

CAPTURE OPPORTUNITIES IN SERBIA

BUSINESS SWEDEN

December 2017
Vienna



SERBIA'S LOCATION, SKILLED LABOUR FORCE & LOW OPERATING COSTS MAKES IT AN ATTRACTIVE MARKET

EXECUTIVE SUMMARY

- ▶ Serbia has a pivotal role in the regional CEE economy.
 - ▶ Important infrastructural projects include trade routes and gas pipelines cross Serbian territory.
- ▶ Serbia imports goods and services to a value of BN17€
 - ▶ That equals 54% of GDP, which is above global average. Main import goods are petroleum, electrical components, machinery and pharmaceuticals.
- ▶ Manufacturing, mining, energy, and the public sector are important industries in Serbia.
- ▶ Serbia has done significant improvements in making the country more investor friendly, and was in 2017 placed number 47 in World Bank's ease of doing business index
- ▶ Business Sweden has identified the following business areas particularly interesting for Swedish companies;
 - ▶ Technology to increase sustainability, safety and productivity in the mining industry
 - ▶ The roll-out of smart meters in the energy sector
 - ▶ Solutions that facilitate cost efficiency and increase quality in the healthcare system

BUSINESS SWEDEN IN SERBIA

Serbia is the point where east meets west. The country has free trade agreements with both EU & Russia, which has made it a hub for companies interested in Eastern Europe.

Due to it's strategic location, skilled labour force and competitive operating cost, Serbia has become increasingly attractive to foreign businesses. Since 2000, Serbia has attracted over €24 bn in FDI and been one of the most successful countries in attracting large job-intensive sourcing-projects.

Business Sweden in Vienna supports Swedish companies in Serbia and its neighbouring countries. We can help companies seeking to establish presence in Serbia with services such as business creation, business development support, stakeholder management, negotiation of investment incentives and recruitment.

Welcome to Serbia!

Hampus Nilzén
Country Manager





SERBIA HAS NATURAL POLITICAL, ECONOMICAL AND CULTURAL TIES TO THE EU, RUSSIA AND THE BALKANS

- ▶ Centrally located on the Balkans, Serbia borders Bosnia and Herzegovina, Bulgaria, Macedonia, Croatia, Hungary, Kosovo, Montenegro and Romania
- ▶ Serbia has free trade agreements with:
 - ▶ EU (and EFTA). Serbia is currently in negotiations with the European Union about a future membership
 - ▶ Russia (CIS countries). Serbia and Russia share cultural heritage in terms of the orthodox Christianity and Slavic ethnicity. The economical ties are also strong; Russia is Serbia's most important trade partner and the interdependency has been intensified in recent years by Russian investments in Serbia
 - ▶ CEFTA (incl. Albania, Macedonia, Moldova etc.). Serbia was the biggest constituent republic in former Yugoslavia and remains influential in the region.
- ▶ The capital Belgrade is the second largest urban area of the Balkan Peninsula, only beaten by Athens



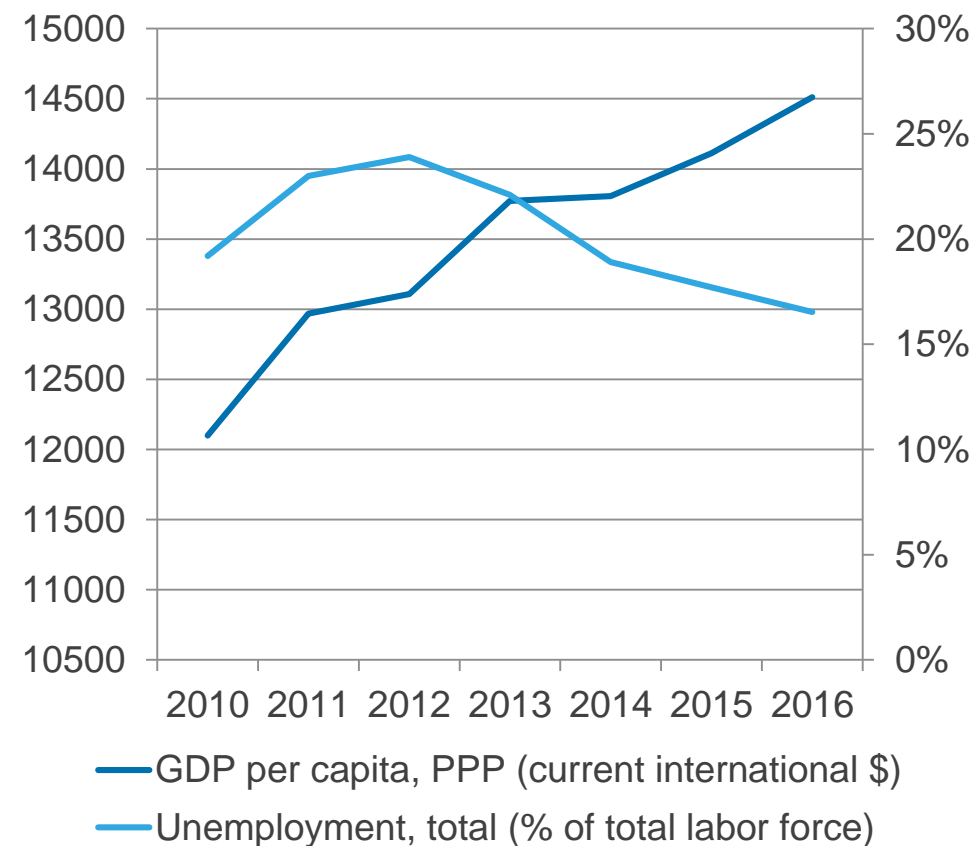
SERBIA'S CULTURAL INFLUENCE & CENTRAL LOCATION MAKE IT A STEPPING STONE TO THE BALKANS

SERBIA'S ECONOMY IS EMERGING FROM A PERIOD OF STRUCTURAL CHANGES

SERBIA IN BRIEF

- ▶ **Inhabitants:** 7.1 million (2016)
- ▶ **GDP growth:** 2.7% (2016)
- ▶ **Capital:** Belgrade (M1.2 in 2015)
- ▶ **Government:** PM Aleksandar Vučić (SPP)
- ▶ **Constitution:** Republic
- ▶ **Language:** Serbian
- ▶ **Currency:** Serbian Dinar (RSD)
- ▶ **Area:** 77 474 km²
- ▶ **Population centers:** Belgrade, Novi Sad, Niš and Kragujevac
- ▶ **Average gross monthly wages:** 516 EUR (2016)
- ▶ **FDI (net inflow, MEUR):** 2080 (2016)

GDP AND UNEMPLOYMENT DEVELOPMENT 2010-2015



AFTER RECESSION IN 2014, SERBIA'S ECONOMY IS SHOWING POSITIVE GROWTH



INCREASED STABILITY & REGULATIONS CONTRIBUTE TO AN IMPROVED BUSINESS CONTEXT

STRENGTH

- ▶ Relatively low corporate tax rate attracts foreign companies
- ▶ Highly skilled work force; 33% of university graduates come from technical schools
- ▶ Low average wages compared to the region and relatively high unemployment rate (17% in 2016) make Serbia attractive for production

WEAKNESS

- ▶ Corruption remain a challenge, with Serbia being one of Europe's least transparent countries according Transparency international
- ▶ Although Serbia has done significant improvements in ease of doing business, administrative processes can still be considered bureaucratic and contract enforcement a challenge

OPPORTUNITY

- ▶ The emergence of a new middle class spur demand, education and internationalisation
- ▶ EU candidacy drives continuous political and economical improvements
- ▶ Modernisation of production facilities and the agricultural system could excel growth

THREAT

- ▶ Grey economy, that is non-registered business transactions threatens Serbia's economy
- ▶ Political instability and lack of transparency in business might repel foreign stakeholders
- ▶ Renewed international financial instability would harm the slowly recovering Serbian economy

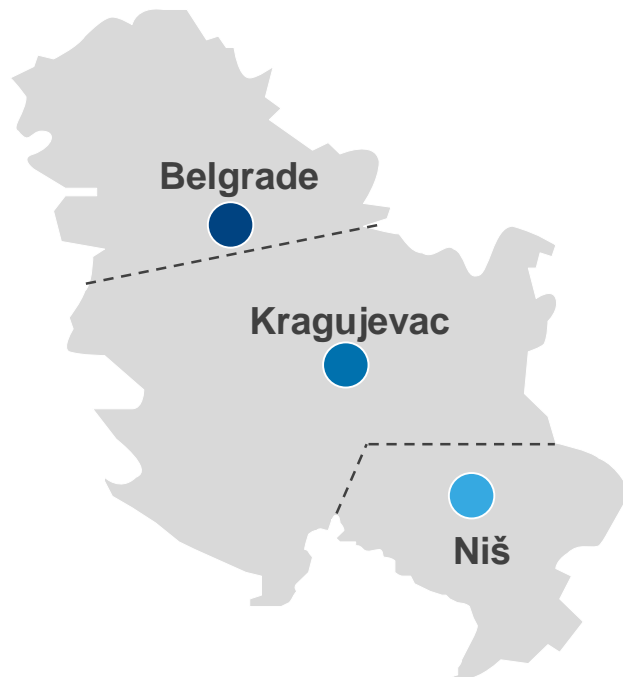
LOW TAXES & WAGES AND A HIGH SKILLED WORK FORCE MAKE SERBIA ATTRACTIVE FOR PRODUCING COMPANIES



THE SERBIAN INDUSTRY IS REGIONALLY DIVERSE AND GROWTH IS CONCENTRATED TO BELGRADE

HIGH ECONOMIC CONCENTRATION

- ▶ 40% of Serbia's GDP comes from Belgrade
- ▶ The labour productivity is 45% higher and wages 20% higher in the capital city compared to the rest of the country



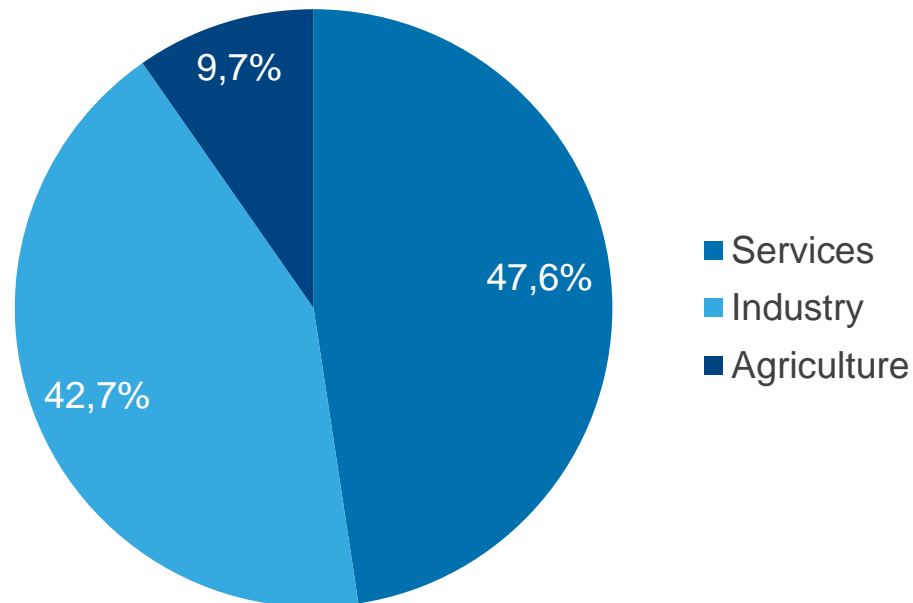
REGIONAL INDUSTRY SECTOR CHARACTERISTICS

- ▶ The Northern part of Serbia includes the region Vojvodina and the capital city
 - ▶ **Belgrade** is the transportation and financial centre of Serbia, and the IT hub of the Balkans
 - ▶ The food- and pharmaceutical industry also has strong presence here
 - ▶ Large oil and gas fields are operated in the Banat region
- ▶ Central Serbia includes cities like **Kragujevac**
 - ▶ Mining of coal, copper and gold are deposited from large mines in the region
 - ▶ Serbia automotive industry is largely located in the city of Kragujevac
- ▶ Southern Serbia includes the important industrial city **Niš**
 - ▶ Tobacco, electronics, construction, mechanical engineering, textile and food-processing industries are present here

SOURCE: THE WORLD BANK GROUP, EUROMONITOR, CHAMBER OF COMMERCE AND INDUSTRY OF SERBIA

MANUFACTURING, AUTOMOTIVE AND MINING ARE DOMINATING INDUSTRY SECTORS IN SERBIA

SERBIA GDP - COMPOSITION BY SECTOR (2016)



CHARACTERISTICS OF THE SERBIAN ECONOMY

- ▶ The service sector makes up 47.6% of GDP
 - ▶ Generated mainly by tourism, banking and retail
 - ▶ Currently Serbia is implementing an IMF-driven plan to increase the stability of the financial sector
- ▶ Agriculture employs 21.9% of the workforce and creates €12 bn worth of exports
 - ▶ Serbia is a global leader in production of grains, fruits and vegetables
 - ▶ Serbia has 60% arable land
 - ▶ Most farms are small sized and family owned
- ▶ Manufacturing employs 16.7% of the workforce
 - ▶ Automotive industry accounts for 10% of FDI and supplies European car manufacturers such as Fiat
- ▶ The mining industry currently attracts foreign investments due to quality of infrastructure, availability of labor and untapped mining potential
- ▶ Other important industries are textile, furniture and IT

THERE ARE UNTAPPED POTENTIAL IN THE FIELDS OF MINING AND AGRICULTURE

SOURCE: THE WORLD FACTBOOK (CIA), EUROMONITOR; SIEPA

LARGE, STATE-OWNED & FOREIGN COMPANIES PLAY AN IMPORTANT ROLE FOR THE SERBIAN ECONOMY

THE COMPOSITION OF COMPANIES IN SERBIA

- ▶ International corporations dominate the private sector in Serbia for both industry and services
 - ▶ 4 out of the 10 largest Serbian companies are foreign owned. E.g. Fiat, Delhaize, Mercator-S & IDEA
 - ▶ Out of exported industry goods, over 50% is produced by foreign owned companies
 - ▶ 8 of the 10 largest banks are foreign owned, the domestic being: Komercijalna Banka and Banka Poštanska
- ▶ The largest Serbian owned companies are predominantly state owned utilities such as JP Srbijagas and Telekom Srbija
 - ▶ Among the ten most profitable companies, almost 50% have the Serbian state as majority owners, e.g. JKP Beogradske elektrane (Belgrad Energy Utility) and Airport „Nikola Tesla“.
- ▶ In general, large and state-owned companies are important to Serbia's economy; 0.5% of the largest companies employ almost 30% of the workforce

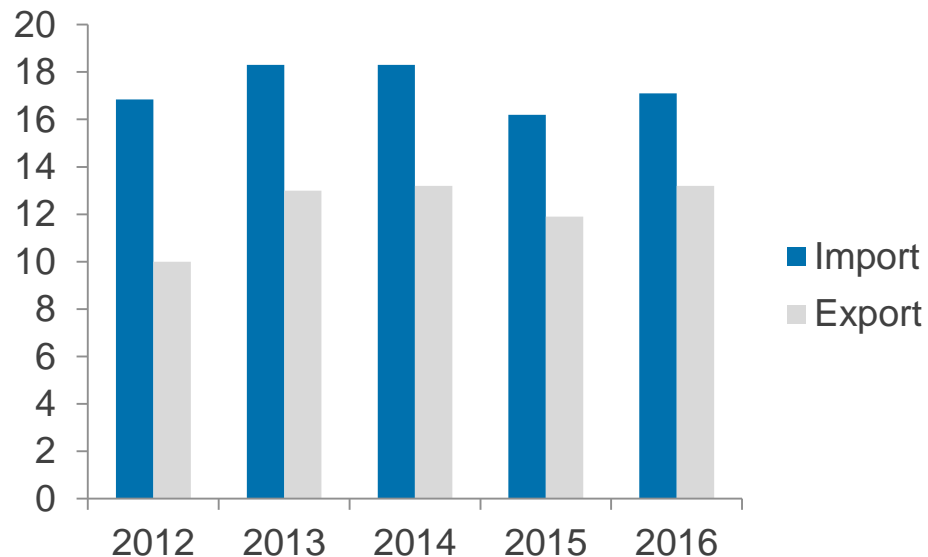
LARGEST COMPANIES IN SERBIA BY TURN OVER (TO)

Company	Industry	TO (MEUR)
NIS	Energy	2 249
FIAT	Automotive	1 527
JP EPS	Energy	1 358
Telekom Srbije	Telecom	771
EPS Snabdevanje	Energy	734
TENT	Energy	702
Delhaize Serbia	Retail	684
JP Srbijagas	Energy	587
Mercator-S	Retail	565
IDEA	Retail	493



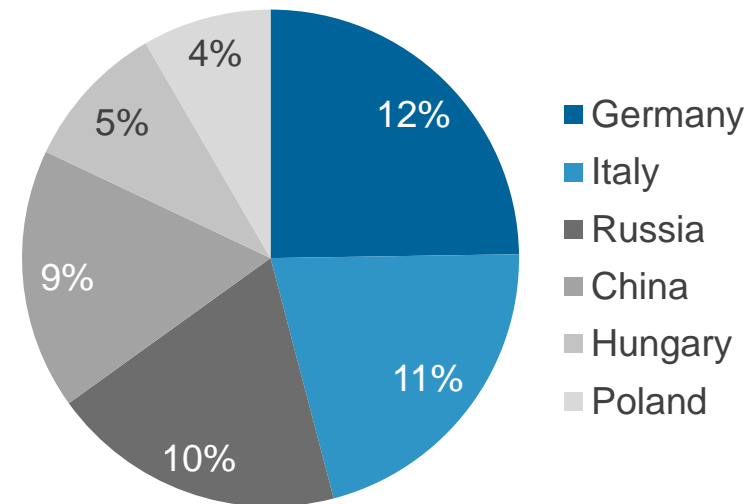
SERBIAN IMPORTS AMOUNTED TO 17 BN EUR (2016) CORRESPONDING TO 54% OF GDP

SERBIAN FOREIGN TRADE IN BN EUR 2012-2016



- ▶ Important import products are road vehicles, petroleum & gas, electrical machinery and pharmaceutical products
- ▶ Important export products are iron & steel, rubber, wheat, fruit & vegetables, weapons and cars

MAJOR SERBIAN IMPORT PARTNERS (2015)



- ▶ Germany, Italy, Russia and China are Serbia's four largest trade partners
- ▶ Russia is a major supplier of energy and raw materials

EU IS SERBIA'S MOST IMPORTANT IMPORT PARTNER AND TRADE WITH EU IS INCREASING

SOURCE: THE WORLD FACTBOOK (CIA), STATISTICAL OFFICE OF REPUBLIC OF SERBIA, EUROPEAN COMMISSION

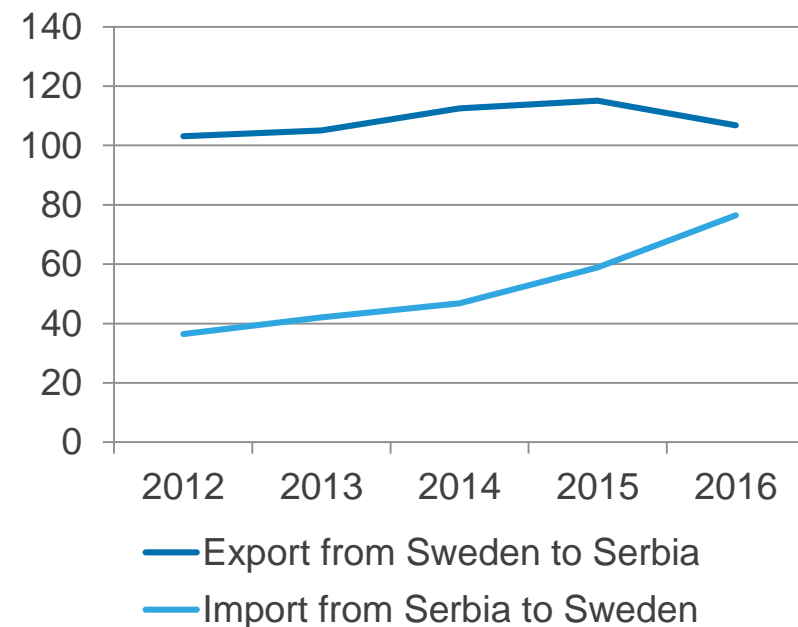


SWEDISH EXPORT, TRADE AND TRADE SURPLUS WITH SERBIA ARE ALL INCREASING

THE SERBIAN – SWEDISH TRADE RELATION

- ▶ Sweden's exports to Serbia amounted to about 106 MEUR in 2016
- ▶ Swedish exports to Serbia include paper and cardboard, machinery and devices
- ▶ Sweden's import from Serbia amounted to about 76.4 MEUR in 2016
 - ▶ Serbian export to Sweden consists of engineering products fruits, car tires, equipment for telecommunication and plastic products
- ▶ Potential for further exports from Sweden are to be found within the industries telecommunication, infrastructure and automated equipment for manufacturing, mining and agricultural purposes

SERBIAN – SWEDISH TRADE FLOW MILLION EURO

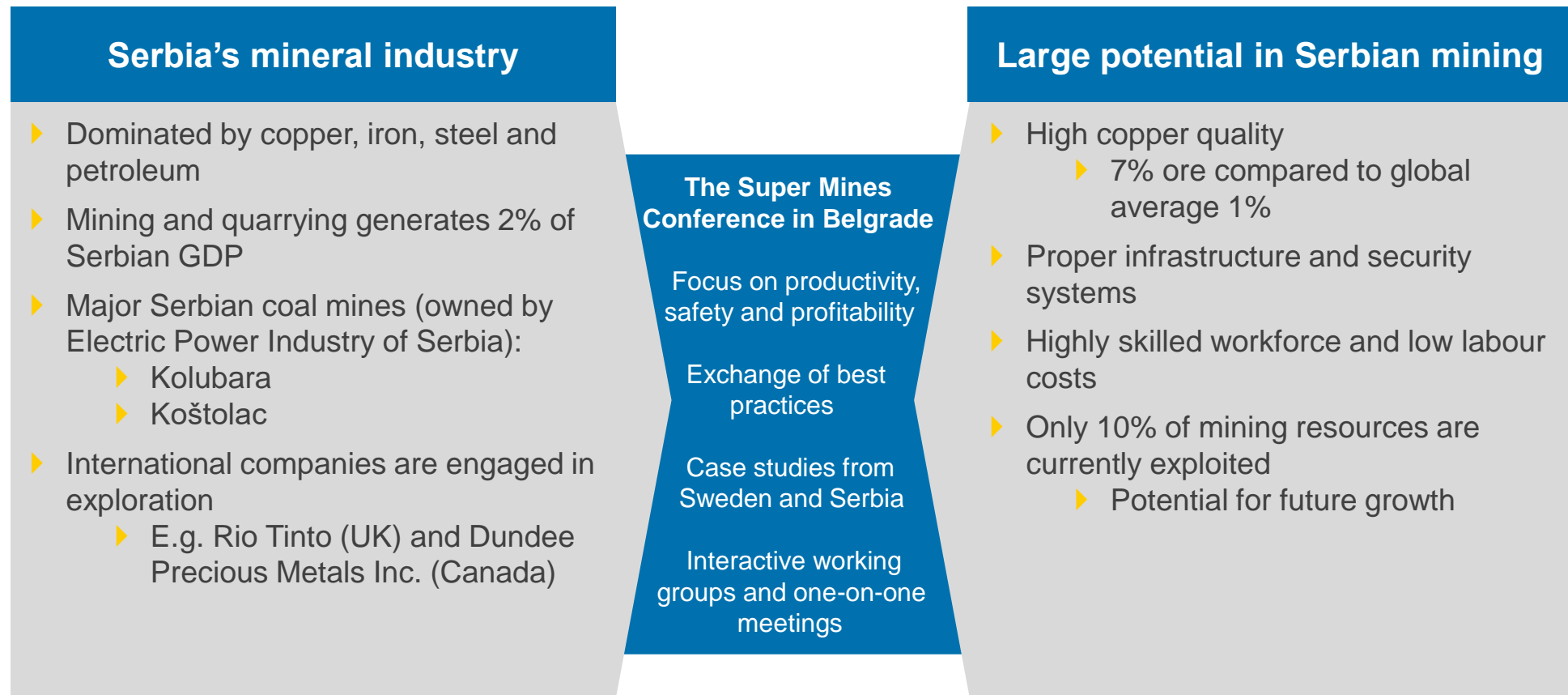


MINING IS ONE OF THE KEY SECTORS WITH POTENTIAL FOR SWEDISH EXPORTS

SOURCE: MARKET ACCESS DATABASE, KOMMERSKOLLEGIUM



GROWTH POTENTIAL IN THE MINING SECTOR CAN BE REALISED THROUGH EXCHANGE OF BEST PRACTICES



THE SUPER MINES CONFERENCE IS THE BRIDGE BETWEEN THE CURRENT MARKET AND FUTURE OPPORTUNITIES

SOURCE: REUTERS (2013), STATISTICAL OFFICE OF THE REPUBLIC OF SERBIA, SERBIA ENERGY



INFRASTRUCTURAL PROJECTS WORTH > €800 M ARE AN IMPORTANT PART OF SERBIA'S GROWTH PLAN

Second Serbia Health Project (Novi Sad, Belgrad, Kragujevac) 2014-2019, €40 M

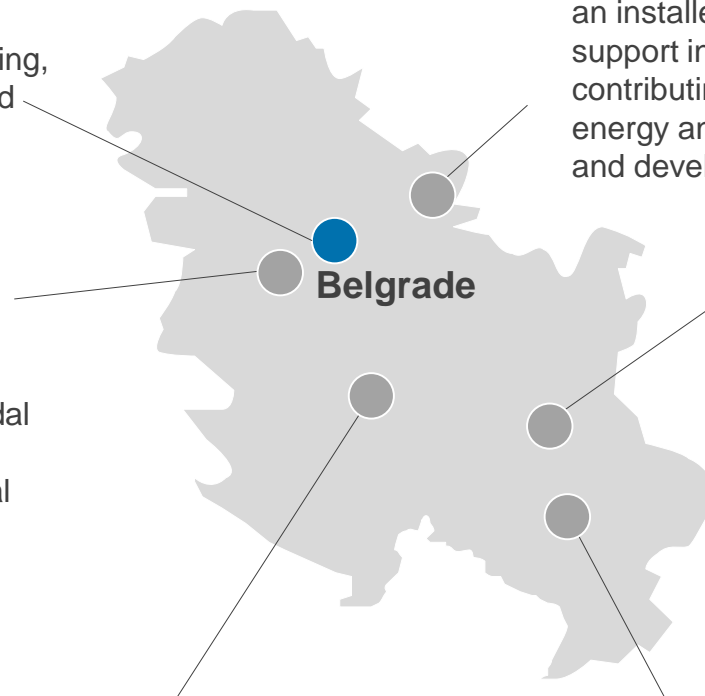
With the objective to improve the efficiency and quality of the public health system through the strengthening of health financing, purchasing, and maintenance systems; and quality improvement systems

Orient/East-Med Corridor (CX): Intermodal Terminal in Belgrade, Serbia (2016-2019), €15,5 M

The ultimate goal is to increase in intermodal unit transshipment capacities in Serbia and thereby facilitate domestic and international freight trade, regional integration and sustainable growth

Serbia road rehabilitation and safety project 2013- 2019 (Nationwide), €100 M

The development objective of the Road Rehabilitation and Safety Project for Serbia is to improve the condition and safety of the national road network for road users



Alibunar windfarm, Operating from 2015, €160 M

European Investment Bank financing a windfarm in north-eastern Serbia in the province of Vojvodina with an installed capacity of 99MW. The operation will support investments in renewable energy, thus contributing to a sustainable and secure supply of energy and therefore to the long-term economic growth and development in the region

Corridor X highway project 2009-2017, €350 M

The objective of the Corridor X Highway Project is to increase transport efficiency and improve traffic safety on three sections of corridor X, between Nis and Dimitrovgrad and Leskovac (Grabovnica) and Donji Neradovac, respectively, and to improve road management and road safety in the Borrower's territory

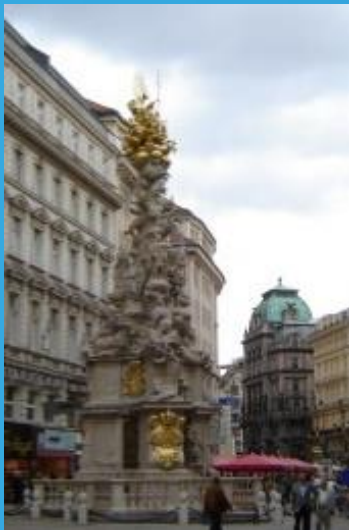
Gas interconnection Bulgaria – Serbia (2010-2019), €48 M

Agreement in place for building a two-directional 150 km long gas pipeline with the capacity 1,8 billion cubic metres annually. Connecting the Serbian city of Niš and the Bulgarian town of Dimitrovgrad

SOURCE: EUROPEAN COMMISSION, NATURAL GAS EUROPE



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