



Hungarian businesses' perceptions concerning the economic effects of the coronavirus pandemic

The Hungarian Chamber of Commerce and Industry (HCCI) surveyed Hungarian companies about the economic effects of the global pandemic. In the first wave, there were 16340 respondents answering by 23rd March, 2020. Incoming answers were analysed by HCCI's Institute for Economic and Enterprise Research. In the survey the overwhelming majority of businesses (83%) reported an unfavourable business situation. This is particularly true for companies specialising in accommodation/catering services, trade and delivery/logistics – these branches being the most vulnerable to the pandemic. Furthermore, business have become much more pessimistic since mid-March. Since then, the number of companies deeming their situation as most unfavourable increased by almost twofold (from 37 to 67 per cent). Almost a half (41 per cent) of the surveyed companies experienced serious hindering issues that were linked to the spread of the virus.

This analysis features three main aspects: companies' expectations about the business situation in the future, their perception of the current situation, and crisis management options. The vast majority of respondents (83 per cent) expects a deterioration in their business outlook although the adverse effects are currently experienced by somewhat less than a half of them. Yet the overwhelming majority of respondents (about 83%) have no emergency scenario to manage the crisis. Among those who do have crisis management strategies the most popular solution is working from home (i. e. home office): almost a third of such companies would switch to home office when needed.

The impact of the pandemic on companies' business situations

The majority (83%) of respondents thinks that their company will have to grapple with an unfavourable business situation in the upcoming six months, while 50% expects a particularly gloomy business situation in the next half. 13 per cent believes that their situation will not change, and only 5 per cent expects a boost.

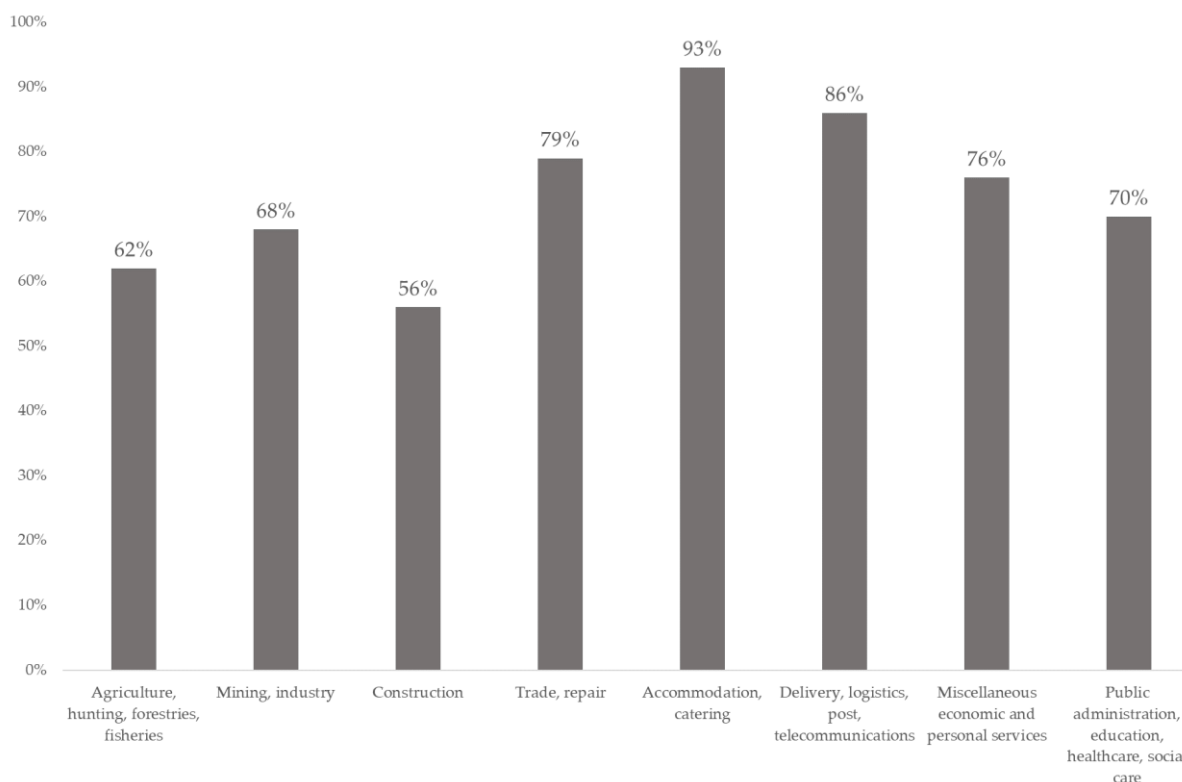
As for company size, SMEs employing 10-49 people see their futures the darkest. The rate of SMEs that expect unfavourable or very poor future business situations is quite high (86%) compared to others. Looking at industries we find that these expectations are the most common among companies specialising in accommodation and catering services (93 per

cent), trade (86 per cent), delivery and logistics (86 per cent) and miscellaneous services (86 per cent), as shown in Figure 1.

In mid-March business outlook for the foreseeable future have gradually become more negative compared to the previous period. This is apparent if the groups of respondents submitting the survey before and after 23:59, 15 March are analysed separately. No doubt, the perception of economic outlook

for the next six months has significantly deteriorated over time. The rate of companies that foresee a really unfavourable future business situation jumped from 37 to 67 per cent among companies that submitted the survey after 15 March. The growing rate of pessimistic business expectations is clearly visible in all sectors.

Figure 1. Rate of companies expecting an unfavourable or a really bad business situation, by industrial branch, percent, N=15 641



Source: HCCI,2020

30 per cent of the respondents thought that the spreading pandemic made their outlook worse, or much worse, according to a further 61 per cent. Only a tenth of all responding

companies thought that the coronavirus pandemic would not influence their business. The rate of the most pessimistic businesses has

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increased by 50% (from 49 to 76%) since 15th March.

In general, the pandemic has a greater negative impact on companies that have foreign connections or that are links of international supply chains. Exporting companies feel that the state of emergency has affected their business outlook in a particularly adverse way at a higher rate (63%) than non-exporters (58%). The same is true for companies of full or partial foreign ownership (66%) compared to fully domestic companies (59% expect significant deterioration.)

Current impacts of the coronavirus pandemic

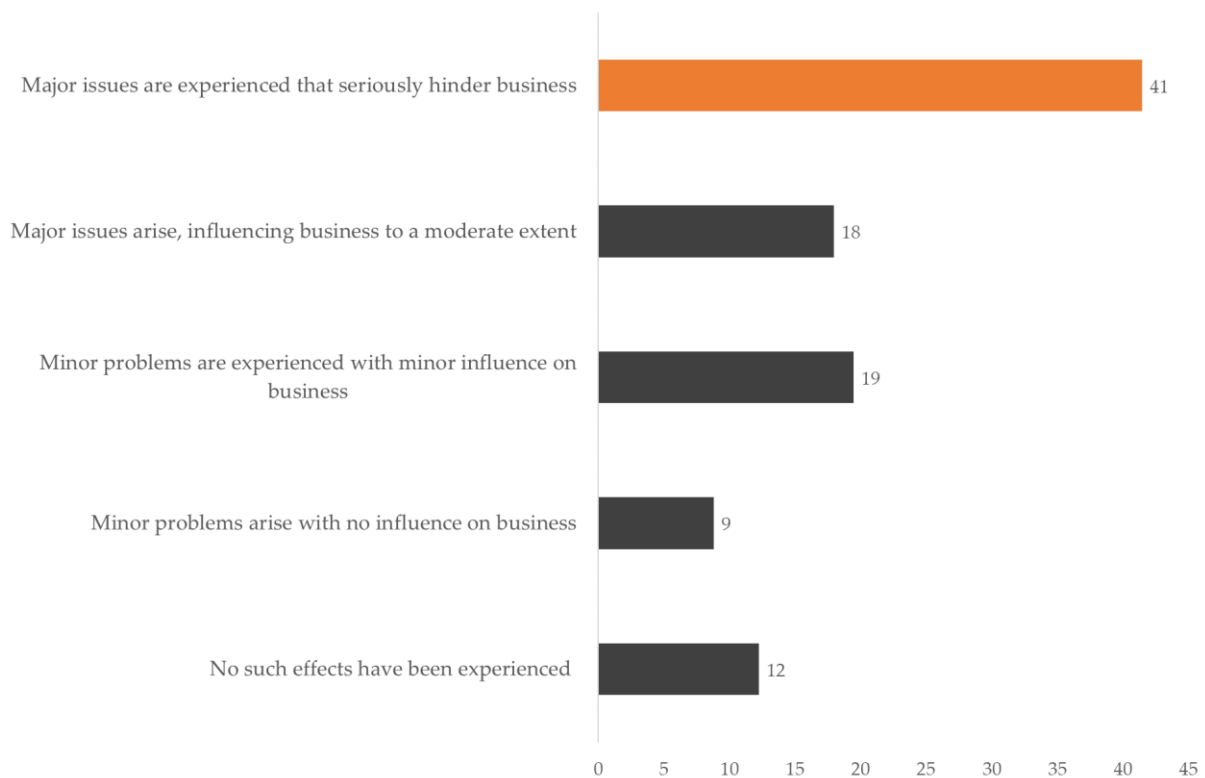
Although company outlooks are pessimistic, the adverse effects of the pandemic have not been perceived yet directly. 12 per cent of respondents felt that the pandemic hadn't

changed the functioning of their company. 20 per cent experienced problems that only have a slight effect on business. Almost a half of responding companies (41%) already perceived serious problems that greatly hindered work. (see Figure 2)

Like future expectations, the assessment of current business situations led to worsening results, too. The rate of respondents who experienced severe problems more than doubled (from 26 to 61 per cent) after 15th March. This effect is perceivable, without exceptions, in all sectors.

91 per cent of respondents expect to meet the negative effects of the pandemic very soon, in about three and a half weeks, an average calculated from the respondents' approximations.

Figure 2: Rate of companies perceiving unfavourable tendencies concerning production, supply chains and services, per cent, N=16 226



Source: HCCI,2020

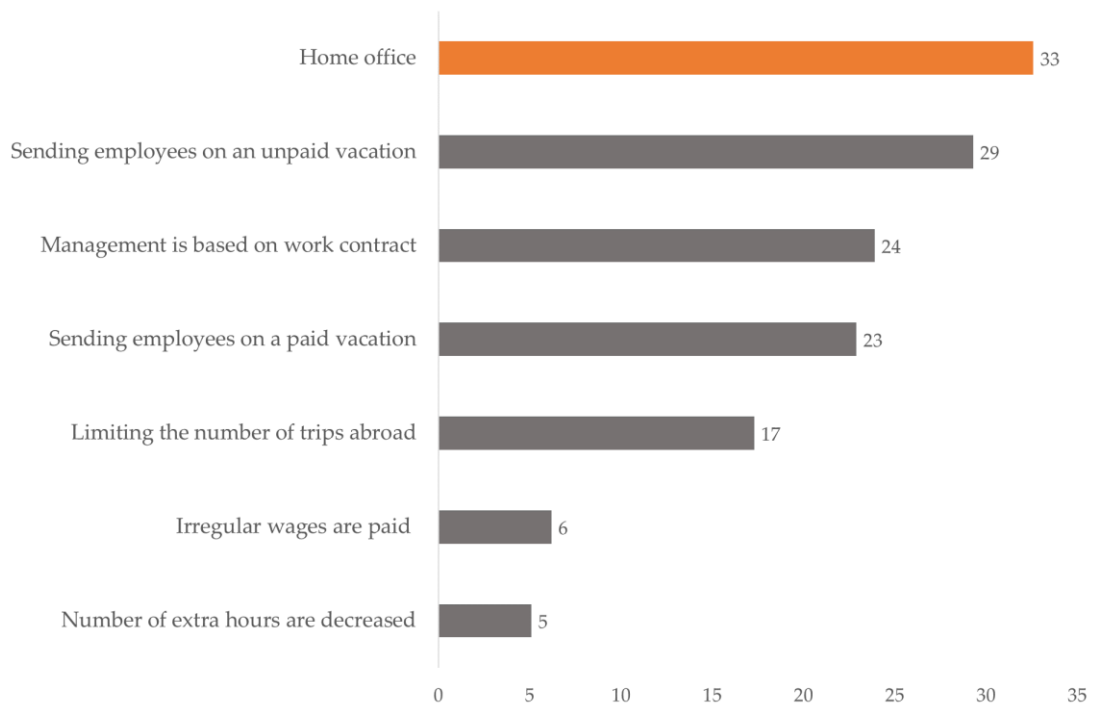
Crisis management

The vast majority (83%) of respondents do not have any emergency scenarios or plans for situations similar to the present coronavirus pandemic, however, 42 per cent are currently working on such plans. 8 per cent do have a plan but they haven't implemented it yet; 9 per cent have already started implementation.

The most serious threat the pandemic poses to companies is that employees can become incapable of doing work (because of falling ill or being in quarantine). However, less than a half (49 %) of the companies in the sample have a plan to manage the crisis without violating labour rights.

Most of the respondents (33 per cent) from companies that do have emergency plans would introduce working from home (home office). About a third of our respondents are considering sending their employees for an unpaid holiday. About a quarter of responding companies plan to base illness- and quarantine-related issue management on work contract provisions. 23 per cent of companies will send employees on paid vacations, 17 per cent limits the number of trips to be taken abroad. Discontinuation of extra hours and introduction of irregular wages are planned by 5% and 6% of companies, respectively (see Figure 3).

Figure 3: Plans to manage absence issues due to illness or quarantine, per cent, N=7992



Source: HCCI,2020

Respondents could choose more than one option

Claiming social contribution tax allowance in Hungary

The latest analysis by HCCI's Institute for Economic and Enterprise Research concerns the features of claiming a social contribution tax (hereinafter: szocho) allowance in Hungary. The data were taken during IEER's half-year business climate survey conducted in October 2019 involving 2268 Hungarian companies. Results drawn from the group of companies employing at least 10 people (N=930) clearly show that 77 per cent of businesses claim szocho tax allowance on various grounds. The employment of people new to the labour market is the most popular source of eligibility (63%), closely followed by the employment of disadvantaged or disabled workers (59%). Claiming tax allowance and company size strongly correlate – the bigger the company the more liable it is to claim an allowance – and as for sector, companies offering miscellaneous services and businesses in the processing industry are the most eager to claim. Foreign ownership doesn't seem to influence liability, whereas exporters are more prone to claim a szocho tax allowance than non-exporters.

The notion of green economy and green jobs

As a part of IEER's regular half-year business climate survey, 2268 Hungarian company CEOs were asked about their practice of claiming szocho tax allowance. IEER only considered businesses employing more than 9 workers for the analysis (N=930). The sample of respondents is representative with regard to company size and industrial sector (processing industry, construction, trade, miscellaneous services¹). The elements in the sets are weighted.²

77 per cent of the sample are claimants of szocho tax allowance, and their eligibility is based on various grounds. Most of the employers claim it because they employ people who have just entered the labour

market (63%). Their group is closely followed by employers who provide jobs for the disadvantaged or disabled (59%). The employment of mothers of three or more returning to the labour market (44%) and the employment of unskilled - mostly agricultural – workers (32%) are popular grounds, too, for claiming an allowance.

Still, the most common ground on which szocho tax allowance is claimed is the employment of people freshly entering the labour market (63%). This option was marked by 44% of 10-24 companies, 49% of 25-49 companies and by 69% each of 50-249 and 250+ companies. With regard to industrial branches, this option to qualify for a tax

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¹ Transportation and logistics; accommodation and catering services; IT and communication; real estate deals; scientific, professional and technical activity; administrative and service-related support.

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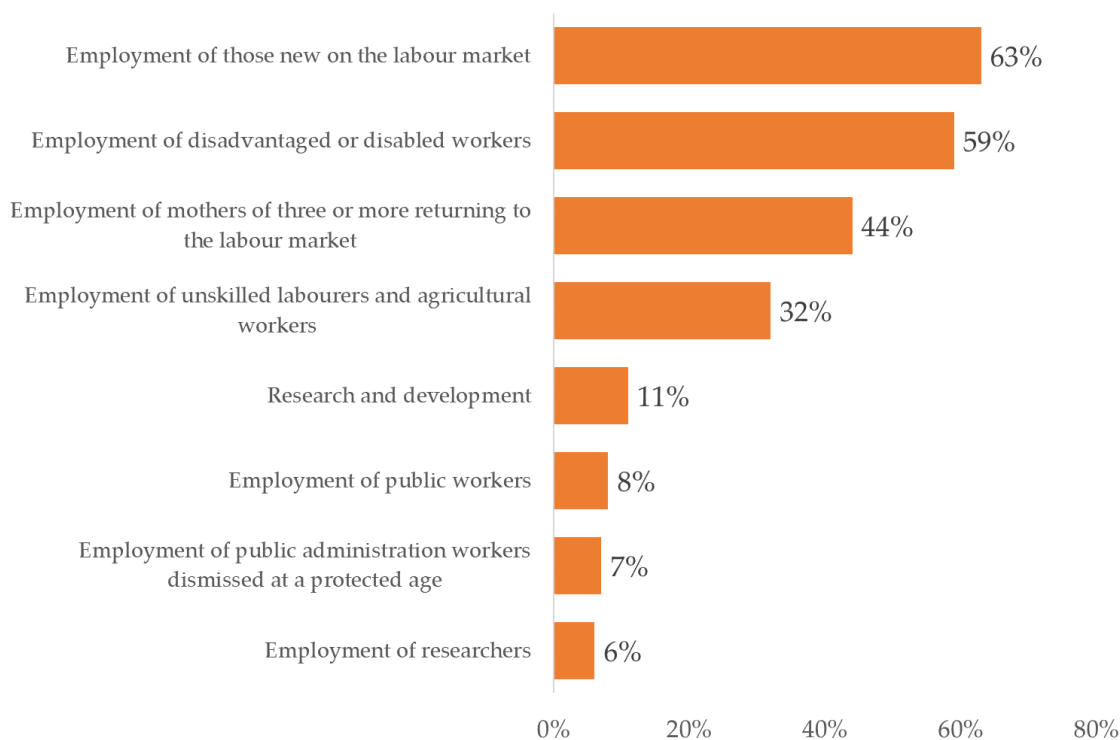
² For weights and the unweighted number of elements by company size and sector, see the attachment of our analysis titled „State of employment of disadvantaged and disabled people on the open labour market”.

Read it in full at

<https://gvi.hu/kutatas/597/megvaltozott-munkakepessegu-szemelyek-nyilt-munkaeropiaci-foglalkoztatasi-helyzete-magyarorszagon>

allowance was chosen by 64% of companies offering miscellaneous economic services, 63% of companies in the processing industry, 61% of traders and only 50% of construction companies.

Figure 1: Grounds of eligibility for a social contribution tax (szochó) allowance, percent, N=787-853



Source: IEER 2019

As for the numbers employed one can see that the bigger the company the more common it is to claim a szochó tax allowance. While only 53 per cent of 10-24 companies were eligible to claim allowance, the rates concerning 50-249 and 250+ companies were 83 and 86 per cent, respectively. 71 per cent of the last group were eligible for the tax allowance because they employed disadvantaged or disabled workers; 69 per cent claimed the allowance for employing people freshly out on the labour market, and 59% for employing women returning to the labour market after having three or more children. The employment of

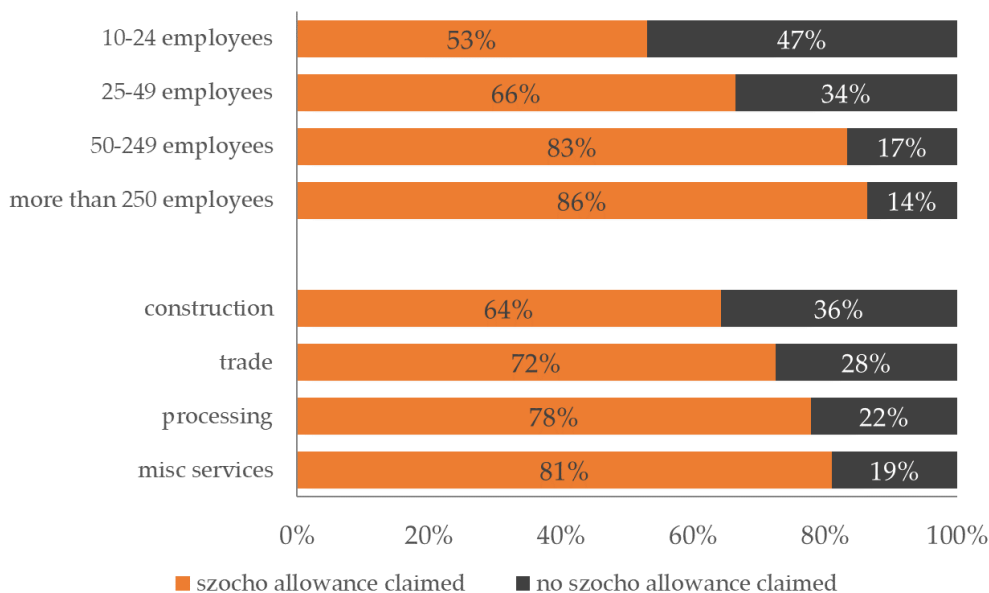
researchers (8%) as well as research and development in general (13%) were grounds typically chosen by big companies.

There are significant differences between sectors, too: the rate of companies that claim szochó tax allowance was 64% in the construction industry, 72% in trade, 78% in the processing industry, and 81% among businesses that provide miscellaneous economic services. Except for R&D activity and the employment of disadvantaged or disabled workers and R&D (that are the most popular with companies in the processing

industry), all other grounds for eligibility were chosen at the highest rate by companies

providing miscellaneous economic services.

Figure 2: Liability of claiming social contribution tax (szochó) allowance, by company size and industrial sector, per cent, N=930



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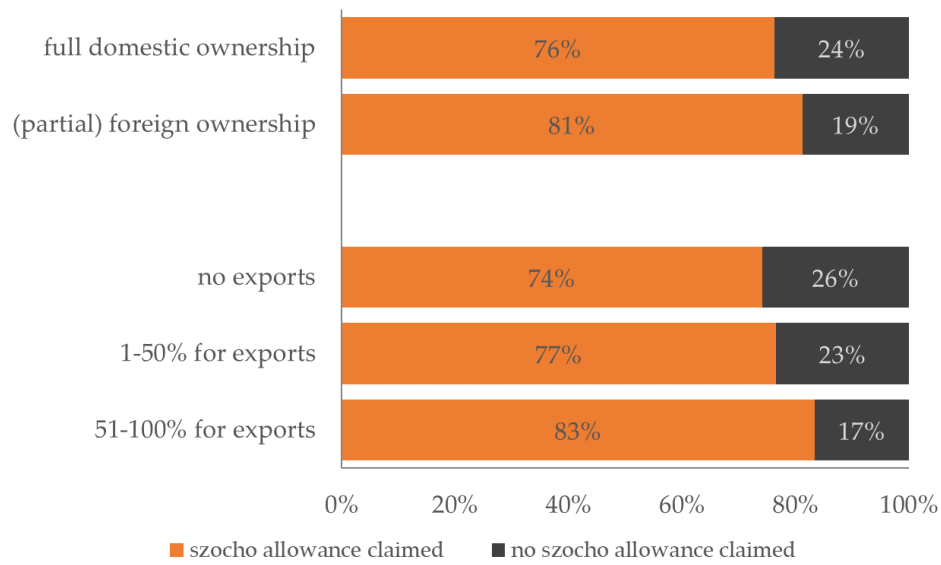
Source: IEER 2019

The proportion of foreign funds in a company's subscribed capital does not seem to have a strong correlation with tax allowance claims – the rate is 76 per cent for fully domestic companies and 81 per cent for (partially) foreign-owned companies.

Unlike ownership structure, exporting activity does make a considerable difference. Tax

allowance is claimed by 74% of non-exporters, 77% of minor exporters (where exports amount to less than a half of total sales), and 83% of major exporters (where exports amount to over a half of total sales).

Figure 3 Share of renewable energy sources in energy consumption in the European Union in 2018 (percentage)



Source: IEER 2019

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(March)	5.0%	5.1%	5.0%
Germany	Manufacturing Purchasing Managers Index	(March)	45.4	45.5	45.7
	IFO Business Climate Index ¹	(March)	86.1	79.7	96.1
France	INSEE Business Climate Index ²	(March)	94.7		105.4
	Unemployment Rate	(March)	4.4%	3.8%	3.5%
USA	CB Consumer Confidence Index	(March)	120.0	110.0	132.6
	Manufacturing Purchasing Managers Index	(March)	49.2	42.8	50.7
China	Manufacturing Purchasing Managers Index	(March)	52.0	45.0	35.7

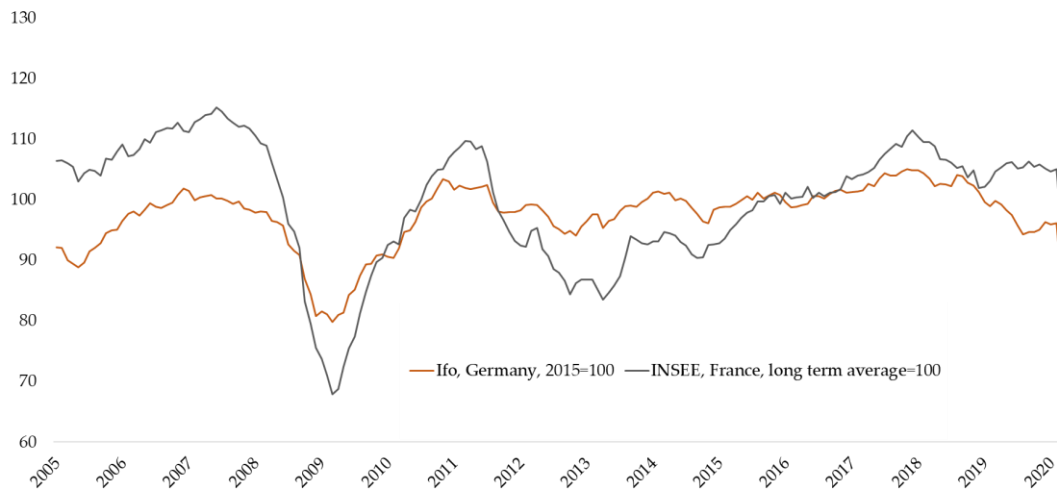
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

²<http://www.insee.fr/en/themes/indicateur.asp?id=105>

The rest of the data source: <http://worldeconomiccalendar.com>

In Germany, the IFO business climate index has significantly dropped, compared to last month. The manufacturing purchasing manager index (PMI) has also demonstrated a decrease, although not doing much worse than expected. Unemployment rate for Germany stagnates at the same level as in the previous period. The French INSEE business climate index has reached the lowest point since 2015. In the United States, the CB consumer confidence index dropped largely compared to the month prior but performed better than expected. The manufacturing PMI has decreased slightly, however, significantly overperformed compared to expectations. The unemployment rate has increased. The Chinese manufacturing PMI increased a lot in comparison to previous month and doing significantly better than expected.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - March 2020



Sources: www.ifo.de, www.insee.fr

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