

MEASURES TO ADDRESS THE IMPACT OF GLOBAL CRISIS ON CEFTA TRADE

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

**Mr. Scepanovic (Chairman),
Distinguished colleagues from the Region (CEFTA Parties)**

First of all, I would like to thank Mr. Scepanovic for organizing this CEFTA Deputy Ministers Meeting and to acknowledge great effort of 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 more or less similar problems. In the past seven years, high GDP growth rate in the region was recorded due to high privatization proceeds and strong credit growth. The average yearly GDP growth rate in Serbia, in the past three years was at the level of about 6,2%. However, first version of GDP growth rate for 2009, that was set up at 2%, is revised downwards, as affected by changed global economic conditions. Now, it is projected at the level of -2% for 2009 and flat for 2010.

I would like to mention at this point 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.

But the effects of the crisis that have been registered firstly in the financial sector expanded then to the economic activity overall. We registered the outflow of capital, increase of interest rates, depreciation of exchange rate and downfall of the market prices of stocks. All mentioned was followed by the decline of industrial production, slow-down of the entire economy and consequently by decline of budget revenue.

In the first three months of 2009 total trade between Serbia and the World was 25.1% lower than in the same period in 2008. The same figures are on the side of export and import as well (imports were lower by 25.7%, and exports were lower by 23.8% in the period January-March 2009 compared to the same period in 2008.)

Regarding the trade with the CEFTA Parties, in first three months of 2009 total trade was lower by 27.5% compared to the first three months of 2008. In the same period, imports from the CEFTA Parties were 32.9% lower, and exports were lower by 24.5%.

All mentioned trends, still don't have negative effect on employment, but Serbian government is challenged with persistently high rate, although slightly improved in 2008 compared to 2007 (a decline from 18, 8% to 14,7%). It is expected to be deteriorating further on.

The measures for dealing with the economic crisis

The Government of Serbia undertook a series of measures to minimize the impact of the crisis.

General strategy is focused on maintaining and improving internal and external liquidity and maintaining the exchange rate stability. The measures which have been in force since January this year can be divided into three groups:

- saving measures,
- a package of incentives to boost economic activities,
- conclusion of arrangements with international financial organizations.

Saving measures

Savings measures have been mainly concentrated on adjusting the budget expenses and revenues to distribute the burden of the crisis more evenly and to provide funds for infrastructure investments. The plan was to reduce the public administration expenses by nearly €850 million in this year (which included decrease and freezing of wages, decrease of subsidies, expenses for representation, business trips and ban on the new employment.

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

A package of incentives to boost economic activities

Measures for stimulating the economy have been designed in the purpose to decrease the cost of financing, by subsidizing of interest rates of credits for liquidity, export, investment and purchasing some of consumer's goods. This kind of supports have generated banking credits of about EUR 370 million up to now, and expectations are that for whole 2009 it will be 1 billion EUR and with credit line from EIB (APEX credits), in the amount of EUR 250 million, improve liquidity of the system.

The measures encompass the increase Government investment activity through building and reconstruction of infrastructure, mainly Corridors VII and X which would stimulate the most vulnerable sectors: construction and construction materials industry, metal and metal products industry.

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

Conclusion of arrangements with international financial organizations

On May 16th the IMF approved a €2.9 billion stand-by arrangement for macroeconomic stability and dealing with the effects of the global economic crisis during the next two years. According to this decision Serbia can draw €788 million immediately.

According to the financial agreement with the World Bank, Serbia will be able to draw \$900 million, of which \$450 million will be used for budget support in the next two years. A total of \$388 million will be set aside for the construction of Corridor X, and the remaining part will be intended for health and local self-government projects.

The construction of Corridor X will be also financed by the €810 million loans from the European Investment Bank and the European Bank for Reconstruction and Development which should be approved in the middle of this year.

In addition, the agreement about maintaining the current exposure level in next two years was negotiated with foreign commercial banks which established subsidiaries in Serbia.

Serbian Government adopted additional set of economic measures in mid May 2009.

Mr.Chairman, At the same time, Serbia has taken a significant measures to extend free trade markets with other countries or to improve the level of economic cooperations with them.

At the end, I would like to point out that none of these measures can be characterized as protectionistics 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.

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 in the field of agricultural products and also negotiate free trade agreements with other countries as follows:

EFTA

The negotiations between Serbia and EFTA states (Norway, Iceland, Switzerland and Lichtenstein) on free trade started at the end of April 2009. After satisfactory results of the first round of negotiations, we can expect the accelerating dynamic of negotiations and finalization of the FTA in months to come.

SAA with EU

Stabilization and Association Agreement with the EU (establishing a free trade area between Serbia and EU) was ratified in the Serbian Parliament in September 2008. At this moment Serbia is unilaterally implementing the Interim trade agreement with EU (starting January 2009) as a sign of Serbian determination to become a part of EU.

Bilateral FTAs

There is **Free Trade Agreement with Russian Federation** since 2000. Further liberalization was agreed recently and only few products are still exempted from the liberalization.

FTA with Belarus was signed in March 2009 and from that time is in forced.

The negotiations on free trade with **Turkey** were concluded in March 2009 and we expect that the Free Trade Agreement will be signed in June.

At the end, I would like to point out that all those measures are design to improve business climate and maintain the current living standard of citizens which would have positive impact on consumption in Serbia and consequently on Serbian trade with world and CEFTA parties. Serbia believes that further trade liberalization might be one of the crucial responses to crisis. It is the reason why we continue our efforts to negotiate further trade liberalization within CEFTA in the field of agriculture products and also negotiate free trade agreements with other countries and promote openness of economy as the one of important way of response to the economic crisis.