

Monthly Bulletin of Economic Trends

Deteriorating business situation, uncertain expectations

The October Business Climate Survey of Institute for Economic and Enterprise Research (IEER) is based on the responses of 1 825 CEOs. The data was collected between 1 and 31 October. The goal of the survey is to map the current short-term business expectations of business executives, based on the information available to them at the time ...[More](#)

The financial situation of businesses (October 2023)

In the past six months, 73 percent of micro, small and medium-sized enterprises were profitable, while 75 percent of firms expected to be profitable in the next six months.

39% of domestic SMEs rely on at least one public or market-based external financing source in their operations... [More](#)

Year-end bonuses among Hungarian companies

A quarter (26%) of companies in the competitive sector plan to give their employees a year-end bonus - this is particularly common with larger, (partially) foreign- owned firms in manufacturing and trade.

The overwhelming majority (83%) of companies that have a Christmas bonus scheme give their employees ...[More](#)

International trends

In Germany, the IFO business climate index increased compared to October. The manufacturing purchasing manager index (PMI) also increased compared to the previous period. The unemployment rate worsened in Germany compared to the last month. The French INSEE business climate index decreased compared to the month prior. In the United States, the CB consumer confidence ...[More](#)

*We wish all our readers a merry Christmas and a happy
New Year!*

DETERIORATING BUSINESS SITUATION, UNCERTAIN EXPECTATIONS RESULTS OF THE OCTOBER 2023 BUSINESS CLIMATE SURVEY

The October Business Climate Survey of Institute for Economic and Enterprise Research (IEER) is based on the responses of 1,825 CEOs. The data was collected between 1 and 31 October. The goal of the survey is to map the current short-term business expectations of business executives, based on the information available to them at the time of the survey, and their subjective assessment of the business situation.

The IEER Business Climate Index fell from +24 points in April to +19 points in October. The indicator, having climbed back from its all-time low of -25 points in April 2020 to pre-pandemic levels (+40 points in October 2019) in one and a half years, fell again significantly in the second half of 2022, partly counterbalanced by a rise in spring 2023. Despite the current decrease, the indicator remains significantly higher than in the same period of the previous year. A more pessimistic outlook is mainly observed by small and medium-sized enterprises in autumn 2023.

The Uncertainty Indicator remained virtually unchanged compared to April 2023, currently standing at 55 points. This suggests that the business situation assessment of Hungarian enterprises is still highly polarised, i.e. there are significant differences in the assessment of enterprises with regard to company categories.

In general, businesses are more pessimistic about the business climate than in the previous six months, but their expectations remain highly diverse depending on which business category they fall into. Overall, forecasts for the expected level of orders

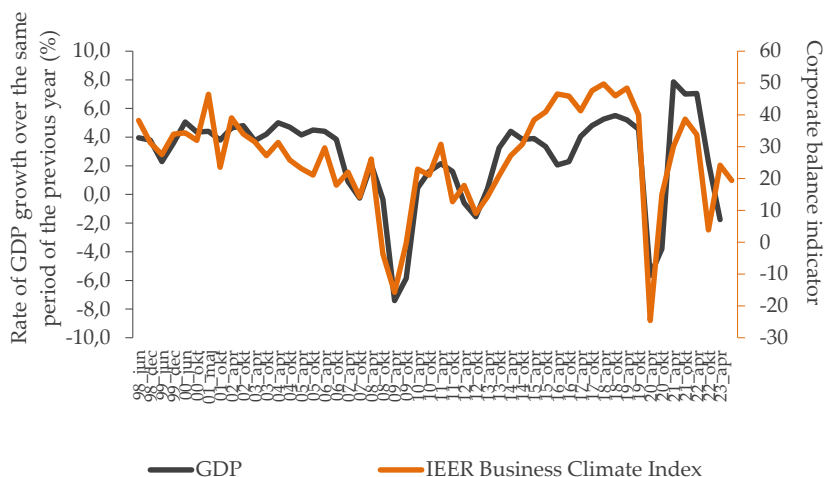
and investment have become significantly more negative over the last six months, while the assessment of the expected business climate remained unchanged.

IEER Business Climate Index by company features

The Business Climate Index is the highest for manufacturing (+29 points), whereas it's at +19 points for services, +10 points for trade, and -4 points for construction. The most significant shift compared to the previous half was in distributive trade, where the indicator fell by 9 points compared to April. Manufacturing and construction are down 5-5 and services are down 2 points compared to April.

Looking at ownership structure, we see that the Business Climate Index is significantly higher for (partially) foreign-owned firms (+39 points) compared to fully domestic firms (+11 points). Compared to the previous half, the Business Climate Index decreased by 1 point for (partially) foreign-owned companies and by 6 points for fully domestic-owned firms.

Figure 1: GDP and the IEER Business Climate Index



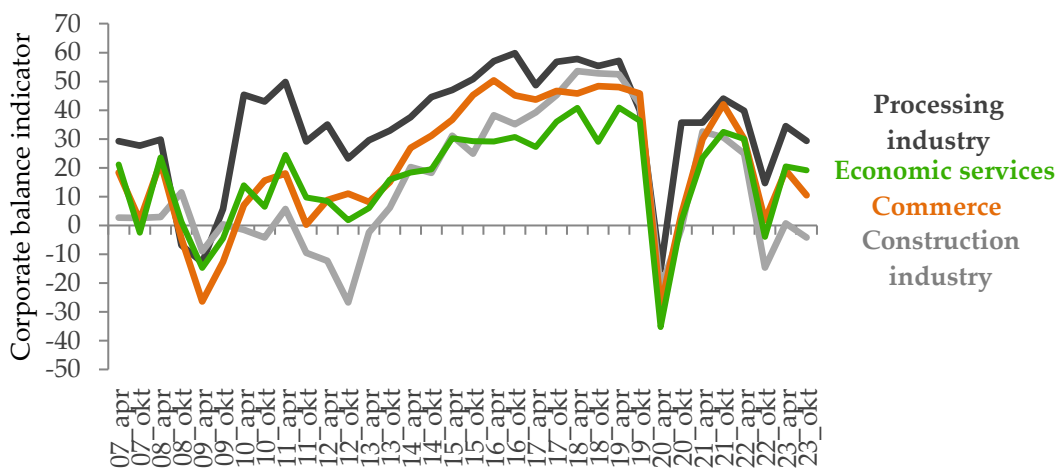
	Oct. 2021	Apr. 2022	Oct. 2022	Apr. 2023	Oct. 2023
GDP	7.0	7.1	2.3	-1.8	
IEER Business Climate Index	38.7	33.8	3.9	24.2	19.4

Source: HCSO, IEER 2023

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

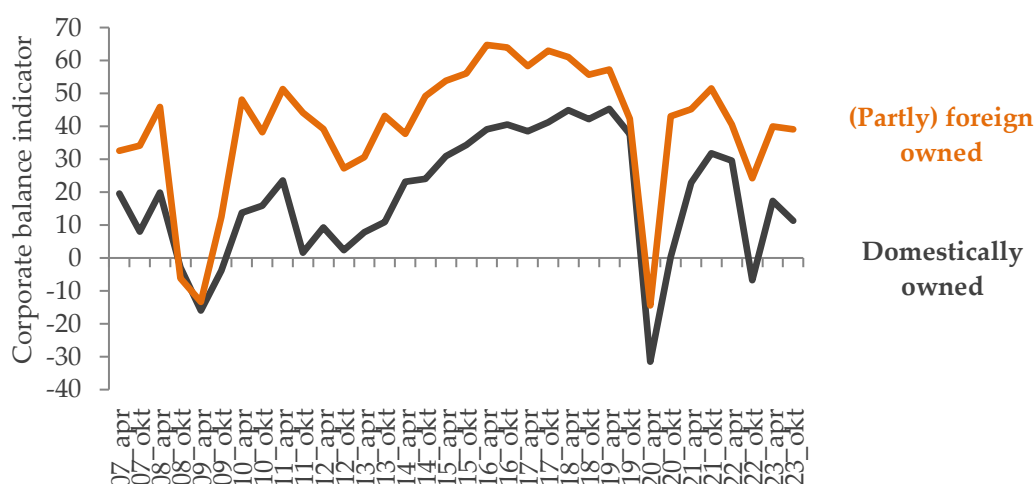
Figure 2. The IEER Business Climate Index by economic sector



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

Figure 3. The IEER Business Climate Index by ownership structure



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

By export activity, the Business Climate Index is lower for non-exporters (+9 points) than for minor exporters (+12 points) and major exporters (+39 points). The indicator decreased by 16 points for minor exporters, by 2 points for major exporters, and by 1 point for non-exporters compared to the previous half.

The analysis by company size shows that firms' expectations have deteriorated or stagnated in all size categories. The Business Climate Index is -10 points for firms with fewer than 10 employees, +7 points for companies with 10-49 employees, +17 points for companies with 50-249 employees, and +41 points for large companies with 250+ employees. Over the past six months, the Business Climate Index fell by 13 points in the 50-249 category, 4 points in the 10-49 category, and by 2 points in the 250+ category compared to April, while the Business Climate Index

rose by 1 point in the category of the smallest companies.

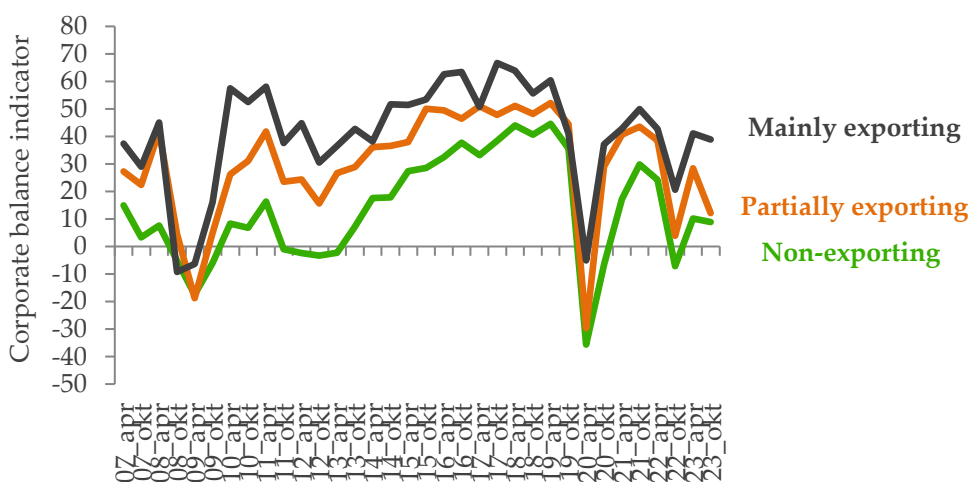
A deterioration or stagnation in the perception of business climate is a general trend across all segments surveyed, but the assessment of the expected situation still varies greatly when company categories are considered. Under current conditions, the most favourable business climate is expected by large companies, predominantly exporters, (partially) foreign-owned companies, and manufacturers. In contrast, the Business Climate Index is negative for micro-enterprises with fewer than 10 employees and construction companies, indicating recessionary expectations in those segments. In addition, the Business Climate Index is significantly below average in distributive trades among enterprises that sell exclusively or in part domestically. Similar tendencies can be observed among

small, 10-49 companies and fully domestic businesses.

According to the October 2022 survey, the business climate in all categories was only more positive than the lows of the 2008 global economic crisis and the 2020 coronavirus pandemic. Apart from those, the most negative sentiment over a period was recorded last autumn. In comparison, expectations remain significantly more

positive across all segments of the economy for the second half of 2023 and early 2024, but firms' assessments of the situation are more negative compared to spring 2023. Prior to the current wave of data, the last time firms gave a similar assessment of their outlook was in 2013, with the exception of the first and second waves of the coronavirus pandemic and the energy crisis.

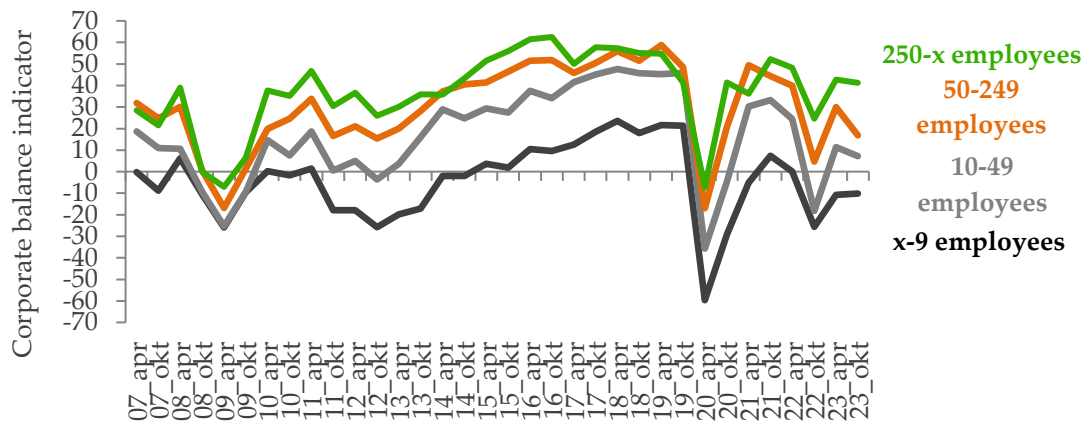
Figure 4. The IEER Business Climate Index by exporting activity



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

Figure 5. The IEER Business Climate Index by company size



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

THE FINANCIAL SITUATION OF BUSINESSES (OCTOBER 2023)

In this analysis we examine the perception of the financial situation of SMEs in terms of profitability and the use of external financing sources. The analysis also examines the tendencies of Hungarian firms' perceptions of the risk of bankruptcy - complemented by data from large firms. The data used in the analysis are taken from the latest biannual business survey of the Institute for Economic and Enterprise Research (IEER). In the October 2023 survey a total of 1,825 CEOs reported on how their company's financial situation had evolved.

Company profitability

In the past six months, 73 percent of micro, small and medium-sized enterprises were profitable, while 75 percent of firms expected to be profitable in the next six months.

The majority of companies were profitable in all size categories, but firms with fewer than 10 employees (69%) were significantly less profitable than larger firms (77% of 10-49 companies and 75% of 50-249 companies).

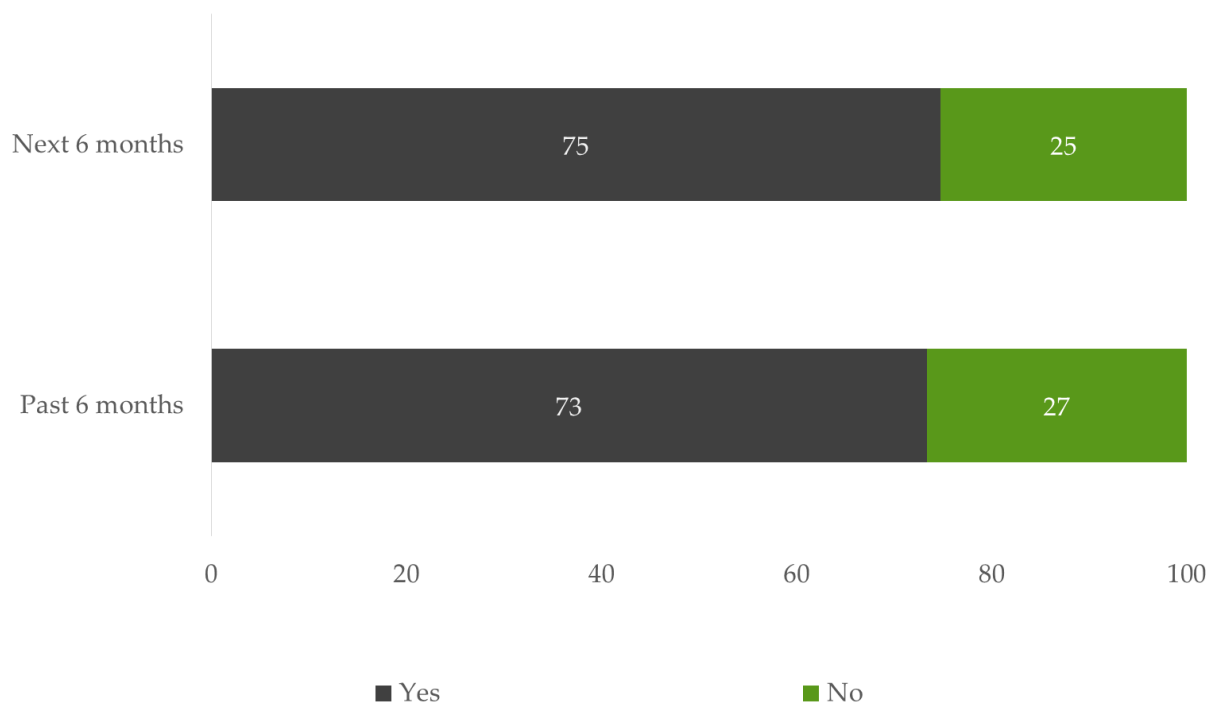
For the next half, the proportion of 0-10 and 10-49 employees were similar, while the proportion of 50-249 companies that expect to make a profit is higher than in the previous half.

As for economic sectors, the lowest proportion of firms made a profit in the last six months in manufacturing (68%) and construction (69%), while the highest proportion that made a profit was in

distributive trade (79%). For the next six months, the proportion of firms in trade and other services expecting a profit is stagnating, while the expectations of firms in construction and industry are more optimistic. There a higher proportion of firms expect a profit than in the last six months.

Although trading firms reported the highest proportion of profitable operations over the past 6 months, the sector also displayed the highest proportion of profitable SMEs experiencing a decline: almost half of such trading firms reported a decline in profitability.

For the upcoming half, the highest proportion of SMEs in manufacturing and services expect profit growth, while the most pessimistic sector is construction. The highest proportion of firms expecting a decrease in profitability in the next six months are, once again, in distributive trades (32%).

Figure 1. Profitability of the main activities of SMEs (percent)N_{past half}=1204, N_{next half}=1133

Source: IEER 2022–2023

Note: Data weighted by the economic performance of enterprises.

Use of external funding sources

39% of domestic SMEs rely on at least one public or market-based external financing source in their operations.

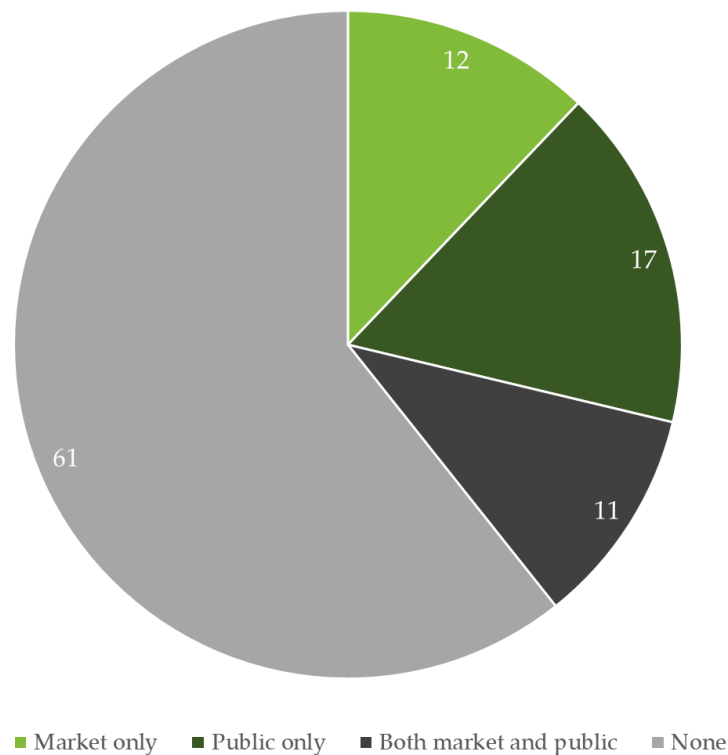
The proportion of micro-enterprises with fewer than 10 employees using external sources of financing is significantly lower than that of larger enterprises: 38% vs. 74% of 10-49 companies and 80% of 50-249 companies.

By sector, trading companies are the most prominent users of external finance (59%), while nearly a half of construction and manufacturing SMEs and around a third of service providers use external financing.

Among domestic SMEs, public sources of finance are the most common: 17% use only public sources, 12% only market sources and 11% rely on both.

Figure 2. Use of market and government-supported external funding sources, percent;

N=1360



Source: IEER 2023

Note: Data weighted by the distribution of the number of registered enterprises by size class and sector

Of the various financing instruments, the highest proportion of SMEs use one of the products of the Széchenyi Card loan program (21%), followed by bank overdrafts (11%) and leasing (11%).

Perceptions regarding rivals' suspension of activities and their quitting the market

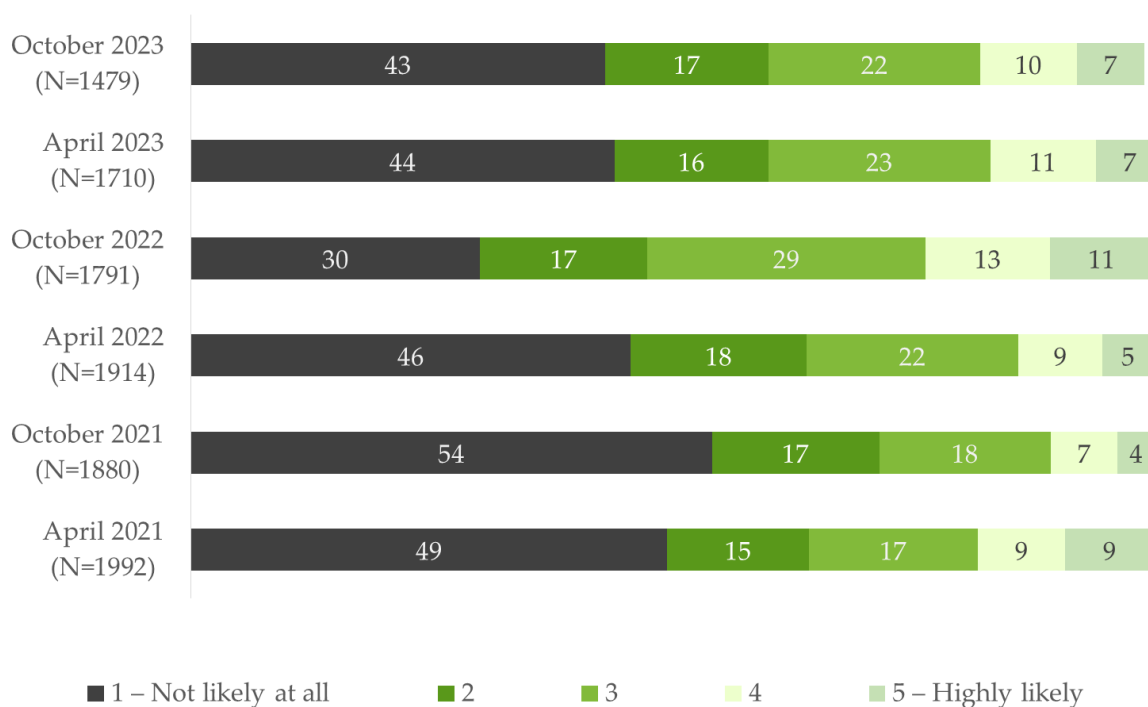
In the survey, respondents were asked to indicate on a scale of 1 to 5 how much they expect competitors in the same sector, engaged in similar activities, to suspend their activities or quit the market in the next six months. Responses were analysed for the full range of companies.

43% of firms do not consider it at all likely that their competitors will quit the market.

17 percent of firms consider bankruptcies in their own market to be likely (10 percent) or highly (7 percent) likely. Firms that consider it likely that their rivals will quit the market estimate 15 percent of competitors to exit.

In comparison with previous periods, the perception of business failure in October 2023 showed stagnation, with managers reporting a similar proportion of likely exits from the market as in April. Overall, compared to the same period of last year, companies are more optimistic: there is a significant decrease in the proportion of firms worrying about bankruptcy in their market.

Figure 3. Perceptions of Hungarian companies regarding their same-sector rivals' suspension of activities or quitting the market in the upcoming six months, percent



Source: IEER 2023

Note: Data weighted by the economic performance of enterprises

As firm size increases, the proportion of managers expecting bankruptcies decreases. While around 24 percent of firms with fewer than 10 employees consider it likely or very likely that their competitors will quit the market, the figure is 13 percent for 250+ companies. Over half of large companies do not consider their rivals' quitting the market at all likely.

Among the sectors, it is in manufacturing where the lowest proportion of managers expect market exits, while the highest proportion is in construction, where 26% of companies consider bankruptcies to be likely or highly likely.

ONLY ONE IN FOUR TO GIVE OUT CHRISTMAS BONUSES TO EMPLOYEES – YEAR-END BONUSES AMONG HUNGARIAN COMPANIES

Our analysis looks at the practice of end-of-year Christmas bonuses provided by Hungarian companies. The analysis is based on data from the October 2023 semi-annual business climate survey conducted by HCCI IEER, in which a total of 1,825 businesses were interviewed about the benefits they provide to their employees.

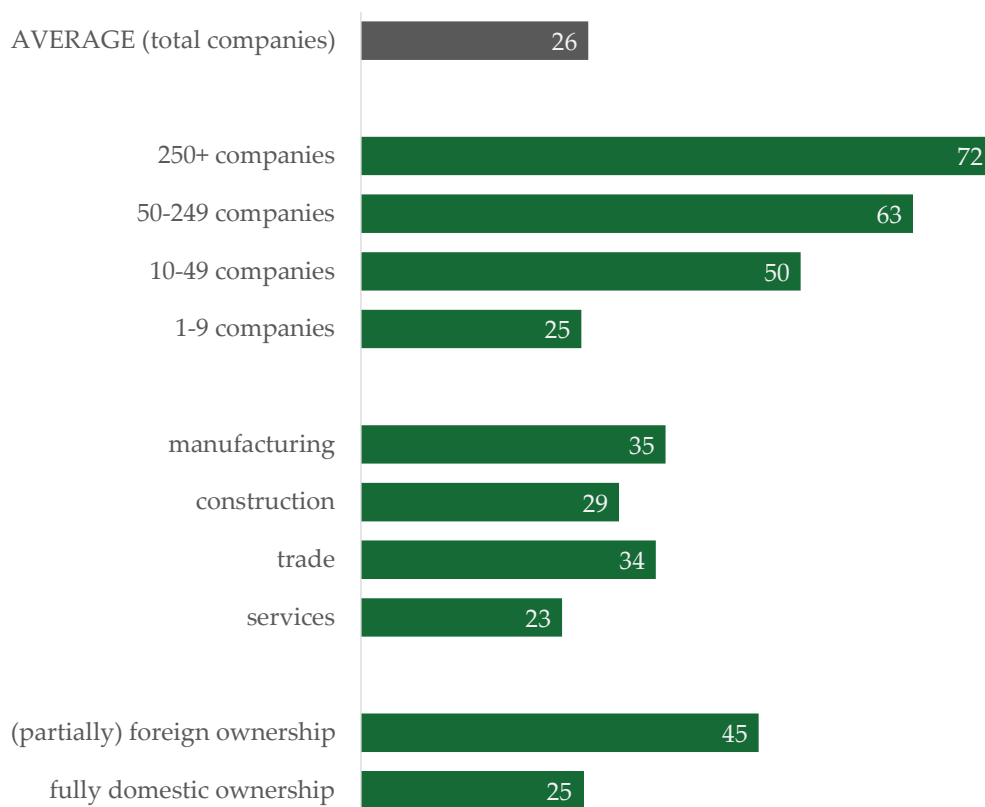
In addition to regular fringe benefits, businesses can also give one-off, occasional bonuses to employees, for example at the end of the year as a Christmas bonus. However, two-thirds (68%) of companies are not doing it this year, while 6% said they had given such one-off bonuses to their employees, but not at the end of the year, but during the year. Around a quarter of companies (26%) said they would give their employees a year-end bonus.

The frequency of year-end bonuses is significantly determined by the number of employees in the company. Only a quarter (25%) of micro-enterprises with 1-9 employees give their employees a Christmas bonus compared to 50% of 10-49 companies and 63% of medium-sized enterprises with 50-249 employees. Almost three quarters (72%) of large companies with over 250 employees give their employees end-of-year bonuses. By sector, employees in manufacturing (35%) and

trade (34%) are the most likely to receive end-of-year bonuses, while those in services (23%) are the least likely. There is also a significant difference in ownership structure, with a quarter (25%) of firms with fully domestic ownership and almost half (45%) of (partially) foreign-owned firms giving their employees a year-end bonus.

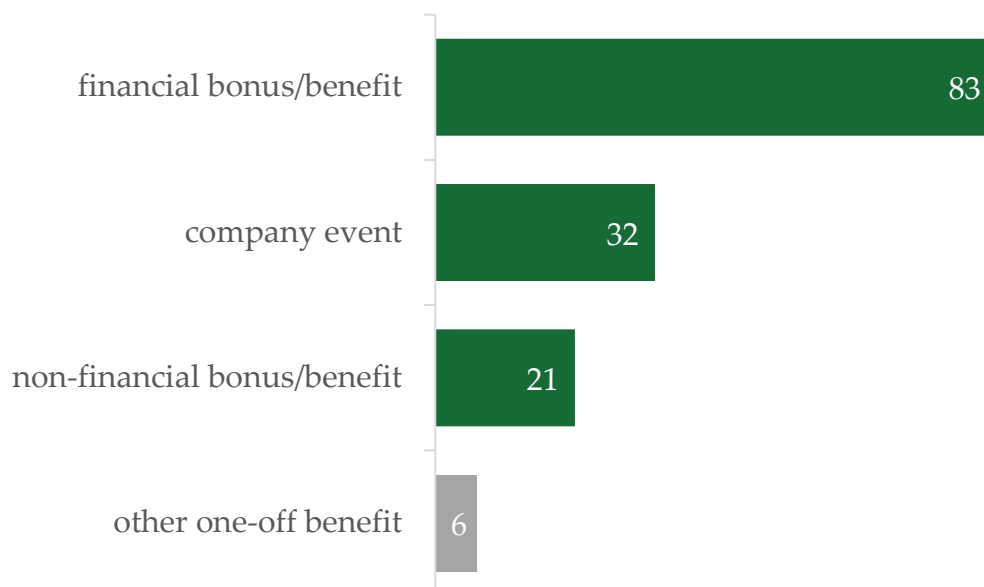
The most common way for companies to reward employees at the end of the year is in the form of a cash bonus, with 83% of companies opting for this option. Around a third of respondents (32%) organize a company event for the company staff, and a fifth (21%) (also) give other rewards, such as gifts, gift vouchers, or food parcels. Among other responses, the most frequent one was a one-off HUF 200,000 increase in the „SZÉP” Recreation Card limit, which can be used up between 1 August and 31 December 2023.

Figure 1. Proportion of companies providing one-off benefits at the end of the year, by size, sector and ownership structure, %



Source: IEER 2023

Figure 2. Proportion of types of one-off benefits at the end of the year, %



Source: IEER 2023

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	(November)	5.9%	5.8%	5.8%
Germany	Manufacturing Purchasing Managers Index	(November)	42.6	42.3	40.8
	IFO Business Climate Index ¹	(November)	87.3	89.4	86.9
France	INSEE Business Climate Index ²	(November)	97.2		98.2
	Unemployment Rate	(November)	3.7%	3.9%	3.9%
USA	CB Consumer Confidence Index	(November)	102.0	101.0	99.1
	Manufacturing Purchasing Managers Index	(November)	49.4	49.4	50.0
China	Manufacturing Purchasing Managers Index	(November)	49.4	49.7	49.5

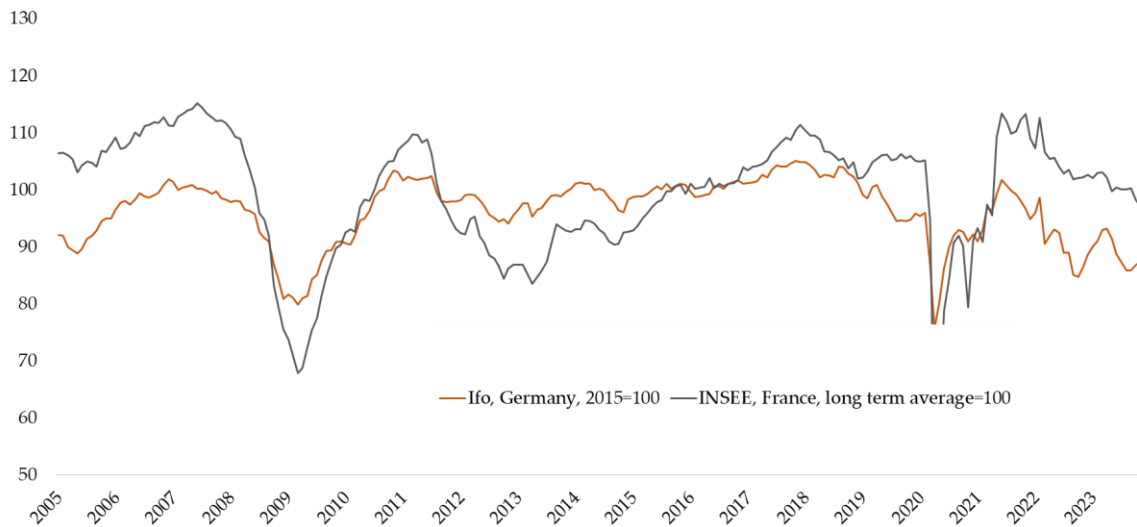
¹ <https://www.ifo.de/en/survey/ifo-business-climate-index>

² <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 October. The manufacturing purchasing manager index (PMI) also increased compared to the previous period. The unemployment rate worsened in Germany compared to the last month. The French INSEE business climate index decreased compared to the month prior. In the United States, the CB consumer confidence index increased compared to October, and performed better than expected. The manufacturing PMI decreased slightly compared to the previous month in the USA. The unemployment rate improved in the USA compared to the month prior. The Chinese manufacturing PMI decreased compared to the previous month.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - November 2023



Sources: www.ifo.de, www.insee.fr

CONTACT

MKIK GVI
1065 BUDAPEST, LÁZÁR UTCA 10.
TEL: 1/235-05-84
E-MAIL: GVI@GVI.HU
INTERNET: [HTTP://WWW.GVI.HU](http://WWW.GVI.HU)

PREPARED BY

HORVÁTH ÁGOSTON, ANALYST
TÓTH KATALIN, ANALYST
BACSÁK DÁNIEL, ANALYST

RESEARCH MANAGER

NÁBELEK FRUZZSINA, MANAGING DIRECTOR

20 DECEMBER 2023

In case of publication please cite as follow:
HCCI IEER: Monthly Bulletin of Economic Trends,
November-December 2023, Budapest,
2023-12-20