



Internet usage among Hungarian SMEs

In its analysis the Institute for Economic and Enterprise Research examined the practices relating to internet usage among domestic small and medium sized companies. The analysis is based on the data of the January 2017 SME Outlook survey of 300 small and medium enterprises that have at least 20 employees. Beside the most general uses (maintaining contact with clients, maintaining an own website, administration) the Hungarian SMEs mostly use the internet to seek information. Among larger companies, among those that have foreign ownership, and among those of the commerce and manufacturing sector internet usage is more prevalent than in the case of other types of companies. 84 percent of the SMEs have an own website and these are mainly maintained by a professional. A clear evidence of the importance of internet usage among domestic companies is that 90 percent of them claim that if the internet did not work at their company for a week, it would mean a serious problem for the functioning of their businesses. At the same time however, most of the responding companies invest less than 1 percent of their income in purchasing and maintaining IT devices.

Uses of internet among domestic SMEs

The Institute for Economic and Enterprise Research (IEER) in its January 2017 SME Outlook survey interviewed domestic small and medium enterprises about their practices of internet usage, whether they maintain an own website, and about the importance of the internet in the functioning of their business. The following analysis summarizes the results obtained from the replies of 300 SMEs with at least 20 employees.

Based on the results all of the small and medium companies asked use the internet in some way. The most common uses are maintaining contact with clients by email, maintaining an own website, and managing

administrative matters (e.g. banking, administration) using the internet. More than half of the respondents seek information about market trends and regulations, and look for new business partners and suppliers on the internet. About 40 percent of the SMEs use the internet to recruit new employees, to seek business advices, and to monitor the prices and the business conduct of competitors. Advertising and selling products or services, and use of social media are less common uses among the domestic SMEs (see Figure 1).

Figure 1: Uses of internet among domestic small and medium enterprises, January 2017, percentage



Comparing the results of January 2017 with the results of the IEER’s same survey of October 2010 shows the same proportion of the SMEs (84 percent) maintains an own website. On the other hand the practices of internet usage have changed in the last 8 years among domestic companies. Less enterprises use online sale, monitoring of competitors and business partners than in 2010, but at the same time more of them recruit and seek information of potential employees using the internet.

Companies with a foreign ownership generally use the internet more than purely domestically owned ones. The difference is particularly large in the uses related to information-seeking like getting information about market trends and regulations, searching suppliers and business partners, seeking general business advices or looking for new employees.

In terms of economic sector internet usage is more prevalent among companies in the commerce and in the manufacturing sectors than among those in the construction industry and in services. Looking for business partners, monitoring the competitors, and advertising and selling products and services using the internet is the most common among SMEs of commerce while recruiting employees or seeking information online about market trends and regulations is used in the highest proportion among manufacturing companies.

Own websites and investment in IT devices

84 percent of the Hungarian SMEs have an own website. As the other uses of internet maintaining an own website is more common among larger companies: while 89 percent of the companies with 100-249 employees and

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91 percent of the companies with 50-99 employees have a website the proportion among the small enterprises with 20-49 employees is only 74 percent. The majority of these websites (81 percent) is maintained by an IT professional. Most of the companies that do not have a website (75 percent of them) claim that maintaining a website is not important regarding their business. Costs and lack of technical knowledge were not mentioned as reasons for not having a website.

In accordance with the prevalence of internet usage, almost 90 percent of the SMEs think that it would mean a serious problem in the functioning of their businesses if the internet was not working for a week. Despite the importance of the internet, however, more than half of the companies (52 percent) invest less than 1 percent of their income in purchasing and maintaining IT and communication devices.

Growth in the Eurozone after the 2008 crisis – theoretical aspects

The following summary is based on a quarterly report by the European Commission about the Eurozone¹, in which several aspects of restoration after the financial crisis of 2008 are presented. Three distinct topics are in focus: the case of non-performing loans, the role of intangible investments in the economy and the relation of foreign trade to the growth of the economy.

A link to the original report is to be found in the footnotes **Non-performing loans**

Sustainable growth of the national output may come from an increase in the level of investments in the economy. It is crucial for investments to occur that banks offer loans. A high rate of non-performing loans (NPLs) imposes a restriction on the lending activity of a bank in two ways. First, the bank is already exposed to a certain amount of risk resulting from NPLs, so it's going to offer less loans. Second, firms can perceive the risks in the banking sector, and might be less willing to invest. The lesson to be learned is the following: in order to facilitate growth after the financial crisis, the reduction of NPLs in bank portfolios is crucial. A comparison of Eurozone countries done by the authors points out that nations that could keep their NPL ratio low could achieve higher output growth in the recovery period after the crisis. The authors emphasize the role of the state in promoting the reduction NPL stock through legislation and regulation (see Figure 1. for the composition of the stock of NPLs on average in the Eurozone).

Regarding Hungary, a significant drop has occurred recently in the NPL stock driven by state intervention. The challenge of

mortgages of households is still important though².

Investments into intangible assets

In the previous section we identified a factor, NPL stock, that can hinder investments. Speaking of investments, the question may arise: in which ways do different investment types differ? The authors claim that investment into intangible assets is really important for sustainable long run growth (for example: buying new software, consultancy, research and development, on the job trainings). The features of intangible investments are of highlighted interest since the involvement of the state or some other regulatory institution may prove beneficial in several cases.

To put it formally: many market failures can be present on the markets of intangible goods.

- Intangible investment is risky: as opposed to tangible goods, an intangible cannot act as collateral.
- There is a degree of complementarity among groups of assets (tangible and intangible). If it is not possible to invest in a given asset, then firms will not invest into its complements (for

¹ <http://bit.ly/2oKH9us>

² <http://bit.ly/2oGMOMF>

example think of a new technology, and its complement, the training that teaches its use). It is important that these situations get recognized by the state or other institutions such as labor unions.

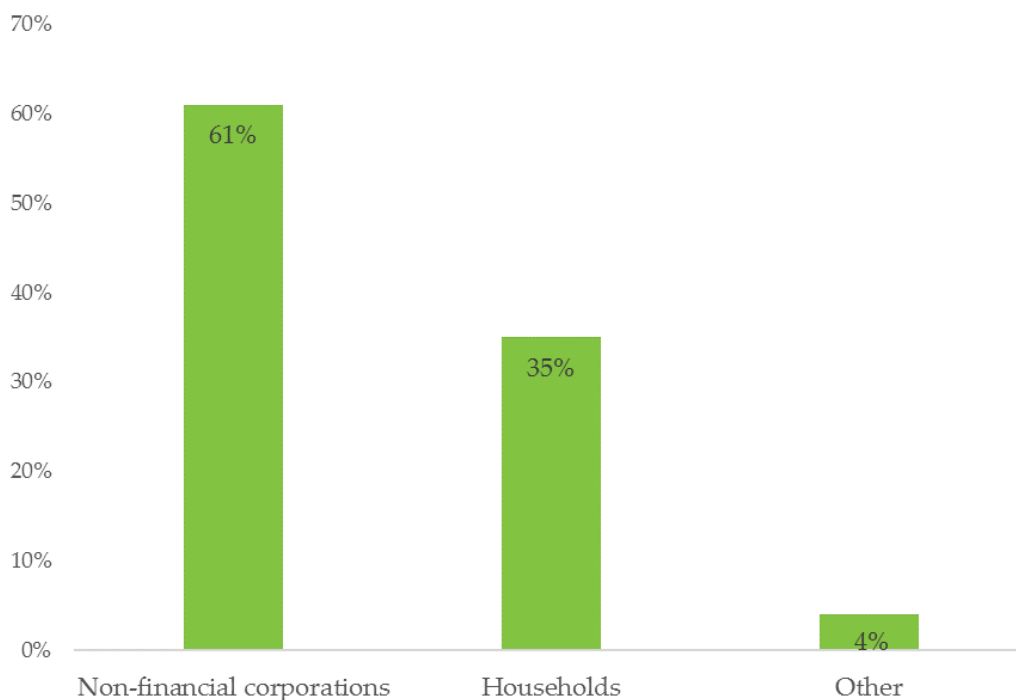
- Investing into intangibles is also made riskier by the fact that the outcome might be very uncertain (think of a pharmaceutical company researching a new formula).

The most important message of the authors is that investment into intangibles is a crucial part of achieving economic growth, and that these kinds of investments require a different kind of regulation.

Finally, the report contains a result about the connection of foreign trade and long run growth in the Eurozone. Theoretically, states that compete on the international market only differ in their unit cost of production. From this it could be concluded, that the country with the lower unit cost, and thus lower price, will be more successful. Their empirical findings suggest that in reality more factors are present. With their sophisticated methodology (that we will not discuss) they find that the quality of goods is the other main factor that determines competitiveness on the international markets of the Eurozone along with the unit cost of production.

International determinants of price and non-price competitiveness

Figure 1. Composition of the stock of NPLs (EU aggregate data, 2015)



Source: European Commission

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	(Mar)	5.8%	5.9%	5.9%
Germany	Manufacturing Purchasing Managers Index	(Mar)	58.3	58.3	58.3
	IFO Business Climate Index ¹	(Mar)	112.3	111.1	111.1
France	INSEE Business Climate Index ²	(Mar)	104		104
	Unemployment Rate	(Mar)	4.5%	4.7%	4.7%
USA	CB Consumer Confidence Index	(Mar)	125.6	114.0	116.1
	Manufacturing Purchasing Managers Index	(Mar)	53.3	53.5	53.4
China	Manufacturing Purchasing Managers Index	(Mar)	51.8	51.6	51.6

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

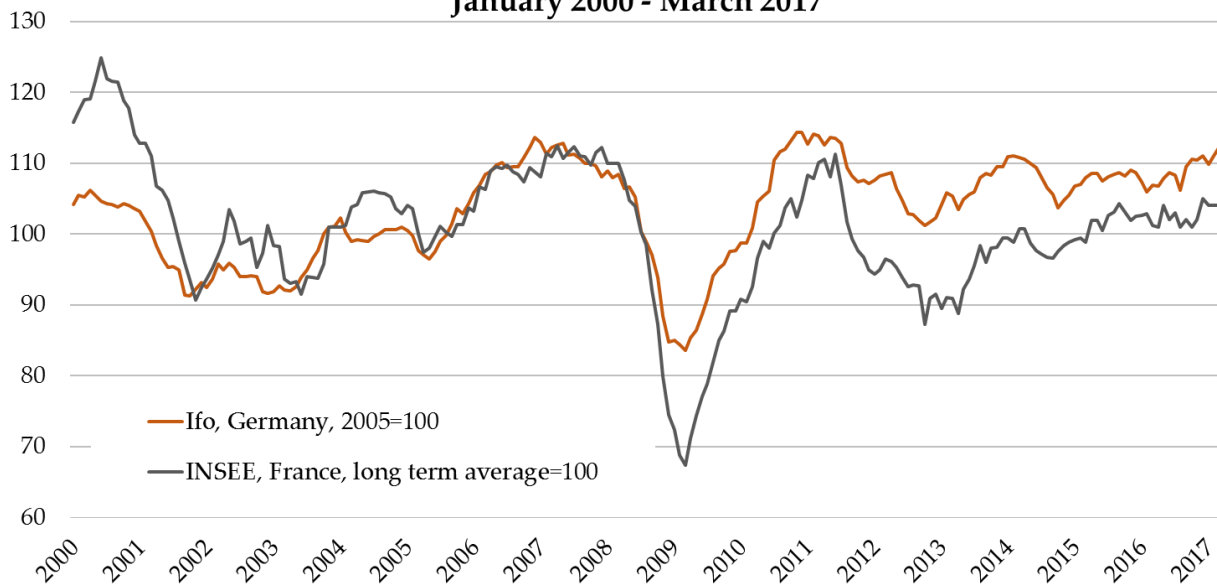
²<http://www.insee.fr/en/themes/indicateur.asp?id=105>

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

The performance of the German economy improved in March, after a slight decrease in the previous months. The manufacturing purchasing manager index (PMI) has stagnated; however, the IFO business climate index increased more than expected and the unemployment rate has slightly decreased. The French INSEE business climate index as in the previous months continues to stagnate in March. In the United States the unemployment rate has decreased in March. The CB consumer confidence index rose significantly compared to the last month and to the expectations. At the same time the manufacturing PMI performed slightly worse than expected. The Chinese manufacturing PMI continues to rise since the end of last year.

Long-term changes in business confidence indices

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate surveys,
January 2000 - March 2017**



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

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