The Macrotheme Review
A multidisciplinary journal of global macro trends

The role of credits in operation and in development, based on the opinion of Hungarian SMEs'[1]

Ágnes Csiszárik-Kocsir
Associate Professor, Óbuda University – Keleti Károly Faculty of Economics, Hungary

Abstract

The credits are integral parts of the economy, they are the promoters of the investments and developments. Credit financing is not a new formation of the capitalism, it exists thousands of years ago. By itself, the lending activity is not mean problem, if the credits are taken up reasonably by the households and the companies. The last big financial crisis had shown the damages caused by the excessive lending. The liquidity and the money redundancy before the crisis made the players more and more irresponsible on both side of the financial markets, the borrowers and lenders as well. The crisis and the subsequent events fundamentally changed the operating structure of the economy, providing many lessons and experiences. The attitude towards the credits had changed, because the borrowers and lenders became more cautious. After 3-4 years of the crisis, the borrowers have become more boldly, but the lenders wariness is not relieved in many countries of the world. The aim of the study is to describe the borrowers' opinions towards the credits according to a two-rounded primary research. The study tries to show the changes in attitude, the experiences and the lessons, which greatly affect the borrowing activity in the future among the Hungarian SMEs.

Keywords: crisis, credit financing, SME, primary research

1. Overview of literature

The small and medium-sized enterprises are dominant amongst the operating enterprises in every country, including Hungary. Despite the fact that the SME sector is lagging behind the large corporations in both productivity and competitiveness, they still provide the greater number of employments and the vast majority of the enterprises. A common criticism of this sector is that they only carry out a small proportion of investments due to lack of resources.

The textbooks and the scientific literature discuss the financing of the enterprises from two aspects. From one perspective a distinction is made between internal resources deriving from the operation and existence of the company, and external resources coming from the outside, from the financial and capital market. From another perspective we can talk about short term (of no more than a year) and long term (of more than a year) resources as well. The experts on the

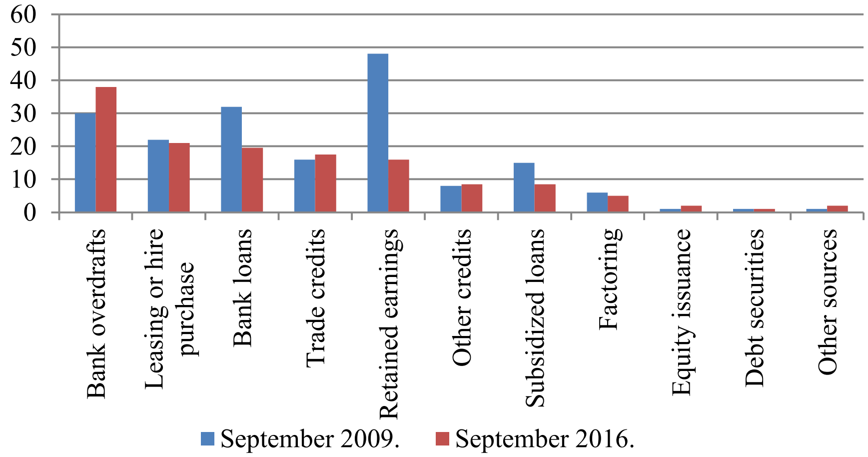
[1] SUPPORTED THROUGH THE NEW NATIONAL EXCELLENCE PROGRAM OF THE MINISTRY OF HUMAN CAPACITIES

subject have long been interested in inserting these resources into the operation of the companies, and in finding their optimal combination. However, one thing is for sure: there is no explicit proportion for either of the pair of resources that could be applicable to all enterprises in a specific sector and size class. The smaller enterprises that cannot or due to the financing anomalies do not even want to grow bigger have different resource requirements and compositions than the older enterprises, which are capable of accessing other kind of resources as a result of their professional experience and system of relationships (Cabra-Mata, 2003).

Loans play a key role in financing, especially with regard to boosting the economy and putting it back on its feet. Beck (2012) lists how lending can influence the economic growth: it is able to increase entrepreneurship and the size of the operating companies, it increases the export sales and therefore the export revenues too, and it improves the efficiency of economic policy instruments. Although trends had already appeared that emphasized the option of creditless recovery (Abiad et.al, 2011), this is unimaginable in the Eastern part of Europe under the current financing circumstances, hence the existence of this concept was denied by Biggs, Mayer and Pick in 2009. The special role of loans in corporate finance gained higher attention during the years after the end of communism, when from the nineties foreign-owned banks showed up not only in Hungary but in the region as well. Along with their liquidity the foreign subsidiaries also brought their practices and methods, which in the Eastern-European region unfortunately were not accompanied by such knowledge from the receiving parties that would have been able to treat the loans at the right place within the financing structure. In many cases the reason was the excessive indebtedness and the irresponsible borrowing, which was substantially overwritten by the bankruptcy of the Lehman Brothers in 2008 (Banai, 2016).

According to the banking practice, corporate lending is the segment that is able to react to the crisis-related economic circumstances the fastest. Crises are unavoidable corollaries of the modern economies, hence we are forced to adapt and prepare to them. Several articles and studies have already dealt with the causes of the crisis of 2008. Some are looking for those responsible on the demand side (households, companies, states), others blame the supply side (banks, financial institutions), and certain opinions accuse the regulators (supervisory authorities, central banks) with escalating the problems (Lentner et.al, 2011). The issues of the financial intermediary system first appear in the erosion of resources and in the declining willingness to take risks. Due to the decreasing corporate revenues and shrinking markets (caused by the crisis), the value of the available cash-flow is getting reduced as well, as a result of which the debt service causes difficulties, which will be an obstacle within a short period of time to borrowing more funds. It is, however, important to note that for the SME sector of the European countries, after depleting the internal resources, this is the most easily available and usable external resource. Therefore the decline in lending is also conserving the financing difficulties for the SME sector, which is evidenced by the ECB's survey too.

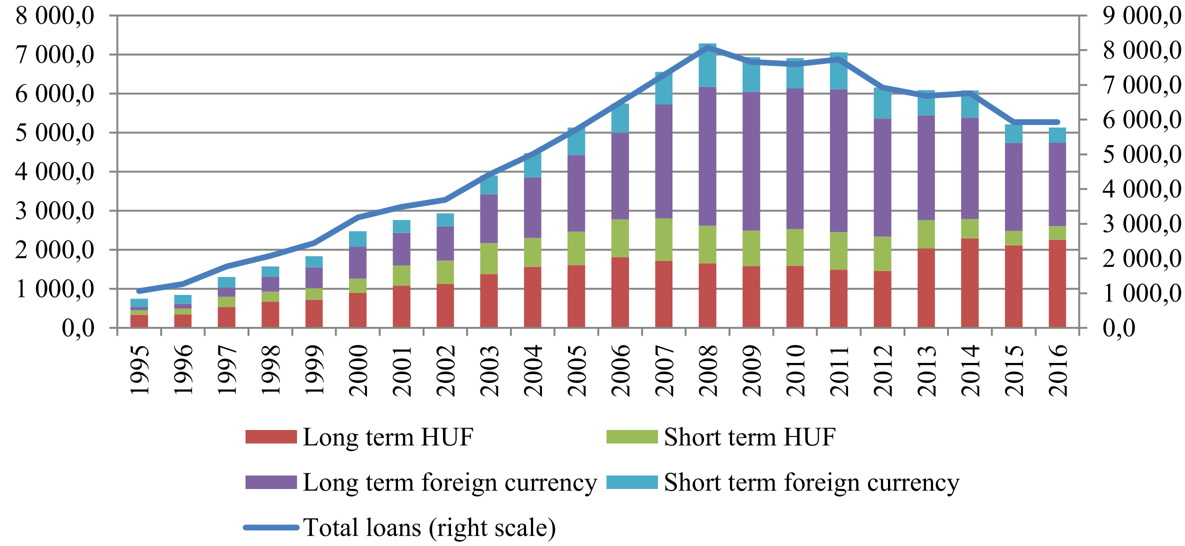
Figure 1.: Financing structure of the Eurozone SMEs on the basis of the frequency of using the funding sources applied



Source: own compilation based on ECB 2009; 2016

Lending to the Hungarian SMEs had been expansive during the years prior the crisis due to the previously described circumstances (Balog – Nagy, 2014), which was completely interrupted by the crisis spreading into the country. Because of the drying-up of the bank funds, the sector had no choice but to drain its savings and reduce its capacities in order to stay alive. For the crisis-related surviving reaction the necessary investments were not carried out, and for that reason it fell further behind compared to the bigger competitors. On account of the banks' careful behaviour after the crisis, there has been an unprecedented downturn – even on an international level – in the stock of loans of the corporate sector (Bauer – Oláh, 2016). As numerous studies pointed out, the process was launched very late with regard to lending money to the Hungarian companies following the crisis, which can mainly be explained by the decisions of the credit supply side (Sóvágó, 2011). As the above cited study confirms, in our region the drop in lending was the biggest in Hungary, although the surge of lending had not been spectacularly high before the crisis. The decline in lending has not stopped in 2013 either (Fábián, 2014). To that effect, the Hungarian Central Bank launched an interest rate subsidy programme in 2012 that did improve the conditions of the enterprises in connection with lending, but it failed to bring striking results, since the market-based lending recovered only very slowly or not at all (Bauer, 2016). Lending to non-financial companies (including the SMEs) is illustrated in the figure below, clearly showing the setback in the stock data during the post-crisis years.

Figure 2.: The non-financial companies' debt between 1995 and 2016 in Hungary



Source: own compilation based on MNB, 2016

The Funding for Growth Scheme launched by the Central Bank of Hungary helped the situation when it offered loans at an advantageous rate to the SME sector that had been struggling with serious financing issues anyway. It is also proven by the scientific literature (Antal-Pomázi, 2011) that financing – namely the limited access to the resources and in several cases even its very high cost – plays a dominant role among the limitations of the SMEs' growth. Nevertheless, in the absence of resources the sector is unable to expand, which has been absolutely demonstrated during the years after the crisis.

The key role of the loans has already been underlined earlier. In a previously mentioned study of his Banai (2016) made an attempt to explore the factors that has an effect on lending, the knowledge of which is significantly important in order to understand the opinion and attitude of the enterprises regarding the loans. Banai named the following factors:

- due to the underdevelopment of the Hungarian capital market there is hardly any opportunity for securities finance,
- bank lending has not been able to recover since the outbreak of the crisis in Hungary, and as a consequence it is significantly lagging behind compared to the region,
- there are huge discrepancies between the lending practices of the Hungarian banks in terms of both skills and abilities.

Given what has been described above, I tried to assess the beliefs about loans based on the opinions of the other side, highlighting the facts and thoughts that have a major impact to the borrowers' way of thinking.

2. Material and method

The research results introduced in this study are parts of a primary questionnaire research conducted in 2016. The research was carried out in Hungary through a pre-tested and standardized questionnaire[2]. In the course of the research the data was collected with the help of a complex questionnaire form, covering the financing and investment activity of the enterprises. During the collection process 592 assessable questionnaires were entered into the sample. On top of the subject of project finance the questionnaire also dealt with the assessment of the detailed project activity of the enterprises. In the present study the research results are introduced on the basis of the employment data of the responding enterprises and their position within the sector. The composition of the sample is shown in the following table.

Table 1.: The composition of the sample according to the number of employees and the working sector

Number of employees			Sector		
	db	%		db	%
below 50	478	80,7	primary	59	10,0
between 50-25	60	10,1	secondary	139	23,5
above 250	54	9,1	tertiary	394	66,6

Source: own research, 2016, N = 592

During the research I asked the respondents to rate the below statements on a scale of one to four by how much they agreed with them. On the scale one meant complete disagreement, while four represented complete agreement. Since the sample contained enterprises that financed themselves entirely from internal resources, on their own merits, in their cases the questionnaire provided the option of answering ‘I don’t know’. The examined statements were the followings:

- The developmental / investment loans cannot cause trouble, because they can produce the funds to cover their reimbursement.
- Working capital loans and liquid loans are risky, since they are used for the running operation of the company.
- Without loans the enterprises wouldn’t be able to operate.
- Certain investments can be brought forward by the loans.
- The difficulties in paying off the loans lead to the failure of the small and medium-sized enterprises.
- The SME class has become indebted due to the credit supply of the recent years.
- Without loans the enterprises would not be able to make investments.
- Loans do not raise problems, if taking them out is reasonable.

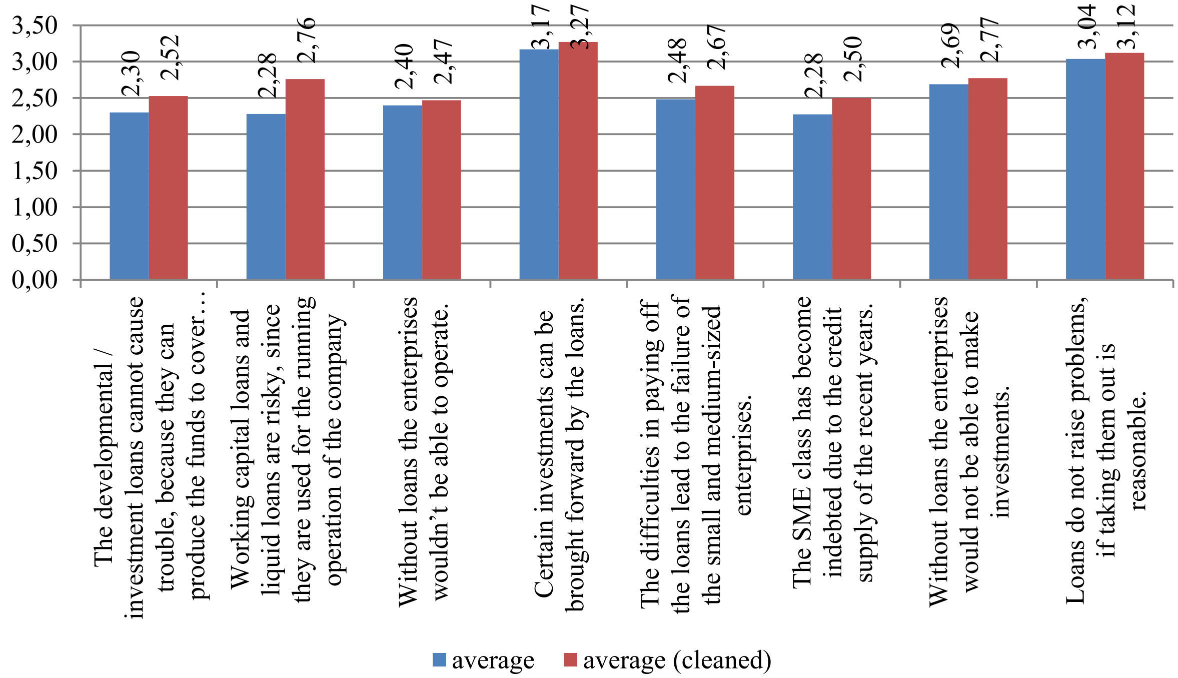
3. Results

As the below graph shows, the enterprises did not give an average rating lower than 2 to any of the examined eight statements. This means that the enterprises rather agreed than disagreed with all the formulated allegations. With regard to the whole sample, the enterprises mainly agreed with the statement that their investments can be brought forward through the loans (3.17 average rating). On this basis it can be noted that the enterprises are fully aware of the investment-promoting effects of the loans. According to the opinion of the respondents, loans do

[2] Hereby I would like to thank for the assistance of the students of Óbuda University, who contributed to the dissemination and filling of the questionnaires.

not cause problems, if taking them out is reasonable (3.04 average rating). Based on the average ratings this statement is on the second place of the list. The enterprises were also in a relatively big agreeance with each other about not being able to invest without loans (2.69 average rating), and they strongly accepted the statement too according to which the enterprises had gotten into a serious financial situation because of the difficulties deriving from loan repayments. The responding enterprises agreed the least with the SME class becoming indebted due to the credit supply of the recent years, since this statement received the lowest average rating (2.28).

Figure 3.: Average ratings of the statements relating to loans on the basis of the whole sample and the corrected sample size



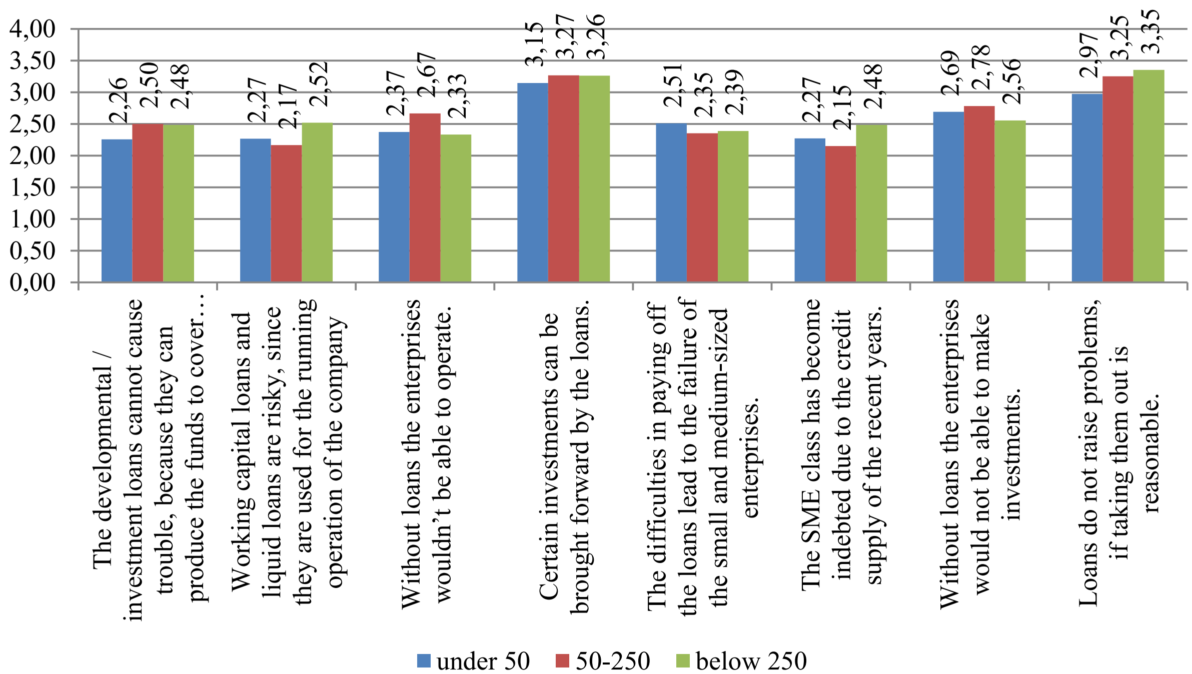
Source: own research, 2016, N= 592

Given that there were enterprises in the sample that had no loans or had no firm opinion about the statements referring to loans, it is appropriate to ***correct the sample***. After filtering out the answers 'I don't know', the new average ratings are slightly higher than the whole sample mean, and the order of the statements is not the same either.

The same statement received the highest average rating again, which said that certain investments can be brought forward through the loans (3.27 average rating). The second place went to the statement according to which loans do not cause problems if taking them out is reasonable (3.12). The previously cited sentence claiming that without loans the enterprises would not be able to invest ended up being third again (2.77). Interestingly, in terms of the corrected sample the statement saying that working capital loans are risky because they are used for the running operation of the enterprises became number four, and with a relatively high average rating (2.76). This statement was on the second-to-last place regarding the whole sample, with an average rating of 2.28. Another interesting thing is that in relation to the corrected sample the enterprises thought that development loans do not cause trouble, because they can produce the funds to cover their reimbursement (2.52 average rating). In the context of the whole sample this figure was only 2.3. In terms of the corrected sample, the statement about the enterprises wouldn't be able to operate without the help of the loans was put on the last position (2.47 average rating). With regard to the whole sample this statement rather belongs to the middle, being on the fifth place. This shows that the enterprises think they are able to operate without loans too, provided that they rationalise their financing. The modern corporate financial tools offer numerous options for financing the enterprises, although these are only available to the SMEs to a limited extent. But this does not mean that the small and medium-sized enterprises can only fund their operation from loans. There are inter-company relations and cooperation with which the small and medium-sized enterprises are able to improve their situation and reduce their bank and loan dependency.

The further evaluations are done on the basis of the corrected sample. As the enterprises' position within the sector and their number of employees has been mentioned during the introduction too, hereinafter the answers will be analysed in these contexts. By their ***number of employees*** I have categorised he enterprises in three groups: the smallest enterprises were the ones with less than 50 employees, while the largest enterprises had more than 250 workers. The following graph shows the average ratings of the listed statements after the segmentation of the sample was done based on the number of employees.

Figure 4.: Average ratings of the statements referring to loans based on the number of employees of the enterprises (corrected sample)



Source: own research, 2016, N= 592

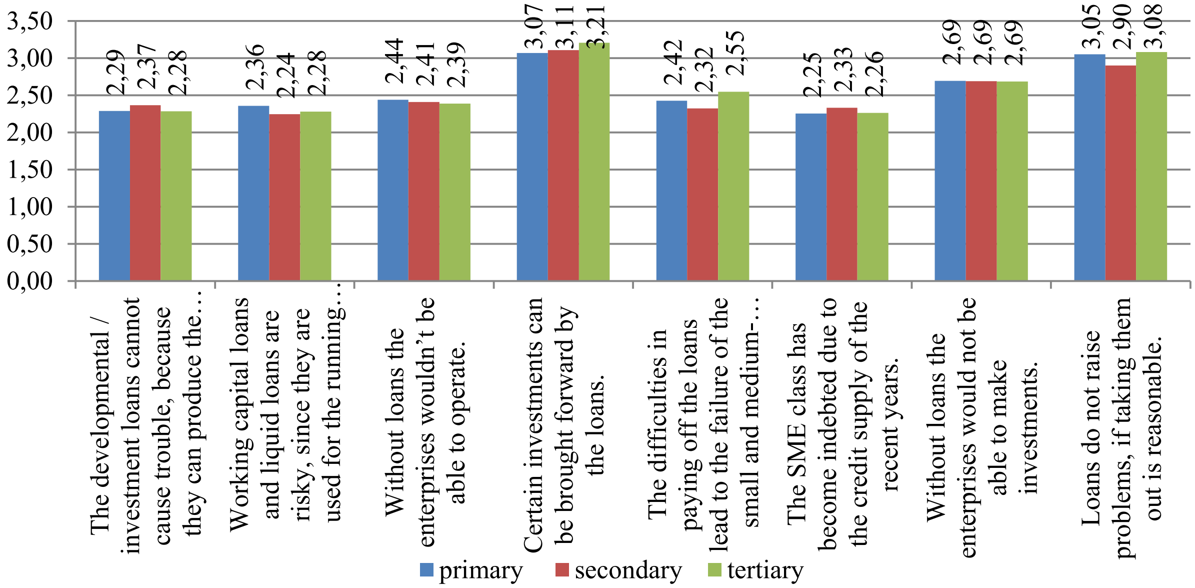
The ***smallest enterprises***, comprising the greatest part of the sample, put the statements in the same order as the corrected sample mean. The statement about the investments being able to be brought forward through the loans got the first place (3.15), the second place went to the statement regarding the reasonable borrowing (2.97), and the enterprises not being able to invest without the help of loans was placed third (2.69). The above order perfectly demonstrates the loan dependency of the small enterprises. According to the average ratings, the smallest enterprises – in terms of number of employees – agreed the least with three statements. One of them is that the SME class has become indebted due to the credit supply of the recent years (2.27). This relatively low average rating proves that the enterprises don't put the credit supply to the first place in connection with the causes of indebtedness. Instead they rather suspect constraints and forced indebtedness in the background. The statement about the dangers of the working capital loans bears with a similar average rating. The 2.27 average rating again shows that the enterprises do not believe that the riskiness of the working capital loans lays in using them for the running operations. They rather think that due to the cumulative effect of several short term loans there is such a burden on certain enterprises that evidently results in their collapse or leads to financial difficulties. Interestingly, the smallest enterprises ranked the statement that said the developmental / investment loans could not cause trouble as last (2.26). This last position indicates that based on the opinion of the enterprises the developmental and investment loans are also capable of causing similar difficulties as the short-term loans. Market and revenue are needed for the repayment of the developmental loans too, and without them every kind of debt service becomes impossible.

With regard to the ***medium-sized enterprises*** the order of the statements was the same again, the first three statements were the same as the corrected sample mean, only the ratings were different (3.27; 3.25; 2.78), which means that they were higher than the ones given by the smallest enterprises. The statement according to which the SME class has become indebted due to the credit supply of the recent years received the lowest average rating (2.15). This is a much lower figure than the 2.27 we have seen in the case of the smallest enterprises. In other words the medium-sized enterprises consider the fact that the financial institutions poured money into the markets to be an even lesser realistic reason behind the indebtedness. The statement saying that the working capital loans are risky because of the role they play in the day-to-day operations received a slightly higher rating than this.

In the case of the ***largest enterprises*** the order of the statement was entirely different. What the largest enterprises agreed with the most is that loans do not raise problems, if taking them out is reasonable (3.35). In their opinion certain investments can be brought forward by the loans (3.26), and they know that without loans the enterprises would not be able to make investments (2.56). The marked difference between the high rating (over three) of the first two statements and the average rating of the third statement shows that the largest enterprises are fully aware of the positive characteristics of the loans. They know they couldn't operate without loans, they also know that investments can only be made with their help and that loans do not cause problems, provided that the enterprises don't turn to them irresponsibly, guided by advertisements and momentary situations. In terms of the largest enterprises, the lowest average rating was given to the statement claiming that without loans the enterprises wouldn't be able to operate (2.33). This rating and the statement itself also confirms the previously highlighted connection. The enterprises rather disagreed with the loans causing the collapse and financial difficulties of the small and medium-sized enterprises (2.39). Based on the average ratings of the statements, the larger enterprises can be deemed financially more conscious, as they have the knowledge, professional capacity and human resources background to handle the finances competently and to the best of their abilities.

Hereinafter I selected the sample by the enterprises' scope of activities. I separated the enterprises operating in production, in the processing industry and in the service sector, and I arranged the respondents into groups accordingly. The results are illustrated in the following table.

Figure 5.: Average ratings of the statements referring to loans based on the scope of activities of the enterprises (corrected sample)



Source: own research, 2016, N= 592

When selecting the sample by the scope of activities, it can be noted that the order of the statements was the same as in the case of the corrected sample. The enterprises belonging to the ***primary sector*** gave a 3.07 rating to the first statement, 3.05 to the second and a 2.69 average rating to the last one. In the opinion of the enterprises operating in the primary sector the least supported statement was that the SME class has become indebted due to the credit supply of the recent years. This statement received an average rating of 2.25. The statement about the developmental and investment loans (2.29) and the statement regarding the working capital loans (2.36) had somewhat higher ratings. These are the same statements as the ones underlined by the smallest enterprises, but both the average ratings and their order are different.

In terms of the ***secondary enterprises*** the previously mentioned three statements took the top positions again, only the average ratings varied in this case too. The first statement, according to which investments can be brought forward through the loans, received a higher rating than what was measured based on the answers of the enterprises operating in the primary sector (3.11). The statement saying that loans do not cause problems if they are taken out reasonably had a lower rating than from the respondents operating in the primary sector (2.9). The third statement was rated equally by both the primary and the secondary respondents. The last on the list was the statement about the working capital loans with an average rating of 2.24, which is much lower than the rating seen at the primary sector. The statement regarding the difficulties in paying off the loans achieved a slightly higher figure (2.32), and the statement dealing with the credit supply of the recent years got a tiny bit higher rating as well (2.33), which was the least strong statement in the eyes of the primary respondents.

In the case of the enterprises operating in the tertiary sector the three statements on the podium were the same as before, only with different average ratings (3.21; 3.08; 2.69). At the end of the list we can find the same statements as in the primary sector, but again in a changed order.

The respondents agreed with the statement about the credit supply the least (2.26), and statements in connection with the developmental and working capital loans received a nearly identical rating too. On the other hand, the tertiary respondents can see a significantly higher risk in the working capital loans than the secondary ones do. This is because the secondary enterprises are much more capable of producing the funds to cover the reimbursement of the working capital loans, contrary to the enterprises in the primary or tertiary sectors.

4. Summary

In view of the above results it can be stated that the enterprises comprising the sample have a broadly consistent opinion with regard to the positive and negative effects of the loans. The enterprises do not refrain from using loans. In fact, they acknowledge that loans are necessary, since one cannot invest or develop without them. The opinion of the enterprises is also quite solid about loans not causing problems on their own, if borrowing is reasonable and planned. The agreement on the allegations related to investments is detectable in the case of several statements. What is peculiar is that the small and medium-sized enterprises do not consider the credit supply of the recent years to be the root cause of the SME class's problem. Further research would be needed to investigate the underlying reasons, although the lack of financial knowledge and the financing pressures are suspected to have a huge impact on the decisions of the enterprises, and in many cases not in the right direction.

The enterprises also agree that the loans are necessary not just for making investments, but for being able to operate as well. Because the revenues and the costs are often separated from each other in time, and as a matter of fact this is the situation at almost every operating enterprise, it is therefore clear that loans are crucial in order to be able to survive these harder periods. The enterprises are also completely aware of the dogmas concerning the developmental and working capital loans, however, they approach these statements not just on the basis of the advantages and disadvantages learnt from books, but they can see the underlying obstacles, events and influencing factors too.

According to the enterprises, the developmental and investment loans can pose a problem even under normal circumstances, as they can be tricky not just for the financial cover of the reimbursement. A single poorly made investment or developmental decision is able to limit the operational boundaries of an enterprise for years, and this is very difficult to cure or to correct. This is why planning ahead thoroughly is imperative before taking out a loan, which again requires financial knowledge. The risks regarding the working capital loans are assessed realistically by the enterprises, giving it a higher rating than to the statement on the developmental loans. The above results demonstrate that the small and medium-sized enterprises do not refuse to take out loans, and moreover, they consider the loans to be necessary and essential even. This clearly shows that after the crisis the borrowing attitude of the enterprises has been altered a little, but it has not vanished completely. For this reason the lending activity from the side of the credit providers as well is also very important. For the promotion of this the Funding for Growth Scheme was a great experiment as it was able to initiate the lending activity of the Hungarian banks after the crisis, which would not have been able to start at all without external assistance, or it would have been extremely difficult. The challenge of today is to replace the state-supported credit programs with such lending spirit and activity that could provide the necessary resources for the investments and operation of the enterprises.

References

1. Abiad, A. – Dell'Arricia, G. – Li, B. (2011): Creditless recoveries. IMF Working Paper, WP/11/58, https://www.imf.org/external/pubs/ft/wp/2011/wp1158.pdf, downloaded: 2017.02.03.

2. Antal-Pomázi, K. (2011): A finanszírozási források szerepe a kis- és középvállalkozások növekedésében, Közgazdasági Szemle, LVIII. évf., 2011. március, 275.-295. old.,

3. Balog, Á. – Nagy, M. (2014): Már nemcsak nálunk fontos a vállalati hitelek ösztönzése, Magyar Nemzeti Bank, http://www.mnb.hu/Root/Dokumentumtar/MNB/Kiadvanyok/szakmai_cikkek/hitelezesnhp/Szakmai_cikk_Balog_adam_Nagy_Marton_Mar_nemcsak_nalunk_fontos_a_vallalati_hitelek_osztonzese.pdf downloaded: 2014.11.29.

4. Banai, Á. (2016): A banki hitelezést meghatározó tényezők – középpontban a bankok helyzete és a makrokörnyezet, Közgazdasági Szemle, LXIII. évf, február, 137-161. pp.

5. Bauer, P. (2016): A Növekedési Hitelprogram 2013.-2015. évi makrogazdasági hatásai, Növekedési Hitelprogram – a Magyar Nemzeti Bank hitelösztönző eszközének tapasztalatai, https://www.mnb.hu/letoltes/novekedesi-hitelprogram-a-magyar-nemzeti-bank-hitelosztonzo-eszkozenek-tapasztalatai.pdf, downloaded: 2016.12.08.

6. Bauer, P. – Oláh, Zs. (2016): Milyen veszélyeket rejt a hitelezési piac és a hitelközvetítés befagyása? Növekedési Hitelprogram – a Magyar Nemzeti Bank hitelösztönző eszközének tapasztalatai, https://www.mnb.hu/letoltes/novekedesi-hitelprogram-a-magyar-nemzeti-bank-hitelosztonzo-eszkozenek-tapasztalatai.pdf, downloaded: 2016.12.10., 9.-20. pp.

7. Beck, T. (2012): Finance and Growth: Lessons from the literature and the recent crisis. https://pdfs.semanticscholar.org/10da/04fd7c447e210a36c094483595cf53dc2e3f.pdf, downloaded: 2017.03.05.

8. Biggs, M. – Mayer, T. – Pick, A. (2009): Credit and economic recovery, DNB Working Paper No. 218., https://www.dnb.nl/binaries/Working%20paper%20218_tcm46-220409.pdf, downloaded: 2015.04.12.

9. Cabral, L. – Mata, J. (2003): On the evolution of the firm size distribution: facts and theory, The American Economic Review, no. 91., 1286-1310 pp.,

10. Európai Központi Bank /ECB/ (2009): Survey on the access to finance of small and medium-sized enterprises in the euro area, European Central Bank, 2009. September, https://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises200909en.pdf?46f55655c4142d1438b3d20b54f224cc, downloaded: 2016.10.08.

11. Európai Központi Bank /ECB/ (2016): Survey on the access to finance of enterprises in the euro area, European Central Bank, 2016. September, https://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201611.en.pdf?862f53698b8f84e198d67572453c4465, downloaded: 2016.11.22.

12. Fábián, G. (2014): Az NHP megfordította a hitelszűke negatív spirálját, Magyar Nemzeti Bank, http://www.mnb.hu/Root/Dokumentumtar/MNB/Kiadvanyok/szakmai_cikkek/hitelezesnhp/Szakmai_cikk_Fabian_Gergely_NHP.pdf downloaded: 2014.11.29.

13. Lentner, Cs. – Szigeti, C. – Borzán, A. (2011): New Dimension of Banks Social Responsibility, In: Szente V, Szendrő K, Varga Á, Barna R (szerk.) Abstracts of the 3rd International Conference of Economic Sciences: Sustainable Economics - Community Strategies, Kaposvár, Magyarország, 2011.05.19-.20. Kaposvári Egyetem,

14. Sóvágó, S. (2011): Keresleti és kínálati tényezők a vállalati hitelezésben, MNB tanulmányok 94., Magyar Nemzeti Bank, https://www.mnb.hu/letoltes/mt94.pdf, downloaded: 2016.02.12.