

Euro is the new Kuna. Brace for it!

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At its session on May 13, 2022, the Croatian Parliament passed the Law on the Introduction of the euro as the Official Currency in the Republic of Croatia, which regulates the introduction of the euro as the official currency in the Republic of Croatia, as well as the rules for the conversion, supply and exchange of kuna for cash euros and other important issues. However, it was determined that the law will enter into force only on the first day after the publication of the EU Council's decision on the adoption of the euro. On July 12, 2022, the Council for Economic and Financial Affairs of the EU (Ecofin) adopted the three final legal acts that are necessary for Croatia to introduce the euro, which made the Law to come into force on July 13, 2022.

What is the significance of the Euro?

The euro is the official and common currency of most of the member states of the European Union, and this group of states is known as the eurozone. The purpose of the common currency is to deepen the connection between the member states and accelerate the exploitation of the advantages of the single market. The idea behind the common currency is that it removes transaction costs, reduces exposure to currency risk, facilitates trade and increases the resilience of economies to crises. Furthermore, it contributes to more stable economic opportunities and growth, greater investments, and new jobs. As a unit of account, the euro was introduced on January 1, 1999, initially in 11 countries. Over the following years, more and more member states introduced the euro as their official unit of account, and on January 1, 2023, Croatia will become the twentieth member state in which the euro will be the official currency.

Legal basis

That the euro becomes the official currency in Croatia was officially confirmed on July 12, 2022, when the Council for Economic and Financial Affairs of the EU (Ecofin) adopted the three final legal acts that are necessary for Croatia to introduce the euro, among which also the decision on the kuna to euro conversion rate at the central parity of 1 euro = 7.53450 kuna.

Apart from Council Regulation (EU) 2022/1208 of July 12, 2022 amending Regulation (EC) no. 2866/98 regarding the euro conversion rate for Croatia, which established the definitive kuna to euro conversion rate, Ecofin adopted two more legal acts - Council Decision (EU) 2022/1211 of July 12, 2022 on the adoption of the euro in Croatia on January 1, 2023 and Council Regulation (EU) 2022/1207 of July 12, 2022 amending Regulation (EC) no. 974/98 regarding the introduction of the euro in Croatia, which adds Croatia as the 20th member to the list of 19 eurozone members. These Regulations are fully binding and directly applicable in all member states. The decisions completed the decision-

making process in the Council and Croatia will become the 20th member of the eurozone as of January 1, 2023.

What is a fixed conversion rate?

In accordance with the decision of the Council of the European Union, kuna will be replaced by euro at a fixed conversion rate of 7.53450 kuna for 1 euro. It is the practice of the Council of the EU that approximately six months before the introduction of the euro, on the recommendation of the European Commission and after consultation with the European Central Bank, it makes a decision on an irrevocable fixed exchange rate at which the national currency will be replaced by the euro. The fixed conversion rate usually has five decimal places, and during the conversion it is necessary to use the numerical amount in its entirety, i.e., without rounding.

Dual price display

It is important for entrepreneurs in Croatia to know that they are obliged to display the prices of goods, services and other monetary statements of value in such a way that they are displayed simultaneously in kuna and in euro with the application of a fixed conversion rate and in accordance with the rules for conversion and rounding from the Law, what is called dual price display. The dual price display is a key measure of consumer protection within the euro introduction process. Before the actual introduction of the euro, there was a period of voluntary double display and the ongoing period of mandatory double display of prices.

1. Voluntary dual price display

After the announcement of the fixed conversion rate, all interested parties were given the opportunity to start with the dual display of prices.

2. Mandatory start of dual display of prices

It started on September 5, 2022 and will be in force for one year after the introduction of the euro, i.e. until December 31, 2023. During this period, business entities are required to show the price and other monetary statements of value in both euros and kuna when interacting with consumers.

These prices must be unambiguous, clearly visible, easy to read, not misleading and allow the consumer to check whether the prices have been calculated correctly. Also, the fixed conversion rate should be displayed in a visible place in the sales area and the place of service provision, and the dual price display will have to be applied on price lists and promotional materials published on websites and in the media. In addition to the dual price display requirements, in the period from January 1, 2023 to January 14, 2023, dual circulation rules will also be introduced and apply. This means that during that period, payments will be possible both in kuna and euro, but the change must be returned in euros.

Supervision of the display of prices

Under the Law, the competent authorities will supervise compliance with the obligation of dual price display. All business entities and other covered persons will be supervised and can be reported to the supervisory authorities. In case of non-compliance with the Law, they can be sanctioned. Entities which do not have dually stated prices or which do not abide by their obligations in the manner set forth by Law, such as respecting the rules for recalculation and rounding, or applying the fixed conversion rate in its full numerical form (with all six digits), may be fined.

Who is obliged to implement the obligation of dual price display?

The obligation of dual price display applies to all business entities in the non-financial and financial sectors, that is, merchants and other service providers, including restaurants, cafes,

hotels, banks and other financial institutions, in their relations with consumers. In addition to the private sector, the obligation of dual price display also applies to entities from the public sector. As a result, both state administration bodies and public sector companies are required to display dual prices in all documents they produce and use in their relations with citizens. For example, in decisions on tax refunds, tax debt, certificates on payment of wages, payment of pensions or social benefits, on bills for utility services and the like.

The principle of continuity of legal instruments

The Law also provides for the application of the principle of continuity of legal instruments, the purpose of which is the legal security of all legal entities and natural persons after the change of currency. This principle essentially means that the mere introduction of the euro does not entitle any party to a valid unilateral termination or cancellation of a legal instrument, and a contract and other legal instrument that is contracted in kuna with a currency clause in a currency other than the euro is considered a contract that is contracted in euro or by another legal instrument in euro with a currency clause in another currency.

Obligations of companies regarding the share capital

Companies will be obliged to recalculate the existing amount of the share capital and its parts that are attributable to shares and/or business interests using a fixed conversion rate from kuna to euro, with rounding to the nearest cent, and to report the changes to the registry court. Therefore, the procedure will not be carried out automatically, but only upon the request of the

legal entity. However, the procedure will be free of charge and will be carried out as an urgent procedure.

Calculation and payment of salaries

In the period of dual reporting, i.e., from September 5, 2022 to December 31, 2023, the employer is obliged to state the total amount paid to the employee's account in dual prices on the document on the payment of wages and other benefits. In fact, already in relation to the salary and other benefits for August 2022, the employer was obliged to state the total amount in kuna and in euros on the payment document, if such salary was paid after September 5. The salary and other benefits for December 2022, which are to be paid from January 1, 2023, must be calculated and paid in euros.

Concluding remarks

The aim of this law is to create a legal framework for the introduction of the euro as the official currency in the Republic of Croatia, and thus the expected strengthening of the investment and competitive ability of Croatian entrepreneurship through lower transaction costs, cheaper borrowing costs and lower interest rates, an incentive for international exchange and investments, and the elimination of currency risk.

With the aforementioned, the financial and economic system of the Republic of Croatia as well as its citizens should feel the positive effects of joining the euro area, but all the real effects of the euro as an official currency will only be seen over time and will depend primarily on the ability of all participants to prepare in a timely and appropriate manner and adjust to the new currency.

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