



Weekly Briefing

Serbia economy briefing:
Struggles of the tourism sector in Serbia during the COVID-19
pandemic
IIPE


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Struggles of the tourism sector in Serbia during the COVID-19 pandemic

Since the beginning of the COVID 19 pandemic, global economic development and growth have dramatically changed. Several economic sectors faced extreme financial losses immediately, and it is difficult to tell at this time if they will and at what time recover. The sector of tourism is among those that has been affected the most. Some reports suggest that overall loss in this sector, in 2020, on a global level, is between 500-900 billion euros. The loss is five times higher than the one that happened in 2009 due to the global financial crisis, according to the UNWTO. The tourism sector in Serbia is no exception to this trend. The projected loss in this sector for 2020 is 1 billion euros. People are losing their jobs, and some businesses were terminated. The Government spent limited resources at the beginning of the pandemic to help this sector, but the problems are ongoing, and it is difficult to solve all of them. Besides the help of the Serbian Government, the tourism sector received financial support from the EU.

The tourism sector in Serbia before coronavirus

Although Serbia has a favorable geographical position and beautiful landscape, the market possibilities of the tourism sector within it never were fully realized. Many things contributed to this situation. Among them, the leading ones were the reputation of the country during 1990-ties, as well as the financial crisis in 2009. Those two, along with many other factors, affected the growth of tourism, and it did not have a high impact on the development of the Serbian economy.

The changes in this sector started in 2014, with the introduction of different Government measures in four strategic regions, which eventually led to many positive changes. The tourism sector was recovering, and its contribution to the Serbian GDP was rising. In 2001, the tourism sector contributed to the Serbian GDP by 0.8%, and in 2018, it was 2.4%.¹

In 2019, the results in the tourism sector were good. Serbia had an increase of 7% in total arrivals and 7% in the number of overnight stays. The income from tourism rose to 1.4 billion euros, compared to 1.2 million euros in 2018. The prediction of the Serbian Minister that was

¹ Serbian methodology for calculating the contribution of tourism to the GDP does not take into account all contributions coming from tourism. In this process, only gross direct contributions to the domestic product are taken into accounts such as accommodation and food services. Transportation services, travel agencies, tourist guides, and other entertainment activities are not included in this calculation.

in charge of tourism was that the year 2020 was to be the most successful one since 1989, according to the results from the first two months of 2020. Just in those first two months, Serbia had an increase of 21% in total arrivals and 22% in the number of overnight stays. Most of the tourists were coming from neighboring countries, but there was also an increase in the number of tourists coming from Russia, Turkey, China, and Greece. Since the coronavirus pandemic started, everything changed.

Effects of coronavirus on Serbian tourism and hospitality

The order of events in this sector in Serbia due to a pandemic was the same as the rest of the world. After the Government officially proclaimed a pandemic, the cancelations from foreign tourists started to come, and after that, many domestic tourists canceled their vacations as well. In addition, the schools were banned to take their students on already planned excursions, so that also affected the tourist sector. Tourist agencies, tourist guides, hotels, spas, Airbnb's all faced terrifying prospects – losing business and jobs.

The hospitality sector was also under attack. Nonetheless, thanks to the adaptation of some businesses to the new situation, they survived. In these cases, those that had online services or were quick to implement them were those that survived those first shutdowns.

There were two periods with a low number of registered corona cases in Serbia since the pandemic started. Those were a total of 4 months, in which we saw an increase in domestic tourism. Since Serbia is a small country, with an average salary of 470 euros, and since many people lost their jobs, the level of income from domestic tourists cannot be enough to cover the total loss. They are barely enough to cover basic costs and taxes. Everything else needs to be on hold – including the return of loans.

According to official statements from the Serbian Ministry of Trade, Tourism and Telecommunications (MTTT), the predicted loss of the tourism sector in 2020 will be around 1 billion euros. The income in this sector dropped by 90%. The number of employees who are losing their job is increasing every day, and this number will only go up. According to the National Association of Touristic Agencies of Serbia, if some drastic measures are not introduced, half of the people that are working within the tourism sector will lose their job.

What did the Government do, and what it skipped to do?

Economic briefings by IIPE from May until July showed all measures that the Serbian Government introduced to stabilize the economy. Fiscal measures, financial aid, and liquidity measures were part of the package that was given to companies in the tourist sector as well.

In the fiscal field, *taxes and social contributions* for the workers in private SME were postponed during the state of emergency, and SME will repay them in the following two years, without the interest, with the beginning of 2021.

As a financial aid, the state provided funds regarding salaries in SME in the private sector in the form of the *minimum wage*. Large private companies also received part of the funds – the state provided 50% of the minimum wage for those who were working and those that were on temporary leave. It should be emphasized, that workers in the tourist sector received minimum wage only in the case that they had a contract with some company or agency. Those that had a time-to-time contract (for example tourist guides) did not receive financial help. Unfortunately, there are thousands of workers with this kind of situation in this sector.

SME had two options to choose to improve their liquidity – either to use a loan from the Serbian Development Fund or to use a loan from commercial banks under favorable conditions.

Besides those overall measures, several specific measures for the tourism sector were introduced. According to the MTTT, the Government dedicated a grant worth 10.2 million euros to city hotels as a sort of direct help for all canceled reservations. The condition for receiving 350 euros per bed and 150 euros per room was that hoteliers do not lay off more than 10 percent of workers by the end of the year.

On the other hand, travel agencies had an additional problem besides canceled reservations, and that is an insurance policy. Regarding canceled reservations for domestic tourists, agencies proposed a solution that they could give their customers replacement vouchers for their arrangements, and the Ministry accepted that proposition. However, this is a short-term solution to the problem since it means just postponing the obligations of travel agencies, and they need to fulfill them or return the money to customers by January 1, 2022.

The biggest problem for travel agencies in Serbia at this moment is not to fulfill their financial obligations, but on the contrary, to work at all. Due to many fraud travel agencies that were working in Serbia in previous decades, the Serbian Government introduced a strict set of measures to prevent them to establish business at all. In practice, it meant that all those that wanted to run travel agencies were obliged to have significant bank guarantees in advance, which ranged from 200 to 400 thousand euros. That was a measure to protect domestic and

international tourists from fraudulent business practices. However, as soon as a pandemic started, the travel agencies knew that under new circumstances, they would not be able to provide those guarantees. They warned the Ministry that when their insurance policies end on October 1, they would not be able to work. According to Serbian law, if they do not have them, they do not have state permission to operate. Unfortunately, the Ministry and Government were slow in solving this problem. Most of the travel agencies are in a difficult situation now because they cannot sell tourist arrangements, except for travel tickets and accommodations. Finally, the Ministry at the beginning of November, said that the Government could not provide help to the tourism sector as a whole, but it could provide financial help worth 1.2 million euros, that would be used as a subvention to pay insurance policies. Never the less, travel agencies still do not know in what way that help will be distributed among them, and what amount of money they will receive, so their future is still unknown.

Help for tourism sector from the European Union funds

The European Union will send as part of the #EUforYou Project - 'EU for Cultural Heritage and Tourism' one million euros for projects to help the Serbian tourism industry due to the coronavirus pandemic. The money will be distributed to small, micro and family enterprises, farms and companies in 12 places in the east and southeast of Serbia. This is part of 93 million euros of total aid that the EU sent to Serbia as a pandemic started. Since Serbia is an aspiring EU country, financial help is significantly smaller than the amount of money that the EU dedicated to its member countries.

Conclusion

According to statements of former Serbian Minister of tourism, if trends continue, the Serbian tourism sector will need at least two to four years to recover. Although the Government implemented many measures to protect this sector, it is evident that help will not be enough to protect and save everybody. The MTTT is also trying to see in which ways it can boost up domestic tourist demand in the future and provide much-needed relief for all businesses in this field since Serbia is only relying on its financial resources.

Many of those that worked in this sector were forced to find new jobs. Many businesses in the tourist sector are and will be closed. Unfortunately, there are limited resources and ways in which this sector can be helped. The only hope for this sector is that the pandemic ends soon and that the former way of living, full of traveling experiences, emerges once again.