MFB INDICATOR

Corporate survey by the Hungarian Development Bank

Spring 2013

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The results of Hungarian Development Bank's Spring 2013 Corporate Survey Suggest Improvement in Corporate Expectations

According to the results of the Spring 2013 survey, MFB INDICATOR – MFB's economic growth index – has yet again exceeded 50 points (52.7 points) after a two-year pause, indicating a positive shift in domestic economic processes (Chart 1). The improvement of the indicator is primarily attributable to a significant increase in the Investment Index reflecting an upsurge in the willingness to invest: the proportion of businesses envisaging investments for the next twelve months has never been this high in the whole history of the survey. Based on the businesses' responses, this may be partly due to the expectation that domestic markets may also emerge from their state of hibernation in the months to come.

While the majority (57.3%) of respondents still faced unfavourable changes in business conditions in the 12-month period preceding the survey, this percentage has not been this low for two years. Business expectations have slightly changed, and businesses predict a moderate growth in GDP for the coming year. The Macroeconomic Index suggests that the Hungarian economy may remain in a recession in the spring of 2013, but the rate of decline may slow down (Chart 2). The significant decrease in the consumer price index at the start of this year may play an important role in anchoring inflationary expectations in the corporate sector: businesses only expect prices to rise at a rate of 4.9% in the year to come, compared to 6.0% anticipated in the previous two surveys (Spring and Autumn 2012). The increase in the Market Index (48.4 points, +4.7 points) is equally attributable to businesses' improved expectations regarding both domestic and foreign demand trends in the next twelve months. A relative majority (44.8%) of businesses reported a decline in operating results for the preceding 12-month period, and over one third reckon that this trend will continue next year. For the first time in the history of MFB INDICATOR, the proportion of businesses forecasting a growth in domestic sales has been higher than that of those forecasting a decline (Chart 3). Domestic sales are expected to grow over the coming year primarily in agriculture, in most branches of industry, and in some fields in the tertiary sector (e.g. ICT, tourism). The corporate sector's expectations imply that domestic consumption may rebound from its trough, and an upturn in domestic demand may also play a key role in shaping the human resource plans of businesses. **(Continued on page 2)**

Chart 1: MFB INDICATOR and the sub-indices (scale of 0-100)

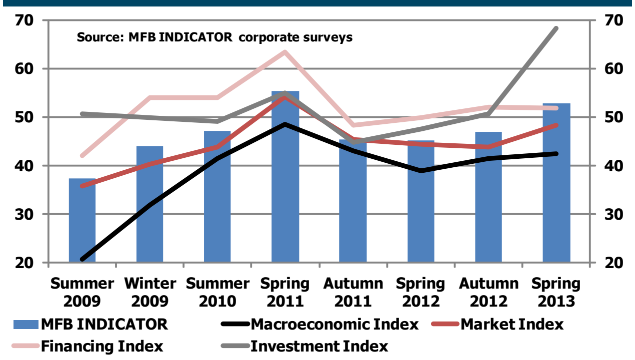


Chart 2: Macroeconomic Index and the Hungarian GDP

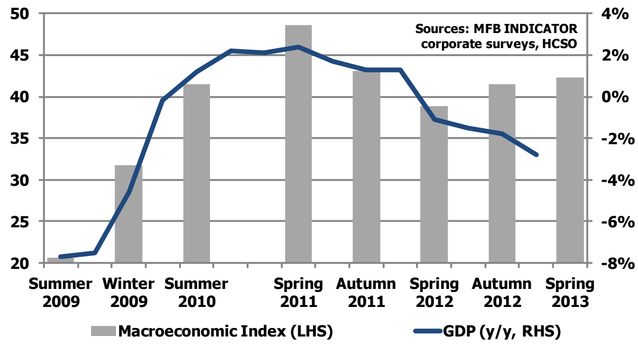
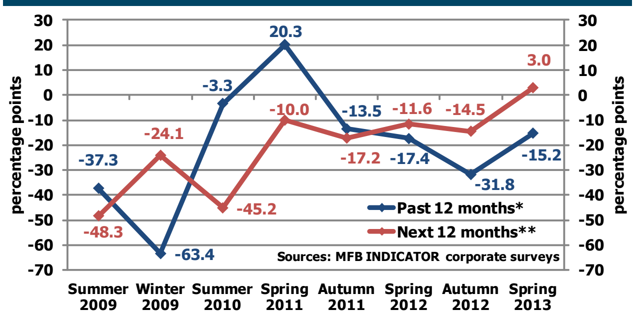


Chart 3: Domestic sales



*difference between the share of firms increased their sales and that of those facing decline in sales
**difference between the of firms expecting increasing sales and that of those expecting declining sales

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Expectations regarding export sales reached the Autumn 2011 level in the spring of 2013 (Chart 4). Based on the responses of the businesses participating in the survey, export activities are expected to improve mainly in the industrial sector and in the segment of medium-sized and large companies. However, the protracted recession in the Eurozone presents a serious obstacle to domestic exports: this is supported by the fact that optimistic views on exports in the next twelve months are primarily held by businesses operating in non-EU markets.

The stagnation of the Financing Index (51.9 points, -0.1 point) indicates that access to finance for the domestic entrepreneurial sector has not turned for the better yet (nearly one out of three businesses continues to need external financing to cover operating costs), and businesses still have a cautious, wait-and-see attitude towards borrowing.

On the other hand, a positive development also confirmed by the businesses' responses is the spillover effect of the interest rate cutting cycle started in the summer of 2012 on borrowing rates: the perception of this borrowing condition shows the greatest improvement since the surveys conducted last autumn and in the spring of 2012, and it has not been listed among the four worst perceived factors for the second time in the history of MFB INDICATOR (since the Summer 2010 Survey) (Chart 5).

In comparison with the previous two surveys, businesses also experience improvement in banks' willingness to lend.

Of the four indices, the Investment Index (68.2 points, +17.6 points) shows the greatest improvement, primarily as a result of a record high willingness to invest: while 50% of the businesses participating in the survey are definitely planning developments for the next twelve months, the proportion of those firmly rejecting the idea has never been this low. This upturn in investment planning is underpinned by a change in capacity utilisation: the proportion of businesses struggling with excess capacity has yet again dropped below 50% after the Autumn of 2011 (Chart 6).

Regarding the perception of drivers of development, besides anticipated growth in external and internal market activity, the role of increased revenues has strengthened.

Chart 4: Export sales

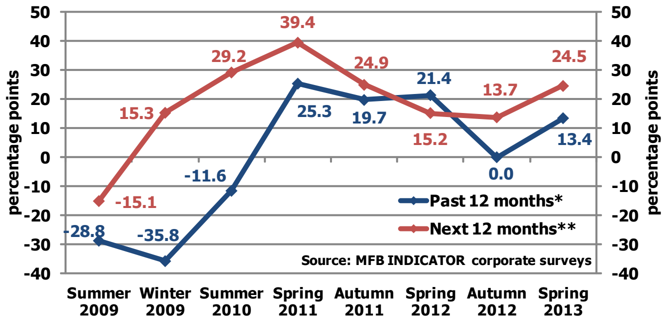

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Chart 5: Changes in the view of borrowing conditions* compared to the Autumn 2012 and Spring 2012 findings

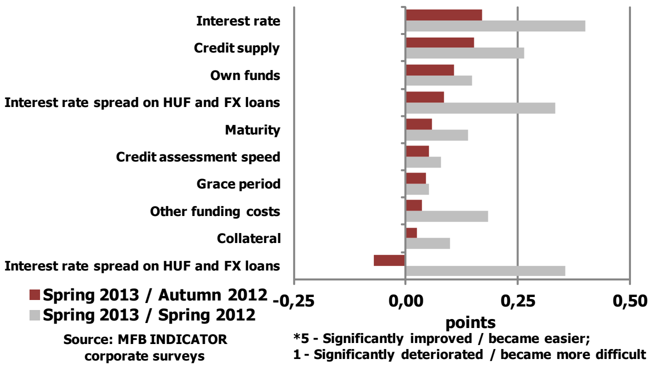

Chart 6: Trends in the percentage of companies planning investment in the next 12 months and the proportion of companies with excess capacities