

Major implications of the coronavirus pandemic for Poland and other countries of Central and Eastern Europe

As a result of the COVID-19 pandemic all the areas of human activities are under greater pressure to apply digital solutions. / A considerable number of industries and sectors recorded an income drop by 50%–90% or more.

The COVID-19 pandemic caused by SARS CoV-2 virus exposes an immense volume, pace, complexity, fundamental uncertainty and interdependence of phenomena usually connected with various levels of social system analysis. This is an unprecedented complex of phenomena in recent economic and political history of countries of Central and Eastern Europe (and globally).

The analysis of implications of the COVID-19 pandemic was carried out on five levels. The macroeconomic and mesoeconomic (sector-related) implications are presented below. The remaining levels, i.e. microeconomic (behavioural), institutional (limited to “economic” institutions) and global (international), are discussed in detail in the full edition of the SGH report.

MACROECONOMIC IMPLICATIONS (AGGREGATE LEVEL)

Most macroeconomic analyses provide charts of future GDP for the next two years in the form of letter V or, less optimistic, letter U. The great uncertainty about the course of the pandemic,

as well as the scope and schedule of policies of “locking down and reopening” economies by national states, seems to indicate an intention to satisfy a common need for a “roadmap”, to build confidence and leadership in the “war with the virus”, rather than a need for traditional economic forecasts. Major consequences of the COVID-19 pandemic, both those already observed and those predicted, are presented below.

1. A sharp decline of the economic growth rate, after which a partial recovery will follow. There will be a considerable drop in output, especially industrial production, consumption spending, investments, sales and capital flow. We are definitely going to see a wave of bankruptcies of businesses, the range of which will be inversely proportional to the capital power and political support (SMEs will be more affected, *big-enough-not-to-fail* entities will be less affected).

These are indirect effects of the medical phenomenon of the epidemic: decrease in labour utilisation, disruption of market and inter-organisational transactions (including supply chains disruption), inability to perform contracts (production breakdown, regulator’s response).

The drop in production is a direct effect of the disease infections and deaths among employees (reduced labour utilisation) and (partially indirect) effect of the quarantine and lockdown of workplaces, restriction of workers’ mobility. Closing schools and kindergartens also restricts the work of parents who are forced to stay at home and take care of their children. As a consequence, supply (interrupted work and capital turnover) of many finished goods and physical services (quarterly

TABLE 1. Forecast for some macroeconomic indicators: CEE countries

Country	Real GDP			Inflation rate			Unemployment rate			Current account			Budget deficit		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Estonia	4.3	-6.9	5.9	2.3	0.7	1.7	4.4	9.2	6.5	2.3	1.1	2.2	-0.3	-8.3	-3.4
Latvia	2.2	-7.0	6.4	2.7	0.2	1.9	6.3	8.6	8.3	0.6	1.1	1.2	-0.2	-7.3	-4.5
Lithuania	3.9	-7.9	7.4	2.2	0.8	1.5	6.3	9.7	7.9	3.5	2.2	2.9	0.3	-6.9	-2.7
Slovenia	2.4	-7.0	6.7	1.7	0.5	1.2	4.5	7.0	5.1	6.8	6.8	6.8	0.5	-7.2	-2.1
Slovakia	2.3	-6.7	6.6	2.8	1.9	1.1	5.8	8.8	7.1	-2.6	-2.9	-2.4	-1.3	-8.5	-4.2
Euro zone	1.2	-7.7	6.3	1.2	0.2	1.1	7.5	9.6	8.6	3.3	3.4	3.6	-0.6	-8.5	-3.5
Bulgaria	3.4	-7.2	6.0	2.5	1.1	1.1	4.2	7.0	5.8	5.2	3.3	5.4	2.1	-2.8	-1.8
Czech Republic	2.6	-6.2	5.0	2.6	2.3	1.9	2.0	5.0	4.2	0.7	-1.5	-1.0	0.3	-6.7	-4.0
Croatia	2.9	-9.1	7.5	0.8	0.4	0.9	6.6	10.2	7.4	2.4	-1.7	0.5	0.4	-7.1	-2.2
Hungary	4.9	-7.0	6.0	3.4	3.0	2.7	3.4	7.0	6.1	-0.9	1.3	1.5	-2.0	-5.2	-4.0
Poland	4.1	-4.3	4.1	2.1	2.5	2.8	3.3	7.5	5.3	0.4	0.6	0.9	-0.7	-9.5	-3.8
Romania	4.1	-6.0	4.2	3.9	2.5	3.1	3.9	6.5	5.4	-4.6	-3.3	-3.4	-4.3	-9.2	-11.4
UE	1.5	-7.4	6.1	1.4	0.6	1.3	6.7	9.0	7.9	3.2	3.1	3.4	-0.6	-8.3	-3.6
Global	2.9	-3.5	5.2	.	.	.	.	.	.	.	.	.	.	.	.

Source: own study by SGH Warsaw School of Economics based on data of the European Commission.

drop in output for 2020 may reach 70%–90% in some sectors) is directly disrupted. Factors causing the drop include broken international cooperation relations, reduced production of intermediate products (especially in the processing industry), disruption of consumption of finished and intermediate goods and services caused by a decline in aggregate consumption (income drop), delayed consumption and investment purchases.

2. Decrease in employment, increase in open and hidden unemployment (unemployment benefits). Growing unemployment is and will be unequal: in the areas where gig contracts are common, it will be deeper, more permanent and difficult to reverse by an upturn, especially for new employees entering the labour market. So far, the decline in unemployment resulting from the increasing number of deaths has been statistically insignificant (in OECD countries).

3. Sharp inflation decrease. It seems that factors such as decline in total demand (smaller and different final consumption among some social groups, smaller income) or demand for some raw materials and commodities (crude oil) compensate the rise in prices related to production bottlenecks by a higher demand for the ‘virus-complementary’ goods (toilet paper). This short-term effect may however be off-set as soon as in the summer 2020, if re-opening industries and sectors will require for instance specific distancing rules (e.g. leaving 2, 3, 4 free spaces in the public transport, designating several square metres for each person), which would result in higher break-even point for businesses and justify a rise in ticket prices (3-fold in air transport).

4. Higher state budget deficit and government debt-to-GDP ratio. In many national economies “automatic stabilizers” worked, enhanced by discretionary “emergency” measures. The (highest) promised, granted, expended, (lowest) paid amounts exceed Keynesian interventions observed so far in the history of economic policy, and although they are within the range of 5%–25% of GDP, (according to published declarations) they may exceed a half of the national income, for example in Germany (estimates of Bruegel Think Tank of April 2020). Declarations of G20 leaders to do whatever is needed to rescue the economy indicate that financial involvement of the state may grow further if the epidemic (or political) situation becomes worse. Legislative measures undertaken so far by the US government are planned to total USD 3.6 trillion, among which money designated directly to workers and the unemployed seem to account for 10%–15%, in addition to at least USD 7.5 trillion from Federal Reserve, which implies even larger handouts in the future. In the EU, political discussions more and more openly mention ideas of corona-bonds, Euro-bonds, Pandemic Solidarity Funds (PSI), Symmetric Shock Stabilisation Fund (SSSF) etc.

The state reaffirms its role of the “lender of last resort”. Since at the beginning of the third decade of the 21st century there is no more space to reduce interest rate, quantitative easing has become the main component of monetary policy, while “optimal” rules and limits recommended earlier have been “forgotten”. This will entail unprecedented growth of the public finance deficit and (national and possibly foreign) debt. Introduction of new (national) (anti-)virus taxes or their substitutes seems probable in the mid-term. Political economy of each country will define its fiscal package and “adequate” burden distribution (more for the poor, less for the

wealthy or other options), which will probably make them stay *en vigueur* for longer.

5. Finance. We are observing a decline in stock prices, especially for the most affected sectors, lower international capital flow, fall of the exchange rate of national currencies of peripheral countries (CEE) on the financial markets.

Indices of business confidence are also falling: at the beginning of the year the Polish consumer and investor confidence indices were low, but still positive; the breakdown came in April – CCCI (Current Consumer Confidence Index) dropped to -36.4 points, or by 37.7 points compared to March 2020, while Leading Consumer Confidence Index fell by 47.7 points.

As could be expected, the financial sector reacted by panic: all the three American indices (Dow Jones, S&P 500, NASDAQ) fell between the third week of February and the third week of March 2020 by about 35%, which was the largest drop caused by an epidemic in history. Stock prices bounced back in April 2020. In Asia the prices on major markets fell by several to 30% percent. The stock market slump means that the financial sector with its huge funds will have an opportunity to take over companies from all the sectors of the “real sphere” at lower prices. The European elites understand this, and prepare legislation counteracting mobility of “undesirable” (e.g. Chinese, but not American) capital, to prevent foreign acquisitions of national companies by buy-outs of large packages of company stocks by national states.

The fluctuations in exchange rates should also be noted, for instance the drop in the prices of national currencies of some CEE countries in the first four months of 2020 was, in the Visegrad Group: about 11% for the Hungarian forint, 8% for the Czech koruna, 7% for the Polish zloty (for the sake of comparison, the Russian rouble lost 24%, and the Ukrainian hryvnia lost 13%). Uneven spread of the epidemic and its consequences may cause even deeper decline.

6. All the areas of human activities are under greater pressure to apply digital solutions. Digitization of information aspects of production processes may in the midterm create an economy sector with new forms of competition, or so-called contact-free economy. These processes are in line with the political struggle for new competitive advantages and for a definition of the “new normal”.

MESOECONOMIC (SECTOR-RELATED) IMPLICATIONS

The sector that was most affected by the pandemic is obviously the sector of medical services and healthcare. Illustrations of the physical aspect of the epidemic, morbidity and death rates, as well as examples of so-called epidemic curves used for modelling of epidemic phenomena can be easily found in the Internet. Mathematical models of the epidemic have become popular due to using the term “curve flattening” (e.g. for the rate of coronavirus deaths increase) in the political discourse.

The healthcare sector today is regarded to be an example of unreliability of the market (lower capacity of private hospitals and clinics, if they were open at all, marginal range of provided services, insufficient investments in the works on the vaccine) and of the state (also limited capacity, overworked medical staff, underpaid nurses and auxiliary workers, lack of laboratory, equipment, staff, financial reserves).

Outside the medical sector, a considerable number of industries and sectors recorded an income drop by 50%–90% or

more. Data prove particular vulnerability of retail trade, transport (especially passenger transport, including air travel), services involving personal contact of staff with customers (hotels, tourism – especially international, food services, health care, hairdressers and beauticians, leisure, gyms and fitness centres) and numerous audience (professional sports, culture institutions, amateur sports, scientific conferences, religious ceremonies), but also postal services and the *out-of-home advertising* segment.

In some industries remote work and contactless sales (e.g. all stages of education, internet trade, teleconferences, telehealth) allow for joining e-business sector and give a chance to make it through the crisis unscathed. Some newly digitized or digitally advanced sectors are going to experience a boom (telecommunications, social networks).

A significant aspect of the supply shock is the disruption of supply chains and the protectionist reaction calling for domestic manufacturing. It is quite easy to securitize this process, i.e. make it an issue of national security. Another example are food supply chains, criticized by environmentalists as too long and internationalised, although cheap food entails cheap labour,

which makes it possible to reduce real wages (and pensions). Re-consideration of technology requirements, cost reductions, delivery times and risks of supply chain disruption will be a subject of continuous calculations of competitors, both for individual businesses and more “strategically” oriented and regulated national economies. This will naturally produce obvious implications for the international trade.

MARIUSZ PRÓCHNIAK, habilitated doctor of economic sciences, Department of Economics II of SGH Warsaw School of Economics; **JULIUSZ GARDAWSKI**, professor of economic sciences, Institute of Philosophy, Sociology and Economic Sociology of SGH Warsaw School of Economics; **MARIA LISSOWSKA**, professor of economic sciences, Department of Economics II of SGH Warsaw School of Economics; **PIOTR MASZCZYK**, doctor of economic sciences, Department of Economics II of SGH Warsaw School of Economics; **RYSZARD RAPACKI**, professor of economic sciences, Department of Economics II of SGH Warsaw School of Economics; **ALEKSANDER SULEJEWICZ**, habilitated doctor of economic sciences, Department of Economics II of SGH Warsaw School of Economics; **RAFAŁ TOWALSKI**, doctor of economic sciences, Institute of Philosophy, Sociology and Economic Sociology of SGH Warsaw School of Economics