



### Highlights of the Month

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### Meet SIEPA

We are continuing to meet you in different parts of the globe. [Read more >>>](#)



### Year Close Up

The economic review of 2007 shows again continuing stability and success of Serbia. [Read more >>>](#)



### SIEPA Personally

#### **Vesna Peric**, Director

"The most attractive financial grants are ranging from €2,000 to 10,000 per every new job created." [Read more >>>](#)



### Monthly Reporting

#### **The Purpose of Loans and Credit Cards**

At present more than 25% of citizens use credit cards for clothing and shoes shopping. [Read more >>>](#)



### Arts & Entertainment

Smashing Pumpkins will be playing in Belgrade and bringing their original sound live to its faithful audience. [Read more >>>](#)



### The Other Home

#### **Simon Taylor**, RapidV

"Serbia: I felt I had landed on a true emerging leader in today's rapidly evolving world economy" [Read more >>>](#)



### Hot Spots

#### **Balkan Hotel**

The beautiful historical building has been completely restored to reflect the traditions of the past with all the modern conveniences for international travelers. [Read more >>>](#)

## Opting for Optical

According to the data provided by the Statistics Institute, Internet is used by 26.3% of households in Serbia. Most of them are using dial-up connection (73.4%), WAP and GPRS are used by 16.1%, while only 12.1% of households use ADSL. Number of internet users grew by 3% against last year and, roughly, 1.7 million people have been using Internet in the past three months - 50% of them on daily basis. In order to increase the number of Internet users, several projects are taking place in Serbia. Serbian Cable Network (SBB) has put in operation the main optical network which will connect all municipalities on the territory of the Province of Vojvodina and will enable quicker and high-quality e-networking, exchange of information and provision of various services. By installing 500,000 ADSL ports, Telekom Srbije will 2.5 times increase number of connections for fast internet. €60 million will be invested in that project.

### Meet SIEPA

January 9 – 12, 2008  
Heimtextil 2008,  
Frankfurt, Germany

January 18 – 27, 2008  
Green Week,  
Berlin, Germany

## First Investment in Dimitrovgrad

Minister of Economy and Regional Development of Serbia, Mladjan Dinkic, and Minister of Economy and Energy of Bulgaria, Petar Dimitrov, signed the Agreement on Economic Collaboration in order to stimulate economic relations and cooperation, especially in fields of industry, agriculture, forestry, energy, R&D, and construction. The interest of both countries is to intensify mutual investment activities. Good examples are arising and the latest one is laying of the cornerstone for construction of €6 million production-transportation center in the vicinity of border crossing Gradina, in Dimitrovgrad. This center is financed by the Bulgarian company Vili Group and will consist of 7 production

units occupying area of 28,000 square meters. It will employ 150 workers and the main products will be TV sets, household appliances and receivers.

## Transformers Production Began

President of the Executive Council of Vojvodina, Bojan Pajtic, opened the unit of the Slovenian company Elma TT for production of transformers in Backa Topola. The value of the investment is around €0.5 million and the result is a production facility that occupies 2,300 square meters and envisages employment of 20 workers in direct production and 12 more through various aspects of cooperation. Expected annual volume of production is 500 tons and the projected turnover is €1.8 million. Almost entire production will be exported to EU and the neighboring countries.

## A New Industrial Zone

As of March 2008 municipality of Paracin will offer an industrial zone in the vicinity of the Corridor 10 to investors. The zone called Zmic occupies 46.27 ha and it is already divided into 23 acre modules, with two acres being the minimum area that can be leased. Construction of infrastructure is underway, while the land price will be determined by the end of the year. It is almost certain that some incentives will be offered, depending on the number of employees and the size of purchased land.

## In Indjija Almost No Vacancies

Department of Economy and Economic Development of Municipality of Indjija invited the owners of larger production facilities which are not being used to call in. The reason being is that there is a large demand for vacant production space coming from foreign investors which can not be met by the existing facilities. Certain investors want to start production quickly and they need production space of 300 square meters and more. Requests are coming in on almost daily basis and there is large probability for a match.

## 6 Investment Funds by the end of 2007

Six investment funds will be operative in Serbia by the end of 2007 - one balanced and five property value growth funds. The last in line call for registration of investment units came from investment fund Ilirika Southeast Europe. Focus Premium fund was opened in September; Raiffeisen Akcije in August whilst ProActive entered the registry in May 2007. Delta Plus is the only balanced fund, and it has entered the registry in March.

### SIEPA Award

Exporter of the Year 2007 is the company Gosa from Smederevska Palanka. This company became a part of the Slovakian Group ŽOS Trnava in January 2007 and increased exports by more than 60% against last year, primarily into EU countries.

The award in the category of Small and Mid-sized Enterprises was won by Spektar from Gornji Milanovac, while company Trikotaža Ivkovic won the award for the Best New Export Market. The Best Export Product in 2007, according to the jury was wild strawberries preserve made by the company Foodland.

### 2008 OECD Ministerial Conference & Investor of the Year Award in Belgrade

The 6th Investment Compact's Ministerial Conference will take place in Belgrade on 11-12 February 2008. The event will comprise of a Business Forum, the annual SEE Investors of the Year Awards and a Ministerial Meeting during which SEE Ministers of Economy will discuss how to improve the region's business climate. The conference is organized by OECD's Investment Compact, Serbia's Ministry of Economy and Regional Development and SIEPA. There is no conference fee but registration is mandatory. To register, please contact ashley.jimeson@oecd.org. For further information please visit [www.investmentcompact.org](http://www.investmentcompact.org)

## Successes of 2007

### Key Macroeconomic Data

Over the course of 2007, Serbia's economy continued to grow at a strong rate. In H1, GDP growth rate amounted to impressive 8.0%, which is above projected 7.0% growth for the entire year. In per capita terms, country's economic output is forecast to reach €4,050 or app. \$5,700 based on the current EUR/USD exchange rate—a 35% gain against the previous year. Robust GDP performance was largely driven by the soaring output of the service sector. Specifically, the transportation sector saw a 21.4% increase, followed by financial services, trade, hotels and restaurants, with respective growth rates of 20.0%, 19.3%, and 12.2%. On the other hand, industrial production rose by 4.4%, which is comparable to the corresponding 2006 rate.



Major economic developments in 2007 include robust GDP growth, bolstered external liquidity, reduced unemployment, and Greenfields on a steady rise, with increased foreign trade deficit as a key challenge.

On the monetary front, in the first 11 months retail prices increased by 8.7% relative to December 2006 but are expected to remain within single-digits by end 2007. While the National Bank of Serbia hit the core inflation target of 5.4% by pursuing a tight monetary policy, utility and electricity price adjustments, along with world oil price hikes led to moderate inflation rise compared to the last year's figure.

The country's external liquidity remained stable, with record-high foreign currency reserves and a reduced public foreign debt/GDP ratio. Fuelled by massive receipts on the capital side of the balance of payments, foreign currency reserves totaled over \$15 bn by end November, out of which the NBS' reserves accounted for nearly \$14.5 bn. Furthermore, total public foreign debt—standing at \$8.9 bn at end October—made up roughly 25% of Serbia's Gross Domestic Product.

January-October exports increased sharply reaching \$7.152 bn or 39.1% up against the first ten months of 2006. Strong export performance resulted from a complexity of factors including privatization and restructuring effects in the real sector, trade liberalization within the South East

Europe area, preferential access to the EU market, as well as favorable terms of external trade. Over the respective period, total imports grew by a comparable rate of 39.0% leading to \$7.423 bn foreign trade deficit, as one of the major challenges for the macroeconomic policy in the coming years.

Unlike in previous years, total unemployment was reduced remarkably to 797,200 down from 916,300 in 2006. This was heavily due to the new state policy aimed at enhancing employment comprising a variety of specific actions—from state grants for direct investment and soft loans for start ups and other business ventures, to salary tax and social insurance charges cuts.

### Recent FDI Trends

In Q1-Q3 of 2007, inward foreign direct investment in the country totaled \$2.358 bn, while the net figure amounted to \$1.195 bn as a result of large international investment of Serbian companies, particularly Telekom Srbija. The country FDI breakdown remained in line with that of the previous years, with EU member states (Austria, Greece, Cyprus, France, and Germany) dominating the list. Nearly ½ of FDI stemmed from banking transactions, while significant foreign capital inflow was also recorded in telecommunications, real estate, processing industries, and trade.

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In terms of the SIEPA project portfolio, last year saw an increased number of Greenfield ventures partially financed through the state subsidies program. The total value of announced or completed investments reached about €611.0 mn providing 31,840 of new job posts. Major SIEPA facilitated projects include a €428 mn IT park to be developed by Indian Embassy Group, Austrian Kronospan plywood manufacturing plant worth €50 mn, as well as a new €41 mn hosiery production facility by Italian Golden Lady.

### Key Macroeconomic Indicators for 2007

GDP Growth Rate <sup>1</sup>	7.0
GDP pc (USD) <sup>1</sup>	5,700
Inflation Rate <sup>2</sup>	8.7
Unemployment Rate <sup>3</sup>	21.6
Trade Balance (USD mn) <sup>4</sup>	-7,152
Foreign Currency Reserves (USD mn) <sup>5</sup>	15,095
Inward FDI (USD mn) <sup>6</sup>	2,358

<sup>1</sup> Estimation

<sup>2</sup> January-November

<sup>3</sup> 2007 average, according to the International Labor Organization methodology

<sup>4</sup> January-October

<sup>5</sup> November 30, 2007

<sup>6</sup> January-September

Source: Statistical Office of the Republic of Serbia, Ministry of Finance, National Bank of Serbia

**Vesna Peric, Director**  
Serbia Investment and  
Export Promotion Agency (SIEPA)

What would you highlight as an investment success of Serbia in 2007?

I have to point out the latest large investment by the Embassy Group planning to invest a total of \$600 million into building a technological park in a city of Indjija. The park will have 270 hectares and will export a minimum of \$2 billion. In the first year they will build 25,000 m<sup>2</sup> and employ 2,500 workers. In the following 5 year period they will tenfold their investment and employment bringing it to the final 250,000 m<sup>2</sup> and 25,000 employees.

The biggest IT park in Europe will be built in Serbia through a \$600 million investment and bringing numerous IT companies.

This will be the biggest specialized IT park in Europe and it is planned for all the prestigious IT companies to move in. Due to its size it is realistic to expect that this project will eliminate the unemployment in the segment of higher IT education. Also, depending on the success of this project there are plans to open similar parks in the rest of Serbia expecting to attract the return of Serbian experts who have left the country in the previous decade. To date Embassy Group's biggest clients were the most reputable IT companies such as: IBM, Microsoft, HP, ANZ Information Technology, Goldman Sachs, Fidelity, Network Appliances, Covansys, LG Soft, Yahoo, Google, Cognizant, McAfee, Daimler, Juniper Networks, Target Corporation, Super Valu, Lenovo, Bea Systems, Alcatel-Lucent, and NVIDIA. Thus, we expect that these will follow, on one side, the Embassy Group and, on the other, already present and successful European and American IT companies in Serbia.

What would you recommend as hot new investment opportunities?

I would have to roughly divide the investment into 3 categories and accordingly suggest the best value for money. If an investor plans to put in €100,000 - one can start a business in the field of services, which does not include large investment in fixed assets. Two years ago, we chose an IT company, which exports software for a couple of million euros, as the Best Exporter in the category of small and medium businesses at our national awards for the Exporter of the Year organized by SIEPA. I think that IT would be the best option.

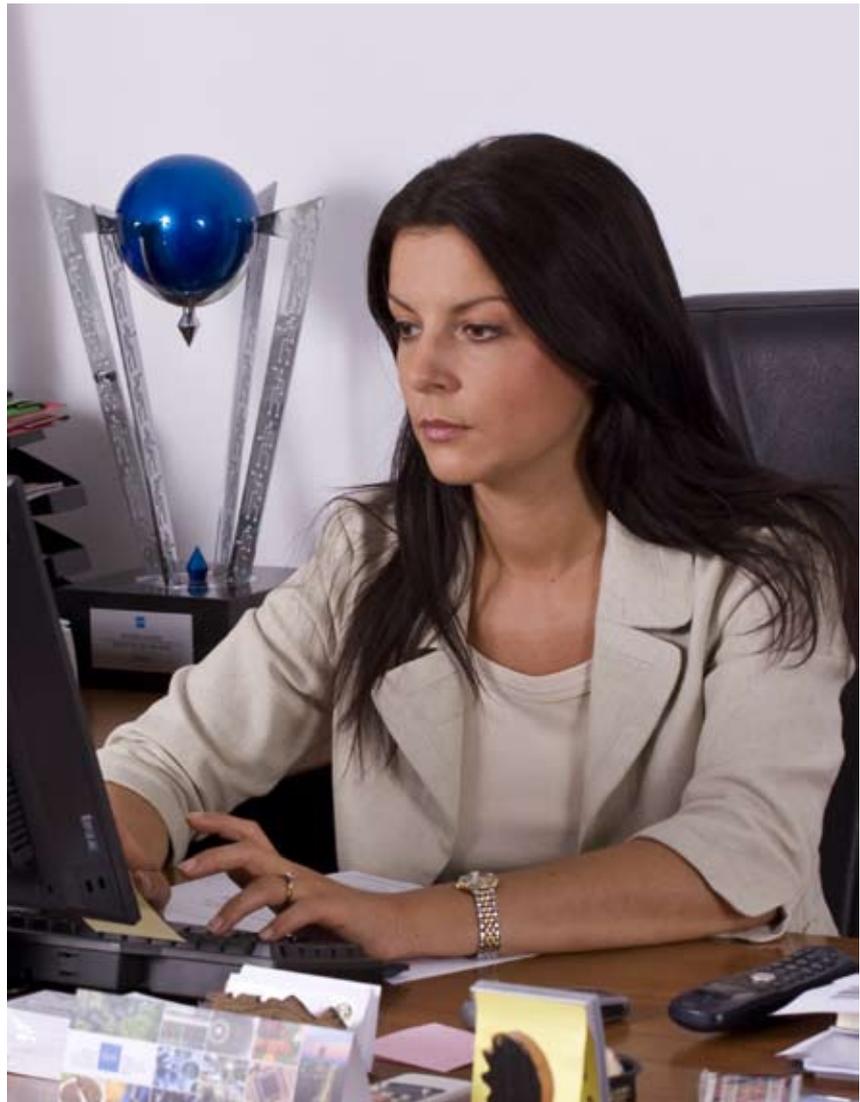
The ideal option for investing over €1,000,000 is a smaller healthy food production facility. Organic and

healthy food production is definitely our great export opportunity.

For investments over €10,000,000 and given the strategic geographic position of Serbia, I would recommend a logistic center. Such project would be supported by SIEPA through our state grants scheme providing up to €10,000 for each new job created with this investment.

Where do you see improvements to be made in relation to dealing with foreign investors?

Improvements are made daily through legal adjustments to existing laws in order to ease the processes of investment and permit



acquisition. Though there are differences between municipalities; the ones that are most efficient in dealing with investors have the best investment track record and other way round. Generally speaking, the situation has significantly improved compared to the conditions a couple of years ago. Thus, there are more and more municipalities which can issue all the required permits and other documents in a very short notice, in matter of weeks.

Furthermore, in the course of the next year, the Government of Serbia will introduce a new project named 'The Guillotine of Regulations.' Given that sometimes overly complex bureaucratic procedures are perceived as one of the major impediments to the country's stronger FDI performance, this initiative includes slashing of business regulations as a basis for more investor-friendly policy.

There are numerous financial and tax incentives for investors funded by the government and the most attractive are the financial grants ranging from €2,000 - 10,000 per every new job created.

What do you see as the specific advantages for an investor to choose Serbia as a location for both foreign and domestic investment and business expansion?

There are numerous financial and tax incentives for investors funded by the government. The most attractive are the financial grants ranging from €2,000 - 10,000 per every new job created in the manufacturing, services and R&D industries. Also, our country has the second lowest corporate profit tax rate in Europe, tax credits and holidays and many other alluring business options.

As a logistics base, Serbia is a perfect place for a company to locate its operations if wanting to locate its operations if wanting to closely and most efficiently serve its EU, SEE or Middle Eastern customers. It borders the EU offering a possibility of production outside



the European Union. In December 2006, Serbia has signed the CEFTA (Central European Free Trade Area) Agreement ensuring free trade between surrounding countries and Molodva. A Free Trade Agreement with Russia signed in August 2000 makes Serbia particularly attractive to foreign investors and manufacturers as the Russian market of 150 million people is decidedly accessible with the highest ROI.

In addition, from 2001 universities in Serbia have been producing around 15,000 graduates, 1,000 Masters of Science and almost 400 PhDs annually. Out of the total number of graduates, technical universities account for approximately 33%. Leading institutions in this field, e.g. School of Electrical Engineering or School of Mechanical Engineering in Belgrade, are recognized internationally for their expertise.

Moreover, Serbian workforce is one of our strongest attributes in attracting foreign investment. The educational quality is among the highest in SEE countries together with the fact that 42% of Serbs is able to communicate in English and the vast industrial experience gathered before the 1990's is setting us apart from our neighbors. The cost of labor is one third of that in our Western European and Balkan neighbors. Labor productivity in Serbia has

been on a steady rise in recent years. The growth was particularly impressive in 2006 with an increase in industrial productivity of 13.5%.

What would be your message to potential foreign investor?

Use the momentum and join other successful companies that have recognized the strengths of doing business in Serbia as you all know it will not last much longer and ROI will decrease with time. 2006 was a record year with \$4.4 billion of Foreign Direct Investment (FDI) flowing into Serbia and a number of world-class companies have started, or expanded their operations in our country including Telenor, Mobilkom, Stada, National Bank of Greece, OTP Bank, San Paolo IMI, Japan Tobacco International, and Messer. In 2007 FDI came close to \$2 billion, however due to privatization plans of large state companies it is expected for the investments to top results from 2006.

We, at SIEPA, look forward to working with you whether you are interested in Greenfield, existing sites or joint venture investment opportunities making sure the whole process and its follow up have been smooth, long-term, profitable investment in Serbia.

## The Purpose of Loans and Credit Cards

Banking population in Serbia is quite big although there is a lot of room for its expansion. Namely, banking services are used by 75% of the population older than 15 years of age meaning that potential of using other numerous services is quite large.

In the last couple of years the average banking services users have gotten used to debit cards, while credit cards are gaining popularity. Credit cards have replaced cheques, but purchasing using installments is still being used by 21% of citizens.

At present more than 25% of citizens use credit cards for clothing and shoes shopping.

What is the purpose of credit cards? More than 35% of consumers still use credit cards when shopping groceries. With an increase of standard of life there will be a decrease in credit card usage

for fast moving consumer goods and an increase in purchasing durable goods. At present more than 25% of citizens use this card for clothing and shoes shopping.

Household appliances are being renewed almost every year. In 2003 the average age of these appliances was 15-16 years, but this year a washing machine usually has 12 years, while fridge and stove have 13.5 years of usage. Going back to data on the credit card spending it may be seen that a growing population is using it for household appliances renewal.

A great number of people employ credit cards for paying bills. For now the usage is rare when paying services in hotels, restaurants, when staying abroad, and other.

Compared to taking credit cards, loans are rarer which is logical as they are being taken for much serious and greater investments. Every tenth citizen in Serbia has a loan. The greatest investment an average citizen is making is renovation of an apartment (24%). Household appliances purchase is being repaid as a loan or using a credit card. Purchasing a car is on a third place for

### Sources of Loan Repayments

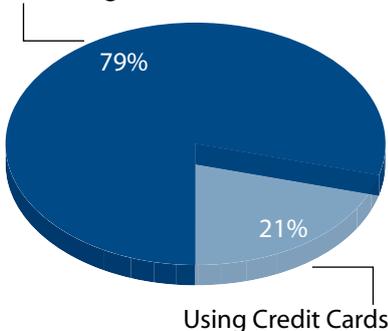
None, Regular Income is Sufficient	44%
Second Job Revenue	21%
Household Revenue (parents, spouses)	17%
Business Revenue	8%
Renting Income	2%
State Assistance	1%
Investment Income	1%

raising a loan. It is interesting to know that 7% of households in Serbia buy an apartment by taking a loan.

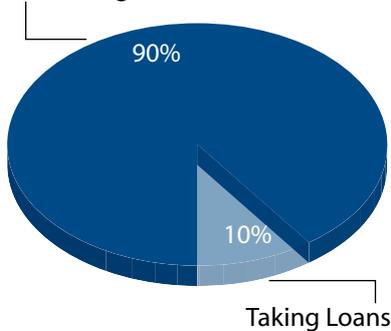
The greatest investment an average citizen is making is renovation of an apartment (24%).

Less than a half of citizens can pay off a loan based on its regular income, while 20% has to take a second job and an important support comes from the family – spouses and parents.

Not Using Credit Cards



Not Taking Loans



Credit Card Use	
Groceries	36%
Clothing and Shoes	27%
Home Appliances	19%
Kitchen Appliances	18%
Utilities	13%
Bills	5%
Business Purposes	2%
Payments Aboard	1%
Other	2%

Loans Use	
Renovating Apartments	24%
Household Appliances	22%
Car	21%
Kitchen Appliances	16%
Business Purposes	11%
Appartment	7%
Travel	5%
Schooling	2%
Medical Treatment	1%
Other	12%



## Belgrade

### January 26, 2008 Giuseppe Verdi: Aida – Concert

Aida is an opera in four acts by Giuseppe Verdi to an Italian libretto by Antonio Ghislanzoni, based on a scenario written by French Egyptologist Auguste Mariette. It was first performed at the Khedivial Opera House in Cairo on December 24, 1871 under the baton of Giovanni Bottesini. You may enjoy this remarkable piece of art at the Sava Center performed by the National Theatre Ensemble from Belgrade.

### January 27, 2008 Smashing Pumpkins

This highly acclaimed music group formed in Chicago back in 1988 will be playing at the Belgrade Arena for its faithful audience. In 2007 they made a come back album *Zeitgeist* that will be presented live together with their greatest hits including *Today* and *Disarm*.

### January 28 - 31, 2008 Magnificent 7 – European Feature Documentary Film Festival

The third edition of *Magnificent 7* will bring you high quality documentaries from Europe, all of them prize awarded at festivals and released in cinemas in

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## Hot Spots

### Balkan Hotel \*\*\*\*\*

The tradition of the "Balkan Hotel" is a century and a half long. It was built around 1860, when romanticism was a prevailing style of Belgrade architecture. This beautiful historical building has been completely restored to reflect the traditions of the past with all the modern conveniences that international travelers have come to expect. The location in the heart of the city center offers a walk to Belgrade's best entertainment and shopping venues. All guest rooms are equipped with amenities that you will find in an International superior 4 star hotel, including wireless internet connection for your business needs. The popular "Orient Express" restaurant and lounge is open from 6 AM until midnight (or later if you wish) with a menu that reflects the name and caters to international guests gastronomical tastes.

Balkan Hotel, Prizrenska 2, 11000 Beograd, Tel:+ 381 11 36 36 000, Fax:+ 381 11 26 87 581  
e-mail: reservations@balkanhotel.net, www.balkanhotel.net



their home country and/or elsewhere. Those eager to receive food for thought will have 4 days and 7 movies to enjoy, laugh, cry or be purely entertained at the venue Sava Center.

## Novi Sad

### December 20 – January 10, 2008 The Iwano Project VIII – Exhibition

The Iwano Project is the only international art project headquartered in Serbia (Novi Sad) that is now being traditionally presented for the 8th time. There are 37 artists from 15 countries that include Europe, USA and Japan with its 74 art works of large format on a hand made Japanese paper.

## The Other Home

### Simon Taylor, RapidV

As an American living and working in Eastern Europe I have had the pleasure of getting to know much of the regions diverse culture and rich history. However, it was not until my business took me to Belgrade, that I felt I had landed on a true emerging leader in today's rapidly evolving world economy. However, what impressed me most about this country was not its talented young people or its beautiful capital city, but the drive to succeed which I saw in everyone from high level government administrators to businessmen to the waiters in Belgrade's numerous restaurants. Serbia is a country that is emerging fast and can look forward to a bright future."