

The global financial crisis has an impact on businesses around the world and has become a new challenge that companies must deal with. Serbia is also among the countries affected by the global financial crisis which will cause numerous effects on the Serbian economy. It is a time of uncertainty for all and a period of concern for most. Certainly the sources and costs of funding are changing and the Government's interference is intensifying in order to find a measure for the removal of the negative influence of the global financial crisis, so companies must adopt their businesses to new changes and the new legislation.

The Law Office KOSIC is monitoring the economy and financial markets of Serbia and actions taken by the Serbian Government in order to help our clients understand the legislative and financial measures that are being undertaken by the authorities and how they can be used to the clients' benefit (click here for the Summary of the Serbian rescue plan for the stabilization of the financial markets). The Law Office KOSIC has established the Financial Crisis Response Team as a multi-disciplinary working group focused on rendering support to our clients in the following areas:

- Refinancing current sources of financing
- Restructuring the equity structure and classes of assets
- Asset sales and purchases
- Complex security instruments
- Clearing and settlement matters
- Guidance in the changing regulatory environment
- Risk management, enforcement and litigation matters.

Our Financial Crisis Response Team has substantial experience in each of these areas, supported by a broad understanding of regulatory and financial developments and we have the skills and knowledge to take care of problems caused by the global financial crisis. We help our clients respond to recent developments in the Serbian economy and financial market.

Also, the Financial Crisis Response Team monitors the global economy and financial markets of other countries in the region and actions of their respective governments. We are able to coordinate our effort through a global network with partner law offices in the US, Europe, Asia and the Middle East in 26 countries.

For further information, please contact our Financial Crisis Response Team at:

SUMMARY OF SERBIAN RESCUE
PLAN TO STABILISE FINANCIAL
MARKETS

Although there is a belief that the impact of the global financial crisis will cause limited consequences on the Serbian market, the Serbian Government, seeking to restore confidence in the financial markets, and in order to maintain macro economic stability, is considering a set of financial measures to be taken to minimize the impact of the world financial crisis.

Measures

The key components of these financial measures are:

- The Republic of Serbia will increase its deposit guarantee for savings from EUR 3,000 to EUR 50,000.
- The capital gain tax on interests derived from savings shall be abolished temporarily by the end of 2009 in order to strengthen the financial sector. Thereafter, such tax shall be levied at a reduced level of 10% instead of the current 20%.
- The currently existing Tax on Capital Gains derived from share disposals and the Tax on the Transfer of Absolute Rights in Securities shall be abolished as well. The Tax on Capital Gains is currently levied with a tax rate of 20%, while the Tax on Transfer of Absolute Rights is paid upon each disposition of equity or debt securities at a rate of 0.35%.
- Hold on telephone prices - a previously announced 100% price increase of the phone pulses is delayed for the time being.
- Model of differed payments for natural gas – the Government is working on a new model of differed payment options (2 or 3 instalments) for natural gas, since a price increase for natural gas has also been announced. Therefore, such a new model should mitigate this price increase.
- Forgivable debts for health insurance - under the same conditions, the interest on outstanding taxes and contributions will be significantly written off. Terms and conditions for such write offs have not been specified yet.

Clearly, on the one hand, these measures have been taken to restore confidence in the banking system, and on the other hand, to reduce the effects of the slowdown of the economy on the citizens' budget.

Effects of the crisis on the Serbian market

One of the first effects of the world financial crisis on the Serbian market which can already be felt on the Serbian market are the higher finance costs and the decrease of finance availability emanating from European sources. In such a scenario, the Serbian economy is likely to face a risk of inability to fund production. The National Bank of Serbia is not planning to introduce obligatory reserves for "cross-border loans", which such loans being mostly used by domestic legal entities so far having resulted in the increase of private external debt of the state.

As concerns the Belgrade stock market, the daily fluctuation is currently quite extensive (up to 20%) and the reason thereof is inter alia a lack of market makers. The Securities Commission proposes an instant solution in terms of setting the zone fluctuation to 5% which would disable the daily dispersal cost of 20%. As reaction to a lack of liquidity, banks have increased interest rates and have also halted credit lines

in Swiss francs. As a consequence thereof, the demand for consumer and housing loans will be reduced and equivalently the slowdown of the economy will ultimately lead to less employment.

Lack of foreign capital and lower prices of domestic companies in the process of privatization, will necessarily lead to lower privatization revenues for the Republic of Serbia which will make the funding of the financial measures to be taken even more difficult.

Expectation

In the future, it is reasonable to expect further major changes in the regulatory framework. Currently, under discussion are changes to the Act on Investment Funds and adaptations to the Securities Market Act as well as a simplification of trading procedures.

NOTE: This note merely summaries general legal issues and does not constitute definitive legal advice. It does not necessarily deal with every important topic or every aspect of the topics covered. If formal legal advice or further information is required, please contact Financial Crisis Response Team.