

DOING BUSINESS IN SERBIA

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ECONOMY OVERVIEW IN SERBIA

The economy of Serbia is a service-based upper middle income economy in Central Europe, with the tertiary sector accounting for two-thirds of total gross domestic product (GDP). The economy functions on the principles of the free market. Nominal GDP in 2022 is projected to reach \$62.721 billion, which is \$9,164 per capita, while GDP based on purchasing power parity (PPP) stood at \$164.835 billion, which is \$24,084 per capita. The strongest sectors of Serbia's economy are energy, the automotive industry, machinery, mining, and agriculture. The country's primary industrial exports are automobile parts, base metals, furniture, food processing, machinery, sugar, tires, clothes. Trade plays a major role in Serbian economic output. The main trading partners are Germany, Italy, Russia, China, and neighboring Balkan countries.

Belgrade is the capital and economic heart of Serbia and home to most major Serbian and international companies operating in the country, as well as the National Bank of Serbia and the Belgrade Stock Exchange. Novi Sad and Niš are the second and third largest cities respectively and the most important economic hubs after Belgrade.

OVERVIEW OF KEY SECTORS

Agriculture

Agriculture and food production is the most crucial export sector for Serbia, accounting for over 10 percent of the country's GDP and around 20 percent of all exports. The Ministry of Agriculture, Forestry, and Water Management (MAFWM) is responsible for the government's international and domestic agricultural trade strategy, food processing, rural development, forestry, and water management. Serbia is the largest agricultural market in the Western Balkans, with a strong agricultural production and food processing tradition. Serbia is a global leader in the production of non-GMO corn and raspberries. The food processing industry accounts for approximately one-third of Serbia's entire processing industry. Currently, over 15,000 food businesses are operational. Approximately 90 percent of these are micro, small, or medium-sized enterprises. This industry employs over 100,000 people and stands as one of the rare examples of sectors that have not been impacted adversely by the COVID-19 crisis. The largest subsectors by value are dairy, meat, fruits, vegetables, wine, and confectionery.

Energy

Serbia's national power utility EPS produces nearly 70 percent of the country's electricity from coal and nearly 30 percent from hydropower, with a small percentage coming from wind and solar. Serbia heavily subsidizes coal and electricity prices, inhibiting competition.

The Serbian government and EPS have announced plans to transition to green energy solutions and reduce Serbia's dependence on Russian natural gas. The Ministry of Mining and Energy has announced a €7 billion investment plan for the electricity and mining sectors, the bulk of it intended for new hydropower capacity.

Automotive industry in Serbia

Over the past ten years, Serbia was one of leading European destinations for foreign investments in the automotive industry. Currently the major product groups in Serbian automotive industry are: Tires, Wiring harness, Wipers, Hoses, Various metal components. Given the current investment trends, these will be replaced in the future by products such as electric motors, turbochargers, radar and optical sensors, electronics and power converters.

Telecommunications and IT industry

Serbia generates 10 percent of its GDP from the ICT sector, among the top four export sectors, along with steel, cars, and agriculture. According to Serbia's Statistics Office, there were over 3,354 firms in Serbia's tech sector in Q1 2022 employing 47,609 people. Serbian tech companies produce software for industries ranging from agriculture to medicine, as well as tracking and cloud applications, online games, and testing. They also run call centers and customer helplines, ranging from low-skilled to very high-tech.

Medical Equipment

The biggest customer for medical equipment and pharmaceutical products in Serbia is the National Health Insurance Fund. Compared to other countries in the region, Serbia has a relatively high healthcare expenditure ratio of 10 percent of GDP.

Imports account for approximately 88 percent of the market, in part because of health system reforms that increased demand for new equipment. The leading medical equipment suppliers are EU-based manufacturers. Domestic production of medical equipment and devices is small and largely focuses on medical supplies such as bandages and syringes.

Transport

Due to its strategic position in the heart of Southeast Europe, Serbia is often referred to as a gateway to Western Europe. Serbia is home to three important European transport corridors: VII (the River Danube), X (the international highway and railroad), and XI

(connecting Central Europe and the Adriatic Sea), providing excellent connections with Western Europe and the Middle East.

INVESTMENT CLIMATE

Serbia has grown into one of the main investment locations in Central and Eastern Europe. A list of leading foreign investors is topped by world-class companies such as Bosch, Michelin, Siemens, ZF, Yazaki, Brose, Toyo Tires, Fiat Chrysler Automobiles, Microsoft, Panasonic, Cooper Tires, Tarkett, Ling Long, MTU, NCR, Magna, Continental, Aunde, Calzedonia, Eaton, Stada, Swarovski, Mei Ta, Gorenje, Schneider Electric, Adient, Minth, Kyungshin Cable, Johnson Controls, Johnson Electric, Leoni, Bizerba, Hansgrohe, Barry Callebaut, Xingyu Lightning, and many others.

As an additional benefit for companies to streamline their operations, many municipalities offer the possibility of operating within designated industrial zones. Such zones offer advantages such as a streamlined process for obtaining land, favorable geographic locations, and ready-to-use infrastructure. Currently, fifteen of those industrial zones are also licensed free customs zones: Pirot, Subotica, Zrenjanin, FAS Kragujevac, Sumadija Kragujevac, Sabac, Novi Sad, Uzice, Smederevo, Svilajnac, Krusevac, Apatin, Vranje, Priboj, and Belgrade.

INDIAN INVESTMENTS IN SERBIA

- 2012: UAE based Indian company Mulk Holdings has invested US\$ 20 million (EUR 18 million) in an aluminum panel manufacturing facility in the town of Banatski Karlovac.
- 2012: Punjab based Sonalika Group established an assembly line of tractors in Boljavac, Serbia in through strategic partnership model of collaboration with the Serbian company FPM Agromehanika AD under the brand SOLIS. The partnership prove to be successful as the production volume is increasing and is export oriente towards the market of European Union.
- 2013: US\$ 20 million (EUR 18 million) has been invested by Indian real estate company Embassy Group in development of an IT Park in the town of Indjija near Belgrade. The contact was signed in 2008, and the IT Park opened in 2013.
- 2017: Mahindra Tractors also have an assembly line through Serbian company Agropanonka.
- 2017: CG Food India has opened Wai Wai noodle factory with investment of Euro US\$ 10 million (EUR 9 million).
- 2018: Indian company Tractors and Farm Equipment Limited (TAFE) has acquired Serbian tractor manufacturing company Industrija Masina i Traktora AD (IMT)

for US\$ 0.69 m (Euro 600,000) which includes the Brand, Designs, IPR and the right to use the real estate at Jarkovac, a city 75 km from Belgrade.

- Motherson Sumi of India opened its second factory in Serbia on 26 November 2021. Ambassador attended the opening. Serbian Prime Minister of Serbia Ms Ana Brnabic, Minister of Economy Ms Anelka Atanaskovic, Chairman of Motherson Sumi group Mr. Vivek Chaand Sehgal, and his son Laksh Vaaman Sehgal, Vice-Chairman of Motherson Group participated in the opening of the facility. New facility will produce parts for the interiors of luxury cars such as Porsche, Audi and BMW etc. Euro 38 million have been invested and it will provide employment to about 455 workers. The other Serbian facility PKC Wiring Systems, a Finnish company was acquired by Motherson in 2017. Both companies put together have investment of about Euro 65 million and provide employment to about 4500 people.
- 2022 PKC Wiring Systems doo, a member of the international Motherson Group, opened a part factory where 900 people would be employed in Pozarevac. This is the company's third facility in Serbia – it employs 3,826 workers in the factory in Smederevo and 286 in Cuprija.

FOREIGN TRADE

The country's main trade partners are Germany, Italy, China, Bosnia-Herzegovina, Romania Russian Federation, Turkey. Serbia is the largest Western Balkan trade partner of the European Union.

Serbia has a wide range of free trade agreements with foreign countries and trading blocs.

- ❖ Serbia signed a free trade agreement with the European Union in 2008 enabling exports of all products originating from Serbia without customs and other fees. For a limited number of products (baby beef, sugar, and wine), annual import quotas remain in effect. As of 2016, the EU countries were the largest trading partners of Serbia with 64.4% of country's total foreign trade.
- ❖ Serbia signed the CEFTA enabling exports of all products originating from Serbia without customs and other fees to the neighboring countries: Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro.
- ❖ Serbia signed a free-trade agreement with EFTA members (Switzerland, Norway, Iceland) in 2009.
- ❖ The Serbian free-trade agreement with Russia was implemented since 2000; for a limited number of products, annual import quotas remain in effect.
- ❖ Free-trade agreement with Turkey has been implemented since 2010.
- ❖ Trade with the United States is pursued under the Generalized System of Preferences (GSP) with a preferential duty-free entry for approximately 4,650 products.

Serbia's export-import global data for 2021 – top 10 items

Export to all countries

value in USD Million

no	Product name	value
1.	Ignition wiring sets and other wiring sets of a kind used in vehiclec,aircraft or ships	1,422.3
2.	Copper ores and concentrates	855.0
3.	Tyres,pneumatic,new,of a kind used on motor cars	623.2
4.	Maize(not including sweet corn),unmilled,other	558.2
5.	Flat-rolled products of iron or non-alloy steel,hot-rolled,not clad,of a width>=600mm,in coils	472.7
6.	Refined copper	469.9
7.	Raspberries,frozen,without sugar	426.1
8.	Surface-active washing or cleaning preparations,n.e.s.,put up for retail sale	418.1
9.	Other electric conductors,for a voltage not exceeding 1000V	258.8
10.	Parts of the seats of subgroup 821.1	255.6

Import from all countries

value in USD Million

no	Product name	value
1.	Petroleum oils and oils obtained from bituminous minerals,crude	1,341.3
2.	Medicaments,n.e.s.,put up for retail sale	975.7
3.	Natural gas,in the gaseous state	505.0
4.	Other parts and accessories of the motor vehicles of groups 822,781,782 and 783	389.0
5.	Other electric conductors,for a voltage not exceeding 1000V	386.4
6.	Telephones for cellular networks or for other wireless networks	333.1
7.	Gas oils	313.2
8.	Motor cars,diesel or semi-diesel,of a cylinder capacity exceeding 1500 cm3 but not 2500cm3	307.6
9.	Wire of refined copper	278.9
10.	Coke and semi-coke of coal	244.6

Bilateral trade between India and Serbia 2021 — top 5 items

Export to India

value in USD Million

no	Product name	value
1.	Dog or cat food,put up for retail sale	4.1
2.	Storage units	4.0

3.	Apples,fresh	2.6
4.	Other grinding machines,numerically controlled	1.9
5.	Propellent powders	1.8

Import from India

value in USD Million

no	Product name	value
1.	Aluminium, unwrought,not alloyed	9.3
2.	Parts for the pumps,compressors,fans and hoods of subgroups 743.1 and 743.4	6.5
3.	Ferro-silico-manganese	5.7
4.	Polyethylene terephthalate,in primary form	5.5
5.	Ferro-manganese containing by weight more than 2% of carbon	5.0

TRADE BARRIERS

Serbia is not a WTO member, but it has made strides to bring practices closer to conformity with WTO requirements. It has tackled some tariff and non-tariff barriers, including eliminating import quotas, reducing import licensing and prohibitions, and streamlining customs procedures.

The legal basis for the foreign trade of goods in Serbia is defined by the Law on Foreign Trade Transactions (FTT), the Law on Customs, the Law on Customs Tariffs, and the Decision on Determining Goods which require the Submission of Specific Documents for Import, Export, and Transit. The FTT generally does not limit foreign trade. Once registered to perform business activities, a legal entity/entrepreneur may perform foreign as well as domestic operations. No special approval or procedure is required for re-export transactions, except for goods subject to other regulations such as weapons, ammunition, and dual-use goods.

CUSTOMS TARIFFS

Serbia uses a standardized import/export documentation process (generally requiring a bill of lading, etc.). With the liberalization of the trade regime and reform of trade/customs-related institutions, Serbia continues to synchronize its documentation with the EU. More detailed information may be reviewed at the Customs Administration's webpage.

The Serbian Customs Tariff is harmonized annually with the EU Combined Nomenclature. In Serbia, there are several tariff regulations that are binding:

- Regulations on Tariff Classification published in the Official Journal of the European Union;

- Tariff Classification Rulings issued by the World Customs Organization (WCO);
- Binding Tariff Information issued by the Serbian Customs Administration, upon request, regarding the classification of certain goods, in case of ambiguity or uncertainty.

TAXATION POLICY

Corporate income tax (CIT): 15%

Value added tax (VAT): 10% / 20%

Personal income tax (PIT): 10%

Withholding tax (WHT): 20%

Corporate income tax (CIT)

Pursuant to the provisions of the Corporate Income Tax Law (CIT Law), Serbian resident companies are subject to 15% corporate income tax (CIT) on their worldwide income. A resident legal entity is an entity that is incorporated or has a place of effective management and control in the territory of Serbia. CIT is also levied on profits of permanent establishments of non-resident legal entities in Serbia.

Taxable income is established based on accounting profit, determined in line with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS and IFRS for SMEs), and local audit and accounting legislation, further adjusted for tax purposes.

Value added tax (VAT)

Value-added tax (VAT) is levied on the supplies of goods/services in Serbia, as well as on the importation of goods at the general VAT rate of 20%. However, certain supplies are taxed with the reduced VAT rate of 10% (food, medicines, transfer of the right of disposal over residential property).

Personal income tax (PIT)

Employment income includes all kinds of remuneration and benefits in kind or in cash earned from employment. Salary and income from employment (benefits) are subject to a salary flat tax rate of 10%. Employment income and salary tax are reported and paid via withholding.

Treaty on avoidance of Double Taxation

The Republic of Serbia signed double tax treaties with 60 countries, including:

- all EU countries (except Portugal)
- almost all Eurasian Economic Union member countries (Russia, Kazakhstan, Armenia and Belarus)
- **India**
- China
- South Korea
- Norway
- Switzerland
- Turkey
- Israel
- several Middle East countries, such as United Arab Emirates, Iran, Qatar, Kuwait

Double Taxation Treaty between India and Serbia is available on following link: <https://incometaxindia.gov.in/pages/international-taxation/dtaa.aspx>

More on taxation policy in Serbia and laws can be found on official website of Ministry of Finance, Tax administration on following link <https://www.purs.gov.rs/en.html>

ESTABLISHING THE COMPANY

There are four main types of legal forms:

- A partnership, where individuals share the profits, responsibility, debts and (personal) liability of the partnership as partners;
- A limited liability company (“LLC”) which is most commonly formed as a private company limited by shares;
- A public company (joint-stock company) which is not that common and has more stringent requirements but through which the company can offer its shares to the public; and
- An entrepreneurship (sole trader) as a form in which a natural person registers to conduct business activity. It is very common for small businesses that are not regulated (e.g., in banking, insurance, and similar areas).

The Serbian limited liability company (d.o.o.) is widely used for starting a business in Serbia, it is a legal entity where all the shareholders have a limited liability, based on their contributions and suitable for small and medium businesses. For a private limited liability company in Serbia, the founders must provide a minimum share capital of RSD 100 and this type of entity cannot be formed by more than 50 shareholders. According to the Company Act in Serbia, all shareholders of a limited liability company are liable for its earnings and debts. The major decisions of the Serbian D.O.O. are taken by the general meeting of the shareholders, while the daily decisions and the strict control on observing the articles of association are handled by a director. The following information is

comprised by the Articles of Association, the main documents for company formation in Serbia:

- complete information about the owners (their names, the nationality, the country of residence);
- the address of the head office, the main activities;
- the objectives of the newly-formed company in Serbia, in accordance with the applicable legislation;
- details about the initial capital contribution which is kept in a temporary bank account.

More information about formation of companies can be found on official web site of Business Registers Agency <https://www.apr.gov.rs/home.1435.html>

IMPORTANT INSTITUTIONS

Serbian Chamber Of Commerce And Industry (SCCI)

Serbian Chamber of Commerce and Industry of Serbia (CCIS) is an independent, non-budgetary institution, a national association of all Serbian businesspeople, CCIS is defined by the Law as an association of companies and entrepreneurs. SCCI links the entire Serbia's economy in a single system, classified by economic sectors in 18 business associations and by regions in 17 regional chambers, including the City of Belgrade.

More information on following link <https://en.pks.rs/>

Development Agency of Serbia (RAS)

Development Agency of Serbia (RAS) is a government organization offering a wide range of services including support to direct investments, competitiveness, and export promotion, leading the implementation of projects aiming to improve Serbia's attractiveness and reputation and increase economic and regional development.

More information on following link <https://ras.gov.rs/en/>