



Project of regional economic development of Vojvodina

# Vojvodina: Exploring the Economic Potential



*Vision and Strategic study  
of economic development potential*

**Bratislava – Belgrade – Novi Sad**  
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&  
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for  
The Executive Council of the Autonomous Province of Vojvodina



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# About this Project

This Strategic study of economic development potential is a part of the Slovak official development assistance (Slovak Aid) project „Vojvodina: Exploring the Economic Potential” implemented by the Slovak Rating Agency Inc., Bratislava, Slovakia and the Jefferson Institute, Belgrade, Serbia and Montenegro in the partnership with the Executive Council of the Autonomous Province of Vojvodina.

The aim of the project is to encourage economic growth in Vojvodina through three major objectives. The first objective is supporting the local governments in decision-making; the second is encouraging the local governments in activity towards increasing investments in the region and the third direction is creating a starting point for a business development facility (Business Incubator) that will directly increase entrepreneurial activity in the region.

The purpose of the Strategic study is to provide local self-government representatives with a guidebook that will help in decision-making. The document uses data and information from various reliable sources in a structure designed to cover important information that municipalities need in strategic decision-making related to regional economic development. Special attention is given to information that will help municipal representatives answer questions of potential investors in the region of Vojvodina.

## About the Authors



SLOVAK RATING AGENCY  
ERA™ Group Member

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The SRA™ is an affiliate partner of the European Rating Agency. The European Rating Agency is the first European rating agency analyzing transitional economies in the region of Central, Eastern and Southeast Europe.

The total volume of assets monitored by SRA™ achieved the value of 5 billion USD, which gives the agency the leading position in granting of ratings on the Slovak market.

SRA™ – the first local rating agency on the Slovak market – became not only the synonym of high quality analytic outputs, but also a significant independent opinion maker during the period of its operation on the Slovak market.

The goal of the SRA<sup>TM</sup> is to provide independent rating analyses of companies, projects and security issues, so that market participants have a wealth of independent information while adopting strategic decisions. Other analytical products include macroeconomic, sector and specially customized analyses. During its operation, SRA<sup>TM</sup> produced tens of rating, special-focused financial, macroeconomic and sector analyses.

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Our mission is simple: informing decision with alternative solutions. We produce and deliver focused original foreign policy analysis from field-based analytical teams. We build capacity for applied research in the communities where we work. The Jefferson Institute is a non-partisan, not-for-profit corporation.

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# The Vision

## ***Vojvodina: The Gate to Serbia and Montenegro, the Gate to the Balkans***

In the era of saturated markets in developed countries, perceptive investors see the opportunity for growth in other countries, countries less developed, countries in transition. They can see the markets that can offer an above-average profit. This trend is clearly visible in Central and Eastern Europe, Asia and other less developed world regions and is proved by substantial inflow of foreign investments or fast growing trade.

Besides some of the Central and Eastern European countries, which already achieved certain level of development, a success proved by entry to the European Union, OECD or various international organizations, there are still countries in Europe that provide opportunities for even faster-growing business. And the business can still remain in Europe – Europe so close mentally, culturally and geographically.

This is the right time for focusing on the Balkans. Achieved political and macroeconomic stability, definite will of the new governments to integrate into developed Europe, implementation of modern market-oriented law, renewed memberships in international organizations that ensure business environment standards, are only few of the good points for starting a business in these countries.

There is no doubt that Serbia is one of the hottest candidates for a fast growing economy. Serbia is currently in the process of a transition that started in the year of 2000. In a few short years, Serbia underwent major changes towards macroeconomic stability, adopted many crucial reforms and stabilized the political situation. The privatization process already generated many success stories.

Some challenges still remain; nobody can expect a full-standards economy – it is only four years from the end of the era of sanctions, wars and mismanagement. But by observing development in other post-communist countries, one can predict the steps that will follow in Serbia. The major outcome is definitely growth. Real growth that will generate higher value added to investments. To assure even faster return, in the competition of attracting investments, Serbia will play a leading role by providing incentives.

Every responsible investment decision requires a plan for future development and serious evaluation of ability for achieving business objectives. Ensuring a sustainable business requires starting in a region that provides a good background for realization of expansive plans. In Serbia, such region is Vojvodina. Vojvodina is the most developed region, not only in terms of economic indicators, but also in quality of business environment. Importantly, its geography positions Vojvodina on the top of the list of best places for doing business, not only in Serbia and Montenegro, but also in the whole Balkans.

Since Vojvodina is situated in the northern part of the Republic of Serbia, the date of 1<sup>st</sup> May 2004 when Hungary entered the European Union was one of the most important days for

Vojvodina, as it became the EU border region. On the east, Vojvodina borders with another EU candidate – Romania. On the west, a third EU candidate – Croatia.

Road and rail corridors crossing Vojvodina were heavily used in the past for the connection of Greece and ex-Yugoslavia with Western Europe. The importance of these corridors will grow again. Good transport connections to Belgrade, the capital of Serbia, which has the ambition to become a Balkans hub for international travel and cargo, gives Vojvodina another opportunity for growth.

The diversity of languages, religions and ethnical backgrounds of the people of Vojvodina is a value that nourishes creativity and ability to communicate with other nations. The inhabitants are proud of the heterogeneous structure of their region and this attribute should be considered as an exploitable asset even in business.

Considering the advantages of Vojvodina, this part of Europe is admittedly the gate to Serbia and Montenegro, the gate to the Balkans.

# 1. Macroeconomic Trends

## 1.1 Background

After nearly four years of transition, the Serbian macroeconomy has stabilized and key business environment legislation has passed, including the Value Added Tax and simplifies corporate tax code. The political environment has also stabilized in a business friendly trajectory, after two successful democratic elections and two Western oriented governments. The banking system has developed to a level of sufficient quality for all normal foreign operations.

The unresolved status of the State Union of Serbia and Montenegro will delay integration into World Trade Organization until at least 2008. Nevertheless, quotas are likely to be eliminated via bi-lateral agreements with the United States and European Union in 2005.

This market environment will be positive over time. The cost of production will continue to rise in EU member states and the United States. The expansion of the EU to Central and Eastern Europe will accelerate the rising production costs in these new member countries. Serbia will remain one of the last continental European markets for high skill low cost labor-intensive production.

### ***Success in macroeconomic stabilization***

The first three years of transition following the fall of the Milosevic regime yielded great successes in macroeconomic stabilization. Gross Domestic Product (GDP), while still just over half its 1990 level, has grown annually between 3 and 5 % and is projected to sustain 5 % annual growth over the next two years. Retail price inflation hovers around 10 %, National Bank currency reserves are strong, while settlement with both London and Paris clubs of creditors brought external debt to a manageable 60 % of GDP. Trade union pressures for wage growth are unlikely to influence overall productivity as unions retain strength only in state and socially owned firms, which play a small and shrinking role in the economy.

### ***Remittances play a significant role in financing the trade deficit***

The negative current account balance is financed in large part by remittances, which equal in annual dollar value to total export, according to National Bank of Serbia estimates. Shifting the spending of these remittances from consumption to investment is a key challenge for the government.

### ***Political consensus on EU membership***

Elections are free and fair and the political discourse is largely free of the nationalist rhetoric seen in the 1990s. All major political parties agree on the overarching policy objective of membership in the European Union membership. While EU membership is a distant prospect, this political consensus does serve to constrain policy options and thereby to reduce country risk.

### ***Improved legislative framework***

Most legal reforms are being done in accordance with EU standards. Overall, the entire tax structure has been streamlined, and the number of taxes has been reduced. The law on foreign investment eliminates previous restrictions, extends national treatment to foreign investors, and provides guarantees against expropriation. Other important legislation that has been enacted includes laws on privatization, foreign trade, foreign exchange, the customs regime and labor. The Serbian Government has established a privatization agency and tender committee to assist and expedite the privatization process. Large enterprises are privatized through tenders while Small and Medium Enterprises are privatized through auctions.

### ***Challenges remain***

The reform challenges that remain include aggressive transportation and telecommunications infrastructure development; restructuring and privatization of moribund state firms; and modernizing state institutions and the civil service.

### ***Geography is Serbia & Montenegro's greatest enduring comparative advantage***

The greatest enduring comparative advantage of Serbia and Montenegro is its geographic position. The country is a natural transportation hub for all Southeast Europe. It is the one state in Southeast Europe that borders every other state in Southeast Europe. It connects Europe and the Near East by the shortest possible route, with reconstructed road and rail infrastructure, river transport via the Danube, and access to the Mediterranean Sea via port of Bar on the Adriatic Sea. Belgrade airport is undergoing renovations that will position it in 2005 as the emerging regional air cargo hub.

The Danube (water corridor VII) is a natural connection between Middle East, Central Europe and the developed countries of Western Europe. The Budapest-Belgrade-Bar rail line is the fastest and cheapest connection between the natural resource rich countries that emerged out of the former Soviet Union, and the Mediterranean basin. The shortest land route (highway) connecting Western, Central and Eastern Europe with Greece, Turkey and the Near East countries is Corridor X, which runs the full length of Serbia.

## **1.2 Gross Domestic Product**

Serbia's Gross Domestic Product (GDP) slumped in the beginning of the 90s due to the war in former Yugoslavia and UN-imposed sanctions. Slobodan Milosevic, who was ruling the country in 1990-2000, deliberately blocked the development of free market institutions. During his rule GDP fluctuated but the structure of economy remained intact.

From a low base, it started to recover in 2000, just before the first post-Milosevic government took office and started to pursue pro-market reforms. But already in 2002 it started to fall again. This time the reasons for the decline are the change in economic behavior: the state started gradually to bow out and imposed harder budget constraints on enterprises, a policy similar to other East European governments at the onset of the transition. GDP was in decline for three consecutive years (2001-2003), but the trend in the first half of 2004 indicates that Serbia could return to growth in 2004.

The Economist Intelligence Unit's (EIU) forecasts real annual GDP growth of 5 % in 2004-5 on the back of rapid growth in agriculture and services and a gradual recovery in external demand. Some Serbian economic analysts forecast 6 %, whereas the government forecast 9.5 %.

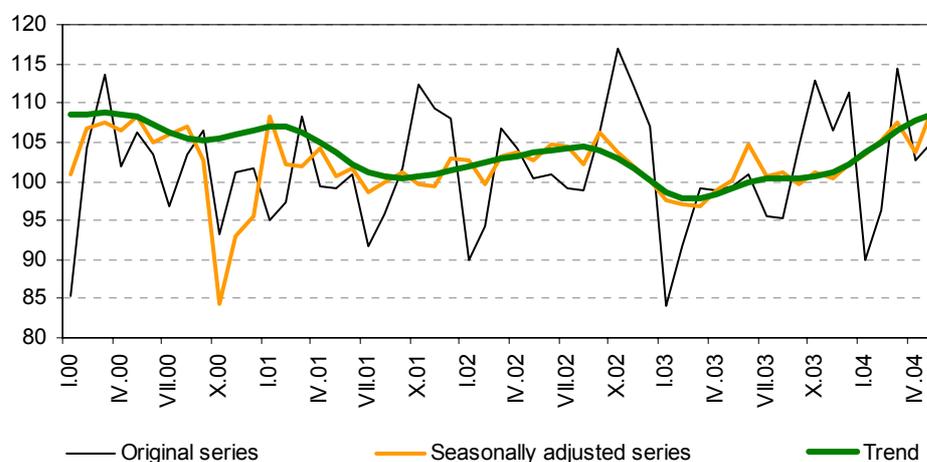
Origins of GDP						
	2000	2001	2002	2003	2004*	2005*
GDP (% real change p.a.)	5.2	5.3	3.8	2.0	5.0	5.0
Nominal GDP (in billion USD)	8.60	11.55	15.69	19.82	21.98	23.82
Real agriculture (in million CSD)	3,952	4,631	4,534	4,280	4,408	4,562
Real industry (in million CSD)	9,467	9,467	9,628	9,368	9,836	10,372
Real services (in million CSD)	7,908	8,318	8,912	9,884	10,414	10,960
Agriculture (% real change p.a.)	-13.0	17.2	-2.1	-5.6	3.0	3.5
Industry (% real change p.a.)	11.2	0.0	1.7	-2.7	5.0	5.0
Services (% real change p.a.)	13.1	5.2	7.1	10.9	5.4	5.2

Source: Economist Intelligence Unit, \* EUI forecast, p.a. = per annum

Cumulative industrial production growth in the first seven months of 2004 was up 7.5 % compared to the first seven months of 2003. At present, it is not quite clear whether industrial production is really recovering or the recovery is enabled by the change in statistical methods introduced by the statistical office.

The data are now being compiled using a new EU compatible methodology for collecting, weighting and reporting industrial statistics with revised weights for different sectors and greater coverage of private small and medium sized enterprises.

**Industrial production in Serbia 2000-04 (2003 avg = 100)**



Source: Republic Statistical Office of Serbia

Geographically, the increase in industrial production was mainly driven by central Serbia where it grew by 8.5 %, whereas in Vojvodina it grew by 5.7 %. The biggest growth was recorded in manufacturing. The production of machines and apparatus grew by 52 % in the first six months of 2004.

<b>Manufacturing output (% change)</b>		
	<b>March 2004/2003 average</b>	<b>January- March 2004/2003</b>
Food & beverages	-0.3	-13.6
Tobacco	30.1	21.4
Textiles	-2.5	-14.0
Clothing	20.2	-8.7
Leather & leather products	-12.7	-20.6
Wood & wood products	1.7	-23.6
Paper	-8.5	-19.5
Printing	2.7	1.2
Coke & oil derivatives	13.1	14.5
Chemical & artificial fibers	34.3	10.9
Rubber & plastic products	14.3	-7.9
Other mineral products	-4.9	-30.6
Basic metals	36.6	13.0
Metal products	5.0	-10.1
Other machines	131.4	31.5
Office equipment & computers	153.5	104.2
Other electrical equipment	17.7	1.9
Precision equipment & optical instruments	1.7	-5.6
Motor vehicles & trailers	-14.2	-31.2
Other transport equipment	55.3	17.0
Radio, TV and communication equipment	-43.5	-59.2
Precision equipment & optical instruments	1.7	-5.6
Furniture	-2.3	-13.6
Recycling	-29.9	-33.7
<i>All sectors</i>	<i>16.8</i>	<i>-3.8</i>

Source: Republic Statistical Office of Serbia

Since 2002, services account for more than 50 % of GDP. However, this does not clearly suggest that Serbian economy is modernized. It rather means that this relatively large share of services in the Serbian economy reflects a weakness of Serbian industry. It is because during the 1990s Serbian industry was underinvested that industry account for smaller share of GDP.

<b>GDP at real factor cost (ratios)</b>					
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
Agriculture/GDP	15.73	17.64	16.80	15.50	15.30
Industry/GDP	36.10	33.14	31.40	28.80	27.70
Services/GDP	48.17	49.22	51.80	55.70	57.00

Source: Economist Intelligence Unit, \* EIU forecast

## 1.3 Balance of Payments

Serbia ran huge trade deficit in the period 2001-2003. Moreover, the current account/GDP ratio is increasing despite GDP growth.

Foreign Payments (millions USD)					
	2000	2001	2002	2003	2004*
Current account balance/GDP	-3.94	-4.57	-8.82	-10.70	-14.30
Current account balance	-339.00	-528.00	-1,384.00	-2,121.00	-3,142.54
Goods: export (f.o.b.)	1,923.00	2,003.00	2,412.00	2,917.00	3,194.40
Goods: import (f.o.b.)	-3,711.00	-4,837.00	-6,320.00	-7,957.00	-9,387.50
Trade balance	-1,788.00	-2,834.00	-3,908.00	-5,040.00	-6,193.10
Trade balance to GDP	-20.78	-24.54	-24.91	-25.40	-28.20

Source: Economist Intelligence Unit, \* EIU forecast

The root of the huge foreign trade deficit rests in the poor competitiveness of the Serbian economy and the sluggish development of the private sector after the regime change in October 2000. According to the Jefferson Institute study *Competitiveness of the Serbian Economy 2003*, Serbia holds the 69<sup>th</sup> position out of 75 countries under analysis, as measured by the growth competitiveness index. (The index measures capacity of a national economy for achieving stable economic growth during a medium-term period.)

The number of private enterprises did not significantly increase in the past three years. Serbia still has huge grey economy sector which presents an obstacle not only for faster development of *de novo* sector but also for competitive markets. Competitiveness of the Serbian economy can be also seen in poor export activities. For its size, Serbia trades very little. It does not export much compared to other neighboring countries. The bulk of the Serbian export comes down to several countries – Italy, Germany, Russia, Bosnia and Herzegovina, and Macedonia. Serbian products, in addition, have little comparative advantage. Its economy is mainly labor-intensive with a small number of products based on high technology. On foreign markets Serbian products are mainly competitive owing to their low price, not to their quality.

The trends of foreign trade in 2004 do not show significant improvement. The Republic Statistical Office indicates that the total value of exports in January-July 2004 was 1,233.3 million USD (up 15.8 % than in the same period of last year), imports registered at 4,079.5 million USD (up 41.8 %), with a 2,846.2 million dollar deficit (up 57.1 %). The trade deficit could surpass 6 billion USD in 2004.

On the other hand, the current account shows a much smaller deficit but this is mainly due to the inflow of donations and international credits in 2001-2003 as well as high privatization revenues in 2003. This type of inflow ran its course in 2004, because of which even the current account deficit is set to rise.

Trends in foreign trade 2000-2003				
	2000	2001	2002	2003
<i>Main destinations of exports (% share)</i>				
Bosnia & Herzegovina	14.5	13.1	14.5	15.6
Macedonia	12.3	9.3	9.1	8.7
Germany	9.7	12.1	10.7	11.4
Italy	12.5	16.3	14.5	14.0
<i>Main origins of imports (% share)</i>				
Germany	13.2	12.2	13.1	13.8
Italy	10.5	10.4	10.3	10.0
Russia	8.4	14.3	12.5	13.7
Greece	3.6	4.5	2.7	2.4
<i>Principal exports (% share)</i>				
Manufactured products	32.9	32.6	29.6	-
Food, beverages & tobacco	14.0	14.0	20.9	-
Chemical products	7.5	6.5	7.0	-
Machinery & equipment	11.2	12.1	10.5	-
<i>Principal imports (% share)</i>				
Machinery & equipment	22.1	21.3	25.8	-
Fuels & lubricants	20.1	20.7	16.9	-
Manufactured products	20.8	19.6	20.1	-
Chemical products	15.8	15.0	13.5	-

Source: Economist Intelligence Unit

Serbian economy does not only export little; it also invests abroad almost nothing. The weakness of the Serbian economy is illustrated in that new direct investments almost equal the level of inward of direct investment.

Serbia cannot rely on services to close the current account gap in the future because it does not have a developed tourist economy (as opposed, for instance, to Montenegro or Croatia). In the period 2001-2003 Serbia relied on transfers from abroad and remittances, but most of all on concessionary loans, aid, and privatization proceedings. In the future, only privatization proceedings can be relied on. Serbia will have to attract substantially larger amount of greenfield investment and develop access to international financial markets to dampen the rise of current account deficit.

## 1.4 Unemployment

Serbia has a large informal sector, which is why the official data on unemployment are considered as not entirely reliable. Official unemployment in Serbia is rather high and runs at about 34 %. However, due to the large grey economy, many people are, in fact, employed without being registered. Despite the growth of GDP in real terms, employment in 2003 dropped by approximately 2 % compared to 2000. The decline in employment was largely the result of labor shedding from the socially and state owned sector, coupled with the unfavorable investment climate and rigid labor market.

Hidden unemployment in the state and socially owned sector was estimated to be 500,000-700,000. This labor hoarding was caused by protective regulation that prevented layoffs of employees during the UN sanctions of the 1990s. Job security of workers was guaranteed so that the workers were protected from external labour market competition.

Key Labour Force Indicators 2000-2003					
	1999	2000	2001	2002	2003
Labour force participation rate	70.4	71.5	72.1	72.2	71.8
Employment rate	60.3	62.2	62.6	62.0	60.5
Real unemployment rate (LFS - ILO)	14.3	13.1	13.1	14.1	15.8
Registered Unemployment rate	25.5	25.6	26.8	31.3	34.5

Source: International Labour Organization (ILO) Labour Force Survey (LFS) 1999-2003, Labour Market Bureau of Serbia, National Bank of Serbia

GDP growth in 2004 may not necessarily imply a substantial reduction of unemployment in 2005. This is because employment falls more slowly than output but then recovers more slowly. Employment falls slowly because it is taking place in socially-owned enterprises that still perform a social and political purpose, whereas a rise in employment typically takes place in the private sector where concern about increase in productivity prevails.

Real workforce according to the survey in October 2003 (in thousands)									
	Serbia			Central Serbia			Vojvodina		
	2002	2003	index 02/03	2002	2003	index 02/03	2002	2003	index 02/03
Total workforce	6,168	6,137	99.49	4,530	4,473	98.75	1,638	1,663	101.53
Employed	3,000	2,918	97.28	2,350	2,262	98.15	694	655	94.38
Unemployed	459	500	108.8	295	302	102.4	164	197	120.3

Source: Republic Statistical Office of Serbia

Data obtained by a Republic statistical office survey (table above) suggests that real unemployment is twice as low as registered unemployment. On the other hand, table below shows that in the first part of 2004 the number of people who lose jobs is approximately the same as the number of people who find jobs. Since the number of new firms is not significantly increasing (see table Start-ups 2000-2003 in chapter 2.13 Obstacles to Business), and new direct investments in 2004 will be meager (see table Direct investment flows in chapter 3.3 FDI in Serbia), unemployment probably will not significantly fall in 2004.

Work force mobility in January-May 2004		
	Stopped work	Started work
I 2004	32,352	30,375
I-II 2004	59,109	64,748
I-III 2004	89,670	102,846
I-IV 2004	118,667	136,462
I-V 2004	141,370	168,811

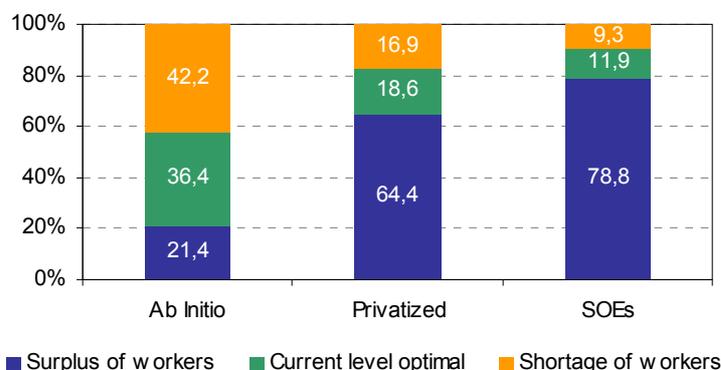
Source: Labour Market Bureau of Serbia

The discrepancy between real and official data shows that a considerable proportion of the workforce is misallocated. Local experts estimate that some 20 % - 25 % of the existing work force is surplus in the social sector and will be laid off as the privatization process continues. Significant reallocation of the labor force to the new private sector is inevitable. This reallocation will be augmented with reallocation from the social sector to the informal sector, which bears the risk of enhancing the informal economy.

According to a company survey by the World Bank, only 25 % of respondents state that they have the optimal staffing level. As expected, the largest percentage of enterprises claiming workers overhang is among state and socially-owned companies (78.8 % in 2003), followed by privatized companies where 64.4 % claim to have redundant workers. The surplus of

workers in the new private sector is predominantly the result of labor hoarding, as the owners are reluctant to lay off workers either because of scarcity of skilled workers or because of past investments in specific training.

### Workforce surplus and shortage



Source: World Bank (Serbia. Investment Climate Assessment 2004)

## 1.5 Wages and Inflation

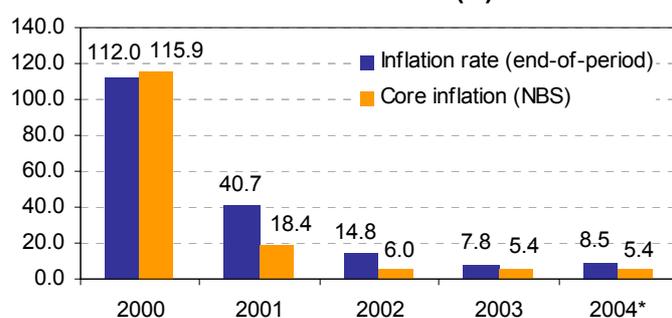
Wages rose rather quickly in the period of 2001-2003. It is difficult to establish how much this rise has been compensated by the decrease in employment but it is certain that wages have been growing much faster than production or productivity. The real growth of wages in the first seven months in 2004 was 13.6 % higher compared to the same period in 2003.

Average salary in the public sector				
	2001	2002	2003	June 2004
Average wage in Serbia (in CSD)	5,379	9,208	11,518	14,630
Average wage in Serbia (in EUR)	89	151	176	200

Source: National Bank of Serbia

Inflation was significantly reduced and remained low since 2001, under strict monetary policy and a fixed exchange rate regime. Due to the expansionary fiscal policy that targeted higher growth, the June and July inflation (table below) was 1.4 %. This threatened to undermine the Ministry of Finance's and National Bank's policy for 2004 to keep inflation under 10 %. The threat was countered by a cut in budget spending and some National Bank measures, which brought the inflation down in August 2004.

### Inflation rate (%)



Source: National Bank of Serbia, \* NBS estimation

Retail prices in the period January-August 2004								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Inflation rate (%)	0.4	0.9	0.4	0.8	1.0	1.4	1.4	0.6

Source: National Bank of Serbia

## 1.6 Fiscal Policy

Serbia has a rather high public expenditure to GDP ratio, at around 50 %. As a consequence Serbia also has high public revenue to GDP ratio. The Serbian government spends a lot on wages and salaries in the public sector, on the military, and allocates a large part of revenues to subsidies and grants for socially owned enterprises. The table Budget Expenditures for January-July 2004 suggests that the biggest budget expenditures go to social insurance organizations. Among them is the pension fund whose deficit in 2004 runs as high as 6 % of GDP. High public expenditures in the GDP and a persistent deficit mean that either taxes will remain high or expenditures will be reduced. Although some taxes have been lowered in 2004, growth in Serbia is still not accelerating, which probably means that cutting expenditures is the more preferable policy. But the government does not show signs of wishing to restructure public spending.

Budgetary indicators				
	2001	2002	2003	2004
Budget deficit (% of GDP)	-1.35	-4.50	-4.90	-2,50*
Budget revenue (in mill. CSD)	300,400	430,500	499,600	571,992
Budget expenditure (in mill. CSD)	310,800	475,900	555,200	633,091
Budget balance (in mill. CSD)	-10,400	-45,400	-55,600	-61,099
Budget revenue (% of GDP)	38.90	42.80	43.70	44.00
Budget expenditure (% of GDP)	40.30	47.30	48.60	48.70

Source: Economist Intelligence Unit, \* Government forecast

A part to the solution to fiscal sustainability is the growth of the private sector. When it grows it will be able to increasing employment and public expenditures will fall, whereas public revenues will increase.

The government has improved its ability to collect taxes compared to 2000, the last year of the Milosevic's regime. In the period of January-June 2004 the state collected 294 billion CSD, which is 22 % more than in the same period of 2003. The most dynamic rise in tax collection is seen at the level of the Republic of Serbia (30 %), whereas cities account for 14.5 % and municipalities for 18.6 %. The biggest sources of state revenue are revenues from the goods and services tax, the income tax, social contributions, tariffs and excises.

Tax collection in 2003 and 2004			
	Jan-Jun 2004	Jan-Jun 2003	Index (I-VI 2004/ I-VI 2003)
Income and capital gains tax	12.8	13.8	114.9
Payroll tax	2.4	2.6	117.3
Property tax	2.5	2.5	122.8
Goods and services tax	34.6	35.2	120.8
Tariffs	4.8	5.8	101.6
Extra profit tax	0.015	0.006	288.3
Social insurance contribution	28.6	28.2	124.4
Sale of goods and services tax	2.3	2.4	113.4
Other revenues	5.1	4.9	127.9
Donations	0.3	0.5	66.8
Privatization proceedings	0.4	2.0	25.3
Revenues on other grounds	6.2	2.1	364.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>122.9</b>

Source: Ministry of Finance, Republic of Serbia

In a historical step toward fiscal transparency, the Serbian Ministry of Finance publicized the structure of semi annual state expenditures for the first time in August 2004. The table below shows the breakdown of the budget expenditures in January-July 2004.

Budget Expenditures for January-July 2004		
	Total (in bill. CSD)	Share in total expenditures (in %)
Transfers to social insurance organizations	47.5	23.9
Transfers to common state and local governments	34.7	17.5
Wages	32.5	16.4
Subventions to socially owned enterprises	18.9	9.5
Social protection support	18.4	9.2
Service of old foreign currency deposits	14.7	7.5
Social contribution for employers	6.2	3.1
Foreign debt service	4.1	2.1
Machines and equipment	3.8	1.9
Special services	3.1	1.5
Buildings	2.9	1.4
<b>Total</b>	<b>198.4</b>	<b>100.0</b>

Source: Ministry of Finance, Republic of Serbia

## 1.7 Monetary and Exchange Rate Policy

The last four years have brought additional monetization with respect to its low level before 2000. In 2003 the M1/GDP and M2/GDP ratios reached 8.5 and approximately 10, respectively, while these ratios stood at lower or much lower levels in the preceding years. M1 rose from 457 million EUR at the end of 2000 to 1.6 billion EUR in late 2003. With respect to the growing savings deposits, a significant increase was also reported in M2, which reached nearly 1.9 billion EUR at the end of 2003. The monetary policy program for 2004 includes a restrictive course in monetary policy aimed at the suppression of inflation and stability of the financial system.

The National Bank adopted a fixed monetary regime in 2000. In reality, it was a dirty float with discretionary right of the National Bank to intervene on the financial market whenever it sees fit. The exchange rate was kept fixed to the Euro with slight depreciation in 2001-2003. Accelerated depreciation, started in 2004. The Dinar will continue to depreciate, but at a rate that is not too conducive to the competitiveness of the Serbian economy. Hence, the pressure on the Dinar exerted since 2001 will carry on in 2004.

Exchange rates				
	2001	2002	2003	First half of 2004
USD/CSD (average)	66,84	64,19	57.64	59.16
EUR/CSD (average)	59,87	60,66	65.26	72.54

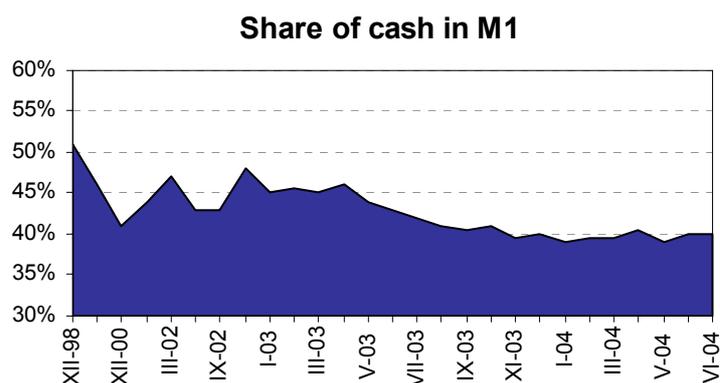
Source: National Bank of Serbia

By the end of 2003, M3 almost equaled the National Bank's reserves plus the reserves of commercial banks. This suggests that the Serbian economy is undermonetarized. There is approximately 4 billion EUR in the black market, but this firstly points to the lack of trust in the Serbian banking system, and secondly, creates additional problems for the National Bank to pursue effective monetary policy because it cannot control the amount of money in circulation.

Monetary aggregates in 2001-2003				
	2001	2002	2003	June 2004
M1 (mill. USD)	58,233	93,815	105,212	102,777
M2 (mill. USD)	68,098	110,900	124,866	125,700
M3 (mill. USD)	125,415	191,491	244,866	262,645
National Bank's reserves (mill. USD)	1,169	2,280	3,550	3,387
Commercial banks' reserves (mill. USD)	640	783	886	667

Source: National Bank of Serbia

The current policy of slow depreciation of the Dinar is untenable on the longer run. The monetary policy since 2001 has been strict, while the fiscal policy has been lax. Neither the strict monetary policy nor strict exchange rate regime contribute to the competitiveness of Serbian economy. If the exchange rate regime is fixed, and inflation is higher than in neighboring countries domestic goods become more expensive than imported goods. On the other hand, if monetary policy is restrictive (lest it endangered the exchange rate), interest rates will be high, and investment will not pay off. Monetary policy trampled production, whereas increased public spending spilled over into higher import (hence the huge trade deficit). Currency risk remains high. As seen in the section on balance of payments, Serbia runs a high trade deficit. When the financing of the trade deficit becomes impossible, the Dinar will have to depreciate more rapidly in real terms against the Euro.



Source: National Bank of Serbia

## 1.8 External Debt

Serbia inherited the largest share of the former Yugoslavia's external debt. During the 1990s, Serbia made no payments on this debt. After the regime change in 2000, the Paris club wrote off 66 % of the 4.57 billion USD debt in 2001. The London club wrote off 62 % of the 2.7 billion USD in July 2004. These two write-offs reduced the total debt to 13.6 billion USD (62 % of GDP), which opened the possibility for Serbia to tap international capital markets.

External debt indicators			
	2003	2004	2005
Total debt (in mill. USD)	14,304	13,609	14,586
Total debt service (in mill. USD)	413	994	1,127
Debt per head (in USD)	1,341	1,275	1,364
Debt-service ratio, paid (%)	6.0	13.4	13.7
Debt-service ratio, due (%)	13.5	13.4	13.7
Total debt-GDP ratio	72.2	62.0	61.2
Total debt-export of goods and services ratio	208.6	183.2	177.5

Source: Economist Intelligence Unit

# 2. Legal and Regulatory Framework

## 2.1 Constitutional Framework

The Federal Republic of Yugoslavia underwent major constitutional changes. On 4<sup>th</sup> February 2003 it became the Union of Serbia and Montenegro based on the Constitutional Charter and Implementing law.

The governance structure of Serbia and Montenegro is divided in five and three levels, respectively:

<i>State Union of Serbia and Montenegro</i>	
<i>Republic of Serbia</i>	<i>Republic of Montenegro</i>
Two provinces	21 municipalities
29 regions	
169 municipalities	

The Union of Serbia and Montenegro is a democracy with a parliamentary representative system. The legal system of the Union of Serbia and Montenegro is based on the principles of Roman Law and Continental Civil Law thus enabling private ownership rights. The main sources of law are the Laws enacted by the parliaments. However, the legislative power is separated between the federal or union level and the Republics.

Serbia and Montenegro is governed by the President, a unicameral Assembly (composed of the 126 members of which 91 members from Serbia and 35 from Montenegro) and a five-member Council of Ministers (ministers for foreign relations, defense, internal and external economic relations and human and minority rights).

The joint state holds a less extensive set of competencies, primarily in areas such as defense, international relations, human rights protection, common market and border control. Serbia and Montenegro has a joint army. The Court of Serbia and Montenegro has jurisdiction over the remaining narrow set of constitutional and administrative matters. The Serbia and Montenegro Constitutional Court and Serbia and Montenegrin Constitutional Courts have the authority to rule on the constitutional validity of the laws enacted by the Parliaments and on Government or executive actions and it can order their repeal. These Courts may be accessed directly by anyone.

The 2003 state union constitution substantially reduced the prerogatives of the joint state and established a confederal system of decision-making. There are only five areas where the State union has prerogatives: defense, foreign affairs, external economic relations, domestic economic relations, and human and ethnic minority rights. The institutions of the joint state

deal more with harmonization of the two government's policies than with original policy making. Since the real nature of the joint state is confederal rather than federal, real power lies with the member-states (Republic of Serbia and Republic of Montenegro). Decision making at the state union level is entirely dependant on the decisions of the member-states, meaning that no decision, even within the five listed prerogatives, can be made unless the two respective governments endorse it.

The state union was created in order to facilitate a faster integration of Serbia and Montenegro with the European Union. However, because of the confederal manner of decision-making, the State union turned into a serious obstacle for the integration. The first task that the EU requires from the State union (harmonization of tariffs and the establishment of the joint custom office) cannot be accomplished because the governments of Serbia and Montenegro have disparate interests in tariff policy in a number of cases. For instance, because of the huge agriculture sector, Serbia prefers higher agricultural tariffs, while Montenegro does not; because of the huge steel and aluminum industry, Montenegro prefers higher steel and aluminum tariffs, while Serbia does not. Serbia also cannot export meat under preferential treatment into EU because the export needs an approval of the EU commission, which needs to verify a document on control issued by the joint institution. This institution does not exist because Montenegro refuses to endorse it. The situation is similar with the export of other agricultural products and of textiles that cannot be exported to EU because there is no unified seal.

The government of Serbia is in charge of economic, fiscal, trade, monetary, social, and privatization policy. The Serbian parliament passes laws on business and investment environment, whereas the administration of the Republic of Serbia implements it.

The Federal laws of the Former Republic of Yugoslavia (FRY) pertaining to the areas within the jurisdiction of the new state continued to be applied as the legal acts of the Union of Serbia and Montenegro. Although member states of Serbia and Montenegro may apply federal laws of the former FRY which are not in the jurisdiction of the joint state, they have mostly enacted new laws. The member states have established their own governmental institutions within their jurisdictions. According to that situation, federal institutions at the beginning transferred to the Serbian level, such as National Bank of Serbia, Federal Customs Authority and Federal Securities Commission, have been replaced with the same kind of institutions established on the member states' level.

The monetary system of the Union of Serbia and Montenegro is separated between two member states. There are two official currencies applicable in the country, the Dinar or CSD in Serbia and EUR in Montenegro. Although there are two Central banks, Serbian and Montenegrin, by agreement between the two member states, the National Bank of Serbia represents the Union of Serbia and Montenegro in dealings with all financial institutions.

Further to this, following the expiry of the stipulated three-year transitional period, each member unit may initiate the necessary procedure for dissolution of the joint state.

## 2.2 Republic of Serbia and Local Self-government

Serbia is a highly centralized country with two provinces, Vojvodina and Kosovo, 29 regions, and 169 municipalities. Since 1999, Kosovo has been under the international protectorate of the United Nations and NATO. Serbia has no prerogatives on the territory of Kosovo. The province of Vojvodina has its parliament and executive council. Vojvodina has the prerogative to decide in a number of matters (education, culture, etc.) but it has no right to pursue economic, fiscal, trade, monetary, social, or privatization policy on its own.

In 2002, municipalities were given higher autonomy and a number of prerogatives that are defined as original. However, the municipal authority has no right to interfere in any economic matters. Neither province of Vojvodina, nor municipalities have the right to levy taxes, to deal with the business environment, or to give incentives for investments.

Municipalities have budgets but no substantial fiscal autonomy. They are rather beneficiaries of the state budget. Municipal budgets have original, loaned, and additional sources of income. They receive 8 % of what the state collects by levying product and service sales tax on the territory of the respective municipality, and receive 5 % of the income tax collected on their territory. The Minister of Finance of the Republic of Serbia supervises the execution of the local budget. Municipalities may borrow funds for capital investments according to the Budget System Act. This borrowing may be conducted with either domestic or foreign creditors whereas the criteria on what are the capital investments expenditures that may be funded by borrowing are established by means of Government regulation.

As far as the funding of short-term deficits created by unbalanced fluctuation of incomes and expenditures are concerned, they can be covered only by means of borrowings from the Republic budget provided that the borrowed funds are to be repaid by 30<sup>th</sup> November of the same year. Total debt for both capital investments and short-term deficits must not be higher than 20 % of earned income of the local government budget in the previous year. Municipalities can have more funds than originally planned. The surplus of collected funds, namely, the amount over the determined limit realized by the municipality on its territory shall be shared between the municipality and state in a 50:50 ratio.

Regions in Serbia are purely administrative and geographical units. They have very limited practical function. The upcoming constitutional reform in Serbia will almost certainly preserve the current state and administrative structure in Serbia.

## 2.3 Court System

In Serbia and Montenegro, there are three levels of court; municipal courts, county courts and the Supreme Courts (of both Republics).

Usually, the municipal courts are the courts of first instance and their jurisdiction encompasses the territory of one or more municipalities. For instance, the city of Belgrade has five municipal courts for approximately 11 municipalities. Municipal courts are competent to resolve all civil matters, labor and housing issues, damage compensation, etc, in all matters

not relating to the commercial issues. Generally, with regard to the jurisdiction and competence of particular courts, unless otherwise reserved to a higher court, all lawsuits fall under the jurisdiction of local courts.

The judicial system of Serbia comprises also commercial courts, Serbian Constitutional Court, and the Court of Serbia & Montenegro. The province of Vojvodina has no judicial system. Kosovo has a judicial system entirely detached from the Republic of Serbia.

The Court of Serbia and Montenegro has administrative, constitutional and first-instance prerogatives. Its rulings are obligatory and without the right to appeal. The court settles disputes between the member states and decides whether the constitutions and laws of the member states agree with the charter and laws adopted by the union-level assembly. This union-level court also may hear appeals cases from individuals who believe their rights have been violated by a state-level institution in Serbia or Montenegro.

The Serbian courts are in charge of criminal, civil and administrative cases. The system of commercial courts handles trade and economic disputes as well as bankruptcy and privatization deals. The 2001 judiciary reform in Serbia established two new expert bodies, the High Council of Judiciary and the Grand Personal Council with the task to regulate the nomination of judges and consider reasons for their removal. The reform also introduced a Court of Appeals and an Administrative Court that are to be established by 2007.

## 2.4 Company Law

A new Company Law was adopted by the Serbian parliament on November 15, 2004. It replaced the old Federal legislation from 1996, which allowed the existence of socially owned enterprises. The Montenegrin Parliament adopted its own company law in January 2002.

According to the new Company Law, there are four types of companies:

- partnership
- limited partnership (Komanditengesellschaft)
- limited liability company
- joint stock company

The overall aim of this legislation is to reduce the risk in establishing companies and doing business. The law consists of 450 articles, which are harmonized with the regulations and directives of the European Union as well as with the major principles of company law for transitional economies.

All four types of companies have the status of a legal entity.

A limited liability company, still the dominant type of company in the Serbian economy, is a legal entity formed by up to 100 legal or natural persons for the purpose of economic activity (article 104-183). The liability of each person is limited to its share of ownership.

Contributions to the share capital may be made in the form of cash or contributions in kind (such as equipment, goods, know-how and other tangibles or intangibles). The minimum sum required for establishing a limited liability company is €500 (reduced from the previous €5.000).

A joint stock company (articles 184-346) is a company formed by one or more shareholders for the purpose of economic activity. There can be two types of joint stock companies: open

and close. A closed company distributes shares exclusively among its founders. These shares, consequently, are not quoted at the stock exchange market. Closed companies can have up to 100 shareholders. If this number rises above 100, the company turns into a public joint stock corporation. Public corporations quote their shares at the stock exchange market. The minimum cash requirement for a joint stock company, according to European directive 2, is €10,000 for a closed joint stock company, and €25,000 for a public joint stock company.

Other specialized areas, such as insurance, banking and the stock exchange, are governed by their own sets of laws (e.g. the Law on Banks and Other Financial Institutions, and the Property and Personnel Insurance Act), so that the general provisions of the Company Law serve only to supplement these particular sets of laws in these special areas.

The new Law on Foreign Investments, adopted in 2002, introduced significant improvements for foreign legal entities and individuals with respect to their investments in the Republic of Serbia, giving such foreign legal entities and individuals the same treatment as nationals receive, as well as certain tax and customs benefits. The Republic of Montenegro adopted its own Foreign Investment Act in 2000.

As for representative offices, the governing legislation is the Ordinance on Detailed Conditions for Opening and Operation of Representative Offices of Foreign Persons in Serbia and Montenegro. This ordinance provides for a registration procedure in the Register of Representative Offices of Foreign Persons at the Ministry of Foreign Economic Relations. The distinguishing feature of a representative office is that it is not a legal person and its permitted activities are limited only to tasks such as surveying the market and preparation of contracts to be concluded with the parent company.

## **2.5 Concessions and Investments Regulation**

In spite of the fact that numerous provisions and laws on both federal and Republican levels (Privatization Law, Company Law, Tax System law, Customs Law, etc.) indirectly cover the field of foreign investment, enactment of the new Foreign investment Law in 2002 as a special law provided the legislative framework for direct foreign investment. In the light of the fact that foreigners are still reluctant and distrustful when they invest into Serbia, the Foreign investments Law was adopted to transparently define the legal position of an investor. In time, this law may be abolished, as was the case in many countries in transition since the foreign investors enjoy the same rights as domestic investors. The law stipulates standard clauses on universally recognized rights, when foreign investments are concerned, that have been incorporated in all national laws and international documents covering this field. The new law is a shorter, more modern and liberal revision that avoids all restrictive provisions but preserves all the rights that investors enjoyed pursuant to previous legislation.

Foreign investors may get concession for use of natural resources, goods in general use or for pursuing a line of business in general interest, in compliance with the law. A foreign investor may be assigned to build, operate and transfer (or build-operate-transfer) certain facilities, plants or factories as well as infrastructure and communication facilities. A foreign investor has so-called national treatment – i.e., enjoys the same position, rights and obligations as domestic legal and natural entities. Companies with foreign equity enjoy the same legal position and operate under the same conditions and in the same manner as the domestic companies without foreign equity.

Rights of a foreign investor acquired with entry of foreign equity into the court register cannot be diminished or narrowed with subsequent amendment of the law or pertinent regulations. Also, the equity of a foreign investor or property of a company with foreign equity cannot be subject to expropriation or other statutory measures with similar activity, except in cases when the law or public interest based on the law has been recognized and with due compensation. In these cases compensation that equals the market value paid out in convertible currency is guaranteed to the investors, and the payment can be transferred abroad without delay.

A foreign investor may convert domestic currency into a foreign currency and enjoys the freedom of payment in international business relations, freedom of keeping foreign currency on foreign currency accounts with authorized banks, and disposal of the assets.

A foreign investor may, upon covering the statutory dues pursuant to domestic regulations, freely and without delay, in convertible currency, transfer all financial and other assets relating to foreign investment, without delay.

Foreign investments on the territory of Serbia and Montenegro are governed by domestic legislation. Nevertheless, if Serbia and Montenegro has signed a bilateral agreement with the country of origin of the investor guaranteeing a better treatment, that agreement shall supersede domestic legislation.

Referring to stimulations, foreign investors are relieved of customs duty and other customs levies for the import of equipment based on the foreign investment, except for passenger motor vehicles and gambling (games of chance) machines.

Pursuant to the new Law, disputes may be resolved before the competent domestic courts or agreed domestic or foreign arbitration, providing for unbiased proceedings.

The Concession Law regulating the procedure of concession approval including the realization thereof was adopted after the Foreign investments Law. Namely, in comparison to the Foreign investments Law, the Concession Law is a special piece of legislation, as suggested by the fact that the Foreign Investment Law defines concessions as a special form of foreign investment.

Relating to the duration of concession activities, the new Law contains two crucial changes: on one hand, when terms are set "...the level of business risk undertaken" ... shall be taken into account" (Article 2) which is a natural continuation of the principle of free market competition. On the other hand, there is no possibility of a gap between the formal duration of concession and the actual one, since the following provision has been deleted from the old law: "The term of concession shall not include the time needed for preparatory actions..." (Article 6). The build-operate-transfer concessions have no set duration (30 years was the maximum under the old law), but are subject to general limitations for duration of concession activities.

Contrary to the old law that listed the conditions for granting a concession, the new law has only a general provision, stipulating "... conditions under this law, concession act and public tender", (Article 4).

The new legal text contains detailed elaboration as to what can be the subject of concession (16 instead of 9 items, as was the case previously) and as opposed to the old law does not contain the term "forbidden zone" or prohibitions against certain activities for concession.

The introduction of new principles and procedures for ceding concession activities has resulted in a situation where the new law does not stipulate a special body (Agency) for related professional tasks. As opposed to the old solution enabling only representatives of the state to be members of the boards that decide on concessions, the establishment of these boards is now the exclusive mandate of the state.

In order to achieve true actual decentralization, the law contains an interesting solution that substantially affects the established hierarchy of state power implying that the Republican bodies are followed by the province bodies and then by local community bodies. However, when concession contracts are concerned, the relationship is substantially altered since the body of the local self-administration unit establishes contractual relations directly (with previous approval of the Government), while the provincial bodies do not have that option.

The following two subchapters describe major characteristics of both laws.

## **The New Foreign Investments Law**

### ***-- General***

The Assembly of the Federal Republic of Yugoslavia has passed the new Law on Foreign Investments (or the Foreign investments Law) on January 16<sup>th</sup>, 2002. In general, foreign investments in Yugoslavia are regulated by Article 70 of the FRY Constitution where it is stated that a foreign person (non-Yugoslav citizen) has the right to perform economic activities under the condition of reciprocity, and in accordance with federal Law.

The fundamental aim of the Federal Government is to create a friendly legal, political and economic environment for all foreign individuals and companies that would be interested to conduct business in Yugoslavia. One of the long-term goals is also to create a compatible legal system with the European Union legislation as a first step for future integration.

### ***-- New definitions of foreign investment and foreign investor***

The new Law on foreign investments defines foreign investment as an investment in domestic enterprises through acquisition of stocks or a share in the basic capital of that enterprise and/or acquiring any other property right in an enterprise. Foreign investments in insurance companies, banks, other financial organizations and free zones shall be made in accordance with the federal law that regulates these particular activities.

The new Law changed the definition of foreign investor and accepted the solution already present in some other legislation to the effect that any legal entity established in accordance with Yugoslav legislation and registered in Yugoslavia receives national treatment, regardless of the origin of its capital. In this way the new law resolves the legal contradiction that existed between various laws (particularly with the Law on Foreign currency operations).

A foreign investor can alone or together with foreign or domestic investors establish a company or purchase a share of an existing company. A concession may be granted to the foreign investor for using natural resources or goods in general use or performing activities of

general interest. It can be granted for the foreign investor to build, operate and transfer certain projects, production plant or capacity as well as infrastructure or communication facilities.

The contribution of a foreign investor may be in the form of foreign currency, contributions in kind, intellectual property rights, securities, any other property right and/or in Dinars but only if the funds, in accordance with the foreign exchange operations regulations, may be transferred abroad, including reinvestment of the profit. The contribution of a foreign investor may no longer be made in the form of services, as was possible according to the previous Law. A foreign investor may convert an established claim into equity i.e. shares of the company.

The contribution of a foreign legal or physical person has equal legal status as that of a domestic person, and a foreign investor has equal rights and obligations as the domestic legal or physical person in relation to his contribution.

Once all outstanding commitments have been settled in Yugoslavia, it is possible to transfer the profit, the assets invested and the remainder of investment as well as any indemnity or the amounts received on the basis of decreasing of the initial capital of the company without any restrictions.

#### ***-- Legal protection of foreign investments***

The Law guarantees legal stability to the foreign investor. This means that if a change is made to the law under which an agreement was made after the investment agreement has been registered at the court, the provisions of the agreement, articles of associations and the law in force on the date of the registration of that agreement shall apply to the relations regulated by it. A stake held by a foreign investor or a company with a foreign investment cannot be the subject of expropriation except when so required by public interest as established and determined by the law. Moreover, in case of expropriation, the foreign investor or the company with foreign investment is entitled to compensation that cannot be lower than its market price. The provisions related to expropriation are new in the Yugoslav legal system and coordinate issues related to foreign investment with provisions of bilateral contracts on the encouragement and protection of foreign investment.

Any dispute related to foreign investment may be settled either in front of the Yugoslav court or in front of domestic or international arbitration as agreed between the parties.

#### ***-- Payments in foreign exchange and accounting***

A foreign investor may convert Dinars into a foreign exchange for any payment that is related with a foreign investment. Also, the company with a foreign stake may execute freely any payment to perform its international business relations.

A company with a foreign stake holding, besides an obligation to keep books and financial statements in accordance with the Yugoslav regulations, has the right to keep books and financial statements in accordance with internationally accepted accounting standards.

#### ***-- Import of equipment***

It is stipulated that the importation of equipment that represents the stake of the foreign investor is unrestricted, subject only to environmental protection regulations. Import of the

equipment mentioned above is exempt from customs duty and other import charges, except for motor vehicles and gambling machines.

**-- *Limitations removal***

The removal of the previous limitations on the establishment of a company wholly owned by a foreign person in the field of telecommunication and public information represents a significant departure. These companies were required under previous legislation to have the majority of capital owned by a domestic person. According to the new Law, foreign investors are blocked from establishing wholly-owned companies or companies in which they have a majority stake only in the field of production and trade of arms and military equipment and any other fields designated in the law as prohibited to foreigners.

Another important change is that the burdensome procedure for obtaining the approval from the Ministry of foreign economic relations for any foreign investment contract (whether establishing a company by a foreign person or for acquiring any part of an existing domestic company or any other form of foreign investment) is no longer required. All investments are to be registered only at the Register of enterprises using the procedure for the establishment of a new company or amendment of the Articles of Association of an existing company and the Registration Court will simply inform the competent federal ministry.

This Law shall apply to all foreign investments that have not yet been registered with the competent court on the date when this Law comes into force.

## **The New Concession Law**

The new Serbian Law on Concessions (or the Concession Law), effective from June 4<sup>th</sup> 2003, provides a vehicle for implementing private-public partnerships in Serbia. A concession is a right granted by the government or a municipality to a private person or entity to utilize a public natural resource or to perform public works. Foreign persons or entities may be granted a concession, so long as it does not involve an activity or a territory where foreigners are not permitted to conduct business under Serbia's Law on foreign investment.

**-- *Expanded list of available concessions***

The new Concession Law has significantly expanded the list of sectors that may be the object of a concession license. These sectors now include: raw materials, water supply, public roads, railroads, airports, river ports, telecommunications, oil and gas, local community works and services, power plants, medical facilities, sports and recreational facilities, thermal springs and spas, tourist facilities, and other areas.

The new Concession Law also allows for all forms of build-operate-transfer arrangements, whereby a concessionaire may finance, construct or reconstruct a given asset, after which the concessionaire may utilize the asset for an agreed upon term (after the expiration of the term, the asset reverts back to the government or municipality).

**-- *Obtaining a concession***

The process of obtaining a concession is by way of public tender. Once the need for a particular type of works is determined by the Serbian government, district or municipality, a

tender program is drawn up. The tender program describes the works and the general terms on which the concession is to be granted and on which the works must be performed. A public tender is then announced in the Official Gazette of the Republic of Serbia (for larger public works, the tender is also published in local and international newspapers). The tender is conducted by a specially appointed Tender Committee. Upon completion of the tender process, the Tender Committee reports to the Serbian Government on the results of the tender. Within 30 days of the receipt of the Tender Committee's report, the Serbian Government issues a decision on the determination of the concessionaire (note that if only one participant responds to a tender, then the Tender Committee may decide to repeat the tender process or may propose to the Serbian Government to grant the concession to the sole tender applicant).

All of the terms of the concession are to be defined in a concession agreement to be entered into between the concessionaire and the Serbian Government. If the concession involves the providing of certain local community services, then the concession agreement may be concluded between the concessionaire and the respective local authority in charge of such community services. The concession agreement must be in line with the Concession Program and must comply with certain formal requirements of the Concession Law. The concession agreement must be concluded within 60 days of an effective determination of a concessionaire.

In the concession agreement, the parties may provide for a concessionaire to have the right to assign the concession rights to a third party, e.g., to its lender as security. In addition, a foreign concessionaire may choose international arbitration of disputes (so long as the subject matter of the dispute is not real property).

As an added incentive, the concessionaire may be exempt from paying taxes on its profits for the first five years.

## 2.6 Securities Law

The new Serbian Law on Securities and Other Financial Instruments Market was adopted in November 2002, but came into force in September 2003. The Law regulates three main fields:

- a) the process of distribution of and trading in securities,
- b) the activities of authorized participants on the market,
- c) the role of the Securities Exchange Commission (SEC).

### **Ad a) Distribution of and trading in securities**

#### 1) Issuing of new shares through a public offering

The process is initiated by publishing a public announcement and prospectus on the issue of new shares, followed by a series of actions required for subscribing and paying for the shares and obtaining the authorization on issuance of shares from the SEC. It ends with the transfer of shares to the securities account of the new owner.

#### 2) Trade in securities through the stock exchange

Trade in securities on the Stock Exchange can be performed only through broker-dealer companies or authorized banks. Purchase of more than 25 % of voting shares of a company can be carried out only through a take-over bid, which must have prior approval of the SEC.

The methods of trading securities are more closely prescribed through by-laws and internal regulations of the Stock Exchange.

#### **Ad b) Authorized participants on the market**

Authorized participants on the market are the Stock Exchange, the Central Registry of Securities, authorized banks and broker-dealer companies and the Custody Banks. The Law provides the general framework for their foundation and operations, and rights and obligations. These issues are more closely regulated through by-laws and rulebooks of the SEC.

#### **Ad c) Securities Exchange Commission**

A crucial role and significant power was given to the Commission. The SEC is responsible for, inter alia, the rules related to application of the Law. It carries out the following specific functions:

- issues licenses and supervises the operations of authorized participants in the market,
- sets standards for registration of stock exchange trade operations,
- establishes contents of mandatory information that is to be submitted to it and published,
- monitors trends in the securities market and undertakes corrective actions.

## **2.7 Intellectual Property**

The Union of Serbia and Montenegro have a number of regulations outlining guarantees and safeguards for foreign investors in the field of Intellectual Property.

Strong intellectual property right protection is usually one of the prerequisites for foreign investors before transferring their most competitive technologies including trademarks, designs etc. In that respect, the former Yugoslavia ratified a number of multilateral conventions in order to comply with international standards and provide protection for the intellectual property rights of foreign investors, and these are still applicable in the Union of Serbia and Montenegro.

At the international level, Treaties such as the Madrid Agreement relating to International Registration of Trademarks and Madrid Protocol, the Locarno Agreement relating to International Classification of Industrial Designs and Models were signed and ratified by Yugoslavia.

However, certain amendments to the current regulations are one of the priorities necessary to ensure intellectual property protection. Such legislation is expected to come into force as soon as the Union of Serbia and Montenegro becomes a full member of the Council of Europe and the WTO.

## **2.8 Labour Law**

Following lengthy public and parliamentary discussion, the new Labor Law came into force on 21<sup>st</sup> December 2001. The new law is considered as free-market oriented and comes as a

response to the major economic and social changes that call for more flexibility in the labor market of Serbia. The most important feature is that in comparison with the previous labor regulation, the new law is more liberal regarding employment procedures and termination of employment, thus giving more flexibility to employers.

The 2001 Labour Law introduced three significant changes to labour legislation: 1) it increased the scope for employers to dismiss employees, 2) introduced rules on how to structure a redundancy program, and 3) specifically recognized the role of short term and temporary work. Employers were given the right to dismiss employees for non-performance, or as a result of technical, economic or organizational change, thus significantly increasing the flexibility of firing. Most importantly, firms with fewer than 50 employees were exempted from the obligation to transfer redundant workers to another part of the firm.

Termination of the employment by the employer is an area that has undergone major changes. The contract can be terminated only for a just cause concerning the employee's working capability, skills or conduct and the employer's needs, whereby just cause is broadly defined giving the employer lots of freedom and is deemed to exist in particular in the case of unsatisfactory working results, lack of the required knowledge and skills, misbehavior at work, criminal acts in connection with work, absence from work upon termination of the unpaid leave, misuse of the right for sick leave or layoffs due to the economical, technological or organization reasons. The termination procedure is simplified and the severance payment in case of the layoff is considerably reduced. (The old law provided for the amount from 24 up to 36 monthly salaries. Under the new law, employees are entitled to a severance payment starting at double the monthly salary up to five monthly salaries, depending on the duration of the employment).

In response to the rapidly changing economic environment the new law makes it easier for employers to hire labor for a definite period (as in temporary employment). However the term of such relationship is still limited to a maximum of three years, an attribute of the old system, so as to eliminate the practice of repeatedly extending employment contracts for definite periods.

Collective agreements used to be an important instrument in the hands of the unions and workforce. Under the new Law conclusion of a collective agreement is no longer mandatory. The parties are obliged to negotiate, but if the negotiation does not result in an agreement, rights and obligations can be regulated by the employer's Employment Rules and/or the employment contract. Furthermore, the new law provides that agreements create obligations only for those employers who are members or who become members of the association that took part in the bargaining. This represents a change from the old regulation which provided that all employers from a certain field were directly obliged by the relevant agreement whether they took part, directly or indirectly, in the bargaining or not.

Criteria and elements of salaries were previously determined in great detail by the law and collective agreements. The new law just states that employees are entitled to equal pay for equal work, gives general elements of the salary and leaves it to employers to determine the specific criteria. In a similar spirit, employees are guaranteed at least 18 working days annual vacation and unlike the previous legislation, the new law does not provide for a maximum length, nor does it set criteria to determine the length of the vacation.

A recently proposed new Labour Act (due for consideration in Parliament in fall 2004) is posing serious risk and could seriously undermine SME development and certainly may result in an expansion of the informal economy. This Act includes the obligation to conclude a collective agreement for employers who have more than 10 employees, administratively sets the level of minimum wages to 50 % of the average wage, makes dismissal for economic reasons more difficult or costly, etc. The introduction of these rules may bring Serbia back on the list of countries with a more rigid labour market while the strict limitations on terminating (for economic reasons) regular employees, including generous severance pay will result in lower labour turnover rates, lower aggregate employment levels and labour force participation rates and longer average unemployment durations.

Serbia may be considered as relatively competitive in the region from the point of view of income taxation and social security contributions. In 2001, tax reform cut the total fiscal burden to 0.72 Dinars on 1 Dinar of net wage. Recent repeal of the 3.5 % payroll tax reduced the overall fiscal burden on wages and salaries down to 0.69 Dinar on 1 Dinar of net payment. However, this same change prescribed a minimum base for social security contributions which effectively increasing the overall fiscal burden especially in low wage and state and socially dominated sectors such as textile.

## 2.9 Taxation

### Tax System and Incentives

There were many changes to tax policy in Serbia since 2001 when tax reform began. Some laws were amended and several completely new taxes were introduced (e.g. on tobacco and regulating lotteries). All of these laws were aimed at encouraging entrepreneurship and employment and suppressing the gray economy, as well as at reorganizing and increasing fiscal budget revenues on the basis of performance of certain economic activities: production, imports and trade in tobacco and tobacco products, and the organization of lotteries.

The Law amending and supplementing the Law on Sales Tax, revoked sales tax on oil, fat, sugar, PC, software and income generated by citizens through renting business premises and apartments.

Some excise duties were also revoked (jet fuel used by airplanes in international traffic), while others were cut (for motor oils and grease). The uniform corporate income tax rate was reduced from 14 % to 10 %, the lowest corporate income tax in the region (Slovenia and the Czech Republic – 25 %, Croatia – 20 %, Hungary – 18 %, FYR of Macedonia – 15 %).

Moreover, significant incentives were enacted: e.g. the allowed clearance of capital losses with future capital gains was extended from 10 to 20 % of the value of investment, and for small companies to 40 % of the value of investment in fixed assets. Employment of new workers is especially encouraged: corporate income (as a tax base) is reduced by 100 % of the gross income of a new employee, including the value of contributions payable by employer. Special attention was paid to big investors: for investments exceeding 600 million CSD which increase employment by at least 100 workers, the investor is exempt from corporate income tax for a period of 10 years. Some incentives are foreseen for smaller investments and a smaller number of new jobs. Through amendments to the Law on Personal Income Tax, the

rate of personal income tax realized through self-employment was reduced from 20 % to 14 %. The progressive rate (between 10 and 20 %) of tax on annual income of citizens was replaced with proportional rate of 10 %

A new set of tax laws passed in mid-2004 reduced tax obligations even further. On May 23<sup>rd</sup>, the Parliament passed a law abolishing the 3.5 % Payroll Tax as of July 1<sup>st</sup>, 2004. The Tax on financial transactions will be progressively revoked through 2004, while the taxes on cadastre income, oil, boats, arms and capital gains shall be revoked immediately upon the entry into force of the Law.

As of July 1, the Law amending and supplementing the Law on Corporate Income Tax came into force, providing for the reduction of corporate income tax from 14 % to 10 %, and the revocation of the so called tax after deduction of 20 %. Serbia thus has the lowest corporate income tax rate not only compared to all countries in the region, but also compared to all EU member states.

The VAT will replace the 20 % sales tax in January 2005. VAT is payable at every stage of the production and sales cycle by all legal entities whose annual turnover exceeds 2 million CSD, i.e. those who are not subject to the flat tax rate. The uniform VAT rate will be 18 % and the reduced VAT rate 8 %. Introduction of the VAT will have a strong influence on bringing economic activity out of the gray economy.

The following text describes major characteristics of the tax system.

## **Taxation of corporations**

### ***--- Tax Residents***

A legal entity is considered resident if it is established or has its place of effective management in Serbia. Residents are taxed on their worldwide income while non-residents are taxed only on their Serbian sourced income.

### ***--- Taxable persons***

A taxable person includes a joint stock company, a limited liability company, a socially owned company, a general partnership, a limited partnership as well as any other legal entity selling goods and services.

### ***--- Tax rate and tax base***

The tax rate is 10 % and the tax year is the calendar year. The tax base is determined by adjusting the taxpayer's accounting profit before tax (from its profit and loss account) in accordance with the Corporate Tax Law.

As of 1<sup>st</sup> January 2004, accounting profit is determined according to International Financial Reporting Standards (IFRS). This change will affect the tax base, in most cases lowering it.

### ***--- Thin capitalization***

Interest paid to a related company, which exceeds four times share capital and reserves multiplied by 110 % of the interest rate of the Central Bank of the lender's country is not deductible. The excess may be carried forward.

### **--- Transfer pricing**

A company must identify transactions with related companies and compare them with arm's length transactions when filing its tax return. Credit relations between associated companies are compared with credit conditions in the market. Any unexplained differences are included in taxable income.

### **--- Tax incentives**

There are a number of incentives intended to attract investors to certain sectors and designated areas and to promote employment.

### **--- Tax holidays**

A proportional tax holiday of 10 years is available for a taxpayer who makes an investment in tangible fixed assets of at least 600 million CSD and creates additional employment for at least 100 employees during the investment period. The tax holiday begins when these two conditions are met but only from the first year in which taxable income is generated.

The tax holiday is proportional based on the ratio between the investment concerned and total fixed assets after the investment. Until the conditions for the tax holiday are met, the taxpayer is entitled to the tax credits mentioned below.

Only new fixed assets purchased in Serbia or imported fixed assets (new or second-hand) are recognized for the holiday. It is not clear whether fixed assets provided as a contribution in kind are eligible.

New employees are not required to be unemployed prior to employment with the taxpayer to satisfy this need.

If a condition for the tax holiday is breached during the holiday period, the taxpayer will lose holiday. The taxpayer must pay the tax saved increased by the relevant inflation rate.

A five-year tax holiday exists for companies investing 6 million CSD and employing a minimum of five workers in underdeveloped regions.

Profit earned on the basis of a concession is tax exempt for five years.

### **--- Tax credits**

A taxpayer who employs additional staff previously registered as unemployed is granted a tax credit for the value of their gross salaries. The tax credit is granted for two years from the date of employment. The taxpayer cannot have retrenched any staff for a year before the new employment.

A company, which acquires fixed assets, may reduce its tax liability by 20 % of the investment, but the reduction may not exceed 50 % of its total tax liability. A small company

may decrease its tax liability by 40 % of the investment, but the reduction may not exceed 70 % of its total tax liability.

Unused credits may be carried forward for ten years and offset against future tax liabilities.

#### **--- Accelerated depreciation**

Accelerated depreciation is allowed in respect of some fixed assets associated with ecology, scientific research and education as well as computer equipment. Accelerated depreciation rates are up to 25 % higher than standard rates.

#### **--- Employment of Disabled Persons**

The tax liability for companies employing disabled persons is decreased in proportion to the percentage of such persons to the total number of employees.

#### **--- Exemptions**

Non-profit organizations have special rules for tax exemption.

#### **--- Groups of companies**

Companies are considered a group if one company controls 75 % or more of the shares of another. A group has the right to tax consolidation if all companies are Serbian residents. Each company files its own tax return and the parent company files a consolidated return for the entire group.

In the consolidated return, losses of one or more companies are offset by the profits of other companies. Each company is liable for tax proportional to its share of the profit of the group.

#### **--- Withholding taxes**

Withholding tax at the rate of 20 % is levied on dividends, interests and royalties paid to a nonresident. An applicable double tax treaty may reduce withholding tax rates.

#### **--- Losses**

A company can carry forward loss for ten years.

#### **--- Capital gains and losses**

Capital gains are taxable at the rate of 14 %. Capital gains can be offset against capital losses incurred in the same period. A capital loss can be carried forward for ten years.

#### **--- Assessment and collection**

Corporate tax is payable in monthly advance installments by the 15<sup>th</sup> of the following month, based on the tax liability of the preceding year.

The tax return and tax balance sheet must be filed by 8<sup>th</sup> March of the following year. The tax payable is established in the authorities' notice of assessment, based on the tax return and tax

balance sheet. A company has eight days from receipt to appeal. The prescription period is five years.

## **Taxation of individuals: Personal income tax**

### ***--- Residents vs. non-residents***

Residents are taxable on their worldwide income, whereas non-residents are only liable to tax on Serbian source income. Individuals are regarded as Serbian residents if they meet any of the following criteria:

- Domicile in Serbia, or
- Their habitual abode in Serbia (i.e. if they stay in Serbia at least 183 days, whether or not consecutively, within a period of 12 months), or
- The centre of their business and vital interests in Serbia

### ***--- Taxation of salaries***

The taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees. The taxable base is the gross amount including fringe benefits. The tax rate is 14 %.

### ***--- Other income***

Other types of income e.g. royalties, business income, income from agriculture and forestry, investment income, income from immovable property, capital gains and miscellaneous income, are subject to a flat rate tax, which ranges from 10 to 20 %, depending on the type of income concerned.

Proposals for 2004 are to unify the rate of tax on other income at 14 %, consistent with tax on salaries.

### ***--- Social security contributions***

Social security contributions are calculated and withheld by an employer from the salary paid to an employee. These contributions are payable by employer and employee at equal rates (on amounts up to a specified threshold). The rates are as follows:

- Pension and disability insurance: 10.30 %
- Health insurance: 5.95 %
- Unemployment insurance: 0.55 %

### ***--- Tax on salary fund***

Abolished since 1<sup>st</sup> July 2004. Monthly tax, payable by the employer, at the rate of 3.5 % of gross salary.

### ***--- Annual taxation***

Net income from all categories is aggregated and, if exceeding a prescribed threshold, is taxed at the (additional) rate of 10 %. The current threshold is 867,225 CSD. Advance personal income taxes and social security withheld decrease the tax payable.

### **--- Personal allowances**

Taxable income may be reduced by allowances for supporting dependent family members (86,722 CSD per taxpayer, and 28,907 CSD per dependant, but not exceeding 50 % of taxable income).

### **--- Taxation of expatriates**

#### **- Benefits**

Expatriate-residents of Serbia employed with a resident entity or a representative office of a foreign entity are entitled to a 35 % reduction in tax on salaries if remuneration is appropriately structured.

Proposals for 2004 would eliminate this incentive for expatriates.

#### **- Annual taxation**

The net income from all categories is aggregated and taxed at the (additional) rate of 10 % if exceeding a threshold. At present, the threshold is 4,047,049 CSD. Proposals for 2004 are to reduce the threshold to the same amount as for Serbian citizens (867,225 CSD).

#### **- Filing Requirements**

Each taxpayer is required to file a tax return by 15<sup>th</sup> March of the following year. There is no joint tax return filing system in Serbia.

## **Property tax**

Property tax is due on the ownership rights/rights of permanent use on real estate and on ownership rights on registered shares and interest in limited liability company.

For property tax purposes, real estate is understood to mean the following: land, residential and business buildings, dwellings, business premises, garages, buildings and rooms serving for resting and recreation, and other buildings.

### **--- Taxpayer**

The taxpayer of property tax on real estate is a legal entity or individual holding the title to real estate located on the territory of the Republic of Serbia. If several legal entities or individuals exercise the ownership right relating to the same real estate, each will be a taxpayer in proportion to its share.

The taxpayer of property tax on shares/stake held in legal entities is a legal entity or individual, resident of the Republic of Serbia.

**--- Tax rate**

Property tax on real estate is levied at the rate of 0.4 %. Property tax on shares/stake is levied at 0.25 %.

**--- Tax base**

The base of property tax on real estate of any taxpayer that keeps books is the value of real estate declared in its books, in conformity with regulations, as at 31<sup>st</sup> December of the previous year.

The base of property tax on real estate, other than agricultural and forest land, where the taxpayer does not keep books, is the market value of real estate as at 31<sup>st</sup> December of the year preceding the year for which property tax is levied and paid. The real estate market value is determined by the competent tax office and such value is reduced for each year for the amount of depreciation, which can not exceed 70 %.

The base of property tax on registered shares and interests in limited liability companies, when the taxpayer is a legal entity is the value declared in its books and determined in conformity with regulations on 31<sup>st</sup> December of the year preceding the year for which property tax is levied and paid.

The value of the capital is its total value adjusted for revaluation, reserves and losses according to the data furnished by the legal entity/company in which the taxpayer holds capital, as at 31<sup>st</sup> December of the year preceding the year for which property tax is levied and paid.

**--- Filing tax return**

Taxpayers should file their tax declaration by 31<sup>st</sup> March of the year for which tax is to be assessed. Any taxpayer who acquires, begins to or stops using property in the course of the year or if their tax liability starts running or ceases on other grounds, is due to file a new tax declaration within ten days from the date of such change.

The annual property tax is paid quarterly within 45 days from the beginning of each quarter. Prior to the issue of the ruling determining the property tax for the current year, tax prepayments should be paid in the amounts equal to the tax liability in the last quarter of the year preceding the one for which the tax is determined and paid.

## **Inheritance and gift tax**

Inheritance and gift tax is due on the transfer of ownership rights and other rights in relation to the real estate inherited by heirs or received as gift.

Inheritance and gift tax is also due on monies inherited or received as gift, securities, savings deposits, bank deposits, monetary claims, intellectual property rights, interests in a legal entity, securities, second-hand motor vehicles/second-hand vessel and other chattels.

The transfer of a legal entity's property without compensation is subject to gift tax.

**--- Taxpayer**

The taxpayer is inheritor or recipient of the gift.

Taxpayer is a resident or non-resident of the Republic who inherits or receives as gift ownership rights in relation to real estate located on the territory of the Republic.

Taxpayer of inheritance or gift tax who inherits or receives as gift securities, money, intellectual property rights and other objects other than real estate, is a resident of the Republic, in the case of objects existing in the territory of Serbia or abroad.

#### **--- Tax base**

The inheritance tax base is the market value of the inherited property less debts, costs and other encumbrances which the taxpayer is bound to pay or settle in some other way from the inherited or donated property on the date of tax liability commencement.

The gift tax base is the market value of the property received as gift on the date of the tax liability commencement, as set by the competent tax office.

#### **--- Tax rates**

The rates of inheritance and gift tax are progressive.

Taxpayers who are in the second order of succession according to the legal order of succession in relation to the decedent or donor pay inheritance and gift tax at the following rates:

TAX BASE	PAYABLE TAX
Up to 200,000 CSD	3 %
Over 200,000 CSD	6,000 CSD + 5 % of the amount in excess of 200,000 CSD

The taxpayers that are in the third and any subsequent order of succession in relation to the decedent or donor or the taxpayers that are unrelated to the decedent or donor, shall pay inheritance or gift tax at the rate of 5 %.

Inheritance and gift tax is not payable on any money or anything other than real estate, if the individual market or nominal value of the object of taxation or individual amount is under 6,000 CSD.

#### **--- Filing tax declaration and payment**

The inheritance tax liability runs from the effective date of the inheritance ruling. Gift tax liability runs from the date of conclusion of the gift contract and, in the absence of the contract, from the date of reception of the gift.

Taxpayers are due to file a tax declaration together with the documents necessary for the determination of tax liability, within 10 days from the date of such change.

Inheritance and gift tax is due to be paid within 15 days from the presentation of ruling.

## **Transfer tax**

The property transfer tax is due on the transfer of the following rights against compensation:

- Property rights in relation to the real estate;
- Intellectual property rights;
- Interests in a legal entity and securities;
- Property right in relation to a second-hand motor vehicle or a second-hand vessel;
- Permanent right of use of urban building land, by municipality to an individual or legal entity for the purpose of erecting a building;
- Permanent right of use of and right of construction on urban building land, between individuals, between legal entities and individuals and legal entities;
- Rights to expropriated real estate, if expropriation is carried out for the purpose of erecting residential or industrial buildings.

#### **--- Taxpayer**

The taxpayer is the seller, i.e. the transferor of the rights.

A resident of the Republic of Serbia is the taxpayer on the transfer of intellectual property rights and interest in a legal entity/securities carried out in the Republic of Serbia and outside its territory. A nonresident is the taxpayer on the transfer of these rights only in cases of transfer carried out on the territory of the Republic of Serbia.

#### **--- Tax base**

The base of tax on the transfer of ownership rights is the contracted price, unless the contracted price is lower than market value.

Should the competent tax office estimate that the contracted price is lower than market price, it shall have the right to set a tax base that is equal to market value, within 10 days from receipt of the contract.

#### **--- Tax rate**

Property transfer tax is levied at the rate of 5 % on the transfer of all rights, with the exception of the transfer of securities and interest in legal entities, which is subject to 0.3 % tax.

#### **--- Filing tax declaration and payment**

Property transfer tax becomes due from the date when the contract is executed. The taxpayer needs to file the tax declaration to the tax authorities within ten days from the execution of the contract, together with the documents relevant for the determination of tax base.

Property transfer tax is due to be paid within 15 days from the presentation of the Assessment.

## **Indirect taxation**

Turnover of goods and services is subject to 20 % sales tax. The introduction of Value Added Tax (VAT) is expected from 1<sup>st</sup> January 2005.

#### **--- Turnover tax on goods**

Sales tax is a single stage tax. It is levied on the turnover and import of goods for final consumption. The taxpayer is the seller/importer. Acquisition of raw material, equipment or goods for further resale is exempt from sales tax. The conditions for tax exemption include the presentation of tax statement by the buyer, sale from warehouse/storehouse with the issuance of invoice, and non-cash payment.

Mini VAT exists in the case of turnover of cigarettes, coffee, alcohol, where tax is levied in each stage of turnover. The tax liability paid is deducted from the tax liability due. In the case of oil and oil products, taxpayer is importer, i.e. producer of oil products.

#### **--- Turnover tax on services**

Services provided against consideration are subject to sales tax. The taxpayer is the entity that provides the services. In the event a foreign entity provides a service to a domestic entity, the taxpayer would be the domestic legal entity, the recipient of the service.

Services provided abroad, as well as export services are not subject to sales tax. Other services exempt from tax include medical, educational, religious services.

#### **--- Retail and wholesale**

Turnover of goods in retail sale, i.e. sale of goods for final consumption is subject to sales tax on goods. Turnover of goods in wholesale trade is subject to sales tax on services. The sales tax is levied on the margin, i.e. on the difference between the acquisition cost and the selling price.

#### **--- Introduction of cash registers**

All legal entities and entrepreneurs engaged in retail sale and provision of services to natural persons, have the obligation to use fiscal cash registers when recording turnover. The obligation was introduced in March 2004.

Fiscal cash registers should enable presentation of fiscal documents (reports and fiscal receipts) in the appropriate form, recording of turnover data, such as value of goods and services and storing of data in the period of three years. The system should also ensure the existence of reliable database and storing of the recorded data in an unchanged condition.

Fiscal cash registers and fiscal printers contain fiscal memory and can use any application software.

They should have the database with the relevant information on products and services. The software must ensure the recording of turnover of goods and services, functioning of the printer and inscription of data in the fiscal memory, printing of fiscal logo on the fiscal receipt, daily, interim and status reports, reading of recorded turnover (day, month, year), printing of recorded data from the fiscal and operating memory, storing of recorded data in the fiscal memory and printing of these data on the control band.

The information system should prevent recorded data for which fiscal receipt was issued, from being cancelled, deletion or substitution of data on products and services that were entered into the data base of the fiscal register, with the exception of price of products/services, change in specification of tax rates, change in the date, printing of fiscal

documents prior to putting fiscal cash register into operation. The information system should also provide specification of tax rates.

Application software should enable grouping of recorded data in the fiscal receipt, issuance of daily and interim reports per groups of products/services depending on their tax status/rates, such as goods exempt from sales tax, services exempt from sales tax, goods subject to sales tax with the exception of cigarettes and alcohol drinks, services subject to sales tax, etc.

### **--- Excise**

Excise duties are levied on the turnover of following products:

- oil products,
- tobacco products,
- alcoholic and soft (carbonated) drinks,
- ethyl alcohol (ethanol),
- coffee.

Excise duty is calculated on the import and sale of excise duty products. It is charged as a fixed fee per unit of the product. Excise duty is payable by the producer or importer of products.

### **--- Customs**

Import of goods is subject to import duties and sales tax, unless tax statement is provided. Import duties and tax are due by the importer. Import duties include 0.5 % customs clearance charge and customs duties based on Customs Tariff.

The average customs rate is 10 %. Most of the goods are subject to customs duties ranging from 1-10 %. The highest tariff rates (between 20-30 %) are applied to agricultural products. The import of certain agricultural and food products is also subject to agricultural administrative charges. Licenses are required for import/export of certain goods, such as agricultural products, drugs, and precious metals. Licenses are issued by the relevant Ministry.

Goods can be imported under the regular and temporary import procedures.

Regular import procedure implies that the goods are customs cleared, i.e. duties paid at the border. After the completion of customs procedure, imported goods acquire the status of domestic goods and can be freely disposed of on the territory of Serbia.

Temporary import procedure is a special procedure where the customs authorities approve the import of goods with partial or complete exemption from customs duties, provided that such goods leave the country in their original condition within a specified period of time, requested by the importer and approved by the customs authorities. Temporary import is granted with a complete or partial exemption from customs duties, as prescribed by the Government. Such goods cannot be disposed of or traded on the territory of Serbia without being customs cleared first, and the entire amount of customs duties paid.

### **--- Free zone**

Free Trade Zone may be established by domestic or foreign legal and natural persons (subject to obtaining authorization from the Federal Government). Minimum 30 % of goods and services produced/supplied in the zone should be exported.

Export and import of goods and services from/into Free Trade Zone is free. The import of the goods to be used in business activities in Free Trade Zone is exempt from customs duties and other import charges, with the exception of 0.5 % customs clearance charge. The sale of goods produced in Free Trade Zone on the territory of Serbia, is subject to import duties.

### **--- Tax on financial transactions**

Financial transaction tax is due on all payments made by legal entities through their bank accounts and accounts of other financial organizations. It is levied at the rate of 0.22 % on the amount of payment. The taxpayer is a legal entity that makes the payment.

Certain payments are exempt from financial transaction tax by law, such as payment of tax, contributions, salaries, pensions, public charges, payments made to utility companies, purchase of shares, transfer of money based on loan repayment, purchase of securities issued by the Republic of Serbia, sale and purchase of foreign currency, transfer of funds from one account into another account of the same legal entity, transfer of funds from banks to NBS and vice versa.

## **2.10 Land Issues**

An ongoing unresolved issue is the failure to adopt a legal framework for dealing with the nationalized property and claims for restitution. The failure to resolve the restitution issue regarding both land and other properties, although easy to understand in view of the recent political history (the Law was ready just before the assassination of Prime Minister Zoran Djindjic) continues to create uncertainty and deters many real estate and other investors from investment.

The new government has yet to announce its plan regarding this Law. While the details of the law are still to be worked out, the first draft of the law was based on the following general principles: (i) compensation will, as a matter of general policy, take the form of bonds, and will be substantially in accordance with principles of the 2001 Privatization Law; (ii) compensation will be conducted in a fiscally prudent manner; and (iii) to avoid the creation of new injustices, the legally owned non-state property shall not be restituted (in kind) to original owners; other forms of compensation will be used.

The restrictions on use and state ownership and control of urban land (particularly construction land) are major obstacles for the construction and service sectors. The Serbian land administration system is in very poor condition. In addition to almost 80 % of apartments not being registered, real property transactions are often not registered, substantial illegal building has taken place, and there is a significant backlog in civil courts (about 20 % of cases are land or property related). Land records often do not match those in the legal registers kept in municipal courts, which results in a long waiting period for the resolution of such problems. In addition, real estate registers are incomplete and outdated. In large number of cases there are no proper records on the nationalization of land, which may slow down restitution efforts. However, in addition to providing technical mapping, the second stage of the Cadastre and Land Registration Project is to ensure that property owners receive a registered title. Only by implementing this stage of the reform will the Government reduce the uncertainty over real estate ownership.

State or social ownership of urban lands is presently enshrined in the Constitution of the Republic of Serbia. Social ownership is essentially state ownership of land that is under the control of or in use by public enterprises and state owned organizations. Privatization has not included urban land, which remains public property to which occupants possess land use rights. Urban construction land is still state owned, implying that a foreign investor (or a domestic investor) may be given only the right to use it, for which a charge is to be paid.

A new Law on Urban Planning and Construction took effect in 2003, under which urban land for construction or development can be leased for up to a 99-year term. The land is developed through the construction of buildings according to plans and regulations set by the municipality council, which is responsible for land management and the provision of utility installations. Much land outside of urban settlements, consisting primarily of agricultural land, was privately owned even during the Socialist period and remains so today. However, starting in the late 1980s, Serbia began restituting agricultural areas, and the process is close to completion. It was estimated that 85-90% of agricultural land is privately held. The only exceptions are the large Agricultural “Kombinats” and cooperatives.

A major topic on the Government’s agenda is restitution of property nationalized by the former regimes. In the case of assets that are subject to privatization, the Privatization Law adopted in June 2001 established the principle of compensation for nationalized property in money rather than in kind (Article 15) and allocated 5% from privatization proceeds for compensation.

It takes from 6 to 12 months to begin construction in Belgrade depending on the needed permits. The process involves urban plan updates, detailed planning, tender for the land user right, compensation negotiations with occupants and more than 15 different authority consents and permits: demolition permits, construction permits, various building infrastructure permits issued by different authorities - electricity, sewerage, traffic, parking, seismic, heating, telecom, fire. In the past this has caused delays and cost increases in investment projects, and in some cases, planned investments have been cancelled

The administrative costs of property transactions can be significant and may be out of line with costs in developed market economies. For the court’s contract certification function, a fee of 0.5% of contract value is charged, which is equivalent to notary charges, and there is an additional 5% transfer tax on residential sales. There is some concern, based on experience in other countries, that excessive transaction costs may discourage registration of transactions and ultimately lead to long-term problems for the cadastre system.

The combination of problems with licensing and land acquisition processes, the lack of effective public control, and the mass migrations associated with the war has resulted in a tremendous increase of illegal buildings. The Law on Urban Planning and Construction provided the owners of an estimated one million illegal dwellings with the possibility to legalize. Although it is too early to evaluate results, the law should contribute to the development of the real estate market, as 375,000 citizens as well as more than 7,000 enterprises applied for legalization. On average, the construction costs of a one-family illegal building is approximately 30,000 - 40,000 EUR, which corresponds to more than 15 years of the average net salary. Although illegal construction is not a phenomenon solely related to marginalized social groups such as refugees and internally-displaced persons, it will enable these groups easier access to finance and the eventual entry of new firms.

## 2.11 International Market Integration

The European Union backs processes of liberalization in the countries of Southeast Europe, with the view of having them integrated with the developed parts of Europe. The State Union of Serbia and Montenegro is competing for the full membership in the World Trade Organization, while for the time being, it has the status of an observer. A full treatment of Serbia in the planned zone of free trade will provide better chances for marketing of Serbian goods.

Creation of free trade zones in Southeast Europe is to give rise to export potentials in the food processing, timber and wood processing, chemical and textile industry, as well as to finalize offers of the ferrous metallurgy and engineering industry. It is quite realistic to expect that the creation of free trade zone will strengthen cooperation in the industry of traffic and motor industry, which is to secure them a place at the foreign market with the high-quality finished products.

### *Free Trade Agreements in Southeast Europe (as of June 2<sup>nd</sup> 2004):*

	Albania	BiH	Bulgaria	Croatia	FYROM	Moldova*	Romania	SCG **
Albania	X	Signed 28/04/03 ratified by Albania	Applied 01/09/03	Applied 01/06/03	Applied 15/07/02	Signed 13/11/03 ratified by Albania	Applied 01/01/04	Signed 13/11/03 ratified by Albania, SCG
BiH	Signed 28/04/03 ratified by Albania	X	Applied 01/05/04	Provisionally applied from 01/01/01 not ratified by BiH	Applied 01/07/02	Applied 01/05/04	Applied 01/06/04	Applied 01/06/02
Bulgaria	Applied 01/09/03	Applied 01/05/04	X	CEFTA 01/03/03	Applied 01/01/00	Signed 21/05/04	CEFTA	Applied 01/06/02
Croatia	Applied 01/06/03	Provisionally applied from 01/01/01 not ratified by BiH	CEFTA 01/03/03	X	Applied 11/06/97 revised 11/06/02	Signed 22/02/04	CEFTA 01/03/03	Signed 23/12/02 revised 01/07/04
FYROM	Applied 15/07/02	Applied 01/07/02	Applied 01/01/00	Applied 11/06/97 revised 11/06/02	X	Signed 28/01/04	Applied 01/01/04	Applied 07/10/96 to be revised
Moldova*	Signed 13/11/03	Applied 01/05/04	Signed 21/05/04	Signed 22/02/04	Signed 28/01/04	X	Applied 17/11/94	Signed 13/11/03 ratified by SCG
Romania	Ratified by Albania applied 01/01/04	Applied 01/06/04	CEFTA	CEFTA 01/03/03	Applied 01/01/04	Applied 17/11/94	X	Signed 23/12/03 applied from 01/07/04
SCG **	Signed 13/11/03 ratified by Albania, SCG	Applied 01/06/02	Applied 01/06/02	Signed 23/12/02 revised 01/07/04	Applied 07/10/96 to be revised	Signed 13/11/03 ratified by SCG	Signed 23/12/03 applied from 01/07/04	X

Source: Foreign Investors Council, \* Moldova is associated to the process with an extended timeline, \*\* Serbia and Montenegro started negotiation process when it was known as FR Yugoslavia; therefore, both names may appear in the agreements.

Apart from the planned Free Trade Zone of Southeast Europe, other trade agreements have also been of current interest:

- The European Union stimulated export from countries in the region by giving them Autonomous Trade Preferences (ATP), which provides a tariff-free entrance for almost 95 % of products into the European Market;
- Preliminary declaration on cooperation with European Free Trade Association (EFTA), which was signed in December 2000, grants asymmetric treatment to the Yugoslav products in the markets of Switzerland, Norway, Island;
- Free Trade Agreement, which was signed with Russia in August 2000, provides gradual abolition of tariff barriers for the export of Yugoslav products at the Russian market until 2005. The list of products comprised in the tariff-free agreement is updated annually;
- Memorandum of Understanding and Trade Liberalization and Facilities was signed in June 2001. Apart from Serbia and Montenegro, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldavia and Romania signed the memo.

## 2.12 Development of SMEs

Small and medium-sized enterprises (SMEs) play the key role in Serbia's efforts in economic development. Compared to other sectors, faster growing SMEs sector is expected to deliver economic growth and new jobs. Such performance is visible in a number of other countries in transition, as well as in developed countries. The key executive bodies responsible for implementing this strategy into practice are the Ministry of Economy and Privatization, the Republic Agency for the Development of Small Medium-sized Enterprises and Entrepreneurship and the Regional Agencies and Centers for SME Development.

The aim of the Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship (and affiliated regional agencies) is to support (aid, advise, assist, and protect) the development and interests of the SMEs sector.

At the beginning of the 21<sup>st</sup> century small and medium enterprises are taking over the dominant position in the structure of Serbia's economy. This process is characteristic of the production sector, the service sector and also for the country's foreign trade network.

The emerging structure is the result of the collapse of large production systems (from the period of socialism), the privatization process and stimulation of entrepreneurial activity in a significant part of the working population.

Entrepreneurial businesses engage fewer workers, they are flexible and they do not require a large cash reserves.

Small and medium-sized enterprises can be irreplaceable sub-suppliers of large companies that locate their production in a host-country. It is necessary to provide support to the sector structure of small and medium-sized enterprises that would be compatible with large transnational companies. Since transnational companies are oriented toward global business, SMEs – as their suppliers – realize through this cooperation:

- Possibility for direct export production (through incorporation in final product);
- Improvement of production competitiveness, since SMEs can be suppliers of large companies only provided they fulfill criteria of the determined standards and quality. This

increases competitiveness of small and medium enterprises and domestic economy in general;

- Increased engagement of domestic capacities and additional manpower.

SMEs do not have the critical mass of high-technology components necessary for increasing competitiveness. Therefore, in Serbia's circumstances, it is recommended that small and medium-sized enterprises be encouraged to locate in technology parks in determined zones, in order to enable greater use of the most important modern resource – research and development that lead to technological development.

In these clusters – if possible in free export zones – SMEs would be gathered around a certain number of transnational companies (and a smaller number of domestic ones) which are protagonists of development and organized research-development activity.

Research-development laboratories and the concentration of scientists in technology parks reduce waste of national research potentials and enable small and medium-sized enterprises to keep the pace with the modern technology (despite their relatively limited resources).

In those zones, SMEs would be given special benefits and allowances in terms of customs and tax duties. This is especially important since the World Trade Organization is not restrictive toward subsidies aimed at development of undeveloped regions and introduction of modern technology in companies.

Such development strategy of SMEs within technology parks and special industrial or free export-production zones is also present in the European Union, while Serbia's neighbor, Hungary, has established over 144 zones, in which production is realized under more favorable terms. In Serbia about 13 free export-production zones exist that have satisfactory infrastructure and that could be used for development of small and medium enterprises.

One such zone, a technology park, was established by a major manufacturer of pharmaceutical products – Hemofarm from Vršac, in the Vršac industrial zone. The idea is to locate near Hemofarm, as the development leader, small and medium-sized enterprises, which would be supported by Hemofarm, while small and medium enterprises would be included in Hemofarm supply chain through a complementary production program.

Small and medium-sized enterprises will take over the key role in the transformation of Serbia's economic structure. Their role is especially distinctive in the sector of services and capital intensive activities. Achieving appropriate proportion between SMEs and large enterprises is of vital interest for the long-term growth of the Serbian economy's competitiveness. Therefore, it is necessary to realize several synchronized programs for stimulating SMEs.

## **2.13 Obstacles to Business**

According to the study *Serbia Enterprise Policy Performance Assessment in 2003* prepared by the OECD and EBRD, 60 % of enterprises date from before 1992. Table 18 supports this statement. There is continuing stagnation, or even decline, in the overall number of SMEs and there is low output and employment in the Serbian SME sector compared to OECD countries.

This is reinforced by a fiscal and regulatory system that is not yet sufficiently attuned to stimulating SME development.

Start-ups 2000-2003								
	2000		2001		2002		2003	
	Number	Workers	Number	Workers	Number	Workers	Number	Workers
Number of registered SMEs	216,780		223,796		234,027		239,270	
Number of active SMEs	61,722	610,619	63,985	581,193	66,219	654,768	67,703	669,442
Number of shops	176,724	353,448	188,812	377,624	195,186	390,372	207,596	415,192

Source: World Bank (Serbia. Investment Climate Assessment)

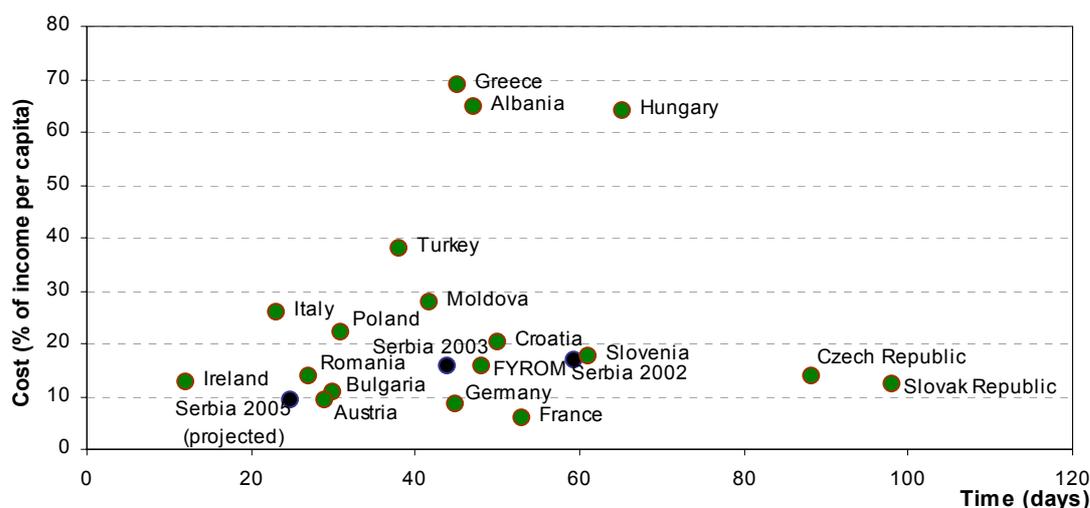
The old system that was business-unfriendly is in the process of dismantling but the process is rather slow. The list below shows the areas where administrative obstacles are highest:

- company registration
- usage, building, and renovation of real estate
- work permits
- certification of products and services
- inspections
- tax
- price formation
- financial statements submission
- cost of getting a job

**Company Registration:** In 2003 the actual cost of registration almost doubled in comparison to the previous year, amounting to 1,200 EUR in comparison to 1,300 DEM in 2002. The explanation lies in the high cost of legal services and bribery associated with the registration of business. The services of legal counselors are necessary because of numerous legal documents that are needed and applications that have to be made at a lot of “counters”. The presence of bribery is harmful, but it is quite understandable in the light of the fact that in 2002 the average time for company registration was as long as 105 days, while it could be reduced to 16 with bribes. In 2003, some progress was made since the average time for registration was shortened to 40 days, but bribery is still substantial and almost equals the official cost of registration.

A new law on registering the firm is adopted by the Serbian parliament in July 2004. It becomes effective on 1<sup>st</sup> January 2005. It drastically simplified the conditions for registering a firm. The graph below shows where this new legislation would put Serbia compared to other countries.

### Starting a business



Source: World Bank (Serbia. Investment Climate Assessment)

**Building and Renovating of Real Estate:** Companies that sought to obtain real estate encountered associated additional costs: official levies, mandatory insurance and again bribes. The average cost of the three additional activities in 2002 amounted to about 3,500 DEM, while they were substantially reduced in 2003, i.e. 250 EUR. Nevertheless, bribes have remained in 2003 and still exceed the cost of official levies and the cost of mandatory insurance. Companies that opt for building their facilities have to provide appropriate license and permits that relate to the land and future facility. Necessary documents include: basis for use of the land, building permit, design approval, facility building, and connections to utility networks, technical control and facility acceptance. In 2002, the average duration of time that companies spent on obtaining the above documents was 326 days, while in 2003 it went down to 250 days. In 2003, obtaining the building permit caused the longest delay: 91.36 days. The average cost for these permits in 2002 was 7,786 DEM, while in 2003 the average amounted to 13,542 EUR.

Companies that wanted to renovate buildings had to provide several different permits. These are: renovation or reconstruction permit, approval of the renovation or reconstruction design, the reconstruction process, and connection to infrastructure (utilities), technical control and acceptance of the facility. In 2002, the average time for obtaining these permits was 118 days, while in 2003 it rose to 194 days. Referring to the average cost of permits for renovation or reconstruction of real estate, in 2002 the sum amounted to 1,303 DEM while in 2003 it practically doubled, amounting to 1,000 EUR.

In 2003 the Building Planning and Construction Law was adopted. It represents an attempt to cover the complex subject matter previously contained in three laws (Law on Facility Building, Law on Spatial and Urban Planning, Law on Building Plots) into a comprehensive piece of legislation.

**Work Permits:** A large number of enterprises are required to obtain work permits that are, in turn, covered by pertinent legislation for special fields. It actually means that the procedure for establishing a company is not universally liberal. The average direct cost of obtaining a work permit in 2002 amounted to 654.5 DEM while in 2003 it was 486.6 EUR. Most

companies incurred a total cost of 60.4 EUR for obtaining the permits. The average time needed to obtain a work permit doubled in 2003 relative to 2002: 43.61 vs. 22.4 days.

**Certification of Products and Services:** Certification of products and services is not currently a major duty of companies; i.e. 4/5 of businesses are not legally required to bear the cost of certification.

**Foreign Trade Regime:** An important item in the cost of company operations in foreign trade is represented by the cost of providing and preparing documentation. The cost may reach 10% of the transaction. One of the most important documents in import is the certification of compliance with Yugoslav standards (YUS), without which goods cannot enter the territory of Serbia and Montenegro. In most of European countries these standards are not mandatory.

On average, the certification process lasts for 37 days. The cost of a certificate is 22 EUR on average with an associated informal additional cost of 9 EUR, including gratuities for officers issuing the certificates. Most commonly, an official duty of about 150 EUR is due, while an additional informal cost averages about 50 EUR. These data suggest that the time needed to obtain the certificates has lengthened in comparison with 2002, but the number of companies filing for certificates has increased, perhaps burdening the system. The cost of statutory duty has declined and corruption is also significantly down in comparison to the previous period.

Nevertheless, most of the time and cost of foreign trade business is associated with transport and customs clearing. Shipping services and transport require the most time – 44 days. The subsequent customs clearance requires 42 days on average. If you add the bonded warehouse charges (17 days on the average), it is easy to conclude that customs oversight of imported goods, including the clearance, is the most demanding activity of import in terms of number of days required to perform the task. The importer services, if indirect import is in place, may require up to 30 days. Insurance of goods requires an additional 12 days on the average.

## 3. Foreign Direct Investments

There are some standard terms that countries have to fulfill when attracting foreign private capital. These standards are mainly related to the freedom in business of foreign investors (except in some fields concerning national safety), freedom of initial investment repatriation and profit remittances, freedom of employment and discharge and the like. All these measures are important for efficient business of enterprises.

For attracting Foreign Direct Investments (FDI), many countries establish specialized agencies aimed at promotion of a country as an ideal destination for investments. Those agencies provide all necessary information to foreign investors who want to get information about the business environment of a certain country. Serbia already has one such agency and its work should be made more efficient.

A country's participation in regional economic integration can be an important factor for attracting investments. Serbia should conclude Free Trade Agreements with the Western Balkan countries that will be out of the EU after 2004 and create possibilities for regional economic integration with these countries.

In this way, Serbia would improve its position in terms of foreign direct investments inflow. Large foreign companies usually establish branches in central countries of a regional economic integration, aimed at supplying the market of the entire integration. Another factor, which can be important for attracting FDI, is the existence of special export zones in which enterprises with foreign capital have special customs and tax allowances. Serbia has a large number of these zones and the Government should support their work and create conditions for their future growth and development. Specifically:

- i. Ensure non-discriminatory treatment of foreign investors.
- ii. Simplify the entire legal-administrative procedure related to foreign investments - from the preparation for production to profit repatriation.
- iii. Offer to foreign investors qualified legal assistance and other kind of assistance.
- iv. Prepare a transparent system of legal protection of foreign investors.
- v. Form special export zones (with tax and other benefits/allowances) aimed at attracting FDI to stimulate development of some of the country's regions.

### 3.1 Regional Considerations

Following the accession of ten new member states to the EU on 1<sup>st</sup> May 2004, the South East European countries have become close neighbors to the enlarged European Union. Their attractiveness for foreign direct investment (FDI) may thus improve due to diminished perceived geographic distance to the core of Europe. They have also made progress in economic transformation and democratic consolidation, which reduces the investment risk.

South East Europe is a diverse region. Some of the eight transition countries are constitutionally rather complex. Bosnia and Herzegovina consists of one republic (Republika Srpska) and one federation (Federation of Bosnia and Herzegovina). Serbia and Montenegro is a state union of two states – of Serbia and Montenegro – and Serbia has a province, Kosovo, that is under international protection. Transnistria, part of Moldova, is under the rule of separatists.

The states or political entities in the region tend to be small or medium-sized, with the exception of Romania, which is a relatively large country with over 22 million inhabitants. The region is diverse not only politically, but also in terms of development and regarding advance in the process of transition.

On the one end is Croatia, a country with a GDP per capita similar to the Central European countries while on the other one finds Moldova and Albania, which are in many ways typical development economies and are poorer than the other countries in the region. The rest of the SEECs are not so different in terms of per capita GDP, though the difference increases if this indicator is expressed in purchasing power parity (PPP).

Basic indicators of SEEC-8 and CEC-5 (2003)							
	Population (thns pers.)	GDP (mill. USD)	GDP/capita (USD at ER)	GDP/capita (USD at PPP)	GDP growth (real, in %)		
					1991-2003 average	2003	2004 wiiw forecast
Albania	3,150 *	6,108	1,939	4,100 *	2.3	6.0	6.0
Bosnia and Herzegovina	3,862	7,018	1,817	6,600 *	-	3.5	5.0
Bulgaria	7,824	19,860	2,539	7,450	-0.6	4.3	4.5
Croatia	4,443	28,335	6,377	10,620	-0.1	4.3	3.2
Macedonia	2,050	4,668	2,276	6,800	-0.8	3.1	3.0
Moldova	3,607	1,958	543	2,730 *	-6.4	6.3	7.0
Romania	21,734	56,951	2,620	7,340	-0.2	4.9	5.0
Serbia and Montenegro **	8,300	19,569	2,358	4,660 *	-4.7	2.0	3.0
SEEC-8 ***	54,969	144,467	2,628	6,650	-0.8	4.3	4.5
Czech Republic	10,207	89,715	8,790	16,700	0.6	3.1	3.3
Hungary	10,130	82,757	8,170	14,760	1.4	2.9	4.0
Poland	38,205	209,493	5,483	11,460	3.3	3.8	5.0
Slovakia	5,379	32,519	6,046	12,910	1.2	4.2	4.5
Slovenia	1,997	27,649	13,847	19,090	2.1	2.3	3.4
CEC-5 ***	65,917	442,133	6,707	13,130	2.2	3.5	4.4

Source: OECD, national statistics, wiiw, \* estimate, \*\* excluding Kosovo, \*\*\* wiiw estimate for GDP growth. SEEC-8: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro. CEC-5: Czech Republic, Hungary, Poland, Slovakia and Slovenia.

ER = exchange rates, PPP = purchasing power parity

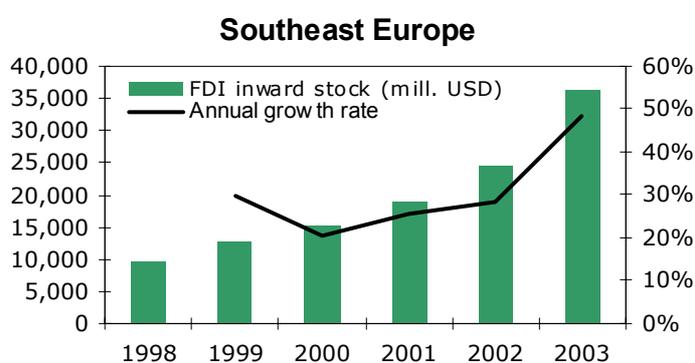
In terms of the progress in transition, the region is lagging behind the Central European transition economies. The private sector is not that developed in the Southeast European Countries (SEECs), and the public sector is not reformed enough. Also, the informal economy is more significant than in the Central European Countries (CECs).

Economic growth in 2003 was faster in SEECs than in CECs. The poorest countries, Moldova and Albania, enjoyed the highest rates of growth, followed by the EU candidates Romania, Bulgaria and Croatia. Economic reforms, albeit slow and with detours, have finally resulted in improved business conditions. The other three Western Balkan countries show lower rates of

economic growth. Longer and deeper setbacks of production in the 1990s as well as delays in restructuring and market reforms make it difficult to embark on a faster growth path.

## 3.2 FDI in Southeast Europe

The year 2003 was a peak year concerning FDI inflows in South East European countries. Total inflows reached almost 7 billion USD, up more than 60 % against the previous year<sup>1</sup>. Total FDI inward stock grew in 2003 by nearly 50 % and reached 36 billion USD. The real increase was somewhat more modest taking into account that the US dollar depreciated by 20 % vis-à-vis the euro. The good results are especially remarkable if compared with the Central European countries, which received only half the amount of the previous year, the lowest sum since 1996.



Source: OECD, national statistics, wiiw

The different FDI trends can be explained by the type of FDI the two regions receive. In Central Europe, privatization-related FDI is basically over and the local market is to a high extent controlled by foreign investors. New investments go mainly into export-oriented projects in existing companies or come in the form of new greenfield establishments. The main export market, the EU-15, did not expand in the past few years and the overall investment activity of transnational companies was low. FDI activity did not expand in otherwise attractive locations.

Progress towards EU accession is a further support to economic growth and FDI.

South East Europe is a different area. The earlier low FDI was to a large extent explained by the high investment risk related to conflicts, poor public governance and other basic risk factors. The progress achieved over the past couple of years in terms of economic transformation has translated into lower investment risk and increasing interest of foreign investors. The governments have increased efforts to privatize large companies, utilities and banks, which brought extra amounts of FDI. A specific of SEECs is that FDI rarely went into export-oriented projects.

Among the investing countries in SEECs, EU members have increased their share over the past few years. But there remains a striking difference between the three candidate countries (Croatia, Romania, Bulgaria), with EU shares above 60%, and the rest of the region, where

<sup>1</sup> WIIW calculations based on balance of payments statistics of respective countries' national banks. FDI data coverage is incomplete in most countries of the region.

the EU share is only about 40 %. In these smaller and more backward countries with low amounts of FDI from nearby Turkey, the CECs appear more significant, just as US investments. In the banking-sector and telecom privatization, Austria and Greece were the most active investors.

As to the distribution of FDI by economic activities, most of the FDI in SEECs concentrates in financial services, telecommunications and trade. Banking-sector privatization to larger foreign banks was carried out in all these countries in recent years. While the quality of services may have improved, there is still little credit provided to local enterprises. FDI in manufacturing is targeted mainly at the local market of cement, beer, tobacco and soft drinks.

One of the highly foreign-penetrated industries in the region is steel production. Starting as privatization deals, follow-up investments have been made and the restructured companies became more export-oriented than before. For instance, the regional network of the LNM Holding is the leading steel producer in Central and Eastern Europe with major steel making facilities in Poland, Romania and the Czech Republic. It is about to invest in Bosnia and Herzegovina, privatizing BH Steel, Zenica, and in Macedonian, privatizing Balkan Steel. The other big steel-maker of the region, US Steel with its main activity in Slovakia, has acquired the Smederevo iron and steel works in Serbia and continues to invest in restructuring and expanding capacities.

FDI inward stock in South East Europe and Central Europe (mill. USD) <sup>2</sup>						
	1998	1999	2000	2001	2002	2003
Albania	394	435	578	786	929	1,107
Bosnia and Herzegovina	67	244	390	509	774	1,155
Bulgaria	1,597	2,403	2,257	2,758	3,662	5,000 **
Croatia	1,903	2,578	3,560	4,706	6,711	11,351
Macedonia	203	235	410	851	929	1,024
Moldova	258	232	459	600	727	789
Romania	4,418	5,469	6,480	7,638	9,022	12,764
Serbia and Montenegro *	853	965	1,015	1,180	1,655	3,015
<i>SEEC-8</i>	<i>9,691</i>	<i>12,561</i>	<i>15,149</i>	<i>19,028</i>	<i>24,409</i>	<i>36,205</i>
Czech Republic	14,375	17,552	21,644	27,092	38,669	47,527
Hungary	20,746	23,381	23,015	27,698	38,028	47,809
Poland	22,479	26,075	34,227	41,247	47,900	60,500 **
Slovakia	2,890	3,188	4,746	5,582	8,530	11,250 **
Slovenia	2,777	2,682	2,893	2,605	4,081	5 000 **
<i>CEC-5</i>	<i>63,267</i>	<i>72,879</i>	<i>86,525</i>	<i>104,224</i>	<i>137,208</i>	<i>172,086</i>

Source: OECD, national banks of respective countries according to international investment Position, wiiw, \* since 2003 Serbia only, \*\* estimate. Cumulated USD inflows for Albania, Bosnia and Herzegovina, Bulgaria (till 1997), Croatia (till 1997), Macedonia, Serbia and Montenegro.

<sup>2</sup> Albania: equity capital, Bosnia and Herzegovina: equity capital, Bulgaria: equity capital + reinvested earnings from 1997 + loans from 1997, Croatia: equity capital + reinvested earnings from 1997 + loans from 1997, Macedonia: equity capital, Moldova: equity capital + reinvested earnings from 1997 + loans from 1995, Romania: equity capital + loans from 1994, Serbia and Montenegro: FDI net, Czech Republic: equity capital + reinvested earnings from 1997 + loans from 1997, Hungary: equity capital + reinvested earnings from 1995 + loans from 1995, Poland: equity capital + reinvested earnings + loans, Slovak Republic: equity capital + reinvested earnings + loans, Slovenia: equity capital + reinvested earnings + loans.

### 3.3 FDI in Serbia

Following the passing of the Privatization Law in 2001, the process of privatization is well under way. The Law has already provided considerable confidence in the privatization process, through the early and successful transactions concluded in January 2002. The sales of three cement factories to Lafarge (France), Holcim (Switzerland) and Titan (Greece) reflect the Government's firm commitment to attract strategic investors by offering 70 % of the available socially-owned capital for sale through public and transparent tenders.

The privatization process in Serbia, defined by the Law on Privatization (RS Official Gazette, No. 38/01 and 18/03), is mainly based on the model of direct sale whereby up to 70 % of the shares of the firm is sold either in tender or in public auction to a private buyer. The process was launched in 2001, while the first tangible results were realized in 2002 when 217 firms were sold in tender (12) or auction sale (205), generating the total price of 261 million EUR as well as the additional investment and social welfare commitments of the buyers amounting to 320 and 140 millions EUR respectively. Furthermore, minority government holdings in 87 firms were offered for sale, of which 48 sales were successful and generated the total price of 81 million EUR.

In the past three years, Serbia and Montenegro has quickly established a liberal foreign-investment regime. Although structural barriers still persist in the transition process, the republican governments recognize necessity to remove impediments, reform business activity, and open the economy to foreign participation. A number of factors work to the country's advantages:

- The market of Serbia is the second-largest market in the region (only Romania is larger)
- By closing free trade agreements region market reaches to more than 60 million consumers
- A strategic position astride all major transportation corridors (air, rail, road, water) between Central Europe, Southeast Europe and Middle East
- Successful implementation of a economic reform program supported by international financial institutions
- The low-cost of labor force

Serbia and Montenegro is attracting considerable interest from foreign investors, only two years on into its transition and reform program. Although FDI levels are still negligible compared to elsewhere in the region, Serbia and Montenegro could easily overtake other countries in Southeast Europe. In 2002, foreign direct investment in Serbia and Montenegro amounted to 475 million USD. With privatization gaining momentum and more tenders being concluded in Serbia, total FDI for 2003 approached 1360 million USD. In the first half of 2004 total FDI reached 318 million USD. While the preponderance of capital is expected to flow towards Serbia (given the relative size of its economy), Montenegro is also likely to attract more investor interest.

Leading investor nations in Serbia and Montenegro include: Austria, France, Germany, Greece, Italy and the United States. As highlighted above, Serbia is attracting the preponderance of interest. Foreign investor participation was kicked-off with the privatization of Serbia's cement sector in late 2001. Through privatization tenders, three companies were sold to strategic partners from France, Greece and Switzerland. Since then, Serbia has successfully attracted other strategic investors: France's Michelin entered into a joint venture with a local tire producer; Germany's Henkel (detergent producer) acquired a local producer

(Merima) and Heineken is purchasing Serbia's largest brewery (Apatinska). Finally, the banking sector previously attracted investment from Raiffeisen (Austria), HypoVereinsbank (Germany), National Bank of Greece (Greece) and Societe Generale (France). In 2003, the banking sector witnessed new market entrants: Hypo Alpa Adria (Austria), ING (Netherlands), Nova Ljubljanska Banka (Slovenia), OTP (Hungary), Soros Fund (USA) and Volksbank (Austria).

Major investors by countries			
Country	Number of contracts		Total FDI in 2001 (mill. EUR)
	2000	2001	
Germany	36	94	16.9
USA	9	30	9.7
Cyprus	25	42	7.6
Austria	20	71	6.1
Macedonia	29	67	6.0
Italy	27	93	5.4
Belgium	2	8	5.3
Bulgaria	14	58	4.2
Slovenia	-	128	2.6
Great Britain	3	29	2.2
Spain	-	5	2.1
Bosnia and Herzegovina	-	20	1.8
Greece	21	60	1.7
Croatia	-	40	1.6
France	6	24	1.3
Malta	-	4	1.2

Source: Federal Ministry of Foreign Economic Affairs, Serbia and Montenegro

FDI inflows increased almost threefold to 1.35 million USD in 2003 (FDI net in the balance of payments), reflecting progress in privatization despite political uncertainties. There are no recent data concerning the distribution of FDI by economic sector and investing country. Some trends can yet be identified when looking at the list of recent investment projects below.

In 2003, the pace of privatization increased in terms of the number of firms sold via auctions and tenders. The good result in 2003 is mainly the outcome of the sale of two tobacco factories. In August 2003, Philip Morris International purchased a tobacco factory in Nis through privatization and another investor, British American Tobacco, bought one in Vranje. Earlier in 2003, U.S. Steel acquired Sartid, a Serbian steel producer. In the first half of 2003, Galaxy Tire purchased Ruma Guma, a speciality tire producer, and Uniworld bought Serbia's largest travel and tour company. Kikinda's foundry Livnica has accepted the sole bid placed by the Slovenian automotive firm CIMOS. The most significant deals in 2004 include: Ball packaging, a US greenfield investment in the value of 85 million EUR; Henkel (Germany) made a new investment in its already existing factory for 8 million EUR and Carlsberg (Denmark) a 7 million EUR equity investment in an already privatized brewery. Further, infrastructure, telecommunications and information technology, energy, tourism and agribusiness are among the most interesting investment opportunities.

Foreign Direct Investments in Serbia and Montenegro * (mill. USD)				
	2001	2002	2003	I.-VI. 2004
FDI Inflow (net)	165	475	1,360	318

Source: National Bank of Serbia, \* since 2003 Serbia only.

The privatization process in Serbia almost tripled its speed in 2003 in all the segments. A total of 696 privatizations were completed via tender and auction procedures (the success rate is 85 %), while 121 minority packages held by the government, were sold to the private buyers via capital market. The total generated privatization receipts in 2003 exceeded the projections by far.

In 2003 a total of 42 enterprises were offered through tender sale. Of these only 22 (as opposed to 12 in 2002) were successfully sold mainly to foreign buyers. The sales of three largest privatized companies in 2003 – Beopetrol (Lukoil) and the two tobacco factories in Vranje (British American Tobacco) and Nis (Philip Morris International) realized 63 % (554 million EUR) of the total sales price realized in both auction and tender sales in 2003.

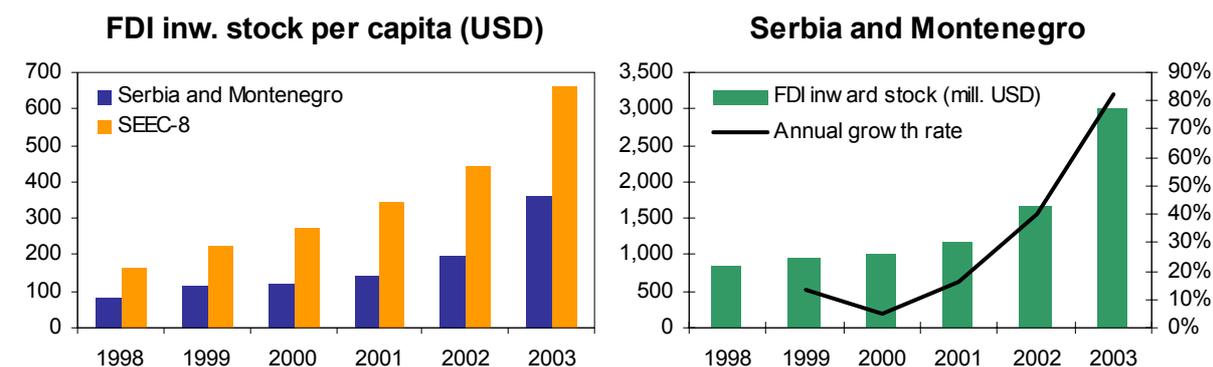
Out of 773 enterprises that were offered via the auction proceedings in 2003, 674 were successfully sold, which is more than three times the number of the enterprises auctioned off in 2002 (which was 205).

Foreign investment by sectors (2001)	
Sector	Number of contracts
Food and beverages	132
Construction	107
Textiles	106
Mechanical engineering and electrical industries	67
Graphics	46
Lumber industry	39
Plastics	30
Shoes and leather industry	30
Cosmetics	27
Paper and printing industry	21
Household appliances	19

Source: Federal Ministry of Foreign Economic Affairs, Serbia and Montenegro

An important segment of the corporate sector, 41 large enterprises in need of restructuring, has not been put on the agenda for privatization yet. Their restructuring and privatization is likely to take several years, and some of them will have to pass bankruptcy procedures the legal framework for which has recently been created. The privatization of public utilities is yet to come. In 2003 the installation of the required institutional setting has started.

Bank privatization is proceeding step by step after non-viable banks were closed down at the end of 2001. Serbia has hired French investment bank BNP Paribas in October 2003 to advise it on the sale of three domestic banks, in a move that marked the start of Serbia's banking sector privatization. The Serbian Bank Rehabilitation Agency said it has signed an agreement with BNP Paribas, which won an international tender to advise the government on the privatization of the first three state-owned banks to go private - Jubanka, Novosadska Banka and Continental Banka.



Source: OECD, national statistics, wiiw

Total privatization proceeds for 2002 and 2003 closing with December 29 <sup>th</sup> , 2003 (ths. EUR)									
	Offered	Sold	Success rate	No. of employed	Book value	Sale price	Social program	Investment	
Tenders	64	31	44%	27,784	553,168	801,752	269,862	625,826	
Auctions	1029	880	86%	75,465	415,681	337,215	-	75,954	
Share fund	298	169	57%	34,977	95,112	149,368	-	5,902	
<b>Total</b>	<b>1391</b>	<b>1080</b>	<b>78%</b>	<b>138,226</b>	<b>1,063,961</b>	<b>1,288,308</b>	<b>269,862</b>	<b>707,723</b>	

Source: Privatization Agency, Republic of Serbia

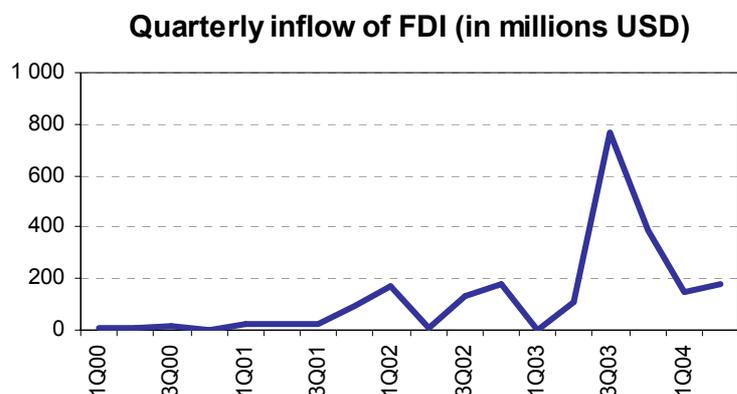
With increasingly less attractive enterprises in the pipeline, privatization receipts are expected to decline in 2004. Following rapid privatization of socially-owned enterprises through tenders, auctions, and share sales in 2003, the process slowed considerably in early 2004, reflecting political developments and a legal challenge to the modalities of share sales. In mid-July the government sacked Branko Pavlovic, Director of the Agency of privatization because he allegedly opposed faster privatization. Yet, three months after his dismissal, the process seems to be still stalled.

What remains to be done is the privatization of public sector enterprises, which surely will not be tackled in 2004, and the finishing off of privatization of several larger companies which were partly privatized under previous privatization laws. Despite the new government's renewed commitment to privatization, successful privatizations of socially-owned enterprises are expected to decline given the predominance of heavily indebted and overstaffed enterprises in the pipeline. A recent Serbian government decree that regulates haircuts on public utility claims should facilitate the privatization of indebted enterprises. Twelve large socially-owned enterprises will be offered for sale through tenders and over 360 small and medium-sized ones through auctions. The sale of residual state-owned shares has resumed after a 4-month hiatus with the resolution of legal issues. Although several large privatization transactions – in the state telecom and energy sectors – will be prepared during the year, given the lead time needed for transparent execution, these are expected to be completed only in 2005. In total, cash receipts from enterprise privatization are expected to amount to some 150 million EUR in 2004.

Another projection for 2004 (Economist Intelligence Unit), however, is about 400 million USD, which is a forecast excluding big privatization deals. If the announced privatization of three banks takes place, the total FDI could reach as high as 600-700 million USD. Since most of FDI came from privatization proceedings, most FDIs are actually investments in equity. Reinvested earnings and greenfield investments remain low.

Direct investment flows (millions USD)					
	2000	2001	2002	2003	2004*
Inward direct investments	25.0	165.0	562.0	1532.0	600.0
Outward direct investment	-1.0	0.0	0.0	-136.0	-10.0
Net direct investment flows	24.0	165.0	562.0	1396.0	590.0
FDI per capita	3.1	20.6	70.2	191.5	75.0

Source: Economist Intelligence Unit, \* EIU forecast



Source: National Bank of Serbia

### 3.4 Credit Rating Process in Serbia

On November 1<sup>st</sup>, 2004 Serbia received its first-ever credit rating, considered by investors community as a milestone on the road to economic stability. It is expected that the rating open the way for a return to international credit markets.

The country has secured a B+ rating from international ratings agency Standard & Poor's Corp., as has its proposed issue of restructured London Club debt.

According to Standard & Poor's, Serbia is still in the early stages of making the transition to a market economy, but the agency expects that reformist governments will continue to pursue prudent economic policies, and there will be progress on the necessary structural reforms.

Moody's Investors Service Inc. and Fitch Ratings don't rate the republic, and Moody's said the agency would wait until approached to do so.

Serbia signed a memorandum of understanding in the summer, after three years of intense negotiation, pledging a 62 % write-off of its 2.8 billion USD debt to the commercial creditors' group. This compares with a 66 % concession on the 4.4 billion USD owed to the Paris Club of government creditors.

Market expectations have been for Serbia to issue its London Club debt restructure this month, in the form of a 20-year, 1.08 billion USD issue. The proposed coupon would pay 3.75 % in the first five years, before stepping up to 6.75 % in the sixth. J.P. Morgan is overseeing the issue.

The International Monetary Fund in October reached an in-principle agreement with Serbia and Montenegro on an economic program for 2004-2005, to be reviewed in December. The last review, in June, released 147 million USD of an ongoing 953 million USD program.

The "unresolved issues such as the failure of the union with Montenegro, the status of Kosovo, and cooperation with The Hague's International Criminal Tribunal" remain as strong threats to its future political development, S&P said. The government's progress on reform may also stumble at the increasingly likely prospect of early elections in 2005.

Regarding the credit rating, Serbia definitely started the process of standardizing of its relations with financial markets. Besides the recent country rating, various municipalities and organizations in Serbia are actively communicating on possibilities and positive impacts of local ratings with the European Rating Agency (ERA™). ERA™ is an independent rating agency focused on transitional countries in the region of Central, Eastern and Southeast Europe.

## 4. Vojvodina: Economic Overview

The Autonomous Province of Vojvodina is a form of territorial autonomy in the Republic of Serbia and The State Union Serbia and Montenegro. The Province was formed according to the unique national, historical, cultural and other features of its territory. It is situated in the northern part of Serbia, which is the southern part of Pannonian Plain, where the lower sections of three large rivers – Danube, Sava and Tisa converge. Vojvodina covers an area of 21,506 square kilometers, approximately one quarter of Serbia. Its largest city and administrative, economic, and cultural centre of the province is Novi Sad.

Novi Sad was founded three centuries ago on the left riverbank of the river Danube. The City of Novi Sad, one of the biggest economic and cultural centers in Serbia has two municipalities, namely, Novi Sad and Petrovaradin. Both of them, with suburbs and nearby villages have more than 300,000 citizens. The city community of Novi Sad covers an area of 706 square kilometers.

The statute is the highest legal act of the Province, which organizes the authorities and organs of the Autonomous Province of Vojvodina. There are 44 municipalities and the city of Novi Sad in Vojvodina, as territorial units in which local self-government is carried out. There are 464 inhabited places on the territory of Vojvodina.

The organs of the Autonomous Province of Vojvodina are situated in Novi Sad. Other centres of the region are: Subotica, Sombor, Kikinda, Zrenjanin, Pancevo and Sremska Mitrovica.

Since Vojvodina is situated in the northern part of the Republic of Serbia, the date of 1<sup>st</sup> May 2004 when Hungary entered the European Union was one of the most important days for Vojvodina, as it became the EU border region. On the east, Vojvodina borders with another EU candidate – Romania. On the west, a third EU candidate – Croatia.

Vojvodina, it's four neighbor regions, namely Bacs-Kiskum and Csongrad in Hungary and Timis and Caras-Severin in Romania along with Bekes, Jas-Nadjkun-Solnok in Hungary and Arad and Hunedoara in Romania signed the protocol on the establishment of the Euro-region named the Danube-Kris-Moris-Tisa in 1997.

Apart from Novi Sad, the most important settlements in neighboring countries are Kecskemet and Szeged in Hungary and Timissoar and Restica in Romania.

The territory of Vojvodina and four neighbor regions covers the total of 51,405.5 km<sup>2</sup> and in 1999 it had population of over 4 million. The population density in all five regions is relatively low, in the last decade of 20<sup>th</sup> century, the population density increased only in Vojvodina mainly as a result of inflow of refugees.

The Danube-Kris-Moris-Tisa Euro-region					
	Region				
	Vojvodina	Bacs-Kiskun	Csongrad	Timis	Caras-Severin
Area (km <sup>2</sup> ; year 2000)	21,506	8,420	4,263	8,697	8,520
Population (as of 1 <sup>st</sup> Jan 1999)	2,027,038	534,290	420,198	687,301	357,034
Population density (per km <sup>2</sup> ; year 1999)	94	63	98	78	42

Source: International Statistical Yearbook

The Assembly of the Autonomous Province of Vojvodina shall: adopt the Statute, supreme legal act, prepare the budget and annual balance sheet of the Province; establish agencies and organizations dealing with matters of interest for the Province; enact the program of economic, scientific, technological, demographic, regional and social development, development of agriculture and rural areas, in accordance with the development programs of the Republic of Serbia, and shall lay down measures for their implementation; enforce laws and other regulations to the National Assembly of Serbia; and attend to other business laid down under the law and the Statute of the Province.

The Assembly of Vojvodina shall be made up of 120 deputies elected in direct elections by secret ballot and majority principal in 120 election units. Citizens in each of 44 municipalities and the town Novi Sad shall elect at least one deputy.

## 4.1 International Corridors

At the 3<sup>rd</sup> Pan-European Transport Conference, held in Helsinki in June 1997, the Corridor X was adopted – supplementing nine already adopted corridors.

Corridor X, consisting mainly of road and rail, was heavily used in the past for the connection of Greece and ex-Yugoslavia with Western Europe, but was disrupted due to the conflicts in the Balkans. The reactivation and rehabilitation of Corridor X, will, among others, help the connection of the region with the European Union, will facilitate the use of the port of Thessaloniki as an outlet for FYROM and FR Yugoslavia and will help the solution of problems of border crossings, which are now greatly delaying traffic of goods.

Corridor X connects Salzburg - Ljubljana - Zagreb - Belgrade - Nis - Skopje - Thessaloniki and has four branches: A: Graz - Maribor - Zagreb, B: Budapest - Novi Sad - Beograd, C: Nis - Sofia and D: Veles - Bitola - Florina. The length of the roads via SCG, defined within the Corridor X, is 800 km.



Source: UNECE

#### UNECE Trans-European Railway Project (TER)

UNECE (United Nations Economic Commission for Europe) TER Project is a sub-regional co-operation established in 1990 by the Governments of the Central, Eastern and South Eastern European countries at the initial financial support of United Nations Development Programme (UNDP) and the co-ordination and support of UNECE acting as the executing agency.

The main objectives of the project are the improvement of the quality and efficiency of transport operations, the assistance of the integration process of European Transport Infrastructure systems and the development of coherent and efficient international railway and combined transport system in the region.

16 countries from Central, Eastern and South Eastern Europe are full members of TER at present: Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Georgia, Greece, Hungary, Italy, Lithuania, Poland, Romania, Russian Federation, Slovak Republic, Slovenia and Turkey. In addition a number of 6 observer countries participate at certain activities of the project: Belarus, Former Yugoslav Republic of Macedonia, Serbia and Montenegro, Latvia, Moldova and Ukraine.

Further information can be found on <http://www.unece.org/trans/main/ter/ter.html>.

In Serbia and Montenegro, the main international traffic routes are very precisely given on the European corridors. After the crises in the last decade of the last century, the traffic on these corridors has not still reached the level from the end of the 1980s.



Source: UNECE

*UNECE Trans-European North-South Motorway Project (TEM)*

UNECE TEM Project is a sub-regional co-operation established in 1977 by the Governments of the Central, Eastern and South Eastern European countries at the initial financial support of United Nations Development Programme (UNDP) and the co-ordination and support of UNECE acting as the executing agency.

The main objectives of the project are: The facilitation of road traffic in Europe among and through the countries participating in the project, the improvement of the quality and efficiency of transport operations, the balance of gaps and imbalances existing in the motorway network between Western, Eastern, Central and South – Eastern Europe and the assistance of the integration process of European Transport Infrastructure systems thus promoting the overall development of the region.

12 countries from Central, Eastern and South Eastern Europe are members of TEM (Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Georgia, Hungary, Italy, Lithuania, Poland, Romania, Slovakia, Turkey), 1 has status of associated member (Austria) and 3 others have an observer status (Serbia and Montenegro, Sweden, Ukraine).

Further information can be found on <http://www.unece.org/trans/main/tem/tem.html>.



Source: UNECE

## 4.2 Economy

During the last 2-3 years, the economy of Serbia has been in the process of transition and restructuring i.e. has been undergoing transformation into the open market economy. After a decade under the sanctions and in isolation Serbia has finally accepted the concept of opening, cooperation with the world and privatization. The process, however, has been very slow due to numerous restrictions characteristic for the economy of Serbia and Vojvodina. Some of the basic restraints that should be pointed to are: the economy is technically and technologically obsolete, low competitiveness of products, financial debts of most enterprises, labour redundancy problem – present in most enterprises, inadequacy of economic regulations, etc.

These restricting factors mostly result from the fact that Serbia and Vojvodina were 10-12 years late when initiating the process of transition and restructuring. The economy has been worn out by the ten-year disinvesting, technologically outdated, and as such does not comply with the contemporary market conditions. Therefore, its sustainable and dynamic growth depends on restructuring and privatization in order to create conditions for the new investment and development cycle.

The 1990s were known as the decade of the economic deterioration or the decade of the economic decline in Serbia and Vojvodina. Prior to 1990s, the economy of Serbia had been well integrated into the world economy and its enterprises followed the contemporary trends in the technical and technological development. The living standard was higher than in other socialist countries, which were about to undergo the process of transition.

At the end of the decade the country found itself in an economic, social and political chaos. In 2000, income per capita was one of the lowest in Europe and poverty became a widespread characteristics. The situation could be blamed on the former political leaders, who were not capable of governing the country. Instead of promoting economic prosperity, they led the country under the UN sanctions. The breakup of FRY and international sanctions caused serious damage to the production and put a stop on the foreign capital inflow. Domestic product and the entire production slumped to the level of less than 50 %, while the income per employee amounted to less than 30 % of the one realized in 1989.

The banking sector was insolvent and on the verge of bankruptcy, while only unsecured money kept it functional. The state-owned enterprises were in charge of maintaining social stability in the country while the public ones accumulated debts and slowly paced towards bankruptcy. There were only two spheres of life that were flourishing. The first one was economic criminal, which was in expansion under the patronage of state or para-state organs. It served the purpose of a small circle of people close to the official political leaders becoming rich. The second one was so called “grey” economy, which developed quite spontaneously and when need be. Its expansion was in the function of preserving small and medium-size enterprises, because it represented the source of additional funds for the considerable part of the impoverished population.

Macroeconomic instability and external imbalance were the dominant characteristics of the economy of Serbia, conditioned by the economic system and economic politics. The main sources of the macroeconomic instability were huge budget and quasi-budget deficit and consequently high inflation rates. Significant external imbalance exacerbated the problem of covering big current balance deficit and servicing the unsustainable level of the foreign debt.

Average rates of the domestic product, investments and employment growth								
	Domestic product		Investments placed in fixed assets		Employment		Unemployment	
	Serbia	Vojvodina	Serbia	Vojvodina	Serbia	Vojvodina	Serbia	Vojvodina
1991-1995	-13.8%	-14.0%	-20.5%	-21.4%	-2.0%	-2.1%	5.9%	11.9%
1996-2000	-0.1%	0.1%	-4.9%	-4.9%	-1.9%	-1.9%	3.0%	0.2%
1991-2002	-7.2%	-4.9%	-13.2%	-13.5%	-1.9%	-2.0%	8.0%	5.9%

Source: Statistical Office of Serbia and Montenegro

Basic macroeconomic indicators (domestic product, industrial production, investments, export, import) deteriorated, particularly during the first 2-3 years under the economic sanctions and prior to the fall of FRY. Thus, during the period between 1992 and 1993, the domestic product of Serbia and Vojvodina decreased by around 62 %. Later, the domestic product gradually grew, mostly as to meet the needs of the domestic market. However, the growth implied only rehabilitation of the existing production, i.e. it did not imply structural adjustment of the economy. Resulting from the NATO bombing campaign in 1999, the domestic product slumped to the level of 1993.

In the period between 1991 and 1995 the domestic product in Vojvodina decreased at the average rate of -14 %, investments -21.4 %, and employment -2.1 %. That consequence from the fact that, after the sanctions had been introduced, the legal regulation that enterprises were not allowed to fire any employees for the time of their duration, was passed. Its purpose was to contribute to the maintenance of the political and social stability. However, the decision

had damaging economic consequences for most enterprises and entire economy. It primarily reflected in the fact that enterprises had to take loans in order to pay the redundant employees.

Therefore, debts with creditors were higher than the capital of most enterprises, which additionally complicated the difficult as it is privatization process. During the decade (1991-2000) the average rate of the domestic product decrease amounted to -7.2 %, and investments -13.5 %. The domestic product in 2000 fell to 47.5 % of the domestic product level in 1990. Investments in fixed assets had drastically reduced and in 2000 they equaled 23.4 % of the investments made in 1990. Export and import also recorded negative growth in the previous decade. Export decreased at the average rate of 11.2 %, and import at the rate of 8.5 %. In 2000, import amounted to only 30.5 % of the one realized in 1990 while the import equaled 41.1 %. It was only at the end of 2000 that the foreign trade activities significantly improved.

Basic indicators for the economy of Vojvodina in the period (changes in decade) *					
Year	Domestic product	Dom. product per capita	Investments	Employment	Unemployment
1990	100.0	100.0	100.0	100.0	100.0
1995	47.1	46.9	30.1	90.0	175.8
2000	47.5	46.5	23.4	81.7	177.3

Source: Statistical Office of Serbia and Montenegro, \* base index, 1990 = 100.

The entire period of ten years could be characterized as the period of obvious disinvestments, considering the high negative investment growth rates. The most explicit disinvestments trend was in the period between 1991 and 1995, when investments in fixed assets decreased at the average annual rate of -20.5% in Serbia, that is -21.4% in Vojvodina. In the period between 1996 and 2000, the disinvestments trend was not so intensive and the investments in fixed assets fell at the rate of -4.9% in Serbia and -4.9% in Vojvodina. The data only reminded us that the economy of Serbia and Vojvodina is technically and technologically obsolete. The explanation lies in the fact that for longer than a decade, the economy failed to keep up with the technical and technological advance, which had negative consequences on the production structure.

Under the existing conditions, companies have neither financial means for investments in the modernization, nor could they obtain them (because they are already burdened with debts). Thus, privatization imposes itself as the only solution, because it is a way to obtain additional capital for modernization. Under the terms, the foreign capital inflow is the elementary precondition for the revitalization of investment activities and modernization of economy. Foreign direct investments are necessary for the economic growth, not only to make up for the lack of domestic capital and high unemployment rate, but also to improve the corporate management and transfer of technologies.

However, it is not realistic to expect that the foreign capital inflow could be as big as to solve economic problems of Serbia. Therefore, Serbia will have to make efforts to introduce domestic capital into the system of financial institutions. Nothing has been done so far, but there are more than positive indications that the population sector has got significant financial resources (mostly in foreign currency). If these resources were to find their way into the financial system, much more could be done in order to promote small and medium-size enterprises production in the domain of private property.

## Economy after the year 2000

It was only at the end of 2000 and in the course of 2001 that the process of transition and stabilization of the economy of Serbia began. At the time, the economy was extremely weak, which was primarily reflected in:

- Evident and hidden fiscal deficit and its monetization;
- Increasing inflation, which amounted to the annual level of more than 100 %, despite the strict price control;
- Distortion of prices, resulting from the price policy having been put in function of the social welfare (the price of electricity, utilities, medicines and elementary food products were particularly depreciated);
- Lack of elementary food products, resulting from the price control;
- Electricity deficit and bad operational conditions of the energy raw materials production capacities, resulting from the lack of funds for maintenance and import;
- Intensive nominal and real depreciation of Dinar (the Dinar was officially stable, but it fluctuated at the black market);
- Accumulated foreign debt which exceeded the gross value of the domestic product in 2000 by around 40 %, and 80 % out of which was fallen due;
- Problems regarding the external solvency (current import payments), which particularly influenced the energy raw materials supply;
- Heavy accumulated and current losses in the economy and internal debts among enterprises, between enterprises and banks, enterprises and the state, the state and population and the debt of the population towards public enterprises;
- Reduced production and economic activities to approximately one third of the one effected in 1989, with some economic segments being totally inactive;
- A large number of the unemployed that were registered (more than 800,000) and the unemployed not registered (around 500,000);
- Decreasing trends in the current economic activities, particularly in industry and the field of civil engineering.

Taking into account extremely unfavorable changes in all segments of the economy and society, the creation of complex stabilizing economic programs was initiated in the course of 2000. The project of Recovery and Transition of the Yugoslav Economy was finished. In the extensive study, defining all aspects of transition, particular attention was paid to stabilization (Macroeconomic Stabilization and Recovery of the Economy in Yugoslavia).

Then, at the end of 2000, special documents defined the reform policy; the stabilization policy of the new authorities<sup>3</sup> became a part of it. The special document of the World Bank<sup>4</sup> projected the structural reforms in detail and officially represented them on the occasion of the Donors Conference.

In 2001, the economy of the Republic of Serbia reached the initial macroeconomic stability and initiated elementary structural reforms. Pursuant to the complete liberalization followed by the explosion of prices, the inflation was reduced from 113 % in 2000 to 41 % in 2001, while in 2002 it reduced by 16 %, with the tendency to further reduction. The foreign

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<sup>3</sup> Federal Republic of Yugoslavia – Economic Reform Program for 2001, Vision for the Federal Republic of Yugoslavia: Breaking with the Past, Building a Democratic and Prosperous Country – Position Paper for the Donors Coordination Meeting, Brussels, December 12<sup>th</sup>, 2000.

<sup>4</sup> Federal Republic of Yugoslavia – Breaking with the Past: The Path to Stability and Growth prepared by the World Bank and European Commission in cooperation with the Government, June 12<sup>th</sup>, 2001.

currency exchange rate was stable with the constant increase in the foreign currency reserves. Macroeconomic stability was facilitated by measures of the fiscal and monetary politics, which resulted in the reduction of the fiscal deficit from the inherited more than 10 % of the gross domestic product, to only 1.3 %. Structural reforms in the real sector were initiated by privatization that is creation of the institutional frame and first tender and auction sales. Rehabilitation of the banking sector was initiated by the closure of four big, but insolvent banks in January 2002. The Law on labor made the labor market flexible. The reform of the Pension Fund, which was the biggest source of the fiscal deficit, was also carried out.

Macroeconomic stabilization and the initiated structural reforms so far, represent a break-up with the past. The future constellations of measures of the economic politics and reforms that are yet to be implemented are to make the foundation for the new investment cycle and sustainable economic growth. The course of the reform of the public expenditure and finances should play the key, or rather prevailing role in the process.

However, numerous restrictions, which make the functioning of the economy very difficult, are still present. Overcoming them will not be easy or fast; they refer to the following problems:

- Technologically and technically out-dated installed capacities;
- Prevalence of the technologically out-dated products;
- Falling behind in the process of privatization;
- Out-dated and inadequate economic infrastructure;
- Incompleteness of the banking system and underdeveloped market institutions;
- High foreign trade deficit and small scaled export capacity of the economy;
- Explicit insolvency and lack of short term and long term fixed assets for financing the production and export;
- Lack of capital to be invested in the new equipment and technology;
- Difficult re-entrance into the market lost due to the long-lasting sanctions;

Regardless of the existing restrictions, there have been numerous assumptions aiming at the revitalization of the economic activities in total, primarily by upgrading and changing the corporate regulations, the effects of which are yet to be expected. Besides, external circumstances enabling the reintegration of the economy into international institutions have also been improved. The above mentioned primarily refers to the following:

- Renewed membership of Yugoslavia in OSCE, IMF and EFTA and others,
- Countries of the European Union have reassumed preferential treatment for 95 % of goods, which is to have positive effects on the increase in export, during the period to come,
- The State Union of Serbia and Montenegro has been introduced into the Stability Pact for the Southeastern Europe,
- Renewed membership in the European Bank for Development and Reconstruction,
- The State Union of Serbia and Montenegro has been granted the status of an observer in WTO,
- The exchange rate is stable and the foreign currency exchange has been brought back into the legal frame,
- Deregulation and liberalization of the foreign trade business operations has been carried out,
- The State Union of Serbia and Montenegro has been accepted in the Council of Europe.

These are to be the key presumptions for the mobilization of the available development potentials:

- Favorable geographic position, being convenient for the development of traffic, tourism and catering;
- Relatively cheap and qualified working body, which could represent a significant competitive advantage for foreign investments in the years to come;
- Experience and tradition in business operations of small and medium-size enterprises, which, with additional financial incentives, could become the benchmark for the future economic development;
- Although significantly devastated during the previous period, production funds still have a substantial capacity for a more productive performance. Small investments in modernization could revitalize many of the presently public enterprises, the privatization of which could turn them into efficient and profitable firms;
- Natural capacities for the development of agriculture and agro-industrial complex. The statement primarily refers to the fertile soil and favorable weather conditions for the development of the intensive agricultural production, along with some industrial branches and other business activities that are related to agriculture. During the previous 50-60 years, this natural potential of Vojvodina was not exploited, thus making Vojvodina fall behind in terms of development.

## 4.3 Enterprise Structure

Economic conditions in Serbia had influence on business activities and financial results of the economy in the Province. The economy of the Province accounts for 21.1 % of fixed assets of the economy of Serbia in total, employs 24.9 % of the total number of the employed, realizes 33.6 % of the total revenue, 28 % of the export earnings, makes 28.9 % of the net profit and 27.6 % of the total loss of the Republic.

The structure of enterprises as per size is dominated by small enterprises with 94.4 %, while the medium-size account for 4.4 % and big for only 1.2 %. The situation represents a peculiarity of Vojvodina, but is present in Serbia too. The point is that a large number of small private enterprises have been founded recently, many of which do business in the gap between the gray and legal economy. Therefore, the statistics about the structure of enterprises as per size does not tell much about their actual economic strength.

The largest number of small enterprises is in the private sector (that is 85.7 %), while the medium-size (35.5 %) and big enterprises (60.6 %) dominate the common sector. The structure of enterprises as per property is dominated by private enterprises with 82.0%, while public enterprises have the share of 6.3 %, joint 5.7 %, cooperative 5.2 % and state-owned 0.8 %.

The share of organizations registered in Vojvodina on all organizations in Serbia was 25 % at the end of year 2003. There are 48 % of Serbian Governmental bodies registered in Vojvodina. Private enterprises represent the highest share (30 %) on Vojvodina economy, similarly as in whole Serbia.

Enterprises by form of organization (as of 31 <sup>st</sup> December 2003)					
Form of organization	Republic of Serbia*		Vojvodina		
	number of enterprises	share of form in Total	number of enterprises	share in Serbia	share of form in Total
Partner association	9,274	3.8%	1,312	14.1%	2.2%
Companies with limited partnership	1,325	0.5%	204	15.4%	0.3%
Stock companies	3,591	1.5%	1,223	34.1%	2.0%
One-member stock companies	61	0.0%	14	23.0%	0.0%
Limited joint companies	56,173	23.1%	13,775	24.5%	23.1%
One-member limited joint companies	34,700	14.2%	9,381	27.0%	15.7%
Private enterprises	86,549	35.5%	18,116	20.9%	30.3%
Social enterprises	2,646	1.1%	669	25.3%	1.1%
Public enterprises	714	0.3%	209	29.3%	0.4%
Entrepreneur	90	0.0%	3	3.3%	0.0%
Business associations	386	0.2%	85	22.0%	0.1%
Cooperatives	5,376	2.2%	1,831	34.1%	3.1%
Financial organizations	264	0.1%	41	15.5%	0.1%
Institutions	3,678	1.5%	1,063	28.9%	1.8%
Governmental bodies	737	0.3%	352	47.8%	0.6%
Judiciary bodies	477	0.2%	113	23.7%	0.2%
Unit of local self-government	4,337	1.8%	556	12.8%	0.9%
Political organizations	374	0.2%	108	28.9%	0.2%
Social organizations	15,386	6.3%	5,280	34.3%	8.8%
Citizens associations	14,248	5.8%	4,195	29.4%	7.0%
Other forms	3,172	1.3%	1,174	37.0%	2.0%
<b>Total</b>	<b>243,558</b>	<b>100.0%</b>	<b>59,704</b>	<b>24.5%</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia, \* Data for Kosovo and Metohia not included.

There are 34 % of Serbian Cooperatives registered in Vojvodina, which is the highest share by type of ownership. The share of private organizations on total number of organizations in Vojvodina is 72 %.

Enterprises by type of ownership (as of 31 <sup>st</sup> December 2003)					
Type of ownership	Republic of Serbia*		Vojvodina		
	number of enterprises	share of type in Total	number of enterprises	share on Serbia	share of type in Total
Social	5,225	2.1%	1,355	25.9%	2.3%
Private	187,018	76.8%	42,819	22.9%	71.7%
Cooperative	5,587	2.3%	1,906	34.1%	3.2%
Mixed	4,783	2.0%	1,354	28.3%	2.3%
State	3,621	1.5%	1,070	29.5%	1.8%
Ownership not stated	37,324	15.3%	11,200	30.0%	18.8%
<b>Total</b>	<b>243,558</b>	<b>100.0%</b>	<b>59,704</b>	<b>24.5%</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia, \* Data for Kosovo and Metohia not included.

In Vojvodina there are 24 % of total Serbian companies owned by national (domestic) capital. Organizations with national capital present 79 % of companies in Vojvodina. The number of companies with foreign capital accounts for 501 entities with a share of 17 % of total number companies with foreign capital in Vojvodina. The share of foreign companies in Vojvodina makes up 1 % corresponding to the overall participation of foreign companies in Serbia.

Enterprises by origin of capital (as of 31 <sup>st</sup> December 2003)					
Origin of capital	Republic of Serbia*		Vojvodina		
	number of enterprises	share of origin in Total	number of enterprises	share on Serbia	share of origin in Total
National	198,622	81.6%	47,130	23.7%	78.9%
Foreign	2,916	1.2%	501	17.2%	0.8%
Mixed	4,696	1.9%	873	18.6%	1.5%
Origin not stated	37,324	15.3%	11,200	30.0%	18.8%
<b>Total</b>	<b>243,558</b>	<b>100.0%</b>	<b>59,704</b>	<b>24.5%</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia, \* Data for Kosovo and Metohia not included.

## Enterprises' Business Indicators as per Field of Work

The biggest influence on the economic trends is that of enterprises from the field of industry and mining, which employ 54.2 % of the total number of the employed, dispose of 53.8 % of fixed assets, realize 62.0 % of the total revenue, make 68 % of profit and 56.4 % of the loss in economy. At the same time, these enterprises make 82.5 % of the export earnings of the economy of the Province.

The trade accounts for the largest number of enterprises (44.3 %) and besides industry has the biggest share in the realized revenue (17.8 %), profit (12.7 %) and export earnings (8.1 %).

On the other hand, agriculture and fishing, besides industry, have the biggest share in the fixed assets that is 18.5 % and the loss that is 12.2 %.

Basic business indicators of enterprises as per field of work in 2002 (in %)							
Activity	No. of enterprises	No. of employees	Fixed assets	Total revenues	Net profit	Current loss	Export earnings
Industry and mining	19.4	54.2	53.8	61.9	68	56.4	82.5
Agriculture and fishing	8.1	11.2	18.5	9.1	5.7	12.2	3.6
Forestry	0.1	14.5	< 0.0	< 0.0	< 0.0	< 0.0	< 0.0
Water management	0.1	3	1.2	0.1	< 0.0	0.4	< 0.0
Construction industry	4.8	3.2	2.3	2.4	3.1	4.2	0.4
Transport and communications	2.8	1.8	1.8	1.5	4.0	2.5	2.4
Trade	44.3	5.3	5.8	17.8	12.7	11	8.1
Tourism and catering	1.8	1.3	1.1	0.6	0.3	1.2	0.1
Crafts	2.7	1.6	0.9	0.5	0.5	1.9	0.5
Housing and public utility services	1.0	0.4	10.1	2.2	1.7	5.5	< 0.0
Financial, technical and business services	11.5	< 0.0	2.5	3.0	2.7	4.0	2.1
Education, science, culture and information	2.7	3.1	2.0	0.8	1.3	0.6	0.2
Health and social care	0.4	0.3	0.1	0.1	0.1	0.1	< 0.0
Socio-political communities, funds and organizations	0.1	< 0.0	< 0.0	< 0.0	< 0.0	< 0.0	< 0.0
<b>Economy in total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Republic Development Bureau of Serbia

**Business activities of enterprises in the field of industry and mining**

Eight industrial branches play the leading role in the sector of industry and mining in the Autonomous Province of Vojvodina: (production of food products, production of oil and natural gas, chemical products processing, production of chemical products, production of finished textile products, production of electrical machinery and appliances and production of beverages). These branches account for 57.9 % of the total number of enterprises, employ 64.2 % of the total number of the employed, engage 69.1 % of the fixed assets value, make 81.8 % of the total revenue, 73.1 % of the export earnings, 85.1 % of the profit and 66.7 % of the loss of the industrial and mining sector in the Autonomous Province of Vojvodina.

Business indicators of enterprises in the field of industry and mining in 2002 (in %)							
Activity	No. of enterprises	No. of employees	Fixed assets	Total revenues	Net profit	Current loss	Export earnings
Production of food products	13.8	21.2	18.9	19.0	15.1	0.0	30.4
Production of oil and natural gas	0.0	10.3	26.1	43.1	25.5	3.0	10.9
Chemical products processing	8.8	4.4	3.9	4.7	16.8	36.0	8.8
Production of chemical products	1.6	4.5	7.3	4.4	0.6	3.6	6.7
Metalworking	12.9	8.9	5.5	2.8	2.0	3.7	5.8
Production of finished textile products	8.1	7.3	2.2	2.1	3.1	2.1	5.1
Production of electrical machinery and appliances	10.3	4.4	1.6	2.2	2.1	1.8	3.3
Production of beverages	2.5	3.2	3.9	3.4	20.1	1.8	2.0
Other industrial branches	42.1	35.8	30.9	18.2	14.9	33.3	26.9
<i>Industry and mining in total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Republic Development Bureau of Serbia

Production of food items has the biggest share in the number of enterprises (13.8 %), the number of the employed (21.2 %), and the realized export earnings (30.4 %). Production of oil and natural gas accounts for 26.1 % of fixed assets, realizes the biggest total revenue (43.1 %) and net profit of 25.5 %. Production of chemical products has the biggest share in the loss, which is 36.0 %.

A more detailed analysis of enterprises in each and every industrial branch and their grouping as per realized total revenue (10 enterprises from every branch), has shown that these enterprises represent progressive development forces in their branches, and the problems related to their development and business operations directly influence the development level, not only of an individual branch but industry in total.

The dominant role of industry and mining in the entire economy of the Autonomous Province of Vojvodina is illustrated by the data that 50 enterprises with the highest realized revenue in industry and mining employ 21.1 % of the total number of employees, account for 32.9 % of the fixed assets, make 45.7 % of the total revenue, 48.2 % of the export earnings, 50.7 % of profit and 23.6 % of the loss of the economy of the Autonomous Province of Vojvodina.

## 4.4 Economic Sectors

Vojvodina has entered transition with, in our circumstances, typical structure of economy and industry. It means that resource intensive production dominated the structure with low

technical-technological contents. Such production was mostly intended for covering the needs of domestic market. Roughly speaking around 1/3 of production stayed in the Serbian market, 1/3 went to the markets of former Yugoslav Republics, and around one third was exported. At present, basic social-economic premises for the development concept has disappeared. Therefore, hypothetically seen, production recovery to the maximum level that had existed before transition started (that is from 1986) can be realized only by radical changes in the structure of production, i.e. the economy has to achieve export of around two thirds of its production. According to these facts, development efforts in the following period should be concentrated on changing the inherited economic structures, aiming to enable companies to produce internationally competitive products.

During the 1990-2001 period there was a decrease in the share of industry and mining in domestic product of Serbia and Vojvodina. Participation of industry in Serbia decreased from 41.9 % in 1990 to 36.5 % in 2001, and in Vojvodina it decreased from 45.2 % in 1990 to 39.9 % in 2001. In the same period there was also decrease in participation of Construction industry, traffic and telecommunications and crafts as well, and increase in the sector of agriculture and trade. Agriculture and fishing sectors nearly doubled their participation in domestic product during 2001 (in Serbia it increased from 10.1 % to 19.7 %, and in Vojvodina from 13.0 % to 23.8 %).

Domestic product as per field of work in %				
	1990		2001	
	Serbia	APV	Serbia	APV
Industry and mining	41.9	45.2	36.5	39.9
Agriculture	10.1	13.0	19.7	23.8
Forestry	0.3	0.2	0.4	0.3
Water management	0.7	1.3	0.6	1.4
Construction industry	7.8	10.5	5.2	6.1
Traffic and Telecommunications	17.1	10.4	8.6	6.8
Trade	13.1	10.1	18.8	14.6
Catering and tourism	1.6	1.0	2.1	1.4
Crafts	3.0	3.9	2.3	2.0
Utilities	0.8	1.5	0.6	0.9
Other production activities	3.6	2.9	5.2	2.8
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Statistical Office of Serbia and Montenegro

All these changes are not the result of certain development trends but rather the result of deep economic crisis that Serbia and Vojvodina faced during 1990s. Therefore, economic crisis usually produce such changes in the sector structure of domestic product formation.

## Industry in Vojvodina

Until the end of 80s, the industrial production in Serbia and AP Vojvodina was increasing and the maximum volume of production was achieved in 1989. Starting from 1990 onwards, there was a trend of the distinct fall of industrial production. Slight increase in industrial production occurred few times (for example in 1997 and in 1998), but tendency of decrease was present until middle 2000.

During that period in every industrial branch the volume of production decreased. The only exceptions were tobacco production and processing (its participation in the overall industrial

production in Vojvodina is insignificant) and beverage production. The latter branch had decrease in production only in 1993, and from then onwards it had constant increase so that already at the end of 90s it reached the level of production from 1990. Such trends of economic changes per industrial branches are typical for the countries facing economic crisis during a longer period of time.

The share of significant industrial branches in %				
	1990		2001	
	Serbia	APV	Serbia	APV
Oil and natural gas production	1.9	6.0	3.5	9.8
Metalworking	8.4	8.1	7.5	5.3
Electrical machinery and appliances production	5.0	2.7	5.1	3.1
Base chemical products	2.3	3.3	3.0	4.1
Chemical products processing	5.4	5.0	8.2	7.6
Construction material production	2.1	3.3	4.8	6.1
Textile production	7.1	7.7	5.1	5.0
Food production	14.0	25.3	16.4	23.8
Beverage production	2.7	3.3	8.2	11.3
Other	51.1	35.1	38.1	24.0
<i>Industry</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Republic Statistical Office of Serbia

**Agro industrial complex** plays the most important role in the domestic product in Vojvodina, so it can be considered the key player in the economy of Vojvodina. High-levelled development of this complex is neither a coincidence nor the product of socialistic planning ambitions, but is rather based on long tradition and natural resources.

Export capacities of this complex are mostly concentrated towards the former Yugoslav republics and other countries in the region of Southeast Europe, as well as the Russian Federation. EU countries represent big potential market for fruit and vegetable export, lamb meat, herbs and other products. Developed countries can be export markets for meat products, high quality cheese, wines with geographic origin and similar.

Two main strategic measures should enable more productive and profitable business dealings in agriculture and the agro industrial complex as a whole. Firstly, future production expansion should be based on land merging and thus having bigger land properties. That would assume ownership transformation of big, socially owned agro industrial plants, but without division of land. Secondly, and more importantly, there is a necessity for restructuring and modernization of capacities in the processing industry, aiming to increase efficiency and profitability of business dealings in a company and reduce production unit costs. Cooperation and contacts with strategic partners from abroad is expected in this process.

**Chemical industry** is to a great extent linked to agriculture, and its introduction as a priority closes the food production cycle. Having in mind that the production is mostly based on import raw materials, current production of fertilizers and plant protection chemicals is very expensive and it does not fulfill the needs of agriculture. Base chemical industry and processing companies produce wide range of products, so it raises the question of its justification.

The most developed part of chemical industry is pharmaceuticals. Its future development potential is estimated on the level of the annual growth rate of around 6.8 %. This industry has got high quality staff and equipment in quite good state and satisfying age (5-15 years old).

Furthermore, this industry is very competitive in terms of prices, it has a stable position at both domestic and foreign market, and has a relatively well organized quality system. Also, it should be pointed out that this industry exports high quality final products and engineering service to several foreign markets (Russian Federation, Romania, Macedonia, Bosnia and Herzegovina, Germany, Canada, Asian and African countries).

Situation in the *energy sector* is very unfavorable both in technological and business, organizational and regulative way. The situation was even worse few years ago, due to not very rational consumption caused by depressed price of electric power, and lack of capital necessary for repair and maintenance. Domestic production of fuel covers only around ¼ of needs, and the rest of it is being imported. Energy facilities pollute the environment. These facilities were the most damaged ones during the bombing. Their organization is huge and therefore need major organizational, ownership and other changes through the restructuring programmes of public companies.

*Textile and leather industry* comprises 8 % of the industrial production in Vojvodina. This industry as a whole, and leather products in particular, used to be very export-oriented and certain companies still are. Development potentials are mostly based on important installed capacities, quite good position in the new international labor division, high-quality manpower, and increasing demand (especially for leather products).

The industry is poised to grow in the context of the EU accession of ten countries from central and eastern Europe. Wage growth in these countries has already or will soon price them out of the textile and garment manufacturing market. Coupled with its geographic advantages, Serbia's low cost highly skilled labor force is well positioned to absorb especially the outward processing business lost by Slovenia, Hungary, the Czech Republic, Slovakia, Poland, Lithuania, Latvia and Estonia.

## **Agriculture in Vojvodina**

Vojvodina is a highly developed agricultural region of Serbia; it is a so-called breadbasket whose potential and production surpass domestic needs. Farmland represents one of the primary forms of this region's natural resources. Furthermore, the size, structure and primary characteristics of the soil represent a predisposition for life and for the scale, structure and quality of production.

With its 21,500 km<sup>2</sup> Vojvodina makes 21.97 % of the territory of The State Union of Serbia and Montenegro. 451 settlements have the population of around 2 million. The territory of Vojvodina is rich with water. It has three big and 20 small rivers, as well as the developed channel network (Danube-Tisa-Danube), which makes Vojvodina one of the richest areas, in terms of water, in Europe. The region of Vojvodina is a leveled region, dominated by the calcareous chernozem soil, suitable for agriculture. It has three micro regions: the mountain of Fruska Gora, the Vršac mountains and the Subotica sands, suitable for viticulture and fruit growing. Moderate continental climate is good for most of the field and vegetable crops as well as fruits and vineyards. The total quantity of precipitation is favorable, unlike its annual schedule (due to the scarce quantities and high temperatures in summer).

Vojvodina accounts for 1.64 million hectares of the arable land, 67.2 % out of which is in the possession of to around 260,000 village estates, while the remaining 32.8 % is the property of

around 180 agricultural enterprises and farming cooperatives. The average size of a village estate is around 4 hectares and only 3 % of the total number of estates is larger than 10 hectares. The agrarian population of around 270,000 people makes around 13 % of the total population in Vojvodina.

Agricultural capacities in Vojvodina						
Capacities	Vojvodina		Village estates		Agricultural enterprises	
	1991-2000	2001	1991-2000	2001	1991-2000	2001
<i>Crop production (000 hectares)</i>						
Arable land	1,641	1,644	1,054	1,104	587	537
Plough land	1,580	1,580	1,021	1,069	559	511
Orchards	17	18	12	13	5	5
Vineyards	12	12	8	8	4	3
<i>Foundation stock (no. of heads in 000)</i>						
Cows and heifers	104	104	81	84	23	20
Hogs	216	182	143	119	73	63
Breeding sheep	160	91	144	81	16	10
Egg laying hens	4,426	4,033	3,918	3,596	508	437

Source: Republic Development Bureau of Serbia

The table below presents data about the most important agricultural capacities in Vojvodina. The basic crop farming products, which dominate, are wheat, maize, and industrial crops, while, vegetables make only 5 % of the arable land.

Harvested areas of the important field crops (000 hectares)						
Crop	Vojvodina		Village estates		Agricultural enterprises	
	1991-2000	2001	1991-2000	2001	1991-2000	2001
Maize	665	634	531	522	134	112
Wheat	356	360	190	208	166	152
Sunflower	156	148	82	89	74	59
Sugar beet	58	-	20	-	38	-
Soybeans	67	81	21	33	46	48

Source: Republic Development Bureau of Serbia

Production and yields of important products					Average prod. and yields of cattle breeding				
Crop	Production (000 tons)		Yield (t/hectare)		Product	Production (000 tons)		Yield (kg/br. head)	
	1991-00	2001	1991-00	2001		1991-00	2001	1991-00	2001
Maize	3,049	3,544	4.5	5.6	Cattle weight gain	42	43	409	413
Wheat	1,428	1,466	4	4.1	Cow milk *	299	294	2.88	2.84
Sunflower	284	293	1.8	2	Hog weight gain	203	186	941	1.02
Sugar beet	2,029	1,719	35	42.7	Sheep weight gain	5	3	30	29
Soybeans	128	194	1.9	2.4	Poultry weight gain	54	46	12	11
Grapes	73	80	6.1	6.9	Eggs (hens) **	498	431	112	107

Source: Republic Development Bureau of Serbia, \* million litres / thousand liters per cow, \*\* million pieces /piece per egg laying hen.

The highest average wheat yield of 5,614 kg per hectare was achieved in 1988 on 371,000 hectares of harvested land, while total achieved production was 2,085,000 tons. Higher absolute production of 2,311,000 tons was achieved in 1991 on 423,000 hectares of harvested land with an average yield of 5,459 kg per hectare. The highest average corn yield was achieved in 1986: 6,991 kg per hectare on approximately 737,000 hectares of harvested land,

while total production was 5,151,000 tons. This is also the maximum absolute production of all time in Vojvodina.

Sugar beet, sunflower and soybean are very important industrial crops that enable the production of sugar, oil, margarine and other products, as well as dry beet noodles and soybean and sunflower meal.

In recent years, the use of mineral fertilizer in Vojvodina decreased to only a quarter of the quantity used in the past. Thus, in 1984, almost 500 kg of mineral fertilizer was used per hectare of arable land while today; this quantity has decreased to around 59 kg on private land or 89 kg in the public sector.

Villages in Vojvodina are, to a great extent, equipped with farm machinery. There is one tractor for every 15 hectares of arable land in Vojvodina and in Serbia for every 11 hectares. Only a few machinery is owned by the public sector. For instance, individual farmers own a great number of combines. The agriculture industry has at its disposal ploughs, trailers, seeding-machines, mineral fertilizer spreaders, mowers, disc harrows, and so on.

Main characteristics of the village estates are as follows:

- natural character of the production,
- lower yields in comparison to agricultural enterprises,
- intensive production (fruits, cattle breeding),
- poor organization into cooperatives and other forms of associations,
- large number of elderly people's estates,
- large number of mixed estates (where a part of income comes from agriculture and another part from other fields of economy).

Basic characteristics of the agricultural enterprises are as follows:

- complex business systems that, apart from the primary production, deal with processing of agricultural products,
- developed logistics infrastructure,
- the number of employees is much larger than it is necessary,
- poor technical equippedness (obsolete machinery),
- unfavorable economic results,
- prevalence of the public property,

The great agricultural potential of Vojvodina represents a foundation for the development of the processing industry, first of all, the food industry, but also the petrochemical industry and, in general, the chemical, metal processing and building material industries.

The food industry is one of the oldest branches of industry in Vojvodina. A high level of development has been achieved in the food industry, both in volume and capacity, because of the presence of a rich raw material base, as well as the fact that considerable resources have been earmarked for the development of processing capacities, that new scientific achievements in this field have been applied and that world achievements in the area of food technology have been studied.

The food industry is oriented towards higher levels of processing, the production of highly valued products, expanding the product line and mastering new products intended for both the domestic market and for exporting. Today, Vojvodina's food industry includes 66 flour mills,

21 vegetable and fruit processing factories, 11 meat packing companies, 18 dairy plants, 11 sugar processing plants, 13 plants for making confectionery products (cocoa products, candy, cookies and industrial pastry), 6 oil processing plants, 3 corn processing plants, 3 plants for processing medicinal herbs and the production of spices, 6 beer factories, 3 malt factories, 50 fodder plants and 5 tobacco processing and production plants.

The existing capacities for the primary processing of the agricultural products in Vojvodina are as follows:

- The total capacity of the grain-milling industry is 1.5 million tonnes of wheat that is around 965,000 tonnes of flour.
- The grain storage capacities amount to 620,000 tonnes, (550,000 tonnes out of which are grain elevators), while the flour storage capacities amount to 58,000 tonnes, 38,000 out of which are silos.
- The total industrial capacity of confectionery amount to around 70,000 tonnes per annum.
- The annual capacity of the sugar beet processing amounts to around 4.2 million tonnes (500,000 tonnes of sugar), and comprises 11 sugar refineries with the daily production varying between 4 and 6.5 thousand tonnes.
- Vojvodina has 6 oil refineries, five out of which refine sunflower while the sixth one specializes in refining soybean.
- The annual capacity of the slaughterhouse industry amounts to around: 440,000 heads of the cattle, 4 million heads of fattened hogs, and 32 millions of broilers.
- Capacities of 15 dairies amount to around 370 million liters.
- The total capacity for fruit and vegetable processing amount to around 40,000 tonnes of warm procedure and 63,000 tonnes of the cold procedures and 7,000 tonnes of the dry procedure.
- Capacities of the wine cellars amount to 73,000 tonnes.
- Capacities of the industrial breweries amount to 4 million hectoliters.

Agro complex in Vojvodina has a range of competitive advantages:

- favorable natural conditions (primarily land) for the primary agricultural production,
- high leveled scientific and technical progress in agriculture,
- tradition in the production and qualified working body, and
- developed capacities for the agricultural products processing.

Potentials for the agricultural production in Vojvodina are very similar (in natural conditions) to those of Hungary. During the period prior to 1991, the yields of important crops were higher than in Hungary. During the 1990s there was a considerable drop agricultural yields in Vojvodina, due to the crisis in the entire country. Although the average yields and average size of estates have increased recently, the yields in Hungary are still higher. However, natural conditions and the average size of estates are still in favor of Vojvodina, meaning that Vojvodina has better chances for the agricultural yield growth. In order to exploit these potentials fully, it is necessary to increase investments in the current production and development. In the Hungarian agriculture, the government interference measures (bounties, recourses, compensations) provided better par of prices, which had a positive effect on its intensity and competitiveness. Based on those and other experiences it would be realistic to promptly increase the intensity of agriculture in Vojvodina.

## Tourism

The tourism industry is also said to be on the upbeat. The natural attractions and cultural monuments of the Province provide good basis for varied and special tourist offers. Two million hectares of hunting grounds, 1,700 kilometers of river and canal banks are available to fishermen. There are mineral and thermal springs, national parks and infrastructure, with hotel facilities that can accommodate 10,000 tourists. Furthermore, modern health and recreation centers have been built around thermal springs at Kanjiža, Prigrevica, Vrdnik and others.

Investment opportunities exist in the privatization of hotels and tourist organizations, green field investment in hotels, developing tourist packages for small groups of tourists with special interests and seeking active holidays, etc. In terms of tourist policy a new Law on Tourism, harmonizing it with the EU regulations will soon be adopted.

## 4.5 Foreign Trade

During the period under the United Nations' sanctions, most of foreign trade activities were focused on visible trade through non-residential and foreign currency accounts, based on barter arrangements and other forms of tie-in sale. This presumed high transport and insurance costs, agents' commission as well as numerous brokers. Significant distortions in export and import flows characterized the regional commodity exchange. The fastest slump in export was realized with the developed, industrial countries, which fully observed sanctions.

Export and import of Vojvodina recorded a downward trend during the period of sanctions of international communities and the intervention of NATO. Export fell by a tempo of 11.2 % per year and import also dropped by 8.5 % per year on average. After October 2000 changes, however, foreign operations have been witnessing renewed dynamic growth. The value of exported goods in 2002 compared with 1999 increased by more than 360.3 million USD, i.e. up 25.3 %, while the value of imports increased by 34.5 %.

Foreign trade activity of Vojvodina in the period of 1990-2003						
Year	Value in thousands USD			Export & import ratio in % export/import	Share in the exchange of Serbia in %	
	export	import	deficit		export	import
1990	1,412	2,308	896	61.2	26.9	39.9
1991	1,090	1,577	487	69.1	24.8	30.7
1992	548	958	410	57.2	23.7	28.5
1996	448	1,074	626	41.7	24.3	29.0
1997	693	1,497	804	46.3	28.1	34.6
1998	835	1,481	646	56.4	31.1	34.0
1999	372	718	346	51.8	27.2	24.9
2000	430	948	518	45.3	27.6	28.5
2001	581	1,458	877	39.8	33.7	34.2
2002	732	1,746	1,014	41.9	35.3	31.1
2003	841	2,111	1,270	39.8	34.0	28.8

Source: Republic Statistical Office of Serbia

In 2002 the overall turnover of foreign trade came to 2,478 million USD, which represents 21.6 % above the value of 2001. In 2003 the turnover increased to 2,925 million USD, which is 19.1 % year-over-year increase. The value of exports in 2002 increased by 26 % to reach

the value of 732 million USD. In 2003 it was by 14.9 % to 841 million USD. Import activity grew in 2002 by 19.8 % and reached the level of 1,746.1 million USD, thereby creating a deficit of 1,013.9 million USD. Year later import grew by 20.8 % to 2,111 million USD, which created deficit of 1,270 million USD, 25.2 % up comparing to year 2002. The overall value of import activities was in the period 1990-1999 but situation is worsening in past last years. The economy of Serbia also finds itself in a similar situation. For this reason, it is important to introduce measures that would increase the export performance or reduce the import demands of the economy.

<b>Export of AP Vojvodina by Country (2003)</b>			
	<b>Export (in thousands)</b>		
	<b>Dinars</b>	<b>USD</b>	<b>Share</b>
Bosnia and Herzegovina	8,684	151	17.9%
Italia	7,203	124	14.8%
Germany	4,561	79	9.4%
Russian Federation	4,283	74	8.8%
FYR Macedonia	3,655	63	7.5%
Hungary	3,261	57	6.7%
Austria	2,108	36	4.3%
Ukraine	1,922	33	4.0%
Slovenia	1,818	32	3.7%
Croatia	1,758	31	3.6%
Greece	815	14	1.7%
Romania	777	13	1.6%
<i>EU-15</i>	<i>17,503</i>	<i>302</i>	<i>36.0%</i>
<b>Total</b>	<b>48,568</b>	<b>841</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia

<b>Import of AP Vojvodina by Country (2003)</b>			
	<b>Import (in thousands)</b>		
	<b>Dinars</b>	<b>USD</b>	<b>Share</b>
Russian Federation	45,602	792	37.6%
Germany	15,100	263	12.4%
Italia	8,619	150	7.1%
Hungary	5,199	90	4.3%
France	3,298	57	2.7%
Croatia	3,274	57	2.7%
Slovenia	3,249	57	2.7%
Austria	2,612	45	2.2%
CN-Kina	2,595	45	2.1%
Bosnia and Herzegovina	2,221	39	1.8%
USA	1,863	32	1.5%
United Kingdom	1,699	29	1.4%
Netherlands	1,573	27	1.3%
Romania	1,529	27	1.3%
Czech Republic	1,501	26	1.2%
<i>EU-15</i>	<i>37,664</i>	<i>655</i>	<i>31.0%</i>
<b>Total</b>	<b>121,419</b>	<b>2,111</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia

The export orientation of the economy of Vojvodina, as observed by the realized export earnings, reflects its share of 28 % in the realized export earnings of Serbia. Almost the entire export earnings of the economy of Vojvodina, i.e. 94.2 % is realized by the industry and

mining, trade and agriculture and fishing, while the industry and mining accounts for 82.5 % of the number.

In the field of industry and mining, only six industrial branches make 67.8 % of the export earnings. Food processing industry accounts for 30.4 %, oil and natural gas production for 10.9 %, chemical products processing for 8.9 %, production of chemical products for 6.7 %, metalworking for 5.8 % and the production of finished textile products for 5.1 %.

<b>Export of AP Vojvodina by Products (2003)</b>			
	<b>Export (in thousands)</b>		
	<b>Dinars</b>	<b>USD</b>	<b>Share</b>
Food and animals	11,818	204	24.3%
Drinks and tobacco	868	15	1.8%
Raw materials except fuel	2,724	47	5.6%
Mineral fuel and lubricants	2,334	41	4.8%
Animal and vegetable oils and grease	798	14	1.6%
Chemical products	9,677	167	19.9%
Products classified according to material	6,912	120	14.2%
Machines and transport vehicles	4,420	77	9.1%
Various ready made products	8,616	149	17.7%
Products and transactions not mentioned	400	7	0.8%
<b>Total</b>	<b>48,568</b>	<b>841</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia

<b>Import of AP Vojvodina by Products (2003)</b>			
	<b>Import (in thousands)</b>		
	<b>Dinars</b>	<b>USD</b>	<b>Share</b>
Food and animals	6,346	110	5.2%
Drinks and tobacco	473	8	0.4%
Raw materials except fuel	3,150	55	2.6%
Mineral fuel and lubricants	47,065	818	38.7%
Animal and vegetable oils and grease	371	6	0.3%
Chemical products	15,599	271	12.8%
Products classified according to material	17,615	306	14.5%
Machines and transport vehicles	23,345	407	19.3%
Various ready made products	7,266	126	6.0%
Products and transactions not mentioned	188	3	0.2%
<b>Total</b>	<b>121,419</b>	<b>2,111</b>	<b>100.0%</b>

Source: Republic Statistical Office of Serbia

Analysis of enterprises – prevailing exporters – from every branch shows the export orientation picture of every industrial branch and the economy of Vojvodina:

- Out of 461 enterprises in the field of food processing, only two branches have the biggest share in the branch export. These are two sugar refineries, namely Bačka with 26,7 % and Crvenka with 16.2 %.
- Out of 430 enterprises in the field of metalworking, only four of them make 66.8 % of the branch export earnings. These are Sever – electrical appliances with 21.8 %, Foundry Kikinda with 18.4 %, Istra with 15.4 % and FKL with 11.2 %;
- Out of 434 enterprises in the field of electrical appliances production, only two enterprises make 64.4 % of the export earnings. These are Novkabel with 35.9 % and Factory for the production of batteries from Sombor with 28.5 %.

- Out of 294 enterprises in the field of chemical products processing, only Hemofarm makes 71.5 % of the export earnings;
- Out of 271 enterprises in the field of finished textile products production, only three enterprises make 50 % of the export earnings. These are Sintelon with 27.1 %, Matex with 16.6 % and Udarnik with 11.3 %.
- Out of 195 enterprises in the field of finished wood products production, only three enterprises make 51% of the export earnings: Macom with 26 %, Jela with 13.4 % and Buducnost with 11.6 %.

## 4.6 Population and Employment

Vojvodina consists of people with a diversity of languages, religions and ethnical backgrounds. There are five major languages: Serbian, Hungarian, Rumanian, Slovak and Ruthenian. The Vojvodina society can indeed be said to be a multi-cultural and multi-national society since other members of numerous nations and nationalities inhabit this territory. Altogether these represent around 26 nations, national minorities and ethnic groups. Living together for centuries enabled people to develop friendly relations.

Vojvodina with multi-ethnic composition of population is considered as one of the most heterogeneous regions in Europe. The number of ethnic groups in Vojvodina is also the highest among regions of the State Union Serbia and Montenegro. However, cultural diversity here is not a problem-drifting attribute.

Vojvodina as the melting pot of a number of cultures has had historically strong social and economic ties to neighboring and other European countries. The inhabitants are proud of the heterogenous structure of their region and this attribute should be considered as an exploitable asset.

### Employed as per Field of Work

The workforce represents one of the most significant factors affecting future economic development. A characteristic sign of Vojvodina in the development of employment is the continual decline in the number of employed persons following 1990. This drop has continued also in 2000, 2001 and 2002. In 2003 the number of employed persons fell by a further 4 %. In 2003 there were a total of 421,000 people employed. Similar trends in falling levels of employment were also seen throughout Serbia.

Based on data from 2001, 24 % of all employed were in non-economic activities, with the remaining 76 % working in the economic sector. Most employed people worked in industry and extraction of minerals (39.4%) and in agriculture (10.5%). From non-economic activities most employees worked in the health service and in social protection (10.1%) and in culture and education (9.2%). Several economic branches stagnated after 2000, which was reflected in a subsequent drop in the number of employees in individual branches. This phenomenon was compliant with the general trend of falling employment in the economy as a whole.

Within these general tendencies, there were few exceptions. There was an increase in the number of employees in the field of health and social protection (in 712 people), in the field

of government bodies, organization of territorial autonomy, local self-government, political organizations and associations (in 144 people) and in the field of crafts (in 337 people).

Employed as per field of work (2001 annual average)				
Field of work	AP Vojvodina	Central Serbia	AP Vojvodina	Central Serbia
<i>Total</i>	404,878	1,150,162	100.0%	100.0%
<i>Economic activities</i>	307,002	852,110	75.8%	74.1%
Industry and mining	159,404	460,967	39.4%	40.1%
Agriculture and fishing	42,626	22,952	10.5%	2.0%
Forestry	1,790	5,437	0.4%	0.5%
Water Industry	1,961	2,126	0.5%	0.2%
Construction industry	18,196	62,468	4.5%	5.4%
Traffic and Communication	24,916	83,122	6.2%	7.2%
Trade	23,303	82,697	5.8%	7.2%
Catering and Tourism	4,890	29,851	1.2%	2.6%
Crafts	5,198	20,742	1.3%	1.8%
Utilities	9,927	36,453	2.5%	3.2%
Financial service	14,806	45,542	3.7%	4.0%
<i>Non-economic activities</i>	97,876	298,052	24.2%	25.9%
Education and Culture	37,241	113,745	9.2%	9.9%
Health and Social Protection	41,028	123,890	10.1%	10.8%
Government bodies, organizations of territorial autonomy, local self-governments, funds and political organizations and associations	19,591	60,156	4.8%	5.2%

Source: Republic Statistical Office of Serbia

## Unemployment

Economic crisis during the past ten years had caused continual increase in unemployment. From 1990 to 2002, the number of unemployed in AP Vojvodina continually increased, so that it changed from 127,962 in 1990 to 275,091 in 2002. Among the employed there is a growing number of those looking for the first job, and this group includes majority of young people, professionals and well-educated people. From 1990 to 2002, this number increased from 54,309 to 156,088.

The high level of unemployment is the result of prevailing instability, which delayed the introduction of market reforms. The inflow of foreign capital, which would help revive business entities, and also implement necessary restructuring of production, halted due to instability. Nevertheless, over employment prevails in many businesses and so the entry of foreign capital could very well lead to a further increase in unemployment for the sakes of effectiveness.

People looking for the first job, in 1990, comprised 42.4 % of the total number of unemployed, and in 2002 there were 56.7 % of them. According to data from 2000, there were 117 unemployed per 1000 inhabitants in Vojvodina. In 2002 the number of unemployed per 1000 inhabitants was 135, which illustrates sudden increase in the growth rate of unemployment.

Unemployed people (annual average)						
Year	Vojvodina		Central Serbia		Share of first job seekers	
	Total	The unemployed looking for the first job	Total	The unemployed looking for the first job	Vojvodina	Central Serbia
1990	127,962	54,309	338,833	261,736	42.4%	77.2%
2000	231,434	135,638	499,886	315,171	58.6%	63.0%
2002	275,091	156,088	629,403	-	56.7%	-

Source: Republic Statistical Office of Serbia, Labour Market Bureau of Serbia

Among the unemployed in Vojvodina, people having working experience have very high participation. For example, in April 2002, unemployed people with working experience comprised 41.4 % of the total number of unemployed, and a year later (April 2003) their participation increased to 44.7 %.

Increase in the number of unemployed was partly caused by the increase in female unemployment. Therefore, between 1990-2002, the number of unemployed women in Vojvodina increased for 70 thousand (from 77,484 to 147,452). In 1990, women comprised 60.5 % of the total number of unemployed. After 1990, female participation in the overall unemployment was more than 50 % all the time.

The unemployed per age (2002)				
Age	AP Vojvodina		Central Serbia	
	Unemployed total	Unemployed in %	Unemployed total	Unemployed in %
Up to 18	5,048	1.8	2,667	0.4
19-25	132,916	23.1	132,916	21.3
26-30	118,596	13.5	118,596	19.0
31-40	166,203	22.9	166,203	26.6
41-50	116,517	17.7	116,517	18.7
Over 50	87,258	21.0	87,258	14.0
Total	274,525	100.0	624,167	100.0

Source: Republic Statistical Office of Serbia, Labour Market Bureau of Serbia

In terms of age, the 19-25 year age group accounts for roughly 23 % of all unemployed in Vojvodina. The 31-40 year old age group also accounted for 23 % of all unemployed. Unemployment among those over 50 years of age represents approximately 21 % of all unemployed.

From this perspective it is clear that the age structure in unemployment is not very favourable. More than 30 % of all unemployed are over 45 years of age and so will probably only find work with great difficulty. As no sharp economic growth is anticipated, which would absorb the whole of this unemployed group, the majority of them will never find work.

The majority of unemployed in central Serbia are in the range of 31 and 40 years old (26.6 %). The age groups 19-25, 26-30, and also 41-50, each make up around 20 % of unemployed. In Serbia the unemployed over 50 years of age account for roughly 14 % of all unemployed.

In terms of the duration of unemployment, more than half of the unemployed in Vojvodina are in the 1-3 year group (56.6 %). A large number have also been unemployed for less than one

year (29.3 %). A fairly large group of unemployed have been out of work for more than 10 years however (11.9 %). These now have very little chance of ever finding work.

High unemployment rate is the consequence of three facts. The first one, delay of around 10-12 years in the process of market and ownership transformation in the economy of Serbia and Vojvodina. During that period the economy in the country faced strong process of disinvestment. Nowadays, restructuring and privatization of numerous companies is hampered, since they are indebted and their production programs are welcome neither on domestic markets nor on foreign markets. Today, when our companies are restructured and privatized it implies much higher rate of redundancy than the one, which would be if the companies had been privatized 12 years ago. Second, even before 1990 or 1988, companies in Serbia and Vojvodina had surplus of staff, especially administrative staff. That is why a big number of companies had losses in business dealings. If there was an attempt for financial rehabilitation of companies at that time, it would assume discharge of the redundant staff. Third, economic policy in Serbia in the past 2-3 years has not clearly stimulated SMEs development, which could absorb not small portion of present unemployment.

## Education level of the unemployed

The structure of unemployment in terms of the attained level of education does not show any major differences between Vojvodina and Serbia. The smallest group of unemployed can be found among inhabitants with the highest level of education and conversely the largest number of unemployed can be found in groups with a lower level of education. Unqualified workers make up approximately 36.3 % of all unemployed in Vojvodina, while in Serbia this figure is 31.4 %.

Unemployed people as per level of education (2002)											
	Level of education										
	Total	I	II	III	IV	V	VI-1	VI-2	VII-1	VII-2	VIII
AP Vojvodina	275,091	99,917	18,164	72,272	68,770	2,889	6,714	81	6,177	96	11
	100.0%	36.3%	6.6%	26.3%	25.0%	1.1%	2.4%	0.03%	2.2%	0.03%	0.004%
Central Serbia	629,441	197,969	31,476	166,036	183,405	7,598	20,236	324	21,948	425	24
	100.0%	31.5%	5.0%	26.4%	29.1%	1.2%	3.2%	0.05%	3.5%	0.07%	0.004%

Source: Labour Market Bureau of Serbia. There are 8 levels of education: I - unqualified; II – semi-qualified and lower level of education; III - qualified; IV – qualified and secondary level of education; V – high-qualified; VI-1 higher education; VI-2 higher education first level of faculty; VII-1 university degree; VII-2 university degree and post-graduate studies accomplished; VIII – University degree, PhD.

## 4.7 Transportation in Vojvodina

From the aspect of the traffic within Vojvodina, the traffic between large regional centers is very intensive, especially on the Novi Sad – Belgrade – Pančevo route.

Apart from the intensive transit transport, these three large urban and economic centers, situated not so far from each other (Novi Sad - Belgrade 88 km, Pančevo - Belgrade 21 km), generate and attract rather heavy traffic and set high demands regarding the capacity and standard of services on the arteries. The present level of transport services will be improved with the construction of an additional carriageway on the section of the Novi Sad – Belgrade highway, which is currently under construction.

## Road network

On the territory of AP Vojvodina, the length of the motorway network is 1,523.21 km, and the length of the regional road network is 1,673.93 km. On the whole territory of Serbia, the total length of the motorways is 5,385.93 km, whereas the total length of regional roads is 10,537.20 km.

Total 327 road routes are defined within the system for the motorway and regional passenger network of the Republic of Serbia with the provinces. 212 of them are in the Central Serbia, 56 in the AP Vojvodina and 59 in Kosovo and Metohija. In Vojvodina there are 11 motorways and 45 regional roads.

The Region is characterized by very strong flows towards Novi Sad and Belgrade, as well as towards the regional centers, particularly those on the major international corridors.

Due to the introduction of new borders between ex FRY republics, especially with Croatia, which is very limitedly passable, the traffic on the east-west route has considerably been reduced. Thus, for example, on the section of Belgrade – Zagreb highway, near the border, the traffic today is practically negligible as compared to the situation before 1992 when the average annual daily traffic was more than 12,000 vehicles a day. A slight improvement has recently been noticed, but it is evident that regaining preceding situation will take a few more years.

The length of the road measured from the center to center (km)										
	Novi Sad	Subotica	Sombor	Kikinda	Zrenjanin	Sremska Mitrovica	Pančevo	Vršac	Airport Belgrade	Belgrade
Novi Sad	-	112	94	99	47	57	106	139	90	88
Subotica	112	-	58	109	152	169	197	240	184	182
Sombor	94	58	-	155	153	151	197	240	180	178
Kikinda	99	109	155	-	52	156	126	144	145	127
Zrenjanin	47	152	153	52	-	104	74	92	93	75
Sremska Mitrovica	57	169	151	156	104	-	96	155	64	75
Pančevo	106	197	197	126	74	96	-	65	39	21
Vršac	139	240	240	144	92	155	65	-	104	87
Airport Belgrade	90	184	180	145	93	64	33	104	-	18
Belgrade	88	182	178	127	75	75	39	87	18	-

### Traveling time from the center to center (passenger vehicle - minutes)

	Novi Sad	Subotica	Sombor	Kikinda	Zrenjanin	Sremska Mitrovica	Pančevo	Vršac	Airport Belgrade	Belgrade
Novi Sad	-	75	70	74	35	49	83	119	68	66
Subotica	75	-	44	93	114	134	162	180	143	141
Sombor	70	44	-	116	115	119	169	187	143	141
Kikinda	74	93	116	-	39	123	93	108	109	95
Zrenjanin	35	114	115	39	-	84	56	69	78	62
Sremska Mitrovica	49	134	119	123	84	-	71	120	43	50
Pančevo	83	162	169	93	56	71	-	49	39	21
Vršac	119	180	187	108	69	120	49	-	88	70
Airport Belgrade	68	143	143	109	78	43	39	88	-	18
Belgrade	66	141	141	95	62	50	21	70	18	-

**Distance of the specific centers from the major border crossings (km)**

	Bački Breg - Baja (37 km)	Kelebija - Tompa (6 km)	Horgoš - Szeged (17 km)	Srpska Crnja - Timisoar (48 km)	Vatin - Timisoar (81 km)	Sremska Rača - Bijeljina (23 km)	Batrovci - Zagreb (280 km)	Bačka Palanka - Ilok (1km)	Bogojevo - Osijek (34 km)	Bezdán - Beli manastir (28 km)
Novi Sad	123	123	115	103	153	95	97	40	95	121
Subotica	87	11	30	144	254	207	209	152	95	85
Sombor	29	69	88	190	254	189	-	74	37	27
Kikinda	184	120	83	35	158	194	196	126	119	182
Zrenjanin	182	163	162	56	106	142	144	87	142	180
Sremska Mitrovica	180	180	172	160	169	38	46	97	152	178
Pančevo	226	208	217	130	79	134	133	149	204	224
Vršac	269	251	254	148	14	193	199	215	234	267
Airport Belgrade	209	195	194	149	118	102	94	130	185	207
Belgrade	207	193	196	131	101	110	112	128	183	205

**Traveling time from the specific centers to the major border crossings (min.)**

	Bački Breg - Baja (37 km)	Kelebija - Tompa (6 km)	Horgoš - Szeged (17 km)	Srpska Crnja - Timisoar (48 km)	Vatin - Timisoar (81 km)	Sremska Rača - Bijeljina (23 km)	Batrovci - Zagreb (280 km)	Bačka Palanka - Ilok (1km)	Bogojevo - Osijek (34 km)	Bezdán - Beli manastir (28 km)
Novi Sad	95	86	77	95	131	86	75	34	71	93
Subotica	69	11	22	144	192	198	150	184	72	67
Sombor	25	55	66	180	199	180	-	63	28	23
Kikinda	141	104	71	35	120	185	149	108	102	139
Zrenjanin	140	125	108	48	81	143	110	75	106	138
Sremska Mitrovica	144	144	126	152	132	29	31	83	120	142
Pančevo	194	173	168	112	61	125	96	128	182	192
Vršac	212	191	217	140	12	184	145	184	190	210
Airport Belgrade	168	154	149	141	100	93	63	111	162	166
Belgrade	166	152	147	123	82	101	75	110	161	164

## **Congestions**

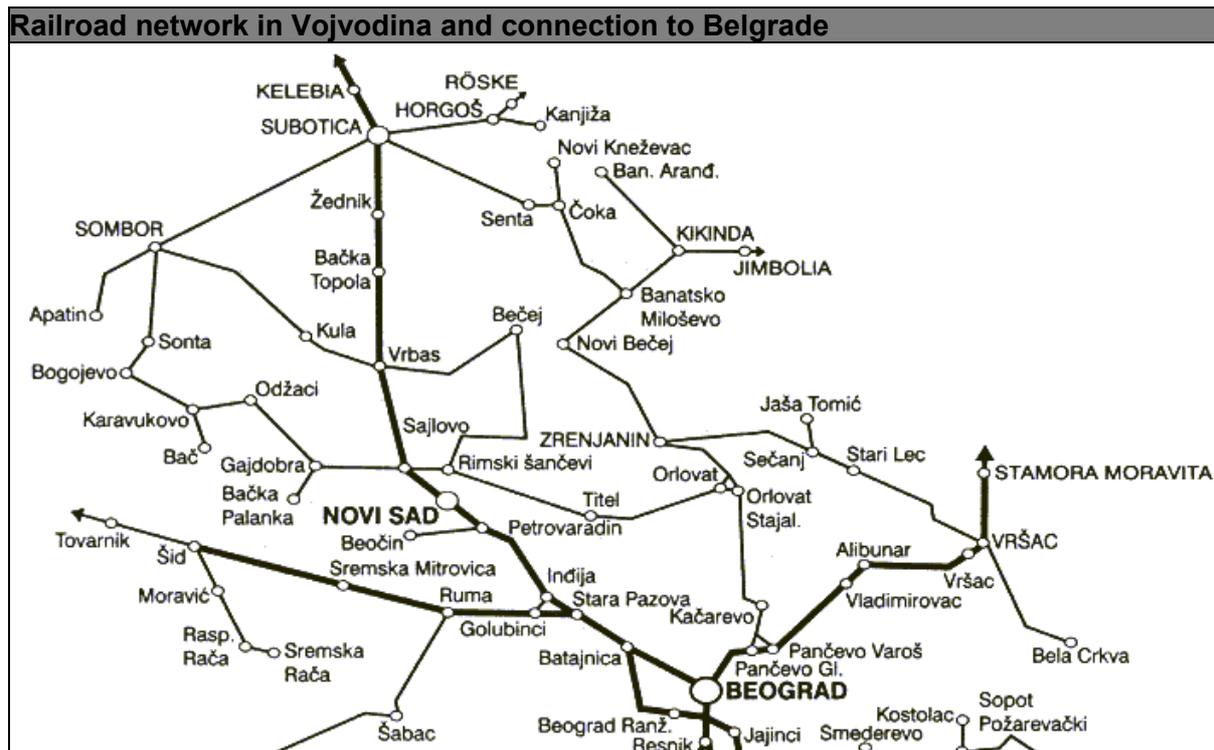
Traffic congestions usually occur on the roads entering large cities and on the border crossings. Also, the bridge across the Danube, connecting Belgrade and Pančevo, is of the insufficient capacity, so there is traffic congestion almost every day. The iron construction of the bridge is in bad condition, and serious repairs are needed.

Traffic congestions on the roads between regional centers happen rarely and are the consequence of accidental situations: serious traffic accidents, ice and snow. The traffic congestions caused by heavy traffic are very rare and occur only during the tourist seasons.

A specific problem appeared in Novi Sad after the demolition of three bridges across the Danube during the NATO bombardment in 1999. The problem was partly solved when the two temporary bridges (pontoon and railway) and one permanent (the Varadin bridge) were built. The latter bridge connects Novi Sad with Petrovaradin, but according to its position and capacity (2 carriageways) it mainly has a role of a city bridge. The “Sloboda” bridge, which has a highway profile (2+2), is planned to be reconstructed until the end of 2004. Then, the situation will significantly improve. However, one more task remains - finding the permanent solution for the railway bridge.

## **Railroad network**

According to the general data used for making the Spatial Plan of the Republic of Serbia (1996), the allowed speed limits on the sections of railway through Serbia show its extremely low quality; only 7 % of the railways are capable for 100 to 120 km/h. If a speed limit of 80 km/h had been specified as a relatively acceptable low limit, in the time of writing of the Plan, then 3/5 of the railway network of Serbia would have not fulfilled this condition. It is certain that the present condition is even worse, since, in the last 10 years, there were practically no investments made in overhauling and maintenance of the upper mechanisms. Furthermore, the problems in the organization and management of the railway traffic are rising.



**Traveling time by rail from center to center and to Belgrade (direct connections - minutes):**

	Novi Sad	Subotica	Sombor	Kikinda	Zrenjanin	Sremska Mitrovica	Pančevo	Vršac	Airport Belgrade	Belgrade
Novi Sad	-	112	120	n	n	n	n	n	n	91-127
Subotica	112	-	60	147	n	n	n	n	n	185-220
Sombor	120	60	-	n	n	n	n	n	n	n
Kikinda	n	147	n	-	116	n	250	n	n	n
Zrenjanin	n	n	n	116	-	n	117	143	n	n
Sremska Mitrovica	n	n	n	n	n	-	n	n	n	130
Pančevo	n	n	n	250	117	n	-	84	n	38-42
Vršac	n	n	n	n	143	n	84	-	n	130
Airport Belgrade			n	n	n	n	n	n	-	
Belgrade	91-127	185-200	n	n	n	96-130	38-42	130	n	-

Note: n - according to the regular timetable, there is no direct rail connection.

Most of the railways in Vojvodina are more than 100 years old. They are mainly single-tracked, with the technical elements from the 19<sup>th</sup> century, technologically outdated equipment and by rule, insufficient maintenance. The consequences are: irregularity of railway traffic, slowness, low level of service and the safety is on the very low level of tolerance.

The problem with the railway, similarly to the problem with the roads, is not in the network density but in its very bad condition. It is necessary to revitalize and modernize the whole system in order to increase safety, efficiency and economy. The trains are, nowadays, extremely slow, which is the reason why potential railway users choose other means of transport. Besides all this, it is necessary to solve the problem of the railway bridge in Novi

Sad (temporary construction is currently being used), as well as the Pančevo bridge across the Danube.

Another issue is the regional railway network and its traffic. In these modern conditions, it is necessary to carefully consider the profitability of certain sections and the best way for their exploitation. The experience leads us to an important perspective of easier, regional railway systems. And, in future, the attitude towards problems should be more flexible than it has been so far. Thus, potential corridors for a regional railway, such as itinerary Pančevo-Belgrade-Airport-Novi Sad, should be taken into consideration.

## Belgrade airport

The Belgrade airport is located west from the Capital and has good connections towards Vojvodina. It is categorized as the modern airport of the 2<sup>nd</sup> category. For now, the airport capacities meet all the needs, but the plan is to introduce the 3<sup>rd</sup> category and provide an additional alternative airport for safety reasons.

The scope of traffic on the Belgrade airport				
Year	Operation*	Passengers	Cargo (tons)	Mail (tons)
1987	48,602	3,404,665	32,074	1,169
1994	7,606	357,434	585	18
2001	24,342	1,497,519	7,144	849

Source: Belgrade Airport, \* the number of operations (planes which landed and took off)

Compared to the Vojvodina region, the Belgrade airport's location meets most of the needs. Improvement of connections with the airport will be achieved when the highway E-75 is finished, especially the Batajnica - Dobanovci section.

## 4.8 Education in Multiethnic Vojvodina

In case there were more than 15 applicants for the enrollment in primary school where the lectures would be in language of their minority, they would exercise the right. However, there is a possibility for the school to organize such classes for less than 15 pupils. For those pupils – members of ethnic minorities, who chose to attend classes in Serbian language, an opportunity for learning their native language accompanied with the elements of their national culture would be provided. It would of course be optional, two lessons per week, if pupils, that is their parents show interest in doing so.

There are no peculiarities or specific problems in classes held in minority languages. Basic problem of the education system in Serbia and Vojvodina is difficult financial situation, which is mostly reflected in the lack of teaching staff, badly equipped schools and other educational institutions lack of teaching-didactic material etc. However, these problems are characteristic for the whole country and therefore characterize schools and lessons in all languages.

National and ethnic groups (Census 2002, Republic Statistical Office of Serbia)

Republic of Serbia		
	all	%
Serbs	6,212,838	82.86
Hungarians	293,299	3.91
Bosniaks	136,087	1.82
Romanies	108,193	1.44
Yugoslavs	80,721	1.08
Croats	70,602	0.94
Montenegrins	69,049	0.92
Albanians	61,647	0.82
Slovaks	59,021	0.79
Vlachs	40,054	0.53
Romanians	34,576	0.46
Macedonians	25,847	0.35
Bulgarians	20,497	0.27
Bunjevac	20,012	0.27
Other	265,558	3.54
<b>Total</b>	<b>7,498,001</b>	<b>100.00</b>

Source: Republic Statistical Office of Serbia

Autonomous province of Vojvodina		
	all	%
Serbs	1,321,807	65.05
Hungarians	290,207	14.28
Slovaks	56,637	2.79
Croats	56,546	2.78
Yugoslavs	49,881	2.45
Montenegrins	35,513	1.75
Romanians	30,419	1.50
Romanies	29,057	1.43
Unknown	23,774	1.17
Bunjevac	19,766	0.97
Ruthenians	15,626	0.77
Macedonians	11,785	0.58
Ukraines	4,635	0.23
Moslems	3,634	0.18
Other	82,705	4.07
<b>Total</b>	<b>2,031,992</b>	<b>100.00</b>

Total number of female population is 1,047,050 whilst of male is 984,942. The group of children (when taking in account ages 0-15) accounts for 16 % and young productive persons (15-34) for 27 %.

Population by gender and age groups in Vojvodina (Census 2002, Republic Statistical Office of Serbia)				
	all	%	males	females
0-4	92,575	4.56	47,530	45,045
5-9	107,834	5.31	55,422	52,412
10-14	121,796	5.99	62,380	59,416
15-19	137,777	6.78	70,365	67,412
20-24	142,441	7.01	73,086	69,355
25-29	135,954	6.69	69,081	66,873
30-34	129,279	6.36	65,115	64,164
35-39	138,234	6.80	68,948	69,286
40-44	150,096	7.39	74,885	75,211
45-49	169,595	8.35	85,300	84,295
50-54	154,489	7.60	76,627	77,862
55-59	107,654	5.30	51,007	56,647
60-64	120,512	5.93	55,175	65,337
65-69	119,249	5.87	52,720	66,529
70 and over	195,936	9.64	73,244	122,692
Unknown	8,571	0.42	4,057	4,514
<b>Total</b>	<b>2,031,992</b>	<b>100.00</b>	<b>984,942</b>	<b>1,047,050</b>

Source: Republic Statistical Office of Serbia

There is a broad network of pre-school institutions, elementary and secondary schools, high schools and faculties in Vojvodina. In addition to elementary education system in Serbian language, the members of minority communities have the opportunity to be educated in their mother tongues. Out of the total of 342 elementary schools with 196 department schools, 118 offer education in Hungarian, 19 in Slovak, 32 in Rumanian and 3 in Ruthenian. There are 113 secondary schools, 29 of them offer education in Hungarian, 2 in Slovak, 2 in Rumanian and 1 in Ruthenian language.

The University of Novi Sad includes 13 faculties, amongst which, Teacher Training, Faculty of Philosophy, Economics and Civil Engineering. Such courses are also offered in minority languages.

Vojvodina, where about 20 national minorities constitute some 35 per cent of the population, has a long tradition of peaceful coexistence. However, the repercussions of the dissolution of former Yugoslavia, culminating in violent conflict, have been greatly felt in Vojvodina. The social fabric of the province has been altered due to outflows of the local population and inflows of refugees and displaced persons throughout the 1990s. These processes have had an impact on the education system, which has often been unable to respond to the challenges of integrating refugee and displaced children. However, since Vojvodina has a long tradition and significant heritage enriched by various peoples of this region, the equal right to receive education brought about a radical decrease in cultural differences, and the equal status granted to all cultures enhanced their greater openness and mutual enrichment.

In Vojvodina, the law allows for education in minority languages, with the curriculum incorporating elements of minority culture. Eight-year primary education is mandatory. In addition to the majority Serbian-language schools, Croatian, Hungarian, Slovak, Romanian and Ruthenian minority primary schools exist. Elective classes in Roma and Ukrainian language and culture are also offered. There are 100 primary schools with mixed-language education. Secondary education is provided in Hungarian, Slovak, Romanian and Ruthenian languages in separate minority schools. Tertiary education is offered at 13 faculties in Vojvodina. While there are no minority language universities, there are departments within mainstream universities in which teaching is provided in minority languages, mostly Hungarian. Additionally, Hungarian-language colleges exist alongside the majority-language ones.

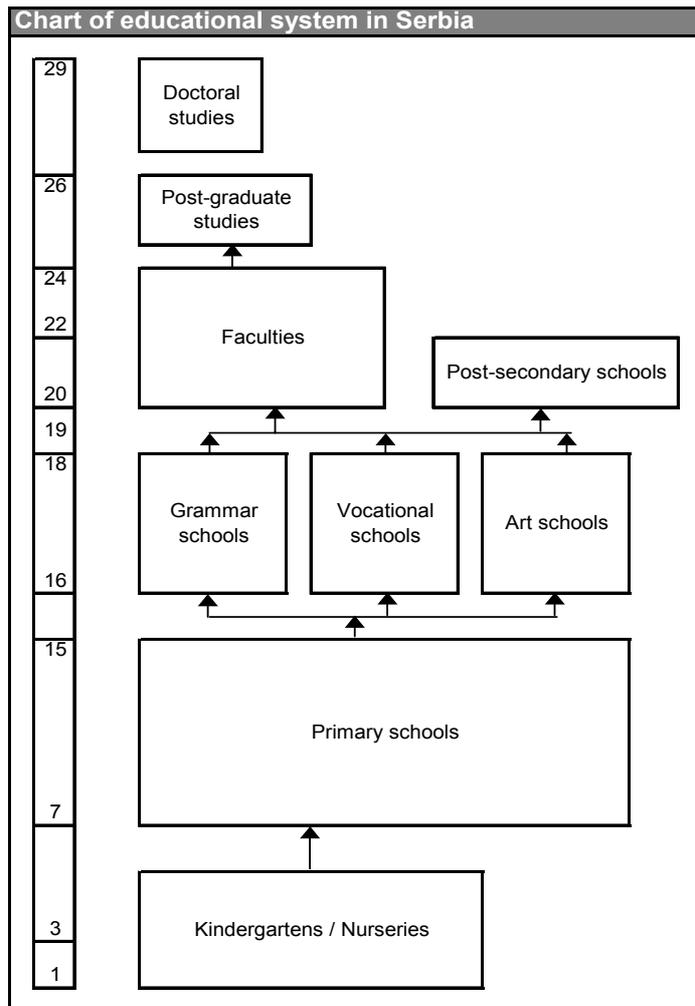
The development of the Federal Republic of Yugoslavia, in particular economic, technological, scientific and other reforms, requires further adjustment of education to social needs and the elaboration of educational policy guidelines. Taking into consideration the constitutional orientation according to which the Republics shall regulate and provide aims and guidelines for development of the economy, science and technology, as well as the conditions for realization of rights of the citizens and general interests in the field of education, the development of education is an integral part of the total development of each Republic.

In October 2000, the new government of the Republic of Serbia identified education as a priority area in the reform process. At the beginning of 2001, the new Ministry of Education and Sports was established by combining structures from the Ministries of Education, Higher Education and Sports. Its first and most important task was to develop the reform agenda for the highly centralized, and stagnating education system. The main goal of the education reform is to reorganize the schooling system so that it can substantially contribute to the economic revival, democratic development, and future European integration of the country. This is to be achieved through: (i) the decentralization of the education system; (ii) the democratization of the system, by means of stakeholders' involvement and the introduction of civic education in the curriculum and school activities; (iii) the improvement of the quality of education at all levels, by introducing quality assurance systems, quality teacher education and state-of-the-art curricula; (iv) the establishment of a seamless co-ordination between education and the economic sector; and (v) the improvement of the infrastructure.

The overall reform process has taken place in three partly overlapping "waves". The first wave focused on decentralization and democratization, the professional development of teachers, quality assurance, education for democratic citizenship, reform of secondary vocational education and higher education. September 2002 announced the end of the first wave and the beginning of the second. In the second wave, started in September 2002, concepts and issues concerning the principles and goals of education, the structure and implementation of the curriculum, and the organization of the education system were developed and elaborated. In the third wave, reform moves commenced. These included the development of strategies for the education of minorities (Roma), and children with special needs; it also included the development of strategies for evaluation and accreditation in higher education.

In February 2003, the national curriculum framework was publicly presented, and was endorsed by the Government a few months later. In June 2003, the Government adopted the New Education Act. In September 2003, curriculum reform started in the first grades of elementary schools. In the same year, the Government established the Center for the Professional Development of the Education Staff, the National Standards and Evaluation Center, and the Center for Vocational Education and Training and Adult Education were established. The National Standards and Evaluation Center is in charge of the following: (i) setting standards for educational outcomes, school quality and teachers' self-evaluation; (ii) establishing a national examination system, including final exams; (iii) offering support to standard-based classroom assessment, and to regions, local communities, schools and teachers in evaluation and self-evaluation activities.

The basic education development guidelines up to 2000 have been explained in a special program (The conception of education development in the Republic up to 2000) as well as the characteristics of the most important elements of the education system, priorities of changes and measures and activities, which should enable the realization of social policy in this field. Further development of the education system is based on its cause-and-effect connection with the complete cultural, economic and political development of the country. In spite of all that, the significance of education in demographic, environmental, economic and cultural development has been taken into consideration. This is particularly important in primary education in order to mitigate the factors of demographic depopulation, especially in rural and underdeveloped areas. The increase in quality and rationalization of education at all levels, the greatest success and efficiency of the education system, greater engagement of assets allocated (appropriated) by the users themselves in the process of education are the requirements imposed by the further education development program.



## The University of Novi Sad

### University of Novi Sad

The University of Novi Sad was founded on 28<sup>th</sup> June 1960. During the last 44 years, it has grown into a significant academic centre of science and higher education. The University is nowadays a fully developed system of science and education with more than 30,000 students and a teaching staff of over 3,000 professors and assistants. It is comprised of 13 faculties offering undergraduate and postgraduate studies. Its seat and nine of its faculties are in Novi Sad. The remaining four faculties are on the territory of Vojvodina, outside Novi Sad, namely in Subotica, Zrenjanin, and Sombor.

From its founding onwards, the University undergraduate program has been completed by 54,000 students, while 3,500 students have finished specialist studies, about 3,000 students have attained masters degrees and about 2,000 students have been awarded with the academic title of PhD. There are over 2,970 professors and assistants at the University of Novi Sad.

The 13 faculties of the University together with the respective libraries are:

- The Faculty of Humanities and Social Sciences, and its library, which is also divided into library classrooms, central reading-room and central library which is the second largest in Vojvodina (after the Matica srpska Library);

- The Faculty of Agriculture, and its library which incorporates a Central library and a few libraries for professional literature having around 41,000 books, as well as 13,000 domestic and foreign professional journals;
- The Faculty of Law, and its library, which holds 66,368 books, 1,611 periodicals with around 151,000 issues and 2,050 master's theses and doctoral dissertations;
- The Faculty of Technology, and its library, which is the biggest one in the field of technical and technological sciences in Vojvodina;
- The Faculty of Economics, and its library in Subotica;
- The Faculty of Engineering, and its library;
- The Faculty of Medicine, and its library, which has a Central library which is the coordinating centre within the specialised system of biomedical, scientific information of the Republic of Serbia for the territory of Vojvodina, with 371,230 library branches as well as 52 reference libraries;
- The Faculty of Natural Sciences, and its library, which comprises four libraries of professional literature, with a large number of books and journals;
- The Academy of Arts, and its library;
- The Faculty of Sport Science, and its library, which holds around 10,000 books and journals;
- The Faculty of Civil Engineering, and its library;
- The "Mihajlo Pupin" Faculty of Engineering, and its library in Zrenjanin; and
- The Teaching Faculty, and its library in Sombor.

Furthermore, the University also hosts various centres, namely:

- University Centre for Environmental Engineering;
- University Centre for Medical Physics;
- University Centre for Meteorology and Environmental Modelling;
- University Centre for Sports Management;
- University Centre for Techniques and Management in Applied Arts;
- University Centre for Gender Studies;
- University Centre for Advanced European Studies and Research; and
- University Centre for Management in Education.

The best students receive university scholarships. There is also an institution for giving loans to students.

Students are also enabled to attend foreign language courses, take exams and receive appropriate certificates. International students can learn Serbian language within special summer courses as well as within courses stretching over both semesters.

The University Campus is situated within walking distance of the city centre and it comprises eight faculties of the University of Novi Sad (Humanities and Social Sciences, Agriculture, Technology, Law, Economics, Engineering, Natural Sciences, Physical Science), two Student Dormitories, two Student Restaurants, an Apartment Hotel for temporary accommodation of young teaching and research assistants, the Student Health Centre and sports fields.

As regards life on campus, students can also enroll and become members of various student organizations, including IAESTE (The International Association for the Exchange students for Technical Experience), AIESEC (The Association of Students of Science, Economics and Commerce), and ELSA (The European Law Students Association). Such international

organizations work within the framework of the Centre for International Cooperation and Student Exchange of the University.

# Abbreviations

APV	Autonomous Province of Vojvodina
ATP	Autonomous Trade Preferences
BiH	Bosnia and Herzegovina
CEC	Central European Countries
CEFTA	Central European Free Trade Agreement
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investments
FRY	Former Republic of Yugoslavia
FRYOM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMF	International Monetary Fund
LFS	Labour Force Survey (of ILO)
NATO	North Atlantic Treaty Organisation
NBS	National Bank of Serbia
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PPP	Purchasing Power Parity
SCG	Serbia and Montenegro (Srbija i Crna Gora)
SEC	Securities Exchange Commission
SEEC	Southeast European Countries
SMEs	Small and Medium-sized Enterprises
TEM	Trans-European North-South Motorway Project
TER	Trans-European Railway Project
UN	United Nations
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
VAT	Value Added Tax
wiiw	Vienna Institute for International Economic Studies
WTO	World Trade Organization

# Used Sources

- 1 Bulgaria Economic Forum
- 2 Deutsche Gessellschaft für Technische Zusammenarbeit GmbH
- 3 DSI Data Service & Information (International Statistical Yearbook)
- 4 Economist Intelligence Unit
- 5 European Bank for Reconstruction and Development
- 6 European Commission
- 7 European Investment Bank
- 8 Executive Council of the Autonomous Province of Vojvodina
- 9 Federal Ministry of Foreign Economic Affairs, Serbia and Montenegro
- 10 Foreign Investors Council, Belgrade, Serbia and Montenegro
- 11 Government of the Republic of Serbia
- 12 International Labour Organization
- 13 Jefferson Institute
- 14 Labour Market Bureau, Republic of Serbia
- 15 Ministry of Economy and Privatization. Republic of Serbia
- 16 Ministry of Finance, Republic of Serbia
- 17 Ministry of International Economic Relations, Republic of Serbia
- 18 Multilateral Investment Guarantee Agency
- 19 National Bank of Serbia
- 20 Organisation for Economic Co-operation and Development
- 21 Privatization Agency, Republic of Serbia
- 22 Republic Agency for the Development of Small Medium-sized Enterprises and Entrepreneurship, Republic of Serbia
- 23 Republic Development Bureau, Republic of Serbia
- 24 Republic Statistical Office, Republic of Serbia
- 25 Serbian Investment and Export Promotion Agency
- 26 Statistical Office of Serbia and Montenegro
- 27 United Nations Development Programme
- 28 United Nations Economic Commission for Europe
- 29 United States Agency for International Development
- 30 Vienna Institute for International Economic Studies
- 31 World Bank
- 32 World Trade Organization