Monthly Bulletin of Economic Trends

November-December 2018

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Favourable business climate, continued optimistic expectations - IEER Business Climate Survey findings of October 2018

The latest Business Climate Survey of IEER is based on the answers of 2830 CEO respondents. According to the results, Business Climate Index was at 55 points as of October 2018, which has been the highest since records began in 1998. Trends that had started to improve in the previous half continued. Business climate is still regarded by companies as being very favourable, which can mainly be put down to the fact that expectations about investments in construction and machinery became significantly more optimistic in the previous half year. Uncertainty Index, currently at 37 points, is down two points compared to April 2018 results, meaning that the situation assessment of Hungarian businesses have become more homogeneous in the past two quarters.

Figure 1 GDP and IEER Business Climate Index, June 1998 - October 2018
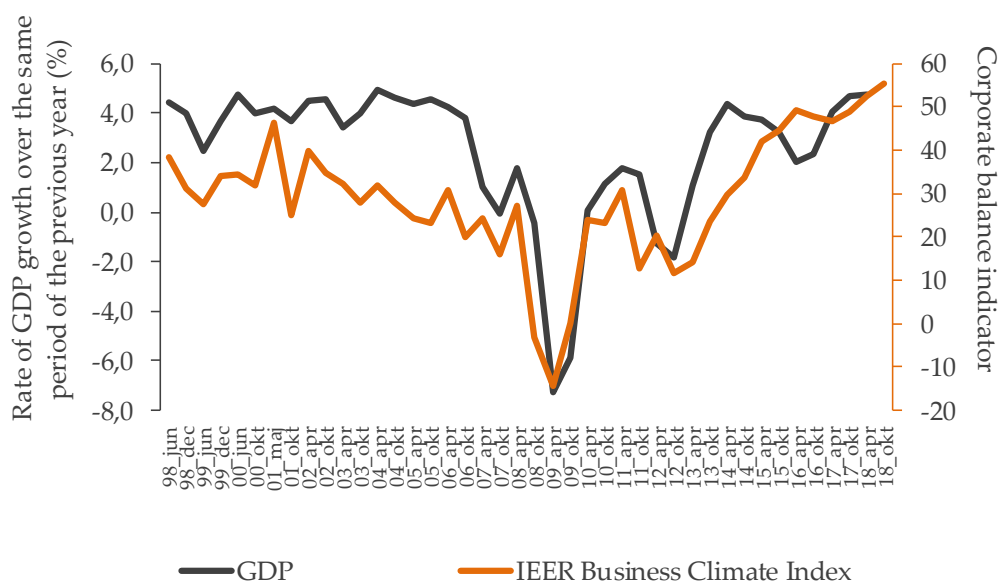
GDP	4,1	4,7	4,8	
IEER Business Climate Index	46,8	49,0	52,6	55,5

Source: *Central Statistical Office, IEER 2018*

Note: *GDP figures show half-year growth trends, having been adjusted for season and calendar effect. Figures are thus levelled out. Year-on-year = 0*

GDP: left axis

IEER Business Climate Index: right axis

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IEER Business Climate Index by company features

The Business Climate Index was the highest for construction companies (+65 points), followed by industrial firms and companies specialising in commerce (61 and 60 points, respectably). Companies offering business services are a distant fourth (40 points). Half-on-half figures show that only construction and commercial companies saw a significant increase – compared to April, their indicator jumped 10 points.

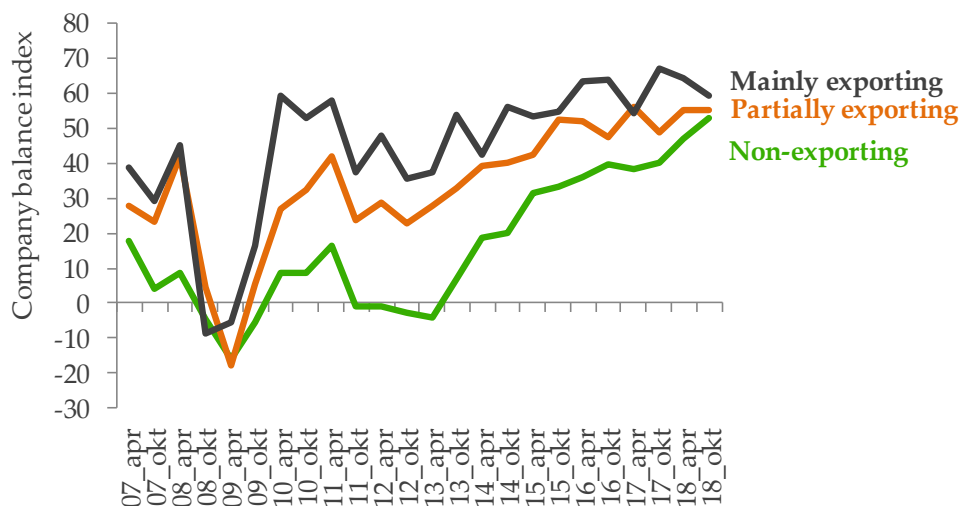**Figure 2 IEER Business Climate Index by economic sector, April 2007 - October 2018**
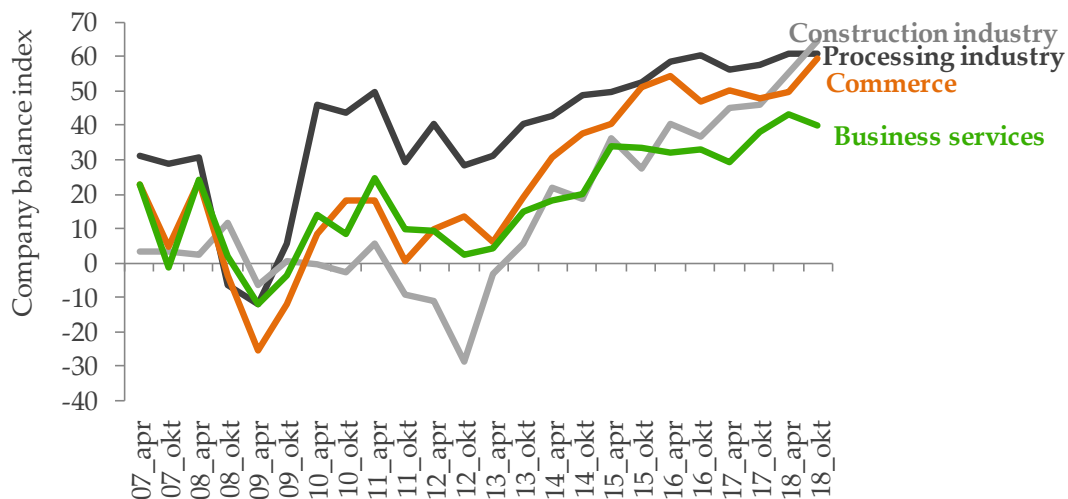
Source: IEER 2018

Note that the score in the figure is a 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.

Looking at exports one can see that major exporters got the highest Business Climate Index for this half (+59 points), followed by partially exporters and non-exporters (+55 and +53 points, respectively). While the index went up 6 points for non-exporters and stagnated for partially exporters, it went down 5 points for major exporters compared to the previous half.

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Figure 3 IEER Business Climate Index by export activity, April 2007 - October 2018
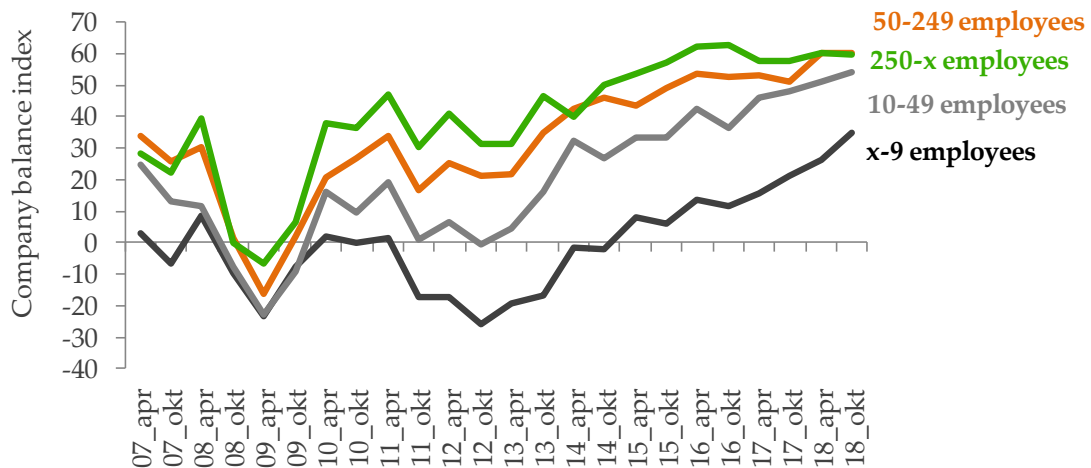

Source: IEER 2018

Note that the score in the figure is a 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.

Analysis with regard to company size shows that larger companies have better expectations. While the Business Climate Index was +35 points for companies with fewer than 9 employees, it was +54 points for 10-49 companies, and +60 points for both 50-249 and 250+ companies. There has only been a significant change (a 9 point increase half-on-half) at companies with fewer than 9 employees.

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Figure 4 IEER Business Climate Index by the number of employees, April 2007 - October 2018
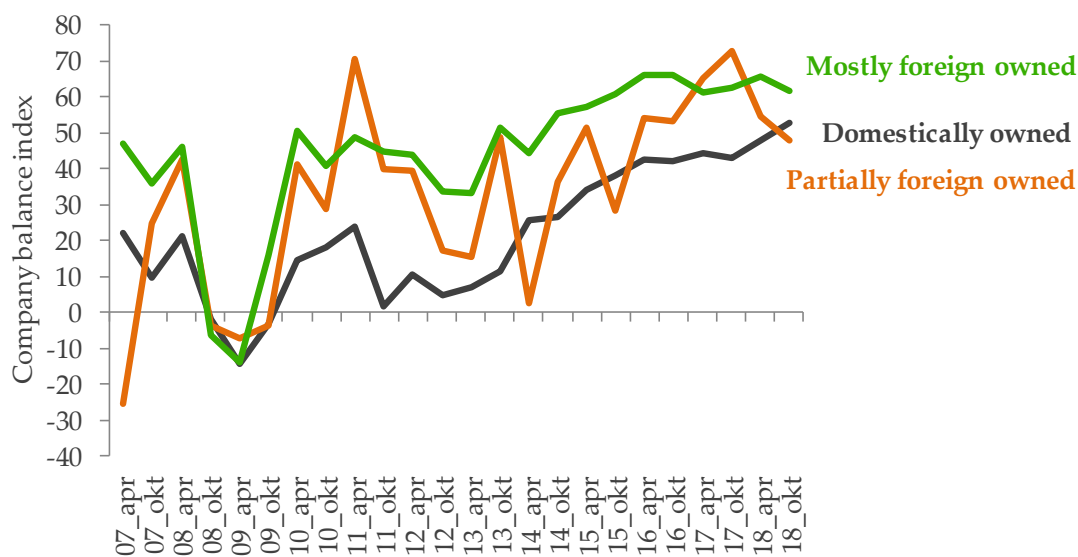

Source: IEER 2018

Note that the score in the figure is a 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.

Focusing on ownership structure, the Business Climate Index was the highest for mostly foreign owned companies (+62 points). Domestically owned companies and especially partially foreign owned companies lag behind considerably (at +53 points and +48 points, respectively). Partially foreign owned companies slipped down another 6 points half-on-half. Compared to April results, businesses of a mostly foreign ownership experienced a 4 point drop in their Business Climate Index, while the Business Climate Index of domestic companies increased by 5 points.

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Figure 5 IEER Business Climate Index by ownership structure, April 2007 - October 2018

Source: IEER 2018

Note that the score in the figure is a 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 components of the Business Climate Index and further indicators of business climate
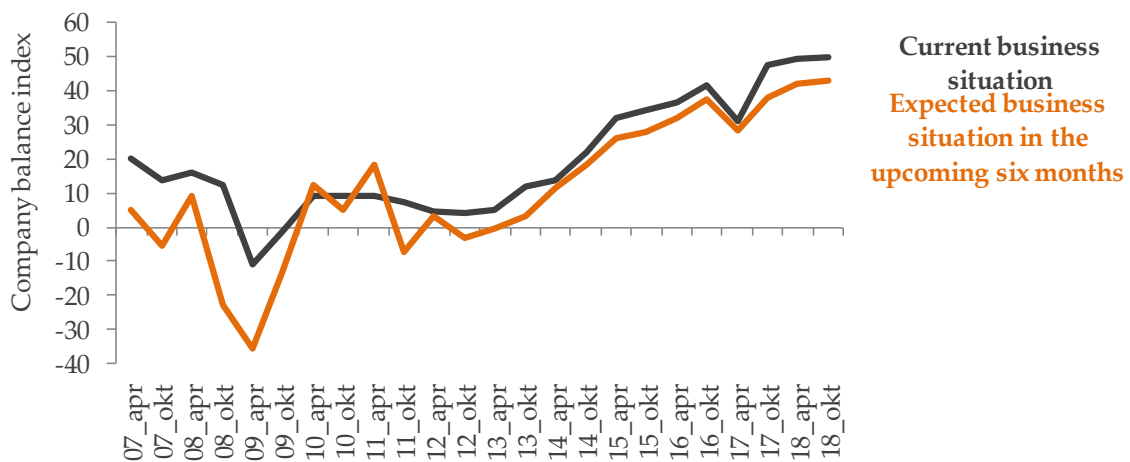
IEER Business Climate Index has four components:

- expected business situation in the upcoming six months;
- expected orders for the upcoming six months;
- expected investment in machinery for the upcoming six months;
- expected investment in construction for the upcoming six months.

As far as the sub-indicators are concerned, companies in general are quite optimistic about the business situation, future outlook, current profitability rates and investment trends. However, future profitability and expected orders are seen more negatively than in April 2018.

In October, both the current and the expected business climate were seen by companies to have been more positive than in the previous half, though only minimally. The two sub-indicators both improved by 1 point half-on-half. Current business situation is now at 50 points and expected business situation is at 43.

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Figure 6 The components of business climate - business situation

Source: IEER 2018

Note that the score in the figure is a 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.

Compared to April, current profitability also improved somewhat, up at 38 points from 35, while expected profitability dropped by 2 points, now at 31.

Figure 7 The components of business climate - profitability
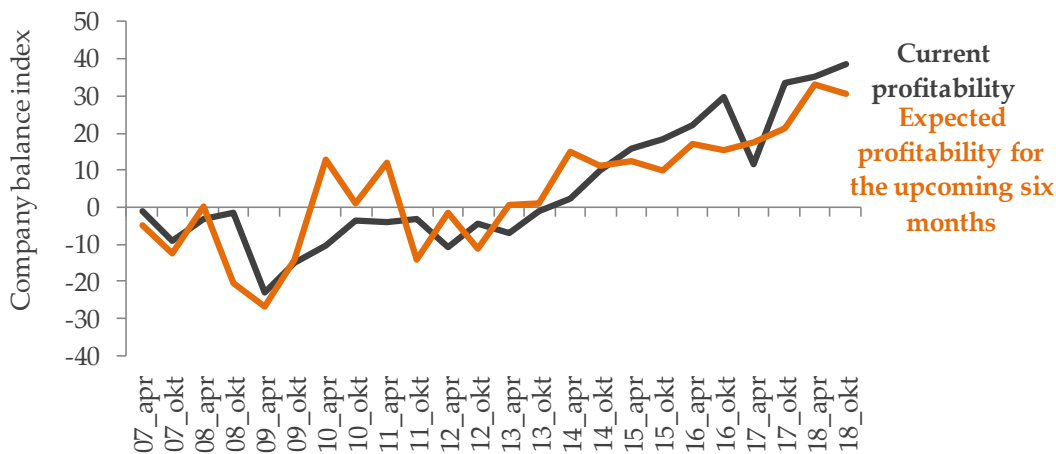

Source: IEER 2018

Note that the score in the figure is a 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.

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The expected volume of investment in machinery got 36 points, and investment in construction scored 2. Both indicators have changed a lot since April: the

expected volume of investment in machinery jumped by 28 points and that in construction scored 19 points more than six months before.

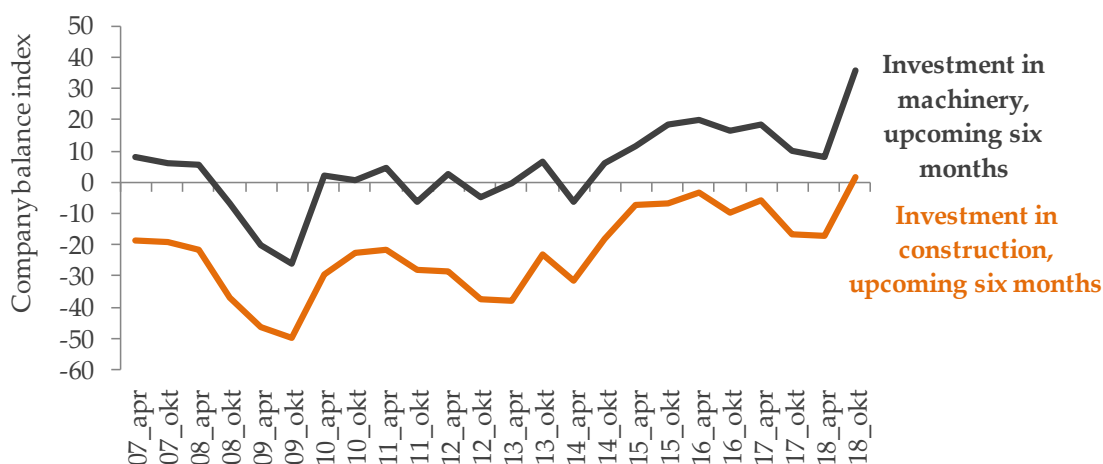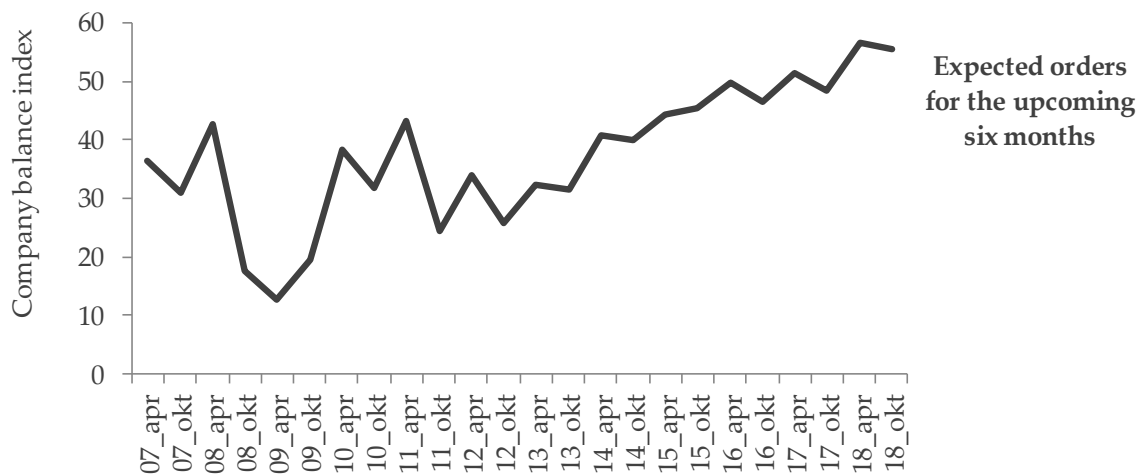**Figure 8 The components of business climate - investments**

Source: IEER 2018

Note that the score in the figure is a 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. Here, the four-value scale of investment in construction and machinery was used (-100: none; -33: decreasing; 33: unchanged; 100: increasing) The method to calculate the Business Climate Index and a detailed presentation of the used components can be found in the bulletin.

As for incoming orders for the next period, companies are somewhat more pessimistic: compared to the previous half

the indicator is down one point, its value in October is at 55 points.

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Figure 9 The components of business climate - unfilled orders

Source: IEER 2018

Note that the score in the figure is a 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. Here, the four-value scale of unfilled orders was used (-100: none; -33: decreasing; 33: unchanged; 100: increasing) The method to calculate the Business Climate Index and a detailed presentation of the used components can be found in the bulletin.

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Education and Training Monitor 2018: overview of the main findings

The *Education and Training Monitor* is a European Commission Staff Working Document that presents a yearly evaluation of education and training systems across Europe. The Monitor reports on EU and Member States' performance on the Education and Training 2020 (ET2020) benchmarks, and elaborates on policy priorities and initiatives for education systems. The report brings together the latest data, technical reports and studies, as well as policy documents, and examples of policy measures from different EU Member States. Here we overview the main findings of the report on four major topics, especially focusing on Hungary: the education and training key indicators, the investment in education and training, the selectiveness in education as well as the vocational education and training and adult learning. Our summary is based on the report Education and Training Monitor 2018 and the Country Report on Hungary.

Targets of the Education and Training 2020: key indicators

The strategic framework for European cooperation in education and training (ET 2020), which is a forum allowing Member States to exchange best practices and learn from each other, aims to achieve six targets by 2020:

1. to reduce the early leavers from education and training (age 18–24) below 10%;
2. to reach 40% tertiary educational attainment among 30 to 34-year-olds;
3. to reach the 95% participation in early childhood education and care (from age 4 to starting age of compulsory primary education);
4. to reduce the proportion of 15 year-olds underachieving in reading, maths and science below 15%;
5. to reach the employment rate of recent graduates (age 20–34 with upper secondary, post-secondary non-tertiary or tertiary education having left education 1–3 years before reference year) of 82%;
6. to reach 15% adult participation in learning (age 25–64).

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Chart 1. Education and training 2020 benchmarks, 2017 (%)

	Hungary	EU average*	Target
Early leavers from education and training (age 18–24)	12.5	10.6	<10 (HU: 10)
Tertiary educational attainment (age 30–34)	32.1	39.9	40 (HU: 30.3)
Early childhood education and care[16]	95.7	95.3	95
Proportion of 15 year-olds underachieving in reading[15]	27.5	19.7	<15
Proportion of 15 year-olds underachieving in maths[15]	28.0	22.2	<15
Proportion of 15 year-olds underachieving in science[15]	26.0	20.6	<15
Employment rate of recent graduates (age 20–34)	84.7	80.2	82
Adult participation in learning (age 25–64)	6.2	10.9	15

Source: Country Report on Hungary; p. 3. (Eurostat, OECD PISA).

*Notes: *Data refer to weighted EU averages, covering different numbers of Member States depending on the source; 15 = 2015, 16 = 2016.*

Figure 1. Position in relation to strongest (outer ring) and weakest performers (centre)
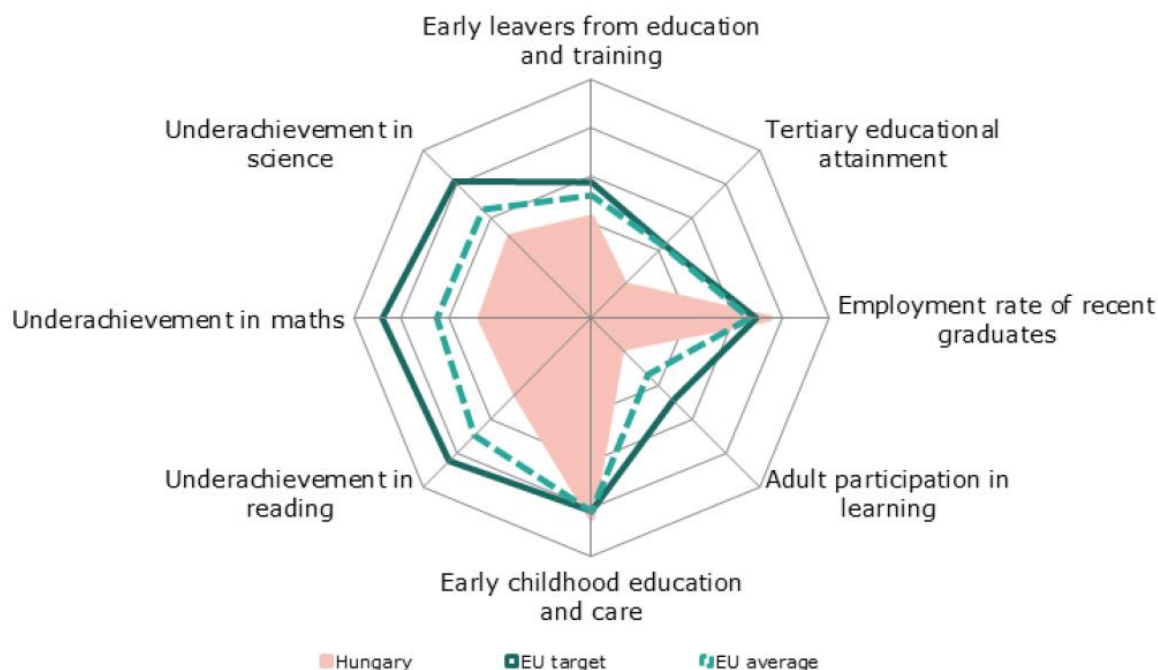
Source: Country Report on Hungary; p. 3.

Note: All scores are set between a maximum (the strongest performers represented by the outer ring) and a minimum (the weakest performers represented by the centre of the figure).

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Investing in education and training

In 2016, COFOG (Classification of Functions of Government) data show that the average general government expenditure on education in the EU-28 represented 4.7% of GDP. Average public spending on education across the EU has remained stable in recent years at around 10% of total public expenditure (2016: 10.2%).

In real terms, the increase in the EU level total expenditure on education between 2015 and 2016 was 0.5%. However, 12 Member States, more than the previous year, reduced their education budget. The sharpest increase from 2015 was registered in Romania: 18.4% in real terms. This means an increase of 0.6 pps as a percentage of GDP and an increase of 2.2 pps as a percentage of total public expenditure. By contrast, Bulgaria registered an around 9% decrease in spending in real terms compared to 2015. This change represented 0.6 pps of GDP but was neutral as a share of total expenditure (reflecting a fall in overall public spending). Czechia, Latvia, Hungary and Slovakia registered relatively large drops in their spending level on education.

In Hungary, general government expenditure on education as a proportion of GDP was 4.9% in 2016, above the EU average (4.7%). In 2016 education absorbed 10.5% of total public expenditure, slightly above the EU average (10.2%). In real terms, however, this represents a 5.8% decrease compared to the previous year.

The expenditure on education is influenced by the demographic composition of the country. Though the fertility rate has improved since 2010 in Hungary, it is still insufficient to stop the population decline of the last 40 years. The yearly decrease of the school population was 0.8% in 2017/2018. The decline in student numbers was 10 times stronger than the decrease in the number of schools in the period 1990–2016. This reduces efficiency in spending.

In terms of education levels, the biggest proportion (40%) of public budgets goes into funding secondary and post-secondary non-tertiary education. This is followed by pre-primary and primary education (around 30%) and tertiary education (around 15%). The breakdown of public expenditure by level of education shows that the bulk of public expenditure is devoted to the school level. This is not surprising since this level covers all of compulsory schooling and around two thirds of the number of years typically spent in education. It also accounts for 60% or more of total education expenditure in all Member States (slightly less in Lithuania, Hungary and Slovakia), with a peak of over 80% in Italy. Tertiary education accounts for more than 15% of the total education expenditure in 20 countries (including Hungary), reaching around 30% in Finland.

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Chart 2. Public expenditure on education, 2016 (%)

	Year-on-year real change*		As a share of total public expenditure		As a share of GDP	
	2015	2016	2015	2016	2015	2016
Czechia	0.5	−7.6	11.8	11.3	4.9	4.5
Hungary	2.9	−5.8	10.2	10.5	5.1	4.9
Poland	3.6	−3.2	12.7	12.1	5.3	5.0
Slovakia	5.7	−7.5	9.3	9.3	4.2	3.8
EU28 average	**1.0**	**0.5**	**10.2**	**10.2**	**4.8**	**4.7**

Source: ***Education and Training Monitor 2018***; *p. 90.*

*Note: *Year-on-year change of total expenditure of general government on education, valued at constant prices using the implicit deflator for the final consumption of the general government.*

Selectiveness in education

In Hungary, the reading comprehension of fourth-grade students measured by the 2016 Progress in International Reading Literacy Study (PIRLS) had improved since 2011, by more (37%) than the international average (29%). The Study shows that 37% of Hungarian students go to schools where disadvantaged students are the majority, the second-highest share among participating countries. All in all, large performance gaps between schools indicate strong selectiveness in education. This means that disadvantaged students are more strongly separated from their non-disadvantaged peers in Hungary than in other countries. The difference between the performance of the most advantaged and most disadvantaged students is 57 score points, against a 43 international average score gap. In PISA 2015, which tested competences at age 15, the impact of Hungarian students' socioeconomic status on their performance was the strongest across all participating countries.

In 2017, the early school leaving (ESL) rate increased to 12.5%, above the EU average of 10.6%. While the ESL rate has been decreasing steadily across the EU, it has not fallen in Hungary since 2010. Participation of 17 and 18 year-olds in secondary education dropped sharply between 2011 and 2016 (from 98% to 85%), after the school-leaving age was lowered from 18 to 16 in 2012. These trends make it likely that ESL, which measures 18–24 year-olds with only low qualifications not in education or training, will rise further in the years ahead. In November 2016 the government introduced mandatory data collection on students' progress at school, which feeds into a digital early warning and pedagogical support system (EWS). The first surveys show that 11% of students are at risk of leaving school without completing upper-secondary education. The share of students concerned varies greatly by school type: primary school (13%), vocational secondary school (18%), vocational grammar school (12%), and grammar school (3%).

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Figure 2. Share of early leavers from education and training in the Visegrad Group and in the EU28, 2002–2017 (%)
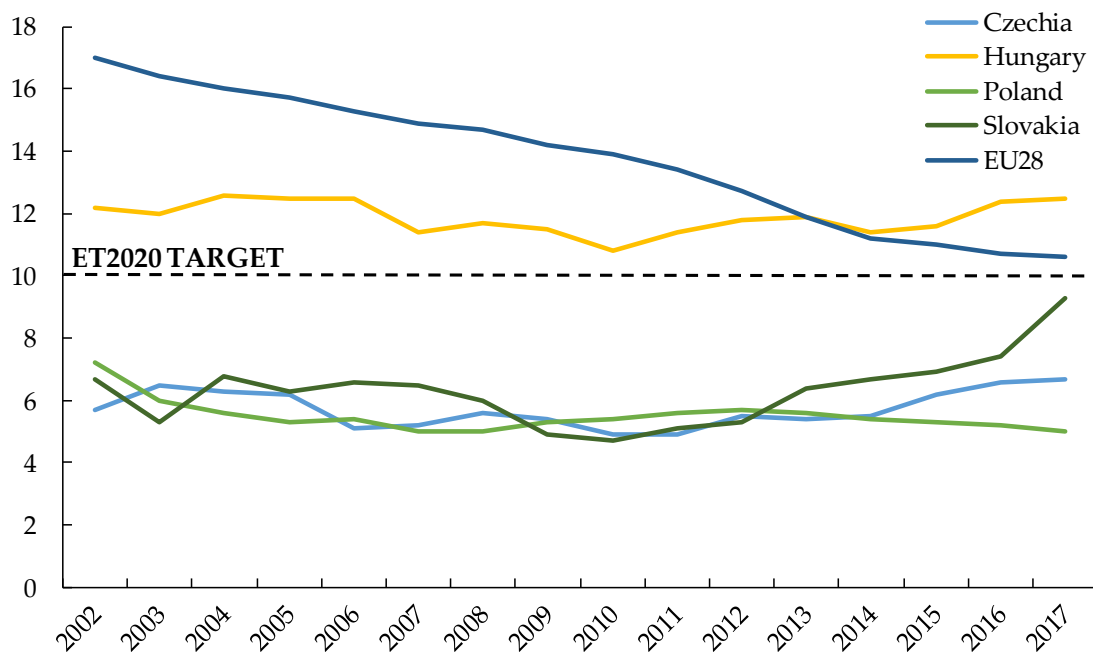
Source: Eurostat; online data code: [edat_lfse_14].
Note: The 'early leavers from education and training' is defined as the percentage of the population aged 18–24 with at most lower secondary education (ISCED 0–2) and who were not involved in further education or training during the last four weeks preceding the survey (Labour Force Survey, LFS).

Early tracking increases selectiveness and the risk of disadvantaged pupils being separated from their peers. Disadvantaged students have very low chances of entering the higher educational tracks.[1] In Hungary, grouping into different educational tracks can start as early as age 10 (see 8-year grammar schools).

According to the 2017 National Assessment of Basic Competences (NABC), the competence level of pupils at grade 10 in vocational secondary schools was lower on average than the competence level of sixth-graders and showed no progress from grade 8 to 10. This reflects the concentration of low-performing pupils in such schools and shows that this school type does not effectively develop students' basic skills. Enrolment data show over-application especially to the well-performing 6- and 8-year upper secondary schools. Entry to these schools is via a highly competitive exam which makes high demands on candidates in terms of the application of content. These differences between school types worsen the substantial 'opportunity gap' between privileged and disadvantaged families observed as early as at primary level. Inequality in education narrows the possibility for social mobility: from all EU countries, low-income families in Hungary have the poorest chances of approaching the mean income.

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[1] Proportion of disadvantaged and cumulatively disadvantaged students by education track: 1% in 6- and 8-year grammar schools; 4% in the other grammar schools (=general upper-secondary schools); 7% in vocational 'grammar' schools; and 21% in vocational secondary schools.

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Vocational education and training and adult learning

Skills shortages are comparatively high in Hungary. There were nearly 80 000 unfilled positions registered in the first quarter of 2018, which is 33% more than at the same time in 2017. Reflecting skills shortages, adults who have tertiary education enjoy one of the highest wage premiums compared to lower secondary education in the OECD and in the EU.

The employment rate of recent VET graduates (ISCED 3 and 4) in 2017 was high: 85.9% against an EU average of 76.6%. VET has two regular pathways: vocational secondary school for less academically-inclined students and vocational grammar school with a higher element of general education. The two tracks of vocational education and training differ strongly in terms of the career perspectives of their graduates. Vocational secondary schools provide practical workplace training focused on the imminent needs of companies, with limited general education content. This, together with the concentration of children of low socioeconomic status in this type of schools, explains their heavy deficit in basic skills measured in PISA and national surveys. Half of vocational secondary school graduates are employed as unskilled or semi-skilled workers. Students leaving vocational grammar schools, with a higher element of general education, fare much better on the labour market than students leaving vocational secondary schools. The wage disadvantage of vocational secondary school graduates increases by age, which indicates a lack of transferability of skills acquired in these schools.

In Hungary, promoting adult participation in learning remains a challenge, especially among the unemployed. Adult participation in learning remained low at 6.2% in 2017, well below the EU average of 10.9%. According to the Continuing Vocational Training Survey (CVTS), 19.4% of employees participated in continuing training provided by their employers in 2015, the second lowest rate in the EU. People in employment are about four times more likely to participate in training than unemployed people. Only 50% of the population has at least basic digital skills.

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Chart 3. Employment rate of recent graduates by educational qualification, 2017 (%)

	Upper-secondary or post-secondary vocational qualification	General upper-secondary qualification	Tertiary qualification	Upper-secondary, post-secondary non-tertiary and tertiary qualification
Czechia	87.5	88.6	91.6	89.9
Hungary	85.9	69.7	88.7	84.7
Poland	75.2	71.4	89.2	82.1
Slovakia	81.6	71.9	82.1	81.5
EU28 average	76.6	64.1	84.9	80.2

Source: EU Labour Force Survey, Eurostat; online data code: [edat_lfse_24].

Note: The indicator measures the employment rates of people aged 20–34 who successfully completed education 1-3 years before the survey with a medium-level qualification (ISCED levels 3 and 4) or high-level qualification (ISCED levels 5–8), and who are currently not enrolled in any further formal or non-formal education or training, out of the people in the same age group.

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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
Germany	Unemployment Rate	(Nov)	**5.0%**	**5.1%**	**5.1%**
	Manufacturing Purchasing Managers Index	(Nov)	**51.6**	**52.3**	**52.2**
	IFO Business Climate Index[1]	(Nov)	**102.0**	**102.3**	**102.9**
France	INSEE Business Climate Index[2]	(Nov)	**104**		**104**
USA	Unemployment Rate	(Nov)	**3.7%**	**3.7%**	**3.7%**
	CB Consumer Confidence Index	(Nov)	**135.7**	**135.9**	**137.9**
	Manufacturing Purchasing Managers Index	(Nov)	**55.4**	**55.8**	**55.7**
China	Manufacturing Purchasing Managers Index	(Nov)	**50.0**	**50.2**	**50.2**

[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

In Germany, the unemployment rate slightly decreased compared to October and performed better than expected in November. The manufacturing purchasing manager index (PMI) and the IFO business climate index decreased and were lower than expected. The French INSEE business climate index stagnates at the same level as in October. In the United States, the CB consumer confidence index and the manufacturing PMI decreased compared to last month and were below the expectations. The unemployment rate stagnates at the same level as in last month and performed as expected. The Chinese manufacturing PMI slightly decreased and was below the expectations in November.

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

Ifo, Germany, 2015=100

INSEE, France, long term average=100
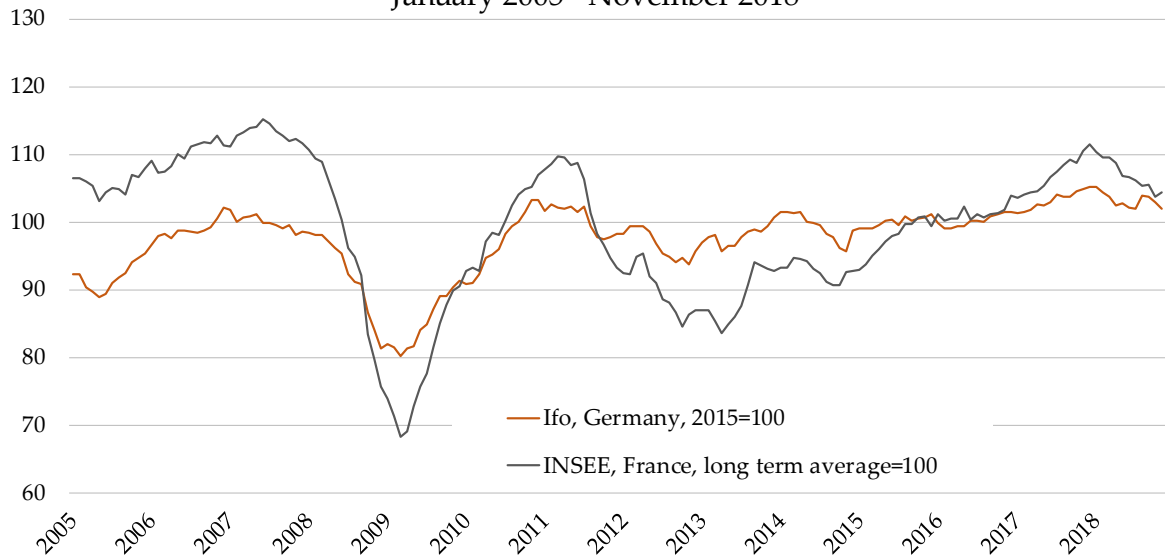
Sources: www.cesifo.de, www.insee.fr

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