

Opening Remarks at the Host Country Cross-Border Forum for Croatia

Mark Allen

Senior Resident Representative for the
International Monetary Fund
In Central and Eastern Europe

Zagreb, October 29, 2012

It is a great honour for the IMF to be invited to co-host this forum with Governor Boris Vujčić of the National Bank of Croatia.

This meeting is about Croatia and its prospects. It is designed to give an opportunity for dialogue between the banks that are systemically important in Croatia, and three major interlocutors of those banks: the Croatian monetary authority and regulator, the parent international banking groups, and the latter's regulators.

This forum has its genesis in some thinking done in the context of the Vienna Initiative, and to complement Governor Vujčić's remarks, I would like to say something about this broader context.

The investment of internationally active bank groups in Central and Eastern Europe has brought many benefits to the region. The import of modern banking practices, as well as the reputation and financial strength of the parent banks, has brought a huge improvement to the delivery of financial services to households and corporates. It also provided a channel for substantial inflows of capital into the region. Even if that funding went excessively to finance consumption and housing, rather than boosting investment levels, when the boom collapsed in 2008/9, the international groups were fully supportive of their subsidiaries. In no country in the region did banks owned by international banking groups require the support of the local taxpayers.

However, the environment for cross-border banking is changing. Most parent groups are under pressure from the markets and their regulators to strengthen their balance sheets, refocus their business models, and deleverage, actions that have an impact throughout the group. The days when subsidiaries could use parent funding to finance any level of credit seem to be over – which may be no bad thing. And the regulatory landscape, both globally and within the European Union is changing rapidly. In these circumstances, the banking model in the region is likely to undergo significant change.

And in that case, how can we ensure that the new model benefits the countries of the region? These countries have their systemic banks owned abroad and potentially responding to pressures originating outside the national economy. How then to ensure that the country's systemic banks respond to local market

conditions? Will the emerging model provide the longer-term capital the economy needs? Will the banking system continue to operate as an effective transmission channel for monetary policy during the period in which these countries retain their own currencies?

In the spirit of the Vienna Initiative, a forum which brings together the main actors, both public and private, can facilitate the search for answers to these questions. It can promote understanding by all involved of the constraints and imperatives of the other participants. It can help build trust as the process of deleveraging and adjustment to new circumstances unfolds.

I hope that this forum will allow us to make a start on approaching these issues in the context of Croatia. We in the IMF are encouraged by the enthusiasm of the National Bank of Croatia that has gone into planning this meeting, and the strong support of Governor Vujčić for this process. The level of attendance from Croatia's banks and international banking groups is another sign of how important these issues are for Croatia and its banks. And I am also glad to see the EBA and the ESRB represented, as well as the other multilateral organizations involved in the Vienna Initiative – the European Commission, the ECB, the EBRD, the EIB and the World Bank.

Thank you.