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### **Statement by the IMF Staff Mission to Croatia**

A mission from the International Monetary Fund (IMF), led by Thanos Arvanitis, visited Zagreb during March 26-April 7, 2009 to conduct the annual Article IV Consultation with Croatia. A staff report will be prepared for discussion at the IMF's Executive Board, tentatively scheduled for early June. At the conclusion of the visit on April 8, Mr. Arvanitis made the following statement:

“The IMF mission held constructive discussions with the Croatian authorities and representatives of the private sector and civil society. These discussions focused on recent global and domestic developments and the policies needed to preserve macroeconomic and financial stability. The mission was impressed by the authorities’ determination to act vigorously to limit spillovers on Croatia from the financial turmoil that has evolved into the greatest global economic crisis in 60 years.

“However, no economy can remain fully immune to the turmoil. Skillful management and timely measures taken by the government and the central bank have helped Croatia navigate through these challenging times. But with tight external financing conditions, economic activity in Croatia is expected to contract considerably in 2009. Domestic demand would be the key driver, with weakening private consumption and investment. Maintaining confidence would require the continuation of strong policies, and preparedness to respond quickly, if adverse shocks materialize.

“Monetary policy remains constrained by external conditions and fragile balance sheets due to high external private sector debt and large foreign currency exposures. At this stage, priority should be given to preserving financial stability, and liquidity conditions should remain under control to prevent destabilizing outflows. The financial system, while well capitalized and profitable, now faces a more difficult time. To improve its resilience, banks’ capital buffers should be increased as necessary, and adequate external financing should be secured. The framework for resolution of troubled assets also needs to be upgraded.

“The revised budget adopted in early April is appropriate under the circumstances. External vulnerabilities and tight domestic financial conditions leave little room for more stimulus to cushion the economic slowdown. Tight control over spending is now key to prevent a higher deficit and the emergence of public sector arrears. Improvements in tax administration would help contain a decline of taxpayers compliance. The authorities should be prepared to take additional measures should revenue fall short of budget projections.

“The economy needs to emerge from the current juncture more resilient and dynamic. Improving prospects for the Croatian economy, and achieving higher standards of living over the medium term would require structural reforms aimed at tackling long-standing competitiveness issues.

“The mission is grateful to the authorities and its other interlocutors for the open discussions, excellent cooperation, and warm hospitality.”