



# SECTOR OVERVIEW

## Energy Sector

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### Basic country indicators

| Indicator                          | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |
|------------------------------------|-------|-------|-------|-------|-------|-------|
| GDP, in bn USD                     | 39.5  | 46.5  | 40.7  | 45.5  | 44.2  | 36.5  |
| GDP growth, in %                   | 0.6   | 1.4   | -1    | 2.6   | -1.8  | 0.7   |
| GDP per capita, in USD             | 5,850 | 5,910 | 5,700 | 6,050 | 5,840 | 5,500 |
| Unemployment rate, in %            | 20.0  | 23.6  | 24.6  | 23.0  | 20.1  | 18.5  |
| Foreign direct investments, bn EUR | 1.7   | 5     | 1.3   | 2     | 2     | 2.3   |
| Inflation, in %                    | 6.1   | 11.1  | 7.33  | 7.7   | 2.1   | 1.4   |

Source: World Bank and IMF

### Basic sector indicators

| Indicator   | 2011        | 2012        | 2013        | 2014        | 2015        |
|---|-------------|-------------|-------------|-------------|-------------|
| Energy production, base index, 2010=100   | 105,6       | 98,9        | 112,0       | 92,5        | 108.1       |
| Export of petroleum and petroleum products and related materials, USD thousands | 286,237.9   | 259,333.0   | 387,777.9   | 423,533.2   | 250,027.9   |
| Import of petroleum and petroleum products and related materials, USD thousands | 2,250,862.3 | 1,875,714.0 | 1,941,614.2 | 1,817,293.7 | 1,206,879.1 |
| Export of gas, natural and manufactured, USD thousands                          | 24,459.7    | 12,005.8    | 32,944.8    | 39,289.5    | 33,645.0    |
| Import of gas,  | 1,186,400.3 | 1,089,755.0 | 923,805.5   | 811715.8    | 623,078.0   |

|   |           |           |           |           |          |
|---|-----------|-----------|-----------|-----------|----------|
| Export of electric current, USD thousands | 180,236.7 | 125,900.6 | 271,640.4 | 84,009.5  | 95,294.6 |
| Import of electric current, USD thousands | 168,230.9 | 228,398.8 | 159,912.6 | 150,032.3 | 95,294.6 |

Source: Statistical Office of the Republic of Serbia

## 1. GENERAL ECONOMIC AND MARKET DEVELOPMENT IN SERBIA

In 2014 the newly established Serbian government introduced a number of economic reforms as well as started the official negotiations of EU-membership. The market has now become more transparent and easier to do business in. The World Bank's 'Ease of Doing Business list' now ranks Serbia as 47 compared to 93 in 2014. Also Serbia now witnesses positive economic growth. The growth in GDP was 0.7 % in 2015 in spite of large reductions in the public sector. And the growth is expected to be 2.5 % in 2016 and 2.8% in 2017. As a result, the Serbian economy and market now offer an increasing number of business opportunities for Danish exporters and investors. One sector of interest is the energy sector, which has also been an important part of the Serbian reform program on EU-accession and harmonization.

## 2. KEY SECTOR INFORMATION

Serbia's energy sector is also highly energy intensive. Serbia consumes 2.7 times more energy per unit than the OECD average, despite low economic activity. In 2014 Serbia's gas consumption reached 2.43bcm and around 80% of this gas came from Russia via Ukraine and Hungary. Future gas deliveries have yet to be clarified as the deal between Ukraine and Gazprom expires in 2019. It can further be mentioned that EU support of Serbia's energy sector is expected to reach 125 mil. EUR in the period from 2014-2020. Main part of donor support is meant for improvements of the infrastructure and better regional connectivity.

Most electricity produced in Serbia is generated in thermo-power plants (62%), followed by hydro-power plants (32%), with all other sources currently being at very low levels. There is a high dependency on low-quality lignite coal which Serbia produces itself.

Regarding businesses and their competitiveness, Serbia has for too long sold imported gas at a discount rate to state owned companies, causing a budget deficit. The IMF is aware of this issue and has called for price hikes and company restructurings in the time to follow.

It is further noted, that if large public companies such as EPS (Serbian Electric Power Company) are efficiently restructured, there is a potential of becoming a regional leader in electricity infrastructure. In short, further reforms are to be expected also in the electricity production and distribution.

### 3. RENEWABLES

The renewable energy sector is a field to monitor. Today Serbia produces around 18 % of its energy from renewables. Serbia has signed the Energy Community Treaty, which obliges the country to rely on 27% of their total energy consumption to come from renewable energy by 2020.

Significant investments in renewables have to be made in order to reach this target. The government's priorities have so far been hydropower and biomass. Today the biggest renewable energy source is hydropower, accounting for 7% of the total energy consumption. Wind energy is less prioritised for the time being by the Serbian government, but foreign investors have for the past years invested in a couple of projects.

The wind turbine market is still at a very early stage but shows good potential, especially in the flat Vojvodina region. Here is e.g. Kula Wind Park, where Danish companies participated in the building of the park. It's a smaller wind park of 10 MW, but more projects are expected to follow, as for example a project in Vrsac. For the time being there is a government defined cap of 500 MW, for which there are already investment plans and investors.

Biomass and biofuels are just another promising field considering the extensive agricultural sector of Serbia. Almost all production of pellets is being exported to the EU, since Serbia faces a serious obstacle in implementing correct usage of biomass-driven powerplants. The bioenergy is also expected to develop further.

#### 4. HOUSEHOLDS AND PRICING OF ENERGY

The heating pricing system for households is still based on m<sup>2</sup> and not on actual consumption. This is however planned to be changed. Therefore energy saving investments within heating will be relevant in the future, when they change from square meter pricing to actual consumption pricing. The share of district heating is insignificant compared to Denmark – less than one third of the households use district heating. The large rural population remain reliant on coal or wood for heating. District heating powerplants mainly use gas followed by oil and coal. Further useage og district heating is to be expected.

The electricity pricing is consumption based but low, with a household price of 0.065 EUR per kWh. With a substantial night-time reduction of approx. 5 times the daytime price. Since 2015 prices on electricity have started to increase as part of the energy sector reforms and economic reforms in general. And the price levels are expected to increase further

in the years to come. Belgrade households pay the third-highest price for gas in the EU, calculated after purchasing power. This is despite the fact that Serbia has the lowest taxation on gas.

## 5. REFORMS AND POLICIES

The situation in the Serbian economy is a major challenge for the inauguration of new projects and restructuring of inefficient state owned enterprises. The current government is nevertheless aware that it must improve and that the energy sector must be restructured, in order to keep Serbia on the EU accession path. Awareness of energy efficiency is present among the consumers, but not followed due to low energy prices. Therefore a new ESCO (Energy Service Company) framework and a new law on energy have been launched. Both initiatives aimed at improving the low energy efficiency.

Other legislative changes are also underway e.g. the template of the Power Purchase Agreement (PPA) which will promote energy produced from renewable energy sources, thus giving incentive to strengthening the transition from a carbon based economy.

The activity of electric energy distribution is performed in five regional subsidiaries: Elektrovojvodina, Elektrodistribucija Beograd, Elektrosrbija, Centar (Elektrosumadija Kragujevac, Elektromorava Pozarevac and Elektromorava Smederevo) and Jugoistok (Elektrotimok Zaječar, Elektrodistribucija Niš, Elektrodistribucija Pirot, Elektrodistribucija Prokuplje, Elektrodistribucija Leskovac and Elektrodistribucija Vranje).

EPS plans to introduce smart meters and this will lead towards more demands for optimising the electricity consumption, due to the fact that all consumers will be accountable for their consumption.

## 6. DANISH OPPORTUNITIES

The recent transformation of the serbian energy sector towards a greener and economically sustainable sector requires investments in technolgies and knwohow. The embassy sees opportunities winthin subsupplies for the windsector, and especially within energy saving

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