



Weekly Briefing

Hungary social briefing:
The social impact of the coronavirus on the Hungarian society
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The social impact of the coronavirus on the Hungarian society

The spread of the coronavirus in Europe and Hungary is already clearly changing our way of life. The immediate effects of the virus on the economy were discussed in last week's economic briefing. The social briefing deals with the medium and long-term complications of the virus this week, and the immediate policy measures while next week the foreign policy briefing will focus on the geopolitical interpretations of the pandemic. As for the social impacts, soaring unemployment rate and dwindling vacant jobs can be easily predicted. In our understanding, the harsh measures to contain the spread of the disease fundamentally will change our way of life, the term 'social distancing' vividly describes what the new norm will be in the upcoming months, if not next years. This briefing first looks at the government measures affecting social life, then it looks at the question of which effects can be forecast for the labor market.

From midnight of March 17. 2020 on, the Hungarian government has closed the country's borders, including the Liszt Ferenc International Airport in Budapest, though the airport is not closed entirely, since it can be used by inbound passengers of Hungarian citizenship and their direct relatives with foreign citizenships. For an undetermined period of time, only Hungarian citizens can enter other borders too. As a result of the rapid actions, foreign workers of Romanian and Bulgarian citizenship could not enter the country, however, later due to a compromise, they could cross the country using the designated routes to transit goods traffic.¹

Mass events are also banned, sport events can still be held behind closed doors. Cinemas, culture institutes and entertainment facilities have been closed on March 17. 2020. Restaurants, cafes and stores must close after 3 pm, exceptions are food stores, pharmacies and drugstores. The government does not order curfew for elderly people, though some opposition parties proposed that, but the government strongly advises the citizens not to leave their homes even now, while the government obligates the municipalities to take care of these elderly and provide for them. All these measures aim to slow down the spread of the disease and avert the pressure

¹ Trucks can only use designated routes and petrol stations when crossing the country.

from the health care system. To date, the number of infected people is 85, the number of deaths is 4, which means we are in an early stage of the epidemic. As part of the preparations, universities' dormitories are being evacuated and students must leave their room in order to turn these facilities into make-shift hospitals.

This later action was enabled by the shutdown of universities and colleges last week, and the closing of high schools for an indefinite period of time. The measures entered into force immediately and forced these institutes to switch to distance learning. These educational institutes have the access to the necessary software and hardware, thus the switch in our understanding would not cause any significant problem, and the semesters can successfully continue. Given the present circumstances, it is very likely that these institutes will finish this semester using online education. At the same time, the Hungarian government scrapped the program for high school students aimed at facilitating foreign language learning in the target countries immediately.² Positive news is that in the national Center for Public Health researchers were able to isolate the virus this week, which makes it possible to develop a vaccine against the virus-inflicted disease.

As for the labor market, significant and negative effects are expected. In the Hungarian government's assessment, the next months will be described by rapidly soaring unemployment levels, however, the extent of the deterioration cannot be fully predicted yet, the government estimates more than a hundred thousand newly unemployed people. The Hungarian Audi and Opel already announced that they are going to stop the production, while the Suzuki is reorganizing its production. To show the intensity of the problem, it is worth to note the export share of the automotive sector (around 25 percent of the aggregate export) and its share in the GDP (5 percent.)

The Hungarian government made it clear, that unemployment issues cannot be solved by social allowances. At this point, the government is likely to stick to its recent labor policy approach which focuses more on job creation, even if it requires the active role of the state in the process. In order to prevent the escalation of the labor market situation, the government adopted the following measures:

- Private persons and firms do not need to pay the interest rates and capital on their loans until the end of year.

² The program would have given opportunity for these students for no cost and it would have focused on English, German and French speaking countries. (China could have been chosen by high school students learning in the Chinese-Hungarian language high school of Budapest.)

- Employers don't have to pay the social contributions in sectors such as tourism, catering industry, sport, culture sectors, passenger transport and the entertainment sector until the 30th of June 2020.
- In these sectors, property lease agreements cannot be denounced, and prices cannot be increased.
- The social contributions of employees will be cut significantly, and they don't need to pay their pension contributions, in addition health insurance fees will be reduced to the minimum specified by the law.
- The interest rates of the consumer credits, granted after the 18th of March 2020, cannot be higher than 5 percentiles than the key interest rate of the central bank. (This latter one is 0.9 percent to date, i.e. the interest rates of the consumer credit cannot exceed 5.9 percent.)
- Labor regulations will be relaxed to make agreements between employers and employees easier and faster.

The news portal Portfolio summarized the financial effects of the measures mentioned above, and its estimate ranges between 40 and 51 Billion HUF which still keeps the budget in balance. According to the newspaper, the policy approach is appropriate, however, further measures most likely will be required to maintain the aggregate demand. At the same time, we must emphasize that the Hungarian government's decision to decisively interact in economic trends, in particular, the moratorium on debt payments, is one of the boldest decisions in Europe.

In order to avoid economic chaos, the Hungarian army set up 71 special groups who were sent out to 71 Hungarian firms, to ensure the functioning of those firms, that are essential for the daily life of people. Firms in the energy-, banking- and pharmaceutical sectors belong to this group of firms. In the Hungarian economy, around 140 basic manufacturing capacities and essential service providers were targeted by this measure. To this date, the only task of these special groups is to monitor the activities of the given firms. At the same time, the Minister of Defense announced that from the 20th of March on, more soldiers will be visible in the country, to ensure security if necessary, at the food supply chains.

Summary

The coronavirus' effects are already present in the Hungarian society, it is not a question whether it will impact the Hungarian society or not. In particular, the Hungarian labor market will be severely affected, which was in excellent condition just a few weeks ago.

The more important question is the duration of the crisis, which cannot be answered since this economic crisis was not induced by economic factors in contrast to the 2008-2009 crisis, but stopping and or restricting the flow of people, goods and services. However, the global response matters, since until now European and American responses have focused on fiscal solutions and monetary steps. Whether they were accurate regarding their extent is another question, however there is one point in common they fail to address: how to join efforts, and how to help other countries. The US' strengthened role as provider of global public goods and its ability and willingness to muster and coordinate a global response to crises is missing right now, though it would be essential. In contrast, China's response is that they will not only focus on their needs, but try to assist other countries as well.

In our understanding, the global spread of the coronavirus can be a crucial point in the rise of China, since if the country has the capacities and strong political will to rekindle the globalization – though most likely in a different form than before – then the new wave of globalization can be lead and shaped by China. Now is the right time to do so . In particular, it is worth looking into in Central Europe, where f. ex. between 10 and 20 March 2020, the Hungarian currency weakened by 10.69 percent, giving ample room for Chinese investments in the Hungarian economy.

As for the Hungarian society's interpretation and understanding of China, China's assistance to Hungarian efforts to contain the spread of the virus can be crucial. In our understanding, this also is the right time to invest in Europe and strengthen economic ties between the EU and China.