

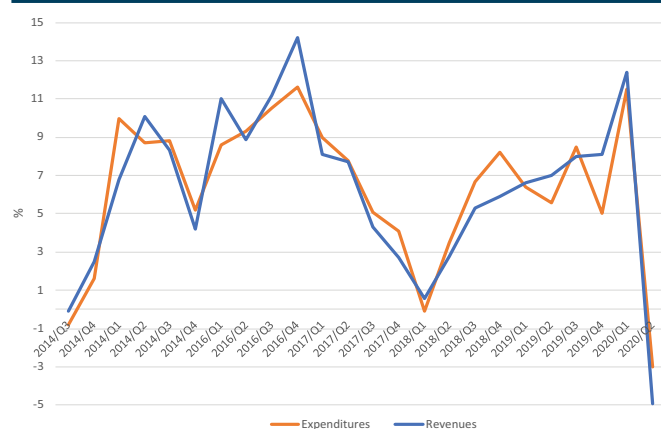
Highlight 2. Tourism Sector in the Republic of Serbia During the Covid 19 Pandemic

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The impact of the Covid 19 virus pandemic on the Serbian economy will inevitably be negative, and to what extent, it will never be precisely known, because it is difficult to distinguish the impact of the pandemic from the influence of other factors. We can get a rough indication of the impact of the pandemic on the Serbian economy by comparing the results achieved in this year with the results from the previous year. Although this assessment is rough, and probably biased, because it ignores the influence of other factors on the dynamics of the economy, it still gives us a useful preliminary indication of how the pandemic affected the economy. A more precise assessment of the impact of the pandemic on the economy requires complex econometric models, but also additional data on epidemiological measures, economic policy, trends in the world economy, etc., and such analysis will be possible only after the pandemic.

Observing the business data of the non-financial sector of the Serbian economy² compared to the same month of the last year we can see that after 22 consecutive quarters of growth in business income of the non-financial sector, Q2 2020 recorded a decline for the first time. The fact that revenues are falling as a result of declining level of business activity is also indicated by data on expenditures, which are also declining.

Graph 1. Growth rates of revenues and expenditures of the non-financial sector in Serbia, compared to the same quarter of the previous year, in%



Source: SORS

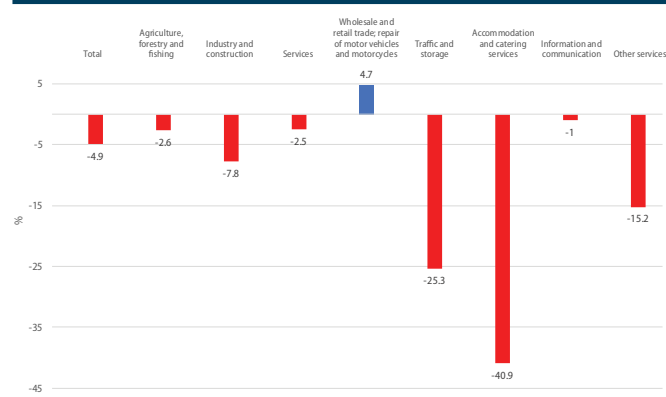
If we look at non-financial economy sectors, the largest decline in revenues, compared to the same quarter of the previous year, was recorded by the Accommodation

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² Does not include: Financial activities, insurance activities, public administration and defense and compulsory social security.

and Food Services sector³ (-40.9%), followed by the Transport and Storage sector (-25.3%) and Other services (-15.2%) which include a large number of different activities⁴. The only sector that recorded a growth in revenues was the Wholesale and retail trade and repair of motor vehicles and motorcycles sector, which recorded revenue growth of 4.7%.

Graph 2. Growth rates of operating revenues by sectors, Q2 2020 compared to the same quarter of the previous year, in%



Source: Author's calculation based on SORS data

As we can see from Graph 3, the pandemic in the second quarter, during which it affected the economy, had the greatest impact on the Accommodation and Food Services sector, i.e. the tourism sector. It could be said that the pandemic had a significant negative impact on the Transport and Storage and Other Services sectors, but these two sectors managed to significantly reduce expenditures by 23.7% and 12.8% in the observed period, and thus significantly mitigated the negative impact of the pandemic. In general, revenues and expenditures decreased slightly in sectors that produce or provide existential products such as food, beverages, medicines, hygiene products, utilities, etc., while they decreased significantly in sectors that offer non-existent products (durable consumer goods, capital goods), especially if the consumption of these products is associated with epidemiological risks (hotels, culture, sports, entertainment, etc.).

The tourism sector, and especially hotel accommodation, is characterized by high fixed operating costs, and thus this sector, despite a significant reduction in expenditures (-20.5%) failed to sufficiently mitigate the negative effects that the pandemic had on revenues (-40.9%).

³ Includes: Accommodation and Activity of preparation and serving of food and drinks

⁴ Other services: Real estate business; Professional, scientific, Innovation and technical activities; Administrative and support service activities; Education; Health and social care; Arts, Entertainment and recreation and other service activities

Graph 3. Growth rates of operating revenues and expenditures by sectors, Q2 2020 compared to the same quarter of the previous year, in %



Source: Author's calculation based on SORS data

TOURISM IN THE REPUBLIC OF SERBIA DURING THE PANDEMIC

The impact of the pandemic on the tourism sector can be observed on the basis of a comparative analysis with data from the previous year, for individual months, but also for the entire period since the beginning of the pandemic. The indicators that we will observe refer to the number of tourist arrivals and the number of nights spent in tourist accommodation. We will observe these indicators in the period from the beginning of the pandemic in the Republic of Serbia to the end of July (the latest available data from official statistics). We will also look at the indicators according to the category of tourist places and the structure of tourists.

The number of tourist arrivals in the Republic of Serbia in the period from March 2020 to July 2020⁵, compared to the same period of the last year, decreased by as much as 69%. Observed by the category of tourist places, we can see that spa tourism is recovering faster than mountain tourism, but also that as of July both categories approached the results achieved in the same month last year. Compared to July 2019, the number of tourist arrivals in spas is lower by 11% in 2020, while in mountain resorts the decline is 20%. Although this decline is also significant, it is far smaller than in the months when the pandemic became obvious and a state of emergency was introduced. As of March, the number of tourist arrivals in Serbian spas was halved, while mountain tourism recorded a decline of 36%. The month of April was completely lost, while in May spa tourism recorded a decrease of 71% in the number of arrivals compared to the previous year, and mountain tourism 89% decrease. A significant recovery was seen in June (a

5 Latest available data

decrease of 19% and 22% respectively compared to the same month in 2019).

Table 1. Decrease in the number of tourist arrivals in the Republic of Serbia and by categories of tourist places, month 2020 compared to the same month in 2019, in %

	March	April	May	June	July
Republic of Serbia	-56%	-98%	-88%	-52%	-50%
Spas	-49%	-98%	-71%	-19%	-11%
Mountains	-36%	-99%	-89%	-22%	-20%
Other tourist places	-61%	-96%	-87%	-53%	-46%

Source: Author's calculation based on SORS data

More important statistical information for observation of tourism sector trends is the number of tourist overnight stays, rather than the number of arrivals. Data on the total number of overnight stays in the Republic of Serbia in this period indicate a very strong decline in the number of overnight stays in April and May (-95% and -83%). Although the recovery in June and July compared to April and May is evident and significant, it should be borne in mind that even in these months the decline is extremely high. If we look at this data, the greater “resistance” of spa tourism in relation to mountain tourism is even more obvious. After the almost absolute halt of tourism in April, spa tourism in May 2020 managed to recover almost a quarter of the number of overnight stays from 2019 (24%), while the mountain tourism managed to recover only one eighth (12.7%). In the following month, June 2020, the number of overnight stays in Serbian spas was “only” 20% lower than in June 2019. The number of overnight stays in Serbian mountains in the same month was 22% lower than in previous year. In July, the recovery was evident - spas in July 2020 recorded a decline of only 11% compared to the same month last year. Mountain tourism recorded a decline of 20%.

Table 2. Decrease in the number of tourist overnight stays in the Republic of Serbia, and by categories of tourist places, month 2020 compared to the same month in 2019, %

	Mart	April	Maj	Jun	Jul
Republic of Serbia	-46%	-95%	-83%	-43%	-36%
Spas	-34%	-98%	-76%	-20%	-11%
Mountains	-34%	-98%	-87%	-22%	-21%
Other tourist places	-51%	-89%	-80%	-53%	-31%

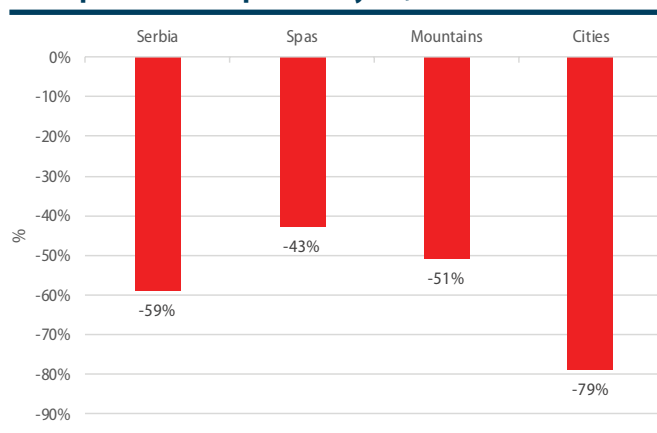
Source: Author's calculation based on SBS data

Probably the best indication of pandemic impact on tourism in Serbia, from currently available data, is the total number of overnight stays in the months from March to July, observed in 2020 compared to 2019.

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The number of tourist overnight stays in the period March - July 2020 compared to 2019 in the Republic of Serbia is lower by 59%. Observed by categories of tourist locations, spa tourism proved to be the most resistant with a decrease of 43%, while mountain tourism, according to the number of overnight stays in the observed period, recorded a decrease of 51%. As both categories recorded a decline that is lower than the total decline in tourist overnight stays in Serbia, it is logical to conclude that tourism in cities suffered the most. This decline was as high as 79%.

Graph 4. Decrease in the total number of overnight stays in the period March - July 2020 compared to the same period of the previous year, in%



Source: Author's calculation based on SBS data

The current decline is not the only problem cities are facing, as there is a change in the business activities of the entire world economy (work from home, online meetings, etc.) which will slow down the recovery of business travel more than travel for pleasure, so it can be assumed that the impact of the crisis will be longer lasting for this category of tourism. The reduction of the budget for business trips also happened during the 2008 crisis, so this reduction can be expected with certainty this time as well, even after the end of the pandemic. Moreover, the question arises how the development and successful, although pandemic forced, mass application of technology for online meetings, lectures, conferences, etc., will affect business travel trends in the future. Pursuant to the above, the decision of the Government of the Republic of Serbia to additionally support hotel accommodation in cities can be assessed as justified and necessary⁶.

Business in tourist sector responded to the decline in demand with reduction of prices of accommodation in the observed period, but this reduction was lower than

appropriate. The number of overnight stays in March in the Republic of Serbia decreased by 46% compared to the previous year, to which the accommodation service providers responded with a price reduction of 7.3%. Excluding April data, which cannot be a realistic indicator of the movement on the market of tourist services due to the fact that the state of emergency lasted during the whole month, the drop of 83% in the number of overnight stays in May was followed by a drop of 8% in relevant prices.

Table 3. Decrease in the total number of overnight stays and accommodation prices in the period March - July 2020 compared to the same period last year, in%

	March	April	May	June	July
Decrease in the number of overnight stays	-46%	-95%	-83%	-43%	-36%
Change in accommodation price levels	-7.30%	-5.80%	-8.00%	-7.10%	0.10%

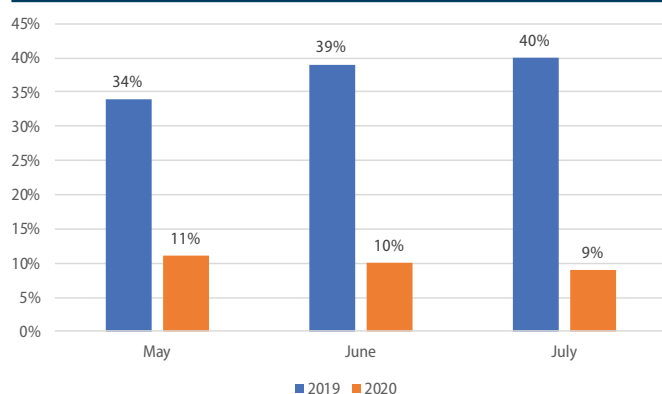
Source: Author's calculation based on SBS data

As previously mentioned, one of the main factors of the significant impact of the pandemic on the tourism sector, especially hotel accommodation, is the high share of fixed costs in this business activity, which accommodation providers have failed to reduce. Accordingly, the stated reduction in accommodation prices can be assessed as insufficient considering that hotel accommodation is a service sector characterized by high fixed costs with low variable costs, so unfilled capacity (or empty beds) can be offered to customers at much lower prices in conditions of such a large drop in the number of overnight stays, resulting in reduction in losses or even profit making⁷. In the conditions of such low capacity utilization, it was economically justified, after mitigating epidemiological measures, for accommodation providers to respond with promotions at significantly lower prices only aiming categories of the population which do not represent their traditional clientele, and thus generate additional income. The data show that this was not the case.

The current situation in the world, caused by Covid 19, has led to a significant change in the structure of tourists in the Republic of Serbia. The number of foreign tourists dropped significantly after the state of emergency, so in May it was only 11% compared to 34% from the same month last year, in June 10% compared to 39% in 2019 and in July only 9% compared to 40% in July 2019.

⁶ The program includes privately owned hotels in 67 municipalities and cities in Serbia, which are awarded with subsidies in the amount of 350 euros per individual bed and 150 euros per accommodation unit, or per room. Hotels lose the right to use of these subsidies if they reduce the number of employees by more than 10 percent in the period from August 15 to December 31, 2020.

⁷ For example, a hotel with 50% occupied capacity spends the same amount on fixed costs as for 100% full capacity (full staff salaries, hotel heating / cooling, lighting, internet and cable TV costs for all rooms, cleaning, taxes, interest, etc.). Additional guest as a variable cost for the hotel means - cleaning one room, soap, shampoo, room heating.

Graph 5. Share of foreign tourists in the total number of tourists in the Republic of Serbia, in %


Source: Author's calculation based on SBS data

We should pay attention to the fact that the coming months (September–January) represent the months with the largest share of foreign tourists in the total number of tourists in Serbia, so their lack will certainly be felt in the tourism sector. Such a change in demand requires appropriate changes in supply, so it can be expected that tourist facilities with professional management will respond to these data in accordance with the structure of foreign tourists according to the issuing country from these months of 2019, and conditions dictated by the epidemiological situation.

Current trends in the market of tourism services are a good indicator of the readiness of tourist places and service providers for changeable conditions and an indicator of their flexibility. Stara Planina already recorded a higher number of overnight stays in June than in the same month of the previous year, while in July it achieved a number of overnight stays of over 10 thousand, compared to just over 3 thousand from the same month in 2019. With these results, in the period from the declaration of the state of emergency until the end of July (available data), Stara Planina achieved the smallest cumulative decrease in the number of overnight stays in the Republic of Serbia (by only 13%). Sokobanja and Banja Palić also recorded significant results and an increase in the number of overnight stays in July compared to the previous year (both spas recorded a cumulative decline of 27%).

The evident trend of recovery in Serbian tourism sector in June and July compared to the same months of the previous year should not deceive tourism service providers, as these are data for the most visited tourist months (with August for which data are not yet available). In addition, the number of foreign tourists in these months was significantly lower than usual, which indicates a recovery based on the consumption of domestic tourists, so the question is how much, in the conditions of this crisis, domestic tourists will be able to carry out the tourist season by the end of the year.

Table 4. Decrease in the total number of overnight stays in the period March - July 2020 in relation to the same period of the previous year for the observed tourist places, in %

Stara Planina	-13%	Banja Rusanda	-48%	Banja Junaković	-62%
Banja Palić	-27%	Banja Vrdnik	-49%	Banja Koviljača	-63%
Sokobanja	-27%	Lukovska Banja	-50%	Banja Kanjiža	-64%
Gamzigradska Banja	-27%	Vranjska Banja	-52%	Tara	-64%
Vrnjačka Banja	-34%	Kopaonik	-53%	Aranđelovac - Bukovička Banja	-65%
Ribarska Banja	-36%	Zlatibor	-54%	Goč	-70%
Mokra Gora	-37%	Banja Vrujci	-56%	Ivanjica	-78%
Prolom Banja	-42%	Zlatar	-56%	Selters Banja	-85%
Divčibare	-45%	Gornja Trepča	-56%	Mataruška Banja	-89%
Sijarinska Banja	-47%	Rudnik	-61%	Niška Banja	-89%

Source: Author's calculation based on SBS data

THE IMPORTANCE OF THE TOURISM SECTOR FOR THE REPUBLIC OF SERBIA AND THE RECOVERY PERSPECTIVE

Serbia entered 2020 with positive trends in the tourism sector, both according to the statistics of tourist arrivals and overnight stays and their structure, and according to the growing impact of this sector on the overall economy of Serbia. Various data indicate a positive trend within this sector and its growing importance.

According to the data of the Republic Statistical Office (SORS) (Table 5), the number of tourist arrivals in Serbia in 2019 amounted to 3.7 million, which is an increase of 84.4% compared to the beginning of this decade (2010). The number of arrivals of foreign tourists compared to 2010 increased by 2.7 times and at the end of 2019 the number of arrivals of foreign and domestic tourists was almost equal, which indicates the growing attractiveness of Serbia as a tourist destination for foreign tourists. The number of tourist nights also increased significantly in the past decade and at the end of 2019 amounted to 10,073,299, which is an increase of 57.1% compared to 2010, with an increase in overnight stays of domestic tourists by 22.2% and foreign tourists by as much as 176.2%.

Table 5. Statistics of the tourism sector in 2019

	Tourists in thousands	Growth compared to 2010	Growth in the number of foreign tourists compared to 2010
Tourist arrivals	3690	84,4%	270%
Tourist nights	10073	57.1%	176.2%

Source: Author's calculation based on SBS data

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The impact on employment also indicates the importance of this sector. According to the data on the Labor Force Survey⁸ in the Accommodation and Food Sector in 2019, there were 105,200 employees, or 3.6% of total employment⁹.

On the revenue side, according to the data of the National Bank of Serbia (NBS), tourism in 2019 realized export of 1.436 billion euros, or as much as 8.2% of the total export. In addition, exports from tourism are growing faster than the growth of total exports, which further indicates the importance of this sector of the economy for Serbia.

Data from the latest Labor Force Survey (LFS - Q2 2020) already indicate changes in the labor market within this sector. Namely, observed by sectors of activity, the largest decline in average hours worked per employee was recorded in the activity of accommodation services with a year-on-year decline of 26.0% and a quarterly decline of 17.7%. In practice, changes in the labor market in the tourism sector are more diversified than layoffs and reductions in working hours and include reductions in wages, forced leave, etc. The problem in the labor market is not only related to employees at the time of the pandemic but also to a large number of seasonal workers who did not increase the unemployment rate but have increased the inactivity rate.

The negative effects on accommodation and food services, especially accommodation services, are not limited to this sector due to the high multiplier effect between this sector and other activities such as rental services, museums, festivals and other cultural activities, transport, etc. According to the research, indirect effects amount to 0.42, i.e. every 100 new jobs in the tourism sector contribute to the creation of 42 new jobs in other sectors.¹⁰

The projections of the World Tourism and Travel Council, in cooperation with OxfordEconomics¹¹, estimate the decline in tourist traffic in 2020 in the range of a minimum of 38% to the worst 80%, with an average estimate of 50%. According to the projections of the European Commission at the level of 27 EU countries¹², it is expected that the pandemic will have an impact on between 6.6 and 11.7 million jobs, by reducing working hours or with layoffs, i.e. between 3.2% and 5.6% of the active population.

Conclusion

The importance of the tourism sector for the economy of the Republic of Serbia is evident from the data on employment in this sector, the level of exports of this sector, the growing trend of number of tourists (especially foreign tourists), the impact of tourism on other sectors, etc. while the negative impact of the pandemic is clearly visible. Observed by the share of tourism sector in exports (8.2%), in the total number of employees (3.6%) and the assessment of the indirect employment multiplier in this sector (0.42) we can say that the Republic of Serbia belongs to the group of countries with moderate risk in relation to changes in the tourism sector, and accordingly we can expect a decline in tourist traffic in the Republic of Serbia between 30-50% depending on what happens in autumn and winter months and a possible reintroduction of restrictive measures.

As a consequence, the tourism sector requires a certain type of state assistance, which should be selective in the coming months, directed to the most affected categories within the sector and which would have the greatest impact on recovery. Certainly, the pandemic will have the biggest negative impact on city tourism, specifically business tourism and city hotels. Therefore, given the impact of the pandemic on city hotels, expected developments by the end of the year and the fact that the negative impact of the pandemic will have a longer effect on business tourism than on other types of tourism, additional support to city hotels is likely and probably necessary by the end of the year.

Tourism service providers should use the period of reduction in the number of guests, thereby operational activities, to analyze the market¹³ and current trends in tourism sector in order to eliminate the shortcomings at the level of cities and country that have been recognized for many years as factors limiting the development of this sector.¹⁴

8 <https://publikacije.stat.gov.rs/G2020/Pdf/G20205658.pdf>

9 In 2018, that number was 102,000, and 94,000 in 2017.

10 Applying multipliers in tourism, Case study, Hans Posthumus July, 2016

11 <https://wttc.org/Research/Economic-Impact/Recovery-Scenarios-2020-Economic-Impact-from-COVID-19>

12 Behavioral changes in tourism in times of Covid 19 – Employment scenarios and policy options

13 Examination of the attitudes of tourists, which should be the basis for the development of the tourism sector, is rarely done at the level of the Republic of Serbia, let alone at the level of tourist places.

14 World Economic Forum, Travel and Tourism Competitiveness Report 2019

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