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Speech
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Dear Friends,

Our deep appreciation to the organisers of this conference, which takes place in the same week when we recall the momentous events of twenty years ago in this very city, which changed the course of history.

The topic of this meeting is particularly relevant. The financial crisis and continuing economic downturn which has affected economies all over the world, has also impacted on the countries of the Balkan region. Indeed it has illustrated how strongly these countries depend on the fortunes of the EU economy.

The EU is their main trading partner and main source of foreign direct investment. This is the case for the Former Yugoslav Republic of Macedonia which exports about 60% of its total exports to the 27 EU member states and imports about 50% of its total imports from them. Foreign direct investment (FDI) in the country mainly comes from EU member states (80% of the total FDI).

While some in the EU may be tempted to use the crisis as an excuse to put a brake on the EU enlargement process, this would be a total misinterpretation of the situation.

Enlargement is actually part of the solution. There can be no question that the European perspective of the Western Balkans has been and continues to be a factor for stability and social progress as well as for democratic and economic transformation. It has provided an anchor for the reform process and has helped to retain confidence in the economies of the region, in particular for potential foreign investors.

However, the financial crisis has also shown that the countries of South Eastern Europe are not yet completely integrated into the European and world economy.

In the Former Yugoslav Republic of Macedonia, the economy was initially not affected by the financial crisis as its banking system is not integrated into the global financial system. But as the financial crisis turned into a global economic downturn, and started to affect the real economy worldwide, the impact began to be felt on the Macedonian economy.

This shows that, although there is a high degree of dependence between the economies of South Eastern Europe and the EU economy, there is still a lot of work to be done in the enlargement process. Key issues are amongst others strengthening the functioning of a market economy, improving the rule of law, bilateral relations and regional cooperation.

<u>How have the countries of the region addressed the crisis:</u>

The unfolding of the crisis in South Eastern Europe is still continuing. The economies of South Eastern Europe are reacting with a time lag compared to the EU economy and therefore it is not yet completely clear what will be the extent of the impact of the economic downturn.

Until now, the governments of the countries of South Eastern Europe have responded to the economic downturn in different ways with different policy instruments. Serbia has been the hardest hit, with economy entering into recession in 2009. Both Serbia and BiH

turned to international financial institutions (IMF and the EU) for financial assistance, while Croatia and Montenegro used fiscal policy and anti-crisis measures.

Meanwhile in the Former Yugoslav Republic, overall, macroeconomic stability has been maintained despite the negative impact of the global financial turbulence. The Government has reacted to the economic downturn by twice revising its budget and cutting expenditure. This was mainly driven by lower revenue and a commitment to keep a budget deficit of 2.8% of GDP – a figure which admittedly would make many of our own Finance Ministers weep with envy! It also introduced a package of measures to alleviate the impact of the economic crisis which consisted mainly of ten relief measures.

However as the Commission's Progress Report underlines, a lot of Government spending in the past year was of poor quality and geared more to election promises than to combating the crisis.

So overall, economic and financial conditions have improved in recent months, the risk of instability has decreased and the country has weathered the global crisis better than most of the countries in the region. However, risks remain and a cautious approach is recommended. The country's GDP is expected to decrease by 0.3% in 2009 but with positive GDP growth again in 2010. Inflation is expected to be near zero this year. International trade and foreign direct investment are likely to improve in 2010.

<u>What are the suggested measures for overcoming the crisis in the long-term:</u>

The Commission Report makes very clear what is required in the region, when it stated that "the rule of law, in particular the fight against corruption and organised crime, but also strengthening administrative capacities remains a major challenge for the enlargement countries".

The EU related reforms contribute to enhanced competitiveness and open markets as well as to a legal framework conducive to trade and investment.

In Former Yugoslav Republic of Macedonia, further progress has been made on improving conditions for market entry and exit, registration of property rights and addressing impediments to job creation. The Progress Report also underlines as encouraging signals the various Government actions aimed at improving the business environment, reducing administrative barriers and facilitating new business registration. However, the slow pace of judiciary procedures and the at times deficiencies of supervisory and regulatory agencies are still hampering the functioning of the market economy, in particular with respect to the contract enforcement and establishment of a level playing field for market participants. Unemployment remains very high (33%), pointing to structural weaknesses, such as skills mismatches, and insufficient functioning of the labour market. All of this has negative impact on legal certainty and is impeding proper functioning of market mechanisms, with adverse impact on business and the country's attractiveness to foreign investment.

The EU enlargement perspective has proven to be a useful anchor for economic policies and maintaining confidence in the country and throughout the region. It will remain a vital anchor for overcoming the economic downturn.

The EU's financial support for reforms throughout the region is also considerable. For the Former Yugoslav Republic of Macedonia it amounts to 448 mio Euros for the period 2008-1012.

This includes technical assistance and valuable transfer of expertise and know-how to ensure successful implementation of reforms.

Continued progress on the journey towards EU integration will automatically have a positive impact on the investment climate and investment prospects in the country itself.

An important part of this process relates to regional cooperation, which continues to offer positive dividends for all the countries of the region.

The Central European Free Trade Agreement is already a significant indicator for enhanced trade cooperation within the region. Macedonia exports to the region for example approximately 37% of total exports.

The Regional Cooperation Council based in Sarajevo also produced many valuable initiatives of benefit for the region - often driven by the region itself. They have underlined the importance of self ownership. The importance the EU attaches to regional cooperation is reflected in the vast array of programmes underway which link the countries of the region together, and which act as an important stimulus in preparations for EU accession.

Many of these will no doubt be highlighted at next month's Conference on Western Balkans being organised on 9th December in Brussels under the auspices of the Swedish Presidency, and European Commission.

The relevance of the Visa Liberalisation:

One of the big impediments to enhancing the business environment has been the visa restrictions and the very burdensome procedures which business people had to place for travel to any EU member country. In virtually all the meetings with the Chambers of Commerce, etc. I was at the receiving end of many complaints.

With the proposed decision for visa liberalisation which hopefully will be confirmed by the EU member states on 30 November following the Commission Recommendation, it is expected that visa free travel will become reality for the Former Yugoslav Republic of Macedonia, Serbia and Montenegro on 19 December.

These are the three countries that are deemed to have fulfilled all the necessary reforms, with the first country being in the forefront first of the entire region.

This decision will send a powerful message to all the citizens of the region on tangible benefits which come from successfully implementing EU-related reforms. It will bring the European perspective ever closer, and will enhance people to people contacts and travel across the European continent.