



Atradius Payment Practices Barometer

Hungary

Focus on B2B payment practices
in the agri-food, consumer durables
and steel/metals industries



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In an uncertain economic environment and a period of heightened credit risk, not only can credit insurance provide surety and peace of mind, but it can also be cost-effective.
”

Balázs Vanek
Atradius Country Manager for Hungary

Improving payment practices reflect upbeat mood

Business and consumer confidence is beginning to pick up this year and most economic indicators point to GDP growth in both 2021 and 2022. This positive picture can be seen in the results of this year's Payment Practices Barometer Survey where key indicators such as the total value of overdue sales and DSO (Days Sales Outstanding) have all shown improvement.

Despite this largely good news, however, there is still a hint of caution voiced by the businesses we interviewed in Hungary. This centres around the uncertainties of the pandemic. How long will it continue? Will the current excellent vaccination rates keep it under control, or will we see further lockdowns and curbs on economic growth? As the Covid-19 restrictions are withdrawn, so are the fiscal policies put in place to support businesses and the economy. This is a risky time for businesses as we anticipate an uptick in insolvencies.

These concerns have led many businesses to focus more closely on their credit management policies and the risk mitigation steps they can take to protect their accounts receivable. For many businesses trade credit insurance will form the backbone of a secure credit strategy.

Among the industries we polled this year, agri-food, consumer durables and steel/metals, businesses within the consumer durables sector are the most protected by credit insurance. 78% of respondents from this sector benefitted from credit insurance this year and a similar percentage plan to employ it next year.

In an uncertain economic environment and a period of heightened credit risk, not only can credit insurance provide surety and peace of mind, but it can also be cost-effective. For uninsured businesses, late payments can lead to spiralling collections costs, requiring more internal efforts or the cost of hiring specialist debt collection services, or both. Of course, trade credit insurance can also underpin growth, enabling businesses to engage with new and previously unknown customers as opportunities open up.



Payment practices in Hungary

34% of the total value of sales in Hungary is currently overdue, down from last year's 46%. Likewise, there was a drop in the percentage of total sales more than 90 days overdue (4% this year, down from 6% last). 2% of B2B sales were written off this year.

This improvement in payments behaviour may partly be explained by a drop in more risky credit sales. In instances where payment delays were incurred, many businesses responded by refusing new credit requests. Indeed, the Payment Practices Barometer Survey revealed a small drop in the overall proportion of credit sales made by businesses in Hungary this year compared to last year (48% versus 51%).

When it comes to credit management, most businesses in Hungary opted to rely on their internal credit management resources. Risk mitigation most often included sending overdue payment reminders. Businesses told us that they most often offered credit in a bid to win new customers in a competitive market. On the whole, businesses were successful in managing trade credit, although 46% reported a deterioration in DSO.

Looking ahead, the vast majority of the businesses we spoke to expressed optimism and predicted growth in 2022. Most believed customer payment practices will improve and 35% told us they will continue to offer credit as often as they did last year.

However, downside risks to this positive outlook remain. Many businesses expressed concerns over the health of the domestic economy and whether ongoing uncertainty about the pandemic could delay or hamper the rebound of certain industries. Many are worried this would trigger an increase in insolvencies and a deterioration of corporate payment practices.

Perhaps prompted by these concerns, many businesses told us they plan to take further steps to protect their accounts receivable next year, either through a more proactive approach to credit management in-house or by taking out a credit insurance policy.

Reflecting on the impact of the pandemic, 48% of businesses told us that they have permanently adopted home working. Many have introduced increased digitalisation in their business operations, and a significant number believe changes in customer demand and supply chains will be long-lasting.



Agri-food

Late payments and cash flow

No change in payment delays

The Hungarian agri-food industry reported positive results in this year's Payment Practices Barometer Survey. These are likely to be due to improvements in the industry's collection processes and also reflect a swing towards cash over credit.

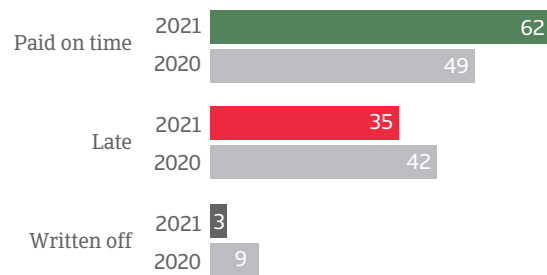
For example, 56% of the businesses polled in the Hungarian agri-food industry told us they did not experience any change in the average time it takes them to convert overdue invoices into cash. This is more than the 45% reporting the same last year. Improvements in payment timing were reported by 24% (more than double last year) and only 20% reported deterioration (a drop from last year's 45%).

35% of the total value of the industry's invoices were reported overdue this year, an improvement on last year's 42%. The write-off rate also improved, dropping dramatically from 9% last year to just 3% this year.

Where businesses took measures to avoid liquidity shortages, they most commonly delayed paying suppliers.

Agri-food industry in Hungary

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



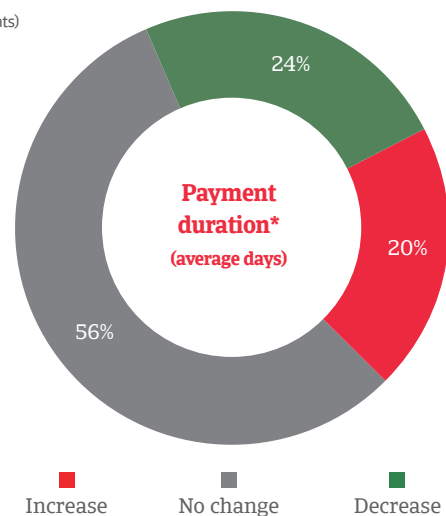
Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Agri-food industry in Hungary

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Delay payments to your own suppliers
- #2** Delay paying bills and/or staff
- #3** Increase time, costs and resources spent on chasing overdue invoices



Agri-food

Approach to credit management and DSO

Cash requested by more than half of industry

More than half of the Hungarian agri-food industry asked for invoice payment in cash this year (56% of respondents). This, of course, involves no credit risk. Of the businesses that did offer credit, there was a clear preference for internal retention and management of payment risks. 68% chose to retain credit risk in-house, although this is fewer than last year's 76%. Businesses choosing credit insurance is also down year-on-year (41% compared to 54%).

The primary invoice collection technique practised by uninsured businesses is overdue invoice reminders, followed by the offer of discounts for early payment.

Against this background, 65% of businesses told us they were able to keep their credit management costs steady over the past year. However, 29% of uninsured businesses reported increased administrative costs involved in the management of their credit departments. Businesses with credit insurance told us this was a cost-effective solution for the credit management needs.

Cash and credit management to control DSO

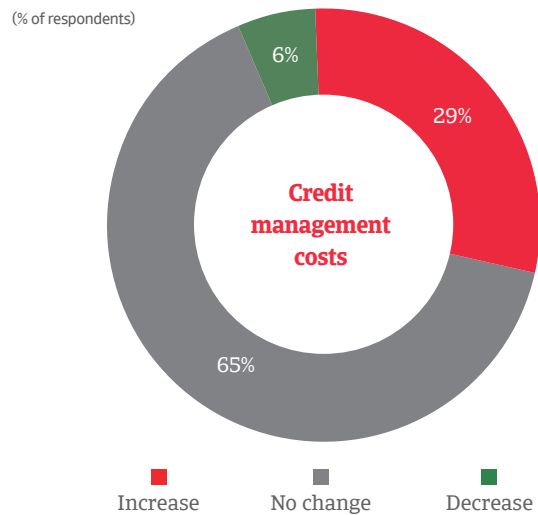
Looking ahead, 32% plan to retain and manage customer credit risk internally through reliance on their own resources. 25% plan to insure their accounts receivable with trade credit insurance.

Among the businesses opting to take on credit risk internally, 30% plan to send invoice payment reminders more often and 30% plan to outsource debt collection to specialist collection agencies. Many businesses also indicated they plan to offer discounts for early payments. Running alongside this, a significant number of businesses plan to mitigate the risk of non-payment by asking for cash up front.

48% believe these credit management techniques will help to keep DSO steady over the next 12 months. 27% expect to experience difficulties with DSO and 25% anticipate improvement.

Agri-food industry in Hungary

change in credit management costs (2021/2020)

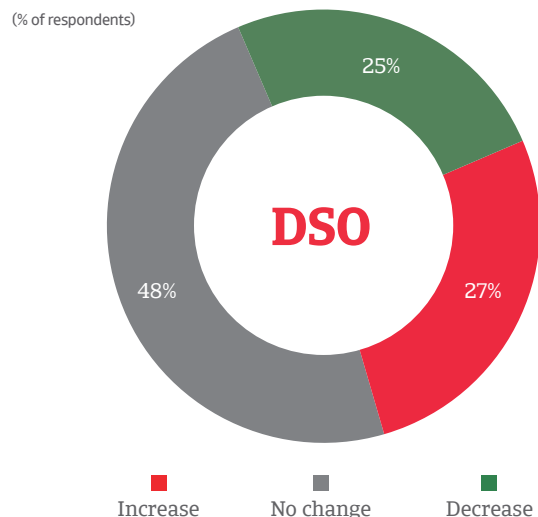


Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Agri-food industry in Hungary

expected DSO changes over the next 12 months



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021



Agri-food

2022 industry outlook

Cautiously optimistic outlook for agri-food

Businesses in the agri-food industry were cautious in their outlook for 2022. 24% expect profits to hold steady and 23% are braced for a difficult year. 53% told us they are optimistic about their potential for growth, although this is tempered by concerns that the continuing pandemic will negatively impact the global economy and their key markets both domestically and internationally. This concern was voiced by 49% of the businesses polled.


Perhaps in response to business optimism, nearly 30% of the industry respondents told us they expect to see increasing use of trade credit next year. Most businesses believe this will be chiefly to support customer liquidity.

Looking at pandemic-induced changes to business operations, 55% intend to continue enabling working from home, and 43% will permanently adopt digitalisation. One third expect to see continued changes to customer demand that were first triggered by the pandemic.

SURVEY QUESTION

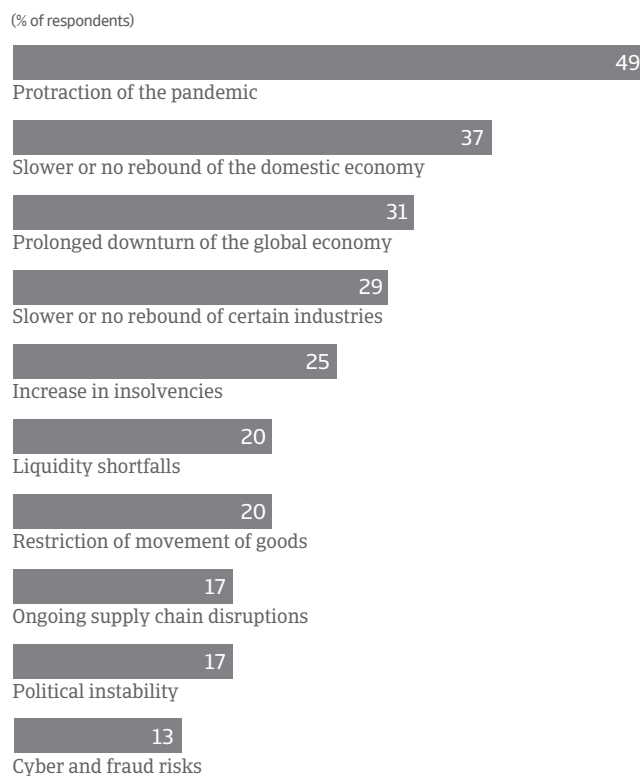
The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

- #1** Home working
- #2** Increased digitalization
- #3** Customer demand changes



Agri-food industry in Hungary

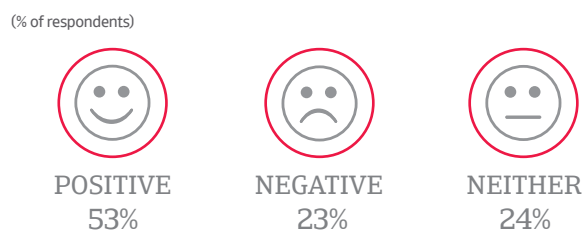
Looking into 2022: top ten concerns expressed by businesses in the industry



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Agri-food industry in Hungary

how businesses feel about their possible growth in 2022



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021



Consumer durables

Late payments and cash flow

Late payments affect nearly 40% of credit sales

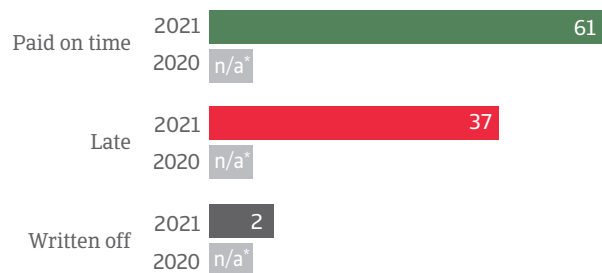
37% of businesses in the Hungarian consumer durables industry experienced payment delays over the past year. Almost the same percentage (35%) reported no change and 28% saw an improvement in payment timings.

In terms of value, 37% of the total value of B2B invoices were overdue this year, with 61% paid on time. 5% of the total value of invoices were reported as being more than 90 days overdue and write-offs amounted to 2%.

To minimise the impact of customer credit risk on their liquidity, 38% of the industry told us they often suspended delivery of goods until they received payment of their invoices. 25% of businesses spent more time and resources on trying to collect unpaid invoices and 25% requested extensions to bank overdrafts.

Consumer durables industry in Hungary

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



*n/a = not available

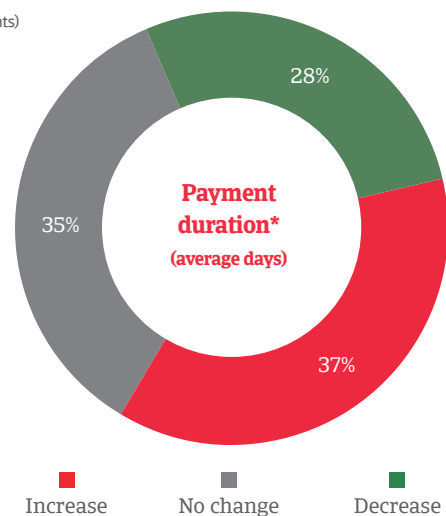
Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Consumer durables industry in Hungary

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Suspend deliveries until payment of invoice
- #2** Increase time, costs and resources spent on chasing overdue invoices
- #3** Requested bank overdraft extension

Consumer durables

Approach to credit management and DSO

In-house credit management proves costly

90% of the industry chose to retain customer credit risk in-house this year, for at least some of their sales. The credit management strategies they used to minimise the risk of bad debts included offering discounts for early payment, and outsourcing debt collection to professional collection agencies. In addition, businesses told us that they often adjusted payment terms, and consider this to be a key point of business negotiation. Perhaps unsurprisingly, these businesses also reported an increase in the administrative costs involved in credit management. In particular this includes the cost of debt collection and absorbing the cost of write-offs.

However, a large proportion of the industry revealed they additionally insisted on cash up front for some sales and benefited from the use of trade credit insurance. This was reported by 78% of respondents alike. These results may partly explain why the majority of industry invoices were paid on time this year.

Nearly three-quarters plan to use credit insurance

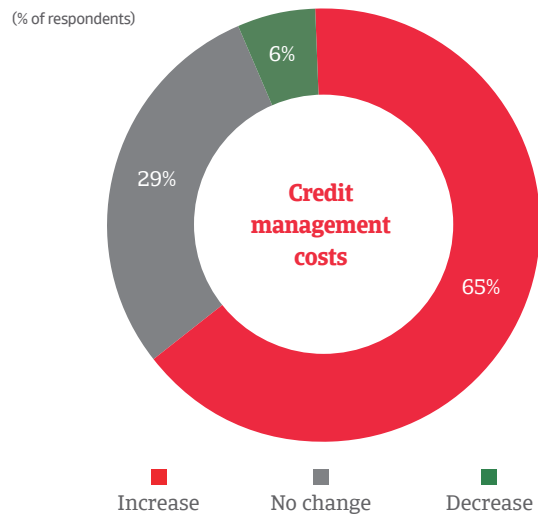
72% of the industry is considering taking out credit insurance next year to protect their cash flow and contain their credit management costs.

Businesses planning to retain the risk of bad debts in-house next year told us that they intend to avoid concentrations of credit risk. A significant percentage plans to avoid risk altogether by asking for payment in cash, particularly with customers they consider to be a poor credit risk.

Opinions on the future of their DSO are fairly evenly spread across those polled. 43% of the industry does not anticipate any significant changes, 38% expect deterioration and 19% predict improvement.

Consumer durables industry in Hungary

change in credit management costs (2021/2020)

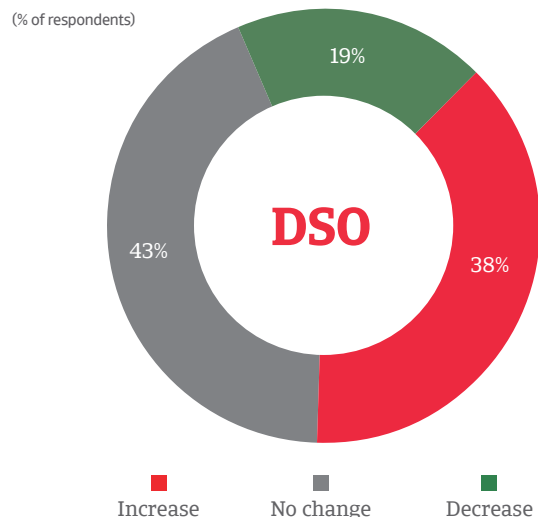


Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Consumer durables industry in Hungary

expected DSO changes over the next 12 months



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Consumer durables

2022 industry outlook

Credit to play greater role

Looking ahead into 2022, the vast majority of the Hungarian consumer durables industry is upbeat. 62% of the businesses polled feel positive about their growth next year, 33% are negative and the remainder are unsure or believe their turnover will remain the same.

Reflecting this optimism and predictions of an economic rebound, 40% of the businesses we spoke to believe trade credit will play a greater role in B2B trade next year. This is a significant prediction considering that 78% of the survey's respondents reported requesting cash payment from customers this year.

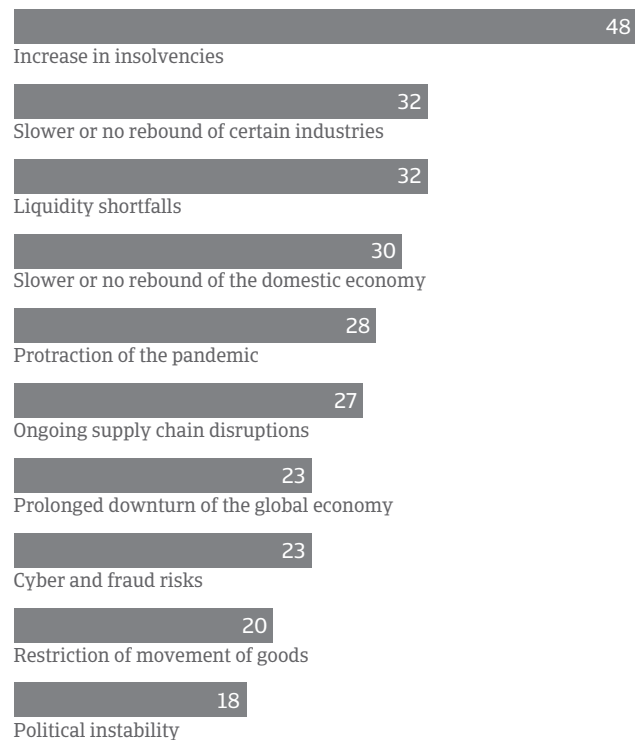
Of course, trading on credit carries inherent risks and concerns about a potential increase in insolvencies were expressed by nearly half of the businesses polled. Customer insolvencies could squeeze liquidity and hamper the recovery of key industries that were most affected by the pandemic-led economic downturn.

Looking at the more positive effects of the pandemic, 43% reported adopting E-commerce and indicated they plan to continue using it. Close to half of the businesses we spoke to in this industry also revealed that the pandemic had reshaped their supply chains and led to changes in customer demand.

Consumer durables industry in Hungary

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

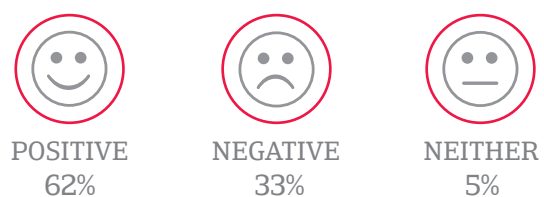
The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

- #1** E-commerce
- #2** Facing supply chain reshaping
- #3** Facing customer demand changes

Consumer durables industry in Hungary

how businesses feel about their possible growth in 2022

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

Late payments and cash flow

Big improvement in invoice-to-cash rates

Businesses in the steel/metals industry reported significant year-on-year improvement in customer payment delays. 35% told us they needed to wait longer than last year to convert overdue invoices into cash, this is just half of the percentage reporting the same last year. 40% of the businesses polled reported no change, more than the 23% recording this last year. 25% told us that their invoice-to-cash turnaround improved compared to last year, (when no improvements were noted).

These significant improvements were echoed in the volumes of late payments and write-offs impacting the industry. 2% of the total value of sales were written off this year, a huge reduction on the 7% written off during 2020. This year 31% of the total value of B2B invoices remained outstanding at the due date, lower than last year's 45%, and a boost for the industry's liquidity.

These improvements in payment behaviour may partly explain why many businesses did not feel the need to adopt additional measures to safeguard their cash flow. Where businesses did take steps to maximise liquidity, they most often delayed paying suppliers.

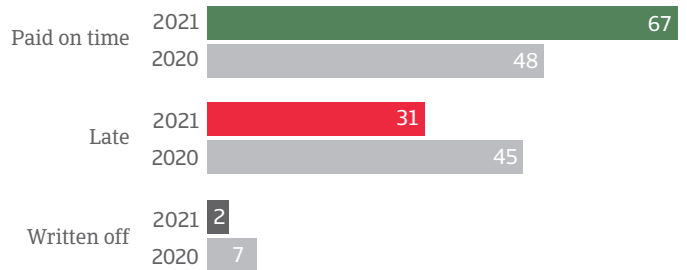
SURVEY QUESTION

What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Delay payment to our own suppliers
- #2** Increase time, costs and resources spent on chasing overdue invoices
- #3** Strengthen credit control processes

Steel/ Metals industry in Hungary

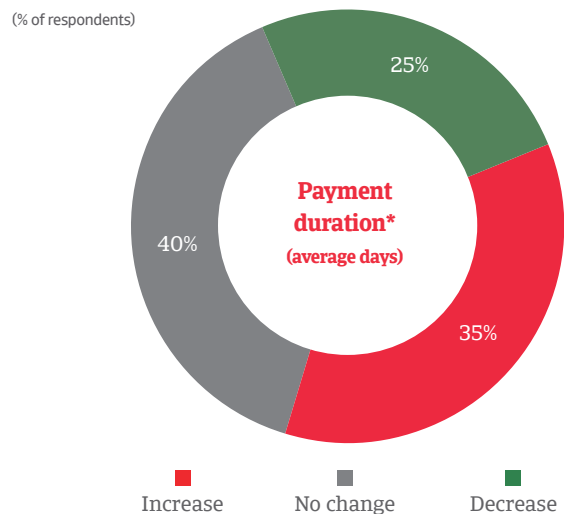
% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/ Metals industry in Hungary

average time it takes to convert overdue invoices into cash (change over the past year)



* Payment term + payment delay

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals

Approach to credit management and DSO

Managing risk in-house results in cost increases

72% of the steel/metals industry opted to retain the risk of non-payment in-house this year. This is an increase on the 55% reporting the same last year and more than the 63% who protected their accounts receivable with trade credit insurance. (Use of credit insurance dropped from 74% of the industry reporting adopting it last year).

Perhaps as a result of this, more businesses reported taking a range of steps to minimise bad debts. Primary among these is the sending of overdue payment reminders (reported by 66% of respondents, an increase on last year's 56%). Businesses also reported actively avoiding credit risk concentrations where possible (58% up from last year's 50%) and adjusting payment terms.

Uninsured businesses told us they experienced a significant increase in the administrative costs involved in managing their credit departments. 52% of respondents reported this, compared to 40% who experienced no change. A significant cost related to debt collection. 45% of the businesses told us they spent more on debt collection this year (up from 35% last year).

Industry anticipates DSO deterioration

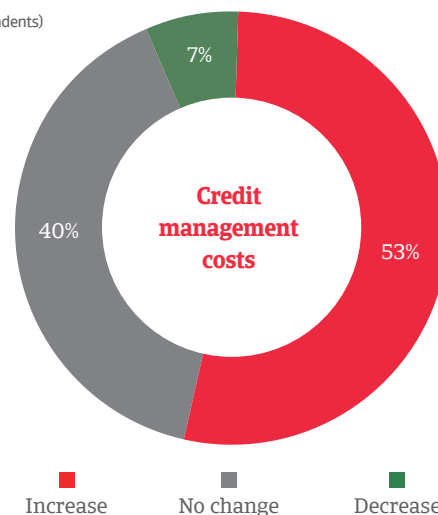
When asked about their plans for next year, 48% of the businesses polled told us they intend to send invoice payment reminders more frequently. This was most common among the businesses opting to remain uninsured. With a greater focus on liquidity next year, 46% of respondents told us they will use factoring and 43% intend to ask for payment in cash. Several businesses also anticipated outsourcing debt collection more often next year.

This strategic approach is intended to offset expected deteriorations in Days Sales Outstanding over the next 12 months. 48% of the respondents anticipated a downturn in DSO, compared to 39% expecting no change and the remaining number of respondents expecting improvement.

Steel/Metals industry in Hungary

change in credit management costs (2021/2020)

(% of respondents)



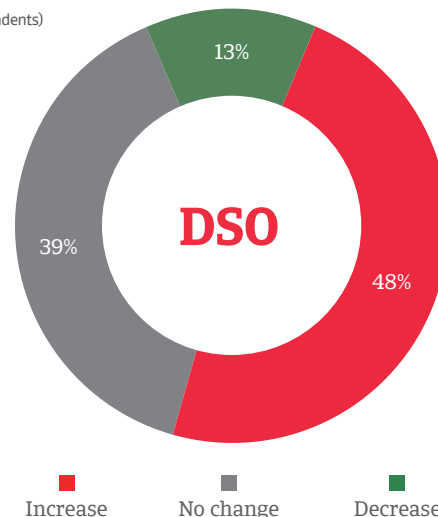
Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals industry in Hungary

expected DSO changes over the next 12 months

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

2022 industry outlook

Growth predicted although sentiment downbeat

Looking ahead into 2022, 45% of the industry expressed concern over the health of the domestic economy. In particular businesses are concerned that a lack of a post-crisis rebound, or any delay in domestic growth could have negative repercussions on recovery of certain key industries. Respondents are worried this could trigger an increase in non-payment from B2B customers, causing liquidity shortfalls.

However, despite these concerns, 37% of the survey respondents believe that credit sales will continue at the same pace as this year. Those businesses planning to offer trade credit are aiming to stimulate sales.

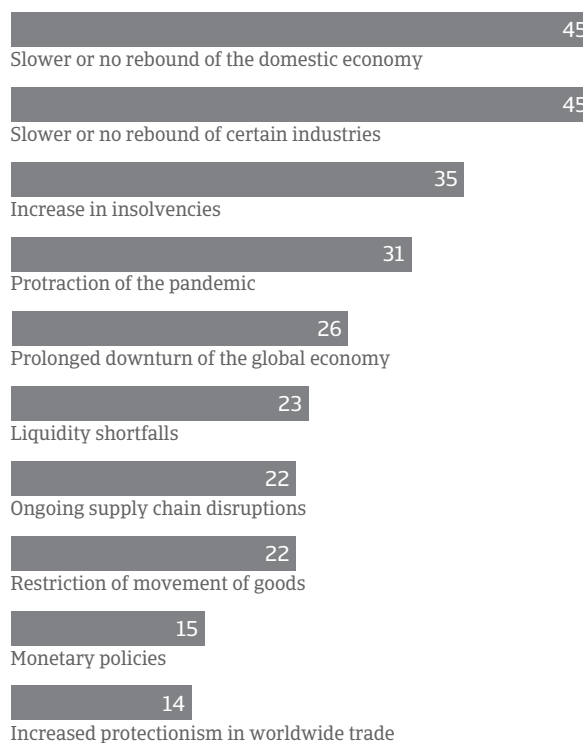
On a positive note, 72% of the businesses polled in the industry feels positive about their growth potential next year. 22% are negative and the rest is neutral.

Assessing the operational impacts of the pandemic, 52% of the industry revealed they had adapted to reshaped supply chains and 48% said they plan to continue enabling employees to work from home. The greatest percentage, 53%, told us they had permanently adopted digital technology and several businesses also acknowledge they are now better placed to address changes in customer demand.

Steel/Metals industry in Hungary

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)




Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

- #1** Facing supply chains reshaping
- #2** Home working
- #3** Increased digitalisation



Steel/Metals industry in Hungary

how businesses feel about their possible growth in 2022

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. This report, which is part of the 2021 edition of the Atradius Payment Practices Barometer for Europe, focuses on Hungary. 200 companies from the Hungarian agri-food, consumer durables and steel/metals industries have been surveyed. Due to a change in research methodology for this survey, year-on-year comparisons are not feasible for some of the results, although last year's values are used as a benchmark where possible throughout the survey.

The survey was conducted exclusively for Atradius by CSA Research.

Survey scope

- **Basic population:** the appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of country data crossed by sector and company size.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=200 people were interviewed in total.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration.
Interview period: Q3 2021.

Hungary - total interviews 200

Industries surveyed			
Agri-food			
Consumer durables			
Steel/Metals			
Sector			
Companies interviewed	Agri-food (%)	Consumer durables (%)	Steel/Metals (%)
Manufacturing	24	3	8
Wholesale trade	37	82	78
Retail trade/Distribution	25	10	8
Services	13	5	6

Company size			
Agri-food			
Consumer durables			
Steel/Metals			
Companies interviewed	Agri-food (%)	Consumer durables (%)	Steel/Metals (%)
Micro enterprises	40	25	85
SME - Small enterprises	28	7	8
SME - Medium enterprises	32	23	3
Large enterprises	0	45	5

Statistical appendix

Find detailed charts and figures in the Statistical Appendix. This is part of the November 2021 Payment Practices Barometer of Atradius, available at www.atradius.com/publications
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