



## **Weekly Briefing**

### **Serbia economy briefing:**

### **Serbia's positive economic prospects shattered by the COVID-19**

**crisis**

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## **Serbia's positive economic prospects shattered by the COVID-19 crisis**

### **Abstract**

*Over the years Kopaonik Business Forum has established a reputation of being a focal point for the discussion of the vital contemporary economic and socio-economic issues in Serbia. The document titled "Kopaonik Consensus 2020" in which the most important conclusions and recommendations for policymakers are summarized, has yet to be delivered to the public. The problem is that with the sudden outburst of coronavirus disease (COVID-19) worldwide, projections for the Serbian economy will have to be revised. Crisis containment measures are taking its toll on economic activity.*

Every year during the first week of March Serbian mountain of Kopaonik well known for its natural beauty, in addition to being country's top ski resort, hosts the gathering of Serbian economic and political elite. Since it mirrors in many ways the recognized format of the World Economic Forum at Davos, the Kopaonik Business Forum is among the domestic public colloquially known as "Serbian Davos". For the past 27 years it has been organized by the Serbian Association of Economists. By means of bringing together over 1,300 participants, including government officials, members of the diplomatic corps, representatives of international organizations, prominent professors and scholars, successful businesspeople, domestic and foreign investors and journalists, it enables the shaping of the Serbian economic agenda.

Opening the Forum, Mr Aleksandar Vlahović, in the name of organizers expressed his satisfaction that this year main discussions will not concentrate around measures how to reduce public spending and fiscal deficits, but the incentives within the framework of industry 4.0. Term 'industry 4.0' refers to a fourth industrial revolution, i. e. the fusion of the highly advanced technologies and their interaction across the physical, digital and biological domains. That is how Klaus Schwab, Founder and Executive Chairman of the World Economic Forum and author of a book *The Fourth Industrial Revolution* sums up the power of transformative forces. The scale and scope of far-reaching changes brought by advances in technology and digitalization is yet to be determined. Besides affecting the way our economies work, the changes are already shaping social structures of our everyday lives. A range of novel challenges and threats, as well as possibilities, is emerging.

A total number of 28 panels were organized. A wide range of socio-economic topics in relation to the potential of transformative technologies, but also the general direction in which Serbian economy is heading, has been covered. Prospects of establishing regional economic area have been discussed. Ambitious and potentially far-reaching initiatives among the partners from the Western Balkans have already been considered among the political decision-makers. The creation of some form of advanced institutionalized economic cooperation, if put in place, is expected to generate greater economic growth and more foreign investments. Furthermore, discussing the vulnerabilities of the abovementioned societies, many of the speakers agreed that emigration will be one of the most pressing challenges for Serbia and the entire Western Balkans region in the years to come. A great number of those leaving are highly-qualified professionals: medical workers, engineers and IT experts. Although sometimes we perceive the synergy of cutting-edge technologies to be the foundation of progress, human capital remains the driving force behind the creativity, innovative development, and competitiveness. Thus, adverse demographic trends should not be underrated.

First day of the Forum encompassed the addresses of the Governor of the National Bank of Serbia Jorgovanka Tabaković and Minister of Finance Siniša Mali, who both used the opportunity to present positive trends in Serbian economy and monetary policy. “With a 6.1 percent growth rate in the final quarter of last year, we had the fastest growth in Europe”, said Finance Minister. He indicated that public debt has fallen below 50 percent of GDP and is under control. In addition, he asserted: “We have enough reserves for any crisis“. Just a few days later, on March 6, first case of COVID-19 in Serbia was reported. The Finance Minister also indicated that Government is considering reducing tax burden on labour and is on pace to reform the Tax Authority, along with a new set of legal measures on investment funds, insurance and accounting.

Jan Kees Martijn, head of the International Monetary Fund’s (IMF) mission in Serbia noted that the Serbian government's economic program is delivering results, but reforms are still needed in many areas. He commended the measures that contributed to low inflation, fiscal discipline, reduced public debt, and labour market improvements. Achieving better governance and more effective fight against corruption are challenges that need to be tackled in the future. It is the recommendation of IMF for the Government of Serbia to work towards a higher growth rate, as GDP per capita is lower than that of comparable countries in Central and Eastern Europe

On the agenda on the second day of the Forum were issues more or less related to the Industry 4.0 enabled opportunities, like emergence of new skills and innovation models. Developments in the areas of banking industry, employment policies and health care in the

context of industry 4.0 have been analysed. The importance of scientific progress and education has been emphasized, as well as pursuing the goals of sustainable agriculture and fighting against climate changes on the local level.

Traditionally, the conclusion of the Forum is reserved for the address of the Prime Minister of the Government of Republic of Serbia. Mrs Ana Brnabić expressed her strong belief that year 2020 will be a turning point due to the beginning of the third phase of transformation of the country (while previous phases included: achieving macroeconomic stability by putting public finances in order, improving the conditions for foreign direct investments and reducing level of unemployment), and that the focus will now be on digitalization as a chance for further growth and development. Energy transformation and green economy are a necessary next step for accelerating the economy and transforming society, and will find its place among the Government's priorities accordingly.

Lamentably, by the time the closing remarks have been reached it was evident that the world economy is threatened by a mounting crisis. The World Health Organization (WHO) on March 11 declared COVID-19 outbreak a pandemic. Serbia declared epidemic on March 20. The Government adopted measures to avert the spread of disease, following the recommendations of epidemiologists and along with WHO guidelines. A state of emergency throughout the territory of Republic of Serbia has been declared by the President Aleksandar Vučić. A number of measures has been adopted in order to achieve social-distancing, including: closing the borders, restrictions of the movement of individuals, suspension of work of pre-school, primary and secondary school and higher education institutions, etc.

“This is not just a public health crisis, it is a crisis that will touch every sector,” said Dr. Tedros Adhanom Ghebreyesus, WHO director-general. According to many experts the coronavirus pandemic may cause an economic downturn the likes of which the world has not experienced since the Great Depression during the 1930s. Its negative effects on global economic output will likely supersede those of 2008 global financial crisis. Serbia's economy will not reach its 4% growth target for 2020 and most likely will face a recession, but President Vučić is expecting country to rebound to growth in 2021. Serbia's GDP is expected to decline by 0,5 percent in 2020, according to World Bank's Spring 2020 Economic Update for Europe and Central Asia. Arguably, the country is better prepared to tackle current crisis in comparison to 2008 economic turmoil. Fiscal deficit is below the 60 percent of GDP – a criteria accepted by the EU in order to, among other things, indicate the soundness of country's fiscal position. In 2019 budget deficit was 0.2 percent of GDP, in line with the benchmarks.

Serbian government announced economic relief program of approximately 5 billion euros for individuals and businesses. This will inevitably lead to an increase in the deficit that could be covered, either from financial reserves, or borrowing. Monetary policy measures, i.e. money emission, is also an option, albeit, according to economists - the least desirable one.

Balancing the quest for expansionary measures and securing the sustainability of public finances in times of economic hardship is essential. By advancing measures such as 100 euros aid to all adult citizens and one-off assistance to senior citizens with the goal of alleviating the crisis effects, as well as, increasing consumption, it seems that Serbian stakeholders have emphasized the former at the expense of the latter. And while there is certainly a broad recognition of the fact that “extraordinary times call for extraordinary measures”, another assumption that borrowing on financial markets in these difficult times is highly uncertain, should not be overlooked for the sake of gaining political support in the face of the upcoming elections.

## **Conclusion**

Kopaonik Business Forum is usually perceived as the most important economic gathering in Serbia. General conclusion reached at the Forum concerning the state of Serbian economy could be described as moderately optimistic. Although, Prime Minister expressed her belief that Serbia can become “one of the winners of fourth industrial revolution”, economic specialists have articulated more conservative stand concerning overall economic performance and future projections. To put it in a nutshell, majority of speakers stressed the importance of GDP growth rates together with digitalisation and innovation in all sectors, for the sake of moving forward faster. Unfortunately, due to the global uncertainty caused by the coronavirus outbreak, the more ambitious steps and reforms on the economic agenda of the Serbian government will have to wait for the better times. All efforts are now directed towards saving lives and containing severe consequences of the ongoing crisis.