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

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

Mr. Chairman, honorable delegates, ladies and gentlemen,

It is my pleasure and privilege to address the 2009 Annual Meetings of the Boards of Governors of the World Bank and the Fund here in Istanbul.

A year has passed from the beginning of the financial crisis which has led the world to the biggest economic slump since World War II. The crisis has been strongly felt in all countries of the world but its impact has been especially pronounced in developing and transition countries as well as middle income countries. In these conditions the Bank and the Fund are affirming their leadership by providing liquidity to the credit markets in most vulnerable countries and also by representing the needs of these countries in the coordinated global effort to fight the crisis and mitigate its consequences. I am sure the Bank and the Fund will remain faithful to their mission next year, which should be the year of recovery.

In my statement, allow me first to outline major economic developments related to the Republic of Croatia. Thereafter, I will touch on Croatia's cooperation with the Fund and the Bank, and finally, I will discuss current policy issues from the Bank/Fund agenda.

Concerning major economic developments in the Republic of Croatia, there are a few facts which need to be mentioned.

The global financial crisis' effects have been felt in CROATIA since the second half of 2008. The Government, as well as the Croatian National Bank (CNB) reacted quickly to the liquidity squeeze and adverse depositors' and investors' perceptions. Since October 2008 the Government has introduced several measures to address measures aimed at consolidating public finances.

As the first reaction to crisis, CNB has removed Marginal Reserve Requirement. Subsequently, the Government increased a household deposit guarantee to EUR 56,000 to secure depositors' trust and prevent a bank-run. A fund for non-bank financial

institutions was established by 8 major capital market players in order to retain confidence in the financial system through smooth exit of illiquid funds.

In parallel, the Croatian National Bank (CNB) was sequencing countercyclical measures with an aim to ensure adequate kuna and f/x liquidity in the market in timely fashion, which facilitated refinancing in the domestic market at the time when markets effectively shut down and helped preserving exchange rate stability, crucial for the maintenance of the overall banking system stability in a highly *euroized* environment. It also needs to be underlined that countercyclical measures that the Croatian National Bank had been undertaking well before the emergence of the global crises made the Croatian banks well prepared for the crises times, and the banks continue to be adequately capitalized at average capital adequacy ratio of 16.1 percent in mid-2009.

The Government Budget for 2009 year has been amended several times to appropriately address revenues underperformance due to the effects of crises.

Looking at this year's data it is evident that we measure output decline.

GDP fell by 6,7% in the first three months of 2009, while the drop for the next three months is expected to be 6,3%. Inflation continues to remain low and stable at roughly 3,0% in the first seven months of 2009. Industrial production fell by 9,8% in the first eight months of 2009. Recently introduced anti-crisis measures: so called *crisis income tax* has started to show positive results.

Croatia's relations with the Fund and the Bank are excellent and I want to stress that Croatia continues to have an open discussion with the Fund/Bank staff. Also, I wish to thank both the Fund and the Bank for providing us with expertise and technical assistance in specific areas, which is very much appreciated.

Lastly, I am going to touch on a couple of current policy issues from the Fund/Bank agenda.

First, let me welcome this year's World Development Report as an important effort in raising climate change to the focus of the global community. I do hope WDR will prepare the ground for a successful agreement at the forthcoming UN Climate Change Conference in Copenhagen.

Second, a flexible IBRD graduation policy proved useful during the current financial crisis. Moreover, recent examples of graduate financing point to the need of developing permanent diversified financing instruments which may be needed in times of economic and financial distress.

Third, the fruitful debate on enhancing IBRD's and IFC's financial capacity – including a potential capital increase - should be backed by more analysis of the demand for Bank's financial products, linking it, at the same time, with the overarching discussion regarding Bank's future role and size.

Fourth, related to the Fund agenda, let me note that Croatia has recently welcomed and supported the general SDR allocation, the Fund's timely response to global financial crisis, which should help the most affected member countries to overcome financial strains. I do hope that this initiative will not weaken the pursuit of prudent macroeconomic policies, neither that it will postpone decisions on needed policy adjustments.

Fifth, on quota realignments, I find existing quota formula adequate for the next round of quota realignments for most underrepresented members, as any change of quota formula should restrain from including new variables for which data availability and reliability is questionable.

Mr. Chairman, dear guests, in conclusion I would like to thank our hosts for their hospitality and excellent organization of these meetings. Allow me also to express my appreciation to Mr. Strauss-Kahn and Mr. Zoellick for their dedicated leadership in times of global financial and economic downturn. I wish the Fund and the Bank success in their further work and thank them for their assistance to my country.