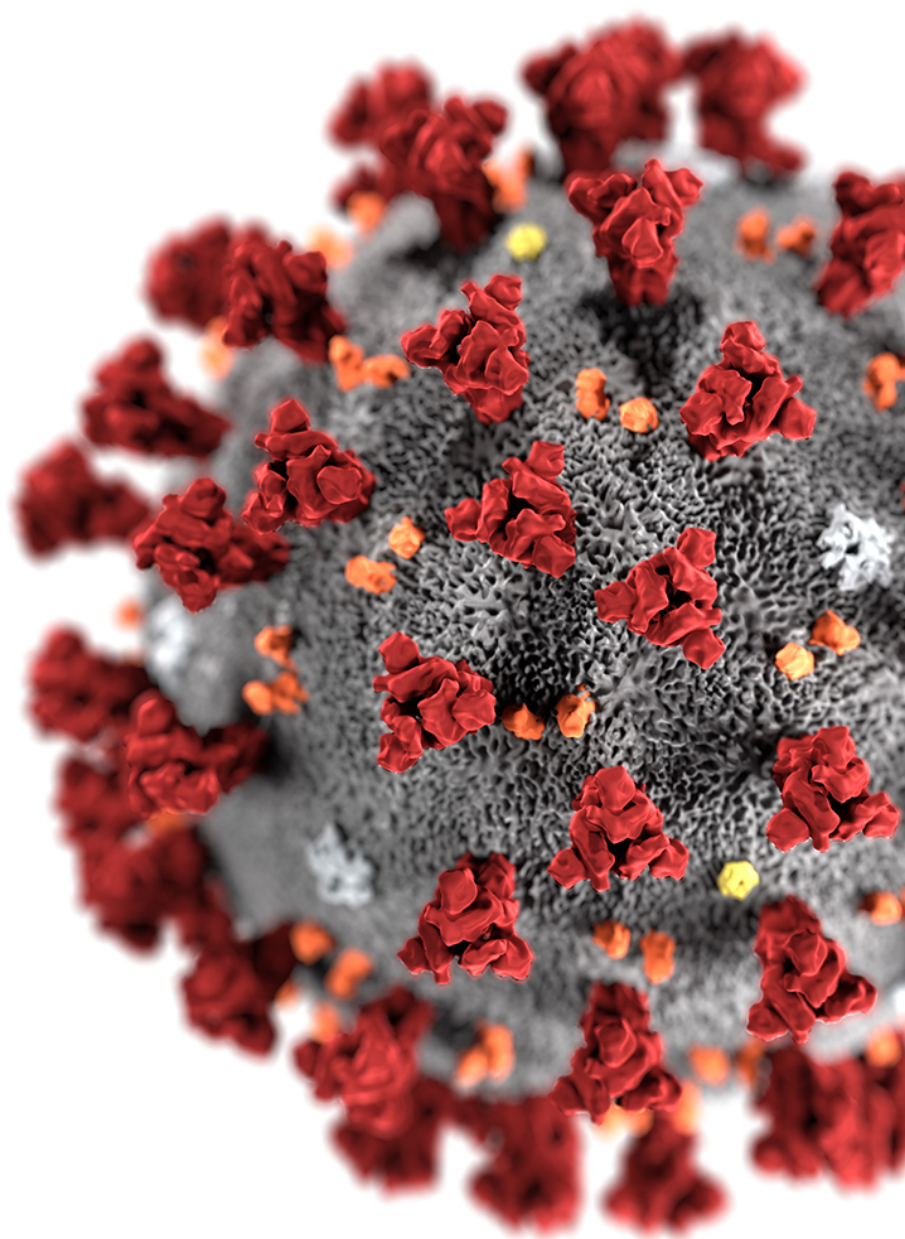




**FRIEDRICH NAUMANN  
FOUNDATION** For Freedom.

Western Balkans

2020



# LIFE WITH THE COVID 19 VIRUS

SERBIA

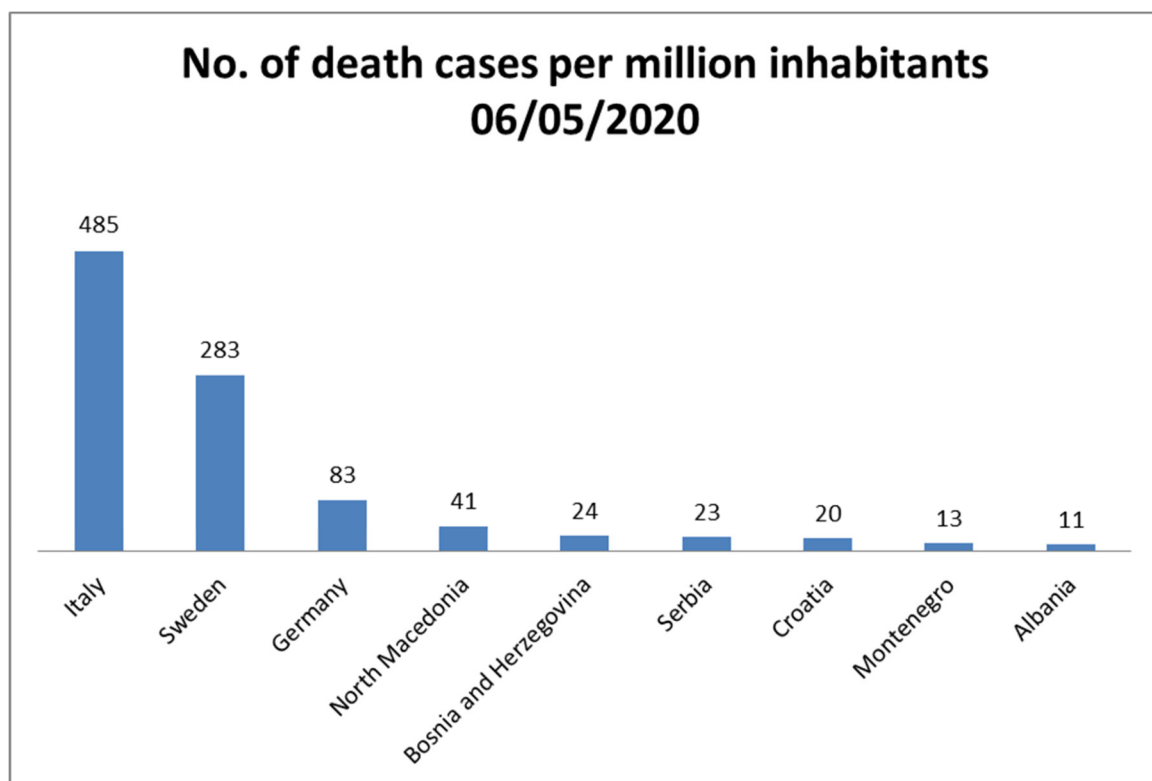
Belgrade, May 2020

By Mihailo Gajic, Libek

## Introduction

Until recently, the spotlight has been on the pandemic – are we going to get infected; will the healthcare system be able to respond to these challenges; how to prevent the spreading of the virus? However, the epidemiological situation has been steadily improving in many countries, including the Western Balkans (WB): the total number of new cases is decreasing day by day, as well as the number of deaths. This brings us closer to the normalization of the situation, especially now that the economic and social impact of the measures to contain the virus are becoming evermore evident. So new questions are starting to be raised: how will this affect the economy; how can we cope in the future with this pandemic or new ones like it; how to return to the normal way of life?

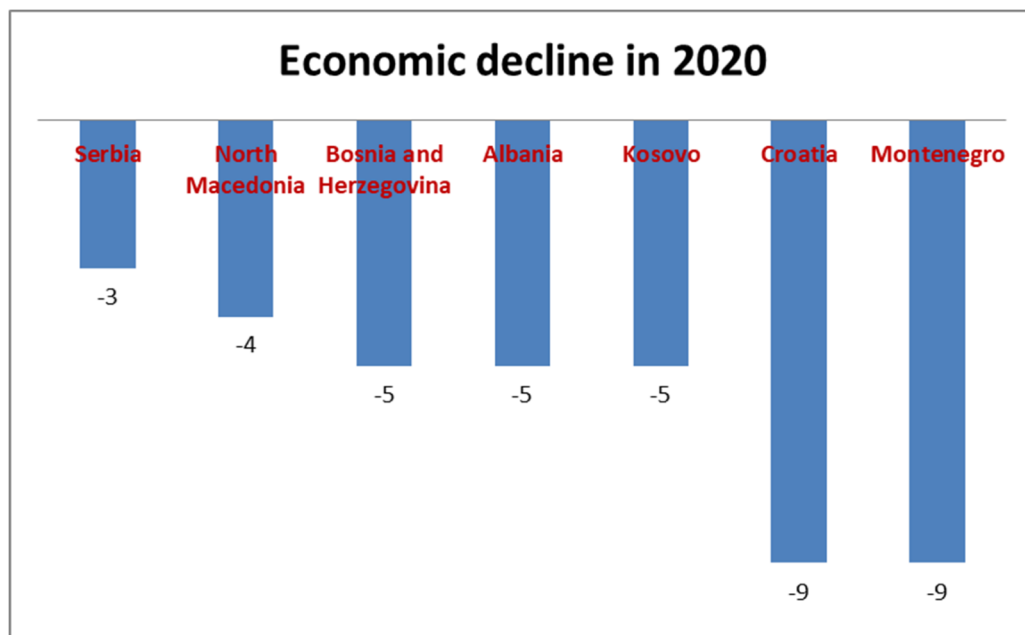
For the time being, it seems that the WB countries have managed to evade the most severe situation that is present in Spain or Italy, so their healthcare systems were not overwhelmed, although operating under severe stress with limited resources. This is visible in the number of deaths per million of inhabitants.



Source: [www.worldmeters.info](http://www.worldmeters.info)

The measures introduced in order to slow down or prevent the circulation of the virus had a significant impact on the economy. The sector of personal services, including tourism, hospitality and personal care services. The industrial production has also been hit, due to closing down the

facilities due to health measures or cleft supply chains. For example, total Serbian exports in March 2020 were just 89% of the March 2019 level (down by 200 million euros), which was mainly the impact of the lockdown introduced in the second half of the month. The economic prospects for the region are bleak, although less severe than the projected recession in the eurozone. Countries with strong tourism sectors, such as Croatia and Montenegro will be more severely hit, while this impact will be less pronounced in countries with stronger agriculture sectors and industrial production less integrated in sectors that will be significantly hit by the weakening of the demand (for example, car manufacturing) such as Serbia and North Macedonia.



Source: IMF, WEO database April 2020.

In order to minimize the economic and social cost, it is an imperative to minimize the length of the introduced lockdown, and help viable businesses survive the problems arising from the loss in revenues that will trigger liquidity issues, and help them maintain job placements, all of which will help the economy recover more quickly in a sustainable way. The Serbian government, as other governments in the region, has already introduced some economic measures to help the affected companies, such as deferral of payment of profit tax for companies, and income tax and social contributions for employees for three months to 2021; paying the minimum net wage to SME companies for each employee (half of the minimum wage for large corporations); introducing a guarantee scheme for liquidity loans through private banks and the Development Fund and doling out 100 euros for each inhabitant above 18 years of age to boost demand. What else should be done, or should be done differently?

## Better organization of medical facilities

Numerous reports of patients state that their regular treatment has been postponed or mishandled due to the fear of them being carrying corona virus, even without showing any symptoms. This happened even in cases of acute health problems – patients were refused entrance, sent to other clinics from where they were again diverted or sent back etc. There are even reported cases of deaths due to these bad handling – such as the foreign student of medicine from Kenya.

Mismanagement of the situation also led to the virus being spread within hospitals such as the oncology clinic or the maternity ward in Belgrade. This can lead to other health problems, as many patients have been advised by the medical staff to use private hospital services (of course, paying out of their own pocket) leaving many patients with risky conditions who are without these funds in peril. Accountability for inactions that led to these issues should be invoked, through demission of clinic directors. This also applies to one of the members of the National crisis council for the pandemic, dr Nestorovic, who has been downplaying the disease in late February, even advising people on the national TV to go shopping to Milan, and later disseminating conspiracy theories on TV on the origins of the virus and other topics. More resources need to be allocated to the healthcare system, in order to erase the existing bottlenecks and to prepare for the possible new outbreak of the pandemic in autumn.

## Continue with the testing

Testing could prove to be the key in future battles with the virus, until a vaccine is produced or enough herd immunity is gathered. This would enable us to contain any new spread of the pandemic before it spreads out of control. Especially since the dual mode implemented in Sweden (in which people deemed not in risk were let to maintain most of their normal life activities, while those at risk such as the elderly faced stronger restrictions) is not possible in this environment since most households are multigenerational. Therefore, opening up schools means higher risk for pandemic outbreak in Serbia than in Sweden. The testing needs to be widespread, not confined only to cases with strong symptoms. Furthermore, a widespread study should be conducted to show us how far has the virus spread across population, since there were many mild cases that were not tested and reported. This should give at least some inclinations how far from getting the herd immunity we currently are.

## Keeping up with the social distancing and other safety measures

This means that people should still behave as the virus is out there. With this in mind, wearing masks in public (especially in confined spaces, such as offices or public transport) should be made mandatory for all. Public and private facilities should be encouraged to provide disinfection products, such as wipes or gel, to their customers upon entering. People should avoid moving in groups – concerts, public events and opening of theatres should be postponed. This will be

extremely difficult due to the upcoming parliamentary elections in June, especially in a heated political situation currently in Serbia, with criminal groups supported by the government threatening opposition leaders which might provoke mass protest by the opposition.

Public transport in Belgrade should be improved, with more buses, trams and cable cars, in order to decrease the number of passengers per unit. The measures to make public transport be used first and foremost by the people who need to get to work should be upheld. The fall in gasoline prices would encourage people to use more private transport, and this can be aided by a temporary decrease in excise duties (public revenues currently make up for more than half of the retail price) or by examining the price policy in public garage and parking system.

## Fine-tuning the economic measures

Most of economists agree that majority of the measures implemented to help the economy are not bad. However, there is a significant space for improvement. First of all, the "100 euros for all" should be abolished: it has no economic support (higher consumption will not drive up the production due to low fiscal multipliers, as previously seen during the 2009 slump) and is socially irresponsible since money will flow to everyone, including the well off, and not only to those in needs. The funds for this program are significant – to put them in perspective, they equal the five annual expenditures for social assistance program for the poor.

Second, the resources of the Development Fund should be allocated to the guarantees scheme financed through private banks. The Development Fund has been notorious in misallocating its funds under political pressure and low transparency, as vividly depicted by a special report of the Anticorruption Council, an advisory state body for fighting against corruption. However, in practice very little changed to this day, and there is a high probability that these funds would end up allocated to companies with close political ties to the ruling party. This problem is less pronounced with private banks, since they already have good capacities for risk analysis, and can with more accuracy target financing to viable businesses, since they will cover most of the financial risk.

Third, the current measures might need further expansion or specific targeting. If we face a more negative economic downturn than previously envisaged, the current measure in deferring the tax should be prolonged in order to save jobs, and even the minimum wage assistance program, for additional three months. It would be best to start thinking about more specific measures, since not all sectors have been equally hit: tourism and hospitality industries will most likely be in a need of more help to survive the crisis.

## Discussing the full restart of the economy

A full restart still seems far away. But now is the time to start discussing it, and create several policy scenarios having in mind the possible unfolding of the situation. These measures should be clearly stated to the public, so the entrepreneurs could use them in their business calculations. the most important message needs to be that the life continues!