

## **CEE weathered the covid-19 crisis well and may win in relative competitiveness - “Insight Talks” on the impact of the Covid-19 pandemic on CEE businesses and economies**

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The “Insight Talks” provide an informal discussion platform with corporate partners of the Master Class CEE and other guests on the topic of the research seminar. This January, representatives of four multinational firms discussed virtually with the students of the Master Class CEE 2020-21 the responses to the coronavirus crisis in their CEE businesses, current management challenges and their lessons learned so far.

**Ulrike Glatt, Marketing & Digital Marketing Director Beauty Care CEE, Henkel CEE**, presented the findings of consumer surveys and market data of the beauty care sector. In such uncertain times, consumers return to trusted brands. In general, CEE consumers seem to cope with uncertainty better than Austrians and Germans. As hair salons are closed, consumers move to fun@home and experiment with DIY solutions. While hair coloration sales gained significantly during the lockdowns, occasion-driven hair styling products fared worse mirroring the reduced social interaction. Interestingly, wellness in the bathroom was not a big topic so far. The crisis is enhancing the polarization of markets, with increases in the premium and the lower price segment (“value for money”). Not surprisingly, the e-commerce channel - often driven by social media - gained traction during the crisis.

This boom in e-commerce was also a driver of the sales of the packaging multinational **Mondi Group**, especially the Christmas shopping led sales to new highs. Therefore, keeping the production running was a key priority according to **Wolfgang Berger, Finance Director Corrugated Packaging at Mondi Group**. Most of the CEE economies recovered faster due to the high importance of the less affected manufacturing and agricultural sector to GDP. An increased demand for edible products (frozen and packaged foods, dairy) in all countries contrasts with varying developments across country markets in the nonedible sector (home care, personal care, cosmetics). Mr. Berger assumed that demand is more culturally shaped than originally expected. And that makes forecasting the impact of the crisis on sales in different country markets difficult. Even although the shrinking purchasing power will put prices under pressure, Mr. Berger thinks that the observable trend towards sustainable packaging solutions will not go into reverse in post-pandemic times – the pressure from the consumer side on big brands is too strong.

**Markus Kriegler, Head of Group Corporates at Erste Group Bank**, proudly told the audience how the bank coped well with the crisis last year. Erste Group Bank tackled the Covid-19 pandemic from a position of strength. In 2019, CEE markets showed good economic growth, rising real wages and sound government finances what contributed to a healthy growth for banks in CEE too. Coming from this growth trend, the pandemic hit the CEE economies hard. In May 2020, 40% of its retail customers faced a drop in their monthly incomes. Erste Group Bank managed to keep all branch offices open and intensified customer interaction via all channels to find individual solutions for clients in trouble. Digital activity and mobile transactions reached new highs. In the business segment, Erste Group Bank reacted quickly by offering corporate clients support on liquidity shortfalls and loan deferrals. Particularly, business customers in the fields of tourism, hospitality, retailing, and transportation had been facing difficult times. The bank demonstrated that it fulfils its role as a critical infrastructure provider. As a result, the good interaction with the clients led to increased trust and loyalty levels.

**Siemens Hungary** responded to the crisis effectively and flexible too as we learned from **Dale A. Martin, President and CEO of Siemens Zrt.** in Budapest. The engineering multinational did not stop production in the factories, did not lay off staff or reduce salaries (what was common in Hungary)

and extended its existing home office policy. So far, Hungary's economy weathered the crisis better than Austria or the EU-27. A strong rebound in manufacturing and building industry in the second half of 2020 kept unemployment at low levels similar to the German ones although many Hungarians working abroad returned to their home country. Mr. Martin highlighted the extremely business friendly business climate that attracts new investors (increasingly from Asia) and satisfies the existing big investors, particularly in the automotive and manufacturing industry as a whole, but also operators in the large business process outsourcing sector. A well-educated workforce at lower costs, a low corporate income tax (9%), decreasing social security contributions, good infrastructure, flexible labor laws and subsidies by the government are the cornerstones of the favorable investment climate. Not to forget a pronounced "workfare" concept that ties welfare benefits to employment and forces unemployed persons to find a new job quickly. All this feeds the notion that Hungary will win in competitiveness vis-à-vis its European peers in post-pandemic times.

Summing up, all the represented companies handled the huge crisis well so far. The manufacturers succeeded in keeping their factories running, Erste Group Bank provided the necessary liquidity to its clients and fulfilled its role as a critical infrastructure provider. All speakers agreed that the extended **digitalization** and the **home office** are here to stay. **E-commerce** got a boost and will play a bigger role as a channel in the future. CEE economies with a strong manufacturing sector such as Hungary and the Czech Republic fared better than the EU-27 average. Thanks to an investor friendly climate, they are positioned well to gain in **relative competitiveness** in post-pandemic times.