



THE COVID-19 CRISIS IN SERBIA

27 April 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 last 24 hours, deaths, number of persons hospitalised and total number of tested people, is published daily on the Ministry's [website](#).
- *Assessment of the health system:* The public healthcare network in Serbia includes a total of 350 healthcare institutions, including 158 primary healthcare entities, 128 secondary level institutions (40 general hospitals and 34 special hospitals and rehabilitation centres), 4 clinical centres, and 4 military healthcare institutions. The total number of beds in state hospitals stood at 41 654 at the end of 2017. Total expenditures on health in Serbia stood at 10.4% of the national GDP in 2014 and at 8.4% of the national GDP in 2017.¹ The Serbian health system currently employs more than 100 000 people. In recent years, the government of Serbia has committed to improving and modernising the nationalised healthcare system.
- 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](#).

Economic impact

Short-term indicators of the economic impact

- Serbia's economy is expected to enter into 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 tourism sector totalled EUR 2.7 million between March and the first half of April. Around 85% of SMEs are expecting to be negatively affected by the COVID-19 outbreak (poll, March 2020).
 - Many supply chains have been disrupted, FDI inflows and domestic investments are expected to decrease and fall in remittances might lead to further decrease in consumption.

¹ World Health Organisation (2014), <https://www.who.int/countries/srb/en/>; World Bank (2019), https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=RS&year_high_desc=true

² 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>

- Key short-term priorities: Provide liquidity to the economy, particularly SMEs, and revenue support to vulnerable workers and other individuals.³

Financial markets

- 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, Aleksander Vučić declared a 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 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 well as 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 5 p.m. - 5 a.m. and Fridays from 5 p.m. until 5 a.m. on the following Monday. As of 17 April, the curfew has been extended to 5 a.m. on Tuesday 21 April. 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. On 21 April, some of the containment measures were relaxed, including shortening by one hour the nationwide curfew for all residents, allowing some movement of senior citizens and the opening of certain shops and green markets. The government announced additional relaxation of COVID-19 restrictive measures as of 27 April.

Border measures

- All border crossing (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

³ European Bank for Reconstruction and Development (2020), *Coronavirus Policy Response*, <https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response>

medical transport, v) technical lending 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 Belgrade Exhibition Hall into Makeshift Hospital (3 000 beds). The Serbian Army has called upon 60 members of the reserve forces to Belgrade and Novi Sad to assist with preparations to fight against 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 3-months 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 3-months 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 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).
- *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 the most important issue, 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.

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 most vulnerable women in 50 municipalities will receive assistance worth EUR 100 000 in hygiene packages and essential foodstuffs. 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 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. 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.

- Serbia received bilateral support for immediate medical support: 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.

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 markets SMEs, manufacturing, transport, logistics and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions 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

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>

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