Monthly Bulletin of Economic Trends

June 2021

Perception of Hungarian companies' financial situation and their share from the aids offered by government measures aiming to relieve the economic effects of COVID19, April 2021

This analysis by Institute for Economic and Enterprise Research (IEER) focuses on Hungarian companies' perception of their financial situation and how government measures mitigating economic effects of COVID19 affected them. Data used for this analysis were taken from IEER's most recent Business Climate Survey: in April 2021 a total of 2790 Hungarian businesses were asked about their financials and acceptance of government support.

According to the results of the April 2021 survey, the business confidence in Hungary gradually improved following the low level measured in spring 2020. Since October 2020 the half-year Business Climate Index climbed from +14 points to +28 points. At the same time it is worthwhile to note that the current score value has been still the lowest since April 2014 (+27 points) and before April 2020.[1]

Financial situation of businesses during the third wave of the COVID19

Manageability of financial obligations

Companies were quite uniform in assessing their abilities to cover their financial obligations in the previous half, in April 2021, and for the upcoming half their expectations were also similar. **For a quarter to a third of companies it posed no difficulty at all to meet their obligations, in none of the past survey periods, and for a further third the difficulty they met was medium.** In all periods, paying obligations posed only a little to moderate difficulty to over 80% of companies. F**or 10% of the companies, however, meeting financial obligations meant a constant, heavy burden.**

As far as economic sectors are concerned, industrial companies were the the least likely to encounter and expect problems with meeting financial obligations. The rate of companies that have great difficulty with meeting financial obligations is by far the highest in the sector of service providers.

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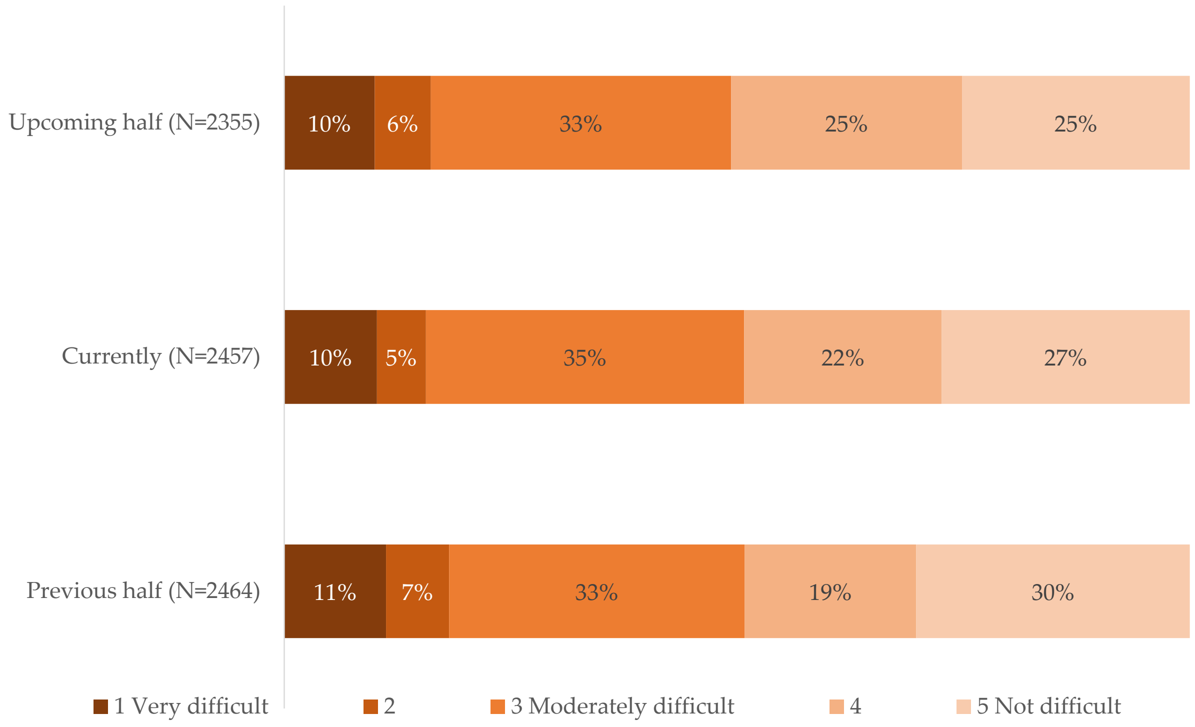
[1] MBET_2021_May_210615.pdf (gvi.hu)

Figure 1: Ability to meet financial obligations



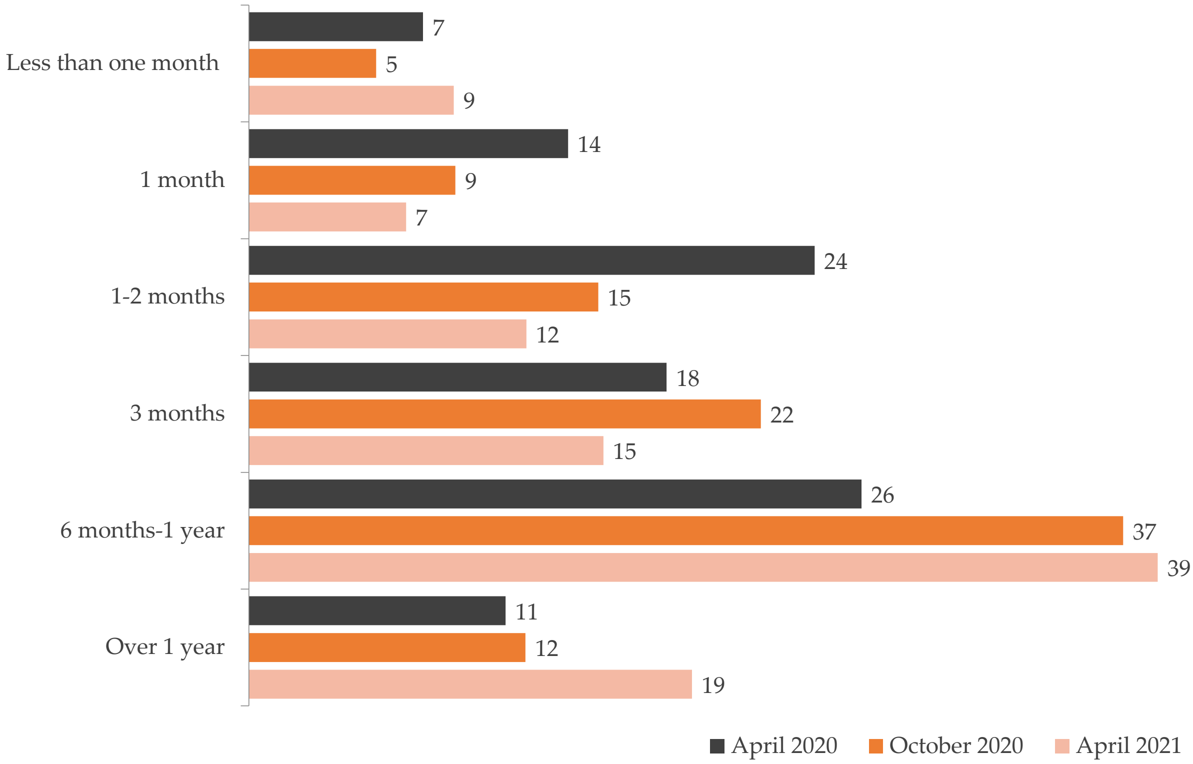
Source: IEER 2021

The level of financial reserves

Compared to data taken in the last year, companies saw their financial situation more favourably in April 2021 as far as their reserves are concerned. The most remarkable change was that in April 2021 almost a fifth of companies told us that they had enough reserves to cover their financial obligations for over a year amid COVID19 restrictions compared to only 11% and 12% in the previous two survey periods. However, almost a third (28%) of Hungarian companies could still sustain for not more than two months and 48% could only survive a maximum of three months. In April 2020 rates were 45% and 63% respectively.

Likewise, the rate of companies that would be able to keep their employees for at least 6 months amid third wave restrictions was much higher than in the previous year.

Figure 2: Ability to meet financial obligations – without supplementary outside sources – in times of COVID19 restrictions, per cent, $N_{2020\ April}$=2541, $N_{2020\ October}$ =2420, $N_{2021.\ April}$=2120



Source: IEER 2021

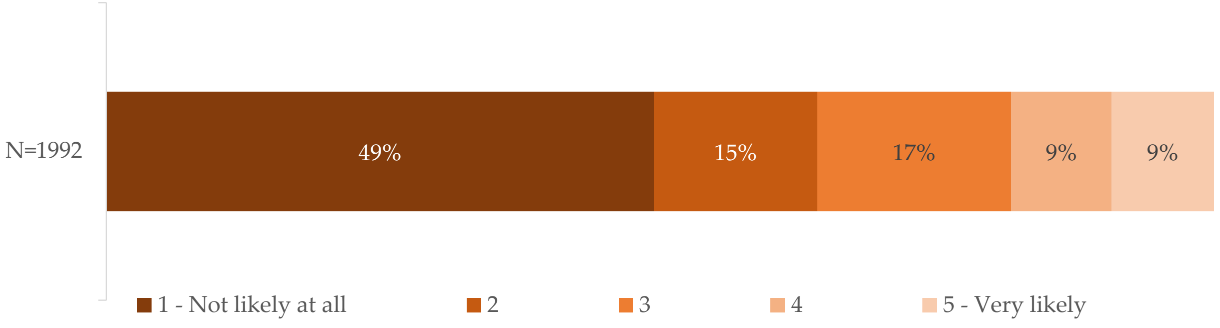
The risk of quitting the market and suspending activities

In order to get an indirect overview of how companies see bankruptcy risks in their own fields of activity, we asked respondents to tell how much they expect their same-sector rivals pursuing the same activities to quit the market and suspend their activities in the upcoming six months. **Just under a half of CEOs (49%) told that they did not expect the least that their competitors would exit the market in the foreseeable future, while only 9% thought it very likely that there would be rivals to suspend business activities in the period between April and October 2021. On average, CEOs that could not exclude the possibility that some of their rivals would quit said that their rate would be 16%, so about one in six of their competitors might be affected.**

Construction companies were the least expecting with regard to their rivals' quitting the market in the forthcoming months, while the sector of service providers constituted the other end of the spectrum.

It is a general tendency that the higher the annual net revenue and the number of employees the less likely CEOs are to expect their direct rivals to suspend their activities inthe upcoming half.

Figure 3: Expectations of same sector rivals quitting the market in the course of the next half year



Source: IEER 2021

COVID19-related government measures

Accepting COVID19 relief offered by the state

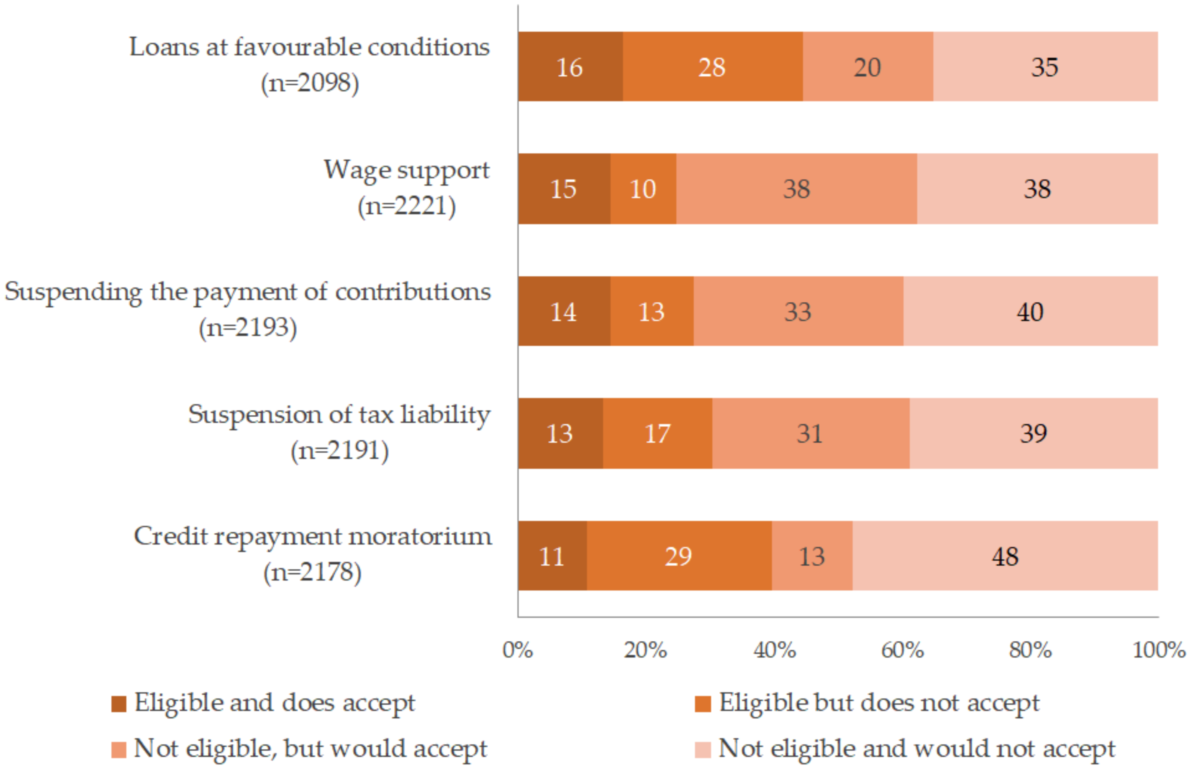
Government measures targeting to relieve the effects of COVID19 include five specific policies (loans at favourable conditions, wage support, suspending the payment of contributions, suspension of tax liability, credit repayment moratorium). We examined whether companies were eligible, and if so, which lifelines they took in the survey period (April 2021), and during the year before.

In the survey period, companies were mostly eligible for loans at favourable conditions and credit repayment moratorium. In April 2021 most of the eligible companies took out favourable loans (16%), while a credit repayment moratorium was the least popular, the latter is chosen by 11%. Over the year before the survey period, wage support had been the most popular lifeline (17%), while favourable loans had been the least popular (12%).

Both in April 2021 and in the period between March 2020 and March 2021 the relief measures mostly benefited SMEs and had the least effect on the micro-enterprises with fewer than 10 employees and 250+ large companies.

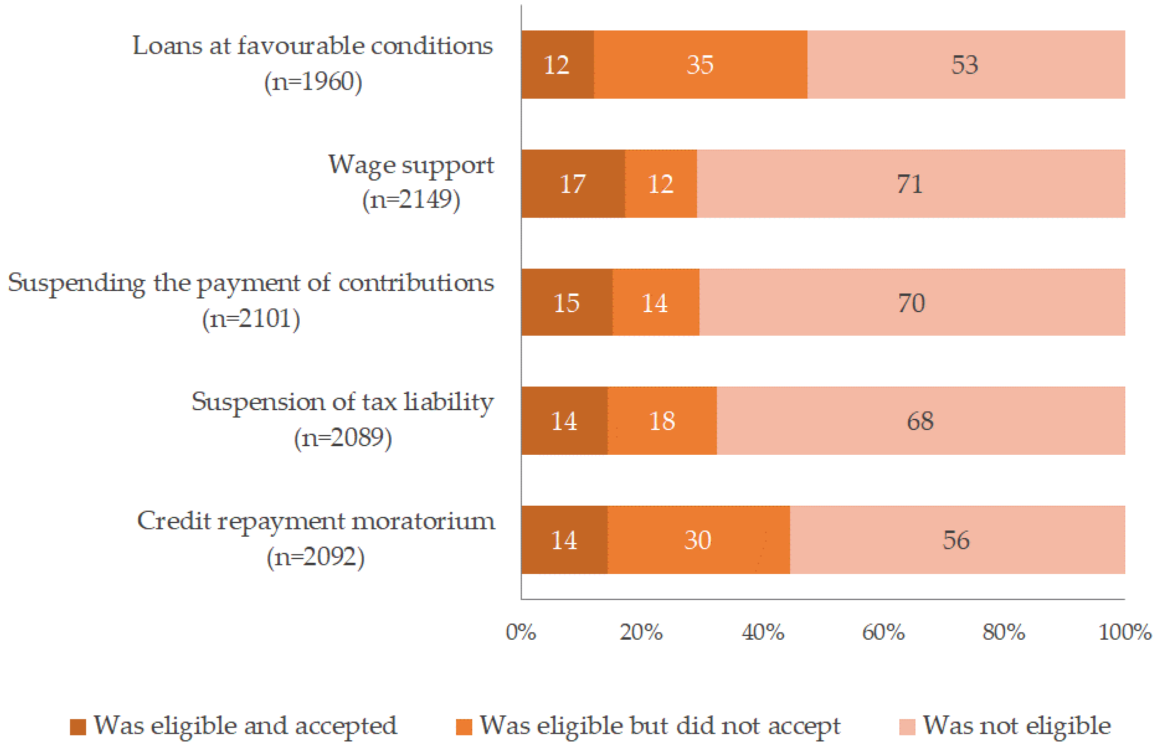
In April 2021 the rate of trade companies and providers of miscellaneous services eligible for alleviation (except for favourable loans and credit repayment moratorium) was greater than in the industrial and construction sectors. In the year before the survey period**,** industrial companies took on a credit repayment moratorium at a greater rate than in April 2021. The same pattern shows for a credit repayment moratorium with trade companies and suspended contributions among service providers. Construction companies, on the other hand, went less commonly for a credit repayment moratorium and wage support.

Figure 4: Accepting COVID19 government relief, April 2021, per cent



Source: IEER 2021

Figure 5: Accepting COVID19 government relief, March 2020 – March 2021, per cent



Source: IEER 2021

Judgement of COVID19-related government relief measures

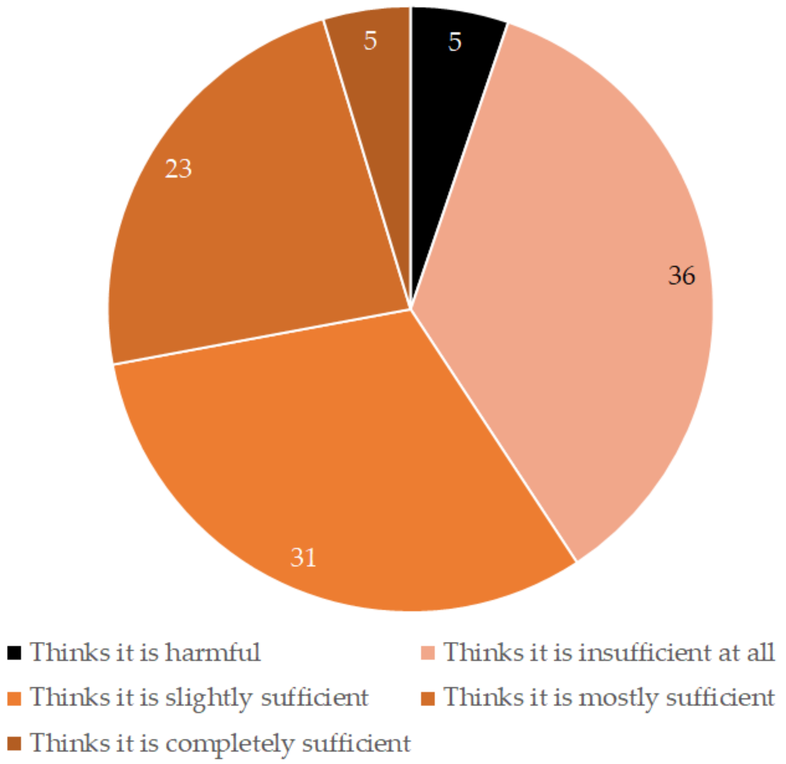
Over a third (36%) of companies deem COVID19-related government relief measures completely inadequate, 5% calling them downright harmful. Only 5% of companies told that the government measures introduced were adequate.

Firms with higher revenues usually see government relief measures more positively. Likewise, the smaller a company the more likely it was to be more negative with the micro-enterprises with fewer than 10 employees being the most unsatisfied.

Trade companies and businesses providing other services i.e. those most exposed to effects of COVID19 restrictions were somewhat more negative about government measures than industrial and construction companies.

Based on the answers it can be clearly assumed that companies of full domestic ownership were significantly more unsatisfied with government support than companies of (partial) foreign ownership.

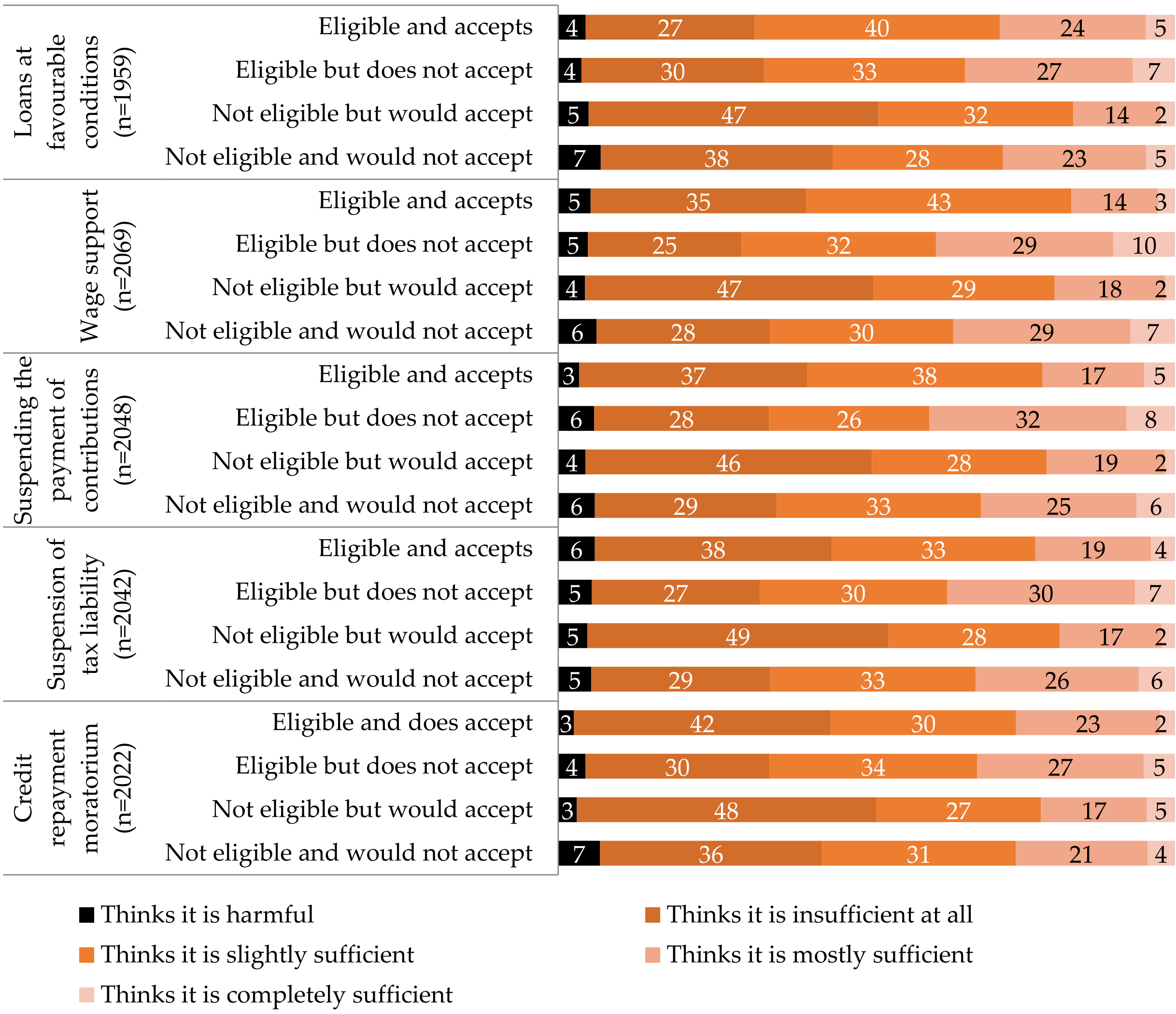
Figure 6: Attitudes towards COVID19 government relief, April 2021, per cent, N=2301



Source: IEER 2021

Companies that were not eligible but would have accepted the government relief measures listed were the most unsatisfied in April 2021, as well as companies that were not eligible in the period between March 2020 and March 2021. Companies that accepted such reliefs also often saw them in an unfavourable light, while the best attitudes were measured in the circle of companies that did not use the opportunities granted.

Figure 7: Attitudes towards COVID19 government relief, April 2021, concerning whether companies accepted any, per cent



Source: IEER 2021

International trends

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

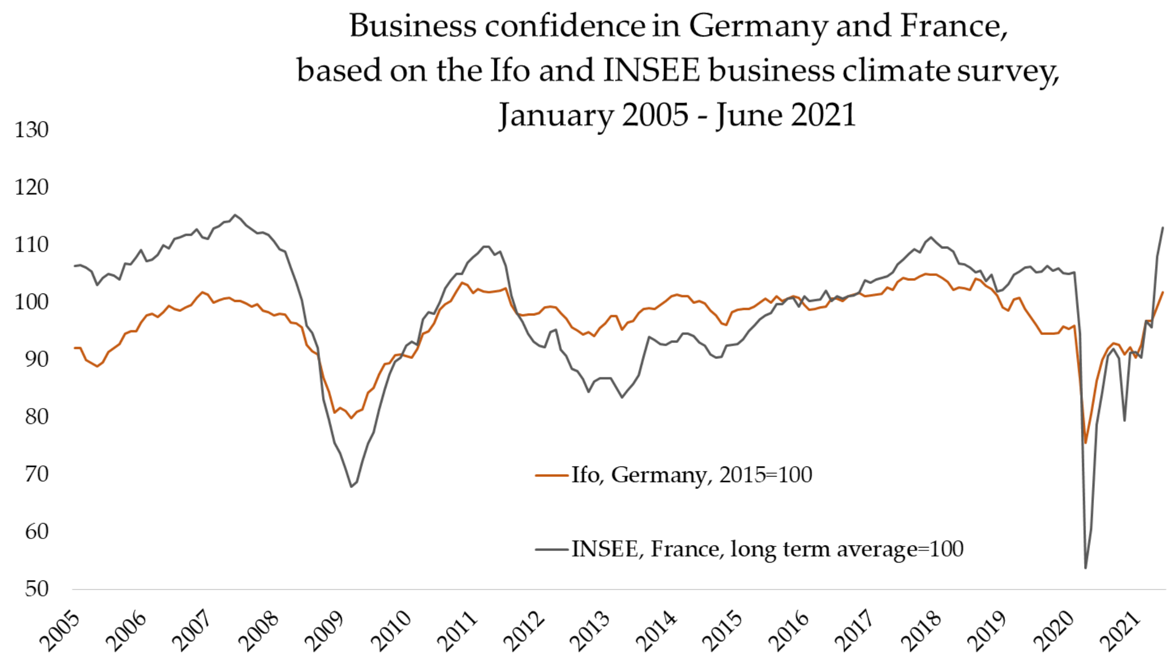
		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(June)	**5.9%**	5.9%	5.9%
	Manufacturing Purchasing Managers Index	(June)	**65.1**	64.9	64.4
	IFO Business Climate Index[1]	(June)	**101.8**	104.0	99.2
France	INSEE Business Climate Index[2]	(June)	**113.0**		108.0
USA	Unemployment Rate	(June)	**5.9%**	5.7%	5.8%
	CB Consumer Confidence Index	(June)	**127.3**	119.0	.120.0
	Manufacturing Purchasing Managers Index	(June)	**62.1**		62.6
China	Manufacturing Purchasing Managers Index	(June)	**50.9**	50.8	51.0

[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 increased compared to May. The manufacturing purchasing manager index (PMI) also increased compared to previous period. 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 increase compared to the month prior, and it performed better than expected. The manufacturing PMI decreased compared to May in the USA. The unemployment rate remained virtually the same compared to last month. The Chinese manufacturing PMI decreased slightly compared to previous period.



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:

Agoston Horváth, analyst, MKIK GVI
Krisztián Széll, analyst, MKIK GVI
Katalin Tóth, analyst, MKIK GVI

Research manager:

Fruzsina Nábelek
Managing director, MKIK GVI

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