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### The use of fringe benefits among Hungarian companies

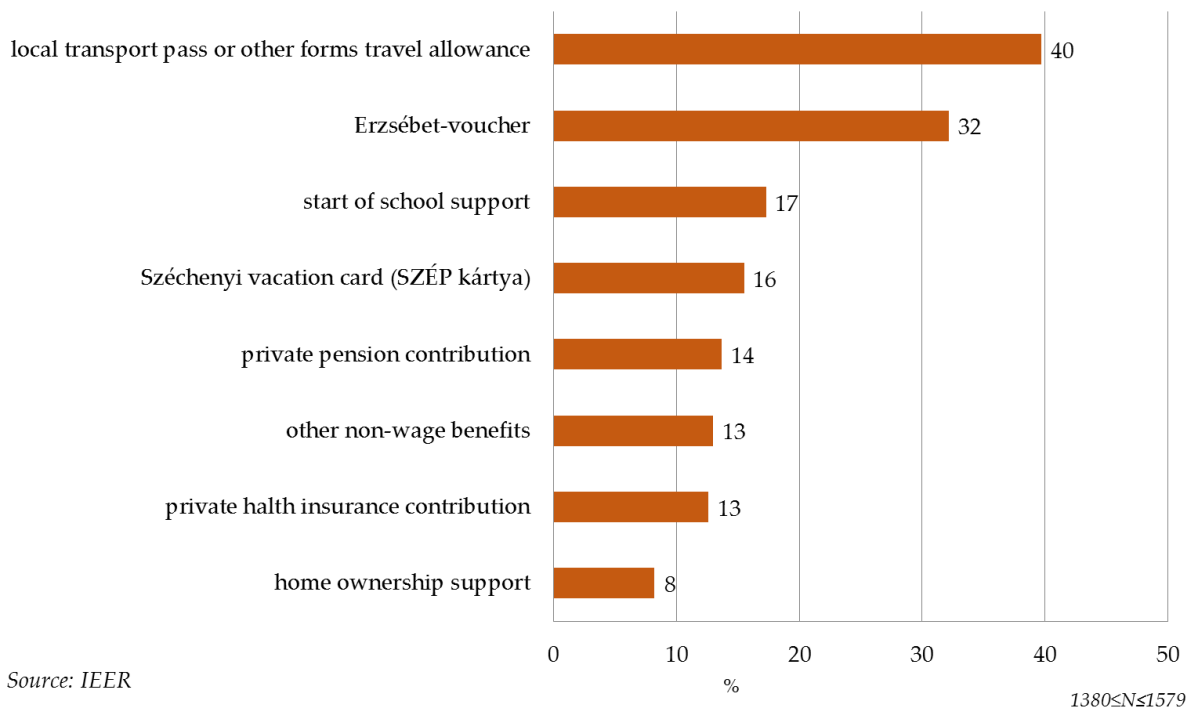
In its ongoing analysis of Hungarian companies, the Institute for Economic and Enterprise Research examined the practices relating to the use of fringe benefits among domestic enterprises. The analysis is based on the data of the April 2016 Business Climate survey of 2800 domestic enterprises which were questioned in relation to the non-wage benefits they provide. The results show that 55% of companies with a minimum of one employee provided at least one form of fringe benefits in 2016, the most popular non-wage benefits being considered were local travel allowances and the Erzsébet vouchers (food coupons, but sometimes used for non-food purchases). The use of fringe benefits is associated with a company's size, the economic sector it operates in, and its level of foreign ownership, as well as a firm's business situation: the highest proportion of those that provide fringe benefits are typically medium and large sized companies, those that are foreign-owned, firms operating in the manufacturing sector, and those in a good business situation. For 83% of responding companies, the amount allocated to fringe benefits has not changed over the past year. Those companies which has cut the wages during 2015 has not risen the non-wage benefits either and one third them has cut the amount allocated to fringe benefits as well which means that Hungarian companies do not use fringe benefits as a compensation.

Within the framework of the Business Climate surveys for April 2016, the Institute for Economic and Enterprise Research interviewed 2,800 domestic companies on the use of fringe benefits. The following analysis summarizes the results obtained from the replies of 1,771 companies with at least one employee.

In the case of companies with at least one employee, 55% of them had workers who received at least one type of non-wage benefit in 2016. The fringe benefits most frequently

used by respondents in 2016 are local transport tickets or other forms of travel assistance (40%) and the Erzsébet voucher (32%). In addition, 17% of responding companies provide school support for their employees and 16% vacation cards (SZÉP card). Among other non-wage benefits (13%), respondents most often mentioned gift certificates and gifts, the possibility of free meals at work, language school training support, and special discounts for company products (see Figure 1).

**Fringe benefits employed by respondent companies, percentage**

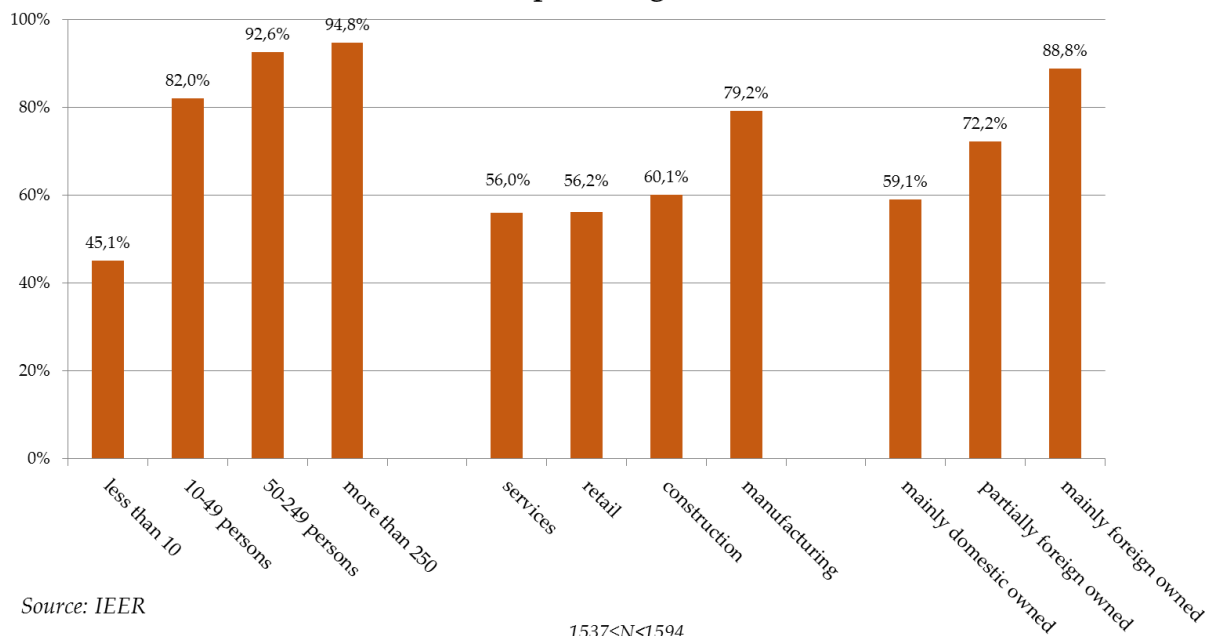


The use of fringe benefits are primarily and characteristically utilized by medium-sized and large enterprises: in the case of firms with less than 10 employees, only 45% of surveyed firms use some form of fringe benefits, while among companies with between 10 and 49 people the figure was 82%; for those with between 50 and 250 people it was 93%, while large companies with more than 250 staff it was 95%.

In terms of economic sector, we can conclude from the data that the highest proportion of those offering fringe benefits are among

manufacturing companies (79%), for those in the construction industry it is 60%, while for respondents operating in the field of retail and services 56% provide non-wage benefits. In addition, based on our results companies with a foreign ownership stake most commonly provide fringe benefits: while for purely domestic-owned business respondents 59% used at least one type of fringe benefit, in the case of partly foreign owned companies the rate was 72%, while for companies with a foreign ownership stake of over 50% it was 89%.

**Proportion of companies providing fringe benefits based on number of employees, economic sector and foreign ownership ratio, percentage**



Source: IEER

1537 ≤ N ≤ 1594

Among the large firms the most used fringe benefit was the Erzsébet voucher which is provided by 86% of the companies. The second most often used non-wage benefits were the local transport pass and other forms of travel allowances (81%), while the third one was the SZÉP vacation card (69%). Among the companies with less than 250 employees the most prevalent form of fringe benefits were local transport pass and other forms of travel allowances which was provided by the 74% of companies with 50 to 250 employees, by 60% of companies with 10 to 50 employees and, by 23% of companies less than 10 employees. On the second place is the Erzsébet voucher (72%, 44% and 17% of the companies in order of number of employees) and the support of start of school is popular as well (52%, 23% and 7%). The SZÉP card in case of these companies is not a prevalent form of fringe benefits which means that this non-wage benefit is mainly typical to larger firms.

Comparing the companies according to economic sector it can be said that the local travel allowances and the Erzsébet voucher are popular in each sector. The situation is similar comparing the companies by foreign ownership ratio. The SZÉP card is mostly provided in the manufacturing sector (used by 26% of the companies) and by the mainly foreign owned companies (55% of these companies). Among the domestic companies and partly foreign owned companies the third most popular non-wage benefit was the start of school support (35% and 15%). Additionally in the construction and in the services sectors a relatively high number of respondents mentioned other forms of fringe benefits like occasional bonuses, free meals and some types of insurances.

Fringe benefits were more common among respondents of companies that considered their current business situation as good, 73% had used at least one type of non-wage

benefits, whereas in the case of those companies reporting an unsatisfactory business situation it was 61%, with the ratio for those in a bad business situation at 41%. In addition, the use of fringe benefits was more usual among those companies which raised wages the previous year (70% provided fringe benefits) than those for which wages have not changed (40%) or decreased (35%).

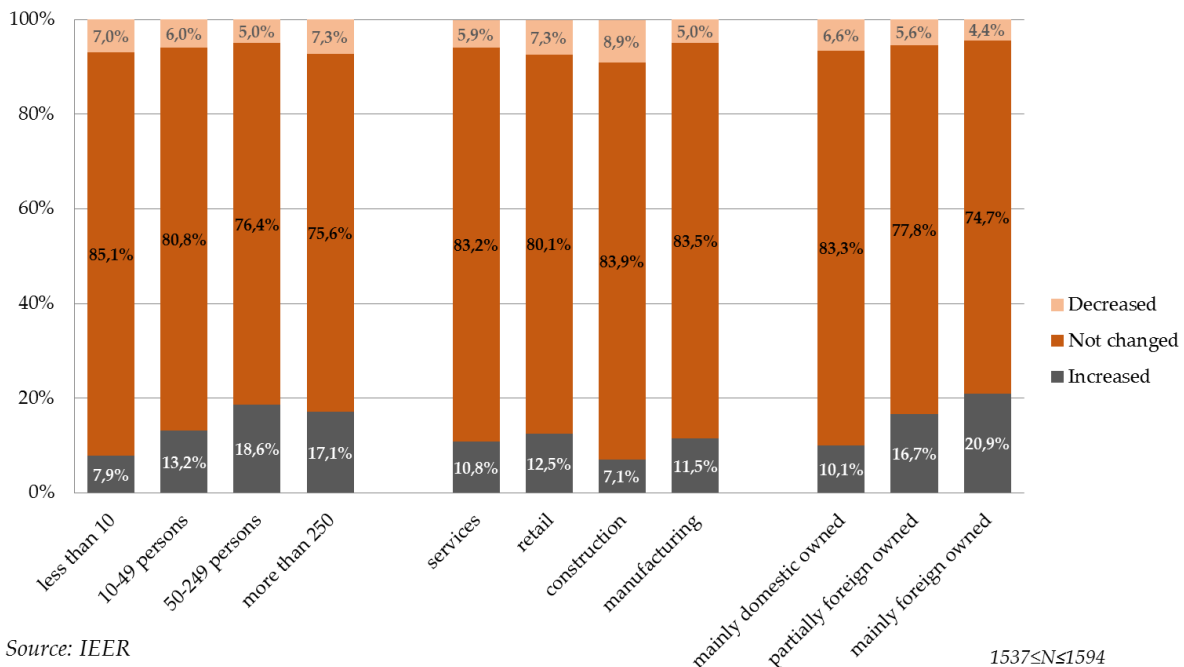
### The amount allocated for fringe benefits in 2015

The amount allocated to fringe benefits has not changed over the past year among 83% of responding companies, while for 7% it decreased compared to the previous year, and for 11% it increased. Among the respondents the highest proportion of those who raised the

amount of fringe benefits were the companies having 50 to 250 employees (19%) while only 8% of the companies with less than 10 employees reported a raise. By economic sector the results show that highest proportion of companies raising the amount allocated for non-wage benefits were of the retail sector (13%) but at the same time companies in services (11%) and in manufacturing (12%) increased the fringe benefits by more than 10% as well while in construction the proportion was 7%.

Of the mostly foreign owned companies which are the most common to provide fringe benefits 21% raised the amount allocated to this purpose while among the partly foreign owned firms the proportion was 17% and among the domestic companies 10%.

**Change in amount allocated for fringe benefits in 2015 by number of employees, economic sector and foreign ownership ratio, percentage**



Source: IEER

1537 ≤ N ≤ 1594

Not surprisingly, among the respondents with a good evaluation of their business situation the share of companies raising fringe benefits

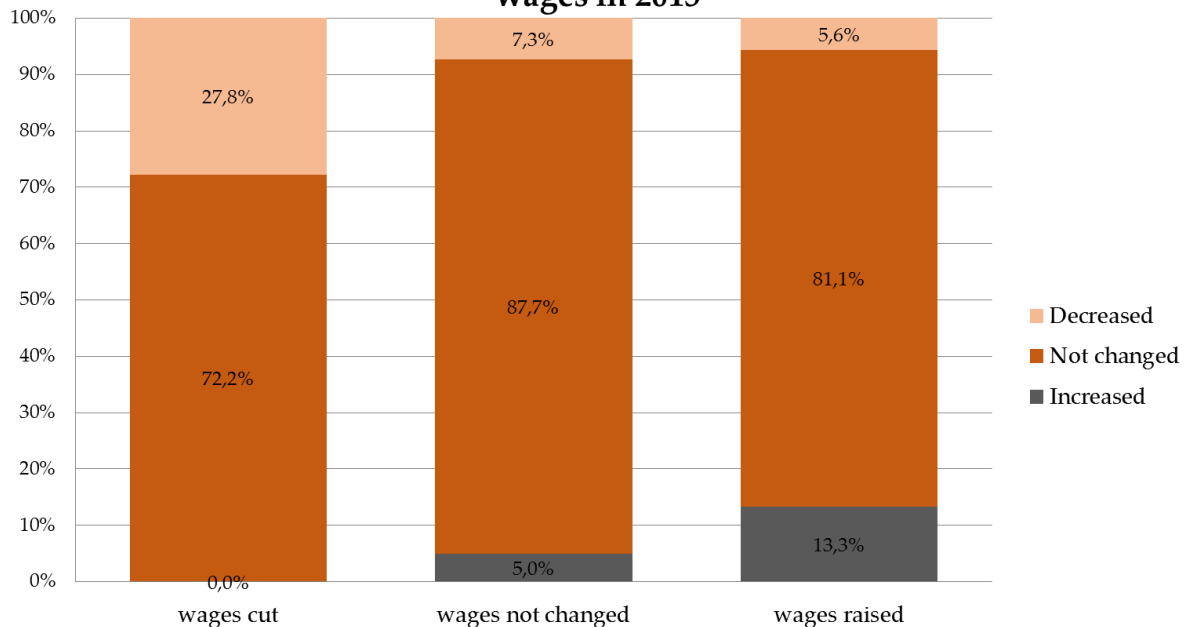
was higher at 16% compared to those with an unsatisfactory business situation (9%) and those in a poor business situation (5%). 18% of

the later companies cut the amount of fringe benefits in 2015.

Simultaneously, respondents from companies that have reduced wages did not raise the amount for fringe benefits, while for 28% this

amount was reduced. That is, responding companies did not compensate wage cuts with fringe benefits; indeed, for nearly a third of them austerity measures extended to non-wage benefits as well.

**Change in amount allocated for fringe benefits by change in wages in 2015**



Source: IEER

N=1326

When asked on a scale of one to five to consider how appropriate of a tool fringe benefits was to make their companies more attractive among employees, 37% of respondents regarded it as an appropriate or a rather appropriate option, while 34% regarded it as less appropriate or inappropriate, while 29 % viewed the role of fringe benefits as somewhere in the middle. Evaluating the role of fringe benefits by grades the best score was given by those companies which provide one or more fringe benefit.

## Debt crisis in China

News about the Chinese economy rock the global stock markets from time to time since last July. The main reason for this instability is the rapid growth of private sector debts in the world's second largest economy, amongst which there is more and more non-performing loans. The government was not able to sort out the situation in a year, which is unusual in the Chinese Communist Party. In fact, their attempts at solving might cause more harm than good on the long run. The question is, where this process goes – the sanguine say there is nothing to be afraid of, pessimistic analysts however consider Chinese economic growth coming to a halt likely, some even forecast bankruptcy.

### Quickly growing debt

In the summer of 2015 the Chinese stock market bubble [burst](#): the Shanghai Stock Exchange, having increased by 150% over the previous year, fell 30% in three weeks. The government's interventions were not successful. These events made clear for the world that China is struggling with serious

economic problems. Inquiry in this subject is hindered by the general [unreliability](#) of Chinese economic data. However, main tendencies of the great far-eastern economy can be sketched even without accurate data, and today's trends are raising concerns.

Shanghai Composite Stock Market Index,  
July 2014 - July 2016



Source: *investing.com*

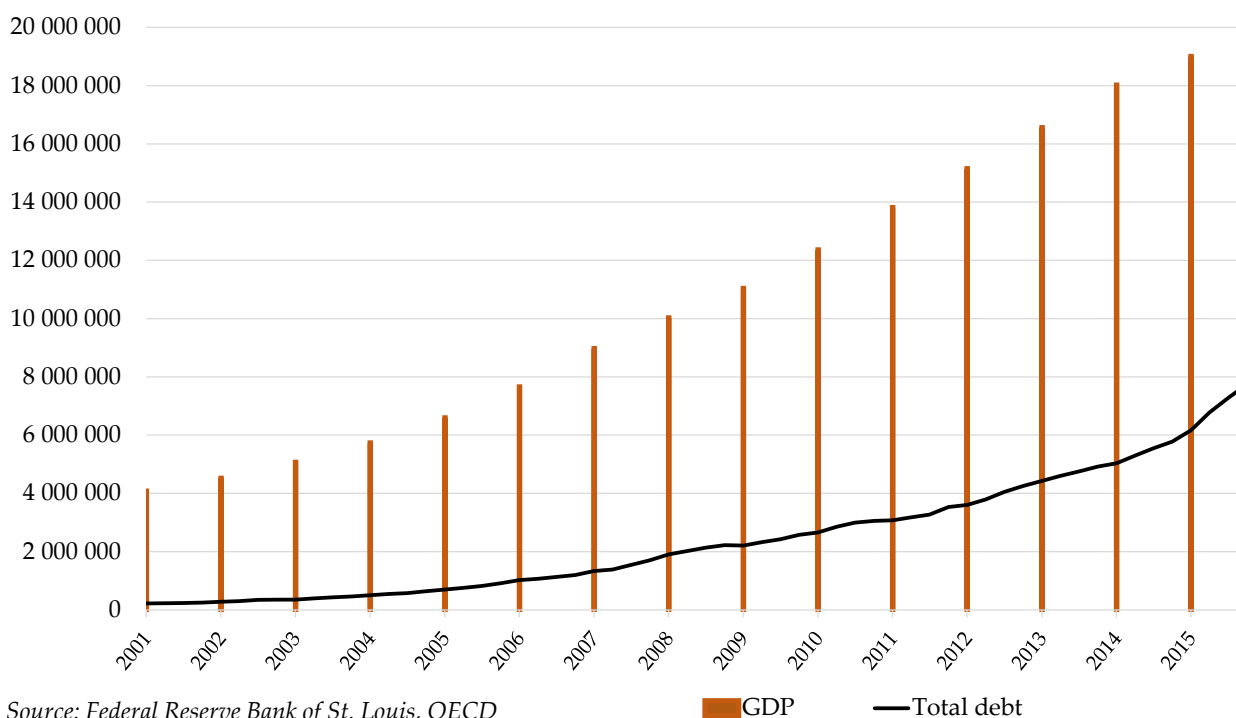
One of these obvious processes in China is the rapid growth in indebtedness. While the total debt to GDP ratio was around 150% a decade ago, today its value is 240-270%. Moreover, this change has occurred in a period when the gross domestic product grew steadily in a relatively fast pace, which means that the actual increase in debt is even bigger than the debt-to-GDP ratio shows.

The majority of the total debt consists of private sector credits. Public debt in China, although it is rising since 2010, is still only 43.9% according to the official data, which is a low level compared to both Western countries and Asia’s leading economies. In addition, China is a net creditor, as its loans granted to other countries exceed the state debt.

The increase in the private sector indebtedness came as an effect of the 2008

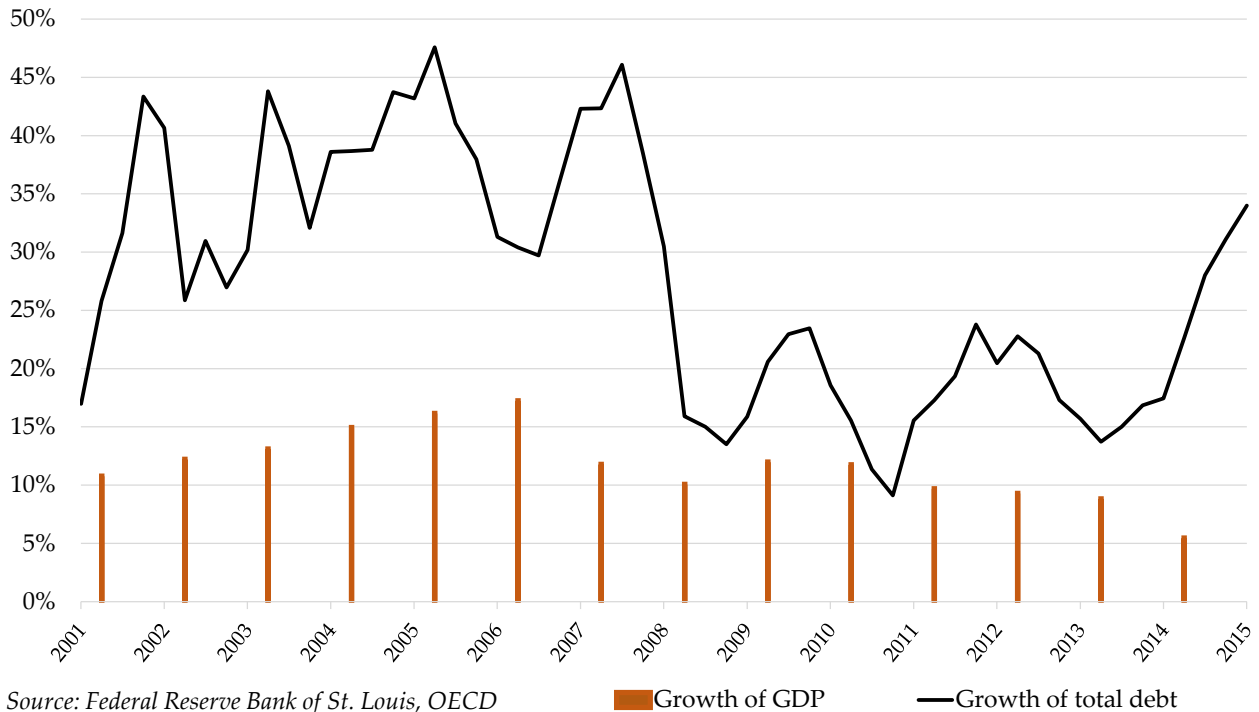
subprime crisis on the one hand – in order to stimulate the economy the government encouraged economic actors to take loans during the depression. However, spending borrowed money became too ordinary, and the negative effects that were generated came to the surface in the last two years. In 2014 the thousand biggest Chinese companies have had higher interest debts than their profit before tax. Approximately 40% of the new loans are spent on interests of previous loans. On the other hand, the 2015 stock market bubble attracted a mass of inexperienced private investors to the Shanghai Stock Exchange, many of whom bought shares on borrowed money. This is why the stock exchange crash caused a significant rise in the rate of non-performing loans. According to official data, in the spring of 2016 5.5% of bank loans was problematic, and the actual situation could be even worse.

**Chinese GDP and total debt, 2001-2016**  
(million US dollars)

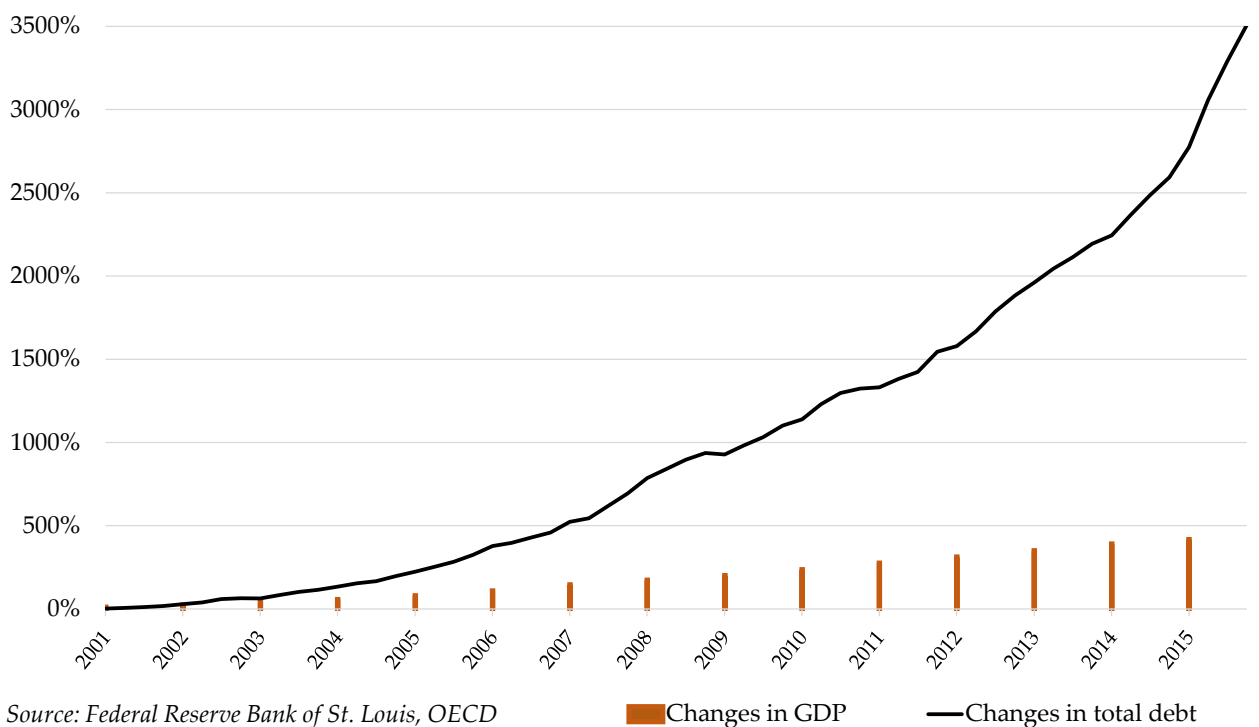


Source: Federal Reserve Bank of St. Louis, OECD

### Changes in Chinese GDP (annual) and in total debt (quarterly), 2001-2016



### Changes in GDP and total debt compared to year 2000, 2001-2016





## Attempts to solve the problem

The Chinese government tries to treat the problem two ways: debt-for equity swaps and securitization of non-performing loans. International Monetary Fund warned, however, that these measures could make the problem even worse on the long run if underlying issues were not dealt with.

Debt-for-equity swaps could degrade the quality of corporate governance and offer additional lifetime to unviable companies. Securitization of non-performing loans could have this effect as well. Another problem of this attempt is that these securities are too illiquid for foreign investors, but there are not

## Consequences

Some of the analysts do not fear serious problems coming from this situation as they expect China's strong central political leadership to intervene in order to prevent the eruption of a new crisis. In their view these interventions would reach levels that are unthinkable in the Western countries, because the first priority of the Chinese government is maintaining social stability and not ensuring the functioning of the market economy. According to them, this is why the private debt crisis in China is not likely to cause a world economic depression like the American loan situation in 2008.

Other analyst, however, say that loans cannot continue piling endlessly, and postponing the solution will cause a sudden slowdown or even bankruptcy. They believe that the strong political control on the Chinese economy has weakened, and the government even has difficulties keeping up with events. This supported by the fact that the illegal financial

enough institutional investors with the adequate experience to price such complex products. This is why these securities were bought mainly by state-owned banks and asset-management companies so far. This means a government bailout to the delinquent debtors, which is not what the program aimed for. Furthermore, bad loan backed securities of about 7.5 billion dollars have been released so far, while there are loans at risk about the value of 2300 billion dollars (closing up to one fourth of the Chinese GDP). So this program is way too small to address the problem of private indebtedness.

sector is booming: illegal loans ("shadow loans") have been growing by 30% annually since 2014. The slowing growth also increases doubts. According to the official data the growth of Chinese economy is still over 6%, but this rise is not efficient anymore as 4 yuan loan is needed for 1 yuan increase in the GDP.

If China really will collapse under its loans, it may have a serious negative impact on the global economy. In the summer of 2015 yuan was devaluated only by 2% and it caused crises in commodity exporter countries and the devaluation of more South East Asian currencies. A recessionary period could have much stronger effects: it could hit hard every country that exports anything to China and stock markets all over the world. Analysts agree that this crisis would not be like the 2008 one, but there are so many uncertain factors that more accurate estimations cannot be made.

## International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Change (thousand persons)	(Jun)	<b>-6</b>	-5	<b>-10</b>
	Manufacturing Purchasing Managers Index	(Jun)	<b>54.4</b>	52.0	52.1
	IFO Business Climate Index <sup>1</sup>	(Jun)	<b>108.7</b>	107.5	107.8
France	INSEE Business Climate Index <sup>2</sup>	(Jun)	<b>102</b>	103	104
USA	Jobless Claims – 4-week average (thousand persons)	(Jun)	<b>266.75</b>		
	CB Consumer Confidence Index	(Jun)	<b>98.0</b>	93.3	92.4
	Manufacturing Purchasing Managers Index	(Jun)	<b>51.4</b>	50.8	50.7
China	Manufacturing Purchasing Managers Index	(Jun)	<b>50.0</b>	50.0	50.1

<sup>1</sup> <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

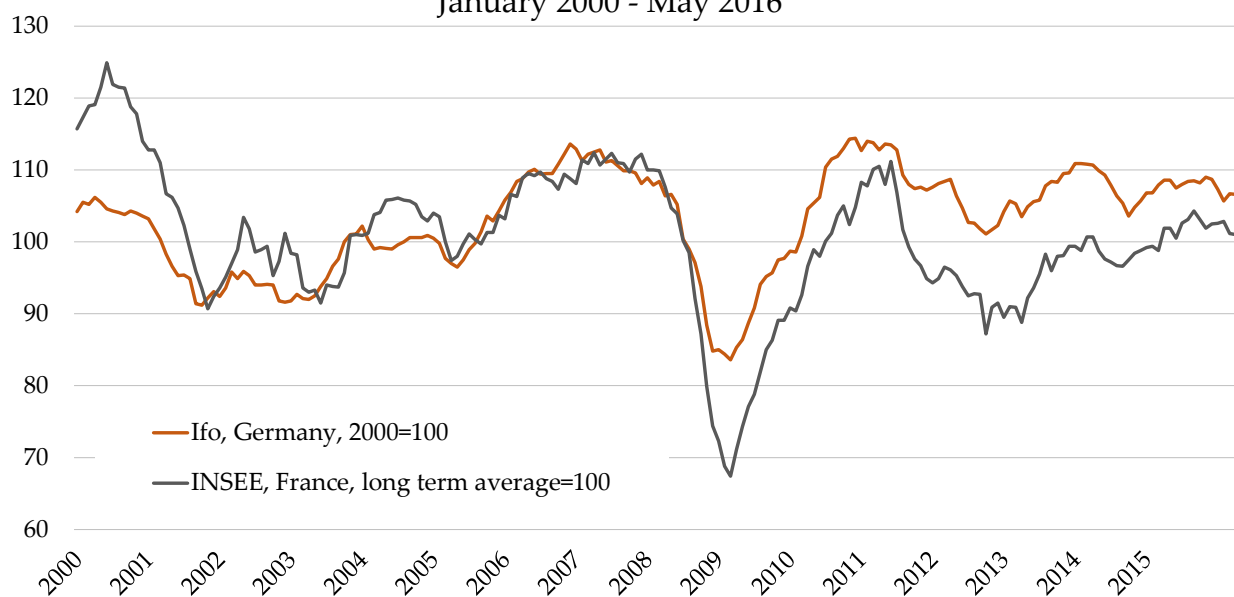
<sup>2</sup> <http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

The German economy performed well once again: the number of unemployed decreased stronger than expected and both the manufacturing purchasing manager index (PMI) and the IFO business climate index rose instead of the forecast decrease. The French INSEE business climate index, however, fell stronger than expected, although it still formed above the long term average. In the United States the CB consumer confidence index rose significantly more than projected, and the manufacturing PMI performed well too. The Chinese PMI remained stable once again.

## Long-term changes in business confidence indices

Business confidence in Germany and France, based on the Ifo and INSEE business climate surveys,  
January 2000 - May 2016



Source: [www.cesifo.de](http://www.cesifo.de), [www.insee.fr](http://www.insee.fr)

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