MFB INDICATOR

Corporate survey by the Hungarian Development Bank

Autumn 2013

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MFB INDICATOR at a record high: Company perceptions indicate a further improvement in the macroeconomic and market environment, never-before-seen percentage of companies is planning investments, increase in companies' willingness to borrow

Companies are in a definitely optimistic mood according to the results of MFB's Autumn 2013 corporate survey based on the answers of 560 companies. The MFB INDICATOR prosperity index derived from the survey data rose by 4.6 points over the past six months, and hit 57.3 points in October, beating even the record high of Spring 2011. (An index above 50 points represents a positive change in Hungarian economic processes, and optimistic corporate expectations.) As far as the sub-indices were concerned, the Macroeconomic index, which measures changes in the macroeconomic environment, and the Investment index, which describes investment plans, both rose to levels never seen before in the history of the survey. Meanwhile, the Market index, which indicates trends in market conditions, and the Financing index, which represents financing situations and plans, peaked at a two-and-a-half-year high. The improvement in the MFB INDICATOR was due largely to the increase in the Macroeconomic and Market indices, but the Investment index continues to be the highest among the sub-indices (Chart 1).

Companies that experienced an improvement in the macroeconomic situation during the past 12 months expect the economic framework to continue to improve over the next one-year period. One key aspect of the positive turn in company outlooks is that in addition to an expansion of foreign sales, domestic sales could also move away from their standstill over the coming months. These more optimistic market expectations could be one of the reasons why the percentage of companies planning to invest is at an all-time high in the history of the survey (70.0%); this is further supported by the improvement in expectations regarding positive changes in borrowing conditions and the rise of capacity utilization.

The Autumn 2013 results indicate a significant improvement in the perception of the macroeconomic conditions of corporate operation: for the first time in the history of the survey there were more companies experiencing a turn for the better (35.3%) than there were companies perceiving a deterioration in economic processes (29.0%).

On average, companies expect a 1.3% rate of GDP growth for the 12 months between Autumn 2013 and Autumn 2014, but the current state of the Macroeconomic index (48.9 points; +6.6 points compared to Spring 2013) implies a higher GDP growth rate of around 2% for this period (Chart 2). **(Continued on page 2)**

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

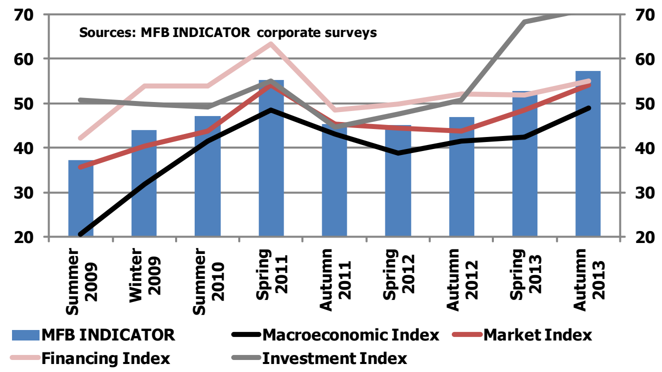
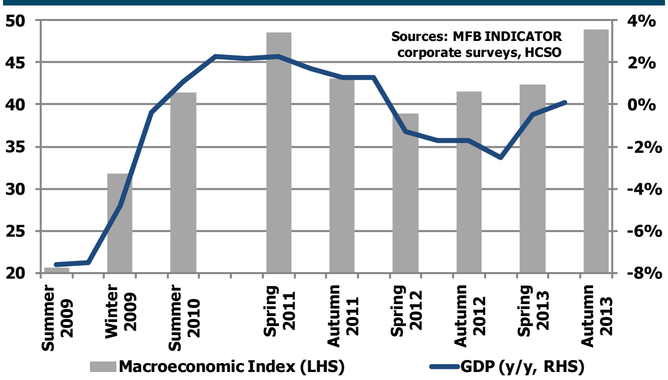


Chart 2: Macroeconomic Index and the Hungarian GDP



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The increasing optimism towards expected trends in both domestic and foreign sales contributed to the rise of the Market index (54.2 points; +5.8 points). The relative majority of companies (41.0%) were able to increase their turnover over the past one-year period, and almost every second corporation (45.3%) expects this trend to continue through the next 12 months. As a result, 38.2% of the companies already wait improved operating results.

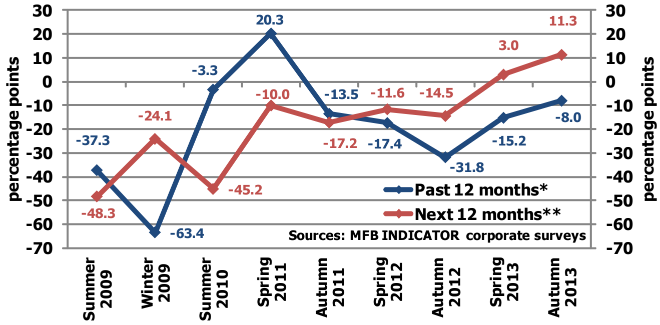
The majority of companies (50.7%) still expect no change in domestic sales, but the percentage of those that anticipate growth already exceeds those foreseeing a decrease by more than 11 percentage points (this is largely due to the fact that only 19.0% of companies await a shrinkage in domestic sales) (Chart 3). The rising external demand is becoming an increasingly important factor in corporate planning: expectations concerning export sales have almost reached the Spring 2011 level (Chart 4). The positive change in the market situation is also having a favourable impact on employment: over the past year layoffs have stopped, and more than one-fifth of companies are already planning to expand their workforce in the next 12 months.

The rise in the Financing index (55.1 points; +3.2 points) was due to the simultaneous effect of an intensified willingness to borrow, the improving financing situation of companies, and favourable changes in borrowing conditions. The Autumn 2013 results indicate a change from the 'wait and see' approach and prudency in obtaining external financing that was typical in previous surveys: for the first time since Spring 2011 the percentage of companies planning to obtain funding was over 50% (52.2%), and only about one-fifth of companies rejected this possibility. A slow consolidation can be observed in the financial situation of companies: while during the slump of Spring 2012, 35.8% of companies were in a critical financial situation (meaning that their revenues did not entirely cover their operating costs), this ratio diminished to 29.7% by Autumn this year.

The improvement in borrowing conditions that took place in the last six months is reflected in companies' responses as well: by the time of the Autumn survey, the base rate reduction cycle had already begun to have a ripple effect on corporate loan interest rates, making forint loans increasingly competitive compared to foreign currency credits. The Hungarian National Bank's Funding for Growth Scheme also caused a turnaround in loan supply: the companies that took the survey experienced a positive change in banks' willingness to lend (Chart 5).

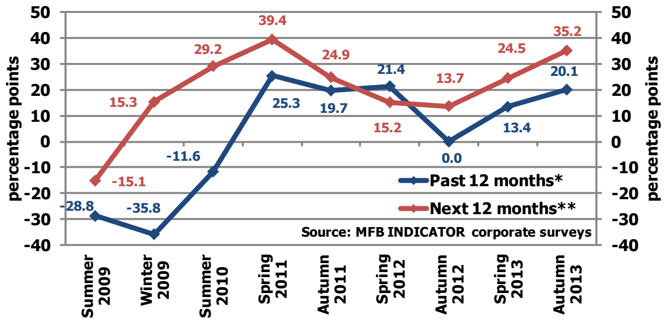
The Investment index (71.2 points; +3.0 points) has been still the highest among the corporate survey's four sub-indices, however, after taking a leap in Spring 2013, this time this sub-index rose at the smallest pace. The percentage of corporations planning investments in the following 12 months increased to a record-high level (70.0%) never seen before in the history of the survey. Besides the improving capacity utilization it was thanks to the long-overdue investments which became financeable due to the decreasing interest rates and increasing credit supply (Chart 6). This aspect is strengthened by the fact that among the development incentives long-overdue investments is the most important followed by the intense market competition. In practice it may mean that corporations would replace above all their depreciated assets and extending investments would take place only after that.

Chart 3: Domestic sales



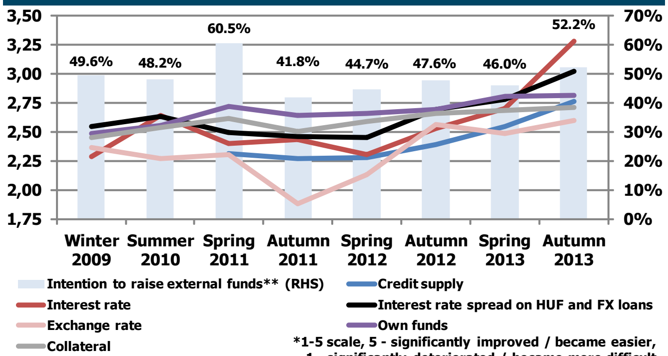
*difference between the share of firms increased their sales and that of those facing decline in sales
**difference between the share of firms expecting increasing sales and that of those expecting declining sales

Chart 4: Export sales



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

Chart 5: Changes in the view of borrowing conditions*



*1-5 scale, 5 - significantly improved / became easier, 1 - significantly deteriorated / became more difficult
** percentage of firms having intention to raise external funds

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