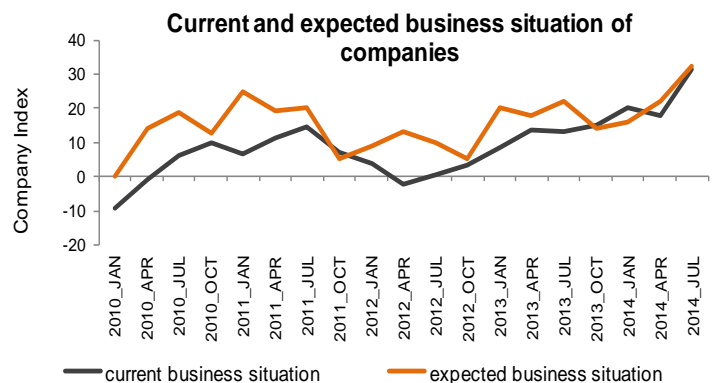
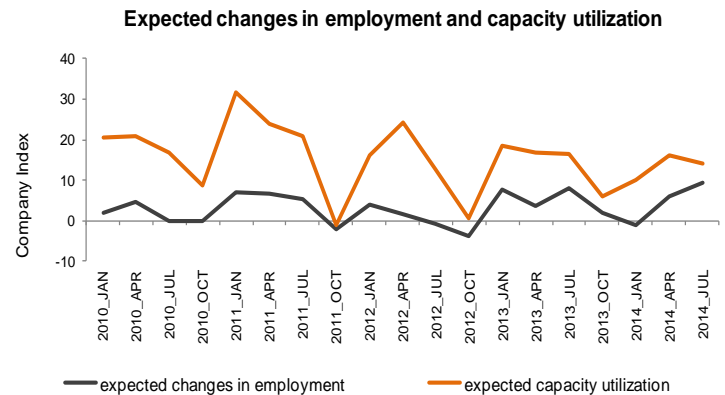
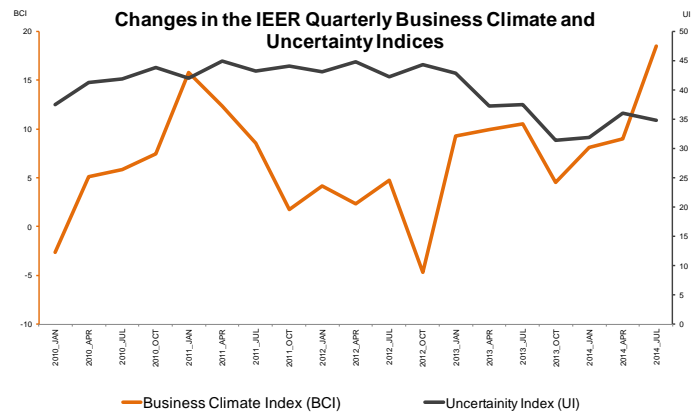


The HCCI Institute for Economic and Enterprise Research (IEER) business climate survey in July 2014 shows that the level of business confidence in Hungary continued to improve compared to that seen in the previous quarter, and that for three consecutive quarters a rising business confidence was detected. Since the indicators show that business confidence in the second quarter of 2014 continues the improvement apparent since the last quarter of 2013, it has thus reached the best level in the history of the IEER Quarterly Business Climate Index, that is, since 2010. In addition, the value of the Uncertainty Index indicates that the current trend is not uniform within the private sector, and that the recovery will continue to be confined to one part of the economy and will not be felt by all companies.

The IEER Quarterly Business Climate Index rose from the April level of 9 points to 18 points, and has been growing for three consecutive quarters. The current 18 points is the highest level recorded since the beginning of the research (2010) and the last time a similar level was reached was at the beginning of 2011 (in January 2011 it reached 16 points). The Uncertainty Index level of 35 points is one point lower than the value in April; this indicates stagnation in uncertainty following a sharp rise at the beginning of the year. The current level is below the values recorded one or two years before (in July 2013 it was 37 points; in July 2012 it was 42 points).

The IEER Quarterly Business Climate Index consists of ten components. Looking at these elementary indicators it can be said that the situation of current and future business and earnings, current orders, production levels and planned investments, and optimistic views toward changes in the employment rate are all behind the increase in the IEER Quarterly Business Climate Index. By comparison, expected company production levels and capacity utilization are considered to be not as good as compared to the values in the previous quarter.

Since 2010 the IEER carries out a quarterly business climate survey, which took place for the nineteenth time this year in July. In each wave of the survey managers at 400 companies reported about the business climate at their firms.

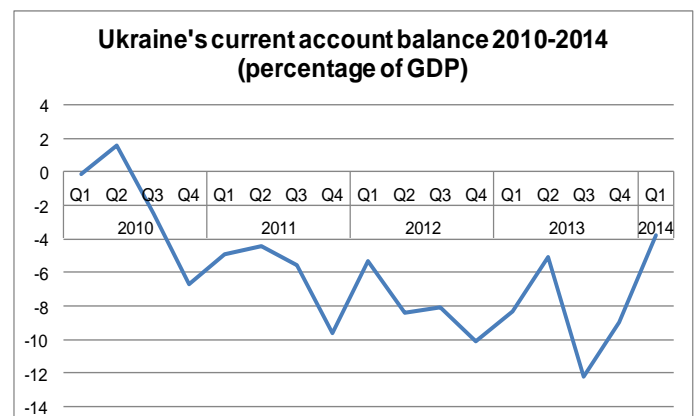
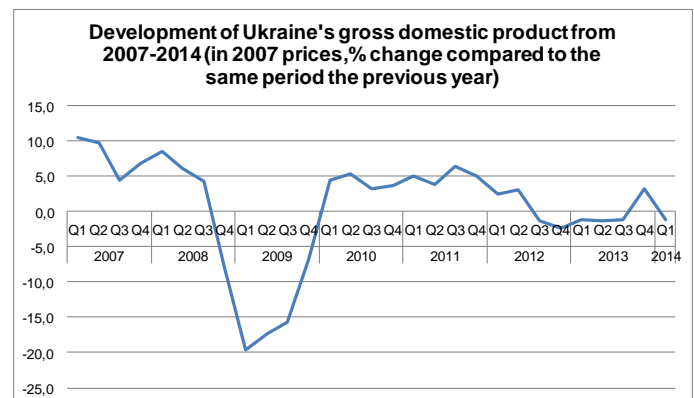


Macroeconomic trends: The position of the Ukrainian economy before and after the political crisis

The current political crisis in Ukraine is closely linked to the long years of crisis with the Ukrainian economy. By the end of 2013 Ukraine reached the limits of insolvency, a settlement of which prior to the conflict with Russia was being negotiated first with the Russian side, and subsequently with Western countries. As a result, the International Monetary Fund in April 2014 extended a \$17 billion two-year revolving credit agreement, with which the country is expected to introduce exchange-rate flexibility, bank stability, fiscal policy, energy policy, and government-focused policy reforms. The following is a brief look at some features of Ukraine macroeconomic indicators and competitiveness, which gives an idea of the Ukrainian economy's performance in recent years.

Ukrainian gross domestic product (GDP) as shown in Figure 1 is based on data from the National Bank of Ukraine. It can be seen that Ukraine's economy suffered a major setback due to the economic crisis that started in 2008, the decline in the first quarter of 2009 was nearly 20%. Subsequently, the data showed a slower but positive growth rate compared to the previous period of growth (5% compared to about 10 %.), yet in the third quarter of 2012 recession once again occurred. Taking a close look at the country's industrial production (Figure 2), it can be determined that following the crisis it suffered a drop of 30% which in 2010 was followed by a 20% increase, however, it has underperformed for years compared to the entire Ukrainian economy. Data shows the impact of the 2014 political crisis: industrial production suffered a decline of over 10% and first quarter GDP data was also negative. According to a report from the IMF, the decline at the beginning of 2012 was due to the overvalued hryvnia, large fiscal deficits, substantial losses in the energy sector, and the fact that they were above the long-term current account deficit (Figure 3).

If we look at the structure of foreign trade of Ukraine, it shows that energy imports (approx., 28%) make up a huge portion of total imports (in Hungary it is about 11%). In figures 4 and 5 Ukraine's foreign trade can be viewed according to product category: the largest export items are of low value-added products: metals, vegetables and minerals; a significant portion of imports are minerals, machinery and chemicals. This may partly explain the persistent current account deficit on the balance sheet as shown in Figure 3. Ukraine's largest trading partner by far is Russia: it accounts for 24% of exports and 31% of imports (by comparison, between Hungary and Germany the figures are 25% and 23% respectively), which is a particular difficulty in resolving the conflict with Russia. The largest export item going to Russia in 2012 were freight trains (10%) while natural gas made up of 47% of imports, with an additional 9% being refined oil. This makes the



Ukrainian economy extremely vulnerable. Due to the political crisis in the first half of 2014 exports fell 5.3% while imports suffered a huge 17.9% decline compared to the previous year, this according to data from the Ukrainian State Statistics Service. There was a 23% decline in exports toward Russia and a 14% fall in imports. Looking at this on the regional level, while import volumes declined significantly across the country, exports suffered a greater decline in the central and eastern parts of the country (e.g., Cherkasy, Luhansk, Donetsk).

Looking at the data of the Ukrainian government (figures 6 and 7) it shows that since 1997 there has always been a budget deficit except for one year, and following the crisis this deficit was frequently over 4%, and in recent years it was also with a declining GDP. As a result, from 2007 to 2013 public debt rose from 30 percentage of GDP to 41%. The political crisis that started in late 2013 entails higher costs on the financing of the Ukrainian state, as compared to the Hungarian CDS premium shown in Figure 8. The development of the war situation dramatically increased the risk of bankruptcy, which resulted in a rise the Ukraine CDS spread from 707 points in January to 1329 points in February, but because of an agreement with the IMF it has since normalized to around 800 points.

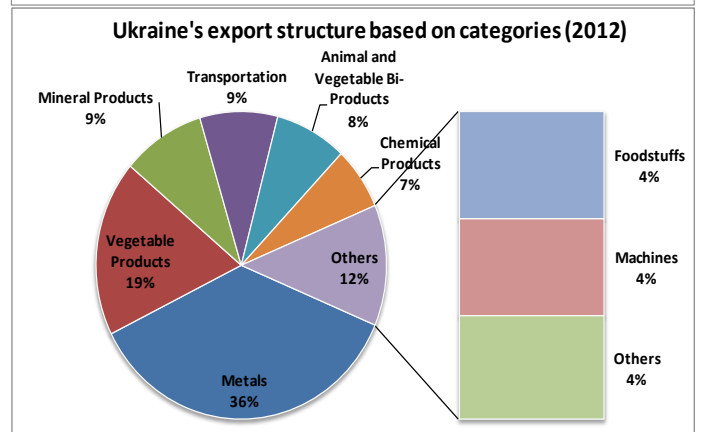
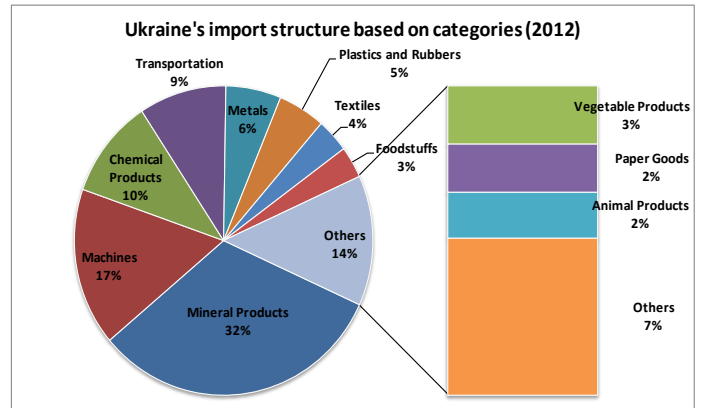
Based on the findings of the World Economic Forum (WEF) data, we can draw conclusions on institutional factors (such as property rights, public confidence, independence of the judiciary, etc.). Accordingly, for the business community in Ukraine the three most problematic areas are access to finance, corruption and an inefficient government bureaucracy. Examining institutional factors among 148 countries in the world Ukraine was among the bottom 20 countries in 14 out of 21 categories. It was among the top one hundred and this was only due to a relatively low level of terrorism as well as the business costs of crime and violence, but because of the war situation this advantage is likely to disappear in the future.

Thus, in terms of institutional factors and from a macro-economic point of view Ukraine's economy was in crisis and a very poor state of before the war which, however, is not expected to improve in the near future. Serious reforms in many areas of the country are waiting at both the legislative and macroeconomic areas, without which it can not remain competitive in the long term.

Source:

State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua/> (Letöltés: 2014.augusztus 19.)

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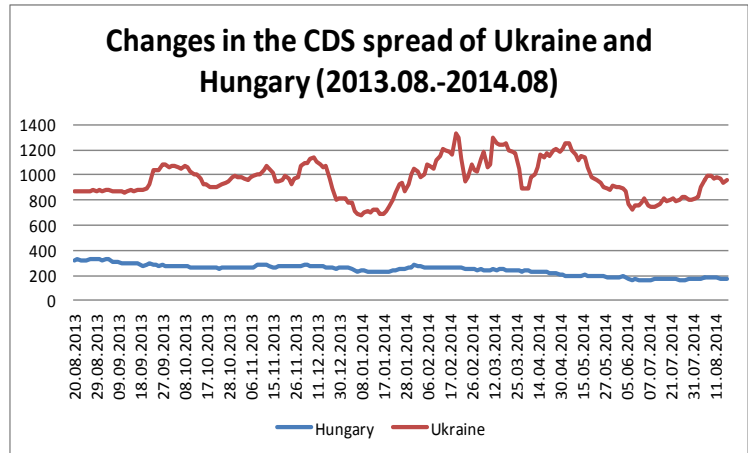
IMF World Economic Outlook Database. URL: <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/download.aspx> (Letöltés: 2014. augusztus 18.)

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World Economic Forum: The Global Competitiveness Report 2013–2014: Full Data Edition. URL: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf (Letöltés: 2014. augusztus 18.)

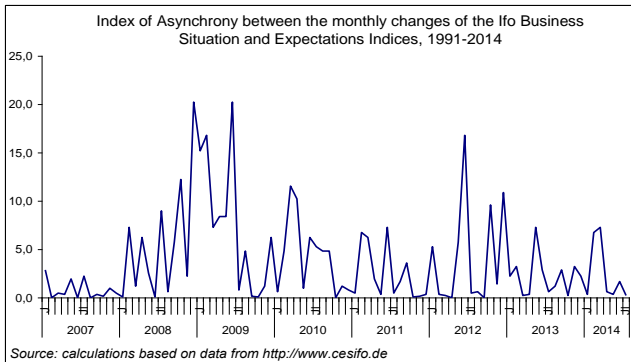
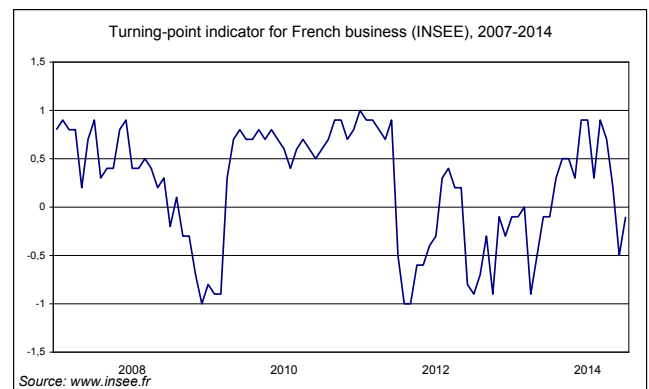
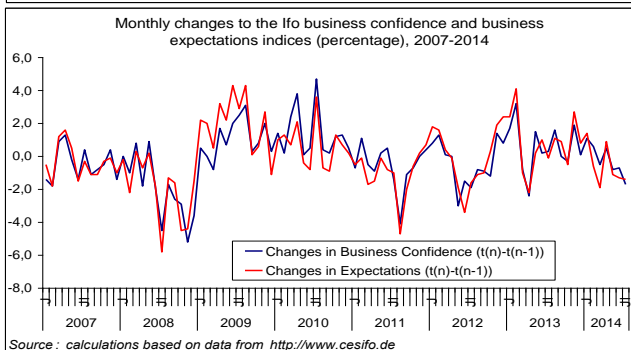
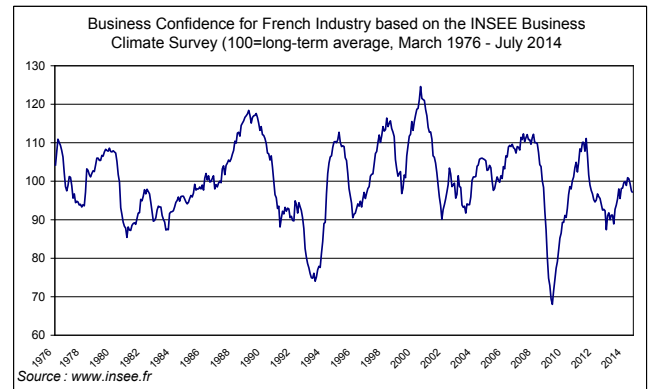
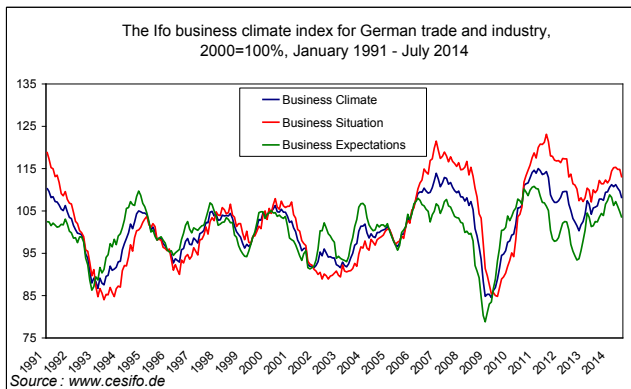
National Bank of Ukraine. URL: <http://bank.gov.ua/> (Letöltés: 2014. augusztus 19.)

Deutsche Bank Research. URL: <http://www.dbresearch.com/> (Letöltés: 2014. augusztus 19.)



The Ifo Business Climate Index for industry and trade in Germany fell to 108.0 points in July from 109.7 points last month. This marks the third decrease in succession. Assessments of the current business situation were less favourable than in June. Companies were also 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, decreased in June, so the business confidence index showed lower uncertainty than in the previous month. Ifo analysts say geopolitical tensions are taking their toll on the German economy. (Source: Ifo, <http://www.cesifo-group.de>)

According to the business managers surveyed in July 2014, the business climate in industry has not changed compared to the previous month. The composite indicator is stable and stands below its long-term average. The turning-point indicator, which has slightly increased compared to June, has leaved the unfavourable area to go in the zone indicating an economic uncertainty. The balance of opinion on past change in production has weakened and stands at a level very close to its long-term average. As for the balance of opinion on personal production expectation, it has slightly decreased and stands at a level below its long-term average. The balance on general production expectations, which represents business managers' opinion on French industry as a whole, is nearly stable, at a level which is below its long-term average. (Source: INSEE, <http://www.insee.fr>)



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