



## **Weekly Briefing**

**Croatia economy briefing:  
The HNB and IMF-led Conference on  
Economic Developments in CESEE  
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# **The HNB and IMF-led Conference on Economic Developments in CESEE**

## **Summary**

*This article will present the conference Policymaking in Choppy Waters: Fostering Resilience in Central, Eastern and Southeastern Europe (CESEE) that was held in early June in the city of Dubrovnik and gathered representatives of various international institutions, and other actors included in decision-making. With the International Monetary Fund (IMF) being one of the organizers of the conference, the article will also tackle how its expert staff has evaluated the economic progress of Croatia since the Government introduced the measures to help citizens and private businesses to face with inflation and high prices of energy products.*

## **Introduction**

Early June marked the implementation of the international conference titled *Policymaking in Choppy Waters: Fostering Resilience in Central, Eastern and Southeastern Europe* (CESEE) that took place in the city of Dubrovnik and was organized jointly by the Croatian National Bank (HNB) and the International Monetary Fund (IMF). This was the third time such a conference has occurred, while its aim is to provide an opportunity for various stakeholders to "discuss key challenges and policy options for the region, focusing on enhancing energy security along the green transition, adjusting to ongoing shifts in trade and foreign direct investment patterns, and steering macroeconomic and structural policies..."<sup>1</sup>. Taking into account that the world is currently facing numerous shocks such as the COVID-19 pandemic, the War in Ukraine, and subsequent energy turmoil, as well as the silent but continuous crisis related to climate change, the timing of the conference is appropriate, albeit one could argue that a 4-year gap between the last time it was organized and June 2023 is prolonged. Be that as it may, such discontinuity certainly gives enough material to embrace the lessons learned and use them for a better tomorrow.

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<sup>1</sup> Croatian National Bank. 2023. CNB and IMF Conference "Policymaking in Choppy Waters: Fostering Resilience in Central Eastern and South-eastern Europe" Starts <https://www.hnb.hr/en/-/cnb-and-imf-conference-policymaking-in-choppy-waters-fostering-resilience-in-central-eastern-and-south-eastern-europe-starts-today>.

## **The Overview of the Conference**

The event which lasted for two days included the participation of representatives of HNB and MMF, members of the Croatian Government, governors of central banks, ministers of finance of CESEE countries, representatives of the European Commission and European Investment Bank, with the academic community and non-profit sector, as those often on the other side of the spectrum who contribute with expert and on-field advice, also taking part. The opening remarks were given by HNB Governor Boris Vujčić and MMF Managing Director Kristalina Georgieva, while Croatian Prime Minister Andrej Plenković also gave a speech in which he presented the socio-economic goals of his Government, including the actions undertaken to mitigate the impact of external shocks mentioned in the above paragraph. The discussions during the event were structured in three panels with the following topics: 1. Enhancing energy security along the green transition; 2. Adjusting to ongoing shifts in international trade and supply chains; 3. Steering macroeconomic policies through more frequent supply shocks<sup>2</sup>. The prevailing and ongoing concept of the conference underlined by HNB Governor Vujčić is the resilience of governments and private businesses in terms of their abilities to absorb the impact of crises and recover in the shortest possible period. The discussions during the three panels were aimed at finding the appropriate strategies to achieve these objectives.

## **The IMF Staff's Statement on Croatia**

Since there are no official reports regarding the suggestions and solutions reached at each panel, only a few sentences written in the form of press releases for HNB and MMF, there is no point in attempting to disclose the specific subject matters and perspectives mentioned by the panelists. Rather, it would be more interesting to briefly present and discuss how the IMF's team of experts has analyzed the measures undertaken by the Croatian Government to slow down the negative consequences of the current crises, especially taking into account that the IMF's statement was presented only a few days before the conference. Now, even though the Prime Minister, along with his ministers, have highlighted the necessity of measures that were introduced since the outbreak of the War in Ukraine, with the first such package implemented in the Spring of 2022, and the second package in the Autumn of 2022, the IMF staff that

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<sup>2</sup> Croatian National Bank. 2023. CNB and IMF Conference "Policymaking in Choppy Waters: Fostering Resilience in Central Eastern and South-eastern Europe" Starts <https://www.hnb.hr/en/-/cnb-and-imf-conference-policymaking-in-choppy-waters-fostering-resilience-in-central-eastern-and-south-eastern-europe-starts-today>.

conducted the official visit, or how they like to call it *a mission*, to monitor the economic development of a country have moderately criticized the Government's actions. The IMF staff underlined that the responses introduced to tackle the cost-of-living challenges have not been properly targeted and transparent enough. In their statement on fiscal policy, they suggested "revising energy prices caps and tax cuts, which are [currently] broad-based, costly and disrupt price signals. Instead, temporary targeted cash transfers, vouchers, and discounts to the most vulnerable are preferable"<sup>3</sup>.

### **The Topic of Energy Price Caps**

In his speech given during the conference, Prime Minister Plenković remained firmly behind the decision of his Government to introduce energy price caps as they were envisaged back in September 2022, as well as behind the decision to reorganize entities in different categories, such as separating kindergartens, schools, non-governmental organizations, hospitals, etc., from other legal entities. That said, the IMF staff that conducted the evaluation did not provide much explanation as to why their conclusion highlighted the issue of bad targeting, on what grounds those assessments were made, nor did they provide any reasoning on how exactly the energy price caps should be organized to better align with the needs of the Croatian citizens, especially those most vulnerable. Nevertheless, such intervention of the Government is seen as a direct involvement in market developments; however, as the Prime Minister argued, the intention of those measures was to keep the social balance or at least in the short-term period take off the burden from the shoulders of those who have been affected the most by the rise in energy prices. At the supra-national level, the role of the European Union (EU) has been important in implementing price caps on natural gas which eventually led to a decrease in overall prices, even though few member states did not agree with such an intervention on the belief that price caps would only further distort the market developments; thus, during the voting in December 2022, they abstained (Austria, the Netherlands) or voted against (Hungary).

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<sup>3</sup> International Monetary Fund. 2023. Republic of Croatia: Staff Concluding Statement for the 2023 Article IV Consultation Mission <https://www.imf.org/en/News/Articles/2023/05/22/mcs052323-republic-of-croatia-staff-concluding-statement-2023-art-iv-consultation-mission>.

## **Conclusion**

All in all, the conference that was held in the city of Dubrovnik gave the floor for various formal and non-formal actors and stakeholders to express their views on the current economic processes amid international supply shifts and shocks such as the COVID-19 pandemic and the War in Ukraine. With HNB and IMF representatives underlining resilience as a key concept, Croatian Prime Minister Plenković presented his perspective on how the Government acted to preserve the well-being of citizens and private businesses. On the other hand, just a few days before the conference, the IMF staff presented their evaluation of Croatia's economic development, pointing out that the Government's intervention to tackle inflation and high energy prices could be better structured. As for other Western Balkans countries, the reports that followed the conference were rather scarce, only mentioning the plan to make Croatia an energy hub for the region.