



Geography

Area: Serbia (88,361 sq km)

Capital

Belgrade

Other cities: Pancevo, Novi Pazar, Uzice, Novi Sad, Subotica, Bor, Nis, Pristina.

People

Population (2002 Republic census excluding Kosovo and Metohija) 7,498,001.

Ethnic groups (2002 population census): Serbs 82.86% , Hungarians 3.91%, Bosniaks 1.81%, Roma 1.44%, Yugoslavs 1.08%, Croats 0.94%, Montenegrins 0.92%, Albanians 0.82%, Slovaks 0.79%, Vlachs 0.53%, Romanians 0.46%, Macedonians 0.34%, Bulgarians and Vojvodina Croats 0.27% each, Muslims 0.26%, Ruthenians 0.21%, Slovaks and Ukrainians 0.7% each, Gorani 0.06%, Germans 0.05%, and Russians and Czechs 0.03% each.

Languages: The official language in Serbia is Serbian and the script in official use is Cyrillic, while Latin script is also used. In the areas inhabited by ethnic minorities, the languages and scripts of the minorities are in official use, as provided by law.

Government

Type: Republic.

Constitution: Adopted in an October 28/29, 2006 referendum.

Economy

- GDP (2006): \$19.9 billion.
- GDP growth rate (2006): 5.8%.
- GDP per capita (2006): \$3,382.
- Inflation rate (2006): 6.6%.
- FDI (2007): 3,6 US\$ mn.
- Natural resources: Coal, petroleum, natural gas, antimony, copper, lead, zinc, timber, bauxite, gold, silver, navigable rivers.
- Agriculture: 12% of GDP.

Ambassador's Message



HE Vuk Zugic

It is a real pleasure for me to learn that IEEMA is publishing special country note on the Republic of Serbia in the IEEMA Journal. I wish IEEMA all the very best for its endeavour to promote the Indian electrical and electronic industry.

Bilateral relations between Serbia and India have a long history marked by true friendship and mutual understanding. Today, both countries are aware of opportunities in mutual cooperation and they are more than ever committed to enhance it. During the past several years, India achieved remarkable annual growth of about 9% and became one of the leading economies in the world. On the other hand, the

onset of economic reforms has made Serbia one of the premier emerging investment locations in South-Eastern Europe with growth of more than 7% per year. The list of leading foreign investors is topped by world-class companies and banks, such as Telenor, Philip Morris, Mobilkom, Banca Intesa, InBev and many others.

In the last few years, there has been an increased interest for Indian business companies to invest in Serbia. This shows that Serbia, having strategic geographic position, booming market potential, valuable human capital, improved legal framework and numerous investment incentives, can become one of the top destinations for Indian companies in the South-Eastern Europe. By setting-up business in Serbia, an electronic producers could capitalize wide opportunities of our market.

I am sure that this Country Note on Serbia would be an important contribution to the mutually beneficial cooperation in this field.

- Industry: 20% of GDP.
- Services: 68% of GDP.
- Trade (2006 est.): Exports--\$6.4 billion. Major markets--Italy, Germany, Bosnia. -Imports--\$13.2 billion. Major suppliers--Germany, Italy, Russia.

Source of information www.srbija.sr.gov.yu

Economy Overview

Growth in 2007 was a healthy 7%, but this pace slowed during the first quarter of 2008. Through September of 2007, due to continued central bank policy to target inflation, the inflation rate averaged 7.4%. The increase in industrial production of 3.7% in 2007 followed a strong 2006 performance. The current account deficit was 16.6% of GDP in 2007, despite continued growth in exports. Foreign exchange reserves held by Serbia's central bank totaled \$14.593 billion at the end of 2007, or an amount covering about 10 months of imports.

In March 2007, the National Bank of Serbia completed pre-payment of its debt to the International Monetary Fund (IMF) with a payment of \$232 million, which followed a June 2006 payment of \$978 million.

In 2006, the Republic of Serbia recorded significant macroeconomic results in terms of economic growth, curbed inflation, exports growth, improved efficiency of the economy, financial sector growth, FDI inflow and FX reserve increase, accompanied however with high foreign trade deficit, soaring unemployment, high local currency appreciation, increased public





spending and wage growth out of pace with the growth of productivity.

Given the country's macroeconomic stability and ongoing structural adjustments, real GDP growth for the period from 2008 to 2010 is projected at an average rate of 6.3%, with an upward tendency as the process of restructuring and transition develops further. The projected rate of GDP growth is expected to be achieved primarily through goods and services exports growth at an average of 24.1% p.a. and investment growth at an average of 16.1% p.a. Growth of local and foreign investment is crucial for modernization of the economy, and infrastructure in particular, as well as for boosting exports, which are the key component of economic growth. The projected growth of GDP and investment over the following three years is expected to contribute to higher employment and better standard of living.

While economic reform has been moving forward in many areas, enterprise sector reform is still halting. Economic structure of Serbia continues to shift gradually away from the agriculture and industry towards services.

In 2007, industry accounted for 24.20% of GDP, agriculture 12.3% with services making up the remaining 63.50%. Serbia offers good technology and expertise in agricultural production, food processing (dairy, meat and fruits & vegetables), highway construction, wood processing and furniture, hydraulics, pneumatics and other specialized engineering services. It has a significant manufacturing sector for steel and metals, automotive components, machinery, equipment, appliances, instruments, chemicals & related products, furniture, textiles and footwear; and pharmaceuticals.

The services sector includes banking, insurance, transport, tourism and hospitality etc. The ICT section is coming up and is likely to receive a boost with the decision of Bangalore based Embassy Group to construct an ITC park in Serbia.

Note on India-Serbia bilateral trade

- India and the erstwhile Socialist Federal Republic of Yugoslavia (SFRY) had close commercial ties and the economic exchanges were nearly US\$ 500 million in the late 1980s. Bilateral trade was traditionally in favour of the SFRY. However, conflicts during 1990s resulting in disruption of economic links and the break-up of the SFRY greatly eroded economic partnership.
- With the imposition of comprehensive mandatory international sanctions against the Federal Republic of Yugoslavia (FRY), trade came to a standstill. Some Indian exporters exported food and other materials of humanitarian assistance to the FRY with the permission of the UN Sanctions Committee during the sanctions regime. The UN sanctions against the FRY were lifted on 1st October 1996. In 1997 when the trade resumed, Indian exports to the FRY at that time were worth \$23.4 million and imports worth \$7.85 million. The NATO bombings in 1999 again impacted adversely on economic ties.
- Following the democratic changes in October 2000 and start of economic reforms from 2002 onwards the bilateral trade between the two countries started showing healthy growth, though restarting from a low base. The trade figures for the last seven years are given below:

US\$ million	2001	2002	2003	2004	2005	2006	2007
India's exports	16.45	21.91	29.56	44.70	44.23	60.50	86.60
India's imports	01.76	00.27	02.97	03.00	02.77	06.30	21.10
Total trade	18.21	22.18	32.53	47.70	47.00	66.80	107.70

Source: Statistical Office of Republic of Serbia

India exports coffee, tea, spices, minerals, organic and inorganic chemicals, ferrous and non-ferrous metals, medical supplies, pharmaceuticals, textile yarn, fabrics, readymade garments, vehicles and other machinery and equipment, footwear to Serbia.

India's imports from Serbia include specialized industrial machinery, flat rolled products of iron, plated with tin, refrigerating and freezing appliances, medical equipment, machinery and apparatus for rubber or plastics, etc.

- As would be seen, India's exports have been showing a healthy growth over 30 % y-o-y since 2002, the only exception being year 2005 when the trade was almost static.

- India-Serbia trade got a big boost in the year 2007 with a quantum jump of 61% in two way trade over 2006. The overall bilateral trade during 2007 amounted to US\$ 107.6 million, of which US\$ 86.5 million were the exports from India and US\$ 21.1 million imports into India. India's exports to Serbia increased by 43.1% in 2007 in comparison to 2006. Similarly, Serbia's exports to India also registered an increase of 33.5% over 2006. The main items of exports from India during the year 2007 were cotton yarn, fabrics and garments (US\$ 18.34 million), vehicles and other machinery and equipment (US\$ 13.14 million), coffee, tea and other food items (US\$ 12.51 million), chemicals and related products (US\$ 12.47 million), medical supplies and pharmaceuticals (US\$ 9.14 million), Ferrous and Non ferrous metals (5.26 million). The major items of export from Serbia were specialized industrial machinery (US\$ 9.64 million), Flat rolled products of iron plated with tin (US\$ 9.24 million), refrigerating and freezing appliances (US\$ 0.33 million), machinery and apparatus for rubber or plastics (US\$ 0.22 million).
- Being a member of the Central European Free Trade Association (CEFTA) with a total population of about 30 million and having an unique Free Trade Agreement with Russia, Serbia can be a good base for a presence in Europe, with relatively reasonable wages and low level of taxation, and is emerging as an attractive investment destination. More details about advantages of Serbia may be seen at Indian companies could also be interested in acquiring some of the existing manufacturing facilities in Serbia available now for privatization. Some of the forthcoming projects including in the electric and electronic equipment may be seen at Some R&D institutions like Institute Mihailo Pupin have also developed good technologies and solutions for power stations, integrated highway toll collection systems etc.
- With the Government of Serbia aspiring and committed to join the EU after having signed the Stability and Association Agreement in April 2008, the prospect of Serbia finally joining the EU around 2014 are assessed to be fairly realistic. It has already started harmonizing its standards and laws with that of the EU and this process will continue till then. It is, therefore, felt that this intervening period before it actually joins the EU should be utilized by Indian businesses to establish strong business links and presence in Serbia to take advantage when it becomes an EU member.



- To facilitate business interaction, India and Serbia have concluded agreements on Reciprocal Promotion and Protection of Investments, Double Taxation Avoidance and Bilateral Trade and Economic Cooperation. FICCI and ASSOCHAM have signed cooperation agreements with Serbian Chamber of Commerce. The first meeting of the inter-governmental Joint Economic Committee took place in April 2008 in New Delhi and the Joint Business Council is expected to meet later this year. The following Agreements have been signed:
 - Bilateral Investment Protection and Promotion Agreement (BIPPA) signed in January 2003.
 - Air Services Agreement signed in January 2003.
 - Agreement on Scientific and Technical Cooperation signed in October 2004, as well as Program of Scientific and Technical cooperation in May 2008.
 - Memorandum of Understanding on Cooperation in Tourism signed in November 2004.
 - Trade and Economic Cooperation Agreement signed in February 2006.
 - Avoidance of Double Taxation Agreement signed in February 2006.

In a very near future, the bilateral agreement on cooperation in agriculture will be signed, as well as program on cultural cooperation.

- Serbia has the potential to become one of the top destinations for international companies seeking lower-cost competitive solutions and access to skills. Both IT and electronic sectors

provide immense opportunities for investments by Indian companies. Major multinationals such as Ericsson, Siemens, Microsoft and a number of smaller European firms have established presence in the country, both to expand their market reach and to develop products for the region.

Over the decades most of the large Serbian electronics manufacturers fostered extensive partnerships with bluechip telecommunications and electronics companies worldwide. The major producer of consumer electronics and home appliances in the Balkans, Electronic Industries, Nis, with long tradition of collaboration in the form of joint ventures and industrial contracts with world's top companies like Alcatel (telephony), Siemens (HF transmission) and x-ray equipment, Bull (computers), Philips (color picture tubes) and Sagem (teleprinters). VF Holding, the leading producer of radio, TV and telecommunication equipment, was established in 1990 as a joint venture with Siemens which eventually became the sole owner in 2001. As a result of economic sanctions in the 90's, the growth of electronic industry was badly affected. At present a number of production capacities of companies in this sector are underutilized and are open for privatization. By setting-up business in Serbia, an electronics producer could capitalize on cost efficiency, international links and intellectual base for furthering business interactions. This opens wide opportunities for mutually beneficial bilateral cooperation in this field.

Energy Sector of Serbia

Energy sector accounts more than 10 % of GDP of Serbian economy and it consists of electricity, coal production, district heating, oil and gas production and import.

Domestic primary energy production of 37 million tonnes of coal (97% of lignite) 720,000 tonnes of oil,



250 million m₃ of natural gas, 9,400 GWh of hydro potentials is not enough to satisfy energy demand, so the import of hard coal and coke, oil and natural gas is needed. Core companies and main assets in the energy sector;

- The electricity generation and distribution company Electric Power Industry of Serbia (EPS), runs 2,800 MW of hydro and 5,555 MW in thermal power plants, as well as distribution system for supply of electricity. The average electricity consumption is provided by domestic production up to 38 TWh.
- Transmission grid is operated by electricity transmission company and market operator - Elektromreza Srbije (EMS).
- The decentralized municipal district heating systems for heat production is of capacity of about 6300 MWt.
- Three industrial energy sources with CHP technology - over 330 MW, for combined heat and electricity production (580 GWh in 2007).
- Two refineries - N.Sad 1 M t capacity and Pancevo 3.5 M t capacity, and 420 km pipeline system for oil transport.
- Pipeline systems for collection of domestic natural gas production, and transport of imported natural gas and pipeline system for distribution of natural gas for 1,80,000 consumers.

Final energy consumption is as follows:

Final energy consumption	Total
Solid fuels	1.14 M toe
Liquid fuels	2.63 M toe
Gas	0.75 M toe
Electricity	2.18 M toe

Main energy consumer is residential sector with 3 M toe, industry - with 2.68 M toe and transport, with 1.92 M toe.

Electricity Sector

The electricity transmission system of Serbia, operated by EMS, is interconnected to all neighbouring countries, owing to its central position in the Balkans.

3.3 million consumers are connected to distribution network, operated by 5 distribution companies - EPS daughter companies.

Serbia is the member of the Energy Community and adopting EU principles in the development of the energy sector.

District Heating Sector

Only 16% of 2.65 million of households in Serbia, are connected to district heating system and potential for increase of energy efficiency of all district heating plants is very high.

For municipalities, in the building sector, energy saving measures are concentrated on the current refurbishment work on public and residential buildings and energy source facilities.

The most important improvements towards energy efficiency can be achieved by implementing combined

heat and power production in district heating plants as existing steam boilers can be reconstructed into CHP units, using natural gas.

Serbia signed the South-Stream agreement with Russia and security of supply of natural gas will be significantly increased with the development of the project.

Mining Sector - Coal for Thermal Power Plants

Serbia's coal reserves, assessed at 16 billion tones, are located in three coal basins: Kolubara, Kostolac and Kosovo. These coal reserves can be mined by surface mining methods, and they are primarily lignite. The majority of coal coming from opencast mines - Kolubara and Kostolac. Annual coal production is sufficient for regular supply of the power plants needs.

Oil Sector

The refineries suffered particularly heavy damage as a result of the 1999 bombing campaign. Some refinery reconstruction has taken place but considerable new investments in the refineries are required.



In January 2008, Serbian oil company Naftna industrija Srbije - NIS signed the protocol with Gazpromneft for the modernization and reconstruction of oil refineries.

Gas Sector

Natural gas is expected to have an increasingly important role to play in the provision of energy over time because of its relatively favorable environmental impact.

Substantial new investment in distribution networks will be required to meet space-heating needs. Natural gas is expected to be the primary substitute for electric-based heating either through district heating in densely populated areas or individual boilers in the rest of the country.

Extension of gas distribution networks is offered to private investors, while public company Srbijagas manage the import and transmission of natural gas.

Renewables

Serbia's endowment of renewable energy resources is substantial, but realization of these potentials require Government action. The energy potential of renewable energy sources in Serbia is estimated to 4.89 Mtoe.

Table I Technical and used potential of RES, Serbia (2007)

	Potentials (Mtoe)	Used potential (Mtoe)	Used potential (%)
Biomass	2.40	0	0.0%
HPP's	1.46	0.84	57.5%
Solar	0.64	0	0.0%
Geothermal	0.20	0	0.0%
Wind	0.19	0	0.0%
TOTAL	4.89	0.84	17.6%

Hydro

Small hydro

Potential for construction of small hydropower plants in Serbia is 1,500 GWh/year, at 856 locations - according to the Small Hydro Power Plants Cadastre (1987). Largest part of locations are of capacity less than 1 MW, 30 locations are of capacity 2 - 5 MW, and there are nine locations with capacity larger than 5 MW.



Medium and large-scale hydro

The 1987 survey also indentified 47 medium sized hydro projects between 10 and 100 MW, with a total installed capacity of 1,247 MW.

Solar

Average yearly insolation in Serbia is about 1,400 kWh/m and the average daily value is about 3.8 kWh/m. A solar system for a family house in Serbia (4 m of solar collectors, construction equipment, solar boiler, circulation pump, pump system, expansion vessel, automation) requires and investment of about 2,000€. Photovoltaic cells are not manufactured in Serbia, but there are several manufacturers of flat solar water collectors.

Geothermal

The use of geothermal energy is low compared to its potential - mainly for balneological purposes, sports and recreation. The prospect for expanding geothermal energy for agricultural heat and water heating are reasonably good, but potential for larger scale geothermal electricity is limited because this requires water temperatures above 100°C.

Wind

Wind data available from the existing information are based on 10 metre heights above ground level, and extrapolated to 50 metre heights. These assesments suggest that 2,300 GWh could be generated at 1,300 MW of capacity, at sites with average wind speeds of 5 m/s or greater.

Biodiesel

There is significant potential for growing the rapeseed for production of biodiesel in central Serbia. Annual production of 440,000 - 500,000 tones of rapeseed is possible on 200,000 hectares, having in mind biological maximum in the current structure of agricultural production. Therefore, potential for the production of biodiesel is estimated to 200,000 tones per year or 10.5% of diesel consumption in Serbia.

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