



# Late payment and circular debt in Hungarian business life

*– Summary in English –*

**Budapest, October 2019**

The Institute for Economic and Enterprise Research operated by the Hungarian Chamber of Commerce and Industry (IEER or GVI in Hungarian) is a non-profit economic research institute indulging in applied research in several subfields of economics. Our mission is to provide empirically and theoretically substantiated knowledge and analysis of the economic and social processes that influence the actual situation and perspectives of Hungarian economy and Hungarian companies.

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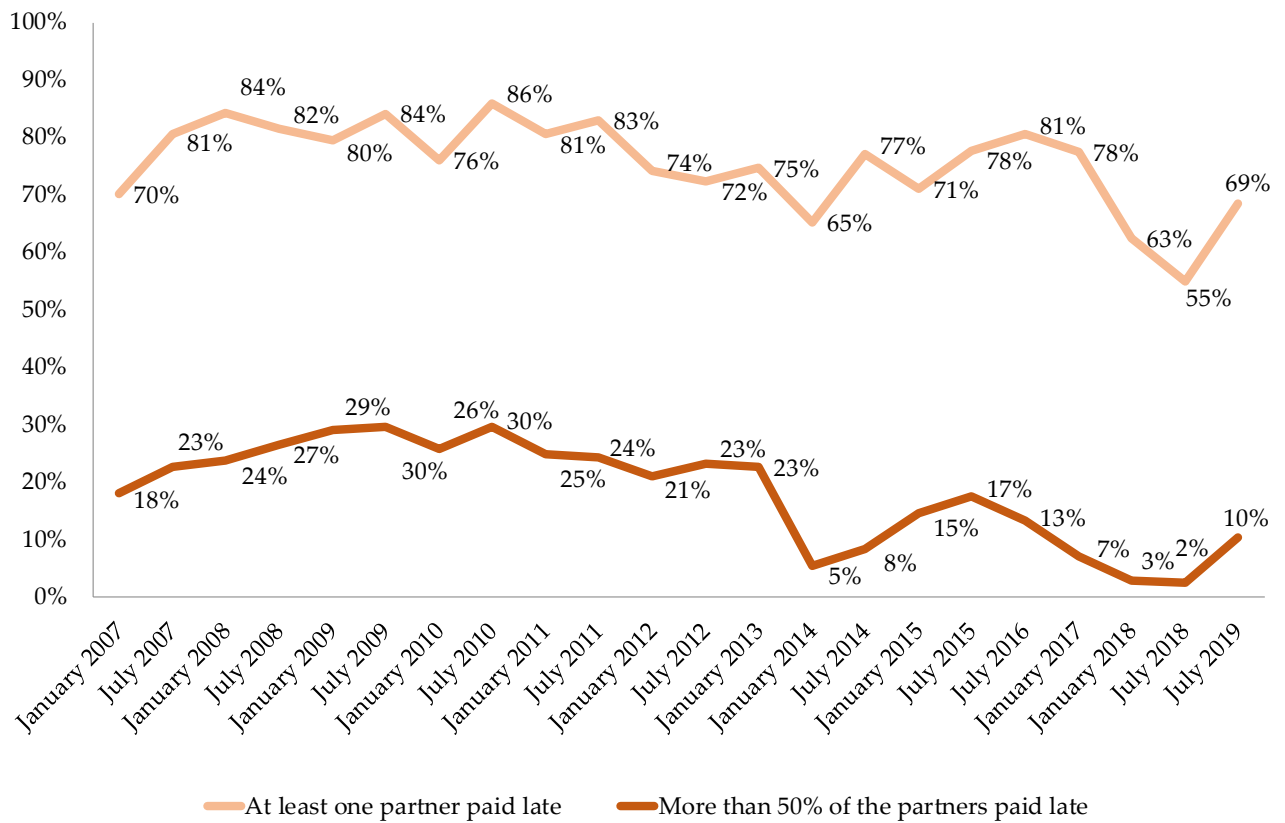
**This analysis by IEER concerns the experience of Hungarian businesses with late payment and circular debt. The results are based on IEER's July 2019 Quarterly Business Climate Survey, which involved 404 domestic respondents. Based on the answers, 68,6% of businesses had at least one partner that paid late in the first half of 2019, and 34% of respondents made late payments themselves to their suppliers in the examined period. The issue of late payment most often hits large companies (with more than 250 employees) and industrywise construction and providers of other business services are the most affected. All-in-all it can be inferred that the after the favourable period last year, the trends in having more business partner who pay late is starting to creep back to its prior 2018 level. By the same token, proportion of their income arriving late has become threefold, compared to the last period measured. However, the number of companies that failed to pay in time to their suppliers at least once due to the late payment of their customers basically remained unchanged since July 2018**

In the course of IEER's July 2019 Quarterly Business Climate Survey, 404 domestic respondents were surveyed about late payment and circular debt.

68,6% of the surveyed companies had at least one business partner that paid late multiple times in the first half of 2019. As it could be observed in Figure 1, the rate of the same companies was 55% in the second half of 2018 and 63% one and the half year before, in 2018 January meaning that the amelioration of the previous period was not here to stay and the ratio is resembling more to its levels prior 2018 July. The proportion of companies with more than half of their partners paying late also increased considerably. In July 2019, 10% of companies were such, whereas the same ratio was much lower before: 2% and 3% in July 2018, and January 2018, respectively.

The companies affected the most in the first half of 2019 were large companies employing more than 250 workers. 67% of these companies received late payment from at least one partner (however, only 3% of the partners of the surveyed large companies were prone to pay late). By analysing data by sectors one can say that construction companies (70%), manufacturing companies and providers of business services (57% and 57%) were the most often exposed to late payment. Respectively, 7% and 11% of the partners of construction companies and business service providers paid late multiple times, which is an amelioration in the case of the construction industry, compared to the last period surveyed. Besides, results also show that ownership structure has started to become a differentiating factor of late-paying: 60% of fully domestic companies had such partners in 2018 (on average, 9% of their partners paid late), while 51% of companies of (partly) foreign ownership received delayed payment.

**Figure 1: The rate of companies experiencing late payment, 2007-2019<sup>1</sup>**

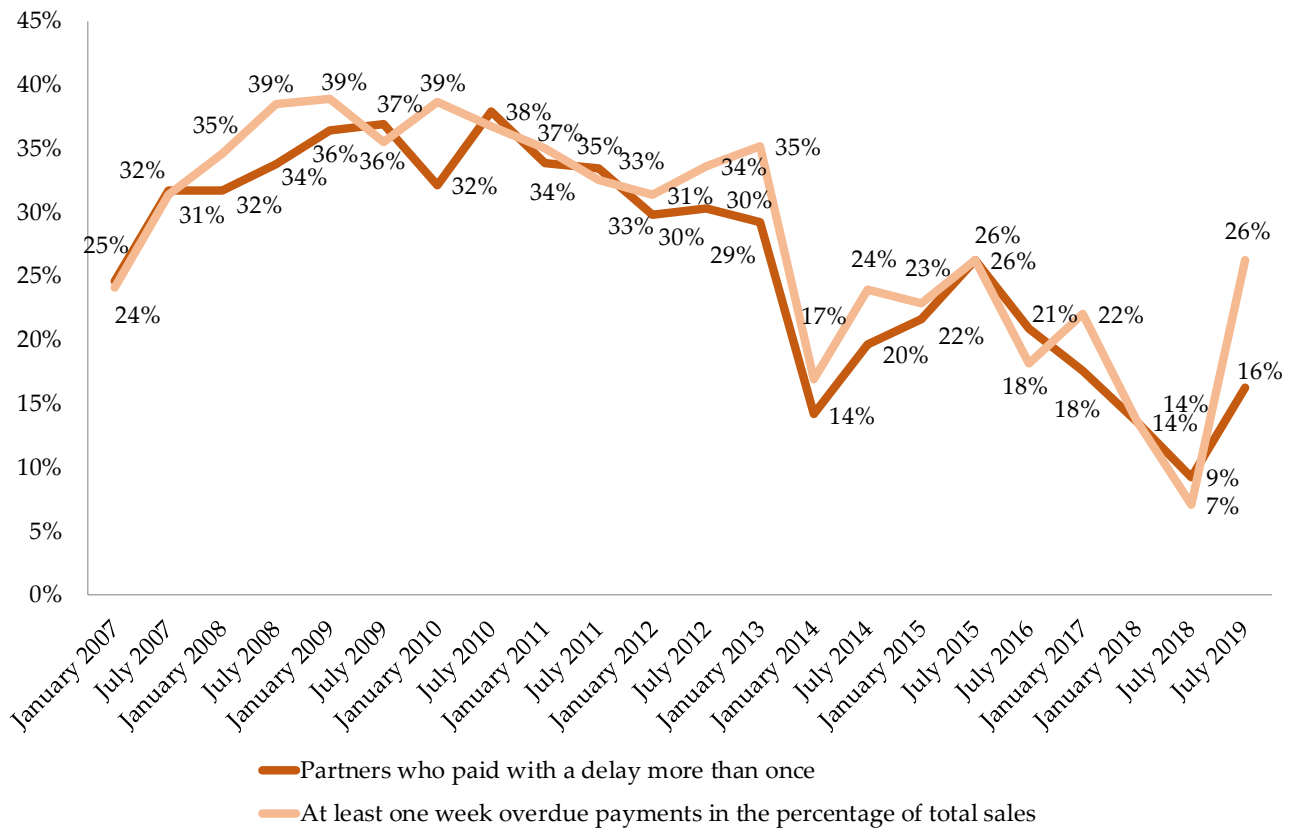


Source: IEER, 2019, 275<=N<=408

Amongst the surveyed companies, it has increased the ratio of business partners who paid multiple times with a delay. Simultaneously it has tripled the amount of money incoming more than one week past its due date, compared to the last period. This suggests that the favourable tendency of the past periods is reversed, especially in the case of the incoming amount of money past due. The results led us to the conclusion that businesses now have more late-paying partners on average, and a larger proportion of their income is delayed (see Figure 2).

<sup>1</sup> In case of all time series data shown, it has to be taken into consideration that companies with more than 250 employees are present in our sample from only 2010.

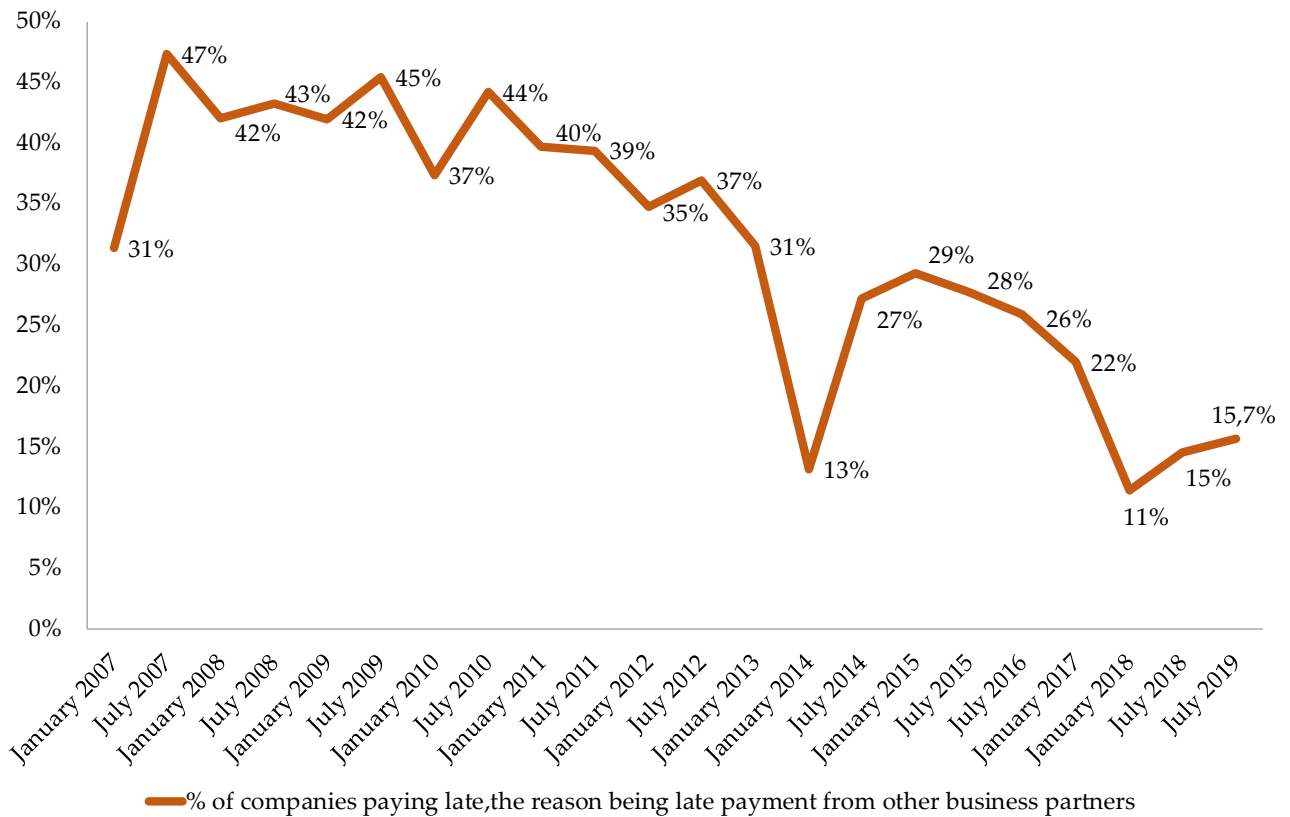
**Figure 2: The rate of late-paying partners and the rate of income that arrived beyond payment deadline, average, 2007-2019**



Source: IEER, 2019, 256<=N<=408

The proportion of companies that failed to pay at least once to their suppliers in time due to the late payment of their customers has basically remained unchanged. While the proportion of such companies had been 11% in January 2018, and 15% in July 2018, 15,7% of respondents in July 2019 reported to have experienced at least one case in the previous year (see figure 3). The rate of companies experiencing circular debt was 4% for 250+ businesses, 16% for 100-249 employee size companies, and 15% for 50-99 employee size companies and for the smallest companies (between 20 and 49 employees) this number amounts to 23%. Among the sectors it was construction industry and other business service provider sector that had the highest proportion of companies which were unable to pay in time owing to a business partner's delayed payment (22% and 23%). 17% of domestically owned companies and 13% 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.

**Figure 3: The proportion of companies which were late to pay at least once as a result of being paid late, 2007-2019**



Source: IEER, 2019, 296<=N<=417

34% of respondents reportedly owed money in the first half of 2019 at least once to at least one of their suppliers. This rate shows a that the drop experienced in July 2018, compared to the periods before, did not stay on the long-term but the tendency of the years prior seem to return - in January 2018, July 2017 and 2016 January the proportion of companies that paid late to a supplier at least once was 17%, 30% and 45% respectively, so it has definitely been a considerable fall.

The severity of the problem caused by circular debt has not changed according to 71% of respondents; 20% said it had decreased and 9% claimed that it had increased over the previous period. The ratio of companies experiencing circular debt as an increasing problem has gone back to its pre July 2018 levels. (This figure was surprisingly low, only 7,5% but the figure from periods before are similar to our latest one, in this respect: 8% in January 2018, 8% in 2017 January, 10% in 2016% January.) The rate of companies that reported improvement was the lowest (12,9%) among medium size enterprises (100-249 employees) and the highest (26%) among companies employing 50-99 workers. As far as economic sectors are concerned, managers in the construction industry (50%) were the largest group to report while only the 8.7% of other business provider services report that the problems caused by circular debt among their partners had become less severe.