GE Capital

EUROPEAN SME CAPEX BAROMETER

Investment intentions and business sentiment based on a study of 1750 SME decision makers across seven European markets.

2012 Q3

www.gecapital.eu

Disclaimer - Caution concerning forward-looking statements:

This document contains "forward-looking statements"- that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," believe," "seek," "see," or "will."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include, without limitation: the level of demand and financial performance of the major industries we serve; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks; strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature.

These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

Furthermore, nothing contained herein is intended to constitute tax, accounting, financial or legal advice by GE Capital to any person. Recipients should consult their own professional advisors for any such advice.

GE Capital EMEA Services Limited.
Registered Address: The Ark, 201 Talgarth Road, London W6 8BJ, United Kingdom.
Registered in England and Wales No. 00244759
www.gecapital.eu

Contents

Introduction

This latest instalment of GE Capital's European SME Capex Barometer continues to build on the experience and insight we have gained through our existing studies of the investment intentions of European small and medium-sized enterprises (SMEs), which are published bi-annually. In this offering, the focus remains on seven markets across two regions within Europe:

- Europe's four biggest economies (the 'EU-4'), France, Germany, Italy and the UK. Where relevant, we have compared survey findings to track the evolution of SMEs investment and sentiment in these four markets over the past six months
- Three Central and Eastern European economies (the 'CEE-3'), comprising the Czech Republic, Hungary and Poland

We have therefore divided the report into two distinct sections focussing on the EU-4 and the CEE-3 markets.

This study provides a forecast of the future capital investment intentions of SMEs, the value of 'missed opportunities' due to lack of investment, an assessment of the obstacles currently restricting SMEs' ability to invest, and an assessment of SME business sentiment and employment.

Overview of research approach

The European SME Capex Barometer is a report based on a GE Capital survey of 1750 small and medium enterprises (SMEs) in seven markets.

- An online survey, designed by Millward Brown Corporate (London)
- Within each market, the sample size was split about evenly between 'micro' businesses (2 - 9 employees), 'small' businesses (10 - 49 employees) and 'medium-sized' businesses (50+ employees)
- All respondents had buying responsibility in the asset areas covered in the report
- Over 50% of respondents were business owners or board level executives
- Field research carried out 4-29 September, 2012

Estimates were calculated using 2011 national SME business demographic information for each of the seven markets, as well as EU-level official data sources:

1. European Commission statistics agency (**Eurostat**)
2. UK Department for Business, Innovation and Skills (**BIS**)
3. The National Institute for Statistics (**Istat**)
4. The Bureau van Dijk database (**BvD Orbis**)
5. National Institute of Statistics and Economic Studies (**INSEE**)
6. Institute for Small Business Research in Bonn (**IMF BONN**)
7. Central Statistics Office of Poland (**STAT**)
8. Hungarian Central Statistical Office (**KSH**)
9. Czech statistical office (**CZSO**)

Note on methodology

Due to fluctuations in the exchange rates of local currencies, findings from this survey are not directly comparable to the results of our previous survey. In order to make the comparison of key indicators possible, some data from the survey done in Q1 2012 has been re-calculated using current exchange rates (specifically for the CEE-3 markets and the UK.)

Executive Summary

How much are SMEs likely to invest?

Based on their responses, SMEs across the EU-4 markets intend to invest about €287.7bn in the coming 12 months – a 0.7% drop in total planned investment across Europe's four largest economies from the €289.7bn intended investment in Q1 2012. SMEs in the CEE-3 are intending to invest about €58.2bn – a 1.7% increase on the intended Q1 CEE-3 spend of €57.2bn.

What's the cost of not investing?

The research shows that 22% of SMEs across the EU-4 markets have missed out on new business opportunities due to outdated and inefficient equipment. These companies could have benefited from more than €76bn of additional business, had they invested more over the last 12 months – an increase of 5.7% on Q1 2012. Conversely, across the CEE-3 countries, the study suggests that 25% of SMEs missed out on a total of €4.9bn of business opportunities due to old equipment – a drop off of 27% on Q1 2012, when 27% of CEE-3 SMEs reported missing out on €6.5bn.

What obstacles are restricting SMEs' ability to invest?

Uncertainty around the economic environment – Across all markets, the uncertain economic environment was seen as the main obstacle to investment. This trend remains consistent with the Q1 report where the uncertain economic environment was also the main obstacle to investment in all markets apart from Germany.

Lack of affordable finance – A significant number of SMEs across both the EU-4 and CEE-3 regions cited lack of affordable finance as a major obstacle to invest.

Financial challenges – Obstacles to investment such as financial health challenges and the need to build cash reserves, whilst still prevalent, have become less so when compared to Q1 2012. The data show a clear drop in both EU-4 and CEE-3 SMEs saying this is a major obstacle to investment.

What are the factors prompting investment?

The data suggest a move towards upgrading existing equipment in order to enhance efficiency and productivity, with almost two thirds (61%) of EU-4 respondents looking to invest for this purpose – a 6% increase on Q1 2012. Similarly, 48% of CEE-3 SME respondents intend to invest to enhance efficient and productivity – a slight increase on the

EU-4 SMEs intend to invest €287.7 billion in the coming 12 months, whilst CEE-3 SMEs intend to invest €58.2 billion

first quarter of this year.

The deterioration of existing equipment also represents a major reason why SMEs are looking to invest – with 46% of respondents across the EU-4 stating this is a major reason why they are looking to invest, and 42% of CEE-3 respondents. These numbers represent a drop of 3% and 6% respectively on the Q1 data.

How are SMEs coping with a challenging environment?

Overall, SMEs across both the EU-4 and the CEE-3 are posting negative sentiment in the current market environment, with net confidence dropping by 2.9% and 4.4% respectively, compared to Q1 2012. Out of the seven countries we surveyed, only three posted an increase in optimism - France (2.4%), Italy (0.7%) and Hungary (9.9%).

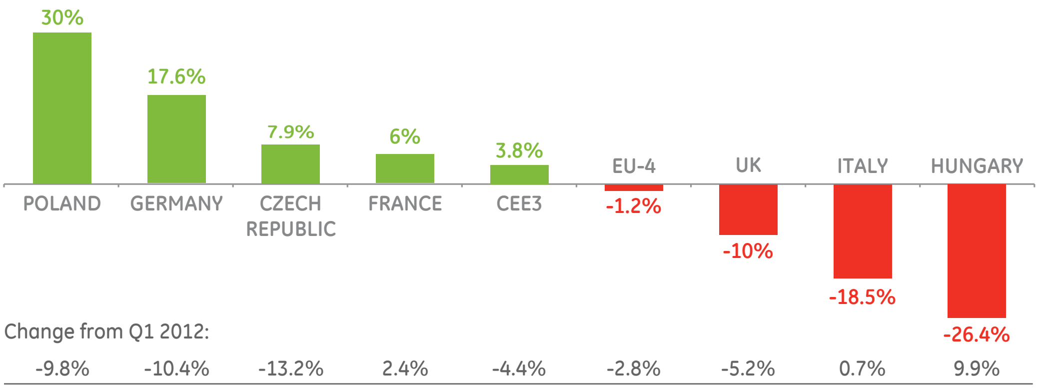
How is employment being impacted?

When asked about their hiring intentions over the next 12 months, SMEs in the EU-4 markets suggested they would be looking to hire almost 1.7 million new employees. This number represents an increase of 3.6% on Q1 2012, when EU-4 SMEs stated they intended to hire over 1.6 million new employees.

CEE-3 SMEs responded that they were looking to hire more than 400,000 new employees in the coming 12 months – an increase of 21.5% versus their employment expectations in Q1 2012.

Net Confidence Score

(% positive sentiment - % negative sentiment)



The EU-4

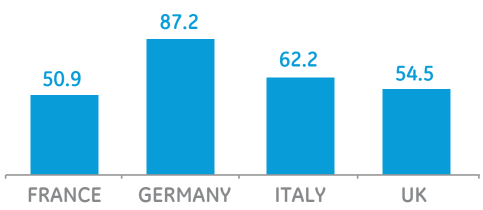
Capital expenditure

Our latest Barometer showed that SMEs across the EU-4 markets intend to invest an estimated €287.7bn over the next 12 months. Compared to the investment intentions recorded in our previous survey in Q1 2012, the new figures represent a very slight overall drop of 0.7% when SMEs in those markets were expecting to invest over €289.7bn.

The data shows improved appetite for investment from companies in the UK and France but weakening sentiment in Germany, which has posted a 10.5% drop in planned spend versus Q1, Germany, however, is still investing the most out of the big four economies, with more than a third of total planned EU-4 investment (€102.9bn) deriving from this market.

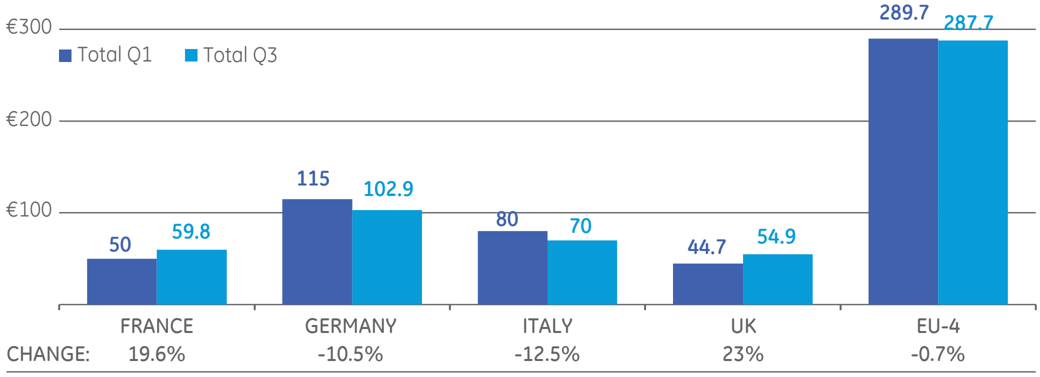
The data indicates that an average German SME plans to invest nearly €87,200 on capital expenditure in the coming 12 months. This compares to roughly €62,000 per Italian, €54,000 per UK and €51,000 per French SME.

Average intended spend per EU-4 SME
(€ thousand)



German SMEs are still investing the most out of the EU-4 economies

Next 12 months' intended investment - EU-4
(€ billion)



SMEs across the EU-4 missed out on over €76.3 billion of new business opportunities as a result of outdated equipment and lack of investment

UK businesses are posting the greatest increase in planned spend when comparing current investment intentions to those recorded in Q1 2012, up 23% to €54.9bn. French SMEs are planning to invest €59.8bn, up nearly 20%, whilst Italian SMEs are planning to invest €70bn, down 12.5% on Q1.

These figures suggest that whilst European economies are moving at different speeds – and the broader economic environment remains uncertain – appetite for investment still remains.

The cost of not investing

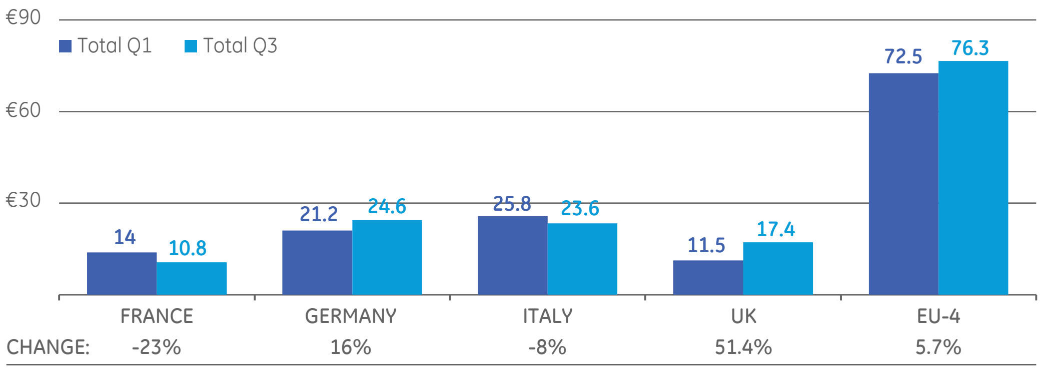
As with previous iterations of this survey, we asked European SME business leaders whether they think their business has missed out on income or new business opportunities because of dated or inefficient equipment – and if so, by how much? The answers provide interesting reading.

Based on their responses, SMEs across the EU-4 missed out on over €76.3bn of new business opportunities as a result of outdated equipment and lack of investment in Q3 2012 – an increase of 5.7% on Q1 2012. We found that on an EU-4 level, more than one in five SMEs has missed out on new business opportunities. But which market was most impacted?

Again, based on their responses, German SMEs have been most impacted by the cost of missed opportunities – losing out on a total of €24.6bn over the course of the last 12 months. Within this, micro businesses with two to nine employees told us they had missed out the most (€11.5bn). The average German SME missed out on €20.8k of new business over the course of the year, although large German firms with 50+ employees on average missed out by over €64k each.

Looking to the UK we see that estimated losses in income have increased more than in any other market, up over 50% compared to a rise of 16% in Germany, and falls of 8% and 23% in Italy and France respectively. In the UK, we found that SMEs missed out on a total of €17.4bn over the last 12 months, with those companies employing 10-49

Total missed opportunities (EU-4)
(€ billion)



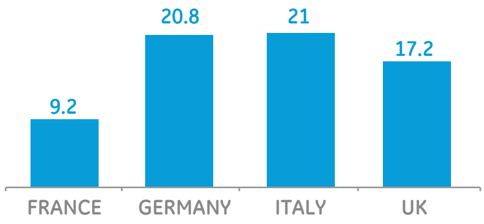
Whilst European economies are moving at different speeds, a clear appetite for investment remains

staff being hit the hardest – this segment missed out on a total of €9.8bn over the last 12 months – or €57.3k per company. Larger companies with 50+ staff have missed out more on average – with this segment losing out on nearly €100k per company.

Italian SMEs missed out on an estimated €23.6bn in new business opportunities as a result of outdated equipment and lack of investment. Those firms with 10-49 employees missed out on average by €55.1k, compared to €14.1k average for firms with two to nine employees, and €16.1k for larger firms with 50+ employees. Micro sized firms missed out the most overall (€12.9bn) – perhaps unsurprising given the prevalence of small firms in the Italian market.

Based on their responses, French SMEs missed out the least over the last 12 months in terms of new business opportunities as a result of outdated equipment and lack of investment. We found that French SMEs missed out on €10.8bn – or an average loss per SME of €9.2k. Within this, SMEs in the micro

Avg. missed opportunity per SME (EU-4)
(€ thousand)



segment (two to nine employees) claimed to have missed out on the most - €5.0bn, whilst larger firms of 50+ employees were least impacted (€1.7bn).

What's holding investment back?

The next part of our survey aims to establish the critical obstacles to investment that SME business leaders are experiencing in each of their markets.

We found that across all the EU-4 markets, the uncertain economic environment was seen as the main obstacle to investment. This trend

TOP FIVE OBSTACLES TO INVESTMENT:		FRA	GER	ITA	UK	EU-4
Uncertain economic environment	Q3	44%	28%	50%	44%	42%
	Q1	*44%*	*28%*	*48%*	*48%*	*42%*
Lack of affordable finance	Q3	31%	26%	27%	23%	27%
	Q1	*23%*	*19%*	*23%*	*20%*	*21%*
Building cash reserves	Q3	18%	13%	24%	19%	18%
	Q1	*26%*	*16%*	*32%*	*27%*	*25%*
Financial health challenges	Q3	9%	25%	17%	16%	17%
	Q1	*13%*	*31%*	*34%*	*18%*	*24%*
Decreasing/falling orders	Q3	15%	16%	21%	13%	16%
	Q1	*16%*	*15%*	*20%*	*10%*	*15%*

Across all the EU-4 markets, the uncertain economic environment was seen as the main obstacle to investment

remains consistent with the Q1 report where this represented the most significant obstacle to investment in all markets, apart from Germany.

A total of 42% of respondents across the EU-4 claimed the uncertain economic environment was restricting their ability to invest. Among micro enterprises, employing two to nine staff, the figure is significantly higher (50%). Micro sized enterprises were also more likely to indicate a 'lack of affordable finance' and 'building cash reserves' as obstacles to investment.

Another noteworthy trend is the reduction in number of businesses that previously told us they had refrained from investing due to having recently upgraded their equipment or machinery (24% of EU-4 respondents in Q3 2012, down 8% from 16% in Q1 2012.) This trend is particularly apparent in Germany (16% – down by 11% on Q1 2012.) A similar drop is evident in Italy (16%, down 9% from the last survey.)

Also in Germany, 'financial health challenges' seem to be becoming less of an obstacle to investment for SMEs (25%, down 6% on the last survey). Within this, micro firms with two to nine employees are overweight by 6% - with 31% citing financial health challenges as an obstacle – significantly higher than for firms with 10-49 employees (21%) and those with 50+ employees (24%).

In the UK the uncertain economic environment is clearly a major factor (44% of respondents cited this as an obstacle to investment). The data also indicates that firms are working hard to build their cash reserves and perhaps as a result, this has become less of an obstacle for investment. 19% of SMEs cite this as a factor – a drop of 8% on Q1 2012.

A similar story emerges in Italy, where 24% of SMEs say the need to build cash reserves has been an impediment to investment over the last year – dropping from 32% in Q1 2012. Additionally, just 17% of respondents cited 'financial health challenges' as a major obstacle to investment – down from 34% in Q1.

We found that almost one in five (18%) of French SME respondents cited 'building cash reserves' as an obstacle to invest – down 8% on the last survey. Lack of affordable finance seems to be an increasing issue for French SMEs however, with 31% of respondents citing this as a major obstacle to investment, up 8% on Q1 2012. Within this, 39% of micro businesses, with two to nine employees, cited this as an obstacle – versus only 25% for those firms with 50+ employees.

Principal reasons for investing

In addition to establishing the obstacles to investment that European SMEs face, we were also keen to identify what the overarching factors are that prompt business leaders to invest when considering their capital expenditure needs.

Indeed, this is reflected through our research findings. When asked about investment intentions over the coming year, at an EU-4 level SMEs cited the principal motivation to invest was to upgrade existing equipment in order to enhance efficiency and productivity (61%). This is up 6% on Q1 2012, suggesting the drive for modernisation and efficiency from European SMEs is continuing apace.

On an individual country basis, this factor was the most prevalent in each market bar Germany where SMEs responded that the top reason for investing was due to deterioration of existing equipment (64%), up 9% on Q1's findings. Within this 73% of micro businesses (those with two to nine employees) cited this as the main reason for investing, significantly higher than for those businesses with 10-49 employees (56%) and 50+ employees (63%).

In the UK, 65% of respondents cited they are looking to upgrade their existing equipment in order to enhance efficiency and productivity, up by 10% on Q1 2012. Within this, firms in the 50+ employee bracket were overweight on the national average by 5%. In Italy and France a similar story emerges – however we also note an expected softening in new orders emerging versus Q1 2012. In Italy, investing in order to build capacity to service growth in new orders is the third most significant reason for investment – yet this has dropped off by 11% on Q1 to 33%. Likewise, 25% of French SMEs reported that they were planning on investing due build capacity for new orders – a drop off of 2% on Q1. The only market to buck this trend is in the UK where 34% of SMEs said they are planning to invest to build capacity for new orders, up 5% on the last survey. In Germany, a small drop off can be seen from 37% in Q1 down to 35% in Q3 2012.

TOP FIVE REASONS FOR INVESTING:		FRA	GER	ITA	UK	EU-4
Upgrading existing equipment to enhance efficiency and productivity	**Q3**	**65%**	**48%**	**65%**	**65%**	**61%**
	Q1	*58%*	*51%*	*53%*	*55%*	*55%*
Deterioration of existing equipment	**Q3**	**40%**	**64%**	**40%**	**40%**	**46%**
	Q1	*44%*	*55%*	*52%*	*48%*	*49%*
To build capacity to service growth in new orders	**Q3**	**25%**	**35%**	**33%**	**34%**	**32%**
	Q1	*27%*	*37%*	*44%*	*29%*	*35%*
Investing in new types of equipment to support diversification/new product lines	**Q3**	**21%**	**17%**	**28%**	**21%**	**22%**
	Q1	*21%*	*25%*	*29%*	*20%*	*24%*
Planned expansion in domestic markets	**Q3**	**13%**	**7%**	**10%**	**15%**	**11%**
	Q1	*15%*	*13%*	*19%*	*10%*	*14%*

Business confidence

Business confidence across the EU-4 has dropped since Q1 2012

In the latest survey, we again asked European SMEs to consider the broader sector in which they operate and to then give an indication of the level of confidence and optimism around growth in the sector in the current business environment. From their answers we calculated a net confidence score which we compared across markets.

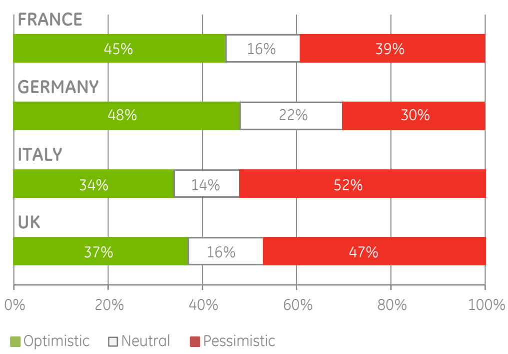
We found that overall, business confidence across the EU-4 has dropped by 2.9% from the last survey in Q1 2012 to -1.2%. However when examining the country-specific data, a more complex pattern emerges.

At face value, German SMEs emerge as by far the most positive out of the EU-4, posting a 17.6% net confidence score. Yet this represents a drop of nearly 10% for German SMEs compared to the first quarter of the year, indicating that the German business leaders are significantly less upbeat about their prospects versus this time six months ago.

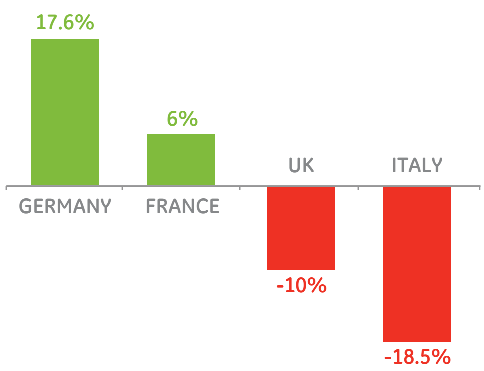
French SMEs have a net confidence score of 6% - posting an increase in confidence of 2.4% on the last survey in Q1 2012.

At the other end of the scale, Italian SMEs are seemingly most downbeat about the economic outlook, posting a net confidence score of -18.5%. When comparing the Q3 score to Q1 however, a mild 0.7% upswing in sentiment emerges, indicating that Italian SMEs are slightly more positive in outlook as we approach the end of the year. Meanwhile business confidence has clearly dropped in the UK, with SMEs reporting a net confidence of -10%, down 5.1% from the last survey in Q1 2012.

Sentiment by country (EU-4)
(% of respondents)



Net confidence score (EU-4)



EU-4 SMEs are looking to hire nearly 1.7 million new employees

Planned employment

When asked about their hiring intentions over the next 12 months, SMEs in the EU-4 markets suggested they would be looking to hire almost 1.7 million new employees. This number represents an increase of 3.6% on Q1 2012, when EU-4 SMEs stated they intended to hire over 1.6 million new employees.

On a market by market basis, when asked about their hiring intentions over the next 12 months, German SMEs responded that they are planning to hire the most employees out of the EU-4 markets - 657,300 – although this represents a drop of 8.3% versus their employment sentiment in the first quarter. UK SMEs are the most bullish on a comparative basis, with over 451,500 total new jobs planned in the UK over the next 12 months, a rise of around 20% on the first quarter but down more than 17% versus the same time last year.

Over the next 12 months, French SMEs plan to hire around 316,200 staff – a 12.4% increase on their employment sentiment in Q1 2012, when they said they would be looking to hire roughly 281,400 new employees. The data shows that Italian SMEs plan to make 265,100 new hires – a minor (3.9%) increase on Q1 2012's total planned hires of around 255,100.

EMPLOYMENT INTENTIONS (EXPECTED NEW HIRES)

	Q3	Q1	Change
France	316,264	281,362	12.4%
Germany	657,374	717,135	-8.3%
Italy	265,120	255,128	3.9%
UK	451,541	377,612	19.6%
Total EU-4	**1,690,299**	**1,631,237**	**3.62%**

The CEE-3

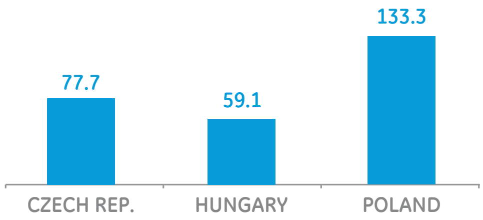
Capital expenditure

The latest Barometer showed that SMEs across the CEE-3 markets intend to invest an estimated €58.2bn over the next 12 months. Compared to the investment intentions recorded in our previous survey in Q1 2012, the new figures represent a minor increase on Q1 2012, when SMEs in these markets were expecting to invest €57.2bn.

On a market by market basis, Polish SMEs are intending to invest the most out of the CEE-3 group of countries. We found that they are looking to invest €35.0bn – although this is 7% less than intended capital expenditure in the first quarter of 2012.

We found that SMEs in the Czech Republic are intending to spend €16.8bn – an increase of 18.6% on Q1 2012, when told us they were intending to spend €14.2bn, whilst Hungarian SMEs are looking to allocate €6.3bn to capital expenditure – a raise of 17.3% on Q1 intentions of €5.4bn.

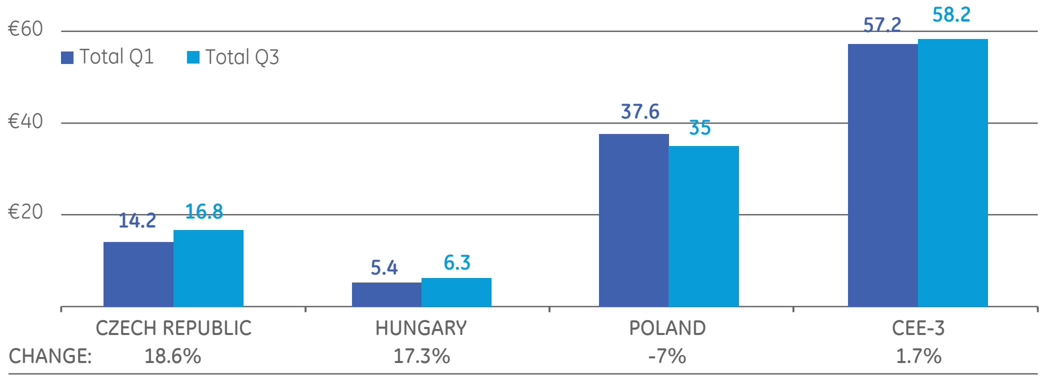
Avg. intended spend per SME (CEE-3)
(€ thousand)



The data indicates that Polish SMEs are likely to spend, on average, €133.3k per SME on capital

Polish SMEs are intending to invest the most out of the CEE-3 group of countries

Next 12 months' intended investment (CEE-3)
(€ billion)



CEE-3 SMEs missed out on over € 4.9 billion of new business opportunities last year due to outdated equipment

expenditure in the coming 12 months. This compares to €77.7k for SMEs in the Czech Republic and €59.1k for SMEs in Hungary.

Overall, this indicates that whilst economic conditions are clearly tough in the CEE-3 markets, SME business leaders have a clear appetite to invest in the coming period.

The cost of not investing

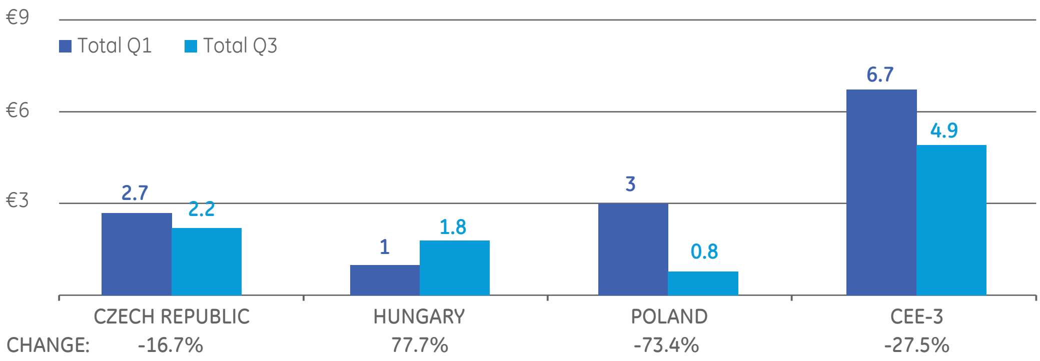
Based on their responses, SMEs across the CEE-3 missed out on over €4.9bn of new business opportunities as a result of outdated equipment and lack of investment – a decrease of more than a quarter (27%) on Q1 2012 when CEE-3 respondents told us they had missed out on €6.7bn. We found that on average, one in four SMEs have missed out on new business opportunities across the CEE-3 economies – but the findings vary significantly on a country by country basis.

Based on their responses, we found that just 11% of SMEs in Poland believe they missed out on new business opportunities as a result of having outdated or inefficient equipment. This is down from 24% in Q1 2012. In total, this equates to €800,000k – down from €3bn in the first quarter of 2012 – or an average of €3.0k per firm. Within this, only 10% of micro firms (with two to nine employees) report having missed out versus 12% for those firms with both 10-49 employees and 50+ employees.

At the other end of the scale, we found that a quarter of Czech Republic SMEs claimed to have missed out on new business opportunities because of outdated or inefficient equipment, however this is also down from 29% in the first quarter of the year. In total, this equates to €2.2bn – the most for the CEE-3 group of countries – or an average of €10.3k per SME. Within this, 31% of firms with 10-49 employees stated they believed they have missed out on these opportunities – versus just 23% of micro firms with two to nine employees.

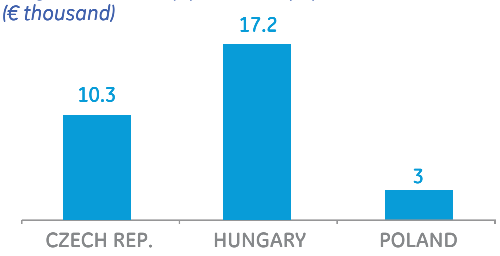
Hungarian SMEs have also been impacted by missed opportunities from outdated equipment. We found that 39% of Hungarian SMEs believe

Total missed opportunities (CEE-3)
(€ billion)



The single largest obstacle to investment for the CEE-3 group of companies is the uncertain economic environment

Avg. missed opportunity per SME (CEE-3)
(€ thousand)



they have missed out – up from 30% on Q1 2012. In turn, this equates to €1.8bn – a significant 77.7% increase on Q1 2012 (€1.0bn) – and an average of €17.2k per firm – higher than both Poland and Czech Republic averages.

A full 41% of respondents in the micro segment of firms (two to nine employees) told us they had missed out in some shape or form – up from 29% in Q1, whilst 38% of firms with 50+ employees also reported losing out – an increase of 13% on Q1 2012.

What's holding investment back?

Similar to the Eu-4 findings, the single largest obstacle to investment for the CEE-3 group of companies is the uncertain economic environment – 47% of respondents across the group said this represented a major hindrance to capital expenditure over the course of the last year (3% down on Q1 2012.)

We also see that SMEs in the region seem to view financial health challenges as less of an impediment to investing than in Q1 2012 – with just 8% of CEE-3 SMEs responding that this was an obstacle to invest - down from 16% in Q1 2012.

In Poland, our research suggests that micro businesses (those with two to nine employees) feel the most impacted by the harsh external economic environment. Over half (53%) said that this represented a significant obstacle to investment – far higher than for firms with 10-49 staff (42% and 50+ staff (27%).

TOP FIVE OBSTACLES TO INVESTMENT:		POL	CZE	HUN	CEE-3
Uncertain economic environment	**Q3**	**41%**	**40%**	**61%**	**47%**
	Q1	*39%*	*40%*	*52%*	*43%*
Lack of affordable finance	**Q3**	**14%**	**26%**	**40%**	**27%**
	Q1	*16%*	*31%*	*45%*	*31%*
Decreasing/falling orders	**Q3**	**21%**	**15%**	**30%**	**22%**
	Q1	*0%*	*18%*	*28%*	*15%*
Have recently upgraded	**Q3**	**26%**	**15%**	**9%**	**17%**
	Q1	*16%*	*22%*	*20%*	*20%*
Building cash reserves	**Q3**	**22%**	**10%**	**16%**	**16%**
	Q1	*22%*	*19%*	*20%*	*20%*

The research also suggests that Polish SMEs have gone through a round of upgrading equipment – over a quarter (26%) said that they would not be investing in the coming year as a result of having modernised in some shape or form – up 10% on Q1 2012. Both other CEE-3 markets post the reverse for this area – with 9% of Hungarian SMEs and 15% of Czech SMEs saying that modernisation of equipment formed an obstacle to investment – down 11% and 7% accordingly.

In Hungary, 61% of SMEs stated that the uncertain economic environment was a major obstacle to invest – more than any other market. Lack of affordable finance also seems to be an impediment for investment with 40% citing this as an issue – much higher than the CEE-3 average of 27%.

In the Czech Republic, lack of affordable finance also rates highly as an area impeding SMEs' ability to invest. Over a quarter of Czech respondents (26%) cite this as a factor – although within this, 40% of micro businesses with two to nine employees say this is impacting their investment ability.

Principal reasons for investing

When asked about investment intentions over the coming year, at a CEE-3 level SMEs cited the principal motivation to invest was to upgrade existing equipment to enhance efficiency and boost effectiveness (48%, up 4% on Q1 2012). In this way, the headline investment intentions of CEE-3 SMEs are similar to those in the EU-4.

Investing as a result of deterioration of existing equipment was also a prevalent choice for CEE-3 SMEs with 42% of them citing this as a factor prompting investment over the coming year (down 6% on Q1 2012). Based on the responses, we also saw that investing to build capacity to service growth in new orders is the third most popular choice – with 33% of SMEs citing this as a factor

TOP FIVE REASONS FOR INVESTING:		POL	CZE	HUN	CEE-3
Upgrading existing equipment to enhance efficiency and productivity	Q3	44%	59%	41%	48%
	Q1	51%	54%	28%	44%
Deterioration of existing equipment	Q3	33%	47%	46%	42%
	Q1	43%	61%	40%	48%
To build capacity to service growth in new orders	Q3	41%	26%	32%	33%
	Q1	46%	33%	28%	36%
Investing in new types of equipment to support diversification/new product lines	Q3	17%	11%	17%	15%
	Q1	22%	16%	19%	19%
Planned expansion in domestic markets	Q3	16%	8%	5%	10%
	Q1	23%	15%	11%	16%

to prompt investment – although this dropped 3% from Q1 2012.

Based on the responses, Polish SMEs seem to have the most appetite to invest in order to service growth in new orders (41%, versus 32% in Hungary and 26% in Czech Republic). This has dropped off by 5% on Q1 2012, however.

Investing to upgrade existing equipment was particularly prominent for SMEs in the Czech Republic – with 59% of them citing this as a major reason for investment – 11% over the CEE-3 average. The Czech Republic also posted the highest percentage of respondents who intend to invest as a result of deterioration of existing equipment (47% - 5% higher than the CEE-3 average) – although when compared to Q1 2012, this has dropped off by 14%, suggesting limited modernisation has already taken place.

Business confidence

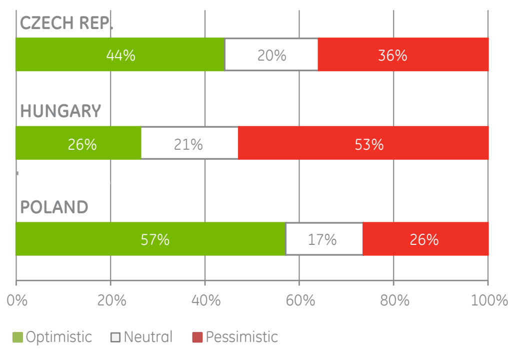
We found that overall, business confidence across the CEE-3 varied hugely on a market by market basis. Poland remains the most confident country across the CEE-3 – and also the EU-4 – with a net confidence score of 30%. However, in a sign that sentiment in Poland is waning, the latest score represented a 9.8% drop off from Q1 2012.

At the other end of the scale, Hungary remains the least confident out of all markets surveyed – including both the CEE-3 and the EU-4. Hungarian net confidence comes in at -26.4% in the latest survey – although this does represent a 9.9% lift on the Q1 survey. This suggests that Hungarian business leaders are becoming more confident in their economic prospects that at the beginning of 2012.

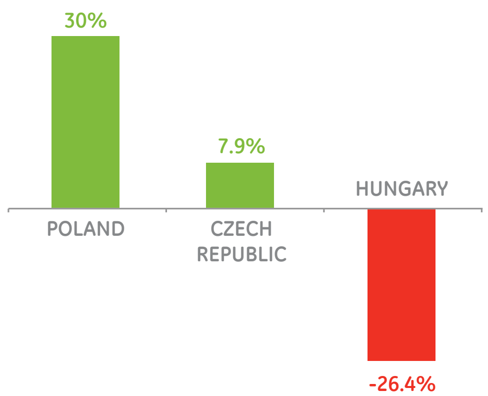
Czech business confidence sits somewhere in the middle of these two extremes. The net confidence score for Czech SMEs is 7.9% - in positive territory however a clear drop off from the 21.1% posted in Q1 2012.

Business confidence across the CEE-3 varies hugely

Sentiment by country (CEE-3)
(% of respondents)



Net confidence score (CEE-3)



SMEs across the CEE-3 are looking to hire over 400,000 new employees over the next 12 months

Overall, the net confidence for the CEE-3 combined is 3.8%, down from 8.2% in Q1 2012. This compares with -1.2% for the EU-4 group, down from 1.7% in the first quarter.

EMPLOYMENT INTENTIONS (EXPECTED NEW HIRES)

	Q3	Q1	Change
Czech Rep.	142,054	70,660	101%
Hungary	52,131	37,125	40.4%
Poland	209,301	224,389	-6.7%
Total CEE3	**403,486**	**332,173**	**21.5%**

Planned employment

When asked about their hiring intentions over the next 12 months, SMEs in the CEE-3 markets suggested they would be looking to hire nearly 403,500 employees. This number represents an increase of 21.5%% on Q1 2012, when CEE-3 SMEs stated they intended to hire just under 332,200 new employees.

On a market by market basis, when asked about their hiring intentions over the next 12 months, Polish SMEs stated they intended to hire the most new employees out of the CEE-3 markets, with 209,300 new intended hires being earmarked for the coming 12 months. This, however, represents a 6.7% drop in employment expectations on Q1 2012, (224,400).

Intended new hires in the Czech Republic total 142,000 for the coming year – a significant increase of 101% on the same time in Q1 2012, when 70,600 intended hires were set to be made. In Hungary, the data shows intended job creation in the coming 12 months of 52,100 – a 40% leap on the 37,100 new intended hires in Q1 2012.