

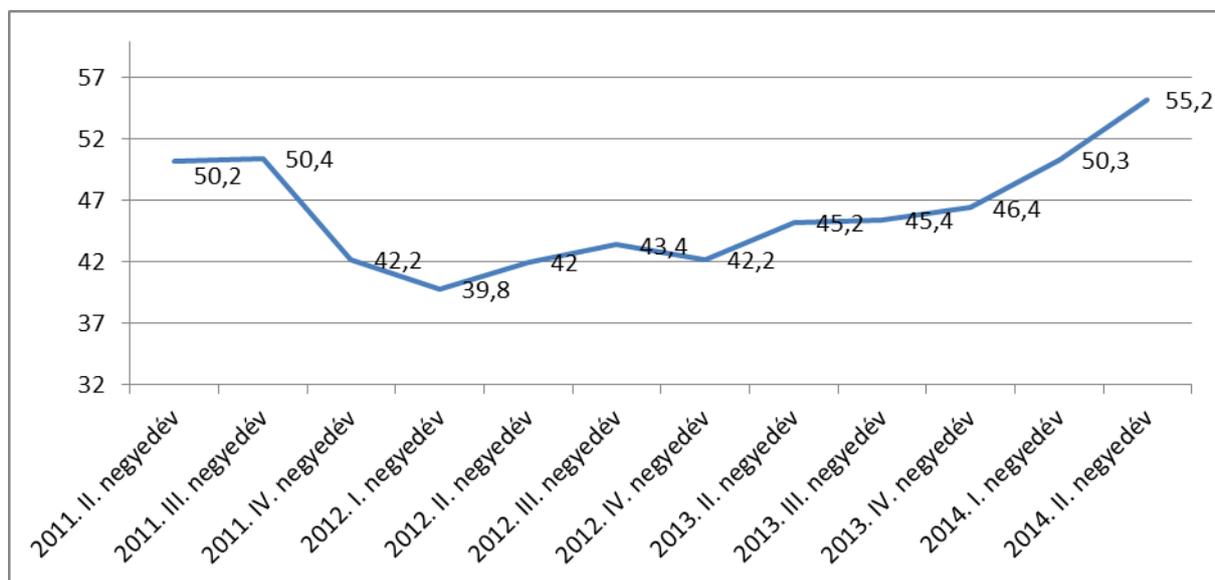
# SME Economic Growth Index of IBS-Policy Agenda Improves

The SME's Economic Activity Index Survey, made by the IBS – International Business School - and the Policy Agenda has grown again compared to the previous quarter. The figures show that the company managers' expectations have improved a lot compared to the situation 3 years ago and there is hope that this atmosphere will remain unchanged. However investors are still not much inclined to devote large outlays on new projects and this evokes cautiousness.

## Recession passed economy improves

SME-index continued to show a growth, and the expectation of company managers is now over the level surveyed at the outset of 2011 when the second trough following the economic recession was observed. While in Q1 of 2014 this figure was 50.3% now it has come to 55.2%.

*Development of the SME-index in time*



It is still to be answered and is a strongly debated issue among the analysts where this optimism comes from. Growth in economy has started indisputably, and as a result of the welfare measures introduced by the government (such as the cut back on the overheads), even the effective demand has picked up a bit of strength. Nevertheless fundamental problems are still unsolved. Preconditions for a more powerful growth in economy have yet to be ensured and we highly depend on external factors we can hardly influence.

When evaluating the figures it is also to be remembered that the survey much coincided with the finish of the election campaign. Obviously enough, the managers have formed their opinions based on their attitude towards the ideologies represented by the political parties, that is their trust in economic growth made the SME-index figures rise, but those managers being voters opposing the government caused a strong decline of figures.

This process is clearly reasoned by the principal issue of the present campaign, whether the currently applied economic policy is really as successful as it is alleged to be or changes are needed.

### **Fewer expect decline, but the majority consider stagnation of economy more probable**

Situation of Hungary's economy is expected to worsen during the next half of the year by 24% of business managers. This figure is still more favourable than the one, 28%, surveyed a quarter of a year ago, and it is nearly one-third of 69% surveyed in December 2011. This clearly reflects that a drop-back in economy is less feared of.

The proportion of those expecting a growth in economy in this quarter of the year was 43%, which is 11% less than the leap surveyed in the previous quarter. This fits more into the tendency surveyed earlier. Along with the increase in the numbers of those expecting economic growth the proportion of business managers expecting stagnation increased by 15%.

### **Improving solvency**

4% of the business managers do not count with any development during the next half of the year, that is the proportion of this circle somewhat decreased compared to the previous quarter, when 36% expected the same to happen.

It may give rise to optimism that while at the end of last year only 12% considered an improvement of even 10% possible, now this rate is 21%.

The results of the survey in the previous quarter showed a dynamic improvement of the solvency was expected by the business managers in the SME sector, as many as 33% forecast improvement in the solvency of the company. Earlier, the expectations as regards liquidity had been much worse, since 2011, and periodically a strong decline was observed, and in the trough in September 2012 merely 8% of the business managers could remain optimistic.

According to the figures of this present survey – presumably partly because of the SME credit program launched by the banks last year – further improvement is anticipated. Now, 51% of the business managers expect a more favourable financial situation compared to the previous quarter, and this is the most favourable figure surveyed during the past four years. The proportion of those expecting changes to the worse dropped to 10%. This process might be reasoned partly by the fact that those undercapitalised small and medium sized enterprises have gone bankrupt during the recent years that had struggled with and proved to be unable to cope with declining demand and higher taxes due to the economic recession, consequently the composition of the present SME sector has somewhat transformed.

*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 18 March and 29 March 2014 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.](#)*

Budapest, 19 April 2014