



CROATIAN NATIONAL BANK

EUROSYSTEM

# Croatia's journey since independence in 1991

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## Outline

- Political and economic challenges of the 1990s
- EU accession – process and economic impact
- Euro adoption – benefits for a small open economy

## Political and economic challenges of the 1990s

- Croatia **declared independence** from the former Yugoslavia in June 1991 and gained international recognition in January 1992
  - **Iceland** was among the first countries to recognize Croatia (December 1991)
  
- The **Homeland War** between 1991 and 1995
  - the declaration of independence triggered military aggression against Croatia
  - 1/4 of the total territory was occupied, including the vital central region connecting northern and southern Croatia
  - Croatia managed to fully restore its territorial integrity through successful military actions and diplomatic efforts (peaceful reintegration of the Danube region)



## Political and economic challenges of the 1990s (cont.)

- The Croatian economy was heavily affected by:

### 1) war-related destruction

- direct cost estimated at 32 billion euro (150% of pre-war GDP)

### 2) transition from a centrally planned to a market-based economy

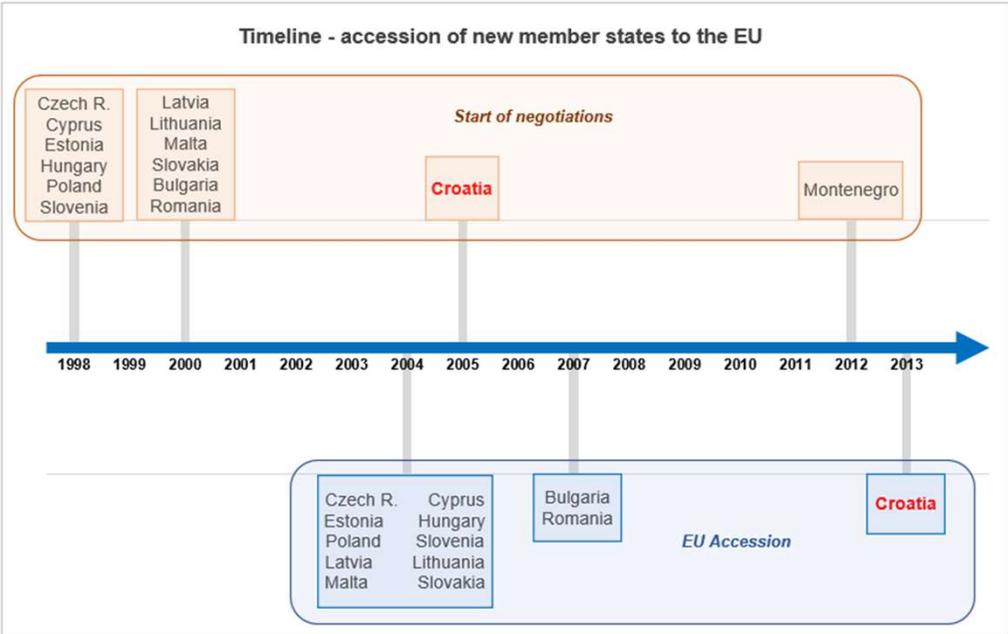
- a period marked by severe monetary instability and hyperinflation (until the Stabilisation program of 1993)
- the process of privatization (starting in 1991) aimed at addressing poor governance and low productivity in the corporate sector
- banks' restructuring and consolidation (including privatization), which was accelerated after 1998/99 banking crisis



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Due to the war and its consequences, Croatia lagged behind other post-transition countries on the path to EU accession



## The EU accession process was quite long and demanding

- Croatia had **longer and more demanding** EU accession negotiations compared to other countries:
  - the first time that a candidate country was required to meet both opening and closing benchmarks for the 35 negotiating chapters
  - in total, **23 opening** and **104 closing** benchmarks had to be fulfilled
- The advantage was that these requirements prompted us to **frontload major reforms** which would likely not have been implemented at that time otherwise

### KEY STEPS

**2001** - Stabilisation and Association Agreement signed

**2003** – Application for EU membership

**2004** – Candidate country status

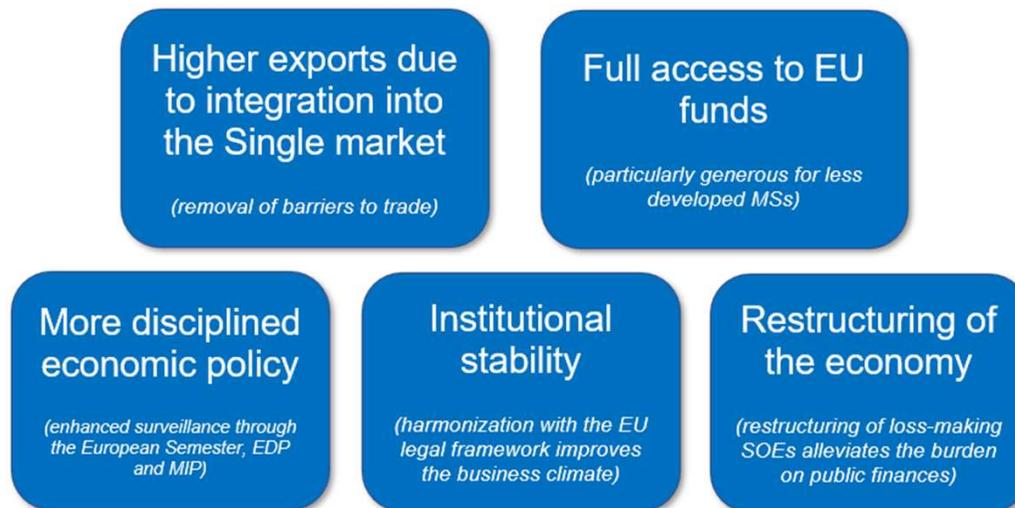
**2005** – Start of negotiations

**2011** – End of negotiations

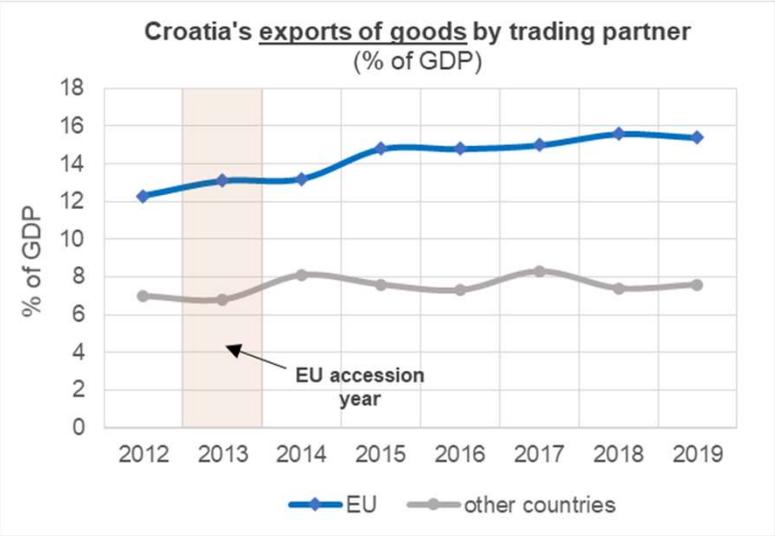
**2013** – Accession to the EU

## The benefits of EU accession have been substantial

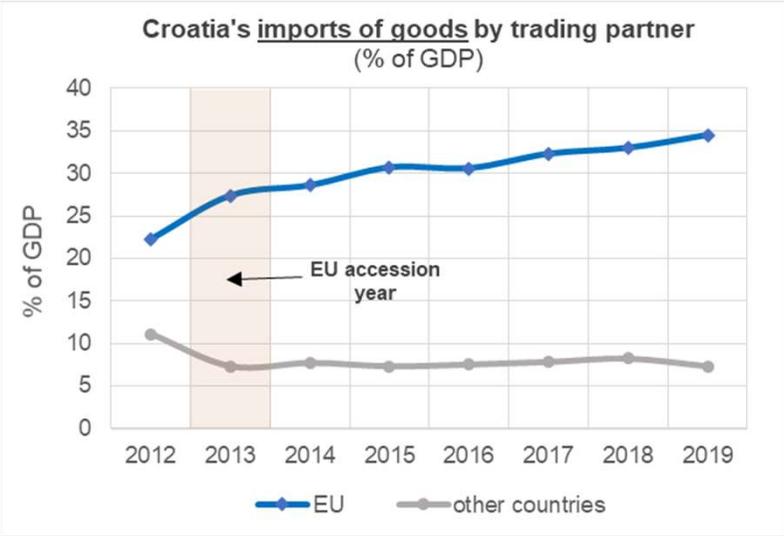
- Croatia has felt the benefits of its EU membership through several channels:



Since joining the EU, Croatia has recorded a notable increase in both exports to and imports from the EU ...



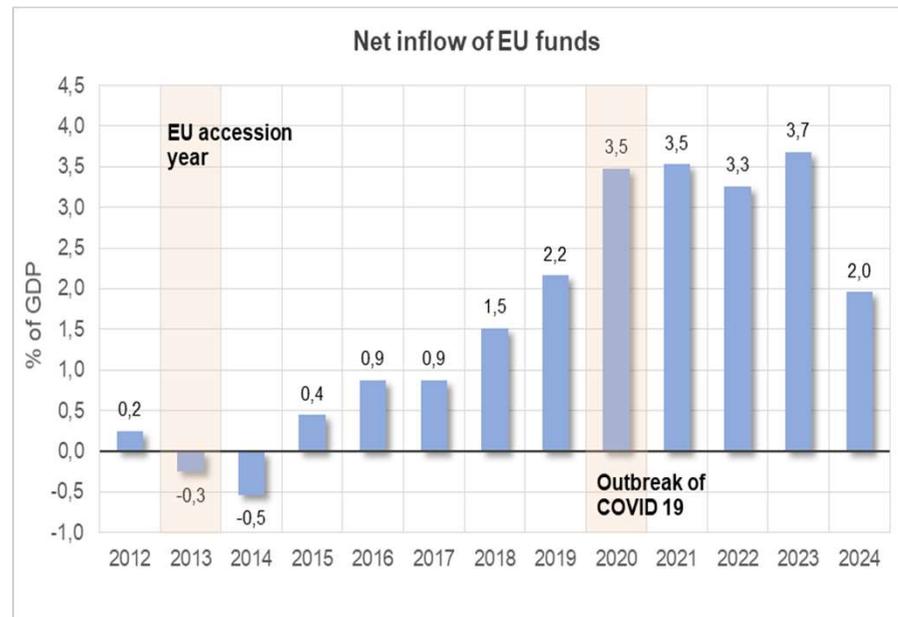
Source: Eurostat



Source: Eurostat

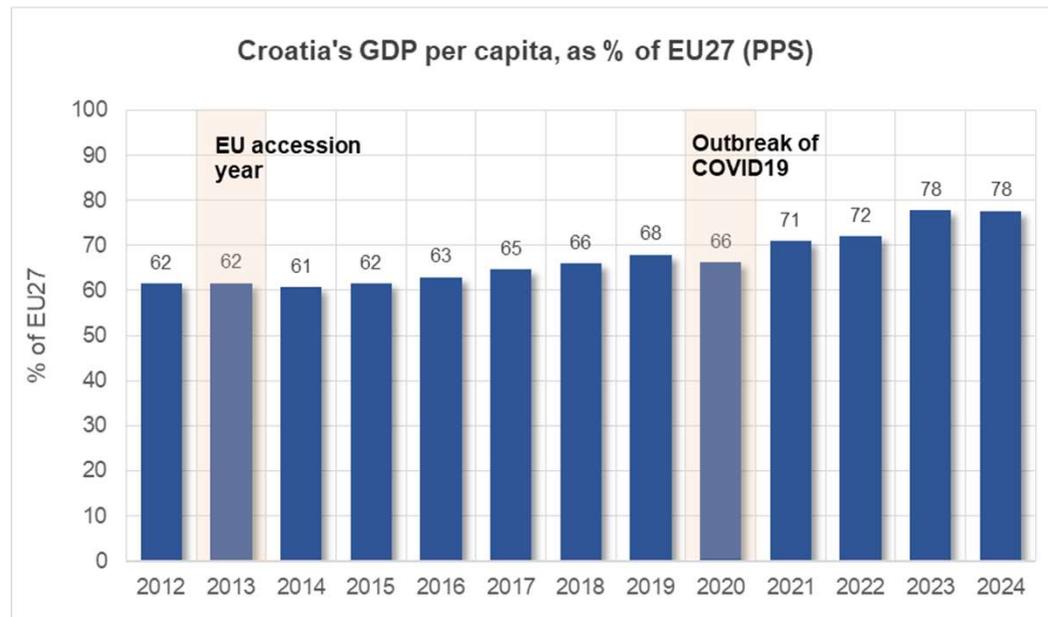
... as well as a substantial inflow of EU funds, particularly after the outbreak of the pandemic

- The net inflow of EU funds has increased over time as the absorption capacity in the public and private sectors improved
- Inflows particularly large in 2020-23 due to the EU's common fiscal response to the pandemic – Next Generation EU



Source: HNB

Robust growth supported by EU membership has enabled Croatia to reduce its income gap relative to the EU average



Source: Eurostat

## Croatian citizens are well aware of the benefits of EU membership

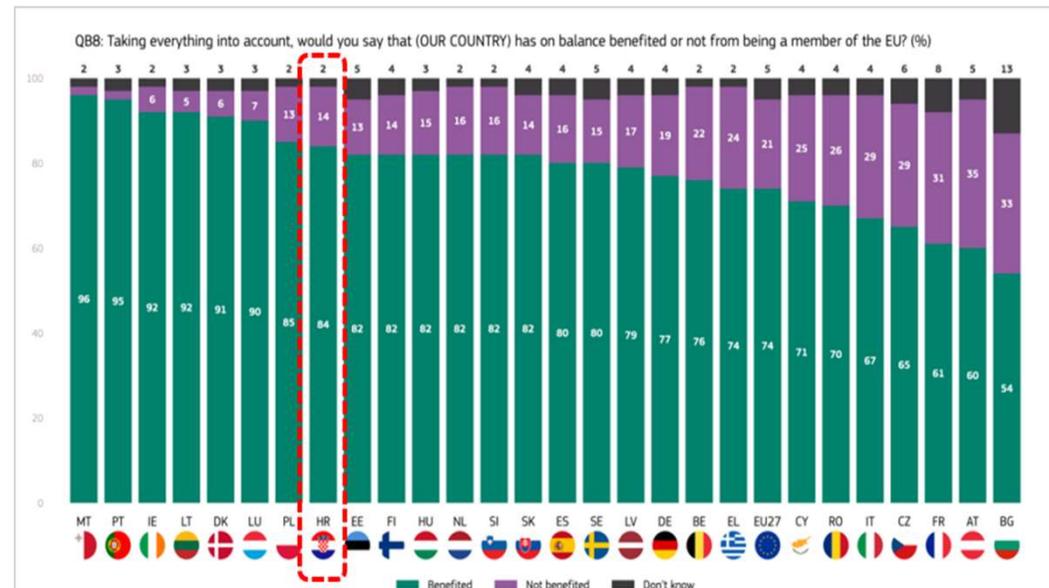
Eurobarometer survey  
(Autumn 2025):

*Would you say that Croatia has on balance benefited or not from being a member of the EU?*

**Benefited – 84%**

**Not benefited – 14%**

**Don't know – 2%**

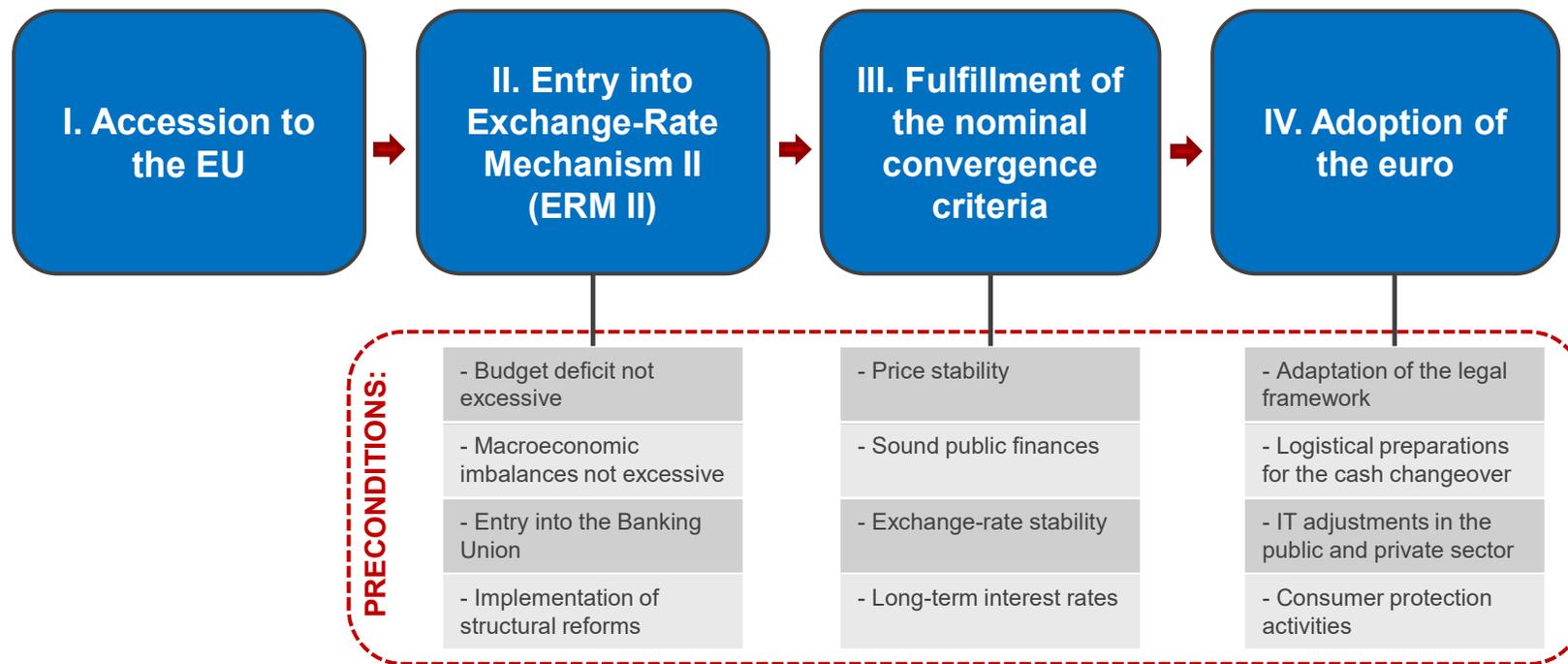


Source: Standard Eurobarometer 104, Autumn 2025

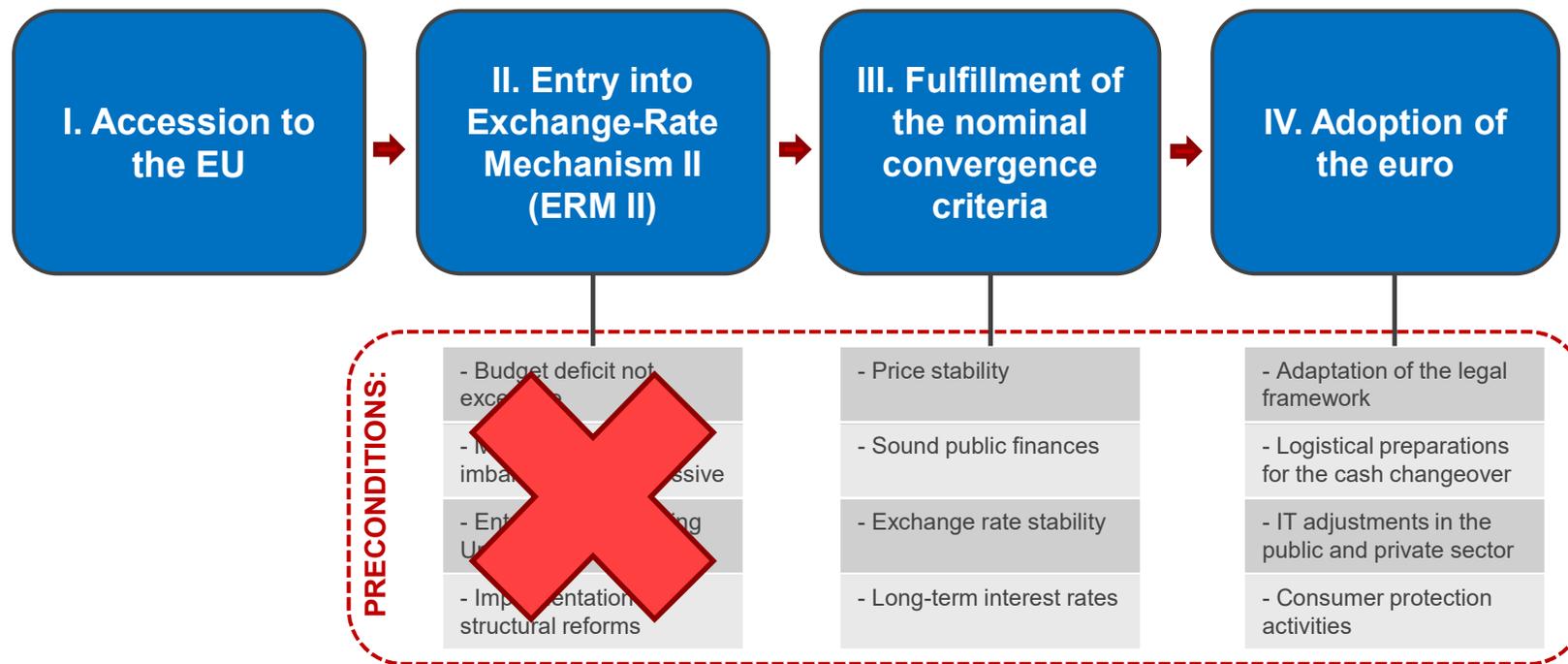
## Outline

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- **Euro adoption – benefits for a small open economy**

The euro adoption process was challenging as various preconditions had to be fulfilled

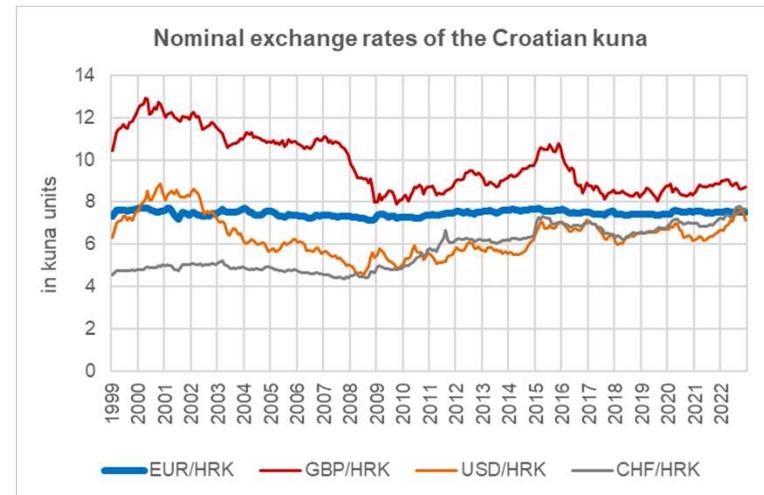


## The process was less demanding in the past

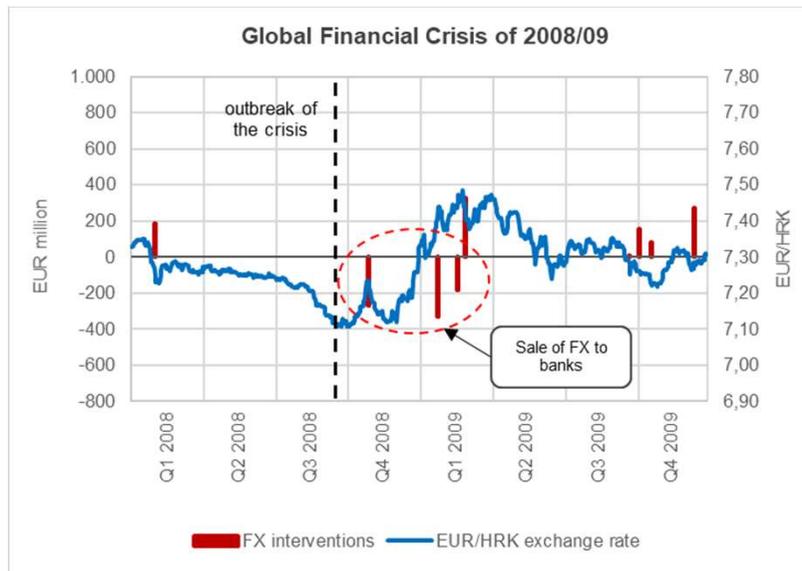


## Before euro adoption, the HNB conducted an exchange rate-based monetary policy regime

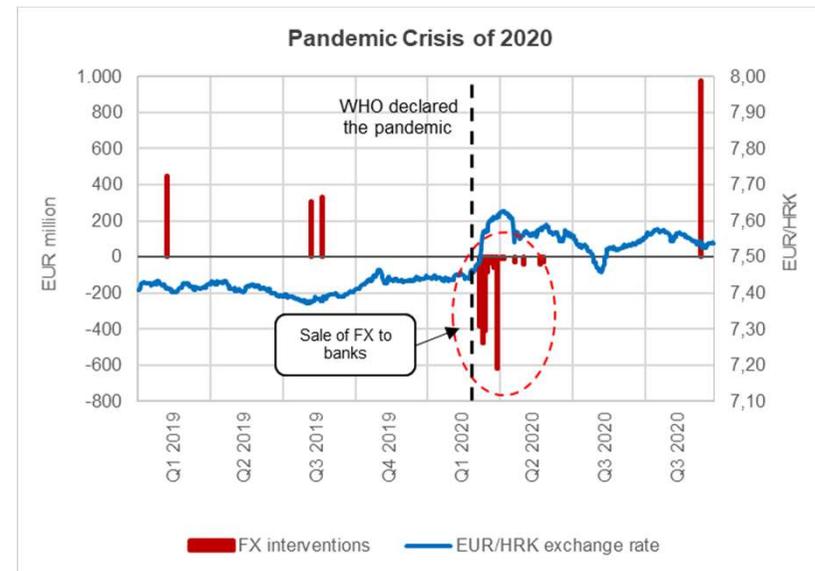
- HNB fulfilled its primary objective – **price stability** – by maintaining a stable EUR/HRK exchange rate
  - this way, the HNB kept import prices stable and inflation expectations anchored, thereby ensuring a low and stable overall inflation...
  - ... while at the same time this policy protected borrowers with unhedged liabilities in euros, thereby supporting financial stability



## Maintaining exchange rate stability required strong FX interventions in times of crisis

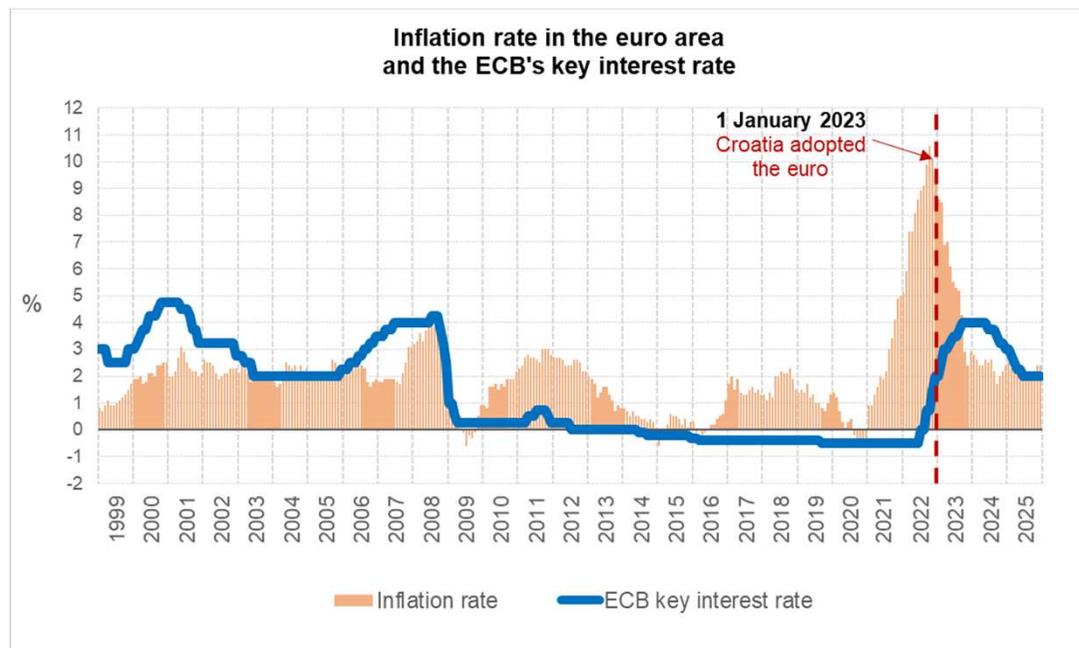


Source: HNB



Source: HNB

In contrast, the ECB implements its policy mainly through changes in key interest rates



Source: ECB

## Since adopting the euro on 1 January 2023, Croatia is actively involved in the euro area monetary policy

- The Governor of the HNB is a member of the ECB's Governing Council
  - together with the governors of other euro area NCBs he participates in formulating the ECB's common monetary policy
  
- The HNB implements the ECB's policy in Croatia ...
  - transactions with domestic banks are carried out in accordance with parameters set by the ECB's Governing Council (e.g. auction calendar, level of key interest rates, eligible collateral list)
  
- ... and performs its other tasks as before



## Croatia has benefited from the adoption of the euro in several ways

### MAIN BENEFITS OF THE EURO

lower risks

greater  
macroeconomic  
resilience

lower  
borrowing  
costs

boost to  
foreign trade  
and tourism

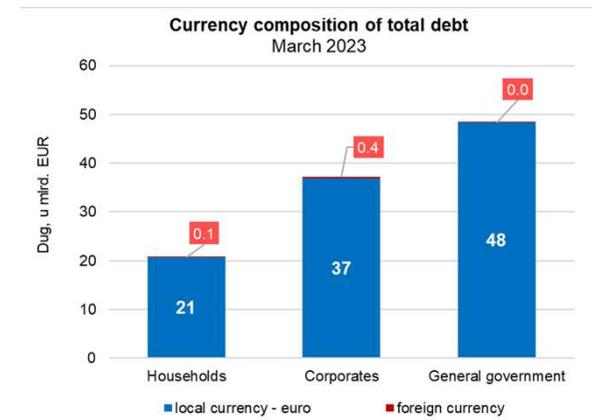
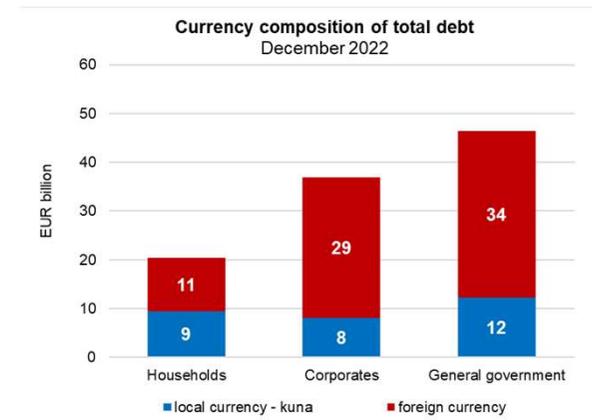


## BENEFIT 1 Permanent elimination of foreign exchange risk

- 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**)

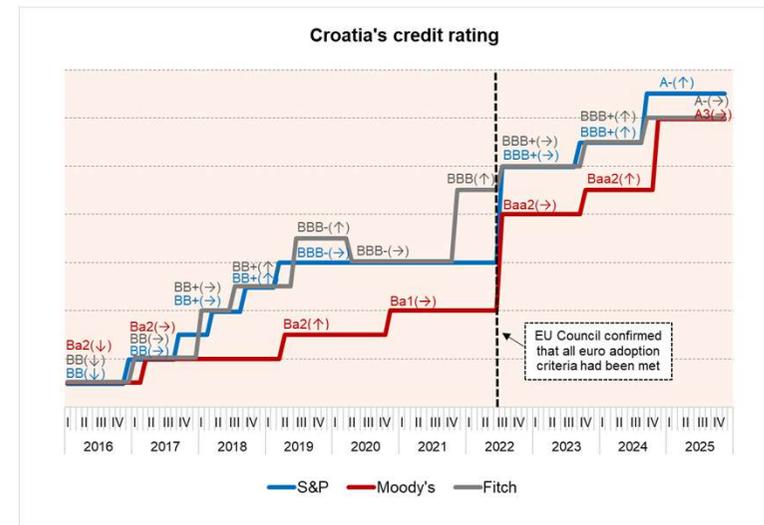
❖ in March 2023, foreign currency debt amounted to only EUR 0.5 bln (**0.7% of GDP**)



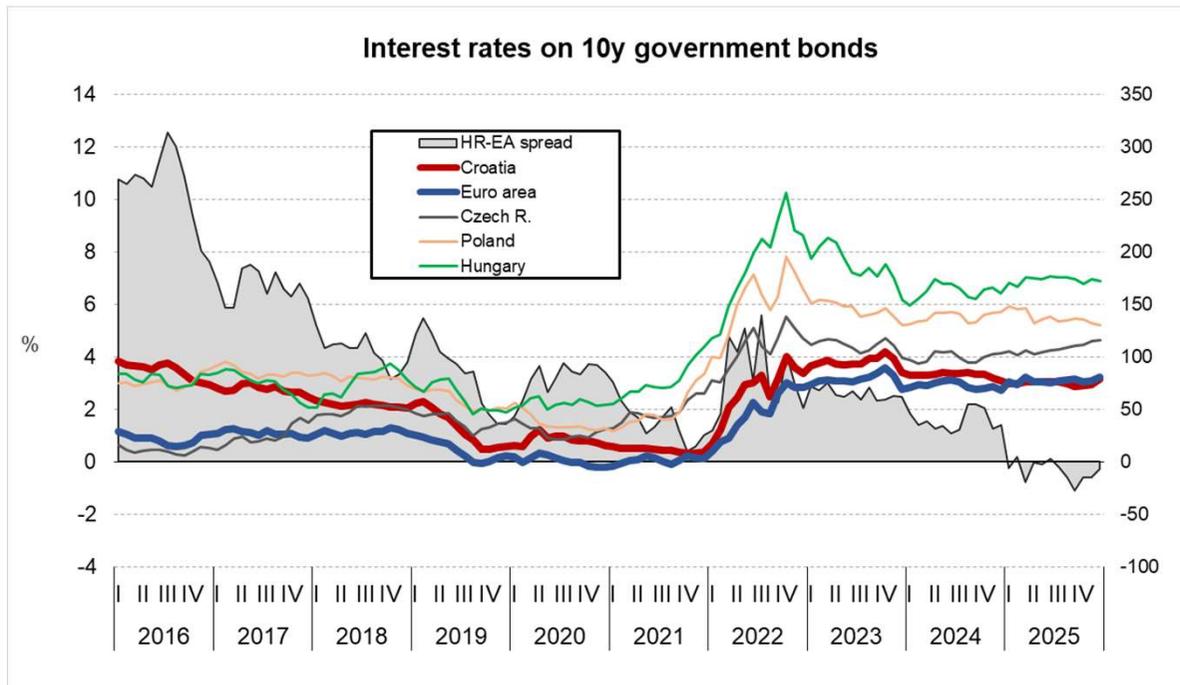
## BENEFIT 2 Greater resilience to adverse shocks and financial crises

- The resilience of the Croatian economy and the financial system is now greater for several reasons:
  - government debt is now entirely in domestic currency
  - households and corporations are no longer exposed to foreign exchange risk
  - banks are no longer indirectly exposed to foreign exchange risk
  - banks can get as much euro liquidity as they need from the HNB which is now part of the Eurosystem

### Increased resilience is reflected in an improved credit rating

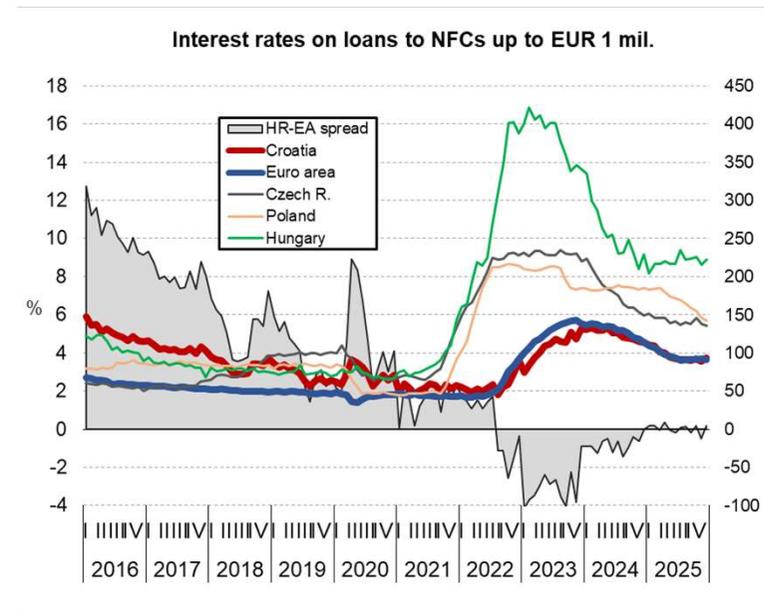
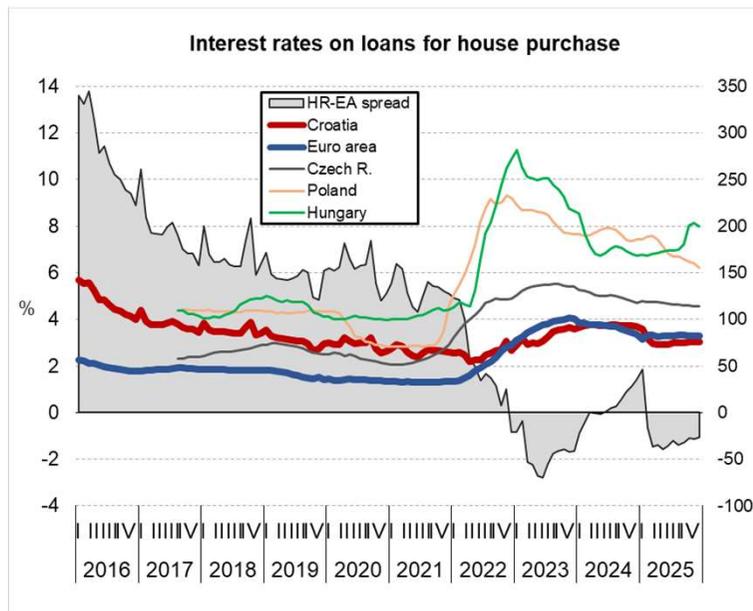


## BENEFIT 3 Relatively lower borrowing costs



Source: Eurostat

## BENEFIT 3 Relatively lower borrowing costs (cont.)



## BENEFIT 4 Boost to trade, investment and tourism

- Foreign trade is now more convenient and efficient because there is **less need for currency conversion**
  - trade with EU Member States (invoiced in euros) represents 3/4 of Croatia's total trade in goods
  - trade with other countries is also predominantly invoiced in euros (exports 82%, imports 70%)
- The competitiveness of tradable sectors, including tourism, has been further increased by the **entry into the Schengen area**



## Concluding remarks

- Croatia's path towards the EU and the euro area was longer and more demanding compared to the experiences of other post-transition countries
- As the youngest Member State with relatively recent experience in negotiations, Croatia has positioned itself as a knowledge hub for issues related to EU accession
- The economic benefits of EU membership and euro adoption are significant and permanent – they support growth and macro-financial resilience
- Since joining the EU, Croatia has achieved a notable increase in income per capita

Thank you for your attention!