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Statement by the Hon. **IVAN SUKER**,
Governor of the Bank for the **REPUBLIC OF CROATIA**,
at the Joint Annual Discussion

**Statement by the Hon. Ivan Suker,
Governor of the Bank for the Republic of Croatia,
at the Joint Annual Discussion**

Mr. Chairman, honorable delegates, ladies and gentlemen,

It is a great privilege to address the 2005 Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund here in Washington, D.C., only one and a half week after an agreement on a more effective multilateral system was reached in New York. Looking forward to the action needed to fulfill our aim, the role of Bretton Woods institutions will continue to be a cornerstone of prosperous global economy. This role will also present the main challenge, since universal sense of the global economy working for all is not entirely there yet.

Having said that, I would like to express my warm appreciation to Mr. Rato for his dedicated service to the Fund. Also, I would like to welcome once again Mr. Wolfowitz as the President of the Bank with the wish that his leadership will be aimed at reaching the Millenium Development Goals on a global level through promotion of sustainable development supported by individual policy designs. I wish them both much success and wisdom in steering the institutions in years to come.

Allow me first to cover major economic developments related to Croatia and Croatia's relations with the Fund and the Bank. After that, I intend to reflect on a couple of policy issues relevant for the Bank and Fund business.

To start with the Croatia's achievements, I cannot resist mentioning that since this Government took office in January 2004, it has faced a number of difficult and important challenges. By now it has achieved a number of critical successes already. First among these has been significant progress towards Croatia's accession to the European Union, while close relations have been maintained with the international financial and other institutions with regards to the progress of the reform program and political well-being respectively. To this end, Croatia expects negotiations with the European Union to commence before the end of this year.

In turning to economic developments, there is a little doubt that the accession process will help us to preserve reform momentum and maintain sound economic policies. Against this background, the main objective of the current policy stance, supported by the stand-by arrangement (SBA), is to narrow the savings-investment gap in order to reduce external vulnerabilities that stem from sizable external debt and current account deficit. Strong fiscal consolidation is seen as a main vehicle here. Having said that, this year's budget is only part of a multi-year fiscal framework, which aims at reducing the budget deficit to 3% by the year 2008 (from 6,2% of GDP in 2003).

I want to stress that Croatia continues to have open and fruitful discussions with the Fund and Bank staff. Last year, the Fund approved a 20-month precautionary SBA, which supported Government's policies designed to limit the vulnerability arising from the high current account

deficit and external debt. Soon thereafter, the Bank endorsed the Country Assistance Strategy for Croatia, where the Bank envisaged a strategy aiming at fiscal consolidation and reform. I am pleased to note that Fund's Board approved recently the first review under the SBA, and across the street, the Board approved PAL. These not only give good indication of Government's effort in the area of macroeconomic policies and institutional reforms, but also put Croatia in the base-case scenario. Moreover, for the first time since its membership Croatia has been looking forward to a high-case scenario lending by the Bank. Croatia has every intention to continue on the path of reforms on which the country is now fully engaged: it aims to accelerate privatization and reduce the subsidies to corporate sector, reform the judiciary and public administration, reduce the cost of doing business, improve public expenditure management as well as financial performance of social sectors and railways.

In turning to my second point – Croatia's standpoint towards Fund and Bank business – I first welcome the recent move of the Bank to improve its lending policies through an open process of consultation with borrowers. Second, I support the direction through which the Bank has strengthened some decentralized offices in order to make them able to represent the Bank at whole, including the IFC and the MIGA. An important advancement in this direction has been noted in Croatia. Third, there is still need to strengthen cooperation among all institutions and departments of the Bank group, as it is of utmost importance for an improved effectiveness of the Bank as a whole. I am concerned for obvious lacks of internal communication between some of headquarter departments with country offices, which could have been seen at the time of the recent Bank publication of Doing Business 2006. Although on different occasions it had been signaled that there would be a perception risk if the high profile reforms that have been implemented in the course of this year would not be taken sufficiently into account, the report has been published ranking Croatia on the basis of outdated facts even for the preceding year and without recognizing reforms undertaken right with support of the Bank team and Croatia bank office itself. I find this unacceptable and I urge management to put on a record a corrected data for Croatia. Having said this, I reiterate the objections that our chair on the Board expressed on a number of occasions about the overall ranking method as such.

Mr. Chairman, dear guests, allow me in concluding to thank our hosts for their warm hospitality and, as usual, outstanding organization of these meeting. I wish the Fund and the Bank well in their future undertakings and thank them for the support provided to my country.