From the Editor

Serbia has implemented a generous and relatively comprehensive package of fiscal and monetary measures, which aimed to alleviate the recession triggered by the pandemic, but also to create favorable conditions for economic recovery. With budget revision, the fiscal deficit was increased from the originally planned 0.5% of GDP to 7% of GDP, i.e. by about 3 billion euros. The increase in the fiscal deficit is largely the result of automatic decline in tax revenues due to the recession, triggered by the pandemic and epidemiological measures. We estimate that the automatic impact of the recession on the growth of the fiscal deficit is around 2.4% of GDP, or 1.1 billion euros. The three-month postponement of the payment of taxes and contributions on salaries and profit taxes, for the most part, represents the formalization of what would happen automatically, without state intervention, because a large part of companies would not be able to pay taxes in that period.

In addition to the automatic decline in tax revenues, the State has applied a package of fiscal stimulus with the aim of mitigating the decline in economic activity and reducing unemployment. Fiscal incentives include increased budget expenditures for the payment of minimum wages in the private sector, increased subsidies to road engineering companies, payment of assistance to pensioners, loans through the Development Fund, payment of 100 euros to all adult citizens, increased salaries for health care workers, and part of the procurement of medical equipment and medicines. The total fiscal stimulus amounts to between 235-250 billion dinars, or 2 to 2.1 billion euros. However, during the budget rebalance, the Government reduced expenditures for public investments and expenditures for goods and services by 53.5 billion dinars. When the reduction of expenditures is deducted from the fiscal stimulus, a net fiscal stimulus is obtained, which amounts to 190-200 billion dinars, i.e. 1.6-1.7 billion euros, which is about 3.7% of GDP.

The fiscal stimulus can be assessed in terms of its sustainability, impact on economic recovery and equity. The fiscal stimulus applied by Serbia is relatively large, but it is fiscally sustainable, which means that its implementation will not significantly increase the probability of a public debt crisis. However, the application of a strong fiscal stimulus in a short period of four months significantly reduced the fiscal space for the application of additional fiscal measures during the second half of 2020 and in the following year. However, we expect that the Government will adopt additional fiscal measures during the second half of the year to help the survival and recovery of companies in activities that have been particularly impacted by the crisis, which will result in a further increase in the fiscal deficit and public debt. Fiscal sustainability requires a relatively strong reduction in the fiscal deficit in the coming year, and if that does not happen, fiscal sustainability could be called into question.

The second criterion for assessing fiscal stimulus refers to their anti-recession effects, i.e. how much it will mitigate the decline in economic activity and rising unemployment, i.e. how much it will support economic recovery after the end of the pandemic. The greatest anti-recession potential has a three-month minimum wage payment to entrepreneurs and employees in micro, small and medium enterprises. This measure will contribute to the preservation of jobs in the segment of the economy most affected by the crisis. The three-month delay in the payment of a significant part of tax liabilities approved to the private sector also has a significant anti-recession effect, but the effects would be greater if the measure was applied selectively, i.e. if it was applied only to particularly affected sectors of the economy. Selectivity would allow the same amount of fiscal expenditures for incentives to be applied over a longer period of time. However, it seems that the companies have made a self-selection, which means that the part of the companies that can settle tax and credit obligations does so, without using the right to postpone them. This behavior of the company will reduce the state's tax expenditures and create fiscal space for additional incentives during the second half of the year. The weakest anti-recession effect has the approval of 100 euros to all adult citizens of Serbia. Giving aid only to poor citizens would have a greater impact on the economy than allocating the same amount of money to all citizens, because the poor would spend all the aid, and domestic products participate more in their consumption. Selectivity in the allocation of assistance to citizens would enable, at the same fiscal cost, poor citizens to receive assistance for a longer period, which would also intensify the anti-recession effects. From the standpoint of good anti-recession policy, the Government's decision to reduce public investment by 0.8% of GDP is very wrong, because the end of the pandemic is the right time to accelerate public investment. Of course, in order for public investments to make a full contribution to the recovery and development of the economy, it is necessary to improve the procedure for drafting and selecting projects, as well as the procedure for selecting suppliers and supervisors of works.

An important criterion for evaluating all forms of state interventions, including anti-crisis fiscal stimulus, is their fairness. In this context, fairness means that citizens and businesses that are more affected by the crisis, as well as citizens living in poverty regardless of the crisis, receive more help. The most unfair measure in fiscal package is the allocation of 100 euros of one-time assistance to all adult citizens of Serbia, regardless of their financial situation and income level, as well as whether they are affected by the crisis. A certain degree of injustice contains a three-month tax deferral of all taxpayers, because those affected by the crisis and those not affected are treated the same way. The claim of government officials that selectivity in application of measures is unconstitutional is quite unconvincing because selectivity is applied in the case of all natural disasters. In the event of floods, earthquakes or droughts, only those affected by these disasters receive state aid, so this could be applied in the event of a pandemic.

The Government has adopted fiscal measures aimed at stimulating lending to the economy, which includes loans from the Development Fund, as well as a program by which the state guarantees the repayment of part of the loans that banks grant to small and medium enterprises. We estimate that the incentives for approving loans are well set and that they will contribute to overcoming the liquidity crisis, and thus the survival of companies. The three-month delay in servicing credit obligations to all private companies also aims to alleviate illiquidity problems. In the case of this measure, it is estimated that selectivity would be more suitable, which would automatically delay the repayment of loans to companies from industries that are strongly affected by the crisis, while in the case of other companies the condition for delaying loan payments would be a drop in income by a certain percentage. However, in this case as well, the companies made a self-selection in such a way that a onr part of companies did not use the possibility of postponing the payment of the loan, although they were entitled to it.

In addition to fiscal stimulus, the state has implemented monetary measures aimed at alleviating the crisis, but also to encourage economic recovery after the end of the pandemic. The NBS repeatedly reduced the key policy rate so it was at an all - time low at the end of the second quarter. Although the key policy rate of the NBS does not have a strong influence on the interest rates of commercial banks and their lending activity, it is estimated that the reduction of the interest rate in conditions of very low inflation and a sharp decline in economic activity is justified. The NBS increased dinar liquidity by buying 41 billion dinars of government securities, while it created additional foreign currency liquidity through swap auctions. We also consider the NBS measures to increase liquidity in the current conditions to be adequate and they were complementary to the activities of banks that increased their liquidity by reducing their placements in REPO securities.

In addition to the measures applied so far, the NBS has adopted a Decision enabling the purchase of corporate bonds on the secondary market. There are no monetary reasons for purchasing corporate bonds because commercial banks have sufficient amount of government securities in their portfolio and with their purchase and sale the NBS can regulate liquidity. The development of the corporate bond market is an important reform, which should not be part of the anti-crisis package. The corporate bond market should be developed by applying standard procedures that have proven to be good in the world, while the possibility of repurchasing these bonds by the NBS would be introduced only when first-class bonds are profiled on the market. The issue of corporate bonds under the accelerated procedure could lead to the appearance of low-quality bonds, which would compromise this market in the long run. Also, if the NBS promised to buy these bonds in advance, it would lead to moral hazard, i.e. to commercial banks buying these bonds, regardless of the ability of the issuer's company to service them.

If the NBS were to buy illiquid bonds, it would practically mean that it would take over one fiscal function, and if it would buy a larger amount of these bonds, it could lead to an excessive monetary expansion and increase in inflation. Therefore, instead of a hasty issue of bonds, it would be good for large companies to join the loan approval program with state guarantees.