



CROATIAN NATIONAL BANK

EUROSYSTEM

Croatia's Economic and Financial Prospects in the Euro Area

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May 2024





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- **Croatia's Integration into the Euro Area**
- **Croatian Macroeconomic Performance**
- **Financial Sector Developments**

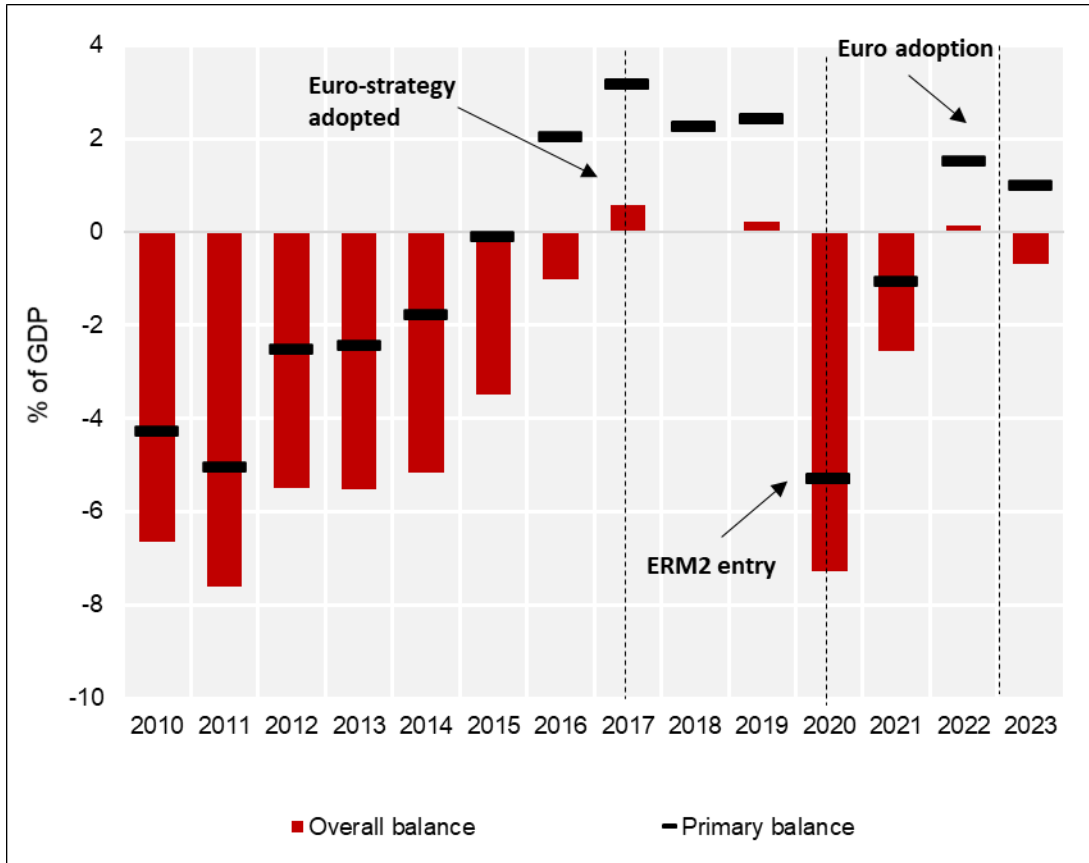


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- **Croatia's Integration into the Euro Area**

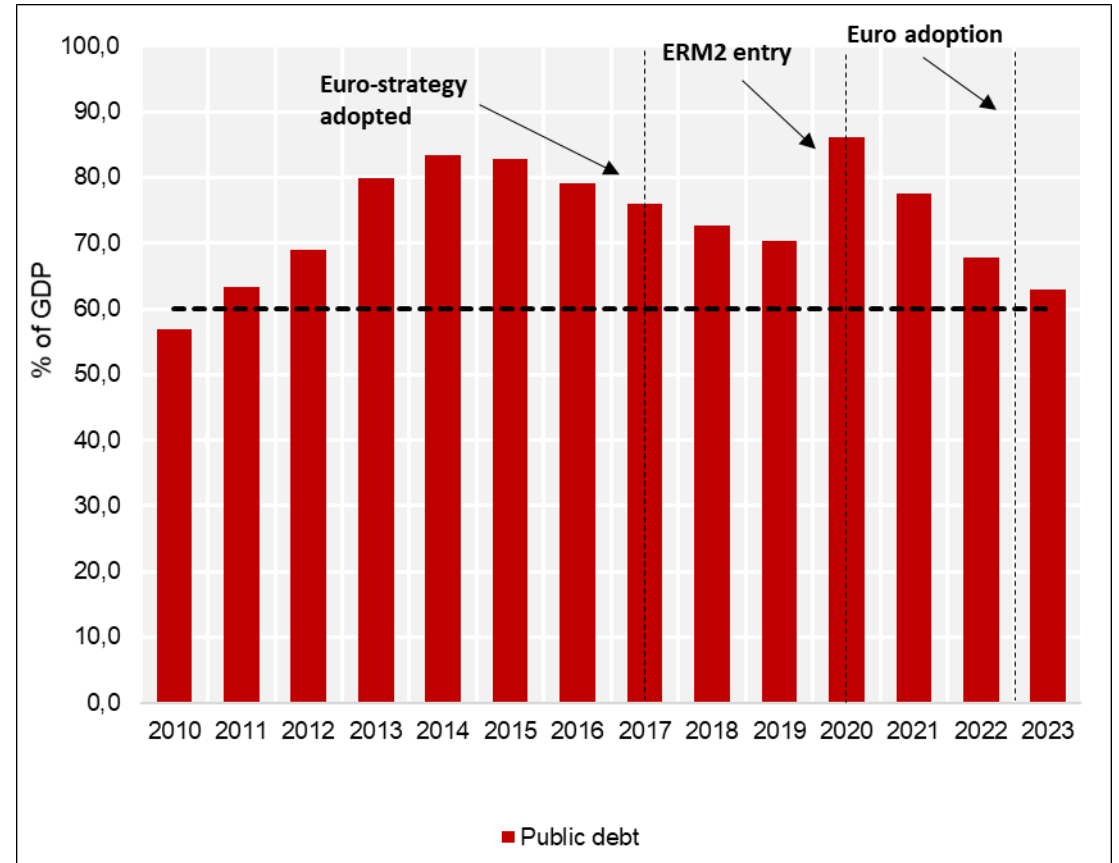
The euro adoption required significant improvements in macroeconomic fundamentals, most importantly the fiscal position

Overall and primary budget balance



Sources: CBS and Ministry of finance

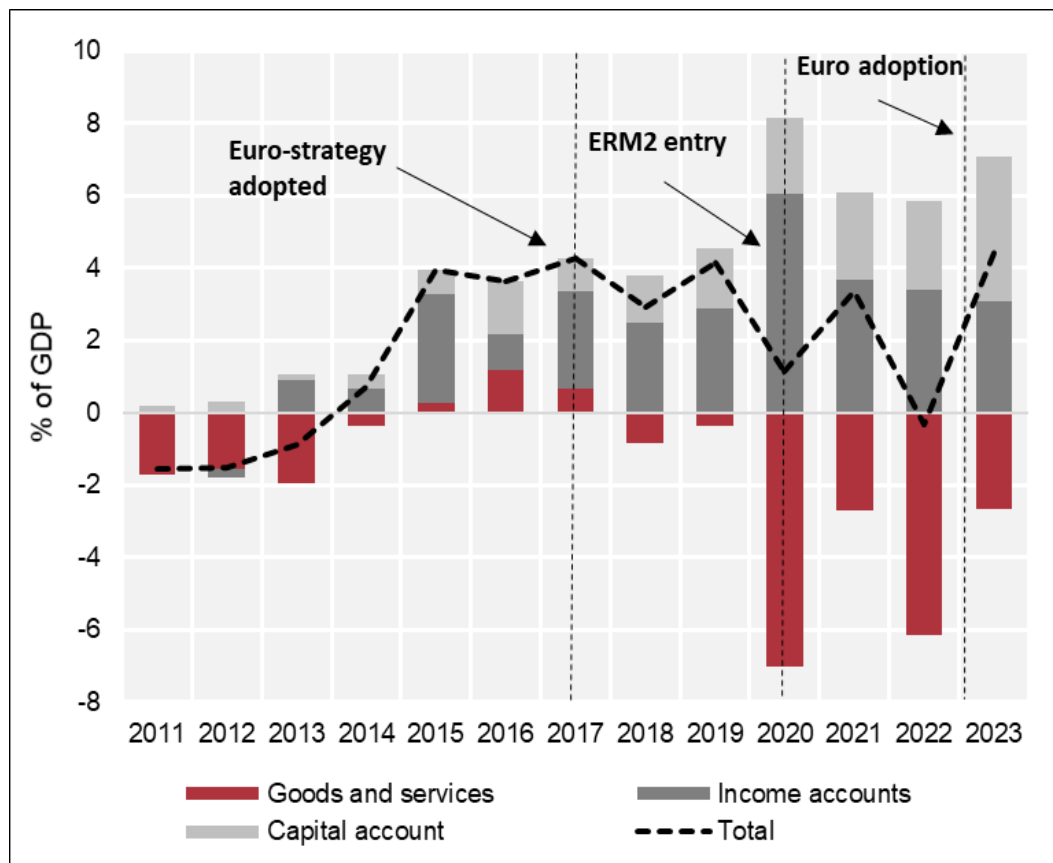
Public debt ratio



Sources: CBS and Ministry of finance

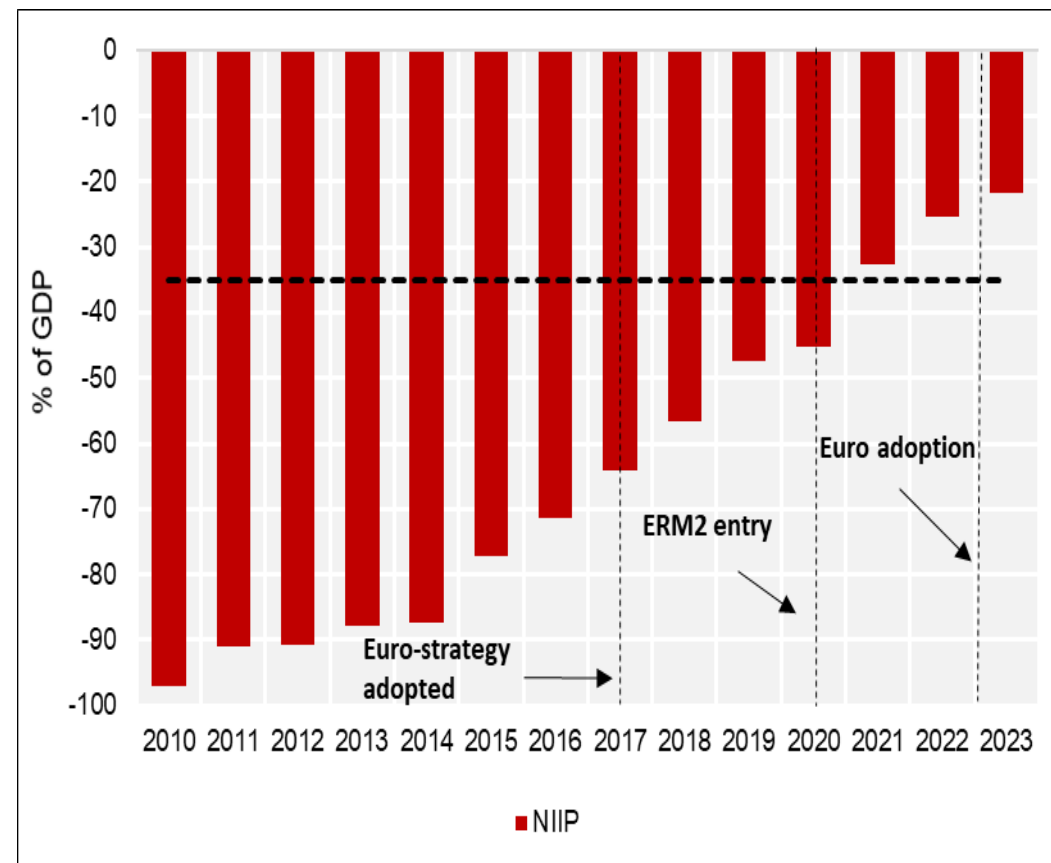
There was an impressive improvement in external position as well

Current and capital account balance



Sources: CBS and CNB

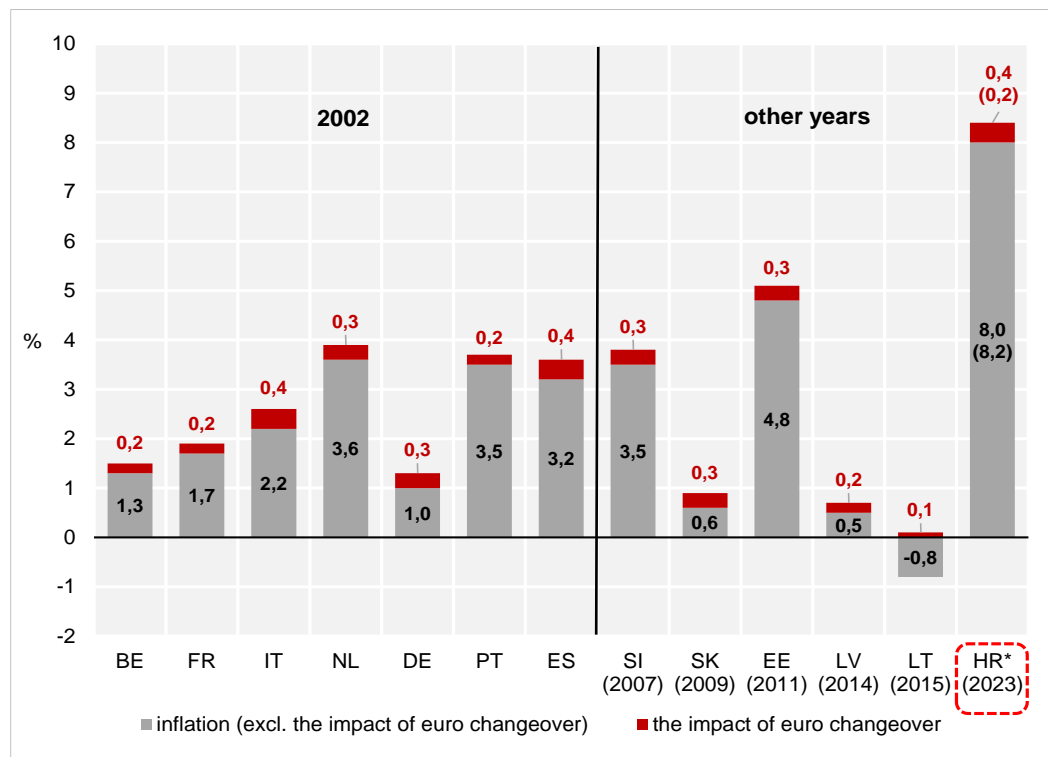
Net international investment position



Sources: CBS and CNB

Although the euro was introduced in high-inflation environment it had very little impact on inflation dynamics

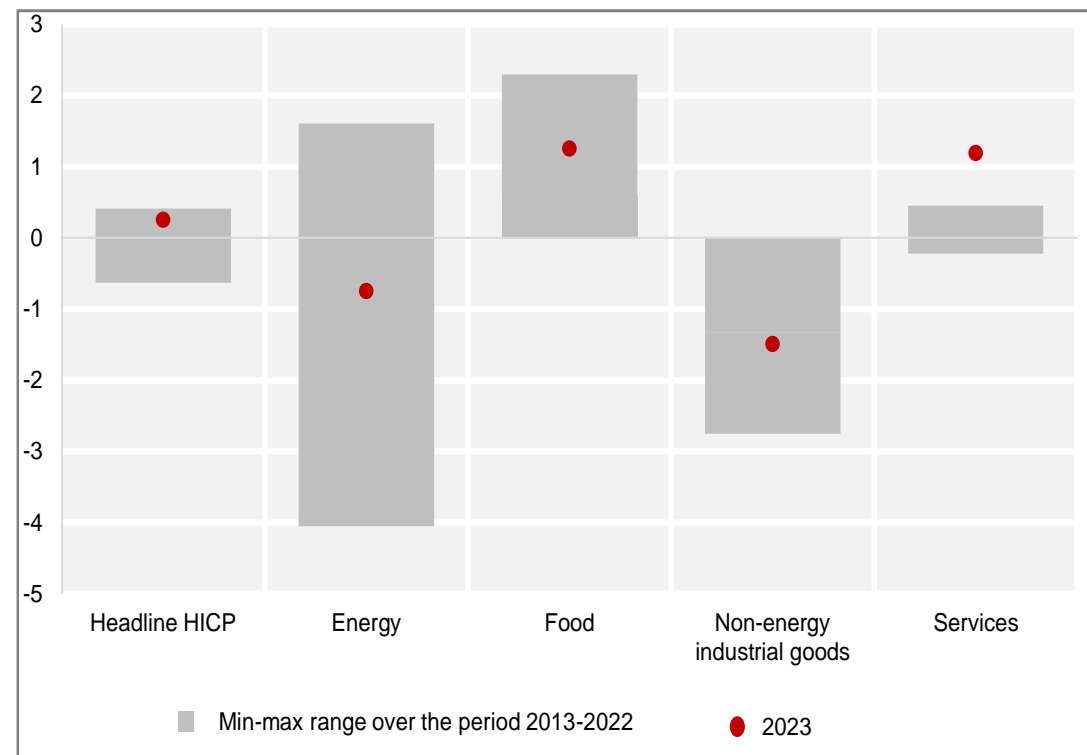
The estimated impact of euro changeover



* Inflation in Croatia refers to HNB projection from December 2023. The impact of euro adoption is based on upper bound of HNB/ECB's assessment, while numbers in brackets indicate upper bound of Eurostat's assessment.

Sources: Eurostat; HNB/ECB estimates; HNB projection

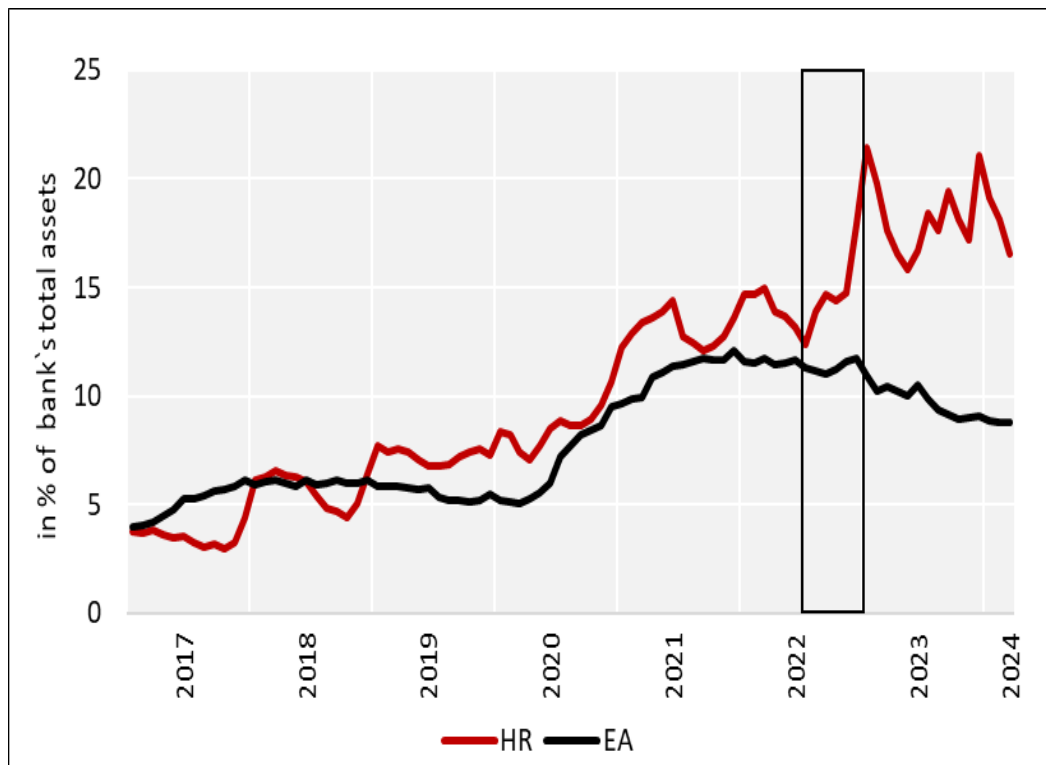
Monthly inflation in Croatia in January 2023, total HICP and the main components, %



Source: Eurostat

Adjustment of monetary policy instruments in the run-up to the euro increased excess liquidity to one of the highest levels in the EA

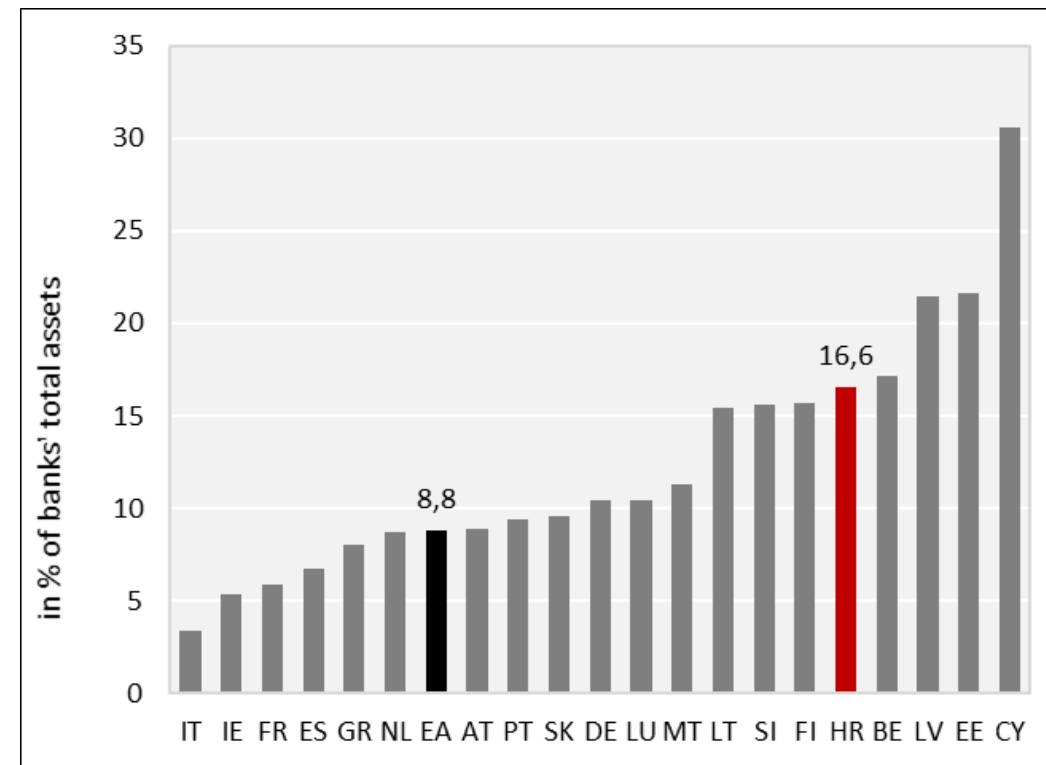
Excess liquidity in HR and EA



Note: Marked part from August until December 2022 indicates the period of liquidity release.

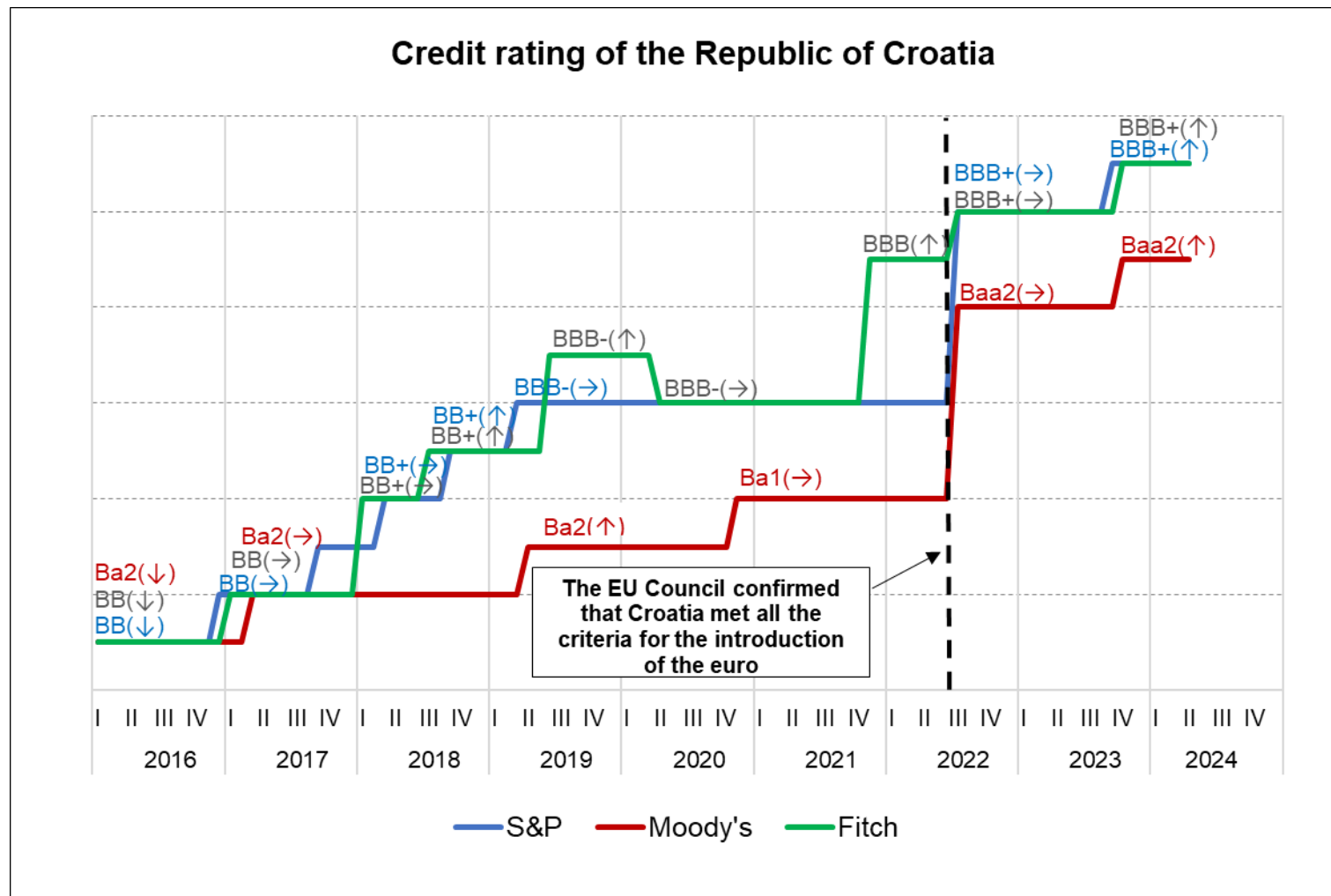
Source: ECB.

Excess liquidity in the banking system, March 2024



Source: ECB.

Ultimately, the euro adoption significantly improved Croatia's credit rating...



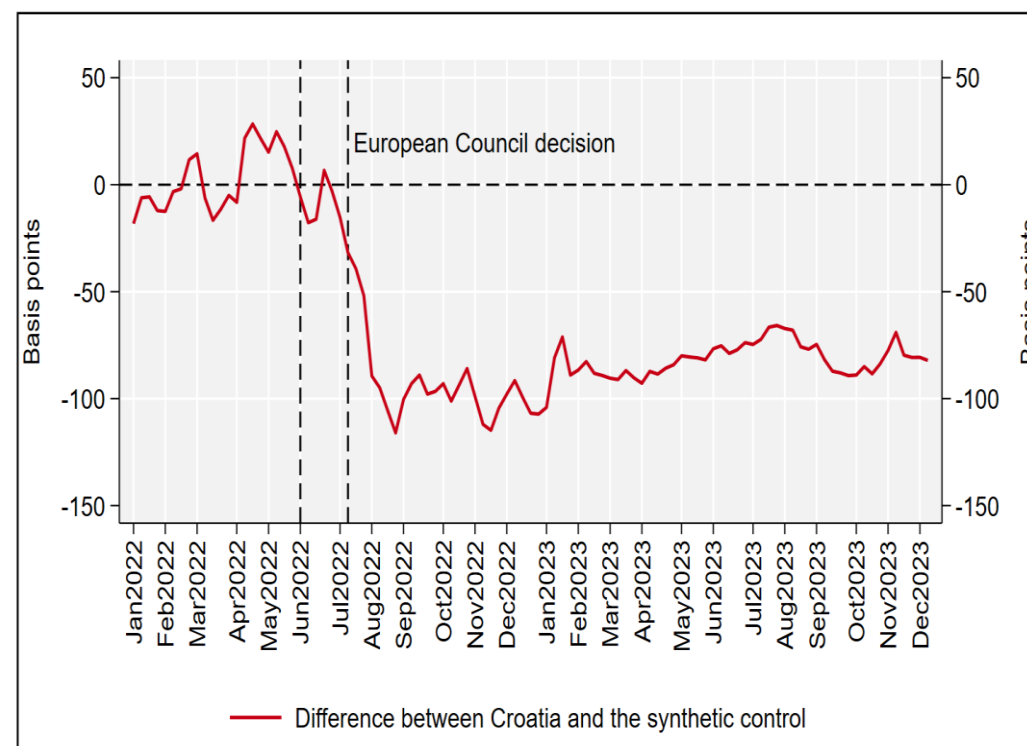
Sources: S&P, Moody's, Fitch

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... and lowered government borrowing costs relative to peer countries

- Ex-ante we expected the introduction of euro to lead to a (relative) decrease in interest rates through **2 channels**:
 - 1) reducing the country risk premium (elimination of fx related risks)
 - 2) increasing the excess liquidity in the banking system due to harmonization of the monetary framework with the Eurosystem

The difference in yields between the ten-year euro denominated Croatian government bond compared to the synthetic control group of countries



Source: HNB calculations



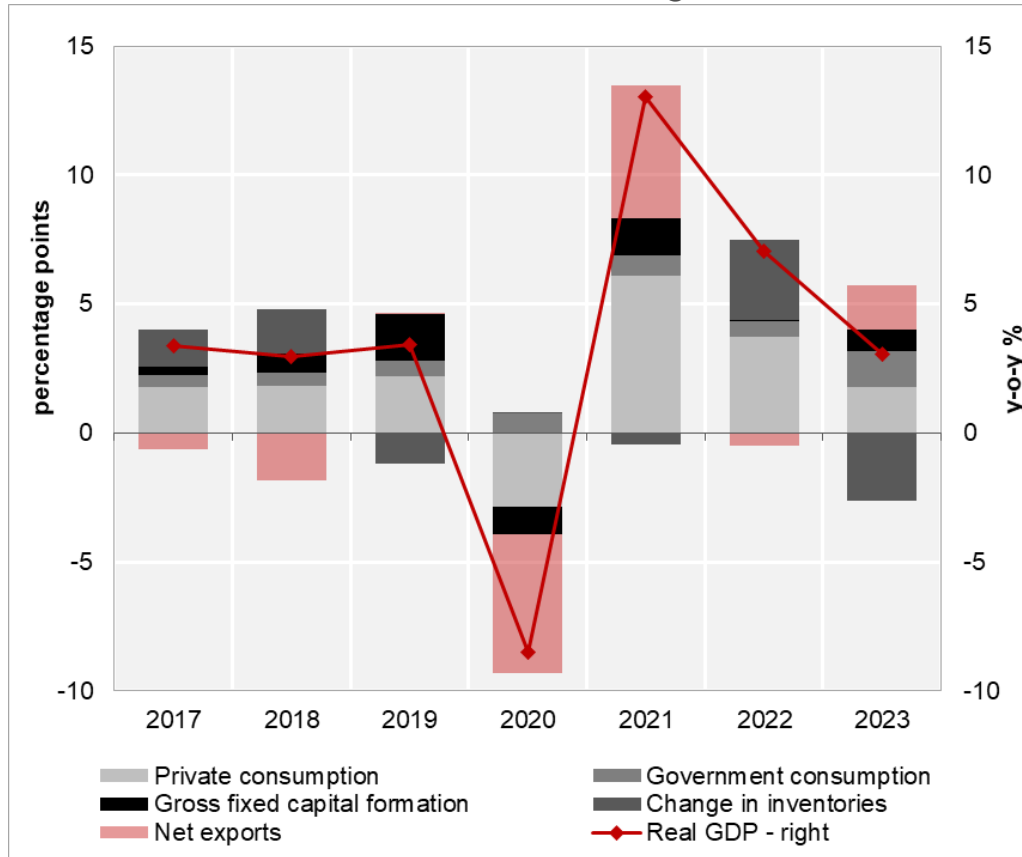
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- **Croatian Macroeconomic Performance**

Croatian economy has shown strong resilience through recent shocks

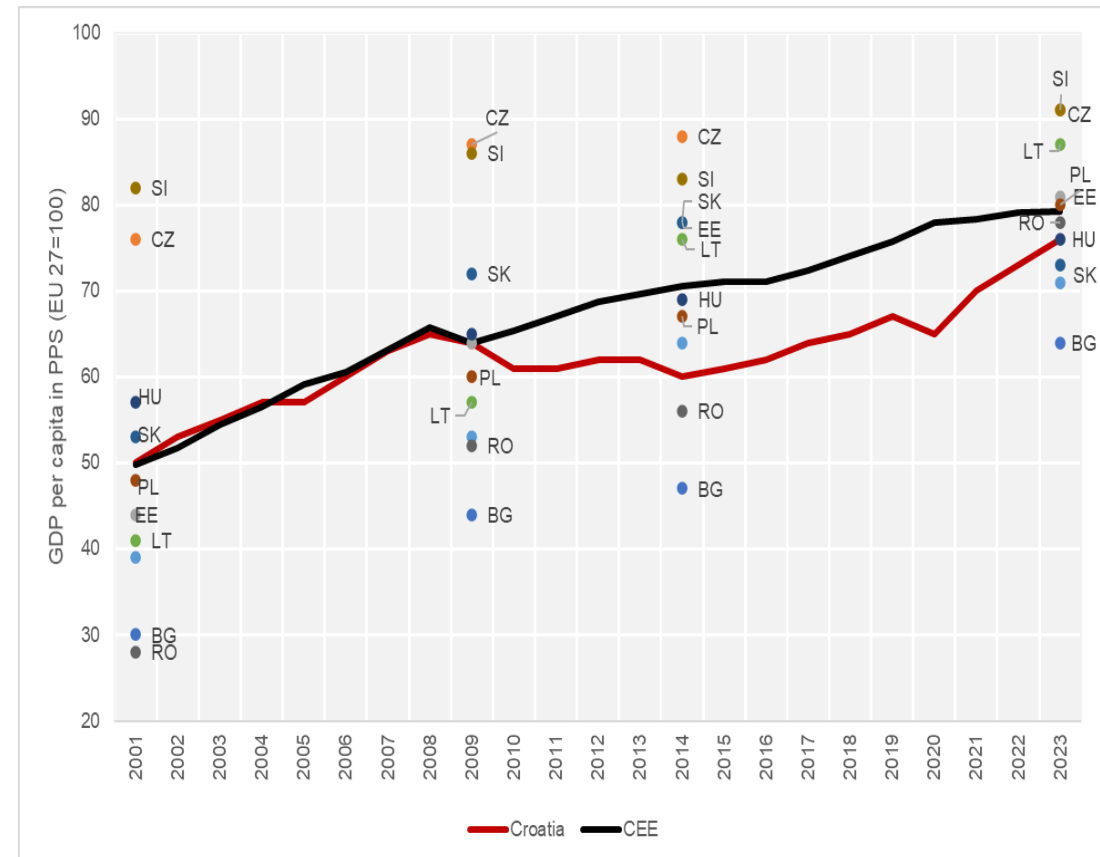
Real GDP

contributions to annual growth



Source: CBS

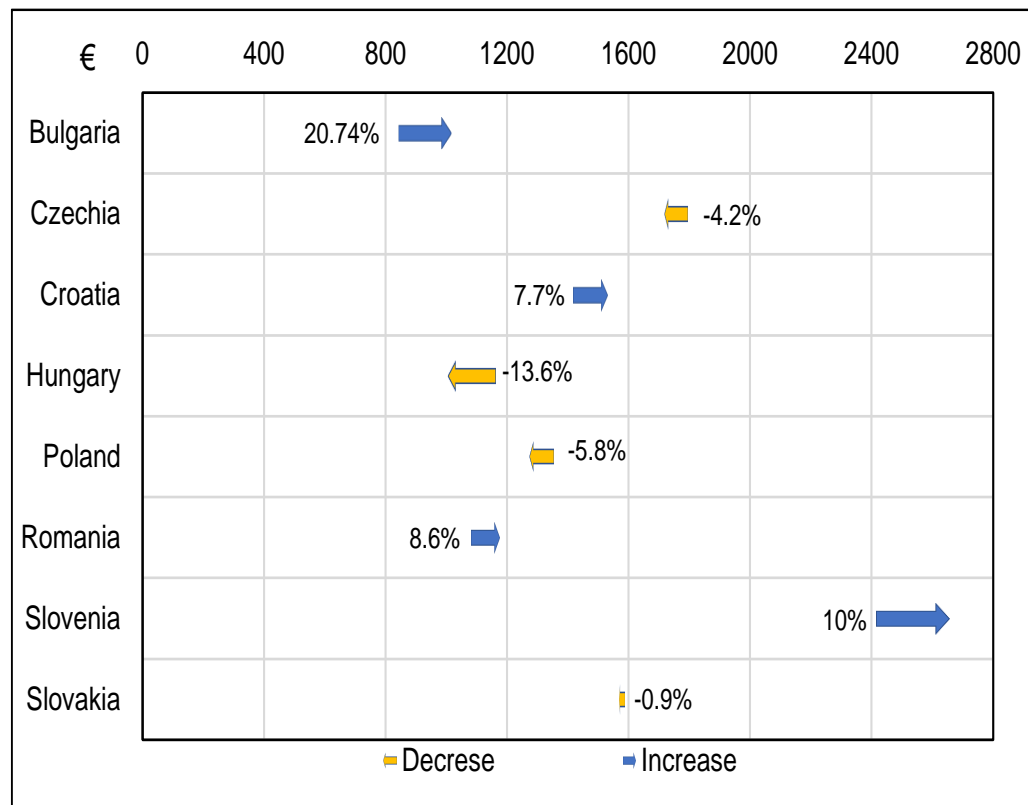
GDP per capita in PPPs (EU 27 = 100)



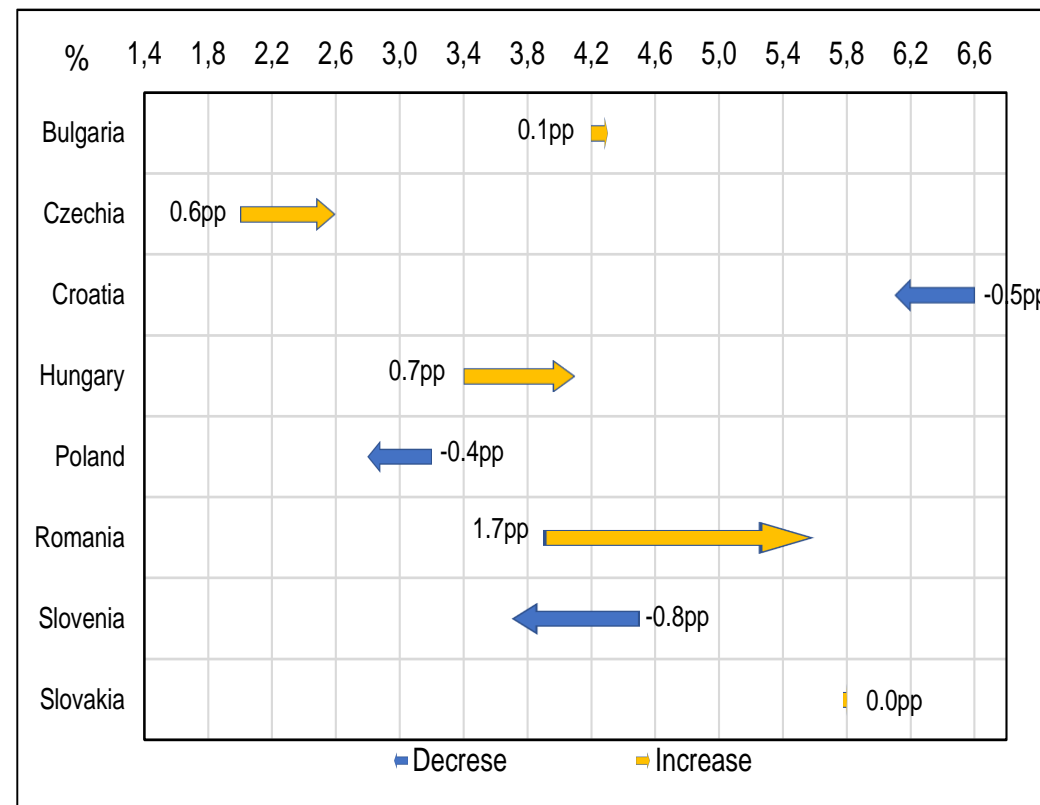
Source: Eurostat

Labour market performance remains robust, real wages recovered

Real compensations per employee, change in 2023 compared to 2019 (€ and %)



Unemployment rate, change in 2023 compared to 2019 (% and pp)

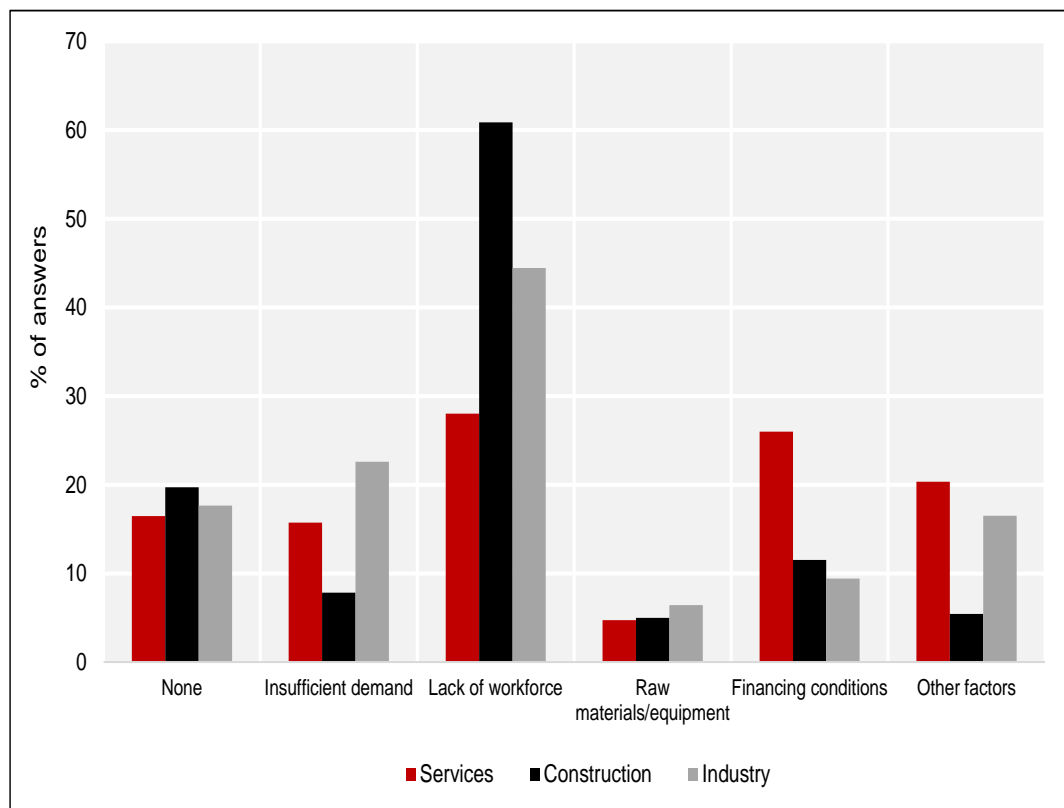


Note: Real monthly compensations per employee at 2019 prices (HICP deflated)
Source: Eurostat

Source: Eurostat

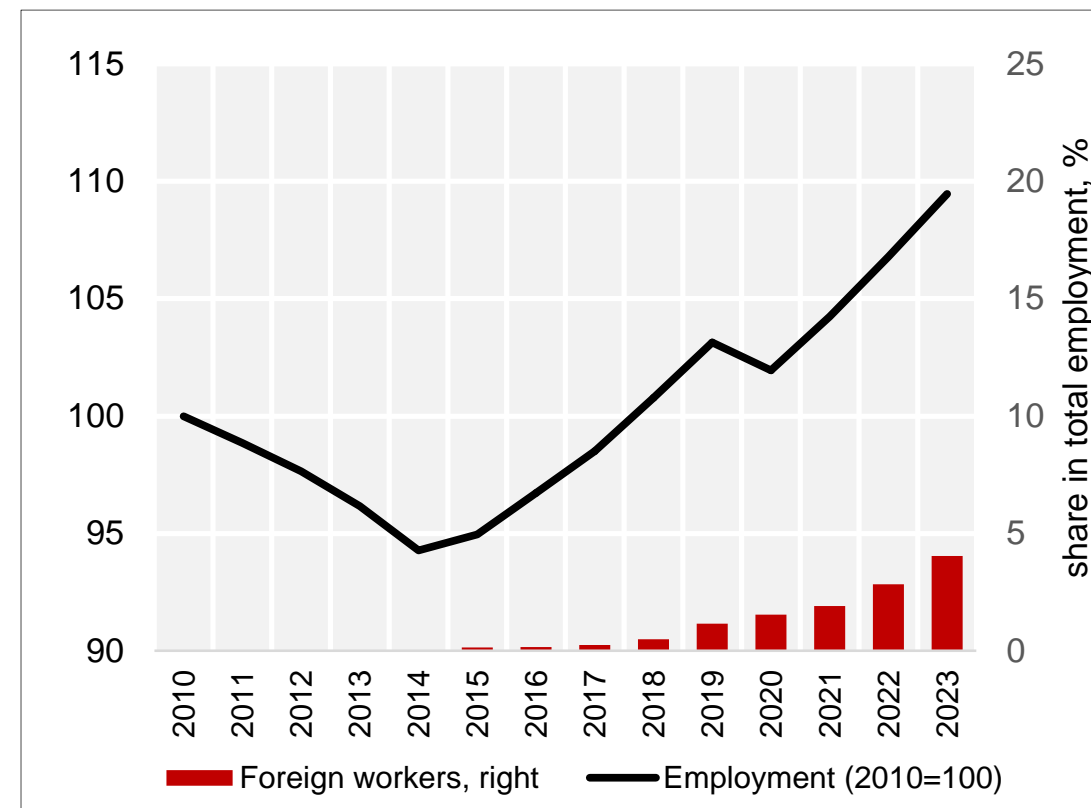
Labour shortages are currently the main obstacle for businesses, especially in construction

Main factors limiting business activities and production



Source: IPSOS

Employment and foreign workers, HR

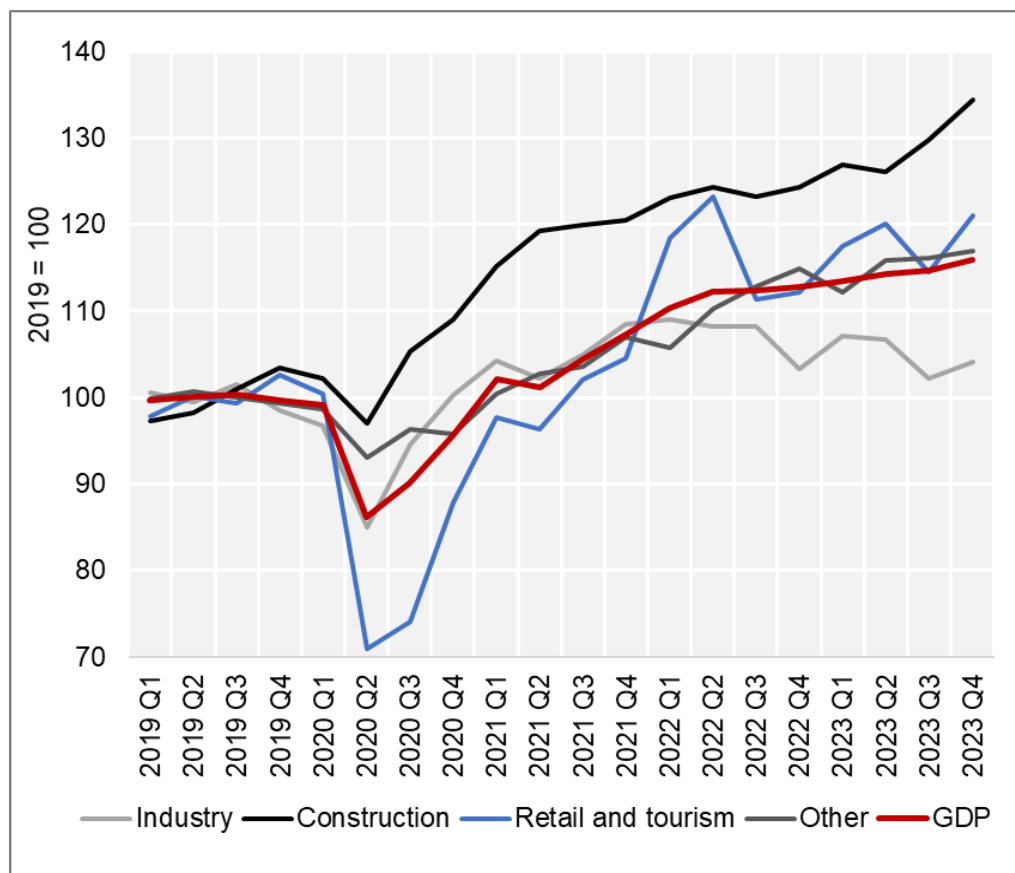


Note: Foreign workers are number of registered insurees as foreigners at CPII by employers.

Source: CPII

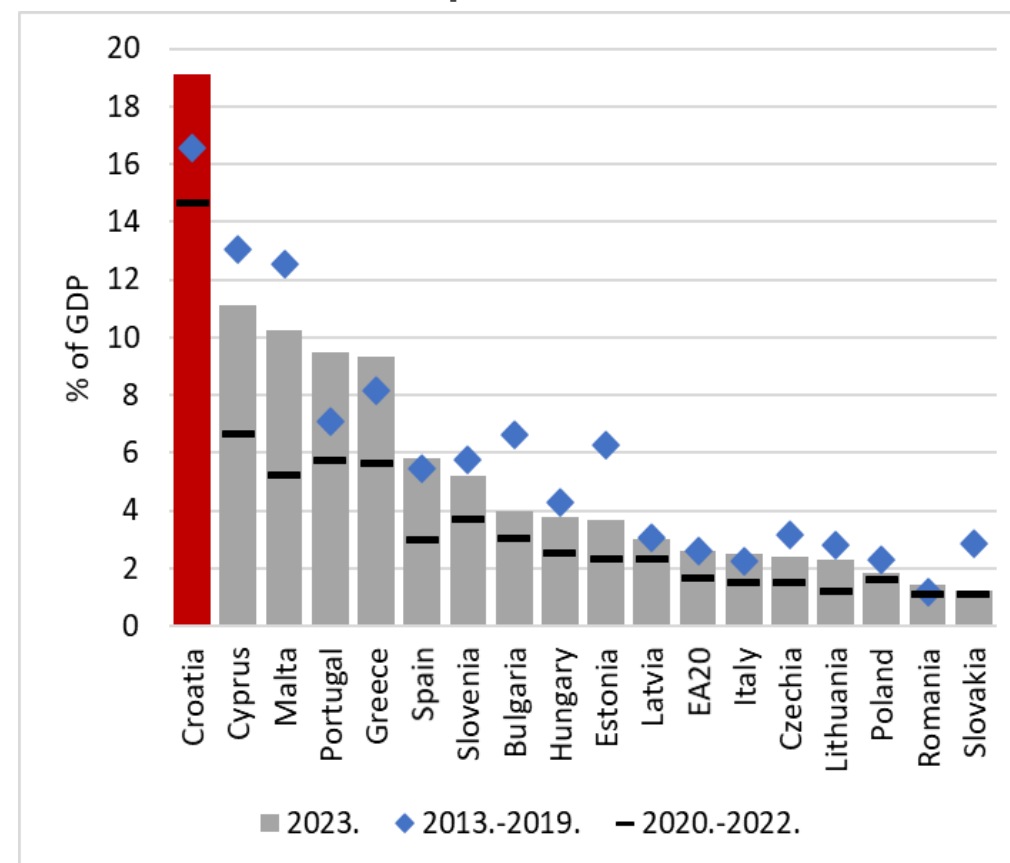
Strong demand for tourism services is significantly contributing to robust economic performance

Gross value added by sector



Source: CBS

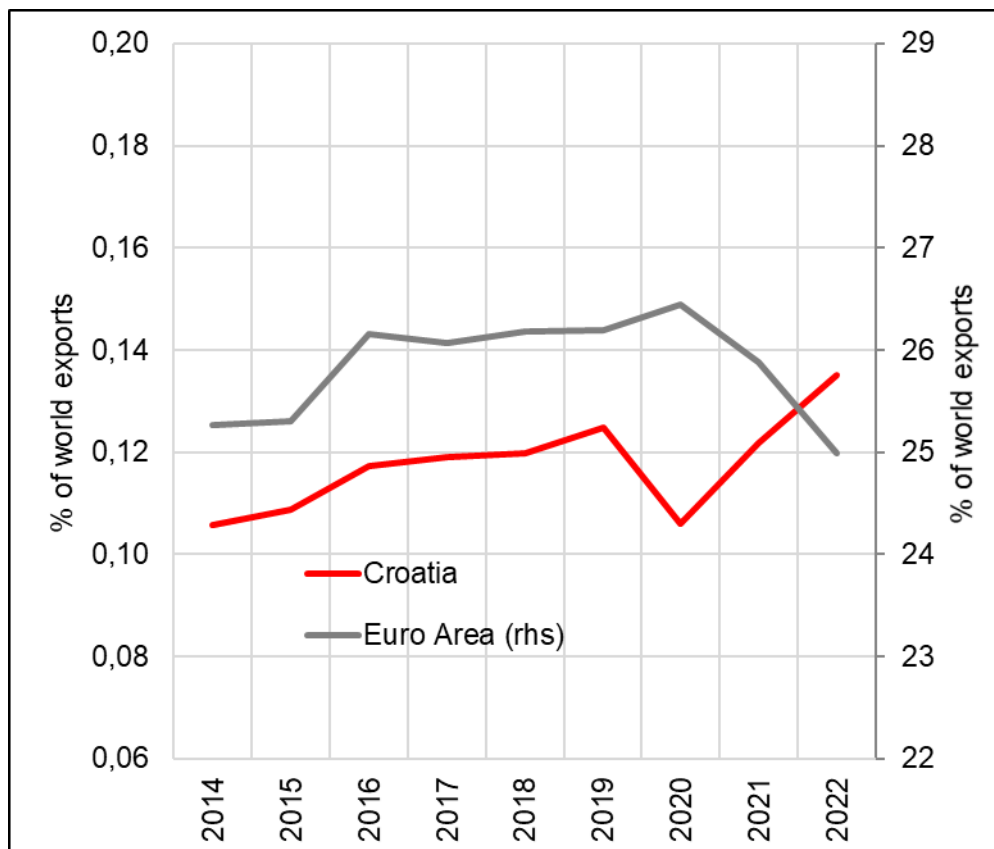
Receipts from tourism



Source: Eurostat

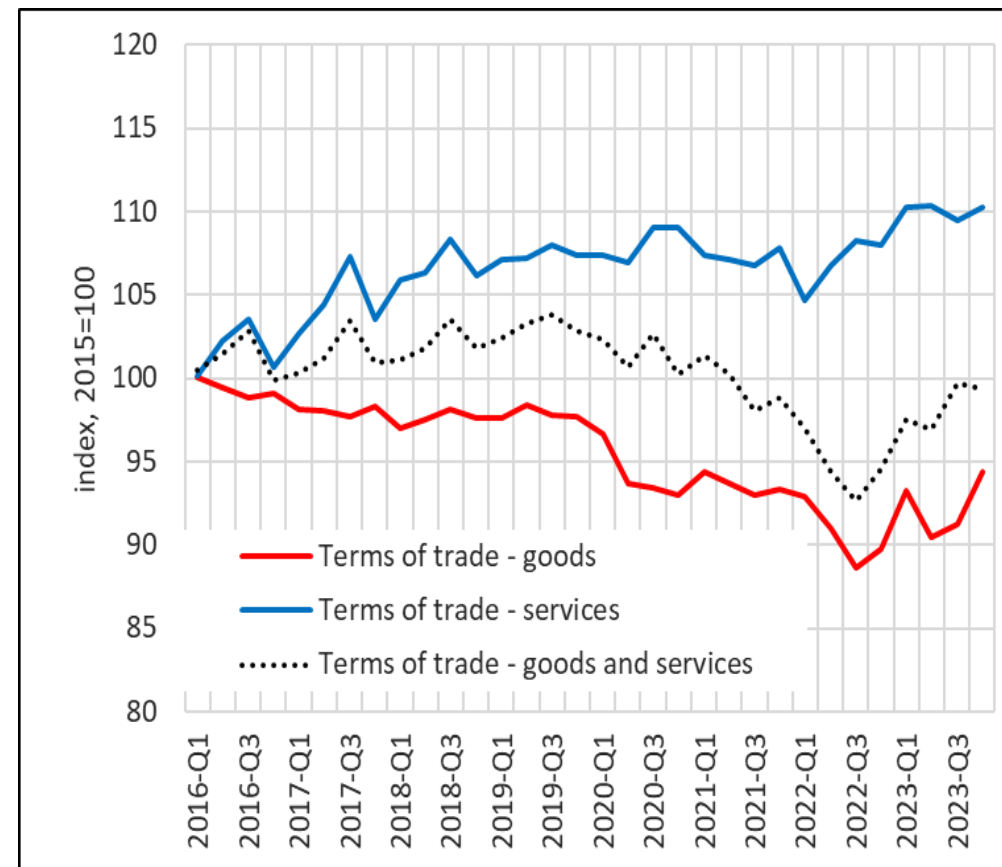
Competitiveness and market shares were largely preserved and terms of trade recovered from the initial shock

Export market shares (%)



Source: World bank

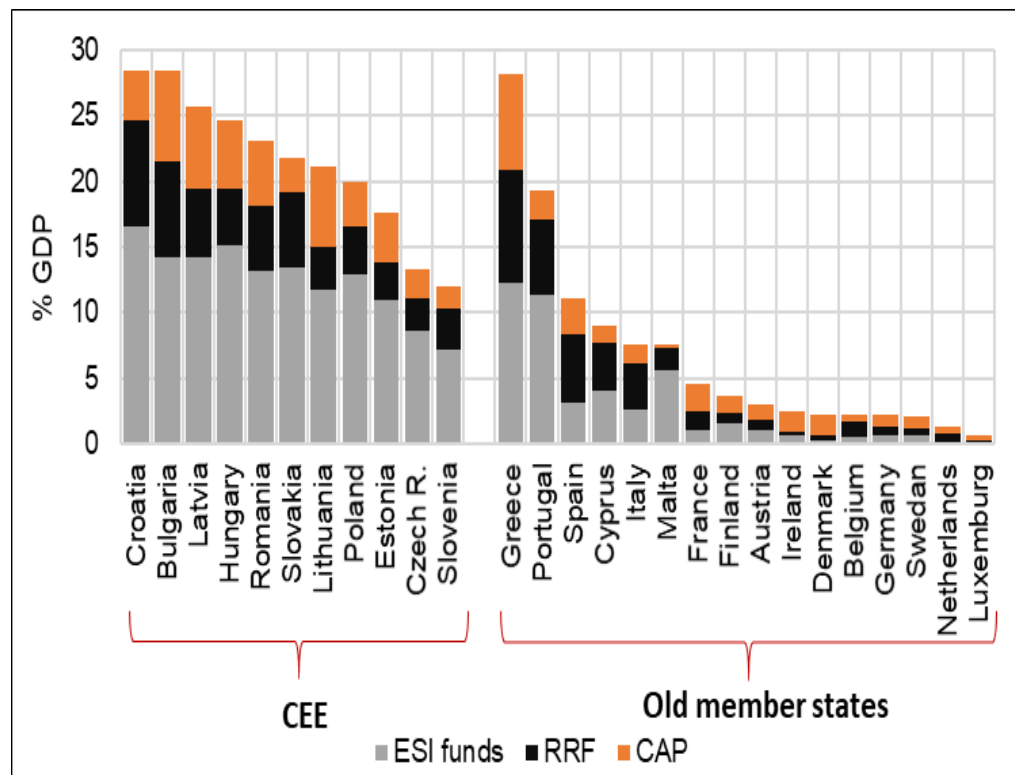
Terms of trade



Note: Terms of trade represent the ratio of export and import prices.
Source: Eurostat

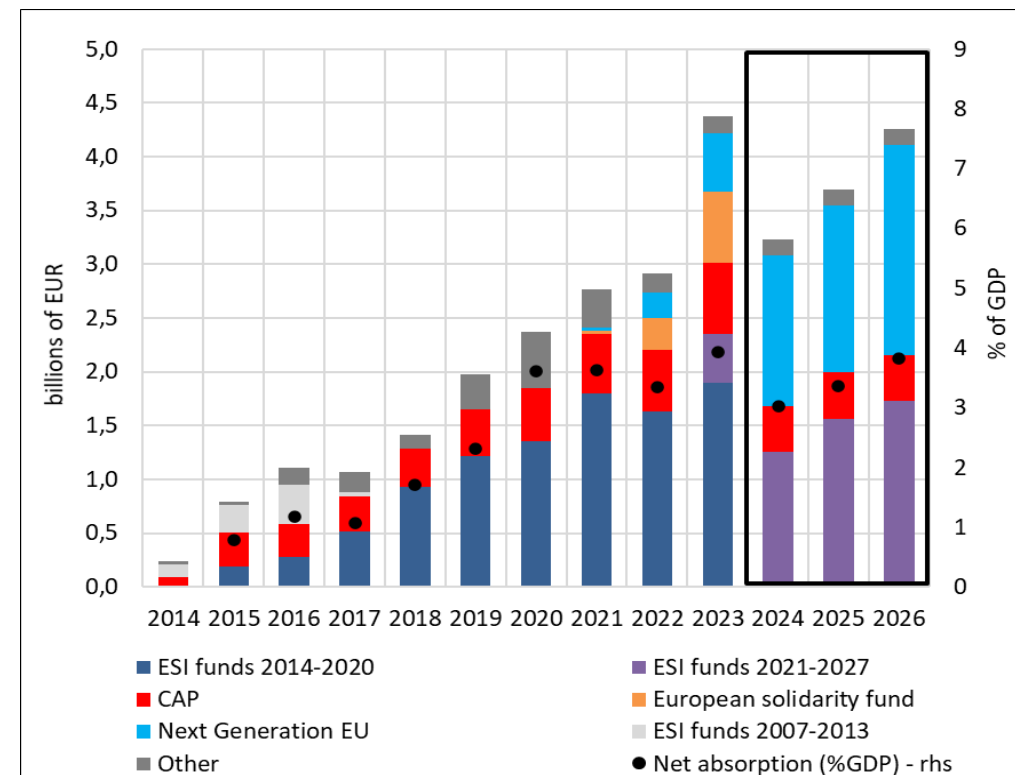
Croatia is one of the biggest beneficiaries of EU funds

Total EU funds allocations per member state



Note: ESI funds and CAP refer to 2021-2027 period; RRF refers to 2021-2026 period.
Source: European Commission

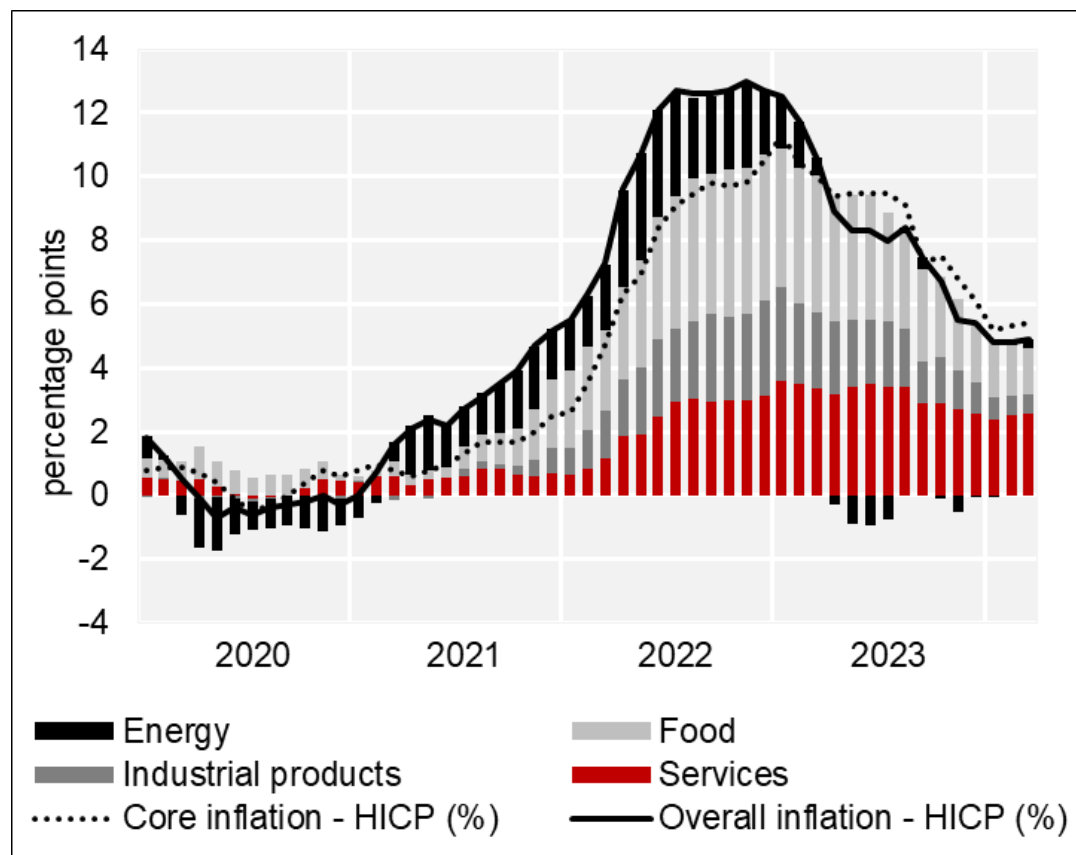
EU funds absorption structure in Croatia



Source: CNB

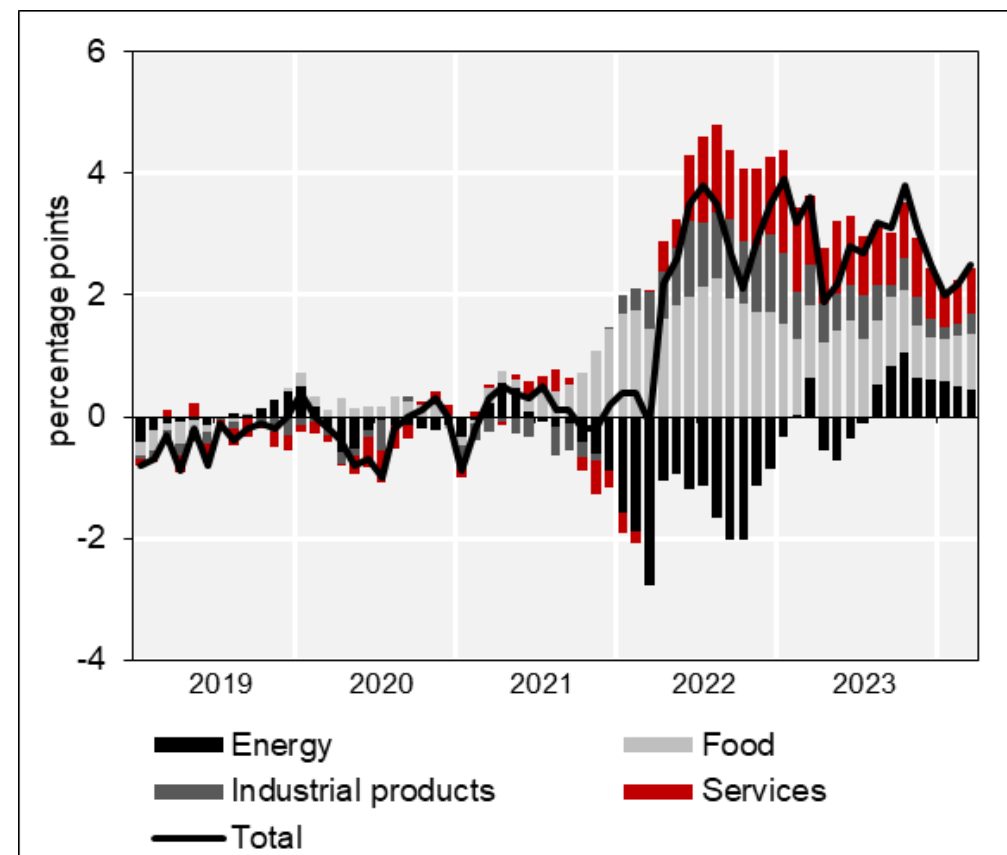
Overall inflation is on a downward trend, but services inflation persists

Contributions to overall inflation in Croatia



Note: Core inflation measured by the HICP excluding energy and food. Data up to March 2024.
Source: Eurostat.

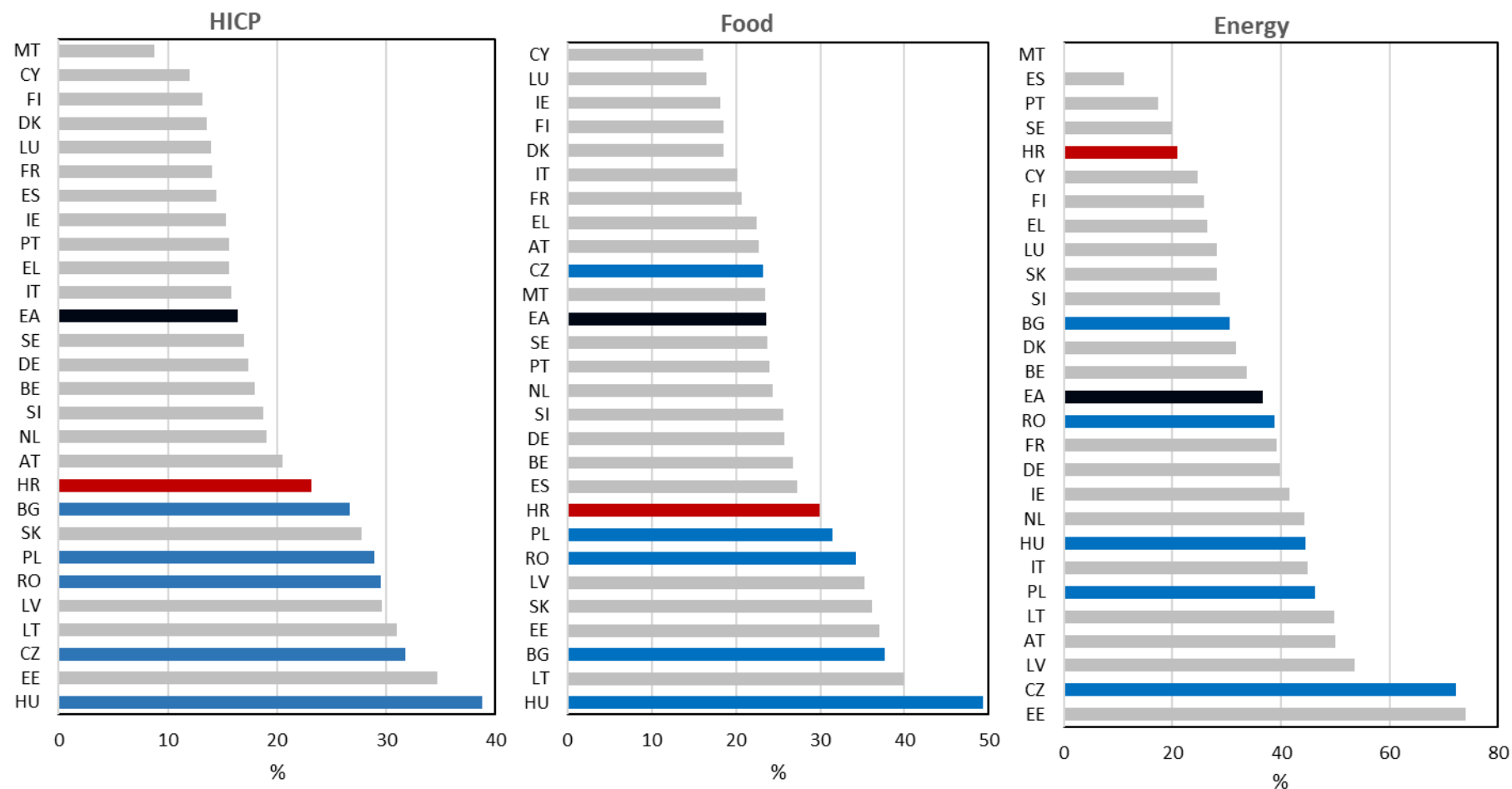
Inflation differential with the Euro Area



Note: Data up to March 2024.
Source: Eurostat.

Cummulative price increase has been relatively low compared to CEE countries outside the Euro Area

Cummulative increase in consumer prices, June 2021 – March 2024



Source: Eurostat.

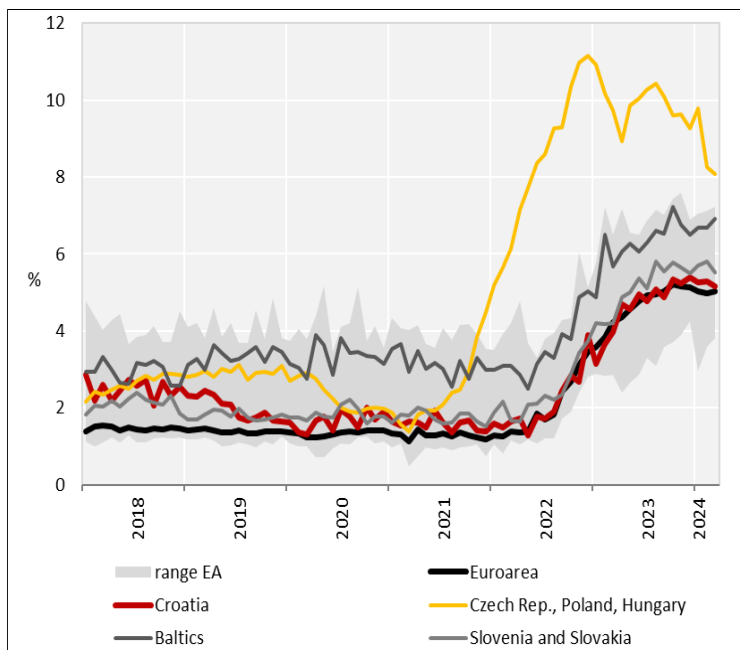


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- **Financial Sector Developments**

Monetary policy transmission to lending interest rates in Croatia was somewhat muted...

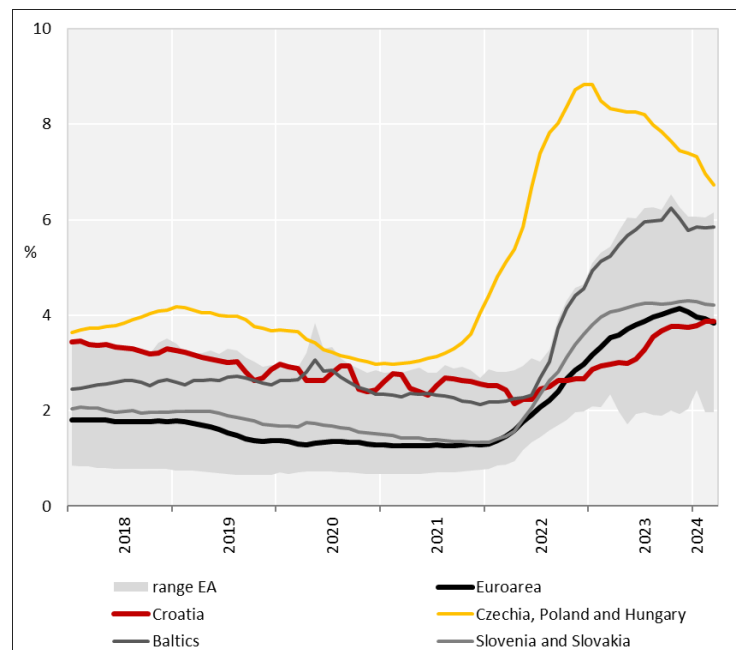
Interest rates on loans to NFC



Note: A strong drop in the interest rate in Hungary (April 2023) due to a large amount of new business (in the category of initial fixation period from 1 to 5 years, over EUR 1 million) which were approved with a lower than average interest rate.

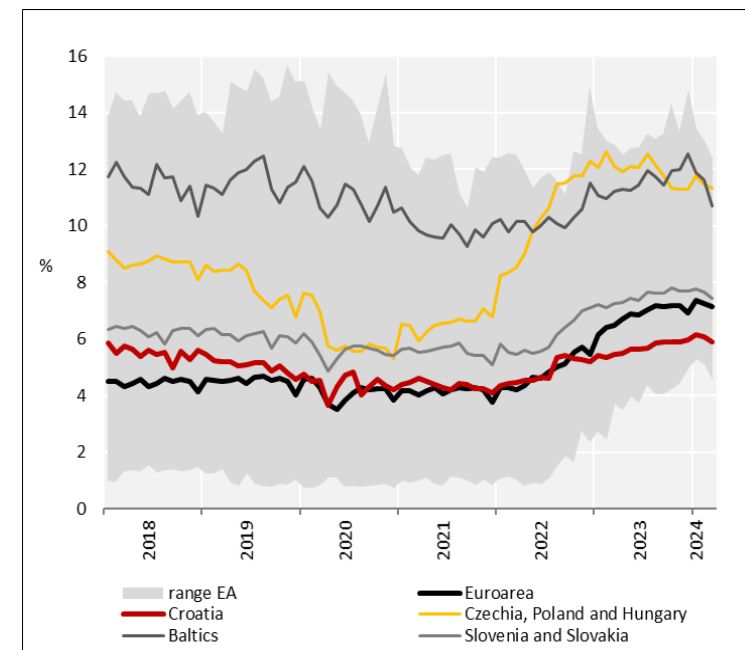
Source: ECB.

Interest rates on housing loans



Source: ECB.

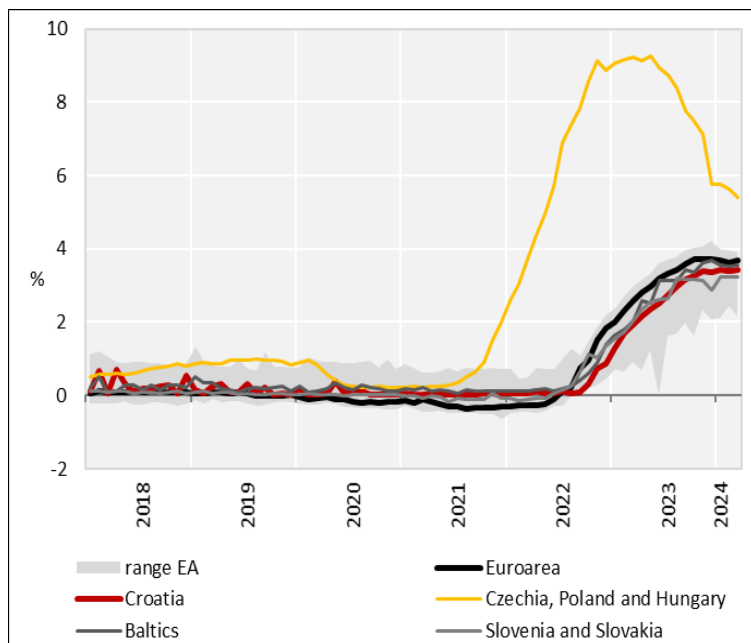
Interest rates on consumer credit and other loans to households



Source: ECB.

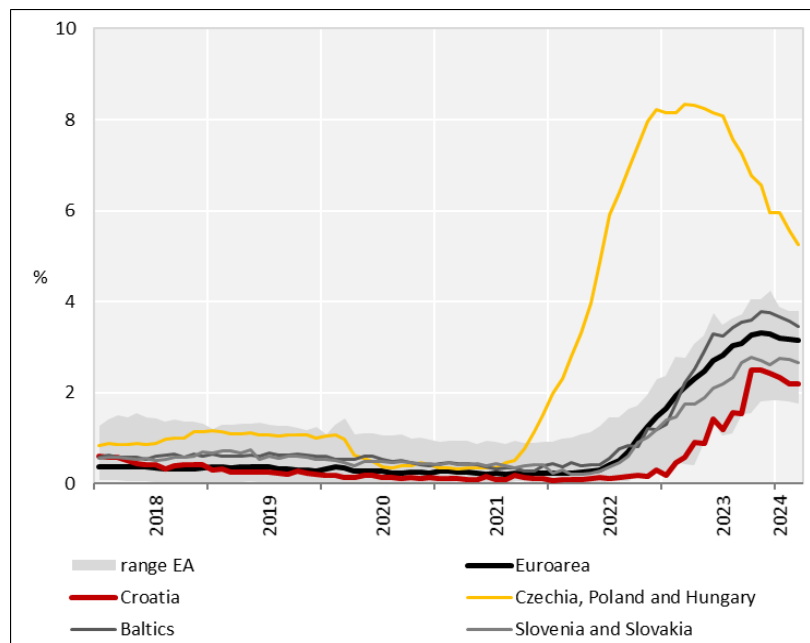
... this was also the case for deposit rates

Interest rates on NFC`s deposits



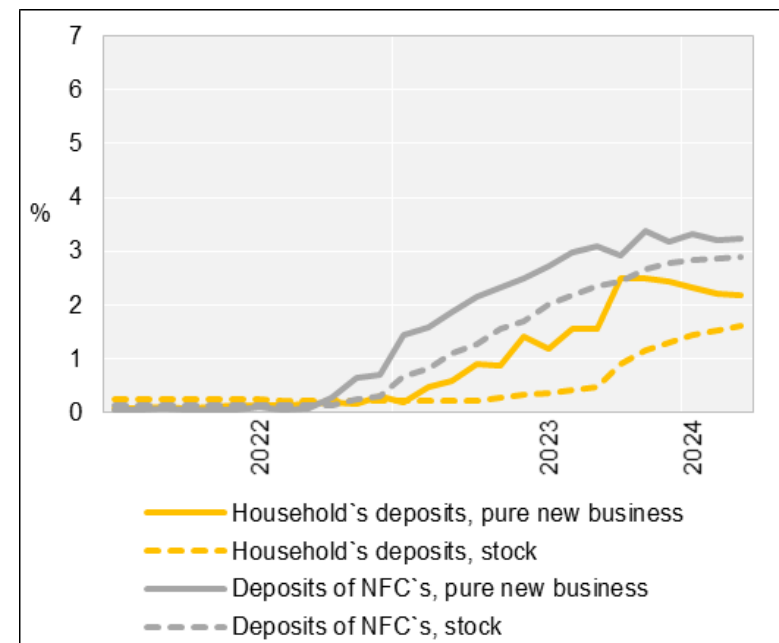
Note: Data refer to new businesses.
Source: ECB.

Interest rates on household`s deposits



Note: Data refer to new businesses except for Croatia where data for pure new businesses is used.
Source: ECB.

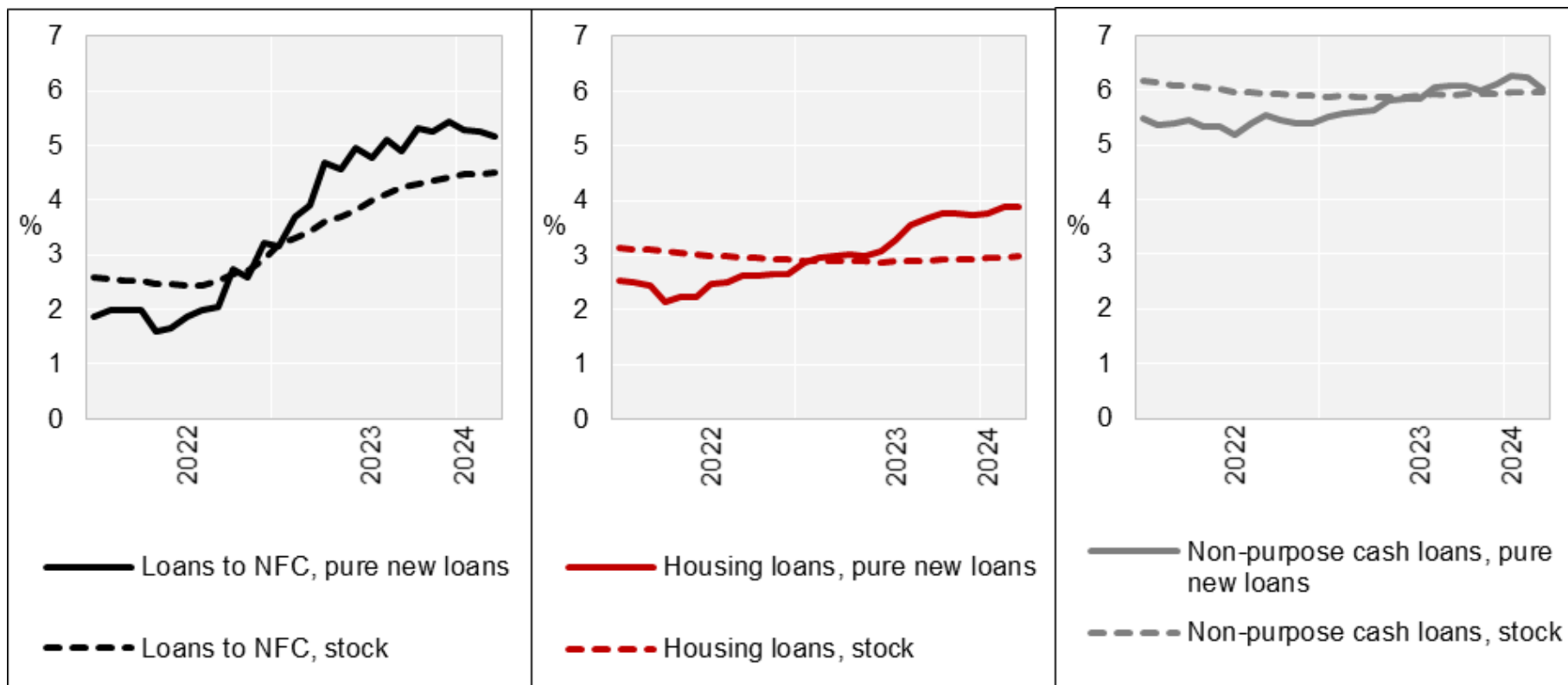
Interest rates on *pure new deposits* and *deposit stocks* of households and NFC`s



Note: Data until December 2022 refer to loans and deposits in kuna and currencies indexed to the kuna and euros and currencies indexed to the euro, and from January 2023 to loans and deposits in euros and currencies indexed to the euro. The data refer to loans contracted for the first time, i.e. term deposits for the first time, and to loan and deposit balances, whereby term deposits up to 1 month are excluded.
Source: CNB.

Tighter financing conditions are gradually increasing financing costs for the entire stock of loans...

Interest rates on *pure new loans* and *loan stocks* to households and NFC`s

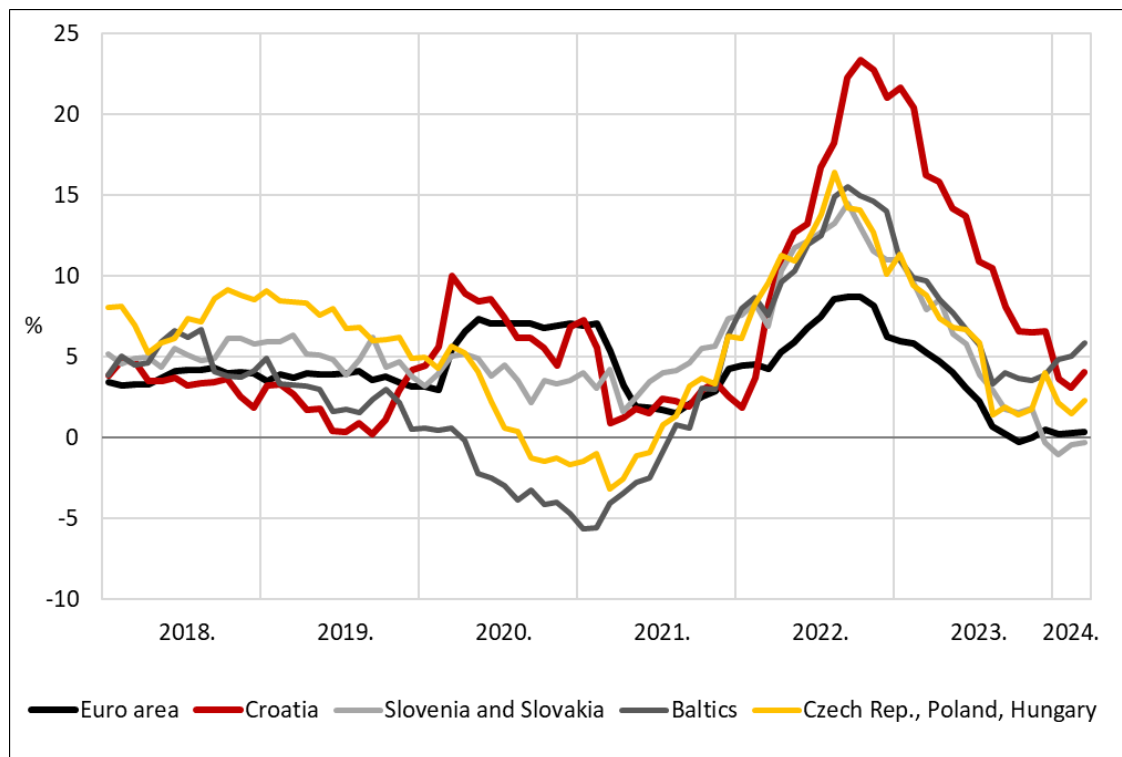


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Source: CNB.

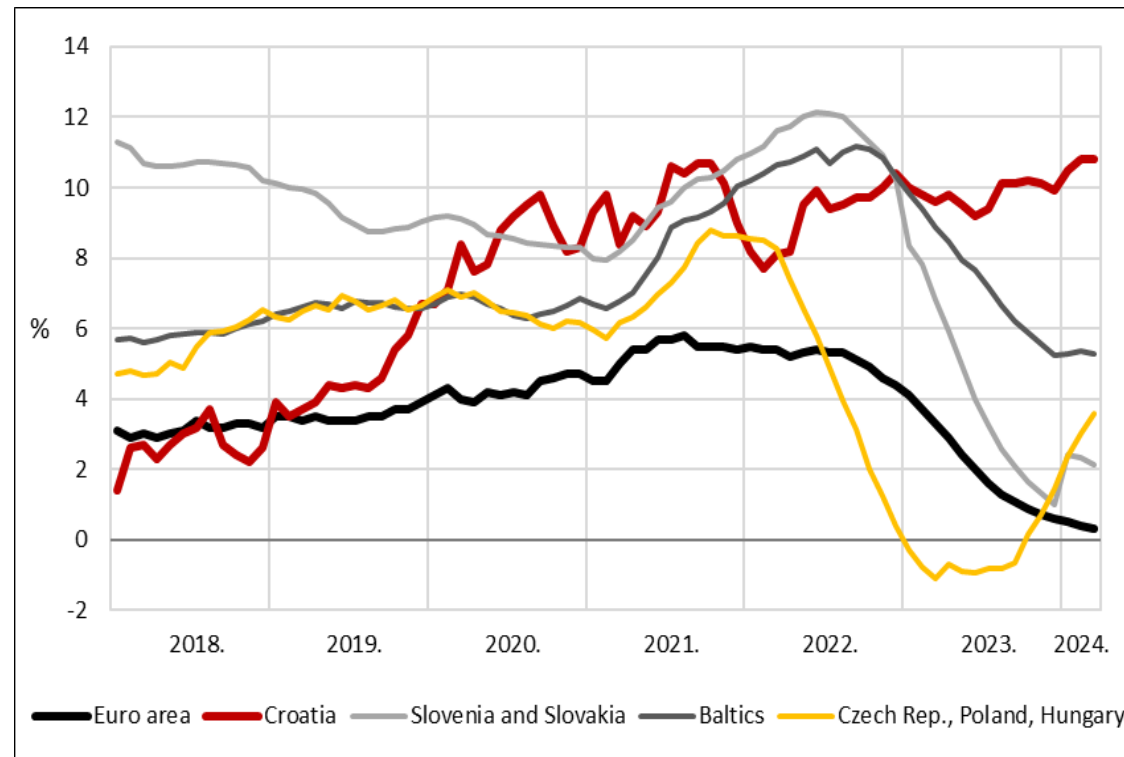
... while lending to the corporate sector has slowed down

Loans to NFC



Source: ECB.

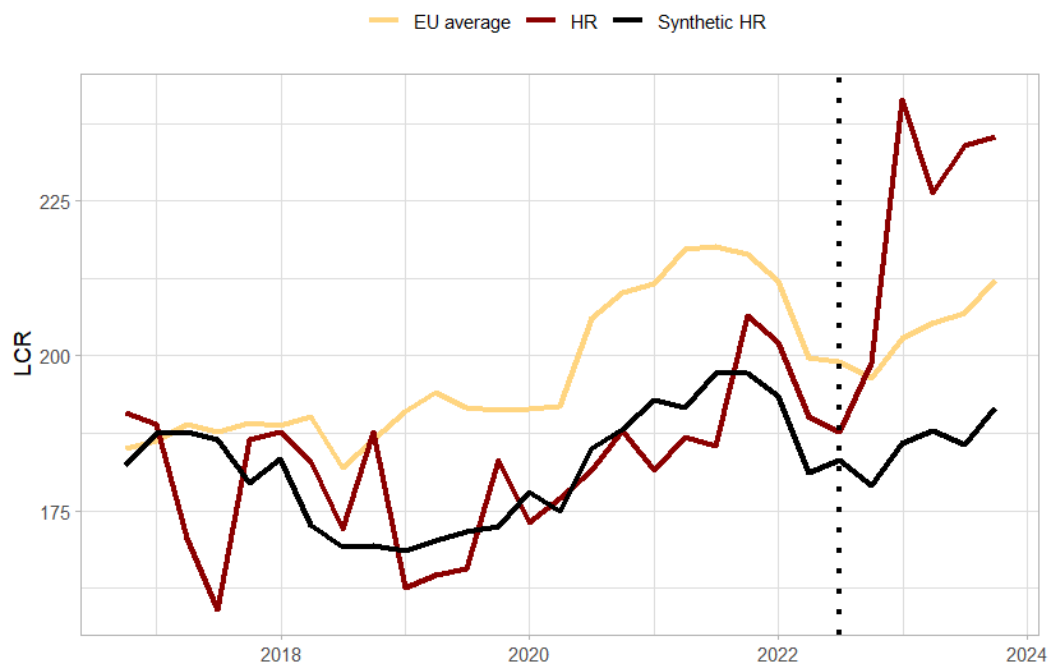
Housing loans to households



Source: ECB.

Capitalisation and liquidity of Croatian banks remained high...

Liquidity coverage ratio (LCR)

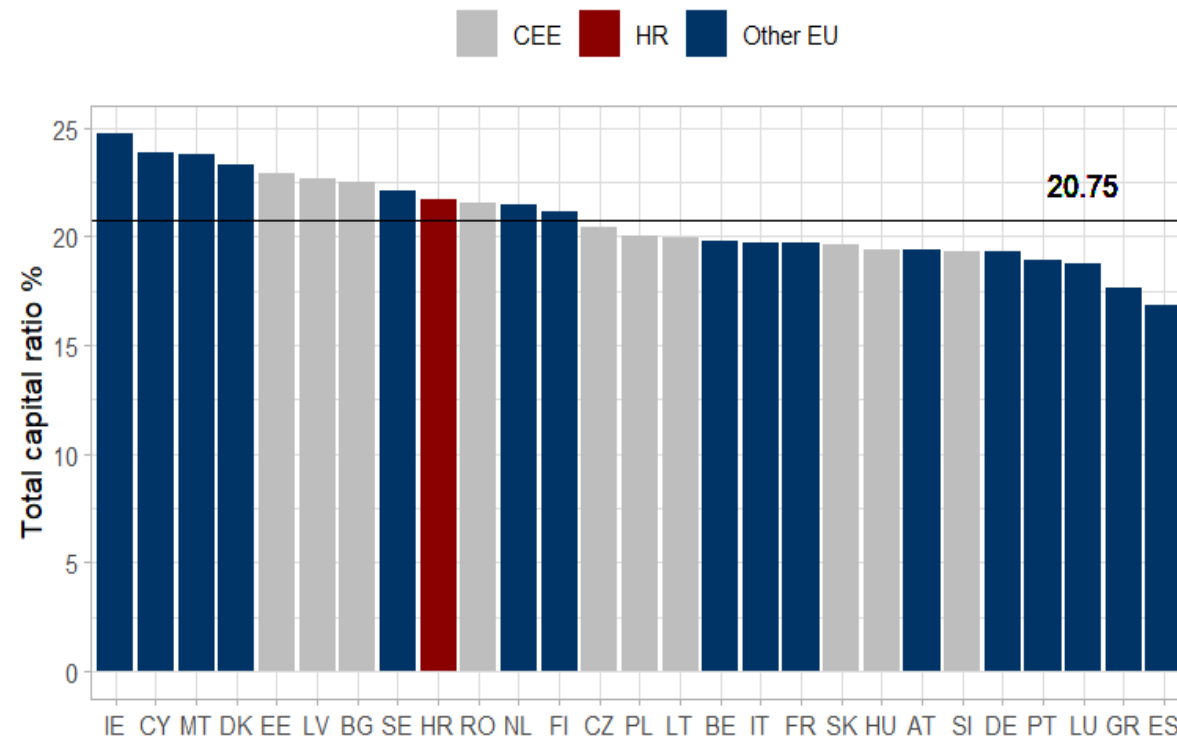


Note: The vertical line refers to the convergence report on 1 June 2022. Synthetic control group for LCR with associated proportions. The weights of the LCR synthetic control include: DK 31.3%, NL – 24.6%, SK 22.7%, IE 15.3%, SI 5.8%, other – 0.3%

Source: ECB. CNB calculations.

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Total capital ratio

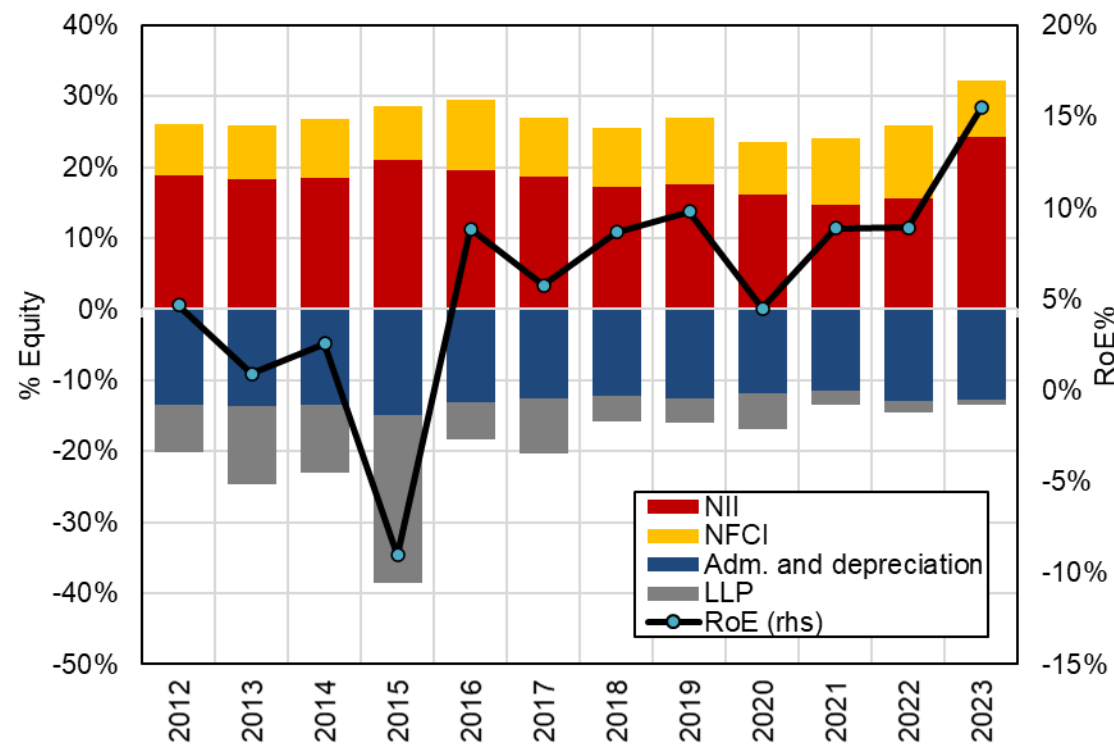


Note: Horizontal line indicates the average of all observed values. Comparison is made for Q3-2023

Source: ECB

... and the profitability has increased to unprecedented levels

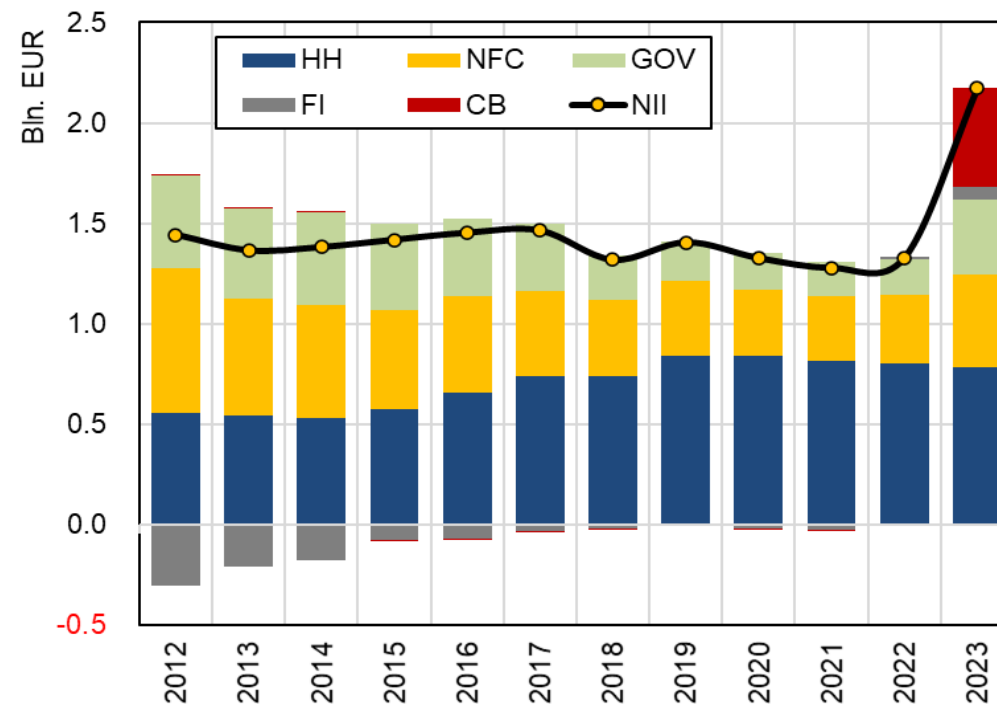
Profitability reached unprecedented levels...



Note: Abbreviation marks NII -net interest income, NFCI -Net fee and commission income, LLP - the cost of provisioning and RoE -Return on Equity

Source: CNB.

...on the back of higher net interest income, mostly from the CNB



Note: Abbreviation marks HH -Households, NFC -Non Financial Corporates, GOV- General government, FI - Financial institutions, CB - Central bank

Source: CNB.



Thank you very much for your attention!