



How the COVID-19 pandemic affected the functioning of companies

IEER's April 2020 Business Climate Survey had a focus, among others, on the effects of the COVID-19 pandemic on companies' functioning. A positive effect was reported by less than 2 per cent of our respondents, and a little short of 3 per cent allegedly perceived no effect whatsoever. According to a further 8 per cent there were minor problems, however, they did not influence normal functioning; 30 per cent of businesses experienced some impact in April. Over 50 per cent of respondents encountered major problems as a result of the pandemic. 21 per cent of this group said that these issues had a moderate effect on their companies' functioning, while 36 per cent stated that their businesses suffered greatly.

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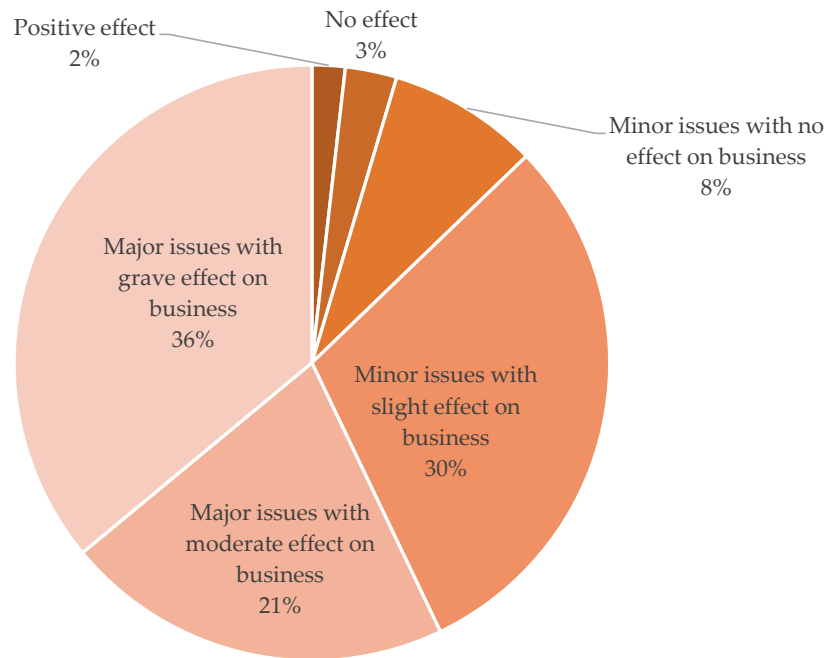
Looking at the statistics with regard to company size it can be clearly seen that micro-enterprises with 1-9 employees suffered from the adverse effects of the COVID-19 pandemic the most: 61 per cent of them reported to have experienced issues that had been crippling to

their companies' functioning. The rate was 40 per cent at companies with employees, 30 per cent at companies with 50-249 employees, and 24 per cent at companies with 250+ employees. It seems that the greater the company size, the lower the exposure to the economic effects of the pandemic. It must be noted however that the adverse effects were felt in all size categories – in each category, only 4-6 per cent of companies reported a positive effect or no effect at all.

As for economic sectors, companies offering business services seem to have been hit the most heavily by COVID-19-related adverse effects. According to 51 per cent, the issues caused by the pandemic (shorter opening hours and mandatory closure) were so severe that they had a crippling impact on their business. Respective rates were 38, 25 and 19 per cent in commerce, industry, and construction. Remarkably, 12 per cent of construction companies didn't feel any effect at

all, and a further 16 per cent claimed that the problems emerging in April had been slight and they hadn't influenced functioning

Figure 1. The effect of the COVID-19 pandemic on the functioning of companies in Hungary, N=2852

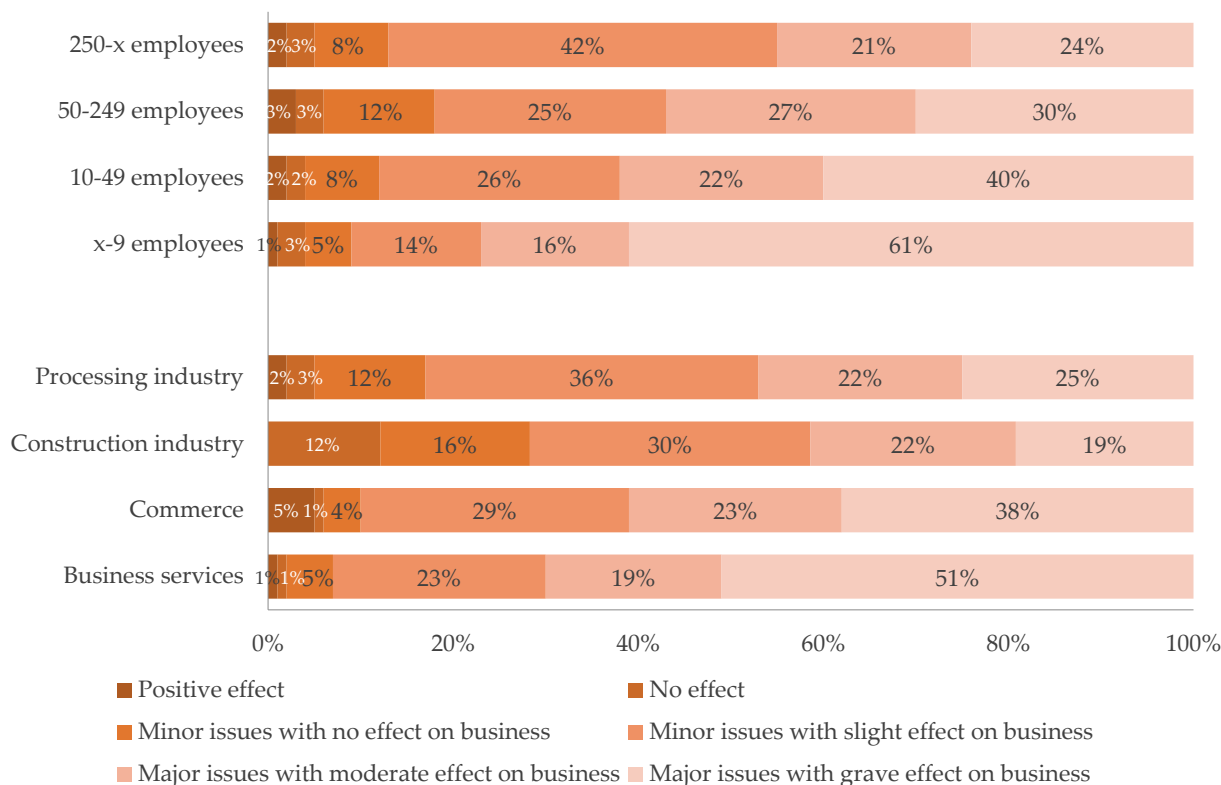


Source: IEER, 2020

In our analysis we also focused on the COVID-19-related factors that influence businesses the most adversely. Only 7 per cent of respondents answered that there had been no adverse effects expected. 93 per cent disclosed at least one hindering factor (more than one option could be chosen). According to more than a half of CEOs, **demand was decreasing** (52 per cent), or the profile of the company made it

impossible to work from home (51 per cent). One in three respondents claimed that the companies they supplied were **cancelling orders** (31 per cent). A quarter of our respondents marked the **banning of events and shortened working hours** (23 per cent) as an adverse effect they had to face, while one in five put **decreased exports** (19 per cent) on the list.

Figure 2: Effects of the COVID-19 pandemic on the functioning of companies in Hungary, by company size and industrial sector, N_{company size}=2852, N_{sector}=2827



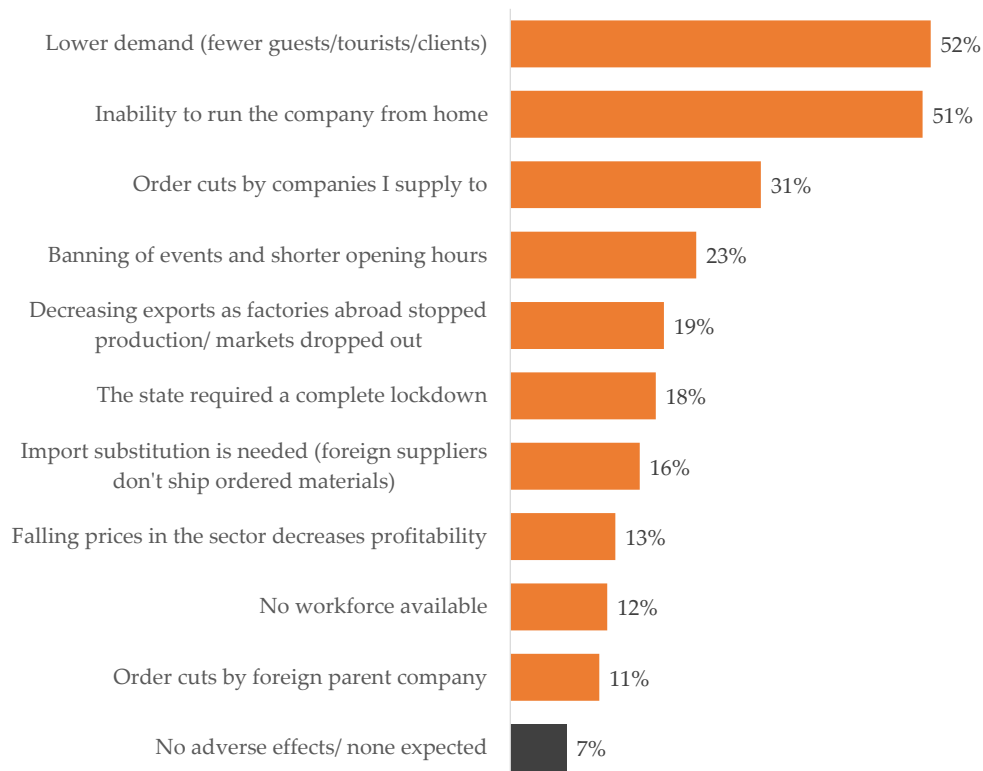
Source: IEER, 2020

The importance of certain factors seems to depend significantly on the number of employees i. e. company size. While problems such as decreasing demand (65 per cent), mandatory lockdown (30 per cent), banned events and shortened working hours (27 per cent) hit companies with 1-9 employees the most, failing to source materials from abroad (23 per cent), labour shortage (18 per cent) and the foreign parent company cutting back on orders (19 per cent) were issues mainly affecting companies with 250+ employees.

As far as sectors are considered, decreasing demand was the most adverse factor for companies active in commerce and those

offering business services (69 per cent and 58 per cent, respectively), while the inability to work from home hit construction (56 per cent) and trade companies (65 per cent) the hardest. Banned events and shortened working hours affected commerce and service providing companies almost exclusively (36 per cent and 34 per cent, respectively), the players of these sectors also being the most prone to lockdown (17 per cent and 27 per cent, respectively). Order cuts by suppliers' clients (41 per cent), decreasing exports (38 per cent), import substitution (28 per cent), and order cuts by foreign parent companies (20 per cent) mainly affected industrial companies.

Figure 3: Adverse effects of the COVID-19 pandemic on the functioning of companies in Hungary, N=2881



Source: IEER, 2020

Labour market measures in Europe addressing the effects of the coronavirus pandemic

Coronavirus has put a great burden on European economies, its extent depending on the severity of the pandemic and the measures introduced to counter it. In the most exposed sectors the demand for labour dropped considerably due to cancellations of events, restrictive measures, and shutdowns. Furthermore, decision-takers and companies had to address the issues of employee's absence from work due to illness, home care or home-education as a result of children staying at home. In European governments' crisis management policies, it's generally been a top priority to give incentives to companies to keep their employees and to compensate employees who are out of work. To achieve these goals, governments have used various tools. This article is an overview of the most typical measures governments have taken to influence the labour market directly.

European countries have introduced a number of measures of various types and scales to neutralise the adverse affects of the pandemic on the labour market. We shall list the tools used in the crisis management plans of European countries, with the main focus on describing measure types. In general it can be said that although European crisis management tools do have features in common, measures and subsidies, their eligibility and widespreadness of their use vary from country to country.

Aid to people out of work

That many people were suddenly out of work counts as one of the first direct economic impacts of the coronavirus pandemic. Countries heavily hit by the pandemic had to cope with the problems of having ill people unable to work, family members treating the ill at home, and further people forced in quarantine. The closing of schools had a profound impact on employees and

Measures to preserve workplaces

employers even in countries with fewer coronavirus cases. Many European countries implemented measures to treat this type of issue.

Allowing employees to take more days off work - based on the number of their children - was typical, in some countries these extra days were paid by the state (e.g. in Austria, Germany and Greece). Certain states gave extra money to parents who could not work from home, but needed to stay at home to look after their children because of schools closing (measures of this type were implemented by pl. Poland, the Czech Republic and Malta).

A second group of measures concerns the people infected, and those in quarantine. In countries where companies generally finance sick leaves the state intervened, assuming the costs (e.g. in the Czech Republic). Other states granted direct aid or advantages to employees fallen ill (e.g. Spain).

The second type of measures have targeted the preservation of workplaces, for instance by safeguarding companies' liquidity - thus

avoiding bankruptcies – with subsidies and allowances on taxes and contributions. Every European country introduced such measures in one way or another. In Europe, the measures targeting dues took two basic forms. Several states decided to abolish or greatly decrease certain work-related dues temporarily (Belgium, Italy) or pay them from the state budget (e.g. Germany, Poland).

A further type of policy, the suspension of taxes and contributions in sectors forced to stall, was introduced to alleviate the burdens of such companies temporarily, without the state having to forego its revenues. In some countries the two policies were used simultaneously, for instance the French state assessed companies individually to decide whether to remit their dues.

Wage subsidy schemes, which come in various constructions, are among the most commonly used tools to protect workplaces. The most well-known of these schemes is Kurzarbeit in Germany, a system that compensates employees for shorter working hours. Kurzarbeit debuted in the crisis year of 2008, granting subsidies to companies unable to operate to their full capacity. When their demand for labour dropped, the government encouraged companies to decrease the number of hours and wages instead of laying off employees, whose salaries were paid partly by the state. Besides preserving workplaces, this system has the great advantage that companies don't have to hire and train new workers once the crisis is over,

and as a result they can save on training costs and revive more easily.¹

In Germany the Kurzarbeit system has worked for years, financed from a fund created especially for this purpose. To react on the crisis, the requirements of eligibility were loosened (e.g. making the subsidy available even for borrowed employees), and the system was adopted by a number of other states. Wage compensation rates and eligibility requirements, however, vary from country to country. Kurzarbeit further promotes workplace preservation by requiring employers to keep their workers beyond the timeframe of the wage subsidy. On the same token as a longer-term incentive Great Britain introduced a "bonus" system for employers, paid on employees still working for the company in early 2021.

Unemployment and direct aid

Granting subsidies for people losing their job over the pandemic is also of key importance as a tool. The pandemic prompted governments to raise unemployment benefits, and introduce an extra benefit for people out of work specifically because of coronavirus (e.g. in Poland). For stalled sectors a number of countries introduced temporary unemployment, doling out benefits to employees with suspended working contracts or sent on unpaid holidays (e.g. France, Greece, Poland).

There were some countries that loosened the requirements of unemployment benefit

¹ Cahuc, Pierre: Short-time work compensation schemes and

employment <https://wol.iza.org/articles/short-time-work-compensations-and-employment>

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eligibility; for example companies can request that their employees be given unemployment benefit automatically in case the company needs to shut down (Belgium). Widening the category of people eligible for unemployment benefit to include sole traders, freelancers and other self-employed entrepreneurs out of work was also a common measure.

To prevent greater unemployment, some countries introduced a moratorium on dismissals (e.g. Greece, Italy), or incentives like tax allowances for companies if they re-hired workers (e. g. Romania). Policies assisting people to resume work include retraining and subsidised training programmes.

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	(July)	6.4%	6.5%	6.4%
Germany	Manufacturing Purchasing Managers Index	(July)	50.0	48.0	45.2
	IFO Business Climate Index ¹	(July)	90.5	97.0	86.3
France	INSEE Business Climate Index ²	(July)	82.3		77.5
	Unemployment Rate	(July)	10.2%	10.5%	11.1%
USA	CB Consumer Confidence Index	(July)	92.6	94.5	98.3
	Manufacturing Purchasing Managers Index	(July)	51.3	51.5	49.8
China	Manufacturing Purchasing Managers Index	(July)	51.1	50.7	50.9

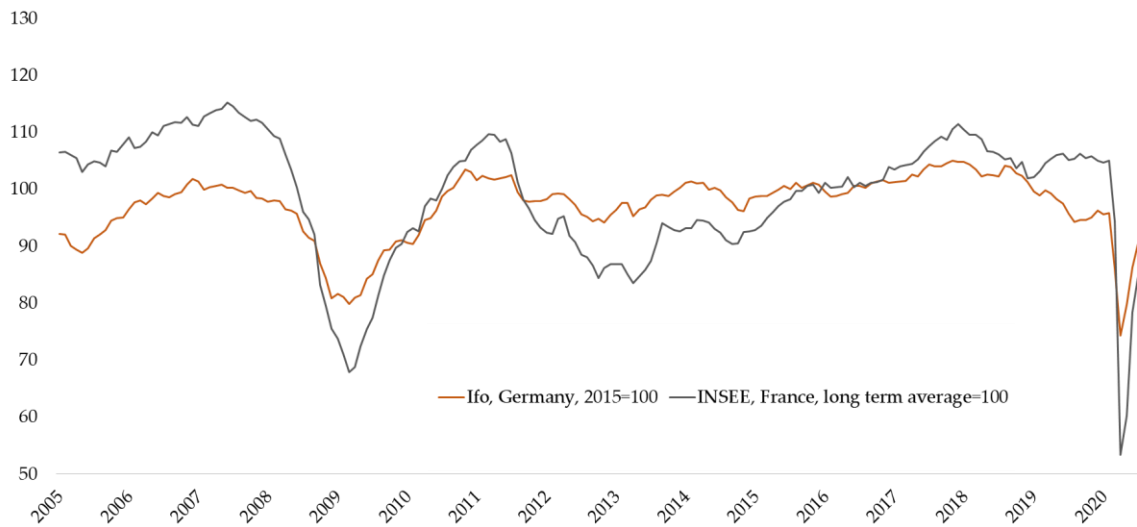
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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 increased, compared to last month. The manufacturing purchasing manager index (PMI) has also demonstrated an increase, doing better than expected. Unemployment rate remains the same for Germany, performing somewhat below the expected level. The French INSEE business climate index has increased, compared to last month. In the United States, the CB consumer confidence index demonstrated a significant decrease compared to the month prior, also it performed worse than expected. The manufacturing PMI has decreased significantly, according to prior expectations. The unemployment rate has increased somewhat. The Chinese manufacturing PMI remained virtually the same compared to previous period.

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



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

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