

**VOLUNTARY PENSION FUNDS
SECTOR IN SERBIA**

Third Quarter Report 2011

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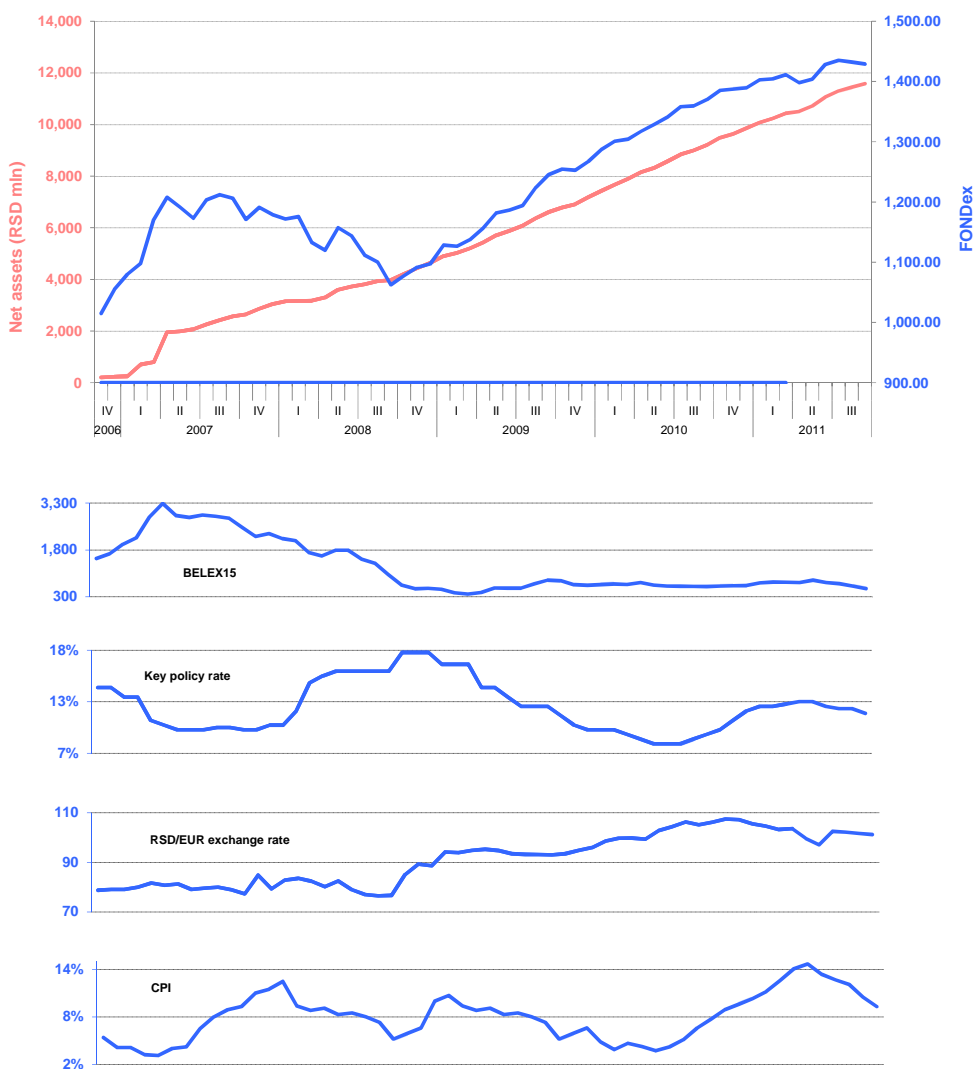
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1. INTRODUCTION

For less than five years of their operation, voluntary pension funds (VPFs) have recorded a constant rise in net assets that amounted to almost RSD 11.6 bln by end-Q3 2011. Relative to the quarter earlier, net assets grew 4.7%, or 25.9% over the last year.

Since the start of VPF operation, net assets have been on a continuous rise.

Chart 1: **Movements in net assets, FONDex and key indicators since the start of VPF operation**



At end-Q3 2011, FONDex¹ reached 1,429.16 points². The return of FONDex, which represents the weighted average of all funds' return, came at mere 0.06%³, while the return for the last year measured 4.32%. The return on government debt instruments (which at the same accounted for the largest share in the funds' portfolio) gave the strongest boost to FONDex.

Prices of Belgrade Stock Exchange (BSE) shares, measured by BELEX15⁴, were on a steep downward path throughout Q3. Relative to end-Q2, BELEX15 lost as much as 26.1%, or 11% y-o-y. The index lost a third of its value within four months, the last month of the prior quarter included.

Liquidity on the BSE remained low. Trading volumes totalled around RSD 4.94 bln, which was significantly below the levels recorded in Q2 (RSD 7.9 bln), but more than in the same period of 2010 (RSD 4.2 bln). Measured by the number of transactions, activity on the BSE again contracted sharply relative to the quarter before (the number of transactions plummeted by three fourths). As in the earlier two quarters, the largest share in trading (c. 22%) and the greatest number of transactions (c. 95%) related to NIS and Nikola Tesla Airport shares, though this percentage is gradually declining.

The upward trend in return on frozen FX savings bonds, set in train by end-2010, continued in the quarter under review. Assuming an inverse shape, the yield curve shifted up again and ranged from 6.11% for A2012 (up by 90 basis points on Q2) to 4.92% for A2016 series (down by 27 basis points). Over the last year, the yield curve moved up from 1.58% to 2.76% depending on maturity.

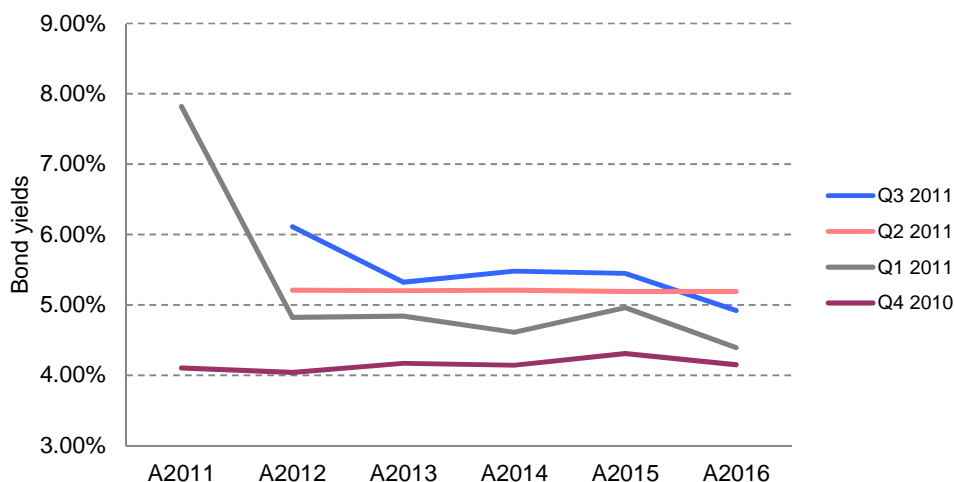
¹ FONDex shows movements in investment units of all VPFs in the market.

² The initial FONDex value of 1000 points was recorded on 15 November 2006 when the first VPF began to operate.

³ 0.23% p.a.

⁴ Of total investment in shares, over 95% were shares covered by BELEX15, which means that BELEX15 is a relevant benchmark for shares in the funds' portfolio.

Chart 2: Yield curve for frozen FX savings bonds
(end of quarter)



The market of debt government instruments (T-bills and bonds) experienced a sharp decline in the volume of issues and a mild rise in discount rates. The total market value of dinar-denominated issues came at c. RSD 56.7 bln vs. RSD 100.3 bln in Q2 2011. Most issued were 1-year (16.5 bln) and 6-month bills (14.7 bln).

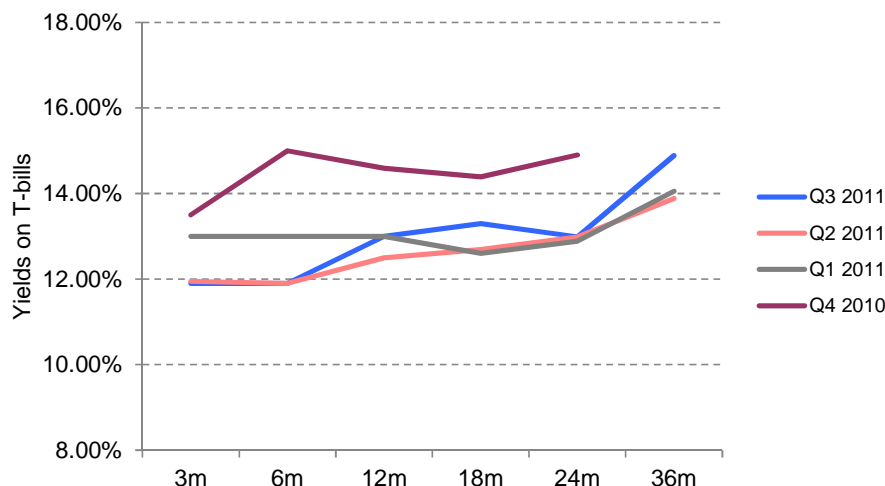
Table 1: Return and market value of dinar government debt instruments
(by maturity)

| Maturity | Q3 2010 | | Q4 2010 | | Q1 2011 | | Q2 2011 | | Q3 2011 | |
|----------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|
| | Discount rate % | Market value (bln) | Discount rate % | Market value (bln) | Discount rate % | Market value (bln) | Discount rate % | Market value (bln) | Discount rate % | Market value (bln) |
| 3m | 11.00% | 15.6 | 13.50% | 20.9 | 13.00% | 17.3 | 11.95% | 16.7 | 11.90%* | 9.7 |
| 6m | 12.50%* | 18.6 | 15.00% | 33.1 | 13.00% | 15.9 | 11.90% | 13.2 | 11.90% | 14.7 |
| 12m | 12.80% | 10.3 | 14.59% | 5.0 | 13.00% | 19.2 | 12.50% | 39.3 | 13.00% | 16.5 |
| 18m | 13.00%* | 2.1 | 14.39%* | 1.1 | 12.60%* | 21.4 | 12.69%* | 18.4 | 13.30%* | 6.9 |
| 24m | 13.40% | 2.8 | 14.90%* | 1.2 | 12.89% | 13.3 | 12.99%* | 8.0 | 12.99% | 4.4 |
| 36m | | | | | 14.05% | 2.1 | 13.89% | 4.8 | 14.89% | 4.5 |
| Total | | 49.4 | | 61.3 | | 89.1 | | 100.3 | | 56.7 |

Note: Discount rates at the last auction held in the quarter (asterisk (*) means that the auction was not held over the last 10 days of the quarter).

Also issued in this period were euro-denominated government debt instruments – 18-year T-bills at 5.40%. Q3 saw a moderate rise in return on instruments of 12-month maturity and longer, while the return on the shortest-maturity instruments remained at the Q2 levels.

Chart 1: T-bills yield curve (end-of-quarter)



The dinar's appreciation against the euro, in place since early-year, was halted in June. The exchange rate was stable in Q3 and the dinar continued slowly up. In the period under review, the dinar gained 1.26%⁵ or 4.71% over the last year. As more than a quarter of fund assets (27.4%) were invested in euro-denominated financial instruments, the euro's depreciation drove down the funds' return in the past period.

The trend of a slowdown and halt in inflation, initiated in Q2, continued through Q3. Some months even recorded negative rates. Annual CPI growth was 12.10% in July, 10.5% in August and 9.3% in September, while monthly price growth rates settled at -0.5%, 0% and 0.2% respectively.

In response to receding inflationary pressures, the key policy rate was cut further in Q3 and reached 11.25% by end-September, down by 75 basis points on end-Q2. Mirroring key policy rate cuts, the interest earned by funds on dinar balances held in custody accounts contracted in the same amount (75 basis points).

⁵ appreciation of 4.94% p.a.

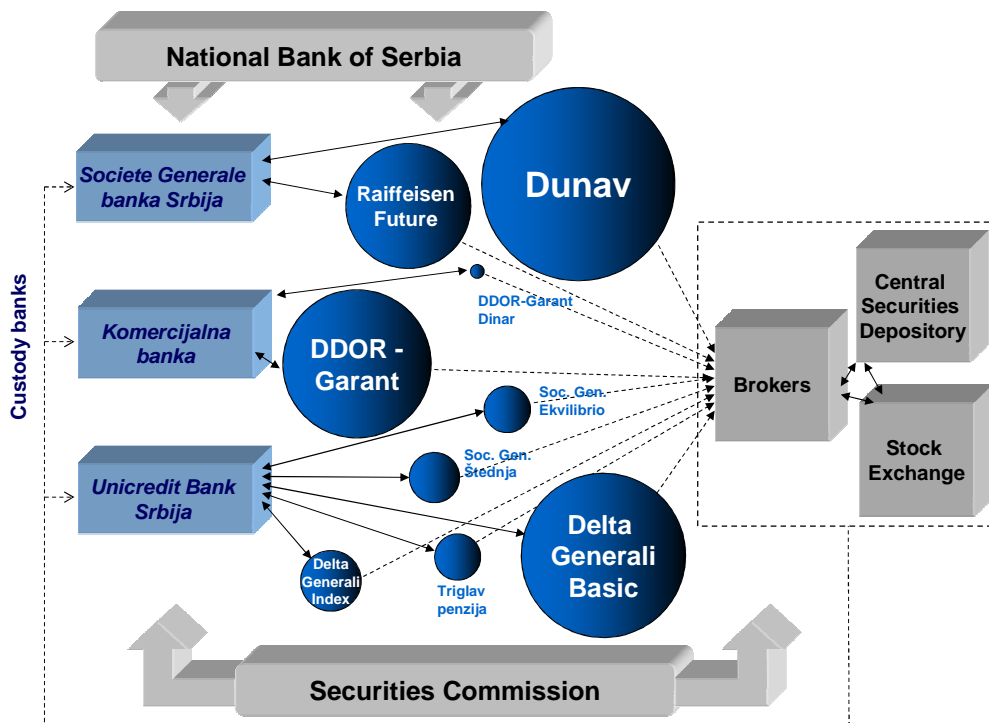
2. MARKET PARTICIPANTS

The VPF market comprises six companies managing nine VPFs, three custody banks, 65 natural persons engaged in dissemination of information about VPF membership (of 232 of them licensed by the NBS to perform such activities) and four agent banks⁶.

VPF management companies cooperate with 12 brokerage houses in securities trading.

At end-Q3 2011, total employment in VPF management companies was 123, down by 3 and 21 q-o-q and y-o-y respectively.

Chart 2: VPF market participants



⁶ NLB banka a.d. Beograd, Raiffeisen banka a.d. Beograd, Volksbank a.d. Beograd and Société Générale Banka Srbija a.d. Beograd.

3. VPF OPERATIONS

VPF net assets

In Q3 2011, net assets rose 4.7% q-o-q or 25.9% y-o-y. Furthermore, RSD 633.4 mln were paid to members' individual accounts, which impacted most on net assets growth. Total contributions, net of contribution fees, came to RSD 619.1 mln, whereas withdrawals amounted to RSD 103 mln. Total fees charged by companies were RSD 71.4 mln.

Net assets reached RSD 11.6 bln and contribution payments RSD 636.5 mln. Concentration in the sector remains high.

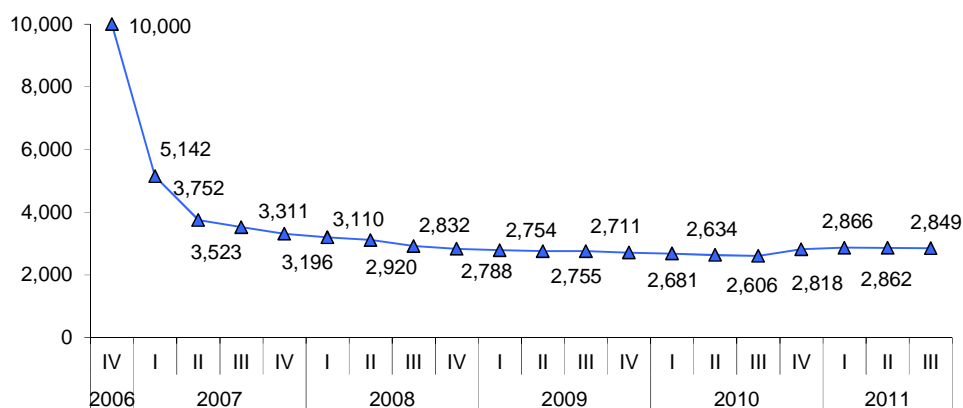
Table 1: End-of-period net assets of the VPF sector

| 2007 | 2008 | 2009 | 2010 | 2011 | | |
|------|------|------|------|-------|-------|-------|
| | | | | Q1 | Q2 | Q3 |
| 3.05 | 4.64 | 7.19 | 9.86 | 10.44 | 11.07 | 11.59 |

RSD bln

Measured by HHI, market concentration in the sector⁷ was relatively high – 2,849 points at end-Q3. What attests to high market concentration are two funds classified as 'large' and two as 'medium', making up almost 97% of the market, while the largest fund accounted for c. 42% of total net assets.

Chart 5: End-of-quarter concentration in the sector



⁷ In terms of the share in total net assets.

Table 2: Number of funds by groups divided by market share

| Share in net assets (%) | 2007 Q4 | 2008 Q4 | 2009 Q4 | 2010 Q4 | 2011 | | |
|-------------------------|------------|------------|------------|------------|------|----|----|
| | | | | | Q1 | Q2 | Q3 |
| Large (20 and above) | 3 | 2 | 2 | 3 | 2 | 2 | 2 |
| Medium (5 – 19.99) | - | 2 | 3 | 1 | 2 | 2 | 2 |
| Small (0 – 4.99) | 4 | 6 | 5 | 4 | 4 | 4 | 5 |

Structure of VPF assets

In Q3, government debt securities accounted for the major portion of VPF assets – 76.2%, of which T-bills made up 47.7%, frozen FX savings bonds – 9.9%, government bonds – 18.6%, demand deposits – 12.5%, shares – 5%, term deposits – 4.8%, and property – 0.7%.

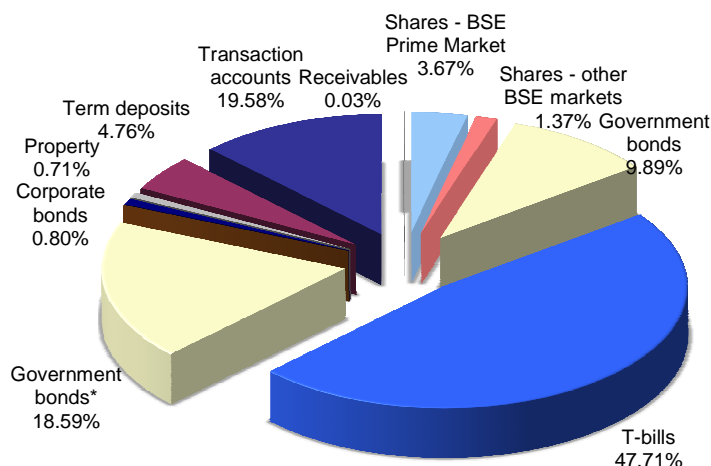
Most assets were invested in government securities. One fourth of assets – in foreign currency.

The greatest change in the structure of VPF assets was recorded for government bonds – their share in the portfolio rose almost 10 percentage points (from 8.8% to 18.6%). The Ministry of Finance began to issue these bonds by mid-Q1 2011. Funds invested most in 3-year dinar coupon bonds (14.7% of assets) with the end-September return to maturity of 14.89%, as well as in 3- and 15-year euro bonds (3.9%) with respective 5% and 5.85% return at the quarter-end. By contrast, balances in transaction accounts contracted the most – 7.1%.

The share of assets denominated in foreign currency – euros, was RSD 3.2 bln or 27.4% of total assets, while dinar-denominated assets accounted for RSD 8.4 bln or 72.6%. Relative to the quarter earlier, the share of FX assets was reduced by almost 5 percentage points as the focus shifted to dinar-denominated assets.

The major part of assets – c. 82%, was exposed to the interest rate risk, in response to the rising share of debt instruments in the funds' portfolio. At the same time, 27.4% of fund assets were exposed to the currency risk, while the credit risk was concentrated in investment in government debt instruments which constituted the largest part of the VPF sector portfolio.

Chart 3: End-of-quarter structure of VPF assets



VPF securities trading

VPF trading volumes of RSD 4.8 bln in Q3 were down by 11.9% on Q2. Government debt instruments had the major share in securities purchases (over 96%). The maturity to sale ratio changed significantly relative to the quarter earlier, settling at 2 : 1 in favour of maturity. The share of VPFs in BSE trading was around 2.5%.

Trading volumes came at 4.8 bln. Auctions of government securities held the largest share.

Table 4: VPF securities trading

| | 2008 | 2009 | 2010 | 2011 | | |
|-------------------------------------|------|-------|-------|------|------|------|
| | | | | Q1 | Q2 | Q3 |
| Securities trading | 1.51 | 12.59 | 14.92 | 4.22 | 5.46 | 4.81 |
| Purchases | 1.07 | 8.12 | 8.12 | 2.21 | 2.77 | 2.99 |
| BSE | 0.78 | 0.40 | 1.29 | 0.19 | 0.21 | 0.11 |
| Unregulated market | 0.25 | 0.38 | 0.30 | 0.03 | - | - |
| Auctions of government securities | 0.03 | 7.34 | 6.53 | 1.99 | 2.56 | 2.88 |
| Sales | 0.39 | 0.39 | 0.76 | 1.14 | 0.24 | 0.59 |
| BSE | 0.09 | 0.05 | 0.56 | 0.17 | 0.24 | 0.01 |
| Unregulated market | 0.30 | 0.34 | 0.20 | 0.98 | - | 0.58 |
| Maturity | 0.05 | 4.08 | 6.05 | 0.86 | 2.47 | 1.22 |
| Purchase to sale and maturity ratio | 2.42 | 1.82 | 1.47 | 1.1 | 1.1 | 1.6 |
| Share in total BSE trading | 1.2% | 1.1% | 7.6% | 4% | 5.8 | 2.5 |

Fees charged by management companies

The Law on Voluntary Pension Funds and Pension Schemes sets maximum fees that may be charged to fund members. Contribution and management fees may not exceed 3% and 2% respectively, while the account transfer fee may be charged only at the level of real transfer costs.

Management fees will be limited to 1.25% after net assets of all funds reach 0.75% of GDP.

The new Law, adopted in early May 2011, envisages different fees charged by management companies – these fees will be applied once net assets of all funds reach 0.75% of GDP. The maximum management fee is set at 1.25%, while the contribution fee is not capped.

Fees are one of the parameters that members should bear in mind when choosing a fund, but should not be observed as an isolated factor. The fee level is contingent on the fund investment strategy and its performance. As a rule, funds actively investing in more complex and riskier instruments are intended for younger persons who pay contributions over a longer horizon. Such funds charge higher fees, but are also expected to post higher return in the long run. On the other hand, a fund investing passively in safe financial instruments should charge lower management fees. Investment policy (scheduled investment by fund members), fees charged by companies, the expected fund return and the risk taken by the fund (and the member) should be accounted for when choosing a fund.

Since the start of operation, companies charged a 2% management fee, while the contribution fee declined and currently stands at 2.25%. The relative shares of these two types of fees changed – at the start of VPF operation, contribution fees were dominant by contrast to the current 84% of management fees. This was a result of rising net asset value and an enlarged base to which management fees are applied.

Though visible in the first instance, the contribution fee is not the largest cost incurred by a member. It is paid only once, as a front-load fee. The management fee is charged every day on the calculated value of VPF net assets and is contained directly in the investment unit value, meaning that the calculated and published value is deduced by the amount of the management fee.

A further rise in net assets and boosted fund competition may result in gradual lowering of the management fee. One company has envisaged in its schedule of charges a variable amount of fee depending on its performance in the sector and the sum of accumulated funds in individual accounts.

Table 5: Fees from 2007 to 2010 and fees by quarter for 2011

RSD mln

| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
|------------------|------|------|-------|-------|------|-------|-------|
| | | | | | Q1 | Q2 | Q3 |
| Contribution fee | 43.5 | 56.9 | 54.9 | 59.3 | 13.0 | 14.51 | 14.27 |
| Management fee | 33.4 | 72.2 | 117.2 | 170.6 | 49.8 | 52.86 | 71.36 |

Transaction costs

Transaction costs are incurred by management companies in securities trading. The new Law envisages that costs arising from the purchase, sale and transfer of securities (Central Securities Depository fees, stock exchange fees, tax charges and costs of the current maintenance of property that fund assets are invested in) are charged against fund assets. Other costs are incurred by the management company – these are mostly brokerage fees.

Brokerage, custody bank and stock exchange fees accounted for the largest share of transaction costs. Transaction costs are directly related to the volume of management company trading and types of instruments being traded. Most costs are incurred in stock trading on the BSE and the lowest costs in T-bills trading.

In response to relatively high trading volumes at the start of operation, particularly trading on the BSE, transaction costs were the highest at the time. The economic crisis induced contraction in the activity of management companies that directed their investment to safer instruments implying lower cost. In 2009, the costs rose again in response to reduced balances in transaction accounts, a shift to government T-bills and a gradual increase in shares trading. At the same time, a rise in net assets pushed up the value of VPF transactions in absolute amount. Q3 experienced a steep fall in transaction costs.

Table 6: Transaction costs from 2007 to 2010 and by quarter for 2011

RSD mln

| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
|--|-------|------|------|------|------|------|------|
| | | | | | Q1 | Q2 | Q3 |
| Transaction costs | 10.00 | 5.34 | 7.37 | 9.74 | 2.15 | 2.24 | 1.30 |
| Brokerage fees | 4.52 | 2.22 | 3.80 | 4.46 | 0.86 | 0.94 | 0.60 |
| Custody bank fees | 1.83 | 1.47 | 1.98 | 2.41 | 0.73 | 0.62 | 0.38 |
| Stock exchange fees | 1.56 | 0.84 | 0.38 | 1.14 | 0.22 | 0.36 | 0.09 |
| Central Securities Depository fees | 0.99 | 0.56 | 1.20 | 1.45 | 0.35 | 0.32 | 0.23 |
| Transfer tax relating to the acquisition of securities | 1.10 | 0.24 | - | - | - | - | - |

VPFs generally invest in long-term debt securities, while the portion of shares is relatively low. Such structure impacts on low transaction costs – c. 0.1% relative to net assets.

Number and structure of VPF beneficiaries

At end-Q3 2011, 173,920⁸ of beneficiaries were in the accumulation phase⁹. Total membership contracts¹⁰ stood at 232,013. At the same time, 15 beneficiaries holding 21 membership contracts, who are currently in the withdrawal phase, are receiving scheduled payments. All information from this point onwards, unless specified otherwise, refers to beneficiaries in the accumulation phase.

Q3 saw 5,000 new membership contracts and 2,000 new beneficiaries.

Table 7: **Number of contracts and beneficiaries from 2007 to 2010 and by quarter for 2011**

| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
|--|-----------------|-------|-------|-------|-------|-------|-------|
| | | | | | Q1 | Q2 | Q3 |
| No. of contracts | 158.5 | 201.6 | 215.7 | 220.4 | 222.7 | 226.8 | 232.0 |
| No. of beneficiaries | - ¹¹ | 156.0 | 165.2 | 166.8 | 169.0 | 172.0 | 173.9 |
| Percentage of active beneficiaries – ¹² | - | 41.1% | 34.9% | 33.6% | 31.5% | 32.0% | 33.0% |

thousand

In the 2008–2010 period, the strongest growth in the number of new beneficiaries was recorded in 2009 (close to 10,000), while 2010 saw a marginal increase. The upward trend continued in 2011 when the number of beneficiaries rose by more than 2,000 in Q1, 3,000 in Q2 and close to 2,000 in Q3.

Average accumulated funds per beneficiary depend on the amount of contributions, the funds' return and the length of the accumulation phase. All three factors impact on the growth in average funds in members' individual accounts. The average amount of accumulated funds of members who have made at least one contribution is RSD 79,000 and is constantly rising.

⁸ The number of beneficiaries is the number of members of one or more VPFs. The number is smaller than the number of membership contracts as a significant number of beneficiaries have more than one membership contract in one or several funds.

⁹ VPF membership has two phases – the accumulation phase (when contributions are made) and the withdrawal phase (when funds accumulated are withdrawn).

¹⁰ The number of membership contracts is the sum total of individual membership contracts and the number of members of all pension schemes.

¹¹ Data on the number of beneficiaries and the average amount of accumulated funds are available as of June 2008.

¹² The average percentage of active beneficiaries by month in the period it relates to.

As the percentage of active members ranges between 30% and 35%, and is broadly unchanged since 2009, we can assume these are beneficiaries contributing to pension funds each month. Average accumulated funds of these beneficiaries total over RSD 14,000.

VPF beneficiaries in Serbia may be domestic and foreign persons. The number of domestic persons holding fund membership contracts is much higher than that held by foreign nationals who, however, hold on average six times more funds in their accounts.

Table 8: Average funds from 2007 to 2011 and by quarter for 2011

| | 2007 | 2008 | 2009 | 2011 | | |
|---------------------------|------|--------|--------|--------|--------|--------|
| | | | | Q1 | Q2 | Q3 |
| Average accumulated funds | - | 34,594 | 52,234 | 73,673 | 77,395 | 78,982 |

RSD

At end-Q3 2011, the number of members of two or more VPFs amounted to 34,276 or around 20% of the total.

Table 9: Number of beneficiaries by number of funds in which they are members

| Number of funds | Number of beneficiaries |
|-----------------|-------------------------|
| 1 | 139,643 |
| 2 | 25,306 |
| 3 | 8,914 |
| 4 | 47 |
| 5 | 10 |

Table 10: Number of beneficiaries by membership contract

| Number of contracts | Number of beneficiaries |
|---------------------|-------------------------|
| 1 | 128,172 |
| 2 | 34,997 |
| 3 | 9,528 |
| 4 | 898 |
| 5 | 286 |
| 6 | 35 |
| 7 | 3 |
| 10 | 1 |

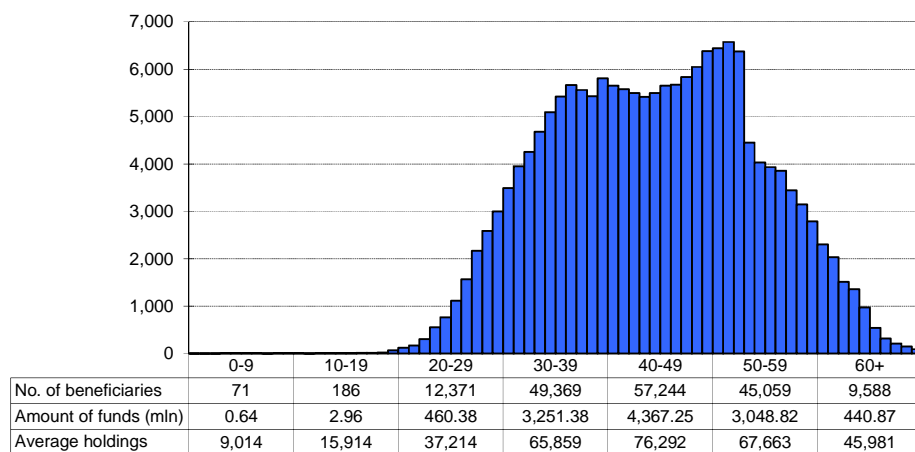
Table 3: Structure of beneficiaries by payment dynamics

| Active beneficiaries | Period | Number of beneficiaries | Share (%) |
|----------------------------------|--------------------------|-------------------------|-----------|
| | 1 month | 57,330 | 32.96% |
| 3 months | 67,776 | 38.97% | |
| 6 months | 70,254 | 40.39% | |
| 12 months | 88,639 | 50.97% | |
| From the start of membership (1) | 146,710 | 84.35% | |
| No holdings (2) | No funds on accounts (2) | 15,65% | |
| Total | (1+2) | Total (1+2) | |

In terms of gender composition, no significant changes were recorded relative to previous years. Men remained dominant with c. 59.5%. The gender ratio is slowly changing – among new members, there were around 50% women.

At end-2010, the average age of VPF beneficiaries was close to 44 years, while beneficiaries aged 30–50 accounted for over 61%. Such structure has not changed since the start of VPF operation. Further, the percentage of beneficiaries meeting the age requirement for the withdrawal of funds (53 years under the old Law) was largely similar to earlier years and accounted for approximately 20% of the total.

Chart 4: **Distribution of VPF beneficiaries by age**



Contribution payments, withdrawals and transfers

Apart from 2007 when most VPFs were set up and when contributions were the lowest, total contributions were stable throughout the years, ranging between RSD 2.2 and 2.4 bln a year.

In the first nine months of 2011, contributions into VPFs amounted to RSD 1.8 bln.

In quarterly terms, contributions have been stable over the past year, trending between RSD 550 and 660 bln. Q3 payments stayed at the previous quarter levels – c. 633 mln.

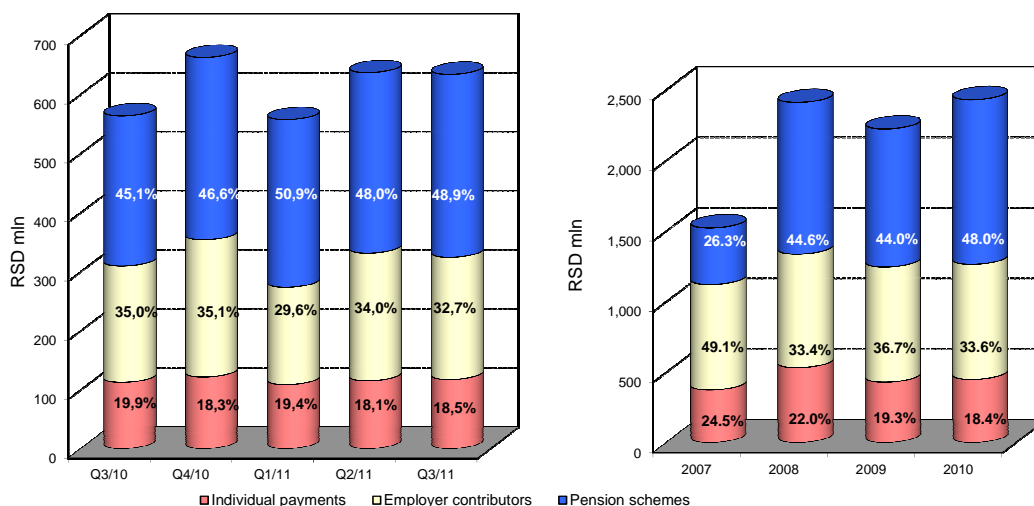
Table 12: **Contributions from 2007 to 2010 and by quarter for 2011**

| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
|---------------------|------|------|------|------|------|------|------|
| | | | | | Q1 | Q2 | Q3 |
| Total contributions | 1.52 | 2.41 | 2.22 | 2.43 | 0.56 | 0.64 | 0.63 |

RSD bln

Most contributions are made through pension schemes that imply the highest saving for the employer in terms of exemption from tax and contribution payment for the paid-in amount, up to the legally stipulated ceiling. Furthermore, pension scheme sponsors can negotiate the level of contribution fees for their members, which is another reason for the above contribution method.

Chart 5: Volume and composition of total contributions by year and by quarter in 2011



In Q3 2011, of total contributions, individual payments accounted for c. 18%, employer contributions 33% and pension schemes c. 49%. This ratio has remained broadly unchanged since 2008.

Though the Law envisages individual payments, most contributions were made through contributors and pension schemes. Employers may contribute on behalf of their employees and thus make saving in the form of tax relief. Ample potential for further growth in the membership base are companies with high staffing levels.

Withdrawals are generally lump-sum, which is logical as members entitled to withdrawal are not long-standing fund members and their accumulated sum is therefore relatively small. The future period is likely to see an increase in scheduled and other types of withdrawals, in response to growth in accumulation years and the accumulated sum, particularly after the adoption of the new Law setting the maximum lump-sum amount to be drawn at 30%.

In the first nine months of 2011, withdrawals by eligible members amounted to RSD 350 mln.

Table 13: **Withdrawals from 2007 to 2010 and by quarter in 2011**

| | <i>RSD mln</i> | | | | | | |
|-------------------|----------------|------|------|------|------|-----|-----|
| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
| | | | | | Q1 | Q2 | Q3 |
| Total withdrawals | 141 | 384 | 448 | 458 | 125 | 123 | 100 |

Withdrawals grow by the year as a result of system development – as contributions and net assets increase and Pillar III matures, absolute withdrawals will rise as well. In Q3 2011, contributions exceeded withdrawals by c. RSD 530 mln. However, what is atypical for the nature of VPFs is that withdrawals are made as soon as beneficiaries turn 53 (the minimum retirement age) – even before they meet the requirements for state pension. One of the reasons is a short contribution period and small accumulated funds.

Transfers concern inter-fund transfers. A member may transfer a part or all of his/her assets from one fund to another, thereby covering only the real transfer costs. The largest transfers were recorded in 2008. In Q3 2011, average transfers were lower than in earlier years – by around 17 mln.

*Inter-fund transfers
amounted to RSD 157 mln in
the first nine months of 2011.*

Table 14: **Inter-fund transfers from 2007 to 2010 and by quarter over the past year**

| | <i>RSD mln</i> | | | | | | |
|-----------------|----------------|------|------|------|------|----|----|
| | 2007 | 2008 | 2009 | 2010 | 2011 | | |
| | | | | | Q1 | Q2 | Q3 |
| Total transfers | 19 | 235 | 141 | 216 | 98 | 42 | 17 |

4. CONCLUSION

In 2010 and early 2011, long-term dinar and FX T-bills were issued, as well as 2026-maturity government coupon bonds. At the same time, shares of two large companies – NIS a.d. Novi Sad and Nikola Tesla Airport were listed on the BSE Prime Market. First municipal bonds are about to be issued as well.

The appearance of new financial instruments, notably long-term, is highly significant for VPFs as it enables more efficient assets and risk management, including greater investment diversification in line with each company's investment plan.

Tax reliefs increase each year in accordance with rising retail prices. At the onset of VPF operation, the relief equalled 10% of average wage or RSD 3,000. The amount set for 2011 is RSD 4,343 – employers are exempt from the household income tax and mandatory social insurance contributions, while natural persons do not have to pay the household income tax provided contributions are made via wage garnishment.

There is ample room for the further development of Pillar III in Serbia. As the economy recovers and the standard of living improves, contributions into private pension funds will rise as well. Clear signals about the need to save for old age, sent to citizens by economic policy makers, are likely to bolster the sector development. Further, awareness raising and education about VPFs will certainly enhance citizens' interest in securing additional retirement income. Besides, more weight should be lent to private pensions in the dialogue between employers and employees, enabling employers to display greater social care for their staff.