



HNB

EUROSUSTAV

Strategic Plan

2024 – 2026

Foreword by the Governor



Boris Vujčić
Governor

The maintenance of price stability and the preservation of financial stability are the permanent statutorily enjoined tasks of the Croatian National Bank and its main strategic objectives both in this strategic period and in the future.

The introduction of the euro was a specific objective which had to be met in accordance with the obligations we accepted in 2013 when Croatia joined the European Union. Joining the euro area was a years-long process, which started in 2017 and entailed numerous phases that we managed to complete within the shortest possible time. Ultimately, on 1 January 2023, the euro became the official currency of the Republic of Croatia.

The operational monetary changeover process was very successful. Currency supply and payment systems ran smoothly from the very beginning. Now we are facing another important strategic objective, that is, successful integration into the Eurosystem. As part of the Eurosystem, we participate in shaping and conducting the euro area's single monetary policy. By conducting monetary and foreign exchange policies, issuing banknotes and coins, performing supervision and oversight, maintaining accounts of credit institutions and performing payment transactions across these accounts and by regulating and improving the payment system, we contribute to the safety and soundness of the banking system and the stability of the financial system as a whole, thus attaining our important strategic objectives.

Furthermore, we are strongly committed to sustainable development. Any disregard of the serious challenges posed by climate change might have negative repercussions on two core strategic objectives, that is, on price stability and financial stability.

Like other European central banks, the Croatian National Bank is also committed to raising financial literacy and monitoring consumer rights, as an inseparable element of financial stability. The Croatian National Bank is expected to ensure financial stability and a stable banking system to guarantee that citizens' savings are protected. With the aim of upgrading consumer protection, financial education improves the position of consumers as users of credit institutions' products and services. In that respect, the work of the Croatian National Bank is aimed at making the Croatian consumers as competent as possible in making decisions regarding their personal finance as well.

The financial sector has already been operating digitally for a very long time, with the digitalisation process moving faster than ever. The Croatian National Bank takes account of and adapts to new requirements, and has also been taking part in the preparations by the European Central Bank for the introduction of a digital euro, following the adoption of the necessary EU-level legislation. A digital euro would be a digital currency issued by the Eurosystem, that is, by the European Central Bank (ECB) and the national central banks of those EU Member States that have adopted the euro. The idea of introducing a digital euro as a form of central bank digital

currency for euro area citizens emerged in response to a growing demand for secure and reliable electronic payments in Europe.

One of our strategic objectives is to ensure efficient, responsible and transparent internal governance, which is paramount for achieving all our other strategic objectives. In terms of external stakeholders, this means respect for and openness to the whole of the public, including the Croatian Parliament, experts and the media, the financial sector, civil society and all Croatian citizens. In order to meet this strategic objective, the Croatian National Bank, in all of its segments and as a whole, must cultivate common values such as safety, independence, credibility, transparency, accountability, integrity, high levels of competence, effectiveness and unity, efficient and open vertical and horizontal communications and cross-sectoral cooperation.

In addition, in its working environment, the Croatian National Bank fosters the right to diversity and all forms of equality, as important prerequisites for ensuring the dignity of and successful work from all its employees as internal stakeholders of the Croatian central bank.

Table of contents

About us	6
Our vision	7
Our mission	7
Our values	7
Guidelines with regard to the current environment	8
Strategic objectives	12

About us



The Round Hall in the main building of the Croatian National Bank, the main stock exchange hall of the former Zagreb Stock and Commodity Exchange

We are the central bank of the Republic of Croatia, independent and autonomous in our work. Our primary objective is maintaining price stability, while also safeguarding the stability of the financial system as a whole.

Following a successful introduction of the euro in Croatia, we have become an integral part of the Eurosystem and now participate in defining and conducting the monetary policy of the European Union.

The areas of our work cover monetary policy and financial assets, financial stability, research and statistics,

payment operations and currency supply, supervision of credit institutions, as well as other, non-core, operational areas.

In our work we promote social responsibility, openness to the public and focus on sustainable development, while our employees, who possess a high level of expertise and dedication to their tasks, are our greatest asset.

In the period ahead, we will continue to make successful adjustments in the process of integrating into the European System of Central Banks and strengthening our role in this system.

Our vision

We are a central bank that is part of the Eurosystem. Our primary objectives are to maintain price stability and safeguard financial stability.

In our work we are committed to social responsibility and sustainable development.

Our mission

Our primary goal is to achieve and maintain price stability. Without compromising the achievement of this objective, we support the economic policy of the Republic of Croatia and the general economic policies of the European Union in accordance with the principle of an open market economy with free competition.

As part of the Eurosystem, we participate in designing and conducting the euro area's single monetary policy. By conducting monetary and foreign exchange policies, issuing banknotes and coins, performing

supervision and oversight, maintaining accounts of credit institutions and performing payment transactions across these accounts and by regulating and improving the payment system, we contribute to the safety and soundness of the banking system and the stability of the financial system as a whole.

In our work we are committed to our common core values, that is, a high level of integrity and competence, safety, independence, credibility, transparency, accountability, efficiency and unity.

Our values

Common core values



Guidelines with regard to the current environment



Defining the objectives for the three-year period is largely driven by the environment to which the Croatian National Bank is aiming to adapt in order to achieve its primary objective and perform the tasks mandated to it by law. In this regard, both the external and the internal environment are deemed important.

After the Republic of Croatia joined the European Union on 1 July 2013 and the Croatian National Bank became an integral part of the European System of Central Banks, legislative and regulatory activities were commenced with the aim of fully aligning the legal framework of the Republic of Croatia with EU legislation, in order to fulfil the legal conditions for Croatia's accession to the euro area and the entry of the Croatian National Bank into the Eurosystem.

On 1 January 2023, when the Croatian National Bank joined the Eurosystem and when the euro was introduced as official currency in the Republic of Croatia, new legal provisions entered into force, whereby

statutory tasks of the Croatian National Bank were amended in some aspects, especially in the area of monetary policy.

With regard to **legal environment**, it should be noted that in the 2024 – 2026 strategic period, the Croatian National Bank will continue to align its subordinate legislation with the legal acts of the European Central Bank in the area of monetary policy, payment transactions, statistics, delivery of cash and other areas, as well as with other EU legal acts, by amending existing or passing new legislation. In addition, in the case of any amendments to basic acts of the European Union, the Croatian National Bank will also harmonise its core statutory tasks laid down by the Act on the Croatian National Bank.

Regarding the **economic environment**, in recent years the world economy has been exposed to negative developments caused by inflationary pressures, the coronavirus (COVID-19) pandemic and the war in Ukraine.

In addition to unfavourable global trends, economic activity in EU Member States and euro area countries is expected to record a modest growth, followed by only a gradual moderation in inflationary pressures. The growth will continue to be largely exposed to downside risks, mostly associated with the security and price of energy supply in Europe, especially concerning natural gas, because of the war in Ukraine.

These risks are also relevant to economic growth in Croatia. In the forthcoming period, inflation is expected to continue its downward path from the current levels, which have exceeded 10% on an annual basis, and come close to the target level set by the European Central Bank by the end of this three-year horizon.

Real gross domestic product is expected to continue trending up at rates which might range from 2.5% and 3% on an annual basis.

Economic growth has been followed by the continuation of favourable labour market trends, that is, the rise in the number of employed persons and a decline in the unemployment rate, even though unemployment might decrease at a slightly slower pace than the growth in the number of employed persons.

Unfavourable global trends also affected the **social environment**. Labour market trends were influenced by the dynamics of economic activity, marked by the pandemic, Russian aggression against Ukraine and the associated negative inflationary effects. The negative impact was cushioned by timely reactions from economic policy makers, which led to a faster-than-expected recovery.

Having picked up by 2.1% in 2021, partly due to the strong base effect following the pandemic in 2020, employment continued its upward trend in 2022, albeit at a somewhat slower pace. The rise in employment was more pronounced in the private sector, particularly in service activities related to tourism, real estate and other business services, as well as industry and construction.

The movements in the number of the employed in 2023 and the expected growth of GDP by the end of the year suggest that employment might pick up in both 2024 and 2025. Real gross wages are expected to edge up in 2023 and 2024 due to the expected continuation of inflationary pressures, and record a slightly stronger growth in 2025 and 2026.

However, it should be noted that in the period ahead, the domestic labour market will remain under the influence of long-term factors such as a generally unfavourable demographic situation, low participation and employment rates relative to peer countries, as well as regional mismatches between labour demand and supply. This will call for a timely reaction by policy makers, such as the liberalisation of the regime for the employment of third-country workers.

On a global level, the **technological environment** has been evolving extremely rapidly. The Croatian National Bank has been implementing technological improvements according to its needs and the available financial, location and other resources. Numerous activities are underway relating to technological advances, with a special focus on information and communication (ICT) infrastructure. With the entry of the Republic of Croatia to the euro area, the Croatian National Bank became one of the national central banks of the Eurosystem, which entailed the need to align certain parts of the ICT infrastructure in order to introduce further improvements to ensure the necessary application systems, confidentiality, availability and integrity of data.

Stakeholders

Our stakeholders include the general public, banks, institutions and the bodies of the European Union. **Citizens** expect the CNB to maintain price stability and ensure conditions for preserving financial stability. Also, they want the banking system to be safe and stable and

their savings secured, with the central bank being free from political influence. They believe that the CNB, along with other competent public and governmental institutions, should keep them informed and provide them with financial education, for them to be able to better understand the role and tasks of the CNB, public finances and the financial industry.

In its work, the Croatian National Bank strives to ensure that Croatian consumers are as competent as possible in making decisions regarding their personal finance as well.

Croatia is a euro area member state, and the CNB forms an integral part of the Eurosystem. The CNB communicates with both the Croatian and the European public, that is, with all of its stakeholders – internally with its employees, and externally with the Croatian Parliament, citizens, the media (both national and foreign), the financial community, business community, academia, civil society and others. It uses various communication formats: for internal purposes, it uses intranet and a newsletter. For the general public, the CNB offers a website with publications, press releases, reports, videos, research papers, etc. The Croatian National Bank also organises conferences, directly engaging with citizens, students, pupils, members of the Croatian Parliament, associations and civil society. CNB officials and experts often appear in public, explaining monetary policy objectives and instruments to experts and the general public. Recently these have also included decisions by the ECB Governing Council, which are adopted with the participation of the Governor of the CNB.

In order to make public relations as efficient as possible, the CNB makes continuous efforts to improve the processes to achieve optimum communication with all stakeholders, by using the available technology, suitable for the needs of a central bank. The Croatian central bank also posts on social networks such as YouTube, LinkedIn, Facebook, Instagram and Twitter. In the forthcoming period, special

attention will be paid to revamping the website and improving internal communication.

Against the backdrop of a dynamic economic and political climate in the Croatian, European and global environments, the CNB, like other central banks, analyses, and strives to make improvements in, its relations with the public and all of its stakeholders, also in accordance with the communication objectives of the euro area.

Within the Eurosystem, the CNB collaborates and exchanges best practices with all euro area countries and EU Member States. In the period ahead, the CNB will also take part in communication projects initiated by the ECB.

The CNB regularly assesses its reputation by examining its position in the media, including social media. For the next three years, a more detailed internal and external research effort has been planned, which will include a larger number of stakeholders. The CNB will also evaluate the set communication objectives.

Strong capitalisation and high liquidity characterise the **banking system** of the Republic of Croatia and support safe and stable operations amid the uncertainty caused by the coronavirus pandemic and the build-up of geopolitical and macroeconomic risks. The operation of a credit institution is a strictly regulated activity, given that there is a strong public interest in the protection of deposits of the public. Most rules to be complied with by credit institutions in their operation are regulated at the EU level, while some rules relating to the operation of credit institutions are set by the Croatian National Bank, the body which is also responsible for the supervision of their operations.

With the adoption of the euro, Croatia joined the **euro area** and the **banking union**, while the Croatian National Bank became a part of the Eurosystem and the Single Supervisory Mechanism. The Croatian National Bank thus became further integrated in the relevant

institutions, that is, the institutional architecture of the European Union and especially the European Economic and Monetary Union.

The internal environment comprises organisational structure, organisational culture and organisational resources. The operational functions and organisational structure of the Croatian central bank reflect the belief that the chosen model provides the best way to achieve its primary objective and tasks. The current **organisational structure** of the Croatian National Bank is divided into functional units.

The Croatian National Bank cultivates an excellent **organisational culture**, which is a reflection of the working methods and principles it applies to the entire operational organisation. The analysis of **organisational resources** includes technical, IT, financial

and human resources. In the forthcoming period, *technical resources* will require renovation of some buildings and premises and the provision of additional space.

The Croatian National Bank has a highly developed *IT infrastructure*, and also makes constant improvements and procures state-of-the-art technology. Technological improvements to the infrastructure will continue in the future, especially in the area of virtualization, network technologies, surveillance systems and databases. Taking account of the current information about the necessary financial resources, the analysis of *financial resources* has shown that there should be no substantial oscillations in total operating expenses over the three-year horizon. With regard to *human resources*, the CNB will focus on introducing new and specific educational programmes.



STRATEGIC OBJECTIVES

The strategic objectives of the Croatian National Bank in the period from 2024 to 2026 reflect its primary objective and tasks as laid down in the Act on the Croatian National Bank, as long-term guidelines that drive its work. Its strategic objectives are also influenced by the current environment and the need for necessary adjustments to adapt to its surroundings.

1. Maintenance of price stability
2. Preservation of financial stability
3. Efficient functioning of payment systems and currency supply systems
4. Successful integration into the Eurosystem
5. Commitment to sustainable development
6. Efficient, responsible and transparent internal governance

1. Maintenance of price stability

OUR PRIORITIES

- analysis of the factors driving inflation dynamics
 - analysis of the determinants of credit supply and demand and their relation to monetary policy
 - analysis of the determinants of borrowing costs in different financial market segments
 - analysis of different phases of monetary policy transmission mechanism, analysis of market and inflation expectations in order to evaluate their role in the dynamics of the current path of inflation and to obtain projections of inflationary movements in the future
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Maintaining price stability is the primary objective of both the Croatian National Bank and the Eurosystem, which the CNB joined on 1 January 2023. The primary objective of the Eurosystem and the Croatian National Bank is achieved through the common monetary policy, which is formulated and decided by the Governing Council of the European Central Bank.

Having completed the revision of the strategy in July 2021, the ECB Governing Council considered that price stability was best maintained by aiming for a two per cent inflation rate over the medium term. Definition of medium term is flexible because an adequate monetary policy reaction to deviations of inflation from the target depends on the origin, magnitude and persistence of the deviation. However, having in mind the dynamic economic environment and the numerous new challenges ahead of the Eurosystem, the Eurosystem's monetary policy strategy will probably require more regular revisions and adjustments, while the ECB Governing Council did intend to reassess its suitability in 2025.

The current inflation target of 2% is considered low enough for the economy to fully reap the benefits of price stability while also underlining the ECB's commitment to providing additional space to combat the risk of deflation and make sure that monetary policy remains effective when it needs to respond to inflation that is too low. The European Central Bank considers inflation that is too low to be just as detrimental as inflation that is too high. Both are equally undesirable. At issue is a symmetrical inflation target. Such a target provides a clear anchor for inflation expectations, which is essential for maintaining price stability.

In achieving its primary objective, monetary policy is oriented towards the medium term, taking account of uncertainty in the transmission of monetary policy to the economy and to inflation, which occurs due to changing lags in the effects of monetary policy measures on inflation and the economy.

In addition, a medium-term orientation enables patience in dealing with temporary shocks that may dissipate of their own accord, thus

avoiding unnecessary volatility in activity and employment. A medium-term orientation allows the Governing Council to cater in its monetary policy decisions for other considerations relevant to the pursuit of price stability, such as financial stability. In light of the above, over the observed three-year horizon the strategic objective of the Croatian National Bank will be to contribute to the Eurosystem's decisions on monetary policy, whose primary objective is to maintain price stability.

The CNB contributes to the Eurosystem's monetary policy decisions given that its Governor is involved in the work of the Governing Council of the European Central Bank. For this purpose, the Croatian National Bank prepares analytical inputs for the Governor's participation in discussions and decisions concerning monetary policy at the meetings of the ECB Governing Council and for the participation of the CNB representatives in the ECB's Monetary Policy Committee; it monitors, analyses and performs research on monetary developments and trends in financial markets from the monetary policy perspective; it analyses monetary policy transmission through bank and non-bank institutions, as well as prepares macroeconomic projections and simulations of changes in economic policy.

In the current environment of elevated economic uncertainty and inflation that substantially exceeds the 2% target level, the Croatian

National Bank prioritises areas focusing on the analysis of factors driving inflation dynamics, the analysis of the determinants of credit supply and demand and their relation to monetary policy, the analysis of the determinants of borrowing costs in different financial market segments, the analysis of different phases of monetary policy transmission mechanism and the analysis of market expectations, especially inflation expectations, and the evaluation of their role in the dynamics of the current path of inflation and in projections of inflationary movements in the future.

Also, twice a year (in July and December), the Croatian National Bank publishes the publication *Macroeconomic Developments and Outlook*, with projections of the main macroeconomic indicators for Croatia. Macroeconomic projections include a quantification of the expected movements of individual variables (projections), a description of underlying assumptions, an analysis of main risks to projections, as well as a comment on deviations of current projections from previous expectations. Macroeconomic projections are prepared and published in order to create a conceptual and empirical foundation for common monetary policy and provide support in meeting the strategic objective of maintaining price stability, especially by providing detailed information about the key factors affecting inflation and its future trajectory, and thus also inflationary expectations.

2. Preservation of financial stability

OUR PRIORITIES

- improving the existing and developing new data sources and derived risk indicators and using them to improve the existing or generate new indicators for over-indebtedness risk, risk associated with the real estate market or climate-related risk
 - further developing and improving the models used in drawing up adverse macrofinancial scenarios, as well as top-down models for analysing their effects on the banking system, by introducing a dynamic testing system and using advanced tools for assessing the risk of contagion in the system; developing new satellite models used in testing the effects of climate-related risks
 - developing indicators that might be useful in the formulation and monitoring of measures for mitigating the risks associated with excessive borrowing in the non-financial private sector, if needed
 - identifying key risks jointly with the ECB and other national competent authorities, as well as revising and setting strategic supervisory priorities embedded in the supervisory review and evaluation of individual credit institutions
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In accordance with the Act on the Croatian National Bank, in addition to its primary objective, that is, maintaining price stability, one of the CNB's principal tasks is contributing to the stability of the financial system as a whole.

Financial stability is one of the key prerequisites for sustainable economic growth. It is characterised by the smooth functioning of all financial system segments in the resource allocation process, risk assessment and management, payments execution, as well as by the resilience of the system to sudden shocks. Macroprudential policy plays a very important role in safeguarding financial stability. With its macroprudential policy measures, the CNB aims to prevent or mitigate the emergence or the build-up of systemic risks and strengthen the resilience of the financial system, with the ultimate aim of

reducing the likelihood of crisis episodes and their costs. Following the accession to the banking union and the euro area, the Croatian National Bank conducts macroprudential policy independently, even though decisions are adopted in cooperation and coordination with the European Central Bank.

In performing this task, the CNB is focused on three priority areas. It systematically monitors and analyses systemic risks that might jeopardise the stability of the financial system and takes measures for its preservation. Systemic risks might stem from financial or non-financial sector and might be associated with excessive credit growth and borrowing, excessive maturity mismatches and market illiquidity, direct and indirect exposure concentration or misaligned incentives and moral hazard. This calls for the continuous

development and improvement of data sources and indicators for monitoring and assessing financial stability risks, potential triggers for their materialisation and their effect on the stability of the financial system and the domestic economy as a whole. This is why one of the CNB's priority objectives in the upcoming three-year period will be to improve the existing and develop new data sources and risk indicators, especially granular data sources on loans to households and corporates, in order to use them in improving the existing or generating new indicators for over-indebtedness risk, risks associated with the real estate market or climate-related risks. The assessment of systemic risks is complemented by stress testing of credit institutions under hypothetical, extremely adverse macroeconomic and financial conditions that lead to the highly unlikely but possible materialisation of systemic risks deemed relevant to the operation of the banking sector in Croatia. Stress testing system can entail various simulations, such as the estimation of the effects of different sources of shocks or regulatory measures on financial system stability. The results obtained contribute to a more efficient assessment of systemic risks and a timely implementation of measures for their mitigation and the strengthening of credit institutions' resilience. Another priority in the period ahead includes further development and improvement of the models used in drawing up adverse macrofinancial scenarios, top-down models for analysing their effects on the banking system, by introducing a dynamic testing system and incorporating advanced tools for assessing the risk of contagion in the system, as well as developing new satellite models used in testing the effects of climate-related risks. The Croatian National Bank uses the results of these analyses to conduct its macroprudential policy, that is, chooses and calibrates appropriate macroprudential instruments within its competence. With the aim of strengthening credit institutions' resilience against potential and sudden shocks, capital buffers have been introduced, providing banks with space to absorb potential losses in crisis situations and maintain their credit activity, as an important

support to maintaining economic growth. In the forthcoming period, the CNB will continue, regularly and within the legal deadlines, to re-evaluate and determine the countercyclical capital buffer, the structural systemic risk buffer and the O-SII buffer, and also adopt other capital-based or liquidity-based measures, as appropriate. Since the Croatian National Bank can also impose measures for mitigating risks associated with excessive borrowing in the non-financial private sector, such as borrower-based measures, one of the CNB's priority tasks is to develop indicators that might help in shaping and monitoring such measures if needed. In order to increase the efficiency of macroprudential policy, the CNB regularly monitors the effects of imposed measures on the banking sector and the economy as a whole in view of the level of systemic risk, in order to timely calibrate such measures if necessary. Amending the existing measures or adopting new measures is subject to public consultation.

In conducting its macroprudential policy, the Croatian National Bank collaborates with all national and international institutions whose actions might affect financial system stability. Within the Financial Stability Council, which is in charge of shaping macroprudential policy of the Republic of Croatia, the Croatian National Bank cooperates and exchanges information with the Croatian Financial Services Supervisory Agency, Croatian Deposit Insurance Agency and the Ministry of Finance of the Republic of Croatia. At the EU level, since joining the banking union and the euro area, the macroprudential policy is formulated in cooperation and coordination with the European Central Bank. This includes monitoring, analysing and examining topics associated with financial stability and macroprudential policy, as well as submission of data and development of data sources in accordance with the requirements imposed by the Single Supervisory Mechanism. In addition, with regard to the analysis of financial stability risks and the implementation of macroprudential policy, the Croatian National Bank takes part in working groups and committees of

the European Central Bank, the European Systemic Risk Board and other EU institutions.

The transparency of macroprudential policy and systematically informing financial market participants, other institutions and the general public about the vulnerabilities and risks which might threaten financial stability are paramount for maintaining confidence in the financial system and thus for safeguarding financial stability. For this purpose, the Croatian National Bank publishes its regular publications Financial Stability and Macroprudential Diagnostics, which present the results of the analyses performed, provide warnings about the main systemic risks and information about the measures taken by the CNB to preserve financial stability. The CNB also publishes occasional publications with results of different studies in the area of macroprudential policy and financial stability; it also carries out occasional analyses and prepares comments on topical issues for the purpose of informing experts and the general public.

After Croatia joined the euro area, the role of banking supervision has been redefined and is currently performed together with the European Central Bank within the Single Supervisory Mechanism, with the aim of preserving the safety and stability of the Croatian banking sector.

Safeguarding confidence in the banking system in the narrower segment also contributes to preserving financial stability on a wider scale.

The implementation of proper regulatory initiatives and the application of high supervisory standards has paved the way for an efficient prudential framework for banks' operations. With the entry into the euro area, the CNB's supervision area engages in regulatory activities within the scope of Croatian legislation and is also included in the formulation of supervisory standards within the Single Supervisory Mechanism.

CNB supervisors are actively involved in identifying key risks together with the European Central Bank and other national competent authorities and deal with reviewing and setting strategic supervisory priorities which are then incorporated in the supervisory review and evaluation of individual credit institutions.

The development of new methodologies, the implementation of common supervisory standards and communication and coordination within the Single Supervisory Mechanism contribute to shaping high quality supervisory "products", which underpins the safety of the banking system and preserves financial stability in a narrower sense.

3. Efficient functioning of payment systems and currency supply systems

OUR PRIORITIES

With regard to the **payment system**, we have defined the following infrastructural and regulatory priorities:

- accession of the Croatian banking community and FINA as the operator of the EuroNKSinst system to TiPS (*TARGET Instant Payments Settlement*), which will enable full pan-European reachability of instant payments in the euro for all Croatian banks and their clients
- onboarding of the Central Depository and Clearing Company and other stakeholders in the Croatian capital market to T2S (*Target2Securities*), which will enable these stakeholders to reap all the benefits of full pan-European reachability

- the adoption of a new directive (*Payment Services Directive (PSD3)*) and its transposition in the Croatian legislation, that is, in the new Payment System Act.

In terms of the **currency supply system**, we stress the importance of the following:

- the need to balance external efficiency by applying an adequate regulatory framework
 - the need to balance internal efficiency by making use of adequate spatial, technical, technological and organisational solutions
 - making efforts to ensure the minimisation of the ecological footprint of the entire system in order to mitigate climate change.
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A safe, stable and efficient functioning of payment system and currency supply is essential for the smooth running of economic activity as a whole.

The past few years have seen large improvements in payments infrastructure and the regulatory framework governing the provision of payment services.

After joining the Eurosystem, the euro payment infrastructure of the Republic of Croatia has been integrated into the Eurosystem infrastructure. This completed the process of infrastructural adjustments that enabled all payment service providers and their clients in the Republic of Croatia a level playing field in

the European Union's single market, on terms equal to those applying in the Eurosystem. Over the forthcoming three-year horizon, further technological and functional developments of payments infrastructure are expected, with a special focus on the completion of the consolidation of the Eurosystem infrastructure, the accession of the Central Depository and Clearing Company and the banking community to T2S (*Target2Securities*), further development of instant payment services and the continuation of the standardisation process. In the regulatory sense, development of new regulations is expected to further accelerate for the purpose of making timely adjustments to the regulatory framework to take into account technological developments and user preferences. A regulatory

package is expected to be passed relating to instant payments. New directives are also expected to be adopted (Payment Services Directive, amendments to Electronic Money Directive and Settlement Finality Directive).

The infrastructural priorities include joining TiPS (*TARGET Instant Payments Settlement*) by the Croatian banking community and FINA as the EuroNKSinst operator, which will enable full pan-European reachability of instant payment services in the euro for all Croatian banks and their clients, as well as the accession of the Central Depository and Clearing Company and other stakeholders in the Croatian capital market to T2S, which will enable the stakeholders to make use of all the benefits of the full pan-European reachability.

Our priority in the regulatory area will include the adoption of a new directive (*Payment Services Directive (PSD3)*) and its transposition to the Croatian legislation, that is, to the new Payment System Act.

The currency supply system forms an integral part of a country's cash cycle, ensuring sufficient quantities of cash for the needs of citizens and business entities. In addition to currency supply, the cash cycle also comprises storage, processing and destruction of cash, cash points where citizens and business entities can withdraw and deposit cash, cash transport, the protection of cash integrity, its analysis and educating stakeholders about the cash cycle.

Effective management of the cash cycle requires the balancing of:

1. external efficiency by applying an adequate regulatory framework;
2. internal efficiency by making use of adequate spatial, technical, technological and organisational solutions;
3. making sure that the ecological footprint of the entire system is minimised in order to mitigate climate changes.

1. Efficiency of the currency supply system

Although the currency supply system includes the planning of the necessary amounts of banknotes and coins, their procurement and distribution, it must be observed in a wider context, along with other elements of the cash cycle. With the introduction of the euro, the challenges that emerged associated with the cash cycle accentuated the need to further optimise and reorganise the currency supply system. In the upcoming three-year period, a new regulatory framework governing the currency supply system is expected to be prepared, and all stakeholders are expected to adjust to the new regulatory framework in order to make currency supply more efficient and in order to ensure adequate availability of cash for citizens and business entities.

2. Efficiency of internal processes

Internal processes of the central bank relating to cash operations have a significant effect on the efficiency of the overall cash cycle. In addition to regular replacements of damaged euro cash, from 1 January 2024 the Croatian National Bank has been the only institution to exchange kuna cash for euro cash. This will, among other things, also require ensuring premises and adequate technical equipment for the reception of citizens. In addition, the adoption of the euro has shown the need for new currency area premises with the corresponding optimal infrastructure and dedicated applications used for the storing, processing and supply of cash and reporting to the European Central Bank about cash.

In addition, following the introduction of the euro as the official currency in the Republic of Croatia, there has been an increase in the number of counterfeit euro banknotes and coins. This trend is expected to continue in the period ahead, especially during and following tourist seasons.

In order to respond to these challenges, effort in the next three years is expected to

be invested into the further development of application solutions as a support to business processes, further education of employees and development of their competencies, ensuring premises where citizens can replace their cash and providing appropriate currency area premises and the corresponding infrastructure.

3. Climate change mitigation and concern for the environment

The effects of a changing climate are becoming increasingly prominent. In the coming decades, Croatia, like most countries, will become exposed to further gradual increase in the average temperature and extreme weather events that will most certainly affect the operations of all the stakeholders in the cash cycle. In order to reduce its ecological footprint in the process of destroying unfit banknotes,

in recent years the Croatian National Bank has been disposing of destroyed banknotes in an environmentally friendly way, by recycling. In view of the large number of withdrawn kuna banknotes, the Croatian National Bank will continue to be committed to protecting the environment in the period ahead and will dispose of withdrawn kuna banknotes either by way of recycling or incineration with energy recovery. In procuring new equipment for cash operations, we will take care to minimise electricity consumption. With regard to ensuring appropriate currency area premises and the corresponding infrastructure, we will be guided by the principle of climate change mitigation and climate transition and will procure sustainable infrastructure and the technology necessary for creating a sustainable economy resilient to climate change.

4. Successful integration into the Eurosystem

OUR PRIORITIES

- high-quality and timely preparation of analytical and other inputs for the purpose of the participation of the CNB's representatives in the working bodies of the European System of Central Banks and Eurosystem

With the introduction of the euro as the official currency of the Republic of Croatia on 1 January 2023, the Croatian National Bank has become an integral part of the Eurosystem. This includes participating in shaping the common monetary policy and adopting all other decisions of the ECB Governing Council relating to the Eurosystem. The Governor of the Croatian National Bank is a member of the ECB Governing Council, which is the highest decision-making body. CNB experts participate on equal footing in the meetings of approximately 160 committees, subcommittees, working groups and other working bodies of the Eurosystem and the Single Supervisory Mechanism and contribute to the preparation of inputs for making decisions in their areas. The Croatian National Bank implements the common monetary policy in Croatia. With regard to monetary operations, banks still engage directly with the Croatian National Bank.

Within the Eurosystem, the Croatian National Bank has also continued to independently carry out various activities, in line with common procedures, if defined. This concerns areas such as macroprudential policy, financial asset management, smooth operation of payment systems, issuance of euro banknotes and coins, production of official statistics, consumer protection and supervision of compliance with regulations in the area of anti-money laundering

and terrorist financing. Within the banking union, the Croatian National Bank supervises credit institutions as part of the Single Supervisory Mechanism and together with the Single Resolution Board (within the Single Resolution Mechanism) acts as the resolution authority for credit institutions in Croatia.

A timely preparation of high-quality analytical and other inputs is essential for successful functioning within the Eurosystem and for the effective participation in making decisions relating to the euro area and the Eurosystem. This also involves the active and efficient participation of CNB representatives in the working bodies of the European System of Central Banks and the Eurosystem. This priority area includes efficient and timely preparation for participation in discussions and decision-making regarding certain topics at the level of the European System of Central Banks and the Eurosystem. Also, in taking part in the work and decision-making within the Eurosystem, we evaluate the topics that are of a particular interest for the Croatian National Bank. In this sense, among the topics discussed and decided on, priority topics of particular interest which require a provision of opinion are identified, both at the level of expert services and committees of the European System of Central Banks/Eurosystem and at the level of decision-making bodies.

5. Commitment to sustainable development

OUR PRIORITIES

- analysing climate-related and environmental risk data, as well as monitoring and managing these risks for the CNB's own operations and the financial system in general
 - commitment to a carbon-neutral economy, including sustainable financing in conducting monetary operations and managing own assets, as well as promoting the greening of the financial system (financing activities aimed at environmental protection and adaptation to and the fight against climate change)
 - determining and reducing the CNB's carbon footprint
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The Croatian National Bank is committed to sustainable development, primarily by taking due account of climate change and environmental protection in all segments of its operations, as described in the objectives of its Climate Pledge published on 3 November 2021 on the CNB website, which include building and enhancing its staff's skills and knowledge on the impact of climate change on the primary objectives of the Croatian National Bank; developing and implementing its own climate strategy and allocating adequate resources to be able to recognise, understand and monitor climate-related and environmental risks in different policy areas, especially in the area of financial stability, supervision, research, monetary policy implementation and management of financial assets, incorporating climate-related and environmental risks into supervisory expectations in line with the ECB's Guide on climate-related and environmental risks; engaging in regular open dialogue with credit institutions in order to encourage them to incorporate climate-related and environmental risks into their risk management frameworks and decision-making processes and supporting the establishment of a work stream within the Vienna Initiative charged with exploring the way

it can assist credit institutions in adapting to climate transition and transforming economies in line with the European climate goals.

In its efforts to stay committed to sustainable development, the Croatian National Bank will intensify the inter-institutional cooperation of financial regulators and the financial system focused on environmental protection, as well as adaptation to and fight against climate change, and take part in international efforts in this area.

The strategic objective of commitment to sustainable development includes three priority areas.

The first priority area is oriented towards understanding, monitoring and managing climate-related and environmental risks for the economy, monetary policy and the financial system. This involves collecting data on climate-related and environmental risks, their analysis and monitoring the potential effects of climate change on the economy and financial institutions. In this regard, the Croatian National Bank will continue to monitor and manage climate-related and environmental risks for its operations and the financial system.

The second priority area involves supporting transition to a carbon-neutral economy. The Croatian National Bank takes account of sustainable financing goals in conducting monetary operations and managing own assets and promotes the greening of the financial system (financing activities aimed at environmental protection and adaptation to and fight against climate change) and plans to stay committed to this objective in the future.

The third priority area of the Bank involves determining and reducing its own carbon footprint. The preparation and application of measures are expected in this segment, to be prepared by the working group in charge of proposing measures for greenhouse gas emission reduction and environmental protection in the operations of the Croatian National Bank.

6. Efficient, responsible and transparent internal governance

OUR PRIORITIES

- intensifying professional development programmes in various operational areas, development of management skills, improvement of collaboration and teamwork, communication skills and programmes fostering ethical conduct
 - making improvements to information technology and adapting software and infrastructure systems of business functions due to an increased number of requirements coming from the European System of Central Banks, the European Central Bank and the European Banking Authority
 - improving energy efficiency of construction elements and thermal systems of buildings in order to improve the purpose and use of our premises
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This objective is a foundation that contributes to the efficient achievement of all other objectives. In this regard, the Croatian National Bank will actively engage in both national and international cooperation, especially in the exchange of experience and know-how, and work on communication in order to meet the strategic objectives as efficiently as possible, taking into account also amendments of its subordinate legislation for the purpose of its harmonisation with the legal acts of the European Central Bank and other legal acts of the European Union, if necessary. In addition, making efforts to further improve and develop internal structure, organisational culture and

horizontal cooperation within the Bank, while respecting its ethical values (responsible conduct, professionalism, independence, impartiality and transparency), will contribute to further unity, so that all employees feel they are important members of the organisation.

These efforts will focus on human resources, the improvement of the IT system, that is, the pace of adapting to technological innovation and the further raising of cost awareness and accountability, as well as cost-effectiveness in the allocation of resources by fostering transparency, timeliness and accuracy of financial reporting.

In performing this task, the CNB is focused on three priority areas:

1. Recognising that the organisation is built on knowledge and that its employees are its most important factors. In this sense, we need to attract and provide development opportunities to employees with suitable skills by offering a stimulating working environment, evaluate their work based on their achievements and collaborate through knowledge-sharing at the level of the Bank by promoting a learning culture to make the Bank a desirable employer on the labour market. The Bank's employees will be guided by unity as a core common value, fostering a sense of belonging, communication and mutual respect. In addition to professional development programmes, including the introduction of new, specific educational programmes in light of the increasing need for expert knowledge in various operational areas, we will strive to provide more programmes aimed at developing management skills, improving cooperation and teamwork, communication skills (media training courses, presentation and negotiation skills training) and programmes aimed at fostering ethical conduct.
2. Continuous improvements of information technology, primarily for the purpose of making substantial adjustments relating to supervision, central banking operations and

statistics in the software and infrastructure systems due to the increasingly complex requirements, largely coming from the European System of Central Banks, the European Central Bank and the European Banking Authority. Changes in internal processes and the Eurosystem's requirements call for the making of considerable adjustments to the existing quality management system relating to the supervision and statistics areas, which are deemed to be critical operational areas at the Eurosystem level. Consequently, the operational risk management system of the Croatian National Bank will need to be formalised and improved. This will increase the availability and accessibility of the system in managing risks.

3. Improving energy efficiency of construction elements and thermal systems of buildings in order to improve the purpose and the use of premises, thus improving conditions for professional work in a stimulating working environment.

Internally, we will continue to focus on enabling a timely reaction and adaptation to our surroundings, as well as promoting efficiency, effectiveness and sustainability in meeting other strategic objectives and encouraging a strong culture of excellence, innovation and inclusion in the Bank.



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