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Bank

*The EU bank*



Hungary

## EIBIS 2016

EIB Group Survey on  
Investment and  
Investment Finance 2016

Country Overview

## EIB Group Survey on Investment and Investment Finance Country Overview: Hungary

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### About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of 12,500 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: <http://www.eib.org/eibis>.

### About this publication

This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: [eibis@eib.org](mailto:eibis@eib.org).

### About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 30 economists, is headed by Debora Revoltella, Director of Economics.

### Main contributors to this publication

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### Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

### About Ipsos Public Affairs

Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.

# EIBIS 2016 – COUNTRY OVERVIEW

## Hungary

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12 500 firms that gathers quantitative information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and

sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 476 firms in Hungary in 2016 (July-October). **Note:** The results are weighted by value-added, reflecting firms' contribution to the economy.

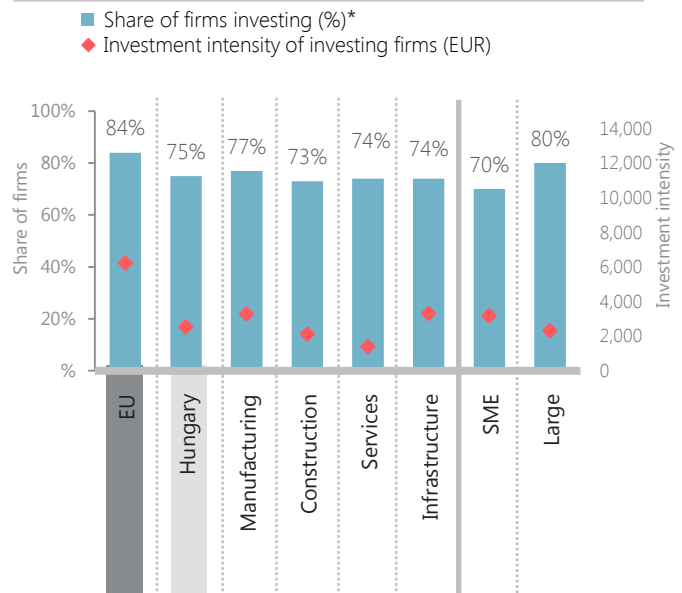
### Key results

<b>Investment outlook:</b>	<b>The share of firms that invested last year (75%) is lower than the EU average.</b> However, in line with the EU average, 36% of firms in Hungary expect their investment in the current financial year to increase compared to the previous year.
<b>Investment activity:</b>	<b>Machinery and equipment takes up a majority share of investment activity.</b> At 56%, this is higher than the EU average. At the same time, firms' investment in R&D is well below the EU average, and also the lowest within the Visegrad 4 group.
<b>Investment gap:</b>	<b>A clear majority of firms in Hungary (71%) report their investment over the last three years to have been the right amount.</b> However, 22% say they invested too little in the last three years, which exceeds the EU average of 15%. The share of machinery and equipment described by firms in Hungary as being state-of-the-art is higher than the EU average, while the share of firms' building stock that is considered to meet high energy efficiency standards is similar to the EU average.
<b>Investment barriers:</b>	<b>In line with firms across the EU as a whole, the political and regulatory climate is perceived to be the main short-term barrier to carrying out investment.</b> Firms consider uncertainty about the future and availability of skilled staff as the most significant barriers to investment over the longer-term.
<b>External finance:</b>	<b>The share of firms in Hungary considering themselves to be finance-constrained is 13%, which is higher than the EU average of 5%.</b> Overall firms in Hungary want more of the type of external finance they are already using, in particular bank loans.
<b>Firm performance:</b>	<b>Employment dynamics are more positive than the EU average.</b> Relative to the EU average, firms in Hungary were more likely to increase, and less likely to decrease, their number of employees over the last three years.

# INVESTMENT DYNAMICS

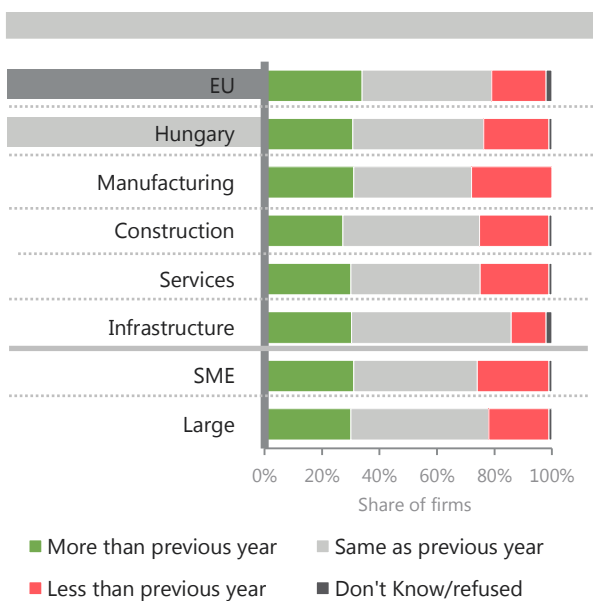
- Overall 75% of firms in Hungary invested in the last financial year, significantly lower than the EU average of 84%.
- As many as four in five large firms in Hungary (80%) invested in the last financial year.
- The intensity of investment (investment per employee) is well below the EU average, and is lowest in the service sector.

## Investment activity in last financial year



**Base:** All firms (excluding don't know/refused responses)  
 \*The blue bars indicate the proportion of firms who have invested in the last financial year.  
 A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.  
 Investment intensity is the median investment per employee of investing firms.

## Investment activity in last financial year compared to previous

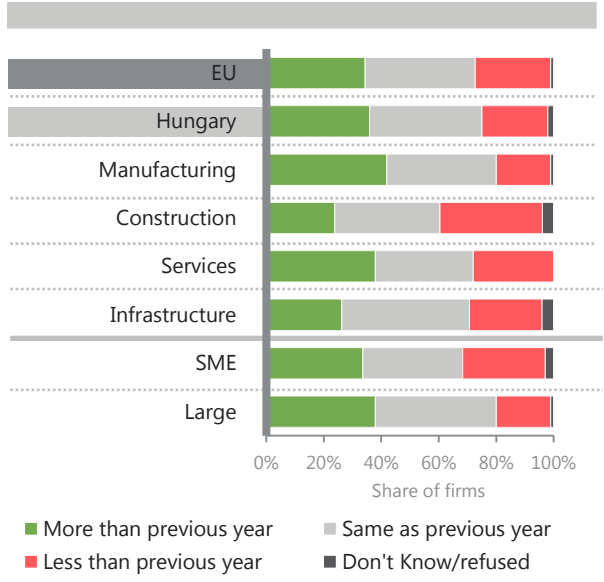


**Base:** All firms who invested in the last financial year  
 Q. Overall was this more, less or about the same amount of investment as in the previous year?

- Out of all firms in Hungary that invested in 2015, 31% increased their investment in 2015, 45% invested the same as in 2014, while only 23% reduced investment. This is broadly in line with the EU as a whole.
- The net balance (the % of firms increasing investment minus the % of firms reducing investment) is positive for all sectors and firm sizes.

- In line with the EU average, 36% of firms in Hungary expect their investment in the current financial year to increase compared to 2015.
- Firms in the manufacturing sector are the most optimistic about their investment plans in 2016 as compared to 2015.
- However, more construction firms expect to reduce investment activity in 2016 than to increase investment activity in 2016 (by 36% to 24%).

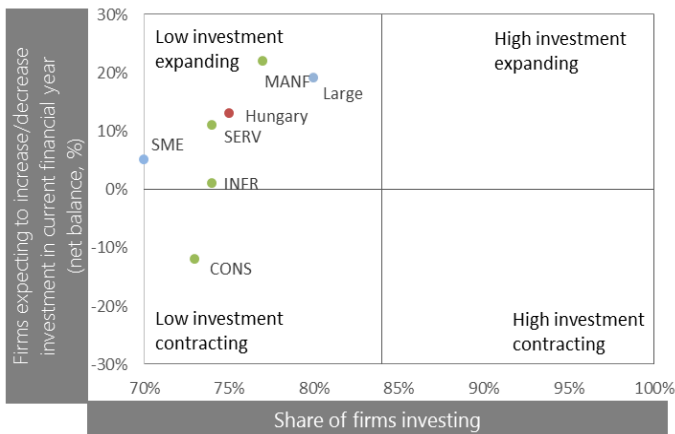
### Expected investment in current financial year compared to last one



**Base:** All firms

Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year.

### Investment cycle



**Base:** All firms

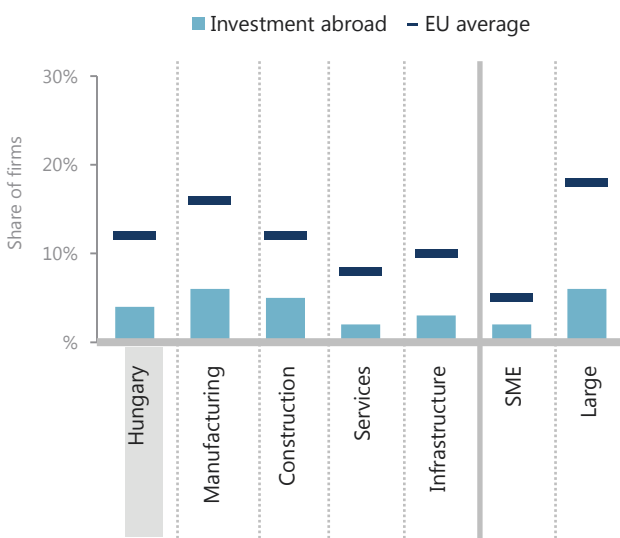
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- Within the investment cycle, the bulk of firms in Hungary are in the 'low investment; expanding' quadrant.
- Large companies are closest to the 'high investment; expanding' quadrant.

# INVESTMENT ACTIVITY

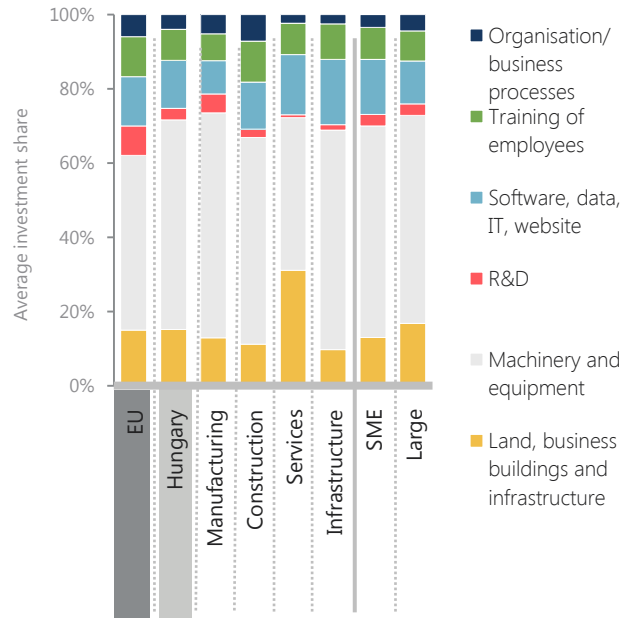
- Relative to the EU average, companies in Hungary invest a higher share of their investment spend into tangible assets – machinery and equipment in particular - as opposed to intangibles.
- The share of investment into R&D, reported by firms in Hungary is significantly below the EU level, and it is also the lowest within the Visegrad 4.
- While the share of R&D is the highest in the manufacturing sector, it is still low compared to CEE peers.

## Investment abroad



**Base:** All firms who invested in the last financial year  
**Q:** In the last financial year, has your company invested in another country?

## Investment areas

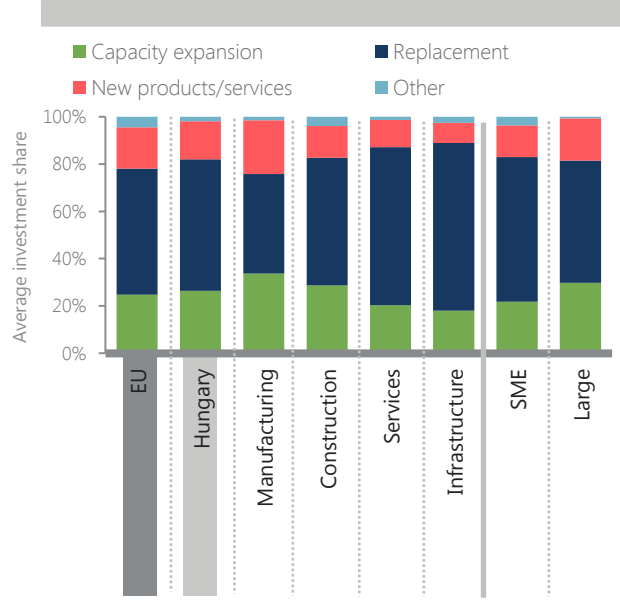


**Base:** All firms who have invested in the last financial year (excluding don't know/refused responses)  
**Q:** In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

- Overall four per cent of firms in Hungary have invested in another country in 2015, significantly below the EU average of 12%.

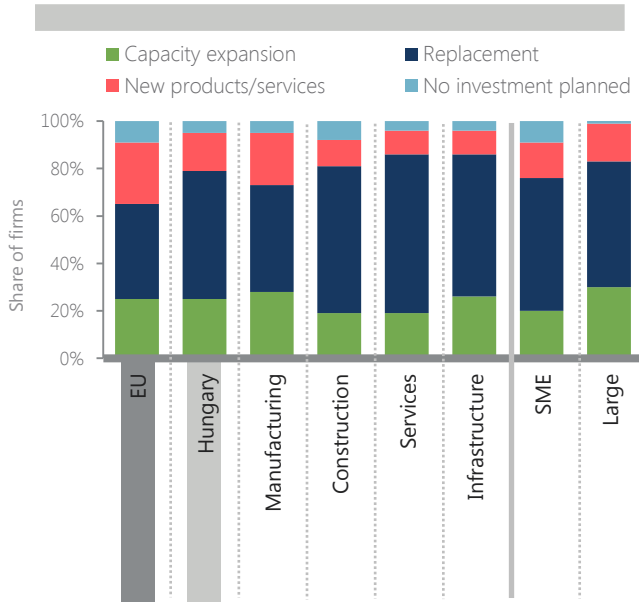
- In line with the EU average of 53%, a majority of investment in Hungary last year (56%) went into replacing existing buildings, machinery, equipment and IT. The next highest share of investment in Hungary (26%) was spent on capacity expansion, and 16% went on developing new products and services.
- Manufacturing firms allocated a higher than average share of investment for capacity expansion and product development purposes.

### Purpose of investment in last financial year



**Base:** All firms who invested in the last financial year (excluding don't know/refused responses)  
**Q.** What proportion of total investment was for (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

### Future investment priorities



**Base:** All firms (excluding don't know/refused responses)

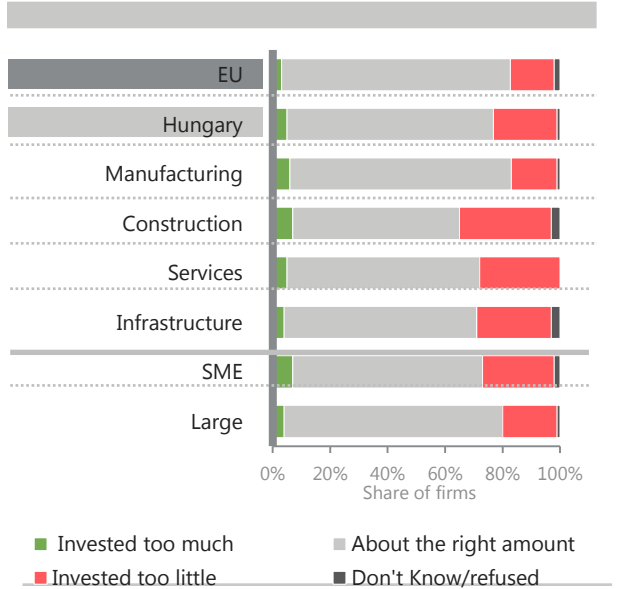
**Q.** Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- Looking ahead, 95% of firms in Hungary are planning to invest in the next three years, which is above the weighted EU average of 91%.
- As for investment priorities, only 16% of firms in Hungary say their priority will be new product development, which is significantly below the weighted EU average, and also lower than the corresponding values for Poland (32%) and the Czech Republic (27%).

# INVESTMENT NEEDS

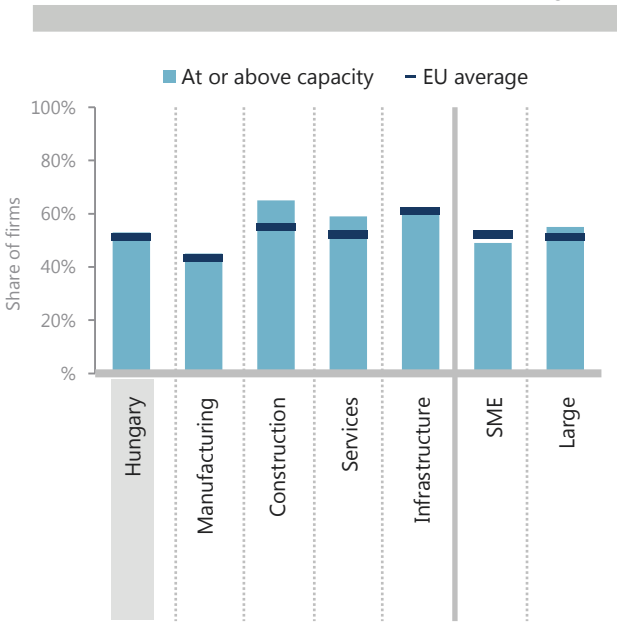
- The share of firms in Hungary that consider themselves to have invested too little in the last three years is 22%, which exceeds the EU average of 15%.
- The perceived investment gap is less pronounced in the manufacturing sector, while it is highest in the construction industry.

## Perceived investment gap



**Base:** All firms (excluding 'Company didn't exist three years ago' responses)  
 Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

## Share of firms at or above full capacity



- Around half of firms in Hungary (53%) report operating at or above full capacity in the last year – this is close to the EU average of 51%.
- Firms in the construction sector in Hungary are more likely than average to operate at or above full capacity, which is consistent with the fact that the same sector reported the highest perceived investment gap.

**Base:** All firms (data not shown for those operating somewhat or substantially below full capacity)

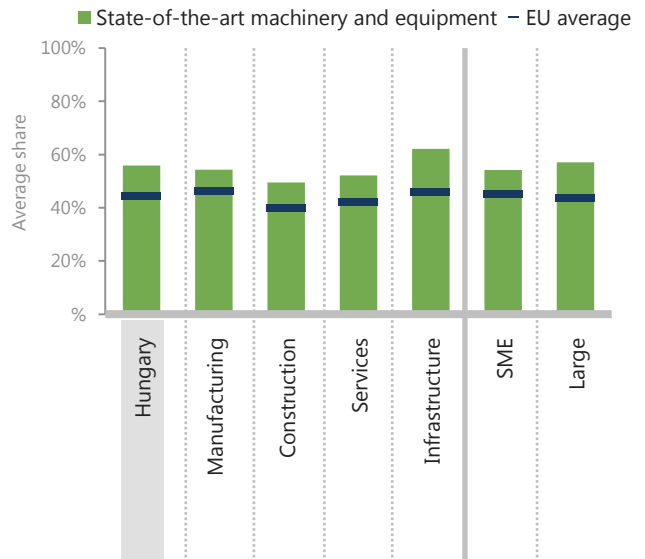
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances? 6



- The average share of machinery and equipment owned by firms in Hungary that is described as being state-of-the-art is higher than across the EU as a whole (56% versus 44%).
- The share of equipment perceived as being state-of-the-art is highest in the infrastructure sector (at 62%), which is possibly related to significant inflow of EU structural funds to the sector.

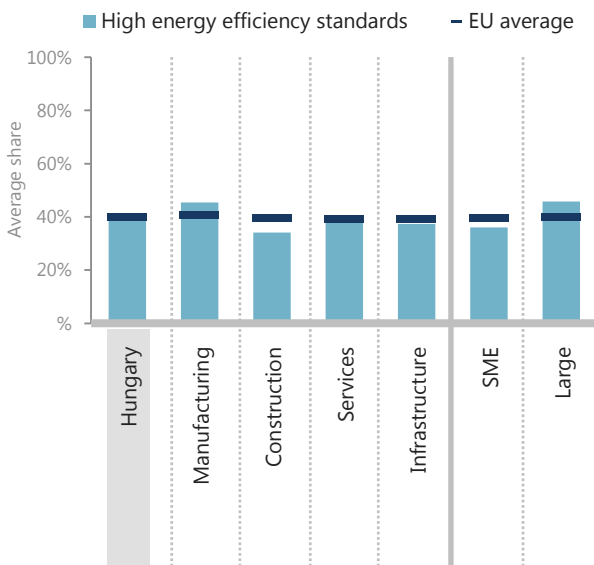
### Average share of state-of-the-art machinery and equipment



**Base:** All firms

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

### Average share of building stock meeting high energy efficiency standards



**Base:** All firms

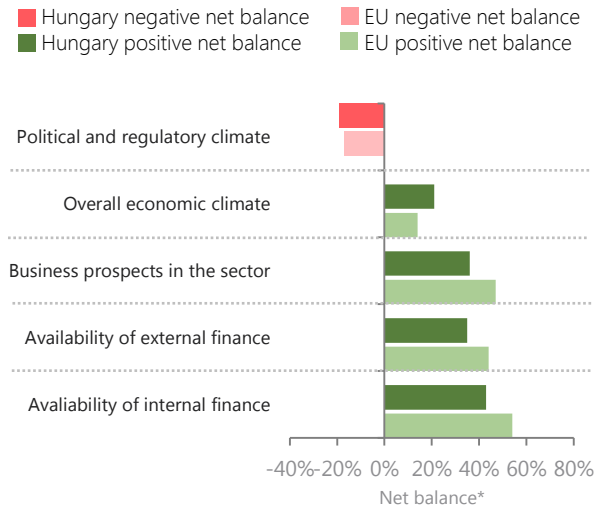
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- Firms in Hungary consider an average of 41% of their building stock meets high energy efficiency standards, which is in line with the EU average of 40%.
- The average share of commercial building stock considered to meet high energy efficiency standards is highest among large companies in Hungary (at 46%).

# INVESTMENT CONSTRAINTS

- In line with firms across the EU in general, companies in Hungary cite the political and regulatory climate as the main barrier to implementing planned investment in the current financial year.

## Short term influences on investment

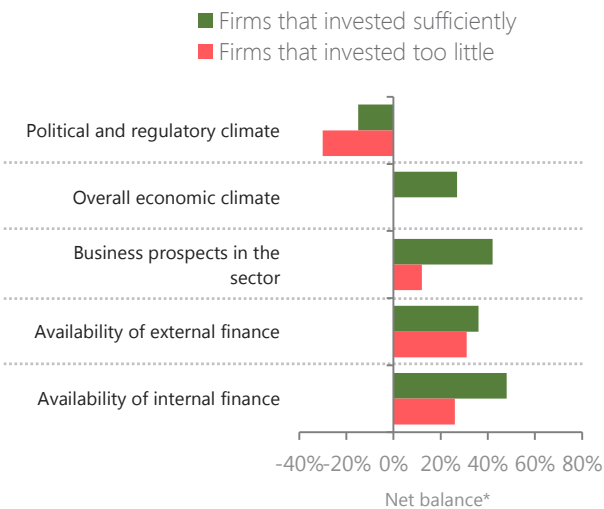


**Base:** All firms who have planned to invest in the current financial year

**Q.** How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

\*Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

## Short term influences by investment performance



**Base:** All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses)

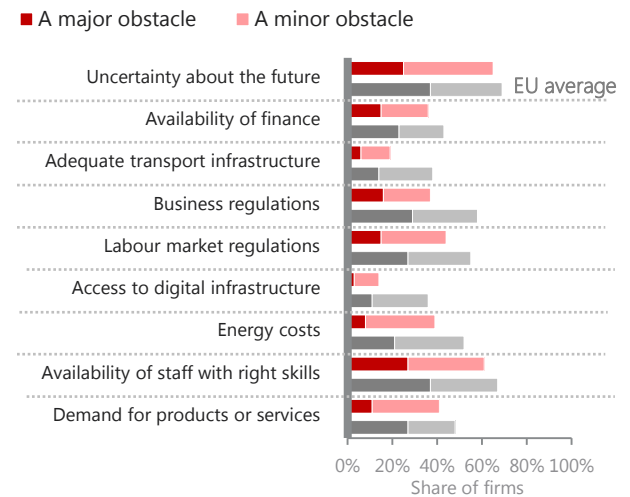
**Q.** How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

\* Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

- Firms that report their investment in the past three years to have been below their needs are less positive than firms that say they have invested sufficiently, notably so on the impact of the overall economic climate and business prospects in their sector in terms of being conducive to the implementation of their planned investment projects.

- Again, not unlike their EU peers, uncertainty about the future and availability of staff with the right skills are considered as the main structural barriers to investment for firms in Hungary over the longer-term.
- Access to digital infrastructure is perceived to be less of a constraint in Hungary than across the EU as a whole.

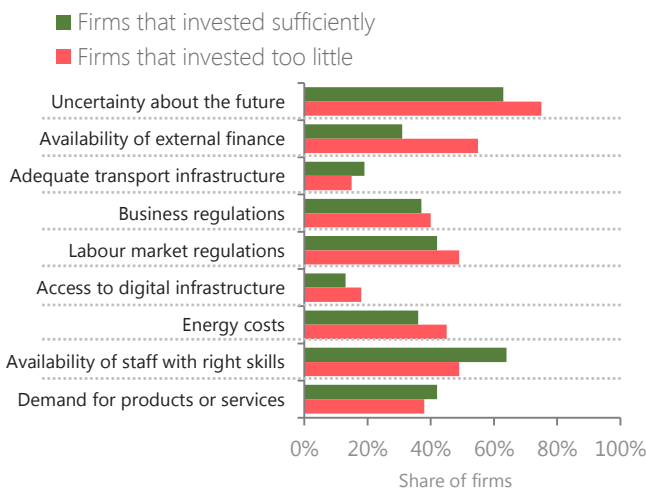
## Long term barriers to investment



**Base:** All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Q. Thinking about your investment activities in Hungary, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

## Long term barriers by investment performance



**Base:** All firms who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), data shown for firms who said each was a major or minor obstacle

\*Caution very small base size less than 30

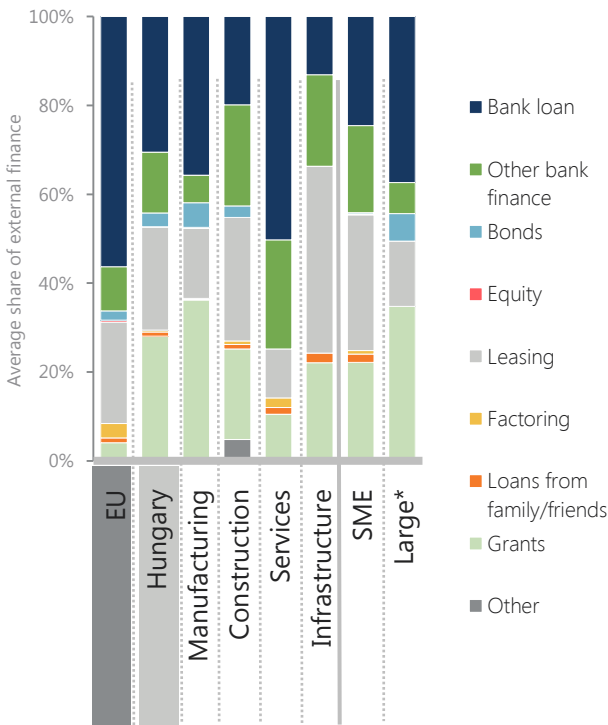
Q. Thinking about your investment activities in Hungary, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- The most cited obstacle to investment for firms that say they invested too little in the last three years is uncertainty about the future, whereas for firms that say they invested sufficiently in the last three years the most cited barrier is availability of staff with the right skills.
- For those firms that have invested too little, the second most cited barrier is availability of external finance.

# INVESTMENT FINANCE

- Firms in Hungary rely more heavily on internal funds to finance their investment, vis-a-vis the EU average.
- Bank financing (loans and other, such as overdrafts) is the most popular type of external finance, followed by grants and leasing.
- Grants - EU structural funds - play a key role in every sector, in line with the diverse objectives of the operative programmes.

## Type of external finance used for investment activities

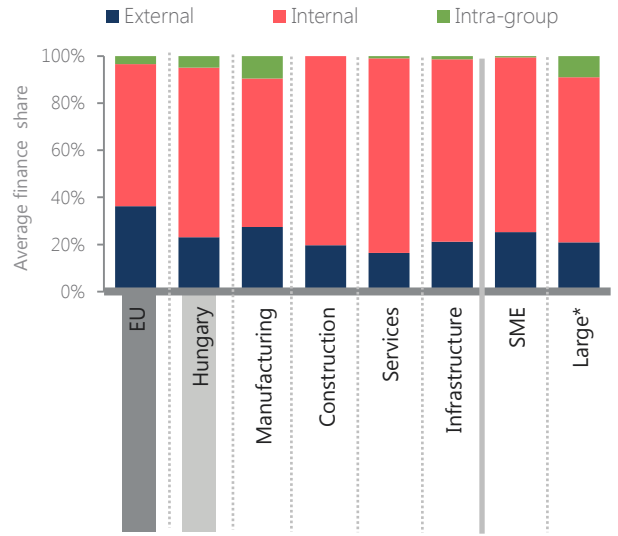


**Base:\*** All firms who used external finance in the last financial year (excluding don't know/refused responses)

\*Caution very small base size less than 30

Q. Approximately what proportion of your external finance does each of the following represent?

## Source of investment finance



**Base:** All firms who invested in the last financial year (excluding don't know/refused responses)

\*Caution very small base size less than 30

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

## Satisfaction with external finance

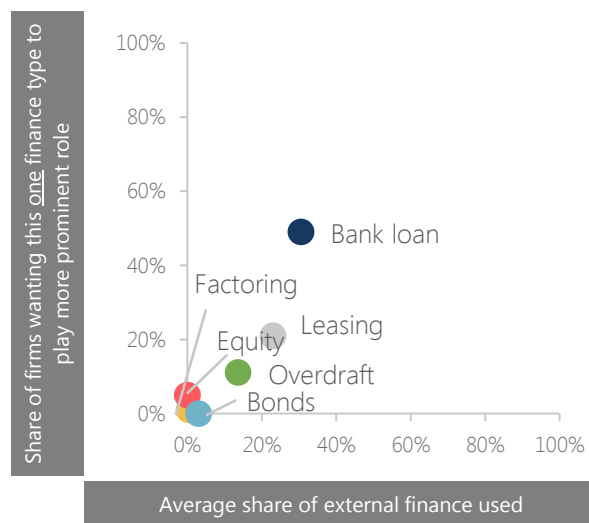


**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. How satisfied or dissatisfied are you with ...?

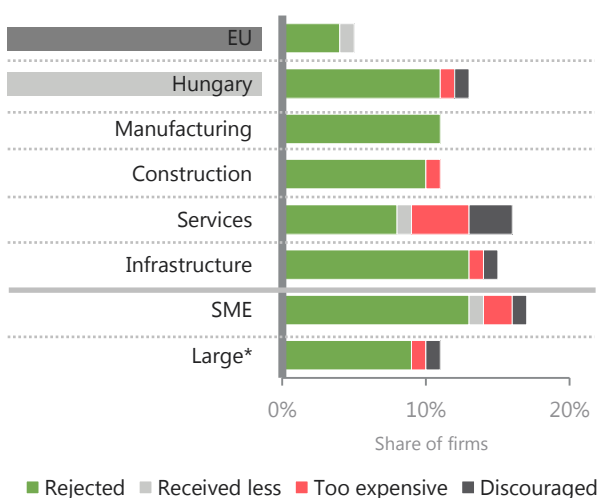
- In general, firms in Hungary want more of the type of external finance they are already using. However, the data indicates that some would be willing to switch from overdrafts and leasing towards other sources.
- The share of finance-constrained firms in Hungary (13%) is significantly higher than the EU average of 5%.
- As many as 17% of SMEs in Hungary consider themselves to be finance-constrained.

### Types of finance used versus the one type of finance firms want to use more



**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)  
Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

### Share of finance constrained firms



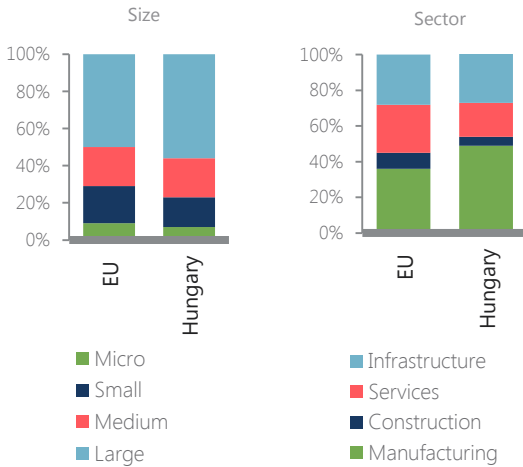
**Base:** All firms

\*Caution very small base size less than 30

Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

# PROFILE OF FIRMS

## Contribution to Value-Added

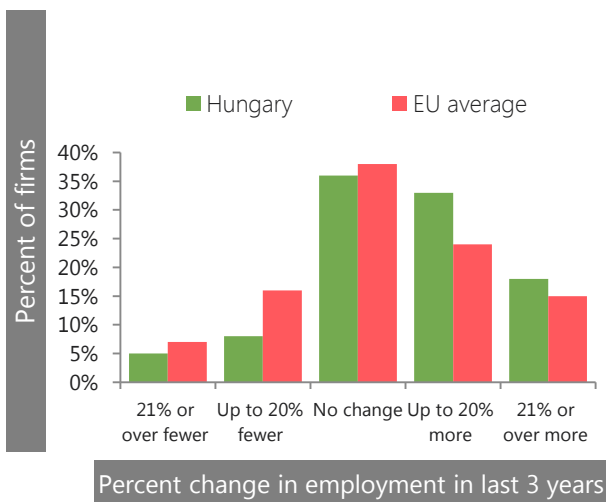


**Base:** All firms

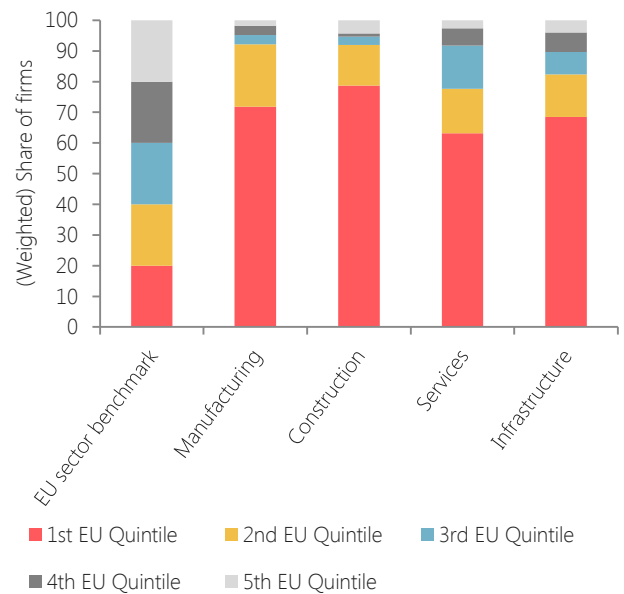
The charts reflect the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

- Large firms generate 56% of Hungary's value-added, as opposed to 50% in the EU as a whole, whereas micro/small firms in Hungary play a lesser role.
- The manufacturing sector accounts for nearly half (49%) of the value-added in Hungary.
- Firms in Hungary tend to fall into the lowest (sector specific) productivity class; with some positive outliers in the service sector.
- Firms in Hungary are more likely to have increased their employment levels in the last three years, relative to the EU average.

## Employment dynamics in last 3 years



## Distribution of firms by productivity class



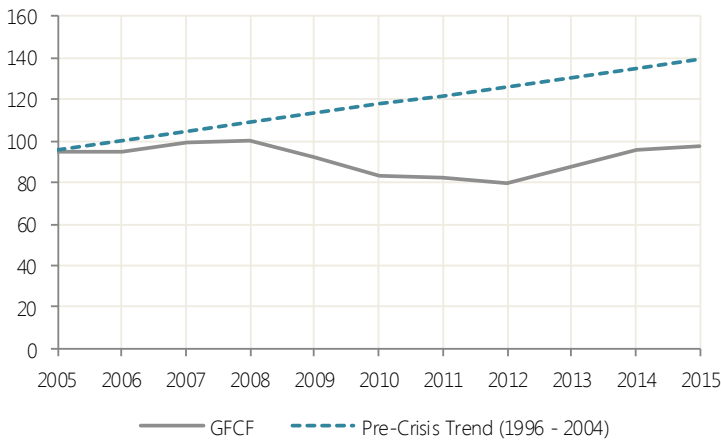
Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

**Base:** All firms (excluding don't know, refused and missing responses)

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

# MACROECONOMIC INVESTMENT CONTEXT

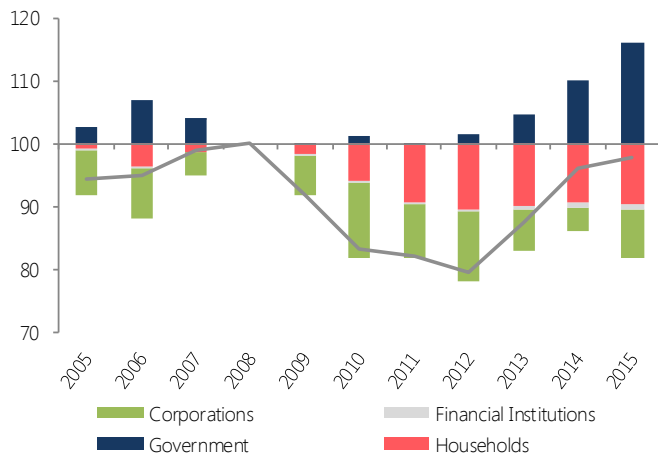
## Investment Dynamics over time



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend'. The data has been indexed to equal 100 in 2008. Source: Eurostat .

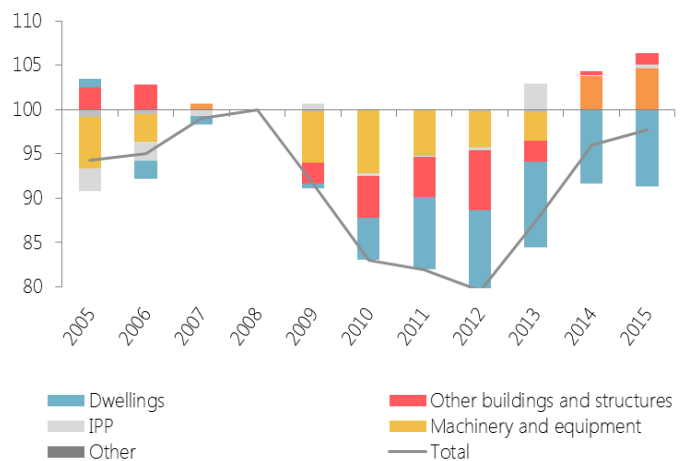
- By 2015, real investment in Hungary had almost reached the pre-crisis level.
- EU-funded public investment played a key role in this recovery, while private investment is lagging behind.
- Investment in machinery has been strong, while construction of dwellings has not yet recovered.

## Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat .

## Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat .

# EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Hungary, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

## Approximate sampling tolerances applicable to percentages at or near these levels

	EU	Hungary	Manu- facturing	Cons- truction	Services	Infras- tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(476)	(119)	(121)	(119)	(117)	(393)	(83)	(12468 vs 476)	(119 vs 121)	(393 vs 83)
10% or 90%	1.0%	3.4%	5.6%	5.0%	5.8%	5.9%	2.8%	5.6%	3.5%	7.5%	6.3%
30% or 70%	1.5%	5.1%	8.6%	7.7%	8.9%	9.0%	4.3%	8.6%	5.4%	11.5%	9.6%
50%	1.7%	5.6%	9.4%	8.4%	9.7%	9.8%	4.7%	9.4%	5.8%	12.5%	10.5%

## Glossary

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of an industry-by-industry regression analysis (with country dummies).
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing).
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction).
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.



# EIBIS 2016 – COUNTRY TECHNICAL DETAILS

## Base sizes

Base definition and page reference	EU	Hungary	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	476	119	121	119	117	393	83
All firms (excluding don't know/refused responses), p. 2	11838	461	115	119	114	113	382	79
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	464	115	119	115	115	383	81
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	476	119	121	119	117	393	83
All firms (excluding don't know, refused and missing responses), p. 13	12162	466	117	119	118	112	387	79
All firms who invested in the last financial year, p. 2	12281	473	117	120	119	117	391	82
All firms who invested in the last financial year, p. 4	10881	432	105	109	107	111	353	79
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	410	96	105	102	107	337	73
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	414	98	103	104	109	337	77
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	378	83	104	92	99	322	56
All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), p. 8	10536	402	N/A	N/A	N/A	N/A	N/A	N/A
All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, p. 11	4344	155	39	41	31	44	134	21

## Percentage rounding

Percentage with value of less than 0.5 but greater than zero has not been displayed in the charts.










**European  
Investment  
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