

# Central European building industry in the turbulence of recession

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The analysis of current state of building sector in the Visegrad countries (V4), prepared by CEEC Research in co-operation with KPMG Czech Republic, shows that low demand is the most significant crisis factor. In comparison with the previous year, the Visegrad builders feel this very intensively. Other important conclusions of the research are: further decline in capacity utilization, increase in importance of personal contacts for acquiring new contracts, quest for higher efficiency of building companies management. And perhaps surprising - a different understanding and perception of corruption practices. It is appropriate to mention that the research has the form of a questionnaire, the respondents of which are in the managements of building companies, it is a description of situation as it is "perceived" by the building sector.

## Only Poland escaped the decrease in demand

The highest year-over-year decrease in production in the period from January to September 2009 occurred in Slovakia (- 8,8 %) but the other countries have not been saved either. Czech Statistical Office data in the comparable period show decrease by 2,5 % in the Czech Republic. This was caused mainly by a fall in building construction. Hungary announced a loss of 2,7 %, the situation here is more serious owing to chronic problems of the economy which do not have "crisis" character (contractionary fiscal and monetary policy, a high deficit of state budget, high tax burden etc.).

Polish building industry is the only one which is showing a slight growth, however, it is also slowing down considerably - it shows an increase in production by 4,7 % in the monitored period. Comparison of exceptional results from today with the past shows that Poland is going through a building turndown too (2006: growth by 14,4 %, 2007: 20,2 %, 2008: 15,5 %). Polish building industry is affected by two specific factors. Firstly, realisation of a large number of infrastructural projects financed by the EU and secondly, much building work is going on in preparation for the EURO 2012 (European Soccer Championship organized jointly in Poland and Ukraine). As an example, new stadiums, roads, hotels and a new route of Warsaw underground are being built. All these have protected Polish builders from recession so far.

## Nearly a fifth of capacities are idle

The key issue for most building companies in the Czech Republic and Slovakia is insufficient demand, whereas the biggest limitation for Hungarian building companies is harsh competition. Polish builders mention bureaucracy in this context, high labour costs (96 %) and insufficient demand (94 %).

Another factor often mentioned in the questionnaire are insufficient financial funds. This quickly penetrated the "minds" of building companies' management. On the contrary, a perceived limitation which has decreased sharply since last year is the lack of experienced workforce.

The factor mentioned last is evidently connected to low capacity utilization of building companies. The lowest capacity utilization is mentioned by building companies in Hungary, at 74 %. Polish building companies indicate current capacity utilization at 77 % (decrease from 80 % a year earlier), Slovak companies a slightly higher (78 %), although the highest year-on-year decrease - Slovakia stated that 92 % of their capacities were utilized a year ago. This indicator stands at 84 % in the Czech Republic (80 % in 2008).

## **How to get a commission: in Hungary only through personal contacts**

With regard to their business and marketing activities in client acquisition, Czech companies mention three different methods, or instruments, on average. Two or three in Slovakia and three to four methods in Hungary (Polish data is not available for 2009). The most frequent way of acquiring building commissions are personal contacts (Czech Republic 85 %), Slovakia 84 %, Hungary 100 %!), the importance of this factor is evidently growing. The plans for the nearest future are closely connected to this. Priority of the building sector from V4 countries for the period 2009-2010 are to invest in establishing personal contacts, 62% Slovak companies are going to do this, as well as 57 % Hungarian and 51 % Czech firms.

Other methods of getting jobs (mentioned in the questionnaire), are long-term frame contracts, direct customer enquiry and public tenders - their character still remains rather disputable in Central Europe.

## **Shady practices: Slovak slump**

The building companies representatives assessed the transparency of tenders which the firms had participated in (on the scale of 1 to 10 points, 10 being the highest transparency). The results show that the situation is similar in the Czech Republic, Slovakia and Hungary. With the exception of Hungary, building companies rate transparency of public tenders better than tenders financed from private funds (CZ, public vs. private: 5,6 vs. 5,3; Slovakia: 6,3 vs. 5,6; Hungary: 5,0 vs. 5,6; Poland 2008: 5,2 vs. 4,4). This is undoubtedly a surprising finding, at least in our country due to permanently criticised corruption and clientelistic practices in the area of public tenders.

The situation in the V4 building sector is different in relation to direct corruption. The highest share of companies which claim not to have been asked for a bribe is in Hungary (60 %) and in the Czech Republic (59 %). The lowest share of such companies is in Slovakia (42 %) where a visible year-on-year slump of the positive parameter (72 % in the year 2008). Corruption has probably spread in connection with the recession in our Eastern neighbouring country, or this is at least a subjective perception of building companies' management. The comparison with Poland is only possible from the 2008 research results which shows a situation similar to the Slovak building companies' experience.

With regard to plans and prospects, besides strengthening personal contacts and planned offer innovations (61 % of Czech building companies are going to do so), the building sector in the V4 countries more or less agree that the key to the future is the coming development of demand.

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