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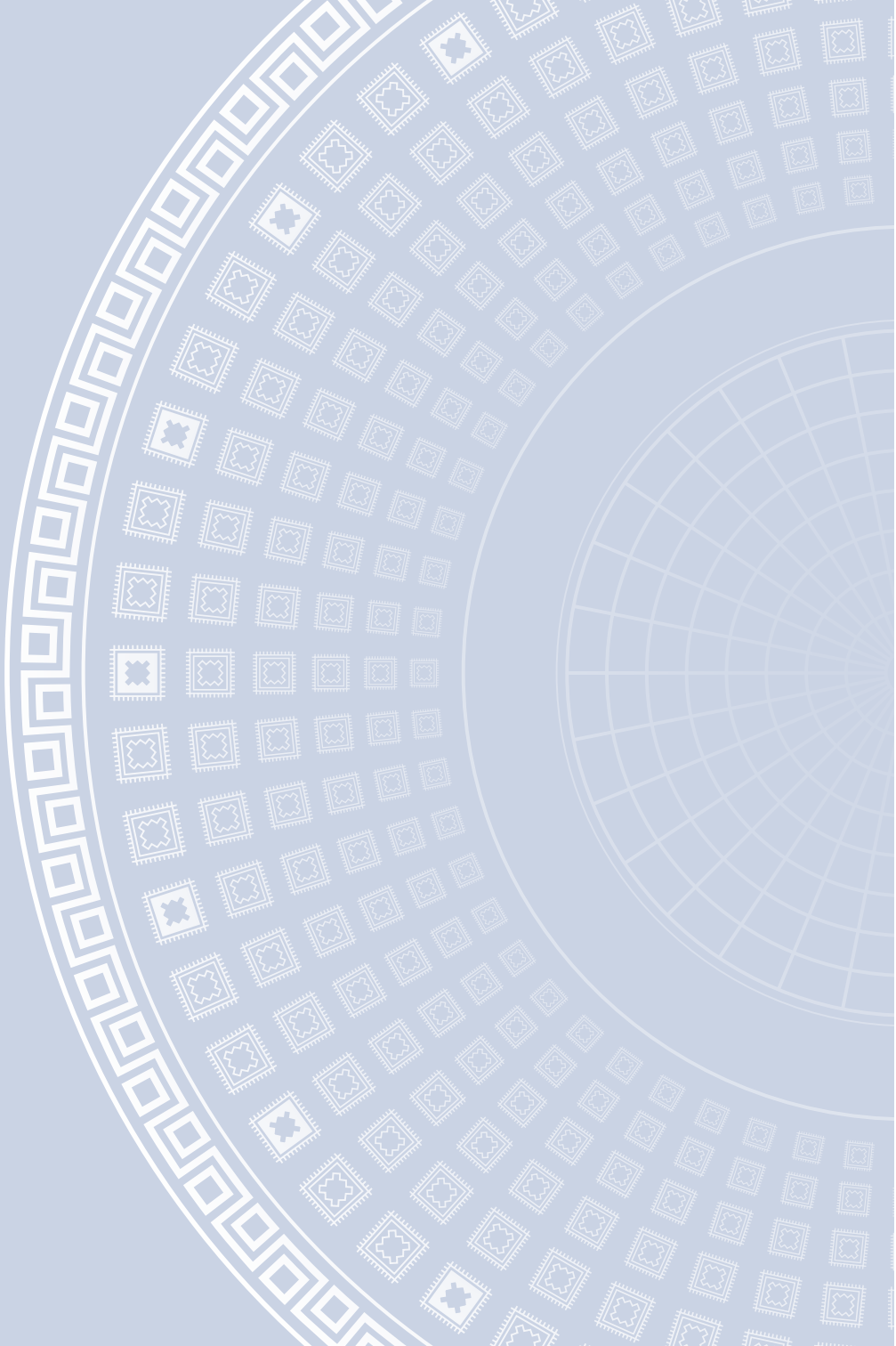
THIRTY YEARS OF CHALLENGE

CROATIAN NATIONAL BANK

The most impressive part of the CNB building – the 21-metre wide coffered dome covers the large Round Hall, the former main stock exchange hall.

The seat of the Croatian National Bank is at Trg hrvatskih velikana in Zagreb, the palace that was erected to accommodate the Zagreb Stock and Commodity Exchange.

The Stock Exchange Palace, as it is still often referred to today, was inaugurated in June 1927, while the central bank has been using the building as its seat since the end of World War II.



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In 30 years of its existence as a modern and autonomous Croatian central bank, the CNB has become an independent and highly professional institution with a high level of integrity and competence.

Joining the euro area will affirm the equality of our citizens with the citizens of the largest and strongest European economies and increase the room for manoeuvre in conducting economic policy.

Boris Vujčić

Governor



Croatian National Bank – Thirty Years of Challenge

In December 2021, the Croatian National Bank will mark 30 years of operating as a modern and independent central bank of the Republic of Croatia. The establishment of the institution and its steady and systematic development in all areas of its activity during the past thirty years have been accompanied by challenges of maintaining monetary and financial stability.

During the first ten years, the CNB focused on countering high inflation and establishing a regulatory framework suitable for a market-oriented banking system. The economic upswing in the second decade posed a different kind of challenge for the CNB – the protection of the financial system against the assumption of risks with potentially disastrous outcomes in the event of a reversal of economic trends. It was not long before such a reversal occurred. The global financial

crisis validated the policy of curbing credit activity and warned about the importance of financial literacy and consumer protection as well as the role of central banks in that regard.

Since 2005, the CNB has been devoted to pursuing new institutional objectives – making way for Croatia’s accession to the European Union followed by preparations for joining the euro area and the changeover from the kuna to the euro. From 2020, the activities related to the introduction of the euro have been conducted in the midst of a new crisis. After thirty years of successfully overcoming crises, meeting its objectives and fulfilling its tasks, the CNB’s response during the pandemic has been responsible, swift and well-prepared, demonstrating its ability to face even the most demanding challenges.



THE FIRST DECADE:**Institution building, stabilisation of prices and the banking system****Establishing a modern and independent central bank**

The Constitution of the Republic of Croatia adopted in **1990** laid down that the National Bank of Croatia shall be the central bank of the Republic of Croatia, conferring upon it the responsibility for the stability of the currency and the general liquidity of payments within the country and abroad. The Constitution of **1990** laid down that the National Bank of Croatia shall be autonomous and independent in its work, and shall report to the Croatian Parliament. Regulation on the National Bank of Croatia of 23 December **1991** passed by the Government of the Republic of Croatia laid down a provisional legal framework for the operations, scope of activities and responsibilities of the central bank. This marked the establishment of Croatia's central bank, which has been shaping and implementing the monetary policy of the independent Republic of Croatia ever since. The first governor was Dr Ante Čičin-Šain.

In November **1992**, the Croatian Parliament adopted the Act on the National Bank of Croatia, replacing the provisional Government Regulation on the National Bank of Croatia. This Act reinforced the main tasks delegated to the central bank: safeguarding the value of the domestic currency and

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Ante Čičin-Šain: Inaugural lecture to the Irish-Croatian Business Association held on 29 September 2006 on the establishment of autonomous monetary system as a prerequisite for national independence and its subsequent development

maintaining the general liquidity of payments in the country and abroad. Pursuant to the Constitutional Act on Amendments to the Constitution of the Republic of Croatia of 15 December **1997**, the name of the central bank was changed to the Croatian National Bank.

Introducing the Croatian national currency

On 23 December **1991**, the Yugoslav dinar was replaced by the Croatian dinar, as a transitional and interim currency of the Croatian state. The exchange was carried out at a rate of 1:1, and on 1 January **1992**, the Croatian dinar became the sole legal tender in the Republic of Croatia. At the same time, the National Bank of Croatia also established and published the first daily exchange rate list, with the rate set at 55 Croatian dinars for 1 German mark. This meant a devaluation of the currency, since the official rate in late 1991 stood at 13 dinars for 1 German mark, while the price of one German mark in the grey market was approximately 37 dinars.

The Croatian dinar was a temporary and interim solution to create a solid foundation for introducing a stable national currency. Since inflation was extremely high at the time, the Croatian dinar was issued by the Ministry of Finance instead of the central bank, bearing the signature of the Minister of Finance. Coins were not issued due to high inflation.



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Pero Jurković: Speech given at the special ceremony celebrating the introduction of the kuna on 30 May 1994

Motif on the reverse of the 1000 kuna banknote: the monument to Tomislav, the first Croatian king

Kuna – the official currency of the Republic of Croatia since 30 May 1994

Stabilising prices, building international reserves and creating the conditions for the development of the economy paved the way for the introduction of the kuna. The kuna was introduced as the official currency of the Republic of Croatia on Statehood Day, on 30 May **1994**. Pero Jurković, then Governor, observed on that occasion that with its national anthem, flag, coat of arms and official currency, the Republic of Croatia was furnished with the most important symbols of its sovereignty and independence.

At the time of the kuna's introduction, prices had been stable for seven months, while international reserves reached USD 800 million. 1 kuna stood at 1,000 Croatian dinars, and in addition to banknotes, kuna and lipa coins were introduced. Although part of the Republic of Croatia was occupied at the time, the changeover from the Croatian dinar to the kuna went smoothly.

During the last 30 years, the CNB has printed over 1.5 billion banknotes, with a total value exceeding HRK 186 billion, and minted 2.8 billion pieces of coin, with a total value of HRK 1.9 billion.

Croatian Danube Region – the first release of the commemorative 25 kuna circulation coin

It was not until the peaceful reintegration of occupied territories that the process of introducing the kuna across the entire territory of the Republic of Croatia was completed. On 19 May **1997**, the kuna was introduced to the Croatian Danube Region as the official means of payment, followed by the establishment of a payments system in that region.

On this occasion, Marko Škreb, Governor of the CNB at the time, in his address to the deputies of the Croatian Parliament said:

“ Without a doubt, the most important event of 1997 was the full integration of the Croatian Danube Region into the economic and financial system of the Republic of Croatia. Through the introduction of the kuna as the legal means of payment, as well as the integration of the payments system across the country, our Croatian kuna has become the only legal currency. Financial integration was done rapidly and professionally. The Croatian National Bank, along with other institutions, made a considerable contribution to this historic event.

The commemorative 25 kuna circulation coin was in fact first issued on 28 May 1997 to mark the completion of peaceful reintegration, under the name of “Croatian Danube Region”.

In addition to commemorative circulation coins, to cater to the demands of notaphilists and numismatists, the CNB also issues and sells sets of the Croatian dinar and the Croatian kuna banknotes, sets of coins, commemorative gold

and silver coins, gold ducats and souvenir coins, most often to celebrate important anniversaries or events.

The past 30 years saw the release of:

- 8,000** gold ducats
- 20,050** pieces of commemorative gold coins
- 58,550** pieces of commemorative silver coins
- 62,000** numismatic sets of kuna and lipa circulation coins
- 50,000** sets of kuna and lipa circulation coins (issue from 1993)
- 6,000** numismatic sets of commemorative 25 kuna circulation coins.



25 kuna – Croatian Danube Region

Stabilisation programme and attaining price stability

High inflation was one of the persistent signs of weakness of the economy and inadequate economic policy in the former Socialist Federal Republic of Yugoslavia (SFRY), while it also marked the beginning of the economic history of the Republic of Croatia. The last inflation cycle commenced in summer 1990, shortly after an unsuccessful anti-inflation programme adopted by the last SFRY government. The monthly inflation rate grew almost incessantly, only to exceed 30% in the second half of 1992.

A group of younger generation economists, including the future governors Marko Škreb and Željko Rohatinski, held that inflation was not caused by excess demand or other usual pressures on the rise in prices, but that it was instead the result of deeply rooted inflationary expectations. This assumption served as a backbone for the preparation of the Stabilisation Programme that the Government of the Republic of Croatia adopted and started implementing in October **1993**. The key element of the programme was the initial one-off devaluation and the announcement of a gradual slowdown of depreciation of the nominal exchange rate of the Croatian dinar relative to the German mark in the period of three months from the release of the programme, which was to remove inflationary expectations and contribute to the programme's credibility. Expectations soon changed, demand for domestic currency rose abruptly, exerting pressure on the appreciation of the exchange rate, and the rise in prices came to a halt.

The credibility of the programme was further reinforced by the convertibility of the kuna and the possibility of free determination of the exchange rate, as provided in the programme and, upon the adoption of the Stabilisation Programme, as transposed to the Act on the Foreign Exchange System, Foreign Exchange Operations and Gold Transactions. Full external convertibility of the Croatian currency was proclaimed at the end of May **1995**.

Membership in international financial institutions and regulation of relationship with creditors

After the Republic of Croatia gained independence, it was necessary to carry out succession of assets and liabilities of the former state, regulate the relationship with financial institutions and creditor states, and become a member of international financial institutions. The Croatian National Bank played an important role in all of these processes. On 14 December **1992**, Croatia joined the International Monetary Fund (IMF) on the basis of the succession of membership of the former SFRY, acquiring the right to the members' quota of 28.49% of the former SFRY quota. Joining the IMF sped up the opening of negotiations on the division and apportionment of the former state's external debt to private and public creditors, that is, to the London and the Paris Club. An informal external debt moratorium was in place until then. However, since the relationship with foreign creditors had never been regulated, foreign borrowing was not available to the newly created state.



Strengthening of analytical capacities and opening up to professionals and the general public

*From its establishment, the Croatian National Bank has been improving its analytical capacities, to make decisions within its competence relying on a profound and complete insight into economic and financial trends. Special attention is devoted to the publication of expert and research publications. In **1992** the CNB published its first Annual Report. In 1996 the CNB started publishing its first regular monthly publication, the CNB Bulletin, soon followed by the release of periodical publications with research papers.*

*In June **1995**, the central bank of Croatia for the first time organised an international research conference, the so-called Dubrovnik Conference*

on Transition Economies. At the time of this conference, dedicated to development challenges and experiences of the economies in transition, a part of the country was still under occupation. Over time, the Dubrovnik Conference became a traditional conference, held every year. It was even held during the pandemic in 2020, marking its 26th anniversary. Since 2006, the Dubrovnik Conference has also featured YES – the Young Economists Seminar, a special seminar dedicated to young economists.



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Marko Škreb: On the early days of Dubrovnik Economic Conference

The Debt Rescheduling Agreement with the Paris Club creditors was signed in March **1995**. Under this agreement, Croatia undertook to settle the debts of original debtors resident in Croatia, as well as 28.49% of SFRY debt to the creditors concerned, that could not have been directly apportioned as per the residency of the debtors. April **1996** saw the signing of the Debt Rescheduling Agreement with creditor banks forming a part of the London Club. Pursuant to the agreement concerned, creditors were issued bonds of the Republic of Croatia for 29.5% of the debt of the National Bank of Yugoslavia. This marked the end of the apportionment of external debt of the former Yugoslavia. In late 1996, the total external debt of the Republic of Croatia stood at about one fourth of GDP.

In June **1997**, the Croatian National Bank became a full member of the Bank for International Settlements (BIS) based on the extraordinary capital increase, as opposed to its membership in the IMF that was based on the succession of the membership of the former SFRY. In April **2001**, the successor states of the SFRY reached agreement about the distribution of assets of the former state in the Bank for International Settlements, and Croatia was allocated 28.49% of these assets, i.e. USD 118 million, that became a part of the international reserves of the Republic of Croatia. The shares acquired within the scope of succession enabled the CNB to become a co-owner of the BIS, an international financial institution co-owned by central banks, with a mission to support central

banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for central banks.

Banking system rehabilitation

In the socialist era, banks applied no risk or profitability criteria when lending, and the constant inflow of new loans served to support weak enterprises. This meant that even before Croatia gained its independence, the banking system was exposed to serious operational difficulties, with a large number of insolvent banks. Such adversities intensified dramatically after Croatia gained independence. To be precise, in the SFRY, Croatian citizens generally saved in foreign currencies, which banks were obligated to deposit with the National Bank of Yugoslavia (NBY). Such foreign currency claims the banks had against the National Bank of Yugoslavia, making for a half of the total assets of the banking system at the time Croatia gained independence, became worthless after the breakup of Yugoslavia. In addition, the beginning of transition and the disintegration of SFRY had a strong adverse impact on the corporate world, making it even harder for enterprises to settle their liabilities to banks.

In **1991**, the state engaged in the rehabilitation of the banking system by converting bad claims to sovereign debt. On the one hand, the state undertook to repay foreign currency deposits to citizens, and on the other hand it carried out the rehabilitation of state-owned enterprises by

issuing the so-called big bonds, that allowed the enterprises concerned to repay their debt to banks.

Although this considerably improved the soundness of the banking system, the state-owned banks mostly continued accumulating loss, largely due to non-performing placements to big state-owned enterprises. Thus, in **1996** three of the four biggest banks were again in need of rehabilitation. In order to prevent recurrence of such rehabilitations, a considerable burden for the state budget, preparations for the privatisation of those banks were made, and implemented several years later. Total rehabilitation costs were estimated at 31% of Croatian GDP.

The banking crisis and banking system consolidation

The liberalisation of the banking market during transition facilitated the establishment of new banks, and thus their total number sharply increased. In 1998, there were 60 banks operating in Croatia, the largest number of banks to date and twice as many as in pre-independence period. However, some of the new private banks grew too fast. These banks attracted savers by offering high interest rates on deposits, but failed to adequately assess the risks taken in lending, and often lent to connected clients.

From 1997 there were indications of economic slowdown due to the Russian and Asian crises and

numerous problems at national level, culminating in 1999 with the contraction of GDP. Several small and medium-sized newly-established private banks incurred problems, which quickly resulted in a banking crisis. In accordance with the powers conferred on the CNB pursuant to the new **1998** Banking Act, the CNB filed proposals for the initiation of bankruptcy proceedings against 16 banks and five savings banks, whose operations did not meet legal requirements, as determined by the CNB. In some cases, the CNB proposed liquidation or rehabilitation in order to preserve stability and confidence in the banking system. By the end of **2000**, the number of banks in Croatia fell to 43.

The consolidation process lay the foundation for a more sound banking system, better risk management and stronger resilience in the event of macroeconomic shocks and international financial crises, as well as for a decrease in interest rates. However, the consolidation process was accompanied by fiscal costs due to the payment of secured deposits and strong resistance from the owners who were rid of their holdings. The banking crisis in **1998** and **1999** was the formal reason why the Croatian Parliament refused to accept the central bank's report for 1998 and the first half of 1999. Following that decision members of the CNB Council surrendered their mandates, and were removed from office in July **2000**.



THE SECOND DECADE:

Preserving financial stability during the economic upturn and absorbing the effects of the global financial crisis during the economic downturn

Further modernisation of the CNB's work

The start of the century was marked by further modernisation in all areas of the central bank's activities, most notably in the period preceding the global financial crisis, which forced the CNB to focus its efforts on the preservation of financial stability and support to the economic recovery following recession.

A new legal framework for the CNB's operations

In April **2001**, the new Act on the Croatian National Bank was adopted, bringing a legal framework for the CNB's operations closer to the European Union standards. Among other things, the Act laid down the status, tasks, ownership status, powers and the organisation of Croatia's central bank. It also laid down the functional, institutional, financial and personal independence of the CNB. Under this Act, achieving and maintaining price stability was reiterated to be the main objective of the central bank.

Introduction of the open market operations

In early **2005**, the CNB modernised and complemented its set of monetary policy instruments with open market operations, the aim whereof was to better manage the liquidity of the banking system and to stabilise interest rate movements on the money market. With the introduction of the open market operations, the framework for the implementation of the



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Željko Rohatinski: Speech given at the 12th Croatian Economic Association Conference on 12 November 2004; Monetary Policy (available in Croatian only)

CNB's monetary policy was brought closer to the monetary framework of the European Central Bank. Open market operations refer to the purchase or sale of certain assets on the financial market, i.e. the granting of loans to banks and collection of deposits from the banks.

There are three basic types of operations: regular open market operations, conducted regularly, their frequency scheduled in advance, fine-tuning operations conducted as required, and structural operations conducted in situations in which it is necessary to influence the price or the supply of reserve money due to structural changes in liquidity. Although slightly modified, these monetary operations are still in use and have played a major role in the stabilisation of disruptions on the financial market due to the outbreak of the COVID-19 pandemic in the spring of 2020.

Modernisation of the payments system

At the turn of the century, major steps were taken to build a reliable payments system infrastructure aligned with the needs of the modern economy. The first step was the establishment of the Croatian Large Value Payment System (CLVPS) in April **1999**. CLVPS enabled the CNB to manage banks' accounts, and its participants to conduct large payment transactions in real time on a gross

basis. February **2001** marked the establishment of the National Clearing System (NCS), which enabled the banks to have an ongoing insight into the available funds of its clients, considerably improving management of liquidity. The NCS is an interbank payment system for the clearing of a large number of transactions on a multilateral net principle, by way of their set-off. This enables daily clearing of a large number of transactions with a relatively small liquidity engagement.

Since July **2005**, the CLVPS has been used for the settlement of securities trading, thus enabling simultaneous delivery of securities for payment (the so-called delivery vs. payment).

Introducing a modern infrastructure made way for better and more diverse services, such as internet banking and mobile banking, and accelerated cash flows, creating solid ground for a modern economy.

CNB – pioneering the implementation of macroprudential policy

The privatisation of banks and the liberalisation of the banking system in 1990s resulted in a more resilient banking system and fiercer competition among banks. The growing demand of individuals and businesses on the national level for all types of loans at the beginning of 2000s resulted in a very generous loan supply. Domestic deposits soon became insufficient for the financing of loans, and banks turned to foreign sources of financing, amid extremely favourable financing conditions and high liquidity on the global level. In such circumstances, the CNB assessed that the number of loans

was growing too fast and that the economy was overheating. The growing deficit in the current account balance, a leap in external debt and the occurrence of price bubbles in the real estate and securities markets were clear signs of this. Consequently, in the period between **2003** and **2007**, the CNB took a range of measures to limit excessive lending.

These measures served to limit the increased vulnerability of the Croatian economy, and to strengthen the resilience of the financial system in the event of potential crises. In order to maximise their effect, these measures had been gradually adapted and supplemented, until the outbreak of the global financial crisis. It was these measures that preserved the stability of the financial system, not only at the time of their implementation, but also amid the very unfavourable conditions caused by the global financial crisis. Today, these measures belong to the so-called macroprudential policy measures, while it was only subsequently that they have been recognised as a separate area of economic policy in economics.

In November 2007, Governor Željko Rohatinski described numerous measures taken to curb the growth in placements as follows:

“ *The measures taken by the CNB and their results show how much effort we invested in preventing further deterioration of the present situation. They also point to the limited possibilities when it comes to acting only through monetary policy. But act we must because there is no other alternative.*

Response to the global financial crisis

The global financial crisis, which started in **2007** as a result of risky mortgage-backed securities in the USA, reached its peak at the end of September **2008** with the collapse of the Lehman Brothers investment bank. The panic sparked in the financial markets spread worldwide overnight. Among other things, the crisis manifested in a sudden halt in capital flows. Almost overnight, this caused difficulties in countries with a substantial current account deficit and considerable external funding needs, which became more expensive and difficult to obtain.

Croatia entered the crisis with its current account balance deficit exceeding 10% of GDP, which was unsustainable in the long term, even before the crisis. However, there was a risk that such a deficit could be eliminated in a way that could devastate the economy as a consequence of the collapse of the domestic consumption and investments. The orderly balancing of current account balance was further hindered by a drop in exports and revenues from foreign tourist overnight stays due to the decrease in demand.

The CNB acted promptly to mitigate the impact of the crisis on the domestic economy. First of all, it was necessary to preserve exchange rate stability through foreign exchange interventions, given that the shortage of foreign currency resulting from the drop in exports and from interrupted capital inflows exerted pressure on the kuna depreciation. Too abrupt changes in the kuna exchange rate could have spiralled into negative expectations and

increased the indebtedness of citizens, enterprises and the state, spurred inflation and further deepened the recession. In addition to preserving the stability of exchange rate, by suspending and reducing various types of accumulated reserves, the CNB created additional kuna and foreign exchange liquidity for banks. Along with a high level of capital adequacy created by the banks as a result of the measures previously taken by the CNB, this enabled the banks to continue providing financial support to the economy and the state even in the challenging times of the crisis.

Speaking about the global financial crisis at the Croatian Money Market conference in May 2009, Governor Željko Rohatinski remarked:

“ *[The crisis] must primarily be regarded as a dire warning of the consequences that may arise, and that have already arisen, from neglecting the issue of the sustainability of economic growth. This warning could have been even more severe had the CNB’s monetary policy stance in the previous years been different. If we take this warning seriously, this crisis will also provide us with an opportunity for a fresh approach to future economic development. It will not be long before we see whether we have enough persistence, knowledge and will for all that.*

Wrong address – joint silver coin issue

In 2007, the Croatian National Bank prepared and issued money in cooperation with another central bank for the first time. In cooperation with the Central Bank and Financial Services Authority of Ireland, the CNB issued silver coinage celebrating the renowned Croatian sculptor Ivan Meštrović. The main motif on the silver coin is a work by Ivan Meštrović, Girl with Harp.

In 1927, the Chairman of the Design Committee, the famous Irish poet William Butler Yeats, recommended that an invitation should be sent to Meštrović to design the first currency for the

Irish Free State. However, the letter was sent to the wrong address and Meštrović missed the deadline.

“ *He made one magnificent design and, on discovering that the date had passed, generously gave it to the Irish Free State.*

– wrote Yeats of Meštrović and his Girl with Harp.

Since 1965 Girl with Harp has featured on the official seal of the Irish central bank, while it was not until the 2007 silver coin issue that the design was used for its original purpose – to adorn coinage.



Commemorative silver coin celebrating
Ivan Meštrović, jointly issued by the
Croatian National Bank and the Central
Bank and Financial Services
Authority of Ireland



The seat of the ECB, Frankfurt AM

THE THIRD DECADE:

Becoming an integral part of the European System of Central Banks and preparing for the introduction of the euro

CNB joins the European System of Central Banks

The Republic of Croatia acceded to the European Union in 2013. However, the preparations for EU accession began much earlier and also involved the adjustment of the national legislative framework pertaining to the Croatian National Bank. The new Act on the Croatian National Bank entered into force in **2008**, further aligning national legislation with the legal standards of the European Union. This particularly involved legislative adjustment of matters pertaining to the institutional, functional, personal and financial independence of the central bank and members of its bodies, to suit European standards. With the accession of Croatia to the European Union on 1 July **2013**, the CNB became an integral part of the European System of Central Banks, and the Governor a member of the General Council of the European Central Bank.

Role of the CNB in the Vienna Initiative 2.0

As the central bank of a new Member State of the European Union, the CNB has assumed a very active role in the Vienna Initiative 2.0. In **2016** Governor Boris Vujčić was appointed chairman of the Vienna Initiative 2.0 Steering Committee. Established at the height of the global financial crisis, this initiative brings together the most important public and private sector stakeholders of EU-based cross-border banks active in the countries of Central, Eastern and Southeastern Europe (CESEE), with the aim of engaging in systematic and concerted action to prevent a

systemic banking crisis and to maintain credit activity critical for the functioning of economy.

The path to the euro

Croatia's path to the euro began with the presentation of the *Strategy for the Adoption of the Euro in Croatia* on 30 October **2017**. The document, jointly prepared by the Croatian National Bank and the Government of the Republic of Croatia, analysed the benefits and drawbacks of the adoption of the euro for Croatia from an economic standpoint, described the process of euro adoption and set out the activities planned by the Government of the Republic of Croatia and the CNB in the period preceding the introduction of the euro. The Government of the Republic of Croatia adopted the Strategy in May 2018 following public consultation.

On 28 May **2019**, Croatia sent a formal request to the European Central Bank for the establishment of



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Boris Vujčić: Joining the ERM II and the establishment of close cooperation, 10 July 2020

the so-called close cooperation between the ECB and the CNB in the exercise of supervisory tasks over credit institutions. On 4 July **2019**, Croatia also sent a letter of intent to enter the European Exchange Rate Mechanism (ERM II) to the euro area Member States, Denmark and EU institutions.

Amid pandemic crisis – Croatia entered the European Exchange Rate Mechanism, and the CNB established close cooperation with the European Central Bank

In July **2020** Croatia was admitted to the ERM II, the so-called euro area waiting room. The central rate of the kuna against the euro, that Croatia committed to maintain, is set at 1 euro = 7.53450 kuna, with a fluctuation band of $\pm 15\%$. In order to introduce the euro, Croatia must fulfil the so-called Maastricht criteria, that is, the nominal convergence criteria, for at least two years, involving price stability, sustainability of public finances, exchange rate stability and convergence of long-term interest rates.

“ Today we made an important step towards the entry of Croatia to the euro area,

said Governor Boris Vujčić on 10 July 2020, adding:



“ I am especially pleased that all the steps for the accession to the European Exchange Rate Mechanism were taken in a timely manner, despite the pandemic and the situation in the past months.

Concurrently with the decision on the entry of Croatia to the ERM II, the European Central Bank adopted the decision on the establishment of close cooperation with the Croatian National Bank, by which the CNB has become a part of the Single Supervisory Mechanism and the Single Resolution Mechanism, even before its accession to the euro area.

Consumer protection – the main principle of the National Euro Changeover Plan

The end of December **2020** saw the adoption of the National Euro Changeover Plan, describing all the main operational activities for the smooth changeover from the Croatian kuna to the euro. The main principle of the Plan is consumer protection – the process must be free of charge for citizens, which means that they must not end up in a less favourable financial position than they would have been in if the euro had not been introduced.

Adjustment of payment services and payments system to the euro

One of the adaptations relating to the membership in the European Union, as well as the future membership in the euro area, concerned the adjustment of payment services and payment

operations infrastructure. The adjustment of payment services paved the way for digitalisation and the introduction of technology innovations in payment transactions, while fostering safety and reliability, with lower fees for cross-border payments in the euro, at the level of national payments in the kuna. In **2016**, Single Euro Payments Area standard (SEPA) was introduced for all the payments in the euro and in the kuna. This was preceded by the introduction of the international bank account number (IBAN) in **2013**.

With regard to payment operations infrastructure, the adjustment involved adding new payment systems to the existing infrastructure. At the beginning of **2016**, the Croatian National Bank established the Croatian component of the TARGET2 payment system (TARGET2-HR). TARGET2 is the EU real-time gross settlement payment system in euro. EuroNCS, the payment system for clearing retail payments in euro, began to operate in the same year, enabling the clearing of national transactions in the euro on a multilateral net principle, by way of set-off, as well as the execution of cross-border payment transactions in the euro by way of interoperability with other payment systems in the EU. In November **2018**, the CNB provided credit institutions with the possibility to participate in the TIPS service, within TARGET2, enabling its participants to settle instant transactions, i.e. payment transactions in euro settled within seconds, at any time of the day, throughout the year.

Swiss franc loans crisis

At the beginning of the 21st century, banks in Croatia started lending in Swiss francs, as was the case in many Central and Eastern European countries, about a decade after such practice had been on the rise in Austria. As a result of lower interest rates compared with the loans denominated in the euro, such loans soon became popular, especially when it came to long-term loans, such as car loans and housing loans. The popularity of Swiss franc loans was unyielding, even in light of the CNB's warnings about the risk of taking loans in Swiss francs with a currency clause. In his address to the Croatian Parliament in June 2005, then Deputy Governor Boris Vujčić said:

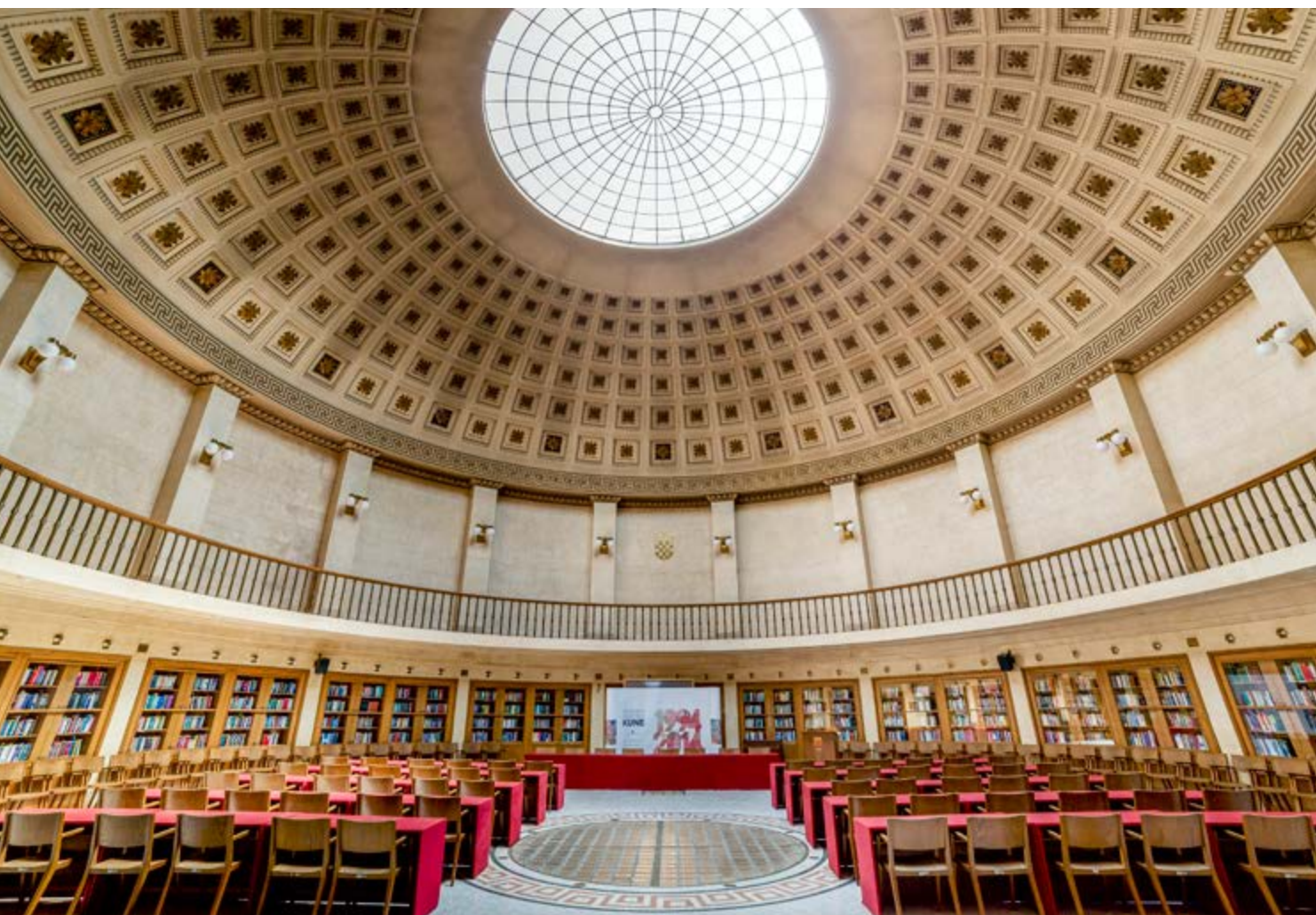
“ As the number of Swiss franc loans continues to grow, Croatian citizens fail to realise the currency risk they are assuming in taking such loans. With its interventions, the central bank has been maintaining the EUR/HRK exchange rate in the range of $\pm 5\%$, with no such guarantee in case of Swiss francs.

Following the outbreak of the global financial crisis in 2008, the spread between the euro and the Swiss franc interest rates in the international financial markets decreased, while the exchange rate of the Swiss franc strengthened, seemingly making it a safe haven in times of crisis. For this reason, loans denominated in Swiss francs were largely discontinued. Despite that, due to their long

maturity, the share of housing loans denominated in Swiss francs relative to the total housing loans was relatively stable in the years following the crisis, at a level of about 40%.

In order to alleviate the soaring monthly instalments for Swiss franc loans, the Government of the Republic of Croatia and the banks took a set of measures with the aim of making such repayments less burdensome. Borrowers with Swiss franc loans took legal action to the same end. At the end of 2015, borrowers were provided with a legal option to convert their loans to the euro, placing them in the same financial position that they would have been in had their loans been denominated in the euro from the start.

During debates on addressing the problem of borrowers with Swiss franc loans, the CNB collected and analysed various data, aiming to contribute to a well-informed and high-quality public debate. The CNB also played an important role with its supervision of the conversion process at the end of **2015** and during **2016**, by imposing different measures to banks in order to ensure their uniform and lawful operation. Finally, with its monetary policy measures, the CNB managed to maintain exchange rate stability and favourable financing conditions, despite disruptions that the conversion caused in the financial markets. Court proceedings are still pending concerning certain aspects of Swiss franc loans, that is, the interpretation of certain matters pertaining thereto.



The most impressive part of the CNB building – 21-metre wide coffered dome covers the large Round Hall, the former main stock exchange hall

CNB's activities relating to consumer protection and boosting of economic and financial literacy

The Croatian National Bank takes part in improving the legal framework and carries out activities falling within its remit focused on a more efficient consumer protection. Separate organisational unit dealing with consumer protection was first established in **2011**. Since **2014**, consumer protection has been the responsibility of the Consumer Protection Monitoring Office. With its organisational structure that mirrors a dedication to monitoring consumer protection, the Croatian National Bank follows the modern trends in terms of activities carried out by central banks and the European Central Bank. Such reorganisation is also deemed a prerequisite for successfully maintaining financial stability, as one of the core functions of the CNB, having in mind that financial stability also stems from caring for consumer rights and their financial literacy.

Clear and proactive consumer information – internet, social networks, mobile application

Transparent information provides the best protection for consumers. Thus, the CNB's website contains detailed information for consumers that is useful when considering offers and making

decisions on arranging certain banking products or services. From **2017** the Croatian National Bank publishes information on current offers of loans to consumers, and keeps them regularly updated. This information allows the consumers to compare different bank loans on offer. In addition to loan information, the CNB website also provides information on bank fees charged for the most common payment services. The mobile application mHNB has been developed for easier access to this information. On its website the CNB also publishes appropriate warnings for consumers about new risky offers or products in the banking market, and provides information about how consumers can protect their rights in relation to service providers that fall within the CNB's remit.

Financial education for pupils, students, professors...

Economic and financial education is very important for taking informed financial decisions. Consequently, the CNB has been directing its efforts to strengthening the economic and financial literacy of the young, and has been organising various lectures and workshops in this regard for about fifteen years now. Pupils, students and professors have been increasingly interested in expanding their knowledge in the area of managing personal finances, but also about the Croatian central bank and current economic and monetary trends in Croatia. In the course of the pre-pandemic 2019, the CNB opened its doors to an unprecedented number of visitors, attending various financial education programmes: 4289 pupils, students, professors and other interested citizens.



Link

Information list with the offer of loans to consumers, information for consumers on the CNB website
(available in Croatian only)



Students debate

Since **2014** the Croatian National Bank has been marking the Global Money Week and the European Money Week and in cooperation with the Croatian Debate Society has been organising student debates since **2016**. This traditional debate is held once a year in the CNB's Round Hall and attracts about two hundred students from all over Croatia to debate on current financial topics. The debate is streamed live, allowing their colleagues and the general public to follow the debate, to ask questions and make comments.



Link

Large student debate
2016 – 202

CNB Open Doors Day

*The CNB Open Doors Day was first held in **2017**. On these occasions, visitors may take a tour of the Round Hall and learn about one of the most beautiful buildings of Croatia's architectural heritage, the palace of the former Zagreb Stock and Commodity Exchange, designed by Viktor Kovačić, a renowned Croatian architect. In addition to these tours, the CNB also organises educational workshops for the public. In 2019, the public had the opportunity to learn more about the security features of kuna banknotes.*





25th anniversary of the introduction of the kuna

In May **2019**, the CNB marked the 25th anniversary of the introduction of the kuna by releasing a commemorative 25 kuna circulation coin: “25th anniversary of the introduction of the kuna as the legal tender in the Republic of Croatia, 30 May 1994 – 30 May 2019”. On the occasion, the exhibition, “The kuna – twenty-five years of the monetary unit of the Republic of Croatia”, was inaugurated in the Archaeological Museum in Zagreb. Exhibits included every issue of banknotes and coins and commemorative circulation coins of the Republic of Croatia released during the 25 years of circulation, as well as graphic designs for banknotes and plaster models of coins in the period in which the kuna and the lipa originated.



The Croatian National Bank marked anniversaries of the introduction of the kuna by releasing special issues of banknotes and coins. In 2004, marking the 10th anniversary of the kuna, the CNB released commemorative 10 kuna circulation banknote, with an additional commemorative microtext, as well as 1 kuna circulation coin with an indication of years “1994 – 2004”. On the occasion of the 20th anniversary of the introduction of the kuna, the Croatian National Bank released for sale a set of commemorative 10 kuna circulation banknotes (issue from 2004) and 20 kuna circulation banknotes (issue from 2014).

Contemporary Croatian art in the European Central Bank

In June 2019, in cooperation with the Croatian National Bank, the European Central Bank organised and inaugurated an exhibition of contemporary Croatian art in the seat of the ECB in Frankfurt. As part of the “Contemporary Art from the Member States of the European Union”

series, the exhibition presented the works of Igor Grubić, Tina Gverović, Kristijan Kožul, Lonac, David Majković, Ana Mušćet, Damir Očko, OKO, Lala Raščić, Goran Trbuljak, Nora Turato and Zlatan Vehabović. The European Central Bank acquired a part of the artwork exhibited for its own art collection.



Response to the coronavirus crisis in Croatia during 2020: Government of the Republic of Croatia, CNB and HANFA

Monetary policy measures of the CNB

5.5% of GDP

Purchase of government securities on the secondary market

5.7% of GDP

Direct purchase of foreign exchange from the government

5.3% of GDP

Sale of foreign currency in the foreign exchange market

1.7% of GDP

Reduction of the reserve requirement rate

0.7% of GDP

Structural and regular weekly operations

Contracted **currency swap** with the European Central Bank

Extended list of potential participants in securities sale and purchase transactions

CNB measures for consumer protection

Increasing contactless payment amount to HRK 250 without using a PIN

Fiscal measures of the Gov. of the RC

0.1% of GDP
Write-off of direct taxes

0.8% of GDP
Contributions for pension and health insurance write-off

0.4% of GDP
Other measures (capital transfers, sector subsidies etc.)

0.6% of GDP
Tax liabilities deferrals¹

2.1% of GDP
Job preservation support

0.5% of GDP
Procurement of means to fight the pandemic

1.1% of GDP
Guarantees planned

0.3% of GDP
Guarantees issued²

Measures aimed at alleviating the negative consequences of the pandemic

Supervisory measures of the CNB

Retention of profit from 2019

Adjustment of certain supervisory activities

14.9% of GDP³
Loans moratorium

Extended deadlines for the implementation of supervisory measures

Ban on dividend payouts by insurance companies

Abolition of fees for bond issuers on the regulated market

Recommendation for granting moratorium to leasing company clients

HANFA supervisory measures

¹ Tax deferrals were granted mainly during the second quarter. By year's end, most tax deferrals had been settled or converted into write-offs.

² Situation at the end of 2020

³ Situation in September 2020 when the situation with the active moratoriums reached its peak

**NEW DECADE, NEW
CHALLENGES:****Response to
the pandemic
crisis****The CNB responds to the COVID-19
crisis**

In early **2020**, the world was hit by the COVID-19 pandemic, causing a sudden halt in economic activity, accompanied by disturbances in the financial markets. The governments and central banks of the leading world economies responded in a swift and coordinated manner, taking unprecedented measures in terms of their scope and intensity. This was also done in Croatia. The CNB reacted by introducing extensive monetary, supervisory and other measures within its competence in order to preserve the stability of the kuna exchange rate and favourable financing conditions, thereby mitigating the adverse effects of the pandemic for the economy. Among other things, the CNB also launched a government securities purchase programme. The monetary policy framework already provided the possibility of employing such instrument. However, it was not until 2020 that the CNB decided for the first time that there was a need to use this instrument in order to prevent stoppage in the government securities market and the abrupt increase in the cost of government borrowing, and thus also the risk of more expensive borrowing for citizens and the economy.

Apart from a strong foreign exchange intervention, easing of depreciation pressures was also the result of the swap line agreement concluded between the CNB and the European Central Bank in April 2020.

By employing a flexible approach to assessing the creditworthiness of good borrowers, within the scope of its supervisory measures, the CNB facilitated the granting of moratoria, restructuring of the existing loans and granting of new loans. Amid uncertainty in terms of the duration and the final impact of the pandemic crisis on their operations, credit institutions were required to retain net profit generated in 2019 and to adjust the payment of variable remunerations, which contributed to their already existing strong capitalisation.

The Croatian National Bank faced the pandemic crisis prepared, and its measures were timely, efficient and aligned with the measures of other economic policymakers. Despite blinding uncertainty and non-standard working conditions, further aggravated by devastating earthquakes, the CNB paid particular attention to provide detailed information to the public about the details and the purpose of all the measures taken. In addition, the Croatian National Bank issued numerous recommendations for credit institutions and consumers, aimed at adjusting the operations and the use of banking services to pandemic conditions.

The euro, climate change and digitalisation – new challenges for the CNB

Other than combating the consequences of the pandemic, the CNB will face some new challenges in the fourth decade. First of all, this concerns successful completion of the process of joining the euro area and the euro changeover. Moreover, similar to other central banks today, the Croatian



Link

CNB Innovation Hub: Platform for the exchange of information between the CNB and business entities about the use of innovative technology in financial products

National Bank also faces the necessity to expand its work to areas outside its traditional scope of action.

FinTech and crypto-assets

Digitalisation will change all the business segments, including banks' operations, payment methods, and potentially even the nature of money and the role of central banks. The market in crypto-assets and the preparation of regulations to introduce uniform rules of operation and provide legal protection to all the participants in this new segment of the financial market prove to be especially challenging for central banks. As a result of the growing importance of these topics, in **2017** the Croatian National Bank established a working group for FinTech. At the end of **2019**, a platform for the exchange of information and communication between the CNB and business entities developing innovative technology-driven financial products and services – the Innovation Hub – was established.

Response to the climate crisis

Climate change and environmental degradation have also recently been at the centre of attention of central banks, which realise that the climate crisis calls for the reshaping of all segments of their work, and their active participation in mitigating its consequences.

In early 2021 the CNB launched a survey among Croatian banks on sustainability risks, focusing on climate and environmental risks, in order to gain insight into whether credit institutions in Croatia are familiar with environmental and climate risks, whether they take these risks into account and if so, how they manage them. The results of the survey were presented at a conference called The Role of Banks in Greening Our Economies in April 2021.

In June **2021**, the Croatian National Bank became a member of the Network of Central Banks and Supervisors for Greening the Financial System, with the aim of participating in a joint effort to shape an adequate response to climate change and meet the objectives set out in the Paris Agreement, in cooperation with other world central banks, regulators and international financial institutions.



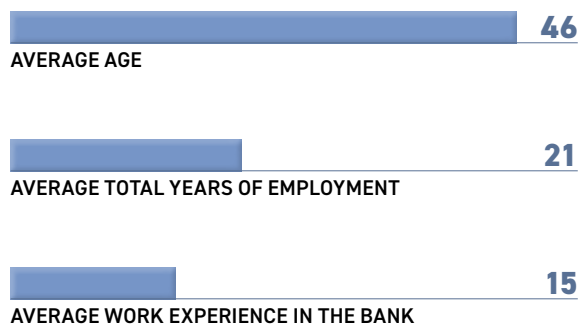
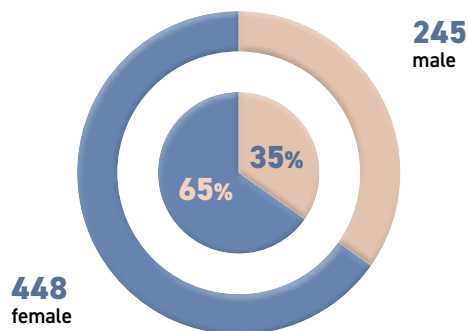
The people who make the CNB

The Croatian National Bank employs various professionals whose attitude, knowledge, skills and capabilities, as well as a high level of commitment contribute to the pursuit of the CNB's business objectives. The CNB supports, fosters and encourages interdisciplinary approach and perspectives. Thus, even though the majority of its highly educated employees hold a degree in economics, the Bank also employs a relatively high number of professionals from other areas, such as social sciences, natural sciences, engineering, etc.

At the end of 2020 the CNB employed 693 staff, with women making up the majority (65%).

When it comes to staff gender structure, the Croatian National Bank is one of the few ESCB central banks with a higher share of female staff. There is a high percentage of women across all levels of management, holding positions in all areas (research, analysis, supervisory, legal and similar areas).

TOTAL NUMBER OF EMPLOYEES

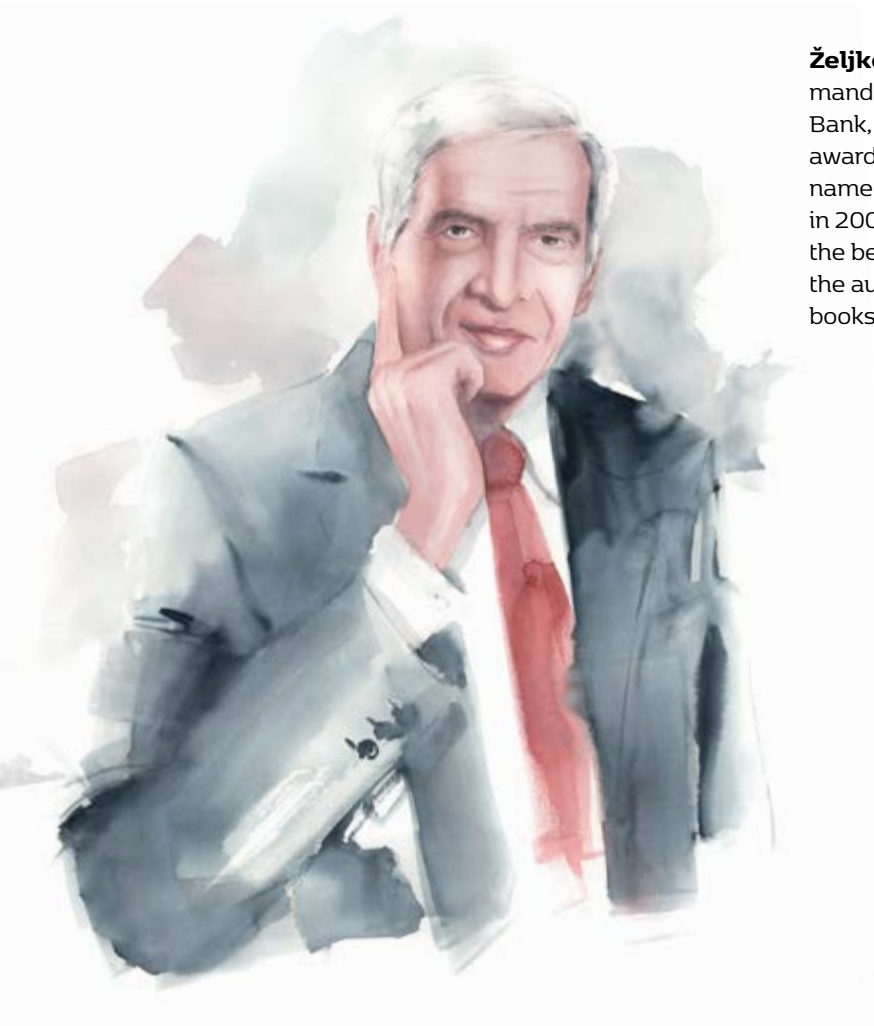


Governors





Boris Vujčić (1964 –) was appointed Deputy Governor of the Croatian National Bank in 2000, and assumed office as Governor of the Croatian National Bank in 2012. From 2005, Mr Vujčić was also Deputy Chief Negotiator in Republic of Croatia’s negotiations with the European Union. Mr Vujčić has been an associate professor at the Zagreb Faculty of Economics since 2003. At the Zagreb Faculty of Science, Department of Mathematics, he has lectured as visiting professor since 2004. He has received numerous awards for his work. In 2021 he was presented with the prestigious Lamfalussy Award, placing special emphasis on his achievements in the successful process of Croatia’s EU integration, including its accession to the European Exchange Rate Mechanism II.



Željko Rohatinski (1951 – 2019) served two mandates as Governor of the Croatian National Bank, from 2000 to 2012. He received several awards for his work – in 2009 *The Banker* named him the best European governor, and in 2008 the same monthly proclaimed him the best central banker on a global scale. He is the author of many professional and scientific books and articles.

Marko Škreb (1957 -) worked in the Croatian National Bank as Director of the Research and Statistics Area, and later as Governor of the CNB, from 1996 to 2000. In 1997, he received the Euromoney's Best Eastern European Banker award and the Banker's Central European Annual Award for Excellence and Best Central Bank Governor. He published many articles and edited many books, mostly on transition topics with a special focus on financial issues.





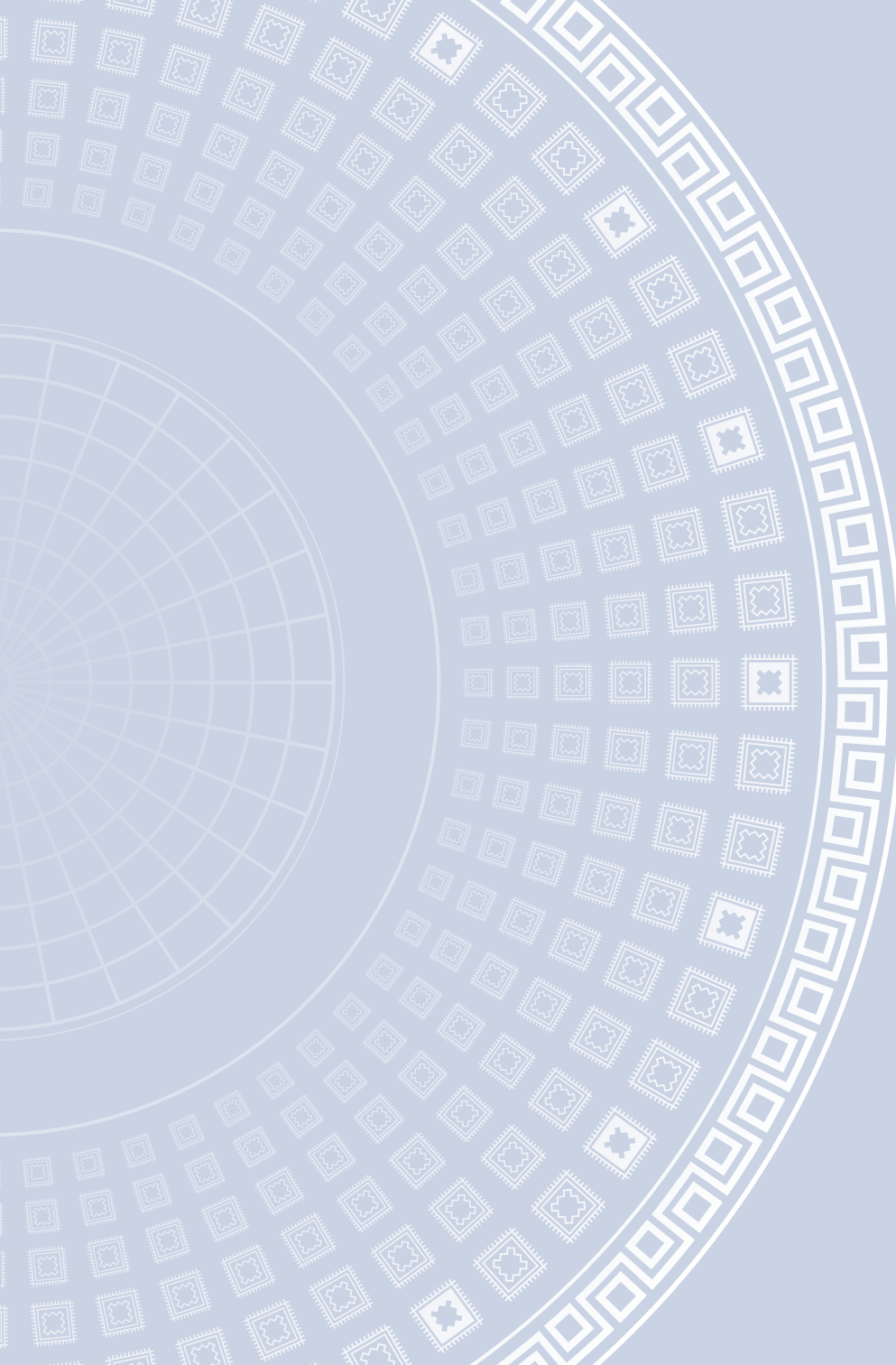
Pero Jurković (1936 – 2011) was appointed Governor of the Croatian National Bank in 1992, the position he held until 1996. It was during his governorship that the kuna was introduced as the official Croatian currency in 1994. He is the author of over 300 scientific and professional papers and a recipient of many state decorations.

Ante Čičin-Šain (1935 – 2008), a renowned economist and diplomat, was the first Governor of the independent Croatian National Bank (1990 – 1992), who led Croatia on the path to monetary independence. After leaving the CNB, he pursued his career in diplomacy. He was the first Head of the Mission of the Republic of Croatia to the European Community in Brussels after which he was appointed Ambassador, first in the UK and then in Ireland. He remained active on many projects even after retiring.



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The building, the work of the renowned Croatian architect Viktor Kovačić, is recognisable for its façade with four Ionic columns and the white stone from the island of Brač.

Particular attention was paid to the building's interior: furniture, light fixtures and balustrades on the staircases and the gallery of the main stock exchange hall were designed especially for the building, of which a large part has been preserved to this day.

CROATIAN NATIONAL BANK, 2021

