Financial situation of Hungarian businesses

October 2020

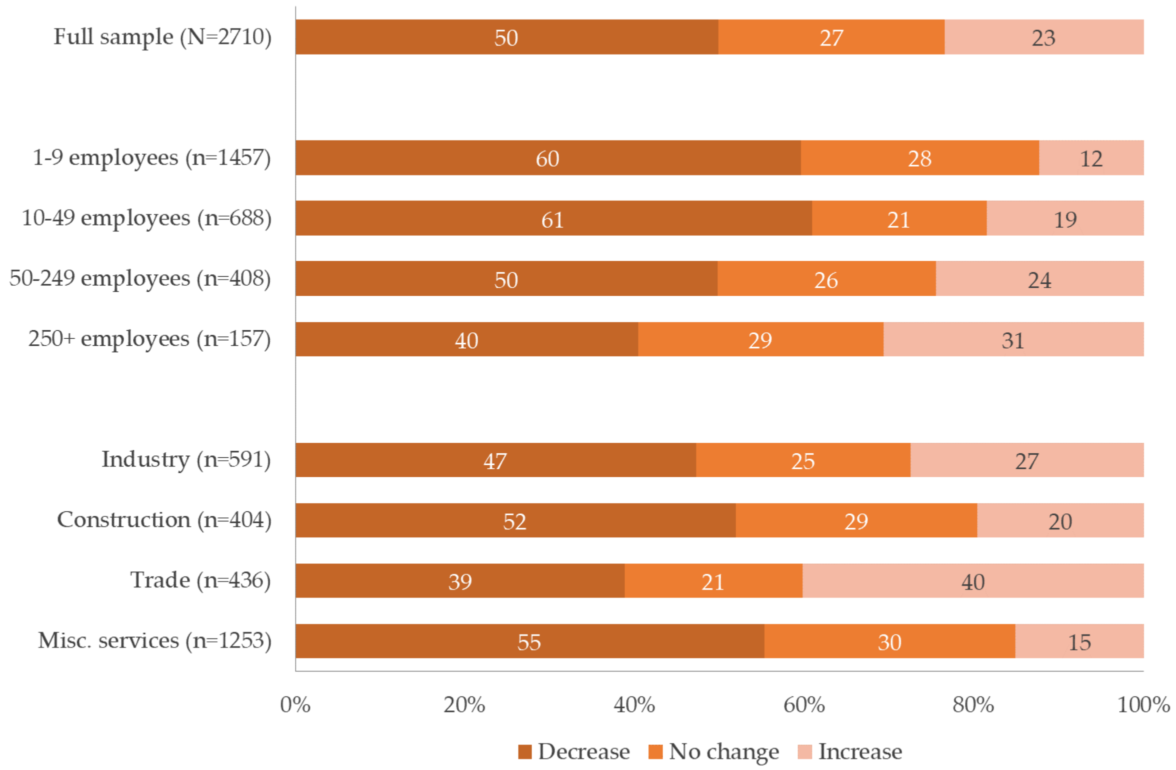
Press release

In the current analysis of HCIC's Institute of Economic and Enterprise Research (IEER) the focus is on the financial situation of businesses, specifically with regard to revenue expectations, financial reserves, circular debt, necessity to use external financial sources, and terms of taking out loans. Data were recorded during the business cycle survey conducted between 1 October and 31 October 2020, with the participation of 3142 companies active in Hungary. The survey took place before the introduction of second wave coronavirus-related restrictions, therefore the abatement of the first wave greatly influenced the outcome – optimistic expectations characterised the resulting business climate index.

Revenue expectations for 2020 and 2021

While 50% of companies reportedly had a lower income in 2020 than in the year before, 25% expected the same, and slightly over 25% expected higher revenues. 60% of smaller businesses expected their revenues to fall in 2020, so did a half of 50-249 companies and 40% of 250+ companies. Companies offering miscellaneous economic services expected lower revenues for 2020 at the highest rate, followed by construction companies and industrial businesses. We found the lowest rate among trading companies.

Figure 1. Expected revenues in 2020 vs. 2019, per cent



Source: IEER 2020

Business that expects a fall in annual revenues calculate with a 31% decrease on average.

Entrepreneurs are generally optimistic about the year 2021. 42% expect their yearly revenues to grow in 2021 compared to 2020. The average revenue growth rate expected for 2021 was 17% among companies expecting growth compared to 2020.

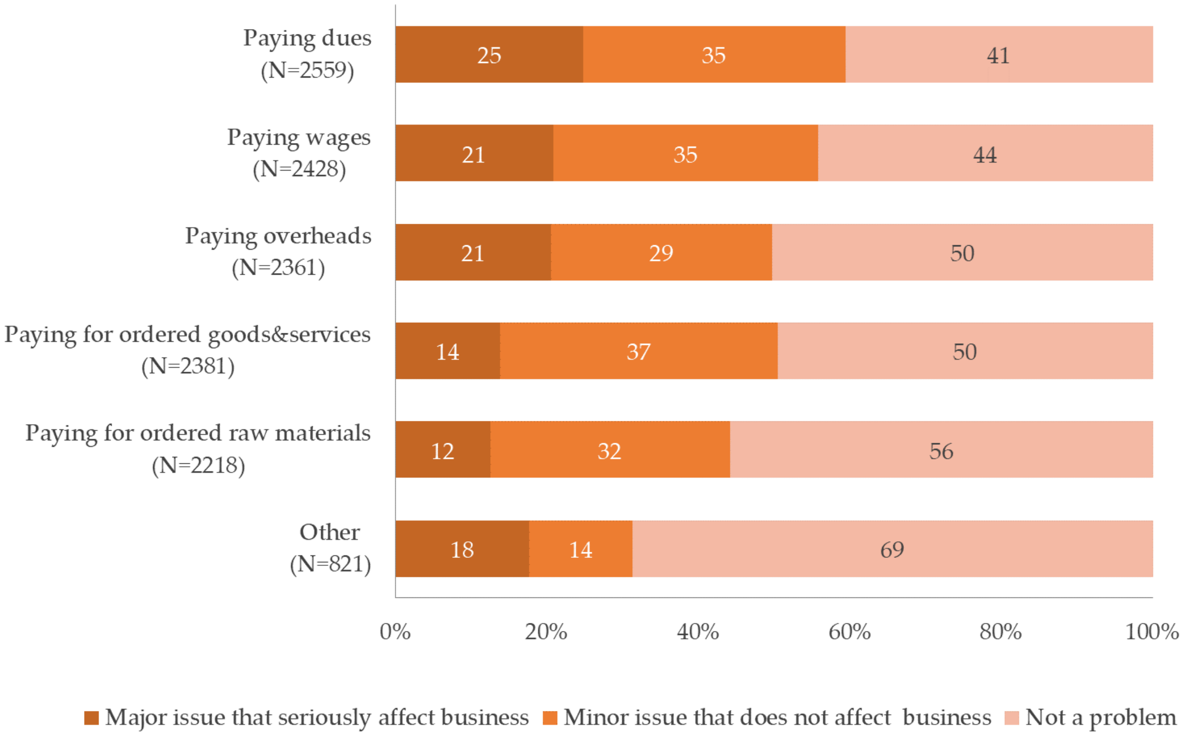
Financial reserves

The rate of companies with reserves that would cover one month in hard times like the lockdown months in spring was 9%. 15% could endure for one to two months without resorting to external sources. The majority could stay on the surface for a longer period: 22% for three months and 37% for half a year to one year. The bigger the company, the longer it could sustain during a lockdown. Industrial companies seem to have the greatest reserves – over a half of them could sustain for more than six months. Companies of partial or full foreign ownership are also more fortunate in terms of liquidity. The tendency is the same for major exporters: – a high proportion of them could cover their dues for over six months.
31% of companies would be able to keep all their employees for half a year to one year in case of a lockdown similar to the one in spring 2020. According to the survey, 7% of companies would be able to retain workers for less than a month, 13% for one month, and 18% for one to two months. Larger companies have financial reserves for longer periods. Industrial companies have reserves that enable them to keep their employees for the longest period of all sectors, while companies offering miscellaneous services are on the other end of the spectrum – 10% of them could only keep their numbers up for less than a month.

Companies' financial difficulties

For the majority of the surveyed companies the greatest financial difficulty in the months before October 2020 was paying dues (causing a major problem for 25% and minor problems for 35% of businesses). The second most common problem was paying wages and overheads (e.g. rent and maintenance costs of office or commercial spaces), affecting 21% of businesses.

Figure 2. Financial difficulties in the months before October 2020, per cent



Source: IEER 2020

Generally, financial issues affected a higher rate of small companies than big companies, and the four sectors were equally exposed to the financial difficulties in early October.

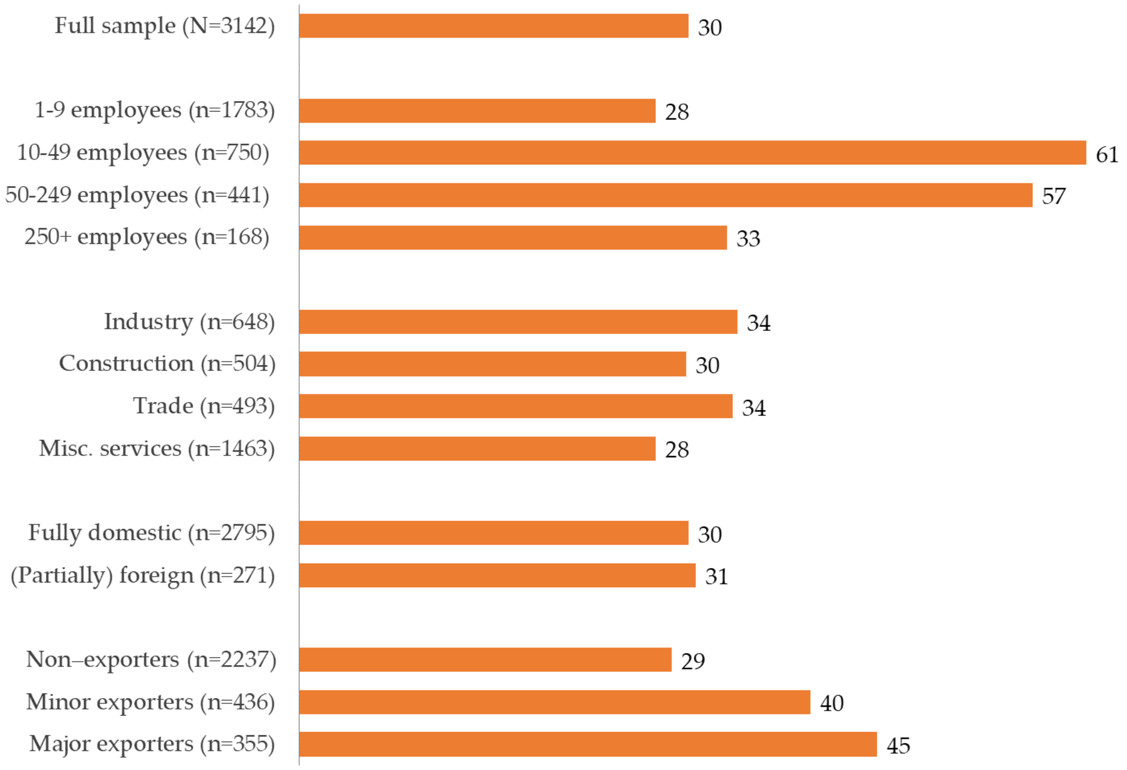
Late payment and circular debt

In the previous six months 15% of companies paid to at least one partner late at least once. Circular debt (that is, the inability to pay in time to suppliers because customers paid late) affected 21% of the businesses surveyed. 49+ companies, industrial companies, construction companies, partially or fully foreign–owned companies and major/minor exporters were more prone to suffer from circular debt than others. This, and our further results concerning financial problems point to the fact that companies with fewer financial problems were more affected by circular debt in the months before October. **Problems caused by circular debt worsened according to 48% of respondents. According to 49% problems didn't get any worse, but only 4% thought that there had been fewer problems with circular debt than in the previous six months.**

Using external sources for financing to overcome the difficulties caused by COVID19

In the months before October 2020 COVID19 prompted about 30% of companies to use external financial sources. Company size seems to have been decisive here – 10–49 companies and 50–249 companies were far more prone to resort to external sources than microenterprises and large companies. In spite of the fact that microenterprises were the most exposed to financial troubles in the period before October, they were the group that resorted to external financial sources the least often. There was no significant difference between industries. However, there was some difference between exporters and non–exporters: fewer non–exporters borrowed financial sources than major and minor exporters. To ease problems caused by COVID19, **12% of companies borrowed financial sources from market players. 22% applied to the government for financial support.**

Figure 3.: Using external sources for financing to overcome the difficulties caused by COVID19 in recent months, per cent



Source: IEER 2020

Eligibility for credit repayment moratorium and how companies used it; companies' opinions about the terms and conditions of loans

In the surveyed period 30% of companies were eligible for a credit repayment moratorium, but only 14% took the opportunity. 70% of companies reported not to have been eligible for a moratorium. 16% of them were eligible but did not apply.

Companies also assessed the terms of taking out loans. According to 42%, the majority in this case, the terms remained unchanged in 2020 compared to the year before. Businesses employing ten people or fewer were more likely to report terms becoming stricter than larger companies. **As for 2021, 42% of the surveyed companies expect unchanged terms.**