



NEW EUROPE ECONOMICS & STRATEGY

February 24, 2011

FOCUS NOTES: SERBIA

Written By:

Ioannis Gkionis:
Research Economist
Coordinator of Macro
Research

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.

-
- 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 Ilic 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. Ilic be "penalized most severely" for his "cowardly" comments. This incident increased dramatically the tensions among the ruling coalition partners, leading Mr. Dinkic to claim publicly 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.

DISCLAIMER

This report has been issued by EFG Eurobank Ergasias S.A. (Eurobank EFG), and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank Ergasias S.A. (Eurobank EFG), and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgement and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect that may occur from the use of this report.



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 became 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.

Research Team**Editor - Professor Gikas Hardouvelis**

Chief Economist & Director of Research Eurobank EFG Group

Financial Markets Research Division**Platon Monokroussos:** Head of Financial Markets Research Division**Paraskevi Petropoulou:** G10 Markets Analyst**Galatia Phoka:** Emerging Markets Analyst**Sales Team****Nikos Laios,** Head of Sales**Vassillis Gulbaxiotis,** Head of International Sales**Yiannis Seimenis, Ioannis Maggel,** Corporate Sales**Stogioglou Achilleas,** Private Banking Sales**Alexandra Papathanasiou,** Institutional Sales**Economic Research & Forecasting Division****Dimitris Malliaropoulos:** Economic Research Advisor**Tasos Anastasatos:** Senior Economist**Ioannis Gkionis:** Research Economist**Stella Kanellopoulou:** Research Economist**Olga Kosma:** Economic Analyst**Maria Prandeka:** Economic Analyst**Theodosios Sampaniotis:** Senior Economic Analyst**Theodoros Stamatiou:** Research EconomistEurobank EFG, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333.7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr**Eurobank EFG Economic Research**More research editions available at <http://www.eurobank.gr/research>

- **New Europe:** Economics & Strategy Monthly edition on the economies and the markets of New Europe

- **Economy & Markets:** Monthly economic research edition

- **Global Economic & Market Outlook:** Quarterly review of the international economy and financial markets

Subscribe electronically at <http://www.eurobank.gr/research>