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THE POLITICAL ECONOMY OF COVID-19 RESPONSES IN EAST CENTRAL EUROPE

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Chapter 1. Introduction: The political economy of COVID-19 responses in East Central Europe[1]

Dorothee Bohle, Edgars Eihmanis, Alen Toplišek

1.1 Introduction

The COVID-19 crisis is the second major crisis to have hit the East Central European (ECE) countries within a decade, putting these countries' socioeconomic fabric once again to a deep test, and exposing their vulnerabilities. In many countries in the region, the neoliberal reforms and austerity of the last decades have wreaked havoc with the healthcare systems. Hospitals are often underfunded, and there is a severe shortage of medical personnel and lack of equipment. The shortage of medical personnel has been reinforced by the free movement of labour in the EU. Many younger doctors and nurses have migrated to the West, helping to plug the notorious shortage of healthcare workers there.

ECE is vulnerable for other reasons too. The economies in the region are highly dependent on those in the West — as suppliers in global or pan-European commodity chains, as recipients of EU funds and as providers of cheap and often informal labour forces. Because of foreign dependency, resources for research and innovation are often underdeveloped, and shortages of skilled labour

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are prominent. ECE also exhibits a high share of small enterprises in the service economy which are unlikely to have accumulated enough reserves to withstand a major economic crisis. In addition, some of these countries' peripheral position in the international currency hierarchy makes accommodating monetary policies or quantitative easing difficult for central banks, and exposes them to currency risks and sudden credit stops. Finally, governments in the region are among the least trusted within the EU, state capacities are among the lowest, and an — albeit variegated — shift towards "illiberal democracies" leaves some of the political systems uniquely unprepared to dealing with the crisis.

In light of these vulnerabilities, this volume asks two questions: first, how have states in the region attempted to mitigate the socioeconomic effects of the COVID-19 crisis, and second, whether they have attempted to build up resilience to external shocks, i.e. whether they have attempted to decrease the overall vulnerabilities of their socioeconomic fabric. The volume aims to provide a comparative picture of the responses to the crisis in the region. The underlying hypothesis is that although the COVID-19 crisis has revealed some deep flaws of ECE's socioeconomic models, policy responses will amplify these rather than helping to build more resilient societies.

This paper will start by mapping the vulnerabilities in three groups of countries in the region: the Baltic States Estonia, Latvia and Lithuania; the Visegrád countries Czech Republic, Hungary, Poland and Slovakia, to which we add Slovenia; and the Balkan group of Romania, Bulgaria and Croatia. With this, we follow the varieties of East European capitalism literature (Bohle and Greskovits 2012). The expectation is that each variety of capitalism also exhibits specific strengths and weaknesses when facing the COVID-19 crisis. The next section details the vulnerability profiles. The third section presents our theoretical framework and expectations. Specifically, we spell out the three factors that we expect to matter for policy responses: government strategies to stay in power, state capacities and policy learning. The fourth section provides a toolbox for analysing policy responses, which will serve as a guideline for the country papers.

1.2 Vulnerability profiles

In order to map the specific vulnerabilities of ECE countries in a comparative manner, we distinguish between a number of dimensions (Figure 1). Starting on the top of the figure and proceeding clockwise, we assume that the less democratic and inclusive, and the more corrupt a countries' political and economic institutions are, the more likely it is to mismanage the COVID-19 crisis. Further, the lower the fiscal capacity of a country, the less it is able to mitigate the fallout from the crisis. A country's' economic structure is particularly vulnerable if it has a high share of the informal economy, high dependence on tourism and domestic oriented services, and little innovation capacities. A country's health sector is particularly vulnerable if a country spends little on this sector, and experiences a shortage of medical personal and intensive care beds. A country's workforce is particularly vulnerable if it lacks skills, including digital skills, if there is overall a low labour market participation rate and high outmigration. Further, a country will not be able to protect its population adequately against the fallout from the crisis if it spends little on social protection, if the level of poverty is high and if welfare is provided through markets rather than public efforts. Figure 1.1 summarises the "vulnerability matrix", Appendix 1 gives a brief explanation of each indicator we used, and Appendix 1.2 (available online) details the value for each country. In the following sections, we summarise the findings.

Figure 1.1: Vulnerability matrix

1.2.1 Visegráds and Slovenia: strengths and vulnerabilities

Among our countries, we consider the Visegrád group and Slovenia (V4+1) overall best prepared to dealing with the pandemic, although they exhibit important vulnerabilities. There are also important differences between the countries. The economic structure of the group is overall favourable, with their economies being integrated in complex trans-European commodity chains, and (except for Slovakia) comparatively high spending on R&D. Even so, three of the five countries (Hungary, Poland and Slovenia) have a relatively high share of the shadow economy, and Hungary and Poland also lag behind in productivity compared to the rest of the group, which is topped by Slovenia. Finally, Poland stands out with the scope of its state-owned enterprises (SOEs).

The V4+1 group workforce presents a mixed picture. Educational levels are not outstanding, and tertiary education still seems limited to a narrow share of the population. This might be indicative of the educational systems being more limited to specific skills, which arguably makes societies less prepared to dealing with technological change. Hungary stands out with its very high share of lowly educated people. On the positive side, with the partial exception of Poland, outmigration has not yet reached critical levels. Taken together, the economic structure and the workforce profile of this group of countries attest to a specialisation in medium to high tech manufacturing sector, geared towards — in the vocabulary of the varieties of capitalism literature — incremental rather than radical innovation (Hall and Soskice 2001). In the concrete context of the pandemic, this specialisation exposes an important share of the workforce to health risks, as it is not easy to perform manufacturing tasks remotely. In the long term, while this specialisation seems sustainable, it is not necessarily favourable to dealing with more radical change.

In terms of fiscal capacities, the country group is overall endowed with resources and market conditions that would allow it to mitigate the socioeconomic effects of the pandemic. Government revenues are the highest in the region, and bond yields (with

the exception of Hungary and to some degree Poland) are low, while credit rating is favourable (again, with the stark exception of Hungary). The V4+1 group also spends overall more on social protection than the rest of the region, and the share of the population at risk of poverty or social exclusion is comparatively low. Even so, the spending on the healthcare sector — apart from the Czech Republic and Slovakia — is low. Two countries — Slovakia and Hungary — have experienced a significant outflow of doctors and nurses since 1997, while the Czech Republic has seen a significant inflow. Overall, only the Czech and the Slovene healthcare systems seem in a position to cope (at least somewhat) with the medical challenges of the pandemic.

Politically, the single biggest danger in this group of countries is the demise of democracy. Currently, three countries — Hungary, Poland and Slovenia — are ruled by right wing illiberal parties, and the Czech Republic is ruled by what the literature calls technocratic populists (Buštíková and Guasti 2019; Guasti 2020). While Slovenia's and the Czech polity have remained relatively inclusive and democratic, Hungary has meanwhile been classified as a hybrid regime by V-DEM. The rise of illiberal parties implies that there is an increasing danger that every policy response to the pandemic is geared towards stabilising the autocrat and his narrow circle of friends, rather than towards the well-being of the broader population. An — arguably crude indicator — for this is the corruption perception, which puts Hungary in the second lowest rank among our countries.[2] Slovakia also ranks relatively low on that indicator.

1.2.2 Baltics: strengths and vulnerabilities

The Baltic economies are not well equipped to deal with challenges during a pandemic. With little state intervention in the economy, the Baltic states are dominated by services rather than industry (with considerable differences though; for instance, Lithuania is

2 For another measure of fraud, see the latest report of the European Anti-Fraud Office (OLAF 2020).

significantly more industrialised than Latvia, which mostly focuses on timber exports, and Estonia's remaining industry specialises in high tech sectors). Populated by a large number of domestic SMEs and micro-enterprises, the region displays relatively high shares of informality. With the exception of Estonia, small or micro enterprises mostly focus on relatively low added value operations and, accordingly, invest relatively little in R&D. Meanwhile, due to deeply entrenched free-market ideology, the Baltic economies boast good fiscal positions. Compared to other ECE subregions, low debt levels and the bias toward fiscal frugality have produced the highest credit ratings and lowest yields on government debt. On the other hand, the revenue base remains patchy, exemplified by relatively low tax-to-GDP ratios, particularly in Latvia.

In terms of vulnerability, Baltic workforces represent a somewhat mixed picture. On the one hand, the Baltics champion social investment, as demonstrated by the remarkable general education levels and the number of university degrees (Avlijaš 2020). On the other hand, the Baltic economies have been largely depleted of this potential by record-setting labour outflows both post-2004 and post-2008. This is, somewhat paradoxically, illustrated by the low unemployment figures and increasingly tight labour markets. Labour power remains the lowest in the region. While the Baltic countries spend relatively much on (active) labour market policies, the social sphere remains the most poorly funded, compared to other ECE subregions. As a stronghold of neoliberalism, the Baltic states represent significantly higher levels of risk of poverty or social exclusion than the Visegráds (almost as high as the Balkan countries). Latvia stands out not only regarding its particularly low social expenditure, but also its low minimum wage. Relative to Estonia (and also Lithuania), Latvia represents the second highest rate of severe housing deprivation (only after Romania). This is a stark contrast with Estonia, which performs best in this regard. On a more positive note, having significantly deleveraged since the GFC, Latvia is less vulnerable in terms of private mortgage indebtedness — a stark contrast with Estonia.

In line with the low social expenditure levels, the Baltic health care systems are among the poorest in ECE whereas in Latvia

the share of health funding (and also the number of curative beds) are the lowest in ECE. This is a direct consequence of post-GFC structural reforms, which explicitly aimed to shift from hospitals towards primary care, in line with the recommendations of the international organisations (Eihmanis 2018). On the other hand, vulnerability of the health care system is increased by the chronic lack of medical personnel, which have increasingly sought better work conditions and pay abroad (Eihmanis 2020). The situation is particularly dire with medical personnel in Estonia which boasts the ECE negative record in outmigration of doctors and nurses during 1997-2016. Most likely, this can be explained by emigration to nearby Finland.

Nonetheless, regardless of these aggravating inequities, the GFC produced only a modest, if delayed, anti-establishment backlash. Baltic liberal democracy scores remain highest in ECE. To a large extent that can be explained by the geopolitical insecurity and the threat of Russia which biases voters' toward choosing predictability and centrism, rather than change. Meanwhile, problems with good governance remain endemic, with the notable exception of Estonia.

1.2.3 Balkans: strengths and vulnerabilities

The Balkan countries are not well equipped to deal with the challenges of a pandemic, although their vulnerabilities, owing to different of legacies, vary notably from case to case. Although the scope of SOEs is rather wide in Romania and Croatia, the share of manufacturing tends to be low (except for Romania where manufacturing has picked up in the recent decade). The Balkan industries rely on relatively low value-added operations, as demonstrated by the low R&D spending (here, Romania holds ECE's negative record). Croatia is particularly dependent on tourism. Balkan labour productivity levels represent a marked variety: while Croatian and Romanian productivity levels stand close to those of Latvia and Lithuania, Bulgarian productivity is the lowest in ECE. Finally, Balkan countries suffer from a lack of credibility in the financial markets, as demonstrated by the higher

borrowing costs. Although the cluster generally holds the lowest credit ratings in ECE, other fiscal indicators vary widely. Having the lowest revenue base in ECE, Romania also pays by far the highest interest rates on government debt. Meanwhile, Croatia, with ECE's highest revenue base, pays relatively little interest on its debt.

Balkan workforces hold deep vulnerabilities in multiple regards. Education levels are low, as demonstrated by the lowest shares of university degrees in ECE and the worst digital skills profiles. Romania is an extreme case, holding the highest share of basic education only, and the lowest levels of tertiary education. Labour markets are far from resilient, as demonstrated by very low formal employment rates and the highest rates of informal economy in the ECE. Finally, the Balkan labour forces have been further weakened by massive outflows of human capital, as suggested by the highest stock of emigration in ECE.

Like the Baltics, Balkan economies tend to be scarce on social provisions, particularly in Romania where social spending share is the lowest in ECE, with the second highest share spent on pensions and the lowest share on (active) labour market policies. Here the notable exception is Croatia, boasting the second highest spending share after Slovenia. A high share of social spending in Croatia is however dedicated to war veterans. In nominal terms, Balkan countries have the lowest minimum wages (although PPP-adjusted, Romania fares better than some of the Visegrád and Balkan countries). Health spending represent important variation — between very low funding levels in Bulgaria and Romania on the one hand (similar to the Baltics), and Croatia on the other hand, where health spending is one of the highest in ECE. The number of beds is rather low, similarly to the Baltics. The number of nurses and doctors stand at average levels in ECE. Except for Croatia, emigration of medical personnel is relatively high. On a more positive note, the Balkan countries stand out for the most sustainable situation regarding private mortgage debt.

In an age of anti-establishment backlash, the lack of social protection combines uncomfortably with the low quality of institutions. The Balkan countries represent by far the worst scores on

democracy (except for Hungary) and corruption in ECE. Croatia and Romania hold the respective negative records. Romania is also a troubling case regarding institutionalised democratic corporatism. This is a direct consequence of the dismantling of the well-established collective bargaining system by the right-wing Boc government in 2011. Even if union membership levels in the Balkans appear to be in a better shape than in the Baltics (notably, Croatian union density is the highest in ECE), it may not matter much, due to the lack of centralised bargaining structures and the limited involvement in policy-making.

1.2.4 Building resilience — what could be done?

Given the large deficiencies and vulnerabilities that ECE countries exhibit, what would be the policy measures that would help building resilience against massive health crises and economic crises such as COVID-19 and the GFC, and possibly the environmental crisis? We understand resilience as "the capacity of groups of people bound together in an organization… community or nation to sustain and advance their wellbeing in the face of challenges to it" (Hall and Lamont 2013: 2). Resilience building implies that societies focus on propping up institutions, processes and policies that allow them to answer to a diverse set of challenges. Below, we briefly identify some of the main directions where governments should build up capacities. [3]

The V4+1 countries could easily build on their existing strengths in manufacturing capacity, while also investing in new — pharmaceutical and medical equipment, digital and green — industries. To this aim, they can build both on FDI and on domestic enterprises, using the leverage of SOEs. They further could take advantage of their solid fiscal capacity and space. In a world of extremely low borrowing costs, they should borrow and spend massively, with a specific focus on high added value sectors, the education sector, and arguably most importantly bolster their relatively weak health

3 This paper does not aim at providing policy recommendations. Rather, the aim is to identify general directions where governments would need to intervene to decrease vulnerabilities.

care sectors that have been depleted over the past decade. Further, the V4+1 will require sustained efforts at retaining qualified workforce in the health care and educational sectors.

The Baltics could use the COVID-19 crisis as an opportunity to increase state intervention in the economy, particularly regarding large enterprises, that could be directed towards state-led development and upgrading, not least in the pharmaceuticals and medical equipment. Considering that the shortage of workers not only puts pressure on the labour market but also deters foreign investment, a major challenge during the pandemic is to retain human capital and prevent mass emigration. To that end, governments in the Baltic states could use the pandemic as a window of opportunity to increase (minimum) wages, improve working conditions and consolidate social buffers. The post-pandemic socioeconomic reality not only requires serious reconsideration of fiscal stringency but will also require generous social spending and investment on weakest (rather than strongest) social groups. Finally, like their counterparts, the Baltic countries will need to increase health funding, targeting low paid medical personnel and increasing availability of health services to vulnerable groups.

The Balkan governments face a host of vulnerabilities, from which there is no easy escape. They would need to boost social protection and welfare, thus preventing depletion of social capital and further waves of mass emigration. Another major front of improvement is education. Governments would have to invest heavily in human capital, education and (digital) skills that are key to the “new” industries. With the exception of Croatia, insufficiently funded and de-staffed health care systems are yet another problem that would urgently need to be addressed. Further, like the Visegráds and the Baltics, the Balkans should also smartly invest in the SME sector — not only helping companies to survive but pushing them to upgrade toward more added value operations. This could be done via targeted tax breaks, conditional investment incentives, and minimum wage hikes (pushing up productivity levels). Most importantly, all of this would require massively increased fiscal capacities and government efficiency.

1.3 Explanatory framework

So far, the paper has identified the patterns of vulnerability faced by the ECE country groups and highlighted some of the policy directions that would help to address the vulnerabilities. However, as Gourevitch famously writes, “[p]olicies, whether innovative or traditional, require politics: that is, the responses to the economic crisis require political support” (Gourevitch 1986, 18). This section spells out our basic theoretical framework to account for the politics of the COVID-19 crisis.

1.3.1 The political economy of policy reforms

In line with current literature in comparative political economy, we consider three conditions to matter for the policy responses. First, we look at the sources of political support for policies. To this aim, we consider governments’ strategies to maintain power during the crisis, which in turn relies on electoral politics and business power. Second, state capacity to implement policies is a crucial policy variable, and third, we consider policy learning. Even if the GFC and the COVID-19 crises are very different, policy-makers might have learned from the previous crisis how to decrease socioeconomic vulnerabilities. In what follows, we spell out each of these conditions.

Governments’ strategies to maintain power even amidst major crises rely on two major channels: the electoral, and the relation to business. The electoral perspective focuses on policy choices as the result of a combination of supply side and demand side factors. On the supply side, politicians pursue a particular policy portfolio to retain office for as long as possible. As the recent literature stresses, politicians have to do so in a two-dimensional policy space. Here, traditional left-right dimensions that concern conflicts over redistribution are being complemented by a new axis which distinguishes the time horizon of policies, i.e. whether they aim at investments in the future or current consumption. On the demand side, traditional preferences of the electorate on the left-right dimension have been complemented by preferences

for universalistic or particularistic policy packages (Beramendi et al. 2015).[4] Governments' power strategies in the electoral arena are doubly constrained: on the one hand, they need to generate support for policy solutions that span a two dimensional policy space, and on the other hand, their capacity for doing so have been crucially shaped by past policy choices, which both affect the policies that are feasible, and the support these policies would be able to generate. Beramendi et al. therefore argue that "at any given moment, except during profound social crises and catastrophes, political choices…. evolve as an incremental modification of the status quo" (Beramendi et al. 2015, 12–13). Against this background, we expect that policy choices in the responses to the COVID-19 crisis manifest more continuity than change, and will therefore be unable to decrease the countries' vulnerabilities. While it is true that the pandemic amounts to a profound social crisis, and we do not exclude radical change in the long run, in the short run we expect governments to hold on to their power by reinforcing the coalition on whose support they rely.

The electoral arena is however only one of the arenas in which policy decisions are being taken. As the literature on business power has argued, the electoral approach is powerful in explaining the noisy politics of social policy and the welfare state, but it has much less to say on industrial and enterprise policies (Bohle and Regan 2021; Brazys and Regan 2017; Culpepper 2010). It thus needs to be complemented by the influence of business on the policy process.

Ultimately, the legitimacy of governments rests upon the capacity of the economy to generate growth and material improvement, and they rely on business to bring growth about.[5] In this

4 In the literature, the second dimension is often conceptualised as a cultural dimension, which pits cosmopolitan values against parochial ones, e.g. (Kriesi et al. 2008; Kriesi and Hutter 2019). The literature on political behaviour in ECE suggests that in the absence of a consolidated economic cleavage in place, parties tend to attract voters over issues related to culture (Deegan-Krause 2013).

5 This does not only hold for the legitimacy of democratic governments, but also (or even more) for hybrid or authoritarian regimes, which is important for the context of ECE, where democratic backsliding is rampant (Gerschewski 2013).

way, corporate interests constitute another set of constraints that political actors must comply with. Channels for business influence are ample and varied (Amable et al. 2019). The most powerful businesspeople typically have direct access to members of government. In addition, there is lobbying, “revolving doors” between political parties and the business sector or donations to political parties.[6] In short, government-business interactions take place in the “quiet” arena of informal politics, and concern those areas that are of primary interest for business, while having a low political salience overall, such as corporate taxation, investment incentives, and policies of business support more broadly (Culpepper 2010, 2016). These policies tend to reflect the dominant corporate interests at the core of a specific growth model (Baccaro and Pontusson 2016, 2019; Ban and Adascalitei 2020; Ban and Bohle 2020; Bohle 2017)2019; Ban and Adascalitei 2020; Ban and Bohle 2020; Bohle 2017. Accordingly, we expect the major support programs to cater to the interest and protection of major business groups, and important sectors.

Any policy that is legally adopted must be practically enforced, and states have markedly different capacities to do that. Although political economists may have different views about what state capacity is and how it can be measured, there is a consensus that state capacity is a major factor shaping policy outcomes, in the world’s developed and developing parts alike. At a basic level, state capacity refers to the ability to devise new policy initiatives and effectively enforce them, even if they are contested. One widely used measure of state capacity is the total tax burden as a share of the GDP, since the revenues collected directly determine what policies the state can (or cannot) implement (Besley and Persson 2009; Seelkopf et al. 2019). The revenue capacity is mirrored by the share of informal economy. Second, state capacity also relies on the quality of bureaucracies and governance, captured by indicators such as government effectiveness, regulatory quality, rule of law and control of corruption (Kraay, Kaufmann, and Mastruzzi 2010). Finally, there is an international aspect to state capacity. On the one hand, countries can “borrow” capacity,

6 Democratic corporatism provides another channel for business influence; however, in this channel the power of business is constrained by that of organised labour.

by aligning with international institutions in their efforts to implement policies, or be “forced” to implement policies by international organizations’ monitoring and conditionality. However, given that during the COVID crisis, EU conditionality in the crucial areas of state aid has been suspended, we expect this to be of less importance. On the other hand, state capacity can also manifest itself as a capacity to be able to counter adverse international influences, such as capital outflows, or a lack of monetary supply. Thus, state owned enterprises or “dependent” central banks strategically intervene to monetize sovereign debt can be instruments to bolster state capacity (Turner 2017). In light of this literature, we expect the Balkan states to be least able to formulate and implement effective policies, and, due to the more advanced bureaucracies and more consolidated revenue bases, the V4+1 country group to develop and implement more far reaching policies than the rest. However, we expect important variation within both the V4+1 and the Baltic States groups.

Finally, policy responses should also be influenced by policy learning. As argued above, we expect incremental rather than radical policy change, at least in the short run. However, given that this is the second major crisis with a heavy socioeconomic fallout, we believe that the long period of unsettled times might have given some space for policy learning. (Re)election seeking politicians can embrace genuine innovation, by aligning with changing policy preferences in their constituencies and building new winning coalitions (Beramendi et al. 2015). The GFC era has given rise to major rethinking of economic theory and policy, not only on the part of specialised scholars and researchers, but also international organisations and national governments (Ban and Gallagher 2015; Clift 2018; Hemerijck 2015)and how the IMF worked to alter advanced economy policy responses to the global financial crisis (GFC. The political backlash after the GFC also bears witness to changing political constituencies and policy preferences. The pandemic has challenged economic policy orthodoxy even further, as evidenced by unprecedented state interventions, even in the former strongholds of neoliberalism. However, the goals and scope of policy innovation are far from unitary and vary from country to country. We expect that innovation will be

most pronounced in cases where the post-GFC decade has given rise to new ruling coalitions that have reconsidered established economic policy directions.

1.3.2 Expectations

How will ECE governments respond to the pandemic? Based on the three sets of conditions above, we expect more continuity than change, albeit the exact balance between the two ideal typical trajectories varies across the three country groups.

In the V4+1 group, we expect governments to implement few changes in their economic policy direction. As a consequence, the COVID-19 crisis will amplify existing weaknesses rather than serve as an incentive to remedy existing shortcomings. The combination of the established FDI-driven growth model and political forces explain continuity. Politically, the biggest challenge in the V4+1 region has been the rise of illiberal leaders. This creates an increasing danger that every policy response to the pandemics is geared towards stabilising the leader and his narrow circle of friends, rather than towards the well-being of the broader population. Thus, we expect that the country that travelled furthest down the illiberal path, Hungary, will further deplete existing resources to favour its narrow group of oligarchs (and foreign investors).[7] In contrast, the Slovenian government is expected to act in a more constrained manner. Resistance from countervailing forces, such as labour unions and the opposition, is likely to result in more socially equal policies. However, none of these countries has significant economic and political forces to call for an upgrading of the economy and massive social investment, including healthcare.

We might expect some, albeit limited, change in the Baltics. On the one hand, the established growth models, centred on foreign lending and consumption, preclude any major redistribution at the expense of well-off businesses, for instance, in retail, tele-communications and finance. We also do not expect major

7 One interesting question is whether there is a difference between “technocratic populists” and populists — or illiberals as we call them here tout court in government.

policy change through the realm of politics. If the GFC produced any political backlash in the Baltic political systems, it primarily took place along cultural — rather than economic lines and, as such, was expressed by conservative anti-establishment forces. To a large extent, this can be explained by well-consolidated cultural cleavages, typically, articulated around ethnicity, language and perceived threats from Russia — particularly in Latvia (Eihmanis 2019a). Accordingly, we can expect that democratic politics will mostly focus on a well-rehearsed set of cultural issues, rather than a rebalancing of the economy. On the other hand, given that powerful foreign businesses (e.g. foreign finance) have little stake in the COVID-19 crisis, and the Baltic economies are mostly populated by domestic SMEs, we can expect an increased governmental focus on catering to the interests of domestic, rather than foreign, businesses. However, whether this support will be geared toward mere protection or upgrading, largely depends on policy learning from the last crisis. The same applies to the lopsided social contract between capital and labour, and building a more inclusive society, more specifically. Due to the higher institutional capacity, we expect that policy learning might be more pronounced in Estonia (and perhaps Lithuania), and less so in Latvia. The post-GFC experience suggests that some gradual change toward rebalancing can be driven through the EU's hard and soft conditionality (Eihmanis 2019b).

We expect that the Balkan countries will be the least likely to reduce the vulnerabilities identified above. Continuity in policy direction will be driven by interactions between a myriad of political and economic constraints, both domestic and international. The Balkan political systems are notoriously inefficient, struggling with endemic corruption and political cartelisation (Gherghina and Volintiru 2017; Katz and Mair 2009), as exemplified by the well-known cases of Romania and Bulgaria.[8] The prevalent (anti) corruption cleavage prevents important, including social and economic, issues from even being discussed in the public debate. In addition, neoliberal ideology, priming market solutions, is

8 https://www.theguardian.com/world/2019/jul/23/we-are-watching-you-protesters-corruption-romania-sibiu; https://jacobinmag.com/2020/10/bulgaria-boyko-borissov-protests-gerb-bsp.

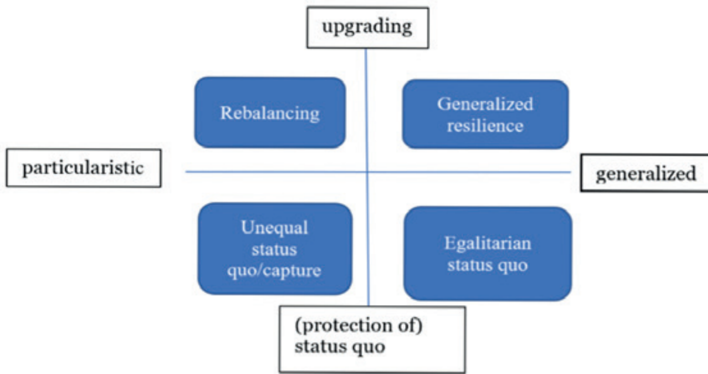
deeply entrenched among ruling elites and deters redistribution from haves to have nots. With the partial exemption of Romania (Ban 2019), there is little, if any, evidence of policy learning since the GFC. Having considered these conditions, we expect that there will be no change in social and health policy to significantly increase resilience. We also expect that, due to governments' power-seeking strategies, increased spending will be directed mostly toward infrastructure and welfare benefits, rather than "new" digital and green economy, and education. Due to the high level of structural power of business groups, both domestic and international, most state aid will be geared toward protecting existing industries, rather than creating new ones.

1.4 Analysing policy responses

To analyse the policy responses, the volume distinguishes two aspects: policy aims and policy means. Starting with policy aims, this aspect answers the question what the ultimate end of a policy is. Here, we distinguish between two dimensions: (protection of the) status quo or upgrading; and whether the aim is to protect or innovate across the board (generalised) or particular sectors/ social groups (particularistic). Status quo versus upgrading reflects to which extent governments update existing policies to make the socioeconomic fabric of their countries more resilient, and generalised versus particularistic reflects the distributive dimension. These two dimensions lead to specific policy outcomes (Figure 1.2).[9]

9 As can easily be seen, the conceptualisation of the two-dimensional policy space borrows liberally from Beramendi et al (2015: 14, 29) two-dimensional space of institutional constraints.

Figure 1.2: policy aims and outcomes



Thus, policy responses differ in whether they aim overwhelmingly to protect existing interests and demands, or aim to upgrade the socioeconomic fabric and make it more resilient to shocks. They also differ in whether they target specific groups, or the general population. As a result, policies can mostly protect a particularistic status quo (lower left quadrant). For example, a prominent policy instrument that is used in all our cases are income subsidies. Income subsidies are protecting the status quo, as they seek to compensate for the loss of income. However, they can be very particularistic as in the Hungarian case, where the target group of income subsidies was very limited, or generalised, as in the Czech case, which devised a number of income subsidy schemes that covered several social groups, including labour market outsiders. The different outcome reflects (and perpetuates) a captured state in Hungary, and a more egalitarian status quo in the Czech Republic (lower east quadrat).

Upgrading can also be particularistic or general. In countries, which start to massively invest in their healthcare or pharmaceutical sectors, but where all other policy responses seek to protect the status quo, a rebalancing of the socioeconomic fabric takes place, giving hitherto neglected sectors due attention. In contrast, if policy upgrading happens across the board, affecting a number of sectors, or different groups of the population, the building up of generalised resilience occurs.

The second aspect of the response concerns the policy means. These refer to the way how policy ends are met. The following categories can be distinguished:

- Orthodox: these are classical (neo)liberal means, such as low taxation, fostering competitiveness, deregulation, privatisation, fiscal prudence etc.
- Heterodox: these are the policy means that break with the orthodoxy, without however being statist. Sectoral taxes or debt monetisation of central banks fall into this category.
- Keynesian: these are interventionist countercyclical policies, like subsidies, extension of unemployment benefits, extension of credit lines or income support, with the aim to uphold consumption.
- Statist: here the state takes over directly the economic activity, such as through nationalisation, state-led innovation, or militarisation.

We submit that to test our expectation whether policy responses to the COVID-19 crisis are likely to reproduce the status quo rather than leading to upgrading and innovation, it is analytically important not to conflate policy ends and means. This insight builds on Peter Hall's (1993) influential piece on policy paradigms. Peter Hall distinguishes three distinct forms of change. First order change occurs when some of the policy instruments are changed, "while overall goals and instruments of policy remain the same" (Hall 1993: 278). This type of change occurs frequently. Second order change occurs when the hierarchy of ends remains the same, but policy-makers see a need to change the means to achieve these goals. Second order change is perhaps best captured in the often-quoted dictum of the hero in Lampedusa's novel, The Leopard, that "everything must change so that everything can stay the same". We expect that in light of a major crises, policy means can exhibit such a second order change. If markets break down, the state will pick up the pieces. The fundamental question, however, is whether what Peter Hall calls third order change, occurs. Third order change affects policy goals themselves, as well as policy

means and instruments. Such a change occurs rarely, and the question our collection of papers poses is whether the COVID-19 crisis has given rise to third order change in Europe's eastern periphery.

1.5 Conclusions, outlook, and limitations of the volume

This paper has outlined our main questions and research agenda and introduced our explanatory framework and analytical tools to map the socioeconomic policy responses to the COVID-19 crisis. Specifically, we have mapped the major vulnerabilities that East Central European countries face in light of the COVID-19 crisis and other external shocks, and have identified how countries in the region could use the current crisis to compensate for their specific vulnerabilities and make their societies overall more resilient. However, our expectation, based on a political economy framework is that rather than engaging in more far-reaching policy reactions to the crisis, policy responses to COVID-19 will amplify existing vulnerabilities in the region.

The remainder of this volume is a first step into implementing the outlined research agenda. As such, the following country chapters will provide a description of the major policy responses in three fields: social and labour market policies, industrial policies, and monetary and fiscal policies in selected countries of the region and provide summary analyses of the policies. The cut-off date for the analysis is February 2021, which refers to the end of the second wave of the pandemic. The empirical analyses are based on extensive data collection, both from existing databases and national and international press. The database used for the country chapters will be published soon on Cadmus, the EUI research repository. The structure of the e-book is as follows. Chapter 2 provides comparative background information on the pandemic, economic fallout and economic policies adopted by the EU. Chapters 3 to 11 focus on country case studies in various ECE subregions. The concluding chapter draws a comparative picture of the policy responses and discusses the inter-country variation in the light of our theoretical framework. This last chapter

merely documents the plausibility of, rather than rigorously tests, our explanation.

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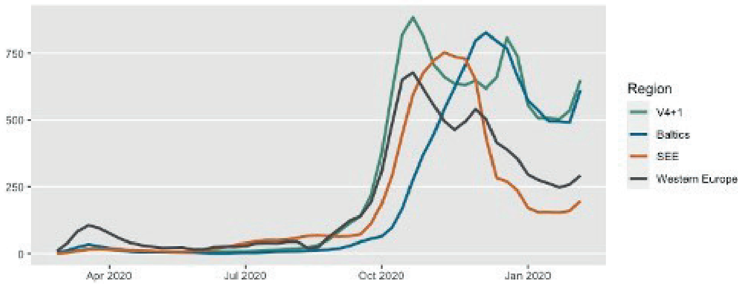
Chapter 2. Background: The pandemic, its economic fallout, and the European framework

Nils Oellerich and Alen Toplišek

The general pattern of the severity of the COVID-19 pandemic was relatively uniform across the region: during the first wave, most governments reacted quickly and imposed containment regimes that were among the strictest in Europe. They were spared exponentially rising infection numbers, shortages of hospital beds and the high death tolls experienced by other countries. This development notwithstanding, the second wave hit the region considerably harder with case numbers, death tolls and hospital admission in different ECE countries making international headlines on a regular basis.[1]

1 https://www.theguardian.com/world/2020/oct/11/czech-republic-goes-from-model-covid-19-response-to-brink-of-second-lockdown and https://www.ft.com/content/86820127-3bf5-4c3a-83b6-d25eafac96df.

Figure 2.1: Weekly 14-day incidence of COVID-19 cases;



Source: ECDC[2]

The Visegrád four plus Slovenia (V4+1) experienced a particularly steep rise in cases in November 2020, which, despite a fall by early December remained persistently high into early 2021. Additionally, in both Southeast Europe (SEE) and the V4+1, the excess mortality considerably surpassed that of Western Europe (as well as the Baltics). The third wave of the pandemic once again has hit the region very hard, with a number of countries experiencing the near collapse of their health care systems. These developments are illustrated in Figure 2.1 and Figure 2.2[3]

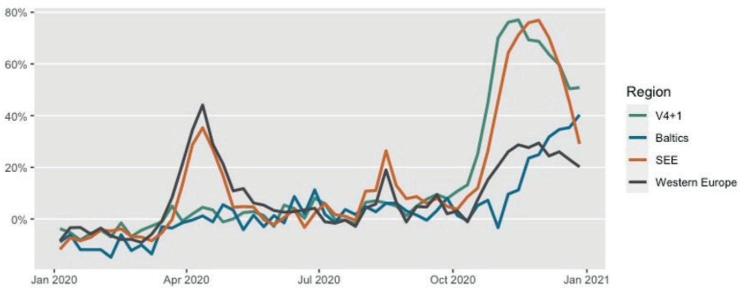
In spite of these ostensible similarities, pre-crisis economic performance and economic hardship experienced during the crisis differ sharply between various countries in the region. Figure 2.3 cursorily demonstrates this variation by illustrating the development of unemployment rates. The Baltic states exhibit both the

2 Data on 14-day Notification Rate of New COVID-19 Cases and Deaths, ECDC, 2021 (Available at: https://www.ecdc.europa.eu/en/publications-data/data-national-14-day-notification-rate-covid-19).

3 Here and in what follows, the Visegrád states are presented together with Slovenia, the Baltic states refer to Estonia, Latvia and Lithuania and Southeast Europe comprises Bulgaria, Croatia and Romania. All illustrations include a reference to Western Europe which comprises Denmark, Finland, Sweden, Belgium, Luxemburg, the Netherlands, Austria, Germany and France, unless otherwise specified. The corresponding data for all graphs displayed here can be found in the Appendix.

highest pre-crisis unemployment and the sharpest rise following the implementation of the first restrictions — by November 2020 it has reached more than 9 per cent. Corresponding numbers for the V4+1 and the three South East European (SEE) countries turn out considerably lower — over the course of the crisis the unemployment rate in the V4+1 has increased from around 3.5 to around 4.5 per cent. The Czech Republic and Poland stand out as cases in which high employment rates prove particularly resilient (see individual country reports).

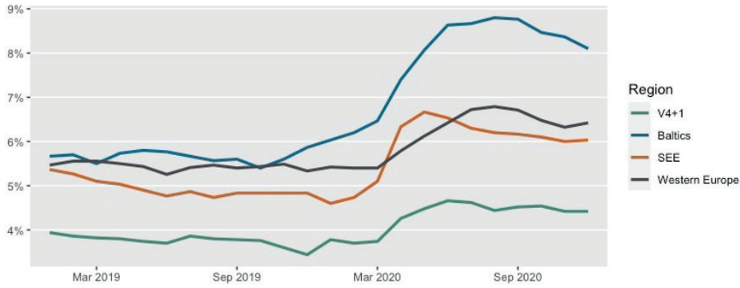
Figure 2.2: Weekly excess mortality;



Source: Roser et al. (2020)

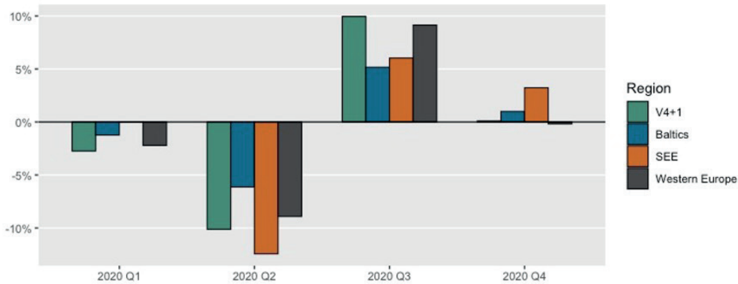
In terms of economic growth, the most severe contraction as well as the slowest recovery has been experienced by the SEE states, as illustrated by Figure 2.4. The contraction of the Baltic state was more limited while the V4+1 contracted similar to the EU average and exhibited the quickest recovery in the region in the second half of 2020.

Figure 2.3: Monthly unemployment rate;



Source: Eurostat[4]

Figure 2.4: Quarterly GDP growth (seasonally and calendar adjusted);



Source: Eurostat[5]

Additional variation can be observed in both the regulatory and fiscal response of individual countries. Figure 2.5 demonstrates

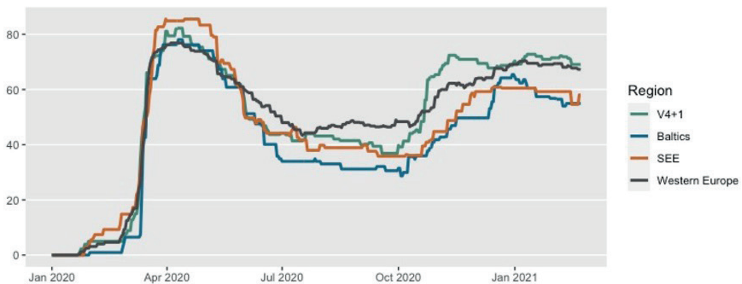
4 Data browser - Unemployment by sex and age – monthly data, Eurostat, 2022 (Available at: https://ec.europa.eu/eurostat/databrowser/view/UNE_RT_M__custom_2046764/default/table?lang=en, accessed February 2022).

5 Data browser - GDP and main components (output, expenditure and income), Eurostat, 2022 (Available at: https://ec.europa.eu/eurostat/databrowser/view/NAMQ_10_GDP__custom_2046572/default/table?lang=en, accessed February 2022).

the regulatory stringency by region and reveals the comparatively lenient approach of the Baltic states relative to all other states in the region as well as the Western European average.[6] It is also noticeable that while the response to the first wave was in general more restrictive than in Western Europe, relaxation came also faster and was longer. This can partly explain the severity of the second and third wave.

Crucially, however, there is further considerable variation in different countries' fiscal responses — countries vary within and between different subregions and exhibit differences in both the volume and the composition of their response. This is illustrated by Figure 2.6, depicting different fiscal responses to the COVID-19 crisis divided by whether they constitute direct spending ('above-the-line') or 'promised' spending (i.e., loans, equity, guarantees, or 'below-the-line'). With the exception of the Czech Republic, all countries in ECE fall short of the below-the-line spending observed in Western Europe. Direct spending levels in the V4+1 as well as Latvia are, comparatively, higher, while SEE and, to a lesser degree, the Baltics more generally considerably fall behind on all counts.

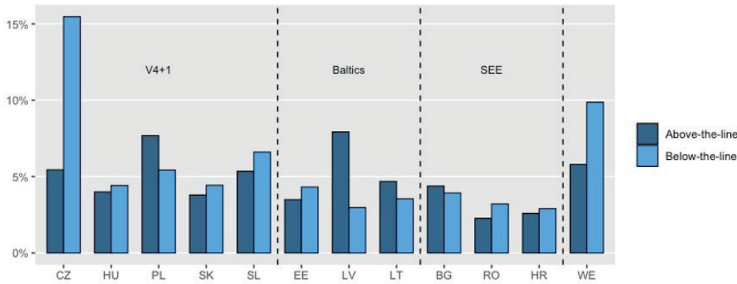
Figure 2.5: Daily stringency index;



Source: Hale et al. (2020)

6 The stringency index measures containment and closure policies, such as school and workplace closing, restrictions on public events and gatherings etc. For details see: https://github.com/OxCGRT/covid-policy-tracker/blob/master/documentation/codebook.md#containment-and-closure-policies

Figure 2.6: Fiscal response to the COVID-19 crisis (per cent of GDP);



Source: IMF[7]

While the state level fiscal responses were the most important in fighting the COVID-19 crisis during the first year of the pandemic, the EU-level response by EU institutions has also played a crucial supportive role. In March 2020, the European Commission communicated to the member states that the pandemic's exceptional circumstances require exceptional policy measures and adopted a temporary framework for state aid that substantially relaxed the conditions for the provision of assistance as long as the crisis lasts.[8] Yet, member states still have to notify the Commission about the planned aid schemes because they can be launched only after gaining approval. The Commission expressed that "given the limited size of the EU budget, the main response will come from Member States' national budgets".[9] Consequently, state aid "is justified and can be declared compatible with the internal market on the basis of Article 107(3)(b) TFEU, for a limited period, to remedy […] disruptions caused by the COVID-19 out-

7 Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF, 2021. (Available at: https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19, accessed March 2021).

8 Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak, European Commission, 2020/C 91 I/01. (Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020XC0320(03)&from=HU).

9 ibid. 1. 1. 9.

break".[10] The document specified those forms of aid that the Commission allowed. These are direct grants (cash grants), tax benefits, guarantees on loans, subsidised interest rates for loans, and guarantees and loans. Alongside this, the Commission and the European Council have also agreed on the suspension of budgetary rules of the Stability and Growth Pact to provide member states with the necessary fiscal space for their crisis responses.

In April 2020, the Commission directed EUR 37 billion from the cohesion and structural funds under the 2014–2020 EU budget to finance the member states' crisis responses more flexibly. An additional EUR 1 billion was directed from the budget as a guarantee to the European Investment Bank to incentivise banks to provide around EUR 8 billion of liquidity to SMEs and mid-caps.[11] The Commission also launched the Support mitigating Unemployment Risks in Emergency (SURE) initiative that provides up to EUR 100 billion in loans to countries to finance short-time work schemes and similar measures to protect jobs, employees and self-employed.[12] As part of the historic agreement on the Next Generation EU programme, the EU will provide EUR 672.5 billion in loans and grants to member states to support reforms and investments. The funding will be conditional on member states submitting national recovery and resilience plans to the Commission for approval by the summer of 2021. The national plans need to earmark at least 37 per cent of the funds for fighting climate change and the green transition, and at least 20 per cent to support the digital transition. Member states will be able to start drawing the funds by the end of 2021 and will have until 2026 to use them.[13] Additionally,

10 ibid. 2. 18.

11 COVID-19: Commission sets out European coordinated response to counter the economic impact of the Coronavirus*, European Commission, Press Release, March 13 2020. (Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_459).

12 The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), European Commission, 2020. (Available at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en).

13 Recovery and Resilience Facility, European Commission, 2021. (Available at: https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en).

East Central European member states will also be able to draw funds under Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), which complements the EU's cohesion policy.[14] The allocation of funds will be conditional on the extent of the economic and social impact of the crisis, GDP drop, rise in unemployment and relative wealth of countries and will need to be used by end of 2023.

Learning from the mistakes of the 2008 financial crisis, the European Central Bank (ECB) responded swiftly by starting a new asset purchase programme of corporate and sovereign bonds in March 2020, called Pandemic Emergency Purchase Programme (PEPP). This quantitative easing programme of initial EUR 750 billion, which was extended to a new total of EUR 1,850 billion by end of 2020, complements the existing asset purchase programme (APP) with additional EUR 120 billion.[15] ECB's decisive response played an important role in easing the borrowing conditions for member states when it came to supporting their fiscal power arms. The novelty of PEPP was that the capital key and the issuer limits are disregarded, so in practice the ECB has allowed itself to buy unlimited amounts of bonds, including from the fragile Eurozone economies in the Southern periphery. The ECB has also provided cheap credit facilities to banks under the new pandemic emergency longer-term refinancing operations (PELTROs).[16] With the aim of further supporting lending by banks, the ECB has also relaxed the capital and liquidity requirements.

14 REACT-EU, European Commission, 2020. (Available at: https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/react-eu).

15 Policy Responses to COVID-19, Policy Tracker – European Union/Euro Area, IMF, 2021. (Available at: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#E).

16 ECB announces new pandemic emergency longer-term refinancing operations, ECB, Press Release, April 30 2020 (Available at: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200430_1~477f400e39.en.html).

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Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira. 2020. Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard.

Roser, Max, Hannah Ritchie, Esteban Ortiz-Ospina and Joe Hasell (2020) - "Coronavirus Pandemic (COVID-19)". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/coronavirus' [Online Resource]

Chapter 3. Czech Republic: Generosity, orthodoxy, and status quo protection

Nils Oellerich

3.1 Introduction

The Czech government's crisis response over the course of the first two waves of pandemic, especially in terms of containment, is characterised by an unusually high quantity of measures and a lack of more encompassing policy-packages. At the height of first two surges of the virus, the central government stood out by announcing new measures almost every day, and revising, easing, extending and expanding existing measures with extremely high frequency. The restrictiveness of the measures during the first wave was highly contested, with the Prague district court in late April 2020 declaring a number of measures unlawful, forcing the government to successively recant a vast array of restrictions. Most prominently perhaps, according to media reports, the government had circulated the idea that Czech borders could remain closed even through 2021 — a notion that had to be renounced swiftly in light of the Court's verdict.[1] Similar confusion has been sparked in the context of the country's vaccination campaign the beginning

1 https://www.theguardian.com/world/2020/apr/24/czech-republic-opens-borders-citizens-coronavirus-infections-decline, accessed 01.04.2021.

of which was ridden by a lack of supplies and miscommunication.[2] These developments in combination with the extreme severity of the second and third wave of the pandemic, which, at times, led to highest case incidence in the entire region (see Table A2.1 in the appendix), attracted widespread criticism of political failure.

The ad hoc nature of policy responses to the COVID-19 crisis transcends the realm of containment and public health, and applies to the field of social, industrial and economic policy-making in a similar manner. Generally, the government's response can be characterised as relatively generous. This generosity is manifested by measures ostensibly targeted at large parts of the population and/or across different sectors, thereby displaying little exclusiveness. However, the reactive and ad hoc character of policy responses translates into a pervasive protection of the (pre-COVID) status quo — few measures are aimed at improving the country's medium- and long-term resilience vis-à-vis external shocks and no structural problems of the Czech economy and society are addressed in a meaningful way. Thus, the profoundness of the crisis and the government's response notwithstanding, the Czech crisis response can be described as "egalitarian status quo" comprising extensive, generous and inclusive measures that do not touch upon the country's 'socioeconomic fabric'.

3.2 Background

The Czech Republic is often described as the only country among the Visegrád states that adhered to a pre-crisis status quo of economic policy-making in the aftermath of the financial crisis. This crisis was chiefly administered by a conservative government, led by the Civic Democratic Party (ODS) which used the crisis as a legitimation device to implement comprehensive supply-side and neoliberal reform packages aimed at reducing the budget deficit and easing the tax burden on businesses (Myant et al. 2013, 393-397). Notably, expenditure cuts were at the particular expense of

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2 https://www.reuters.com/article/us-health-coronavirus-czech-idUSKBN-29W2LX, accessed 01.04.2021.

R&D as well as infrastructure spending (ibid.) thereby reducing rather than increasing the structural resilience of the Czech economy against external shocks. The 2013 and 2017 elections brought considerable disruption to the political landscape with the party Action of Dissatisfied Citizens (ANO) ultimately becoming the strongest party, forming a coalition government with the Czech Social Democratic Party (ČSSD) supported by the Communist Party of Bohemia and Moravia (KSČM) in 2017. The party's success is ascribed to increasing dissatisfaction with past governments' crisis management as well as more general political distrust culminating in a corruption scandal involving then-PM Petr Nečas (Naxera 2018; Guasti 2020). The coalition was in office throughout the first two waves of the pandemic and was replaced in late 2021 by coalition consisting of the Christian-democratic parties ODS and KDU–ČSL, as well as the Pirate party and TOP09.

While ANO and its omnipresent leader Babiš share a similar populist appeal to Fidesz in Hungary and PiS in Poland (Hanley and Vachudova 2018), the party's economic policy platform can be characterised as rather moderate. Unlike in Hungary or Poland, no palpable departure from economic orthodoxy and foreign dependence can be observed and, in what has been described as "technocratic populism", its political discourse continues to emphasise the entrepreneurial experience of Babiš himself, the efficiency-enhancing role of running government like a company, as well as occasional rhetorical references to economic nationalism (Císař 2017; Havlík 2019). The latter element notwithstanding, no major resurgence of state interventions, e.g. by means of large-scale nationalisations or increased support of domestic businesses, have occurred.

At the time the pandemic began to affect economic activity and output, a range of economic indicators signified the exceptionally good fiscal and economic position the country was in — GDP grew by more than 2.5 per cent in 2019, the unemployment rate was just over 2 per cent (the lowest in the EU), while labour productivity as well as R&D expenditure are the highest among the Visegrád states (though still significantly lower than in the European "core" states). Relevant statistics regarding the health sector

reveal a mixed picture with the Czech Republic spending most on health care relative to its GDP in the region, but also having the lowest number of curative hospital beds per capita (see Appendix 1.1 for data sources of these and other country-level characteristics). As regards the population's vulnerability to external shocks and economic distress, the Czech Republic is performing relatively well on measures indicating severe poverty or housing deprivation, but overall exhibits only medium levels of social spending and very little labour market spending. Collective bargaining appears to be in good shape and, notably, largely unaffected by the financial crisis (Myant 2013), unlike for example in Hungary or Romania. Moreover, trade unions seem to have gained societal reputation in the context of growing dissatisfaction with the ODS government, and their mobilising potential could be witnessed in 2011 when unions co-organised large-scale protests against the government's austerity packages ultimately contributing to its fall (Guasti 2020). Lastly, the junior partner in the the former, Babiš-led government, ČSSD, is observed to have close ties to the largest confederation of unions — the Czech-Moravian Confederation of Trade Unions (ČMKOS) — further amplifying their political and societal relevance (Podvršič et al. 2020, 21).

Similar to other V4+1 states, the economic impact of the pandemic has, at the time of writing, been less pronounced than in SEE or the Baltics with negative growth remaining in the single digits (see Table A2.4 in the appendix). The country's unemployment rate was the lowest in the entire EU prior to the crisis and remained remarkably low over the course of the first two waves of the pandemic, rarely exceeding three per cent (see Table A2.3 in the appendix). Thus, while the economic impact of the crisis was noticeable and the most severe since the country's transition, growth and unemployment fluctuations were more limited than those in other parts of ECE and the EU at large.

3.3 Social and labour market policies

Corresponding to its fast response to the spread of the pandemic in terms of containment, the Czech government reacted quickly to the social and economic hardship incurred by the restrictions and decided on a vast array of measures aimed at economic relief equally swiftly. In the month of March 2020 alone, the government adopted a range of measures, among other things, introducing a Kurzarbeit scheme whereby the employers are fully or partially compensated if their employees are ordered into quarantine or the workplace is to remain closed. Employees continue to receive between 60 and 80 and, under certain conditions, even 100 per cent of their wage. This went under the name of the Antivirus package which was extended and amended multiple times over the course of the pandemic in order to change eligibility requirements and time frames. The Antivirus package was welcomed by both unions and employer association who saw it as a crucial measure to retain employment and compensate companies for production restrictions more generally. However, the ČMKOS criticises the limited scope of the scheme, explicitly drawing the comparison to similar schemes in Germany where employees are able to retain a larger share of their income (ČMKOS 2020a). Similarly, the country's biggest employer association — the Confederation of Industry of the Czech Republic (SP ČR) — called for an expansion of the programme in terms of coverage (SP ČR 2020b). According to a press release by the Ministry of Labour and Social Affairs from early January 2021, more than 65,000 employers had thus far made use of the programme amounting to CZK 24.5 billion (ca. EUR 940 million) paid in wage compensation (Ministerstvo práce a sociálních věcí 2021).

In addition, various measures were aimed at the hardships experienced by the self-employed, including a compensation for childcare obligations of CZK 424 — ca. EUR 16 — a day arising from the forced closure of schools and day-care facilities (the amount was later raised to CZK 500 a day). Moreover, the government decided to waive pension and health insurance contributions for the self-employed. An extraordinary care allowance for the period of school closures has also been adopted for employees —

however, the eligibility of the self-employed stands out here due to their previous ineligibility for this type of allowance and the current government's known association with large companies rather than small and medium enterprises (SMEs) and the self-employed (Podvršič et al. 2020, 22-23). In addition, a more general income support scheme for the self-employed — irrespective of childcare obligations — was decided on in late March. This also amounted to CZK 500 a day and was increased to CZK 1,000 a day in early February 2021. Further measures were adopted in spring 2020 including the prohibition to evict tenants in case of their default on rent payments as well as a loan repayment moratorium for three to six months. The second wave of the pandemic, and the re-introduction of strict social distancing and lockdown measures has also led to the resumption of many of the aforementioned measures.

In terms of labour market policy, the government did not diverge hugely from its previous priorities in policy-making and only few measures signal an active role of the government in the supply or demand of labour. The few measures that were adopted are very selective in their scope — over the course of the first two waves of the pandemic, work obligations for different categories of medical students were adopted; medical personnel were prohibited from taking their annual holiday; the Czech armed forces were deployed to aid in the provision of various health services; and some minor measures relate to facilitated entry of seasonal workers, particularly Ukrainian agricultural workers. Notably absent from the group of recipients of any economic relief measures are the unemployed. During the first two waves of the pandemic, not a single measure was specifically aimed at the recipients of unemployment benefits, for example, by way of extending the eligibility period. Notably, unemployment benefits are lower than, for example, the monthly allowance catered to the self-employed but, as noted by a member of the Czech National Economic Council, nevertheless, are not subject for even temporary reform efforts (Švihlíková 2020). In this context, ČMKOS, has taken issue with the overall lack of government concern for aggregate demand with stagnating unemployment benefit and minimum wages (ČMKOS 2020b, 29).

Though nominally unrelated to the COVID-19 crisis, one of the more comprehensive reforms undertaken by the Czech government is a set of changes to the personal income tax regime. Starting from January 2021 a flat tax for the self-employed — championed by the Ministry of Finance — has been introduced. This applies to self-employed with a maximum annual income of CZK 1 million (ca. EUR 39,000) who now are obliged to pay CZK 5,469 (ca. EUR 210) per month in personal income tax. A further, more comprehensive tax reform originally included the reduction of the basis of calculating the income tax. The income tax rate is, moreover, reduced to 15 per cent but now includes a degree of progression with high earners paying 23 per cent. Following the Ministry's own calculations, this reform alone amounts to a reduction in tax revenue just short of CZK 100 billion in 2021 (ca. EUR 3.9 billion) and more than CZK 120 billion (ca. EUR 4.6 billion) in 2022. Naturally these reductions have sparked corresponding criticism, with the ČMKOS criticising the adverse effects on medium and low incomes (ČMKOS 2020b, 28). Large parts of the opposition, notable ODS, the centre-right TOP09 and the Christian-democratic KDU-ČSL supported the reform (TOP09 2020) with the only major opposition party objecting being the Czech Pirate party[3] — some commentators suggested a 'political move' in light of the parliamentary election in October 2021.[4] The package has also sparked some criticism within the junior coalition partner ČSSD which voted against the package with one regional governor (to no avail) suggesting that the party leave the government over its adoption.[5]

3 https://www.seznamzpravy.cz/clanek/cssd-nebude-hlasovat-ani-pro-jednu-verzi-danoveho-balicku-134723, accessed 01.04.2021.

4 https://www.irozhlas.cz/komentare/snizeni-dani-zruseni-superhrube-mzdy-babis-ano-ods_2011270646_onz, accessed 01.04.2021; https://www.reuters.com/article/czech-tax-idUSKBN28K30T, accessed 01.04.2021.

5 https://ct24.ceskatelevize.cz/ekonomika/3228930-hamacek-oznacil-danovy-balicek-za-nezodpovednou-sekeru-pirati-za-silenost, accessed 01.04.2021; https://www.seznamzpravy.cz/clanek/komentar-poprava-verejnych-financi-aneb-vic-dobra-nez-cesko-unese-130437, accessed 01.04.2021.

3.4 Industrial policies

Government response in the field of industrial policy was similarly extensive as in other fields — at least in terms of quantity — with almost 150 single measures adopted by late February 2021. The crisis measures aimed at providing support to corporations by various means, including direct provision of liquidity, various tax deferrals, exemptions, or reductions, as well as loans and loan guarantees.

More or less direct subsidisation of business took the form of the aforementioned Antivirus programmes, which directly subsidises wage payment, as well as the Covid – Rent programme which covers 50 per cent of the rent for premises of businesses affected by the government's restrictions. Moreover, in early February 2021, the government decided to provide a subsidy for businesses experiencing a drop of sales of more than 50 per cent amounting to CZK 500 per day per employee. Other direct subsidies were aimed at specific sectors and, in particular, consisted of aid packages for the tourism and agricultural sectors as well as gastronomy. Businesses active in the tourism sector (e.g., tour guides and travel agencies), alongside several regulatory changes and a VAT reduction, received CZK 150 million (ca. EUR 5.8 million) as part of the Tourism Crisis Action Plan in early June, and another CZK 500 million (ca. EUR 19 million) through the Covid - Tourism promotion programme in late October. Two programmes supported the providers of accommodation specifically, and one programme was aimed at spa facilities. The tourism sector was supported further by changing the rules for reimbursements in case of cancelled events or holidays whereby various categories of companies are allowed to reimburse customers by providing vouchers. Moreover, the Agrocovid Foodstuffs programme allocated CZK 3 billion (ca. EUR 116 million) to food producers in the context of public catering. Earlier support of the agricultural sector consisted of considerable refinancing from the Farming and Forestry Relief and Guarantee Fund (PGLRF) in order to grant loan repayment eases to farmers. The Covid – Gastro programme comprises CZK 2.5 billion (ca. EUR 96 million) to the gastronomy sector. Notably, the latter measure was approved on December

14 2020 and surprisingly constituted the first subsidy programme specifically aimed at the gastronomy sector during the crisis. Eventually, a number of the outlined programmes were lumped together in late December and rebranded the Covid-Closed Establishments programme.

At the time of writing, the only discernible measure that was aimed specifically at R&D consists of two waves of the so-called Czech Rise Up programme that provided around CZK 750 million (ca. EUR 29 million) for innovation in the realm of protective equipment. Generally, government support was rarely aimed at individual companies and, in particular, automotive manufacturers were not singled out as recipients of direct state aid in spite of the country's considerable dependence on their economic output (Pavlínek 2012). An exception to this rule was the extraordinary permission for several hundred experts from South Korea to enter the country in order to work on the development of a Hyundai electric car in late April 2020. In addition, a tax rebate amounting to CZK 115 million (ca. EUR 4.4 million) as an investment incentive for the construction of a new plant by a spare parts manufacturer belonging to Škoda Transportation — an engineering company not to be mistaken with the car manufacturer Škoda Auto — was approved in early January 2021.

Tax reforms aimed at crisis recovery are especially far reaching and among the more controversial measures the government adopted. In several 'liberation packages', the government waived corporate and personal income tax payments for entrepreneurs for two months and extended the deadline for payment of the real estate transfer tax (March). It moreover waived several fees and penalty interest payments for late tax return filing (June/October). The VAT was also temporarily lowered from 15 to 10 per cent in several sectors hit especially hard by the crisis, especially tourism, and the Antivirus C package includes a waiver of social security premiums for SMEs. Lastly, and somewhat more controversially, the government adopted a so-called "loss carryback" measure, whereby corporations can offset their taxable losses from 2020 with profits from 2018 and 2019 in order to reclaim taxes that had already been paid. This measure was explicitly promoted by the

SP ČR (SP ČR 2020d) but heavily criticised by the ČMKOS. The federation argues that such measures put the financial burden of the crisis on the state, the regions and the municipalities, and would mostly favour larger corporations — including multinational corporations (MNCs) — as profits are heavily concentrated in their favour rendering the measure generally more lucrative for them even when liquidity is not a major concern (ČMKOS 2020c).

In addition to these budgetary measures, the Czech government adopted a vast volume of loans and loan guarantees administered by the country's development banks and insurance funds. Quantitatively, Czech "below-the-line" spending, i.e., loans, equity, guarantees etc., exceeded 15 per cent of GDP by December 2020 — by far the highest in ECE in 2020 (see Table A2.6 in the appendix). The first loan programme was approved as early as March 9 2020 and comprised zero-interest loans to SMEs provided by the Czech-Moravian Guarantee and Development Bank (ČMZRB) under the COVID-I loan programme. The initial scope of the programme was quite limited and only allocated CZK 600 million (ca. EUR 23 million) but was later expanded by various other programmes. COVID-II, from March 19 2020, increased the amount of loans to CZK 10 billion (ca. EUR 385 million), 5 billion of which directly provided by the ČMZRB, while the other 5 billion took the form of a loan guarantee to commercial banks. The COVID-III programme significantly increased the amount allocated through loans and comprised loan guarantees of CZK 150 billion (ca. EUR 5.8 billion) to companies with up to 500 employees. The amount of debt covered by this programme was envisaged by the government to reach CZK 500 billion (ca. EUR 19 billion). Another CZK 600 million (ca. EUR 23 million) were allocated by the local government of Prague which was not covered by the previous programmes (COVID-Prague). Lastly, the Export Guarantee and Insurance Company (EGAP) was funded with CZK 4 billion (ca. EUR 154 million) in order to allocate loans to exporters in the COVID-Plus programme, and, in order to assist agricultural SMEs, the loan principal on loans already granted by the PGLRF was reduced to 50 per cent. The COVID-II, COVID-Prague and COVID-Plus guarantees cover 80 per cent of the loan principal — only the COVID-III programme is more generous in that regard and

covers 90 per cent for companies with up to 250 employees (for companies between 250 and 500 employees the share remains at 80 per cent). This degree of coverage is, of course, fairly high, however, it falls short of the 100 per cent guarantees provided, for example, in France and Germany in the context of the COVID-19 crisis (Mertens el al. 2020).

In general, social partners' responses to industrial policy-making during the crisis was mixed. ČMKOS voiced the general criticism of a lack of consultation in the process of adopting social and economic policies during the pandemic (ČMKOS 2020d). Substantively, ČMKOS criticised measures that directly channel liquidity to employers such as the different loan and loan guarantee programmes or the waiving of social security contributions as expensive, not directly related to employment, and for the benefit of larger corporations (ČMKOS 2020c). The SP ČR, in turn, argues in favour of the direct subsidisation of different sectors (SP ČR 2020c), and more generally, credits itself with influencing government decisions on a number of counts, i.e., the introduction of the loss carryback measure as well as the expansion of both the Antivirus and the different loan and loan guarantee programmes (SP ČR 2020e). As a general criticism the association demands more sustained tax relief and more R&D investment supporting the structural resilience and competitiveness of the Czech economy (SP ČR 2020a).

3.5 Fiscal and monetary policies

The impact of the range of measures taken by the Czech government on the budget's expenditure and the revenue side was codified relatively quickly and in multiple steps. The Czech government approved an amendment to the 2020 state budget in order to allow an increased deficit due to the requirements of the crisis and subsequently followed up on this by running a similarly high deficit in the 2021 budget. The deficit in the 2020 budget was raised to CZK 500 billion (ca. EUR 19 billion), after originally being set at CZK 40 billion and being gradually increased once the crisis had hit. This amounts to more than 8 per cent of GDP. The scale

of this deficit has been noted by news reports that describe the budget deficit during the global financial crisis — the highest thus far — to be at CZK 192 billion.[6] The 2021 budget was decided on in mid-October 2020 and runs a deficit of CZK 320 billion, or more than 5 per cent of GDP. In this context, the ČMKOS took issue with the overall lack of consultation with unions in the preparation of the 2021 budget, which, according to the ČMKOS, substantively lacks a reflection of the need for considerably higher social expenditure (ČMKOS 2020d).

In that context and as noted by Šitera (2021), the crisis prompted the resuscitation of the National Economic Council of the Government (NERV), an influential advisory body during the financial crisis, consisting of "economic experts", technocrats and important industry representatives. During the financial crisis, NERV reliably lobbied for employer interests and austerity. It had lost considerable influence under the ANO governments but was revived over the course of the pandemic in its previous format and as KoroNERV-20 and thereby regained some of its influence (Šitera 2021).

The Czech National Bank (ČNB) broadly acted in support of the government's fiscal measures and reacted to the crisis chiefly by means of conventional rate cuts: in four subsequent press releases in spring 2020, the central bank successively lowered the repo-, Lombard- and discount rates to 0.25, 1, and 0.05 per cent respectively. Moreover, the ČNB has signalled its readiness to intervene further beyond the rate cuts adopted in spring in order to counteract excessive exchange rate fluctuations. In macroprudential terms, the ČNB has successively lowered the capital requirement to 0.5 per cent, after previously revoking an initially scheduled increase of the requirement, and eased regulation on mortgage loans. In mid-March 2020 the Bank clarified that it would not support debtors by prescribing a postponement of loan instalment — a decision which would remain with individual banks, however, precisely such a loan repayment moratorium was then championed by the Ministry of Finance in early April 2020. It

6 https://english.radio.cz/lower-house-approves-record-500-billion-crown-spending-gap-due-coronavirus-8685847, accessed 01.04.2021.

should be noted that, as of April 2020, the ČNB has the legal mandate to engage in bond purchases (or quantitative easing). The introduction of this mandate was, however, nominally unrelated to the consequences of the crisis and the ČNB itself has made it clear that it deems it unlikely that the mandate for quantitative easing will actually be enacted.

3.6 Conclusions

As indicated earlier, the Czech Republic, at the time of writing, seems to cope with the socioeconomic effects of the crisis comparatively well. However, favourable comparisons with other economies should not belie the extraordinary effects of the pandemic on economic output. Whether the limited effect of the crisis on employment is purely a result of the state of the Czech economy prior to the crisis or if the considerable liquidity provisions by the state did their part is difficult to assess at this point in time. What can be said with a degree of certainty, however, is that the government's response is predominantly aimed at retaining the workings of the status quo rather than sustainably improving the economy's structural resilience.

Income support — taking the form of a Kurzarbeit scheme as well as direct transfers — was extensive and generalised. Notably, a large part of these additional income support measures is, somewhat surprisingly (Podvršič et al 2020, 22-23), aimed at the self-employed who received continuously high attention in the government's press statements. The self-employed also benefited disproportionately in the government's tax reforms, i.e., the introduction of a special flat tax. Indeed, the government's relief measures in the realm of taxation are notable for their regressive set-up: the (flat) income tax was reduced, the exemption limit increased, and the VAT only lowered for COVID-related medical supplies such as masks. Both the income tax reforms and the consistently low protection of the unemployed attracted eminent criticism by labour unions and somewhat lessen the egalitarian character of the Czech crisis response. In the realm of corporate taxation, the main beneficiaries appear to be large and often for-

eign-owned manufacturing companies especially in the context of the "loss carryback" measure discussed above. Industry-specific subsidies are relatively vast and aimed at sectors that are either particularly at risk due to the restrictions or particularly important for the necessary supply of goods such as tourism, foodstuffs, culture etc. This is complemented by exceptionally far-reaching loan programmes. None of the reviewed measure is, however, aimed at a sustained alteration of the country's main sources of growth towards more domestic innovation and more resilience in a meaningful way, for example, by way of increased R&D expenditure.

These and related measures all contribute to the prevailing character of the Czech crisis response, categorised as "egalitarian status quo". The policy means employed to achieve said status quo retention are less easily characterised in a coherent manner, with policy measures displaying orthodox, heterodox and sometimes Keynesian (though never outright statist) qualities. Orthodox measures include sectoral tax exemptions as well as de-regulation (for example, regarding the reimbursement of paid but not realisable services). Equally notable are persisting orthodox currents in the field of taxation and the non-protection of vulnerable groups such as the unemployed. The ČNB has also acted broadly within the confines of an orthodox understanding of monetary policy with a decisive response with regards to interest rates but no purchasing programme. More heterodox and Keynesian measures relate to various industry-specific, earmarked or more general subsidies, vast loan guarantees, income support, as well as the relatively extensive implementation of Kurzarbeit schemes.

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Table 3.1 Policy summary Czech Republic

Policy (sub-) areas	**Czech Republic**	
Social and labour market policy	Employment and income support	Relatively generous Kurzarbeit scheme included in the various Anti-virus packages; between 60 and 80 per cent wage compensation, under certain conditions full compensation
		Various income support measures for the self-employed; CZK 500 a day for those self-employed experiencing a drop in sales due to the pandemic, increased to CZK 1,000 a day in February 2021
		Childcare allowance
		No extension of unemployment benefits
		No active labour market policies
		Flat tax for the self-employed; VAT exemption for medical goods; several exemptions from putative fees and interest for overdue tax payments
	Housing	Eviction moratorium for those receiving loans from state housing fund; rent freeze (terminated in June 2020)
	Essential workers	Work obligation for medical students
		Additional compensation for medical workers (exempted from income tax)
	Labour migration	Facilitated entry for seasonal workers, particularly from Ukraine

Industry, trade and investment	Public investment	Generally limited support for health care sector — announced subsidies and cancelled debt for state hospitals in financial distress
		Several subsidy programmes for culture and sports
		Very limited R&D investment, chiefly related to health care
	Statism	-
	State aid to domestic sector and foreign business	General subsidies for SMEs experiencing a drop in sales of more than 50 per cent
		Vast loan guarantees for SMEs and larger companies
		Sectoral support predominantly to the tourism industry
		Several tax 'liberation packages': lower VAT in tourism, waved social security premiums for SMEs, waived fees for late payments, extension of deadlines for tax filing etc.
		Loss-carryback whereby companies offset their losses with profits from previous years
	Trade and FDI	Trade restrictions for medical equipment, medicines etc.
		Export promotion via loan guarantees
Monetary and fiscal policy	Monetary and financial policy	Several rate cuts; foreign currency interventions; no quantitative easing in spite of ČNB's legal mandate
	Macroprudential	Eased capital requirements and reporting standards; eased conditions for mortgage lending; ban of dividend payments and postponement of loan instalments only recommended
	Fiscal	Various tax reductions, exemptions and deferrals (see above)
		Substantial changes in budget acts; 2020 deficit amounts to 8 per cent of GDP

Governance and political institutions	Social partnership and interests	Apparent discontent due to lack of consultations on the part of the unions and opposition to certain measures (including the loss-carryback); relationship with employers overall more harmonious
	Political institutions	Several moments of political turmoil in light of contested legal basis for several emergency measures

Chapter 4. Estonia: Consensual politics and effective income retention

Edgars Eihmanis

4.1 Introduction

Compared to the other Baltic countries (see chapters six and seven), Estonia represents the most effective response to the pandemic, both in epidemiological and economic terms. Boasting relatively high levels of trust of the state, Estonia was able to effectively contain the pandemic to some of the lowest infection rates, using only moderately enforced restrictions (Makarychev and Romashko 2020). At the same time, Estonia administered an effective economic support package that addressed wide swaths of society, notably, through the most effective wage substitution scheme in the Baltics. If Latvia's political process stumbled due to a fragile coalition of five ideologically different parties, and Lithuania underwent a major political change in the ruling coalition, Estonian politics remained relatively calm. The only political uncertainty related to the "populist" Conservative People's Party of Estonia (EKRE), the third coalitional party, besides the conservative Pro Patria (Isammaa) and the social-liberal Centre Party (PP).[1] Mobilizing voters with a nativist agenda regarding migration and minority rights, EKRE had become the third largest party in Estonia (Braghiroli and Petsinis 2019; Petsinis 2019).

While the far-right EKRE might have torpedoed Estonian

1 https://www.reuters.com/article/us-estonia-politics-government-idUSKCN-1RI0F0.

international relations and foreign policy (Mälksoo 2021; McNamara 2020), on the economic front, it closely cooperated with the other coalitional parties. EKRE's Finance Minister's fiscal stance remained responsible, if not excessively conservative.[2] One coalitional dissent in fiscal policy regarded the social security contributions in the private pensions pillar, which at the request of the fiscally conservative Pro Patria party were suspended. Another political shock came in early 2021, when Centre Party's Prime Minister, Juri Ratas, resigned after a corruption scandal regarding misuse of state loans planned for coronavirus pandemic relief.[3] However, the coalition of conservative, social liberal and far-right national parties responded to the pandemic in a surprisingly coherent and effective way, adopting comprehensive support measures across the economy. The change of direction since the global financial crisis, when Estonia became a paradigmatic example of austerity (Kattel and Raudla 2013) was driven by a number of factors, including partisanship, changing fiscal ideas and policy diffusion (Raudla and Douglas 2020).

4.2 Labour market and social policies

On March 19, the three-party coalition adopted a comprehensive package (EUR 2 billion, or 7 per cent of the GDP). It included major spending measures for different sectors in the economy: wage retention scheme (EUR 250 million), healthcare (EUR 213 million), rural development (EUR 200 million), business/collateral and guarantees (EUR 1 billion), business loans (EUR 500 million) and support to local authorities (EUR 130 million). Considering the payment thresholds and implementation, the income retention scheme appears to have been the most effective in the Baltics. As part of the "Temporary subsidy program" of EUR 300 million, the Estonian Unemployment Insurance Fund paid employers subsidies at 70 per cent of the average monthly wage (in between EUR

2 https://news.err.ee/1608077095/martin-helme-political-will-needed-for-budgetary-cuts.

3 https://www.nytimes.com/2021/01/13/world/europe/estonia-prime-minister-ratas-resigns.html.

150-1,000, plus taxes and social contributions).[4] The state also provided advance payment of social tax for self-employed persons for the first quarter of 2020. Most social and labour market policies apparently were discussed and deliberated with the employers' organisations and trade unions.[5] In the second half of the year, Estonia also launched a wage support scheme for food farmers, hiring the unemployed (at 50 per cent of gross wage, up to EUR 584 a month). Meanwhile, against the backdrop of an effective wage subsidy scheme, Estonia adopted only a few social benefits. Thus, on March 19, the government announced paid sick leave for the first three days of sick leave for all sick leave certificates from March to May (normally unpaid), with estimated fiscal cost at EUR 7 million.

In mid-April, the parliament adopted the Supplementary State Budget, with a series of updates including on social investment. The package included EUR 15 million grants for the education and youth sector, EUR 25 million subsidies for the culture and sport sector, 100 m state support to municipalities, EUR 30 million for local road maintenance support, EUR 2 million support for religious organisations. EUR 200 million were allocated to the health system, additional EUR 20 million for personal protective equipment, respirators, and testing capabilities. Municipalities also received EUR 100 million additional support for investment and EUR 30 million to cover additional costs related to the coronavirus. Reconstruction of apartment buildings and private houses will be supported by EUR 100 million through the state-owned financial institution KredEx (announced April 2). Furthermore, health care goods and services were granted a VAT exemption (0 per cent), while donations to health care — income tax exemptions. Additional wage support measures were provided during the second wave of the pandemic.

4 The subsidy was paid to employers, who 1) suffered at least a 30 per cent decline in turnover or revenue for the month they wish to be subsidised for, b) are not able to provide at least 30 per cent of their employees with work; c) have cut the wages of at least 30 per cent of employees by at least 30 precent or down to the minimum wage (at least two of the three conditions must be met). In late May, the programme was extended till June, but subjecting employers with more stringent conditions.

5 https://www.kriis.ee/en/news/government-discussed-measures-economic-recovery-trade-unions-and-employer-representatives.

In late 2020, the Estonian employers agreed to the unions' proposal to freeze the minimum wage (which was indexed to declining average wage levels).[6]

4.3 Industrial policies

The EUR 2 billion package adopted in mid-March announced a number of businesses support measures. General aid included EUR 1 billion in loan collaterals, EUR 500 million in business loans, and EUR 50 million in investment loans. Tax debt could be rescheduled at lower interest rates (EUR 7 million), while interest on tax debts were temporarily suspended. By the end of March, the government and the National Development Bank launched two support schemes worth EUR 1.75 billion, providing subsidised loans and loan guarantees. Business was closely involved in decision making and supported most of the measures adopted. The leader of the main employers' organisation even went as far as to admit the need for tax increases in the future (and no fast pay rises) in five-to-ten years. The main disagreement between the employers and the [rightist elements of the] government regarded a law forcing foreign workers to leave the country during the pandemic.[7] Similarly to other Baltic countries, some sectors, such as construction, metalworking, nursing and public road transport, rely on migrant workers from the former Soviet Union.[8] In Spring 2020, the government banned third-country workers over public health concerns.[9]

The government also rolled out a series of targeted measures. Rural companies received — via the Rural Development Founda-

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6 https://news.err.ee/1128503/employers-trade-unions-to-debate-whether-minimum-wage-can-be-lowered; https://news.err.ee/1130301/employers-and-unions-agree-to-freeze-minimum-wage.

7 https://estonianworld.com/life/blog-coronavirus-in-estonia/; https://www.kriis.ee/et/uudised/valitsus-arutas-ametiuhingute-ja-tooandjate-esindajatega-majanduse-elavdamise-meetmeid; https://news.err.ee/1065904/employers-body-chief-each-emergency-day-equals-week-of-economic-recovery.

8 https://www.ituc-csi.org/video-estonian-migrant-workers; https://news.postimees.ee/3953059/dirty-secret-of-estonia-s-building-sites.

9 https://www.schengenvisainfo.com/news/estonia-restrictions-for-migrant-workers-remain-in-force/.

tion — EUR 50 million in loan guarantees, 100 million in business loans and EUR 50 million in land capital. Organisers of cancelled cultural and sporting events received EUR 3 million. Media companies could claim EUR 450,000 in grants. A package of eight schemes, worth EUR 75.5 million, provided targeted support to a variety of companies affected by the pandemic and/or aiming to restructure their activities. In addition, EUR 35 million in grants were allocated to micro and small enterprises, EUR 10 million for micro and small enterprises seeking restructuring, EUR 105 million for housing construction, renovation and housing guarantees, EUR 300 million for the largest exporters, and EUR 15 million to telecommunications operators. In early May, Enterprise Estonia announced EUR 25 million in direct grants which was provided to tourism companies and EUR 10 million to micro and small enterprises. In late May, retail companies could access EUR 4 million in direct grants for rent compensation (up to a maximum amount of 25 per cent of the rent). During the summer the European Commission approved a number of direct grant schemes: EUR 20 million to four international passenger ferry operators connecting Estonia with Finland and Sweden, and EUR 30 million for the state-owned aviation company Nordica Aviation Group AS ("Nordica"). In October, the Commission approved EUR 1.5 million in direct grant to SMEs in food processing. Against a backdrop of numerous investments seeking industrial restructuring, the government also allocated EUR 125 million for the construction of a shale oil plant at the national energy company Eesti Energia. This was an initiative of the Centre Party, drawing on support of Russian speakers in Estonia's North-East.[10] The plan was only suspended after a major opposition from citizens, NGOs and even the involvement of the European Commission in late 2020.[11]

Having imposed restrictions in particular counties with raising infection rates, in late 2020, the government launched a series of targeted business support measures. The Unemployment Insurance Fund paid EUR 16 million in subsidies to employers

10 https://news.err.ee/1608079303/reform-center-coalition-talks-renewables-to-take-precedence-over-oil-shale; https://news.err.ee/949419/centre-party-urges-fast-intervention-by-state-in-eesti-energia-crisis.

11 https://bankwatch.org/blog/controversial-plans-for-estonian-shale-oil-pre-refinery-cancelled.

for employees in accommodation and catering companies, sports facilities, hobbies and in-service training, and cultural sectors (up to EUR 180,000 per employer). In addition to employers' subsidies, EUR 0.8 million was allocated to support self-employed persons in particular regions. As of 2021, the government planned to bolster the tourism sector with almost EUR 10 million in direct grants. Almost EUR 4 million was allocated to support cultural enterprises, and EUR 2.3 million to education and youth activities. In the context of the EU's RRF programme, the government has envisaged an ambitious technological upgrading, in line with the European Commission's priorities of digital and green growth.[12] However, at the time of writing, concrete policy outcomes are difficult to predict.

4.4 Monetary and fiscal policies

The Estonian government was ready to launch a major stimulus package without much fiscal concerns. According to Raudla and Douglas (2020), the post-GFC decade marked a significant turn of ideas on fiscal policy, both among bureaucrats and politicians. The far-right EKRE and socially liberal CP had expressed concerns with excessive fiscal conservatism already before the crisis (if only to promote the idea of stimulating economy with lower taxes). The third coalition party, the fiscally conservative PP, agreed to the major stimulus package only after securing a suspension of social tax contributions to the private pension pillar from July 2020 to August 2021 (the effect was estimated at around EUR 142 million). Having orderly public finance, with public debt standing at only 8 per cent of the GDP, the government could borrow easily in the markets and from international organisations. In early June, the government raised EUR 1.5 billion through a 10-year Eurobond issue, at an interest rate of 0.125 per annum. EUR 750 million were borrowed from the Nordic Investment Bank, and EUR 200 million from the Council of Europe Development Bank (CEB). As a member of the Eurozone, the Central Bank of Estonia could only rely on macroprudential policy. On March 25, it reduced the

12 http://www.baltic-course.com/eng/analytics/?doc=161180.

systemic risk buffer for the commercial banks from 1 to 0 per cent. It was planned that the policy would free-up EUR 110 million for the banks, which they can use to cover possible loan losses or to make new loans. Tax measures included a reduction of excise taxes on diesel, natural gas and electricity, and also of VAT on digital periodicals and audiobooks.

4.5 Conclusions

The COVID-19 crisis has marked a major policy shift in Estonia, which has so far fashioned itself a diligent aficionado of austerity and structural reforms as a recipe for economic growth (Aslund 2010; Blyth 2013; Kattel and Raudla 2013).

In line with a trend in the other Baltic states, the pandemic has increased the politicisation of economic issues. Breaking with a long-established tradition, Estonian party politics do not focus solely on ethnic and cultural issues anymore (Lagerspetz and Vogt 2013), but also include economics. The Estonian government adopted a sizeable stimulus package that predominantly focused on freezing the economy via effective income retention of employees and businesses. This efficiency was achieved even with a far-right “populist” party in the ruling coalition. However, even with notable learning dynamics since the GFC (Raudla et al. 2018; Raudla and Douglas 2020), Estonia has missed using the pandemic as a window of opportunity to tackle the inherent social and industrial vulnerabilities that were exposed by the GFC. This is in line with the finding that the Baltics states and development institutions tend to lack a long-term strategy (Mikheeva et al. 2021). For Estonia and other Baltic states alike, however, there is a hope that the lack of domestic willingness and capacity might be partially offset by the EU, not least, via the conditionality of the RRF funds.

At the same time, with highly efficient and well-targeted income retention programmes, Estonia was able to weather the COVID-19 economic crisis much better than Latvia which suffered from various implementation flaws (see chapter six). Although

Estonian authorities exemplified a pro-market bias in its social and labour policy, its policies were more efficient and universal than its southern neighbour Latvia. As regards industrial policy, Estonian authorities, in close cooperation with domestic business organisations, adopted a variety of schemes to domestic SMEs and micro- firms. Because of a generalist flavour and few privileges to politically influential sectors, the Estonian response to the crisis can be described as “egalitarian status quo”. As for policy tools, Estonia followed a similar pattern as the other Baltic states. General business support was provided via loans, collateral, and tax/rent deferrals; targeted support was provided as direct grants. With an excellent fiscal balance, Estonia was able to borrow cheaply in the markets and from international organisations. The role of its central bank was limited to counter-cyclical macroprudential policy.

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Raudla, Ringa, and James W. Douglas. 2020. 'This Time Was Different: The Budgetary Responses to the Pandemic-Induced Crisis in Estonia'. Journal of Public Budgeting, Accounting & Financial Management 32(5): 847–54.

Table 4.1 Policy summary Estonia

Policy (sub-) areas	*Estonia*	
Social and labour market policy	Employment and income support	Income retention subsidies to employers at 70 per cent of the average monthly wage
		Advance SSC payment for the self-employed persons
		A wage support scheme for food farmers, hiring the unemployed (at 50 per cent of gross wage, up to EUR 584)
	Social policy	Workers' first three sick leave days compensated
	Housing	EUR 105 million grants for housing construction, renovation and guarantees
	Labour migration	Restrictions on third-country migrant workers
Industry, trade and investment	Public investment	Investment grants for education and youth sector, culture and sports, municipalities, local road maintenance and construction, religious organisations, the health system, personal protective equipment, respirators and testing capabilities, rural entrepreneurship, renovation of apartment buildings, internet infrastructure
	State aid to domestic sector and foreign business	EUR 1.75 billion in subsidised loans and loan guarantees; tax debt rescheduled at lower interest rates; interest on tax debts were temporarily suspended
		Grants for agriculture and rural development media, largest exporters, micro and small enterprises and the self-employed, telecommunications operators building a sustainable communications network, tourism, rent compensation
	Macro-prudential	Systemic risk buffer for the commercial banks set at 0 per cent
	Fiscal	Borrowing in the financial markets and from IOs
		Reduced VAT for digital periodicals and audiobooks; reduction of excises on diesel, natural gas and electricity. VAT exemptions for health care goods; PIT exemptions for donations to health care
		SSC contributions to private pensions funds suspended
Governance and political institutions	Social partnership and interests	Most social and labour market policies apparently discussed and deliberated with social partners

Chapter 5. Hungary: A political power play undermining resilience building

Gergő Medve-Bálint and Dorothee Bohle

5.1 Introduction

Like its regional peers, Hungary weathered the pandemic's first wave quite well, whereas it has been exceptionally hard hit by the second and the third waves. Unlike in most of its peers, however, the policy reactions have been quite hesitant, untransparent, and overshadowed by PM Viktor Orbán's political power games. While in the first wave, the government introduced a strict lockdown, it failed to take quick action in both the second and the third waves even though the daily confirmed cases and the number of hospitalised patients were skyrocketing. New lockdown measures in the second wave were introduced on November 11 2020, weeks later than similar operations in the other Visegrád states. They were further tightened on March 8 2021 because the third wave was sweeping across the country. Although the government gave a strong political response by pushing through a harsh emergency law and the militarisation of hospitals and strategic businesses, the containment measures, health policies, and the socioeconomic response involved last-minute decisions, favouritism and untransparent policy-making.

The government has issued two packages to mitigate the social and economic fallout from the crisis, announced on March 18, and April 7 2020. The first package mainly aimed at supporting ailing sectors, while the second package — the Economy Protec-

tion Action Plan (*Gazdaságvédelmi Akcióterv*) - foresaw broader support for the economy, labour market and employment. It took until December 2020 for the government to supplement the protection plan with a few additional measures. The crisis measures have been compromised because a substantial part of the support funded controversial projects or landed at recipients that nurture close ties with the government. At the same time, the government's social policy interventions remained limited both in scope and coverage. An outstanding feature of the Hungarian response has been the active role of its Central Bank, which has increasingly taken on a mandate of a development bank (Podvršič et al 2020). According to official sources, all mitigation matters — including those of the Central Bank — have amounted to about 8 per cent of GDP in 2020.[1] Given the politically often selective crisis support and the limited attempts to build resilience against a future crisis, Hungary's response can be characterised as particularistic, protecting the status quo.

5.2 Background

Hungary's currently ruling Fidesz-KDNP coalition was propelled to power after the fallout from the global financial crisis (GFC) of 2008 forced the country to turn to the IMF and EU for a bailout in November 2008. Political scandals of the then governing socialist party and unpopular austerity paved the way for a landslide victory of the nationalist-conservative coalition in May 2010. In the — free but unfair — parliamentary elections of April 2018, the coalition secured its third consecutive two-thirds majority. As well known, since 2010 the government under PM Orbán has systematically dismantled democratic checks and balances. In its "Nations in Transit" report of 2019, Freedom House ranked Hungary as a semi-consolidated democracy, and in 2020 as a hybrid regime. V-Dem data from 2020 classify Hungary as an electoral authoritarian regime.[2] At the same time, however, since 2019 the opposi-

1 https://index.hu/gazdasag/2021/01/04/varga_mihaly_interju/

2 https://freedomhouse.org/country/hungary/nations-transit/2020, http://v-dem.net/weekly_graph/liberal-democracy-index-in-east-central-europ, https://freedomhouse.org/report/nations-transit/2020/dropping-democratic-facade

tion benefited from increasing dissatisfaction with the government. In the municipal elections held in October 2019, the opposition reclaimed several larger cities, including the capital city of Budapest. While Fidesz has remained by far the strongest party, these cracks in its dominance are important for the political context in which the response to COVID-19 plays out.

Fidesz' overall popularity rests on (at least) three pillars: an almost entirely state-controlled media system that gives the government the upper hand in delivering its political messages, a constant mobilisation of the population on nationalist, socially conservative and xenophobic grounds, and a fast-growing economy. Although the rapid growth of the Hungarian economy before the COVID-19 crisis is largely a result of favourable external circumstances, including a vast inflow of EU funds, the government claims credit for its "unconventional" economic strategy with which it reacted to the GFC. This strategy combines orthodox fiscal and labour market policies, conservative social and family policies, and selective economic nationalism intended to build a loyal domestic bourgeoisie and create financial room for manoeuvre (Bartha, Boda, and Szikra 2020; Scheiring 2021, Fodor 2022).

The COVID-19 crisis poses therefore a significant challenge for the Orbán government. It undermines an essential source of popular support — economic growth — and puts the neglected healthcare sector and social questions on the government's table at the very moment when it starts to feel challenged by some — albeit limited — opposition victory.

5.3 Labour market and social policies

The first corona relief package from March 18 2020 had little implications for social and labour market policies. The only limited relief stemmed from reducing social security contributions, the suspension of evictions, and extension of maternity entitlements. The package also promised to re-introduce a thirteenth-month pension from 2021 onwards (Podvršič et al. 2020:34).

The Economy Protection Action Plan introduced two sets of

measures relevant for social and labour market policies: measures aiming to preserve jobs and measures aiming at the protection of families and pensioners.[3] At the core of the job protection measures lies the *Kurzarbeit* scheme (*Munkahelyvédelmi bértámogatási program*)[4] that covered 70 per cent of the net wages of employees in companies that lost between 15 per cent and 75 per cent of their revenues due to the crisis. State subsidies were, however, capped at HUF 112,418 (EUR 315).[5] The scheme was first extended until August 31, and then until December 31 for all businesses that had applied until the end of August.[6] A workplace protection plan partially financed from EU funds supported the engineering and R&D sector, where the government would subsidise 40 per cent of the wage costs, up to a maximum of HUF 318,920 (EUR 900).[7] The overall budget planned for the *Kurzarbeit* scheme was HUF 220 billion (EUR 600 million). Almost the same amount was planned for tax relief and the reduced administrative burdens, which also aimed at job preservation. In July 2020, the government opened a separate scheme of HUF 8 billion (EUR 22 million), offering both wage subsidies and tax exemptions for the aviation industry.[8]

In the second wave of the pandemic, the government adopted very few additional measures. An exception is a partially EU-funded *Kurzarbeit* scheme announced in December 2020, which is available for business entities in the accommodation services sector. This measure offers tax exemptions, a wage subsidy (capped at HUF 241,500, EUR 676) amounting to 50 per cent of the gross salary and compensation up to 80 per cent of the expected net revenue lost in November and December.[9] In two steps, the gov-

3 https://4cdn.hu/kraken/raw/upload/7S99TvsQW0YA.pdf, https://qubit.hu/2020/05/13/kiszivarogtak-a-kormany-gazdasagvedelmi-akciotervenek-reszletei-eddig-keves-penz-ment-munkahelyek-vedelmere-es-meg-kevesebb-szocialis-valsagkezelesre?

4 Gvt Decree 105/2020

5 https://forbes.hu/uzlet/bertamogatas-112-ezer-forintra-emelik-az-egy-dolgozo-utan-jaro-maximalis-tamogatast/

6 Act 2020/LVIII 66. § (1), and on the extension of the Kurzarbeit period Gvt Decree 290/2020.

7 Gvt Decree 103/2020

8 SA.57767

9 SA.59477, from March 1 2021, the cap increased to HUF 251,100 (EUR 703)

ernment extended this program's duration until the end of May 2021 and increased its total budget to HUF 106.7 billion (EUR 299 million).[10] It also included land transport service providers and added HUF 5 billion (EUR 14 million) more to the budget.[11] In early March 2021, retail, personal care and repair services were included[12] that also received an exemption from paying rental fees from February through June 2021.[13] The *Kurzarbeit* scheme supported more than 180,000 employees in nearly 30,000 businesses.[14]

Overall, job retention policies have been less important and less generously subsidised than measures to support the industry and infrastructure. The government has not changed the meagre unemployment insurance, which is in line with the "workfarist" orientation of the government. As Orbán himself has repeatedly stated, the Hungarian road to success rests on full employment rather than free money.[15]

The second set of social policy measures that concern pensioners and family policy are rather symbolic. The government pledged to gradually introduce a 13th month pension over four years, starting from February 2021.[16] The estimated cost of this is equivalent to that of the *Kurzarbeit* scheme. In terms of family policies, the government mostly pledged to extend deadlines for entitlements of existing family support schemes. Besides, families with one or more children would be eligible for a preferential loan for home renovation as of January 2021.[17]

Even though the pandemic has revealed a severe shortage

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10 SA.61842

11 SA.61329

12 Gvt Decree 105/2021

13 Gvt Decree 52/2021

14 https://www.portfolio.hu/gazdasag/20210601/matol-uj-program-lepett-a-bertamogatasi-program-helyebe-485808

15 E.g. https://hungarianspectrum.org/2020/04/04/orbans-incomprehensibly-large-stimulus-package-turns-out-to-be-rather-slim/

16 The 13h month pension is a highly symbolic issue as it was abolished under the socialist government in 2009 as one of the austerity measures after the GFC.

17 https://csalad.hu/tamogatasok/minden-amit-az-otthonteremt%C3%A9si-programrol-tudni-kell

of medical personnel, and that Hungarian healthcare workers are among the worst paid in Europe, the government has done very little to protect or compensate them, and the measures it has eventually taken prove to be hugely controversial. First, the government appointed hospital commanders recruited from the military and the police to monitor their operations.[18] Officially, the commanders' task is to ensure medical equipment supplies, but with this move, the government has also seized direct control over the hospitals. In April 2020, the government barred health workers from leaving the country without ministerial permission, trying desperately to stem an exodus of qualified personnel.[19] It also allocated a one-time bonus of HUF 500,000 (EUR 1,400) for frontline healthcare workers. However, this bonus could not compensate for income losses due to reduced activities in hospitals.[20] It also excluded those working in elderly care. In October 2020, the government announced a salary increase for medical doctors and nurses. According to the announcement, salaries of doctors working in state or municipally maintained health care facilities receive an increase between HUF 687,000 and HUF 2.38 million by 2023 (between EUR 1,900 and 6,700), whereas nurses' salaries will be increased twice: 20 per cent in November 2020, and 30 per cent in January 2021.

However, the otherwise generous salary increases are tied to a major reform of medical workers' employment status.[21] Their status as civil servants ceased to exist, and collective agreement were abolished. According to the initial plan, public medical service workers may spend up to two years in secondment, away

18 https://hungarytoday.hu/coronavirus-hospital-commander-hospitals-military-command/

19 "According to the Union of Hungarian Doctors, more than 8,000 healthcare workers had left Hungary in the first half of 2020. While the Orbán government purchased around 16,000 ventilators between March and May, official registries estimate that there are only about 2,000 doctors and 2,000 intensive care nurses in the country able to operate them." (https://www.bmj.com/content/371/bmj.m4153).

20 In early April, the government ordered all hospitals to free up 60 per cent of their bed capacities for COVID patients. This hugely controversial and unnecessary measure reduced hospital activity significantly. In addition, many emergency operations were cancelled. (https://www.bmj.com/content/371/bmj.m4153)

21 Act 2020/C on medical service relations adopted on October 14 2020

from their residence. Moreover, they are not allowed to perform any gainful activities beyond their position unless they obtain a permit from the head of the newly established National Healthcare Service Center (*Országos Kórházi Főigazgatóság*). As second jobs in the private sector have been a major source of income for medical doctors, it is doubtful whether the salary increases will leave them better off. Overall, the reform ignited strong resistance among the doctors, and the government backtracked on some of the most controversial points.[22] Most importantly, the secondment of medical workers has been limited to a maximum of 44 days per year, and they will receive a 50 per cent salary top-up during this period. However, the ban on second jobs has remained in place. Despite the government's backtracking, more than 4,000 medical workers (including 727 doctors[23]) refused to sign their new contract until the deadline, March 1 2021.[24] Consequently, the severely understaffed Hungarian health care system lost 3.6 per cent of its employees in the middle of the biggest healthcare crisis since the second World War.

5.4 Industrial policy

The government combined heterodox (sectoral taxes), and Keynesian (direct grants, subsidised loans) measures to combat the crisis, but their policy aims mostly served particular political interests. For instance, with various selective tax measures and granting policies, the government used the pandemic to limit opposition-led local governments' political and fiscal autonomy. At the same time, it has extensively supported businesses of oligarchs and foreign-owned manufacturing enterprises. Therefore, industrial policy interventions have become a field of political power play that reflects both the country's declining democratic checks and balances and its heavy dependence on foreign manufacturing investments.

22 Gvt Decree 528/2020

23 https://hvg.hu/itthon/20210311_Kormanyinfo_gulyas. At the same time, the government also reported 420 doctors as new entrants to the health care system.

24 reported by the National Healthcare Service Center

The government mobilised resources for crisis management by integrating existing budget lines (such as the Country Protection Fund and the National Employment Fund), reallocating spending from line ministries, reallocating EUR 1 billion of EU funds[25], and levying new sectoral taxes.[26] A special tax for credit institutions was introduced (0.19 per cent of the tax base over HUF 50 billion)[27] with an expected HUF 55 billion (EUR 145 million) contribution[28] and a progressive retail tax[29], with an estimated HUF 36 billion (EUR 100 million). The latter tax, which the government subsequently made permanent[30], has mostly affected the large foreign-owned retail chains (Tesco, Spar, Lidl, and Aldi).[31] The government also transferred the vehicle registration tax from the local governments to the central budget (HUF 34.4 billion), and withheld 50 per cent of the central support for political parties (HUF 1.27 billion).[32]

The above tax measures are merely symbolic because they do not represent significant additional revenues for the budget. Instead, the sectoral taxes primarily hit those foreign companies that the Orbán-government considers “bad FDI” (Bohle and Greskovits 2019). The centralisation of the vehicle tax, which is the third biggest source of own revenues for local governments, negatively affected the large cities and the district municipalities in Budapest, where the opposition holds relatively strong positions.[33]

The suspension of public parking fees[34] in the first and second

25 SA.56994

26 Gvt. Decree 92/2020

27 Gvt Decree 108/2020

28 Gvt Decree 92/2020

29 Gvt Decree 109/2020 — 0.1 per cent on tax base above HUF 500 million but below HUF 30 billion, 0.4 per cent between 30 and 100 billion HUF and 2.5 per cent above HUF 100 billion.

30 https://www.portfolio.hu/gazdasag/20200428/gulyas-gergely-a-jarvany-utan-is-megmarad-a-kiskereskedelmi-kulonado-428878

31 https://www.portfolio.hu/gazdasag/20200404/tesco-spar-lidl-aldi-nekik-fajhat-igazan-a-kormany-uj-kulonadoja-424200

32 Gvt. Decree 92/2020

33 https://g7.hu/kozelet/20200407/mar-azelott-padlora-kerultek-az-onkormanyzatok-hogy-a-kormany-tovabb-utotte-volna-oket/

34 Gvt Decree 87/2020

waves further hit urban local governments. Besides causing permanent parking chaos, it also resulted in revenue loss for cities and Budapest district municipalities.[35] The local governments' shaky financial situation suffered the next blow when the government banned levying new local taxes and prohibited raising local taxes and public services fees.[36] In December 2020, the government decided to halve the local business tax for small and medium enterprises with a net turnover lower than HUF 4 billion.[37] The business tax, which mostly benefits large municipalities with considerable economic activity, is the local governments' largest own revenue source and, on average, takes one-third of their total budget. Local governments' subsequent revenue loss is estimated between HUF 150[38] and 220[39] billion (EUR 0.4 –0.6 billion). Gergely Karácsony, the opposition mayor of Budapest, considered the measure the assassination of local autonomy in Hungary.[40] The National Association of Municipalities issued a document with similar content[41], while the Association of Cities with County Rights urged the government to cover their losses[42] — without any effect[43], however. Although the government automatically compensates municipalities with less than 25,000 inhabitants, above this threshold it decides on a case by case basis,

35 https://24.hu/belfold/2020/11/14/koronavirus-ingyenes-parkolas-polgarmesterek/

36 Gvt Decree 535/2020

37 Gvt Decree 639/2020

38 https://www.portfolio.hu/gazdasag/20201221/150-milliard-tol-esnek-el-az-onkormanyzatok-az-iparuzesi-ado-csokkentese-miatt-462758

39 https://g7.hu/kozelet/20201222/teljesen-kiszolgaltatotta-teszi-az-ellenzeki-varosokat-orban-viktor-bejelentese/

40 https://24.hu/belfold/2020/12/19/karacsony-gergely-orban-viktor-bejelentes-iparuzesi-ado-fovaros/

41 http://töosz.hu/news/653/73/A-ToOSZ-velemenye-az-iparuzesi-ado-felere-csokkenteserol/

42 https://hvg.hu/gazdasag/20210212_megyei_jogu_varosok_levele_gulyas_gergelynek

43 https://telex.hu/belfold/2021/01/14/szisztematikusan-csinaljak-ki-az-onkormanyzatokat

which may serve partisan interests.[44]

Another measure that threatens local autonomy is the introduction of special economic zones to protect investments of national economic importance.[45] Following a government decree that subsequently became a law[46], the central government may delineate special economic zones where the local governments lose their authority to the corresponding county councils that are regional elected bodies where Fidesz enjoys a majority throughout the country. Samsung's battery manufacturing plant, the land of which formerly belonged to opposition-led Göd, became the first special economic zone.[47] Although the Constitutional Court rejected Göd's constitutional complaint, it ordered the parliament to offer compensation for the affected municipalities commensurate with their former responsibilities.[48]

Similar to hospitals' militarisation, the government introduced military task forces to monitor strategic businesses of national significance.[49] By April 2020, the government sent commanders to 184 companies mostly operating in the energy, telecommunication, retail, and medical sectors.[50] Many of them were private businesses, including foreign-owned companies such as Tesco, Spar, Auchan, Telekom and Robert Bosch.

Besides these politically motivated and particularistic actions, the government tried to stimulate the economy through tax cuts involving a broader coverage: it lowered the social contribution tax from 17.5 per cent to 15.5 per cent, and suspended the col-

44 In a subsequent decree (2005/2020), the government distributed funding to 17 of the 23 cities with county rights (the largest Hungarian settlements) but only four of them are led by an opposition mayor while the rest are run by Fidesz mayors. What is more, the opposition-led cities received funding that is tied to a specific task where the others received general support that they may spend on their choice. This supplies evidence for the government's politically motivated decision on compensating local governments.

45 Gvt Decree 135/2020

46 Act 2020/LIX adopted on June 19 2020

47 Gvt Decree 136/2020

48 https://hungarytoday.hu/hungary-constitutional-court-ruling-special-economic-zones-god/

49 Gvt. Decree 1109/2020

50 https://www.napi.hu/magyar_vallalatok/maris_184-re_nott_a_letfontossagu_vallalatok_szama_ahol_megjelennek_a_katonak.703638.html

lection of tourism tax until the end of the emergency.[51] Furthermore, the government ordered a payment moratorium on credit, loans and lease contracts[52] and capped the interest rate for consumer credits at 5 per cent above the central bank's base rate. Passenger transport services received an exemption from small business lump-sum tax, and employees in tourism, catering, gambling, film industry, performing arts, event organizing and sports services also received an exemption from public dues.[53]

The Economy Protection Action Plan also included an Economy Protection Fund (EPF, "*Gazdaságvédelmi Alap*") with an initial budget of HUF 1,346 billion (EUR 3.8 billion), from which direct grants were distributed to various entities.[54] Initially, the government intended to keep the deficit low and limit the awarding of cash grants[55], but this attitude changed by the end of the year. In 2020, the government had spent an estimated HUF 3,264 billion (EUR 9.32 billion) on crisis mitigating measures from the EPF, which exceeds multiple times the original budget.[56]

Several supported projects received fierce criticism because they seem to have served particular political and economic interests unrelated to the coronavirus crisis. For instance, the EPF contributed to the construction of the much-disputed Budapest-Belgrade railway[57], and it also financed the building of stadiums, the organisation of the World Hunting Expo hosted by Hungary in 2021[58], and even space research.[59]

Although initially not a crisis-managing instrument, the Hun-

51 Gvt Decree 140/2020

52 until December 31 but because of the intensifying pandemic, the deadline has been moved to June 30 2021

53 Gvt Decree 47/2020

54 Convergence Programme of Hungary, April 2020 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-convergence-programme-hungary_en.pdf)

55 Convergence Programme of Hungary, April 2020, p. 35

56 https://www.portfolio.hu/gazdasag/20201217/oriasi-penzkoltesbe-kezdett-a-kormany-az-ev-vegen-462186

57 https://hvg.hu/gazdasag/20200516_82_milliardot_csoportositott_at_a_kormany_a_BudapestBelgrad_vasutvonalra

58 Gvt Decree 1332/2020

59 Gvt Decree 1263/2020

garian Tourist Agency's *Kisfaludy Program* best demonstrates the politically biased distribution of support. The Agency's non-repayable grants for developing tourist accommodations served to mitigate the pandemic's dire consequences in the sector. However, much of the HUF 215 billion (EUR 0.6 billion) spent through this program benefited businesses owned by former Fidesz ministers, oligarchs and local governments led by Fidesz mayors.[60] Fidesz-run local governments received 470(!) times more support from this program than opposition-led local governments. Felcsút, PM Orbán's hometown with less than 2,000 inhabitants, received more tourism support than all the opposition-led local governments inhabited by more than 2.8 million people.[61]

Part of the EPF was the Competitiveness Enhancing Support Program administered by the Ministry of Foreign Affairs and Trade.[62] This program included an aid scheme available for large companies[63] and another one for medium and large firms.[64] Support in the latter was capped at EUR 800,000, while aid intensity in the former was linked to the verified financial damage caused by the COVID-19 outbreak. The grants required the beneficiaries to undertake investments of at least EUR 150,000, and they also had to maintain their base headcount until at least December 31, 2020. The government extended the program's initial budget of HUF 50 billion several times.[65]

As Péter Szijjártó, Minister of Foreign Affairs and Trade revealed, by January 2021, the government had supported 1,434

60 https://24.hu/belfold/2021/01/13/magyar-turisztikai-ugynokseg-egyedi-tamogatas-guller-zoltan/ and https://24.hu/belfold/2020/05/26/szallodafejlesztes-mtu-magyar-turisztikai-ugynokseg-balaton-meszaros-garancsi/

61 https://g7.hu/kozelet/20210219/a-fideszes-telepulesek-kozel-500-szor-tobb-turisztikai-tamogatast-kaptak-mint-az-ellenzekiek/

62 Decree 7/2020 issued by the Ministry of Foreign Affairs and Trade (April 16 2020)

63 SA.57375

64 SA.56926

65 The budget of SA.56926 available to medium and large firms was first extended in May (SA.57350), then in August (SA.58276) and next in November (SA.59306). As a result, the total budget of this scheme has reached HUF 219.33 billion (EUR 614 million). The budget of SA.57375 available only to large firms was extended in December (SA.59912) to HUF 70 billion (EUR 196 million).

investment projects through the EPF with a total investment value of HUF 1,676 billion (EUR 4.7 billion). These figures do not match those published by the Ministry, because their record lists only 829 projects supported through the program with a total investment value of HUF 561 billion (EUR 1.58 billion).[66] The government's contribution to these projects amounted to HUF 241 billion (EUR 0.67 billion). The top recipients have been foreign-owned manufacturing companies active mostly in the automotive sector, including Mercedes-Benz, Continental, Flextronics, TDK, Robert Bosch, Apollo Tyres, BorgWarner, and Audi, to name a few.[67]

The Competitiveness Enhancing Support Program lacked sectoral targeting, unlike other support schemes within the EPF. To compensate agricultural firms and those active in forestry, the government launched a state aid scheme with a HUF 35 billion budget.68 After performing the necessary tests, seasonal agricultural workers from neighbouring countries were also allowed to enter the country.[69] In August 2020, the government opened a program with HUF 50 billion (subsequently extended with HUF 35 and 30 billion) to assist COVID-19 related R&D activities and investments into relevant production.[70] Another program with mixed objectives supporting start-ups, fundamental and industrial R&D, renewable energy resources and culture and heritage conservation became available in June 2020.[71] Initially, its budget amounted to HUF 50 billion, but it gained a further 10 billion in August72 and in December, it climbed to HUF 114.69 billion (EUR 318.3 million).[73]

66 The list of projects supported through SA.57375 is available at https://cdn.kormany.hu/uploads/document/b/b6/b61/b619ea9419a215757e5ec75cb8e04ea71aca2ec7.pdf while the list of projects supported through SA.56926 is available at https://cdn.kormany.hu/uploads/document/e/ec/ecc/ecc4496a1534a603b34bc563215c0c61f1780baf.pdf

67 https://g7.hu/vallalat/20210224/a-multik-es-azon-belul-a-nemetek-igen-jol-jartak-a-kormany-gazdasagi-akcioprogramjaval/

68 SA.57329

69 https://bbj.hu/budapest/travel/tourism/foreign-seasonal-workers-allowed-to-help-harvest

70 SA.58202; SA.58718; SA.59306 approved by the Commission on November 10 2020 increased the budget of several existing aid schemes and extended their duration until June 30 2021

71 SA.57468

72 SA.58312

73 SA.59306

Contrary to the programs discussed above, which mostly offered non-repayable grants, the government also initiated loan programs to remedy liquidity shortages. In April 2020, the first loan guarantee measure administered by state-owned Hungarian Development Bank and its affiliate Garantiqa opened to businesses of all sizes with HUF 550 billion (EUR 1.54 billion).[74] In November, its budget was nearly tripled to HUF 1,400 billion (EUR 3.89 billion).[75] The Hungarian Export-Import Bank (Eximbank) has also been responsible for a similar scheme: it offered EUR 300 million guarantees on loans, and EUR 600 million subsidised interest rates on loans[76] to SMEs and large enterprises. The budget for subsidised interest rates on loans was first doubled, and in December 2020 further extended to EUR 2 billion.[77] Because of the prolonged crisis, in February 2021, the government substantially raised the budget of the two former loan programs along with several other aid measures and extended them until December 31 2021.[78] Besides, the government also announced an interest-free loan program for micro-firms and SMEs, financed by the EU's recovery assistance package (with a budget of HUF 100 billion, EUR 280 million). Applicants may take out a loan up to HUF 10 million (EUR 28,000) with a ten-year maturity without paying instalments in the first three years. [79]

5.5 Fiscal and monetary policy

Having learned from the fall of the previous socialist-liberal coalition, the Orbán-government has consistently followed a tight fiscal policy to keep the budget deficit low. Furthermore, one of its economic policy's main objectives has been to gradually lower and restructure state debt by relying more on domestic borrowing

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74 SA.57121 and Gvt Decree 1170/2020

75 SA.59306

76 SA.57064 and Gvt Decree 1171/2020. The scheme also contained EUR 3 million aid in the form of grants, which was first extended to EUR 6 million, then to EUR 10 million.

77 SA.59806

78 SA.61842; The total budget increase amounts to EUR 4.57 billion, including direct grants, loan guarantees and other forms of liquidity support.

79 https://24.hu/belfold/2021/02/24/koronavirus-10-millio-hitel/

to limit exposure to foreign credit. Consequently, since 2012, the deficit stayed well below 3 per cent of the GDP, and general debt declined from a record-high 80.4 per cent in 2011 to 65.4 per cent by 2019.[80]

Within just a few months, however, the coronavirus pandemic destroyed all these results. Data published by the Ministry of Finance shows that the deficit in 2020 reached a historic-high nominal value of HUF 5,548.6 billion (EUR 15.54 billion), which is 8 per cent of the GDP.[81] Similarly, state debt has reached a record level at 81.2 per cent of the GDP.[82] Contrary to its former preferences, the government also turned to foreign borrowing in 2020. In a series of bond issuing, the government raised EUR 6.5 billion in foreign currency-denominated bonds, which increased the share of foreign currency debt within total state debt to 20 per cent by December 2020.[83]

The central bank attempted to counterbalance the deteriorating public finances and reduce the public deficit while also providing funding to the private sector. A peculiar feature of the Hungarian crisis-management has been the unusually active central bank, which performed quasi-developmental bank roles (Podvršič et al. 2020). First, it increased bank liquidity through one-week fix-swap tenders and strengthened the government securities market with a long-term collateralised lending facility. This has allowed banks to purchase government debt both in the secondary and primary markets (Podvršič et al. 2020:36). Furthermore, the central bank paid nearly its entire profit realised in 2019 as a HUF 250 billion

80 Source of data: Eurostat

81 https://www.portfolio.hu/gazdasag/20210111/hatott-a-kormany-penzszorasa-soha-nem-volt-meg-ekkora-deficit-a-magyar-koltsegvetesben-464790

82 Macroeconomic and Budget Forecast, Ministry of Finance, 2020, p. 21(https://cdn.kormany.hu/uploads/document/d/dc/dc2/dc2bd13d9db38740b471a0ee5759957d6fc56f08.pdf). In spite of the above 6 per cent economic growth, the Ministry calculates with a 7.5 per cent budget deficit for 2021 (source: Macroeconomic and Budget Forecast 2021-2025, Ministry of Finance, December 2021, p. 23., https://cdn.kormany.hu/uploads/document/e/ec/ec9/ec9819f5f7ab970209713e3754475e18924294e8.pdf)

83 https://www.akk.hu/statisztika/allamadossag-finanszirozas/kozponti-koltsegvetes-adossaga

dividend to the state budget[84], which it repeated with the same amount in 2021.[85] Next, it has relaunched its Funding for Growth program (*Növekedési Hitelprogram*) with a new label *Hajrá!*. This program offered credit through the commercial banks for small and medium enterprises at a subsidised interest rate of maximum 2.5 per cent. By September 2021, when the program concluded, the total value of credit and lease contracts reached HUF 3,000 billion (EUR 8.38 billion).[86] Nearly half of the 40,655 firms participating in the program were located in Budapest.

Last but not least, large enterprises benefited from the corporate bond purchasing programme (*Növekedési Kötvényprogram*), initially launched in 2019 and closed in December 2021. The central bank increased this program's budget three times, first to 750 billion HUF in September[87], and then to HUF 1,150 billion (EUR 3.22 billion) in January 2021[88] and to HUF 1,550 billion (EUR 4.33 billion) in August 2021[89]. However, as the beneficiaries' list reveals, the central bank tended to purchase bonds of large enterprises owned or managed by oligarchs who nurture close political ties with the government.[90]

84 https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2020-evi-sajtokozlemenyek/az-mnb-2019-evi-eredmenye-utan-250-milliard-forint-osztalekot-fizet

85 https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2021-evi-sajtokozlemenyek/a-magyar-nemzeti-bank-2021-ben-is-250-milliard-forint-osztalek-befizetessel-segiti-a-koltsegvetest-es-a-jarvanyugyi-vedekezest

86 https://mnb.hu/letoltes/nhphajra-oktober-hu.pdf

87 https://novekedes.hu/elemzesek/750-milliardra-emeli-az-mnb-a-novekedesi-kotvenyprogram-keretosszeget

88 https://www.vg.hu/penzugy/penzugyi-hirek/negyszazmilliarddal-emeli-a-jegybank-a-novekedesi-kotvenyek-keretet-3481402/

89 https://www.mnb.hu/monetaris-politika/a-monetaris-tanacs/kozlemenyek/2021/kozlemeny-a-monetaris-tanacs-2021-augusztus-24-i-uleserol

90 https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp and https://www.napi.hu/magyar_gazdasag/igy-tamogatta-az-mnb-a-kormanykozeli-cegeket-volt-amelyik-tobbszor-is-beallt-a-sorba.720956.html

5.6 Conclusions

In terms of policy substance, the crisis response has exacerbated the particularistic outlook of Hungary's political economy. The government offered limited or negligible assistance to vulnerable groups such as the unemployed and the pensioners. None of the support programs targeted the Roma minority, which is particularly vulnerable because many of them are unemployed, lack health insurance or work in low-skill, low-wage jobs, often in the shadow economy. Unlike in the other Visegrád countries, the Hungarian government did not offer direct income support to families, although it launched a preferential loan program for home renovation. Wage subsidies have also been moderate and riddled with slow administration and delayed payments. Social protection measures have therefore been rather meagre and tied to a workfarist agenda.

In contrast, economic circles and sectors close to the government have benefited from the mitigation measures raising their particularistic profile. Although some initiatives, such as the support for start-ups, R&D and renewable energy aimed at economic upgrading, overall, the industrial policies seem to have instead strengthened the status quo and built up little resilience against future crises. Whether investment grants awarded to medium and large enterprises supported innovative projects also remains dubious because of the very short timeline available for preparing and submitting applications. Overall, the government's fiscal response was rather weak, consisting mostly of deferrals and liquidity guarantees rather than immediate fiscal impulses. However, the central bank proved an agile player by pouring extra liquidity into the market and offering a generous credit programme to small and medium enterprises.[91]

Although the Hungarian health care system is among the weaker ones in the region, with little funding, widespread mismanagement and corruption in hospitals, and increasing brain drain

91 The governor of the central bank, György Matolcsy, who formerly served as Minister of Economy in the Orbán government, openly criticised the government's crisis management measures (https://novekedes.hu/mag/matolcsy-gyorgy-kanyarban-elozni-2-0)

of medical personnel,[92] the government's attempt to upgrade it has been somewhat half-hearted. The considerable salary rise of doctors and nurses has prevented the impending disaster, but the government has so far failed to address the sector's systemic weaknesses.

The crisis responses in terms of policy means show a mixture of heterodox and Keynesian measures, partially mirroring the practices with which the Orbán-government treated the consequences of the 2008 crisis. Given the politically biased distribution of crisis resources serving particularistic interests and the limited economic upgrading efforts, the Hungarian response to the crisis is squarely situated in the unequal status quo policy quadrant.

Nevertheless, the use of the EU's Recovery and Resilience Facility (RFF) may help build some resilience. The national recovery plan, which outlines how the Hungarian government wants to spend the EUR 7.2 billion grant set aside from the RFF, prioritises investments into such underfunded fields as higher education and research, digitalisation, green mobility, and health care.[93] The drafting process of the document received criticism because of the limited public consultation and little involvement of social partners.[94] However, contentwise it seems forward-looking as it emphasises spending on so far neglected fields crucial for economic upgrading. At the same time, because of rule of law disputes between the European Commission and Hungary, the Commission has withheld the approval and pay out of RFF funds to Hungary. As of February 2022, the approval of the program still remains uncertain.

92 https://www.sgi-network.org/docs/2019/country/SGI2019_Hungary.pdf

93 https://www.palyazat.gov.hu/helyreallitasi-es-ellenallokepessegi-eszkoz-rrf

94 https://www.euractiv.com/section/economy-jobs/news/drafting-national-recovery-plans-a-laborious-exercise-for-visegrad-countries/

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Table 5.1: Policy summary Hungary

Policy (sub-)areas		Hungary
Social and labour market policy	Employment and income support	Wage support for reasons of mandatory closure or revenue loss gradually extended to various sectors
		Job protection support in engineering, R&D, and aviation industry
		Extending deadlines for entitlements of existing family support schemes
		Gradual reintroduction of the 13th month pension
		Free internet access for students in distance education
		Suspension of public parking fees
	Housing	Payment moratorium on housing loans and mortgages
		Preferential loan for families for home renovation
		Suspension of evictions
	Essential workers	One-time bonus and salary increase for health care workers (conditional on signing new employment contract)
	Labour migra-tion	Seasonal agricultural workers from neigh-bouring countries permitted to enter

Industry, trade and investment	Public investment	Reallocation of EU funds to wage support programs and business grants
		R&D and other support for producing or purchasing health care equipment and medicines related to the pandemic
		Large infrastructural investments (Budapest-Belgrade railway, multifunctional sports hall in Budapest, stadiums)
	Statism	Militarisation of hospitals and strategic businesses (military commanders appointed by the prime minister)
	State aid to domestic sector and foreign business	Grants for new investment projects to medium and large enterprises (both domestic and foreign-owned)
		Grants in the tourism sector (businesses and local governments as recipients) and agriculture
		Compensation for lost revenue in accommodation services
		Grants for investments into fundamental and industrial R&D, renewable energy resources and culture and heritage conservation
		Loan guarantees and preferential loans to SMEs and large firms
		Interest-free loan program for micro-firms and SMEs
		Deferral of social security contributions
		Banning the increase of rental fees (in selected sectors)
		Exemption from paying rental fees (in selected sectors)
	Trade and FDI	FDI screening
		Ban on exporting medical equipment necessary for combating the virus

Monetary and fiscal policy	Monetary and financial policy	Central bank's corporate bond purchase program (large firms)
		Central bank's preferential loan program (SMEs)
		Central bank buying government bonds
	Macroprudential	Quantitative easing (temporally waiving of capital conservation buffer, systemic risk buffer and institution buffer)
	Fiscal	Issuing of foreign currency-denominated government bonds (EUR 6.5 billion)
		Levying a progressive retail tax and a crisis tax on credit institutions
		Transferring the vehicle registration tax from the local governments to the central budget
		suspending payment of small business lump-sum tax (selected sectors), and tourism tax
		Cutting social contribution tax by 2 percentage points
		Halving local business tax
		Ban on levying new local taxes and prohibition of raising local taxes and public services fees
Governance and political institutions	Social partnership and interests	Regular consultations limited to government-friendly associations (e.g. Hungarian Chamber of Commerce and Industry)
	Political institutions	Emergency law giving extra powers to the government
		Establishing the Coronavirus Operational Task Force
		Transferring authority from local to regional governments in centrally delineated special economic zones
		Measures undermining local government finances; compensation of local governments for lost local business tax revenue is subject to individual negotiations with the central government (above 25,000 inhabitants)
		Withholding 50 per cent of the central support for political parties

Chapter 6. Latvia: State (in) capacity, special interests and “giving to one who already has”[1]

Edgars Eihmanis

6.1 Introduction

Like the other Baltic cases, Latvia was hit by the first wave of the pandemic only in passing. With timely restrictions, the number of infections remained low, while corporate interests were pacified with sizeable state support. It took the pandemic’s second wave in the autumn to expose the long-standing cracks in Latvia’s economic and political fabric. Inspired by the successful weathering of the first wave, the government hesitated to impose restrictions, even as the rate of infection cases drastically increased. In terms of economic response, Latvia’s response can be described as ineffective and fragmented, compared to its Baltic neighbours. To a large degree, this was a consequence of a fragile coalition of five ideologically different parties. In addition, an effective response to the pandemic was hindered by dis-information campaigns, fuelled by both local and foreign actors.[2] Mobilizing voters over nationalist and economic anxieties, the 2014 and 2018 election cycles brought to power increasingly conservative and/or illiberal forces, notably, *Who Owns the State* and the *New Conservative Party*. Arguably, this was a direct consequence of the harsh aus-

1 Matthew 25:29

2 https://en.rebaltica.lv/2021/02/who-spreads-the-vaccine-lies-in-the-baltics/.

terity and spending cuts under a number of liberal governments (Eihmanis 2019). During the pandemic, Latvia lagged back to its neighbours not only regarding effective economic stimulus, but also regarding securing of medical equipment and vaccines. In January 2020, Prime Minister Krišjānis Kariņš (New Unity) fired Minister of Health, Ilze Viņķele (Pro / Development) over alleged shortcomings in vaccination planning.[3] Subsequently, due to an “acute shortage” of vaccines during the first half of 2021, Latvia vaccination rates remained among the lowest in the EU.[4]

At the time of writing, Latvia’s balance of the response to the pandemic remains grim. Rather than addressing the vulnerabilities and crafting a more equitable social contract, the authorities further consolidated the existing inequalities. Rather than becoming a backbone of the stimulus package, labour and social (and health) policies became a sideshow representing the ills of the Latvian democracy in economic terms. The pandemic response maintained a pro-capital bias consolidated in the previous decades — regardless of the political backlash to the austerity policies in the post-GFC decade. The labour and social policies suffered from admirable thriftiness, masked with a thick layer of bureaucratic conditionalities. Furthermore, Latvia’s income retention programme suffered from a faulty design and implementation, so that the allocated funds, tiny by any standard, could not be spent. The depleted health care system and medical staff (Eihmanis 2019a) struggled to keep up with the numbers of COVID-19 patients at the peak of the pandemic. Furthermore, Latvia not only failed to secure the due number of vaccines, as stipulated by the EU. Latvia also executed one of the slowest vaccination campaigns in the EU. On some days in February, Latvia administered only a few jabs a day. Industrial policy — albeit significantly higher in terms of size — also represented particularism and Matthew effects, favouring the already stronger players / sectors of the economy, prominently, construction and agriculture. In line with

3 https://www.euractiv.com/section/elections/news/latvia-health-minister-fired-in-vaccine-row/; https://rebaltica.lv/2021/02/bardaka-hronologija-1-serija/.

4 https://eng.lsm.lv/article/society/health/latvia-expects-shortage-of-vaccines-to-continue-for-a-month.a395316/l; https://eng.lsm.lv/article/society/health/only-6-of-latvian-population-has-got-the-first-covid-jab.a398081/.

the framework above, the response to the pandemic was more particularistic than generalised, and represented more protection than upgrading, resulting in the "*unequal status quo / capture*".

In line with the framework outlined in chapter 1, Latvia's economic responses — in terms of design and implementation — can be explained by political strategies to retain power, state (in)capacity and a lack of learning since the GFC. First, Latvian mainstream politics are operated by ethnically Latvian (and economically right) parties that mostly compete over various "cultural" issues, such as nationalism, (anti)corruption and traditional values. Inter-party polarisation over socioeconomic issues remains weakly pronounced in the mainstream politics. Similar to the financial crisis a decade ago, criticisms from the Russian opposition fell on deaf years (Eihmanis 2019). Furthermore, weakly pronounced politicisation over economic issues and administrative (in)capacity allow for a large role of special interests (Eihmanis 2020). Hence, rather than a result of social dialogue with social partners, the policy outcomes have mostly been driven by direct lobbying by specific sectors and companies. This is demonstrated by a high number of targeted support packages and growing concerns over weak consultation on the part of the domestic employers and unions. Similar to a decade ago, the economic crisis increased politicisation over national issues and, as an extension, politicisation of relations with Russia. Over concerns of disinformation, the Latvian broadcast regulator banned seventeen Russian TV channels.[5]

6.2 Labour market and social policies

Latvian response to the pandemic stands out from other Baltic countries with rather inefficient income support and the most modest social protection. The comprehensive support package of March 1 provided for "idleness benefits" (*dīkstāves pabalsti*), guaranteeing 75 per cent of wage earnings, up to EUR 700 a month (not subject to compulsory social security contributions).

5 https://eng.lsm.lv/article/features/media-literacy/more-russian-tv-channels-have-the-plug-pulled-in-latvia.a392163/.

However, due to narrow coverage, flaws in design and implementation, the actual take-up of the scheme was extremely timid. Due to the lack of capacity, the administration of idleness benefits was delegated to the State Revenue Service, which then set up excessively stringent qualification criteria (although they were gradually, if insignificantly released over time). In the first month, only EUR 4 million were paid in idleness benefits: out of the 16 000 employees the average amount of benefits stood *only* at EUR 250.[6] Until May 2020, only 10 per cent of the allocated sum (EUR 102 million) were paid out. A few additional schemes provided stipends for culture workers or “creative persons” and benefits for new graduates in the state of emergency (EUR 375-500).

However, none of these policies did provide for effective income substitution for households in general, and as such were intensely criticised by the political opposition, notably, the Russian Harmony and the Greens and Farmers Union.[7] The opposition lamented the high qualifications requirements, low effectiveness and insufficient coverage, which excluded the self-employed.[8] Another point of criticism was that in Latvia social benefits were conditioned on the payment of taxes pre-crisis, excluding large swaths of workers. The main labour representative, the Free Trade Union Confederation of Latvia, shared the criticism regarding support of households; however, it fell short of effectively articulating its demands vis-à-vis the more vocal employers’ organisations.[9]

The policy shortcomings were so obvious that they were subsequently acknowledged by the government itself. In November 2020, the authorities notably stepped up the support, introducing a number of game-changing instruments. The minimum amount

6 https://lvportals.lv/skaidrojumi/315273-papildus-pasvaldibas-krizes-pabalstam-vares-sanemt-50-eiro-par-bernu-2020.

7 https://www.lsm.lv/raksts/zinas/ekonomika/saskana-parmet-sliktu-dikstaves-pabalstu-izmaksas-kontroli.a357494/.

8 https://www.lsm.lv/raksts/zinas/latvija/opozicija-kritize-valdibas-ricibu-tautsaimnieciba-covid-19-krizes-laika.a359226/.

9 https://www.lsm.lv/raksts/zinas/latvija/arodbiedriba-mudina-atjaunot-ilgaku-un-lielaku-bezdarbnieka-pabalstu.a393975/; https://lr1.lsm.lv/lv/raksts/labriit/egils-baldzens-soreiz-lielaks-valsts-atbalsts-butu-janovirza-maj.a136445/.

of the idleness benefit was raised to EUR 330 (and then to EUR 500, up to EUR 1,000) to all income groups, including employees and the self-employed.[10] The government also introduced a subsidy for employees (up to 50 per cent, up to EUR 500 a month). In addition, employers could apply for a subsidy of 30 per cent of the average wages paid.[11] As of 2021, the minimum wage was raised from EUR 430 to 500, albeit it still significantly lags behind Estonia and Lithuania (EUR 584 and 642, respectively).

In a similar vein, Latvian social policy remained meagre even by the Baltic standards. Following a well-trodden path of libertarianism, Latvia hesitated to make any bold moves in social transfers to redress the abyss between the haves and have nots. Against the backdrop of dominant business organisations, trade unions retained a low profile and fell short of securing distributive transfers. As a symptom of Latvia's inequitable social contract, the authorities overlooked even medical workers. The latter were repeatedly denied wage increases during the pandemic, even though wage increases were provided by law in 2018. Only frontline medical workers were granted pay increases and only for a limited period of time (three months).[12] After a series of medical protects during 2020, the government introduced a plan that promised gradual pay increases extended over seven years. However, actual and permanent increases of the lowest wages of the medical personnel materialised only in 2021.[13] Another illustration of Latvia's unequal social contract was provided by the COVID vaccination campaign. Rather than allocating jabs by vulnerability and need (age), Latvian authorities openly designed a priority list for political, economic and cultural elites. In order to ensure "state continuity" — a term that has traditionally been associated with

10 https://www.lsm.lv/raksts/zinas/ekonomika/dikstaves-pabalsta-minimalo-apmeru-palielinas-lidz-500-eiro.a388633/.

11 https://www.lsm.lv/raksts/zinas/latvija/valdiba-apstiprina-dikstaves-pabalstu-izmaksasanu-lidz-1000-eiro-un-citus-atbalsta-pasakumus.a381175/.

12 https://eng.lsm.lv/article/society/health/front-line-medics-pay-to-be-increased-at-least-20.a353013/.

13 https://www.lsm.lv/raksts/zinas/latvija/simtiem-mediku-pie-saeimas-pikete-ja-par-algam-nozare-protesti-turpinasies.a337596/; https://www.france24.com/en/20191107-doctors-nurses-protest-low-wages-in-latvia; https://bnn-news.com/latvian-government-promises-to-increase-healthcare-worker-wages-by-25-next-year-219427.

the state's legal status within the Soviet Union (Ziemele 2015) — initially, it was planned to vaccinate, on a priority basis, 30,000 public officials, cultural workers and even export industrialists — regardless of age.

In social policy, the preferred policy approach was "penny pinching" coated with a thick layer bureaucracy. Seemingly, the underlying rationale was to ensure by all means that vulnerable social groups would benefit only modestly from welfare programmes. For instance, for persons who have been refused a downtime benefit, the State Social Insurance Agency (VSAA) paid a downtime assistance benefit of EUR 180 a month (calculated in proportion to the calendar days on which the employee or self-employed person is idle). However, for employees and self-employed persons, for whom the amount of downtime benefit granted to the SRS was less than EUR 180 per month, VSAA paid the difference between the downtime assistance benefit and the downtime benefit paid to the SRS.[14] The unemployed who had their benefits expired were entitled to "unemployed support benefit" of EUR 180 (*bezdarbnieku palīdzības pabalsts*).

The same "penny-pinching" strategy took place for social protection for families and children. The government increased of the child-care benefit of EUR 171 to children up to 2 years (previously, 1.5 years), but only during the state of emergency. Carers of children with disabilities received a one-off transfer of EUR 150. During the state of emergency, parents could also receive additional EUR 50 for a child, but only in proportion to the number of days, for which the beneficiary is idle. It took as long as early 2021 to spur a debate on more substantial benefits. Only after longstanding criticisms, in early 2021, major social transfers entered into the mainstream political agenda. In line with the "demographic ultimatum" during the GFC (Auers and Kasekamp 2015, 142–43), the far-right National Alliance proposed a one-of payment of EUR 500 per child, an unprecedented welfare support measure in Latvia. Although the proposal gained traction and was adopted by the Cabinet of Ministers, some coalition critics predicted that this policy could "result in a tragedy", because certain social groups,

14 https://lvportals.lv/skaidrojumi/315646-dikstaves-palidzibas-pabalsts-kados-gadijumos-maksas-lidz-180-eiro-2020.

lacking financial literacy, could not be trusted with such [a high] amount of money.[15] In a similar vein, the parliament also adopted a one-off social benefit of EUR 200 to pensioners, orphans and the disabled.[16]

6.3 Industry, trade and investment policy

Unlike in social and labour policy representing admirable thrifting, the Latvian government generously supported various factions of domestic business. As demonstrated by a comparative table in the background section of this e-book, Latvia adopted the largest proportion of "above-the-line" measures (i.e., direct spending) not only in the Baltics, but the ECE region. Ideologically, the pro-business line sat uncomfortably with the fiscal prudence during the GFC. Substantively, the support to domestic businesses mostly helped to survive, rather than serving as an incentive to upgrade. Procedurally, the policy process was patchy and fragmented. In distributive terms, the state support was extremely particularistic.

By mid-March, the government came up with the first comprehensive aid package that was subsequently updated. Initially, the most support measures took the shape of tax deferrals for companies affected by the pandemic (with turnover drop by at least 30 per cent).[17] The government assigned EUR 250 million in subsidised loans and loan guarantees (with the state's risk limited to 50 per cent); the scheme was approved by the Commission in late March. On May 18, EUR 120 million were channelled to the national development bank, ALTUM to finance loan guarantees and loans at subsidised interest rates (by 50 per cent for small and medium enterprises and by 15 per cent for large enterprises in tourism and related sectors).

15 https://www.lsm.lv/raksts/zinas/latvija/koalicija-pec-spraigam-debatem-nevienojas-par-vienreizejo-pabalstu-gimenem.a392090/.

16 https://www.lsm.lv/raksts/zinas/ekonomika/ministre-rosina-vienreizeju-200-eiro-atbalstu-pensionariem-un-cilvekiem-ar-invaliditati.a392483/; https://lvportals.lv/skaidrojumi/325840-apstiprina-vienreizeju-pabalstu-200-eiro-senioriem-un-personam-ar-invaliditati-saeima-sonedel-2021.

17 Initially, the support was limited to select sectors such as catering, international passenger transportation, car lease, hospitality and tourism, public and cultural events, education, and fitness services, later it was extended to all companies.

During April and May, the government gradually came up with a number of particularistic business support measures, with emergency support targeted at economically vital and politically vocal sectors and/or even companies. One can only wonder how much of these support measures were a result of "quiet" lobbying on the part of politically connected sectoral representatives, individual corporations or party financiers. Streamlining and updating the existing support tools, on May 26, the government announced a EUR 2.2 billion comprehensive investment package, directed at five generic directions (human capital, innovation, export support, access to finance, infrastructure). Subject to countless working groups, involving state officials and interest groups, the package then materialised in a continuous supply of targeted support measures announced on a rolling basis.

From a bird's-eye view, the comprehensive package was extremely skewed, privileging well-established economic sectors, notably, construction and agriculture, which have been central growth drivers leading up to the previous crisis (Ban and Bohle 2020). According to the State Audit Office, the government support to farmers, much less conditional than to other sectors, was so generous that it allowed farmers not only to survive but to significantly increase revenue during the pandemic.[18] Out of more than EUR 2 billion of spending in 2020-2021, EUR 417 million (20.2 per cent) was earmarked for increasing companies' capital through the National Development Bank, *ALTUM*; EUR 138 million (6.7 per cent) for education and science; EUR 131 million (6.3 per cent) for capital injection in some large state hospitals; EUR 667 million (32.3 per cent) to infrastructure, such as various public buildings, hospitals, roads, broadband projects and energy efficiency projects. Not least, EUR 342 million was reserved to state-owned companies, most prominently, the national airline *AirBaltic* (EUR 250 million) and Latvian Railway (more than EUR 32 million). For comparison, only EUR 101 million was assigned for income retention, and only 30 million to unemployment benefits.

Nevertheless, the rich supply of policy measures hides the grim reality that the actual state support significantly fell short of

18 https://bnn.lv/valsts-kontrole-lauksaimniekiem-pieskirtais-atbalsts-covid-19-krize-drizak-bijis-ka-ienemumu-palielinajums-382637.

the plans. As repeatedly noted by the Latvian Fiscal Council, significant part of the envisaged spending remained under-utilised, a trend that became particularly pronounced during the second wave of the pandemic.[19] To a large extent, the insufficient stimulus was due to the bureaucratic flaws in supporting households, notably, via income retention, wage subsidies and social benefits.

A similar picture of privileging insiders strikes in specific policy initiatives: EUR 35.5 million in direct grants to agricultural, fishery, food and school catering (April 4); EUR 2.04 million in direct grants to various media organisations to secure against Russian (dis)information (April 6); EUR 32 million in grants to culture (May 18);[20] EUR 150 million of additional borrowing to municipalities, to construct pre-school premises (April 30); EUR 75 million subsidies for repairing 500 km of national and regional highways and local roads, and bridges; EUR 1.5 million of zero interest rate loans to agriculture (May 12); EUR 5 million in grants for national scientific research programme (May 19); EUR 800,000 to tour operators, repatriating travellers (May 29); EUR 160 million in state guarantees for export enterprises, suffering at least 30 per cent drop in their annual turnover (July 7); EUR 58 million in direct grants to companies leasing property from the state (July 10); EUR 19 million in direct grants to tourism and events organisation sectors; EUR 114,000 in direct grants to forestry sector (July 31); EUR 51 million in direct grants to exporters (August 4); almost EUR 5 million for hotels (November 3). In April 2021, the government provided EUR 20 million in direct grants to larger retailers in supermarkets.[21]

Latvia's plan for the EU's Recovery and Resilience Facility followed the interests of the strongest domestic business sectors, particularly, construction. Rather than attempting to upgrade the

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19 https://www.delfi.lv/bizness/budzets_un_nodokli/valsts-atbalsts-krize-nesasniedz-planotos-apjomus-uzskata-fiskalas-disciplinas-padome.d?id=52860897.

20 Specifically, EUR 20.1 million was allocated cultural institutions; EUR 9.5 million to stabilise state-owned companies, EUR 8.2 million to non-governmental, regional and private institutions; EUR 2.3 million cinema, EUR 5 million to creative persons and authors, EUR 7 million for various public services.

21 https://lvportals.lv/dienaskartiba/326827-valdiba-apstiprina-jaunu-atbalsta-programmu-tirdzniecibas-centriem-nomas-ienemumu-krituma-kompensacijai-2021.

economy, the government — with only formal involvement of social partners — channelled the bulk of the funds to public infrastructure projects, subsequently to be contracted to a handful of politically connected construction companies. Meanwhile, little attention was paid to decreasing social vulnerabilities. Tellingly, while the bulk of the EUR 330 million earmarked for “tackling inequality” were transferred to infrastructure projects (EUR 102 million for roads, EUR 82 million for municipal industrial parks and EUR 42 million for rent housing), only EUR 70 million was allocated to social policy. Social partners were consulted only before the very submission of the proposal. The domestic employers expressed concerns that more than four fifths of the funding was allocated to various initiatives in the public sector, leaving the private sector less covered.[22] However, Brussels rejected most of the initial proposals, due to the lack of correspondence with the Next Generation EU goals. Similar to the post-GFC period when the Barroso Commission found itself playing a role of “social advocate”, demanding more redistributive policies for the poor (Eihmanis 2018), the von der Leyen Commission demanded allocating more funds to social needs. At the time of writing eventual policy outcomes are difficult to predict.[23]

6.4 Monetary and fiscal policies

Being part of the Eurozone since 2014, the Latvian Central Bank had only discretion in macro-prudential policy, notably, setting the countercyclical capital buffer (CCyB) at the rate of 0 per cent on November 1. Nevertheless, having earned remarkable credit ratings since the GFC, Latvia was able to borrow easily and cheaply, both in the markets and from international organisations. This included government paper of various maturity for EUR 2 million,

22 https://www.lsm.lv/raksts/zinas/ekonomika/socialie-partneri-kritize-uz-ek-sutamo-atveselosanas-un-noturibas-mehanismaplana-projektu.a391963/.

23 https://www.lsm.lv/raksts/zinas/ekonomika/socialie-partneri-kritize-uz-ek-sutamo-atveselosanas-un-noturibas-mehanismaplana-projektu.a391963/; https://www.lsm.lv/raksts/zinas/latvija/latvijai-no-atveselosanas-fonda-liek-vairak-teret-socialo-izaicinajumu-risinasanai.a398511/.

32 million and 550 million. The yield for six-year bonds (maturing in 2026) was 0.406 per cent at a pre-fixed coupon of 0.375 per cent. On April 9, the Nordic Investment Bank (NIB) and Latvia signed a ten-year loan agreement of EUR 500 million to finance additional government expenditures from mitigating the impact of the COVID-19 pandemic.[24] On May 13, the Council of Europe Development Bank (CEB) approved a EUR 150 million loan.[25]

Having pursued austerity during the financial crisis, the stance toward debt has been relatively relaxed. Toward the second wave of the pandemic some concerns were raised by the Fiscal Council and the Ministry of Finance.[26] Nevertheless, the government proceeded with long-planned tax cuts, including notably higher PIT allowances for workers, pensioners, dependents and select vulnerable groups. The tax cuts also included a 1 percentage point cut in social security contributions.[27] Social security payments were also reduced for high earners (with annual wages above EUR 62,800). Meanwhile, social security contributions were increased for the self-employed, a group that so far has been able to retain a relatively privileged status. The government's decision to introduce minimum social security payments for the self-employed even led to street protests by cultural workers.[28]

6.5 Conclusions

The pandemic represents a major overhaul in economic policy-making. If during the GFC, Latvia made an international

24 https://kase.gov.lv/en/news/nib-provides-covid-19-mitigation-loan-republic-latvia-0.

25 https://eng.lsm.lv/article/economy/economy/latvias-150-million-euro-loan-to-be-approved-by-council-of-europe-development-bank.a359446/.

26 https://www.lsm.lv/raksts/zinas/ekonomika/reirs-valsts-paradu-pec-krizes-planots-samazinat-4--5-gados.a363818/.

27 https://www.fm.gov.lv/lv/neapliekamais-minimums-un-nodokla-atvieglojumi; https://taxsummaries.pwc.com/latvia/individual/significant-developments.

28 https://eng.lsm.lv/article/economy/economy/minimum-social-contribution-payments-planned-from-2021-in-latvia.a372893/#:~:text=The%20government%20supported%20the%20proposal,current%2020%25%20to%2025%25.&text=The%20proposed%20tax%20changes%20greatly,workers%20and%20other%20creative%20professions.

name pursuing "internal devaluation" via austerity and spending cuts (Blyth 2013; Bohle and Greskovits 2012; Eihmanis 2018), a decade later, it did not hesitate to borrow and spend on a massive scale — even while having very low infection rates and restrictions during the first wave of the pandemic. Latvian authorities deployed a sizeable stimulus package, albeit implementation significantly lagged behind the plans — due to both design deficits and a lack of demand. Nevertheless, the Latvian economic responses have mostly missed a long-term vision. While following some of international good practices in income retention and support to businesses, there is little effort to overcome the vulnerabilities, exposed by the previous crisis. One can argue that a decade after the GFC, Latvia continues to represent a "socially disembedded" version of neoliberal capitalism, demonstrating that it has learned little since the GFC. Based on the tenets of individual responsibility and entrepreneurial virtue, the state support has favoured businesses, rather than needy households.

If Estonia opted for efficient income retention (see chapter 4) and Lithuania focused on social benefits (see chapter 7), Latvia fell short of delivering either and thus can be regarded as a relative failure.[29] In industrial policy, Latvia mostly protected already well-established sectors. Besides generalist schemes for SMEs, particularistic state support has mostly been directed at low-added value sectors, such as construction, tourism, agriculture and food production. The pandemic notably changed the role of Latvian domestic businesses. That the state aid was geared towards specific industries only demonstrates that these industries are not only economically vital but also politically influential. The fragmented and particularistic business support reflects the fragility of the ruling coalition, eager to use every opportunity to appeal to their individual and corporate benefactors. According to the framework outlined in chapter 1, Latvian response to the pan-

29 According to the Bank of Latvia, during the first half of the year (approximately), Estonia spent proportionally most on income retention (around 0.9 per cent of GDP), Lithuania around 0.3, and Latvia only around 0.2 per cent of GDP, respectively. Latvia spent proportionally the lowest amount on supporting the health care system, Estonia excelled with spending the lowest amount on social benefits. Lithuania spent by far the biggest proportion on various social benefits, including unconditional payments to childcare and pensioners (Bērziņa 2020).

demic can be described as *"*unequal status quo/capture*",* In line with its lopsided social contract, the Latvian socioeconomic fabric represents the biggest gap between haves and have nots.

Latvia provides little surprise regarding economic policy tools applied. Generalist support to businesses mostly took the form of loans, collateral and tax/rent deferrals, while targeted support was provided as direct grants. Capitalizing on orderly public finances and market confidence, Latvia was able to borrow cheaply in the markets and from international organisations. The role of its central bank was limited to counter-cyclical macroprudential policy. Unconventionally, the Latvian Central Bank actively posited itself as a "think-tank", providing policy advice and analysis for both policy-makers and the general public at large.

According to the framework represented above, the inter-country differences in economic policy can broadly be explained by political strategies to maintain power, state capacity and learning from the previous crisis. Although Latvia is known for aversion to class conflict (Abdelal 2001; Bohle and Greskovits 2012; Eihmanis 2019), the pandemic introduced some politicisation in economic policy, notably, regarding healthcare, welfare and taxation. However, this politicisation by and large fell short of translating into effective policy responses. First, this was due to a fragile five-party coalition of conservatives, far-right nationalists and liberals. Second, this was due to a lack of administrative capacity, on which Latvia scores particularly badly among the Baltic states.

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Table 6.1 Policy summary Latvia

Policy (sub-)areas		**Latvia**
Social and labour market policy	Employment and income support	Idleness benefits at 75 per cent of wage earnings, up to EUR 700 a month (albeit with high qualification thresholds and faulty implementation)
		A subsidy for employees (up to 50 per cent, up to EUR 500 a month) and employers (30 per cent of the average wages paid)
		Targeted stipends for culture workers, “creative persons” and new graduates
		Minimum wage was raised from EUR 430 to 500
	Social policy	Downtime assistance for unemployed without idleness benefits benefit (EUR 180 per month)
		Benefit of EUR 180 for unemployed without benefits
		Child-care benefit years of EUR 171 for children up to two years (previously, 1.5 years); one-off transfer of EUR 150 for care-takers of children with disabilities; child benefit of EUR 50 for parents, proportional to the number of days, for which the beneficiary is idle;
		One-off benefit of EUR 500 per child, one-off benefit of EUR 200 to pensioners, orphans and the disabled
	Essential workers	Front line health workers’ pay increased by up to 20 per cent

Industry, trade and investment	Public investment	Out of EUR 2 billion spending in 2020-2021, 6.7 per cent earmarked for education and science, and 32.3 per cent for infrastructure, notably, national and regional highways, local roads and bridges
		EUR 342 million capital injections in state-owned companies: the national airline, railway, hospitals
		Increasing municipal borrowing for infrastructure
	State aid to domestic sector and foreign business	EUR 250 million in subsidised loans and loan guarantees
		Direct grants to agriculture, media, culture, science, export enterprises, renting, tourism and hospitality entertainment, forestry, retail
	Macro-prudential	Countercyclical capital buffer (CCyB) set at 0 per cent
	Fiscal	Borrowing the financial markets and from IOs
		PIT allowances for workers, pensioners, dependents and select vulnerable groups; a 1 percentage point cut in SSCs; increase for SSCs for the self-employed
Governance and political institutions	Social partnership	Weak consultation with social partners; more quiet lobbying than tripartism
	Political institutions	Over concerns of disinformation, Russia-related TV channels suspended

Chapter 7. Lithuania: Changing political coalitions and solidarity in the making

Edgars Eihmanis

7.1 Introduction

Similar to the other Baltic states, Lithuania handled the first wave of the pandemic remarkably well. As the number of infections remained among the lowest in the EU, Lithuania adopted a wide-ranging economic stimulus programme. However, a focus on economic, educational and health disparities between urban and rural areas was not enough for the coalition of the Lithuanian Farmers and Greens Union (LVŽS), the Social Democratic Labour Party of Lithuania (LSDDP) and the Electoral Action of Poles in Lithuania–Christian Families Alliance (EAPL–CFA) to retain power. Its loss in the 2020 elections was attributed not only to mistakes in addressing the pandemic, but also to the rise of the socially liberal Freedom Party that effectively mobilised young urban professionals through an agenda of legalisation of soft-drugs, LGBT rights and education investment.[1] Having been punished after a painful austerity programme during the GFC [2], an economically right-wing coalition led by Homeland Union–Lithuanian Christian Democrats (TS–LKD) — together with the Liberal Movement of the Republic of Lithuania (LRLS) and the Freedom Party —

1 https://www.rosalux.de/en/news/id/43342/the-2020-elections-in-lithuania?cHash=b032d6e7b2bbfff7ec7094bc4f87f1ff.

2 https://www.greeneuropeanjournal.eu/pandemic-politics-and-lithuanian-elections/.

regained office amidst the pandemic in October 2020.[3] However, like elsewhere in ECE, the authorities underestimated the seriousness of the pandemic, as incidence rates rose dramatically in the autumn of 2020.[4]

Lithuania's response to the pandemic splits between the ruling blocs in power. The social democrats championed the most protectionist stance among the Baltic states focusing on welfare consumption (*egalitarian status quo*). Tellingly, Prime Minister Skvernelis pledged to fight social inequality, by promising a variety of welfare benefits, including a "13th month's pension". To a large extent this can be explained with the social-democrats' power-seeking strategy before an election. The left-leaning coalition also unveiled a EUR 6.5 billion industrial upgrading plan, *"The DNA of the Future Economy",* streamlining various financial flows from the EU and the national budget. However, the electoral victory of the economically liberal forces in October put these ambitions — and largely unprecedented — initiatives to a halt. Keen to build their own legacy, Prime Minister Šimonyte (TS–LKD), sought to "deconstruct" the industrial upgrading plan.

7.2 Labour market and social policies

Compared to the other Baltic countries, Lithuania adopted the most generous package of income retention and social benefits, based on principles of solidarity (Aidukaite et al. 2020). In mid-March, the government and the Central Bank submitted a cross-sectoral package of EUR 2.5 billion (10 per cent of GDP), out of which EUR 500 million was earmarked for income retention. It was envisaged that the state would fund up to 60 per cent of income, but not more than the minimum monthly salary. On March 31, the Ministry of

3 https://www.euronews.com/2020/10/25/lithuania-votes-centre-right-eyes-government-as-voters-head-back-to-polls-for-second-round; https://www.greeneuropeanjournal.eu/pandemic-politics-and-lithuanian-elections/;https://visegradinsight.eu/is-this-a-breakthrough-lithuania/.

4 Initially, quarantine was declared from March 16 to 30, and subsequently extended to June 16. Responding to the second wave, zoning was implemented from October 21 to November 4. However, as the infection numbers rose, a national lockdown was announced on November 4, later extended to February 1, 2021.

Culture set out a plan for culture workers, including EUR 2 million to compensate for lost wages and stipends. The package included funding for artists' creative downtime, individual scholarships, and one-off payments for self-employed developers. Generally, the left-leaning coalition did consult with the main employers' organisations and trade unions; however, there is little evidence on whether and how the social partners shaped the policy outcomes.

Streamlining some of these measures, in early May 2020, the parliament approved a post-pandemic welfare package of EUR 1 billion. More than 1.3 million beneficiaries were targeted over the course of the year. Notably, the package included wage subsidies (up to EUR 607) to employers, wage subsidies for persons returning from downtime or unemployment (EUR 380 million), job search allowances of EUR 200 for those who have dropped out of the labour force (EUR 265 million), social benefits (EUR 182 million), funds for the self-employed and for vocational training (EUR 15.6 million), increases in unemployment benefits (EUR 42 per benefit) and sickness benefits during the pandemic (77.58 per cent of the average wage). On May 27, the government adopted another subsidy for employers, employing workers above 60.[5] The self-employed received a benefit of EUR 257 for three months. The self-employed, having lost income during the quarantine, received a deferral of mortgage loan payments. Throughout 2020, families without incomes were entitled to a monthly benefit of EUR 100 per child (replacing the universal child benefit of EUR 60). On June 9, the parliament approved another one-off payment of EUR 120-200 in addition to the child benefit. Social policy included a one-off payment of EUR 200 to various vulnerable groups, such as pensioners, disabled, orphans and widows. In addition, a lumpsum amount of EUR 200 was granted to children from various vulnerable groups and those who lost their job during the quarantine and were not entitled to unemployed benefits. Working parents were entitled to a sick leave up to 60 days, compensated at 66 per cent of the wage. The government also strengthened funding for the health sector, including an increase in the salaries of health

5 Amounts of subsidies for a worker aged 60 and over who is put to downtime during an emergency or quarantine: 100 per cent. from the calculated salary, but not more than EUR 607 gross; 70 per cent from the calculated salary, but not more than EUR 910.5 gross.

care personnel by 15 per cent. Health workers who contracted COVID-19 received a sickness benefit that was equal to their net pay. Not least, the pandemic stimulated a debate over housing policy, a previously neglected policy area, resulting in improved access to social housing and modestly increased compensation of rents (Aidukaite 2014; Aidukaite et al. 2020)increasing stratification based on income and the dominant position of the market in housing production, allocation and price determination. However, a detailed examination of the Lithuanian housing policy reveals that the housing policy system, despite having many features similar to the liberal one, has been operating in different social and economic settings as a result of unique historical experience of the communist housing policy (massive production of low quality apartment blocks during the communist era, which currently need substantial renovation.

Having won the election in October 2020, the liberal coalition maintained the course of social bolstering via welfare benefits. The budget, adopted by the parliament in late-2020, included a series of social protection measures, to address the society at large. The measures included increases in pensions, social benefits, child benefits, benefits for disabled children and tax benefits for the lowest salaries. As of January 2021, the minimum wage was increased from EUR 607 to 642 — the highest level in absolute terms in the Baltics.[6]

7.3 Industry, Trade and Investment

Similar to Latvia and Estonia, the Lithuanian government adopted major support for domestic businesses. In the initial months of the pandemic, the government adopted a long list of general and particularistic measures, targeting the most vulnerable segments of the society. In this regard, the Lithuanian response took a similar path as Latvia and Estonia.

At the onset of the pandemic, the government adopted a number of general policies, such as CIT and VAT deferrals, two

6 https://finmin.lrv.lt/en/news/the-seimas-adopted-the-budget-for-2021.

rent compensation schemes (EUR 101 million, and EUR 1.5 million), and a subsidised loan scheme for SMEs followed (later expanded from 100 000 to EUR 1 million, EUR 100 to 200 million, and three to six years). By the end of April, EUR 50 million were allocated for invoice factoring loans via the National Development Agency (INVEGA). In addition, the government adopted a large number of packages targeted at various vulnerable and/or affected industries — notably, culture, tourism, agriculture, hospitality, food production, processing and freight transport).[7]

In business support, Lithuanian response to the first wave of the pandemic represents a deliberate attempt to rewire and upgrade the Lithuanian economy. The investment plan was mostly pushed by a few social democratic elites with economic background. Most prominently, it was the Minister of Finance Vilius Šapoka, who previously held leading positions at the Lithuanian Savings Bank, Lithuanian Securities Commission, Ministry of Finance, and the Bank of Lithuania. Meanwhile, as demonstrated by subsequent criticisms, the Lithuanian Confederation of Industrialists, the largest business organisation in Lithuania, was not involved in the

7 The culture support package included: EUR 25 million for creative persons and cultural organisations, EUR 43 million for culture infrastructure, EUR 1.4 million for television and film products (in addition to EUR 2 million allocated to support national film production) and EUR 1.7 million for library collections. EUR 10 million of direct grants were allocated to cultural and art organisations. A series of measures were targeted at the tourism sector: EUR 15 million for promotion of inbound and outbound tourism, and EUR 30 million in loans. EUR 1 million of direct grants were provided for tour operators repatriating travellers between February 26 and March 31 2020 (covering 75 per cent of expenses). In June, EUR 50 million were earmarked for state guarantees and loans for travel agencies, tour operators, accommodation and catering businesses. Major support was directed at agriculture and food production. Bovine animal and milk producers received EUR 30.5 million in direct grants. Agricultural, food, forestry, rural development and fishery sectors received EUR 59 million in grants (EUR 9 million) and loan guarantees (EUR 50 million). In July, EUR 47.5 million in direct grants and subsidised loan interest were allocated to pork, vegetable and aquaculture sectors. EUR 20 million in direct grants were assigned to poultry and eggs production. In April, EUR5 million in direct grants were assigned to the road freight transport sector. Not the least, EUR 1 billion, sourced from a variety of sources, were channelled to for medium-sized and large enterprises.

drafting process.[8] Business circles also criticised the government for the restrictive and clumsy application process.[9]

While involving repackaging for political purposes, in substance, this initiative strikes with the "upgrading" intention, which is an important difference from Latvia and Estonia. Announced in early June, the investment plan, *"The DNA of the Future Economy"*, provided for investments in various "new economy" sectors, such as human capital, digital economy and business, innovation and research, infrastructure and climate change and energy. As put by Finance Minister Vilius Šakota:

> The short-term measures imposed at the beginning of the COVID-19 crisis are not sufficient, it is vital to find solutions for our country to move on. To get back and outpace other countries. Therefore, we have prepared and present to the public the Long-Term Investment Plan for Economic Stimulus. It will create conditions for a qualitative transformation of the Lithuanian economy, balanced development, innovative, high value-added business development. We have a chance to change the DNA of the Lithuanian economy.[10]

Streamlining EU structural funds, the RRF's funding and state budget resources, the package amounted to as much as EUR 6.3 billion (13 per cent of the GDP in 2019). Although the measures were skewed toward construction and infrastructure (with the construction sector as a lead beneficiary), the seemingly endless supply of projects also put a significant emphasis on the new tech-

8 https://www.vz.lt/izvalgos/2020/08/08/festina-lente-tam-kad-igyvendinant-ekonomikos-dnr-plana-butu-pasiekta-ilgalaikes-naudos#ixzz6lJnFx5lA; https://www.delfi.lt/verslas/verslas/skvernelis-apie-dnr-plana-diskusijos-vyksta-ir-skustis-nereiketu.d?id=85310359.

9 https://www.lrt.lt/naujienos/verslas/4/1164157/verslo-atstovai-po-pokalbio-su-prezidentu-kritikuoja-salygas-del-paramos-verslui-teikimo-esame-biurokratijos-ikaitai; https://www.lrt.lt/naujienos/verslas/4/1164117/dargis-verslui-reikia-paramos-greiciau-ir-daugiau.

10 https://koronastop.lrv.lt/en/news/lithuania-following-covid-19-investment-that-will-change-economic-dna.

nologies and innovation (see the list below).[11]

However, the political shift in the government after the 2020 election put a halt on the investment plan. Although the leader of the economically right-wing coalition, Ingrida Šimonyte, pledged to accelerate economic modernisation from a cheap labour model to higher-value manufacturing[12], she apparently was not interested in doing so by implementing the social-democrats' agenda. Blaming the former government for "financial adventurism", the authorities argued that the plan was counting on the ERF funding which was not approved yet, thus posing a risk for national finances. The liberal government backpedalled the "DNA" plan and committed to "deconstruct" and adjust the investment plan to its own priorities during the 2021.[13] At the time of writing, policy outcomes are difficult to predict.

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11 Innovative educational methods and training of economically important specialists (EUR 96 million); Renewable energy sources (EUR 214 million); Retraining of the employed and unemployed for high value-added areas (72.7 million euro); Horizon Europe and research (EUR 82 million); Industrial digitisation and the circular economy (EUR 69.5 million); New e-business, design products (EUR 68.5 million); Modernisation of export markets and foreign direct investment, (EUR 24.6 million); Sandbox, Human-machine interface (EUR 14.7 million); Preparing for the deployment of 5G and eSIM platforms; COVID products, start-up acceleration and research (EUR 212.5 million); Crisis resilience in agriculture (EUR 10 million); Life sciences and biotechnology incubators (EUR 7 million); Centres of excellence: life sciences, ICT, Industry 4.0, Fintech (EUR 25 million); Digital health innovation, creation of preconditions for the production of medicinal; Products based on blood plasma, establishment of an advanced clinical research centre (EUR 28 million); Flight resumption and airport development (EUR 47 million); FEZ and industrial parks (EUR 86 million); Modern Conference Centre (Vilnius Sports Palace) (EUR 29 million); Seaports, shipping, Via Baltica railways (EUR 164 million); Energy efficiency in buildings (EUR 87 million); Digital health innovation, creation of preconditions for the production of medicinal; products based on blood plasma, establishment of an advanced clinical research centre (EUR 28 million); Flight resumption and airport development (EUR 47 million); Electricity generation using gas evaporations at Klaipėda LNG terminal (EUR 10 million).

12 https://www.france24.com/en/live-news/20201025-centre-right-ahead-in-lithuania-vote-overshadowed-by-pandemic.

13 https://www.lrt.lt/naujienos/verslas/4/1300856/simonyte-ateities-ekonomikos-dnr-planas-kol-kas-neitrauktas-i-biudzeta; https://www.delfi.lt/verslas/verslas/simonyte-daugiausia-klausimu-kyla-del-ekonomikos-dnr-plano.d?id=85576957; https://www.lrt.lt/naujienos/verslas/4/1332735/vyriausybe-dekonstruoja-ekonomikos-dnr-plana-bus-siekiama-isvengti-painiavos-del-finansavimo-saltiniu; https://iq.alfa.lt/politika/vyriausybe-dekonstruoja-ekonomikos-dnr-plana/217030.

7.4 Monetary and fiscal policies

The left-leaning coalition expressed little, if any, concern about fiscal sustainability during the first wave — after all, they replaced economically right-wing coalition who pursued austerity during the GFC. Concerns over fiscal space and sustainability emerged during the second wave, as, after the election, the reins were overtaken by an economically liberal coalition, led by the former Finance Minister and Central Bank board member, Ingrida Šimonyte.[14] As a member of the Eurozone, Lithuania relied on macroprudential policy. On March 19, in order to boost corporate and household lending, the Bank of Lithuania took a more flexible approach in terms of some capital and liquidity requirements imposed on banks. The countercyclical capital buffer (CCyB) was reduced from 1 to 0 per cent (effective as of April 1). This measure allowed banks to provide additional EUR 2 billion in loans to businesses and residents.[15] Aside from CIT and VAT tax deferrals, investment incentives were adopted, notably, a 20-year tax holiday for investments above EUR 10 million and R&D credits. The government also adopted a draft law on 9 per cent reduced VAT rate for restaurant services (having rejected a number of initiatives regarding reduced VAT rates for pharmaceuticals, catering services and magazines).

7.5 Conclusions

Lithuania represents a distinct trajectory accommodating its "neoliberal" capitalist model to new circumstances. If austerity and spending cuts was the policy choice in the GFC (Aslund 2010; Blyth 2013; Bohle and Greskovits 2012), during the pandemic it did not hesitate to spend on a massive scale. Lithuania adopted a sizeable stimulus package that was targeted to various soci-

14 https://en.delfi.lt/politics/simonyte-growing-state-debt-becomes-problem.d?id=85777295.

15 https://www.lb.lt/en/news/bank-lending-potential-increased-to-stabilise-lithuania-s-economy; https://www.lb.lt/en/news/bank-of-lithuania-releases-the-countercyclical-capital-buffer-requirement-amid-covid-19-disruptions.

etal groups. Strikingly, compared with its Baltic peers, Lithuania stands out with its explicit willingness to pursue social and industrial upgrading, even if this willingness has not always translated in enacted policies. While Estonia mostly based its social policy on income retention, Lithuania focused on benefits. Hence, the Lithuanian response in the social domain can be mapped as *"egalitarian status quo"*. As per industrial policy, Lithuania adopted a range of business support policies in line with standard practices elsewhere. However, Lithuania stands out among other countries in the region, because its left-leaning coalition tried to use the COVID-19 crisis as a window of opportunity for industrial upgrading, via a major investment package *"The DNA of the Future Economy".*[16] Nevertheless, this investment plan was put to halt by the incoming conservative administration, and at the time of writing, the trajectory of industrial policy is difficult to predict. Hence, the Lithuanian industrial policy response can be tentatively mapped as "*generalised resilience*". Lithuania used similar policy tools as the other Baltic States. Businesses were supported via loans, collateral and tax/rent deferrals, but also via direct grants to targeted sectors and companies. As a member of the Eurozone, the Lithuanian central bank's role in mitigating the economic contraction was limited to counter-cyclical macroprudential policy.

This volume has explained inter-country differences in economic policy with three variables: political strategies to maintain power, state capacity and policy learning. Although the Baltic countries are known for aversion to class conflict (Abdelal 2001; Bohle and Greskovits 2012; Duvold and Jurkynas 2013), Lithuania demonstrates that economic conflict has become more salient in the post-GFC decade leading to notable learning processes on the part of incumbents. Politicisation of economic policy was only increased by a parliamentary election during the pandemic. The left-leaning coalition sought re-election by a range of social benefits, and social protection was extended even under the incoming conservative Prime Minister, a former champion of austerity.

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16 https://finmin.lrv.lt/uploads/finmin/documents/files/DNA%20of%20the%20Lithuanian%20economy.pdf.

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Table 7.1 Policy summary Lithuania

Policy (sub-)areas		**Lithuania**
Social and labour market policy	Employment and income support	Income retention scheme provided up to 60 per cent of income, up to EUR 607; wage subsidies for persons returning from down-time or unemployment
		A benefit for the self-employed (EUR 257 for three months); deferral of mortgage payments for the self-employed
		Minimum wage increased from EUR 607 to EUR 642
	Social policy	Job search allowance of EUR 200 for inactive workers
		Increases in unemployment benefits (EUR 42 per benefit) and sickness benefits during the pandemic (77.58 of the average wage); one-off payment of EUR 200 for who have those lost job during the quarantine and not entitled to unemployed
		Child benefit increased from EUR 60 to EUR 100; one-off payment of EUR 120-200 in addition to the child benefit; sick leave up to 60 days to working parents, compensated at 66 per cent of the wage
		One-off payment of EUR 200 to pensioners, disabled, orphans and widows; one-off payment of EUR 200 for who have those lost job during the quarantine and not entitled to unemployed
	Essential workers	Health care workers' salaries increased by 15 per cent; health workers having contracted COVID-19 received a sickness benefit equal to their net pay
	Housing	Improved access to social housing and related assistance

Industry, trade and investment	Public investment	A major investment plan put on hold by incoming government
	State aid to domestic sector and foreign business	Two rent compensation schemes
		Subsidised loan scheme for SMEs
		EUR 50 million for invoice factoring loans
		Direct grants to culture, tourism, agriculture, hospitality, food production, processing and freight transport
	Macro-prudential policy	The countercyclical capital buffer (CCyB) reduced from 1 to 0 per cent
	Fiscal	Borrowing in the financial markets
		CIT and VAT deferrals; 20-year tax holiday for investments above EUR 10 million and R&D credits
Governance and political institutions	Social partnership and interests	Consultation with social partners varied by changing left and right ruling coalition: from favouring workers to favouring businesses

Chapter 8. Poland: The COVID-19 crisis as an opportunity to rebalance the economy

Alen Toplišek

8.1 Introduction

Poland weathered the first wave of COVID-19 infections relatively well, similar to other Visegrád 4+1 countries. At the beginning of March 2020, the government adopted the first set of measures, including the introduction of sanitary measures at the main border crossings with neighbouring countries (March 9), the cancellation of mass events (March 10) and the closure of kindergartens, schools and universities (March 12). Shopping centres, except for essential food shops and pharmacies, restaurants, bars and cafes were closed on March 13. The government closed the borders to foreigners on March 15 and imposed a general lockdown on March 18. In the second half of March, major car manufacturers, such as Fiat Chrysler, Opel and Volkswagen, suspended production until the end of April 2020.

Presiding over the response to the pandemic was the conservative nationalist government led by the Law and Justice (PiS) party, which won the October 2019 parliamentary election. The government's response to the first wave of the COVID-19 pandemic was accompanied by the 2020 presidential election campaign. The incumbent PiS-backed president Andrzej Duda was seeking re-election for another term, therefore it was in PiS party's interest to make the election take place as scheduled on May 10 2020 in order to capitalise on Duda's still high popularity and avoid

the socioeconomic consequences of the COVID-19 crisis negatively feeding into his re-election prospects. Although the election was ultimately postponed until 28 June 29 (and the second run-off until July 12), the initial timing of the election motivated the government to respond to the pandemic decisively by providing generous economic relief to businesses and to reopen the economy as soon as possible, even if the rate of new infections and COVID deaths was still high at the end of April 2020.

Accounting for about 11 per cent of industrial production and 4 per cent of the country's GDP, the automotive industry was the worst affected sector. Industrial production declined by 24.6 per cent in April and another 16.9 in May before recovering in June 2020. Despite this and Poland's high integration into global supply chains, it still managed to register a positive net export contribution to GDP in the first half of 2020 (EBRD 2020). The decline in annual GDP is projected to be 3.5 per cent in 2020, which signals the first recession in Poland since the early transition years, but is still half less than the GDP declines projected for Slovakia and Slovenia. Unemployment rate has increased from 5.4 per cent in March to 6.1 per cent in July 2020 (Central Statistical Office of Poland 2020).

The government responded to the deteriorating economic situation swiftly by implementing the anti-crisis shield support programmes to protect jobs and provide tax relief for businesses, amounting to around 6 per cent of GDP, followed by an additional financial shield programme, worth about 4.5 per cent of GDP, to provide further support to businesses through grants, loans and capital injections. When the second wave of infections hit the country, the government extended the support measures to minimise the economic damage to the economy. While the government support programmes for businesses were wide-ranging and generous, especially during the first wave of the pandemic, the social measures mostly included parental and family benefits, with limited support for the unemployed (Ciesielska-Klikowska 2020a).

8.2 Labour market and social policies

In mid-March 2020, the Polish government introduced the first anti-crisis shield, which included a wage support programme that covered a minimum of 50 per cent of a workers' salary and social contributions of firms that were in standstill and experienced a decline in sales revenue up to 30 per cent. In cases where a micro-enterprise or an SME lost up to 50 per cent in sales revenue, the wage support scheme covered 70 per cent of the minimum wage, and if the decline in lost sales revenue increased up to 80 per cent, then 90 per cent of the minimum wage was covered. Overall, this was much lower than what governments in other EU countries provided at the start of the pandemic, i.e. 80 per cent of the workers' wages while on furlough. Those employed on civil law contracts were able to take advantage of a monthly benefit payment worth PLN 2,000 (EUR 442). Childcare allowance was extended to all parents with children of up to eight years old. The deadline for submission of personal income tax return was extended until end of May 2020, creditors were able to apply for credit holidays, and utility payments could be delayed.

In April 2020, the anti-crisis package was extended to provide financial assistance to farmers and household members working with them in the form of an allowance of 50 per cent of the minimum wage (PLN 2,600, around EUR 680), as well as workers in NGO and voluntary organisations. The package also included unlimited mobile internet access for browsing on official government websites, accessing remote medical diagnostics and e-learning services that were needed for remote work of teachers and students. In June 2020, the Polish parliament adopted president Duda's proposal to introduce a solidarity allowance for people who lost their jobs after March 15 2020 due to the pandemic. The benefits were paid for three months in the amount of PLN 1,400 (around EUR 316) per month between June and August 2020. Immigrant workers in Poland were also entitled to claim the allowance (European Commission 2020). The measure was seen by the opposition parties as an election sweetener by the ruling party to support Andrzej Duda's re-election bid. The temporary solidarity allowance was only eligible for workers who have worked full time for

at least 60 days in 2020 and the person could not receive simultaneously unemployment benefits or a scholarship from the employment office (Ciesielska-Klikowska 2020b). Despite this change, unemployment benefits in Poland remain under the poverty line, with people who have 5 to 20 years of insurance coverage from employment receiving PLN 741 (around EUR 167) per month for the first three months and PLN 592 (EUR 134) for the next three (Koschalka 2020). After the start of the second national lockdown at the end of October 2020, the government announced the sixth anti-crisis shield which extended the wage support scheme for workers, the self-employed and NGO employees.

8.3 Industrial policy

The first anti-crisis shield, which came into force on April 1 2020, provided access to PLN 5,000 (EUR 1,100) loans for micro-enterprises employing up to nine employees, with the possibility of loans being turned into grants. Medium-sized and large companies could obtain a capital increase by issuing corporate bonds, which were then purchased by the state-owned Polish Development Fund (PFR)'s Investment Fund, a programme worth PLN 6 billion (EUR 1.33 billion). The state-owned development bank BGK offered subsidies to finance interest on loans, with PLN 500 million (EUR 110 million) available. Transport companies were able to apply for support from the industrial development agency ARP for refinancing leasing contracts. The companies supplying state and local government could have penalties waived for the delays in the fulfilment of public procurement contracts. SMEs had access to de minimis loan guarantees through a program worth PLN 3.5 million (EUR 770,000). Companies could ask for a deferral of the pension and social security (ZUS) contributions for their employees and those exporting to foreign markets could ask for trade insurance from the export credit agency KUKE.

With the adoption of the second anti-crisis shield on April 7 2020, SMEs could also apply for exemption from paying pension and social security contributions for three months, with the state covering half of the ZUS contributions during this period.

The government justified this measure in order to protect workers from being made redundant. Health care facilities were able to apply for a one-off subsidy to receive high-speed internet and the necessary equipment to conduct remote medical diagnostics. This programme was financed by the government via a one-off subsidy worth PLN 87 million (EUR 19 million). The government also declared that it would strive for faster implementation of the Broadband Fund plan, which aimed to provide citizens with access to basic social e-services, and accelerate the development of the Polish National Educational Network to ensure equal access to internet for citizens.

On April 8 2020, the government adopted a large economic relief package called the Financial Shield 1.0, worth almost PLN 100 billion (EUR 22 billion or 4.5 per cent of 2019 GDP). The purpose of the new package was to protect the labour market and provide companies with financial liquidity in times of crisis. The Financial Shield 1.0 is divided into three components: PLN 25 billion for micro-enterprises, PLN 50 billion for medium-sized enterprises and PLN 25 billion for large enterprises. Non-returnable funds represented around 60 per cent of the overall package. The provision of financial liquidity for small and medium-sized enterprises proceeded via commercial banks and thus became operational early on by April 29. Eligibility criteria for micro-enterprises and SMEs included a decline in revenues of at least 25 per cent in any month after February 1 2020 compared to the previous month or the same month the previous year and inability to perform economic activity due to COVID-19 sanitary restrictions. The loan had to be returned after three years, with up to 75 per cent of the loan being a non-returnable subsidy if the micro-enterprise continued to operate for 12 months and maintain average employment rate over that period. SMEs were also entitled up to 75 per cent of a non-returnable subsidy, depending on the extent of sales lost suffered by the SME and maintenance of average employment rate over 12 months.

On April 23 2020, the development bank BGK was mobilised to start with the first issue of state-guaranteed corona bonds, the funds from which finance a new public investment fund, the COVID-19 Counteracting Fund, controlled centrally by the prime

minister Mateusz Morawiecki. The purpose of the fund was to channel additional funds, of up to PLN 30 billion (EUR 6.5 billion) to different ministries in order to support their efforts in fighting the pandemic and the planned investments. Most of the funds from the COVID-19 Fund were channelled to the social insurance state agency ZUS and the Ministry of Family's Labour Fund to cover the wage support scheme for businesses, part-time employees and NGOs employees. It also subsidised the costs of running a business by self-employed persons. The COVID-19 Fund also directed resources to finance the tasks carried out by the Ministry of Health, including the purchase of medical equipment, purchase of products to prevent and combat the virus, equipment for hospitals, adaptation of IT systems and purchase of computer equipment for remote work (Godusławski 2020). Additionally, the funds were used to support public investment in road and railway infrastructure and the Government Fund for Local Investments for the construction of kindergartens, nurseries, local roads and other infrastructure (The First News 2020).

After a long wait for approval by the European Commission, the financing component for large enterprises as part of Financial Shield 1.0 became operational through the PFR in June 2020. Large enterprises, on the condition of having tax residence in Poland and with no arrears on payments of taxes and social security contributions as of February 29 2020 or the date of financing being granted, could access three forms of financing. The first option was liquidity financing in the form of loans or bonds for a period of 2 years with a value of up to PLN 1 billion (EUR 221 million). The second option came in the form of preferential loans for a period of 3 years, with the option of being partially non-returnable, depending on the extent of financial loss and maintenance of employment, with the value of up to PLN 750 million (EUR 165 million) per entity. The first and the second loan options were handled by the state-controlled PKO Bank Polski. The third option was investment financing in the form of equity instruments (shares or stocks) on market terms or as part of state aid with the value of up to PLN 1 billion (EUR 221 million) per entity.

With the entry into force of the fourth anti-crisis shield at the end of June 2020, subsidised loans offered through the BGK

have also been extended to businesses which as of December 31 2019 were not considered to be “undertakings in difficulty” and which have not taken out any other loan provided by previous economic relief packages. The new shield also introduced simplified restructuring procedures for companies with the ability to postpone the approving of the new arrangements with the creditors through the courts for a maximum of four months. With the aim of protecting strategic Polish companies from hostile take-overs and in line with the 2019 EU FDI screening regulation and March 2020 communication, this legislative package also amended the Act on the Control of Certain Amendments by requiring investors from non-OECD countries to notify the Polish Office of Competition and Consumer Protection of their intent to acquire a stake in a Polish company. The fourth anti-crisis shield also extended the wage support scheme to companies which did not experience economic downtime during the COVID-19 pandemic and provided budgetary support for local governments by doubling the share for districts in the income generated through the management of the State Treasury’s real estate.

In August 2020, the government launched a tourist voucher programme to support families and boost the domestic tourism sector. Each family received a tourist voucher worth PLN 500 (EUR 110) per child, with an additional supplementary benefit of PLN 500 for children with disabilities. The vouchers could be used to pay for accommodation and various other organised tourist activities, e.g. in agrotourism, summer and sports camps, in Poland until the end of March 2022. In preparation for the second wave of the pandemic, at the end of October 2020, the government introduced the Industry Anti-Crisis Shield, which offered support for the catering, entertainment, fitness and retail industries in the form of an exemption from paying social security contributions and small subsidies in the amount of PLN 5,000 (EUR 1,100). The whole package was planned to amount to around PLN 1.8 billion (EUR 400 million) and was targeted at 200,000 companies and 372,000 employees.

During the second wave of the pandemic in November 2020, the government introduced a new business support package via the Polish Development Fund PFR called Financial Shield 2.0.

Although Financial Shield 1.0 in April 2020 allocated PLN 100 billion for businesses, only about PLN 62.5 billion were distributed altogether (Godusławski 2021). The Financial Shield 2.0 support package included the co-financing of fixed costs for SMEs in the amount of up to 70 per cent of fixed costs not covered with revenues under the condition that an SME's revenues decreased by 30 per cent compared to the same period in 2019. This part of the package was estimated at around PLN 13 billion (EUR 2.9 billion) and comprised of limited amounts of aid for micro-enterprises up to PLN 324,000 (EUR 73,000) per company, depending on the number of employees, and up to PLN 3.5 million (EUR 780,000) per an SME. This measure only applies to companies from industries that are covered by the second wave lockdown restrictions, mostly in the retail, hotel accommodation, hospitality, tourism, recreation and cultural sectors. This support package was approved by the European Commission in mid-December and became operational by end of January 2021. As part of the package, the government promised it would redeem the returnable part of subsidies from the Financial Shield 1.0 if companies' revenues decreased by at least 30 per cent from March 2020 to March 2021. For large companies, the second major economic stimulus package extended the three available financing options from Financial Shield 1.0, made the application process more flexible and provided more favourable terms when accessing liquidity and preferential loans. The stimulus measures for large companies are worth around PLN 25 billion (EUR 5.5 billion) and will be applicable to all industries affected by the pandemic. The maintenance of employment conditions only apply to micro-enterprises.

The government did not shy away from providing more targeted sectoral support to protect strategic industries and invest into upgrading public infrastructure. In December 2020, the government received the European Commission's approval of state aid for the national airline LOT. The state aid amounts to a PLN 1.8 billion (EUR 400 million) subsidised loan and a capital injection of PLN 1.1 billion (EUR 250 million). The state aid measures were approved under the condition that the state decreases its equity in LOT below the level of 25 per cent within twelve months. The government also extended the operation of the COVID-19 Fund

for the duration of the second wave of the pandemic (Godusławski 2021). In 2020, PLN 92.7 billion (EUR 20.5 billion) were spent from the Fund, whereas in 2021 the expenditure from the fund is planned to be PLN 48.2 billion (EUR 10.6 billion). Alongside financing Financial Shield 2.0 and the extension of the wage support scheme, the rest of the funds will be used to support healthcare services (PLN 17.7 billion or EUR 3.9 billion), the expenses of the tourist voucher scheme, the Government Fund for Local Investments, management of state assets and the Agricultural Social Insurance Fund. In January 2021, the government also announced that it signed a 10-year public service contract with the state-owned rail carrier PKP Intercity, worth around PLN 21 billion (EUR 4.6 billion), which aims to increase the share of rail transport in passenger transport market by improving the inter-city rail links and upgrading the passenger rail fleets (Government of Poland 2021). The investment is justified on the basis of meeting the European Green Deal's objective to reduce greenhouse gas emissions and making rail the greenest means of collective transport.

8.4 Fiscal and monetary policies

Poland's fiscal response to the COVID-19 crisis was the most substantial in the ECE region when looking at the "above-the-line" fiscal measures, such as additional government spending and foregone tax revenue with direct effect on economic activity (IMF 2021). The general government deficit is projected to amount to 10 per cent of the GDP in 2020 and 5 per cent in 2021 (Pogorzelski 2020). As a result, the general government debt is projected to increase from 45.7 per cent of GDP in 2019 to 64 per cent of GDP in 2021 (Central Statistical Office 2020; NBP 2020b). The financing of business support under Financial Shield 1.0 and Financial Shield 2.0 has been provided through a bond issue programme by the state-owned development bank BGK and the PFR on capital markets.

The role of the Polish central bank was central in providing favourable financing conditions for the adopted social and eco-

nomic support programmes. In April 2020, the Polish central bank announced its own quantitative easing programme and other monetary easing measures, such as cutting the interest rate to 0.5 per cent, repo operations and a version of LTROs (discount facilities) to commercial banks (Erste Group Research 2020). The quantitative easing programme entails the NBP buying up government bonds on the secondary capital markets, including state-guaranteed bonds. According to the central bank, the aim of these operations was to change the long-term liquidity structure in the Polish banking sector and lower the interest rate on government debt (NBP 2020). By end of June 2020, 62.5 per cent of the state-guaranteed bonds issued by BGK and 30 per cent of the bonds issued by PFR in 2020 were purchased by the Polish central bank NBP, while the rest were bought up by local banks (ING 2020).[1] The NBP's quantitative easing programme was projected to reach 8 per cent of GDP in liquidity by the end of 2020. The central bank has also lowered the capital reserve ratio and the Polish Financial Supervision Authority has lowered capital buffer requirements (Government of Poland 2020).

8.5 Conclusions

The set of policy aims adopted by the Polish government during the first and the second wave of the pandemic, especially when it comes to industrial policy, clearly favoured businesses and pointed in the direction of generalised upgrading of the economy, while its social policy measures in response to the pandemic were limited. At the very start of the pandemic back in March 2020, the government has rapidly mobilised the existing network of state institutions and agencies that it has been gradually centralising in the last four years under the auspices of the new state-owned company the Polish Development Fund PFR, which now coor-

1 By issuing state-guaranteed bonds through state-owned companies to finance its COVID-19 crisis response rather than via the more traditional route of issuing government bonds by the Ministry of State Treasury, Poland wants to keep the public debt below the constitutional debt limit of 60 per cent of GDP, which does not account for bonds issued by quasi-sovereign institutions, such as the PFR and BGK, whereas the Eurostat's methodology does (Godusławski 2021).

dinates the activities of 10 other state development institutions, including the state development bank BGK, the export credit promotion agency KUKE and the industrial development agency ARP. As part of the first anti-crisis legislative package, the government used the PFR infrastructure to raise funds on financial markets, which were then channelled through the COVID-19 Fund, managed by the prime minister's office, to relevant ministries and sectoral funds. The government crisis response was mainly targeted at saving jobs in enterprises of different sizes in the short-term, while in the medium- and longer-term the government's efforts were directed at boosting public investment towards achieving long term societal goals, such as accelerating the digitalisation of the Polish society and the transition to a green and low-carbon economy.

The pro-business tilt of the PiS government's crisis response became evident from the very the start of the pandemic in March and April 2020 when the government attempted to limit workers' rights. The government's legislative proposal initially intended to exclude trade unions from representing workers in cases where employers changed the working conditions in response to the crisis, however, after protests from trade unions, this provision was removed (Rogalewski 2020). The government still managed to include a regulation that authorises the prime minister to dismiss the members of the Social Dialogue Council during the pandemic at will. Although the prime minister Morawiecki did not use his authority to dismiss the council during the first and the second wave of the pandemic, this regulation remains in force despite protest from the trade unions, including the pro-PiS government Solidarność, and employers' and business organisations coming together to oppose it (Euractiv 2020). In the second anti-crisis shield bill in April 2020, the government passed legislation through a fast legislative procedure that allows it to cut jobs in the civil service, worsen pay and working conditions, and not renew fixed-term contracts. After cutting the number of ministries in the government from 20 to 14 in August 2020, the government announced that it would cut at least 10 per cent of the civil service, without involving public sector trade unions (ETUC 2020).

The employers and business associations were generally

favourable of the government support programmes, although some, such as the employers' association ZPP was critical of the management of the economy due to the government's "over-interventionism and fiscal expansion" (ZPP 2020a). In their lobbying efforts, the business associations proposed a number of measures to simplify the taxation of income, deregulate business activity, and allow them to change the terms and conditions of their workers. They were also critical of the governments' attempts to block the adoption of the multiannual financial framework for 2021–2027 and the imposition of a sectoral tax on advertising in the media sector. The employers' association ZPP has also suggested that social programmes should be reduced in order to improve the public finances and achieve a quicker reduction in public debt (ZPP 2020b).

The policy means utilised by the government were statist and heterodox in the domain of industrial policy. The state-coordinated upgrading of the economy through the mobilisation of state-owned companies and banks, the possibility of providing investment financing in the form of equity instruments in private companies in response to the COVID-19 pandemic and the nationalisation of public debt holdings through the central bank's public asset purchase programme are the most notable statist characteristics of the government's crisis response strategy. The heterodox aspects of the government crisis response pertain to these state institutions and companies operating as other private market financial actors, with the added benefit of acting on the behalf of a sovereign in an otherwise capitalist market economy and a neoliberal governance model and hence readier to take on higher risk investments to support the industrial upgrading of the economy (Laplane and Mazzucato 2020).

The policy means mobilised in social policy, however, represented limited and opportunistic Keynesianism. The wage support scheme provided only up to 80 to 90 per cent of the minimum wage in subsidies per employee. The minimum wage is already low, PKN 2,600 (EUR 573) in 2020 and PLN 2,800 (EUR 617) in 2021, and hence, alongside an expanded childcare allowance during the pandemic, the social policy response can be best described as limited Keynesianism since it did not provide additional support

for other vulnerable socioeconomic groups, such as pensioners, students and low-income households. The limited social policy response can be partly explained by the “500 Family plus”, an already generous social policy programme in place before the pandemic, which is targeted at supporting families with children.

Due to Polish over-reliance on hard coal for its energy consumption, the key challenge for the government in the future will be to negotiate a delicate balance between addressing the demands of the trade unions representing coal mine workers and its international obligations to transition the economy towards a low carbon future. According to the draft National Reconstruction Plan that the government needs to submit to the European Commission by April 2021 in order to access the EU funding from Recovery and Resilience Facility, over 50 per cent of the grants and loans (around EUR 24.9 billion) are planned to be spent on green energy sources, energy efficiency and the infrastructure to support green mobility (Kołodziejczyk 2021). However, the government still has to formally commit to achieving climate neutrality by 2050, for which it will need social agreement of trade unions in mining regions. The other two key priorities will be increasing the effectiveness, access to and the quality of healthcare, for which the government has already laid out plans for further centralisation of the management of hospitals at the national level, and the digital transformation of the economy.

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Table 8.1: Policy summary Poland

Policy (sub-)areas		**Poland**
Social and labour market policy	Employment and income support	Income support for employees of up to 90 per cent of the minimum wage, income support for the self-employed and on civil law contracts
		Crisis cash allowances for farmers in self-isolation and NGO workers
		Extension of deadline to submit PIT tax returns, exemption of social contributions payment for the self-employed
		Increased childcare allowance
		Tourist vouchers
	Housing	Deferral of loans payments for households, ability to defer utility payments.
	Essential workers	Additional crisis allowance for health care workers involved in the COVID-19 response
	Labour migration	Possibility to reduce agreed number of hours for migrant workers without changing existing work and residence permits

Industry, trade and investment	Public investment	Reallocation of EU funds to health care, education and digitalisation
		Additional investment for upgrading the infrastructure and digitalisation of healthcare and education facilities, R&D into vaccines, medical products and treatments, extension of broadband access to rural areas, road and railway infrastructure
	Statism	-
	State aid to domestic sector and foreign business	Bank and loan guarantees for SMEs and large companies
		Liquidity assistance for businesses in the form of loans at subsidised interest rates and grants, subsidies for micro-enterprises in most affected sectors, equity instruments (acquisition of shares directly and via subscription warrants) and hybrid instruments (bonds and loans convertible into equity)
		Exemption from payment of social security contributions for workers on furlough
		Exemption from rent payments for businesses renting from the state or local government for the duration of the pandemic
		Postponement of loan repayments for businesses; bankruptcy protection
		Sectoral aid to tourism, transportation, pig-breeding sector, cultural sector, agricultural producers
		Partial compensation of lost income for SMEs in most affected sectors
		State aid to LOT Polish Airlines
	Trade and FDI	FDI screening mechanism for acquisitions by non-OECD investors over 20 per cent of shares in critical infrastructure and strategic sectors

Monetary and fiscal policy	Monetary and financial policy	NBP starts an asset purchase programme, cutting the interest rate to 0.5 per cent, repo operations and LTROs for commercial banks
	Macroprudential	Polish Financial Supervision Authority lowers capital buffer requirements
	Fiscal	Government bond issues (EUR 21 billion) complemented by bond issues by state-owned development institutions (EUR 46 billion)
		Property tax exemptions
Governance and political institutions	Social partnership and interests	Weak consultation, government grants itself the power to dismiss members of the social dialogue council
	Political institutions	Recentralisation of political power and the erosion of the autonomy of local government continued during the COVID-19 pandemic; state-owned oil company PK Orlen buys leading media group Polska Press

Chapter 9. Romania: Big crisis, small response

Dani Sandu and Nils Oellerich

9.1 Introduction

The response of the Romanian government to the COVID-19 crisis was greatly influenced by the political turmoil that largely overlapped with the outbreak, and by its pre-existing socioeconomic and policy imbalances. Just a few weeks before the first cases surfaced in Europe, the centre-left Romanian executive led by PSD (the Social Democratic Party) gave way to a centre-right coalition around the PNL (the National Liberal Party) without elections. The incoming executive's political plans to take the reins of government were stymied by the onset of the pandemic, but the liberal prime minister Ludovic Orban quickly adapted by presenting some of the more contentious measures of the party's political agenda as measures needed for a COVID-19 response plan and thus discouraging dissent and criticism. In addition, the country's extremely important local and general elections were scheduled in summer and winter of 2020, which further complicated the COVID-19 response plan. While the Liberal party ultimately did win one election and formed a government, in the second election, their score was much lower than opinion polls had suggested before the start of the pandemic.

Overall, Romania's response to the COVID-19 crisis reflects pre-existing structural and contingent issues the country faced, and a certain politicisation of the measures undertaken. The size of Romania's plan to counteract the crisis brought by the pan-

demic was relatively modest at first, due to both the more austerity-prone outlook of the Liberal Party and the fact that the previous PSD government had left the country's deficit at 4.6 per cent in 2019, the country's highest in ten years. Therefore, initially, the liberal executive tried their best to offer solutions to the pandemic that did not necessarily entail large financial costs. In fact, the broader package of measures taken by the Romanian government came in June 2020, while March, April and May measures focused mostly on containment and some insurance payments. Romania also activated a EUR 400 million of pre-arranged financial support for catastrophes from the World Bank which, due to its nature, did not register immediately in the deficit count.[1]

Romania's 2020 end of the year deficit was similar in size to the deficit of the Eurozone block, around 9 per cent.[2] However, considering that Romania's deficit in 2019 had been one of the highest in the EU, around 4.6 per cent in 2019, and the pandemic resulted in a significant recession, it is likely that the country's investments have been generally lower than other countries in the region. In fact, the IMF's Fiscal Policies Database shows Romania is the sole EU member country whose discretionary fiscal response to the COVID-19 crisis was under 2.5 per cent of GDP in additional spending and less than 3.5 per cent in foregone revenues (see Table A02.6 in the appendix). On the other hand, the National Bank had an active involvement in the crisis and mitigated some of the harsher fiscal concerns of the crisis.

Overall, the Romanian government's intervention, although limited in scope, was successful in maintaining some socioeconomic balance in the country. While many business-owners, especially in the hospitality sector, indicated that they will have to close their businesses, the general population has raised only limited complaints about their subsistence.

1 https://emerging-europe.com/news/romania-activates-400-million-euro-loan-as-world-bank-begins-rolling-out-covid-19-support-in-cee/, accessed on 18.03.2021.

2 https://www.ft.com/content/5579361f-5aac-4cd3-9e93-190fffdc0baf, accessed on 18.03.2021.

9.2 Background

The COVID-19 pandemic first manifested in Romania in March 2020. Previously, Romania had been administered by a centre-left coalition built around PSD, who won 45 per cent of the vote in the 2016 elections. The PSD government adopted highly expansionary policies, taking the country's deficit from 0.6 per cent in 2015, 2.6 per cent in 2016 to around 4.7 per cent in 2019. The PSD-centred majority was also characterised by lots of in-fighting, particularly around the party's leader, Liviu Dragnea, whose vision of governance entwined relatively generous redistributive policies with repeated attempts to roll-back judiciary reforms and institutions in the country. The latter generated recurring public protests from the Romanian middle-class that spanned from January 2017 to August 2018 (and some smaller-scale protests in 2019) and had an attendance peak of 600,000 participants in February 2017[3] while leading to hundreds of injured in August 2018.[4]

After Liviu Dragnea was sent to prison in 2019 and the party suffered a massive loss in the 2019 European Parliament elections, within a few months, the PSD majority was replaced without elections with a weak majority centred around the PNL and Ludovic Orban as prime minister in November 2019. Equipped with a razor-thin majority in parliament, the Orban-led cabinet engaged in ambitious policy overhaul, with a clear focus on reversing many of the PSD-enacted expansionary policies. In fact, the Liberal Party had always been the party most associated with austerity in recent Romanian history, having been the main party in office during the financial crisis.[5]

The tenure of the PSD majority was characterised by high fiscal deficits but also high levels of economic growth. The relatively high pace of economic growth and somewhat generous redistributive policies, contrasted with a constant badgering of the country's judiciary and a relatively socially conservative stance,

3 https://www.bbc.com/news/world-europe-38876134, accessed 22.03.2021.

4 https://www.bbc.com/news/world-europe-45156598, accessed 22.03.2021.

5 More precisely, PNL was the party in office between 2006 and 2008 and PDL, the party in office between 2008 and 2012, then was absorbed by the PNL.

greatly increased political polarisation in the country, ensuring that the PSD acquired the overwhelming support of the elderly and rural populations, while the urban and affluent middle-class migrated toward PNL and the newly founded USR-PLUS (United to Save Romania and Party of Liberty, Unity and Solidarity). PSD resembles regional populists such as Fidesz and PiS in its attitude vis-à-vis judiciary institutions, especially on issues of corruption and embezzlement. Historically the strongest political party in the country, PSD has also sponsored the vast majority of such accusations in recent times. Apart from this issue, PSD is also the political party most prone to overspending, while its regional counterparts have been more focused on maintaining fiscal discipline.

This polarisation fault-line between the spendthrift left and the austere right manifested abundantly in the 2019 and 2020 elections. Bolstered by the protests against the PSD cabinet and a drive to reverse the bloated budget, the centre-right parties won the presidential elections and the European Parliament elections in 2019, plus the local elections in 2020, but narrowly lost the general elections in December 2020, where the PSD managed to get 30 per cent of the vote, a far-cry from the 45 per cent it received in 2016, but still higher than the PNL, at 25 per cent. Shortly after the December 2020 general elections, the Romanian President Klaus Iohannis took closer control of the government, by refusing to rename the prior PNL Prime Minister, Orban, and instead naming his Finance Minister, Florin Cîțu, as the coalition's new prime minister. Cîțu is also known for his orthodox economic views and was expected to be an even more austerity-prone head of government than his predecessor. While the PNL-led government has by now been replaced by a grand coalition of the PSD and the PNL, the account of the COVID-19 responses given here only touches upon those policies adopted over the first two waves of the pandemic by the PNL-USR-PLUS coalition.

Finally, as has been made abundantly clear in pandemic related research, state capacity is very closely tied to accurately tracking the correct number of COVID-19 victims in a country. State capacity determines how many COVID-19 tests a state can facilitate, and oftentimes this number will be far below the real number of victims. For that reason, a more appropriate metric

to calculate the intensity of the COVID-19 pandemic is to judge by number of excess dead in a country, i.e. number of deaths recorded during the pandemic minus number of deaths expected to occur, based on estimations from previous years. Because countries in the ECE region adopted drastic lockdown measures early, their excess mortality figures for March to July 2020 were smaller than the EU average, but then exploded in the second half of the year (see Table A02.2 in the appendix). The peak of excess mortality was November 2020, when Poland recorded 100 per cent excess mortality (double the number of deaths expected for an average November) and Romania recorded 60 per cent excess mortality. In total, it is likely that COVID-19 led to the direct or indirect death of more than 40,000 Romanians in 2020, as compared to the 11,000 counted in the country's official statistics.[6]

9.3 Labour market and social policies

The unemployment rate increased in the first half of 2020 but stabilised over the summer, due to policy measures limiting job losses. It reached 6 per cent in 2021 due to a delayed downturn reaction of the labour market. In 2022 unemployment is expected to decline again but stay above 5 per cent. Nominal wages are projected to increase moderately over the forecast horizon after several years of double-digit growth, according to the European Commission EcFin fall report (European Commision 2020).

While its economy has grown at a fast pace in recent years, Romania's inequality has increased, leaving the country with one of the highest rates of poverty in the EU — around 31 per cent of its population. Despite its immense poverty and social exclusion rate, Romania has only three means-tested social assistance funding schemes, designed for the poorest of its population. These funding schemes likely reached less than 10 per cent of the country's population, therefore less than a third of its poorest even before the pandemic. During the pandemic, figures show that the main social assistance scheme, the VMG, grew from

6 https://mindcraftstories.ro/coronavirus/cati-romani-a-ucis-covid-19-cu-adevarat/?fbclid=IwAR16K6EwdafhZfWo-8pSKzmQA0yx8aqeG53t8exSsLToMemd9uWcZhpXoyo, accessed 23.03.2021.

169,000 beneficiaries in February 2020 to 175,000 beneficiaries in February 2021 (MMANPIS 2020; 2021b). The other schemes have been just as flat. Even during the pandemic crisis, the new liberal Minister of Labour announced a push to reduce the number of welfare recipients, by eliminating the undeserving beneficiaries. To this end, the ministry ran a wide review of more than 35 per cent of the means-tested welfare recipients. While they were hoping to find evidence to support the reduction in number of recipients, the ministry's study found that too few people were receiving such benefits and their numbers should be increased, mainly through the action of local governments (MMANPIS 2021a).

The incoming Cîțu cabinet briefly discussed the possibility of a new means-tested social benefit, the Minimum Inclusion Income, which would unite the existing benefits and substantially increase payments. The new scheme has actually long been approved by the Romanian parliament, but has been postponed by all incoming cabinets for the last three years. The talk of introducing it during the pandemic is connected to the possibility of it being partially funded through the Recovery and Resilience Facility funding from the European Commission.[7] It is unlikely that the policy will be followed through during the 2021 fiscal year.

If means-tested measures were not expanded, some universalistic and costly measures were adopted, such as the universal school grants.[8] These grants and other universal benefits increased by up to 20 per cent, but due to their low value and universal disbursement, they had limited anti-poverty results. Since most of Romania's poorest children were not in school, the policy ended up taking fiscal space (around 0.1 per cent of the GDP) with little or no poverty-alleviation function. Instead, they were meant to be electoral incentives for the two rounds of elections in 2020.

Unemployment figures hide another highly important structural problem with Romania's economy, which is the fact that over 25 per cent of Romania's workforce is employed in agriculture, while the EU-27 average of agriculture employment is below 5

7 https://www.hotnews.ro/stiri-meetyourmep-24564207-venitul-minim-incluziune-romania-salarii-ministru-meetyourmep.htm, accessed 09.04.2021.

8 https://www.economica.net/alocatii-2021-cu-cat-cresc-alocatiile-2021_196839.html, accessed 31.03.2021.

per cent. Despite the high number of individuals working in agriculture, Romania's agriculture output is at 4 per cent of the GDP, which underpins its low-skill prevalence. To compare, 1.7 million people work in agriculture to produce 4.4 per cent of GDP while the 200,000 employed in IT&C in Romania add over 5 per cent to national income.[9] The extremely fragmented nature of Romanian agriculture, plus the large share of informal economy made it easy for some of the urban population that lost their job due to the pandemics to relocate to rural areas and live off the land as an impromptu means of social resilience. The government discreetly reinstated some benefits, subsidies and tax rebates for citizens, especially the approximately 1 million Romanian repatriates during the COVID-19 pandemic, to start agri-businesses during this period. The PNL government, mostly at the behest of its more centrist junior partner, USR-PLUS, also adopted some labour market measures targeting the independent workers, particularly day workers and seasonal workers, who received relatively generous income grants of up to 41.5 per cent of the gross medium salary.

In terms of pandemic policies targeting the formal economy, these largely followed the regional model. At the onset of the pandemic, the government quickly adopted the *Kurzarbeit* model of technical unemployment benefits. Workers furloughed because of the pandemic were granted 75 per cent of their basic salary, without exceeding 75 per cent of the gross average salary. The second stage of the measure, starting January 2021 reduced the scope of eligible activities to those that have been suspended by a decision of the authorities, thus greatly reducing its clout. Another level of the policy included shortening working hours up to 50 per cent, with the state subsidising 75 per cent of the gross salary difference between full- and part-time employment, which was relatively successful especially for families with small children, who had to combine work from home with child-care and home-schooling.

9 https://business-review.eu/business/br-analysis-romanias-extremes-17-million-people-work-in-agriculture-to-produce-4-4-pct-of-gdp-while-other-200000-people-working-in-itc-add-more-than-5-pct-to-national-income-186924, accessed 23.03.2021.

While the government has not made official the numbers on the beneficiaries of the *Kurzarbeit* scheme, the general absence of widespread social protests was interpreted as a moderate success. The fact that the benefit was capped at 75 per cent of the gross average salary may have also reduced its fiscal costs. The policy was widely supported by most political parties and is supposed to last up to three months after the end of the pandemic state of emergency. The government also boosted or reinstated many prior labour market policies, introduced by the previous government and discontinued by the PNL before the crisis. For example, some employment subsidies (grants for employers amounting to 50 per cent of wage income) had their prior threshold increased to RON 2,500, while policies for hiring people in vulnerable categories, such as the elderly or young people not in education, employment, or training (NEET) and returning migrants were reintroduced. These measures were not very successful in the past, and have not been extremely successful during the pandemic, as companies could not hire. They may however become important in the aftermath of the pandemic, when companies may start hiring again.

The government also extended some support to medical staff, employees of care homes and other care workers. While Romania has always been understaffed in these important sectors, the advent of the pandemic and the unexpectedly high pressure put on these services caused a large increase in people quitting their jobs.[10] The health minister and president offered multiple monetary bonuses to doctors and medical workers and has also passed legislation allowing for residents and even medical students with no residency experience to attend to patients. Still, the medical system is heavily understaffed, especially in the Intensive Care Units, which were most needed for COVID-19 patients.[11]

10 https://www.dw.com/ro/covid-19-%C5%9Fi-medicii-%C5%9Fi-%C3%AEngrijitorii-au-nevoie-de-ajutor/a-56103071, accessed 09.04.2021.

11 https://adevarul.ro/news/societate/ministrul-sanatatii-lipsa-personalului-medical-problema-mai-mare-decat-cea-paturilor-ati-1_605792365163ec4271264b58/index.html, accessed 09.04.2021.

9.4 Industrial Policies

Industrial policy measures in Romania have always been characterised by a very heterogeneous structure, with lack of clarity as to what is prioritised or encouraged. The measures taken in response to the COVID-19 pandemic were of no exception here. The policy package pertaining to industrial policy also relied heavily on state-guarantees and the use of EU funds.

The sectors most crucial for dealing with the pandemic, health and education, were generally underfunded before and during the crisis. Healthcare spending in Romania as percentage of the GDP has always been at around half that of the EU-27, but these differences became even more pronounced during the pandemic. The Romanian medical system is chronically underfunded, relies heavily on emergency and in-patient care while its hospitals have been argued to be sub-par in terms of infrastructure (World Bank Group 2018). In addition to that, Romanian doctors have been migrating to better paid positions in Western countries for many years now, but this trend has accelerated during the COVID-19 pandemic, when vacancies in the Romanian healthcare system rose to one third of all medical positions (OECD and EU 2020). The same can be said about education. Romania has one of the highest early-school-leaving rates in the EU and one of the highest levels of child poverty in the world. At a moment when much of formal education had to be moved online, neither the government nor local authorities took measures to bridge the educational gap between haves and have-nots.

In terms of industrial support measures adopted during the COVID-19 pandemic, the main one was a large scheme of SME support through the *IMM INVEST* program of state guaranteed-loans and grants. Official data indicates that *IMM Invest* is to amount to RON 14 billion (ca. EUR 2.8 billion) or 1.3 per cent of GDP, while a sub-programme aimed at agricultural and food-producing SMEs has a ceiling of RON 1 billion (ca. EUR 203 million). Larger companies, on the other hand, with turnover of more than RON 20 million (around EUR 4 million) had to draw from a smaller pot of loan guarantees, administered by the country's only devel-

opment finance institution EximBank, of around RON 4 billion (ca. EUR 812 million) or 0.4 per cent of the GDP. While the overall scale of these guarantee schemes is quite limited, the qualities of the programme itself are comparatively generous as the SME programme covers up to 90 per cent of the value of the loan. Interest rate payments are subsidised by the state for a period of eight months.[12] The programme's implementation is, as yet, difficult to evaluate but an extension for 2021 covering similar amounts had been accepted by both the government and the European Commission.[13]

Much of the funding for non-sectoral state aid is expected to come from the EU's Operational Program for Competitiveness, which gives grants to SMEs without employees, grants for working capital, and investment grants. Romania also has a long running *de minimis* scheme in operation, which provides SMEs with modest grants (up to EUR 200,000 over three fiscal years), mainly to acquire equipment or access training.[14] The problem with most grant disbursements, including the ones from EU funds at times, is that they have traditionally been plagued with corruption.[15] In fact, it is almost a tradition for incoming ministers dealing out grants of any kind to accuse their predecessors of corruption, which greatly decreases the pace of grant distribution. In fact, the minister of economy at the time, in charge with a state-funded grant competition for SMEs, cancelled a previous grant competition and asked all participants to reapply.[16] Clearly, this type of decision decreases the speed of grant distribution.

An additional important external actor in the context of the

12 https://www.euractiv.ro/economic/comisia-europeana-aproba-schema-de-ajutor-de-stat-pentru-imm-uri-21904, accessed 12.04.2021.

13 https://www.digi24.ro/stiri/economie/guvernul-a-prelungit-imm-invest-si-imm-factor-in-2021-1465757, accessed 12.04.2021.

14 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A0802_2, accessed 07.02.2021.

15 https://www.agerpres.ro/economic-intern/2021/02/18/nasui-am-depus-o-plangere-penala-in-rem-la-dna-legata-de-suspiciuni-de-coruptie-in-cazul-granturilor-acordate-imm-urilor--663643, accessed 23.03.2021.

16 https://economedia.ro/exclusiv-ministrul-economiei-claudiu-nasui-anunta-ca-masura-3-se-reia-de-la-zero-cei-deja-inscrisi-pot-sa-reaplice-daca-au-reusit-sa-fie-eligibili-prima-oara-vor-fi-si-acum.html#.YFR9l51KhEZ, accessed 23.03.2021.

Romanian crisis response is the European Investment Bank (EIB). For example, a cooperation between the EIB, the European Investment Fund (EIF) and Deutsche Leasing Romania is aimed to make available EUR 370 million in leasing finance to Romanian companies. The EIB Group moreover provided more than EUR 800 million in finance targeted at investment into, among other things, infrastructure and higher education. At the time of writing, the announcement of these programmes has been quite recent, and their ultimate success is thus not discernible yet.

In terms of sectoral state aid, the Romanian government singled out the sectors most hit by the effects of the pandemic, especially those where there was some sort of strategic interest involved as well. The Orban cabinet pushed two state-aid schemes targeting the hospitality sector, one providing 100 per cent guarantees of vouchers offered by tourist agencies and accommodation structures, while the other one offering direct grants. Another sector that was targeted for state aid, and approved by the European Commission, is the air transport sector, where Romania granted over EUR 60 million to the private Blue Air carrier and around EUR 20 million to the public TAROM carrier. Finally, another sector which received more targeted aid has been the agricultural sector, especially for reasons of ensuring continuation of service. The implementation of aid schemes for the agricultural sectors has been gradual, thus making an assessment of its overall scale rather difficult. Certainly, the most generous scheme in that respect is a grant scheme financing farmers' working capital and investments, co-financed by the European Regional Development Fund and amounting to more than RON 4.5 billion (ca. EUR 935 million). An additional RON 229.4 million (ca. EUR 47.4 million) have been provided in grants to pig and poultry farmers specifically.

9.5 Fiscal and Monetary Policy

As mentioned previously, the size of the Romanian discretionary fiscal response was quite limited compared to other EU member states. According to the IMF Fiscal Policy Monitor, Romania's "above-the-line" fiscal measures, i.e. measures that come directly

from government expenses or reductions in revenue, are at 2.3 per cent of the GDP, with about 1.2 per cent of that going toward direct health spending. Below the line measures, i.e. loans and equities, including guarantees offered to firms and banks, were at a level of 3.2 per cent of the GDP (see Table A02.6 in the appendix). While the latter figure is also relatively low, it comes significantly closer to the regional average. The European Commission's EcFin fall 2020 report largely confirms the IMF figures (European Commision 2020).

The major conflict on spending between the left and right in Romania virtually guaranteed that the liberals would have a very restrained approach to the crisis, throwing in a very limited stimulus, prioritising some form of fiscal restraint and not increasing Romania's tax revenue base, which is currently more than 10 per cent below the EU average.[17] The narrow fiscal room for manoeuvre was aggravated by an additional ticking time bomb left behind by the centre-left majority: a staggering 40 per cent across-the-board hike in pensions and a net 30 per cent increase of public sector employees' and minimum wages. As Romania's budgetary deficit in 2019, before the full implementation of either of the two measures, was already close to 5 per cent, this left the incoming government with very limited fiscal space.

In light of these constraints, the government offered only limited fiscal relief, especially in the form of tax credit. It first suspended penalties on taxes owed by both citizens and businesses, to relieve or at least postpone some of the tax burdens. Another measure taken in cooperation with banks has been to offer postponement for loan payments for a period of one to nine months. No data exists on how many people used this facility. The already generous corporate tax regime was boosted with further rebates, including a 5 per cent decrease for major taxpayers, a 10 per cent rebate for medium and smaller taxpayers, while micro-enterprises also received a 10 per cent rebate on income tax. Further incentives were given to individual taxpayers to pay their obligation in time, with extremely generous rebates of up to 10 per cent of the owed amount. The hospitality sector, which was the mostly drasti-

17 https://ec.europa.eu/eurostat/databrowser/view/gov_10a_taxag/default/table?lang=en, accessed 19.04.2021.

cally affected by the pandemic, also received multiple tax exemptions.

The main issue to note is that the PNL government preferred to use fiscal policy to reduce expenses and, where possible, to renounce or reduce tax revenues. Repeatedly, the PNL prime minister and finance minister have stressed the necessity to reduce expenses.[18] While an orthodox fiscal strategy, this reduces the potential of intervention to fix pre-existing structural problems or issues of marginalisation.

In terms of monetary policies, the National Bank of Romania (BNR) cut its key monetary policy rate in three steps from 2.5 per cent to 1.5 per cent and purchased more than RON 5 billion (around 1.1 billion EUR) worth of government securities on the secondary market between April and August 2020 to support the financing of the real economy and the public sector. Moreover, the BNR directly engaged in repo operations to provide liquidity to financial institutions. As the Romanian central bank has, in the past, been considered a hallmark institution of economic orthodoxy which, during the financial crisis, dismissed any calls for 'new' monetary policy measures outright (Ban 2016), these developments can be seen as a breakthrough of sorts. Inflation is projected to have fallen to 2.5 per cent in 2020 mainly due to the sharp fall in oil prices and is set to remain contained throughout 2021 and 2022 (European Commission 2020). The main additional inflationary influence might be the fact that 2021 is the year that Romania liberalises the electricity market, which was expected to increase prices by about 26 per cent.[19] In addition, foreign exchange intervention has been undertaken to smoothen excessive volatility and stabilise the exchange rate in order to protect financial stability (see IMF 2020). The European Central Bank (ECB) provided a repo line of up to EUR 4.5 billion in euro liquidity which was successively extended through March 2022. In macroprudential terms, the BNR and the supervisory committee

18 https://www.agerpres.ro/politica/2021/03/04/orban-la-bns-anul-acesta-trebuie-sa-ne-incadram-in-deficit-de-7-presupune-extrem-de-multa-moderatie-in-cheltuieli--672136, accessed 31.03.2021.

19 https://www.zf.ro/companii/energie/scandalul-liberalizarii-pretului-la-energie-pretul-va-creste-cu-26-19833116, accessed 23.03.2021.

committed to similar measures as implemented in other countries in the region and eased conditions on loan restructuring, provisioning and capital requirements.

9.6 Conclusions

In general, the Romanian centre-right government that came to power just before the COVID-19 pandemic and stayed in office until late 2021 enacted its traditional policies, while oftentimes presenting their choices as innovative solutions for the pandemic-related crisis. This greatly helped the PNL government to enact its plans much faster than expected, relying on the general rally-around-the-flag support from the population. When the liberals took over a minority government in 2019, the prime minister took on the task of rolling back some of the PSD's policies and taking up a generally orthodox and fiscally restrained agenda. The initial response to this was mixed. The advent of the COVID-19 pandemic generated fear in the population and determined citizens to largely give *carte blanche* to the liberal government to mitigate the crisis' effects. With this support, even despite leading a minority government until December 2020, the PNL managed to ram through most of its pre-pandemic economic agenda, whilst now portraying it as an anti-crisis agenda. Their initial aim of reducing the national deficit was no longer attainable, due to the lockdown and general economic decline, but their policies did keep the deficit within some limits.

The Romanian crisis response can most accurately be categorised as a protection of the status quo without discernible efforts to either upgrade industrial capacities to withstand the crisis or to sustainably improve the population's resilience vis-à-vis negative shocks. The generosity of the measures that were implemented differs somewhat between policy fields. The social policy response has to be characterised as very limited: the country's *Kurzarbeit* scheme was more curbed in scope than in other countries in the region, and implemented measures only had a limited benefit for the most vulnerable parts of the population. Policies to incentivise employment of more vulnerable groups over the course of the

post-crisis recovery have been relatively unsuccessful. Especially before the general elections in late 2020, the PNL government gave in to pressures to increase spending on universalistic social assistance, with little influence on the situation of the very poor. The status quo protection in terms of social policy is, thus, particularistic rather than general.

The industrial policy response has been somewhat more generous (and general) and comprised several SME subsidies as well as loan guarantees. Still, the programmes' scale is quite limited especially in comparison to other countries in the region. Policies were mostly on the frugal side, aimed at reducing expenses or, in this case, increasing expenses as little as possible and using as much EU funding as possible. In fact, the government's Ministry of European Funds has been one of the most active ministries announcing policies during the pandemic, underpinning the country's primary objective of using European money to solve its problems. This approach was implemented by the PNL minister of European Funds and seems to have been taken even further by the new USR-PLUS Minister of European Funds, Cristian Ghinea, formerly an MEP in the European Parliament's Committee on Regional Development. Thus, employed policy means have been more on the orthodox side with industrial policy predominantly being enacted via taxation. More heterodox or Keynesian measures include the aforementioned *Kurzarbeit* scheme, loan guarantees as well as subsidies to SMEs and the hospitality sector. Notably, monetary and financial policies were relatively proactive especially with regards to liquidity provision by the central bank.

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MMANPIS. 2021b. 'Raport Privind Ajutor Social (Venit Minim Garantat) [Social Assistance Report (Guaranteed Minimum Income)]'. https://www.mmanpis.ro/wp-content/uploads/2021/03/VMG_Februarie_2021.pdf.

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Table 9.1 Policy summary Romania

Policy (sub-)areas		**Romania**
Social and labour market policy	Employment and income support	*Kurzarbeit* scheme amounting to 75 per cent of salary but capped at 75 per cent of average gross salary
		Subsidised wages for employers who employ those who lost their jobs due to the pandemic, were under the *Kurzarbeit* scheme, young people, and those who lost their job with a foreign company
		Loan and mortgage payment holiday
		Detachment of childcare allowance from school attendance so it is paid during the emergency measures
		Various measures in support of the elderly and those with disabilities
		Extension of tax filing deadlines and cancellation of late payment fees
	Housing	-
	Essential workers	Special allowance of EUR 500 a day for medical staff involved in the fight against Covid
		Special funds allocated as financial incentives for social workers
		Food and housing allowance for employees of residential care homes and assistance centres for the elderly, children, and adults.
	Labour migration	An estimate of 1 million Romanians returned in the country and the government offered limited subsidies to start businesses or be hired

Industry, trade and investment	Public investment	Subsidies to healthcare sector for the purchase of medical equipment
		VAT deferral for medical equipment
		EBRD loan to the largest regional water and wastewater company
	Statism	-
	State aid to domestic sector and foreign business	Several SME subsidies partly provided by the European Commission
		Guarantees and subsidised interest payments for loans to SMEs
		Extensions of deadlines for tax filing, cancellation of late payment fees and easing potential seizures
		Deferral of utility payments and rent for SMEs holding an emergency certificate
		Several financial support measures aimed at farmers, including direct subsidies, income support and regulatory measures; long term programme, to some degree, aimed at agricultural upgrading
	Trade and FDI	Export ban on medical equipment and medicine
Monetary and fiscal policy	Monetary and financial policy	Several rate cuts; uptake of repo operations to provide liquidity to banks; purchase of government bonds; repo line from the ECB
	Macroprudential	Relatively extensive easing of capital requirements and reporting standards;
	Fiscal	Prioritisation of deficit reduction, with deficit target for 2021 at 7 per cent
Governance and political institutions	Social partnership and interests	Conflicts with opposition aligned trade unions, especially police and subway, especially about wage hikes and extra-time payments
	Political institutions	Overhaul of the controversial internal investigation body for prosecutorial abuse

Chapter 10. Slovakia: Moderate but inclusive COVID-19 response

Jasper Simons

10.1 Introduction

As in most of East Central Europe, the first wave of the global COVID-19 crisis affected Slovakia comparatively mildly in terms of daily confirmed cases and, particularly, daily confirmed deaths per million inhabitants. The government responded swiftly by banning public events and calling the state of emergency a few days after the first case was observed in early March 2020. The second wave of infections materialised, as elsewhere, during the summer and followed after restrictions were relaxed. This time Slovakia witnessed a major increase in cases and deaths, though the upsurge in October-November 2020 was not as substantial as in, for instance, Czechia or Poland. A second major and fairly timely lockdown from October 1 seemingly prevented such an escalation. At this point, Slovakia made an international name for itself by conducting two rounds of large-scale testing (partly carried out by the military) — in October and November Slovakia tested respectively 3.6 and 2.4 million inhabitants, of a population of almost 5.5 million. Yet, from early December 2020, Slovakia negatively outperformed most of its regional peers (except Czechia), prompting the government to intensify restrictions and repeatedly prolong the national lockdown until early March 2021. Further complicating matters was addressing Slovakia's marginalised Roma population. Many segregated Roma settlements were tested and put entirely into quarantine. Because health and living conditions are in a poor state there, the government provided tar-

geted support with protective gear, water supply and information campaigns — although with notable problems.[1]

Addressing the adverse (socio)economic effects of the lockdowns, the government implemented several extensive and fairly inclusive policy packages to protect employment, consumption and enterprise. Most of these measures were intended to prevent major economic and social distress, yet rather little was done to bolster Slovakia's resilience to future (health) crises. Therefore, the Slovakian COVID-19 policy response is, in line with our conceptualisation, most adequately characterised as "egalitarian status quo".

10.2 Background

The COVID-19 virus arrived just days after Slovaks casted their ballots in the parliamentary elections of February 29. The outgoing Pellegrini cabinet led by the social democratic party Smer-SD declared the first state of emergency, awaiting the formation of the subsequent Matovič government by the parties Ordinary People and Independent Personalities (OL'aNO), We Are Family, Freedom and Solidarity (SaS) and For The People.[2] These elections marked the end of an era in which Smer-SD had governed Slovakia almost uninterruptedly for nearly fifteen years. In most elections of the previous two decades, socioeconomic issues and redistribution shaped campaigns and strongly influenced voting behaviour (Haughton and Rybář 2008; Malová and Učeň 2013; Spáč 2014), but now corruption and distrust of the establishment dominated. After the murder of journalist J. Kuciak and his fiancée in February 2018, Slovakians took to the streets to protest the per-

1 See for instance https://ec.europa.eu/info/sites/info/files/overview_of_covid19_and_roma_-_impact_-_measures_-_priorities_for_funding_-_23_04_2020.docx.pdf and https://reliefweb.int/sites/reliefweb.int/files/resources/Roma%20in%20the%20COVID-19%20crisis%20-%20An%20early%20warning%20from%20six%20EU%20Member%20States.pdf.

2 The Pellegrini government consisted of Smer-SD, SNS and Most-Híd. The Matovič cabinet consisted of three parties (except SaS) that had not been in government previously, with For The People founded by former president Kiska about half a year before the election. Further, after a leadership dispute with R. Fico, Pellegrini formed his own social democratic party HLAS-SD in June 2020 together with ten other former Smer-SD deputies.

vasive problems of corruption in the largest demonstrations since the regime change. This led to the resignation of prime minister R. Fico and other Smer-SD ministers as well as large-scale criminal investigations.[3] Within this political context, the parties that formed the Matovič government all conveyed a "populist" message to oust the establishment and realise accountability and governance in the interest of ordinary citizens. Yet their ideological background is diverse. OL'aNO and We Are Family are arguably more anti-elitist and traditionalist than SaS and For The People, and while economic positions are generally centrist, SaS has a right-liberalist agenda whereas We Are Family displays stronger socioeconomic protectionist elements (Havlík et al. 2020).

During Smer-SD's governments, economic policy was geared towards redistribution and weak economic nationalism. Despite Fico's repeated promises to build a "social state", Smer-SD's socioeconomic policies however were implemented haphazardly by means of so-called "social packages" consisting of ad hoc redistributive policies for its core constituents such as pensioners and lower incomes (Malová 2017). A resilient and extensive welfare state thus did not emerge. Moreover, the Fico cabinets implemented economic nationalist policies such as strategic company protectionism, pension demarketisation and a banking levy.[4] But Slovakia did not witness the nationalist interventionism in finance and industrial policy as observed in Hungary and Poland (Simons 2021).

Before the pandemic, Slovakia's macroeconomic position was favourable considering its decent growth and unemployment figures and respectable public finances. Moreover, data on Slovakia's economic structure and workforce shows that whereas its labour force is in regional terms fairly well-educated and productive, innovativeness falls short in terms of R&D expenditure (see

3 Smer-SD, which started losing electoral support since 2016, remained as the second largest party but in June 2020 it was split after a conflict between party leader R. Fico and prime minister P. Pellegrini. The latter founded the party Hlas-SD together with ten other former Smer-SD members of parliament.

4 The levy was adopted by the liberal-conservative Radičová government (2010-2011) yet the Fico government transformed the temporary tax into a permanent one and doubled its rate.

appendix 1.2 for vulnerability profiles). Regarding crisis resilience, the Slovak picture is mixed. As a eurozone member the country enjoyed negative long-term bond interest rates and ample liquidity support, but household mortgage debt accelerated in recent years to the highest intraregional position. Spending on social protection is medium on most indicators. The Slovak health care sector in particular receives comparatively large funds, as in Czechia, yet the availability of medical equipment and staff is moderate — one key issue here is that Slovakia displays the largest decrease of available medical personnel since the 1990s.[5] On the institutional side, Slovakia is roughly on the regional average in terms of (perceptions of) corruption and the quality of liberal-democratic institutions. Collective bargaining is characterised by weak union density and coverage rates, as elsewhere, and despite some improvements made by the Smer-SD governments to tripartite institutions the practice of social partnership remains largely characterised by "PR-corporatism" (Bernaciak 2013; Kahancová et al. 2017).

The COVID-19 crisis substantially affected Slovakia's previously robust economic position. Analysing the European Commission's (2020b) forecasts, 2020 meant a deep slump with a large public deficit of 9.6 per cent (only in the year 2000 did Slovakia record a higher deficit, of 12.6 per cent), and reaching 63.4 per cent, public debt rose to unprecedented levels in the country's post-communist history. The loss of output and enormous public measures to shield the economy from the severe contractionary effects pushed Slovakia for the first time over the EU's deficit and public debt limits. Slovakia is also unlikely to comply with these targets in the upcoming years. Based on this forecast, however, it also seems that growth will soon return. Moreover, the damage done to unemployment and public finances is relatively moderate if compared to the experience of some EU countries during the global financial crisis. The situation at the time of writing however urges for a less optimistic perception of future developments, par-

5 In 2019 the Slovakian health ministry conducted various strategic and budgetary reviews and proposed a number of essential reforms. A key plan to reconfigure (or stratify) the hospital system was however abandoned in late 2019, blocking much needed additional spending in the hospital infrastructure (European Commission 2020a, 59-60). The Matovič government indicated to introduce another reform proposal.

ticularly considering the ongoing lockdown and high number of daily confirmed cases as well as the arrival of a more infectious COVID-19 mutation from Britain. Uncertainty and low demand expectedly prevent new long-term investment (or foster disinvestment) by foreign (manufacturing) firms as highly important engines of growth and employment in Slovakia's export-led growth model.

10.3 Labour market and social policies

Ten days after its establishment, the Matovič government presented on March 31 2020 its *First Aid* package to protect employment and incomes. This initial response consisted of various measures for the self-employed and small and medium-sized enterprises (SMEs), most notably including i) a scheme covering eighty per cent of employees' salaries in companies that had to close due to health regulations, with a maximum limit of EUR 1,100 per month; ii) *Kurzarbeit* for indirectly affected companies keeping employment either by a) compensating up to 80 per cent of monthly wage costs with a maximum of EUR 880 (in October to EUR 1,100) or b) a flat rate contribution for the self-employed and employees in companies that recorded a drop in revenue (with a variable compensation scheme depending on revenue loss, maximum EUR 540 per employee, in October EUR 810) with a monthly maximum of 200,000 euro per company. Both measures are limited to a total of EUR 800,000 per company during the pandemic. Furthermore, employees in quarantine and parents at home with children under eleven years of age or caretakers of family members on sick leave could draw on a gross wage subsidy of 55 per cent, and unemployment benefits were extended to seven months from the previous six.[6] For the largest part these measures are covered by the European Social Fund. In addition, the government used the fiscal system to provide further relief, foremost including a deferral of payroll and income taxes for companies with a revenue loss of over forty per cent (with health and social

6 Sometimes the entire body of these and subsequent legislation and executive measures is referred to as Lex Corona, although more precisely it refers to Act 67/2020 Coll. on Certain Emergency Measures in Relation to the Spread of the Dangerous Contagious Human Disease COVID-19 and in the Judiciary amending certain laws.

security contributions for the month April waived) as well as of motor vehicle taxes and various VATs. Tax returns and payments for 2019 were delayed until one month after the pandemic is considered to have passed. Other employment protection included the right to work from home (and for companies to demand so) as well as a guarantee of retaining employment after absence.

Subsequently, in mid-April 2020, the government presented a second round of measures which extended the *Kurzarbeit* scheme to large companies (over 250 employees), after complaints from businesses and employer associations for not yet having addressed their dire need for such support.[7] Moreover, in the April-early May period the government increased the generosity of many of the aforementioned policies, for instance by lowering the thresholds of revenue losses of the secondly enumerated income support measure. Also, the monthly salary compensation of eighty per cent (up to EUR 1,100) was applied to staff of kindergartens, intended to retain about 22,000 jobs. Simultaneously, the government protected renters and mortgage owners (both residents and companies) by prohibiting the termination of lease agreements due to late payment and by allowing the deferral of payments on consumer loans and mortgages — which in June was followed by a rental subsidy. A rather more symbolic gesture was the announcement of a Mutual Assistance Fund for Slovaks in dire need, for which ministers, parliamentarians and private individuals voluntarily donate part of their salary — with Matovič (OL'aNO) indicating he would donate his entirely. Thereafter, in July the Matovič cabinet adopted a "social package" à la Smer-SD, worth about five hundred million euro for 2021, including a thirteenth month pension, a pregnancy allowance, a tax discount for families, employment support in kindergartens, and reduced medicine costs and free public travel for the elderly, children and disabled. Subsequently also compensation for first line workers, mostly in health care, was announced — a one-off bonus of EUR 300-500 on average per worker, in total amounting to EUR 50 million, later increased to seventy-seven million.

7 https://www.reuters.com/article/health-coronavirus-slovakia-business/update-1-slovak-government-to-expand-help-to-firms-hurt-by-coronavirus-idUSL5N2C252G.

Finally, in October 2020 the government extended these measures and increased generosity levels in its *First Aid Plus* package. The *Kurzarbeit* scheme for instance was prolonged to March 2021 and maximum rates increased from EUR 880 to EUR 1,100 and from EUR 540 to EUR 810 (see above). In the same framework, the so-called *SOS* subsidy of 300 euro per month for about 10,000 monthly applicants is introduced, which is intended for those having had to stop working due to the pandemic but who cannot draw on other income support. At the same time, in cooperation with and praised by employer organisations and others the cabinet decided to establish in 2022 a permanent *Kurzarbeit* scheme with a separate insurance fund independent from the country's Social Fund.[8] Finally, in terms of maintaining the employment positions of labour immigrants, Slovakia did not adopt specific regulations for occupations considered as essential. However, it made some exemptions for cross-border and seasonal workers, for instance extending time limits for short-term employment — although apart from manufacturing workers, the number of (official) key worker immigrants is almost nil in Slovakia.[9]

Irrespective of the extensiveness of these measures, the Slovakian trade union confederation KOZ SR already in late-March complained about the lack of consultation. In a declaration its leadership argued policies should not be 'aimed at maintaining profits, but at overcoming the crisis' and expressed its 'concern' about some coalition members for not having involved employee representatives.[10] As an ETUI report noted (Podvršič et al. 2020, 28), social partnership was circumvented and the Ministry of Finance designed the policies with only some input from Klub 500, a group representing the interests of Slovakia's five hundred largest companies. In fact, the report mentioned that unilateral changes to Labour Code regulations might have violated public law — although the government withdrew the measures after unions

8 https://www.azzz.sk/en/2020/07/turning-kurzarbeit-into-a-permanent-labour-market-instrument.

9 https://knowledge4policy.ec.europa.eu/publication/immigrant-key-workers-their-contribution-europes-covid-19-response_en.

10 https://www.kozsr.sk/2020/03/23/vyhlasenie-koz-sr-k-sposobu-komunikacie-o-moznych-opatreniach-na-eliminaciu-ekonomickych-a-socialnych-dopadov-sirenia-nakazy-covid-19/.

raised the legal issues. Employers too were dissatisfied with consultation, requesting the government to set up a committee of interest representatives. The subsequently established Economic Crisis Council does however only consist of independent experts, largely from Slovakia's prominent think-tanks.

10.4 Industrial policies

With the *First Aid* package and its subsequent extension, the government also directly responded to the financing needs of Slovak companies through bank guarantees and credits. Both were managed and insured by the Export-Import Bank, the Slovak Guarantee and Development Bank, and the Slovak Investment Holding. The state guaranteed up to eighty per cent of commercial loans with a maximum of EUR 1.8 million for the self-employed and SMEs, which were furthermore eligible for interest rate relief up to four per cent under the condition of maintaining employment. Also, these actors could make use of emergency loans of EUR 500,000 if they preserved employment and were not already in a bankruptcy procedure, again with a similar interest relief policy attached. In mid-May these were extended to large companies, just like the aforementioned employment measures. Moreover, the government introduced business protection policies such as temporary schemes against bankruptcies and enforcement proceedings.

The government also implemented some additional state aid policies for public institutions and entrepreneurs. In terms of sectoral aid to compensate for the lockdowns' adverse effects, the government allocated eleven million euro to protect cultural institutions and independent artists as well as one hundred million euro (maximum EUR 6,000 per company per month) to the entire tourism sector which includes, among others, restaurants, hotels and travel agencies — the latter under the condition that sales in April were above EUR 60,000 and the company had to close due to the pandemic restrictions. These measures came after considerable criticism from the culture and tourism sectors for being supported too little. Some analysts indeed indicated that

the employment support subsidies, especially after their extension to large companies, were particularly used by the (foreign dominated) automotive industry. Few Slovakian SMEs are said to have made use of such schemes and particularly sectors like tourism and culture are hit hardest without considerably using the assistance.[11]

In terms of investment for upgrading, not many policies are observed.[12] This is particularly worrisome because investment contracted in Slovakia in the second quarter of 2020 alone by almost a fifth as compared to 2019 — with two fifths of firms reducing their investment for 2020 (EIB 2020, 3). The Matovič government continued (and partially enhanced) some of the basic investments the previous administration initiated, such as to domestic research grants, various transportation and digital infrastructure projects and (new) hospitals (Ministry of Finance 2020b, 49, 67-68, 72-73). Moreover, the government decided to reallocate EUR 1.252 billion from EU funds and an additional EUR 100 million savings from the ESF to five policy areas, including job protection, and SMEs, health care and education. Some noteworthy but relatively small investments were made in this period. Among those are, for instance, EUR 80 million to support research and development and testing infrastructure connected to the pandemic, individual support schemes such as EUR three million to three Slovak companies for maintaining or increasing employment (largely) in research and development, and a smaller EUR 300,000 to over one hundred independent culture and arts projects in the Bratislava Region (shared by the region's budget and the Tatra Banka Foundation).[13] More substantially, while FDI investment slumped pre-pandemic (with repatriated profits increasing) (European Commission 2020a, 43), next to Porsche's announcement in 2019 to invest about EUR 250 million into the

11 https://spectator.sme.sk/c/22448617/coronavirus-assistance-did-not-go-to-the-hardest-hit-sector-of-business.html.

12 Prior to the pandemic, Slovakia introduced a R&D expenses super-deduction from 25 to 100 per cent in 2019 and from 100 to 200 per cent in 2020. In 2018 this tax relief amounted to EUR 25 million, used by 257 (mainly large) firms (Ministry of Finance 2020b, 27).

13 The companies are Mahle Behr Senica, BHS-Sonthofen and Charvát Strojárne.

production of electric vehicles, in November 2020 Volkswagen planned to invest roughly EUR 1 billion in the following five years in its existing plant (EBRD 2020, 2).[14]

Particularly in light of pre-existing problems, it seems productive upgrading or innovation through investment is unlikely to occur. Already before the pandemic the Commission indicated that Slovakia's convergence with the EU weakened, pointing out that not only further structural reforms are needed (given its worsening business environment) but also more and specific investment in infrastructure, (digital) R&D, human capital, and public institutions and services — with healthcare and education being in a particularly fragile state (European Commission 2020a). Specifically to health care, in mid-2020 the Commission recommended to combat the persisting challenges the pandemic had brought to light. Besides governance modernisation, further investments to increase resilience is explicitly mentioned, particularly for labour shortages and the supply of medical supplies and health infrastructure (European Commission 2020c, 4-5). Irrespective of present public investment being unambitious, the Matovič government largely seems to share the Commission's view in terms of reform objectives and priorities. Namely, the government outlined in its governing manifesto that education, labour market and allocative efficiency are the main structural challenges it seeks to address. Somewhat more concretely, the priority reform measures envisaged are, among others, concerned with, respectively, educational accreditation and teacher salaries, the labour market inclusion of disadvantaged groups, and (transparency in) public administration, the judiciary and simplified taxation (Ministry of Finance 2020b, 34-38).

Besides concrete but minor investment measures, the government presented its recovery plan *Modern and Successful Slovakia* within the framework of the circa 7.5 billion euro allocated to Slovakia from the EU's Next Generation Fund — total investments of this plan are estimated to be roughly EUR thirty billion, of which

14 The EBRD-report mentions EUR 500 million yet this sum relates, presumably, to the new Passat and Skoda Superb models. See https://www.reuters.com/article/us-volkswagen-slovakia-idUSKBN27W1K2.

twelve billion would come from the EU's structural funds.[15] The plan identifies eight strategic areas, which besides fiscal, labour market and governance reforms include the green economy, health care, education, science, research and innovation, and digitalisation. These areas respectively correspond roughly to problems of the transition to (household) carbon-neutrality, the weak capacity of health care services and staff shortages, the fragmented education system and ill maintained school buildings, shortages of qualified labour, and the inadequate (public) digital infrastructure. At this point the strategy remains in the planning phase, although in early January 2021 the Ministry of Education for instance already allocated about three million euro to digitalisation in primary schools. Note too that in the context of the EU's EFSI programme Slovakia as of February 2019 was granted a total of EUR 537 million in project financing — most of which goes into transport infrastructure.[16]

Rather than direct investment, on June 24 the government presented a package of 114 measures to improve the business environment, called *business stake*.[17] Most of these cancel various business regulations, many of which are concerned with auditing, health and safety, labour inspection, and the Social Insurance Act (e.g. information provision obligations). Beside deregulation, the package also includes tax deductions on fuel expenses and tax losses, the extension of pre-COVID-19 subsidy schemes for SMEs and micro-enterprises, a waiver of the banking levy for the second half of 2020 and its abolishment thereafter, and the cancellation of payment of higher than anticipated corporate income tax sums. Economy minister Sulík (SaS) who was largely responsible for the proposed policies — therefore the measures are sometimes called "Sulík's 100" — heralded the package upon presentation as 'the most beautiful day for Slovakia since the introduction of

15 The Ministry of Finance's Institute for Financial Policy assumed in a September 2020 forecast that Slovakia would draw about EUR 5.8 billion between 2022 and 2024. Growth would, partly by the plan, be accelerated to 3.9 and 4.3 per cent in 2022 and 2023 respectively (IFP 2020, 8).

16 https://ec.europa.eu/info/sites/info/files/slovakia-investment-plan-factsheet_en.pdf.

17 podnikateľské kilečko in Slovak.

the tax reform.'[18] Although no formal consultation mechanism was in place, business actors did file their proposals for the easing of business regulations and they were invited by Sulík to propose further adjustments for a second package. Regarding the banking levy, the financial sector and the Ministry of Finance signed a deal which stipulates that in exchange for the tax's abolition the banks commit to investing EUR 0.5 billion a year in government projects and one billion euro in loans to individuals and companies. Further, one billion euro from the previously collected money is to be invested into the Development Fund for Slovakia, according to prime minister Matovič.[19]

10.5 Fiscal and monetary policies

As seen above, the impact of these measures on the central government's deficit and debt has been almost unprecedented. In fact, in early May the government borrowed about EUR four billion in medium and long-term sovereign bonds (respectively at interest rates of 0.35 per cent and almost 1.1 per cent), which reportedly was both the largest issue in Slovakia's post-communist history and in the Central and Eastern European region.[20] Slovakia's revenue capacity is similar to its Visegrád peers, yet as a eurozone member the country has considerably higher credit ratings and lower borrowing costs (with only Czechia at a slightly worse but similar level). It benefits from the ECB's various programmes, such as PEPP and APP.[21] Nevertheless, in November, Fitch for instance partly downgraded Slovakia's ratings.[22] The adoption of the 2021 budget in early December did not lead to significant contestation or instability within the governing coalition but it evi-

18 https://spectator.sme.sk/c/22433375/sulik-sends-his-business-environment-boosting-measures-to-parliament.html.

19 https://spectator.sme.sk/c/22431433/controversial-bank-levy-will-change-banks-sign-deal-with-the-state.html.

20 https://e.dennikn.sk/1884447/slovensko-si-pozicalo-4-miliardy-eur-je-to-historicky-najvacsi-predaj-nasich-statnych-dlhopisov/?ref=list.

21 Similarly, the NBS implements macroprudential policies as adopted within the Eurosystem framework, such as the temporary lowering of the countercyclical capital buffer to one per cent.

22 https://www.fitchratings.com/research/sovereigns/slovakia-rating-action-report-06-11-2020.

dently served as ammunition for the opposition to politicise and criticise the government's approach. Prime minister Matovič however argued it was necessary and indicating the tough spot his government was in he called it 'a compromise of compromises', while finance minister E. Heger (OL'aNO) labelled it as 'a budget of rescue and responsibility'.[23]

The draft budgetary plan indicates slightly lower deficits and overall debt figures than the European Commission's (2020) forecasts but it does outline a structured approach to address budgetary inadequacies (Ministry of Finance 2020a).[24] The National Bank of Slovakia (NBS) was mildly positive but critical about the draft budget and publicly warned about similar figures as the Commission as well as the minimal estimated impact of the current fiscal stimulus. While the NBS reported that the government's crisis assistance alleviates the effects of the pandemic containment measures on the real economy and that it shares some of the government's prognoses for subsequent years, it also cautioned for pre-existing imbalances and highlighted the need for future budget consolidation (NBS 2020).[25]

10.6 Conclusions

Slovakia responded with relatively timely, extensive and regularly extended measures to address the COVID-19 crisis and the economic consequences of the restrictions to companies and households. As for other countries in the region and beyond, the pandemic proved a major challenge to policy-making and required extensive state capacity. In this regard it seems that despite various kinds of criticism to possibly level at the government, it acted to the best of its abilities, also considering the relative governing inexperience of many in the Matovič cabinet. Bringing the

23 https://spectator.sme.sk/c/22552223/a-huge-debt-and-deficit-the-threat-of-a-greek-road-what-is-the-new-budget-like.html.

24 See also the Commission's opinion on Slovakia's draft budgetary plan for 2021: https://ec.europa.eu/info/sites/info/files/economy-finance/opinion_on_dbp_slovakia.pdf.

25 https://spectator.sme.sk/c/22545439/the-public-finance-deficit-may-reach-10-per cent.html.

above together into our analysis of policy aims (ultimate end of policies) and policy means (how policy ends are met), the Slovak case displays the aim of "egalitarian status quo" with a mixture of Keynesian and orthodox means. The crisis response largely aimed at a generalised protection of employment, income and company survival, with policies albeit improvised largely serving their purpose. Slovakia also adopted various targeted (but perhaps not flawless) measures for the most vulnerable, such as the Roma. However, despite the general nature of measures such as the *Kurzarbeit*, there are some indications that the manufacturing sector is likely to have benefitted most from this protectionary state aid rather than the hardest hit tourism and cultural sectors, notwithstanding the later adoption of specific sectoral aid. The consequences of policies intended to be general may thus have been asymmetrical across industries. Furthermore, despite some public investment and direct support to companies, the extent of upgrading for domestic resilience has been limited. Besides the substantial additional investment expected to be made in context of the banking levy's abolition, presently investment largely remains in a planning phase, particularly in view of the *NextGenerationEU* programme. Intentions are clearly outlined, yet implementation is being awaited. Here the structural question of state capacity persists, particularly in terms of finances — an issue which might be considered inevitable in a crisis situation of historically unprecedented proportions, yet capacity is a structural problem in Slovakia's policy-making. The comparatively low absorption of EU funds, a key source of investment, remains an obstacle to upgrading.

Moving on, policy means are mostly of a Keynesian nature as they reflect debt-based countercyclical interventions to protect and maintain consumption and employment — e.g. with instruments of *Kurzarbeit*, parental and childcare benefits, extension of unemployment benefits, rental and mortgage support, emergency credits and deferral of taxes. Nevertheless, Slovakia also adopted clear orthodox measures through its large pro-business package intended to tackle "red tape and rigidities" through deregulation, flexibilisation and enhanced administrative efficiency. Finally, statist interventions are not observed, only insofar as the

use of the military for large-scale testing is concerned. Heterodox measures are absent too, partly because some policies considered under this rubric are absent for eurozone members (e.g. debt monetisation) and partly because some have in fact been annulled (i.e. banking levy).[26]

26 For a discussion on the ECB and monetisation https://www.bruegel.org/2020/04/monetisation-do-not-panic/.

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Table 10. 1 Policy summary Slovakia

<table>
<tr><th colspan="2">Policy (sub-)areas</th><th>Slovakia</th></tr>
<tr><td rowspan="12">Social and labour market policy</td><td rowspan="7">Employment and income support</td><td>Several income/employment support for employees, self-employed and others (5 measures including a new Kurzarbeit scheme) for reasons of mandatory closure or revenue loss. Some later extended to larger companies</td></tr>
<tr><td>Deferral income taxation</td></tr>
<tr><td>Extension of unemployment benefits by one month</td></tr>
<tr><td>Compensation of various added taxes including motor vehicles</td></tr>
<tr><td>Childcare/nursing allowances</td></tr>
<tr><td>Right to sickness benefits for quarantine</td></tr>
<tr><td>Travel support for disabled</td></tr>
<tr><td>Housing</td><td>Deferral of loans to consumers, including mortgages. Prohibition of unilateral termination of rental agreement for (non-) residents by landlord; rental subsidy for various incomes</td></tr>
<tr><td rowspan="2">Essential workers</td><td>Employment support for kindergartens</td></tr>
<tr><td>Income support for health care workers and others</td></tr>
<tr><td>Labour migration</td><td>Some minor rule changes</td></tr>
</table>

Industry, trade and investment	Public investment	Reallocation of EU funds to health care and education
		R&D and other support for health care and medicines related to pandemic
		Some education investment (e.g. digitalisation of primary schools)
	Statism	-
	State aid to domestic sector and foreign business	Bank and loan guarantees for SMEs and self-employed, subsequently extended to large companies
		Deferral of social security contributions
		Postponement of loan repayments for SMEs, subsequently extended to large companies; bankruptcy protection
		Cancellation or easing of various labour market regulations and social security rules to ease business environment (Business Stake package)
		Sectoral aid to culture, transportation, tourism (including restaurants etc.)
	Trade and FDI	Investment support for Volkswagen
Monetary and fiscal policy	Monetary and financial policy	ECB policy (e.g. PEPP and additional APP)
	Macroprudential	Within Eurosystem framework (e.g. temporary lowering of countercyclical capital buffer to 1 per cent)
	Fiscal	Large bond issue (EUR 4 billion)
		Suspension payment payroll taxes, (corporate) income taxation and VATs (see above) as well as increased deductions (e.g. fuel)
		Abolition of banking levy
Governance and political institutions	Social partnership and interests	Weak consultation, various complaints by employers and unions; establishment of Economic Crisis Council (independent experts)
	Political institutions	-

Chapter 11. Slovenia: Generalised social resilience yet protecting the status quo

Alen Toplišek

11.1 Background information

While Slovenia came out of the first wave of COVID-19 infections between March and April 2020 almost unscathed, it was one of the worst hit countries in the EU during the second wave. A general lockdown, which banned all non-essential service activities, was put into place on March 19, only allowing leaving home for work, essential food shopping or recreation reasons, with inter-municipal movement restricted from March 29 onwards. The automobile industry, an important sector in Slovenian export-oriented economy, and its suppliers started stopping production from March 17 onwards due to the bottlenecks in global supply chains. These early intervention measures ensured that the healthcare system was not overburdened during the first wave and was able to sustain the care for COVID-19 patients.

Before the start of the COVID-19 pandemic, former prime minister Marjan Šarec (List of Marjan Šarec, LMŠ-Alde) announced his resignation on January 27 2020, which led to the collapse of his centre-left minority government. By mid-March Janez Janša (Slovenian Democratic Party, SDS-EPP) formed a new coalition government with centre-right and liberal parties, which took over the handling of the crisis response. The first lockdown restrictions started to be eased from the end of April onwards and throughout May. The inter-municipal movement restrictions were lifted on April

30 and the services sector was allowed to open again on May 15, with kindergartens and schools re-opening on May 18. The disruptions in key supply chains of Slovenia's export industry and a fall in foreign demand meant that industrial production decreased by 22.8 per cent in April (Statistical Office of the Republic of Slovenia 2020). With tourism representing around 7 per cent of GDP, an 80 per cent drop in the number of tourists in the first half of 2020 had a demonstrable negative effect on the economy (EBRD 2020).

The government responded decisively with a large fiscal stimulus to support aggregate demand in the economy and preserve jobs, amounting to a budget deficit 9.3 per cent of GDP in 2020 (Government RS 2020a). The crisis measures included generous support for different social groups, as well as substantial support for businesses. At the same time, the Janša government used the crisis as an opportunity to centralise political power and attack political opponents and the media critical of the government. While the restarting of the economy increased business and consumer confidence in the summer, by September and October 2020 new restrictions were imposed in order to slow down a new wave of COVID-19 infections, which aborted nascent economic recovery. During the second wave, Slovenia had one of the highest cases and deaths rates per population in the EU. Although the new movement restrictions were successful in reducing the number of daily infections by early November, the infection rate remained high throughout November and December 2020, putting the healthcare system under considerable strain.

11.2. Labour market and social policies

The government implemented a generous, wide-ranging response to cover different socioeconomic groups in its social policy response. The first fiscal stimulus package was implemented on April 11 2020 and amounted to EUR 3 billion (6.7 per cent of GDP). The job support scheme relied on existing welfare state arrangements and financed 100 per cent of compensation for workers on waiting, i.e. 80 per cent of the worker's salary. The self-employed who declared themselves affected by the crisis received

EUR 350 in March 2020 if their income declined by at least 25 per cent compared to February, and they received equal amounts for April and May if their income declined by at least 50 per cent compared to February. The assistance for the self-employed also included the coverage of social security contributions by the state. Full-time students residing in Slovenia were entitled to EUR 150 one-off crisis allowance. Families with three children received an allowance of EUR 100 and families with four children or more, the allowance amounted to EUR 200, in addition to the child allowance they already receive. The most vulnerable pensioners were entitled to a one-off solidarity allowance: EUR 300 for pensions up to EUR 500, EUR 230 for pensions between EUR 501 and EUR 600, and EUR 130 for pensions between EUR 601 and EUR 700. Workers performing hazardous work and those with higher workloads in the private sector during the pandemic were entitled to an allowance of EUR 200. This allowance was funded by the employer from the funds relating to the exemption of pension insurance contribution payment. Symbolically, the first anti-corona stimulus package also decreased the basic wage of high officials by 30 per cent for until the end of the pandemic (April to mid-May 2020).

In the amendments to the first stimulus package, which came into effect on May 1 2020, the job support scheme was extended to workers in humanitarian and disability organisations, disabled employees, employees in financial and insurance businesses, the self-employed whose income fell by more than 10 per cent compared to 2019, religious employees, farmers and their family members above the age of 65 who do not receive a pension, as well as the jobless who lost their job during the pandemic and are not eligible for contributory unemployment benefits. The second stimulus package also included EUR 150 one-off solidarity allowance for all parents and recipients of child allowance on low incomes received a one-off solidarity allowance of 30 EUR per child. Job centres were authorised to summon workers in receipt of assistance to perform temporary and occasional work on farms during the pandemic. In May, the government introduced a co-financing programme of shorter working time for employers who are unable to provide 90 per cent of the work to at least 10 per

cent of their employees. The scheme was introduced as part of the third anti-corona package and was partially financed from EU funds.

In anticipation of the second wave of COVID-19 infections, the measures were extended until the end of September 2020, and from end of October 2020, the government re-introduced a monthly basic income for the self-employed (EUR 700 + EUR 400 for payment of social security contributions), farmers (EUR 940) and religious officials (EUR 700). The government also enhanced sick leave for workers who had to quarantine from September 1 onwards. A new major stimulus package, which was drafted in the government's anticipation of potential early elections, came into effect on December 31 2020. The seventh anti-crisis corona package again includes a one-off solidarity payment of EUR 130–300 for pensioners with pensions below the minimum wage, a one-off top-up payment of 200 EUR for workers with income below EUR 1,881, EUR 514 of temporary cash compensation for employees who have lost their job during the second wave of the pandemic, EUR 150 for students, one-time solidarity child allowance of EUR 50 per child, childcare allowance is increased by EUR 100 EUR, increased annual allowance of EUR 100–EUR 200 for larger families with three or more children, and a one-time solidarity allowance of EUR 500 for new-borns.

11.3 Industrial policies

The government initially made EUR 600 million available through already existing programmes of the Slovenian Export and Development Bank (SID) in loan guarantees and credit lines to support affected businesses, particularly SMEs. As part of the first anti-corona package, which was mostly oriented towards addressing the socioeconomic needs of workers and different vulnerable groups, the government exempted employers from paying pension and disability insurance contributions from mid-March to end of May 2020 and fully covered the amount of compensation for workers (i.e. 80 per cent of the worker's salary) who were on furlough. Employers were also exempt from paying social security contribu-

tions for workers on waiting. As part of the first stimulus package, companies also had the ability to defer repayment of loans for 12 months.

By the end of April 2020, the government adopted a more substantial economic relief package by providing EUR 2 billion worth of state guarantees through the SID Bank for loans granted by commercial banks to businesses between March and end of 2020. State guarantees were limited to 70 per cent of the loan principal for domestic large enterprises and 80 per cent of the loan principal for micro-enterprises and SMEs. Only domestic companies not facing insolvency procedures were eligible to apply for state guaranteed loans, the amount of the loan was limited to 10 per cent of the company's annual income and access to these new loans was not available to companies that have already applied for the deferral of payment of older loans under the previous package. As part of the economic relief package, the government also provided rent holidays to businesses renting premises that are owned by the state or local government for the duration of the pandemic. The government used the opportunity in this emergency piece of legislation to also restrict the participation of environmental NGOs in administrative procedures relating to the obtaining of building permits for new investment projects.

The third anti-corona package was presented as a recovery strategy for the economy and included more targeted help for different economic sectors. The government offered additional liquidity assistance to companies by providing favourable and fast loans in the amount of EUR 5,000–50,000 from the Slovenian Enterprise Fund (total amount of EUR 10 million) and the Slovenian Regional Development Fund (total amount of EUR 14.4 million). In order to provide a much needed boost to the stricken tourism sector, the government launched a scheme of tourist vouchers, worth around EUR 345 million, for all residents of Slovenia, with EUR 200 per adult and EUR 50 per minor. As part of this package, the government implemented the EU regulation on FDI screening mechanism, which protects certain sectors deemed as strategic from acquisition by foreign investors outside Slovenia. To accelerate already planned investments in 2020 and 2021, the government temporarily exempted investors from ful-

filling the number of jobs and amount of investment conditions for the receipt of state subsidies until June 30 2021 and further simplified procedures for obtaining building permits by narrowing the criteria for the participation of environmental NGOs and local initiatives in deliberations about potentially environmentally hazardous construction projects. This measure was intended to help the construction sector, which was badly hit by the pandemic and which according to the government will have positive spill-over effects on other service activities in the economy. To help the agriculture sector, the package included a reduction of rents for agricultural land managed by the Farmland and Forest Fund and the possibility to lease overgrown agricultural land free of charge for a period of ten years.

The fifth anti-corona package adopted in October 2020 included the compensation for lost income to public transport providers, who could not run their services between March 16 and May 11 that same year. It also included one-off funding for the provision of strategic material of medical protective equipment in public hospitals and co-financing for the purchase of medical equipment that will be used in the prevention and treatment of COVID-19 infections. The sixth anti-corona package adopted in November 2020 was more substantial, worth around EUR 1 billion, allowed for another round of loan deferrals until end of January 2021. It also covered compensation for lost income for farmers, public and private kindergartens with concession and care homes (for unused rooms with two beds). It introduced partial coverage of lost income of most affected businesses, with up to EUR 1,000 per employee for each month of lost income in the last quarter of the year and up to EUR 3 million in total for large companies.

In the seventh anti-corona package adopted in December 2020, worth around EUR 550 million, the amount of compensation increased to EUR 2,000 for each employee per month, if the company had more than 70 per cent less income from sales than the year before. The government also increased public investment for healthcare by increasing the hourly wage for healthcare workers and professional carers by at least 30 per cent, and up to 65 per cent for the healthcare workers working in high risk conditions, providing the financing of mass COVID-19 vaccination pro-

gramme and VAT exemption for medical equipment that is needed in the fight against COVID-19 until December 31 2022.

11.4 Fiscal and monetary policies

The government responded to the COVID-19 crisis with several substantial fiscal packages, together totalling more than 13 per cent of GDP, making it one of the most comprehensive fiscal responses in East Central Europe (EBRD 2020). The budget deficit for 2020 is forecasted to amount to EUR 4.2 billion or 9.3 per cent of GDP, with 6.9 per cent of GDP accounting for direct and indirect expenditure related to mitigating the effects of the COVID-19 pandemic. The government revenues for 2020 were 14.7 per cent lower than in the original version of the budget for 2020 due to lower consumption, lower employment and poorer business results during the pandemic(Government RS 2020b). The government debt level is projected to increase from 65.6 per cent of GDP in 2019 to 82.4 per cent in 2020 (EBRD 2020). Despite the worsening fiscal position, the Slovenian government's access to funding on financial markets remained favourable. In October 2020, Moody's upgraded Slovenia's credit rating to A3, despite the negative economic consequences during the COVID-19 crisis and rising public debt. In 2020, the government issued around EUR 6 billion worth of long-term government bonds at close to zero interest rates, whereas in January 2021, the government issued another EUR 1.75 billion worth of government bonds at a negative interest rate of -0.27 per cent (RTVSLO 2021a). The opposition centre-left party LMŠ, which was previously in government, warned against reckless borrowing to finance electoral sweeteners for the ruling party's voters, whereas the left-wing party Levica argued that while the government was planning to increase defence spending, there was not enough investment planned for long-term care, healthcare and the construction of public housing in the budget for the coming years.

Being a Eurozone member, Slovenia relied on the monetary policy decisions by the ECB. At the start of the pandemic in March 2020, the ECB accelerated the existing asset purchase

programme (APP) by buying additional assets of EUR 120 billion until end of 2020 and started a new pandemic asset purchase programme (PEPP), worth initially EUR 750 billion until end of 2020 and later extended to EUR 1,850 billion until end of March 2022, allowing the ECB to scale up and conduct asset purchases in a more flexible way. The ECB also provided cheaper credit facilities to banks through targeted longer-term refinancing operations (TLTROs) and a new non-targeted pandemic emergency longer-term refinancing operations (PETRLOs) at a negative interest rate. These actions by the ECB have eased the financing conditions for governments in order to be able to beef up their fiscal stimulus programmes and managed to stave off a repeat of a sovereign debt crisis for now. To provide further support to continuing lending by commercial banks, the ECB relaxed the capital buffer criteria and provided more flexibility when it comes to non-performing loans. As a precautionary measure, the ECB also instructed larger banks to suspend dividend payments and share buybacks between March and December 2020.

11.5 Conclusions

The set of policy responses by the government from March 2020 until January 2021 in response to the COVID-19 pandemic can be categorised as one protecting the status quo across a broad range of socioeconomic groups and economic sectors. The Janez Janša government, composed of the prime minister's right-wing populist SDS, centre-right catholic party New Slovenia (NSi), the centrist Modern Centre Party (SMC) and the Democratic Party of Pensioners of Slovenia (DeSUS), came to power right at the start of the pandemic in Slovenia in mid-March 2020, which might explain why the new coalition government may not have attempted to instigate any more innovative upgrading efforts, at least during the first year in office. Overall, the adopted measures mostly consisted of topping up existing welfare benefits and, like other EU governments, establishing a compensation scheme for workers on furlough, rather than making the socioeconomic fabric in Slovenia more resilient and upgrading the economy. Because of the close affiliation of NSi and SDS with the Slovenian catholic

church, religious officials were also eligible for the receipt of the basic monthly income, while students, who could not rely on temporary student work during the pandemic, were given only two small crisis transfers.

While the government's COVID-19 social policy response can generally be described as maintaining an egalitarian status quo, the government exploited the crisis context to implement measures that were driven by its particularistic interests and efforts to capture state institutions. The government restricted the participation of environmental NGOs in public deliberation on new investment projects in order to make the business environment more friendly for investors and distributed public procurement contracts for the purchase of protective equipment to businesses close to the government ministers (STA 2020). With the aim of centralising political power, the government is planning to merge different regulatory authorities into two 'super agencies'. Instead of the parliament, as it is the practice now, the government would be responsible for appointing the directors of the two agencies (Cirman et al. 2020). The government also threatened to withdraw funding from NGOs and the public press agency STA (The Slovenia Times 2020). These controversial actions were the main catalyst behind the anti-government protests that started in April 2020 and took place almost every Friday until November 2020.

The industrial policy means to support businesses and the economy were similar to those used in response to the 2008 financial crisis by the then centre-left Pahor government. For two years until 2010, when the crisis response in the EU turned to fiscal consolidation and neoliberal structural reforms, the Pahor government deployed Keynesian policy measures by extending social transfers and unemployment benefits, partial financing of shorter working time (Kurzarbeit scheme), extension of credit lines and state guarantees via the SID Bank, and state subsidies for investment and supporting employment. The government crisis response in 2020 was substantially bigger in proportion — a budget deficit of 5.8 per cent of GDP in 2009 compared to 9.3 per cent in 2020. An important difference between the two crisis responses was that the central bank's monetary policy was more accommodative, leading to a lower interest rate environment, and the financial sector was

in a healthier state with a lower share of non-performing loans. The right-wing orientation of the Janša government meant that the government was more ready to employ orthodox measures, such as lower taxation, freezing of the minimum wage and deregulation, while combining them with one-off Keynesian measures that supported domestic consumption, including crisis cash allowances, tourist vouchers, generous income support and extension of credit lines for businesses. The support for businesses was channelled through existing state institutions, so there was little innovation that would support upgrading of the state capacity during the pandemic. Although the government proposal to establish a national demographic fund to improve the sustainability of the state pension system might seem like an exception, the main purpose is to centralise the management of state assets and state-owned companies under the government's command and enable further privatisation of assets that are categorised as strategic.

While the main business association the Chamber of Commerce of Slovenia (GZS) was supportive of most government stimulus and liquidity measures, it was critical of the limited nature of the state loan guarantee scheme, which according to GZS did not offer sufficient support to affected businesses (GZS 2020). GZS proposed to increase the state guarantee of the loan principal from 80 per cent to 90 per cent for micro-enterprises and SMEs and up to 100 per cent for enterprises with annual income below EUR 1 million, however this demand has not been matched with government measures. During the second lockdown in November and December 2020, GZS was against the imposition of new restrictions measures and lobbied the government to re-open parts of the economy a week before Christmas, a demand which was ultimately granted. On the trade union side of social partnership, the Association of the Free Trade Unions of Slovenia (ZSSS) have been appealing to the government from the very beginning of the pandemic to consult with social partners on the different anti-corona packages as part of the Economic and Social Council. While there was understandably not enough time to negotiate the first anti-corona package with the social partners in March 2020, ZSSS' comments and amendments to the second anti-corona package have not been taken into account by the government.

Only by the time of the drafting of the third anti-corona package did the government reconvene the Economic and Social Council and managed to coordinate most of the measures in third anti-corona package with the social partners. Coordination between social partners became heated again in October 2020 at the time of adopting the fifth anti-corona package. ZSSS was opposing the government proposal that private health providers without a concession could also bid for public subsidies worth around EUR 42 million intended to reduce the waiting times for medical procedures (ZSSS 2020). Despite warnings that this would lead to increasing privatisation of the Slovenian healthcare system, the government still adopted this measure in the final bill. Whereas the threat of a general strike from ZSSS forced the government to ditch its plans to freeze the planned minimum wage increases for 2021, it took to the courts to reverse the government's measure that has enabled employers to unilaterally retire workers once they reach the age of 60.

Compared to 2019 and 2020, the government has also increased investment into the healthcare sector. While there were EUR 25 million worth of investments in healthcare in 2020, this is planned to increase to EUR 60 million worth of investments in 2021 to support the updating of the healthcare infrastructure (Erznožnik 2020). Most of these investments into healthcare infrastructure have already been planned before the COVID-19 pandemic. The increase in funding for the Ministry of Health from EUR 196 million to EUR 336 million for 2021 will go predominantly towards covering the crisis allowance for healthcare workers and compensating for the exemption of payment of social security contributions for workers on furlough (Levica 2020). The funding gap of EUR 230 million for the compulsory healthcare insurance will remain in 2021 (ZZZS 2020). In comparison with defence spending for the next few years, the government is planning to spend more on defence in the coming years, despite a EUR 2 billion investment gap in the Slovenian healthcare system. This shows that the government spending priorities in healthcare are targeted more at plugging the funding gaps rather than fundamentally re-organising the Slovenian healthcare system, which would necessitate eliminating the involvement of private health insur-

ance companies and establishing a sustainable source of funding for long term care.

The drafting of the national recovery plan to access the funds and loans from the EU Recovery Fund mostly happened behind closed doors without engagement with the opposition parties and NGOs. The first draft of the national recovery plan was finally presented to the opposition in a parliamentary session in February 2021. It consisted of 9 different priority areas, such as making labour markets more efficient, creating a knowledge society, supporting sustainable development and the green transition, digitalisation of the economy and providing the conditions for a supportive business environment. When the document was declassified at the beginning of March 2021, the opposition criticised the draft plan for focusing too much on the construction of roads and infrastructure and not enough on green mobility and fighting climate change. This was apparently also Commission's criticism of an initial draft plan, according to reports in the Slovenian media (RTVSLO 2021b), which prompted the government to revise the allocation of funds to satisfy the EU criteria for at least 37 per cent of the funds to go towards fighting climate change and 20 per cent towards digitalisation.

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Table 11.1 Policy summary Slovenia

Policy (sub-)areas		**Slovenia**
Social and labour market policy	Employment and income support	Income support for employees, the self-employed, farmers and religious officials
		Temporary cash compensation for newly unemployed during the pandemic
		Crisis cash allowances for lower income pensioners, low-income and larger families, new-borns and students
		Income top-up for workers performing hazardous work during the pandemic
		Enhanced sick leave for workers needing to self-isolate
		Increased childcare allowance
		Tourist vouchers
	Housing	Deferral of loans payments for households, exemption of payment for electricity distribution for households between March and May 2020 — 25 per cent lower electricity bills
	Essential workers	Income support for health care workers and others
	Labour migration	-

Industry, trade and investment	Public investment	Reallocation of EU funds to health care, education and digitalisation
		Additional cash for extra staff in social security centres, the purchase of medical equipment, private and public healthcare providers
		Local government provides free warm meals for children from low income families during distance learning
		Incentives for COVID-19 related R&D projects, such as vaccines, medical products and treatments
	Statism	-
	State aid to domestic sector and foreign business	Bank and loan guarantees for SMEs and large companies
		Liquidity assistance for businesses in the form of cheap loans
		Exemption from payment of social security contributions for workers on furlough
		Exemption from rent payments for businesses renting from the state or local government for the duration of the epidemic
		Postponement of loan repayments for businesses; bankruptcy protection
		Faster administrative procedures and deregulation to start planned investment
		Sectoral aid to tourism, transportation, social care and commercial airlines
		Partial compensation of lost income for most affected businesses
		Subsidisation of the minimum wage increase in 2021 for 6 months
	Trade and FDI	FDI screening mechanism for acquisitions over 10 per cent of shares in critical infrastructure and strategic sectors
Monetary and fiscal policy	Monetary and financial policy	ECB policy (e.g. PEPP and additional APP)
	Macroprudential	Within Eurosystem framework (e.g. temporary lowering of countercyclical capital buffer to 1 per cent)
	Fiscal	Large bond issues (EUR 7.75 billion)

Governance and political institutions	Social partnership and interests	Weak consultation, various complaints from trade unions
	Political institutions	Attempts to merge independent regulatory agencies and centralise government control, interference by government in reporting by public media

Chapter 12. Conclusions

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12.2 Mapping policy responses

The concluding section aims to summarise our empirical findings in the light of the theoretical framework elaborated in chapter 1. Having mapped socioeconomic vulnerability profiles in different ECE regions, we identified policies to increase resilience in the future, depending on specific strengths and weaknesses. In the social domain, these included bolstering of social safety nets and public investment, particularly in education and health. With respect to labour market policies, these included policies that retain workers and prevent mass emigration. This could be done via training, improving the labour conditions and increasing remuneration. Industrial vulnerabilities, owing to the structural constraints of “dependent” market economies, could be addressed by state-led industrial upgrading in key areas, such as pharmaceuticals and medical equipment. However, based on what we know about the political economy of economic reforms in ECE, our basic expectation was that, notwithstanding the harsh lessons of the global financial crisis (GFC), the COVID-19 crisis would produce more continuity than change. We also hypothesised that such a stasis would be produced by three (sets of) factors: political strategies of governments to retain power, low state capacity and insufficient learning from the GFC.

After a painstaking effort in data collection and analysis, our basic expectation has been confirmed. In most country cases, ECE governments have done their best to keep the economy floating *as it is*. Most national responses to the pandemic have

sought *protection* of the status quo rather than *upgrading.* Striking a fine balance between targeting specific sectors and groups vis-à-vis society as a whole, national responses have converged toward favouring already stronger (disfavouring already weaker) economic sectors and groups. Nevertheless, this is not to deny a significant variation among ECE's sub-regions and countries. In illiberal Hungary, state support has been particularistic to favour select sectors and groups with close links to the government. In line with our framework, this results in "*unequal status quo/capture"*. Only in Poland (and, partially, Lithuania) we have seen a strategic effort to alter the socioeconomic fabric via bold social and/or industrial policies.

However, a more nuanced picture emerges if we investigate "social" and "industrial" policies separately. More specifically, this implies state interventions in labour market and social policies, on the one hand, and trade, industrial, investment policies, on the other. This distinction has significant benefits, not only for a more nuanced mapping of the countries' socioeconomic responses, it also promises a more precise and controlled investigation of the role of the three hypothesised independent variables in driving these policy outcomes.

In regard to the "social" domain, country cases are distributed across all four quadrants of our policy analysis framework. We observe that Poland, Lithuania and Slovenia have aimed to address social vulnerabilities more than their regional peers. Poland, building on its legacy of particularistic welfare, has extended its already generous social support for families. Meanwhile, Polish income retention and welfare programmes for broader social groups remain relatively scarce. The combination of upgrading and particularism has produced modest *rebalancing*. By contrast, Lithuania and Slovenia adopted social benefit programmes that were geared toward broader social groups. There, the generalist focus on social upgrading has produced *generalised resilience* type of social policies. In Czechia, Slovakia and Estonia, "social" responses have mostly focused on effective income retention, resulting in *egalitarian status quo* that tends to favour job market insiders. Hungary, Latvia and Romania represent *unequal status quo/capture* policies that deliver, albeit for different reasons, nei-

ther social benefits, nor effective income substitution. In a similar vein, the Romanian response in social policy has mostly protected an unequal status quo, disfavouring the poorest groups of the population.

Table 12.1 Mapping social and labour market policies:

	Particularistic vs. generalised	
Upgrading	Rebalancing: PL	Generalised resilience: LT, SL
vs. **protection of status quo**	Unequal status quo / capture: HU, LV, RO	Equalitarian status quo: CZ, SK, EE

CZ = Czechia, EE = Estonia, HU = Hungary, LT = Lithuania, LV = Latvia, Pl = Poland; RO = Romania, SK = Slovakia, SL = Slovenia

The relatively increased, albeit varied, attention to social policy across ECE, however, has mostly fallen short of addressing the systemic vulnerabilities, regarding, notably, health care and social exclusion. Although most ECE countries did adopt targeted policies to support their health care systems and medical personnel, these measures have fallen short of substantially mitigating the deep institutionalised inequalities. Countries that have seen high emigration of medical staff before the pandemic, such as Latvia, Hungary and Romania, have been exposed particularly severely during the pandemic. The same applies to the vulnerabilities related to poverty and economic inequality that would require more systematic and comprehensive policy interventions. On the positive side, however, the pandemic has induced a reversal of the pattern of East-to-West emigration, established since the big-bang enlargement in 2004. Millions of ECE workers returned home, and many of them might have done it permanently (Vracic and Judah 2021).[1] This is good news not only for domestic industries desperate for skilled workers but also for the ECE employment, growth and sustainability of public finances more generally.

1 https://www.economist.com/europe/2021/01/28/how-the-pandemic-reversed-old-migration-patterns-in-europe. https://www.ft.com/content/de721f35-d228-48de-bd9f-d2168b16aba6. https://siteselection.com/issues/2021/mar/eastern-europe-reverse-migration-offers-the-eastern-bloc-a-booster-shot-of-talent.cfm?s=ra.

In terms of industrial policies, most governments converge towards the status quo, albeit representing a significant variation in their policy instruments. In the face of an unprecedented crisis, governments have acted boldly and ambitiously only to safeguard existing economic structures. Most support measures can be located between *unequal status capture* and *egalitarian status quo*. Following Peter Hall (1993), this represents a second order change, where policy instruments are adopted to pursue continuity in policy aims (see chapter 1). It is of yet unclear how the *NextGenerationEU* programme, where national "upgrading" proposals are still to be submitted and evaluated by the Commission will change this (Cinzia and Gros 2020; European Commission 2020; Kattami 2020; Schulz 2020).

In fact, only Poland (and, to some extent Lithuania) has made concerted efforts to *rebalance* the industrial fabric of the economy. Besides short-term measures to save jobs and companies, Poland stands out with ambitious medium-term goals to boost the digital and green components in the economy and decrease the dependence on foreign capital. By contrast, Hungarian and Slovenian responses — in line with the illiberal incumbents' power-seeking strategies — strike with deliberate attempt to channel economic aid to affiliated business groups, resulting in *unequal status quo / capture.* Without discernible efforts to either upgrade the existing industrial capacities, Romania is another example of protecting *unequal status quo*. Czechia and Slovakia have adopted *egalitarian status quo* packages, which, owning to their industrial structure, mostly favour foreign manufacturers. Meanwhile, support to the domestic SMEs have been relatively small and conditional. Similar *egalitarian status quo* policies have been adopted in the Baltics (with the partial exemption of Lithuania), where the governments have adopted significant support to low-value-added, but economically important, sectors — prominently, transport, construction and hospitality.

Table 12.2 Mapping industrial policies

	Particularistic vs. generalised	
Upgrading	Rebalancing: PL	Generalised resilience: (LT)
vs. **protection of status quo**	Unequal status quo / capture: LV, RO, HU, SL	Equalitarian status quo: CZ, SK, EE

CZ = Czechia, EE = Estonia, HU = Hungary, LT = Lithuania, LV = Latvia, Pl = Poland; RO = Romania, SK = Slovakia, SL = Slovenia

As regards policy means, ECE country responses mostly can be described as Keynesian, albeit representing a significant variation in ambition, with Romania at the low end, and Czech Republic and, surprisingly Latvia, at the high end. Following the responses in Europe's advanced economies, ECE governments have opted for large stimulus packages. Breaking the spell of fiscal orthodoxy adopted during the GFC — at least until the second wave of the pandemic — ECE governments have significantly expanded public spending. The state support has typically included direct subsidies and grants to specific sectors and social groups ("above-the-line" support) and loans and guarantees ("below-the-line" support) (IMF 2021). However, the spending on paper has not always materialised fully. "Below the line" instruments, in particular, cannot be taken for granted as they depend on the take-up by the groups targeted (Tran 2020).

In terms of monetary policy, we observe a divide between those central banks that have discretion in monetary policy and those that do not. Central banks in the Euro-area mostly relied on macro-prudential measures, notably, by adopting counter-cyclical easing of capital buffers (Nier and Olafsson 2020; Piroska, Gorelkina, and Johnson 2020). Meanwhile, non-euro member states have not hesitated to use their monetary policy powers to stimulate the economy. Thus, the Czech National Bank complemented the government's fiscal interventions by even lower interest rate cuts. In a similar vein, the National Bank of Romania adopted multiple rate cuts and purchased government securities

on the secondary market. Poland went further and not only cut the interest rate and adopted a quantitative easing programme. In order to change the long-term liquidity structure in the Polish banking sector and lower the interest rate on government debt, the Polish Central Bank also bought up government bonds on the secondary capital markets, including state-guaranteed bonds. These measures helped to provide favourable financing conditions for Polish social and economic support programmes. An active central bank has also played a vital role in Hungary, even though the Fidesz government broke with the post-GFC tradition and turned to foreign borrowing. The Hungarian Central Bank, building on the heterodox path in monetary policy adopted in the aftermath of the GFC (Király 2020; Matolcsy and Palotai 2016; Sebők, Makszin, and Simons 2021)and the selection process is not an open competition. In March 2013 the Minister of Finance, George Matolcsy was nominated as governor of the MNB. This chapter is a unique account of the first month of a populist illiberal central banking. When the new governor was nominated, dozens of former experts were fired or left the Hungarian Central Bank voluntarily. The atmosphere of fear and agony, the new obscure decision-taking mechanism led to the resignation of the author. The background of this step is described in detail.”,”collection-title”:”Financial and Monetary Policy Studies”,”container-title”:”Hungary and Other Emerging EU Countries in the Financial Storm: From Minor Turbulences to a Global Hurricane”,”event-place”:”-Cham”,”ISBN”:”978-3-030-49544-2”,”language”:”en”,”note”:”DOI: 10.1007/978-3-030-49544-2_11”,”page”:”123-129”,”publisher”:”Springer International Publishing”,”publisher-place”:”Cham”,”-source”:”Springer Link”,”title”:”Farewell to the Central Bank (2013, became a quasi-developmental bank, inter alia, boosting the market for government debt and re-launching the lending programme for domestic SMEs (Podvršič et al. 2020).

Related, this volume demonstrates that interventions in democracy go hand-in-hand with interventions in markets. The pandemic has provided ample opportunities to reinforce the authoritarian dimension, albeit specific shapes of power grabs vary from case to case (Bohle et al. n.d.). Established illiberal democracies, such as Hungary and Poland, stand out in regard to a shift toward het-

erodox and/or statist approaches in economic policy-making. In Hungary, a shift to statism took shape in new special taxes on finance and retail, and centralisation of tax revenue (transferred revenue from vehicle registration taxes from local to central level), and the outright militarisation of the economy. In Poland, the state effectively coordinated economic policy by mobilisation of state-owned companies and banks. In Slovenia, under the Janša coalition, the shift toward illiberalism materialised as state capture and regulatory centralisation, deliberately excluding liberal NGOs.

12.2 Explaining the outcomes

Overall, the socioeconomic responses to the pandemic represent a mixed picture. On the one hand, we do observe change in approach in social and labour market policy since the pandemic. This is the case even in “least likely” cases, such as the “neoliberal” Baltics. On the other hand — with the prominent exception of Poland — the ECE region represents a lack of upgrading in industrial policy. How to account for the continuity and change in policy responses in such extraordinary times? In line with the theoretical framework set out in the first chapter, we tentatively conclude that this variation can be explained by three (sets of) conditions. First, it is about incumbents’ power-seeking strategies, electorally and in relation to dominant business groups. Second, what matters is state capacity — whether domestic or borrowed — to devise new policy initiatives and effectively enforce them. The third contention is that policy responses are differentiated by learning dynamics since the GFC.

From the nine country cases studies we can observe that incumbents’ strategies to retain power, as different as they are across the region, play an important role in shaping socioeconomic responses to the pandemic. In each country case, the main sources of legitimacy of and support for the ruling coalitions, whether voters or businesses, fundamentally shape the character of the socioeconomic policies adopted. In countries where the legitimacy of incumbents mostly depends on the support of specific electoral groups, we can observe that state interventions tend

to cater to these groups via targeted social policy. For instance, in Slovenia, the incoming coalition of right-wing populist SDS, religious conservative and centrist parties, building on its legacy of the previous coalition, adopted a generous bundle of welfare policies that sought to retain the status quo in social policy. Not least, it benefitted pensioners and religious workers. However, against the backdrop of power consolidation via regulatory capture, the government's intervention in the economy only sought to maintain the status quo and reward groups close to power. In Poland, the conservative PiS-led coalition sought political legitimacy by further extending the generous family benefits programme, while also taking a strategic view on the development on ECEs largest economy in the medium and long term. Strikingly, attempts to lure voters with social policy even took place in the "neoliberal" Baltic countries, known for scant welfare states and a lack of politicisation of socioeconomic policy (Abdelal 2001; Bohle and Greskovits 2012). Prominently, seeking re-election in October 2020 (albeit unsuccessfully), the centre-left coalition in Lithuania adopted a relatively generous social package based on principles of solidarity (Aidukaite et al. 2020).

By contrast, in countries where the ruling coalition draws on support from specific business groups, state responses have focused on industrial, rather than social, policy. In Hungary, the government has continued pushing forward the "workfare" agenda, even amidst considerable social and economic strains. With long-standing links with domestic entrepreneurs (Eihmanis and Naczyk 2021; Scheiring 2020), the Fidesz establishment mostly provided generous benefits to various business groups, particularly, those affiliated with the government. Meanwhile, Hungarian income retention and social benefits remain negligible by regional standards. Elsewhere in the Visegrád, socioeconomic policy responses reflect two interacting forces: contentious politics over cultural issues, on the one hand, and an FDI-led growth model dominated by foreign car manufacturers, on the other. In Slovakia, the former coalition led by Fico, which had pursued selective redistributive policies in favour of its electoral base in the aftermath of the GFC, dissolved over charges of corruption. The incoming centre-right coalition kept welfare policies modest

but continued to favour workers via effective income retention programmes. Similar contestation in cultural terms that is geared to retain the status quo in economic terms can be observed in the paradigmatic "techno-populist" case of the Czech Republic (Bickerton and Accetti 2021; Buštíková and Guasti 2019).

Politicians' willingness to pursue specific policies have also been shaped by the underlying state capacities. In the nine country cases studies, we have observed that some countries have been more successful in designing and implementing policies that are appropriate to the socioeconomic realities than others. In the instances of heterodox and statist policy-making, in Hungary and Poland, the governments have effectively mobilised the capacities of various national agencies. As discussed above, they include not only national developmental institutions but also a "dependent" Central Bank (Piroska and Mérő 2021; Podvršič et al. 2020; Sebők, Makszin, and Simons 2021). Apparently moving in a similar illiberal direction, Slovenian leaders have used the emergency conditions of the pandemic as a window of opportunity to centralise state capacities. The mass-scale testing for COVID-19 in Slovakia — even its conception in the first place — might not have been possible without appropriate strategic and administrative capacities in place.

Against this backdrop, there is little surprise that in countries with relatively less prominent state capacities, notably, the Baltics and even more Romania policy aims (and tools) have remained conventional. Owing to their neoliberal legacies, in the Baltics the role of development banks in domestic policy-making has been modest (Mikheeva et al. 2021). Unlike their non-euro neighbours whose central banks widely used monetary policy tools to stimulate their economies, Latvia, Lithuania and Estonia mostly relied on modest macro-prudential policy measures. It is also hardly surprising that the Baltic country with, arguably, the lowest state capacity, Latvia, has continuously struggled to implement the already modest social, labour market and health policies. Having made an international name by implementing in a technocratic fashion the recommendations of International Organizations (IOs) (Eihmanis 2018), the authorities failed to effectively act — under conditions where international IO conditionality is not available and/or lifted — on their own.

Finally, in order to account for the changes in aims and tools since the GFC, we need to allow for a possibility of policy learning. This is particularly relevant regarding social and industrial upgrading. If governments of various partisan stripes pursued austerity after the GFC, how to explain that sometimes the same politicians have pursued Keynesianism and sometimes even have used the pandemic as an opportunity to change the underlying growth model? The nine country cases studied provide a vast variation in policy learning. The 2010 political shift in Hungary fundamentally changed the economic policy paradigm. However, while significantly consolidating power and catering to the key interests including foreign industrialists, the Fidesz government has fell short of upgrading the socioeconomic fabric. No learning in either social or industrial policy areas can be observed in Romania. In contrast, the conservative coalition in Poland, while following a similar path in regard to power seeking, had taken actual steps that go beyond mere rhetoric to shift away from the FDI-dominated growth model. Another major surprise has come from the least likely place — the "neoliberal" Baltics. Although many of the policies hardly stand out in a broader context, they do represent a departure from the policy paradigm as it was practiced in the aftermath of the GFC (Raudla et al. 2018; Raudla and Douglas 2020). As discussed above, Lithuanian governments adopted generous social policies based on principles of solidarity (Aidukaite et al. 2020). In a nutshell, countries that had already addressed vulnerabilities before the pandemic, have also been more willing to engage in longer-term planning during the pandemic. By contrast, countries with deep socioeconomic vulnerabilities have hesitated to use to the pandemic as a window of opportunity for social and industrial upgrading.

The empirical findings of this volume speak to a range of themes in contemporary Comparative Political Economy (CPE) literature. First, the ECE policy responses have indicated a marked variation in incumbents' attempts to address social imbalances. Some governments have used the relaxation of fiscal limits as an opportunity to increase social spending more than others. However, because social measures have mostly been motivated by a rationale to boost incumbents' legitimacy and political support,

they have mostly been oriented at short-term consumption (welfare benefits), falling short of altering social vulnerabilities in a longer term. Second, this volume engages with the burgeoning literature on industrial policy, as the state's role in actively steering markets has been embraced by nation states and international organizations alike (Bulfone 2020; Cherif and Hasanov 2019; European Commission 2020; Gurría 2013; Haffert 2019; Mazzucato 2018). We find that ECE industrial policy has mostly been targeted to the benefit of dominant stakeholders, with a vested interest to retain the status quo. Most incumbents have been reluctant to take a long-term view to economic development and pro-actively engage in industrial upgrading — even with loosened state-aid and fiscal restrictions on the part of the European Commission. This is hardly surprising, considering the lack of consensus among major stake-holders in the economies — a well-known political hurdle that prevent exiting the "middle-income trap" in less-than-advanced countries, including in ECE (Doner and Schneider 2016). On a more positive note, however, there is a promise that the lack of domestic ambition might to some degree be offset by the EU. Given that the Next Generation EU funds for economic recovery have largely been earmarked for green and digital transformations — and that, so far, the Commission has not hesitated to reject national spending plans that seek to retain the status quo — the is a promise for some change.

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Appendix

Appendix 1. Vulnerability indicators and profiles

Appendix 1.1. Brief rationale and description of the vulnerability indicators

Institutions:

We assume the more democratic and inclusive a polity, and the more transparent a country's political and economic institutions are, the better it will be able to devise policies that mitigate the social and economic costs of the crisis for a wide share of the population. Conversely the less democratic and inclusive, and the more corrupt a countries' political and economic institutions are, the more vulnerable it is to mismanaging the COVID crisis, and to catering to few and privileged interests only. We chose the following indicators:

- A democratic system makes governments more accountable to their voters. We use the V-Dem liberal democracy index (https://www.v-dem.net/en/analysis/CountryGraph/). Data for the V-Dem egalitarian index correlate closely with that of liberal democracy.
- Corruption is an indicator for state capacity, and for the likelihood of any support being hijacked by private interests. Data are from Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sdg_16_50&lang=en, based on Transparency International. (An alternative indicator for

state capacity would be a subset of the World Bank Governance Indicators (http://info.worldbank.org/governance/wgi/ Further, the 2019 OLAF report repots specific corruption on EU state aid).

- We use three indicators to gauge labour inclusion in the polity. A more encompassing inclusion allows for a socially balanced crisis response. The indicators are routine involvement of unions and employers in government decisions on social and economic policy, existence of a tripartite council concerning social and economic policy, and the union density rate. All indicators are taken from the ICTWSS database (https://www.ictwss.org/downloads)

Fiscal capacity

In general, the higher the fiscal capacity of a state, the more room for manoeuvre it has to counterbalance the negative effects of COVID-19. Fiscal capacity is also an important component of state capacity. We use three indicators to gauge fiscal capacity:

- General government revenue. Revenues collected directly determine what policies the state can (or cannot) implement. Data are from Eurostat: https://ec.europa.eu/eurostat/databrowser/view/tec00021/default/table?lang=ne
- Long term government yields indicate how expensive it is for a government to borrow. We chose this indicator over the more conventional indicator of public debt, as it better reflects the low interest environment we are currently in. Data are from Eurostat: https://ec.europa.eu/eurostat/databrowser/view/teimf050/default/table?lang=ne
- Credit ratings finally indicate how international market actors perceive a country's financial soundness. Data are from trading economics (https://tradingeconomics.com/country-list/rating?continent=europe).

Economic structure:

We use a number of indictors to capture the structure of the economy, both in its current form, and its potential in light of ongoing technological change. In general, we assume that a solid manufacturing basis in medium or high tech sectors makes countries less vulnerable to the COVID-19 crisis, and most likely also to future crises. Even if manufacturing in ECE (with the exception of Slovenia) means being part of global commodity chains (GCC), it would be hard for these small open and late coming economies to build up a domestic manufacturing base from scratch. Moreover, most of the GCCs in Eastern Europe are orchestrated by West German firms. As Germany is the strongest EU economy, which has the highest firepower to mitigate the effects of the COVID-19 crisis, Eastern Europe's manufacturing sector is likely to benefit from the recovery in Germany, as it was already the case during the GFC. In addition, the increasing rivalry with China might imply an onshoring of some of Western European manufacturing to Eastern Europe. We however also submit that a country needs to be able to counterbalance dependency by encompassing state owned enterprises in order to implement industrial policy aims.

Whereas a strong manufacturing base in mid or high-tech industries, and strong R&D capacities thus decrease vulnerabilities to the crisis, domestic oriented services and especially tourism increase vulnerabilities. Tourism and the catering industry are hit strongest by the crisis, and it is unlikely that tourism will recover and return to levels we have seen before the crisis. Further, a high share of the informal economy, which is typical for semiperipheral countries is a sign of high vulnerability. In terms of economic structure and output, the informal economy points to a very traditional economy. In terms of fiscal space, it decreases the tax base. Finally, for those working in the informal economy, they lack access to healthcare insurance or social security, institutionalised labour rights, and are unlikely to have savings that can carry them through an economic slump. We use the following indicators to evaluate the economic structure:

- Manufacturing as a share of GDP. This gives a sense of the overall significance of manufacturing. Source is Eurostat, (https://ec.europa.eu/eurostat/web/products-datasets/product?code=nama_10_a10)
- Share of employment in tourism industry. As argued above, dependency on tourism is a specific vulnerability during the COVID-19 crisis, and possibly after. Data are from Eurostat: (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tourism_industries_-_employment&oldid=445425)
- Labour productivity is closely linked to overall growth, competitiveness, and quality of human capital. Source is Eurostat(https://ec.europa.eu/eurostat/web/products-datasets/-/tesem160)
- R&D expenditure. Data are from Eurostat (https://ec.europa.eu/eurostat/web/products-datasets/-/tsc00001)
- The scope of state owned enterprises[1] gives an indication whether the state can marshal in enterprises in its efforts to combat the crisis, for instance through the development of medical equipment, pharmaceuticals; or for granting privileged access to credit etc. Data are from OECD: https://www.oecd.org/economy/reform/OECD-PMR-Economy%20-Wide%20Indicator%20values-2018.xlsx
- Share of the informal economy is based on IMF data: https://www.imf.org/en/Publications/WP/Issues/2018/01/25/Shadow-Economies-Around-the-World-What-Did-We-Learn-Over-the-Last-20-Years-45583

1 Scope of state owned enterprises is defined as: Pervasiveness of state ownership across 30 business sectors measured as the share of sectors in which the state controls at least one firm, see: https://tcdata360.worldbank.org/indicators/gim.state.entrp.scope?country=BRA&indicator=3309&countries=POL&viz=line_chart&years=1998,2013.

Workforce

The aim is to evaluate how vulnerable the workforce is to a downturn in the economic activity, to increasing pressure for working from home, and how prepared it is for the ongoing technological change.

- Self employment typically indicates precarious work conditions, implying limited access to social benefits and health insurance and collective working rights. Data are from the World Bank (https://data.worldbank.org/indicator/SL.EMP.SELF.ZS?locations=LT-HU-CZ-PL-SK-HR-RO-BG-SI-EE-LV&name_desc=true).
- Two indicators tackle the level of education, on the one hand the share of lowly educated people, and on the other hand the share of people with tertiary education. A high share of people with very low educational attainment is a vulnerability not only for the COVID crisis, but also in the longer run, as jobs are likely to rely ever more on educated workforce. A high share of the population in tertiary education should be considered an asset. Data are from Eurostat, and Eurostat.
- Digital skills have become very relevant during the COVID crisis, to master the challenges of home office, and digital education, and will be needed ever more in the future. Data are from Eurostat.
- Emigrant stocks point to the pervasiveness of brain drain that a country has experienced. Data are from the Worldbank: World Bank. 2019. Europe and Central Asia Economic Update, Fall 2019: Migration and Brain Drain. Washington, DC: World Bank, https://openknowledge.worldbank.org/handle/10986/32481 License: CC BY 3.0 IGO.", Table 2.1
- The employment rate is an indicator for how active the population is overall. A low employment rate makes parts of the population very vulnerable in the crisis, as people not employed will have little savings, and be

dependent on family or state support for survival. Data are from Eurostat, https://ec.europa.eu/eurostat/databrowser/bookmark/314116db-dac6-4487-951b-1dbd-9ba1535b?lang=en.

Healthcare system

East European healthcare systems have undergone tremendous pressures for reforms and cost savings in recent decades. This makes these countries particularly ill equipped when dealing with the pandemic. We gauge the preparedness of the healthcare sector by the following indicators:

- Health spending per GDP (Eurostat, Eurostat: https://ec.europa.eu/eurostat/statistics-explained/images/c/c1/SE_Cofog_web_2020_02_24.xlsx)
- Number of practicing nurses per 1000 inhabitant (Data: Eurostat: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Nurses_2018data_SE.PNG; OECD: https://data.oecd.org/healthres/nurses.htm#indicator-chart)
- Number of practicing/professionally active doctors per 1000 inhabitants (data: Eurostat: https://ec.europa.eu/eurostat/statistics-explained/pdfscache/37382.pdf)
- Doctors and nurses gained per 100k people (between 1997-2016). This indicator documents the inward (in two countries), and massive outward migration of doctors and nurses in recent decades (data: https://www.politico.eu/article/doctors-nurses-migration-health-care-crisis-workers-follow-the-money-european-commission-data/)
- Number of curative beds in hospitals per 1,000 inhabitants (data: Eurostat: https://ec.europa.eu/eurostat/statistics-explained/index.php/Healthcare_resource_statistics_-_beds)

Social protection: efforts and outcomes

This dimension looks at how much welfare states in the region are able to protect the populations against social hardship. In general we assume that the more generous the welfare states, the better they are able to protect the population. However, spending patterns also matter. The literature has identified many ECE countries as "pensioners welfare states" (Vanhuysse 2006), where most of social spending is geared towards the elderly, whereas little is spend on labour market policies, anti poor policies etc. Such a welfare state would be unable to protect the population adequately during the pandemics. Thus our indicators reflect generosity, spending patterns, and also outcomes.

- Social protection expenditure measures overall generosity (data: https://ec.europa.eu/eurostat/databrowser/view/tps00098/default/table?lang=en)
- The share of social protection expenditure that goes to pensions versus labour market expenditures is a crude indicator of the patterns of social spending (https://data.oecd.org/socialexp/social-spending.htm#indicator-chart)
- The level of the minimum wage indicates whether workers are protected from being poor despite having a job (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Minimum_wage_statistics)
- Mortgages per GDP is a proxy for the degree to which welfare has been privatised, (i.e the existence of an "asset based" welfare state, where individuals have to accumulate assets in order to protect themselves against risks of poverty and old age) (data source: European mortgage foundation)
- Finally housing deprivation and at risk of poverty and social exclusion indicate social protection outcomes. Housing deprivation can be a particular challenge during the pandemics, when people are confined to their homes (data: Eurostat https://ec.europa.eu/eurostat/databrowser/view/ilc_mdho06a$DV_658/default/table?lang=en), https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en)

Appendix 1.2: Vulnerability Profile

https://www.dropbox.com/s/zmovlgr542vhz8n/A01_2_Vulnerability-profile_data.xlsx?dl=0

Appendix 2: COVID-19 responses in East Central Europe - Background

Table A2.1: Weekly 14-day case incidence

Week	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
'20-11	2.76	0.40	0.33	1.12	10.45	12.79	1.63	0.47	0.73	0.70	1.01
'20-12	10.59	1.63	1.64	3.30	18.99	23.78	7.13	5.08	2.60	2.16	5.50
'20-13	23.67	4.18	4.58	5.04	24.38	38.22	18.08	16.82	4.24	8.39	16.39
'20-14	32.00	5.91	9.14	5.50	27.82	58.01	20.65	23.91	4.98	17.75	23.34
'20-15	29.57	10.35	12.68	7.44	22.66	47.40	14.42	20.69	4.73	23.49	21.86
'20-16	20.57	12.69	13.66	12.39	15.89	32.43	10.17	18.43	5.52	25.26	16.98
'20-17	13.21	11.52	13.02	11.67	9.64	25.13	8.44	13.46	8.99	24.50	10.60
'20-18	9.29	10.76	11.61	4.53	5.20	12.94	7.97	3.01	10.11	22.85	5.54
'20-19	6.72	7.18	11.54	1.43	2.53	7.22	6.66	1.47	9.57	22.38	3.87
'20-20	6.49	5.12	12.74	1.58	1.29	5.57	6.76	4.69	8.88	19.18	3.20
'20-21	7.80	4.83	14.04	0.95	0.43	6.32	5.66	5.15	6.73	14.01	1.40
'20-22	7.46	3.49	13.85	0.51	0.33	7.15	3.04	4.80	4.00	12.34	0.49
'20-23	6.27	2.19	13.79	0.35	0.76	8.73	2.15	3.26	4.23	12.46	0.07
'20-24	7.02	2.05	14.77	0.48	1.05	7.83	1.63	3.33	11.18	14.19	0.15
'20-25	8.14	1.35	14.15	1.08	1.67	3.16	1.21	3.01	16.95	18.45	1.72
'20-26	14.77	0.68	11.89	2.13	4.10	1.05	1.00	1.72	20.15	22.32	10.82
'20-27	18.86	0.83	10.59	3.24	8.59	0.90	0.68	1.36	26.40	25.50	20.55
'20-28	14.69	0.94	10.50	4.34	12.41	2.03	2.99	1.90	36.84	32.19	25.41
'20-29	13.37	1.54	10.94	3.94	11.74	2.11	3.56	3.44	43.06	43.90	29.64
'20-30	20.10	2.19	13.63	5.09	11.50	1.50	2.41	4.97	45.67	63.44	27.97
'20-31	26.70	2.07	17.89	6.69	11.16	4.36	2.67	6.37	46.35	81.37	22.33
'20-32	28.34	2.54	22.99	7.64	7.97	8.88	3.72	8.73	42.71	87.80	18.41
'20-33	30.04	3.90	25.79	10.22	11.26	8.35	4.14	10.95	34.67	89.37	32.31
'20-34	33.36	4.70	26.27	13.92	19.18	9.03	2.46	13.71	27.20	86.69	63.35
'20-35	40.72	10.70	26.83	17.85	21.42	13.77	3.72	16.39	26.25	84.45	87.53
'20-36	58.29	33.08	23.87	23.05	24.95	18.28	4.77	16.03	25.36	85.31	93.37
'20-37	110.54	64.98	19.18	30.34	39.94	22.80	4.25	16.50	24.86	86.45	84.03
'20-38	197.16	107.26	22.17	37.80	59.45	30.78	5.08	23.66	26.08	91.92	72.89
'20-39	265.66	127.00	34.72	64.97	78.63	39.43	10.59	37.58	30.74	99.22	65.65
'20-40	310.51	129.12	49.79	118.40	99.15	51.39	29.41	51.57	39.19	110.12	67.44
'20-41	491.05	141.88	101.39	197.38	158.17	50.04	52.11	62.17	62.53	168.71	104.55
'20-42	855.05	166.72	204.50	305.91	317.10	35.44	71.50	83.61	113.87	239.66	195.19
'20-43	1318.38	235.28	336.88	439.59	681.58	41.08	105.26	145.38	194.02	281.26	392.79
'20-44	1568.73	358.38	537.79	551.70	1073.78	68.25	140.80	293.41	353.39	342.88	638.59
'20-45	1465.61	544.70	771.21	579.93	1059.76	128.97	179.12	519.49	536.16	486.85	760.61

‘20-46	1107.84	662.02	877.47	491.42	925.30	199.55	231.22	681.40	635.58	587.82	806.05
‘20-47	724.10	646.64	829.61	380.11	961.28	270.81	263.41	799.83	671.22	594.42	898.71
‘20-48	557.39	713.09	716.85	347.50	970.44	332.21	336.95	950.83	636.34	575.59	1044.96
‘20-49	510.29	779.94	532.48	375.42	977.98	395.34	429.48	1037.51	569.68	491.14	1149.16
‘20-50	573.75	683.23	396.76	499.30	998.78	451.70	456.05	1205.97	531.73	438.72	1214.19
‘20-51	754.54	521.85	366.85	634.04	958.75	512.88	504.65	1376.15	428.31	402.08	1118.12
‘20-52	872.09	335.73	330.19	643.25	907.17	583.38	558.53	1336.68	262.78	321.25	723.48
‘20-53	1114.57	242.81	316.79	673.58	952.31	581.43	605.82	1198.96	170.55	254.21	424.58
‘21--1	1506.59	276.24	340.84	750.79	1163.53	601.74	693.93	1004.87	155.29	283.73	369.06
‘21--2	1357.20	244.15	305.51	664.84	1124.88	588.65	690.21	715.98	126.05	283.12	299.89
‘21--3	977.66	171.57	231.13	512.25	879.16	520.02	599.68	598.41	90.71	203.27	217.61
‘21-4	892.81	163.85	196.19	467.73	812.98	516.49	554.44	533.30	99.76	180.57	182.15
‘21-5	910.81	176.44	196.45	495.72	756.78	568.18	565.71	353.35	128.27	176.30	158.17
‘21-6	968.13	205.63	205.78	519.27	620.70	648.54	548.57	287.89	157.25	171.96	128.26
‘21-7	1120.03	286.51	226.78	526.01	513.73	703.47	509.47	261.05	186.03	179.48	111.97
‘21-8	1395.10	451.67	316.86	561.96	517.31	1038.47	496.94	302.82	249.72	211.06	131.56

Source: Data on 14-day Notification Rate of New COVID-19 Cases and Deaths, ECDC, 2021 (Available at: https://www.ecdc.europa.eu/en/publications-data/data-national-14-day-notification-rate-covid-19, accessed March 2021).

Table A2.2: Weekly excess mortality (per cent of ‘15-‘19 average)

Date	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
05/01/20	-2.55	-9.58	-0.68	-0.76	-5.12	-13.9	-6.37	-6.37	-18.36	-10.56	-16.21
12/01/20	-0.88	-11.39	-3.17	-4.21	-6.62	-4	-5.88	-8.42	-11.47	-9.33	-16
19/01/20	-6.03	-11.71	-5.63	-9.5	-7.9	-4.47	-16.61	-14.46	-13.59	-7.61	-18.93
26/01/20	-2.06	-9.83	-6.93	-4.6	-4.5	-10.61	-11	-13.96	-4.59	-8.27	-8.18
02/02/20	-1.52	-8.38	-3.49	-5.08	-2.75	-9.01	-10.17	-16.41	-0.89	-6.71	-8.45
09/02/20	-4.6	-14.12	-5.41	-7.74	-2.61	-19.01	-10.37	-15.07	1.56	-3.04	-8.72
16/02/20	-4.32	-7.82	-2.87	-0.62	8.01	0.12	-10.7	-7.67	0.67	-4.32	-4.32
23/02/20	-6.16	-12.51	-3.59	-8.57	-3.18	-1.36	-14.19	-21.11	-5.53	-7.81	-6.27
01/03/20	-4.33	-3.86	-3.61	-3.32	-6.44	-5.82	-17.51	-6.78	-4.27	-5.57	-8.61
08/03/20	-4.94	-7.36	-3.08	-1.34	3.18	-12.38	-20.05	-8.13	-9.68	-6.14	-6.4
15/03/20	-1.24	-4.88	-0.02	1.83	-1.23	5.38	-8.69	-5.66	-5.81	-6.31	-0.82
22/03/20	2.57	6.29	0.56	9.93	5.64	0.06	-10.24	-0.3	-5.5	-6	3.01
29/03/20	4.32	-0.02	0	0.25	-8.75	3.54	-11.58	3.64	-2.88	-2.11	8.13
05/04/20	7.41	0.57	0.42	6.4	-5.08	4.28	-2.68	-2.71	-4.24	-0.4	-3.38
12/04/20	5.79	3.79	2.43	-4.07	14.7	3.95	-1.98	1.65	-2.15	2.44	0.32
19/04/20	2.95	3.24	7.57	-4.76	8.47	4.54	-7.58	-0.28	-2.04	1.58	1.37
26/04/20	-3.75	-3.32	1.65	-3.15	3	14.31	-0.62	2.86	-3.46	3.41	-14.35
03/05/20	4.17	-4.94	4.47	-0.94	-2.53	6.43	1.25	2.67	-6.06	-1.35	-5.94
10/05/20	-1.23	-1.02	4.03	5.3	5.38	9.87	-16.3	-6	-5.78	2.13	-7.51
17/05/20	2.39	3.18	5.46	3.69	-0.51	-4.65	9.65	-0.57	5.91	4.64	-3.42
24/05/20	-3.4	-7.24	3.87	-0.79	14.25	-3	1.92	-7.91	-3.81	-2.97	-4.46
31/05/20	-5.02	-4.14	5.42	-4.26	-6.46	10.42	-5.7	-0.72	-7.92	-1.61	-8.61
07/06/20	9.13	5.96	8.35	4.32	-0.98	-2.72	-0.76	-1.08	0.19	5.11	2.46
14/06/20	1.36	-0.17	7.57	0.91	10.72	3.79	7.37	14.95	0.69	7.88	4.17
21/06/20	3.95	-7.96	3.26	-5.88	7.99	1.84	-2.87	6.92	-1.73	-2.87	-3.54

28/06/20	6.06	3.13	5.28	1.01	24.85	11.49	11.49	10.84	-2.75	5.17	2.13
05/07/20	6.52	4.28	9.09	4.76	4.74	3.36	3.43	-1.23	12.6	17.79	1.83
12/07/20	0.4	-4.73	4.43	3.29	-4.65	3.99	-7.96	-0.28	5.21	8.73	-3.31
19/07/20	-0.14	-7.38	6.22	-0.04	-0.68	4.81	-1.62	7.86	-1.39	6.84	-7.24
26/07/20	2.81	-9.6	3.36	-6.59	0.33	5.84	-1.37	0.68	0.67	6.55	-1.24
02/08/20	9.59	2.15	8.01	0.92	11.58	14.18	-2.22	2.38	10.17	18.21	10.36
09/08/20	7.09	1.19	10.87	10.45	5.55	3.42	4.02	0.97	6.49	17.52	-0.17
16/08/20	6.42	-1.8	15.15	0.12	11.11	6.4	5.31	6.54	6.12	17.34	-1.09
23/08/20	7.19	1.36	16	2.59	-2	-0.08	5.56	12.82	4.26	17.89	2.08
30/08/20	3.97	-3.91	4.3	7.11	-5.01	10.21	-1.79	1	6.43	18.58	6.45
06/09/20	4.24	-0.16	7.86	2.47	10.32	6.47	0	-1.86	7.28	15.81	5.37
13/09/20	6.42	2.67	10.96	8.89	9.44	-6.09	-4.77	9.46	5.21	15.02	11.65
20/09/20	11.83	6.69	14.24	-1.66	16.28	11.51	-3.76	2.07	1.96	15.32	4.9
27/09/20	18.37	4.4	10.81	5.13	0.74	15.84	0.04	8.32	2.19	11.19	2.43
04/10/20	13.38	6.65	10.41	14.72	8.68	6	-0.97	-0.92	2	11.4	10.8
11/10/20	23.59	4.53	21.37	8.6	7.91	-3.99	-3.14	5.38	4.85	18.29	-0.18
18/10/20	42.37	13.31	32.93	19.06	17.81	7.05	2.57	6.07	4.82	23.32	15.88
25/10/20	75.24	23.74	62.66	29.79	32.51	4.19	9.24	8.35	15.58	31.19	18.6
01/11/20	105.11	33.18	93.97	35.93	81.99	-8.63	1.26	-2.66	30.76	39.68	20.48
08/11/20	107.83	47.36	116.63	42.63	66.13	3.29	7.66	17.87	53.69	55.04	32.23
15/11/20	84.94	64.8	107.3	40.31	87.82	0.34	7.39	25.97	85.76	59.53	38.94
22/11/20	63.73	59.55	94.19	35.86	93.18	13.68	11.17	45.77	111.37	65.24	55.62
29/11/20	51.5	64.58	77.64	41.34	108.65	15.44	13.51	45.77	125.31	67.63	52.24
06/12/20	46.13	60.13	64.75	48.94	98.65	15.46	20.48	59.27	120.2	65.28	68.74
13/12/20	43.55	56.73	53.2	52.83	92.29	14.69	28.32	60.85	98.97	54.13	68.67
20/12/20	45.9	38.45	45.59	47.19	74.86	9.93	22.67	73.52	76.94	37.3	70.01
27/12/20	42.79	37.09	46.26	62.15	65.94	14.19	39.55	67.19	37.49	32.68	51.62
03/01/21	54.49	25.59	41.35		59.36	16.73	27.23	49.32	24.46		36.24
10/01/21	59.3	5.57	34.14		32.93	9.08	36.6	36.62	-1.07		10.03
17/01/21	56.79	3.38	27.89		31.74	12.24	31.58	34.39	-5.26		6.56
24/01/21	45.67	-3.51	28.05			21.52	24.76	17.61	-2.24		-0.02
31/01/21		-14.17	17.81			1.31	26.75	18.85	-4.07		-7.29
07/02/21			4.25				24.67	5.64	-6.33		
14/02/21			2.31				18.37	9.27	-1.03		
21/02/21								4.66	4.81		

Source: Roser, Max, Hannah Ritchie, Esteban Ortiz-Ospina and Joe Hasell (2020) - "Coronavirus Pandemic (COVID-19)". Published online at OurWorldInData.org. (Available at: https://ourworldindata.org/coronavirus; accessed March 2021).

Table A2.3: Monthly unemployment rate

	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
’19-1	2.1	3.5	3.8	5.9	4.5	4.4	6.8	6.0	4.9	5.2	7.3
’19-2	1.7	3.2	3.7	5.8	4.5	4.6	6.6	6.1	4.8	5.0	7.2
’19-3	2.0	3.3	3.6	5.8	4.4	4.5	6.4	6.1	4.6	4.9	7.0
’19-4	2.1	3.4	3.4	5.7	4.3	4.8	6.3	6.0	4.2	4.9	6.8
’19-5	2.1	3.3	3.3	5.7	4.3	5.0	6.3	6.1	4.1	4.8	6.7
’19-6	1.8	3.2	3.2	5.7	4.5	4.7	6.4	6.2	4.0	4.7	6.6
’19-7	2.1	3.4	3.2	5.7	4.8	4.3	6.3	6.4	4.1	4.8	6.6
’19-8	2.0	3.3	3.1	5.7	4.9	4.1	6.2	6.5	4.0	4.7	6.5
’19-9	2.1	3.4	3.1	5.7	4.7	4.3	6.0	6.5	4.1	5.0	6.4
’19-10	2.2	3.5	3.0	5.7	4.4	4.1	5.8	6.3	4.2	4.9	6.4
’19-11	2.1	3.5	3.0	5.7	4.1	4.2	6.0	6.5	4.3	4.9	6.4
’19-12	2.0	3.0	3.0	5.8	4.0	4.7	6.6	6.6	4.3	5.1	6.4
’20-1	2.0	3.6	3.0	6.0	4.1	5.2	7.2	6.2	4.4	5.0	6.0
’20-2	1.8	3.5	3.0	6.0	4.2	5.2	7.2	6.7	4.2	5.1	5.9
’20-3	1.9	3.4	2.9	6.0	4.4	5.3	7.4	7.2	4.5	5.6	6.5
’20-4	2.2	3.7	3.1	6.6	5.2	6.0	8.3	7.9	5.8	6.2	7.8
’20-5	2.4	4.9	3.2	6.7	5.4	7.0	8.6	8.6	5.9	6.4	8.6
’20-6	2.7	4.9	3.3	6.7	5.4	8.0	8.7	9.1	5.6	6.7	8.6
’20-7	2.9	4.3	3.4	7.0	5.2	7.7	8.7	9.4	5.3	6.3	8.5
’20-8	2.7	4.2	3.3	7.1	5.2	7.7	8.6	9.8	5.3	6.2	8.6
’20-9	2.8	4.3	3.2	7.0	5.1	7.6	8.4	9.9	5.3	6.1	8.6
’20-10	3.1	4.0	3.2	7.0	5.1	7.8	8.2	9.3	5.4	6.2	8.5
’20-11	3.0	4.3	3.2	7.1	5.3	7.7	8.1	9.2	5.4	6.3	8.5
’20-12	3.2	4.2	3.4	7.1	5.3	7.2	7.9	9.2	5.6	6.4	8.6

Source: Data browser - Unemployment by sex and age – monthly data, Eurostat, 2022 (Available at: https://ec.europa.eu/eurostat/databrowser/view/UNE_RT_M__custom_2046764/default/table?lang=en, accessed February 2022).

Table A2.4: Quarterly GDP growth (seasonally and calendar adjusted

Quarter	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
’19-1	0.9	1.7	1.9	0.9	0.5	1.6	1.1	1.4	4.0	1.7	1.8
’19-2	0.8	0.4	0.7	0.3	-0.3	0.4	-0.1	1.2	-0.5	0.9	1.1
’19-3	0.5	1.1	1.1	0.2	1.3	0.7	-0.5	0.2	-0.4	0.3	-0.5
’19-4	0.6	0.7	0.4	0.5	1.4	0.4	0.4	1.3	0.0	0.7	0.5
’20-1	-3.4	-0.5	0.1	-3.9	-4.6	-1.2	-1.1	1.1	-0.1	0.4	-0.1
’20-2	-8.9	-14.4	-9.2	-7.2	-9.4	-6.0	-7.3	-5.5	-7.2	-11.2	-14.2
’20-3	6.7	11.4	7.5	9.1	11.9	3.7	5.7	2.8	2.9	5.6	3.9
’20-4	0.8	1.8	-0.2	0.4	-0.2	2.5	1.4	1.8	1.8	3.8	4.0

Source: Data browser - GDP and main components (output, expenditure and income), Eurostat, 2022 (Available at: https://ec.europa.eu/eurostat/databrowser/view/NAMQ_10_GDP__custom_2046572/default/table?lang=en, accessed February 2022).

Table A2.5: Stringency index (weekly averages)

	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
2020-01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2020-02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2020-03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2020-04	2.38	0.00	3.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2020-05	14.29	0.00	5.56	2.78	0.00	0.00	1.19	0.00	0.00	3.57	3.57
2020-06	16.67	0.00	5.56	2.78	0.00	0.00	2.78	0.00	2.78	5.56	5.56
2020-07	16.67	0.00	5.56	2.78	0.00	0.00	2.78	0.00	7.54	5.56	5.56
2020-08	16.67	0.00	5.56	2.78	0.00	0.00	2.78	0.00	8.33	5.56	5.56
2020-09	17.86	3.18	8.73	2.78	0.00	0.00	5.95	6.35	13.89	15.08	15.08
2020-10	19.44	11.11	11.11	11.11	9.52	0.00	8.33	11.11	18.12	18.65	18.65
2020-11	46.96	40.74	36.24	45.77	24.87	16.67	28.57	26.19	35.58	49.20	49.20
2020-12	79.63	67.59	57.41	75.00	65.21	49.21	59.40	81.48	66.40	63.09	63.09
2020-13	82.41	70.77	57.41	75.00	78.70	63.49	65.74	81.48	73.15	77.64	77.64
2020-14	77.64	76.85	78.04	75.00	89.81	77.78	69.44	81.48	71.83	86.25	86.25
2020-15	74.07	76.85	82.54	83.60	89.81	77.78	69.44	83.86	71.30	87.04	87.04
2020-16	71.70	76.85	83.33	76.72	89.81	77.78	69.44	82.27	72.62	87.04	87.04
2020-17	60.72	76.85	83.33	73.68	86.11	77.78	69.44	81.48	73.15	87.04	87.04
2020-18	57.41	76.85	83.33	73.15	79.76	75.00	69.44	77.78	73.15	87.04	87.04
2020-19	57.41	66.67	83.33	73.15	75.00	71.43	69.44	77.78	64.42	87.04	87.04
2020-20	57.41	66.67	83.33	73.15	59.39	59.79	63.49	75.00	61.77	77.64	77.64
2020-21	57.41	66.67	83.33	73.15	44.91	50.00	61.11	71.30	59.65	75.00	75.00
2020-22	45.37	66.67	75.40	73.15	44.91	50.00	61.11	70.24	53.97	75.00	75.00
2020-23	41.67	61.90	55.29	56.35	40.01	41.67	61.11	50.93	44.44	54.23	54.23
2020-24	41.67	61.11	53.70	45.10	39.81	41.67	53.17	50.93	40.48	53.70	53.70
2020-25	40.74	58.33	50.93	39.95	39.81	41.67	50.00	35.05	37.70	44.32	44.32
2020-26	35.19	54.63	50.93	37.96	39.81	37.96	50.00	28.70	36.11	41.67	41.67
2020-27	36.38	54.63	50.93	37.96	39.81	26.72	50.00	25.93	36.11	41.67	41.67
2020-28	34.72	54.63	44.58	37.96	39.81	25.93	50.00	25.93	42.06	41.93	41.93
2020-29	35.51	54.63	39.81	37.96	39.81	25.93	50.00	25.93	36.11	42.59	42.59
2020-30	37.50	54.63	39.81	37.96	50.00	25.93	50.00	25.93	36.11	42.59	42.59
2020-31	36.11	54.63	39.81	35.19	50.00	23.55	49.21	28.70	38.49	42.59	42.59
2020-32	36.11	54.63	39.81	35.19	50.00	23.15	47.22	28.70	39.29	42.59	42.59
2020-33	36.11	49.86	39.81	34.79	50.00	23.15	47.22	28.70	38.89	42.59	42.59
2020-34	36.11	49.07	39.81	32.41	50.00	23.15	41.67	28.70	38.89	42.59	42.59
2020-35	36.11	49.07	39.81	32.41	50.00	23.15	41.67	28.70	38.89	42.59	42.59
2020-36	36.11	49.87	36.64	28.77	50.00	23.15	41.67	28.70	38.89	44.18	44.18
2020-37	38.49	46.03	36.11	29.89	50.00	23.15	41.67	28.70	38.89	45.37	45.37
2020-38	38.89	40.74	30.56	31.48	50.00	25.93	41.67	28.70	35.72	43.52	43.52
2020-39	38.89	40.74	23.15	31.48	50.00	25.93	37.04	28.70	35.19	43.52	43.52
2020-40	38.89	40.74	23.15	39.68	48.81	25.93	34.66	30.29	35.19	43.52	43.52
2020-41	48.15	40.74	27.12	47.22	47.22	25.93	32.41	38.82	35.19	44.44	44.44
2020-42	48.15	40.74	35.85	51.72	47.22	25.93	32.54	48.61	35.19	44.44	44.44
2020-43	59.26	40.74	45.17	64.81	64.81	25.93	34.92	48.61	36.97	53.17	53.17
2020-44	73.15	40.74	71.30	73.15	66.40	25.93	42.59	53.77	44.38	54.63	54.63
2020-45	73.15	52.91	72.36	73.15	68.52	25.93	44.97	57.07	48.15	54.63	54.63

2020-46	73.15	70.10	75.00	73.15	68.52	28.04	53.70	57.41	48.15	66.67	66.67
2020-47	70.50	72.22	75.00	69.44	68.52	37.96	53.70	57.41	48.15	76.85	76.85
2020-48	69.44	72.22	75.00	69.44	68.52	37.96	53.70	57.41	52.12	76.85	76.85
2020-49	65.21	72.22	75.00	69.44	68.52	37.96	53.70	57.41	53.70	76.85	76.85
2020-50	62.04	72.22	75.00	65.87	68.52	40.87	53.70	57.41	53.70	76.85	76.85
2020-51	63.63	72.22	75.00	60.32	68.52	55.56	54.76	69.31	54.50	76.85	76.85
2020-52	69.44	72.22	75.00	58.33	68.52	55.56	60.19	76.85	53.83	76.85	76.85
2020-53	69.44	72.22	76.39	58.33	68.52	55.56	62.04	76.85	53.70	76.85	76.85
2021-01	69.44	72.22	76.85	61.11	68.52	55.56	62.04	74.07	53.70	76.85	76.85
2021-02	69.44	72.22	75.00	65.87	70.11	55.56	59.00	74.07	53.70	76.85	76.85
2021-03	69.44	72.22	75.00	73.15	74.07	50.00	57.41	74.07	53.70	76.85	76.85
2021-04	69.44	72.22	71.30	73.15	72.48	44.44	57.41	70.37	53.70	76.85	76.85
2021-05	70.23	72.22	71.30	73.15	68.52	43.65	57.41	70.37	53.70	76.85	76.85
2021-06	72.22	72.22	71.30	73.15	69.58	41.93	57.41	70.37	53.70	76.85	76.85
2021-07	71.03	72.22	71.30	71.30	71.96	41.67	55.29	66.67	53.70	76.85	76.85
2021-08	69.44	72.22	71.30	71.30	61.11	41.67	56.48	66.67	53.70	64.42	64.42
2021-09	69.44	72.22	71.30	71.30	61.11	41.67	56.48	66.67	53.70	73.15	73.15
2021-10	69.44	72.22		71.30		41.67	56.48	66.67	53.70	73.15	73.15
2021-11							56.48			73.15	73.15

Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira. 2020. Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard.

Table A2.6: Fiscal response to Covid-19 crisis

	CZ	HU	PL	SK	SL	EE	LV	LT	BG	RO	HR
Above-the-line	5.44	4.00	7.68	3.80	5.35	3.49	7.93	4.68	4.39	2.27	2.59
Below-the-line	15.47	4.42	5.42	4.44	6.60	4.32	2.98	3.54	3.93	3.21	2.91

Source: Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF, 2021. (Available at: https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19, accessed March 2021).

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