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INTERNATIONAL MONETARY FUND

WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **BORIS VUJCIC**,
Alternate Governor of the Fund for the **REPUBLIC OF CROATIA**,
at the Joint Annual Discussion

Dear Mr. Chairman, Managing Director of the IMF, Mr. Kohler, President of the World Bank, Mr. Wolfensohn, dear Governors, Ladies and Gentlemen,

It is my great honor and privilege to address these Annual Meetings of the Board of Governors of the International Monetary Fund and the World Bank. I would like to express my gratitude to our hosts for their warm hospitality and for the admirable organization of these Meetings.

I would like to point out that the greater cooperation and coordination in international economic relations is the goal we all seek to achieve. In that sense the role of Fund and the World Bank is indispensable. These institutions' efforts to strengthen surveillance over macroeconomic policies and to lay foundations for sustainable world economic development are of the highest importance. I am happy to say that the relationship between Croatia and the two have always been very open and frank and that discussions have been conducted in an atmosphere of mutual understanding and respect.

Croatian Economic Situation

In year 2002, the Croatian economy has shown positive developments. The expected GDP growth of 3.5% for this year represents a continuation of the buoyant trend from 2001 and a clear departure from the recession period of late 1998 and 1999.

Unfortunately, growth has not yet proven strong enough to significantly reduce unemployment. The intensive restructuring of the economy has led to substantial job losses, but also to growing job creation. Such combinations of job losses and gains are inevitable consequences of structural reforms, and indicate that the reforms are indeed having the desired effects.

Wage growth has been moderate. Additionaly, the Government' s achievement in containing the wage bill in the public sector bodes well for further wage restraint. Also, strong productivity growth in industry indicates limited cost pressures.

This year inflation is not strongly affected by demand pressures and we expect the headline inflation to be around 3%. Even with the recent energy prices increases, the inflation outlook has not worsened. The fact that core inflation remains substantially below actual inflation suggests that many of the factors causing inflation in recent months have been of a one-time or temporary nature and are not likely to become ingrained in the future.

Exchange rate developments provide a further indication that the inflationary outlook would not worsen. Exchange rate trends followed the normal seasonal patterns. Last years' increased volatility due to capital account liberalization, has not repeated.

The overall current account deficit in 2001 of 3.2% of GDP was the second lowest since 1995. Strong services revenues driven mainly by tourism and substantial inflows on the transfers account have contributed towards keeping the deficit low. The overall balance of payments outlook this year seems likely to remain within the boundaries set out in the Governments' economic plan.

Monetary developments indicate a continuation of the strong but non-inflationary growth of monetary aggregates along with continued increase in bank lending. Strong growth in bank lending auggests that the "credit crunch" that has characterized the lending market since the banking crisis of 1998/99 has indeed ended. Strong lending growth is consistent with, and of course contributes to, the strong growth of the economy. The central bank's focus has now switched from inducing credit growth to the prudential limits of rapid credit expansion.

Interest rates generally continued to fall during the year. Interbank trading decreased in volume, and rates moved somewhat lower. Both lending and deposit rates fell, as did measures of the difference between loan and deposit rates. The central bank's gross foreign exchange reserves stand above 5,7 bil. USD, well above the level of M1.

Relations with the Fund and the World Bank

We are happy to say that in May of this year, Croatia successfully concluded a SBA with the International Monetary Fund for the period 2001/2002.

The SBA with the International Monetary Fund was concluded in order to support the implementation of structural reforms. In fact, Croatia never intended to draw on the funds available under the arrangement. Signing and implementing the accord has helped the credit rating of the Republic of Croatia and has assured investors that we do not intend to depart from the projected program. The centerpiece of the program was the reduction of government spending and a reduction of tax revenue and expenditure ratios in GDP while preserving wage discipline and promoting structural reforms in the context of continued exchange rate stability.

Resolved to negotiate another precautionary SBA with the IMF, the authorities intend to continue with pursuing the broad spectrum of reforms, all consistent with the commitment to reduce the share of Government spending in GDP. We are convinced that these new reforms, along with the ones already in place, will have important positive effects on the economy.

We have never regarded and we will never regard the IMF arrangement criteria and the accompanying measures as something external to us. These are in all aspects our own policies that we have developed with the help of the Bank and the Fund experts and responsibility of having them implemented is our own.

The active support of the International Monetary Fund and the World Bank Group is vital in sustaining the momentum of reforms in emerging economies. Both institutions have played that role in Croatia and it is our hope that they will continue to do so.

We wish to thank them for their engagement in our economy and wish them all the best in their future undertakings.