Statement by Richard Kaijuka  
Date of Meeting: September 18, 2001  

CROATIA: Country Assistance Strategy Progress Report

We thank Management and Staff for a thorough assessment of the implementation of the last Croatia CAS and welcome the opportunity to discuss this progress report. Croatia seems to have a relatively stable government in place during the past 18 months. We also commend staff for engaging not only the government but also several other stakeholders during the course of preparation of this progress report.

On the political front, we are pleased to note that the government is shifting away from inward-looking orientation and strong state controls. We also observe with satisfaction that, despite the slow consensus building and delays, important progress has been achieved since the mid-1999 CAS discussion which, inter alia, included undertaking serious efforts to put in place a framework by way of credible fiscal, prudent management of public expenditures/deficit and reduction of arrears. This helped in reaching an IMF supported program, as well as in going ahead with the financial sector reforms and the privatization program, in particular the banking sector and large state-owned enterprises. We wish to observe this positive posture of the Croatia government and urge continued Bank support to help in achieving the objectives of the unfinished reform agenda in the Government's Plans and Medium-term outlook.

On the medium-term, we observe in table one page 8 of Macroeconomic Indicators, a significant GDP growth from a negative rate of -0.3 in 1999 to 3.7 in 2000 showing an impressive turn around of growth rate of 4% despite the fact that investment did not indicate any significant increase. We wonder if staff could clarify the main sources of this remarkable growth.

Given Croatia's perseverance with its reforms, we urge continuous Bank engagement in the implementation of the Bank's strategy for FY02-03. With respect to the lending triggers, we are in broad agreement with what is proposed in Box (1). However, we have two observations: (1) We note that amendment to the employment law is put among the triggers. This is a sovereign matter that the Bank should handle carefully to ensure mutual agreement. (2) In calculating pension based on paid-in contribution, we wonder whether such a long-term objective can be achieved during the remaining period of the current CAS. We would appreciate some clarification from staff. The same is also true with the trigger related to the health care. Such reforms should be in a well sequenced phase that go beyond any single CAS.
Finally, we wish the Croatian authorities all success in persevering with their efforts to integrate their country to the global economy.