

# Kopaonik Consensus 2019

*The central theme of the 26th Kopaonik Business Forum was "Serbia Ten Years after the Great Recession - Strong Growth as an Imperative". During the four days, in twenty-six panels and three plenary sessions, over 1,300 participants have discussed on how to create the base for a continued strong growth that will enable us to reach the average EU standards faster. It was concluded at the Forum that the growth rates achieved in the past ten years were insufficient and that the annual growth should be over 5%.*

In order to consider the most significant trends important for Serbian economy and to articulate recommendations to both the business community and the decision makers on public policies, the last ten years of Serbian economic policy were analyzed. Set of measures that have contributed to the slow recovery of economy after the Great Recession, as well as the main causes of Serbia's lagging behind compared to the region of Central and Eastern Europe were specifically emphasized. The current macroeconomic trends and policies were analyzed, both in Serbia and in the Western Balkans region and in the Eurozone. The focus was also on topics related to European integration and regional cooperation, as well as on demographic trends that all affect the labor market. The state of the nation, combined with demographic trends, is reflected in economic and political choices and in perceptions of solutions for major political issues. The Fourth Industrial Revolution and the digital transformation of the private and public sector were an omnipresent topic.

Creative industry and its contribution to raising the competitiveness of the economy and improving the image of Serbia was one of the topics this year. Topics important for the improvement of the overall business environment were also analyzed: infrastructure construction and filling the infrastructure gap, linking markets in the region, faster privatization, protection of competition, reduction of grey economy, as well as increase of gender equality, especially in the occupations involving new technologies. The topics on development of individual economic sectors were discussed as usual: agriculture, banking, insurance, construction, energy, trade and tourism and health care. Regarding the provision of conditions for a rapid economic growth that would entail a significant increase in productivity, the most important conclusions and messages from the Forum were drawn: strengthening the knowledge economy through the advancement of the education, science and innovation system, as well as investment in soft skills related to management, as the problem of lack of good management in both private and public sector was clearly identified.

**Global conditions are growingly complex, key partners are marking a slowing in growth, questioning economic theory and policies.**

KBF special guest, Garry Jacobs, CEO of the World Academy of Arts and Sciences, said that a new economic science is needed for a more efficient functioning of the global economy, the Human-centered Economic Model that takes into account the environmental consequences, since the current theoretical framework of global policies has proven to be insufficiently good. He pointed to the chances that exist for

countries like Serbia because of their agility, if they adapt in time and if they resist the challenges of ideological burdens and inflexible and bureaucratized institutions. In this sense, Serbia, according to its potential, has a chance for an original development model.

In the panel dealing with the analysis of the upcoming structural changes in the European Union, it was unambiguously concluded that the EU is still the best choice for candidate countries, despite the problems it faces, problems that relate to the still undefined internal reform, as well as the forthcoming elections for European Parliament. The discussion also highlighted the increasingly frequent disagreements between the EU with the United States over a range of issues, including the abandoning the agreement with Iran, the customs conflict and the US announced sanctions against European firms dealing with Iran. The panelists have assessed that, regardless of problems and misunderstandings, US and EU partnership is still strong. They have also estimated that the EU has achieved economic recovery and successfully copes with the crises it did not cause (migration, Ukraine).

An analysis of economic trends shows that the global economy had a strong synchronized growth at the beginning of last year, on the wave of accelerated global recovery in 2017. However, as the year progressed, the growth became divergent, and the forecasts became more pessimistic. While the US economy has maintained a steady growth trend, the economic trends in Eurozone, Japan, Great Britain and China gradually weakened. Such trends are expected in 2019 as well, which will cause global growth to slow down to a level of 3.2% to 3.5%. The key risk faced by the world economy is a significant decline in world trade from an initial 5% growth, to almost 0% at the end of last year. If the trade conflict and the global trade contraction continue, even sharper slowdown in the world economy is possible - combined with rising interest rates, harshening of financial conditions and volatility in financial markets, this could increase the vulnerability of the global economy and lead to recessionary trends in the coming years.

It was emphasized that, due to inherent, specific risks, the slowdown in the growth of the Eurozone economy is expected to be a major challenge for Serbia, ie for maintaining and accelerating the trend of export growth and preserving macroeconomic stability. Namely, economic activity in the Eurozone has reached its peak at 2.5% in the second half of 2017, and there was a gradual slowdown since then. The reasons are multiple: political uncertainty in some Eurozone countries especially regarding the future of EU, Brexit and the way it is implemented, the problem of sovereign debt of some EU member states. In this and the next, 2020, the annual growth of Eurozone economy will not exceed 1.7%. Therefore, the forecasts are not good and this will certainly have an impact on our country, given the level of dependence of our economy on the conjuncture in EU. Our two major foreign trade and investment partners, where we place a quarter of our exports, are noticeably slowing down their activity - Italy has technically entered a recession, and business climate indicators suggest that this could happen in Germany as well.

**Significant preservation of macroeconomic stability: a limited space for macroeconomic policies in order to stimulate growth, the key in an even greater focus on the initiated structural reforms and new policies that foster the knowledge economy. Caution to increasing public spending!**

Ten years ago, at the end of the first quarter of 2009, Serbian economy was technically in recession, which was a direct consequence of the World Economic Crisis. Avoiding resolving fundamental structural problems accelerated the negative spiral of fiscal movements from year to year, so that at the end of 2014 we had a budget deficit of around 6.5%. After implementing the fiscal consolidation program, labor market reforms and partly started public sector reforms, GDP growth was registered from 2015. In the past four-year period, under the influence of positive external factors, this growth was on average less than 2.0%, insufficient for faster convergence with the average EU standards.

GDP growth of 4.3%, budget surplus, reduced public debt, monetary stability, increased level of FDI's, improved credit rating, Serbia's progress on the Global Competitiveness Index list, a new safeguard arrangement with the IMF and the first successful audit are positive achievements in 2018.

In an atmosphere of increasingly frequent announcements of a broader crisis, of the slowing down of economic activity in the EU zone, the Forum participants have concluded that the current situation in public finances and economy is significantly better compared to the time before the start of the Great Recession. Regulation of the banking sector has been upgraded in accordance with international recommendations and directives. The indebtedness of the state and the economy is closer to the comfort zone. However, caution is needed. The possible contraction of foreign demand and inflow of financial capital will certainly jeopardize the level of activities and the business community needs to be prepared for this. The task of Serbian Government is to preserve the fiscal area for future countercyclical interventions. Therefore, the message of the Kopaonik Business Forum to the Government of Serbia is: caution with the increase of public current consumption.

It was pointed out that the government's economic policy in the coming period must adhere to trajectories that implies growth predominantly based on investment and exports, private consumption growth, while the growth of public current spending should be in line with the achieved economic growth. Therefore, in addition to preserving macro-fiscal stability, investments should be in the focus of the current economic policy. Total investments were increased last year and they amounted to about 19% of GDP. That total amount is insufficient for a more ambitious growth. If agriculture in 2019 meets the average, and if there are no major stalls in electrical power production and car production, it is realistic to expect the projected GDP growth of 3.5% to be reached. However, the annual growth of 5% and more starting from 2020 cannot be achieved without a significant increase in the level of total investments - primarily of public capital and domestic private investments.

The execution of public capital investments is continuously lower than planned and does not exceed 3.6% of GDP. Given that Serbia has an infrastructure gap, there is a clear need for investment in basic infrastructure, and public investment should be above 4% of GDP. Examples of other countries in Central and Eastern Europe show that the level of public investment in the period of intensive basic construction was even 6%. For a strong, sustainable growth of total investments in the coming years, they should grow at a rate of at least 12% per annum. FDI's cannot be expected to push the growth of total investments in this year either.

In order to encourage the growth of domestic private investments (it was concluded that their share in total investments had a downward trend in the past period), and to increase productivity, in already favorable macroeconomic conditions of low inflation, low interest rates and stable exchange rate, as well as the won fiscal space , it is necessary: (1) to focus on new policies aimed at strengthening human capital, which will activate the potentials for the development of knowledge economy in conditions of global technological changes and digital transformation, and (2) to intensify the completion of structural reforms to improve the overall business environment and raise the competitiveness of the economy.

**Policies for activating the knowledge economy and accelerating the pace of growth and convergence of income with the EU: a focus on people, on necessary knowledge and skills, as well as on technological modernization of business**

In order to accelerate growth, business and public policies must take into account the existing human capital, its limitations and potentials simultaneously with care for technological advancement and business modernization.

*Demographic projections are pessimistic, and the state of the nation is described by confusion in terms of identity, excess of myths, which is together reflected in political and economic decisions.*

Adverse demographic trends (negative natural population growth rate, negative migration balance, departure of the population in fertile age, accelerated aging of the nation) will significantly affect the volume of labor force.

Bearing in mind that demographic trends cannot be changed in the short run, a migration policy needs to be defined with measures for attracting labor from other parts (our workers employed abroad, as well as foreign citizens). Also, it is necessary to develop an organized approach to health education of young people and to strengthening values related to parenthood, both through the education system and the media. Research shows that economic factors are not the main factors that affect the birth rate. An important role is the attitude of young people towards partnership, the perception of a social perspective, endangered reproductive health, and increased postponing of parenthood.

The aging of the population (together with education and the quality of digital literacy) is one of the determinants of the state of the nation, which partly explains - but does not justify the lack of visions among the people, and a big part of intellectual and political elites, as well as the excess of myths and confusion. As for identity, there isn't a set of state symbols that the citizens uniquely recognize; a significant part of the population does not believe in the finality of the state borders and they are not clear about where they belong. In the last couple of years, surveys have noted a rise in optimism about the future.

It was recognized that Serbia has a great chance to achieve rapid growth in the Fourth Industrial Revolution and in digitization, to raise the technological level of its economy through new investments and thus increase the added value. Human resources are the precondition for this – in sufficient number and of required quality. Similar to countries in the region, in addition to negative demographic trends,

there is a drain of young qualified people, the transition has taken too long, and the system of values in the society is seriously undermined. For the development of a knowledge economy, the education system is a key development factor for the state and the society. The dynamics of changes in the labor market have been accelerated and therefore the education system should focus on the development of creativity, innovation, analytical and critical thinking and lifelong learning. It is obvious that our education system is lagging behind the requirements of the moment. For decades, the education system has been self-centered, without a connection with the economy. All previous attempts to change were more in the area of repairing the existing system than a consistent reform; therefore the Forum supports the current reform processes based on the dialogue of all relevant stakeholders.

Teachers were identified as the critical and the most important factor affecting the students' achievements in school. Investments in their education are necessary and this should yield the highest results. It was emphasized that the quality of work in schools must be monitored and that the fight for quality is imperative. The lack of adequate quality in pre-university education is further spread to university education.

In order to prepare tertiary education students more adequately for work in a modern economic environment, it is necessary to encourage and develop interdisciplinarity and to enable all educational profiles to develop social and emotional skills.

The education system must have the strong support of all other social sectors during its development process. It cannot be expected that the education development will be properly oriented without the a clear vision of social development. It is also important to ensure continuity in the implementation of the defined educational policies.

Establishing a strong link with the economic sector plays a special role in strengthening the education system. Cooperation between these two sectors is necessary at all education levels, both through the active participation of economy in developing the curriculum and through collaborative projects that will provide the students with an opportunity for experiential learning. Representatives of large regional companies, some of them listed on relevant stock exchanges worldwide, have noted that there is a lack of human resources, necessary skills, on the one hand, and a hyper production of unnecessary labor, on the other. They have recommended that the previous situation requires systematic long-term work and close cooperation between education and economy in order to produce the necessary labor (through internship and other forms of linking the economy and education).

It was noted that we need a smart industrial policy. Improvement of education should hold a significant place in it. What is needed are modern educational programs in function of modernization of the industry, because in the last two decades the entire generation of production and technical labor has been lost, making human resources one of the priorities of the new industrial policy. First of all, it is necessary to educate and qualify workers for new industries, because the industrial structure cannot be restored without educated people, experienced engineers, technologists, technicians, designers. The fact that Serbia greatly lags behind in R&D investment, below 1% of GDP, while in the EU, about 3% of GDP on average is allocated to R&D.

In Serbia, in the past two years, innovative entrepreneurship has been intensively developing, and there is a potential to further accelerate its development in order to generate a growth-based economy. This is a key assumption of a more robust economic growth rate. The work of the Innovation Fund has significantly contributed to this development; the IF approves start-up grants for developing ideas from its budgetary appropriation. The innovation ecosystem is developing, but it would be good to complement it with incubators in educational institutions. Private capital is there, but the market is still too small to attract larger foreign venture capital funds. The products developed by domestic startups are at the global level by the quality of innovative solutions. What constitutes the biggest obstacle to their growth is the lack of "soft skills" that must be combined with engineering to achieve business success. They are: understanding consumer needs, communication, finding a market, leadership, business skills. All of these are lacking in Serbia today, i.e. the current education system does not provide them. Our diaspora is a significant and untapped potential in securing the market and the financing for the development of innovative startups in Serbia. It was the diaspora that played a role in several major transactions in the sale of domestic start-ups and the retention and growth of development centers of these companies in Serbia.

One of the important conclusions is on the development of potentials in the so-called creative industries. They have the capacity to connect more and to be more present in all other sectors of the economy, because they have the capacity to increase the competitiveness of these economic sectors, as well as to strengthen Serbia's image by reaching out to a large number of people globally. The significance and influence of the Balkan YouTube scene, as the third largest in the world, immediately after USA and Great Britain was highlighted. YouTubers create euphoria wherever they appear, and with over 40 million views each month, they actively shape the interests of young people between 7 and 15 years. Aware of the great influence they have, they are eager to use their channels to promote socially responsible activities such as combating Internet violence, "Say No to Drugs" actions, and healthy lifestyles. YouTube stars also have a growing presence and role in promotion of companies and their brands. Culture and festivals like EXIT - officially the best European festival, can change the image of our country. EXIT, which has so far hosted over 3 million foreign guests, brings to the world an image of an open, smiling and urban Serbia. Also, the importance of design, as well as of authentic, and universal, movie themes for image building, both of company brands and of the nation, was especially emphasized.

The adjustment of the tax system to the new economy and the need for its comprehensive modernization has been commented on several occasions. Positive developments have been identified in terms of tax relief for R&D investments that have been in place from this year. The burden on labor costs, which primarily stems from the amount of contributions (which further points to the necessity of modernizing healthcare management) was criticized on many occasions. The current foreign investment incentive system that is calculated per workplace was commented on in a few places. This approach increases the risk of attracting investors who do not plan long-term operations in Serbia. Also, investment in outdated technology branches, which rely on low-skilled workers, is most often encouraged. It is therefore necessary to carefully fine tune the policy of subsidizing foreign investors, which needs to follow the trends of the Fourth Industrial Revolution. All the changes in economy, as well as in the public sector, are permeated by the digital transformation trend, which is an inevitable part and determinant of the environment in the following period. It was pointed out that information is the "new oil" in the Fourth

Industrial Revolution. Right data need to be extracted from a vast amount of data, as their analysis will provide not only the best but also the fastest information. Predictive analysis is key - it predicts future events and gives us quick information on what needs to be done by analyzing previous events. Right information at the right moment helps companies to be faster, more efficient and innovative and help the society to be safer, healthier and more transparent.

The growing importance of user experience in the new economy was also highlighted. Leading global companies invest significant resources in improving customer experience every day, in order to differentiate themselves from their competition, and to improve their brand and consumer confidence. Technology brings us relief in all directions: the end-users; the direct service providers, such as points of sale; the intermediaries, such as financial institutions; enabling us to significantly minimize risk and speed up the decision-making processes, thus reducing operating costs for service providers and intermediaries, and ensure for the user an improved customer experience at lower costs.

According to global research, as many as 52% of consumers have changed service providers due to poor user experience, while 81% of consumers are willing to pay more for a better user experience.

It is encouraging that domestic companies, especially in the banking sector, follow global trends and are committed to creating the best user experience, while achieving maximum security, with the support of leaders in this field, such as Mastercard.

It was noted that the current environment imposes the need for a faster adjustment of the public sector, where rigid regulations and inert bureaucracy are typical characteristics. The results of digitalization of public sector services have been commended and the need for even faster changes has been emphasized. Tax Administration was highlighted as a positive example, for initiating a strategic partnership with the academic sector and developing AI algorithms to more effectively detect tax evasion.

### **Paying special attention to management, skills and leadership**

Good governance is important for all the recommended reforms and public policies, but also for a smarter business development in the increasingly complex environment.

The panel dedicated to the public sector emphasized the importance of introducing the principles of corporate governance, professional management and transparency in work in the public sector.

The panelists at the panel dedicated to business environment for large regional businesses, concluded that the lack of adequate quality of management is the biggest bottleneck in developing infrastructure and activating the public-private partnership model in order to accelerate development and increase investments.

The significance of the private sector's work on recognizing the importance of adequate corporate governance, the quality of management and the courage to share experiences and talk about bad examples that have led to problems in the past (excessive borrowing, poor corporate governance, non-transparency, etc.) was emphasized. In this way, the risks of the emergence of some "new" Agrokor

would be reduced. Also, this would contribute to the opening up of the transformation process in private companies (problems of family businesses succession, depth and quality of management, etc.).

At the panel dedicated to innovation, the importance of adequate governance and the fact that the development of society requires cultivating leadership and leaders who are obliged to create new generations of leaders were also emphasized.

### **Closing the infrastructure gap and linking the regional market (removing non-tariff barriers at borders)**

All the Western Balkans countries have a pronounced infrastructure gap and this is a significant obstacle to faster economic growth and better competitiveness of these countries. The density of road traffic is 3, and the density of the railway traffic is two times smaller than in the EU. That is why all the Western Balkans countries have placed additional investments in regional infrastructure projects high on their priorities lists, with a special emphasis on better quality preparation of projects for the purpose of their more efficient execution. In recent years, the construction of highways in the region has been significantly accelerated, above all the Corridor 10, which has almost been completed. International financial institutions, such as the EIB and EBRD, are the largest financiers of infrastructure projects in the region, but Chinese investors have also been increasingly present in recent years. The Berlin process has enabled all countries to receive grants from the EU and European institutions, not only for the technical preparation of projects, but for the execution of works on physical infrastructure, which is a qualitative shift in financing.

In the previous period, over 300 km of highways were built and over 500 km of railways were reconstructed. For the new investment cycle, investments of around 5 billion euros are envisaged.

In addition to investing in physical infrastructure, it is important for regional integration to eliminate non-physical barriers, which makes goods in trains and trucks stay for several hours at customs terminals. It was calculated that such retention increases transport costs by more than 10%, and thus directly decreases the competitiveness of the economy of the entire region. Forum participants - representatives of regional Chambers of Commerce were very critical of the problems in the functioning of the CEFTA agreement, and not just because of fees for importing goods on the territory of Kosovo and Metohija. It is clear that all measures, including the mentioned fees, are motivated by dominant political rather than economic interests. That is why it is necessary to support a new CEFTA agreement that would integrate all the elements of the regional economic zone. However, time is a key factor and for this to have an effect, it needs to be done very quickly.

Also, harmonization of regulations, administration optimization, and smart regional specialization in developing different production capacities in the region are needed. It is necessary to look at the individual potentials of the Western Balkans region countries, a synergistic approach with the basic goal of creating a unique chain of production, supply and services.

### **Completing privatization and restructuring of large public enterprises**

In order to encourage the growth of domestic private investment, further improvement of the general business conditions is needed. This implies that public companies and the remaining non-privatized portfolio be prepared for a new investment cycle through restructuring and privatization. Today, public companies as they are, cannot even perform replacement investments in the amount of annual depreciation.

In the previous year, the privatization of RTB Bor and PKB was completed. Bankruptcy was launched in Azotara. This was a way to reduce the list of companies that had a negative effect on public finances because of their size and failure,. However, a group of companies that formally employ 15,000 workers are still waiting for a solution. The Forum concluded that there was no progress in the restructuring of the largest public companies, with the exception of PE Železnice Srbije (Serbian Railways,) and public utility companies in major cities.

### **Strengthening the market efficiency and role**

The Forum participants have emphasized that Serbia needs to make significant progress in more efficient protection of property and contracts, in financial discipline, equality of market participants and in reducing gray economy. It is necessary to **improve the quality of institutions**, not only those regulated by the market, but also institutions that guarantee legal security, protection of property rights and rights of creditors.

### **Sectoral development**

#### *Agriculture*

Regarding the competition policy, which is necessary for strengthening the positive role of market in Serbian economy, it was concluded that there is still a low level of awareness of market participants in relation to this topic (underestimation of antitrust risk, low level of education, lack of antitrust compliance program, a large number of competition violations resulting from ignorance and neglect). In addition, the capacity of courts is insufficient to deal with complex multidisciplinary antitrust cases. The proposed legal framework, which is in the phase of a public debate, brings several novelties: thresholds for reporting concentrations, relevant income as a basis for calculating fines, introduction of *settlement*, ex officio proceedings, etc. The importance of more efficient completion of open procedures and more careful filtering of initiatives for initiating the procedure, as well as the importance of minutious treatment of extraterritorial concentrations and consideration of the area for correction of fees for reporting concentrations was emphasized.

The ongoing modernization of the Tax Administration is of particular importance for the necessary further reduction of gray economy. Plans were presented and it was emphasized that this year is crucial for the effects of the reforms undertaken so far (moving non-core activities out of Tax Administration, reducing the number of branch offices, strengthening the advisory role of inspectors, equalizing practice, raising citizens' awareness of the importance of paying taxes), as well for further major measures, such as

improving data registers, exchanging data with other institutions, strengthening risk management for more effective control, including the introduction of AI based on machine learning and big data analytics.

The position of women in business was also considered, especially in STEM areas, and the initiative of the Alliance for Gender Equality was also signed. The message was that we need to cultivate the right culture. Restrictive stereotypes should be eradicated from all areas, not just from STEM areas. In this way, we will prevent both men and women from falling into the cliché of the assumed "gender-appropriate" roles. We need to promote the fact that these areas can open doors to a large number of jobs, because the imperative for all of us must be the construction of the market in order to achieve permanent growth, as well as the lasting economic stability of companies and individuals.

### **Activating public-private partnerships in a smart way: market transformation in the healthcare sector**

Increasing and democratizing the flow of information also leads to increased efficiency of the healthcare market and consequently, its attractiveness for investors. Traditionally, the public sector, the healthcare industry is increasingly becoming a target of private capital. Healthcare represents 10% of GDP in our country, which makes it one of the main drivers of the economy. This potential can be achieved only with the digital transformation of the health sector, as well as the people employed in this sector.

The panelists' common assessment is that 2018 was relatively successful for agricultural producers and the food industry, bearing in mind the conditions in which these two sectors operated. It is estimated that the measures taken by the Ministry of Agriculture, Forestry and Water Economy, which include additional support to these sectors (in particular measures defined by the Regulation on investment incentives as well as subsidies in agriculture) are useful and that their adequate application can produce positive results. In addition, the announcement of the Prime Minister of the Republic of Serbia, and formerly minister of agriculture, on the priorities of economic policy in which food production is particularly emphasized, had an extremely positive response. The announcement of investments in projects of irrigation, land consolidation and electrification, as well as investments in new technologies related to the digitization of agricultural production, was welcomed. In spite of efforts, it was pointed out that investments in food production and processing are still insufficient, which goes for the total rate of capital formation at the state level. This is reflected in the lower participation of the added value of agriculture and food production and processing in relation to the share of these activities in the total gross domestic product. In addition, the general conclusion is that the harmonization of regulations with our largest trading partner, the EU is essential for the increase in trade. The fact is that agriculture and food production and processing are the only activities with a permanent surplus in foreign trade with both the EU and the CEFTA region. This is especially important, since the Serbian surplus in foreign trade with the CEFTA countries significantly contributes to the reduction of the deficit of total foreign trade commodity exchange. In this regard, all measures leading to a distortion of the free trade regime in the region were assessed as negative and counterproductive for the overall development of the region. The process of taking over and integrating producers and trade organizations in the region is seen as a logical continuation of improving the competitiveness of companies. In this regard, more intensive work of state

institutions on harmonizing trade and manufacturing conditions and practices was recommended, especially in the transit of goods and easier and faster crossing of borders in the region.

A cumulative assessment is that the exceptional potentials in the field of food production and processing must be directed towards products of higher added value, for which it is necessary to increase investments along with the use of modern technologies and smart systems, harmonization of the food safety policy with the EU, solving problems in the transit of goods and cross-border traffic, and especially incentives for a balanced regional and rural development.

### *Tourism*

Participants from the region, representatives of the public and the non-governmental sector as well as the hotel industry, have agreed that in the era of global competition, the region represents the smallest possible point of association, both of marketing efforts and of all other investments, above all in knowledge (human capital), then in financial funds, execution of joint projects financed from donor funds, etc. All of the above, including political consensus, is needed in order to create common tourism products and tourist offer in this part of Europe.

The execution of regional projects can be most easily promoted through cooperation between the economy and the state sector, with the active participation of the non-governmental sector and the patronage of international organizations. Attracting a larger number of tourists needs to be better coordinated, in order to achieve synergistic effects of using limited budgets, as well as raising the cumulative attractiveness of the joint offer. Regional cooperation in tourism must be promoted at a higher level, which will bring multiple benefits for the private sector in the Western Balkans.

Understanding and retaining tourists requires common IT tools, but above all it requires openness and readiness to share knowledge and information through shared platforms.

There are several common areas of activities that can strengthen regional cooperation in tourism: education in advanced marketing practices (electronic services and platforms); education of employees and their further training (conventional education, as well as specialized “hands on” training of tourist workers); joint promotion (web sites, standardized applications, advanced tools like AR); creating modalities for developing a platform for regular communication within the industry, such as sharing client data, business opportunities, and the like.

### *Financial sector*

It was noted that the **banking industry**, which was at the epicenter of the World Economic Crisis, 10 years later is in a significantly better state. In the domestic banking market, the consolidation of banks through mergers and acquisitions is in progress, which will continue in the future. The banking sector now has the lowest level of non-performing loans since the beginning of the crisis and it is ready to initiate a new credit cycle. This is illustrated by the growth rates of lending to the economy, which has exceeded 10% per annum, for the first time since the crisis. The economy cannot rely solely on its own funds to increase domestic investment, which is a necessary requirement for higher rates of total growth. It is necessary to obtain external sources of financing. Banks have available liquidity and are ready to support the new investment cycle. Development funds are not negligible, where international financial institutions also participate in various programs of guarantees and insurance, as well as more favorable credit lines for certain categories of borrowers. Also, one should bear in mind the available EU funds that require prior preparation in order to achieve greater absorption by the domestic economy.

It was noted that banks should continue their strategic transformation in four directions: improvement of compliance with regulations, technology, risk management and talents. The Fourth Industrial Revolution is changing the banking industry. It is expected that in the coming period there will be an even greater share of digital services and non-binding payment methods. Customers make their choices in the digitized world based on emotions, where trust is more important than price, and that's where the banks have an advantage over FintTech and startup companies. The user experience is increasingly important, and behind it stands fundamental automation and robotization of all processes in banks. In the future, banks are expected to make smart use of client information in order to provide the best experience and offer in real time. Although Serbia is the European leader in some innovations (instant payments), there are still obstacles to the development of advanced digital tools and banking services. It is necessary to amend the Law on Foreign Exchange Operations. Also, attracting expert and talented professionals will be a special challenge for the banking sector in the future.

**Insurance** is a significant segment that has preserved a sound core, despite the fact that the entire financial sector is bank-centered. It is developing slowly but continuously, which is illustrated by the level of total premium that is growing year after year. In the last year, the total market increased by 7.5% compared to 2017. Non-life insurance had a faster growth of 8.4%, while life insurance grew at a rate of 4.5%. A positive example of the increased number of property insurance in the cities that have suffered the biggest damage from the floods in 2014 was highlighted at the Forum. In order to raise the awareness that insurance is a necessity, not a luxury, it is recommended that additional education be provided both for insurance providers and the citizens, especially for young people. It was also noted that in developed markets there is a well-balanced ratio of life to non-life insurance. The existence of high potential has been emphasized for years in our country, but the conclusion is that insurance is an unexploited resource for both the economy and the state. Insurance is not an expense, but an investment.

**Capital markets** remain poorly active. However, on several occasions the Forum has emphasized the importance of future development of the capital market, that is, access to alternative sources of financing for the economy. This was especially discussed at a panel dedicated to the business environment that hosted the biggest regional investors. It was concluded that their work on the introduction of adequate corporate governance, quality management, and ultimately – being listed on the stock exchange was important for the development of companies. However, it was noted that a small number of companies meet the conditions to be listed on local stock exchanges, as well as for issuing corporate bonds.

## Key Messages

- The quality and the rates of growth that Serbia has achieved in the past ten years are insufficient for faster reaching of the EU average standard. Growth should be at the level of 5 +% per annum. Higher level of total investment is the assumption of robust growth rates. It is desirable for the total investments to increase from the current 19% of GDP to 25% of GDP. It is necessary to encourage the growth of domestic private and public capital investments.
- Global economic and political opportunities are becoming increasingly complex, slowing down growth with key partners, which can negatively affect the Serbian economy and its exports.

- It is important to preserve the achievement of macroeconomic stability. The area for incentive macroeconomic policy is limited, and the focus must be on accelerating structural reforms, but also on new policies that stimulate knowledge economy
- Caution in increasing public spending! Public sector salary growth should be in line with real GDP growth.
- In order to increase productivity and stimulate the growth of domestic private investment, in favorable macroeconomic conditions of low inflation and interest rates, as well as a stable exchange rate, new policies need to be activated, i.e. to establish knowledge as a key driver of future economic development. New policies should be dedicated to strengthening human capital, respecting technological change and digital transformation.
- Demographic projections are pessimistic, and the state of the nation describes confusion regarding identity and excess of myths, which is reflected in political and economic decisions.
- The educational system is lagging behind the requirements of the moment. The Forum provides support to current reform processes based on the dialogue of all relevant stakeholders. The most important factor affecting students' intrinsic achievements are teachers. Establishing a strong link with the economic sector plays a special role in strengthening the education system.
- By the quality of innovative solutions, the products developed by domestic startups are on world level, and the Innovation Activity Fund with its programs has given a great impetus to the development of this segment of the knowledge economy in the previous period. The biggest obstacle to a bigger growth of innovative startups is the lack of "soft skills" associated with managing a business, which must be combined with engineering skills to achieve business success. Significant untapped potential in securing the market and financing the development of innovative startups in Serbia lies with the diaspora.
- In creative industries, there is a potential to connect more and to have a greater presence in all other sectors of the economy, because they are able to increase the competitiveness of these economic sectors, as well as to strengthen Serbia's image by reaching out to a large number of people globally.
- More decisive and more intensive work is needed on the restructuring of public companies and the final completion of the privatization of the remaining big companies. This will stimulate the growth of private investment and raise the competitiveness of the economy.
- All the Western Balkans countries have a pronounced infrastructure gap and this is a significant obstacle to rapid economic growth and better competitiveness of these countries. In addition to investing in physical infrastructure, it is important for regional connectivity to eliminate non-physical barriers that significantly increase transport costs and thereby reduce the competitiveness of exported goods. It is necessary to look at the individual potentials of Western Balkans countries, a synergistic approach with the basic goal of creating a unique chain of production, supply and services.
- It is necessary to strengthen the market efficiency and role and to reduce the gray economy: It is necessary to improve the quality of institutions, not only those regulated by the market, but also institutions that guarantee legal security, protection of property rights and rights of creditors. The current year is crucial for the effects of the Tax Administration reform.

