LABOUR MARKET POLICIES

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1 LABOUR MARKET POLICY TOOLS (JUNE 2019 – MAY 2020)

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1.1 Institutional changes

The system of vocational education and training. Act LXXX of 2019 on Vocational Education and Training[1] took effect on 1 January 2020. Pupils entering vocational education and training on 1 September 2020 already commenced their studies in accordance with the new regulation. (The changes will be phased in starting from the school year 2020–2021.) The 4 + 1 year structure of secondary vocational schools will be replaced by a 5-year and in some cases even 6-year structure, while vocational schools will cover only three years.

The first phase of education will offer the shared sectoral basics of related occupations. Following this foundation phase, pupils sit for a sector-specific examination and then select one of the related occupations to study at the end of Grade 9 at a vocational school and after Grade 10 at a secondary vocational school.[2]

Vocational schools prepare pupils for an occupation. Following the first year providing sector-specific knowledge, that is after passing the sector-specific examination and choosing an occupation, pupils take part in dual training (apprenticeship) at enterprises or entrepreneurs, where they acquire profession-specific skills. At the end of their studies, pupils sit for a profession-specific examination and acquire a vocational qualification. After passing the examination, they may participate in a two-year part-time programme and obtain an upper-secondary qualification.

At the five- or six-grade secondary vocational schools it is possible to obtain a post-secondary qualification, which provides skills relevant to middle management roles. In general subjects, education ends in a school-leaving examination (Matura) and pupils take a profession-specific exam in a fifth subject, which qualifies as an advanced-level school leaving examination. Secondary vocational programmes also include practical, work-based training elements, ideally at enterprises, as dual training. Having completed the five or six grades, pupils obtain both a secondary school leaving certificate (Matura) and a post-secondary vocational certificate, and may be given preferential treatment when applying for a relevant higher education programme.

Under the new law, dual training provided by vocational and secondary vocational programmes will be governed by an apprenticeship contract in-

1 Act LXXX of 2019 on Vocational Education and Training (in Hungarian).
2 See PBKIK, Pécs.

stead of a training contract and will be subject to the Labour Code with certain exceptions.

Pupils in vocational education and training are entitled to various emoluments during their studies but only one at a time. They may be awarded a grant based on their school performance during their studies at school and are paid a salary and other emoluments by the enterprise providing the dual training (apprenticeship), based on their apprenticeship contract.

Under the new legislation, the National Qualifications Register is replaced by the Register of Professions, which contains 174 professions of 25 sectors, along with the length of training required, the specialisations belonging to each profession and the possibilities of transfer from one profession to another. Training for the so-called basic professions will only be provided by vocational schools and secondary vocational schools, within the education system.

The status of teachers in vocational and secondary vocational schools also changes: they are no longer employed as public servants but have an employment contract or agency contract governed by the Labour Code.

On 16 March 2020, e-learning was introduced, with a ministerial decree, for general knowledge and profession-specific theoretical subjects at vocational and secondary vocational schools due to the COVID-19 pandemic.[3] If a pupil did not possess the necessary devices and Internet access, the vocational training centre he/she attends provided for these and also for education in small groups of maximum five pupils in the school building. Depending on the nature of the profession and the equipment needed, apprenticeship training was also ideally provided as e-learning or individually, through project work. The year-end practical examinations were postponed and pupils were able to conclude an apprenticeship contract at the beginning of their dual training without passing the practical examination. If either the school or the practical training provider (the enterprise) deemed the practical training (apprenticeship) unfeasible, they decided together to postpone it or provide it as e-learning.

Economy Support Operational Board. In order to mitigate and prevent the detrimental impacts of the coronavirus pandemic, the Hungarian government has set up the Economy Support Operational Board,[4] which monitors the government measures taken to protect the Hungarian economy as well as their implementation, and makes recommendations for the government on abolishing factors and regulations that pose an obstacle for businesses to pursue their activities or make investments. The Economy Support Operational Board also makes proposals for the government on measures to ease the allocation of EU and national funding, gives its opinion on initiatives relevant to the protection of the Hungarian economy and makes proposals on government interventions.[5]

3 See nive.hu.
4 See source of law (in Hungarian).
5 See koronavirus.gov.hu.

1.2 Benefits

Unemployment benefit. As a result of raising the minimum wage in 2020[6] (see *Section 1.5*), the maximum amount of the unemployment benefit (so-called job-seekers' allowance) also increased. Thus the maximum of the job-seekers' monthly allowance has been HUF 161,000 since 1 January 2020, while the unemployment assistance granted before retirement has been HUF 64,400 a month. The so-called activity compensation of job seekers participating in intensive training acknowledged by job centres ranges between HUF 96,600–161,000 a month.

Rehabilitation and disability benefits. The amount of rehabilitation and disability benefits increased by 2.8% in January 2020 and in this way the base allowance is now at HUF 104,405.[7]

Child benefits. As a result of a raise in the minimum wage in 2020 (see *Section 1.5.*), the maximum amount of the parental leave benefit (which equals 70 per cent of double the amount of the minimum wage) increased to HUF 225,400 a month in 2020. The parental leave benefit for graduates otherwise not entitled to one increased to HUF 112,700 for Bachelor degree holders and HUF 147,420 for Master degree holders. From 2020 onwards, insured grandparents who are not yet pensioners are also entitled to the parental leave benefit if certain requirements are met.[8]

During the state of emergency declared because of the pandemic, entitlement to the parental leave benefit was extended for parents whose entitlement would have ceased on, or after, 11 March 2020[9] and this regulation expired on 17 June, when the state of emergency was repealed – implying that those whose entitlement to parental leave ceased after 17 June 2020 did not enjoy the prolonged entitlement.

1.3 Services

Job retention loan. Businesses are able to apply for the loan scheme launched in order to counteract the economic effects of the coronavirus pandemic if they are unable to finance the maintenance of their jobs. In this case they can take out a loan amounting to 9 months' salaries at an interest rate of 0.1 per cent, with a two-year maturity and with a pre-redemption period of maximum 9 months.[10] Borrowers must undertake to retain at least ninety per cent of their workforce during the maturity period.

Student Loan Extra. The interest-free Student Loan Extra was introduced in May 2020, amounting to a maximum of HUF 1.2 million if the borrower participates in adult training programmes specified by the Ministry for Innovation and Technology.[11] This general purpose loan primarily supports students who have lost their jobs or are considering a career change during their studies. Student Loan Extra may also be taken out by higher education students up to an amount of HUF 500 thousand.

6 See source of law (in Hungarian).
7 See kormanyhivatal.hu.
8 See kozlonyok.hu.
9 See koronavirus.gov.hu.
10 See kavosz.hu.
11 See kozlonyok.hu.

Information portal for entrepreneurs. The site supports entrepreneurs by collecting advice as well as information on programmes, loans and calls to tender, which may be useful during the pandemic and the ensuing economic crisis.[12] It also provides information on free or state-funded training, helpful for employees whose jobs are at risk.

"Redesign" campaign. As part of the economy support action plan, the government launched a free, online information technology training in May 2020.[13] Participants acquire basic computer literacy skills ranging from the usage of Windows to software development and website development. The eight-week course involves 2–6 hours of learning a day mainly based on video instructions. The course helps participants to assess how inclined they are towards information technology and whether they are interested in taking part in further training courses ending in a qualification.

1.4 Active labour market policies and comprehensive programmes

The public works budget in 2020. Prior to the coronavirus pandemic, the Hungarian government intended to downscale the public works programme and thus reduced the budget of the Start work programme from HUF 180 billion in 2019 to 140 billion in 2020.[14] However, the Government Resolution 1466/2020. (VII. 31.) on issues concerning public works[15] was published in June 2020 stating that the government provides an opportunity to work in the public works scheme for anyone requesting it. To this end, the budget of the Start work programme was increased by HUF 5 billion.

Public works and social welfare land programme. A public invitation was published by the Ministry of Agriculture and the National Land Centre in June 2019 for municipalities to tender for the free usage of 1,200 hectares of state-owned land.[16] The primary aim of the programme is to support Hungarian villages, extend the agro-economic opportunities available for them and assist disadvantaged people in rural areas. The call facilitates the extension of local public works projects and labour market opportunities and supports the production of locally produced agricultural products.

"Summer student work 2020" central labour market programme. This central labour market programme, launched in June 2019, facilitates the entrance of young people to the labour market by providing early work experience and income for students. The total budget of the programme is HUF 3.6 billion.[17]

Employment aid for public works participants. Government decree 203/2019 (VIII.23.)[18] was published on 23 August 2019, stipulating that public works participants are entitled to a one-off employment aid in addition to the public works wages. This one-off assistance contributes to the costs of job seeking with HUF 81,530 if the beneficiary was in public works for a minimum of 90 days between 1 January and 31 July and was not subject to exclusion from public works as defined in the Public Works Act.

12 See vali.ifka.hu.
13 See nive.hu.
14 See parlament.hu.
15 See kozlonyok.hu.
16 See kormany.hu.
17 See ado.hu.
18 See magyarkozlony.hu.

The programme was designed to stimulate employment in the country, expand land use opportunities for municipalities, support local agricultural production and increase the proportion of agricultural products produced locally.
New Internship Programme. The EDIOP-5.2.4-19 call titled New Internship Programme was published in November 2019 in order to assist disabled young people with upper-secondary qualifications with gaining work experience through internship and placement. The total budget of the programme is HUF 1.3 billion.
Providing grants for and supporting the training and employment of parents with young children. The EDIOP-5.3.13-20 call titled "Providing grants for and supporting the training and employment of parents with young children" was published in February 2020, which facilitates the participation of parents with young children in education and training, improves their employability, supports their return to employment and in this way activates the labour reserve. The total budget of the programme is HUF 3 billion.
Wage subsidies introduced due to the coronavirus pandemic. Government regulations adopted in order to alleviate the effects of the coronavirus pandemic introduced several wage subsidy schemes for the duration of the state of emergency.

The aim of supporting short-time working arrangements[19] was to encourage businesses affected by the pandemic to continue employing their workers in reduced working hours instead of downsizing. Under the regulation, part-time work of a maximum of four hours a day, amounting to at least half of the average working time of the three months preceding the state of emergency but not exceeding 70 per cent thereof qualifies as reduced working time. The regulation was later amended[20] to include working time of at least 25 per cent of, but not exceeding 80 per cent of, earlier working hours. The amendment also made it easier to apply for the subsidy. The first regulation required (in addition to operation for at least 6 months and employment since the announcement of the state of emergency or for a longer time) employers to prove that economic circumstances resulting in the short-time work arrangement are directly and closely related to the state of emergency, while the new regulation did not require a justification in order to apply for the subsidy.

A subsidy for employees in research and development was available under similar conditions.[21] Employers were entitled to a 3-month grant for the wages of employees in scientific research, development and innovation jobs. The grant was proportionate to gross wages and amounted to a maximum of HUF 319 thousand. When applying for the grant, employers undertook to retain the earlier average headcount, continue to employ the employee for a period equal to the period of the grant and did not reduce the wages of the employee during the period of the grant and during the continued employment.

19 See source of law (in Hungarian).
20 See source of law (in Hungarian).
21 See source of law (in Hungarian).

A wage subsidy for job creation was also introduced because of the pandemic,[22] which was possible to claim for the employment of registered job seekers. The employment of a registered job seeker had to result in a net increase in headcount compared to the one at the time of applying for the subsidy. The period subsidised was six months, followed by three months of mandatory continued employment. The subsidy covered 100 per cent of the gross wages and social security contribution, amounting to a maximum of HUF 200 thousand.

Changes to the public works regulations during the state of emergency. On 15 May 2020 Government resolution 1240/2020[23] was published, which expanded the range of those who can apply for public work.

Amendment to Act CVI of 2011 on Public Works and the Amendment of Related and Other Legislation. This amendment was adopted on 19 May 2020[24] and stipulates that job seekers are excluded from public works for three months if because of their disorderly living environment the competent authorities reported a risk to health or public safety or the municipal clerk reported in a final decision a non-compliance with an obligation specified in a municipal regulation.

Supporting the investment of micro-, small and medium-sized enterprises in adapting to current business and production challenges. "CCHOP-1.2.6-20 Supporting the investment of micro-, small and medium-sized enterprises in adapting to current business and production challenges" and "EDIOP-1.2.8-20 Supporting the investment of micro-, small and medium-sized enterprises in adapting to current business and production challenges" commenced in May 2020. Both programmes aim at alleviating the economic effects of the coronavirus pandemic by maximising the workforce retention of (primarily micro-) enterprises and investment implemented from grants available for the various SME and headcounts categories. Additionally, a primary objective of the programme is to improve the productivity of SMEs and support their technological renewal. The total budget of CCHOP-1.2.6-20 is HUF 18.8 billion and that of EDIOP-1.2.8-20 is HUF 33.3 billion.

Introducing a special form of employment in the army. In May 2020 the army introduced a Special Voluntary Reserve Military Service for Hungarian citizens who lost their jobs during the coronavirus pandemic. In this special employment form there is no obligatory duration of contracts: they may be terminated by mutual agreement at any time. Volunteers are paid a gross monthly salary of HUF 161 thousand over the six-month service as well as a mobility allowance and are provided a meal.

Development of competitive entrepreneurial attitudes and increasing the proportion of opportunity-oriented enterprises. "EDIOP-1.1.9-CCHOP-20 Development of competitive entrepreneurial attitudes and increasing the proportion of opportunity-oriented enterprises" was published in June 2020. It supports the survival and efficient operation of start-ups by creating a platform of 21st

22 See munka.hu.
23 See magyarkozlony.hu.
24 See magyarkozlony.hu.

century solutions, an information channel ensuring knowledge transfer and a "starter pack". The total budget of the programme is HUF 1.1 billion.

1.5 Policy tools affecting the labour market

Changes in the minimum wage and the guaranteed minimum wage

The minimum amount of the base salary of full-time employees increased from HUF 149 thousand to HUF 161 thousand gross on 1 January 2020, while the guaranteed minimum wage of full-time employees in jobs requiring at least an upper-secondary qualification and/or mid-level vocational qualification increased from HUF 195 thousand to HUF 210,600.[25]

Changes in the system of taxes and contributions

Social contribution tax. On 1 July 2019 the social contribution tax decreased from 19.5 per cent to 17.5 per cent[26] and on 1 July 2020, as an element of the package intended to reduce the effects of the coronavirus pandemic on the economy, it was reduced again by 2 percentage points.[27]

The Act on Social Contribution Tax was modified as a result of changes in the vocational education and training system. Similarly to employment contracts with higher education students, apprenticeship contracts are also exempt from tax, including social contribution tax.

Act on Beneficiaries of Social Security. The new legislation on beneficiaries of social security adopted in December 2019 took effect on 1 July 2020.[28] It includes several changes affecting employees. The new Act merged health insurance, monetary health insurance, labour market and pension contribution into a flat rate 18.5 percent social security contribution. However, certain employees are only liable to paying the 10 percent pension contribution.

The Act provides that the minimum amount of the contribution is linked to the minimum wage and the guaranteed minimum wage: it is at least 30 per cent of the minimum wage for employees. However, the lower end of the contribution is not applied to beneficiaries of parental leave benefits, full-time pupils, higher education students and participants of vocational education and training. Those pursuing an ancillary activity – for example pensioners with an employment contract – are exempt from paying social security contribution and social contribution tax.

Changes due to the coronavirus pandemic

In order to alleviate the effects of the pandemic on the economy, several labour market measures were introduced for the period of the state of emergency.

Tax relief in the most affected sectors. The tax relief measures granted exemption from tax and contributions for employers and entrepreneurs in the sectors specified in the regulation[29] as the most affected. This was for three months

25 See source of law (in Hungarian).
26 See source of law (in Hungarian).
27 See source of law (in Hungarian).
28 See source of law (in Hungarian).
29 See source of law (in Hungarian).

starting from March. Thus employers were exempt from social contribution tax payable on employees as well as the rehabilitation contribution and vocational training contribution. Small businesses active in the sectors concerned were exempt from paying the flat rate simplified tax of small taxpayers (so-called KATA) during this period. Additionally, businesses active in tourism were exempt from paying the tourism development contribution.

Healthcare for employees on unpaid leave. The regulation adopted[30] stipulates that employees on unpaid leave because of the state of emergency are entitled to healthcare. Employers are liable to paying the healthcare contribution on such employees; however, they may request to pay the contribution within two months following the end of the state of emergency.

Changes to the Széchenyi Leisure Card (*SZÉP Card*). The measures adopted also affect regulations on the cafeteria system.[31] The amount of the non-cash fringe benefit that may be given for employees on the SZÉP card increased: on the accommodation sub-account a maximum of HUF 400 thousand a year, on the hospitality sub-account a maximum of HUF 265 thousand a year, while on the leisure sub-account a maximum of HUF 135 thousand may be given. The fringe benefit provided on the SZÉP card until 30 June was exempt from the social contribution tax.

Measures related to the Labour Code. In order to ensure the opportunity for remote work, the Labour Code was temporarily amended during the state of emergency.[32] Employers were entitled to modify the work schedule and the ordering of employees to work in a home office during the state of emergency and the 30 days thereafter.

30 See source of law (in Hungarian).
31 See source of law (in Hungarian).
32 See source of law (in Hungarian).

Appendix

Table A1: Expenditures and revenues of the employment policy section of the national budget, 2013–2020 (million HUF)[a]

	2014	2015	2016	2017	2017	2018	2019[b]	2020
Expenditures	actual	actual	actual	plan	plan	plan	plan	plan
Employment and training subsidies	28,120.8	12,302.4	27,503.9	16,172.0	27,238.9	35,000.0	35,000.0	21,000.0
Co-financing EU-funded employability (and adaptability) projects	17,130.1	11,064.6	3,808.7				84,300.0	
8. Public works (START work programme)	225,471.1	253,723.3	267,965.7	325,000.0	265,837.2	225,000.0	180,000.0	140,000.0
SROP 1.1 Labour market services and support	35,790.1	12,305.1	79.5					
SROP 1.2 Normative support for promoting employment	1,080.1							
EDIOP 5 Employment priority – annually published budget,				81,600.0		7,800.0	28,000.0	23,000.0
Of which CCHOP funding				1,000.0				1,298.0
EDIOP 6 Competitive workforce priority – annually published budget				74,380.0			9,770.0	22,561.0
Reimbursement of social security contribution relief	551.5							
Pre-financing 2014–2020 labour market programmes	0	13,654.9	50,101.3	74,116.4	70,995.3	84,300.0		85,000.0
2. Vocational and adult training subsidies	24,725.9	30,084.7	27,872.0	20,000.0	29,919.4	29,930.0		25,000.0
Job seekers' allowance	49,235	49,657.7	53,454.1	47,000.0	59,674.0	55,000.0	75,000.0	83,000.0
Transfer to Pension Insurance Fund	451.6	309.1						
5. Payments from Wage Guarantee Fund	4,178.5	3,790.7	3,994.3	4,000.0	3,341.2	4,000.0	4,500.0	4,500.0
6. Operational Expenditures	2,418.3	2,816.0	2,899.3	3,500.0	2,785.6	2,900.0	4,310.0	1,200.0
7. Other budget contribution							70,000.0	71,000.0
15. Headline stability reserves			389.5					
Supplementary subsidies for employers								
16. Sectoral subsidy for minimum wage increase	9.1							
17. Other expenditures								
Total expenditures	389,162.1	389,708.5	438,068.3	645,768.4	459,791.6	443,930.0	522,574.8	476,261.0

Revenues	2014 actual	2015 actual	2016 actual	2017 plan	2017 plan	2018 plan	2019 plan	2020 plan
25. Revenues from SROP measures[c]	39,776.7	22,466.1	46,365	60,000.0	64,512.6	70,400.0	70,000.0	70,000.0
Other revenues, regional	1,507.8	1,290.8	1,839.5	1,000.0	2,188.1	1,000.0	1,000.0	1,000.0
Other revenues, national	2,537.1	901.5	1,745.6	1,000.0	2,013.8	1,000.0	1,000.0	1,200.0
Other revenues from vocational and adult training	216.8	10,147.6	2,169.2	800.0	1,643.1	800.0	800.0	800.0
31. Vocational training contribution	60,910.8	65,308.2	70,327.6	60,706.7	80,074.5	74,436.3	95,490.6	112,300.0
33. Redemption of wage guarantee subsidies	934.5	663.6	424.6	1,000.0	783.0	1,000.0	1,000.0	400.0
34. debt management revenues (technical)								
35. Part of health and labour market contributions payable to the National Employment Fund	135,819.4	144,953.2	155,369.2	165,801.9	176,338.0	194,169.2	216,621.9	237,400.0
36. Funding from the national budget		8,449.0	31,023.3			25,000.0		
38. Part of the social contribution tax payable to the National Employment Fund			68,605.5	217,539.6	194,435.5	0	68,001.0	
Contribution to the Job Protection Action Plan	95,936.7	100,541.7	52,884.9					
Total revenues	337,639.8	354,721.7	430,754.4	507,848.2	521,988.5	367,805.5	453,913.2	423,100.0
Pending items								
Changes in deposits								
Total	389,162.1	354,721.7	430,754.4	507,848.2	521,988.5	367,805.5	453,913.2	423,100.0
At 2014 prices (deflated by a consumer price index)	389,162.1	355,076.8	429,467.7	494,464.1	508,231.7	348,358.1	415,776.6	387,552.2

[a] The ordinal numbers in the table correspond to the title numbers identifying the headlines of the national budget.

[b] The Act on the Implementation of the 2019 Budget had not been adopted before the manuscript was closed.

[c] Regarding 2017, 2018 and 2019 it includes the revenue "Reimbursement of the expenditures of the pre-financed EU programmes".

Source: The act on the national budget of Hungary (plan) and the act on the implementation of the national budget of the given year (actual); regarding the plan of 2013, the figure of 153,779.8 was modified by Government Decisions No. 1507/2013 of 1st August and 1783/2013 of 4th November with an additional budget of 26,118 million HUF for public works; regarding the plan of 2014, the original figure of 183,805.3 was modified by Government Decision 1361/2014 of 30th June (allocating an additional budget of 47,300 million HUF to public works). Regarding the plan of 2017, the figure was modified by Act LXXXVI on the modification of Act XC of 2016 on the 2017 Central Budget of Hungary'. The source of the expenses of EDIOP is Government Resolution No. 1006/2016 of 18th January on the annual development budget of the Economic Development and Innovation Operational Programme and further Government Decisions on its modification.

2 LABOUR MARKET MEASURES IN EUROPE IN REPONSE TO THE CORONAVIRUS PANDEMIC

ÁGNES MAKÓ & FRUZSINA NÁBELEK

Depending on the seriousness of the epidemiological situation and the extent of measures introduced in response, the coronavirus epidemic placed a heavy burden on European economies. Cancellation of events, restrictive measures or shutdowns resulted in a considerable decrease in labour demand in the most affected sectors. Decision makers and the enterprises concerned also had to handle the large-scale absence of employees from work due to illness, nursing a family member or home-learning. In the course of tackling the crisis, most European governments considered it a priority to keep workers in employment and compensate those absent from work and they have adopted and adopt diverse measures to this end. This study provides an overview of the most typical measures with a direct impact on the labour market.

European countries introduced several measures of various types and extent in order to counteract the impacts of the coronavirus pandemic on the labour market. In this summary, we review the policies that have been included in the crisis management measures of several countries and we focus on describing the types of measures. Although there have been some common crisis management methods in Europe, individual measures and support programmes have been introduced differently, under different conditions and to varying degrees.

2.1 Assistance for those absent from work

One of the first direct economic impacts of the coronavirus pandemic was that some of the labour force had to take time off from work. Countries severely affected by the epidemic faced difficulties because of employees on sick leave, nursing family members or being in quarantine, but school closures also placed a significant burden on both employees and employers in less affected countries. Several European countries introduced measures to tackle absence from work.

One of the most typical measures is to increase the length of paid holiday available for parents of young children and in some countries – including Austria, Germany, Greece and Italy – wages for the extra days off were paid for by the government. In several countries, parents who were unable to work from home but had to stay at home because of school closures were entitled to an emergency allowance (such measures were introduced by, for example, Poland, the Czech Republic and Malta).

Other measures concern employees on sick leave or in quarantine: in several countries where sick pay is provided by employers, governments took over the obligation to pay it. In the United Kingdom, employers were reimbursed for two-weeks' sick leave of employees quarantined. In Denmark, the benefit payable by employers for one month was taken over by the state in the case of coronavirus infection. In Germany, businesses are obliged to pay regular wages for the employees concerned for 6 weeks, which is, however, significantly subsidised by the government. Latvia provided a maximum of 700 EUR of subsidy for employers in the case of employees on sick leave.

In some countries, it was the sick or quarantined employees who were provided direct financial assistance or allowances by the state. They were compensated for 90 per cent of their wages in France and for 60 per cent in the Czech Republic. In Ireland employees on sick leave were entitled to a weekly allowance of 350 EUR at most.

2.2 Job retention measures

Another group of measures aim at retaining jobs. These include direct financial assistance for enterprises, improved access to loans as well as support related to taxes and contribution, which are designed to maintain the solvency and, in this way, prevent the bankruptcy of enterprises. They were adopted by all European countries in some form.

Economy support measures were adopted to provide direct financial assistance for enterprises that had incurred significant losses or loss of revenue in Austria, the Czech Republic, Denmark, France, Greece, Holland, Latvia, Luxembourg, Germany, Romania, Spain and Slovenia.

Government credit lines were established to ensure the liquidity of enterprises, retain jobs, mitigate damage and protect the market position of enterprises in the Czech Republic, Denmark, Ireland, Luxembourg, Hungary, Portugal, Romania, Sweden and Slovenia.

Government-subsidised soft loans are available for enterprises in most EU member states. These reduced-interest loans are available in Austria, Estonia, Holland, Croatia, Ireland, Latvia, Lithuania, Poland, Hungary, Germany, Italy and Slovakia. Interest free loans are available for enterprises affected by the crisis in the Czech Republic, France. Greece, Romania, Spain and Slovakia.

Additionally, state loan guarantees are available for loans taken out by enterprises affected by the coronavirus pandemic in most EU member states (Austria, the Czech Republic, Denmark, Estonia, France, Greece, Holland, Croatia, Latvia, Lithuania, Luxembourg, Germany, Italy, Portugal, Romania, Spain, Sweden, Slovakia and Slovenia).

Measures related to taxes and contributions have two major types in Europe. Several countries have decided to temporarily abolish or significantly reduce certain employment-related taxes and contributions (for example Belgium and Italy) or have it taken over by the state (for example Germany and Poland).

Another type of measures related to taxes and contributions include a suspension of the obligation to pay those charges: in that case the government does not waive taxes (that is does not forgo such revenues) but temporarily mitigates the loss of revenues of sectors shut down. Some countries adopted both types: in France, for example, tax and contributions were waived for the most affected enterprises on a case-by-case basis.

Taxes payable by enterprises were suspended in several countries without special requirements, that is payment deadlines were postponed in Finland, France, Holland, Germany, Italy, Romania, Slovakia and Slovenia. The suspension of payment obligation applied only to enterprises in the most affected sectors in Greece, Hungary and Malta. Obligation to pay corporation tax was suspended in Austria, Belgium, the Czech Republic, Holland, Croatia, Lithuania and Luxembourg, while VAT was suspended in Belgium, Holland and Italy.

The deadline for individuals for filing the tax returns was also postponed in Cyprus, the Czech Republic and Slovakia. The deadline for businesses for filing the tax returns was postponed in Belgium, Cyprus, the Czech Republic, France, Poland, Luxembourg, Hungary, Slovakia and Slovenia. Obligations to pay the personal income tax was postponed in Austria, Belgium, the Czech Republic, Holland, Croatia and Luxembourg.

VAT rates were reduced in Cyprus and Germany, while the obligation to pay VAT was suspended (the payment deadline was postponed) in Cyprus, Denmark, Croatia, Poland and Sweden.

Furthermore, conditions concerning contributions have also been relaxed across Europe. The obligation to pay social security contributions was suspended in Belgium, Luxembourg and Italy. In the Czech Republic, self-employed persons were exempt from paying social and healthcare contributions for several months. The payment deadline of labour market contributions was postponed by 4 months in Denmark. The contributions of enterprises in the most affected sectors (catering, theatres) were cancelled in France. In Croatia, enterprises incurring a loss of at least 20 per cent of their revenues were partly or fully exempt from corporate tax, personal income tax and social security contributions in April, May and June. Only businesses that retained their workers were eligible. In Poland, payment of social security contributions was waived for enterprises. Self-employed entrepreneurs and micro-enterprises who experienced a more than 50 percent drop in revenues in March compared to February as well as farmers were granted a three months' exemption from social contributions. Enterprises were also able to pay contributions intermittently. In Malta, the most affected enterprises were granted a 60-day deferral of social security contribution payment. In Sweden, it was possible to defer social contribution payments by 12 months. Enterprises whose revenues dropped by at least 40 per cent were also entitled to a deferral of contributions in Slovakia.

In addition, other tax-related support measures have also been adopted. Enterprises in Belgium were entitled to support from tax authorities in relation to their tax liabilities (preparing a payment plan and exemption from interest on late payment and penalties for late payment). In Estonia, it was possible to reschedule the payment of liabilities at an interest rate lower than the one currently applicable. In Holland, tax deferrals were granted to a total amount of 26 billion EUR and a liquidity guarantee of 4.5 billion EUR was provided for enterprises. In France, tax relief was granted for the most seriously affected businesses. Current and late payment of taxes was deferred by up to three years in Latvia and businesses were entitled to paying by instalment without penalties. In Romania, enterprises which paid their income tax or flat-rate taxes by the deadline were offered a 10-percent tax relief. Tax inspections were postponed in France and Slovakia.

The most common job retention measures include wage subsidies introduced in various arrangements, the best-known of which is the German *Kurzarbeit*, a subsidised reduced working time (*Reuters,* 2020). The scheme introduced during the crisis in 2008 ensures that businesses not able to operate at full capacity and thus having less demand for labour do not respond with downsizing but reduce the working hours and wages of employees, while the loss in wages is compensated by the state. In addition to retaining the jobs, the measure offers another advantage: following the crisis enterprises are not forced to recruit and train new employees, which saves costs on employee training and facilitates easier recovery (*Cahuc,* 2019).

The scheme, present in Germany for years and financed from a dedicated fund, was expanded as a result of the crisis in 2020, while eligibility requirements were relaxed: wage subsidy is now possible to claim for temporary and fixed-term employment and for short-time arrangements involving at least 10 per cent of employees. This form of wage subsidy has also been adopted by other countries, although the extent of wages subsidised differs from country to country and eligibility criteria are also varied. Austria, similarly to Germany, decided to expand the scheme and since March the government has funded 80 per cent of the wages of employees of businesses operating at 30–80 per cent of working time. The subsidised period was initially three months, with a possibility for a three-month extension and in July it was prolonged until March the following year. In France, 70 per cent of gross wages and 100 per cent of the minimum wage at eligible businesses were covered by the government under a temporary unemployment scheme. Denmark determined the extent of subsidy based on the type of jobs concerned: enterprises that would have been forced to lay off at least 30 per cent of their staff or at least 50 employees were eligible for a 75-percent subsidy on white-collar workers and a 90-percent subsidy on blue-collar workers. In Malta the extent of subsidy varies by sector: businesses in the most affected sectors, for example tourism, were entitled to 800 EUR per month per full-time employee and the subsidised period was extended, while businesses in less affected sectors were eligible for 160–480 EUR depending on the location and form of employment.

In several countries, including Belgium, the Czech Republic, France, Italy and Spain there are no eligibility criteria for claiming wage subsidies; any enterprises can claim support for retaining their employees on the grounds of the epidemic (*force majeure*). In other countries businesses had to prove that they had lost trade because of the pandemic: in Poland, similarly to Hungary, eligibility was determined on the basis of revenue lost and the extent of the subsidy was 50 per cent of the minimum wage in the case of total shutdown and 40 per cent of previous wages in the case of short-time working arrangements (SMEs were eligible for higher subsidy rates).

Wage subsidies often also promote job retention by imposing the requirement of retaining staff, that is employers have to guarantee not to dismiss staff for a specified time following the subsidised period. A long-term incentive is the so-called bonus, applied in Great Britain, received by employers for each employee still employed at the beginning of 2021.

In addition to the above countries, wage subsidies were also introduced in Bulgaria (in directly affected sectors, 60 per cent of wages at most), the Czech Republic (60 per cent of wages), Ireland (a maximum of 410 EUR for each employee), Italy (80 per cent of gross wages at most), Latvia (75 per cent of the average wages of the 6 months preceding the crisis), Lithuania (60 per cent of wages at most), Luxembourg (up to 80 per cent of wages), Estonia (70 per cent of the average wages of the past twelve months), Holland (1500 EUR at most), Croatia (a maximum of 2000 HRK per employee), Denmark (up to 75 per cent of wages), Spain, Slovakia and Slovenia (up to 80 per cent of wages in the last two countries) as well as Sweden (depending on the reduction of working hours, up to 52 per cent of wages).

Wage subsidies also applied to self-employed entrepreneurs and freelancers in several countries. Entrepreneurs working in sectors affected the most seriously by the lockdown were entitled to a subsidy in Slovenia (a base income of 700 EUR a month), Greece (530 EUR a month), Denmark, Malta (800 EUR a month), Poland, Italy (up to 500 EUR a month), Latvia (75 per cent of previous wages but not more than 700 EUR a month) and Lithuania (257 EUR a month).

2.3 Unemployment and direct aid

An important group of measures includes assistance to those who lost their jobs because of the pandemic. As a result of the pandemic, several countries decided to raise unemployment benefits or introduce extra benefits for those who became unemployed due to the pandemic. In Belgium, the unemployment benefit was increased by 5 per cent (from 65 per cent to 70 per cent) up to a ceiling of 2,754 EUR per month. In Poland it increased to 1300 PLN and those who lost their jobs due to the pandemic were disbursed a further 1200 PLN for three months. Lithuania increased the unemployment benefit payable to workers laid off and also extended the duration of eligibility. The eligibility period was increased by three months in Germany for job seekers whose 12-month eligibility period would have expired between 1 May 2020 and 31 December 2020.

In sectors shut down as a result of Covid, several countries introduced a temporary unemployment scheme providing assistance for employees whose contract was suspended or who were forced to take unpaid leave (for example France, Greece or Poland). In Belgium, temporary unemployment due to the pandemic was considered *force majeure* and the government provided a wage subsidy from 1 February to 30 June covering 70 per cent of wages and those who became unemployed due to the pandemic received a wage supplement of 5.63 EUR a day. Where teleworking was not feasible and employees became temporarily unemployed, employers were exempt from paying wages: the Belgian national employment service provided unemployment benefit for such employees. In Cyprus, enterprises were able to suspend their operation in March and April if their revenues decreased by at least 25 per cent. Employees affected by such suspension were eligible for an unemployment benefit up to 60 per cent of their wages. In Estonia, the Unemployment Insurance Fund provided 70 per cent of the average wages of the preceding 12 months but not more than 1,000 EUR for the period of 1 March to 31 May, which employers supplemented by at least 150 EUR. Both the Estonian Unemployment Insurance Fund and employers paid the related social tax and unemployment insurance fees. France introduced a temporary unemployment scheme in order to prevent mass redundancies. At businesses eligible for the temporary unemployment scheme, employees are paid 84 per cent of their net wages, while they are laid off. In Romania, employers were able to decide unilaterally to suspend employment contracts and thus their employees became technically unemployed. The government reimbursed businesses for 75 per cent of the technical unemployment benefits. Parents staying at home with their children were also entitled to technical unemployment benefit.

The entitlement conditions to unemployment benefits were eased in several countries or benefits were extended to also cover sole proprietors, freelancers and other categories of the self-employed. In Spain, entitlement to unemployment benefit was extended to include domestic workers and fixed-term workers otherwise not entitled to social assistance. In Belgium, temporary agency workers were provisionally entitled to unemployment benefit and firms forced to shut down were able to claim automatic unemployment benefit for their employees. In Finland, entrepreneurs and the self-employed provisionally became entitled to unemployment benefit. Sweden eased the entitlement conditions to, and increased the amount of, unemployment benefit. In Malta, a monthly 800 EUR was paid for two months for parents whose work was not feasible to carry out as telework but they were unable to work because of school closures. The same applied to people with reduced mobility and those advised to stay at home because of their age or chronic disease.

Several countries introduced an emergency unemployment benefit or a one-off cash benefit. In Greece, the emergency unemployment benefit amounts to 800 EUR and the country introduced a one-off long-term unemployment benefit of 400 EUR for the long-term unemployed. Employees whose jobs were suspended because of the emergency measures are granted a cash benefit. A ban on dismissals is also in place. In Ireland, employees and the self-employed out of work because of the pandemic are entitled to an emergency unemployment benefit of 350 EUR per week. In Malta, a temporary unemployment benefit is granted to those who lost their jobs due to measures related to the pandemic. Italy introduced the notion of emergency income, which is paid for three months to the amount of 400 EUR monthly or a maximum of 800 EUR monthly in the case of families. The self-employed were granted an allowance of 600 EUR in March and April and 1000 EUR in May. In France, over one-third of employees (8.7 million persons) were forced to take partial or full unpaid leave: they received an emergency unemployment benefit.

In the Flanders region of Belgium, the unemployed were granted an allowance for utility costs and the temporary unemployed received a 40-EUR flat-rate reduction on gas and energy bills.

In addition, some countries introduced a ban on dismissals in order to prevent unemployment (for example Greece and Italy), while others encouraged the reinstatement of dismissed employees by granting allowances on tax and contributions (for example Romania). Policies promoting re-employment also include government funding for retraining and training programmes. The French government finances the training costs of those who became partially unemployed due to the coronavirus pandemic. Lithuania provides a grant for the unemployed whose retraining is not feasible at present.

2.4 Supporting remote work

Support for remote work has been one of the measures adopted to contain the epidemic: it included relaxing the regulations regarding remote work and, in some countries, providing financial support. In Belgium, the government requested employers to order their employees to work from home and where it was not feasible, employees became temporarily unemployed on account of *force majeure*. In Denmark, if job tasks permitted, remote work was compulsory for workers in the public sector, while in the private sector it was recommended to adopt it or other flexible employment forms. The government in Luxembourg also recommended firms to introduce remote work and they adopted a special leave for family reasons for employees. In Bulgaria, Poland and Hungary labour regulations were amended to enable employers to order their employees to work from home. In Portugal, remote work was obligatory in all cases where it was feasible. The Maltese government provides a grant of 2 million EUR for businesses that give preference to remote work over commuting to work. Firms making investments into remote work are granted 500 EUR per employee up to a total of 4000 EUR. Spain supported digitalisation and the development of telework-friendly conditions at SMEs by loans and other financial support instruments.

2.5 Measures adopted in Hungary

Compared to the measures adopted by other European countries, Hungarian measures were primarily related to various forms of job retention, while support for the unemployed was not included and support for absent workers was only included to a limited extent among the measures.[1]

Absent workers are mainly assisted through eligibility to sick pay and agreements between employers and employees are of primary importance. Employees who fall ill, are quarantined because of contact with an infected person or look after a sick child, qualify as incapacitated and are thus entitled to sick pay. In other cases, for example quarantine after a stay abroad or having to stay at home because of school closures, employers and employees can agree on taking a leave and then exemption from work (that is taking an unpaid leave) if the employee is unable to work from home. To assist with the latter, a measure was effective during the state of emergency, stipulating that workers on unpaid leave are entitled to healthcare.

However, measures in Hungary did not include unemployment assistance – neither the extent nor the coverage of the unemployment benefit. Furthermore, direct aid to employees was only introduced with a limited coverage (a one-off grant for healthcare workers and staff in retirement homes).

Similarly to other countries, the majority of Hungarian measures concerned various forms of job retention. The measures reviewed did not introduce direct aid for employers but offered soft loans with subsidised interest rates and a state guarantee, a loan for wages at an interest of 0.1 per cent as well as preferential loan products for SMEs. As for tax and contribution measures, in addition to the overall reduction of social contribution tax and the extension of deadlines for tax returns, the measures introduced primarily supported

1 For more details see the previous chapter.

the most affected sectors: for example a three-month tax and contribution exemption, a tax reduction on request or exemption from paying tourism development contribution.

Several types of wage subsidy were introduced in Hungary. A scheme similar to *Kurzarbeit* (short-time work scheme) compensated for up to 70 per cent of wages for lost working hours if working time did not exceed 80 (previously 70) per cent of earlier working time. Entitlement conditions were amended after the launch: the first call required employers to justify the necessity for the short-time work compensation, while there was no such requirement after the amendment. In addition to the wage subsidy in the short-time work scheme, a wage subsidy for employees working in research and development and a job creation wage subsidy were also available.

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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.[1]

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.[2] 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*.[3]

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 χ^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 η^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
Decrease in capacity utilisation (percentage)					
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
Economic perceptions of the pandemic		
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.[4] 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

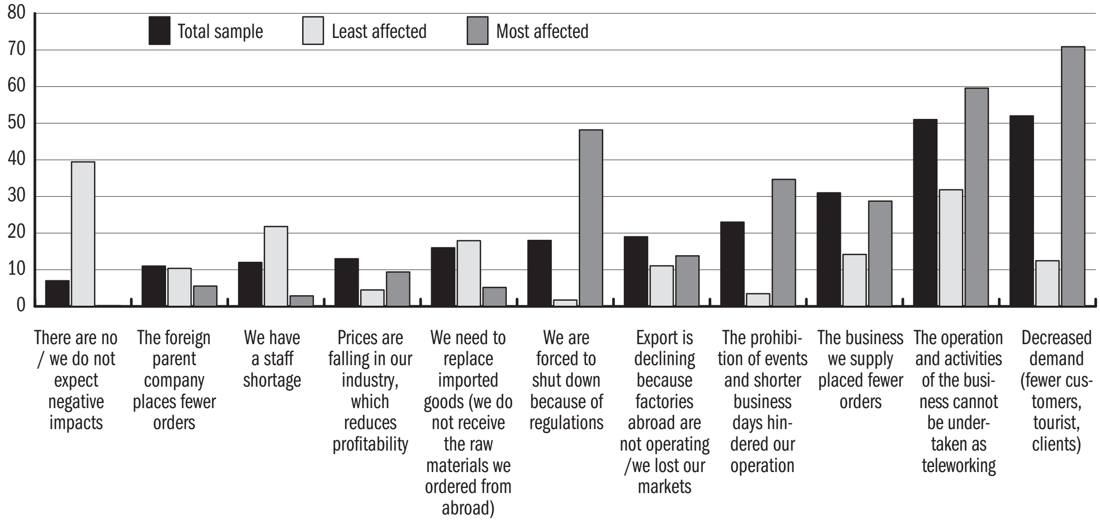
4 The indicator includes business outlook, expectations for orders as well as the expected level of investment in machinery and buildings. The detailed method of calculating the Business Climate Index is described in our study presenting the results from April (*IEER of HCCI*, 2020).

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
Headcount (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
Economic sector (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
Production for export (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
Ownership structure (reference category: wholly Hungarian-owned)		
Partly or wholly foreign-owned	0.125***	0.029
Region (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
N	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, $N_{financial\ obligations} = 2541$, $N_{maintaining\ headcount} = 2342$ (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
Typology of exposure to the coronavirus pandemic (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*
Headcount (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***
Economic sector (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
Production for export (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
Ownership structure (reference category: wholly Hungarian-owned)		
Partly or wholly foreign-owned	0.012	0.064**
Nagelkerke's R^2	0.181	0.174
N	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 (*N* = 1335)	−2	1	1	1	−9	0	−1
Junior employees (*N* = 1027)	−1	13	5	−5	−11	0	−2
Students (e.g. interns) (*N* = 957)	−6	−5	−2	−2	−10	0	−8
Part-time workers (*N* = 1065)	−2	0	0	−1	−8	−1	−3
Full-time workers (*N* = 1168)	−1	1	1	−3	−6	0	−2
Unskilled manual (*N* = 1015)	−3	5	0	−7	−6	0	−3
Skilled manual (*N* = 1069)	−2	1	0	−1	−8	0	0
Non-graduate white-collar (*N* = 1068)	−1	0	1	0	−4	0	−7
Graduate white-collar (*N* = 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_{March} = 1706, N_{April} = 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
Full-time														
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
Part-time, short-time work														
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
Absence														
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
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

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).

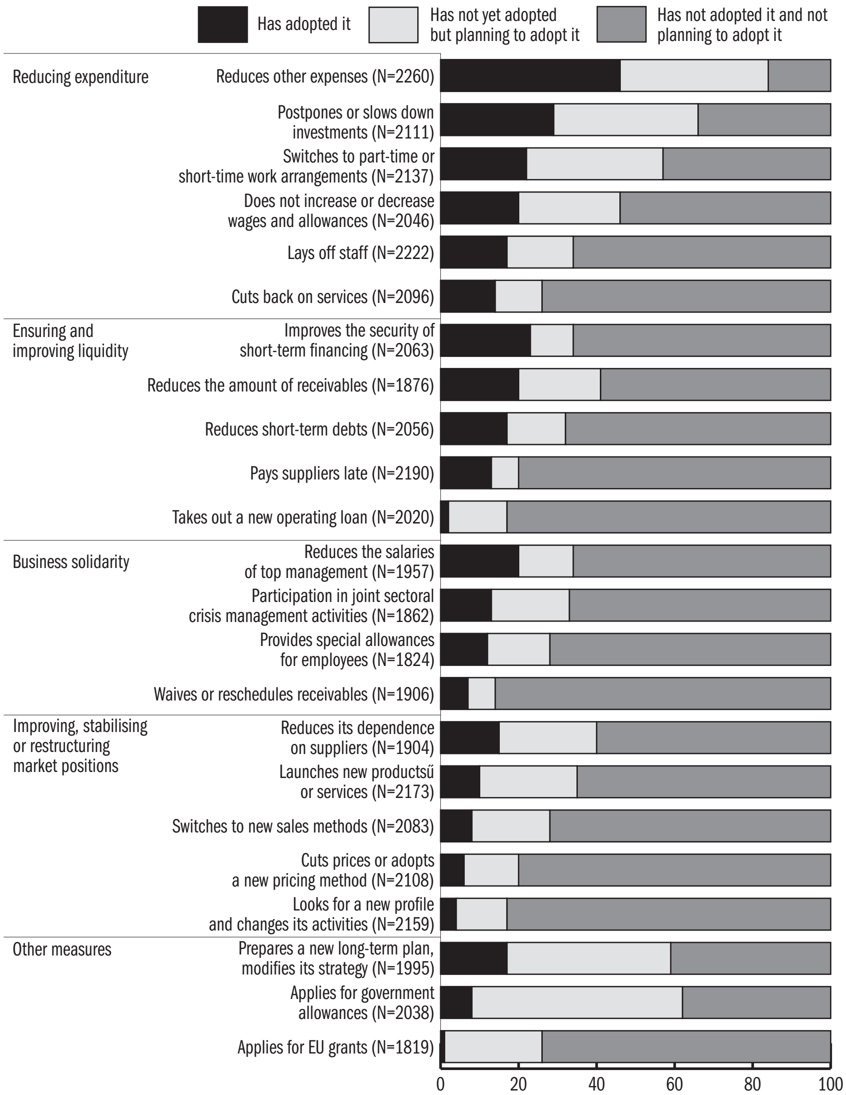
3.4 Adopting crisis management measures – the responses of businesses to the economic effects of the coronavirus pandemic

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

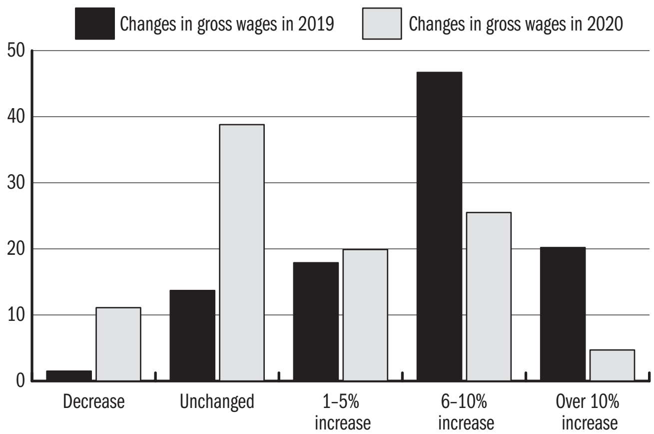
No/positive impact, unchanged/increasing capacity utilisation (N=215–238)
1. reducing other expenses (25%)
2. reducing dependence on suppliers (20%)
3. participation in joint sectoral crisis management activities (14%)
4. providing special allowances for employees (14%)
5. postponing or slowing down investments (12%)
Minor disturbances, less than 50 percentage point drop in or unchanged/increasing capacity utilisation (N=398–427)
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%)
Major disturbances, unchanged/decreasing capacity utilisation (N=410–442)
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%)
Severe disturbances, decreasing capacity utilisation (N=731–908)
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%)
Minor disturbances, decreasing capacity utilisation (N=40–47)
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%)
Severe disturbances, unchanged/increasing capacity utilisation (N=157–202)
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*).

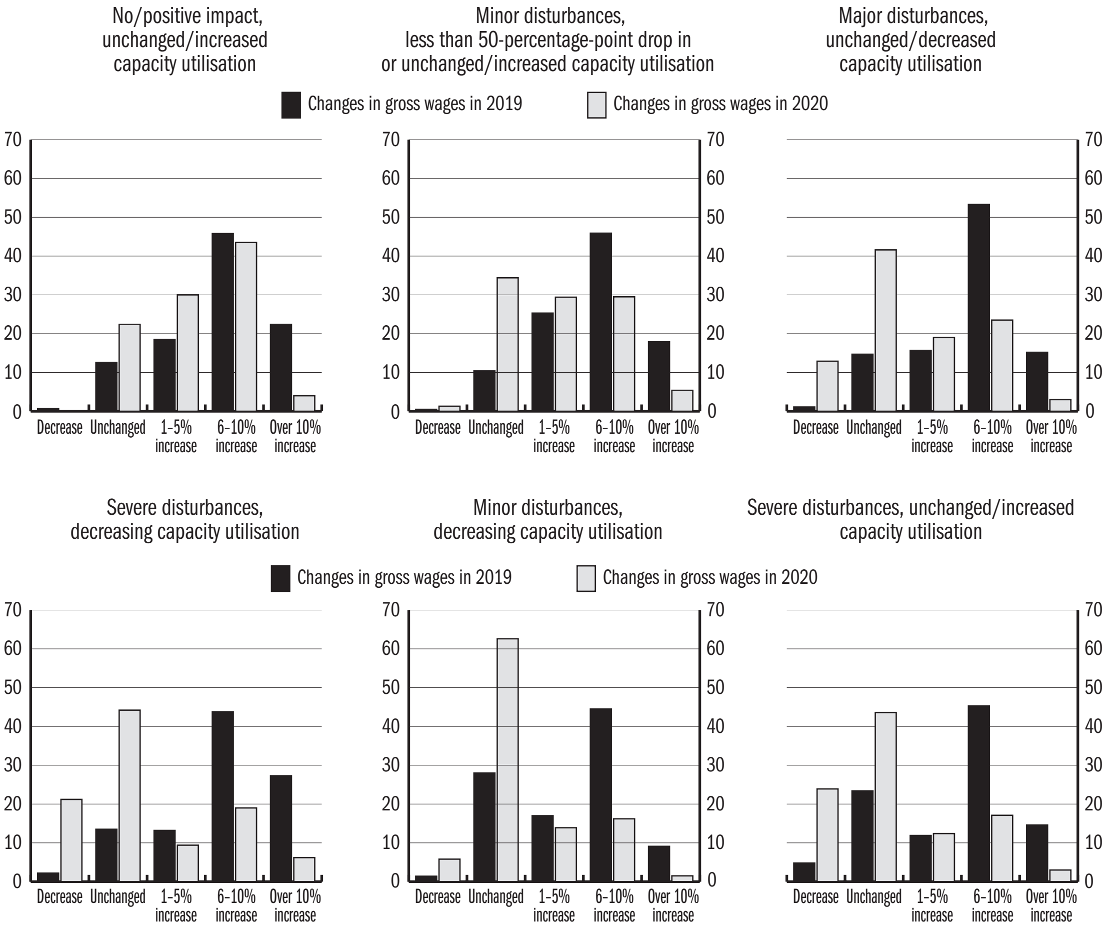
Figure 3.4: Changes in gross wages in 2019 and 2020, percentage, N_{2019} = 2698, N_{2020} = 2606 (percentage)



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 percent 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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