



HNB

Macroeconomic challenges and the Euro Area membership

11 October 2022

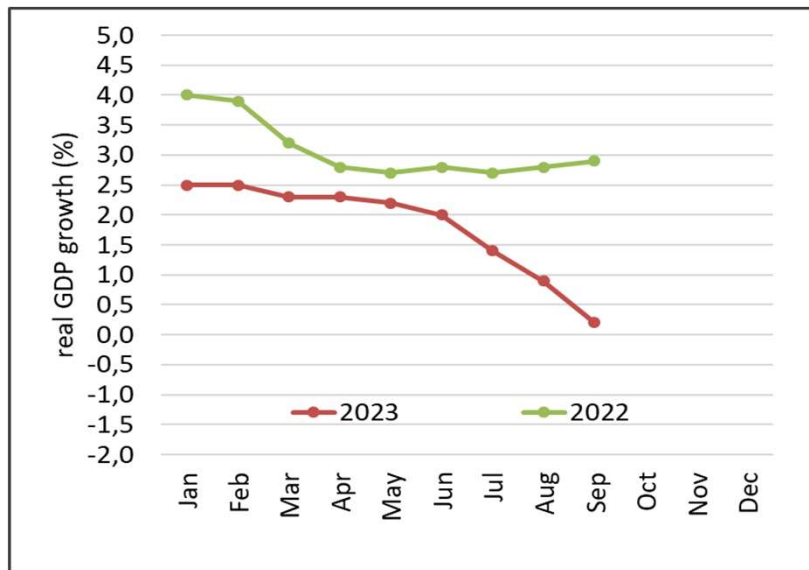
EU and US Perspectives: New Directions for Economic Policy Conference

Boris Vujčić, Governor

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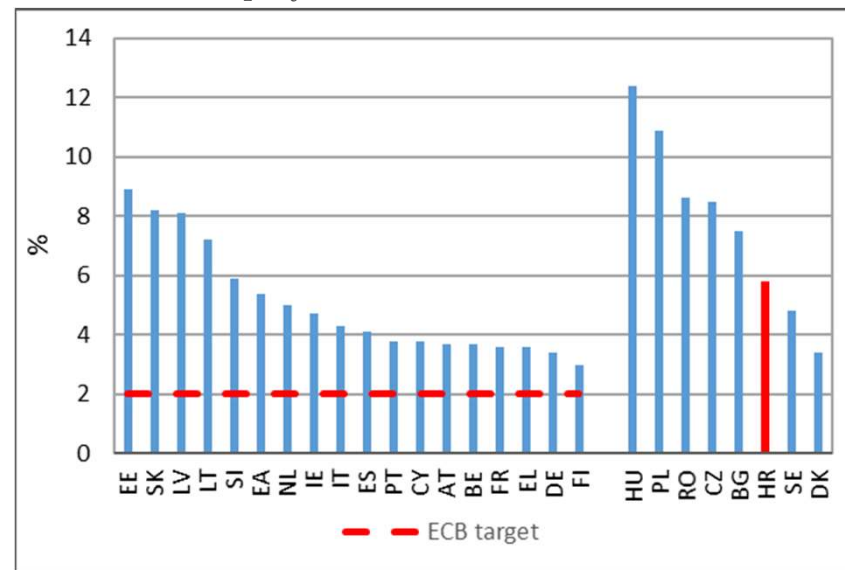
Severe slowdown in economic activity set against a rapidly deteriorating inflation outlook

GDP forecasts for the euro area



Source: Consensus Forecast, September 2022

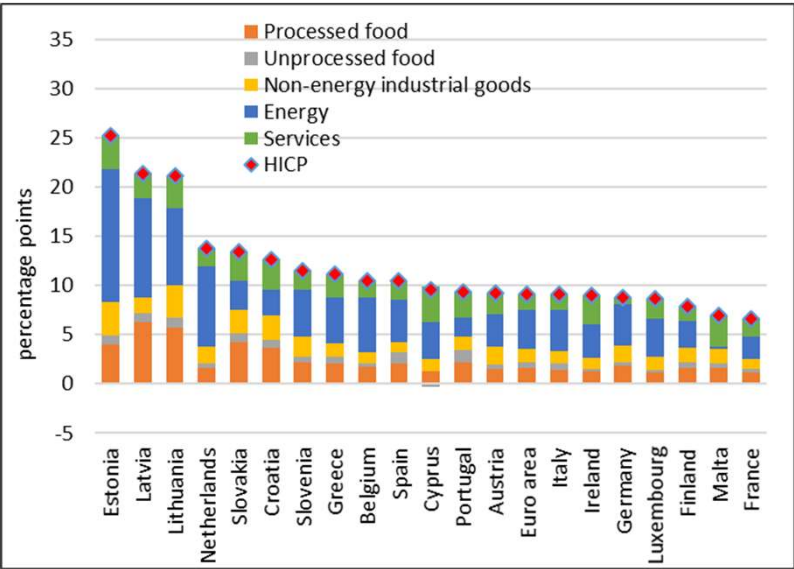
HICP inflation projection for 2023 in EU countries



Source: Consensus Forecast, September 2022

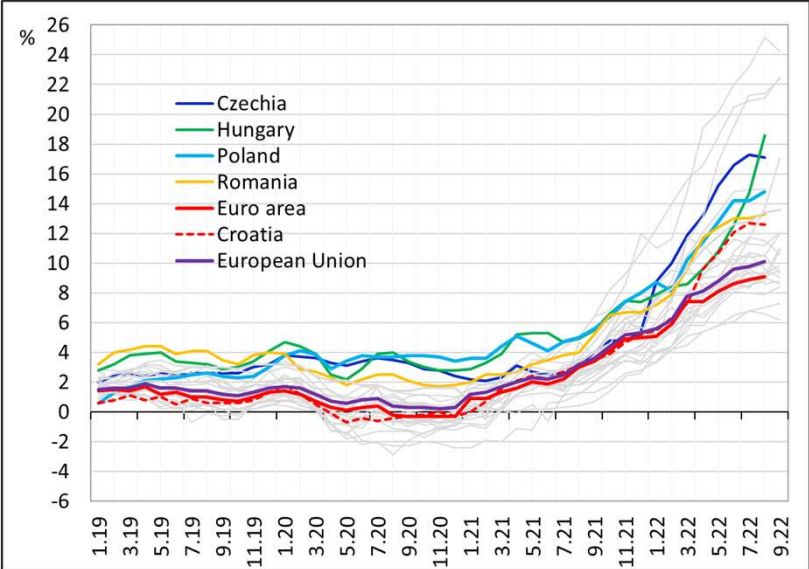
Dispersion in inflation across Europe driven by diverging effects of energy and food prices shock...

Contributions to inflation, August 2022



Source: Eurostat

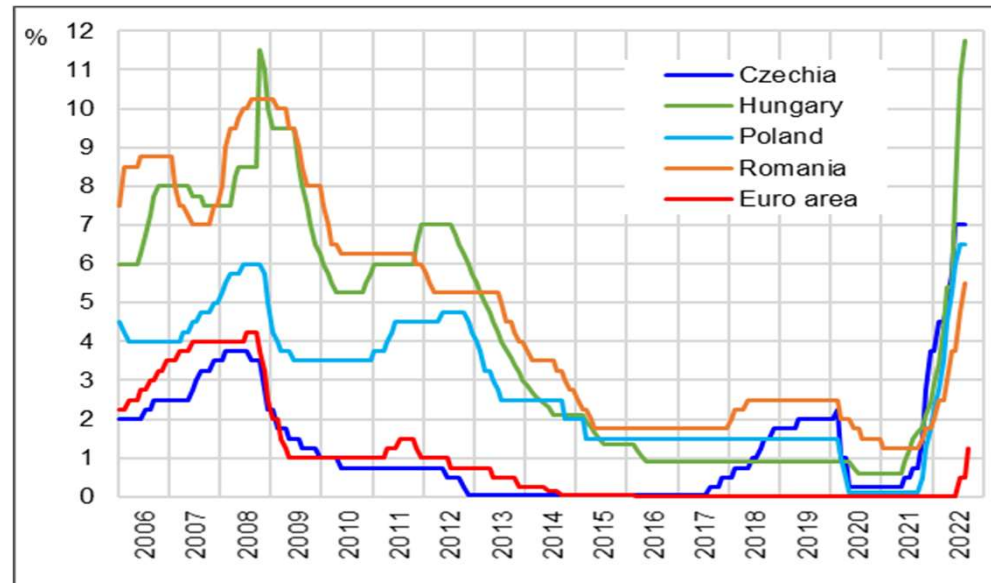
HICP inflation dispersion across EU member states



Source: Eurostat

...prompting different dynamics in monetary policy adjustment

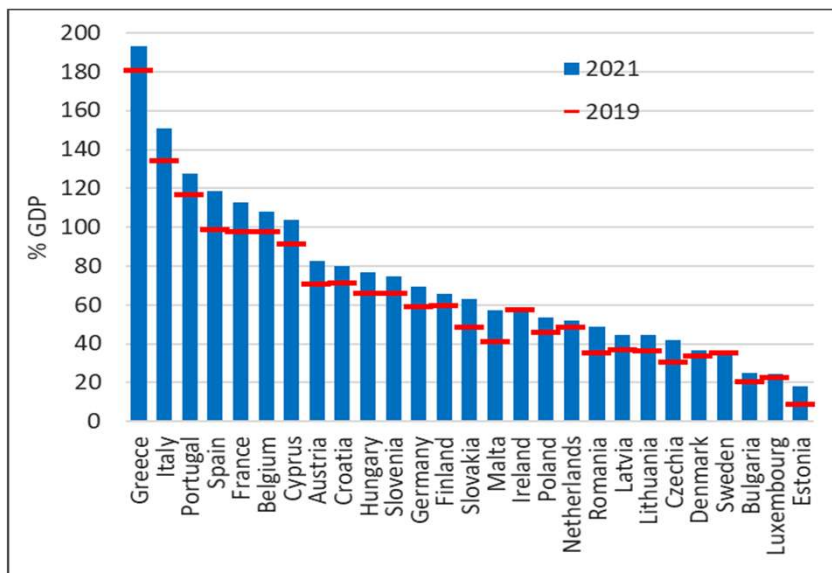
Central bank policy rates



Source: BIS

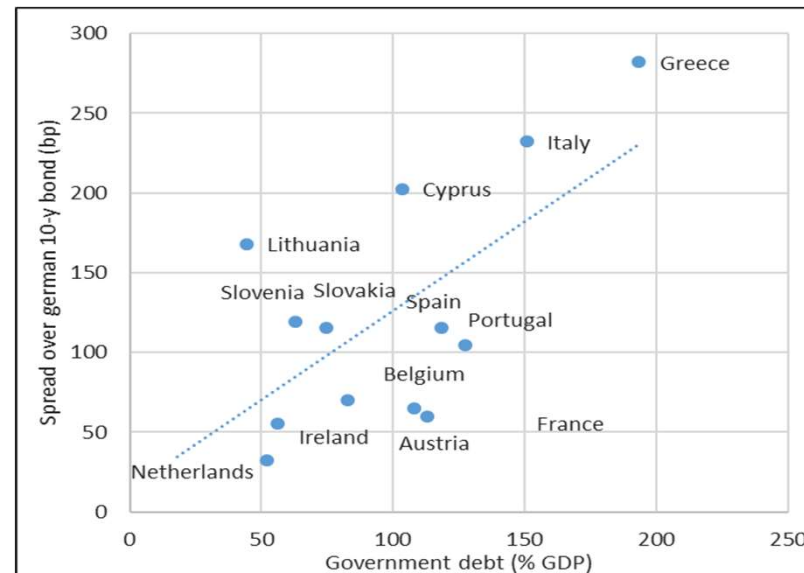
Tightened monetary policy and heightened uncertainty raises concerns over debt sustainability ...

General government debt



Source: Eurostat

Government debt and yield spreads

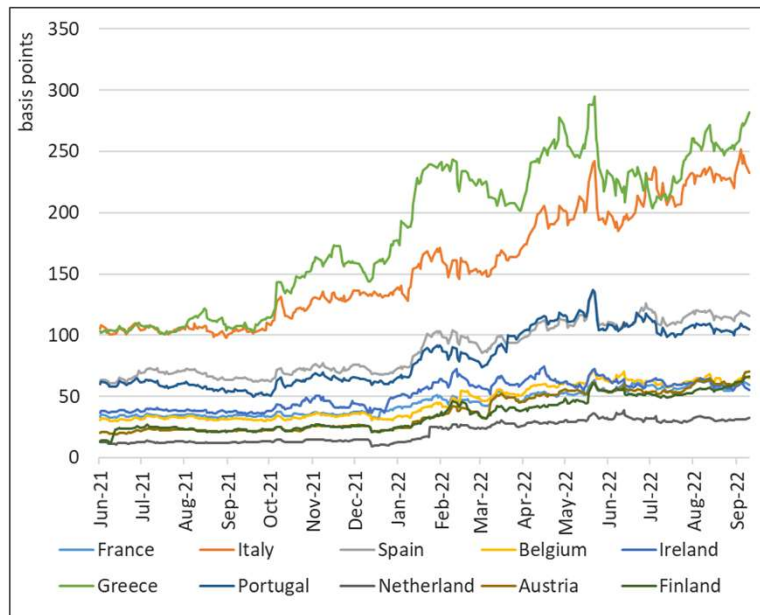


Note: Yield spreads as of October 4, 2022. Government debt at end-2021.

Source: Bloomberg, Eurostat

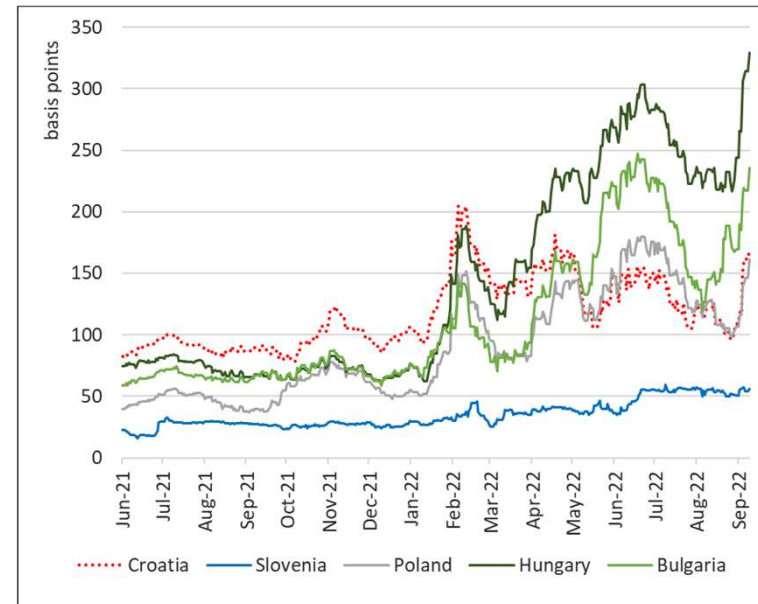
... and spurs yield dispersion

10-year sovereign debt yield spreads, EA member states



Source: Bloomberg

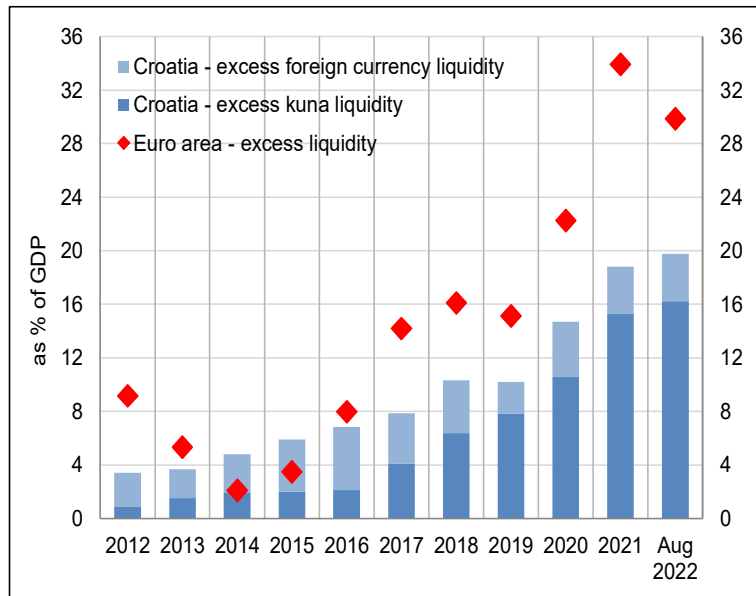
10-year sovereign debt yield spreads, non-EA members



Source: Bloomberg

Euro area membership already improves Croatia's risk profile and mitigates the increase in cost of funding

Surplus liquidity – Croatia vs the euro area



Source: CNB

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The benefits from currency risk reduction are substantial and policy harmonization results in additional liquidity

- **FX risk almost completely eliminated (high share of FX and FX indexed bank placements)...**
- **Lower regulatory costs for banks**
- **Higher liquidity for the system (lower reserve requirements and the abolition of the obligation for foreign currency claims holdings adds EUR 10bn to the system)**

Thank you for your attention!