Telecoms market in Western Balkans

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The rapid growth of the telecommunications market in the Western Balkans has, so far, mainly reflected the increased competition within mobile telephony. Over the last three years the mobile telephony penetration rate has doubled or even tripled in some countries in the region. However, the most dramatic development has recently been seen on the ISP market.

Overview of the market

The telecommunications market in the Western Balkans states has, in recent years, been driven by the expansion of mobile telephony. However, the most dramatic growth has been that of the internet and data transmission subgroup, which grew by 40% in 2008. The ISP market, which is now only 6% of the overall Balkans telecoms market, is expected to grow significantly in the future.

Despite the already high penetration rate on the two largest markets (Serbia and Croatia), the mobile telephony market in the region succeeded in growing significantly in 2008, taking the growth of the telecommunications market in the Western Balkans to around 18% during the same year. The subdivisions which are still undeveloped and also have low growth rates are cable TV and data transmission. Fixed-line telephony on the other hand, which is subject to tight state regulations in most countries and is not liberalised to a degree sufficient to pose a serious competitive threat, grew by around 5% in 2008.

The most substantial share of the market is that of mobile telephony (57%), which is followed by fixed-line telephony, with a 34% market share. These figures vary, however, across the Western Balkan region, which is far from being homogeneous. Kosovo has the most substantial share of mobile telephony (80%) as a proportion of the overall value of the telecommunications market. Conversely, Croatia has the most liberalised fixed-line telephony market. In Croatia, therefore, the mobile telephony market accounts for around 50% of the market, and is followed by fixed-line telephony, with a market share of approximately 40%. The most highly developed internet market in the region accounts for 10% of the Croatian telecoms market.
A typical feature of all markets in the region is the fact that there are few similarities but that almost every market is very specific and different, not least from the macroeconomic point of view. This is a consequence of differing state regulations, work culture and historical factors. Today the VAT rate, which can, to some extent, determine the level of household spending on telecommunications services, is a good example of different market conditions offered by individual Balkan countries. The highest VAT rates are those of Croatia (22%) and Albania (20%), whereas the lowest are found in Montenegro and Bosnia (17%). Serbia and Macedonia are in the middle, with 18%. The effects of the global financial crisis can be seen in the region not only in terms of the shares of telecoms companies, some of which are now down to 50% of their value, but also of the actions of governments toward the telecommunications market. In Serbia, for example, the government imposed an additional 10% VAT tax on telecoms services on 1 June 2009 because of the crisis. At the time the Serbian government promised that this would last only during the “worst part of the crisis”. Such actions on the part of the authorities are sending negative investment-related signals from the country, particularly at such a sensitive time, when the largest national operator, Telekom Srbija, is due to be privatised and the licence for a second fixed-line operator has yet to be issued.

The average share of household spending on telecommunications services in Western Balkan countries exceeds the EU average because of specific lifestyles and the low prices of mobile services in the region. These prices, combined with the importance of telecommunication services to the population in the region, are creating a situation in which such services are becoming an important part of daily life and, therefore, consuming a substantial portion of the household budget. This trend has been obvious in the last few years despite low standards and limited purchasing power in the region. Montenegro is the leader not only in terms of the highest penetration rate in mobile telephony but also the highest average spending figure pertaining to telecommunication services (5.7% of the monthly household budget). On the other hand, the lowest spending figure is found in Kosovo (2.0%).

### Penetration rate (%) of mobile and fixed-line telephony in Western Balkan countries and EU-27, 2008

<table>
<thead>
<tr>
<th></th>
<th>Montenegro</th>
<th>Croatia</th>
<th>Serbia</th>
<th>Macedonia</th>
<th>Albania</th>
<th>Kosovo</th>
<th>EU 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>186</td>
<td>133</td>
<td>128</td>
<td>124</td>
<td>92</td>
<td>59</td>
<td>40</td>
</tr>
<tr>
<td>Fixed-line</td>
<td>28</td>
<td>38</td>
<td>41</td>
<td>23</td>
<td>9</td>
<td>26</td>
<td>5</td>
</tr>
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Source: EKIP Montenegro, AEK Macedonia, AKEP Albania, European Commission, HAKOM Croatia, PTK Kosovo, RAK Bosnia and Herzegovina, RATEL Serbia
Mobile telephony

Mobile telephony is widespread in the Balkan countries and enjoys a degree of popularity comparable with that of the EU, at least in terms of penetration as measured by the number of SIM cards in use per 100 inhabitants. In some countries mobile density has already surpassed the EU 27 average (Montenegro, Croatia and Macedonia), whereas, in others, such as Serbia, the mobile penetration level matches that of the EU. This increase in the number of mobile users was boosted in 2007 and 2008 by the appearance of new operators in Serbia, Macedonia, Albania, Kosovo and Montenegro.

However, these numbers do not mean that everyone in these countries possesses more than one mobile phone. The reasons for such a high penetration rate can be diverse. Firstly, because people often move between countries and other territories (Bosnia and Herzegovina) some use more than one SIM card, and, as users change SIM cards often they cannot commit to a billed contract. More than 80% of the total SIM card base therefore belongs to pre-paid users (the lowest figure is seen in Croatia – 74.79% – and the highest in Kosovo – 96.54%). Secondly, some operators are active in more than one country and do not charge a roaming fee for calling the number in another country within the same network. Calling abroad in this manner can, in some cases, be cheaper than using fixed-line telephony. This prompts people to possess more than one card “just for specific calls”. This is the case (for example) with regard to Telekom Srbija and Telekom Republika Srbska in the Serbian part of Bosnia and Herzegovina. Thirdly, the expression “regular user” does not mean the same thing in all countries. Sometimes an SIM card will expire within 12 months if it is not used.

Fierce competition on some of the more mature markets (Croatia, Serbia, Montenegro and Macedonia) has resulted in very low retail prices which are now below EU levels. In addition, at least three operators are present on all markets (apart from Kosovo). In April Albania even granted a licence for a fourth operator. 3G mobile services have been launched in Serbia, Croatia, Macedonia, Bosnia and Herzegovina and Montenegro, with Croatia having the highest mobile broadband penetration rate: 3.6%.

Of the companies which are active on more than one market, the largest are T-Mobile (Deutsche Telekom), which holds the dominant position in Croatia (45.75% of registered SIM cards), Macedonia (55.13%), and Montenegro (36.63%). It is worthy of note that T-Mobile has shares in the Greek concern OTE, which possesses 24% of the shares of Telekom Srbija, the dominant player on the Serbian mobile telephony market and the company which has a monopoly on the Serbian fixed-line telephony market. It is expected that T-Mobile will actively participate in the privatisation of Telekom Srbija, due in 2010. In addition, VIP Mobile, which entered the market in Serbia, in 2007 (9.44%), Macedonia (15.89%) and, earlier, in Croatia (42.29%), is still investing in the development of its network and taking on new customers.

As the main markets are already thoroughly penetrated, it is expected that the rate of growth in revenues from mobile telephony will fall, in contrast to the dramatic development of previous years. As a result of the ongoing price wars between operators, the prices of telecommunication services are also expected to fall, but not significantly. As the market is dominated at the moment by pre-paid business, it is expected that operators will be exerting an increasing amount of effort in order to boost the numbers of billed subscribers and to stabilise the average revenue per user.
**Telecoms market in Western Balkans**

**Fixed line telephony**

The average fixed telephony penetration figure in the Western Balkans region is below the EU27 average. In 2008 it was 26%, whereas the EU-27 average was approximately 40%. Over the last few years a trend toward fixed-to-mobile substitution can be observed in the telecommunications industry. The Balkan countries are no exception. However, Croatia and Serbia have very high fixed-line penetration rates which are near the EU27 average. On the other hand, the lowest fixed-line density figures are found in Kosovo and Albania. Most countries in the region have achieved the full digitalisation of their network. Albania, Bosnia and Herzegovina and Serbia have more than 95% of their networks digitalised and are expected to complete the process by the end of 2010. In addition, these countries (along with Montenegro) still have a small number of party lines which disable access to other services, such as dial-up and broadband.

The liberalisation of fixed-line telephony is at different stages on the various markets of the region, with different patterns used in the liberalisation process. For example, in Albania, where the national operator holds the smallest market share in the Balkans region (although the figure is still very high in comparison with the EU27), the market for local and DLD calls was liberalised in two stages. The local connections market was liberalised first, in 2007. Before 2008 there were, therefore, more than 60 local operators on the market, of which none could offer the DLD service. In 2008 a new law came into force, and local operators where allowed to extend their services to the national level. This was de facto the beginning of the liberalisation process in fixed-line telephony in Albania, with the result that in 2008 there were 67 operators offering their services at the national level.

On the other hand – in Serbia fixed-line telephony is still 100% owned by the state-controlled Telekom Srbija A.D., which is also the largest mobile operator in the country. The licence for a second fixed-line telephony operator is due to be issued at the beginning of 2010. Telenor Serbia and SBB Serbia (the dominant cable TV and ISP operators) have already expressed interest in entering the fixed-line telephony market.

In Montenegro and Kosovo the situation is similar, with only two operators active on the market, holding only 3.6% and 4.6% respectively of the numbers allocated by the state regulator.

The VoIP market in the region is, therefore, still undeveloped but with considerable potential for growth, as international calls have still not been liberalised. Only on the most developed markets, such as those of Croatia, Macedonia and Albania, is this service advertised. The Macedonian market is the only one on which one can notice a significant number of VoIP services – around one-tenth of the market in terms of minutes of traffic. These services in Macedonia are also offered by major mobile operators (such as Cosmofon) but also by small specialist and independent national VoIP companies.
Internet and data transmission

In Serbia, 2008 was the first year in which the number of broadband connections exceeded the number of dial-up connections (a 55% market share). The change was rapid, and over the last year alone the number of dial-up connections was halved, whereas the number of broadband connections was doubled. This provides the best indication of the condition of the market, which is rapidly changing toward better and faster internet services, which are demanded by end users.

Number (‘000) of broadband and narrowband subscribers in Western Balkan countries, 2008

As can be seen above, narrowband still plays a significant role on some markets. Nevertheless, along with the low penetration rate of internet services and the falling number of dial-up users, we can expect broadband services to grow rapidly. Broadband is also expected to fuel the growth of the telecommunications market as a whole in the region. In Croatia, one of more mature markets, alone, the number of broadband connections increased by 57% in H1 2009 in comparison with the corresponding period of 2008.

Broadband penetration rate (%) in Western Balkan countries, January 2009

Source: EKIP Montenegro, AEK Macedonia, AKEP Albania, European Commission, HAKOM Croatia, PTK Kosovo, RAK Bosnia and Herzegovina, RATEL Serbia, 2009
DSL-enabled infrastructure is predominantly in the hands of dominant fixed-line operators, but in some countries (Croatia, Serbia) alternative operators have succeeded in developing their own networks. Because of the diversity involved, the DSL markets in Serbia and Croatia are considered to be the most developed. Whereas in Serbia alternative operators hold 39% of the lines, mostly through bitstream access, in Croatia alternative operators use different offers based on local loop unbundling, bitstream access, or even their own networks, and possess 11% of all DSL lines in country. The most intense competition on the ISP market can be observed in Croatia, with Macedonia and Montenegro following closely behind, where even the most prominent mobile operators (T-Mobile and VIPmobile) entered the wire internet market by purchasing smaller local ISPs. This trend is expected to continue, as practically all of the markets in the region are struggling with the effects of the global crisis. On the other hand, this will open the way for market consolidation.
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