HUNGARIAN AND ROMANIAN COMPANIES FINANCIAL AND LIQUIDITY SITUATION IN THE LIGHT OF ECONOMIC CRISIS

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Abstract: *The behavior of the companies has changed in the last 5-6 years: they became cautious and suspicious about partners and other economic actors. This is a direct consequence of the large number of insolvent and liquidated companies, and other effects of the economic and financial crisis. The impaired financing options, the sharp fall of sales caused difficulties for companies. In general, the financial and liquidity situation of the companies is getting worse, so new financial policies are needed. To make the financial activities efficient, it is indispensable that the policy makers are aware of the real financial and liquidity situation of their own companies. But, in order to conduct successful business relationships, enterprises need to be aware of the financial situation of their partners as well. Intensified trade relations between the EU member states will require these companies to learn more about financial and liquidity situations. This present paper examines two countries, namely, a Hungarian and a Romanian region's commercial companies financial and liquidity situations of the 2010-2012 periods. The article presents the subject both from theoretical and practical data aspects too. Based on the available e-data reports, the investigation starts with the net working capital's examination. The working capital management has a crucial role in their financing policies. The size of the net working capital affects the degree of financial policy's flexibility. The negative net working capital calls the attention for financial problems. The study continues with the calculation of traditional liquidity ratios, which may also reflect the liquidity situation of the companies. It is recommended not to accept the results of these indicators without calculating any other liquidity ratios. These indicators show an actual situation, so they can distort reality (positive or negative). Other indicators and methods are needed to assess the real situation. The study was completed with the analysis of indebtedness and profitability as well. These indicators can play a big role in the financial and liquidity situation of the companies. The indebtedness ratio shows the presence of large foreign capital, which can help in difficult liquidity moments. But the large amount of foreign capital also presents a risk for the company. The effectiveness level of the company shows the company's profitability, which is essential for the long–term viability. This comparative analysis paper studies three key years of the economic and financial mondial crisis. The results, the trends of the indicators values hopefully will lead to an increase in trust between the partners.*

Keywords: liquidity, risk, working capital, indebtedness, Hungarian companies, Romanian companies.

JEL classification: G 32 – Financing policy

1. Introduction

The 21st century's first major economic – financial crisis shocked the whole world's companies and national economies, with effect of all actors in the economy. Among the companies the sales declined, the growing shortage of funds, conducted to liquidity gridlock and disruption. The banks introduced more tight lending conditions, so, these payment problems even more intensified and resulted in a large number of insolvency situations.

The crisis had started in the United States. Can be divided among the main causes of the outburst, due to the increasing consumption increased financing needs, the spread of uncontrolled and irresponsible bank lending, the excessive use of foreign financing, monetary policy was loose, falling real estate markets, etc.
The crisis quickly spread to Europe, which deeply schocked the nation's economy, especially in those countries that had high public debt, Iceland, Greece, Spain and Ireland. Several economies were approaching bankruptcy. Eastern Europe, including Hungary and Romania has not escaped the economic and financial crisis.
In Hungary the first impact appeared in the banking system, as the liquidity crisis. Other actors in the economy and society felt the effects of the crisis, by paralysis in lending, the loan portfolio decline and deterioration of credit conditions. Later, the risks of the banks have continued by non-payments. After the Icelandic crisis, Hungary seemed to be one of the riskiest economies, so the disinvestment huge proportions. Banks play an important role in supplying foreign exchange currency trading, which was frozen, as well as lending between banks faltered. Many commercial banks reported that they could not provide foreign currency loans. While there has been substantial growth rate of the forint and foreign debt traders were very extreme positions. (Bod et al , 2009).
The effects of the crisis quickly became palpable among the companies. The most significant and immediate effects were: the domestic and export sales drop and this created a serious financing problem. The supplier and customer stock levels increased significantly, the gridlock, the supplier prices increased, and the banks continued to tighten their credit conditions. In addition, as the households, the majority of companies have taken out a loan in foreign currency, and the repayment in local currency had strengthened the deteriorated liquidity situation.
The crisis also had similar effects in Romania too. Because of the major decline in sales, massive layoffs have been taken (especially in 2009). It was a hard blow to the country the almost complete freezing of the real estate market and an unprecedented decline in real estate prices.
A result of these factors, many companies have been in a hopeless situation, winding up has been carried out, or become insolvent. Since the beginning of the crisis, this process is still going on, still shows an increasing trend of enterprises erasure statistics.
In Hungary (according to the analysis of business information provider Bisnode), the number of forced removals, which had been introduced in 2012, increased significantly in 2013 , which affected more than 4 percent of the companies. From this, in 2013 nearly 2.5 % of the companies became insolvent. The construction industry is the most risky one in Hungary. The default rate of the sector is much higher than average, and almost reaches the value of 4.5 percent. Other risky sectors are even the accommodation and restaurant services , wood processing , mining and trade. In insolvency terms Jasz – Nagykun-Szolnok, Zala and Szabolcs -Szatmár -Bereg county counts are the most risky (Szabó Brigitta, Népszabadság, 22 January 2014th). .
In the past years, approximately 30 thousand companies in Romania had became insolvent , 10.4 percent more than in 2012, a third of them are commercially active (since the onset of the economic crisis, about 130 companies have came to this position). Most firms thought that situation were in Bucharest: 3,759 (5.44 per cent more than in 2012), followed by Bihar county 1,826 companies (39.5 per cent more than in 2012), Galati county company in 1509 (18 percent increase in). As in previous years, the commercially active firms were still the ones in the most financially difficult situations, 10,436 of them became insolvent in 2013, while in 2012 the number was 9,329. Active in the field of construction companies follow the line and the hotel and catering companies in the manufacturing industry (Népújság, January 2014th 21).

2. Examination of financial and liquidity situations of the companies

2.1. Working capital management

In this economic context, it is imperative that companies (regardless of their field of activity or size) on a daily basis are aware of their own and their partner's financial situation. As a consequence of the economic crisis, significantly impaired access to external sources of financing, and lenders had become much more cautious. This meant that the more thoroughly analyze the sources of external financing insurance claimants, and also need to be more aware of their position, to be well informed to submit loan applications to financial institutions (Fenyves, Tarnóczi, 2011).
The first sign of the financing problems appears in the current assets; therefore, an appropriate working capital management is essential for today's enterprises. The working capital actually represents current assets of the company, the funds, inventories, receivables and instruments, that is, the means by which it intends to use the company within a year.
Important indicators related to the working capital management is the net working capital, which can be determined as the difference between the company's current assets and short -term liabilities, that is, the current assets of the part that is not tied up in short-term obligations. The net working capital can be understood like the essence of working capital netting. We can say also that the net working capital is essentially the portion of current assets, which is financed by long -term financial instruments or equity, that is, long-term source. If the working capital and net working capital interpreted as specified above, then the working capital management of the company include the financing and management of current asset, and monitoring of short -term liabilities. Net working capital determined the flexibility of enterprise's financing policy. A company can conduct flexible financing policy, if the net working capital is positive. The decrease in financial flexibility and elasticity can project insolvency (Fenyves, Tarnóczi, 2011).
Management of working capital is closely related to liquidity management. Under the liquidity, we understand the company's ability to perform payment obligations in timely manner. Horcher (2005) determined the concept of liquidity, in the financial capacity of the company to understand and to be able to pay the short-term obligations. In his opinion, the company is then faced with liquidity risk when liquid funds are not sufficient to achieve the daily activities. This situation has affected the company's ability to grow (Horcher, 2005).
The liquidity management, that is, the ability to pay ongoing maintenance is a key area of corporate governance, as short -term; the company guarantees the existence and the sole basis for the long-term development. Loss of liquidity could lead to the company's losses. (Chorafas, 2002)

2.2. Liquidity ratios

Analyze the liquidity situation of the business has several options. Different indicators and methods are available to us, which have to be used with great caution and the results obtained should be interpreted with aggregate. The most common methods include traditional liquidity measures counting.

Table 1: Traditional liquidity ratios

General liquidity	Quick liquidity ratio	Cash-wide liquidity
$\frac{\text{Working capital}}{\text{Short term obligations}}$	$\frac{\text{Working capital – Stocks}}{\text{Short term obligations}}$	$\frac{\text{Funds + Receivables}}{\text{Short term obligations}}$

Source: Fenyves, Tarnóczi (2011)

National (Pálinkó, É. and Szabó, M. 2006; Horváth Zs. 2011) and the international literature is divided about acceptable values of the indicators, but is general, the following applies:

a) general liquidity: 1,5-1,8

b) quick liquidity ratio: at least 1

c) cash liquidity level: for this index will rarely find value, but has been said that 0.25 to 0.3 to be admissible.

We can see that if we take the lower limit of the first interval, it means that current assets should be financed at least 30 % of long-term supply. From all this it also follows that the net working capital can be interpreted as a liquidity measure, so, if the net working capital is inadequate, the company is in insolvency risk.

A positive net working capital can be interpreted that the company will probably be able to meet all of the financial assets during the year, or ability to pay. However, this is not necessarily true - as net working capital - as a general indicator of liquidity - not accurately determine the liquidity that it is only money and short-term investments (securities) is really liquid assets. The high net working capital may come from very high demands on staff investment (late payment or non - payment by the customer) and / or for a high stock level as well. It is evident that great care must be taken in interpreting the indicators of liquidity. The change in net working capital is not determined only by the current assets and current liabilities changes; but the equity and long -term liabilities, changes in non-current assets as well (Fenyves, Tarnóczi, 2011).

2.3. Foreign capital, risk

The financial situation of the company, of course is influenced not only by the composition and the management of working capital, but also by the evolution of the organization's revenue, by the capital structure (capital strength), the degree of indebtedness, the income position, efficiency, etc. All this testing is essential for assessing a fair and true financial situation. In heavier periods, or one investment implementation plan, companies are using foreign capital, bridging the shortfall needed money or taking advantage of opportunities, implement investments, hoping for a more profitable future. However, this risk is undertaken.

The finance risk is usually included with the chance and the danger. This means that if the economic environment is favorable, it allows you to achieve better results, but if the economic environment turns the wrong way, it can happen that a worse outcome can occur. This means that in order to achieve better results, companies have to take the risk. The management task is to find the optimal risk-taking level, that is not to give up on some of the income to, but keep it on a manageable level, the potential loss could occurring. You need to constantly monitor the status of the business (Tarnóczi, Fenyves, 2010).

The present study is a continuation of a previous article (Zsidó, 2014), in which the evaluation of liquidity situation of commercial companies in Hungary and Romania was based on the traditional liquidity ratios.

This study now extends and analyzed for 30 pieces of commercial activities companies in Hungary (Northern Plain Region) and 30 pieces of Romania (North Western Region), the financial and liquidity situation for the last three years (2010, 2011 and 2012) by analyzing the net working capital, working capital structure, debt levels and profitability.

3. Database features, methods of analysis used

According to the dates from the Central Statistical Office in Hungary (Központi Statisztikai Hivatal) and the National Bureau of Statistics in Romania (Institutul National de Statistica), I have analyzed the distribution companies from the scope of activity of both regions. It turns out that in both cases the vast majority of businesses engaged in commercial activities (Northern Hungary - more than 26 %, Northern Romania region 30 % of the companies).

The preparation and the analysis were made on the basis of the data delivered by the commercial business accounts data.

In Hungary, the companie's e-report were available at the Ministry of Public Administration and Justice and Company Information Service (Közigazgatási és Igazságügyi Minisztérium Céginformációs Szolgálata) website (http://e-beszamolo.kim.gov.hu/kereses-Default.aspx) and Opten Ltd website (http://www.opten.uk).

For Romania, the data were downloaded from the Ministry of Finance (Ministerul Finantelor) website (http://www.mfinante.ro/pjuridice.html?pagina=domenii), and as well as other database (www.listafirme.ro) worked. The database contains data from three financial years: 2010, 2011 and 2012th

The study, therefore, the Hungarians, the Romanians as NACE's (Standard Industrial Classification of Economic Activities) corresponding G - Wholesale and retail trade (45 -, 46 -, 47) undertakings engaged in activities. FILTER pre- determined some conditions, such as revenue size (corresponding to 350 thousand Euro value), the number (at least 9 people) of employees (Zsidó, 2014)

4. The results of the research

The two regions from 30 to 30 units, commercial enterprises randomly selected financial and liquidity position of the 2010, 2011 and 2012 financial years are shown in the following situation:

The importance of working capital in view of the first step, I examined the net working capital of the companies. We know that for a flexible financing policy implementation, the net working capital must be at least positive. The negative net working capital already signals financial problems.

Table 2: Negative net working capital ratio among the studied companies

	Hungary companies	Romanian companies
2010	33%	33%
2011	30%	33%
2012	26%	26%

Source: own calculations

In the years 2010-2011 more than 30% of the Hungarian and the Romanian companies had negative net working capital, which is already projected to serious financial problems. The negative net working capital ratio of 30 to 30 among examined companies in 2012 showed an improvement in both countries (regions).

Looking at the ratio of liquid assets (liquid assets ratio = Net working capital / Total assets * 100), we can see also an improving trend (Table 3.):

Table 3: The ratio of liquid assets ratio among companies in Hungary

	Hungarian companies		
	2012	2011	2010
≤10%	54%	54%	56%
10-30%	16%	13%	27%
30% ≥	30%	33%	17%
Total	100%	100%	100%

Source: own calculations

Table 4: The ratio of liquid assets ratio among companies in Romania

	Romanian companies		
	2012	2011	2010
≤10%	34%	40%	50%
10-30%	23%	27%	13%
30% ≥	43%	33%	37%
Total	100%	100%	100%

Source: own calculations

The liquid asset ratio shows the proportion of cash that serves the maintenance of liquidity, that is, which is paid to the urgent payment obligations. The liquid portion includes any device which can be made almost immediately in cash or with cash.

In this respect, we can observe a faster and better improvement in the case of Romania: until 2010, the liquid assets share is not less than 10 % for more than half of the examined enterprises of both countries; in 2012, 34% of the Romanian companies remained in this level, while the Hungarian enterprises remained at the 2010 level. Good as well as the multi- asset ratio of 30%, which 30 % of the Hungarian companies and 43% of Romanian companies reached in 2012.

In addition to the above indicators, it is indispensable to calculate the traditional indicators which provide essential liquidity, even these more tangible and perhaps more concrete picture of the liquidity position of firms.

Looking at the liquidity position of enterprises in the two regions, with the traditional liquidity indicators, really great, outstanding differences cannot be detected: the Romanian companies show a slightly better liquidity situation. About 60% of Hungarian companies are "at risk" level (it was in the period 2010-2012), the Romanian companies are around 40% to be said the same. About 20% of Hungarian companies and about 30% of Romanian companies were at an acceptable level. And good solvency situation we can talk about the investigated enterprises 20% and 30% (Zsidó, 2014)

According to the study made with traditional liquidity indicators (general liquidity and quick liquidity ratio) the liquidity position of commercial enterprises, shown the No. 1 . Figure:

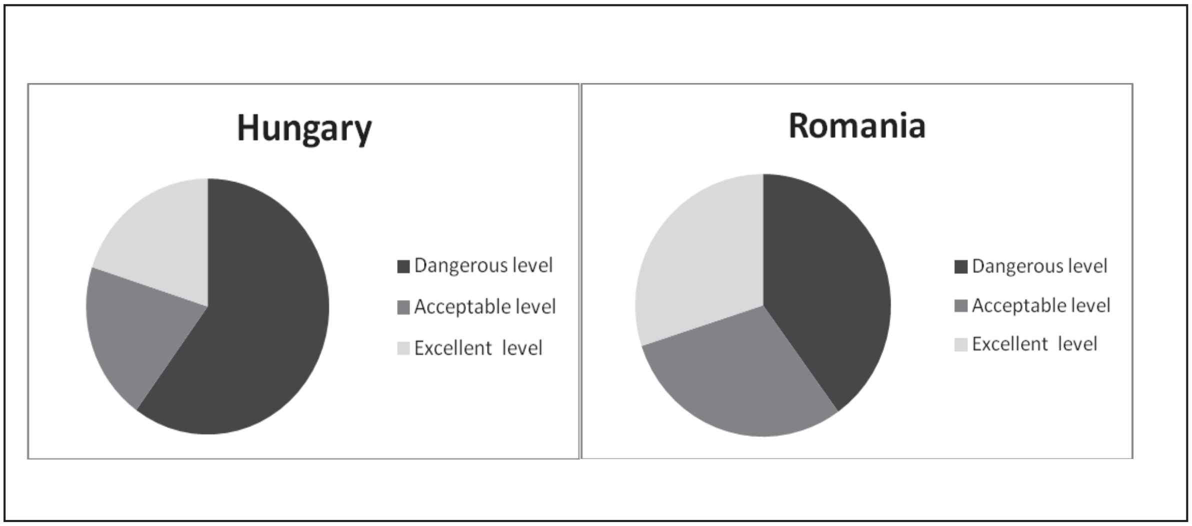

Figure 1: Companies liquidity situation based on the General liquidity and the Quick liquidity ratio analysis
Source: own editing

The financial and liquidity situation and the liquidity problems are directly affected by the debt level. The indebtedness level is reflected, in the No. 5. Table:

Table 5: Hungarian and Romanian companies indebtedness level

	Hungarian companies			Romanian companies		
Indebtedness level	2010	2011	2012	2010	2011	2012
0 – 20%	3%	3%	7%	0%	3%	3%
20% - 60%	47%	57%	53%	33%	37%	40%
60% - 70%	17%	17%	17%	30%	17%	10%
70% -	33%	23%	23%	37%	43%	47%
Total	100%	100%	100%	100%	100%	100%

Source: own calculations

An interesting situation shows the company’s debt analysis: examining the values of the debt in three years of business, it is clear that the half of the Hungarian companies remained at an acceptable level, while the Romanian companies only approx. 30 % of all, were on acceptable level. The Romanian company’s debt level is much more critical.
Despite this, the traditional liquidity ratios of the Romanian companies are better. Higher debt level, but it helps the liquidity situation. The question is how far this situation could and should be maintained. Risk -taking is almost essential for development, but there are rational limits, terms and conditions. First, the external financing used must lead to greater profitability.
Investigating the income situation of enterprises in terms of absolute income (profit or

loss) of the period from 2010 to 2012, 90 % of enterprises in both regions ended the fiscal year with positive profit before tax (profit).

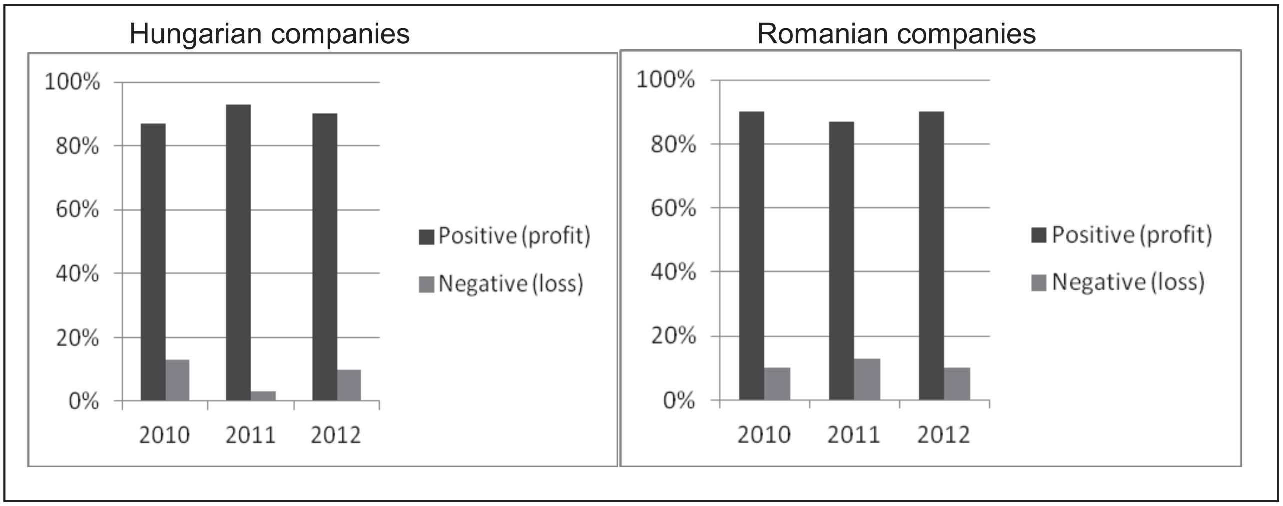

Figure 2:: Pre-tax profit situation for Hungarian and Romanian companies
Source: own editing

Of course, in itself a positive result does not necessarily mean good and stable income situation. A positive result means that the revenues of the company covered the cost. It's just enough to survive. The more important question is the net income profitability (net income profitability = result before tax / Income), so that the result is what% of revenue. The future development and competitiveness, income-generating capacity of the company will depend on the outcome to be invested. In this respect, the test 30-30 commercial enterprise net income profitability is illustrated in Figure 3:

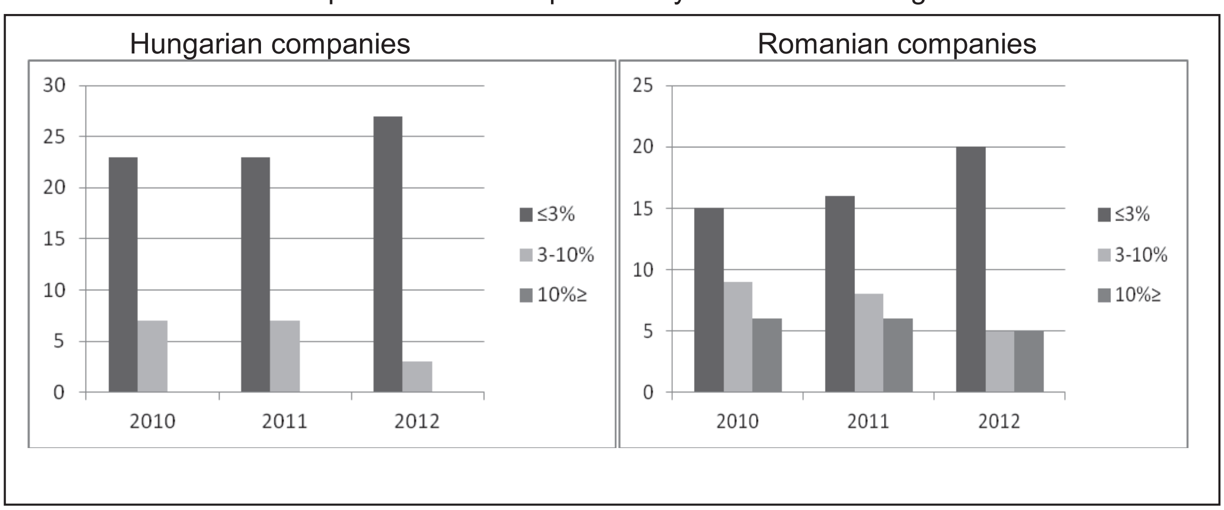

Figure 3: Net income profitability of Hungarian and Romanian companies in t he 2010-2012 period
Source: own editing

Profit before taxation is not very encouraging; the majority of the undertakings of the revenue situation is less than 3%. So what the No. 2. Figure seen that 90% of the examined enterprises are profitable, the rather misleading. Not even one of the Hungarian companies net income profitability did not exceed the 10%. In all three years, the Romanian companies studied are approx. 5-6 who reached more than 10% of the index value.

5. Summary

Threatening liquidity ratios, high debt levels, low-margin ... not surprising under these circumstances the lot of number and still growing trend in discontinued companies.

In my view, the situation shows an alarming picture, despite the fact that these indicators should be interpreted with caution. In many cases, the liquidity problems stem from the fact that the period of recovery of the assets exceeds the maturity of the liabilities. This should be better coordinated, and should take the cash sales are more attractive to businesses of different instruments. Instruments such as discounts, transportation costs, the assumption of a specific package of goods sold free of other products, faster service, etc.. Should the other side, the vendor payment deadlines pushed out is encouraged.

To solve - to some extent - the general manifested liquidity problems, in both countries has been introduced the so-called cash-flow VAT, which is to be paid VAT on the sale, shall be paid only after the added tax revenue credited to the state budget. Of course, tax deductible on purchases can only be enforced if the acquisitions were offset against the value of the firm.

In practice, the companies often resort to barter transactions. These deals will help the continued functioning of the trade, despite the incomplete financial situations (Zsidó,2014).

The situation did not improve in -house simple, long, persistent and responsible work is only available in. A well- planned and sustainable central government help to consolidate, could make it more competitive for businesses. In this regard, welcomed available in Hungary, launched by the National Bank Growth Loan Program, which provides investments, working capital financing, etc. (http://www.mnb.hu/Monetaris_politika/novekedesi_hitelprogram).

Another indirect support, confidence would recover. Distrust of the entire national economy: it among the population, as the business circles. There is no trust against the nation's economic programs, not against the European Union's economic and social - economic programs either. As long as neither the public nor businesses see a way out of this situation in the near future, doubt, fear leaves its mark on the business activities. The success of entrepreneurial activity is highly dependent on the risk-taking. But in an uncertain environment and distrustful, who are those who take risks? And at what cost? And everyone on your skin?

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