



Late payment and circular debt as experienced by Hungarian companies, 2021 first half

HCIC's Institute for Economic and Enterprise Research (IEER) has analysed the experiences of Hungarian businesses with late payment and circular debt. The analysis is based on the quarterly business climate survey conducted by IEER in July 2021. We asked 350 leaders of companies employing at least twenty people about late payment and circular debt in their experience.

HCIC's Institute for Economic and Enterprise Research (IEER) has analysed the experiences of Hungarian businesses with late payment and circular debt. The analysis is based on the quarterly business climate survey conducted by IEER in July 2021. We asked 350 leaders of companies employing at least twenty people about late payment and circular debt in their experience.

What the results tell us is that 64% of all companies had at least one late-paying partner in the first half of 2021. 26% reportedly owed their suppliers, and 14% were unable to pay at least once in the researched period for the reason of a partner not having been able to pay them. The problem of late-paying partners most commonly hit fully domestic companies (69%) and trading companies (69%), while circular debt was more common with 250+ companies (33%), providers of other economic services (31%) and (partially) foreign-owned companies (31%). In general it can be concluded that while the number of companies experiencing late payment increased by 2 percentage points since January 2021, the number of companies

indebted to their suppliers and those encountering the problem of circular debt decreased by 12 and 3 percentage points, respectively. Compared to the half before January 2021, the problem of circular debt became more severe according to 23% of respondents, which is a lower rate than the one recorded in the previous period (35%), but higher than in July 2019 (9%).

64% of the companies enquired had a business partner in the first half of 2021 that was late with payment multiple times. In January 2020 the rate was 62%, down from 65% in July 2020 and 68% in January, so the downward tendency in experiencing late payment came to a halt. However, compared to the period before, the rate of companies experiencing late payment from more than a half of their partners decreased further: July 2020 – 9%, January 2021 – 8%, July 2021: 6% (see Figure 1).

There was a significant difference with regard to company size: while 8-9% of 20-49 and 50-99 companies experienced that over a half of their partners were paying late (almost the same rate as in July 2020), the rate was only 3% with 100-249 companies and only 1% with 250+

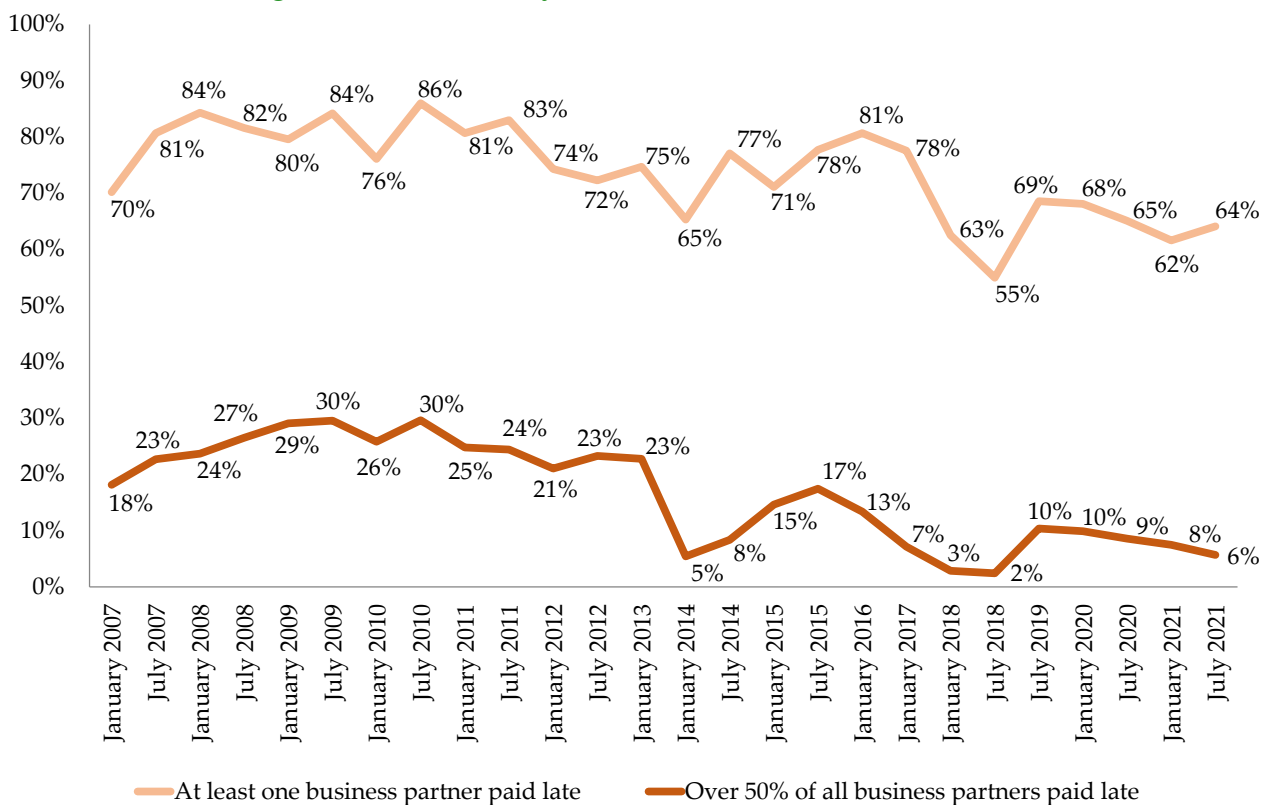
companies, down from 6-7% early this year. 56% among 50-99 companies and 54% among 250+ companies. It should also be noted, however, that this time 35-37% of companies in all size categories did not experience late payment.

As for sectors, trading companies were still the most exposed to the issue, with 69% having done business with at least one late-paying partner, that is 5 percentage points less than half a year ago. Late payment became considerably more frequent among service

providers, their rate of 54% in January 2021 now up at 65%, and the same sector reported at the greatest rate (7%) that over a half of their partners had paid late over the previous six-month period.

As far as ownership structure is concerned, 69% of fully domestic companies had at least one late-paying partner, a higher rate than that in the (partially) foreign-owned group (52%). The difference between them grew significantly – the 9 percentage points recorded in the previous half is now up at 17.

Figure 1: The Quarterly Business Climate Index, 2010. 01–2021. 07.

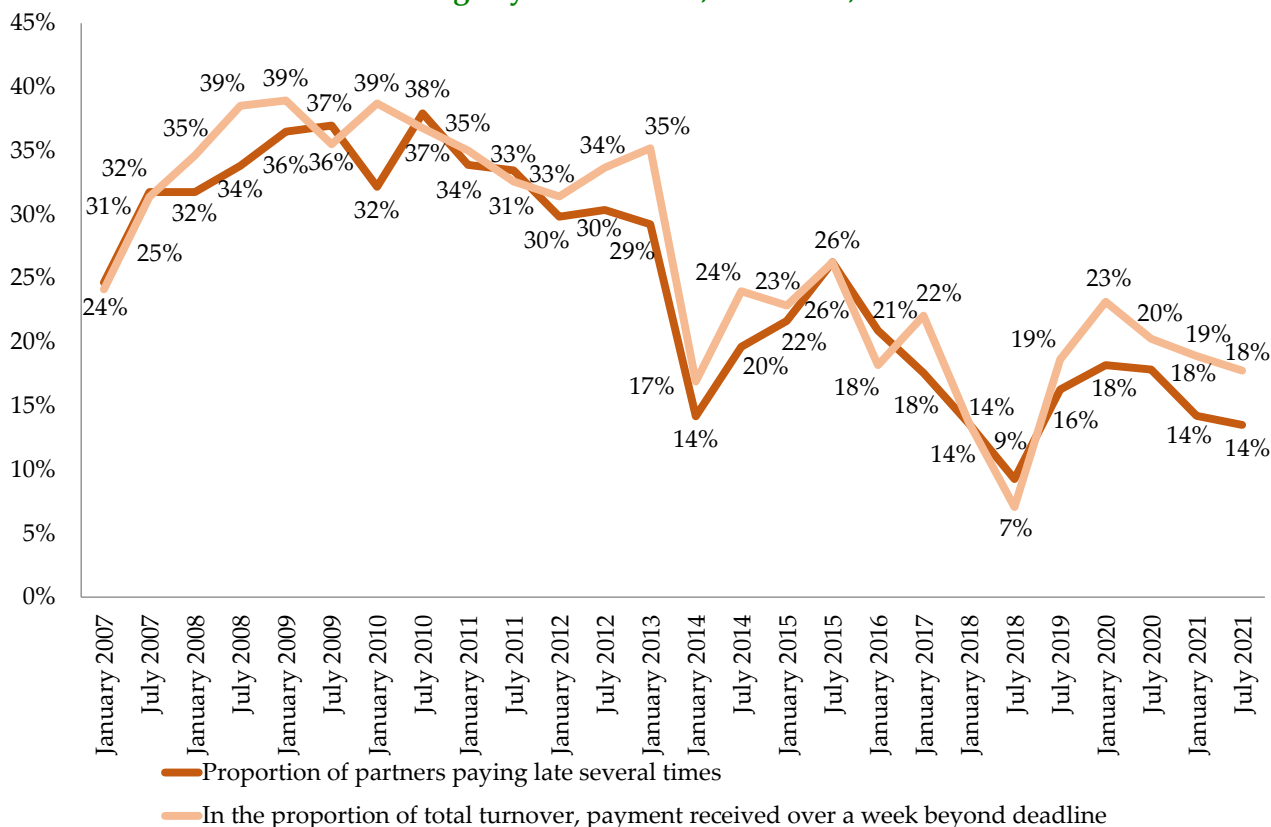


Source: IEER 2021

On average, 14% of our respondents' business partners paid late more than once, which is the same rate measured in January 2021, while payments flowing in beyond payment deadlines accounted for 18% of total sales, a 1 percentage point drop compared to previous half figures (see Figure 2). Results have shown

that despite continuous downward tendencies going on for four consecutive halves, businesses have still had more late-paying partners on average than in July 2018, and have received a larger part of their revenues late.

Figure 2: Average rate of partners paying late¹ and the average proportion of payments arriving beyond deadline, 2007–2021, N=256-408



Source: IEER 2021

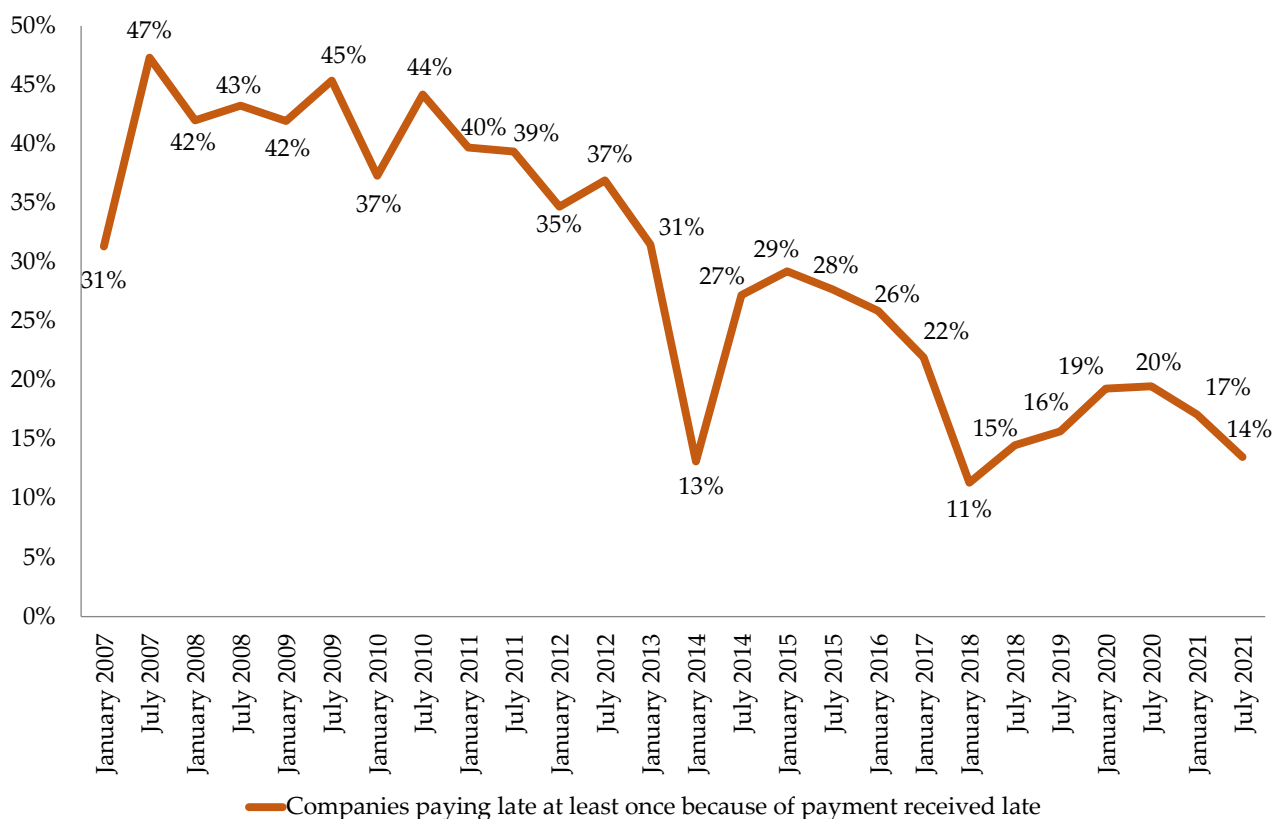
The rate of companies that were, at least once, unable to pay in time to their suppliers due to their customers' paying late dropped 3 percentage points, to 14%, continuing the downward trend set in July 2020: then the rate was 20%, whereas in January 2021 only 17% of companies reported to have experienced circular debt issues during the year (see Figure 3).

100–249 companies experienced circular debt the least commonly (10%), while in all the

other size categories the rate was between 14 and 16%. 15% of fully domestic companies and 11% of (partially) foreign companies reported that they had failed to pay in time because of a circular debt issue in the year before the survey was taken. As for sectors, processing companies were the most likely to have circular debt issues (16%), while the rate of affected construction companies dropped to 12% from the 23% measured in the previous half.

¹ The total number of partners paying late and the sum/rate of outstandings do not follow from the average rates, since those depend on the number of business partners on the one hand, and on the total turnover on the other.

Figure 3: The rate of companies paying late at least once because their customers did not pay on time, 2007–2021, N=296-417



Source: IEER 2021

In the first half of 2021, 26% of our respondents admittedly owed at least once to one or more of their suppliers – this rate is 12 points lower than in January 2021. According to July 2021 data, late payment was the most common with 250+ companies (33%), which, although still a high rate, is well below the rate in the previous half (52%). It occurred to 18% of 20–49 companies, 28% of 50–99 companies and 26% of 100–249 companies that they owed money to their suppliers. **Taking a look at ownership structure we can see a considerable, 10 point difference between fully domestic and (partially) foreign companies (23% and 33% respectively).** As for sectors, the lowest rate of companies owing at least once to their suppliers was in the construction industry (16%), which is a significant drop compared to data recorded in

the previous half, 40%. There was a 20 point drop in trade, too, this time 19% of trading companies reported to have had debt towards their suppliers (January 2021: 39%). The respective rates in the processing industry and the economic service sector were 29% and 31%.

The severity of circular debt issues remained unchanged according to 67% of respondents. 9% claimed they had become less serious, and 23% said they had become more serious over the past six-month period. The rate of businesses perceiving growing severity in the circular debt issue was 35% in January 2021 and 44% in July 2020 – similar rates were measured only in January and July 2009 (46% and 47% respectively) and in July 2012 (38%). In July 2019 the rate was as low as 9%. So the perception of companies did not entirely

follow the indices of late payment and circular debt, however, it needs to be noted that the rate of the answer „I do not know” was the highest for this question (24%).

250+ companies were the least prone to feel a negative tendency (21%), however, only 6% of them felt that the situation improved. A higher rate, 10% of 20-49 companies felt an

improvement with 22% feeling deterioration. Trading companies were the least common to report that the problems caused by circular debt became graver (19%), the rate for other sectors was between 23% and 26%. At the same time, a quarter of construction companies told us that the problem had become less severe.

Hungarian companies: bankruptcy risk, loan repayment moratorium and external financing

July 2021

This analysis compiled by HCIC's Institute of Economic and Enterprise Research (IEER) focuses on companies' opinions concerning bankruptcy risk, the loan repayment moratorium and external financing sources. The data used to make the analysis were recorded during the latest quarterly business climate survey IEER conducted in July 2021, which involved 350 CEO respondents of companies employing at least twenty people. The results can be considered representative as far as gross added value² and the distribution of the number of registered companies³ are concerned, regarding company size and sector.

Companies' perceptions concerning bankruptcy risk

In the course of assessing bankruptcy risk we asked CEOs to tell how probable they deemed **their competitors in the same sector to quit the market or suspend their activity in the upcoming six months. Most of the companies (55 percent) think that it is not probable at all, and only 7 percent expect the opposite (5 percent: probable, 2 percent: highly probable).**

CEOs expecting rivals to leave the market think that on average 15 percent of their competitors will do so. As far as sectors are concerned, processing companies were the least expecting their rivals to quit the market, while trading companies and construction companies forecast the highest dropout rate.

Resorting to external financing sources

In July 2021, 79 percent of 20+ companies had to resort to external financial sources to operate. This rate is higher than the average in the processing and trading sector (87 percent) and lower among construction companies and service providers (72 percent). Besides, fully domestic companies (80 percent), non-exporters (75 percent) and minor exporters (87 percent) tend to resort to external sources at a higher rate than foreign-owned companies (60 percent) and major exporters (70 percent).

market players (e.g. current account, asset or investment credit, leasing etc.). **38 percent of businesses took to options backed by the government** (e.g. government subsidies, reduced contributions, products from the Széchenyi Card Credit Programme, NHP loan etc.).

65 percent of the companies concerned applied for financing products available from

Among businesses using external sources **larger companies tend to look for free market solutions (54 percent) as opposed to 20-49. Construction and trading companies tend more to find external sources in the market (75 percent and 77 percent, respectively) than**

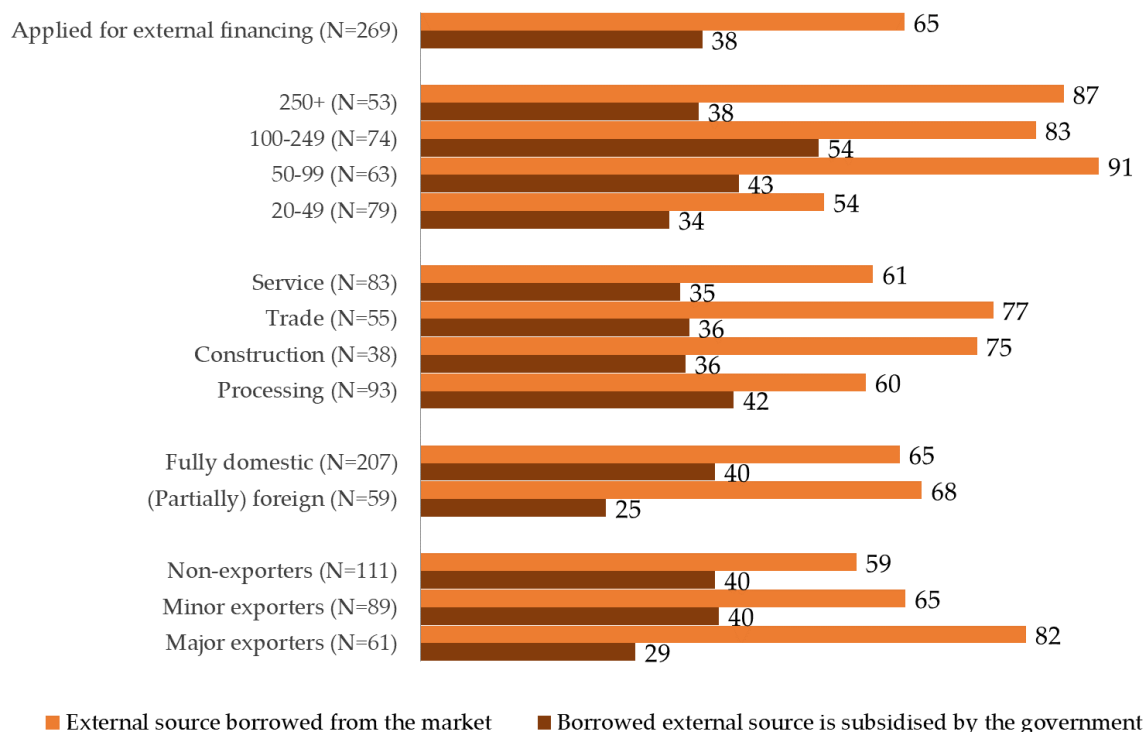
² When bankruptcy risk and loan conditions are examined.

³ When companies' resorting to external financing sources and loan repayment moratorium are examined.

processing companies and service providers (60 percent and 61 percent, respectively). Major exporters usually borrow from the

market (82 percent), while minor exporters and non-exporters are considerably less reliant on it (65 percent and 59 percent, respectively).

Figure 1: External financing sources borrowed from the market and the government, percent



Note: Rates refer to companies using external financing sources.

Source: IEER 2021

External financing with government support was mostly chosen by medium-sized companies (54 percent used such sources), while 20-49 companies were the least likely to take on sources subsidised by the government (34 percent). **Processing companies tended to borrow from the government more often (42 percent)**, than companies in the other three

sectors (construction: 36 percent, trade: 36 percent, service: 35 percent). Borrowing from government sources was also more popular with **fully domestic companies (40 percent), minor exporters and non-exporters (40-40 percent)** than with companies of (partial) foreign ownership (25 percent) and major exporters (29 percent).

Eligibility and application for a loan repayment moratorium

In July 2021, 14 percent of 20+ companies applied for a loan repayment moratorium introduced to alleviate the effects of the coronavirus pandemic. A further 9 percent, having benefited from it earlier, quit the moratorium. 36 percent of CEOs reported that their companies were not eligible for the moratorium. 40 percent, although they were eligible, did not apply.

CEOs of large companies were the group that reported at the highest rate not to have been eligible for a loan repayment moratorium (47 percent), however, theirs was also the group that applied for the moratorium the most frequently once they were eligible (12 percent still benefit from it, 18 percent quit). About a fifth of 20–49 and 50–99 companies and a third of 100–249 companies used or still use the moratorium, but in these company size categories 35–40 percent of businesses were not eligible for application.

Opinions about loan conditions

According to the majority of 20+ companies (57 percent) the terms and conditions of taking out a loan have not changed since 2021. 26 percent claim that credit has become easier, and according to 9 percent it has become much easier than in 2020. A further 9 percent of company CEOs feel that taking out a loan has become more difficult.

Regarding this question, the sectors of trade and service are the most divided. 12 percent of traders and 5 percent of service providers think that the terms compared to 2021 have become stricter, while according to 42 percent of them there has been easier credit recently (15 percent: much easier). 11 percent of service providers

The loan repayment moratorium has been the most popular with processing companies (32 percent did, 22 percent still do), while construction companies favoured it the least (8 percent). The rate of processing companies not eligible for a moratorium was 42 percent, the highest across the board, followed by the service sector (40 percent) and construction businesses (37 percent). The number of companies eligible but choosing not to apply was highest in the construction sector (55 percent), and trade (51 percent).

The loan repayment moratorium was mostly chosen by fully domestic companies - 16 percent of them still benefit from it and 10 percent gave it up at some point. In the meantime, 57 percent of (partially) foreign-owned companies were not even eligible for the moratorium. Exporters tended to apply for the moratorium more frequently (26 percent of minor exporters and 32 percent of major exporters) than non-exporters (18 percent).

say that conditions have become harder, and 37 percent say they have become easier. Two thirds of construction and processing companies report that conditions are the same as they were last year, and the remaining third claim that taking out a loan has become easier.

For 2022 the majority of companies expect that the terms of taking out a loan will not change (51 percent), but the rate of companies that expect stricter loan conditions for the forthcoming year increased compared to the previous few periods (July 2021 – 22 percent, October 2020 – 16 percent).

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)	5.5%	5.4%	5.5%
Germany	Manufacturing Purchasing Managers Index	(September)	58.4	58.5	62.6
	IFO Business Climate Index ¹	(September)	98.8	97.3	99.4
France	INSEE Business Climate Index ²	(September)	111.5		110.1
	Unemployment Rate	(September)	4.8%	5.1%	5.2%
USA	CB Consumer Confidence Index	(September)	109.3	114.5	113.8
	Manufacturing Purchasing Managers Index	(September)	60.7	60.5	61.1
China	Manufacturing Purchasing Managers Index	(September)	49.6	50.1	50.1

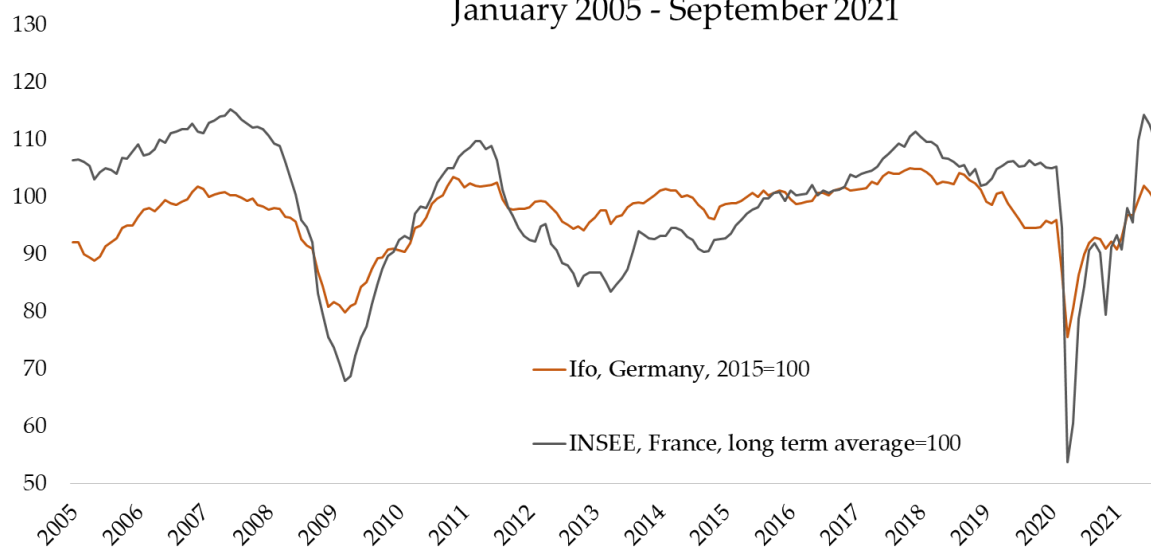
¹ <https://www.ifo.de/en/survey/ifo-business-climate-index>

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

The rest of the data source: <https://www.bloomberg.com/markets/economic-calendar>

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

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - September 2021



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
Katalin Tóth, analyst, MKIK GVI

Research manager:

Fruzsina Nábelek
Managing director, MKIK GVI

In case of publication please cite as follows:

HCCI-IEER: Monthly Economic Bulletin,
September 2021, Budapest,
2021-10-13