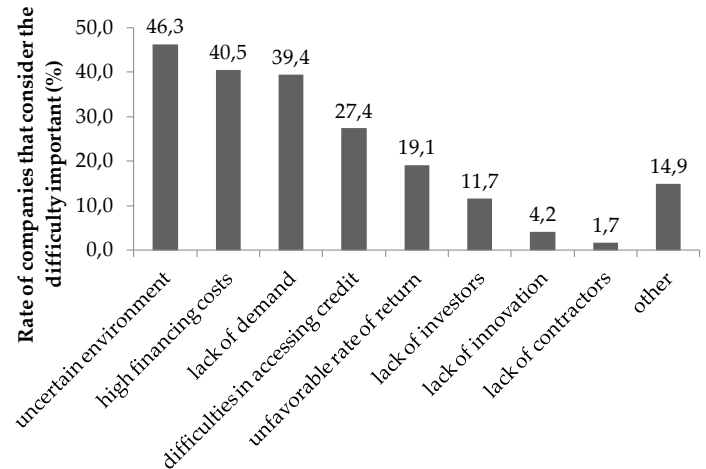
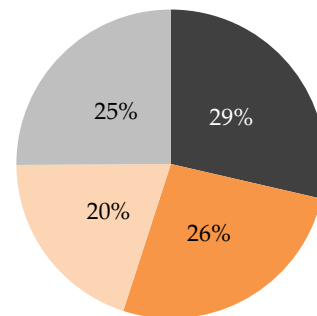


What difficulties are facing companies that want to invest in Hungary today? What is the impact on the investment climate of the Growth Loan Program (NHP)? These and other questions are examined in a research conducted by IEER, in which 2,600 company managers were interviewed. The answers showed that the NHP program itself does not increase the appetite for investments, as this program is unable to remedy the negative effects arising from the demand side nor the institutional environment of uncertainty. As far as company managers are concerned, these are the most inhibiting factors.

Managers in Hungary today see the uncertain regulatory environment as the most serious problem and a barrier to investments, according to almost half of the respondents (46%). Many mentioned the high financing costs of investments (40.5%), the lack of demand (39%) and the difficulty of getting credit (27%) as well. Less than a fifth of companies consider the unfavorable return rate (19%) and the lack of investors (12%) as the barrier to investments. Only a few companies feel that the lack of innovative ideas or potential contractors is a problem (4% and 1.7% respectively). Other inhibiting factors were reported by 15% of companies. They noted the following: the too complex administration, the inflexible bureaucracy, the bad or uncertain economic environment, the too high overall level of tax and contribution burdens, uncertainty about the political and legal environment, the high level of corruption among applicants, disappointment with the performance of the government, and the lack of skilled labor.



29% of firms indicated that only the terms of a loan or the high financing costs (high interest rates) are problematic when obtaining credit, and the uncertain regulatory environment isn't a problem – it is to be expected that the loan program helps these companies to increase their investments. The NHP itself is not, or only a limited incentive to invest for those companies which consider only the uncertain regulatory environment as a factor impeding investments (20%) and those which consider both loan conditions and the uncertain regulatory environment as difficulties (26%). Consequently, merely the improvement of the conditions of access to credit and a radical reduction in interest costs is not enough to significantly entice enterprises to invest. For this outcome, a positive change in the other group of factors and to reduce uncertainty in the regulatory environment is required.



- Only access to credit and high financing costs
- Access to credit, high financing costs and an uncertain environment
- Only an uncertain regulatory environment
- Neither

The analysis showed that it was most difficult for companies with 10-49 employees to access credit. Within this group similar results were found as in the full sample, but the proportion of companies which could not get a loan (and were unable to carry out investments) because of difficulties related to conditions of credit and high interest rates was higher (18%). For 31% it was exclusively because of the uncertain regulatory environment, while 45% consider both factors to be important.

Macroeconomic trends: Why has the Hungarian export performance deteriorated in the last decade?

Why has the Hungarian export performance deteriorated in the last decade? Which external and internal factors have related to this phenomenon? Which sectors were mostly involved in the deterioration? One can find the answers in a paper on Hungarian macroeconomic imbalances published by the European Commission. It is a detailed analysis of the Hungarian export performance compared to the other Visegrád countries (Czech Republic, Poland and Slovakia). According to the study the the main reason between differences of the Visegrád countries' export performances are export price developments. Hungary has experienced some unfavourable one-off shocks which have occurred only in this country of Visegrád countries. The deterioration of Hungary's competitiveness in the export sector is primarily related to the machinery and transport equipment subsector.

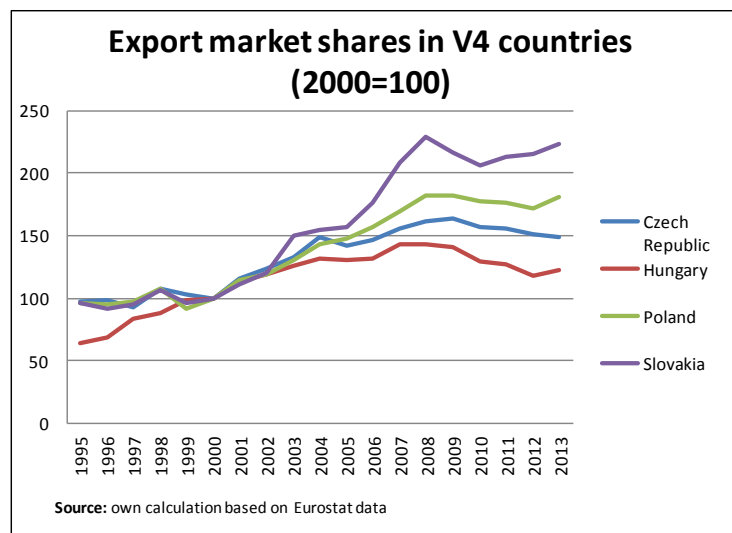
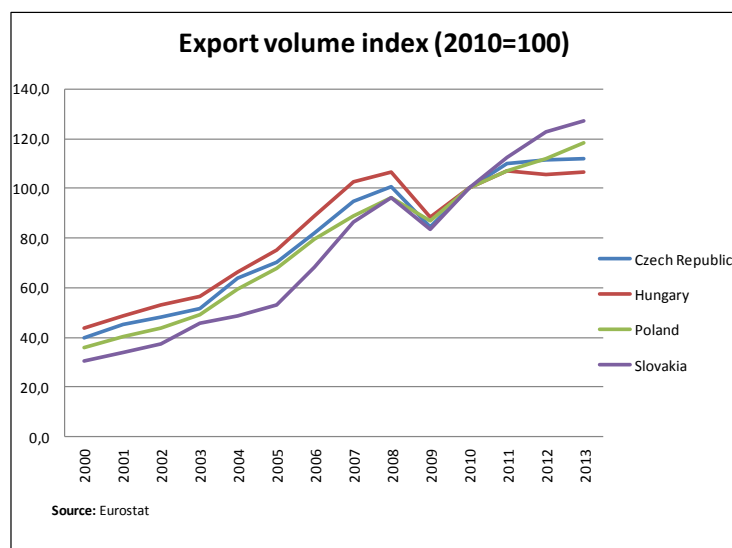
The Hungarian export performance

A detailed analysis of the Hungarian export performance suggests that the deterioration is primarily related to tightening supply constraints. This is partly linked to the inability to attract new FDI inflows but also to the weak spillover linkages between multinationals and domestic companies. Although recently there have been some large investment projects in the automobile industry, a marked improvement in the export sector is not expected.

The underperformance of Hungarian exports is primarily related to goods, while services exports broadly grew in line with the regional average. At the same time it is also important to stress that Hungary only slightly underperformed vis-à-vis other V4 countries in terms of volumes. Therefore export price developments are the main reason behind the differences in export performance.

While the Hungarian export deflators have broadly stagnated since 2000 the other V4 countries were able to increase their deflators by around 30 to 70%. **The four Visegrád (V4) countries have a broadly similar product structure, but Hungary experienced some unfavourable one-off shocks during the crisis, which affected the export performance significantly.**

All V4 countries are primarily involved in producing machinery and transport equipment products for exports, with Poland having a somewhat less concentrated structure compared to the other V4 countries. Nevertheless, Hungary has experienced significant plant closures in the export sector in the last few years due to global decisions of multinational firms mostly in the electronic equipment subsector. Also, as in terms of export performance the country has lagged behind continuously since the early 2000s vis-à-vis regional peers, these one-



off shocks cannot be the sole explaining factor behind the deterioration.

In terms of the country structure of exports, V4 countries can be split into two subgroups. EU countries are accounting for around 75% of exports for Hungary and Poland, while this share is higher at 85% for Slovakia and the Czech Republic. Nevertheless all countries have reoriented to some extent their trade towards non-EU countries in recent years.

The analysis of the European Commission suggests that differences in export developments are not attributable to the initial product or geographical distribution, but to market share gains in individual product or country markets. In this respect Hungary has been the least successful among the Visegrád countries before, as well as after the financial crisis.

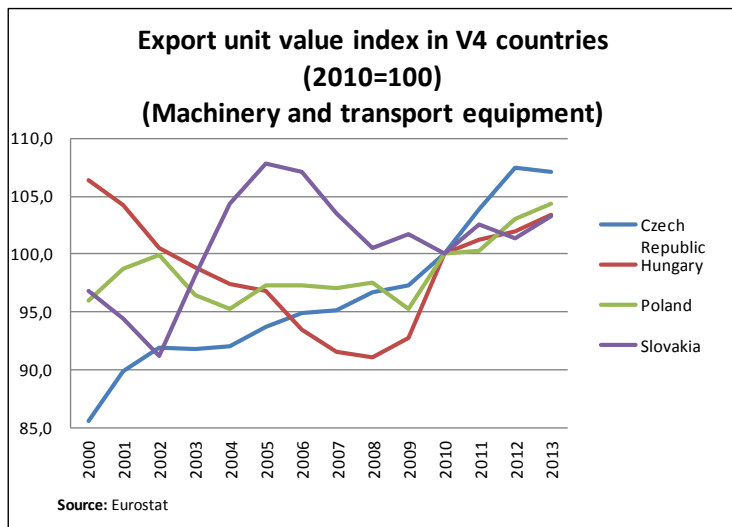
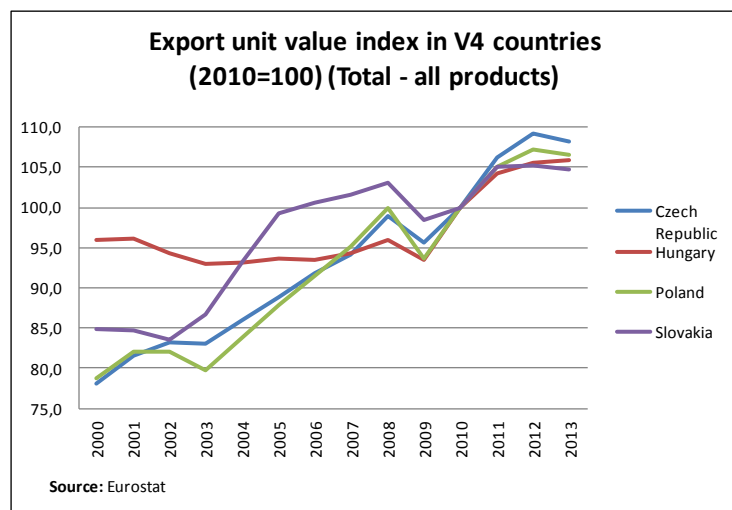
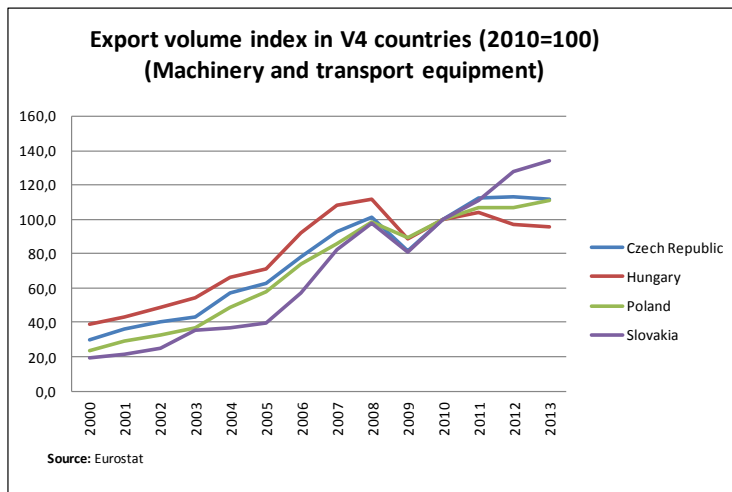
Reasons of the deterioration of Hungary's competitiveness in the export sector

The deterioration of Hungary's competitiveness in the export sector is primarily related to the machinery and transport equipment subsector. It is important to stress, that – as is the case with total goods and services exports – this tendency is not visible in terms of volumes, but reflects differences in export unit values. In terms of volumes, other sectors than machinery explain the lower performance of Hungary although the general difference compared to regional peers is smaller (except compared to the Czech Republic).

Hungary's underperformance in terms of prices is a consequence of an initially very high level of unit values, which the country was unable to increase further in the last decade. The unit values of other V4 countries increased, probably reflecting the effect of product upgrading. The differences in the level of total export unit values is a consequence of the different pattern of the machinery and transport equipment sector, while the price trends of other sectors seems broadly similar.

Overall, Hungary's weak export performance compared to regional peers is primarily attributable to a weaker price/value performance of the machinery and transport equipment sector. Hungary has also been slightly lagging behind in terms of volumes, although this occurred in other export sectors than machinery. Nevertheless, the country continues to have the highest level of export unit values, which could reflect a still competitive product quality in regional comparison.

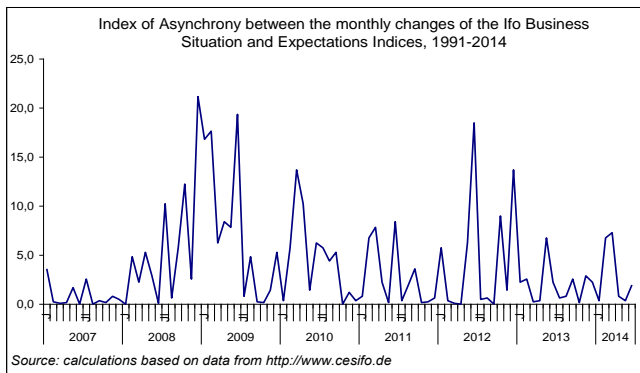
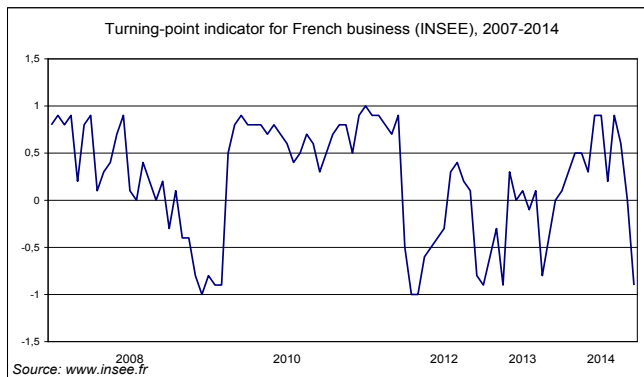
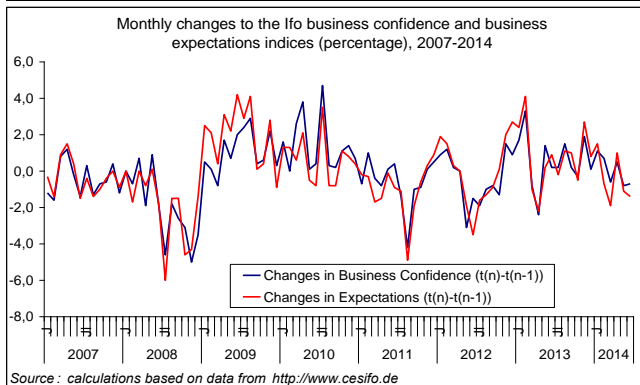
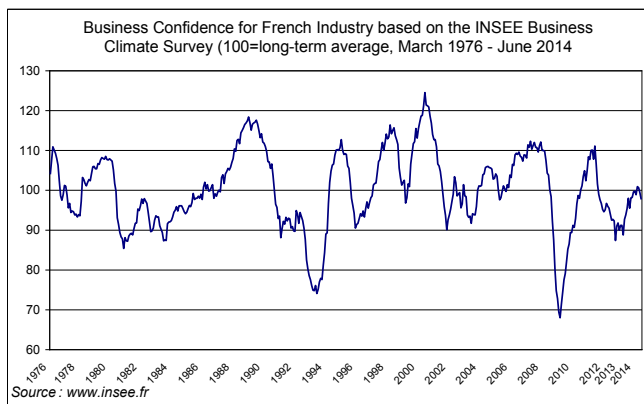
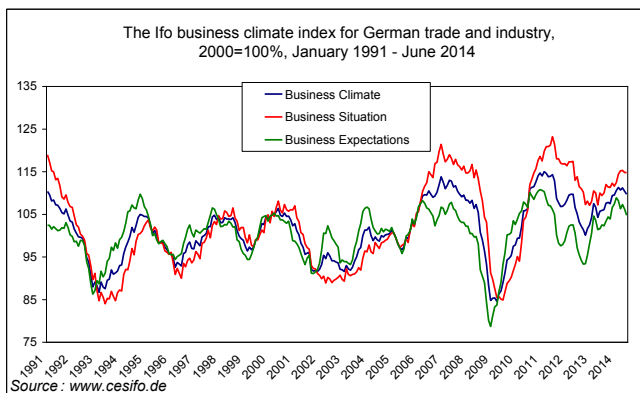
Source: *European Economy: Macroeconomic Imbalances Hungary 2014. March 2014.*
(http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp180_en.pdf)



International trends

The Ifo Business Climate Index for industry and trade in Germany fell to 109.7 points in June from 110.4 points last month. Assessments of the current business situation remained good, but companies were less optimistic about future business developments. The gap between the current business situation and the expected developments, as calculated by the IEER Index of Asynchrony, increased in June, so the business confidence index showed higher uncertainty than in the previous month. The German economy fears the potential impact of the crises in the Ukraine and Iraq. (Source: Ifo, <http://www.cesifo-group.de>)

According to the business managers surveyed in June 2014, the business climate in industry has deteriorated anew compared to the previous month. The composite indicator has decreased by one point and stands below its long-term average. The turning-point indicator, going down clearly compared to May, has switched into the unfavorable zone. The balance of opinion on past change in production is nearly stable and remains above its long-term average. As for the balance of opinion on personal production expectation, it is also stable and stands at a level which is very close to its long-term average. The balance on general production expectations, which represents business managers' opinion on French industry as a whole, has clearly decreased, at a level which is below its long-term average. (Source: INSEE, <http://www.insee.fr>)



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