



Late payment and circular debt in Hungary

In this analysis of HCIC IEER the prevalence of late payment and circular debt in Hungary is being examined. The results are based on IEER's July 2020 quarterly business climate survey involving 407 companies active in Hungary

Based on the answers, 65 per cent of businesses had at least one partner in the first half of 2020 who paid late, and 38 per cent of respondents made late payments themselves to their suppliers in the examined period. Late payment mostly hit companies employing up to 100 workers, companies of fully domestic ownership, and companies in the trading sector and the processing industry. Circular debt was the most widespread among 100+ companies and businesses providing miscellaneous economic services. At the same time, the rate of late-paying companies in the construction industry fell compared to the previous year.

Results show that although businesses now have slightly fewer late-paying partners on average than in July 2019, the issue of circular debt is increasingly seen as a grave problem. The rate of companies that were unable to pay in time at least once during the period increased, so did the number of businesses that

could not pay in time to suppliers because of their customers' late payment. According to 44 per cent of respondents, the gravity of problems caused by circular debt increased in the half year before July 2020. A year before in July 2019 their rate was 9 per cent, which jumped to levels unprecedented since the global crisis of 2008. Perception data presented in this paper and findings of IEER's earlier analysis focusing on company liquidity¹ show that the new business environment shaped by coronavirus is more prone to develop serious problems, primarily caused by circular debt, including, especially in the most exposed industries, insolvency.

65 per cent of surveyed companies had at least one business partner that paid late multiple times in the first half of 2020. The rate of such companies was 68 per cent in the second half of 2019 and 69 per cent in the half year before, meaning that late payment has become rarer compared to the results of our previous survey.

¹ <https://gvi.hu/kutatas/618/a-koronavirus-jarvany-gazdasagi-hatasai-a-magyarorszagi-vallalkozasok-koreben-kapacitaskihasznaltsag-likviditas-letszamvaltozasok-bervaltozasok-es-ertekesitesi-arak>

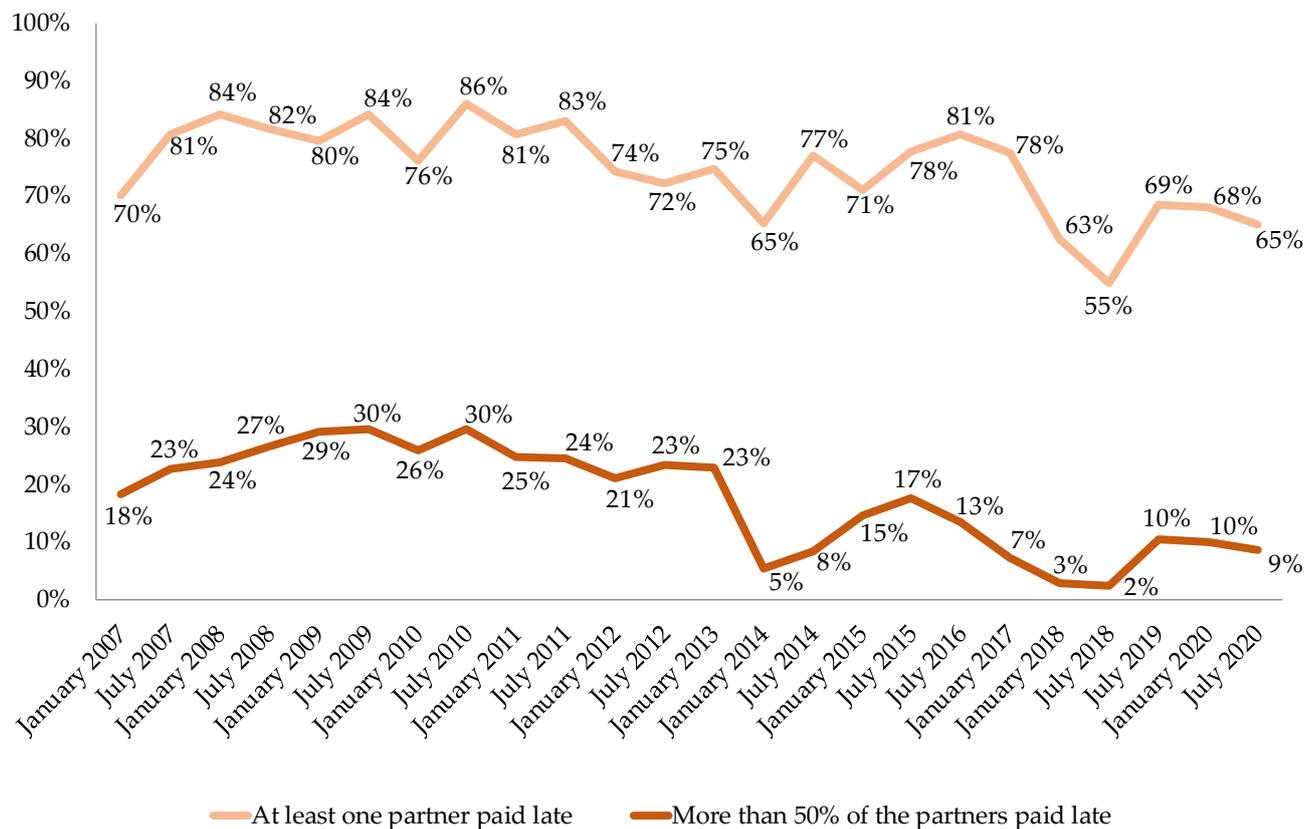
MBET September 2020

Regarding company size there were no significant differences in the prevalence of late payment in the first half of 2020. Throughout the categories, 61-68 per cent received late payment from at least one partner. With a rate of 61 per cent the least exposed size group was the one of 250+ companies. It is also relevant here to note that only 3 per cent of them reported that more than a half of their partners were paying late.

Concerning sectors, trading companies (69 per cent), processing companies (67 per cent), and

providers of miscellaneous economic services (64 per cent) were the most exposed industries to late payment. There was a significant decrease of late payment in the construction industry: the rate of 77 per cent exposed to late payment in July 2019 dropped to 58 per cent by July 2020. By ownership structure, 68 per cent of fully domestic companies had late-paying business partners while 56 per cent of companies of (partly) foreign ownership experienced the same problem, similarly to the rates of the previous year.

Figure 1: The rate of companies experiencing late payment, 2007–2020, N=275–408



Source: IEER 2020

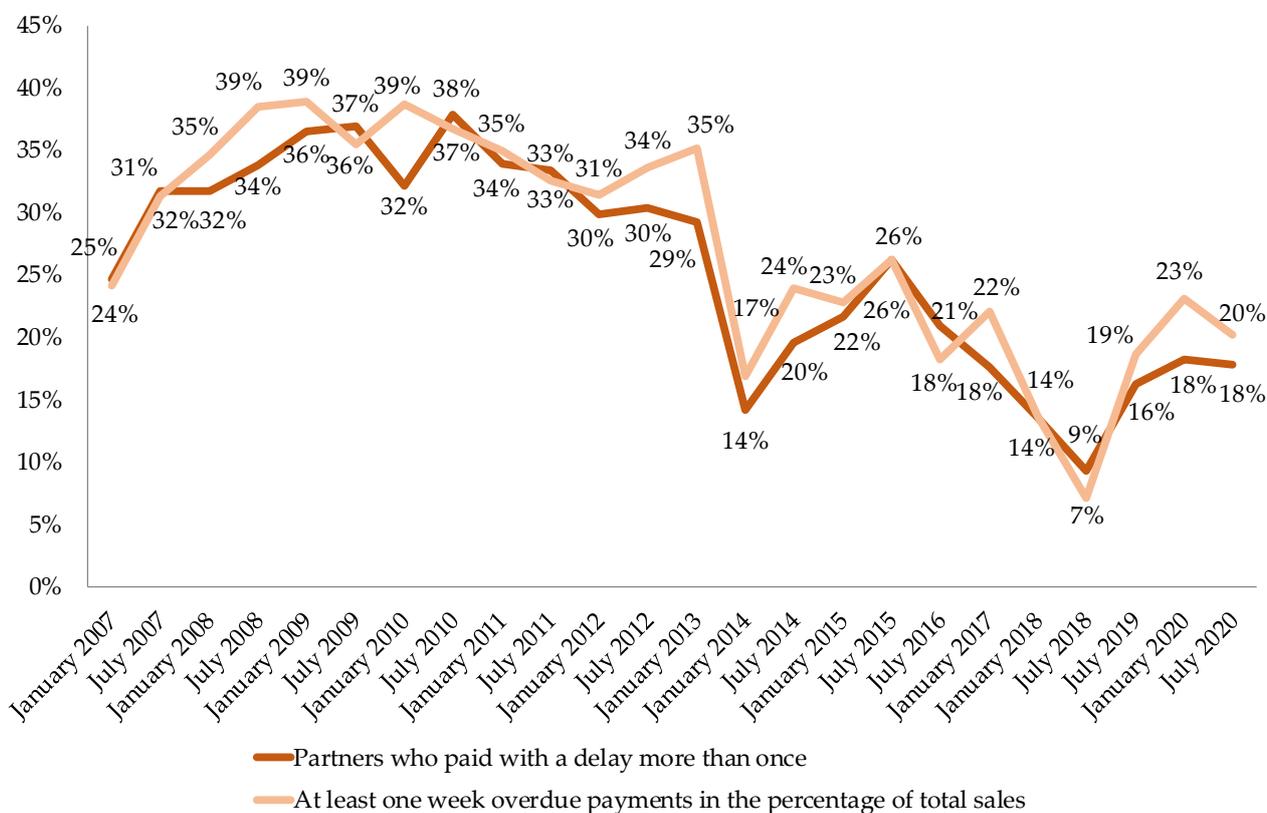
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71 per cent of respondents reported to have received payment, or at least part of it, for their products over a week beyond the deadline. Here, year-on-year figures correspond. According to July 2020 data 20 per cent of companies' total sales revenue arrived beyond the payment deadline, which is a one percentage point increase over last year's figure. On average, 18 per cent of partners were paying late, however, 85 per cent of companies reported that their most important

partners never or hardly ever paid late in the first half of 2020, which is 3 per cent higher than in the first half of 2019 (82 per cent).

How companies see their business situation correlates with the rate of late-paying partners. The proportion of partners that paid late was 13 per cent at companies that saw their situation as optimal. The rate was 19 and 24 per cent respectively at companies that saw their situation as tolerable and unfavourable.

Figure 2: The rate of late-paying partners and the rate of income that arrived beyond payment deadline, average, 2007–2020, N=256-408



Source: IEER 2020

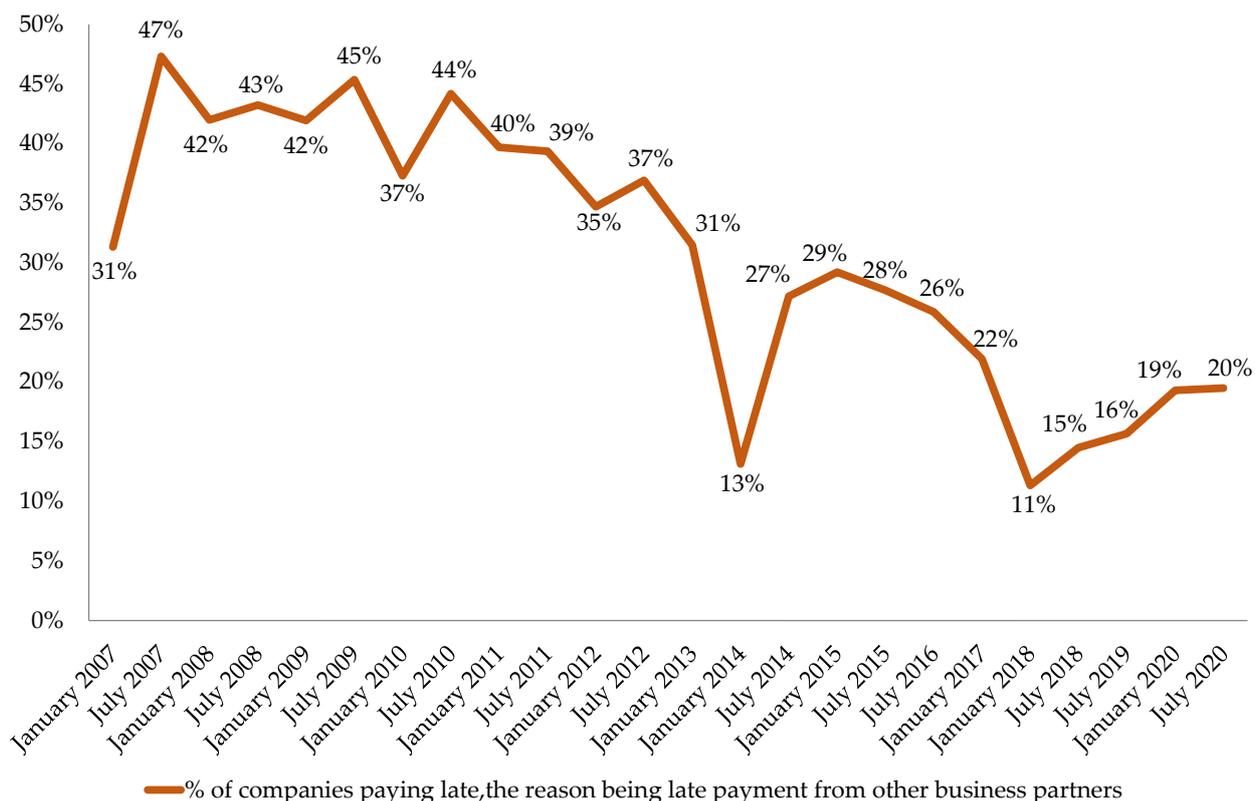
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The proportion of companies that failed to pay at least once to their suppliers in time due to the late payment of their customers increased by 4 percentage points. While the proportion of such companies had been 16 per cent in July 2019, and 19 per cent in January 2020, 20 per cent of respondents in July 2020 reported to have experienced at least one case in the previous year (see figure 3).

The rate of companies experiencing circular debt increased in all size groups, to the greatest extent among 250+ companies:

whereas in July 2019 only 4 per cent of them had been affected, the rate was up at 17 per cent as of July 2020. In other size categories, the rate of companies facing the issue of circular debt was between 17 and 22 per cent. 20 per cent of fully domestic companies and 17 per cent of (partly) foreign-owned companies reported that in the year before the survey was taken, they had encountered the problem of delayed payment to their suppliers as a result of circular debt. With respect to industry, miscellaneous economic service providers were the most heavily affected (23 per cent).

Figure 3: The proportion of companies which were late to pay at least once as a result of being paid late 2007–2020, N=296–417



Source: IEER 2020

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38 per cent of respondents reportedly owed money in the first half of 2020 at least once to at least one of their suppliers. This rate is 4 percentage points higher than that of July 2019 (34 per cent).

The severity of the problem caused by circular debt has not changed according to 50 per cent of respondents; 6 per cent said it had decreased and 44 per cent claimed that it had increased over the previous half. The rate of companies perceiving an increased severity of circular debt haven't been as high since January and July 2009, i.e. the survey periods

directly following the 2008 global crisis (46 and 47 per cent, respectively). Only a year ago in July 2019 the rate was a mere 9 per cent. The rate of 50–99 companies reporting negative tendencies was the lowest (40 per cent, with 13 per cent perceiving improvement), and that of 250+ enterprises was the highest (49 per cent). As far as economic sectors are concerned, miscellaneous economic service providers and players in the processing industry were the largest group to report that the problems caused by circular debt among their partners had become more severe (53 and 45 per cent respectively).

The economic effects of the COVID-19 pandemic amongst Hungarian enterprises – Capacity utilisation, liquidity, wages and consumer prices

HCIC’s Institute for Economic and Enterprise Research (IEER) recently examined the effects the COVID-19 pandemic exerted on the economy. This time, the main focus is on capacity utilisation, financial reserves and changes in salaries and consumer prices. Domestic and foreign sales prices were taken from IEER’s Business Climate Surveys taken in the previous 31 waves (2005–2020), while the rest of the data used in this paper originate from the most recent survey conducted by IEER in April 2020 involving 2891 Hungarian companies. Records were taken between 1 April and 30 April 2020, during the period of COVID-19–related restrictions, so first impressions of the pandemic and the ensuing economic lockdown had a profound impact on our results. The aim of IEER’s Business Climate Survey was to map the CEO respondents’ short-term expectations based on their subjective judgement and information available to them at the time the survey was conducted.

On 1st March 2020 the average capacity utilisation of Hungarian companies was 78 per cent. By April – the time the survey was taken – it fell by 23 percentage points to 55 per cent. To make matters worse, 12 per cent had suspended operations completely (capacity utilisation: 0 per cent), up from 4 per cent in March. In parallel to falling employee numbers,

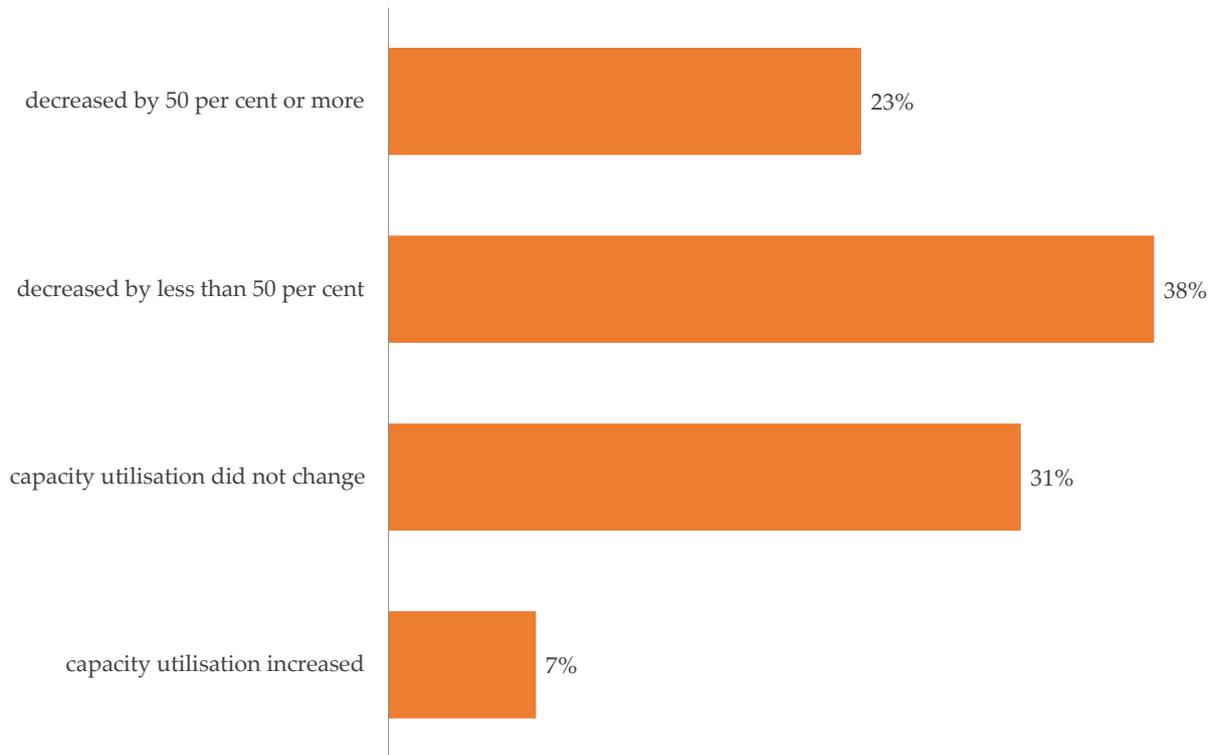
capacity utilisation has been going down at an accelerating rate, the fall most prominent among companies specialising in business services. Almost a quarter of the surveyed companies reported a 50 per cent or greater fall in capacity utilisation, and over one third struggled with capacity utilisation falling back by less than 50 per cent.

Table 1: Capacity utilisation on 1st March 2020 and in April 2020, per cent

	March 1.		April
N	2772		2786
Mean	78	-23	55
Median	85		60
Deviation	26		34
0%	4		12

Source: IEER 2020

Figure 1: Changes in average capacity utilisation, amongst enterprises in Hungary, 1st March – April 2020, per cent, N=2757

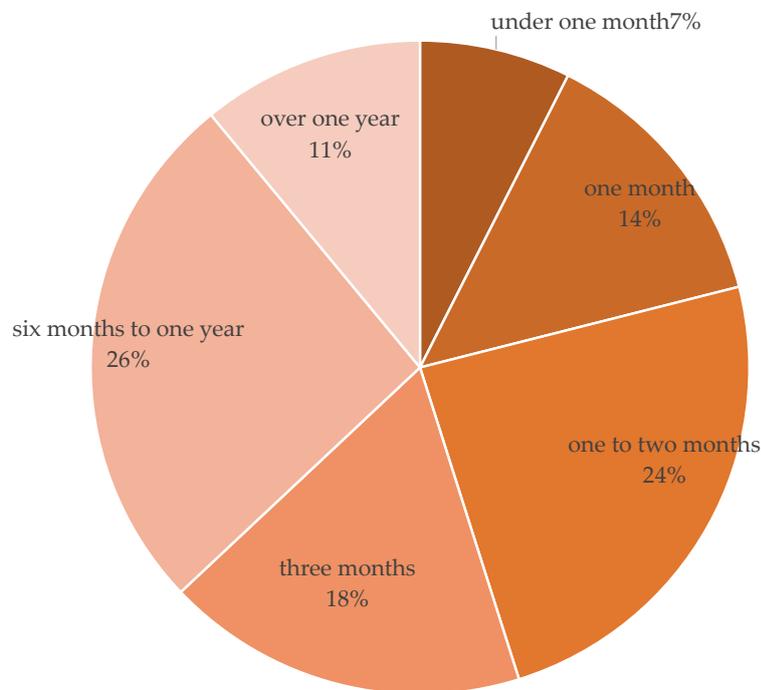


Source: IEER 2020

Focusing now on company liquidity, during the April lockdown a half of enterprises just had enough reserves to pay dues for a period of two months, and some two thirds had sufficient capital to cover dues for only three months, calculated with the capacity utilisation level recorded in April. Reserves

for maintaining employee numbers in case of a restriction such as the one imposed in April as a response to the pandemic followed a similar pattern: almost half of the companies had reserves for a maximum period of two months and two thirds had reserves for three months.

Figure 2.: Repayment periods of financial dues without using supplementary external sources, level of capacity utilisation at April 2020 levels, per cent, N=2541

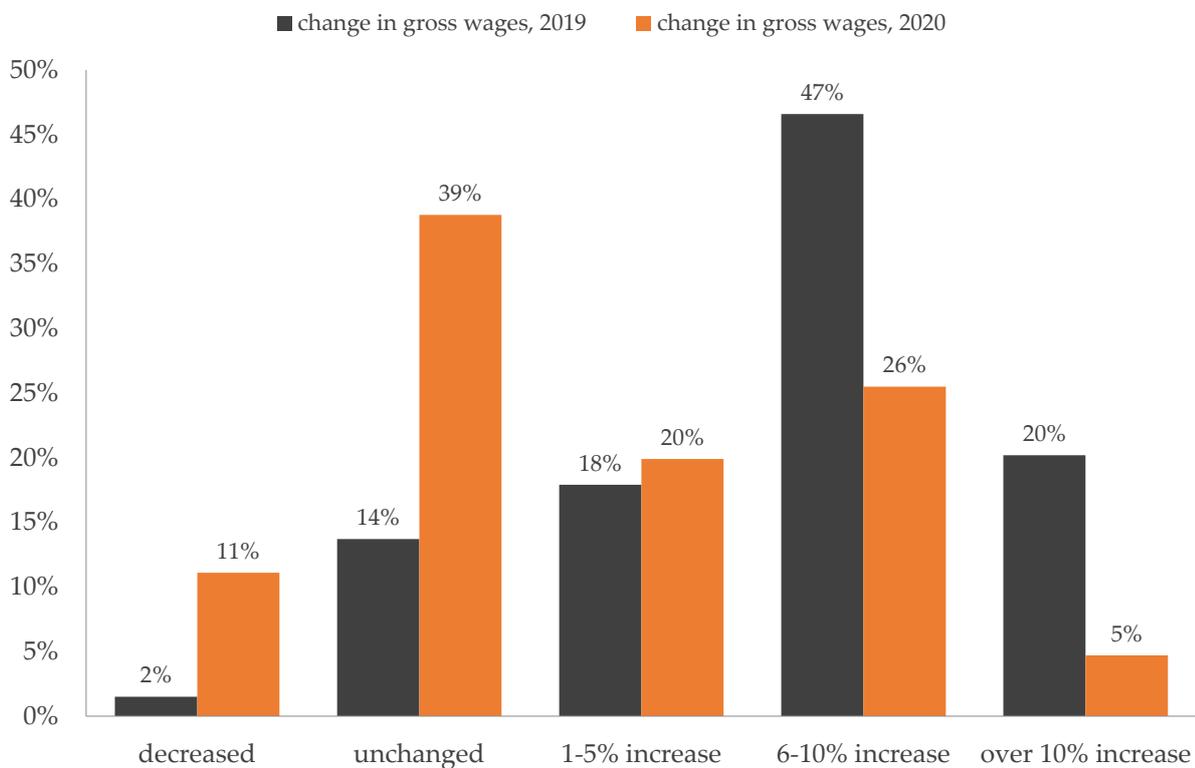


Source: IEER 2020

This year a significantly lower number of companies plan to raise gross wages (51 per cent) than in 2019 (85 per cent), at rates that are also lower than those planned in 2019. Only raises targeting the inflation rate (1–5 per cent) reached comparable levels (18 per cent in 2020, 20 per cent in 2019). In 2019 the rate of companies cutting wages was a meagre 2 per

cent, which is about to jump to 11 per cent by the end of the year judging by April 2020 data, and while the companies planning with a 6–10 per cent raise constituted a majority last year (47 per cent), in 2020 freezing salaries has become the most widespread strategy (employed by 39 per cent of businesses).

Figure 3: Changes in gross wages, 2019 and 2020, per cent, N2019=2698, N2020=2606

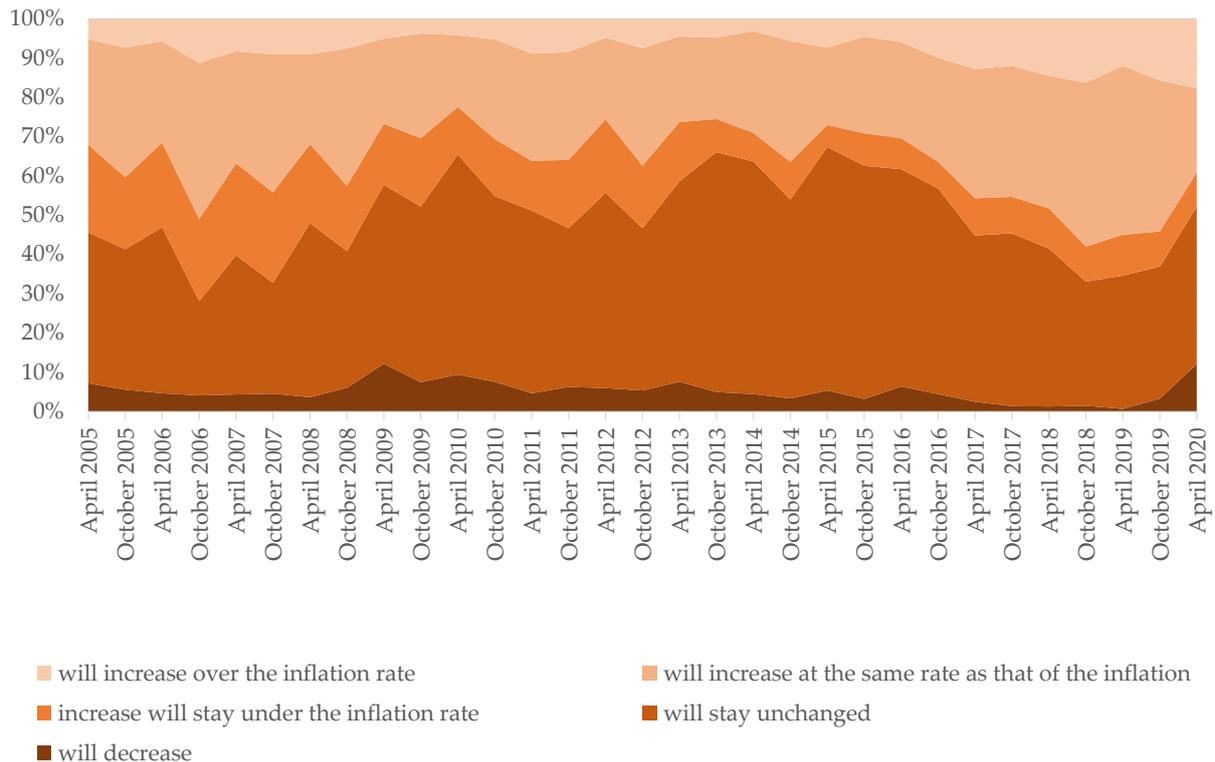


Source: IEER 2020

In April 2020 over one in every ten respondents were expecting domestic consumer prices to fall in the next half, as much as last seen in April 2009 right after the

onset of the global crisis. In addition, only some fifty per cent thought that prices would rise, which is the second lowest rate after that recorded in October 2016.

Figure 4: Companies' forecasts of changes in domestic consumer prices in Hungary in the half year to follow, April 2005 – April 2020, per cent



Note: April 2005: N=1753, October 2005: N=1196, April 2006: N=1311, October 2006: N=1251, April 2007: N=1374, October 2007: N=1184, April 2008: N=1084, October 2008: N=1379, April 2009: N=1368, October 2009: N=1315, April 2010: N=1582, October 2010: N=1788, April 2011: N=1743, October 2011: N=1853, April 2012: N=2464, October 2012: N=3082, April 2013: N=3383, October 2013: N=3396, April 2014: N=2518, October 2014: N=2751, April 2015: N=3246, October 2015: N=3268, April 2016: N=2884, October 2016: N=2620, April 2017: N=3028, October 2017: N=2825, April 2018: N=3011, October 2018: N=2644, April 2019: N=2651, October 2019: N=2083, April 2020: N=2457

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	(September)	6.3%	6.4%	6.4%
Germany	Manufacturing Purchasing Managers Index	(September)	56.4	56.6	52.2
	IFO Business Climate Index ¹	(September)	93.4	97.7	92.6
France	INSEE Business Climate Index ²	(September)	92.4		90.4
	Unemployment Rate	(September)	7.9%	8.2%	8.4%
USA	CB Consumer Confidence Index	(September)	101.8	89.2	84.8
	Manufacturing Purchasing Managers Index	(September)	53.2	53.5	53.1
China	Manufacturing Purchasing Managers Index	(September)	51.5	51.2	51.0

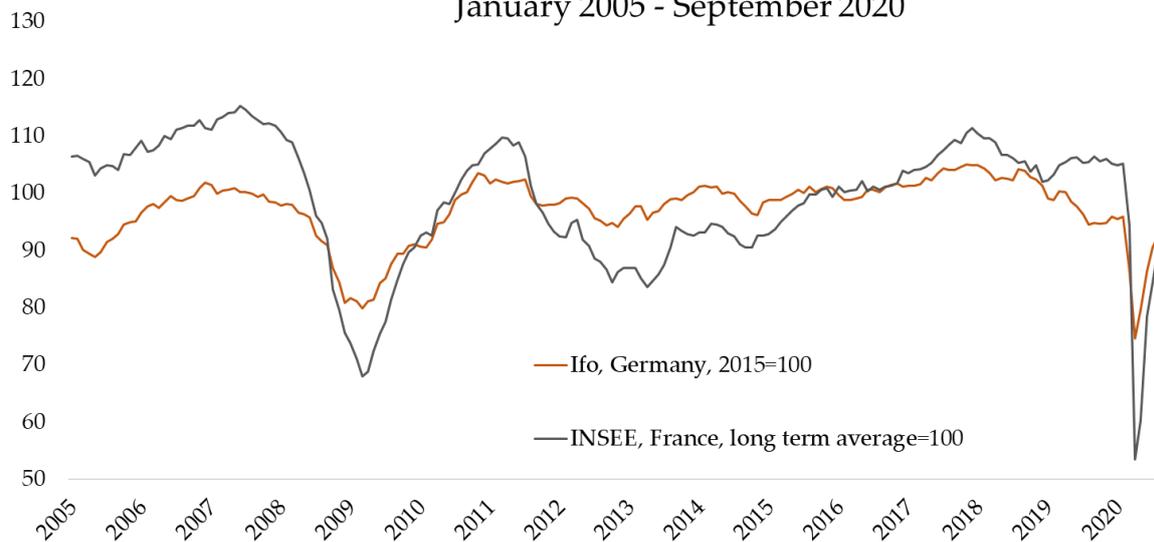
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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 increased, compared to last month. The manufacturing purchasing manager index (PMI) has also demonstrated an increase, but it performed slightly worse than expected. Unemployment rate improved slightly for Germany. The French INSEE business climate index increased compared to last month. In the United States, the CB consumer confidence index demonstrated a significant increase compared to the month prior, and it performed better than expected. The manufacturing PMI remained virtually the same compared to previous month in the USA. The unemployment rate has decreased compared to last month. The Chinese manufacturing PMI increased compared to previous period.

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



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

Contact

Address: MKIK GVI
1054 Budapest, Szabadság tér 7.
Tel: 235-05-84
E-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

Dániel Bacsák, analyst, MKIK GVI
Ágoston Horváth, analyst, MKIK GVI
Katalin Tóth, analyst, MKIK GVI

Research manager:

Fruzsina Nábelek
Managing director, MKIK GVI

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