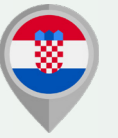




THANK YOU, EU!



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Marko Škreb started his career teaching in the Faculty of Economics at the University of Zagreb. He then worked at the Croatian Central Bank (HNB), first as the Director of Research and Statistics and from 1996 to 2000 as the Governor. In 1997 he was awarded the Central European Annual Award for Excellence, as Best Central Bank Governor. Since 2000, he has worked as a central banking consultant in numerous countries, mostly for the International Monetary Fund. His most recent assignments include being resident advisor in the IMF Regional Technical Assistance Centre in Accra, Ghana, in the National Bank of Ukraine, and in the Central Bank of Bosnia and Herzegovina (for USAID). He frequently participates in international conferences and he has published numerous articles and edited books, mostly on issues related to economic transition.

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EU enlargement and its achievements have been positive by most accounts. I am convinced that Croatia would not be as developed today were it not for the EU. The EU was and still is a strong magnet that attracts its neighbours into joining this members-only club.

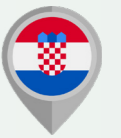
A short walk down the memory lane – Why the EU?

The 2004 EU expansion must be viewed as part of a broader process of convergence of the Central and Eastern European countries toward Western Europe. We should start at least from 1989, with the fall of the Berlin wall, a symbol of the collapse of the communist regime. As the Iron Curtain fell, most former communist countries chose membership of the EU as their ultimate goal. Geographical proximity was an important, but not the only, contributing factor. Most countries wanted to join the EU for its high standards of living, political democracy and more generally a „human“ way of living. Compared to the rest of the world, the EU has the highest quality of life. Therefore, joining the EU has been a bright beacon, helping navigation along the paths of post-communist reforms for many.

With the Global Financial Crisis, the light from this beacon was dimmed. It was almost extinguished during the Sovereign debt



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crisis in Europe. But, by 2014, this crisis had mostly come to an end and the EU still had its 13 newest members. The process of integration is not, however, yet complete, as not all of these members have joined the Eurozone. For some new EU members the Euro-crisis affected the „attractiveness“ of this later step of joining the Euro. But as European financial system has been considerably reformed since then, with new institutions, new mechanisms and a broader range of monetary policy instruments applied by the ECB, one should expect enlargement of the Eurozone to continue.

EU membership was the main driving force behind economic reforms in my own country - Croatia. Since Croatia's independence in 1991, the overarching goal of both the political elites (decision makers) and most of the population was to be „part of Europe“. That meant joining Euro-Atlantic, i.e. to be a member of the EU and of NATO. The main reason for this was the wish to reconnect and identify with Europe i.e. with Western European values and to attain EU living standards. In our case, the fact that the EU was initially created as a „peace mechanism“ cannot be neglected either.

Immediately after independence in Croatia, the Washington institutions (the IMF and World Bank) were the main driving forces of the transition from a semi-planned towards a market-based

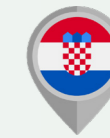
economy. This century, the driving motivation behind most of the economic reforms has been joining the EU. Today, we want to become fully integrated, as part of the Eurozone. While some new members are reluctant and want to postpone the inevitable –Croatia wants to join the euro area as soon as possible. We are a highly euro-ized country with a tightly managed exchange rate regime (for mostly historical reasons). Being a very small and relatively open economy, joining a monetary union (and benefitting from its safety nets) is a reasonable choice.

What were the main transmission mechanisms for convergence toward the EU and the Euro?

Legal framework and the EU rules. Acquis communautaire is not a menu from which to pick and choose. It is a set of rules and adopting them is a necessary precondition for EU membership. If you want to be a member of this club, you have to adapt and obey them. This worked very well for Croatia. As a former socialist economy, without those rules we would have endless discussions on how to address a particular reform. As long as joining the EU was the ultimate goal (as it is now to join the Euro) we had to follow the rulebook. Let's take an example of central bank independence. There is no doubt in my mind that without the EU and the ECB watching changes in our legislation, the Croatian national bank's law and its independence would look



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quite different today. Populism and printing money was very much alive in our country long before it became fashionable in Europe (or in monetary theories like modern monetary theory). In one of his blogs the famous economist Paul Krugman quoted an experienced policy maker who said that bad economic ideas are like cockroaches, you flush them down the toilet but sooner or later they come back. The EU and its rules have been playing (at least partially) the role of „flushing“ bad economic ideas away in Croatia. And this was and still is very useful. Let me mention the example of shipyards in Croatia which over the years has received ample taxpayers' money. Some of them are still not profitable. Were it not for the EU state aid rules, I am sure this waste would have been even bigger and would have continued. As a taxpayer, I say thank you EU!

Set of macroeconomic „benchmarks“. The Maastricht criteria are the first set of important economic parameters for a country to be considered stable. As Croatia has decided it wishes to join the Euro sooner rather than later, this set of benchmarks helps in guiding policy making and stopping endless discussions with populists on topics such as why do we need low inflation? I am sure that our public debt would continue growing were it not for EU's Stability and Growth Pact, the Macroeconomic imbalances procedure and the Excessive Deficit Procedure. True, *Quod licet Iovi non licet bovi*, Italy's public debt is still twice the allowed

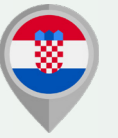
level and France never paid for its deficits in the past. But as Croatian taxpayer, I can say again, thank you EU!

Financial system integration. I personally have no doubt that foreign banks' contributions to the economic development of Croatia have been and are today positive and relevant. First of all, following the privatization and sale of some banks to foreign banks, there was no need to bail them out – unlike the vast majority of banks bailed out by taxpayers' money in former Yugoslavia. Second, they brought not only fresh capital (huge inflows) but new management, modern techniques, and in general best (or at least better than earlier) practices. They increased competition, so domestically owned banks had to adapt and become better. The key word here is increased competition. Because of the no bail-out of banks (and the new frameworks for distressed banks in EU and Eurozone) I can only repeat – thank you EU!

Free movements of goods and people. Trade and free movement had a positive impact on the well-being of the population in my country. However, this factor was not as strong as in other countries. Ex-Yugoslavia was relatively open compared with most countries from behind the Iron curtain. Since the mid-1960s, a lot of workers had left, mostly to work in Germany. We had visa-free travel throughout Europe, and a large number of tourists arriving every summer. But we now drive much better



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cars than in socialism and people can choose in which EU country they wish to study, work and live. Thank you EU!

Lessons from the past as guidance for the future.

How will convergence play out in the future? What are the main obstacles? I would argue they are not primarily economic, but in the realm of political economy. Below are some of my personal lessons from the past, which could be useful for the future:

Lesson 1: Rome was not built in a day. This is a valid lesson to remember for the future. We, people from southeast Europe are impatient. We expected higher living standards (like Germany at least) and developed institutions in a short period of time. When thinking about future progress we need to be patient. Therefore looking backwards and acknowledging the tremendous progress we have achieved is not only beneficial as motivation for the future, but also necessary to keep reform mojo alive.

Lesson 2: We must indeed all hang together, or most assuredly, we shall hang separately. It seems that the UK has forgotten this Benjamin Franklin's admonition. Pity, as the whole Brexit process is proof of how painful a divorce from the EU can be.

Lesson 3: Every action creates a reaction. This Newtonian Law applied to economic reforms works, and should be remembered. Typically every reform redistributes income. Thus there are losers and winners of reforms. To minimize obstacles to reforms, it is imperative to think about the „losers“, compensate them in one way or another and try to create win-win situations. This is a big task, not easily achieved, but worth the effort.

Lesson 4: Keep Darwin alive. Competition policies are more important than ever. Even in a single EU market, a concentration of BigTech companies (Google, Amazon, Facebook and Apple, but others as well) are only one of many cases where additional regulation and competition policies must be preserved.

In conclusion, the EU was, and still is, the main magnet for many countries in South East Europe. Progress is not linear. Looking backward and acknowledging what the EU has done for us may be a useful exercise to gain strength for the next set of reforms. Therefore I say again: Thank you EU!