

## How Hungary is combatting the economic effects of COVID-19

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On 10 and 17 April, the Hungarian government issued a series of decrees immediately introducing measures to alleviate the impact of the pandemic on the country's economy and labour market. According to the first of these, the right of employers to balance the books for paid but unworked hours during the stoppage of production caused by the COVID-19 pandemic, and to increase the scale of work for persons employed during periods of increased production intensivity, was extended from 6 to 24 months. Similarly, the period in which overtime wages must be paid has been extended. In turn, the decree of 17 April allowed the government to designate 'special economic zones' where investments of 'high significance from the point of view of the national economy' are located, and whose value is at least 100 billion forints (about €300 million). These zones will be managed not by the local authorities, but by the government-controlled provincial councils, which will also receive the income from local taxes.

The decrees were enabled by the Hungarian government's controversial law on preventing the epidemic, which was passed on 30 March. Under it, the application of certain legal acts may be suspended, a ban on by-elections and referendums was introduced, and the term of imprisonment for breaking quarantine and disseminating false information about COVID-19 was increased. This law has been subjected to massive criticism from the opposition, foreign media and European institutions, as it grants the government very broad legislative powers for an unlimited period of time and without parliamentary supervision. Only the government can take the decision to cancel the state of emergency.

### Commentary

- According to the government's assumptions, the new decrees are intended to expedite the decision-making process in the fight against the pandemic's economic effects. However, the economic solutions introduced are controversial from the point of view of both employees and SMEs. The 10 April decree extending the period to settle accounts for working hours is beneficial for foreign companies, and is part of the process of liberalising the labour laws in the interest of large export-producing companies which has been ongoing since 2012. For example, the opportunity to increase overtime (from 250 to 300 hours annually) guaranteed in 2012 has been exploited by the Audi Hungaria group, which is responsible for 10% of Hungary's exports and is one of the four largest

employers in the country. In turn the 2019 law, named the 'slavery law' by the opposition, was adopted with a view to creating favourable conditions for €1 billion of investments by BMW. Trade unions have criticised the solutions adopted on 10 April and called for the state to subsidise wages during the forced downtime, rather than creating conditions in which employees would be forced to work for up to 60 hours a week to compensate for the losses to business.

- The Hungarian government's actions result from its attachment to its liberal policy of attracting foreign investments, especially from the automotive sector, which it has consistently pursued for years. Since 2012 Hungary's public debt has fallen from 82% to 66% of GDP, and the deficit has not exceeded 2.6% of GDP during that period; the country's economic growth in 2019 was the highest in the EU. The government has officially ruled out the possibility of taking foreign loans to fight the epidemic. Hungary's good macroeconomic indicators are to be maintained by attracting investments from large foreign companies. These make up only 2-3% of all businesses in Hungary, but they employ as much as 25% of the workforce and generate nearly half of the country's GDP; the automotive sector's share of GDP in 2017 was 22%. The largest car factories in Hungary (Audi, Mercedes, Suzuki and Opel) have announced that they will resume production before the end of April, just after the management of the Volkswagen group in Germany took the same decision.
- The Hungarian government is using the fight against the pandemic as an excuse to limit sources of funding for the opposition's activities. Pointing to the need for solidarity in a joint plan to save the economy, the authorities have decided to cut subsidies for all political parties by half, and to redirect car tax revenues from the local governments to the central budget (34 billion forints, i.e. around €100 million). The share of this tax constitutes an average of 2% of many local governments' revenues. The government's introduction of free parking throughout the country will also reduce the income of local authorities, who have already been burdened with additional tasks – especially in managing health care – in order to protect residents against the effects of the epidemic. In turn, the decree creating 'special zones' enables the government to limit the income of municipal self-governments from the tax on industry. As a result of these changes, for example, the budget of the town of Göd may shrink by a third due to the loss of tax revenue from the local factory producing batteries for Samsung electric cars. Most of the tax changes introduced at the local level will not only make it harder for the opposition to operate, but could also lead to the general marginalisation of local governments. Although the government will have to submit the provisions introduced by the new decrees for parliamentary approval after the state of emergency is lifted, it has already announced its intention to introduce some of its solutions into the legal system on a permanent basis. Local government authorities led by opposition representatives have asked the government for significant financial support for themselves and for NGOs, emphasising the former's enormous commitment to protecting the population against the effects of COVID-19.