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A BRIEF SUMMARY OF THE IMPACTS OF THE COVID-19 OUTBREAK ON THE AGRI-FOOD SECTOR IN HUNGARY

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In response to the COVID-19 outbreak, the Hungarian government took several measures, starting with the imposition of a state of emergency on 11 March 2020. The first travel restrictions were introduced on 12 March, and on 17 March, Hungary closed its borders to most traveling passengers. On 28 March, the Hungarian government declared a curfew. The restrictions led to a slowdown of economic activities and considerable perturbations in the supply chains. The imposition of mandatory containment measures had a direct and notable impact on the ability of most companies to operate. Mobility restrictions not only hindered the movement of people but also of raw materials and goods, causing disruptions in production and distribution. Much of the services sector remained closed in April, moreover, many of the manufacturing enterprises cut down production or came to a standstill as both domestic and foreign demand weakened. A first easing of the restrictions was announced on 29 April, and a gradual reopening of shops started on 4 May 2020. The loss of revenues caused by the coronavirus pandemic and the lockdown measures affected many undertakings in the agri-food sector of all sizes.

In terms of **arable** farming, as early as January 2020, suppliers of pesticides indicated that price increases might be expected because the active ingredients would not have arrived from China by the start of the spring season. Pesticide prices increased in the subsequent months, which was due to both the shrinking of supplies and the depreciation of the Hungarian forint (HUF). Owing to the weakening of the HUF, other imported agricultural inputs, including machinery and parts, became more expensive. Restrictions by governments on the movement of goods and services across borders caused temporary disruptions in the exports of cereals

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and oilseeds because the measures and the time of their introduction varied from country to country and coordinated action to establish a harmonized cross-border freight transport protocol at the European level lagged. The coronavirus outbreak coincided with the peak of field works. Workers were discouraged from using public transport services, instead their transfer between home and work was organised by their employers. Shifts of machines that did not need to be refuelled every day were arranged out on the fields.

In March, even before the lockdown in Hungary, a panic-buying rush caused packaged flour products to disappear from the shelves of retail stores temporarily. Wheat use in the milling industry jumped by around 30 percent in March and April. Millers had the necessary labour and processing capacities to increase flour production, and there were no disruptions in the supply of wheat. The intermittent shortage of goods in retail stores was due to difficulties faced by distributors. During the lockdown, households baked far more bread than usual. However, since May the consumer demand for flour had been declining, and the normal monthly turnover of packaged flour in retail stores was reached by July. Similar trends prevailed throughout Europe, as a result of which Hungarian flour exports also picked up in March and April.

Domestic demand for **compound feed** increased in March and April too, also by around 30 percent, but sales have declined since May. Due to the contracting demand for meat and the 2020 avian influenza outbreak, a 10 percent drop in the overall domestic compound feed use is anticipated by the feed industry this year. Compound feed producers experienced supply shortages of certain feed components because of the restrictions imposed in other countries. There were disruptions in soybean meal imports, and prices of vitamins and synthetic amino acids supplied from China rose, which led to an increase in compound feed prices.

The coronavirus outbreak had a relatively short-lived impact on the production and sales of **fruits and vegetables**. Three areas deserve to be highlighted: the operations of wholesale markets, the sales of fresh greenhouse vegetables and the mobility of cross-border labour. The shutdown of the HoReCa (Hotels, Restaurants, Cafés) sector, the changing preference of consumers toward storable processed products amid the panic-buying and supply hoarding, and the disappearance of Romanian and Serbian buyers from the wholesale markets after the closing of borders caused a significant but only temporary decline in wholesale turnover and in the sales of fresh greenhouse vegetables. The issue of entering of cross-border workers in Hungary, mainly from Romania and Ukraine, and their employment in agriculture was resolved by early May under strict rules. The interim shortage of seasonal migrant labour force impacted the harvest of asparagus and strawberries in particular. Prices of some non-perishable fruits and vegetables (e.g. onions, potatoes and apples) experienced a short spike parallel with the coronavirus outbreak and the introduction of restrictions. There were no major disruptions in the supply of inputs, apart from a small wave of panic-buying of pesticides and fertilizers triggered in anticipation of possible shortages, and some disruptions in the imports of seeds, seedlings, grafts and support systems for just a short time after the border closures. Fruit production suffered from considerable frost damage during the spring, causing over half of the crop lost for some species, therefore the market has been in strong demand over the last months.

The pandemic resulted in temporary disruptions to the Hungarian **dairy** market. In March, adjusting to the season and following the general trend in the European Union (EU), the producer price of milk decreased, although at a rate higher than the EU average. Milk producers with delivery contracts for at least six months and members of dairy producer organizations were less impacted by the price fall. Exports of milk and milk products slowed down, as well as the imports of certain inputs for processing, including cleaning substances and disinfectants, protective health and safety equipment and clothing, as well as packaging materials. Raw milk and cream intended for exports were channelled into the production of dairy products which were difficult to sell in larger quantities on the domestic market and caused losses to the dairy industry. After the initial panic-buying rush of consumers, the demand for processed dairy products declined while the import pressure remained strong. Due to the suspension of the School Milk Programme, additional stocks accumulated at dairy processors, and the utilization of storage capacities climbed up to around 90 percent. The subsequent sales of inventories are likely to put pressure on milk prices. Many of the processing undertakings could not meet tax and loan repayment deadlines and had to obtain further loans to maintain their liquidity. The government announced a blanket moratorium on loan repayments until the end of the year in April.

Livestock traders reduced their bids for **beef** cattle almost immediately when the coronavirus outbreak occurred in Europe, citing the disruptions in transport and the erosion in demand associated with the pandemic. The price of cows for slaughter fell by around 30 percent in two months to a six-year low, while the price of heifers and bulls for slaughter declined by 15 to 20 percent. The price of breeding animals did, however, not follow the downward trend. Farmers raising small beef cattle herds are generally more vulnerable to livestock traders. Some of them rather opted for the further fattening and deferred selling of their livestock. The decline in the demand for premium beef cuts had a negative impact on farmers specialized in supplying retail chains, hotels and restaurants. Small and medium-sized farms with a direct customer base, selling their own packaged meat products proved to be the most resilient to the beef market crisis.

In terms of the **sheep** sector, the coronavirus pandemic unfolded during a particularly busy period. Hungarian sheep farmers traditionally export most of the lambs to Italy and to Islamic countries in the spring. After the initial disruptions in deliveries, the transport routes were re-established in April, and slaughterhouses in northern Italy received the lambs, and the distribution of lamb meat in the major food retail chains was also resolved. At the same time, Italian livestock traders reduced the purchase price of Easter lamb by HUF 250 (EUR 0.71) a kilogram on average. Domestic sales of sheep meat almost completely halted, and sales of sheep milk also dropped. Sheep farmers (and goat farmers too) were unexpectedly hit by the sudden shutdown of local producer markets in the country. The closure of the HoReCa sector pushed back the sales of premium quality meat and dairy products considerably. As cold storage capacities are either lacking or producers could not finance the operation of these due to the losses incurred, the direct and online offering of finished products increased.

The restrictions introduced to stop the spread of the coronavirus caused problems in the **pig** sector too. The disruptions to soybean meal imports hampered compound feed producers in meeting the delivery dates specified in their supply contracts. Suppliers of veterinary drugs reported a substantial drop in demand at the end of spring due to stockpiling by pig farmers. After the panic-buying rush that characterized the first weeks of the outbreak, consumer demand for pork fell, followed by a decline in slaughter pig prices. Imports of live pigs for slaughter increased, particularly from Croatia and Czechia, and slaughterhouses with annual contracts reduced their base price in line with the German market price, so that the domestic producer price of slaughter pigs fell by 16 percent in just one month, although in the middle of May it was still higher than a year earlier. At the same time, feed prices increased due to the rising prices of some feed components.

In respect of **poultry** production, the coronavirus pandemic led to unpredictable short-term fluctuations in the demand for and the prices of broilers while feed prices for both broilers and layers increased considerably. Although the reactions by consumers following the announcement of the restrictive measures caused a temporary drop in meat stocks, and it pushed up the prices for both poultry products and poultry for slaughter, with the collapse of the HoReCa sector producer prices fell back to their 2018 level. The strong demand shifts made it difficult for the poultry industry to adequately plan supplies: while producers initially had to satisfy an unprecedented consumer rush, they were soon forced to defer the delivery of birds for slaughter. Exports of poultry meat declined substantially, and many of the farmers decided to suspend the placing of day-old chicken and to liquidate breeding flocks. As far as the turkey sector is concerned, existing supply contracts for breeding eggs and day-old poults were not amended to take into account the increasing feed costs. For the producers of laying hens and day-old broilers, the placing of their liquidated flocks on the market was a major challenge, especially that imports of poultry meat increased by 27 percent in the first quarter of 2020, particularly from Romania, Slovakia, Austria, Germany and Poland. Owing to the lockdown, the usual rise in the price of eggs around Easter did not occur, egg producers thus missed out the seasonal extra income. The 2020 avian influenza outbreak was declared as contained by mid-July.

The Hungarian government introduced temporary national aid schemes to compensate for damage caused by the coronavirus outbreak and the subsequent restrictions to the national economy. For the agri-food sector, HUF 25 billion (EUR 71 million) was made available in the form of direct grants by the end of June. The target agricultural sectors include pig and poultry farming, sheep and suckler cow farming, milk production, beekeeping, horticulture and wine growing, as well as fish farming. The raising of the amount of de minimis support for goat and rabbit farmers is also included in the HUF 25 billion. Out of the HUF 25 billion, HUF 8 billion (EUR 23 million) can be applied for by food processing undertakings. Apart from HUF 25 billion, a further HUF 1 billion (EUR 2.9 million) was provided, in the form of non-repayable grants, for producer organizations in the fruits and vegetables sector for the disposal of withdrawn products, by way of free distribution to charitable organizations and foundations, and for marketing campaigns to increase domestic consumption.

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