

EXAMINATION OF THE FINANCIAL POSITION OF HUNGARIAN AGRICULTURAL ENTERPRISES BETWEEN 2002 AND 2009

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ABSTRACT – Examination of the financial position of Hungarian agricultural enterprises between 2002 and 2009

The emerging and strengthening unfavourable processes in the Hungarian agro-industry after the change of regime influenced the financial position and its ratios significantly. Their indebtedness and parallel to it their financing risk grew. Their profitability sank and the figures of efficiency became minor.

There were great expectations in the branch prior accession to the EU that these unfavourable processes would stop and positive developments would begin. In our survey we found these expectations materialized only partly. The profitability grew owing to increasing subsidies consequently the indebtedness showed some decreasing. In the same time the real value of the agro-industry's output decreased further leading to continued reduction in the efficiency of this activity. The majority of positive impacts ceased after 2006 excluding the higher level of profitability.

Keywords: structure of capital, financial position, profitability, efficiency, conservative financing strategy

INTRODUCTION

In the change of regime's period the Hungarian agro-industry was shocked seriously. The causes were the privatisation, the cutting the lands into little farms, the sector's decreasing role in the GDP and the employment. The fixed assets became more and more depreciated and the line –of mostly unfavourable– changes could be continued. The agricultural activity has always had high risk, low returns and in the same time claim to high value of total asset, so the funding of it has not been solvable by the growth of the equity. Consequently there emerged a demand for involving liabilities that boosted the financing risk. Unfavourable tendencies started in the agricultural enterprises' profitability, efficiency and financial position.

In our paper we have tried to answer the question if the above tendencies of the nineties whether or not would remain beyond the millennium or rather if the accession to the EU has changed (and if so to what extend) the position of farming enterprises in this sector?

MATERIAL AND METHOD

The analyses are based on the tax authority's corporation tax returns between 2002 and 2009 and the credit statistics of the Hungarian National Bank and other financial institutions. We have used the reports on the most important industries. The aggregate data hide inevitably the differences among the enterprises.

We have considered agro-industry's enterprises those including agriculture, fishing and forestry. The companies have double entry bookkeeping and have to prepare corporation

tax return yearly. We have used ratios, average, dispersion to prove our statements. The examined period is from 2002 till 2009.

RESULTS

The total sum of equity of all the examined enterprises increased by 65 percent in these years and in 2009 it exceeded the 1000 billion HUF (1053 billion HUF). The long-term liabilities grew by 89 % and the current liabilities 48 % in this period. While the equity's rate of growth was steady that of the liabilities not.

The current liabilities went up continuously. Since 2004 the increase has been continuous but slowing down and the year 2009 showed some recession. Consequently the rate of equity regressed from 53 per cent of 2002 to 47 per cent of 2004-2005. Then it increased moderately and in 2009 came close to 54 per cent. The dispersion of the above mentioned rate is relative low: 0.1553.

The structure of the capital was changed by the growth of the equity's proportion prosperously. The favourable process was owing to the narrowing down of the borrowing's possibilities, but not a conscious decision-making. (KÁROLYNÉ et al., 2009)

The rate of current liabilities showed fluctuation between 28.10 (in 2003) and 32.66 (in 2007) per cent by a low dispersion coefficient (0.1311). The proportion of the long term liabilities and equity to the current liabilities was two thirds to one third.

Within the credit portfolio the long-term liabilities exceeded the current liabilities permanently in the examined years with exception of 2002. Mostly due to the favourable interest rate and state-subsidized long-term credits the proportion of long-term liabilities moved about 70 per cent between 2003 and 2006 exceeding this value in 2004.

One of the reasons for this downsizing of the short-term credits was our accession to the EU because after it was no more allowed for the state to subsidize short-term interest rates. After 2006 we experience that the biggest part of all credit's yearly growth was short term so the rate of the long-term credits slipped to around 50 per cent.

The weight of the issued capital became more and more insignificant. The proportion of the issued capital to the shareholders' equity was 46 per cent (45.87) in the beginning of the examined period and at the end of it decreased to about 26 per cent (25.99). Both the proportions of the issued capital and the nominal value were reduced.

The specific indicator of issued capital showed a big decline from 2003 to 2004 when the average sum of it diminished by 5230 thousand HUF while the number of the enterprises (with accrual based bookkeeping) was rising by 1833 what meant about 20 per cent. It is characteristic of this time that enterprises began their activity with less issued capital than earlier probably because of expectations regarding our EU accession.

The proportion of the capital-reserve to equity was on average 22.61 per cent in the examined term. The capital-reserve increased by nearly nominal 74 billion HUF in the period. It meant a growth of 50 per cent. This fact was influenced by a measure that allowed the enterprises to state the received subsidies without repayment for developing as capital reserve at the same time with the cash in flow. (The most part of the subsidies was accounted as other revenues.) (HERCZEG, 2009)

The role of the aggregate profit reserve –as for its tendency– grew considerably bigger. The growth in the above mentioned period was on average 20 per cent which meant till 2006 below 20 per cent, but after this year it showed a considerable growth parallel with

the changing of the profitability for the better. The growth was 28.83 per cent in 2009, nominally 3.7 times as large as earlier in the period.

Among the parts of equity the net results of the years were positive excluding 2003 that was a year of drought.

There was no considerable reorganisation in the structure of the examined agricultural enterprises' assets. The rate of the fixed assets to the total assets moved between 51 and 53 per cent by a low dispersion (0.1247). There were two exceptions: The years 2004 and 2009 when the value of the mentioned rate was 54.21 and (unexpectedly high) 56.15 per cent.

The value of the long-term liabilities increased significantly in these years which meant that the source of the growth of the fixed assets were long-term debts.

The increasing investment activity and the following growth of fixed assets were motivated by the renewing offer of credit, state subsidies and the tax allowance according to the investments.

In spite of the high depreciation (61 per cent) of the fixed assets in the examined term the growth of fixed assets was significant so increased the proportion of the high value and quickly depreciable fixed assets.

The inventories and the receivables were the most important factors in the current assets. The proportion of the receivable to the current assets exceeded the average of the debtors' proportion of the Hungarian economy in all these years.

The current ratio (the total current assets divided by the current liabilities) showed some growth between 2002 and 2004 and it had the highest value in 2004 (162.67 per cent) than was reduced. The ratio moved below 150 percent between 2006 and 2009.

The current ratio exceeded the acid test ratio significantly. The difference of the ratios meant the high proportion of the inventories. The above-mentioned facts (high value of the receivable and inventories) relates to an illusory liquidity.

The downfall of the liquidity with a low profitability and high indebtedness could bring the diminishing of the borrowing's possibility.

The aggregate value of equity, excluding of 2002 was not covered by the value of fixed assets in the examined years, so the fixed assets were funded not only by equity. The average coverage of the period was 96.21 per cent.

The capitalization (equity and long term liabilities) exceeded on average the value of the fixed assets by 25.25 per cent showing growth between 2002 and 2004 and after that came a step-by-step decrease. Consequently the 25 per cent of the current assets were funded by capitalization. The net working capital was positive in the examined years. The financing strategy of the above mentioned enterprises was conservative in the examined time.

The rate of growth of the agricultural enterprises' output was behind the total asset value. The revenues on current price increased steadily, but only by 23 per cent. This fact lagged far behind the aggregate value of inflation in this time. During this period the value of total assets increased by 62 per cent.

The efficiency ratios (total asset turnover, tangible asset turnover and the value added to total asset) were reduced between 2002 and 2004. The decrease stopped after 2004 however the ratios did not show a change for better. There was a remarkable regression owing to the crises in 2009.

Before 2000 the rate of total asset value and equity lagged behind the aggregate value of inflation i.e. the process of capital's loss having begun in the eighties continued and even boosted. (PATAKI, 2003 b) The growth of output was behind the growth of the total asset value.

Table 1: Efficiency ratios in the examined period

	2002	2003	2004	2005	2006	2007	2008	2009
„A”	86,17%	80,64%	74,25%	72,46%	73,76%	73,20%	75,09%	65,66%
„B”	180,07%	160,47%	157,17%	152,62%	152,01%	153,46%	155,65%	126,27%

„A”: Sales/ Total asset „B”: Sales/ Tangible asset

Source: own calculation based on the corporation tax returns of tax authority

After 2000 the capital’s loss stopped, but the diminishing of the asset turnovers went on. (PATAKI, 2003 a) The conclusion can be drawn that the agricultural enterprises’ total asset value is too high for their output. The loss of capital in nineties is comprehensible as conformity to the not expected level of the output. Without capital’s loss the decrease of the asset turnovers could have been faster. (BORSZÉKI, 2000) Instead of notion capital’s loss capital’s diminishing would be more exact.

The position of the enterprises according to the asset turnovers becomes insecure. The enterprises should have new markets, increase their revenue and use all the opportunities for the sale.

The decrease of the capital’s efficiency was counterbalanced by growth of the labour productivity. The second fact is owing to the diminishing of the staff number.

The examination of the enterprises’ profitability showed that the profit before tax sank till 2004 but after 2004 it started to grow significantly. In 2003 the result before tax was negative due to the extraordinary drought.

The net income from operation showed similar characteristics. The net income of 2008 exceeded the value of 2004 by 146 per cent. The results of financial and extraordinary transactions influenced the net income from operation negatively. The result of the financial transaction was negative in all of the examined years and it diminished the net profit before tax by 43 per cent on average. The difference of the extraordinary income and expenses was positive in every year.

The retained profit of the year was rising noticeably and there were especially high in 2005 and 2008. Parallel the profitability ratios (ROE, ROA and ROS) increased after 2004, too.

Table 2: Profitability ratios in the examined period

	2002	2003	2004	2005	2006	2007	2008	2009
ROE	6,98%	-1,24%	2,36%	0,56%	7,91%	6,78%	8,18%	2,81%
ROA	0,77%	0,49%	0,56%	0,53%	1,33%	0,66%	0,24%	0,23%
ROS	4,29%	-0,79%	1,50%	0,37%	5,50%	4,66%	5,70%	2,31%

Source: own calculation based on the corporation tax returns of tax authority

The growth of profitability increased the agriculture enterprises’ self-financing’s ability however the depreciation ran to two thirds of the cash flow i.e. it did not arise from profit. The effect of the self-financing’s ability developed the ratio of equity to the total asset influencing the liabilities favourably.

However, there is a fact mentioned above which influences the conclusions. The accounting of the subsidies as other revenues exceeded the net income from operation and did not show the realized result. The value of the subsidies exceeded the realized result of operation in every year. In the examined period the average value of the net income from operation was about 67 billion HUF and the average value per year of the subsidies

without repayment was over 113.5 billion HUF. The net income from operation without subsidies would have been negative, a yearly average 50 billion HUF. (BORSZÉKI, 2008)

The fact that the whole or major part of the income from operation originates from subsidies is not a Hungarian characteristic, but it is important information to the profitability of the examined enterprises. So the growth of the net income from operation after 2004 was owing to the increased volume of subsidies which fact was the consequence of the accession to the EU.

CONCLUSIONS

In our opinion the earlier process of the capital' loss has stopped in this sector. The total asset and the equity of the enterprises grew in the period significantly (62 and 65 per cent). The rate of growth of the revenue and added value was lower which means problems of return on asset and equity.

The further capitalization is limited mostly by the returns. The most part of the investments would be realisable from the profit after tax and depreciation. The interest rate subsidies give reason for borrowing. The growth of the asset value is limited by the opportunities for sale.

The expectations regarding accession to the EU were significant, but these effects influenced the ratios of the agricultural enterprises only for short time favourably. The number of the businesses grew although they had been established with low issued capital. The retained profit of the years increased, especially in 2005 owing to favourable agricultural output prices. The reserves of the equity were rising. The rate of the long-term liabilities got larger than the short-term liabilities. The conservative financing strategy seemed continuous. Part of the effects was only temporary and their influence was eliminated after 2006.

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