



Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

Embassy activities

April 2014

On March 31st and April 1st a group of 14 companies from the Dutch pig production sector visited Hungary. The visit was part of a regional mission to Hungary, Serbia and Romania and was organised by the agricultural department in of the Netherlands Embassy in Budapest, together with the agricultural departments in Bucharest and Belgrade. In Hungary, a seminar on pig breeding (which attracted more than 120 participants), several company visits and networking events were organised to strengthen contacts between Dutch and Hungarian companies.

A group of 18 MSC students of *Rotterdam School of Management* visited the embassy on 2nd April. Bert van der Lingen briefed them on the Embassy's activities. On the same day they have visited the Kowerk office of *DBH* where they learned about the group's activities and were involved in 2 case studies, co-organised by *DBH* and the Embassy.

The same day Éva Szabó was invited to the "Start-up Spring 2014" event, co-organised by the National Innovation Office, the Ministry of National Economy, BudapestHUB group and other partners. The goal of the series of events is to put Budapest on the world's map as the start-up centre of Central-Europe and strengthening co-operation within the national and regional start-up scene. 25 early stage start-ups from 6 countries made it to the final competition. The international jury has awarded the 10 best teams the possibility to participate in a bootcamp in Budapest and qualification for the CESA-Central-European Startup Awards competition, to be held on May 30th.

Marina Varga was invited to the celebration of the fifth anniversary of the most famous Hungarian start-up success story, Prezi. The number of Prezi users grew from 30 million to 40 million in the last six months. CEO Árvay said the company's goal is to acquire 2 billion users. More information on the Hungarian start-ups: www.startuptavas.hu

Éva Szabó visited the *33d Construma International Building Trade Fair* at Hungexpo which included the Home Design-Building Interior, Construma Garden and Ligno Novum-Carpentry and timber industry exhibitions too. The most interesting part was the Reneo-Renewable Energy exhibition where a wide range of economically friendly, energy saving, alternative energy utilising products and processes were shown.

Ferro Electronics Ltd, producer of thick-film heating elements for e.g. kitchen appliances of Philips, Nespresso etc. has organised an evening to its global network of representatives/agents under the "use the residence" programme, hosted by Bert van der Lingen on April 15. The „use the residence” programme seems to enjoy increasing popularity as more companies show interest in it.

The *Asset Strategy & Logistics studentsgroup of the Tilburg University* visited the Embassy on April 25. The 26 students spent one week in Hungary and paid a visit to the Tamási Lighting Factory of Philips and the headquarters of Raben, co-organised by the Embassy. They were briefed on the current Hungarian economic and political situation by Marina Varga and about the logistics sector and „Doing business in Hungary” by Éva Szabó.

On April 26th, Ambassador Gajus Scheltema participated at the King’s Day Party, organised by the NHCC.

The most important event of the month for the Embassy was the King’s Day Reception at the Residence on April 28th. The number of participants exceeded five hundred, including Hungarian government officials and representatives of the economic, political, and cultural life. As the Netherlands is the third largest foreign investor in Hungary, many Dutch companies operating successfully in Hungary sponsored the event. Thanks to all of them for their valuable support!

During the King’s Day celebration, Spinoza House director Anna Sándor received a Knighthood in the Order of Orange-Nassau. Dr Sándor, a former economic correspondent of NRC Handelsblad and author of several books, founded Spinoza House at the heart of Budapest 14 years ago, a cultural venue offering a wide range of programmes often with Hungarian-Dutch links, while contributing to the revival of the rich Jewish traditions in Budapest.

EU relations

New infringements in the sight

The European Commission made several new decisions as part of infringement procedures against Hungary, which have progressed to the next phase of the proceedings as a result, the EC announced. The number of infringement procedures, however, is not high compared to other Member States. One of the infringement procedures addresses the issue of enforcing competition law in agriculture, on which the EC issued a reasoned opinion to the Hungarian government.

Note that in 2012 Hungary passed legislation that essentially prevents the Competition Office from taking action on anti-competitive practices in the farming sector. Hungary has now been given two months to rectify this by bringing its legislation in line with EU law, or else face a European Court of Justice procedure.

In another infringement procedure, the EC instructed Hungary to apply the same excise tax rate to all spirits. "*Hungary applies two distinct excise duty rates to spirit drinks depending on the product's composition and production method. One of these rates is significantly higher than the other*"- the report reminded. The deadline, as in the previous case, is two months.

The third resolution calls on Hungary to amend legislation restricting the resale of tobacco products already released for consumption. Hungary collects excise tax by means of tags attached to the product packaging.

Finally the EC launched an infringement procedure against Hungary concerning a ban on the construction of big shopping centres. The ban on building shopping centres over 300 sq m in size was introduced in 2012 and is set to expire at the end of 2014. The measures aimed to pave the way for a balanced structure of retail trade, the government said at the time of introduction.

As indicated earlier, the EC has also progressed one of the ongoing infringement procedures against Hungary to the European Court of Justice - specifically, the one dealing with holiday and luncheon vouchers as in-kind employee benefits. In 2011, Hungary amended its legislation on the issue of vouchers for meals, leisure and holidays, granted by employers to their employees, and considered as benefits in kind and therefore subject to more favourable tax and social security rules. The three French companies formerly active in Hungary's luncheon voucher market for many years (Edenred, Le Cheque Déjeuner and Sodexo) were driven out of the market once the current regulatory environment was put in place.

EIB lent EUR 7.4bn in five years

Lending by the European Investment Bank (EIB) to Hungary fell to EUR 755mn last year from EUR 1.6bn in 2012, EIB vice president László Baranyay announced. Several factors explain the decline, including the end of the EU's 2007-13 budget cycle. Demand for new loans dropped after the government successfully lobbied in Brussels for a reduction in the minimum capital required for co-financing of EU projects from 15% to 5%. A third factor was the launch of the MNB's funding for lending programme last year, which also reduced the financing needs of SMEs, Baranyay remarked. Among the biggest projects, the EIB co-financed the construction of the fourth metro line with a EUR 500mn loan, and provided EUR 75mn in credit for the Hungarian-Slovakian gas pipeline. Last year the EIB financed Magyar Telekom's broadband internet development with a EUR 200mn loan.

Business environment / Legislation

Farmers sign up for new land registry

The Rural Development Ministry announced that so far some 9,209 farmers have registered with the land registry, which according to the new land law effective from May 1st, will be required to purchase or lease arable land in Hungary. Registration is voluntary and free. Some 200,000-300,000 farmers will register, the Ministry estimated.

Demand for commercial property rising

Demand for industrial properties rose in the first three months of the year, according to data from the Budapest real estate consultancies forum (BIEF). The BIEF includes major consultants CBRE, Colliers, Cushman & Wakefield, DTZ, Eston International, Jones Lang LaSalle and Robertson Hungary. A total of 55,650 sq m was leased in the first quarter, up 77% from the fourth quarter, although 72% of that was due to contract extensions. The total volume of industrial property stood at 1,847,995 sq m in Budapest at the end of last month. Only one new warehouse building was added to the market, a property with an area of 11,090m² in the East-Gate Business Park near the M3 motorway.

Business confidence at historic high

Hungary's GKI-Erste economic sentiment index, which has been rising spectacularly for 18 months according to seasonally-adjusted figures, has gone up in April and expectations reached their highest in more than 15 years. The last time companies had such high expectations was in the summer of 1998 and the consumer sentiment index was last at its current level in the spring of 2006. In the business sector expectations of all companies except for those in trade improved, especially at construction companies. The ratio of upbeat companies exceeded the ratio of those with pessimistic expectations in every segment, except for construction.

According to an other survey, the SME's plan to spend 30% more in fixed capital investments in the first quarter compared to a year earlier. The GE Capital survey shows that in the past three years, fixed capital investment was very low, even below replacement. It seems this year SME's cannot postpone these investments any longer.

Government ramps up acquisition of arable land

The state land manager NFA has utilised its pre-emption rights to purchase 2,749 hectare of arable land in 2013, paying over HUF 2.6bn (EUR 8.4mn) in total for these acquisitions, the Rural Development Ministry told *Napi Gazdaság*. Of these, the purchase of 1,506 hectares has already been completed for a total HUF 1.6bn (EUR 5.2mn). This means the state has purchased each hectare on average for HUF 1.2mn (EUR 390,000). Land purchased by pre-emption rights will be leased to farmers as part of the Land for Farmers programme. The NFA will announce tenders for the leasing of a minimum 40,000 hectares this year.

Dutch presence in Hungary

Heineken Hungária increases revenues

Heineken Hungária increased its revenues 6% last year, reaching HUF 49.5bn (EUR 160mn), the brewery's CEO [Joris Huijsmans](#) told *Napi Gazdaság* at the Sopron beer festival. Domestic sales amounted to HUF 47.6bn (EUR 154mn), up 4.9%, while exports expanded 50% to HUF 1.9bn (EUR 6.1mn). Operating profit fell slightly, but remained at over HUF 900mn (EUR 2.9mn), Huijsmans added. Heineken has a 30% market share in Hungary, brewing some 2mn hectolitres beer in its two breweries in Sopron and Martfű. Sopron contributes 70% of the total.

The number of employees at Heineken Hungária fell to 512 last year from 560 in 2012, even as the company saw its 2013 revenues rise, the CEO told *Napi Gazdaság*. The cuts are partly due to cost reductions and the automation of production processes. "The majority of our staff works outside the factory in the supply chain, which means if we are successful in sales, we will have more people working for us," said Huijsmans.

The strategic agreement signed with the Hungarian government reflects openness for co-operation, nothing more, noted the CEO. Heineken Hungária plans to increase its revenues this year, which will depend on the market's response to new products and the state of the economy.

ING to quit pensions fund market

The board of private pension fund ING Magánnyugdíjpénztár proposed to merge its pension unit with that of Horizont Magánnyugdíjpénztár (formerly known as AXA), *Népszabadság* reported. If Horizont's EGM approves the proposal, ING clients will be taken over by Horizont as of July 1. The number of private pension funds operating on the Hungarian market will hence be reduced to four (Horizont, Szövetség, MKB and Budapest), compared with the 18 before the nationalisation of private pension fund assets in 2010. ING is the largest player on this market with 27,000 members representing a 43% market share. The four remaining funds managed HUF 193bn (EUR 633mn) in savings assets for some 62,000 customers.

ING's voluntary pension fund, ING Önkéntes Nyugdíjpénztár, also convened an EMG to assess the situation and, according to *Népszabadság*, they voted to merge with sector peer Aranykor Önkéntes Nyugdíjpénztár. ING assessed several scenarios, but merging their pension units seemed the most viable decision. The merger will not result in additional costs or administrative duties for ING pension fund members.

R & D & I / Creative Industries

ELI gets final approval

The EUR 111mn investment for the construction of a superlaser centre in Szeged was approved by the European Commission this month. The grant is issued from the European Regional Development Fund (ERDF). The centre is the third part of the "Extreme Light Infrastructure" (ELI) pan-European Laser research hub. According to the EC, the investment is going to provide major boost to the research capacity of Europe by attracting scientists to Hungary and creating valuable networks for Hungary within business and the scientific world. The commission also expressed that Hungary's competitiveness will experience enhancement and will contribute to Europe's progress in meeting research and development targets. Hungary jointly won funding in the European Union's Extreme Light Infrastructure (ELI) project with the Czech Republic and Romania. The laser project is hosted at the University of Szeged in Hungary.

LTE Advanced put on pilot in Hungary

Magyar Telekom and Ericsson on Monday presented the LTE Advanced technology with 250 Mbps capacity on a pilot network in Hungary. The established 4G/LTE mobile broadband technology and its successor, LTE Advanced, is a key factor in digital development both in Europe and Hungary, said Magyar Telekom CEO [Christopher Mattheisen](#). The technology is now available only in South Korea and the UK, the CEO added.

Transport / Logistics

Changes made to hauler's loan scheme

The government has made minor amendments to its lending scheme for SMEs in order to help haulers pay the new road toll fee, according to the official gazette *Magyar Közlöny*. The main elements of the *Útdíj Hitelprogram* scheme will be unchanged. State-subsidised working capital loans provided by SME support agency Kavosz will be backed up by state guarantees. The loans will carry an interest of the monthly BUBOR-rate plus 150 basis points. Under one amendment the state Treasury will no longer determine which companies are eligible to apply for the loans.

Bike hype continues

The long awaited public bikes are finally available in Budapest, although some problems with the software have still to be fixed. Installing 75 docking stations and 1,100 bikes should be enough to start with, as the Budapest public transport authority BKK projects the annual number of users at 12,000. The project is being called Bubi (for BUdapest BIcycle), and has cost HUF 899mn (EUR 2.9mn). The EU covered some 85% of the budget, with the rest financed by city hall and MOL. The two-pillar system is based on access and usage charges. The first 30 minute-period of use is advertised as free since the whole idea is to create a situation where there are bikes constantly available and they are not used for, say, day-long excursions. Yet, the yearly charge for access comes to HUF 18,900, and rides of longer than 30 minutes carry extra fees.

The members of the consortium charged with executing the bike-sharing project came up with several innovative ideas. Docking stations operate using renewable energy, namely solar power, and almost every second station will have large, touch-screen terminals.

More concrete measures have been identified in the National Cyclist Concept drafted by relevant NGOs, with special respect to the upcoming EU budgetary period 2014-2020. That construction of a section of international bicycle road EuroVelo6 between the Austrian border and Budapest could start in 2015, while another path connecting Budapest and the Lake Balaton area will also be built and the bicycle ring around the lake completed.

The Embassy is a keen supporter of the biking culture also participated in the campaign called "bike to the work". The clip showing Ambassador Scheltema biking in the morning to the Embassy was one of the most watched videos the day of launching. Watch the clip:

http://index.hu/mindekozben/poszt/2014/04/23/meg_a_nagykovet_is_bringazik_a_munkaba/

Hungarian firm to build electric buses

Engineering group Evopro unveiled the prototype for its urban electric bus, the Modulo, in the Castle District. The company received HUF 394mn (EUR 1,3mn) in EU funding to produce the buses, which will also have a gas-powered and hybrid models. Evopro is planning to start serial production this year with targets of 200 buses this year. The government aims to increase the share of electric vehicles in public transport, said PMO state secretary Nándor Csepreghy. He acknowledged that Hungary ranks at the bottom in the EU in terms of the use of green energy and R&D, but said that could change with a recently announced programme to promote the use of electric cars and buses.

German group invests in Gyönyű port

German steelmaker Wuppermann is planning to begin a HUF 30bn (EUR 98mn) investment in the Danube port of Gyönyű, in north-west Hungary, the regional daily *Kisalföld* reports. To this end the company have signed an agreement with Development Minister Zsuzsanna Németh on 25 April. The project, which will receive state subsidy, is expected to create further jobs and draw in more investors, ministerial commissioner, Ákos Kara told *Kisalföld*.

Energy / Sustainable Energy

Natural gas reserve ordered topped up

Natural gas supplies are secure according to the statement made by the National Development Ministry, despite the havoc that Russian president Vladimir Putin's letter caused threatening with suspension of gas deliveries. The Ministry ensured Hungary that there is enough gas surplus in the

storages. National Development Minister Zsuzsanna Németh ordered an increase in the amount of natural gas stored in strategic reserves to 0.9 bcm by July 1. The reserve recently stood at 0.6 bcm. The ministerial decree to increase the reserves may indicate fears of future developments in Ukraine, experts said. Note that nearly half of the previous level of 1.2 bcm was used over the past years to provide cheap gas to consumers as part of the government's campaign to cut household utility bills.

Environment / Water Management

ÁSZ kept steady eye on water works

The state audit office ÁSZ investigated the activities of five state-owned regional water works between 2010 and 2012, the office said. The asset management contracts of the Dunamenti, Dunántúli, Észak-dunántúli, Észak-magyarországi and Tiszamenti water works were not modified after 1998 and thus did not reflect changes in the law made since then, ÁSZ found. As a result the fixed capital investments of the waterworks were not closely monitored by the state asset manager MNV. ÁSZ has presented recommendations to resolve the issue to both MNV and the water works.

State to purchase waste collector AVE

State-owned waste manager NHSZ will buy Austrian-owned waste collector AVE, *Magyar Nemzet* reported. If the competition authority GVH approves this acquisition of Hungary's largest private waste collector, then the NHSZ will service some 2 million people, the state asset manager MNV pointed out. New regulations in effect from January 1 restrict household waste collection to companies in which the state or local governments have a majority.

Economic indicators

FDI to reach EUR 2.5-3bn this year

Foreign direct investment could reach EUR 2.5bn to EUR 3bn in 2014, not including large individual transactions such as transit investments or state purchase of energy companies, according to the National Economy Ministry. In the medium term, FDI is expected to average EUR 3bn to EUR 3.5bn a year, though the ministry cautioned this amount could be influenced by individual transactions. The cumulative stock of FDI stood at EUR 80.6bn in Hungary at the end of 2013, the highest ratio as a percentage of GDP and the second-highest as a per capita ratio within the CEE region. Investments from the EU accounted for 77.2% of FDI. About 71.6% of all FDI (approximately EUR 55bn) went to the service sector in 2013, with another 20.1% (EUR 15.8bn) in manufacturing. Reinvested profits in Hungary came to EUR 1.2bn last year.

The EC Spring Forecast sees better outlook

The EC issued its 2014 Spring Forecast. After increasing by 1.1% in 2013, Hungary's economy is expected to grow by around 2.25% and 2.0% in 2014 and 2015, driven mainly by domestic demand.

The EC expects Hungary's debt-to-GDP ratio to be higher at the end of this year than at the end of 2013 (80%) and that the debt ratio will not drop to below that level even in 2015. Over the course of 2013, the recovery became more balanced as both domestic demand and net exports contributed to economic growth.

At the same time, export performance also improved as new foreign investment in the automobile industry increased firms' operating capacity. Domestic demand was primarily fuelled by public investment which increased by 34% compared to 3.1% growth in the private sector, while private consumption remained contained, growing by a meagre 0.2%.

The EC projects the unemployment to decrease only slightly throughout the forecast horizon due to a steady increase in the participation rate. Inflation reached a historically low rate of 0.4% in the first quarter of 2014, reflecting three successive waves of regulated cuts to energy and other utility prices, declining inflation expectations and global disinflationary factors. However, the EC

also calls the attention to the possible dangers and risks such as protracted Ukrainian crisis and an over-ambitious bailing out scheme of the forex loans.

Economic and Monetary Policy

The policy rate cut to 2.5%

At its last rate setting meeting of the month, the Monetary Council of the National Bank of Hungary (MNB) decided to cut the central bank base rate by 10 bp to 2.50% in line with market expectations. The international emerging-market economists had agreed that this month's cut should be the last for a while, possibly finally signalling the end of an easing cycle which began in August 2012 and has resulted in ever-lower base rates. Morgan Stanley remarked that *"the MNB knows that monetary policy is being eased via other channels, and so a wait-and-see period when the base rate is unchanged at 2.50% is still consistent with monetary policy turning more expansionary."*

Government keen to support digital economy

Some HUF 39bn (EUR 128mn) will be spent from the central budget to promote the spread of the digital economy and a further HUF 26bn (EUR 85mn) for the adoption of information technology at SME's, state secretary Károly Solymár told a conference. The funds will be spent during the period 2014-2020 as part of the EU-financed programme, GINOP. The government is committed to support SME's to participate in the digital economy and make internet access available to 99% of them, up from the current 85%. Its goal is also to have 80% of the companies establish an internet presence by 2020. Hungary's IT sector accounts for 12% of GDP and employs some 150,000.