

Annual report  
2003



CROATIAN NATIONAL BANK

# **International Relations**

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

Within the framework of the country's co-operation with the International Monetary Fund, numerous contacts were made in 2003 with experts of the IMF, both through this institution's representative office and through repeated IMF visits to Croatia and the CNB delegation visits to the IMF.

Especially intensive were talks relating to the signing and the implementation of the financial stand-by arrangement. In addition, IMF technical mission visited Zagreb in April 2003.

Regular consultations related to Article IV of the Articles of Agreement of the IMF were not conducted in 2003; with the approval of the stand-by arrangement, Croatia was automatically placed on the 24-month consultation cycle.

### 7.1.1 Stand-by Arrangement

In the second half of 2002 preparatory work was initiated for the conclusion of a new stand-by arrangement that was, similarly as the previous arrangement, to be treated as "precautionary", implying that the funds approved were not planned to be, but could be purchased if needed.

The ensuing 14-month, SDR 105.88m Stand-By Arrangement with the Republic of Croatia that was approved by the Executive Board of the IMF on 3 February 2003 provided international confirmation of Croatia's credibility in its commitment towards further fiscal consolidation and structural changes, especially with regard to public debt stabilisation, increased labour market flexibility and further privatisation.

The first review of the arrangement was completed on 1 August 2003. While Croatia's observance of the quantitative performance criteria under the arrangement was satisfactory, the IMF pointed to a delay in the observance of the structural performance criteria. The IMF also expressed its view that the government was on its way to achieve a stabilisation of the public debt ratio, one of the main goals under the arrangement.

Following the second review of the arrangement that was completed on 12 November 2003, the Executive Board of the IMF granted the request of the Republic of Croatia for waivers for the non-observance of four quantitative performance criteria for September 2003 relating to the consolidated central government budget, central government arrears, net usable international reserves and net domes-

tic assets of the Croatian National Bank. The authorities were warned that reducing external vulnerability was a key macroeconomic priority and were advised to continue with sweeping structural reforms.

As end-year measures and criteria under the arrangement were not fully achieved, the current arrangement could not be concluded. Therefore, the authorities have announced a new round of negotiations for a new stand-by arrangement.

## 7.1.2 Constituency

The Republic of Croatia can realise its interests within the IMF through the Dutch Constituency, which includes, in addition to the Republic of Croatia, another eleven countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine). The Constituency, which is headed by an Executive Director, a Dutch representative, has a voting power of 4.85% of the total votes in the IMF.

Following years of Constituency leadership as Executive Director, J. de Beaufort Wijnholds was replaced on 15 January 2003 by Jeroen J. M. Kremers, until then Deputy Treasurer General with the Dutch Finance Ministry. Early in April 2003, Mr Kremers paid an inaugural, several-day visit to Croatia where he met with high representatives of the Government of the Republic of Croatia, the Croatian National Bank and the Ministry of Finance.

In June 2003, the Republic of Croatia, in accordance with the rules governing the work of the Constituency, appointed its representative for a two-year term to the post of Advisor to the Executive Director.

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

In 2003, the Croatian representatives continued their regular participation in the work of IMF management bodies (Constituency, International Monetary and Financial Committee and Board of Governors). In particular, they took part in the work of the Spring Meeting in Washington and Annual Meeting of the IMF Board of Governors in Dubai, where they met with the representatives of international financial institutions, banks and investment companies.

## 7.1.4 Financial Transactions

As the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund (as provided by 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 Croatian National Bank is responsible for keeping deposit accounts of the IMF and for regular servicing of the obligations arising from the arrangements concluded between the Republic of Croatia and the IMF. After repaying before maturity the entire outstanding debt towards the end of 2002, arising from the country's arrangements with the IMF in the '90s, the obligations due in 2003 related to the interest on those arrangements for the last quarter of 2002 (SDR 0.29m) and to the charges on the new stand-by arrangement (SDR 0.26m) in 2003.

As a member of the Special Drawing Rights Department (of the IMF), Croatia also regularly repaid its obligations arising from the allocation of special drawing rights. During 2003, SDR 0.76m was paid on this basis.

Balance at 31 December 2003

| General Resources Account             | SDR (million) | % quota                     |
|---------------------------------------|---------------|-----------------------------|
| Quota                                 | 365,10        | 100,00                      |
| IMF holdings                          | 364,94        | 99,96                       |
| Reserve position                      | 0,16          | 0,04                        |
| SDR Department                        | SDR (million) | % net cumulative allocation |
| Net cumulative allocation             | 44,21         | 100,00                      |
| Deposit in SDR account                | 0,03          | 0,07                        |
| Deposit with PRGF-HIPC Trust Fund     | 0,52          | —                           |
| Liabilities Paid in 2003              | SDR (million) | —                           |
| Interest payments on all arrangements | 0,29          | —                           |
| Charges on the stand-by arrangement   | 0,26          | —                           |
| SDR Department membership fee         | 0,01          | —                           |
| Net cumulative allocation costs       | 0,76          | —                           |

**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%).

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

The representatives of the CNB participate in the work of regular annual general meetings and extraordinary general meetings of the BIS.

At an Extraordinary General Meeting of the BIS held on 10 March 2003 amendments to the Statutes of the BIS were made under which, starting from the begin-

ning of the new financial year (1 April 2003), new Special Drawing Right would replace the gold franc as the Bank's unit of account, the latter's use being considered as untransparent and not in line with current accounting practices. SDR's introduction as a unit of account led to a change in the structure of BIS capital and a reduction of 12.2% in the Bank's share capital. The BIS reserve fund was increased by the corresponding amount as the nominal value of one share, converted into special drawing rights, was rounded down from its precise converted amount of SDR 5,696 as at 31 March 2003 to SDR 5,000 due to the decision to round down its value.

At its regular Annual General Meeting held on 30 June 2003, the BIS released its 73rd Annual Report for the year 2002/03 and decided that dividends to be paid were to amount to 400 Swiss francs per share.

In addition to the Annual General Meeting, central bank governors from the BIS member countries also met regularly during 2003 to discuss topical issues in the area of international banking and finance. The Governor and other members of the CNB 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. In this context, 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. Early in May, the CNB hosted a five-day international Workshop on the New Capital Accord Proposals, co-organised by the Financial Stability Institute of the BIS. The Croatian National Bank was also actively involved in the exchange of information between central banks of BIS member countries.

Another important form of co-operation between the CNB and the BIS was achieved in the area of international reserves management.

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

In 2003, the Croatian National Bank also co-operated with other international financial institutions. These included, among others, the Institute for International Finance (IIF) whose representatives paid a visit to the CNB and other relevant institutions in January and September 2003 and the Japan Centre for International Finance (JCIF) whose representatives visited Croatia in June 2003.

The aim of these visits was to acquire information on Croatia's economic and political situation and to prepare reports on the situation in the Croatian economy.

## 7.4 Activities of the CNB in Connection with the 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 initialled in Brussels on 14 May 2001. The Agreement was signed in October 2001 in Luxembourg, and ratified by the Croatian Parliament and the European Parliament in December 2001. Its ratification by the EU member countries is currently underway.

To expedite its progress towards EU membership and ensure its inclusion in the next wave of enlargement, the Republic of Croatia submitted its application for full EU membership on 21 February 2003. On 14 April 2003, the European Commission started preparing its opinion on Croatia's application for full membership, and on 10 July 2003 issued to Croatia an extensive list of questions related to the fulfilment of the three Copenhagen criteria (the so-called European Commission Questionnaire). All the institutions of the Government of the Republic of Croatia and the Croatian National Bank, each in their sphere of competence, were actively involved in the work on the Questionnaire which involved the provision of information relating to the economic criteria (macroeconomic data, economic and structural development and reforms, financial markets), economic and monetary union and free movement of capital and services. Croatia's replies to the Questionnaire were submitted to the European Commission on 9 October 2003.

Within its sphere of competence, the Croatian National Bank maintained its contacts throughout 2003 with the representatives of the European Central Bank, a head institution of the European System of Central Banks. In particular, co-operation was established in connection with the preparations for harmonising the Croatian monetary statistics with the requirements of the European Central Bank.

## 7.5 International Payment Operations

International payment operations grew in significance considerably in 2003, after the Croatian National Bank and the Ministry of Finance of the Republic of Croatia concluded an agreement on the provision by the central bank of payment system services on behalf of the Government. As a result, the number of interna-

tional payment and collection transactions on behalf of the government, i.e. the Ministry of Finance of the Republic of Croatia, increased. As a fiscal agent the CNB executed on a daily basis payment and collection transactions on behalf of the Ministry of Finance in connection with the membership of the Republic of Croatia in international financial institutions and loans granted by such institutions (EFSAL, SAL). The Croatian National Bank also executed international payment operations in its name and for its account in connection with its regular transactions and collections related to the sale of coins and commemorative coin editions.

The Croatian National Bank monitored economic and political developments in selected countries and regions of special interest for both the Croatian National Bank and for the Croatian banking system and the country's economy as a whole.

As in the previous years, in 2003 the central bank again paid special attention to the analysis of credit and investment ratings of financial institutions, potential CNB partners and to the analysis of countries and banking systems of candidate countries scheduled for accession in the first round of EU enlargement.

Over 50 meetings with the representatives of foreign financial institutions were held during 2003. The representatives of several central and commercial banks, investment funds and credit and investment rating agencies visited the Croatian National Bank. The CNB made contacts with other institutions, including embassies of Croatia's most prominent partner countries.