



Magyar Nemzeti Bank

FACTORS LIMITING BUSINESSES' ACTIVITIES AND INVESTMENT – LESSONS FROM BUSINESS QUESTIONNAIRES

MNB Pareto In-depth Analyses



Domestic GDP contracted by 0.9 percent in 2023, mainly due to falling domestic demand driven by high inflation.



By analysing business questionnaires, we have examined what restrains firms' business operations. The answers consistently point to a lack of demand, rising costs and inflation as the most important factors.



Interest rates and the availability of funds are not cited by business executives among the top 5 factors inhibiting companies' operations in the surveys conducted by advocacy organisations.

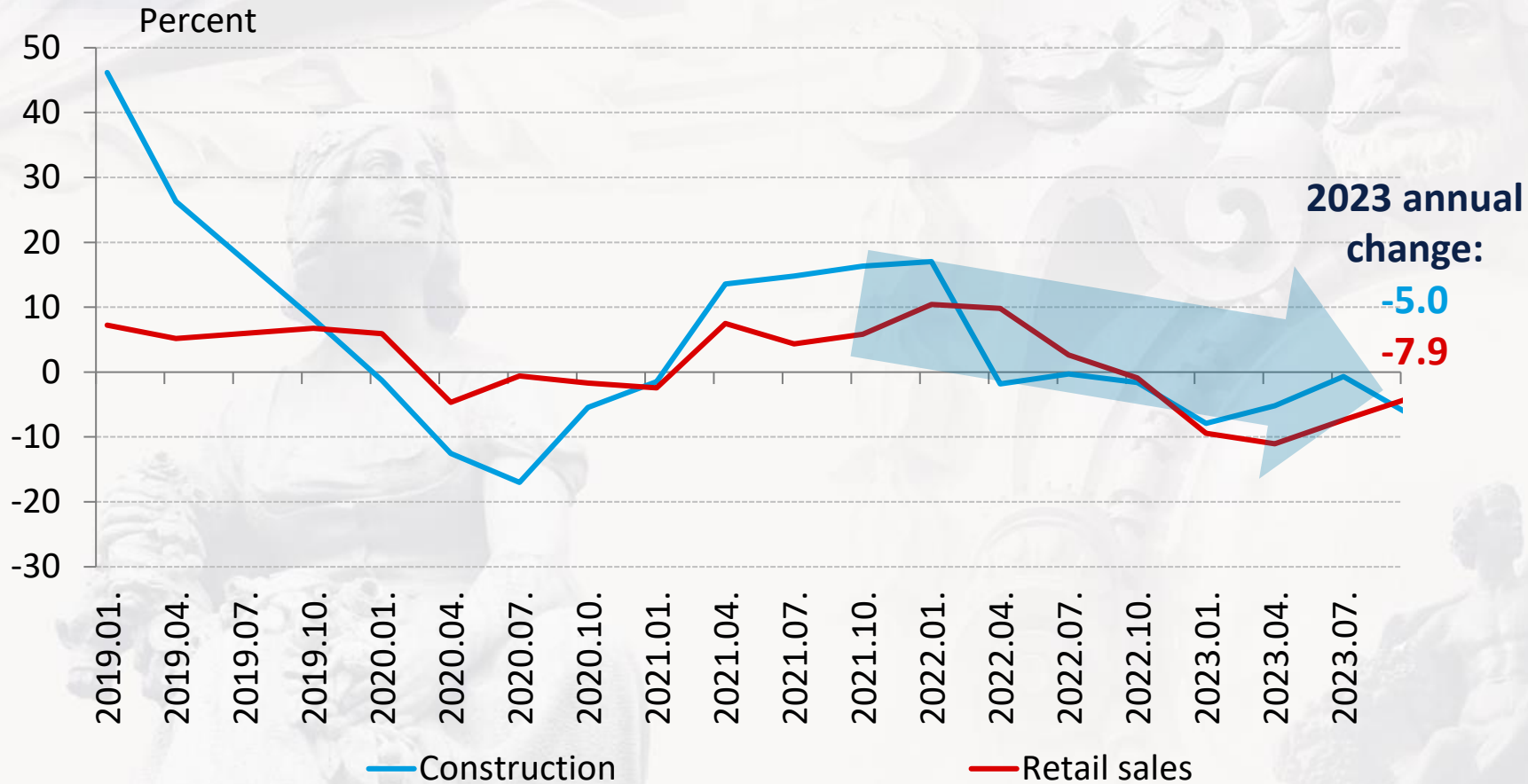


Lack of opportunity, i.e. weak demand is a barrier to investment. The proportion of corporate liquid assets is high.



Inflation is the root of all these problems; therefore, only price stability can restore economic confidence and set output and investment on an upward path.

THE DECLINE IN HUNGARIAN GDP IN 2023 WAS ATTRIBUTABLE TO DOMESTIC DEMAND AND, IN THE SECOND HALF OF THE YEAR, THE EXTERNAL ENVIRONMENT



2023 annual change:
-5.0
-7.9

The fall in Hungarian economic output was primarily driven by subdued domestic demand.

Of the sectors governed by the internal market, construction output and retail sales decreased on average in 2023 by 5.0 percent and 7.9 percent, respectively.

ANNUAL CHANGE IN CONSTRUCTION OUTPUT AND RETAIL SALES

BUSINESS EXECUTIVES HAVE A DIRECT FEEL FOR THE PULSE OF THE ECONOMY, HENCE THEIR RESPONSES HELP US UNDERSTAND THE UNDERLYING CAUSES

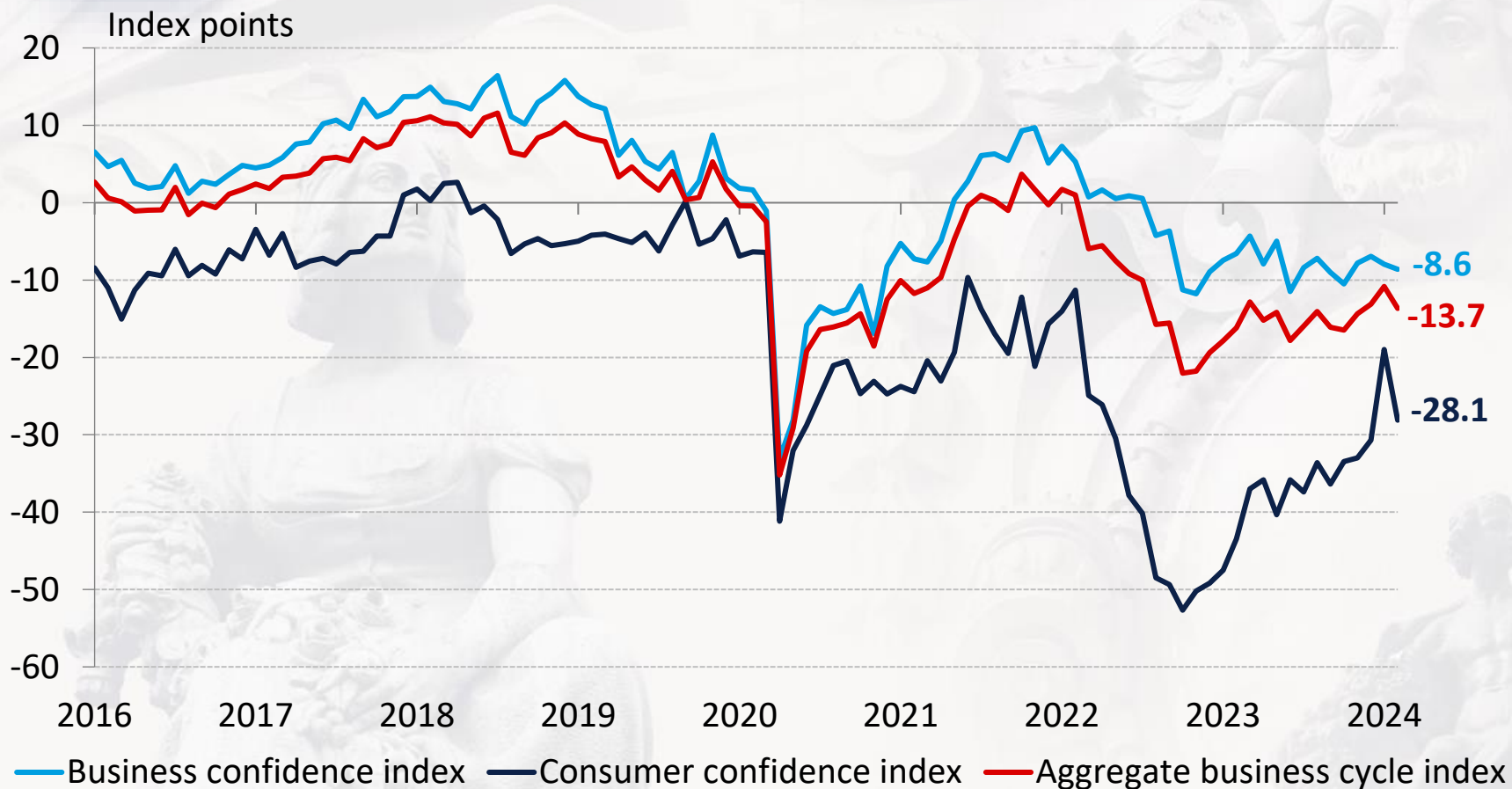


Survey	Published by	Frequency	Scope of businesses surveyed
Economic Sentiment Indicator (ESI)	European Commission	monthly	companies with more than 10 employees
GKI Economic Sentiment Index	GKI Gazdaságkutató Zrt. (GKI Economic Research Ltd)	monthly	legal entities with more than 20 employees
Purchasing Managers' Index	Magyar Logisztikai, Beszerzési és Készletezési Társaság (Hungarian Logistics, Purchasing and Inventories Association)	monthly	purchasing managers of manufacturing companies
VOSZ Barometer	Vállalkozók és Munkáltatók Országos Szövetsége (National Association of Entrepreneurs and Employers)	quarterly	N/A
MKIK Economic Survey	Magyar Kereskedelmi és Iparkamara (Hungarian Chamber of Commerce and Industry)	semiannual	N/A
MNB Business Sentiment Survey	Magyar Nemzeti Bank	monthly	all headcount categories

Business surveys provide a “soft” indicator of the economic cycle and, in addition to statistical data, can **shed light on the changes in economic output based on executives’ assessment of the situation.**

There are several comparable surveys to look at. Business sentiment surveys are conducted by Hungarian advocacy organisations, economic research institutes, the European Commission and also the Magyar Nemzeti Bank.

HIGH INFLATION WEAKENED CONSUMER AND BUSINESS CONFIDENCE



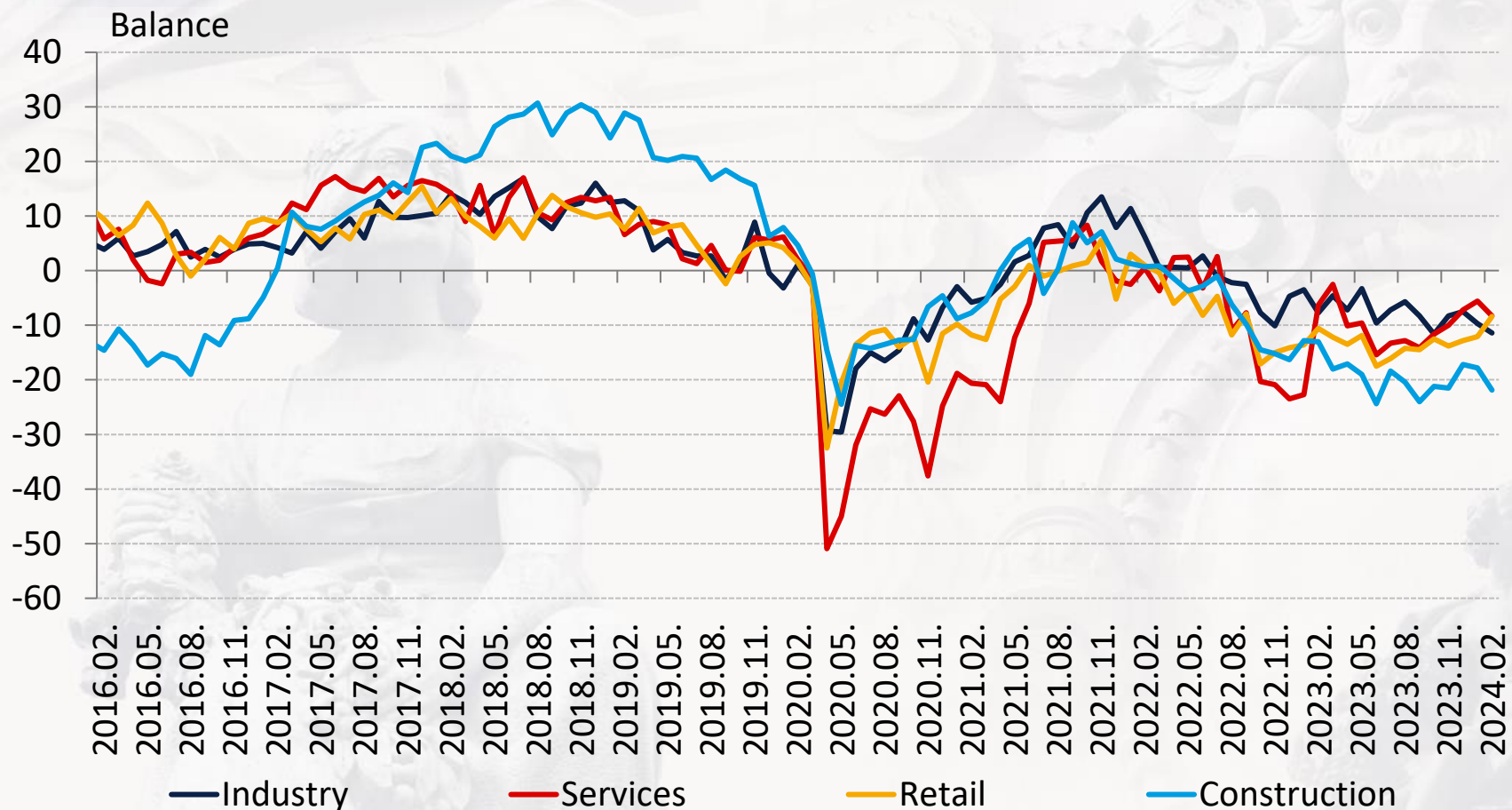
According to the GKI Economic Sentiment Index, business and consumer confidence stood at lower levels in the past year and a half than it did before the coronavirus pandemic or during the post-pandemic recovery.

Thanks to disinflation, consumer confidence began to follow an upward path; nonetheless, it is still around the levels recorded during the COVID-19 pandemic.

EVOLUTION OF THE GKI ECONOMIC SENTIMENT INDEX AND ITS COMPONENTS

Note | Seasonally adjusted data.
Source | GKI Gazdaságkutató Zrt.

THE CONFIDENCE INDEX WAS NEGATIVE ACROSS ALL SECTORS



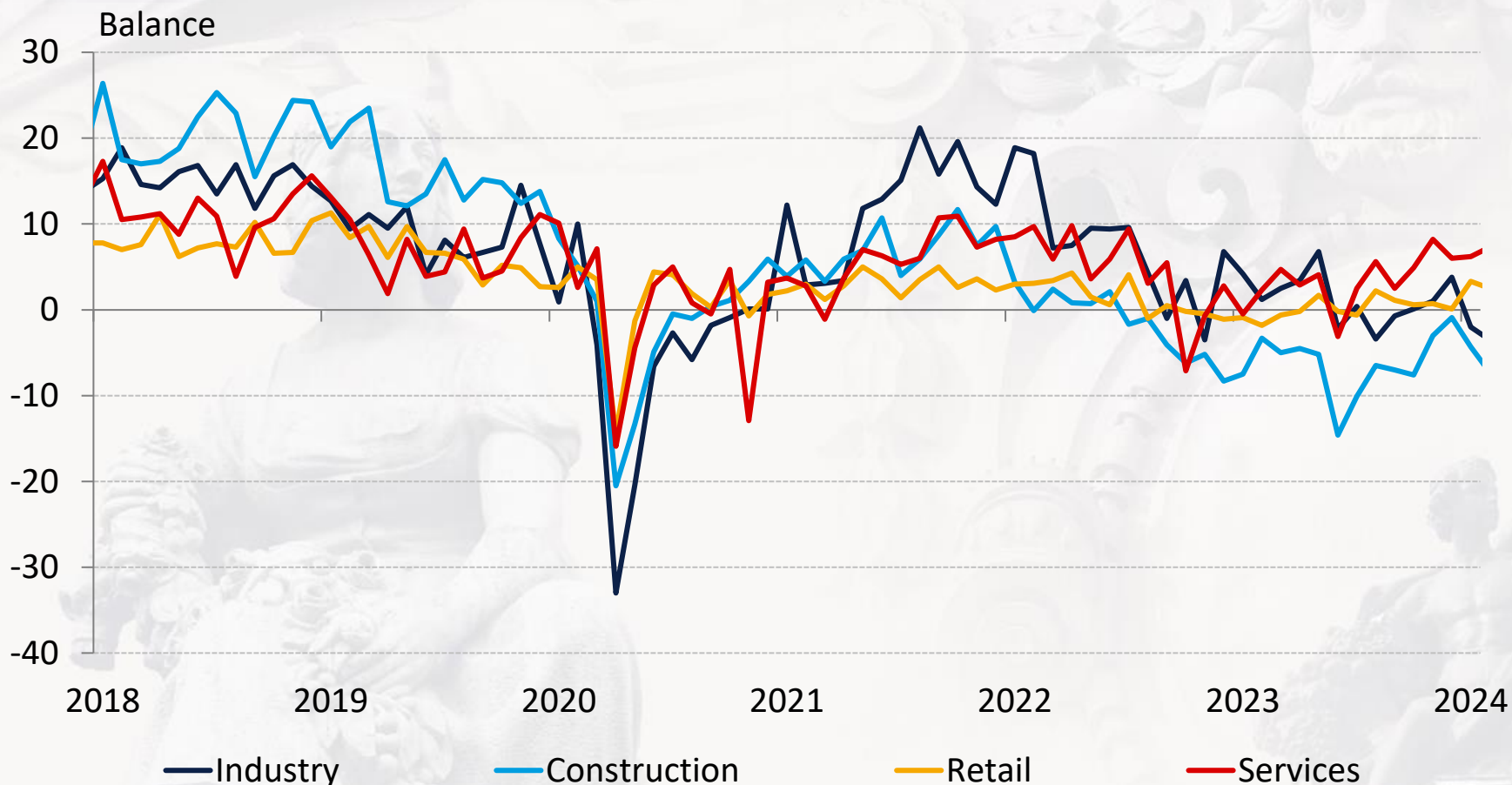
The Economic Sentiment Indicator (ESI) was also unfavourable for industry, construction, services and retail alike. The construction indicator was the lowest in February 2024, while retail trade saw a gradual improvement over the last months.

EVOLUTION OF THE ESI SUBINDICATORS IN HUNGARY

Note | Seasonally adjusted data. The consumer confidence indicator is not included.

Source | European Commission

BUSINESSES' EMPLOYMENT INTENTIONS HAVE STAGNATED SINCE THE END OF 2022



EMPLOYMENT EXPECTATIONS AMONG BUSINESSES (ESI BUSINESS SURVEY)

In line with economic expectations, employment intentions have stayed at lower levels since the end of 2022.

A balance above 0 indicates a rise in employment. For all key sectors, employment expectations hovered at 0, suggesting that companies were holding off on future hiring.

Source | European Commission

What hinders companies' activities?

Findings of business surveys

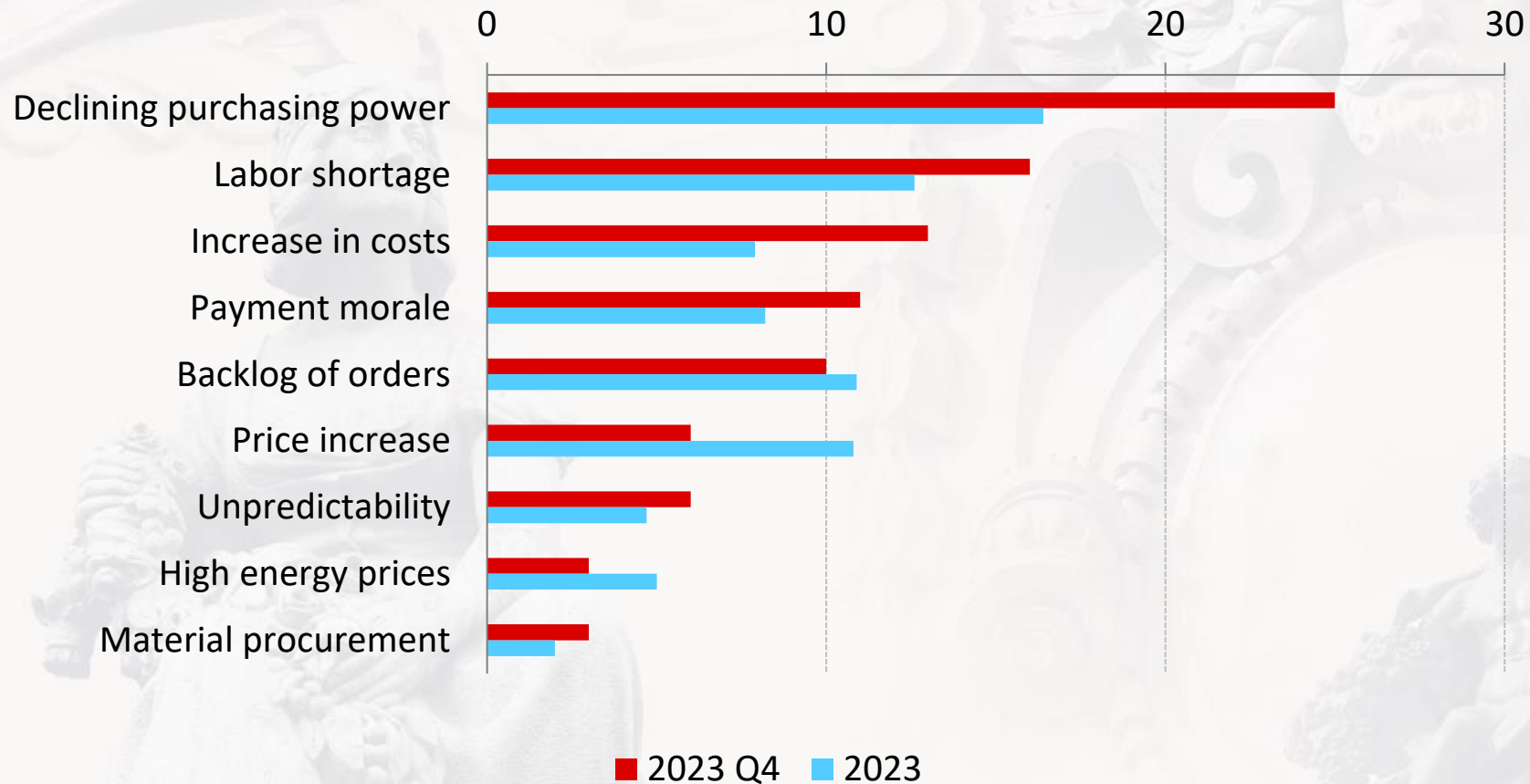
- Soaring inflation
- Declining purchasing power (demand)
- Labour shortage
- Increased costs

Interest rates and the availability of funds are not cited by business executives among the top 5 factors inhibiting companies' operations in the surveys conducted by advocacy organisations.

The surveys also help find answers to what hinders companies' business operations.

Soaring inflation, rising costs, falling demand and a lack of properly skilled labour are the chief obstacles to the effective operation of businesses.

WEAKENING PURCHASING POWER, LABOUR SHORTAGES AND RISING COSTS ARE THE MAIN PROBLEMS AFFLICTING BUSINESSES' OPERATION



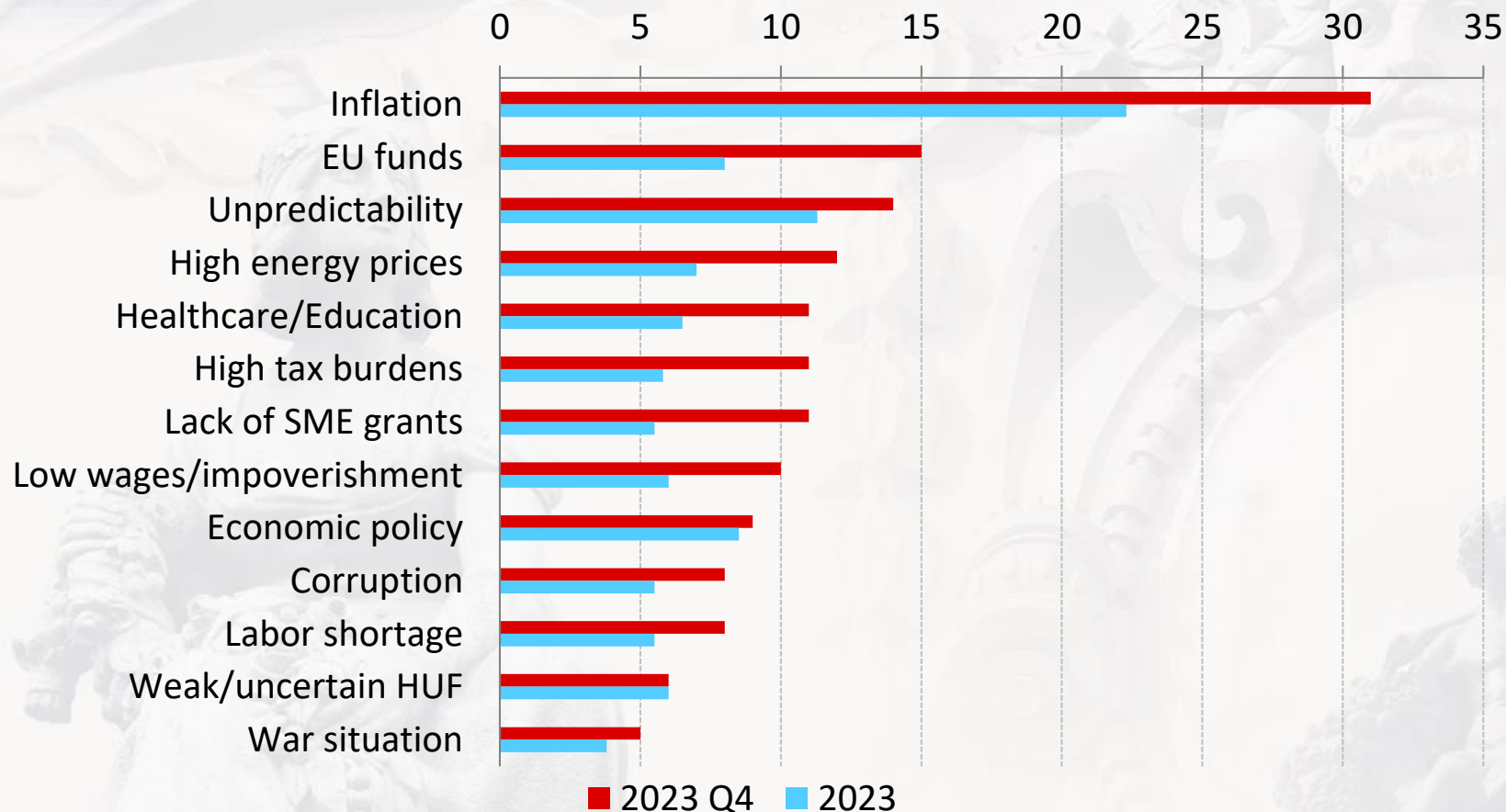
KEY PROBLEMS IN DAY-TO-DAY BUSINESS

According to the survey of the National Association of Entrepreneurs and Employers, **executives identified declining purchasing power, labour shortages and rising costs as the most important factors affecting business.**

The lack of funds and liquidity problems were not listed among the 9 most important factors but cited as other problems.

Source | VOSZ

INFLATION WAS ALSO CITED AS THE NUMBER ONE ISSUE IN RELATION TO THE ECONOMIC SITUATION OF THE COUNTRY

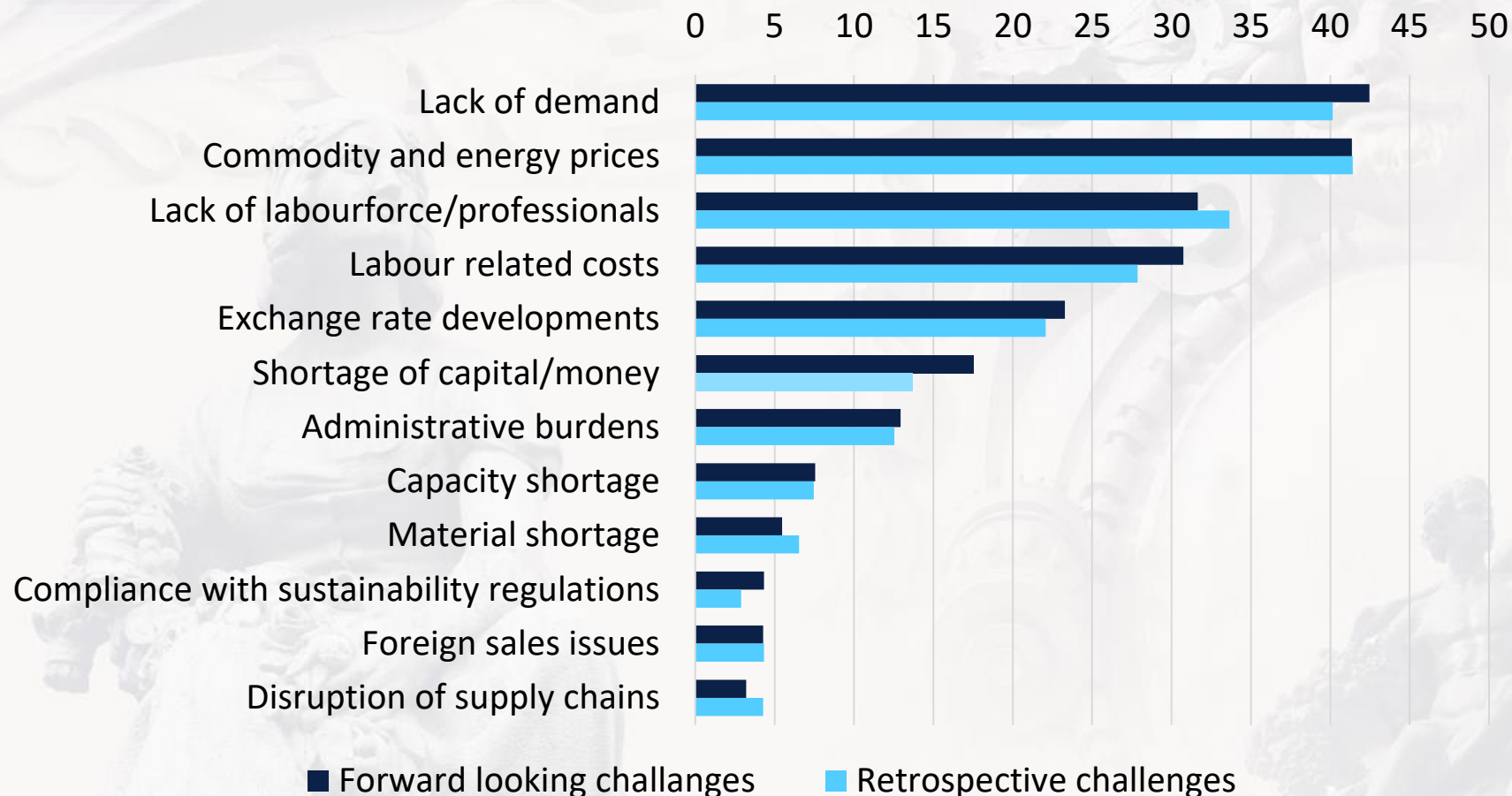


Inflation was clearly identified by business executives as the key challenge in respect of the country's overall macroeconomic situation.

MAIN PROBLEMS RELATED TO THE COUNTRY'S ECONOMIC SITUATION

Source | VOSZ

THIS RESONATES WITH THE MKIK SURVEY FINDINGS: DEMAND AND RISING COSTS ARE THE CHIEF OBSTACLES



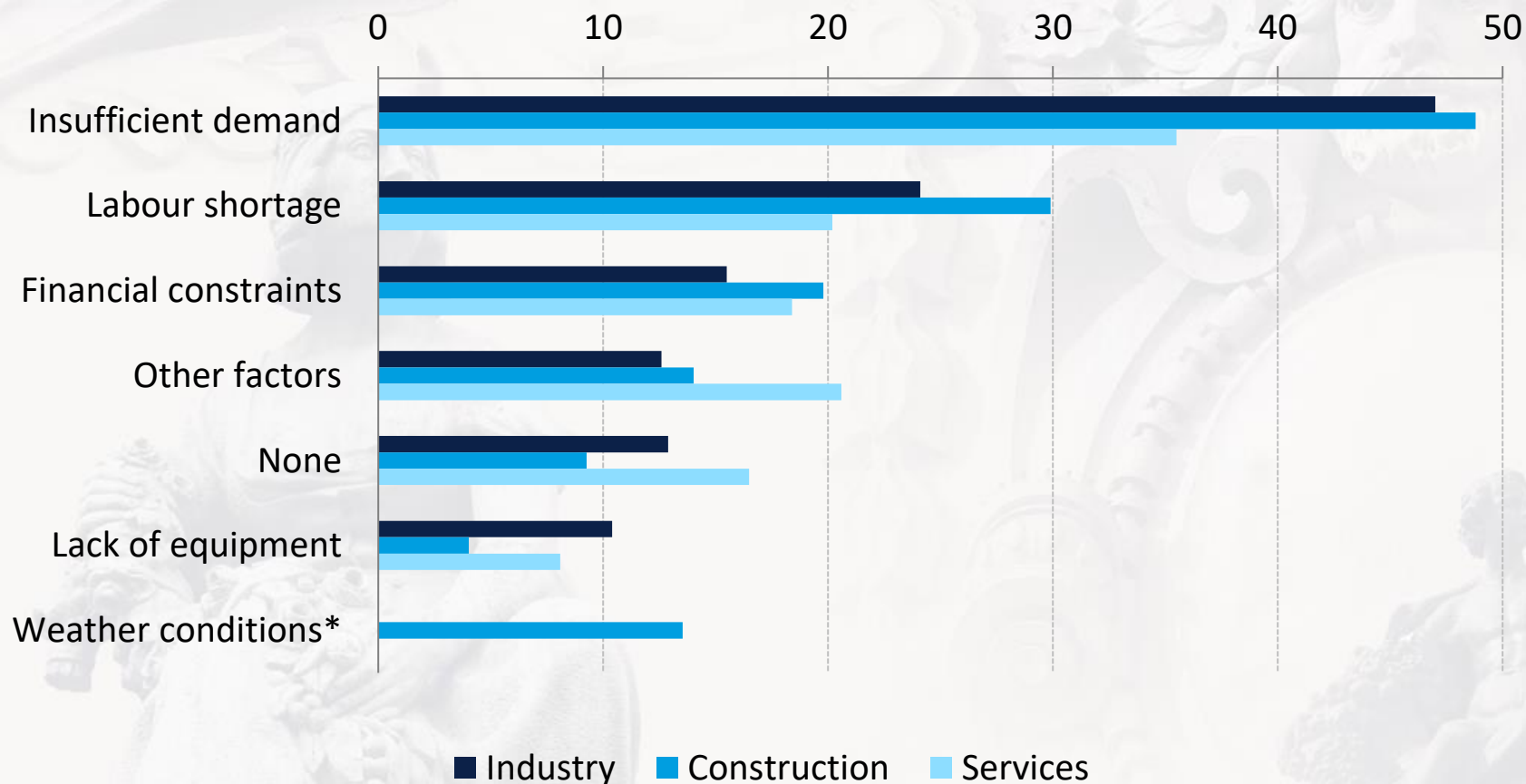
The **Economic Survey of the Hungarian Chamber of Commerce and Industry** produced similar results. **Lack of demand, raw material and energy prices, labour and skills shortages were named as the top three.**

Barriers to financing, i.e. capital shortage and lack of money came 6th in executives' ranking.

FACTORS INHIBITING BUSINESS OPERATION

Source | MNB calculations, based on MKIK data

THE ESI SURVEY ALSO IDENTIFIED MEAGRE DEMAND AS THE MOST IMPORTANT CONSTRAINT



FACTORS LIMITING PRODUCTION IN EACH SECTOR

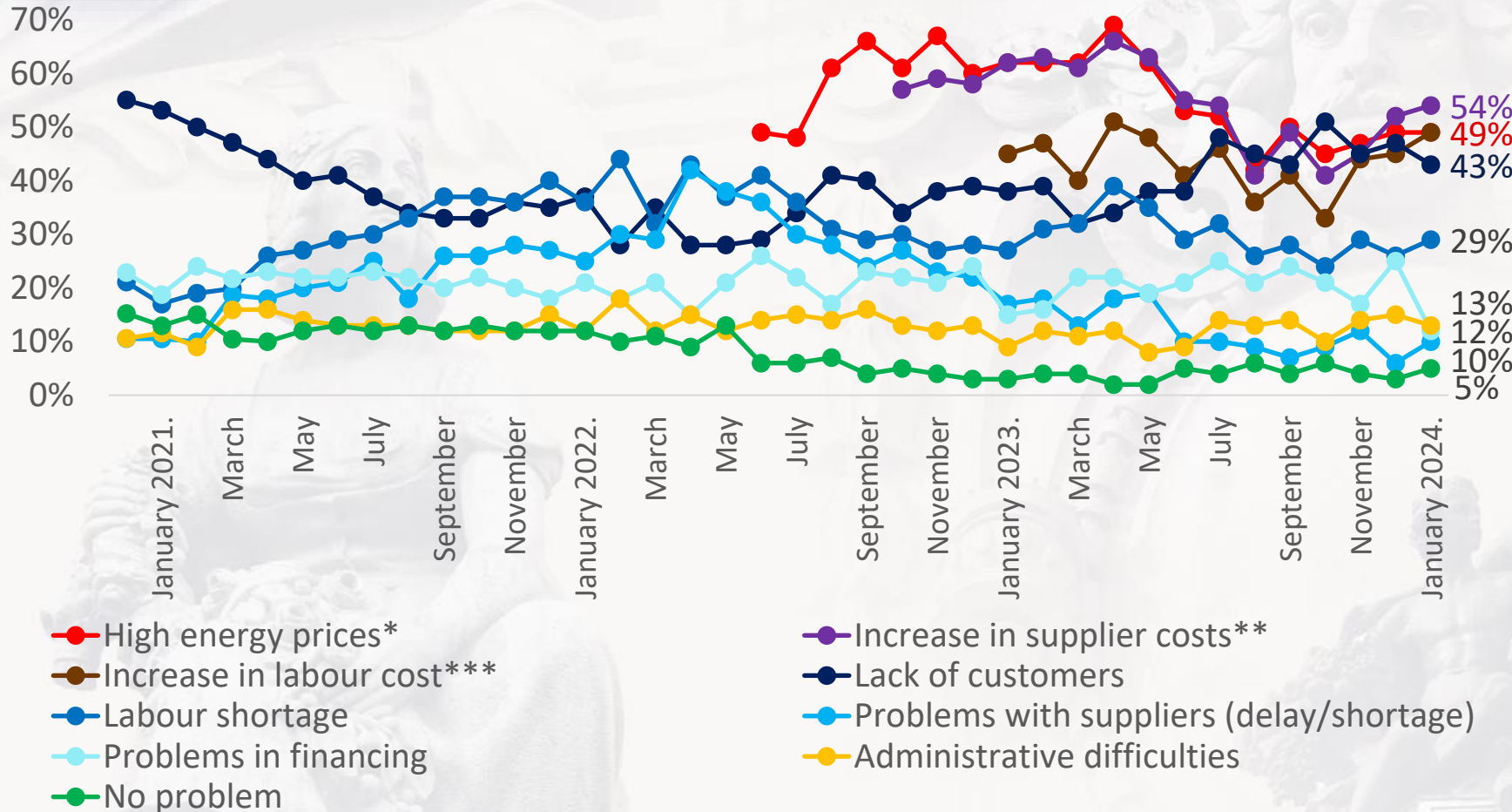
The **European Commission's ESI survey** offers fewer factors to select from as a constraint on production/business. Similarly to the other surveys discussed earlier, **financial constraints are preceded by poor demand and labour shortages as the most important constraints on firms.**

This ranking persists across the different sectors with the order of the main constraints being similar for industry, construction and services.

Note | *Weather conditions only for construction. Seasonally adjusted data for 2023 Q4.

Source | European Commission

THE MNB SURVEY ALSO CONFIRMS THE ROBUSTNESS OF THE FINDINGS, IDENTIFYING RISING COSTS AND THE LACK OF CUSTOMERS AS THE PROBLEM



According to the MNB’s Business Sentiment Survey, in January 2024, companies were impeded primarily by supplier price increases, high energy prices, rising labour costs and a lack of customers.

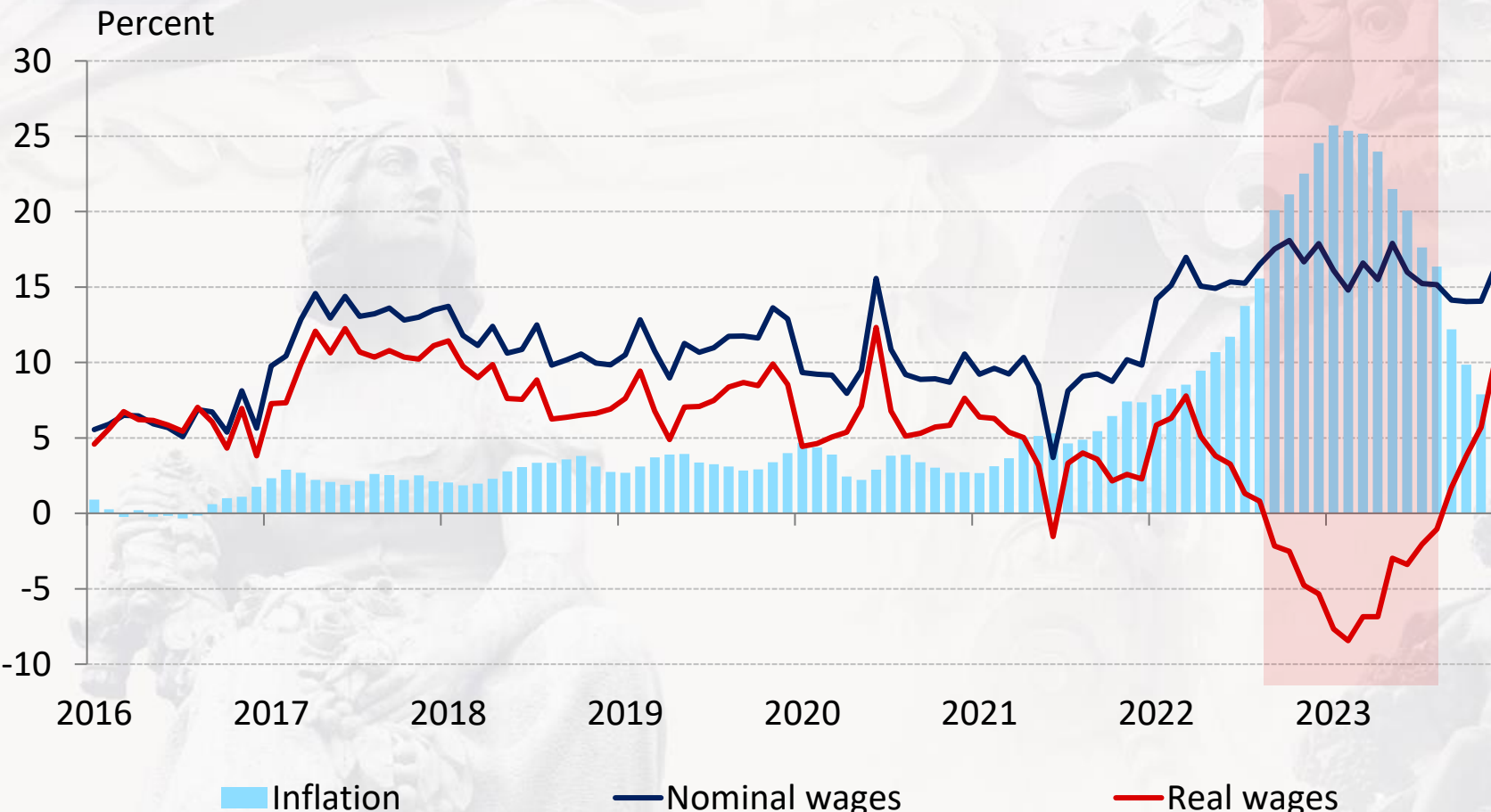
The MNB surveys therefore also attest the robustness of the results, i.e. that price rises and lack of demand are the main bottlenecks.

FACTORS HAMPERING COMPANIES’ ACTIVITIES

Note | *The option has been included in the survey since June 2022.

13 | ** The option has been included in the survey since October 2022. *** The option has been included in the survey since January 2023. Source | MNB

REAL WAGES FELL AS INFLATION SURGED BUT STARTED TO CLIMB AGAIN FROM SEPTEMBER 2023



The decline in domestic demand was mainly caused by inflation peaking in early 2023. Rising inflation eroded the purchasing power of wages. Despite nominal wage dynamics being above 15 percent, **real wage dynamics turned negative between September 2022 and August 2023**, curbing household spending and domestic demand.

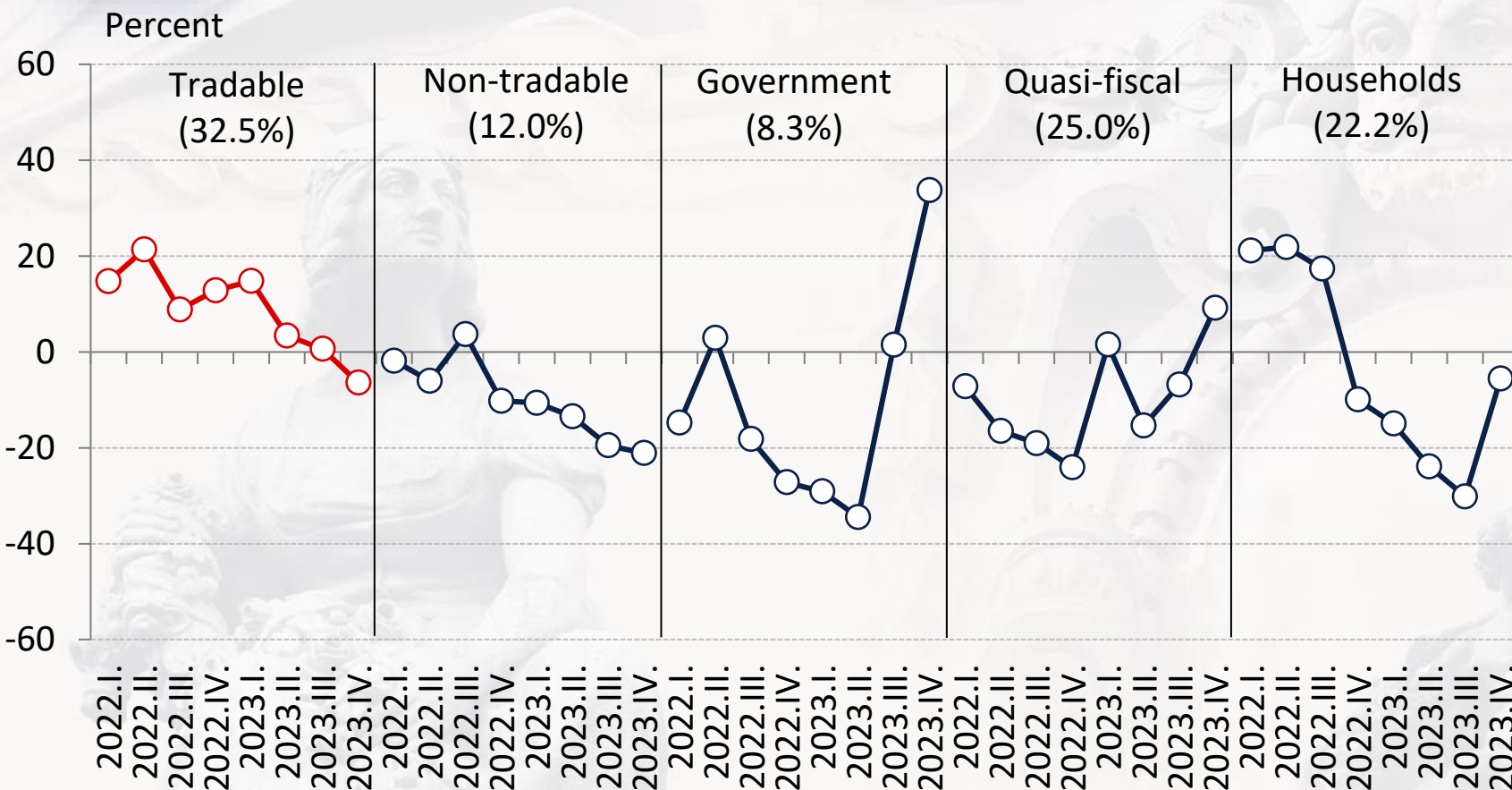
Real wages started to rise again from September 2023 as inflation went down significantly.

ANNUAL CHANGE IN AVERAGE NOMINAL AND REAL WAGES IN THE NATIONAL ECONOMY AND TRENDS IN INFLATION

Note | Earnings excluding the benefits paid to the armed forces in February 2022.

Source | HCSO

NON-TRADABLE SECTORS' INVESTMENT SHRANK THROUGHOUT 2023



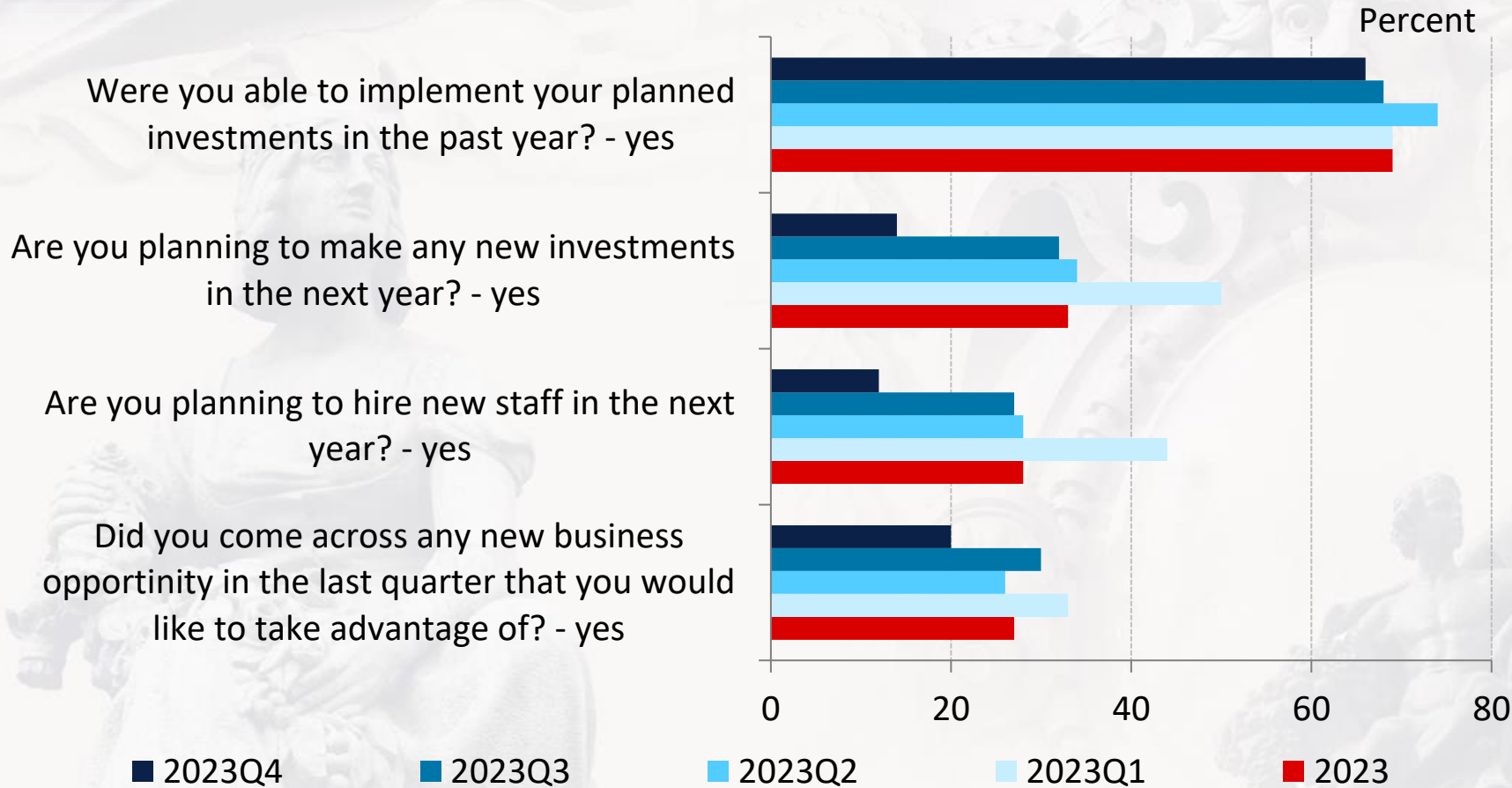
With weak domestic demand, **investment by the non-tradable sectors fell by 16.2 percent on average over 2023**. After a gradual slowdown, investment by the tradable sectors started to decline in annual terms in 2023 Q4.

Government investments were on a downward trend throughout 2023 despite the growth of the fourth quarter.

ANNUAL CHANGE IN INVESTMENT REALISED BY THE SECTORS OF THE NATIONAL ECONOMY

Note | Weights for 2022 within total investment are indicated in brackets. Tradable sector: agriculture, mining, manufacturing; Non-tradable sector: construction, trade, hospitality, communication, financial activities; State in the narrow sense: public administration, education, health; Quasi-fiscal: energy, water supply, transport and several small service sectors; Households: real estate. Source | HCSO, MNB

CORPORATE INVESTMENT IS CHECKED PRIMARILY BY THE LACK OF BUSINESS OPPORTUNITIES



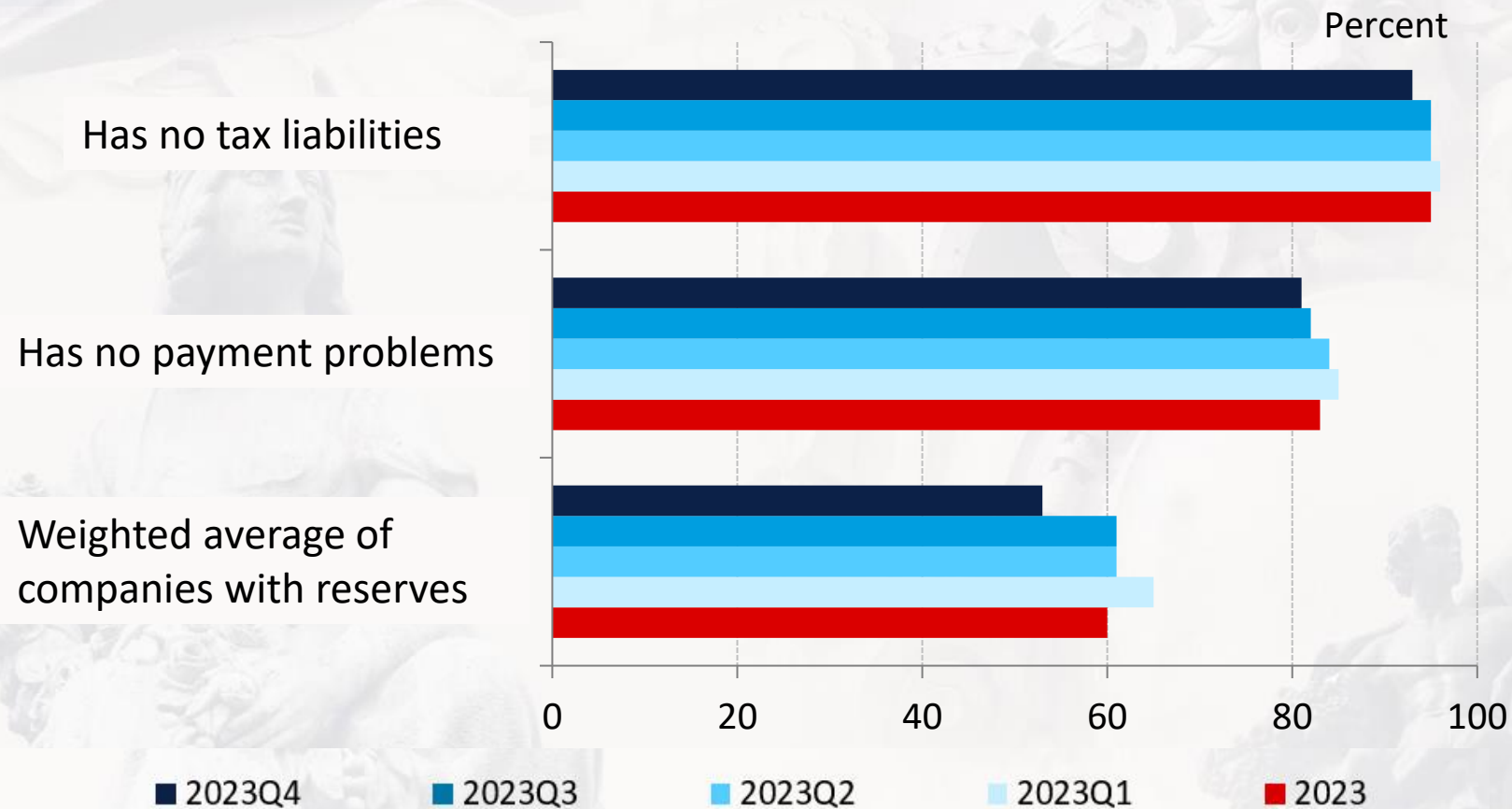
As shown by the VOSZ survey, growth in corporate investment is prevented mainly by the lack of business opportunities. 27 percent of respondent companies said they had a business opportunity they would be happy to take advantage of and around a third of them plans to implement a new project in the following year.

The majority of companies (69 percent) were able to implement the planned projects.

REALISED INVESTMENT PROJECTS AND INVESTMENT PLANS

Source | VOSZ

THE MAJORITY OF BUSINESSES HAVE NO PAYMENT PROBLEMS AND HAVE RESERVES



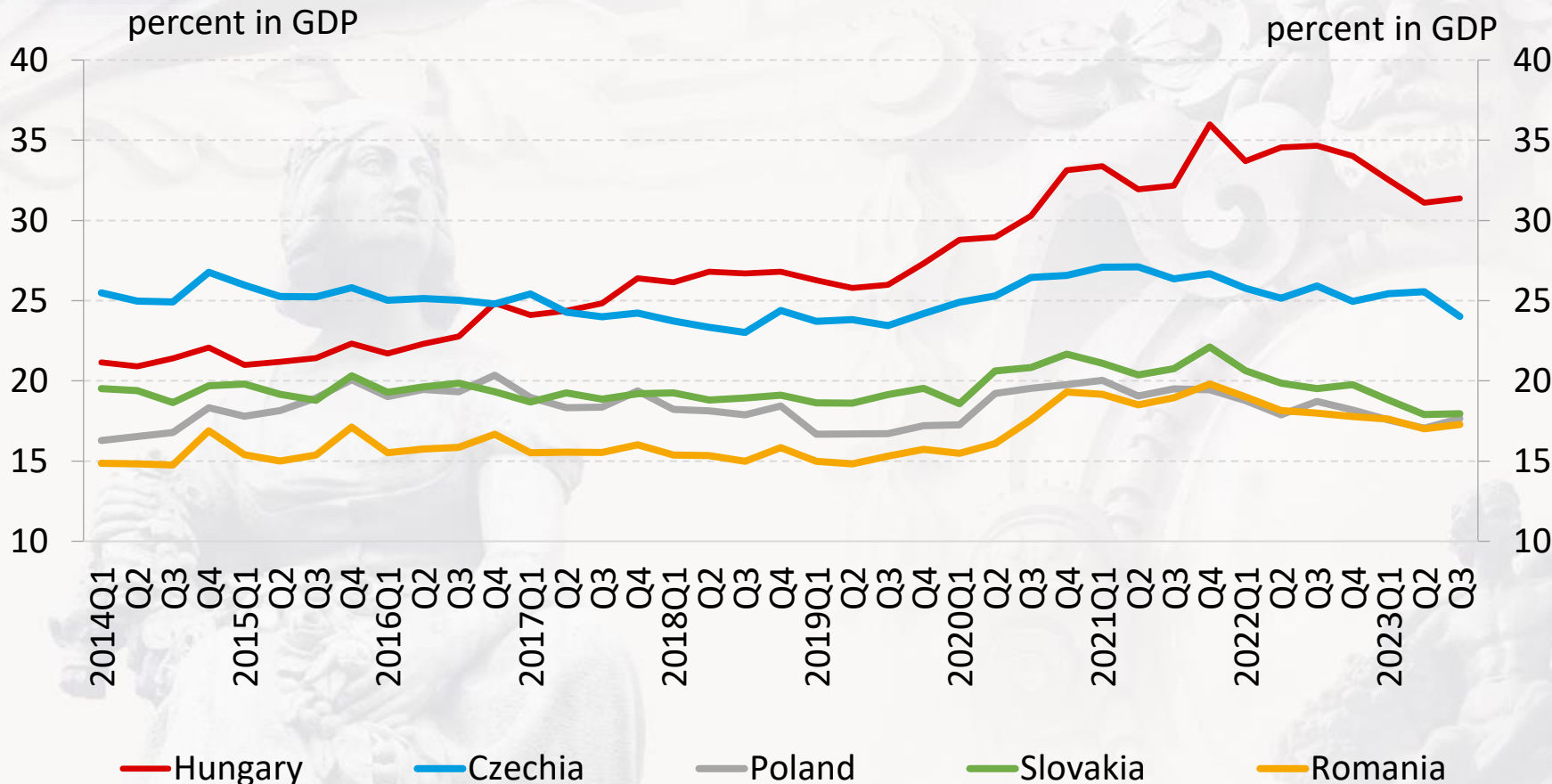
In its analysis of the survey, VOSZ claims that ***“the financial standing of enterprises is the best-performing subindicator of the indices measured”****.

95 percent of the companies had no outstanding tax liabilities, 83 percent claimed that they had no payment problems, and the majority also had financial reserves.

COMPONENTS OF THE FINANCIAL STANDING SUBINDICATOR

Source | VOSZ, *<https://vosz.hu/vosz-info/vosz-barometer-a-vasarloero-csokkenese-sokkolta-a-kkv-kat-2023-ban>

BUSINESSES' LIQUID ASSETS WOULD ALLOW THEM TO INVEST FROM THEIR SAVINGS



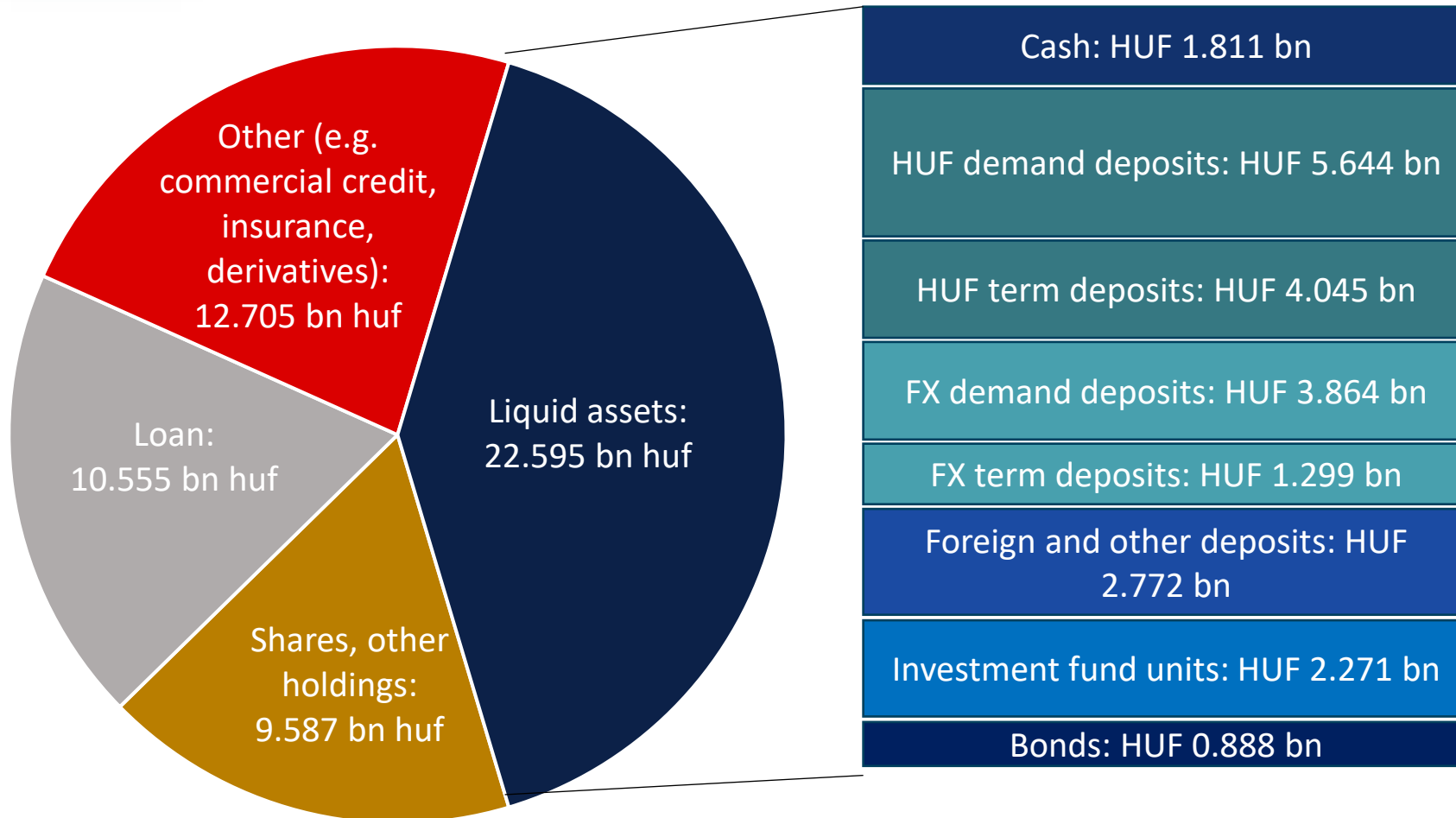
Businesses have a high ratio of liquid assets which would allow them to invest from savings.

The ratio of Hungarian companies' liquid assets to GDP declined moderately but is still above 30 per cent, well over the levels seen in other countries of the region.

LIQUID ASSETS OF NON-FINANCIAL COMPANIES

Source | MNB, Eurostat

MOE THAN 40 PERCENT OF COMPANIES' FINANCIAL ASSETS ARE LIQUID ASSETS EASY TO MOBILISE

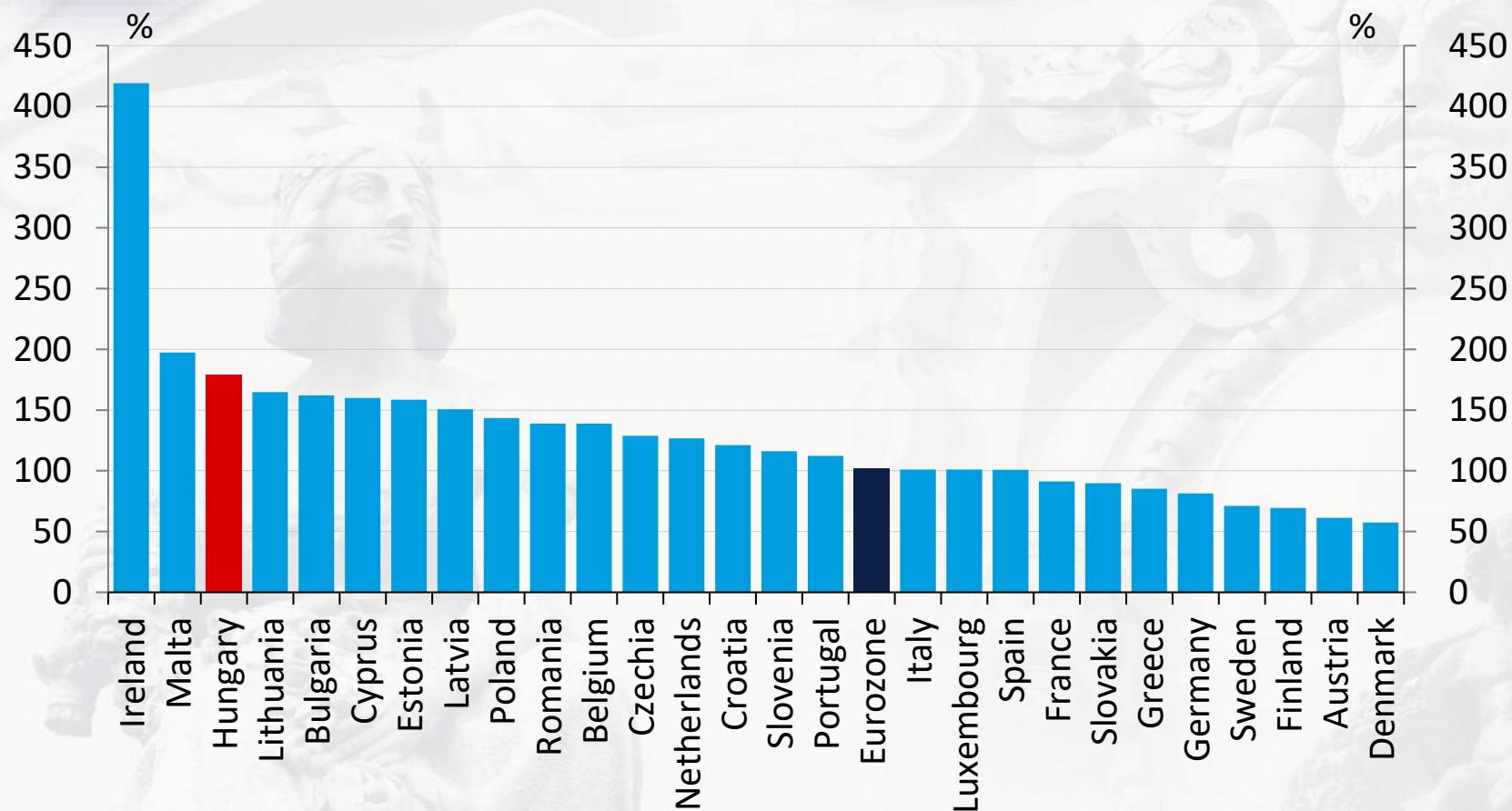


The volume of cash and bank deposits is significant (nearly HUF 20 thousand billion).

The strong increase in liquid assets observed in recent years was common to both large companies and SMEs.

DISTRIBUTION OF THE FINANCIAL ASSETS OF NON-FINANCIAL COMPANIES, 2023 Q3

HUNGARIAN BUSINESSES ARE THE THIRD IN THE EU IN TERMS OF THE RATIO OF LIQUID ASSETS TO LOANS FROM BANKS



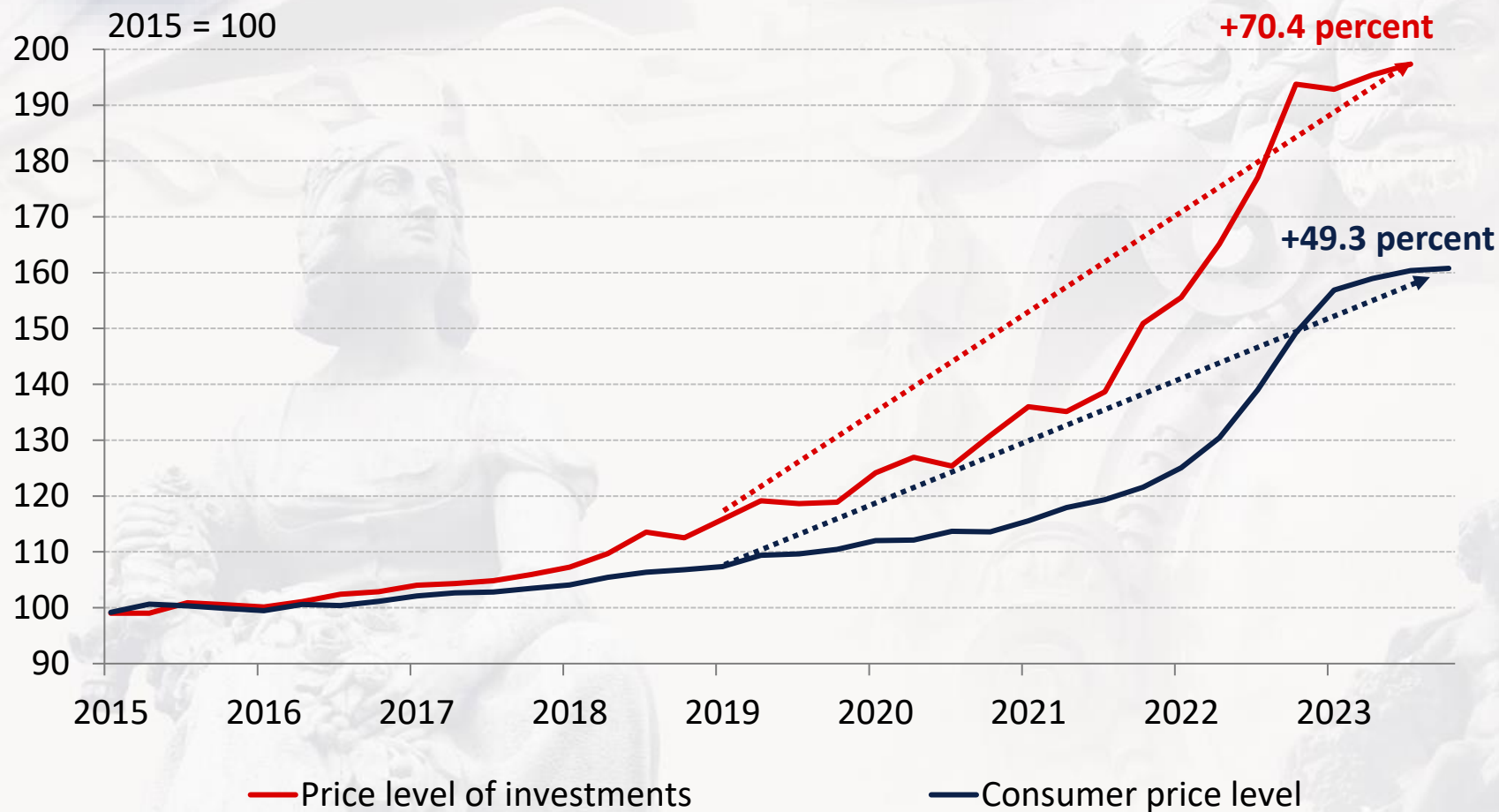
The level of available funds is favourable not only relative to the region but also when compared with the EU as a whole. Following Ireland and Malta, domestic companies are the third in terms of the ratio of liquid assets to loan from banks.

The ratio is higher than in the rest of the region and is almost twice the average of the euro area.

RATIO OF CORPORATE LIQUID ASSETS TO LOANS FROM BANKS IN INTERNATIONAL COMPARISON, 2023 Q3

Source | ECB

ONE REASON FOR THE DECLINE IN INVESTMENT VOLUMES IS THE RISE OF INVESTMENT PRICES



Investment is hampered by rising prices. The overall price level of investment rose by more than 70 percent between 2019 Q1 and 2023 Q3, while consumer prices went up by 50 percent.

CHANGES IN CONSUMER AND INVESTMENT PRICES

Source | HCSO



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**THANK YOU
FOR YOUR
ATTENTION!**

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*100 years for Hungary's
prosperity*