Monthly Bulletin of Economic Trends

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Late payment and circular debt in Hungarian business life

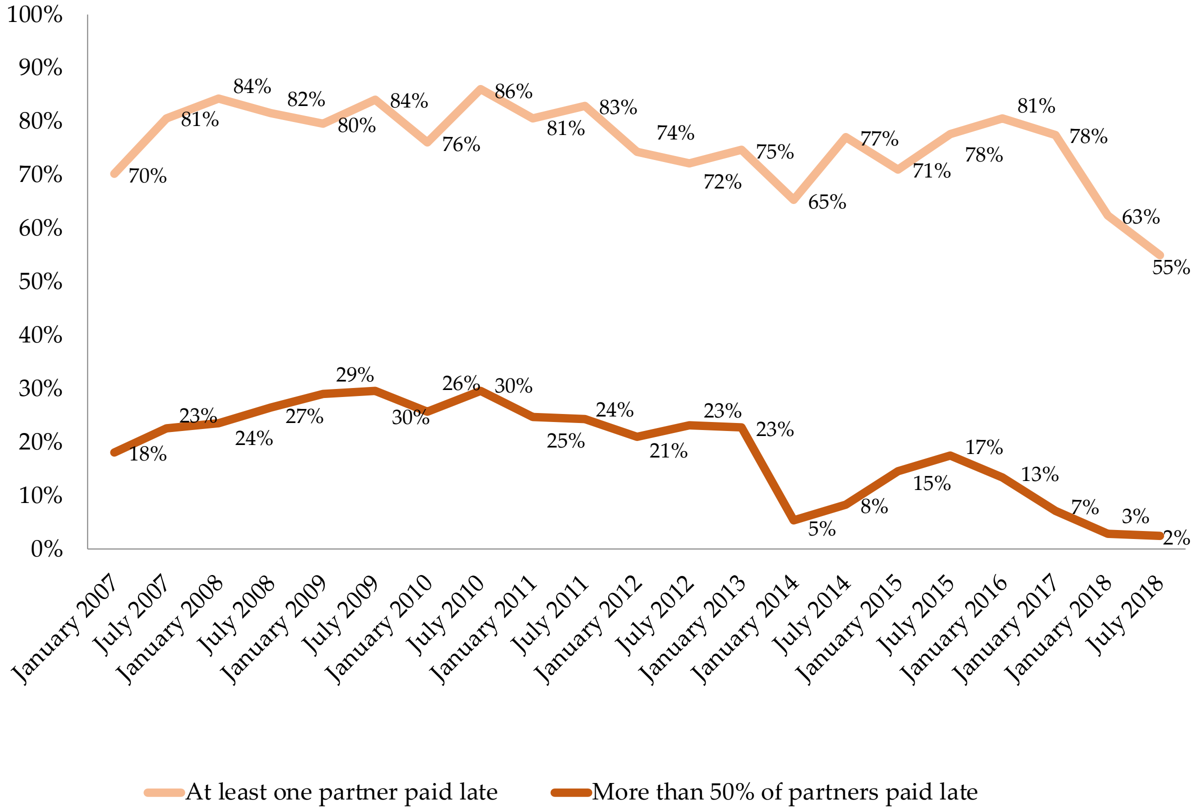
This analysis by IEER concerns the experience of Hungarian businesses with late payment and circular debt. The results are based on IEER's July 2018 Quarterly Business Climate Survey, which involved 400 domestic respondents. Based on the answers, 55% of businesses had at least one partner that paid late in the first half of 2018, and 8% of respondents made late payments themselves to their suppliers in the examined period. The issue of late payment most often hits medium-sized companies (with 100-249 employees) and the construction industry. The results show that businesses now have fewer late-paying partners on average than in the previous few years, and a smaller proportion of their income arrives late. 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 slightly rose since January 2018.

In the course of IEER's July 2018 Quarterly Business Climate Survey, 400 domestic respondents were surveyed about late payment and circular debt.

55% of surveyed companies had at least one business partner that paid late multiple times in the first half of 2018. As seen in Figure 1, the rate of the same companies was 63% in the second half of 2017 and 78% in January the same year, meaning that late payment has become rarer compared to the results of our previous survey. The proportion of companies with more than half of their partners paying late also decreased. In July 2018, 2% of companies were such, whereas the same ratio was 3% and 7% in January 2018, and January 2017, respectively.

The companies affected the most in the first half of 2018 were medium sized companies employing 100-249 workers. 63% of these companies received late payment from at least one partner (in fact, 13% of their partners paid late on average). By analysing data by sectors one can say that construction companies (67%) and providers of business services (57%) were the most often exposed to late payment. Respectively, 16% and 12% of the partners of construction companies and business service providers paid late multiple times. Besides, results also show that ownership structure did not really make a difference in the proportion of late-paying business partners: 55% 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 (on average, from 8% of their business partners).

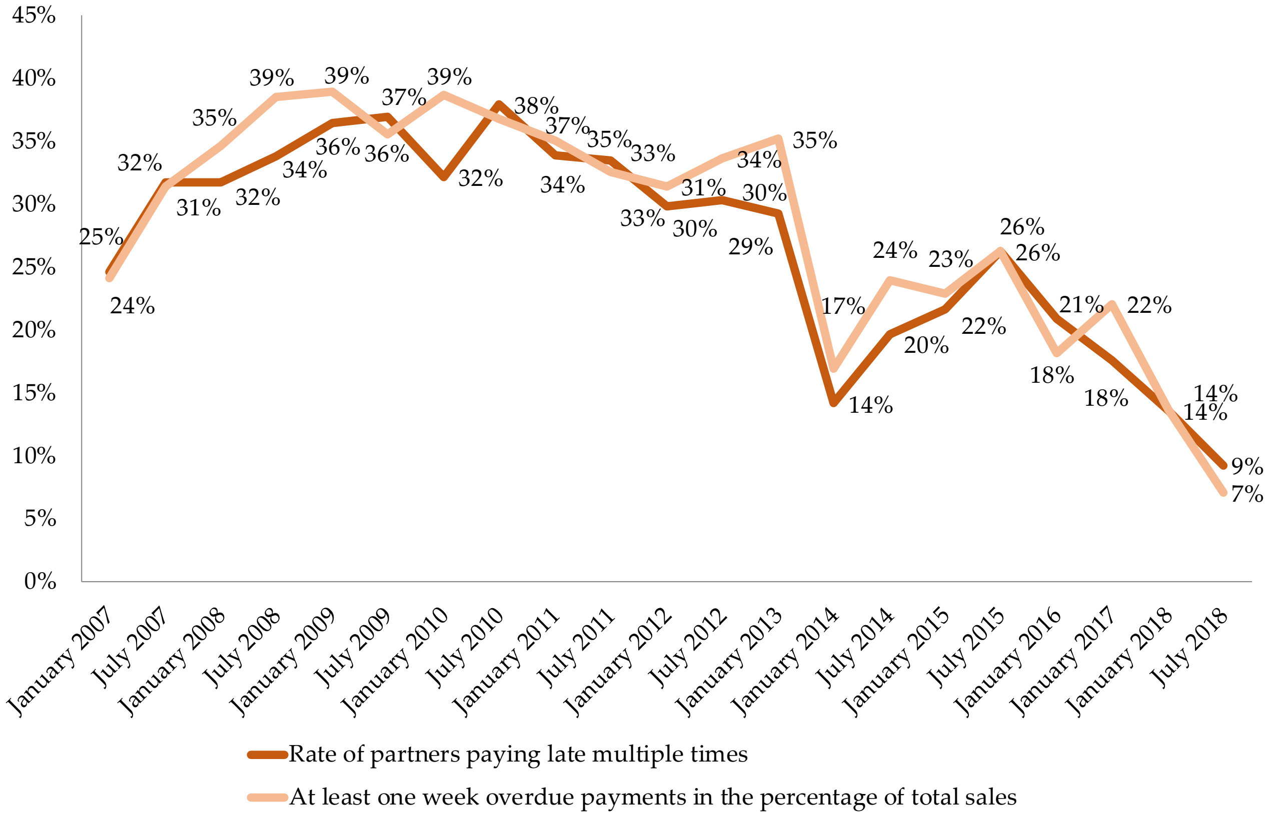
Figure 1: The rate of companies experiencing late payment, 2007-2018



Source: IEER, 2019, 275≤N≤408

52% of respondent companies reported to have received payment, or at least part of it, for their products over a week beyond the deadline. In total, respondent companies experienced at least one late payment with 9% of their partners on average, and 7% of their total sales arrived beyond the payment deadline. All this, and especially the third indicator, shows a continuous decreasing tendency for the past three years. The results led us to the conclusion that businesses now have fewer late-paying partners on average, and a smaller proportion of their income is delayed (see figure 2).

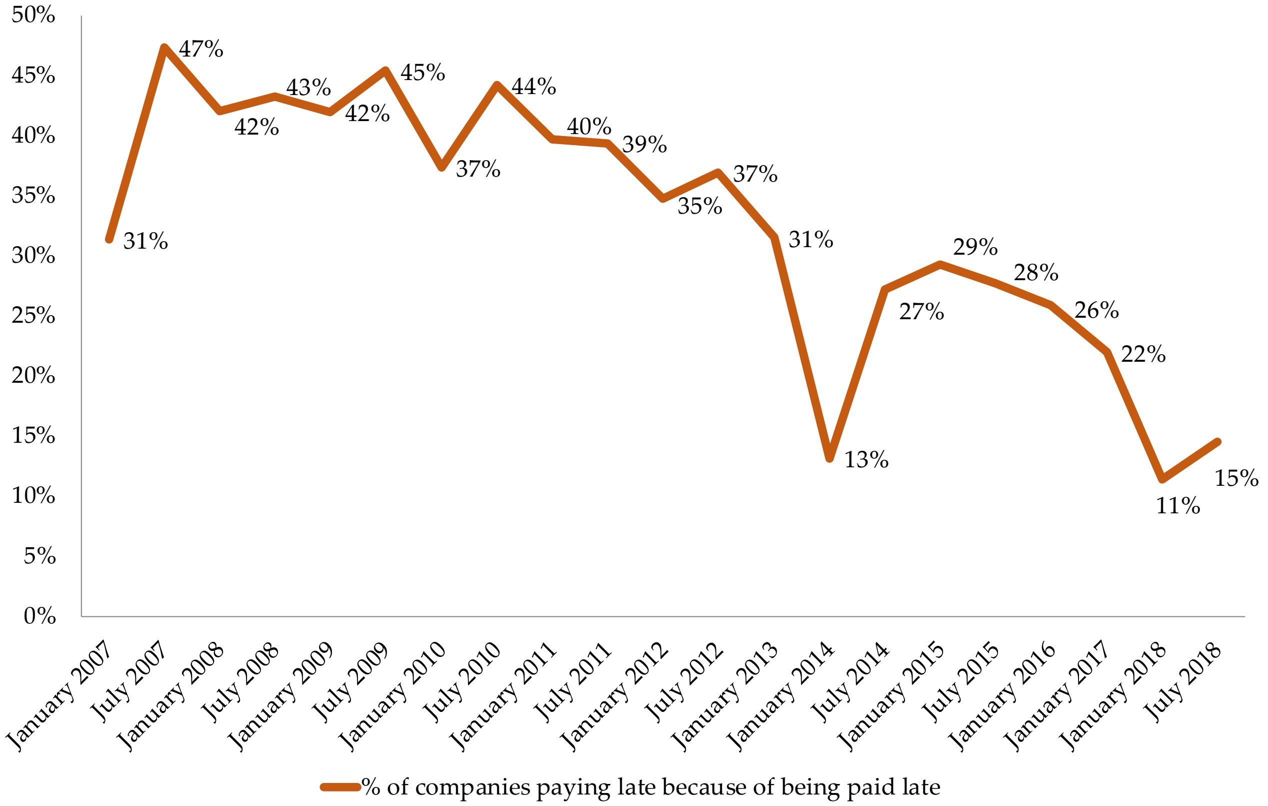
Figure 2: The rate of late-paying partners and the rate of income that arrived beyond payment deadline, average, 2007-2018



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 increased slightly. While the proportion of such companies had been 22% in January 2017, and 11% in January 2018, 15% of respondents in July 2018 reported to have experienced at least one case in the previous year (see figure 3). The rate of companies experiencing circular debt was 12% for 100-249 and 250+ businesses, 8% for 50-99 companies, and 26% for 20-49 companies. Among the sectors it was construction industry that had the highest proportion of companies which were unable to pay in time owing to a business partner's delayed payment (23%). 17% of domestically owned companies and 9% 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, 2007-2018



Source: IEER, 2019, 296≤N≤417

8% of respondents reportedly owed money in the first half of 2018 at least once to at least one of their suppliers. This rate shows a decreasing tendency - in January 2018 and January 2017 the proportion of companies that paid late to a supplier at least once was 17% and 30%, respectively, so it has definitely been a considerable fall.

The severity of the problem caused by circular debt has not changed according to 79% of respondents; 21% said it had decreased and 0.5% claimed that it had increased over the previous half. There has been an overall decrease in the rate of companies perceiving that circular debt-related problems had become more severe since January 2016. (January 2018: 8%, January 2017: 8%, January 2016: 10%). The rate of companies that reported improvement was the lowest (14%) among small enterprises (20-49 employees) and the highest among companies employing 50-99 workers. As far as economic sectors are concerned, managers in the construction industry and business services were the largest group to report (25% in each sector) that the problems caused by circular debt among their partners had become less severe.

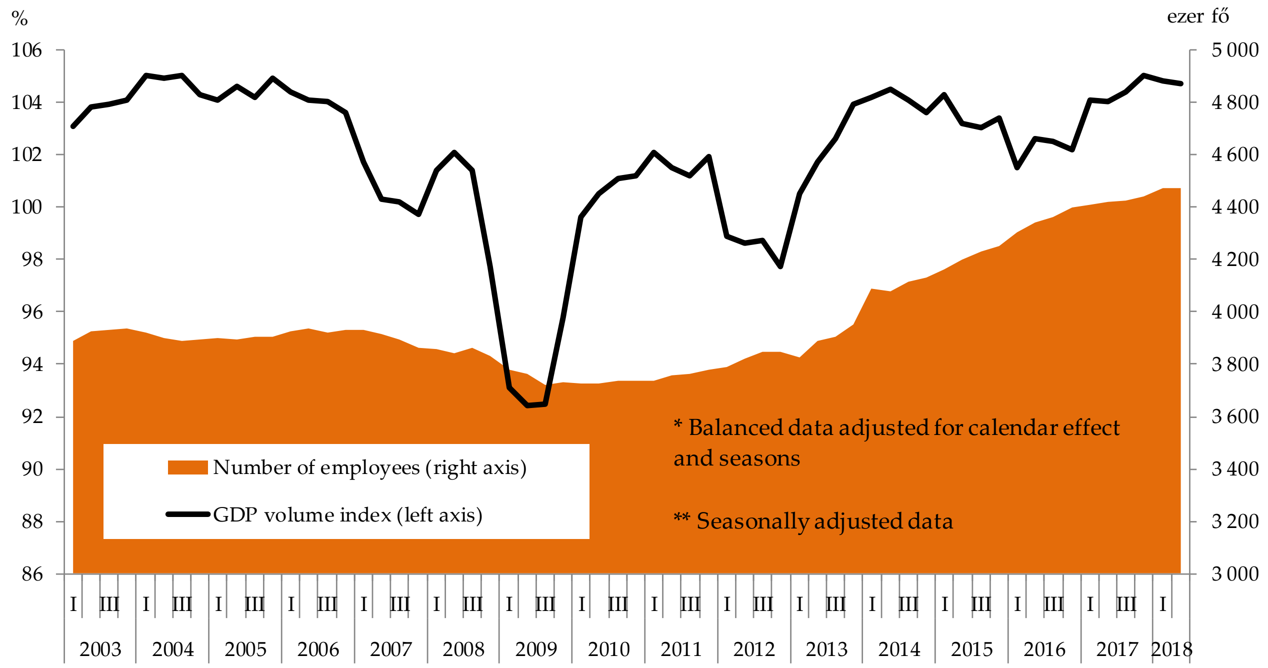
Macroeconomic trends in Hungary

In this article the state of the Hungarian economy will be presented by reviewing the most important macroeconomic indicators such as employment, gross domestic product, industrial production, investments and foreign trade turnover.

Employment and gross salary

The growth of gross domestic product (GDP) started to slow down in 2011, whereas the number of people employed slightly increased. In 2012, economy went back to a slump, GDP dropped considerably, while employment shot up to a pre-recession level, due to a rapid increase in the number of public employees. From 2013, GDP increased slowly and continuously, although inconsistently. Employment also increased further, mainly because of the sustaining public employment policy. Growth between 2014 and 2017 was continuous. In the first two quarters of 2018, the GDP growth rate was still almost 5% (4.8% and 4.7%, respectively) year-on-year, and the number of employees was still on the rise, although at a somewhat slower rate (see figure 4).

Figure 4: Gross Domestic Product (GDP) volume index* (same period of the previous year=100%) and number of employees (thousand people), 2003–Q2 2018**



Source: KSH

As far as the entire Hungarian economy is concerned, there was a year-on-year increase of 6.1% in the gross average monthly salaries. On a national level, the gross average income of full-time employees was HUF 263 200. Disregarding the average wages of public employees, there was a 6.5% increase compared to the previous year. Compared to the year 2015, average wages and salaries in the private sector increased by 5.4%. In the public sector, growth was 9.6%, and in the

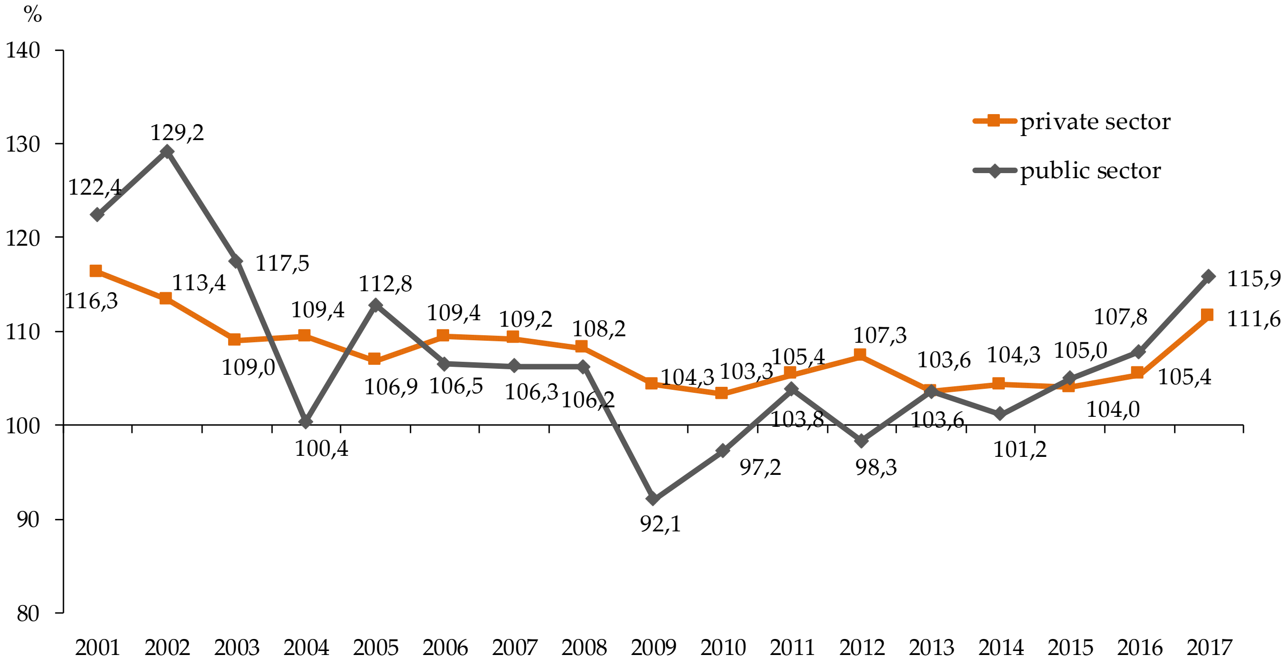
NGO sector, 5.7%.[1] In 2017, there was a year-on-year 12.9% growth in the gross average monthly salary. Nationally, the gross average monthly salary of full-time employees was HUF 297 000. Disregarding the average salary of public employees, there was a 11.7% increase year-on-year. Compared to the year 2016, the average income in the private sector increased by 11.4%. In the public sector, growth was 13% disregarding the average salary of public workers, and in the NGO sector, there was a 10.6% growth.[2] In the first eight months of this year, gross income increased by 11.8% year-on-year. The gross average monthly salary in the national economy was HUF 324 300 - a 10.7% growth if the gross monthly salary of public workers (HUF 82 100) is not counted. The growth rate was 10.7% for people at businesses with at least five employees, 10.9% for the publicly employed and 10.5% for NGO employees.[3]

In 2011, gross salaries in the private sector grew by 5.4%, increasing further in 2012 to 7.3% In 2013, the growth rate had dropped to 3.6 per cent. In 2014, growth was again higher at 4.3%. The gross salaries in the private sector increased by 4% in 2015, 5.4% in 2016 and 11.6% in 2017.

In the public sector, the growth rate of salaries was far less consistent: In 2011 one could witness a 3.8% growth rate, in 2012, however, salaries in the public sector dropped 1.7% as a result of a rising prominence in public employment. There was a 3.6 % pay rise to public sector employees in 2013. The growth rate was 1.2% in 2014, 5% in 2015, 7.8% in 2016 and a whopping 15.9% in 2017 (see figure 5).

[1] Source: KSH Gyorstájékoztató. Keresetek, 2016. január-december. 2017. február 20. (http://www.ksh.hu/docs/hun/xftp/gyor/ker/ker1612.html)
[2] Source: KSH Gyorstájékoztató. Keresetek, 2017. január-december. 2018. február 20. (http://www.ksh.hu/docs/hun/xftp/gyor/ker/ker1712.html)
[3] Source KSH Gyorstájékoztató. Keresetek, 2018. január-augusztus. 2018. október 19. (http://www.ksh.hu/docs/hun/xftp/gyor/ker/ker1808.html)

Figure 5: Gross average monthly salary in the private and public sectors (same period of the previous year=100%), 2001-2017



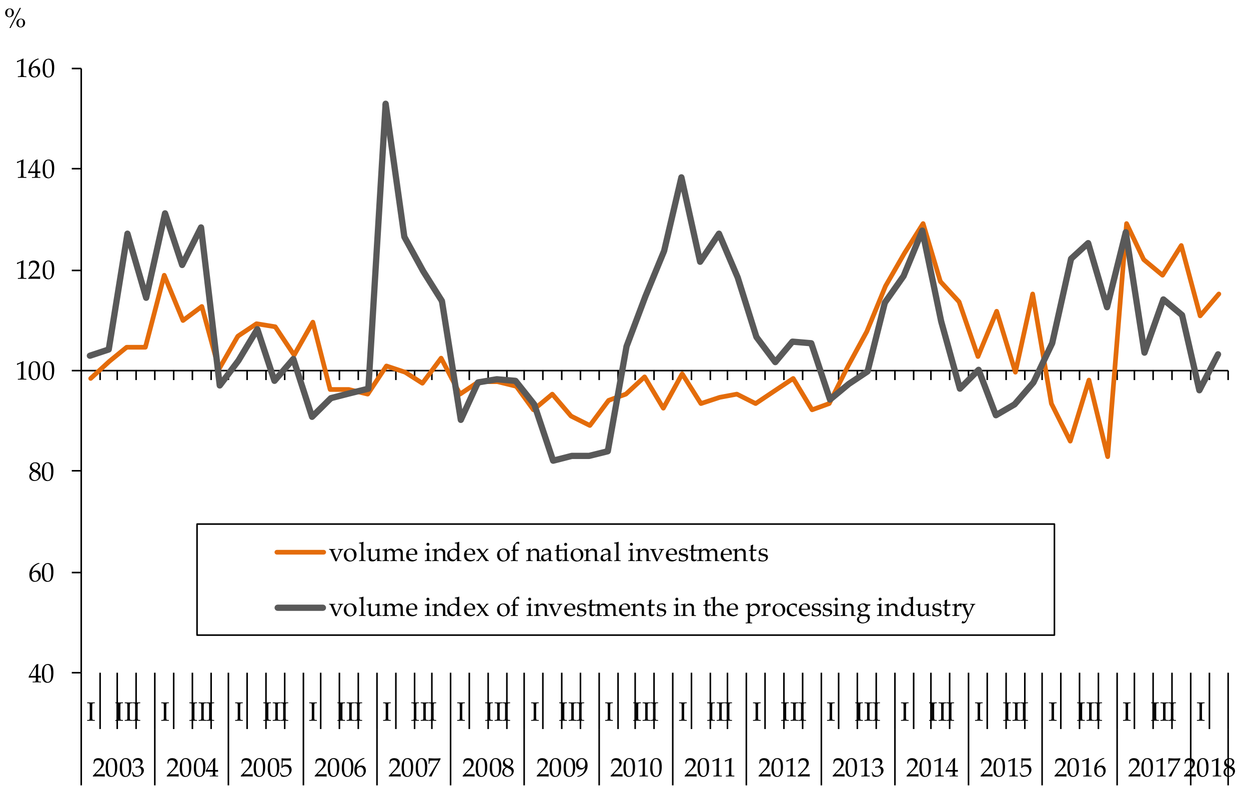
Source: KSH

Investments

The volume of national investments decreased by 4.5% in 2011, and fell further back in 2012 by 5.2% as a result of recession processes. As early as in 2013 a 6.9% increase was experienced year-on-year, followed by a massive 19.4% jump in 2014. In 2015, the increase was more moderate at 8.6 per cent, followed by a drop of 11.3 per cent in 2016. However, the volume of national investments increased again considerably in 2017, by 23.3%. In the first half of 2018 there was a slight drop in the growth rate of national investments, with growth still being steady: year on year, the growth rate was 10.8% and 15.3% in the first and the second quarter, respectively.

Data on the volume of investments in the processing industry show accelerated growth, starting in the second quarter of 2010. By the fourth quarter, the rate reached 24%. In 2011 the positive tendency continued. In 2012 an annual growth rate of 4.9% was experienced. The rate of investments in the processing industry increased by 3.1% in 2013, speeding up to 9.6% in 2014. The year 2015 saw a 4.5% drop, turning into a soar of 16.4% in 2016. In 2017, growth slowed down somewhat: in that year, the volume of investments in the processing industry grew by 12.8%. This year's first quarter saw a 3.8% volume index drop, and in the second quarter there was a 3.2% growth compared to the same period of the previous year (see figure 6).

Figure 6: Volume index of investments and investments in the processing industry (same period of the previous year=100%), 2003–Q2 2018

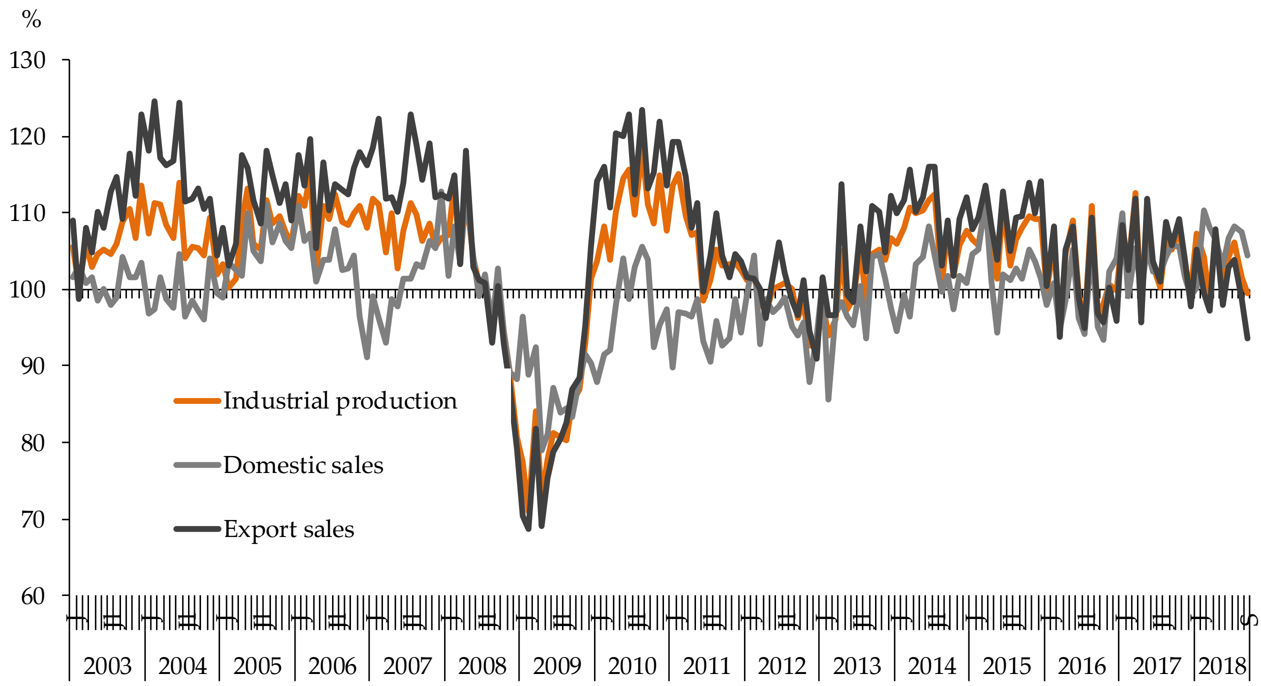


Source: KSH

Industrial production

Throughout 2010, the volume of industrial production increased each month after the low it hit the year before. Annual growth was 10.6%. In 2011, growth slowed down to a 5.6% level. In 2012 recession thrust back industrial production once again, and as a result there was a 1.8% drop. In 2013 there was a 1.1% increase followed by a significant jump of 7.7% in 2014. Strong industrial production growth sustained (7.4%) in 2015, too. In 2016, however, there was a significant drop (0.9%). In 2017, the volume of industrial production grew at a rate of 4.6%. In the period between January and September 2018, the overall growth rate of this indicator was 3.1%. Industrial exports and domestic sales were up 0.5% and 6% respectively (see figure 7).

Figure 7: Volume index of industrial production and sales (same period of the previous year=100%), September 2003–2018



Source: KSH

Foreign trade

In 2011 the growth rate of foreign trade turnover decreased: the year-on-year increase of the volume of exports was 9.9% and 6.6%, respectively.[4] In 2012, the volume of exports grew 0.7% year-on-year, while imports decreased by 0.1%.[5] In 2013, the export and import sales volume of foreign trade grew 4.2% and 5.0%, respectively.[6] In 2014, the volume index of exports rose by 6.9% and imports by 8.8%.[7] The growth for the exports and imports volume index was 7.8% and 6.3% respectively in 2015.[8] In the year 2016, the foreign trade export turnover volume grew by 4.4%, and that of imports by 4.7%.[9] Finally, in 2017, the volume of exports increased by 8.2% and that of imports saw a 8.2% increase (see figure 8).[10]

In the period between January and August 2018, the volume index of exports increased by 5.3% and the volume index of imports by 6.3% compared to the same period of the previous year. The total export sales value

[4] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2011. január-december

[5] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2012. január-december

[6] Source KSH Statisztikai Tükör. Külkereskedelmi termékforgalom, 2013. január-december

[7] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2014. január-december

[8] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2015. január-december

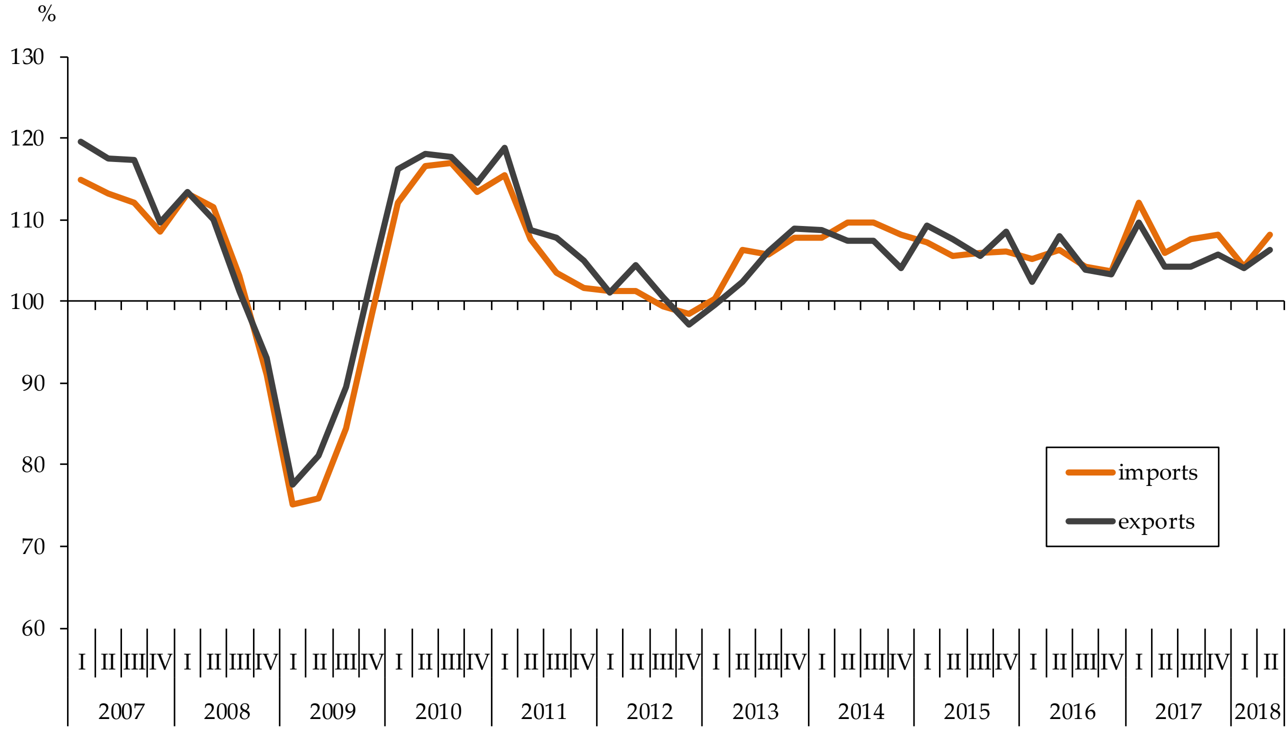
[9] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2016. december (második becslés), http://www.ksh.hu/gyorstajekoztatok/#/hu/document/kul1612

[10] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2017. december (második becslés), http://www.ksh.hu/gyorstajekoztatok/#/hu/document/kul1712

was EUR 69.8 billion (HUF 22 068 billion), whereas imports totalled EUR 65.2 billion (HUF 20 611 billion). Trade surplus amounted to EUR 4.6 billion, that was EUR 719 million less than in the previous year.[11]

[11] Source KSH Gyorstájékoztató. Külkereskedelmi termékforgalom, 2018. augusztus (második becslés), http://www.ksh.hu/gyorstajekoztatok/#/hu/document/kul1808

Figure 8: Volume index of industrial production and sales (same period of the previous year=100%), September 2003–2018



Source: KSH

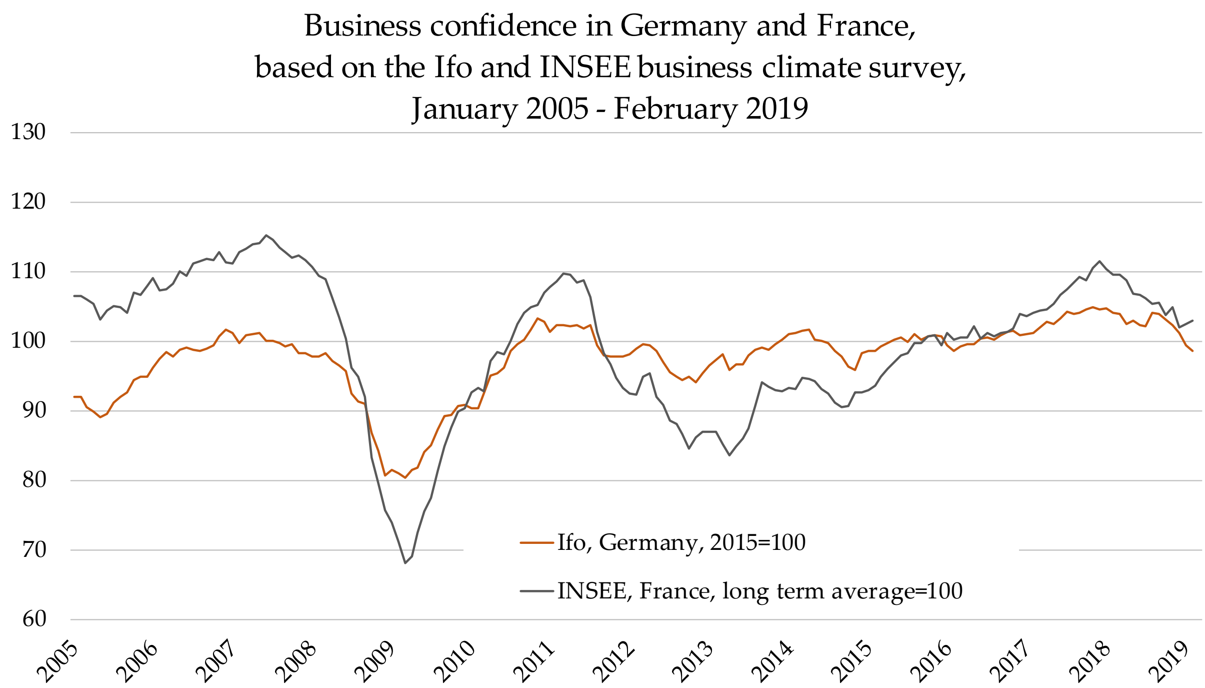
International trends

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	(Feb)	**5.0%**	**5.0%**	**5.0%**
	Manufacturing Purchasing Managers Index	(Feb)	**47.6**	**47.6**	**47.6**
	IFO Business Climate Index[1]	(Feb)	**98.5**	**99.0**	**99.3**
France	INSEE Business Climate Index[2]	(Feb)	**103**		**102**
USA	Unemployment Rate	(Jan)	**3.8%**	**3.9%**	**4.0%**
	CB Consumer Confidence Index	(Feb)	**131.4**	**124.7**	**121.7**
	Manufacturing Purchasing Managers Index	(Feb)	**53.0**	**53.7**	**53.7**
China	Manufacturing Purchasing Managers Index	(Feb)	**49.2**	**49.5**	**49.5**

[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 unemployment rate and the manufacturing purchasing manager index (PMI) stagnates at the same level as in January and performed as expected in February. The IFO business climate index decreased and were lower than expected. The French INSEE business climate index slightly improved compared to January. In the United States, the CB consumer confidence index increased compared to last month and was above the expectations. The manufacturing PMI decreased and performed worse than expected in February. The unemployment rate decreased compared to the last month. The Chinese manufacturing PMI slightly decreased and was below the expectations in February.



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

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