

### 3 CORPORATE PERCEPTIONS AND EXPECTATIONS OF THE IMPACTS OF THE COVID-19 PANDEMIC AND THE CRISIS MANAGEMENT STEPS TAKEN

DÁNIEL BACSÁK & ÁGOSTON HORVÁTH

Based on the spring 2020 Business Climate Survey of the Institute for Economic and Enterprise Research (IEER) of the Hungarian Chamber of Commerce and Industry (HCCI), the present analysis assesses the exposure of Hungarian businesses to the coronavirus pandemic, their responses to its economic effects as well as their crisis management policies. 2,891 Hungarian enterprises were queried either online or by telephone. The survey took place between 1 and 30 April, during the COVID-19-related lockdown. Thus first impressions of the pandemic and the ensuing economic disruptions had a profound impact on the results. IEER's Business Climate Survey aimed at mapping CEOs' short-term expectations based on their subjective judgement and information available to them at the time the survey was conducted (*Bacsák–Horváth, 2020a, b*).

First, the study presents the exposure of enterprises to the pandemic, relying on a typology developed for this purpose, which is based on classification by the CEOs and the extent of decrease in capacity utilisation between 1 March and the time of the survey. Then the factors behind the varying extent of exposure of enterprises are assessed. We will also describe what specific problems were experienced as a result of the coronavirus pandemic in the groups of enterprises of different exposure. In this respect, liquidity, changes in headcount management, work organisation and wages as well as crisis management policies adopted by enterprises are discussed in detail.<sup>1</sup>

#### 3.1 Exposure of enterprises to the coronavirus pandemic

The experiences of Hungarian businesses regarding the coronavirus pandemic are strongly associated with the extent to which their capacity utilisation dropped between 1 March 2020 and the time of the survey in April.<sup>2</sup> The capacity utilisation of enterprises that perceived no or positive impacts of the pandemic decreased by only 1 percentage point on average between 1 March and the date of the survey, that is it remained virtually stable. Enterprises reporting minor disturbances and insignificant impacts experienced an 8 percent, enterprises reporting major disturbances and moderate impacts experienced a 20 percent and enterprises reporting severe disturbances and significant impacts experienced a 46 percent drop on average.

Based on changes in capacity utilisation and subjective impressions of the COVID-19 pandemic, we have developed a typology of 6 categories, presented in *Table 3.1*.<sup>3</sup>

1 When analysing exposure, liquidity (reserves enabling firms to meet their financial obligations), usage of crisis management policies as well as wages, we applied weighting so that the sample of responding enterprises be representative of regions and the number of employees, in terms of their contribution to the Gross Value Added. When analysing reserves enabling firms to retain staff as well as changes in and expectations concerning headcounts, weighting was applied to ensure that the sample is representative of the number of employees broken down by headcount categories and sectors. The analysis contains the unweighted number of items.

2 When performing a correlation analysis of the 4-category variable for experiencing the effects of the pandemic and the 4-category variable for the changes in capacity utilisation, Cramer's  $V$  is 0.375 (the  $p$ -value of the  $\chi^2$  test is 0.000). If the decrease in capacity utilisation in the various categories of experience is treated as a continuous variable, the value for  $\eta^2$  is 0.331 (the  $p$ -value of the  $F$ -test is 0.000).

3 In some cases in this paper, rounding of data causes the rows and columns of the tables not to completely add up to total values because each cell contain already rounded values.

**Table 3.1: Enterprise typology based on economic perceptions of the coronavirus pandemic and the decrease in capacity utilisation**

	Positive /no impact	Minor disturbances, limited impact	Major disturbances, moderate impact	Severe disturbances, major impact	Total, in terms of capacity utilisation
<b>Decrease in capacity utilisation (percentage)</b>					
50 percentage points or more	0	1	3	20	24
Less than 50 percentage points	1	14	12	11	38
Unchanged capacity utilisation	9	13	5	5	31
Increased capacity utilisation	2	3	1	1	7
Total, in terms of experiences	13	30	21	37	100
			Unweighted cases	Average of the business climate indicator, April 2020	
<b>Economic perceptions of the pandemic</b>					
No/positive impact, unchanged/increased capacity utilisation			290	37	
Minor disturbances, less than 50-percentage-point drop in or unchanged/increased capacity utilisation			545	9	
Major disturbances, unchanged/decreased capacity utilisation			539	-37	
Severe disturbances, decreasing capacity utilisation			1157	-68	
Minor disturbances, decreasing capacity utilisation			59	21	
Severe disturbances, unchanged/increased capacity utilisation			297	-63	
Total			2887	-25	

Source: *IEER* (2020).

The typology of exposure to the pandemic was collated with data from the half-yearly Business Climate Index of IEER.<sup>4</sup> The typology rating showed a strong correlation with the Business Climate Index: 42 per cent of standard deviation of the index is due to exposure to the pandemic. The average of the index for the total sample was -25. Among businesses which did not perceive an impact of the pandemic or experienced positive changes and their capacity utilisation did not fall, the Business Climate Index reached +37 points. Among businesses reporting slight disturbances but decreasing capacity utilisation the Index was +21, among businesses facing slight disturbances and a decline of less than 50 percentage points it was +9, among businesses experiencing major disturbances and unchanged or decreasing capacity utilisation it was -37, among businesses reporting severe disturbances but unchanged or increasing capacity utilisation it was -63 and among businesses facing severe disturbances and decreasing capacity utilisation the Business Climate Index was -68 points.

Hereafter we focus on enterprises the most and least affected based on the above results: similarly to the total sample, the problems of these groups resulting from the pandemic were analysed and logit models were applied to identify corporate characteristics in these groups. The “most affected” category contains 681 businesses, whose capacity utilisation dropped by at least 50 percentage points as a result of the pandemic and they also reported severe disturbances and significant stoppages. The group of least affected businesses

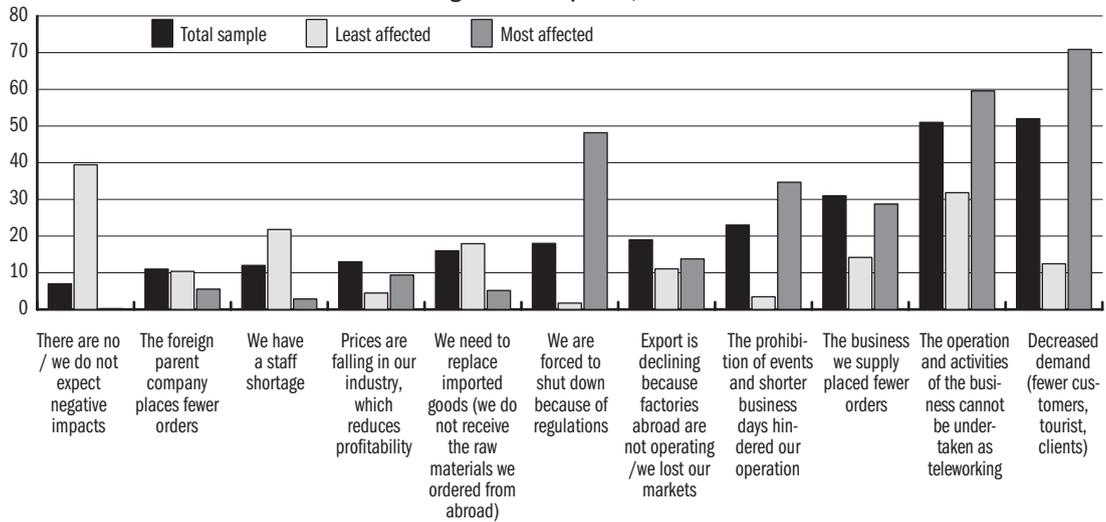
<sup>4</sup> The indicator includes business outlook, expectations for orders as well as the expected level of investment in machinery and buildings. The detailed method of calculating the Business Climate Index is described in our study presenting the results from April (*IEER of HCCI*, 2020).

contains 273, whose capacity utilisation either did not change or increased between 1 March and the date of the survey in April and they reported that the pandemic had no or a positive impact on them.

Concerning the question of which factors of the coronavirus pandemic affect Hungarian enterprises the most adversely, only 7 per cent of the total sample responded that they do not expect negative impacts at all, 93 per cent identified at least one negative factor (it was possible to select more than one answer). More than half of the CEOs reported decreased demand (52 per cent) or that their activities cannot be undertaken as teleworking (51 per cent), and every third respondent reported that the clients they supplied placed fewer orders (31 per cent). About a quarter of respondents cited the prohibition of events and shortened business days (23 per cent) and one-fifth cited decreased export (19 per cent) as an adverse effect. Among the most affected enterprises, the most severe problem also was the decrease in demand (71 per cent) and difficulties with working from home (60 per cent) and a remarkably high share of CEOs (48 per cent) reported to be forced to shut down because of the regulations. For 35 per cent of the most affected businesses, the prohibition of events and shortened business days posed obstacles and 29 per cent claimed that the businesses they supply placed fewer orders. 39 per cent of the least affected enterprises did not experience any adverse effects. However, teleworking also caused difficulties for 32 per cent of these businesses, 22 per cent claimed they did not have enough staff at their disposal and 18 per cent had to replace imported goods because of disturbances in supply chains (*Figure 3.1*).

Based on the estimates from the logit model, it is evident that with increased company size and exports, there is decreased odds of enterprises to belong to the 'most affected' category during the pandemic. Considering sectors, construction firms were the least affected, while enterprises active in 'other business services' were the most affected (the difference between the two categories at the opposite end of the spectrum is 26 percentage points). The findings reveal that the negative impacts of the pandemic affected trading companies to a larger extent than manufacturing firms. Concerning ownership structure, partly or wholly foreign-owned firms were 13 percentage points more likely to be in the 'most affected' category than wholly Hungarian-owned ones. Generally, there was no significant difference between businesses located in Budapest or Pest County and other counties. However, Western Transdanubian enterprises were 7 percentage points more likely to be in the 'most affected' category, while enterprises located in South Transdanubia and the Northern Great Plain were 10 per cent less likely to belong to this group. At the same time, a 5 percentage point higher share of Western Transdanubian enterprises belonged to the 'least affected' category, compared to enterprises from Central Hungary. The same is true for businesses located in the Southern Great Plain and Southern Transdanubia, with a difference of 6 and 18 percentage points respectively (*Table 3.2*).

**Figure 3.1: The negative effects of the coronavirus pandemic on the operations of Hungarian enterprises, N = 2881**



Source: IEER (2020).

**Table 3.2: The context of exposure to the coronavirus pandemic, logit estimation, average marginal effects**

	Most affected firms 0 - no, 1 - yes	Least affected firms 0 - no, 1 - yes
<b>Headcount</b> (reference category: fewer than 10 employees)		
10-49 employees	-0.031	0.004
50-249 employees	-0.083***	0.068***
Over 250 employees	-0.128***	0.015
<b>Economic sector</b> (reference category: other services - categories H, I, J, L, M, N, R, S in the TEÁOR classification of economic activities)		
Manufacturing - categories B, C, D, E	-0.110***	0.047**
Construction - category F	-0.263***	0.177***
Trade - category G	-0.102***	0.026
<b>Production for export</b> (reference category: no export sales)		
Partly exporting (share of export sales below 50%)	-0.075***	-0.018
Primarily exporting (share of export sales 50-100%)	-0.164***	0.012
<b>Ownership structure</b> (reference category: wholly Hungarian-owned)		
Partly or wholly foreign-owned	0.125***	0.029
<b>Region</b> (reference category: Central Hungary)		
Central Transdanubia	0.046	0.003
Western Transdanubia	0.074**	0.050***
Southern Transdanubia	-0.102***	0.179***
Northern Hungary	-0.059	-0.011
Northern Great Plain	-0.100***	0.021
Southern Great Plain	-0.022	0.064***
Nagelkerke's $R^2$	0.156	0.102
<i>N</i>	2698	2698

\*\*\* significant at a 1 percent level, \*\* 5 percent level and \* 10 percent level.

Source: IEER (2020).

### 3.2 Liquidity

Taking into account the level of capacity utilisation reported for April 2020, 7 per cent of businesses expected that their reserves enable them to meet their financial obligations for less than a month. 14 per cent were able to meet obligations for a month, 24 per cent for one to two months, 18 per cent for three months, 26 per cent for six to twelve months and 11 per cent for over a year, at the level of capacity utilisation recorded in April. Consequently, nearly half of Hungarian enterprises had reserves for meeting financial obligations outstanding during the emergency measures in April for up to two months and nearly two-thirds of them for a maximum of three months. Their assessment of their reserves necessary for paying their dues is associated with their exposure to the pandemic. Apparently, the more severe impacts and capacity utilisation cuts a firm has to face, the shorter period they expect their reserves to cover. While 70 per cent of businesses experiencing mild or positive exposure assessed their reserves to be sufficient for at least three months even if their capacity utilisation decreased, only 40 per cent of businesses facing serious disturbances did so.

Taking into account the level of capacity utilisation reported for April 2020, 9 per cent of businesses expected their reserves to be sufficient for retaining all employees for less than a month. 14 per cent expected them to be sufficient for a month, 25 per cent for one to two months, 19 for three months, 23 per cent for six to twelve months and 10 per cent for over a year, at the level of capacity utilisation recorded in April. Thus nearly half of Hungarian enterprises had sufficient reserves for up to two months and two-thirds of them for up to three months for retaining all of their employees during the emergency measures in April. As for retaining employees, the association between judging the sufficiency of reserves and exposure to the pandemic was even stronger. 75 per cent of businesses experiencing positive or neutral impacts, with unchanged or increased capacity utilisation between 1 March and the date of the survey in April, assessed their reserves to be sufficient for maintaining employee numbers for at least three months. By contrast, only 35 per cent of companies experiencing serious disturbances and decreasing capacity utilisation reported the same (*Table 3.3*).

### 3.3 Changes in headcounts and organisation of work

The survey also asked enterprises how many employees they had in various employee categories at the time of the survey. These categories concerned employees' experience, part or full-time work arrangement, educational attainment and the nature of work carried out. It was also assessed if there were dismissals or staff increases after 1 March in the various categories, and, if there were, how many people they involved. The database was narrowed down to enterprises with at least two employees, thus this Subchapter presents findings related to this group of enterprises.

**Table 3.3: Ability to meet financial obligations and maintaining headcount without using supplementary external resources, at April 2020 capacity levels,  $N_{\text{financial obligations}} = 2541$ ,  $N_{\text{maintaining headcount}} = 2342$  (per cent)**

Description		Less than one month	One month	One-two months	Three months	Six-twelve months	More than a year	Total
No/positive impact, unchanged/increasing capacity utilisation	Financial obligations	2	9	20	11	36	22	100
	Maintaining headcount	2	15	8	14	34	26	100
Minor disturbance, less than 50-percentage-point drop in or unchanged/increasing capacity utilisation	Financial obligations	5	11	14	16	36	18	100
	Maintaining headcount	3	9	19	19	33	18	100
Major disturbance, unchanged/decreasing capacity utilisation	Financial obligations	6	12	25	20	29	7	100
	Maintaining headcount	11	11	26	24	25	3	100
Severe disturbance, decreasing capacity utilisation	Financial obligations	12	18	32	18	16	4	100
	Maintaining headcount	15	19	31	17	14	3	100
Minor disturbances, decreasing capacity utilisation	Financial obligations	0	4	22	17	33	24	100
	Maintaining headcount	0	7	35	11	33	15	100
Severe disturbances, unchanged/increasing capacity utilisation	Financial obligations	10	19	29	29	9	4	100
	Maintaining headcount	12	20	30	26	10	2	100
Total sample	Financial obligations	7	14	24	18	26	11	100
	Maintaining headcount	9	14	25	19	23	10	100

Source: IEER (2020).

Based on information about dismissals and staff increases in the various categories, indicators were created to show what share of businesses experienced staff turnover between 1 March and the survey in April. On the whole, 36 per cent of enterprises employing a minimum of two people dismissed at least one employee between 1 March 2020 and the survey in April and 24 per cent of them reported hiring at least one employee in the same period.

The context of dismissals and staff increases was also analysed using the logit models. The findings showed that the extent of exposure to the pandemic determined headcount management during the lockdown period. Compared to the reference category of enterprises reporting severe disturbances and decreasing capacity utilisation, enterprises in the other categories were less likely to dismiss staff between 1 March and the date of the survey. Businesses

reporting a positive or neutral impact and unchanged or increasing capacity utilisation were the least likely to dismiss employees. The difference between the least and most exposed businesses was 32 percentage points in this respect.

Based on the results, the odds of hiring new staff is inversely associated with exposure to the pandemic. The less exposed an enterprise was, the more likely it was to hire employees between 1 March and the survey in April. The difference between the two extremes is 22 percentage points in this case. With increasing company size, both the odds of dismissals and staff increases were greater, that is larger businesses faced higher turnover at the beginning of the pandemic. The odds of dismissals were not sector-dependent; however, staff increases were 8 per cent more likely in construction than in the service sector. Production for export only had an effect on the probability of dismissals (the proportion of businesses dismissing staff was 6 percentage points lower among businesses partly exporting and 5 percentage points lower among primarily exporting businesses during the period considered). The effect of ownership structure was only significant for recruitment: it was reported to a 6 percentage points greater extent among partly or wholly foreign-owned businesses (*Table 3.4*).

**Table 3.4: The context of dismissals and staff increases, logit estimation, average marginal effects**

	Dismissal 0 - no, 1 - yes	Staff increases 0 - no, 1 - yes
<b>Typology of exposure to the coronavirus pandemic</b> (reference category: severe disturbances, decreasing capacity utilisation)		
No/positive impact, unchanged/increasing capacity utilisation	-0.320***	0.219***
Minor disturbances, less than 50 percentage-point drop in, or unchanged/increasing, capacity utilisation	-0.281***	0.152***
Major disturbances, unchanged/decreasing capacity utilisation	-0.178***	0.038**
Minor disturbances, decreasing capacity utilisation	-0.265***	0.118**
Severe disturbances, unchanged/increasing capacity utilisation	-0.136***	0.057*
<b>Headcount</b> (reference category: fewer than 10 employees)		
10-49 employees	0.143***	0.129***
50-249 employees	0.230***	0.169***
Over 250 employees	0.398***	0.210***
<b>Economic sector</b> (reference category: other services - categories H, I, J, L, M, N, R, S in the TEÁOR classification of economic activities)		
Manufacturing - categories B, C, D, E	-0.050*	-0.001
Construction - category F	-0.014	0.078**
Trade - category G	-0.003	0.000
<b>Production for export</b> (reference category: no export sales)		
Partly exporting (share of export sales below 50%)	-0.061**	-0.009
Primarily exporting (share of export sales 50-100%)	-0.053*	-0.025
<b>Ownership structure</b> (reference category: wholly Hungarian-owned)		
Partly or wholly foreign-owned	0.012	0.064**
Nagelkerke's $R^2$	0.181	0.174
<i>N</i>	1799	1694

\*\*\* significant at a 1 percent level, \*\* 5 percent level, \* 10 percent level.  
Source: *IEER* (2020).

The initial headcount on 1 March was identified for each employee category (if the headcount at the time of the survey and the number of employees dismissed and hired between 1 March and the time of the survey were available) and regarded as the condition preceding the pandemic. Then headcounts at the businesses on 1 March and at the time of the survey were compared in each category. Overall, total headcounts were lower in April 2020 than on 1 March, except for one category (white-collar graduate jobs, where there was a 1 percent increase in headcounts). The biggest decrease took place in the headcounts of interns over the period under consideration (by 6 per cent), while headcounts in unskilled manual jobs fell by 3 per cent and those in skilled manual jobs, part-time jobs and senior positions fell by 2 per cent.

These trends in employee categories were similar within the enterprise categories based on exposure to the pandemic. However, there is a marked difference between the enterprise categories: while businesses reporting neutral or positive experiences and unchanged/increasing capacity utilisation and those facing minor disturbances and a less than 50 percentage point drop in capacity utilisation only experienced a fall in the headcounts of interns between 1 March and the date of the survey in April, businesses reporting major, severe disturbances faced a fall in headcounts in nearly all employee categories. The largest decrease was seen in the group of the most exposed enterprises, experiencing severe disturbances and decreasing capacity utilisation, except for the three categories of unskilled manual, non-graduate white-collar and graduate white-collar workers (*Table 3.5*).

**Table 3.5: Changes in the total headcounts of employee categories between 1 March and April 2020 among Hungarian businesses with at least 2 employees (percentage)**

	Total sample	No/positive impact, unchanged/increasing capacity utilisation	Minor disturbances, less than 50 percentage point drop in or unchanged/increasing capacity utilisation	Major disturbances, unchanged / decreasing capacity utilisation	Severe disturbances, decreasing capacity utilisation	Minor disturbances, decreasing capacity utilisation	Severe disturbances, unchanged/increasing capacity utilisation
Senior employees ( <i>N</i> = 1335)	-2	1	1	1	-9	0	-1
Junior employees ( <i>N</i> = 1027)	-1	13	5	-5	-11	0	-2
Students (e.g. interns) ( <i>N</i> = 957)	-6	-5	-2	-2	-10	0	-8
Part-time workers ( <i>N</i> = 1065)	-2	0	0	-1	-8	-1	-3
Full-time workers ( <i>N</i> = 1168)	-1	1	1	-3	-6	0	-2
Unskilled manual ( <i>N</i> = 1015)	-3	5	0	-7	-6	0	-3
Skilled manual ( <i>N</i> = 1069)	-2	1	0	-1	-8	0	0
Non-graduate white-collar ( <i>N</i> = 1068)	-1	0	1	0	-4	0	-7
Graduate white-collar ( <i>N</i> = 1106)	1	1	2	-2	-1	0	0

Source: *IEER* (2020).

The vast majority of employees (92 per cent) at Hungarian enterprises worked full-time, solely at the workplace, on the premises of the enterprise on 1 March (Table 3.6). As a result of the lockdown introduced because of the Covid-19 pandemic, this proportion had fallen to 67 per cent by 1 April. The share of employees working full-time from home increased significantly, by 10 percentage points, between the two dates (to 11 per cent on 1 April) and also of those on paid holiday (also to 11 per cent on 1 April). Additionally, the proportion of full-time employees working partly from home increased from 2 per cent on 1 March to 5 per cent on 1 April. When assessing the typology categories of exposure, a strong association is seen between the extent of changes to work organisation and the impact of the pandemic on enterprises. While 85 per cent of employees of businesses reporting decreasing capacity utilisation and minor disturbances and 80 per cent of employees of businesses reporting positive or neutral experiences and unchanged or increasing capacity utilisation worked entirely on the premises of the enterprise on 1 April, only 40 per cent of employees did so at enterprises reporting severe disturbances and decreasing capacity utilisation. In this category, the proportion of employees on paid holiday on 1 April was particularly high (39 per cent).

**Table 3.6: Employees of Hungarian businesses employing at least 2 persons broken down by work arrangement on 1 March and 1 April 2020, percentage, N<sub>March</sub> = 1706, N<sub>April</sub> = 1559 (percentage)**

	Total sample		No/positive effect, unchanged/increasing capacity utilisation		Minor disturbances, less than 50 percentage point drop in or unchanged/increasing capacity utilisation		Major disturbances, unchanged/decreasing capacity utilisation		Severe disturbances, decreasing capacity utilisation		Minor disturbances, decreasing capacity utilisation		Severe disturbances, unchanged/increasing capacity utilisation	
	1 March	1 April	1 March	1 April	1 March	1 April	1 March	1 April	1 March	1 April	1 March	1 April	1 March	1 April
<b>Full-time</b>														
Worked solely at the place of work	92	67	93	80	91	73	94	67	91	40	96	85	96	75
Worked partly at the place of work and partly from home	2	5	1	8	4	4	1	3	3	8	0	10	0	8
Worked solely from home	0	11	0	3	0	18	0	8	1	5	0	0	0	16
<b>Part-time, short-time work</b>														
Worked solely at the place of work	2	3	2	2	2	1	2	7	3	4	3	4	3	0
Worked partly at the place of work and partly from home	0	1	0	0	0	0	0	1	0	0	0	0	0	0
Worked solely from home	0	1	0	0	0	1	0	0	0	1	0	0	0	0
<b>Absence</b>														
Were on paid leave	1	11	2	4	1	1	2	11	1	39	0	1	1	0
Were on unpaid leave	0	1	0	0	0	0	0	1	0	1	0	0	0	0
Were on sick leave	2	2	2	2	2	2	1	2	2	2	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: IEER (2020).

Working entirely from home was significant primarily at businesses reporting minor disturbances and a maximum of 50 percent drop in capacity utilisation (18 per cent) and at businesses experiencing severe disturbances but unchanged or increasing capacity utilisation (16 per cent).

### **3.4 Adopting crisis management measures – the responses of businesses to the economic effects of the coronavirus pandemic**

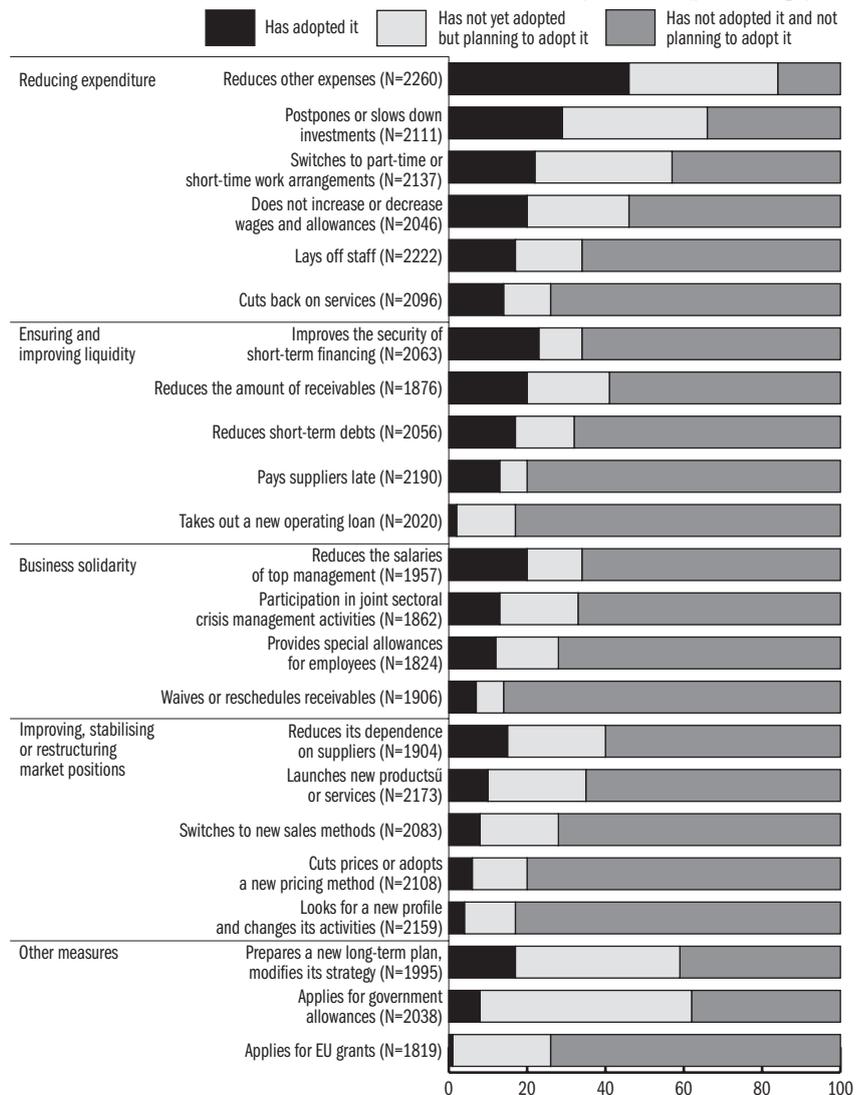
It was also assessed what crisis management tools CEOs were applying at the time of the survey and what tools they were planning and what tools not being planned to apply in the future. The 29 crisis management tools included were grouped for the purpose of clarity: the groups include measures for improving liquidity, reducing expenditure, stabilising, improving or restructuring market positions, business solidarity as well as other adaptive measures. Firstly, the findings show that the abovementioned groups are arranged similarly on the mental maps of respondents, since there is a distinct ranking. The most prominent crisis management tool is the reduction of expenditure, followed by improving liquidity, business solidarity as well as stabilising, improving or restructuring market positions, clearly indicating that businesses opted for quick fixes and measures promising quick results (*Figure 3.2*).

The five most widespread measures that enterprises had already applied include reducing other expenses (46 per cent), postponing and slowing down investments (29 per cent), introducing part-time or short-time work arrangements (22 per cent), improving the security of short-term financing by, for example, prolonging bank loans or making use of the loan repayment moratorium (23 per cent) as well as postponing pay rises or even reducing wages (20 per cent). The importance of these crisis management measures is also indicated by the high proportion of respondents who had not yet adopted them at the time of the survey but were planning to adopt/introduce them (except for ‘improving the security of short-term financing’) in the future (26–38 per cent).

The July 2020 Business Climate Survey of IEER assessed 407 businesses employing at least 20 persons on the same topics. In order to ensure comparability, only enterprises with at least 20 employees were included from the survey in April. The findings show that until the middle of summer, a further significant number of more businesses adopted the five crisis management measures used the most frequently in April: reducing other expenses (from 46 percent to 70 per cent), postponing and slowing down investments (from 25 per cent to 43 per cent), introducing part-time or short-time work arrangements (from 19 per cent to 52 per cent), improving the security of short-term financing (from 26 per cent to 34 per cent), postponing increases in pay and allowances (from 21 per cent to 35 per cent). Furthermore, there was a considerable increase in the proportion of businesses preparing a long-term strategy (from 15 per cent

to 34 per cent) and applying for government allowances (from 7 per cent to 43 per cent). Additionally, a minimum of 10 percentage-point increase was seen in cutting prices (from 5 per cent to 17 per cent), reducing dependence on suppliers (from 7 per cent to 26 per cent) and reducing top management salaries (from 15 per cent to 25 per cent).

**Figure 3.2: Adoption of crisis management measures by Hungarian businesses to deal with the economic effects of the coronavirus pandemic (percentage)**



Source: IEER (2020).

Differences are also seen when applying the typology of exposure to businesses. Special allowances for employees were frequently provided by businesses

that were not, or were only slightly, affected by the economic effects of the coronavirus pandemic and consequently only suffered a small decrease in capacity utilisation or were even able to increase their performance (no/positive impact, unchanged/increasing capacity utilisation; minor disturbances, a less than 50 percentage drop; minor disturbances, decreasing capacity utilisation). However, a large proportion of businesses reporting major or severe disturbances switched to part-time work arrangements, regardless of changes in capacity utilisation, while decreases in top management salaries, wage cuts and staff dismissal were also seen in the last two categories (*Figure 3.3*).

**Figure 3.3: Adoption of crisis management measures by Hungarian businesses to deal with the economic effects of the coronavirus pandemic, broken down by exposure**

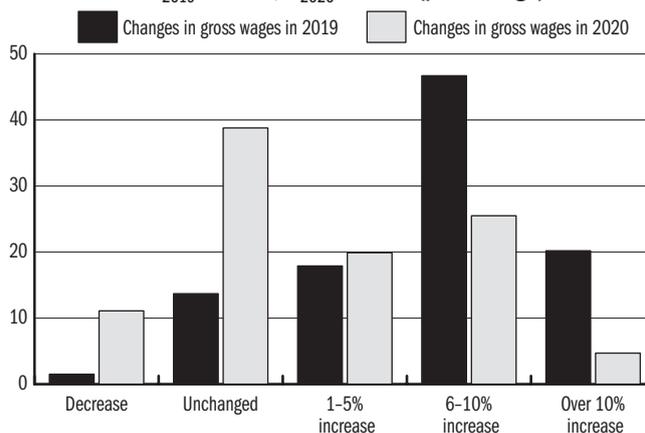
<b>No/positive impact, unchanged/increasing capacity utilisation (N=215-238)</b>
1. reducing other expenses (25%)
2. reducing dependence on suppliers (20%)
3. participation in joint sectoral crisis management activities (14%)
4. providing special allowances for employees (14%)
5. postponing or slowing down investments (12%)
<b>Minor disturbances, less than 50 percentage point drop in or unchanged/increasing capacity utilisation (N=398-427)</b>
1. reducing other expenses (31%)
2. providing special allowances for employees (20%)
3. postponing or slowing down investments (19%)
4. reducing the amount of receivables (16%)
5. improving the security of short-term financing (13%)
<b>Major disturbances, unchanged/decreasing capacity utilisation (N=410-442)</b>
1. reducing other expenses (47%)
2. improving the security of short-term financing (33%)
3. postponing or slowing down investments (29%)
4. reducing short-term debts (26%)
5. introducing part-time or short-time work arrangements (25%)
<b>Severe disturbances, decreasing capacity utilisation (N=731-908)</b>
1. reducing other expenses (68%)
2. postponing or slowing down investments (49%)
3. introducing part-time or short-time work arrangements (43%)
4. reducing top management salaries (42%)
5. freezing or cutting wages and allowances (39%)
<b>Minor disturbances, decreasing capacity utilisation (N=40-47)</b>
1. reducing other expenses (28%)
2. improving the security of short-term financing (26%)
3. reducing the amount of receivables (23%)
4. participation in joint sectoral crisis management activities (17%)
5. providing special allowances for employees (10%)
<b>Severe disturbances, unchanged/increasing capacity utilisation (N=157-202)</b>
1. reducing other expenses (63%)
2. introducing part-time or short-time work arrangements (34%)
3. laying off staff (28%)
4. postponing or slowing down investments (27%)
5. reducing top management salaries (26%)

Source: *IEER* (2020).

### 3.5 Changes in gross wages in 2019 and 2020

Business leaders were also asked by what percentage gross wages had changed in 2019 at their businesses and to what extent they were foreseen to change in 2020. Obviously, a significantly lower proportion of enterprises were planning to raise gross wages in 2020 (51 per cent), than in 2019 (85 per cent). Furthermore, the extent of anticipated wage increases also declined: only the increase similar to the inflation rate (1–5 per cent) was reported by a similar proportion of enterprises (18 and 20 per cent). While in 2019 only 2 per cent of enterprises cut wages, this proportion is foreseen to be 11 per cent in 2020, based on data from April, and whereas the largest proportion of businesses (47 per cent) raised wages by 6–10 per cent last year, this year the most popular strategy is to freeze wages (39 per cent) (*Figure 3.4*).

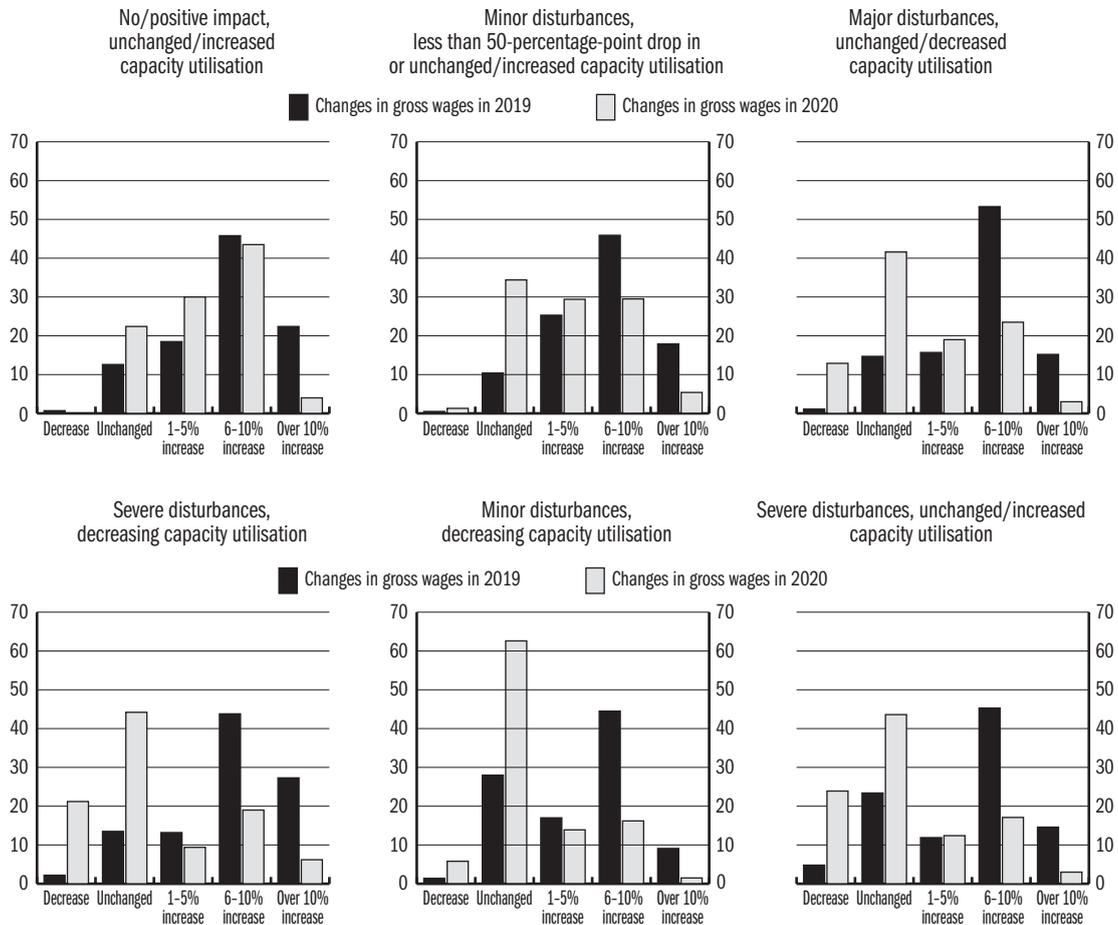
**Figure 3.4: Changes in gross wages in 2019 and 2020, percentage,**  
 $N_{2019} = 2698, N_{2020} = 2606$  (percentage)



Source: *IEER* (2020).

A negligible proportion of businesses reporting minor disturbances at most (no/positive impact, unchanged/increasing capacity utilisation; minor disturbances, a less than 50 percentage point drop) were forced to cut salaries (0 and 1 per cent) and although the proportion of those freezing wages also significantly increased among them (22 and 34 per cent), the majority (77 and 59 per cent) scheduled a 1–10 per cent wage increase this year. By contrast, among businesses facing major disturbances (from 1 per cent to 13 per cent) and severe disturbances (from 2 per cent to 21 per cent) as well as those experiencing severe disturbances in spite of increasing/unchanged capacity utilisation (from 5 per cent to 24 per cent) the proportion of those forced to cut wages significantly increased compared to 2019 – as seen in the section on crisis management measures –, while only less than half of them are planning to raise salaries (32–46 per cent) (*Figure 3.5*).

Figure 3.5: Changes in gross wages in 2019 and 2020, broken down by exposure



Note: No/positive impact, unchanged/increasing capacity utilisation ( $N = 269-275$ ); minor disturbances, a less than 50 percentage point drop in or unchanged/increasing capacity utilisation ( $N = 510-529$ ); major disturbances, unchanged/decreasing capacity utilisation ( $N = 496-508$ ); severe disturbances, decreasing capacity utilisation ( $N = 1023-1062$ ); minor disturbances, decreasing capacity utilisation ( $N = 55-58$ ); severe disturbances, unchanged/increasing capacity utilisation ( $N = 251-266$ )

Source: IEER (2020).

### 3.6 Summary

The findings of our study indicate that there are significant differences between businesses based in Hungary in the extent of exposure to the economic impacts of the Covid-19 pandemic. The typology showing the extent of exposure is relevant to all of the topics discussed and fundamentally determines the current behaviour, strategy and headcount management of enterprises.

It is mainly businesses facing major direct (emergency measures) or indirect (fall in demand due to the lockdown) obstacles that were in distress. Micro and small enterprises as well as service providers were affected by the most severe impacts. The findings show that working from home was a pressure for the majority of Hungarian businesses and it often entailed a considerable limitation on their activities. The survey, conducted during the lockdown, indicates that at the time of the emerging crisis nearly one-third of businesses ran into a serious difficulty within a few weeks. They were primarily trying to overcome their problems by significantly reducing their expenses, which was reflected in both changes in headcounts and wage policies.

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