




Weekly Briefing

Hungary economy briefing:
The Hungarian Business Sector between the two Waves of Covid-19:
W-shaped Economic Crisis?
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W-shaped Economic Crisis?

The second wave of the Covid 19 pandemic not only started in Hungary in the autumn, but it also led to the introduction of new strict restrictions on the mobility of people and certain economic sectors. As we understand it, the probability of a W-shaped economic crisis increased significantly with the new lockdown. The government is currently facing two dilemmas: the pursuit of economic goals versus maintaining the stability of the health sector, and the need for short-term state intervention in the corporate sector versus sacrificing the future economic growth potential. In both cases, the government seems to be taking a middle course.

The measures came into force on the 11th of November 2020. At the same time, news of the arrival of the various vaccines (American, Chinese and Russian) is making headlines and causing a rally on the international money markets. Of course, we cannot estimate the exact impact of these measures, but we can make our preliminary forecasts based on the first wave and the results of a survey conducted on Hungarian companies. In this briefing we will focus on the available surveys that have been used to try to assess the reactions of the Hungarian corporate sector. We will also look at changes in production, revenues, and investment plans.

1. Output

Table 1. Industrial and construction output volumes in Hungary		
2020	Industrial output (100=previous month)	Construction output (previous month=100)
January	104.8	100.2
February	100.1	108.2
March	89.3	92.8
April	69.1	100.3
May	117.7	79.9
June	117.9	105.7
July	106.7	103.2
August	106.3	101.9
September	102.3	-
Source: Hungarian Central Statistical Office		

According to data from the Hungarian Central Statistical Office, industrial production collapsed in March and April, but could recover in the following months. The recovery was complete as industrial production in September 2020 was 2.2 percent higher than in the corresponding month of the previous year. However, it is clear that the recovery of recent months has not been able to compensate for the whole loss, therefore total production in the first nine months was 9.2 percent lower than in the same period of 2019. As for agriculture, we do not yet have any data, seeing as the recovery of the construction sector is not yet complete. Only the months of June, July and August showed higher volumes than the previous months, but total production volume in August was 13.6 percent lower than in August 2019.

In contrast to the manufacturing and construction sectors, the retail sector is showing a complete recovery even on a year-on-year basis. The volume of retail sales in the January-September period of 2020 was 0.5 percent higher than in the corresponding period of the previous year. Looking at the sub-categories, it should come as no surprise that although turnover in specialized and non-specialized food retail (3.5 percent) and non-food retail (1.1 percent) increased, car fuel sales in the January-September period in 2020 were significantly lower (-9.7 percent) than in the previous year.

For obvious reasons, the impact of the pandemic was strongest in the tourism sector: in September 2020, international tourists spent 91 percent fewer nights in hotels, pensions, campsites, bungalow complexes, and shared accommodation than in the same months of 2019. If we look at overnight stays by domestic tourists, the decline was 16 percent; total tourism revenues thus fell by 65 percent.

2. Revenues and investment plans

The MNB surveyed Hungarian firms to assess the economic impact of the pandemic on their business prospects. The survey was conducted three times this year, in March, June, and September. The first time almost four thousand companies responded to the questions, while in June about 1,200 companies took part in the survey, and in September about 830 companies. 60 percent of the responding companies were micro-enterprises, 23 percent small, 12 percent medium-sized and 4 percent could be classified as large companies. Almost three-fourth of the companies are in the services, while 22 percent are from the manufacturing sector and 4 percent of the responding companies are active in agriculture. According to the results of the survey, the turnover level during the summer of 2020 was approaching the pre-crisis level but declined again in September. Similar trends were seen in the investment plans of the companies, the share of companies planning investments also decreased in the period between June and September. (See the result in table 1!)

	March 2020	June 2020	September 2020
Average revenue level compared to the pre-crisis period	63 percent	77 percent	71 percent
Share of firms planning to invest	-	46 percent	40 percent

Source: Fekete Ádám – Nyitrai Tamás: A hazai vállalati szektor tapasztalatai a járvány második hullámának kezdetén. <https://www.mnb.hu/letoltes/fekete-adam-nyitrai-tamas-a-vallalati-szektor-tapasztalatai-a-jarvany-masodik-hullamanak-kezdeten.pdf>

Another aspect of the economic crisis was examined by a survey conducted by a Hungarian receivables management company. The questionnaire raised questions about how companies are dealing with the effects of recession and financial problems. The survey, in which both Hungarian and other European companies participated, concluded that the greatest challenge for both private and public companies, as well as individuals is the prevalence of late

payment. 38 percent of Hungarian and 31 percent of other European companies explained this with financial difficulties. Although cost reduction is the most typical step to overcome the problems, only 29 percent of Hungarian CEOs in the survey cited cost reduction as a solution. A year ago, 49 percent of CEOs gave the same answer, which suggests that the adjustment in the economy started before the economic crisis in 2020 and companies have most likely already reduced costs to a minimum, therefore other measures (lay-offs) are necessary in order for them to survive and reduce the pressure on the company's finances.

The same general trend seems to be confirmed by the MNB's survey, which shows that, according to the replies from companies in September, the number of employees has shrunk to 91 percent, based on the pre-crisis level of 100 percent. This figure was 4 percentage points lower in September 2020 than in June. A similar decline in wage levels was observed, with the average wage level in September 6 percentage points lower than in the same month of 2019, according to the companies in the survey. The proportion of companies planning to hire new workers was 11 percent, a significant decline from the 21 percent in June 2020, while the proportion of companies making redundancies rose from 5 percent in June to 16 percent in September.

While conducting the MNB survey, the responses from companies with or without participation in the Funding for Growth Programme (FGP) of the MNB were separated. Based on the results, it became clear that the companies in the FGP coped more smoothly with the effects of the crisis: The picture was more positive in terms of wage levels, investment plans, and revenues. In other words, the measures appear to be efficient. The last round of the program was launched in April 2020. In this framework, 934 billion HUF in financial support was made available to Hungarian companies for the repayment of loans, working capital, and investments. In order to mitigate the effects of Covid-19, the MNB also pursued an aggressive monetary policy and took various measures to facilitate liquidity.

3. Economic outlook

After a recovery of economic activity in the summer, the main economic indicators point to a renewed slump in GDP growth; output in industry and construction might have been able to recover in the autumn, but even this recovery was not strong and the volume of retail trade is already declining, showing that household expectations are rather negative for two reasons: Inflation rates rose in the summer, and the uncertainties in the economy did not allow for a significant increase in incomes. Based on the surveys, we have also observed that companies

tend to have a similar attitude towards the economic outlook. The proportion of companies hiring new workers and embarking on new investment projects has declined in recent months. In addition to these elements, the new round of severe restrictions on the mobility of people and certain sectors of the economy does not bode well for the near future, and it is almost certain that the crisis in the Hungarian economy will be W-shaped. Of course, the state can always intervene, but the extent of intervention is pretty much dictated by the strategy of how much debt can be accumulated, which reduces future growth potential. According to the International Monetary Fund, the government's fiscal balance as measured by GDP will be -8.28 percent. Under normal circumstances, this figure would be extremely high; however, it is not considered to be in 2020 when much higher numbers can be found in other countries (USA: 18.72 percent, Canada: 19.92 percent, Brazil: 16.78 percent). The real question seems to be how far we can go to alleviate the worst effects of the economic crisis without sacrificing the future. The Hungarian government seems to be aware of this dilemma and is trying to strike a balance between the two objectives in its economic policy.