

Company Managers Are a Little More Optimistic

The SME's Economic Activity Index, as calculated by IBS – International Business School - and Policy Agenda, shows an increase of 3.9 percentage points compared to the previous quarter. The results show that company managers' expectations have now reached the level observed 3 years ago. This figure may give hope that in the forthcoming period the situation of enterprises will not relapse and a durable growth path might emerge.

Company Managers are More Optimistic

The trend of the SME index, which was formerly declining, has noticeably picked up as of the 4th quarter of 2012. During the recent twelve months or so, the index has again reached its value observed at the beginning of 2011. For a continued noticeable improvement, it is indispensable that the figures of the forthcoming quarters of the year remain as good as the currently observed ones – (50.3%) -, and that the index remains above 50 percent in the long term. Looking at company managers' forecasts, it appears that after the severe loss of business of the small and medium size enterprises that occurred over the past three years, the companies which have survived this deep recession will only be able to sail into calmer waters now.

According to 28% of company managers, the situation in the Hungarian economy will worsen during the next six months; this figure is slightly better than 3 months ago (33%). However, compared to the value observed 18 months ago (56%), the improvement is obvious.

In our previous survey, the ratio of those expecting growth was below one-third (27%). This figure was around 10% all through last year, which clearly confirmed the growing trend in GDP expected by the analysts. According to the present survey, however, the majority (53%) expect growth in the Hungarian economy during the forthcoming period.

In all of our previous surveys, SME managers assessed their ventures' situation more optimistically than the general situation of the country. According to the figures of the present survey, however, the situation has changed and merely 49% of company managers expect improvement in their business for the next six months.

Real Optimism or Success Propaganda?

The Hungarian economy produced nearly 2% of growth in the 3rd quarter of 2013, considerably surpassing analysts' expectations. Based on this, the government initiated an intense success propaganda. A detailed analysis of the data shows that clearly agriculture was the most important individual factor contributing most significantly to such growth compared to the previous quarter.

For that reason it is quite interesting to assess whether SME company managers can perceive any development in their sectors at all. 54% of company managers responded that they can perceive the economic growth. However, 24% still reported about a declining economic performance.

Expressing the responses on a 5-grade scale, the average is 3.4. This clearly suggests that the majority of company managers expect economic growth in their own sectors. Should this optimistic view be not merely the result of the government's advertisements, then we should see improving statistical figures in the forthcoming months as far as the state of the economy is concerned.

Improving Liquidity

The liquidity status of companies is continuously monitored by IBS – Policy Agenda in relation with the SME Economic Activity Index. The data of the present quarter have shown a massive improvement. We have not measured such a high ratio of managers expecting improvement in the liquidity status since 2011. Not less than 33% of the company managers expect improvement in the liquidity status of their companies, to be compared with the lowest value observed in September 2012 (8%)

However, it is a warning sign that the ratio of those who expect a worsening of their companies' liquidity status during the next six months has increased compared to the previous period (by 3 percentage points). Should these trends prove to be lasting, we can easily experience a sharp split in the SME sector into an optimist wing and a pessimist one. This would again mean bankruptcy for numerous companies while other SMEs may start on the path of steady development. This may as well be considered as a healthy process from the viewpoint of the economy as a whole; a certain self-purification. But the questions remain open: to what extent could a different economic policy, support system or economic environment make sustainable the companies that are currently losing their viability, and to what extent is the state capable of managing short-term crises.

This was a representative survey, based on the responses received from 500 company managers involved, to provide an overview regarding the economic activity of small and medium sized enterprises. The survey was performed in the period between 13 December and 19 December 2013 on an on-line company panel, and through telephone interviews. The IBS-Policy Agenda SME Economic Activity Index is formulated based on the business survey index-calculation. [Read more about the methods applied.](#)