



Favourable business climate, unchanged expectations – results of the October 2016 IEER Business Climate Survey

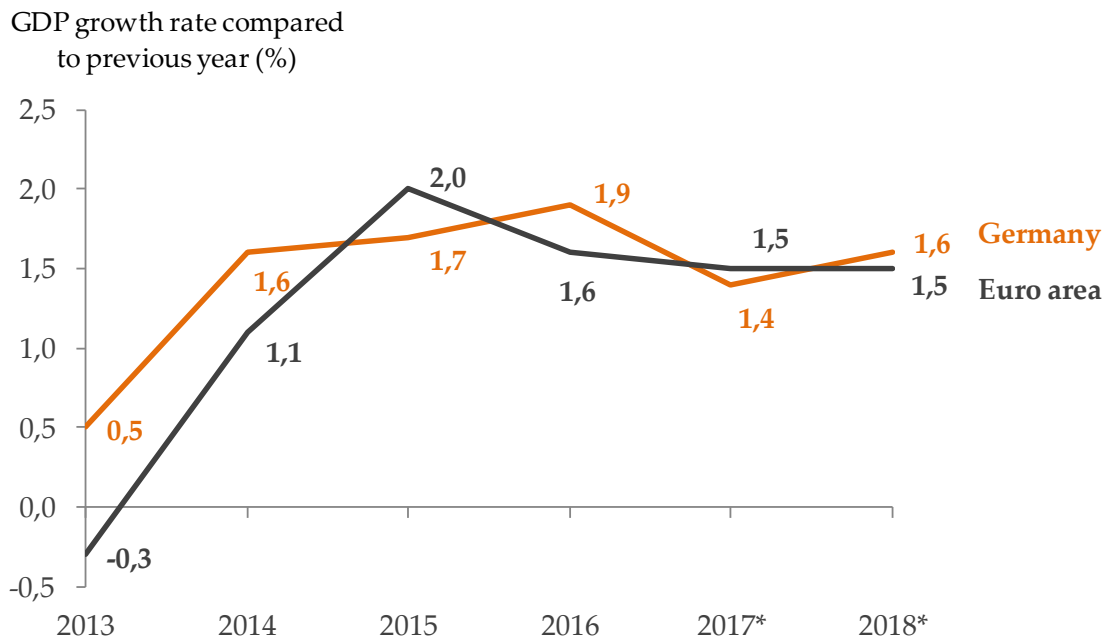
The 38th wave of the IEER Business Climate Survey was conducted in October 2016. This is the largest business climate survey in Hungary with regard to the number of participating companies. This year 3185 managers responded to the questionnaire on their business climate and short-term business expectations. The surveyed companies are representative to the Hungarian business sector in terms of economic performance, region and sector distribution. This analysis summarizes the results of the October 2016 survey. According to the new results of the IEER Business Climate Survey the IEER Business Climate Index decreased to +48 points in October 2016 from +49 points in April 2016, which is the second highest value in the history of the survey. Companies are still very positive about their current business climate, however, it seems that the continuing upward trend since October 2012 is broken. This is due to the fact that the expectations on investments (especially construction and machinery investments), profitability and stock orders are slightly more pessimistic than in the previous period. The value of the Uncertainty Index has increased by one point (October 2016: 48 points) compared to April 2016. This refers to the fact that the difference between the evaluations of the enterprises has not changed compared to the previous period.

International economic context

The economic performance of Germany has a significant impact on the business climate of Hungarian firms, as Germany is a prominent economic partner of Hungary, and it is a dominant economy of the European Union. According to the forecasts of the German Ifo institute on the development of the German GDP, the growth of real gross domestic product can be expected (the 1.7% GDP growth in 2015 can be followed by a 1.9% growth in 2016).

In contrast, Ifo expects the decline of economic growth in the Euro area: they predict that the economic growth of 2.0% in 2015 will be 1.6% in 2016. According to the forecasts, economic decline can be expected in Germany in 2017: the economic growth will be only 1.4%, however, they predict an increase in 2018, that time they expect the GDP to grow by 1.6%. Ifo predicts a slight decline of the GDP: the expected growth is 1.5% in 2017, and it will stagnate in 2018.

Figure 1: GDP growth in Germany and in the euro area



Source: CESifo 2016

* Estimations of Ifo

Data is available here:

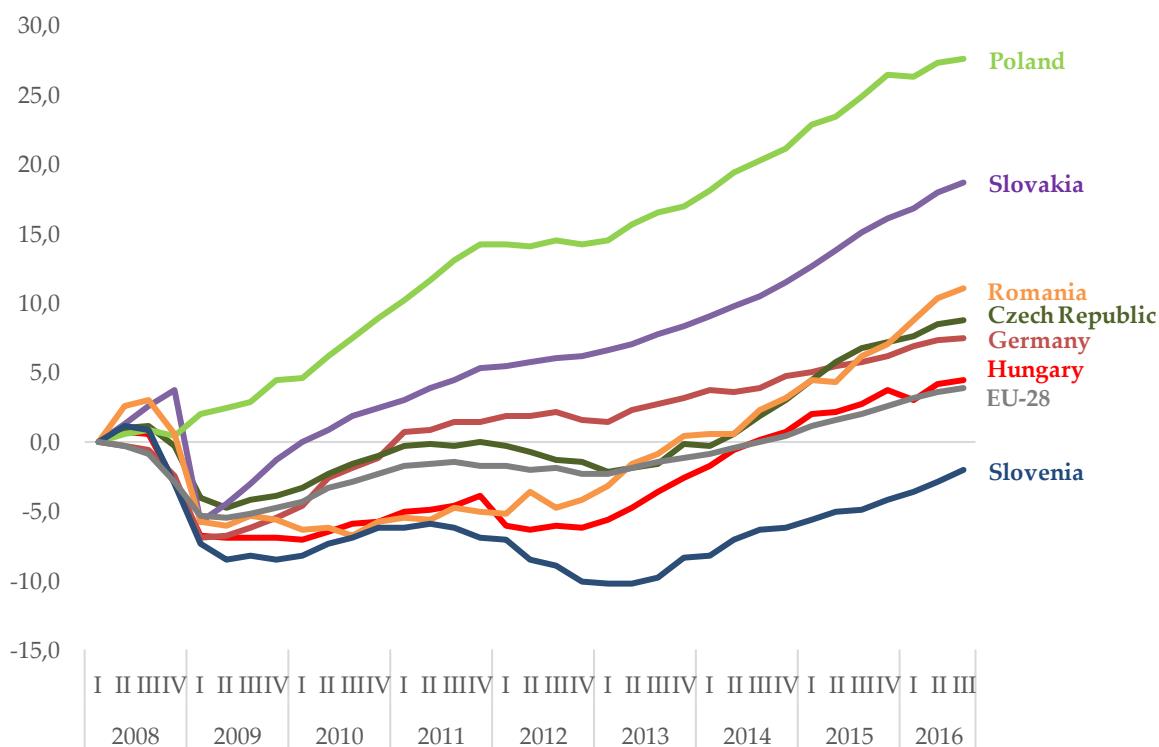
<https://www.cesifo-group.de/ifoHome/facts/Forecasts/Gemeinschaftsdiagnose/Archiv/GD-20160929.html>

Domestic economic context

The data on the recovery of the Hungarian economy demonstrates that Hungary achieved the pre-crisis level of GDP later than Poland, Slovakia, the Czech Republic, Romania, and Germany (see Figure 2). Another important observation that can be read from the figure is that while the GDP of Hungary is higher by 3.3% than the level

before the crisis, this percentage is 26.7% in the case of Poland, 15.4% in Slovakia, and 6.7% in Romania. During this period, the Polish, the Slovakian, the Czech and the Romanian economic growth rate was higher than the Hungarian rate.

Figure 2: Where are we in the crisis? GDP growth compared to the beginning of the crisis (2008 q1 - 2016 q3)



Business Climate Index and Uncertainty Index

The IEER Business Climate Index dropped from 49 points of April to 48 points in October. This is the second highest value in the history of the research. The Uncertainty Index increased by one point, thus it stands at 48 points. This refers to the fact that the difference between the evaluations of enterprises has not changed compared to the previous period.

The value of the Business Climate Index has decreased compared to its April value in case of the construction industry and commerce, and it has increased in manufacturing and other economic services. The highest fall (8 points) happened at companies operating in the field of commerce (47 points). The decline was 4 points in case of construction

companies (37 points). The growth was 2 points in case of manufacturing (61 points) and it was one point at other economic services (33 points). According to the ownership structure, we can assess that there is no significant change compared to the previous period. The value of the Business Climate Index stagnated compared to the previous period in case of the Hungarian-owned enterprises (42 points) and in case of the exclusively foreign-owned enterprises (66 points), while there was a slight decline (by one point) at partly foreign-owned businesses (53 points).

The exporting companies are more optimistic (the value of the indicator is 64 points in case of the mainly exporting companies, and it is

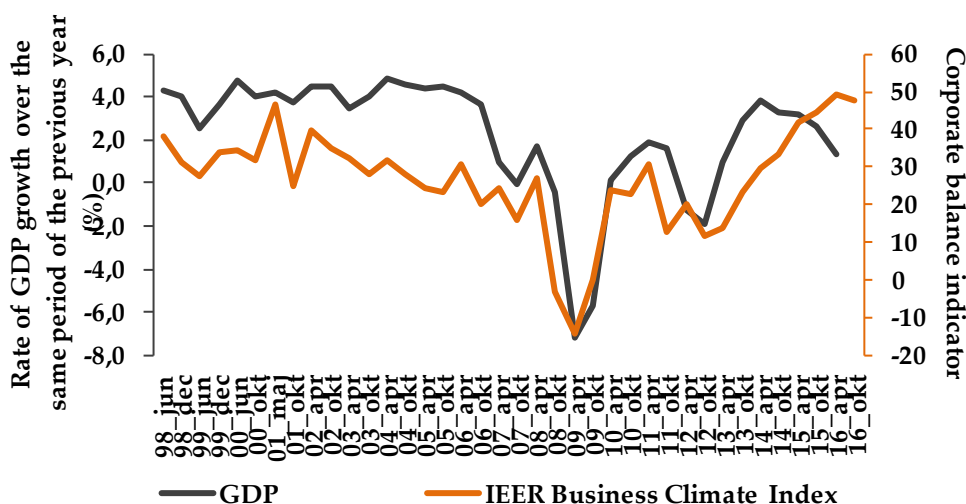
47 points at partly exporting companies) than the businesses producing exclusively for the domestic market (in their case the value of the indicator is 47 points).

Regarding the size of companies, we can observe that the expectations of larger businesses is more favourable than the smaller ones: the value of the Business Climate Indicator is 12 points at businesses with less than 9 employees, while it is 36 points in case

of companies with 10-49 employees, it is 52 points for the firms with 50-249 employees, and it is 63 points for the businesses with more than 250 employees.

That is, the favourable business climate is mostly perceived by the foreign-owned, exporting businesses with more than 250 employees – their expectations are the most favourable.

Figure 3: GDP and the IEER Business Climate Index

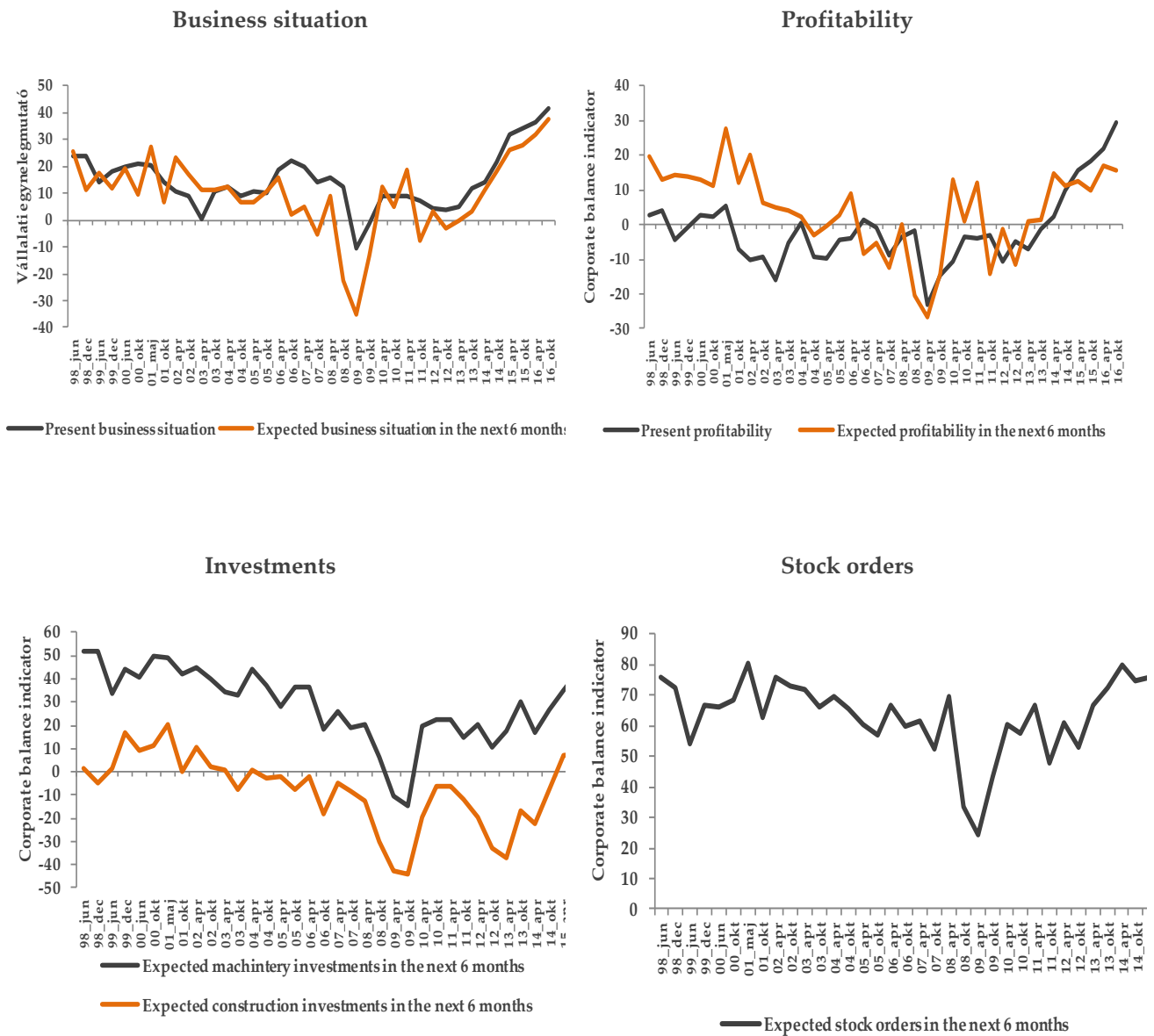


Source: IEER 2016

The IEER Business Climate Index consists of four components. Furthermore, we measured some other important indicators of business climate (e.g. labour force demand, production level). Both the current and the expected business situation are perceived more favourable than in the previous period. The indicator of current profitability has increased compared to the results of April 2016. However, the expectations of the firms are more pessimistic than in the previous period (the only exception is the indicator of expected business situation). The expected profitability

fell by 2 points compared to April 2016. The expected volume of construction investments has dropped by 6 points compared to the previous period. The expected volume of machinery investments has continued to grow since April 2014, it has been 46 points in April 2016, and now it fell to 41 points. The indicator of expected stock orders has increased since October 2014, it has achieved its peak (83 points) in April 2016, and it decreased to 79 points in October 2016.

Figure 4: Components of the Business Climate Index



Source: GVI 2016

Education at a Glance 2016: overview of the main findings

OECD's Education at a Glance presents the state of education around the world. It provides key information on the output of educational institutions; the impact of learning across countries; the financial and human resources invested in education; access, participation and progression in education; and the learning environment and organisation of schools. The 2016 report covers these topics regarding 35 OECD countries and 11 partner countries. Here we overview the main findings of the report on three major topics: the spending on education, the enrolment and attainment levels and the effect of education on the participation in labour market and on earnings. Our summary is based on the executive summary of the report [Education at a Glance 2016](#) and the [Country Note](#) on Hungary.

Public and private spending on education

OECD countries spend an average of 5.2 percent of their GDP on educational institutions from primary to tertiary education, public and private expenditure combined, ranging from 3.5 percent in Luxembourg to 6.7 percent in the United Kingdom. Most of the OECD countries increased the share of GDP spent in education between 2005 and 2013, however average expenditure remained largely stable, increasing by only 0.2 percentage points over this period. Primary, secondary and post-secondary non-tertiary education accounts for 70 percent of expenditure on primary to tertiary educational institutions, or 3.7 percent of GDP, on average across OECD countries while tertiary education is accounted for 1.5 percent of GDP in 2013.

Expenditure per student from primary through tertiary education on average across OECD countries is USD 10,493 a rate which has been increasing between 2005 and 2013 due to an average increase of expenditure (15 percent) and a slight decrease in the number

of students (3 percent). Overall, annual spending per student in all levels of education in 2013 ranged from USD 5000 or less per student in Brazil, Colombia, Indonesia, Latvia, Mexico and Turkey to more than USD 15,000 in Luxembourg, Norway and Switzerland.

Spending per student per year is the highest (around one third of the total expenditure) in tertiary education due to the cost of teaching staff and research. However, on average, 30 percent of the expenditure for tertiary education comes from private sources, mainly in the form of tuition fees while many countries offer lower tuition fees, scholarships and state-guaranteed loans to support students.

Hungary spends 3.8 percent of its GDP on educational institutions from primary to tertiary level, a much lower share than the OECD average of 5.2 percent. The majority of expenditure on primary, secondary and post-secondary non-tertiary institutions is public funding in Hungary, just as in most OECD countries. Public expenditure at these levels represents 2.3 percent of GDP compared to

0.2 percent of private expenditure in Hungary, the same proportion as the OECD average (3.4 percent and 0.3 percent correspondingly). Private expenditure makes up a larger share of spending at tertiary level in all OECD countries and Hungary is no exception. Public spending on tertiary institutions amounts to 0.8 percent of GDP, somewhat lower than the OECD average of 1.1 percent, while private funding accounts for 0.5 percent, the same as the OECD average.

Public expenditure in Hungary on educational institutions fell by 6 percent between 2008 and 2010, and then by 13 percent over the period 2010-13. Although during this time period many OECD countries – such as Estonia, Iceland, Italy, Russia and the USA – were cutting their public expenditure on education, Hungary's cuts were the deepest.

Annual spending per student at all levels of education in Hungary is 5,591 dollars, roughly the half of the OECD average and the average of EU countries member of the OECD. The expenditure per student is the highest in tertiary education in the case of Hungary as well (see Figure 1).

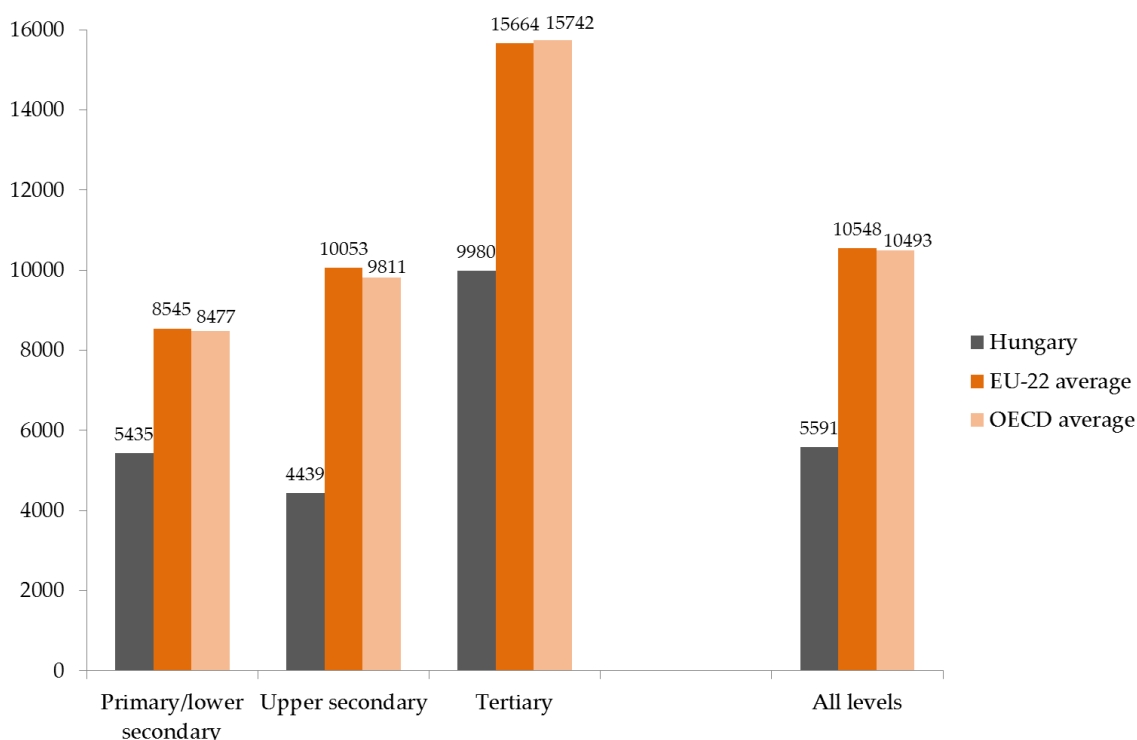
Enrolment and levels of attainment

In the large majority of OECD and partner countries, more than nine out of ten children from 4 to 17 years old were enrolled in

education programmes in 2014 consistently with the regulatory requirements. On average across OECD countries, 60 percent of 15-19 year-olds are enrolled in upper secondary education programmes of which 35 percent were enrolled in general upper secondary education, and 25 percent in vocational upper secondary education programmes, thus about 40 percent of the 15-19 year-old students were in a vocational programme. The share of students participating in vocational programmes is the highest in Austria (71 percent) and the Czech Republic while in other countries like Australia, Brazil, Hungary, South Korea, New Zealand and Saud-Arabia more than 80 percent of upper secondary students were enrolled in general programmes.

On average across OECD countries, 33 percent of individuals between 20 and 24 years old are enrolled in tertiary education. The proportion is largest in South Korea (51 percent), followed by Lithuania, Poland and Slovenia (above 40 percent). From 2005 to 2014, the enrolment rate of 20-24 year-olds in tertiary education increased from 29 percent to 33 percent, on average across OECD member countries with available data for both years, three countries witnessed decrease in this period: Finland (by 5 percentage points), Norway and Hungary (by 1 percentage point).

Figure 1: Annual expenditure per student at different levels of education (dollars)



Source: OECD Education at a Glance 2016

Note: EU-22 refers to the EU member states that as OECD members have been covered in the report.

The share of adults who have not completed upper secondary education has decreased in the majority of OECD and partner countries, however about one in five 25-34 year-olds are still without upper secondary qualifications. Over recent decades, the expansion in tertiary education has been considerable, and people with tertiary education represent the largest share of 25-34 year-olds in many OECD countries. On average across OECD countries, the tertiary-educated account for 35 percent among 25-64 year-olds and 42 percent among 25-34 year-olds.

In Hungary one out of four students in upper secondary education are enrolled in vocational programmes in Hungary, which is the fifth lowest rate among OECD countries.

Most graduates from upper secondary vocational programmes chose the field of engineering, manufacturing and construction (43 percent versus 33 percent in the OECD), followed by services (25 percent versus 17 percent in the OECD) and social sciences, business and law (12 percent, versus 20 percent in the OECD). Among 20-29 year olds 19 percent is enrolled in tertiary education, a rate slightly lower than the OECD and the EU average (both 22 percent).

Among 25-64 year olds 16 percent have attainment lower than upper secondary level, a rate better than the average of OECD countries (24 percent) and EU countries that are member of the OECD (21 percent). 59 percent attained upper secondary or post-

secondary non tertiary programme (OECD average is 45 percent, while EU average is 46 percent), while 24 percent have graduated in tertiary education (OECD average is 36 percent, EU average is 33 percent). Among 25-34 year olds 32 percent attained tertiary education, a figure considered relatively low compared to the OECD (42 percent) and the EU (40 percent) average.

Effect of educational attainment on participation in labour market and on earnings

Labour market outcomes are better among the higher-educated: on average across OECD countries, the unemployment rate is 12.4 percent for adults with below upper secondary education, while it is 4.9 percent for the tertiary-educated. In upper secondary education among those who attained a vocational programme unemployment rates are generally lower (on average 7.7 percent) than those with general programs (8.3 percent). Employment rates of men are higher than those of women for all levels of educational attainment, but the gender gap shrinks as educational attainment increases: on average the gender difference in employment rates among 25-64 year-olds is 20 percentage points for those with below upper secondary education, 14 percentage points for those with upper secondary or post-secondary non-tertiary education and 9 percentage points for tertiary-educated adults.

Earnings grow by the level of education as well and tertiary education have large earning advantages: earnings differentials

between adults with tertiary education and those with upper secondary education are generally more pronounced than the difference between the earnings of those with upper secondary education and those with below upper secondary education. On average, adults with a master's, doctoral or equivalent degree earn almost twice as those with upper secondary education across OECD countries, and those with a bachelor's or equivalent degree earn 48 percent more.

Holding a tertiary degree pays off in Hungary to a greater extent than in other OECD countries: both employment rates and earnings are much higher than for those with only an upper secondary degree. The difference in employment rates between adults aged 25-64 who hold a tertiary qualification and those whose highest qualification is below upper secondary education is 35 percentage points in Hungary, relatively high among the OECD countries.

The earnings advantage for tertiary-educated workers in Hungary is the second highest among countries with available data. Tertiary-educated adults (25-64 year-olds) earn more than twice as much as those with an upper secondary qualification. This large differential may partly be due to the relatively small share of tertiary-educated people in Hungary.

Gender gap between earnings however is higher than the average: a tertiary-educated adult woman earns across the OECD countries 73 percent of what a similarly educated man earns, while in Hungary the

MBET December 2016

figure is 68 percent. Among 35-44 year-olds, Hungary has the second worst gender earnings gap, with women's salaries

averaging only 63 percent of their male counterparts.

International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Dec)	6.0%	6.0%	6.0%
Germany	Manufacturing Purchasing Managers Index	(Dec)	55.6	55.5	55.5
	IFO Business Climate Index ¹	(Dec)	111.0	110.7	110.4
France	INSEE Business Climate Index ²	(Dec)	105	102	102
	Unemployment Rate	(Nov)	4.6%	4.9%	4.9%
USA	CB Consumer Confidence Index	(Dec)	113.7	109.0	109.4
	Manufacturing Purchasing Managers Index	(Dec)	54.3	54.2	54.2
China	Manufacturing Purchasing Managers Index	(Dec)	51.4	51.5	51.7

¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

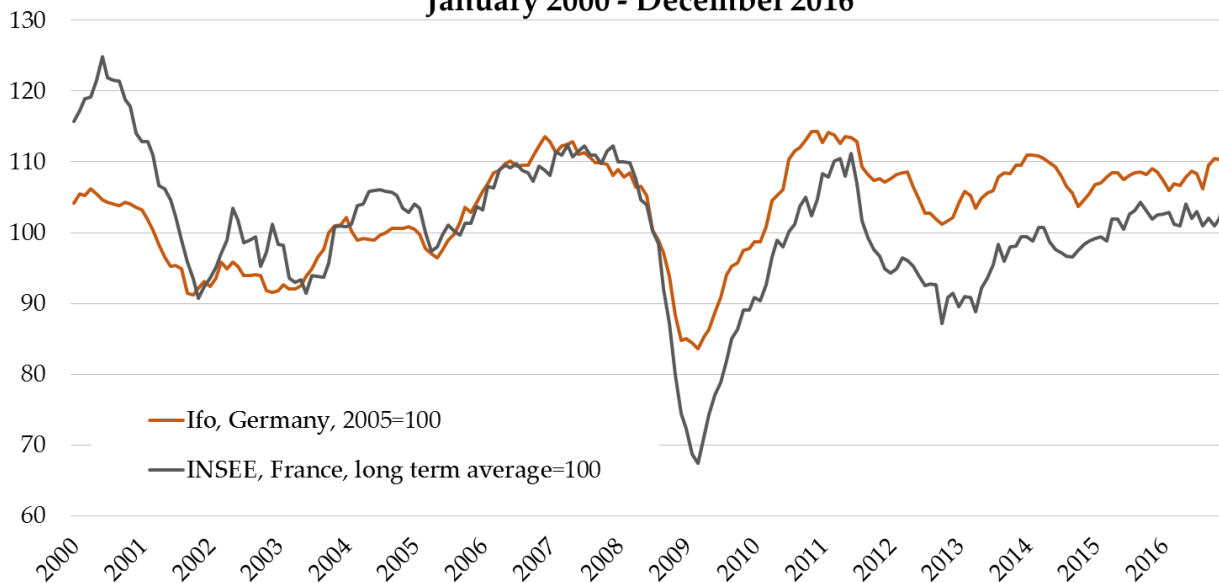
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

The performance of the German economy after a slight decrease has increased in December. The unemployment rate remained at the same level as in the previous months and as it was expected. The manufacturing purchasing manager index (PMI) and the IFO business climate index however performed better than in the last month. The French INSEE business climate index rose in December more than the expectations. In the United States the CB consumer confidence index increased stronger than the expectations and the previous period. The manufacturing PMI performed better than projected as well. The Chinese manufacturing PMI after a slight increase in November continued to decrease in December.

Long-term changes in business confidence indices

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate surveys,
January 2000 - December 2016**



Source: www.cesifo.de, www.insee.fr

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