CONSEQUENCES OF THE COVID-19 PANDEMIC ON THE WORLD AND SERBIAN ECONOMY

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ABSTRACT

One of the biggest economic crises since the industrial revolution centuries ago is underway, and its intensity is still invisible. The current crisis is caused by the coronavirus (COVID-19) pandemic. In March, when the corona began to take off all over the world, including in Serbia, leading epidemiologists claimed that it would be better from May, some even from June, guided by the thesis that warmer weather could stop the virus and bring life back. on the "old". It is now almost impossible to give any precise forecast, both from the health and economic aspect. The only thing that is certain is uncertainty, both for workers and managers and owners, and uncertainty often brings with it fear. The economic crisis of 2020 differs from the crisis of 2008 because the current one was caused by the states with their measures, and the last one was caused by the financial sector by uncontrolled risky behaviour. The consequences will be similar because again, the banks will warn the states that they have borrowed too much, as if the debt did not arise first in order for the banks to be saved. Unlike the world economic crisis that was current ten years ago, this crisis does not have a clear focus in the financial system that can be identified and acted upon with adequate measures. The economic consequences of the pandemic are greater the more economically underdeveloped the country is, and Serbia entered this crisis as a country burdened with numerous problems, a high share of public debt in GDP and developmentally dependent on foreign capital. The suspension of economic activity for a certain period and its restart in an environment of uncertainty and fear of the now certain second wave, are trends that some companies will survive with certain reductions in production and work capacity.

Keywords: *COVID-19, pandemic, economic crisis, economy, market, uncertainty*

INTRODUCTION

A period of great insecurity, such as the current pandemic, is testing us at the level of humanity, but also as individuals - family members, organizations and communities. In economic terms, empathy, morale and decisive action, along with leadership and resilience are the means by which we can confront the situation in the best way. The importance of leadership role, credibility and trust is now needed, because the decisions that are now made in the business plan, will determine the further fate of both companies and entire national economies for a longer period. In this regard, tools for changing business culture and for sustainable business development have become necessary and essential. It is certain that after the pandemic, nothing will be the same. The new uncertain and challenging situation will require leaders who know how to work in conditions where all parameters have become changeable, who have the knowledge and tools to change the status quo and, taught by the covid-19 crisis, to lead their company or their national economies to sustainable business. success. From the economic point of view, it is necessary to preserve the optimal functioning of business in the given conditions, but also the health of nations. As expected, the world financial markets reacted with lightning speed. When the covid-19 pandemic passes, when the dead are counted, then it will be the turn of a new victim, this time economic. State financial interventions will save large corporations and banks, but everyone else will experience an economic shock. Unemployment, which is already too high, will suddenly increase sharply and, consequently, will hit the most vulnerable segments of the population the hardest, those who have neither social nor health care, nor savings nor real estate, but have debts. The coming economic crisis will first threaten small and weak economies from which capital is rapidly withdrawing. This paper will discuss new and changed conditions on the world economic scene and behaviour on the world market as the main indicator of economic instability.

ANALYSIS OF RELEVANT SOURCES AND DATA

From the point of view of the economy, and as reported by the United Nations, UNCTAD, 42 out of the 100 largest multinational companies in the world announced that they are facing the problem of profitable business. [1] This means that they have to reduce allocations for investments, which will have a negative impact on the operations of banks, and then on the rest of the economy. The situation is aggravated by the growth of corporate debts, because after the financial crisis in 2008, companies based their expansion on excessive borrowing using "cheap money", because governments and central banks sought to help the economy with various incentives such as "quantitative easing".[2] Undoubtedly, most poor countries will sink deeper into poverty, but for some time to come, the other side of the principle of polarization according to which the rich become even richer will lose its power and significance. There comes a time when every country, especially for economically developed countries, will turn to itself and dedicate itself to repairing the negative effects of the pandemic COVID-19 on the economy and society. Ten million cases of coronavirus were confirmed in 215 countries and territories in the world, and almost half a million lost their lives as a result of covid-19 infection. [3] In the same period, the World Health Organization announced that the new focus in which the number of infected people has been growing sharply since the second half of May is Latin America. However, the hotspots are also Africa, Asia and the Middle East. In four countries, Brazil, Mexico, India and Pakistan, an increase in both infected and deceased has been registered in recent weeks. Brazil, Peru, Chile, Mexico and Ecuador are countries where a large number of people are infected, and the WHO states that the pandemic did not reach its peak in the countries of Central and South America.[4] There are 1,000 deaths a day in Brazil, the second country in the world, right after the United States, with more than a million cases. And, while some of the countries believe that they are at the very end of the fight with covid-19, many are afraid of the second wave. Many countries in the world have adopted a series of restrictive measures aimed at preventing the COVID-19 virus pandemic in mid-March 2020. The consequences of the adopted measures can slowly begin to be analyzed, as we receive data from various statistical areas, demography and economy as the most important. Eurostat published data on retail turnover in April by country and by type of trade. Curious villains can look at the countries that went through the above, which is not of interest to us here. [5] We are concerned about the decline in turnover by product groups. Total retail sales in the EU decreased by 10.1% in March and by another 11.1% in April, with the most affected areas being textiles, footwear and clothing (a decrease of 54.1% in March and another 21 , 2% in April) and car fuel (-23.5% in March and another -25% in April). What good is a new wardrobe if we are not allowed to move, and the same goes for fuel? Food turnover first increased by 4.9% in March and then decreased by 5.9%. And this is logical because stocks were made first, and then they were spent, when it was realized that there was food in the nearest supply facilities. From the economic aspect, what particularly interested us was the increase in traffic via mail and the Internet. When it comes to the Serbian economy, in April we recorded a 3.7% lower level of production than at the end of 2000 and 2.3% lower than in March 2009, and it is certain that in May there was a recovery above these selected levels. Compared to January 1989, in relation to which the production of the processing industry in Serbia decreased by 67%. These international comparisons can provide a good insight into the consequences of the pandemic on the economy. In Greece, production decreased by 31.8%, and in Spain by 47.9% (in Italy even more) compared to the end of 2000, and they did not go through Serbia as they did, through transitional wanderings during the previous 20 years. [5] Some authors believe that the consequence of the caused crisis will be the Chinese rise, following the example of the rise of the USA after the world wars, which took place in other territories. [6] Europe has mechanisms of social protection and fiscal policy that will act in order to slow down the growth of unemployment and alleviate the economic crisis. This was possible under the assumption that all countries are recovering from the fall in production in April. The last International Monetary Fund (IMF) mission to Belgrade ended on February 28th, 2020, when coronavirus was already a global problem, although not yet officially a pandemic (that came on March 12th). Despite this, the IMF report confirmed "the positive macroeconomic outlook for 2020, with a GDP growth projection of 4%", in the wake of the "robust performance of 2019, with an estimated growth of 4.2%". [7]

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Unlike countries such as Croatia or Greece which depend heavily on tourism (which makes up for at least one-fifth of GDP), Serbia will therefore react more flexibly to the consequences of the pandemic. This does not mean, however, that the country does not depend on the rest of the world, on the contrary. Due to its opening up in trade, the Serbian economy will be hit hard by the contraction in external demand caused by covid-19, points out the latest report by the European Commission for spring 2020. Not only will imports and exports be limited in 2020, but the climate of uncertainty could also affect another engine of Serbia's recent growth: foreign direct investment. In 2019, Belgrade hailed the country as "the world champion of foreign investment. In recent years Serbia has been able to attract an increasing number of FDI, or foreign direct investment. What will happen in Serbia now? International organizations agree in forecasting a recession in 2020 of around –4%, followed by a 6% growth in 2021. The best recession in Europe, (glossing over the fact that the European Commission itself speaks of "high uncertainty" when describing Serbia's economic future). According to this scenario, however, the government is expected to borrow more (at higher interest rates) as it will have to make up for the temporary lack of internal and external demand and the reduced investments, while poverty – warns, almost cautiously the World Bank – "could grow". The world is facing a very uncertain economic crisis in the first half of 2020. It has not been recorded in recent economic history, since the time of the crises caused by the world wars, that the whole world has been affected by such a wave of uncertainty for the future of the economy. Economic experts, on the other hand, have no experience with such crises, so it is not unrealistic to end everything as during the crisis of 1929-1933, when the fear of inflation (turned out to be unrealistic) led to an economic depression of unprecedented proportions. This can be sensed on the basis of the measures adopted so far in the world. [8]

SPECIFICS OF THE CRISIS IN 2020

This crisis is specific for several reasons. First, the cause of the crisis is not economic in nature. We can say that the crisis is more social than economic. The economic crisis will be just one of the consequences. Second, the economic crisis is a consequence of falling demand caused by restrictions on the movement of people and goods, both locally and nationally, and internationally, all for fear of spreading the infection. Third, until the pandemic is over, life will probably not return to normal. At this point, other than speculation, no one knows when that will happen. So, there is a lot of uncertainty about the duration of the pandemic. This variable is also crucial in assessing what measures are needed to get out of the crisis. Without a clear vision of the length of the pandemic, it is difficult to estimate the depth of the crisis. Fourth, it follows from the previous that we have two phases, ie. two steps in overcoming the crisis. The first phase is the period during the pandemic, the second is the period after the pandemic. The same measure is unlikely to be effective in both periods. Therefore, we will try to concentrate here on the important elements and specifics of the first and second phases in overcoming the crisis, in order to be able to propose some guidelines for selecting adequate economic policy measures, and to comment on the Government's already proposed measures. [9] In just two weeks during March 2020, there was a decline in economic activity in Serbia caused by restrictions on the movement of people and goods. Not all sectors of the economy are affected by pandemic measures at the same time, which is another specificity. Economic activity in sectors such as tourism, passenger transport and catering has come to a complete halt. On the other hand, the turnover in retail trade of consumer goods in the second half of March had an incredible increase, primarily due to the increase in consumer spending. Therefore, selectivity and clear criteria for granting aid are necessary. Then, not everyone needs the same kind of help. Some sectors of the economy have a problem with doing business in general (inability to pay employees, servicing credit and other obligations, and fixed costs, etc.), while others have a problem primarily with current liquidity due to slow turnover of raw materials and goods across the border. Therefore, it is necessary to make at least two sets of different measures in order to Part of the economy is a patient who has an open wound and heavy bleeding and the first thing we have to do is stop that bleeding in order to save his life. Afterwards, when the danger passes, we will think about recovery measures. To summarize, it is necessary to adopt a number of measures to help individuals and legal entities that suffer direct consequences caused by the cessation of activities, reduced volume of international trade, current market loss or decisions made by the state. The second phase begins after the end of the pandemic and the lifting of the state of emergency. Given the global economic developments at the moment, it is certain that the economic problems will not disappear once the danger of the virus ends. Then, however, it will be clearer to see the consequences that the pandemic has left on the economy and the population, and that will be the basis for future economic measures. Without a clear understanding of the consequences, it is hardly possible to define adequate recovery measures. Also, the measures must be long-term, with the basic goal of returning the economy to a sustainable growth path. [9]

The first set of proposed measures concerns the postponement of the payment of taxes and contributions. The measure primarily concerns legal entities, while natural persons are left out (this primarily refers to property taxes). The second set of measures concerns the payment of the minimum net salary to MSME employees and 50% of the salary in large companies. The biggest problem of this measure is the non-selectivity of application, which will lead to great moral hazard. Although this measure is on the right track and with certain corrections could adequately help the economy to overcome this period, we think that precious time has been lost and that the costs of moral hazard are unnecessarily high. It is estimated that about a billion euros will be needed for this set of measures. The third set of measures concerns the launch of corporate lending programs by providing liquidity loans, both direct through the Development Fund and guarantees for commercial bank loans. This set of measures is also well identified, but is also problematic for several reasons.

The fourth set of measures concerns the payment of direct aid to each adult citizen in the amount of 100 euros in dinars, but after the end of the crisis. This measure is a typical example of populism and a school example of what economic measures should not look like at the moment. Without going into details, it was much more adequate to distribute around 600 million euros, as much as was provided for this measure, in another way. Assistance to poor households would be a far more adequate measure at the moment, and that would require about 10 million euros a month.

The general conclusion is that these measures, in addition to delaying the entire process, lack a measure to help owners of micro and small businesses, restaurants, hairdressers and beauty salons and the like. These are all entrepreneurs who are probably the hardest hit by this crisis. Namely, in addition to employees, fixed costs also play a significant role in their business, which they will not be able to pay due to termination of work.

If the state of emergency is lifted by summer and life begins to return to normal, a long period of recovery awaits us. It is time to define the second group of measures needed for the economy to emerge from the crisis after the end of the state of emergency. Based on available data by the first half of April, it is estimated that the world economy will enter a recession and have a decline in economic activity of about 3% in 2020. It is expected that almost all G20 countries will have a decline in economic activity in 2020. At the same time, it is estimated that the decline in the US will be around 5.9%, the EU 7.1% (Germany 7%, France 7.2%, Italy 9.1%, Spain 8%), Russia 5.5% and Turkey 3% etc. The only growth is currently expected in China, around 1.2%, which is far below the expected 5.9% as projected just three months ago, and India by 1.9%. [9] In Serbia, 200 to 300 workers lose their jobs every day. Mostly these are workers who had fixed-term contracts. The question is what will happen when the payment of the minimum wage for more than a million workers is completed. This crisis will be incomparably bigger than it was said. Serbia is not an isolated island, so it should be good here now, and the whole of Europe should be in the red. For example, if you just look at seasonal jobs, there is practically no possibility for our workers to go somewhere to work, because they can't even enter the countries where they used to work. Workers and employers share the same fate. In that sense, seasonally adjusted, the third quarter is likely to have some growth compared to the second quarter, and how that will be in the medium term remains uncertain. Investors around the world are scared, stock market indices are in red again every day, and the price of oil, which has started to recover, has gone into the red for the second time. This is news that we only briefly forgot about and we read the same in February, just before the proclamation of the coronavirus pandemic. It is impossible then not to wonder whether the world stock exchanges are sending us a sign of the arrival of the second wave of viruses and the new economic crisis. On the world's largest stock market on Wall Street, the Dow Jones and S&P 500 indexes fell in June, as investors' fears are growing due to the strong growth in the number of corona infected with the virus in at least six US states. The number of unemployed in the United States is also growing, and the American stock exchange indices are down by at least one percent almost every day.[10] Asian stock markets are still trading cautiously, which the local media interpret as saying that investors' hopes of economic recovery have waned. The International Monetary Fund (IMF) has warned that the public finances of countries will deteriorate significantly due to the efforts of governments to suppress the negative economic effects of the corona crisis. The financial institution also pointed out that the global economy will face a deeper decline than previously predicted, all because the recovery is not going as previously predicted.[11] States have thus drawn their finances and increased public debt, which is why there is now concern because it is almost certain that the recovery will not be so fast. News is coming from all over the world about the increase in the number of infected people, and the extension of protection measures is expected, which does not help the economy at all, but also the already rather exhausted state budgets. According to the basic IMF scenario, global public debt will reach a historic record in 2020 and 2021, of 101.5 percent of GDP and 103.2 percent of GDP, respectively. In addition, the average total fiscal deficit will increase to 13.9 percent of GDP this year, which is 10% more than in 2019. The strongest European economies recorded an unexpected decline. The economic crisis of 2020 differs from the crisis of 2008 because the current one was provoked by the states with their measures, and the last one was caused by the financial sector by uncontrolled risky behaviour. [12] The consequences will be similar because again the banks will warn the states that they have borrowed too much as if the debt did not arise first in order for the banks to be saved. Compared to 2008, countries are now in a much worse position, because since then the level of public debt has increased significantly, and the ratio of debt to tax and other economic indicators has deteriorate. It is interesting that the former Yugoslavia could boast of double-digit economic growth, and in the period from 1953 to 1988, we had a constantly high GDP growth rate of 7.5% [6], [7], [8], [9], [10], [11], [12], [13] Living and earning in the times of the crown means that we have to deal with great insecurity. If we do not manage to maintain a small number of infections at a social distance and remain on this course of mitigation measures in order to reduce the insecurity of companies and households, then we must count on a longer weak phase. The conjuncture will fall by 6.5% this year, the expected decline at the level of the European Union is 8.5%. [14] Although economists predict economic growth of 4.9% next year, the economic strength that Germany had before the crisis will not be able to be reached before 2022, only if there is no second wave.

CONCLUSION

One of the biggest economic crises since the industrial revolution several centuries ago is underway and its intensity is still invisible. The damage the covid-19 pandemic has done to the global economy is now incalculable. The coronavirus epidemic has developed much more dramatically in some countries than expected. The foreign trade environment has deteriorated greatly. It is uncertain in which direction the pandemic will move in terms of health, but that uncertainty, predictions and expectations are already an integral part of the formed prices on the stock exchanges. Investors around the world are scared, stock market indices are in red again every day, and the price of oil, which has started to recover, has gone into the red for the second time. The crisis has seriously affected Serbian companies financially. As it was estimated, small companies have the most problems, especially those with up to 10 employees. Greater reduction of salaries and mass layoffs were undoubtedly prevented by state measures, ie payment of minimum wages. The second wave of the corona and the eventual return of restrictive measures - from the closure of shops and factories to quarantine and curfew, would certainly have much greater consequences for the Serbian economy than the first blow. An even bigger dilemma is what will happen to the workers whose state aid was the entire salary, and there were most of them in sectors such as trade, catering, agriculture, and production.

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