I. Country information

The Federal Republic of Yugoslavia (FRY) is situated in the central part of the Balkan Peninsula and consists of two federal units - Republic of Serbia and Republic of Montenegro. Republic of Serbia comprises two autonomous provinces: Vojvodina and Kosovo and Metohija. Since June 1999, while formally part of FRY, Kosovo is de facto international protectorate under the control and rule of the United Nations Mission in Kosovo - UNMIK.

FRY has a population of about 10.6 million and covers an area of 102,173 sq. km, where Serbia accounts for 88,361 sq. km of the whole area (incl. Kosovo - 10,887 sq. km and Vojvodine - 21,506 sq. km). The capital is Belgrade (1.2 million); other big cities include Novi Sad, Nis, Kragujevac, Pristina, etc. The climate in the northern part of the country is continental, while to the south and along the coast it is Adriatic.

The most important natural resources are coal, copper, lead, zinc, antimony, wood, some oil deposits.

II. Economic overview

2.1. General economic indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GDP, USD bn</td>
<td>18,698</td>
<td>13,169</td>
<td>14,285</td>
<td>15,285</td>
<td>16,477</td>
<td>18,146</td>
<td>18,491</td>
<td>14,228*</td>
</tr>
<tr>
<td>2. GDP per capita, USD</td>
<td>1,789</td>
<td>1,256</td>
<td>1,358</td>
<td>1,449</td>
<td>1,558</td>
<td>1,712</td>
<td>1,742</td>
<td>1,699*</td>
</tr>
<tr>
<td>3. Economic growth rate, %</td>
<td>-27.9</td>
<td>-30.8</td>
<td>2.5</td>
<td>6.1</td>
<td>5.9</td>
<td>7.4</td>
<td>2.6</td>
<td>-19.1</td>
</tr>
<tr>
<td>4. Industrial production growth rate, %</td>
<td>-30.6</td>
<td>-39.2</td>
<td>1.1</td>
<td>3.6</td>
<td>5.9</td>
<td>7.5</td>
<td>2.1</td>
<td>-33.0</td>
</tr>
<tr>
<td>5. Annual inflation rate, %</td>
<td>9.277</td>
<td>11.66</td>
<td>0.0</td>
<td>7.40</td>
<td>9.90</td>
<td>19.5</td>
<td>29.8</td>
<td>42.4</td>
</tr>
<tr>
<td>6. Annual unemployment rate, %</td>
<td>22.8</td>
<td>23.1</td>
<td>23.1</td>
<td>24.6</td>
<td>25.7</td>
<td>24.5</td>
<td>25.1</td>
<td>33.1*</td>
</tr>
<tr>
<td>7. Revenues, dinars mln</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8. Expenditures, dinars mln</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46,351</td>
<td>62,213</td>
<td>70,328</td>
<td>-</td>
</tr>
<tr>
<td>9. Balance of current account, USD mln</td>
<td>-0.935</td>
<td>-0.379</td>
<td>-1,037</td>
<td>-1,314</td>
<td>-1,556</td>
<td>-1,180</td>
<td>-1,110</td>
<td>-</td>
</tr>
<tr>
<td>11. Average monthly salary, USD</td>
<td>-</td>
<td>31.9</td>
<td>78.8</td>
<td>95.7</td>
<td>125.0</td>
<td>124.2</td>
<td>88.8</td>
<td>46.7</td>
</tr>
<tr>
<td>13. External debt, USD bn</td>
<td>-</td>
<td>10,625</td>
<td>10,619</td>
<td>11,058</td>
<td>11,573</td>
<td>12,291</td>
<td>12,787</td>
<td>13,135</td>
</tr>
<tr>
<td>14. Exchange rate for 1 USD (in dinars), end of year</td>
<td>751.71</td>
<td>1.55</td>
<td>4.73</td>
<td>4.97</td>
<td>4.85</td>
<td>10.09</td>
<td>11.50</td>
<td>11.60</td>
</tr>
</tbody>
</table>

Source: Federal Office of Statistics of FRY
Note: * Non official estimation

2.2. Foreign trade

2.2.1. Foreign trade regime and major regulations

All entities in Yugoslavia, performing foreign trade operations have to be registered at the Commercial Court and the Federal Ministry of Foreign Trade.

2.2.2. Customs regime, export and import quota and license system, tariffs

A system of automatic licensing is applied in the foreign trade operations as about one fifth of all imports and about one tenth of all exports are under specific regime of quantitative controls or tariff restrictions.

The Federal Foreign Operations Act differentiates three forms of imports into the FRY - liberal (i.e. no quantitative restrictions), and under a system of licenses and quotas. The majority of goods fall under the liberal import regime (about 90.7% of all imports in 1999). The licensing regime covers about 3.7% of all imports. As of 31 December 1999 the regime of quotas gives the possibility to continue imports if the quota has been fulfilled with a 250% higher customs tax. Quotas have been applied to 5.6% of all imports in 1999.

Exports are free for about 96% of tariff positions, while about 4% of tariff positions (which account for about 7% of real exports), are under a system of administrative licenses, issued by the Federal Ministry of Foreign Trade. There are also some temporary limitations concerning export of strategic agricultural products, such as cereals, live animals, meat, sugar, etc.

Under the Customs Law (FRY Official gazette 45/92, 59/98) the tariff nomenclature has been partially harmonised with the combined tariff nomenclature of the European Union containing about 8,130 headings. Customs duties are levied at the average rate of 15%, but they can vary widely between 4% and 25%. The average customs duty levied on imported raw materials and intermediary products is 8%, the average customs duty on equipment is 13% and for consumer goods the average rate is 17%. The customs clearance is in all cases levied at the rate of 1%.

Other import duties include a special import tax applicable only in the cases of import of certain agricultural and tobacco products, if their prices fall below a prescribed margin, which aims to protect the domestic producers.

These rates are applicable for goods imported from countries, which have concluded trade agreements with Yugoslavia, containing the MFN clause. For goods from other countries the customs rates are increased by 70%.

Under the Federal Foreign Investment Law and the Customs Law (Official Gazette of FRY, No. 79/94, 15/96, 29/96, 4/94), foreign investors are entitled to the duty free import of equipment, when it creates a foreign investment, except for the import of passenger vehicles
and gambling machines. Such imports always fall under the liberal, i.e. free import regime.

### 2.2.3. Exports and imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports, USD bln</th>
<th>Imports, USD bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>2,539</td>
<td>3,859</td>
</tr>
<tr>
<td>1993</td>
<td>2,921</td>
<td>3,033</td>
</tr>
<tr>
<td>1994</td>
<td>1,482</td>
<td>1,895</td>
</tr>
<tr>
<td>1995</td>
<td>1,531</td>
<td>2,666</td>
</tr>
<tr>
<td>1996</td>
<td>1,842</td>
<td>4,102</td>
</tr>
<tr>
<td>1997</td>
<td>2,677</td>
<td>4,828</td>
</tr>
<tr>
<td>1998</td>
<td>2,858</td>
<td>4,849</td>
</tr>
<tr>
<td>1999</td>
<td>1,498</td>
<td>3,296</td>
</tr>
</tbody>
</table>

Source: Federal Office of Statistics of FRY

### 2.2.4. Major trade partners

The top 20 trade partners have accounted for 89.1% of all exports and 78.6% of all imports in 1999: Germany (USD 571 mln total turnover), Italy (USD 490 mln), Bosnia and Herzegovina (USD 490 mln), Russia (USD 351 mln) and Macedonia (USD 297 mln), followed by Switzerland, Greece, France, Hungary and Austria.

### 2.2.5. Structure of foreign trade by regions (imports and exports)

#### Imports by country groups (1999)
- Developed countries: 51.0%
- Transition countries: 40.4%
- Developing countries: 8.6%

#### Exports by country groups (1999)
- Developed countries: 46.3%
- Transition countries: 49.3%
- Developing countries: 4.4%

### 2.2.6. Structure of foreign trade by commodities (imports and exports)

#### Imports (1999)
- Mineral oil: 17.8%
- Products classified by material: 20.5%
- Machines: 21.7%
- Chemicals: 15.7%
- Food and beverages: 9.7%
- Raw materials: 7.8%
- Other: 7.6%

#### Exports (1999)
- Food and beverages: 20.8%
- Products classified by material: 31.1%
- Machines: 12.3%
- Chemicals: 9.7%
- Raw materials (incl. mineral oil): 7.8%
- Other: 18.2%

### 2.2.7. Free zones

The regime of free zones is defined by the Free Trade Zones Act (Official Gazette of FRY No. 81/94). Free zones are established and managed by "zone companies" founded by domestic or foreign entities. Every zone must export no less than 50% of the total value of goods or services produced inside. Imports into such zones are customs free, with no quantitative or other restrictions.

In Serbia, free trade zones exist in Belgrade, Smederevo, Kovin, Novi Sad, Sabac, Subotica, Sremska Mitrovica, Senta, Prahovo, Sombor, Lapovo, Vladicin Han, Backa Palanka and Pirot.
2.3. Foreign exchange regulations


Foreign currency may be bought and sold at the official rate at the integral (institutionalised) foreign currency market. The market is organised and operated by banks. Foreign currency is kept with the authorised domestic bank at a foreign currency account without paying interest on it. Foreign currency kept at such an account shall be made by the export of goods and services, using credits in the country and abroad, export charges and other charges in foreign currency in cash, selling of transport documents for traffic services, etc.

The exchange rate is not unified, due to the regulation that has introduced a multiple exchange rate. The regime of multiple rates is based on the type of foreign trade and the type of commercial operation.

2.4. Privatisation

2.4.1. Privatisation policy

Privatisation has been intensified five years ago and is regulated by the Federal Privatisation Act (FRY Official Gazette 29/96). On that basis, Serbia introduced its legislative framework on privatisation (Law on ownership transformation in Serbia 32/97). According to that law, about 344 enterprises have entered the privatisation process, which is most intensive on the territory of Belgrade (110 enterprises) and in Vojvodina (160 enterprises). The main sectors are industry and mining (156 enterprises), followed by trade, tourism, services and engineering.

Public enterprises in the transport, energy and oil refining sectors are controlled and owned by the state. Their transformation is not compulsory, although they are obliged to be valued and classified according to ownership.

2.4.2. Large-scale privatisation

The transformation of large enterprises is done under a special government programme. Criteria used under this programme are the size and financial status of the enterprise. About three hundred of the huge enterprises are listed under a special programme. Privatisation can start only after the restructuring of the enterprise. The final decision about restructuring and privatisation is under republican government control. There are no privatisation procedures initiated under the programme so far.

2.4.3. Small-scale privatisation

SMEs can be transformed as limited liability companies and joint stock companies. Although SMEs' privatisation has started faster, only about 5% of SMEs (400 enterprises) have entered the procedure. About 200 enterprises are 100% privatised.

2.5. Foreign investment

2.5.1. Foreign investment by years and by type of investment

FDI statistics depends on the source of information since different methodology is applied. The National Bank of Yugoslavia (NBY) provides such data on the basis of the balance of payments, while the Federal Ministry of Foreign Trade (FMFT) registers the foreign investment contracts.

According to NBY data, the major foreign investments in the last few years have been limited to large Italian and Greek investments in the Serbian PTT, and have amounted to USD 740 million (1997) and USD 113 million (1998).

The FMFT statistics takes into account the declared value of contracts concluded and registered under the Foreign Investment Law, which includes the domestic part of such investments. The domestic part in those figures (excluding 1997) is between one half and one third of the amount registered per year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total DEM mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>392</td>
</tr>
<tr>
<td>1993</td>
<td>318</td>
</tr>
<tr>
<td>1994</td>
<td>203</td>
</tr>
<tr>
<td>1995</td>
<td>129</td>
</tr>
<tr>
<td>1996</td>
<td>306</td>
</tr>
<tr>
<td>1997</td>
<td>1,947</td>
</tr>
<tr>
<td>1998</td>
<td>290</td>
</tr>
<tr>
<td>1999</td>
<td>454</td>
</tr>
</tbody>
</table>

Source: Federal Ministry of Foreign Trade

2.5.2. Foreign investment by countries

The top 10 investors for the period 1996-1998 have been Netherlands (DEM 933.4 mln), Greece (DEM 653.9 mln), Greece (DEM 146.9 mln), Cyprus (DEM 135.9 mln), Bahamas (DEM 23.0 mln), Bulgaria (DEM 16.6 mln), Italy (16.5 mln), USA (DEM 12.9 mln), Austria (DEM 12.9 mln), and Hungary (DEM 7.3 mln).

2.5.3. Foreign investment by sectors (by number of registered contracts, 1995-1998)

Most of the investments have been made in trade, transport and/or services, including tourism, while investments in production are rather limited to the food and textile industry.

The top investors are the Italian PTT (through its Dutch subsidiary STET Intl. Netherlands NV) and the Greek OTE.
2.5.4. Government institutions in the field of foreign investment

The Federal Ministry of Foreign Trade is in charge of registration and approval of foreign investment contracts. It can also provide some data on foreign investment and legislation. However, there is not an established Foreign Investment Agency in FR Yugoslavia yet. Some information can be obtained through the Yugoslav Chamber of Commerce and Industry (Foreign Investment Bureau) or other bodies on Federal or Republic levels.

III. Establishing business in Yugoslavia

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mixed company</th>
<th>Joint venture</th>
<th>100% foreign company</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Trade</td>
<td>1,320</td>
<td>81</td>
<td>725</td>
<td>2,126</td>
</tr>
<tr>
<td>2. Transport services</td>
<td>484</td>
<td>41</td>
<td>233</td>
<td>758</td>
</tr>
<tr>
<td>3. Food industry</td>
<td>316</td>
<td>23</td>
<td>123</td>
<td>462</td>
</tr>
<tr>
<td>4. Engineering, trade representation</td>
<td>263</td>
<td>9</td>
<td>155</td>
<td>427</td>
</tr>
<tr>
<td>5. Textile industry</td>
<td>165</td>
<td>10</td>
<td>50</td>
<td>225</td>
</tr>
<tr>
<td>6. Road transport</td>
<td>139</td>
<td>25</td>
<td>44</td>
<td>208</td>
</tr>
<tr>
<td>7. Tourism</td>
<td>110</td>
<td>3</td>
<td>38</td>
<td>151</td>
</tr>
<tr>
<td>8. Services</td>
<td>97</td>
<td>4</td>
<td>31</td>
<td>132</td>
</tr>
<tr>
<td>Total (top 10 sectors)</td>
<td>2,894</td>
<td>195</td>
<td>1,399</td>
<td>4,489</td>
</tr>
</tbody>
</table>
3.2. Foreign investment regime

The Law on Foreign Investment (Official Journal of FRY, 79/94 and 29/96) provides the basic legal framework for foreign investment in the Federal Republic of Yugoslavia.

**Forms of investment**

Foreign persons may found an independent company or a joint venture and may invest in foreign currency, assets, property rights, services or securities.

Foreign persons may not found an enterprise in the field of production and trade with armaments and military equipment, public information, communication systems (telecommunication facilities of international and national importance, integrated services networks and satellite communications), public utilities (water supply and heating), or in any other area which is deemed as a restricted zone under the Federal Law.

Contracts on foreign investment or on a founding of an entity by foreign persons shall be concluded in writing. They may be for an unlimited or a limited period of time. There are a number of specific provisions that should be included in such contracts or decisions on founding Foreign entities must obtain approval from the Federal Ministry of Trade for the foundation of an enterprise or purchase of an existing company or a branch, if a majority right in the management of the company is to be acquired. The same rule applies for the investment in companies of public interest. Contracts on joint ventures, as well as status changes of existing companies, shall be reported to the Federal Ministry of Trade.

**Foreign investors’ rights**

Foreign investors in FRY have: the right to manage the enterprise with foreign investment or to take part in the management; transfer their rights and obligations to other domestic or foreign entities; repatriate the capital or the remaining invested resources in case of cancellation or expiration of the contract; share in the profit from the invested capital as well as share in the net property and return of share in the event of termination of the venture.

The Law protects foreign investors against subsequent changes of laws. Investors may choose the more favourable investment provisions.

**Profit and capital repatriation**

The transfer of profits resulting from the investment of capital in the Federal Republic of Yugoslavia, transfer of capital that belongs to investors after the termination of their investment, and the transfer of proceeds from the sale of shares or contributions, are free after all liabilities prescribed by the law have been discharged.

**Ownership rights over real estate**

Foreign enterprises can own land, only where the same right exists in the country of the foreign enterprise. Ownership is granted if the land is needed for business activities. According to the Law on ownership transformation, there are no obstacles for the foreigners to become owners of land if it has been owned by a privatised enterprise.

3.3. Legislative framework of concessions and public procurement

The legal framework relating to concessions is structured at two levels. At federal level the Law on Foreign Investment addresses the granting of concessions to foreign persons. At the same time, the two Yugoslav republics-Serbia and Montenegro, have separate concession laws.

The utilisation of natural resources or goods in general use are subject to concession provisions. A concession may be granted to a domestic or foreign legal or natural person for a period of up to 30 years. The concession is realised through setting up a company for this purpose.
Public procurement is also regulated by a number of laws. The successful bidding process requires at least three bidders.

3.4. Dispute resolution mechanisms
Any dispute arising from a foreign investment is to be dealt with by a competent court in Yugoslavia. The arbitration court at the Yugoslavian Chamber of Commerce and Industry or some other domestic or foreign arbitration court may settle these disputes if provided in the investment contract or founding contract or decision.

IV. Taxation

4.1. The Yugoslav tax system

4.1.1. General
The tax year in Yugoslavia is the calendar year. The Yugoslav tax system comprises: corporate, personal income tax, sales tax and property tax.

4.1.2. Taxpayers
The taxpayers are residents and non-residents. Resident taxpayers pay: income tax (corporate or personal) for the income realised in Yugoslavia and abroad, real estate tax for the real estate owned in Yugoslavia and abroad, sales tax for the sales made in Yugoslavia.

Non-resident taxpayers pay: income tax (corporate or personal) for the income realised in Yugoslavia, real estate tax for the real estate owned in Yugoslavia, sales tax for the sales made in Yugoslavia.

Non-residents are: legal entities which headquarters are not registered in Yugoslavia but conduct their business activities throughout their permanent business units registered in Yugoslavia or without permanent business units, but subjects to income tax on the basis of gained income on the territory of Yugoslavia, and Persons who have no permanent residence or do not reside 183 days in Yugoslavia during the current tax year.

4.2. Personal Income Tax
All personal net incomes (all annual incomes less all annual expenses related to that income) are subject to personal income tax. The taxpayers have to declare their total income in the preceding calendar year by 15 March of the current year. Annual personal income tax rates are progressive and go from 10% to 20%. Incomes derived under employment contract are taxed on monthly basis and annual tax obligation is subject to adjustment on a annual basis, to which progressive scale applies and goes from 14%. Personal income is not subject to personal income tax if persons employed in diplomatic, humanitarian or other organisations of that kind. Foreigners employed in permanent business units or representative offices may have 50% tax credit on personal income derived under employment contract.

4.3. Corporate Income Tax
Business profits earned during the calendar year are subject to corporate income tax. Taxpayers are all legal entities that are registered as corporate entities. Resident enterprises have to pay tax on all profits generated by them in Yugoslavia or abroad, and non-residents only on profits generated in Yugoslavia. Corporate income tax rate can not be less than 20%. Tax rate for non-residents who do business without permanent business units is 20%. If entity has 10% or more of foreign capital in its capital structure, then corporate income tax is reduced in proportion to the actual share of foreign capital, for the period of 5 years from the moment of investment. New registered entities are also entities that become one from the process of integration of two entities, or from the process of division of one entity.

Dividends paid by an enterprise to other resident or non-resident enterprises are taxable, and interest and royalties are taxable only when they are paid to non-residents. Taxpayers are obliged to calculate and pay withholding tax of 20%, on dividends, participation in profit, royalties and other income realised by non-resident entity on the territory of Yugoslavia.

4.4. Indirect taxation - Sales tax
Sales tax includes Excise duties, Sales tax (goods), Sales tax (services).

4.4.1. Excise duties
Excise duties are charged on importation and sale within the country of specific goods such as: fuel and oil derivatives, tobacco products, alcoholic beverages and alcohol (ethanol), coffee, salt for home usage (NaCl), and luxurious products (products that contain more than 2% of gold and more than 50% of silver, precious stones, etc.).

Excise duties base is the sale price/customs value (e.g. coffee) or amount per unit (e.g. fuel, tobacco). Excise duties rates are proportional:

- For the fuel and oil derivatives excise are charged per litre or per kilograms: car fuel 60%, diesel 50%, jet fuel 30%,汽油 15%, gas 15%.
- Tobacco excise duties are charged per piece, box or kilograms. Imported cigarettes 4%, cigars, cigarillos and tobacco for pipes 3%.
- Alcoholic beverages are charged per litre: vine 5%, beer 10%, brandy 3%, other alcoholic beverages 4%.
• Coffee is charged per kilograms: 30%.
• Salt for home usage is charged per kilograms: 5%

Excise duties do not apply to exports, and goods imported for humanitarian aid purposes (all oil derivatives, salt, coffee, and alcohol for medical purposes—ethanol). If excise duties are paid for the substances which are contained in other exported goods the exporter or producer has the right to be refunded for excise duties paid.

4.4.2. Sales tax (goods)
The system of goods and services sales taxation has undergone the least changes in the taxation system of Yugoslavia. Despite many changes, tax is practically paid only by the end consumers/recipients of goods/services. Several attempts have been made in Yugoslavia at replacing the consumption tax by a multi-stage value-added tax akin to that in the European Union. Yugoslavia has introduced the VAT system, but it will be effective from the year 2001.

Sales tax is charged on importation and sale of goods within the country for the purposes of final consumption. Sales tax is not charged if the goods are imported or sold to the customer for the purposes of further sales or production. Taxable base is the sale price of goods or custom value of imported goods. Tax rate is 10% (lower), and 20% (higher).

Lower rate is applicable on importation and sale of goods for the human and animal consumption purposes, for agriculture and fishing, equipment, agriculture machines, spare parts, electricity, coal, press material (magazines, newspapers), books, used cars, etc. Higher rate is applicable to all other goods to which lower rate can not be applicable. Sales tax do not apply to exports, importation of goods which are free from custom duty charge, to goods for humanitarian aid purposes, medicines, water, seeds, etc.

4.4.3. Sales tax (services)
Sales tax is charged on: import and export services, transportation services, consultant services, banking, insurance, gambling business, tourist services, etc. Taxpayers are entities who provide services that are chargeable under Sales tax regulation. Sales tax basis is commission for provided services. For retail services basis is the difference between selling and purchasing price of goods, for insurance and re-insurance services - premiums, for credit business - differences between active and passive interest. Tax rate is 9% and is proportional. No tax charges for exported services, health services, Red Cross services, services of educational, cultural and science nature.

4.5. Other indirect taxation - customs duties
Goods imported in Yugoslavia are subject to customs duty - a percentage of customs value (transaction costs increased by certain costs). Customs fee (for custom services) is also in charge and is 1% of customs value. Basic customs duty depends on the origin of goods or the kind of good that are imported and goes from 1% to 40%. Customs duty is not charged for the import of goods for humanitarian aid purposes, equipment, machines or other assets that are part of foreign investment, arms or other technical equipment imported for Yugoslav army or police forces, etc.

4.6. Real estate tax
Real estate tax includes real estate tax, inheritance tax, and conveyance of property tax. Real estate tax is also applicable to ownership of shares or bonds. The real estate market value makes the basis for tax obligation. Taxpayers are residents and non-residents who are owners or had inherited real estates on the territory of Yugoslavia.

4.7. Elimination of double taxation
The profit, income or property tax payable by any Yugoslav resident who has generated profit or income or owns property abroad shall be reduced by the amount of such tax paid abroad. The profit tax payable in Yugoslavia by any parent enterprise shall be reduced by the amount of tax paid by its subsidiary in some other country on the profit which is included in the parent company’s revenue.

4.8. Contributions
In Yugoslavia the following types of contributions exist: public utility usage contribution, housing construction contribution and compulsory social security contribution.

Note: The rates serve for information purposes only. It should not be considered advice, as each has its own peculiarities. Therefore, before applying the above-cited rates, they must be checked.

V. Audits and accounting

5.1. Accounting and audit legislation
Accounting and auditing in Yugoslavia are regulated by the Law on Accounting and the Law on Audit of Financial Statements and regulations promulgated on the basis of these laws. The latest version of the Law on Accounting and the Law on Audit of Financial Statements were promulgated in 1996 and 1999, respectively.

The Law on Accounting states (article 1) that "legal entities keep their business books and prepare and submit interim financial statements and operational reports in
accordance with the provisions of this law, regulations promulgated on the basis of this law and accounting standards*.

The main sections of the Law on Accounting are:

- General provisions;
- Books of account and documentation;
- Annual and semi-annual financial statements and operational reports;
- Closing of books of account and custody of documentation;
- Estimates of financial statements items;
- Authorities of accounting associations;
- Submission of financial statements and their disclosures;
- Penalty provisions;
- Transitory and final provisions.

The following accounting principles are incorporated in the Law on Accounting:

1. Going concern;
2. Consistency;
3. Prudence, comprising:
   - realised income recognition;
   - impairment;
4. Matching;
5. Measurement of individual items;

The accounting standards referred to in the Law on Accounting are not specifically identified. However, the Law on Accounting provides the Yugoslav Association of Accountants and Auditors (YAAA) an authorization to set the accounting and auditing standards. The National Accounting Standards (NAS) have been set at the end of 80’s as standards of the former Yugoslavia. Some subsequent additions and amendments have been made with an intention to harmonize NAS with International Accounting Standards (IAS). The YAAA, as a member of IFAC, has passed the decision to apply IAS in Yugoslavia. Many of IAS’s have been translated and published by YAAA, but the full set of translated IAS’s has not been published as of yet.

Although an attempt has been made to harmonize the accounting regulations and existing NAS with IAS, there are certain departures as specified below:

- The Yugoslav accounting regulations require revaluation of non-monetary assets and capital by applying revaluation coefficients based on the retail price index and this policy is similar to that required by IAS 29 "Financial Reporting in Hyperinflationary Economies". However, it is not required to restate comparative figures in order to be stated in terms of the measuring unit current at the balance sheet date. An adjustment of comparative figures with respect to assets and liabilities denominated in foreign currencies, and stated at the exchange rates ruling at the balance sheet date for inflation in the current year based on officially published retail price indexes, would not produce the data comparative with current year amounts, unless the increased inflation is followed by corresponding changes in foreign exchange rates. Because this is not the case and IAS 29 does not allow application of different adjustment criteria, it is not practical to apply IAS 29 and to prepare financial statements in accordance with IAS.

- The taxation policy is based on Yugoslav tax regulations and differs from IAS 12 "Income Taxes" in that Yugoslav tax regulations do not recognize temporary differences. Accordingly, no deferred tax assets or liabilities are recognized;

- Due to undeveloped financial markets, fair value of financial assets and liabilities is not determined in accordance with IAS 32 and IAS 39, "Financial Instruments";

The regulations related to impairment of assets in some respects differ from the requirements of IAS 36, "Impairment of Assets".

The following assets valuation principles are incorporated into the Law on Accounting:

- Fixed assets are stated at cost that includes the purchase price, including duties, and cost of bringing assets to working condition. Depreciation is usually charged on a straight-line basis over the useful life of the assets. The diminishing balance and sum-of-the-unit methods are also allowed;

- In years of inflation fixed and intangible assets and investments are revalued by applying revaluation coefficients based on the retail price index. The effects of revaluation of fixed assets are credited to the revaluation income and reported in the statements of income. Capital and reserves are also revalued by applying the same revaluation coefficient and the effects thereof are charged to the statement of income as revaluation expenses;

- Assets and liabilities denominated in foreign currencies are translated into local currency at the official exchange rate ruling at the balance sheet date. The resulting foreign exchange gains and losses are credited and charged to revaluation income and expenses, respectively. Foreign currency income and expenses are stated at the foreign exchange rate ruling at the date of cash transaction and the resulting foreign exchange gains or losses credited or charged to the statement of income as financial income and expenses;

- Inventories are stated at the lower of cost and net realizable value;

- Receivables are stated at nominal value,
decreased for the amount of provision based on an assessment of recoverability. In case that inability to recover certain amounts is documented, such amounts are written off.

Annual financial statements prepared in a prescribed format are submitted to the National Bank of Yugoslavia’s Institute for Payment Transfers not later than 28 February of the subsequent year. Semi-annual financial statements (for the period from January through June) are also submitted to the same Institute not later than 31 July.

The Institute for Payment Transfers has an obligation to enable any interested person to obtain a copy of financial statement submitted. The Institute is also entitled to control where the accounting regulations are properly applied.

5.2. Audit of Financial Statements

All large and medium size enterprises, as defined by the Law on Accounting, banks and other financial institutions, insurance companies, stock exchanges and exchange intermediaries have an obligation to have their annual financial statements audited in accordance with the provisions of the Law on Audit of Financial Statements.

Audit is to be performed by an auditing firm that employs at least one certified auditor and two auditors. The Ministry of Finance issues certified auditor and auditor certificate. A candidate that has two years of experience in the auditing firm and has successfully passed exams organized by the Ministry of Finance is entitled to receive the certificate with a title “auditor”. A candidate that has two years of experience in the auditing firm with a title “auditor” and has successfully passed exams organized by the Ministry of Finance is entitled to receive the certificate with a title “certified auditor”.

An authorized accountant as described by the Law on Accounting, has a right to obtain the title “auditor” on his/her request, without an obligation to pass an exam.

Audits are to be performed in accordance with auditing standards set by the YAAA. Currently the only existing auditing standards are the International Standards on Auditing.

Provisions related to the content of audit report and the audit opinion are identical to the requirements of International Standards on Auditing. All legal entries with an obligation to have their financial statements audited, are due to submit to the Institute for Payment Transfers the auditor’s opinion. The Institute has an obligation to enable any interested party to have an insight into auditor’s opinion submitted. It should be noted that legal entities have no obligation to submit the full audit report (auditor’s opinion, financial statements and notes to the financial statements) to third parties if they do not wish so.

VI. Investment opportunities by sectors

6.1. Sector overview

6.1.1. Agriculture and forestry

Agriculture accounts for 50% of GDP with USD 320 mln of exports in 1999. Good opportunities exist in the fruit and vegetables production, processing and canning. Intensive production of herbs and fruits of the wild (mushrooms, blueberries, currants, etc.) may be achieved with limited investments. Dairy and meat products have also export potential.

6.1.2. Oil and petrochemical industry

Yugoslovia is an oil and gas producer with an annual production of about 1 million tons of crude oil and 0.5 billion sq. m of natural gas. These cover between 20-25% of the domestic consumption. Reconstruction and modernisation is needed for two refineries (Novi Sad and Pancevo) with primary capacities of 7 million tons of crude oil. The refineries are located on the Danube River and are connected to a pipeline coming from Croatia. There is a connecting pipeline, so that they can work in an integrated system. The distribution of derivatives is relatively well developed, but the segment needs a lot of investment for modernisation. Gas development provides opportunities for the investors due to a new pipeline in central Serbia.

6.1.3. Tourism

Good basic infrastructure and possibilities for the development of mountain tourism, spas (140 thermal mineral springs and 40 spas), and transit tourism (hunting, river, lake, culture and history). It is planned to expand the national parks and natural preserves over 10% of Serbia until 2010.

6.2. Infrastructure

6.2.1. Transport

Yugoslovia has about 50,000 km of categorised roads (40,000 km only in the Republic of Serbia), where 6,308 km are trunk roads, 2,750 km - E-roads, 380 km - highways, 165 km semi-highways, etc. About 1,700 km of new highways is envisaged to be built by the year 2020. The construction of the Serbian sections of the
Trans-European roads calls for about USD 4 bln (corridor No. X sections, highways E-75, E-763, E-80, etc.).

The development of railway infrastructure provides additional opportunities, e.g. the Railway modernisation project, which covers the high speed railway lines in the European Corridor X, the Belgrade railway junction, Valjevo-Loznica railway line, revitalisation of the Belgrade-Bar railway line, etc., where total investment value exceeds USD 3.8 bln.

Special attention is given to restoring the normal navigation on the Danube River (Corridor VII) as result of the NATO bombing in 1999, reconstruction of the bridges and clearing the riverbed. Foreign partners are needed for establishing additional river ports, storage sites and developing the local infrastructure.

6.2.2. Telecommunications

The key projects cover 1) development of mobile telephony network coverage, digitalisation of the fixed telephone network, completion of optic cables networks and transmission systems, construction of a new satellite station and introduction of modern services (intelligent networks, ISDN, etc.), and 2) implementation of the mobile telephony development plan by 2004. It envisages an increase in the number of mobile telephones by 200,000 and 3,050,000 new digital telephone connections in the fixed telephone network. Investment value is estimated at USD 180 mln annually.

6.2.3. Energy and mining

Revitalisation of existing plants and investment in resources provide great opportunities for investors and equipment producers. Similar opportunities exist in completion of Kolubara B, a TPP of 700 MW. The TPPs Kostolac A and Nikola Tesla should be revitalised in near future as well as the Djerdap 1 HPP. Reconstruction of high voltage grid together with making additional connections with neighbours is primary objective in FRY.

Coal is the main fuel accounting for 80% of the total energy balance of Serbia. Estimated investments for the increase of production in the Kolubara and Kostolac basins and mines amount to about USD 1 billion.
Montenegro

I. Country information

Republic of Montenegro is one of the two federal units of FR Yugoslavia. It is situated in the Southwest part of the Balkan Peninsula on the South coast of the Adriatic Sea, covering an area of 13,812 sq. km with population of 730,000 people (1999). The capital city is Podgorica (159,000). On a very small area there are four climatic types: Mediterranean, continental, mountain and sub-tropical. Over 80% of the territory is covered by forests and pastures.

II. Economic overview

2.1. General economic indicators

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</thead>
<tbody>
<tr>
<td>1. GNP, USD mln</td>
<td>796.48</td>
<td>505.52</td>
<td>549.3</td>
<td>560.3</td>
<td>723.0</td>
<td>795.0</td>
<td>790.0</td>
<td>670.0</td>
</tr>
<tr>
<td>2. GNP per capita, USD</td>
<td>1,295.02</td>
<td>821.94</td>
<td>885.97</td>
<td>882.36</td>
<td>1,131.46</td>
<td>1,236.39</td>
<td>1,221.02</td>
<td>917.81</td>
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<tr>
<td>3. Economic growth rate, %</td>
<td>-24</td>
<td>-37</td>
<td>9</td>
<td>2</td>
<td>29</td>
<td>10</td>
<td>-1</td>
<td>-1</td>
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<tr>
<td>4. Industrial production growth rate, %</td>
<td>-26</td>
<td>-42</td>
<td>4</td>
<td>-1</td>
<td>48</td>
<td>2</td>
<td>3</td>
<td>0</td>
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<tr>
<td>5. Annual inflation rate, %</td>
<td></td>
<td></td>
<td>67,295 min</td>
<td>179,8</td>
<td>182.4</td>
<td>120.0</td>
<td>143.0</td>
<td>135.0</td>
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<tr>
<td>6. Annual unemployment rate, %</td>
<td>31</td>
<td>30</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>40</td>
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<tr>
<td>7. Revenues, DEM mln*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>205.64</td>
<td>314.88</td>
<td>513.41</td>
<td>387.66</td>
<td>292.79</td>
</tr>
<tr>
<td>8. Expenditures, DEM mln**</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>202.23</td>
<td>306.72</td>
<td>497.38</td>
<td>369.88</td>
<td>301.62</td>
</tr>
<tr>
<td>9. Balance of current account, USD bin*</td>
<td>-70</td>
<td>-14</td>
<td>7</td>
<td>-47</td>
<td>-89</td>
<td>-60</td>
<td>-84</td>
<td>-149</td>
</tr>
<tr>
<td>10. Average monthly net salary, DEM</td>
<td>-</td>
<td>-</td>
<td>108.3</td>
<td>126.5</td>
<td>187.8</td>
<td>225.7</td>
<td>194.2</td>
<td>155.4</td>
</tr>
<tr>
<td>11. Foreign currency and gold reserves, DEM mln</td>
<td>-</td>
<td>-</td>
<td>52</td>
<td>84</td>
<td>90</td>
<td>106</td>
<td>142</td>
<td>179</td>
</tr>
<tr>
<td>12. Exchange rate for 1 DEM, end of year</td>
<td>-</td>
<td>1.62</td>
<td>3.4</td>
<td>3.78</td>
<td>4.74</td>
<td>8.01</td>
<td>20.0</td>
<td></td>
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</tbody>
</table>

Source: Institute for Strategic Studies and Prognosis
Notes: * Domestic and foreign financing are excluded from revenues
** Reserves are excluded from expenditures
* The balance of current account is measured through the customs records

2.2. Foreign trade

2.2.1. Foreign trade regime and major regulations

Foreign trade operations in Montenegro are conducted in compliance with the federal regulations. The right to perform foreign trade operations is granted to companies registered at the court and the Ministry of Trade of Montenegro, as they report to the National Bank of Montenegro.

Major regulations in foreign trade

- Law on foreign trade operations (Official Gazette of FR Yugoslavia No. 46/92, 16/93, 28/96, 29/97, 39/98, 44/99, 53/99)
- Law on the control of agricultural foodstuffs quality in foreign trade (Official Gazette of FR Yugoslavia No.12/95, 28/96, 59/98)
- Resolution on classification of commodities into forms of export and import (Official Gazette of FR Yugoslavia No. 55/99)
- Act on temporary export and import of goods (Official Gazette of FR Yugoslavia No. 49/92, 52/94, 55/99)
- Act on regulation of foreign trade operations for which no report is required (Official Gazette of FR Yugoslavia No. 55/99)
- Resolution on foreign compensatory transactions (Official Gazette of FR Yugoslavia No. 51/92, 61/94, 86/94, 30/97)
- Customs law (Official Gazette of FR Yugoslavia No. 45/92, 16/93, 50/93, 24/94, 28/96, 29/97, 59/98)
- Tariff system law (Official Gazette of FR Yugoslavia No. 31/97, 18/98, 24/98, 53/99)
- Law on special duties for import of agricultural produce and foodstuffs (Official Gazette of FR Yugoslavia No. 90/94)

2.2.2. Customs regime, export and import quota and license system, tariffs

Classification of forms of import and export:
- Free export and import (LB);
- Export and import according to quantity quotas (Kv);
- Export and import according to value quotas (Kv);
- Export and import according to permits (D);
- Temporary export and import.

Foreign companies can open branch offices in Montenegro in the following spheres: production, trade, services, banking and insurance. These offices are not allowed to conclude foreign trade contracts.

Tariff system

The Republic of Montenegro has adopted a Temporary Act on Custom Tariffs (15 July 2000). According to this Act, only institutions of the Republic of Montenegro are legally entitled for international transactions. Customs tariffs, which were formerly set by the Federal law, are now set by the Government of Montenegro. For goods imported from the Former Yugoslav countries, the trader can choose the more preferential tariff rate of either country. For all goods produced in Serbia but exported to another country, the customs tariff rate is zero. The new Act adopted customs tariff rates, which are supposed to range between 0 and 5% for about 90% of all products usually imported to Montenegro. For luxury and protected goods rates of 10 to 15% apply.

2.2.3. Exports and imports*

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<tbody>
<tr>
<td>Imports, USD mln</td>
<td>185</td>
<td>159</td>
<td>79</td>
<td>123</td>
<td>259</td>
<td>301</td>
<td>335</td>
<td>358</td>
</tr>
</tbody>
</table>

Source: Institute for Strategic Studies and Prognosis
Note: * Trade with Serbia is not included
2.2.4. Structure of foreign trade by regions (imports and exports)

**Imports by country groups (1999)**

- Developed countries: 73.4%
- Developing countries: 7.7%
- Bosnia and Herzegovina: 6.8%
- Macedonia: 4.4%
- Other transition countries: 3.9%
- Slovenia: 2.0%
- Croatia: 1.8%

**Exports by country groups (1999)**

- Developed countries: 75.5%
- Bosnia and Herzegovina: 12.6%
- Other transition countries: 5.9%
- Macedonia: 4.1%
- Developing countries: 1.2%
- Slovenia: 0.5%
- Croatia: 0.3%

2.2.5. Structure of foreign trade by commodities (imports and exports)

**Imports (1999)**

- Mineral fuels and lubricants: 19.3%
- Food and beverages: 34.1%
- Machines and transport equipment: 15.2%
- Processed products: 13.1%
- Chemical products: 8.5%
- Other: 9.8%

**Exports (1999)**

- Processed products: 66.9%
- Food and beverages: 20.8%
- Machines and transport equipment: 4.7%
- Raw materials except fuel: 3.8%
- Other: 3.5%

2.2.6. Free zones

A free customs zone has been developed near the port of Bar. It provides excellent links by sea or via the Bar-Belgrade railway to Middle and Western Europe. Another free zone exists in Kotor.

2.3. Foreign exchange regulations

The foreign exchange regime in Montenegro is regulated by the Law on Foreign Currency Transactions (Official Gazette of the Federal Republic of Yugoslavia No. 12/95, 28/96, 29/97, 44/99). The rules of foreign currency transactions comprise the methods of receiving and sending money abroad. Foreign currency includes foreign debts claimed in a foreign currency as well as foreign currency in cash. Foreign currency is kept with an authorised domestic bank in a foreign currency account. Authorised banks do not pay interest on the foreign currency kept at foreign currency accounts.

Foreign currency kept in an account must be made through the export of goods and services; using credits in the country and abroad; export charges and other charges in foreign currency in cash; selling of transport documents for traffic services, etc. The charges for exported goods and services, and other debts must be fulfilled within 60 days, with the right to prolong the period for 60 more days (with the permission of the National Bank of Montenegro), thus having a maximum period of 120 days. An entrepreneur may do compensation transactions with the permission of the National Bank of Montenegro.

Foreign currency may be bought and sold at an official rate at the integral (institutionalised) foreign currency market. The difference between the official and street (market) rate is great and fluctuating.

The National Bank of Montenegro performs foreign currency documentation control of export and import of goods and services (foreign currency charges). Foreign physical persons may take foreign currency cash abroad up to the amount they have declared when entering Montenegro. Foreign legal and physi-
III. Establishing business in Montenegro

3.1. Forms of business organisations
Founding, organisation and termination of companies, as well as the operational rules, are set by the federal Law on Enterprises (Official Gazette of the Federal Republic of Yugoslavia No. 29/96, 29/97, 59/98).

3.2. Foreign investment regime
The legal framework is based on the federal Law on Foreign Investment (Official Gazette No. 79/94 and 29/96).

3.3. Legislative framework of concessions
Since 1991 Montenegro has been following a foreign investment policy on the basis of concessions, with respect to the renewable natural resources (sea, rivers, lakes, forests, minerals, granite, etc.) and the need for construction of major infrastructure facilities (highways, tunnels, waterworks, HPPs, etc).

A foreign entity may get a concession of up to 30 years, which covers the right to build, operate and transfer a certain object, plant, infrastructure and communication facilities (BOT), as well as to use renewable natural resources and common goods. The concession is realised through a special company for carrying out the concession and is registered at the Government of the Republic of Montenegro.

IV. Investment opportunities by sectors

4.1. Sector overview

4.1.1. Industry
Industrial capacities in Montenegro have been developed according to the needs of ex-Yugosla via and 90% of the production in the past has been exported. However, due to the isolation of FR Yugoslavia and the recent military crises in the region, the state of these industries has worsened in comparison to previous years.

Best developed capacities exist in the metallurgical industry (mainly steel and aluminium), e.g. annual production of 400,000 tons of crude steel, 1,000,000 tons of bauxite, 280,000 tons of hydrated alumina, and 100,000 tons of aluminium.

Capacities exist also in the metal-processing industry, engineering industry, wood processing industry, textiles and chemical industry, leather and shoes industry, garment industry, household appliances industry, construction and forestry plant and equipment industry, and considerable capacities for the construction of operative units. Industrial processing and finishing of farm products provide additional opportunities.

III. Establishing business in Montenegro

2.4. Privatisation
During the first phase of the privatisation process identification of the new owners of the society owned capital has been completed, i.e. workers (employed and previous employed) and government funds. Workers have received 10% as free shares and 30% under preferential conditions, whereas the funds have become owners of the remaining shares, as follows:
- Development Fund - 60%
- Pension Fund - 30%
- Employment Office - 10%
The Funds are temporary owners obliged to sell their shares on the market.

During the second phase, the privatisation of enterprises has been initiated (1995). Until now the majority package in 116 small and medium sized enterprises has been privatised (30% of the total number of state-owned enterprises, but only 9% of the overall capital for privatisation), mainly in trade, industry and services. Only two big companies have been privatised - Brewery Trebjesa and Institute Dr. Simo Milosevic.

At present, the privatisation process is based on the new Law on privatisation (1999), under which the Privatisation Council has been established. The Privatisation Council is responsible for all activities in this sphere and for the Privatisation Plan for year 2000 (adopted on 20 April 2000). The Plan also envisages the beginning of privatisation of the infrastructure sector, i.e. utilities, banking, insurance, etc.

Methods of privatisation that will be used: 1) Mass voucher privatisation; 2) Tender privatisation (especially for big and public enterprises); 3) Batch sale; 4) Public auctions; 5) Selling of shares owned by the Pension Fund and the Employment Office; 6) Other methods decided by the Privatisation Council.

A total of 352 enterprises have been scheduled for privatisation – 125 in industry, 15 in agriculture, 74 in trade, 46 in tourism, 85 in transport, and 7 in energy.

2.5. Foreign investment
In the period 1992-1996 there has been no FDI inflow in Montenegro due to the international sanctions. After 1996 FDI inflows have been insignificant due to the political situation in the neighbouring countries and the federal units. However, some foreign investments have been made in the aluminium industry, mobile telephone systems (Pro Monte, Greece), and beer industry (Inter brue, Sweden).

Government institutions in the field of foreign investment
Agency for Restructuring of Economy and Foreign Investments - a government institution in charge of foreign investment promotion and restructuring of the economy.
4.1.2. Agriculture
Agricultural areas and waters are well preserved from industrial pollution, thus enabling the production of healthy and ecological food, especially meat, milk products, honey, fish, fruits and vegetables, and high-quality wines (vranac, krstac etc).

4.1.3. Tourism
Tourism is a key sector and generates 20% of the GNP. Opportunities for foreign investors exist in the adaptation, modernisation and improvement in the quality of the existing hotel capacities, which are not, in most cases, up to the best international standards and categorisation.

4.2. Infrastructure

4.2.1. Transport
The length of the road network is 5,227 km, out of which 1,720 km are modern main and regional roads. The length of the standard gauge railway is 250 km, the greater part of it electrified. The railway hub in Podgorica connects the continental part with the Adriatic Sea through the port of Bar and through the rail line Podgorica - Bozaj with Albania.

The national programme envisages the construction of modern roads and rehabilitation of the existing ones - the Adriatic highway, the Podgorica bypass, the tunnel "Sozina", the bridge "Verige", and 1,800 km of main and regional roads. Reconstruction and modernisation of the two international airports (Podgorica and Tivat) is also forthcoming.

There are four maritime ports: Bar, Kotor, Budva and Zelenika. They provide sea connections through the lines Bar-Trieste and Kotor-Barleta. The port of Bar, which is situated at the entrance to the Mediterranean Sea, is equipped for a turnover of 5 million tons per year.

4.2.2. Telecommunications
The telephone capacity is about 140,000 telephone connections. Investment opportunities exist in the development of mobile phone systems and the Telecom.

4.2.3. Energy
HPPs Perucica and Piva, and TPP Pljevlja have generation capacity of about 3 billion kWh per year. The water potential of Montenegro is underused and may attract investors in future projects for the construction of new HPPs.

4.2.4. Major municipal infrastructure projects

Montenegrin coast
Investment is needed for the completion of the regional waterworks, building of the regional sewerage system and garbage dumping grounds in all urban areas, building of funicular railways from the coast to the mountain tops, recreational and service facilities, etc.

Mountainous regions
Significant investment is required for the construction of local roads and equipping skiing grounds with proper infrastructure, arranging and equipping lake and river banks (rivers Tara and Lim) for recreational activities, building infrastructure in the hunting areas for breeding, feeding and hunting of game, etc.