Serbia

A developing economic and financial center, Belgrade has been declared the City of the Future for Southeast Central Europe by the Financial Times Group's fDi magazine.

FACTS & FIGURES

LOCATION
Southeastern Europe,

TOTAL AREA
88,361 sq km

POPULATION
9,396,411
(2002 census)

CAPITAL
Belgrade

GDP REAL GROWTH RATE
5.9% (2005 est.)

GDP BY SECTOR
agriculture 16.6%,
industry 25.5%,
services: 57.9%
(2005 est.)

EXPORTS
manufactured goods, food and live animals, machinery and transport equipment

Source: CIA World Factbook

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▶▶▶ AT THE HEART OF THE BALKANS, SERBIA HAS ITS EYE ON MEMBERSHIP OF THE EUROPEAN UNION. IN THE MEANTIME, IT IS CONTINUING TO REBUILD AND MODERNIZE AFTER A PERIOD OF ETHNIC CONFLICT AND ECONOMIC DISRUPTION IN THE 1990s

Growing fast and ready for investment

A growing economy, with one of the largest domestic markets in its region, strategically situated on the doorstep of the European Union on the most important route linking Europe and Asia, Serbia has a lot going for it as a promising destination for foreign direct investment.

From its position in the middle of the Southeast Europe Free Trade Zone, it has access to a market of 55 million people. It is also the only country outside the C.I.S. to enjoy a free-trade agreement with Russia, providing tariff-free access to a market of 150 million people.

There are plenty of other advantages on offer to investors, including macro-economic stability, low labor costs, and the lowest corporate tax rate in Europe.

The economy is expanding at an impressive rate – by 6 percent in 2006 – and international institutions such as the World Bank, the European Bank for Reconstruction and Development, and the International Monetary Fund have lined up to heap praise on the republic as a standout economic reformer.

Eight years after the end of the ethnic wars that ravaged the Balkans in the 1990s, and seven years on from the economic distortions and political problems of the Milosevic era, Serbia is a fully democratic country that is rebuilding and modernizing its economy with a fair measure of success. In the longer term, it is working towards membership of the European Union.

According to the Serbian Development Institute, Serbia could be economically ready to join the E.U. by 2012 if it achieves the priority goals of the National Strategy for Economic Development: competition, a knowledge-based economy, and development of infrastructure.

However, several vital and complex political issues are still to be resolved. Negotiations on a stabilization and association agreement with the E.U. – a first step towards membership – stalled over Serbia's rejection of E.U. calls for the handing over of former Bosnian Serb general Ratko Mladic and other key war crime suspects to the International Criminal Tribunal in The Hague.

FOTO CREDIT: NATIONAL TOURISM ORGANISATION OF SERBIA

Meanwhile, a United Nations plan to set the Albanian-dominated region of Kosovo – administered by the U.N. since Nato's 1999 air raids on Serbia – on the road to independence has been rejected by Serbia as "unacceptable."

Parliamentary elections were held in January, following the withdrawal in 2006 of neighboring Montenegro from its loose federation with Serbia. The elections mean a new government, and presidential elections are to be held later this year. In February, the E.U. signaled a slight softening of its position, saying talks on integration could be restarted if Belgrade takes "concrete and effective action for full cooperation" with the war crimes tribunal.

> From its position in the middle of the Southeast Europe Free Trade Zone, Serbia has access to a regional market of 55 million people

Despite these politically unsettling events, Serbia has been attracting increased foreign investment. The banking sector is notable for the presence of Greek banks, such as National Bank of Greece, Piraeus Bank, Alpha Bank, and EFG Eurobank, and Austria's Hypo Alpe Adria and Raiffeisen of Hungary are both well established.

Large American companies that have been investing in Serbia include global food packaging provider Ball Corporation, U.S. Steel, and Microsoft, which has made Belgrade the base for one of its five global development centers.

Short of capital, Serbia certainly needs FDI – particularly greenfield investment – to develop an export-oriented economy and create jobs. Dramatic progress has been made towards improving the investment climate. During 2005, the republic attracted more than 1 billion euros ($1.3 billion) of FDI, most of it brought in by the privatization of state-owned companies, which continued last year with up to 500 companies being put up for sale.

Mining and manufacturing are leading contributors to the economy, and there is considerable scope for increased production in agriculture, which, together with the food and beverage-processing activities associated with it, makes up the largest sector. Other sectors poised for growth include energy, tourism, software development, high-tech industry and the automobile industry.

INFRASTRUCTURE

Repairing and upgrading the road network is vital for development

Reconstructing Serbia's shattered transport infrastructure has been a major challenge. Now there are ambitious plans to develop the road network.

State spending on roads has risen rapidly and new projects are being financed through deals with the private sector.

AT the end of the 1990s Serbia's transport infrastructure lay devastated by war. Bridges, roads and airports lay in ruins, leaving the republic facing enormous challenges—firstly to restore everything to its pre-war level, and then to create a platform for further development. In addition to the war damage, there was a decade of economic disruption and lack of investment to make up for.

As far as the roads are concerned, the primary objectives have been reconstruction, repair, and maintenance, but development of the infrastructure is also a priority in the National Development Plan, and a number of major projects are under consideration.

BRANKO JOCIC
Director of Roads of Serbia

Spending has increased rapidly over the last six years, says Branko Jocic, Director of Roads of Serbia, the public company that manages the road network. "The complete halt that lasted for about 12 years has meant we have had to invest much faster and more intensively."

Funding comes from the national budget, financial credits, toll collection—a new, cashless, electronic toll collection system has been introduced—and fees amounting to 10 percent of excise duty on petroleum products. In addition, international financial support has also been received from institutions such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the World Bank.

New projects are being financed through deals with the private sector, including concessions, build-operate-transfer (BOT), and public-private partnership (PPP). A consortium of Spain's FCC and Austria's Alpine-Mayreder recently won a 25-year concession for construction, use and maintenance of the Horgos-Pozega highway from the Hungarian border to southern Serbia—part of a project to build a traffic artery to the Montenegrin coast.

The most important projects are the Serbian sections of Corridor 10, a pan-European highway, running from Salzburg in Austria to Thessalonica in Greece, via a high-speed loop around the Serbian capital, Belgrade. These have been priced at 2 billion euros ($2.6 billion); Serbia itself has invested 800 million euros. The EIB has provided a loan of 120 million euros to build the link between Belgrade and Novi Sad, and for the reconstruction of a bridge over the Danube. A loan from the EBRD will pay for the construction of a parallel twin bridge nearby.

In December 2006, Greece announced it would be contributing 100 million euros for completion of the section from Leskovac to the Macedonian border, which is of great importance to the regional development of southern Serbia.

TELECOMMUNICATIONS

Mobile-phone market gets more competitive

Development of telecommunications has been slow, but there are signs of change as private mobile operators set up to challenge state-owned Telecom Serbia

SERBIA has a lot of catching up to do in its telecommunications sector, where there are 36 telephone lines per 100 people—well below the European average. Many people share double-user lines, and only 60 percent of the networks have been digitalized.

State-owned Telecom Serbia lost its eight-year monopoly in June 2005, and the National Telecommunications Agency has been established as an independent regulator, although the government's Telecommunications Development Strategy takes a cautious approach to change up to 2010, opting for "more methodical and gradual" liberalization to avoid damaging Telecom Serbia as the market opens up.

ZORAN NJEGOVANOVIC
General Director of Telekomunikacija

Nevertheless, things are set to become more competitive in mobile telephony with the recent acquisition of Serbia's third mobile telephony license by Austrian mobile operator Mobilkom. The new arrival will be up against Telecom Serbia's mobile arm, MTS, which currently has a market share of around 60 percent, and launched its 3G WCDMA network last December. The other competitor, Telenor Serbia, which was acquired by Norwegian telco Telenor last year, made its 3G network services commercially available in March.

A notable example of a success story in Serbia's telecom sector is Telekomunikacija, a company that constructs and maintains telecommunication networks. Established in 1987, the firm has been achieving growth levels that have made it one of Serbia's most profitable medium-sized businesses.

General Director Zoran Njegovanovic believes Telekomunikacija – which also builds gas distribution networks – still has plenty of potential for development, but needs help to exploit it. "It is clear we cannot achieve a bigger profit rate without significant investment, and we would like to find a strategic partner that has the financial means, and if possible the knowledge and technology, to enable us to develop further," he says.

One of Serbia's most profitable medium-sized businesses, Telekomunikacija, is seeking a strategic partner.

"With our knowledge, experience and skilled labor, we could become regional leaders in constructing telecommunication and gas infrastructure."

Mr. Njegovanovic says there are plenty of opportunities for developing business in the telecommunication sector, and urges investors to enter the market. "Investing in fixed telephony, not only in mobile telephony, is a good platform for future investments. Cable TV is still underdeveloped, and internet use is a growing trend. Investors should take their place in the market as soon as possible, because now is the time to do it."

FOOD AND BEVERAGES

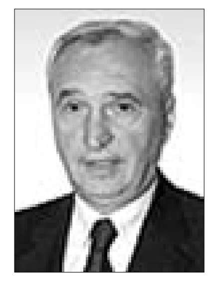
Homegrown brands plan local and international expansion

SERBS display a high level of brand literacy when it comes to choosing which products to buy. Combine this with national pride, and high-quality domestic products find themselves in a strong position to resist incursions by foreign brands.

Brand loyalty is an especially important ingredient in the food and beverages industry, to the benefit of long-established homegrown products such as Plazma cookies, produced by Bambi-Banat, and Knjaz Milos mineral water.

MIROSLAV MILETIC
General Manager of Bambi-Banat

Both brands have a ubiquitous presence in Serbian food stores and are favorites with the Serbian diaspora. The companies that produce them regard themselves as a focus of national pride, and attach huge importance to the quality and the health benefits of their products.



SLOBODAN PETROVIC
General Manager of Knjaz Milos

Both companies are also managed by Serbia's top fund manager, UK-based Salford Capital Partners, which has invested almost $200 million in Serbian companies.

Established over 40 years ago, Bambi-Banat is the leader in the Serbian confectionery industry, and is currently enjoying one of its most successful periods in terms of exports, total turnover, and growth.

General Manager Miroslav Miletic is confident and ambitious for the company's future. "We see our potential to grow more rapidly," he says.

Bambi-Banat's chief products are cakes, cookies, crackers, baker's goods, and allied products, but it also has a growing business in frozen fruit and vegetables, and in mineral water.

The company has been pursuing a development program aimed at strengthening its position both locally and internationally. Its sights are set firmly on expansion in the regional market.

"We don't want to keep our point of interest just in Serbia," says Mr. Miletic. "We want to merge with all the most important players in this region, from Macedonia to Bosnia and Croatia. It will be a market with potentially 55-60 million citizens—all potential customers."

Beverage producer Knjaz Milos also has ambitions to develop its presence in neighboring countries. "We can do much more there," says General Manager Slobodan Petrovic.

He emphasizes, however, that the first priority is to strengthen the company's share in the domestic market. "Increases in future consumption will come from increased purchasing power," he says. "Our business is linked to the economic indicators."

In addition to mineral water, Knjaz Milos also produces fruit juices and a Guarana energy drink.

Under Salford's direction, the company has benefited hugely from a sharpened focus on marketing and distribution. "We were over-staffed, very production-oriented, but with no systems of distribution and no marketing. Now, we have a very strong distribution system, and you see our products in all the shops, kiosks, and cafés."

RETAIL

Upwards trend in salaries is good news for stores

Household consumption is rising as Serbs find themselves with more to spend now that the economy is expanding

EU citizens earn almost seven times more than Serbian citizens, but consumer purchasing power is on an upward trend that is expected to continue as average annual salaries rise—and that is good news for retailers.

Per capita GDP has doubled to nearly $3,000 since 2001, resulting in a marked rise in household consumption. According to the Serbian Statistical Office, the turnover of the retail trade was up by 16.6 percent in the first nine months of 2006.

Consumer goods now account for 21.5 percent – $1.81 billion – of imports, contributing significantly to Serbia's rising trade deficit.

In an interesting sign of the times, the Serbian Consumer Association recently published the first issue of a consumer magazine as a supplement to the Danas daily newspaper.

JOVAN ILIC
General Manager of Eltim

With a population of around 9.3 million, Serbia's internal market is among the largest in Southeast Europe. The U.S. government export portal, Export.Gov, describes it as "still one of the few unsaturated markets in Europe," and notes that consumer preferences are highly turned towards products originating from the United States and other developed countries.

Serbia's expanding consumer market is also good for local companies like Eltim, which sells white goods, audio and video equipment, and small home appliances. Established in 1990, Eltim has persevered through the bad times. "We have survived, and we have grown despite the circumstances," reflects the company's General Manager Jovan Ilic. "Eltim is a brand that consumers have confidence in, and we do very good business."

Mr. Ilic believes that the market has a lot more potential and that—despite the rising trend—demand is only being checked because purchasing power is still relatively poor. "The need to replace appliances is much greater than the purchasing power of the consumers," he says.

Eltim is the market leader in the sale of kitchen devices, serving its customers through a network of 25 department stores. In addition to importing a variety of leading brands, the company is the exclusive importer and distributor of the Turkish-based electronics manufacturer Beko, as well as Daewoo and Sharp.

Eltim has been opening exclusive Beko stores across the country.

Eltim has been opening a series of 40 exclusive Beko stores. "We believe we have a bright future with Beko," says Mr. Ilic. "Annual growth of Beko products stand at 137 percent, and it will continue to be the dominant brand for us."