

CROATIAN NATIONAL BANK

2002

ANNUAL REPORT

6

Currency Department Operations

During 2002, the Croatian National Bank, through the regular operations of its Currency Department, received printed cash from the manufacturer, supplied cash to cash centers, withdrew and processed banknotes, destroyed worn out banknotes, issued commemorative coins and provided expert evaluation of suspicious kuna banknotes.

Additional activities were related to regulating cash transactions within the payment system reform.

6.1 New Regulations on Cash Transactions

Under the conditions laid down by the National Payment System Act (official gazette *Narodne novine*, No. 117/2001) the CNB supplies cash to banks which in turn supply cash to their clients.

In this regard, the following regulations were enacted and applied as of 1 April 2002:

- ❑ Decision on Supplying Banks with Cash (official gazette *Narodne novine*, No. 22/2002);
- ❑ Decision on Handling Kuna and Lipa Banknotes and Coins Unfit for Circulation (official gazette *Narodne novine*, No. 22/2002).

Banks allocate funds to their cash accounts at the CNB through the CLVPS and withdraw cash from cash centers set up as part of FINA operating units.

In line with the prescribed procedure, Hrvatska poštanska banka (Croatian Postal Bank) assumes responsibility for maintaining Croatian Post cash reserves, from which cash is supplied to Croatian post offices.

Also in accordance with the Decision on Supplying Banks with Cash, the CNB began to set up a new cash flow system in the Republic of Croatia in 2002, which is to provide for the supply of cash through cash centers functioning as specialized institutions for depositing, issuing and processing large amounts of cash. For this reason, the CNB concluded a contract with the FINA in 2002, entrusting it with performing cash center transactions on behalf and for the account of the CNB. This contract obligates the FINA to establish cash centers in keeping with the Instruction for the Establishment and Operation of Cash Centers issued by the CNB, which sets organizational, safety, technological and personnel standards for cash center establishment and operation.

To adjust to the new system and fulfill the contract concluded with the FINA, cash owned by the CNB was withdrawn from FINA operating units in January 2003 and allocated to 22 cash centers (FINA subsidiaries) to be supplied to banks.

Over the next few years, the CNB will establish five to seven centers, located to satisfy regional needs and cash transaction requirements. The project will involve banks and firms specialized in cash handling and transport, as they will presumably take an interest in establishing cash centers and designing a range of services and products to fit the needs of all cash transaction participants. The final aim is to directly involve banks in managing cash centers under an appropriate ownership model.

The Decision on Handling Kuna and Lipa Banknotes and Coins Unfit for Circulation regulates the replacement of worn out, torn or damaged banknotes and damaged coins, the handling of counterfeit or suspicious banknotes and coins, as well as the reproduction of banknotes under the conditions prescribed by the Decision on Supplying Banks with Cash.

6.1.1 Receiving Cash from the Manufacturer

As envisaged by the 2002 Plan for the Printing of Banknotes and Minting of Coins, banknote printing was put out to an international tender and the printing of 50, 100 and 200 kuna banknotes, i.e. 71.83m units valued at HRK 7.78bn, was agreed with the best bidder, *Oesterreichische Banknoten und Sicherheitsdruck GmbH*, a Vienna printing company. Banknotes were received from June to September 2002 and put into circulation in the same period. Their basic design equals that of the 1993 issue, with an improved paper base and print and security features, while the issue date is 7 March 2002.

In 2002, 51.2m coins, valued at HRK 0.044bn, were minted by the Croatian Monetary Institute and put into circulation.

6.1.2 Supply with Cash

In 2002, banks cash requirements were completely settled and 43.9m banknotes (worth HRK 4.6bn) and 56.2m coins (worth HRK 0.019bn) issued from CNB vaults to cash centers. The value of issued banknotes increased by 63% compared with 2001, mostly due to changes in the supply process, requiring banks to maintain larger cash reserves for their customers. Coins issued to cash centers in 2002 were the same in number as in the previous year. However, their value was 74% lower than in 2001, due to HRK 62.7m of 5 kuna coins, accounting for 71% of total coins, issued as a replacement for the 5 kuna banknote in 2001.

6.1.3 Cash outside CNB and FINA Vaults

On 31 December 2002, there were 84.7m banknotes, valued at HRK 9.247bn, outside CNB and cash center vaults.

Compared with late 2001, the quantity of banknotes outside the vaults rose by 13.1%, while the total value of banknotes outside the vaults rose by 14.2%.

On 31 December 2002, there were 836m coins outside the vaults, worth HRK 0.434bn.

In comparison with late 2001, the quantity of coins outside the vaults increased by 12.2% and their value increased by 14.8%.

In 2002, the amount of kuna and lipa banknotes and coins was an average 19 banknotes and 196 coins per citizen.

6.2 Withdrawing and Processing Worn Out Banknotes

The CNB withdrew 33.6m banknotes from cash centers over 2002, valued at HRK 3.4bn. The banknote sorting system processed 33.1m banknotes, of which 90.3%, that is 29.9m units valued at HRK 1.7bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

According to the latest data, the renewal index was 36 (destroyed banknotes/circulation x 100).

6.3 Issuing Commemorative Coins

In 2002, the CNB issued the following commemorative coin and numismatic sets:

- ❑ 200,000 sets of 25 kuna commemorative coins entitled “10th Anniversary of the International Recognition of the Republic of Croatia 15 January 1992-15 January 2002”;
- ❑ 1,000 numismatic sets of kuna and lipa circulation coins, with “2002” marking the year of issue.

6.4 Expert Evaluation of Banknotes

In 2002, the expert evaluation of banknotes identified 1,414 counterfeit banknotes valued at HRK 214,940.00. Compared with 2001, the number of identified counterfeits rose by 29%, while the total value of counterfeit banknotes rose by 72%. The largest number of counterfeits, 567 or 40% of the total, went to 50 kuna banknotes. As shown by these indicators, 17 counterfeits were discovered per 1m banknotes in circulation in 2002. An analysis of received counterfeits showed that they were mostly produced by means of computers and printed on color printers, with the exception of 100 kuna banknotes, which were produced by means of printing technology.