KKI
Policy Brief

KE-2022/43

The Impact of the Introduction of the Euro in Croatia

Az euró horvátországi bevezetésének hatásai

DŽENITA ŠILJAK

INSTITUTE FOR FOREIGN AFFAIRS AND TRADE

KKI Policy Brief

Series of the Institute for Foreign Affairs and Trade

Publisher:
Institute for Foreign Affairs and Trade

Reviewed by:
Julianna Ármás, Ferenc Németh

Typesetting:
Tamás Lévárt

Editorial office:
H-1016 Budapest, Bérc utca 13-15.
Tel.: + 36 1 279-5700
E-mail: info@ifat.hu
http://kki.hu

ISSN 2416-0148
https://doi.org/10.47683/KKIElemzesek.KE-2022.43

Abstract: Croatia, the newest member of the European Union, is set to introduce the euro as its currency in January 2023. Although it was announced that Croatia had fulfilled the Maastricht criteria for monetary union membership in May 2022, the country did not meet the criterion on the general government debt rate. This paper analyses Croatia's readiness to join the euro area beyond meeting the Maastricht criteria. While monetary union membership has its positive sides, by joining, a country loses one of the most important tools of managing its economy – monetary policy. If the economy is strong and competitive enough, with efficient institutions and stable fiscal policy, the loss of monetary policy can be mitigated. However, Croatia's decision to join the euro area is hasty, as if the country just wanted to join a prestigious club. This lack of preparedness could have major negative effects on one of the least competitive economies in the EU.

Keywords: Croatia, the euro, monetary union, fiscal policy

Összefoglalás: *Habár az Európai Unió legújabb tagállama, Horvátország 2022 májusában teljesítette a maastrichti konvergenciakritériumokat, az ország nem teljesítette az államadósság mértékére vonatkozó előírást. Jelen tanulmány Horvátország euróövezethez csatlakozási felkészültségét elemzi a maastrichti kritériumok teljesítésén túl. Míg a monetáris uniós tagságnak vannak pozitív oldalai, az ország a közös fizetőeszköz bevezetésével elveszíti gazdasága irányításának egyik legfontosabb eszközét, a monetáris politikát. Ha a gazdaság elég erős és versenyképes, illetve hatékony intézményekkel és stabil fiskális politikával rendelkezik, a monetáris politika vesztesége mérsékelhető. Horvátország euróövezeti csatlakozási döntése azonban elhamarkodott, mintha az ország csak az eurózóna jelentette „tekintélyes klubhoz" kívánna csatlakozni. A felkészültség hiánya komoly negatív hatásokkal járhat az EU egyik legkevésbé versenyképes gazdaságára nézve.*

Kulcsszavak: *Horvátország, euró, monetáris unió, fiskális politika*

INTRODUCTION

The European Union (EU) has gone through different stages of development in its history, transforming from free trade area into a customs union of twenty-seven member states. Nineteen member states form a monetary union, the euro area, which means that they share a single currency and monetary policy. The next enlargement of the euro area will be on 1 January, 2023, as Croatia will become the sixth Central and Eastern European (CEE) member state[1] to adopt the euro as

1 The CEE countries are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

its currency. Croatia is a small, open economy that joined the EU in 2013, after a transition process that had lasted more than two decades. The country declared independence from Yugoslavia on 25 June, 1991. Between 1991 and 1995, Croatia was at war with Serbia, which prolonged its transition process. Even though it had time to transform to a market economy, Croatia was not mature for membership, and it is the second-poorest country and the country with the second-lowest living standard in the EU, after Bulgaria. The country fulfilled the Copenhagen criteria for accession, but the criteria are too technical and only define what a future member state must do in order to join the EU. Fulfilling the criteria should prepare a country for becoming a functioning EU member state that can cope with the pressures of membership, and it assumes convergence. However, it does not guarantee it. Therefore, based on its performance since the accession, it seems that Croatia rushed to join the EU not because it was ready but because it was a matter of prestige to be a member of a big club, and the country is making the same mistake again.

As part of its accession agreement, Croatia, just like all new member states[2], is obliged to adopt the euro as its currency at some point, when it is ready, and the aim of this analysis is to assess the country's readiness to join the euro area. In order to join the euro area, all countries must fulfil the Maastricht criteria on price stability, exchange rate stability, convergence of financial markets, and sound and sustainable public finances. According to the 2022 Convergence Report, Croatia did not fulfil the criterion on sustainable public finance, since its general government debt is above 60 percent of GDP (for more details, see p. 6). Since the Maastricht criteria are simply reference values that must not be exceeded, it is necessary to analyse the readiness of a country using a more qualitative approach.

As it will be shown, monetary union membership has many positive sides if a country is prepared and strong enough for it. However, if a country is underperforming, the shortcomings of membership can outnumber the benefits. The Croatian economy is among the least competitive in the EU, and it is vulnerable to exogenous shocks. Its institutions are inefficient, with a high degree of corruption and low protection of the rule of law. As such, it is not expected to benefit from a single currency, since the country will lose its monetary policy, and its fiscal policy is in jeopardy due to a lack of efficiency.

THE HISTORY OF THE EUROPEAN MONETARY UNION

The first attempt at forming a monetary union in the European Community (EC) took place in the 1970s. In December 1968, the Council "recognized the need for fuller alignment of economic policies in the Community and for an examination of the scope for intensifying monetary co-operation". In 1969, the six founding

2 The new member states are the countries that joined the EU in 2004, 2007, and 2013.

member states decided that the EC should be transformed into a monetary union. A committee led by Pierre Werner presented what would later come to be known as the Werner Report in October 1970. The report was endorsed by the European Council in February 1971. The formation of a monetary union was supposed to go through different stages, but only the first stage was described in the report in detail. The first stage was supposed to last between 1971 and 1974, with the main operation focusing on stepping up the coordination of economic policies. Even though some progress was made during this stage, the Nixon shock, the first oil shock, and the first enlargement (with Denmark, Ireland, and the United Kingdom in 1973) were the reasons why the 1971 venture failed. In 1979, the European Monetary System (EMS) was launched, built on a system of exchange rates used to keep participating currencies within a narrow band. The EMS was a new approach that represented a coordination of monetary policies between EU countries. The EMS operated for over a decade. In 1988, a committee chaired by President of the European Commission Jacques Delors and composed of the governors of the EC national central banks was formed. In 1989, the committee produced the Delors Report on how the European Economic and Monetary (EMU) could be achieved through a three-stage preparatory period for economic and monetary union and establishing the euro area, between 1990 and 1999. European leaders accepted the recommendations in the Delors Report. The new Treaty on European Union, which contained the provisions needed to implement the monetary union and the membership criteria, was agreed on in Maastricht in December 1991 and signed in February 1992.

The euro was introduced in its physical form on 1 January, 2002, when twelve EU member states[3] adopted it as their currency. The currency was developed in three stages. In the first stage, which lasted between 1990 and 1993, all restrictions on the movement of capital between the member states were abolished. The second stage lasted between 1994 and 1998. The European Monetary Institute (EMI) was established on 1 January, 1994 with the two main tasks to:

- strengthen central bank cooperation and monetary policy coordination;
- make the preparations required for the establishment of the European System of Central Banks (ESCB), for the conduct of the single monetary policy, and for the creation of a single currency in the third stage.

At this stage, it was decided that the name of the currency would be the 'euro' and that the economies should be brought closer together, i.e. economic convergence should be strengthened. The new exchange rate mechanism (ERM II) was adopted in June 1997.

The final and still ongoing stage started on 1 January, 1999. The exchange rates of the currencies of the eleven member states initially participating in the monetary union were irrevocably fixed and a single monetary policy was

3 The twelve member states that first adopted the euro as their currency were Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

started to be conducted under the responsibility of the European Central Bank (ECB). Among the fifteen EU member states at the time, Denmark and the United Kingdom had an opt-out clause, meaning that they decided not to introduce the euro as their currency, while allowing the rest to go on with the single currency as an EU project. The single currency was too controversial in both countries. Denmark subsequently tested the decision in a referendum in 2000, and the majority voted against introducing the euro. However, the Danish krone is part of the ERM II mechanism, and it is pegged to the euro. Sweden did not decide to follow the same path, the country is included in the convergence reports (according to which the country fulfils four out of five convergence criteria[4]), but it does not use the euro, nor is it planning to do so in the near future. Sweden held a referendum on euro area membership in September 2003, and 55.9 percent voted not to adopt the euro. Had the majority voted in favour, Sweden would have adopted the euro as its currency on 1 January, 2006. The new member states of the EU do not have an option of using an opt-out clause, i.e. all of them will have to join the euro area eventually. The first country to do so was Slovenia in 2007, within the shortest possible period for joining, less than three years after EU accession[5].

In May 2022, when the last convergence report was published, it was announced that Croatia, which had joined the EU in 2013, has fulfilled the Maastricht (convergence) criteria, and that it was ready to join the euro area on 1 January, 2023. On 12 July, 2022, Croatia was officially accepted in the EMU. Bulgaria is expected to join the euro area next, since the country participates in ERM II, but according to the May 2022 Convergence Report, it has failed to meet the Maastricht criteria so far.

In order to join the EMU, EU member states have to fulfil the Maastricht (convergence) criteria, which include:

- The criterion on price stability – the average (annual) inflation rate must not exceed the average of the three best performing member states by 1.5 percentage points;
- The criterion on durability of convergence – long-term interest rates must not be more than 2 percentage points above the rate of the three best performing member states in terms of price stability;
- The criterion on sound and sustainable public finances – government deficit must not exceed 3 percent of GDP, and general government debt must not exceed 60 percent of GDP;
- Exchange rate stability – the country must participate in ERM II for at least two years without severe tensions, in particular without devaluing against the euro.

4 Sweden does not participate in ERM II; therefore, it does not fulfill this particular criterion.

5 Cyprus and Malta joined the euro area in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014, and Lithuania in 2015.

CHALLENGES FOR THE EURO AREA – IS MAASTRICHT 2.0 NEEDED?

While fulfilling the criteria was not an issue for the old EU member states (the countries that joined before 2004), it has been challenging for the new member states. The new member states are, except for Cyprus and Malta, former socialist countries that went through a transition recession in the 1990s. One of the characteristics of the socialist system was that prices were determined by the central government, and after they were liberalized in the early 1990s, the countries experienced high inflation, some even hyperinflation, which started to stabilize in the mid-1990s. The only time Slovenia fulfilled the Maastricht criterion on price stability was in 2006, and it joined the EMU a year later. The inflation rates in the Baltic States (Estonia, Latvia, and Lithuania) have always been among the highest in the EU. In May 2022, the average rate in the euro area was 8.1 percent. The three Baltic countries recorded rates of 20.1 percent (Estonia), 16.4 percent (Latvia), and 18.5 percent (Lithuania), Estonia having the highest rate in the EU.

When a country joins a monetary union, it loses its independent monetary policy, which is especially important during a crisis period – a country can make its products more competitive by devaluing its currency. This is not just an economic issue but also a political one, since countries lose some parts of their sovereignty, and they do not get to decide about their monetary policy anymore. Paul de Grauwe, among others, argues that the euro area debt crisis was due to the loss of monetary sovereignty. Since the EU is a single market where member states are usually each other's main trade partners, and the EU has taken more steps towards a political union than any other integration in the world economy, monetary union membership has its positive aspects. The benefits of adopting the euro as a currency are the following:

- Increased transparency - prices can be easily compared between countries, which boosts competition among businesses, thereby benefiting consumers;
- Price stability;
- It is easier, cheaper, and safer for businesses to buy and sell within the euro area and to trade with the rest of the world;
- Improved economic stability and growth;
- Better integrated and more efficient financial markets;
- Greater influence in the global economy;Increased trade and tourism in the euro area.

The obvious cost of a monetary union is the loss of national monetary policy. Other costs include:

- Higher inflation rates;
- Transition costs (estimated at 0.5 percent of GDP in Croatia);
- Economic shocks can spread rapidly from one member to another;
- Price monitoring and other non-financial sector measures.

A country will be better off as a member of a monetary union as long as benefits outnumber costs. The costs of a monetary union also depend on how effective fiscal policy is in counteracting asymmetric real disturbances. This is another challenge for the euro area – fiscal policy is not harmonized. Not only is the EU budget small, but the countries also have different tax rates, as well as a range of different taxes, general government debt, and budget deficit rates. The example of Greece showed that the financial crisis lasted much longer than in other member states due to fiscal irresponsibility. The country had to be saved by other member states, which means that when one country in a monetary union is in danger, the others must help, or the entire union will be in jeopardy. Croatia is the newest member of the EU, but it will join the euro area before some other CEE countries. Bulgaria is already participating in ERM II, and if it fulfils the Maastricht criteria, it could adopt the euro in January 2024, but Czechia, Hungary, Poland, and Romania have no intention of joining any time soon, nor do they fulfil the Maastricht criteria. Some could say that these countries are Eurosceptic, and that they do not want to participate in a deeper integration. Euroscepticism has increased in the previous years, one cause of which was the Eurozone crisis in 2012-2013, and therefore the countries must be cautious. However, they could also see the effects of monetary union membership on weaker economies in the EU, namely Italy, Greece, Spain, Portugal, and Ireland.

One of the main problems for the euro area is the structure of the EU. There are twenty-seven countries with different backgrounds, both in terms of politics and economy. Eleven member states have had to transform from centrally planned to market economies. Even though they have made progress, the consequences of the previous system are still apparent through higher inflation rates and less efficient institutions. The above-mentioned countries that were hit by the crisis had structural issues even before joining the euro area, as they were among the poorest regions that always needed financial assistance from the EU funds. Greece even admitted to having misrepresented significant data before joining the euro area. Countries also pursue different monetary policies, for example, Germany prefers a contracionary monetary policy (its main goal is to decrease the inflation rate through the reduction of the money supply and an increase in interest rates, leading to slower economic growth), while France prefers an expansionary monetary policy (stimulating demand and subsequently economic growth through an increase in the money supply, lower interest rates, and higher inflation rates). Each monetary policy can suit countries that have a similar background and economic performance, which is not the case in the EU.

Another problem in the euro area is the process of joining the monetary union. As it was mentioned, the countries must fulfil the Maastricht criteria in order to achieve nominal convergence and join the euro area. However, the Maastricht criteria, which were defined in 1991 and are now obsolete, are quantitative. There have been initiatives to update and improve the monetary union enlargement process by adding more criteria, some of them qualitative and focusing on competitiveness. One initiative from the Hungarian National Bank (Magyar Nemzeti Bank – MNB) proposed criteria needed for accession in the 21st century and a successful euro area. These criteria include existing ones but also focus on real and wage convergence, business cycle synchronization, competitiveness, and the labour market.

The Maastricht criteria define what countries must achieve to join the euro area. But what about after a country has joined? There are no regulations that certain reference values must be maintained. For example, the ECB recommends that the inflation rate should be around 2 percent. If the country does not fulfil it, which has happened to all new member states, there is no mechanism of sanctions. Therefore, after a period of discipline, countries can go back to their previous behaviour.

EMU member states must achieve structural convergence if they want to maximize the benefits and minimize the costs of monetary union membership. Part of the responsibility lies with the EU institutions that have not modernized or changed the criteria since 1991. If the criteria for EU enlargement have changed and are modified according to the situation in a specific country, a similar approach could be a solution for a better functioning monetary union. After all, the stakes are higher with deeper integration.

IS CROATIA REALLY READY TO JOIN THE EURO AREA?

Croatia is set to join the euro area on 1 January, 2023. Economists and politicians are divided into two groups: those who support and those who are against membership. Opinion polls are contradictory. Some show that only about 30 percent of citizens whose lives will be affected the most by the adoption of the euro think that Croatia is ready to adopt the currency. The main reason behind the refusal is that 86 percent of people think that there will be a silent increase of prices. Some are also afraid of losing monetary sovereignty. In 2021, the Croatian National Bank (Hrvatska narodna banka – HNB) conducted a survey that showed that 45 percent support the adoption of the euro (the rate had increased by 4 percentage points compared to 2020), only 19 percent opposed, and 26 percent were against or in favour, depending on other factors.

While the (right-wing) government is in favour of adopting the euro, the right-wing party Hrvatski suverenisti (Croatian Sovereigntists), which is in the opposition, is against it, since they believe that joining the euro area will have a negative effect on the poorest citizens and pensioners due to inflation.[6] In 2021, the right-wing opposition asked for a referendum, but they never collected enough signatures to hold one. The left-wing opposition, Zeleno-lijeva koalicija (Green-Left Coalition) is also against EMU membership, as they believe that the citizens do not have enough information and that Croatia does not have a long-term strategy.

In order to prevent price increases, Croatia passed the Law on the adoption of euro on 13 May, 2022. According to this law, prices will be expressed in both kuna, the national currency, and the euro as of 5 September, 2022. The dual system will be extended to the year 2023.

Croatia will join the euro area in 2023 even though it did not fulfil the Maastricht criteria (see Table 1). Croatia has a stable monetary policy, and the main goal of the central bank is to keep inflation stable, a goal it shares with the ECB. Except for 2013, the country has fulfilled the criteria on price stability and interest rate convergence since it joined the EU. However, the fiscal Maastricht criteria tell a different story. The country fulfilled the criterion on budgetary positions in the period 2016-2019, during which it only recorded a small surplus in 2017. When the Covid-19 pandemic started, the budget deficit peaked at 7.3 percent, but it shrunk to 2.9 percent in 2021, just enough to fulfil the criterion and enable Croatia to join the euro area. On the other hand, Croatia has never fulfilled the general government debt criterion, and it has never even come close to the reference value of 60 percent of GDP. The lowest rate was in 2019, at 71.1 percent, peaking at 87.3 percent during the pandemic. In 2021, it lowered to 79.8 percent. Even though the country does not fulfil the criterion, it was approved by the European Commission for EMU membership in May 2022 because the debt rate declined by 7.5 percentage points compared to the previous year and respected the debt reduction benchmark, thus implying compliance with the debt criterion. A responsible decision would be for Croatia to postpone the accession until it is completely ready, if it does not want to become a new Greece. The criteria exist for a reason, i.e. to provide a certain degree of convergence, and the country is obviously not ready for membership. This leads back to the reason why some countries decide to join any form of integration even if they are not mature for membership – it is only important to join a prestigious club.

6 Advocates state that introducing the euro will have minimal effect on prices.

Table 1.
The Maastricht criteria in Croatia

		2013	2014	2015	2016	2017	2018	2019	2020	2021
Inflation rate	Croatia	2.3	0.2	-0.3	-0.6	1.3	1.6	0.8	0	2.7
	Reference value	1.5	0.4	0.3	0.3	2.1	2.3	2.0	2.5	3.0
Interest rate	Croatia	4.68	4.05	3.55	3.49	2.77	2.17	1.29	0.83	0.45
	Reference value	8.15	7.43	7.57	5.12	3.32	4.44	3.77	2.39	2.54
Budget deficit/ surplus	The reference value – 3 percent of GDP	-5.5	-5.5	-3.4	-0.9	0.8	0	0.2	-7.3	-2.9
General government debt	The reference value – 60 percent of GDP	80.3	83.9	83.3	79.8	76.7	73.3	71.1	87.3	79.8

Source: Author's calculations based on European Commission data

By joining the euro area, Croatia is losing a well-functioning instrument, i.e. its monetary policy. As John Maynard Keynes says, in cases where monetary policy is ineffective, governments can rely on fiscal policies, either by increasing expenditures or by cutting taxes to help stimulate aggregate demand. The problem is that Croatia already had an effective monetary policy and a less effective fiscal policy. The need for fiscal discipline is even stronger in a monetary union, and member states retain responsibility for their fiscal policies. There are no longer national monetary and exchange rate policies to respond to country-specific shocks, and fiscal policies can better cushion such shocks if they start from a sound position, which is evidently not the case in Croatia.

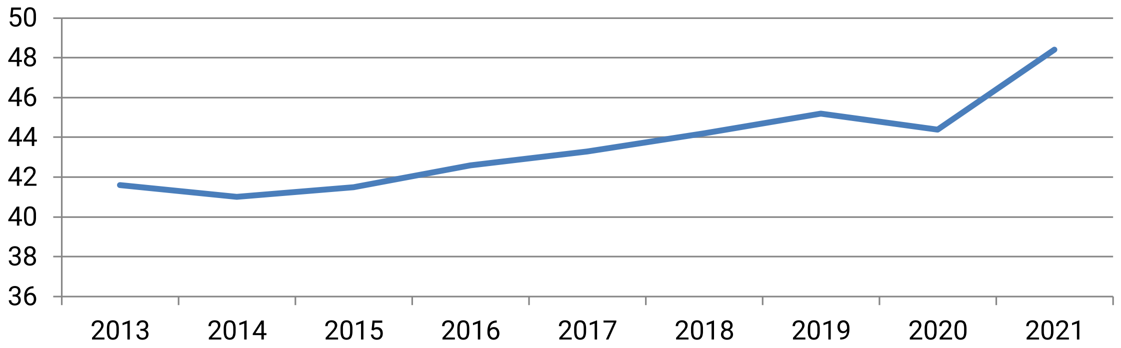
One of the aspects that has a negative impact on the Croatian fiscal policy is inefficient institutions. Croatia has suffered from a high level of corruption, control of corruption in the country is the fifth lowest in the EU, while the level of the shadow economy is the fifth highest in the EU, at 23 percent of GDP. On the fiscal front, less corruption means lower revenue leakage and less waste in expenditures, as well as higher quality of public education and infrastructure. The Corruption Perception Index (CPI) is the fourth lowest, while the rule of law protection ranking is the third lowest in the EU. The Voice and Accountability Index, which captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media, is the fourth lowest. While macroeconomic stability is present in Croatia, the country has not achieved microeconomic and institutional efficiency, which is necessary to achieve fiscal sustainability.

IS CROATIA CONVERGING TOWARDS THE EU AVERAGE?

One of the goals of a single monetary policy is to achieve faster real convergence, i.e. that poorer countries grow faster than richer countries and eventually reach the same steady state. Ever since Croatia joined the EU, its economy has been growing at a faster rate than that of the old Member States. However, it has not been growing faster than most CEE countries. While in 2016 only Romania achieved a higher growth rate, and in 2021 Croatia was the fastest-growing economy in the EU, it was also the country that was hit by the Covid-19 crisis the hardest. The trend has been that up to five out of eleven CEE countries had slightly lower growth rates compared to Croatia. In 2020, Croatia had the third lowest per capita GDP in the EU, after Greece and Bulgaria.

Croatia has been catching up with the EU average since its accession, but not sufficiently (see Chart 1). The country's per capita GDP increased from 41.6 percent of the EU average in 2013 to 48.4 percent in 2021, due to a fast recovery process from the crisis caused by the Covid-19 pandemic. It is not obvious whether the trend will continue, considering that in 2019 Croatia's per capita GDP was only 45.2 percent of the EU average.

Chart 1.
Croatia's convergence process towards the EU average[7]



While growth accelerated in the CEE countries after their accession, this was not the case with Croatia. The highest GDP growth rate was recorded in 2017, at 4.5 percent. For comparison, Czechia, Estonia, Lithuania, Poland, Romania, and Slovenia had higher rates in the same year.

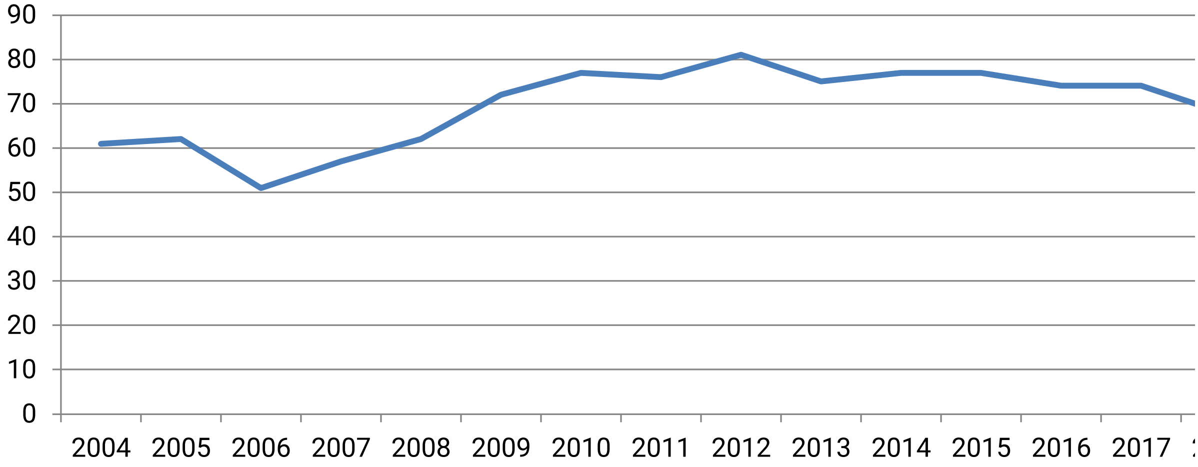
There are several reasons for a slow convergence process. First, Croatia's labour productivity is lower than in the EU, and the gap has been widening, decreasing from 72.2 percent of the EU average in 2013 to 71.7 percent in 2021. The composition of the country's GDP is another reason why it has not grown faster. The agricultural sector comprises only 2.9 percent of GDP, followed by the industrial sector (20.3 percent), and services (76.8 percent). The share of tourism in GDP is 20 percent. The current and capital account of Croatia's balance of payments showed a surplus of EUR 4.7 billion in the third quarter of 2021, which was an increase of EUR 2.5 billion compared to the same period of 2020, mostly due to a sharp rise in tourism revenue. Croatia is a highly export-oriented country that relies on the export of services, especially tourism; therefore, it is vulnerable to external shocks. Its vulnerability was shown in 2020, when the borders closed due to the Covid-19 pandemic. Croatia's main trade partner is the EU, and it trades mostly with Slovenia, Italy, and Germany. Intra-EU trade comprises 69 percent of total trade. The ratio of manufactured to primary goods in the exports of goods is 1.8. The country has recorded a trade deficit with the EU that has been increasing since 2002. Adopting the euro is justifiable in this case, as the country's main trade partners are also members of the euro area, and it will make trade more stable and transparent.

In order to take advantage of integration, a country must be competitive, and Croatia is not (yet). One of the benefits of monetary union membership should be that prices are easily compared between countries, which

7 The vertical line indicates Croatia's per capita GDP as a percentage of the EU average.

boosts competition between businesses, thereby benefiting consumers. In theory, this should be beneficial, but in practice, consumers will suffer because of a lack of competitiveness. This is a structural problem because Croatia was the least competitive country in the EU in 2019 (see Chart 2) and ranked 63rd out of 141 countries in the world. Its position improved somewhat at times over the years, although comparing 2004 and 2019, it ranks almost the same.

Chart 2.
Croatia's position in the Global Competitiveness Index, 2004-2019



Therefore, is Croatia ready to join the euro area? The short answer is no. The country has not fulfilled the basic criteria for membership, but it is still pursuing it. It should have learned from the experience of weaker than average economies what monetary union membership can do to an economy. Even the great economist and Nobel laureate Joseph Stiglitz has warned Croatia about the shortcomings of EMU membership. Stiglitz advised Croatia to take some more time before the changeover to the euro, believing that the disadvantages could outnumber the benefits due to the ongoing geopolitical risks because a single currency deprives a country of two important instruments essential in adjusting a national economy to shocks: the possibility of adjusting the exchange arrangements and changing interest rates.

CONCLUSION

Irrespective of the economic criteria, joining the EMU is always a political decision both in the country joining it and in the EU. Croatia is not ready to join the EMU. The country's economy is not strong or competitive enough to benefit from a single currency. Also, Croatia did not even fulfil the Maastricht criteria, and it still decided to join the monetary union. However, the European Council gave a green light for Croatian euro area membership in July 2022.

It is evident that Croatia will continue with the adoption of the euro, as the necessary steps to do so have been undertaken. The country is already less competitive than other Member States, and now it is losing a tool that could increase the competitiveness of its product – the devaluation of the national currency. What Croatia will have to do is maintain restrictive fiscal policy in order to decrease the budget deficit and turn it into a surplus, in case there is another financial crisis. There have already been three major crises since 2008, and we can be sure that there will be more, especially if the war in Ukraine continues for a longer period of time. The country must maintain a surplus and increase taxes, or at least not decrease them even though the fiscal position is stable.

Another 'problem' that Croatia will have to deal with once it has joined the euro area is what will happen to the main prize in the quiz "Who Wants to be a Millionaire?". So far, the prize has been HRK 1,000,000, or EUR 133,069. The national TV has stated that the name of the show would remain the same, but the prize will be adapted to local circumstances. The country will need a lot of this kind of flexibility.