

# Serbia's Eurovision

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Special report prepared by Strategic Media

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# Serbia's Eurovision

**Serbia is in many ways an emerging Southeast European transition country with very attractive figures: an average 5.9 percent growth over the last 6 years, foreign direct investments above \$1 billion five years running (2.5 billion in 2007 alone), and inflation securely fixed in the single digits. Now sights are set on joining the European Union, but can this once war-torn country on the rebound meet the high expectations it has fostered?**

## The Balkan Continuum

**T**he 1990s were a difficult decade for Serbia and the Balkan region in general. Despite never having been part of the Warsaw Pact, following the fall of the Soviet Union, Yugoslavia rapidly broke up into separate regions declaring independence, causing cultural and religious clashes that finally degraded into the Yugoslav wars. In Serbia, Slobodan Milošević had risen to power and his controversial stand on several issues, including the opposition to the call for independence by Kosovo, an autonomous region of predominantly ethnic Albanians, led to UN sanctions. Political isolation and a sharp economic decline marked the end of the 1990s, despite a fragile peace finally having been brokered in 1999.

But the new millennium brought a whole new set of opportunities to the table. Democracy was taken up after the popular ousting of Milošević, and the healing process was set in motion. Through cooperation with the International War Crimes Tribunal in The Hague and participation in NATO's Partnership for Peace program, Serbia is cleaning up its image. Priorities now lie with building up the economic machine, opening up to Europe, and primarily in resolving the Kosovo issue. "In the past seven years," reflects President Boris Tadic, "we have had 6 or 7 percent growth in our economy. That is a tremendous result. We are planning crucial investments in our infrastructure, finalizing all highways through Serbia in the next five years, modernizing our railways, and we have a plan to build a giant oil pipeline from Romania through Serbia towards Trieste in Italy." The latter would complement a new gas pipeline from Bulgaria and another from Hungary. The infrastructure

push, coupled with successful privatizations, is already having a positive effect on the amount of new businesses and plants being established in Serbia. "In 2007 we had €1.7 billion in Greenfield investments in our economy," says Tadic.

But major steps have also been made in foreign relations, both regional and international. "I am very satisfied with the fact that we finalized negotiations about the Stabilization and Association Agreement (SAA) in the past four months, in 120 days," says President Tadic, referring to the key pre-membership accord with the European Union. As the second largest market in the region (after Greece) with 7.5 million people, and a common language connecting over 20 million throughout ex-Yugoslavia, Serbia has a lot to gain by becoming a full member of the EU. Despite the ongoing dispute about Kosovo's status, Serbia stresses its willingness to continue negotiations with the EU.

According to President Tadic it is the missing link in overcoming the country's imbalanced past and continuing its presently solid growth to attain an even more promising future. "Integration with Europe is our plan, our dream, our main strategic goal. In the next five years I am expecting the image of Serbia to change in a very successful way." Serbia's Minister of Foreign Affairs Vuk Jeremic says that the accession progress of the Western Balkans as a whole hinges on Serbia as its catalyst. "Serbia has picked a direction," asserts Jeremic. "Full EU membership, democracy, rule of law, market economy, and not looking back into the nationalist decade of the 90s." Jeremic, however, stands by Serbia's decision that it will never recognize Kosovo as an independent state. ■

# Serbia's Business Resilience

A major challenge that Serbia faces is upgrading the quality of businesses to EU standards. A wave of privatizations and liberalization of the Serbian economy has prepared it for competition, as well as resulting in a budget surplus used to pay off IMF and World Bank debts. Returns on heavy foreign investments in Serbia have already proven highly profitable. The successful purchase and revitalization by U.S. Steel Serbia of the important Smederevo steelworks is a model for businesses throughout the region. Following its sale by the Serbian state in 2003 for \$33 million and a substantial investment of \$150 million, U.S. Steel turned the company around from being one of the country's socialist-era industrial failures into Serbia's largest exporter. Not abated by the risks of investing in Serbia at the time, Richard Veitch, General Director of U.S. Steel Serbia, says that the advantages of the country's strategic location were among the main reasons for the American company to buy into the grand potential. "The benefit we have in being here is that we obtained the opportunity

of investing in a very rapidly growing economy surrounded by EU neighbors, and to supply our products in markets that we, as a company, have not been involved in before."

Following extensive maintenance and upgrading of the facilities in the five years since acquisition, U.S. Steel Serbia now produces over 1.8 million metric tons of steel and steel products per year. "We have met and exceeded the original capital investment in this particular facility," confirms Veitch, adding that the plant's capacity of around 2.2 million metric tons will come on line this year. This, says Veitch, is largely due to the outstanding motivation of the company's 6,000 employees. "People here in Serbia really want to be successful. They want their companies to be a success." U.S. Steel Serbia is now focusing its investments on increasing value added production, environmental solutions, as well as technology and specialized trainings for its employees and being a good neighbor to the local community. The Pittsburgh-based Corporation also refurbished the port of Smederevo for unloading of raw materials and shipment of its products down the Danube River, and has extended its operations to the new port, connected to a main highway and railway network. But in order to truly capitalize on economic opportunities, Veitch says the government's progression in infrastructure is essential. "The stability in supplying natural gas is one of the issues for us. Stable generation and delivery of electricity to major manufacturers, road networks, those are the types of investments that need to be made."



Established local companies have also set solid examples of successful business models. Continuing one of the longest aviation industry traditions in Europe, government-owned Jat Tehnika upholds an eighty-year history of offering the highest quality in aircraft maintenance and servicing. In an industry that has been through several crises in recent years, Jat Tehnika still manages to bring in new, long-term contracts from major international carriers. Jat Tehnika's fully equipped technical centre is EASA Part-145-certified in Europe and has also obtained the American FAA certificate, enabling it to become competitive worldwide. "We have been involved in all areas of the industry, both technical maintenance and production of aircraft," explains Managing Director Budimir Hinic. "Our organization has around one thousand employees with extensive capabilities in complete maintenance of Boeing 737 Classic as well as older aircraft such as Boeing 727 and DC9s. We have customers from Spain, Czech Airlines, and a major contract with British carrier Jet2.com."

The health sector is also a burgeoning market in Serbia, and one of the first persons to see its private potential was Mrs. Jasmina Knezevic, founder and general manager of Bel Medic clinics. Having established the country's first private clinic in 1995, the company has become a benchmark for private health care in Serbia with three clinics in Belgrade. Implementing ISO 9001 standards and maintaining professional partnerships with thirteen international insurance agencies, Bel Medic is the favored health care provider for major organizations and multinational corporations present in Serbia. In 2006, Bel Medic was awarded the "Best of Serbia" accolade in the field of medicine, and the company is now open to regional expansion. "We really believe we can become part of Europe and the developed world," says Knezevic. "Serbia was not popular and we want to change that way of thinking. It is my aim to show that we have been good in the fields of which the developed world is at the top."

## Financial Confidence from Within

Many foreign investors understand Serbia's massive potential for servicing the Southeast European region, but some have been weary of the possible risks involved in a nation still actively building its future. Analysts close to the sector, however, state that this is largely a misconception. "Risks exist, but they are far lower than what people imagine," says Milutin Nikolic, cofounder and member of the board of Citadel Securities. "A large part of our job is actually to bridge this gap of risk perception." Nikolic and Chairman Pavle Kavran were two of the first investment specialists to see Serbia's ripe potential at the turn of the new century. They left their good positions at investment banking firms in New York and London to start up Citadel with no more than a laptop in a room. Today, their company consists of fifty-plus employees, has offices in four countries in the region, and during the last

six years has advised on transactions with a total value of over €4.5 billion. The founders have thereby become pioneers of foreign investment and proof of the financial industry's success.

"It was a great year for the Citadel Group," recalls Nikolic. "One of our members—Citadel Financial Advisory—received The Banker magazine's award for best merger and acquisition transaction in Southeast Europe for advising the Serbian government on the sale of



mobile phone operator Mobi 63 [to Telenor]. In addition, our brokerage firm, Citadel Securities, received the Belgrade Stock Exchange Award for the largest amount of transactions in 2006.” Citadel Financial Advisory is the largest adviser to the government in terms of euro volume, as well as the largest adviser to private foreign investors coming to Serbia in euro volume and in the number of transactions. This year also saw the creation of Citadel Asset Management and its first open-end investment fund.

Pavle Kavran points out that the main attraction of Serbia is its profitability within a very promising region. “Serbia recently signed the Central European Free Trade Agreement (CEFTA). This basically means that any investor who has products here that can be sold across the border looks at this as a market of sixty million people. Serbia has a specific free trade agreement with Russia. You can go to Slovenia, Croatia, Bosnia, and down to Albania and Greece. Belgrade and Serbia being so central are ideally positioned for trade between North and South Europe, as well as West Asia.”

Both men realize that the Kosovo issue could put off investors, but having a clear view from the inside, they can assure clients that the domestic economy is able to withstand any shocks on the political scene. Nikolic instead sees a current market trend in the phenomenon of regional ties, of people coming closer together. “Bulgarians investing in Serbia, Croatians investing in Bosnia, Slovenians investing in Kosovo—this is extremely beneficial for everyone. Interlinking the region economically gives economic growth, and it also reduces political risks and goes against all the bad things that happened in the past. It’s all about confidence-building in a market which was bruised. We are investors in Serbia, not only with money, but also with our lives, and every day we’re more convinced that this is the right place to be.” ■

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