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GLOBSEC INTELLIGENCE BRIEFING

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Foreword April Edition

United Nations Secretary-General Antonio Guterres described the coronavirus pandemic as the "worst global crisis since World War II." This crisis has very quickly illuminated how vulnerable and unprepared we are to fight a global pandemic. It has triggered lockdowns aimed at containing the spread of the virus around the world, or at least "flattening the curve." Growth projections in almost every country are being revised down. Most profoundly, this crisis will likely change the way we do business, it will change the nature of our social contracts and it will alter the international liberal order.

While the complete magnitude of this crisis is yet to be seen, understanding how this universal threat is producing varied consequences around the world is absolutely essential. Countries and regions have offered solutions and responses based on their previous experiences, capabilities, and view of the world. With the creation of the ***Intelligence Briefing***, GLOBSEC aims to aid leaders, decision makers, businesses to better understand how Central European countries are impacted by and respond to the COVID19 global outbreak.

The briefing touches upon:

I. Central Europe Political Outlook

Central European governments reacted quickly to the COVID19 crisis once it touched European soil. After implementing a series of preventative measures, a state of emergency was declared in Hungary on March 11th, in Czechia on March 12th, and in Slovakia on March 16th. Governments in the region also decided early on to close their borders with only a few exceptions, in order to reduce the threat of the virus spreading. Slovakia was the first to shut its borders on March 13th, followed in lockstep by Poland on the 15th and Hungary and Czechia on the 16th. The V4 countries' swift and decisive action likely limited the spread of the virus and helped flatten the curve early on, thus containing the severity of the health crisis compared to other European countries. This will allow Central Europe to reopen their societies sooner than other countries such as Italy, France, and Spain. Despite this glimmer of optimism, the pandemic has nonetheless had a severe impact on the political and economic situation throughout the region.

In **Slovakia**, the newly inaugurated government on March 21st has been focusing on increasing the number of people tested for Coronavirus and on introducing measures that would soften the economic consequences of the pandemic, particularly for Small-Medium Size Enterprises (SMEs). Due to a shortage of testing kits, and the reluctance of the outgoing government to test anyone but those with serious symptoms, Slovakia lagged significantly behind its V4 counterparts in testing at the very beginning, but has managed to partially catch up. Yet, the number of completed tests is only about 6,000 per million inhabitants. This fact partially explains the comparatively low number of confirmed cases so far in the country. By comparison, **Czechia** had tested more than 13,000 people per million inhabitants by the 15th of April. Both countries are taking measures to prepare health services for the peak of the disease. What helps is that V4 citizens have so far diligently followed self-isolation restrictions and mostly consider the measures to be justified and beneficial.[1]

Poland is the only V4 country that has not declared a state of emergency, introducing a "state of epidemiological threat," instead. This has widely been interpreted by the opposition parties as a political maneuver to allow the government, led by the Law and Justice Party (PiS), to press ahead with presidential elections scheduled for the 10th of May. The outbreak has significantly hindered campaigning handing an unprecedented advantage to President Andrzej Duda. The situation raises questions about the legitimacy of the elections.

In a controversial vote on March 6th, the Lower House of the Polish Parliament voted in favor of conducting the elections exclusively through postal voting. Parliament also empowered House Speaker Elżbieta Witek to push back the date of the election, if necessary. Both decisions made by Parliament require approval from the Senate - controlled by the opposition - and from President Duda. It is important to note that the Lower House can overrule any objections raised by the opposition controlled Senate.

In **Hungary,** Prime Minister Viktor Orbán was quick to declare that the European response to the pandemic was falling short of expectations. On March 30th, the Hungarian Parliament approved an **emergency bill "On Protecting Against the Coronavirus"**, which enables the government to rule by decree without limits in time and disables parliamentary control over the executive. The bill prevents elections or referendums from being held for the duration of the state of emergency, and permanently amends the Criminal Code by introducing punishment for spreading "falsehoods" or "distorted truth" deemed to obstruct efforts to combat the pandemic.

The two-thirds majority enjoyed by PM Viktor Orbán's Fidesz Party and their coalition partner, the Christian Democrats (KDNP), was sufficient to push the controversial bill through Parliament despite criticism from the opposition, which demanded a set time limit or a 'sunset clause.' The move is raising new questions about Orbán's plans to consolidate power. The bill has, however, an "implied timeline for fighting the pandemic" and the EU may link access to recovery funds and/or loans to the restoration of full democratic freedoms.

Furthermore, the Orbán government attempted another power play by proposing a bill introducing control and increased oversight of mayors, but eventually backed-off. The bill has widely been interpreted as a maneuver meant to undermine leading opposition figures among local governments, like the outspoken Mayor of Budapest, Gergely Karácsony. Four out of five of Hungary's largest cities elected opposition mayors in the last election.

II. The Economic Impact

All V4 economies – Slovakia, Czechia, Poland and Hungary – have put in place slightly different configurations of quarantines/confinements, travel bans and restrictions, closure of childcare facilities, schools and universities, and limits on/cancellation of public events, as well as limited opening hours of businesses. Permissions have been granted to critical businesses, including groceries, pharmacies, petrol stations, post offices, banks and delivery services. As long as these containment measures are in place, V4 economies will operate at a low grade.

V4 economies tend to be export-oriented. With Western Europe being one of the epicenters of the COVID19 crisis, the economic impact has been compounded in the V4 region, as it is closely integrated in supply chains with Germany and other western European peers. Moreover, this crisis has also negatively affected domestic consumption which has been a growing source of V4 GDP over the past decade. The pandemic has hit the region at a time when the tailwinds of V4 growth had already been waning. Upgrades to V4 industry are

[1] Popular support for the government measures in Slovakia is as high as 80%.

overdue, costs of labor have gone up, and EU funds are starting to dry up. Moreover, COVID19 exacerbates the structural challenges of an over-reliance on manufacturing and external demand.

Over the longer term, V4 economies will have to ponder resurrection strategies: how to resuscitate their economies from low grade growth and bring them back to pre-pandemic levels of output. The extent of the economic blow may also warrant conceptualizing and executing a long-term growth strategy, which rests on ignition of all policy engines: monetary, fiscal, and structural. In the meantime, until the outbreak in the region peaks later in April and the contagion curve flattens, V4 governments and policy-makers must focus on strategies to most effectively soften the landing for workers and companies.

To date, the European Central Bank (ECB) and other EU national banks have continued the path of synchronized monetary easing (Table A). The **monetary response** has been, generally, cohesive, timely and broadly coordinated, addressing potential challenges for V4 economies, such as liquidity, bank capitalization and access to credit for all players, including sovereigns, corporates and SMEs. The **fiscal response** to the crisis however, has been slower to develop. Key measures have included tax payment deferrals and tax relief for individuals, the self-employed, and firms; temporary reliefs from social security/health insurance contributions; enhanced support for affected workers and businesses through easing conditions of social insurance programs and state subsidies for retention of jobs; negotiations with banks to postpone repayment of loans for citizens and businesses; and various measures to ease administrative burden on businesses and relax labor code requirements. On the spending side, funds are being relocated to the healthcare sector.

Table A. V4 Economies- Monetary & Macroprudential Response to the Pandemic

	Policy Rate Cuts	Liquidity	Credit	Bank Capital
Slovak Rep. *subject to ECB policy*	No: MRO currently at 0.00%	Additional asset purchases of €120 bn until end-2020 under APP; Additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) between June 2020 and June 2021; €750 bn asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020; Expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Eurosystem refinancing operations.	Flexibility in the classification requirements and expectations on loss provisioning for non-performing loans covered by public guarantees and COVID-19 public moratoria.	Big banks to operate temporarily below the Pillar 2 Guidance, the capital conservation buffer, and the liquidity coverage ratio (LCR); New rules on the composition of capital to meet Pillar 2 Requirement (P2R) were front-loaded to release additional capital; Release of countercyclical buffer by the national macroprudential authorities will enhance its capital relief measures; Banks may partially meet Pillar 2 requirements using capital instruments that do not qualify as common equity tier 1 (CET1) capital; Banks may, in some cases, temporarily operate below the level of capital defined by the capital conservation buffer; Banks will, where justified, be temporarily exempted from full compliance with the LCR.
Czechia	Yes: to current level of 1.00%	Conduct of liquidity-providing repo operations three times per week (increased frequency); QE possible if deemed necessary; Ready to intervene in FX market to prevent excessive volatility of CZK, in line with managed float objective.	Credit ratio limits for new mortgages relaxed, to avoid excessively tight credit standards; Limit on the LTV ratio increased to 90%; Limit on the DSTI ratio was raised to 50%; CNB can now trade instruments with maturities of 1+ year, with non-bank financial institutions, such as insurance and pension companies or with other institutional investors; Moratorium on the payment of loans and mortgages.	Counter-cyclical capital buffer rate lowered to current level of 1.00%; Banks will continue to maintain the current countercyclical capital buffer at 1.75%.
Poland	Yes: to current level of 1.00%	Conduct of repo (fine-tuning) operations to provide liquidity to banks; Reduced required reserve ratio from 3.5 to 0.5%; Raised interest rate on required reserve to the level equal to the policy interest rate; Purchase of Polish Treasury securities (QE) in the secondary market; Introduction of a program to provide funding for bank lending to the non-financial private enterprises (akin to the ECB's TLTRO).	MoF repealed 3% systemic risk buffer for bank capital requirements; Authorities announced a package of measures related to loans to existing SMEs/micro enterprises, to enable the smoothing of credit losses over a longer period, allow some flexibility in how banks meet capital requirements, and flexibly approach bank liquidity requirements; Flexible approach to valuation under Solvency II for the insurance sector. Voluntary deferral of loan payments for affected borrowers for up to three months recommended by authorities.	Provision of liquidity-providing repo operations to the banking system, the provision of TLTRO-type refinancing of non-financial corporate loans and large scale Treasury-bond purchases; Waived banks' contributions to the systemic risk buffer, reducing bank capital requirements.
Hungary	No: currently at 0.90%	Increased access to liquidity through: An increase in the regular forint-liquidity swap stock at regular auctions; Introduction of the daily provision of one-week forint-liquidity swaps; the expansion of eligible collateral; Introduction of a long-term unlimited collateralized lending facility.	Provision of a grace period of repayment of loans to SMEs supported by MNB; Extension of short-term loans to businesses until June 30; Repayment moratorium on all existing loans end-year; A cap on the average annual percentage rate (APR) on new unsecured consumer credit at the central bank base rate plus 5%; FECR ratio imposes a limit on the difference between forex-denominated assets and liabilities of credit institutions as a percent of total assets, was reduced from 15 to 10%.	Suspension of penalties for unmet reserve requirements.

Sources: OECD Policy Tracker http://www.oecd.org/coronavirus/en/, IMF Policy Tracker https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#H, V4 national central banks, European Central Bank.

III. The (Dis)Information Environment

As the number of people affected by COVID19 in Central Europe increases, so does the impact of misinformation, spread by Kremlin and Beijing, among others. This 'info-demic' gets traction on social media feeds, discussion groups and websites. If left unchecked, it might threaten the geopolitical orientation of the whole region. GLOBSEC is mapping some of the most viral narratives with the help of our partners. To date, the most widespread false narratives pushed by foreign hostile powers and their allies are summarized below:

'The EU has failed its citizens and has abandoned its member states at the time of crisis'
'China and Russia are the only countries providing actual help'
'COVID19 is a US made biological weapon'
'Migrants trying to enter the EU are trojan horses, carrying corona virus'

In addition to these main regional narratives, we identified country-specific conspiracy theories, which exploit local vulnerabilities. The most popular theories circulating on social media:

In Hungary:
'COVID19 is in fact an artificial genocide by the global elite, which is seeking to decimate the Earth's population.' This narrative builds on the anti-elitist and anti-Soros sentiments already existing in the country.

In Slovakia:
'The Americans are using the epidemic to secretly take over military assets and airfields, as a preparation for war against Russia.' This narrative builds on the pre-existing anti-American sentiment in the country. According to GLOBSEC Trends 2019, 41% of Slovaks see the United States as a threat to their country.

In Czechia:
'It is actually the 5G network, which is responsible for the Coronavirus pandemic.'

The overall objective of these narratives is to discredit the EU and the US, and present China as the role model for the handling epidemics. The massive deployment of Chinese medical assistance and Russian army RCBW experts to Italy resonated strongly in the region. According to a recent survey in Slovakia, 67% of respondents believe China is helping significantly to fight the Coronavirus pandemic, while only 22% think the same of the EU. More than half of Slovaks believe the EU is not helping at all, or not sufficiently enough. These narratives are often used as a battering ram by local populist or far-right politicians to renew their attacks against the EU. Unfortunately, it seems that the EU is losing in this fight of narratives. Despite the recently announced 540 billion Euro rescue package aimed to alleviate the European economy, the planeloads of Chinese medical equipment and Russian military medical staff steal all the spotlight, as we have not seen any concerted effort by the governments in the region to have a robust communication infrastructure was put in place. Therefore, while 70% of Central Europeans are alarmed by the current situation, the level of trust towards state authorities varies significantly. While more than 66% of Czechs trust their government to handle the crisis, only 52% of Hungarians do so.

IV. The Brussels Decisions

Economic Recovery

EU solidarity and credibility are still at stake in the post COVID19 recovery discussions taking place in Brussels, where the **Eurogroup** failed initially on April 8th to come to an agreement about how the union will economically fight the pandemic: corona-bond, the European Stability Mechanism (ESM) or something in between. A clear political division between the richer Nordic countries and the Southern indebted economies defined the tone of the negotiations, with Central Europe somewhere in the middle. The Eurozone ministers eventually agreed on April 9th on a rescue package of over € 500bn [through the ESM credit line for up to 2%

GDP for each eurozone country; through the European Investment Bank lending capacity; and through an unemployment insurance scheme by the Commission], to supplement the ECB asset-purchase plan of € 750bn already in place.

Negotiations over the next **Multi-annual Financial Framework (MFF)** or popularly known the **EU Budget**, are changing course, as the next budget will need to also tackle the recovery post pandemic. Discussions about turning it into a 'Marshall Plan 2.0' keep re-occurring and it's expected that the divisions over the final figure will come back into play. The current proposed 1% EU GNI by the "frugal" members will not suffice to cover the priorities of each member states, such as subsidies in agriculture or sectoral tax cuts. Central Europeans are net beneficiaries of the EU budget, therefore V4 governments are prioritizing a Euro-cohesive agenda in their domestic messaging.

The European Green Agenda

Officials in Czechia and Poland made headlines by suggesting that EU climate policies should be abandoned in the face of the deepening economic crisis. Czech Prime Minister Andrej Babis wants to 'forget about' the **European Green Deal** and Polish Deputy Minister for State Assets, Janusz Kowalski would prefer to scrap the Emissions Trading Scheme (ETS) beginning January 2021. Czechia and Poland rely heavily on coal power generation and are feeling the financial pressure from the tightening of EU climate and environmental measures in the form of higher costs for energy production, while powerful coal mining trade unions are making the transition to renewables a political tightrope. There are, of course, differing factions in each country, some who want to use the crisis to prop up coal and others committed to rebuilding the economy around its exit. Deputy Minister for Climate, Adam Guibourge-Czetwertynski reiterated Poland's support for 2050 climate neutrality goals in accordance with the EU December summit. Coal production in Slovakia and Hungary, meanwhile, comprise a much smaller share of the energy mix and employment, making phase-out decisions in 2023 and 2030 more politically palatable.

The European Digital Agenda

With millions currently working from home, and companies attempting to play digital catch up overnight, it is clear that the COVID19 crisis will provoke European leaders into taking digital transformation more seriously than before. Arguably, the most important development on digital issues in the budget negotiations is the open letter sent to President Charles Michel and the European Council by Digital SME and 48 national associations, demanding 50% of the new budget for digital innovation to be allocated to SMEs. The current 20% figure is considered insufficient whilst facing recovery challenges. This stands particularly for the CEE region, where the European Bank for Reconstruction and Development (EBRD) estimated in 2017 that SMEs account for 99% of the entrepreneurial activities and employ 70% of labour.

V. Security Implications

The Military Response So Far

Hungary has utilized its security forces in their response to the coronavirus outbreak, sending "control teams" to work with various strategic companies. It also appointed Hospital Commanders to every key facility to control emergency rules, medical supplies, as well as the stock and use of protective equipment. Tibor Benkő, Minister of Defense, who heads the government's action group said that the military will begin to patrol the streets and ensure "physical security" of state companies providing critical services. Furthermore, increased military presence across Hungary, especially in municipalities with military bases is expected. These actions reinforce Prime Minister Viktor Orbán's claim that the only response to the pandemic is within the country's own borders.

Slovak Chief-of-the-General-Staff, Daniel Zmeko said the military's Lest facility would be able to accommodate up to 2,500 patients if needed. Joint police-military patrols have been introduced in the early stage to help with the emergency situation.

The Czech Republic has also mobilized 300 military personnel to help with the pandemic response, although these are deployed only to aid healthcare workers in collecting samples and tracing the infected patients' contacts. Furthermore, certain regions of the Czech Republic set up what is being referred to as a "smart quarantine", which is a lockdown enforced by tracking citizens' credit cards and cell phones. This significant expansion of the surveillance state coupled with additional restrictive and intrusive measures in the name of national security have been met with an high degree of social support in CE. In Slovakia, the Public Health Office is allowed to monitor and trace the move of infected patients or quarantined citizens, by accessing data location on their mobile phones.

Poland has shied away from involving their military as much as other Central European states, presumably because of the ruling government's desire to avoid declaring a state of emergency. Following the presidential elections in May, more military deployment to fight the pandemic may be put in place.

Both Czechia and Slovakia used NATO's collective defense infrastructure through the Strategic Airlift International Solutions (SALIS) program to import planeloads of medical supplies for domestic use. Czechia has also provided bilateral medical aid to Italy and Spain through NATO's Euro-Atlantic Disaster Response Coordination Centre, while Poland sent medical personnel to Italy as bilateral assistance. NATO's preparedness in the field of bio-warfare has been questioned by allied leaders, as Czechia is currently the only NATO country that has a live-agent chemical weapons training facility.

Potential Humanitarian Crisis at Home

Coronavirus poses a special risk to the Roma communities in V4. Hungary has the largest Roma population of the V4 countries, according to the Council of Europe, with around 700,000 people, compared to Slovakia's 500,000, Czechia's 250,000 and Poland's 12,000.

The security risk in these communities is particularly worrying, as the disease can spread by a higher factor due to poor living conditions, compared to the 2.5 average rate of infection. A secondary risk lies in the social sphere, with the online spread of narratives aimed at inciting hateful behavior against the Roma community. The region might see a surge in the number of hate crimes against Roma that will damage decades of social and economic integration efforts.

In Slovakia, nearly 50,500 Roma are 65 years or older- a high risk category- with about 40% living in poor conditions, lacking access to basic utilities and sanitation. To date, over 100 cases of COVID19 were confirmed in Roma communities, a figure expected to raise in the coming weeks. The decision of the Slovak government to put in place unprecedented quarantine measures for several Roma settlements and Roma inhabited neighborhoods was criticized by many at home and abroad. Thousands of people are currently cut off from the outside world. Meanwhile, the Slovak Army is providing doctors and medical assistance to test people in four of those areas, where recent international travel to red zones has been confirmed. The Ministry of Defence is also preparing various scenarios for evacuating entire communities to government sites like the Lešť training centre, where self-isolation is possible.

Turkey-Greece Row and Migration to the EU

At the beginning of March, the EU pledged a €700m package to Greece, to shield the European continent from a new migration wave. This position was strongly endorsed by all EU foreign ministers at their last meeting in Zagreb. At the time a border dispute between Turkey and Greece looked as if it would envelope President Ursula von der Leyen's European Commission in a geopolitical confrontation. However, the pandemic has reduced these tensions for the moment at least. Despite the temporary reprieve, the current crisis remains fluid. At the beginning of April at least two men were killed, and one woman remains missing after Greek border guards fired ammunition and tear gas to deter trespassers.

Protecting external European boarders remains a unifying issue for the V4. Prime Minister Viktor Orbán has promised that Hungary will continue to be an anti-migrant bulwark and acts to hermetically seal the border where possible. As the situation at the Greek/Turkish border is expected to go from bad to worse, with refugee camps on both sides highly exposed to contamination, Hungary might consider sending troops to the frontlines, should Athens request additional assistance.

VI. Major Risks Looking Forward

We are paying attention to three major risks for the region, as we look ahead:

1. **The economic impact of the pandemic will cause severe damage to CE economies. This might allow foreign actors, such as China, to exploit economic vulnerabilities and increase their presence in some of the most critical sectors.**
2. **The pandemic is used as a justification to further consolidate power, with fundamental rights, freedoms, checks and balances suspended in the name of health and national security.**
3. **The pandemic will likely deepen social inequalities across V4 countries, as the negative impact on people and communities will be asymmetrically distributed, with the most vulnerable least protected. The surge in the unemployment rates, combined with insufficient fiscal stimulus especially for low-paid and furloughed workers, and poor access to basic services will lead to deeper polarization within Central Europe, with the long term consequences yet to be known.**

Recommended readings by GLOBSEC experts:

Alena Kudzko: **Return to borderless Europe after COVID19 will be difficult, but not impossible**

Daniel Milo: **A new type of virus is upon us, and it is not corona**

Alisa Muzergues: **Coronavirus makes the need for a clear EU strategy towards Western Balkans ever more pressing**

Sona Muzikarova: **Looking for a New Chapter in Central Eastern Europe**

Jakub Wisniewski: **Amid coronavirus, a dog eat dog world is back**

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