CEC
GOVERNMENT RELATIONS

CEC Regional Monthly Update

29th July 2020

CEE Covid-19 & Political Overview

BULGARIA

(prepared by the CEC Government Relations office in Sofia)

Status of epidemic:

- 10 621 confirmed cases, 347 deceased (as of July 28)
- The government indicated that the epidemic state of emergency would be extended by one month to the end of August.

Key economic indicators:

- The Cabinet approved approximately 970 million euro in additional funding for social and economic measures to fight the impact of the Covid-19 pandemic. The package includes 1.16 billion leva for social measures, and 731 million leva for economic measures, 318 million to boost state pensions for the next three months. The largest single allocation in the economic package of measures was 355 million leva for ongoing major road infrastructure projects.
- According to preliminary estimates and projections of the Ministry of Finance, Bulgaria is to receive EUR 12.3 billion under the Next Generation EU recovery instrument. According to the final agreement, most of the funds (EUR 7.7 billion) will be in the form of grants. Bulgaria is expected to receive grants to the tune of EUR 6.23 billion under the Recovery and Resilience Facility and another EUR 1.2 billion under the Just Transition Fund. Bulgaria will receive

an additional grant under the cohesion policy funding - EUR 656 million, as well as EUR 188 million for rural regions.

- The European Commission approved targeted subsidies for charter flights to Bulgaria organized by tour operators. The subsidy is 35 euros per seat for flights with a capacity of at least 100 seats. Foreign tour operators can also benefit from this support measure.
- If there is no second wave of Covid-19, the crisis for the Bulgarian economy will last from 2 to 3 quarters. The annual decline will be between 5-7%. Recovery will continue throughout 2021, at the end of which pre-crisis levels will be reached. Real growth will begin in 2022.

Key issues:

- Bulgaria headed for its 20th evening of protests demanding the resignation of Prime Minister Boiko Borissov's government and Prosecutor-General Ivan Geshev, following a night that reached a dramatic note when protesters blocked a government and opposition politicians in the building of the public broadcaster. The protesters demand deep-seated reforms to cut ties between the mafia oligarchy and the political establishment. Protesters are mainly young Bulgarians, including those who have returned to the country due to the Covid-19 crisis.
- Bulgaria's National Assembly voted on July 24 to approve changes to Prime Minister Boiko Borissov's Cabinet in the most extensive government reshuffle since Borissov took office in May 2017. Kiril Ananiev succeeded Vladislav Goranov as Finance Minister, Hristo Terziyski replaced Mladen Marinov as Interior Minister, Luchezar Borissov succeeded Emil Karanikolov as Economy Minister, Kostadin Angelov replaced Ananiev as Health Minister. At the same time, Deputy Prime Minister Mariana Nikolova took over the Tourism portfolio from Nikolina Angelkova. The motion passed with 116 in favour and 89 opposed. It was preceded by an hour-long debate, featuring mainly speakers from the opposition, who repeatedly asked for the Prime Minister to attend the proceedings and demanded the resignation of the entire Cabinet.

CROATIA

(prepared by CEC's Croatian partner - Vlahovic Group)

Status of epidemic:

- 4922 confirmed cases, 140 deceased (as of 29 July)
- The national COVID contact-tracing app was rolled out yesterday and is available for download on Google Play and Apple store as of today and is voluntary for the time being. Still, it could become mandatory if the epidemic situation worsened.
- The Civil Protection Directorate mulls to restrict public gatherings up to 50 persons, but a complete lockdown in the fall is not an option, according to the chief epidemiologist.

Key economic indicators:

- After the European Central Bank and the European Commission informed that the Croatian currency kuna was included in the Exchange Rate Mechanism (ERM II), Croatia is one step closer to the eurozone. PM Plenkovic said it is realistic to promise Croatia's entry into the eurozone in the next four years. Croatia has already had high euroization: for example, 71% of household savings have been kept in the euro in the last eight years, and more than half of loans are pegged to the euro. Foreign visitors coming from the euro area's member-states generate as many as three-fifths of overnight stays in Croatia, and 57% of the value of the commodity exports are to those countries.
- Gross international reserves of the Croatian National Bank at the end of May amounted to EUR 15.7 billion, which is 1.5% less than in April and 15.2% less than at the end of May last year; analysts explain that this reduction is a direct consequence of the epidemic.
- Croatia had more than two million tourist arrivals in July to date, which is 54% of tourists compared to the same period last year, according to the Croatian National Tourist Board. These numbers exceed the expectations of the Ministry of Tourism which earlier predicted one-third of last year's results.

Key issues:

- In the 5 July Parliamentary Election, the centre-right HDZ party led by Prime Minister Plenkovic surprisingly won a landslide victory. His ruling party gained 66 seats in the 151-seat Parliament while all elected representatives of the national minorities (8 seats), the Croatian People's Party (1) and the Reformists (1) who were supporting Plenkovic's Gov't in the previous term agreed to back up the new Gov't. A constitutive session of the Parliament took place last week, and the Gov't was voted in by the minimal ruling majority of 76 MPs. The Gov't is downsized from 20 to 16 ministries, all from the HDZ party. The focus will be on economic recovery by using the EU recovery plan and EU funds from the new Multiannual Financial Framework. Croatia managed to secure over €22 billion in total, which is presented as an unprecedented success of PM Plenkovic in Brussels.
- The foreign policy strategic goals of the Gov't will be joining the eurozone, Schengen Area and the OECD as well as EU enlargement to the Western Balkans. Economic policies will be focused on energy self-sufficiency and the transition to clean energy and a low-carbon economy. The Gov't has also been mulling over the idea to repurchase the Hungarian national oil company MOL's stake in the national oil company INA.

CZECHIA

(prepared by the CEC Government Relations office in Prague)

Status of epidemic:

- 15 516 confirmed cases, 373 deceased (as of July 28)
- Due to the rising number of cases in recent weeks, the Ministry of Health introduced a 4-level “traffic light system” marking the districts in the Czech Republic based on the severity of the pandemic situation. In the past two weeks, two areas, Prague and the Moravian-Silesian region were deemed as risky. As a result, some countries, such as Belgium, have removed Prague from the list of safe destinations, which means that visitors of Prague will be

required to produce a negative Covid-19 test or go into a two-week quarantine upon return.

- The Government is setting up a new central agency to oversee its smart quarantine programme intended to improve the tracing of people who are Covid-19 positive. The MoH was under fire for the ineffectiveness of the programme.

Key economic indicators:

- The Czech Statistical Office' survey issued in late July showed that entrepreneurs and consumers' confidence in the national economy has risen sharply when compared to the previous quarter. However, results from last year are still higher. Consumers are still mostly concerned about the rising unemployment rate in the next twelve months.
- In mid-July, the Chamber of Deputies approved changes to the national budget, raising the deficit to a record high CZK 500 billion (EUR 18 billion). According to Minister of Finance Schillerova, this hopefully should be the last amendment to the budget for this year. The amendment was approved by ANO, Social Democrats and the Communists. Opposition parties heavily criticized the unprecedented deficit.

Key issues:

- PM Babis commented on the result of the EU budget negotiations, saying he is satisfied with the division of funds from the European recovery fund. The Czech Republic will receive 8.7 billion EUR in subsidies and can get up to 15.5 billion EUR in loans. PM Babis wants to pump money into healthcare and the automotive industry. Deputy PM Havlicek said the funds would also be used for digitization, but no further details are yet available.
- On June 29, the Czech Government adopted a resolution reacting to the EP resolution condemning PM Babis' conflict of interest. According to the Government, MEPs interfered with internal and political affairs of the Czech Republic and violated the presumption

of innocence principle. In reaction, EP President David Sassoli issued a letter to PM Babis, pointing out that the EP is responsible for the oversight of the EU budget, which includes subsidies and their proper spending, and that its resolution is part of the oversight process as well as democratic oversight. Moreover, Sassoli condemned Babis' personal attacks toward members of the Budgetary Control Committee.

HUNGARY

(prepared by the CEC Government Relations office in Budapest)

Coronavirus updates

- 4456 confirmed cases, 596 deceased (as of 28 July)
- In addition to other states, territories and regions may also receive risk classifications. All state-organised public events lined up for the August 20 national holiday have been cancelled, and regulations concerning large gatherings following August 15 are expected to be revised on July 29, according to Viktor Orbán's chief of staff Gergely Gulyás.

Key economic factors

- **Stronger economy but GDP may still fall 5%:** According to Finance Minister Mihály Varga, the economy picked up slightly in June, but the GDP in the second quarter may yet decrease by 10 per cent year-on-year and shrink by 5 per cent throughout the year, exceeding the previous forecast of minus 3 per cent forecast.
- **Parliament approved the 2021 budget focused on protecting the economy:** The Ministry of Finance's draft estimates a 3 per cent change in the CPI and a 1.6 per cent increase in employment. Most policy areas will receive more resources than in 2020. The 2021 budget predicts the end of the negative trends of 2020 and prepares for GDP growth, a rise in employment and a deficit of less than 3 per cent. Public debt, expected to rise above 70 per cent this year, will decline again next year. One of the essential elements of

the draft is the establishment of an economic protection fund of HUF 2,600 billion or 5 per cent of GDP. Figures compared to 2020 show that Hungary will spend HUF 156 bn more on healthcare, HUF 80bn more on education and HUF 127bn more on pensions. Cultural funding, which has caused much controversy, will also increase by HUF 26bn.

Key issues

- **Consensus on EU summit**: EU decisions were more or less in line with the resolution passed in advance by the Hungarian Parliament. The resources allocated to countries are not subject to political conditions only to financial control, and so the potential for extortion has disappeared. Besides, Hungary will receive over HUF 1 000bn more than planned, and on behalf of the German Presidency, Angela Merkel also promised to close Article 7 proceedings against Hungary by the end of the year. The National Assembly's goal of preventing NGOs from receiving money from the EU budget has not been achieved, and the Prime Minister says that Hungary must continue to fight for the cause.
- **Editor-in-chief fired and about 90 journalists resign at Index:** There has been a considerable amount of uncertainty concerning Index, most popular Hungarian news website, since June 21, when editor-in-chief first indicated that he felt Index's editorial team was in danger as external forces wanted to have a say in its composition. The basis for this was an idea for the reorganisation and outsourcing, according to which certain columns would not be written in-house, but by external actors. László Bodolai, Chairman of the Board of Trustees of the Foundation for Hungarian Development, initiated the termination of the employment of Editor-in-Chief Szabolcs Dull. He justified his decision on the grounds that Dull was unable to deal with internal processes that adversely affected the market situation, and failed to alleviate internal instability and tension. There is no new editor-in-chief yet. The editorial staff requested that Dull be brought back,

but the request was denied. As a result, more than 80 journalists have resigned from the company.

POLAND

(prepared by the CEC Government Relations office in Warsaw)

Status of epidemic:

- 43,904 confirmed cases, 1,682 deceased (as of 29 July)

Key economic factors:

- This week the government adopted the draft budget for 2021. Poland assumes that the GDP will grow 4.0% after an expected decline of 4.6% this year due to the pandemic. If these figures hold true, Poland will have one of the highest growth dynamics in the EU.
- The government proposed a minimum wage growth of 7.7% for 2021 (up to PLN 2800). This is less than the government planned pre-COVID but the change was expected.

Key issues:

- President Andrzej Duda was re-elected by a relatively narrow margin and will be appointed for this second term as President on August 6th. It remains to be seen whether the PO's Rafał Trzaskowski will build on his good presidential election score and have the ability to reformulate the opposition.
- PiS leader Jarosław Kaczyński confirmed recent speculation that a government reshuffle is upcoming in the Autumn. Still, Kaczyński underlined that a change of Prime Minister is not expected. Changes will include the merging of several ministries to slim down the size of the administration. In terms of changes in the Council of Ministers, Poland's MFA Jacek Czaputowicz suggested that he would like to be relieved of his duties in the upcoming reshuffle. Other changes suggested in media reports include the change of Finance Minister, Health Minister, Agriculture Minister, Sports

Minister and others.

ROMANIA

(prepared by CEC's Romanian partner – Serban & Musneci Associates)

Status of epidemic

- 48,235 confirmed cases (as of July 29)
- Over the past week, Romania registered a massive spike of daily new cases – over 1,000 per day. There have been 1,151 new cases of COVID-19 infections reported in Romania in the past 24 hours out of 21,135 processed tests. Daily death toll average stands at ~20, and the overall number of infections reached 48,235.
- In this worryingly evolving epidemiological context, the Government discussed (July 29) the introduction of regional/partial lockdowns. Among the measures discussed: closing terraces/open bars, dancing venues and casinos after 22:00. On Sunday, July 26, the first Romanian town (Făget, Timiș County in Western Romania) was placed under quarantine. In the same light, authorities in Arges County (Central Romania) made mask-wearing in all public areas (including outdoors) mandatory. Further regional lockdowns and restrictive measures are expected over the coming days and weeks, and the local elections scheduled for September 27 could very well be postponed.

Key economic indicators:

- Prime Minister Ludovic Orban and the government are focusing on new bills for supporting the businesses, based on the allocation of European funds of 1 billion euros. "I will refer to the economic recovery program. (...) We have committed that within 30 days, we will adopt the necessary normative acts. Our goal is to adopt it in this week's government meeting on Friday – 350 million restart capital, 550 million investment grants and 100 million grants for microenterprises without employees", announced Ludovic Orban. He added that concerning the aid scheme for supporting the payment of rents for retailers operating in malls, "the bill is being drafted". Regarding the grants for the digitization of SMEs, the PM specified that they would also be adopted on Friday.

Key issues:

- Local elections scheduled for September 27 may be postponed in light of the infection spike. The schedule for the Parliamentary elections (end of the year) is also uncertain. The Social Democratic Party (PSD) were the first ones to advance this scenario. Still, as of this week, the National Liberal Party (PNL) leader and MEP Rareș Bogdan yielded and confirmed that holding local elections this September is a long shot.
- Across the aisle, Social Democrats continue plans to topple the Government. PSD spokesperson Lucian Romașcanu confirmed the statements of PSD's acting chairman Marcel Ciolacu who indicated that PSD would file a no-confidence vote against the Orban Government by Mid-August. More so, despite stark opposition of President Klaus Iohannis (PNL) when it comes to appointing a PSD Prime Minister, both Ciolacu and Romașcanu stressed that after the successful no-confidence vote, Social Democrats would present Iohannis with their own Prime Minister.
- The opposition to PNL and President Iohannis continues, as PSD is warning Iohannis that he would need to ask for the mandate of the Romanian Parliament when negotiating EU funds.

SLOVAKIA

(prepared by the CEC Government Relations office in Bratislava)

Status of epidemic:

- 2,181 confirmed cases, 28 deceased (as of 27 July)
- The average increase in cases is approximately 20-30 cases per day. Disease prevalence is currently seen as stable. Decisions are being made based on public health developments/impacts.
- As of 20 July, home isolation is not required. Negative tests are not necessary for travellers from Australia, Belgium, Cyprus, Czechia,

China, Denmark, Estonia, Finland, France, Greece, Netherlands, Croatia, Ireland, Iceland, Japan, South Korea, Liechtenstein, Lithuania, Latvia, Hungary, Malta, Monaco, Germany, Norway, New Zealand, Poland, Austria, Slovenia, UK, Spain, Switzerland and Italy. Passengers arriving from other destinations should go into home quarantine, contact the regional public health authority, take a test and wait in isolation until receiving negative results.

Key economic indicators:

- S&P confirmed Slovakia's A+ rating but changed the outlook from stable to negative.
- The registered unemployment rate in June rose by 0.20 percentage points to 7.40%.
- The public finance deficit will increase to 11.58 per cent and amount to €12 billion; government debt will soar from 48% to 62% of GDP.
- According to the European Commission, GDP will contract by 9% in 2020, with a projected growth of 7.4% in 2021. Goods exports are expected to recover relatively well in the second half of 2020 and 2021. Inflation is forecasted to decline from 2.8% in 2019 to 1.9% in 2020 and to 0.8% in 2021.
- The Slovak Parliament adopted a pro-business and anti-bureaucracy package to help businesses after the COVID crisis ("lex corona"). The law reduces bureaucracy and moves the implementation of all new tax laws to 1 January. It also scraps the increased bank levy for Q3 and Q4 2020 to enable banks to channel funds into the economy. The Ministry of Economy has now started collecting input for second lex corona to be presented in autumn.

Key issues:

- The government has announced a package of social measures totalling at €500 million. It includes pregnancy benefits from the fourth month of pregnancy, free transport by bus, public transport and trains for children, pupils, students, pensioners and wheelchair users, the abolition of co-payments for medicines for children under 6, pensioners and disabled; a thirteenth and doubled tax bonus for children under 15.

- Ministry of Labour would like to present legislation introducing Kurzarbeit (shortened work time) by the end of the year. The temporary scheme should be introduced already this autumn and financed from EU's SURE program.
- 2019 income tax declarations and payments continue to be deferred as the government still has not terminated the state of extraordinary situation.
- Social insurance levies due in July are postponed to 31 December 2020; subsidies for maintaining jobs will be offered until the end of September
- Slovakia will receive a total of €34.1 billion from the European Union in the next seven years – Slovakia has not yet used up €8 billion from the budget for 2014-2020 and it has got €18.6 billion available within the EU budget over next seven years. In the years 2021 to 2023, Slovakia can draw further EU funds of €7.5 billion from the EU's Recovery Plan. Also, the Slovak Republic has the opportunity to receive soft loans worth up to €6.8 billion at low interest rates, expected to be close to zero. A national investment plan should be presented to the Commission in October.