



### Business situation worsens, companies expect recession

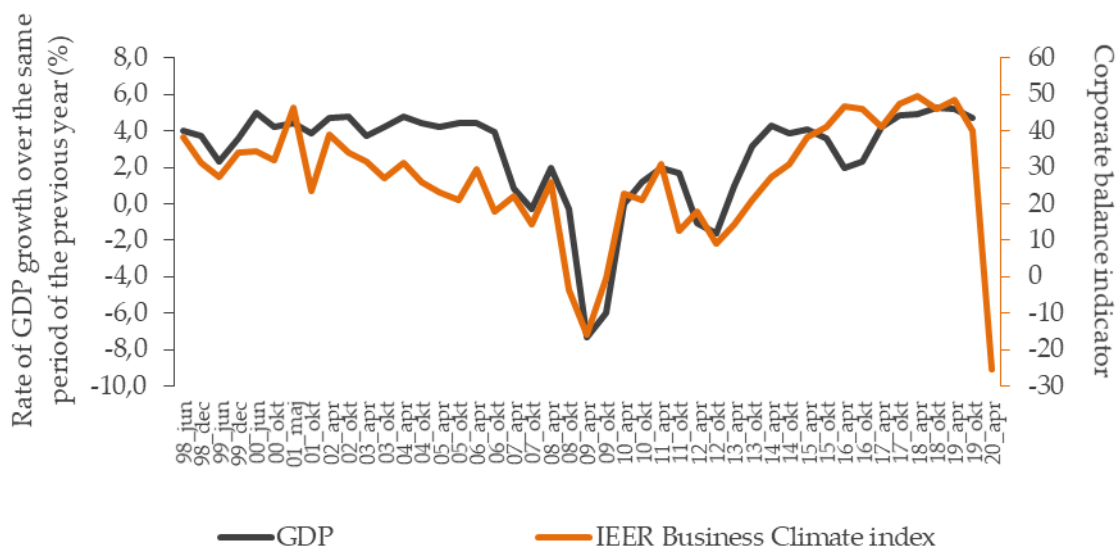
#### Results of the IEER Business Climate Survey of April 2020

The latest Business Climate Index conducted by IEER relies on the answers of 2891 CEO respondents. Answers had been registered between the 1st and the 30th of April, long before lockdown restrictions were loosened. According to our results, the Business Climate Index was at -25 points in April 2020. This has been the lowest score ever recorded (starting in 1998). Since records began, the drop of 65 points compared to October 2019 has been the most severe negative difference half-on-half.

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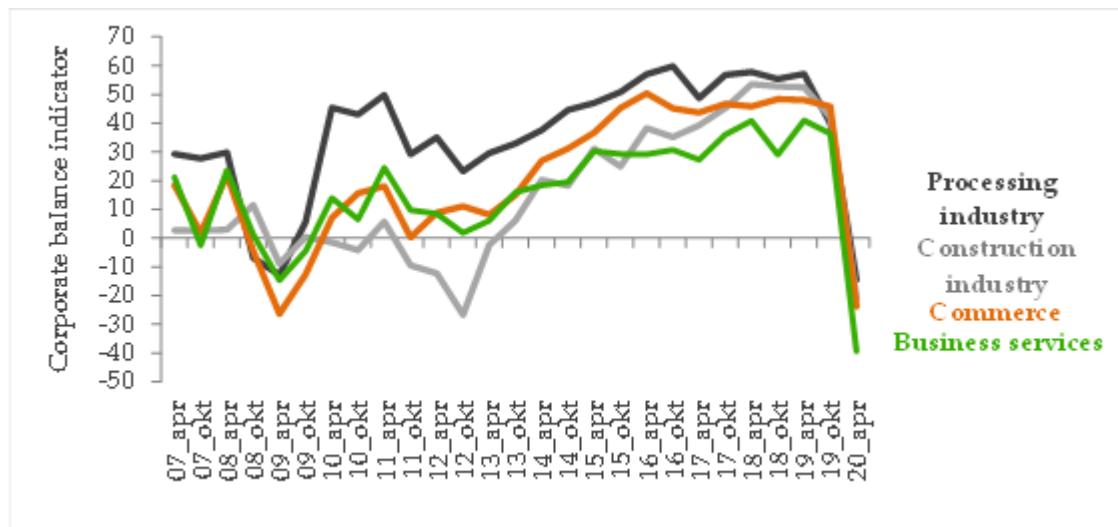
Figure 1: GDP and the IEER Business Climate Index



Source: HCSO, IEER 2020

Notes: GDP data – seasonally and calendar-adjusted, balanced data reported six-month growth rates (the same period of the previous year = 0)  
GDP: left axis, IEER Business Climate Index: right axis

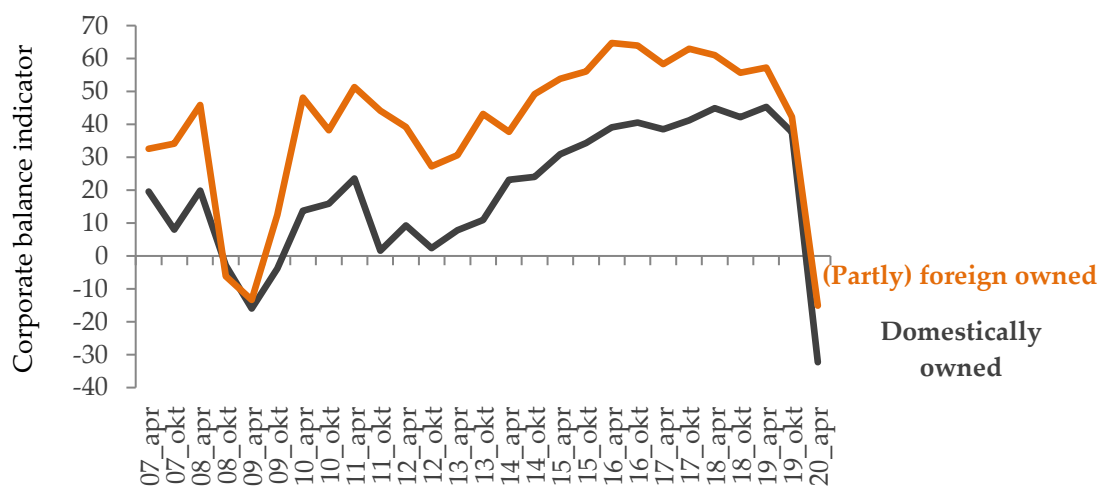
Figure 2: IEER Business Climate Index by economic sector



Source: IEER 2020

Please 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.

Figure 3: IEER Business Climate Index by ownership structure



Source: IEER 2020

Please 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 the previous half, business climate was considered much more

unfavourable by companies, which also expected a recession. This sentiment can be put

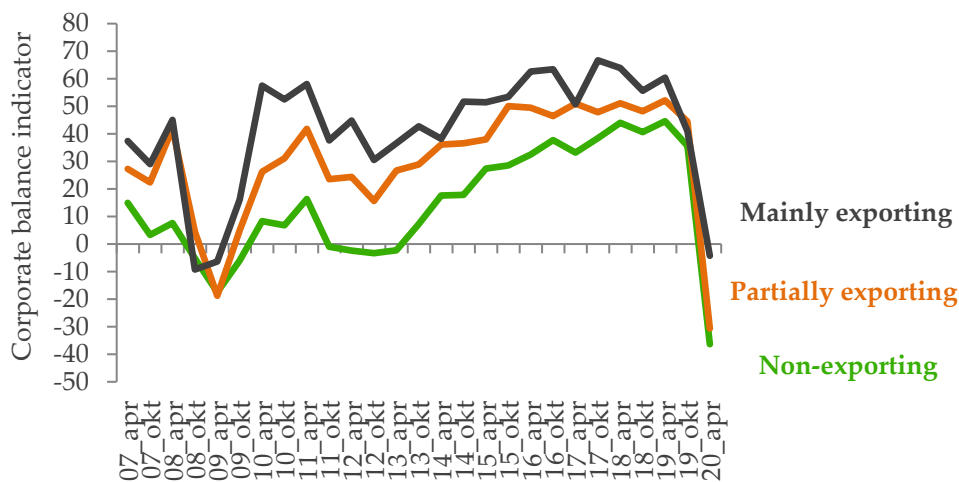
down to the pessimism developed over the previous half concerning the future business situation, investments and new orders. It was the sub indicator of expected business situation that plummeted to the greatest extent.

The Uncertainty Index, now at 60 points, jumped 14 points since October. This might mean that Hungarian companies were far less homogenous in their assessment of the business situation than previously in October.

The Business Climate Index took the highest value in the circle of processing companies, (at -14 points). As for construction companies, trading companies and business services, the respective Business Climate Index values were at -21, -24, and -39 points in April. Over the previous half, services were affected the most negatively, with a 75 points drop in the sector

since October. In commerce as well as in the construction and processing industries the drop since October was by 70, 63 and 54 points respectively. Taking a glimpse at ownership structure it is apparent that (partially) foreign companies scored much higher than domestic companies (-15 vs. -32 points). Companies of (partial) foreign ownership and fully domestic companies lost 57 points and 70 points respectively compared to the previous half. As far as exporting activity is concerned, the Business Climate Index was lower for non-exporters (-36 points) and minor exporters (-31 points) than for major exporters (-4 points). Compared to the previous half the Index dropped by 75 points among minor exporters, 72 points among non-exporters and 45 points among major exporters.

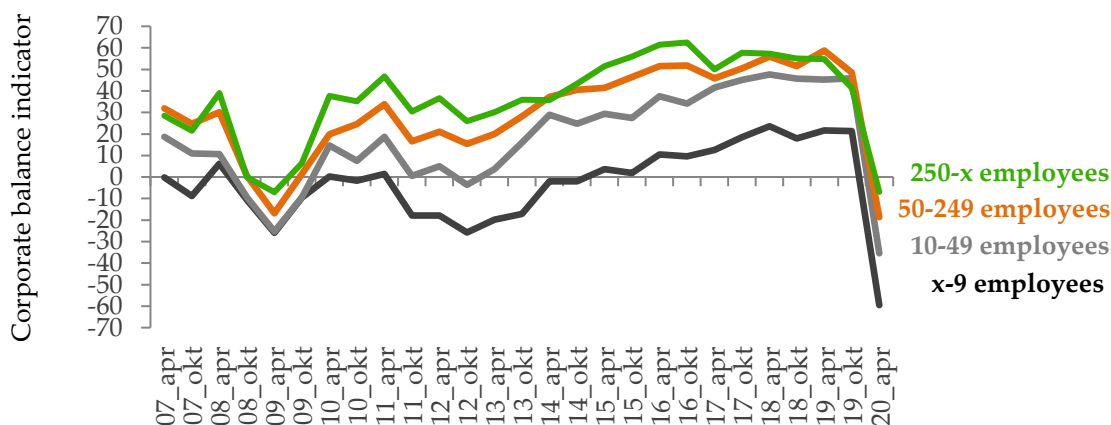
Figure 4: IEER Business Climate Index by export activity



Source: IEER 2020

Please 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.

Figure 5: IEER Business Climate Index by the number of employees



Source: IEER 2020

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Companies expectations seem to have become considerably more pessimistic regardless of company size. The Business Climate Index was -60 points for 0-9 companies, -35 points for 10-49 companies, -19 points for 50–249 companies and -7 points for 250+ companies. Since October, the Business Climate Index decreased by 48 points among 250+ companies, 67 points among 50–249 companies, and 81 points among 10-49 companies and 0-9 companies.

The deterioration of business climate was the least apparent among 250+ companies, major exporters, (partially) foreign owned companies and in the processing industry, however, in the

previous half even this group had become more pessimistic with regard to business outlook. In all categories, the Business Climate Index dropped considerably, and companies expect the situation to deteriorate in all aspects included in the survey. It is apparent that the current level of the Business Climate Index has been the lowest since records began in 1998, all throughout the industries, with the exception of 250+ companies, major exporters, construction industry and trading companies. Still, the index came close to the minimum ever measured in that industry, too.

## Economic outlook of Europe in the light of the COVID-19 pandemic

In this analysis of HCIC's Institute for Economic and Enterprise Research (IEER) based on EC and IMF data, we present, how the novel coronavirus pandemic is expected to affect the economic situation of the EU member countries. As part of public health considerations, major containment and lockdown measures were introduced all across EU countries. This has put the EU economy to a halt – although the rate of the slowing down differs among member states – a -7,4% growth rate is forecasted for the region. Although this is followed by a return at least of circa 5% in 2021, the GDP will not reach its pre-pandemic forecasted levels. According to predictions, Hungary will have a milder slump in, with a -3,1% of real GDP change.

The global coronavirus pandemic has put a strain on economies of the world, this is a phenomenon, European countries are no exception to. Although EU members in general have been quick in their response to the crisis a recession for 2020 is still inevitable.

### Forecast for the EU countries, 2020 and 2021

According to the forecast of the European Commission<sup>1</sup>, the European Union will experience a negative growth of around 7,4 percentage<sup>2</sup> in 2020, which is a major contraction very similar to, if not greater than the Great Recession of 2009. In 2021, the EU economy is expected to bounce back, with a 6.1% real GDP growth. However, this rebound is not complete, since it would leave the EU economy at a smaller GDP level than the one presented by 2019 autumn forecasts. Figure 1 shows the real GDP growth in the previous years and the forecasts for 2020 and 2021.

All major areas of EU member states' economies were hit by the corona crisis with

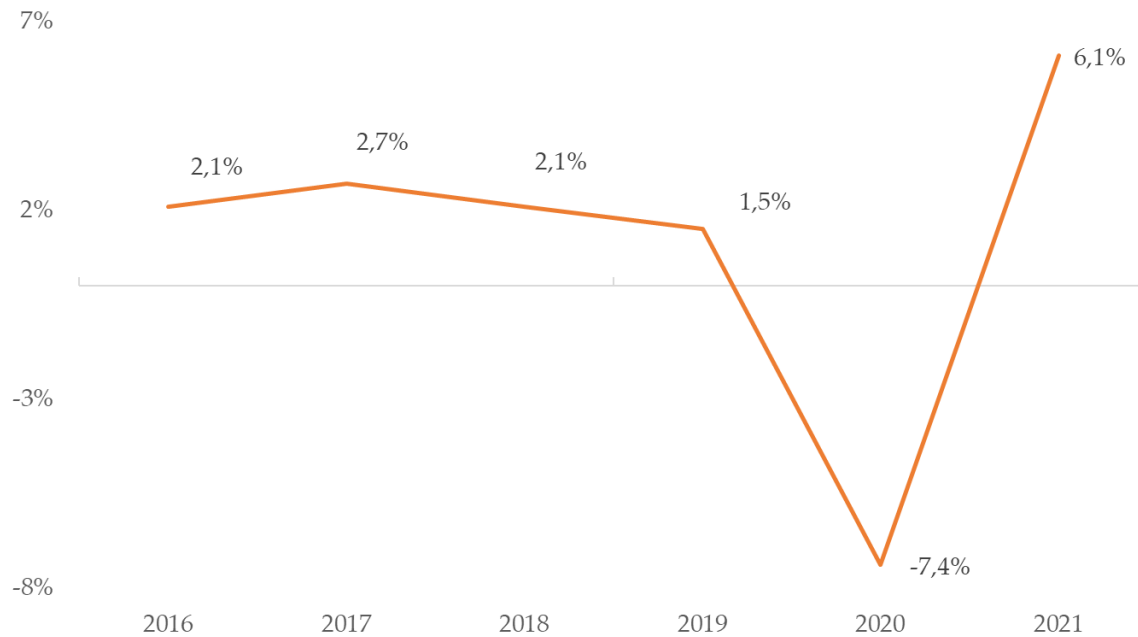
consumer spending (as consumers hold off buying big ticket items) and industrial output (as distressed firms likely to sell assets, reduce investment and employment) taking the lead. It is also clear that this crisis is affecting all member countries, with no exception, due to the interconnectedness by trade and production linkages within the EU. Despite the fact that all EU countries universally are affected by the crisis: the recovery can be potentially very asymmetrical, since it is highly dependent upon the sovereign decisions of member states. The pace of the recovery can be affected by various factors for each member state. These factors include the following: how severely is a country hit by the pandemic, how rigorous are the containment and lockdown measures, the extent of the exposure of its domestic economy, initial level of economic development etc. Due to these differences, an asynchronized recovery of countries might happen within the region, which would make returning to normal more difficult for the entire EU

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<sup>1</sup> European Economic Forecast, Spring 2020, [https://ec.europa.eu/info/sites/info/files/economy-finance/ip125\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf)

<sup>2</sup> Percentage change on previous year

Figure 1: Real GDP growth in the European Union, compared to previous year, in percentage



Source: EC Europa, 2020

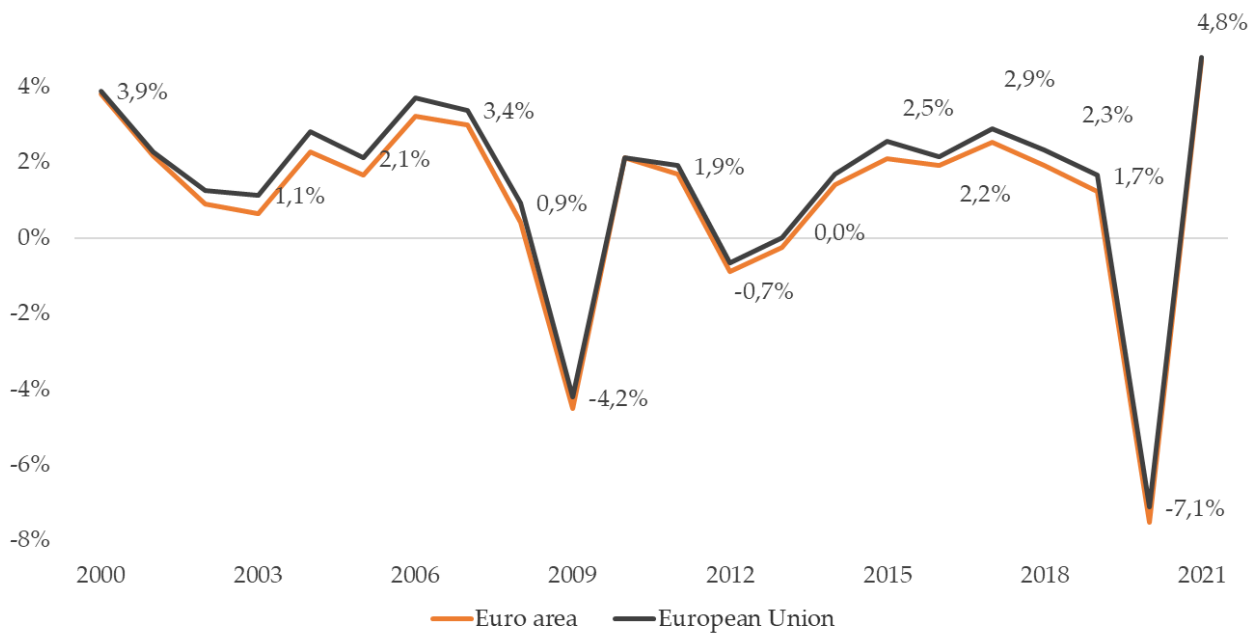
The forecast of the International Monetary Fund<sup>3</sup> shows similar prospects for the European Union and the Euro Area. Historical data also corroborates the prediction of the EC, namely that the drop in terms of real GDP growth is expected to be larger than it was during the 2009 recession. However, in this scenario, the growth predicted for 2021 is not as high as in the forecast of the European Commission (4,8% versus 6,1%) According to

the IMF, the recovery is more unpredictable, due to a number of reasons<sup>4</sup>: protracted uncertainty about the contagion, business and consumer confidence failing to improve, tightening financial markets due to a lower investor risk tolerance and permanent shifts in firm and household behavior even with the pandemic passing. All these factors result in a more pessimistic outlook, which is demonstrated by Figure 2.

<sup>3</sup> World Economic Outlook Database, April 2020  
<https://www.imf.org/external/pubs/ft/weo/2020/01/weo/data/index.aspx>

<sup>4</sup> World Economic Outlook Reports, April 2020: The Great Lockdown  
<https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

Figure 2: Real GDP growth in the European Union and Euro area, in percentage



Source: IMF, 2020

### A closer look: economies more directly affecting Hungary

When it comes to France and Germany, being amongst the largest economies of the European Union, the pattern is very similar. In 2019, Germany's growth was not as dynamic as the EU-average, although the coronavirus crisis seems to affect the country to a slightly lesser degree (-7,0%), and also the rebound is more powerful in comparison to the rest of the EU. In France, the negative effects of the

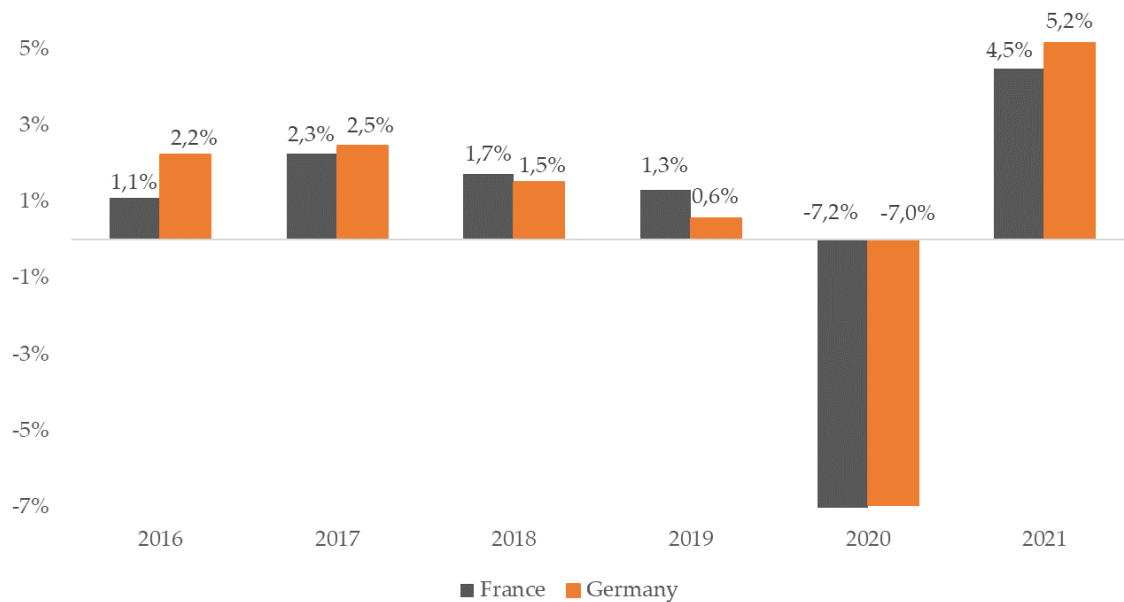
pandemic are more accentuated and the return to normal in the year 2021 is also not as articulate as in the case of Germany. (4,5% compared to 5,2%, as it can be seen in Figure 3). The reasons for this are manifold; however, a generally higher growth path of Germany in the last ten years and a generous rescue package of 750 billion euros can be highlighted.<sup>5</sup>

<sup>5</sup> Reuters, Germany launches 750 billion euro package to fight coronavirus  
[https://www.reuters.com/article/us-health-coronavirus-](https://www.reuters.com/article/us-health-coronavirus-germany-budget/germany-launches-750-billion-euro-package-to-fight-coronavirus-idUSKBN21A2XU)

[germany-budget/germany-launches-750-billion-euro-package-to-fight-coronavirus-idUSKBN21A2XU](https://www.reuters.com/article/us-health-coronavirus-germany-budget/germany-launches-750-billion-euro-package-to-fight-coronavirus-idUSKBN21A2XU)



Figure 3: Real GDP growth in France and Germany, in percentage



Source: IMF, 2020

From the point view of the Hungarian economy, there are specific countries which play an important role. These are the other countries within the EU, besides France and Germany, with which Hungary maintains strong trade linkages, i.e.: the top destination countries for Hungarian export activities.<sup>6</sup> These are Austria, Italy, Poland, Romania and the Slovak Republic. Austria’s economic situation is similar to that of France, Germany and the EU-average, with a 7% negative growth by the end of 2020 and 4,5% positive change in 2021. The recoil of economic growth is the most intensive in the case of Italy, with a value of -9,1% for real GDP growth for the

year 2020. The following year shows an average growth rate, in comparison to the EU-average (4.8%, see Table 1.)

In Table 1, it is also can be seen, that Hungary is forecasted to have a smaller drop in the growth rate by the end of this year in comparison to its trade partners – only -3,1%, which is only the one-third of what can be seen in the case of Italy. However, as Hungary is a relatively small and open economy it is also expected that the rate of the recovery will be affected by the economic health and resilience of other European countries, and mostly by its trade partners.

<sup>6</sup> Based on Hungarian Statistical Office data  
[https://www.ksh.hu/docs/eng/xstadat/xstadat\\_annual/i\\_qkt019d.html](https://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qkt019d.html)



Table 1: Real GDP growth in the top export partners of Hungary, amongst the EU countries

	Austria	Hungary	Italy	Poland	Romania	Slovak Republic
2019	1,6%	4,9%	0,3%	4,1%	4,1%	2,3%
2020	-7,0%	-3,1%	-9,1%	-4,6%	-5,0%	-6,2%
2021	4,5%	4,2%	4,8%	4,2%	3,9%	5,0%

Source: IMF, 2020

## 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)	6.3%	6.2%	5.8%
Germany	Manufacturing Purchasing Managers Index	(May)	36.6	36.8	34.5
	IFO Business Climate Index <sup>1</sup>	(May)	79.5	80.1	74.2
France	INSEE Business Climate Index <sup>2</sup>	(May)	63.7		59.9
	Unemployment Rate	(May)	13.3%	19.7%	14.7%
USA	CB Consumer Confidence Index	(May)	86.6	88.0	85.7
	Manufacturing Purchasing Managers Index	(May)	39.8	38.0	36.1
China	Manufacturing Purchasing Managers Index	(May)	50.6	51.0	50.8

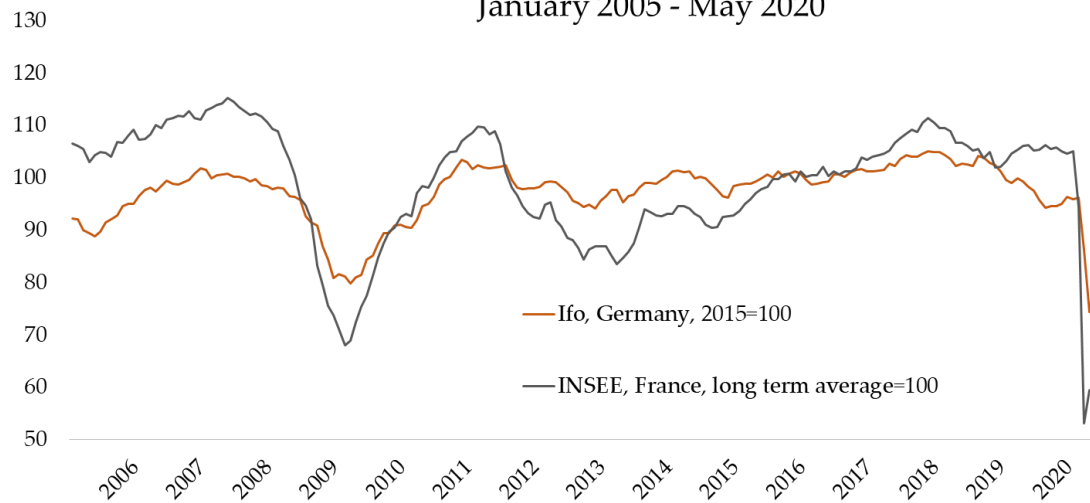
<sup>1</sup><https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

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

In Germany, the IFO business climate index has slightly increased, compared to last month. The manufacturing purchasing manager index (PMI) has also demonstrated a slight increase. Unemployment rate worsens for Germany, performing around the same figure than it was expected. The French INSEE business climate index has ameliorated, compared to last month. In the United States, the CB consumer confidence index increased slightly compared to the month prior, however it performed worse than expected. The manufacturing PMI has increased, doing a better than expected. The unemployment rate has ameliorated slightly. The Chinese manufacturing PMI is similar to its April value, doing a bit worse than expected.

Business confidence in Germany and France,  
based on the Ifo and INSEE business climate survey,  
January 2005 - May 2020



Sources: [www.ifo.de](http://www.ifo.de), [www.insee.fr](http://www.insee.fr)

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