

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

J

INTERNATIONAL MONETARY FUND

Press Release No. 8

October 22, 2007

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, honourable delegates, ladies and gentlemen,

It is my pleasure and privilege to address the 2007 Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund here in Washington. I would like to express my warm appreciation to Mr de Rato for his dedicated work in the Fund and to wish him all the best in future work. Also, I would like to greet the new president of the World Bank, Mr. Robert B. Zoellick and to wish him much success and wisdom in steering the institution in years to come.

In my statement, allow me first to outline the major economic developments related to the Republic of Croatia. Croatian economy is performing well. In the first half of 2007 we were experiencing highest growth rates in last couple of years and all the other macroeconomic indicators speak in favour of well performance of the economy. The economy is expected to grow by 6.0% this year. Inflation continues to remain low and stable at 2.5% in 2007. What remains as a challenge are external imbalances, namely the current account deficit which is likely to reach around 8.1% of GDP and the external debt which is expected to account for roughly 86.1 % of GDP at end-2007, mainly as a result of stronger enterprise sector's direct borrowing from abroad.

In this context, I would like to emphasize the fact that the Government recognised the risk of external imbalances and has put a great deal of efforts in addressing them. In 2004 we started with a strong fiscal consolidation, which was characterised by, among other measures, improvements in budget planning and process, introduction of single Treasury account, which gave impetus for better control of public expenditures and liquidity of the system and better collection of revenues. Fiscal consolidation is best seen in the budget results. In only three years, we halved our consolidated general government deficit. This year we continued with the reduction of the fiscal deficit. When it became clear that our first target for fiscal deficit of 2.8% of GDP we'll be met, in revised budget from July we set ourselves more ambitious target of 2.6% of GDP for 2007. Medium term perspective sees budgetary central government balanced by 2010. This policy of fiscal adjustment and the reduction of fiscal deficit led to the decrease of general government debt which fell from 43.7% of GDP in 2005 to 40.7% of GDP in 2006. Moreover, it gave an

important contribution to addressing the external balances and so the government reduced its share in total external debt from 33.0% at the end of 2003 to 22.0% in June 2007.

In the context of the curbing credit growth, and alongside the existing measures - marginal reserve requirement, special reserve requirement and prudential measures - the Croatian National Bank implemented a new credit control measure in 2007, which puts strong disincentive to commercial banks' credit growth in excess of 12 percent per annum. This additional measure represents further effort of the central bank to slow down the pace of credit growth, as well as a contribution to overall incentives focused on reducing external imbalances.

Turning to my second point – Croatia's relations with the Fund and the Bank – I want to stress first that Croatia continues to have an open and fruitful discussions with the Fund/Bank staff. In this context, besides cooperation with the Fund through Article IV Consultation, Croatia will again participate in a Financial Sector Assessment Program initially conducted and concluded in 2002. The FSAP update is planned for the end of October 2007 and is set to cover three main fields e.g. the: Basel Core Principles, insurance and securities. The plan is also to make a technical overview on non-banking supervision, cross-country cooperation in supervision, credit growth and related measures and Basel II.

Fulfilment of the EU accession criteria and successful EU integration have been calling for intensive structural and institutional reforms especially over the last couple of years, and the Bank's Programmatic Adjustment Loans (PALs) have been supporting Croatia in that effort. The main aim of the PALs is to support Croatia in improving its investment climate and reducing the size as well as improving the efficiency of its public sector. In addition, Croatia has still been benefiting from the Bank's investment lending focused primarily towards the improvement of social welfare, enhancement of economic competitiveness, protection of the environment, improvement of trade and transport infrastructure, and advancement of Croatia's knowledge-based economy. Besides program arrangements, Croatia has been participating in a number of the Fund/Bank initiatives aimed at strengthening the architecture of the international financial system. Therefore, I wish to thank both the Fund and the Bank for providing us with expertise technical assistance, which is very much appreciated.

Let me also touch on a couple of policy issues relevant for the Fund/Bank business. First, regarding the quota reform, I have to say that we support the general idea of making quota formula simple and transparent, but at the same time the new formula should aim at striking a right balance between the size of countries and their openness. Also, we do see merit in using a compression factor for GDP in the formula, as this helps alleviate a problem of getting too large disproportions in quota shares between advanced and other

economies. In addition, care ought to be taken about voice and participation of low income countries. First step in achieving this goal should be at least doubling of basic votes at the time of second ad hoc quota increase, while further steps down the road should include introducing a mechanism to safeguard the share of basic votes in total voting power, and increasing the number of Alternate Executive Directors of especially large constituencies.

Second, I recognize the need for the Fund to develop a new income model that will be more robust and sustainable in the long run, and to achieve better alignment of the Fund's income with its diverse activities. I welcome the key recommendations made by the *Committee of Eminent Persons*; however, to achieve a success, the expenditure side measures should also be taken into account in the context of a comprehensive framework.

Finally, I would also take the opportunity to comment on the globalization issues which brings free trade and prosperity to the countries around the world. We are aware, however, that universal sense of global economy working for all is not entirely there yet. Moreover, we are witnessing these days rising protectionism in some of the countries previously known to promote globalization. In addition to that we observe continued existence of global imbalances which remain a key risk factor for the world economy. These lead us to a simple conclusion – promoting international economic cooperation remains a challenging task.

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