

WHAT G-MINT PREPARES

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SURVEY – REPUBLIC OF SERBIA

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Dear Users,

This issue was planned to come out by mid-January. For reasons which need no explanation, that did not happen, because at that time, we had nothing new to say, apart from the fact that Serbia, too, is being shaken up by the world financial crisis. Nothing concrete could have been said about the Government's plans and its responses to the crisis, which would at least be in keeping with the question in the title of this issue of the Newsletter.

Thus, it was only at the beginning of February that we were able to find out what action the Government is going to take, that the proceeds of the sale of Serbia Oil Industry (NIS) have reached us and that the FIAT investment into two thirds of Zastava equity has been postponed until some better times. The IMF has extended a standby arrangement in the meantime and there is a quest for new loans, from the World Bank and EU in particular.

Things are going to be clearer by mid-March, when our next issue can be expected to come out.

With best regards,
SURVEY-RS Editors

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Prime Minister Cvetković said that the Government is preparing incentives for the purchasing of the newly built dwellings, which will be applicable as of this spring at the latest. Incentives are also being prepared for investing in infrastructure, as a part of the package of measures for dealing with the economic crisis, which will be modified in accordance with current situation.

This year's first auction of the government bills of three-month maturity at incentive interest rate is going to be held in the first week of February, for the purpose of raising funds towards meeting the budgetary commitments.

■ APPROX. € 1.25 BILLION TOWARDS ALLEVIATING THE CONSEQUENCES OF CRISIS

The Serbian Government adopted on 29 January the Programme of Measures for Lessening the Impact of the World Financial Crisis, according to which CSD 122 billion or about € 1.25 billion should be raised for the purpose of stabilising the production and exports.

CSD 40 billion are planned to go towards raising the current liquidity of the prevalingly exporting industries with the means of commercial bank loans, the interest on which will be subsidised by the government. Loans amounting to almost CSD 17 billion will be taken towards investing in industries, with the participation of the Development Fund and guarantees provided by the Guarantee Fund. Twenty billion CSD will be provided from commercial banks in order to

extend the consumer credits to households at subsidised interest rates towards purchasing durable consumer goods and other goods of domestic origin, including everything from motorcars, household appliances, furniture and farming machines, to flooring. The rest amounting to about CSD 45 billion is going to be accounted for by foreign credit lines towards funding the small and medium enterprises.

The Government is going to set the priorities and sectors to be financed using such funds and the Serbian National Bank is going to set the criteria for the selection of the commercial banks which are to extend the loans. The selected commercial banks are going to select the projects to be financed in accordance with the set criteria. In the allocation of incentive funds, priority is going to be given to exporters, which will be awarded loans on the basis of concrete exporting projects.

■ GAZPROM NEFT PAID IN € 400 MILLION FOR SERBIA OIL INDUSTRY

Having paid € 400 million into the Serbian budget account in early February, Gazprom Neft has become the owner of 51% of Serbia Oil Industry (NIS).

The contract of sale of 51% of NIS to the Russian company was signed on 25 December 2008 in Moscow, together with agreements on the construction of a gas pipeline and a memorandum on gas storage. On that occasion, the presidents →

- Working versions of laws
- Draft laws
- Strategies under preparation

(page 3)

of Serbia and Russia, Boris Tadić and Dmitri Medvedev, signed a presidential statement guaranteeing on state level for implementation of the agreement on the construction of a major gas pipeline and a gas storage facility in Banatski Dvor.

According to the NIS sales contract, the Russian party to it has to invest € 490 million in the production facilities and € 60 million for environmental protection purposes. The feasibility study for the construction of the South Stream gas pipeline in two versions (21.4 and 23.1 billion cu. meters of gas respectively) will be completed by July 2010. According to the agreement, the minimum flow rate should be 10 billion cu. meters of gas a year.

Under the mentioned agreement, the "buyer" (i.e., Gazprom Neft) should provide NIS with € 500 million in loans by 31 December 2012. The interest on these loans will fall due quarterly at the Euribord rate (the international interest rate at which our banks are borrowing) plus 2%. The grace period allowed to NIS runs until 31 December 2012 and the repayment term is 12 years.

In Clause 6.3 of the agreement, Serbia has undertaken to pay damages amounting to 25% of the sale price, if it is found that untrue data have been given about the NIS assets, in the event of environmental damage being done and in the event of court disputes, or up to € 100 million in each case. Furthermore, under Clause 8.3, Serbia has undertaken not to apply any sanctions to NIS in the event of pollution occurred due to obsolescence of equipment, up to the moment of its modernisation. However, the deadline for modernisation was not specified. The Government has also undertaken not to distribute dividends for the year 2008 (during which it was the exclusive owner of NIS).

The initial Russian proposal has been improved partly, after all, which is corroborated by the clause dealing with the duration of the monopoly on oil importing and processing until the end of 2010 (the Russians wanted it to run until 2014). Furthermore, there is to be no dismissal of personnel until 2012 and the workers who decide to leave voluntarily will have the right to a compensation amounting to € 750 per year of service. The Russian buyer has also agreed to issue gratis shares to citizens and NIS employees, with the obligation to start up the procedure for

the purchase of such shares within two years, at a price which is not lower than that it had paid for them.

The Serbian Prime Minister Mirko Cvetković said: *We are going to get the financial and legal guarantees within approximately two years and for the time being, we have only the political ones.*

■ MEMORANDUM ON RAILWAY ADVANCEMENT SIGNED

The inter-state Memorandum of Understanding in the Field of Advancement of Railway Transport in Serbia was signed in mid-December in Berlin. In this document, the two sides reached an agreement about the necessary reforms of the railway transport sector in Serbia and modernisation of the Corridor 10, which runs through Serbia.

One of the important items of cooperation is to do with drawing up the master plan for the modernisation of railway logistics and infrastructure on the European Corridor 10. Based on that plan, Serbia wants to compete for the European Union's financial support. Thanks to the long-standing cooperation with German railways, 90% of the Serbian railway equipment originates from Germany.

■ NEW LAW ON PLANNING AND CONSTRUCTION

The Minister of the Environment and Spatial Planning, Oliver Dulić, said in late December that Serbia is at the bottom of the world list according to the speed at which building permits are issued and added that the state of affairs in that respect could be improved with the adoption of a new planning and construction law, the bill of which has already been opened to public debate.

Under the new law, the local self-government units should undertake to make spatial and urban plans, which should speed up the procedure for obtaining all of the documents required for the issuance of building permits. Minister Dulić stated that under the new law, cities and municipalities will have to adopt such plans within 18 months. The local self-government units which cannot afford that will be funded from the Republic Budget for such purposes.

He announced that the Draft Law amending the Nature Protection Law should

be considered by the Serbian Assembly in the first quarter of 2009. The new law should also deal with issues relating to the employment of municipal and city ecology funds, as well as the location and construction of the 29 planned dumps.

■ A NEW PROPERTY LAW SOON

The Ministry of Justice presented in late December the working version of the law on property and other real rights and started up the public debate about it, which is to last until 1 March 2009.

At the round table with which the public debate was started up, it was concluded that the Law on the Elements of Proprietary Relations was not a good enough regulator of the real right relations even in the times for which it was intended, let alone today. Among other things, this law is going to make it possible for foreign individuals to acquire the title to real estate, not only companies, as has been the case under the standing law.

■ REGIONAL DEVELOPMENT LAW BY MID-2009

The Regional Development Law should be adopted by the middle of this year, since the public debate about it should be completed by 5 March. Its draft provides for the establishment of the National Regional Development Council, as well as the National Development Agency as the key operative body which is to be in charge of the projects financed by the Serbian Government, as well as the European Union, from the pre-accession funds in the first place.

■ TRADE DEVELOPMENT STRATEGY UNTIL 2012

The Serbian Government should adopt soon the Serbian Trade Development Strategy until 2012. Its main goals are to do with the preservation of the small and medium enterprise sector, intensified competition with the appearance of new companies and penetration of domestic commercial chains in the countries of the region.

Of the ten big world chains, only two are represented in Serbia, so that trade competition is inadequate and prices are relatively high. What is lacking the most, are the large discount sales facilities.

■ *WORLD HOTELKEEPERS' CONGRESS IN BELGRADE*

It has been confirmed to Serbia that the World Hotelkeepers' Association has decided for its next congress to be held in Belgrade in October 2009. Belgrade was nominated as its host unanimously by the Balkan Hotelkeepers' Association, of which the Serbian association is a member.

The World Hotelkeepers' Association congress is going to attract 250-300 hotel owners and managers, and it will be a good opportunity for attracting the world public's attention to the prospects of tourist expansion in the region.

■ *MORE DATA ON THE SERVICES SECTOR*

The joint project of the Republic Office of Statistics and the Ministry of Trade will soon result in a new database concerning wholesale and retail trading, hotels and restaurants, transport and storage, as well as real estate transactions.

This database is going to have three thematic sections: official statistics, business climate surveying and services sector surveying. This project is planned to cover also the financial sector.

This survey is going to be conducted on a sample of 3,613 service providing businesses and its purpose is to obtain information on current business situation and expectations for the next three months.

■ *FIAT POSTPONED THE PURCHASE OF ZASTAVA*

Even though the agreement between the Serbian Government and the Italian FIAT stays in force, the rate of investment in Kragujevac Zastava is going to be slowed down. Under the Strategic Agreement, FIAT has undertaken to pay in € 200 million in return for 67% of the estimated Zastava assets.

Under the mentioned agreement, the production of the new A-class motorcar should begin around the middle of next year. For the time being, provisions have

been made for the production of only 15,000 Punto motorcars in Kragujevac, at the expense of FIAT exclusively.

■ *€ 300 MORE FROM THE WORLD BANK?*

The Serbian Deputy Prime Minister, Božidar Đelić, said that he had reached a preliminary agreement with the representatives of the World Bank at the World Economic Forum in Davos, under which the World Bank would extend additional € 300 million support to Serbia towards doing away with the consequences of the world financial crisis. In 2008, Serbia had already made arrangements for drawing an € 600 million loan from the World Bank.

Besides the continued reforms, this aid will also be conditional on the quick application of a series of measures in the public sector in the first quarter of the year. It is not known whether that would also include the sale of Telecom, since the Government has still not taken any decisions to that effect. The Minister of Finance, Diana Dragutinović, has already stated in public that time has not come yet for the sale of the most valuable national resources under the financial crisis.

Under a standby arrangement, the IMF extended to Serbia macroeconomic support amounting to € 402 in mid-January, but Serbia needs more money in order to keep the exchange rate relatively stable and prevent the output and exports from declining.

Working versions, draft laws and new strategies

By the end of January 2009, the ministries of Serbian Government prepared 9 working versions of laws, 15 draft laws. Looking by ministries, these documents can be listed as follows:

Ministry of Justice

Draft laws amending the laws dealing with criminal proceedings; civil proceedings; organisation and competences of government agencies in the curbing of organised crime; and the Law amending the Criminal Proceedings Law.

Ministry of Public Administration and Local Self-Government

Working versions of the laws dealing with utility policies and local elections.

Ministry of Trade and Services

Draft Law on the Protection of Competition and working versions of the Buffer Stock Law and the Commodity Exchange Law.

Ministry for Human and Minority Rights

Draft Law on the National Minority National Councils and Representatives of National Minorities.

Ministry of Health

Working versions of the laws dealing with the treatment of sterility by the biomedically assisted fertilisation procedure, transfusiology, transplantation of organs and transplantation of tissues and cells.

Ministry of Environment and Spatial Planning

Draft Planning and Construction Law and Law on the Protection against Noise in the Environment.

Ministry of Labour and Social Policy

Draft Law on the Prohibition of Discrimination and Draft Law on the Prevention of Mobbing at Work.

Ministry of Culture

Draft Law on Impermissible Media Concentration.

Ministry of Agriculture

Draft Law on Agricultural Land and Draft Law on the Protection of the Rights of Plant Improvers.

Ministry of Economy and Regional Development

Draft Law on the Technical Requirements for Products and Appraisal of Compliance.

Ministry for the Diaspora

Draft Law on the Diaspora

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The Ministry of Telecommunications and Information Society launched in late January 2009 a public debate for the purpose of drawing up the Strategy and Action Plan for transition from analogue to digital transmission of radio and television programmes in the Republic of Serbia.

In mid-January, the Government adopted the action plan for implementation of the Strategy of Telecommunications Upgrading in Serbia in the period ending in 2010.

CONTENTS OF PREVIOUS ISSUE

2009 BUDGET APPROX. € 8.6 BILLION ■ THIRD TENDER FOR RTB BOR ■ ENERGY AGREEMENT WITH RUSSIA - LAST ROUND ■ INVESTMENTS IN INFRASTRUCTURE ■ INVESTMENTS IN POWER SOURCES ■ MORE THAN € 10 MILLION FOR INDUSTRIAL ZONES ■ EBRD ABOUT TRANSITION - A BETTER GRADE FOR SERBIA ■ € 1 BILLION FROM EIB ■ NEW ENTERPRISE FOR CORRIDOR X ■ DRAFT PUBLIC PROPERTY LAW SOON ■ QUICKER ADOPTION OF SPATIAL DEVELOPMENT PLANS ■ PUBLIC AND PRIVATE SECTOR PARTNERSHIP ■ ACTION PLAN FOR EXPANSION OF TELECOMMUNICATIONS ■ SEVEN NEW LAWS FROM THE MINISTRY OF LOCAL SELF-GOVERNMENT ■ LAW ON THE PREVENTION OF HARASSMENT AT WORK ■ AMENDMENTS TO THE COLLECTIVE AGREEMENT ■ NELECTRONIC TRADING LAW IN EARLY 2009 ■ NEW OBLIGATORY INSURANCE LAW ■ REGULATION ON SUPPLEMENTARY AND PRIVATE HEALTH INSURANCE ■ LAW FOR THE INVISIBLE