MFB INDICATOR

Corporate survey by the Hungarian Development Bank

Spring 2012

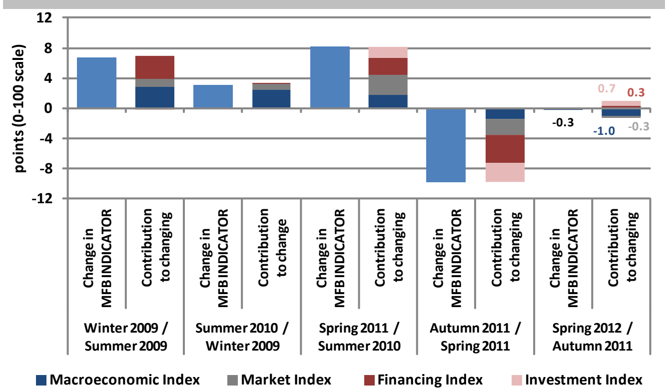
MFB INDICATOR Spring 2012

The spring 2012 findings of the MFB INDICATOR survey show signs of accommodation by Hungary's corporate sector to a protracted crisis and to stagnating domestic demand coupled with the inferior driving force of foreign demand. Unchanged below 50 points (on a scale of 0 to 100), the value of the MFB INDICATOR confirms that businesses hold a rather unfavourable view of both the current status and the future tendencies of the Hungarian economy.

MFB INDICATOR and component indices

	MFB INDICATOR	MACRO-ECONOMIC	MARKET	Domestic	Foreign	INVESTMENT	FINANCING
Spring 2012	45.1	38.9	44.4	47.2	51.9	47.5	49.8
Autumn 2011	45.4	43.1	45.4	46.9	56.4	44.7	44.7
Spring 2011	55.2	48.6	54.1	54.2	61.8	55.0	55.0
Summer 2010	47.1	41.5	43.7	43.9	46.6	49.1	49.1
Winter 2009	43.9	31.8	40.3	43.5	45.5	49.8	49.8
Summer 2009	37.3	20.6	35.7	39.2	39.7	50.6	50.6

Contribution of component indices to changing the value of the MFB INDICATOR



The decrease (by -0.3 points) of the MFB-INDICATOR since the previous survey stems from an uninterrupted negative impression entertained by companies of the macroeconomic environment. Nevertheless, the market impact of this negative sentiment was somewhat constrained compared to earlier surveys and was expressed by reduced export demand. Although the status of financing and investments has improved slightly, both values are still below 50 points, indicating that companies adopt wait-and-see attitudes and postpone both fund raising and developments.

The findings of the spring 2012 survey demonstrate that the business environment has continued to deteriorate: the ***Macroeconomic Index*** dropped below 40 points (38.9) yet again, showing that the macroeconomic conditions continue to stifle corporate activity. The companies responding to the survey reckon the upcoming 12 months will bring slower GDP growth (0.9%) and higher inflation (6.1%) than in spring or autumn 2011 (i.e. companies see the long-term risk of a protracted period of stagflation). *(See pages 3-4 for details.)*

The value of the ***Market Index*** (44.4) continued to drop moderately, while the difference between external and internal processes diminished for the first time in the history of the survey. That was, however, due first of all to the weakening driving force of foreign markets and to a lesser extent to the stabilisation or halting decline of the status of the domestic market (yet exports remained a key component of profitable corporate operations). *(See pages 5-6 for details.)*

The rating of the investment climate (***Investment Index***: 47.5) shows signs of consolidation after a sharp decline six months ago. The minor improvement since autumn 2011, however, should not be interpreted as a sign of great momentum in investments as companies tend to hold back their horses. One of the major contributors to retracted investments is the high level of companies with capacity surpluses, which is unprecedented in the history of the MFB INDICATOR. *(See pages 9-10 for details.)*

The value of the ***Financing Index*** (49.8) shows slight consolidation after plummeting six months ago, but besides the modest increase of demand for resources and the slightly improving view of lending conditions an increasingly marked split of the corporate sector can be observed. One group of companies is more and more prepared for operating without credit, while another major segment of companies is shifting towards deepening desperation.

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About the MFB INDICATOR corporate survey

The Hungarian Development Bank (MFB) carried out its sixth regular corporate survey in spring 2012. This time the questionnaire was completed and returned by 684 companies, and the findings were evaluated on the basis of the responses given by 539 businesses to 93 questions. The objective of the corporate survey is to provide an overall view of the key current macroeconomic and market trends affecting the Hungarian corporate sector, the resource and investments demands of businesses, the respondents' experiences in this field, and their future plans and constraints through the analysis of the received responses. From another perspective, the corporate survey enables the evaluation of change directions and process dynamics, providing useful information for making decisions on domestic economic policy and for adjusting the products of the Hungarian Development Bank to market needs. Considering that the businesses responding to the survey represent the Hungarian corporate structure fairly well in terms of size, regional location and sectoral distribution, conclusions can be drawn accordingly.

Structural distribution of corporations responding to the MFB INDICATOR corporate survey (Spring 2012)

		Agriculture	Industry	Service sector	Total
Regional distribution	Central Hungary	9%	27%	43%	**33%**
	West Hungary	35%	33%	27%	**31%**
	East Hungary	56%	40%	30%	**36%**
Business size	Micro	13%	17%	35%	**26%**
	Small	49%	31%	33%	**33%**
	Medium	33%	36%	20%	**28%**
	Large	4%	16%	12%	**13%**
Ownership structure	Domestic private	76%	73%	77%	**75%**
	State/local authority	11%	2%	12%	**7%**
	Partly state/local authority, partly domestic private	0%	1%	3%	**3%**
	Foreign	13%	24%	8%	**15%**
Total		**8%**	**41%**	**51%**	

Categories of businesses

Regional distribution: The seven regions of Hungary are: Central Hungary (Budapest and Pest County), West Hungary (Western, Central and Southern Transdanubia), and East Hungary (Northern Hungary, Northern Great Plain and Southern Great Plain).

Business size: The business sizes reflect the EU classification based on the number of employees: micro businesses (0 to 9 employees), small businesses (9 to 49 employees), medium sized businesses (50 to 249 employees), large companies (over 250 employees).

Ownership structure: Domestic private ownership (fully owned by Hungarian private or legal person(s)), state ownership (owned by the state or a local authority), partly state / local authority, partly domestic private, foreign (the owners of the company include a foreign private or legal person).

The components of the MFB INDICATOR: The indicator comprises four indices (Macroeconomic Index, Market Index, Financing Index, and Investment Index) and two subindices (Domestic Subindex and Foreign Subindex). The values of the indices and subindices are determined as the weighted averages of the "individual" company indices and reflect the respective contributions of the sectors of the economy (agriculture, industry, services) to GDP. The value of the MFB INDICATOR is the arithmetic mean of the four component indices.

The meaning of the MFB INDICATOR: The indicator, the indices and the subindices are designed to reflect the respondents' view of the current situation and their expectations for the future (the upcoming 12 months). The survey covers a time period of +/- 12 months, i.e. the questions concern the changes occurring in the year preceding the date of the survey and the trends expected in the upcoming year. The values of the indicator, the indices and the subindices are calculated on a scale of 0 to 100, where a value of 50 signifies stagnation, a value below 50 a downward trend, and a value over 50 an upward trend and a positive outlook on the state of the economy.

Macroeconomic Index

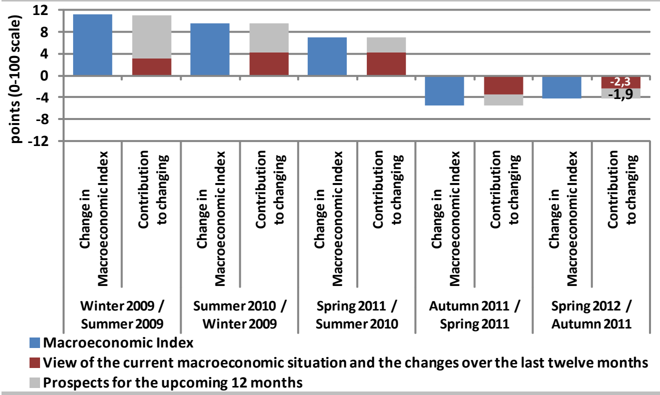
The autumn 2011 setback in the continuous growth of the Macroeconomic Index since the summer of 2009 proved to be more serious than a temporary decline: the findings of the spring 2012 survey demonstrate that the business environment continued to deteriorate. The Macroeconomic Index dropped below 40 points (38.1) yet again, showing that the macroeconomic conditions continue to be the strongest constraint on corporate activity. The companies responding to the survey reckon the upcoming 12 months will bring slower GDP growth (0.9%) and higher inflation (6.1%). (In the spring of 2011 and last autumn, the companies expected a GDP growth of 2.3% and 1.6% and a consumer price growth of 5.1% and 5.4%, respectively.)

The value of the Macroeconomic Index continued to fall, although at a slower rate (-4.2) than six months ago. This stems equally from a negative view of the current situation and the changes over the last year and from a continued deterioration of expectations. (The decline in the corporate view of macroeconomic conditions is particularly significant compared to the spring 2011 findings). The potential reasons include firstly the turbulent processes of the Hungarian economy in the end of last year and in the beginning of this year (e.g. record weak forint) and secondly the uncertainty about the recovery of the world economy and particularly the European economy (in other words, the long-lasting Eurozone crisis). Compared to the findings of the surveys carried out six and twelve months ago, the respondents' expectations continued to worsen: in the spring of 2012, the companies anticipated that GDP would only increase by 0.9% and inflation would grow by 6.1% over the next year (which means that the companies' responses suggest a threat of a prolonged period of stagflation).

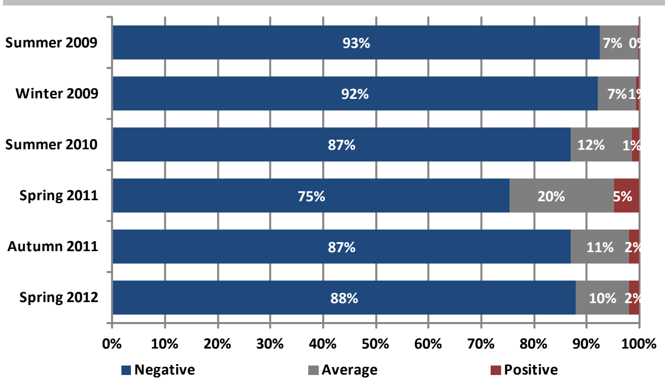
The 88% of the companies responding to the survey considered the current macroeconomic situation unfavourable and only 2% found it favourable. Over three quarters of the companies experienced deterioration in their operating environment over the last year and only 7% reported positive developments. Overall, this means that the macroeconomic environment became a long-term constraint on corporate activity after the improving trend from the middle of 2009 to early 2011 came to an apparently not temporary standstill last autumn.

Compared to the 2011 spring findings, the companies reported deterioration in all of the eight studied conditions influencing the macroeconomic environment. The most significant negative changes have been experienced (since both the spring 2011 and the autumn 2011 surveys) in labour costs, taxation, and the regulatory environment. This negative impression of changes in the (taxation) regulations may be the result of firstly the increased administrative burdens caused by the relatively frequent amendments, secondly the additional costs incurred as a result of passing on the surtaxes levied on a limited group of taxpayers (and the related negative opinion entertained by the entrepreneurial sector), and finally the tightening of the tax authority's procedures against businesses with public due in order to prevent the growth of the existing budget deficit. The reason behind the negative assessment of changes in labour costs is that the minimum wage increase and the new personal income tax rules compelled many companies to raise the gross wages of their employees in order to keep net wages at the same level.

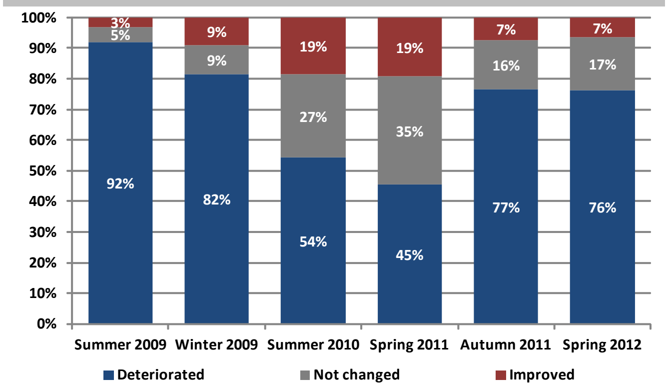
The contribution of component indices to changing the value of the Macroeconomic Index



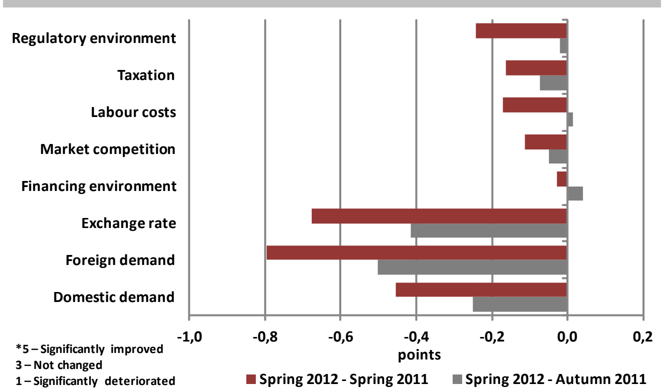
View of the current macroeconomic situation



View of changes in the macroeconomic situation over the last year



Changes in the view* of factors influencing corporate activity compared to the 2011 autumn and 2011 spring findings



Macroeconomic Index (cont.)

Another unfavourable change influencing expectations is the decline in foreign demand from a level over 3.0 points (i.e. showing an upward trend) in the previous two surveys to 2.9 points in the 2012 spring survey, which demonstrates a negative trend in foreign demand for Hungarian products and services. In comparison with the responses received six months ago, the companies responding to this survey only reported a slight improvement in the exchange rate of the forint and the regulatory environment.

Sectoral differences

On the basis of the 2012 spring survey, growth in both domestic and foreign demand was only experienced by businesses engaged in plant production over the last year. As a result of the agricultural sector's good performance last year, livestock farmers could also report growth in foreign demand after years of crisis.

At the same time, the differences among the subsectors of industry strengthened, and the highest difference (11.8 points) was also measured in this sector (whereas in the tertiary sector six months ago). In addition to reporting better than average trends in demand over the last twelve months and benefiting from a weaker forint in the field of exports, the subsectors with the highest index values (road vehicle manufacturing, machine industry, chemical production) expect a higher than average (1.0 to 1.2%) growth. Businesses operating in the textile industry also reported better than average (domestic and foreign) demand for the last year, but they are much more pessimistic about economic growth prospects and anticipate a 0.1% recession. The construction industry is afflicted more than average by insufficient domestic demand, as well as exchange rate changes, the funding environment and a strengthening market competition.

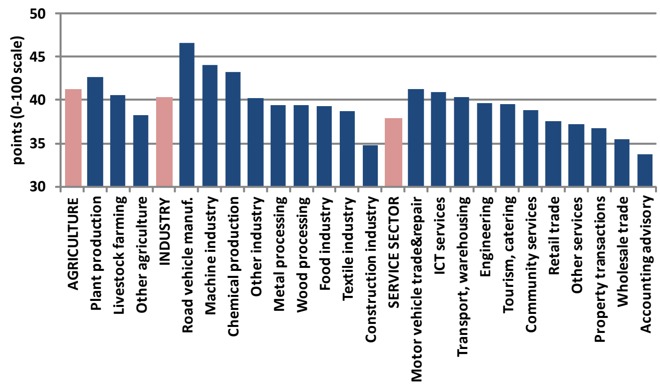
Continuing the unbroken trend since the summer of 2010, the value of the macroeconomic index remains the lowest in the service sector, which is essentially the result of dependence on domestic processes (and the permanently low level of domestic demand). Within this sector, the businesses engaged in motor vehicle trade and repair have the highest index, ahead of the relatively "crisis-proof" ICT subsector, which may be a sign of breaking the deadlock on domestic motor vehicle trade (interestingly, motor vehicle traders had the lowest macroeconomic index six months ago).

Differences by corporate size

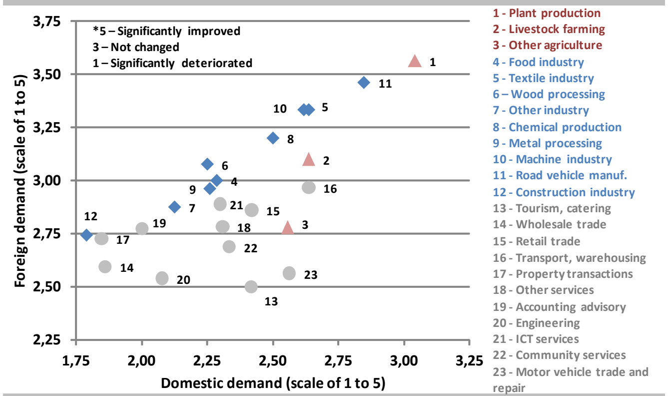
The differences between the macroeconomic indices of business categories defined on the basis of size have reached a level that is unprecedented in the history of the MFB INDICATOR. This is mainly because of the fact that while large companies considered their operating environment to be not worse than six months ago, small and medium sized businesses (in particular micro businesses) experienced increasingly negative changes.

Large companies gave a better (or less bad) assessment to all factors influencing the operating environment than domestic small and medium sized businesses did. In particular, there is a marked difference in the views of the changes in domestic and foreign demand (while businesses with more than 250 employees saw improvement, smaller businesses experienced a decline over the last year) and the changes in labour costs. Likewise, small and medium sized businesses were stricken more heavily by the changes in market competition and the regulatory environment over the last 12 months.

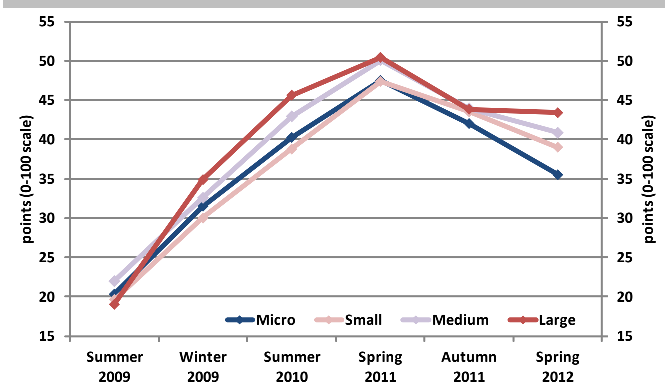
The value of the Macroeconomic Index in the various sectors and subsectors on the basis of the MFB INDICATOR survey (Spring 2012)



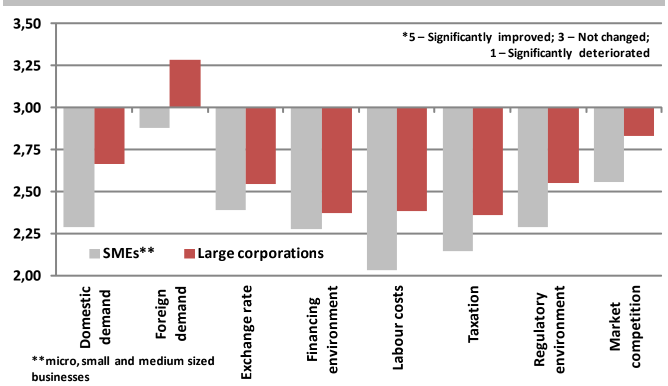
View of changes in foreign and domestic demand over the last year* in the various sectors



Macroeconomic Index by coporate size



View of factors influencing corporate activity* on the basis of the spring 2012 findings



Market Index

The Market Index (44.4) continued to drop moderately from its value six month earlier, approximating its summer 2010 level. The difference between external and internal processes diminished for the first time in the history of the survey, which was, however, due first of all to the weakening driving force of foreign markets (Foreign Subindex: -4.5) and to a lesser extent to the stabilisation or halting decline of the status of the domestic market (Domestic Subindex: +0.4). Nevertheless, the value of the Foreign Subindex remains over 50 points (51.9 points), which means that a slight majority of exporters expect foreign demand to grow, although at a lower rate. The value of the Domestic Subindex (47.2 points) indicates stagnation in domestic markets.

The overall impact of the significant deterioration of macroeconomic conditions on the market position of companies was moderate. This is because the Macroeconomic Index, i.e. the component index of the MFB INDICATOR best reflecting the general corporate climate and confidence in economic processes, is equally influenced by domestic and foreign processes. The findings of the 2012 spring survey suggest that the decline in domestic factors was already unable to influence domestic market conditions due to the protracted stagnation of the latter. On the other hand, the weakening driving force of foreign markets (falling Foreign Subindex) is a sign of growing pessimism in the corporate sector.

The pre-tax profit of the companies

The positive changes in corporate results reported for the previous 12 months in the spring 2011 survey came to a halt in the autumn of 2011, and the spring 2012 survey failed to show any improvement. One in every two companies continues to report declining pre-tax profit, while the number of businesses achieving improving results continue to shrink. The expectations are not promising, either. Essentially, stagnating corporate results are forecast, and the proportion of companies anticipating growth is very low (only 19%), while that of those expecting unchanged profit is very high (36%), which is unprecedented in the history of the MFB INDICATOR.

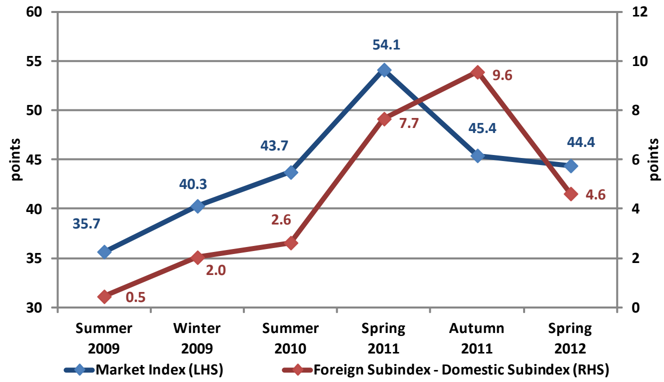
The driving force of foreign markets has perceptibly weakened, but exports remain a key component of profitable corporate operations. Compared to nearly 20% six months ago, hardly one tenth of companies without export sales expect profit growth. On the other hand, the percentage of exporters hoping to earn a higher pre-tax profit only dropped by a few percentage points, and one in every three companies with 25% or more of their revenue from export sales report positive growth prospects for the upcoming year.

The status of the domestic market

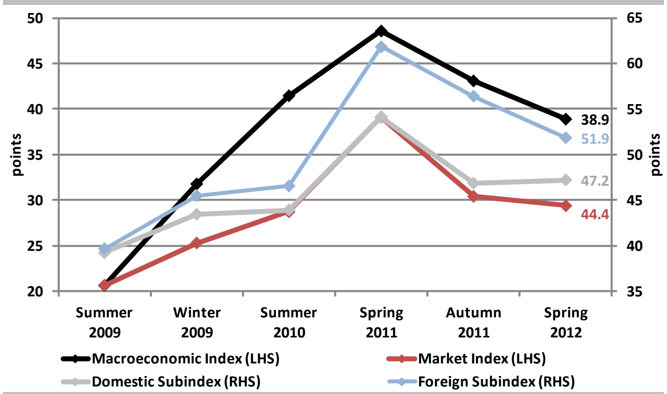
The Domestic Subindex of the agricultural sector has continued to increase and it is now permanently over 60 points (63.6), which is mainly the result of the sector's outstanding performance in 2011. Nevertheless, most agricultural businesses expect a change in domestic sales on the basis of forecasts (which is not a bad scenario in the light of the outstanding figures of the base year). The Domestic Subindex of industry exceeds 50 points yet again (50.8), indicating that internal market processes are picking up a slight momentum.

Nevertheless, the upcoming year is not expected to bring significant positive changes, considering that the growth measured in spring was mainly due to a reduction in the number of businesses predicting

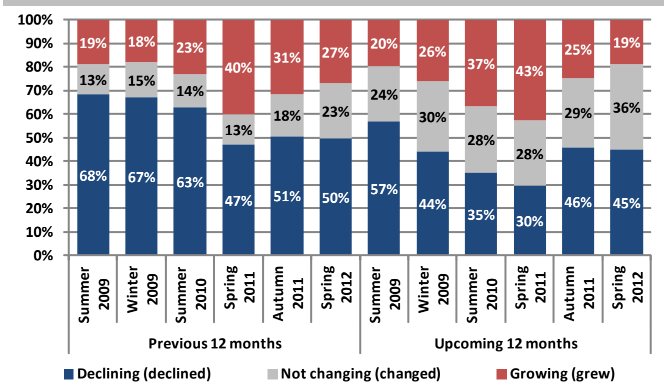
Market Index and the difference between external and internal market drivers



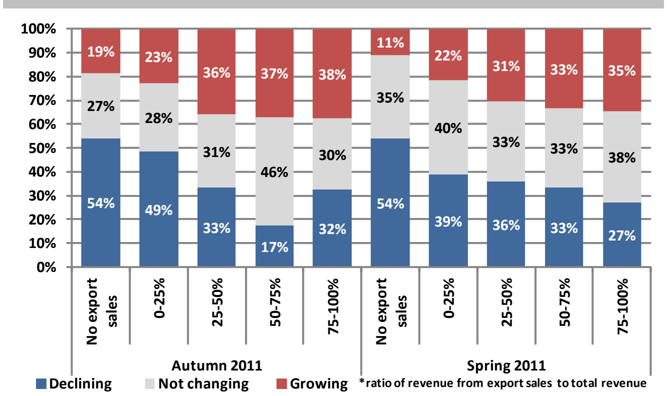
Changes in macroeconomic conditions and market prospects



Changes in corporate (pre-tax) profits



Prospected changes in corporate (pre-tax) profits over the next 12 months in the light of export orientation*



Market Index (cont.)

worsening prospects and an increase in that of those anticipating stagnation in the sector. The Domestic Subindex of the service sector continued to drop. While fewer companies expect domestic sales to decline and an increasing number of respondents from this segment reckon that the level of sales will not change, less than one fourth of the businesses are able to pass through increased costs in product prices due to inflation being driven up by heavy competition.

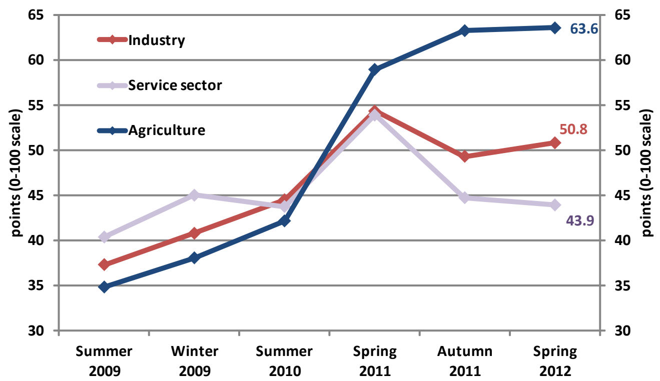
Based on the proportion of businesses expecting domestic sales to grow, four of the six top ranking subsectors belong to industry and two to the service sector. The rising optimism in the tourism and catering subsector, compared to the results for the previous 12 months, may be the result of a growth in domestic tourism activity due to the higher than usual number of long weekends this year and an increase in net wages in the potential target audience comprising high-income groups benefiting from recent changes in taxation. The responses given by businesses engaged in motor vehicle trade and repair demonstrate a level of optimism similar to that of the previous year, which is a sign of breaking the deadlock in the subsector. In the plant production subsector, only 25% of businesses expect continued improvement compared to the percentage of those reporting growth over the last year (38%). This does not mean, however, that domestic sales are expected to shrink in this segment, because 63% of the businesses forecast domestic sales equal to the outstanding volumes of the previous years. Within the service sector, the percentage of businesses anticipating an increase in domestic sales reached 25% in the ICT subsector alone. The domestic sales expectations of metal processors and road vehicle manufacturers reflect the impact of weakening foreign markets on domestic suppliers. While the construction industry is still not likely to recover from its more than five year long crisis, community service providers expect stagnating demand (55% reckon that domestic sales will remain at a level similar to that of the last 12 months.)

Status of foreign markets

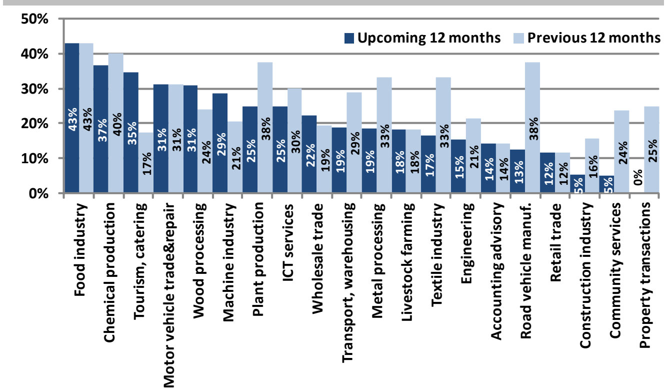
There are only four subsectors (all within industry) where the percentage of businesses reporting a growth in export sales over the previous 12 months exceeded 50% and at least half of all businesses expect exports to grow further in the upcoming year. The manufacturing industry is experiencing the sharpest decline (apart from the significantly weaker performance of ICT services, a subsector considered to be a driver of economic growth despite its less significant weight in the national economy until now). In the wood processing and road vehicle manufacturing subsectors, the percentages of businesses anticipating export sales to grow are 35 and 23 percentage points lower, respectively, than the percentages of those that were able to increase sales over the last year. The latter figure is the result of uncertainty about economic recovery abroad (and particularly in Western Europe), which made households postpone investments (and therefore led to a reduction in the demand for cars).

The smallest exporters were the first to feel the negative impact of the decline in foreign demand. While micro businesses selling products and services in foreign countries are facing a shrinking demand, the values of around 60 points measured for other business sizes still represent growth in exports, although at rates that are lower than six months ago.

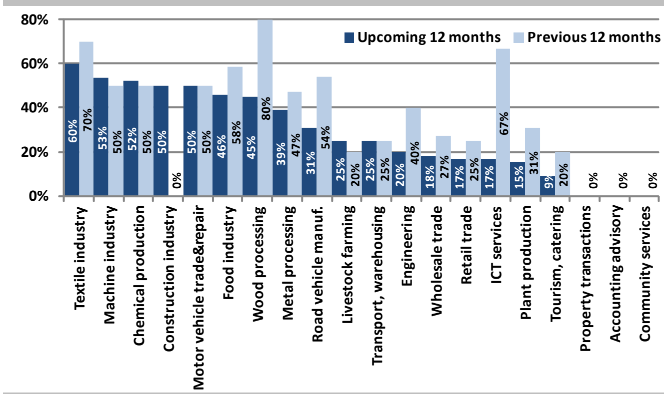
Changes in Domestic Subindex by sector



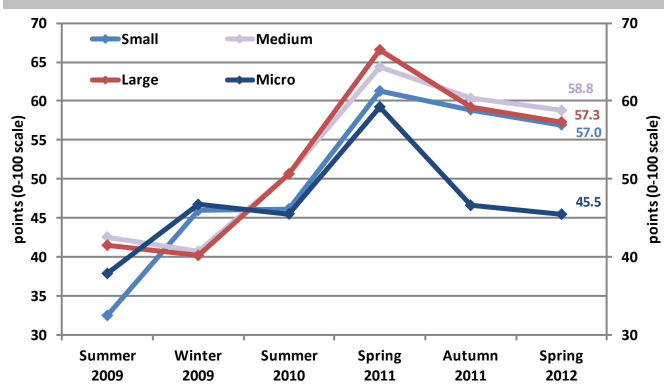
The proportion of businesses reporting or expecting growth in domestic sales by sector



The proportion of businesses reporting growth in export sales over the last 1 year or expecting growth in export in the next 1 year by sector



Foreign Subindex by corporate size



Investment Index

The value of the Investment Index (47.5) shows signs of consolidation after a sharp decline six months ago. The slight improvement since autumn 2011, however, should not be interpreted as a sign of great momentum as companies tend to await („wait and see”) rather than to invest. The value below 50 points predicts moderate investing activity in the next 12 months.

The increase in the value of the Investment Index (by +2.8 points) was caused partly by the consolidation of intentions to invest in the upcoming 12-month period (+1.5 points), i.e. a reduction in the proportion of businesses not planning any investment and an increase in that of those taking a “wait and see” position. According to the view of investment drivers, this was accompanied by a stronger motivation for development over the last six months (+1.6 points). On the other hand, the falling level of capacity utilisation (a reduction by -0.3 points) remains a hurdle to investment.

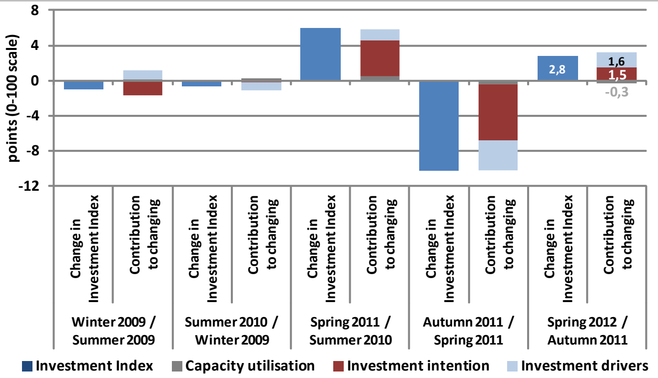
Investment plans show signs of consolidation, but this is still not enough for developments to take off. The percentage of businesses that are certainly not planning any investment in the upcoming 12 months has dropped significantly (by 8 percentage points) since the autumn of 2011 (when nearly one in every four companies participating in the survey reported such intention). At the same time, the proportion of companies delaying planned investments has increased (by +6 percentage points). A shift toward delaying investments is also shown by the fact that the percentage of companies that are certainly planning investment in the upcoming 12 months sank to the lowest level (34%) in the history of the MFB INDICATOR.

According to the spring 2011 findings, one of the major hurdles to planning investment is that the percentage of companies with surplus capacity continued to grow and reached a record (53%). This represents an increase by 12 percentage points from the lowest level (41%) since the outbreak of the crisis. Capacity utilisation is only improved in the agricultural sector, where the percentage of firms with surplus capacity went down from 40% to 22% thanks to the good weather and high average yields last year. In contrast, the percentage of businesses with excess capacity rose from 56% to 61% in the industrial sector and from 43% to 52% in the service sector.

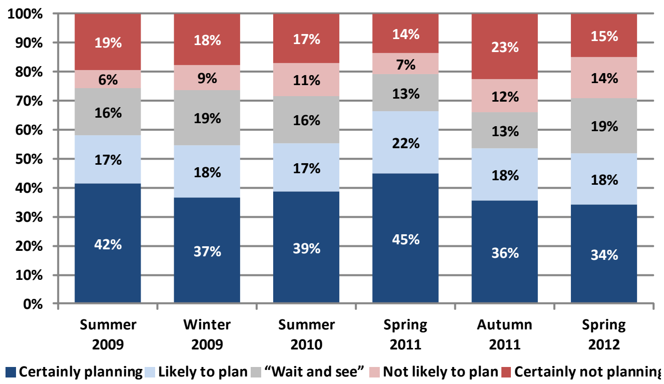
The views of investment drivers are highly varied in the light of the responses given a year ago. Passive forces (heavy market competition, changes in market demand, realisation of long overdue investments) remain the strongest driver, but the expected growth of foreign and domestic demand provides increasing motivation. (While remaining significantly lower than the spring 2011 level, it does represent a slight improvement compared to the autumn 2011 results. On the other hand, the importance of foreign demand as motivation for investment is growing continuously.)

Access to sources of funding (and the cost thereof) was seen a less serious hindrance than six or twelve months ago. However, this should only be interpreted as an improvement relative to the lowest result, because this factor continues to play the weakest role in incentivising domestic developments. At the same time, the role of increased revenues in planning corporate investment has improved considerably, although relative to a similarly low base.

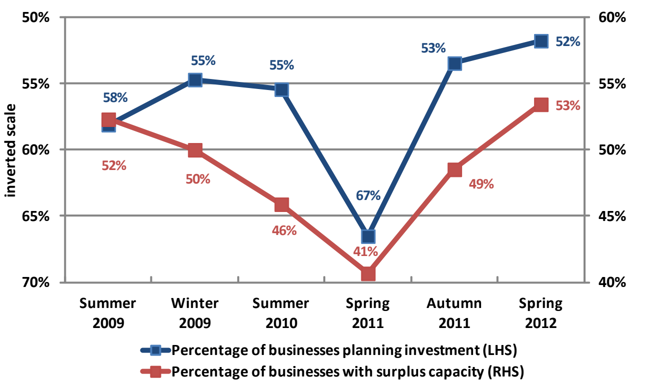
The contribution of component indices to changing the value of the Investment Index



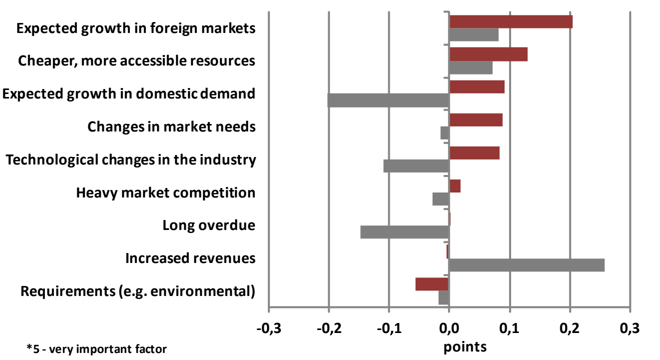
Percentage of businesses planning investment in the upcoming 12 months



Percentage of businesses planning investment and having surplus capacity



Changes in the view of investment drivers* compared to the autumn 2011 and spring 2011 findings



*5 - very important factor
1 - least important factor

Investment Index (cont.)

Sectoral differences

The value of the Investment Index (45.8 points) remains the lowest in the service sector, although its value measured six months ago increased by 3.9 points as a result of the consolidation of investment plans and the strengthening of development incentives. Likewise, capacity utilisation showed the greatest decline among businesses providing services. Businesses engaged in agricultural activities have the most solid investment plans (continuing the trend emerging from all surveys carried out until now), and this sector reported the highest increase (by +4.1 points) in the value of the Investment Index (57.1 points) over six months. This was enabled by better capacity utilisation resulting from the good performance of agriculture last year and by more specific investment plans and stronger development incentives. In contrast, the Investment Index of industry showed a slight drop yet again, hitting the lowest value (49.2) in the history of the MFB INDICATOR. Businesses engaged in industrial activities reported somewhat lower capacity utilisation rates than six months ago, and increasingly tend to delay their planned investments, taking a “wait and see” position. Their view of investment drivers did not suggest any improvement.

While plant producers are expected to demonstrate somewhat higher investment activity within the agricultural sector, machine manufacturers and food producers are likely to be the most active within the secondary sector of the economy. Within the service sector, the subsectors dependent on foreign demand (transport, tourism) and community service providers may contribute to substantial growth. This latter is related to the accelerating absorption of EU funds, the role of which may strengthen further toward the end of the 2007-2013 budgetary period.

Differences by corporate size

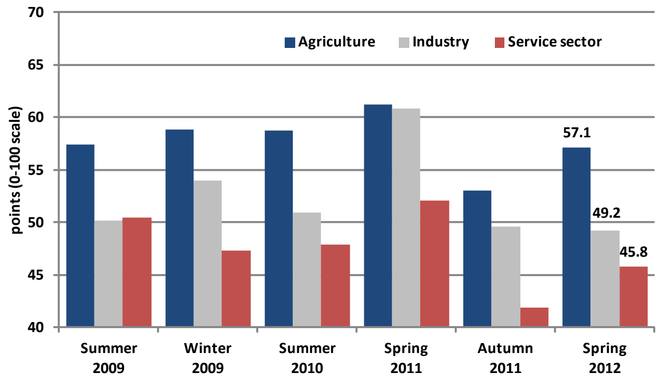
According to the spring 2012 results, the gap between the Investment Indices of the largest and smallest businesses somewhat narrowed. This can be explained primarily by an increase (by +6,3 points) in the index of micro businesses, which, however, remains significantly below 50 points (i.e. in the range signifying a downward trend). While the Investment Indices of small businesses and large companies slightly increased (by +2.0 and +2.4 points, respectively), medium sized businesses alone reported a decline (by -1.0 points).

This latter reflects the fact that businesses of this size demonstrated the highest uncertainty in planning investments, with the proportion of those taking a “wait and see” position going up from 10% six months ago to 19%. Large companies continue to have intensive development plans underpinned by, among other factors (e.g. easier access to sources of funding), better capacity utilisation. The percentage of companies with excess capacity is the lowest (46%) in this category, while the corresponding percentage is, for example, as high as 60% among micro businesses.

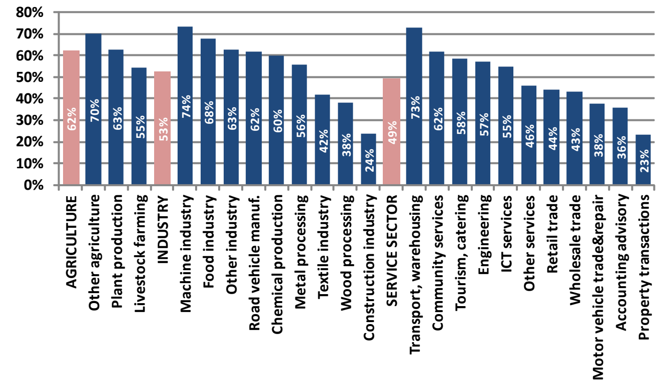
Regional distribution

Regional differences in the value of the Investment Index shrank after a slight drop (by -2.3 points) in the index for West Hungary (50.1) and an increase (by +4.0 points) in the index for East Hungary (49.2) as a result of an improvement in investment plans. The Investment Index for Central Hungary also show some increase, but it remains the lowest (45.2) due to the dominance of the service sector in this region.

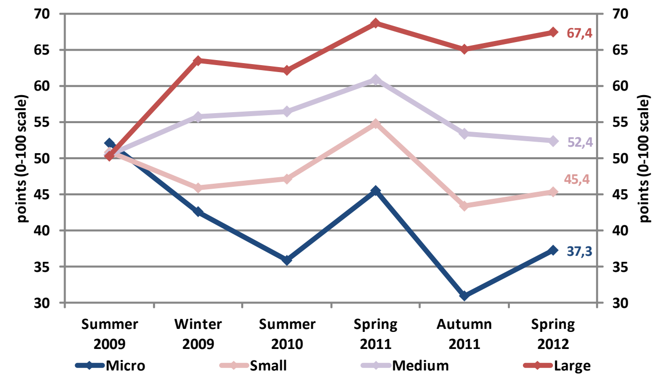
Investment Index by sector



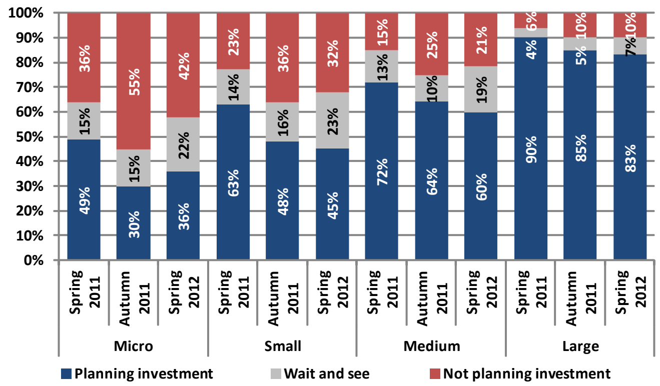
The proportion of businesses planning investment by sector and subsector, based on the MFB INDICATOR survey (Spring 2012)



Investment Index by corporate size



Investment plans for the upcoming 12 months by corporate size



Financing Index

The value of the Financing Index (49.8) shows slight consolidation after plummeting (over 15 points) 6 months ago, as the proportion of companies planning to raise external funds slightly increased and the view of lending conditions somewhat improved over the last 6 months. Nevertheless, the financial situation of Hungarian companies shows an increasingly bleak picture. On the one hand, there is an emerging group of businesses that refuse external funding and intend to achieve (clearly slow) growth by relying exclusively on their own funds. On the other hand, a growing proportion of businesses must face the inaccessibility of external (market-based) funding and may find themselves in a desperate situation shortly without a rapid improvement in market processes.

The Financing Index increased by 1.4 points, essentially as a result of a slight improvement in the corporate intention to raise funds. However, after the significant slump in the autumn of 2011, this should be interpreted as a halting decline rather than a genuine growth in demand for sources of funding in the market. This is supported by the fact that the view of borrowing conditions has hardly improved since the survey six months ago. At the same time, access to funding is increasingly poor in the entrepreneurial sector.

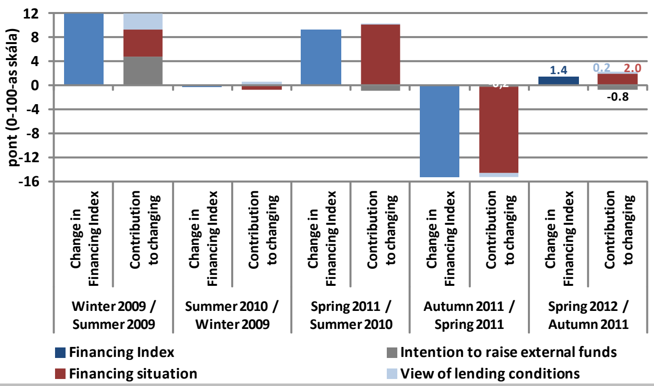
The proportion of businesses not needing external funding (because of either not planning any investment or using own funds to finance developments) did not change compared to the percentage recorded six month ago (27%). This means that there is an emerging group of businesses that were able to stabilise their position after the outbreak of the crisis and are now trying to finance their operations (or developments, as the case may be) by relying exclusively on own funds in an uncertain market environment coupled with unfavourable funding conditions, raising the threat of creditless growth at the macroeconomic level.

The financing situation of firms continued to deteriorate, and over one third of the respondents claim to need external funds for covering current expenses. Even under conditions that are much more favourable than the present ones, such businesses would find access to credit rather difficult. They will either be able to stabilise their market position by relying on their own resources (joining the group of companies operating without credit), or disappear from the market sooner than later.

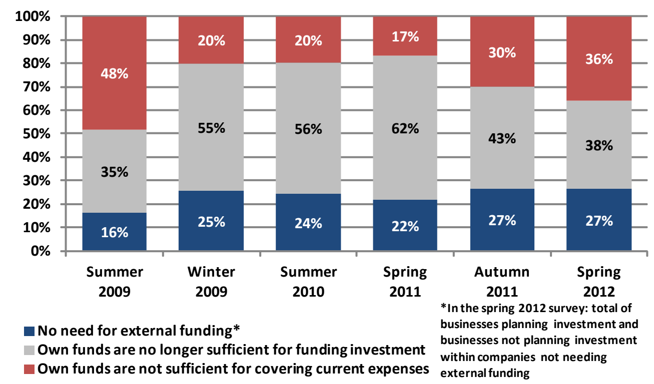
The demand for external funding shows a slight growth compared to its level six months ago, as the proportion of businesses planning to raise external funds in the upcoming 12 months increased from 42% to 45%. Within that, the proportion of those with definite plans grew from 21% to 23% (but remains well below the level of 35% recorded one year ago).

The assessment of the changes in borrowing conditions is rather complex. While the companies responding to the survey perceive all conditions to be tighter and worse than one year ago, some improvements are seen compared to the autumn 2011 situation. The least stable condition, which causes the highest uncertainty when borrowing credit, is exchange rate volatility. Hungarian entrepreneurs consider the changes occurring after the spring 2011 survey to be clearly negative, but they welcome the improvements since last autumn. Funding costs have continuously increased over the last year, but credit institutions have eased their requirements as to collaterals and own funds, and the companies consider the changes in maturity and grace periods over the last six months favourable.

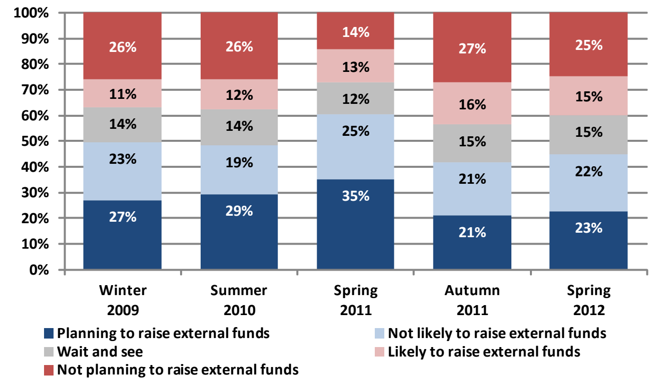
The contribution of component indices to changing the value of the Funding Index



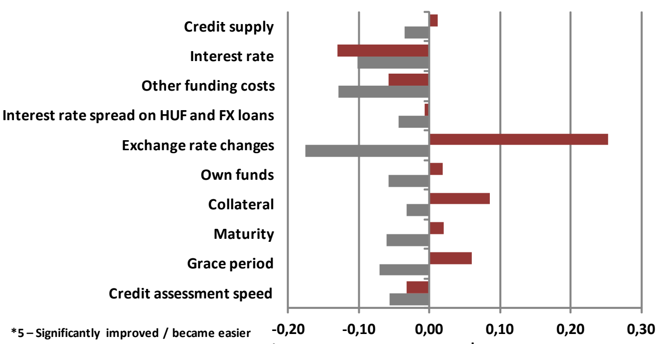
Financing situation of companies



Proportion of businesses planning to raise external funds in the upcoming 12 months



Changes in the view of borrowing conditions* compared to the autumn 2011 and spring 2011 findings



*5 – Significantly improved / became easier
3 – Not changed; 1 – Significantly deteriorated / became more difficult

Financing Index (cont.)

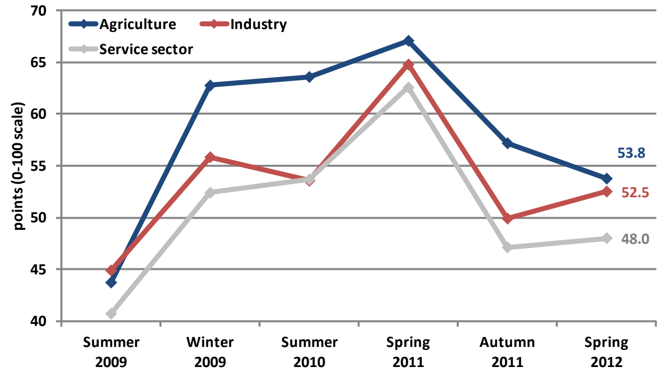
Sectoral differences

According to the spring 2012 survey, agriculture was the only sector where the value of the Financing Index reduced, as a result of the sector's good performance in 2011. Businesses engaged in agricultural activities were the only ones with an improved funding position, i.e. these companies experienced the greatest improvement in borrowing conditions. While the increase in their revenues reduced their need for funding, the value of the index remained over 50 points, signifying an active intention to raise external funds. The index of businesses engaged in industrial activities exceeded 50 points yet again, reflecting a greater demand for funding caused by the growing uncertainty surrounding their funding position. Likewise, businesses operating in the service sector are expected to demonstrate slightly increased demand in the upcoming 12 months. Within the same sector, there may be significant differences between subsectors in terms of the average corporate financing situation. Within agriculture, the proportion of businesses in critical state is less than 30% in plant production, i.e. the subsector which achieved exceptionally good results in 2011, while the corresponding rate is nearly 50% in livestock farming. The percentage of corporations facing difficulties is the highest in the industrial sector, which can be explained by, among other things, the industrial businesses' high demand for funding (refinancing with difficulties or only at high cost at the present). A strong export orientation may provide some protection (see road vehicle manufacturing, machine industry), yet half of the companies engaged in metal processing have serious funding problems (as a result of falling demand) despite primarily producing products intended for export. In the construction sector, the proportion of businesses in critical state is not outstanding, because less able businesses have already failed the challenge of the crisis afflicting this subsector for more than five years. In the service sector, firms with permanent and significant claims (customers) and funds employed (inventories) are in the most critical state, as such businesses need permanent external funding (transport, warehousing, wholesale trade). Companies in a more favourable situation can be classified as follows: 1. accounting advisory, engineering: low need for external funding by nature; 2. community services: public funding, secure revenue stream; 3. ICT services: adequate funding is ensured by good performance in the market despite of crisis.

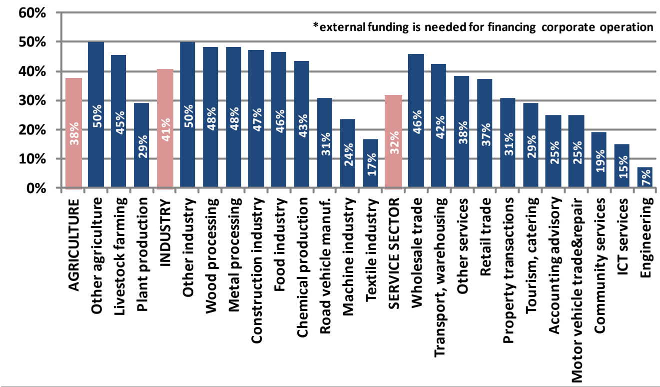
Differences by corporate size

Essentially, a significant change (by +7.4 points) in the Financing Index only occurred in the segment of large companies. As a sign of an increasing demand for funding, the value of the index exceeded 60 points again (the percentage of corporations planning to raise external funds grew by 13 percentage points in this segment). In the SME sector, only medium-sized companies' index declined, as a result of a slightly deteriorating financing situation and a stagnating demand for funding. At the same time, micro and small firms are expected to demonstrate a somewhat increased demand in the next 12 months. Both large companies and SMEs agreed that the changes in interests and other funding costs were unfavourable, but the collateral requirements were considered more favourable than last autumn. While the changes in the requirements for own funds and in the interest rate spreads on HUF and FX denominated loans were only favourable for larger business (or credit institutions only offered such conditions to them), SMEs experienced positive changes in the maturity and grace periods of financing products.

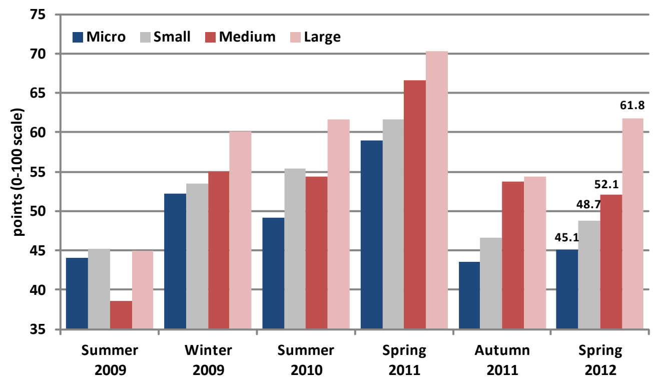
Financing Index by sector



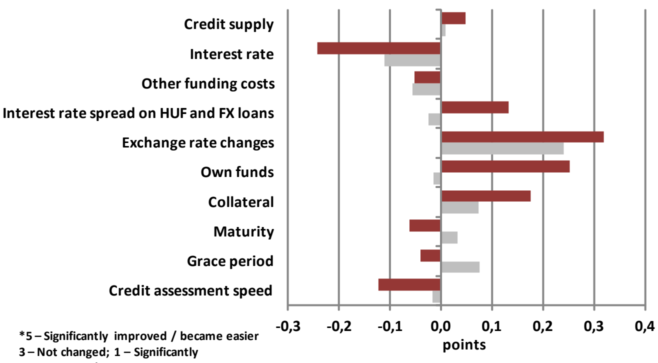
The proportion of companies in critical state* by sector and subsector



Financing Index by corporate size



Changes in the view of borrowing conditions* compared to the autumn 2011 findings by corporate size



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