

## **Serbia After the Elections: Covid-19, Economy, and Political Developments**

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### **Introduction**

Serbia is entering a new political reality. This new reality will be shaped by four major factors: the Covid-19 health crisis, the ensuing economic crisis caused by the health crisis, the political impact of these crises, and the election of June 21st.

### **Covid-19 health crisis and its implications**

Covid-19 arrived in Serbia in early March 2020. The initial response of the government was to laugh it off. A great example of this is the now-infamous press conference on which the government and the experts from the government's crisis team laughed at the virus and encouraged the people to go to shopping trips in the already heavily infected Milan, Italy.

Only ten days later, the government made a 180-degree turn, announcing some of the most restrictive containment measures in Europe, which lasted for about six weeks. Throughout the initial wave of the crisis, the interplay of politics and expertise was evident. The measures were announced in an ad-hoc manner, without sufficient explanation of the grounds for these decisions or any logical basis for their effectiveness. The President of Serbia was in the focus of the media. The press conferences of the crisis team and the government often emphasized his role in resolving various challenges – from procurement and shipment of ventilators to negotiations of aid with China, Russia, or the EU.

The skepticism of a large part of the public seems to have been grounded in reality. A day after the elections, on June 22nd, the investigative report from the Balkan Investigative Reporting Network, provided evidence that the government had been covering up its failures from the start and that the official reports on the number of cases and fatalities showed numbers that were several times lower than the actual ones.

The restrictive measures were lifted at the end of April and in the first weeks of May, and shortly after, most of the things seem to be back to normal. For the next month, the number of cases appeared to decline steadily and on par with countries such as Austria, Denmark, or Switzerland. All of this despite the extremely outgoing culture of Serbia and the fact that bars, restaurants, and coffee shops were fully open, along with shopping centers, stores, and other services, such as gyms, hair salons, and others. Political rallies in the streets, sometimes with thousands in attendance, did not rapidly increase the number.

But the situation changed in the first weeks of June, presumably because students started going back to their dorms, and that the exam season started in universities. This was followed by reports

of new cases showing up from large indoor gatherings, night clubs, indoor celebrations, and similar events. The fact that several soccer events took place in this period, with up to 16000 people in attendance, probably did not help the situation, but it remains a question how much if at all, these events contributed.

From the first week of June, the official reports started showing an increase in the number of cases. Still, the rumors began around Serbia that the reports were underrepresenting the real numbers. Anecdotal evidence of the healthcare system being overloaded, possibly more than at the start of the crisis, started making rounds. Reports from medical staff started coming that the situation was much worse than in the first month of the crisis and that the system is underequipped and overloaded.

In the days after the elections, the official numbers started going up again. The government is now announcing new, more targeted restrictive measures in its attempts to balance between the threat of the virus, the public image of the government and the crisis team, and the economy, which has taken a significant blow from the crisis.

### **Economic implications of the crisis**

There are different projections on how the crisis will affect the economy of Serbia.

An optimistic scenario would entail a brief and shallow recession. It is based on the current IMF projections that estimate a -3% of GDP recession that will last for only a year since high economic growth is expected to resume next year. These preliminary projections rely on productive agriculture yields (which were somewhat offset by local flooding), and the low share of the hospitality and tourism sector in GDP generation. However, economic data from April and May show that the depth of recession will likely be deeper due to the significant fall in manufacturing activity and exports. The situation would also be much worsened if a new Covid19 spike is registered.

A pessimistic scenario considers a deep and prolonged recession: the fall in GDP of 5% or more, with very weak economic activity after that, with medium-term growth rates far below the normal growth of the Serbian economy (3.5-4%), mostly due to the fall in industrial exports, weak local demand and high unemployment in the service sector. The IMF recently worsened projections for the main export markets for Serbian products, such as Germany and Italy, which will also have a negative effect on the production chain, especially in the car manufacturing sector, which relies on several key companies. Although the economy recorded a 5% growth in Q1 2020, the growth resulted from strong construction sector performance and the opening up of a copper mine by Chinese investments in Eastern Serbia. Also, even with growth, this was the first time since the previous recession in 2014 that a quarterly GDP was lower than the previous one (-0,6% fall).

Apart from macroeconomic trends, the business strategy of big companies could also have a potentially significant impact on the Serbian economy. The results of the proposed merger of the PSA Group and FCA Group, whose merger is pending the European Commission's approval and its provisions regarding shareholder payout, which may eliminate bailout by the Italian state, will have a significant impact on the Serbian industry. In case of multinational companies that want to reduce risk exposure to events similar to Covid19 crisis, relocation of production facilities closer to home to shorten production chains will put Serbia on the investors' map, due to its favorable geographical position close to Western Europe, but also due to its skilled workforce and competitive wages.

Political implications are unclear, since the national parliamentary elections have just been conducted, which guarantees the next four years in power for the ruling SNS virtually unopposed with the opposition predominantly boycotting the elections. Much will depend on the pace of economic recovery. The public debt to GDP ratio will grow (the current fiscal deficit is projected to 9% of GDP) to more than 60% of GDP at the end of the year, with limited opportunities to foreign loans, as shown by the rising interest rates on the government bonds.

This opens room for additional Chinese government loans, and their influence is expected to grow in the future. The full cost of politically appointed SOE management will require high subsidies for their operations. The currency depreciation will lead to inflation via pass-through effect and fall in real wages due to the high share of imports. This will impose a hard budget constraint on the dominant coalition and could lead to massive dissatisfaction with the political situation if the opposition parties could channel it properly.

### **The political impact of the crisis**

The ruling party, the SNS, came out as winners of the June 21st elections in their biggest victory so far. Winning over 60% of the vote, the SNS will secure over 189/250 seats in the parliament, continuing their 2/3 majority rule with the ability to amend the constitution. The difference this time is that there will be even less, and possibly not at all, opposition in the parliament.

One part of the opposition decided to boycott the elections. This did not seem to have a significant impact on the voter turnout: the boycott, the fear from the virus, and the rainy weather in many parts of Serbia combined reduced the participation from 56.7% on the last election to about 47% on this year's election. The opposition parties that decided to compete mostly did not qualify to enter the parliament, as almost all were below 3% of the vote threshold.

The only party from the opposition that qualified for the parliament is the SPAS party of the former water polo player Aleksandar Šapić, which won 4.7% of the vote and entered the parliament for the first time. So far, Šapić has been a successful local politician in Belgrade and has an image of a politician focused on work, and neutral towards the government and the opposition. It remains to be seen whether Šapić will follow the path of cooperation with the ruling party, or the path of being the only voice of the opposition in the parliament.

SNS victory and success are based on various factors. One is that the party itself is both resourceful and professional, employing various experts in campaigning, communications, and other relevant fields, that their opposition is not willing to cover, or not capable of covering. The other major reason is the vast opportunities to use public resources to improve the chance of success by providing public sector employment to people, public sector and SOE funding to the media, and the direct ownership of most of the national media. Besides these mechanisms, there have been numerous reports of irregularities in the elections process, as well as the reports of the use of possible intimidation tactics.

But the fact that the SNS leaves nothing to chance is only one side of the story. The opposition in Serbia still lacks credibility in the public opinion, as most of the leaders are politicians with a damaged reputation, who used to be in power before the SNS. The situation is not helped by the fact that both intra-party and inter-party clashes are common in the opposition, and that parties seldom have any strategy besides the ad-hoc tactics, which are not proactive, but only respond to the moves of the government.

Geopolitically, China and Russia effectively used the crisis to reinforce their image and influence in Serbia, but this is not likely to have long-term implications. The crisis also brought to surface the EU's incapacity to assert itself in the region – China and Russia moved faster to help Serbia and made their aid more visible. At the same time, the government was more than happy to present this as yet another sign of the historical brotherhood and friendship and distribute this message in the media. The EU eventually moved, but it was too late. Even though the aid was welcome and useful, it seemed that the EU only sent it after China and Russia did. Yet again, this aid was less visible than assistance from other places, such as China, Russia, or the United Arab Emirates.

However, the Covid-19 crisis and its economic impact could be game-changers, and there are, indeed, windows of opportunity for opposition work in the next two to five years.

An economic crisis is one of the few things that can quickly disrupt the SNS rule. The SNS relies on the party's ability to use vast public resources to satisfy its patronage network, provide people with economic opportunities that would lead them to vote for the SNS (and keep voting for the SNS), and control the media landscape. But there is more to the story, as many SNS supporters are supporters not only because they are receiving benefits of the support, but because they expect to receive them.

With a significant slowdown of Serbia's economy, these resources will decrease, and the capacity of the SNS to keep everyone satisfied will decrease. This could get a critical number of voters to at least consider other options, as a way out of the crisis.

Another weak spot for the SNS is Belgrade, traditionally hostile to the SNS and its coalition partners. While the SNS is currently in power in Belgrade, this is also where the difference in votes is narrow, and where the boycott of the elections was most successful. To capitalize on this, however, the opposition will have to make sure that all of the opposition options get in the city hall, which implies the need for more cooperation among the opposition parties. A strong personality to fit the role of the Mayor would also be needed, and the opposition will have to be able to stand behind this person. If the opposition manages to win Belgrade in 2022, its job of winning in other parts of Serbia should get a lot easier, and the SNS support might start to crumble.