COVID-19: impact on the Serbian economy and the government recovery package

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The negative consequences of the pandemic on the Serbian economy have been greater than the effects of the 2008 financial crisis. At the beginning of April 2020, the government adopted a comprehensive recovery package to mitigate the impact on employment and liquidity in the private sector; this includes a one-off cash transfer of RSD 11,759 (€100) for each citizen aged 18 years or older. The cost of these measures will push up the general government deficit, and increase the public debt to 60% of GDP.

Description

Following the outbreak of the COVID-19 pandemic, Serbia declared a state of emergency on 15 March 2020. The government introduced lockdown measures which included border closures, travel restrictions, school shutdowns, a ban on large gatherings and closure of non-essential services. Phased easing of the measures started on 21 April with further relaxation on 7 May. Since 5 June, there have been no restrictions on the numbers at public outdoor gatherings. Life returned to normal. On 10 June, a football match was played before an audience of 25,000, and on 21 June general parliament elections were held. By the end of June, the number of new cases started to rise and new measures were introduced on 1 July, including mandatory use of masks on public transportation and in indoor spaces. On 7 July, the Serbian President announced the reintroduction of a curfew; this provoked citizens' protests against the inconsistent measures, which continued over the weekend. No curfew measures were enacted: the number of new cases continued to rise and remains high (21 July). On 10 July, there was no hospital capacity for admission of newly infected patients in the City of Belgrade.

To mitigate the negative socio-economic impact of the pandemic, the government had adopted three regulations on 10 April. The first regulation sets out the following measures for private business and citizens:

1) Payment of the March monthly net minimum wage (RSD 30,367/ €258.4) for all employees in micro, small, and medium enterprises (SMEs) and to entrepreneurs for a period of three months, as long as the employer did not reduce the number of employees by more than 10%, over the period from 15 March till 10 April. Large companies were entitled to subsidies of 50% of the net minimum wage of employees who were temporarily not working.

2) Deferral of labour taxes and social insurance contributions for a three-month period (March, April and June), to be repaid in 24 instalments, staring from 2021. Companies in the financial sector (banks, insurance companies) are not entitled to this measure.

3) Deferral of the advance payment of corporate income tax for the second quarter of 2020.

4) A one-off cash transfer of RSD 11,759 (€100), which was paid to each citizen aged 18 years or older after the end of the state of emergency; the estimated outlay for this transfer is RSD 72.8 billion (€620 million).

Companies which apply for measures 1-3 above are not allowed to pay dividends till the end of 2020.

The second regulation defines working capital credit lines for SMEs and entrepreneurs (in the manufacturing, trade, services and agriculture sectors), with RSD 24 billion (€204.2 million) of dedicated funding. The credit line, managed by the state Development Fund, provides loans with a 36-month repayment period (including a 12 month grace period) with a 1% interest rate. To be eligible, the beneficiary must not have reduced the number of employees by more than 10%, from 15 March until three months after the release of the credit line.

The third regulation sets out procedures for the provision of state guarantees for commercial bank loans, in order to maintain liquidity and operating capital for SMEs, entrepreneurs, and registered agricultural farms, with a repayment period of 36 months including a grace period of nine to twelve months.

The government increased the wages of all public sector healthcare workers by 10%, from 1 April.

The estimated overall financial value of the recovery measures is RSD 608.3 billion (€5.1 billion), which is around 11% of the 2019 GDP. The planned budget deficit is around RSD 381 billion (€3.2 billion), a considerable increase from a previously planned deficit of RSD 20 billion (€170.2 million). The current estimate is that the deficit will reach 7% of GDP by the end of 2020. By the end of March 2020, the public debt stood at 51.9% of GDP; estimates are that by the end of 2020 it will increase by 10% and exceed 60% of GDP.

Outlook and commentary

The negative effect of the pandemic has been reflected in a fall in economic activity. In April 2020, seasonally adjusted industrial production fell by 16.6%, while manufacturing production fell by 19.9%, year on year. The relaxation of lockdown measures improved the business environment, and in May industrial production recorded a lower fall, at 9.3%. The industry sector is one of the largest contributors to GDP, with a 25.2% share of gross value added (GVA), and with 27.4% of the registered labour force in the first quarter of 2020. Two other important sectors, trade and accommodation, also saw a marked downfall. The seasonally adjusted volume of retail trade decreased by 18.6% in April and recovered in May by 1.9%, while the number of tourist visits fell by 97.9% in April and by 87.6% in May. The total value of foreign trade decreased substantially: 28.2% in April and 26.4% in May; such low values are only comparable with the year 2009.

The majority of the government recovery measures were approved of by economic experts and academia; the only disagreement was about the universal cash payment to citizens. The Fiscal Council argued that this is not a social measure, as citizens with high incomes were also entitled to it. The cost of this measure is almost twice as high as the funds planned for social protection benefits for families with children in the revised budget for 2020. The recovery package aimed to maintain the current level of employment and to subsidise employees' loss of income; however, it did not cover persons employed in non-standard jobs and in the informal economy (the informal employment rate in the first quarter of 2020 was high, at 16.9%).

The economic recovery will largely depend on how the pandemic develops in the second half of 2020. The World Bank estimates that Serbia will have negative economic growth of 2.5%, if the COVID-19 outbreak is largely contained by mid-2020. Presently the healthcare sector is under enormous strain: many hospitals have been turned into COVID-19 hospitals and the availability of essential healthcare services is endangered.

Further reading

Fiscal Council, Evaluation of anti-crisis programme of economic measures, 8 April 2020

Government, Regulation on amendments to revenues and expenditures of the national budget for 2020, to mitigate negative impact of the COVID-19 disease enacted by the SARS-CoV-2 virus, 24 April 2020

Serbian Chamber of Commerce, Economics Institute, Belgrade, Macroeconomic Analysis and Trends, July/August, 2020

Serbian Chamber of Commerce, Economics Institute, Belgrade, Macroeconomic Analysis and Trends, 6 June 2020

World Bank, The Economic and Social Impact of COVID-19, Western Balkans Outlook, Spring 2020

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