

Annual report
2003



CROATIAN NATIONAL BANK

**Currency
Department
Operations**

5

5.1 Currency Department Operations

5.1.1 The Balance and Movements of Cash in Circulation

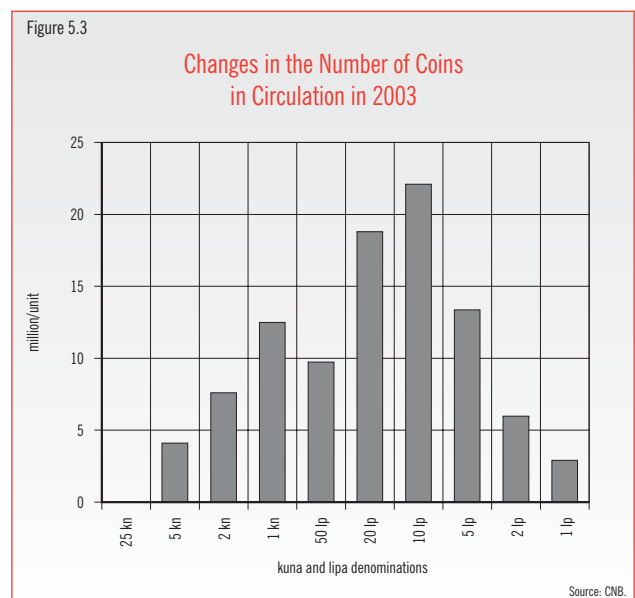
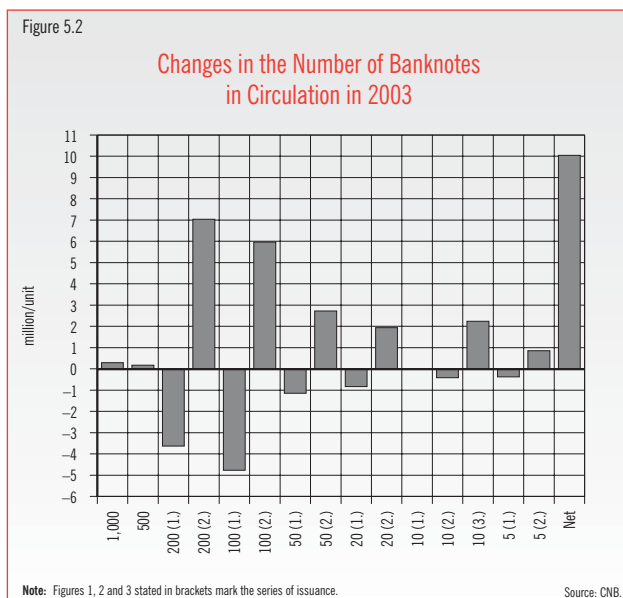
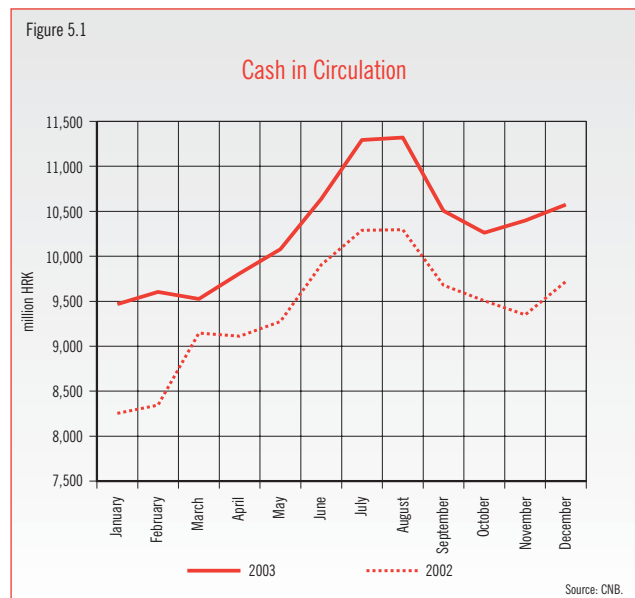
On 31 December 2003, the balance of cash in circulation totalled HRK 10.57bn, which was a rise of 9.2% in comparison to the end of 2002. The growth of cash in circulation by 9.2% in 2003 was 4.2 percentage points lower than the growth rate registered in 2002.

On 31 December 2003, there were 94.7 million banknotes, valued at HRK 10.078bn, outside the CNB and cash supply centres.

Compared with late 2002, the quantity of banknotes outside the vaults rose by 11.8%, while the total value of banknotes outside the vaults rose by 8.5%.

On 31 December 2003, there were 960 million coins outside the vaults, worth HRK 0.495bn.

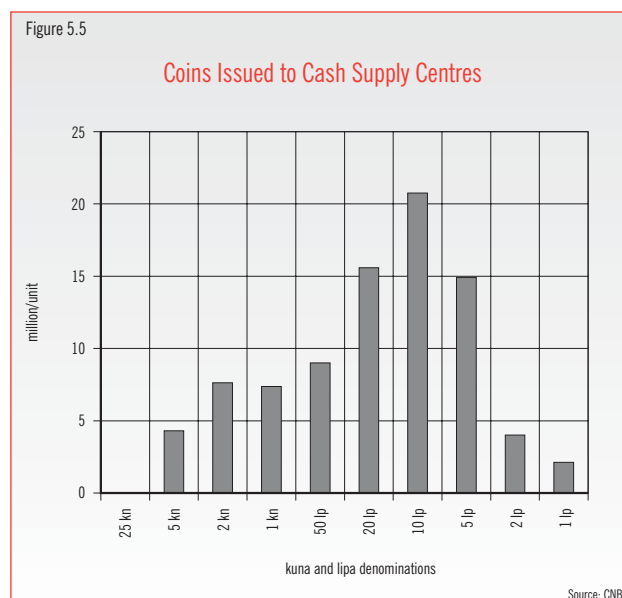
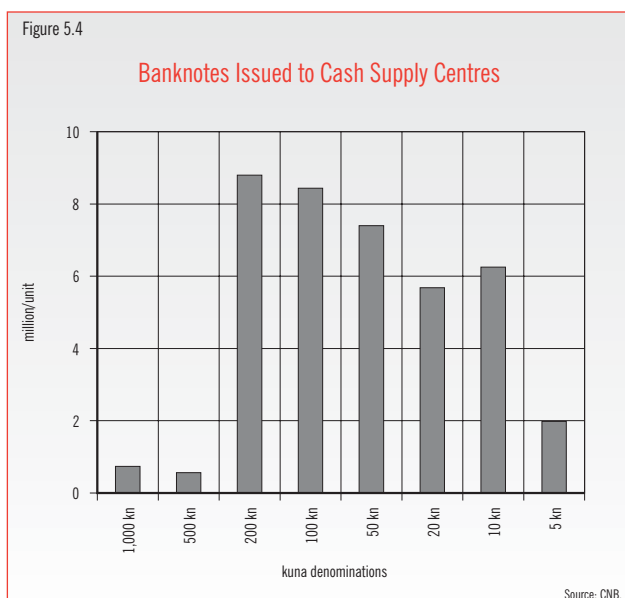
In comparison with late 2002, the quantity of coins outside the vaults increased by 11.2%, while their value increased by 14.1%.



The amount of kuna and lipa banknotes and coins outside the vaults in 2003 averaged 21 banknote and 218 coins per citizen.

5.1.2 Supply with Cash

For the purpose of settling bank cash requirements in 2003 39.8 million banknotes (worth HRK 4.1bn) and 85.6 million coins (worth HRK 0.054bn) were issued from the vault of the Croatian National Bank to cash supply centres. The value of issued banknotes decreased by 12% compared to 2002, while the value of issued coins went up 182% (or 51% by the number of coins). Such a significant rise was the result of the increased demand for 5, 2 and 1 kuna coins.



5.1.3 Withdrawing and Processing Worn Out Banknotes

The CNB withdrew 35.2 million banknotes from cash supply centres over 2003, valued at HRK 3.8bn. The banknote sorting system processed 34.0 million banknotes, of which 88.2%, that is, 30.0 million units valued at HRK 2.9bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

Table 5.1 Total Processed and Destroyed Banknotes in 2003

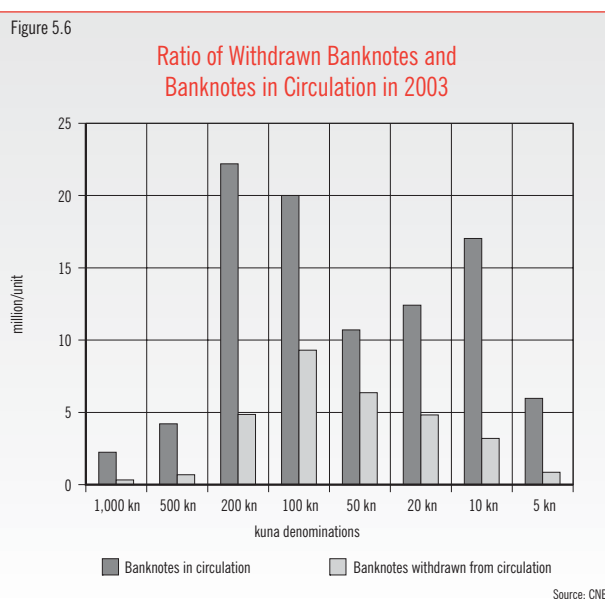
Total processed			Total destroyed			
Units	Denominations	Amount in HRK	Units	Denominations	Amount in HRK	Kilogrammes
584,734	1,000	584,734,000.00	369,266	1,000	369,266,000.00	388
1,733,384	500	866,692,000.00	1,308,637	500	654,318,500.00	1,309
2,367,868	200 (1.)	473,573,600.00	2,305,565	200 (1.)	461,113,000.00	2,190
375	200 (2.)	75,000.00	202	200 (2.)	40,400.00	0
10,222,250	100 (1.)	1,022,225,000.00	9,687,321	100 (1.)	968,732,100.00	8,719
261	100 (2.)	26,100.00	212	100 (2.)	21,200.00	0
8,535,021	50 (1.)	426,751,050.00	6,421,432	50 (1.)	321,071,600.00	5,458
202	50 (2.)	10,100.00	199	50 (2.)	9,950.00	0
7,345,947	20 (1.)	146,918,940.00	6,847,404	20 (1.)	136,948,080.00	5,478
97,548	20 (2.)	1,950,960.00	95,435	20 (2.)	1,908,700.00	79
2	10 (1.)	20.00	0	10 (1.)	0	0
1,034,235	10 (2.)	10,342,350.00	938,254	10 (2.)	9,382,540.00	704
504,509	10 (3.)	5,045,090.00	491,104	10 (3.)	4,911,040.00	383
1,607,954	5 (1.)	8,039,770.00	1,549,053	5 (1.)	7,745,265.00	1,084
10,348	5 (2.)	51,740.00	10,193	5 (2.)	50,965.00	7
34,044,638		3,546,435,720.00	30,024,277		2,935,519,340.00	25,800

Source: CNB.

According to the latest data, the renewal index was 32 (destroyed banknotes/circulation x 100).

5.1.4 Expert Evaluation of Banknotes

In 2003, the expert evaluation of banknotes identified 3,316 counterfeit banknotes valued at HRK 975,380.00. Compared with 2002, the number of identified counterfeits rose by 134%. The largest number of counterfeits 971 or 29% of the total went to 200 kuna banknotes. As 2003 saw a substantial rise in counterfeits, additional campaigns were launched in order to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes. As shown by the above indicators, 35 counterfeits were discovered per 1 million banknotes in circulation in 2003. The analysis of received counterfeits showed that they were mostly produced using computer technology and printed on colour printers with the exception of 1000 kuna banknotes, where printing technology was employed.



Source: CNB.

Table 5.2 Identified Counterfeit Banknotes in 2003

Denominations	1,000	500	200	100	50	20	10	5	
Units	585	140	971	951	593	67	9	0	3,316
Share	18.0	4.0	29.0	29.0	18.0	2.0	0.0	0.0	100.0

Source: CNB.

5.1.5 Issuing Commemorative Coins

In 2003, the Croatian National Bank issued 1,000 numismatic sets of kuna and lipa circulation coins, with "2003" marking the year of issue.

5.1.6 Cash Supply Centres

With the Decision on Supplying Banks with Cash (official gazette *Narodne Novine*, No. 22/2002), the Croatian National Bank regulated the supply of cash to banks through cash centres. In accordance with the said Decision the CNB began setting up a new cash flow system in the Republic of Croatia in 2002, which was to provide for the supply of cash through cash centres functioning as specialised institutions for depositing, issuing and processing large amounts of cash. For this reason, the Croatian National Bank in co-operation with FINA – which has been entrusted with performing cash centre transactions on behalf and for the account of the Croatian National Bank pursuant to the agreement the two institutions entered – launched a study on the concept of organisation of cash supply centres in the Republic of Croatia. The study is aimed at evaluating the current state in cash operations, existing infrastructure and the overall costs of the system, in order to be able to devise a new model and dynamics of cash supply centre organisation based on the analysis of the existing one. The new model should optimise the costs of cash management for all institutions involved (processing, safekeeping, and transport), while at the same time enabling the implementation of new products in accordance with clients' needs.

The said study on the organisation of cash supply centres will be completed on 15 June 2004.

The Croatian National Bank estimated that the creation as well as the application of the results of this study would substantially influence cash operations in the Republic of Croatia. Therefore, from the very beginning it included banks, cash transportation companies and large shop chains into the process in order to achieve consensus among all participants on the future model of cash operations and services provided by cash supply centres.