



REPUBLIC OF CROATIA
MINISTRY OF FINANCE



CROATIAN NATIONAL BANK

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President of the Eurogroup
President of the European Central Bank
Finance Ministers of the Euro Area Member States
Finance Minister and Central Bank Governor of Denmark
Vice President of the European Commission for the Euro

Zagreb, 4 July 2019

THE GOVERNMENT OF THE REPUBLIC OF CROATIA AND THE CROATIAN NATIONAL BANK,

Having regard to the Treaty on European Union, in particular Article 3(4) thereof, and the Treaty on the Functioning of the European Union, in particular Articles 119(3) and 142 thereof,

Having regard to the Act concerning the conditions of accession of the Republic of Croatia and the adjustments to the Treaty on European Union, the Treaty on the Functioning of the European Union and the Treaty establishing the European Atomic Energy Community¹, and in particular Article 5 thereof,

¹ OJ L 112, 24.4.2012, p. 6.

Having regard to Council Regulation (EC) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, and in particular Article 7 thereof,

Having regard to the Resolution of the European Council meeting in Amsterdam of 16 June 1997 on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union,

Whereas:

1) The Republic of Croatia has been successful in maintaining price and financial sector stability for the last 25 years, by pursuing a monetary policy based on stabilizing the exchange rate of the kuna. Currency stability has been supported by other economic policies, in particular by macro-prudential policy. Such a policy mix is conducive to growth and macroeconomic stability.

(2) Since 2015 the Republic of Croatia has brought its public finances onto a more sustainable path. Following the abrogation of the Excessive Deficit Procedure in June 2017, in 2018 the general government balance recorded a surplus for the second consecutive year, in both nominal and structural terms. Croatia is also estimated to have over-achieved the ERM II-consistent Medium Term Objective (i.e. -1% of GDP) since 2016. Because of this and the strong nominal GDP growth, general government gross debt has declined by almost 10 percentage points between 2015 and 2018, to 74.6% of GDP. In the European Commission 2019 Spring forecast the structural balance is expected to exceed the Medium Term Objective throughout the forecast horizon, while the debt ratio is set to continue declining strongly, in line with the debt reduction benchmark.

(3) The Republic of Croatia has also achieved a substantial reduction of external imbalances. Unlike in the pre-crisis period, the Republic of Croatia has been reporting sizeable current account surpluses in recent years, partly due to strong export growth following EU accession. Against this background, the net international investment position improved considerably, by 40 percentage points of GDP between 2010 and 2018. Moreover, the unemployment rate fell from above 17 percent in 2013 to about 8 percent in 2018, which is in line with the EU average.

(4) The Croatian banking system is highly liquid, profitable and well capitalized, with the total capital ratio standing at 22.6 percent in March 2019. Non-performing loans have been reduced significantly since 2015 and are adequately covered by provisions. The Croatian National Bank maintains a vigilant

supervisory approach. It has been actively implementing recommendations by the European Central Bank and the European Banking Authority, in particular when it comes to bank capitalisation and risk management practices.

(5) In the context of the European Semester, the Commission and the Council monitor, assess and issue recommendations on the Republic of Croatia's economic policy taking into account the need to tackle structural weaknesses and reduce macroeconomic imbalances. It is worth noting that the Republic of Croatia improved the insolvency framework in late 2015 by adopting the new Insolvency Act. With the aim of strengthening corporate governance in state-owned enterprises, a new code of corporate governance, based on OECD guidelines, has been adopted in all majority state-owned enterprises, and medium term planning and performance reporting have been made obligatory.

(6) In the past few months, constructive discussions were held with the ECB, the Commission, the euro area Member States and Denmark on the necessary elements for entry into ERM II.

Hereby we

STATE our firm intention to enter ERM II, and ultimately introduce the euro once the convergence criteria in accordance with Article 140 of the Treaty on the Functioning of the European Union have been assessed as being fulfilled.

COMMIT to implement in the coming months and in any event before ERM II entry, a number of prior commitments in policy areas, which are of high relevance for a smooth transition to, and participation in, ERM II, namely:

- 1. To further strengthen banking supervision by entering into close cooperation with the ECB** and undertaking necessary preparations in line with the prescribed procedures. This relates to activities for carrying out comprehensive assessment as well as to legal adjustments in order to ensure participation and well-functioning of the Republic of Croatia in the Banking Union. The process for entering the Banking Union will fully respect the conditions specified in the relevant legal framework. The letter of request to establish a close cooperation with the ECB was sent on 27 May 2019.

2. **To develop the macro-prudential framework** by providing the legal basis for borrower-based measures, in addition to the existing capital-based measures, as recommended by the ECB Governing Council for all euro area countries.
3. **To strengthen the anti-money laundering framework** through early adoption of legislation which transposes and fully implements the fifth anti-money laundering directive (AML5-Directive).
4. **To improve the collection, production and dissemination of statistics**, by strengthening the institutional and methodological capacities in relation to the quality of National Accounts and GFS/EDP reporting. This includes reinforcing the capacities of statistical authorities (including increased qualified personnel resources), improving the procedures for the production and dissemination of statistics and their documentation, updating procedures and obligations for timely data exchange between statistical and other relevant authorities, and enhancing relevant data sources.
5. **To enhance public sector governance** through improved governance of state-owned property, intensified sale of stakes in companies and disposal of non-essential assets, increased efficiency, rationalization, and further legal harmonization and depoliticisation across the Croatian civil service.
6. **To reduce administrative and financial burden** through a reduction in the number and overall burden of para-fiscal charges, alleviation of excessive administrative obligations for entrepreneurs and liberalisation measures in selected professional services.

Hereby we

EXPECT to simultaneously join ERM II and Banking Union by mid-2020, following a positive assessment of the effective implementation of the above commitments by the Commission and the ECB within their respective areas of competence.

EXPECT the principle of equal treatment to be respected for the Republic of Croatia.

STAND READY to discuss further on this basis with the Eurogroup, Denmark, the ECB and the Commission and, in line with past practices, to make further commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time of euro adoption.

For the Republic of Croatia

Zdravko Marić
Minister of Finance



For the Croatian National Bank

Boris Vujčić
Governor



cc:

- (i) President of the Economic and Financial Committee and the Eurogroup Working Group
- (ii) President of the Council (ECOFIN)

Annex A

The Republic of Croatia's Action Plan for Joining the Exchange Rate Mechanism II (ERM II) and the Banking Union

**THE REPUBLIC OF CROATIA'S
ACTION PLAN
FOR JOINING THE EXCHANGE RATE MECHANISM II (ERM II)
AND THE BANKING UNION**

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POLICY AREA	1. BANKING SUPERVISION / RESOLUTION
DESCRIPTION OF THE POLICY AREA	Further strengthening banking supervision by entering into a close cooperation with the ECB and undertaking necessary preparations in line with the prescribed procedures.
ELABORATION AND RATIONALE OF MEASURES	<p>1.1. Further strengthening of banking supervision by entering into a close cooperation with the ECB and undertaking necessary preparations in line with the procedures prescribed under Article 7 of the Regulation 1024/2013 and Article 3 of Decision ECB/2014/5 - In particular, this relates to a request to enter into a close cooperation with the ECB, sent on 27 May 2019, pursuant to which the Republic of Croatia will undertake to: (i) ensure that its national competent authority – the Croatian National Bank (CNB) – will abide by any guidelines, instructions, measures or requests issued by the ECB, and (ii) provide all information on Croatian credit institutions that the ECB may require for the purpose of carrying out a comprehensive assessment of those credit institutions.</p> <p>In order to comply with such undertakings, legislative amendments are necessary, and will result in amendments to the Credit Institutions Act and the Croatian National Bank Act. The process for entering the Banking Union will fully respect the conditions specified in the applicable legal framework for close cooperation.</p> <p>1.2. The Act on Amendments to the Act on the Resolution of Credit Institutions and Investment Firms - By establishing close cooperation with the ECB, the Republic of Croatia is also becoming a participating Member State within the Single Resolution Mechanism with which a centralized mechanism for resolution of all credit institutions established in the participating Member States is ensured. By Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225, 30 July 2014), a centralized power of resolution is established and given to the Single Resolution Board and the National Resolution Authorities. Due to application of aforementioned Regulation from the date of establishing close cooperation, changes and amendments to the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 19/2015 and 16/2019) are aimed at changing provisions that are misaligned with Regulation (EU) No 806/2014. Those are in particular provisions related to powers of the National Resolution Authorities over institutions for which the Single Resolution Board will become directly responsible, and provisions related to resolution fund due to mutualisation of contributions to the Single Resolution Fund. In addition, since there are several National Resolution Authorities in the Republic of Croatia, their powers and obligations in the process of implementing decisions and instructions taken by the Single Resolution Board for institutions under its direct responsibility have to be specified.</p> <p>1.3. The Act on Ratification of the Intergovernmental Agreement - Participation of the Republic of Croatia within the Single Resolution Mechanism includes participation in the Single Resolution Fund as well, which means that from the date of establishing close cooperation with the ECB, obligations arising from the Intergovernmental Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund should apply to the Republic of Croatia as well. The Intergovernmental Agreement</p>

	should be ratified and ratification document deposited by the Republic of Croatia until the decision on close cooperation comes into force. Above mentioned will be possible through the adoption of the Act on Ratification of the Intergovernmental Agreement.
DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY - RESPONSIBLE INSTITUTION)	<p>1.1.1. May 2019 - Request letter to enter into a close cooperation with the ECB pursuant to Article 7 of Regulation (EU) No 1024/2013 - Ministry of Finance and Croatian National Bank</p> <p>1.1.2. July 2019 – The Act on Amendments to the Credit Institutions Act - Ministry of Finance and Croatian National Bank</p> <p>1.1.3. May 2020 – The Act on Amendments to the Credit Institutions Act and the Act on Amendments to the Croatian National Bank Act - Ministry of Finance and Croatian National Bank</p> <p>1.2. May 2020 - The Act on Amendments to the Act on the Resolution of Credit Institutions and Investment Firms - Ministry of Finance (in cooperation with the Croatian National Bank and the State Agency for Deposit Insurance and Bank Resolution)</p> <p>1.3. May 2020 - The Act on Ratification of the Intergovernmental Agreement - Ministry of Finance (in cooperation with the State Agency for Deposit Insurance and Bank Resolution)</p>

POLICY AREA	2. MACRO-PRUDENTIAL FRAMEWORK
DESCRIPTION OF THE POLICY AREA	Developing a macro-prudential framework by providing legal basis for borrower-based measures, in addition to the existing capital-based measures.
ELABORATION AND RATIONALE OF MEASURES	<p>2.1 The Act on the Croatian National Bank shall be amended to explicitly empower the Croatian National Bank for the implementation of macro-prudential measures.</p> <p>The Credit Institutions Act shall be amended to empower explicitly the Croatian National Bank to implement borrower-based macro-prudential measures through legally binding acts. The listed measures will be sufficiently comprehensive, as recommended by the ECB Governing Council for all euro area countries, and will include requirements with regard to:</p> <ul style="list-style-type: none"> - the ratio between the amount of credit exposure and the value of the collateral; - the ratio between total debt or credit exposure to the annual income of the borrower; - the ratio between debt service costs and the income of the borrower in a certain period; - the duration of the credit contract; - the amortization requirements and - other requirements aimed to prevent and mitigate systemic risks.

DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY - RESPONSIBLE INSTITUTION)	2.1 May 2020 - The Act on Amendments to the Credit Institutions Act and the Act on Amendments to the Croatian National Bank Act - Croatian National Bank, Ministry of Finance
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POLICY AREA	3. ANTI-MONEY LAUNDERING
DESCRIPTION OF THE POLICY AREA	Strengthening of the anti-money laundering framework through early adoption of legislation transposing and fully implementing the 5 th Anti-Money Laundering Directive (AML5-Directive).
ELABORATION AND RATIONALE OF MEASURES	<p>The Act on Amendments to the Anti-Money Laundering and Terrorist Financing Act was published on 17/04/2019 in the Official Gazette (39/2019). The Act strengthens the anti-money laundering and terrorist financing system in the Republic of Croatia, and transposes Directive (EU) 2018/843 of the European Parliament and of the Council amending Directive (EU) 2015/849 on the prevention of the financial system use for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU into the Croatian legal system.</p> <p>3.1 The Ordinance on the Register of Beneficial Owners The Minister of Finance shall adopt The Ordinance on the Register of Beneficial Owners referred to in Article 32(8) of the Act on Amendments to the Anti-Money Laundering and Terrorist Financing Act. The register of the Beneficial owners shall contain information on beneficial owners of the legal persons established in the territory of the Republic of Croatia and trusts and entities equal to them. From January 1st 2020 information from the Register of Beneficial Owners will be available to competent authorities, reporting entities and to the public.</p> <p>3.2 The Ordinance on the Unified Account Register The Minister of Justice shall adopt The Ordinance on the Unified Account Register. This will expand the scope of data in the Unified Account Register (already existing as of 2011) with information on safe deposit boxes, beneficial owners of account holders and persons acting on behalf of the customer (account holder).</p>
DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY - RESPONSIBLE INSTITUTION)	<p>3.1. Second/third quarter of 2019 - The Ordinance on the Register of Beneficial Owners - Ministry of Finance</p> <p>3.2. Fourth quarter of 2019 - The Ordinance on the Unified Account Register - Ministry of Justice</p>

POLICY AREA	4. STATISTICS
DESCRIPTION OF MEASURES	<p>Improvement of collection, production and dissemination of statistics, by strengthening the institutional and methodological capacity in relation to the quality of National Accounts and GFS/EDP reporting.</p> <p>This includes:</p> <ul style="list-style-type: none"> 4.1 reinforcing the capacity of statistical authorities (including through increased qualified personnel resources); 4.2 improving the procedures for the production and dissemination of statistics and their documentation; 4.3 updating procedures and obligations for timely data exchange between statistical and other relevant authorities, and; 4.4 enhancing relevant data sources.
ELABORATION AND RATIONALE OF MEASURES	<p>Member States, whose currency is the euro, have to meet extensive statistical reporting requirements under Regulation (EU) No 549/2013. The production of National Accounts and GFS/EDP statistics by the Croatian Bureau of Statistics (CBS) has recorded a number of improvements in recent years. Further improvements will be made in the institutional and methodological capacities of CBS to strengthen the national accounts and GFS/EDP reporting, notably in terms of completeness, accuracy and coherence of data. Improvement needs have been identified related to personnel resources (current low staff numbers coupled with significant staff turnover), coordination between and within Croatian statistical authorities, organisation of the data source and data compilation arrangements. While the Croatian Bureau of Statistics is in charge of the statistical methodology and production, some of the needed improvement measures are within the remit of other Croatian public authorities and require changes to the institutional framework in which the CBS operates.</p>
DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY - RESPONSIBLE INSTITUTION)	<p>4.1.1 December 2019 - Adoption by the Government of the Republic of Croatia of the new Regulation on the Internal Organization of the Croatian Bureau of Statistics</p> <p>Changes to the part of the Regulation in force (Official Gazette No 80/12) with regards to the Directorate of economic statistics should result in better integration of all phases of development, production and dissemination of accurate, comprehensive and timely economic statistics. Furthermore, the changes should reinforce the methodological capacity including through increased qualified personnel resources for the CBS and its Directorate for economic statistics, internal reorganisation and promotion of staff.</p> <p>4.1.2 April 2020 - Adoption by the Croatian Parliament of the new Official Statistics Act</p> <p>Following the final adoption of the Act on the State Administration System, expected by July 2019, the Croatian Bureau of Statistics will start the procedure to amend the Official Statistics Act. Upon completion, the Official Statistics Act will regulate professional independence of the Director General of the Croatian Bureau of Statistics, also in regard of his/her appointment/dismissal. The adoption of the new Official Statistics Act would thus complete the implementation of Regulation (EU) 2015/759 of the European Parliament and the Council of 29 April 2015 amending Regulation (EC) No 223/2009 on European statistics, resulting in a strengthened institutional framework of the national system of official statistics.</p>

	<p>4.2 April 2020 - Adoption by the Croatian Bureau of Statistics of the Revision Policy for National Accounts Statistics (including GFS/EDP statistics) Adoption of Revision Policy will improve the documentation of procedures for the production and dissemination of National Accounts, including GFS/EDP statistics. This should lead to timely publication of national accounts time series in an accessible format on the CBS website.</p> <p>4.3 December 2019 - New Memorandum of Understanding signed by the Croatian Bureau of Statistics, the Ministry of Finance and the Croatian National Bank. A new Memorandum of Understanding will improve procedures, obligations and timeliness of data exchange between the three institutions.</p> <p>4.4. April 2020 - Adoption of the new Official Statistics Act by the Croatian Parliament The new Official Statistics Act will strengthen existing provisions stipulating free access to all administrative sources by the Croatian Bureau of Statistics, in particular by introducing provisions to address discontinuities in administrative data and ensure the alignment of administrative data with statistical definitions.</p> <p>Responsible institution: Ministry of Public Administration; the Croatian Bureau of Statistics for statistical matters</p>
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POLICY AREA	5. PUBLIC SECTOR GOVERNANCE
DESCRIPTION OF MEASURES	Enhancement of public sector governance through improved governance of state-owned property, disposal of non-essential assets, increased efficiency, rationalization, and further legal harmonisation and depoliticization across the Croatian civil service.
ELABORATION AND RATIONALE OF MEASURES	<p>5.1 Intensifying the sale of shares and stakes of companies that are not listed as companies of strategic interest to the Republic of Croatia. State ownership remains widespread in Croatia. The Centre for Restructuring and Sale (CERP) will publish tenders for the sale of shares/stakes in at least 90 companies, in which the state holds up to 25% of the shares and does not have a control stake, by April 2020. This measure will help attract new investments and create preconditions for stronger productivity growth.</p> <p>5.2 A new Law on Unvalued Construction Land will provide a clear legal framework for the settlement of property-rights relations between the Republic of Croatia and private companies.</p>

	<p>The law aims to solve a long-standing source of potential conflict on property rights between the Republic of Croatia and private companies (mostly in the tourist sector), originating from the conversion and privatisation of land property in the 1990s. At that time, the Republic of Croatia became the owner of non-evaluated construction land along with parts of privately-owned buildings constructed on it. This type of co-ownership soon became a burden for the investment and development of the companies retaining the property of (part of) those buildings. The law will strengthen legal certainty for investors and create the preconditions for the activation of currently unused assets and new investment.</p> <p>5.3 Depoliticisation and professionalisation of the state administration through the reduction in the number of (politically appointed) state officials within the (central) state administration. The measure aims to depoliticise and professionalise the management level within ministries, so that the administration can be managed by senior civil servants rather than politically appointed officials, as it is the case today with the Assistant Ministers. Depoliticisation and professionalisation will strengthen the independence of the public administration, boost the competences of civil servants and ultimately lead to efficiency improvements within the civil service. Moreover, it will also ensure continuity in the work of the state administration, given that it will no longer be affected by political changes.</p> <p>5.4 Establishment of a uniform legal framework for public institutions (synonym for "agencies" i.e. legal entities with public authority of "agency type", in Croatian legal order). The new framework will define uniform criteria pertaining to the establishment, organization and working arrangements, legal status of employees, sources of funding, responsibility and supervision of public institutions engaged in state administration and other public institutions. It will therefore enhance the institutional, organisational and functional clarity for these different types of public institutions.</p>
<p>DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY - RESPONSIBLE INSTITUTION)</p>	<p>5.1 April 2020 - Number of published companies (at least 90) - Ministry of State Property</p> <p>5.2 January 2020 - Law on Unvalued Construction Land - Ministry of State Property</p> <p>5.3 December 2019 - Adoption of the State Administration System Act and the Act on Amendments to the Act on Duties and Rights of State Officials - Ministry of Public Administration</p> <p>5.4 December 2019 - Adoption of the Amendments to the Institutions Act - Ministry of Public Administration</p>

POLICY AREA	6. BUSINESS ENVIRONMENT
DESCRIPTION OF MEASURES	Reduction of administrative and financial burden through a decrease in the number and overall burden of para-fiscal charges, in administrative obligations for entrepreneurs, and liberalisation of selected professional services
ELABORATION AND RATIONALE OF MEASURES	<p>6.1 Removal or simplification of administrative requirements for the corporate sector. Businesses in Croatia are burdened by excessive administrative requirements. Following the completion of the measurement of administrative burden, administrative requirements are being reduced and/or simplified in a number of areas, such as transport, tourism, agriculture, judiciary, energy, environment, education, taxes and customs. The introduction of electronic communication in fulfilling administrative requests will assist this process.</p> <p>6.2 Decrease of financial burden on the corporate sector Para-fiscal charges represent a financial burden on the corporate sector. Following a thorough analysis, a plan for the reduction and abolition of para-fiscal charges will be devised and legislated.</p> <p>6.3 Liberalisation of selected services market Product market regulation (PMR) in Croatia is more restrictive than in peer countries, particularly in the services sector. Continuing the progress achieved in certain sectors, measures to further simplify access and increase competition will be implemented in the pharmaceutical, physical therapy and engineering sectors. Based on an Action Plan by the Ministry of Economy, Entrepreneurship and Crafts for the deregulation of the services market the following measures will be implemented with priority:</p> <p>6.3.1 Redefining membership obligations in professional engineering Chambers for the representatives of the contractor's engineers.</p> <p>6.3.2 Abolishing: (i) excessive minimum requirements relating to the premises for the provision of pharmacy services, (ii) restrictions in pharmaceutical advertising and (iii) restrictions in the opening hours of pharmacies</p> <p>6.3.3. Enabling equal access to open public tenders for the provision of physical therapy services for all interested parties, abolishing restrictions in advertising physical therapy services and reducing their advertising costs</p>
DELIVERABLES (INDICATIVE DEADLINE - PROOF OF ACTIVITY -	6.1 December 2019 - Application for online registration of business set up and available to users, April 2020 - At least 100 administrative reduction measures implemented, March 2020 - 4 th Action Plan for Administrative Burden Reduction prepared for adoption by the Croatian Government; Ministry of Economy, Entrepreneurship and Crafts.

RESPONSIBLE INSTITUTION)	<p>6.2 November 2019 - Systematic analysis of para-fiscal charges completed, March 2020 - Adoption of Government decision on reduction of para-fiscal charges; Ministry of Economy, Entrepreneurship and Crafts.</p> <p>6.3.1 December 2019 – The adoption of the amended Act on Physical Planning and Building Tasks and Activities by the Croatian Parliament - Ministry of Construction and Physical Planning</p> <p>6.3.2. April 2020 – adoption of bylaws within the field of competences of the Ministry of Health and the Croatian Chamber of Pharmacists</p> <p>6.3.3. April 2020 – Croatian Health Insurance Fund announcing a tender for the provision of physical therapy services and adoption of bylaws by the Croatian Chamber of Physical Therapists - Ministry of Health</p>
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