Analyses OSW

CENTRE FOR EASTERN STUDIES 8.04.2020 www.osw.waw.pl

Czech Republic: the gradual easing of restrictions

Krzysztof Dębiec

In the first few days of April, the Czech Prime Minister Andrej Babiš outlined a scenario for gradually abolishing the country's epidemiological restrictions, the intention being that most sectors of the economy would resume full operations at the start of June. This assumes that the rise in the number of confirmed cases of COVID-19 can be halted in late April, while the PM does not foresee the introduction of any new restrictions (including closing stores on Sundays). The process of gradually easing the restrictions began on 7 April: among other measures, parks and rural outdoor sports & recreation centres were re-opened. Some outlets (such as DIY stores, which had previously only been open to companies) will be re-opened to all people as of 9 April, and a precise schedule for the next set of resumptions should be presented after Easter. The first educational institutions are to be re-opened in mid-May. As part of the first phase, the youngest children will return to kindergartens and schools, although class sizes will be reduced, and break-times for these groups will take place at different hours. The pace of the re-openings will depend on assessments of how well the stringent sanitary regulations are being observed (including the two-metre spacing between individuals and measuring employees' temperature), as well as the overall development of the epidemic.

However, PM Babiš is still cautious about re-opening the borders and resuming scheduled flights. At the same time, he believes that the government's earlier estimates that the borders must be closed for two or three years are too pessimistic. Firstly restrictions on commercial travel are to be eased, especially in relation to supplies and the provision of services needed by Czech companies. Nevertheless, the authorities have not announced any plans to suspend the obligation to wear face masks in public places.

Commentary

- Prime Minister Babiš's announcement regarding the revival of the economy may be associated with the change of opinion expressed by one of the far-reaching restrictions' main architects, the deputy health minister Roman Prymula, a professional epidemiologist, who had been the head of the government's crisis management group until the end of March. He believes that the economy should be revived gradually, and that the population should at the same time be exposed to the SARS-CoV-2 virus in a controlled manner. He came to this view after doubts were expressed regarding the reliability of Chinese data on the disease (Italian estimates show that the real mortality rate is much lower than originally estimated, and the proportion of the population

infected is greater), together with the low probability that a cure will be prepared in the near term. Prymula now says that the best protection for seniors and other vulnerable groups will be for those who are more tolerant of SARS-CoV-2 to develop immunity (which is estimated to last for around two years). According to his assessment, around 30% of Czechs may have had personal contact with the coronavirus, which could be confirmed in the next few days as tests are conducted on a sample of 17,000 people in three regions. However, PM Babiš has distanced himself from the deputy health minister's idea about exposing the population to the virus, maintaining that it is still possible to spare the majority of Czech citizens from the disease.

- Although the epidemic is expected to peak in late April, when the number of laboratory-confirmed cases of infection is expected to reach 10-15,000 (the figure currently stands at around 5,000), the Prime Minister wants to raise the morale of society now, by expressing cautious optimism while not prejudging what actions the authorities take. The plan to ease the restrictions is conditional on Czech citizens maintaining their discipline, and is dependent on flattening the curve of the rise in infections. How quickly the process of recovering from the shutdown of the economy and reducing social interaction proceeds will therefore depend on the attitude of the Czech public. The Prime Minister seems to be applying a deliberate media strategy with regard to COVID-19, positioning himself as the messenger bearing good news. In this way he sets up a contrast with both the Interior Ministry, which has expressed extreme caution regarding any removal of the restrictions, and the Health Ministry, which has been increasingly pessimistic about protecting the majority of the population from the disease.
- There is as yet no full consensus on easing the epidemiological restrictions in the Czech Republic. A more cautious stance on easing the restrictions has been displayed by the deputy prime minister and interior minister Jan Hamáček (the leader of the coalition's Czech Social Democratic Party, CSSD), who is also head of the Central Crisis Staff. Although he admits that the epidemic has been restrained better than originally anticipated, he is concerned that loosening the regime may lead to the disease regaining its lost ground, at which point it will be difficult to mobilise the public once again.
- So far, the government's actions have been criticised by the opposition, led by its main representatives, the right-wing Civic Democratic Party (ODS) and the leftist, anti-corruption Czech Pirate Party. The ban (with a few exceptions) on travel abroad is one of several aspects of the government's strategy which they have raised doubts about. The opposition, which has often reproved the authorities for taking overly restrictive decisions, has portrayed the announcement that more businesses will gradually re-open as a marketing ploy. It has criticised the government for its 'chaotic' activity; for example, while justifying the memorandum submitted to parliament requesting an extension of the state of emergency to 11 May (which was eventually revised to 30 April), the government warned against loosening the restrictions too rapidly. The crisis has not significantly affected the individual parties' poll ratings, and has even allowed Prime Minister Babiš's ANO to strengthen its position (it recently recorded 34.5% support, 5 percentage points more than it got at the last election, and over 20 percentage points more than the next party). Three-quarters of those polled believe the current restrictions are appropriate for the situation.

- Until now, the Czech Republic has demonstrated its effectiveness in the fight against COVID-19 by its strong, often unprecedented actions. One example of this was the order to wear masks covering the nose and mouth, which was introduced on 18 March. The Czech Republic was a pioneer in Europe on this matter (Slovakia introduced a similar injunction a week later), and now Babiš is encouraging other European countries and the US to follow in his country's footsteps. According to Czech experts, the widespread wearing of masks is critical in stopping the spread of the epidemic, as even a mask made at home can stop 95-100% of the secretions emitted from an infected person's body. Up to 92% of the population are convinced that this order was the right thing to do. Data from the second half of March shows that 50% of Czechs are wearing homemade masks; just under 20% use store-bought ones; around 11% use masks with a filter, and 13% use a scarf or shawl. It is likely that the order to wear masks will only be rescinded in the final phase of easing the restrictions. The only concession the government has made on this issue is that the face need not be covered while playing sports.
- Just as the Czech Republic was the European pioneer in introducing restrictions in relation to the epidemiological threat, so it is now trying to position itself among the leaders in easing the restrictions. This approach has been influenced by fears of economic collapse as a result of the restrictions on international trade; the value of exports is equal to 80% of the country's GDP. Of particular concern is the stagnation and uncertain prospects for the automotive industry, which accounts for 9% of the country's GDP and 23% of its exports; Škoda Auto (of the VW Group) – whose plants will have been closed from 18 March to 27 April at least – is the country's largest employer in the private sector (each day the company is closed means a loss to the GDP of about €50 million). According to forecasts by the Czech branch of the Raiffeisen bank, if the national restrictions related to the pandemic are extended until the end of April, the Czech GDP will fall by 6.1% this year; if it is extended until mid-June, the decline is expected to reach up to 14.3%. In both variants, however, there should be a rebound in 2021 (projected increases of 3.6% and 6.4% respectively).
- In the short term, the Czech economy should get a boost from the government programme of support for companies, which is relatively generous compared to others in the region. As part of this programme, the self-employed will get a one-time non-refundable grant in April equivalent to €930, and those with children under 13 will also receive an allowance of around €15 per day (regardless of the number of children). Self-employed persons, who are relatively numerous in the Czech Republic (over 1 million people or 17% of all people employed, the fifth highest rate in the EU), will be exempted from paying health and social contributions for the next six months (until August), and (on a one-off basis) from income tax payments (for the month of June). Companies that have been forced to suspend operations as a result of the quarantine, or which have recorded a significant drop in demand for their products or services, may have their payrolls co-financed from between 60% to 100%, for the period from 12 March to the end of April in the first instance (the so-called *Kurzarbeit*). The state has also introduced interest-free loans for small and medium-sized businesses (its upper limit of around €180 million was quickly exhausted), as well as guarantees on commercial loans (up to 80% of the loan's capital).

- Currently, the Czech Republic can afford this strong support package for the economy thanks to its low levels of debt, among other factors. The country's public debt to GDP ratio is the fourth lowest in the EU, and has been constantly falling for several years (in terms of this ratio, not necessarily in absolute terms); in the third quarter of 2019 this figure amounted to 32% of GDP. In the last four years, there have been two budget surpluses at year's end, and only a relatively small deficit the other two times. Not all the measures supporting the economy have required large financial outlays. Thanks to an agreement with the banking sector, natural and legal persons will (under certain conditions, for example if arrears in repaying instalments are no longer than 30 days) soon be able to suspend their semi-annual repayments on the basis of a simple declaration, without the need to make an entry in the state financial records. An interesting project which will not require a major investment has been launched by the Czech Chamber of Commerce; it will act as an intermediary in 'lending' employees of companies whose activity has been reduced to those which are still suffering from a shortage of employees (such as the rolling stock manufacturer Škoda Transportation), especially bearing in mind some of their foreign workers have left the country. Those employees who have formally been 'lent' to another company will retain their employment relationship with the previous employer, but their salaries will be paid by the new employer, who will also define their tasks and supervise their work.

in cooperation with Martyna Wasiuta