituency meetings, attended by executive directors of the IMF and World Bank and central bank governors and deputy governors of the member countries, are usually held three times a year: at the Spring and Annual Meetings and once a year in one of the Constituency's member countries. The Republic of Croatia hosted the 2002 meeting of the Dutch Constituency, which was held in Zagreb on 23-24 March and organized by the Croatian National Bank and the Ministry of Finance. The meeting was attended by top officials of central banks and ministries of finance from all 12 countries within the Constituency.

The topics of the meeting were current financial and development policy issues, which concern the Constituency's member countries and are related to their co-operation with the IMF and World Bank. The meeting also provided a good opportunity for bilateral meetings and discussions on co-operation among the member countries, which was used by delegations of many countries.

### 5.1.3 Other Forms of Co-operation with the IMF

- a) In their 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, to enable the early detection of weaknesses in their financial systems, to ensure co-ordinated and efficacious dialogue with the national governments and to identify the development and technical needs of member countries. The Republic of Croatia applied to join the project in November 2000 and IMF and World Bank experts visited Croatia twice in 2001. The FSAP mission's final report was released in August 2002. It was published on the web sites of the CNB and IMF, as are all documents concerning the consultation related to Article IV of the Articles of Agreement of the IMF and stand-by arrangements. This is in line with the IMF projects aimed at increasing the transparency of its activities and the activities of its member countries.
- b) During 2002, the Croatian National Bank continued its activities related to furnishing the IMF with statistical data. Under Article VIII, Section 5 of the IMF Articles of Association, each member country is obliged to furnish the IMF with relevant statistical data. Pursuant to the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations on the Basis of Succession and the Decision on the Method of Submitting and Content of Data Furnished to the IMF (official gazette Narodne novine, Nos. 116/1993 and 112/2001), the CNB is authorized to collect and forward to the IMF the statistics on arrangements with the IMF as well as other data relevant for various IMF publications. To improve the process of collecting data required for its publications, the IMF has established a new system for collecting electronic data via a protected IMF web page - - Integrated Correspondence System, ICS. Preparations for the introduction of this system in Croatia ended in autumn 2002, and the system has been operational since then. Co-ordinated by the CNB, other institutions of the Republic of Croatia, charged with compiling statistical data, joined the system.
- c) In 2002, Croatian representatives continued to participate in the work of IMF

management bodies (Constituency, International Monetary and Financial Committee and Board of Governors). In particular, this relates to the participation of CNB representatives in the work of the Spring and Annual Meetings of the IMF Board of Governors held in Washington, where Croatian representatives had a number of meetings with representatives of international financial institutions, commercial banks and investment houses.

## 5.1.4 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 has concluded with the IMF: the Systemic Transformation Facility, STF (SDR 130.80m, approved in 1994 simultaneously with the stand-by arrangement), the Extended Fund Facility, EFF (SDR 353.16m), and the stand-by arrangement (SDR 200m, approved in 2001). At their meeting held on 11 December 2002, representatives of the Ministry of Finance and the Croatian National Bank reached a Decision on the Early Repayment of Funds under the Financial Arrangements with the IMF. On the basis of this decision, the Croatian National Bank repaid SDR 70,635,001 of outstanding debt to the IMF prior to maturity, of which SDR 49,050,000 refers to the STF arrangement and SDR 21,585,001 refers to the EFF arrangement. During 2002, SDR 2.56m in interest was paid on these arrangements, with an additional SDR 0.08m paid in charges on the stand-by arrangement. As a member of the Special Drawing Rights Department (of the IMF), Croatia has regularly repaid its obligations based on the inherited obligations related to the allocation of special drawing rights. During 2002, SDR 1.00m 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. Note: The value of special drawing rights (SDRs) is the weighted average of the basket of leading world currencies, which is revised every five years. As of 1 January 2001, the currency basket is composed of the American dollar (45%), the euro (29%), the Japanese yen (15%) and the pound sterling (11%).

Balance at 31 December 2002		
GENERAL RESOURCES ACCOUNT	SDR (million)	% Quota
Quota	365.10	100.00
IMF holdings	364.94	99.96
SDR DEPARTMENT	SDR (million)	% net cum. al.
Net cumulative allocation	44.21	100.00
Holdings of Croatia	1.10	2.50
LIABILITIES PAID IN 2002	SDR (million)	–
Repayment of principal – STF arrangement	70.85	–
Repayment of principal – EFF arrangement	26.38	–
Interest payments on all arrangements	2.56	–
Charges on the stand-by arrangement	0.08	–
SDR Department membership fee	0.01	–
Net cumulative allocation costs	1.00	–

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## 5.2 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) The following laws regulate the Republic of Croatia's membership in the World Bank Group, European Bank for Reconstruction and Development and Inter-American Development Bank: the Act 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 Act 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 Act on Accepting Membership of the Republic of Croatia in the Inter-American Development Bank (official gazette Narodne novine, No. 94/1993). Under these Acts, the Ministry of Finance of the Republic of Croatia is the competent authority for co-operation with the World Bank Group, the European Bank for Reconstruction and Development and the Inter-American Development Bank, and is authorized to perform all operations and transactions in the name of the Republic of Croatia that are permissible under these institutions' articles of association. The Croatian National Bank is the depository, i.e. it keeps all deposit accounts owned by these international financial or-

### Payments Executed in 2002 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	369,000.00	EUR	369,000.00
IDB	a) HRK	1,119,580.83	USD	123,048.00
	b) EUR	205,886.50	EUR	603,600.53
			(Ordinary Capital)	
			(Fund for special operations – FSO Notes)	
IBRD			HRK	80,305,800.73
IDA			HRK	437,666.65
MIGA			USD	202,334.00

ganizations, 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 2002, 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 funds pursuant to the Agreement signed on 4 June 1997 between the Republic of Croatia (Ministry of Finance) 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. The repayment term of this loan, which was used in entirety, is 10 years and the last principal payment comes due in June 2012.
- c) An Agreement between the Republic of Croatia (Ministry of Finance) and the International Bank for Reconstruction and Development on the Structural Adjustment Loan (SAL) (official gazette Narodne novine, No. 2, 6 February 2002, "International Agreements") was signed on 5 December 2001. Under the Agreement, the International Bank for Reconstruction and Development approved a USD 202m loan to the Republic of Croatia to support the implementation of economic reforms in Croatia. The repayment term of the loan is 10 years, and the use - withdrawal of funds - is executed through a special account at the CNB. The first tranche of USD 102m was withdrawn on 13 February 2002.
- d) At the Croatian government's request, the World Bank has initiated the preparation of a document entitled "EU/Country Economic Memorandum" (EU/CEM) whose purpose is to make an economic analysis of the possibility of Croatia joining the European Union. To gather the material needed, World Bank experts met with domestic experts from several ministries, government and other institutions. CNB experts participated in preparing the chapter on the financial sector.

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

The Annual Report of the BIS and the decision on the distribution of dividends amounting to CHF 380 per share were adopted at the regular Annual General Meeting of the BIS held on 8 July 2002.

In addition to the Annual General Meeting, there were regular meetings of central bank governors from the BIS member countries, where a number of topical issues in the area of international banking and finance were discussed. The Governor and other members of the CNB management participated in these meetings.

The Croatian National Bank participated in the activities of the BIS aimed at co-ordinating 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.

Furthermore, CNB representatives participated in the work of regional groups of the Basle Committee on Banking Supervision and the Committee on Payment and Settlement Systems. The Croatian National Bank took part in the exchange of information among central banks of the BIS member countries via the electronic information network.

A separate and important form of co-operation between the CNB and BIS has been established in the area of international reserves management.

## 5.4 Co-operation between the Croatian National Bank and Other International Institutions

During 2002, the Croatian National Bank co-operated with other international financial institutions as well. For instance, representatives of the Institute for International Finance (IFF) and the Japan Center for International Finance (JCIF) visited Croatia in June and October 2002 respectively.

The aim of these visits was to acquire information on Croatia's economic and political situation and to prepare the corresponding reports. These visits and reports are important for Croatia because of the high reputation these institutions and their reports have among the leading world and Japanese banks and funds.

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

The Stabilisation and Association Agreement between the Republic of Croatia and the European Union was initialed in Brussels on 14 May 2001. It was signed in Luxembourg on 29 October 2001, and ratified by the Croatian Parliament and European Parliament on 5 December and 12 December 2001 respectively. Its ratification by the EU member countries is currently underway.

Under the Agreement, one of the main tasks of Croatia is to approximate its legislation to the EU regulations. Even before the Agreement was signed, the CNB strove to incor-

porate relevant EU regulations concerning its field of competence and always requested the opinion of the European Commission experts when preparing draft legislation. Such an opinion was also requested at the beginning of 2001 when the new Croatian National Bank Act was enacted, and the same practice was followed with regard to the new Banking Act. Provisions of a new foreign exchange law, which is currently being prepared, also incorporate relevant EU guidelines, of which the most important are those related to the capital account liberalization.

Within its field of competence and in line with the policy of the Republic of Croatia, the Croatian National Bank maintained in 2002 contacts with representatives of the European Central Bank, which is the head institution of the European System of Central Banks. To expedite its progress toward EU membership and participate in the next wave of EU enlargement, the Republic of Croatia submitted its application for EU membership on 21 February 2003.

## 5.6 International Payment Operations

International payment operations continued its dynamic growth in 2002. Orders for payments abroad and receivables from abroad were executed daily, both for the purposes of the CNB and the Ministry of Finance. On behalf of the Ministry of Finance, the CNB also executed all payments based on membership of the Republic of Croatia in international financial organizations (IMF, IBRD, IFC, IDA, MIGA, EBRD and IDB), as well as payments based on loans these institutions granted to the Republic of Croatia, for which the CNB acts as the fiscal agent (EFSAL, SAL). The inflows of the Croatian National Bank from abroad resulted mostly from the sale of coins and commemorative coin editions.

International payment operations also include a continuous monitoring of domestic and international standards related to banking (ISO, SWIFT, ICC, etc.).

## 5.7 Correspondent Relations with Foreign Banks and Other Financial Institutions

The Croatian National Bank monitors economic and political developments in certain countries and regions of special interest for both for the Croatian National Bank itself and for the Croatian banking system and the economy as a whole.

In 2002, special attention was paid to the candidate countries for EU membership in the first round and to their banking systems.

During 2002, over 60 meetings were held with representatives of foreign banks (central and commercial), investment funds, credit rating agencies, and other institutions, including domestic commercial banks and embassies of the most significant partner countries of the Republic of Croatia.

Especially important was a September 2002 top level meeting with representatives of Bank Indonesia from Jakarta, where a Memorandum of Understanding Regarding Co-operation and Exchange of Information between Bank Indonesia and Croatian National Bank was signed. The Memorandum provides for the exchange of information on macroeconomic developments, monetary policy, the banking sector and relevant legal regulations. Viewed in a broader context, it promotes successful development of economic and financial relations between Indonesia and Croatia.

## 5.8 Credit and Financial Relations and Succession Issues

CNB experts co-operate with authorized bodies of the Croatian government in resolving various issues related to the succession to financial assets and liabilities of the states of the former SFRY.

During 2002, CNB employees were engaged in preparing information material for members of the Joint Committee on the Distribution of the Financial Assets and Liabilities referred to in Annex C to the Agreement on Succession Issues. They also participated in the work of the Task Force for clearing of the former SFRY's successor states, which has continuously worked on reconciling the balances in the clearing accounts of the former NBY with the former Soviet Union.