THE ECONOMIC AND LABOUR MARKET EFFECTS OF THE COVID-19 EPIDEMIC – THE CASE OF V4 COUNTRIES

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Abstract

The main purpose of this study is to examine the macroeconomic (economic and labour market relating) effects of the Covid-19 pandemic on the economies of the V4 countries – namely Poland, Czech Republic, Hungary, and Slovakia. The paper provides a more detailed overview of the effects of the epidemic itself – from the outburst to the present state. The article outlines the emergence, spread, and measures taken of the epidemic in the V4 countries. The research follows the economic changes of mentioned countries from the initial effects of a pandemic to the beginning of recovery processes. The research is following the development of economic indicators over the last years – from the spring of 2020 until to the summer 2022. The most notable economic indicators (such as GDP growth and unemployment rate) are examined. The topic is analysed using official secondary data sources. At the end of the study, the conclusions and the main points and design of future research possibilities – along the economic impacts of Covid-19 – are outlined.

Key words: economic effects, labour market, unemployment, V4 countries, Covid-19

JEL Code: E24, J40, J60

Introduction

The effects caused by the emergence of the Covid-19 pandemic (i.e. the SARS-CoV-2 coronavirus), have been widely observed and commented on by governments, researchers and the public since the beginnings. The rapid increase in the number of positively diagnosed cases and the subsequent increase in the number of secondary outbreaks in many countries around the world has raised international concerns. Due to its global consequences, the spread of the disease has been compared to the 1918 pandemic. Consequently, the World Health Organization (WHO, 2020) declared the Covid-19 epidemic a public health emergency of international concern on January 31, 2020, and then classified it as a pandemic on March 11, 2020.

The global pandemic of Covid-19 is expected to be one of the most decisive economic and social events in recent decades. The situation caused by the epidemic affected food industry, education, globalization, inequality, democracy and human rights, human development, pollution and waste policy, urban and rural development, human poverty and trade relations. According to Tokic (2020), the pandemic is slowing down the economic globalization, while others call for global cooperation in public health and economic development, or in science. Baldwin and Tomiura (2020) agree that the pandemic should not be misinterpreted as a justification for anti-globalism, but both sides should be kept in mind to avoid over-reliance.

The Covid-19 crisis has shown financial market participants, policymakers, and the general public that natural disasters can have an unprecedented level of direct, globally devastating economic impact. According to an expert study by McKinsey a solution must be found to “control the virus”, to mitigate and avoid the crisis, and to restore the economy as soon as possible after the pandemic (Smit et al., 2020).

In addition to the many direct concerns of the coronavirus outbreak with its impact on human lives, there are also serious fears of a significant economic downturn as a result of the protracted battle with the novel coronavirus. The economies of individual countries recorded huge losses, countless workers lost their jobs on the labour market, and businesses went bankrupt or even closed. In modern history, we have never experienced entire countries staying at home, and that we all have keep a decent distance from each other (Kosh et al., 2022).

Thus, 2021 also began with mixed feelings in Central and Eastern Europe. Covid-19 continued to affect societies, causing fear. However, there were signs that economies were beginning to adjust to the increased uncertainty. The introduction of vaccines against the coronavirus created economic optimism. The year 2021 was full of challenges, we experienced several pandemic waves, but the countries all started on the road to recovery and the 2022 data already gave cause for confidence in terms of economic and labour market indicators. At the same time, the nearby war put the economy in a difficult situation again. However, the focus of this study is only on the Covid-19 pandemic, and it analyses the impact it has had since its appearance (2020-2022), and what can be expected due to the epidemic in terms of the global economy. The basis of the study is therefore the economic effects caused by the epidemic, but the focus is on the countries of the Visegrad Group and the effects on individual countries. During the research, the most important effects together were analysed, and then the countries and the most important economic indicators were analysed separately.

1 Economic effects in the V4 countries

The Eastern and Central European countries grouped into a regional cooperation platform called the Visegrad Group (V4) faced the Covid-19 pandemic at a similar time. Three confirmed cases of coronavirus were first reported in the Czech Republic on March 1, 2020. Two were registered in Hungary on March 4, 2020, a single case was reported in Poland on the same day, and the first case of the coronavirus appeared in Slovakia on March 6, 2020. Based on the experiences of the last two years, we can say that the V4 countries also went through similar processes in the recovery process.

The research was also carried out along these effects of the pandemic and the economic effects caused by the virus in the V4 countries were examined using secondary data. The basis was provided by our existing research of a similar nature, which was carried out in the primary stages of the epidemic, and the expansion of these results of our current research with the trends and recovery processes that have developed over the past 2 years.

The V4 governments implemented measures connected to isolation quite early on. These include restrictions on cross-border travel, movement of citizens, closure of schools, ban on public events, closure of retail stores (except for critical exceptions), restrictions on production in industry and enforcement of quarantine if necessary. The countries' experience so far shows that the early introduction of containment measures – at the point when only a few cases have been detected – has been crucial in containing the outbreak. Although with the appearance of later variants (e.g. Omicron) these statements can be questioned.

Looking for several analyses in relation to the Visegrad Group, we can mention several serious economic effects. In the following, we highlight the most important effects of those:

- Hundreds of thousands lost their jobs – the governments of all V4 countries tried to reduce the number of lost jobs with various measures and support packages.
- The construction industry was in a difficult situation, large projects were also slipping. There was a loss of work due to the border closure due to the epidemic, as well as a shortage of building materials due to the slower delivery of goods, which caused certain constructions to be temporarily stopped, causing delays in several projects.
- Recession – decline in GDP.
- Tourism, hospitality and related services suffered huge losses (Kapicka, Rupert, 2022).

There were also trends specific to CEE countries, including positive factors and important threats too. As for regional factors, the main reason for optimism was that global industry supply chains have remained in good shape. This was important because Poland, the Czech Republic, Slovakia and Hungary are highly export-driven economies.

The Covid-19 pandemic has not stopped the trend of moving important services to Central and Eastern Europe. The region thus preserved its strengths, which are primarily related to the growth of its role in the global production hierarchy of goods and services. In addition, there is one factor that could be a real growth driver: the EU's Next Generation Programme. For four years, the countries of Central and Eastern Europe can receive annual transfers and cheap loans equal to 2.5-3 percent of their GDP. These supplement traditional EU funds, which entitle the region to transfer an amount equal to 1.5 percent of GDP annually. The Next Generation Program should increase GDP growth by one percentage point in the coming years, which means a third or a quarter of the expected growth rate (Czech et al., 2021).

In addition to various economic impacts and remote work, the pandemic has affected two additional trends that may have a lasting impact on the workforce: the use of digital tools for transactions, consultations and collaboration; as well as the application of automation and artificial intelligence technologies at the workplace. While these two trends had already started before the virus appeared, Covid-19 permanently changed their trajectory (Smit et al., 2020; Ng et al., 2021; Ugurlu, Jindrichovská, 2022). Scientific research conducted in the field of remote work induced by Covid-19 shows positive and negative consequences. The positive ones include saving time, adapting work to personal needs, and the ability to reconcile professional and personal duties. The factor that respondents indicated as the greatest difficulty in remote work during the COVID-19 pandemic was the lack of social contacts and isolation (Dolot, 2020).

1.1 The most important economic effects

The table below (Table 1) shows the growth rate of real GDP in quarterly terms from the values of the last quarter of 2019 to the values of the second quarter of 2022. The values of the 4 Visegrad Group countries were used as a basis, while a similar data from the European Union was used as a benchmark. It can be seen that in the last quarter of 2019, the GDP growth rate of the previous quarter was stable, then as we moved into 2020 and the pandemic period appeared with it, the real GDP growth rate turned into a sharp decline. The first quarter of 2020 has already caused a decrease in the case of three examined countries, with the exception of Poland, which performed beyond expectations. The lowest point of real GDP values was the second quarter of 2020, with record-breaking declines for all countries. After that, however, the countries apparently started towards recovery processes and the growth rate of real GDP recovered relatively quickly. Until the last quarter of 2021, we can see a stable and continuous recovery with minor fluctuations, which can be traced back to further waves of the epidemic. Similar trends are expected in the first quarters of 2022 as in 2021.

Tab. 1: Quarterly growth rate of real GDP (2019 Q4 – 2022 Q2)

	Quarter										
	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
Poland	0.4	0.1	-9.2	7.6	-0.3	1.6	1.8	2.3	1.7	2.5	-2.3
Hungary	0.5	-0.5	-14.2	11.5	1.5	1.8	2.2	0.9	2.0	2.1	1.0
Czechia	0.6	-3.4	-8.9	6.7	0.8	-0.3	1.4	1.6	0.9	0.6	0.5
Slovakia	0.5	-3.9	-7.2	9.1	0.4	-1.4	1.9	0.4	0.3	0.4	-0.5
EU (27)	0.0	-3.1	-11.2	11.8	-0.2	0.1	2.1	2.2	0.4	0.8	0.7

Source: Own editing based on OECD (2022)

In Table 2, the percentage of unemployment is examined in each V4 country from the beginning of the epidemic until the middle of 2022. It can be seen that the 4 countries are characterized by almost similar trends, but the Polish labour market coped well with the crisis, since unemployment of 3 percent at the beginning of the epidemic arose to a level of 3.8 percent in the most difficult period. On the other side, the case of Slovakia could be brought up, in this case the rate of unemployed reached almost 8 percent from 6.1 percent. In the case of Hungary, the highest ratio was 4.5, which was measured in the second quarter of 2020, and in the case of the Czech Republic, the highest ratio was 3.3 percent in the first quarter of 2021. It can be seen that the values for the second quarter of 2022 are in some cases more promising than before the outbreak of the pandemic.

Tab. 2: Development of unemployment in the V4 countries (2019 Q4 – 2022 Q2)

	Quarter										
	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
Poland	3,1	3,0	3,2	3,4	3,3	3,8	3,5	3,2	3,1	2,8	2,7
Hungary	3,3	3,5	4,5	4,3	4,2	4,3	4,1	3,9	3,7	3,5	3,3
Czechia	2,0	2,0	2,5	2,8	3,1	3,3	3,1	2,7	2,2	2,3	2,4
Slovakia	5,7	6,1	6,5	6,9	7,8	7,2	6,9	6,6	6,5	6,3	6.2
EU (27)	6.1	6.2	7.0	7.6	7.2	7.2	6.9	6.4	6.0	5.8	5.3

Source: Own editing based on Eurostat (2022)

According the data, the unemployment in the European Union fell below 6% only in the last two quarters. Slovakia's data show a high similarity to the EU average, while the results of Hungary, Poland and the Czech Republic are well below the average. From these values, it can be concluded that the labour market was less affected by the effects of the epidemic at the beginning of 2022, the V4 countries were able to react well and the measures and reactions given to the new waves already worked according to more considered principles and this was also found in the relatively low rates of unemployment.

The relative economic resilience shown by most Central and Eastern European (CEE) economies – especially the Visegrad Four (V4) countries – supported the Fitch Ratings' forecasts that the region will recover and solidly rebound from the crisis in 2021, despite the third wave of the coronavirus (Fitch Ratings, 2021). The investment support of the next generation EU fund (NGEU) could have given further impetus to growth (European Comission, 2020). The effect of this would have been felt primarily from 2022, but due to the war crisis, it is difficult to determine its effect.

Conclusion

Examining the topic of the study more deeply, it can be concluded from the available secondary data that the countries of the Visegrad Group also strongly felt the effects caused by the coronavirus epidemic – especially from an economic point of view – that hit in the spring of 2020. Based on the preliminary reports of the four countries, as well as the data published and published in 2020, the GDP decrease was significant, but according to the latest statements from June 2022, it moderated somewhat compared to the previous forecasts. Similarities could be found on the level of unemployment, since in one in eight of the examined countries more than 10,000 workers became unemployed in the first months, and as we progressed towards the end of the year 2020, these numbers showed almost 100,000, but here we can also refer to and the year 2021 must be mentioned, as the development of the epidemic and the measures of the governments have greatly transformed this and the rates have moderated and started to decrease

In the case of unemployment, similarities could be found at the level, since in all of the examined countries, more than 10,000 workers became unemployed already in the first months. Towards the end of 2020, these numbers showed sizes of nearly 100,000. At the same time, the year 2021 should be mentioned here, since the development of the epidemic and the measures of the governments have also greatly transformed this and the rates have moderated again, but unemployment has continued to decrease. An example is counteracting unemployment in Poland through economic policy programs implemented during the fight against the COVID-19 pandemic, which was expressed in a number of diversified activities, mainly financial in nature, the overarching goal of which was to protect jobs (Firlej, Matras, 2022). In the second half of 2022, the values almost reached the pre-pandemic level.

Overall, therefore, due to the economies of the four countries operating on similar principles, similarities can be found in their responses to the epidemic, as well as in the economic downturns due to individual measures and in the recovery processes. Among the V4s, Poland could be mentioned as a minor exception, since the country's economy was not as dependent on the automobile industry as the other three countries, but in other areas Poland also performed poorly.

In order to provide EU citizens, businesses and member states with support to recover from the economic downturn caused by the Covid-19 pandemic, EU leaders agreed to develop an EU recovery plan in 2020. On July 21, EU leaders agreed on the overall budget for the period 2021-2027, set at €1,824 billion. The package, consisting of the Multiannual Financial Framework (MFF) and the Next Generation EU (NGEU) Extraordinary Recovery Effort, will help the EU rebuild after the Covid-19 pandemic and support investments for the green and digital transition (European Commission, 2020).

These instruments complement the three safety nets worth a total of EUR 540 billion that the EU has already established to support employees, businesses and EU countries. This financial framework can also provide an opportunity for the V4 countries to restore their economy as soon as possible (European Commission, 2020).

In light of the initial disquieting outlook, the first priority for policymakers was to address the health crisis and contain the short-term economic damage. In the longer term, the authorities should implement comprehensive reform programs to improve the fundamental drivers of economic growth when the crisis ends. The outbreak of the Covid-19 pandemic has forced many businesses to close, causing unprecedented trade disruption in most industries. Retailers and brands have faced many short-term challenges affecting areas such as health and safety, supply chain, labour, cash flow, consumer demand, sales and marketing. However, the successful response to these challenges does not guarantee a promising future, nor the future in general. The reason for this is that once we get through this pandemic, we will be in a very different world than the one we experienced before the outbreak. As time passed newer and more effective vaccines, cures for Covid-19 were developed and less dangerous variants appeared, the pandemic is having a less and less effect on the structure of the economy. Not all sectors were affected equally, but some still struggle or even experience lasting effects that can be seen in changing habits, preferences and technologies (Khlystova et al., 2022).

Even the most experienced economists cannot predict the extent of the total economic downturn with complete certainty, as the global epidemic is still not over yet. Resilient leaders changed organizational mindsets, navigate uncertainties, and started to invest in building trust to develop a recovery roadmap that provides a solid foundation for a post-Covid-19 future.

In 2022, the epidemic is already on the wane, the economies of individual countries are starting to recover, organizations have started towards the recovery process, but the forecasts and the emerging situation again suggest that the end of the year 2022 and the beginning of 2023 will also be full of challenges and it may easily be a crisis, which will rewrite the economic indicators of the countries.

Regarding the future directions, the authors would like to carry out another research in, the centre of which would be dominated by the new economic and labour market trends in the post-recovery period. The research carried out this way would be compared with the results of this study, and thanks to this, we could get a comprehensive picture of the changes and directions from the pandemic epidemic to the completely new transformed economy. Also, the crisis caused by the Russo-Ukrainian conflict and the measures taken could be also an interesting topic for future research. However, the end of this conflict cannot be predicted at the moment.

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