Monthly Bulletin of Economic Trends

October 2016

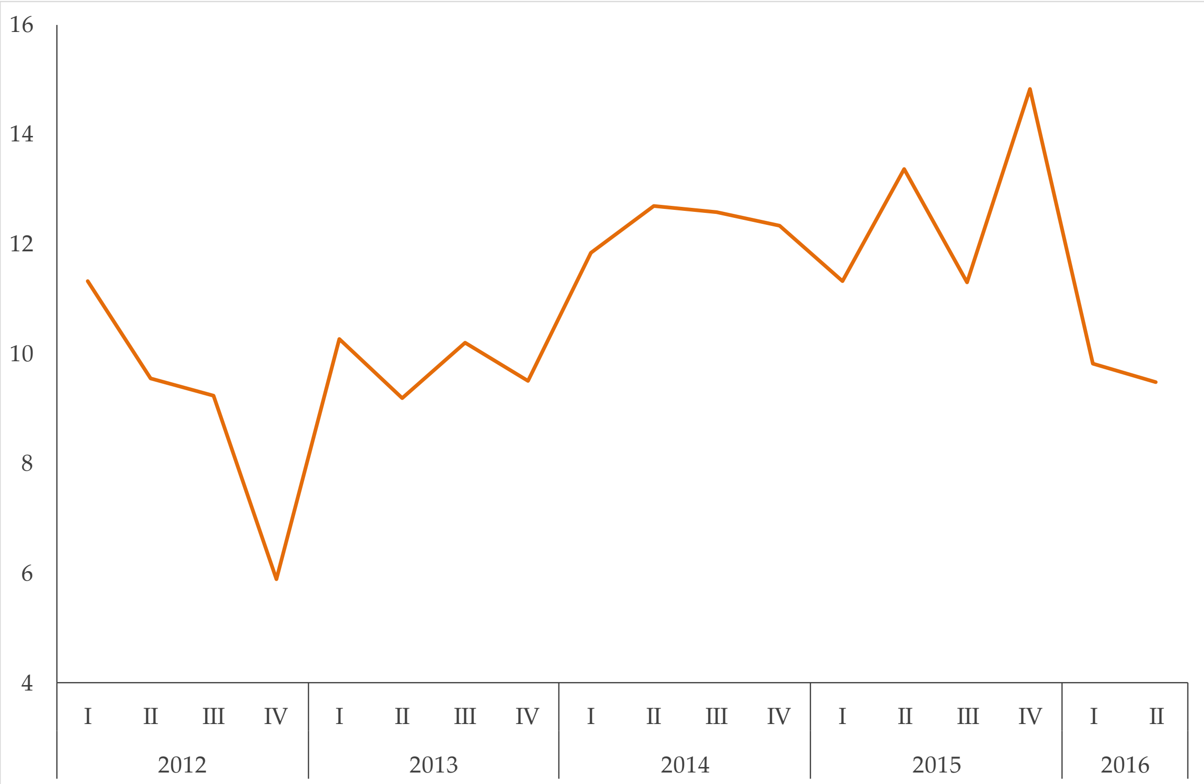
Characteristics of corporate borrowing in Hungary

Our brief analysis is to determine which factors influence corporate borrowing in Hungary and what impacts they have on investment activity. In order to support our findings, we study three factors: surcharge interest and the interest rate environment respectively, the institutional environment and the given economic climate.

Investment rates in Hungary

Investments are worth monitoring because they have a significant effect on future economic performance and on potential economic growth. Figure 1 demonstrates the value of investments as percentage of the gross domestic product (GDP). It can be clearly seen that during three years following the 2012 trough there was an increase in economic investments. But because of the downswing experienced this year, the investment rate has already fallen below the value of Q1 2012.

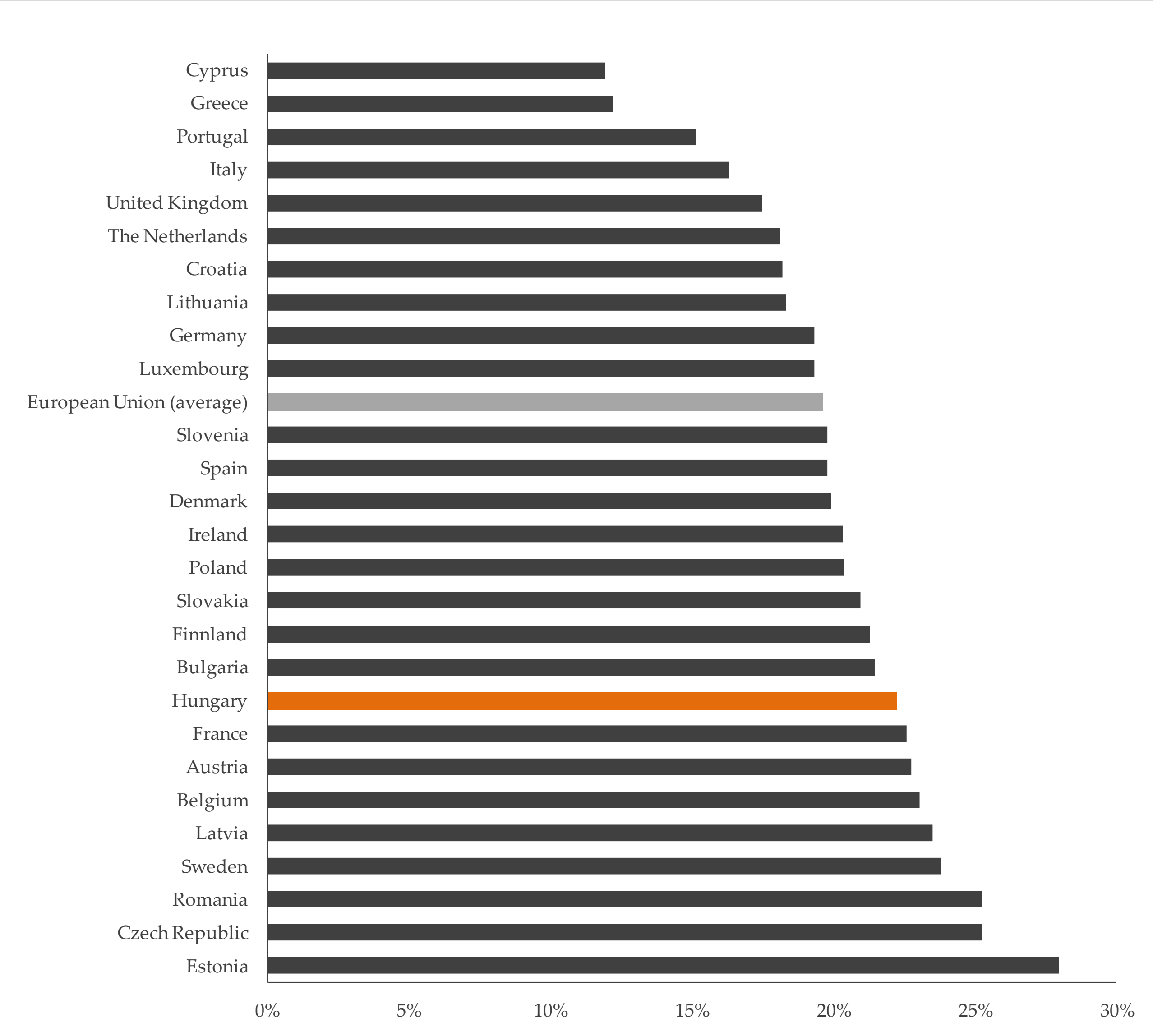
Figure 1: Changes in the value of national economic investments in percentage of GDP (%, Q1 2012 - Q2 2016)



Source: HCSO, IEER

Apart from the time series data, the volume of the Hungarian investments should also be studied in the context of international comparison. Figure 2 shows investment rates of EU member states as percentage of their GDP with regard to the year of 2014. The figure demonstrates that in Hungary the investment rate in percentage of the GDP was above the EU average in 2014. Among the neighbouring countries, the Czech Republic (25.3%) and Romania (25.2%) had a higher value than that of the EU average, while Slovakia (20.9%) and Slovenia (19.8%) lagging behind Hungary still had a value higher than the EU average. It is worth noting that cross-sectional data can be influenced by short term shocks, thus it is not worth drawing far-reaching conclusions. Nevertheless, it can be seen that Hungary concerning the above indicator belonged to the higher end of the mid-range segment in the EU.

Figure 2: Investment rates in percentage of GDP in the EU member states (2014)



Source: World Bank

Characteristics of corporate investments

When economic investments are analysed it is crucial to view investments by governmental (budgetary institutions) and private (corporations) sectors distinctively. Figure 3 demonstrates how the volume of the two sectors' investments has changed in the past 10 years compared to that of 2008. It can be clearly seen that since 2008 basically the budgetary institutions' investments have been the main part of the national economy's investments, and this is especially true from the year 2012.

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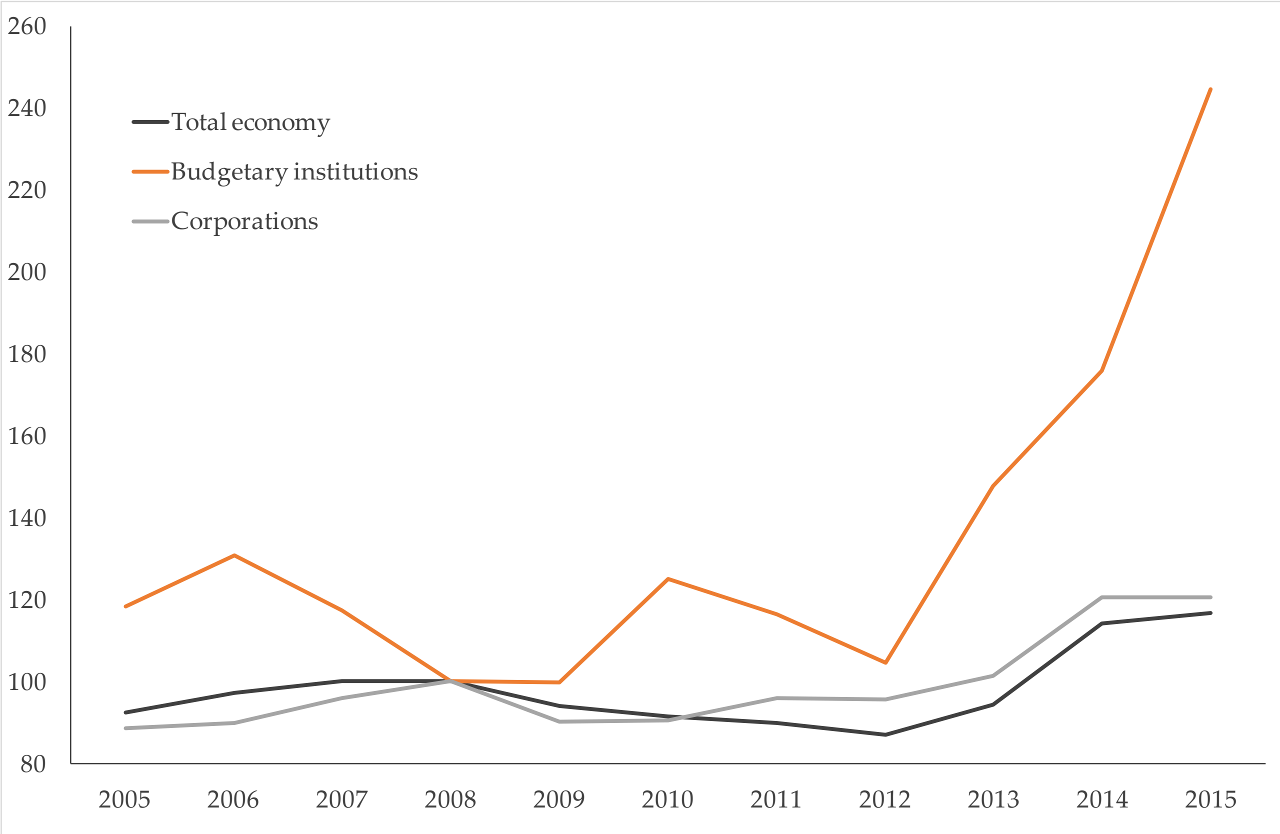
Figure 3: Volume of economic investments (2008=100, 2005-2015)

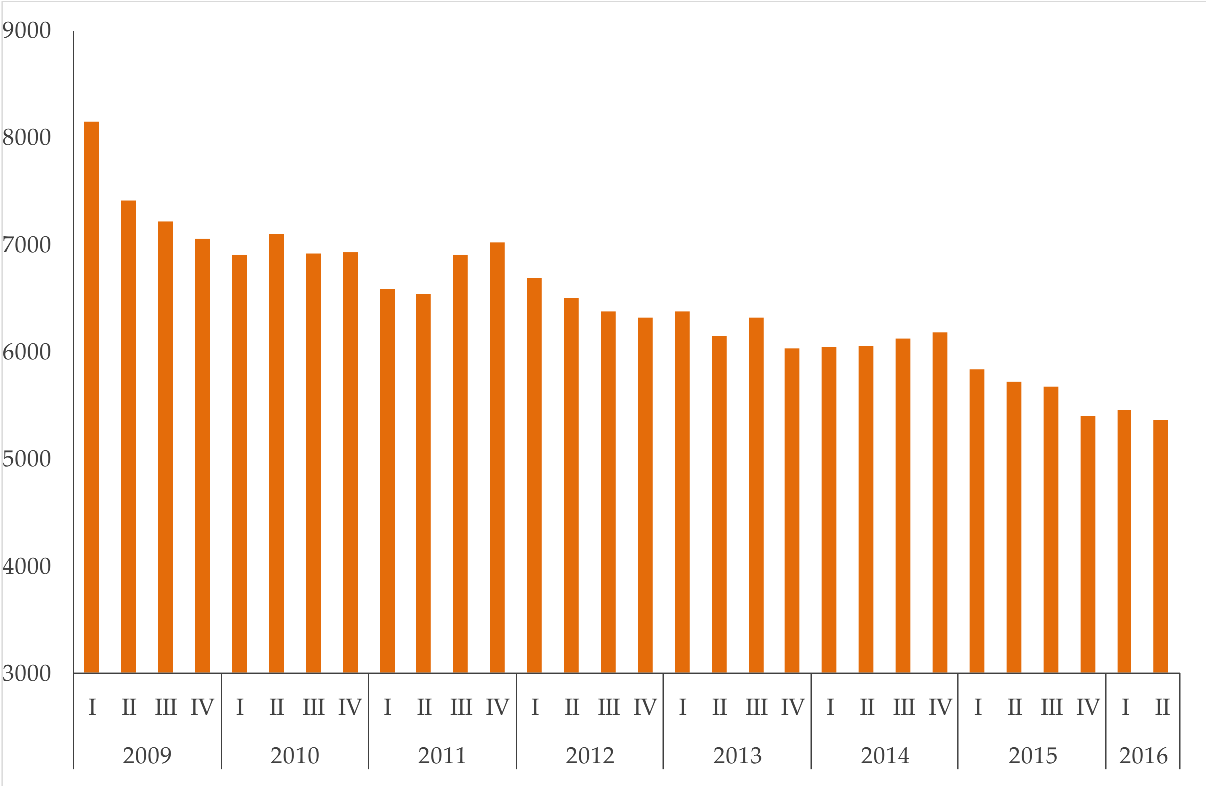


Source: HCSO

Characteristics of corporate borrowing

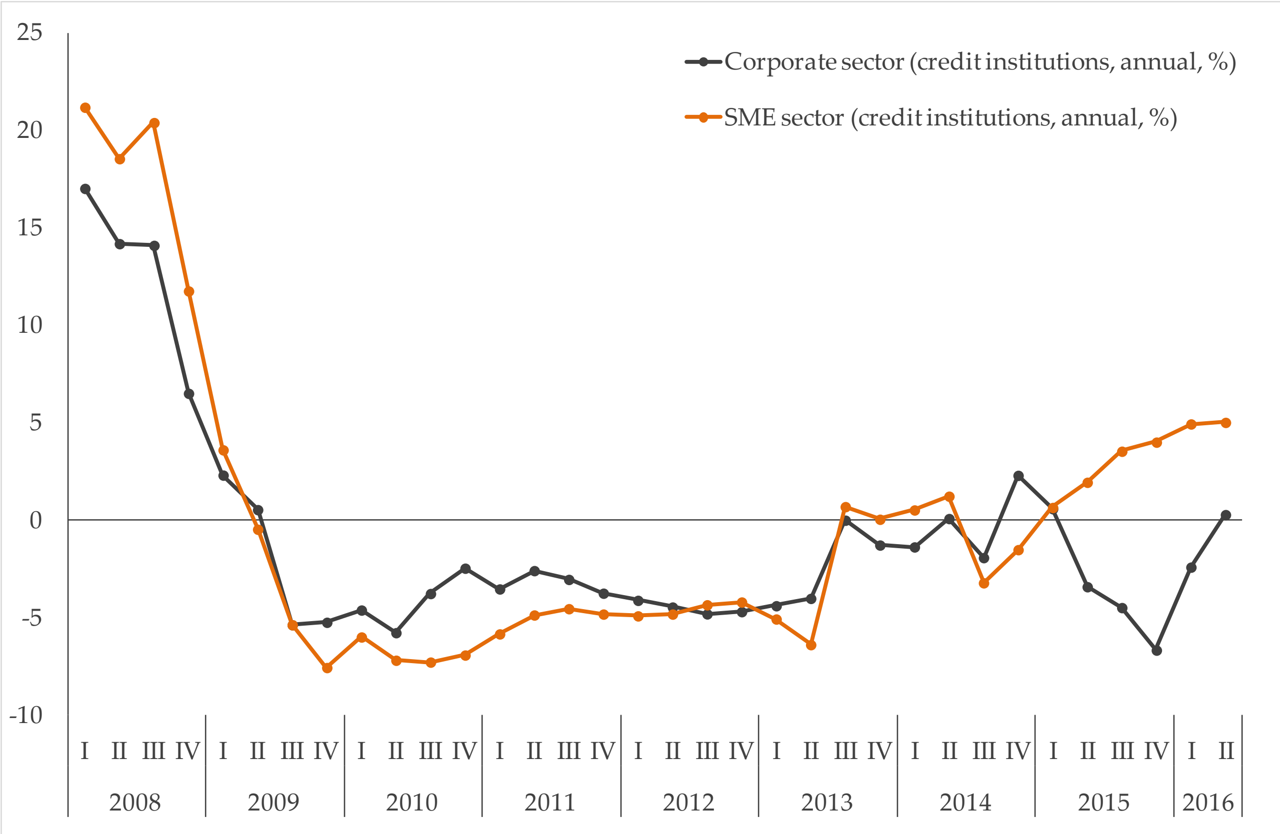
One of the reasons for corporate investment stagnation could be the slower than expected corporate credit growth. The loans for the whole corporate sector have been decreasing in the past years; between the period of 2009 and 2016 it fell back to 5300 billion forints from 8000 billion forints (see Figure 4). Figure 5 shows that after the crisis the credit growth decreased by 2.5-5% compared to the same period of the previous year. The crisis had a more negative impact on SMEs, in given quarters of the year they experienced a more than 7% decrease. After the crisis, the corporate sector had an expansion only in three quarters (Q2 and Q4 in 2014, Q1 in 2015) compared to the data of previous years. After the crisis, the credit growth of the corporate sector had a steady negative turn (apart from a few exceptional periods), and only Q2 in 2016 showed a positive turn. In case of the SMEs, it can be stated that although they were hit more severely by the crisis than the whole corporate sector, SMEs slowly started to show positive signs in their credit growth from 2015.

Figure 4: Total credit stock of the corporate sector (in billion Fts, Q1 2009 – Q2 2016)



Source: Hungarian National Bank

Figure 5: Credit stock growth rates in the total corporate sector and in the SME sector (compared to the same period of the previous year, Q1 2008 – Q2 2016)

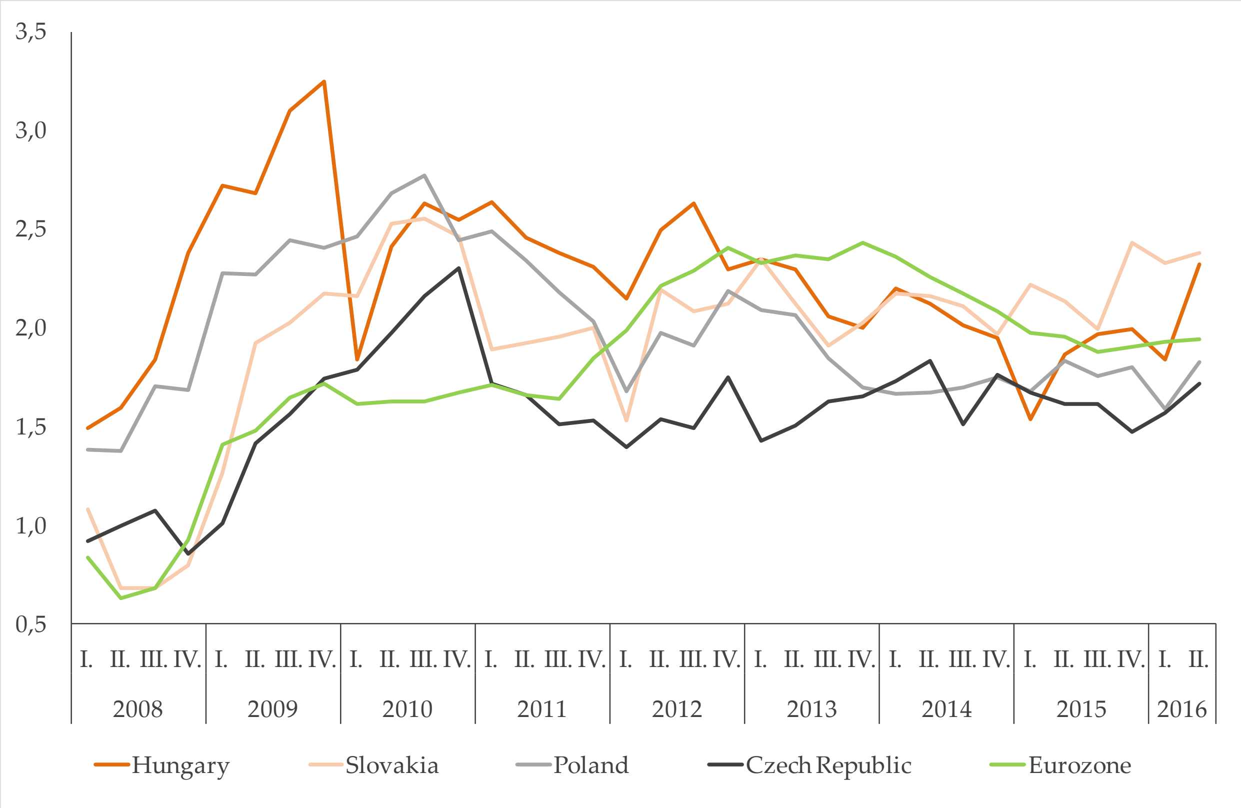


Source: Hungarian National Bank

Characteristics of credit conditions

In connection with the relatively low credit volume the question whether credit conditions set an obstacle in corporate decision making on applying for loans might come up. That is why it seems reasonable to study the following issues in an international comparison: how high a surcharge interest the corporation is to face in case of a credit, and along with the afore mentioned factor how the interest rate environment changes in Hungary. The time series data of the neighbouring countries and those of the Eurozone demonstrate (see Figure 6) that after the years following the outbreak of the crisis, the surcharge interest had a steady increase, by the end of 2009 it was 3.25%, and it was by far the highest rate in the region. In spite of the continuous decrease that followed the previous situation, the most recent data on Q2 this year show surcharge interest rate increase; currently only Slovakia has a higher surcharge interest rate than that of Hungary.

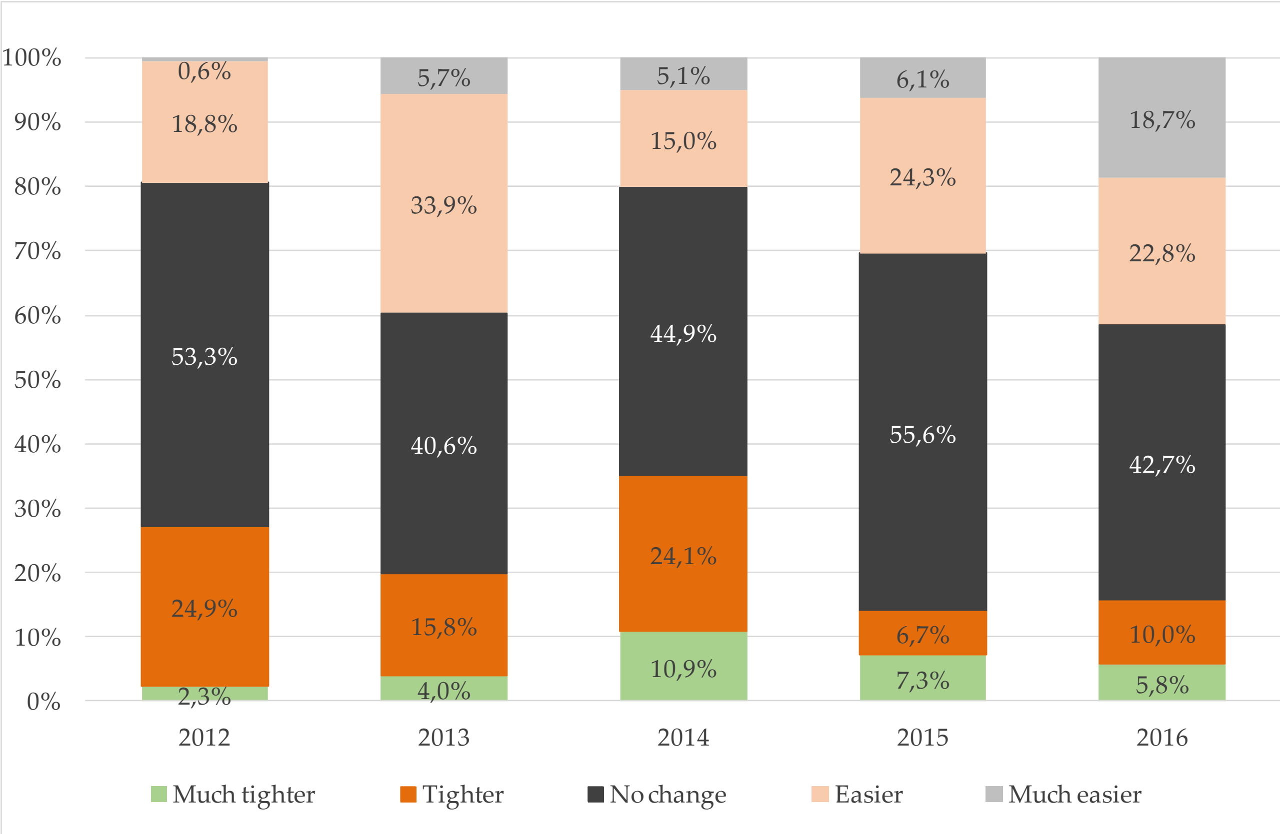
Figure 6: International comparison of surcharge interest rates in the case of corporate credits in domestic currency (%, Q1 2008 - Q2 2016)



Source: Hungarian National Bank

It is worth considering feedbacks from market actors on whether they perceived an easing or a tightening in credit conditions. IEER in its economic climate survey questions corporations about credit conditions as well. One of the questions asks the company how it evaluates credit conditions in the given year compared to the previous year on a scale of 1-5 (1 represents significant tightening of credit conditions, while 5 represents a significant easing). Figure 7 shows the answers in percentage distribution in time series. It can be clearly seen that while there were more of those who perceived tightening of the credit conditions in 2012, in 2013 more than one third of the valid answers stated an easing of credit conditions compared to 2012. In 2014 a similar distribution to the year of 2012 can be observed: corporations considered credit conditions in a rather negative than positive way. In 2015 the majority of the interviewed companies perceived no changes in credit conditions, but concerning expectations for 2016 the high rate of those companies predicting easing is quite prominent (19%). Despite the afore mentioned facts it is important to highlight that the great majority of the respondents (in certain years more than half of the interviewed companies) did not report about any significant changes in credit conditions within the examined time period. It can be stated that although in certain years more than one third of the companies experienced easing in getting loans, between the years of 2012 and 2016, the majority of the corporations did not perceive any changes in credit conditions.

Figure 7: Opinion of company leaders on credit conditions (2012-2016)

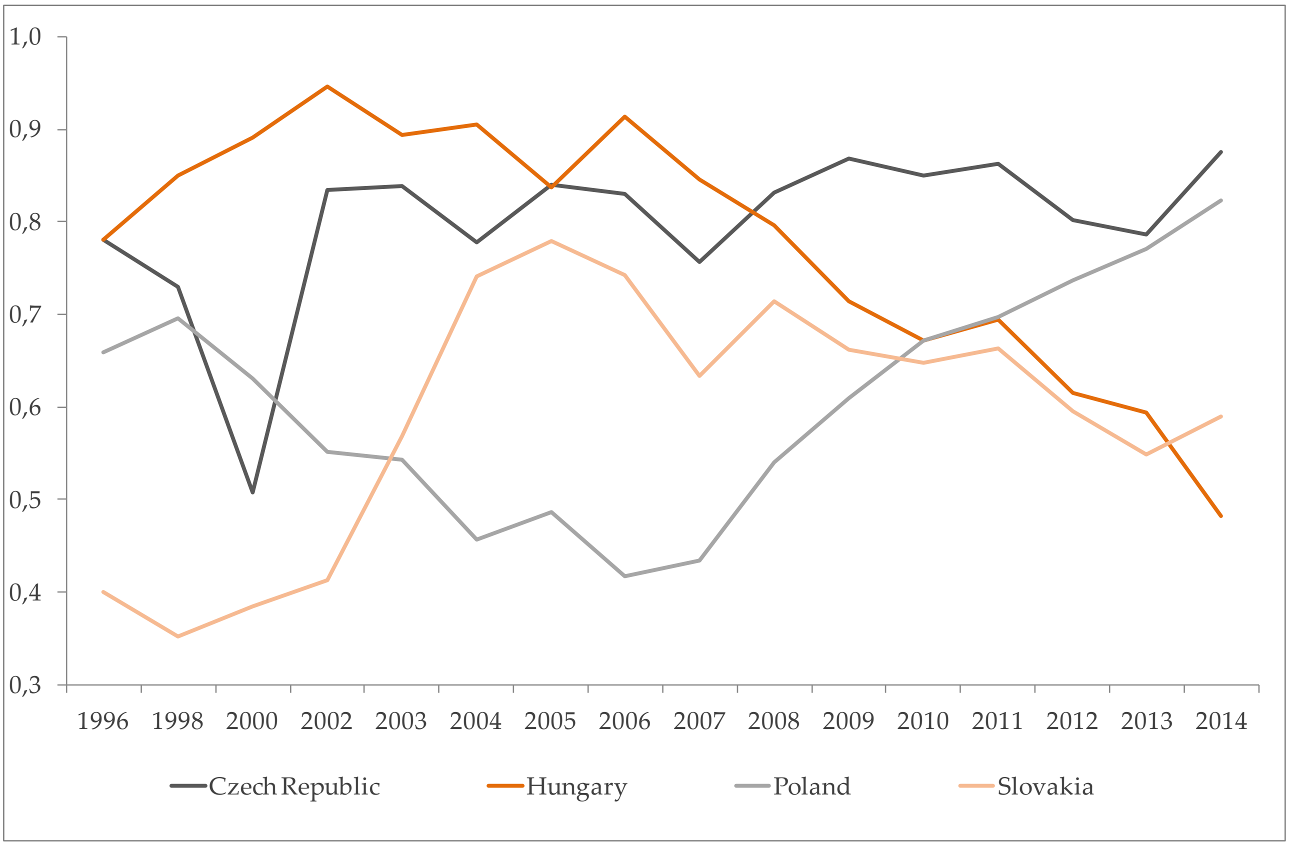


Source: IEER

The institutional environment

The institutional environment is one of the determining factors in how borrowing and investments change. Although there have been measures to generate corporate borrowing (NHP: Loans for Growth Programme) and the interest rate has been quite favourable, corporate borrowing is still far below the level of the years before the crisis. According to the indicator set up by the World Bank on institutional and regulatory environment (see Figure 8), Hungary has demonstrated a continuous decline since 2006, and as the latest data show Hungary is the last in the region and this fact might well contribute to the low corporate borrowing.

Figure 8: World Bank index on institutional and regulatory environment in the Visegrad countries (average of standardized indices)

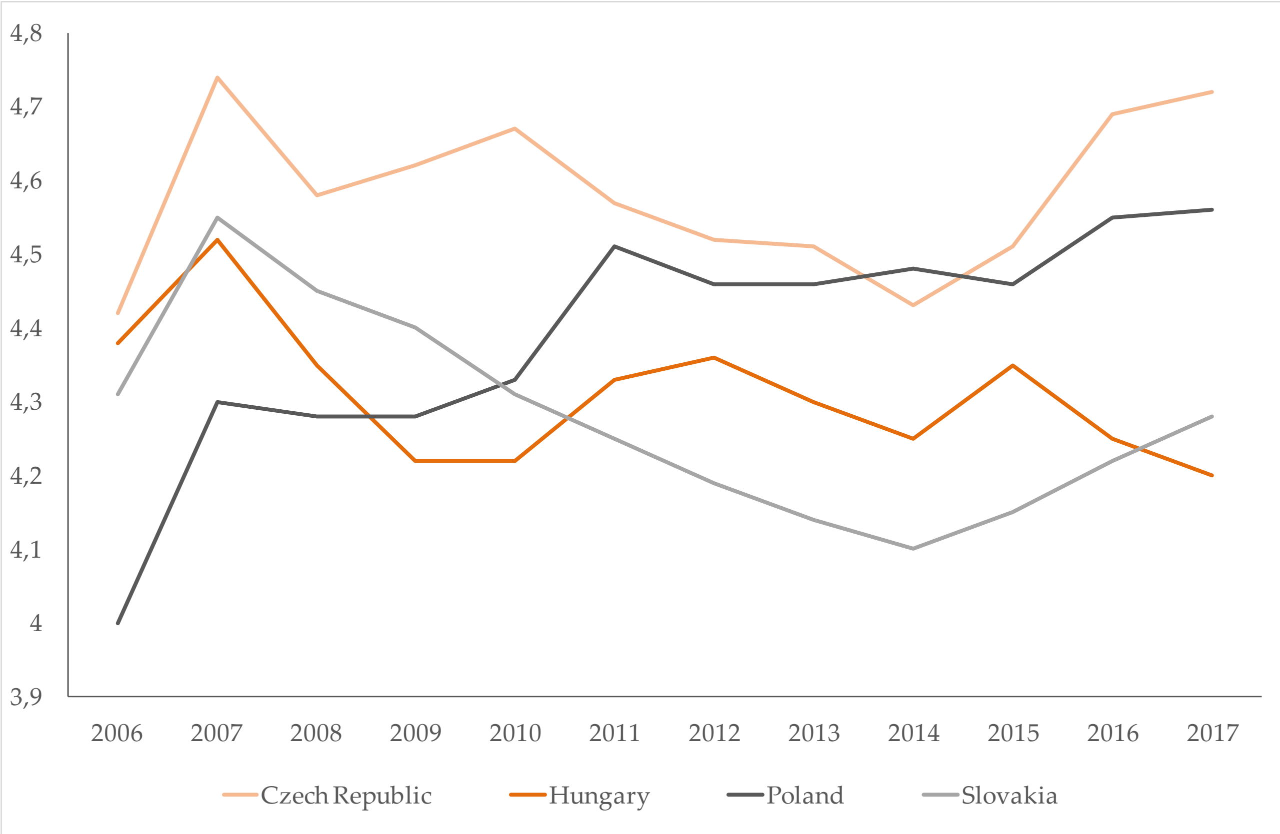


Source: World Bank, IEER

The environment of economic growth and competitiveness

We examined whether the environment of economic growth and changes in the competitiveness of the country can provide an explanation for the relatively low volume of investments besides the unpredictability of the institutional environment. Figure 9 shows how the World Economic Forum Index changes in the Visegrad countries. It can be clearly seen that in the regional competition with regard to this index Hungary after being the second rank of the countries in 2006, now it is in the last rank after Slovakia, and the difference has multiplied compared to the Czech Republic on top of the list. In the future it would be crucial to study the correlations between competitiveness and investments because the low and decreasing competitiveness might be one of the reasons for the low investment activity.

Figure 9: WEF Global Competitiveness Index in the Visegrad countries (2006-2016)



Source: WEF

International trends

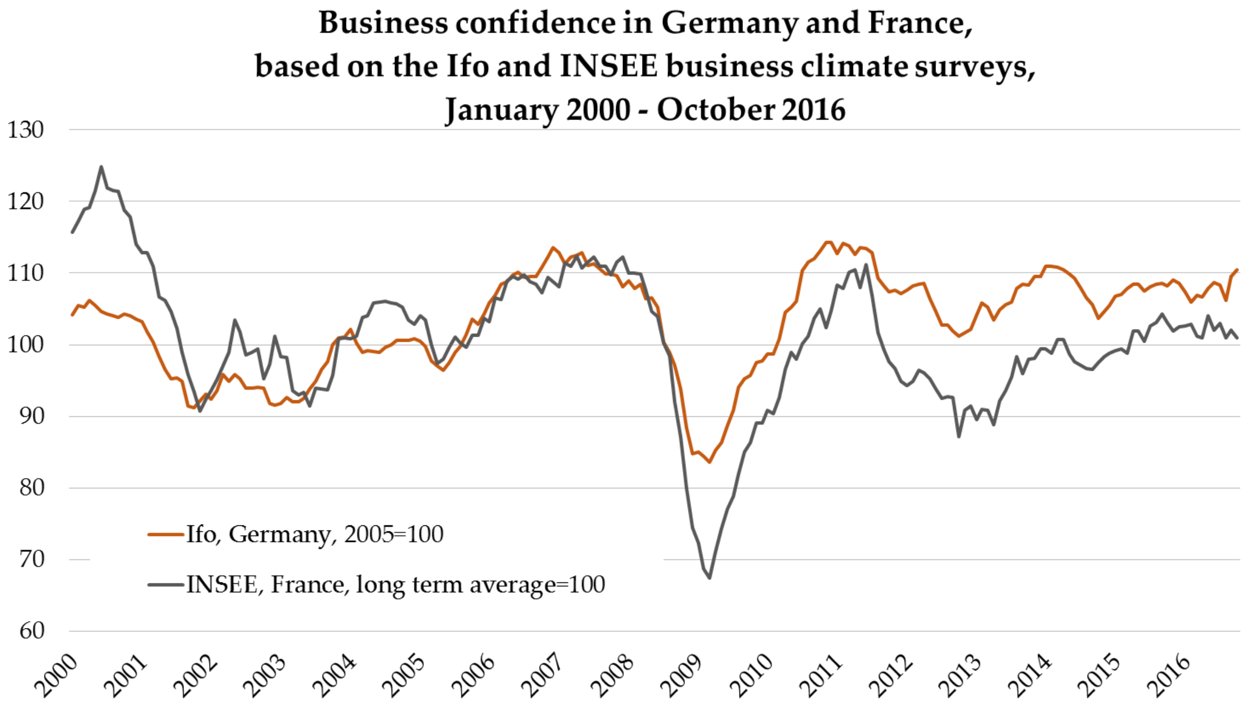
Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate (percentage)	(Oct)	**6.0**	**6.1**	**6.1**
	Manufacturing Purchasing Managers Index	(Oct)	**55.1**	**54.3**	**54.3**
	IFO Business Climate Index[1]	(Oct)	**110.5**	**109.5**	**109.5**
France	INSEE Business Climate Index[2]	(Oct)	**101**	**101**	**101**
USA	Philly Fed Employment	(Oct)	**-4.0**		**-5.3**
	CB Consumer Confidence Index	(Oct)	**98.6**	**101.0**	**103.5**
	Manufacturing Purchasing Managers Index	(Oct)	**53.2**	**51.5**	**51.5**
China	Manufacturing Purchasing Managers Index	(Oct)	**51.2**	**50.4**	**50.4**

[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 performance of the German economy has improved since the last month. The unemployment rate was slightly lower than expected. The manufacturing purchasing manager index (PMI) and the IFO business climate index rose more than it was forecasted. The French INSEE business climate index remained at the same level in October as it was expected. In the United States the CB consumer confidence index performed worse than the expectations and the previous period but the manufacturing PMI increased stronger than projected. The Chinese PMI after a longer period has risen in October.

Long-term changes in business confidence indices



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

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