

Round Table: 2016 Last Chance for Voluntary Reforms

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Participants in a round table discussion on the subject: "Croatia's development strategy and economic policy" held in Zagreb on Wednesday conclude that Croatia is at an economic crossroads and must decide whether or not to implement urgently necessary reforms in 2016 "because the opportunity may not be there in 2017." The WB Country Manager for Croatia Pinerua reminds that there is a political cost in the form of a loss of popularity when difficult decisions are made, so that these decisions are often delayed – making it even more costly later.

□ **Zagreb Initiative**, an association of economists and journalists proposing solutions for Croatia, and the **Konrad Adenauer Foundation**, a think tank connected to the Christian Democratic Union (**CDU**) political party in Germany, co-sponsored a roundtable discussion held on Wednesday in Zagreb on the subject: "Croatia's development strategy and economic policy," and the participants concluded that Croatia has reached an economic crossroads at which it must decide now whether or not it will urgently implement necessary reforms in 2016, "because the opportunity may not be there in 2017," Croatian media report.

The World Bank (**WB**) Country Manager for Croatia **Carlos Pinerua** reminded that there is a political cost in the form of a loss of popularity when difficult decisions are made, so that these decisions are often delayed, POSLOVNI DNEVNIK reports. "But the political price will be paid; this behavior will be punished by the markets and the question is whether to wait or not because the price might be higher the longer decisions are delayed," said Pinerua. He concluded that it is not a question of whether or not to do something, but when.

Zagreb Economics Faculty Professor **Tomislav Coric**, who is also chairman of the Finance Committee of the Croatian Democratic Union (**HDZ**), emphasized that very little can be done with the budget, since the problems are an insufficiently competitive economy, hostile business atmosphere, and lack of reforms in public administration, POSLOVNI DNEVNIK reports. "These problems are not in the domain of fiscal policy, but do influence the revenue side of the budget and become a problem of fiscal policy and public finances," said Coric. He added that the good tourism season in 2015 has helped public finances, but warned that no fiscal measures can solve the problems in public finances in the first few months of the new government.

Coric contends that the new government can work on increasing fiscal and economic credibility in foreign investors' eyes – especially since it is apparent that the state's financing needs in the coming period will have to be covered by borrowing in international markets since the domestic banking sector "has exhausted its capacities for further state financing."

Siemens CEO and president of the Association of Foreign Investors in Croatia (**USUH**) **Mladen Fogec** reminded at the roundtable that most of the problems faced by foreign investors are caused by an inconsistent interpretation of laws across Croatia and a tax policy which changes too often – lasting less than the typical business plan. "The first reform the new Government should implement is reform of public administration which is a huge cost burdening the country; the second is privatization – the state's departure from sectors that are not of strategic interest, such as shoe factories" explains Fogec.

The **Koncar** CEO and President of the Croatian Exporters' Association (**HI**) **Darinko Bago** raised the issue of the overvalued Croatian Kuna, and suggested that Croatia should utilize controlled devaluation of 2% per year and other measures to strengthen exports.

Coric countered that the kuna exchange rate is just one of the problems in the Croatian economy and assessed that "If that was the only problem, Croatia would have no problems," quotes VECERNJI LIST.