THE COVID-19 CRISIS IN SERBIA

30 July 2020

COVID-19 update

- Current COVID-19 situation: Serbia has reported 379 new cases of COVID-19 registered in the past 24 hours, 24,520 cases registered in total and 551 deaths as of 29 July 2020.

  The Ministry of Health monitors the COVID-19 outbreak. The updated number of cases, including total number of confirmed cases, cases confirmed in the last 24 hours, deaths, number of persons hospitalised and total number of tested people, is published daily on the Ministry’s website. The government issues regulatory responses to mitigate its effects on the economy, rules applicable to the population and information on a dedicated COVID-19 website.

- As of 3 July, the government of Serbia has declared a state of emergency in the capital, Belgrade. On 7 July, the President of the Republic of Serbia, Aleksandar Vučić described the COVID-19 situation as critical in Belgrade and four other cities.

- In response to an increasing number of cases, new containment measures have been implemented on 1 July, including mandatory use of masks in public transportation and indoor spaces as well as stricter measures in municipalities where a state-of-emergency has been declared. The measures include among others limiting the number of people in outdoor and indoor gatherings and limited hours of operation for service facilities. As of 15 July, the government introduced stricter measures (valid from 17 July) on the whole territory of Serbia. The epidemiological situation across Serbia is rapidly changing and new measures could be taken at any time. The website of the government provides regular information on these measures.

- On 12 July, the Minister of Foreign Affairs, Ivica Dačić informed that decisions on opening or closing borders for Serbian citizens can change on a daily basis.¹

Economic impact

Short-term indicators of the economic impact

- With the outbreak of the pandemic and lockdown of economic activities, forecasts from April suggested that Serbia’s economy will enter into a recession in 2020.²
  - 67,000 employees are working from home, 168 manufacturing companies have stopped production (27 March). Damages in infrastructure and transport amount to over EUR 110

million (17 March). The damage to the tourism sector totalled EUR 2.7 million between March and the first half of April. Around 85% of SMEs are expected to be negatively affected by the COVID-19 outbreak (poll, March 2020). The share of firms that drastically reduced their productive capacities accounts for around 60.5% (survey, April 2020), the share of firms expecting difficulties in covering liabilities accounts around 91% (survey, April 2020), and losses in tourism for 2020 are estimated at up to EUR 1 billion (National Travel Agency Assoc.).³

- Many supply chains have been disrupted, FDI inflows and domestic investments are expected to decrease and falls in remittances might lead to further decreases in consumption.
- According to preliminary data from the National Bank of Serbia, in the first three months of this year, online shopping has increased by 80% and exceeds RSD 5.5 billion.

Key short-term priorities: Provide liquidity to the economy, particularly SMEs, and revenue support to vulnerable workers and other individuals.⁴

Financial markets

- The BELEX15 index lost around 20% of its value from 10 January to 14 April. The government bond spread increased by 6.2% between 1 January and 31 March.
- The local currency “RSD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

Policy reactions

Extent of containment measures

- School closure: Kindergartens, schools and universities were closed. On 29 July, Minister of Education Mladen Šarčević stated that it will be up to students and parents to decide on whether to pursue classes in person or at a distance when the school year starts, noting that all pupils will be evaluated and that the education process will continue uninterrupted.
- Lockdown: The government declared a national state of emergency on 15 March and decided to adopt containment measures. These included closing borders, prohibiting movement of citizens during the weekends and between 17:00 and 05:00 during weekdays (and total ban for senior citizens), suspension of public transport and all activities in parks and public areas, closing shopping malls (except grocery stores and pharmacies).
- Borders closure: All border crossings (air, land or river) were closed to travellers, except for road transport crews and other persons with a special permit. The airports were open only for i) cargo and mail transport, ii) search and rescue, iii) humanitarian flights, iv) emergency medical transport, v) technical lending and positioning of Serbian aircrafts, and vi) state aircrafts and special purpose flights.

De-confinement and border measures

- As the curve of active infections had flattened, the government had gradually started to open its economy since 21 April, including the reopening of green markets, fitness centres, hairdressers,


⁴ Ibid.
parks, bar, coffee shops and restaurants. The government also decided that temporarily designated COVID-19 hospitals would gradually return to their normal work.

- On 6 May, the state of emergency and curfew were lifted. There are no restrictions on movement for citizens of all ages, but everyone is strongly advised to respect the social distancing measures and to follow the sanitary protocols.

- As of 18 May, Air Serbia started with limited regular passenger air traffic. Information about relaunched services and flight schedule can be found on their website. The planes of the Montenegrin airline company, Montenegro Airlines, will be denied permission to land at the Belgrade Airport from 27 May, after the government of Montenegro announced that it had decided to open borders with a number of countries as of 1 June, but they remained closed to Serbia.

- As of 25 May, the citizens of Serbia and Hungary can pass freely between the border of the two countries (without PCR tests and the mandatory 14-day quarantine). Serbia also reached agreements on free passage of borders with Bosnia and Herzegovina and Bulgaria. The government informed that the border with North Macedonia might be opened by the end of June. As of 15 July, Hungary introduced new measures in which Serbian citizens will need two negative PCR tests performed in a period of 5 days to enter the country. Those who do not have a test will be able to do it within 48 hours of entering Hungary or spend 14 days in self-isolation. This decision does not include people who are in transit. As of 7 July, a mandatory 14-days self-isolation for all citizens of Montenegro entering Serbia has been imposed.

- As of 25 June, a special regime for entering Croatia for persons coming from Serbia (as well as from Bosnia and Herzegovina, Kosovo and North Macedonia) was determined. They are required to stay in self-isolation for 14 days from the date of entry into Croatia. This does not apply to passengers transiting through these countries. As of 6 July, Greece has temporarily closed its borders for Serbian citizens due to epidemiological situation.

- On 30 June, the Council adopted a recommendation on the gradual lifting of the temporary restrictions on non-essential travel into the EU. Starting from 1 July, Member States should start lifting the travel restrictions at the external borders for residents of 15 third countries, including Serbia. However, the EU Member States are not legally obliged to follow the recommendation. The list of third countries should be updated every two weeks. As of 14 July, the Council has decided to remove Serbia from the list of safe countries.

- As of 22 July, following the deterioration of the epidemiological situation and the reintroduction of restrictions, gatherings of only up to ten people, both indoors and outdoors, are allowed.

**Measures to cope with the health emergency**

- Self-isolation at home or quarantine for 28 days was set for those who entered the country after 14 March 2020 (14 days for health professionals, prison guards, officials). Isolation at home can be suspended before its expiry for those going abroad, if they show no symptoms of COVID-19. Cured patients must self-isolate at home for 14 days.

- The government decided to turn the Belgrade Exhibition Hall into a makeshift Hospital (3 000 beds). The Serbian Army has called up 60 members of the reserve forces to Belgrade and Novi Sad to assist with preparations to fight the coronavirus outbreak (e.g. non-medical tasks in military-

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medical institutions). As of 23 April, a new hospital has been opened in Karaburma with 60 beds for the treatment of patients with moderate and severe COVID-19 infections.

- On 2 July, the Minister of Health, Zlatibor Lončar, announced that due to the large number of people infected with coronavirus, the clinical hospital centres Zvezdara and Zemun will be turned into infectious hospitals. From 6 July the sports hall "Stark Arena" has also become a temporary COVID-19 hospital. On 20 July, Minister Lončar announced that another temporary hospital is under preparation in the town of Šabac.

- On 8 July, the President of the Republic of Serbia, Aleksandar Vučić announced the construction of two new COVID-19 hospitals (in Belgrade and in Kruševac).

**Monetary policy**

- Under the plan agreed upon with the International Monetary Fund, Serbia's public debt should not exceed 60% of GDP, from 52.4% at the end of 2019.

- On 12 March, the National Bank of Serbia (NBS) lowered its key policy rate from 2.25% to 1.75% and narrowed its core interest rate corridor from plus/minus 1.25 percentage point to plus/minus 1.0 percentage point relative to the key policy rate. On 9 April, the NBS cut the policy rate from 1.75% to 1.5%. On 11 June, it cut the policy rate again to 1.25%. Moreover, the NBS provided liquidity to banks through an additional three-month EUR/RSD swap auction (RSD 14.9 billion) and repo purchase auctions of dinar government securities (RSD 25.2 billion) at 0.75%. It also introduced a three-month moratorium on all repayments under bank loans and financial leasing agreements. On 11 June, the NBS relaxed the loan-to-value (LTV) cap for first-home buyers mortgage loans, increasing the limit from 80% to 90%.

**Fiscal policy**

- On 1 April, the Minister of Finance and the President of the Chamber of Commerce of Serbia announced a EUR 5.1 billion (11% of the national GDP) financial package to support the economy. The government also announced that it will invest RSD 24 billion (~EUR 200 million) in infrastructure projects in a bid to mitigate the risks of the coronavirus crisis on the country's economic growth.

**Support to firms**

- *Support to private sector activity and employment:* The government will pay a minimum monthly salary to every employee of a micro, small and medium sized enterprise in Serbia for a period of three months. These measures cover more than 900,000 people and will amount to RDS 97.3 billion. Large enterprises will get similar support but with 50% of the minimum wage for each employee for three months. The government has also announced guarantee schemes for loans for the maintenance of liquidity and working capital for small business owners, SMEs and agricultural enterprises through commercial banks operating in Serbia. The payment of payroll taxes and contributions will be deferred during the period of the state of emergency, while the payment of corporate income tax for the second quarter will also be delayed. As of 25 March, the government announced measures to support private sector activity and employment, which could amount to RSD 300-530 billion (~EUR 2.5-4.5 billion). All the measures are currently in the implementation phase. The Serbian Innovation Fund introduced a special call for proposals to respond to pandemic tailored for micro, small and medium enterprises (MSMEs) developing new products, technologies and prototypes to be set up in a very short time. By the end of March 12,
contracts were signed and during May, the companies had to develop their products and services (e.g. protective reusable masks, devices for disinfection).

- **Additional support to particular effected sectors:** Tourism, transport and logistics are currently the hardest hit economic sectors. The government of Serbia distributed 160,000 holiday vouchers in Serbia in order to compensate for the commensurate number of foreign guests. The Investment-Development Fund offers working capital loans to companies in the sector of medical supplies, tourism and hospitality, and food processing, up to EUR 3 million per borrower. As paying rent for their business/office space during the state of emergency has become one of its most important issues, the city of Belgrade has decided not to charge rent for office/business space. Once the state of emergency is over, tenants will have 30 days to declare how they want to pay the lease for the space for this period. As of 16 April, the government adopted measures to support farmers. The new measures aim to facilitate the eligibility criteria for loans and to provide financial assistance. As of 12 May, the government announced its readiness to provide further assistance to the most vulnerable sectors, including hoteliers, travel agencies and bus companies. As of 28 May, the government adopted new measures providing further support to the sectors of tourism, hospitality and transport. Companies from these segments will be able to take out loans from the Development Fund to improve their liquidity and working capital under changed conditions, which include a longer repayment period of up to five years and a grace period of up to two years.

**Support to the population:**

- The government decided that all pensioners and temporary benefit beneficiaries who have exercised their rights will be paid a one-off financial assistance (RSD 7 billion) in the amount of RSD 4,000. The authorities will also provide a universal cash transfer of EUR 100 to each citizen over 18 years old (about RSD 70 billion).

- The Gender Coordination Body, the Ministry of European Integration, and the EU Delegation in Serbia announced that 14,000 of most vulnerable women in 50 municipalities will receive assistance worth EUR 100,000 in hygiene packages and essential food products. In order to provide better protection for children without parental care, UNICEF has provided hygiene packages for 19 institutions in Serbia.

- **Support to workers and social assistance:** As of 6 April, the government announced that it will pay each worker employed by a small business about EUR 750, or over RSD 90,000, which is equivalent to the minimum wage for three months. The government also recommended that all employers give their employees full compensation for those who are in self-isolation or have contracted COVID-19 due to direct exposure to the virus at work.

- On 12 June, the government announced new measures to stimulate youth employment. As part of this programme, the government wishes to help young people who have graduated high school or college to find job while simultaneously motivating employers to hire them. The government has decided to allocate RSD 2 billion from the state budget for this project. The Minister of Finance has also announced additional training programmes for those who wish to find a new job. The implementation of these measures will most likely begin in the autumn of 2020.

- On 29 July, Finance Minister Siniša Mali announced a new package of support measures for businesses, with the goal of maintaining employment. The package will total around RSD 66 billion, will cover around 60% of the average monthly salary per worker, and will be accompanied with an additional month of tax exemptions.
**Support to the health sector:**

- 10% wage increase for public healthcare sector to RSD 13 billion (~EUR 110 million) and increased healthcare spending to about RSD 12 billion (~EUR 100 million).
- The Minister of Health announced that between 13 to 27 April, more than 2 500 health workers (doctors and nurses) had been employed.

**International support:**

- The European Union has announced a package of EUR 93 million for Serbia to tackle the coronavirus crisis (EUR 15 million for immediate purchase and transport of medical equipment, and EUR 78 million for economic recovery). On 4 April, an additional grant agreement worth EUR 4.9 million was signed to purchase respirators, tests, and proactive and laboratory equipment. The European Commission proposed to narrow down export authorisation requirements to protective masks only and extended geographical exemption to Western Balkans, including Serbia (the new regulation is set out to apply for a limited period of 30 days as of 26 April 2020). As of 21 April, Serbia joined the EU mechanism for joint procurement of medicines and medical supplies. As of 29 April, the European Commission announced over EUR 3.3 billion in an EU financial support package for the Western Balkans, mobilised jointly with the European Investment Bank. The EU has also involved Serbia in the initiative such as the “Green Lanes”. The World Bank has USD 20 million at its disposal if the Serbian government needs assistance in mitigating the negative impacts of the coronavirus pandemic. As of 3 April, the European Investment Bank intends to mobilise EUR 400 million in funding to back efforts by SMEs to overcome the difficulties caused by the pandemic. The World Health Organisation (with participation of the Ministry of Health, the Ministry of Labour, Employment, Veteran and Social Affairs and other professional public institutions form Serbia) will organise and conduct training for safe behaviour and the implementation of measures to prevent and control the infection in social care institutions. As of 13 May, the Council of Europe Development Bank (CEB) has approved a EUR 200 million loan to Serbia to finance health expenditures for combatting COVID-19. The European Bank for Reconstruction and Development (EBRD) plans to raise its financing for the Western Balkans (including Serbia) to EUR 1.7 billion in 2020 from a record EUR 1.3 billion in 2019.

- Serbia received bilateral support for immediate medical aid: Hungary has sent 200 000 masks and 10 000 protective suits. The USA announced that it would send 6 000 coronavirus test kits. Serbia received a donation from Turkey containing various medical devices, including 100 000 protective masks, 2 000 protective suits and 1 500 COVID-19 tests. China has supported Serbia with a donation for the construction of two coronavirus laboratories, which will run 3 000 tests a day. Serbia received medical aid from Russia, which was transported by 11 airplanes. The Russian-Serbian Humanitarian Center (RSHC) handed over 3 000 sets of protective equipment and personal protective kits for the work in the environment with the coronavirus spread. Humanitarian goods were bought by the Russian part of the RSHC with the support of the Russian Ministry of Emergencies. Serbia also received humanitarian aid from Qatar, Azerbaijan and recently from Poland and Austria.

**Other:**

- Serbia became one of the top-rated countries with the largest number of innovations for the new OECD initiative on Innovative Government Responses to the coronavirus crisis in the world. The innovative solutions implemented in Serbia are presented on the OECD Observatory of Public
Outlook

- **Situation prior to COVID-19:** Serbia was in a moderate position prior to the COVID-19 outbreak. In 2019, the economy experienced a real GDP growth of 3.2%. Unemployment was at its lowest level in the last decade, at 10.5%. General government debt stood at 52.1% of GDP.

- Given the small size of the Serbian economy (population: 7 million; USD 41.4 billion), the scope of policy actions undertaken has been considerable, targeting many groups affected by the containment measures. In December 2019, the government projected 4.0% growth for 2020. However, it is expected that the coronavirus pandemic will lead to a notable slowdown in the economy, which strongly relies on trade with and investments from the EU (esp. Germany and Italy). Within the domestic market’s SMEs, manufacturing, transport, logistics, and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions may deteriorate, given that a notable share of the workforce live abroad (around 10% of the population). A 3% drop in GDP is expected in Serbia in 2020, followed by a 7.5% growth in 2021.6

- According to an analysis published in April by the International Monetary Fund, a 3% drop in GDP is expected in Serbia in 2020, followed by a 7.5% growth in 2021.7 The European Commission predicts that private consumption and investment are expected to fall this year due to lockdown restrictions, confidence effects and uncertainties, before a strong recovery in 2021. Due to the economic contraction and sizeable fiscal mitigation measures, the general government deficit is forecast to rise sharply in 2020 followed by a strong reduction in 2021. The debt-to-GDP ratio is set to increase temporarily by around 10 percentage points in 2020. 8

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