Assessments on the Effects of the Coronavirus Pandemic on the Economies of the Central and South-East European Union Countries

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Abstract

The infectious diseases can easily cross state borders and threaten the economic stability nationally, regionally or globally, as demonstrated by HIV, SARS or the flu epidemics H1N1 and H5N1. However, forecasts show that COVID 19 will have a much more destructive impact on the economy than any other virus of the modern period. We analyzed the main consequences of the pandemic in the European Union countries of Central and South-Eastern Europe. A severe recession is expected in all these countries, since most of them have vulnerabilities due to either high budget deficits and negative current account balances or dependency on certain economic sectors.

Key words: coronavirus, pandemic, economic impact, depressions, macroeconomics
J.E.L. classification: E61, F43, O11

1. Introduction

The epidemic caused by the new type of coronavirus that appeared in January in the Chinese province Wuhan and spread in a short period of 3 months around the world seems to affect profoundly the global economic system. Coronavirus is certainly, first and foremost, a global health issue that directly concerns the human safety. However, the coronavirus epidemic has begun to have effects beyond human safety and global public health. The first and most important effect is undoubtedly felt in the global economy. It seems that the uncertainties about the problems such as how long this disease will spread, when it can be brought under control, the damage that will be caused from a human health perspective and whether the virus will reappear are already shaking the global economy.

More and more voices are saying that the coronavirus pandemic, which has virtually paralyzed the world economy, will plunge the world into a worse recession than the financial crisis of 2007-2011. Currently, the world economy has virtually stopped. When and how it will be restarted is a very difficult question for the specialists to answer, since it is difficult to assess when the health crisis will end.

Mankind has never faced this kind of economic crisis in the modern period. We have an economic crisis which is the consequence of the isolation measures needed to protect the health of the population. This makes the economic activity very difficult to forecast.

2. Literature review

Since the virus COVID 19 appeared recently (by the end of 2019), there were no studies before 2020 to analyze the effects of the pandemic caused by this virus. However, there are studies that analyzed the impact of infections on the economy. The experience gained in analyzing the effects of other viruses (HIV/ IDS, SARS, pandemic influenza) is very useful in assessing the implications that COVID 19 may have on the economy.

The virus HIV/AIDS can affect households, businesses and governments in terms of income, increased business costs, increased public spending on caring for and supporting sick people and their families. There are a number of studies on the macroeconomic impact of HIV/AIDS

(Cuddington, 1993; Cuddington et al., 1994; Cuddington and Hancock, 1994; Haacker, 2002; Over, 2002; Freire, 2004; World Bank, 2006).

The flu virus is much more contagious than HIV and the possibility of an epidemic is much higher. The Spanish flu from 1918-1919 is still present in some specialized research (Barry, 2004; Garrett, 2007; Correia, Luck, Verner, 2020). SARS, another coronavirus that had not been previously detected in humans, became aggressive in 2003, causing restrictions in many Chinese cities (Shannon and Willoughby, 2004; Peiris et al, 2004). SARS led to high overall costs, despite the relatively small number of deaths and limited area of spread; some countries where the virus did not manifested were economically affected (Lee and McKibbin, 2003; Chou at all, 2004).

The economic costs generated by the occurrence of various diseases were estimated by various studies. Schoenbaum (1987) analyzed the economic impact of influenza. Meltzer at al. (1999) estimated the economic impact of the flu pandemic in the United States. Bloom et al (2005) developed an economic model to estimate the economic impact of an avian influenza pandemic. Other studies evaluated the impact of global or local pandemics (Jonung, Roeger, 2006; Edwalds, 2007; Verikos at al, 2011).

There are also recent studies analyzing the impact of the SARS-COV-2 pandemic on the economy. To better understand the possible economic effects, McKibbin and Fernando (2020) developed scenarios of how the coronavirus pandemic may affect the economy in the future. Karabag (2020) analyzes the short- and long-term economic impact of this pandemic. Jorda et al (2020) study the possible long-term effects of pandemics, analyzing 15 major pandemics.

Also, there are some studies and reports of various international organizations (World Bank, OECD, European Commission) that try to assess the economic impact generated by this pandemic and the measures needed to revive the global economy.

3. Research methodology

The research methodology was based on the analysis and interpretation of data provided by some international institutions and governments, using the descriptive statistics. In this paper, we used the theoretical research, the analysis and the synthesis. The theoretical research consisted in the study of the specialized literature. We used the analysis to interpret the data provided by the International Monetary Fund and the European Commission, and the synthesis to present certain conclusions and to identify future opportunities for the analyzed countries.

4. Economic perspectives

It is very likely that this year the global economy will go through the worst recession since the great economic crisis of 1929-1933. Much worse results are possible than those in current forecasts. It all depends on how the epidemic will evolve, the length of the isolation period and the economic policies adopted by governments.

In its latest global perspective report, the International Monetary Fund also advanced three alternative developments to this base scenario.

- The first scenario is based on the hypothesis of an uncontrolled pandemic at the end of June, forcing countries to maintain draconian measures (population isolation, closing down non-essential businesses, drastically reduced air traffic, working from home) in the second half of 2020. The gross domestic product (GDP) would then contract by 6% instead of 3%.
- The second scenario predicts a second epidemic that will appear in 2021, but milder than this year's pandemic. The global economic recovery would then not be 5.8%, but around 0.8%.
- The third scenario is a mix of the first two: the prolongation of restrictions and the economic blockage, followed by a second epidemic that will take place in 2021. Instead of having an improvement in 2021, the recession will continue, with a contraction of about 2.2%.

This paper shows a comparative analysis of the effects generated by the coronavirus crisis in the countries of Central and Eastern Europe, member states of the European Union.

The crisis caused by the virus COVID 19 will have a severe impact on the economic activity. As a result of the pandemic, it is predicted (IMF, 2020) that the global economy will contract sharply by 3% in 2020, much more severely than during the 2008-2009 financial crisis. In the scenario where the pandemic slows down in the second half of 2020, the global economy is expected to grow by 5.8% in 2021, as the economic activity normalizes and governments' economic policies begin to take effect. However, there is extreme uncertainty related to the global economic growth, with the possibility of a much more unfavorable evolution.

All EU member states in Central and South-Eastern Europe are affected by the coronavirus pandemic, recording a large number of sick people and facing the risk of severe economic contraction. However, for most countries in this area, the contraction will be lower than in the euro area or throughout the European Union (except from Greece, Slovenia and Croatia, countries with a high share of tourism in GDP, the sector most affected by the COVID crisis -19).

Table no. 1. Real GDP, annual percent change, in Central and South- Eastern European Countries

	2009	**2019**	**Projections 2020**		**Projections 2021**	
			IMF*	**EU****	**IMF***	**EU****
European Union	-4.2	1.7	-7.1	-7.4	4.8	6.1
Euro area	-4.5	1.2	-7.5	-7.7	4.7	6.3
Romania	-5.5	4.1	-5.0	-6.0	3.9	4.2
Poland	2.8	4.1	-4.6	-4.3	4.2	4.1
Hungary	-6.7	4.9	-3.1	-7.0	4.2	6.0
Czech Republic	-4.8	2.6	-6.5	-6.2	7.5	5.0
Slovakia	-5.4	2.3	-6.2	-6.7	5.0	6.6
Slovenia	-7.5	2.4	-8.0	-7.0	5.4	6.7
Croatia	-7.4	2.9	-9.0	-9.1	4.9	7.5
Bulgaria	-3.4	3.4	-4.0	-7.2	6.0	6.0
Greece	-4.3	1.9	-10.0	-9.7	5.1	7.9

**April 2020, **May 2020.*
Source: World Economic Outlook Database, April 2020;
European Economic Forecast, Spring 2020, May 2020.

The forecasts of the IMF and the European Commission show, in general, a stronger contraction of the economies of the countries analyzed in 2020 compared to 2009. In 2020, the forecasts indicate a significant reduction in real GDP. There is a gap of about a month between the IMF and the European Commission's estimates, there are differences between the two forecasts, but most countries will face a worsening of economic development.

The global economic growth is expected to be 5.8% (IMF, 2020) in 2021, well above the normal trend, a percentage that reflects the normalization of the economic activity. For Central and Eastern European countries, the forecasts show a revival of the economies of the countries analyzed, the economic growth being comparable or even higher than that recorded in the European Union or the euro area.

The economic contraction affecting the economies worldwide could lead to a lower inflation. The slowdown of inflation could also be attributed to lower oil and energy prices. The uncertainty generated by the economic perspective could also contribute to this slowdown. We still cannot assess how long the COVID-19 crisis will last and what the consumers' approach will be after the pandemic is eradicated. Will it be an optimistic one, which will generate an increase in consumer spending and implicitly the economic growth and price increases or a more conservative one, consumers limiting their consumption to what is strictly necessary?

In the medium term, the inflation could be supported by the revival of the economic activity, rising wage incomes and profits.

The forecasts of the IMF and the European Commission indicate a decrease of the inflation rate in almost all countries analyzed in 2020 compared to the previous year (except for Poland). For the year 2021, giving the economic recovery, a slightly higher level than this year is anticipated. Romania, Poland and Hungary are the countries with the highest inflation in the area. The forecast made by the IMF in April 2020 is broadly the same as the one made in December. The European Commission did not significantly revise its inflation forecast between December 2019 and April 2020 either.

Table no. 2. Consumer Prices, annual averages, in Central and South-Eastern European Countries

	2009	2019	Projections 2020		Projections 2021	
			IMF*	EU**	IMF*	EU**
European Union	0.8	1.4	0.6	0.6	1.2	1.3
Euro area	0.3	1.2	0.2	0.2	1.0	1.1
Romania	5.6	3.8	2.2	2.5	1.5	3.1
Poland	3.5	2.3	3.2	2.5	2.6	2.8
Hungary	4.2	3.4	3.3	3.0	3.2	2.7
Czech Republic	1.0	2.9	2.1	2.3	2.0	1.9
Slovakia	0.9	2.8	1.1	1.9	1.4	1.1
Slovenia	0.8	1.6	0.4	0.5	1.4	1.2
Croatia	2.4	0.8	1.3	0.4	1.2	0.9
Bulgaria	2.5	2.5	1.0	1.1	1.0	1.1
Greece	1.3	0.5	-0.5	-0.6	1.0	0.5

**April 2020, **May 2020.*
Source: World Economic Outlook Database, April 2020.
European Economic Forecast, Spring 2020, May 2020.

The inflation forecasts do not take into account the measures that the states could take in the monetary and fiscal fields. The measures to support companies, through packages of rescue measures, could lead to a higher inflation next year.

The current account deficit can be a serious problem for the countries of Central and South-Eastern Europe. The crisis generated by the coronavirus pandemic could negatively influence the evolution of this macroeconomic imbalance in this area, amid the possible reduction of investments, the deterioration of the trade balance due to the cessation of activities (the most affected will be the countries where tourism has an important share in GDP - Greece, Croatia, Slovenia) and declining remittances (Romania, Poland). It is expected a worsening in terms of trade for the countries in this area compared to the developed countries of the European Union.

Table no. 3. Current Account Balance, percent of GDP, in Central and South-Eastern European Countries

	2009	2019	Projections 2020		Projections 2021	
			IMF*	EU**	IMF*	EU**
European Union	0.5	2.9	2.7	3.4	2.9	3.4
Euro area	-0.3	2.7	2.6	3.6	2.7	3.6
Romania	-4.7	-4.7	-5.5	-3.3	-4.7	-3.4
Poland	-4.1	0.5	0.2	0.6	0.1	0.9
Hungary	-1.0	-0.8	-0.1	1.3	-0.6	1.5
Czech Republic	-2.2	0.0	-2.1	-1.5	-0.9	-1.0
Slovakia	-3.4	-3.2	-3.0	-2.9	-2.4	-2.4
Slovenia	-1.1	6.6	0.8	6.8	3.2	6.8
Croatia	-4.7	2.9	-4.0	-1.7	-1.5	0.5
Bulgaria	-8.3	4.0	1.7	3.3	0.6	5.4
Greece	-10.9	-2.1	-6.5	0.1	-3.4	-1.2

**April 2020, **May 2020.*
Source: World Economic Outlook Database, April 2020.
European Economic Forecast, Spring 2020, May 2020.

The International Monetary Fund and the European Commission estimate a worrying deterioration of the current account deficit for Greece, Croatia and Slovenia this year, with a slight recovery in 2021. These countries are most exposed in the context of this pandemic due to the importance of tourism in their economies. In other countries, the current account balance may not lead to additional vulnerabilities.

Since the economic activity is interrupted in many sectors of activity, and the governments announce incentives for companies of tens or hundreds of billion euros, it is expected that the budget deficits will explode in 2020, especially that the European Union suspended the Stability and Growth Pact to allow the Member States to take more measures to limit the economic effects of the coronavirus pandemic.

Table no. 4. Government deficit/surplus, percent of GDP, in Central and South-Eastern European countries

	2009	2019	Projections 2020		Projections 2021	
			IMF*	EU**	IMF*	EU**
European Union	-6.0	-0.6	-7.2	-3.6	-3.4	-3.6
Euro area	-6.2	-0.7	-7.5	-3.5	-3.6	-3.8
Romania	-6.9	-4.6	-8.9	-9.2	-7.0	-11.4
Poland	-7.3	-0.7	-6.7	-9.5	-3.5	-3.8
Hungary	-4.6	-2.0	-3.0	-5.2	-1.6	-4.0
Czech Republic	-5.4	-0.3	-4.7	-6.7	-1.7	-4.0
Slovakia	-8.1	-1.3	-5.9	-8.5	-2.8	-4.2
Slovenia	-5.8	0.5	-6.6	-7.2	-2.1	-2.1
Croatia	-6.0	0.0	-6.3	-7.1	-2.6	-2.2
Bulgaria	-0.9	-1.0	-2.9	-2.8	-1.4	-1.8
Greece	-15.1	0.4	-9.0	-6.4	-7.9	-2.1

*April 2020, **May 2020.
Source: World Economic Outlook Database, April 2020.
European Economic Forecast, Spring 2020, May 2020.

The most affected countries seem to be Greece, Slovenia and Croatia, countries that, due to the fact that in 2020 the tourist season is compromised, will register a significant increase in the budget deficit this year, compared to the previous year. Romania may face a special situation since significant increases in pensions and salaries are expected on September 1, 2020. The estimate in the table above takes into account these increases, but they will probably be extended or canceled by the government, a fact leading to a reasonable budget deficit for our country as well.

According to estimates of the IMF and the European Commission, Poland will face a significant increase in the budget deficit, although the government of this country had proposed a balanced budget for 2020. Compared to Poland which announced measures to support the economy of 2.6% of GDP and tax cuts or postponements, the forecasts for Hungary and Bulgaria, which were reserved in launching rescue packages, show a moderate increase in the budget deficit in 2020, and for 2021 a return close to the 2019 level.

The coronavirus pandemic will lead to job losses for a large number of people. The restrictive measures introduced to limit the spread of the pandemic have affected the economic activity and the unemployment rate is expected to rise significantly in the coming period, even if the countries have taken action to preserve jobs.

Table no. 5. Unemployment rate, percent of total labor force, in Central and South-Eastern European Countries

	2009	2019	Projections 2020		Projections 2021	
			IMF*	EU**	IMF*	EU**
European Union	-	6.7	-	9.0	-	7.9
Euro area	9.7	7.6	10.4	9.6	8.9	8.6
Romania	6.3	3.9	10.1	6.5	6.0	5.4
Poland	8.2	3.3	9.9	7.5	8.0	5.3
Hungary	10.0	3.4	5.4	7.0	4.0	6.1
Czech Republic	6.7	2.0	7.5	5.0	6.0	4.2
Slovakia	12.1	5.8	8.0	8.8	7.4	7.1
Slovenia	5.9	4.6	9.0	7.0	6.0	5.1
Croatia	14.5	7.8	11.5	10.2	8.0	7.4
Bulgaria	6.9	4.2	8.0	7.0	4.5	5.8
Greece	9.6	17.3	22.3	19.9	19.0	16.6

**April 2020, **May 2020.*
Source: World Economic Outlook Database, April 2020.
European Economic Forecast, Spring 2020, May 2020.

The economic agents in all countries face serious challenges, especially those in the hospitality and tourism industry, being threatened by a significant drop in income, the danger of insolvency, with immediate consequences in terms of jobs.

The IMF forecasts that the unemployment rate will exceed the 2009 values in most European Union countries. Among the countries of Central and South-Eastern Europe, the most affected in 2020 will be Greece, Romania, Poland and Croatia. In 2021, the forecasts show a slight recovery, but at values much higher than those recorded in 2019.

5. Conclusions

It is very difficult to estimate the evolution of the economic activity both globally and regionally. The growth perspectives of the economies in the analyzed area are very uncertain. Will the virus be eradicated and the economy recover in the third quarter of 2020 or will it appear with the same force in the fourth quarter? How will the countries react if the virus has the same intensity? Will there be another lockdown period? These are questions that policymakers are certainly looking answers for. Also, the recovery of the economy will depend on the measures that governments will take. Our opinion is that the countries of Central and South-Eastern Europe are much more vulnerable than the Western developed ones, because they will not afford consistent rescue packages. In addition, many of them depend on certain sectors (tourism, car construction) which are currently stopped and we cannot anticipate their evolution. It is clear that the risk of not being able to achieve the optimistic perspectives of the IMF for 2021 is very high.

A major problem that countries around the world may face in the context of the coronavirus pandemic is deflation. In addition to the recession, the crisis also means a reduction in the consumption of goods, since many people will lose their jobs or their incomes will decrease. Deflation is a possible scenario especially in the countries of Central and South-Eastern Europe that have adopted the single European currency (Greece will be the country with the highest deflationary risk). In the other countries that have not yet given up the national currency, the risk is minimal, since in some of these countries (Romania, Hungary, Poland) there were inflationary pressures from previous years, which will probably manifest in 2020 and 2021. The countries in this region may take advantage from oil and industrial metals price reduction, since all of these countries are net importers of such products.

Most countries in Central and South-Eastern Europe had a positive current account balance in 2019, but there are also countries (Romania, Slovakia, Greece) with high deficits at the beginning of the coronavirus crisis. Given the economic crisis, the decrease of foreign investments, the significant decrease of business in some sectors (transport, tourism), the current account balance will decrease or become negative in all countries in the analyzed area and we will witness the worsening of trade terms compared to the Western Europe developed countries. However, the experience of the 2009-2011 crisis shows that the countries in this area can benefit from a crisis, having the comparative advantage of a cheaper labor force and the production of cheaper goods that may lead to export increase.

An important risk that the countries of Central and South-Eastern Europe will have to manage in the next period will be the increase of the budget deficits, in a period when the levels of public debts are very high in many countries. The reduction of budget revenues due to the reduction of the economic activity, as well as the increase of budget expenditures as a result of additional allocations to the health sector and to support the private sector will lead to high budget deficits, generating sovereign rating downgrades and a sharp rise in the costs of financing the public debt. The European Union should reconsider the fiscal rules, in the sense of simplifying them, mitigating the pro-cyclical application and protecting investments.

The unemployment will be a major problem for the Central and South-Eastern European countries, for at least the next two years. One cause will obviously be the loss of jobs, added to another problem: the return of a significant number of citizens who worked abroad. The external migration is a phenomenon specific to all these countries, and the economic crisis that could affect the developed economies of Western Europe, accompanied by the loss of jobs in these countries, could generate a high unemployment rate among the citizens of these countries, who would have to return to their countries, causing an additional pressure on their origin countries. However, this aspect can also have positive consequences, because some of these citizens can be absorbed by certain sectors that faced a labor shortage before the crisis (constructions, manufacturing industry). Also, given the current situation of uncertainty and fear, there is a danger that companies may delay investment, procurement of goods and employment, while the governments, facing high budget deficits, may limit public investment, generating a significant employment crisis.

Beyond the immediate crisis response, policymakers will also have to think about sustained measures after the epidemic subsides. What kind of measures will be needed to reboot the economy? This is a not only a question for the EU but also for the global economy, as different parts of the world might be in different phases of fighting the virus.

There is a clear role for the EU to play in terms of showing to people the power of cooperation. So far, responses in different EU countries appear barely coordinated and there has been very little EU communication. It is important that EU institutions provide shortterm support and coordinate the response across countries.

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