Monthly Bulletin of Economic Trends

The financial reserves of Hungarian enterprises

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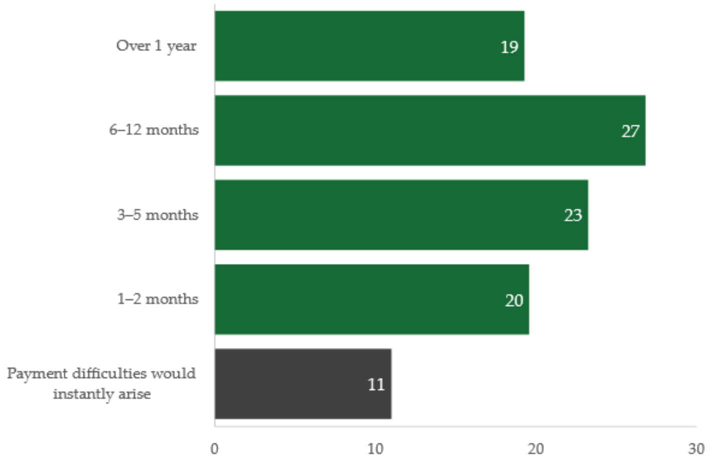
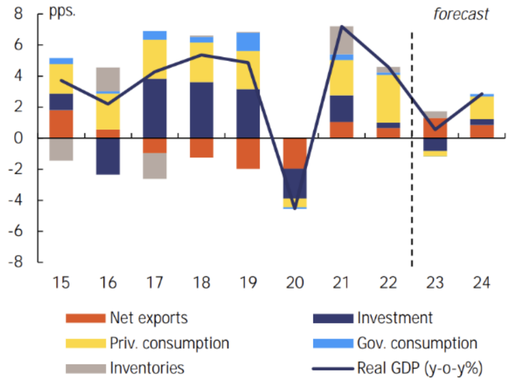


Graph II.24.1: **Hungary - Real GDP growth and contributions**



Forecasts regarding the economic state of the EU and the Eurozone

The Hungarian economy is significantly influenced by the economies of the other member states of the European Union, as they are Hungary's most important trade partners. This article summarises the forecasts on the European economy (EU27, Eurozone) published by the European Commission and various economic research institutes. … More

International trends

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THE FINANCIAL RESERVES OF HUNGARIAN ENTERPRISES

In July 2023, as part of the quarterly business climate survey of the Institute for Economic and Enterprise Research (IEER), a total of 350 CEOs of Hungarian businesses with at least 20 employees reported their expectations regarding the level of financial reserves, and the money market instruments available to them.

The level of financial reserves

Over a tenth (11%) of firms with 20 or more employees have no financial reserves, so if their revenues dried up, they would face immediate payment difficulties. A fifth of firms have enough capital to meet their financial claims for 1-2 months at most, almost a quarter (23 percent) have enough for 3-5 months, and over a quarter (27 percent) have enough equity for 6-12 months. Almost a fifth (19 percent) of firms would face difficulties in meeting their financial obligations after more than 1 year if their revenues ceased to flow in (Figure 1).

In addition to financial liquidity, we also asked businesses how long their financial reserves would allow them to maintain their current staff numbers without the need for revenues and additional external funding. **The results are like the pattern seen for financial liquidity. During the survey period (July 2023) 16 percent of respondents said that such a scenario would require immediate layoffs at their firm,** while 22 percent would only be able to pay their employees for 1-2 months, and a fifth would be able to pay their employees from their reserves for 3-5 months. The proportion of firms with enough reserves to maintain staff for 6-12 months even if revenues dried up was 30 percent, and 12 percent of those with enough reserves for over a year.

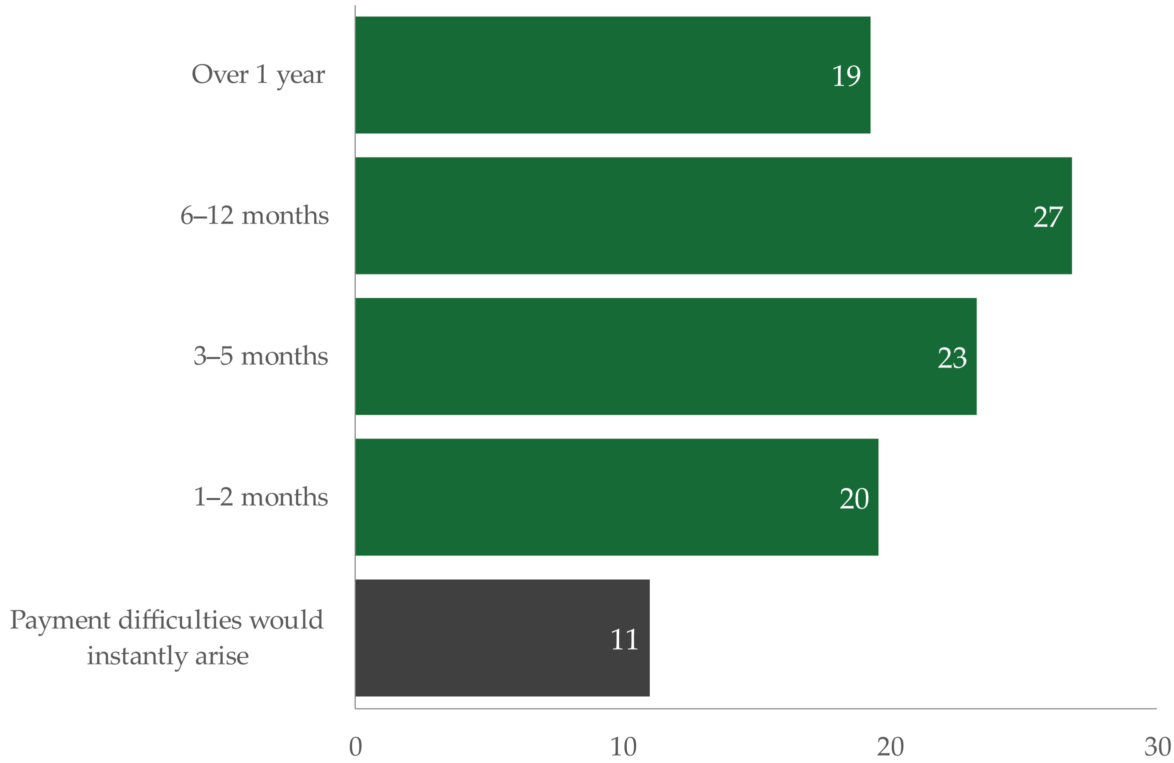
In both cases, a statistically significant difference in responses can only be found in the aspect of ownership structure. In terms of financial liquidity and staff retention, **(partially) foreign-owned firms are in a better position than their fully domestic counterparts.**

Expectations on the level of financial reserves

Regarding the expected development of the level of financial reserves in the next six months, 8% of managers of companies with reserves expect a significant decrease, while 30% expect a slighter decrease. 50% of managers believe that the level of financial reserves in their business will not change over the next six months. **More than a tenth of CEOs expect some increase in the level of financial reserves (10% expect a small increase, 2% expect a significant increase -** see Figure 2). In both cases, only by ownership structure is there a statistically significant difference in the firms' responses. In terms of financial liquidity and staff retention, (partially) foreign-owned firms are in a better position than their fully domestic counterparts.

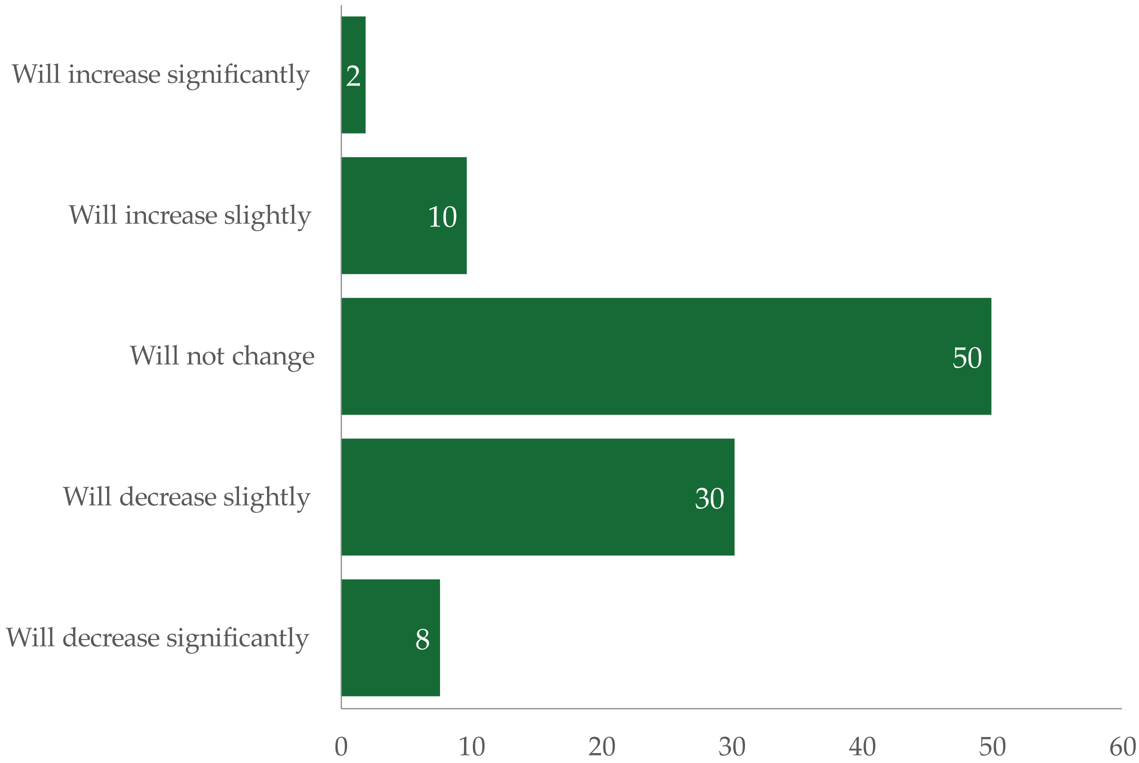
The only statistically significant difference between firms' opinions on the expected level of financial reserves can be measured along with export activity. Major exporters are the most optimistic about the future, with the lowest proportion of enterprises expecting a decrease (28%) and the highest proportion expecting stagnation (55%) or growth (17%). The same proportions for non-exporting enterprises are 36%, 53% and 11% respectively, i.e., with a slightly less favourable overall picture, but the pattern is similar. Minor exporters are the most pessimistic: almost half of them (49%) expect a decrease, they have the highest proportion expect a significant decrease (16%), 40% of them expect stagnation and 11% an increase.

Figure 1. How long would a company's financial reserves (excluding revenues and additional external sources) allow it to meet its financial obligations (percent, N=313)



Source: IEER 2023
Note: Data weighted by the economic performance of enterprises

Figure 2: Expected development of financial reserves available to enterprises (that have reserves) over the next six months, percentage, N=207



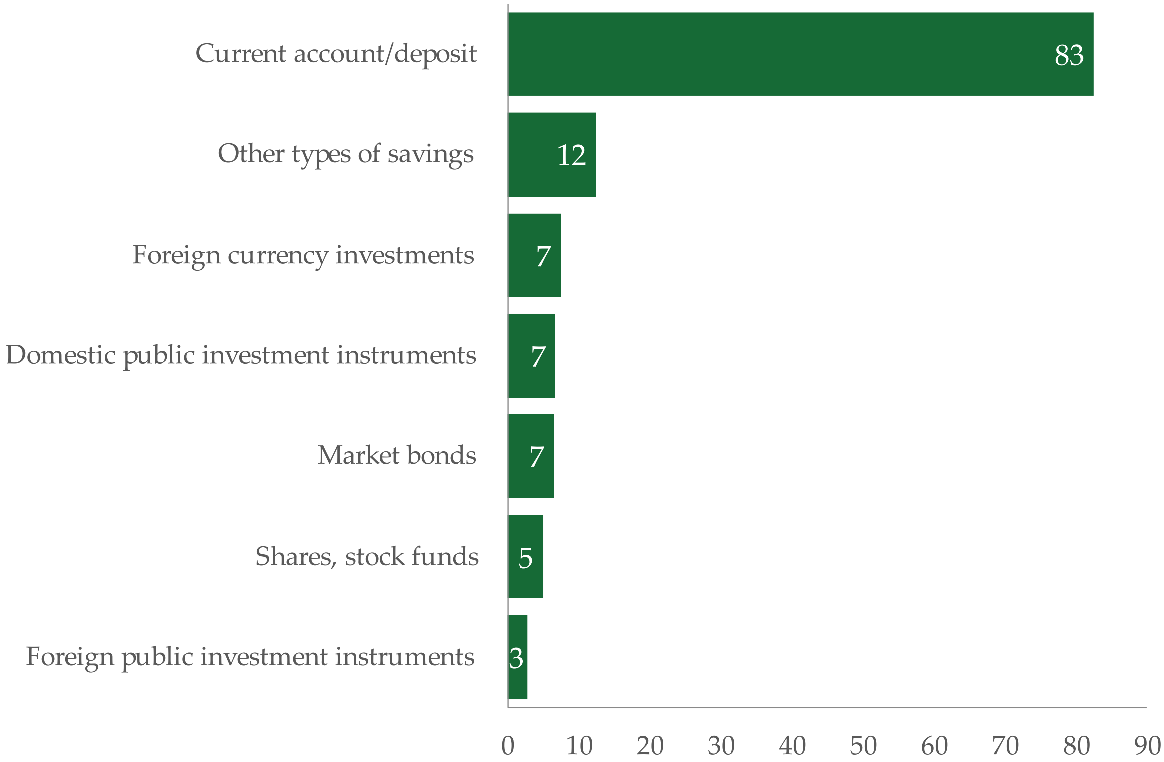
Source: IEER 2023
Note: Data weighted by the economic performance of enterprises.

Available money market instruments

Most businesses with financial reserves keep their savings in current accounts and fixed-term deposits (83%). Other forms of savings were mentioned by 12 percent of firms. Cash is the most common form of other savings, but non-saving forms (e.g., loans, credit) and non-money market assets such as machinery, cars, real estate, or stocks also exist. The other listed money market instruments (foreign exchange investment, domestic government investment instruments, market bonds, shares, foreign government investment instruments) are found in 3-7% of the firms (Figure 3)

There are significant differences in financial reserves held in current accounts and fixed-term deposits regarding size category. **Among the smallest firms (20-49 employees) and the largest (250 employees or more), the proportion of firms that prefer current accounts and fixed-term deposits is the lowest (75 and 78 percent respectively).** Compared to the other two size categories, they have a slightly higher share of market bonds, public investment vehicles and other forms of savings. For the smallest firms (20-49 employees), cash is also the most common form of savings. In both other two size categories, the share of those who keep their reserves in current accounts and fixed-term deposits (among others) is 97%. Export activity is a feature with significant differences between companies in terms of using domestic public investment instruments. **Over one-tenth of non-exporting firms (11 percent) hold their reserves in domestic public investment vehicles, while that proportion is only 5 percent in the group of minor exporters. Major exporters do not prefer this type of money market instrument at all.**

Figure 3: Money market instruments available as reserves, percentage, N=207



Source: IEER 2023
Note: Respondents could specify more than one money market instrument. Data is weighted by the distribution of the number of registered enterprises by size classes and sectors.

FORECASTS REGARDING THE ECONOMIC STATE OF THE EU AND THE EUROZONE

The Hungarian economy is significantly influenced by the economies of the other member states of the European Union, as they are Hungary's most important trade partners. This article summarises the forecasts on the European economy (EU27, Eurozone) published by the European Commission and various economic research institutes.

After uninterrupted growth in the European Union and the Eurozone between 2013 and 2019, the EU and global economies were hit hard by the coronavirus pandemic in 2020. The European economy suffered a historic downturn in the first half of the year due to the restrictions put in place to contain the pandemic, and although in the third quarter (summer 2020) the economy bounced back, the subsequent second wave in the autumn brought severe disruption and the continent's economy fell into a recession once again. In late 2020 and early 2021 the downturn was less severe than at the time of the outbreak, since businesses and households were better able to adapt to the constraints of the pandemic and typically received strong government support to address the economic challenges. In late 2021 and early 2022, with inflation rising across the continent, economic growth in the EU slowed down. Russia's war against Ukraine in February 2022 and the resulting energy crisis further increased the negative impact on the EU economy, putting it on a low growth-high inflation path.

According to the **European Commission's** Spring 2023 Economic Forecast, the European economy will prove resilient in a challenging global environment. As the war in Ukraine and the energy crisis worsened the outlook for the EU economy, and governments all over the world embarked on massive monetary austerity programmes, a winter recession in the EU seemed inevitable last year: the autumn 2022 forecast predicted a contraction of the EU economy for the last quarter of 2022 and the first quarter of 2023. However, recent data showed a more moderate contraction in the last quarter of 2022 than predicted, and - owing to lower energy prices, resolved supply issues and a strong labour market, a modest growth in the first quarter of 2023, dispelling fears of a recession.

This better-than-expected start to the year raises the growth outlook for the EU economy to 1 percent in 2023 (0.8 percent in the winter interim forecast) and 1.7 percent in 2024 (1.6 percent in the winter interim forecast). (This year, Sweden (-0.5 percent) and Estonia (-0.4 percent) are expected to grow the least, with Ireland growing the most, at 5.5 percent). The forecast for the Eurozone also looks brighter than in the winter, with GDP growth of 1.1 percent in 2023 and 1.6 percent in 2024. In a similar manner, inflation expectations were also given a revision compared to the winter forecast, to 6.7 per cent in 2023 and 3.1 per cent in 2024 for the EU-27 and 5.8 per cent in 2023 and 2.8 per cent in 2024 for the Eurozone. The unemployment rate is expected to be 6.2 percent in the EU-27 and

6.8 percent in the Eurozone this year, and one tenth of a percentage point lower next year.

The **OECD's** June forecast[1] for the global economy predicts an economic growth of 2.7% this year and 2.9% next year. The report highlights that it is the lowest annual growth rate since the 2008-2009 economic crisis (not considering the first year of the coronavirus pandemic) despite the boost to the global economy since Chinese pandemic restrictions were lifted earlier this year. The organisation forecasts that Eurozone growth will slow down to 0.9% this year from 3.5% last year, before accelerating to 1.5% in 2024 as energy prices recover and inflation falls. Inflation in the Eurozone peaked in 2023 (8.4 percent), which the OECD expects to rise to 5.8 percent this year and 3.2 percent next year.

The **International Monetary Fund** (IMF) expects a growth of 0.8% in the Eurozone and 0.7% in the EU in 2023. They expect growth to pick up in 2024, to 1.4-1.6 percent. [2]

The April 2023 GDP forecast of **Kopint-Tárki Institute for Economic Research Co.** predicts a 0.9 percent growth for the EU-27 and the Eurozone this year, but growth could pick up to 1.6-1.7 percent next year. The report adds that until the last quarter of 2022 there was enough steam in the Eurozone economies to avoid a recession despite high energy prices, accelerating inflation and falling purchasing power, but there are large differences between countries.

Table 1. GDP forecast for EU 27, and the Eurozone

Forecaster	EU 27	Eurozone
European Commission	1%	1,1%
OECD	--	0,9%
IMF	0,7%	0,8%
Kopint-Tárki	0,9%	0,9%

[1] https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2023/issue-1_ce188438-en (last downloaded: 2023.07.12.)

[2] https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EURO/EU (last downloaded: 2023.07.12.)

INTERNATIONAL TRENDS

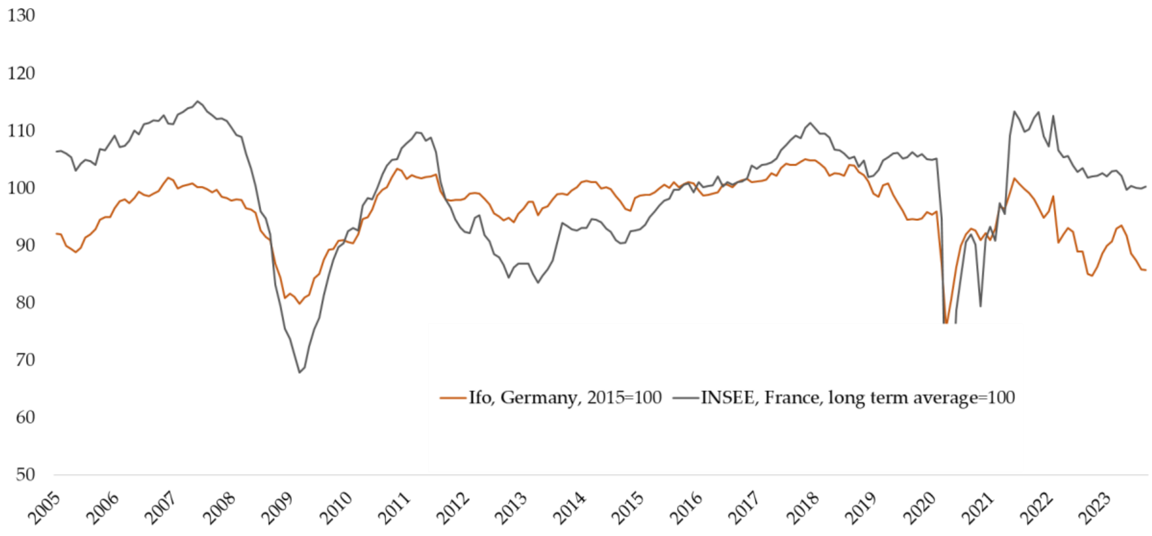
Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(September)	**5.7%**	5.7%	5.7%
	Manufacturing Purchasing Managers Index	(September)	**39.6**	39.8	39.1
	IFO Business Climate Index[1]	(September)	**85.7**	82.9	85.8
France	INSEE Business Climate Index[2]	(September)	**100.3**		99.9
USA	Unemployment Rate	(September)	**3.8%**	3.7%	3.8%
	CB Consumer Confidence Index	(September)	**103.0**	105.5	108.7
	Manufacturing Purchasing Managers Index	(September)	**49.8**	48.9	47.9
China	Manufacturing Purchasing Managers Index	(September)	**50.2**	50.2	49.7

[1] https://www.ifo.de/en/survey/ifo-business-climate-index
[2] http://www.insee.fr/en/themes/indicateur.asp?id=105
The rest of the data source: https://www.bloomberg.com/markets/economic-calendar

In Germany, the IFO business climate index decreased slightly compared to August. The manufacturing purchasing manager index (PMI) increased compared to the previous period. The unemployment rate remained the same in Germany compared to the last month. The French INSEE business climate index increased compared to the month prior. In the United States, the CB consumer confidence index decreased compared to August, and performed worse than expected. The manufacturing PMI increased compared to the previous month in the USA. The unemployment rate remained the same in the USA compared to the month prior. The Chinese manufacturing PMI increased compared to the previous month.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - September 2023



Sources: www.ifo.de, www.insee.fr

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16 OCTOBER 2023

In case of publication please cite as follow:
HCCI IEER: Monthly Bulletin of Economic Trends,
September 2023, Budapest,
2023-10-16