



Borrowing in the corporate sector in Hungary, 2011-2020

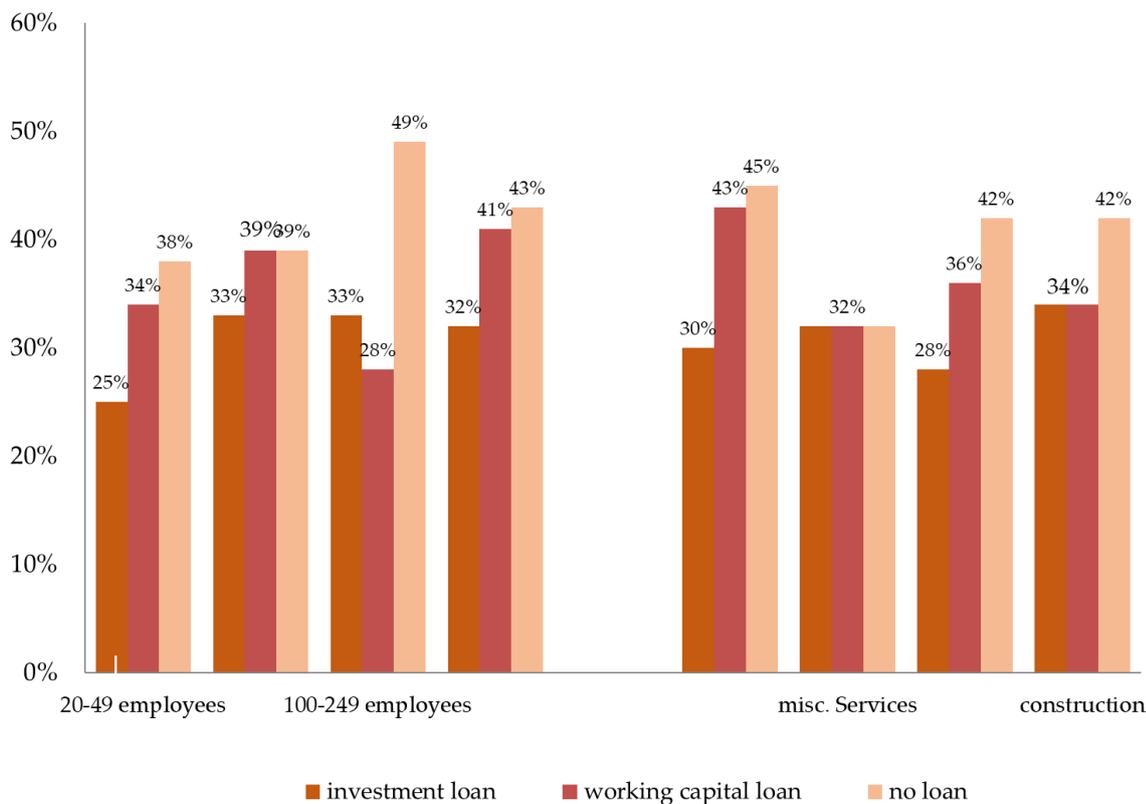
HCIC's Institute for Economic and Enterprise Research (IEER) analysed Hungarian companies' borrowing habits and experiences. The data analysed here originate from the quarterly business climate surveys conducted by IEER focusing on perceived business loan eligibility requirements (16 times since October 2011) and on the types of loans taken out (18 times since October 2011). In this matter a total of 7129 Hungarian companies were surveyed. Below we shall present the results of the most recent quarterly business climate survey (January 2020) put into context by a timeline of the past decade's credit trends in the second part of our analysis.

According to the results of the January 2020 survey 43 per cent of companies operated without any business loans to pay off. Their rate was especially high among 100-249 companies (49%) and in the processing industry (45%). Working capital credit was still the most popular type (38%), followed by investment credit (31%) in all industries regardless company size. As for currency, loans in forint (HUF) and euro (EUR) were generally taken out (67% and 51% respectively), the latter mostly by exporters. Loans were most commonly taken out by minor exporters (65%) and fully domestic companies (67%).

With regard to company size, investment credit was the most popular with companies employing over 50 staff (32-33%), while

working capital credit was mostly chosen by 50-99 companies (39%) and 250+ companies (41%). The rate of processing companies taking out a working capital loan was especially high (43%), however, the rate of companies without any business loan was also the highest in this industrial sector (45%). At the same time, only 32% of companies offering economic services reported to have operated without business loans. The rate with trading and construction companies was 42%. All in all, investment projects were still not very popular among the smallest of the companies, while investment activity was more or less the same in all sectors.

Figure 1. Rates of investment credit and working capital credit, by company size and sector, per cent, N=399

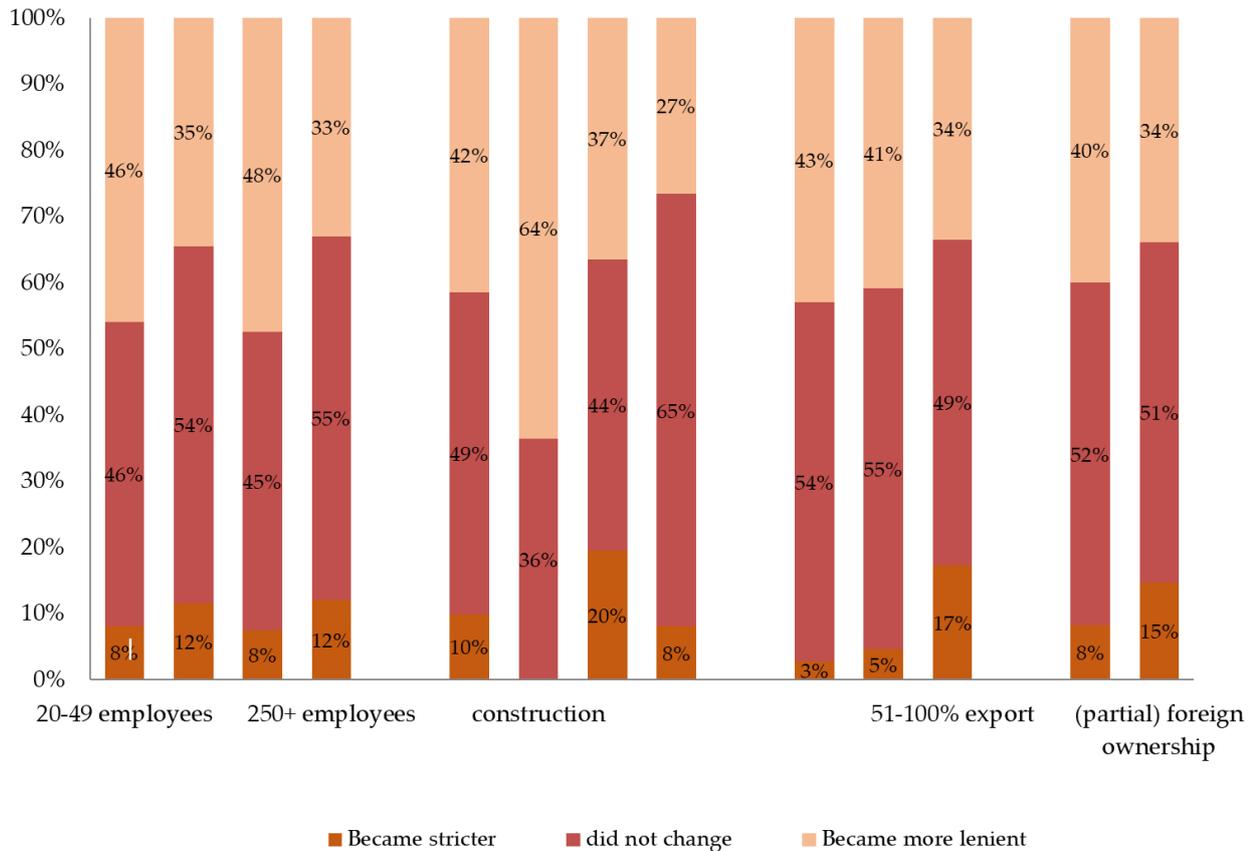


Source: IEER, 2020

In January, 11% of companies thought that requirements of taking out a loan had become stricter, whereas 37% deemed that credit was easier than in the previous year. 50-99 and 100-249 companies, major exporters, trading companies and companies of at least partial foreign ownership were the most pessimistic about the changes concerning loan eligibility criteria. It is also important to note at this point

that 64% of construction companies reported easier credits, and according to 36% there had been no change in the requirements. Their opinion is well supported by the recent boom in construction industry fuelled by private and public investments, which in turn further expanded credit opportunities.

Figure 2: Corporate opinions about business loan requirements in comparison to the previous year, by company size, sector, exports and foreign ownership rate, per cent, N=399

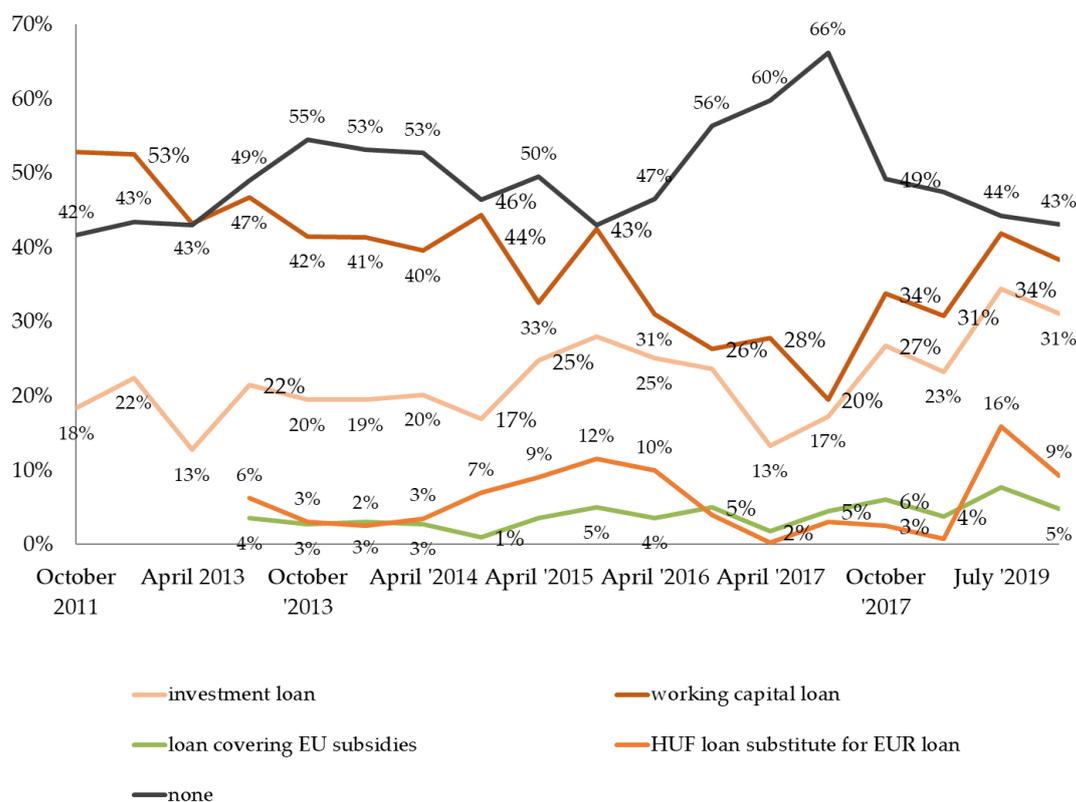


Source: IEER, 2020

Our panel study also shows that credit penetration greatly decreased between April and October 2013 (by 12 percentage points) and between October 2015 and July 2017 (by 23 percentage points), while between July 2017

and January 2020 penetration saw a definite increase – the rate of companies without any business loan dropped from 66 per cent to 43 per cent

Figure 3: Loans taken out between 2011 and 2020, rates by loan type, per cent, N=7129



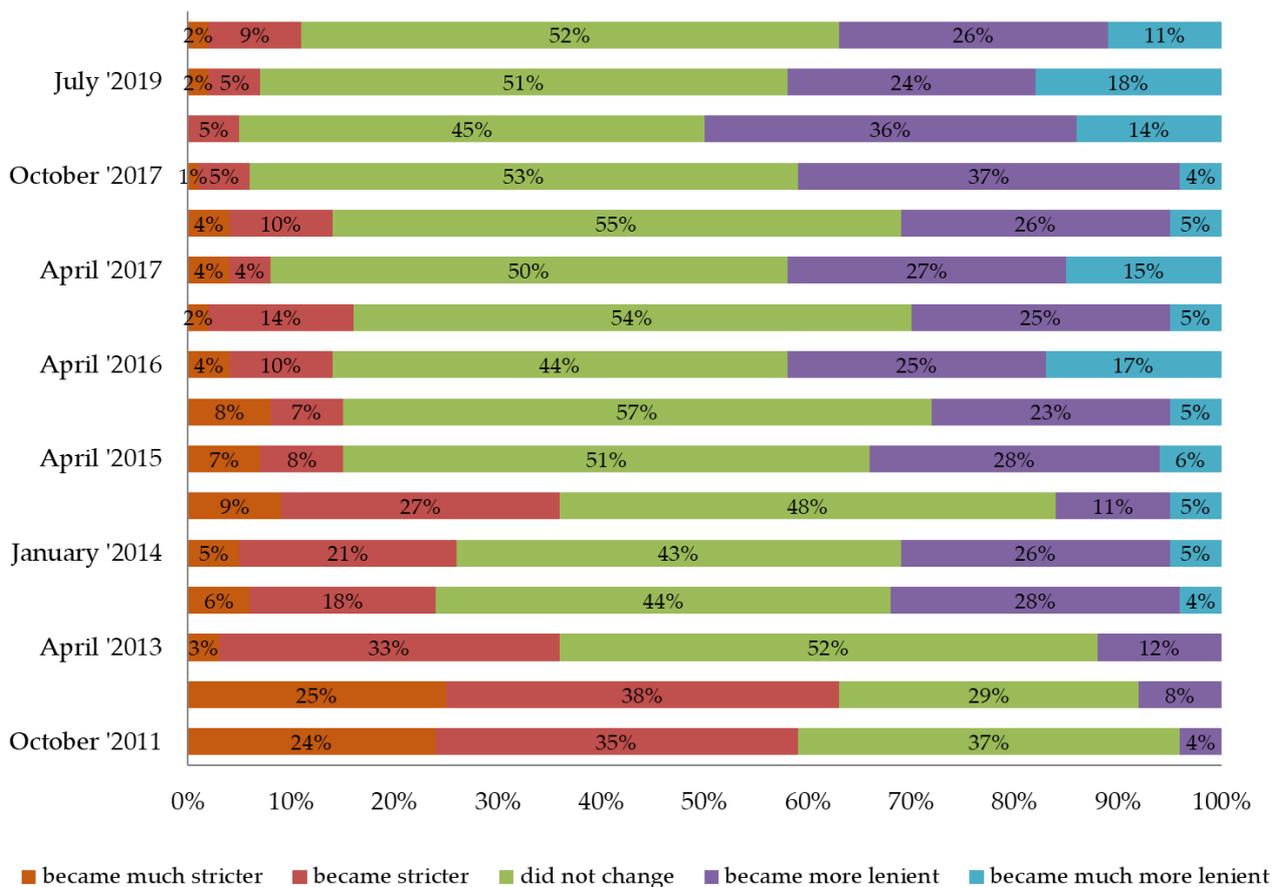
Source: IEER,2020

Regarding currency, loans in HUF were the most common in all surveyed periods. Between October 2011 and October 2014, the rate of HUF loans increased from 65% to 84%, followed by another increase from 65% to 88% between October 2015 and April 2018. However, the rate was only 67% in January 2020. The second most popular currency to take out a loan in was euros (16-58%), whose rate practically followed the rate of major exporters in the economy. In January 2020, 51% of companies had such a business loan.

Companies' opinions about loan eligibility requirements started to improve in October

2013, when the National Bank of Hungary launched its Funding for Growth Scheme for SMEs. While 63% of the companies had perceived eligibility requirements to have become stricter in April 2012, their rate reduced to 24% in October 2013. At the same time, 32% felt that there was easier credit available, as opposed to 4-12% measured earlier. Companies gave the most positive opinions in April 2018, when only 5% complained about tougher credits while 50% thought business loan eligibility requirements have become more lenient.

Figure 4: Corporate opinions about business loan requirements in comparison to the previous year, per cent, N=4523



Source: IEER,2020

However, mid-term expectations had been more pessimistic even before coronavirus shook the economy. In January, 13 per cent of

companies expected that taking out a loan would be more difficult in 2020 and only 27 per cent expected that it would be easier.

The most severe coronavirus-related problems Hungarian companies face

An analysis of responses to open questions

Involving Hungarian companies, a survey was conducted by the Hungarian Chamber of Industry and Commerce (HCIC) to find out about the economic impacts of the ongoing coronavirus pandemic. In this article, HCIC's Institute for Economic and Enterprise Research analyses the answers to the survey concerning the major problems of businesses. The survey was conducted between 19 and 31 March 2020. The online questionnaire was filled in by 5268 company representatives, and 4383 gave an answer to the open question: „What poses the most serious problem to the operation of your business now?”. The analysis focuses the opinions formulated by this latter group.

Summary

The analysis of opinions further reinforced one of IEER's earlier analyses¹ which found that the most serious problem for Hungarian businesses in March had been weak demand. The issue that was mentioned the second most frequently concerns the elimination of income. The third most common issue concerns jobs that are impossible to do without real-life encounters or contacts.

Weak demand had a terrible impact on all types of businesses. Among sole traders and micro-enterprises, the second most frequently mentioned problem was the total elimination of income. For small enterprises, sourcing materials and goods was the second most serious problem. Medium-sized and big

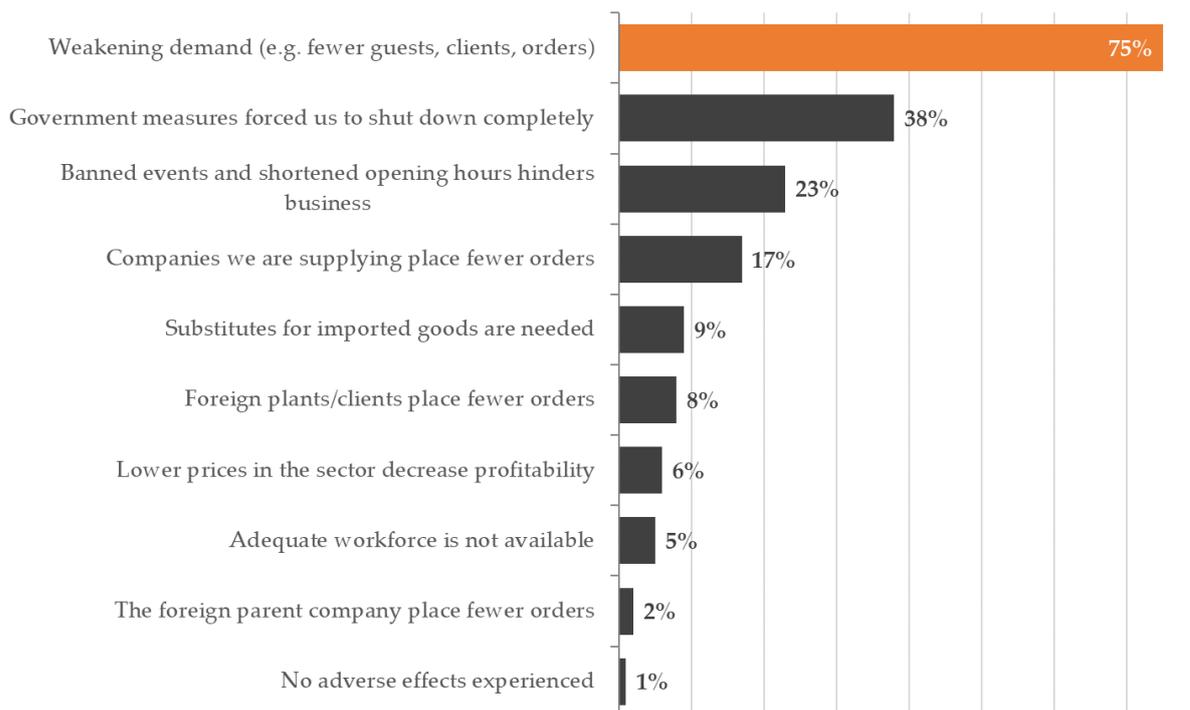
companies complained about general uncertainty and unpredictability coming second after weak demand. The payment of fixed costs counts as one of the ten most frequently mentioned problems regardless of company type.

There were only two sectors where weak demand was not mentioned as the most burning issue. One of them included healthcare and social care companies, where no income was reportedly a bigger problem. The other such branch - consisting of real estate dealers, economic service providers and financial intermediaries – marked the lack of real-life meetings as their biggest issue.

¹ The company-level management of the economic effects of COVID 19 – second wave –in Hungarian

: <https://gvi.hu/kutatas/602/a-koronavirus-gazdasagi-hatasainak-vallalati-kezelese-masodik-hullam>

Figure 1: For what reason does coronavirus have an adverse effect on your business? N=4902-4971



Source: IEER 2020

Business situation of Hungarian companies

The following analysis attempts to present the most severe operational problems Hungarian companies had to tackle late in March. We analysed the opinions of companies that answered our open question such as „What poses the most serious problem to the operation of your business now?”. In total, 5268 company representatives filled in the questionnaire, out of whom 4383 replied to the open question (83 per cent). In the course of the analysis we categorised the answers. The distribution of these categories among responding companies and specific company types will be presented in the paragraphs below.

The analysis of quantitative data pooled from the answers of 5268 respondents found 70 per cent of companies struggling with a glum outlook for the upcoming six months. As a result of the spreading pandemic, 71 per cent of the companies experienced issues that significantly hindered business. 92 of companies had lower capacity utilisation than in the period before the health crisis, while 34 per cent reported a complete shutdown.

Answers given to closed questions revealed that the great majority of respondents (75 per cent) saw weaker demand as the most debilitating factor. 38 per cent of companies had to shut down because of government measures. Banning events and limiting opening hours caused damage to 23 per cent of businesses.

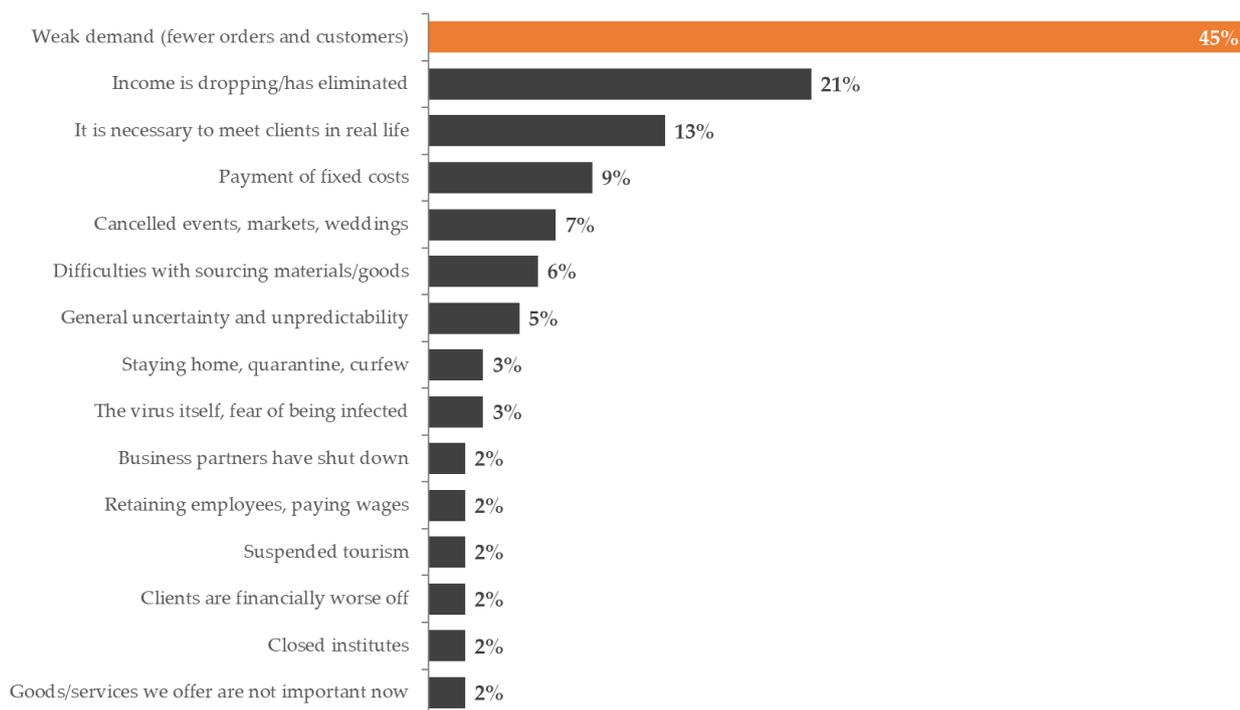
The most severe coronavirus-related problems – respondents' opinions

The analysis of answers given to our open question certainly added more depth to the overall picture. 4383 respondents described the greatest problem their companies had to face with their own words. 97 per cent of them thought that coronavirus would make their business outlook worse or much worse in the forthcoming six months. This analysis therefore focuses on the problems of those companies only that were adversely affected by the coronavirus.

All respondents giving their opinion mentioned **weak demand** as a major problem. 45 per cent of respondents complained that many orders were cancelled, there were no new orders, and the number of customers dropped, sometimes drastically. 21 per cent reported a total **elimination of income** as their major problem. This might be put down to a shutdown owing to government measures, or they closed voluntarily for reasons of safety or weak demand. Safety was a major force of

closure among companies with **necessary real-life meetings with clients**. There were many cosmeticians, hairdressers, tattoo artists, massage therapists, dog groomers, optometrists, photographers, interpreters, and real estate agents who decided to suspend business because their jobs necessitate meeting people in real life. 9 per cent of respondents wrote that the biggest problem for them was the continued **payment of fixed costs** including taxes, rents, overheads, wages and contributions. With less or no income these have been increasingly difficult to pay. The most severe problem for 7 per cent of respondents was the cancellation of events, markets and weddings; 6 per cent had trouble **sourcing materials and goods** for their job. 5 per cent of respondents giving their opinions mentioned **general uncertainty** and unpredictability as a major issue.

Figure 2: What poses the biggest problem to the operation of your business now? N=4382



Source: IEER 2020

The most severe coronavirus-related problems – respondents’ opinions, by company type

Concerning company type the analysis of the answers given to our open question revealed that weak demand was the most frequently mentioned issue for 44% of sole traders, 45% of micro-enterprises, 48% of small enterprises and 44% of medium-sized and large enterprises.

The second greatest problem for sole traders (22%) and micro-enterprises (22%) was eliminated income, and the third one was the necessity of real-life contacts (18% and 10%, respectively). For small enterprises, difficulties with sourcing materials and goods posed the

second most serious problem (14%) together with eliminated income (14%). 13 per cent of medium-sized and large companies mentioned general uncertainty and unpredictability as a major issue, and a further 13 per cent of this group had a problem with employee retention.

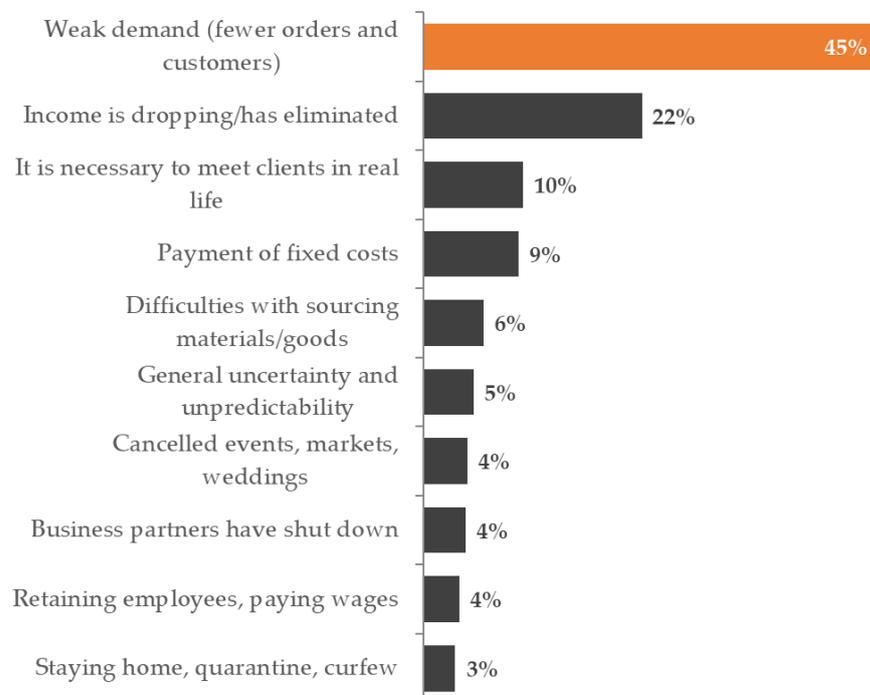
Respondents of all four company types invariably had the payment of fixed costs among their top ten issues. Paying fixed costs was reportedly the worst issue to overcome for 10 per cent of sole traders, 9 per cent of micro-enterprises, 7 per cent of small enterprises and 7 per cent of medium-sized and large companies.

Figure 3: What poses the biggest problem to the operation of your business now? (Sole trader, n=1894)



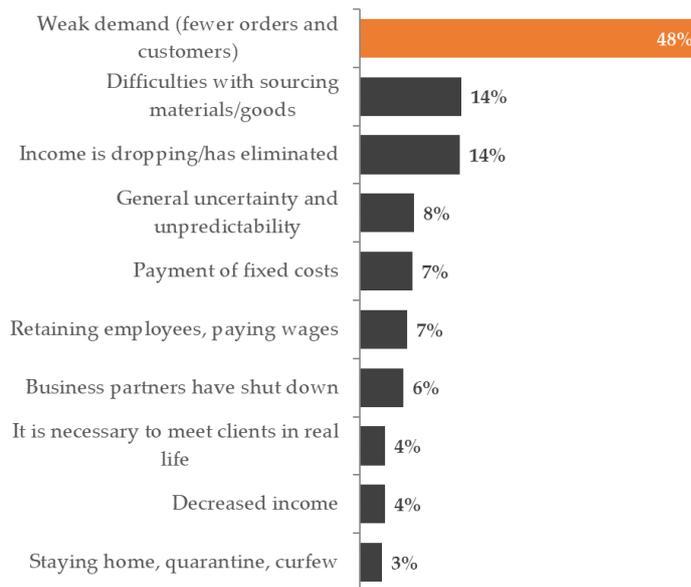
Source: IEER,2020

Figure 4: What poses the biggest problem to the operation of your business now (Micro-enterprise, below 10 employees, n=1620)



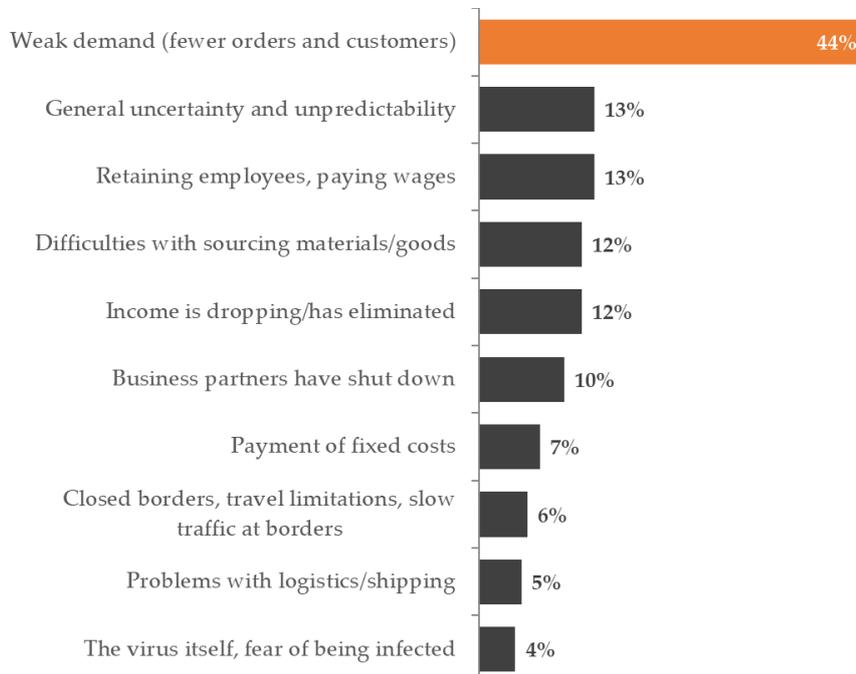
Source: IEER,2020

Figure 5: What poses the biggest problem to the operation of your business now (Small enterprise (10 – 49 employees, n=458))



Source: IEER, 2020

Figure 6: What poses the biggest problem to the operation of your business now (Medium-sized and large companies, above 50 employees, n=145)



Source: IEER, 2020

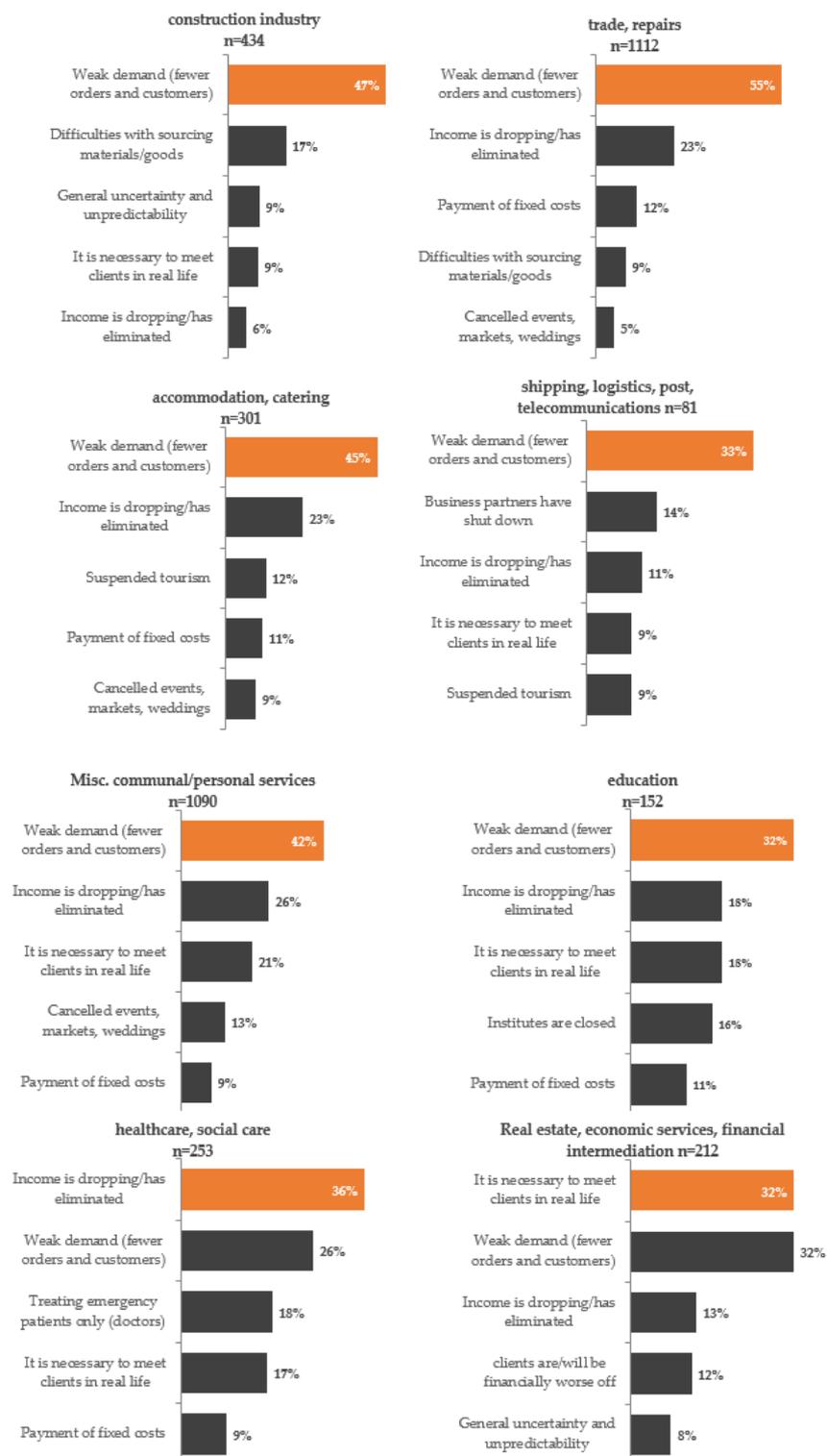
The most severe coronavirus-related problems – respondents' opinions, by economic branch

Throughout all economic sectors weak demand seems to have hit everyone. It seems clear from the answers given by companies of specific industrial branches that weak demand affected all sectors. The most sensitive branch to the problem of fewer orders and clients was that of sales and repairs (55,1 per cent of companies in this branch mentioned weak demand to have been the biggest problem), followed by the processing and the mining industry (49%) and accommodation/catering (45% - see Figure 7.). There were two branches where weak demand was not the most frequently mentioned problem. Healthcare and social care (36%) companies struggled more with incomes down to zero, and for the branch including real estate dealers, economic service providers and financial intermediaries (32%) the elimination

of real-life meetings were the most paralyzing issue.

Weak demand was in most sectors followed by eliminated income as the second most serious issue. In the construction and processing industries the sourcing of materials and goods came as the second most common problem after weak demand (mentioned by 17 per cent of companies in each industry). 14 per cent of the companies in the sector that covers shipping, logistics, post and telecommunications had trouble on account of their commercial partners' stalling business. General uncertainty and unpredictability were the second most common issue for companies supplying electricity, gas, steam and water

Figure 7: What poses the biggest problem to the operation of your business now? (by economic sectors)



Source: IEER, 2020

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Apr)	5.8%	5.2%	5.0%
Germany	Manufacturing Purchasing Managers Index	(Apr)	34.4	39.0	45.4
	IFO Business Climate Index ¹	(Apr)	74.3	69.4	85.9
France	INSEE Business Climate Index ²	(Apr)	66.8		90.3
	Unemployment Rate	(Apr)	14.7%	16.0%	4.4%
USA	CB Consumer Confidence Index	(Apr)	86.9	87.9	118.8
	Manufacturing Purchasing Managers Index	(Apr)	36.1	36.9	48.5
China	Manufacturing Purchasing Managers Index	(Apr)	50.8	51.0	52.0

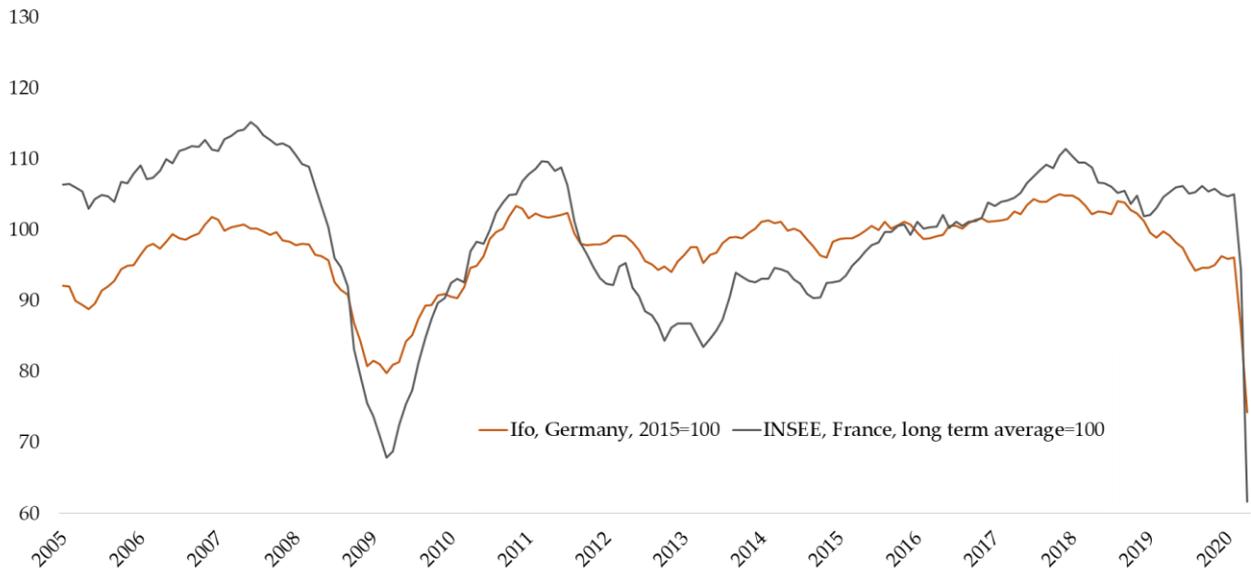
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

The rest of the data source: <http://worldeconomiccalendar.com>

In Germany, the IFO business climate index has significantly dropped, compared to last month. The manufacturing purchasing manager index (PMI) has also demonstrated a decrease, doing much worse than expected. Unemployment rate worsens for Germany, performing even weaker than expected. The French INSEE business climate index has dropped even further, compared to last month. In the United States, the CB consumer confidence index dropped largely compared to the month prior, also it performed worse than expected. The manufacturing PMI has decreased significantly, doing a bit worse than expected. The unemployment rate has increased more than threefold. The Chinese manufacturing PMI decreased in comparison to previous month.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - April 2020



Sources: www.ifo.de, www.insee.fr

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