



The financial situation of Hungarian businesses as perceived in January 2021

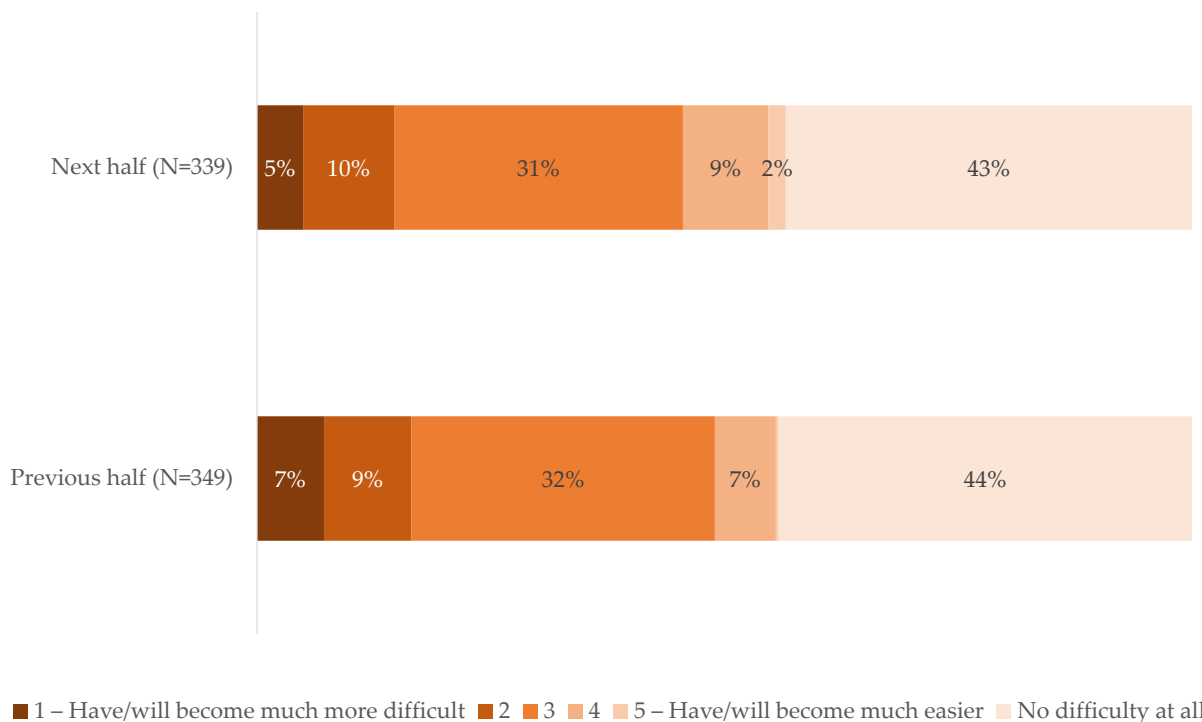
The data used for this analysis were taken from IEER's latest Quarterly Business Climate Survey that took place in January 2021 with the involvement of 349 CEOs of companies employing at least twenty people. The survey was conducted at a time when the second-wave COVID lockdown had already been introduced which in turn had an influence on the data taken. The analysis focuses on businesses' perceptions of the manageability of their financial dues and the probability that their direct competitors would quit the same market segment.

The manageability of paying financial dues

Businesses' experiences concerning the manageability of paying financial dues in the previous half were similar to their expectations for the upcoming half. Almost one half of the surveyed businesses experienced/expected little to no difficulties in that area, and about a third of them deemed their situation to be similar to what they had experienced earlier. The payment of dues became more difficult for 16% of surveyed companies in the second half of 2020, and it was expected to become more difficult for 15% in the first half of 2021.

As far as sectors are concerned, trading companies were the least exposed to payment problems, and they did not expect problems in that field either. While the rate of companies that did not experience financial problems at all was the lowest in the construction sector, both in the current half and projected for the upcoming half (39% and 35%, respectively), companies offering economic services seemed to be the most vulnerable with payment of dues getting more difficult (25% and 23%, respectively).

Figure 1: The manageability of paying financial dues



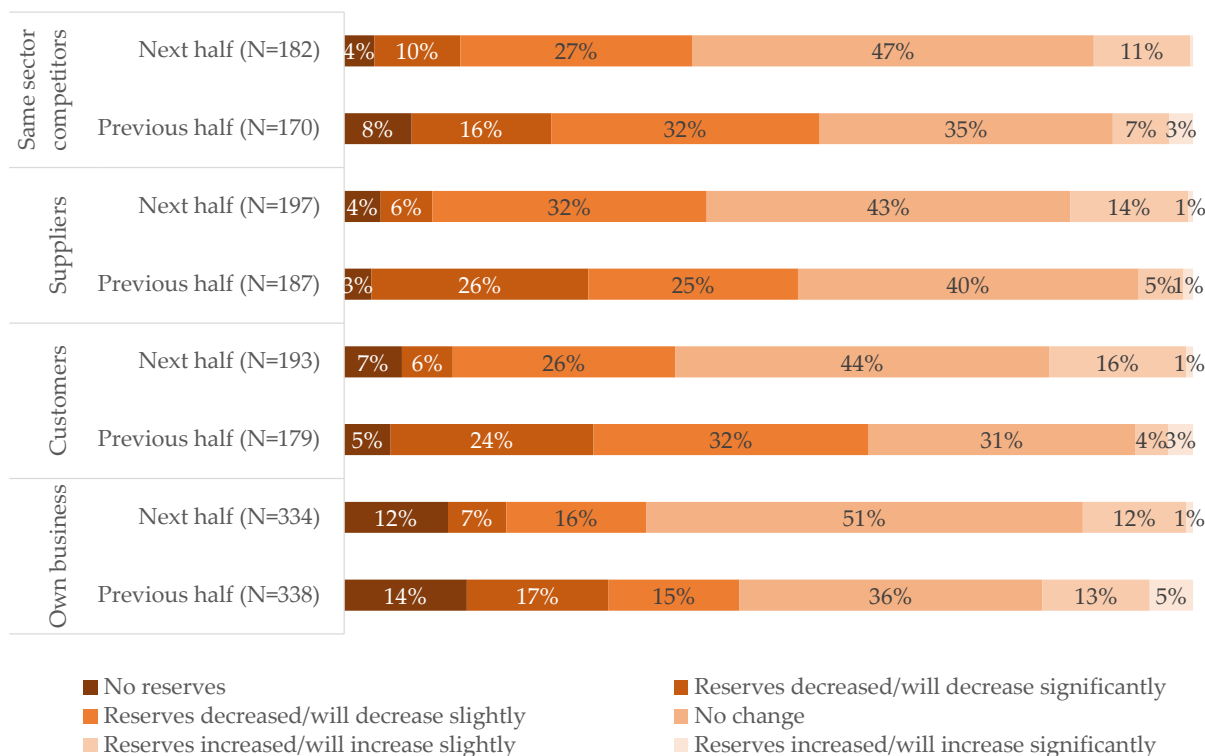
Source: IEER 2021

Level of financial reserves

Financial reserves of companies, their clients, suppliers and competitors in the same sector were examined separately. The level of reserves were seen more optimistically by CEOs in the first half of 2021 than in the second half of 2020 in all surveyed company categories. The difference, however, originates rather from the fact that more CEOs expect their clients', their suppliers' and also their rivals' reserves to stagnate in the upcoming half, while fewer CEOs (13%) expect their own companies' reserves to grow

slightly now than in the second half of 2020 (18%). A complete lack of reserves or a significant decrease of reserves is expected by the highest number of respondents (31% and 19%, respectively) in the case of their own business. However, with regard to companies' own reserves in the previous half, the largest proportion of CEOs (18%) report the level of reserves to rise. As far as the reserves of the own company in the next half are concerned, most CEOs (51%) expect no change.

Figure 2: Perception of financial reserves



Source: IEER 2021

Once again, service providers seem to be in the most unfavourable situation as far as the available financial reserves are concerned. In the previous half, 59% of companies reported the reserves to be shrinking, or that there were no reserves at all available, and 46% expected the upcoming half to be similar in that respect. Businesses belonging to the other examined

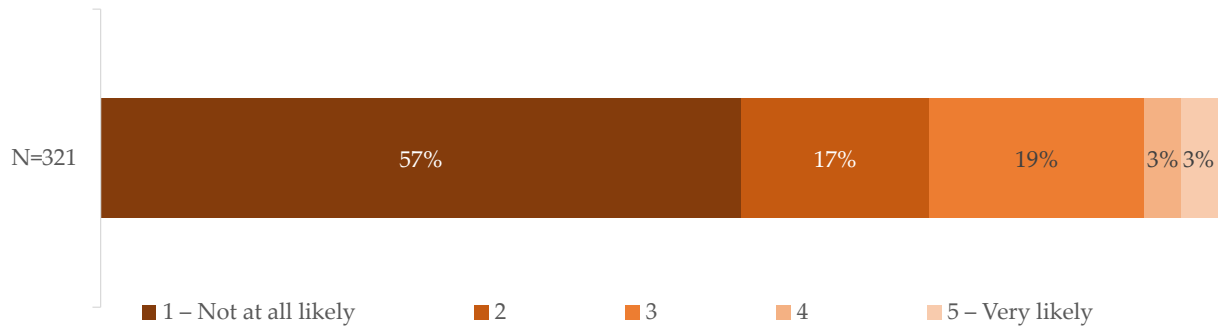
sectors did not show any significant differences as far as reserves were concerned, however, it can be seen that both in the second half of 2020 and in the first half of 2021 construction companies were the least likely to have absolutely no reserves (6% and 5% respectively).

The risks of quitting the market or suspending activity

In order to get an indirect picture of CEOs' calculations on bankruptcy risk in their own field of activity we asked our respondents the extent to which they expect their competitors (active in the same sector, engaging in similar activities) to quit the market or suspend their production in the course of the current half. According to 57% of CEOs rivals would not be at all likely to leave in the near future i. e. in the first half of 2021, while only 3% held it

highly probable. We also asked CEOs who could not rule out the possibility that their rivals would quit to estimate the rate of such competitors (how many per cent of their competitors would suspend their activities). The percentage rate was 16% on average, meaning that CEOs according to whom rival players may quit the market expect one in six competitors to do so.

Figure 3: Expectations of same sector competitors' leaving the market



Source: IEER 2021

The CEOs of trader companies expect the least the quitting their competitors and this rate is the highest in the construction industry. Mostly the CEOs of companies with 50-99 employees calculate the quitting their competitors while the companies with 250+ employees expect that the least.

CEOs of trading companies were the least expecting to see their rivals quit in the forthcoming few months, while CEOs of construction companies was the group that held that the most likely. It was mostly medium-sized 50–99 companies that expected rivals to quit in the next six months, while 250+ large companies were the least expecting.

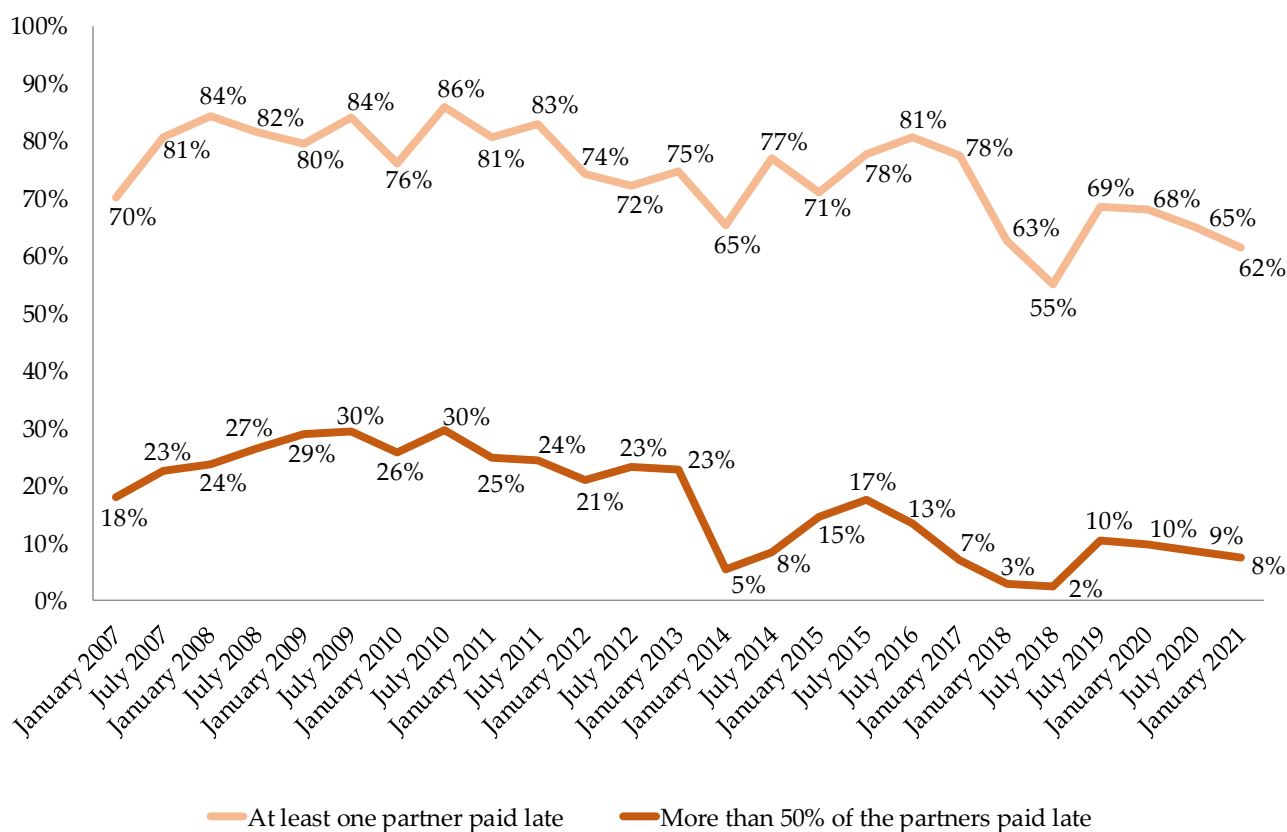
Late payment and circular debt among Hungarian businesses in 2020

In its current analysis, HCIC's Institute for Economic and Enterprise Research (IEER) examines 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 January 2021, whereby they asked 349 leaders of companies employing at least twenty people about late payment and circular debt in their experience.

62% of the companies enquired had a business partner in the second half of 2020 that was late with payment multiple times. In July 2020 the rate was 65%, down from 68% in January, so it is safe to say that there has been a downward tendency in experiencing late payment.

Compared to the period before, the rate of companies experiencing late payment from more than a half of their partners decreased slightly, with the pattern clearly visible: January 2020 – 10%, July 2020 – 9%, January 2021 – 8% (see Figure 1).

Figure 1: The rate of companies experiencing late payment, 2007–2021¹, N=275–408



Source: IEER 2021

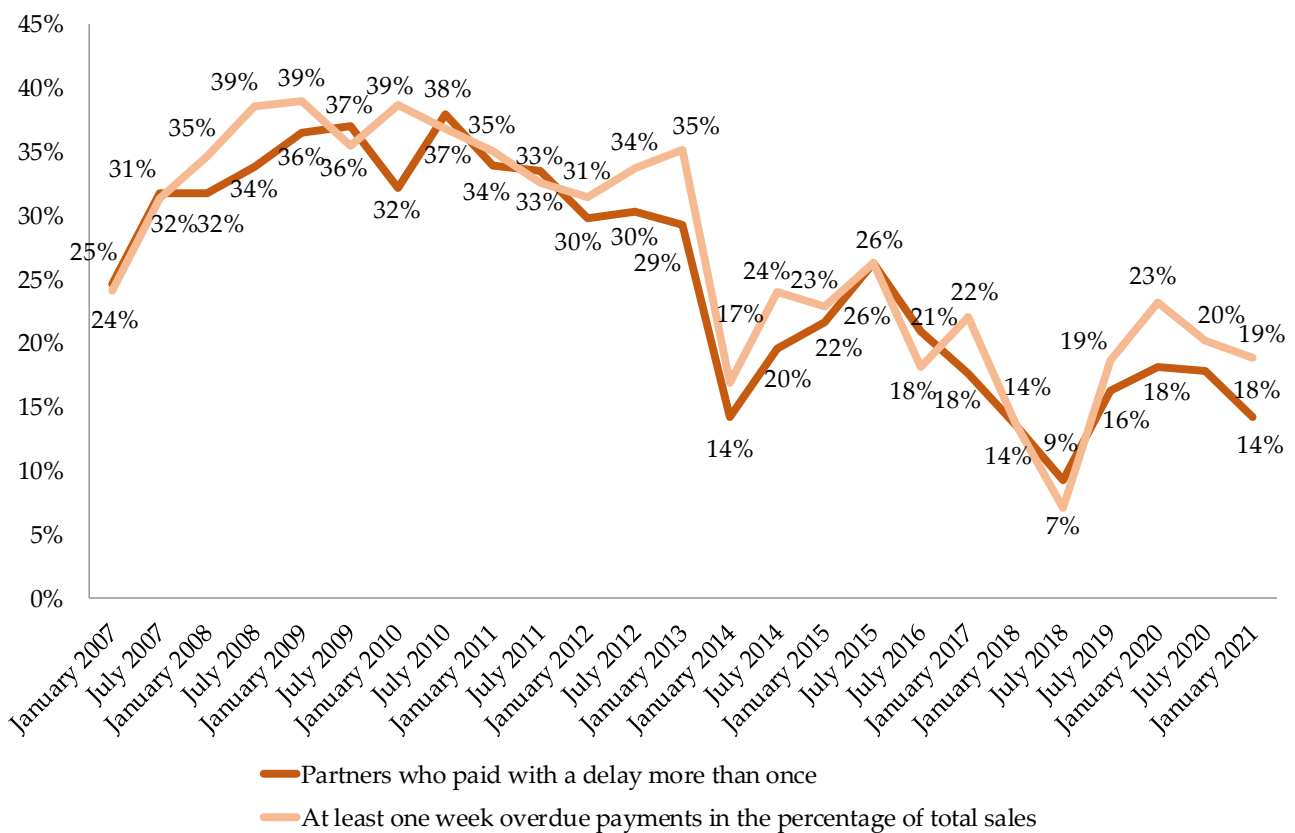
¹ In case of all time series data shown, it has to be taken into consideration that companies with more than 250 employees are present in our sample from only 2010.

MBET March 2021

There was a significant difference with regard to company size: while 68% of 20-49 companies and 66% of 100-249 companies had late-paying business partners (almost the same rate as in July 2020), the rate was only 56% among 50-99 companies and 54% among 250+ companies. As for sectors, trading companies were the most exposed to the issue, with 74% having done business with at least one late-paying partner, that is 5 percentage points more than half a year ago. Late payment became more frequent in the construction industry, too, up at 62% from 58% in July 2020, however, the rate of late payers dropped from 67% to 62% in the processing industry, and from 64% to 62% in the service sector. This latter figure may well have been influenced by the fact that a

markedly high proportion of companies offering miscellaneous economic services (13%) operated at maximum 10% of their full capacity (with 9% of them suspending business altogether). On average, 14% of our respondents' business partners paid late more than once, which is 4 percentage points lower than in July 2020, while payments flowing in beyond payment deadlines accounted for 19% of total sales, a 1 percentage point drop compared to previous half figures (see Figure 2). Results have shown that despite downward tendencies, businesses still had more late-paying partners on average than in July 2018, and have received a larger part of their revenues late.

Figure 2: The rate of late-paying partners and the rate of income that arrived beyond payment deadline, average, 2007–2021, N=256-408



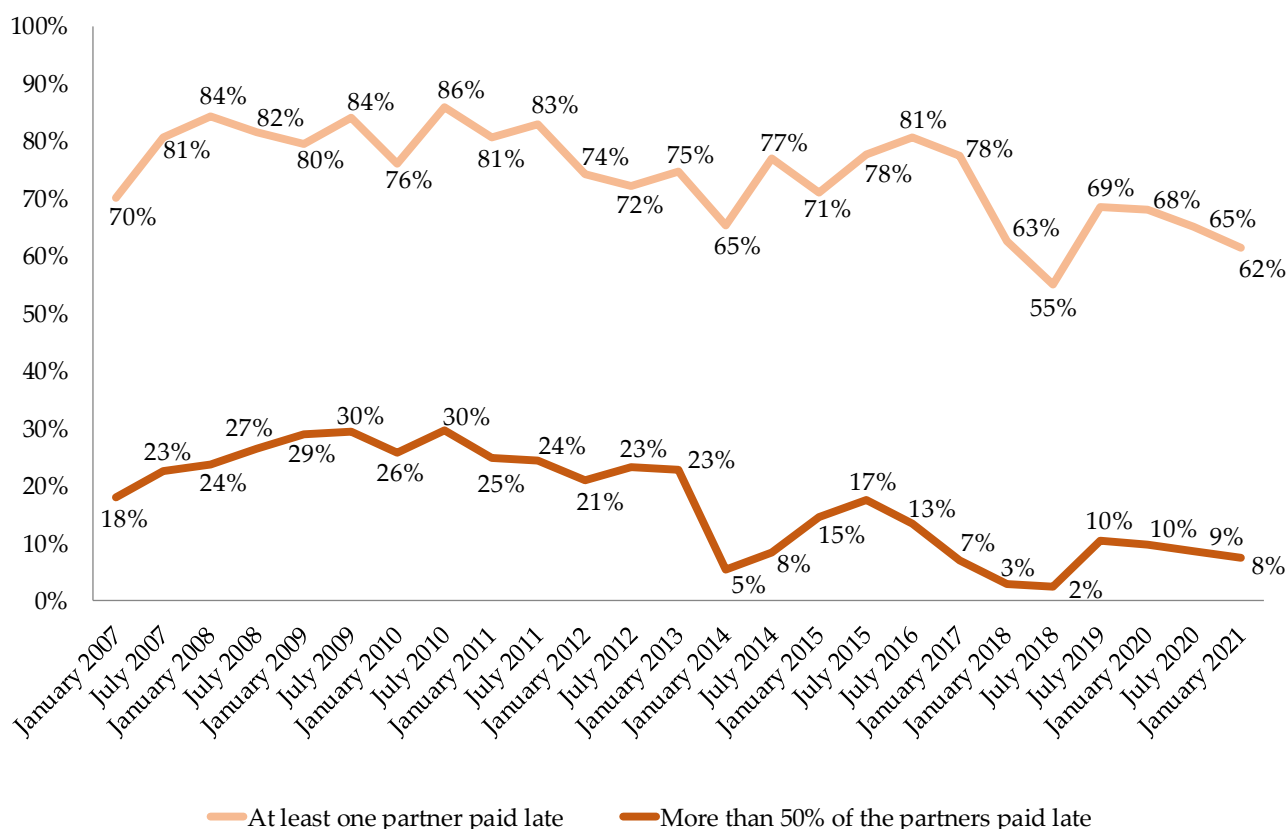
Source: IEER 2021

MBET March 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 17%, breaking an upward tendency unaltered since July 2018: the rate of

11% in January 2018 was up at 20% in July 2020 when one in five companies reported to have experienced circular debt issues during the year (see Figure 3).

Figure 3: The proportion of companies which were late to pay at least once as a result of being paid late 2007–2021, N=296–417



Source: IEER 2021

The severity of circular debt issues remained unchanged according to 60% of respondents. 6% claimed they had become less serious, and 35% 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 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 (21%).

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	(March)	6.0%	6.0%	6.0%
Germany	Manufacturing Purchasing Managers Index	(March)	66.6	66.6	60.7
	IFO Business Climate Index ¹	(March)	96.6	100.4	92.7
France	INSEE Business Climate Index ²	(March)	96.6		90.4
	Unemployment Rate	(March)	6.0%	6.0%	6.2%
USA	CB Consumer Confidence Index	(March)	109.7	96.9	90.4
	Manufacturing Purchasing Managers Index	(March)	59.1	59.0	58.6
China	Manufacturing Purchasing Managers Index	(February)	51.9	51.0	50.6

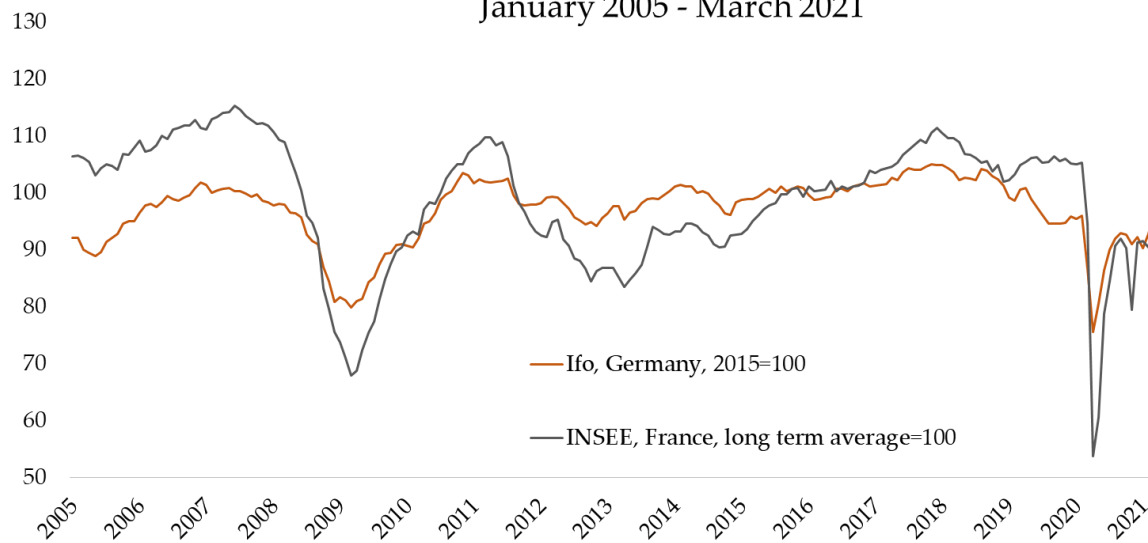
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

The rest of the data source: <http://worldeconomiccalendar.com>

In Germany, the IFO business climate index increased significantly compared to February. The manufacturing purchasing manager index (PMI) has demonstrated also a noticeably increase. Unemployment rate remained the same for Germany. The French INSEE business climate index increased significantly compared to last month. In the United States, the CB consumer confidence index demonstrated an increase compared to the month prior, and it performed better than expected. The manufacturing PMI increased compared to February in the USA. The unemployment rate has slightly decreased compared to last month. The Chinese manufacturing PMI increased compared to previous period.

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - March 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:

Ágoston Horváth, analyst, MKIK GVI
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,
March 2021, Budapest,
2021-03-14