

EU HARMONIZED ENTERPRISE SURVEYS IN HUNGARY

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Economic research based on interviews with corporate professionals have spread the world in the second part of the last century. Since then, these kinds of surveys have gained utmost importance in business cycle research.¹ In Hungary researchers have started to use this method with a little delay but earlier than in other countries of the region. The first survey with a larger scope was arranged by *Zoltán Román* (Research Group of Industrial Economics of the Hungarian Academy of Sciences – MTA IKCS).²

At the beginning of the 1970s, *Júlia Zala* has introduced regular business surveys at the Economic Research Institute (GKI). The questionnaire collected annual and semi-annual data on firm plans and on firm plan fulfillment expectations – based on the methods of IFO Munich. In the past, the valuable data of the research – excluding a short summary published in a couple of daily and weekly newspapers – used to be classified as confidential.³ Nowadays, however, surveying (taken over by GKI Economic Research Co. after the dissolution of the state-owned Economic Research Institute) is still conducted and published regularly providing one of the most comprehensive scientific information source on enterprise behaviour in Hungary.

Since the 1980s, the Kopint Co. has participated in the researches as well with their quarterly business cycle tests.

The New Survey System of GKI Co.

In market economies enterprise surveys are basic elements of market tendency researches and forecasts. The GKI Co. has found, however, that its system developed in the past decades – for example the semi-annual collection of information – does not really serve the today's purpose of the conjuncture researches. Therefore, after many years of preparation on January 1, 1996, the GKI Co. fully adopted or in some parts

¹ *Oppenlander, K. H. – Poser, G.*: Handbuch der IFO-Umfragen. Duncker. Munich 1989.

² *Román, Z.*: A vállalati magatartás és a vállalat helyzetének megítélése (Corporate behaviour and corporate situation analysis). MTA Ipargazdasági Kutató Csoport. *Ipargazdasági Tájékoztató*. 1969. No. 6.

³ The few exceptions are the articles by *Annamária Inzelt*: A vállalati véleménykutatási módszer alapjai (Experiences with the application of company opinion research methods. *Gazdaság*. 1976. No. 2.) and A vállalati véleménykutatási módszer szerepe a makrogazdasági előrejelzések készítésében (The role of corporate-view research methods in preparing macroeconomic forecasts. *Ipargazdasági Szemle*. 1981. No. 4.)

adjusted its survey methods – as much as the Hungarian surroundings let it – to the EU’s methods developed and used uniformly in all the EU countries.

The EUROSTAT and the qualified professionals of the OECD gave their help to GKI Co. in developing and introducing the new survey system and in improving its effectiveness. We have also gained valuable information at the Conference Board of Canada research institute (Ottawa), which is responsible for the Canadian conjuncture research. The long-term working relationships that we developed with the experts of the above mentioned organizations have provided us with a good feedback on the standards of our work.

As a first step in introducing the EU standards, the GKI Co. conducts a monthly survey about the expectations of consumers⁴ since 1993 – in association with SZONDA IPSOS Public Poll Institute. The investigated “sample” includes 1000 people representing the Hungarian population by age, gender, education, and residence. The questionnaire includes the harmonized questions of the EU about the general state of the consumer’s own-household, the inflation, the unemployment, and the family’s purchasing and savings plans. Based on the survey results, an aggregate “confidence” index is calculated and published monthly in the *Figyelő* weekly economic newspaper.

Short-term business surveying of the industry, the trade sector, and the construction industry started-off – on a trial basis – in 1995 and since June 1995 surveys have been conducted regularly. We conduct a monthly survey of industrial and trading enterprises, while the construction industry is surveyed only quarterly. For the purpose of the survey, based on the firm register of the Central Statistical Office (CSO), we use stratified-sampling method (stratified by the number of employees) to choose the survey’s target sample. Then, we mail out our one-page, simple questionnaires to the chosen enterprises. In these questionnaires we are not asking for absolute numbers and data but we ask about the enterprises’ tendency expectations and the difference between their actual and “normal” seasonal situation. The English special literature simply calls this a “business tendency survey”. The answers collected are published in the form of balances of opinion which measure the difference between the percentage of firms which have chosen the “up arrow” or the answer “above the normal level” and the percentage of those which have chosen the “down arrow” or the answer “below the normal level”.

The questions posed by GKI Co. – with one exception – are all adopted from the EU harmonized system. The only one question that is different is about producer prices but in this case we ask for an actual number because in Hungary the high inflation rate makes it useless to ask for the tendency of price changes (if they will go up or down.) From the collected data so-called confidence indicators – representing the sector’s business expectations in one single index number – are calculated by trial weighing. In EU countries these composite type indicators – their base variables and elements are later discussed – can show and forecast forthcoming business fluctuations in relief and have successfully predicted cyclical breakpoints many times.

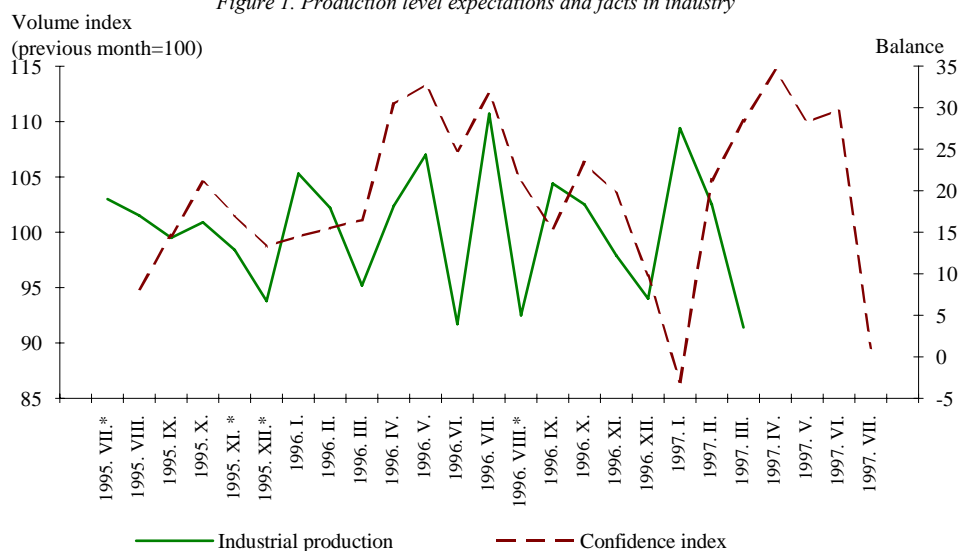
The industry sample includes 1700, the trade and the construction industry sample includes 1400–1400 enterprises. The industry and the commercial trade samples are corrected every half-year by replacing some of the enterprises with new ones. We usually

⁴ For details, see: *Molnár, L. – Skultéty L. et al.: Consumer confidence in Hungary. GKI Co.’s economic trends and research summaries. 1995. No. 1.*

receive 400 processable answers from the industry, 200 from the commercial trade, while about 150 from the construction industry. This response rate is a bit behind from that of Western Europe but is in line with the Hungarian “habits”. Other firms that conduct enterprise surveys (like KOPINT DATORG) experienced the same low response rates and agree that this is the Hungarian reality.

The industrial survey asks questions about the following: production levels and expectations, domestic and export order-book level, stocks of finished products, producer price inflation, the usage of determining capacities, limits to production, financial position, change in the number of employees, percentage change in investment and the overall state and development of the economy.

Figure 1. Production level expectations and facts in industry



* Survey was not conducted.

Source: Central Statistical Office, GKI Co.'s survey.

Sometimes, the survey's results (or at least some part of the results, for example in the case of production expectations) adjust closely to certain fact figures.⁵ This can be viewed on Figure 1. The balances of opinion present problems of interpretation: should they be analyzed as a level or as changes? In formulating their answers, are the respondents referring to very short-term changes, in line with the wording of the questions, or are they comparing the present situation with that of a year earlier? (On Figure 1 we interpret the survey results as a level.)

The components of the industrial confidence indicator show information about expectations on production, assessment of order-book levels, and stocks of finished products. The industrial confidence indicator is mostly correlated with production outlook, the adequate correlation coefficient is 0.65.

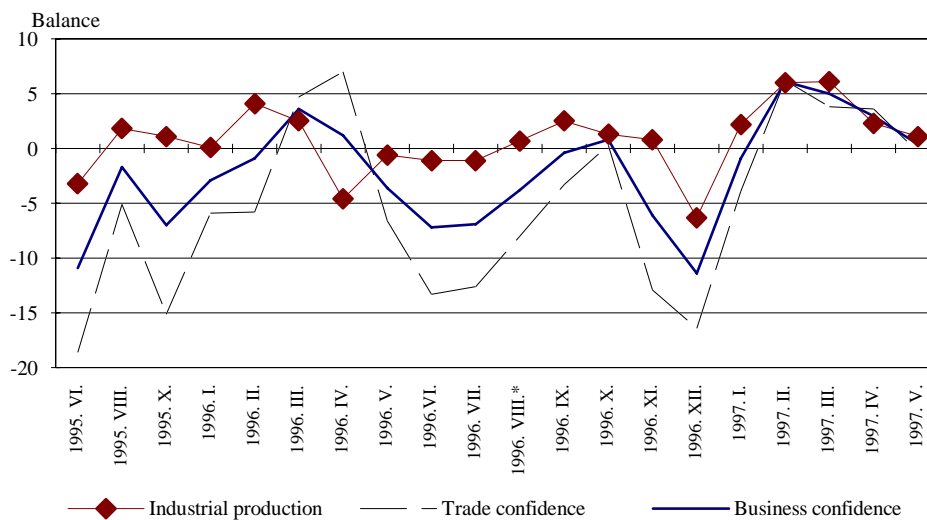
⁵ According to GKI Co.'s experience the CSO's monthly industrial producer indices give the latest information on business cycle movements.

Analyzing inherence of responds (i. e. correlation among the different factors) we met some interesting facts. There is a relatively close negative connection between assessment of production trend and stocks of finished products (the correlation coefficient between these two variables is -0.68). So, increasing in stocks of finished goods was judged as an unfavourable development by most of the respondents. This empirical fact supports the metodological recommendation of EU for calculating industrial confidence indicator. In this method the stocks of finished products is taken into consideration with inverted sign.

Another point of interest: there is enough strong correlation between the level of domestic and export order-books (the adequate correlation coefficient is -0.63). Consequently there are not too much firms (between the respondents) which have good position both at the domestic and at the export markets. Naturally, it means in the same time that most of the firms in the sample of industrial survey are successful in one segment of the market.

Production outlook is not closely connected with the assessment of production trend, or the level of order-books, or the stocks of finished products. This factor is only correlated with expectations on overall economic development (the correlation coefficient is 0.65). We can interpret this fact that the expected position of the firms rather depends on outlook for the development of whole economy than on present conditions of enterprises by the most of managers.

Figure 2. The business confidence index and its components



* In August of 1996 entrepreneurial survey was not conducted.

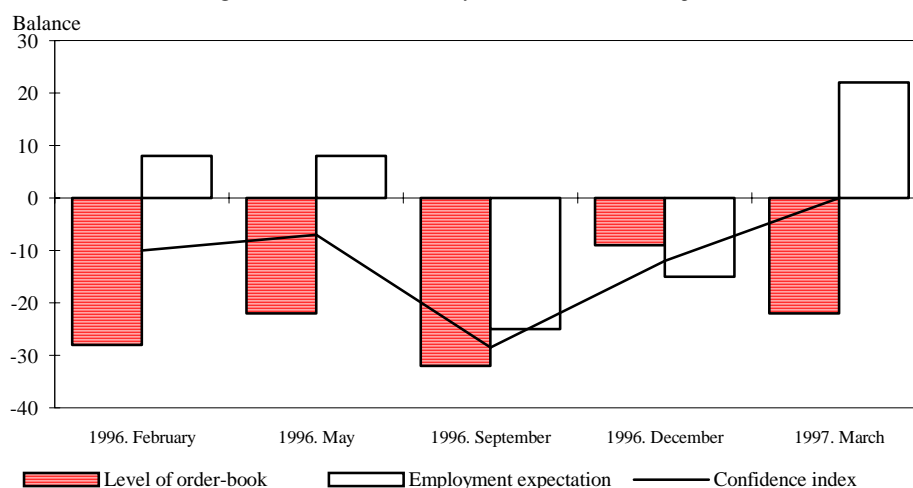
Figure 2 gives an overview of the registered changes in confidence indicators. As it is seen the business conjuncture expectations of industrial enterprises have been modest for the last 2 years (they expected a high export growth but they also predicted the fall of domestic demand as a result of the stabilization measures – the so-called Bokros-package – introduced in 1995.) Economic prospects were judged “better” at the end of 1995 – partially because of the favourable predictions about global economical growth – but changed for the worse in

the beginning of 1996 to start another improvement only in Autumn. After the indicator's year-end fall some signs of optimism started to appear again and this can be said relatively stable.

Building and construction is an industrial activity which differs somewhat from the others: its production, investment and selling processes are a little different from those of the other (industrial) sectors. Building and construction could not therefore be included in the industry survey. Nevertheless, it is natural to extend the surveys to this very important sector of economy, which frequently follows its own cycle. Construction is said to be the fastest signaling system of economy, because beginning of recession and recovery phase of business cycle can be revealed sooner than in other sectors.

The construction industry's survey asks questions about level of production, order books, employment expectations, financial position, price expectations and limits to production. The components of the construction confidence indicator show information about stocks of order-books and expectations on employment.

Figure 3. The construction confidence index and its components



Answers up-to-now reported low production levels – in accordance with the critical stage of the sector in 1996. In the last quarter of 1996 the recovery phase began in building and construction sector and it is reflected in survey results. At the beginning of 1997 the responds we got promise further slowly improving in business conditions.

The trade survey asks questions about the following: present sales position, intentions of placing orders, volume of stocks, expected business trend, financial position, changes in employment and sales prices, and the overall state of the economy.

Intentions of placing orders is rather depending on expected business trend (the correlation between these two variables is 0.68) than on assessment of stocks. So by this mean, the managers in trade sectors can rather be called as “future-oriented” than these of the other branches.

The components of the trade confidence indicator include the expected business trend, intentions of placing orders and the assessment of stocks. The trade confidence

indicator is mostly correlated with intentions of placing orders and the expected business trend (the correlation coefficients are 0.93 and 0.83).

Figure 2 shows this index, as well, calculated by using the answers given to the above mentioned questions. As it is seen on the figure, in the last 2 years the business expectations of trading enterprises have been much more pessimistic than that of the industry; due to the present low level of retail trade turnover it has been a well-founded opinion. The optimism in the beginning of 1996 turned out to be unrealistic. However, the optimism that started to appear in Autumn is in line with the forecast of GKI Co. After the year-end fall, the trade expectations improved and nowadays they express “suspicious” optimism of the respondents.

The business climate indicator – that is also shown on Figure 2 – is a trial weighed average of the industrial and trade indicators. Using the business climate and the consumer confidence indicator we also compute the so-called GKI Co. economic sentiment indicator. When calculating this indicator, however, we had to deviate from the EU method temporarily. The EU methods suggest the stock index as a further component for the economic sentiment indicator but this index in Hungary – due to the low capitalization of the stock exchange – has not been an adequate indicator of real economical processes, thus could not be included in our calculations.⁶

Analysis of long-term enterprise strategies

Business surveys on long-range industrial expectations and endeavours are more and more frequently conducted in developed economies, thus in the EU as well. The EU, however, gave only a partial but not compulsory recommendation about the required research methods for conducting these kinds of surveys.

The former Economic Research Institute (GKI) usually conducted its before-mentioned semi-annual business surveys among industrial, trade, and construction firms. In the 1990s decade, the GKI Co. extended the scope of this research, first to firms providing business services then to agricultural enterprises, as well. Nowadays, the studies have a scope of 6–8000 enterprises – chosen from every sector – with more than 20 employees. The survey seeks information about the market situation, available resources, long-term (investment) plans, financial position. Each of the received 1000 answers of recent years gives us an opportunity to conduct a thorough investigation of enterprise development and perspectives (when evaluating the results it has to be taken into account that usually the firms who do not answer are the ones in the worst condition so the answers to some of the questions become mildly optimistic.) Still, the collected data of the past years have been made useful in GKI Co.’s large number of forecasts and other publications.⁷

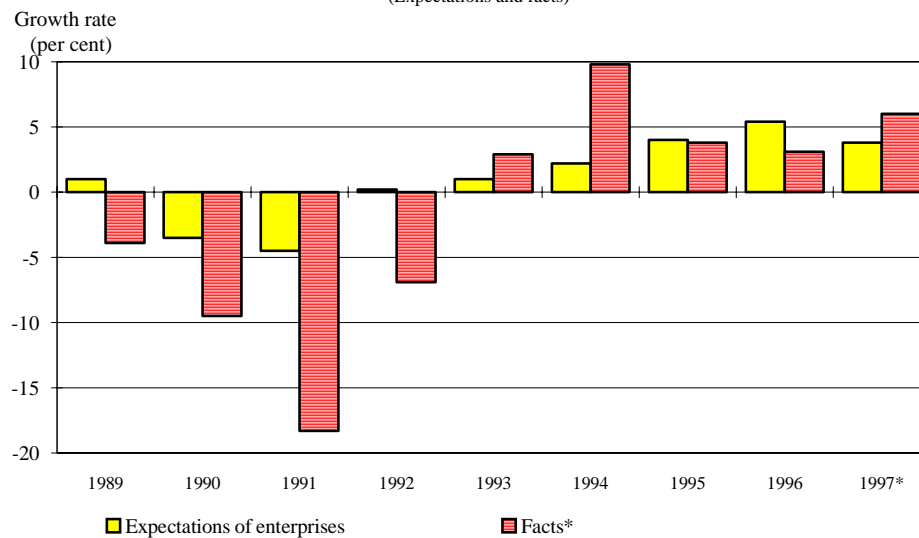
The surveys also provided valuable information on the expected trend of sales opportunities. For example: Figure 4 shows the firms’ expectations about the development of industrial sales. As it is seen on the figure, firm expectations predicted the possible outcome of economic processes very well, even during the recent times of

⁶ Only after the forthcoming years’ experiments can we express our well-established opinion about the forecast opportunity of the discussed indicators (that require longer data series).

⁷ See: *Ahogy a vállalkozások látják... (As enterprises think...)* GKI Rt. 1993, 1994, 1995, 1996, 1997. *Csermenszky, L. – Papanék, G. – Pető, M.*: Business surveys and forecasts in Hungary. In: *Oppenlander, K. H. – Poser, G. – Nerb, G.*: New development of business surveys in Central and Eastern Europe. CIRET Studien. 1992. No. 42.

radical economic transformation. In the Spring of 1990, these expectations prognosticated the forthcoming crisis well before any other information sources did, and sooner again, in the Spring of 1992 they registered the commencement of stabilization (if we look at monthly statistics they give a right view of these things). In this – quite anomalous – period, however, expectations concerning the extent of changes were not perfectly reliable.

Figure 4. Total sales in industry
(Expectations and facts)



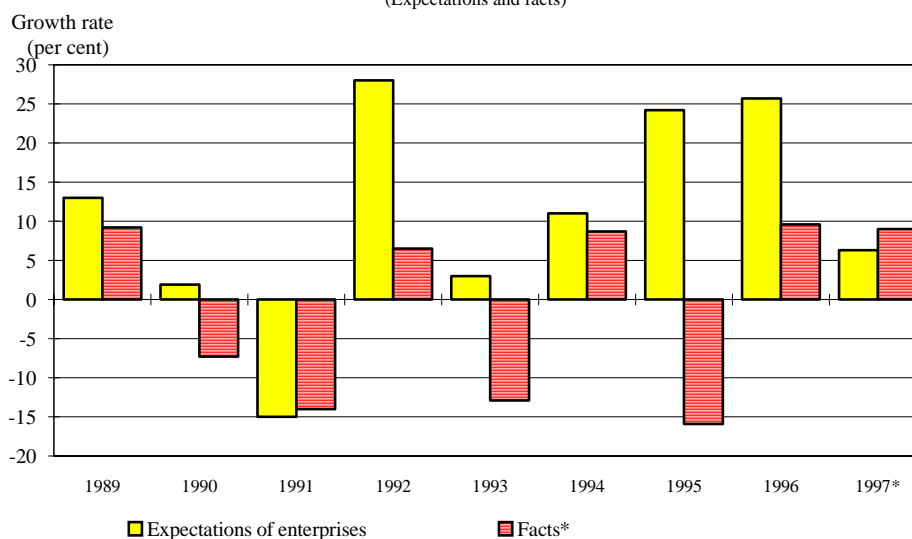
* GKI Co. forecast.

In 1997, the questioned enterprises calculate with a 3–4 per cent growth of their sales, in total. It means that this year Hungary might become one of the countries in the region with a more preferable situation concerning economic growth, as well. Primarily the firms of the food and the service sector have given evidence of increasing – though not well-established – optimism. However, firms in the construction, the transportation, the telecommunication industry, and in the trade sector have been modest concerning their expectations. In conclusion of all these, the GKI Co. forecasts a 3 per cent GDP growth for 1997. We expect a considerable production growth in the industrial sector (7%), the area of construction (8%), and transportation-telecommunications (2 %). We forecast a 1 per cent growth in the trade sector and stagnation within the agricultural and the service sector.

The most awaited long-range information of the research should be those that refer to the strategic plans of the firms. Unfortunately, as it is seen on Figure 5, we could only register quite stunted development plans in recent years (and usually the actual implementations were even under the expectations.) One of the most important findings of the Spring 1997 survey was that this time firms reported a not negligible 7 per cent growth of their capital investments. Large firms, foreign-owned firms, and firms in the trade, transportation-telecommunication sector gave evidence of stronger – above average – intentions to invest (investment propensity is the lowest within the food and the service industry). However, the results of the survey, are not without contradictions, since the expected dynamism of the firms is behind the desirable level. Struggling with

low-competitiveness the modernization of the Hungarian economy needs a much higher, at least two-digit growth of investments (implemented at a larger number of firms). But, after the past years of stagnating–declining development efforts the favourable turn concerning these plans, is a sign that gives hope to a slow encouragement of venturing. This is true even if we notice that usually the main purpose of the planned investments (at 60 per cent of the firms) is the change of used equipments and only about one-fifth of enterprises plan on profile-expansion, introduction of new technologies, and energy economizing while just over one-tenth of firms (but less than one-tenth of small firms) plan to invest in environmental protection.

Figure 5. Volume indices of investment in industry
(Expectations and facts)

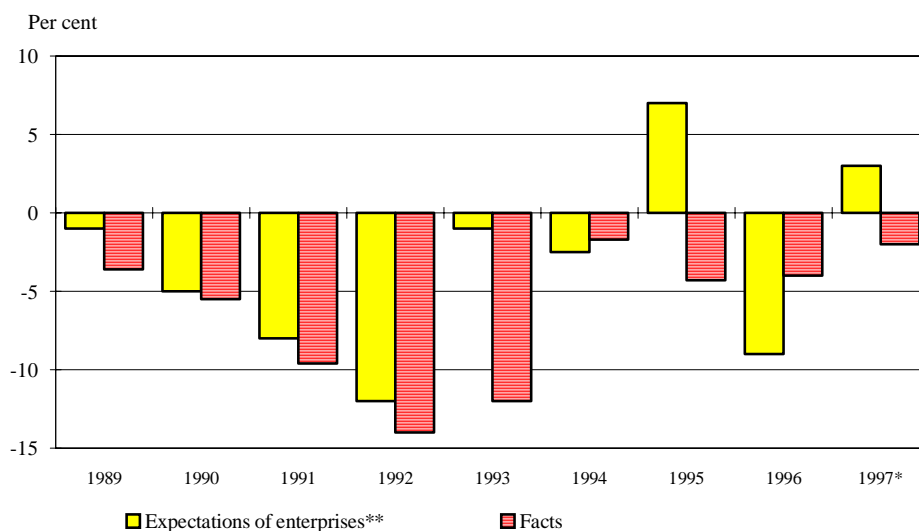


* GKI Co. forecast.

According to the Spring of 1997 survey of GKI Co., there is a heterogeneous connection between expected sales growth and capital investment plans. While on the one hand domestic sales opportunities do not or just slightly affect investment plans, on the other hand, the expected improvement of export-opportunities is accompanied by explicit investment plans. The high proportion of exports within total sales, however, does not result strong capital investment ambitions.

The before-mentioned ones on the present contradictory nature of firm expectations are also supported by the information acquired from the surveys which states that at a large number of firm-endeavours aiming for competitiveness, for keeping and improving modernity are quite modest for a long time. At present, only one-tenth of the respondents undertakes research duties (and only 3–4 out of 100 did licensing, or know-how purchasing.) These figures are tragically low in international comparison. It is also worrying that although still a considerably large group of firms would like to improve their market-work – develop their sales-network, strengthen their advertising-PR activities, modernize their after-sale services –, our research registered that the number of firms planning on the above mentioned developments is slowly decreasing.

Figure 6. Employment in industry
(Expectations and facts)



* GKI Co. forecast.

** 1989–1993: growth of rate (previous year=100); 1994–1997: balance of answers for qualitative question.

In line with the afore-mentioned ones it is not surprising that for a long time the investigations provide a rather unfavourable forecast on the continuance of unemployment problems (see Figure 6). It is even more depressing that the reality is usually worse than the projections in this area, as well.

Main limiting factors hindering the expansion of production/services
(based on firms' and entrepreneurs opinion)

Limiting factors	Proportion of enterprises that consider the given limiting factor important* (per cent)					
	1993	1995	1997			
			total	under 50	51–500	over 500
Limited demand						
– on export market	20**	16	11	9	13	13
– domestic market	61	48	55	54	54	68
Poor competitiveness	6	4	3	2	4	3
Capital shortage	32	32	27	25	28	30
Fierce competition	20**	25	25	25	26	23
Unfair competition	15	25	32	37	33	17
Unpredictable government behaviour	19**	33	41	45	39	32

* As of the Spring survey.

** As of the Autumn survey (the Spring survey did not mention such a factor).

Information on the limiting factors of production/services expansion give support to other rather important statements of the surveys. The data give clear evidence that the shift from an “economy of shortage” to a market economy is a determining effect for firms. Since the end of the previous decade, the respondents – in contrary to the managers in several other countries of the region – already considered limited demand as the main limiting factor of growth (in two-third of the cases) instead of the lack of resources they got used to in the economy of shortage.

The data clearly justify that at most of the enterprises – regardless of their size – the expansion of the domestic market (as well) is an inevitable prerequisite of commencing business uplift. The data also show that the growing uncertainty and the loss of confidence that can be observed in the Hungarian society did not avoid entrepreneurs, either. In 1997 – according to the enterprises – unethical business life hinders the growth of several hundred thousand firms, and the economic policy’s not-yet-acceptable low entrepreneur-friendly nature – in spite of the stabilized currency and the declining interest rates – hinders the development of half-a-million enterprises. It should be noted that the former index was worse than right now only once before (43 per cent), in the Autumn of 1995, after the drastic stabilization measures of the so-called Bokros package. The increasing loss of confidence among entrepreneurs should arouse the interest of the economic policy.

Finally we have to mention, that since 1991 GKI Co. have been conducting a semi-annual financial survey as well, covering the entire banking sector, supplemented by the insurance sector from 1995. The sector itself believes in the importance of the survey and in addition, the survey’s results are quite useful because they give us an opportunity to examine the previously outlined research information from a monetary point of view.

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Usually, by means of the press, the GKI Economic Research Co. deliberately strives for making the obtained survey information known extensively in Hungary. Since 1993, the *Figyelő* weekly newspaper has been publishing the survey on the development of consumer confidence. The results and analyses of business surveys are published in *Napi Gazdaság*, *Vasárnapi Hírek*, *Üzleti 7* and *MISZ Hírlevél*. Since October 1996, the results of the quarterly construction survey can be found in *Építési Piac*. It is also worth mentioning that survey-participants receive the most important results of the research.

Since 1995, the consumer survey results are also published in the *European Economy* and the *EUROSTAT*, the publication of the European Union’s Statistical Office. The international publication of business survey results will commence in the near future, as well.