



HRVATSKA NARODNA BANKA

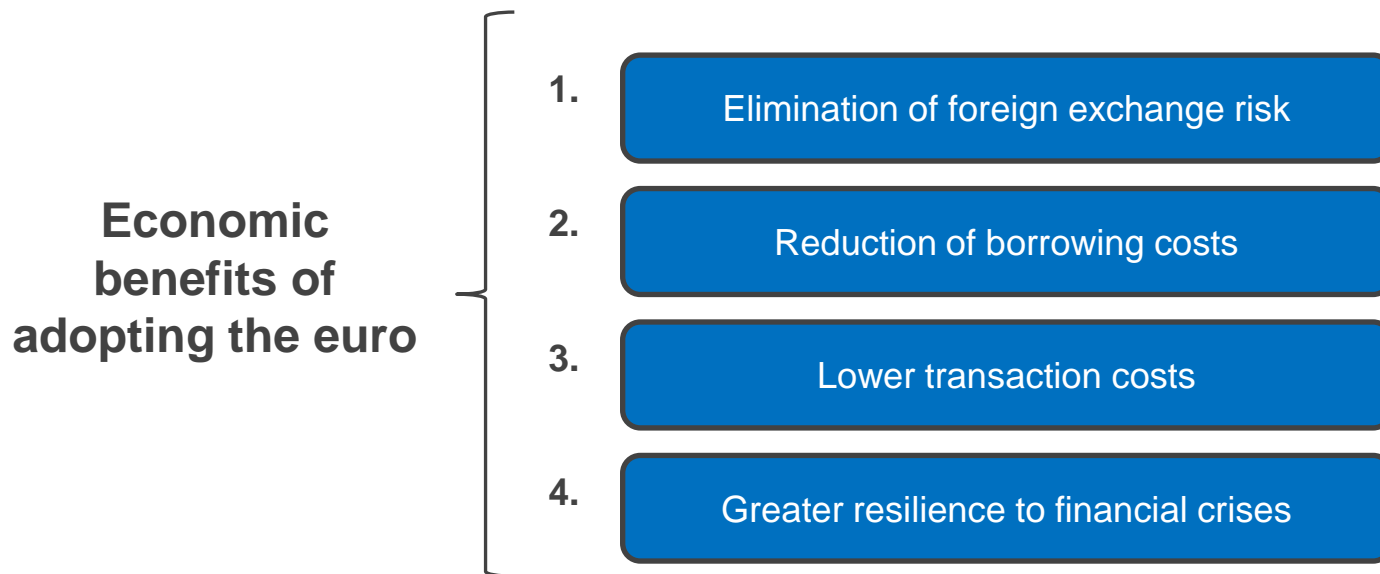
EUROSUSTAV

Key takeaways from the euro adoption in Croatia

Boris Vujčić, Governor

The Economist Croatia
Business Summit
Zagreb, 5 November 2024

Despite the challenging environment, euro adoption has brought all expected (and announced) benefits

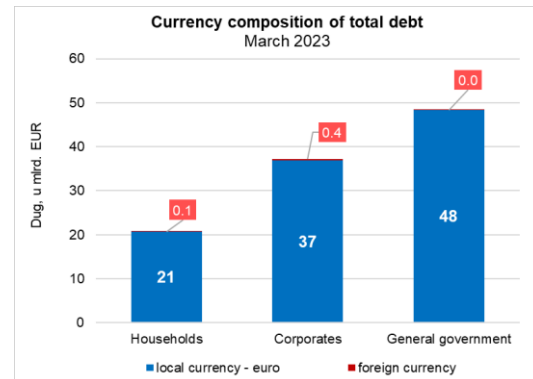
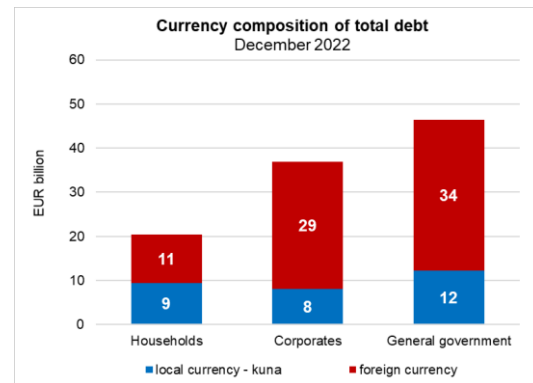


First, elimination of foreign exchange risk

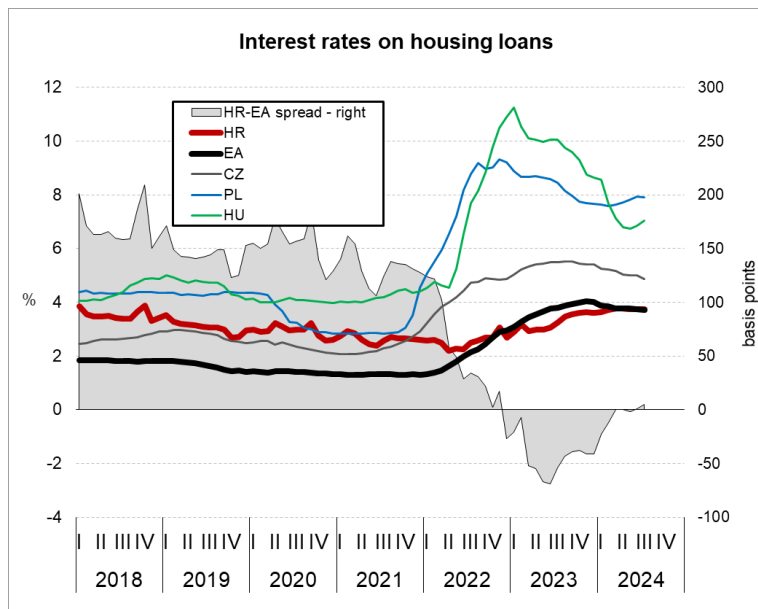
- As a previously highly euroized country, Croatia has benefited significantly from the adoption of the euro as foreign exchange risk has disappeared completely

❖ in December 2022, foreign currency debt amounted to EUR 77 bln (**115% of GDP**)

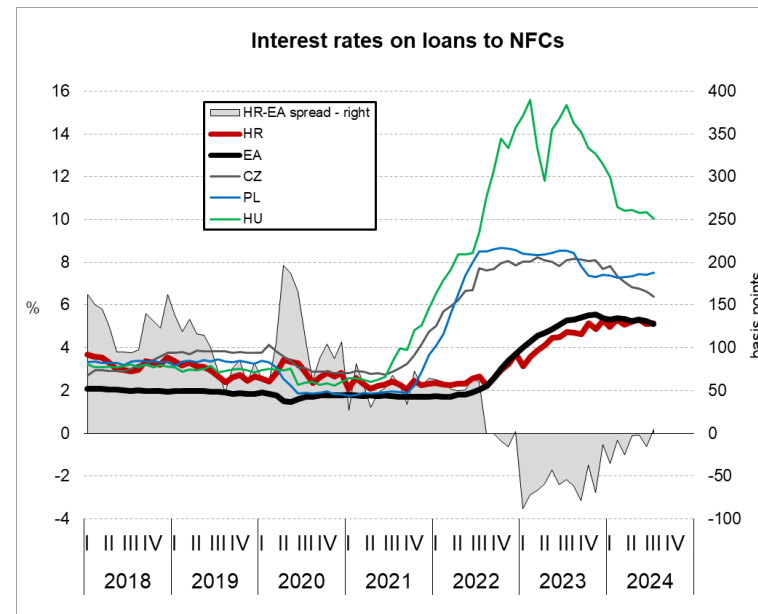
❖ in March 2023, foreign currency debt amounted to only EUR 0.5 bln (**0.7% of GDP**)



Second, borrowing costs declined in relative terms, converging fully towards euro area average



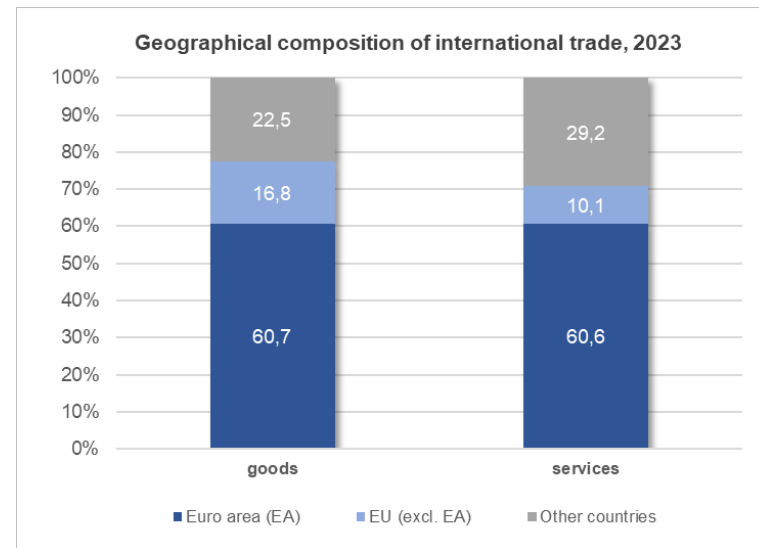
Source: ECB



Source: ECB

Third, there are also other benefits, including lower transaction costs, ...

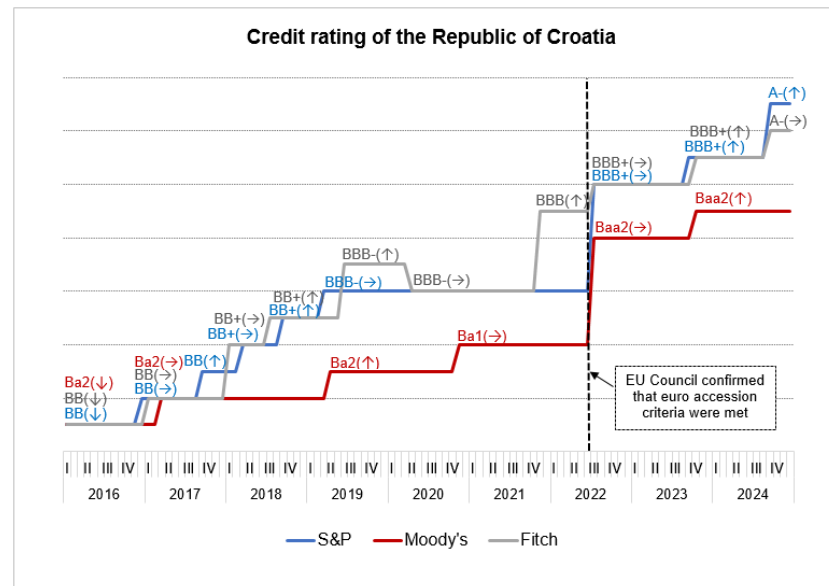
- Foreign trade in goods and services (tourism) facilitated by the elimination of EUR/HRK currency conversion costs and the removal of border controls (due to joining Schengen area)
- Elimination of costs and risks associated with FX movements expected to boost domestic and foreign investment



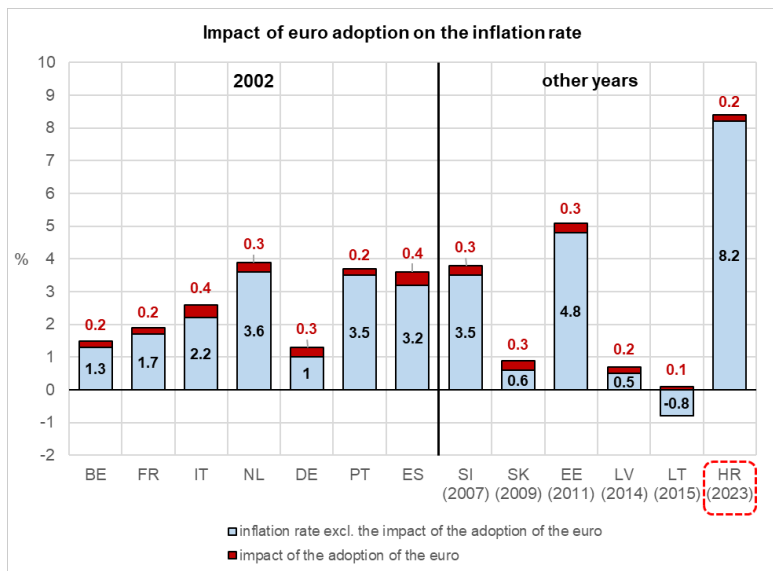
Source: Eurostat

... and increased resilience to financial crises and external shocks

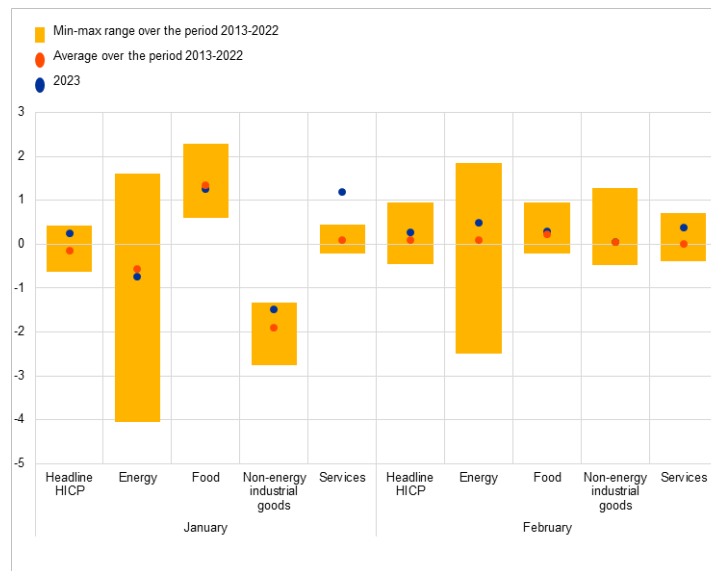
- Financial stability risks are significantly lower after the adoption of the euro:
 - the elimination of FX risk for borrowers led to increased resilience of the overall economy
 - FX-induced credit risk is eliminated as virtually all loans are now in domestic currency (**99,6%**)
 - almost all deposits (**94%**) are in domestic currency, which simplifies liquidity risk management in banks
 - as part of the Eurosystem, HNB can react more forcefully in case of turmoil – LOLR in full capacity
 - a harmful currency depreciation no longer possible
 - the government can borrow from the ESM in case of financial difficulties



There was no negative surprise concerning the impact of euro adoption on prices, it was negligible and fully in line with experiences of other countries



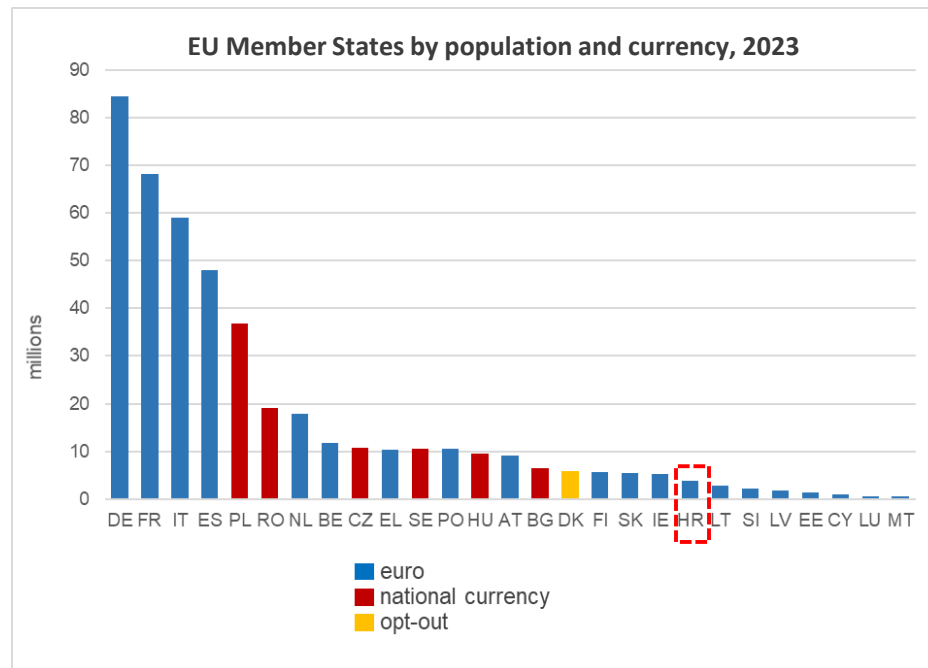
Sources: Eurostat, Pufnik (2017)



Source: Eurostat

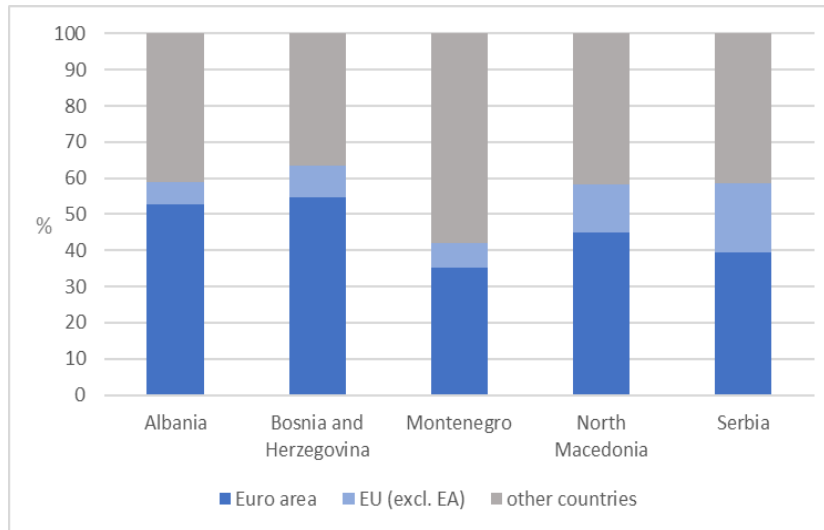
In sum, the benefits of euro adoption in Croatia have by far outweighed the costs

- This was fully in line with expectations considering specificities of the Croatian economy:
 - small and open – before euro adoption Croatia was the smallest country in the EU that used its own currency
 - high level of trade and financial integration with the euro area
 - high level of euroisation



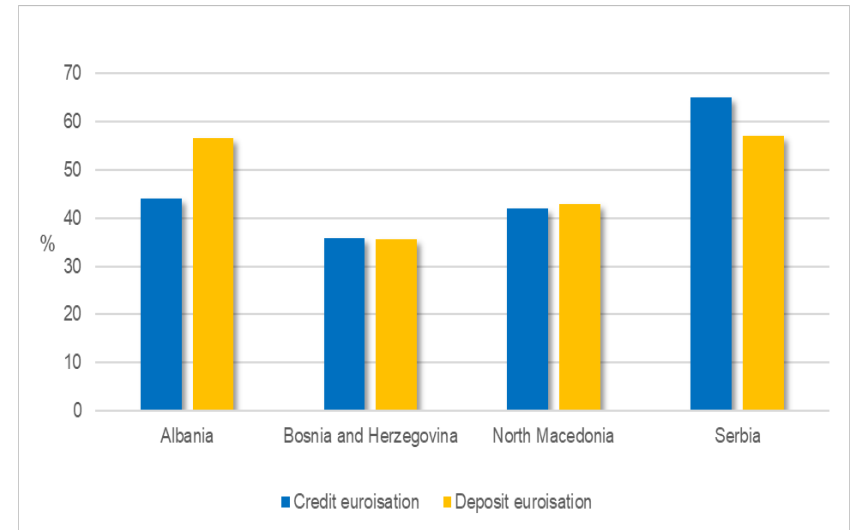
Countries in the region may expect similar effects of euro adoption, which also makes EU membership more attractive

Geographical composition of merchandise trade, 2022



Source: IMF DOTS

Credit and deposit euroisation, December 2023

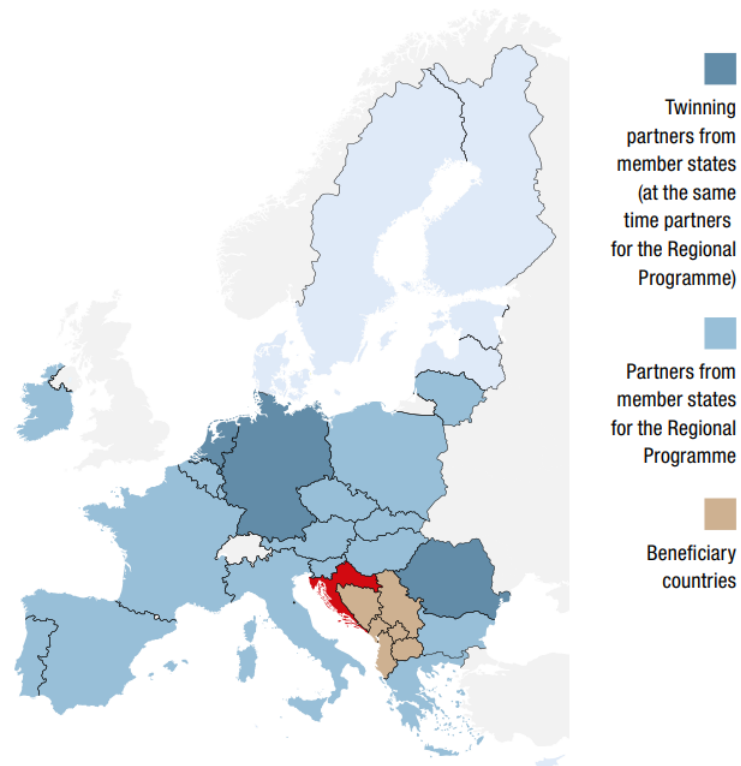


Note: the data refer to the share of foreign currency loans and deposits in total non-financial private sector loans and deposits

Source: national central banks

HNB stands ready to support all countries in the region on their road to the EU/euro area

- HNB has been a major provider of technical assistance to central banks and supervisory authorities of the neighboring candidate countries
- Since 2014, Croatia has participated in 44 large twinning projects, mostly supporting Western Balkans countries
- In 2023, Croatia was ranked 2nd in the EU according to the number of experts engaged in TAIEX projects



Thank you for your attention!