

The Impact of the Covid-19 Crisis on the Serbian Economy - Consequences and Recovery

Marija Lazarević-Moravčević^{1*} | Sandra Kamenković²

¹ Institute of Economic Sciences, Belgrade, Serbia

² University Union Belgrade, Belgrade banking academy, Belgrade, Serbia

ABSTRACT

The subject of this paper is the analysis of the consequences of the corona crisis on the Serbian economy. The focus is on the analysis of the crisis effect, taking into account the sectoral structure of the Serbian economy and the distribution of business entities by size. The assumptions are that the crisis did not affect all business sectors equally, as well as that the size of the company is a factor that significantly determines the organization's ability to respond to the crisis. The paper also analyzes the effectiveness of measures taken by economic policy makers in order to mitigate the consequences of a pandemic. Desk-research method was used in the paper, primarily analyzing papers and publications from scientific journal and other professional literature, as well as official data, databases and reports of relevant institutions. In conclusion, the authors state that it is extremely difficult to predict the pace at which the Serbian economy will recover from the crisis, especially under the assumption that the pandemic may continue. Recovery from the crisis is determined by a number of factors: measures that the state will implement in the upcoming period, the company's ability to adapt to new business conditions, the pace of vaccination, the further course of the pandemic, events in the environment.

Key words: *economy, sector, effects, measures, Covid crisis, support, small and medium enterprises*

JEL Classification: M21, E60

INTRODUCTION

Ever since it was registered in China, the COVID-19 virus has become a key global threat. The virus is spreading rapidly and intensively, affecting all parts of the world creating pressure on economies. The pandemic have caused immediate economic effects and consequences. The world is facing a recession, whose end is not possible to envisage now.

According to certain estimates, „the virus reduced global economic growth in 2020 to an annualized rate of -3.4% to -7.6%, with a recovery of 4.2% to 5.6% projected for 2021. Global trade is estimated to have fallen by 5.3% in 2020, but is projected to grow by 8.0% in 2021. Major advanced economies, which comprise 60% of global economic activity, are projected to operate below their potential output level through at least 2024” (Congressional Research Service, 2021). The pandemic has prevented or limited the functioning of many economic entities. The most endangered were companies operating in high-contact activities. Companies operating in these activities were forced to limit or suspend operations for several months. It is estimated that “93% of the world’s workers were living under some form of workplace restrictions as a result of the global pandemic and that 8.8% of global working hours were lost in 2020 relative to the fourth

* Corresponding author, e-mail: marija.lazarevi@ien.bg.ac.rs

quarter of 2019. Losses in working hours in 2020 were approximately four times higher than during the global financial crisis in 2009” (International Labour Organization, 2021).

The COVID-19 pandemic has significantly affected the labour market, especially in the United States, and less in Central Asia and Europe. Global job losses during 2020 amounted to 114 million jobs, compared to 2019 (International Labour Organization, 2021). In European economies, there were no major shocks in the labour market thanks to the measures taken in order to protect companies from bankruptcy and to maintain the number of employees. According to the ILO report, during 2020, employees lost their jobs mainly in the services sector, i.e. in activities where it was not possible to organize work from home.

Thanks to the measures implemented in the segment of fiscal and monetary policy, the economic decline during 2020 was smaller than expected at the global level. In order to prevent the spread of the virus, protect the population and the economy, most countries have reacted in a similar way - borders were closed, measures for social distancing are established, support is provided to the most vulnerable segments of society and the economy.

Despite the fact that the “COVID-19 pandemic has been recognized “as a major exogenous shock that has altered the competitive landscape for both small and large firms (Wenzel, Stanske, Lieberman, 2020)”, large firms are significantly more willing to face the crisis. In European countries, the most important, but currently the most sensitive segment of the economy is the SME sector. This segment of the economy represents the “backbone of the European real economy because it employs about two thirds of employees and participates in the creation of more than 55% of total value added in the non-financial business economy” (European Investment Bank, 2020). The crisis caused by the pandemic COVID-19 resulted in the decrease of income and employment levels of many small businesses. A significant number of SMEs were forced to suspend operations (accommodation and food services, recreation and entertainment) or to operate at reduced capacity (transport, manufacturing, construction). In order to maintain business activities, most EU countries have provided significant support to SMEs and using various financial tools they covered all or part of the costs incurred due to the closure, suspension or slowdown of operations (International Trade Centre, 2020). In fact, in most economies rapid solutions were applied to support the SME on the basis of direct funding, tax incentives, financial guarantees, loans with low interest rates and other (Grondis, Slusarczyk, Hussain, Androniceanu, 2021).

Due to the great uncertainty related to the future course of the epidemic, the effects of the crisis cannot be precisely determined. According to the forecasts made by the International Monetary Fund, the world economy will experience a stronger recovery during 2021 and 2022. “Global growth is projected at 6% in 2021, moderating to 4.4% in 2022” (IMF, 2021). In January 2021, the World Bank released its updated economic forecast, which indicated that global economic growth would reach 4.3% in 2020 and 4.0% in 2021, compared with June 2020 projections of -5.2% for 2020 and 4.2% in 2021, but rise by a slower rate of 3.8% in 2022 (World Bank Group, 2021). Both reports state that the speed of recovery of individual countries will be different. The intensity of overcoming the crisis will be determined by the pace at which vaccination is carried out and the support measures that will be taken by the states.

The COVID-19 pandemic has caused general recession, including the Serbian economy (FIC, 2020). Despite the fact that the crisis has caused a decrease in GDP, exports and foreign demand, total production (especially industrial), a decrease in the growth rate, the impression has been gained that its impact is milder compared to other economies. “The current account deficit was reduced to around 4.3% of GDP in 2020, primarily due to lower outflows of net income of foreign economic entities and, in part, a lower foreign trade deficit (International Bank for Reconstruction and Development, 2021)”. During 2020, the growth of government debt was also recorded. In November 2020, government debt amounted to 56.8% of estimated GDP, compared to 52.0% at the end of 2019 (OECD, 2021). Employment did not decline, primarily thanks to state program of

fiscal incentives. On the other hand, the support that helped the economy survive also meant high budget costs (International Bank for Reconstruction and Development, 2021).

In order to mitigate the negative effects of the crisis in Serbia, a comprehensive package of monetary, fiscal and banking measures has been implemented. Interventions carried out by the Government and the NBS were primarily aimed at preventing bankruptcy and dismissal during the state of emergency. The goal was to recover the economy from the initial shock. "Most measures introduced by the Republic of Serbia are related to Labour and Deferral. Also, measures related to financial instruments have not been left out either, however they are less intensive comparing to other countries" (Beraha, Đuričin, 2021). The implemented measures cannot be effective and sufficient, assuming that the crisis continues and generates long-term changes in market conditions. The lack of a planned approach in resolving the secondary effects of the crisis may undermine the position of companies in Serbia and their competitive advantage (United Nations, 2020).

Similar to other economies, the crisis in Serbia did not affect all sectors equally. According to some estimates "69% of the sector was immediately affected by the pandemic, while 31% of the sector was left without an immediate negative impact, but with possible indirect and subsequent negative consequences" (FIC, 2020). Some sectors have managed to adapt to the new situation, such as the IT sector, food and beverage production and agriculture, and to hire new employees (Privredna komora Srbije/USAID, 2020).

The long-term effects of the crisis on the Serbian economy cannot be accurately estimated. It is possible to assess the consequences of current events and the measures applied in the fight against it. On the other hand, it is difficult to assess secondary and tertiary effects. Potential (secondary) effects are a consequence of the primary ones and will occur if the crisis continues. The tertiary effects of the crisis arise as a result of changes in the international market due to the limited movement of people, goods and capital (Institute of Economic Sciences, 2020). Also, the economy and overall well-being of Serbia are significantly influenced by events in the EU, as the dominant trading partner (United Nations, 2020).

The paper analyzes the consequences of the crisis on the performance of the Serbian economy, observed from the aspect of individual sectors and the most sensitive segments of the economy - small and medium enterprises. In addition, the paper chronologically presents the measures taken with the intention to minimize the impact of the crisis, as well as proposals that would make the most sensitive segments of the economy more resilient to the effects of the crisis.

SECTORAL ANALYSIS OF ECONOMIC ACTIVITY IN SERBIA DURING THE PANDEMIC

Majority of sectors experienced some kind of change during the COVID-19 pandemic. While some activities struggled with a large decline, some experienced a large increase in business volume, which implies that the pandemic crisis did not affect all activities uniformly.

Epidemiological restrictions worldwide had a strong negative impact on activities such as accommodation and food services, the aviation industry, the automotive industry, the non-essential goods manufacturing industry, as well as part of the international logistics industry, due to difficult global transport, complicated administrative procedures and breaking delivery deadlines. On the other hand, restrictions and the health situation made huge impact on pharmaceutical industry, food and other essential food retail, video game industry, online sales, logistics providers related to providing delivery to each individual consumer.

It is necessary to mention that the Business Registers Agency of Serbia in its Annual report publishes the summary results of the sectors according to the Classification of Activities (KD) 2010. As a result, we have in some way averaged results of the sector, because according to the classification e.g. the Manufacturing sector includes the production of pharmaceutical products and medical equipment, which due to a sharp increase in demand recorded a sharp increase in

business, but also the production of motor vehicles and furniture, which due to rising risks related to future incomes, recorded decrease in demand and decrease in activity.

The data from the Annual Bulletin of Financial Statements for 2020 published by the Business Registers Agency are presented in Tables 1 and 2 and they confirm these findings.

Table 1. Net business results of Serbian companies by sectors of activity

	Net result (in millions of RSD)		Index
	2019	2020	2020/2019
Wholesale and retail trade	74.345	134.858	181,4
Manufacturing	116.268	130.894	112,6
Construction	33.878	58.484	172,6
Information and communication	37.551	44.921	119,6
Electricity, gas, steam supply	3.973	26.166	658,6
Agriculture, forestry and fishing	-4.652	9.712	n/a
Real estate activities	23.709	4.156	17,5
Mining	1.163	16.728	7,0
Arts, entertainment and recreation	6.491	1.370	21,1
Transportation and storage	11.389	-11.539	n/a
Accommodation and food service activities	1.332	-9.183	n/a

Source: APR (2020) Annual bulletin of financial statements, https://www.apr.gov.rs/upload/Portals/0/GFI_2021/Godisnji_bilten_2020/BiltenSI2020.pdf

There are 6 sectors in the group of activities that made higher profits in 2020 compared to 2019. In the wholesale and retail trade sector, the result was 81% better than in 2019, with an increase in the number of employees by over 4.500. The next sector with profit growth is the manufacturing sector, which grew by over 12%, noting that this sector recorded the largest increase in the number of employees of over 17.000. The construction sector recorded a growth of net results of 72% compared to 2019, with an increase in employees by 3.543 workers, while the information and communication sector recorded a growth of profitability of 19%, with an increase in the number of employees by 11.279 workers. The largest increase in profitability was recorded in the electricity supply sector, whose net result after the fall in 2019 compared to 2018 by 45%, in 2020 compared to 2019 increased over 6 times, with a decrease in the number of employees by over 500 workers. Higher profits were also made in the agricultural sector, which after a loss in 2019, made a profit in 2020. Growth was achieved by sectors where the impact of epidemiological restrictions was minimal, such as construction sector, agricultural, electricity supply sector, and especially those where epidemiological restrictions actually stimulated demand, such as wholesale and retail sector, which includes online trade, food and beverage wholesale, computer equipment wholesale, then manufacturing, where the trade in medical equipment and pharmaceutical products is classified, as well as the information and communication sector, which includes telecommunications, programming and information service activities.

Sectors that performed positively in 2020, but significantly worse than in 2019, are the real estate sector, the mining sector and the arts, entertainment and recreation sector, which achieved 17.5%, 7% and 21% of the profit realized in the previous year.

The crisis has the hardest negative impact on the transport and storage sector, which lost almost 12 billion RSD. This is not surprising given that in some periods during 2020, borders were closed or at least with significant restrictions on moving from one country to another to prevent the spreading of the virus. However, a large loss at the level of 9.2 billion RSD was scored by the sector of accommodation and food services, also for very obvious reasons during the pandemic period. These data more than obviously explain the fact that the measures of the economic policy

of the Government of Serbia regarding the issue of sectoral assistance were directed especially in these two sectors. It is interesting to point out that in the transport and storage sector the number of employees increased by 70, while in the accommodation and food services sector decreased by 458 workers, which may suggest that despite the sharp decline of activity in these sectors, government measures in the form of subsidies mitigated the decline of employees in the accommodation and food services sectors, i.e. maintained the number of employees at the similar level in the transport sector.

Table 2. Number of companies and number of employees by sectors

	Number of companies			Number of employees		
	2018	2019	2020	2018	2019	2020
Wholesale and retail trade	34.074	33.044	32.107	219.373	223.116	227.618
Manufacturing	17.969	17.735	17.381	367.282	374.840	391.855
Construction	8.670	8.984	9.323	72.479	78.003	81.546
Transportation and storage	6.639	6.810	6.883	99.228	99.912	101.935
Administrative and support service activities	3.991	4.108	4.139	76.413	83.165	83.122
Other sectors	34.512	35.352	36.278	306.458	315.326	331.878

Source: APR (2020) Annual bulletin of financial statements, https://www.apr.gov.rs/upload/Portals/0/GFI_2021/Godisnji_bilten_2020/BiltenSI2020.pdf

IMPACT OF THE PANDEMIC ON PERFORMANCE SME SECTOR IN SERBIA

The crisis caused by the COVID-19 pandemic has affected all economic entities - small and large organizations. It also confirmed the fact that the size of the company is a factor that significantly determines the ability to resolve crisis situations. Large companies were better prepared to deal with the crisis, while the micro and small business segment was hit hard. Their excessive sensitivity can be explained by the fact that this is the segment of the economy that is the least liquid and has the lowest credit rating (IEN, 2021). In addition, these companies mainly operate in the most affected sectors. They are financially constrained and have little opportunity to diversify their business (CEVES, 2020). On the other hand, their flexibility is responsible for the relatively successful resistance to the pressures caused by the crisis. It is known that smaller organizations have the ability to quickly adapt to new circumstances and market needs. Unlike large companies, which are characterized by sluggishness, small companies can more easily reorient themselves to new market demands (Kamenković, Lazarević-Moravčević, 2018).

Seen in the context of the SME sector, it is expected that the organizations that belong to the category of medium-sized enterprises show the greatest resistance to the crisis. The explanation can be found in the fact that these companies have the characteristics of both small and large systems. Organizations that belong to the category of medium-sized enterprises have not lost their flexibility, and on the other hand, they have certain similarities with large systems (capacities, resources and structure) that allow them to attract financial resources and more easily overcome the crisis. In fact, medium-sized companies are "closest to the ideal combination of capital and flexibility, which enables them to successfully deal with the crisis caused by the COVID-19 pandemic (CEVES, 2020)".

Despite the fact that the crisis affects all the important segments of business (plans for investment, liquidity, ability to collect receivables, negative trends in demand, supply chains) can be concluded that companies in Serbia demonstrated a certain level of resistance and readiness to adapt to new market conditions (USAID, 2020). In the initial stages of the crisis, most companies managed to keep their workers, thanks to savings, loans and financial support provided by the state (United Nations, 2020). In spite of the expectation that mass layoffs will be one of the key consequences of the crisis, official statistics indicate opposite trends.

Based on the data presented in the Table 3, it can be concluded that the growth trend in number of economic entities belonging to the category of medium-sized enterprises has continued. Also, in these companies a positive trend in the number of employees has been identified. On the other hand, decrease in the number of employees was recorded in the category of small enterprises. An interesting observation is that despite the reduction in the number of micro enterprises in 2020, the number of employees in this segment of the economy has grown.

Table 3. Number of enterprises and employees in the SME sector (2018-2020)

		Number of enterprises	Number of employees
Medium enterprises	2018	1.387	232.991
	2019	1.497	253.876
	2020	1.815	273.115
Small enterprises	2018	10.387	313.435
	2019	11.036	321.391
	2020	11.617	316.247
Micro enterprises	2018	93.689	236.575
	2019	93.085	236.639
	2020	92.257	237.035

Source: APR (2020) Annual bulletin of financial statements, https://www.apr.gov.rs/upload/Portals/0/GFI_2021/Godisnji_bilten_2020/BiltenSI2020.pdf

During the crisis maintaining employment levels is not recognized as a problem facing the SME sector in Serbia. Problems can be identified in the area of maintaining revenue and net profit levels. "The crisis has negatively affected the company's income, so the business reality is significantly worse than expected (CEVES, 2020)", especially in the segment of micro companies. Compared to 2019, the segment of small enterprises achieved total revenue decrease by 5%, while reducing total expenses by 6%. In this segment of the economy was also observed reducing the number of employees (5.144). Small companies achieved the most dynamic growth of a positive net result of 34.2%. Growth was achieved primarily under the influence of business activity of companies in the Wholesale and retail trade sector (Serbian Business Registers Agency, 2021).

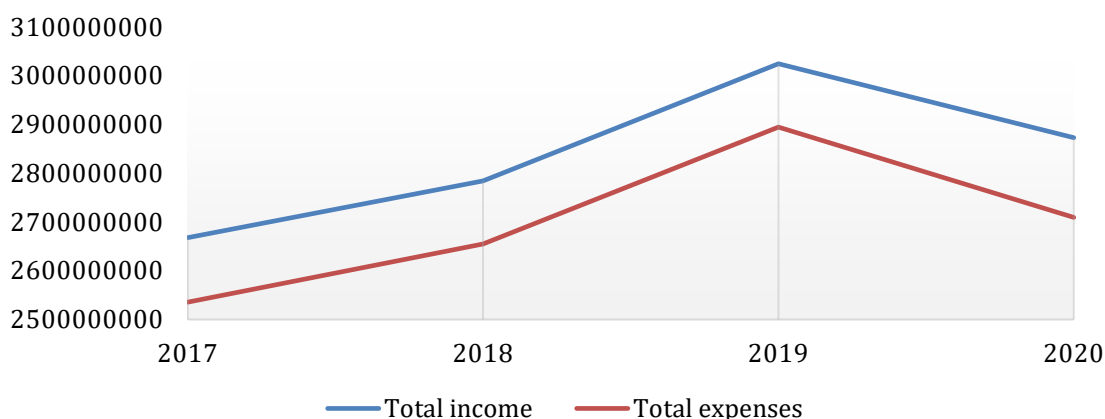


Figure 1. Small businesses - revenue and expenditure trends (2017-2020)

Source: Based on data from the Annual Bulletin of Financial Statements 2018, 2019, 2020, <https://www.apr.gov.rs/>

A negative tendency in the movement of total revenues was also noted in the segment of micro enterprises. This is the most numerous segment of the economy that achieved a decline in total business activity with a negative result, as well as a significantly impaired financial position. During 2020, micro enterprises recorded a decrease in total revenues by 13%, with an almost identical decrease in total expenditures. Compared to 2019 the number of micro enterprises decreased by 828 (Serbian Business Registers Agency, 2020). Micro enterprises were the only ones to operate with a loss of 13,310 million dinars, which is 16.4% less compared to 2019 (Serbian Business Registers Agency, 2021).

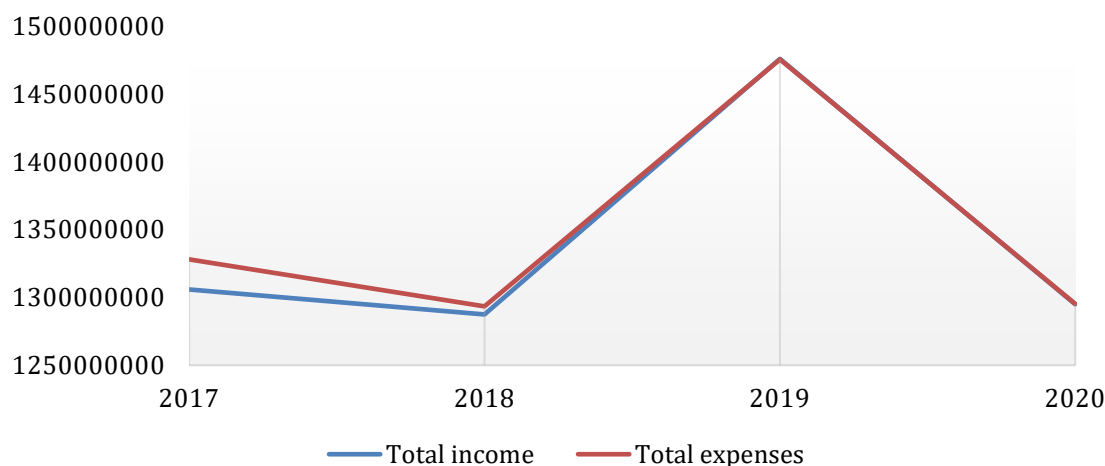


Figure 2. Micro enterprises - revenue and expenditure trends (2017-2020)

Source: Based on data from the Annual Bulletin of Financial Statements for 2019 and 2020, <https://www.apr.gov.rs/>

A negative tendency in the movement of total revenues, especially in the field of micro-enterprises, is a result of reduced business activity. Micro, as well as a significant number of small companies mainly operate in labour-intensive activities, i.e. in sectors where personal contact is extremely important. During a pandemic these organizations were often exposed to business interruptions. However, the total revenues and expenditures within the SME sector are certainly affected by the change in the number of economic entities.

It can be stated that the largest contribution to the growth of overall profitability was given by medium and small enterprises. Medium-sized companies are the only segment of the economy that has recorded growth in total revenues and total expenditures. Also, these companies are recognized as the most financially stable part of the economy. On the other hand, negative impact of the crisis is the largest in the segment of micro enterprises. During 2020 the financial position of these companies was significantly impaired (Serbian Business Registers Agency, 2020).

According to a survey conducted by USAID in cooperation with the Serbian Chamber of Commerce on a sample of 1.000 companies, the crisis has disrupted certain plans and activities of many SMEs in Serbia. Forecasts of businessmen in Serbia are becoming less optimistic in terms of plans, future income, and volume of activities and employment of new workers. On the other hand, they believe in ability to retain current employment level. Companies are planning to continue their activities (USAID, 2020) and most of them do not intend to introduce permanent changes in their business, due to the pandemic (CEVES, 2020). The biggest problem for SMEs in Serbia remains the lack of access to various sources of funding (USAID, 2020; CEVES, 2020). Despite the fact they are still the most dominant source of financing, the share of own funds in business financing during 2020 is declining. On the other hand, businessmen in Serbia do not find alternative solutions in bank loans or professional investors. In addition, the following problems

have been identified: unfair competition, legal uncertainty due to unclear regulations and lack of transparency in the adoption of regulations, lack of investment options, and unavailability of qualified human resources. According to the results of the mentioned research, businessmen in Serbia positively evaluate certain aspects of the regulatory environment - procedures and regulations related to inspection supervision, VAT refund procedures. On the other hand, they negatively assess the amount of taxes and contributions on salaries, as well as the efficiency of the work of the state administration (USAID, 2020).

The crisis that companies are currently facing has given online business a completely new role and meaning. All the benefits of online business have now come to the fore. In the new circumstances, it is realistic to expect a growing number of companies that rely on modern technological solutions in their business. The need to introduce alternative options is also a consequence of changes in the behavior and habits of consumers during the crisis (Lazarević-Moravčević, Domazet, Lazić, 2021).

During the crisis, the benefits of internet business have become significant. The number of companies that use the Internet as a communication channel is constantly growing, as well as the number of companies that own a website. The website is owned by 84.4% of companies, which is an increase of 0.8% compared to 2019 and an increase of 1.8% compared to 2018 (Republic Statistical Office, 2020). There is a noticeable increase in the number of visits to informative internet portals, as well as an exponential growth of communication on social networks. Also, there is an increase in demand for streaming platforms, i.e. for video conferencing and online education (Domazet, 2020).

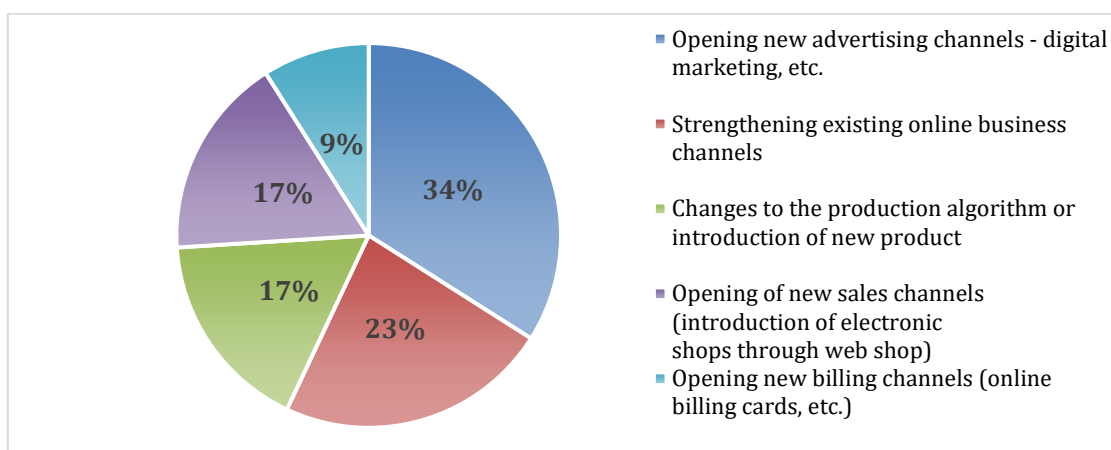


Figure 3. Measures taken or planned in response to the crisis in Serbia

Source: USAID (2020) Annual Survey of 1.000 Serbian businesses, <https://saradnja.rs/wp-content/uploads/2020/11/Anketa-1000-preduze%C4%87a-2020..pdf>

Companies are increasingly recognizing the importance of digital solutions for business improvement and see them as the primary response to the crisis (USAID, 2020). In the pandemic business environment, a significant number of SMEs were forced to adapt to online business. Exactly, the best business results achieved companies that operate in sectors where this was possible.

Adaptation to digital business is also determined by the size of the company. Compared to large ones, smaller organizations can more easily focus on online business. The visibility of small businesses, their products and services can be improved by applying certain solutions offered by modern information technology (Lazarević-Moravčević, 2019), especially in conditions of a pandemic crisis. Factors limiting this transformation are the lack of financial and human resources, with state support playing a major role (Vidas-Bubanja, 2021).

Therefore, it can be concluded that the SME sector has been significantly affected by the crisis. However, the consequences are less than expected thanks to the support measures taken by the state in order to maintain a certain level of business activity and employment. In the coming period, the performance of the SME sector will be determined by support measures, but also by the ability of companies to accept modern forms of business and investment.

ANALYSIS OF IMPLEMENTED ECONOMIC POLICY MEASURES IN SERBIA DURING THE PANDEMIC

Since 2014, when fiscal consolidation measures were launched, most macroeconomic indicators in Serbia have recorded a positive trend. Fiscal consolidation lasted from the end of 2014 to the end of 2017, with the aim of reducing the fiscal deficit, which was 6.2% of GDP, as well as reducing the share of public debt in GDP, which amounted to 67.5%. The trend of reducing the deficit started in 2015, and in 2017 a surplus appeared. The share of public debt in GDP started to decline in 2017, and at the end of 2019, this indicator was at the level of 52.9% (Ministry of Finance, Republic of Serbia, Public Debt Administration, Quarterly Report, December 2019). These reductions are actually very significant, because in the unplanned situation of the pandemic crisis, they gave space to the economic policy makers for the inevitable borrowing in order to mitigate the negative effects of the pandemic crisis.

Fiscal and monetary measures to mitigate the negative economic effects of the pandemic have been introduced in most countries around the world. In general, they can be grouped in 3 directions, tax policy measures, direct budget incentives measures and liquidity preservation measures.

The first package of economic policy measures was adopted in April 2020, and the measures as well as the budget for them are presented in Table 4.

Table 4. Measures and budget in the first package of economic policy measures

Name of the measure		Amount in billion RSD
1.	Tax policy measures	161
1.1.	Postponement of payment of taxes on salaries and contributions for the private sector with the beginning of collection no earlier than 2021 (March-May 2020 or April-June 2020)	140
1.2.	Postponement of payment of advance income tax in the second quarter of 2020	21
2.	Direct assistance to companies for employees	97.3
2.1.	Direct assistance to entrepreneurs who are taxed at a flat rate and who pay real income tax, micro, small and medium enterprises in the private sector in the amount of 3 minimum wages (March-May 2020 or April-June 2020)	92.8
2.2.	Direct assistance to large companies in the private sector - assistance in the amount of 50% of the net minimum wage for employees who are temporarily removed from work	4.5
3.	Measures for liquidity of the economy	264
3.1.	Support to the economy through the Development Fund of the Republic of Serbia	24

Name of the measure		Amount in billion RSD
3.2.	Guarantee scheme to support the economy through banks	240
	of which 25% state guarantee	20
4.	Other measures	86
4.1.	Moratorium on dividend payments until the end of the year, except for PEs	16
4.2.	Payment of 100 EUR to all adult citizens	70
TOTAL MEASURES		608,3

Source: Ministry of Finance of the Republic of Serbia

The total value of economic support measures in the first package was slightly less than 610 billion RSD (which is about 11% of GDP), but it is important to note that the amount includes both public and private funds that are engaged. Namely, in the part that refers to credit support to the economy through banks, out of 240 billion RSD, 60 billion RSD refers to state guarantees. When the difference is subtracted, the amount of 430 billion RSD is a burden on public finances, which is slightly less than 8% of GDP. Having this in mind, the impact of economic measures is not the same on the budget deficit and public debt, i.e. the impact on public debt is, given the methodology of calculating public debt in Serbia, 430 billion RSD, while the impact on the budget deficit is slightly less than 370 billion RSD (Fiskalni savet, Ocena antikriznog programa ekonomskih mera, 2020).

From the first package, tax policy measures had the greatest impact on the budget result, and within them the dominant effect was the postponement of liabilities to the private sector for taxes on salaries and contributions, followed by payment of minimum wages to the private sector and then payment of 100 EUR to adult citizens, and at the end the state guaranteed commercial bank loans.

Companies were allowed to postpone the payment of taxes and contributions on salaries and profit taxes, regardless of the company activity, but with the condition that the number of employees is not reduced by more than 10%, and that they do not pay dividends until the end of 2020. Wage allowance included the payment of 100% of the minimum wage from the budget to sole traders and employees in micro, small and medium enterprises, as well as direct aid to large enterprises in the amount of 50% of the minimum wage paid to employees who are temporarily removed from work, but their employment continues after the state of emergency. Tax policy measures, as well as direct assistance measures, were largely used and proved to be very expedient, as they prevented the sudden decline in the number of employees that was expected at a time when many activities had to completely stop the work process.

The program of financial support to the economy took place through the two channels. The first channel involved loans granted by the state to entrepreneurs directly through the Development Fund of Republic of Serbia. The loans were intended for entrepreneurs, micro, small and medium enterprises and agricultural farms, and were approved for a period of 36 months with a grace period of one year. The maximum loan amount depended on the size of the company and ranged from 5 million RSD for entrepreneurs and micro companies, 25 million RSD for small companies, to 50 million RSD for medium-sized companies. The second channel involved lending to companies through commercial banks with a state guarantee for these loans. The same group of companies, entrepreneurs, micro, small and medium enterprises had the right to apply, with the maximum allowed loan amount of 350 million RSD. The purpose of the previously listed measures was to preserve production capacities and employment in the private sector, predominantly in the part of small and medium enterprises, and it can be stated that this purpose was achieved with the first package.

In addition to the measures on the supply side, the state also envisaged a measure on the demand side, which included the payment of 100 EUR to each adult citizen. The purpose of this measure was a fiscal stimulus to increase domestic demand. Although 70 billion RSD were planned, considering the number of registered citizens, the implementation of this measure in the end cost 72 billion RSD, or about 610 million EUR. Since there were no funds available in the budget of Serbia for this measure, it was financed by government borrowing. This measure was quite questioned, as it was non-selective, which was not the practice in other countries that implemented a similar measure. Also, one of the arguments against this measure is that the problem with aggregate demand in Serbia is not a consequence of lower purchasing power, but a consequence of the impossibility of population movement and thus the purchase of goods and services. Also, another aspect of stimulating growth by increasing the income of citizens is emphasized - in Serbia, which is a small and open economy, the dominant part of the increase in income spills over to imported goods, leading to an increase in trade deficit, lower foreign exchange supply and foreign exchange market pressure.

The second package of economic policy measures was adopted in July 2020 and included the postponement of the payment of taxes on salaries and contributions for the private sector for August 2020, then direct assistance to entrepreneurs who are taxed at a flat rate and who pay taxes on real income, micro, small and medium-sized enterprises in the private sector in the amount of 60% of the minimum wage (August-September 2020), as well as direct assistance to large enterprises in the private sector - assistance in the amount of 50% of the net minimum wage for employees who are temporarily removed from work. The total value of this package was 66 billion RSD, or about 1.2% of GDP.

Bearing in mind that during July, and partly in August, the health situation deteriorated considerably, economic activity decreased, and these measures have a positive impact on maintaining production capacity and preventing the growth of unemployment, it can be stated that the measures in this package were completely justified.

The third package of measures was actually a sectoral package, which was formulated in the form of subsidies to companies operating in the tourism industry. The package was in the form of two public calls and had a value of 1.6 billion RSD, or 0.03% of GDP. The first public call included grants to hotels in the amount of 350 EUR per individual bed and 150 EUR per accommodation unit, for all hotels in the private sector. The application deadline was September 15, 2020. The condition was that in the period until the end of 2020, the number of employees will not be reduced by more than 10%. The second call was intended for travel agencies, only to those who have a license, and the application deadline was December 4, 2020. According to the Ministry of Trade, Tourism and Telecommunications (2020), the third package was used by 312 hotels and 90 travel agencies. It can be stated that these sectoral measures were adequate because the sectoral analysis shows that the tourism sector was indeed the most endangered in terms of declining activity. These measures made it possible that, despite the sharp decline in activity, the decline in number of employees was not so sudden, which was the purpose of the measure.

The fourth package of economic policy measures was adopted in February 2021. The package includes direct assistance in the form of payment of 50% of the minimum wage for 3 months (March-May 2021), for entrepreneurs, micro, small, medium, but this time also large companies. Considering that it includes about 1.4-1.5 million employees in the private sector, the amount of 69.8 billion RSD is planned for the measure. In addition to this assistance, the food service and tourism sector, tourist guides and car rental agencies are provided with support in the amount of another entire minimum wage, for which 2 billion RSD are intended.

Sectoral assistance also includes the repetition of the measure from the previous package, a non-refundable aid for hotels in the amount of 350 EUR per bed and 150 EUR per accommodation unit, for which 1.7 billion RSD are allocated. This package also envisages support to the sector of passenger transport and road traffic, considering that according to the data from the Annual Report of the Agency for Business Registers, this sector recorded the largest decline in net results

in 2020. The assistance includes the payment of 600 EUR per month for each bus in a period of 6 months, and the total value of the measure is around 2.6 billion RSD.

The measure of aid for 1.7 million pensioners of 50 EUR costs 10 billion RSD, while all adult citizens will receive 30 euros twice, one payment was in May 2021, and the other is expected in November 2021. Considering that in the previous package, about 6.2 million citizens applied for the measure of non-refundable aid, it is estimated that this measure will be worth about 43 billion RSD. In the sum these two measures, the one-time non-refundable aid costs over 50 billion RSD, or around 440 million EUR.

According to the statements from the Ministry of Finance, the packages of adopted measures are worth a total of 953 billion RSD, or about 8 billion EUR. The measures implemented since the beginning of the pandemic can be declared as adequate. They were focused predominantly on the SME sector, which, as all analyzes show, was really the most endangered. If we analyze the sectoral assistance, the measures were also adequate in the sense that additional assistance was provided to the tourist trade, food service and transportation sectors, which, according to the Business Registers Agency of Republic of Serbia, suffered the largest decline in activity and were therefore the most vulnerable sectors.

The most contested measure is the one of one-time assistance to all adult citizens in the amount of 100 EUR in 2020 and 60 EUR in 2021, as well as one-time assistance to pensioners in the amount of 5000 RSD in 2020 and 50 EUR in 2021. Considering that borrowing is necessary for this measure, the position is that the measure of assistance to adult citizens should have been selective, in the sense that it should have been directed to socially endangered categories, who most needed help. Also, in order to reduce additional government borrowing, it was possible to abandon some projects envisaged in the budget for 2021, which are not a priority at the moment, such as increased equipment of the security sector, financing the airport in Trebinje, certain subsidies, and redirect that money in the envisaged economic measures.

The main objection to the adopted measures is their non-selectivity. Assistance to companies was the same for all companies, regardless of the achieved business results and the sector in which they operate, even though all data indicate that the sectors are affected differently. The non-selectivity of this measure has been partially corrected by additional assistance to particularly vulnerable sectors such as tourism and transport. The measure of the so-called helicopter money is especially non-selective, since all citizens received the same amount of money, although it is clear that it did not mean the same to everyone and that selective assistance to the most endangered categories would be significantly better.

CONCLUSION

The COVID-19 pandemic has brought radical changes to the lives of every individual and organization. Many activities are stopped or restricted. A large number of organizations are forced to suspend or reduce business. The globally recession is certain, but the question remains how long it will take and how to mitigate the effects of the crisis.

The crisis did not affect all activities and economic entities equally. Data from the Annual report of the Business Registers Agency of the Republic of Serbia clearly show that the sectors of wholesale and retail, manufacturing, construction, information and communication, electricity, gas, steam supply and agriculture in 2020 in Serbia performed significantly better than in 2019. On the other hand, the sectors that have suffered the largest decline in economic activity are transportation and storage, and accommodation and food service activities.

It has also been proven that the size of a company determines its readiness to face a crisis. Compared to large and medium-sized, small and micro companies showed greater sensitivity. Their excessive sensitivity can be explained by the fact that this is the segment of the economy that is the least liquid and has the lowest credit rating. In addition, these companies mainly

operate in the most affected sectors. They are financially constrained and have little opportunity to diversify their business.

Having in mind the previous fact, the economic measures adopted in Serbia seem to be adequate. They were mostly intended for the SME sector, which proved to be the most vulnerable part of the economy. The measures included assistance through tax deferral, grants in the form of minimum wages and measures through more favourable lending in order to overcome the problem of illiquidity. Also, measures that included additional assistance to certain sectors were also targeted towards the most affected sectors of transportation and accommodation and food service activities. Another proof that the measures were adequate is the fact that despite a significant decline in activity, there was no significant decline in the number of employees in the Serbian economy.

The measures taken by the state can be considered effective because they have given immediate results. However, if we take into account the fact that the support implied high budget spending, the question arises whether the measures are justified and sustainable, especially assuming that the crisis can continue and generate long-term changes in market conditions.

Further recovery of the economy, especially the SME sector, will not be determined solely by the measures that the state plans to implement, but also by the ability of companies to adapt to the new business conditions. The paper also points out the fact that in the crisis period, all the benefits of online business have become significant. Modern information and communication technologies have been recognized as one of the key factors for overcoming the difficulties faced by smaller organizations during the crisis.

REFERENCES

- Agencija za privredne registre** (2021). Godišnji izveštaj o poslovanju privrede, available at: https://www.apr.gov.rs/upload/Portals/0/GFI_2021/Makroekonomska_saopstenja/Godisnji_izvestaj_o_poslovanju_privrede_u_2020.pdf
- Agencija za privredne registre**. (2020). Godišnji bilten finansijskih izveštaja za 2019, available at: https://www.apr.gov.rs/upload/Portals/0/GFI_2020/Bilten/Bilten2020.pdf
- Agencija za privredne registre**. (2021). Godišnji bilten finansijskih izveštaja za 2020, available at: https://www.apr.gov.rs/upload/Portals/0/GFI_2021/Godisnji_bilten_2020/BiltenSI2020.pdf
- Beraha, I., Đuričin, S.** (2020). "The Impact of COVID-19 Crisis on Medium-sized Enterprises in Serbia". *Economic Analysis*, 53(1): 14-27.
- Centar za visoke ekonomske studije – CEVES**. (2020). Preduzeća u Srbiji i Agenda 2030 - prioriteti, izazovi i kriza COVID-19, available at: <https://ceves.org.rs/wp-content/uploads/2021/04/Preduzeca-u-Srbiji-i-Agenda-2030-prioriteti-izazovi-i-kriza-COVID-19-1.pdf>
- Congressional Research Service**. (2021). Global Economic Effects of COVID-19. available at: <https://fas.org/sgp/crs/row/R46270.pdf>
- Domazet, I., Lazić, M.** (2021). Integrated Marketing Approach and National Branding as Covid-19 Crisis Response in Tourism Sector. *In: International Scientific Conference - Innovative Aspects of the Development Service and Tourism*, (37-149) Russia, Stavropol
- European Investment Bank**. (2020). Does this change everything? Small business gets sick, available at: <https://www.eib.org/en/stories/smes-coronavirus>
- Fiskalni savet**. (2020). Ocena antikriznog programa ekonomskih mera, available at: http://www.fiskalnisavet.rs/doc/ocene-i-misljenja/2020/FS-Ocena_antikriznog_programa_ekonomskih_mera.pdf
- Foreign Investors Council**. (2020). Bela knjiga – Predlozi za poboljšanje poslovnog okruženja u Srbiji, available at: <https://fic.org.rs/wp-content/uploads/2020/11/Bela-knjiga-2020.pdf>

- Grondys, K., Slusarczyk, O., Hussain, H., Androniceanu, A.** (2021). "Risk Assessment of the SME Sector Operations during the COVID-19 Pandemic". *International Journal of Environmental Research and Public Health*, 18: 2-19.
- Institut ekonomskih nauka.** (2020). „Crni labud” u ekonomiji 2020 - COVID19, available at: <https://www.ien.bg.ac.rs/sr/black-swan-in-the-world-economy-2020/>
- International Bank for Reconstruction and Development.** (2021). Redovni ekonomski izveštaj za Zapadni Balkan, available at: <https://documents1.worldbank.org/curated/en/965271619455150688/pdf/Subdued-Recovery-Serbia-Country-Note.pdf>
- International Trade Centre.** 2020. **COVID-19: The Great Lockdown and Its Impact on Small Business, SME Competitiveness Outlook, Geneva, Switzerland,** available at: <https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/ITCSMECO2020.pdf>
- International Monetary Fund.** (2021). World Economic Outlook, <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>
- International Labour Organization.** (2021). ILO Monitor: COVID-19 and the world of work, available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_767028.pdf
- Kamenković, S., Lazarević-Moravčević, M.** (2018). Ocena kvaliteta okruženja i njegov uticaj na poslovanje sektora MSP u Srbiji, Institut ekonomskih nauka, Beograd
- Lazarević-Moravčević, M.** (2019). "Characteristics of Marketing Communication Strategy of a Small Enterprise". *Economic Analysis*, 52(2):104-112.
- Lazarević-Moravčević, M., Domazet, I., Lazić, M.** (2021). Characteristics of Market Communication in Modern Business. Proceedings of the 26th International Scientific Conference Strategic Management and Decision Support Systems in Strategic Management, (142-149) Subotica: Faculty of Economics in Subotica
- Ministry of Finance, Republic of Serbia, Public Debt Administration,** Quarterly Report, December 2019, available at: [http://www.javnidug.gov.rs/default.asp?P=128&MenuItem=](http://www.javnidug.gov.rs/default.asp?P=128&MenuItem=Ministry of Trade, Tourism and Telecommunications, Republic of Serbia.)
- Ministry of Trade, Tourism and Telecommunications, Republic of Serbia.** (2020). Available at: <https://mtt.gov.rs/slider/%d0%bebavestenje-o-odobravanju-sub-za-pod/>
- OECD.** (2021). The COVID-19 Crisis in Serbia, available at: <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Serbia.pdf>
- Privredna komora Srbije/USAID.** (2020). Istraživanje „Zajedno kroz krizu“- uticaj COVID-19 krize na privredu i poslovanje, available at: https://saradnja.rs/wp-content/uploads/2020/07/Zajedno-kroz-krizu_PKS-USAID-anketa-III-faza.pdf
- Republički zavod za statistiku.** (2020). Upotreba informaciono-komunikacionih tehnologija u Republici Srbiji, available at: <http://publikacije.stat.gov.rs/G2020/Pdf/G202016015.pdf>
- United Nations.** (2020). COVID-19 Socio-Economic Impact Assessment, available at: https://serbia.un.org/sites/default/files/2020-09/seia_report%20%281%29.pdf
- USAID.** (2020). Anketa 1.000 preduzeća, available at: <https://saradnja.rs/wp-content/uploads/2020/11/Anketa-1000-preduze%20%281%29.pdf>
- Vidas-Bubanja, M.** (2021). "Uticaj pandemije kovid-19 na digitalnu transformaciju privrede Srbije". *Ekonomski vidici*, 1-2: 47-62.
- World Bank Group.** (2021). Global Economic Prospects, available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/35647/9781464816659.pdf>
- Wenzel, M., Stanske, S., Lieberman, M. B.** (2020). "Strategic responses to crisis". *Strategic Management Journal*, 41:7-18.

Article history:	Received: July 29, 2021
	Accepted: October 5, 2021

