

# Serbia and Montenegro

## Political situation

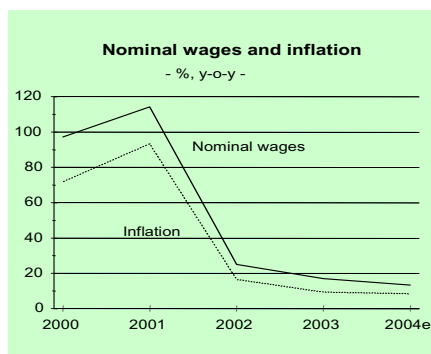
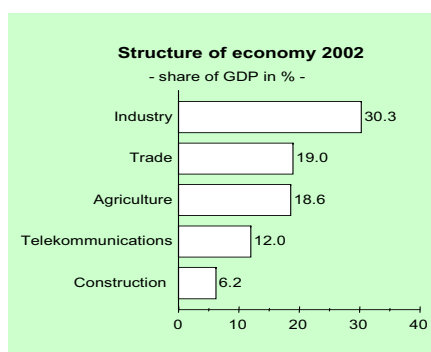
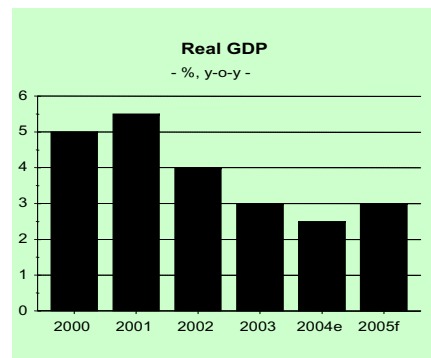
- ▶ Minority government since February 2004 consisting of the Democratic Party of Serbia (DSS), the liberal expert party and the Serbian renewal movement/ New Serbia (SPO/NS). The government receives its parliamentary majority by support of the Socialist Party (SPS). Diverging interests within the government regarding the continuation of economic reforms. Growing domestic pressure in face of the painful reforms for the population.

## Domestic economy

- ▶ Economic output still low; only gradual economic recovery. On the assumption of Serbia's resolute implementation of the economic concept agreed with the IMF, we reckon on average economic growth of 2-3 % in the coming years.
- ▶ Inflation is easing, with the rate of increase in the single-figure range despite hikes in administered prices.
- ▶ The very high unemployment rate (30 %) is one of the country's most pressing problems.
- ▶ Large-scale enterprises in government ownership. Small-scale private enterprises are flourishing in Serbia. However, the partial absence of a regulatory framework is holding back commitments by foreign investors.
- ▶ The banking system is on its last legs, closure of insolvent banks has begun; distribution of licenses to foreign banks.

## External sector

- ▶ Germany and Italy the most important sales markets; exports consist primarily of primary products (40 %), foodstuffs, machinery and textiles.
- ▶ Large current account deficit owing to brisk import demand. The shortfall is financed with the aid of international financial organizations. High foreign debt in relation to exports of goods and services.
- ▶ Improved liquidity position owing to higher currency reserves. Import cover of more than five months.



SERBIA AND MONTENEGRO	2001	2002	2003	2004e	2005f
Population (m)	10.6	10.6	10.6	10.6	10.6
GDP (US\$ bn)	11.6	15.8	19.8	21.9	22.8
GDP per capita (US\$)	1,092	1,489	1,865	2,062	2,154
GDP change in % (real)	5.5	4.0	3.0	2.5	3.0
Inflation in % (annual average)	93.3	16.6	9.4	8.5	7.5
Budget balance in % of GDP	-1.3	-4.5	-4.2	-3.7	-3.0
Merchandise exports (US\$ bn)	2.0	2.1	2.5	2.8	3.1
Merchandise imports (US\$ bn)	4.8	5.6	7.3	8.2	9.0
Current account balance (US\$ bn)	-1.2	-1.9	-2.4	-2.7	-2.8
Current account balance in % of GDP	-10.4	-12.0	-12.1	-12.4	-12.3
Foreign direct investment (US\$ bn)	0.2	0.5	1.4	0.5	0.5
Foreign direct investment in % of GDP	1.7	3.2	7.1	2.3	2.2
Gross foreign debt (US\$ bn)	11.9	9.7	14.3	12.8	12.0
Foreign debt in % of exports *	441	334	421	337	300
Foreign exchange reserves (US\$ bn)	1.2	2.3	3.6	3.8	4.0
Import cover (months) *	2.8	4.5	5.4	5.1	4.9
Exchange rate year-end (Dinar per EUR)	53.00	61.50	68.30	75.50	81.00
Exchange rate annual average (Dinar per EUR)	59.50	68.40	67.10	71.00	76.50
* goods, services and income	e = estimate; f = forecast				

# Serbia and Montenegro

## Basic conditions for foreign investors

### **General legal system:**

Legislation requires further adjustment to EU standards. Legal uncertainty still prevalent. Investment legislation does not differentiate between local and foreign investors. The divergent economic development within the country will probably affect the legal backdrop for foreign investors.

### **Possible company structures/minimum capital requirement:**

Private joint stock company (Serbian: a.d.)/equivalent of USD 10,000 in new dinar, private limited company (Serbian: d.o.o.)/equivalent of USD 5,000 in new dinar, general commercial partnership (Serbian: o.d.), limited commercial partnership (Serbian: k.d.). For foreign investors also branch and representative office.

### **Permissible holding:**

Up to 100 %. Restrictions in important strategic sectors and in restricted areas. Foreign investors may participate in privatization through the Serbian Privatization Agency Agencija za Privatizaciju Republika Srbija, Belgrade (internet address: [www.pa-serbia.co.yu](http://www.pa-serbia.co.yu)) functioning as state seller. In Montenegro privatization by voucher, tender and purchase of shares.

### **Approval/establishment procedures:**

Approval of the FRY (Federal Ministry for Foreign Economic Relations) required. Commercial register entry with the authorities in charge. Starting from 2005 set-up of a public central company register envisaged.

### **Capital contribution:**

Foreign investors can bring in financial or real capital (machinery, patents, licenses, know-how). Financial capital either in foreign exchange or local currency.

### **Land/real estate acquisition:**

For foreign individuals and legal persons acquisition of real estate and immovable property is generally allowed with exception of brownfield in public ownership. Brownfield in public ownership can be only leased at present; a bill not discharged yet will allow this in future. In practice the required land register entry is still sometimes difficult, as ownership structure of real estate and properties often unclear. Land register needs to be expanded.

### **Qualification of labor force:**

Skilled labor often studied and trained abroad, especially in technical professions. Official languages: Serbian, German, Hungarian, English.

### **Labor costs (per hour worked, national average):**

1.50 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

### **Wage level/personnel costs:**

Statutory monthly minimum wage:	4,760 new dinar.
Average monthly gross wage:	15,500 new dinar.
Average monthly net wage:	10,950 new dinar.

Considerable regional fluctuations between big cities and rural areas. Employees of foreign companies expect to earn more.

### **Average monthly gross wage (compared with Germany/EU, 2003):**

238 euro (Germany: 2,460 euro, EU: 2,396 euro).

### **Social security contributions:**

**Employer's contribution:** 16.3 % of gross wages

(9.8 % pension scheme and disability insurance, 5.95 % health insurance, 0.55 % unemployment insurance).

**Employee's contribution:** 16.3 % of gross wages

(9.8 % pension scheme and disability insurance, 5.95 % health insurance, 0.55 % unemployment insurance).

### **Legal forms to protect foreign investments:**

Foreign Investment Act (2001).

### **Agreement with European Union:**

Trade preferences on basis of a cooperation agreement (similar to the agreement of 1990 with the former Yugoslavia). Signing of a Stabilization and Association Agreement intended end of 2004 latest.

### **Profit and capital repatriation:**

Free for foreign investors after taxes.

### **Taxation (without application of bilateral agreements):**

Income tax:	14 % on salaries and fringe benefits, otherwise 20 %.
Corporate tax:	10 % since August 2004 retroactive for the whole financial year 2004 (formerly 14 %).
Sales tax:	20 % (until December 31, 2004).
VAT:	18 % (standard rate) as of January 1, 2005 envisaged.
Withholding tax:	20 % (e.g. on dividends).

### **Customs tariff:**

Almost duty-free entrance to the markets of the EU countries. Free trade agreements with Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldavia, Romania and the Russian Federation. Application filed for WTO membership (currently observer status). The constituent republic of Montenegro has its own customs set-up.

### **Special economic zones:**

12 free trade zones in Belgrade (with sub-zones Pancevo, Smederevo and Kovin), Backa Palanka, Lapovo, Nis, Novi Sad, Pirot, Prahovo, Sabac, Senta, Sombor, Sremska Mitrovica and Vladicin Han. Further ones are under construction.

### **Tax concessions for foreign investors:**

Tax concessions in weakly developed regions and in case of creation of new jobs. 10 % tax reduction for investments in fixed assets, but not more than 50 % of the annual profit tax due. Investments of enterprises with less than 50 employees 30 % tax reduction under certain conditions. Tariff and sales tax exemptions in free trade zones.

### **Foreign exchange regulations:**

In the constituent Republic of Serbia managed floating of the new dinar against the euro. The new dinar is fully convertible in the trade balance. Foreign and domestic legal persons and individuals may freely maintain banking accounts in local currency and foreign exchange at their own disposal. In 2002 the constituent Republic of Montenegro and the southern province of Kosovo introduced the euro as official currency.

### **Inflow of foreign direct investment (gross, 2003): 1,m euro**

Main countries of origin:

Netherlands (45.7 %), Belgium (23 %), United Kingdom (7.7 %).

Main sectors:

Tobacco industry (53.5 %) and beverage industry (23.1 %).

### **Forthcoming privatizations:**

In the constituent Republic of Serbia in the sectors telecommunications, telecommunication system, energy and raw materials, food processing industry, infrastructure and agricultural sector. Privatization process is proceeding and should be completed in 2005. Visit internet address: [www.mpriv.sr.gov.yu](http://www.mpriv.sr.gov.yu) for current privatization offers. Also in the constituent Republic of Montenegro privatizations gathering momentum. Visit internet address: [www.agencijacg.org](http://www.agencijacg.org) for current privatization offers.

### **Contact address:**

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