

**Address by Damir Polančec, Deputy Prime Minister of the Government of the
Republic of Croatia and Minister of Economy, Labor and Entrepreneurship
Joint Committee Meeting of the CEFTA 2006 Agreement
29 October 2009, Podgorica
“The Impact of the crisis on the implementation of CEFTA”**

Ladies and Gentlemen,

It is my pleasure to greet you on behalf of the Government of the Republic of Croatia and myself, and I warmly thank you for your welcome.

At the beginning, I would also like to thank our host for the efforts and a great willingness and desire that this year's implementation of the CEFTA Agreement under the Montenegrin presidency passes in a positive atmosphere to the benefit of all the CEFTA countries.

Today's meeting also clearly expresses the desire and readiness of the countries of Southeastern Europe to successfully assume the responsibility for the present and the future of our region.

This year, economic news from the world and Europe have been covered by Croatian media as never before, but were also part of almost all talks that were held between the officials from other countries, my colleagues and myself during the course of the year.

The financial, and then also the economic crisis, is deeper and longer-lasting than the first estimations predicted.

Croatia is no exception and it faced this crisis as well as all the other countries did.

Therefore, allow me to tell you a few words about the current economic situation in Croatia.

For the year 2009, the IMF estimated for Croatia a GDP fall by 5.2%, whereas it estimated a GDP growth by 0.4% in 2010.¹

During the preparations of the State Budget for the year 2010, and having in mind the impact of the crisis primarily due to the lowering of export demands, distorted conditions on the financial market, but also the extending of pessimism in the sphere of economic expectations, Croatia estimated the economic growth rate in the scope from 0% to 0.5% with the inflation of around 3%.²

We expect that this year the real GDP fall will amount to 5%. After the slow down in the second half of 2008 in Croatia, there was a fall in real GDP by 6.7% in the first quarter, and a fall by 6.3% in the second quarter of 2009 when compared to the same periods in 2008.

Personal consumption and investments were reduced, and there was also a significant fall in imports compared to exports. The GDP data for the second quarter and the data for the developments in the industrial production indicate that the sudden fall in economic activities has been stopped, and that the economic activity enters the phase of stagnation.

The Government undertook a number of measures. At the end of February, we have adopted a package of ten antirecession measures. We carried out three budget revision and reduced total budget expenditures by 6.5 billion kunas (around 903 million euros).

We dealt with the liquidity and savings in public enterprises. Since the beginning of the year until June, savings were achieved in 21 enterprises in the amount of around 1.38 billion kunas (around 190 million euros).

We have created incentive programs intended for entrepreneurs in the amount over 340 million kunas (around 48 million euros). Most funds were planned for the projects of enhancing competitiveness, introduction of new technologies, technical adjustments and entrepreneurial infrastructure.

¹ Data as of 1 October 2009 according to HINA

² From Guidelines of Economic and Fiscal Policy as of 22 September 2009

Data on trade relations between Croatia and the world for the first six months of 2009 show that the total trade in goods, imports and exports were on average lower by 27% in comparison with the same period in 2008. Moreover, in the same period foreign direct investments in Croatia amounted to 913 million euros, which is by 49.6% less than last year.

Respected colleagues,

The implementation of the Agreement so far, although for the period a little less shorter than two years, undoubtedly showed an improvement in trade relations and created an environment for further economic development and positive relations in total between the CEFTA parties.

It is to be presumed that this positive trend would have continued with even more intensity if the economic crisis had not occurred.

Unfortunately, from the data on trade in goods for the first six months of 2009, it is visible that the consequences of the economic crisis are felt within CEFTA, too.

In 2008, the trade in goods between Croatia and the CEFTA countries amounted to 3.3 billion euros, which is a share of 10.9% in the total trade in goods of Croatia. CEFTA is thus Croatia's biggest trading partner after the European Union. Exports amounted to 2.3 billion euros, which is by 23.5% more than in 2007, whereas goods were imported in the amount of 1.05 billion euros representing a 10.8% growth compared to 2007. Exports on the CEFTA market grew by a higher rate than it was the case with other markets.

In the first six months of 2009, trade in goods between Croatia and the CEFTA countries amounted to 1.12 billion euros meaning that it was lower by 28.8% in comparison with the same period in 2008.

Croatia exported 753.1 million euros in the CEFTA countries which is by 29.6% less than in the same period in 2008. Imports amounted to 367.8 million euros representing a fall by 27.1%.

Respected colleagues,

When talking about the conditions under which the trade in goods is being carried out within CEFTA, we know that now more than 90% of trade in goods is being carried out according to the principles of free trade.

However, the CEFTA countries showed this spring and summer that we are aware of the advantages brought by the further liberalization in trade through the successfully concluded negotiations on the liberalization of the agricultural trade. Precisely these negotiations are considered the most sensitive on a global level.

At the end, I would like to use this opportunity to thank the Sub-committees and the CEFTA Secretariat for the efforts they have undertaken this year which resulted in the successful implementation of the Agreement.

Furthermore, I would like to thank you as the chairman for the successful organization of the CEFTA week which will, according to my belief, further contribute to the implementation of the Agreement.

I wish us all a pleasant and efficient meeting!

Thank you for your attention.