



February 24, 2011

FOCUS NOTES: SERBIA

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Sharp rise in domestic political noise leads to a cabinet reshuffle

- On February 14, Prime Minister Mirko Cvetkovic dismissed Deputy Prime Minister and Minister of Economy & Regional Development Mladjan Dinkic
- Although an outright political crisis has been averted, domestic political risks remain elevated given the vital role of G17 party's support (24 seats in the parliament out of 250) for the present coalition government.

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- On February 14, Prime Minister Mirko Cvetkovic dismissed Deputy Prime Minister and Minister of Economy & Regional Development Mladjan Dinkic. The starting point of the recent political turmoil was a public dispute between Mr. Dinkic and Finance Ministry State Secretary Slobodan Ilić over a capital investment project. The dispute calminated in the former sending a letter to the Prime Minister requesting the replacement of the State Secretary. In that letter, Mr. Dinkic demanded that Mr. Ilić be "penalized most severely" for his "cowardly" comments. This incident increased dramatically the tensions among the ruling coalition partners, leading Mr. Dinkic to claim publically that centers outside the government exercised control over the cabinet.
- Following Mr Dinkic's public criticism over the cabinet's independence, the Prime Minister moved on to replace him. In response, Mr. Dinkic submitted his resignation, making it easier for the Parliament to approve his replacement. Despite initial speculation to the opposite, he also stressed that his resignation was not intended to withdraw parliamentary support from the government. This is important, because Mr Dinkic is also the head of G17plus, one of the coalition partners, upon which the current government relies to maintain majority in the parliament. Indeed, the resignation didn't translate to a withdrawal of G17 plus support to the government coalition, thus preventing an early election .
- However, two other ministers nominated by the G17 plus party resigned as well. On February 21st, the parliament accepted the resignations of the following G17plus-backed ministers: Deputy PM and economy minister Mladjan Dinkic, the minister for National Investment Plan (NIP) Verica Kalanovic and health minister Tomica Milosavljevic. At the time of the writing, only temporary replacements had been announced.

In our view, the aforementioned developments may entail some serious implications for the domestic political and economic landscape.

First of all, the resignations may harm the government's efficiency, given that Mr. Dinkic has held the post of Minister of Economy ever since the formation of the present coalition (July 2008) and his influence is undisputable. Secondly, the resignations reduce the government's political capital and decrease its bargaining power vis the public sector unions. The later may become more apparent as the next elections date is coming closer (the last parliamentary elections took place in 8th May, 2008). Note that the the government is already in a collision course with teachers who are on strike asking for higher wages.

Secondly, the resignations risk to severely affecting the functioning of the cabinet. Tensions within a fragmented government coalition consisting of several parties were already high. From that point of view, the stance of G17plus regarding parliamentary approval of the new ministerial appointments has become more rigid. In turn, this sends a clear message: either the coalition functions on a true partnership basis, or there is no coalition at all.

Last but not least, the resignation increases the probability that the current government coalition may not complete its full term, which expires in mid 2012. Note here that it was the G17 party that quited the cabinet of PM Vojislav Koštunica back in October 2006, which eventually led to early parliamentary elections. Although a full-blown political crisis has been for now, the political risk is certainly more elevated given the vital role of G17 party support for the government coalition. G17 plus holds 24 seats, the ruling government coalition controls 129 seats out of 250 seats in the parliament. That said, although the risk of bringing the government down is not imminent, the countdown to the next parliamentary elections may have already began.

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