

In April 2011 for the twenty-seventh time the Institute for Economic and Enterprise Research (MKIK GVI) conducted its business climate survey, in where 14,000 companies are examined biannually (April and October) with the assistance of regional commercial chambers. This is the largest and most comprehensive survey of its kind within Hungary, and is part of the Eurochambres business climate survey of 14 million companies as well. Based on the number of responses received, 1,803 business managers replied to our questionnaire in April.

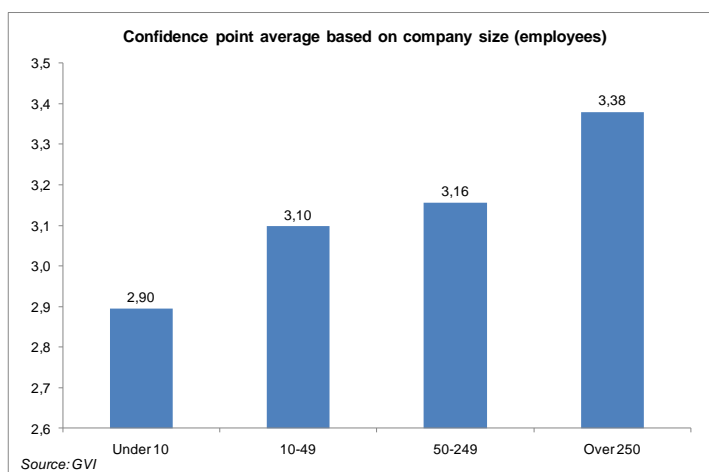
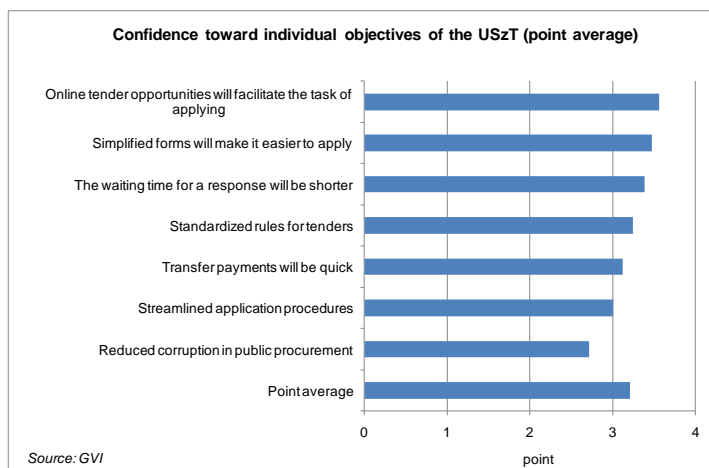
In the April 2011 survey, we recorded the attitudes and opinions of managers toward the New Széchenyi Plan (USzT), a framework program for tender opportunities. The results show that 78% of respondents are familiar with the USzT, yet only 43% plan to use it. Familiarity with the USzT is very similar by different parameters of the companies, and we can say that most domestically owned enterprises are aware of the program and that most of these companies are intending to apply for tenders within the auspices of the USzT.

Slightly more than half of our respondents applied for public and EU tenders in the last five years, with large companies being the most active. The data suggest that the proportion of successful tenders increases with company size. As for the Széchenyi Card Program, 16% of the respondents presently take part. Among the examined companies this program is most widespread among small enterprises of ten employees or less and construction firms.

In the April survey, we also asked respondents about the New Széchenyi Plan (USzT), with 78% of respondents indicating that they knew about the USzT. By contrast, only 43% plan to apply for tenders within the auspices of the program.

We can conclude that the proportion of those aware of the USzT is similar across different sectors. The same is also true for the exploitation of the tender possibilities offered by the program. In terms of foreign ownership, however, we see marked differences between knowledge of the USzT and its exploitation. Of purely domestic-owned enterprises, 81% indicated that they are aware of the USzT; among partially foreign-owned firms, this figure is 78%; a little more than two-thirds of foreign-owned firms reported back positively in this regard. The intention of companies to apply for tenders within the auspices of the USzT show significant differences in terms of the company's level of foreign ownership: 43% of entirely domestic-owned firms reported such plans, while for companies with mixed ownership this figure is only 36%; that of purely foreign-owned enterprises is 37%.

In conjunction with the comparatively low rate of applying for tenders within the auspices of the USzT, we observed that only slightly more than half of our respondents (56%) had participated in public and EU tenders in the past five years. Among tender applicants, companies with over 250 employees were the most common, at 66%. This ratio decreases in tandem with the declining number of employees at a firm: at companies with 50 to 249 employees, the rate is 60%; for a company with 10-49 employees it is 52%; and firms with 10 or fewer employees only 21% participate in state and EU tenders. In terms of sector distribution 61% of industrial firms, 56% of services, 54% of retail trade companies, and 42% of construction



firms participated in a tender in the past five years. As for the foreign ownership share 56% of purely domestic enterprises, 66% of mixed ownership, and 48% of purely foreign-owned firms participated in public or European tenders in recent years.

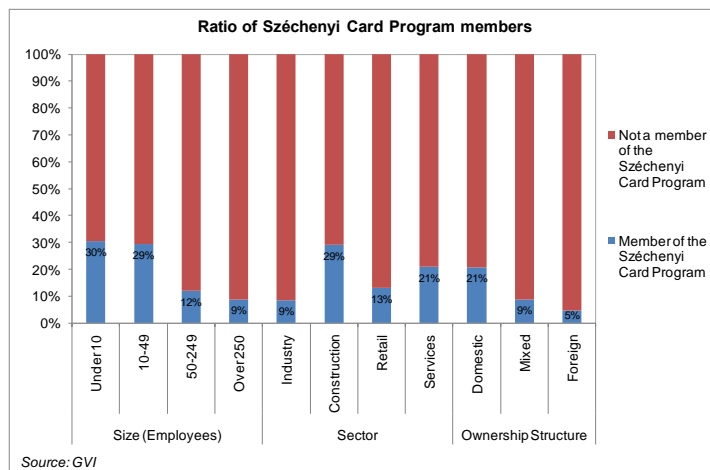
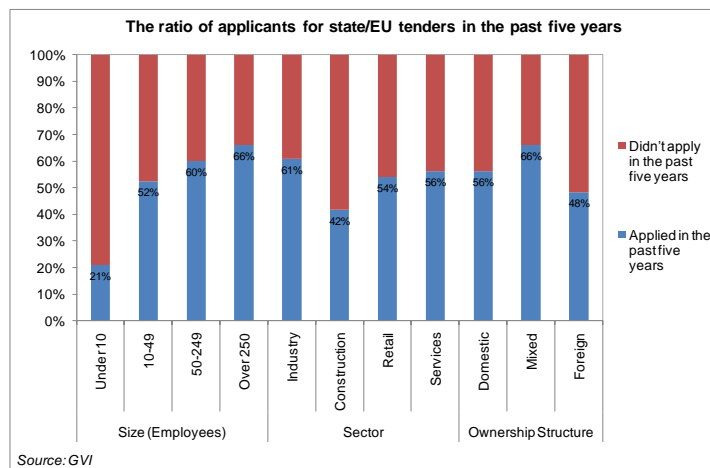
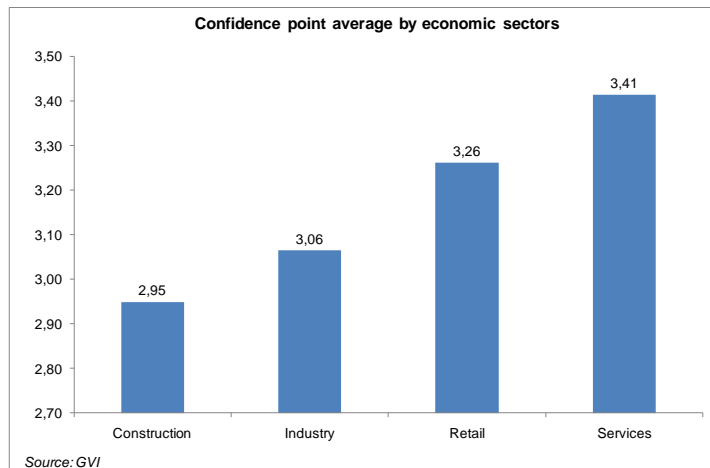
Of those firms that responded to our survey, 56% successfully participated in one or more tenders over the past five years – yet when we consider only public state or EU tenders, this figure rises to 94%. The proportion of successful tenders rises with the size of a firm. Thus, companies with less than 10 employees had a success rate of only 21%, while companies with over 250 employees had a success rate of 65%. In terms of sector distribution, we get a heterogeneous picture of successful applicants. For industrial companies it is 60% while for construction companies it is 42%, and for both retail and services sector, 55% reported a positive tender application. As for the ratio of foreign ownership, successful applicants were highest among mixed-owned companies (66%), while for purely domestic firms this figure is 56% and only 46% for exclusively foreign-owned firms.

We measured on a scale of one to five the confidence among managers in the ability of the New Széchenyi Plan to achieve its objectives, with the higher values indicating a high degree of confidence. Trust in the transparency of the bidding process within a legal framework averaged 3.2 points among respondents, while 3 points went to the simplification of bureaucratic procedures. The highest mean score went to the ease of online tender applications in addition to the use of shorter and simpler forms: 3.6 and 3.5 points respectively.

By contrast, respondent companies were least confident in the reduction of corruption in public procurement procedures, with an average level of trust falling to 2.7 points. The shortened evaluation time and the promptness of transfer payments received an average of 3.4 and 3.1 points respectively from respondents. Overall, respondents gave a point average of 3.2 on the seven individual objectives.

When examining the number of employees at a company, we find that the overall average number of points increases with the number of employees at a firm. Companies with less than ten workers have an average of 2.9, 10-49 employees 3.1, 50-249 employees 3.2, and for companies with over 250 employees 3.4 points on the seven objectives. The breakdown of firms by sector shows that industrial firms score an average of 3.1, construction companies 3, retail businesses 3.3, and services 3.4 points in their vote of confidence for the objectives of the New Széchenyi Plan. The average point score in terms of foreign ownership of a firm does not show any significant differences.

As for the Széchenyi Card Program, 16% of respondents are taking part. In terms of company size, this program is most widespread among firms with 10 or less employees: 30% of



them are members. This ratio decreases with the number of employees at a company, hence at firms with more than 250 employees only 9% responded positively to this question. There are also significant differences when looking at different economic sectors. The Széchenyi Card is most common among construction firms: 29% of them participate in the program. Meanwhile, 21% of service sector companies, 13% of retail companies, and 9% of industrial companies use the Széchenyi Card. As for company ownership, the results show that the use of the Széchenyi Card decreases as the share of foreign ownership increases. For domestic-owned enterprises, 21% indicated their participation in the program; at companies with a mixed ownership structure, this figure is only 9%; purely foreign-owned firms are even lower, at only 5%.

Macro-economic trends: Italy's public debt

In late June, the Italian government adopted a 51 billion euro austerity package designed to prevent the country from slipping into a debt crisis and to balance public finances over the long term. The backdrop to these austerity measures is a rapidly growing national debt and very slow economic growth.

A few days later Italian Prime Minister Silvio Berlusconi attacked the austerity package. The rift between the prime minister and the finance minister resulted in a sudden drop in Italian equity markets and led to a sharp fall of the price of financial shares. The Italian banking sector fell an overall 5.8 percent and the Milan stock exchange declined by 3.5 percent.

On July 11, the President of the European Council held an extraordinary meeting to discuss the European debt situation, a possible second bailout package for Greece, and measures to counter market speculation in Italy. News of this crisis meeting in Italy further worsened Italian financial market indicators.

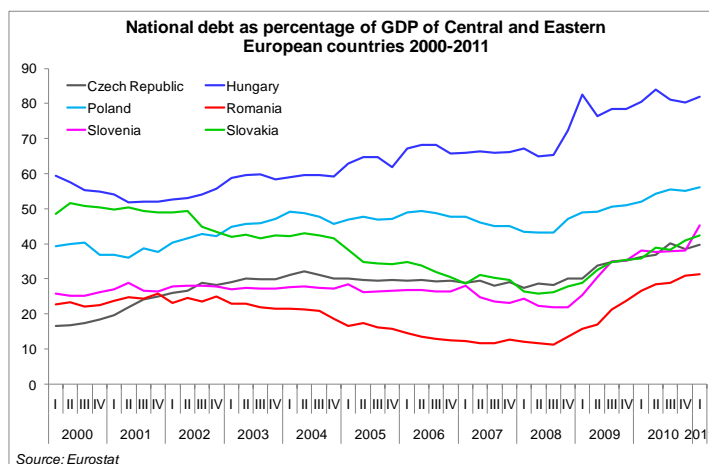
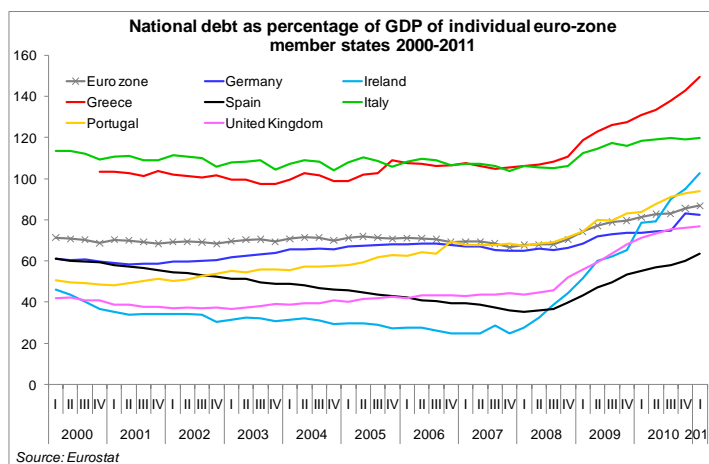
The crisis strongly affecting the euro poses a threat to the economies of Europe and Hungary as well, via exports on the one hand and financial channels on the other.

The austerity package

The Italian government adopted a 51 billion euro austerity package in late June that aims to avoid a debt crisis similar to Greece and over the longer term (according to the plan, by 2014) to balance public finances. Italian Minister of the Economy Giulio Tremonti said the austerity measures would reduce the budget deficit by 2 billion Euros this year, 6 billion Euros next year, and in 2013-2014 in total by 43 billion Euros. A reduction in welfare spending is set to begin in 2013, with expected savings of 2 billion Euros for the first year and an additional 15 billion Euros for the next. The planned measures include budget cuts at government ministries and local governments too, as well as a reduction in the tax benefits of companies and individuals alike.

The background to the austerity measures

This year the Italian government reported a 3.9 percent gross domestic product (GDP) budget deficit compared to last year's deficit of 4.6 percent. This is lower than in many other euro zone countries, yet Italy's public debt is growing rapidly: in 2007, prior to the outbreak of the financial crisis, the national debt stood at 103.6 percent of GDP and last year it was 119 percent. This is the second highest in the euro zone after Greece. Until now, this was somewhat mitigated by the fact a major portion of this debt was domestic; however an estimated 900 billion Euros of this debt is set to expire over the next five years. In addition to this, the Italian economy – which is the third largest in the euro zone – is barely growing; during the period from 1996-2007 it had an average growth rate of 1.5 percent of GDP. Moody's recently placed Italy's credit rating under review with the possibility that it will downgrade the country's debt rating within the next 90 days.



Experts fear that it may not be possible to finance the Italian national debt through the market, thus Italy will also need help from euro zone countries and the International Monetary Fund that, in turn, could jeopardize the euro zone's rescue fund. The European Central Bank now proposes to double the fund, that is, boost its capital base to € 1,500 billion.

The stock market collapse

During an interview in early July, Italian Prime Minister Silvio Berlusconi attacked the austerity package. The disagreement between the prime minister and the finance minister resulted in a sharp drop in the Italian stock market on July 8, with bond yields soaring and the price of bank shares plummeting to the bottom. The nine-year high of 5.27 percent for Italian bond yields increased by nearly half a percentage point in one week, the German equivalent spread against the euro likewise rose to levels not seen since the introduction of the common currency. All this was more than enough to make the credit ratings agencies – which already apprehensively scrutinized Italian financial stocks in their most recent warnings – move in a downward direction: UniCredit, for example, lost 7.9 percent, and was 20 percent in the red for the week. Overall, the Italian banking sector fell 5.8 percent, and the Milan stock exchange closed with a loss of 3.5 percent on "Black Friday".

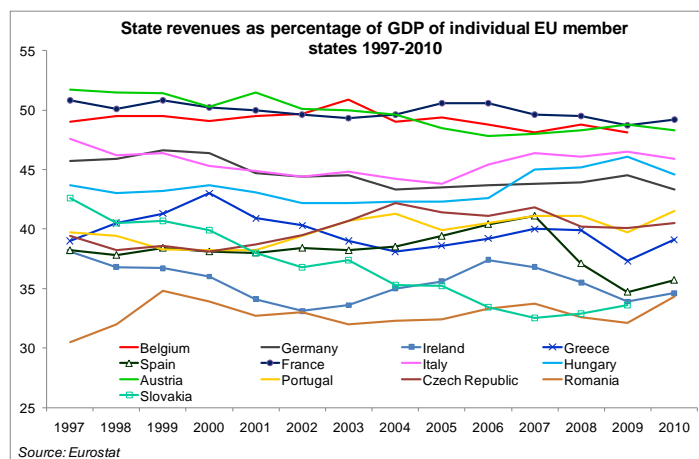
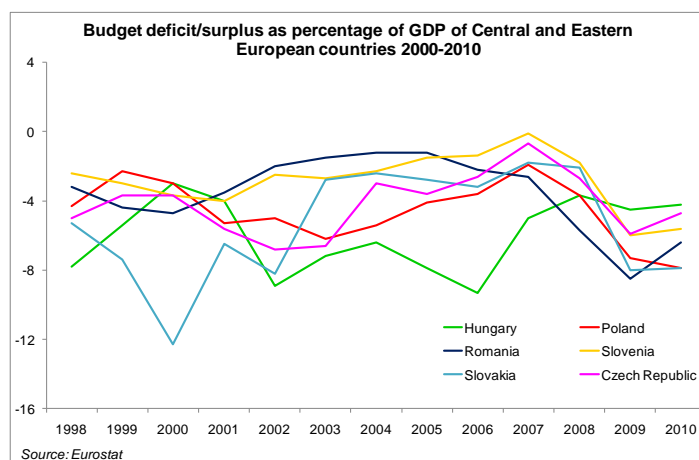
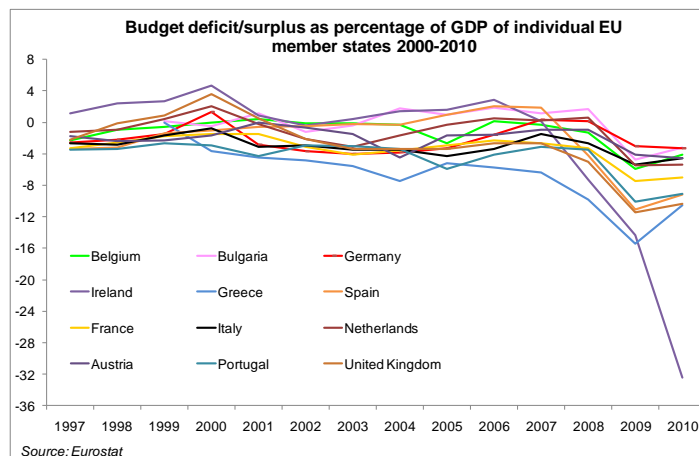
Herman Van Rompuy, President of the European Council, convened an extraordinary meeting on July 11 to address the debt situation, a possible second rescue package for Greece, and market speculation in Italy. For this meeting the European Commission President Jose Manuel Barroso, European Central Bank President Jean-Claude Trichet and the euro-zone Finance group leader Jean-Claude Juncker were invited; according to some sources, the EU commissioner for economic affairs, Olli Rehn, was also involved to the meeting.

News of this meeting only worsened the crisis and as the day's trading began, markets fell by more than 3 per cent. On July 8, the stock market crash has shown European leaders that speculators in Italy can cause severe damage, which in turn can affect other already fragile economies. In the end, the biggest losers were the Italian banks, which suffered a 4-5 per cent fall, but this crisis has had a negative impact on other Western European banks as well.

Impact on the Hungarian economy

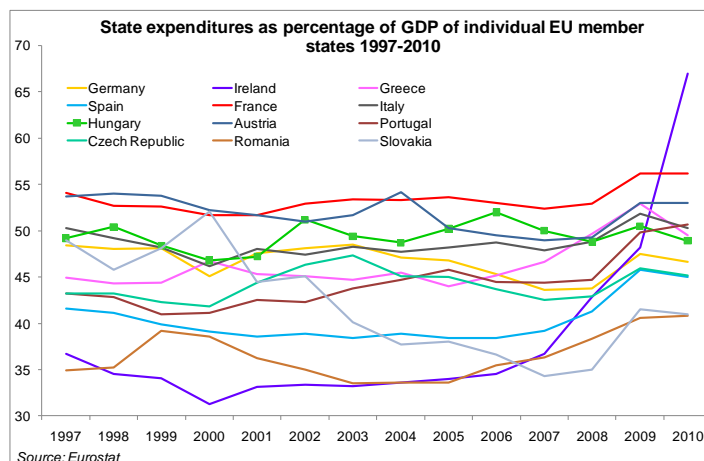
Concerns over the massive amount of Italian debt and the pressure on Italian banks had caused other European exchanges to also fall significantly. The Budapest Stock Exchange share index, the BUX, fell 498.35 points, a 2.23 percent drop, and closed 21,815 points on July 11.

The crisis affecting the euro is also a serious threat to Hungary, together with rest of the emerging economies of



Europe. One reason is that export-driven economies are vulnerable to an economic slowdown in Western Europe and thus threatens economic growth as well as the fiscal (and related debt-servicing) plans that they are based on. In addition, the negative effects from these financial channels also affect the market yields for government bonds, the country's risk premium, the forint exchange rate, and support for the regional subsidiaries of parent banks. Although only 6% of Hungary's exports go to Italy, and in this respect is one of the least vulnerable economies in Eastern Europe, analysts at Capital Economics in London nevertheless believe that investors underestimate the contagious effect of the euro zone crisis in Eastern Europe. Of all the states within this region, analysts are most worried about Romania and Hungary.

Source: *index.hu, vg.hu, hirszerzo.hu, privatbankar.hu, portfolio.hu*



International business trends

The Ifo Business Climate Index referring to the German industry and trade saw a significant decrease in July 2011 following a positive trend the previous month. Companies are less satisfied with the current business situation as opposed to last month, and expectations for the near future deteriorated. Despite this, however, analysts argued that the economic situation in Germany remains good.

The July survey results from the French statistical office (INSEE) show that French industrial business climate prospects have deteriorated significantly. The business confidence index, based on the views of French business leaders, fell five points but remained above the long-term average. The economic crossroads indicator points toward an unfavourable economic situation. The overall outlook index also continued to deteriorate.

Germany – Ifo

The Business Climate Index for German industry and trade of the Munich-based Ifo Institute for Economic Research showed a significant drop in July 2011 after rising in the previous month. Companies are less satisfied with the current business situation as compared to the previous month, so the index is now equal to the level it was at this spring. Ifo analysts, however, feel that the state of the German economy continues to be good despite the deterioration of expectations.

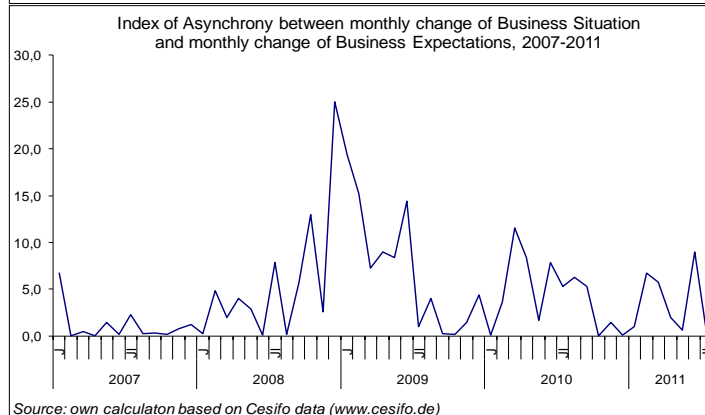
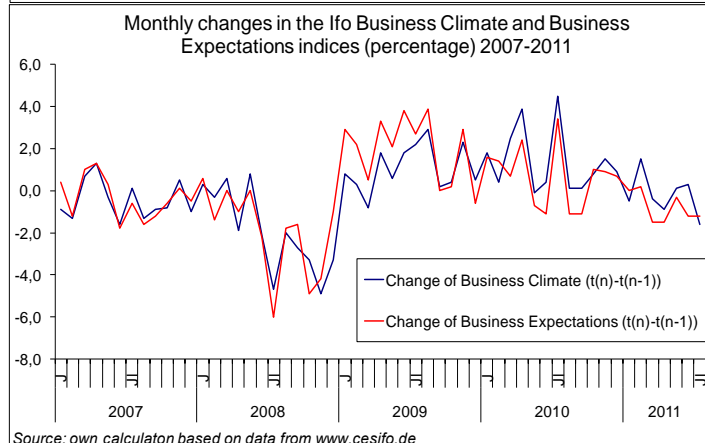
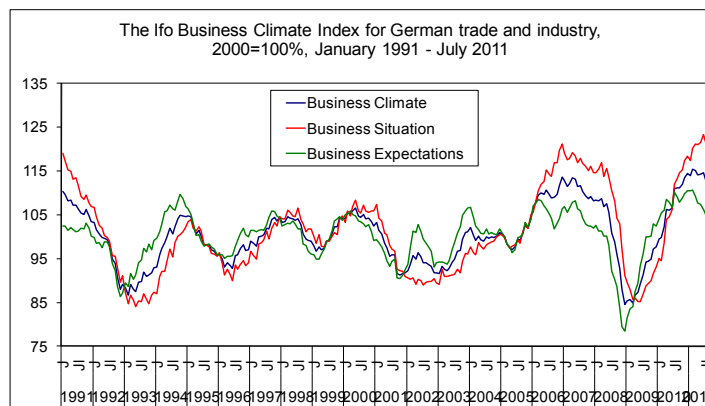
Measuring the gap between the business situation and expected developments, the asynchrony index calculated by GVI fell in July, thus last month's business confidence index showed a smaller level of uncertainty.

Within the industrial sector, the business confidence index declined. The assessment of the current business situation deteriorated very slightly, but expectations for the near future has become significantly pessimistic. Managers reported slow growth of export demand compared to the previous month. Capacity utilization is slightly higher than it was in the spring. In July, companies continue their plan to hire more workers.

For retail and wholesale trade, the confidence index declined in July. The outlook of managers at wholesale firms, both for their current business situation and their prospects for the next six months, is less favourable than in the past month. Retail managers also reported a less favourable business situation than in the past month; their outlook for the next period, however, is more optimistic than it was in June.

The business confidence index only showed increases in the construction industry: the surveyed building contractors feel the current business situation will continue to improve and their prospects for the next half year are as favourable as they were in June.

Source: Ifo (<http://www.cesifo-group.de>)



France – INSEE

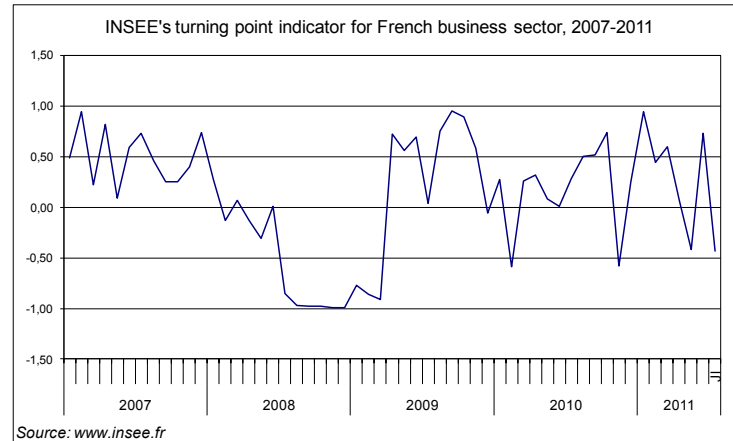
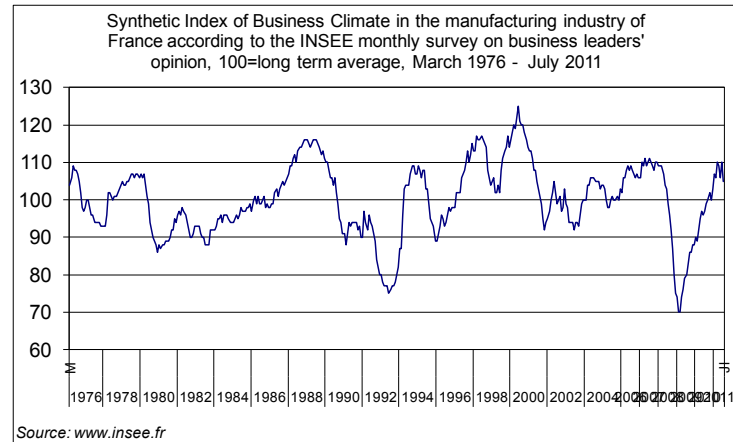
Based on the French statistical office (INSEE) assessment of executives surveyed in July, the French business climate outlook has deteriorated: the INSEE business confidence index fell five points, but remained above its long-term average.

The turning point indicator declined, thus it remains in the unfavourable business climate zone.

Industry leaders expect that production from the previous period will slow noticeably in July, but the belief is that the balance index will still remain above the long-term average. As for inventory volumes, managers believe that they will continue to remain low. Respondents also revealed that both domestic and export orders decreased, but the index still indicates a high value.

The expectation for French economic growth in the coming months is that it will slow further: the prognosis of managers of their individual businesses (the compilation of which provides the business outlook for the coming months) declined again in July, but remained above its long-term average. The overall outlook index – which reflects the summarized opinion of the respondents concerning industrial activity – likewise continued to decline.

Source: INSEE (<http://www.insee.fr>)



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MKIK GVI: *Monthly Bulletin of Economic Trends*,
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The staff of GVI wishes happy summer holidays to all our readers