

The Economic Impact of the COVID-19 on the Serbia's Labor Market: Statistics and Facts

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ABSTRACT

The global pandemic caused by the COVID-19 public health crisis has affected the global economy, not sparing any single country. In order to identify weaknesses and threats posed to the Republic of Serbia's labor force, this paper analyzes the impact of the crisis through the analysis of key macroeconomic indicators and key labor-market indicators. Serbia's labor market has shown a positive trend over the last five years. The latest statistics show that the labor market itself has not yet felt the effects of the emergency caused by the global pandemic. Therefore, due to the implementation of emergency economic measures of the Republic of Serbia, the labor market has been buttressed; however, to what extent it would be able to weather another wave of severe economic interruption is unclear. The total impact the crisis has had on the labor market at the moment cannot be determined precisely as it is primarily determined by the inactivity within the economy as well as the second round of the pandemic which health experts largely predict to come by this year's end. The sectors that will be most exposed to the impact of the crisis are expected to be manufacturing, wholesale and retail trade, the repair of motor vehicles and motorcycles, accommodation and food service activities as well as real estate activities. The results of research are significant for future studies centering on economic development as affected by global pandemics, as well as for analyzing the impact of the current crisis on the labor market and macroeconomic indicators in the Republic of Serbia.

Key words: *labor market, COVID-19 crisis, employment, Republic of Serbia*

JEL Classification: E24, J21, E22, E61

INTRODUCTION

At the beginning of the COVID-19 pandemic, the largest international financial institutions (IMF, World Bank, ECB, EBRD) had not been led to believe that the coronavirus would have a major impact on the economy. However, as the virus spread globally, economic predictions became increasingly pessimistic. The early optimistic outcomes foreseen may be attributable to the fact that economists are not universally experts in public health, thereby not fully taking into account the extent to which the virus would affect every day economic life. Unlike other economic crises faced within the recent past whose main driving forces have been a steep decline in demand (Marjanović, 2010), the current crisis stems from supply, primarily because production in most industries has been suspended due to massive government isolation orders as well as slow-down from knock on effects. As a consequence, there has been a decrease in overall household income, eventually causing a decline in aggregate demand (World Bank,

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2020). Due to the interdependence of the global economy that emerged and grew since the late 1980s, the negative economic consequences of the crisis are also worsened as one nation's economy is shut down, thereby affecting another (ILO Monitor, 2020). The inability to access international supply and production chains has led to challenges economies have not been faced since the end of World War Two. Absence of any significant economic growth had an impact on increase of unemployment, maintenance of trade deficit and growing foreign debt, which generally indicates a growing country risk and therefore this does not represent a business environment which would be attractive for investors (Brkić, Pijalović, 2016).

Experience has shown that a public-health crisis differs in the extreme from a natural disaster or a war. In the latter, rapid economic recovery may be anticipated in developed economies due to massive infrastructure renewal and public investment that generally ensues after their culmination (Jordà et al. 2020). More to the point, natural disasters or war are externally effective on an economy. In a pandemic, however, labor crises as well as reduced supply and demand affect markets internally, resulting in the recovery to be hindered as the pillars of the economy weaken.

Within this work, the authors use empirical analysis to determine what long-term consequences COVID-19 will have on the labor market in the Republic of Serbia (RS). Sections two and three analyze the extent to which the Serbian economy had been ready for the COVID-19 crisis, analyzing the RS' macroeconomic and labor market indicators. The paper analyzes the movement of basic labor market indicators from 2015 to 2019, using annual data provided from the Labor Force Survey of the Statistical Office of RS. In addition to basic global indicators, such as trends in activity rates, employment and unemployment, detailed trends in the key structural characteristics are shown, including employee activity by type, gender, age, regional structure and employment modalities, additional indicators of labor market stability were taken into account as well such as data from the RS' National Employment Agency (i.e. data on registered unemployment). Section four presents projections of labor market indicators made by international organizations, focusing on business sectors (economic sectors) that will be affected until the crisis has ceased, both in Serbia and globally. Section five presents economic measures to counteract the impact of COVID-19, while Section six presents the paper's conclusions.

MACROECONOMIC TRENDS IN THE REPUBLIC OF SERBIA

The Republic of Serbia entered the Covid-19 crisis with a stronger economy than it had even ten years ago. The implementation of economic reforms since 2014 has led to greater macroeconomic stability, increased production and reduced unemployment. From 2015 to 2019, the average annual GDP growth rate was 3.2% and inflation stabilized, ranging from 1.5 - 3.0%. The share of public debt in relation to national GDP fell from 70% of GDP in 2015 to 52% in 2019. The RSD has remained stable and even strengthened against the Euro (the middle rate 120.95 RSD to one Euro on 01/01/2015 as opposed to 117.63 for 31/12/2019) which has helped to normalize trade. Although its liquidity has not significantly changed, non-performing loans within banks have been shed and have thereby strengthened the banking sector. Indicators of the country's external position show that Serbia is highly dependent on foreign capital inflows. The following table provides an overview of key macroeconomic indicators (National bank of Serbia, Ministry of Finance, Statistical office of RS, 2019).

Table 1. Key Macroeconomic Indicators of the Republic of Serbia

	Indicator	2015	2016	2017	2018	2019
Economic activity, inflation and exchange rate	Real GDP growth (in %)	1.8	3.3	2.0	4.4	4.2
	Individual consumption expenditure - household sector (in % of GDP)	70.8	69.7	69.6	68.1	67.0
	Gross fixed capital formation ((in % of GDP)	16.8	16.9	17.7	20.1	22.4
	Consumer prices (in %, relative to the same month a year earlier)	1.5	1.6	3.0	2.0	1.9
	RSD/EUR exchange rate (end of period)	121.6	123.5	118.5	118.2	117.6
Fiscal policy	RS public debt, (central government, in % of GDP)	70.0	67.8	57.9	53.7	52.0
	Consolidated fiscal result (in % of GDP)	-3.5	-1.2	1.1	0.6	-0.2
	Consolidated public revenues (in % of GDP)	39.3	40.8	41.5	41.5	42.1
	External debt/GDP (in %)	73.5	72.1	65.1	62.2	61.9
	FX reserves /GDP (in %)	11.1	12.3	10.9	11.3	10.0
Banking sector	Regulatory capital to risk-weighted assets	20.9	21.8	22.6	22.3	23.4
	Nonperforming loans to total gross loans	21.6	17.0	9.8	5.7	4.1
	Average monthly liquidity ratio	2.1	2.1	2.0	2.0	2.2
	Average monthly narrow liquidity ratio	1.7	1.7	1.7	1.7	1.8
	Foreign-currency-denominated liabilities to total liabilities	72.7	71.1	69.7	69.3	66.6
External vulnerability	Current account balance (in % of GDP)	-3.5	-2.9	-5.2	-4.8	-6.9
	Export of goods (in % of GDP)	32.3	35.9	38.3	38.6	38.3
	Export of services (in % of GDP)	12.0	12.8	14.3	15.5	16.3
	Travel (% of export)	6.0	6.0	6.1	6.2	6.1
	Transport (% of export)	6.4	6.0	6.1	5.8	5.7
	Remittances (% of GDP)	6.1	5.5	5.9	7.0	6.3
	FX reserves/imports of goods and services (in months)	6.7	6.2	5.4	5.4	5.7
	Foreign direct investment (in % of GDP)	5.1	5.2	6.2	7.4	7.8
	Openness of economy (exports + imports)/GDP (%)	96.2	100.7	106.3	108.3	111.9

Source: National Bank of Serbia, Ministry of Finance, Statistical Office, Authors' calculation

Due to the fact that the COVID-19 crisis is still ongoing, it is difficult to predict the total extent to which the economy has been affected. The interruption of the global supply chain and a reduction in the inflow of foreign capital will certainly bear the most negative effect on Serbia's economy. It may also be assumed that the crisis will further fragment the world's leading economies, even threatening to worsen the trade war between China and the United States. In order for national economies to be better insulated from global disruption, it is possible that protectionist measures may be introduced over the coming decade, thereby worsening interruptions in global supply. A drop in consumer consumption abroad and foreign investments into Serbia from key foreign trade partners (primarily Germany and Italy) will certainly result in a decline of exports and a lower GDP (World Bank, 2020). According to data, exports decreased by 10.8% in March 2020 compared to March of 2019 (Statistical Office of the Republic of Serbia, 2020).

Bearing in mind that domestic demand had been one of the main generators of Serbia's growth over the last decade, which is largely determined by the inflow of foreign capital in the form of remittances, cross-border interbank and intercompany loans, direct and portfolio investments, the slowing inflow of foreign liquid capital shall have a knock-effect in which GDP shall shrink, tax revenues shall fall and budget deficits widened. Remittances represent a significant source of income for a large share of Serbia's population, as well as budget revenues from value added taxes on goods and services. According to the estimates of the World Bank, in

2020, remittances are expected to fall in Serbia by approximately 20%. As a consequence, depreciation effects on the dinar exchange rate will occur. From a macroeconomic point of view, depreciation is a mixed bag: a more favorable conversion rate to the Serbian Dinar may increase the competitiveness of goods and services originating in Serbia, but growth in a post COVID-19 world in national economies will largely be determined by their capacity to produce of which Serbia is still limited (Arandarenko, 2011).

Due to the high uncertainty, estimates of economic activity and GDP of Serbia in the near future are difficult to provide. There is also little consensus among international and national bodies as to the extent of Serbia's decline in GDP: while the most pessimistic forecast of the European Commission is -4.1%, the IMF is projecting a 3% decline, while the Government of the Republic of Serbia expects it to be limited to 1.5% and the World Bank foresees a 2.5% fall in GDP.

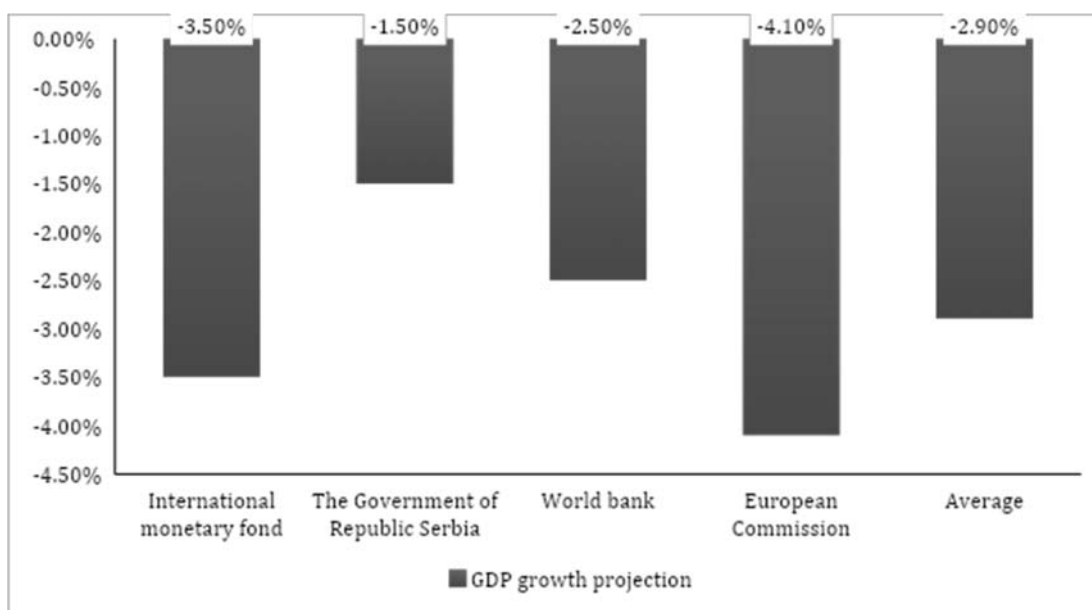


Figure 1. Projected GDP Growth for 2020, Republic of Serbia

Source: IMF, World Bank, The Government of Republic Serbia, Authors' calculation

The slowdown in economic activity will also reduce budget revenues, which, along with the proposed measures of the Government of Serbia, will worsen budget deficits. The first estimate of the Fiscal Council of the RS is that the budget deficit will be 9% of GDP at the end of 2020. Such a high deficit leads to a sharp increase in public debt, wherein the first estimate of the Fiscal Council is that the share of public debt in GDP at the end of 2020 will be slightly more than 60% of GDP. Widening deficits to make up for budgetary shortfalls may be made up for by favorable borrowing conditions within the international financial market due to the long-term expansionary monetary policies of the key central banks.

Table 2. Economic Resilience to the COVID-19 Shock in Republic of Serbia

Criteria	Indicator	Impact
Financial sector	Liquidity	Low
	Interest rates	Moderate
	Loans	Moderate
External shocks	Commodity prices	High
	Global value chains	Moderate
	Tourism	High
	Foreign direct investment	High
	Remittances	High
Policy space	Fiscal policy space	Moderate
	External resilience	High
	Exchange rate	Moderate

Source: Adapted from the EBRD by the authors

The duration of the crisis will largely determine the exposure of the banking sector. According to the NBS, more than 90% of Serbian borrowers have participated in the national three-month moratorium on loan repayment introduced by the National Bank of Serbia. This measure will certainly affect the profitability of the banking sector, which will likely force banks to increase interest rates and raise fees. The Serbian banking sector itself is highly exposed to the risk of capital withdrawals by parent branches abroad (19 banks out of 26 are foreign-owned) who may liquidate part of their controlling shares should a need arise in home countries for liquid capital injections.

SERBIA'S LABOR MARKET CHARACTERISTICS LEADING TO AND DURING THE COVID-19 CRISIS

It must be noted that there is an issue regarding the source of economic data as productivity does not generally match employment growth. A comparative analysis shows that the alleged phenomenon of high employment growth without GDP growth, as in Serbia, has not occurred in any other country in Central and Eastern Europe. In all other comparable countries, employment from 2012 to 2017 grew (in line with theoretical expectations) slower than GDP growth. The sharp decline of the unemployment rate and rise in employment since 2012 may be attributable to unreliable data (SORS Labor Force Survey) describing the labor market, as strong employment growth would have to leave a clearer mark on Serbia's economy. Stagnation was noticeable as private consumption was already in decline and payroll taxes were completely inconsistent with the formal employment figures from the Labor Force Survey (Nikolic, 2016). Numerous analyses do point to the same conclusion - that there are problems in the official statistical monitoring of employment trends; i.e., that the Labor Force Survey is still not reliable. High employment growth coupled by low productivity growth run counter to established and proven economic theories that define a strict relationship between employment and productivity (Nikolic, 2016; Petrovic, Brcerevic & Minic, 2018).

However, based on the data as given, the RS labor market has recorded positive trends over the past few years. By analyzing statistical data, labor-market indicators in the RS (rates of activity, employment and unemployment) from 2015 to 2019, it is important to note that the unemployment rate in 2019 reached 10.4% (those aged 15+), the lowest rate in the last five years. The unemployment rate for men in 2019 was 9.8%, while for women it was around 11%. Data on registered unemployment of the National Employment Agency (2019), in the past five years (from 2015-2019) recorded a decrease in the number of unemployed by about 30%. From 2015 to 2019, the number of unemployed women fell from 380,274 to 286,872 (about 24%).

Unfavorable demographic trends have contributed to the decline of key labor market indicators in Serbia. As a consequence of the negative natural population growth, the working

age population from 2015 to 2019 has reduced, which also affected a reduction in the unemployment rate, especially among young people (15 to 24 years of age).

According to Census data (2011), the population of the Republic of Serbia for 2011 totaled 7,186,862. According to the same data, those aged 15 to 24 accounted for 841,735 of the overall population, while those aged 25 to 29 composed 480,286. Slightly less than half of all those 15 to 24 years of age (approximately 413,765) lived in Northern Serbia, while about 183,848 lived in Southern Serbia (Census, Statistical Office of the Republic of Serbia, 2011). However, estimates from 2018 indicate that the number of the total population in Serbia decreased to 6,963,764, while the number of young people dropped to 661,250 (Projections, Statistical Office of the Republic of Serbia, 2018), which has caused a marginal decline in the unemployment rate, especially among youth.

From 2015 to 2019, the activity rate of the population did not change significantly. Since 2017, the activity rate for the total population has averaged around 54%, whereas the activity for those aged 15 -24 has been roughly 30%. Whereas there was a slight increase in the activity rate recorded from 2015-2016, at 1.7 pp for the total population, there was an increase in the activity rate for those 15 to 24 years of age by 0.9 pp (Statistical Office of the Republic of Serbia, 2019).

The employment rate of the total working population was about 49% in 2019, which is 1.3 pp more than 2018. Based on the total of those active in the labor force, as according to the total of those registered employed and unemployed, the region of Šumadija and Western Serbia had the highest concentration of employment whereas the lowest was in the regions of Southern and Eastern Serbia (table 3) (Statistical Office of the Republic of Serbia, 2019).

Table 3. Employment at regional level in Serbia, 2015-2019

Year	Belgrade region	Region Vojvodina	Region Šumadija and West Serbia	Region South and East Serbia
2015	611,400	682,300	752,000	528,500
2016	656,600	709,900	789,500	563,400
2017	694,000	737,800	799,800	563,000
2018	720,000	753,900	799,000	560,000
2019	740,500	768,100	812,400	580,000

Source: Statistical Office of the Republic of Serbia, 2019.

Young people are still at a disadvantage in the labor market compared to the general population, despite the fact that the youth unemployment rate has decreased significantly in recent years (declining from 2015 to 2019 by 15,7 pp). From 2015-2019, there was a noticeable decline of about 18 pp in the unemployment rate of young women (15 to 24). Statistics show that the highest unemployment rate is to be found among young people (15 to 24) in the regions of Southern and Eastern Serbia; in contrast, the youth unemployment rate in Vojvodina is the lowest in relation to all four regions (Republic Statistical Office, 2019). The decline in the youth unemployment rate is due to the migration of those aged 20-35, from Serbia. According to Eurostat data, there were approximately 300,000 registered employees from Serbia in the EU in 2013, which was a consequence of the financial crisis and the inability to find employment in Serbia proper (Bobic, Andjelkovic & Kanazir, 2015).

Table 4. Key Labor Market Indicators of the RS, 2015-2019

2015.		
	15 year and more	Young (15-24)
Rates of activity [%]	51.6	29.2
Rates of employment [%]	42.5	16.6
Rates of inactivity [%]	48.4	70.8
Rates of unemployment [%]	17.7	43.2
2016.		
Rates of activity [%]	53.3	30.3
Rates of employment [%]	45.2	19.7
Rates of inactivity [%]	46.7	69.7
Rates of unemployment [%]	15.3	34.9
2017.		
Rates of activity [%]	54.0	30.6
Rates of employment [%]	46.7	20.9
Rates of inactivity [%]	46.0	69.4
Rates of unemployment [%]	13.5	31.9
2018.		
Rates of activity [%]	54.5	30.0
Rates of employment [%]	47.6	21.1
Rates of inactivity [%]	45.5	70.0
Rates of unemployment [%]	12.7	29.7
2019.		
Rates of activity [%]	54.6	29.6
Rates of employment [%]	49.0	21.5
Rates of inactivity [%]	45.4	70.4
Rates of unemployment [%]	10.4	27.5

Source: Labor Force Survey, Statistical Office of the Republic of Serbia, 2020,

According to data from the National Employment Agency, compared to the first quarter of 2019 and 2020, registered employment increased by 1,8% (38,886 employees) in which the total number of registered employees was 2,186,834 for the same quarter. The largest number of employees was recorded in the Belgrade region and Vojvodina. The sectors of activity in which the largest increase in the number of employees occurred were in Manufacturing (16,086), Construction (10,249), Education (5,833), Information and Communication (4,945) and Traffic and Storage (3,247). Compared to Q1 of 2019, there was an increase of 2,2% in overall employment numbers (44,068) in Q1 of 2020 (Statistical Office of the Republic of Serbia, 2020).

Based on this economic background, it may be concluded that the pre-COVID-19 economy of Serbia was stabilized. However, it has been predicted that the COVID-19 crisis will have a defined negative impact on the unemployment rate. According to the European Commission, unemployment in Serbia is projected to rise from 10,9 to 13,4% by the end of 2020. When analyzing the labor market, it is important to take into account that it does not include RS citizens working abroad who have returned to the country due to the virus. According to statements released from Serbia's Foreign Ministry, more than 400,000 Serbian citizens who had permanent or temporary jobs abroad have returned to the Republic of Serbia since the declaration of the COVID-19 virus pandemic. Due to the uncertain nature of the coronavirus and the collapse of certain industries, it is not entirely anticipated that all these citizens who have returned may again go abroad to find work within the same positions or sectors of the economy. The crisis will also significantly affect seasonal workers who are generally employed abroad in the hospitality or service industry during peak times of tourism. The unemployment rate could therefore rise even further.

Analyzing formal employment trends prior to and following the onset of the crisis may help determine a more accurate picture of the extent to which the COVID-19 crisis has affected labor market trends. In the RS, the beginning of the crisis was officially announced on March 15, 2020, when the Government of Serbia declared a state of emergency for the entire country. The RS' Decree on Measures during the State of Emergency prohibits the use of public places, parks and public areas intended for recreation and sports, as well as international traffic as well as road, rail and water traffic. Due to these measures, most businesses have not been able to carry out the essential activities to conduct business. According to the data of the Statistical Office, the total number of those active in the labor market in Q1 of 2020 fell by 15,200 compared to Q4 of 2020.

Table 5. Legal Status of Employees within Serbia, Q1 2020

Category	Number of Employees	Changes Relative to the Previous Quarter
All employees in "long-term employment" and in "temporary and occasional employment"	2,117,949	-15,200
- Employees in "long-term employment"	2,048,851	-11 754
- Employees at legal entities	1,678,923	-1,671
Entrepreneurs and their employees as well as self-employed business owners	369,927	-10,084
Employees in "temporary and occasional employment"	69,098	- 3,446
- Employees working within legal entities	64,720	- 3,315
- Entrepreneurs and their employees as well as self-employed business owners	4,378	-131

Source: Statistical Office of the Republic of Serbia, 2020

By sector, out of a total of 19 activities (NACE Rev, 2), a decrease in employment was recorded in 8 in Q1. The largest decrease in the number of employees occurred in administrative and support service activities (-5,7%), professional, scientific and technical activities (-3,9%), as well as agriculture, forestry and fishing (-3,2%). The highest employment growth was registered in mining and quarrying (8,8%) and education (2,8%).

Based on the presented data on the number of employees in Q1 of 2020, the impact of the crisis caused by the COVID-19 virus at the very beginning of the crisis does not readily appear to have had a significant impact on the labor market. The drop in unemployment of 0,7% compared to the previous quarter is primarily due to seasonal factors, taking into account the sectors in which the number of employees decreased.

Table 6. The Number of Employees in Serbia by Sector, Q1 2020

Sector	Changes relative to the previous quarter	Changes % to the previous quarter
Agriculture, forestry and fishing	-1,004	-3.2%
Mining and quarrying	2,323	8.8%
Manufacturing	832	0.2%
Electricity, gas, steam and air conditioning supply	-1,615	-6.2%
Water supply, sewerage, waste management and remediation activities	259	0.7%
Construction	158	0.1%
Wholesale and retail trade and repair of motor vehicles and motorcycles	-3,959	-1.1%
Transportation and storage	635	0.5%
Accommodation and food service activities	-840	-1.0%
Information and communication	121	0.2%

Sector	Changes relative to the previous quarter	Changes % to the previous quarter
Financial and insurance activities	-143	-0.3%
Real estate activities	33	0.5%
Professional, scientific and technical activities	-4,397	-3.9%
Administrative and support service activities	-6,217	-5.7%
Public administration and defense; compulsory social security	-288	-0.2%
Education	4,100	2.8%
Human health and social work activities	-4,934	-3.1%
Arts, entertainment and recreation	265	0.7%
Other service activities	-530	-1.2%
TOTAL	-15,200	-0.7%

Source: Statistical Office of the Republic of Serbia, 2020

In the second quarter, a significant decline in employees is not expected, primarily due to economic measures taken by the RS in order to prevent the impact of the crisis caused by the COVID-19. However, the slowdown in economic activity for all of Europe is anticipated to worsen the labor market in Q3 and Q4 of 2020. According to the International Labor Organization, the sectors most affected by the COVID-19 virus are accommodation and food services, manufacturing, wholesale and retail trade, as well as real estate and business activities.

Table 7. Impact of the COVID-19 Crisis in Serbia

Sector	Gross Value in %	Distribution of Employment	Impact of Crisis on Economic Output
Manufacturing	17.5	459,647	High
Wholesale and retail trade and repair of motor vehicles and motorcycles	13.8	342,569	High
Accommodation and food service activities	1.7	82,459	High
Real estate activities	8.5	6,747	High
Mining and quarrying	2.4	25,989	Medium - high
Construction	5.4	105,671	Medium - high
Transportation and storage	4.7	119,006	Medium - high
Financial and insurance activities	3.6	43,849	Medium - high
Arts, entertainment and recreation	1.4	36,595	Medium - high
Agriculture, forestry and fishing	7.7	30,875	Low- medium
Electricity, gas, steam and air conditioning supply	4.1	26,015	Low
Water supply, sewerage, waste management and remediation activities	1.3	35,602	Low
Information and communication	5.8	67,481	Low
Professional, scientific and technical activities	4.7	108,935	Low
Administrative and support service activities	2.7	106,631	Low
Public administration and defense; compulsory social security	4.1	157,403	Low
Education	4.1	146,247	Low
Human health and social work activities	4.7	156,920	Low
Other service activities	1.7	42,626	Low

Source: Statistical Office of the Republic of Serbia, 2020. Authors adapted from International labor organization

The sectors most affected by the crisis contribute 41,5% to the total Gross Value Added and have a total of 891,422 employees, which is 42,4% of all employees. Unfortunately, it is not feasible at this time to assess the true extent of the impact of the crisis on employment in these sectors. It will primarily depend on the duration of the crisis itself and then on the speed of recovery of Serbia's largest foreign trade partners. If the crisis lasts longer or returns, a sharp decline in economic activity in these sectors may be expected, along with declining incomes and rising unemployment. When companies do start operating, activities shall need a significantly long time to recover to the pre-crisis state, if this is even possible. Some companies will be forced to reduce production and some shut down due to reduced turnover. As a result, a number of jobs will simply vanish, which will significantly increase unemployment.

ECONOMIC MEASURES TO COUNTERACT THE IMPACT OF COVID-19

In Serbia, the financial crisis is a consequence of a significant drop in domestic and foreign demand as well as a result of physical distancing measures. The latter has particularly affected the service sector, which employs almost 50% of the Serbian workforce. Likewise, the tourism sector has suffered severe damage, as the financial loss between March and the first half of April amounted to 2,7 million euros (World Bank, OECD). Falling demand as well as supply disruptions have had a negative impact on production sectors, with liquidity constraints and economic instability also having a negative impact on potential investments.

Based on the number of individuals who applied for unemployment benefits at the National Employment Service of Serbia, 9.200 people have so far lost their job since March (National Employment Agency, 2020). Such data are not encouraging for Serbia, which faced an unemployment rate of 10,4% before the onset of the latest world economic crisis (Statistical Office of the Republic of Serbia, 2020). The situation is further aggravated by the fact that 22,6% of employees are temporarily employed and 19,8% are informally employed. These individuals are considered to be particularly exposed to the crisis and more difficult to help through conventional measures (World Bank, 2020).

The key weaknesses of the labor market in Serbia, which include but are not limited to its high unemployment rates, insufficient alignment between employee competencies and education with labor market needs, as well as insufficient social protection, have also come to the fore during the current crisis (European Commission, 2020). Due to the risk of a further increase in unemployment rates in Serbia, authorities have made the decision to introduce financial measures to help the population and the economy. These measures are in line with the recommendations of the EBRD, which put forward providing liquidity to the economy, especially for small and medium enterprises, and financial support to vulnerable workers and other individuals as key priorities in combating the effects of COVID 19 on the Serbian economy (EBRD, 2020). These measures include the compensation of three minimum monthly salaries to employees in micro, small and medium enterprises, for which 237,000 employers with more than 1,1 million employees applied. Over 834 million Euros will be allocated for these purposes (Ministry of Finance, 2020). The financial aid program includes independent artists as well, who will also be paid three minimum salaries, for which an additional 1,7 million euros will be allocated. Support to large companies was provided through the provision of funds for the payment of 50% of a minimum salary for all employees over a period of three months. Moreover, the measures include assistance to employers in the form of a deferment of tax obligations and social security contributions until 2021, as well as deferment of payment of income tax for Q2 of 2020. Table 8 provides an overview of the short-terms measures introduced to mitigate the economic and social impacts of COVID-19 in Serbia and neighboring countries.

Table 8. Short-term measures to mitigate the economic and social impacts of COVID-19 in the Western Balkans

Policy measure	Fiscal and trade measures		Monetary and financial measures					Social measures
	Rescheduled tax payment and tax deferrals	Rescheduled social contributions payment and wage subsidies	Moratorium on loan repayment for natural and legal persons	Reduction of the Central Bank interest rates	Loan Guarantee Scheme	Development Banks credit lines	Direct financial support for economic entities	
Albania								
BiH								
Montenegro								
North Macedonia								
Serbia								

Source: World Bank Group, 2020

Assistance is also provided for heavy-hit sectors, such as tourism, transport and logistics. In order to compensate for the loss that will occur due to the absence of guests coming from abroad, the Government of Serbia will distribute 560 thousand vouchers. Through the Development Fund of Serbia, the implementation of a program extending financial support to economic entities to maintain liquidity and procurement of working capital in challenging economic conditions caused by the COVID-19 pandemic will also be carried out. The goal of this program, whose total value is roughly 205,9 million Euros, is to provide financial support to economic entities so that they can regularly meet payroll, continue to work with business partners and repay the state. The funds are intended for entrepreneurs, as well as cooperatives, micro, small and medium-sized companies that are in majority private or cooperative ownership and which perform production, service, trade and agricultural activities (Fond za razvoj, 2020).

As part of the measures of financial assistance to the population, all the adult citizens who apply will be provided with the amount of 100 euros. The goal of this initiative is to provide additional financial assistance to the most vulnerable individuals as well as to encourage consumption. The World Bank estimates that the Government of Serbia has responded in a timely and adequate manner to the economic challenges caused by the COVID pandemic 19, with the opinion that adequate implementation of the fiscal stimulus plan totaling 5,2 billion Euros and continued structural reforms will stabilize the Serbian economy (World Bank, 2020).

According to the report of the National Bank of Serbia, despite the impact of global recession, macroeconomic stability in Serbia is sustained (Macroeconomic Developments in Serbia, 2020). It is reported that macroeconomic stability is the result of solid pre-crisis fundamentals, substantial monetary and financial stimulus, as well as favorable structure of the economy. Government borrowing to raise missing funds, and injecting liquidity through banks and government guarantee funds, are certainly suitable initiatives for accelerating economic recovery (IES, 2020). However, it is advised that these funds should be used prudently, given that the effects of the global financial crisis in Serbia will be felt in the second quarter as well.

CONCLUSION

The presented data has demonstrated that the economy of the Republic of Serbia is stable. As the government had taken steps long before the crisis to reduce the share of public debt in GDP and the deficit, a space has been created in public finances for the state to adequately address the negative effects of the crisis. That being stated, exposure of Serbia's economy to the impact of the COVID-19 crisis will depend primarily on the crisis' duration. Indeed, due to the slowdown

in foreign capital inflows, the biggest challenge for economic-policy makers will be to find a way to reduce the deficit caused by measures taken to address the crisis.

According to the data for Q1 of 2020, the labor market was not affected by the crisis at first. In Q3 and Q4 of 2020, we can expect a decrease in the number of employees, primarily in the sectors most affected by the crisis (accommodation and food services, manufacturing, wholesale and retail trade, as well as real estate and business activities). In addition, the decline in the number of employed will occur due to a slowdown in economic activity internationally. It may be expected that severe pressure will be put onto Serbia's labor market due to the significant number of Serbians who returned to Serbia proper during the pandemic and who, taking into account the decline in economic activity globally, will remain in the country after the crisis.

The package of proposed measures of the Government of Serbia to assist businesses in mitigating the economic consequences of COVID-19 target key areas needed to combat the harmful effects of the crisis itself and the economic slowdown it has generated (Fiscal Council, 2020). Temporary tax deferment, direct wage assistance and liquidity loans should have a positive impact on production and employment, especially in small and medium-sized enterprises.

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