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## Article

# Comparative Analysis of State Aid and Competitiveness of the Republic of Serbia and the Neighbouring Countries

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## **Comparative Analysis of State Aid and Competitiveness of the Republic of Serbia and the Neighbouring Countries<sup>1</sup>**

**Abstract:** This paper analyses state aid, as a type of measure for intervention in the economy, which should aim to improve competition in market. State aid was analysed in terms of its volume and structure in the Republic of Serbia, as well as comparatively in some neighbouring countries from the region. Special attention was given to specifics of Serbian state aid in the context of the European Union accession, as well as to efficiency of the state aid and its impact on the national competitiveness. The main objective of the paper is to point out the necessity of state aid measures, especially in the case of developing countries, as well as the necessity of more efficient and effective use of state aid. Also, the paper will point out weaknesses that occur when decisions about provision and implementation of state aid are made, and to stress out the need to improve horizontal, sectoral and regional allocation of state aid in order to achieve positive effects on the competitiveness of economy in Serbia, Montenegro, and Bosnia and Herzegovina. Finally, the paper emphasizes the importance of building an efficient state aid control system in the process of fulfilling the pre-accession obligations of the observed countries in the EU accession process.

**Keywords:** state aid, competitiveness, Republic of Serbia, Montenegro, Bosnia and Herzegovina.

**JEL classification number:** L40, R50

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## Introduction

State aid is a form of selective state intervention, which is intended for particular economic entities, sectors or regions. State aid is never neutral, and this means that it is always to someone's benefit or detriment.

The main task of state aid, as a component of a system of state intervention, is to neutralize substantial market failures rather than cyclical fluctuations, or to be the backbone of economic development (Bilal & Nicolaides, 1999). Using this measure of state intervention in a manner that is not satisfactory can significantly impair the competition of market actors because market conditions are created on an unequal basis for individual actors. For reasons of definition of state aid measures which will give greater positive effects on the entire community, setting the rules of protection of competition and state aid control is a necessity.

The consideration of state aid in the literature starts from the assumption of a developed market economy with relevant institutions in place. However, the situation is quite complicated in developing countries, such as the Republic of Serbia, particularly in circumstances where, for example, the government sells state-owned enterprises to the private sector in insufficiently transparent manner, and there are risks of sale at low prices, which represents a loss for the state on one hand, and a significant benefit for the company that buys at low cost, on the other hand.

Also, the risk of the political dimension of allocating state aid should not be neglected. "Regardless of the fact that the granting of state aid can help achieve a number of political effects in the society, and in practice they are often decisive as well, state aid has its objective foundation in the systemic market failures, so the identification of the justifiably selected targets of this intervention must be based on systemic rather than daily political criteria" (Taboroši, 2011, p. 10).

Taking into account the structural development of the economy, the influence of politics on the economic sphere and the development of institutions, there is a crucial question: should state aid primarily ensure survival of economic entities in the market by undertaking a stabilizing role or should it stimulate economic development? In developing countries, such as Serbia, state aid has primarily a stabilizing function, while in developed countries (not taking into account the period of crises and cyclical fluctuations, because these anti-crisis measures are not the subject of this paper) the development function of state aid is expressed.

As the EU is an important trading partner of the Western Balkan countries, there is a need for convergence of these economies to the EU economy. This is a slow process especially taking into account the global crisis. There have been papers addressing the convergence of the general macroeconomic indicators of the Western Balkan countries to the EU (Krstevska, 2018). By signing the Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Serbia (2008), the Republic of Serbia and countries in the region committed to bringing their legislation in line with the legislative framework of the European Union, whereby the priority areas that have a direct impact on the creation of a free trade area between these countries and the EU are the protection of competition and control of state aid. Analysis of state aid, as a measure of state intervention in the Republic of Serbia, Montenegro, and Bosnia and Herzegovina, is important from the standpoint of compliance with permissible state aid in the European Union as well.

State aid should not be reduced to the frame of a single economic entity, it should contribute to the overall prosperity of the national economy, raising efficiency and effectiveness, competitiveness, and, finally, positively reflecting on the living standard of the population. “Consolidated democracy and efficient markets depend on the fundamental factor of growth, especially inclusive institutions which secure greater satisfaction of basic needs of population” (Jakšić & Jakšić, 2018, p. 10). Such broad definition of the objectives which must be achieved implies that the effects of the taken state aid measures must be viewed from different aspects. The most important are: the effects of state aid relating to the competition in the market, market behaviour and market power of a company, social welfare, efficiency and equity.

The impact of state aid on competition should be limited to relevant products, relevant product market, and relevant geographic market. State aid may influence the behaviour of company and its decisions concerning the price and volume of production, entering or leaving the market, and investment decisions. The impact of state aid is reflected through its impact on costs (fixed or variable) and income. The state aid can increase the market power of an economic entity, which negatively affects competition, and the measurement and determination of market power is necessary before granting state aid. Market share is the most commonly used measure for the determination of market power in the antitrust practice. It provides a more efficient and simpler insight into the market power of the company (Hay, 1992). Also, there is research on whether the market structure – proxies by market share and concentration ratio – does affect profitability on the banking industry (Al Arif & Awwaliyah, 2019).

In addition to the determination of market power of an economic entity, its “future market share” is important at the time of use of state aid (Sleuwaegen & Pennings, 2001, p. 18). Determining the future market share allows the identification of a positive or negative impact on the market competition, and the conclusion is that the state aid, which leads to a more concentrated market, has negative effects on competition.

There are two basic reasons that justify the use of state aid measures. The first is efficiency and the other is equity. As indicated by Buiren & Brouwer (2010, p. 5), “government intervention in general – and state aid in particular – can correct for these market failures for the purpose of improving overall welfare.” The significant role of the state is reflected in the achievement of the objectives of equity, such as the redistribution of income, employment and others.

Therefore, the effect of state aid depends on the following factors (Ćirković, 2013, p. 15):

1. whether and how precisely the goal of common interest is defined (regardless of whether it is regional, sectoral, economic or cultural),
2. to what extent is state aid the appropriate instrument for achieving the given goal,
3. to what extent state aid creates the necessary incentives,
4. how much state aid is proportionate to the need it should satisfy.

Timely and efficient identification of these factors contributes to whether and what kind of state aid can be effectively used. Otherwise, there will be no positive effects of state aid and it will be transformed into a state expense.

The paper presents an analysis of the volume and structure of state aid in the Republic of Serbia, and also a comparative analysis of the volume and structure of state aid in the neighbouring countries. Special attention is devoted to the specific features of state aid in these countries, the efficiency of state aid and its impact on improving the level of national competitiveness.

State aid is effective if it affects the improvement of competitiveness of the economy and it was analysed in this paper from this standpoint. Comparative analysis of the relationship between state aid and competitiveness of the Republic of Serbia and neighbouring countries indicates indirectly the effects of state aid and gives answers to the question of whether the state aid, in terms of structure and volume, is satisfactory in Serbia, Montenegro, and Bosnia and Herzegovina or

whether it needs to change and improve in order to achieve a higher level of competitiveness of the relevant economies.

The first part of the paper shows the interdependence between the volume of state aid and the level of national competitiveness of the Republic of Serbia, while a comparative analysis of the volume of state aid and the level of national competitiveness of the Republic of Serbia, Montenegro, and Bosnia and Herzegovina is given in the second part. The aim of the paper is to show that a smaller volume and a more favourable structure of state aid can contribute to a more favourable level of national competitiveness of the country.

## **1. Interdependence between the volume of state aid and the level of competitiveness in the Republic of Serbia**

### **1.1. The volume and structure of state aid in the Republic of Serbia**

Based on the Report of the Commission for State Aid Control of the Republic of Serbia, comparing the volume and structure of state aid from 2005 to 2016, the following can be observed: total state aid in the Republic of Serbia had a cyclical movement; the lowest volume of state aid was in 2005 (319.82 million euros), while the highest volume was in 2008 (971.08 million euros), as a result of the global economic crisis; the last period 2014-2016 recorded a reduction in the volume of state aid, in line with the recommendations of the European Union, and it was 750 million euros in 2016 (Table 1).

The comparative analysis of the volume of state aid and GDP in the case of the Republic of Serbia in the period 2005-2016 shows that a greater volume of state aid may not necessarily lead to a higher level of GDP. In the reporting period, the highest volume of state aid and the highest level of GDP were recorded in 2008. However, in the last three years (2014-2016) there has been a decrease in the volume of state aid, but also an increase of GDP, which has been increasing since 2012. Also, there is a declining trend in the share of state aid in GDP since 2014.

**Table 1: Volume of state aid, GDP, share of state aid in GDP, rank and score in the Global Competitiveness Index, and structure of state aid in the period 2005-2016 in the Republic of Serbia**

Year	Total state aid in mil. EUR	GDP in mil. EUR	% state aid in GDP	Rank	Score	Horizontal state aid in mil. EUR	% in state aid	Sectoral state aid in mil. EUR	% in state aid	Regional state aid in mil. EUR	% in state aid
2005	319.82	20408	1.57	85	-	149.86	46.8	142.52	44.6	27.44	8.6
2006	439.53	23610	1.86	87	3.69	298.80	68	128.27	29.2	12.46	2.8
2007	598.75	29125	2.00	91	3.78	455.73	76.1	116.90	19.5	26.12	4.4
2008	971.08	34259	2.83	85	3.90	448.46	46.2	169.1	17.4	39.68	4.1
2009	901.98	31511	2.86	93	3.77	564.42	62.6	124.73	13.8	32.15	3.6
2010	754.29	28464	2.64	96	3.84	156.63	20.7	141.16	18.7	230.98	30.7
2011	808.6	31143	2.60	95	3.88	131.8	16.3	179.1	22.1	332.1	41.1
2012	778	29933	2.60	95	3.87	106.3	13.6	170.7	22	278.6	35.8
2013	720	31981	2.25	101	3.77	42.1	5.9	158.6	22	287.2	39.9
2014	904	33059	2.74	94	3.90	253.9	28	214.3	23.7	155.5	17.2
2015	863	33491	2.58	94	3.89	305.9	35.4	113.8	13.2	258.5	29.9
2016	750	34142	2.20	90	3.97	249.4	33.2	97.0	12.8	218.0	29.1

Source: Ministry of Finance of the Republic of Serbia, The Global Competitiveness Report

The structure of state aid includes: horizontal, sectoral, and regional state aid (Zakon o kontroli državne pomoći, 2009). In the last two years (2015- 2016), the volume of all three types of state aid decreased, which is in line with the EU recommendations. Also, in the last two years (2015 and 2016), the share of horizontal state aid in total state aid is the largest, followed by regional state aid. While the volume and share of sectoral state aid drops, horizontal and regional state aid are at a similar level and have a roughly similar share of total state aid (33.2% and 29.1%, respectively).

State aid in the Republic of Serbia was awarded through the following instruments: subsidies, tax incentives (tax credits, termination of the tax debt, tax write-off), soft loans, guarantees and others. Analysis of state aid granted according to instruments awarded in 2016 indicates that the state aid was largely allocated through subsidies. The most common instrument of state aid in 2016 was subsidies with a share of 60.7% in total state aid, most of which was realized in sectoral state aid (agriculture, industry and services) (Report on State Aid Granted in the Republic of Serbia in 2016, p. 27).

Shares of each of these types in total state aid can be seen in Table 1, and detailed analysis is given below.

### 1.1.1. Horizontal state aid

The main characteristic of horizontal state aid is that it is neither sectorally nor regionally focused but oriented towards all economic entities, and has the least impact on the market competition. Such a definition and a wide range of orientation point to the benefits of this form of state aid and the correlation with economic development. Since there is a risk of distortion of competition in any state intervention, it can be rightly pointed out that, in the case of horizontal state aid, positive effect achieved by the use of such measures exceeds the negativity of its use. Hence, this measure is preferred because of the impact on overall social welfare and development because the horizontal state aid includes the measures of state aid to small and medium-sized enterprises and state aid for research, development and innovation.

Horizontal state aid in the total state aid granted in the Republic of Serbia in 2016 accounted for 33.2% and amounted to 249.4 million euros. The lowest level of horizontal aid was achieved in 2013 when it was only 42.1 million euros or 5.9% in total state aid, while the largest absolute amount of this type of state aid was in 2009, when it amounted to 564.42 million euros, while in relative terms it was the largest in 2007 when it amounted to 76.1% of total state aid. Also, since 2013 there has been a visible trend of continuous increase of horizontal state aid (Stojanović & Radukić, 2017).

It is noteworthy that the largest share in the structure of horizontal aid in 2016 has the rehabilitation and restructuring amounted to 99 million euros, while this type of aid was significantly higher in the 2015 and amounted to 195.2 million euro. In the last three years, in the structure of horizontal state aid in the Republic of Serbia, state aid for research, development, and training has not been granted. In addition, from the last Report of the Commission for State Aid Control of the Republic of Serbia can be seen that state aid has not been granted in 2014 for the sector of small and medium-sized enterprises, in 2015 for the environmental sector, and in 2016, also, for the small and medium-sized enterprises. However, in 2016 there were no allocations for development of small and medium-sized enterprises, and the lowest allocations were for environmental protection (16.8 million euros) and employment (29.9 million euros). So, after research, development and training, small and medium-sized enterprises and environmental protection are the least represented areas within the horizontal aid (Report on State Aid Granted in the Republic of Serbia in 2016). However, the Fund for Development of the Republic of Serbia and the Agency for Insurance and Financing of Export of the Republic of Serbia lent to small and medium enterprises in 2014 and 2016,



and the fact in the Report of the Commission for State Aid Control that state aid was not granted to small and medium enterprises it is no clear.

### 1.1.2. Sectoral state aid

The absolute amount of sectoral state aid was lower in 2016 than in 2015 and sectoral aid was the highest in 2014 when it amounted to 214.3 million euros (23.7% of total state aid), while in 2016 it fell to the lowest level in the reporting period when it was 97 million euros (12.8% of total state aid). This downward trend in sectoral aid supports the attitude about the negative effects of aid to individual economic sectors by the state.

The largest share in the sectoral state aid has been granted to the transport sector in general, while in 2016 this aid was equally allocated to the mining sector and amounted to 48.5 million euros. In the last two years (2015 and 2016) there were no allocations for the steel sector as a result of privatization.

### 1.1.3. Regional state aid

Regional state aid in the Republic of Serbia moved cyclically and in 2016 it amounted to 218 million euros, accounting for 29.1% of the total state aid granted (excluding agriculture). The share of regional state aid amounted to 29.9% of the total state aid (excluding agriculture) in 2015. The largest volume of regional state aid was in 2011 and it amounted to 332.1 million euros, when the share of this aid in the total state aid was the largest - 41.1%. Due to large differences in regional economic development, we believe that the volume of regional aid and its share in total state aid in the coming period should be increased.

## 1.2. Level of competitiveness of the Republic of Serbia

According to the Report of World Economic Forum for 2016, Serbia was ranked 90th on the list, which includes and measures Competitiveness Index of 138 countries. Serbia has recorded the score of the Global Competitiveness Index of 3.97 (theoretical value of the index ranges from 1-7) (Tanasković & Ristić, 2017, p. 9).

The Global Competitiveness Index is a composite index based on twelve pillars of competitiveness organized into three groups: basic requirements, efficiency enhancers, and innovation and sophistication factors. These pillars include microeconomic and macroeconomic factors, as well as factors of the development

of institutions which, when taken together, determine competitiveness of the national economy (Tanasković & Ristić, 2017, p. 8).

According to the value of GDP per capita Serbia is among countries with a medium level of economic development, which are factors of increased efficiency identified as drivers of competitiveness. Namely, in the structure of the Index of countries with a similar level of development as in Serbia, in the calculation of the composite value of the Index, the efficiency enhancers accounted for 50%, the basic requirements with 40%, while the innovation and sophistication factors account for 10%. (Tanasković & Ristić, 2017, p. 9).

Serbia does not have a satisfactory position when measured by the Global Competitiveness Index and when looking at the period 2005-2016. Serbia was best ranked in 2005 and 2008 (85th position), while the best score it achieved was in 2016 (3.97). In 2016, with a reduction in the volume of all three types of state aid and almost equal share of horizontal and regional state aid in total aid (33.2% and 29.1%, respectively), Serbia recorded an increase in score according to the Global Competitiveness Index. Since the volume of state aid in 2016 was lower than in previous years (2014 and 2015), its share in GDP reduced to 2.20% and there was a favourable structure of state aid (reducing the share of sectoral state aid), it can be concluded that the state aid promotes competitiveness, and hence the improvement of the competitiveness score of Serbia. This is supported by a change in the structure of state aid and a significant reduction in sectoral state aid (from 214.3 million euros in 2014 to 97 million euros in 2016), with a slightly reduces volume of horizontal state aid (from 305.9 million euros 2015 to 249.4 million euros in 2016).

The positive trend in a reduction of total state aid in recent years, as well as a reduction in sectoral state aid, reflected in the significant increase in the ranking of Serbia towards the Global Competitiveness Index in 2017, according to which Serbia was ranked 78<sup>th</sup> with the Index score of 4.14 (in 2016, Serbia was 90<sup>th</sup> and had the Index score of 3.97).

## **2. Interdependence of state aid and competitiveness of the Republic of Serbia and neighbouring countries**

Montenegro and Bosnia and Herzegovina can be distinguished from other countries in the region, as they have significant similarities with the Republic of Serbia regarding the volume and structure of state aid, as well as position on the list of

global competitiveness. Individual data for Montenegro and Bosnia and Herzegovina can be seen in Table 2.

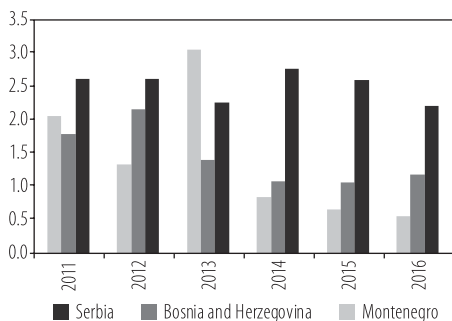
**Table 2: Volume of state aid, GDP, share of state aid in GDP, rank and score in the Global Competitiveness Index and structure of state aid in the period 2011-2016 in Montenegro and Bosnia and Herzegovina**

Montenegro	Total state aid in mil. EUR	GDP in mil. EUR	% state aid in GDP	Rank	Score	Horizontal state aid in million EUR	% in state aid	Sectoral state aid in mil. EUR	% in state aid	Regional state aid in mil. EUR	% in state aid
2011	66.4	3234	2.05	60	4.27	20.9	31.52	42.5	64.06	2.9	4.42
2012	41.7	3151	1.33	72	4.14	32.8	78.34	7.5	17.98	1.5	3.68
2013	100.3	3311	3.03	67	4.20	89.8	89.57	9.6	9.58	0.8	0.84
2014	28.32	3393	0.83	67	4.23	20.286	72.37	5.603	19.99	2.143	7.65
2015	23.374	3006	0.65	70	4.20	10.359	44.32	8.236	35.23	4.780	20.45
2016	20.715	3729	0.56	82	4.05	13.570	65.51	6.266	30.25	0.879	4.24
Bosnia and Herzegovina	Total state aid in million EUR	GDP in million EUR	% state aid in GDP	Rank	Score	Horizontal state aid in million EUR	% in state aid	Sectoral state aid in million EUR	% in state aid	Regional state aid in million EUR	% in state aid
2011	230	13122	1.77	100	3.83	108	47.1	49	21.6	0.00	0.00
2012	282	13154	2.14	88	3.93	123.7	43.9	74.9	26.6	0.00	0.00
2013	187.3	13426	1.39	87	4.02	66.9	35.73	39.8	21.25	0.04	0.03
2014	292.1	13826	1.08	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2015	153.2	14422	1.06	111	3.71	26.72	17.44	5.44	3.55	1.5	0.97
2016	115.5	15288	1.17	107	3.80	30.3	26.28	2.5	2.2	0.2	0.002

Source: Joint services of the organs and bodies of the Federation of Bosnia and Herzegovina, Ministry of Finance of Montenegro, The Global Competitiveness Report

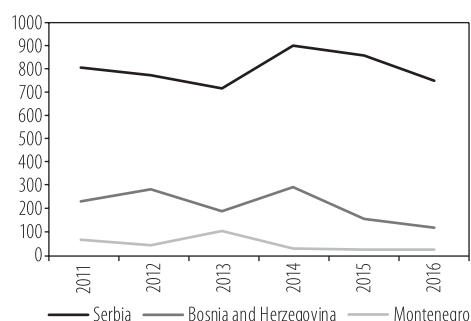
Figure 1 shows the comparative analysis of share of state aid in GDP in Serbia, Montenegro, and Bosnia and Herzegovina over the period 2011-2016, and we can conclude that the largest share of state aid in GDP had Serbia, except in 2013 when it was the highest in Montenegro. The volume of state aid in the observed period was mainly the biggest in Serbia in absolute and relative terms, as a percentage of GDP, which points to the need to reduce it in the next period. In Montenegro, the largest volume of state aid was in 2013 (100.3 million euros), and there has been a continuous reduction in the volume of state aid in absolute and relative terms since then. However, there has been a declining trend in the volume of state aid in Bosnia and Herzegovina since 2014, when it was at its highest level of 292.1 million euros, but the share of state aid in GDP decreased in the period 2012-2015, while a slight increase was observed in 2016.

**Figure 1: Share of state aid in GDP of Serbia, Montenegro, and Bosnia and Herzegovina in 2011-2016**



Source: Ministry of Finance of the Republic of Serbia, Joint services of the organs and bodies of the Federation of Bosnia and Herzegovina, Ministry of Finance of Montenegro

**Figure 2: Trends in total state aid in Serbia, Montenegro, and Bosnia and Herzegovina in the period 2011-2016 (in mil. euros)**



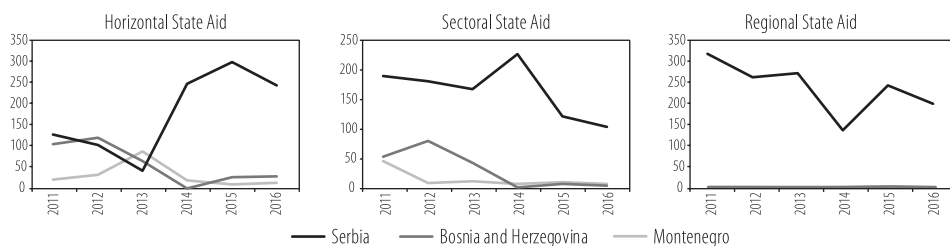
Source: Ministry of Finance of the Republic of Serbia, Joint services of the organs and bodies of the Federation of Bosnia and Herzegovina, Ministry of Finance of Montenegro

Trends in total state aid in this group of countries in the observed period recorded a declining trend. As can be seen in Figure 2, it is only in Montenegro that the volume of state aid was at the minimum level throughout the entire period 2011-2016, while Serbia had the largest allocations from the state through all three forms of state aid.

The Republic of Serbia had the highest overall level of state aid in relation to Bosnia and Herzegovina and Montenegro over the entire observed period. The largest volume of state aid in the Republic of Serbia was recorded in 2014 in the amount of 904 million euros, in Bosnia and Herzegovina also in 2014 in the amount of 292.1 million euros, and in Montenegro in 2013 in the amount of 100.3 million euros.

The relatively high level of total state aid, primarily in the Republic of Serbia, indicates a significant state intervention in the economy, and the goals of economic policy in the period 2011-2016 can be seen in Figure 3, which shows the movement of the horizontal, sectoral and regional state aid in the observed countries.

**Figure 3: Horizontal, sectoral and regional state aid in Serbia, Montenegro, and Bosnia and Herzegovina in the period 2011-2016 (in mil. euros)**



Source: Ministry of Finance of the Republic of Serbia, Joint services of the organs and bodies of the Federation of Bosnia and Herzegovina, Ministry of Finance of Montenegro

Figure 3 shows that there was a decline in horizontal state aid in Serbia until 2013, a significant increase has been registered in the period 2013-2015, and then there is a slight decline. Also, in 2012 and 2013, Serbia had less horizontal aid than the other two countries. Bosnia and Herzegovina had a decline in horizontal state aid since 2012. In the case of Montenegro, until 2013, it can be seen a growth in the volume of horizontal state aid, and a decrease then onwards. In the last two years, there has been a slight increase in this type of aid in Bosnia and Herzegovina and Montenegro, but the volume of this type of aid is far below the level in Serbia.

The movement of sectoral state aid is a very important fact considering its detrimental effect on the conditions of competition in the market. In Serbia there was a decreasing trend in this type of aid, except in the period 2013-2014 when there was an increase, which was the highest volume of this aid in the observed period. In Bosnia and Herzegovina, sectoral state aid was dramatically declining since 2012 when it amounted to 74.9 million euros up to 2016 when it amounted to 2.5 million euros. In Montenegro, there was a cyclical movement of this kind of aid since 2011 but it also fell drastically since 2011 when it amounted to 42.5 million euros and it declined to 6,266 million euros in 2016. The comparative analysis of these three countries shows that the Republic of Serbia had the highest level of sectoral state aid in 2016 in the amount of 97 million euros.

Regional state aid in Serbia moved cyclically and it was at the highest level compared to the other two countries while in Bosnia and Herzegovina and Montenegro it was constantly at very low levels and in 2016 amounted to 0.2 million euros and 0.879 million euros, respectively. In order to examine whether a higher level of state aid contributes to improving the economic parameters and the level of competitiveness of the economy, in the next part of the paper we will analyse the positions of observed countries according to the Global Competitiveness Index.

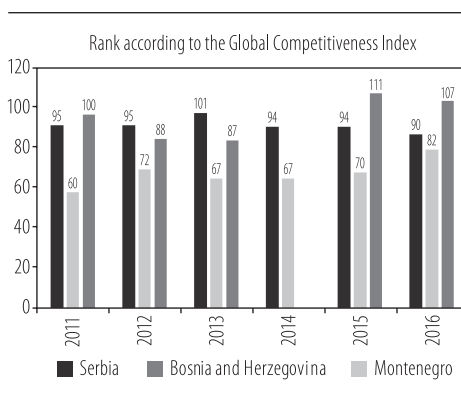
In the period 2011-2016, Montenegro had the most favourable rank of competitiveness in relation to Serbia and Bosnia and Herzegovina. It is also noted that since 2014 Montenegro has deteriorated its rank in this Index. Bosnia and Herzegovina had a worse rank than Serbia in 2011, 2015 and 2016. However, Serbia has improved its rank in 2016 when it reached 90<sup>th</sup> position instead of 94<sup>th</sup> position in 2015, which continued in 2017 when it achieved a significant improvement in the position and now occupies 78<sup>th</sup> position, while Montenegro ranked 77<sup>th</sup>, and Bosnia and Herzegovina was ranked 103<sup>rd</sup>.

According to the value of the Global Competitiveness Index in 2017, Serbia was better ranked only in relation to Bosnia and Herzegovina. Montenegro had made the improvement of the index score of 0.1 and thus found itself just in front of Serbia at 77<sup>th</sup> position although it occupied 82<sup>nd</sup> position in 2016.

Regarding Serbia, although there is a trend of increasing of competitiveness, there is, also, a great instability which is reflected in significant fluctuations in the short term. The global economic crisis in 2009 was followed by deterioration in the competitive position of Serbia, which was significantly higher than in other countries in the region. In the last three years, Serbia recorded a slightly faster growth of Index in compare to observed countries, which amounted to 0.17 or 4.28%, which has led to a reduction in its lagging behind the region (Tanasković & Ristić, 2017, p. 4).

The increase in the score of the Index was mostly due to an increase in the score of the pillar - "Macroeconomic environment", which represents a continuation of the pace of improvement of this pillar from year to year, but despite of significant progress, this pillar is still lagging behind the other countries in the region (Tanasković & Ristić, 2017, p. 4).

**Figure 4: Rank of Serbia, Montenegro, and Bosnia and Herzegovina according to the Global Competitiveness Index in the period 2011-2016**



Source: Ministry of Finance of the Republic of Serbia, Joint services of the organs and bodies of the Federation of Bosnia and Herzegovina, Ministry of Finance of Montenegro, The Global Competitiveness Report

According to the Global Competitiveness Index score, it can be seen that Serbia and Bosnia and Herzegovina had similar scores of the Index at the beginning of

the period (2011 and 2012), whereas in the last two years (2015 and 2016), Serbia had a better score than Bosnia and Herzegovina. However, in the whole observed period, Montenegro had the highest scores of the Index, but since 2014 its score has fallen.

Based on the analysis of the volume and structure of state aid and the level of competitiveness of Serbia, Montenegro, and Bosnia and Herzegovina, it can be concluded that all countries have a higher share of state aid in GDP in compared to the European Union member states, on the one hand, and an unfavourable position from the standpoint of competitiveness, on the other hand, which is reflected in a weaker scores of the Global Competitiveness Index and, consequently, ranks in the Global Competitiveness Report by the World Economic Forum. The exception is Montenegro, which had the smallest volume of state aid in 2016, a favourable structure of state aid (the largest share of horizontal state aid in total aid), and the best position on the list of Global Competitiveness (82<sup>nd</sup>), as well as the smallest share of state aid in GDP in comparison with Serbia and Bosnia and Herzegovina.

We can conclude that the analysed countries in the region recorded a downtrend in the volume of state aid, improved structure of state aid because the share of horizontal in relation to sectoral state aid in total state aid increased, which consequently led to better scores of the Global Competitiveness Index. In this way, these countries reduce the state influence on economic trends and promote the liberalization and development of the private sector.

## Conclusions

State aid in terms of volume and structure is significantly different in developed and developing countries, the latter including the Serbian economy and other economies in the region. As long as state aid in developed countries is oriented mainly towards small and medium-sized enterprises, environmental protection, and research, development and innovation, which represents a state aid oriented towards development (excluding conjunctural disorders and crises when anti-crisis measures are necessary in these countries as well), state aid in developing countries has primarily a stabilizing character because it is more oriented towards specific sectors (hence the high share of sectoral state aid in the total state aid). Regardless of whether state aid is aimed at development or stabilization goals, state aid policy must be well-conceived. A well-conceived state aid policy can have a triple positive effect in the economy and it can:

- correct market failures,
- improve national competitiveness,
- enable sustainable development of an economy.

However, uncontrolled disbursement of state aid can lead to significant distortions in the market because it carries a high risk of distortion of competition and thus leads to opposing goals that must be achieved by the use of selective measures of state intervention. The intensity of impact of state aid on competition depends on many factors, first of which are associated with the features of state aid (volume, type, purpose, selectivity, etc.), while the second group of factors relates to the characteristics of the market (market size, competition level, barriers to entry, etc.).

In order to evaluate and choose the correct form and volume of state aid, all factors must be adequately analysed and both positive and negative implications of state aid, in particular on market competition, must be identified. Undoubtedly, well-designed and well-targeted state aid has positive effects on equity, employment, and correction of regional economic inequalities.

In the Republic of Serbia and observed countries in the region, the development of the system of state aid along with the protection of competition has become binding on the basis of the Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Serbia (and the corresponding agreements with Montenegro and Bosnia and Herzegovina). The Republic of Serbia has formally fulfilled the requirements regarding the harmonization of the legislative framework in the fields of protection of competition and state aid control, based on assumed commitments. Since the European system of state aid control is very efficient, Serbia can rely on the experience of the European Union in the operationalization of its system of state aid control. Although Serbia has built an institutional framework, it still has a lot of activities and adjustments to make in order to build an efficient state aid system that is in line with the EU system. First of all, it is necessary to redefine the role of the Commission for State Aid Control and realize its essential independence, but before that it is necessary to determine the strategy for granting state aid in an adequate timeframe. The basic premise of the European system of state aid, which is reflected in a smaller, well-controlled and well-directed state aid should be the guiding principle for creators of state aid policy in the Republic of Serbia.

A good practice example of efficient state aid and high level of competitiveness are Finland and Sweden, which indicates that the volume of state aid (exclusively horizontal aid) can be higher but well-directed, and an efficient state aid can give



very satisfactory results. Therefore, in the Republic of Serbia and neighbouring countries, such as Montenegro and Bosnia and Herzegovina, the essential problem is not necessarily the volume of state aid but inadequate structure of state aid, and in the future it is necessary to decrease the share of sectoral state aid. To conclude, in the next period, state aid should be an instrument aimed at achieving economic development and improving the national competitiveness, whereby the planned use of state aid is necessary, thus respecting the principles of avoiding undue deterioration of competition and efficiency.

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