



Late payments and debt queues among Hungarian companies

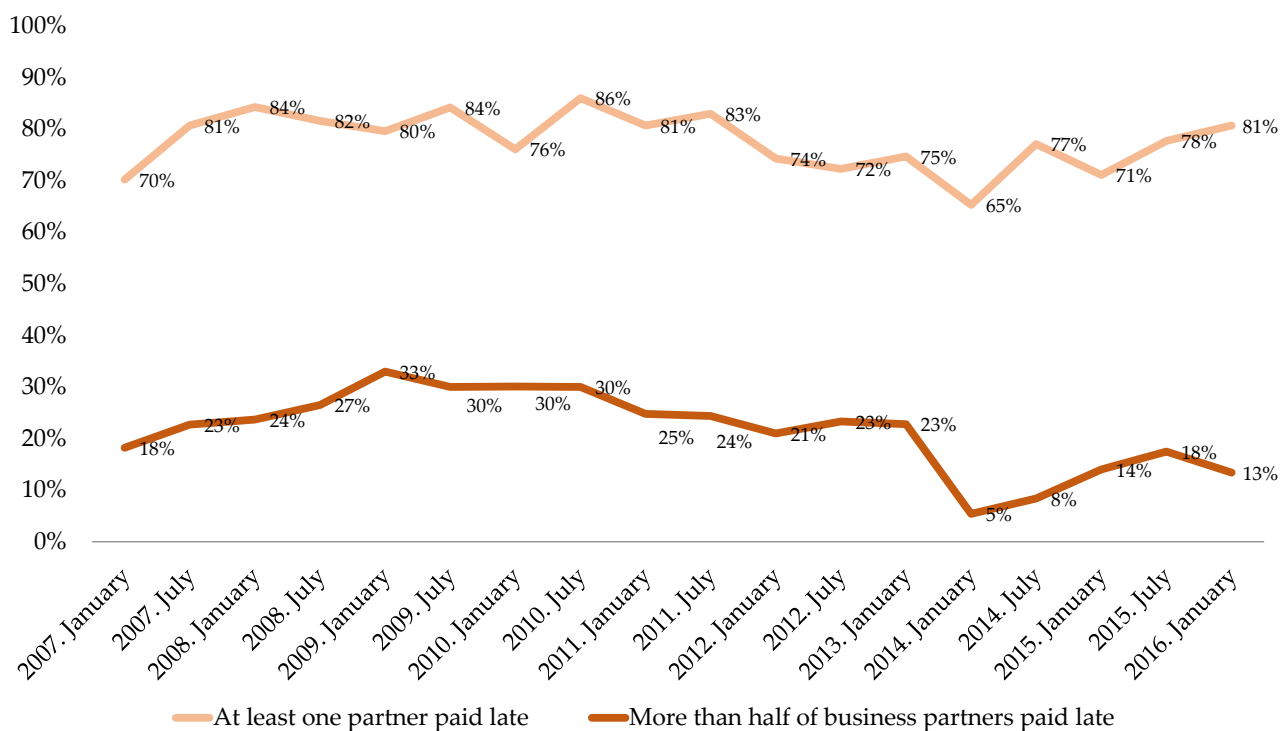
A recent analysis from the Institute for Economic and Enterprise Research (IEER) of the Hungarian Chamber of Commerce and Industry (HCCI) examined the experiences of late payment and debt queues of domestic enterprises. The results are based on data from the IEER January 2016 Quarterly Business Climate Survey during which we asked 400 domestic enterprises about the topic. The results show that 81% of businesses had at least one business partner that paid late in 2015, while 45% of respondents themselves owed to their suppliers at least once in the period under review. The highest proportion of late payments was among small businesses and the construction sector. From the combined results of the last few years, though, it appears that the situation of companies in terms of late payments has improved: the number of business partners paying late has declined on average as well as the amounts outstanding. The proportion of companies that could not pay their suppliers on time at least once because of a late payment by their customers is also in decline.

Within the framework of the January quarterly business climate survey from the HCCI Institute for Economic and Enterprise Research (IEER), the institute interviewed 400 domestic companies about the topic of late payments and debt queues. Below are presented the results for January and the subsequent changes in comparison with previous years.

The majority of companies surveyed (81%) had at least one business partner which in the

second half of 2015 paid late several times, representing a slight increase compared to previous years. At the same time however the proportion of firms with more than half of their business partners paying late has decreased: in January 2016 it was 13% of companies, in July 2015 it was 17%, while a year ago 14% of respondents reported this (see figure).

Proportion of firms experiencing late payments, 2007-2016

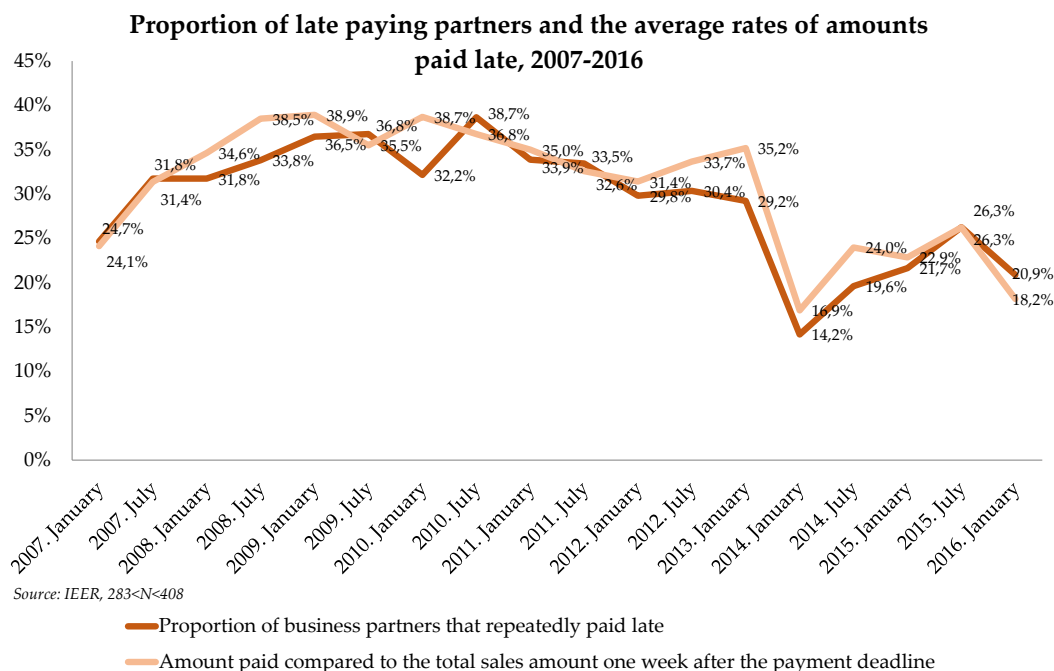


Source: IEER, 283<N<408

The scope of the companies concerned were similar than in previous years. The companies most affected were small businesses with less than 50 employees, 86% of which was associated with a partner who paid late. Looking at the data by sector, it can be said that among the surveyed companies the most affected are engaged in construction or retail. On average 27% of partners paid late on more than one occasion in the case of the former while for the latter it was 21%. In addition, the results show that in the case of purely domestic-owned firms the rate of late paying business partners were on average higher (22%) than for partly foreign-owned (14%) and purely foreign-owned (19%) companies. For those companies with a negative assessment of their current and expected business situations

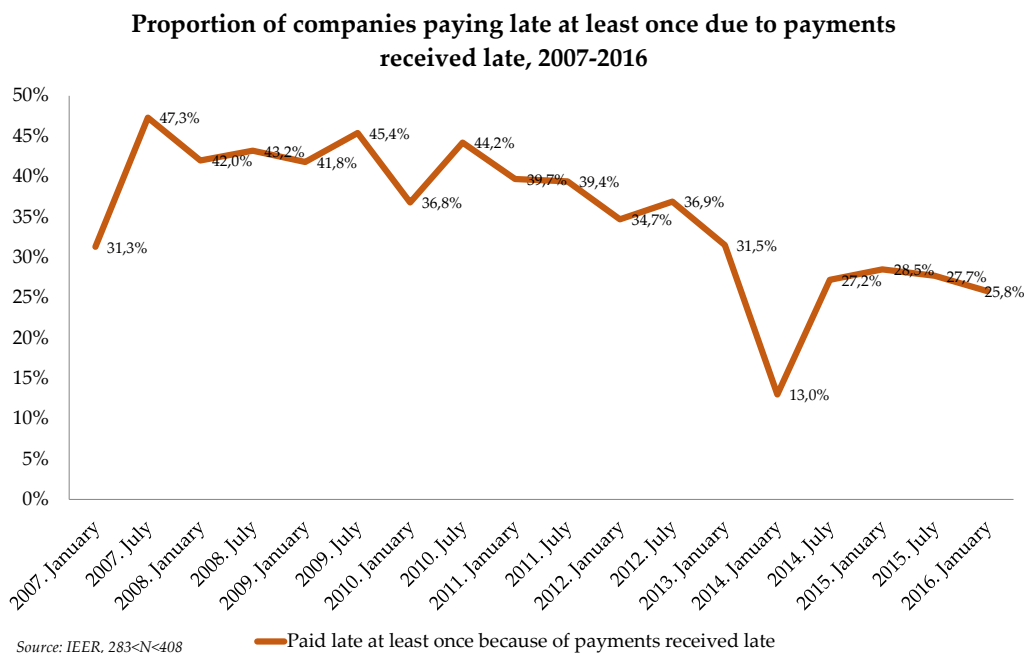
the proportion of late paying partners was on average higher (34% and 43%) than those companies with a satisfactory (21% and 23%) or good (23% and 17% respectively) current and future business situation assessment.

For 80% of the companies surveyed, a part of the payments for a product sold was received more than a week after the due date, with companies affected having 32% of the total amount of the sale paid late on average. Looking at all respondents it can be said that on average 21% experienced late payments with their partners, while the proportion of amounts paid beyond the deadline compared to the total sales amount was 18%, which represents a decrease in the last two years, particularly in the case of the recent indicator.



The proportion of companies that could not pay their suppliers on time at least once due to a late payment by customers has also declined. While the number of these firms was 29% a year ago, in July 2015 it was 28%, and in January 2016 some of 26% of businesses reported that such a case occurred during the previous year (see Figure 3). The ratio of

companies within a debt queue is significantly lower for large corporations at 13%, while for SMEs it was 33% and among small businesses it was 45%. In terms of economic sector the construction industry had the highest proportion of companies unable to pay on time because a late payment of their business partners (33%).

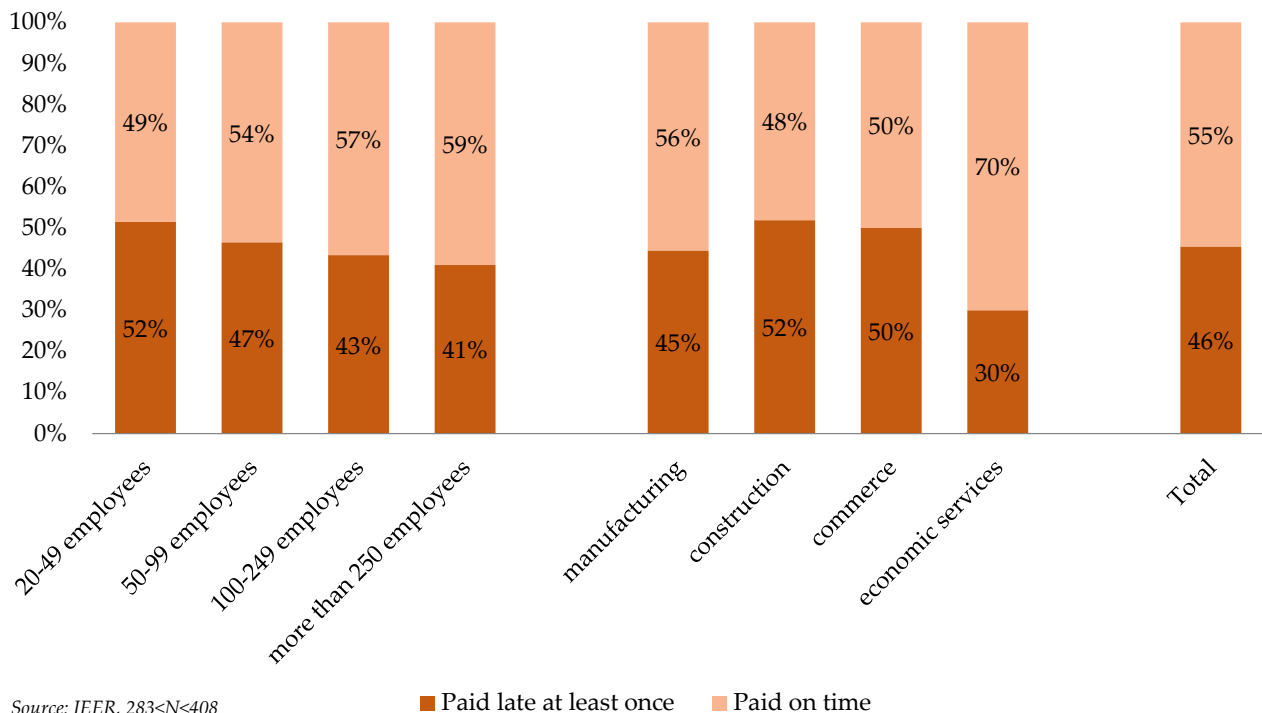


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Over the last half year 45% of companies surveyed experienced at least once that they were unable to pay their suppliers on time while an year ago this rate was similarly 44%,

and in July 2015 it was slightly better at 41%. In this case also the rate was relatively higher for small enterprises and among construction companies (see Figure 4).

Proportion of companies paying late and paying on time by number of employees and economic sector in the last half year, 2016 Jan



The severity of the debt queue problem in the three-month period prior to the survey was unchanged according to 55% of respondent companies, 12% said that it decreased, while 7% said it increased. The proportion of companies reporting that the debt queue

problem has worsened has overall decreased compared to those experienced in the last year (in January 2015 it was 10%, and in July 2015 it was 15%). The problem is perceived worse among SMEs and among the companies with a negative assessment of their business situation.

The expected impact of Brexit on the Hungarian economy

The result of the June 23th United Kingdom referendum shocked the world. The sudden drop in the exchange rate of the British Pound on the following days supports this very clearly. In the following brief analysis we describe potential effects of Brexit that may have an impact on Hungary in the medium term. In our work we summarize the conclusions of the Hungarian and international literature related to the UK's withdrawal from the European Union. The most obvious result of the referendum so far is the financial and political uncertainty that is dominating Europe. Another effect may be a significant decline in the Hungarian Gross Domestic Product in 2016 and the next few years.

The exit process is a long legal and diplomatic procedure that may take several years, which is why we cannot draw exact and quantifiable conclusions yet. However, estimations can already be provided. In the following we describe how the UK's withdrawal might affect the Hungarian

economy and society. We discuss the future of the EU subsidies available for Hungary, the British-Hungarian trade, the situation of the Hungarian workers in the United Kingdom, and the future of the British investments in Hungary.

EU subsidies

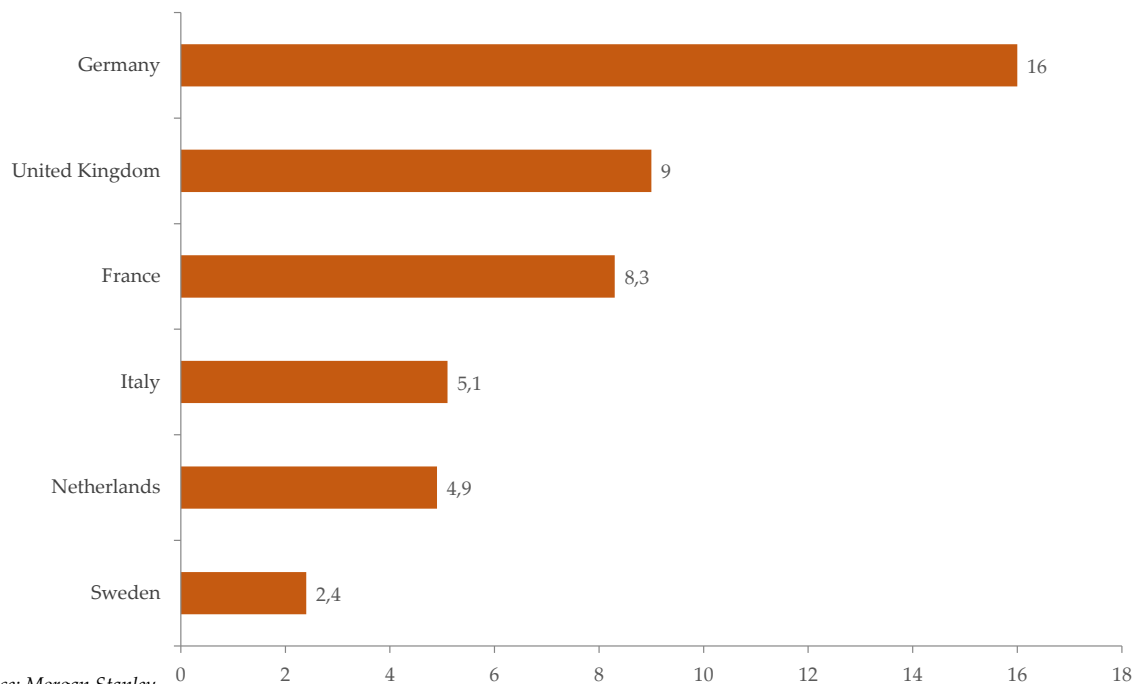
Changes in the available European Union Funds may have the biggest impact on Hungary. This is not expected to appear in the current EU budget period, but we cannot ignore it on the long run.

why the Hungarian economy may be vulnerable to a decrease in the subsidies. Unfortunately, the reduction of the EU funds seems more likely than the raise of the inpayments.

The United Kingdom had been one of the most significant contributor of the EU (second after Germany), so there will be a deficit in the EU budget after they leave. It is not clear yet, weather the problem will be solved by increasing the remaining net contributors' payments, or by reducing the beneficiary countries' subsidies. EU funds available for Hungary make up 4% of the gross domestic product, which is the second highest value in the region. This is

Sensitivity to the EU subsidies could be observed in Hungary in the beginning of 2016: The first quarter of 2016 was the first time for 3 years when the quarterly GDP fell compared to the previous quarter. A main reason for it was the fact that Hungary was not able to pull money from EU funds as quickly as expected. An actual decrease in the subsidies would probably have even more serious negative effects on the Hungarian economy.

Main contributors to the EU budget, 2016-2022 (billion euros)



Source: Morgan Stanley

Trade relations

Another major issue is how the United Kingdom's exit changes the commercial relations. Being a small open economy, Hungary is vulnerable to the development of foreign trade. At the beginning of 2016 1.9% of the import came from the United Kingdom, while 4% of the exports went there.

Of course Brexit does not mean that the trade will totally stop between Hungary and the UK, but it will be affected by the exit process. And although the data show that this is not our most important commercial relation, the withdrawal of the UK can indirectly have an impact on Hungary's other foreign trade relations.

Exchange rates and investments

An immediate and robust consequence of the result of the referendum was the fall in the British Pound against the other major currencies. From Hungary's point of view, it has positive effects on the import, but raises the costs of the export. Since the latter is more significant (both in volume and value), the weakening of the pound has impacted the Hungarian economy negatively in total. The fluctuations of the

exchange rates might affect the British foreign direct investments in Hungary. The amount of the capital coming from the United Kingdom to Hungary is not outstanding in comparison to the other countries in the region, but a change of 1-1.5 percentage points may influence the value of certain indicators (e.g. GDP) significantly.

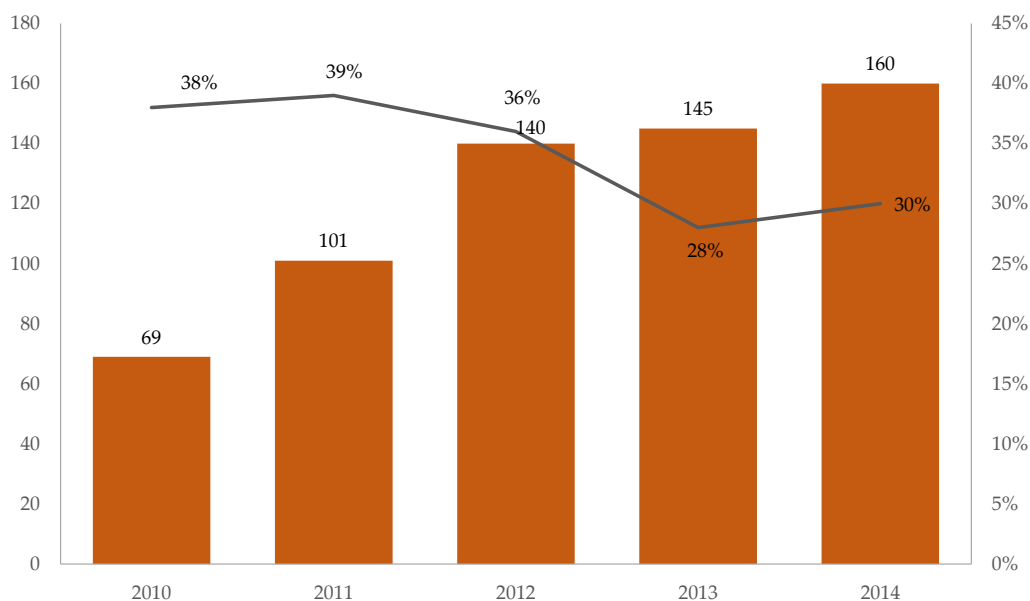
Hungarian workers in the United Kingdom

We also should take into consideration the situation of the Hungarians who are employed in the UK. According to Eurostat, there were 87 thousand Hungarian citizens living in the United Kingdom, which does not include students and those whose stay in the UK is temporary. Since these workers are needed and most of them are employed in sectors that are struggling with labor shortage, it seems to be unlikely that they would be expelled from the United Kingdom. However, tightening up work permit conditions significantly is expected. Hostility against immigrants in the UK probably played an important role in the

referendum result, and it is directed against workers from the EU as well as people from the other parts of the world. Hungarian workers typically became members of the British labor unions, which might limit their opportunities to enforce their interests.

Approximately one third of the Hungarian remittances comes from the United Kingdom. Between 2010 and 2013 this rate dropped by 10 percentage points, but in the absolute data there is a dynamic upward trend. As a result of Brexit a decrease in the relative measure and the stagnation of the absolute value is expected.

Remittances coming from the United Kingdom to Hungary



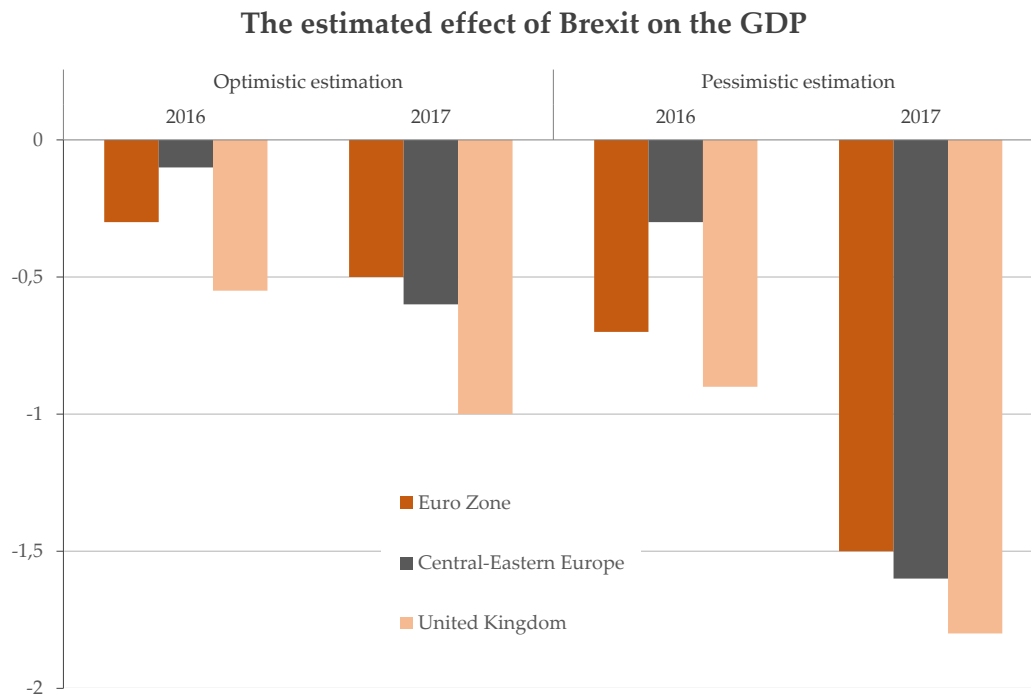
Source: Eurostat, Central Statistical Office of Hungary

■ Remittances from the United Kingdom, million Euros
— Remittances from the United Kingdom, proportion of total remittances

Summary

The effects explained above are likely to be detected in the evolution of the GDP data in the next few years. Morgan Stanley's estimation to its extent is shown on the chart below. MS modified its forecast of the 2016 Hungarian GDP growth from 3% to

2.4% due to the result of the referendum, so they expect that the effect of Brexit on the Hungarian economy will be stronger than that on the other Central-Eastern European countries.



Source: Morgan Stanley (2015)

Currently, the source of most of the negativities related to Brexit is the uncertainty about the future. Doubts cause tension in business (like fluctuating stock prices) and passivity in the field of investments. It also can obstruct Hungary's credit rating upgrade. This is why our investment rate, which is considered low even in the region, is not expected to increase in the foreseeable future. For

mitigating the adverse effects of the current uncertainty a British decision making body would be needed, which is able to represent a strong position in the main issues. Unfortunately we are likely to have to wait for this until the autumn. It is also unclear whether the observed effects of Brexit on the economic system are temporary or permanent.

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)	(Jul)	-7	-3	-6
	Manufacturing Purchasing Managers Index	(Jul)	53.7	53.5	54.5
	Ifo Business Climate Index ¹	(Jul)	108.3	107.5	108.7
France	INSEE Business Climate Index ²	(Jul)	103	101	102
USA	Philly Fed Employment	(Jul)	-1.6		-10.9
	CB Consumer Confidence Index	(Jul)	97.3	95.9	97.4
	Manufacturing Purchasing Managers Index	(Jul)	52.9	51.6	51.3
China	Manufacturing Purchasing Managers Index	(Jul)	49.9	50.0	50.0

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

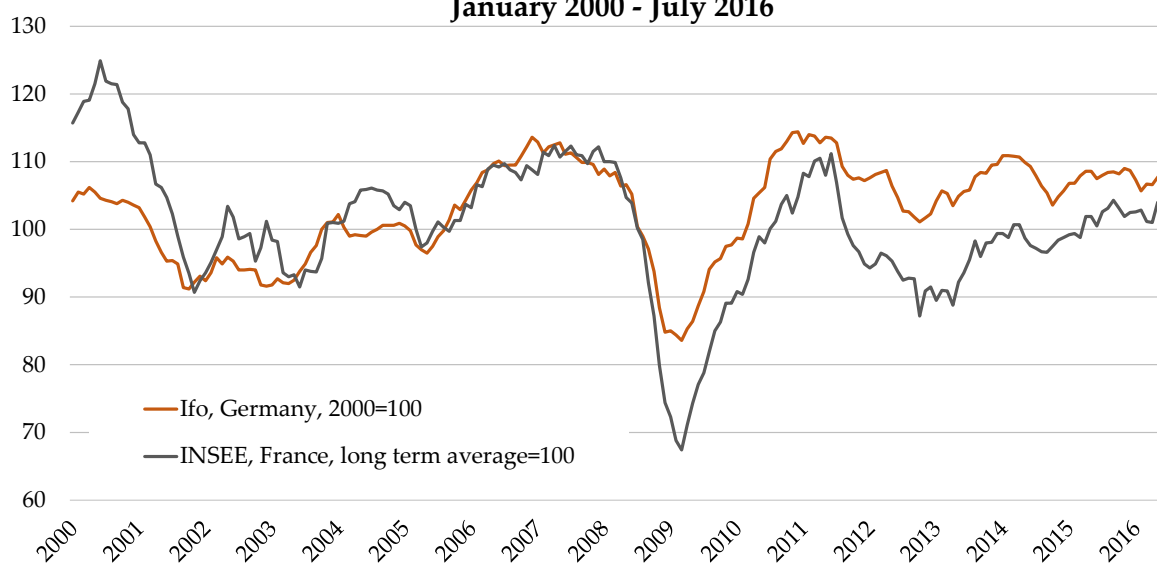
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

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

The German economy performed well once again: the unemployment rate decreased stronger than expected. The manufacturing purchasing manager index (PMI) and the Ifo business climate index fell after last month's increase, but less than forecast. The French INSEE business climate index rose in July instead of the expected drop. In the United States the CB consumer confidence index and the manufacturing PMI performed well too as they increased stronger than projected. The Chinese PMI practically 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 - July 2016



Source: www.cesifo.de, www.insee.fr

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