



Current Issues



Meet Us



Industry Close Up Finances



Investor Personally **Mr. Massimo Pierdicchi**

Head of International Subsidiary Banks Division - Europe, Banca Intesa



Monthly Reporting **Banking Sector in Serbia and the Surrounding Region**



Arts & Entertainment



The Other Home

Doerte Weidig

Chairperson of ProCredit Bank, Serbia



Hot Spots Salas 137

Gasification of Serbia

The manager of the company AcegasAps from Trieste, Francesco Giacomini, and the mayors of Arilje and Požega municipalities signed the contract on founding a joint venture company SI-gas. This company's priority will be the connection of consumers in Arilje, Požega and other municipalities of central Serbia to the distribution system at favorable prices. Representatives of AcegasAps announced that €12 million will be invested in the project and pointed out that Serbia has a good perspective for the development of gas networks.

Going Further

Montenegrin Telecommunications Agency has announced the third mobile operator as the consortium of Telekom Srbija and the Dutch company Ogaral. Serbian-Dutch consortium offered €16 million and is obliged to invest €90 million in the next 7 years. The third operator will start to work in September 2007. Telecommunication experts claim that Telekom Srbija is the most capable to generate profit from the mobile telephony in Montenegro since it will easily take over the market due to close private and business connections between the citizens of Serbia and Montenegro. For remainders, starting from January 21st, Serbian telecommunications operator Telekom Srbija has become the majority owner (65%) of a state-owned and most successful company in Republika Srpska – Telekom Srpska for €646 million.

New Investment from Slovakia

Slovakian company Slovarm, after many years of successfully doing business in our country, has officially opened its office in Serbia. On this occasion, the manager of the company Vladimir Kisela announced large investments and relocation of a part of production to the territory of Serbia. "We are still thinking about the best solution for the production unit in Serbia. That project can be realized through both Greenfield and Brownfield investments.

One of the more favorable solutions for us would be the acquisition of the factory that already deals with similar activities, thus obtaining qualified manpower". The company is looking into three companies: Zvezda from Kovin, Istra from Kula and Valjevi based Krušik. "If we fail to buy some of these companies, the construction of a completely new factory will become a strong option", Kisela added and said that he expected for the production to start by the end of 2007.

Slovarm was founded in 2000 and it deals with production of brass fittings for cold and hot water, distribution of steam, heating components, small fittings, and regulation fittings.

Energy Sector in Serbia

The first one to be privatized, Energetika power plant was acquired by the Italian company Dekotra. In the next couple of years Italians are planning to invest €10-20 million into modernization in order to increase the capacity for production of heating energy for remote heating, electricity and technological steam.

The power plant is connected to the Electric Power Company of Serbia system and capable of delivering electricity to all interested buyers. With the increase in capacity from 55 to 80 MWh, it could provide year round supply for 50-100,000 households.

SIEPA

CeBit 2007

The representatives of Serbian companies that participated in CeBIT 2007 Fair in Hanover have assessed their presentations on the largest global exhibition of information technologies as very successful. The national stand named "Serbia – the Vision for the Future" was organized by the Serbia Investment and Export Promotion Agency (SIEPA) and the Chamber of Commerce of Serbia.

The Manager of the company CIM College from Nis, Vojislav Stojković, stated that the company signed contracts with two institutes from Moscow on projects that will be financed by the Government of Russian Federation. Government of Russia will provide at least €1 million as support for each of the projects. Also, a protocol was signed with the representatives of German University Karlsruhe on intending to form an International Institute for Information Technologies in Nis.

CPD Moscow

Serbian companies that have exhibited on the textile and footwear fair CPM in Moscow established numerous contacts with potential partners, and there is every chance that concrete steps towards reaching the sales and cooperation agreements will take place. Three companies, Tiffany Production, Trikotaza Ivkovic and Legend, have agreed the opening of own showrooms in Moscow. Eight companies have presented themselves at the Serbian national stand: Mona, Garman, Zekstra, Egzit, Utap, Tifani Production, Trikotaza Ivković, and Legend.

Serbian Vines at ProWein

Ten Serbian wine and liquor producers have presented their products on ProWein 2007 fair in Düsseldorf - Rubin, Navip Beograd, RB Global, Vinarija Kovacevic, Podrum Aleksandrovic, Vinograci i Jelic Sellar, Bermet, Distilerija Ekselentia i Ulikses. On the second day of the fair, a manifestation called Danube and Adriatic Night, was held as a joint presentation of traditional drinks, wine and folklore of Romania, Bulgaria, Macedonia, Montenegro, Croatia and Serbia.

Fair participation was organized by SIEPA, Ministry of Agriculture, Forestry and Water Management and GTZ.

Real Estate

Real estate is one of the most attractive sectors of the Serbian economy in terms of investments and that was confirmed by a large number of participants at the Second annual conference "Real Estate Market in Southeast Europe – Comparative Advantages in the Region and Future Trends" organized by the Ekonomist Media Group.

The meeting summed up innovations on real estate markets in the region, most attractive segments for investments, roles of investment funds, as well as their stimulation of market growth, obstacles faced by the investors on the market, State's relation with investors, etc.

SIEPA

Benefits of the FTA With Russia

French company Lor, the global leader in production of passenger vehicles, will open the factory for production of transporters in Backa Topola and export them to the Russian market. Lor, which holds a 70% share in the global car transporters market, will employ 220 workers through a newly founded company Lor-srb. The production is due to start in May and will be pursued in renovated and equipped production halls that used to belong to a construction company Prvi maj. Lor intends to develop a network of local suppliers to cater the production needs, as well as its expansion. SIEPA actively supports this project.

Leadership

Italian company Fantoni, which became the majority owner of ŠPIK Ivanjica three months ago, plans to invest more than the planned €5 million in order to become a leader in the regional production of panel plywood materials, said a co-owner of the Italian company Mr. Giovanni Fantoni. ŠPIK Ivanjica currently produces 6,000 cubic meters of raw plywood per day and the new investments should enable production of 10,000 cubic meters, said Fantoni.

Big Profits in Serbia

Tobacco Industry Nis (DIN), which operates within Phillip Morris has recorded a total net profit of 4.7 billion RSD (€58,7 million) in 2006. This is a 150% increase compared to 2005 and, as stated by DIN officials, was achieved through "a careful management of cash and funds, as well as significant improvement of the production program through introduction of new domestic and international brands, especially locally produced Marlboro brand". Since the acquisition of DIN in 2003, Phillip Morris invested over €625 million in technology, equipment and organization.

Food Investment

Croatian company Vindija from Varazdin, which two years ago bought Lajkovac Dairy and a food factory Unip from Valjevo, will together with Belgrade-based Karnak invest more than €50 million in their reconstruction and modernization.

Representative of Karnak, Ljubiša Vujošević, said that this investment of the Croatian food industry giant aims at increasing the production of milk, baby-beef and poultry meat on the farms in Mačva and Kolubara regions, in order to meet the needs of its own food production.

Hyundai Center in Belgrade

Hyundai auto Beograd started construction of a business, retail and servicing center in New Belgrade. Total value of the investment is €12.8 million and the facility will have seven floors and a total area of 6,600 square meters. The completion of works and opening of the center should take place in December 2007 and that facility should be the fulcrum of Hyundai brand development in Serbia.

Remax Officially in Belgrade

The largest real estate multinational Remax will open a Belgrade office in April. The company is headquartered in Denver, operates in 67 countries and has 6,898 agen-

cies and 120,000 offices in the world. The Director, Miodrag Kusic, announced that the real estate in Serbia will be promoted at the global market through Remax. As for general public, Mr. Kusic promised they will be serviced by top-trained professionals providing the maximum safety. He also announced the opening of new job positions.

Koceljeva Investment Boom

The level of foreign direct investments per capita in the Municipality of Koceljeva has reached the amount of €1,500 reflecting investor's interest in locations and investment environment created by the local government. Nowadays, the project of expanding the existing industrial zone has entered the process of realization with the support from the Government of Serbia. Recently, another two Austrian investors expressed their willingness to settle their production units in that location.

As for the present investors, Austrian company Rauch which bought Vocar from Koceljeva in July 2006 has announced the investment of about €11 million into its reconstruction, while the production of the first line of fruit juices should start in July 2007. The Russian company Fenix has rented land for a period of 85 years with the intention to build a modern production hall of 4,000 square meters. This investment was estimated between €5 and €7 million and will enable production of liqueur and vodka.

Prepared in cooperation with E kapija.

Meet Us

April 2 – 7, 2007
Project Serbia
workshop and seminar,
Florence, Italy

April 12, 2007
Serbian Days,
Modena, Italy

April 26 – 29, 2007
The Tourism Fair,
Belgrade, Serbia

Finances

The last couple of years have been highly successful for the Republic of Serbia and one of the main pointers of that achievement is the amount of Foreign Direct Investments that poured in – almost \$4.5 billion last year alone. A very important part of those investments include privatization of existing state banks that were acquired by major strategic investors, ready to pay a higher price than the book value, for entering the Serbian market.

Banks

As a result of substantial reforms in the financial sector, the banking system in Serbia is widely assessed as sound and efficient. Due to banking mergers and bankruptcies since 2004, the total number of banks has been cut down from 47 to 39. Over the same period, the overall balance sheet has increased by 67% to around €9.8 billion, with an 11% rise in lending activities and strong financial performance in 2006. Furthermore, banks have participated with 44.3% in the overall GDP.

The ownership structure in the banking sector is dominated by foreign banks as indicated below:

- 21 banks in majority ownership of foreign shareholders,
- 9 banks in majority ownership of domestic private shareholders,
- 9 banks in majority ownership of the state.

By introducing a broad range of high-quality banking services, foreign banks bring the sector close to western standards, providing full support to the local business community and fuelling robust economic growth. The standard package of services available in most commercial banks includes:

- Deposit operations (all kinds of deposits),
- Credit operations,
- Foreign exchange and foreign currency transactions,
- Issuing operations (securities and credit cards),
- Treasury operations (money market foreign exchange),
- Custody operations (safekeeping and handling securities),
- Stock exchange related operations (purchase and sale of securities),
- Guarantee operations (extending warranties, guarantees, endorsements),
- Documentary operations,
- Electronic banking,
- Cash management,
- Intermediation (broker role in trading in securities),
- Purchasing and collection of claims,
- Other financial services,
- External payment operations and external loan operations.

During the last couple of years banks have recorded a continuous expansion of their organizational network as a result of their business activities and competition increase. Throughout 2004 and 2005 there were 394 business units, branches, and counters opened. By the end of 2005 there were 1,867 business units, branches and counters in total. Out of the existing banks the biggest growth has been achieved by the group of foreign banks, whilst state and private banks have decreased a number of operating units throughout 2005. This movement may be explained by the increase in banks that have been taken over by foreign owners in the period between 2003 and 2005.

Employment

The number of employees in this sector has been continuously increasing and at the end of 2005 it amounted to 25,680. This growth was a result of the expansion of business operations and bank networks.

Yearly growth of employment in the banking sector in the following periods 2002-2003, 2003-2004, 2004-2005 amounted to 3,405 (18%), 1,142 (5.1%) and 2,219 (9.5%), respectively. Number of employees in foreign banks was increased from 2,490 to 3,798 at the end of 2003 and 2004, respectively, to 12,410 at the end of 2005. This increase in employment was a result of an increased bank activities and the fact that the number of foreign banks risen from 11 to 17 by the end of 2005.

Table1: Comparison of number of units and employees

Country	Number of Credit Institutions	Num. of org. units	Num. of employees	Num. of employees/ Num. of org. units	Num. org. units/ Num. credit inst.	Num. of employees/ Total population
1	2	3	4	5=4/3	6=3/2	7
Germany	2148	45505	712300	16	21	0.9
Greece	62	3403	59337	17	55	0.5
France	897	26370			29	
Italy	787	30946	336979	11	39	0.6
Austria	796	4360	72858	17	5	0.9
Turkey	51	6564	138657	21	129	0.2
Serbia	40	1867	25680	14	47	0.3

Source: Report on the financial stability in 2005, Central Bank of Turkey



Capital

The banking sector capital at the end of 2005 amounted to 125,661 million RSD or 16.2% of the liabilities. The rise of capital, 15.32% in 2004 and 26.4% in 2005, did not follow the increase of balance so its share decreased from 23.5% to 16.2% of liabilities in the banking sector. Thus, at the end of 2005 the capital amounted to:

- 2 banks with 10 million RSD
- 6 banks in between 5 and 10 million RSD
- 28 banks in between 1 and 5 million RSD
- 4 banks with less than 1 million RSD.

Deposit Potential

Out of the total balance of deposits, 72,279 million RSD is received from other banks, out of which 47,288 million RSD are obtained from foreign banks or 9.8% of the total. There was a significant increase of deposits compared to the end of 2003 when it amounted to 2,894 million RSD or 1.3% of the total. In addition, a new law was passed regulating insurance of deposits where the bank is obliged to insure deposits of physical entities at the Agency for Insurance of Deposits up an amount of €3,000.

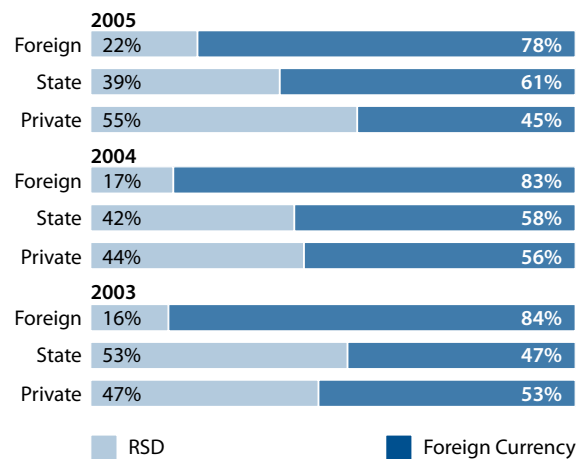
Insurance companies

Like the banking system in Serbia, the local insurance sector has seen strong recent growth. The total balance sheet of insurance companies amounted to about €559 million in March 2006, while the insurance premiums reached €114 million. Out of the total premium sum, non-life insurance accounted for 90.7%.

Currently, there are 17 players in the market, with 6 of them being foreign owned. Following the investment by Ital-

ian Generali Group in early 2006, other major global insurance companies are expected to start operations in the country, particularly through privatization and acquisitions.

Deposit Potential



Leasing companies

Financial leasing services were recently introduced in Serbia. Out of 15 leasing services providers in the local market, 13 are foreign owned. Most leasing companies deal with both new and used equipment, as well as with commercial and passengers' vehicles. As a rule, a lease term may be between 2 and 5 years, with a minimum down payment ranging between 5% and 25% depending on the subject of lease.

Mr Massimo Pierdicchi,
Head of International Subsidiary Banks Division - Europe
Banca Intesa

Why did you choose to invest in the retail industry in Serbia?

Above all, the improved stability in Serbia coincided with the development of Banca Intesa in the SEE Region. In our opinion Serbia has outstanding growth prospects, both on the market level, relative to consumer goods demand, and on the banking system level, as well as financial services demand.

We have a long term vision for the Serbian market and we are certainly the foreign bank that has put more on the plate, than any other financial institution which has arrived to Serbia in the past years.

In 2005, Banca Intesa was the leading investor in the country and accounting for approximately one quarter of the total FDI. Also, looking at the last 5 years and the initial amount of investment, our venture is the third largest following Telenor and Philip Morris.

Our decision to acquire this bank is based on four crucial reasons: the value of the bank itself, excellent financial results, a good network of branches, and a large customer base. This is a result of the work of the management and the entire staff of Banca Intesa Beograd, whom we have found to be highly qualified and motivated.

To what extent have your expectations been met so far and what are your plans for the future?

A good deal of our expectations has been accomplished and we feel very comfortable in Serbia, both as investors and as people. We can sense the positive changes around us and that the country is making progress, although not as quickly as everyone would wish.

Our contribution will be to support the bank in developing its full potential, to reach the level of excellence and become a major player in the banking industry. At the same time, we are in the process of evaluating other investment opportunities and our business plan foresees new job openings for young Serbs.



Given your large experience in Serbia what would be your message to potential foreign investors?

The role of banks is fundamental in all economies in transition and in Serbia in particular, as they contribute to stabilizing the economic system and attracting foreign investments, thereby creating a positive environment for both foreign and local investors.

I am certain that before long Serbia will benefit from a wave of foreign investments, especially in the fields of insurance, real estate and production.

Banca Intesa wants to capitalize on Italy's status as Serbia's leading trade partner, and, therefore, we will serve as a bridge for Italian enterprises.



Banking Sector in Serbia and the Surrounding Region



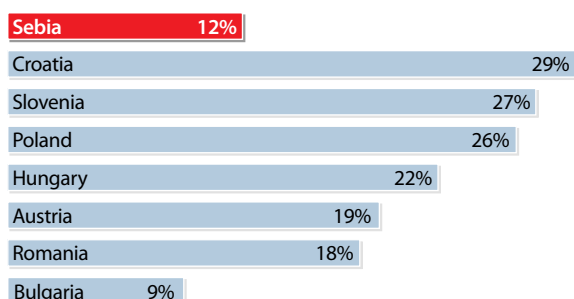
Official statistics show that in general, the average monthly net earnings per employee have had a constant growth trend ever since 2001. The biggest “jump” occurred between 2001 and 2002, from €90 to €152, and again from 2005 to 2006, from €210 to €258.

However, macroeconomic indicators point to the fact that a large portion of our earnings is still used to satisfy our needs for food although, compared to the period of 5-6 years ago, participation of the food factor in the total household expenses has been significantly reduced, from 62% in 2001 to 44% in the third quarter of 2006. This share of food expenses looks particularly extensive compared to other countries in the region, such as Slovenia, where only 22% of the income is spent on food, Czech Republic where the figure is 26% or Croatia which also has a more favorable figure when it comes to food expenses – 37%.

Further to the point, when all the basic needs have been satisfied, in the above countries there is a surplus of about 20% of net earnings, in Austria even 29%, which people can use to satisfy various other needs, while in Serbia, the figure is much lower, amounting to only 11%. Still, the fact that our average citizen is left with the least amount of money to spare actualizes the need for finding a way to save and invest such funds bringing us to the use of banking services.

There are numerous indicators of a rapid development and increasing activity of the Serbian banking market, such as the number of users of banking services, which soared from 2002 until the end of 2006 from 47.8% to 65.7% (GfK FMDS annual data). Checking accounts remain to be the most frequently used service (58%), followed by ATM cards, the service that boomed about 3 - 4 years ago, with 35%. In credit card penetration, we have surpassed Poland (26%) but in most CEE countries, this figure ranges between 50 - 60 percent, with an exception of the most developed Austria (80%) and neighboring Croatia (69%) the leader in the use of this banking service in the region.

Credit penetration



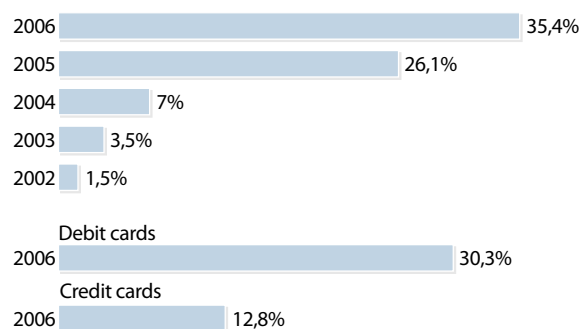
Source: FMDS 2006

Interestingly enough, in respect to credit penetration, with 12% in 2006, we surpassed Slovakia (10%) and Czech Republic (8%) the countries which, although more developed, are quite cautious when it comes to taking out loans.

However, we are still quite below Slovenia (27%) and Croatia (29%), the two most indebted countries in the region by the amount of loans raised by their citizens.

Comparing penetration of credit and saving, it is possible to say that Czechs, Slovaks and some other nations are among those who are much more inclined to save money (Czech Republic 56%) than to burden their finances with loans. In Croatia, penetration of saving is equal to that of taking loans (29%). In Serbia, still, very few people save money in the bank (only 4%); clearly, one of the reasons is the low standard of living but the other quite significant reason can be found in the aspect of our lifestyle, as pointed out by Goran Tintor, GfK Belgrade's Custom Research Director – i.e., in our inclination towards overspending. Currently, in spite of the low penetration of savings we have an increase in the overall amount that is attributed to the actual growth of saving amounts per individual clients (those who save – save more).

Possession of payment cards in SCG



Source: FMDS annual data

Base: 1,000 respondents in each round of FMDS research

Penetration of electronic banking as a modern form of doing business with banks in Serbia in 2006 was the lowest in the region (1%), while Austria and Slovenia (16% each) are leading on the list. E banking depends to a certain extent upon penetration of the Internet, however education and a good presentation of its advantages could prove to be effective and result in massive use in the future.

In addition to the savings service which has a huge potential in Serbia in the years to come, as one-third of the people say they will probably or certainly save some money in the next twelve months, consumer loans, loans for reconstruction of old and buying new homes still present a great opportunity for the banks doing business in this market.

And what are the things the banks ought to take into consideration in defining their operation strategies? Their clients say they want their bank to be trustworthy and reliable in the first place, to charge favorable interest rates and commission fees, and to have employees who are well-informed, professional and polite. All the above requirements have gained in importance over the past three years. The origin of a bank per se, i.e., whether the bank is domestic or foreign has become less important in the observed period.

Belgrade

April 14 – 28, 2007

Belgrade Dance Festival

Netherlands, France, Czech Republic, Germany, USA, and Sweden dance artists will present their art to the Belgrade's audience in two different venues, Sava Center and Belgrade Drama Theater. Classic ballet, modern dance and other forms of movement will depict the main idea behind this festival and that is to show "essentially the mystery of beauty (that) is hidden in human body and its movement. We have chosen Dance since it was initiated by the longing for Beauty, Love and Truth."

The Other Home

Doerte Weidig

Chairperson of ProCredit Bank,
Serbia

What is your experience on living in Serbia?

I have been living for 4 years in Belgrade and I must say, personally, I believe that Belgrade is the most attractive and the most interesting city in Europe. There is no doubt. In general, I like the country very much, because people have extremely high energy level. So, if you want to reach things with people here, you can reach them.

April 17, 2007

Busta Rhymes – Concert

Busta Rhymes, is an American hip hop musician and actor of Jamaican descent who will be having a concert at the Belgrade Arena. Each of his albums spawned at least one hit single (though often more), from "Who-hah!! Got You All in Check" off The Coming, straight through to the ridiculous, lascivious "Make It Clap," from It Ain't Safe No More. His singles, which function like memorable action sequences from Hollywood blockbusters, burst with sonic special effects layered over classic grids of funky drums and tight bass loops.

April 21, 2007

20th Belgrade Banca Intesa Marathon

"Together to the Goal" is the slogan of this year's traditional marathon through Belgrade. The manifestation gathers athletes from around the world running through Belgrade on the race track that is 46.7 km long.

March 24 – April 29, 2007

Architecture Saloon

19th saloon of architecture in the Museum of Applied Arts called Spontaneous Flows (local-regional-global) represents the biggest and most important yearly collection of modern architecture in Serbia. This year, over a hundred works and authors will be included in the newest architectural, interior and urban projects showcased at this unique exhibition.

Belgrade & Novi Sad

April 21 and 22, 2007

Chinese National Circus – Circus

The show is a result of a desire to describe China's history and beauty, thus the travel to the traditional Chinese kingdom with Marco Polo is one of the most demanding and spectacular art presentations in the world. The complete unity of body, spirit and soul as the highest goal of Chinese artists is offered to Serbian spectators by the members of the Chinese National Circus in both Spens (Novi Sad) and Hala Pionir (Belgrade).

SIEPA

Serbia Investment and Export Promotion Agency

Vlajkovicева St. 3/V
11000 Belgrade, Serbia

tel: +381 11 3398 550
fax: +381 11 3398 814

office@siepa.sr.gov.yu
www.siepa.sr.gov.yu

Hot Spots

Salas 137

This is a unique place where you can enjoy home cooking and drinks in an authentic ambiance with local ethno music. The restaurant features traditional cuisine from the region of Vojvodina and has a capacity of hosting 70 guests inside the premises and 80 in the garden during summertime. In addition, this complex offers 14 rooms decorated in Alt Deutsche style, while during the day guests may enjoy various activities such as horseback riding, carriage rides, vine tastings, massages, mini football, volleyball, golf, hunting, and other leisure interests.

Location: near Novi Sad
Address: Međunarodni put,
21233 Čenej (Novi Sad),
Tel: +381 21 714 497, 505, 501
and +381 65 INFOTEL,
e-mail: www.salas137.co.yu



Novi Sad

April 13, 2007

Royal Philharmonic Stockholm Classical music

The tradition of the Royal Stockholm Philharmonic orchestra will be presented in a venue called Sinagoga. This infamous ensemble was initially established back in 1902 and starting from 1926 it is situated in the Stockholm Concert Hall. Also, the orchestra regularly participates at the Nobel prize awards ceremony.