Financial system in the Republic of Croatia

A country's financial system is made of the country’s currency, payment system, financial markets, financial institutions and institutions regulating and supervising their operations. Credit institutions are the backbone of the financial system of the Republic of Croatia. They are regulated and supervised by the Croatian National Bank.

The legal tender in the Republic of Croatia is the kuna. As regards the payment system of the Republic of Croatia, all domestic and cross-border cashless payment transactions of natural and legal persons are conducted through payment service providers, most commonly the banks while interbank cashless payment transactions are conducted through four payment systems: Croatian Large Value Payment System (CLVPS), National Clearing System (NCS), EuroNCS and TARGET2. The operation of the payment system in the Republic of Croatia is regulated by a number of acts, most notably the Payment System Act and the Electronic Money Act. The Croatian National Bank is responsible for regulating the amount of currency in circulation through the banks and for smooth operation of the payment system.

The banks collect liquidity surpluses of maturities up to one year on the money market and lend them to natural and legal persons and other institutional sectors. The banks engage in interbank liquidity lending on the so-called interbank market. They can do it either directly or through the Zagreb Money and Short Term Securities Market d.d. (also known as the Zagreb Money Market, ZMM).

Banks meet domestic demand for foreign currency and foreign demand for the domestic currency on the foreign exchange market. Authorised exchange offices, whose operation is regulated by the Croatian National Bank and supervised by the Foreign Exchange Inspectorate of the Ministry of Finance, are also active participants in this market. Authorised exchange offices may only trade in foreign cash and checks and only with natural persons, while banks may also trade in foreign currency (foreign currency demand deposits) and with legal persons. The banks, the government and international institutions may trade in foreign currency with the CNB, directly or through the so-called foreign exchange auctions, used by the CNB to regulate the exchange rate of the Croatian kuna.

To ensure more efficient implementation of the monetary and foreign exchange policies, the CNB may issue securities in its name, denominated in the domestic or foreign currencies, and enter into agreements in the financial markets on purchasing, selling and swapping securities and other easily marketable financial instruments. In this way, the central bank becomes a participant in the money and foreign exchange market and when necessary, influences the liquidity in the domestic financial market. In view of the openness and a high level of euroisation of the Croatian economy, the maintenance of a relative exchange rate stability is the key tool used by the CNB to maintain the overall macroeconomic stability in the Republic of Croatia. Consequently, the central bank strives to keep fluctuations in the nominal exchange rate of the kuna against the euro under control, both directly, by means of foreign exchange market interventions, and indirectly, by means of administrative and prudential measures.

Natural and legal persons can also invest in equity and debt instruments traded in the capital market or stock exchanges through mediation of licensed brokers. These instruments are traded on the Zagreb Stock Exchange, and the responsibility for due settlement of securities purchase and sale transactions lies with the Central Depository & Clearing Company (CDCC).
Based on the share of financial sector assets held, the most important financial intermediaries in the Republic of Croatia are credit institutions, most notably the banks. In addition to banks, also present in the market are housing savings banks, promoting special-purpose savings and providing household lending, the Croatian Bank for Reconstruction and Development (HBOR), a development and export bank, and credit institutions from other EU countries. Along with credit institutions, major financial intermediaries, measured by the share of total financial sector assets held, are mandatory and voluntary pension funds, while other financial intermediaries include insurance corporations, investment and money market funds and leasing and factoring companies. An overview of the structure of financial assets of all institutions is available in the table of financial accounts. The operation of all types of non-banking financial intermediaries is regulated and supervised by the Croatian Financial Services Supervisory Agency (Hanfa).

In addition to CNB’s and Hanfa’s activities as regulators, there are other supervisory-regulatory authorities and financial auxiliaries whose actions contribute to the smooth functioning and wholesomeness of the financial system: the State Agency for Deposit Insurance and Bank Resolution (DAB) responsible for the supervision of the deposit guarantee scheme, and the Financial System Sector of the Ministry of Finance, responsible for preparing legislative proposals in the area of financial operations. The institutions representing the interests of the banking sector in relation to supervisory-regulatory institutions and the public are the Croatian Banking Association (CBA) and the Croatian Banking Association at the Croatian Chamber of Economy (CCE). Other institutions specialised for the provision of services to participants in the financial markets and in regular operations include the Croatian Registry of Credit Obligations (HROK), the Central Registry of Insured persons (Regos) and the Financial Agency (Fina).

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