

Enlargement of the Eurozone

Road Map to the Introduction of the Euro in Croatia

June 2022

Croatia entered the European Union on 1 July 2013, but 1 January 2023 should be the date when Croatia will actually enter the Eurozone. This means that the Euro (EUR) will become the official currency in Croatia and that the Croatian Kuna (HRK) will be consigned to history.

Our experts from Wolf Theiss Zagreb have summarised below the key information about the procedure and principles of conversion from HRK to EUR. We also outline the impact introduction the EUR will have on business relations with respect to (i) consumer protection, (ii) employment and relations with contractors, (iii) capital and securities, (iv) business books and financial statements, and (v) bank account and interest rates.

1 General Principles of Conversion

The Act on Introduction of the Euro as the Official Currency in Croatia which has recently been passed (**Act**) sets out the main principles that will govern the introduction of the Euro (**EUR**).

EFFECTIVE DATE: 1 January 2023 is expected to be the date of the introduction of the EUR in Croatia. This date is yet to be officially confirmed by the Council of the European Union and then officially published by the Croatian Government.

OFFICIAL EXCHANGE RATE AND CONVERSION: The Council of the European Union will set the fixed official exchange rate relevant for the conversion – it is expected that this will happen in the summer of 2022. As of the effective date (i.e. probably 1 January 2023), all amounts in HRK will be converted into EUR by applying the official exchange rate.

GENERAL CONVERSION RULES: The conversion will be performed by applying the total numerical amount of the official exchange rate while rounding off the calculated amount to two decimal places as follows:

- if the third decimal place is less than five, the second decimal place remains unchanged; and
- if the third decimal place is equal or higher than five, the second decimal place increases by one.

DUAL PRICE DISPLAY: Prices for goods and services will be indicated both in HRK and in EUR for a certain period before the introduction of EUR until the expiry of 12 months following the effective date i.e. end of 2023 is most likely. The start of the dual price display period depends on the exact date of the adoption of the official exchange rate, but 5 September 2022 is currently expected to be the start date.

DUAL CIRCULATION: Both EUR and HRK banknotes and coins will be allowed as a means of payment in a two-week period following the introduction of EUR. After that, only EUR banknotes and coins will be accepted for use.

CONTINUITY OF AGREEMENTS: The introduction of the EUR may not be used as an opportunity for renegotiation of contractual terms (especially any change of prices). The Act provides that amendments and/or termination of agreements will not be possible just because of the introduction of the EUR, unless otherwise agreed between the parties. Although practical difficulties may occur, no party in the contractual relationship should accept an amendment to the existing agreement or its termination solely on the grounds of the introduction of EUR. All amounts set in HRK will be simply considered as amounts in EUR by applying the official exchange rate under the general conversion rules.

EUR BANKNOTES AND COINS SUPPLY: EUR banknotes and coins supply will be regulated by:

- Indirect pre-supply agreement between companies and commercial banks for supply of EUR banknotes (at the earliest, four months before the effective date) and EUR coins (at the earliest three months, before the effective date);
- Statements on simplified indirect pre-supply given by micro businesses to the commercial banks for the purpose of EUR banknotes and coins supply in the maximum amount of EUR 10,000 (at the earliest five days before the effective date); and
- Initial packages of EUR coins supplied by the commercial banks to the companies (at the earliest one month before the effective date).

CONVERSION OF BANKNOTES AND COINS: Conversion of HRK banknotes and coins into EUR will be possible within one year of the introduction of the EUR through commercial banks, the Croatian Financial Agency and HP-Hrvatska pošta d.d. Afterwards, conversion will be possible only through the Croatian National Bank within three years after the introduction of EUR for coins, and for an unlimited time for banknotes.

2 Consumer Protection

PROHIBITION OF INCREASE OF PRICES: Consumers are concerned about the impact that the introduction of EUR will have on prices. Formally, the Act prohibits the increase of prices of consumer goods and services (i.e., rounding up to a higher amount) only on the grounds of the introduction of the EUR (without any other justifiable reason). Consumers will be able to report any unjustifiable increase to the authorities which may impose monetary fines in cases of non-compliance (which may be difficult to determine especially in the context of the recent price increases). The amounts of the fines are still to be set under the relevant bylaw. It has already been announced that consumer protection associations will monitor the increase of prices and publish the list of all companies breaching the prohibition.

DUAL PRICE DISPLAY: During the dual price display period, companies will need to ensure that prices of consumer goods and/or services are displayed in EUR and HRK together with the official exchange rate in a clear, legible, visible and easily noticeable manner. Dual price display should be secured at the companies' sales point, websites, pricelists, in offers and contracts, advertisements and other official means of communication.

INVOICES: During the dual price display period, when issuing an invoice to a consumer, companies will need to display the total price of the goods and/or services rendered in EUR and HRK with an indication of the official exchange rate. Business-to-business relationships are excluded from this obligation.

3 Employment and Contractors Relations

EMPLOYMENT AGREEMENTS: Existing agreements should not be amended – salary stated in HRK will be converted based on the official exchange rate and general conversion rules. If possible, in order to ensure transparency, the employer should inform employees of their EUR salary amount.

PAYMENT SLIPS: Slips evidencing payment of salary, salary compensation, severance and other employment-related payments should state the EUR and HRK amounts during the dual price display period. In practice, relevant accounting software will need to be adapted in order to implement this requirement.

INDEPENDENT CONTRACTORS: If an agreement is made with an independent service provider within the dual price display period, the total amount to be paid under the agreement must be stated in both EUR and HRK, together with a reference to the official exchange rate.

4 Capital and Securities

CAPITAL AND STOCK/SHARES CONVERSION: Joint stock companies (**JSC**) and limited liability companies (**LLC**) will need to recalculate their share capital amounts and the nominal amounts of their stock/shares from HRK to EUR by applying the official exchange rate in line with the general conversion rules and the Croatian Companies Act.

A JSC must submit the application to the court registry for change of the share capital within one year of the effective date, while an LLC must submit the relevant application within three years of the effective date. The registration proceedings are performed free of charge. In case of violation of the relevant provisions, monetary fines are prescribed.

MARKET VALUE OF STOCKS LISTED/TRADED ON STOCK EXCHANGE: Market value of the stocks listed and/or traded on the stock exchange will automatically be converted to EUR on the effective date by the Zagreb Stock Exchange by applying the official exchange rate in line with the general conversion rules.

DEBT SECURITIES AND MONEY MARKET INSTRUMENTS: The nominal amounts of debt securities and money market instruments denominated in HRK will not be automatically changed following the effective date except for securities issued by the Republic of Croatia and the Croatian Ministry of Finance which will be automatically converted pursuant to a specific set of rules set by the Act. Other issuers may however opt for a voluntary conversion of the nominal amounts of securities in HRK to EUR within 18 months following the effective date pursuant to the conversion rules set by the Act.

5 Business Books and Financial Statements

FINANCIAL STATEMENTS: Financial statements for the year preceding the effective date (i.e. 2022 most likely) for companies whose business year corresponds to the calendar year will need to be prepared in HRK. Companies whose business year differs from the calendar year and whose last day of the business year occurs after the effective date will need to prepare financial statements in EUR.

BUSINESS BOOKS: All amounts reflected in budgets, financial plans and other accompanying documents prepared in the year preceding the effective date, but referring to the period following the effective date, should be made in EUR.

BUSINESS EVENTS: Business events occurring after the effective date should be expressed in companies' business books in EUR.

BALANCES RECALCUATION: Balances reflected in HRK and transferred from business books for the year preceding the effective date should be recalculated in EUR by applying the official exchange rate and general conversion rules.

6 Bank Account and Interest Rates Adjustments

BANK ACCOUNTS: All amounts in HRK in bank accounts (transaction, deposit and other accounts) will automatically be recalculated in EUR by applying the official exchange rate in line with the general conversion rules and without changing the bank account number.

FIXED INTEREST RATES: Fixed interest rates remain unchanged.

VARIABLE INTEREST RATES: The parameters agreed in relation to the variable interest rate remain unchanged.

While the Act sets out a general framework for the introduction of the new currency, it is expected that sector specific acts, bylaws and guidelines will be passed in order to regulate the transition to EUR in further detail.

We will monitor closely all such developments along with best market practices and update this overview regularly.

About Wolf Theiss

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