



CROATIAN NATIONAL BANK

EUROSYSTEM

Croatia's First Anniversary in the Eurozone: Economic Developments & Macroeconomic Policy Challenges

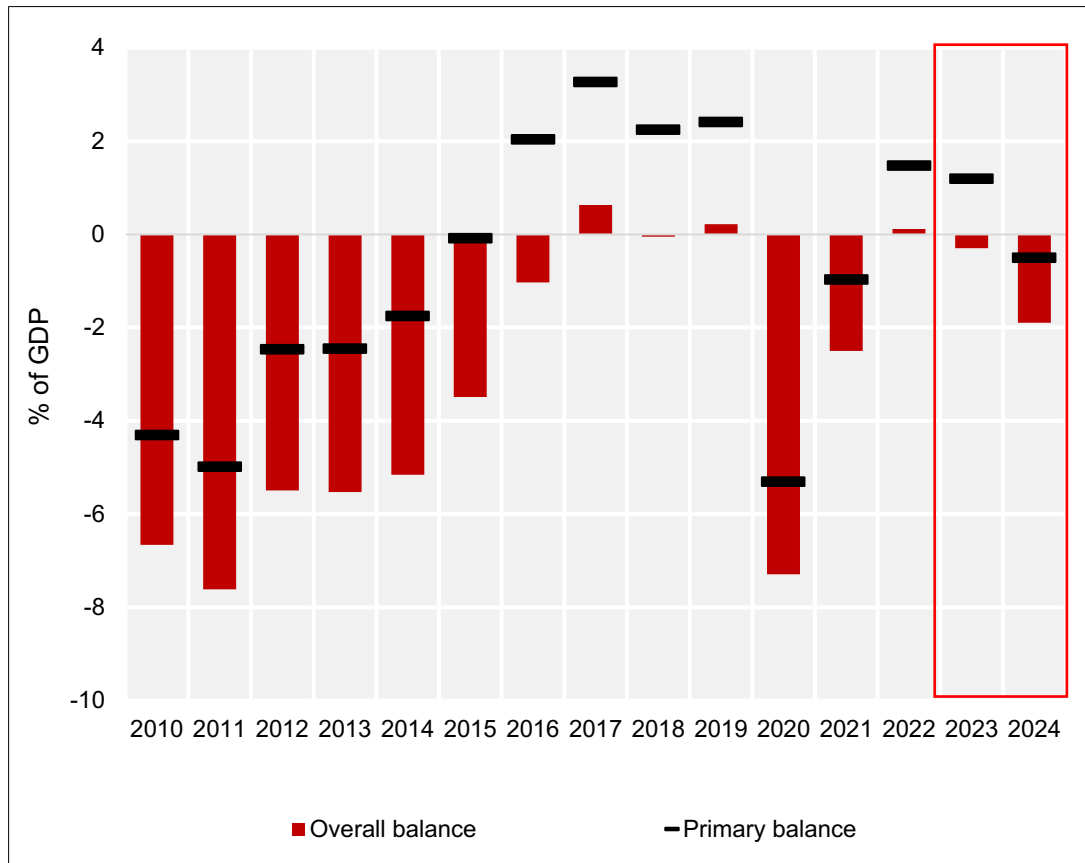
MNI video conference

Boris Vujčić, Governor
January 2024



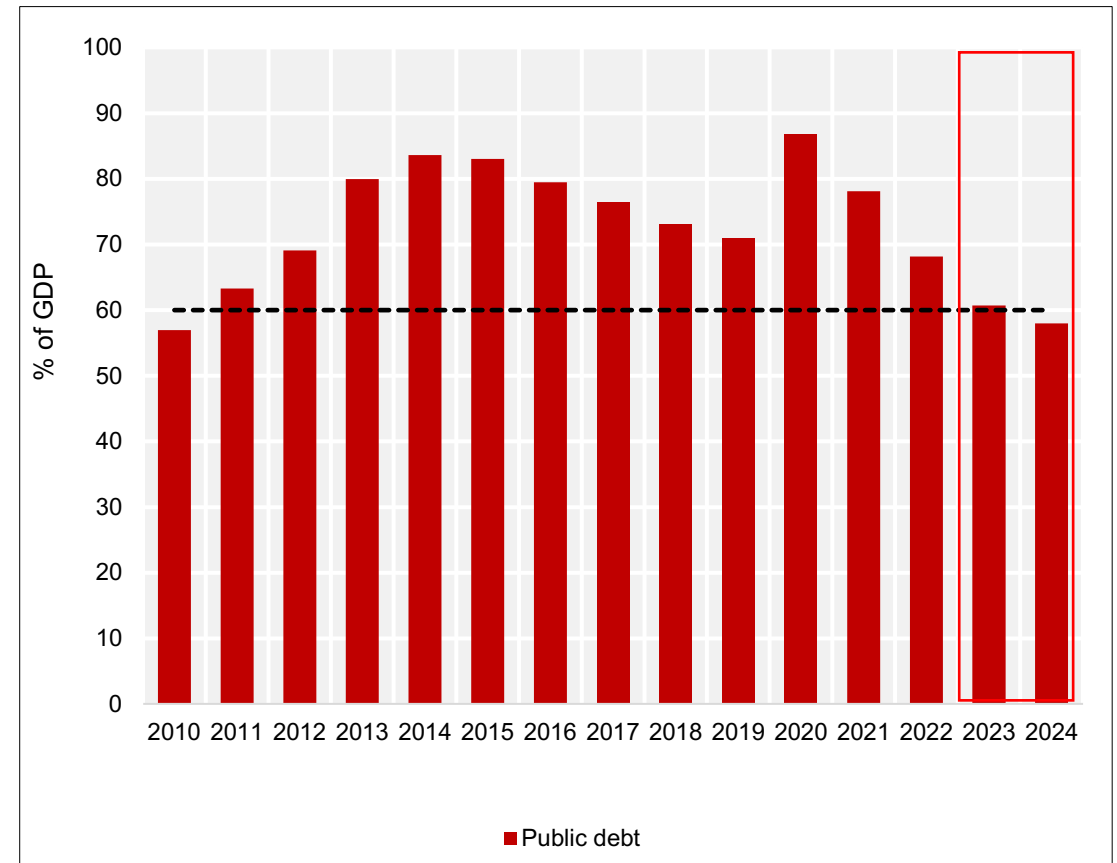
Euro introduction required major improvement of macroeconomic fundamentals, including fiscal position...

Overall and primary budget balance



Note: The red rectangle represents the projection period
Sources: CBS and Ministry of finance

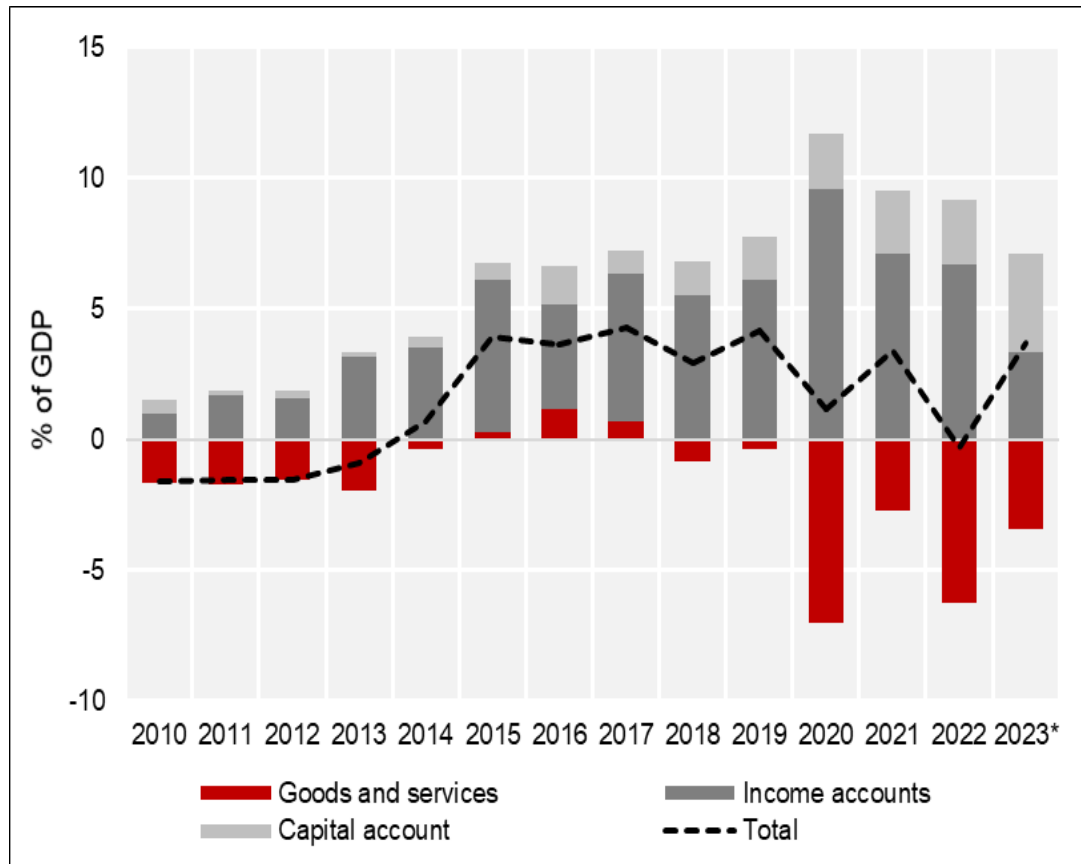
Public debt ratio



Note: The dotted line represents the Maastricht criterion of public debt. The red rectangle represents the projection period.
Sources: CBS and Ministry of finance

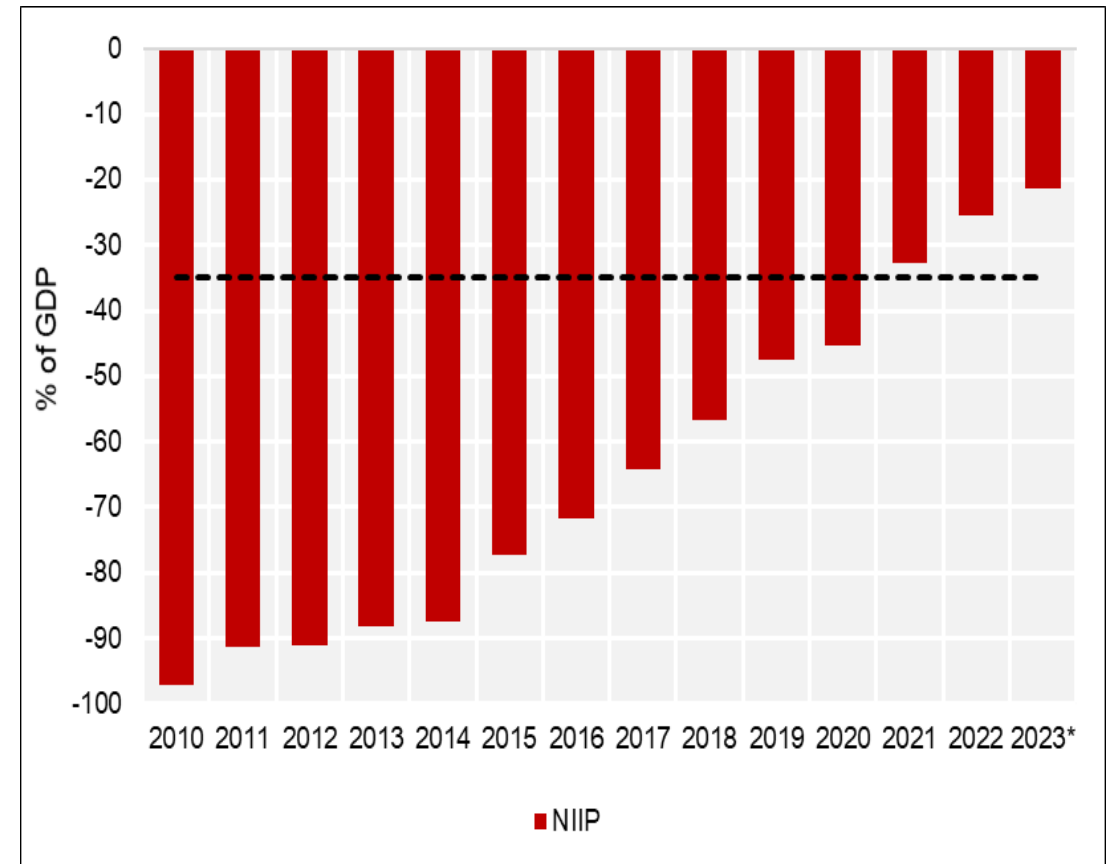
... as well as impressive improvement of external position

Current and capital account balance



*Data for 2023 represents sum of last four quarters including Q32023.
Sources: CBS and CNB

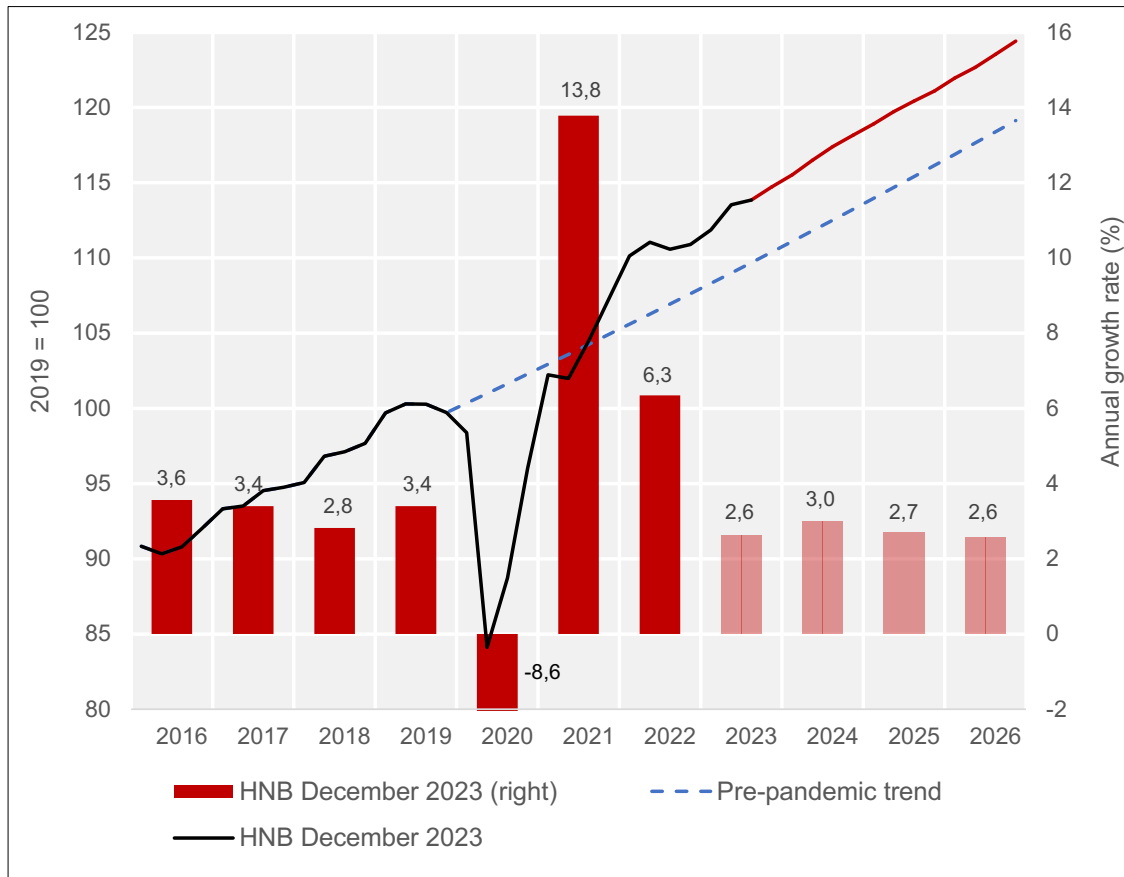
Net international investment position



Note: The dotted line represents -35% of GDP threshold. Data for 2023 represents sum of last four quarters including Q32023.
Sources: CBS and CNB

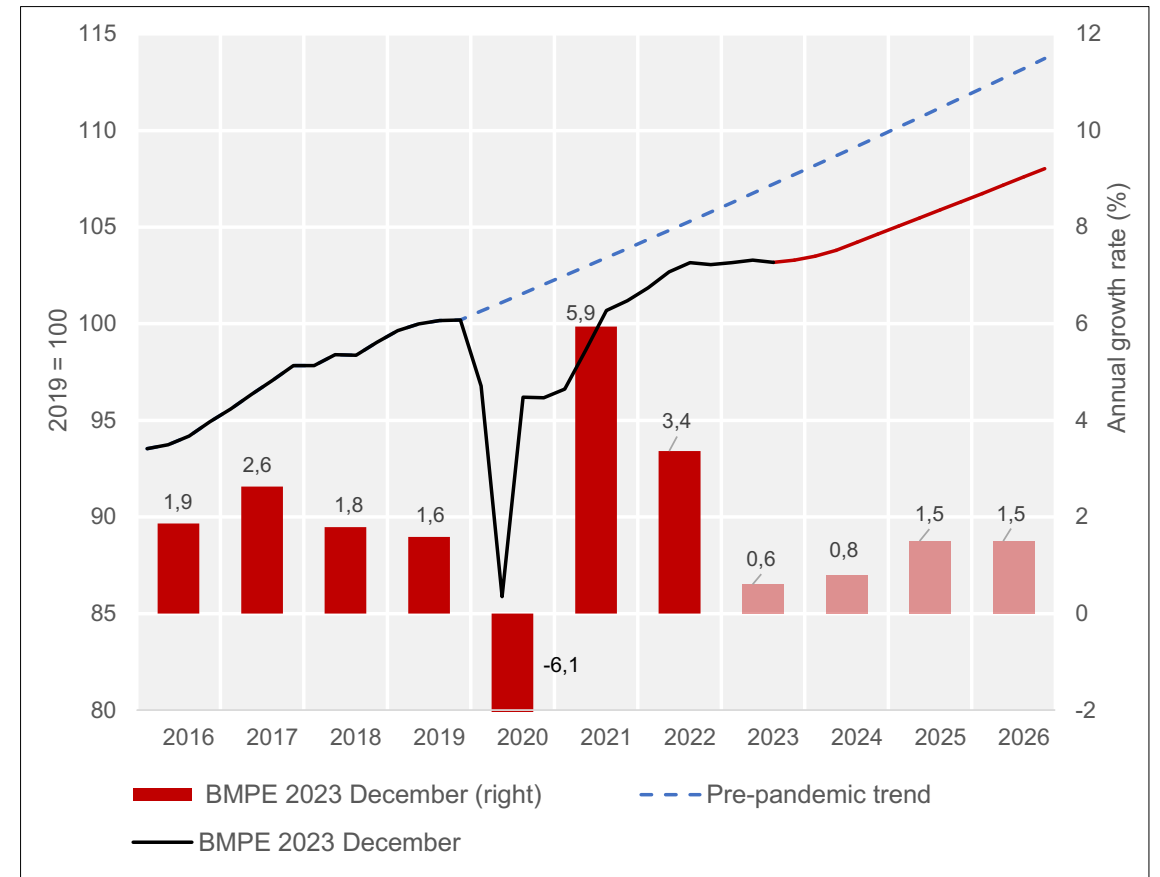
Better macroeconomic fundamentals may support growth rates well in excess of the euro-area averages

Real GDP growth - Croatia



Sources: CBS, CNB

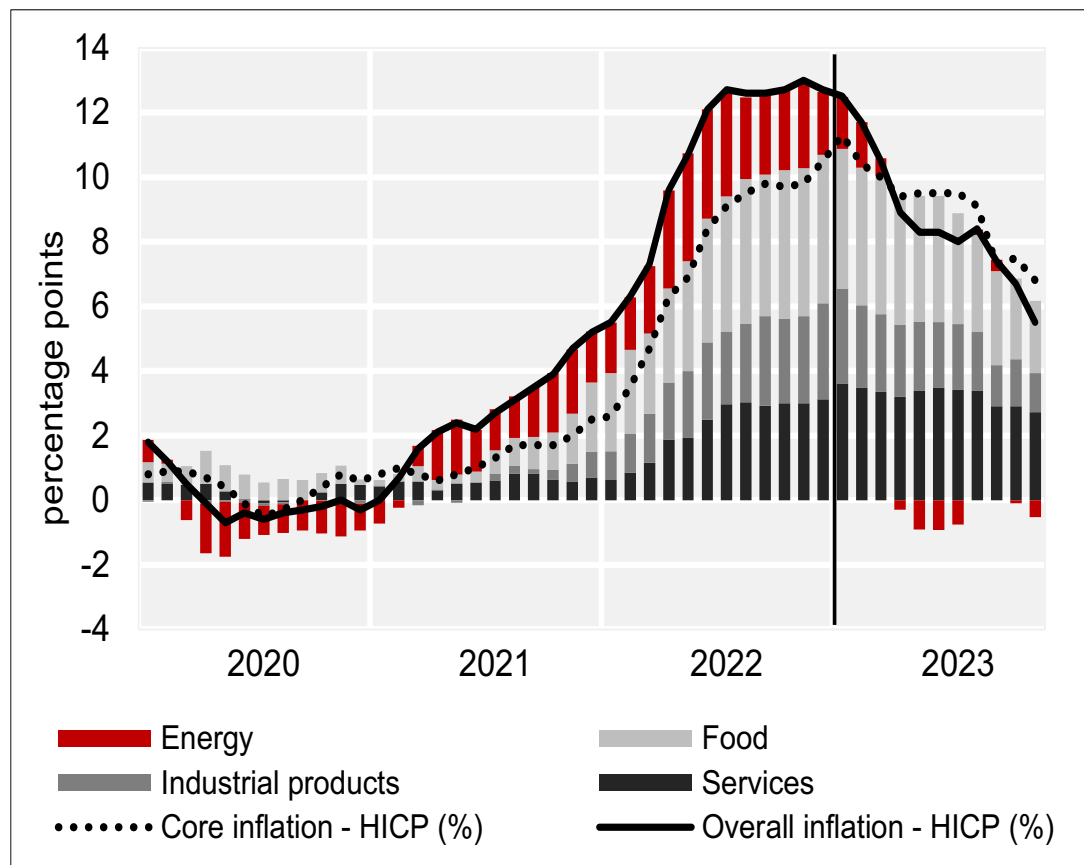
Real GDP growth – Euro area



Sources: ECB

Croatia experienced unique set of challenges as euro was introduced in high-inflation environment

Headline inflation and main components in Croatia



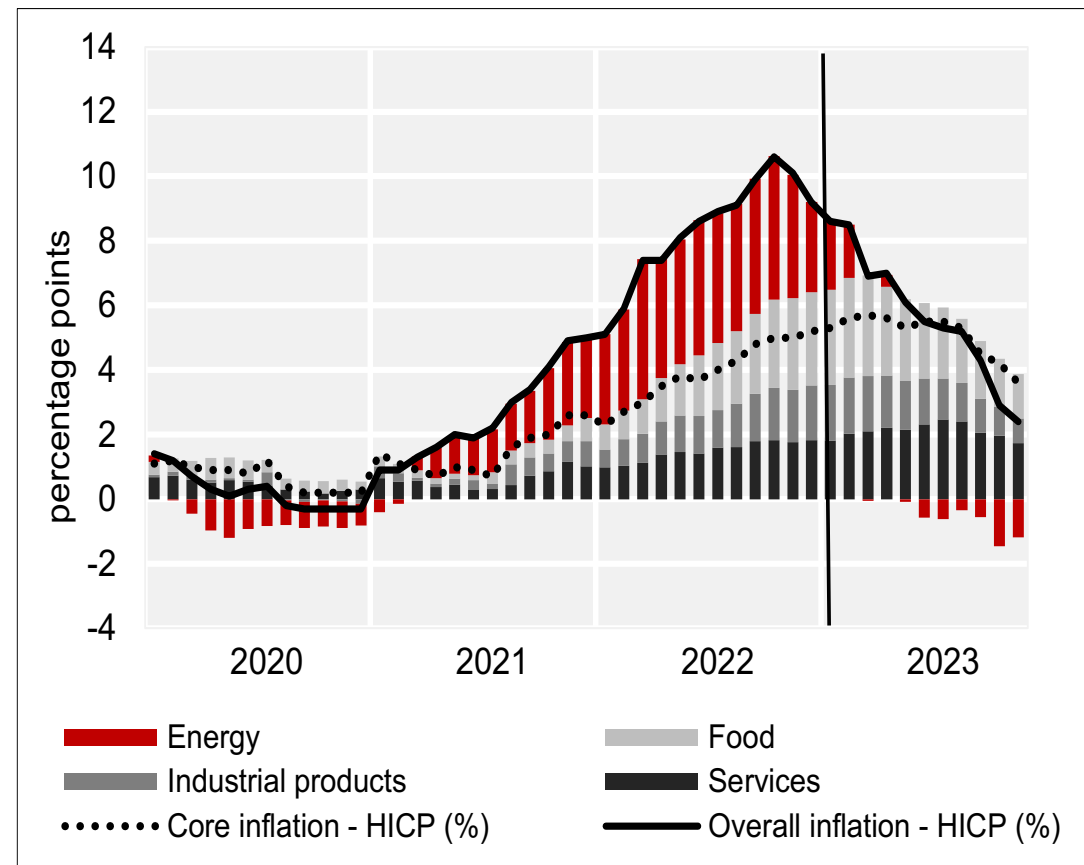
Note: Core inflation is measured by the harmonized index of consumer prices excluding energy, food, alcoholic beverages and tobacco.

Sources: Eurostat; HNB calculations

CROATIAN NATIONAL BANK

EUROSYSTEM

Headline inflation and main components in euro area

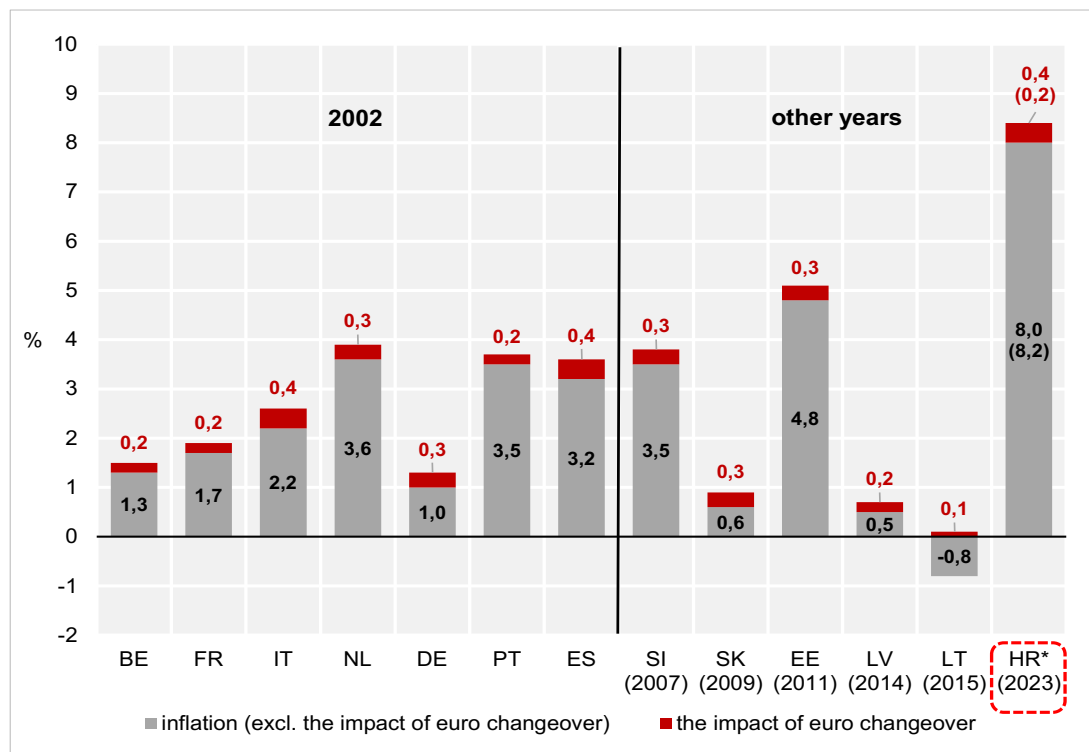


Note: Core inflation is measured by the harmonized index of consumer prices excluding energy, food, alcoholic beverages and tobacco.

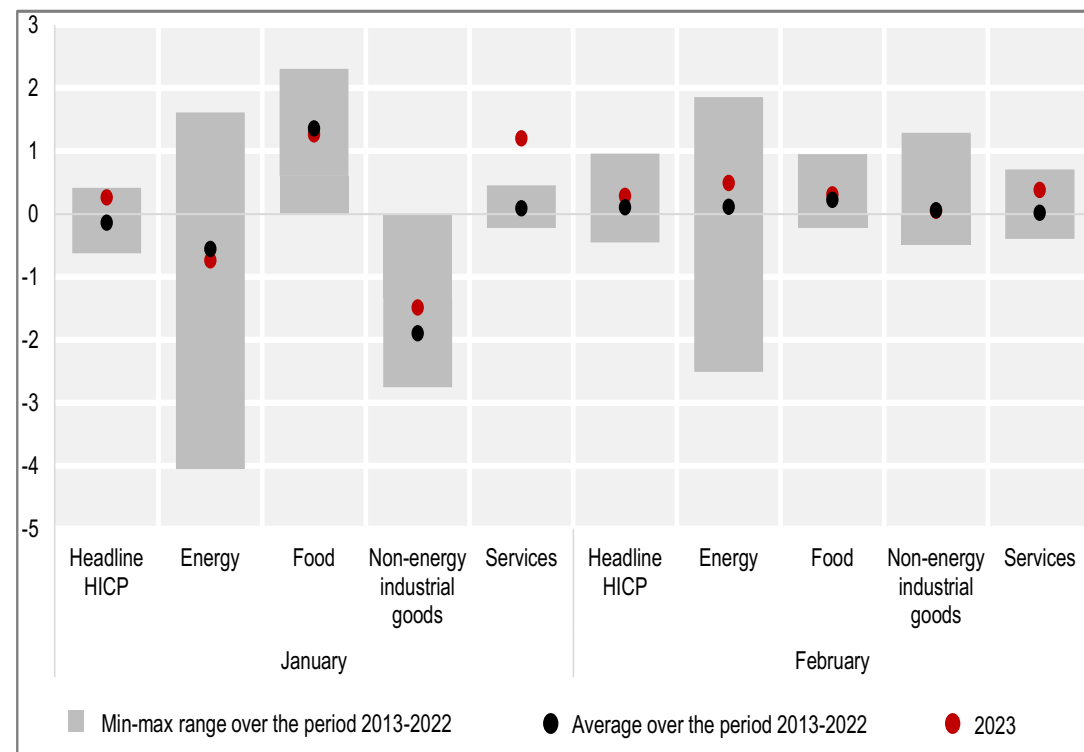
Sources: Eurostat; HNB calculations

However, euro changeover itself had relatively mild impact on inflation, in line with our *ex ante* expectations and the experience of other countries joining the EA

The estimated impact of euro changeover



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

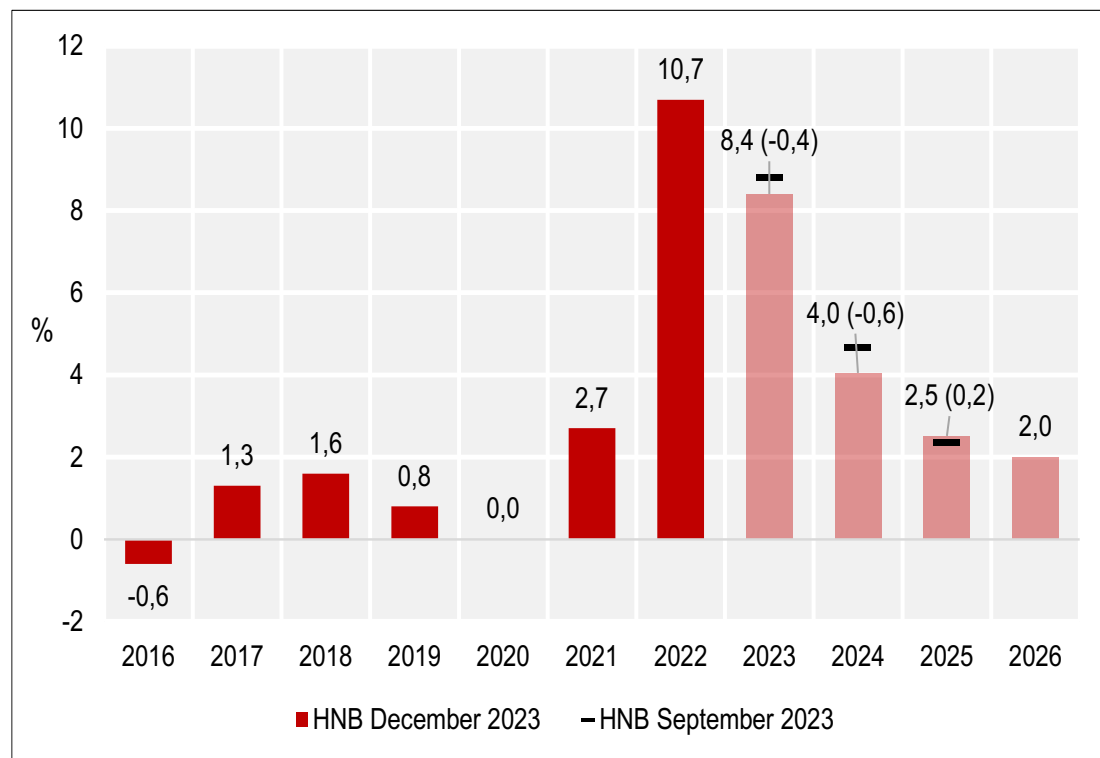


Source: Eurostat

* 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

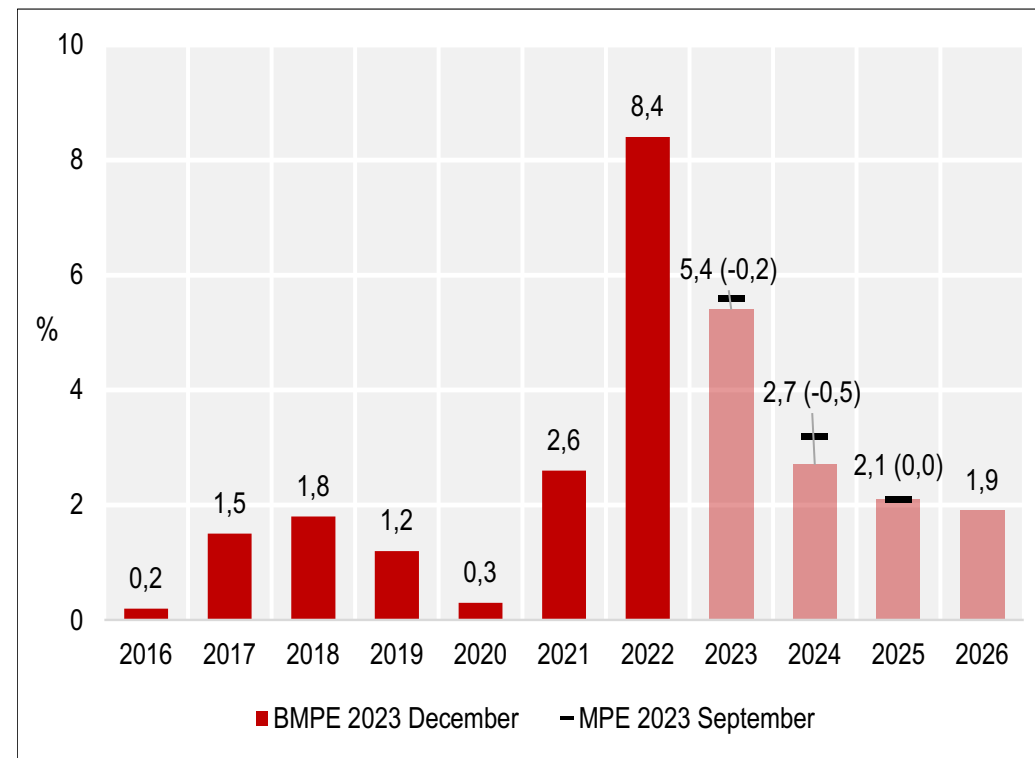
Recent inflation readings surprised on the downside, leading to downward revisions of inflation projections in 2023 and 2024 in Croatia and EA

Headline inflation in Croatia



Sources: Eurostat; HNB

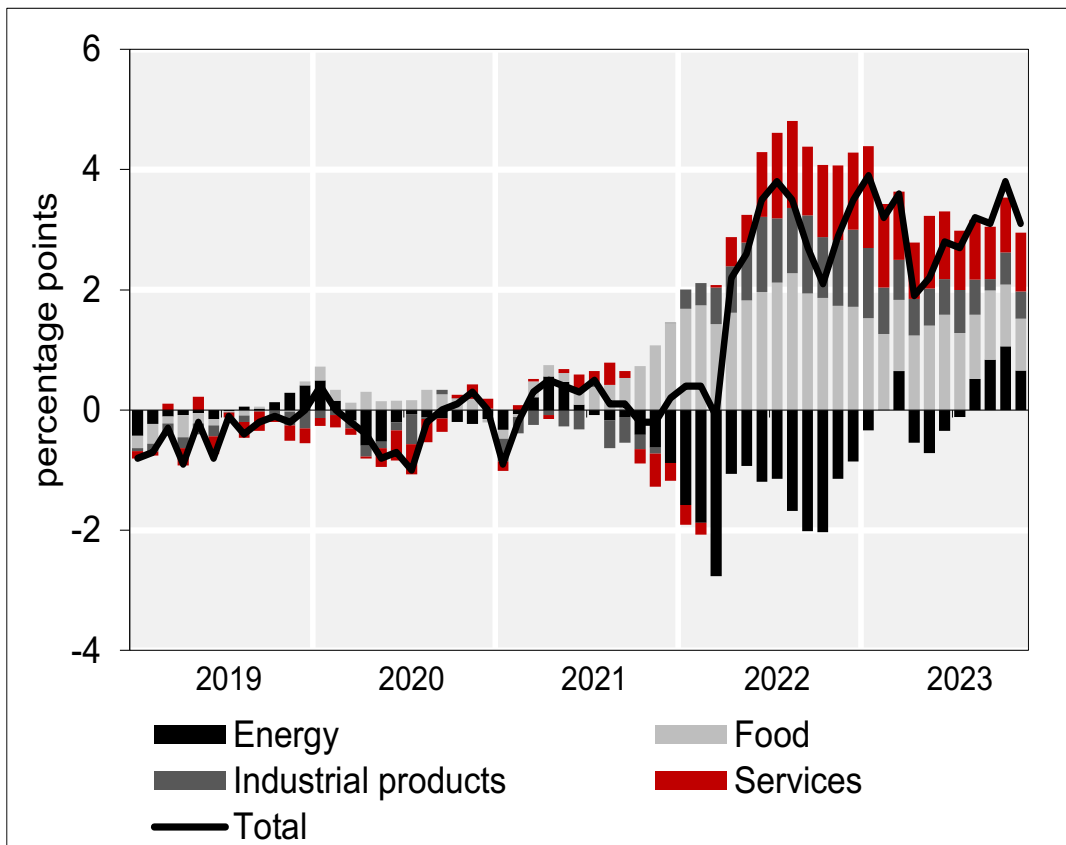
Headline inflation in euro area



Sources: Eurostat; ECB

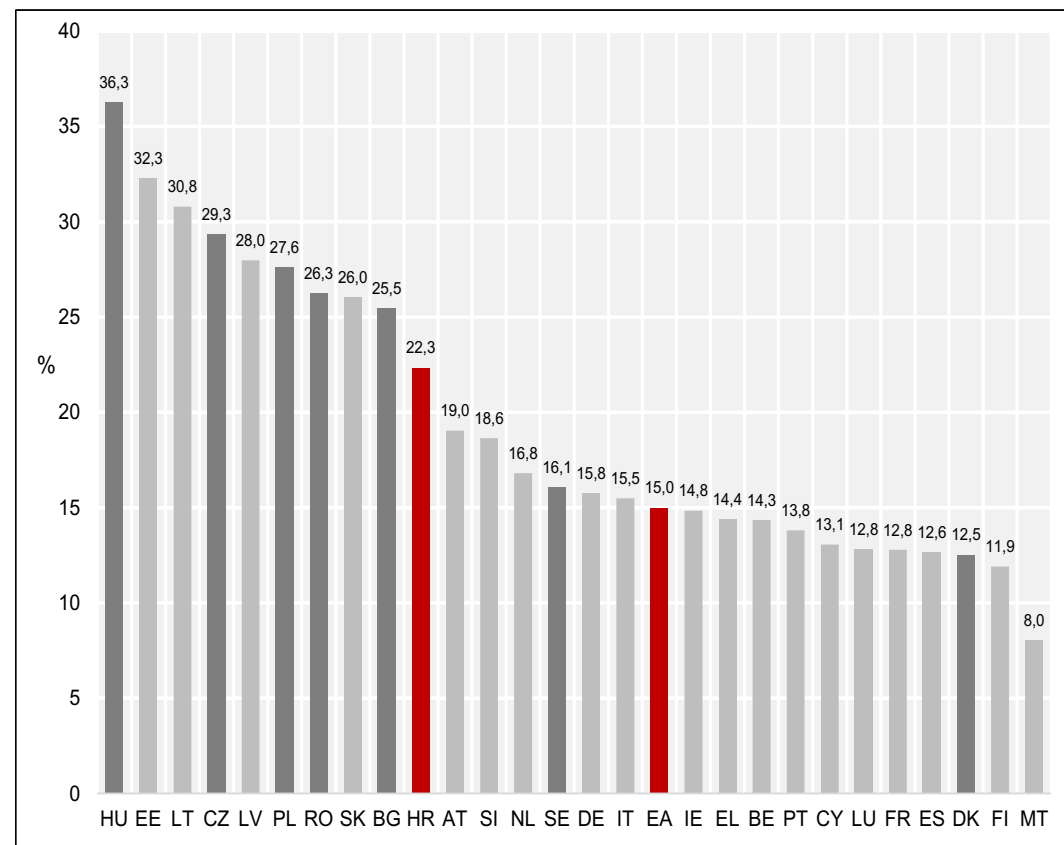
Inflation differential relative to euro area is increasingly due to energy prices, while the cumulative inflation is amongst the lowest in CEE countries

Difference between overall inflation and the contributions of main components to inflation in Croatia and euro area



Sources: Eurostat; HNB calculations

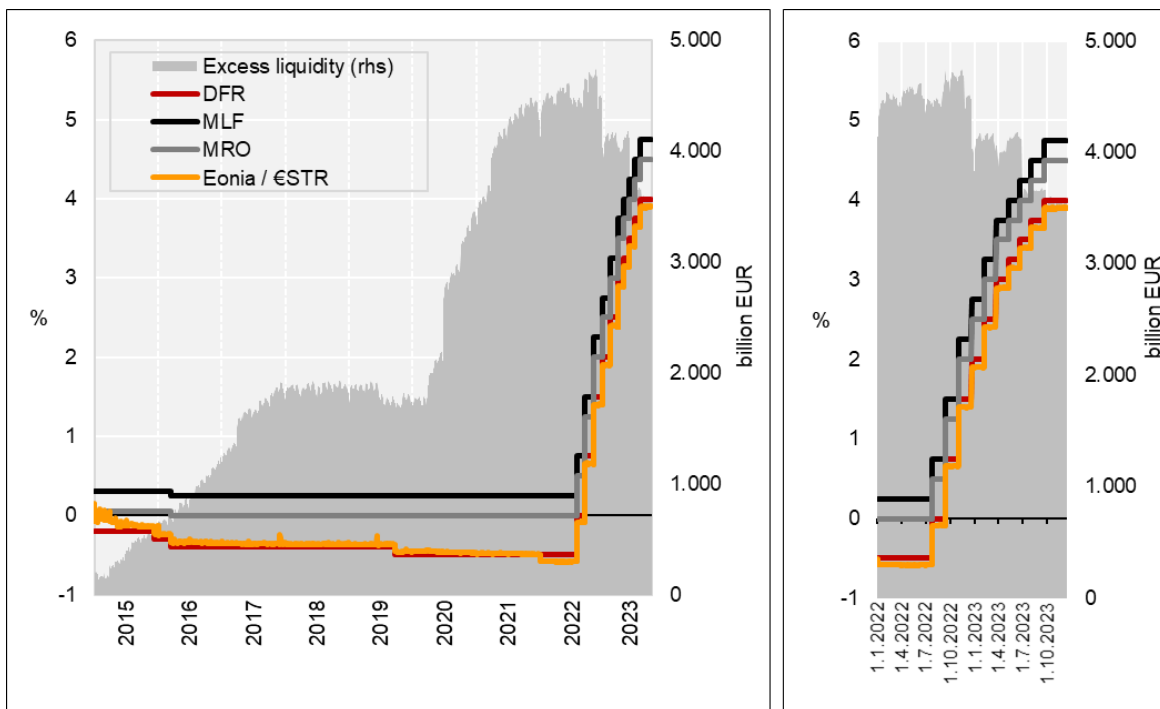
Cumulative increase in consumer prices from June 2021 to November 2023



Source: Eurostat

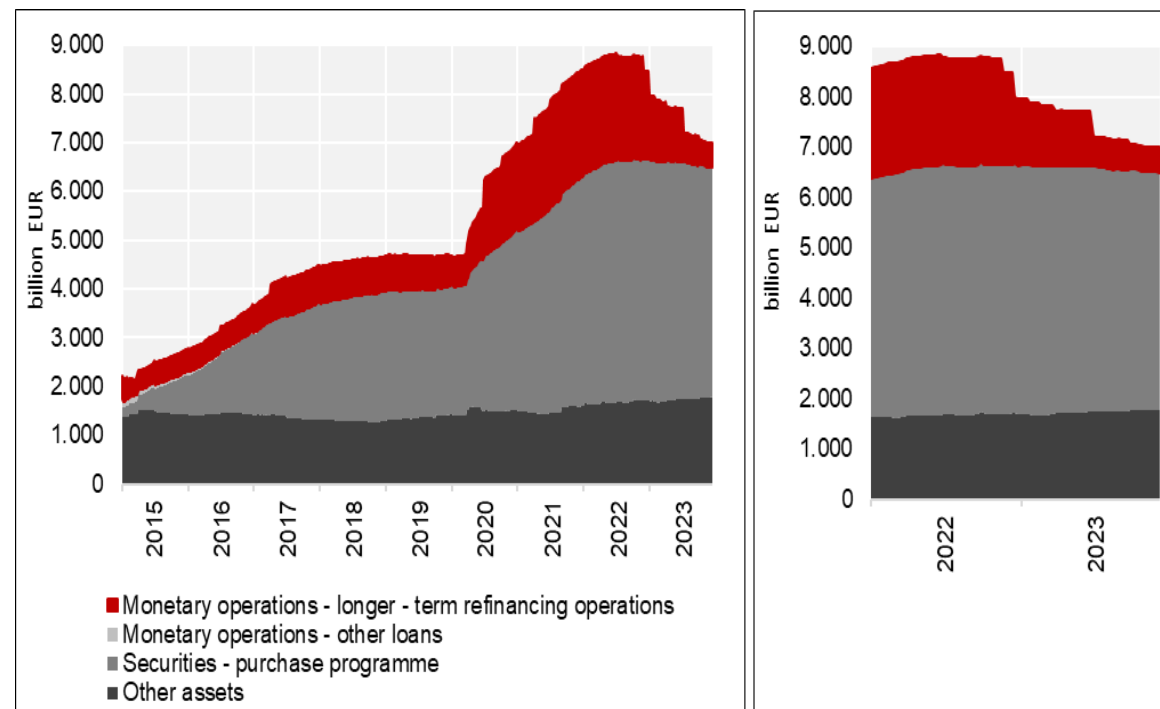
The key ECB interest rates may be sufficiently high, while balance sheet normalization continues to run in the background

Excess liquidity and ECB key interest rates



Note: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). Since the beginning of 2022 EONIA is replaced by €STR.
Source: ECB.

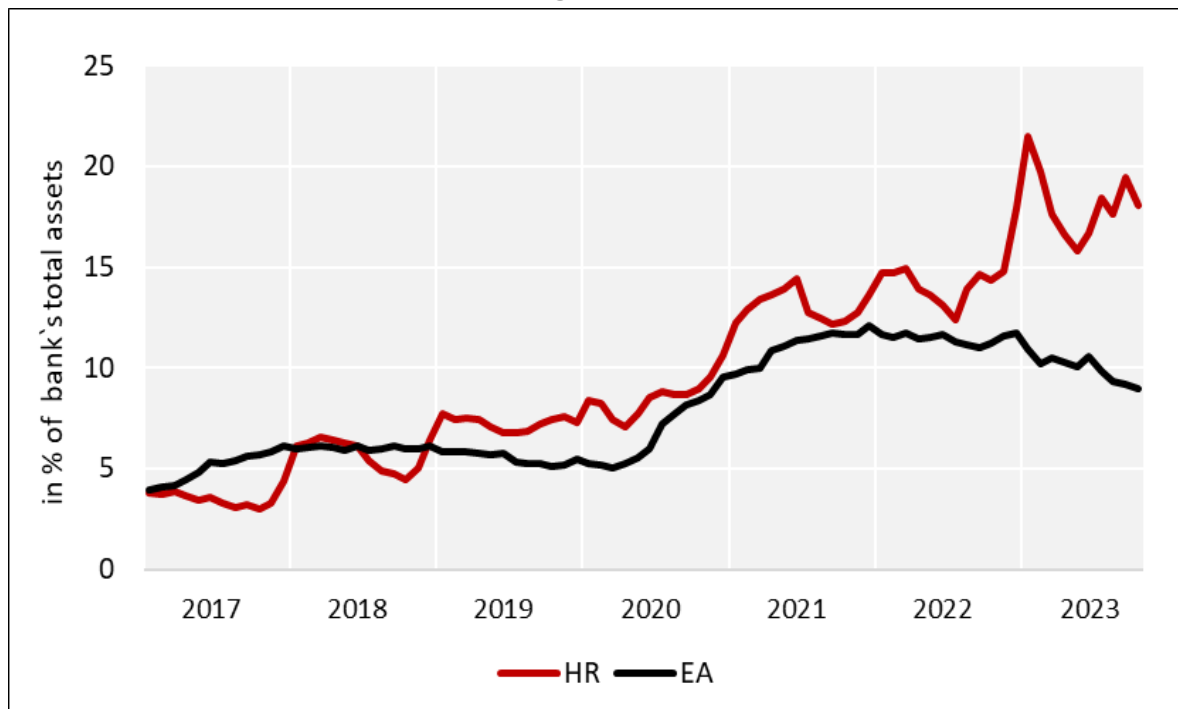
Eurosystem balance sheet



Note: Red and light gray shaded areas show the monetary items of Eurosystem balance sheet assets, while the dark grey shaded area represent the non-monetary items. *Other loans include: main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facilities and credits related to margin calls.
Source: ECB.

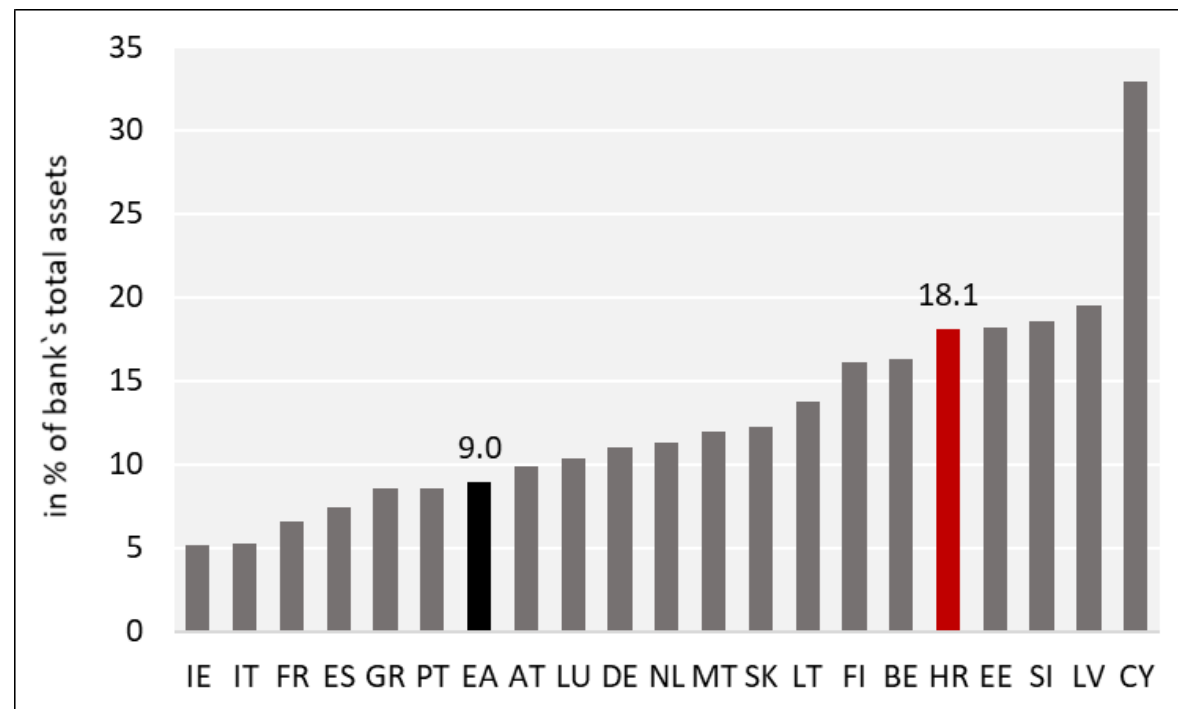
Adjustment of monetary policy instruments in the run-up to the euro increased excess liquidity to one of the highest levels in the EA

Excess liquidity in HR and EA



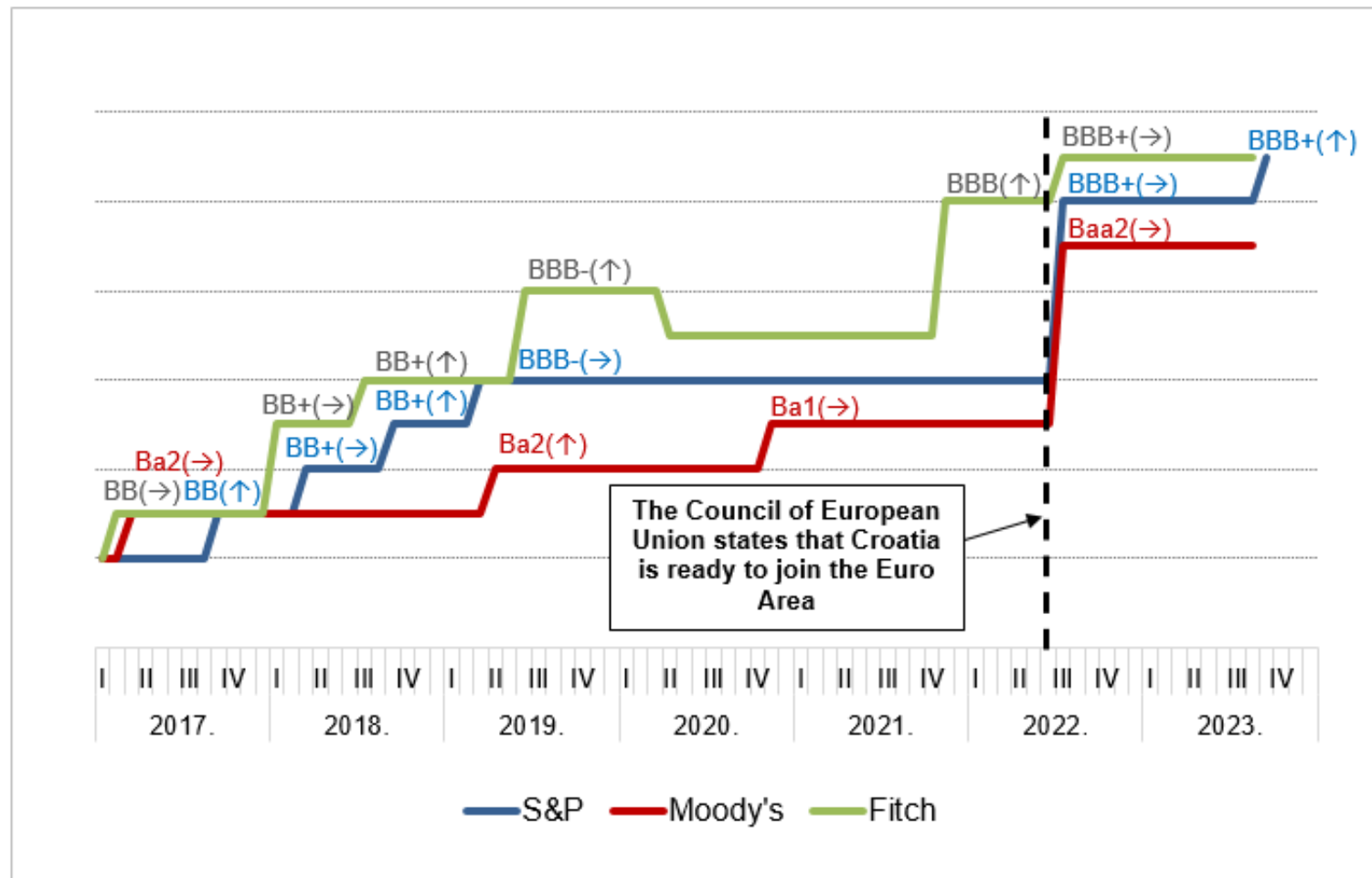
Source: ECB.

Excess liquidity in the banking system, October 2023



Source: ECB.

The Euro adoption significantly improved credit rating of Croatia...



CROATIAN NATIONAL BANK

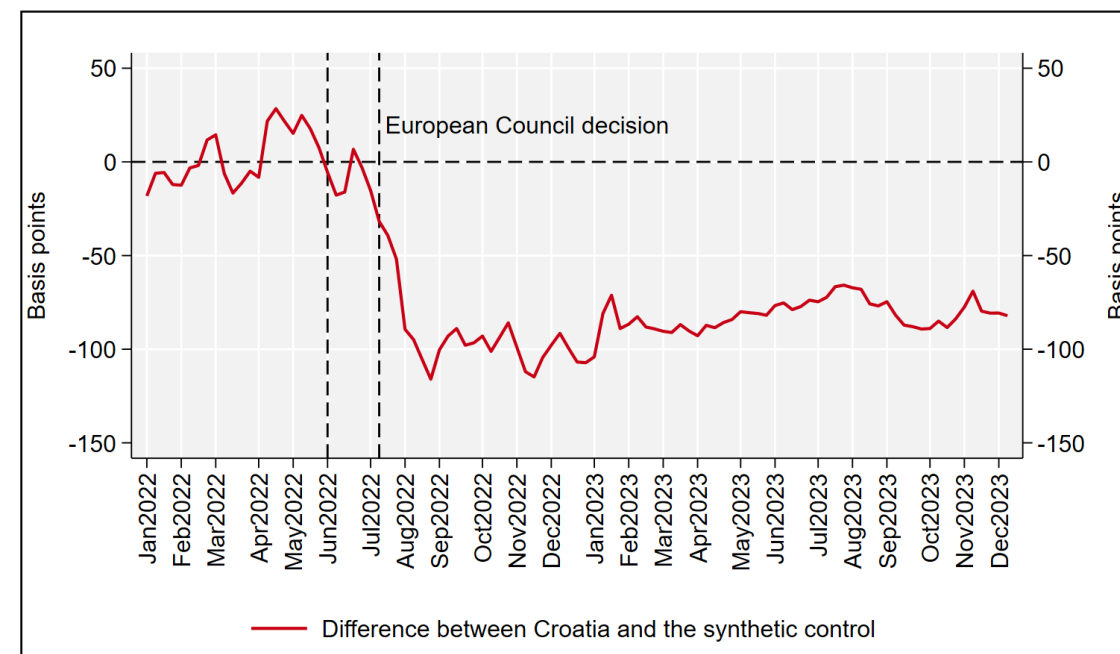
EUROSYSTEM

... and it lowered government borrowing costs relative to comparable 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
 - 2) increasing the excess liquidity in the banking system due to harmonization of the monetary framework with the Eurosystem

- **Expectations were realized** even before the euro introduction, so Croatia now records significantly lower interest rates than comparable countries outside the euro area

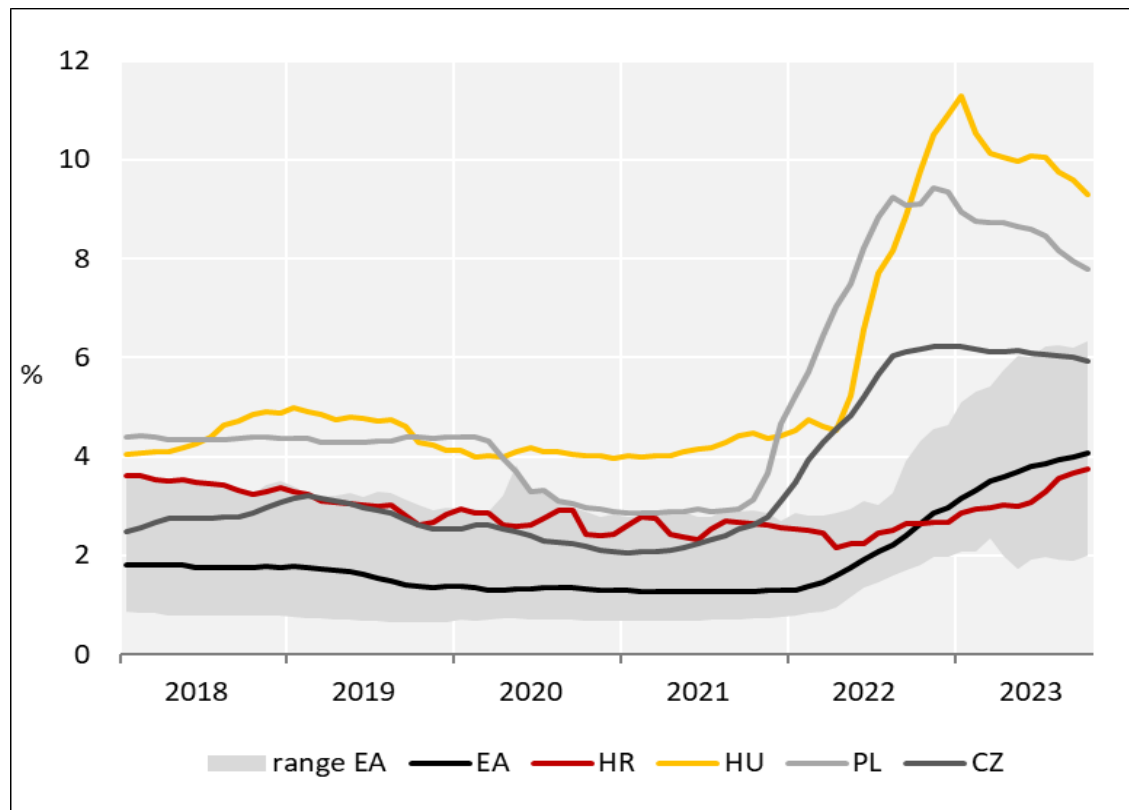
The difference in yields between the ten-year euro denominated Croatian government bond compared to the synthetic control group of countries



Source: HNB calculations

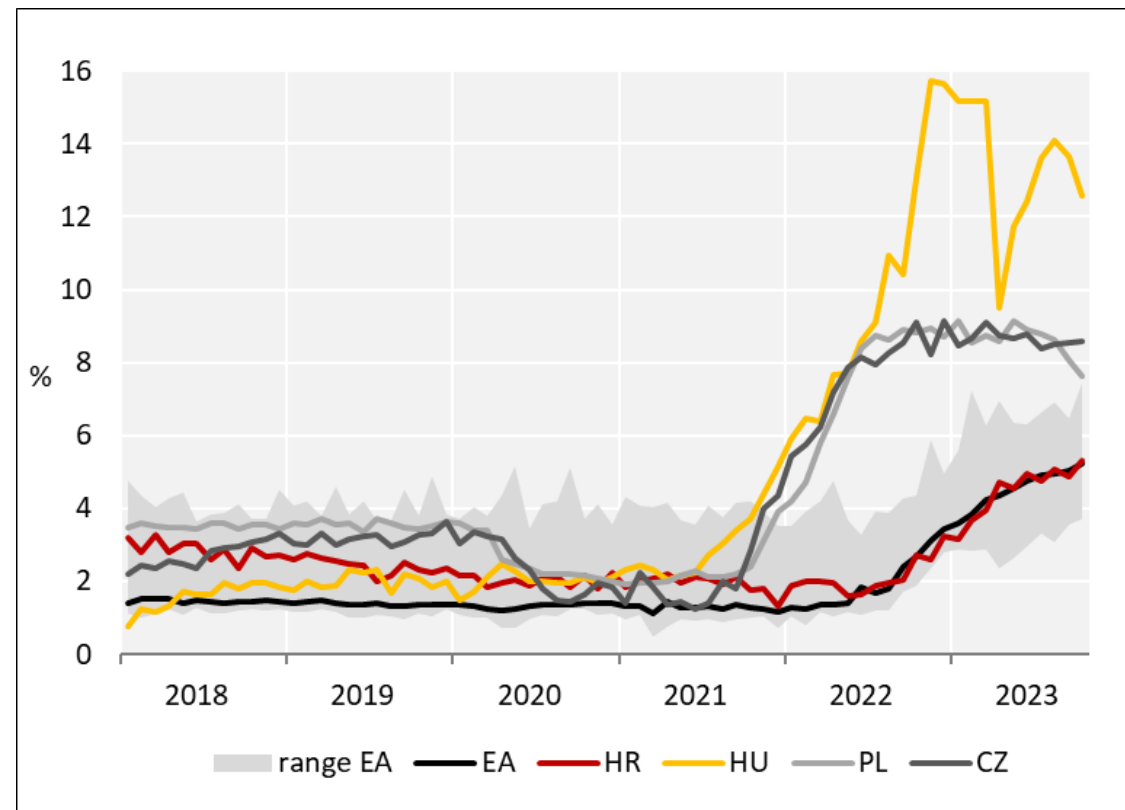
All these has somewhat weakened and delayed the transmission of monetary policy in Croatia

Interest rates on housing loans



Source: ECB.

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.



HNB

Thank you very much for your attention!

CROATIAN NATIONAL BANK

EUROSYSTEM