



## Monetary policy implementation

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The Croatian National Bank implements its monetary policy by determining and implementing instruments and measures needed to fulfil its objectives and tasks. Foreign exchange interventions are the main monetary policy instrument of the CNB. Therefore, the CNB's assets almost entirely consist of international reserves which exceed the level of M1 money supply.

Foreign exchange interventions are conducted through foreign exchange auctions at which the central bank purchases and sells foreign currency to banks. During the auctions, the banks submit their desired amounts (for example in euro) and the corresponding prices (exchange rates) of foreign exchange transactions to the CNB (i.e. a multiple-price auction is organised). Based on the submitted bids, the CNB decides on the amount of intervention and the exchange rate. The CNB generally holds foreign exchange sale auctions when the kuna weakens and foreign exchange purchase auctions when the kuna strengthens. By selling foreign currency, the CNB decreases the amount of kuna in circulation, whereas by purchasing foreign currency, it increases the amount of kuna in circulation.

Apart from foreign exchange interventions, the CNB uses a range of other monetary policy instruments and macroprudential measures. By combining them, the CNB intends to affect monetary and, indirectly, economic trends within its legislative mandate. For example, in case of high liquidity in the banking system which threatens to excessively weaken the kuna against the euro, the CNB can use appropriate measures to withdraw excess liquidity from the system, e.g. by increasing the reserve requirement rate or obliging banks to purchase CNB bills. By contrast, in case of low liquidity in the banking system which threatens to excessively strengthen the kuna against the euro, the CNB uses its measures such as granting of loans, decreasing the reserve requirement rate, increasing the minimum required foreign exchange claims, to ensure additional liquidity in the system. Similarly, in case of strong credit growth, the CNB uses restrictive measures to moderate credit growth, while in times of weak credit growth and stagnation or drop in economic activity, it introduces measures aimed at supporting credit growth and economic activity.