

On June 1, 2013, the National Bank of Hungary launched the Loans for Growth Program (NHP), albeit the details of the program had been known several months earlier. For the July 2013 SME Outlook survey by the HCCI Institute for Economic and Enterprise Research (IEER) the leaders of small and medium-sized enterprises were asked about bank loans and the NHP Program.

The results show that a little more than half of small and medium-sized enterprises have some form of bank loan. The most common type of credit is working capital loans (including account loans) and companies hold mostly forint-denominated loans.

During the first half of 2013, barely one third of SMEs intended to take out a loan. Most companies considered a working capital loan (account loan) while two-thirds of the firms planning to borrow took into account the NHP when making the decision. In the end, three-quarters of those planning to borrow made a loan application, of which the vast majority occurred within the NHP.

The current loan portfolio of SMEs

In July 2013 58% of small and medium-sized enterprises had a bank loan. These were most widely used as working capital loans (including account loans), with some 47% of firms reporting such a loan. Investment loans were taken out by 29% of the companies. Loans taken out to replace forex based loans, loans in a foreign currency, or financial lease loans represented 9%, while those who used a loan to cover their share for EU funding or as a source of pre-financing stood at 5%.

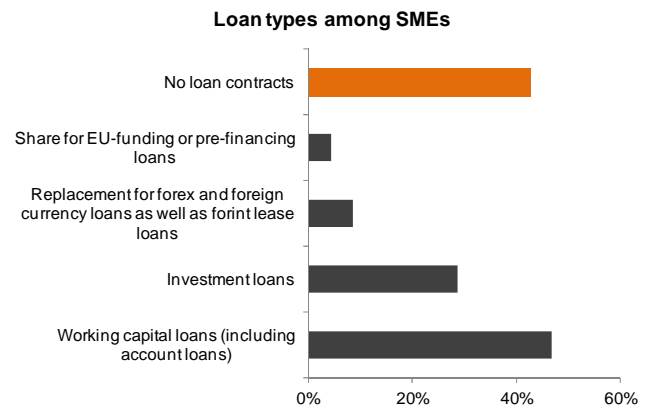
Of the companies surveyed 77% had a bank loan based in forints. Of these, 40% also had a euro-based loan and 4% had a loan in Swiss francs. Loans based on other currencies have not been reported by the companies surveyed. On average, 31% of the loan portfolio of companies is foreign currency loans.

SME borrowing intentions for the first half of 2013

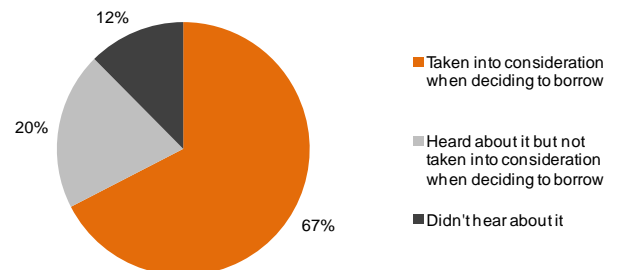
During the last half year 30% of small and medium-sized businesses intended to take out a loan. Of these companies 64% considered a working capital loan (or account loan) while for investment loans this rate was 39%. Those planning to take out a loan to replace foreign currency based loans or financial lease loans stood at 8%, while the rate of those planning to cover their share for EU funding or as pre-financing credit was 7%.

Two-thirds of the companies planning to borrow reported they took into account the Loans for Growth Program (NHP) when deciding to make the decision to take out a loan. While 20% had heard about the NHP but did not take it into account when making their decision, 13% of those planning to borrow had never even heard of the NHP.

Three-quarters of those planning to borrow eventually ended with a loan application. Of these loan applications 85% were made within the NHP Program.



Consideration of the NHP Program among SMEs when planning to borrow



Macroeconomic trends: The situation of the marginalized in Central-Eastern Europe

The following analysis presents the current situation of economically, socially or educationally marginalized groups, who are subsequently forced to the periphery in Hungary and other countries of the Central and Eastern European region. So-called soft indicators are used, such as individual and regional inequalities, the ratio of the low-skilled, the proportion of people living below the poverty line, or healthy life expectancy at birth. In the development of these indicators both economic (market) processes as well as the political and social environment also play a role. Statistics for four countries are compared: those in the Czech Republic, Poland, Slovakia and Hungary. We can see that in Hungary, a relatively higher proportion of the population are at risk of poverty compared to the region, and this rate could not be reduced in the examined period of time. We find that equal access to education and participation in the labour market are important factors in the fight against poverty.

Economic climate

The overall economic and income situation in a country is one of the major factors for those who are marginalized. Using purchasing power parity measured in terms of per capita GDP, economic performance is a normal means of comparison. Both at the beginning and end of the period in review, Hungary was in the middle range, but we also see that in the period from 2005 to 2012 the growth rate of the Hungarian economy was behind the pace of development of the other countries being compared.

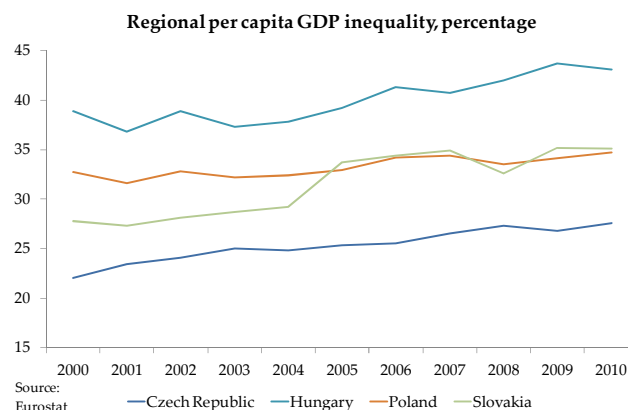
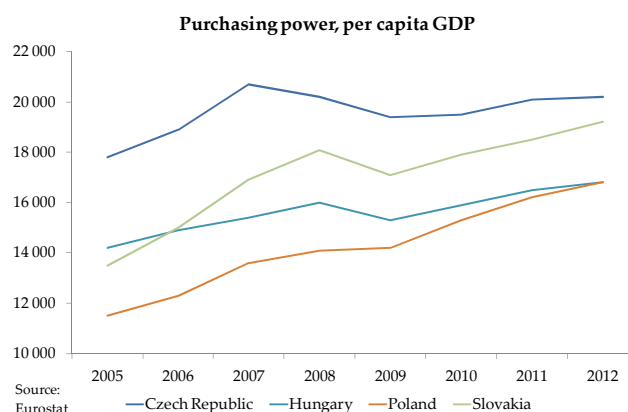
Economic inequality

Economic (income) inequality within each country can be divided into two components. Income inequality arising from the economic performance differences of various regions are presented separately. In Hungary, the disparity between counties is very high. This inequality is due to the differences between the capital and advanced west, on the one hand, and the economically challenged eastern part of the country, on the other. We also find that during the period in review the regional disparities increased in each countries in comparison.

The other component of inequalities is the individual-level income inequality. In Hungary, the individual-level income inequality measure known as the Gini coefficient complies with the regional average. This means that the income gap is not larger in Hungary than in other countries in the region, but its territorial imbeddedness is stronger. High income inequality can only be observed in the case of Poland.

Poverty

High income inequality may be related to the high levels of those who are marginalized and impoverished, but the two don't necessarily go together. In order to obtain a complete picture of the extent of poverty, a direct approach needs to be adopted, .i.e., the proportion of the poor should be



observed directly. It must be noted that many definitions of poverty are used. Some groups are considered poor that do not attain an income limit (e.g., a dollar per day). Another possible definition uses a system of several terms for determining the level of poverty; for example, included among the criteria used is access to education, access to health care, housing, food, drinking water and the presence of other basic goods. This definition strategy works quite well and generally reflects what we mean when we talk about poverty, but collecting this kind of data is too resource-intensive and therefore the data coverage is low. An example is an indicator called MPI (Multidimensional Poverty Index).

The basis for our study of the data presented is a combination of such definitions, which takes financial aspects and life circumstances into account. The surveys were a part of the European Union's "Europe 2020" program for fighting poverty, from which frequent and accurate information can be obtained.

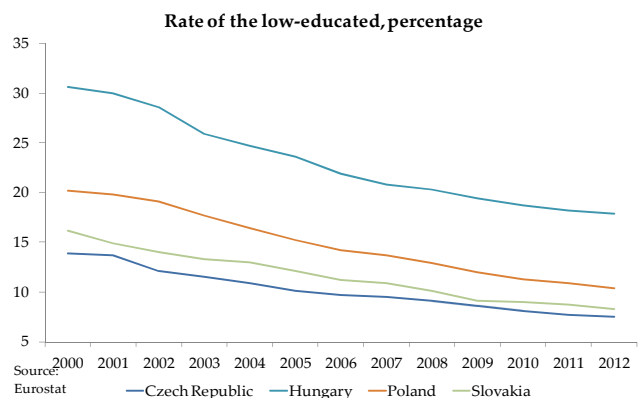
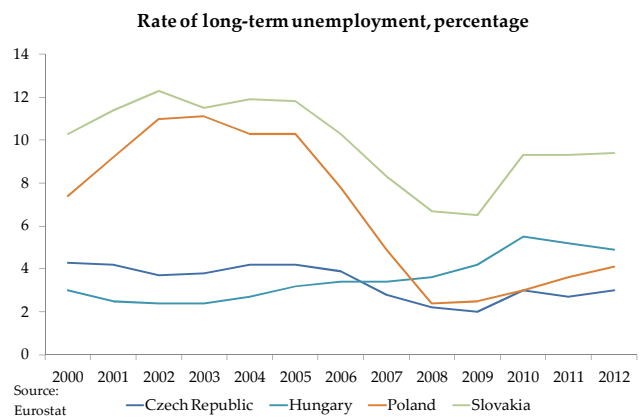
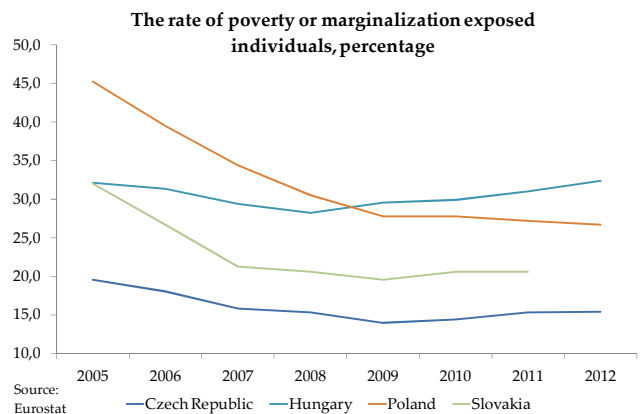
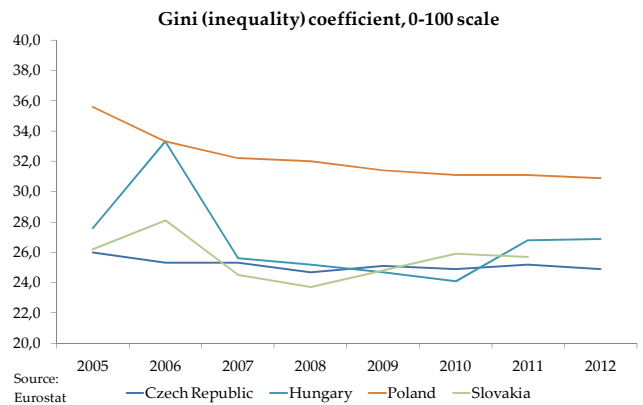
The data show that in Hungary the proportion of those exposed to poverty has not declined. This rate is 23-24% for the EU27 average, i.e., the Czech Republic and Slovakia perform better than the EU-average. Poland has a higher rate than the EU27 average, but in this case we can see a slow convergence.

One of the major causes of poverty is the lack of education and the possibility of labour market participation.

The proportion of the long-term unemployed in Hungary in recent years was 4-5% of the working population, which is not outside of the regional average. However, the participation rate of 15-60 year-olds was typically 2-4% lower than in Poland, and 3-6% lower than in the Czech Republic and Slovakia. This difference is mostly due to so-called desperate job seekers who are similar to the long-term unemployed group.

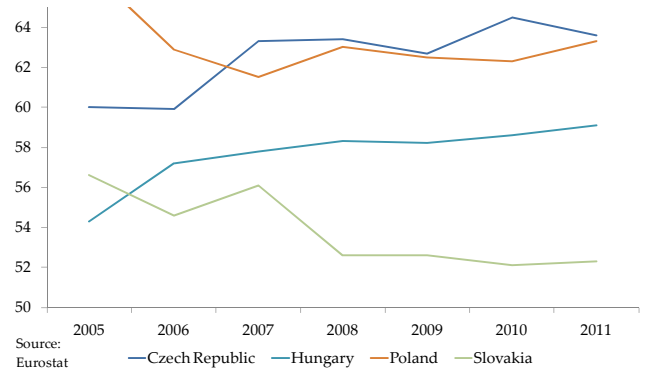
The proportion of low-skilled workers expresses the percentage of those who have reached 24 years of age but failed to get a higher qualification than primary school. In Hungary this rate is extremely high; we are behind Poland by more than a decade, which has the second highest rate in the region. The possibility of access to education is not equally available to everyone; in Hungary, this has led to vast inequality, which is regionally embedded similarly to poverty and income inequality. Improving access and revamping the return of secondary education is of primary importance for the poor in marginalized regions.

As mentioned before, health also plays a role in some definitions of poverty, but the data we presented did not reflect on this aspect. The main reason for this is that health differences among countries with a similar state of development depend to a lesser extent on financial factors and for the most part more on cultural habits; accordingly, it is less closely related to the concept of poverty as in the case

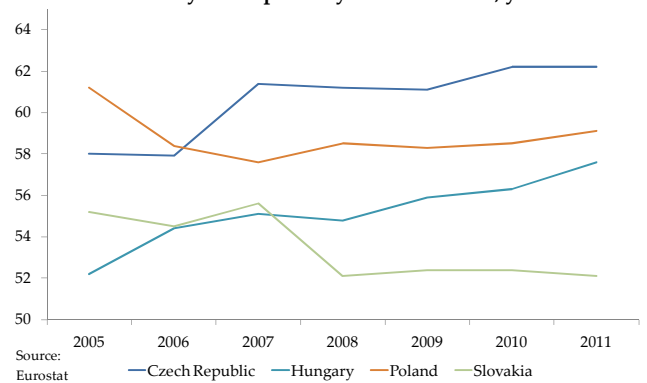


of developing countries. Nevertheless, we do show health status characteristics in terms of one of the most direct indicators, the number of years spent in health. The data indicate that in contrast to other indicators, a tendency for improvement in Hungary can be reported.

Healthy life Expectancy of women at birth, years



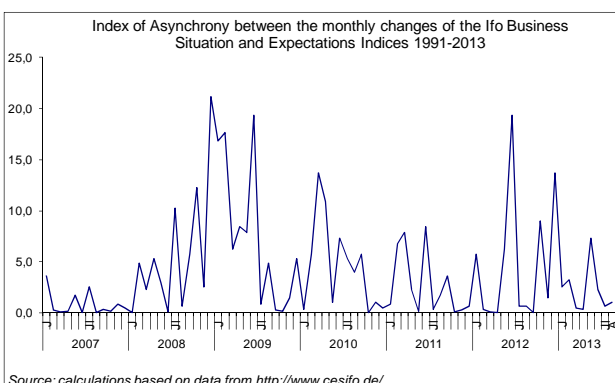
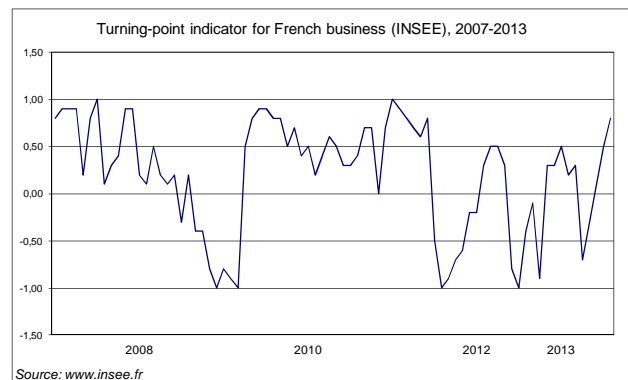
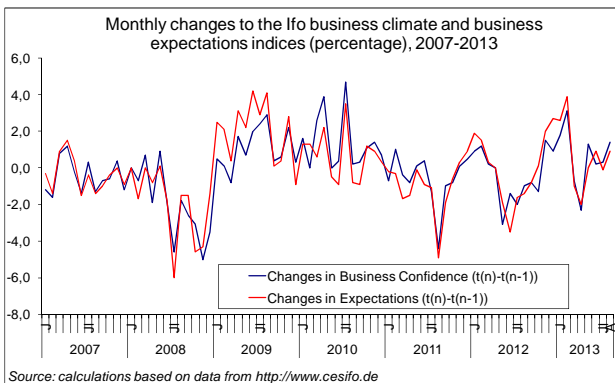
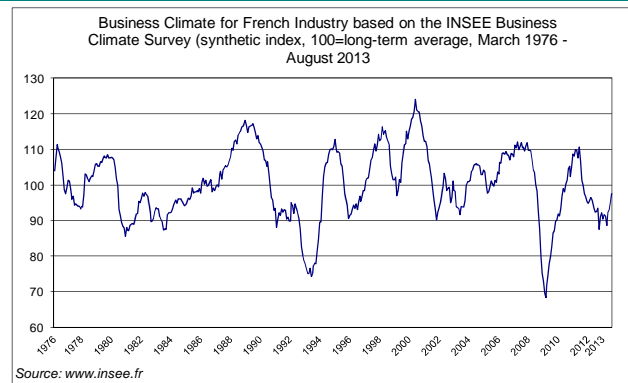
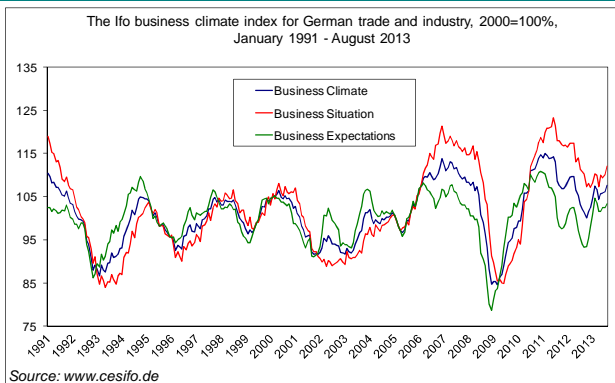
Healthy life Expectancy of men at birth, years



International trends

The Ifo Business Climate Index for German industry and trade showed a fourth consecutive month of increases in August 2013. The companies surveyed were more satisfied with the current business situation than in the previous month. Expectations for the next six months improved slightly, though the optimism is still relatively cautious. The gap between the business situation and expected developments, as calculated by the IEER Index of Asynchrony, increased slightly in August, so the business confidence index is characterized by a slightly higher level of uncertainty than in the previous month. Ifo analysts see the German economy as still performing well. (Source: Ifo, <http://www.cesifo-group.de>)

The French statistical office (INSEE) survey of business leaders interviewed in August finds that the position of the French business climate improved further. The INSEE business confidence index rose three points from the July figure. The turning point indicator has increased and is now in a positive business climate zone. The individual business forecast index reached its long-term average. The overall outlook index -- which represents a summary of respondent opinions on French industrial activity as a whole -- once again increased in August from the previous month's value, but the indicator is still below its long-term average. (Source: INSEE, <http://www.insee.fr>)



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In case of publication, please cite as follows:
HCCI IEER Monthly Bulletin of Economic Trends,
2013 / September, Budapest,
2013-10-11