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The Impact of Global Economic Crises on Serbia

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Abstract: *This paper provides an in-depth analysis of the effects that major global economic crises have had on Serbia, a small and open transitional economy, over the past twenty years. The paper examines four key crises: the 2008 global financial crisis, the COVID-19 pandemic, the war in Ukraine accompanied by an energy crisis, and the recent wave of global inflation. Each of these crises is explored through the lens of their origins, transmission mechanisms, and specific impact on Serbia's macroeconomic indicators—particularly GDP growth, employment, inflation, investment, and public debt.*

The paper also analyzes the Serbian government's policy responses, including monetary and fiscal measures, and evaluates their short-term and long-term effectiveness. Special attention is given to the role of institutions, external dependencies (such as foreign investment and energy imports), and the structural challenges of the Serbian economy.

Findings suggest that although Serbia managed to implement some stabilizing policies, the country's limited institutional capacity, high external exposure, and lack of structural preparedness reduced the overall effectiveness of crisis management. The paper concludes that building economic resilience must become a long-term strategic goal, focusing on diversification, digitalization, social safety nets, and institutional reform in order to mitigate the effects of future global shocks.

Keywords: *Global crisis, Serbia, financial crisis, COVID-19 pandemic, war in Ukraine, inflation, macroeconomic policy, resilience, fiscal response, monetary policy.*

1. Introduction

Over the past two decades, the global economy has faced a series of severe crises that have significantly impacted national economies, especially small and vulnerable ones like Serbia. From the 2008 global financial crisis and the COVID-19 pandemic to the energy

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crisis caused by the war in Ukraine and surging inflation, the world has entered a period of economic instability and uncertainty. In such times of crisis, the importance of

macroeconomic policies and the speed of institutional response become crucial for maintaining stability, employment, and living standards. Serbia faced different challenges in each of these crises — GDP decline, rising unemployment, currency depreciation, reduced investments, and general uncertainty among citizens and businesses. This paper aims to analyze the impact of the most significant global economic crises on the Serbian economy, comparing their characteristics, transmission mechanisms, and consequences. Through the analysis of the 2008 crisis, the COVID-19 pandemic, the war in Ukraine, and the current inflationary crisis, we will show how these global disruptions affected Serbia's economy and how domestic institutions responded. Special focus will be placed on monetary and fiscal policy measures, their effectiveness, and long-term effects on economic stability.

2. Literature Review

The Global Financial Crisis of 2008 and its Impact on Serbia

The global financial crisis that began in 2007 and peaked in 2008 is considered one of the greatest economic disasters of modern times. Triggered by the collapse of the subprime mortgage market in the U.S., it quickly spread to Europe and the rest of the world. Although Serbia was not fully integrated into the global financial system at the time, the effects of the crisis were quickly felt through a decline in exports, withdrawal of foreign investments, and general market uncertainty.

1. **Decline in Economic Activity** Before the crisis, Serbia had recorded stable economic growth — in 2007, GDP growth was about 5.4%, with significant inflows of foreign direct investment and increased domestic consumption. However, by 2009, there was a sharp reversal: Serbia's GDP fell by -3.1%, the first contraction since the democratic changes of 2000.

Main contributing factors included:

- A significant drop in foreign demand, especially from the EU, Serbia's main trading partner.
- A more than 20% drop in exports, particularly in the automotive, metal, and textile sectors.
- A 50% decline in FDI compared to the previous year.
- Decreased bank lending activity and limited access to capital.

2. **Unemployment and Living Standards** The decline in economic activity quickly impacted the labor market. By 2010, the unemployment rate had reached 19.2%, while youth unemployment exceeded 40%. Many businesses had to reduce staff, and wages in the private sector stagnated or declined. Inflation ranged from 6% to 10% during this period, further eroding citizens' purchasing power. Additionally,

the dinar weakened against the euro, raising the cost of imported goods and living expenses.

3. Government Response

In response to the crisis, the Serbian government adopted an anti-crisis package in 2009. Key interventions included:

- Increased public spending through subsidies for agriculture and support for domestic industry.
- Tax relief for employers who retained or hired workers.
- Negotiations with the International Monetary Fund (IMF) and a \$3 billion arrangement to stabilize public finances.

The National Bank of Serbia (NBS) raised the reference interest rate to prevent stronger dinar depreciation and intervened in the foreign exchange market to stabilize the currency. However, due to limited fiscal space and high public spending, there was little room for more aggressive stimulus measures.

4. Long-Term Consequences The 2008 crisis slowed Serbia's development for several years. Full recovery to pre-crisis growth levels was not achieved until 2016. Public debt rose from about 29% of GDP in 2008 to over 50% in the following years. The economy became more reliant on the public sector, and many small and medium-sized enterprises closed.

The COVID-19 Pandemic and its Impact on Serbia's Economy

The COVID-19 pandemic, which began in late 2019 in China and quickly spread worldwide, had profound consequences for the global economy. Serbia, as a small and open economy, was not spared. In 2020, the pandemic caused an abrupt halt to economic activity, border closures, declines in consumption and investment, and great uncertainty for citizens and businesses.

1. Health Shock Turned Economic Crisis in March 2020, Serbia declared a state of emergency and imposed strict lockdown measures, including curfews, suspension of public transport, and closure of schools, businesses, and restaurants. Although intended to curb virus spread, these measures had immediate and significant economic impacts. According to the Statistical Office of the Republic of Serbia (RZS), GDP fell by -6.5% in Q2 2020 — one of the largest drops in recent years. The total GDP decline for 2020 was -0.9%, less severe than in many regional countries but still a major shock.
2. Labor Market and Consumption Impact while mass layoffs were avoided, unemployment rose from 9% to over 10% by the end of 2020. Sectors like tourism, hospitality, retail, and transport were particularly affected. Over 200,000 workers were either on forced leave or working remotely. Consumer confidence fell, savings

increased, and consumption declined. Both imports and exports dropped, while investments slowed due to global uncertainty.

3. **Government's Economic Relief Package**The state responded with one of the largest economic packages in Serbia's modern history. In April 2020, a €5.1 billion package (about 11% of GDP) was adopted, including:
 - Payment of minimum wages for micro, small, and medium-sized enterprises.
 - Deferred tax and contribution payments.
 - One-time payment of €100 to all adult citizens.
 - Subsidies to preserve jobs.

These measures helped prevent a deeper downturn but increased the budget deficit and public debt — from around 52% of GDP to over 58% by the end of 2020.

4. **Accelerated Recovery in 2021** thanks to early vaccination and gradual easing of restrictions, Serbia achieved strong recovery in 2021 — GDP grew by about 7.4%. However, recovery was uneven: sectors like construction and industry bounced back faster, while tourism and hospitality lagged.

The pandemic also highlighted structural issues: reliance on imported medical supplies, unequal access to healthcare, and limited digital infrastructure in education and remote work.

The War in Ukraine and Economic Shocks to Serbia

The war in Ukraine, which began in February 2022, was not just a political conflict in Eastern Europe — it triggered serious disruptions in the global economy. Its consequences were felt in Serbia, even though the country was not a direct participant. Due to its geopolitical position, energy import dependence, and trade ties with both the EU and Russia, Serbia came under complex pressure.

1. **Energy Prices Surge**One of the first and most severe shocks to Serbia came through rising energy prices. Europe faced gas shortages due to reduced Russian supply, causing global prices to spike. Serbia, which imports much of its gas from Russia, had to renegotiate contracts and increase import costs. Electricity and heating prices rose, fueling inflation and adding pressure to households and businesses. The government tried to protect citizens through subsidies and price controls, but these measures were fiscally costly.
2. **Trade and Supply Disruptions**Sanctions between the West and Russia disrupted global trade flows. Although Serbia did not impose sanctions on Russia, many exporters and importers faced transport, payment, and logistics issues. For instance, food and agricultural exports slowed due to international supply chain limitations. At the same time, fertilizer and raw material imports from Russia became more expensive and less accessible, affecting Serbian agriculture.

3. Impact on Investment and Currency Market the crisis increased investor uncertainty. Although some foreign investments continued, new project initiation

slowed, especially those dependent on regional stability. The dinar came under pressure in early 2022, prompting the NBS to intervene to maintain exchange rate stability. Rising global inflation also led to interest rate hikes, further slowing economic activity.

4. Geopolitical Pressures and Dual Foreign Policy Serbia faced pressure to align its foreign policy with the EU while maintaining traditional ties with Russia. This position created political tensions that also influenced economic policy — particularly in terms of aid, donations, and access to EU funds.

Inflation and its Consequences for the Serbian Economy

Inflation has been one of the most complex challenges Serbia has faced since 2021. Although primarily driven by external factors, the domestic market has experienced significant consequences.

The main causes of inflation in Serbia include rising energy prices, cost-push inflation due to more expensive imported raw materials, and increased post-pandemic consumption. Additionally, developments in the global food market (e.g., export blockades from Ukraine) contributed to the rise in basic food prices. Inflation has reduced real wages and citizens' savings. Vulnerable groups, who spend a larger portion of their income on food and heating, have been particularly affected. For businesses, inflation means more expensive borrowing and higher operating costs. Many companies were forced to raise prices, further burdening consumers. The NBS (the National Bank of Serbia) raised its reference interest rate multiple times during 2022 and 2023 to curb inflation. Although this helped slow inflation in the second half of 2023, higher interest rates also dampened lending activity, potentially negatively affecting economic growth.

3. Conclusion

Global economic crises leave deep marks on all countries, but their effects are especially pronounced in small transitional economies like Serbia. The 2008 crisis revealed Serbia's vulnerability to external shocks, particularly due to dependence on foreign investment and exports. The COVID-19 pandemic further exposed weaknesses in the health and social systems, as well as in digital and logistics infrastructure. The war in Ukraine and global inflation exacerbated existing problems, placing additional strain on public finances, the labor market, and citizens' living standards. Serbia responded to each crisis with a combination of fiscal and monetary measures, but institutional capacities were often insufficient for timely and effective action.

One key conclusion is that economic resilience is not built during crises, but in the years preceding them. Investments in education, healthcare, energy efficiency, digitalization, and economic diversification are essential to reduce future risks. Moreover, improving

institutional transparency and accountability is necessary to build public trust. It is also crucial to develop better social protection instruments, especially for the most vulnerable groups who bear the brunt of crises. Serbia must strategically plan its economic future — not just by reacting to external shocks, but through proactive policies that ensure sustainable and inclusive growth.

Ultimately, global crises will continue to occur, but their effects on the Serbian economy can be mitigated if lessons learned are transformed into concrete reforms. The key to the future lies in shifting from reactive crisis management to long-term strengthening of the foundations of economic stability and resilience.

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Uticaj globalnih ekonomskih kriza na Srbiju

Ana Rajević

Apstrakt: Ovaj rad pruža detaljnu analizu efekata koje su velike globalne ekonomske krize imale na Srbiju, malu i otvorenu tranzicionu ekonomiju, tokom proteklih dvadeset godina. Rad ispituje četiri ključne krize: globalnu finansijsku krizu iz 2008. godine, pandemiju COVID-19, rat u Ukrajini praćen energetsom krizom i nedavni talas globalne inflacije. Svaka od ovih kriza istražuje se kroz prizmu njihovog porekla, mehanizama prenosa i specifičnog uticaja na makroekonomske indikatore Srbije – posebno rast BDP-a, zaposlenost, inflaciju, investicije i javni dug. Rad takođe analizira političke odgovore Vlade Srbije, uključujući monetarne i fiskalne mere, i procenjuje njihovu kratkoročnu i dugoročnu efikasnost. Posebna pažnja je posvećena ulozi institucija, spoljnim

zavisnostima (kao što su strane investicije i uvoz energije) i strukturnim izazovima srpske ekonomije. Zaključci ukazuju na to da, iako je Srbija uspela da sprovede neke stabilizujuće politike, ograničeni institucionalni kapacitet zemlje, visoka spoljna izloženost i nedostatak strukturne spremnosti smanjili su ukupnu efikasnost upravljanja krizama. U radu se zaključuje da izgradnja ekonomske otpornosti mora postati dugoročni strateški cilj, sa fokusom na diverzifikaciju, digitalizaciju, mreže socijalne sigurnosti i institucionalne reforme kako bi se ublažili efekti budućih globalnih šokova.

Ključne reči: *Globalna kriza, Srbija, finansijska kriza, pandemija COVID-19, rat u Ukrajini, inflacija, makroekonomska politika, otpornost, fiskalni odgovor, monetarna politika.*