

# East Europe Market Outlook

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The idea of the presentation

## South-East Europe – challenging market



## South-East Europe - resources

Country	Population (in million people)	Area (km <sup>2</sup> )	Resources
Montenegro	0.62	13 812	Crude steel; bauxite; sea salt; coal; forests and woodlands with rich flora and fauna
Serbia	9.77	88 361	Coal, copper, lead, zinc, antimony; wood; some oil deposits
Kosovo	1.8	10 887	Lignite, bauxite, lead and zinc, ferronickel, magnesite
Croatia	4.50	56 542	Oil, coal; bauxite, iron ores; calcium, silica; clays; salt
Bosnia and Herzegovina	4.49	51 209	Coal, manganese, silver, bauxite, lead, zinc, iron ores, copper; timber; salt; lime stone, marble, clay, gravel
Macedonia	2.03	25 713	Lead and zinc ores, copper, nickel, coal; decorative stone; bentonite, fire resistant clays, gypsum, quartz, opalite, feldspar
Albania	3.53	28 748	Chromium, oil, natural gas, copper, iron, nickel, coal, bitumen, marble, timber, salt
Bulgaria	7.72	110 912	Lignite, bauxite, lead and zinc, ferronickel, magnesite
Romania	22.30	238 391	Crude oil, natural gas, coal (lignite, pit and brown coal); ferrous and non-ferrous ores (copper, lead, zinc), gold and silver ores; salt
<b>Total</b>	<b>56.76</b>	<b>624 575</b>	

## GDP in SEE countries

	2005	2006
	GDP in billions EUR - nominal	
Montenegro	1.6	1.7
Serbia	21.0	24.3
Croatia	31.3	34.2
Bosnia and Herzegovina	8.1	9.2
Macedonia	4.6	5.0
Albania	6.6	7.3
Bulgaria	21.9	25.1
Romania	79.5	97.2
Total GDP	174.7	204.0

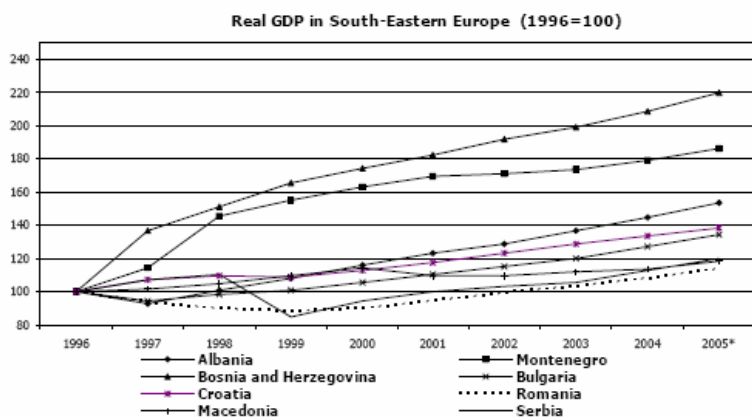
## GDP per capita in SEE countries

	2005	2006
	GDP per capita (nominal)	
Montenegro	2,638.0	2790,5
Serbia	2,830.0	3,280.0
Croatia	7,040.0	7,700.0
Bosnia and Herzegovina	2,095.0	2,380.0
Macedonia	2,276.4	2,429.9
Albania	2,101.3	2,321.3
Bulgaria	2,840.0	3,270.0
Romania	3,680.0	4,500.0

# Real growth rates

	Real growth rate			
	2006	2005	2004	2003
Montenegro	4.50	4.10	3.7	2.3
Serbia	5.70	5.90	7	2.5
Croatia	4.80	4.30	3.8	4.3
Bosnia and Herzegovina	6.20	5.50	-	3.5
Macedonia	3.10	4.00	-	2.2
Albania	5.00	5.52	5.9	5.7
Bulgaria	6.20	6.10	5.8	4.3
Romania	7.10	5.20	4.5	4.9

# SEE countries – GDP growth



## Foreign direct investment

	2005	2006
	FDI nominal (in millions EUR 1.000.000)	
Montenegro	382.9	505.5
Serbia	1,239.0	3,499.2
Croatia	1,439.8	2,838.6
Bosnia and Herzegovina	421.2	340.4
Macedonia	80.0	279.0
Albania	223.0	251.0
Bulgaria	3,109.8	4,116.4
Romania	5,247.0	9,039.6

## FDI/GDP

	2005	2006
	FDI/GDP	
Montenegro	23.3%	28.9%
Serbia	5.90%	14.40%
Croatia	4.60%	8.30%
Bosnia and Herzegovina	5.20%	3.70%
Macedonia	1.73%	5.63%
Albania	3.37%	3.43%
Bulgaria	14.20%	16.40%
Romania	6.60%	9.30%

## Inflation rates

	2005	2006
	Annual inflation rate (in %)	
Montenegro (MONET)	1.8	2.0
Serbia	16.2	11.7
Croatia	3.3	3.2
Bosnia and Herzegovina	3.8	7.4
Macedonia	0.5	3.2
Albania	2.4	2.4
Bulgaria	5.0	7.3
Romania	9.0	6.6

## Unemployment

	2005	2006
	Annual unemployment rate (in %)	
Montenegro	19.0	14.6
Serbia	20.8	20.9
Croatia	12.7	12.0
Bosnia and Herzegovina	44.6	43.0
Macedonia	37.3	36.0
Albania	14.2	13.9
Bulgaria	10.7	9.1
Romania	5.8	5.4

## Tax policy in SEE

Country	Corporate income tax	VAT	Tax on capital gains	Wage tax
<b>Montenegro</b>	9%	17%	<b>0</b>	36,10%
Serbia	10%	18%	20%	35,80%
Croatia	20%	22%	<b>0</b>	37,20%
Bosnia	10%	17%	<b>0</b>	39,00%
Macedonia	15%	18%	12%	32,50%
Slovenia	22%	20%	20%	38,20%

## Capital market

Why is capital market important?

# Capital market

Country	Market capitalization	Turnover	GDP
<b>Montenegro</b>	5.625.000.000 €	443.695.975 €	1.900.000.000 €
Serbia	18.310.750.000 €	1.055.176.434 €	25.456.000.000 €
Croatia	48.465.466.000 €	4.485.850.361 €	34.221.000.000 €
Bosnia	8.832.812.000 €	640.344.208 €	11.146.000.000 €
Macedonia	5.181.480.000 €	254.406.471 €	4.957.000.000 €
Slovenia	16.023.000.000 €	786.832.281 €	29.741.000.000 €

	Country	Market capitalization / GDP		Country	Turnover / GDP
<b>1</b>	<b>Montenegro</b>	<b>260,00 %</b>	<b>1</b>	<b>Montenegro</b>	<b>25,22 %</b>
2	Croatia	141,62 %	2	Croatia	13,10 %
3	Macedonia	104,00 %	3	Bosnia	5,74 %
4	Bosnia	79,24 %	4	Macedonia	5,13 %
5	Serbia	71,93 %	5	Serbia	4,14 %
6	Slovenia	53,00 %	6	Slovenia	2,64 %

	Country	Growth of share indices 2007.
<b>1</b>	<b>Montenegro</b>	<b>140,54 %</b>
2	Macedonia	86,72 %
3	Serbia	70,00 %
4	Bosina	62,45 %
5	Croatia	55,06 %
6	Slovenia	43,53 %



## General estimate of economic system in the region

- Good laws – favorable for doing business,
- Law taxes,
- Free trade,
- National treatment of foreigners: same rights and responsibilities as domestic citizen.

## Expectations in next year

- Growth driven by strong investment related to construction and the addition of new production capacities
- Macroeconomic policies will remain relatively tight

## The key obstacles for doing business

- The rise of populist parties
- “Big state” and corruption
- Underdeveloped judiciary

## Why liberal oriented parties loose the election?

- High public expenditure – around 45%
- High level of corruption
- Inefficient judiciary

## My recommendations:

- Area of business
- Area of organizing business

## I recommend:

- Invest in infrastructure – roads, water supply, airports
- Invest into energy – and hydropower-plants especially!
- Find an opportunity in trade deficit
- Capital market
- Real Estates Market
- Tourism
- Privatization – depending from the country there is still 15%-85% of total capital in the hands of state

## Organization of business – mental framework, culture, informal rules

- Strategic partnership – with local partner
- Developing of good relations and friendly atmosphere with employees!
- It is important to create the team of domestic – local experts!
- Get in touch with local business consulting company to find the stuff, develop marketing strategies, etc.
- Friendly relations with municipality – local governments.
- Try to avoid giving money to anybody – when you start to give money, the question is whether you'll be able to stop, and when
- Be aware of lawyers.

Why is Montenegro unique?

## Pillars of economic reforms in Montenegro

- Openness;
- Access to sound money;
- Low level of business regulation;
- Low level of taxation.

### Pillars of the Reforms in Montenegro

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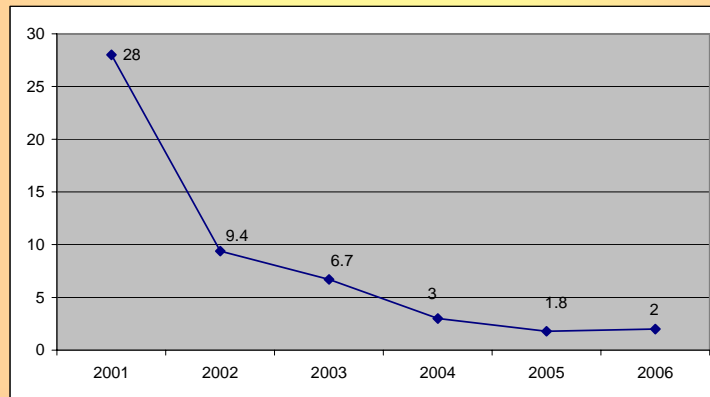
#### **Openness**

- Free trade
- Low Tariff rates (on average 6%)
- “National treatment of foreigners”
- Capital and Current Transaction Law
  - No restriction regarding capital and current transaction with abroad
  - Free flow of capital (repatriation of the profit, possession of the current account abroad)
- WTO accession

## Pillars of the Reforms in Montenegro

### Euro as legal tender – no monetary policy

Inflation rates annually – in %



## Pillars of the Reforms in Montenegro

- Low level of taxation:
  - Corporate Income Tax – 9% (flat)
  - Personal Income Tax – **flat rate of 15% (2008 – 12%, 2009 – 9%)**
  - VAT – 17%
  - No tax on capital gains

## Pillars of the Reforms in Montenegro

### Low level of business regulation easy entry – easy exit

#### STARTING A BUSINESS

INDICATOR	MONTENEGRO	SERBIA	ESTONIA	NEW ZEALAND	USA
NUMBER OF PROCEDURES	15	10	6	2	5
TIME (DAYS)	24	18	35	12	5
COST (% OF INCOME PER CAPITA)	6.6	10.2	5.1	0.2	0.7
MIN. CAPITAL (% OF INCOME PER CAPITA)	0	7.6	34.3	0	0

Source: World Bank, Doing Business 2007, IBRD/WB, Washington, DC, 2006.

#### Montenegro

##### LIMITED LIABILITY COMPANY

Minimum capital requirement: €1  
Registration fee: €10

##### JOINT STOCK COMPANY

Minimum capital requirement: €25,000  
Registration fee: €10

##### GENERAL PARTNERSHIP

Two or more people  
Minimum capital requirement: none  
Registration fee: €10

##### LIMITED PARTNERSHIP

Two or more people  
Minimum capital requirement: none  
Registration fee: €10

##### ENTREPRENEUR

Minimum capital requirement: none  
Registration fee: €10

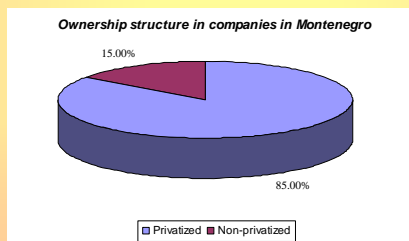
##### PART OF A FOREIGN COMPANY

Minimum capital requirement: none  
Registration fee: €10

## Pillars of the Reforms in Montenegro

- Privatization and protection of property rights

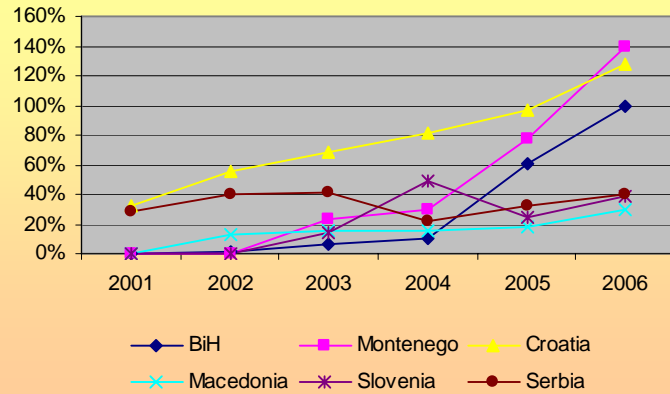
Value of capital at the beginning of privatization process	4,695,490,243.37	%
<i>Privatized</i>	<i>3,991,166,706.86</i>	85.00%
<i>Non-privatized</i>	<i>704,323,536.51</i>	15.00%



## Pillars of the Reforms in Montenegro

### Capital market

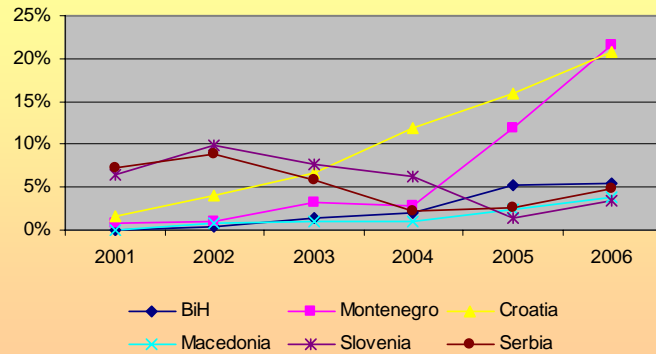
Market capitalization/GDP



## Pillars of the Reforms in Montenegro

### Capital market

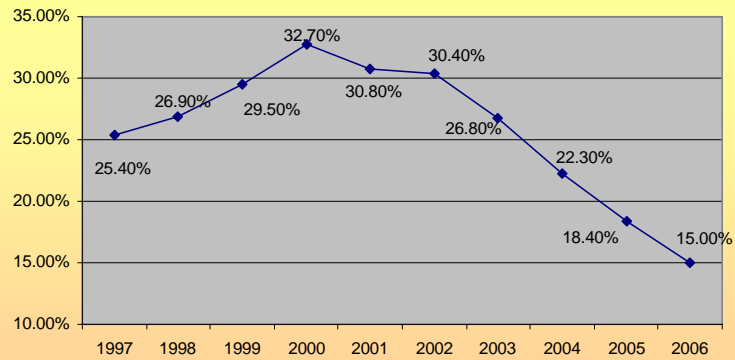
Stock Exchange Turnover / GDP





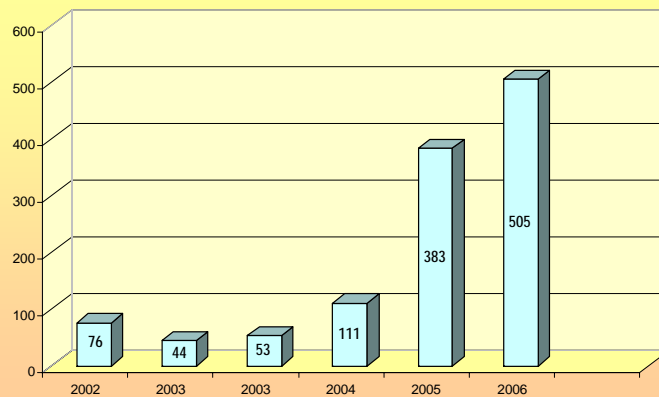
## Visible results

### Unemployment rates are falling



## Result of the Reforms in Montenegro

### FDI (in millions EUR) are growing – FDI per capita 3<sup>rd</sup> highest in Europe (EUR 825 in 2007)



## Result of the Reforms in Montenegro

### Economic freedom are growing!

#### FRASER INSTITUTE CRITERIA AND SCORES FOR MONTENEGRO

CATEGORIES OF FRASER INDEX	2005 (AVERAGE SCORE 5.97)	2006 (AVERAGE SCORE 6.37)
SIZE OF PUBLIC ADMINISTRATION	5.82	5.97
LEGAL STRUCTURE	3.38	4.63
STABLE CURRENCY	9.23	8.66
INTERNATIONAL TRADE	6.64	6.93
REGULATIONS	4.82	5.44

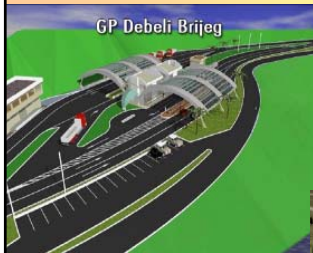
Source: Center for Entrepreneurship and Economic Development estimates of the *Economic Freedom of the World Index*, authorized by Fraser Institute

Ranking - 2005 (86th/127); 2006 (64th/130)

#### PROJECTS



## Border crossing Debeli Brijeg, Airports in Podgorica and Tivat



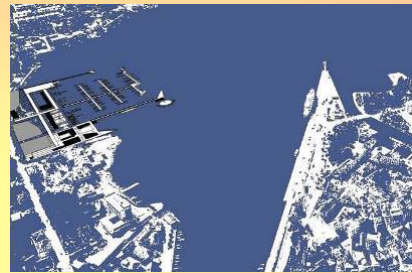
## Perazica Do



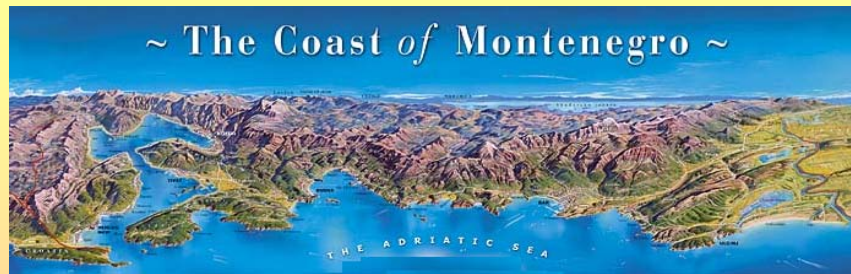
# Hotel Splendid



# Marina Kotor



Invest in the beautiful coast of Montenegro!



Montenegro will be Mediterranean tiger!



Thank you for the attention!

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