



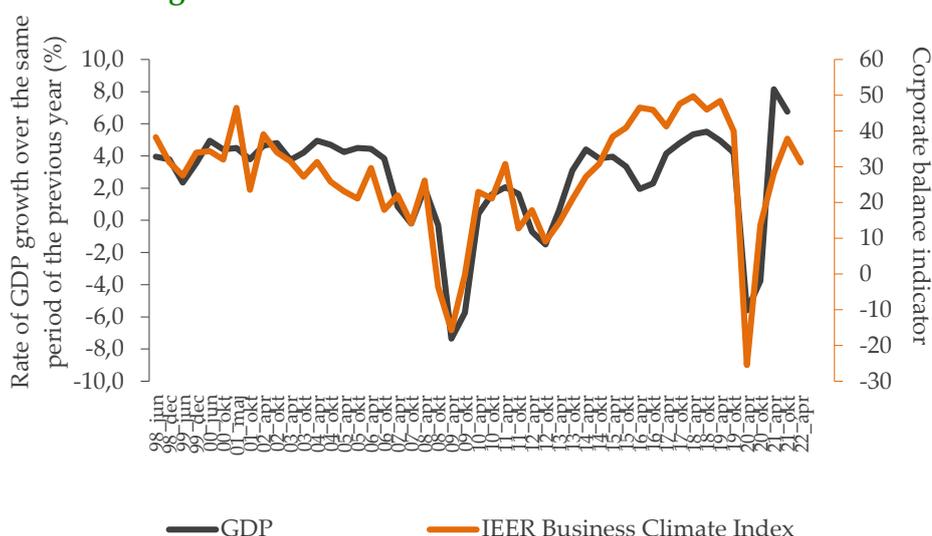
### Deteriorating business situation, uncertain expectations Results of the Business Climate Survey of IEER of April 2022

The April Business Climate Survey conducted by IEER is based on the answers of 2227 CEO respondents. Data were collected between the 1st and 30th April. The aim of IEER's Business Climate Survey was to map the current, short-term business expectations of CEOs based on their subjective assessment of the situation as well as on information available to them at the time of the survey.

The IEER Business Climate Index fell from +38 points in October to +31 points in April. After the historic -25 points scored in April 2020 (the lowest score since records began in 1998) the Index virtually climbed back to the level of the last survey conducted before the pandemic in October 2019 (+40 points). However, compared to the previous six months, it slipped downwards again.

The Uncertainty Index shot up compared to October 2021 and currently stands at 53 points. This suggests that the situation of Hungarian businesses remains polarised, with significant differences in the assessment of the business situation across business categories.

**Figure 1.: GDP and IEER Business Climate Index**



	Apr. 2020	Oct. 2020	Apr. 2021	Oct. 2021	Apr. 2022
GDP	-5.6	-3.8	8.2	6.8	
IEER Business Climate Index	-25.5	13.7	28.2	37.8	31.2

Source: HCSO, IEER 2022

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

### **IEER Business Climate Index by company features**

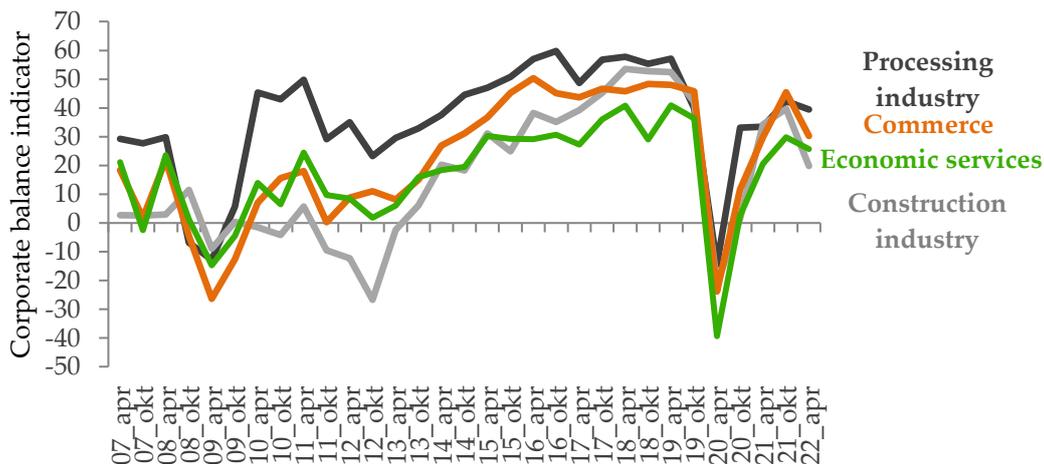
The Business Climate Index got the highest score in processing industry (+39 points), followed by trade (+30 points), services (+26 points), and construction industry (+20 points). The most significant change compared to the previous half year period occurred in the construction industry, where the indicator fell by 20 points compared to October. Trading companies scored 15 points lower than in October, while services and processing industry were down 4 and 3 points, respectively.

Regarding ownership structure we can see that the Business Climate Index was higher for companies of (partial) foreign ownership (+42 points) than fully domestic companies (+26 points). Compared to the previous six months, the Business Climate Index decreased by 9 points for companies of (partial) foreign ownership and by 6 points for fully domestic businesses.

By exporting activity, the Business Climate Index was lower for non-exporters (+21 points) than for minor exporters (+37 points) and major exporters (+42 points). The indicator decreased by 9 points for non-exporters, by 8 points for major exporters and by 7 points for minor exporters compared to the previous six months.

The analysis by company size shows that companies' expectations have deteriorated in all size categories. The Business Climate Index was +1 point for companies with fewer than 10 employees, +25 points for companies with 10-49 employees, +39 points for companies with 50-249 employees and +45 points for companies with 250+ employees. Over the past six months, the Business Climate Index decreased by 9 points for the largest companies, 7 points for 10-49 companies, 6 points for companies with fewer than 10 employees and 5 points for 50-249 companies.

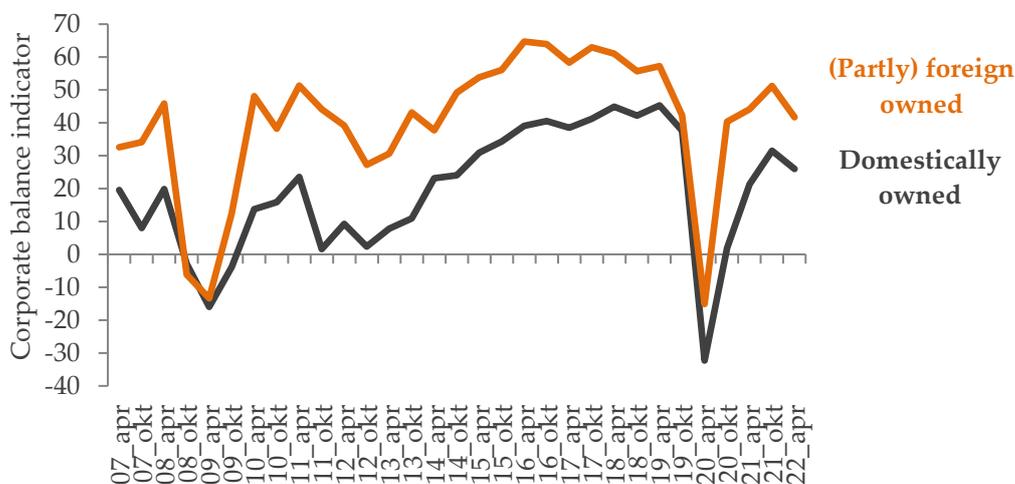
Figure 2.: IEER Business Climate Index by economic sector



Source: IEER 2022

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.

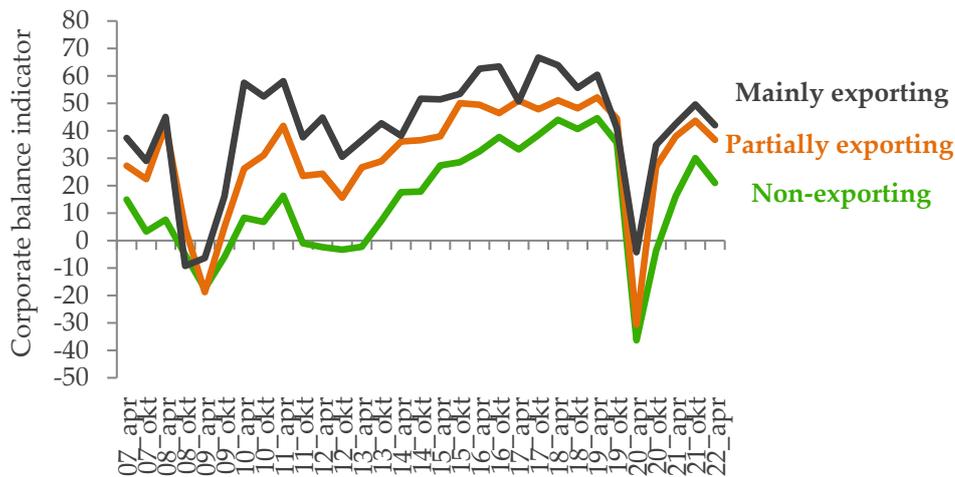
Figure 3.: IEER Business Climate Index by ownership structure



Source: IEER 2022

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.

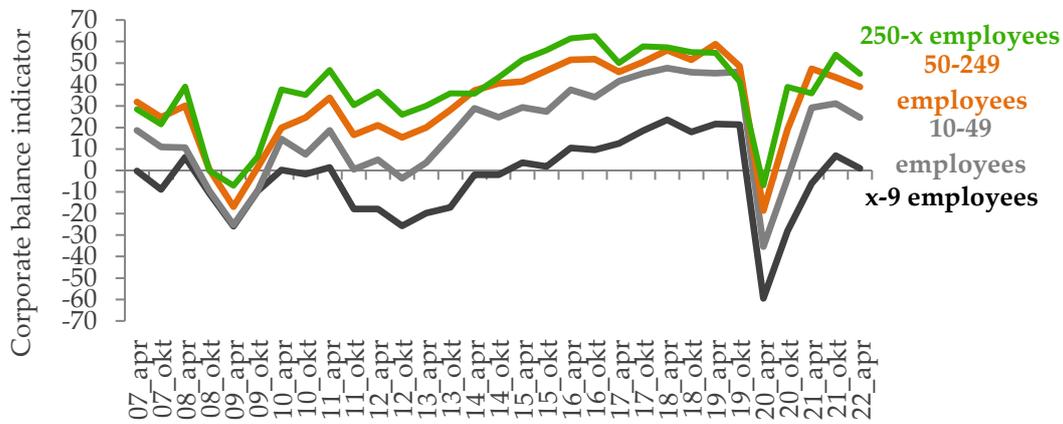
Figure 4: IEER Business Climate Index by export activity



Source: IEER 2022

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 2022

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.

## MBET May 2022

The most favourable business climate is expected by large companies, companies in processing industry, exporters and businesses of (partial) foreign ownership. Although no business segment has a foresight to recession, stagnation is expected by the smallest companies with fewer than 10 employees, while non-exporters and construction firms also have significantly less favourable prospects than their competitors in other segments.

Compared to the data recorded in 2018-2019 prior to the outbreak of the coronavirus pandemic, the Business Climate Index is now lower again in most categories, with the exception of major exporters and large companies, for which the April 2022 Business Climate Index is higher than those measured in the last pre-pandemic survey in October 2019.

## Most Hungarian businesses feel the effects of war

### The impact of the Russo-Ukrainian war on Hungarian businesses

In the present research conducted by the HCCI Institute for Economic and Enterprise Research (IEER) 2,227 domestic businesses were surveyed on the impact of the Russo-Ukrainian war on their business. The data was taken from the IEER half-year business climate survey of April 2022.<sup>1</sup>

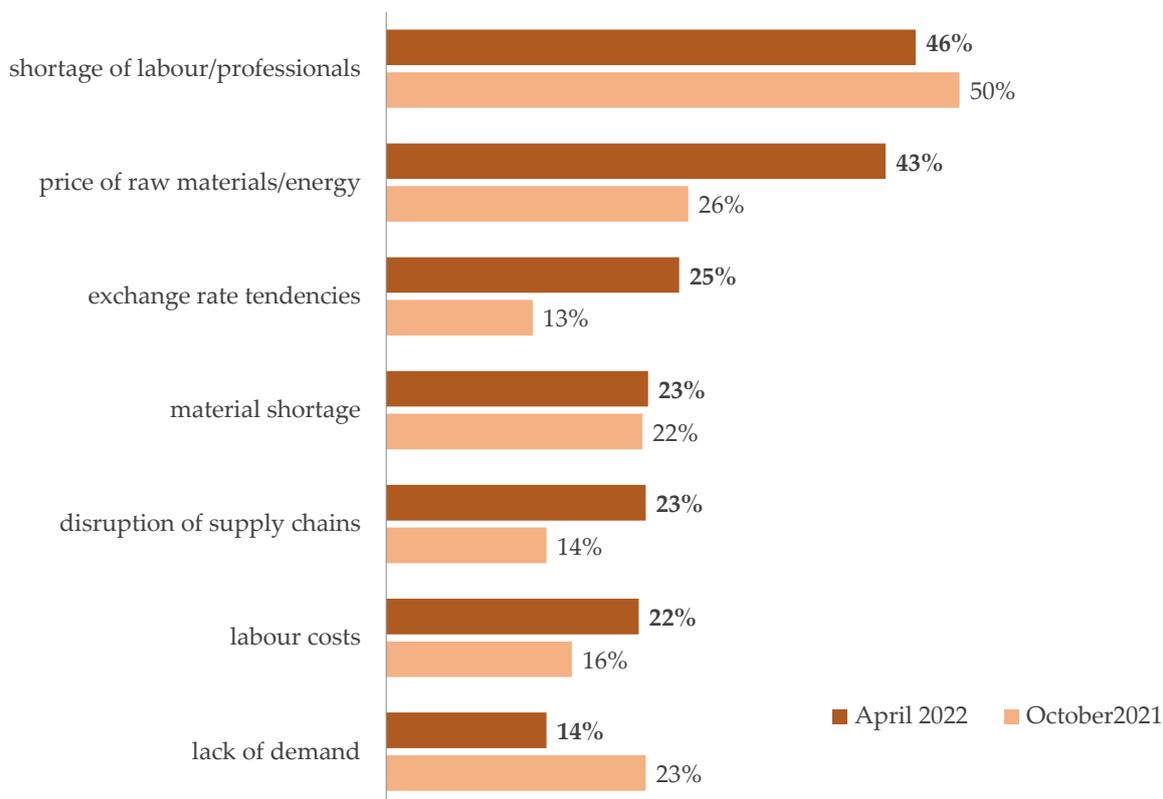
The outbreak of the war between Russia and Ukraine has profoundly reshaped the business landscape. In the examined period (from October 2019 to April 2022), it was in April 2022 that most companies (92%) encountered factors hindering their business activity. Compared to the previous six months, the proportion of companies that cited labour shortage as a barrier to pursuing business remained high (46%), while there

was a significant increase in the proportion of firms citing high raw material and energy prices (from 26% to 43%), altered exchange rates (from 13% to 25%) and supply chain disruptions (from 14% to 23%). Material shortage also remained a significant problem (23%) and the proportion of respondents citing higher labour costs as a hindering factor also increased (22%).

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<sup>1</sup> The sample of respondents can be considered representative in terms of contribution to GDP, region, and the number of employees. The distributions calculated in the analysis are distorted by weighting, so they do not reflect the basic distribution of respondents: firms with a larger economic output appear to be far more pronounced than firms with a smaller economic output.

**Figure 1. Factors hampering Hungarian business activity in the previous half, April 2022 and October 2021**



Source: IEER 2022

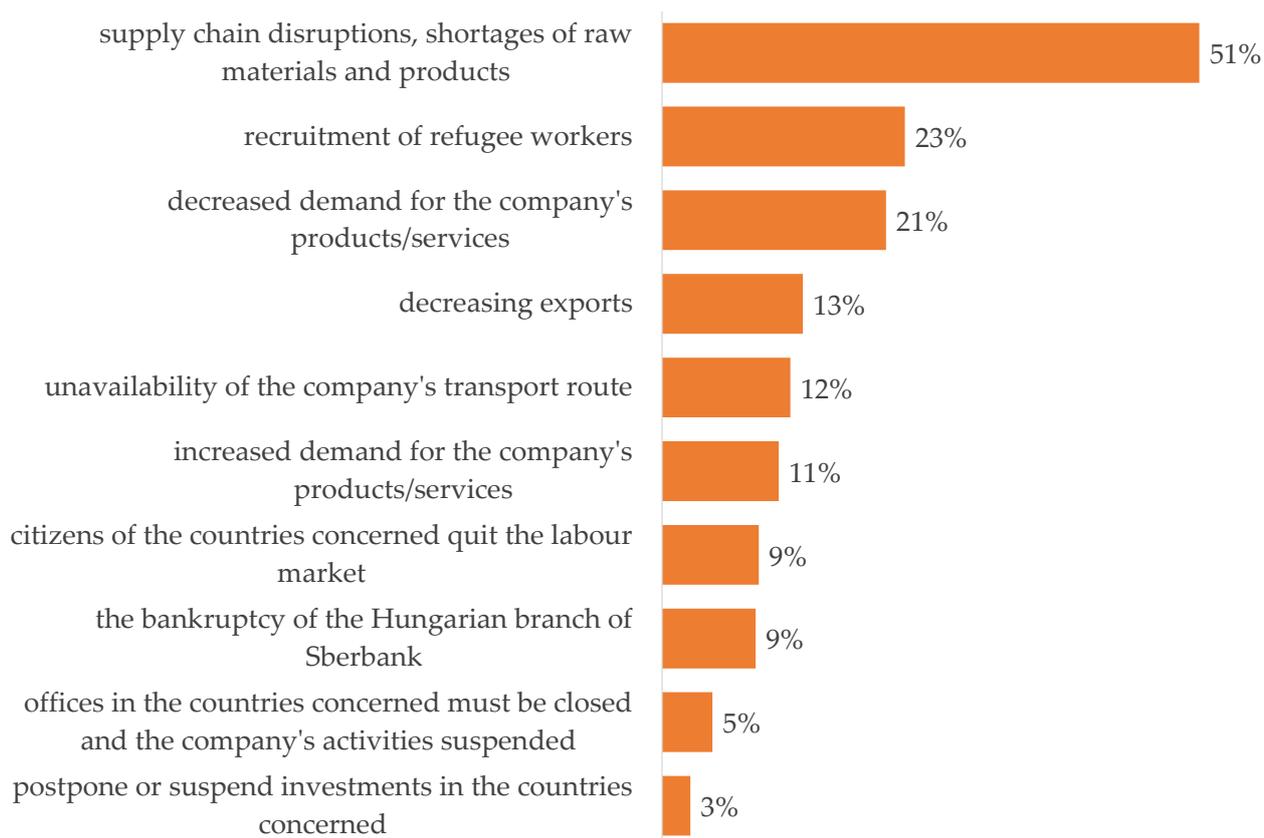
Note: N<sub>2021.Oct.</sub>=2198, N<sub>2022.Apr.</sub>=2212

As of April 2022, 96% of respondents expected some kind of difficulty for the next six months, an other salient figure for the surveyed period. Compared to the results of the previous (October 2021) IEER half year business climate survey, there has been a significant increase in the proportion of CEOs expecting high raw material and energy prices (54%), material shortages (31%), surging exchange rates (23%) and disruptions to supply chains (21%), while there has been a slight decrease in the proportion of those expecting labour shortages (43%) and falling demand (17%). This shows that in April 2022 a considerably higher proportion of companies believe that raw material and energy prices (11 percentage

points difference compared to the previous half) and material shortages (difference: 9 percentage points) will hinder their business in the next six months.

Three quarters of our respondents (75%) reportedly faced direct or indirect war impacts of some sort. Among the negative impacts on Hungarian businesses, the disruption of supply chains (and as a result, shortages of raw materials and products) was the most common (51%), followed by reduced demand (21%). For some companies, the recruitment or planned recruitment of refugee workers (23%) and increased demand (11%) were also mentioned as war impacts.

**Figure 2. Impacts of the Russo-Ukrainian war on Hungarian businesses**



Source: IEER 2022

Note: N=2227

Regarding size, sector, ownership background and exporting/importing activity involving Russia and/or Ukraine, enterprises are affected by several of the war impacts at a highly varying frequency.

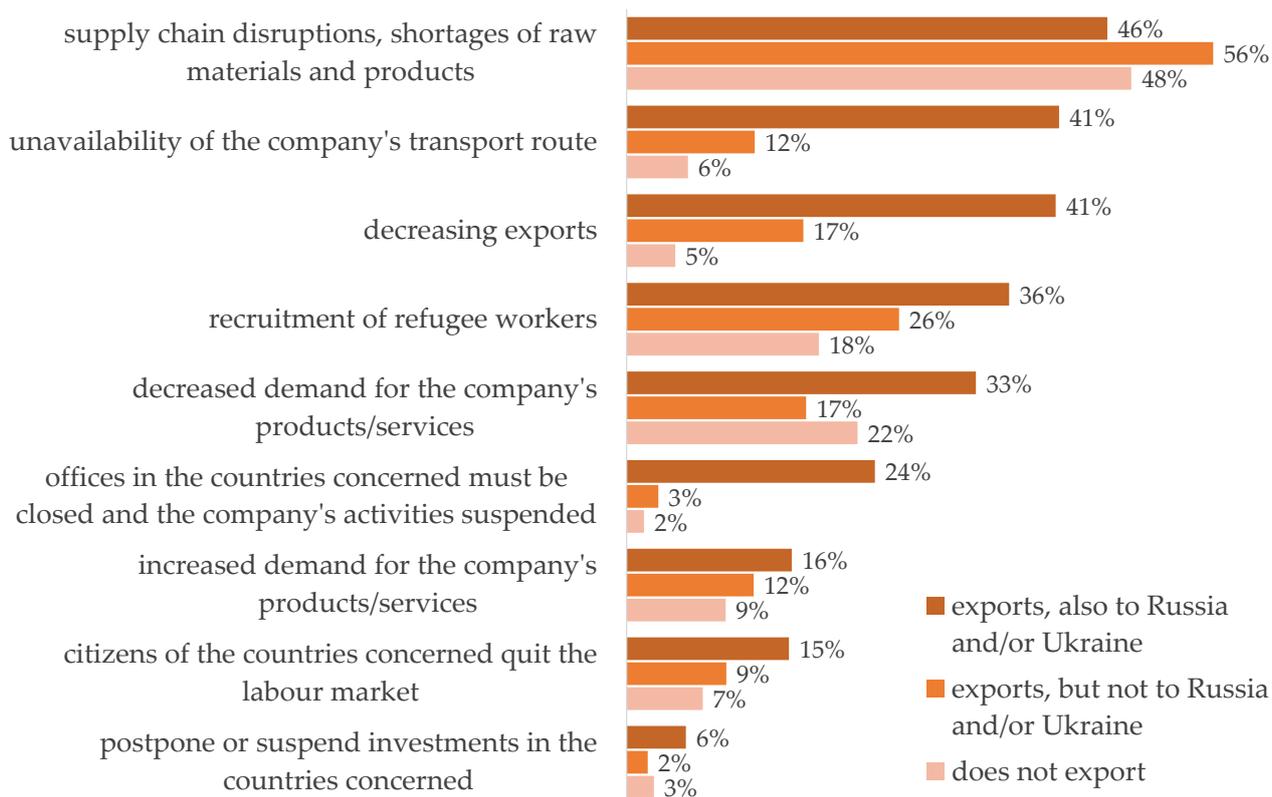
In general, the larger the company the more frequently it faces most of the effects, i.e. the effects of the war is more likely to affect large Hungarian companies.

Across sectors, supply chain disruption (69%) and falling demand (31%) affect trading companies the most, while service providers are mostly affected by falling exports (19%) and the inability to access transport routes (19%). In addition, war-related impacts,

except for supply chain disruption, more commonly affect companies of (partial) foreign ownership than fully domestic firms.

The majority of the listed impacts affect exporters at a significantly higher rate. All impacts, except for the disruption of supply chains, are particularly pronounced for firms exporting to Russia and/or Ukraine (11%). Vanishing supply routes (41%), reduced exports (41%) and falling demand (33%) significantly affect firms exporting to these countries, but there is also a high proportion of firms that have suspended their activities or shut down branches in the countries concerned (24%).

Figure 3. Impacts of the Russo-Ukrainian war: Hungarian exporters



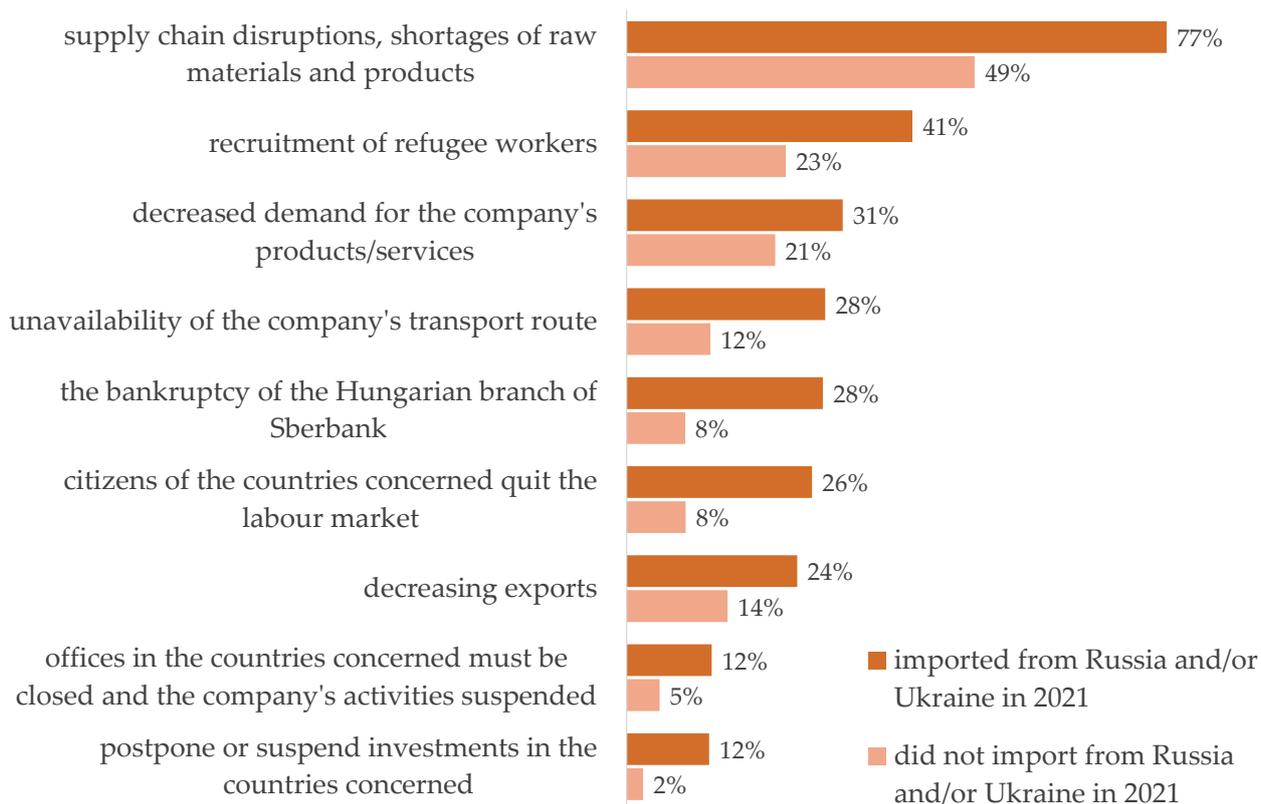
Source: IEER 2022

Note: N=2039

All these effects occur at a significantly greater rate than the average for companies importing from Russia and/or Ukraine (6%). The vast majority (77%) of businesses experience a disruption of supply chains, and a large proportion (24-31%) of companies are struggling with difficulties caused by reduced

demand, the disappearance of transport routes, the bankruptcy of the Hungarian branch of Sberbank, the loss of jobs of the citizens concerned and falling exports. Companies are also highly affected by the suspension of investments (12%) or activities (12%) in the two countries.

Figure 4. Impacts of the Russo-Ukraine war: Hungarian importers from Russia and/or Ukraine



Source: IEER 2022

Note: N=2118

Although Hungarian companies are highly affected by the war, under the current circumstances the majority of managers do not consider it at all likely that their firms will be forced to reduce capacity utilisation or shut down completely in the next six months.

However, the chances of capacity utilisation being reduced are higher for companies importing from Russia and/or Ukraine, while firms exporting to Russia and/or Ukraine are the most likely to believe that they may well shut down completely

## 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)	5.0%	5.0%	5.0%
Germany	Manufacturing Purchasing Managers Index	(May)	54.8	54.7	54.6
	IFO Business Climate Index <sup>1</sup>	(May)	93.0	86.9	91.9
France	INSEE Business Climate Index <sup>2</sup>	(May)	105.6		105.5
	Unemployment Rate	(May)	3.6%	3.5%	3.6%
USA	CB Consumer Confidence Index	(May)	106.4	103.9	108.6
	Manufacturing Purchasing Managers Index	(May)	57.0	57.5	59.2
China	Manufacturing Purchasing Managers Index	(April)	49.6	48.0	47.4

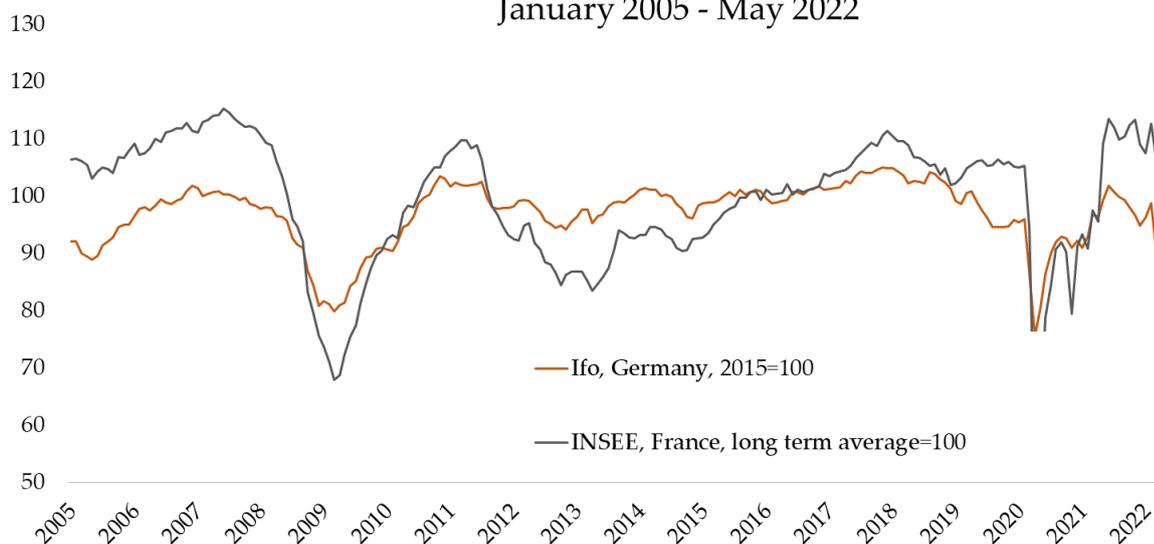
<sup>1</sup> <https://www.ifo.de/en/survey/ifo-business-climate-index>

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

The rest of the data source: <https://www.bloomberg.com/markets/economic-calendar>

In Germany, the IFO business climate index increased compared to April. The manufacturing purchasing manager index (PMI) also increased compared to previous period. Unemployment rate remained the same for Germany. The French INSEE business climate index increased slightly compared to last month. In the United States, the CB consumer confidence index decreased compared to the month prior, but it performed better than expected. The manufacturing PMI also decreased compared to April in the USA. The unemployment rate remained the same compared to the previous month. The Chinese manufacturing PMI increased compared to April.

Business confidence in Germany and France,  
based on the Ifo and INSEE business climate survey,  
January 2005 - May 2022



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

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