



# Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

December 2014

## Embassy news

### Meeting with owner Ibikebelgrade

On December 5<sup>th</sup>, Ralph van der Zijden, owner/director of the companies ibikebelgrade and ibikenovisad in Serbia, visited the Netherlands Embassy and discussed his plans about setting up a company offering bike tours for tourists visiting Budapest and possible future cooperation in organising bike events. It is worth recalling that the Netherlands Embassy for years has been an ardent supporter of mass bike events in Budapest.

### Anti-corruption Day at A38 on December 9<sup>th</sup>, 2014

Transparency International Hungary organised its regular annual Anti-corruption Day on the A38 boat, supported by the Netherlands, French and Norwegian Embassies, the Norwegian Civil Fund and the European Union Delegation. At the event, a round-table discussion focused on the changed levels and methods of lobbying in practice, and on the advantages and disadvantages of strategic agreements between companies and the Hungarian government. Ambassador Scheltema stressed the importance for the private sector of a level playing field on the Hungarian market and the need for a regular dialogue between government and private sector, rather than non-transparent lobbying and selective strategic partnerships. On behalf of the Netherlands Embassy, Deputy Head of Mission Elzo Molenberg handed over the Netherlands Embassy's special prize to one of the winners of the Transparency International Hungary contest on investigative journalism with regard to lobby practices. More information: [www.transparency.hu](http://www.transparency.hu)

### International Human Rights Day on December 10<sup>th</sup>, 2014

Amnesty International Hungary organised International Human Rights Day at Gödör Club, a culturally and politically active hub at the heart of Budapest. The event was supported by the Netherlands Embassy and opened by Ambassador Scheltema.

The Ambassador recalled the aims of the United Nations' Universal Declaration of Human Rights and put emphasis on the notion of "Human Rights 365", which encompasses the idea that every day is Human Rights Day. The Ambassador emphasized that the Netherlands regards the respect for human rights not only as a moral and legal obligation, but as a tool to promote a more stable and prosperous world. The event hosted several Hungarian NGOs and human rights defenders, including Amnesty International Hungary, The City For All, Greenpeace Hungary, Háttér Society, the Hungarian Helsinki Committee, the NANE Women's Rights Organisation, the Hungarian Civil Liberties Union, Transparency International Hungary, Védegylet, Ökotárs, Atlatszo.hu, the founder of the IWIW web portal and various artists. More information: [www.amnesty.hu/esemenyek/1392/emberi-jogi-vilagnap-bulizd-ki-a-szabadsagot](http://www.amnesty.hu/esemenyek/1392/emberi-jogi-vilagnap-bulizd-ki-a-szabadsagot)

### Santa Claus celebration

On December 7<sup>th</sup>, 2014, the Santa Claus celebration for the children of the Dutch community took place at the Ambassadorial Residence of the Netherlands. More than 80



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children and 100 parents were excitingly awaiting Santa Claus who brought presents and gingerbread to the children.

### Meeting with István Joó, Ministerial Commissioner for Danube Region Strategy

On December 11<sup>th</sup>, 2014, DHoM Elzo Molenberg and Éva Szabó have met István Joó, Ministerial Commissioner for the Danube Region Strategy to discuss follow-up on the water seminar of November 17-18, 2014. The parties agreed to facilitate closer bilateral co-operation between Hungarian and Dutch public water-management authorities and investigate opportunities for bilateral public-private partnership.

### Visit to bicycle manufacturer Accell Hunland

On December 16<sup>th</sup>, 2014, the Ambassador Gajus Scheltema and trade officer Éva Szabó paid a visit to the Dutch bicycle manufacturer Accell Hunland in Tószeg, near Kecskemét. The Ambassador, director Zsolt Steurer and COO Jeroen Snijders Blok agreed to investigate joint efforts to promote cycling in the countryside.

## EU relations

### EC curious about Hungarian National Bank (MNB) control of MKB Bank

The European Commission (EC) has requested detailed information pertaining to the central bank MNB's taking control of MKB bank, to check whether EU laws are observed, especially those on state subsidies, the Commission's Budapest Representation told news agency Reuters. According to the EC representation, the Hungarian government has not informed the EC that the MNB will exercise ownership rights over MKB. Earlier MNB deputy governor Ádám Balog told a press conference that the European Central Bank had been informed about the takeover in proper time, but the ECB denied this.

### EU deposit guarantee rules adopted

Hungarian Parliament adopted EU guidelines on guaranteeing by the Hungarian state of deposits owned by private individuals at financial institutions, including shorter deadlines for payments. The upper guarantee limit is set at EUR 100,000. In case of bankruptcy of financial institutions, private individuals and SMEs will be paid before other unsecured creditors. Deposits of local governments will also be guaranteed, with some limitations. The changes expand the possibilities of the guarantee fund OBA (Országos Betétvédelmi Alap) for issuing bonds and taking up debt.

### MVM gets EUR 100mn in credit from EIB

The European Investment Bank signed an agreement with state energy company MVM in Budapest on a EUR 100mn line of credit to finance fixed capital investments. The 12-year loan will be used to finance the HUF 53bn (EUR 174mn) renovation of 18 electricity and four gas storage facilities. The EIB also opened two lines of credit for the Economy Ministry



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to a total of HUF 67.4bn (EUR 221mn), to finance railway development projects and the ELI-ALPS laser research project in Szeged.

## Business environment / Legislation

### Hungary corruption index unchanged

Hungary remained 21st among the 28 EU member states in Transparency International's Corruption Perceptions Index 2014. Hungary is ranked 47th place on a list of 175 countries worldwide. Hungary scored 54 points in terms of public-sector corruption, unchanged from 12 months ago. Hungary has been slipping backwards ever since 1999, when it was the second least corrupt state among new EU members after Estonia but now it is sixth out of 11 countries, said TI Magyarország president Péter József Martin. Moreover, he continued, the separation of powers has become non-existent and checks and balances do not function properly. Martin also noted that the report had been compiled by the summer, before the US allegations of corruption became public knowledge.

### More companies went bust in 2014

More than 41,000 companies were closed down in 2014, 25% more than in 2013, company information service provider Opten announced. Opten estimates that 45,000 companies will be wound up in 2015 and that 30,000 will be founded, the same as in 2014. Developments in the economy and in company law caused many shutdowns in 2014, according to Opten. The number of functioning companies declined by 11,000 during last year, which can be seen a positive development, according to Opten as many of them were not functioning companies.

### Parliament approves several restrictions on retailers

Most shops will be forced to close on Sundays from March 15<sup>th</sup>, 2015, under a bill "on the prohibition of Sunday work in the retail sector" passed by Parliament. The bill exempts shops with less than 200 square metres of retail space, but only if the owner or a family member of the owner works in the shop. Stores can be opened on Sunday in the four weeks leading to Christmas and on one other Sunday of their choosing. Stores in sports arenas and stadiums may be open during events, while on-line ordered deliveries will also be banned on Sundays.

Moreover, Parliament toughened up a bill banning loss-making retail chains, seen by many as directed against foreign companies, after President János Áder sent it back to Parliament for re-consideration. Like the original document, the new bill compels retailers to cease trading if they report losses in two consecutive years. The new version applies to retailers with annual sales revenue of HUF 15bn (EUR 47mn), instead of the original HUF 50bn (EUR 160mn), if more than half of net sales revenues originate from fast-moving consumer goods. Economy Ministry state secretary Béla Glattfelder said that the lower threshold will capture companies that wanted to escape the scope of the original bill by



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building a franchise net-work, such as Spar – which announced such plans last week – and Auchan, which began adopting a franchise model earlier this year. The opponents of the restrictions said it could lead to lay-offs of 20,000-30,000 workers in the sector and a several percentage fall in the volume of retail trade. It is also worth recalling that a three-year ban on opening shops larger than 300m<sup>2</sup> expires next year. The new regulation increases the threshold to 400m<sup>2</sup> and authorises the head of the Hajdú-Bihar County Government Office in Debrecen to issue permits.

### 3.5% wage increase agreed

The 2015 minimum wage is set at HUF 105,000 (EUR 339) per month from the current HUF 101,500 (EUR 327); the guaranteed wage minimum for skilled workers will be HUF 122,000, (EUR 394) up from HUF 118,000, whilst the government's recommendation for private sector wage hikes is 3% to 4%. The deal was signed by Economy Minister Mihály Varga, representatives of the corporate sector and trade unions.

International corporations present in Hungary have, on average, increased salaries by 4.6% in 2014, while inflation was virtually zero during the same period, a survey published by napi.hu revealed. The companies participating in the survey are planning to raise salaries by 5.3% in 2015, still several percentage points above the inflation rate forecasts.

### Dutch presence in Hungary

#### CEO Heineken endorses strategic cooperation agreement with Design Terminál

Joris Huijsmans, CEO of Heineken Hungária Zrt and Gergely Böszörményi-Nagy, Director of Design Terminál signed a 3 years strategic cooperation agreement with the aim to support the Hungarian creative industry. Design Terminál has an incubation programme for companies in the creative industry with the aim to make them successful on the Hungarian and foreign markets by offering different services, ranging from business consultation to mentoring and supporting them on foreign exhibitions. This free service is offered yearly to more than 150 Hungarian participants of the creative sector.

Heineken Hungária is traditionally committed to the creative industry, especially to design innovation. *"To my opinion, a world brand will be successful if it is inspired by both local talents and global trends, therefore we find it important to support initiatives giving opportunities for local talents."* Joris Huijsmans said. According to the agreement Heineken strengthens its commitment to support the professional exhibitions and fairs, organised by Design Terminál and will cooperate with Design Terminál as a professional partner concerning its own future creative industry initiatives, like thematic competitions and exhibitions.

### R & D & I / Creative Industries

#### RDI sector to receive EUR 2.2bn in 2014-2020



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Hungary has pledged to increase spending on R&D-related projects to 1.8% of GDP until 2020, while in 2012 1.3% of GDP was disbursed for the same purpose. Within the Economic Development and Innovation Operative Programme (GINOP), funding of more than EUR 1.6bn has been earmarked as non-refundable grants. In addition to that, refundable resources exceeding EUR 600mn will also be announced in the coming fiscal period. As the three-quarters of Hungary's RDI capacities – the number of researchers and research centres – is concentrated in Budapest, the funding made available for less developed regions shall be utilized in a way to benefit the research network of Budapest as well, the ministry emphasized.

Decisions of the operative programme are based on S3 (Smart Specialization Strategy) which identifies prioritized fields within RDI. GINOP also aims to stimulate corporate R&I activity, support strategic R&I partnerships and initiatives and bolster R&I infrastructure and capacities to reach excellence on a global scale.

### French, Japanese and Hungarian firms win Museum Quarter contest

An 11-member jury of Hungarian and international experts – including Wim Pijbes, the director of the Amsterdam Rijksmuseum – selected designs from a French, a Japanese and a Hungarian firm for individual components of the Museum Quarter planned for Budapest's City Park. The winning designs were chosen from among 500 anonymous entries. The Museum of Ethnography will be built according to plans submitted by French architectural firm Vallet de Martinis, the Hungarian House of Music will be based on designs by Japanese firm Sou Fujimoto, and the Photography Museum and the Museum of Architecture will be based on designs by Magyar Középülettervező. The new institutions are to open by 2018.

## Transport / Logistics

### Budapest-Belgrade high-speed rail line agreement

The agreement on building a high-speed rail line between Belgrade and Budapest marks the most important moment in co-operation between the EU and China, PM Viktor Orbán stressed after signing the document in Belgrade on December 17<sup>th</sup>, 2014. The prime ministers of Serbia, China and Macedonia also signed the agreement on building the rail link, which is planned to eventually reach the Greek port of Piraeus. China will extend credit for 85% of the project, estimated to cost EUR 1.5bn, but no other details of the financing were disclosed. Some 334 kilometres of railway track will have to be upgraded to build a two-track electrified link between Budapest and Belgrade, Foreign Affairs and Trade Minister Péter Szijjártó said. Under the agreement the Serbian, Hungarian and Macedonian state railway companies will soon draw up an implementation schedule, while China has undertaken to complete a feasibility plan.

### EKAER to be introduced from January 1<sup>st</sup>, 2015



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The purpose of the new Electronic Road Freight Traffic Monitoring System is to keep track of the actual route of goods imported into Hungary from the EU or exported from Hungary into the EU, and to ensure that no goods may be placed on the market in Hungary which were not previously reported to the tax authority.

The new electronic tracking system will allow the authorities to perform their controlling and monitoring functions more effectively than ever before, the government believes. According to the new law, any vehicle (trucks with a weight over 3.5 tons) subject to road toll, carrying goods on public roads (i) from EU member states to the territory of Hungary for the purpose of the procurement of goods or for any other import purpose (ii) from the territory of Hungary to EU member states for the purpose of the sale of goods or for any other export purpose (iii) for the purpose of the FIRST taxable sale of goods to NON-end users on the domestic market will have to apply for an EKAER number. The requested EKAER number must be provided to the carrier. If the carrier does not have an EKAER number at the time of carriage, 40% of the net value of the goods may be imposed as a sanction. The tax authority will apply the sanctions as of February 1<sup>st</sup>, 2015. More information: <http://ekaer.hu/en/>

### New Electronic Toll Collection (ETC) system as of January 1<sup>st</sup>, 2015

An annual sticker valid for one county will cost HUF 5,000 and will be available at 1,500 locations, the National Development Ministry and the National Toll Payment Services Plc. stated in a joint statement. The new county passes and new sticker types (D2, U) will be available at the usual vending places, the customer service points of the National Toll Payment Services Plc., on the [www.ematrica.autopalya.hu](http://www.ematrica.autopalya.hu) website and most of the resellers (e.g. at petrol stations). The list of the 1,500 brick and mortar shops where the county pass may be purchased will be available on the [www.nemzetiutdij.hu](http://www.nemzetiutdij.hu) website, and motorists may buy the new stickers at all of the existing vending places from February 1<sup>st</sup>, 2015. As a temporary measure, motorists may use the stretches newly included in the ETC system without the passes in January without being fined, if they purchase a valid county pass (or passes) or an e-sticker valid for the whole country by the end of February. The statement underlined that if a motorist uses the roads of a single county, the annual cost will be only HUF 5,000 instead of HUF 43,000 (that is price for sticker for the whole count) currently, which means that even those will have to pay a lot less that commuted. e.g. to the capital city across various counties.

### Energy / Sustainable Energy

#### Foreign Minister Szijjártó discusses energy issues in Moscow

In a meeting with Russian Energy Minister Aleksander Novak in Moscow, Hungary's Foreign Affairs and Trade Minister Péter Szijjártó discussed possible solutions for transporting Russian gas to Central Europe, now that the South Stream project has been cancelled. Once natural gas is transported from Russia, and in part from Azerbaijan, to





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Turkey and from then on to South Eastern Europe, the task will fall on Hungary to provide the financial, technical and infrastructure resources needed to bring it from there to Central Europe, Szijjártó said. To that end, Hungary needs to enter into talks with Greece (the European gateway for Russian gas) and the Balkans countries along the proposed new pipeline.

According to the statement issued in Moscow, the meeting agenda included various issues of natural gas, oil and nuclear energy cooperation between Russia and Hungary. The Russians were pleased with the way Hungary and Russia were cooperating in maintaining and expanding nuclear energy capacity in Paks, according to Szijjártó. The position of Hungarian energy company MOL in Russia had also been discussed. Novak assured Szijjártó that the activities of MOL in the Russian energy market and its aspirations to seek new market opportunities were not contrary to Russia's energy sector interests. It is possible that the Hungarian government considers selling some of its state-owned natural gas storage facilities in Hungary next year, a government source with inside knowledge told to on-line newspaper VS.hu. The move would not be something unprecedented in Europe, however the timing would be unfortunate for several reasons. Germany has just backed out of a similar deal, VS.hu noted.

### Péterfalvi challenges Paks bill

The bill submitted to Parliament in early December 2014 that would abolish public procurement procedures for some HUF 4trn (EUR 13bn) worth of public funds related to the expansion of the Paks nuclear plant is unconstitutional, Data Protection and Information Freedom Authority president Attila Péterfalvi said. In addition, the proposal violates the law on information freedom and conflicts with the Aarhus Convention on the public openness of environmental data, as well as several EU regulations, he said. The government's proposal would remove procurement contracts related to the planned expansion of Paks from under public scrutiny and would classify as secret the contracts and preparatory documents. Péterfalvi began his inquiries after the government failed to send the proposal to him for comment.

## Environment / Water Management

### Áder meets water experts in Hanoi

Hungary will lend USD 300mn and professional expertise to Vietnam for the construction of a water-purifying plant, President János Áder announced on December 1<sup>st</sup>, 2014, in Ho Chi Minh City. The plant will be built by experts from the Capital Water Works, he confirmed as he met Vietnamese water experts. An agreement was signed in Áder's presence under which equipment for removing arsenic with Hungarian technology will be donated to a school 80 kilometres from Hanoi.

## Economic and Monetary Policy



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### Parliament passes the 2015 Budget bill

The new budget bill proposed in October 2014 by Economy Minister Mihály Varga, shortly after October's local elections, was amended over the course of December. Though the government aims at a reduced deficit (2,4% GDP) and public debt (75,4% GDP), the budget has been criticized for containing some HUF 200bn worth of state revenues unlikely to materialize. Among other things, Hungary's 2015 budget will contain the following new sources of state revenue:

- Sectoral bank taxes will be expanded to include investment fund merchants who will have to pay a 25% tax on all transaction fees;
- Environment-protection taxes will be expanded to include cleaning liquids, soap, and stationery products;
- Food-retail chains are to pay additional supervisory taxes;
- Tax on the cafeteria system (extra-salary benefits for private company employees) will increase from 35.7% to 51.17% in the case of gross salaries over a monthly HUF 200,000 (USD 805).

The budget allocates an additional HUF 87bn for public work. At the same time it cuts social spending with some 3.7% from HUF 933bn to HUF 900bn. On-line paper Vg.hu reports that the government will save approximately HUF 30bn on pensions of those who take early retirement. The government has justified these cuts in entitlement spending by referring to the need to decrease the national debt and to keep the deficit to well under 3% of GDP. However, such concerns have not dampened the government's enthusiasm for sports and sport related investments, critics note.

Index.hu notes that much of the projected revenue is in the form of one-off transactions, some of which are vaguely defined. The new taxes on "extra profits in the private sector" add to the already large tax burden on Hungarian employers and consumers in addition to the 27% value added tax (VAT), one of Europe's highest. Gone from the budget is the offending internet usage tax which use caused over 100,000 protesters to take to the streets in late October. However, PM Viktor Orbán has made it clear that he has not entirely ruled out introducing such a tax in the future.

### Parliament passes the 2015 tax laws

In line with the government's intentions, the three most important pillars of Hungary's taxation regime will continue to be (i) the promotion of families, (ii) low taxation for small and medium-sized businesses, and (iii) the maintenance of taxes levied on specific sectors. As to the company tax modifications, from 2015 the use of accrued losses against current profits became more strict, as the maximum time over which losses can be carried is now five years, while 2014 losses can be used until December 31, 2025, *Napi Gazdaság* points out. Also from 2015, companies can deduct up to 50% of their donations from their taxable income, and up to 80% of their annual tax duties if they contribute to filmmaking, the performing arts or sports. Tax breaks are also available for donations to universities if the grant is made continuously for at least five years. As to the fringe benefits to





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employees, the upper limit will decrease to HUF 450,000 (EUR 1,452) in 2015 from HUF 500,000 (EUR 1,600), and the part in excess of HUF 200,000 (EUR 645) may only be transferred to Szép Cards, the balance of which may be used for leisure-time activities, catering and hotel services.

### **Principles of fair banking clarified**

The National Bank of Hungary (MNB) published guidelines on the main principles it expects banks to follow when applying the recently approved law on "fair banks", which locks in interest rates for loans under three years and requires lenders to use an indicator, approved by the MNB, to calculate rate changes for loans with longer terms. The guidelines specifically refer to an indicator on interest changes and another on interest spread changes, which must be prepared by banks, and the lawfulness of their practices must be reviewed by the central bank.