



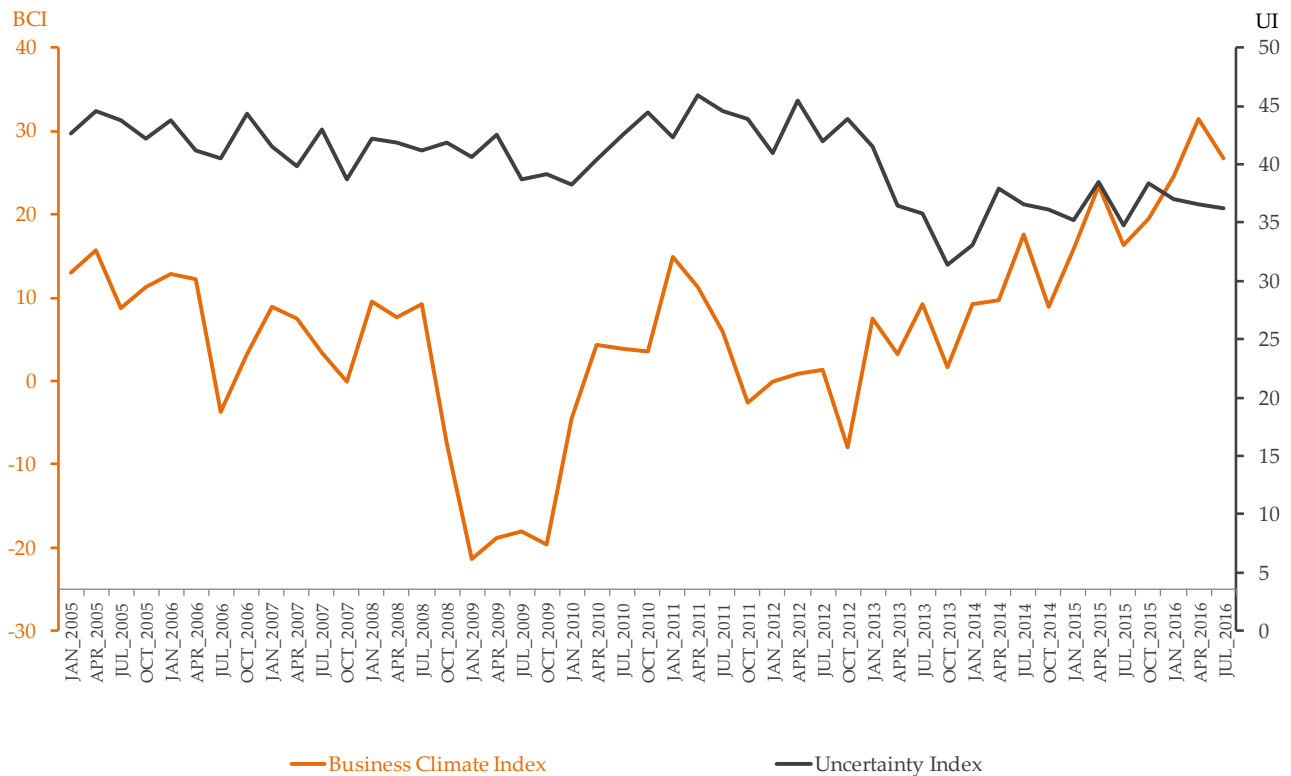
Results of the IEER SME Outlook Survey July 2016

The results of the latest IEER SME Outlook business climate survey reveal less favourable economic conditions compared to the previous quarter: the Business Climate Index decreased from 31 to 27 points. Thus the upward trend since last October was broken. While enterprises regard their current situation more favourable compared to the previous quarter, they consider their future prospects more negatively than in April. It means that the SME sector predicts a turning point in the trends of domestic business climate.

The Uncertainty Index is at a current level of 36 points, which is almost the same as the value measured in the preceding quarter (it was 37 points in April 2016). The value of the Uncertainty Index indicates that the current trend is not

uniform within the private sector, and that it will continue to be confined to one part of the economy and will not be felt by all small and medium sized companies.

Quarterly developments in the SME Outlook Business Climate Index and in the SME Outlook Uncertainty Index

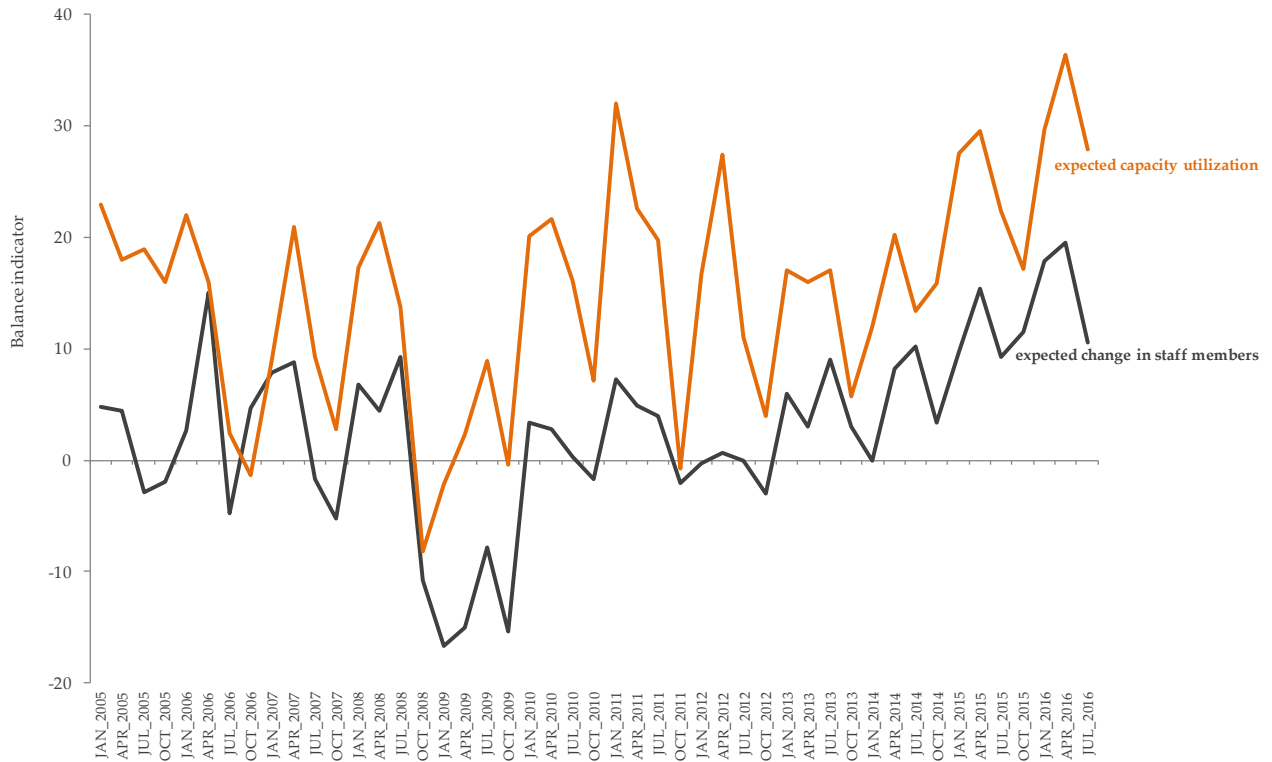


Source: IEER 2016

We can conclude that the decrease of the IEER SME Outlook Business Climate Index is due to the decline of all the elementary indicators concerning to the future prospects compared to the previous quarter. The enterprises believe that their investment activity (12 points decrease) will drop significantly, they predict negative turn in case of staff number (9

points decrease), capacity utilization (8 points decrease), production levels (8 points decrease), profitability (7 points decrease). They count on slight decline in case of the business situation (1 points decrease) in the next half-year.

Expected change in staff members and capacity utilization

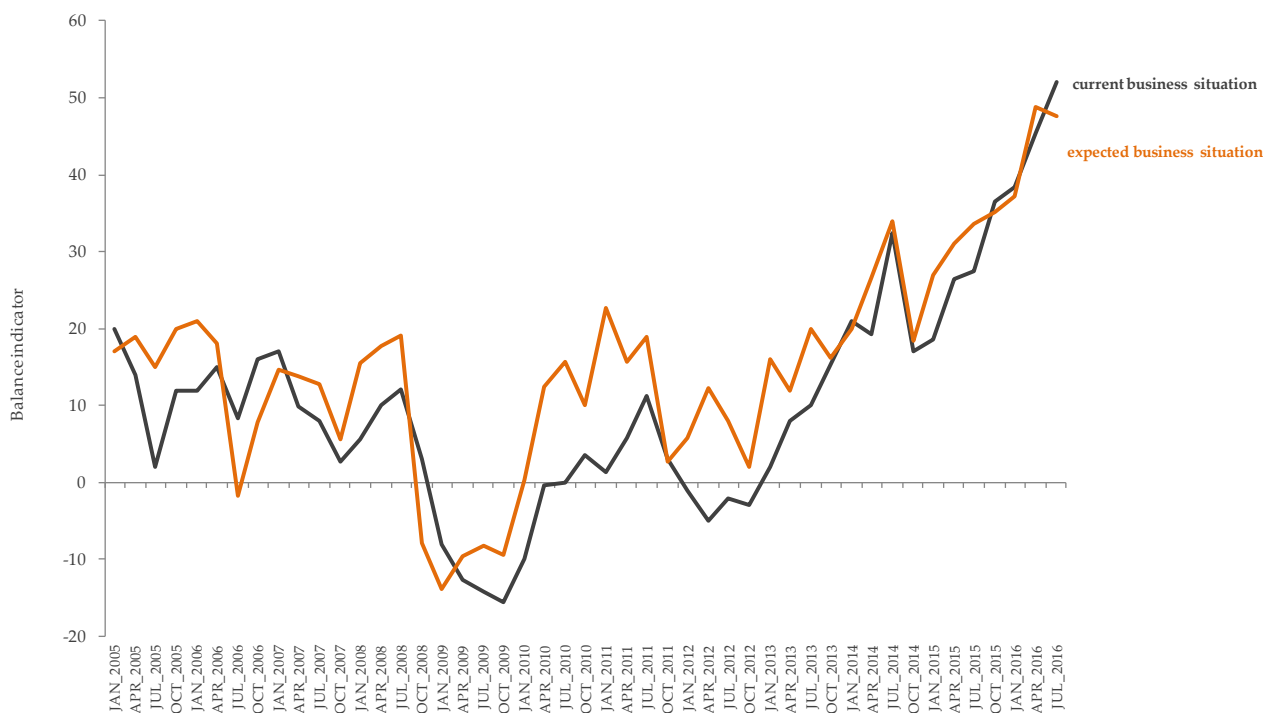


Source: IEER 2016

Nevertheless, the enterprises regard their current situation as positive. The greatest increase has occurred in the case of current stock order (10 points increase), but the profitability (8 points increase), the

business situation (7 points increase) and production level of the previous quarter (7 points increase) significantly increased compared to the previous quarter.

Current and expected business situation



Source: IEER 2016

The Burden of the Five Rings: conclusions drawn and lessons learnt from Rio

In the following analysis we present the major conclusions drawn from the organization and conducting of the recent Rio de Janeiro Summer Olympics and Paralympics. There have been numerous media coverages and reports by those concerned that have drawn attention to deficiencies, maladministration, and dangers concerning participants and the audience. These facts raise the following question: how was Rio de Janeiro be able to get the right to host the Olympic Games? In the analysis those factors and conditions will be presented that are indispensable to host the Games. Main focus will be given to economic aspects.

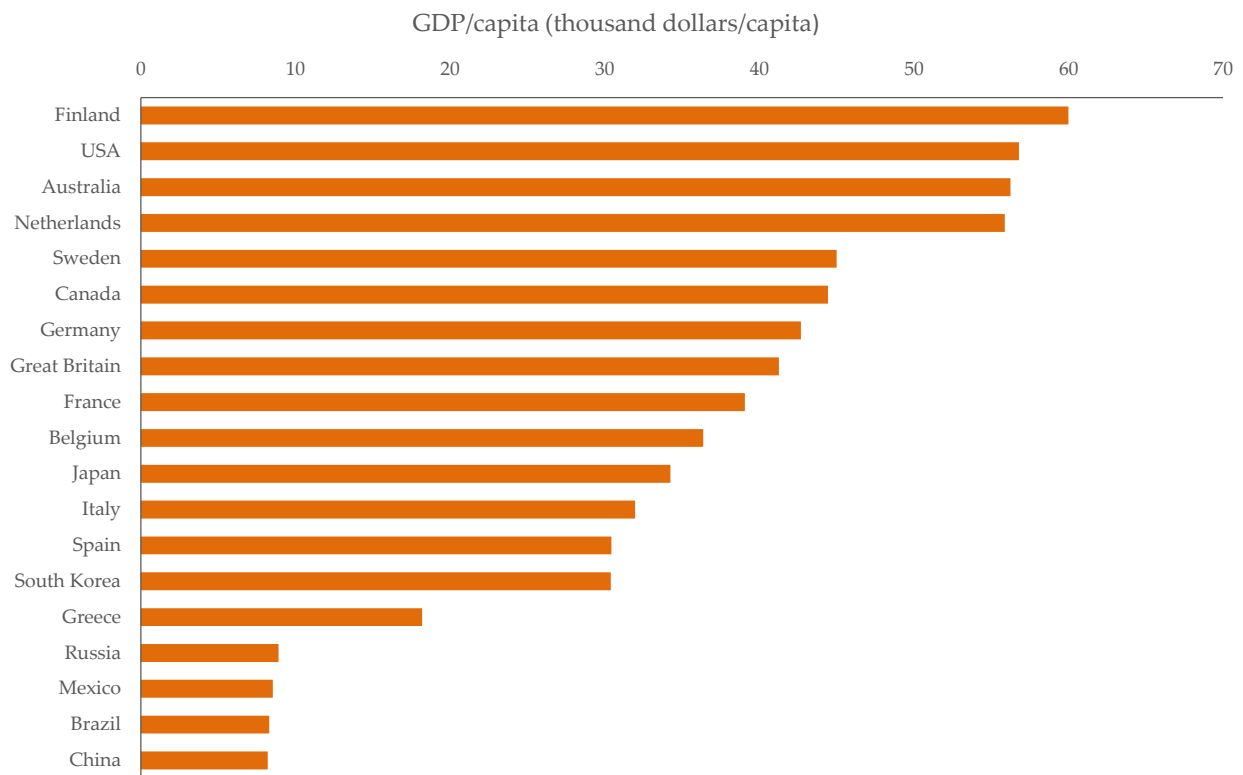
Which country should organize Olympic Games?

The first and maybe the most significant question is what aspects should be taken into consideration before a country with organizational potentials could bid for candidacy. The main considerations should be the following: the economic development level of the country, the quality of the infrastructure of the location, social differences in the given country, and the societal support of hosting the Games. These factors cannot necessarily be separated from each other. In the following we are going to assess the Rio Olympics based on the above criteria.

The first criterion in general could refer to the economic development of the country. By this both the size and the performance of the economy can be meant.¹ Figure 1 shows the GDP (in billion dollars) of countries hosting Olympic Games in a decreasing order.

¹ Evangellia Kasimati: Economic aspects and the Summer Olympics: a review of related research, 2003

Figure 1: The development of GDP (in billion dollars) of countries hosting summer and winter Olympic Games

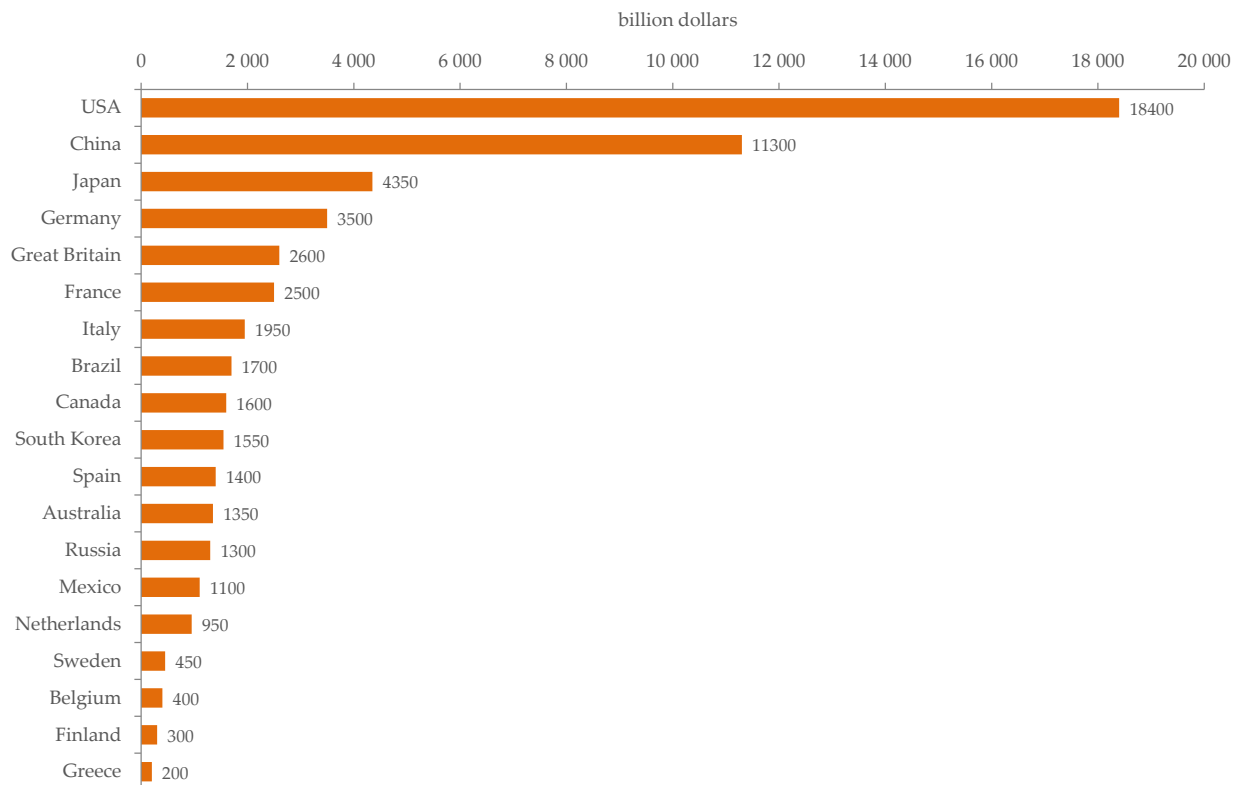


Source: IEER, Portfolio

The figure shows that concerning the size Brazil hosting this year's Olympics has a high position in the ranking. But it would be reasonable to study this from the aspect of GDP per capita, because from the data

compared to the number of its population could provide a more exact outlook on the economic development level of the hosting countries. This ranking approach is shown in Figure 2.

Figure 2. Ranking of countries hosting summer and winter Olympic Games based on GDP per capita (in billion dollars)



Source: IEER, Portfolio

The figure clarifies that Brazil according to the ranking based on the first development indicator belongs to the laggards. This is a crucial finding, because the unit GDP serves as a good approach to the cost-bearing ability of a country, and that, beyond the development level, could also serve as a determinative factor for the conditions to host the Games. At different scales each and every host country needs developments, brown and green field investments to be able to host the Games.² Most of the experienced deficiencies can be attributed to Brazil's underdevelopment and low cost-bearing abilities.

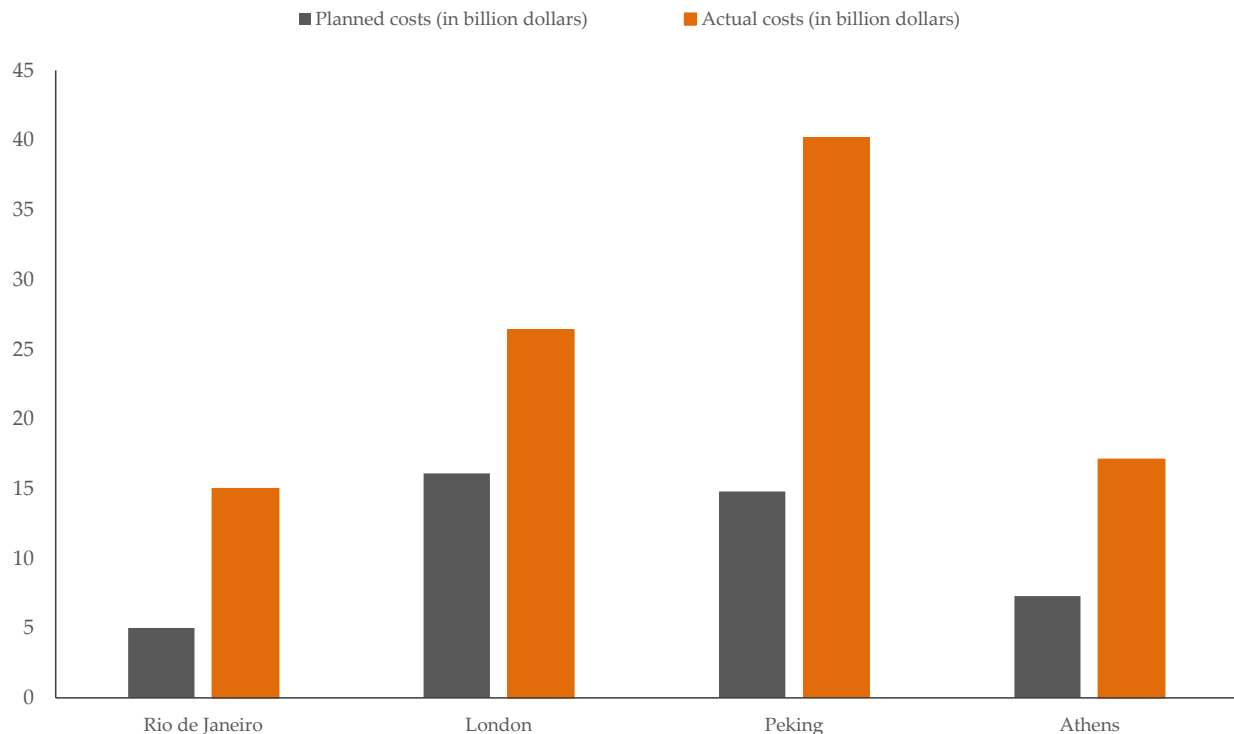
The above factor is closely linked to the current infrastructure of the country (more precisely to that of the city), and to the state of its environment. If it comes to public security, the level of organization could also be claimed to be low. This issue is also decisive from the viewpoint of organization, because a major part of the costs is spent on the development and the creation of locations and transport³.

Figure 3 shows the planned and the actual costs of the last four Summer Olympics.

² Going for the Gold: The Economics of the Olympics, Journal of Economic Perspectives

³ Adam Blake: The Economic Impact of the London 2012 Olympics, 2005

Figure 3.: The planned and the actual costs (in billion dollars) of the last four Summer Olympics



Source: PwC, Portfolio

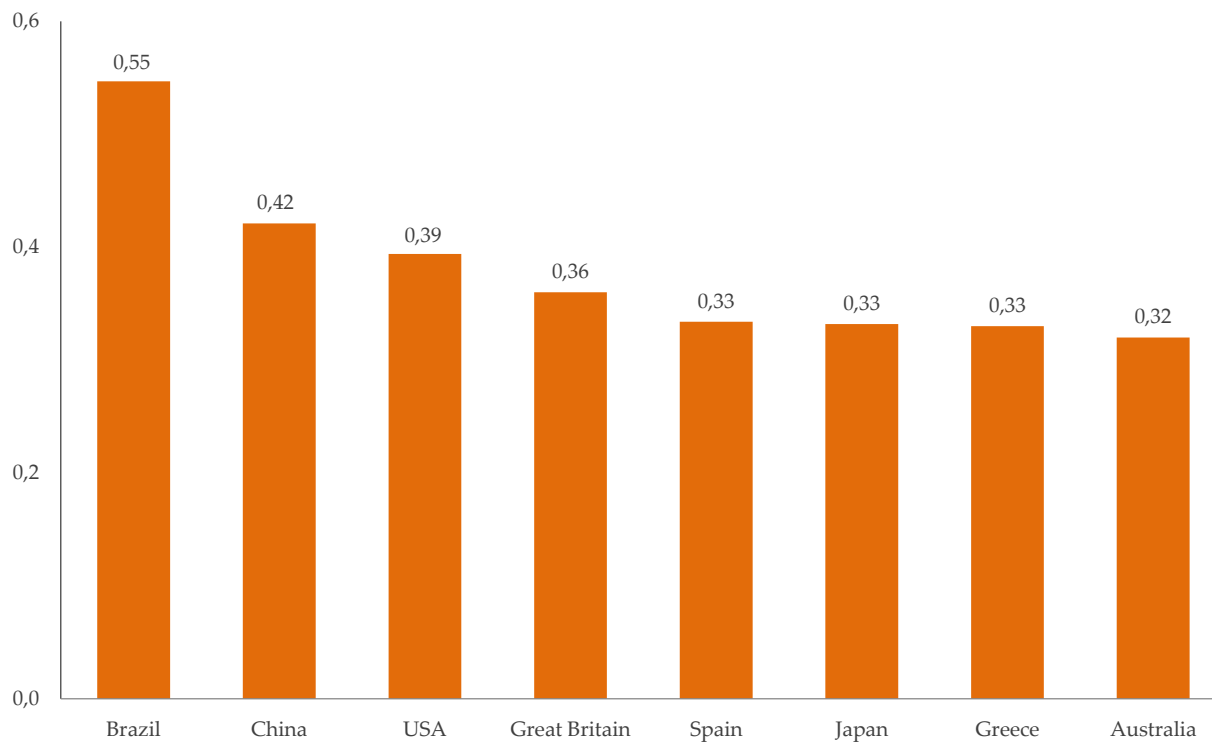
*estimated costs of the Rio Olympic Games

The figure demonstrates that in each case, except for London, the actual costs were at least the double of the planned costs. The average of the planned costs is 10.8 billion dollars, in case of the actual costs it is 24.6 billion dollars (at current exchange rate it means 3024 billion forints and 6888 billion forints respectively). Because of comparability these two figures are worth representing in relation to the Hungarian GDP: the planned average cost amounts to 10% of the GDP, while the actual cost is more than 20% of the GDP.

A further significant aspect to be considered is to see the income distribution in the given country, and what kind of social tensions the country have and how serious these are. To demonstrate the abovementioned aspects Figure 4. shows the GINI coefficients of the countries hosting the Olympic Games in the past 24 years⁴ (in the case of each and every country data available from the closest period to the Games were used).

⁴ The GINI coefficient shows the diffusion of income distribution, where 0 value means total equality, and 1 value represents total inequality.

Figure 4. The GINI coefficient of countries hosting the Games in the last 24 years



Source: OECD, World Bank

The figure demonstrates that Brazil's income distribution is the most disproportionate of all the recent host countries. The most disadvantaged social layers demonstrated against the organization of the Games several

times. One of the main reasons for these demonstrations was the widespread extreme poverty, and another reason was the corruption linked to investors.

Conclusion

In our short analysis we studied those conditions that cannot be left out of consideration when a country bids for the organization of the Games, and when a country is granted the right to host the Olympics. Brazil did not meet any of the requirements, though these were only the basic, necessary conditions. Beyond this

analysis further studies are needed to see whether a country's assets from an economic viewpoint are adequate enough to host the five ring Games. Similar methods and approaches would be needed to shed lights on the background of a possible Games organization in Budapest.

International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Change (thousand persons)	(Sep)	1	-5	-7
	Manufacturing Purchasing Managers Index	(Sep)	54.3	53.1	53.8
	IFO Business Climate Index ¹	(Sep)	109.5	106.4	106.2
France	INSEE Business Climate Index ²	(Sep)	102	102	101
USA	Philly Fed Employment	(Sep)	-5.3		-20.0
	CB Consumer Confidence Index	(Sep)	104.1	99.0	101.1
	Manufacturing Purchasing Managers Index	(Sept)	51.4	51.9	52.9
China	Manufacturing Purchasing Managers Index	(Sep)	50.4	50.4	50.4

¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

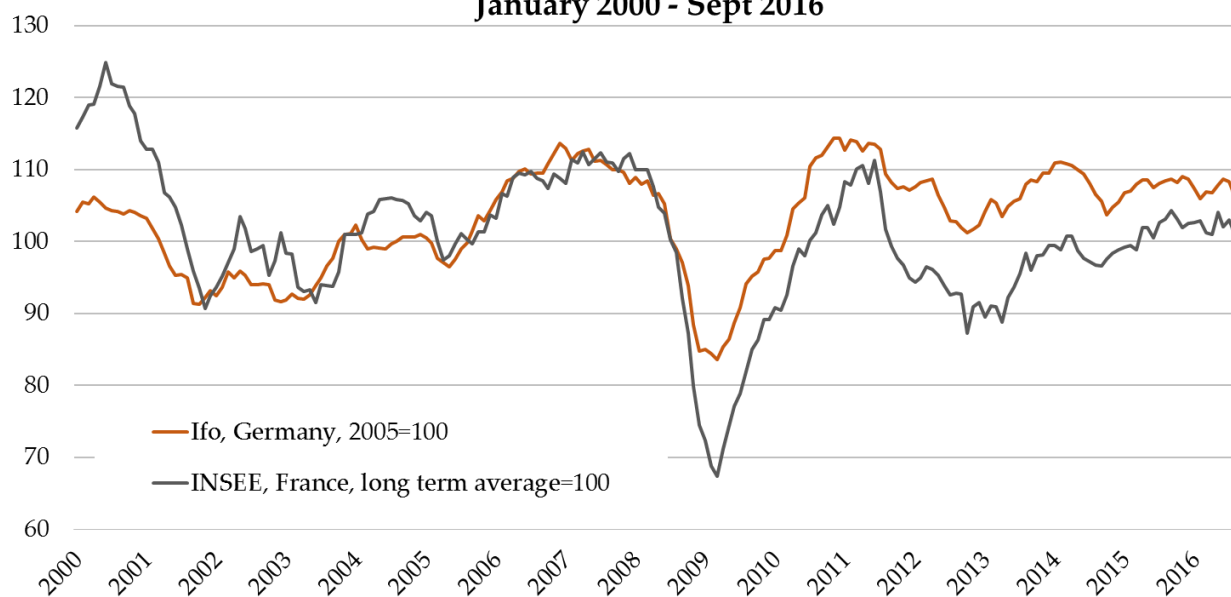
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

The performance of the German economy shocked: the unemployment rate was expected to decrease, however it rose. The manufacturing purchasing manager index (PMI) and the IFO business climate index more than forecast. The French INSEE business climate index rose in Sept as it was expected drop. In the United States the CB consumer confidence index performed well but the manufacturing PMI decreased stronger than projected. The Chinese PMI practically remained stable once again.

Long-term changes in business confidence indices

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate surveys,
January 2000 - Sept 2016**



Source: www.cesifo.de, www.insee.fr

Contact

Address: MKIK GVI
1034 Budapest, Bécsi út 120.
Tel: 235-05-84
Fax: 235-07-13
e-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

János Nagy, intern, MKIK GVI
Zsanna Nyíró, analyst, MKIK GVI
Emília Kompaktor

Research director:

István János Tóth, research fellow, MTA KRTK KTI,
Managing director, MKIK GVI
e-mail: tothij@econ.core.hu

In case of publication please refer to as follows:
HCCI IEER: Monthly Bulletin of Economic Trends,
September 2016, Budapest,
04-10-2016