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Article

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SPECIFIC ASPECTS OF THE ECONOMIC POLICY IN THE CONDITIONS OF THE COVID-19 PANDEMIC

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Abstract: Covid-19 has hit the world intensely. From the medical point of view it seems that we have found the way to fight it, and the new task is to recover the economies. First of all, we need to assess the impact and specify the industries that suffered the most in order to create support packages. It is, as well, crucial to define the engines that are still able to drive the economies towards the recovery. The main aim for economic policy makers should be to flatten the curve of the recession that will occur, no doubts. During this process, it is of highest importance to balance the extent of the support government will provide for the economy. Namely, what we want is to lower the intensity of the impact by prolonging the effects of the crisis, however without increasing the debt too high. Specific action plans have to be created individually, with regards to particular economies and their determinants. For that reason, there is no pattern that policy makers could follow.

Having in mind that Serbian public debt is already high, it is essential to carefully design the support packages, without jeopardizing future income.

Keywords: Crisis, Monetary Policy, Fiscal Policy, Covid-19

JEL classification: E30, E52, E62;

Introduction

No one imagined the world would struggle for this long with a pandemic that reversed all patterns of behavior, from business to systemic. There is certainly no aspect of life that has not been radically changed, and the world economy has undergone the biggest changes. The consequence of the health crisis is the economic crisis and recession, and the magnitude of this recession largely depends on the reaction of economic policymakers of most countries in the world. The Republic of Serbia is facing the harmful effects of such a crisis since there is no national economy that will escape paying the price. What should be relied on when making decisions about how to fight this crisis is experience. All previous crises should be carefully considered and compared with the ongoing so that positive conclusions can be drawn, and key lessons from preceding crises need to be kept in mind throughout the recovery. The economy of the Republic of Serbia will have to rely on government intervention during the crisis. Therefore, a timely response from the government and its intervention plan is crucial for a rapid recovery.

If we consider the nature of this crisis, some industries will benefit from it, but others will experience a drastic decline. Nevertheless, it is of essential importance to make a quality selection of the leading industries of economic recovery and those that will require assistance to endure the difficult period, as well as to make the right decision on how to ensure both groups surmount this recession in the best way possible. The synergy achieved in this way is the only opportunity for the longer-term growth of the economy of the Republic of Serbia. Considering all the problems that have followed us over the past decades, and the price we paid for failing to keep pace with the average EU countries, economic policymakers have a challenging task to try to alleviate the severity of the arising situation as much as possible.

The authors will discuss two key hypotheses in the paper: First, expansionary fiscal policy should be on the front line of the recovery from the demand crisis we are facing, and the second, the state will not exceed the level of 70% share of public debt in GDP due to expansionary fiscal policy.

1. The impact of the Covid-19 pandemic on the global economy

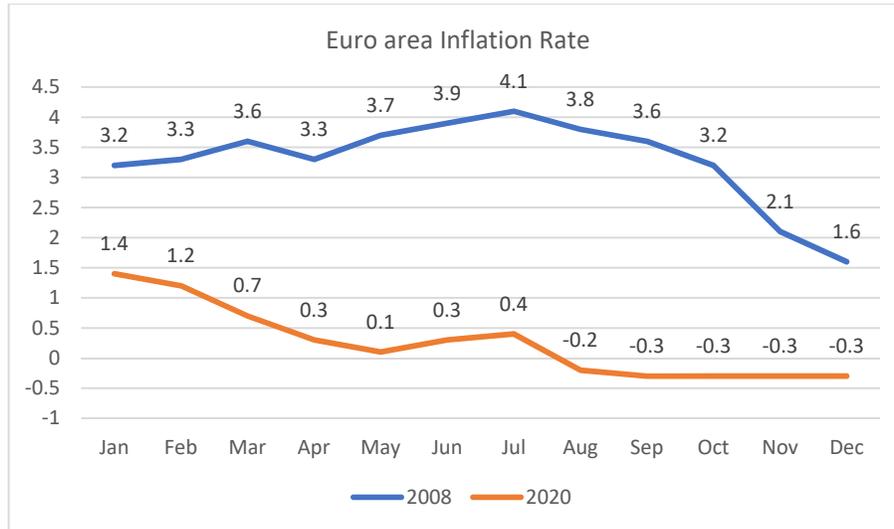
The health crisis followed the COVID-19 outbreak in 2020. Besides immeasurable damage to human lives and health, the crisis has also put the economies of all countries in a very unfavorable position. Some industries have been affected more than others, no one has undoubtedly passed without any damage. Small and medium-sized enterprises are the most vulnerable. They account for 99.8% of all registered enterprises and employ 2/3 in the non-financial sector in the EU-28; thousands of people lost their jobs. Consumption was mainly reduced to essentials for daily life, so government intervention became inevitable.

The pandemic drew attention to the weaknesses of the system in which we operate. The neo-capitalist economy created a consumer society that seemed economically successful under the auspices of high productivity. However, when the pandemic shifted the focus of consumer society to fighting for health and mainly meeting basic needs, we realized that the economy was not working. Income decreased and its use reduced to rational, the system revealed all its weaknesses. The authors concluded that the world economy was based on buying unnecessary things, that is, irrational behavior. The theory of rational expectations in present-day conditions is wholly inapplicable because rational behavior does not genuinely exist. Most importantly, the impression is that we were not aware of it at all. Due to such conditions, the privileged ones do not exist. Even though it is already accepted as an axiom that "big players" in the world market play by more privileged rules than the others, there are issues that even they cannot cope with better than others. In this game, everyone plays by the same rules. Moreover, fear seems to be greater in developed countries due to the awareness that dealing with the crisis will be more difficult for those accustomed to prosperity.

Even though not sufficient to be balanced against the negative effects of the overall situation, it should be emphasized the pandemic also had positive effects. Factory closures, reduced car use and waste reduction gave nature much-needed respite from the typical daily torture. Photographs of dolphins from the Venetian canals and clear skies above the cities accustomed to fog and smog highlighted the long-forgotten beauties of nature. This reminder of the importance of environmental awareness is more critical than the purification itself, which will unfortunately only be short-term.

Despite the optimistic assumptions that the Covid-19 pandemic will cease in the foreseeable future, the reality still denies such claims. Despite that, the economic recovery of the global economy is moving forward at its own pace, continuously, with certain modifications regarding the time horizon. What was initially considered a short-term divergence is now seen as medium-term. Two things have differentiated as leading determinants of economic stability: access to vaccines and timely and vigorous economic policy action. Economic policy actions have become increasingly complex and heterogeneous as the multidimensionality of the limiting factors is obvious: slow employment rate growth, rising inflation, insecurity of production and distribution, restrictions on human capital accumulation and climate change (IMF, 2021, p. XV).

If we compare the inflation rate in 2008 and 2020, the drop in price levels was lower in 2020. The reason is that the price level was significantly more stable and at a lower level before the crisis compared to the pre-crisis period in 2008 when the price level reflected both, inflating the balloon and its bursting.

Chart 1: Inflation rate in the Euro area; 2008 vs 2020

Source: <https://fred.stlouisfed.org>

The outcome of such crises, manifested in both supply and demand, also largely depends on how enterprises react and what pricing policy they will implement. There is no single universal answer to this question because many factors determine how business entities should behave when a recession occurs, increasing their flexibility in that way.

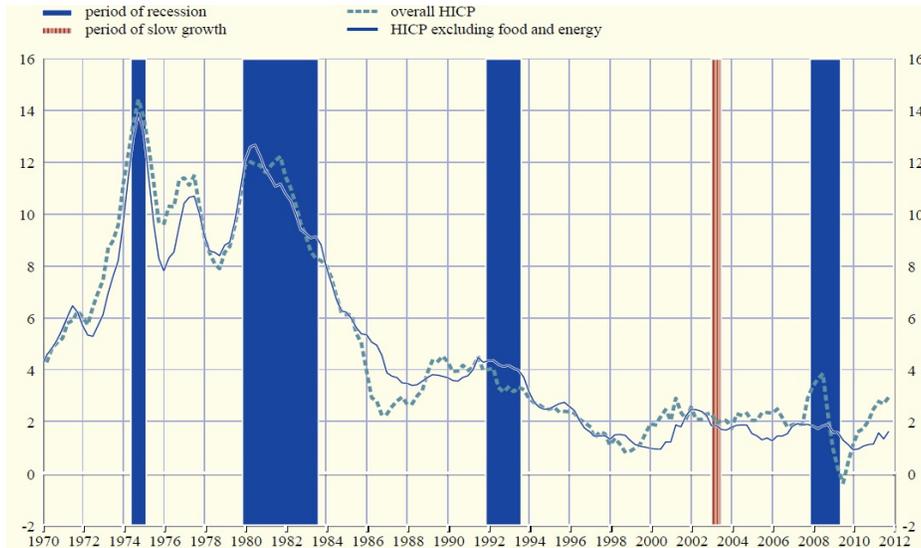
Let's make an overview of price level movements across the Euro area, as a representative example, during major recessions in the second half of the 20th and the first half of the 21st century. We will find that there are considerable disparities in price dynamics before, during and after the recession.

What distinguishes the recessions of the 20th century from the last global economic crisis is that preceding recessions arose from oil price growth, which can be seen in the fact that the overall HICP price index was falling at a significantly slower pace compared to 2008. In 2008, the oil price drop resulted from falling demand, which was not the case until then. The recession we are facing today is by undoubtedly the most specific one since it has its trigger on both the supply side and the demand side.

The impact of labor costs on the general price level should be lower compared to preceding economic crises since labor costs are less and less influenced by declining economic activity. This is due to the increasingly intensive government activities to maintain employment level in the conditions of economic activity decline by means of diverse subsidies for employers provided they retain their

employees. Therefore, the government’s proactive role in such conditions has become the standard.

Chart 2: Price level during the great recessions in the second half of the 20th and the beginning of the 21st century



Source: The Development of Prices and Costs during the 2008-09 Recession, ECB Monthly Bulletin, 2012

The unemployment rate in the Euro area rose from 7.1% in March 2020 to 8.6% in September, in just 6 months (Eurostat). Unemployment growth was lower than in the period after the crisis of 2008, and the main reason for this is the balance of employment growth in the healthcare and pharmaceutical industry. However, such an increase in unemployment, if extended, could potentially cause a considerable drop in demand for finished products and outpace a decrease in supply, which would lead the Euro area into deflation. This once again emphasizes that the efficiency of economic policy measures is essential.

Table 1: Euro area unemployment rate in 2020

Jan	Feb	Mar	Apr	My	Jun	Jul	Aug	Sep	Oct	Nov	Dec
7.5	7.4	7.1	7.3	7.5	8.0	8.4	8.6	8.6	8.3	8.1	8.1

Source: https://ec.europa.eu/eurostat/databrowser/view/une_rt_m/default/table?lang=en

National economic policies must, therefore, adapt to the specific aspects of the local impact of the pandemic and the specific economic conditions. The optimal combination of monetary and fiscal policy will be crucial. Fiscal allocations for healthcare will be imperative, and the intensity of fiscal measures will directly depend on the power of epidemiological problems. Monetary policy will have to monitor inflation trends as well as inflation expectations. It will also need to be highly concentrated on the monetary sterilization of the expansionary measures of other partial policies, necessary in such specific circumstances.

2. Necessity and effects of government intervention during the global crisis caused by the pandemic

The recession that has already occurred to us is specific in many ways and the probability of dealing with it the way done during some of the preceding economic crises is very limited, primarily because there are many uncertainties that economies face. Of course, all the uncertainty has been transferred to the economy. At the beginning of the pandemic, the governments did not know whether it was necessary to impose the so-called lockdown and economic shutdown. When it became entirely certain that the lockdown was indispensable, the suspense of how long it would last remained. Decisions were made along the way, and just like doctors who learned about the virus, economic policymakers around the world learned about the crisis that would follow, its consequences and the measures to be taken.

The underlying problem was that the health and economic crisis required opposite and mutually exclusive measures. The health crisis needed the introduction of social distancing measures, which resulted in the shutdown of many factories and catering facilities, and tourism arrivals dropped to almost zero. Even industries that could continue to operate despite the introduced health measures (e.g., factories that could provide the social distancing the employees need to remain safe) were affected because of the large number of infected workers. On the other hand, the economic crisis required measures to stimulate the economy, start production and all economic activities. It was impossible to deal with both crises at the same instant successfully. The struggle with the health crisis intensified the economic crisis and vice versa.

The priority was to fight and control the virus, which meant that the economic crisis could not be dealt with in the early days. Still letting the countries go deeper into recession was necessary before introducing economy recovery measures.

In the early months of the health crisis, it could be observed that the deterioration in the health situation varied, so governments used the periods of stagnation in Covid-19 virus activity to introduce incentive economic policy measures. Many world economies, including the economy of Serbia, made regulations for the

enterprise operations in the conditions of the pandemic, since it was impossible to completely shut down the economy until the eradication of the virus. During the initial period of complete lockdown, however, it was essential for the state government to get involved and design economic support measure packages.

If we accept that government intervention was vital, the focus should be on what the government can do to mitigate the effects of the crisis. There are several possibilities. Regarding the monetary policy, the government has at its disposal the following options:

1. Quantitative easing - the central bank could purchase securities on the open market and thus increase the money supply. In this way, the government directly affects the interest rate reduction, which increases investments and price.
2. Reducing required reserves - reducing required reserves allows banks to increase the money supply, which also affects income and price growth through investments.
3. Negative interest rates - Negative interest rates are not popular; however, this measure was implemented after 2008 global crisis in the EU. This way, the savings rate decreases, whereas the consumption rate increases.

Monetary policy measures worldwide consisted of trying to free banks from their liabilities to maximize the capital gains. Loans were stimulated to the industries that were severely affected by the pandemic. In addition, suspension of debt payment obligation was introduced in most countries for an unspecified period.

The European Central Bank has introduced additional commercial banks security purchase programs (APP - Asset Purchase Program) and long-term loans to commercial banks with very low-interest rates with intending to investing capital into the real economy, as much as possible. A specific program for refinancing commercial banks' the liabilities - PELTRO (Pandemic Emergency Longer-Term Refinancing Operations) was introduced, which postponed the commercial banks' liabilities for one year. 750 billion euros were set aside for the purchase of securities of private and public enterprises (Policy responses to Covid-19 – www.imf.org).

The central bank of the Federal Republic of Germany, for instance, in addition to all the measures introduced by the ECB, set aside an additional 100 billion euros to refinance liabilities through the Development Bank and reduced the interest rate for banks to 0% (Policy responses to Covid-19 – www.imf.org).

The central bank of Great Britain also reduced the interest rate to 0.1% and purchased government bonds valued at 450 billion pounds.

In addition to the mentioned measures, many central banks lowered the level of required reserves to release additional capital for loans to the real sector.

Despite all the similarities (Dodd and Mills, 2008), what characterizes the economic crises triggered by the pandemic and distinguishes them from financial, political, and other forms of crisis is the implementation of most of the standard measures to fight the recession (which is a consequence of all forms of crisis) is impossible. The fight against the pandemic implies the shutdown of a large part of economic activity, which is not only the cause of the future economic crisis, but also the greatest impediment to any government attempt to deal with this crisis using corresponding economic policy. Measures against the health crisis are opposed to measures against the economic crisis. In such cases, therefore, the time frame of the measures taken is crucial. Two sets of measures must be taken: during and after the crisis (FitzRoy and Spencer, 2020).

Fiscal policy measures are comprised of economic packages designed by governments to support the economy. These measures mainly include state tax reliefs or state tax deferrals, increased financial support for the unemployed, various forms of support to small and medium-sized enterprises, with the emphasis on the most severely affected economic sectors, etc. The scope of these measures varies by country and ranges from 0 to approximately 15% of GDP. In a sample of 166 countries, we can notice a link between GDP per capita and the volume of adopted economic packages was noticed (Elgin et al, 2020). The most developed countries invested the most, which seems right. The point is to try to substitute the decline in other three elements of overall demand, both private and investment and the difference between export and import with the public spending growth to prevent a reduction in income levels.

Germany adopted a supplementary budget of EUR 156 billion in March and EUR 130 billion in June, for the purposes of fighting the Covid-19 pandemic. In addition to financial investments in health care, medical research and development, and financial support for the medical treatment of socially underprivileged groups, a part of the allocated funds was also invested in financing small and medium-sized enterprises. The self-employed people are estimated to be the most severely affected in 2020 and 2021. A set of measures have been adopted to enable interest-free tax deferral, and additional funds have been established to support start-up companies. Value-added tax has been temporarily reduced, and other funds have been allocated to provide guarantees for the private sector (Policy responses to Covid-19 – www.imf.org).

France is one of the most severely affected countries by the Covid-19 virus. Since mid-March, the number of infected has been growing at an alarming pace. France was forced to close schools, shut down all activities except the elementary ones and impose a curfew. The effects on the economy were devastating. In the first quarter, growth was reduced by 5.9% compared to the previous quarter, and in the second quarter by an additional 13.8%. To deal with this crisis, France has allocated funds of EUR 135 billion. In addition to the procurement of medical equipment and additional funds to increase the income of health care workers,

France has allocated part of the support funds for part-time workers, the socially underprivileged, the most fragile small businesses and the self-employed. In Germany, tax payment and health insurance deferrals have been adopted. In September, a supplementary budget of EUR 100 billion was adopted to fight the crisis caused by the pandemic (Policy responses to Covid-19 – www.imf.org).

Since some sectors of the economy were affected more than others, fiscal policy will have to make the selection of most fragile sectors (Praščević, 2020). In the European Union, for instance, tourism contributes to GDP by 10%, and tourism is the sector of the economy that has been indeed most severely affected by the pandemic for evident reasons.

In China, the country of the initial outbreak of the coronavirus Covid-19, the focus of fiscal policy was on public investment. Public investments were primarily focused on the health sector, but were not limited to the same. Chinese economic policymakers considered that the particular goals would be achieved in this way since opening new hospitals and investments in medical equipment would help fight the virus and at the same time create new job openings and raise the income (Policy responses to Covid-19 – www.imf.org).

The United States started the fight against the corona virus relatively late, even though it is one of the three most affected countries in the world. Fiscal policy in the United States was based on allocating approximately USD 3 trillion to fight the virus. These funds were used for tax relief, providing financial support to the unemployed, food supply and assistance to the most fragile companies using loans and guarantees (Policy responses to Covid-19 – www.imf.org).

Considering that the economic crisis caused by the pandemic was a supply and demand crisis as well, these market distortions after the initial fall in prices in 2020 led to an increase in inflation in almost all vital national economies in early 2021, which further implies the inflation expectations increase in the coming period.

Nevertheless, how did we come from the economic crisis, employment decline and demand to inflation? Since 2020, specific bottlenecks have emerged in the aggregate supply, which made many companies reduce the production of final goods.¹ This further led to a decrease in aggregate supply, which outpaced the demand reduction, as one of the causes of global inflation. Currently, the global economy is facing rising consumer goods, energy, metals and food prices, with no clear indication of when such trends will stop. Later in 2020, the expansionary fiscal policy in most countries bore fruit, so the demand was elevated to a higher level, which further affected the inflation growth. It should be kept in mind, however, that the current status of demand is artificial, and that it is of crucial importance that

¹ Delays in transport logistics, the blockade of the Suez Canal and the closure of some ports in China due to Covid-19, have led to an unprecedented delay in the deliveries of key inputs globally.

economic policy empowers the economy, so that the level of demand remains high even after the suspension of economic policy measures (IMF, 2021, p. XLV).

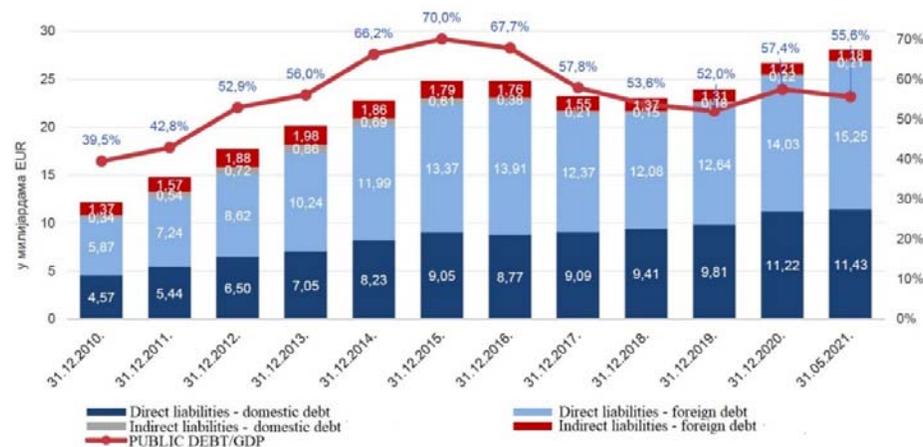
3. Public debt flow conditioned by the crisis due to the pandemic

Fiscal policy is significantly more efficient in raising demand, primarily because of its direct impact on demand, as opposed to monetary policy, which influences demand through interest rates. The measures the government has at its disposal are:

1. Public spending, i.e., increased investment in public goods that raise the employment level, thus raising the income level. As a result, aggregate demand is growing, and prices return to the previous level.
2. Tax reduction increases the net income of the population and the economy, therefore, directly affecting the two elements of aggregate demand - both private and investment spending are growing.

However, the expansionary fiscal policy requires extreme caution because it cannot neutralize the effects of the crisis. What can be achieved with fiscal policy is the so-called crisis settlement. This way, the crisis is prolonged, and its intensity or the intensity of its effects on the economy is mitigated. Why? Because the expansionary fiscal policy is financed from the public debt, which will inevitably reduce income in the coming years.

Chart 3: Share of public debt in GDP of the Republic of Serbia



Source: www.javnidug.gov.rs

The public debt of the Republic of Serbia in the period from the beginning of 2020 is expected to grow. However, the pace of public debt growth and its share in GDP indicates that the country is unlikely to return to the level of 2015 and exceed 70% of GDP. Namely, from the end of 2019 to the end of 2020, the share of public debt in GDP increased by 5.4% - amounting to 52% to 57.4%, and from the beginning of 2021 it decreased to 55.6%.

It is also noticeable, from Chart 3 that the most significant part of the public debt is direct liabilities, both domestic and foreign. The share of direct liabilities can be expected to grow as well, since the government will take the lead in investments during the recovery, and therefore, will increase direct debt. So to determine whether public debt should be expected to exceed 70% of GDP again, the calculations of chain and base index of change in public debt are made. We are taking 2016 as a base period, keeping in mind that previous years can be considered as a period of recovery from the 2008 crisis.

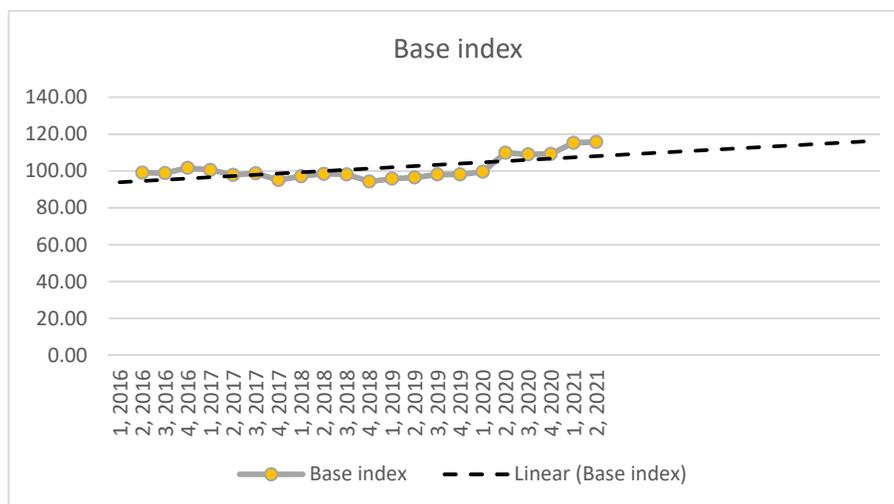
Table 2: Chain and base index of change in public debt

Quarter	Public debt	Chain index	Base index
1, 2016	24,411,136,171		
2, 2016	24,181,668,029	99.06	99.06
3, 2016	24,138,193,492	99.82	98.88
4, 2016	24,820,234,377	102.83	101.68
1, 2017	24,547,744,208	98.90	100.56
2, 2017	23,895,010,310	97.34	97.89
3, 2017	24,107,924,883	100.89	98.76
4, 2017	23,209,615,426	96.27	95.08
1, 2018	23,720,597,101	102.20	97.17
2, 2018	24,038,380,459	101.34	98.47
3, 2018	23,958,768,106	99.67	98.15
4, 2018	23,014,602,572	96.06	94.28
1, 2019	23,396,978,082	101.66	95.85
2, 2019	23,555,610,724	100.68	96.50
3, 2019	23,947,684,850	101.66	98.10
4, 2019	23,944,007,421	99.98	98.09
1, 2020	24,308,433,054	101.52	99.58
2, 2020	26,826,994,394	110.36	109.90
3, 2020	26,604,703,056	99.17	108.99
4, 2020	26,669,329,948	100.24	109.25
1, 2021	28,142,170,429	105.52	115.28
2, 2021	28,260,957,917	100.42	115.77

Source: Authors' calculation based on data from the Monthly Reports on the Analysis of Public Debt and General Government Debt, Public Debt Administration

If we add a trend line to the change in the base index, and assume that the delta will stay roughly the same, we can note that in the next three years the level of public debt should not exceed 120% of the base year value (first quarter of 2016). Therefore, it will remain below 30 billion euros. Although the GDP of the Republic of Serbia declined by 1.1% in 2020, compared to 51.48 billion euros in 2019. In the first quarter of 2021, the growth of 1.7% was achieved (www.stat.gov.rs), and the IMF forecast for 2021 is 5%. If this forecast is realized, the share of public debt in GDP should remain below 70% even if public debt exceeds 30 billion euros.

Chart 4: Base index trend



Source: Authors' calculations

4. Alternative economic policy measures and their impact on the national economy in the conditions of Covid 19

In addition to standard economic policy measures to stimulate aggregate demand, such as increased public spending, tax exemptions, expansionary monetary policy, etc., which have been immediately adopted in almost all countries in the world, some alternative measures were implemented in some countries in the preceding recessions, which might be beneficial in the present situation as well. Due to the peculiarities of the present situation, more flexible working hours in some economic sectors could reduce unemployment and ease the burden on employers. Namely, this is a measure implemented in Germany during the financial crisis in 2008 and is known as the Work-Sharing scheme (Brenke et al, 2011). The measure is based on the agreement between employers and employees to reduce working hours over a certain period. Under the conditions of the agreement, the

employer is supposed to reach a collective agreement and the working hours are supposed to be reduced linearly for all employees. What is achieved in this way is for workers to avoid layoffs and retain their income during the crisis, which is of essential importance. In addition, the financial burden on employers is eased since the labor costs are reduced. It is estimated that at one point, after the crisis of 2008, Germany hired one and a half million workers were under the Work Sharing program, and the unemployment would have risen by 100% more than the maximum level reached without this program. In the United States, in the post-crisis period of 2008, 17 states allowed the implementation of this program. It is estimated that, if this program was implemented in all countries, up to one million jobs would have been saved (Abraham, Houseman, 2014), confirming the extremely high potential of this measure. The most significant opportunity for this program to be utilized is in the manufacturing activities.

Furthermore, progressive taxation can make dealing with the crisis less challenging. Although quite an unpopular measure, it allows the richest to bear the most significant burden of the crisis thus preventing low-income groups from falling below the poverty line. The critical element for achieving the positive outcome of this measure is an adequate training program, that is, a thorough explanation of all the aspects of this measure to the richest, because the success and results to be achieved depend on whether they will reject or embrace it. The danger posed by this measure is the relocation of the capital. Should this occur, negative effects on the economy will reflect in the investment potential reduction, thus further reducing already low investment spending and devastating overall demand. At the beginning of this paper, we realized that the key to exiting the crisis as rapidly as possible is to maintain aggregate demand at the highest possible level. Due to the mentioned risk, in addition to progressive taxation, good training programs and explanations need to be included for people to gain insight into the government's intentions and the consequences that may follow with or without the implementation of this measure. Positive as well as negative outcomes of this measure are possible. Therefore, great caution is required.

At the beginning of this paper, the authors point out that there are certain economic industries that can be the leading agents of the economy's recovery. These industries have not been affected by the crisis that has occurred - the food industry, the pharmaceutical industry, the medical equipment industry, the non-labor manufacturing industry, the construction industry, agriculture, etc. It is crucial that the government recognizes the industries in question and empowers them to contribute to the rapid economic recovery safely. Fiscal policy measures are the most efficient for this group of industries. In addition to temporary tax exemptions and various support packages, what the government can offer to the enterprises is assistance in supplying raw materials and finding markets, so that the economic activity of these companies would not be reduced. Some industries have the potential to develop during the crisis, and it should be government's priority to

recognize them and help them derive as much benefit from it as possible. There is also the possibility that the Chamber of Commerce will organize a training program for small and medium-sized business owners, with the intention to provide them with the experience and knowledge, and the instrument to act as efficiently as possible during the crisis. One company's success during such recessions is the success of the entire economy.

Considering that the Republic of Serbia has remarkable agricultural potential, and agriculture being one of the less affected sectors of the economy during the pandemic, it is a plausible assumption that the growth of agricultural export will be one of the leading agents of economic recovery. The agricultural subsidy program is beneficial on various levels in this period. First, export growth would provide necessary foreign currency inflow. But perhaps a more significant benefit from agricultural subsidies lies in the fact that agriculture represents a limitless potential for employing the workforce that will lose jobs due to the recession, whether farm employment or self-employment. Also, the growth of agricultural production represents the basis for the future development of the manufacturing industry, representing an even greater export potential in terms of value.

Conclusion

The economic crisis arising from the Covid-19 virus pandemic is alarming and will require a very well-balanced economic policy. Given the nature of the crisis, what is crucial is the harmonization of economic policy measures with health care measures. However, what prevents achieving the desired outcome concerning the implementation of these two sets of measures is the fact that they are mutually exclusive. Indeed, the priority is to contain the pandemic and fight the virus. However, economic policy measures must be implemented properly and promptly. Also, it is necessary to note that not all economy industries are equally affected. Therefore, selective application of economic policy measures is required on this occasion. Moreover, it is possible to identify three key choices that economic policymakers will have to make:

1. Time horizon of economic policy measures - precisely determine the starting point of the implementation of measures, as well as the duration.
2. Intervention intensity - the scope of the support packages that will be allocated to help the economy.
3. Selection of industries into those that lost their markets during the crisis and those that will be the leading sectors of economic recovery.

Public spending financing leads to an increase in public debt, which was already at a significantly high level before the outbreak of the crisis. Therefore, it represents a serious limiting factor in expansionary fiscal policy. The increase in public debt further implies that most of the income will need to be set aside to

maintain the debt in the future. This is something all the World will need to deal with, not only Serbia. Therefore, the World Bank has announced the so-called Debt Service Suspension Initiative. This Initiative offers countries in danger of becoming insolvent an option to apply for debt write-off (WB 2022, XLIX). All previously mentioned factors will negatively affect the income level in the coming years. Therefore, the primary goal of economic policy in the coming years will be to recognize a favorable moment to implement measures to stimulate production and export after regaining complete control over health crises. So to achieve this, monetary policy will be to maintain the exchange rate level at an equilibrium level.

The general opinion, however, is that monetary policy is less effective in raising demand levels due to the "liquidity trap" - that is, when increasing money supply can lower interest rates only to a certain extent, and, therefore, the effect on demand growth is limited. However, the link between money supply and interest rates and thus demand levels, is indisputable (Orphanides, 2003).

IMF advises that during the crisis, the focus should be on the innovation, since innovation is the most effective in raising economic growth, long-term. Their research has shown that the increase in innovation spending by 10% should result in a 0,3% increase in productivity (IMF 2021, LXV).

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SPECIFIČNI ASPEKTI EKONOMSKE POLITKE U USLOVIMA PANDEMIJE COVID-19

Apstrakt: Covid-19 je ostavio velike posledice na ceo svet. Sa medicinskog aspekta, čini se da smo uspostavili kontrolu, pa nam ostaje da se bavimo oporavkom ekonomije. Pre svega, neophodno je proceniti efekte i izdvojiti industrije koje su pretrpele najveću štetu, kako bi se kreirali paketi pomoći. Takođe je od ključne važnosti definisati koje industrije mogu da budu pokretači oporavka. Osnovni cilj za kreatora ekonomske politike treba da bude ispravljanje krive recesije, do koje će neminovno doći. Ovom prilikom, od ekstremne je važnosti dobro odrediti obim paketa pomoći. Naime, cilj je smanjiti intenzitet krize prolongiranjem njenih efekata, međutim bez ugrožavanja nivoa duga. Specifične akcione planove neophodno je kreirati individualno, imajući u vidu osnovne karakteristike specifične ekonomije. Iz ovog razloga, nema nekakvog šablona kojeg bi kreatori ekonomske politike mogli da koriste. S obzirom da je nivo javnog duga Republike Srbije već visok, esencijalno je pažljivo dizajnirati pakete pomoći, kako budući prihod ne bi bio ugrožen.

Ključne reči: Kriza, monetarna politika, fiskalna politika, Covid-19;

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