



THE COVID-19 CRISIS IN SERBIA

8 June 2020

COVID-19 update

- *Current COVID-19 situation:* 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 the curve of active infections has flattened, the government has gradually started to open its economy since 21 April. The government also decided that temporarily designated COVID-19 hospitals will gradually return to the normal work. On 7 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 protocol. The government has also announced a mandatory 14-day quarantine for anyone entering the country without a negative PCR test result less than 72 hours old. As of 22 May, a negative test or a special permit for both domestic and foreign citizens are no longer required to enter the country. The government also abolished self-isolation requirements upon entry. As of 27 May, public outdoor gatherings are limited to a maximum of 1000 people and regarding indoor spaces, a maximum of 100 people is allowed. Outdoor sport competitions in the presence of an audience will start from 1 June. As of 5 June, there are no more restrictions on the number of public outdoor gatherings, however, a preventative measure of physical distance must be applied – a distance of at least one metre. As for the closed space, the maximum number will be 500 people, instead of 100 as was previously allowed. As of 18 May, Air Serbia re-established commercial international flights from Belgrade to London, Frankfurt, Vienna and Zurich but with reduced frequencies, while flights to Sarajevo, Tivat and Skopje are set for the beginning of June. The planes of the Montenegrin airline company, Montenegro Airlines, will be denied permission to land at the Belgrade Airport from 27th of 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 freely pass the border between the two countries (without PCR tests and the mandatory 14-day quarantine). Serbia also plans to re-open its borders with Albania, Bosnia and Herzegovina, Montenegro and North Macedonia as well as Bulgaria, Greece and Romania on 1 June.
- 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 Sector Innovation (OPSI) dedicated [website](#).
- The President of the Republic of Serbia, Aleksandar Vučić announced that the general and local elections initially scheduled for 26 April were postponed due to the COVID-19. They will be held on 21 June.

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 2020.¹
 - 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 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.).²
 - 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.³

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

- On 15 March, the President of the Republic of Serbia, Aleksandar Vučić declared the state of emergency.
- General elections scheduled for 26 April have been postponed due to the state of emergency in the country.
- Policy measures are published on the government [COVID-19 website](#).

Extent of containment measures

- *School closure*: Kindergartens, schools and universities have been closed.
- *Lockdown*: All public transportation is suspended, taxi services are limited but remain operational and driving personal vehicles is allowed. All farmer's markets have been closed. Some farmers

¹ World Bank (2020), Fighting COVID-19. *Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf?sequence=4&isAllowed=y>

² European Bank for Reconstruction and Development (2020), *Coronavirus Policy Response*, <https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response>

³ Ibid.

offer home delivery of their product in Belgrade. Cafes, restaurants and shopping malls are closed to the public but some provide takeaway and food delivery services. Barbershops and beauty salons have been closed as have all sports-related facilities. Gambling facilities and casinos have also been closed. Supermarkets, pharmacies, gas stations, post offices, banks and other service providers reduced their working hours to observe the curfew, with most closing by 3 p.m. or earlier. As of 16 April, a mandatory curfew for all residents is in place Mondays through Thursdays from 5 p.m. to 5 a.m. and Fridays from 5 p.m. to 5 a.m. on the following Monday. As of 17 April, the curfew has been extended to 5 a.m. Exceptions are residents with medical emergencies and those who are issued a work permit or a special authorisation by the Serbian government authorities. For residents over 65 in urban areas and 70 in rural areas, a 24-hour curfew is in place except on Saturday from 3 a.m. to 8 a.m. for the purpose of buying groceries.

Border measures

- All border crossings (air, land or river) are closed to travellers, except for road transport crews and other persons with a special permit.
- International airports in Belgrade and Niš are closed to commercial traffic. The airports will still be open for i) cargo and mail transport, ii) search and rescue, iii) humanitarian flights, iv) emergency medical transport, v) technical landing and positioning of Serbian aircrafts, and vi) state aircrafts and special purpose flights.

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 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-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.

Monetary policy

- Under the plan agreed 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%. 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.

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 RSD 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 have been 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 economic sectors that are currently the hardest hit. 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.

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).
- As of 13 April, Minister of Health announced that more than 2 500 health workers (doctors and nurses) have been employed over the past two weeks.

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 from 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.

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 2021.⁴
- 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 2021.⁵ 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 2020.⁶

⁴ International Monetary Fund (2020), *World Economic Outlook, April 2020, Chapter 1 The Great Lockdown*, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

⁵ International Monetary Fund (2020), *World Economic Outlook, April 2020, Chapter 1 The Great Lockdown*, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

⁶ European Commission, *European Economic Forecast, Spring 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf



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