

THE IMPACT OF GLOBAL CRISIS ON CEFTA TRADE

Presentation of Mr. Mladjan Dinkic, Deputy Prime Minister and Minister of Economy and Regional Development of the Republic of Serbia

**Mr. Chairman,
Distinguished ladies and gentlemen, colleges from the CEFTA Parties**

First of all, I would like to sincerely thank Minister Vujovic for the excellent organization of third CEFTA Joint Committee Meeting and CEFTA week and to acknowledge great effort and positive results achieved by Montenegro as the Chair of the CEFTA in this year.

As all of you are aware, the current global financial and economic crisis has not bypassed our Region and unfortunately we are all faced with similar problems.

However, I would like to mention that the crisis struck Serbia with a certain delay thanks to a well implemented banking system reform and a very strict monetary policy conducted by the National Bank of Serbia.

Furthermore, it is our belief that crisis reached the bottom and that we are now on the road to recovery. We expect that the first positive results would be visible in the last quarter of 2009 and that we could be out of recession in the first quarter of 2010. But the road to recovery remains slow and arduous.

The effects of the crisis on Serbian economy

The effects of the crisis have been registered firstly in the financial sector and then in the economic activity overall. The depreciation of exchange rate, decline of exports and downfall of the market prices of stocks have been followed by the decline of industrial production, slow-down of the entire economy and consequently by decline employment and budget revenues. Since July 2009 public revenues have slowly started to increase, due to the government measures and overall economic situation.

The average GDP growth rate in the past three years was around 6.4%. However, in the 2009 we expect that the economy will contract by around 3% which is better than previously anticipated.

Public debt will be 31.8% of GDP by the end of 2009. Serbian external debt is 64% of GDP. Inflation is projected to be around 8% through 2009 and to further decline in 2010.

In the field of employment, Serbian government faces a very serious challenge with a continuous high rate of unemployment. The situation has been slightly improved with unemployment rate decreasing from 18.8% in 2007 to 14.7%, in 2008, but it already deteriorated in 2009 to 16, 4% because of the economic crises.

The economic crisis had a significant impact on Serbian foreign trade. In the first six months of 2009 total trade between Serbia and the World was 27% lower than in the same period of 2008. Imports were lower by 30.4%, and exports by 22.8% in the period January-June 2009 compared to the same period in 2008.

What are the results of our regional trade in recent period?

For Serbia, in first six months of 2009 total trade with the CEFTA Parties was lower by 22.29 compared to the first six months of 2008. Imports from the CEFTA Parties were 35,7% lower, and exports to the CEFTA Parties were lower by 15.5% in period January-June 2009 compared to the same period in 2008. The figures indicate that the trade with the Region for Serbia is more stable than with the rest of the world. It seems also that the trade in agricultural products is less affected than the trade in industrial products.

Generally, after the EU, CEFTA is the second most important foreign trade partner of Serbia. The share of Serbian trade with CEFTA Parties is about 16% of total trade with the World, with the share of exports of 36% and imports of 7, 2%.

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 69% are industrial goods and the rest are agricultural goods. The share of industrial goods in Serbian exports is 66% and in imports 77%.

Mr. Chairman, Distinguished representatives from CEFTA parties,

If we look at the structure of products we trade in CEFTA, it is evident that we exchange low value added industrial and consumer goods i.e. the most traded products have medium or low technological intensity or agricultural products. Per capita exports of goods and services are lower than in relevant comparative countries.

I believe that you share my opinion that we should improve competitiveness of our economies by increasing productivity, building appropriate infrastructure linkages, by innovations, by building modern knowledge-based economies, by adopting European technical regulations and standards. It is both a task of our national, but also of our regional policy. Participation of our firms in networks within regional and of course global value chains should be promoted.

FDI flows in the CEFTA region are below potential. It is clear that deeper cooperation between economies takes place at the company level but however governments have to undertake reforms and implement appropriate policy to create favorable conditions without non tariff barriers to trade in goods and services and to investments both from inside and outside the region.

Increased intra-industry trade, exports, and FDI inflows could result also from the implementation of diagonal cumulation of origin under the Pan-European cumulation.

The measures for dealing with the economic crisis

The Government of Serbia undertook a series of measures to minimize the impact of the crisis. The measures which have been in force since January this year can be divided into three groups: measures for savings, measures for stimulating the economy and measures in cooperation with international organizations.

In the beginning of this month, Serbian Government also adopted the plan for reduction of public administration and administration procedures with the aim to simplify business conduct in the country and cut down administrative business costs for 25%.

- Saving measures

Savings measures have been mainly concentrated on adjusting the budget expenses and revenues to distribute the burden of the crisis more evenly with the aim to reduce the expenses for public administration..

At the same time there has been an increase in the excise duties on petrol and diesel, as well as on luxury goods.

- A package of incentives for stimulating the economy

Measures for stimulating the economy have been designed to increase liquidity and consumption by enabling commercial banks to offer soft loans to companies and consumers for *inter allia* purchasing raw materials and newly built flats respectably.

These measures also encompass the increase of Serbian Government investment activity thru building and reconstruction of infrastructure, mainly Corridors 7 and 10 which would target the most vulnerable sectors: construction industry, construction materials, metal and metal products industry.

The effort will be made to increase commercial investments and create favorable business climate by regulatory guillotine and decrease of fiscal burden on the companies.

- Measures in cooperation with international financial institutions

Serbian Government also negotiated certain measures in cooperation with international financial institutions e.g. with the IMF, World Bank, European Investment Bank and the European Bank for Reconstruction and Development

I would like to point out that none of these measures can be characterized as protectionistic or trade distorting. These measures are, among other things, designed to improve business climate and maintain the current living standard of citizens which would have positive impact on consumption in Serbia and consequently on trade with CEFTA Parties.

Mr.Chairman,

Serbia believes that further trade liberalization might be one of the crucial responses to crisis and that is the reason why we continue our efforts to negotiate further trade liberalization within CEFTA.

At the same time, Serbia has taken a significant measures to extend free trade with other countries or to improve the level of economic cooperations with them e.g. with Russian Federation, Belarus, Turkey, EFTA countries and EU by unilaterally implementing the Interim trade agreement

In the end, as a new chair in 2010 I would like to say that there is still a lot to be done if we want to realize what we have signed and turn the region into a zone of free trade. That is clearly visible from our priority areas of work for the next year. Expanding our activities to areas of services, competition rules, public procurement etc. would not only ensure proper and efficient implementation of our Agreement but make benefit to our overall economic activities and raise the standard of living for our citizen. At the end Me. Chairman,

Let me join the previous speakers in thanking Montenegro government for the successful organization of this meeting and for their extremely warm hospitality.

Thank you for your attention.