

WHAT G-MINT PREPARES

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Public Agency *Yugoslav Survey*

Phone: + 381 11 3233610

info@pregled-rs.rs • www.pregled-rs.rs

Dear Users,

The Serbian Government has reacted at last with concrete measures to the big financial crisis in the world. All of the three titles on the first and also many on the following pages are directly associated, in one way or another, with the crisis which is shaking up the whole world. With the exception of the usual nervousness and uncertainty, the finances in Serbia are still not visibly suffering from the consequences of what is going on elsewhere, but that is bound to come. They could be manifested in the first place in the form of slowed down foreign investments and privatisation and restructuring of the public sector, which would postpone the sale of parts of or entire large state-owned enterprises.

Despite the hazard of being badly affected by the crisis, the Government has evidently not opted for restrictions. On the contrary, by the steps it is going to take – many of which are mentioned also in this issue of the Newsletter – it is showing that Serbia remains open to cooperation with the rest of the world and the EU in particular, which is best illustrated, among other things, by its recent decision for unilateral implementation of the Interim Trade Agreement.

With best regards,
SURVEY-RS Editors

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■ UNILATERAL IMPLEMENTATION OF INTERIM TRADE AGREEMENT

On 16 October 2008, the Serbian Government decided for unilateral implementation of the Interim Trade Agreement with the European Union as of 1 January 2009.

Following the ratification of the Stabilisation and Association Agreement →

■ GOVERNMENT CORRECTED ITS EARLIER PROJECTIONS

In mid-October, the Serbian Government adopted the corrected Memorandum of Budget and Economic Policy for 2009 and next two years. In view of the international financial market crisis and growing inflation and deficit at home, almost all macroeconomic parameters for this and next two years, with the exception of that relating to the GDP growth, which is going to be higher in 2008 than was expected earlier.

According to earlier projections, this year's inflation should have been about 8%, but it is actually going to be 9.5%, while the GDP growth rate will be higher than anticipated earlier and will reach 7%. Evidently, the biggest departures will be made in the estimated shares of foreign deficit and external debt in the GDP. Thus, according to new estimates, the share of the trade balance will increase by approx. six percentage points in 2011, reaching 21.2%, and that of the external debt by about three percentage points, reaching 63.8% of the GDP.

Corections / Percentage points (+/-)

	2007	2008	2009	2010	2011
Real GDP growth (%)	-0.4	+1.0	0.0	0.0	0.0
Inflation, end of period (%)	0.0	+1.5	0.0	0.0	0.0
Trade balance (% of GDP)	-1.4	-2.7	-4.3	-5.4	-5.9
External debt (% of GDP)	1.8	0.0	+2.0	+3.1	-3.1
Fiscal result (% of GDP)	-0.1	-1.0	-1.7	-1.9	-1.2
Public debt (% of GDP)	0.9	-1.2	-1.6	-2.0	-2.2

GUARANTEES FOR SAVINGS OF UP TO € 50,000

The Serbian Prime Minister Mirko Cvetković stated on 20 October that the government is going to increase the guarantee for citizens' deposits in banks amounting to € 3,000 at present to € 50,000 per deposit and that it will temporarily – until the end of the year - abolish the 20% tax on the capital gains on such grounds. In presenting the Serbian Government's new measures for alleviating the impacts of the world financial crisis at the Serbian Chamber of Commerce, he said that the possibility of the savings deposit guarantee being raised even to € 100,000 will be considered later on, if that becomes necessary. He also announced the full abolishment of the tax on capital gains and transfer of absolute rights.

The world crisis has not produced any impacts in the short-run, but even so, funds are going to be reserved in the 2009 Budget for maintenance of the banking system's stability.

and the Interim Trade Agreement at the Serbian National Assembly on 10 September, which was preceded by a lengthy parliamentary debate, the Serbian Government members kept announcing that the decision for implementation of the Interim Trade Agreement with Serbia is going to be taken at the next meeting of the EU Council of Ministers. However, the Council of Ministers did not render such decision at its meeting of 15 September, because the Netherlands and Belgium were against it, while the agreement between Belgrade and Brussels was given support by 25 of the 27 members of the European Union.

The Interim Trade Agreement provides for unilateral reduction of customs duty on products imported from the European Union gradually within 6 years, which will be conducive to greater competition on the Serbian market. Among other things, thanks to implementation of this agreement, the customs duty on new and second-hand motorcars imported from the European Union is going to be reduced from 20% at present to 10% as of 1 January 2009.

■ *AGREEMENT WITH FIAT*

The long-announced joint venture agreement in connection with Zastava Factory was signed in Belgrade on 29 September 2008. It was signed by the Serbian Deputy Prime Minister and Minister of Economy and Regional Development Mladan Dinkić and President of the Fiat Group Sergio Marcione, in the presence of the Italian Foreign Minister Franco Frattini, Serbian President Boris Tadić and Serbian Prime Minister Mirko Cvetković.

This project is worth about € 950 million and it is so far the biggest foreign direct investment in Serbia, thanks to which 4,750 new jobs will be opened. The new Fiat Automobili Srbija joint-stock company has been established with head office in Kragujevac and the shares of Fiat and Serbian Government in it are 67% and 33% respectively. The initial Fiat investment will amount to about € 700 and that of the Serbian Government, € 200 million.

The factory's output is going to be 200,000 motorcars a year by the end of 2010, with the possibility of it being increased to 300,000 later on.

In the capacity of co-owner of Zastava kamioni in Serbia, the Italian Iveco truck producer will be producing special-purpose motor vehicles and more than 2,200 busses a year, while the Fiat Magneti Marelli factory will be producing components and spares for domestic and foreign markets.

■ *BEGINNING OF IMPLEMENTATION OF THE GAS AGREEMENT*

The Serbian Prime Minister Mirko Cvetković announced in mid October 2008 that the implementation of the gas section of the Energy Agreement with the Russian Federation is going to be started by the end of the year. This was also confirmed by the Serbia Gas executive director Saša Ilić. During his visit to Moscow, on 15 October, he said that Gasprom and Serbia Gas intend to establish a joint company for management of the gas storage facility in Banatski Dvor by the end of this year. The shares of Gasprom and Serbia Gas in that company will be 51% and 49% respectively. By the year 2013, the maximum capacity of the mentioned storage facility will be about 800 cu. metres of gas a year. Ilić said that a joint company will be established also for the construction of the South Stream gas pipeline, in which the Russians' share will be 51% and which will be headed by a Gasprom representative.

The ratification of the Energy Agreement at the National Assembly on 28 September 2008 was preceded by public polemics as to whether € 400 million is a realistic price for 51% of the Serbia Oil Industry assets. This transaction and its price were an integral part of the energy arrangement which was provided by the earlier agreement between the Serbian Government and Gasprom.

■ *GUILLOTINE FOR REGULATIONS*

On 9 October 2008, the Serbian Government adopted the Strategy of Regulatory Reforms in Serbia for the 2008-2011 period, whereby the all-inclusive

preparations for the revision of standing Serbian regulations were started up formally. The Serbian Government should adopt new bylaws and present bills for adoption by 30 June 2010.

The all-inclusive reforms of regulations should do away with unnecessary regulations and improve the competitiveness of Serbian industries. According to initial appraisals, about a third of regulations are surplus to requirements on the Republic level alone, since local regulations are not covered by reforms. The action plan for implementation of the Strategy provides that by March 2009, all ministries should make lists of all regulations within their competences, on the basis of which regulations will be analysed and recommendations be made for modification or abolishment of a certain number of regulations. It is expected that about 15,000 regulations in the scope of reforms, including also the regulations of the former SFR of Yugoslavia, many of which are still in force, as well as the regulations which are in collision with others, are going to be considered.

According to the strategy, the Government should adopt by 31 December 2009 the Recommendations for Annulling or Modifying Regulations and present them to regulatory bodies for implementation. The latter should be prepare by 30 May 2010 the packages of regulations within their competences or recommend their annulment, in keeping with the Recommendations.

■ *SERBIAN GOVERNMENT'S FIRST 100 DAYS IN OFFICE*

On the occasion of the Government's first 100 days in office, Prime Minister Mirko Cvetković said that the real growth of wages will be limited to 2% and the budgetary deficit to 1.9%. He expressed his doubts about the pensions being adjusted to 70% of the average wage in 2009, which was one of the election promises, because of the necessity to cut public spending in 2009.

The Government has adopted so far 70 proposal laws, of which 20 are the condition for Serbia to be put on the White Schengen List. At the session held on that occasion, Deputy Prime Minister

Božidar Đelić said that by the end of 2008, Serbia should adopt altogether 49 laws which are necessary for speeding up Serbia's association with the EU.

■ *€ 584.5 MILLION ASSISTANCE TO SERBIA IN SUPPORT OF REFORMS AND DEVELOPMENT*

On 29 September 2008, the European Commission decided to allocate € 584.4 million from 2008 to 2010 as support to reforms and development of Serbia in the scope of the Pre-accession Assistance Programme. The European Commission is expected to grant the mentioned funds formally in November or December this year, after which, the Serbian Government should sign the financing agreement, at the beginning of 2009.

This assistance is earmarked for the improvement of administration and rule of law, economic and social development, harmonisation of laws with the EU legislation, stepping up the capacity for implementation of laws, development of local infrastructure, environmental protection in the energy sector, medical waste treatment, etc.

■ *FUNDS SECURED FROM WORLD BANK AND EUROPEAN INVESTMENT BANK TOWARDS COMPLETION OF CORRIDOR 10*

The Serbian Deputy Prime Minister Božidar Đelić said on 13 October 2008 that Serbia has obtained from the World Bank and European Investment Bank the funds necessary for completion of the most important line of communication in Serbia – Corridor 10. The World Bank's support will amount to about US\$ 600 million and the European Investment Bank will invest more than € 1 billion. The length of Corridor 10 in Serbia is 835 km and 60% of that has been completed so far. The funds necessary for its completion amount to about € 1.7 billion.

■ *UNCERTAIN DEADLINES FOR PRIVATISATION OF BIG STATE ENTERPRISES*

Under the very bad circumstances caused by the world financial crisis, the restructuring and privatisation of state enter-

prises (which account about 20% of assets and 16% of the total number of employees of the industries of Serbia), as well as the liberalisation of the infrastructure sector they are operating in, are given the highest priority and pose the biggest challenge.

In the Memorandum of Economic Policy for 2008 and the 2008-2011 Period, which was adopted in mid-October 2008, the Serbian Government set the most important steps and measures which should speed up that process. Among other things, the restructuring of Serbia PTT Public Enterprise is going to be speeded up, following the settlement of its proprietary and contractual relations with Telecom Serbia. A public postal operator – Serbia Post Office – is going to be established and it should operate independently, in accordance with market principles and without government support.

With the enormous increase in the price of heating gas and fixed telephony services, the introduction of new operators and boosted competition are wanted in these monopoly sectors.

Since there is no single position with regard to the speed and coverage of privatisation of the biggest public enterprises, the Government is yet to set the strategy of restructuring and privatisation for them. It is intended for Telecom Serbia and Serbia Electricity Industry to become regional leaders in these areas by making additional investments.

■ *NUMBER OF ENTERPRISES FOR DISTRIBUTION OF GRATIS SHARES TO BE INCREASED*

The Deputy Prime Minister and Minister of Economy Mladen Dinkić announced in mid October 2008 that the list of enterprises, the shares of which are to be distributed to citizens gratis, is going to be increased. Almost five million citizens who have not exercised that right before have claimed gratis shares.

The Law on the Right to Gratis Shares and Pecuniary Compensation, which was adopted in late 2007, provides that citizens have the right to 15% of the equity (shares) of the following six big state-owned enterprises: Oil Industry of Serbia, Telecom Serbia, Serbia Electricity Industry, Jat Air-

ways, Nikola Tesla Airport and Galenika Pharmaceuticals. However, because of the world's big financial crisis, it is clear that it will not be possible for some of these enterprises to be privatised this year and perhaps even the next one.

■ *INTERNATIONAL MONETARY FUND DELEGATION IN SERBIA*

According to the latest announcements made by the Deputy Prime Minister Božidar Đelić upon his return from the annual meeting of the World Bank and IMF, the Government is also going to consider the possibility of signing a one-year agreement with the IMF. That agreement, if signed, will be implemented not only between Serbia and the IMF, but also with the World Bank and the European Union, as a set of measures which will make it possible for Serbia to show that it is a stable and predictable country worthy of being invested in, said Đelić.

The IMF mission headed by Albert Jaeger paid a regular visit to Serbia found that it manifests a high economic growth and that the foreign direct investment inflow in it is significant. The IMF mission found that the Serbian Government should adopt a restrictive budget for 2009, that the negative impact of the extraordinary increase of pensions by 10% will be manifest in the next year's budget and that it would be unrealistic and untenable for pensions to reach 70% of the average monthly wage.

■ *PRIVATISATION PROCEDURE TO BE SIMPLIFIED*

The Serbian Government is going to consider by the end of October possible changes in the regulations dealing with privatisation by tender and auction, in an effort to facilitate and speed up considerably the privatisation of the remaining socially owned enterprises under the circumstances of the global financial crisis – said the Deputy Prime Minister and Minister of Economy and Regional Development Mladen Dinkić on 14 October.

The proposed changes would make it possible for the best tenderers/bidders

to acquire controlling rights in the enterprises being privatised against payment in instalments within up to five years, the initial payment amounting to at least 30% of the price fetched.

■ *SERBIA GOING UP THE LIST OF COMPETITIVENESS*

After two years of sinking in the World Economic Forum's List of Competitiveness, which includes 134 countries, Serbia has moved from the 91st to the 85th place. Serbia's goal is to become one of the 70 most competitive countries within a few years.

According to the annual report of the International Financial Corporation and the World Bank, Serbia has fallen from the 91st to the 94th place in the list showing the business operation conditions in 181 countries. Serbia has improved its position by 20 places with regard to property registration, having reduced the absolute rights transfer tax rate from 5% to 2.5% of the value of real estate. Serbia's best achievement is the 28th place according to the criterion of measuring the easiness of obtaining loans for companies and its worst position is the 171st place relating to the speed of the procedure for obtaining building permits.

■ *PUBLIC DEBATE ABOUT THE PUBLIC OWNERSHIP BILL STARTED UP*

According to the new Public Ownership Bill, which has just been subjected to public debate, the state will have the exclusive right of ownership in relation to natural resources throughout its territory and it will be able to manage such resources by founding enterprises or granting concessions. This bill is planned to be adopted by the end of 2008.

Among other things, this law will also deal with the transfer of the state's title to building land in the territories of the autonomous province and local self-government units. In September, the Minister of Environmental Protection and Spatial Planning, Oliver Dulić, announced amendments to the Law on Planning and Construction, which would make it possible for building land which is still state-owned to become private owned, even though its privatisation was made possible under the 2006 Serbian Constitution

■ *NEW CUSTOMS CLEARANCE METHOD FOR FINISHED TEXTILES*

A new method of customs clearance for finished textiles is being prepared as a measure for curbing unfair competition in the textile industry. The entry invoice, which is extremely low for goods from the Far East, will no longer serve as the exclusive customs clearance base, because the real value of goods will also include quality and weight or measure of goods.

Minister Slobodan Milosavljević stated that as of 1 January 2009, the sellers of textiles on streets and green markets will have to use fiscal cash registers. The sellers of produce and foods on green markets will be exempt from that.

In Serbia, fiscal cash registers do not have to be used by retailers who deliver the ordered goods by mail, shoe and other leather product repair shops, carriers of passengers and goods by road, railway, waterway and air, as well as urban carriers and taxi service. Neither do they have to be used by travel agencies and tour operators, monetary institutions, pension funds and providers of automobile, railway track and railway appliance service providers.

■ *NEW LAW ON THE PROTECTION OF CONSUMERS BEING DRAFTED*

Ljiljana Stanković, Assistant to the Minister of Trade and Services, said on 6 October 2008 that a new law on consumer protection is being drafted and that it will be adjusted to the European Union legislation in that area. She also said that a bill concerning the general safety of products has been put in the assembly adoption procedure, as well as that the Ministry of Trade and Services is drafting a new law on the protection of competition.

■ *NEW COURT NETWORK*

The Serbian Minister of Justice, Snežana Malović, said at the annual conference of judges on 6 October 2008 that the set of new laws dealing with the judiciary, which have been drafted since 2006 – when the Judiciary Reforms Strategy was adopted – is going to be put in the assembly adoption procedure by the end of the month. The reforms will also be geared to the establishment of a new court network in Serbia.

■ *NEW LAW ON THE PROTECTION OF COMPETITION*

The Minister of Trade and Services stated on 20 October that the Draft Law on the Protection of Competition, which is going to be opened to public debate in late November, will provide the Committee for the Protection of Competition with greater authorisations and make it possible for it to impose sanctions. The draft of that law has been completed and is now being edited. The Serbian Government should adopt it by the end of 2008. According to the existing law, the Committee is not authorised to pronounce enforceable measures by itself, which is why its authority is reduced substantially and some of its decisions are being dealt with by courts.

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