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Challenges to Social Protection and Social Cohesion in Crises in the Financial Sector

SUMMARY: The entire world was reeling from the coronavirus epidemic (Covid-19) that hit also Europe in Spring 2020. Economic stakeholders were suddenly facing a great deal of uncertainty in their activities. Our paper attempts to explore the changes that have occurred in economic relations between individuals and on a broader scale in economic policy in the short time since the outbreak. In our analysis, we pay special attention to the social responsibility of the economic actors, as well as to the issue of savings. We show that, as a consequence of the epidemic, the European financial system had to face a complex economic crisis of such unexpected rapidity, which is without precedence since WWII. In our conclusions we point to the fact that in dealing with the state of emergency caused by the coronavirus, the banking system, apart from providing the traditional basic services, has also to shoulder a complex and adaptable role, which is indispensable also for the maintenance and strengthening of the social cohesion.¹

KEYWORDS: COVID-19, virus emergency, CSR (Corporate Social Responsibility), ESG (Environmental, Social and Corporate Governance criteria), savings

JEL CODES: D14, H12, I15, M14

DOI: https://doi.org/10.35551/PFQ_2020_3_3

The short-term costs of handling the Covid-19 epidemic were also significantly higher than any crisis of the recent decades because economies were paralyzed around the world at almost the same time when trying to exercise influence over the rapid spread of the infection. The latest estimates project real GDP to decline by at least 5 per cent this year and by 8.7 per cent within the euro zone by 2020. The world trade is likely to shrink even more severely: the World Trade Organization

(WTO) estimates that it will be between 13 and 32 percent due to disruptions in global supply chains, among other things. But even these projections are heavily subject to downwards risks, as the epidemic jeopardizes to strike again, on the one hand, and on the other because the risk of further economic downturns is exacerbated by the cross-border spillover of economic shocks caused by the epidemic. The lack of coordination of economic policy measures by countries / regions further performs a downward risk, which cannot be adequately addressed or prevented by the traditional instruments of

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trade and financial integration agreements in force. The gravity of the situation is shown by the fact that according to estimates of the International Labor Organization (ILO) total or partial lay-offs due to the epidemic will affect almost 81 percent of the world's workers in some way. Other estimates indicate that 29 percent of jobs in Europe are at risk. All this threatens to weaken social cohesion and poses a serious challenge to the issue of dependability in society, which in turn imposes unprecedented burdens and tasks on the economy as a whole, including the banking systems. Our knowledge of the specificities of the Covid-19 pandemic, its impact on public health and the economy is still rather incomplete and subject to great uncertainty, moreover, clarity is often hampered by various fake news and often deliberate manipulation and distortion of data. What we know with certainty is that the effects of the pandemic on health, society and the economy are quite different in each country concerned. In our study, we try to assess the economic impact based on the available information, knowledge and experience, and based on this to explore the challenges and tasks for the economy, in particular for the banking system, to preserve social cohesion and safety in society.

DEVELOPMENT OF THE ECONOMIC ENVIRONMENT IN CONNECTION WITH THE CORONAVIRUS EPIDEMIC

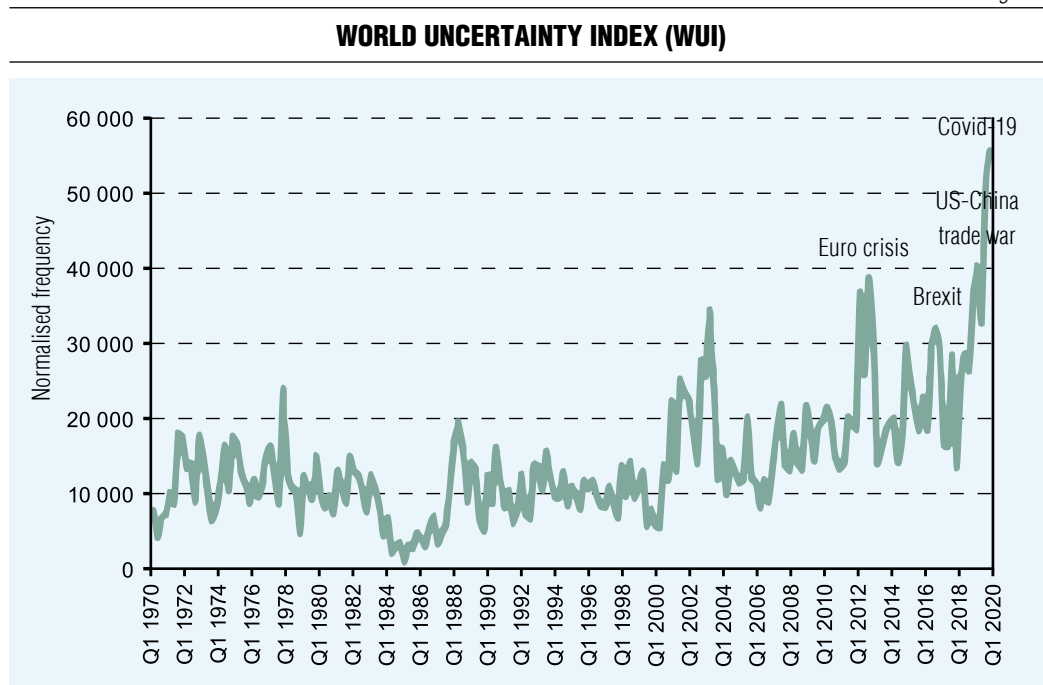
As a consequence of the measures imposed following the outbreak, consumer, business sentiment and confidence survey indicators have fallen sharply (GKI, 2020), suggesting that expectations point to a sharp slowdown in economic growth and a severe deterioration in labor market conditions (*see figures 1 and 2*). It is important to highlight that when the epidemic struck them, countries had

different macroeconomic situation; it has broken growth maintained for many decades in several countries of the developing world, or has just pushed those living there into a dire economic situation. The room for maneuver in alleviating the epidemic-induced crisis varied and indeed remained different: while most developed countries announced rescue packages of huge magnitude, there were far fewer opportunities for those in the developing world (OECD, 2020). Given the high level of uncertainty about the ultimate extent of the economic downturn and its geographically disparate allocation, the growth projections by ECB experts initially assumed that GDP of the euro zone may decline more sharply than in the rest of the world in 2020, by between 5% and 12% (ECB, 2020) depending on the severity and duration of the restrictive measures and the effectiveness of the economic policy measures taken. The main direct triggers for the economic slowdown have been restrictions imposed to control the pandemic, however, it should not be forgotten that without them the epidemic would have spread even faster, leading to even higher rates of infection and death, increasing the likelihood of mutations and health care systems to collapse under overheated pressure, which would have ultimately led to even more unpredictable economic consequences.

Restrictive measures have been lifted everywhere in recent weeks to reinvigorate economic activity as soon as possible. However, for the reasons already mentioned before, the possible pace and extent of recovery varies considerably from country to country and region to region, and is fraught with excessive uncertainty due to the innumerable risk factors. Therefore, forecasts and economic policy measures should be based on different scenarios.

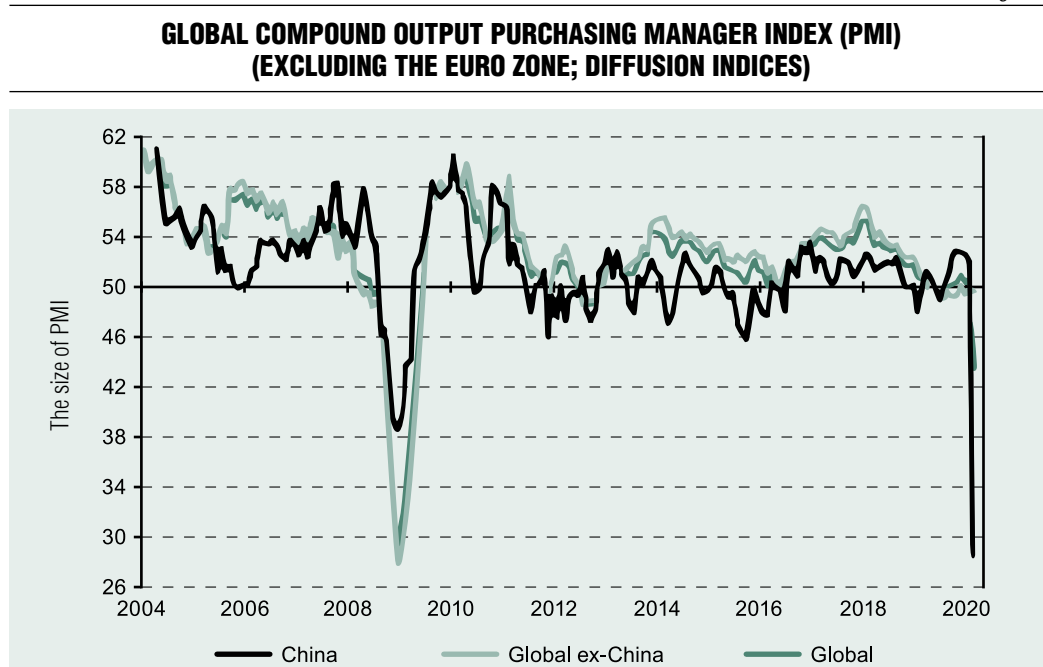
Based on the characteristics of their predictability, events involving risks are

Figure 1



Source: IMF (2020)

Figure 2



Note: The most recent observations are for March 2020
Sources: IHS Markit, Nikkei és Caixin

divided into three main groups in the literature, the so-called “swans”. The most common are “white swans”; the occurrence of such events is relatively easy to predict. “Black swans” are unpredictable emergencies with far-reaching and often catastrophic consequences. According to *Nassim Taleb*, the inventor of the black swan theory, such events are either unexpected or seem so incredible that simply no one thinks of them. Events called “green swans” are those that are likely to happen or appear to be fairly certain (such as epidemics and climate change), nonetheless, their timing (when) and form (how and where) is not known beforehand. The predictability of both black and green swan type of events differs from the modeling of ordinary risk events using conventional methods (i.e. the

probability of occurrence following a normal distribution, see *Table 1*).

Serious outbreaks following the 1918 Spanish flu pandemic, such as the swine flu (H1N1), severe acute respiratory syndrome (SARS), bleeding fever caused by the Ebola virus, resulted in either a high risk of infection with a relatively moderate mortality rate, either a high mortality rate with a geographically limited risk of infection. Therefore, the economic-financial consequences of these epidemics could be considered a *tail-risk* event², as they did not cause a simultaneous, sudden, global-wide disease or forced a global economic shutdown to happen. However, this is not the case for the coronavirus epidemic, neither public health nor economic systems were prepared to face the risks presented by

Table 1

TYPOLOGY OF “SWANS”: SIMILARITIES AND DIFFERENCES

	White swans	Black swans	Green swans
Predicting occurrence	Gaussian normal distribution	Tail-risk does not follow mostly the Gaussian normal distribution. A rational explanation is possible after the event.	It is very likely, even almost certain, that the event will occur, but its timing is uncertain. Too complex for full understanding.
Experts	Statisticians, economists	Economists, financial analysts and risk managers; may have some disagreement.	Specialists; disagree with many economists and financial analysts.
Impacts	Relatively slight or moderate	Massive and direct impact, mostly of a material nature. Damages can be settled after the event (the crisis).	It has a powerful and direct impact, especially on human life (even on the whole civilization). In most cases, the damage is irreparable.
Necessary measures	Risk models are available (can be refined)	Redefining the concept of risk. The event that has taken place shall teach us how to develop non-fragile strategies.	Given the severity of the impacts and the high degree of uncertainty, immediate action and coordination is needed, even without full understanding

Source: BIS (2020)

Covid-19. There were no ready-made and tested scenarios to address these risks, and no financial market was able to “price in” the expected consequences, although financial supervisors conducted as a precaution and prudence several multidimensional stress tests to assess the resilience and resistance of banks in recent years.³ (See *Figure 3*)

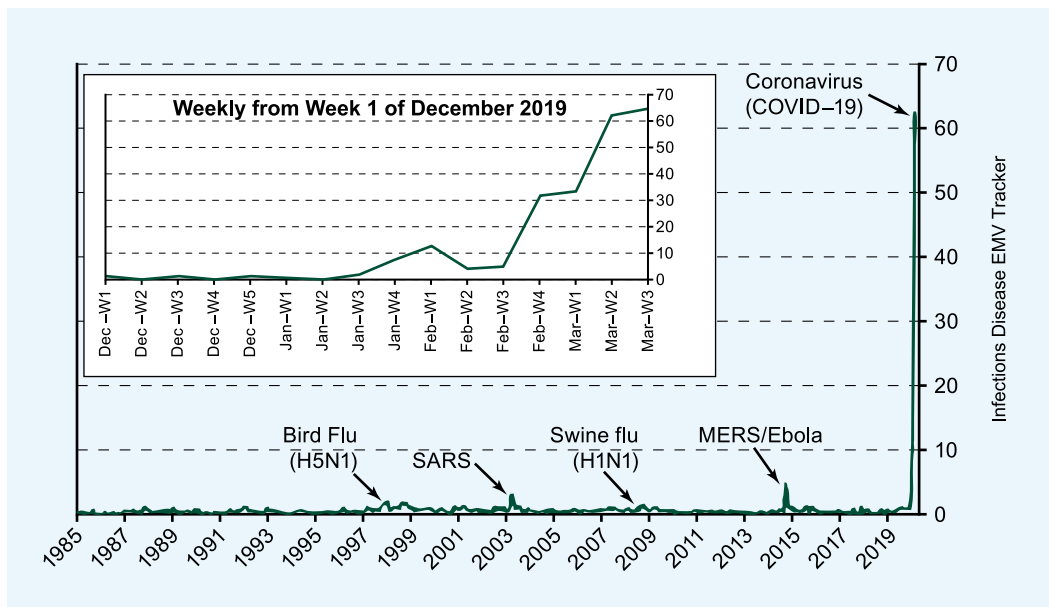
Despite similarities, there are significant differences between the coronavirus epidemic and the nature of the risks posed by climate change. Each country can take unilateral national measures to prevent the spread of the coronavirus, for example by closing the borders. Although banning international travel is not considered to be an optimal medium- and long-term solution, in the short term it will certainly help to retard the spread of the infection and prove to be an efficient

precautionary measure even without the cooperation of other countries. In contrast, in the fight against the harmful effects of climate change, isolated national measures will remain rather ineffective if other countries do not undertake ambitious measures at the same time. This is because the results of national climate protection policies become negligible if a country that has only a small share in the global greenhouse gas emissions has to face neighbors that tolerate climate-damaging activities.

The economic crisis caused by the coronavirus pandemic is also a major challenge because it is very different from the global financial crisis of 2008, or even the great global economic recession of the 1930s, in which most of the crisis management solutions used so far by decision-makers were developed.

Figure 3

CAPITAL MARKET VOLATILITY INDEX FOR INFECTIOUS DISEASES (EMV, WEEKLY AND MONTHLY DATA BETWEEN MARCH 1985 AND MARCH 2020)



Source: BFI Scott R. Baker, Nicholas Bloom, Steven J. Davis, Kyle Kost, Marco Sammon, and Tasaneeya Viratyosin: The Unprecedented Stock Market Reaction to COVID-19, March 2020

Both previous global economic crises caused a classic shock in demand triggered by a complete melt down of confidence in the banking sector. The consequences of the shock in demand were then offset by the vigorous use of fiscal and monetary policy instruments, thus restoring confidence relatively quickly.

However, the economic crisis triggered by Covid-19 is not only a demand shock, but also a supply shock that also triggers an acute demand shock in a short period (Koppány, 2020). This is because consumers did not initially avoid shops, restaurants or mass events for being worried about their future economic prospects, but because health protection regulations limited their access to them. And travelling abroad was initially abandoned not because household spending had to be curtailed, but because countries closed their borders. Moreover, employers initially sent their workers home only because of the risk of the epidemic spreading, and only later because of a drop in orders. It is essential to keep these differences in mind when designing adequate economic policy responses to the economic crisis caused by the coronavirus pandemic. Above all, the disparate tendencies suggest that stimulating demand alone will not be a satisfactory response. If an attempt is only made to move the demand curve back to where it was before the epidemic, little can be achieved beyond inflation or forced savings when the supply curve remains at a low (lower) level, either because of the confinement, hygiene regulations, disruptions in the supply chain or because of feeling of dread. Initial government measures, such as the wage subsidies to protect jobs widely used in Europe, were mainly aimed at stabilizing production and household demand while maintaining employment levels, but at the same time, households often restrained demand due to prudent behavior and to build up cash reserves. Besides, due to curfew, the composition of the consumer

basket also changed and suffered an overall shrunk due to a lack of psychological stimulus invigorating consumption; thus, demand increased only for hygiene products and healthy food. Although consumer prices remain overall moderate for the time being as a result of the general depression, mainly due to the sharp fall in oil prices, which has also withheld the rise in the Harmonized Index of Consumer Prices (HICP), however, the prices of some products in demand, such as fresh food and protective equipment, have risen significantly. Community distance regulations and strict hygiene rules will inevitably increase the costs of certain services and production processes even after the restrictions have been lifted, thereby raising the price level.

A typical feature or collateral phenomenon of the economic consequences of the coronavirus pandemic is that it affects certain sectors or certain regions or countries, as well as certain social groups and age groups to a very different extent. The most visible differences emerged between sectors (see *Table 2*). Transportation, non-food retail, leisure, catering and travel companies have been particularly heavily hit, as they have been directly affected by the imposed curfews and travel restrictions, by the quarantine that was inflicted on certain areas, or by the introduction of community distance rules. Economic differentiation was also influenced by the extent to which the nature of a given economic activity made it possible to use a home office or to comply with distance requirements.

Regional disparities within Europe are (also) strong; the areas with high sectoral exposure are predominant in Italy, Greece and Spain, as well as in north-west Germany, in the Baltic States and the United Kingdom. Although Hungary and the surrounding countries were directly less affected by the epidemic, the economic consequences were quite severe here as well for reasons detailed later.

Table 2

**INITIAL LOSSES BY SECTORS DUE TO THE CONFINEMENT
(AS A PERCENTAGE OF GROSS VALUE ADDED)**

Sector	Loss (in %)
Agriculture	10
Industry (excluding mechanical engineering and the construction industry)	40
Mechanical engineering	40
Construction industry	40
Retail, transport, hotel and catering industry	60
Information, communication	10
Financial and insurance services	10
Real estate services	20
Professional, scientific, administrative and technical services	30
Public administration	10
Arts, entertainment, recreational and other services	30

Source: ECB Economic Bulletin, Issue 3/2020

In the first quarter of 2020, the Hungarian economy expanded by 1.7 percent compared to the same period of the previous year (KSH, 2020). This is because the epidemic appeared only during March, therefore the restrictions imposed affected only the output of the last one or two weeks. However, estimates for the following period typically show a large variance. It is important to emphasize that the Hungarian Government announced a rescue package corresponding to the 4.55 percent of the 2020 GDP in March to deal with the economic crisis caused by the coronavirus epidemic, and has announced some elements of it consecutively. The government has stated that the primary goal of domestic economic policy has been to protect the economic results achieved so far and to preserve jobs. In addition to the measures detailed in *Table 3 c*, the APR for consumer loans has been maximized at +5 percent of the central bank base rate, and more measures were introduced by the government such as property lease contracts cannot be

terminated and rental fees cannot be raised.

Returning from the brief presentation of the Hungarian situation to the global picture, we must first of all point out that the adverse effects on certain sectors will gradually spread to the rest of the economy over time, as demand for products and services in other sectors will inevitably diminish. This is what has happened in the areas of energy and fuel trade, for example. By freezing hiring on the labor market of less directly exposed sectors, including the banking sector and larger telecommunication companies, as well as the slight reduction of the food economy output helped spill-over effects along. The freezing of the labor market, the rapid rise in the number of part-time and unemployed people and consequent decline in consumption will inevitably slow down the expected and desired recovery.

The spill-over effects of the crisis are also leading to a significant redistribution of incomes to the detriment of women, on the

one hand, since the proportion of women employees is higher in the professions most affected, and also between different age groups on the other hand. It is common experience that while the infection by the Covid-19 virus has mild effects on young people, the consequences of the virus-induced crisis hit them much more severely than the older generations both financially and mentally. For members of the Y (millennium) and Z-generations, in other words those born between 1980 and 2012, this crisis represents the worst economic downturn in their life. Their employment prospects and consumption opportunities are much worse than usual, moreover, they are affected by the crisis at a stage in their lives when the majority of them would start a family or find a home on their own. This differentiation could seriously jeopardize social cohesion between the generations.

As it had been already mentioned earlier, a strong differentiation also takes place between countries and regions. On the one hand, the burden on the economy varies in terms of the extent of the infection and the structure of the economy. The latter factor seems to be obvious, since where the role of tourism in the national economy is preponderant for instance, the economic contraction will inevitably be greater.

Another notable experience in connection with the spread of the epidemic and its economic consequences is that, whilst the confinement and restrictions concerning travelling were imposed at roughly the same time across Europe, Central and Eastern European countries reacted without significant delay and with definite rigor at the time of the virus outbreak. The fear of rapid overloading of the underfunded and underdeveloped health care system, compared to the Western European level, also helped the governments in our region to take restrictive measures quickly and the society was willing to accept these

decisions. Thanks to the rapid introduction of precautionary measures, the number of cases and mortality has been significantly lower than in Western Europe. Of course, factors such as high density of the population (in large cities for instance), differences in lifestyles that influence the frequency of social contact (in Southern European countries), the seasonality of tourism (Austrian ski resorts), or the fact whether BCG vaccination was mandatory in a given country or not, also contributed to the differences. And lower infection was obviously associated with mitigated primary economic effects. However, it should also be noted that the lower rate of contamination does not have proportionately smaller economic consequences, as the adverse effects of the fall in demand in other countries and production shutdown due to the close economic interconnections could not be halted at the borders.

Finally, as the coronavirus has hit harder elderly people and/or people having an already degraded health status, the economic crisis caused by the pandemic has brought to the surface and even increased the financial vulnerability of some national economies, which succeeded to mask it to their benefits by keeping extremely low interest rates and moderate market volatility so far for decades. Due to the different levels of vulnerability, there are also significant differences between countries in the “firepower” of measures to offset the economic consequences of the epidemic. And again the external indebtedness of the countries and the international economic competitiveness were the decisive factors delimiting the differences. According to a rapid survey of 116 countries, by April 9, 2020, only 67 countries had announced any active financial assistance.⁴ The majority of these countries also committed itself to only a relatively modest level of support. In the overall sample, the weighted average of

measures to help distressed enterprises was 2.9 percent of GDP, with a fairly large variance. Nevertheless, the level of government measures in the G20 states averaged 3.5 times of what has been provided during the 2008 financial crisis. The structure and amount of subsidies are presented in *Tables 3.a and 3.b* in an international comparison. Table 3.c shows the structure of the measures introduced by the Hungarian Government.

IMPACT OF THE CORONAVIRUS EPIDEMIC ON THE BANKING SYSTEM

The coronavirus epidemic hit the European, including the Hungarian, banking system unexpectedly, nevertheless they were not unprepared, in the sense that banks

recapitalization was much stronger before the Covid-19 global pandemic and economic crisis than in 2008. This was largely due to the regulatory tsunami that followed the 2008 economic crisis, which put into practice the principles of the “Declaration on Strengthening the Financial System” adopted by the G20 heads of state and government at the 2009 London Summit. Also, four other factors in the European financial sector have mitigated the adverse initial economic effects of the coronavirus epidemic and the precautions taken against it:

① companies and households were in good financial conditions due to the economic prosperity in the years following the euro crisis (Lentner, 2016),

② the rapid spread of digitization (Pásztor, 2018),

Table 3.a

AID ANNOUNCED BY SOME OECD COUNTRIES (AS A PERCENTAGE OF 2019 GDP)

Country	Immediate fiscal impulse in %	Tax deferral in %	Other liquidity help / guarantees in %
Belgium	0.7	3.0	10.9
Denmark	2.1	7.2	2.9
United States	9.1	2.6	2.6
United Kingdom	4.8	1.9	14.9
France	2.4	9.4	14.0
Greece	1.1	2.0	0.5
the Netherlands	1.6	3.2	0.6
Hungary*	0.4	8.3	0.0
Germany	10.1	14.6	27.2
Italy	0.9	13.2	29.8
Portugal	2.5	11.1	5.5
Spain	2.3	0.9	9.2

Note: The data reflect also the situation in April in several countries, including Hungary

Source: Bruegel, The fiscal response to the economic fallout from the coronavirus, 27.05.2020

Table 3.b

**COMPARISON OF FISCAL INCENTIVES FOR CRISIS MANAGEMENT
(IN % OF THE GDP*)**

Country	The financial crisis of 2008** (%)	Covid-19 crisis *** (%)
Germany	3.5	33.0
Japan	2.2	21.0
United Kingdom	1.5	14.5
France	1.4	13.9
United States	4.9	12.1
Canada	2.8	11.8
South Africa	2.9	8.6
Brazil	0.6	5.5
Italy	0.9	4.6
G20****	3.5	11.4

* Source: Bloomberg, Forbes

** Values related to the COVID-19 crisis based on 2019 GDP;

***Based on data published by the IMF in March 2009, includes the specific measures announced for 2008-2010 in the context of the 2008 financial crisis;

****Except Turkey and EU (no data)

Source: McKinsey: COVID-19 information materials. Global Healthcare and Crisis Management, 06. 06. 2020

③ in addition to the tightening of banking regulations following the 2008 crisis, banks' efforts to comply with regular supervisory stress tests have also put banks in good conditions strengthening their capital and risk reserves,

④ the lessons of the 2008 crisis have strengthened the social responsibility of banks and the financial literacy of their customers.

Perhaps the most dynamic development has taken place in digitalisation in recent years. Everyone has been trying to adapt to new opportunities at a rapid pace from large companies to micro-enterprises and even the general public: hundreds of thousands of digital services have been used regularly, including online communication tools, e-commerce, digital banking (Árva et al., 2020). *Figure 4* shows the evolution of the

indicator measuring the development level of the digital economy and society in the EU, and *Figure 5* shows the use of digital banking channels.

Similar to European trends, strong evolution has taken place as well in Hungary over the past decade. According to a survey by the National Media and Communications Authority (NMHH) on telephony, television viewing and Internet browsing, at the beginning of 2010 only one in twenty people had a smartphone in Hungary, especially at C-level, young, more technology-sensitive and above-average earning men, but nowadays two-thirds have at least one such device among the population over 13 years of age. Although Hungary is only in the bottom third in the ranking within the EU, 5.4 million people use a smartphone, that is to say 89 percent of adult

Table 3.c

MEASURES TAKEN BY THE HUNGARIAN GOVERNMENT TO MITIGATE THE ECONOMIC IMPACT OF THE PAN-DEMIC

	The amount of funding related to measures in 2020	
	HUF billion	as a percentage of GDP
1) Economic policy measures = A) + B)	1,623	3.4
A) Specific tax and social incentives	360	0.8
Further 2 percentage point reduction in social security contributions	160	0.3
Temporary reduction of certain employer and employee contributions until June 30	108	0.2
Other tax incentives	81	0.2
Extension of the entitlement to maternity benefits	11	0.0
Measures related to expenditures	1,262	2.7
Funded by reallocated domestic expenditures	923	2.0
<i>Domestic programs not related to financing measures</i>	<i>878</i>	<i>1.9</i>
<i>Budgetary impact of the capital, guarantee and loan program in 2020</i>	<i>45</i>	<i>0.1</i>
Financed by the reallocation of EU co-financed expenditures	340	0.7
2) Measures related to financing	6,794	14.4
Repayment moratorium	3,600	7.7
Total amount of new capital, guarantee and loan programs (until May 19)	1,694	3.6
Go! Growth Loan Program scheme by the Hungarian Central Bank (MNB)	1,500	3.2

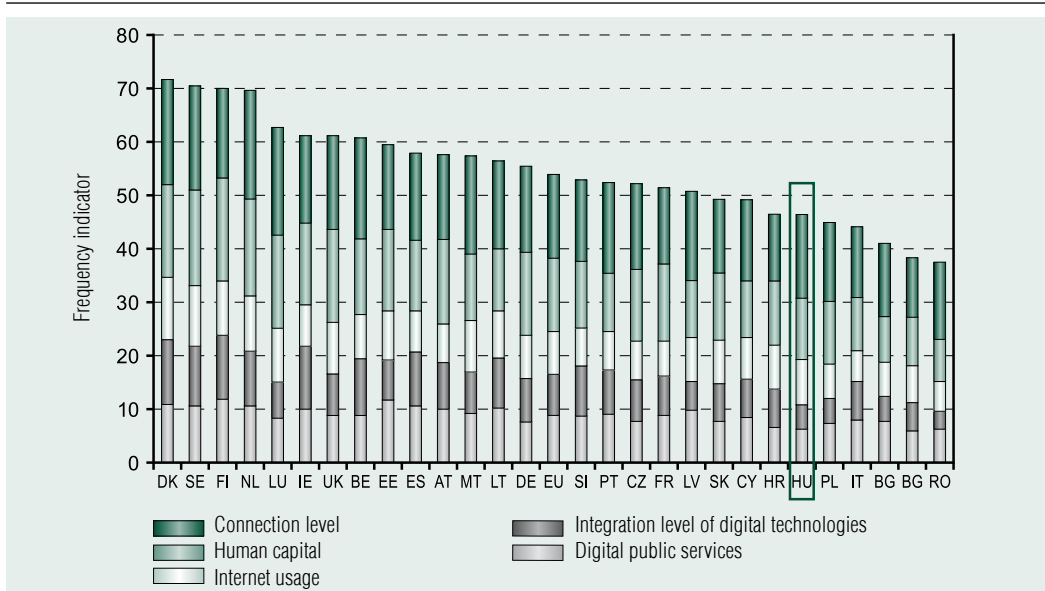
Source: based on ÁKK: Hungary – Investor Presentation (26. 05. 2020)

Hungarian Internet users. The proliferation of smartphones has also contributed significantly to the use of the Internet in rural areas, especially for families who are financially and geographically disadvantaged. Where the purchase of a more expensive, traditional computer or laptop could not be done, the purchase of cheaper smartphones of up to 10-15 thousand forints including some mobile Internet services allowed to these households to reach digital services at least at a basic level. Accelerated digitization has been reflected mainly in changes in communication habits:

the proportion of social media users on a daily basis has increased significantly, and a larger proportion of employees work regularly from home. Working from home means that commuting is not necessary, and the flexibility of the place of work is particularly useful for single people, parents or caretakers, and makes work more accessible to people with disabilities. Everyday administration, purchases and the use of various services can also take place digitally. Moreover, the real-time wire transfer was introduced in the Hungarian banking system at the beginning

Figure 4

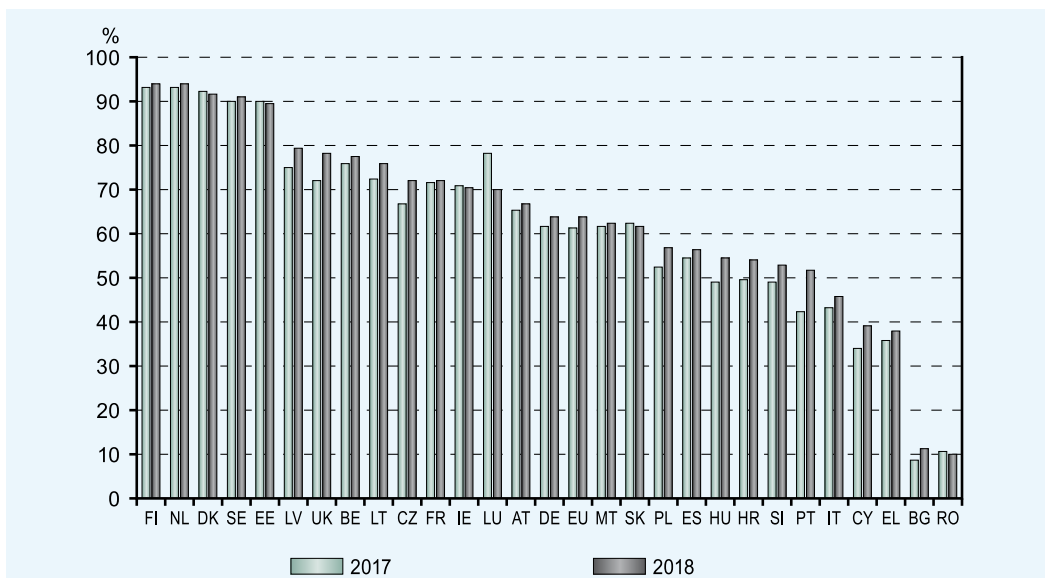
**DIGITAL ECONOMY AND SOCIETY INDICATOR (DESI),
2018 RANKING**



Source: EC: Digital Economy and Society Index (DESI) 2019, 11. 06. 2019

Figure 5

**NUMBER OF INDIVIDUALS PERFORMING INTERNET BANKING TRANSACTIONS
(AS A PERCENTAGE OF INTERNET USERS) IN 2017–2018**



Source: EC: Digital Economy and Society Index (DESI) 2019, 11. 06. 2019

of March this year, which opened up new possibilities for users of digital banking.

All these developments have made it possible to use the basic banking services without personal contact despite the restrictions imposed to prevent the spread of the coronavirus epidemic, and allowed to a significant proportion of bank employees to work remotely from home. As a result, the Hungarian banking system operated smoothly and reliably even in times of emergency, online banking, call-centers and branch services were continuously available, thus financial institutions were able to participate quickly in and support the implementation of economic protection measures.

The Hungarian banking system has been developing at a good pace in the pre-epidemic period. 2019 was one of the most prosperous years of the last decade for domestic financial institutions. Thanks to the return of profits, accumulated reserves and healthy liquidity conditions on the one hand, stricter regulations and temporary easing of accounting standards in the state of emergency, as well as a monetary policy that provides ample liquidity on the other hand, will allow for the time being to the banking system to cope with the exceptional burden the deteriorating situation of creditors, the moratorium on the mandatory repayments, and imposed sectoral tax present.

However, it must be acknowledged that all stakeholders - including the central budget, citizens, companies and their shareholders - must bear the consequences of the crisis to the best of their ability. The specific additional burden on the banking sector makes it possible to finance government measures that help prevent creditors from becoming insolvent, the occurrence of which would also be a major burden on the banking sector. As *Jean Pierre Mustier*, Chairman of the European Banking Federation (EBF), pointed out, in a state of emergency, banks need to do much more

than just act as payment service providers and lenders, they also have to play an active role in delivering financial aids provided by the states. This kind of involvement obviously requires a lot of extra effort, nevertheless, it also creates new business opportunities.

To deal with the crisis, banks, like all economic actors, need to reconsider their normal operations. They should be prepared for a lasting and continuously increasing, close cooperation with the government, reassess the priority of short-term profitability that may remain in the business strategy, what's more, when and under what conditions pre-epidemic loans can be expected to be repaid. Besides, they have to review the organization of work, and more attention needs to be paid to the issues of health security and digital training of employees.

These tasks are hampered by the difficulty of predicting how the epidemic will fade away, the time required for it, and the state of the economy by then, as well as the lasting structural changes in demand. According to the witty remark of former U.S. Secretary of Defense *Donald Rumsfeld*: “[...] *There are things we know that we know about. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know.*” The economic consequences of Covid-19 belong to the latter two groups, in other words it is necessary to cope with it as we were solving an ambiguous equation. How will be changing consumer behavior and demand? How will travel and vacation habits be changing? How shall the attendance of community events be altered (cultural events, sporting events)? What will remain permanent and what will be reorganized following the digital transition? If the share of work performed from home, online purchases and transfers remains high, how will this affect, for example, the demand for offices

and business premises or work habits? How is the globalization of production changing: is it just slowing down (“*slowbalization*”), or is there a greater emphasis on “*proximity*”, i.e. on “*on-shoring*” or “*glocalisation*”, and how fast and within what structure will this take place? Will there be another wave of the epidemic, and what will characterize it? When will there be a vaccine against the Covid-19 virus, and how fast and for how long can a person be protected? What will trigger the sense of security in citizens, and when will it become strong enough that being so they dare to spend again more freely? There are many important questions to which we do not have a reliable answer yet.

Partly because of these uncertainties, but also because of the severity of the economic crisis caused by the coronavirus epidemic, recovery is likely to be a long process despite significant government actions, especially in the areas and in social groups most affected by the crisis. *Figure 6* shows how long and how differentiated the process of recovery will be. Although the figure is made for Spain, it helps us to estimate the evolution in Hungary as well.

The fact that the recovery process is expected to last longer is also confirmed by the Ministry of Finance’s medium-term outlook for 2024 submitted to the National Assembly as an annex to the 2021 budget (*Table 4*), which shows that the fiscal charges on transactions as well as the special tax on banking are planned to remain in force for another four years.

Amid uncertainties, it is especially important to pay attention and respond quickly to the problems and needs of customer. This is not only about adequate adaptation to the current situation, but also about the recognition of customer loyalty as it will determine with whom customers will maintain a lasting business relationship after the crisis fades away, and how much they will

trust each service provider, including their banks, in the future. Many banks established customer segmentation data already that can provide a profound basis for exploring and meeting the real needs of customers. These data can also be used by banks to analyze which of their customers are better able to emerge from the crisis and which ones need more active support. For the latter, recommendations should be made which, if adopted, will make it possible to manage the accumulated debts of companies spearheaded to survive in the long term, vital to prevent individual bankruptcies.

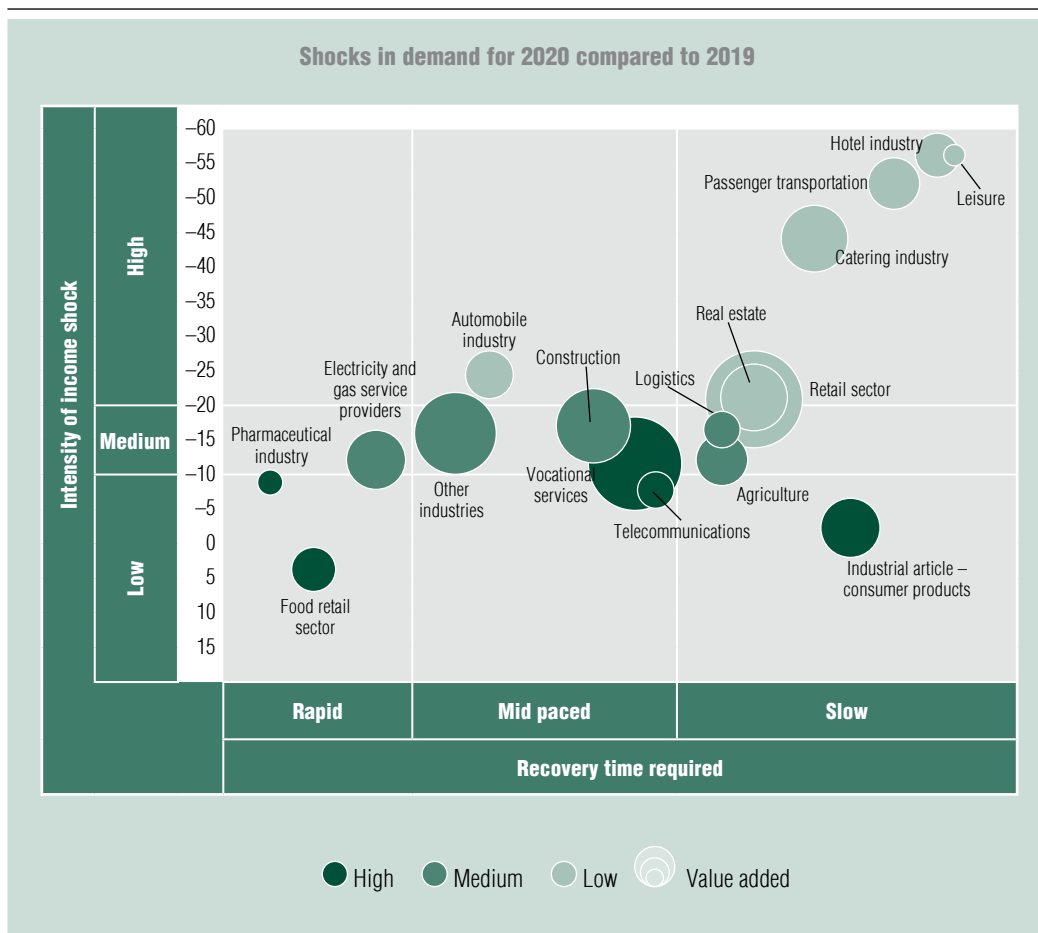
In the course of its professional activity, in addition to law-abiding behavior, the banking sector must take into account the unwritten expectations of society regarding justice and fairness as part of the profession’s reputation (Lentner, 2017). It should also be ready to use its available assets to support activities that give disadvantaged entrepreneurs a chance to survive or emerge from dire straits.

Banks cannot avoid the situation where they have to judge at their sole discretion which of their customers will stay put in the changing environment of the post-epidemic period whether by disbursing new loans with a partial state guarantee, and which ones do not really have a chance of survival due either to the changing structure of demand, either to efficiency problems that exist independently from the epidemic, and are therefore likely to be doomed to failure. The task is rather complicated by the fact that, due to the unprecedented nature of the current crisis, the available methods and models used by banks to analyze credit risk are too retrospectively oriented, thus providing only limited substantiated guidance for lending decisions in today’s context.

Certainly, many previously granted loans will become non-performing after the moratorium as a consequence of the

Figure 6

ESTIMATED DECLINE IN DEMAND IN 2020 AND POSSIBLE SCENARIO FOR THE RECOVERY PATH IN SPAIN



Source: McKinsey: COVID-19 Briefing Materials – Global health and crisis response, 01.06.2020

Table 4

MEDIUM-TERM OUTLOOK SUBMITTED TO THE NATIONAL ASSEMBLY

	Appropriation HUF billion		Target figure HUF billion		
	2020	2021	2022	2023	2024
Transaction fee	226.3	218.8	228.4	237.7	247.2
Special bank tax	65.0	61.4	61.4	61.4	61.4
Insurance tax	98.0	105.9	117.6	130.6	145.0

Source: Ministry of Finance (2020)

coronavirus epidemic, in other words loans for which debtors will not be able to pay their interest and/or repayments on time or in full. However, the swelling of the portfolio consisting of such loans is also a major concern for the national economy as it deteriorates the bank's balance sheets, makes it more difficult to disburse new loans and thus inevitably delays economic recovery. After the crisis of 2008-2012, the persistently high level of non-performing loans caused serious difficulties in several European countries, and now this problem is set to recur. This time, however, the preservation of "zombie" companies must be avoided at any price, as otherwise it will divert significant financial and human resources from companies with a promising future capable of achieving sustainable development.

SOCIAL RESPONSIBILITY OF ECONOMIC OPERATORS

Corporate social responsibility (CSR for short) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public and, at last but not least, to the environment. This corporate governance attitude developed in the 1950s goes well beyond full compliance with legal obligations.

Nowadays, most businesses make some kind of voluntary offer to improve the quality of life in the community around them. But not only is corporate management paying increasing attention to the social acceptance of their company's activities, but investors and lending institutions are also increasingly paying attention to ensuring that their investments comply with Environmental, Social and Governance (ESG for short) standards. Recently, in addition to community-owned enterprises, more and more investors and companies are recognizing

that compliance with environmental, social and corporate governance requirements has concrete practical benefits far beyond moral recognition (Kocziszky, Veresné, 2020). Compliance with ESG standards, for example, avoids investing in companies, which activities pose a serious risk because, as evidenced by the offshore oil leakage caused by the oil company BP for example, or Volkswagen's manipulation of harmful gas emission data, each of these scandals has cost billions of dollars in terms of price of shares of the found guilty companies, besides, worsened their business reputation and prospects. The importance of enforcing ESG requirements is not testified only by the above-mentioned foreign examples: in Hungary for instance, the red mud disaster in Ajka ten years ago caused not only economic losses but also inestimable economic and ecological damage in the Devecser micro-region on the western edge of the Bakony.

Banks need to pay attention not only as a company, but also as a financing institution to respond to social expectations and their changes (Szegedi et al., 2020). As part of their lending activities, they must enforce the environmental, social and corporate governance standards expected by society. This is particularly important in the light of EU and governments responses to the coronavirus epidemic, as the huge amounts of credit and guarantees needed to mitigate the socio-economic impact of the epidemic in the corporate and public sectors, shall primarily be used to fund projects that are also satisfying sustainable development and climate protection. (Poletaeva et al., 2019). It will be indeed an unavoidable task and responsibility of the banks to scrutinize the individual projects implemented with their participation to ensure that their business plan and operation meet expectations in all respects.

However, the social responsibility of financial

institutions does not end at project funding or sponsorship. For their own best interests, they also need to be involved in the process that aims at deepening their clients' financial and technical knowledge and skills. While it is extremely encouraging that restrictions on the coronavirus epidemic have led to a sharp increase in the use of digital channels, it must also be noticed that cybercrime has become more intense and criminals are trying to perform illicit withdrawals from customers' accounts or impose unjustified payment obligations, taking advantage of people's insufficient skill and carelessness. For this reason, it is essential to draw people's due attention to phishing and other fraudulent tricks used by criminals regularly and, as far as possible, to offer individually feasible methods of appropriate protection. Also, they should provide easily accessible advice and complaint protocols to their clients when they feel digital channels challenging, or in case they accidentally initiated a transaction, to minimize the damage.

Another important area of social responsibility is to stimulate savings. The healthcare precautions introduced to mitigate the epidemic and the economic fallout from the coronavirus have adversely affected a large number of people, but especially those whose incomes have suddenly diminished as a result of either ceased part-time employment, unemployment, or the loss of revenue from their individual (micro) enterprises, not having savings or an insurance plan necessary to help them getting through the existential issues that occurred. The coronavirus epidemic has highlighted the need for an adequate contingency reserve for unforeseen situations, and one cannot rely solely on social assistance. In what follows, we therefore wish to talk about promoting frugality and prudence, moreover about stimulating the training in connection with savings.

ABOUT SAVINGS

The curfew restrictions imposed in connection with the coronavirus epidemic have not only reduced earnings but also the opportunity to spend one's income. According to a survey commissioned by a large Swiss bank, one third of the average household consumption in the pre-epidemic period was composed of products and services that could not be obtained or consumed, or only with difficulty, after the introduction of the restrictions. For this reason, consumption volumes were about 20 percent below as before the restrictions. One of the consequences of this was that Swiss households saved about 2,000 Swiss francs on average (about 650,000 forints) during the first two months of the restrictions. Will this extra savings appear as demand after restrictions are lifted? According to the researchers, even under an optimistic scenario of rapid normalization, it is only expected that households will spend no more than two-thirds of their forced savings generated during the epidemic; the rest serves as a safety reserve. The development of the domestic retail deposit shows a similar trend as in Switzerland, which increased by HUF 588 billion, i.e. by 5.5 per cent, between March 1, 2020 and April 30, 2020.

Of course, some argue that forced savings by households are detrimental to the national economy because it reduces demand. In contrast, the authors believe that in times of crisis, by building up appropriate reserves helps people to recover their "courage" to consume later. Notwithstanding, this period has provided an opportunity for each and any of us to assess what they really need. Saving does not mean renounce entirely all pleasures, but a exhaustive way of living consuming only what is really necessary. Would the quality of our life really deteriorate if we gave up the daily 500 forint latte macchiato consumed in the café downstairs, or replacing the car

every 5 years, or possessing a large apartment? Of course, each individual response will be different; but what matters is to ask these questions ourselves. And this is what many are doing now, when the coronavirus epidemic has deprived them of many amenities of life they have been accustomed to so far. We guess many realized that until now they had consumed more than they needed. The spending break due to the pandemic offers now a good opportunity to develop a more rational consumption pattern, which will not only boost savings, but also contribute to a sustainable lifestyle and mitigate the effects of possible new shocks.

It was perhaps for many, as a result of the recent increase in wages, the sluggish spending and borrowing behavior that led them to financial distress caused by reduced working hours, discontinued earnings, and a lack of set-aside reserves. Putting them in a vulnerable position indeed, as they do not really have an option to give up their jobs due to a lack of financial reserves (even if the work they do is detrimental to their health or make them unhappy) as their salary is entirely consumed by the volume of liabilities they have accumulated in the past.

In addition to passive savings discussed so far, we must also mention active savings and their importance. Concerning active savings, special attention should be paid to financial behavior of young adults, on the one hand because consumption and saving habits develop at this age, and on the other hand because, as mentioned earlier, young people are the social group that the crisis hit the most. According to a regular survey of the satisfaction and future expectations of young people aged 19-29 in Hungary,⁵ 55% of young people currently have some form of financial (i.e. active) savings. This is indeed a positive shift compared to 41% two years ago, but the consequences of the economic downturn due to the Covid-19 virus

also warn us that the current trend needs to be maintained, which can only be achieved with a more conscious attitude.

The most conscious saving behavior is when someone sets aside a predetermined amount each month. However, the cited survey found that this practice is common to only 30 percent of young people between the ages of 19 and 29 interviewed. Fortunately, however, the number of young people who do not set aside some of their monthly income at all is declining.

According to the survey, the average amount of savings available to young people was HUF 404,000; this shows a slight decline compared to the 2019 data. This cannot be considered small; however, it should not be overlooked that this amount is only an average calculated from the answers of 55 percent of the respondents. 45 percent do not have any savings at all, which can have particularly painful consequences in the current situation: 34 percent of young people would live up to their savings within a month, and only 31 percent would be able to sustain themselves from their savings for more than half a year. As the bearing capacity of social protection is limited, especially in times of crisis, the education system and the banking sector, as an important duty of theirs, shall encourage the training of savings and the approach to self-support (Csorba, 2020). In this regard, it is an important task for both the banking sector and the government to stimulate regular savings through targeted and attractive incentives and tax breaks, even if the monthly amount of it is rather small.

CLOSING REMARKS

In dealing with the state of emergency caused by the coronavirus epidemic, the banking system must, in addition to providing its basic

services (cash flow management and lending) at a high level, continue to develop digital customer services that played an important role during the crisis, and boost loan origination to create more new jobs, which are also able to modernize the economic context of those jobs, as well as develop intermediary solutions to deal with those left behind. On the other hand, amid considerable uncertainty in the economic environment, it has to play a multifaceted role over several years, including

a moratorium compelling serious financial sacrifices, procedures to support the restoration of their clients' solvency, financial awareness-raising activities, and provision of solidarity support. Notwithstanding, unpredictable situations have also their certainty, and based on these the entire financial system, including the banking system, can play an important role in stabilizing the economy and thereby maintaining and strengthening the social cohesion.

NOTES

- ¹ Certain projections referenced in the study have been 'overwritten' in part by the statistical data published and the projections modified since the closing of the manuscript; however, such changes do not affect the key findings and conclusions of the study.
- ² Du, Z., Escanciano, J. C. (2015). Backtesting Expected Shortfall: Accounting for Tail Risk. CAEPR Working Paper 2015-001
- ³ Ld. EBA launches 2020 EU-wide stress test exercise, Press Release 31 January 2020. The pessimistic scenario for this year's stress test by the European Banking Authority assumed a total decline in EU real GDP of 4.3 per cent by 2022 and an increase in the unemployment rate of 3.5 percentage points; however, these calculations were well overwritten by reality a few months later.
- ⁴ See for example the publication by the World Bank: The Economy in the Time of Covid-19 – Semiannual Report of the Latin America and Caribbean Region, 2020. 04. 12.
- ⁵ K&H: seven out of ten young people can only buy an apartment with outside help - young people would buy an apartment on credit, a car from their own resources, 07.05.2019; <https://www.kh.hu/hmã/sajto/-/sajtohir/k-h-tizbol-het-fiatalcsak-segitseggel-tud-lakast-venni>

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