

Within the framework of the “SME Outlook” research, since January 2005 the HCCI Institute for Economic and Enterprise Research (IEER) conducts a quarterly analysis of the situation of small and medium sized enterprises, their short-term prospects, as well as the economic and institutional factors affecting this business group. For this project a total of 300 companies operating within the fields of manufacturing, construction and services are surveyed and the data is analysed in every quarter. The structure of the sample remains the same from quarter to quarter, with the companies surveyed representing the economic performance and sector distribution of small and medium sized enterprises in Hungary.

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 October 2014 SME Outlook survey the leaders of small and medium-sized enterprises were asked about bank loans and the NHP Program by the IEER.

The results show that 56% of small and medium-sized enterprises have some form of bank loan. The most common type of credit is working capital loan (including bank loans). Companies hold mostly forint-denominated loans.

Euro-based loan is the most common foreign currency loan and mainly used by export-oriented companies, companies in the manufacturing sector and medium-sized firms.

Every fifth company among SMEs have applied for loan under the Loans for Growth Program (NHP). More than half of the companies were interested in working capital loans. Every second company applied for a loan up to 50 million forints. The overall opinion of SMEs is that there are no major changes in the terms of access to loans during the period 2013 and 2014.

The current loan portfolio of SMEs

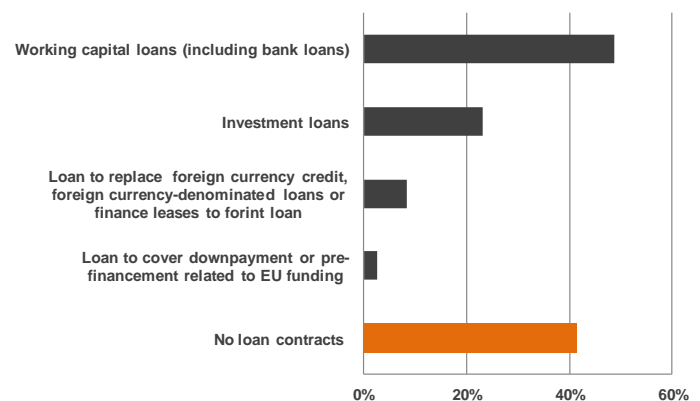
In October 2014, 56% of small and medium-sized enterprises had a bank loan. Concerning the type of loan, working capital loans (including bank loans) were the most common used (49% of the respondents). Investment loans were taken out by 23% of the companies.

Loan used to replace foreign currency credit, foreign currency-denominated loans or finance leases to forint loan were taken out by 9% of the companies, while loans to cover share of the EU funding were the least likely to be taken out (3% of the companies). Taking into account the share of exports in the total sales of the company, data show that working capital loan was the most popular among companies which did not export. The highest proportions of other types of loan were taken out by companies with the share of exports in the total sales between 1% and 50%.

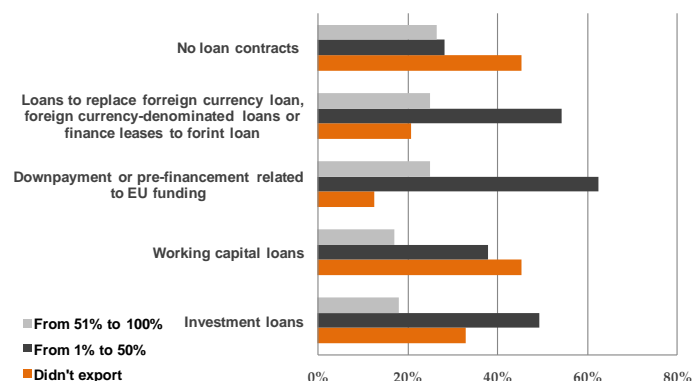
Loans to cover down-payment or pre-finance related to EU funding were taken out the most frequently by the manufacturing sector (87.5%) and the construction sector (12.5%) companies. Further, half of the loan stock used to replace foreign currency credit, foreign currency-denominated loans or finance leases to forint loan were taken out by medium-sized companies (100 to 249 people).

More than 90% of the companies, which answered the question related to the currency of the loans, confirmed that they had a loan in forints. Euro-based loan is the most common foreign currency loan (42% of the respondents).

Loan types among SMEs



Loan types among SMEs by the share of exports in total sales



Loans denominated in Swiss francs have been reported by only five companies.

The survey results show that different SMEs characteristics can impact the attitude toward borrowing in forints or Euros. SMEs that have a share of export sales more than 50% of their total sales are the most likely to borrow in Euros. Namely, 94% of them have a loan in euros, while 71% of them have loan in forints.

Regarding sectors, the findings show that companies in the manufacturing sector are the most likely to have euro-based loan. Every third manufacturing company has a loan in Euros. Also, companies with 100 to 249 people are more likely (57.5%) to borrow in Euros than smaller size companies.

SMEs and the Loans for Growth Program

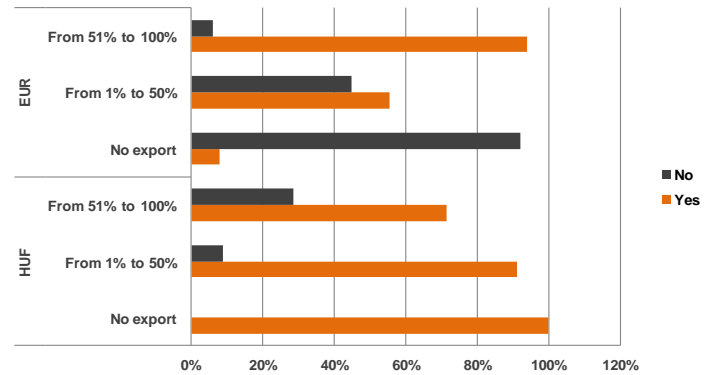
21% of the small and medium-sized companies applied for a loan under the Loans for Growth Program (NHP). More than half (57%) of the companies applying for loan under the NHP were interested in working capital loans (including bank loans), while 46% of them have applied for an investment loan. A small proportion (6.6%) has applied for a loan in order to replace foreign currency credit, foreign currency-denominated loans or financial lease loans. None of the SMEs have planned to take out loan to cover share of the EU funding.

Working capital loan was equally taken out by the non-export oriented companies (41%) and the companies with the share of export from 1% to 50% in the total sales (41%). The highest proportions of the loan to replace foreign currency loan and investment loans were taken out by companies with share of exports between 1% and 50%.

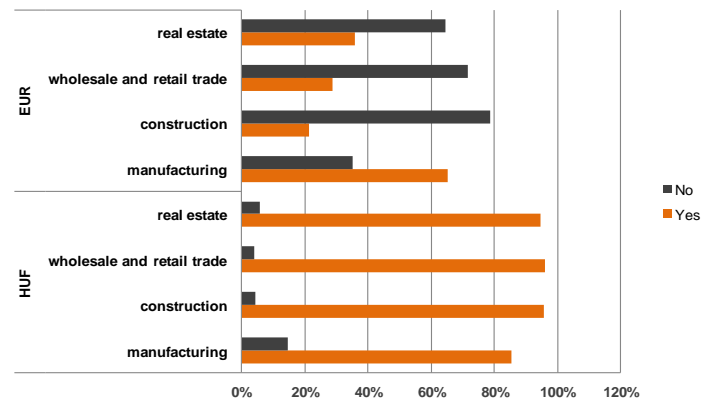
Among those SMEs which have applied for loan under the NHP, almost every second company (49% of them) applied for up to 50 million forints. Loans for 50 to 100 million forints were applied for by 19% of the companies.

The most common viewpoint among all SMEs (47% of the respondents) was that the terms of access to loans had not changed in 2014 compared to 2013. The share of respondents who indicate that the terms of access to loans have become more difficult (19.5%) is slightly higher than the share of those who think they have become easier in 2014 (17%). The results are a bit different if we look at the opinion of SMEs which have applied for a loan under the NHP. In this case, almost half of the SMEs reported that the terms are more or less the same, while 29% of them think that the loan procedure have become easier.

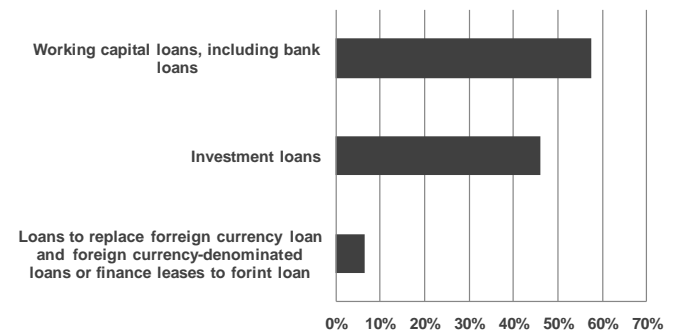
Currency of loans by the share of exports in total sales



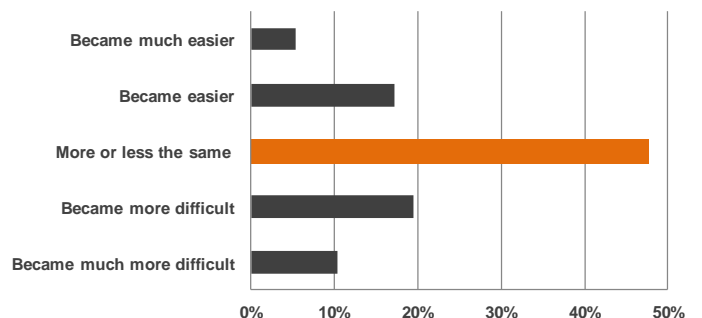
Currency of loans by sectors



Type of loans applied for in the NHP Program



Opinion on how the terms of access to loans changed in 2014 compared to 2013



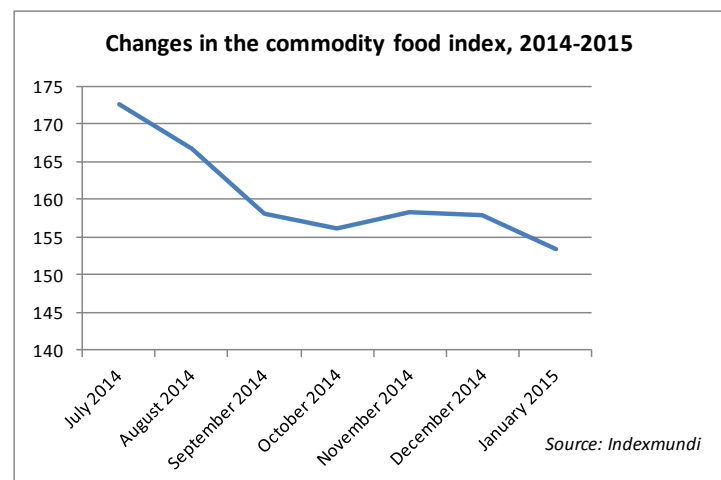
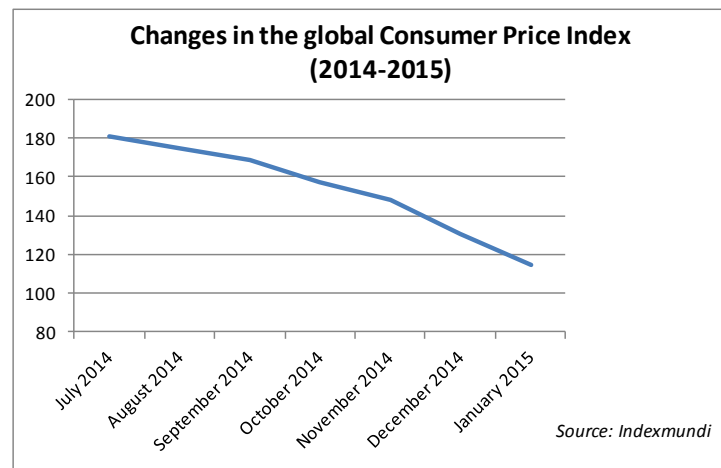
Macroeconomic trends: The decline in global commodity prices and changes in labor costs and productivity

Global commodity prices over the past year have gone through a large decline. Certain foods were an exception, however in January 2015 in these cases as well a decline in world prices was observed. The largest price decrease occurred in the energy market, the main cause being oversupply in the global natural gas and oil markets. A significant drop was observed in the world market price of metals and light industrial raw materials as well. The lowest rate of price decrease was observed in the case of foods. The member states of the European Union and the United States underwent similar trends over the past few years with respect to the development of unit labor costs. Unit labor costs declined until the 2008 crisis, after that they increased in most cases until 2010, and only from 2011 onwards were they again on a declining path. In contrast, significant differences appear between EU member states and the US in the context of average hourly wages and labor productivity. The average hourly wage rate varies considerably within the EU, which greatly reduces the competitiveness of the community. The average hourly wage and productivity in the United States is well above the average within the EU-28, resulting in significant economic benefits for the United States.

Changes in commodity prices

Looking back for about a year, data show that the majority of commodity prices on the world market dropped significantly. The stock market commodity price index has currently fallen 36% year on year, with a monthly decline of 12% accordingly. A few food products were exceptions to this decline of prices: coffee, tea, beef, coconut oil, olive oil, fish and spirits. However, the trading price of these products only increased year on year. If we look at monthly price changes, it can be determined that of the food items listed only the price of tea grew both at a monthly and an annual rate, the price for all other items began to fall in January. Although the monthly price decline of the food items listed is relatively small (up to 10%) for the coming period a further decline can be expected. It is also important to emphasize that the price index of all food-related products declined at a monthly rate of 2.7%, and 10.3% year on year which, apart from a few exceptions, confronts the food industry with a general decline in prices. Among foodstuffs the price of vegetable oil and cereals declined the most.

For the majority of international commodity prices, both monthly and annual comparisons show a more significant decrease than the changes in the price of food. The largest price decline was in the value of energy, a major cause being oversupply on the world market due to emerging American shale gas and shale oil extraction. Within the energy sector the price of oil dropped the most. The stock market oil price index declined by 22% monthly and 54% yearly, which is followed by the prices of listed major oil companies (Brent, Dubai Fateh, West Texas Intermediate). Naturally, the decline in oil prices triggered a similar level of decline in fuel prices, which may moderate transport and freight charges. The world market price of natural gas also



decreased significantly: 13% monthly and 39% annually. The Russian gas price decline is much smaller, only 9% monthly and 13% annually, which is due to lower initial Russian natural gas prices. At the same time the fall in the price of natural gas is a major financial challenge for the Russian government as crude oil and natural gas together represent around 72% of the total of Russian exports.

Raw material prices for the steel and lightweight industries also fell in the period under review but to a lesser extent. The price index of ores and metals fell 20% while the price index of industrial raw materials suffered a 15% annual decline. Among ores the price of iron ore declined the most at 47% annually while the second largest annual rate of decline was 20% for copper. For the raw materials of lightweight industries, there was an annual decline of 26% for cotton, 16% for wool, and 13% for hard wood lumber.

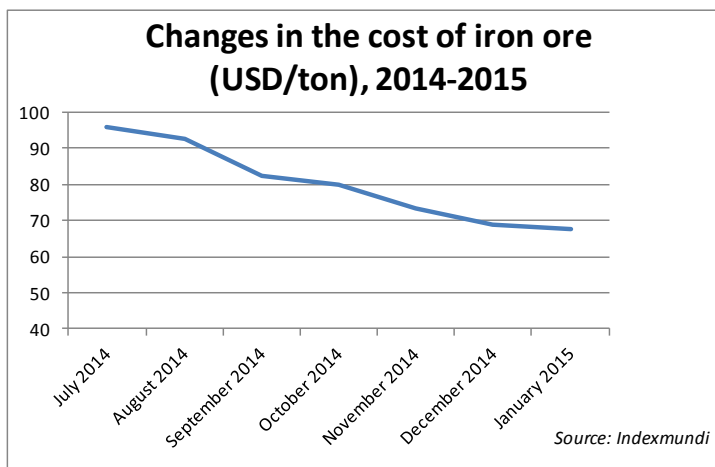
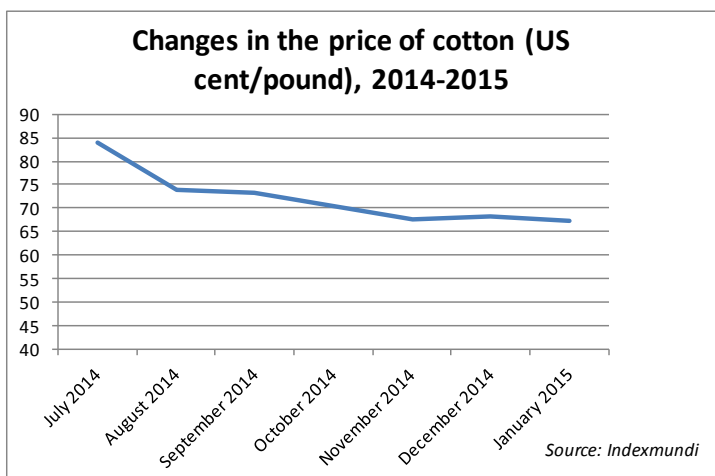
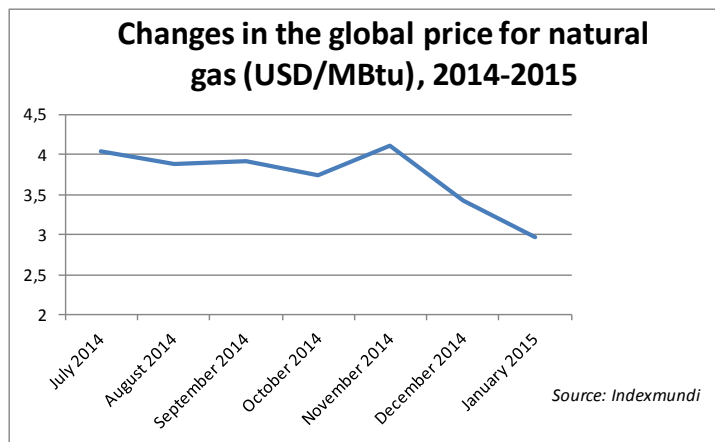
Unit labor costs and productivity in the United States and Europe

The value of unit labor costs shows to what extent wages relate to the value of the produced GDP for a given country. Accordingly, unit labor cost growth results in relatively higher wages relative to the output.

According to OECD data, unit labor costs in the US declined in parallel with an improvement in productivity from 2004 to 2010. In this period, the only exception was the year 2007, when unit labor cost increased by more than 3% due to a decrease in production. In 2011, however, US data showed a decrease again, which was due to the improving trends of a regenerating economy.

Changes in unit labor costs in the member states of the European Union are also characterized by a similar trend as in the United States. Unit labor costs in EU member states began to gradually decline in early 2000 in most member states, and in 2007 and 2008, just as in the US, they began to increase because of a decline in production. After 2010, however, unit labor costs started to decline again.

However, it is important to emphasize that although the trend in unit labor cost developments are mostly similar between European Union member states, significant differences arise within the community over the relative wage rate. Denmark has the highest average hourly wages (25 EUR/hour) and the lowest data can be found in Bulgaria (approx. 2 EUR/hour). The average hourly wage within the EU-28 is currently somewhere around 10-11 EUR/hour. Among the member states which joined the EU in or after 2004 only Malta is approaching this value. Thus, contrarily to unit labor costs, average hourly wages point to considerable regional differences within the European Union which significantly reduce the international competitiveness of the EU. The average hourly wage in the United States calculated in EUR is approximately EUR 22,



which exceeds the average hourly wage of the EU-28 by EUR 11.

Similarly to the hourly wages, there are significant differences in work force productivity of EU member states, both within the community and in relation to the United States. We can examine the productivity index calculated as a proportion of the produced GDP and the working hours. The data show that if the US productivity indicator is set at 100% then the productivity ratio reaches 44.1% in Hungary, 43.6% in Poland, 54.1% in Slovakia and 61% in Slovenia. Even most of the more developed EU countries (Sweden at 85.3%, the Netherlands at 93.8% and Belgium at 96.4%) did not reach the level of productivity of the United States; only Luxembourg managed to do so, whose productivity relative to US productivity was at 128% in 2012.

Source:

Indexmundi:

<http://www.indexmundi.com/commodities/>

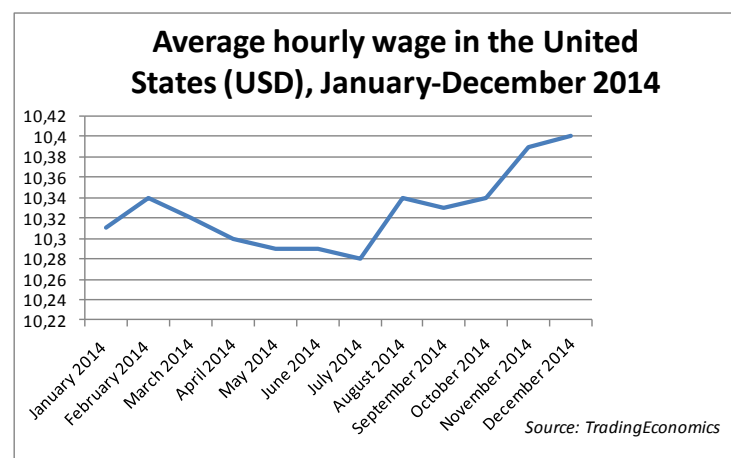
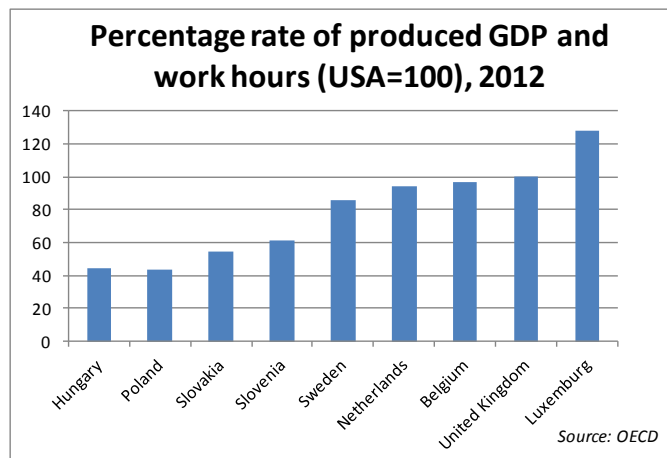
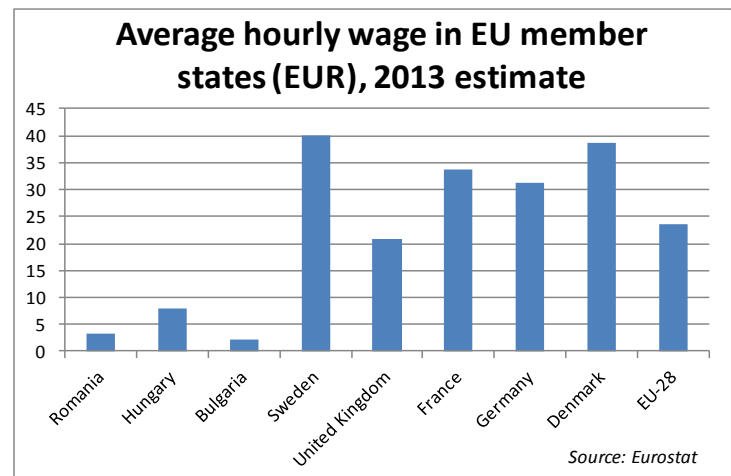
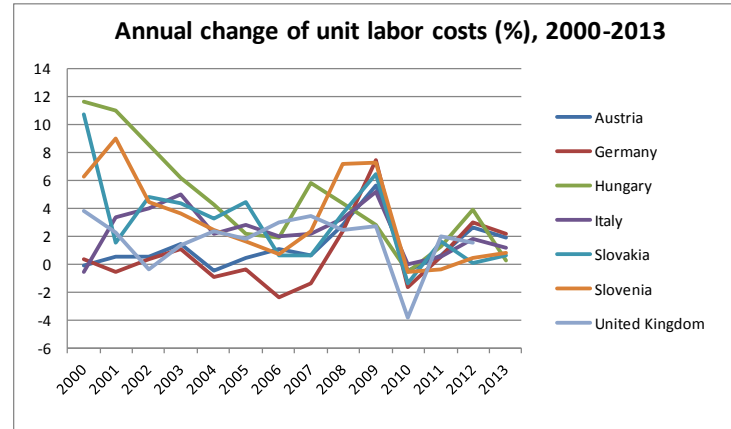
OECD:

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Eurostat:

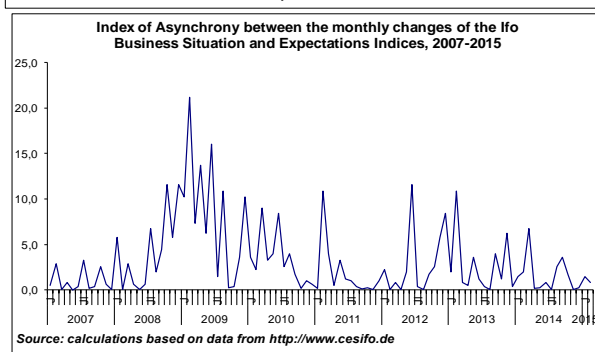
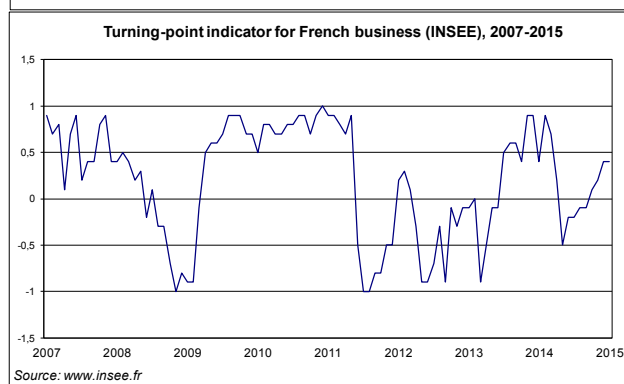
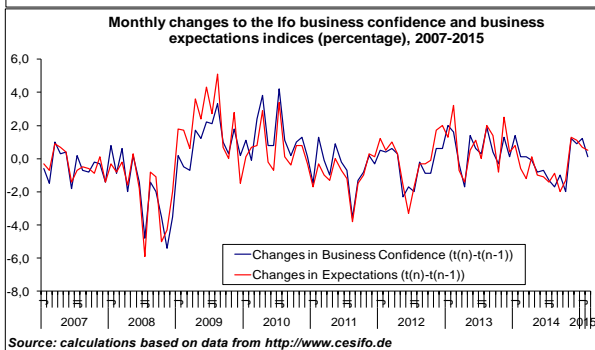
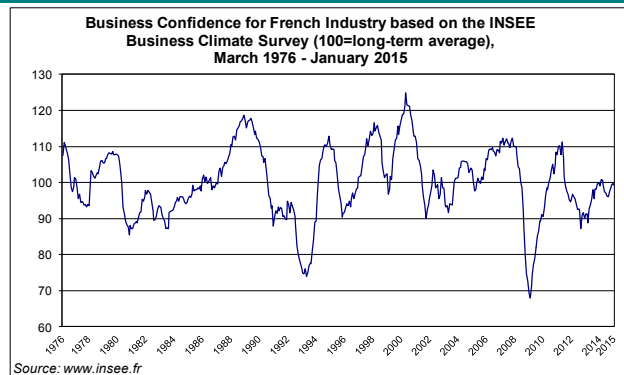
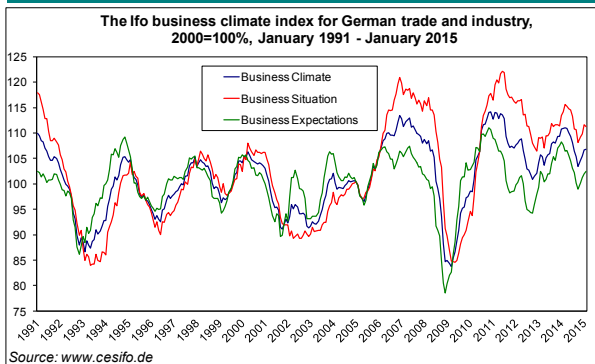
http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs



International trends

The Ifo Business Climate Index for industry and trade in Germany rose in January 2015 to 106.5 points from 105.5 points in December 2014. The business climate index has reached a turning point in November 2014. Assessments of the current business situation have increased by 1.9 points in January. Expectations with regard to the months ahead are also brighter. The gap between the current business situation and the expected developments, as calculated by the IEER Index of Asynchrony, increased in January, so the business confidence index showed higher uncertainty than in the previous month. According to Ifo analysts, companies were far more satisfied with their current business situation and the majority was also optimistic about the business outlook so the German economy makes a good start to the year. (Source: Ifo, <http://www.cesifo-group.de>)

Results from the January survey by the French statistical office (INSEE) show that the business climate of industry in France has slightly risen compared to the previous month. The composite indicator which measures it is stable at level 99 very close to its long-term average (100). The turning-point indicator has risen and is in the zone indicating a favourable short-term economic situation. The balance on opinions on past change in production has decreased by 7 points and is below its long-term average. The balance of opinions on personal production expectations has increased compared to the previous month and it is above its long-term average. The balance of general production expectations, which represents business managers' opinion on French industry as a whole, has increased by 4 points compared to the previous month and is closer to its long-term average. (Source: INSEE, <http://www.insee.fr>)



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