





# Weekly Briefing

**Serbia economy briefing:**  
**Economy of Serbia 2020 hit by COVID-19**  
**IIPE**

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# **Economy of Serbia 2020 hit by COVID-19**

## **Abstract**

*This year 2020 turned to be specific in many ways. The COVID-19 pandemic caused an earthquake in all macroeconomic plans and forecasts for this year and forced decision makers to deal primarily with repairing the harmful consequences of suspending or restricting economic activities, the impossibility of normal economic flows, the danger of poverty due to mass layoffs resulting from the fall in business activities and many other problems.*

## **COVID-19 pandemic and Government measures**

With a 6.1 percent growth rate in the final quarter of last year and since public debt has fallen below 50 percent of GDP Serbia had solid reserves for the crisis. The first case of COVID-19 in Serbia was reported on March 6, 2020. Serbia declared epidemic on March 20, 2020. According to many economists the COVID-19 pandemic is causing an economic downturn the likes of which the world has not experienced since the Great Depression during the 1930s, and negative effects on global economic output will be more destructive than of 2008 Global Financial Crisis. Plans for Serbia's economy has not reached its 4% growth target for 2020 and is facing, like many other countries, a recession.

The program of economic measures to support the Serbian economy and reduce the negative effects caused by the COVID-19 pandemic, worth 5.2 billion euros, was presented on March 31, 2020. The good communication between the economy and the Government of the Republic of Serbia, along with monitoring changes in the field, led to the harmonization of economic measures of the Government with the real needs of the economy to overcome the shocks brought by pandemics and emergency measures. The envisaged measures include fiscal benefits, tax measures, financial support and direct benefits. This program was designed with two groups of goals in mind: the first group includes helping the Serbian economy, primarily the private sector, to maintain liquidity during a state of emergency, and the second group includes helping employees keep jobs and wages. This set of measures was designed at a time when it was believed that the crisis would last for several months, and that the economy would begin to recover on its own in the third or fourth quarter. Measures were successful and helped

the economy to survive the first blow of the crisis caused by the pandemic, and also to prevent massive layoffs, but at the cost of massive public spending. At the end of July 2020, the budget deficit was approximately 2.76 billion Euros. The deficit is a direct consequence of non-selective subsidy program during the pandemic and decreased amount of VAT inflows in the budget.

Parliamentary elections were held in Serbia on 21 June 2020. Initially planned for 26 April 2020, they were postponed by a state of emergency due to the COVID-19. Since 2020 was also a national election year for Serbia, some of the economic measures were taken by the government to satisfy its electorate, for instance a one-time assistance in amount of 100 euro to all adult citizens.

### **Forecasts from EC, WB, and IMF**

According to the European Commission, Serbia's economy will have a moderate decline of 1.8 percent this year, thanks to the relatively short duration of the strictest closure measures due to the COVID-19 pandemic and significant support for mitigating the consequences of the crisis. Serbia's return to the situation before the COVID-19 crisis, and economic growth are expected in 2021, at 4.8 percent, and that growth will be based on investment and personal consumption. For 2022, Serbia is projected to grow by 3.8 percent.

World Bank analyzes have shown that the impact of Serbian government support measures on the economy has been positive, but that a less generous but better targeted package could have the same impact. The point is that the hardest hit companies could receive more aid to divert pandemic effects even more, while the fiscal costs of the program would be reduced. The impact on poverty has been mitigated for now, but the state measures package to help the economy led to a record high deficit of 4.8 percent of annual GDP in the second quarter, with public debt growth of 6.1 percentage points from December 2019 to 59 percent GDP at the end of June 2020. According to the new economic report of the World Bank, the Serbian economy will be in recession this year after several years of solid growth, and the decline in GDP will amount to 3 percent, while in 2021 it is expected to grow by 2.9 percent.

The IMF has improved Serbia's GDP forecast for 2020, so it estimates a decline of 1.5% (not previously projected 2.5). The head of the IMF mission for Serbia pointed out that inflation is still low and that in 2021 it will remain within acceptable limits.

### **The state of economy**

Inflation in 2019 was stable at a low level, as it remained until the end of August 2020, with price growth amounting to 1.9 percent. After a moderate weakening of the dinar against the euro in 2019, the dinar retained its value during 2020, primarily due to NBS interventions in the foreign exchange market.

The real impact of the pandemic on the labor market will not become known until the end of the Serbian government's wage subsidy program. Estimates say that the unemployment rate in Serbia will rise from last year's 10.9 percent to 13.4 percent this year.

After the first shock, which followed immediately after the pandemic outbreak and lasted for three months, our foreign trade returned to the expected flows with a tendency to grow. After the end of the state of emergency there is a gradual recovery of economic activities, which was reflected in increased exports and imports. However, exports and imports in June and July 2020 were still not at the level of 2019. Full consolidation occurs in August and September 2020, when both exports and imports are above the levels for the same period last year. In the period from January to September 2020, the largest foreign trade exchange was with countries with which Serbia has signed free trade agreements. EU members accounted for 60.9% of the total exchange, in second place are the countries of the CEFTA agreement with which we have a surplus (green corridors helped). It is difficult to predict future trade trends because it will depend on a number of factors that will affect them, such as the length and severity of the pandemic, global economic flows, the speed of recovery of various industries that suffered damage in the previous period, state interventionism, inflation, unemployment and other factors.

Crisis containment measures are also taking its toll on economic activity. Agricultural sector was severely damaged in March-May 2020, due to a ban of work on green markets. The

sector of tourism is among those that has been affected the most. The projected loss in this sector for 2020 is 1 billion euros. The Serbian tourism sector will need at least two to four years to recover.

Serbia's GDP, after a strong growth of 5.1 percent in the first quarter of 2020, fell by 6.4 percent in the second quarter due to measures during the corona virus pandemic. This decline was due to a large decline in personal consumption and investment, which was partially offset by higher government spending and a positive contribution from net exports. Short-term indicators indicate that economic activity recovered during the summer. It is positive that the share of tourist services that have suffered damage is relatively small, as well as a good agricultural season to limit the decline of the Serbian economy in 2020.

### **Developments outside COVID-19**

Representatives of the state and business community from Serbia participated in the 50th World Economic Forum annual meeting 2020. Serbian Prime Minister and Siemens Deputy General Manager talked in Davos about the realization of additional investments. Japan Bank for International Cooperation was interested in investing in Serbia which would provide significant financial support and security to Japanese companies. Up until now Japan's investments in Serbia are relatively small.

Serbia has sold its largest state-owned bank - Komercijalna banka to a Slovenian NLB bank for 387 million euros (83,23 percent of ownership). The Kopaonik Business Forum known as "Serbian Davos" points to emigration as one of the most pressing challenges for Serbia since a great number of those leaving the country are highly-qualified professionals: medical workers, engineers and IT experts. In global terms, according to the Global Innovation Index 2020 Serbia is ranked 53rd out of 131 countries. The most technologically advanced sector in Serbia is biotechnology with wide application in Serbian agriculture.

On September 4th, 2020, the President of Serbia signed Washington Agreement, where economic part includes infrastructure projects that should connect Belgrade and Pristina, support to the Serbian and Albanian SMEs, support for women's entrepreneurship, and various

other development projects. Funding for these projects will be provided by the United States International Development Finance Corporation.

## **Conclusion**

Among the positive aspects of Serbian economy, before COVID-19 crisis, was stable macroeconomic indicators, good fiscal policy, good monetary policy (with a questionable policy of a strong dinar), tax reforms, reduction of public debt, relatively stable inflow of FDI, improved credit rating and more. Due to these strong bases in the form of macroeconomic stability, growth dynamics and fiscal space, the favorable structure of the economy (relatively large part of the Serbian economy produces basic so-called existential goods, for which demand did not fall significantly), crisis will not be devastating. In previous years, Serbia has transformed into a slowly growing economy with low inflation, a balanced fiscal position, declining public debt, lower external imbalances and a recovery in the labor market, which has helped our economy respond to current challenges without major economic shocks.

Without the state measures the consequences for the economy of the COVID-19 would be much greater. Post COVID-19 changes will most likely include modified business models. Production positioning will generally be closer to customers in developed countries, which means that Serbia could become more interesting for EU companies due to its proximity. Also Serbia can become an interesting market for investments from China in production, which will be closer to the EU market.

The crisis caused by COVID-19 is expected to be far greater than that caused by the 2008 global financial crisis. For Serbia the problem of the secondary effects of the crisis remains, which could last for a longer period of time. The big problem is that in the meantime, the number of companies that will not be able to renew their business is growing, and thus the overall economic stability is becoming more difficult to sustain. Serbian economy is being restructured, more business and trade is being done via the Internet, the number of business trips has been reduced and a new norm is being created.

Serbia is still far from the European levels of prosperity, and the departure of the working age population is a major problem. GDP per capita is lower than that of comparable countries in Central and Eastern Europe. Also, there is a need for domestic capital investments and FDI from more technologically advanced areas. Unfortunately, due to COVID-19 uncertainty and economic crisis on the horizon, the economic reforms and other planned activities are in question.