This project is funded
by the European Union

Publisher:

NALED

ANALYSIS

EFFECTS OF ECONOMIC ASSISTANCE PACKAGES INTRODUCED TO TACKLE THE NEGATIVE IMPACT OF COVID-19 ON THE ECONOMY

Team of Authors:

Institute for Development and Innovation

Reviewers:

Irena Đorđević
Milica Anđelković Đoković

Professional reviewer

Dušan Vujović
NALED Scientific Council

Quantitative research:

Smart Plus research

EFFECTS OF ECONOMIC ASSISTANCE PACKAGES INTRODUCED TO TACKLE THE NEGATIVE IMPACT OF COVID-19 ON THE ECONOMY

The five-year positive economic trends were abruptly interrupted in 2020 with the outbreak of the global health and economic crisis caused by the Covid-19 pandemic. Thanks to fiscal consolidation measures, economic indicators showing the state of the economy in Serbia improved in the period from 2014 to 2019: the fiscal deficit was eliminated and a surplus was achieved in the period 2017-19, positive and faster GDP growth was achieved, the share of public debt in GDP was reduced, public and private investments were accelerated and labor market indicators were improved.

With the advent of the coronavirus, trade and economic activities are slowing sharply globally, and health costs and other costs associated with pandemic are rising sharply. Serbia has opted for borrowing to be able to finance rising costs caused by the sharp rise in health system costs and provide the necessary assistance to businesses to remedy the negative effects of the health crisis on the country's economic system. It is estimated that by the end of 2020, public debt has not exceeded the level of 60% of GDP, and that the decline in economic activity will be between -1% (Ministry of Finance) and -1.5% (IMF). Serbia will end the year with a fall in GDP, which is below that of the surrounding countries, thanks to a good starting position, a specific structure of the economy and extensive packages of economic measures supporting the economy.

Fiscal and monetary packages preventing the negative effects of the epidemic on the economy have been introduced in 36 European countries. Those are: 1) tax policy; 2) direct allocations of budget funds and 3) liquidity preservation. Most countries have combined all groups of measures, including Serbia, where economic support has been introduced through three packages. The first package included all three mentioned groups of assistance, while the second was a combination of the first two groups of measures, and the third included only direct benefits. The first and second packages were intended for all businesses that are not considered to be budget beneficiaries, while the third package was sector-oriented and was intended for hotels and travel agencies.

In Serbia, the total value of the introduced packages in 2020. is around 12.5% of GDP. For the most part, measures were aimed at helping citizens and economy. The first package is the "most expensive", given that it covered the largest part of the economy and included a large number of measures, while the second can be described as a supplement to the first. The most useful measures provided in the first package, according to businesses, was a direct support in the form of coverage of three minimum net salaries for all employees in micro, small and medium enterprises and entrepreneurs and deferral of social security contributions and payroll taxes until January 2021, after which they could be paid in 24 equal monthly installments. As regards the second package, the most useful measure was the payment of 60% of the minimum net salary made twice. These measures have made it easier for companies to do business, helped pay salaries to employees and relieved them of costs.

The usefulness of the introduced measures was also confirmed by most of the surveyed companies. Two-thirds of the economy finds that the measure of direct benefits in the form of payment of three minimum wages had a high contribution to the survival of their company. *Although part of the professional public points out that the first package of measures was introduced at the last minute and that a large number of especially small, companies fired most of their workers due to inability to pay salaries, the part of the economy that used the measures is still satisfied with the scope and timeliness of measures. On the other hand, the most of economy believes that taken measures to protect the spread of the virus such as deadlines in court and administrative proceedings, the level of margins of basic foodstuffs, work restrictions and other similar measures, could be organized differently in the way that they can facilitate business in changed conditions.*

It will take up to a year to return to the old level of doing business; according to 50% of the surveyed *companies while a quarter believe that it will take more than a year. The decrease in income due to the pandemic will not be felt only in 2020, as 80% of the respondents expect lower income in 2021. Three quarters hope to keep the same number of employees next year, and half expect problems with paying dues.*

INTRODUCTION

The purpose of this analysis is to show the effects of the coronavirus epidemic on the Serbian economy and evaluate the economic assistance packages that have been introduced in order to reduce the negative impact of the virus on the businesses and the country's economy. The analysis is based on a combination of macro-economic statistical data and forecasts with micro-economic data on business operations, which were obtained by surveying 253 companies.

After 2014, Serbia started to recover economically from the outbreak of the World Economic Crisis. Public debt was reduced, so was the budget deficit, public sector expenditures were put under control, and economic growth reached 4.5%, with average wage growth and unemployment declining. Projections for the future were good; in 2020 GDP growth of 4% was planned with a fiscal deficit of 0.5% of GDP. The beginning of the year was great, in economic terms, the results achieved in the first quarter were better than expected. However, in the second quarter, economic activity collapsed and all economic indicators recorded a sharp and drastic decline. Serbia, like other European and world countries, was not prepared for the upcoming epidemic.

Namely, at the end of 2019, an epidemic of the SARS-CoV-2 virus, better known as the Coronavirus, broke out in China. Due to the outbreak of the contagious disease, the Chinese authorities introduced measures to prevent its spread, while in other parts of the world, life was running smoothly. The World Health Organization declared the epidemic a global public health threat in January, but even that did not encourage Western countries to prepare for it socially and economically.

The first cases of COVID-19 virus were recorded in Serbia in March, and a state of emergency was declared shortly afterwards and lasted until May. During this period, various measures were introduced, such as lockdowns and restrictions on movement, bans on catering facilities, shops, and shopping centers. All this left a mark on businesses, which had to do business in conditions of great uncertainty, which remained present even after the relaxation of the measures introduced in order to protect the population from coronavirus infection.

In order to mitigate the negative impact of the pandemic on the country's economy, but also to prevent mass layoffs, the state has adopted three sets of measures, i.e. three packages of support to the economy. In the sections below, we give an overview of the effects of the introduced measures from the standpoint of businesses, but also by looking at publicly available statistical data on economic activity and the situation on the labor market.

The analysis is divided into five parts. The first two parts provide an overview of the status of basic macroeconomic indicators in Serbia before and after the coronavirus pandemic. The third part talks about the economic policy measures that have been introduced in order to support the economy, with a comparative analysis of the measures introduced by the countries of the European Union. The fourth part presents the micro aspect of the impact of the COVID-19 virus on the businesses, the attitudes of businesses about the measures and expectations for the future. The fifth part provides an overview of the identified problems both on the basis of the analysis of statistical data and on the basis of consultations with businesses.

I CONTEXT - SITUATION BEFORE THE PANDEMIC (2015 - 2019)

The period from 2015 to 2019 was characterized by improved economic performance, which was reflected in the reduction of public debt and fiscal deficit and encouraged economic growth. At the end of 2014, Serbia was going through a period of fiscal consolidation that lasted until the end of 2017, and its primary goal was to reduce the share of public debt in gross domestic product and reduce the fiscal deficit, which at that time amounted to 67.5% and -6 , 2% of GDP, respectively. The following year, the deficit started to go down, and in 2017 a surplus was created. The share of public debt in GDP began to decrease in 2017, and at the end of 2019, this indicator dropped to 52.9%. Fiscal consolidation measures have stimulated economic growth, and the trend of negative GDP growth was reversed in 2015. From 2015 to 2019, cumulative GDP growth was around 18%. The highest annual GDP growth was in 2018, when this indicator was 4.5%.[1] The biggest contribution to GDP growth came from the processing industry, the share of which in gross value added is about 30%, followed by wholesale and retail trade, transport and construction.[2]

While the recovery of the economy was also visible in the labor market, which was reflected in the reduction of the unemployment rate, the available opportunity was not used to improve the position of specific groups. The unemployment rate of working age people (15-64 years) dropped from 18.2% in 2015 to 10.9% in 2019. There was still a noticeable difference by gender, where the unemployment rate was higher for women than men (11.5% vs. 10.4%). Also, the inactivity rate of women was higher (38% vs. 25%), based on which it can be concluded that women were less present in the labor market. There was a noticeable downward trend of the share of inactive women, but there was still room for additional engagement and encouragement of women to participate more actively in the labor market.

Average wages grew steadily, faster in the public than in the private sector, widening the gap between the public and private sectors. The improvement in the labor market affected the average salary, which has had an upward trajectory since 2016. The real growth of net salary was the highest in 2019, when it amounted to 8.5%, when the average net salary in the country reached the level of almost 55,000 dinars. The growth of net earnings was largely due to the growth of wages in the public sector, where the average annual growth in the period from 2015 to 2019 was 6%, while in the private sector in the same period the average annual growth was 4%. At the end of 2019, salaries in the public sector were higher by 18% than salaries outside the public sector, so in the future one should be careful when it comes to increasing salaries in the public sector, so as not to oust the private sector from the labor market. Although they contribute the most to gross value added, the processing industry and wholesale and retail trade do not offer the highest salaries, the highest salaries are paid to employees by industries such as finance and insurance and information and communication.[3]

Table 1

Activity	Average net earnings in 2019
Agriculture, forestry and fisheries	47,398
Processing industry	49,476
Construction	49,772
Wholesale and retail trade and repair of motor vehicles and motorcycles	46,177
Traffic and storage	50,359
Accommodation and catering services	34,372
Information and communication	97,328
Financial and insurance activities	97,032
Arts, entertainment and recreation	45,900

**Source: Statistical Office of the RS*

[1] Table-1-Basic-macroeconomic-indicators-2020; Ministry of Finance
[2] Database on 2019 salaries, the Statistical Office of the RS
[3] Database on 2019 salaries – the Statistical Office of the RS

Serbia traditionally imports more than it exports, and there is a foreign trade deficit that varies from 10% to 14% of GDP. The most important foreign trade partners of Serbia are the EU member states, which account for about 65% of the total export of goods from Serbia. Serbia exports mostly to Germany and Italy, while outside the EU it exports mostly to Bosnia and Herzegovina (8%), Russia (5%), Montenegro and North Macedonia (4% each). When it comes to the import of goods, the largest share in imports is taken by EU countries, which make up slightly more than 65% of total imports. Important foreign trade partners of Serbia are the CEFTA member countries. In the last five years, Serbia has achieved a foreign trade surplus with neighboring countries: Bosnia and Herzegovina, Montenegro, North Macedonia and Albania, but also with Slovakia, Sweden and Great Britain. The largest foreign trade deficit in the observed period was generated in trade with China and Russia.

About the Covid-19 pandemic

COVID-19 appeared in China at the end of 2019, and at the end of January 2020, the WHO declared a global public health threat. In late 2019, Chinese authorities released worrying information about an outbreak of a virus whose symptoms are respiratory distress and pneumonia in the city of Wuhan, Hubei Province. In early January 2020, China began investigating the causes of the infection, informing the World Health Organization that the virus is not transmitted from person to person. Chinese authorities closed Wuhan, after the National Health Commission determined the opposite on January 20. At the end of January, the WHO declared this epidemic a public health threat of international importance (PHEIC). The newly discovered virus was named COVID-19. Although there were numerous speculations and claims about where and how it actually originated, the position on the animal origin of the virus was accepted.

The unpreparedness and late reaction of Western countries have resulted in a faster spread of the virus and a larger number of infected residents than was the case in China. Strict measures introduced by China (complete closure of several cities in Hubei province) stopped the spread of the virus within the country, but the pandemic flared up around the world at high speed. The season of holidays, celebrations and winter travels, which involve a large circulation of tourists with ignorance and untimely reaction of countries around the world, led to the virus spreading around the world faster than in China. When the United States made a decision on January 31 to ban the entry of all persons who had spent the previous 14 days in China, almost 9,800 people were infected worldwide. A Chinese tourist who died on February 14 as a result of a new virus in France was the first victim of a new and unexplored disease in Europe. EU member states made a decision on March 17 to ban the entry of foreign citizens and introduced measures such as quarantine, a ban on gatherings, and mandatory physical distance. The most severely affected EU countries are France, Italy and Spain, while the United States, India and Brazil are the hardest hit globally.[4]

Table 2

Country	Number of infected by December 7, 2020 (*millions of inhabitants*)
SAD	14.76
India	9.67
Brazil	6.6
France	2.43
Italy	1.73
Spain	1.68

**Source:* https://www.statista.com/chart/21467/coutries-most-covid-19-cases/

In mid-March, Serbia began introducing measures aimed at slowing down the spread of coronavirus, and the intensity varied from a ban on movement for certain groups of residents to the introduction of lockdown, the relaxation thereof, however, began at the end of April. Serbia recorded the first case of coronavirus on March 6, after which it began taking measures such as suspending flights to Italy (March 9), canceling all school trips abroad and banning persons from endangered areas from entering the country. As early as March 15, a state of emergency was declared in the country and more drastic measures were

[4] https://www.statista.com/chart/21467/coutries-most-covid-19-cases/

introduced: schools, universities and kindergartens were closed and online classes were introduced, borders were closed, and several days later after that cafes and restaurants, shopping malls and city centers and transportation stopped working. The President of Serbia passed the Decision on the use of the army for civilian purposes, primarily for securing public facilities and hospitals. A ban on the movement of persons over the age of 65 was introduced, as well as a ban on the export of medicines for 30 days. As of March 20, land and air traffic has been suspended, except in the case of transportation of goods, medical equipment, mail, humanitarian aid and rescue. Additionally, the Government made a Decision on the introduction of lockdown that would last overnight or over the weekend. The length of lockdown varied during the emergency, and the longest lasted 84 hours (April 17-21). The relaxation of measures began at the end of April, with the gradual release of passenger traffic, the opening of shopping centers and catering facilities, and the state of emergency ended on May 6. The only measures that remained in force are closed schools and higher education institutions. To date, Serbia has had 9,791 cases of coronavirus, of which 203 fatal.

II MAKRO ASPEKT PANDEMIJE COVID-19

Estimatednegative growth (fall) of the gross domestic product in 2020 waslower than in the surrounding countries due to solid performance at the beginning of the year, the structure of the more resistant economy and the undertaken economic measures. Due to the epidemic caused by the coronavirus, it is estimated that GDP growth in 2020 will be negative. According to the latest estimates of the Ministry of Finance, the real decline in GDP at the end of 2020 will be -1%, while the latest estimate of the International Monetary Fund is -1.5%, and in the opinion of the World Bank the decline will be -2.5%[5,6,7]. The cessation of economic activities due to the general "lockdown" - in the second quarter of 2020 resulted in a decline in quarterly GDP by 6.3%. The smaller estimated decline in GDP in Serbia compared to the region is a result of good performance in the first quarter of 2020, when real GDP growth reached 5.2%. Another factor that contributes to a smaller decline is the structure of the economy, which is characterized by a modest share of the service sector where contact with customers is key, such as services, arts, entertainment and recreation (about 2.22% share in GVA[8]), which recorded the largest decline (32% mg[9]). Also, extensive packages of assistance to businesses provided by the government, ensured the survival of economic activity at a certain level and thus contributed to alleviating the contraction.

A budget deficit of almost 9% of GDP is planned, while keeping public debt below 60% of GDP. The downward trend of the share of public debt in GDP continued in the first quarter of 2020. However, with the introduction of the state of emergency and the sudden increase in health care costs (grants from the budget to the Republic Health Insurance Fund have increased by 100 billion dinars, or 440% compared to the 2020 plan), this trend is reversed according to the latest available data from the Ministry of Finance, at the end of the third quarter, public debt was 57% of GDP. The deficit increased compared to the April plan, due to additional assistance packages for businesses, growth in public investment and subsidies for Air Serbia.[10]

The growth of salaries in health care affected the growth of the average salary, while the introduced measures of economic assistance made it impossible to lay off workers, which delayed the reaction of the labor market for 2021. In the labor market in the first and second quarter of 2020, the unemployment rate of persons aged over 15 decreased, reaching the level of 9.7% and 7.3%, respectively. However, employment and activity rates also decreased slightly, while the inactivity rate increased in the second quarter of 2020, which increased by 4.2% compared to the first quarter. The negligible contraction in the labor market is a consequence of the introduced economic assistance measures, which included penalties for companies that reduce the number of employees by more than 10% by the end of the year. Therefore, the effects of the epidemic on the labor market will be noticeable even though somewhat delayed, i.e. in 2021. In the period from January to August 2020, salaries increased by 6.2% in real terms, which was mostly caused by the increase in salaries in health care by 10%.[11,12,13]

---

[5] Table 1 – Basic – Macroeconomic – Indicators - 2020
[6] https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Republic-of-Serbia-Fifth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49994
[7] https://data.worldbank.org/country/serbia
[8] http://publikacije.stat.gov.rs/G2020/pdf/G20201245.pdf
[9] http://publikacije.stat.gov.rs/G2020/pdf/G20201245.pdf
[10] https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Republic-of-Serbia-Fifth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49994
[11] Table-5-Public Debt of the Republic of Serbia

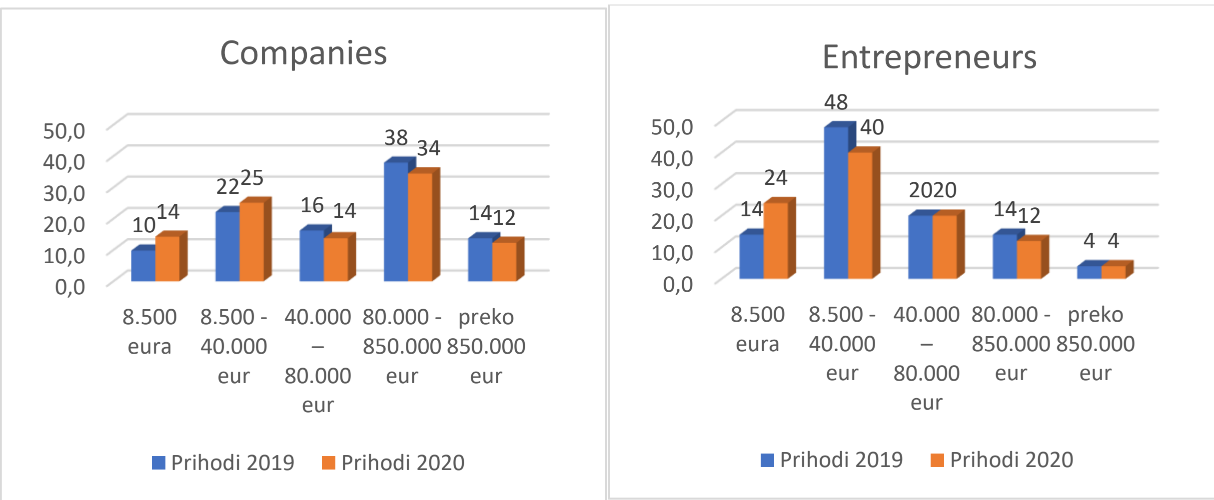
Foreign trade decreased in the first two quarters of 2020. The total value of exports was lower by almost 9% compared to the same period last year. The largest decline in exports in the period January - June 2020 was recorded by the processing industry, which accounts for by far the largest share of exports (90%). However, there was no decline in all industries, exports increased in agriculture, forestry and fishing by 10%. Total imports decreased by almost 7% in the first two quarters compared to the same period in 2019. The decline was largest in mining (18%) and processing industry (6%). Serbia's most important foreign trade partners did not change in the first half of the year, therefore goods were mostly exported to Germany, Italy, BiH and Romania, and imported from Germany, China, Russia and Italy.[14]

IV MICRO ASPECT OF THE COVID-19 PANDEMIC

Spillover to businesses

The epidemic has negatively affected the income level of most businesses, and the tourism and hospitality sector has suffered a drastic decline in revenue. The share of companies that generated revenues of up to 8,500 euros increased in 2020 compared to the previous year. Almost a quarter of entrepreneurs will earn less than 8,500 euros, compared to the previous year when only 14% had incomes below this level. The share of companies that generate revenues above 850,000 euros has not changed significantly between the observed years - which may indicate that the crisis has affected entrepreneurs, micro, small and medium enterprises more than large ones. Over 55% of companies operating in tourism and catering industry in 2020 stated that they generate revenues of less than 80,000 euros, while in the previous year a third of companies were able to generate these revenues, which shows the impact of the pandemic on this sector. There were no similar drastic year-on-year changes in income in other activities.

Illustration 3

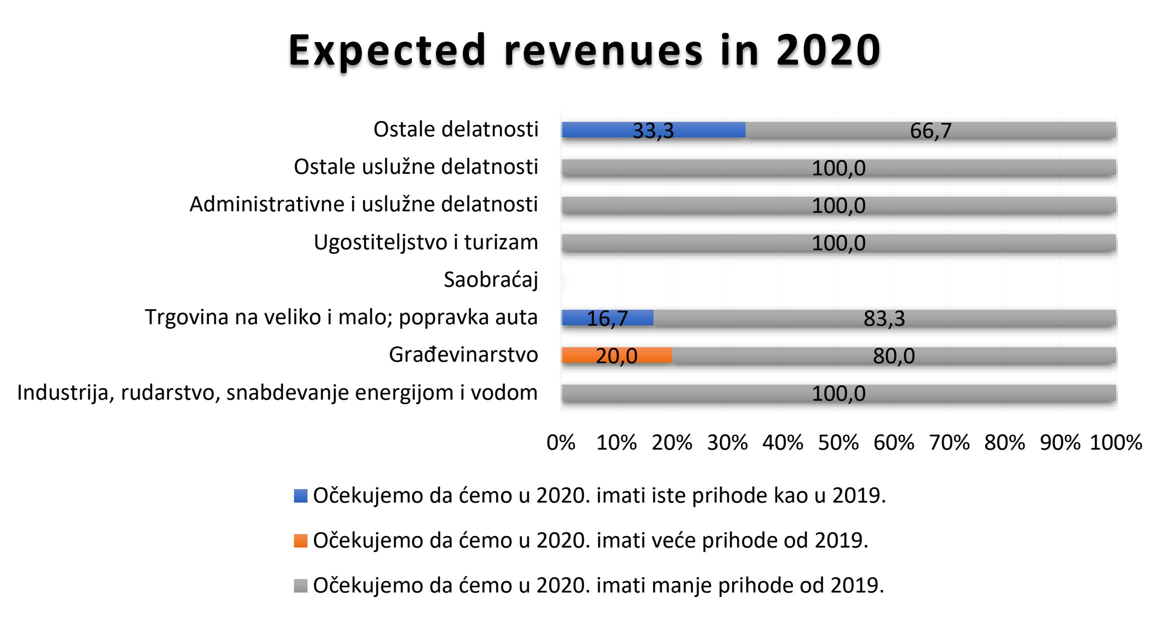


**Source:* COVID-19 Business Impact Survey

The majority of surveyed companies (88%) expect to have lower sales in 2020 than in the previous year, while every tenth company expects revenues at the same level. A negligible 2% of companies expect revenue growth and these are predominantly companies operating in the construction sector. All surveyed companies operating in the tourism and catering sector, administrative and service sectors expect a drop in revenue in 2020. Companies are more optimistic than entrepreneurs, because no entrepreneur expects revenue growth, while a quarter expects stagnation, while companies expect 2% growth and 7% stagnation. All surveyed large and medium-sized companies expect a drop in revenues, while a fifth of small companies expect the same revenues as in 2019. Micro-enterprises are more pessimistic, 88% expect a decline, and 9.5% stagnation, while the remaining number of them is optimistic.

[12] Database, Statistical Office of the RS, https://data.stat.gov.rs/Home/Result/2400020107?languageCode=sr-Cyrl
[13] https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Republic-of-Serbia-Fifth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49994
[14] https://publikacije.stat.gov.rs/G2020/Pdf/G20208004.pdf

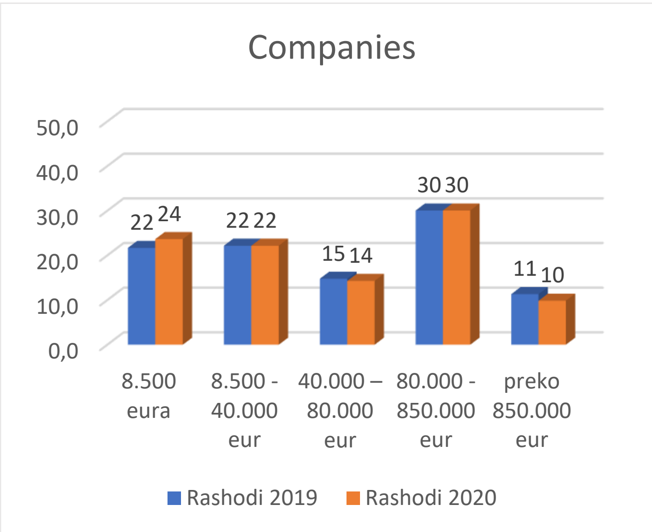
Illustration 4

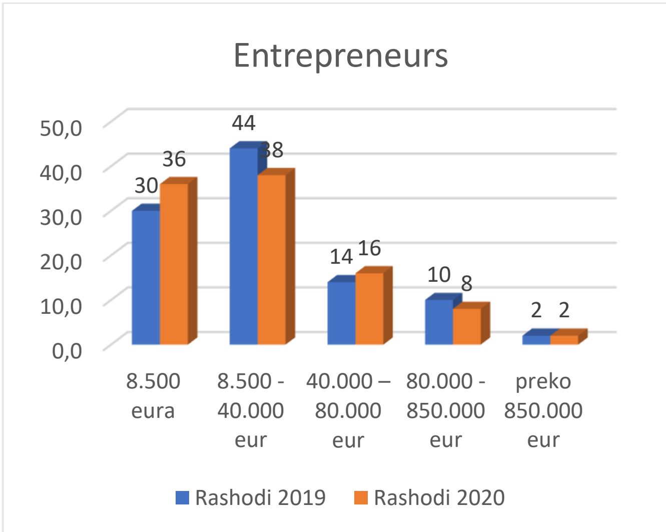


* Source: COVID-19 Business Impact Survey

The amount of expenses did not change, even though at some point, business was at a standstill for many companies. The amount of expenses depends on the size of the company and the income that companies generate. One part of large companies managed to reduce expenses by November compared to the previous year, so that the share of large companies with expenses below 8,500 euros increased, while the share of companies with expenses in the range of 8,500 - 40,000 euros decreased. In terms of activities, there was no significant change in expenditures, except in tourism and catering, where 44% of companies have generated expenditures of up to 40,000 euros compared to last year when the number of companies in this expenditure category was half that of this year.

Illustration 5

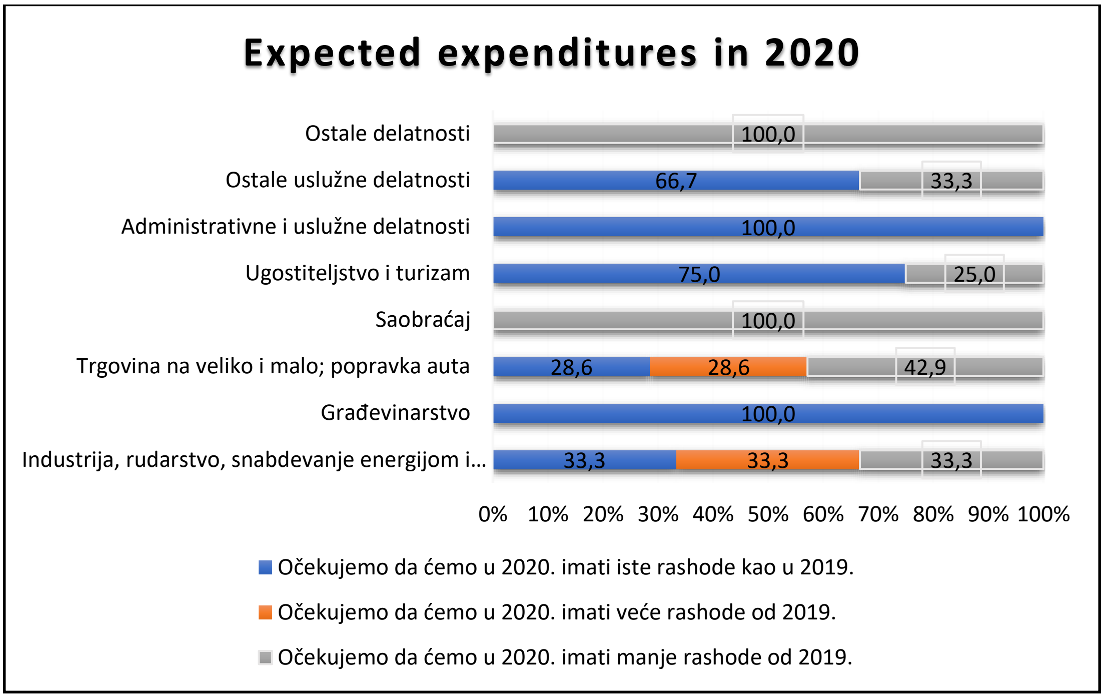




* Source: COVID-19 Business Impact Survey

Almost 50% of companies expect to keep expenditures in 2020 at the same level as the previous year, while 40% expect lower expenditures, and the rest hope for their stagnation. There is no difference between entrepreneurs and companies when it comes to keeping expenditures at the same level, about half have such expectations. The rest of the entrepreneurs are evenly divided in anticipation of rising and falling expenditures. As regards companies, every tenth company expects growth, and 40% decline. Companies operating in the transport sector unanimously expect a drop in expenditures, while in tourism only a quarter hope for a drop, and the rest for stagnation. Higher expenditures are expected in wholesale and retail trade and in industry.

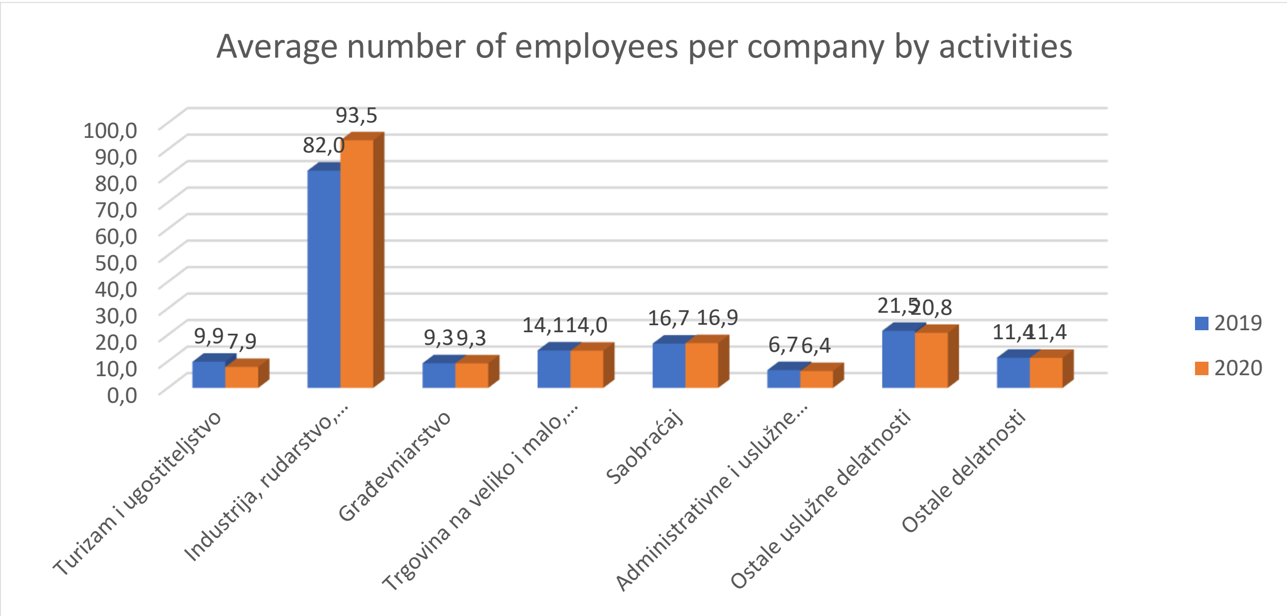
Illustration 6



* Source: COVID-19 Business Impact Survey

The average number of employees per company increased in 2020, with this indicator falling in the activities affected by the crisis. On average, there were 19 employees in the companies in 2019, and one more in 2020. The average number of employees in tourism and catering in 2019 was almost 10, while in 2020 this indicator dropped by two employees (or 20%). Apart from tourism and catering, the average number of employees decreased in administrative services and service sector by 0.36 and 0.77 employees, respectively. The number of employees increased in industry, mining, energy and water supply by 11.5 persons, i.e. the average number of employees in 2020 increased by 12% compared to the previous year.

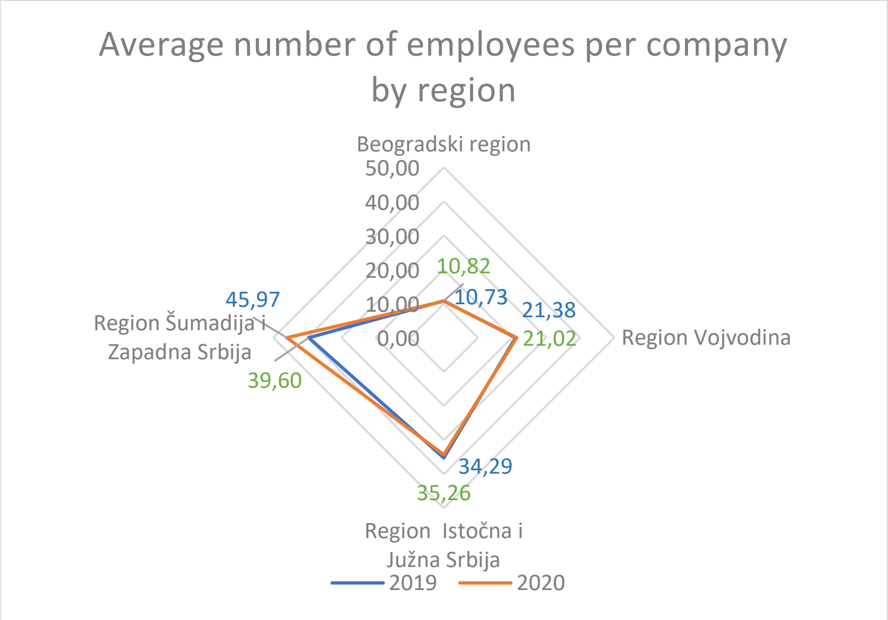
Illustration 7



* Source: COVID-19 Business Impact Survey

Observed by regions, the average number of employees remained approximately the same in 2020 compared to 2019 in the Belgrade region, while in the Region of Eastern and Southern Serbia the average number of employees decreased by one person in 2020. On the other hand, in the Region of Vojvodina it increased by 0.4 persons, and in the Region of Šumadija and Western Serbia by 6.4 employees.

Illustration 8



* Source: COVID-19 Business Impact Survey

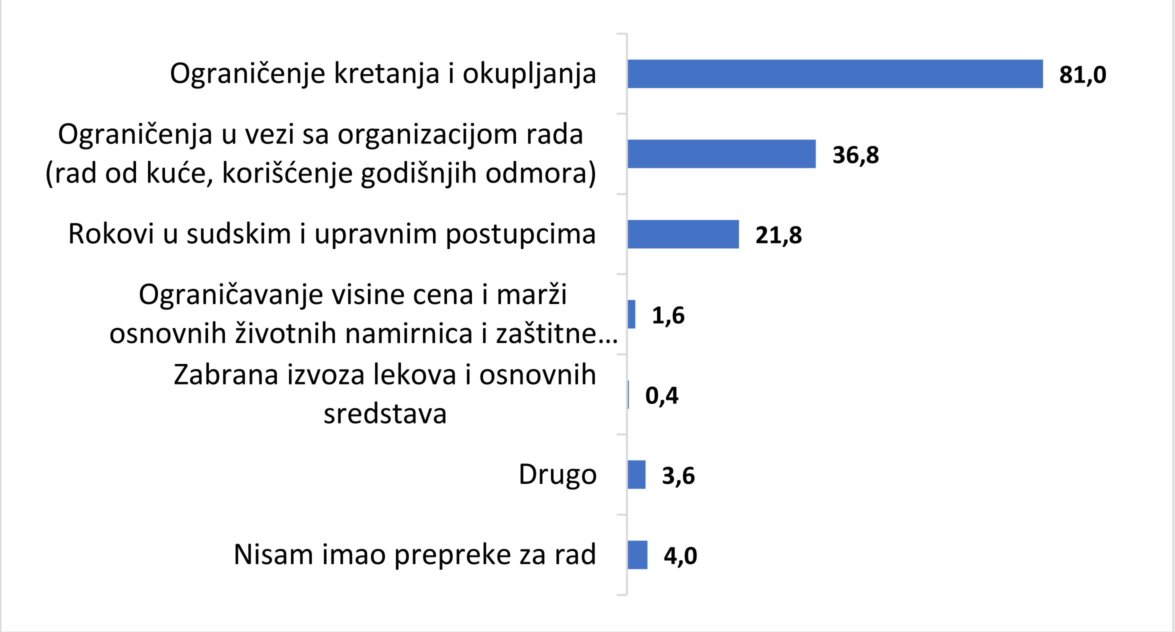
Only 13% of companies borrowed from commercial banks after the crisis. Companies operating in the transport sector (30%) and wholesale and retail trade (18%) mainly borrowed. 60% of companies recorded the same level of indebtedness in 2020 as in the previous year, for 8% it dropped and for a third it increased.

The biggest obstacles in doing business from the standpoint of businesses

The biggest challenge for doing business was the ban on movement and restrictions such as working from home and using vacations. According to research[15] conducted by NALED in March 2020, 95% of surveyed representatives of the private, public and civil sector (154 total respondents) expected that the introduction of a state of emergency would leave a negative impact on business in the form of problems with debt collection and liquidity, falling demand, payroll, paying dues to the government and the organization of work. A similar percentage of the respondents in December confirmed that they had certain obstacles in doing business during the observed period (96% of the surveyed 253 companies)[16]. Prohibition of movement, work from home and the use of annual leave were the biggest obstacles to doing business, regardless of the type of company, activity and region in which the company is located. Problems in March in terms of falling demand and problems with liquidity may be related to restricted movement. Payment of salaries and paying dues to the government have not been listed as problems in doing business, given that the government has managed to help companies overcome these challenges with its assistance programs.

[15] https://naled.rs/htdocs/Files/04948/COVID-19_Uticaj_na_privredu_i_lokalne_zajednice.pdf
[16] It was possible to choose two answers from the seven offered in the questionnaire.

Illustration 9

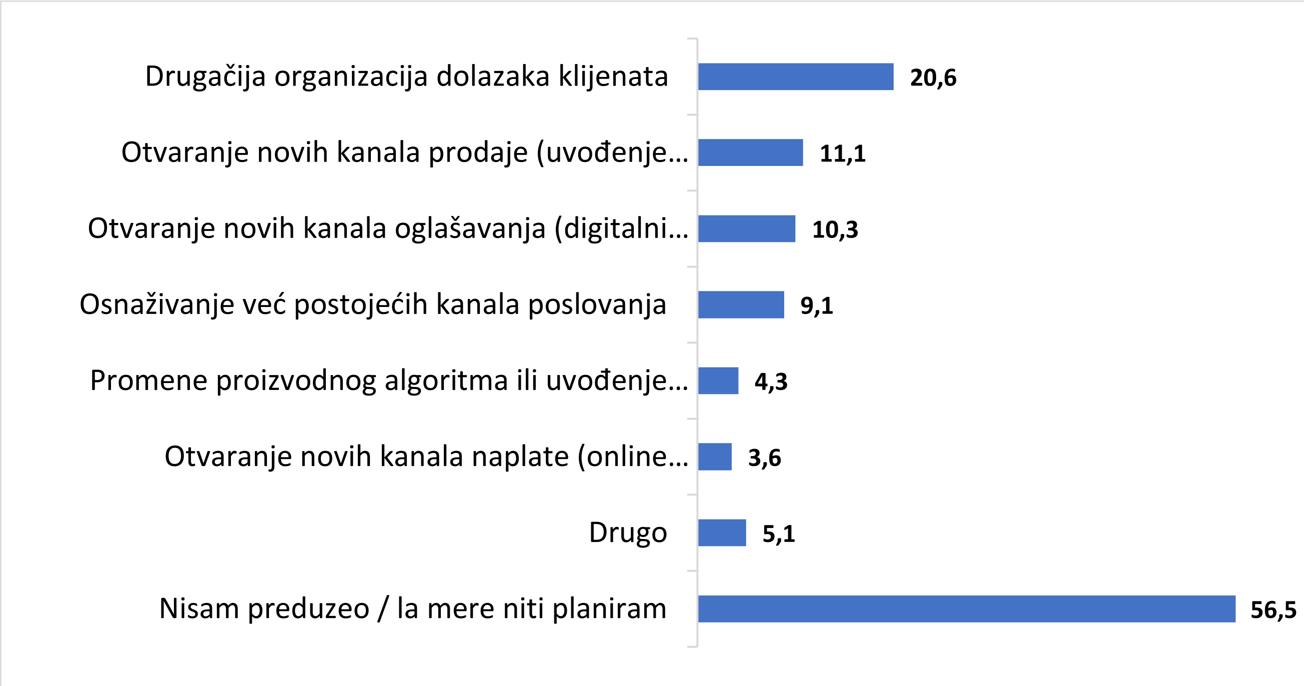


* Source: COVID-19 Business Impact Survey

The position of business owners is that the measures of protection against the spread of the virus related to administrative procedures and restricted movement could have been different, as well as that measures should have been introduced to facilitate business in the changed conditions. Measures such as deadlines in court and administrative proceedings and limited level of prices and margins of basic foodstuffs, restricted gathering and movement and the organization of work could have been defined differently. However, 78% of the respondents did not know how could have these measures been defined differently. Those who had a proposal mostly focused on the organization of public transport, redefined payment of dues both to the government (VAT) and to other claimants (payment of rent and bills).

With respect to the organizational changes that were introduced, the change in the organization of walk-ins (for 34.5% of surveyed companies) and the opening of new sales channels - such as the introduction of e-commerce (for 20.9% of surveyed companies) were rated as the most useful. Regardless of the fact that the coronavirus has changed the business environment, primarily through a significant increase in uncertainty about the future, both in the short and medium term, then through the introduction of government measures such as declaring a state of emergency, ban on gatherings, working hours, weekend work, most companies have neither undertaken nor plan to undertake any organizational changes in response to the crisis. However, large companies, which are a minority in this research, were more prone to organizational changes in response to the crisis. Companies that have opted for organizational changes have resorted to changes in the organization of walk-ins or have opened new sales and advertising channels. These changes ensured the preservation of the health of employees and customers, and online sales proved to be the only way to provide certain services. Strengthening the existing sales channels was the most important for the construction and transport activities, while the introduction of new sales channels was the most important for trade (wholesale and retail) and caterers.

Illustration 10



* Source: COVID-19 Business Impact Survey

Expectations for next year

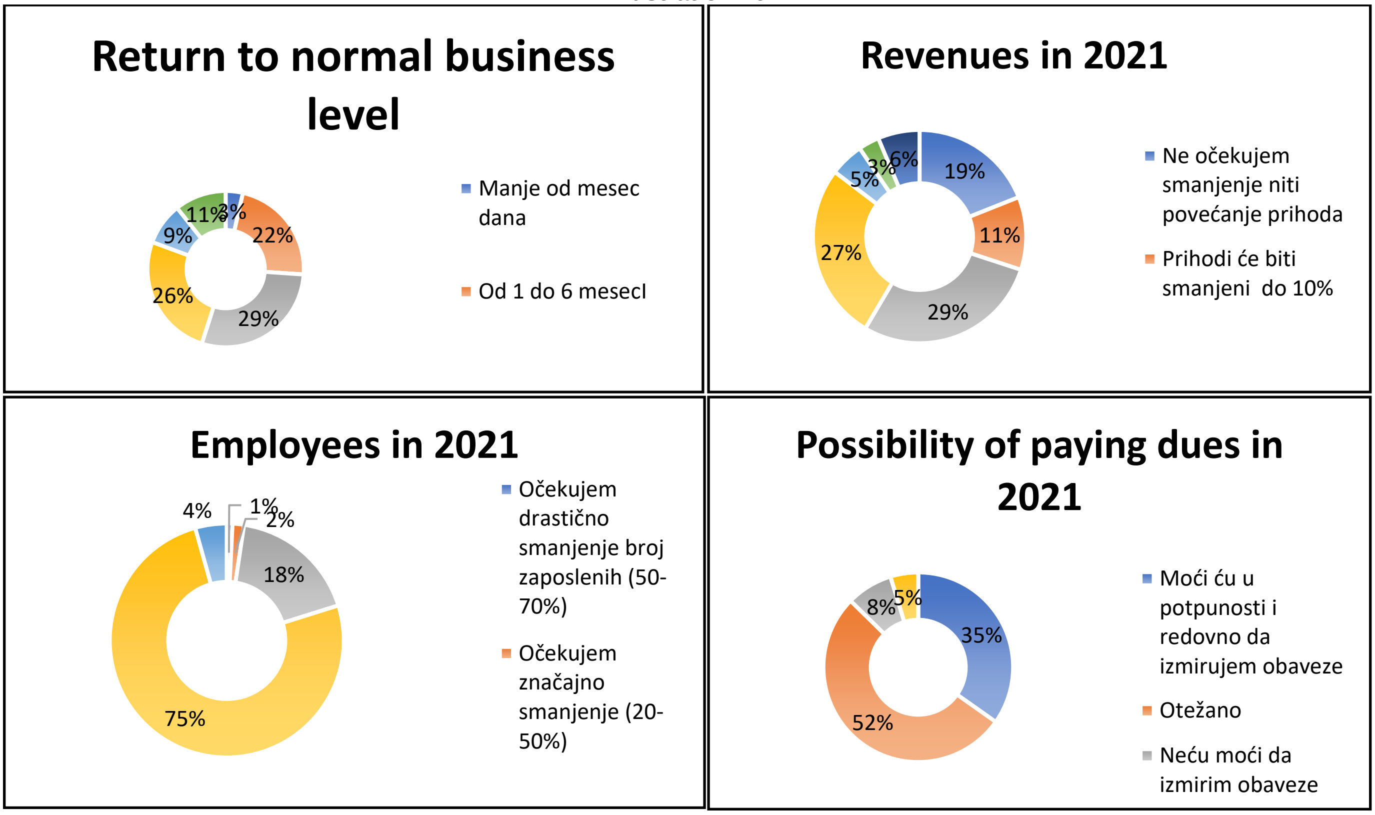
The dominant expectation is that it will take up to a year to return to the pre-crisis level of business. The epidemic of the COVID-19 virus brought with it great uncertainty about the future, which made it difficult to organize current and plan future business. Opinions and expectations of businessmen about the duration of the crisis itself and the time needed for business to return to pre-crisis levels are different. Half of the respondents expect that it will take up to a year, while a quarter are convinced that it will take more than a year to return to the old ways. One part perceives that it will never return to the old, usual level of business. Entrepreneurs, more than others, expect that it will take them more than a year to recover, as many as 40% of them expressed this view. On the other hand, about 55% of construction companies believe that they will need up to 6 months to recover.

Over 80% of companies expect that the epidemic will have consequences on the level of revenues in 2021, in the sense that revenues will be reduced. Two-thirds of companies expect revenue cuts of up to 50%. In traffic, 80% of companies expect a decrease in revenue next year, and as many as 40% perceive revenue less by 20 to 50%. Similarly, two-thirds of tourism businesses expect revenue reductions of more than 50%. With the exception of tourism, where there is no optimism about the near future, in all other industries there is a smaller number of companies (average 6%) expecting revenue growth in the coming year.

Companies expect to maintain employment levels, except in tourism and service industries where a significant decline in employment is expected. Three-quarters of companies expect to keep the number of employees at the same level as before the crisis. A drastic reduction in the number of employees (over 50%) is expected by a small number of companies, exclusively those operating in service industries. 55% of tourism companies expect a reduction in the number of employees to 50%, while the rest expect to keep the number of employees at the same level.

Paying dues in the next year can be challenging for most, and extremely difficult for half of the companies in the tourism and catering industry. Half of the surveyed companies believe that it will be difficult for them to pay their dues, which is understandable since part of the dues concerning contributions and payroll taxes has been extended for the next year, as well as the advance payment for profit tax for the second quarter. However, one third of the companies expect to be able to settle their dues without any problems. The biggest challenges in terms of settling liabilities will be for companies operating in the field of tourism and catering, where 55% of companies believe that in 2021 they will not be able to settle their liabilities.

Illustration 16



* Source: COVID-19 Business Impact Survey

III MEASURES INTRODUCED TO MITIGATE THE NEGATIVE EFFECTS OF THE PANDEMIC

Measures introduced in Europe - a comparative analysis

In order to provide assistance to the crisis-affected economy, European countries most often used a combination of fiscal incentives, direct incentives to the private sector and liquidity conservation measures. According to previously conducted analyzes[17], it was determined that 36 European countries have opted for fiscal incentives, which include some kind of deferral of taxes and social contributions. Another important measure introduced by the same number of countries minus one is the direct assistance to businesses, while the same number minus dozen countries decided to introduce measures that would enable the maintenance of liquidity. No country has resorted to only one measure, they all opted for a combination of two or three of these measures, with the leading countries have combined all three of these support measures.

Tax policy usually involved introduction of a combination of the following measures: 1) reduction of contributions, 2) extended deadlines for payment of contributions, 3) extended deadline for payment of corporate profit tax and personal income tax, 4) extended deadlines for filing taxes, 5) reduction of advance payments based on profit tax and 6) extended time limit for registration and payment of VAT. The possibility of delaying the registration and payment of VAT was introduced by Croatia, Austria, the Czech Republic, Poland, Greece, Cyprus, Turkey, Germany, Denmark, Norway, Sweden, Great Britain, Latvia and Malta[18].

[17] https://naled.rs/htdocs/Files/05055/COVID-19-Odgovor_Evrope-Uporedna_analiza.pdf
[18] https://naled.rs/htdocs/Files/05055/COVID-19-Odgovor_Evrope-Uporedna_analiza.pdf

Hungary, Portugal, Bosnia and Herzegovina, Finland and Italy opted for the measure of tax and contribution reduction.

The second group of measures included fiscal benefits which were implemented in several forms: 1) compensation of wages for employees who work part-time, 2) payment of minimum wages, 3) assistance to workers who have lost their jobs or 4) subsidies for companies. The latter measure, in its full form, was most often provided to micro, small and medium-sized enterprises and entrepreneurs, who represent the core of the European economy. In the EU alone, SMEs and entrepreneurs make up 99%[19] of all businesses, employing about 100 million workers, make up more than half of European GDP, and their innovative solutions contribute to the improvement of the European economy while taking into account the environment and social inclusion, i.e. contribute to the attainment of key European goals. Therefore, it becomes clear why in order to preserve employment and the economy, one of the most important items was assistance to SMEs. A total of 17 countries have opted to provide various forms of subsidies to SMEs. For example, Germany and the United Kingdom provided direct assistance, while Austria and Germany decided to pay compensation for working hours that employees did not spend at work due to lack of work. When it comes to measures of payment of minimum wages, countries opted for various forms of these measures, somewhere net wages were paid, somewhere gross wages, in some countries the most vulnerable sectors were targeted, where aid was paid, in some all businesses received aid.

Measures intended for companies to preserve liquidity were measures designed to facilitate borrowing and provide guarantees to commercial banks by the state for approved loans to businesses. The amount of funds intended for these purposes varies by country. According to available data, Italy provided the largest amounts of funds (around 19% of GDP), while the Netherlands and Albania are among the most restrictive with 0.2% and 0.7% of GDP, respectively**.**

Measures introduced in Serbia

The Government of Serbia has decided to introduce three packages to support businesses in the fight against the crisis caused by the COVID-19 virus, with a total value of 675.9 billion dinars. The first package, as in most European countries, was a combination of all three groups of measures: tax policy, direct payments and measures to maintain the liquidity of companies. This package was worth the most (608.3 billion dinars). The second package was, again, a combination of measures, but this time two measures were combined. It included tax policy and direct payments. This package was significantly smaller than the first one (66 billion dinars). The third package was the sector-oriented package, more precisely, it focused only on companies that operate in the field of tourism, i.e. hotels and travel agencies. This package was the smallest in size (1.6 billion dinars).

Measure	Brief description of the measure	Coverage	Duration
First package			
Deferred payment of contributions and payroll taxes	Extended time limit for the payment of contributions and taxes on three months' worth of wages, with the subsequent obligation to repay the provided sum in installments starting from 2021	All businesses that are not listed as budget beneficiaries	Three months (March - May or April - June)
Postponement of advance tax payment	Postponement of payment of advance income tax in the second quarter of 2020	All businesses that are not listed as budget beneficiaries	Second Quarter
Exemption from VAT	Donations intended for the Ministry of Health, RHIF or public health institution are exempt from VAT	All donors of goods and services intended for the Ministry of Health, the RHIF or a health institution	During the state of emergency

[19] https://ec.europa.eu/growth/smes_en

Payment of minimum net wage	Payment of 3 minimum net wages for all employees of entrepreneurs, in small, micro and medium enterprises	All businesses that are not listed as budget beneficiaries	Three months (March - May or April - June)
Payment of 50% of the minimum net wage	Three payments equal to half the minimum net wage for all employees in large companies who had to stop working	All businesses that are not listed as budget beneficiaries, and according to 2018 fin. statements are classified into large companies	Three months (March - May or April - June)
Financial support to businesses	Approval and disbursement of loans for maintaining liquidity and working capital under more favorable conditions with the Development Fund	All businesses that are not listed as budget beneficiaries	Up to 36 months
Guarantee scheme to support businesses	The government provides guarantees to commercial banks for loans granted to businesses to preserve liquidity and working capital	All businesses that are not listed as budget beneficiaries	Up to 36 months
Restriction of prices and margins and ban on exports of basic products	Limitation of prices and margins of basic foodstuffs, protective equipment and means, ban on export of seeds, oil, yeast, soap, detergents, Asepsol, alcohol, ...	Wholesale and retail trade, all participants in the supply chain of basic foodstuffs and protective equipment	30 days
Extended deadlines for submission of reports	Extended deadlines for holding a regular session of the company's assembly, submission of financial reports, submission of income tax and income tax applications, validity of licenses	All legal entities	Up to 120 days after the end of the state of emergency
Moratorium on loan repayment and financial leasing	Moratorium on loan repayment and financial leasing without calculation of default interest on overdue and unsettled receivables	All legal and natural persons	During a state of emergency
Issuance of securities	Simplified issuance of debt securities on the territory of RS	All companies that make a decision on the issuance of debt securities	During the state of emergency and 180 days after the termination
Second package			
Payment of minimum net wage	Two payments of 60% of the minimum net wage for employees of entrepreneurs, in micro, small and medium enterprises	All businesses that are not listed as budget beneficiaries	August and September
Payment of 50% of the minimum net wage	Two payments equal to half the minimum net wage for employees who had a break of 15 days in two months	All businesses that are not listed as budget beneficiaries, and according to 2018 fin. statements are classified into large companies	

Deferred payment of contributions and payroll taxes	Deferred payment of contributions and taxes on one month wages	All businesses that are not listed as budget beneficiaries	August 2020
Third package			
Subsidies for travel agencies	Subsidies for licensed travel agencies as support to their operations	All travel agencies that have a license and are not in bankruptcy proceedings	Grants
Subsidies for hotels	Subsidies to support the hotel industry	A hotel that has been assigned a category and is located on the territory of one of the 68 local self-government units	Grants

** Source: Government Regulations, Ministry of Finance and Ministry of Trade, Tourism and Telecommunications*

First package

The first economic assistance package included several sets of measures that can be grouped into tax policy, direct assistance to the private sector, measures to preserve liquidity and other measures such as the introduction of a moratorium on loans and financial leasing and facilitated issuance of debt securities.

Tax policy and direct budget allocations were the most popular measures and were pertinent to all businesses that are not on the list of budget beneficiaries published by the Treasury Administration of the Ministry of Finance. Thus, limited liability companies, entrepreneurs (those subject to presumptive taxation and farmers), citizens' associations and branches and presidencies of foreign legal entities are included.

Deferred obligation to pay contributions and payroll taxes referred to three months, starting from March, or April dues, at the choice of the company, or entrepreneur. All entrepreneurs who opted for the payment of personal earnings were given the opportunity to defer the payment of income tax advance for three months, i.e. those entrepreneurs who did not opt for this option, had the opportunity to defer the payment of tax advance and contribution from self-employment for three months. Also, legal entities are given the option of postponing the payment of the advance income tax for three months. Payment of due obligations of economic entities on the basis of taxes and social security contributions could be postponed so that their payment begins in January 2021 and that the payment is made in 24 equal monthly installments.

Another tax policy was included in the first package, and it referred to **exemption from VAT on sales of goods and services performed by a VAT payer to the Ministry of Health, the Republic Health Insurance Fund or a health institution** which belongs to the public health system. This measure was in force during the state of emergency.

Direct budget allocations included the payment of three minimum monthly net wages for all employees of companies. All companies classified into the group of micro, small and medium enterprises, as well as entrepreneurs, were entitled to the payment of three minimum net wages, while companies classified into the group of large companies received 50% of the net minimum wage per employee temporarily removed from work. For full-time employees, the full amount of the minimum wage was provided, while for part-time employees, the compensated amount was in proportion to the percentage of their engagement in the business entity, i.e. with the entrepreneur. All companies could decide whether they would receive the aid in the maximum amount for three months or in a smaller amount, in two months or a month.

The rights to use these measures brought with them restrictions regarding the number of employees and the payment of dividends, for non-compliance with which penalties were prescribed. All businesses that have not reduced the number of employees by more than 10% of the total number of employees since the day of declaring the state of emergency had the right to use the measure. The reduction in the number of employees does not include employees who were hired for a definite period of time or on the basis of some other form of employment, such as employees on the basis of contracts for temporary and occasional work or copyright contracts.[20] In addition, companies that opted for the use of support and benefits were not allowed to pay dividends until the end of 2020. In case of noncompliance, they would lose the right to assistance. The penalties prescribed in both cases include the return of direct payments and the payment of deferred liabilities increased by the interest at which the payment of late liabilities on this basis is calculated.

As part of measures to preserve liquidity, the Development Fund introduced a financial support program worth 24 billion dinars and a guarantee scheme to support businesses. The program enables the granting of loans to businesses to help them preserve liquidity and, consequently, the stability of the finances and economy of the Republic. The deadline for applications was until the reserved funds were distributed or no later than December 10, 2020. The repayment period of loans granted for these purposes is prescribed at a maximum of 36 months, of which 12 months is the grace period and 24 months of repayment, while the annual interest rate is 1%. The maximum loan is one million dinars for affiliated companies and 200,000 dinars for entrepreneurs, businesses and cooperatives.

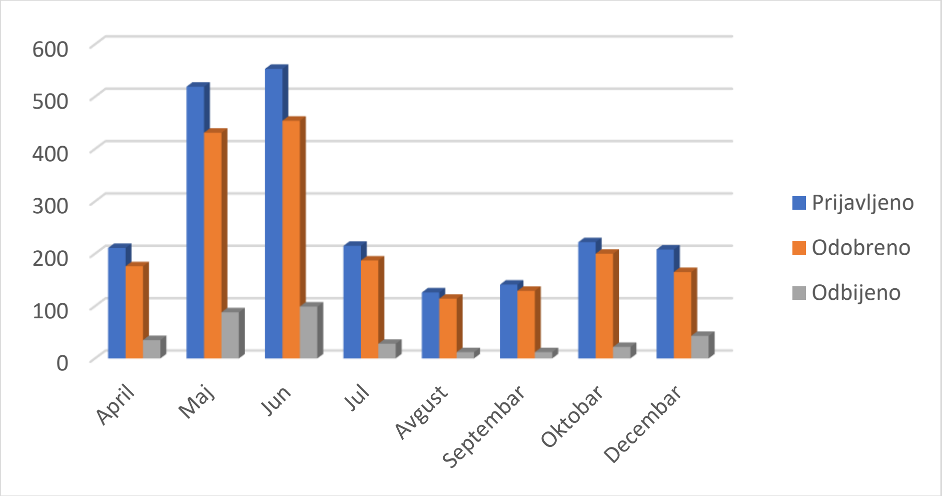
These funds were made available for privately owned micro, small and medium-sized companies, entrepreneurs and cooperatives that deal with production, provision of services, trade or agriculture. Businesses operating in the field of games of chance, production or refining of oil and its derivatives were not entitled to apply to the Development Fund for this type of support.

The approval of the loan is conditioned by the business of the business entity, the approximate maintenance of the number of employees and the payment of dividends. To obtain the loan businesses had to show that they were not in bankruptcy proceedings, that they were not required to implement a reorganization plan prepared in advance, liquidation proceedings or financial restructuring. Also, a business or a company that applied for a loan was not allowed to lay off more than 10% of employees in relation to the number of employees in the period from March 15 to the expiration of three months from the release of the loan. In addition to the stated conditions, the business that has decided to use the loan was not allowed to pay dividends until the end of 2020.

The Development Fund granted loans to 85% of the total number of registered businesses worth almost nine billion dinars. According to the latest available data from the Development Fund, loans for maintaining liquidity and working capital were approved for 1,856 business entities with over 30,000 employees, out of 2,195 registered (about 85%). Since mid-June, when special conditions for granting loans to companies operating in tourism, catering and passenger transport have been determined, the Fund keeps separate records on the number of legal entities and entrepreneurs dealing with these activities that have applied for a loan and to which the loan has been approved. The request for a loan was submitted by 298 businesses dealing with tourism, catering and passenger traffic, of which 253 (85%) received a loan. 18% of the total approved loans were approved to companies operating in the tourism, catering and passenger transport sectors.

[20] If the previously concluded contract expired for these persons after March 15, the employers, or companies were not obliged to extend their contract if they assessed that they did not need further engagement of these persons, so their right to participate in the measures was not taken away based on the reduced number of contracts, or non-renewed contracts to the persons engaged in the stated manner. Regarding the requirements entrepreneurs had to meet, the Regulation provides that fiscal benefits and allocations can be used by those entrepreneurs who have not registered a temporary cessation of activities after March 15. Also, businesses that registered after March 15 did not have the right to use measures and direct budget allocations.

Illustration 1



* Source: Development Fund

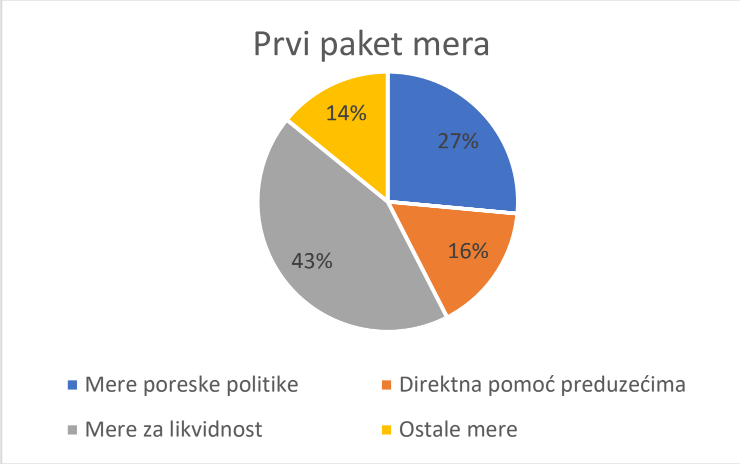
The second measure for preserving liquidity included the provision of guarantees by the state for loans taken by companies from commercial banks in order to preserve liquidity and finance working capital. The state guarantee scheme is issued to banks. Similar to loans approved by the Development Fund, the loan repayment period is 36 months, with a grace period of nine to twelve months, depending on the agreement between the bank and the business. The maximum loan per company eligible for a state guarantee is 3,000 euros or a quarter of the income generated in 2019, whichever comes first.

Beneficiaries of these loans can be all businesses registered with the Business Registers Agency as micro, small and medium enterprises and entrepreneurs. These loans cannot be used to refinance existing loans to businesses or repay outstanding installments of such loans.

The total value of the first package is estimated at 608.3 billion dinars, or 11% of GDP, and by the end of October, about 506.3 billion dinars (about 9% of GDP) had been used.[21,22] Tax policy cost the state a total of 161 billion dinars, which is equal to 2.9% of GDP, with the return of these funds to the budget starting from the beginning of next year. The largest part of these measures (87%) referred to the postponement of the payment of contributions and payroll taxes. The total amount of direct budget allocations was 97.3 billion dinars, or 1.8% of GDP, of which 95% is assistance to entrepreneurs, micro, small and medium enterprises. Funds reserved for liquidity conservation measures are 264 billion dinars (4.8% of GDP), but according to available data, not all funds have been used. According to the latest available data, of the 24 billion dinars made available to the Development Fund, the total amount of approved loans is nine billion dinars. RSD 240 billion has been reserved for bank guarantee schemes, and RSD 153 billion[23] has been used by the end of October, or about 2.7% of GDP. Other measures cost the state 86 billion dinars (1.6% of GDP).

[21] Evaluation of the anti-crisis economic plan, Fiscal Council, April 2020
[22] https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Republic-of-Serbia-Fifth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49994
[23] https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Republic-of-Serbia-Fifth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49994

Illustration 2



Second package

The second package included measures of direct budget allocations and tax policy. It was adopted at the end of July by the Government and it included direct benefits for all micro, small and medium enterprises and entrepreneurs who were registered as such in August and September in the form of 60% of the minimum net wage for March per employee, whereas big companies were to receive 50% of the minimum net wage for March per employee who was terminated by the company's decision. The regulation also anticipated the payment of funds for companies that have been established or have acquired the status of VAT payers in the period from March 15 to July 20, 2020. These businesses received 120% of the minimum net wage for March per employee for August and September.[24]

Taxes and contributions paid on wages, i.e. compensation of wages and personal earnings, as well as the advance payment of taxes and contributions on income from self-employment, which were supposed to be paid in August, have been postponed until January 5, 2021. Therefore, the possibility of postponing the payment of taxes and contributions related to wages is given only for one month.

The second package was automatically granted to companies that applied for the first package and fiscal benefits and deferral of payment of liabilities. Those businesses who haven't applied for the first package had the option to apply for the second package.

This time as well, restrictions have been set regarding the reduction of the number of employees and the prescribed penalties for non-compliance. If the company reduces the number of employees by more than 10% before the expiration of three months from the payment of the last tranche of assistance, it loses the right to all benefits and the provisions related to the return of funds in the first package apply, as well as penal provisions. Similarly, the funds paid could only be used to pay salaries to employees.

The total value of this package amounted to 66 billion dinars, or about 1.2% of GDP. Together with the first package, the total state aid provided to businesses amounted to 674.3 billion dinars, or 12.5% of GDP. The Ministry of Finance estimates that about 235 thousand businesses employing about 1 million and 50 thousand workers have used this package.[25]

Third sector-oriented package

The third package formulated in the form of subsidies was intended for companies operating in the tourism industry. This industry has suffered great losses due to the outbreak of the corona virus epidemic.

[24] "Official Gazette of the RS" No. 104/20
[25] https://www.ccfs.rs/sr/novosti/n/news/drugi-paket-drzavnih-mera-pomoci-privredi-je-usvojen-i-ima-za-cilj-da-sacuva-radna-mesta.html

The package is initiated through two public calls. The total funds allocated for the third sector package amount to 1.6 billion dinars, or 0.03% of GDP.

The first public call included the provision of subsidies, i.e. grants to hotels in the amount of 350 euros per individual bed and 150 euros per accommodation unit (room). The maximum amount of the subsidy per beneficiary is determined on the basis of the number of beds and accommodation units on the basis of which, among other things, the hotel is classified in the appropriate category, provided that the amount cannot exceed 750,000 euros. It was intended for all categorized private hotels that were not in bankruptcy proceedings or in the process of financial reorganization or liquidation. Hotels that are considered to be budget beneficiaries, or those owned by the state or local self-government units, were not entitled to assistance. In addition to having to be privately owned and fulfilling the stated conditions, hotels had to be categorized or at least had to file a request for categorization no later than before the announcement of the public call, or by September 1, 2020. Subsidies were available for hotels which, in addition to the above conditions, were located on the territory of one of the 68 local self-government units for which the call was issued. The application deadline was September 15, 2020.

The hotel would lose the right to the subsidy in case it reduces the number of employees by more than 10% in the period from August 15 to December 31, 2020, and then it would be required to return the funds paid in the form of grant. In addition to the subsidy, the business will have to pay interest calculated at the rate used to calculate the interest in case of delay in the payment of tax liabilities, and as of the day when the hotel received the funds.

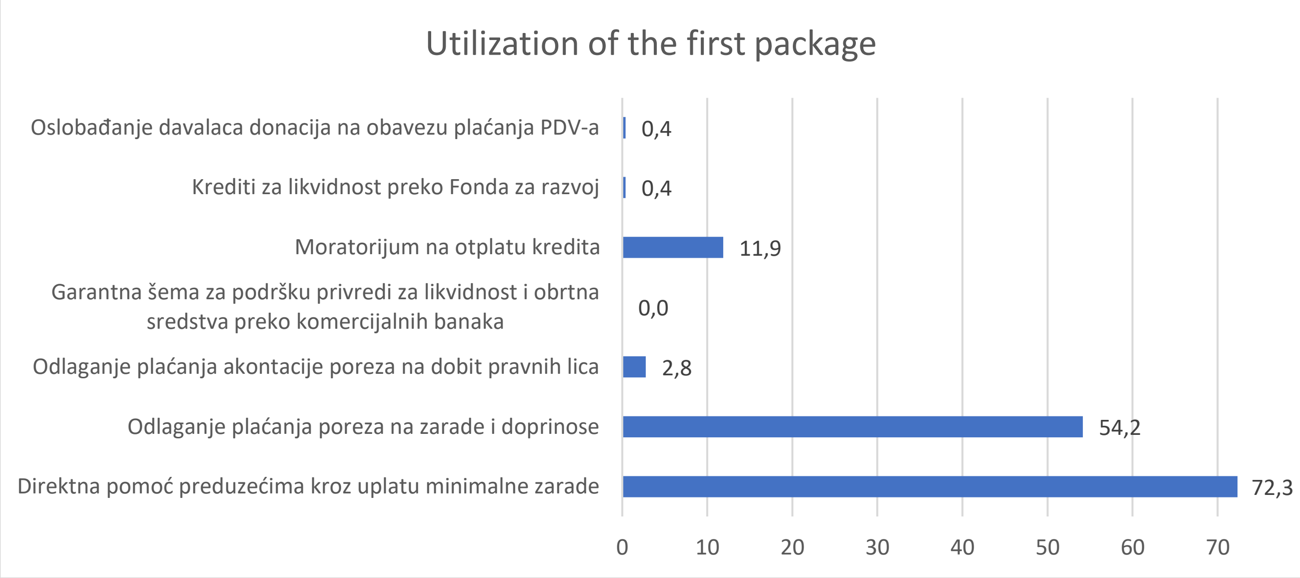
The second public call was intended for travel agencies. In order to be eligible for the subsidy, travel agencies had to be registered in the appropriate register, have a travel organizer's license, a travel guarantee, and should not be in bankruptcy, reorganization or liquidation proceedings. The amount of the subsidy provided to a tourist organization depended on the category of its license and it could amount to a maximum of 5,000 euros. The application deadline was December 4, 2020.

The third aid package was used by 312 hotels and 90 travel agencies. According to data obtained from the Ministry of Trade, Tourism and Telecommunications, a subsidy for categorized hotels was initially approved for 314, but two hotels abandoned the aid. Regarding subsidies intended for tourist organizations, i.e. travel organizers, 90 tourist agencies received state aid.

The attitude of businesses about the introduced packages

Within the first package, direct benefits in the form of payment of three minimum net monthly salaries were used most frequently. This measure was used by almost three quarters of the surveyed companies. About half of the surveyed companies used the postponement of the payment of social contributions and payroll taxes, and 12% of the companies used the moratorium on loans. Loans from the Development Fund were not particularly popular, only 0.4% of the surveyed companies stated that they used this measure. The same percentage of companies used the measure of VAT exemption; those were predominantly companies operating in industry, mining and energy and water supply sectors.

Illustration 11

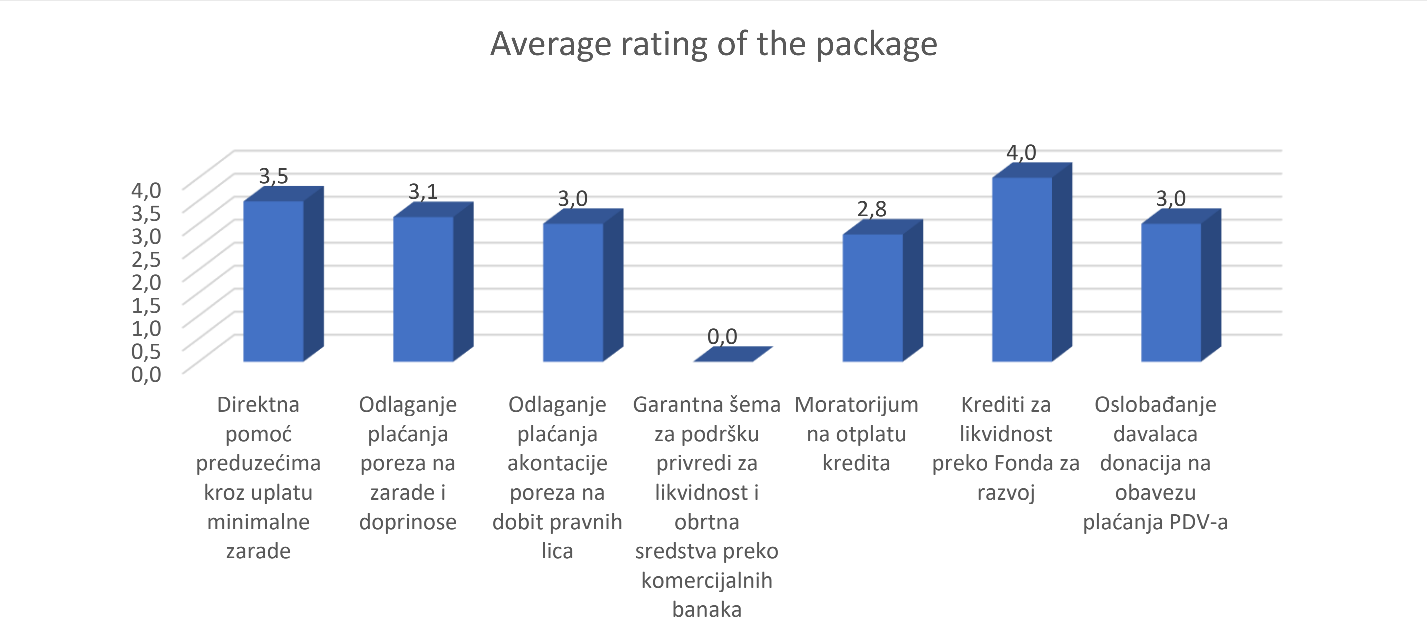


* Source: COVID-19 Business Impact Survey

The measures facilitated doing business, enabled the retention of workers and the survival of companies. The companies stated that direct budget allocations helped them mostly with payment of salaries to workers, while to a lesser extent this type of assistance contributed to preserving liquidity and reducing costs. Delays in the payment of contributions and payroll taxes extended the survival of the company to almost a third of respondents, enabled the retention of workers in every tenth company, and contributed to maintaining liquidity in a smaller number of respondents (7%). The moratorium on loans and financial leasing, on the other hand, generally facilitated the companies' operations and helped them pay liabilities through their deferral, and was mostly used in industry, mining and energy and water supply (26% of companies used this measure).

Two thirds of the surveyed companies believe that direct benefits in the form of payment of three minimum wages significantly contributed to the survival of their companies. This measure was rated on an average of 3.5 on a scale of 1 to 4. The second most popular measure was somewhat less useful for the survival of companies, so its rating was 3.1. Although a small number of surveyed companies used loans provided by the Development Fund, those who used them believe that they significantly contributed to the survival of their company, and this measure received the highest rating.

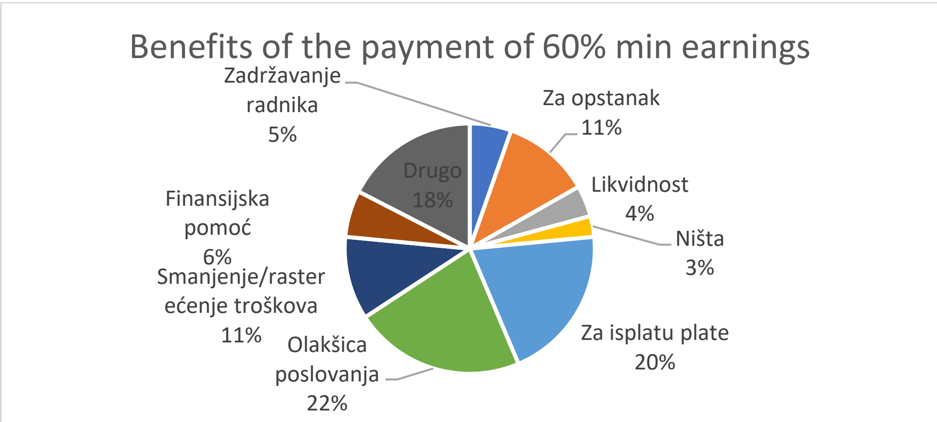
Illustration 12



* Source: COVID-19 Business Impact Survey

The second package helped companies pay salaries to workers, made their business easier and to a lesser extent extended their survival. According to the research, 59% of the surveyed companies used direct benefits within the second package. One fifth of companies that used direct benefits in the form of payment of 60% of the minimum net salary stated that this measure helped them pay salaries to workers. Also, for the same number of companies, this measure made doing business easier, while it helped every tenth company to extend its survival and cut costs. Delaying the payment of social contributions and payroll taxes for one month was used by 42% of the respondents. None of the surveyed companies was established between March 15 and July 20, so it is not possible to estimate how many companies used the payment of 120% of the minimum net salary for March based on the sample.

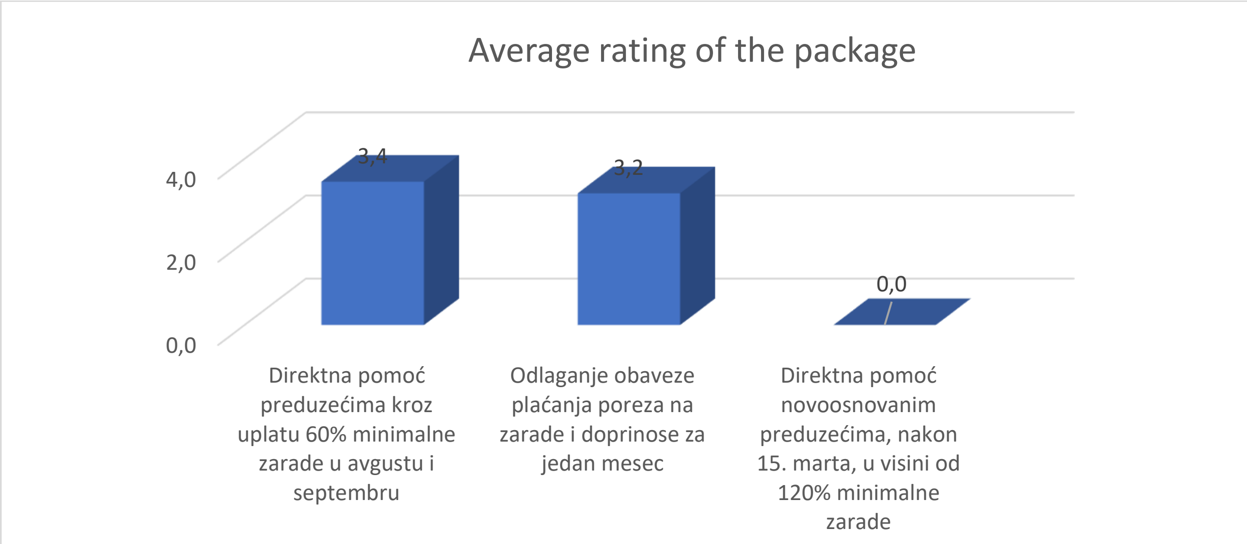
Illustration 13



* Source: COVID-19 Business Impact Survey

The contribution of the second package to the survival of the company was assessed similarly as the contribution of the first. Undoubtedly, the most useful measure was the payment of 60% of the minimum net wage.

Illustration 14



* Source: COVID-19 Business Impact Survey

As the third package was introduced last and given that a sufficient number of companies, its beneficiaries, were not examined, the position of businesses on this package of support measures could not be assessed.

V IDENTIFIED PROBLEMS WITH THE ASSISTANCE PACKAGES

In order to secure financial resources and back up the economic policy, which helped over 50% of registered companies in the Republic to do business, the government borrowed abroad. Such economic policy was inevitably necessary in order for business owners to preserve their business, to prevent a sudden rise in unemployment and to preserve the living standard of citizens. Over 230 thousand companies with one million and one hundred thousand workers used the economic measures provided by the Government. However, there were also some problems associated with these measures. First of all, the government borrowed abroad the amount of three billion euros[26] in order to help businesses mitigate the negative effects of the COVID-19 virus. This debt, together with interest, citizens will be servicing years after the end of the crisis.

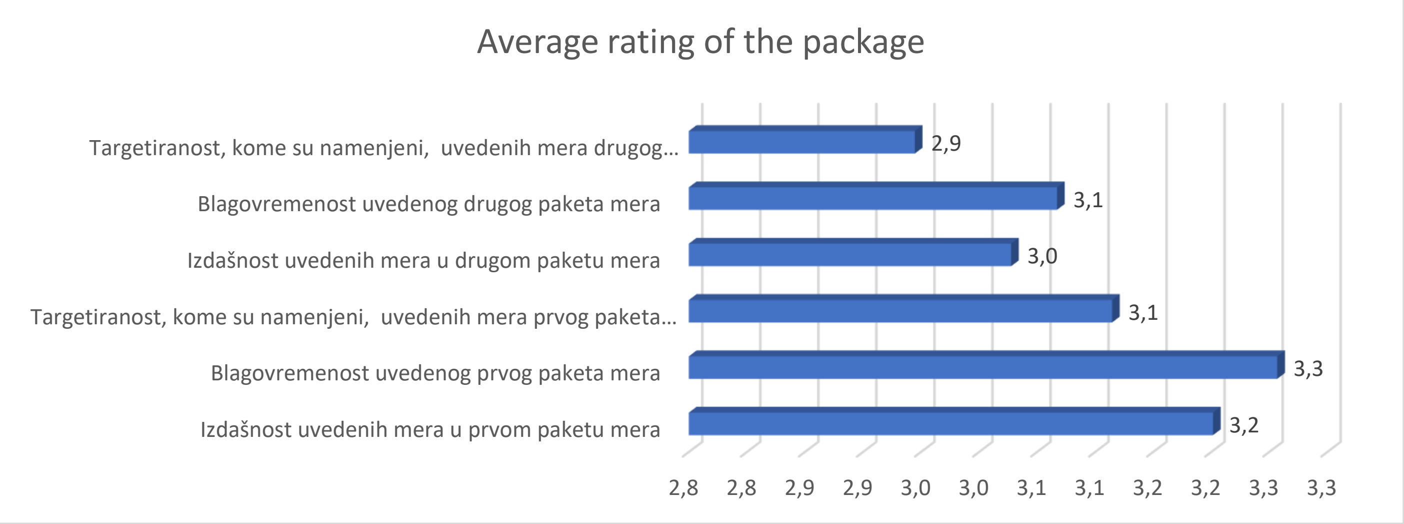
Assistance packages have been extensive (12.5% of GDP) and planned for a short-term crisis, and in the future, if the crisis continues, aid should be targeted at the most affected sectors. The total value of all three packages is 675.9 billion dinars. At the time, this response was adequate and provided less contraction in economic activity than in the countries of the region. The aid was created on the assumption that the crisis will be short-lived, which can be a challenge if the duration of the crisis is prolonged, in which case there will not be enough funds to help everyone, but the most vulnerable will have to be carefully targeted.

One of the objections, primarily of the expert community, is that the first package was introduced late, i.e. at the last moment and that a large number of companies, due to the inability to pay salaries laid off most of the workers and thus lost the right to receive state aid. A state of emergency was declared on March 15, and the government passed the Decree introducing measures almost a month later, on April 10. Other countries (Czech Republic, Hungary, Poland, for example) adopted measures to help the economy by the end of March, very soon after taking measures to protect the population from infectious diseases. This delay directly enhanced the risk of increased unemployment and insolvency, because businesses felt the crisis immediately, and their business was shrouded in uncertainty for a month as to whether and in what form they would receive state aid. Especially when it comes to guarantees provided for borrowing from commercial banks to preserve liquidity, from the beginning it was not known what the requirements were for this measure to apply and to what extent the state will assume the risk concerning repayment of these loans

Research shows that companies that have used the measures are mostly satisfied with both the type of measures and the timeliness of the introduction of the first package. Companies operating in the tourism and catering industry are not satisfied with the timeliness of the measures, which is understandable because their business was disabled, and for a month they did not know whether they would receive any help from the government or whether they would be able to pay salaries to workers. Also, the companies involved in this activity believe that the targeting could have been better, and they evaluated the generosity of the measures with the lowest average grade. On the other hand, companies operating in industry, mining and energy and water supply rated the introduced measures the best. Entrepreneurs are less satisfied with the measures than companies.

[26] Evaluation of the anti-crisis economic plan, Fiscal Council, April 2020

Illustration 15



** Source: COVID-19 Business Impact Survey*

Potential new measures should better target the hardest hit sectors and include tax and contribution write-offs and VAT reductions. When asked what they would change in the introduced packages, only 10% of companies would not change anything, and a third does not know what they would change. 13% of companies opted for repeating the same measures, and 9% believe that the same measures should be repeated, but selectively, only for the most vulnerable. Only 5.5% of companies were of the opinion that VAT and taxes should be reduced. One third of companies involved in tourism and catering stated that subsidies intended only for companies operating in this industry should be introduced, while 44% believe that VAT should be reduced and taxes and contributions should be written off. Companies operating in other industries were not equally in favor of writing off taxes and contributions.

Conclusion

The epidemic of the COVID-19 virus has undoubtedly changed plans for the future, both in terms of the economy of the entire country and in terms of doing business. At the national level, the budget deficit and public debt are expected to grow, while there are plans to gradually reduce them over the years. Economic growth will decline in 2020, while faster growth is expected in the coming years, in order for the economy to recover as soon as possible from the negative effects of the virus. The epidemic is a natural disaster that could hardly have been foreseen in the plans and as such brought a rapid and sudden economic fallout, and the same kind of recovery should be possible.

Companies are expected to change the way they organize and do business so that they can adapt to new conditions. However, few companies are still ready for these changes. The main changes they have introduced in their business are a different organization of walk-ins and online sales. It has been shown that companies find it difficult to embrace the change and that they would do so only when their survival is at stake. Service providing companies had to change their previous business practices in order to survive and continue working, i.e. existential pressure encouraged them to change.

Expectations from next year are that there will be a recovery, but its length is perceived differently. However, most companies expect the recovery to take up to a year. Therefore, they expect lower revenues during the next year than before the epidemic, while they expect to keep expenditures at the level from 2019. Due to expectations that revenues and expenditures will be below the pre-crisis level, most companies said that in 2021 they expect to face challenges in terms of settling liabilities.

The government has introduced three assistance packages to mitigate the negative effects the pandemic has had on businesses. The introduced packages are similar to those used by European countries to help their economies. The first package was the largest, totaling 608.3 billion dinars or 11% of GDP. Serbia was behind other European countries when it comes to adopting economic assistance packages, but the measures were undoubtedly appropriate and for most companies this delay was not a problem. There were no large layoffs and company closures, so it can be said that the package fulfilled its basic task. The most popular measure included in the package was the direct payment of three minimum net salaries for all employees in micro, small and medium enterprises and entrepreneurs. This measure enabled companies to pay salaries to employees, reduced the companies' expenses and enabled them to survive.

The epidemic did not affect everyone equally. The tourism and hospitality sector has been hit hardest, as measures such as closing borders, restricted movement and gathering have directly affected them. In addition, during the state of emergency, the operation of catering facilities was banned. Their business conditions have drastically deteriorated, so it is not surprising that this is the only industry in which the number of employees has significantly decreased from an average of ten per company to an average of eight. Expectations from the recovery are pessimistic, some companies do not expect to recover from the crisis at all, and they expect a drop in income next year as well, and problems with settling liabilities and an additional reduction in the number of employees. For this reason, the third package targeted hotels and travel agencies, the worst affected parts of the economy during the crisis. The first two packages helped these companies, but not enough, so the government decided to help them further through subsidies.

Broad and comprehensive assistance packages have proven to be a good option when there is not enough time and resources to create selective and targeted packages for the most vulnerable. However, these large packages need to be supported by smaller sector-oriented packages, in order to help the most affected businesses cope with the negative effects of future crises.

This project is funded
by the European Union

This publication has been published with the financial assistance of the European Union. The European Policy Center-CEP, the National Alliance for Local Economic Development (NALED) and the Centre for Contemporary Politics (CSP) through the European Western Balkans (EWB) portal are solely responsible for the content of this publication.

This publication has been published within the "Prepare for Participation" Project, which is jointly implemented by CEP, NALED and CSP/EWB .