

# TOURISM & HOSPITALITY

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## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Adoption of a New Tourism Development Strategy with a Change of the Tourism Destination Management Concept.	2022			√
Adoption of a New Assessing Methodology for the Tourism Foreign Exchange Inflow of Through the Application of the Tourism Satellite Accounts Methodology.	2022			√
Amendments to the Law on Simplified Employment of Seasonal Jobs in Certain Activities Expanding the Provisions on Tourism and Hospitality Sector in terms of expanding the circle of employers from Article 2 . of the Law on Simplified Employment in Seasonal Jobs in Certain Activities ("Official Gazette of the RS", No . 50/2018) in such a way as to include employers who perform activities in the Tourism and Hospitality sector.	2022			√
Amendments to the VAT Law to Expand Activities That Would be Taxed at a Special, Reduced Rate of 10%.	2022			√
Amendments to the Law on Copyright Regarding the Method of Determining the Copyright and Related Rights Tariff to introduce a fee payment criterion based on the occupancy percentage of the taxpayer's accommodation capacity in the accounting period.	2022			√
Suppression of the High Level of the Grey Economy in Tourism and Hospitality Emphasizing Individual Accommodation Services Segment: 1. It is necessary to strengthen the capacities of the tourism inspection at the local and national level and to carry out permanent education of inspectors. 2. Accommodation service providers (especially individual accommodation service providers) should be informed and educated about the rights and benefits provided by the legal framework through educational campaigns. 3. Effective and continuous tourism inspection (preventive and regular) supervision must be applied to minimize the grey economy and improve the use of E-tourist, especially among individual accommodation service providers. 4.The tourism inspection (at all levels) should adopt a Strategic and Annual Plan for suppressing the grey economy based on comparing the advertised accommodation facilities on various online platforms and the facilities in the E tourist system . The Annual Plan for the following year should be drawn up by December 15 of the current year. 5. The tourism inspection should make publicly available the Annual Report of the performed supervision according to the newly proposed Strategic and Annual Plan. The Annual Report should be quantified and contain at least the destination name, the number of inspections carried out, the types of facilities inspected, and the supervision results . The Annual Report should be published for the previous year by February 15 of the current year. 6. Legal entities and individual accommodation service providers not registered in the e-Tourist system cannot be beneficiaries of public funds at the national and local levels.	2022			√

## CURRENT SITUATION

The second decade of 21 century is characterized by a quantitative increase and qualitative improvement of accommodation tourist capacities in Serbia after the collapse of post-transitional tourism and the closure of many degrees in the first decade of this century. This period is characterized by the opening of a number of previously missing 4- and 5-star hotels, the start of a number of planned hotels in mountain and spa destinations, and the emergence of congress, spa, and other specialized hotels. On the other hand, the development of rural accommodation and different tourist capacities, especially during and after the COVID-19 pandemic, is flourishing.

The quality structure of accommodation capacities is continuously improving, given that the most significant number of newly opened facilities belong to higher categories. Despite these improvements, Serbian accommodation is not adjusted to the international market expectations, given that the share of hotel accommodation is only around one third<sup>1</sup> of the total accommodation capacity. It can be seen as a disadvantage, but it also represents the considerable opportunity for growth in this segment.

The mainly positive achievement was a substantial increase in foreign arrivals, overnights, and spending, influencing the Serbian foreign trade balance, traditionally in deficit and positively supported in the period of Tourism Development Strategy the Republic of Serbia 2016-2025 (TDS) implementation. From 2009 to 2019, Serbia recorded an increase in the relative share of foreign tourists in total volume. The number of international arrivals and overnights was growing on average at 11.11% (CAGR) and 10.61% (CAGR), respectively, and in 2019 foreign tourists reached a 50% share in total arrivals and 40% share in total overnights.<sup>2</sup>

However, in 2020, the COVID-19 pandemic interrupted the positive tourist trends. It caused significant damage to the tourist traffic in Serbia, resulting in a drop in tourist arrivals by 51% and tourist overnights by 38%.<sup>3</sup> The number of arrivals and overnights of foreign tourists recorded a significant decrease of 76% and 68%, respectively.<sup>4</sup> After a partial recovery in 2021, the positive recovery trend of Serbian

tourism continued in 2022 and 2023, when a record 4.2 million tourist arrivals and around 12.4 million total overnights were recorded.<sup>5</sup> Foreign tourists' overnights were about 39% higher than the pre-pandemic level.<sup>6</sup> In 2023, a record foreign exchange inflow from tourism was achieved and amounted to EUR 2.55 billion, which is EUR 1.1 billion more than in the pre-pandemic year 2019.<sup>7</sup> The same trend continued in 2024 when new records are expected regarding arrivals, overnight stays, and foreign exchange inflow from tourism.

Regarding services, tourism is one of the most significant contributors to services export, participating with about 20%<sup>8</sup> of total service export in Serbia. In 2023, (according WTTC) it is estimated that the participation of the tourism industry (total) in the GDP was around 6.4%.<sup>9</sup> According to the same source, for the period 2024-2034, the contribution of tourism to the country's GDP is expected to grow at a rate of 2.7%.<sup>10</sup> Furthermore, in 2023, this industry had about 81.9 thousand employees.<sup>11</sup> However, a relatively high share of the gray economy in the catering sector remains unchanged despite certain activities initiated by the competent ministry in 2022 regarding communication with online platforms that allow advertising of unregistered accommodation capacities.

Investments in tourism have increased (from 280 mil EUR in 2015 to 700 mil EUR in 2020)<sup>12</sup>, but at a much lower rate than projected. Namely, significant investments were registered as investments in infrastructure (which is in the function of tourism), buildings (in tourism function), etc. Considering the number of newly opened hotels, doubts about underestimating statistics became important. In addition, by obtaining the organization of the specialized EXPO 2027 exhibition, the construction of new accommodation capacities is expected, primarily in the hotel industry.

From the perspective of strategic planning, the valid TDS which was adopted for the period from 2016 to 2025, due

1 E tourist, Statistical Office of the Republic of Serbia

2 Statistical Office of the Republic of Serbia

3 Statistical Office of the Republic of Serbia

4 Statistical Office of the Republic of Serbia

5 Statistical Office of the Republic of Serbia

6 Statistical Office of the Republic of Serbia

7 National Bank of Serbia

8 Statistical Office of the Republic of Serbia

9 WTTC Assessment based on the Tourism Development Strategy of RS 2016-2025

10 WTTC Assessment

11 Statistical Office of the Republic of Serbia

12 WTTC Report and Assessment

to the context of the time, insufficiently covered the issues of digital and green transformation of the tourism industry, as well as the impact of climate change. In addition, the market segments were not determined based on special market research, so a clear connection between (the promotion) of certain tourist products and the specific market segments for which these products are planned is lacking. During 2023, the development of a new strategic framework for the tourism sector was started; however, by the conclusion of the White Book 2024 (October), the new TDS was not adopted.

Further, key legal documents were upgraded in 2019 according to strategic intentions to support the SME sector and protect consumers starting with laws: Law on tourism and Law on hospitality. Further, in 2021, Strategic Marketing Tourism Plan of Republic of Serbia was adopted. However, it should not be forgotten that creating a new strategic document, including the Tourism Development Strategy, implies the improvement of the overall regulatory framework (laws, by-laws, etc.) after its adoption. In addition, after the adoption of the new TDS, which will define the new vision, mission, and objectives of tourism development in Serbia, it is necessary to start drafting the new Strategic Marketing Plan for Tourism of the Republic of Serbia as soon as possible (the valid one was adopted for the period from 2021 to 2025), if Serbia wants not only to improve but also to maintain its existing competitive position on the international tourism market.

The further development of European and Serbian tourism in the coming period will continue to face numerous challenges, such as:<sup>13</sup>

- Russian-Ukrainian conflict;
- Conflict in the Middle East and other geopolitical crises;
- Climate change;
- Restrictions on airlines and use of airspace;
- Rising inflation and interest rates;
- Food and fuel price increases, and
- Self-confidence of travelers and available financial resources.

## REMAINING ISSUES

The key challenge of the tourism industry in Serbia is to improve its competitiveness and position of Serbia in the

global tourism market as a recognizable, attractive, and authentic tourist destination, which creates new jobs, sustainably manages its development and is attractive for new investments.

### 1. Sustainable Tourism Development Vision and Measurable Strategic Goals are Not Defined

The importance of tourism development programming and integral planning was not sufficiently recognized and implemented in the previous period. Specific strategic vision and well-articulated strategic and measurable objectives, including implementation, and transparently monitoring mechanisms with the upgraded coordination and cooperation of all key stakeholders at all levels, are missing.

Consequently, it is necessary to define a new Tourism Development Strategy, which will consider the “new reality”, and the need for redefine strategic and set measurable goals, including implementation and monitoring mechanisms that will ensure sustainable tourism development. Besides, improved coordination and cooperation of all key stakeholders at all levels with more significant participation of local communities in the tourism development process is needed.

The strategic framework has to respect the modern destination management concept, which implies introducing the legal possibility for tourist destinations to be managed by private companies and public-private partnerships.

### 2. Insufficiently Developed Awareness of the Importance of the Image and Market Positioning of Serbia as a Tourist Destination

Strategic decisions on the marketing of the Republic of Serbia were made based on the valid TDS but without impact analysis and necessary corrections for half of the period of validity (of the Strategy), bearing in mind that the Strategic Marketing Plan of Tourism of Serbia was adopted in 2021, and the SRT in 2016. The vision of the tourism development in Serbia until 2025 includes that by then, the Republic of Serbia will have a recognizable image in the domestic, regional, and global markets, with clearly defined target segments to which market it offers and a coordinated marketing system at all levels - national, regional and local. Consequently, the marketing mission in Serbian tourism is defined as the need to continuously shape, maintain, and improve the country's pos-

<sup>13</sup> Economist Intelligence Unit (EIU), WTTC and UNWTO

itive image as a tourist destination. Although the mission and vision are clearly defined and ambitious, there is not enough critical insight into the reality of achieving those goals. These issues become particularly significant when considering previously identified weaknesses and risks, such as limited budget resources and insufficiently developed awareness of the importance of the destination's image and market positioning. With the existing deficiencies in professional capacities in tourism (insufficient professional training and investment in human resources), realizing a defined mission and vision by the end of the planned period does not seem realistic.

### 3. Inadequate Methodology of the National Bank of Serbia for the Foreign Currency Income Assessment

Foreign exchange inflow is still calculated according to the inadequate methodology of the NBS for estimating foreign exchange inflow, which is one of the most important topics. The estimation of foreign exchange inflow is related to the work of exchange offices, so there is a discrepancy with tourist peaks. The estimation of the average consumption of foreign tourists based on such calculated foreign exchange inflow is highly unreliable. Consequently, there is no reliable calculation of the tourism industry's contribution to GDP. Furthermore, the budget for national tourism promotion and tourism, in general, is permanently underestimated and insufficient, directly affecting the insufficient promotion of Serbia as a tourist destination.

Modification of the NBS methodology for the assessment of the foreign exchange inflow of the tourism and hospitality industry and its contribution to the national GDP through the introduction of tourism satellite accounts. In this way, the quantification of the economic impact of tourism would be carried out using internationally recognized and accepted methodology.

### 4. Unflexible legal framework that does not provide the possibility of employment in accordance with the Law on Simplified Employment of Seasonal Jobs in Certain Activities

Human resources present a significant barrier to further development in labor-intensive industries such as tourism and hospitality. The number of disposable workforces decreased, causing the rise in wages, and consequently causing an economically rational reaction of employers: part-time jobs, reduction of service (self-service, etc.), and

even hiring unregistered employees to reduce labor costs. In addition, the structure of the labor force and the level of its education and training further deteriorated after the pandemic outbreak when a significant number of employees sought work in other industries. The insufficiently flexible legal framework does not recognize the needs of highly seasonal industries such as tourism and hospitality.

Hiring within this industry can be performed only in accordance with the Labor Law provisions ("Official Gazette of RS", no. 24/2005, 61/2005, 54/2009, 32/2013, 75/2014, 13/ 2017 - US decision, 113/2017 and 95/2018 - authentic interpretation), i.e., in a way to come to establishing of employment relationship by concluding an Employment Contract or in such a way that the work takes place outside the employment relationship by concluding a Contract on Temporary and Periodical Jobs, a Purchase Order Contract or a Supplementary Work Contract.

Due to the special characteristics and expressed need for seasonal workers in tourism and hospitality, it is necessary to amend the Law on Simplified Employment of Seasonal Jobs in Certain Activities ("Official Gazette of RS," No. 50/2018) in terms of expanding the circle of employers from Article 2. of the Law on Simplified Employment in Seasonal Jobs in Certain Activities ("Official Gazette of the RS", No. 50/2018) in such a way as to include employers who perform activities in the tourism and hospitality sector.

In this way, it would be possible to implement a simplified procedure for the employment of persons and the payment of taxes and contributions for work on jobs of a seasonal nature and within the scope of activities of a hospitality and tourism nature.

This modality of work engagement would imply mutual benefits both for the employers and for potential seasonal workers. The expected advantages on the employer's side are as follows:

- The employer is given an opportunity of simpler employment procedure, which represents work outside the employment relationship, via a verbal contract on the performance of seasonal work, which is concluded from the moment the seasonal worker access to work.
- The employer can apply a simplified procedure for calculating and paying citizens' income tax and contributions for mandatory social insurance, which in this case

only include rights from pension and disability insurance, as well as rights from health insurance, but only in case of injury at work and occupational diseases. The simplified procedure for paying taxes and contributions implies a pre-determined basis for calculating the obligations, regardless of the contracted hourly labor price of a seasonal worker. The stated base is always equal and amounts to a thirtieth part of the amount of the lowest monthly contribution base per day of engagement in seasonal jobs;

- The employer is only obliged, to submit in the stipulated period electronically to the tax administration the data required for the preparation of the evidentiary application, based on which the Tax Administration system automatically prepares and submits the individual tax return on calculated taxes and contributions.

The expected employees' benefits are as follows:

- Creating opportunities for persons in employment to earn additional income by concluding seasonal work contracts;
- Creation of the opportunity to generate additional income for beneficiaries of social assistance, given that the compensation for work received by a seasonal worker has no effect on the realization and use of the right to cash social assistance;
- Creating an opportunity for family pension users to earn additional income, given that there is no suspension of family pension payments if the contracted monthly compensation is realized in an amount lower than the lowest base in employee insurance, valid at the time of payment of contributions.

In addition, it should be emphasized that the law clearly prevents the possibility of abusing the simplified work engagement of a person, considering that a legal limitation of a maximum of 180 days is clearly introduced during the duration of the calendar year on the basis of the contract on performing seasonal work, as well as the relationship between this contract and the contract of Temporary and Periodical Jobs, where it is prescribed that if the same person is engaged on the basis of both contracts in one calendar year, the total number of working days on the basis of both contracts cannot amount to more than 120 working days in the calendar year.

## 5. VAT High Tax Rate in Hospitality Sector

Even before the COVID-19 pandemic, most European countries reduced VAT rates on hospitality services which positively impacted competitiveness and boosted their tourism industry. In addition, after the COVID-19 pandemic outbreak, the vast majority of European countries significantly reduced the VAT rate. Serbia, with a 20% VAT rate on hospitality services, became even more uncompetitive, especially in MICE, when the tax burden is crucial for destination selection.

Furthermore, it is necessary to change the legal regulations in the direction that, within the scope of the activities now foreseen, which are taxed at a special, reduced VAT rate of 10%, (such as accommodation services), food consumption services within hospitality business entities should also be added. In this way, domestic tourism and hospitality competitiveness would be enabled compared to competitors primarily from the Region but also from the rest of Europe, especially in MICE tourism.

## 6. Inadequate Tariff Model Determination According to the Law on Copyright and Related Rights

The improvement of the competitiveness of Serbian tourism is additionally burdened by parafiscal burdens such as the payment of tariffs according to the Law on Copyright and Related Rights. Namely, regardless of whether the accommodation facilities (rooms) are occupied or not, the tariffs must be paid.

In accordance with the Law on Copyright and Related rights, business entities from the tourism and hospitality sector are charged a special fee according to the Tariff issued by the organization for the realization and protection of copyright and related rights.

The most common case of collection of these fees is collection in accordance with a flat rate. When determining the amount of the flat fee, the following criteria are considered:

- the type and method of exploitation of the subject of protection;
- geographic location of the user's headquarters;
- type and size of the space in which the objects of protection are used;

- duration and scope of use and prices of the user’s services.

The criteria set in this way for determining the flat rate are inadequate and completely ignore the key circumstance, i.e., the occupancy percentage of the facility’s accommodation capacity.

Instead, it is necessary to introduce a fee payment criterion based on the occupancy percentage of the taxpayer’s accommodation capacity in the accounting period.

## 7. The Grey Economy’s High Share

The grey economy’s high share in the tourism and hospitality sector (reaches up to 40% - 50%, especially among individual owners’ accommodation rental via various online platforms) negatively affects the profitability and quality of accommodation services and the overall competitiveness of Serbian tourism. Further, this practice allows unfair competition for facilities that work legally.

### FIC RECOMMENDATIONS

- Adoption of a New Tourism Development Strategy with a Change of the Tourism Destination Management Concept
- Adoption of the new Strategic Tourism Marketing Plan of the Republic of Serbia (following the new Tourism Development Strategy) with a clearly defined Action Plan (KPIs, responsible persons/institutions, implementation deadlines, etc.).
- Adoption of a New Assessing Methodology for the Tourism Foreign Exchange Inflow of Through the Application of the Tourism Satellite Accounts Methodology.
- Amendments to the Law on Simplified Employment of Seasonal Jobs in Certain Activities Expanding the Provisions on Tourism and Hospitality Sector in terms of expanding the circle of employers from Article 2. of the Law on Simplified Employment in Seasonal Jobs in Certain Activities (“Official Gazette of the RS”, No. 50/2018) in such a way as to include employers who perform activities in the Tourism and Hospitality sector.
- Amendments to the VAT Law to Expand Activities That Would be Taxed at a Special, Reduced Rate of 10%
- Amendments to the Law on Copyright Regarding the Method of Determining the Copyright and Related Rights Tariff to introduce a fee payment criterion based on the occupancy percentage of the taxpayer’s accommodation capacity in the accounting period.
- Suppression of the High Level of the Grey Economy in Tourism and Hospitality Emphasizing Individual Accommodation Services Segment:
  - It is necessary to strengthen the capacities of the tourism inspection at the local and national level and to carry out permanent education of inspectors.
  - Accommodation service providers (especially individual accommodation service providers) should be informed and educated about the rights and benefits provided by the legal framework through educational campaigns.
  - Effective and continuous tourism inspection (preventive and regular) supervision must be applied to minimize the grey economy and improve the use of E-tourist, especially among individual accommodation service providers.

- The tourism inspection (at all levels) should adopt a Strategic and Annual Plan for suppressing the grey economy based on comparing the advertised accommodation facilities on various online platforms and the facilities in the E tourist system. The Annual Plan for the following year should be drawn up by December 15 of the current year.
- The tourism inspection should make publicly available the Annual Report of the performed supervision according to the newly proposed Strategic and Annual Plan. The Annual Report should be quantified and contain at least the destination name, the number of inspections carried out, the types of facilities inspected, and the supervision results. The Annual Report should be published for the previous year by February 15 of the current year.
- Legal entities and individual accommodation service providers not registered in the E tourist system cannot be beneficiaries of public funds at the national and local levels.