



EUROPEAN CENTRAL BANK
EUROSYSTEM

Croatia, welcome to the euro area!

European Economic
and Social Committee
- Public debate

01/02/2023



Christine Gartner

Senior Lead Economist, Euro Area External Sector
& Euro Adoption Division, DG Economics, ECB

The views expressed in this presentation are solely those of the presenter and do not necessarily reflect those of the European Central Bank.



Croatia is well prepared for the euro area

- **Convergence reports 2022** by European Commission and ECB → Croatia meets all economic and legal requirements to adopt the euro
- EU Council formally approves euro area accession and determines **conversion rate** = the central rate of the kuna in ERM II
- Croatia participated in the ERM II for the required two years and without severe tensions → passed the first **test of economic readiness**

Croatia well placed to benefit from ECB monetary policy

- Croatia is **well integrated** in the euro area = Croatia's main trading and financial partner
- **Foreign-owned banks** from euro area countries play a dominant role in the Croatian banking system
- High degree of **euroisation** prior to formally adopting the euro
- Croatian business cycle **highly synchronised** with that of the euro area

Croatia will benefit from euro adoption

- Adopting the euro offers **long-term benefits** in terms of stability, growth and prosperity and shields against instability in times of crisis
- Reform efforts and **sound economic policies** need to continue after euro adoption
- Croatia has shown clear **income convergence** since joining the EU in July 2013
- Croatia's policies towards supporting **potential growth and resilience** will be supported by EU funds

Croatia – twentieth euro area member

- We **welcome** Croatia as the twentieth member of the euro area.
- Croatian authorities and citizens have shown commitment to and belief in the **European project**.
- This is good for **Croatia** and for the **euro area**.

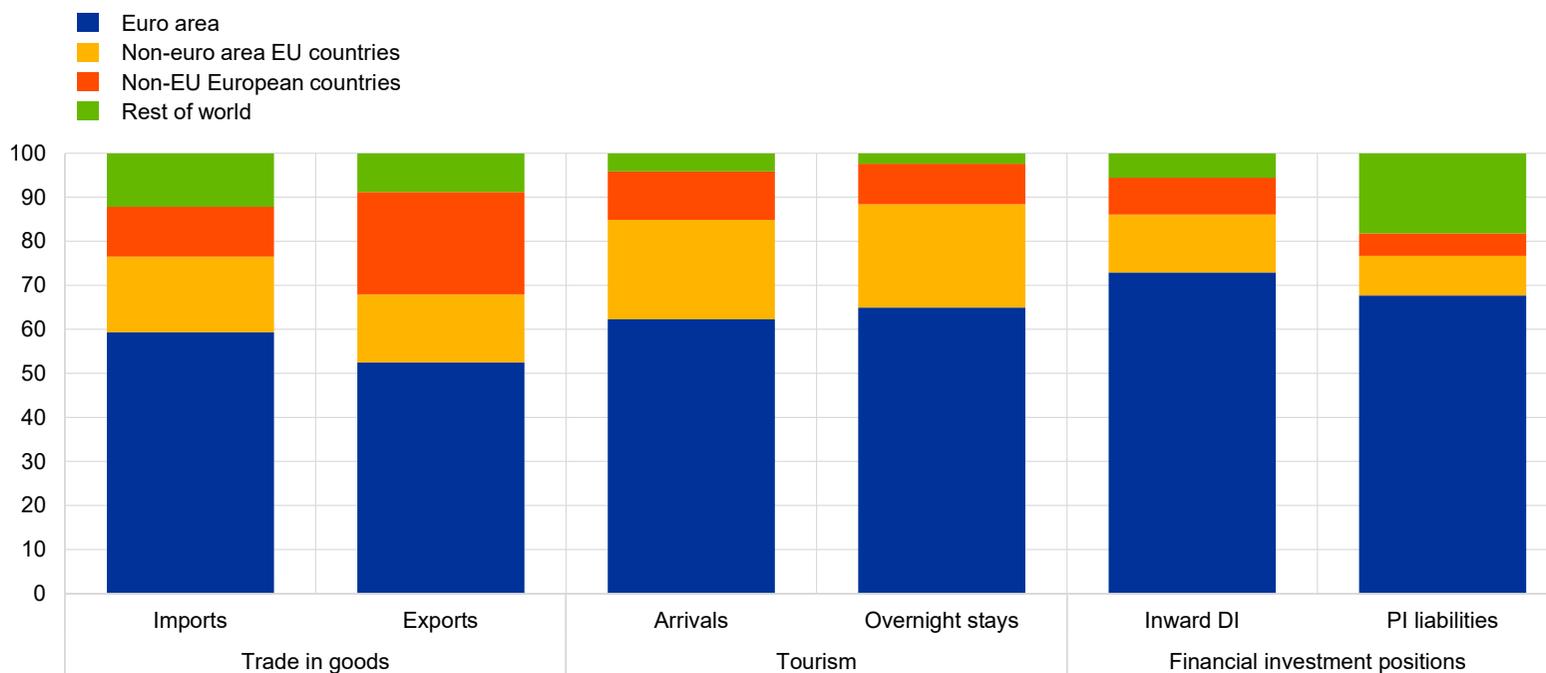
Thank you for your
attention

Background slides

Strong trade and financial ties with the euro area

Croatia's trade and financial linkages with the euro area

(as a percentage of the total)

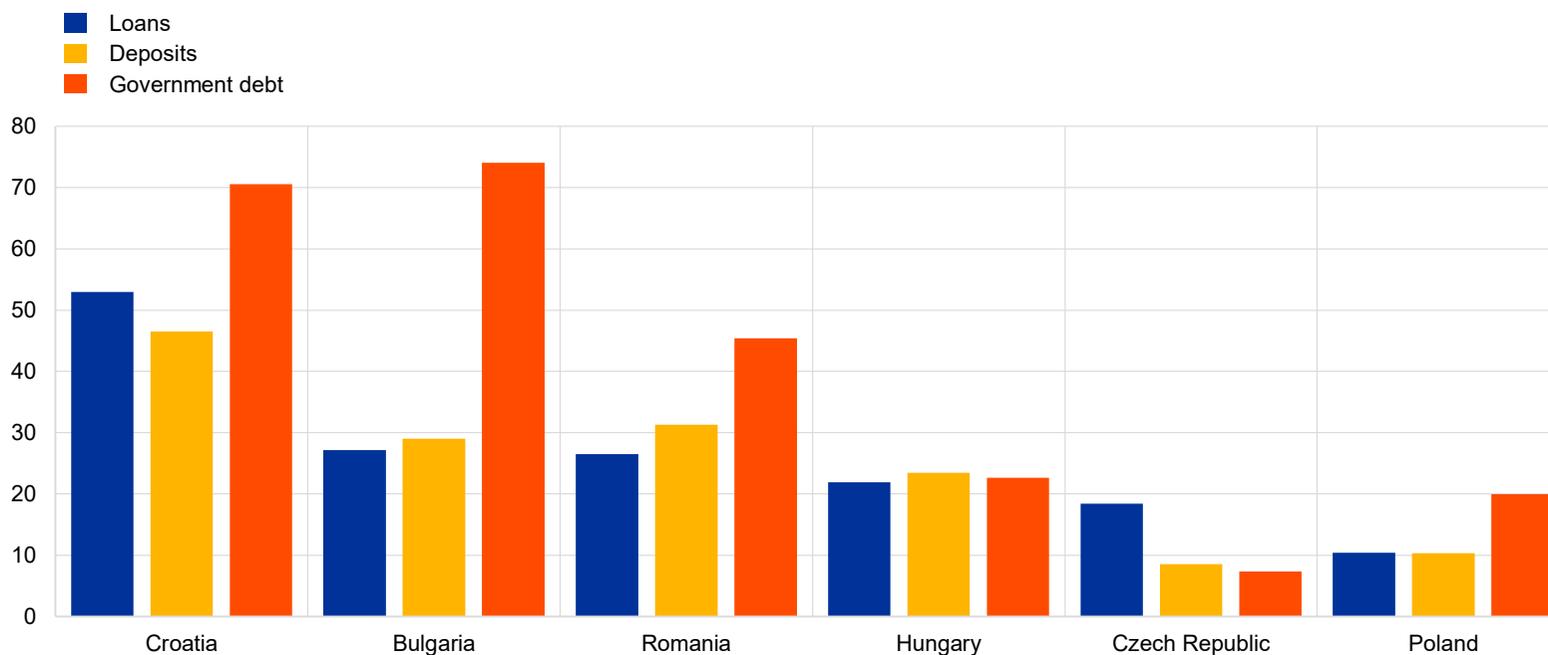


Sources: Croatian Bureau of Statistics, IMF (CDIS and CPIS) and ECB calculations.

Notes: DI stands for "Direct investment" and PI stands for "Portfolio investment". Data refer to 2021 for trade in goods, tourism and PI liabilities. Data refer to 2020 for DI positions. For tourist arrivals and overnight stays, domestic tourists are not considered. Shares for PI liabilities were computed using mirror data on bilateral assets vis-à-vis Croatia.

High level of euroisation in Croatia

Share of euro-denominated loans, deposits and government debt (as a percentage of the total)



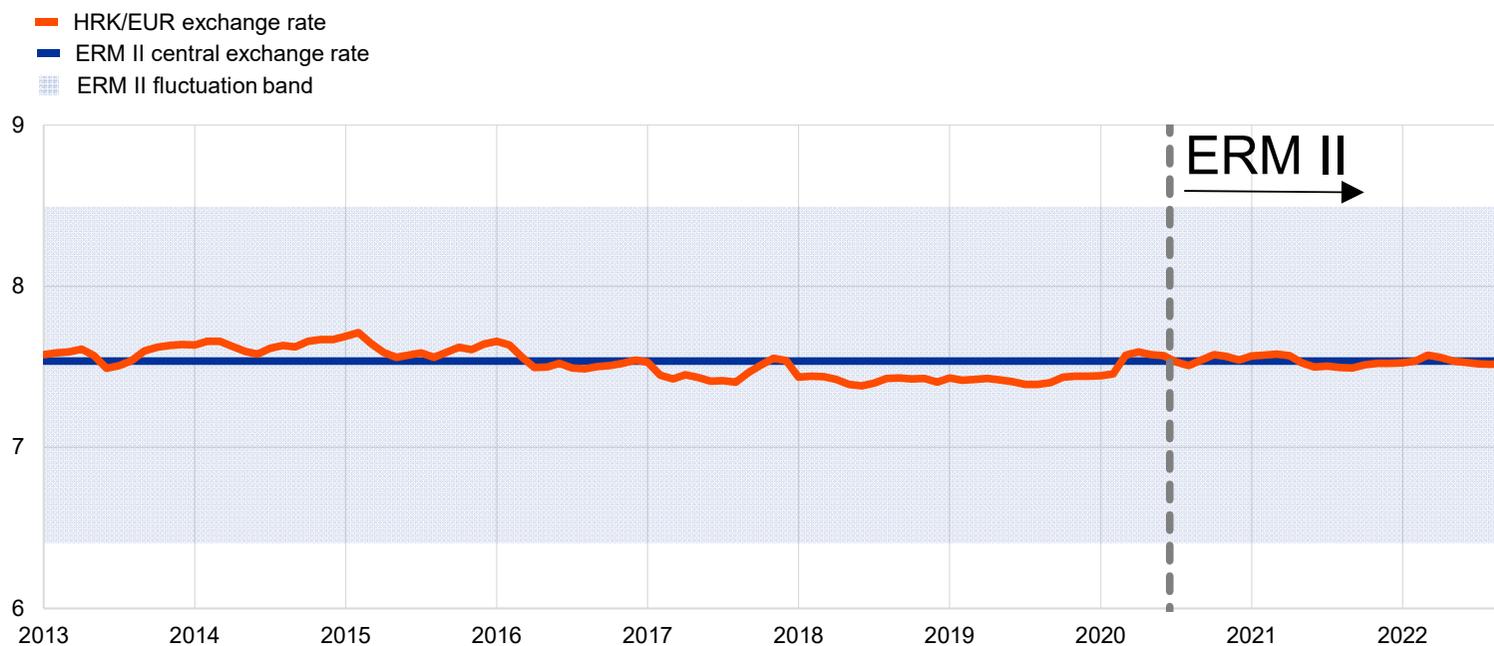
Sources: ECB and ECB calculations.

Notes: Data refer to outstanding amounts of loans to and deposits of non-monetary financial institutions excluding general government at the end of August 2022 and to the stock of general government debt at the end of 2021.

Track record of maintaining exchange rate stability

Bilateral exchange rate of the kuna vis-à-vis the euro

(HRK/EUR exchange rate, monthly averages)



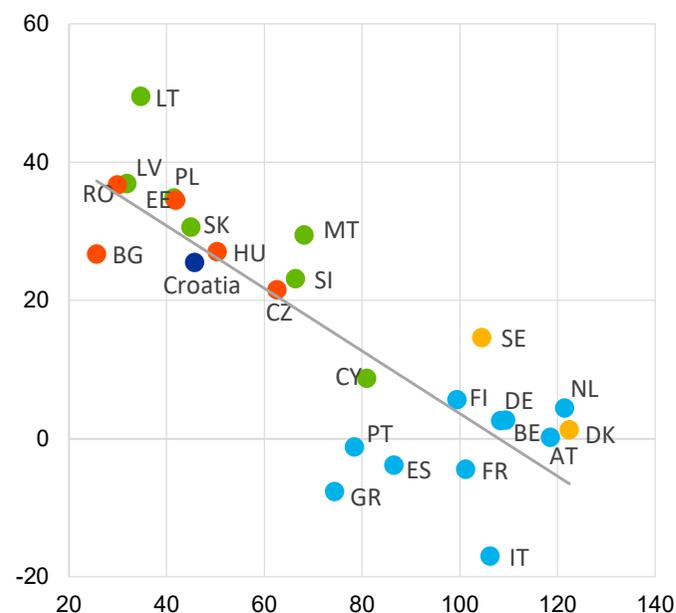
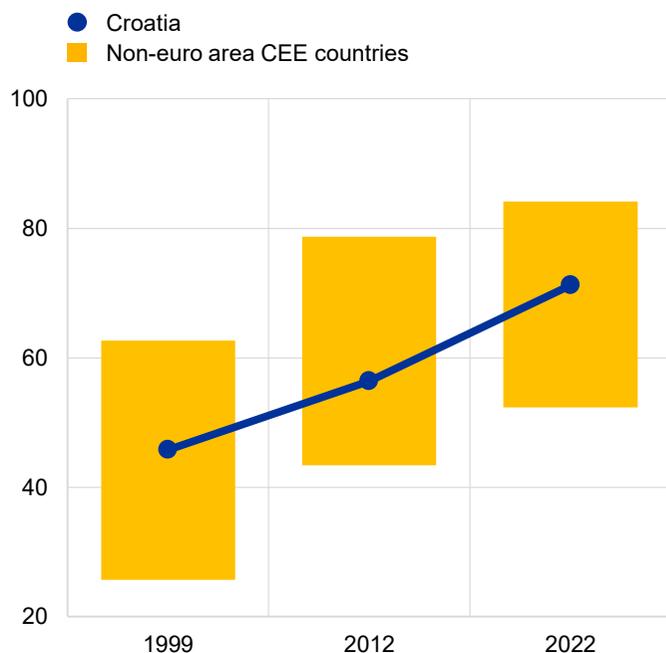
Sources: ECB and ECB calculations.

Notes: The Croatian kuna joined ERM II on 10 July 2020 and observes a central rate of 7.53450 to the euro with a standard fluctuation band of $\pm 15\%$. The latest observation is for October 2022.

Croatia has made progress in real convergence

Real GDP per capita relative to the euro area average

(lhs: euro area = 100; rhs: euro area = 100; x-axis: level in 1999; y-axis: change in level 1999-2022)



Sources: European Commission (AMECO database) and ECB calculations.

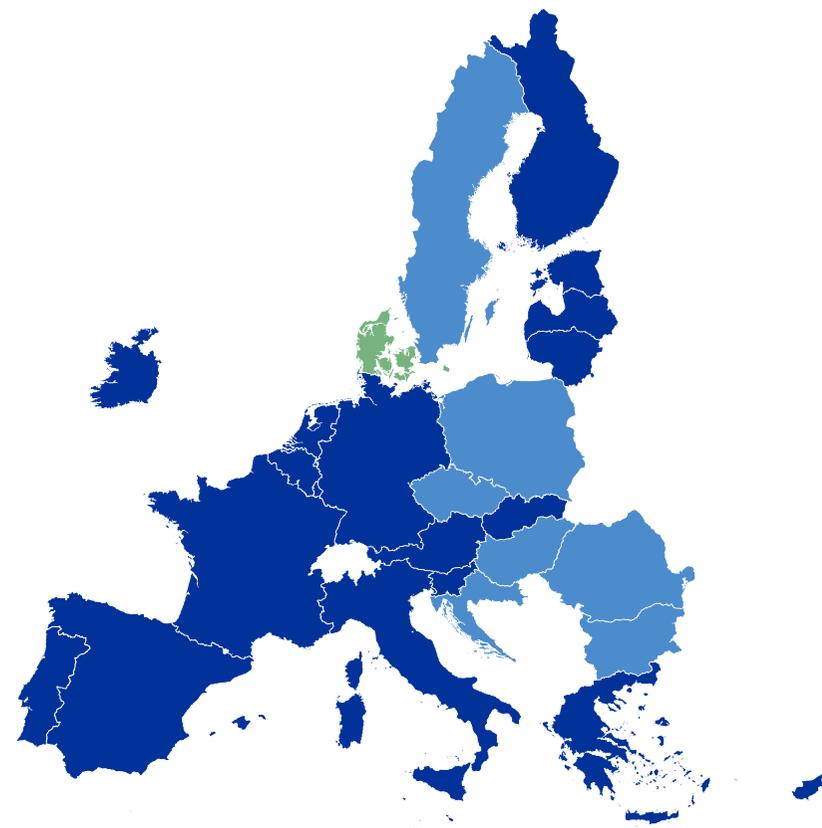
Notes: Based on real GDP per capita in purchasing power standard (PPS) terms. Data for 2022 are taken from the European Commission's Autumn 2022 Economic Forecast. In the panel on the lhs the yellow bars indicate the minimum-maximum range across non-euro area CEE countries (Bulgaria, Czech Republic, Hungary, Poland and Romania).

The ECB, the euro area and the Eurosystem

- The ECB is the **central bank** of the euro area
- The **euro area** is the geographic area comprising the EU members states whose currency is the euro
- The **Eurosystem** comprises the ECB and the National Central Banks (NCBs) of those countries that have adopted the euro

Article 282 of the Treaty on the Functioning of the European Union (TFEU):

*“The European Central Bank, together with the national central banks of the Member States whose currency is the euro, which constitute the Eurosystem, shall conduct the **monetary policy** of the Union.”*



Decision-making bodies of the ECB

Executive Board

- Handles the day-to-day running of the ECB and prepares Governing Council meetings
- Consists of 6 members: the ECB President + Vice-President + 4 other members appointed

Governing council

- It's the **main decision-making body**
- Consists of the Executive Board + the governors of the euro area National Central Banks

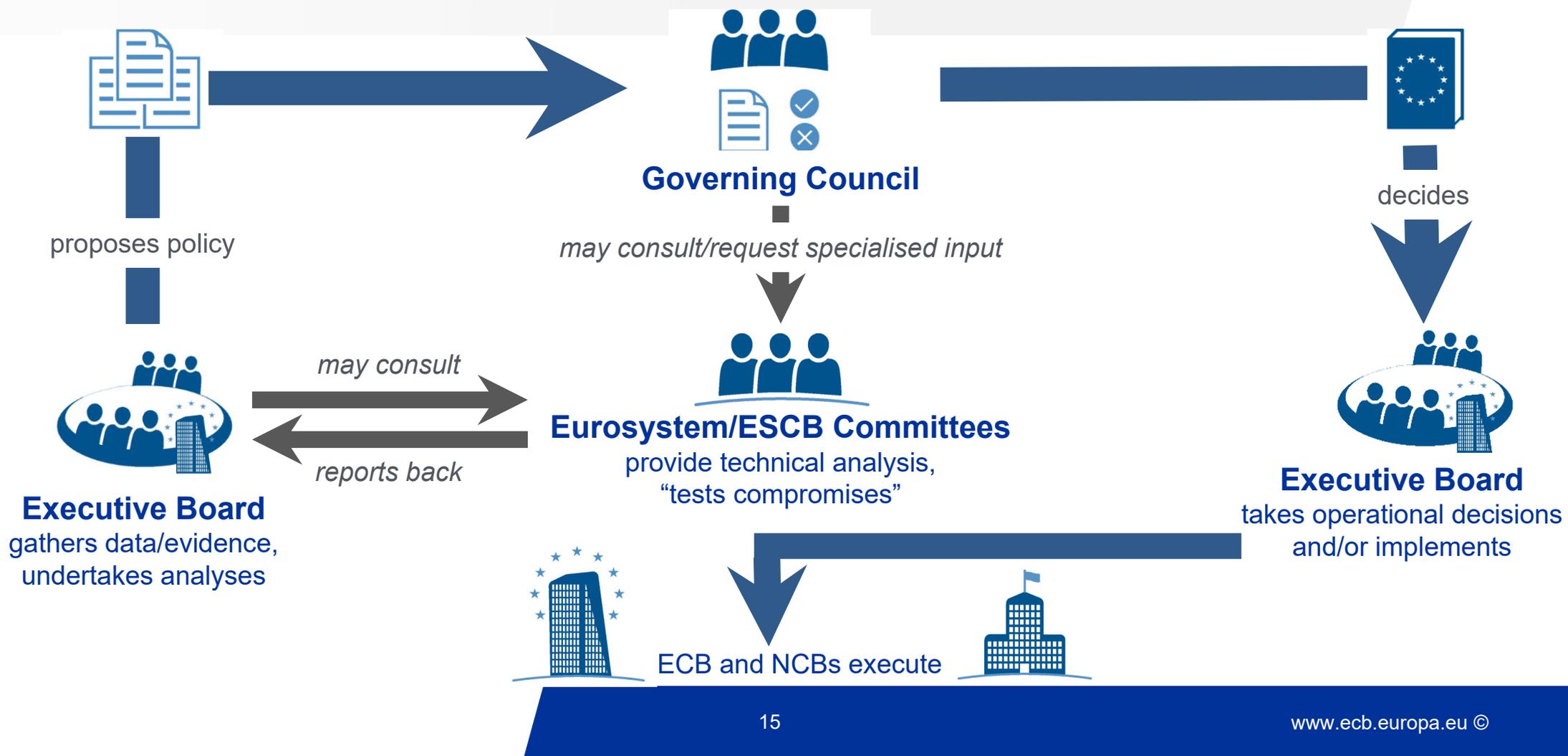
General Council:

- Advisory and coordination work + preparations for new countries joining the euro
- Consists of the ECB President and Vice-President + the governors of the EU National Central Banks

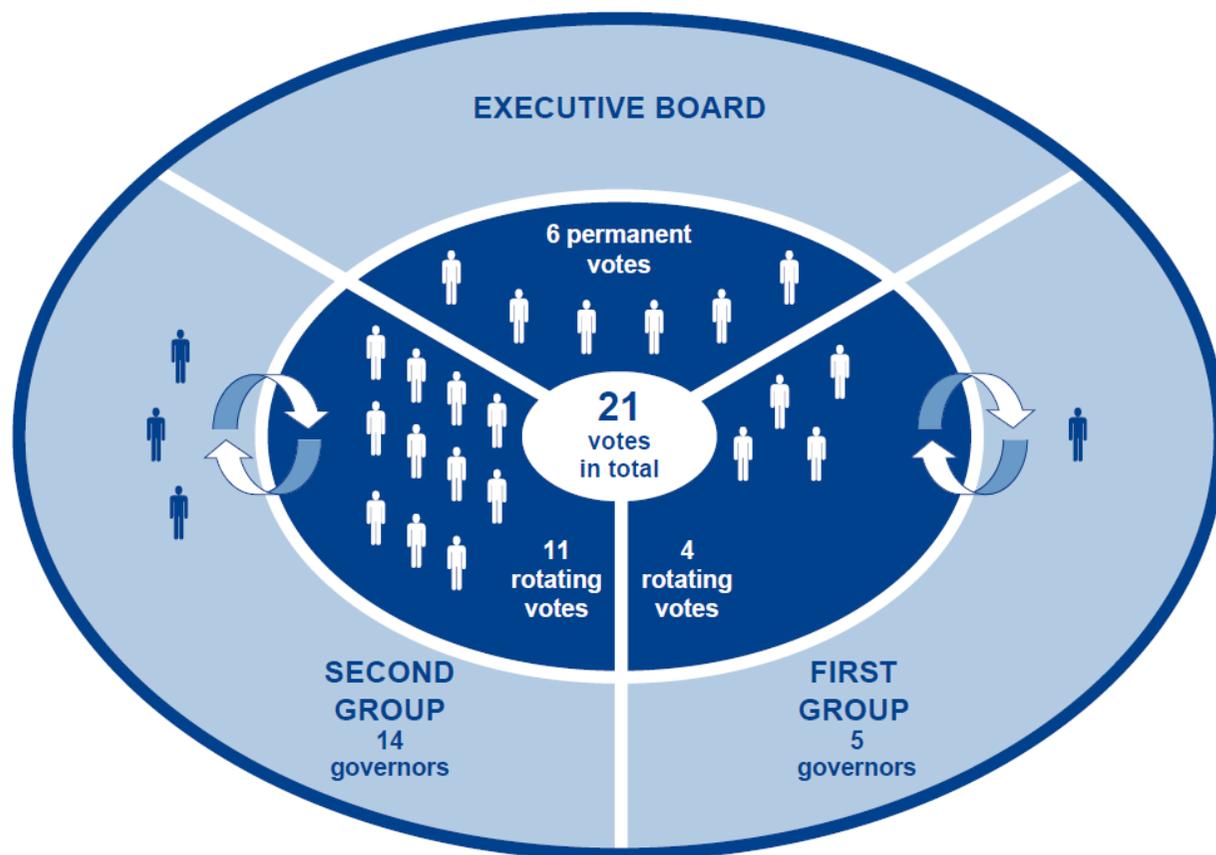
Supervisory Board

- For banking supervision tasks

Decision-making process of the ECB



Rotation system of voting rights in the Gov. Council



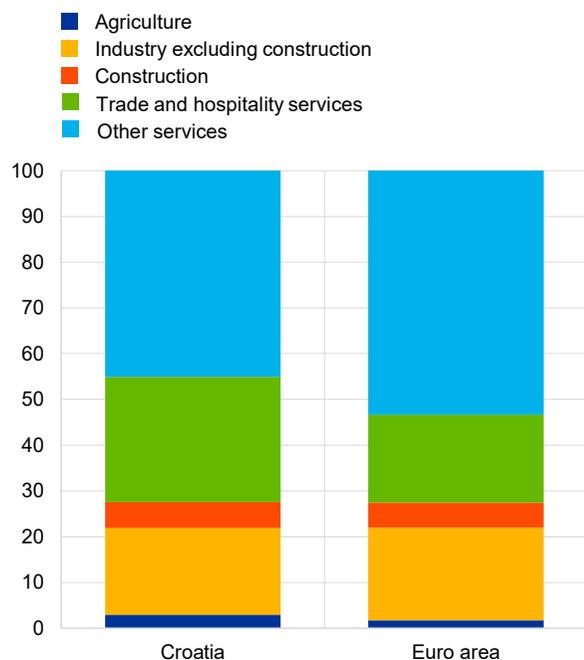
- Introduced in 2015 when Lithuania joined the euro area
- Germany, France, Italy, Spain and the Netherlands share four voting rights
- All others share 11 voting rights
- The Governors take turns using the rights on a monthly rotation

Accountability of the ECB

- Accountability is the necessary counterpart to independence
- Under the Treaty, the ECB is primarily accountable to the **European Parliament** as the representation of EU citizens, but also has to report regularly to the **Council of the EU**, which represents Member State governments
- The ECB has developed a strong and comprehensive accountability framework over the years, which goes beyond the Treaty requirements
 - Main channels: **Hearings and exchange of views** at the European Parliament, **written questions** by members of the European Parliament, **Annual Report** to the European Parliament, the Council of the EU, the European Commission and the European Council
 - Other channels: Publications (e.g. Economic Bulletin), weekly financial statements, press conferences, monetary policy accounts, interviews and speeches by members of the Executive Board

Structure of the Croatian economy

Gross value added by economic activity (as a percentage of the total)



Sources: Eurostat and ECB calculations.
Notes: Based on gross value added at current prices in the second quarter of 2022. "Trade and hospitality services" includes trade, transportation, accommodation and food service activities.

Tourism revenues (as a percentage of GDP)



Sources: ECB and ECB calculations.
Notes: based on travel credits in the balance of payments statistics, which measure non-residents' expenditures on goods and services when visiting the country. The yellow bars indicate the minimum-maximum range across all other EU Member States.