



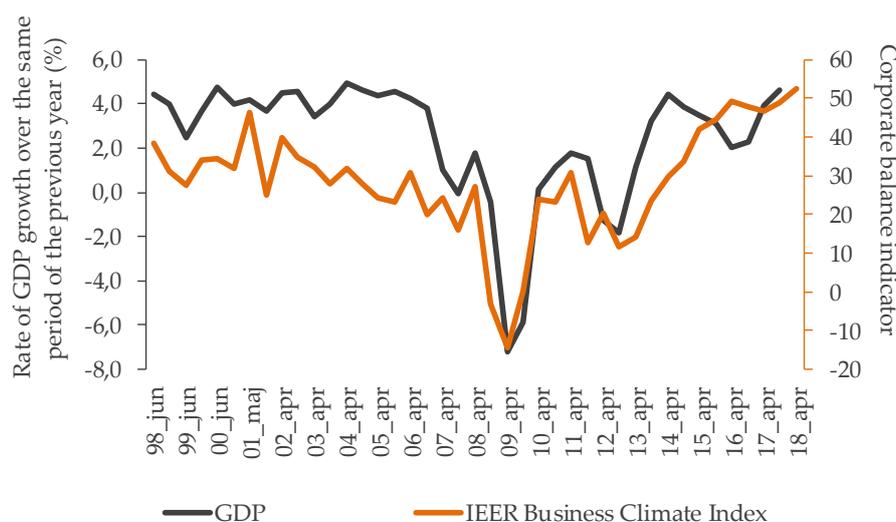
Favourable business situation, improving outlook - results of the April 2018 IEER Business Climate Survey

The latest wave of the IEER Business Climate Survey is based on the responses of 3,274 enterprises. According to the findings, the Business Climate Index was at 53 points as of April 2018. This score has been the highest since 1998, the year when surveying began.

Companies still see business climate as favourable. The improving tendency of the previous year seems to be continuing. For most part this can be put down to the fact that expectations for unfilled orders have become much higher. Business climate outlook has also improved slightly.

Uncertainty index dropped 3 points below the October value to 39. This might mean that the optimism of Hungarian businesses has become more uniform compared to previous year's data.

Figure 1: GDP and the IEER Business Climate Index, June 1998-Apr. 2018



	Oct. 2016	Apr. 2017	Oct. 2017	Apr. 2018
GDP	2.3	3.9	4.6	
IEER Business Climate Index	47.6	46.8	49.0	52.6

Source: IEER 2018

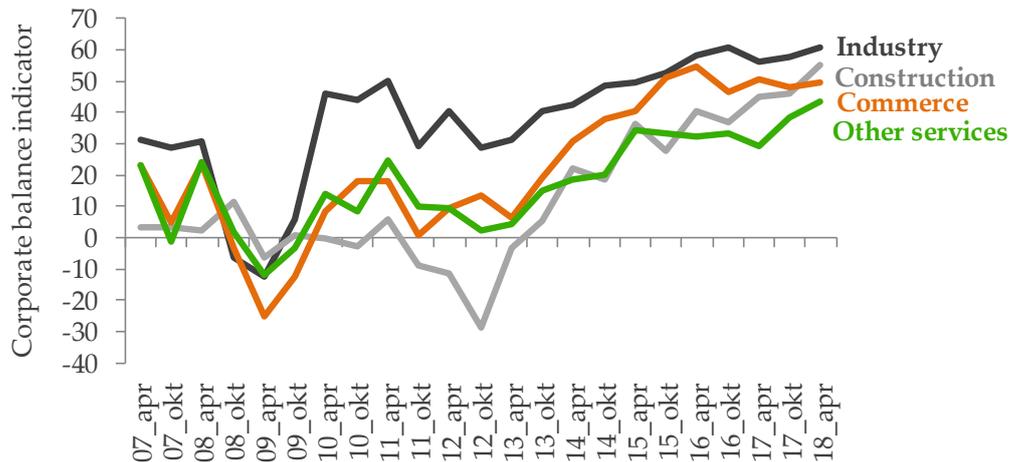
Note that the score in the figure is an aggregated balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

The IEER Business Climate Index with regard to company features

The Business Climate Index was highest with industrial companies (+61 points). Construction, commercial companies and economic service providers scored 55, 50 and

43 points, respectively. Only the construction sector showed a significant, 9 per cent rise over figures of previous October.

Figure 2: The IEER Business Climate Index with regard to economic sectors, Apr. 2007-Apr. 2018



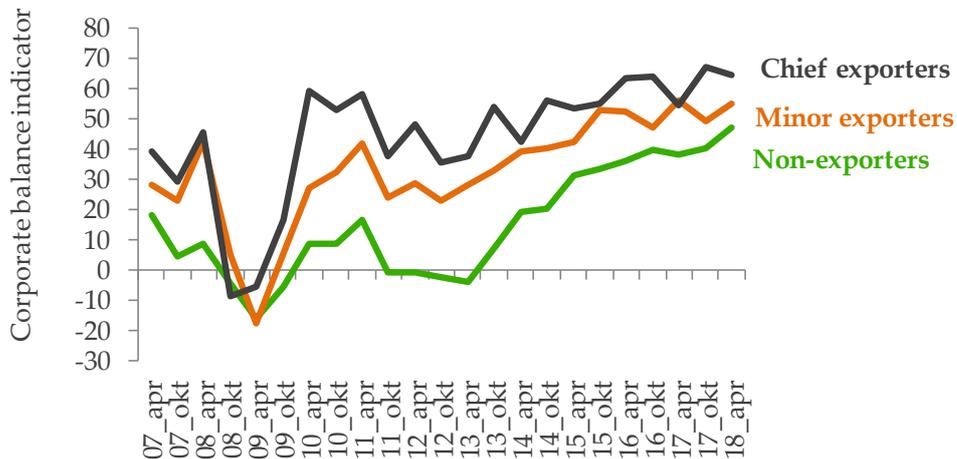
Source: IEER 2018

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The rate of exports came next to scrutiny here, companies producing predominantly for export topped the chart with +64 points, followed by minor exporters (+55 points) and non-exporters (+47 points) While the index

rose by 7 and 6 points for non-exporters and minor exporters respectively, for chief exporters it fell 3 points since the last half.

Figure 3: IEER Business Climate Index with regard to exports, Apr. 2007-Apr. 2018



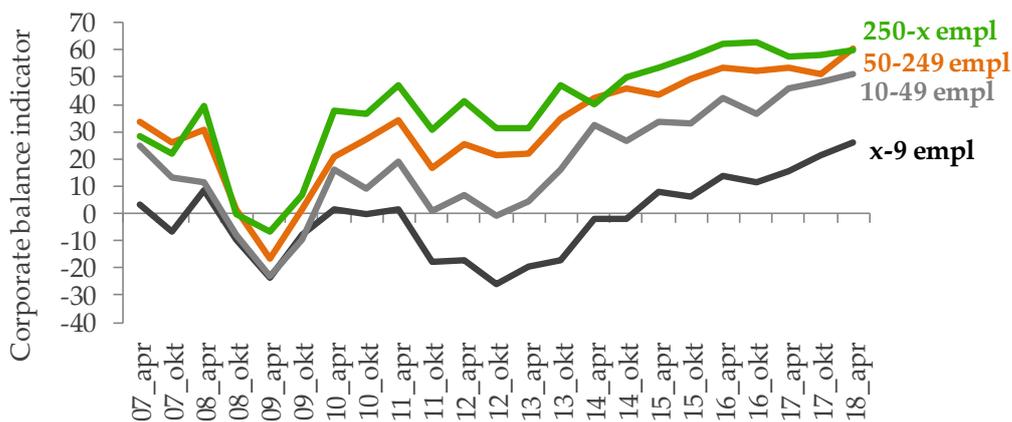
Source: IEER 2018

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Analysis with regard to company size showed that bigger companies have higher expectations. While the Business Climate Index was +26 points for companies employing fewer than 9 people, companies with 10-49 and 50-

249 employees scored +51 and +60 points, respectively. The biggest companies (250 employees and up) also scored +60 points. There was a significant shift in the 50-249 group: their index was 9 points higher than the one in October.

Figure 4: IEER Business Climate Index with regard to employee number categories, Apr. 2007-Apr. 2018



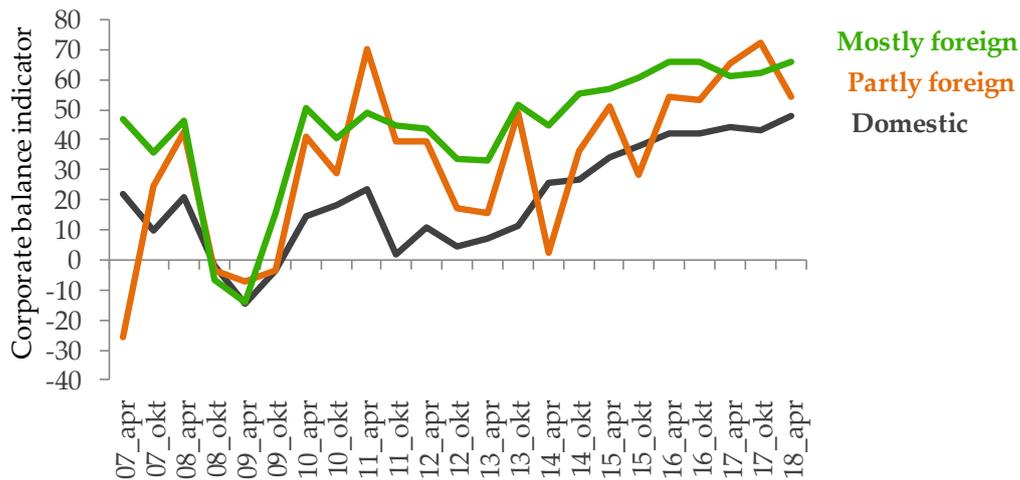
Source: IEER 2018

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When observing ownership structure, we can see that the Business Climate Index is the highest for companies of predominantly foreign ownership (+66 points); companies of partly foreign ownership are a distant second (+54 points), while domestic companies are seriously lagging behind (+48 points).

Compared to the previous half year, a significant change occurred among companies of partly foreign ownership. There the index dropped by 19 points.

Figure 5: IEER Business Climate Index with regard to ownership structure, Apr. 2007-Apr. 2018



Source: IEER 2018

Note that the score in the figure is an aggregated balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

Linking EU trade policy with sustainable development

In 1987, on its paper titled “Our Common Future” the Brundtland commission came with a landmark definition of sustainable development as meeting the needs of the present without compromising the ability of future generations to meet their needs. Ever since, sustainable development has received a wider consensus and witnessed greater engagement and collaboration of different governmental and non-governmental organizations.

Cognizant of the fact that trade acts as an engine for growth and by innovatively linking trade policies with sustainable development goals, the EU seeks to promote human and labor rights, environmental protection and other good governance and sustainable development principles. The EU promotes sustainable development by addressing specific issues in EU trade policy such as agreements, environment, human rights, labor rights and responsible businesses.

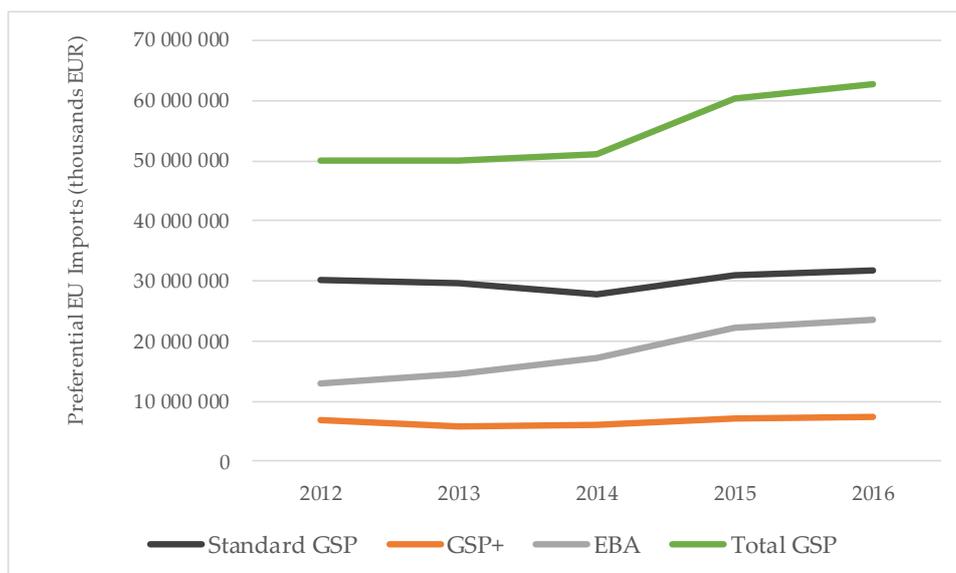
Our article shows the newest trends and effects of GSP programs in the last some years.

Generalized Scheme of Preference (GSP), consisting of the three arrangements Standard GSP, GSP+ and Everything But Arms (EBA), is the EU's trade preference programme implemented since 1971 on the basis of the United Nations Conference on Trade and Development (UNCTAD) recommendation for the creation of a ‘Generalized System of Tariff Preferences’ under which developed countries would grant trade preferences to all developing countries. It allows developing and vulnerable countries to pay fewer or no duties on exports to the EU in return for improving the implementation of core human and labor rights principles and standards.

The three-pronged GSP provides preferential market access in varying degrees to the EU to help the beneficiary countries expand their exports which would result in creating employment and thus contribute to poverty alleviation with due regard to human rights and sustainable development objectives. This can lead to other positive spill-over effects on investment and non-exporting sectors, and foster long-term economic growth and social development.

- The general arrangement (‘standard GSP’) grant duty reduction for around 66% of all product categories to low-income or lower-middle income countries, which do not benefit from other preferential trade access to the EU market.
- The special incentive arrangement for Sustainable Development and Good Governance (GSP+) grants full duty suspension for essentially the same 66% of all product categories as Standard GSP to eligible countries vulnerable in terms of economic diversification and export volumes. Countries that fulfil the eligibility criteria for GSP+ should be able to benefit from the additional tariff preferences if, upon their application, the European Commission determines that the relevant conditions are met.
- The special arrangement Everything But Arms (‘EBA’) grants full duty-free, quota-free access for all products except arms and ammunition to countries classified by the UN as Least Developed countries.

Figure 1. Preferential EU imports under standard GSP, GSP+ and EBA 2012-2016 (thousands EUR)



Source: European Commission Report on the Generalized Scheme of Preferences Covering the period 2016-17

In 2016, EUR 62.7 billion of imports entered the EU under GSP preferences, of which: EUR 31.6 billion came from Standard GSP countries, around EUR 7.5 billion from GSP+ beneficiaries and EUR 23.5 billion from EBA countries. The imports under the scheme also

have an increasing trend where the 2016 import value is around EUR 12.5 billion higher compared with 2012. The proportion of GSP in the total trade of the EU increased from 2.79% to 3.66% between 2012 and 2016.

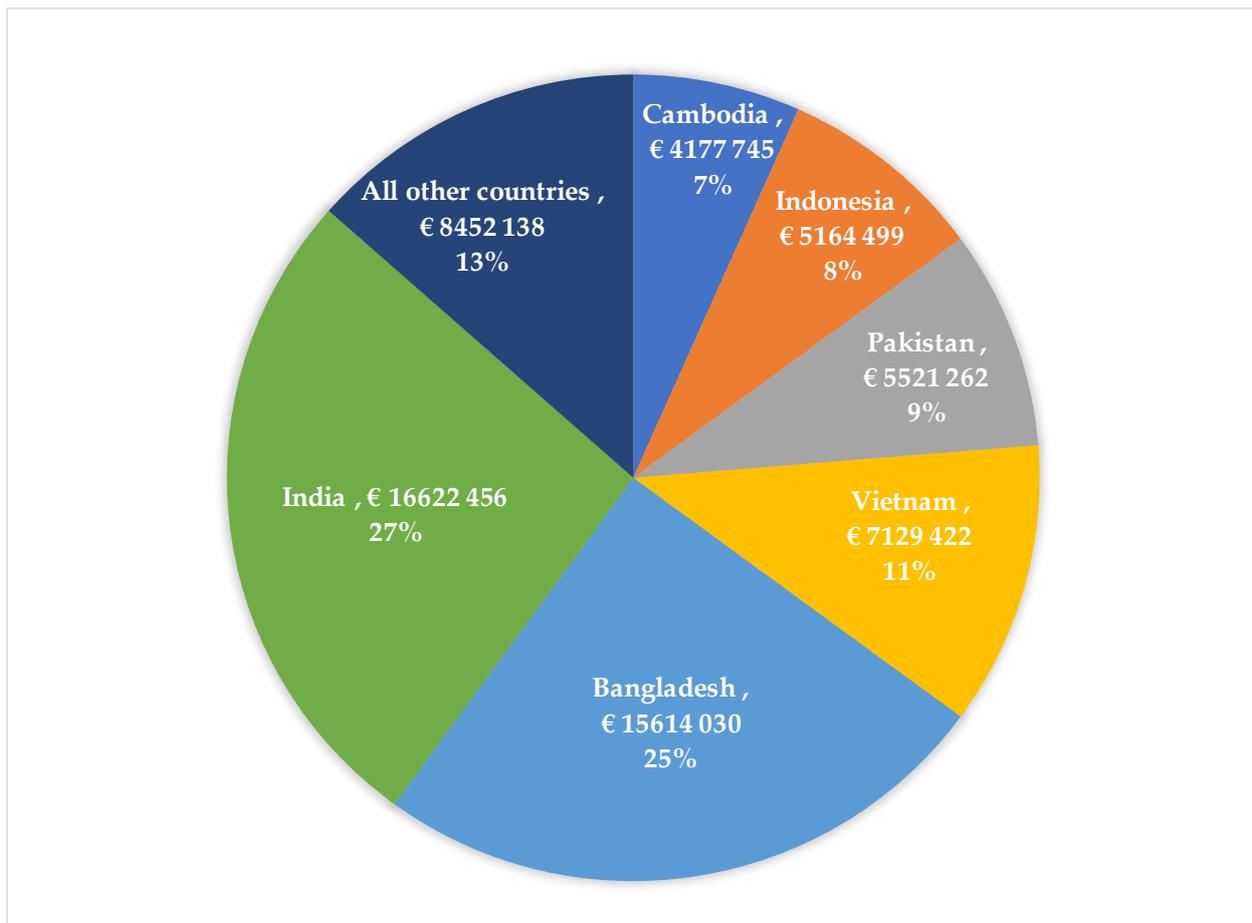
Which countries feature in the scheme?

The countries participating in the scheme depends on many factors including socio economic status and other trade agreements that they might have with the EU. In 2016-2017, the GSP had 23 Standard GSP beneficiaries, 10 GSP+ beneficiaries, 49 EBA beneficiaries.

The 10 GSP+ beneficiaries during the 2016-2017 period were Armenia, Bolivia, Cabo

Verde, Georgia, Kyrgyzstan, Mongolia, Pakistan, Paraguay, the Philippines and Sri Lanka. Since 1 January 2017, Georgia no longer is a GSP beneficiary country due to its preferential market access under a Deep and Comprehensive Free Trade Area (DCFTA) with the EU. Sri Lanka became a GSP+ beneficiary again in May 2017, after having been removed in 2010.

Figure 2. GSP preferential EU imports from all GSP beneficiaries, 2016 (thousands EUR)



Source: European Commission Report on the Generalized Scheme of Preferences Covering the period 2016-17

The lion's share of EU imports under the GSP scheme came from India and Bangladesh. These two countries together imported into the EU about 52% of all GSP imports which

value over 32 billion EUR in 2016. Vietnam, Pakistan, Indonesia and Cambodia, according to their order, also have a significant share of the GSP imports.

To which areas does the GSP scheme apply?

Beneficiary countries, more specifically those benefiting from the GSP+, are expected to implement the following 27 international conventions:

- Seven conventions on human rights, including prohibition of genocide and torture, protection of the rights of children, elimination of discrimination against women and minorities', protection of freedom of expression and association, the right to a fair trial,
- and judicial independence, as well as economic, social and cultural rights;
- Eight fundamental conventions of the International Labor Organization (ILO), including conventions prohibiting forced and child labor, ensuring workers' rights to freedom of association and collectively organize and bargain, and two conventions that protect workers from discrimination at work, and ensure that women and

men receive the same remuneration for work of equal value;

- Eight conventions on environmental protection and climate change, including monitoring of hazardous waste and harmful pollutants, safeguarding of biodiversity and

endangered species, as well as UN commitments to tackle climate change;

- Four conventions on good governance, namely the UN Convention against Corruption and three UN conventions seeking to control illegal drugs.

Economic Impact of the GSP?

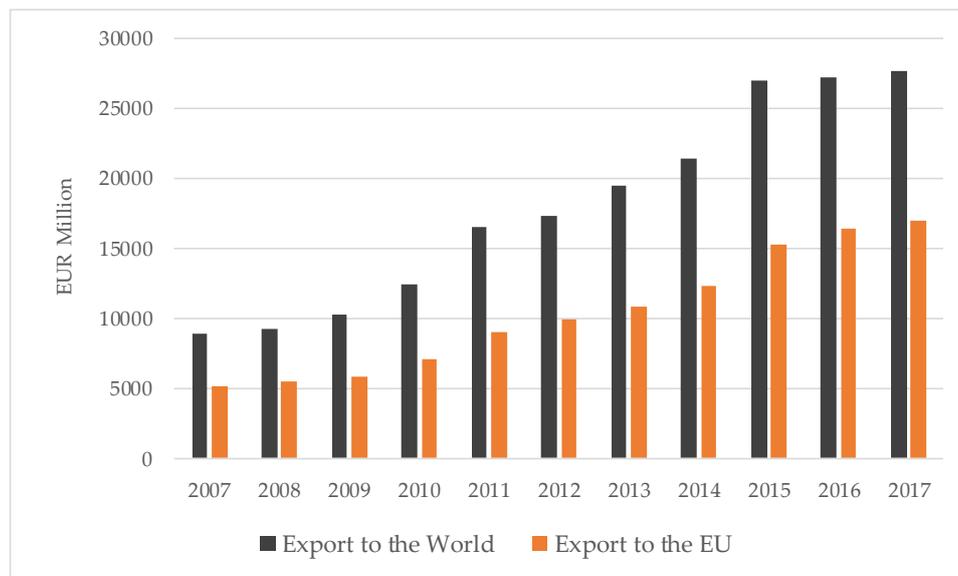
Between 2012 and 2016, EU imports under GSP in total increased by 23% to €63 billion. Least developed countries benefited the most as EU imports from them increased by around 38% to €23.5 billion during the period.

- Most EU imports benefiting from trade preferences under Standard GSP come from India (53% or €16.6 billion), followed by Vietnam (23% or €7.1 billion) and Indonesia (16% or €5.2 billion).
- 74% of all EU imports under GSP+ come from Pakistan (€5.5 billion), 22% from the Philippines (€1.7 billion), 1% from Armenia (€107.7 million). The smallest beneficiary of GSP+ is Kyrgyzstan from which the EU imported only goods worth €3.2 million in 2016.

- Within EBA, 66% of all EU imports came from Bangladesh (€15.6 billion), followed by Cambodia (18% or €4.2 billion) and Mozambique (4% or €965 million).

As a least developed country, Bangladesh benefits from EBA, which is the most favorable regime available under the GSP, allowing it to export full duty free and quota free access to all products except arms and ammunitions. The EU is the largest trading partner for Bangladesh. In 2017, Bangladesh exported goods and services valuing around EUR 27.7 billion to the world and of this EUR 16.9 billion was exported to the EU, accounting for 61% of its exports. In 2007, the EU was the destination for 57.6% of Bangladesh exports. The export of Bangladesh to the EU has also tripled during the past decade reaching EUR 17 billion in 2017 from EUR 5.14 billion in 2007.

Figure 3. Total Bangladesh export 2007-2017



Source: European commission Directorate-General for Trade: European Union, Trade in Goods with Bangladesh, 2018

The textile and clothing industries provide the single source of growth in Bangladesh's rapidly developing economy. Exports of textiles and garments are the principal source of foreign exchange earnings. EU imports from Bangladesh are dominated by clothing, accounting for over 90% of the EU's total imports from Bangladesh. By 2002 exports of textiles, clothing, and ready-made garments accounted for 77% of Bangladesh's total merchandise exports. In 1972, the World Bank approximated the gross domestic product (GDP) of Bangladesh at EUR 5.24 billion and it

grew to EUR 147.14 billion by 2014, with EUR 26.4 billion of that generated by exports, 82% of which was ready-made garments. As of 2016 Bangladesh held the 2nd place in producing garments just after China. Bangladesh is the world's second-largest apparel exporter of western (fast) fashion brands. Sixty percent of the export contracts of western brands are with European buyers and about forty percent with American buyers. In this regard, the EBA plays a tremendous role in making exports from Bangladesh be more competitive in the European Market.

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International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(May)	5.2%	5.3%	5.3%
Germany	Manufacturing Purchasing Managers Index	(May)	56.8	57.9	58.1
	IFO Business Climate Index ¹	(May)	102.2	102.7	102.2
France	INSEE Business Climate Index ²	(May)	106		108
	Unemployment Rate	(May)	3.8%	3.9%	3.9%
USA	CB Consumer Confidence Index	(May)	128.0	128.2	125.6
	Manufacturing Purchasing Managers Index	(May)	56.6	56.6	56.5
China	Manufacturing Purchasing Managers Index	(May)	51.9	51.4	51.4

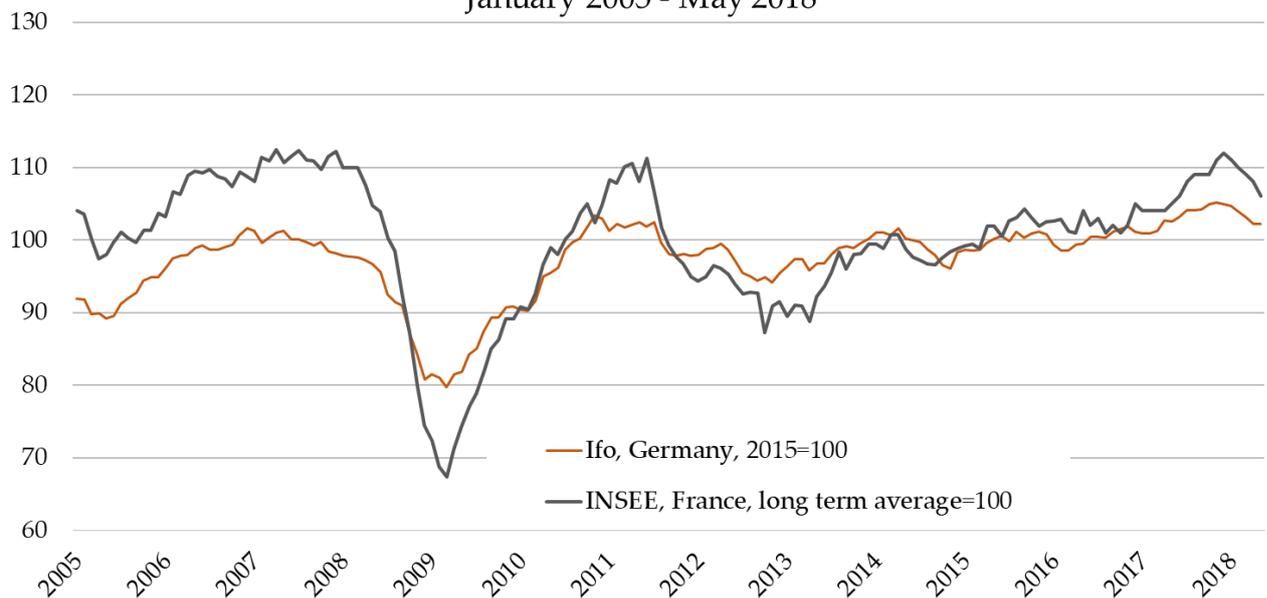
¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

The rest of the data source: <http://worldeconomiccalendar.com>

The German economy slightly underperformed compared to the expectations in May. The unemployment rate has decreased moderately since the last month. The manufacturing purchasing manager index (PMI), however, was significantly lower in May than in the last month and the expectations. After a robust decline in April, the IFO business climate index stagnates at the same level as in the last month but is still below the expectations. The French INSEE business climate index has decreased again compared last month. In the United States the CB consumer confidence index performed worse than in the last month. The manufacturing PMI stagnates at the same level as in April. The unemployment rate was slightly lower than the expectations. The Chinese manufacturing PMI continues its increase in May.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - May 2018



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