

Croatia adopts the euro

This Month in the Economy Exercise

Instructor's Guide

This Month in the Economy Exercises

These teaching packs are designed for 30-minute (online or offline) sessions that can be included within any lecture or tutorial class. They are designed to be suitable for university students, but could easily be adapted for higher or lower levels. Every month, we will publish at least one exercise that you can use to engage your students with current events. The main aims of these exercises are to give students practice in relating economic ideas to the real world and their own lived experiences.

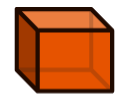
Newspaper articles or videos are used as the entry point to an economic topic, which is then expanded upon by the instructor before the students are broken into small groups to engage in an activity. This will help students to develop the skills required to work as economists in the real world, and all the materials you need are provided for you. These teaching packs are published as creative commons (CC BY) and can be freely used and adopted.

The economics of Croatia adopting the euro

Croatia adopted the euro as its currency on 1 January 2023, becoming the 20th member state of the eurozone. In this teaching pack, students learn what it entails to join the eurozone and discuss what its effects might be. In this way, the case helps students connect theoretical insights about monetary unions with real world knowledge and economic developments in the news.

Lesson Plan

Learning Objectives		
<ul style="list-style-type: none"> • Understand what joining the eurozone entails for a country • Being able to discuss the potential effects of Croatia joining the eurozone 		
Transferable Skills Developed		
<ul style="list-style-type: none"> • Analyse concrete economic realities • Connect theoretical insights with real world knowledge • Develop researching skills having to find answers quickly to complex questions 		
Prior to session		
<p>Students should read the selected article about Croatia joining the Eurozone.</p> <p>The instructor should prepare the slides and the breakout rooms for the group exercise if online.</p>		
Plan of Activities		
Duration	Teacher Activity	Student Activity
5 min	Introduce the topic, the Croatian economy and the convergence criteria (slides 1 to 4)	
10 min	Instruct students (in groups of 2 or 3) to find out how Croatia met the convergence criteria (slide 5)	Research the Croatian adoption of the euro
5 min	Explain the arguments for and against and application process of joining the eurozone (slides 6 and 7).	
10 min	Instruct students (in groups of 2 or 3) to discuss how the adoption of the euro influences tourism, trade and fiscal policy (slide 8)	Discuss the effects of the adoption of the euro
Total: 30 min		



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Student preparation work

Before the exercise, students should read [Eurozone gains new member and top student: Croatia](#).

The instructor can also recommend students other articles such as:

- [Croatia, the euro and a coffee controversy - but is it all just froth?](#)
- [Croatia anticipates economic boost as it prepares to adopt euro](#)
- [Why Croatia Sees Joining the Euro as Path to Security](#)

Presentation by the instructor

Here we give more information on the presentation about the adoption of the euro in Croatia. Instructors are always free to add or subtract points from slides if there are other aspects they would like to stress.

Slide 2: Eurozone gains new member and top student

Slide 2 is to present the news about Croatia and the reading, as well as prepare students what to expect from this exercise and what its learning objectives are. The slide also shows the new euro coins that have been minted representing respectively the map of Croatia, a marten which in Croatian is *kuna*, the engineer Tesla, and the mediaeval Glagolitic script. Additionally, it could be useful for the students to learn that Croatia not only joined the eurozone, but also joined:

- The Schengen Area (free travel zone without border controls)
- European Stability Mechanism (emergency fund that lends to countries in financial difficulties)
- The Banking Union of the European Union (banking supervision and resolution system)

Slide 3: Croatian economy in a nutshell

Slide 3 gives a brief overview of Croatia's economy. This is only meant to give students some grasp of the characteristics of Croatia. Firstly, similarly to other EU countries, it is a mostly services based economy. The greatest share of the services industry is held by tourism. It plays an important role for their economy with [20 million tourists](#) visiting their country every year, making up 20 percent of their GDP. In terms of trade, their [main](#)



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[trading partners](#) are located within the EU, such as Germany, Italy, Slovenia, Austria, and Hungary, or members of the Central European Free Trade Agreement (CEFTA), such as Serbia and Bosnia and Herzegovina. Croatia has a relatively low median income compared to other EU members, being only higher than that of Romania, Bulgaria, and Hungary. From its introduction in 1994, the Croatian Kuna has been (semi-)pegged to the German mark and the Euro (when it was introduced).

Slide 4: How to join the eurozone: Convergence criteria

The [convergence criteria](#) are central to the process of adopting the euro and are the focus of this slide. The aim is that students have a basic understanding of the different criteria that countries have to meet in order to join the eurozone. Instructors can decide whether they want to include all or some of the criteria in the explanation on slide 4 and the exercise on slide 5.

Slide 5: Exercise: How did Croatia meet the convergence criteria?

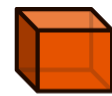
Here the first student activity is introduced (see below).

Slide 6: Arguments for and against joining the eurozone

Depending on the level and course this teaching package is used in, one can explain arguments for and against joining the Eurozone in varying ways. If students, for example, have already learned about the idea of optimal currency areas, one could discuss whether Croatia meets the theoretical requirements of sufficient labour and capital mobility, price and wage flexibility, having a fiscal risk sharing system and having similar business cycles with the euro area.

Additionally, one could go into more or less detail about the arguments for and against joining the monetary union:

- Monetary policy
 - For: Boris Vujčić argues (as in the quote) that Croatia already did not have independent monetary policy.
 - Against: Croatia could and should have independent monetary policy that is set based on national trends and developments.
- Exchange rate
 - For: Exchange rate risk is eliminated → Lower trade and investment risk.



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- Against: Loss of the ability to appreciate or depreciate the currency based on national needs.
- Fiscal policy
 - For: Lower borrowing costs (the credit ratings of Croatian public debt improved when the adoption of the euro was approved).
 - Against: The eurozone has a deflationary bias as it limits expansionary countercyclical fiscal policy.

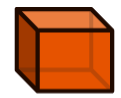
Finally, it could be relevant for the students to learn that there has been broad public support for the adoption of the euro in Croatia. In 2021 a coalition of right-wing eurosceptic political parties campaigned to "*Protect the Croatian Kuna*" with a referendum, but failed to get the minimum number required signatures of 10% of Croatian voters.

Slide 7: Application process

Here students learn how the practical process of the application of the euro went. When Croatia joined the European Union in 2013, the goal was to adopt the Euro by 2015 or 2016. There were, however, multiple delays because of the eurozone crisis and an increase in Croatian public debt and deficit because of the recession. After multiple delays, in 2019 the first official step was taken with a letter of intent by the Croatian ministry of finance and central bank. On 10 July 2020, Croatia joined the ERM II and pegged the Kuna to the euro at $1 \text{ kn} = \text{€ } 0.13$. From May to July 2022, the Croatian and European Parliaments, the EU Commission, European Council, and the Council of EU supported the plan. From September 2022, prices have been displayed in both currencies and during the first two weeks of January 2023 payments could be made in both currencies. In the years before 2023, many Croatian economic activities, such as saving, lending, and real estate transactions, already took place using euros. The cost of changing the currency is estimated by the Croatian Ministry of Finance at € 266 million, with the losses concentrated at banks that can no longer profit from the currency conversion business.

Slide 8: How does the adoption of the euro influence tourism, trade and fiscal policy?

Here the second student activity is introduced (see below).



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Student exercises

Slide 5: Exercise: How did Croatia meet the convergence criteria?

Students get 10 minutes in groups of 2 or 3 with their closest neighbours, or in online breakout rooms, to find out how Croatia fulfilled the criteria. For example learning that Croatia's fiscal deficit was 2.9% and was thus below the maximum of 3%. Or that Croatia was exempted from meeting the public debt criterion as it was 79.8% while the maximum was 60%.

It is a valuable skill to know how to find information, so it can be worthwhile to let students find the answers on their own. If one, however, thinks it would be better to help them by providing resources one could share the [official report](#) or the more accessible [overview on Wikipedia](#).

To close exercise the instructor could ask a few student groups to share with the rest of the class what they found and where they found the information, and which groups were able to find the answers for all the criteria.

Slide 8: How does the adoption of the euro influence tourism, trade and fiscal policy?

Students get 10 minutes in groups of 2 or 3 with their closest neighbours, or in online breakout rooms, to discuss how tourism, trade and fiscal policy change because of the adoption of the Euro. The goal here is to get students thinking actively about how joining the monetary union changes economic activities and to learn how to talk about this with fellow economists. One could use systems thinking and ask the students to map out the relationships between relevant factors and variables visually digitally or on a piece of paper. Additionally, instructors can give students some hints to get in the right direction with for example the concept of transaction costs.