



Weekly Briefing

**Czech Republic economy briefing:
Economic Aspects of the Crisis: Impacts & Countermeasures
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Economic Aspects of the Crisis: Impacts & Countermeasures

At first, both the political and public discourses were dominated by the deliberation on the health risks and the need for containment of the coronavirus epidemic, control of its development, as well as by a clear emphasis on security, citizens' health and epidemiological point of view. Nevertheless, by the end of March, a change could be observed in this regard as an increasing attention was drawn to economic aspects and consequences of the epidemic and radical restrictive measures which caused an almost complete suspension of the economic activities. In the following analysis, I will therefore focus on some economic impacts of the current crisis and related measures adopted by the Czech Government with the aim to help the economic subjects to overcome the thorough downturn.

There are no doubts that the epidemic crisis but all the more the state policy and adopted countermeasures brought about the recession of the Czech economy. However, reliable and relevant figures have not been available yet. Official data on the unemployment have already been released, indicating no significant and dramatic deterioration as the rate amounted to 3 per cent in March, but it is expected that the situation will change in the months to come. According to the Ministry of Finance, the national economy will drop by 5.6 per cent, being accompanied by a considerable slump of the state incomes and a steep rise in both the public and private indebtedness. The Chamber of Deputies passed an amendment to the State Budget Act for 2020 calculating a deficit of 200 billion CZK (approximately 7.5 billion EUR).

The major problem economic subjects have to face to is the deficiency in liquidity which is connected with insolvency and impossibility of meeting obligations. In order to mitigate the impacts of the crisis on the economic subjects, the Czech National Bank (CNB) lowered the two-week repo rate, the Lombard rate and the discount rate. Whereas at the beginning of March they amounted to 2.25, 3.25 and 1.25 per cent respectively, at the end the rates were equal to 1.00, 2.00 and 0.05 per cent. The decrease leads to price reduction of money and thus to easier access to loans on one hand, and to motivation to invest and spend money on the other. By means of this measure, the central bankers endeavour to stimulate economic transactions and keep the money circulation in the economy.

Overview of the practical steps

Besides the Czech National Bank, the Government has started to adopt extraordinary measures to support companies as well as households financially in order to avert fatal economic and social problems. In the following paragraphs, I will analyse the most important economic measures. First, the Government decided to postpone the deadline for filing a tax return. The taxpayers are generally obliged to meet this obligation until the 1st of April. Nevertheless, this year the period is prolonged until the 1st of July. *De iure*, the deadline remains unchanged but *de facto* the penalty for delay is forgiven globally and automatically.

Second, the majority of the self-employed persons have duty to pay advances on social and health insurance, the amount of which is defined by the Government annually. These advances are correlated with the figures of a gross average wage and minimal wage in the Czech Republic which have been increasing over a long period. The self-employed persons are exempted from the obligation to pay these two advances for the period from March to August to the extent amounting to the minimal level of these as defined for 2020. In total, this measure will save up to roughly 30,000 CZK (1,111 EUR). It is thus to help primarily the self-employed persons with low revenues, contributing to the stabilisation of their difficult financial situation. It should improve their cash-flow and relieve them of the administrative burden.

Third, the Ministry of Finance has postponed the introduction of the final stage of the electronic records of sales (EET), which is one of the flagships of this Government's programme, implementation of which is aimed at securing a prompt communication between the entrepreneurs and the Financial Administration of the Czech Republic, as well as at preventing the tax evasion. It consists in the obligation to keep a record of every payment electronically, transferring the record to the State on-line and immediately. The initial phase of the project was launched in 2016 and it should have been completed this year. In consequence of the current crisis, however, the completion of the electronic records of sales has been postponed and, at the same time, all entrepreneurs are allowed to suspend all electronic records. Similarly, the Financial Administration has interrupted its inspecting mechanisms. It should be noted in this regard that the right-wing opposition has criticised the project as such since the very beginning, appealing to the Government for a complete annulment of the electronic sales.

Fourth, the Government has decided to help the employers to pay a wage to their employees. The programme called *Antivirus* is designed to the employment protection. By means of that, the State will compensate companies for wages through the Labour Office of the Czech Republic, thereby facilitating them to manage the crisis situation in order to avoid

layoffs. The amount of compensation is derived from the average super-gross wage and depends on a type of obstacle to work, specifically the compulsory quarantine, the closure of business due to the Government order, the need for childcare, the cutback of business operation as a result of the drop in the availability of inputs necessary for the activity or reduced demand for services and products of the company. The compensation amounts to 60 to 100 per cent of the average earnings. The Ministry of Labour and Social Affairs expects that the *Antivirus* programme could be utilised for approximately 280 thousand companies. Nevertheless, representatives of the private businesses have been criticising the Government for the protractedness in preparation of the programme, which was approved not earlier than the last day of March. Therefore, many entrepreneurs were forced to dismiss their employees in the course of March as they could not count on a prospective state assistance. According to the Czech Chamber of Commerce, at least 7 per cent of employers resorted to dismiss the employees, the situation being the most critical in the tourist, hotel and catering industry. Moreover, it is expected that 25 per cent of companies may lay their employees off in the near future. It is more than obvious that it would lead inevitably to a substantial increase in the unemployment rate and state costs with considerable negative impacts on the state budget.

Fifth, the Government launched a credit programmes *COVID* and *COVID II* designated for entrepreneurs affected by economic impacts of the epidemic. The goal is to make operational financing of the small and medium sized businesses (SMEs) as smooth as possible by means of interest-free loans provided by commercial banks. Within the first round of the programme, loans up to 15 million CZK (555,555 EUR) and up to 90 per cent of the proven harm were offered without any interest or fees, being repayable in the course of 2 years. In addition, instalments could be postponed for 12 months. This measure was subsequently succeeded by the *COVID II*, financed from the EU structural funds. This programme enables provision of collateral up to 80 per cent of the principal sum of commercial loans by the Czech-Moravian Guarantee and Development Bank, specialised in providing assistance to the SMEs with the aim to facilitate their access to financial capital, share their business risk and reduce project costs. It is the only bank entrusted with the administration of funds disbursed within the framework of the Government's assistance programmes focused on the SMEs, being owned by three ministries. Besides the abovementioned guarantee of the loans, which is valid for 3 years, the *COVID II* programme offers a financial allowance on the payment of interest up to 1 million CZK (more than 37,000 EUR). Guarantees and collaterals have also been provided for exporters, who are engine of the Czech economy as a whole, by means of the Export Guarantee and Insurance Corporation. This state corporation insures credit connected with exports of

goods and services against political and commercial risks uninsurable by commercial insurance. In response to the epidemic crisis, the company will provide exporters with guarantees of credit on operation, labour capital and investment with the aim to strengthen the liquidity of export-orientated enterprises.

Sixth, the Government imposed a 6-months moratorium on the payments of instalments which applies to the loans and mortgages made before the 26th of March. This measure is binding for all financial institutions. They are obliged to comply with all requests for interruption from clients if they declare that they resort to this step due to negative economic impact of the crisis. The Ministry of Finance hopes that postponement of instalments will help citizens, businessmen as well as companies to cope with consequences of the Government's restrictive measures.

It remains unclear to what extent these measures will meet their goals and whether they will not lead to excessive indebtedness and shortage of financial means in the state budget. In the next briefing, I will go on with a more general analysis of economic impacts in the broader social context.