
This week's topic

ECONOMICS OF COVID-19 FROM A V4 PERSPECTIVE

THE PANDEMIC TAKES THE RECESSION TALK TO BRAND NEW TERRITORY



The recession debate has been with us ever since the European growth cycle peaked in 2017 and started moderating in 2018. Since then, Europe gradually showed slowdown in real activity, manufacturing, trade, reinforced by tumbling confidence – amid turbulent geopolitical developments and changing multilateral landscape.

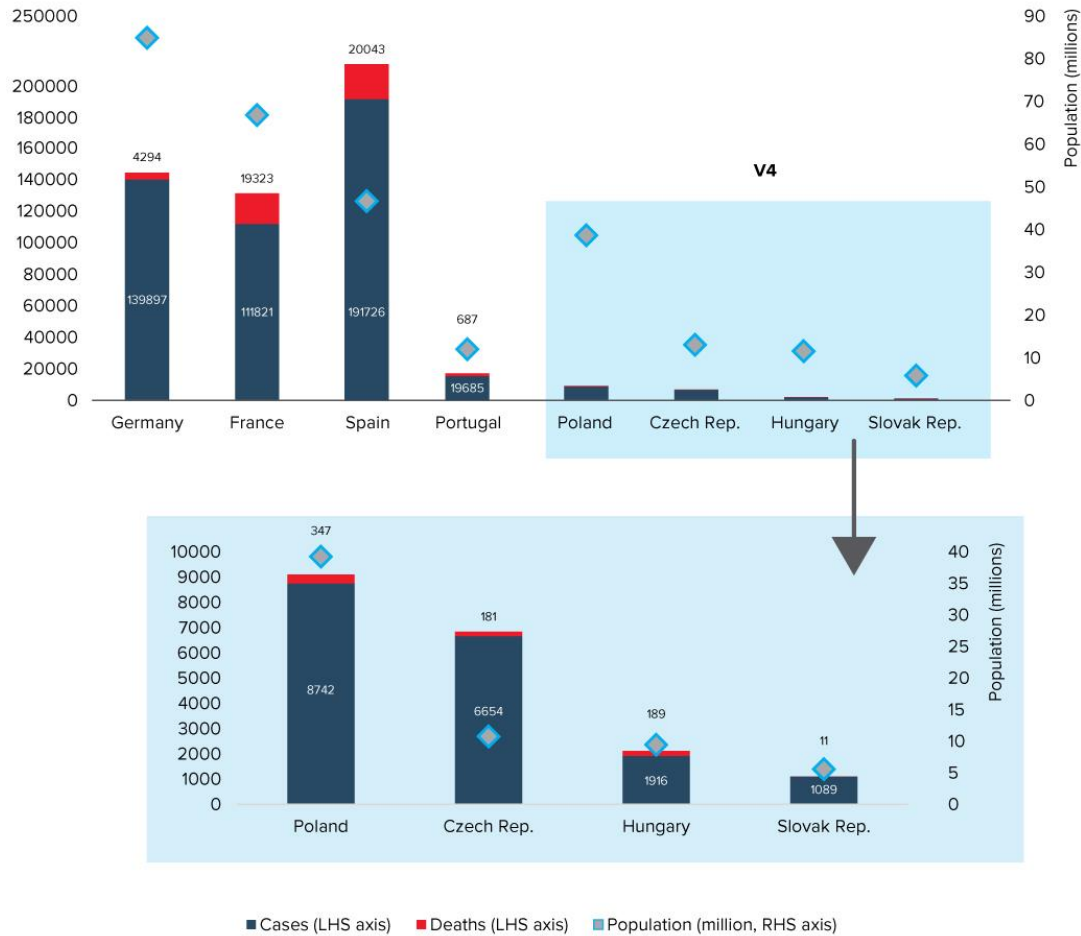
Some reckoned, the recent, exceptionally long expansion is overdue for a recession just because it has lasted for so long. The empirical evidence is mixed as to whether economic expansions ‘die of age’ (e.g. [see](#) here and [here](#)). For all we know, ours was ended by a Black

Swan event of unforeseeable extent and magnitude, that no one saw coming: the covid-19 outbreak. The responses mobilized all across the globe since its onset have been war-like, and the crisis has been coined 'a war' by [world elites](#) and [international institutions](#). Today, there is a lot that we still don't know about the strange enemy we are all collectively facing, let alone having a medical solution. So let's pin down the few things we do know.

SOCIAL AND ECONOMIC DISTANCING: THE V4 ADAPTATION

The corona crisis is novel in many ways. One of the key challenges policymakers everywhere are grappling with is the tradeoff between managing the sanitary crisis – on the public health front – and the economic crisis – offset by the deliberate shutdown of the economy that must take place in pursuing public health objectives.

The V4 governments implemented containment measures quite early on. They have included restricting cross-border travel, movement of citizens, closing schools, banning public events, closing retail outlets (except for critical ones), limiting production in industry and enforcing quarantines where necessary. Experience of countries to date suggest that early introduction of containment measures, at a point when only a handful of cases were detected, has been crucial in taming the outbreak. Within western Europe, Portugal is [a case in point](#) surrounded by raging contagion of its neighbors.



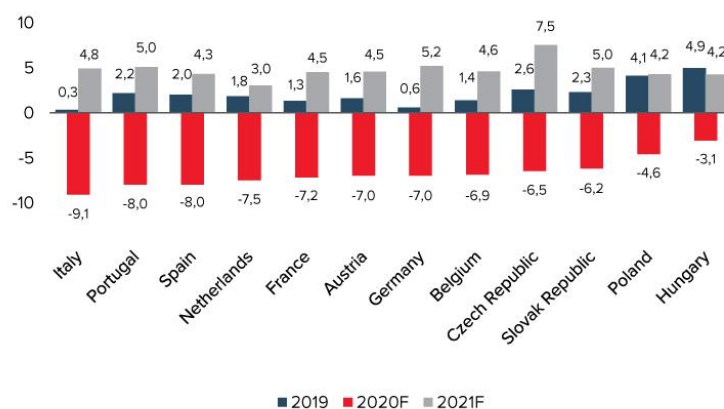
Notes: Data refers to total number of cases/deaths recorded to date, population estimates as of 2018
 Source: European Centre for Disease Prevention and Control, April 19 2020.

The figure depicts how the virus' spread in the V4 region compares to a selected benchmark of countries in western Europe, with black diamonds on right-hand-side axis showing country populations for scaling. The V4 region fares relatively well but the containment measures exit strategy will be the true test of the region's crisis management ability.

ECONOMIC PROJECTIONS & OTHER FORMS OF PANDEMIC RECREATION

[April 2020 IMF projections](#) estimate that the overall the economic impact on V4 countries should be more muted, compared to its western euro area counterparts. To benchmark the IMF numbers, for, say, the Slovak Republic – the V4 region’s lone Eurozone member – national authorities’ forecasts range between 4.5% and 9.4% for 2020, [according to the National Bank](#) and within the range at 7.2% according to the [Finance Ministry](#) estimates.

Importantly, times of economic turbulence are marked by worse quality of economic data. National accounts therefore need to be carefully and frequently cross-checked with signals from high-frequency hard indicators (such as, [industrial production](#), industrial [new orders](#) in [some cases](#) etc.), as well as soft indicators (i.e. survey-based, such as, Markit’s [PMI](#), or DG ECFIN [confidence](#) indices. The deteriorated quality of data fed into economic models, and the high degree of uncertainty associated with the future trajectory and magnitude of the virus also adversely impacts the accuracy of economic projections, so they should be treated with a grain of salt and used with caution.



Source: International Monetary Fund April 2020 WEO database.

THE V4 CALIBRATION OF MONETARY–FISCAL RESPONSE

Among economic policy realms, monetary policy was the first one to react to the covid-19 outbreak in the V4 region, following ECB's suit mid-March. Where possible, central banks pursued rate cuts (Polish and Czech central banks) and all central banks introduced measures to support liquidity. A complete overview of the V4 economies' monetary, macroprudential and regulatory response can be found [here](#).



Fiscal policy response has been slower to unfold. While the discussions on the EU rescue deal lingered on, V4 governments adopted a number of discretionary fiscal actions, including direct salary support/contributions for employees of affected companies and the self-employed; easing of conditions of social and health insurance program contributions in some cases, measures to ease the labor code requirements, payroll and corporate tax payment deferrals and government guarantees to obtain credit. Some countries (e.g. the Slovak Rep.) updated its playbook with a new short-time work scheme ("kurzarbeit", IMF details [here](#)) in mid-April. Against the backdrop of a delayed common fiscal action from Brussels, V4 discretionary fiscal measures are warranted. The overall monetary–regulatory–fiscal response is unprecedented, and eyes providing lifelines to the economies' most vulnerable and hardest-hit: firms and workers. On the top of the measures undertaken, a lot will depend on the future governments' exit strategies, as well as the planned [EU](#)

reconstruction plan that is to put forth a long-term strategic plan to rebuild the European economy.

THE MILLION DOLLAR QUESTION

Clearly, how to reopen the economy safely, or the ‘exit strategy’ from virus containment measures that have induced the economic standstills in the V4 economies and across the globe, is the million-dollar question. The social distancing and containment measures were institutionalized to buy time: to find an exit plan and to avoid overwhelming their healthcare systems.



With human lives at stake, insufficient testing and imperfect information, it’s a tricky business, as relaxing containment measures may lead into an uptick of cases and reverting the costly progress made. But so is the grave damage being done to people’s livelihoods. We’re lacking a historical precedent and opinions on an optimal exit vary greatly, but the following notions have repeatedly resonated across the global community of experts:

- The re-opening should be done, despite not having solved the underlying medical issue. It should be gradual and agnostic

- Schedules and phasing may be necessary to retain some degree of social distancing in the interim reopening stages. For example, in Slovakia reopening will proceed in **2-week** phases. Proceeding to the next stage will be contingent upon developments in the 7-day moving median of daily increase in patients with covid-19.
- Testing (both, virus and antibody), aggressive tracking, monitoring and further research should be stepped up to a maximum level possible to improve quality of information about the contagion. Currently, V4 economies are **undertesting** with Czechia leading the way (12.4% per 1000 population) and nearing the OECD average, followed by Slovakia (5.8%), Poland and Hungary (each at 3.9%) (Source: **OECD**, as of April 15, 2020)
- The level of economic activity should be maximized per a given level of contact
- First waves of re-opening may want to focus on strategic industries that drive country-specific GDP value-added, productivity and employment. Vice versa, sectors with greatest health risks and relatively low impact on economic growth would be last to resume

BREAKTHROUGHS

FROM

BRUSSELS

The political momentum of the European Union's response has been slowed by the volley of proposals between the Commission, Council, and Eurogroup. But yesterday, during the EUCO summit, the national leaders reaffirmed their strong commitment to

collectively fight the pandemic in a show of solidarity that placed economic recovery and coordinated lifting of containment measures at the forefront.

The EU Council has endorsed the Rescue Package of €540bn proposed by the Eurogroup earlier this month, with the aim of having it operational by 1 June. The leaders also endorsed the [Joint Road Map to Recovery](#) that defines four key priorities for the union: Single Market, boosting investment efforts, a functioning system of governance and EU's global footprint. The main motto: our economies moving forward need to be green, digital and resilient. For V4 countries, this might be opportunity to engage structurally in long overdue reforms that will make the region more competitive long term.

Senior EU leaders emphasize that the union needs about €1.5 to 2 trillion to properly cope with the economic fallout triggered by COVID19. In this regard, the Council decided to work towards establishing a 'recovery fund' and raise much needed capital for investments. What we don't know yet is who will contribute and under what rules, what conditions will be imposed for member states to access it and of course, how will our Central European region be able to benefit from it.

A second unknown is related to the renewed MFF proposal, currently in the works in the Commission. The document will be adjusted considerably to deal with the crisis and its aftermath and should reach national capitals in the next couple of weeks. Von Der Leyen's new budget proposal is expected to reach up to 2% EU GNI, a figure that will be hard to digest in some capitals, like those of the 'frugal four'. However, for Central Europeans, a higher budget means more money for cohesion and convergence in the next cycle, priorities that continue to dominate the agenda as net beneficiary countries.

COMMENTARY

The Frontline Policy Response to Covid-19: US versus Europe

by Ryan McCarrel

How Europe and the United States respond to the crisis will shape the outlook for the global economy for the foreseeable future. On both sides of Atlantic, COVID-19 induced governments to adopt radical measures to stave off an economic depression.



Both major central banks have had to quickly update their crisis playbooks to keep enough liquidity circulating and businesses from going under. The main advantage the US has over EU in terms of managing the economic fallout of COVID-19, has been its ability to quickly implement **fiscal** policies designed to stimulate the economy. While Europe continues to **wrangle over fiscal policy** and shared debt burdens, the US Congress has already authorized more than USD 2.3 trillion in **new spending**, with several more rounds of stimulus expected in the coming weeks and months. On the other hand, the US lacks a comprehensive social safety net when it comes to being able to provide benefits to workers and businesses. While Europe has been focusing on worker retention – in the spirit of

viewing employees as an asset within organization – the US has put forth temporary unemployment measures. The result has been a dramatic increase in US unemployment. A staggering 26.2 million Americans have applied for unemployment benefits in the last 4 weeks. Germany’s Kurzarbeit program, by contrast, has served as a model for employee retention across the European Union. The US Congress attempted to pass a similar measure as part of the [CARES \(Coronavirus Aid, Relief, and Economic Security\) Act](#) that authorized a combination of loans and small grants to businesses, but the rollout has been beset by technical issues and it continues to be [undercapitalized](#). This will likely mean the long-term impact of COVID on unemployment in the US will be far more severe than in Europe. However, the severity of the crisis in the EU will also be determined by how fast policymakers in Brussels and European capitals can come to an agreement on spending. Similarly, the ability of the US to contain the economic damage of COVID-19 largely depends on Congressional leaders’ ability to continue pass bipartisan legislation and improve upon delivery. Until now partisan wrangling has not gotten in the way of Congress from working together. The question is how long this tenuous ceasefire will hold.

UPCOMING WEBINARS

Border(less) Europe – When do we go back to normal?

30 April 2020 | 10.00 to 11.00 am CET

via ZOOM

Borders and travels restrictions are being introduced in a pervasive manner to contain the spread of coronavirus. The borders and travel restrictions within the Schengen zone ought to be lifted again once the crisis is gone. How to make sure that temporary provisions do not become permanent? What are the lessons learnt from this crisis? How to make Schengen zone more sustainable in the future?

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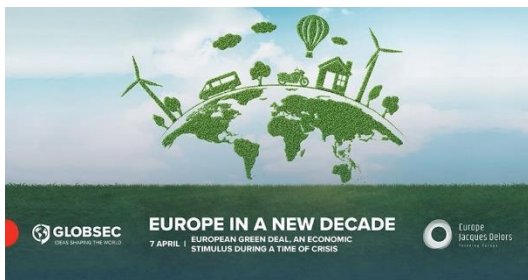


[Register Here](#)

WATCH OUR WEBINARS

European Green Deal: An Economic Stimulus During a Time of Crisis

In collaboration with [Europe Jacques Delors](#)



The discussion tackled the European wide response to the unfolding economic crisis created by COVID19 and the role played by the European Green Deal and

the future Multiannual Financial Framework in recovery.

It is part of our new series of 'Europe in a New Decade' dialogues exploring themes of critical importance for the future of Europe and related to the geopolitical objectives of the European Commission. Outlining four critical priorities, we aim to strengthen the communication between European leaders and CEE countries through this interchange.

[Watch Here](#)

Central European Economic Policy Response to COVID-19

In collaboration with [Atlantic Council](#)



The covid-19 pandemic is showing just how fragile our societies, economies, and democracies can be. Overall, countries in Central and Eastern Europe (CEE) seem still to be in the early stages of the outbreak of the coronavirus pandemic. Despite this, we already know that the economic implications of the virus could be significant for the region. While a sound monetary-fiscal response will be crucial, it seems that the region could benefit from developing a more comprehensive strategy on how to lessen the economic

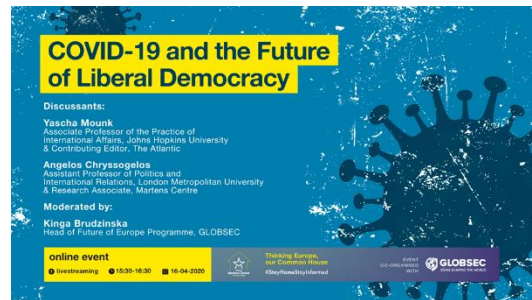
fallout. GLOBSEC, in partnership with the Atlantic Council brought together eight panelists – CEE experts – to discuss the baseline scenario for the pandemic in the region, hardest-hit sectors, and short-term versus long-term impacts and policy responses.

[Watch Here](#)

COVID-19 and the Future of Liberal Democracy

Co-organized with the [Wilfried Martens Center](#)

It's too early to tell what the future will bring for liberal democracy around the globe after the COVID-19 pandemic. History shows that the stronger role of executive power in times of crisis, does not necessarily lead to erosion of democracy.



For example, securitization that originated from 9/11 in the United States has not been framed in the context of liberal democracy. What we know is that a fear of death overwhelms liberal principles and in general people are willing to accept what they are told they have to do.

[Watch Here](#)

FURTHER READS

Looking for a New Chapter in Central Eastern Europe. Can Central Eastern Europe follow the example set by China after the SARS epidemic of 2003?

by Soňa Muzikářová



Central Eastern Europe (CEE) has been hit by the novel coronavirus — known as COVID-19 — at a time when upgrades to its industry are overdue, the cost of labor has gone up, the tailwinds from EU funding are about to wane, and the region is in desperate need for a new game plan. With the economy ground to a halt, it is time to pause and contemplate its future.

[Read More](#)

Fight in Solidarity. The Importance of European Partners in Response to COVID-19

by Alexandra Martin

Uncertainty is the defining feature of today and tomorrow, as the “Great Lockdown” continues to impact our health, politics, societies and economies. As we look at the CEE region through the complex lens of the COVID-19 crisis, it is worth considering the three most important challenges that countries need to tackle in the coming weeks and months.



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EU's digital vision in the era of dataism

by Miroslava Sawiris



The talk of the digital future is immensely in vogue. However, the future is already here. Nothing reveals and increases our reliance on virtual connection for work, education, business, and social life more than the current pandemic.

[Read More](#)

Brexit should and will be postponed – Boris Johnson is just waiting for the right moment

by Zuzana Podracká

‘Can we please go back to talking about Brexit?’ For the past month or so I got used to seeing this message on Twitter at least once a day, breaking the monopoly of news related to Covid-19 as the pandemic hit Europe with full force. For some, it was a joke, half-nostalgically taking us back to the days when we could not wait for Brexit to be over, so we could talk about something – anything – else.



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The Disinformation Virus

by Daniel Milo



All the lies will not disappear as the pandemic retreats, but it may be an opportunity for the Slovak state to give these threats the attention they deserve.

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GLOBSEC's **COVID-19 in CEE newsletter** is a weekly roundup targeting specific topics in connection with the spread of the coronavirus and its impact on life in the **CEE region**. Our researchers and experts will dive into many pressing issues the pandemic has brought to the fore, putting a coronavirus developments and impact on the future of the EU, global economy, sustainability, digitalisation in context.

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GLOBSEC Team



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