Croatia enters the euro area

On 1 January 2023, Croatia is set to become the 20th country to join the euro area and adopt the common currency. Two independent assessments, from the European Commission and the European Central Bank (ECB), found that Croatia fulfils the requirements for accession to the euro area. Nonetheless, significant challenges remain in order for Croatia to be able to maintain a sustainable convergence path in the medium term.

Background
The four conditions for joining the euro area, known as the ‘convergence criteria’ are set out in Article 140 of the Treaty on the Functioning of the European Union. At least once every two years, or at the request of a Member State with a derogation, the European Commission and the ECB report to the Council on the progress made by the non-euro Member States. Along with the four convergence criteria, the assessment considers the level of market integration, the situation and development of the balance of payments on the current account, and trends in the development of unit labour costs and other price indices. To that end, the European Commission and the ECB each publish a two-yearly convergence report.

Convergence report results
In its June 2022 assessment, the European Commission found that Croatia fulfilled the four nominal convergence criteria. Likewise, the ECB concluded that Croatia fulfilled all economic and legal requirements for adopting the euro. More specifically, the findings on the convergence criteria were as follows.

• **Price stability**: The 12-month average rate of harmonised index of consumer price inflation in Croatia was 4.7%, i.e. below the reference value of 4.9% (that is the three best-performing Member States plus 1.5 percentage points; two Member States were excluded as their inflation rates could not be seen as meaningful benchmarks).

• **Fiscal sustainability**: The 2021 general government budget balance was just below the 3% deficit reference value, and the debt ratio was over the 60% reference value but on a downward trajectory.

• **Exchange-rate**: Since the inclusion of the Croatian kuna in the European exchange rate mechanism, ERM II, its deviations from the agreed central rate have been significantly smaller than the ERM II standard fluctuation band.

• **Long-term interest rates**: At 0.8% on average, these remained below the 2.6% reference value.

European Parliament position
With both the Commission and the ECB having given a positive assessment of Croatia’s preparedness to adopt the euro, the Commission has made a proposal for a Council decision on Croatia’s joining the euro area on 1 January 2023. The European Parliament must now adopt a non-binding opinion on the proposal, following the consultation procedure. The report by the Committee on Economic and Monetary Affairs (rapporteur: Siegfried Mureşan – EPP, Romania) endorses the adoption by Croatia of the euro on 1 January 2023 and stresses that the assessments by the European Commission and the ECB prove Croatia’s readiness to adopt the euro. The report also calls on the Croatian authorities to maintain the present course of practical preparations to ensure a smooth changeover. Once the European Parliament has provided its opinion, and as the Eurogroup has already endorsed the recommendation, the Council is expected to adopt the necessary legal acts in July.