Instytut Europy Środkowej

IEŚ Commentaries

No. 157 (60/2020) | 06.04.2020

ISSN 2657-6996

Szczepan Czarnecki, Dominik Héjj, Łukasz Lewkowicz, Agata Tatarenko

COVID-19 Pandemic in Czechia, Hungary and Slovakia

The COVID-19 pandemic forced the authorities of Czechia, Hungary and Slovakia to adopt a number of similar solutions such as strict lockdown or closing the borders. Decisive steps to limit and slow down the spread of COVID-19 have been undertaken in these countries earlier than in Western Europe. Each authorities have prepared an assistance package for domestic economies. At the same time, Czechia, Hungary and Slovakia are strongly dependent on development in Western European countries, primarily in Germany, France and Austria.

Czechia

As of 13 March 2020, the Czech government approved the declaration of the state of emergency in the whole territory of the Czech Republic for 30 days. On 30 March, the government decided to extend the emergency measure against the spread of the COVID-19. The extraordinary measure from the government following the declaration of the state of emergency, limiting freedom of movement and residence of persons until Tuesday, 24 March 2020, with certain exceptions, will now be extended until 11 April due to developments in the coronavirus pandemic in the Czech Republic.

Government stimulus package to appear soon. The so-called 'Antivirus' program includes, e.g. a state contribution to compensate the earnings of various business entities whose economic activity will be jeopardized due to the COVID-19 pandemic in Czechia. Another part of the program is the 'kurzarbeit' (eng. 'short-time working') which means that the employer shortens the employee's work time, but keeps their work position. The state will contribute to the employees wages under the condition that the company does not lay off its employees. This Program is intended to, for example, companies that have had operational issues due to reasons such as quarantine of an employee, a fall in demand, a lack of material or temporary closure of operations due to the government shut-down. They may receive a wage allowance of 60% or 80% depending on why their operation has been limited or stopped. Companies will be able to apply for the support from Wednesday, 1 April.

Due to the developments in the coronavirus pandemic in Czechia, the Czech Chamber of Deputies approved a draft amendment to the State Budget Act for 2020. The amendment envisages total revenues of CZK 1,488.3 billion and expenditures of CZK 1,688.3 billion this year. The state budget deficit will be CZK 200 billion compared to planned CZK 40 billion. The main change on the expenditure side of the state budget is an increase in the government budget reserve of CZK 59.3 billion. These funds will be operationally used to prevent the spread of the COVID-19 epidemic and manage of its effects. As part of the necessary austerity measures, the budget of the Ministry of Defense is reduced by CZK 2.9 billion on the expenditure side.

Hungary

On 4 March, the first case of a person with COVID-19 was diagnosed in Hungary. Since then, Hungarian government have been trying to stop a pandemic in Hungary. On 11 March, the government declared a 'state of danger' caused by COVID-19.

An anti-crisis program was presented on 18 March, by Viktor Orbán. By the end of this year neither private individuals nor companies will have to repay existing loans – payments are suspended. The government have also reduced the APRC to 5% on all loans taken since 19 March this year. By government decision, the hotel, entertainment, sports, cultural and passenger transport industries do not have to pay pension and disability pension contributions at all. For other industries, pension contribution, health insurance have been limited to the minimum. The moratorium will last until 30 June 2020. Taxi drivers have been exempted from having to pay a flat-rate income tax. In the industries mentioned above, the government prevented the termination of lease agreements and changes to the terms of these agreements.

Coronavirus Protection Act. The first period of this extraordinary 'special legal order' was forced till 30 March. On this day Hungarian National Assembly passed bill (so called) Coronavirus Protection Act. As a result of this Act, the 'state of danger' now is without any time limit. The National Assembly is *de facto* suspended. During the 'state of danger' the government has the right to rule by decree, without National Assembly. It is also forbidden to organize any elections or any referendum at the level of any local government.

The new unlimited power of Prime Minister Orbán was criticized by politics and public opinion in EU. The Minister of Justice of Hungary, Judit Varga, who prepared this bill said that the point of Coronavirus Protection Act it to save Hungarian people. The government also said that The National Assembly may withdraw the authorization to rule by decree before the end of the period of state of danger. In fact, it is not possible, because Fidesz-KDNP have 2/3 majority in the Parliament, which means that National Assembly will not take any steps against the will of the Fidesz-KNPD government.

Slovakia

On 12 March, the Slovak government decided to introduce a state of emergency caused by COVID-19. The first restrictions came into force the day after. Then government at an extraordinary meeting on 15 March, declared to introduce a state of emergency in health care. Since 24 March it is not allowed to leave the house without covered respiratory track, at the same time it was allowed to open places such as haberdashery, garden stores, computer services or notary offices. The Conference of the Episcopate of Slovakia has decided that Easter holy masses will be celebrated without parishioners. According to the forecasts of the Minister of Health, the peak incidence in Slovakia will take place in July this year.

The Slovak government have announced an anti-crisis package to help entrepreneurs and companies: the state will pay 80% of the employee's salary in companies whose operations must be stopped. Allowances for sole proprietorships and employees in companies that have experienced a decline in income have been introduced. Monthly bank guarantees in the amount of EUR 500 million were granted, which commercial banks will then transfer to entrepreneurs on favourable terms. 55% of gross salary will be paid to employees quarantined and those on care leave. The employer will postpone the payment of contributions when the income drops by more than 40%. Advances on income tax will be deferred when income drops by more than 40%. Companies that recorded a loss in 2014–2018 and have not yet accounted for it will be able to do so now. It is the largest aid for the economy in the history of Slovakia. It is estimated that it will cost EUR 1 billion per month for direct payments and EUR 500 million for bank guarantees.

The Slovak government have also decided to create a Mutual Assistance Fund that will help the citizens affected by the crisis caused by the COVID-19. The MAF will be funded by coalition deputies, ministers and other people cooperating with the government. Prime Minister Igor Matovič announced on 1 April, that he would give up all his salary for the fund himself. He is also considering a total 'blackout' of Slovakia if that is a chance for a quick resolution of the situation caused by COVID-19.

Conclusions

Solutions introduced by the Czech, Hungarian and Slovak authorities in the face of the COVID-19 pandemic can already be assessed as very expensive. At the same time, it is not known whether they will be sufficient to minimize the social costs of the pandemic. It all depends on how long the restrictions will last. Furthermore, the situation of Czechia, Hungary, Slovakia and also Poland, where many factories of international concerns are located, will also depend on supply chains. An optimistic note came from some western analysts, American think tanks in particular, that post-communist Central European countries have large experience of overcoming economic crises, which might be very useful in this situation.