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The Hrvatska Narodna Banka's Experiences in Preparation for the EU/ESCB Membership

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Abstract

Given its role in a country's economy, it is clear that a national central bank also plays an important role in the process of the country's accession to the European Union (EU). Without prejudice to its primary objective – achieving and maintaining price stability – in performing its activities, the central bank acts in accordance with the principles of the open market economy and free competition. In connection with the choice made by the Republic of Croatia to join the EU, and operating in the dynamic environment, the Hrvatska Narodna Banka (HNB) will face specific challenges and will have to make necessary adjustments on this path. It is important that each future Member State would be well prepared to fulfil political, economic, legal and administrative criteria. At the same time it means that its national central bank should also prepare for the integration process and, within its competences, contribute to the fulfilment of the mentioned criteria. This paper indicates what the activities are that the national central bank may be requested to perform so that it may support the country as appropriately as possible on its way of the accession to the EU.

Key words: The European Union, Hrvatska Narodna Banka (HNB), institutional adjustments

1. Introduction

The accession of a country to the EU implies its compliance with the determined political, economic, legal and administrative criteria. In these aspects the accession countries' national central banks have a special role with respect to their fundamental responsibilities of providing and maintaining low inflation, together with offering support for general economic growth and development. As a rule, by performing their activities, the central banks assist and provide support to their

countries on their way to join the EU, and later on the Economic and Monetary Union (EMU). Although by joining the EMU they lose their monetary sovereignty, they simultaneously gain the right of participating in the creation of the *common* monetary policy of the EMU. Therefore, each central bank is required to make certain adjustments, especially during the accession period because a good preparation means a successful integration.

The Republic of Croatia has entered the negotiations automatically requiring the HNB's participation in the process of joining the EU. The national central bank will be faced with the following challenges: integration into appropriate European bodies, carrying out of the convergence within its competences in economic and legal terms and adequate preparation to join the EMU. The main goal of this paper is to reveal the responsibilities that the HNB should assume, as well as adjustments to be undertaken during the integration process. The course of the very process of the Republic of Croatia's integration into the EU depends on how successful preparations have been made in the changed environment.

This paper is structured in the way that its first part deals with the basic economic indicators for the Republic of Croatia set in the context of all changes and adjustments we are going to encounter with the aim to make successful preparations for joining the EU and – at the later stage – for joining the EMU. Relevant indicators for Croatia have been also computed as the convergence criteria represent key quantitative indicators for the process of harmonization and coming closer to the defined and desirable levels, so called reference values. The referred indicators have been compared with those of the EU countries. Then the paper speaks about the role of the HNB in the changing environment and appropriate adjustments prior to joining the EU: participation in the work on relevant documentation, institutional adjustments and participation in negotiations.

2. Economic Indicators of the Republic of Croatia

2.1 Basic Macroeconomic Indicators

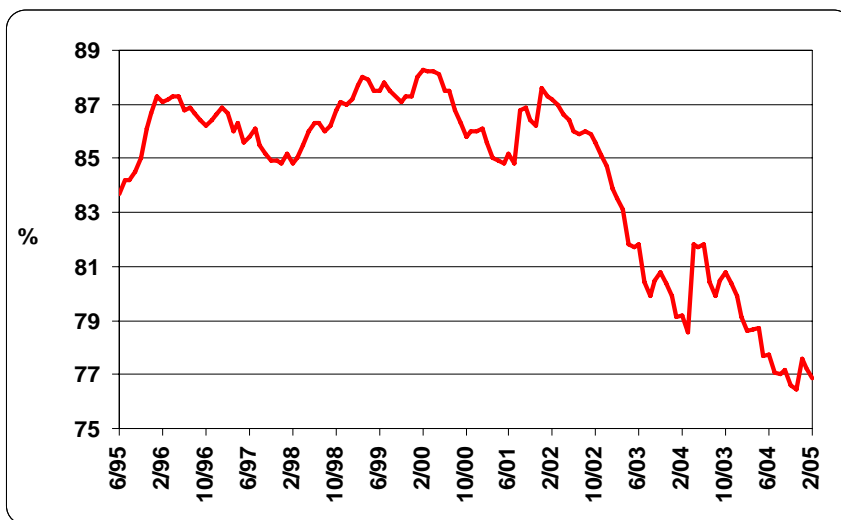
In general, the year 2004 saw positive movements of the basic economic and financial indicators: mainly stable growth, low inflation and decrease of imbalance in foreign trade, together with public debt reaching the stable levels (in spite of the continuing pressure on the expenditures). However, some of the targets were not reached, e.g. the targeted unemployment rate cut, decrease of external debt and less involvement of the public sector in the economy.

Although, generally speaking, it may be said that growth was stable, it is apparent that it slowed down in 2004 (the real growth rate decreased from 4.3% in 2003 to 3.8% in 2004), which was mainly caused by the decrease in investments, or decline in government capital expenditures upon the completion of the investment cycle in road construction. The major contribution to the real growth

resulted from the personal spending and positive movements in foreign trade. The decreased imbalance in foreign trade also led to the significant slowdown in the increase of deficit on the current account of the balance of payment (in 2004 it amounted to 4.5% of GDP). The deficit of the consolidated General Government was higher than planned mainly owing to the significant shortfall in public revenues that had larger impact than the positive effects of public expenditures. The average annual inflation rate, measured by the consumer price index, increased during 2004, but equaled to that of the euro area and is still considered as stable (price stability is first of all based on the maintenance of kuna/euro exchange rate stability in relative terms). However, the decrease in unemployment did not occur according to the defined schedule. The slowdown of the economy during 2004 resulted more or less with the failure in the reaching of progress planned for the decrease in unemployment. Additionally, external debt was increasing at a faster pace than expected and at the end of 2004 its share in the GDP amounted to 82.1% (the main cause of this increase laid in the external borrowing by the banks that was used for financing of the credit expansion in the circumstances of the slow increase of domestic savings). Croatia continued showing solid liquidity in international payments. At the end of 2004 the net international reserves amounted to EUR 5.3 billion enough to cover the 4 monthly imports, and foreign exchange assets of the commercial banks amounted to EUR 7.1 billion.

2.2 Euroization of the Croatian Financial System

In spite of almost 12 years of low inflation, the Republic of Croatia has continued to experience a high level of the currency substitution, i.e. euroization. It is considered that it is the result of persistent high inflation and depreciation of the local currency and negative real interest rates typical for the Croatian pre-independence time. Approximately the three quarters of the bank deposits are held in foreign currencies, out of which the major part is in euro. This situation leaves less room for making monetary policy decisions. In addition, the banks have the majority of their lending linked to the euro or some other foreign currencies. Thus, in this context, the financial system may suffer a lot in case of every major change of the kuna exchange rate, especially in case of a currency depreciation. It is not necessary to emphasize how a massive depreciation might influence the surge of the inflation rate and replacement of the currency risk with credit risk. Namely, residents make their earnings in the local currency kuna, and credits should be repaid in the kuna counter-value of foreign currency, first of all in euro.

Chart 1: A Share of Foreign Exchange Deposits in the Total Bank Deposits

Source: HNB.

2.3 Convergence Criteria

At the start of the negotiations with Croatia on joining the EU it may seem interesting to analyze how the relevant Croatian indicators would comply with the Maastricht criteria as fulfillment of these criteria is a pre-condition for full membership in the EMU, i.e. with the objective of adopting the euro.

The convergence criteria are: price stability, government finance (including the two sub-criteria – budget deficit and public debt), exchange rate stability and long term interest rates. The so called reference values have been determined for every criterion mentioned and they should be satisfied or at least a trend should be developed showing the approach to their “given” levels.

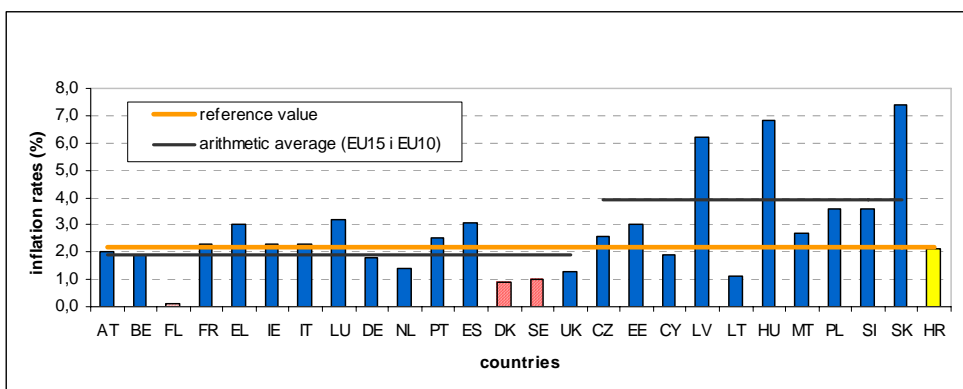
The compliance with these criteria is monitored on monthly, quarterly and annual basis. Although Croatia is not a Member State of the EU, an initial estimate of the economic convergence has been made for Croatia (with notes made on apparent problems or of absence of methodological adjustments). In spite of this a continued monitoring of the mentioned indicators has been performed with the emphasis on the new Member States and the relevant trends developing in them. It is necessary to point out that nearly all the new Member States still have the problems of methodological adjustments for the calculation of their indicators. However, they have been active in making methodological adjustments.

In this connection, the Croatian indicators for the year 2004 have been taken and compared with the relevant indicators of the Member States of the EU to determine the position of Croatia with respect to the fulfillment of the mentioned criteria.

2.3.1 Price Stability

As to the first criterion, the given reference inflation rate on the EU level (all 25 Member States are included) in 2004¹ amounted to 2.2%. In general it should be said that the reference rate in 2004 decreased compared to the rate level of the previous year, when it amounted to 2.5%. By comparing data on the new and the EU-15 Member States, it can be noticed that in 2004 in the new countries an average inflation rate was higher and amounted to 3.9% while in the EU-15 it amounted to 1.9%. In case of Croatia in 2004 the average inflation amounted to 2.1%.

Chart 2: Average Inflation Rates in the EU Member States and Croatia in 2004



Source: Eurostat, State Bureau of Statistics.

Note: Countries, having best results, are represented with hatched graph items.

¹ The average rate of the consumer price index in the three countries having the best inflation performance increased for 1.5 percentage points.

If for this purpose the methodological differences in computation of inflation rate² were not taken into consideration, in the referred period Croatia would comply with the defined criterion of price stability. The compliance with this criterion is of high importance to the HNB, which – as all other central banks – has just a fundamental goal of reaching a high level of price stability.

2.3.2 Government Finance

Under the fiscal criterion the monitoring has been made according to the two sub-criteria: budget deficit (which should not exceed 3% of GDP) and public debt (which should not exceed 60% of GDP). In 2004 even the five “old” countries (Germany, Greece, France, Italy and Great Britain) recorded an excessive deficit and six out of the ten new Member States³ (Cyprus, Czech, Hungary, Malta, Poland and Slovakia) did so as well. According to the EU Treaty, the Member States that have not adopted the euro yet, will neither be subject to undertaking further steps under the excessive deficit procedures, nor to a particularly intensified monitoring of the budget and will not suffer sanctions. However, in the period under consideration none of the EU-15 Member States has been subject to financial sanctions, although some of the countries have exceeded the defined limit. This mainly happened because of the complexity of procedures and time length during which a country having the excessive deficit is expected to improve the government finance (after delivery of an early warning and the conclusion made that the country shows the excessive deficit⁴). If indicators of the budget deficit in

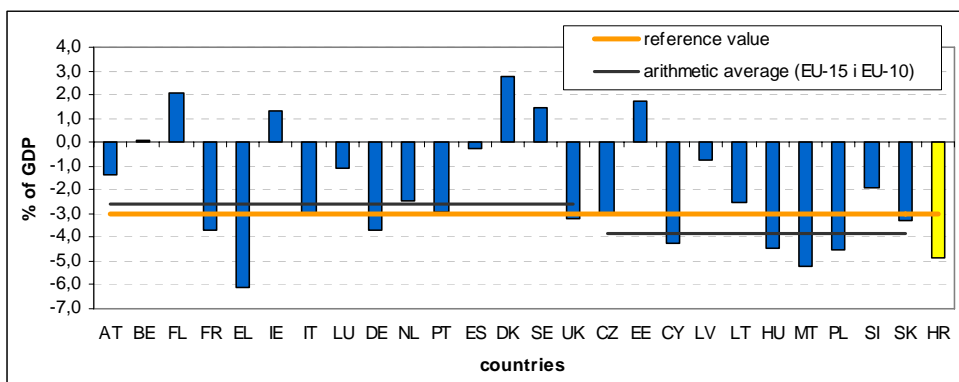
² The average inflation rate in the Republic of Croatia in 2002 was measured by the consumer price index (until then it had been measured by the retail prices index), but computation methodology currently applied differs from the methodology applied by the EU institutions. However, it is important to emphasize that the State Bureau of Statistics calculates the consumer price index simultaneously with the harmonized consumer price index (HICP), which in its major part has been adjusted to the methodology of the Eurostat.

³ As to the state finances criterion, it is important to mention that a few member states have not fully adjusted their methodologies (the information appears in the ECB's Convergence Reports and European Commission Reports) so that the values for the indicators of their success in fulfilling of the criteria should be taken *cum grano salis*. The problem of the (absence) of adjusting methodologies is present in the case of Croatia, too.

⁴ If the European Commission is of the opinion that a country shows an excessive deficit (that is not temporary and is not a result of recession), it shall send its proposal to the Council of Ministers to reach the same conclusion and to make requirement on the country to undertake necessary measures within the given period of time as well as to reduce its budget deficit to a level not higher than 3% of GDP. If contrary, the country shall be subject to sanctions provided for in a form of the interest free deposit that in the end may turn into a fine.

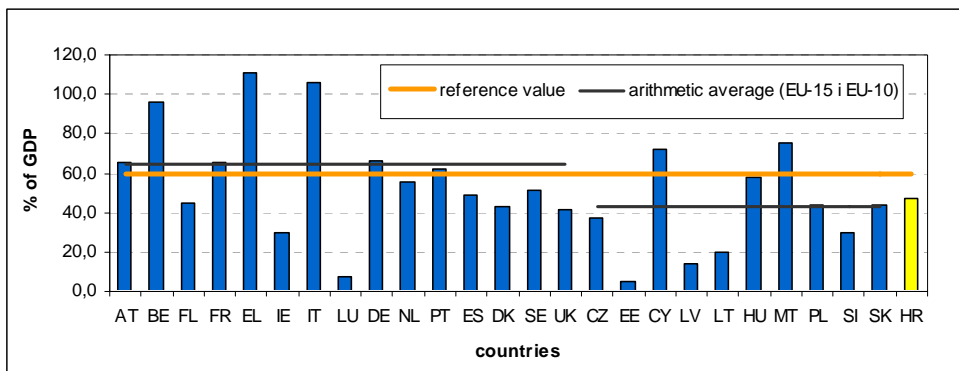
the EU Member States are compared with those computed for the previous year, you can notice an improvement because the average share of the budget deficit in GDP decreased from 2.9% to 2.6%. This improvement was enabled by particular contribution of the new Member States whose average budget deficit decreased from 5.7% in 2003 to 3.9% of GDP in 2004. In 2004, Croatia reported the budget deficit amounting to 4.9% of GDP which means that it failed to comply with the criterion of government finance.

Chart 3a: Government Budget Balance in Terms of GDP in 2004



Source: Eurostat, Ministry of Finance of the Republic of Croatia.

As to the second sub-criterion of the government finance, seven of the EU-15 and two new Member states had a public debt in GDP in 2004 above the reference values (60% of GDP). However, the Maastricht Treaty provides for certain flexibility in the evaluating of this criterion. In case of the countries having exceptionally high public debt in the terms of GDP, it is necessary to monitor the trend of public debt movement, because the indicator will be considered as satisfactory if a share of their debt in GDP decreases and in this way comes closer to the reference values. It is necessary to point out that an average public debt in the European Union in 2004 remained approximately at the same level (63.8% of GDP) as that recorded in the previous year (63.3% of GDP). In this same period, the average level of public debt of the new Member States was significantly lower (42.9% of GDP) than that of the EU-15 (64.7% of GDP). Croatia, with public debt amounting to 46.9% of GDP in 2004, complies with this criterion of government finance. In case of this criterion, the absence of adjustments in the methodologies have been present in Croatia as well as in the new EU Member States (it is the result of the differences existing between methodologies of the Government Finance Statistics (GFS) 2001 and the European System of Accounts 1995 (ESA 95)).

Chart 3b: Public Debt in Terms of GDP in 2004

Source: Eurostat, Ministry of Finance of the Republic of Croatia.

Note: For a better comparability the debt of Croatia does not include guaranties issued by the Republic of Croatia.

2.3.3 Exchange Rate Stability

The fulfillment of the exchange rate stability criterion depends on how successfully an EU Member State has participated in the Exchange Rate Mechanism II (ERM II) at least during the two year period without serious tensions on the foreign exchange market nor devaluation or appreciation trends of local currency against euro. It is possible to join ERM II only upon having joined the EU. The past 12 years have seen very slight exchange rate fluctuations of the Croatian currency against euro and it should be added that the current exchange rate regime has been compatible to the ERM II. When time comes, middle exchange rate parity kuna/euro will be mutually determined and it will enable the measuring of how successfully Croatia performs within the ERM II. It will be assessed whether the exchange rate has been close to the central parity or within the margins over the period of the two years. In addition, it is necessary to point out that immediately prior to joining the EU a request for full capital transactions liberalization should be complied with.

2.3.4 Long-Term Interest Rates

The reference value for the long-term interest rates criterion in the euro area in 2004 amounted to 6.3% and thus in comparison with the period analyzed in the latest Convergence Report it declined by 0.1%⁵. It had also declined compared to

⁵ See the ECB Convergence Report 2004; Reference long-term interest rate is computed by adding 2 percentage points to the simple arithmetic mean of long term interest rates that

data for 2003 when it amounted to 6.7%. In the referred period the EU-15 complied with the long term interest rates criterion and nearly all the new EU Member States (only two countries failed to comply with the criterion while a majority of the new Member States developed a trend of falling long term interest rates). It should be stressed that at the moment in case of Croatia there is no representative interest rate that might be considered as reference one⁶ according to the Maastricht requirements. Thus, only for reference reasons in case of Croatia data on the latest 5-year kuna government bonds (issued in March 2005) with 6.75% coupon have been used. Should this interest rate be taken as representative one, Croatia failed to fulfil the long term interest rate criterion.

On the basis of the afore mentioned, a conclusion can be made that in 2004 Croatia failed to comply with the criteria applicable to the budget deficit and long term interest rates. On the other side, it fulfilled the criterion of price stability and other criterion pertaining to the government finance – the criterion of public debt. During its preparation for joining the EU and later EMU Croatia should work on fulfilling all convergence criteria (endeavour on maintenance of already achieved convergence and aim at keeping positive trends) and it also should make additional efforts on methodology adjustments so that calculated indicators would be not only methodologically adjusted but comparable to the relevant indicators of other EU countries.

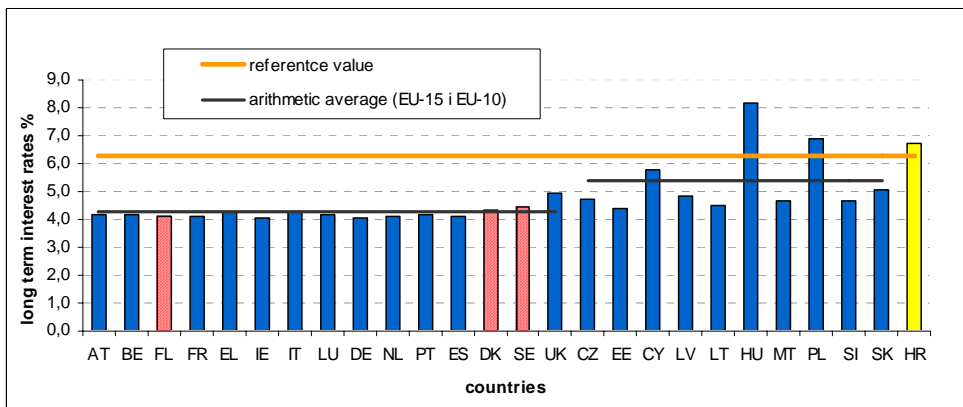
3. The Role of the HNB in the Accession Process

As the central monetary institution of the Republic of Croatia, in the performing of its activities, the HNB supports Croatia on its way to the EU. All these activities may be grouped in the three basic segments of participation by Croatia in the accession process and they are the following: the HNB participates in the work on certain pre-accession documents, carries out necessary institutional adjustments and actively takes part in accession negotiations.

are applicable in the three countries achieving the best compliance with the criterion of inflation.

⁶ The reference long term interest rate is determined on the basis of certain government bonds with their characteristics having been defined in advance so that all data may be mutually comparable. However, as it has been already known, in case of Estonia and Luxembourg other comparable financial instruments have been in use (they will be replaced as soon as more appropriate instruments of comparison are available).

Chart 4: Long Term Interest Rates in the EU Member States and Croatia in 2004



Source: Eurostat, Ministry of Finance of the Republic of Croatia.

Note: Countries having the best inflation performance are represented by hatched graph items.

3.1 Participation in the Work on the Pre-Accession Documents

Through cooperating on EU accession issues with the Ministry of Foreign Affairs and European Integration and Ministry of Finance the HNB has participated in activities related to the preparation of relevant documentation. In summer 2003 it provided answers for the European Commission Questionnaire that had to be filled in and they referred to the following areas: economic criteria, free movement of services, free movement of capital and economic and monetary union. Apart from this the HNB has participated in the work on the National Program for the Integration of the Republic of Croatia into the EU (NPIEU) and Pre-Accession Economic Program (PEP) as well. Following the receipt of the positive Opinion of the European Commission on the Application of Croatia for Membership of the European Union (*Avis*), Croatia was given the status of a candidate country. For the moment the above mentioned Opinion is the most comprehensive document that may be useful at providing the answer to the question of to what extent Croatia fulfils political, economic, legal and administrative criteria in order to be considered as a future EU Member State. In connection with the economic criteria, and providing that it continues to implement the program of reforms for eradication of the rest of weaknesses, Croatia is capable to cope with the pressures of competition and market forces within the EU in the medium term. Therefore, it may be looked at as a state with established market economy (according to the views of the European Commission).

3.2 Institutional Adjustments

With Croatia's joining the EU, the HNB would become a part of the European System of Central Banks and with the adoption of the euro it would be included in the system empowered to create common monetary policy. In cooperation with other EU central banks it should make appropriate preparations for the introduction of the common set of monetary instruments and foreign exchange policy instruments as well, for the introduction of common currency, for common payment system within the EU, for the harmonized statistic data base, appropriate information system, supervision of banks and so on.

In 2004 the government of the Republic of Croatia made its decision on instruments for the adjusting of Croatian legislation to the EU *acquis communautaire* and to the legal acts of the Council of Europe (review of already applicable decision of 2001)⁷. According to that decision, the bodies of the state administration – in their preparation of the (draft) proposal of regulations aimed at harmonizing of the Croatian legislation to the EU *acquis communautaire* and to the legal acts of the Council of Europe – have to complete its instruments for the legislation adjustment. These instruments include *Statement on (draft) proposal of adjusted regulations and Table of Concordance*. The (draft) proposal of regulations, under which the legislation shall be harmonized, has been provided for by the NPIEU and together with the instruments for the harmonization of the legislation shall be submitted to the Ministry of Foreign Affairs and European Integration for the checking and confirming of being harmonized. Thus, the proposals of the laws, falling within the competence of the HNB – The Law on the Hrvatska Narodna Banka, The Banking Law, The Foreign Exchange Act and National Payment System Act – used to be sent to the central banking experts of the European Commission who thereafter provided their relevant opinion.

The banking supervision in the Republic of Croatia falls within the competence of the HNB. Thus, for the reason of as successful integration as possible, in performing its function, the HNB has been faced with specific challenges. Only in the past year, important steps for harmonization have been taken and some of them are as follows:

- reorganization of the Supervision Department aiming at the risk based supervision
- preparations for implementation of a new capital pillar, i.e. Basel II within the national legislation, the form of cooperation with the bodies in charge of supervising foreign banks and vice versa has been agreed (the harmonization of the cooperation form has been already made with the Austrian and Italian bodies, and talks with other countries are under way)

⁷ Decision on measures applicable in the procedure of adjusting the legislation of the Republic of Croatia to the *acquis communautaire* dated October 18, 2001.

- measures for improving currency risk management have been defined, relevant activities have been performed as to the implementation of new accounting standards (IAS and IFRS) and for their inclusion into the national legislation, recommendations have been created for improving management of the IT system aiming at the decrease of the operational risk of the banks and the work at harmonizing legislation on supervision with the EU *acquis communautaire* has been continuously under way⁸

The domestic payment system has been reformed with the aim of achieving better cooperation between institutions that is required for better functioning of the system itself. During the reform procedure the new payments infrastructure has been created followed by the passing of new by-laws and customers' accounts have been transferred to the commercial banks. In 2003, the National Payments Committee was established. Basic responsibilities of this Committee pertain to all forms of the functioning of the payment system in the country (e.g. it helps providing the unique implementation of relevant regulations, stimulates the development of new products and services, it also makes suggestions on guidelines for the development of the local payment system in accordance with the EU directives and accepted international standards). The aforementioned implies that the way has been paved for the development of a more efficient payment system that would bring the satisfaction both to its users and the economy in general. As its structure complies with the international standards, in these terms the payment system is comparable to the EU Member States' payment systems.

In 2004, the HNB issued a decision on the generation and use of the International Bank Account Number (IBAN), which is used in international payments. The implementation of the IBAN enables more efficient performing of payment transactions, relevant automated processing and to decrease the remittance costs and more efficient liquidity management. The full justification of the introduction of the IBAN would be shown at the moment when the full liberalization of capital transactions has been reached, i.e. making of automatic cross-border collections and payments fully enabled. The European Commission for Banking Standards has included the Croatian IBAN into the European Banking Account Numbers Registry.

The legislation framework, covering the field of free movement of capital, has been partly harmonized and this field has been regulated by the Foreign Exchange Act that came into force in June 2003. In accordance with the Stabilization and Association Agreement, Croatia has assumed obligations to liberalize the relevant capital transactions at the gradual pace. At the moment there are still some restrictions left, e.g. non-residents are not allowed to invest in treasury bills of the Ministry of Finance, except for those with their offices or places of residence located in the countries with which the Republic of Croatia has signed a bilateral

⁸ HNB – Supervision Department.

investment promotion and protection agreement. Also, residents may not grant short-term financial loans to non-residents except for within direct investment deals. Residents may not open accounts abroad unless they obtain the HNB approval and they must buy and purchase foreign exchange in domestic banks. In the forthcoming period the HNB shall gradually liberalize the rest of the capital restrictions.

In 2005, the HNB has also introduced a new instrument of monetary policy: open market operations. Like the European Central Bank, it uses there the three basic types of the open market operations: regular operations, fine tuning operations and structural operations. Regular operations are used to increase the system's liquidity. They are conducted every week with a maturity of up to one week through reverse repo operations and are conducted at standard offer auctions. The participants are the banks fulfilling certain general criteria while kuna treasury bills of the Ministry of Finance are taken as acceptable securities.

The changed environment requires new alignments in the terms of the organizational restructuring within the HNB and experience of other countries, i.e. central banks may prove as a useful example. Therefore, even at this stage it is necessary to achieve the close cooperation with the central banks of the EU. In 2004, in the HNB the European Relations Department was established within the International Relations Area with basic responsibilities such as:

- at all times being aware of the globalization processes and standards and the activities of the EU and its institutions
- carrying out the convergence criteria (especially monetary criteria), the EU/EMU policies on the candidate countries and new Member States
- monitoring the activities on the implementation of the Plan for enforcement of the Stabilization and Association Agreement between the Republic of Croatia and the EU
- coordinating activities aimed at the implementing of the EU standards in the Law on the Hrvatska Narodna Banka as well as in other laws whose enforcement falls within the competence of the HNB (i.e. in whose enforcement the HNB takes its part)

Its formal inclusion into the European System of Central Banks implies that the HNB will be a holder of the capital of the European Central Bank. We would like to remind that pursuant to the provisions of the ESCB/ECB Statute and according to the defined key for capital subscription⁹ every national central bank of a EU Member State becomes a holder of the capital of the ECB thereby becoming a (co)owner of the ECB commensurate with its share in the total amount of the

⁹ Capital key is determined on the basis of the number of population of each EU member state as proportion of total EU population and of GDP of each member state in proportion of the total GDP at the EU level (more information thereof in the ESCB/ECB Statute – provisions regulating capital).

subscribed capital¹⁰. Although it would take some time coming up to this stage, it has appeared interesting to explore how much resources the HNB should allocate for the ECB capital subscription. Taking into account some specific conditions, the weightings have been initially determined and assigned to the HNB.

Thus, like all central banks of the Member States – the HNB will assume obligations for subscription and thereupon payment in of the defined amount provided that at first it pays a minimum percentage amount (7%) as to cover the operating costs of the ECB. In addition, when it has satisfied all conditions for adoption of the euro as the national currency, it shall be obligated to pay the rest of the capital up to the subscribed amount and just as well to transfer the amount of foreign reserve assets to the ECB. Starting from the defined criteria for determination of relevant weightings and from the specific assumptions, the weighting to be assigned to Croatia would amount to approximately 0.6%. Still it means that the *subscribed* capital would amount to about EUR 34 million (if the capital percentage, that should be paid by the new Member States at their joining the EU, remained 7%, we should pay about EUR 2.4 million and the rest when euro has been adopted). Taking into consideration the determined weighting, upon Croatia's adoption of the euro, it would be necessary to transfer the foreign reserve assets amounting to about EUR 300 million (the assigned weighting multiplied by EUR 50 billion).

3.3 Active Participation in Negotiations

With being assigned the status of a candidate country for the EU membership in June 2004, the formal preparations have started for the formation of a team for the accession negotiations.

In this respect the required expertise, knowledge of English and negotiation skills have been prerequisites for the nomination of the team members. As a recognized expert in economics the HNB's Governor Deputy has been nominated for one of the deputies of the main negotiator. Experts from the HNB have been also nominated as leaders of the working groups for each area of the negotiations.

The accession negotiations have recently started and it is expected that their duration may be shorter than it was the case with other new Member States. There is a number of reasons for this. Namely, with regard to the delayed start of the integration process, Croatia had more time for the harmonization of its regulations with the EU ones owing to the established set of obligations that Croatia has assumed under the Stabilization and Association Agreement. In addition, Croatia is much more developed than the majority of the new Member States at the moment

¹⁰ Capital is subscribed according to the defined key and at joining EU a defined percentage (7%) of it is paid in. The rest of the amount up to the subscription level shall be paid at the introducing of euro (see also the ESCB/ECB Statute).

of their accession, it has been assigned solid rating that may be even upgraded during the negotiation process and a high euroization degree of the economy in the context of the integration process may also yield positive effects.

4. Conclusion

Joining the EU means that certain alignments should be made by the HNB as a central bank of a (future) EU Member State and in doing so, it would be able to support the Republic of Croatia on its way to the EU. Therefore, the HNB should prepare in time for the forthcoming challenges, which first of all encompass macroeconomic and institutional adjustments. The HNB has consequently continued implementing its monetary policy that falls within its competence with its main goal to reach and maintain low inflation. In the same way the HNB keeps on harmonizing the legislation, falling within its competence, with the EU *acquis communautaire*.

In the process of the EU accession the HNB has still a large part of the work to do in the similar way as the majority of institutions of the Republic of Croatia are expected to do and this will continue even after Croatia's joining the EU. Especially after it has adopted euro, the HNB will become a real actor of the basic euro-system activities. On one side it *de iure* waives its monetary sovereignty, but at the same time *de facto* increases its own influence on the decision-making processes and on its possible participation in all activities related to the common monetary policy of the EU.

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