

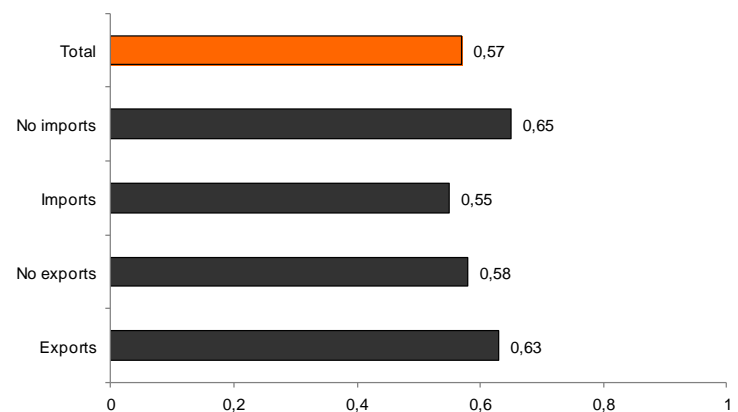
In 2013 the HCCI Institute for Economic and Enterprise Research (IEER) prepared a survey commissioned by the Hungarian Chamber of Commerce and Industry regarding the planned free trade agreement between the EU and the U.S. The research gauged the opinion of Hungarian companies toward the free trade agreement. The planned treaty is a bilateral trade agreement between the European Union and the United States to dismantle existing trade barriers and to harmonize a variety of technical, engineering, and legal regulations. During the survey, 242 companies completed the questionnaire online and 231 companies were queried over the phone by staff appointed by the IEER. Thus, the sample comprises a total of 473 companies.

In the following analysis we focus on how opinions toward the free trade agreement (FTA) are formed at companies with import and/or export activities as well as those with or without any existing connection to the U.S. The results show that a relatively broad range of companies are familiar with the proposed free trade agreement: 57% of respondents have heard about it. In the case of implementation of the convention, companies are of the view that its effects will be felt more at the relevant corporate sector level as opposed to directly in the case of their own business. Both at the corporate sector and the individual levels, most companies do not think that the convention will have either an overly positive or negative effect. Companies with interests in the US are dominated by positive expectations at both the corporate sector and individual levels; this group contains less of those that are uncertain, those who feel they are unaffected by the agreement, and those that count on negative consequences. The latter results, however, cannot be generalized because of the small number of cases, and thus must be regarded with reservation.

Overall 57 percent of respondents have heard of the free trade negotiations between the European Union and the United States, thus it can be said that the majority of business leaders have some knowledge about the planned convention. The negotiations are more familiar among exporters as opposed to importers. While for 55% of the latter the issue in question was not new, among exporters the rate of those who had heard about the drafting of the convention was 8 percentage points higher, that is, this information had reached 151 companies, and of the 239 exporting companies only 88 had no information yet about the matter. Among those firms that are not involved in either exporting or importing this ratio is reversed; those not involved in importing are more likely to have heard of the convention. The majority among those not involved in export activities have heard of the convention: 58% answered that the subject is not unknown to them. Proportionately, however, a greater number of those firms not involved in import activities are well-informed with 65% of them having heard of the negotiations and 35% of them not.

In general we can say that for the majority of business leaders, there won't be any direct impact of the free trade agreement either on their relevant corporate sector or on individual firms in particular. However, for those who assume some sort of effect, the FTA will more likely have a positive impact. Of those who are unsure about the direction of the effect, 18% feel it will have an impact at the corporate sector level and 16% at the level of individual companies. Entrepreneurs feel that if the negotiations will be successful and the free trade agreement will come into force, then it will have an effect more likely on the corporate sector level. This is clearly seen in that 39% reported that it would have no impact on their individual businesses. For those who don't

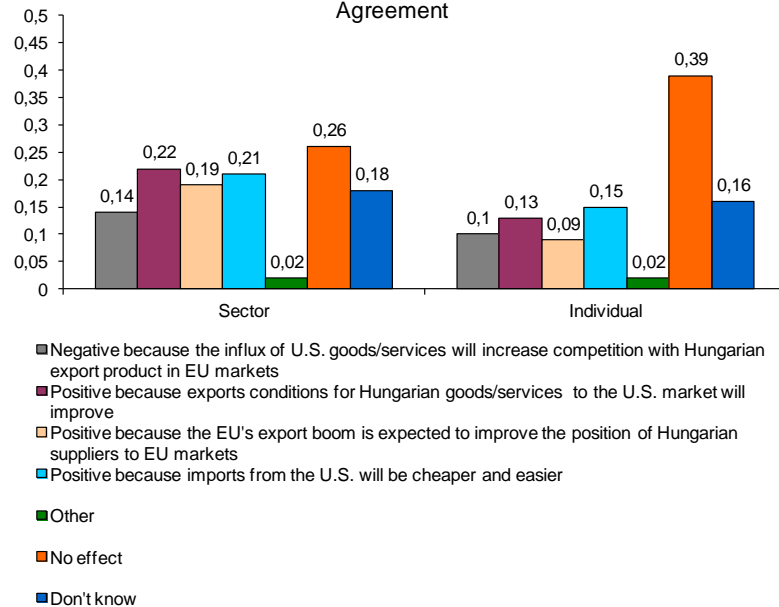
Notoriety of the Free Trade Agreement



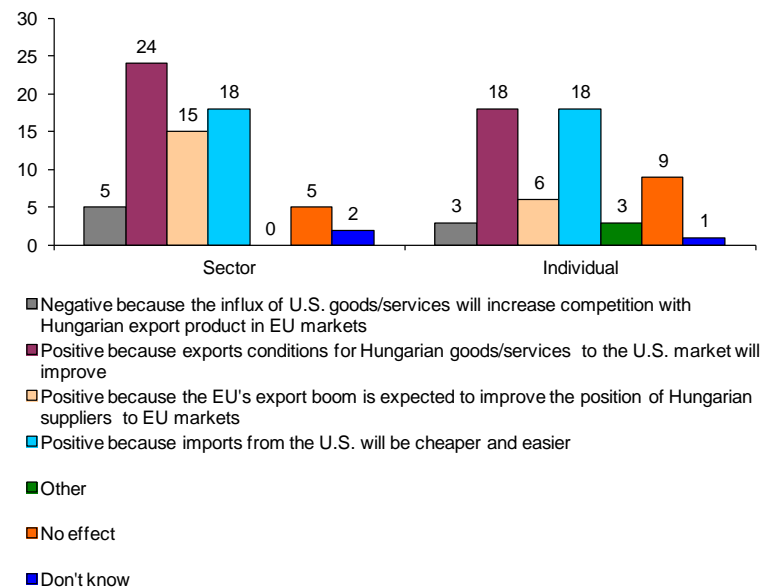
see an impact at the relevant corporate sector level, this rate stands at 26%. In terms of the corporate sector level, 22% of companies expect that the convention will improve the export conditions for Hungarian goods and services to U.S. markets. Meanwhile, 21% believe the positive effects would manifest in cheaper and easier U.S. imports. Another 19% say that an improvement for Hungarian suppliers can be expected in the EU markets due to the fact that the effect of the convention would be to boost EU exports. According to 14% of company executives, the influx of American products and services would increase if the convention was implemented, which means Hungarian export products would be in an increasingly competitive environment, which would clearly have a negative impact on relevant corporate sectors. With regards to the impact on individual companies, there is less emphasis on both the expected positive and negative effects since the proportion of those that assume no change as a result of the FTA is high. In addition, the proportion of those with negative expectations for their own company is more pronounced. While 10% of managers assume increased competition, only 9% feel it would improve opportunities for their own companies as suppliers to EU markets. More companies assume that imports from the U.S. would be much easier and cheaper for their own company, than those who think that the export conditions of Hungarian products and services to the U.S. would improve. While for at the corporate sector level 21% think that U.S. imports will be easier and 22% expect export conditions would improve, in the case of individual companies more expect a simplification in the condition for imports (15%) than an improvement in export conditions (13%).

The sample contains very few firms that have connections to the U.S.: only 47 companies have direct commercial relations with the United States, whether in terms of imports or exports. Despite the small sample we find this grouping interesting considering that companies involved in U.S. foreign trade are better informed and have more positive opinions toward the convention. It is important to emphasize that due to the features of the survey the results obtained about companies with interests in the U.S. should be treated with reservation and by no means generalized. Companies involved in trade with the U.S. have a slightly more refined opinion on the potential agreement than other companies. They are less inclined to feel that such a convention will have no particular impact on their company or are not sure of exactly what changes they should take into consideration. In general, they have given specific responses, and the positive effects have been emphasized more strongly. This is primarily due to deeper knowledge, more detailed information, or even existing experience. We should also take into account that because of certain interests they are more biased in connection with the agreement. In terms of both the corporate sector and individual company levels, positive expectations in terms of the future for their firms

Company Views toward the impact of the Free Trade Agreement

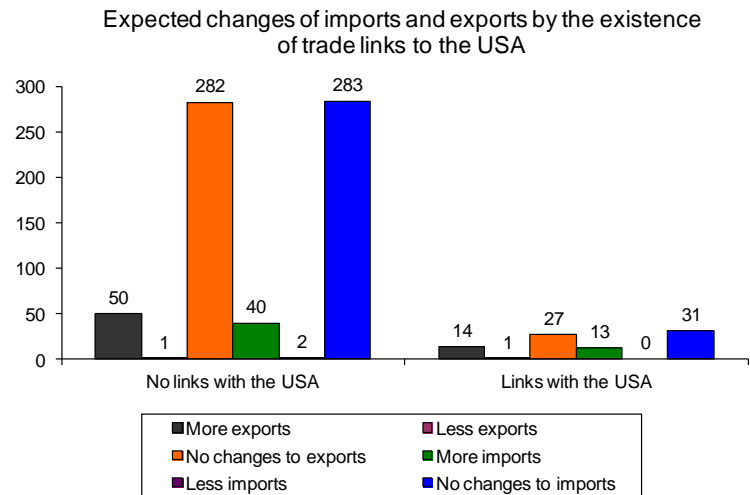


Views toward the impact of the free trade agreement of companies linked to the USA



dominate. Looking at the level of individual companies, 16 US-linked firms expect a simplification of imports from the U.S. and 16 expect an improvement in the conditions for the export of Hungarian products. However, only 6 companies expect an improvement of the supplier possibilities to the EU. At the corporate sector level, 24 companies expect an improvement in export conditions, 16 of them count on a simpler and cheaper trading system, while 15 of them consider an improvement of exports as a consequence of the free trade agreement. The negative effects due to the increasing competition of the market environment are regarded by five at the relevant corporate sector level and three for individual businesses. Among companies with links to the U.S., there are fewer that do not expect any impact as well as those who cannot answer.

Most company managers assume that their company will not import or export either more or less, whether they are firms which have American interests or don't deal with U.S. at all. There are few companies that expect trade to increase in the case of the convention coming into force. Among those companies that expect an increase of imports, 13 trade directly with the U.S., while 40 are not involved in the U.S. market. In terms of exports these numbers were as follows: 14 and 50 respectively. For both imports and exports, the number of companies for which the agreement is expected to reduce the volume of trade is insignificant.



## Macroeconomic trends: Ifo forecasts for the period 2013-2014

Below you will find the German Ifo economic institute's forecasts for 2013-2014. According to the researchers at the institute, the upwards tendency of the Ifo Business Climate Index indicates an increasing rate of aggregate economic production growth. While both domestic and world economic conditions improved, the uncertainty on the part of domestic investors has not decreased substantially. The outlook for private households' income is favourable which is coupled with an expected economic expansion driven by the domestic economy. Researchers expect German GDP to grow by approximately 1.9% in 2014 with an uncertainty interval of 0.8% to 3.0%.

### World Economic Situation

The Ifo research institute observed an increasing rate in global economic expansion with world trade increasing more than at the beginning of 2013. After four years, industrialized countries regained their role in driving the economic expansion. In the USA and GB private debt continued to decrease accompanied by expansive monetary policy.

In the meantime emerging economies performed relatively weakly suffering from outflows in foreign capital. Experts at Ifo research institute say that less restrictive fiscal policy and the Outright Monetary Transactions (OMT) programme helped the euro area get out of the recession lasting for over a year. The economy of the monetary union still remains in poor and fragile state due to huge private and/or public sector debts. Researchers believe that the root of the problem is in the lack of competitiveness which is hard to resolve due to the conflict between short and long-term goals.

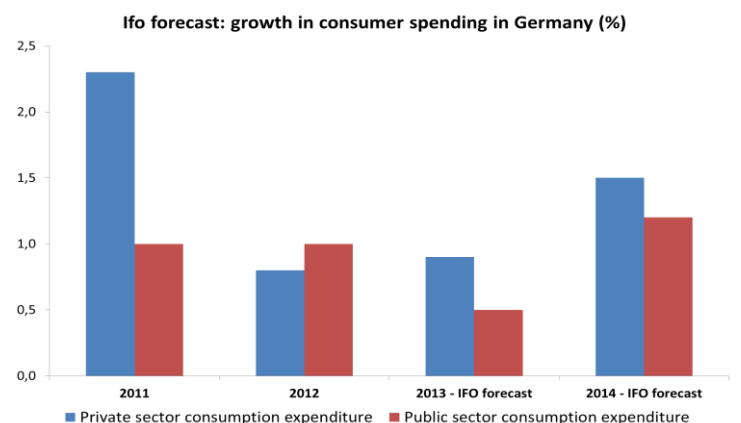
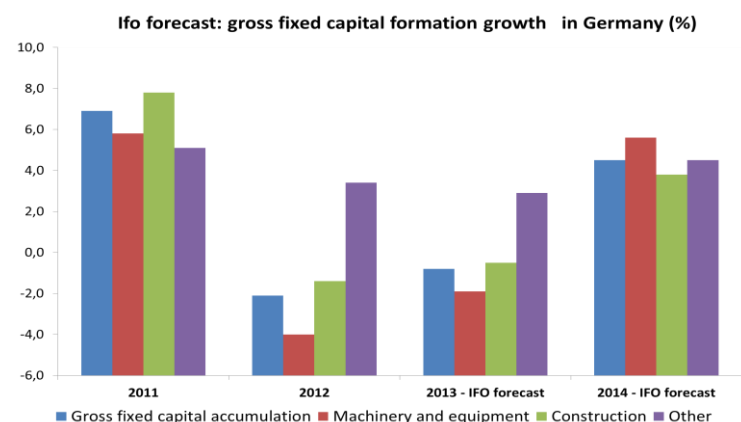
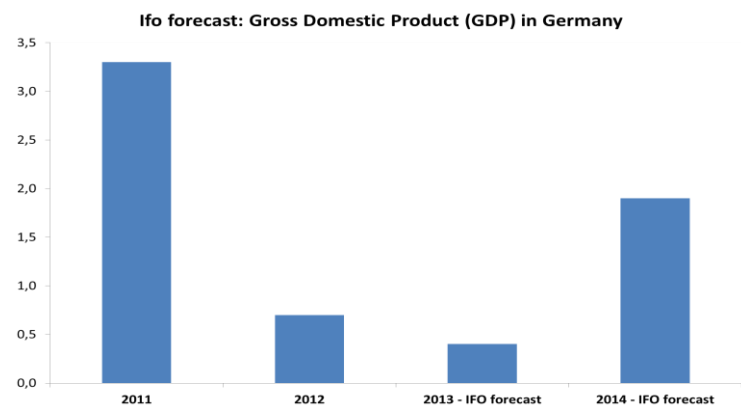
### Assumptions

These predictions by Ifo research institute are made in the light of the assumption that the euro crisis does not escalate further, with proceeding structural adjustments in the euro area. While the ECB's loan assistance and OMT programme increased economic stimulus in many countries, the lowered refinancing costs also reduced the pressure to reform. The prediction assumes no long-term deflation on average and also no price bubbles are expected.

### World Economic Outlook

The Ifo expect an increasing global economic expansion led by advanced economies, caused by expansive monetary policy and better private household asset position. Less contractive fiscal policy is also expected.

While several euro area members are still facing serious structural problems the slow recovery is expected to continue due to a boost to the domestic economy caused by a decline in import trends. Experts at Ifo forecast high debt and unemployment levels with decline in domestic demand in crisis-afflicted economies. Less restrictive fiscal policy is



establishing a short-term domestic demand but also undermines long-term competitiveness.

GDP in the euro area is predicted to fall by 0.5% in 2013 and to increase by 0.7% in 2014. The main sources of this growth are expected to be stable economies like Germany and Austria while crisis-afflicted countries will only grow marginally or continue to shrink. Unemployment rate is forecasted to remain at 12.2% with the high underemployment causing the inflation to drop to 1.4% in 2013 and to 1.1% in 2014.

### The German economic situation

Recovering from the European debt crisis the German economic situation improved over the summer months. With good income and favourable financing conditions, confidence of firms and customers in Germany both increased. This benefitted domestic consumption and investment with focus on equipment and construction investments.

Experts say that labour demand remained high with an increase in the average working time. Although companies are willing to increase employment, the number of unemployed has nevertheless increased over the year as a whole partly due to migratory inflows from crisis-afflicted countries. The rise in wages over the summer has stopped and increased unit labor costs in winter 2012/13 fell slightly.

### German economic outlook

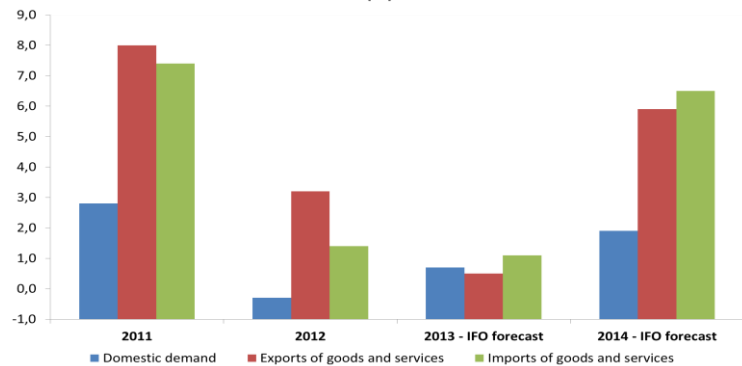
The German production is expected to have increased by 0.3% in the last quarter of 2013 and continue to increase in a rate of 0.5% in the first quarter of 2014.

Domestic consumption will benefit with a favourable trend in income while recovery in construction will continue, analysts say. Production capacity utilisation and investment in equipment is also predicted to raise due to favourable financing conditions. While world export demand increased, German exporters are expected to be slightly less competitive than their main trade partners in 2014 which can be linked to weak demand from the euro area. No increase in GDP is forecasted resulting from foreign trade.

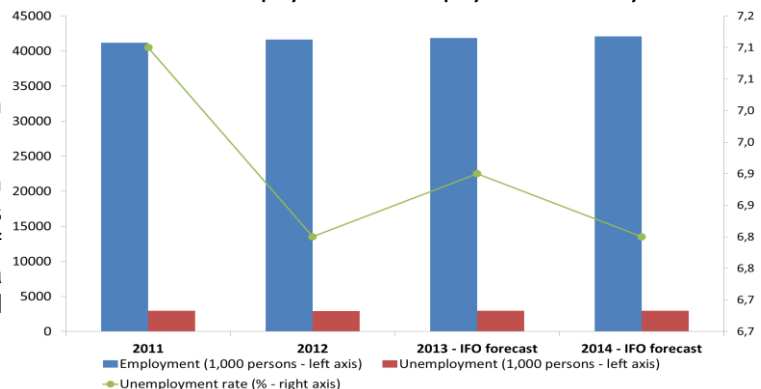
All in all, real gross domestic product in 2013 is expected to have exceeded the 2012 average by 0.4%. The Ifo research institute still expects a rise by 1.9% next year versus 2013 which corresponds to its summer assessment.

Experts expect the employment figures to increase slightly supported by next year's expanding production. Domestic employment expected to have increased by 230,000 people on average in 2013. The Ifo research institute observes emerging shortages in different labor market segments (especially in skilled labour). The unemployment rate is forecasted to decrease from 6.9% to 6.8% which assumes that the constraining impact expected from the new minimum wage will not take effect during next year.

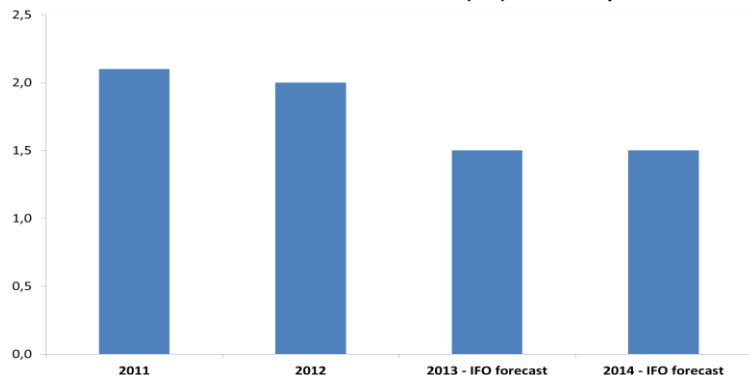
Ifo forecast: domestic and external demand growth in Germany (%)



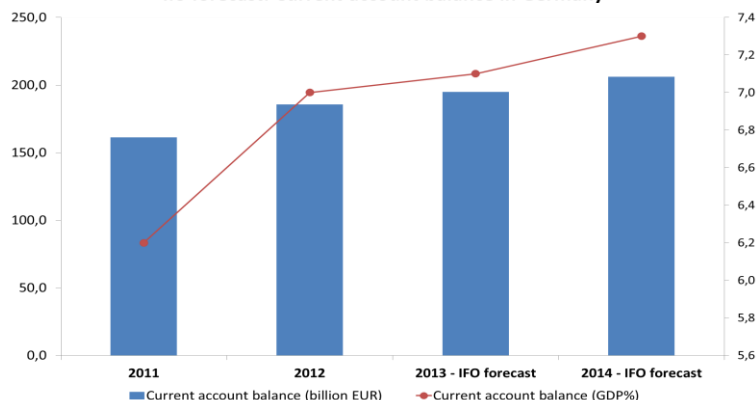
Ifo forecast: Employment and unemployment in Germany



Ifo forecast: Consumer Price Index (CPI) in Germany

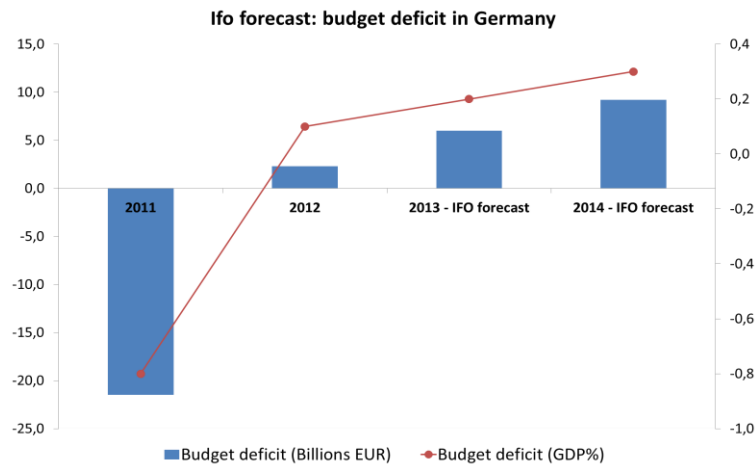


Ifo forecast: Current account balance in Germany



The Ifo research institute forecasts the inflation to remain moderate affected by the lower energy prices as a curbing factor. Reduced labour costs are expected to ease the price pressure, with the consumer price level expected to increase by 1.5% in 2013 and 2014. German state budget surplus is predicted to be 0.2% in 2013 which will result in expected fall of the general government gross debt from 81.2% to around 75% this year.

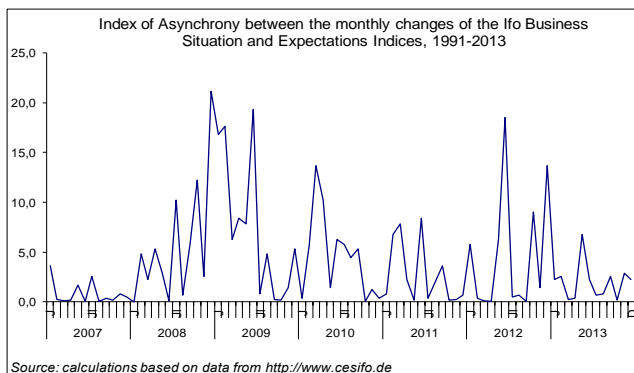
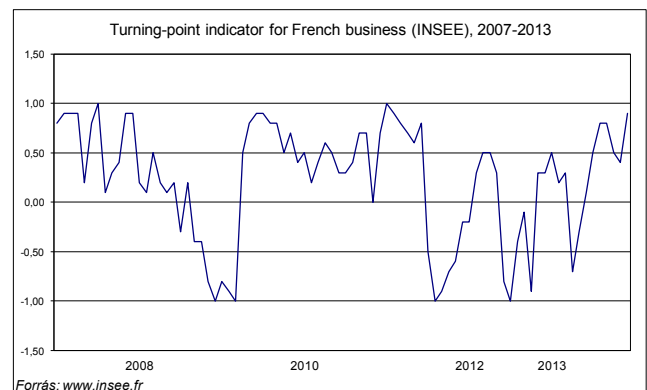
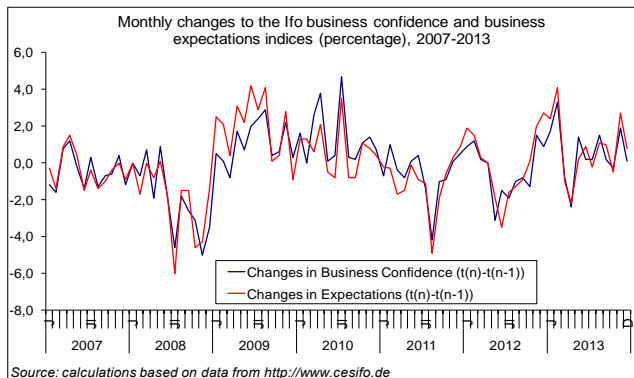
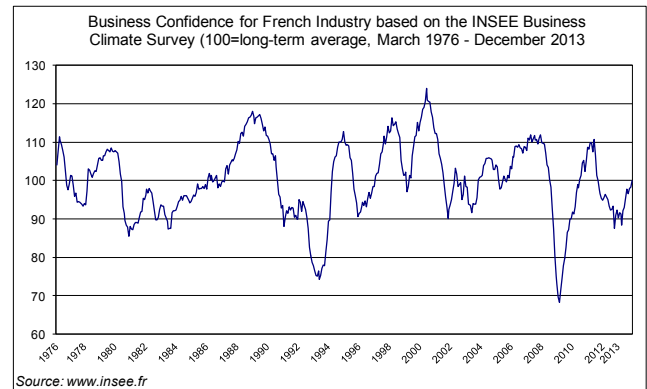
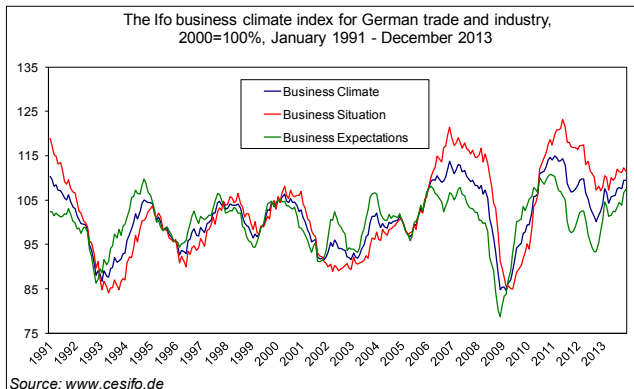
Source: Ifo (<http://www.cesifo-group.de/ifoHome/facts/Forecasts/Ifo-Economic-Forecast/Archiv/ifo-Prognose-17-12-2013.html>)



## International trends

The Ifo Business Climate Index for German industry and trade increased again in December 2013. Satisfaction with the current business situation fell back slightly while expectations for the next six months rose to a more optimistic level compared to the previous month. The gap between the current business situation and expected developments, as calculated by the IEER index of asynchrony, fell slightly in December, so the business confidence index showed less uncertainty than in the previous month. Ifo analysts see the German economy still performing very well. (Source: Ifo, <http://www.cesifo-group.de>)

According to the French statistical office (INSEE) survey of business leaders interviewed in December, French industrial sentiment has improved. The INSEE business confidence index rose by two points, again reaching its long-term average, which had not been seen since September 2011. The turning point indicator has increased and continues to be in the favourable business climate zone. The individual business forecast index of company managers increased and reached its average value. The overall outlook index – which represents a summary of respondent opinions on French industrial activity as a whole – showed an increase again in December, and was close to its long-term average. (Source: INSEE, <http://www.insee.fr>)



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