

**CEFTA Deputy Ministers Meeting
10 June 2010, Belgrade**

Major Challenges for the Implementation of CEFTA in 2011

**Vesna Arsic
State Secretary, Ministry of Economy and Regional Development
Of the Republic of Serbia**

Dear Colleagues, Distinguished Ladies and Gentlemen,

First of all I would like to greet you all on behalf of the Ministry of Economy and Regional Development and on my behalf and wish you a warm welcome and a very pleasant stay in Belgrade.

This year, the CEFTA Deputy Ministers Meeting is organized at the moment when some negative aspects of world economic crises still exist.

The recovery has begun, but remains fragile, and is generally expected to maintain a lot of challenges in the CEFTA region as well.

Before the crisis, the economies of the CEFTA Parties were boosted by external resources like privatization proceeds, credits and FDIs. The crisis shows that all CEFTA Parties have to find internal measures to restore the level of so needed growth and increase competitiveness of their economies.

Most CEFTA Parties are likely to record non-negative growth in 2010 but the problem is that the highest level of GDP growth that is expected in some parties is about 2% annually (like in Albania, FYROM and Serbia); Croatia and BIH are expecting GDP growth rate of about 0.2% and 0.5% respectively and Montenegro negative GDP growth rate of about - 1.7%.

Although financial sectors in the CEFTA Parties pass trough crisis with less problems and lower level of NPLs (non-performing loans) and without state intervention (there were rare cases in which governments intervened) than in EU countries, depreciation of the currencies and slowdown of credits activities have ruined their economies.

Majority governments of the CEFTA Parties have taken several measures fighting against the lower level of aggregate demand opening some infrastructure projects or compensating the credits interest rates that become significantly higher based on the higher risk premium. At the same time, some of them have concluded arrangements with the IMF (like Serbia and BIH), have frozen salaries in public sectors and pensions and cut public expenditures.

At the time of crisis when proceeds from taxes are at the lower level based on the lower level of economic activities, governments have to find a way to change composition of budget expenditures and increase capital side of budget expenditures, without increasing the level of taxes (only Croatia increased the level of VAT). At the same time majority of them are faced with social tensions and high level of unemployment rate (in Serbia it is about 17%).

Fiscal deficit and level of external public debt have recorded negative movements in all CEFTA Parties and further deteriorated the possibilities of achievement of a sustainable growth.

Serbia also was hit by the global economic meltdown.

Despite the fact that the economy will gradually pick up, 2010 and 2011 will still be another two difficult years for the Serbian economy as well.

A 2% growth is projected for 2010 with expectations of 3% growth rate in 2011. For the first four months in 2010 industrial production has recorded increase of 4.8% comparing with the same period in 2009 and only for the April 11.3% was recorded what is the very positive signal that contributed to the GDP growth of about 1.0% in the first Q comparing with the same period in 2009.

Positive figures about export of Serbia that increased 18% in the first four months in 2010 (27% in the April) comparing with the same period in 2009, and import that dropped 2.1% in the same period, supports current account deficit that also improved in 2009 (dropped from 17% in 2008 to about 8% in 2009). It will support the position of the value of dinar that is very sensitive issue in Serbia.

Serbia's fiscal deficit will be larger than planned to reach 4.8 percent of the GDP in 2010 instead of 4.5 percent in order to accommodate the revenue downfall.

Serbia's foreign currency reserves are more than sufficient so the country does not need to withdraw additional funds from the IMF, but it is important that the funds are available.

Inflation has decreased, creating an opportunity for durable stabilization of price growth within the single digit range (from 10.9% in 2008 to 8.4% in 2009). Projections for 2010 are about 6%.

Ladies and Gentleman,

Taking into account the overall economic situation it is obvious that our work in CEFTA need to be strengthened and further developed to the benefit of our economies and citizen.

In the next year the focus should be on ways and means to sustain the economic recovery while addressing imbalances of foreign trade, current account and budget deficit and also relatively high level of unemployment.

Trade is already contributing to recovery and it will be an essential component of any realistic policy framework for sustained growth and development. Beside trade, increasing flows of investment, technology, ideas, and people is of equal importance.

It is obvious that trade in CEFTA Region has suffered consequences from the economic crisis. In **2009 overall trade** in the region has decreased by 25%, with imports decreasing for 25,4% and export for 24,6% in comparison to 2008. The trade with agricultural products has proven to be more resilient to the crisis than trade with non agricultural products in this period. While trade with non-agricultural products decreased for 31% (imports 32% and exports 31, 2%) at the same time trade with agricultural products decreased for 8% (imports increased 2% and exports decreased 10%). Albania, Croatia and Moldova even recorded an increase in imports (19,8%, 1,2% and 22,6% respectively), while Bosnia and Herzegovina and Croatia recorded an increase in exports (3,6% and 0,2% respectively).

CEFTA Region is very important for the Republic of Serbia. After the EU, CEFTA is the second most important foreign trade partner of Serbia. Since the entering into force of the Agreement, the share of Serbian trade with CEFTA Parties is about 16% of total trade with the World, with the share of exports of 33% and imports of 8% (in 2009 34,7% and 8,6% respectively).

Since 2006 **Serbian trade** with CEFTA Parties had a stable annual growth of approximately 50% except in the 2009 when it decreased approximately 20% (imports 22,3% and exports 18,9%) due to the economic crisis. The imports of agricultural products decreased for 3,6% and non-agricultural product for 26,2%. At the same time the exports of agricultural products decreased 6,5% and non-agricultural product 24,1%. In the first quarter of 2010 a modest recovery has been noted and an 8% increase in trade has been recorded (imports 12, 2% and exports 3%).

In the last two years the most significant CEFTA Parties for Serbian export are Montenegro, Bosnia and Herzegovina and Macedonia. Regarding the imports the first ranking is Bosnia and Herzegovina, followed by Croatia and Macedonia. From the total trade with CEFTA Parties 76% are industrial goods and the rest are agricultural goods. The most important Serbian **export products** are iron and steel, flour, oil and oil derivatives, beverages, spirits and vinegar, electrical machinery and equipment, maize, sugar, sunflower oil, plastics and furniture. The top **importing products** are oil and oil derivatives, copper ore, coke and semi-coke of lignite, tomatoes, wood and articles of wood, electrical machinery and equipment and paper and paperboard.

Like in Serbia, in the first quarter of 2010 a slight recovery has been recorded in the overall trade in the region. Imports have increased in most of the CEFTA Parties except Montenegro, while exports have also increased in most of the Parties excluding only Croatia and Macedonia. Even so, it is too early to forecast what will be the trade result at the end of the year.

Dear Colleagues.

In light of the benefits of trade openness, protectionism, in both trade and investment, should be avoided. It is important that governments have the strength in resisting the pressures to respond to this crisis by adoption of protectionist measures, which can create only a temporary illusion of relief.

The danger for the smooth conduct of trade in agriculture goods was often recognized in the form of sanitary and phytosanitary measures. With the aim of facilitating the flow of agricultural products the signing of a Protocol of recognition of certificates between Bosnia and Herzegovina and the Republic of Serbia is in the advanced faze. This could be seen as a mean for facilitating our trade and avoiding unnecessary non tariff barriers.

All priorities of Serbian chairmanship of CEFTA in 2010 are going in the same direction of expanding the liberalization beyond goods only, especially through:

- Exploring the possibilities for liberalization of trade in services,
- opening up the governments' procurement market,
- achieving competition and trade liberalization coherence and
- Creating conditions for establishing regional investment market.

In this direction, the first reviews of the existing legislature in the area of competition and government procurement and ongoing reforms have shown significant efforts taken by all CEFTA Parties to harmonize with the EU acqui and to fulfill the relevant CEFTA provisions. However, a lot of work on implementation and monitoring of the achieved results is still in front of us.

We can say that today we have the first results in these areas where work will continue not only this year.

Expanding the activities in these areas would not only ensure proper and efficient implementation of CEFTA, but also attract foreign capital and increase competitiveness and thus bring benefit to our all economic activities.

Our ambitions are big, but they are timely and adequate. We must not also forget that the proper functioning of the CEFTA Secretariat is of utmost importance for fulfilling all of our goals. This means not only finding solutions for smooth operation of the Secretariat, but also ensuring the proper decision making in our Agreement which is more that necessary for implementation of existing obligations, and for future ones as well.

Dear Colleagues,

We are witnessing the visible results of trade liberalization under the auspices of CEFTA and we are ready to go further in trade liberalization and deeper economic cooperation and harmonization in the region. This is also proven important under current economic umbrella in the world.

In an era of on-going economic and financial global integration, there is an imperious need to pragmatically take the necessary economic policy measures to achieve mutually beneficial goals of regionalization, which in turn could be a building block for onward move towards the EU integration and globalization.

Thank you for your kind attention and I wish us every success in our work.