

# **Business situation worsens, companies expect recession**

**Results of the IEER Business Climate Survey of April 2020**

*– Summary in English –*

**Budapest, May 2020**

The Institute for Economic and Enterprise Research operated by the Hungarian Chamber of Commerce and Industry (IEER or GVI in Hungarian) is a non-profit economic research institute indulging in applied research in several subfields of economics. Our mission is to provide empirically and theoretically substantiated knowledge and analysis of the economic and social processes that influence the actual situation and perspectives of Hungarian economy and Hungarian companies.

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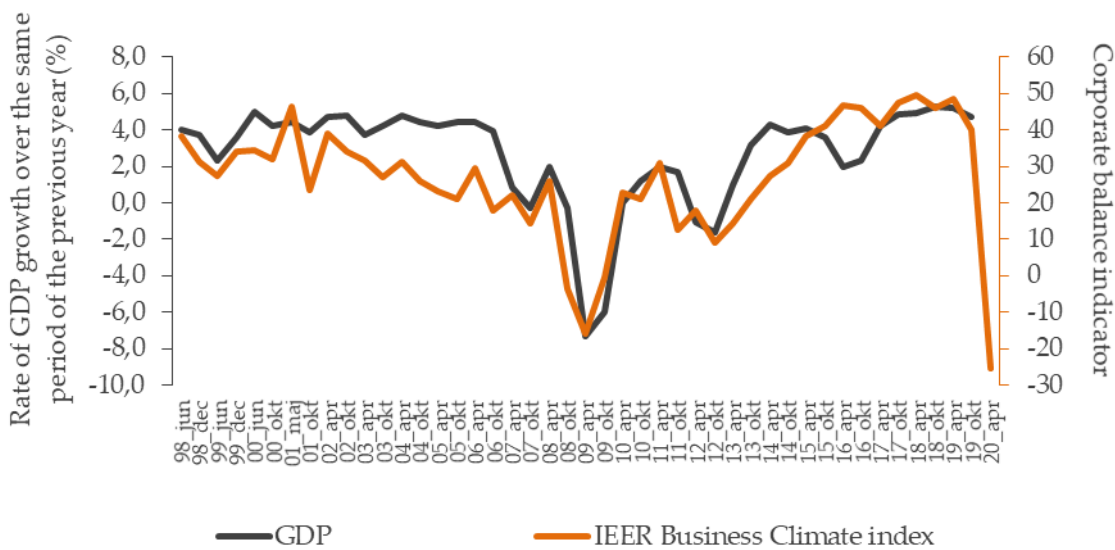
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The latest business climate index conducted by IEER relies on the answers of 2891 CEO respondents. Answers had been registered between the 1st and the 30th of April, long before restrictions were loosened. According to our results, the Business Climate Index was at -25 points in April 2020. This has been the lowest score ever recorded (starting in 1998). Since records began, the drop of 65 points compared to October 2019 has been the most severe negative difference half-on-half.

Compared to the previous half, business climate was considered much more unfavourable by companies, which also expected a recession. This sentiment can be put down to the pessimism developed over the previous half concerning the future business situation, investments and new orders. It was the sub indicator of expected business situation that plummeted to the greatest extent.

The Uncertainty Index, now at 60 points, jumped 14 points since October. This might mean that Hungarian companies were far less homogenous in their assessment of the business situation than previously in October.

Figure 1: GDP and the IEER Business Climate Index

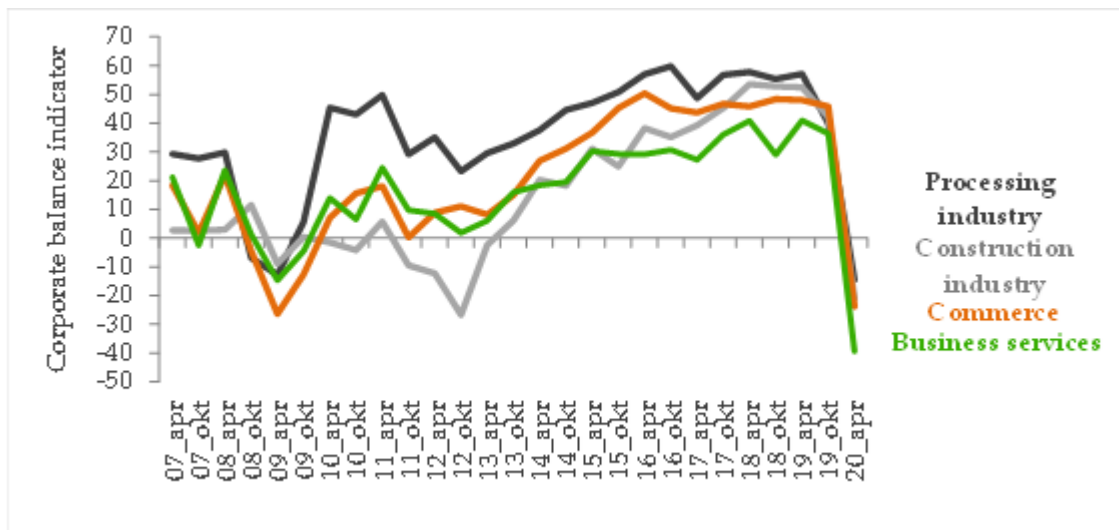


Source: HCSO, IEER 2020

Notes: GDP data – seasonally and calendar-adjusted, balanced data reported six-month growth rates (the same period of the previous year = 0)

GDP: left axis, IEER Business Climate Index: right axis

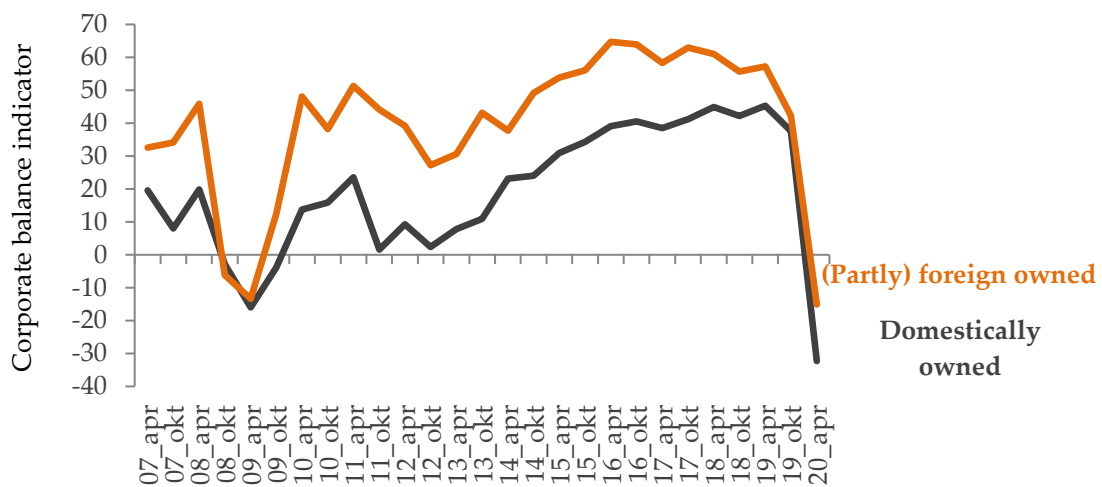
**Figure 2: IEER Business Climate Index by economic sector**



Source: IEER 2020

Please note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

**Figure 3: IEER Business Climate Index by ownership structure**

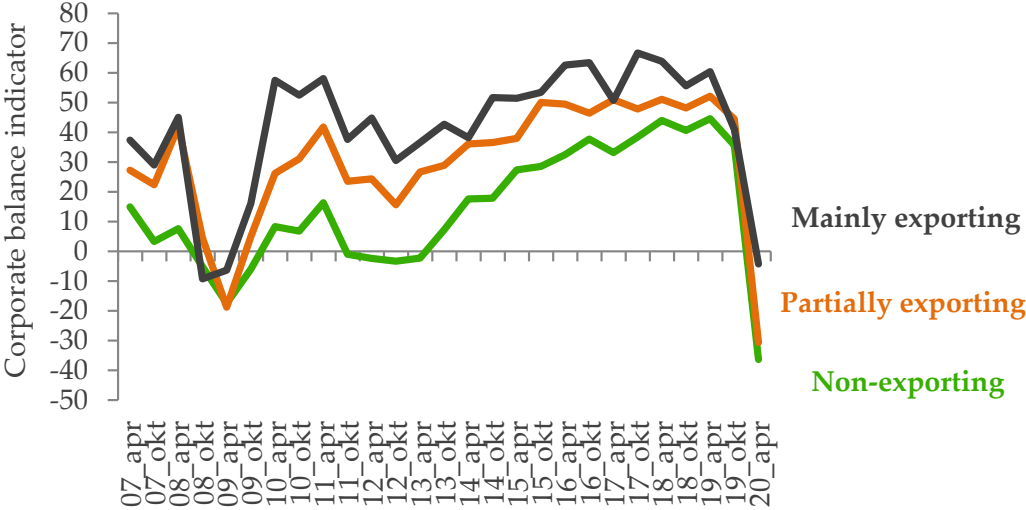


Source: IEER 2020

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The Business Climate Index took the highest value in the circle of processing companies, (at -14 points). As for construction companies, trading companies and business services, the respective Business Climate Index values were at -21, -24, and -39 points in April. Over the previous half, services were affected the most negatively, with a 75 points drop in the sector since October. In commerce as well as in the construction and processing industries the drop since October was by 70, 63 and 54 points respectively. Taking a glimpse at ownership structure it is apparent that (partially) foreign companies scored much higher than domestic companies (-15 vs. -32 points). Companies of (partial) foreign ownership and fully domestic companies lost 57 points and 70 points respectively compared to the previous half. As far as exporting activity is concerned, the Business Climate Index was lower for non-exporters (-36 points) and minor exporters (-31 points) than for major exporters (-4 points). Compared to the previous half the Index dropped by 75 points among minor exporters, 72 points among non-exporters and 45 points among major exporters.

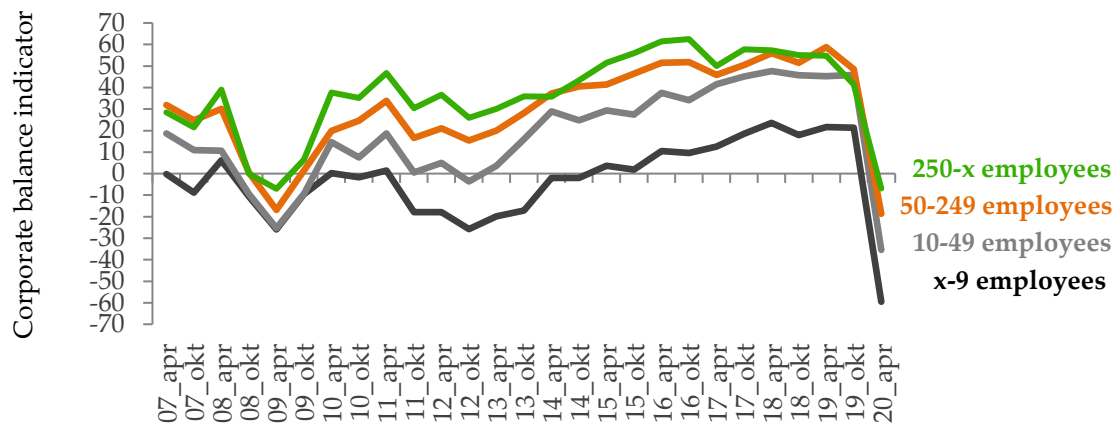
**Figure 4: IEER Business Climate Index by export activity**



Source: IEER 2020

Please note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

Figure 5: IEER Business Climate Index by the number of employees



Source: IEER 2020

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Companies expectations seem to have become considerably more pessimistic regardless of company size. The Business Climate Index was -60 points for 0-9 companies, -35 points for 10-49 companies, -19 points for 50–249 companies and -7 points for 250+ companies. Since October, the Business Climate Index decreased by 48 points among 250+ companies, 67 points among 50–249 companies, and 81 points among 10-49 companies and 0-9 companies.

The deterioration of business climate was the least apparent among 250+ companies, major exporters, (partially) foreign owned companies and in the processing industry, however, in the previous half even this group had become more pessimistic with regard to business outlook. In all categories, the Business Climate Index dropped considerably, and companies expect the situation to deteriorate in all aspects included in the survey. It is apparent that the current level of the Business Climate Index has been the lowest since records began in 1998, all throughout the industries, with the exception of 250+ companies, major exporters, construction industry and trading companies. Still, the index came close to the minimum ever measured in that industry, too.